

REPORT AND ACCOUNTS

for the year ended 31 March 1998

USS

UNIVERSITIES SUPERANNUATION SCHEME

Universities Superannuation Scheme

Limited is the corporate trustee of one of the largest private sector pension funds in the UK with assets exceeding £17.2 billion.

It was established in 1974 to administer the principal pension scheme for academic and senior administrative staff in UK universities and other higher education and research institutions.

The head office is at Royal Liver Building, Liverpool and the investment office is at Angel Court, London.

USS

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The year to 31 March 1998 was again a period of continued growth for the fund. The scheme's active membership increased from 76,900 to 78,700 and there was a comparable growth in the numbers of pensioners and those entitled to deferred benefits to 28,200 and 33,700 respectively. Substantial investment returns contributed to an increase in the size of the fund during the year of over £3.6 billion and at 31 March 1998 the fund had total assets of over £17.2 billion.

The increase in the value of the fund is the biggest annual increase in the fund's history and means that the fund has now more than doubled in value in the last five years. The increase in the last year took place despite the removal of tax relief on UK equity dividends in the 1997 budget. Although this has reduced the cash flow into the fund by approximately £70 million per annum the actuary confirmed in his interim review as at 31 March 1998 that the assets of the scheme remain sufficient to cover the accrued liabilities and he has recommended that the current rate of contribution can continue in force until the completion of the next actuarial valuation at 31 March 1999.

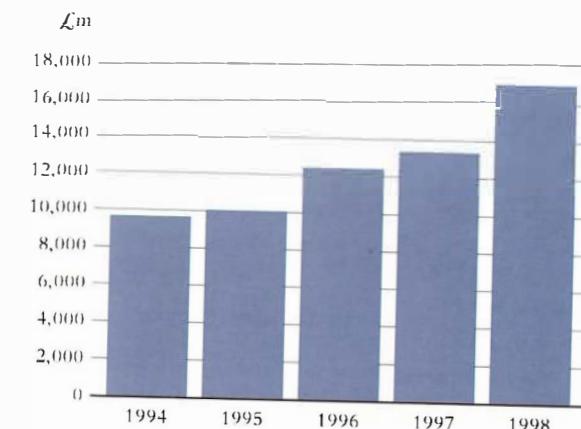
The report of the Dearing Committee was published in July 1997 and one of its recommendations was that the superannuation arrangements for academic staff should be harmonised by directing all new entrants to the Universities Superannuation Scheme. The management committee welcomed this recommendation and has made proposals for its implementation and the admission to the scheme of academic staff in the post-1992 institutions. In addition, the management committee will be investigating the possibility of including further groups of non-academic staff within the scheme.

A review of the way the fund's investments are managed was also started during the year and revised arrangements are expected to be in place by 1 January 1999.

Graeme J Davies
Chairman

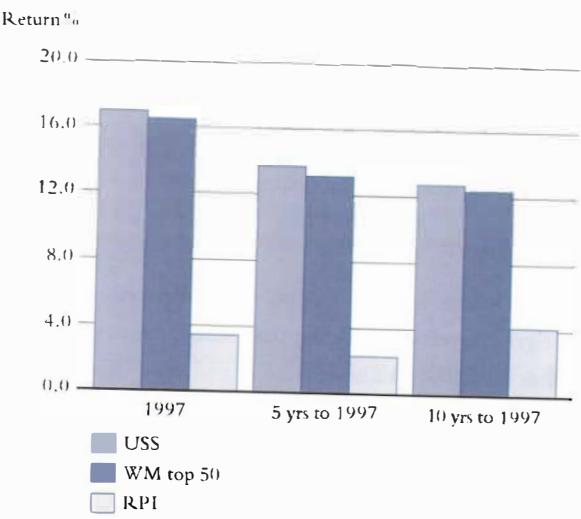
David B Chynoweth
Chief Executive

FUND



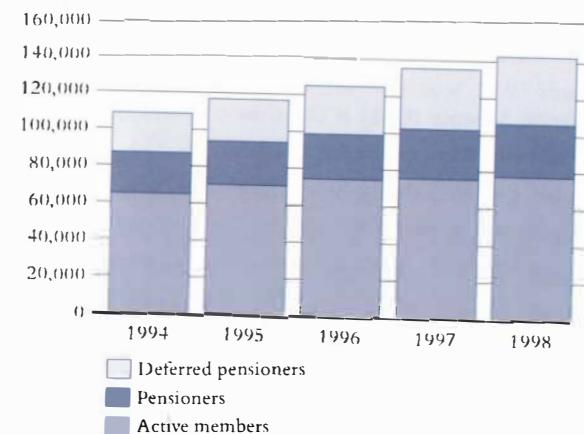
The fund continues to increase, having grown from £9.4 billion in 1994 to over £17.2 billion as at 31 March 1998. More details are given in the investment committee report on page 14 and in the five year summary of the fund accounts on page 59.

PERFORMANCE



The fund's investment return of 17.5% in 1997 was above that of the average of the 50 funds of over £1.5 billion in the WM Survey and well ahead of the retail price index. Over both 5 years and 10 years the fund has outperformed the WM Top 50 average and comfortably exceeded the RPI. More details are given in the report of the investment committee on page 14.

MEMBERSHIP



The membership of the scheme has continued to grow steadily. As at 31 March 1998 the total membership was 140,600, an increase of 5.6% from last year and 29% from four years ago. More details are given in the five year summary of the fund accounts on page 59.

PRINCIPAL OFFICERS AND ADVISERS

The principal officers and advisers of the trustee company at 1 August 1998 are:

<i>Chief Executive</i>	D B Chynoweth BA CPFA FCCA FIMgt
<i>Chief Investment Officer</i>	P G Moon
<i>Chief Pensions Manager</i>	R E Heywood BA
<i>Chief Accountant</i>	C S Hunter BSc CA
<i>Company Secretary</i>	J P Williams BA ACIS MIPD MIMgt
<i>Surveyor</i>	R G Walden BSc FRICS
<i>Actuary</i>	M B Reid BSc FIA FAPSA of William M Mercer Limited 30 Exchange Street East, Liverpool L2 3QB
<i>Solicitors</i>	Dibb Lupton Alsop India Buildings, Liverpool L2 0NH
<i>Auditors</i>	PricewaterhouseCoopers 8 Princes Parade, St Nicholas Place, Liverpool L3 1QJ
<i>Bankers</i>	Barclays Bank Plc 4 Water Street, Liverpool L69 2DU
<i>Property Consultants</i>	Jones Lang Wootton 22 Hanover Square, London W1A 2BN

The principal other organisations acting for the trustee company during the year were:

<i>Solicitors</i>	Clifford Chance, Dundas & Wilson, Mitchells Roberton Fried Frank Harris Shriver & Jacobson, Lawrence Graham
<i>Investment managers</i>	Baillie Gifford & Co, PIDFM Limited
<i>Custodians</i>	Schroder Investment Management Limited
<i>Investment performance measurement</i>	Bankers Trust Company, Chase Manhattan Bank NA
<i>Property valuers</i>	Investment Property Databank Ltd, The WM Company
<i>Computer software</i>	Colliers Erdman Lewis
<i>Computer hardware</i>	Claybrook Computing Ltd, Image Systems Europe Ltd
<i>Data recovery</i>	Hewlett-Packard Limited
<i>Insurers</i>	Granada Business Continuity Ltd
	Royal & Sun Alliance

The trustee of Universities Superannuation Scheme (USS) is the trustee company, Universities Superannuation Scheme Limited (USS Ltd), which is appointed under USS rule 20.1. The statutory power of appointing new trustees applies provided that a new trustee may not be appointed without the approval of the joint negotiating committee. The trustee company is also the administrator of the scheme for the purposes of the Income and Corporation Taxes Act 1988. The registered office of the trustee company to which enquiries about the scheme generally or about an individual's entitlement should be sent is:

Universities Superannuation Scheme Limited
Royal Liver Building, Liverpool L3 1PY

The membership at 31 March 1998 of the principal committees was as follows:

Management Committee

Appointed by the Committee of Vice-Chancellors and Principals

Professor Sir Graeme Davies (Chairman), K F Dibben, Professor Sir Gareth Roberts,
Professor Martin Harris

Appointed by the Association of University Teachers

Mrs Angela Crum Ewing, Dr G R Talbot, J W D Trythall

Appointed by the Higher Education Funding Councils

Professor Brian Fender

Co-opted

C D Donald (Deputy Chairman), A S Bell, L Collinson, Lord Mark Fitzalan Howard

Finance & General Purposes Committee

Appointed by the management committee

C D Donald (Chairman), L Collinson, Mrs Angela Crum Ewing, Professor Martin Harris,
J W D Trythall

Investment Committee

Appointed by the management committee

Lord Mark Fitzalan Howard (Chairman), A S Bell, C D Donald, C E Hughes, P V S Manduca,
Dr D Nicholls, J W D Trythall

Audit Committee

Appointed by the management committee

K F Dibben (Chairman), Dr Christine Challis, C D Donald, Dr G R Talbot

Remuneration Committee

Appointed by the management committee

L Collinson (Chairman), Professor Sir Gareth Roberts, J W D Trythall

Advisory Committee

Appointed by the Association of University Teachers

C L Rice (Chairman), Ms J McAdoo, Dr D Green

Appointed by the Committee of Vice-Chancellors and Principals

D Anderson-Evans, A D Linfoot, D W Sims

Joint Negotiating Committee

Independent Chairman

Sir Kenneth Berrill

Appointed by the Committee of Vice-Chancellors and Principals

D Anderson-Evans, Dr S G Fleet, B Lillis, A D Linfoot, I G Thompson

Appointed by the Association of University Teachers

Dr Joanna de Groot, Dr J M Goldstrom, Dr G R Talbot, J W D Trythall, A Waton

MANAGEMENT COMMITTEE

The management committee submits its twenty-third annual report on the progress of USS. Separate reports on the activities of the investment committee, the joint negotiating committee and the advisory committee are printed following this report.

Committee members

Professor Sir Gareth Roberts succeeded Dr K J R Edwards from 1 April 1997 as a director appointed by the Committee of Vice-Chancellors and Principals. Dr Christine Challis's term of office as a co-opted director expired on 30 September 1997. Dr Challis had been a member of the board since 1 February 1989 and had played a major part in the continuing success of USS as a member of both the management and audit committees. The committee wishes to place on record its appreciation of Dr Challis's services as a member of the board. With effect from 1 October 1997 Mrs Angela Crum Ewing became the first pensioner director of the trustee company following a selection procedure organised by the AUT Executive.

Under the Articles of Association (constitution) of the trustee company the management committee comprises the trustee company's board of directors. As indicated above, four of the directors on the board of the trustee company are appointed by the CVCP which also has the power to remove any of those directors. Three directors are appointed by the AUT of whom at least one must be a USS pensioner member. One director is appointed by the HEFCs. The AUT and the HEFCs have the power to remove their respective appointed directors. A minimum of two and a maximum four directors are co-opted directors, appointed by the management committee itself with the prior approval of the joint negotiating committee. The approval of that committee is not however required for the reappointment of a co-opted director on the expiry of his period of office. USS directors normally serve a three year term but are eligible for reappointment in the above manner. The Articles of Association also provide for the removal of any director where (in various circumstances) he is prohibited from acting as a director.

Institutions

At 31 March 1998 there were 276 institutions which had become member institutions by completing a deed of accession. They comprised all the 'old' UK universities (ie those established prior to 1992), including the constituent schools and colleges of the universities of London and Wales, all the colleges of the universities of Oxford and Cambridge and 132 other institutions.

Changes in institutions participating occurred as follows:

New participating institutions

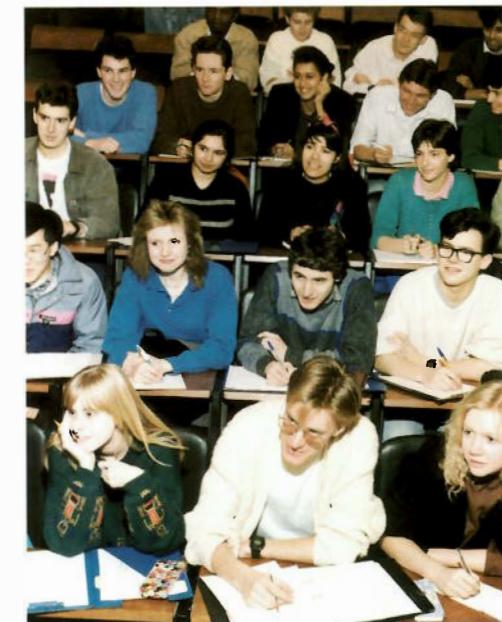
Dartington Hall Trust
Edinburgh Business School
Oxford Mathematical & Computing Research Group
Oxford Policy Institute
Quality Assurance Agency



Regent's Park, Oxford

Bournemouth University*
Coventry University*
Oxford Brookes University*
Westhill College of Higher Education*
Westminster University*

*denotes institution admitted only for employees who had been members of USS whilst in a previous employment.



Institutions which ceased to participate

Charing Cross & Westminster Medical School
Higher Education Quality Council
Institute of Neurology
Royal Commission for the Exhibition of 1851
Royal Postgraduate Medical School

Other changes:

Arthritis & Rheumatism Council became Arthritis Research Campaign
BRF International became Brewing Research International
Nuffield Provincial Hospital Trust became Nuffield Trust
Open University Educational Enterprises Ltd became Open University Worldwide
Institute of Psychiatry merged with King's College London (but retained its original code number)

Dearing Committee

Recommendation 51 of the Dearing Committee stated:

"We recommend to the Government, institutions, and the representative bodies of higher education, that, over the long term, the superannuation arrangements for academic staff should be harmonised by directing all new entrants to the Universities Superannuation Scheme."

The management committee welcomed this recommendation and has made proposals for its implementation and the admission to the scheme of academic staff in the post-1992 institutions. In addition, the management committee will be investigating the possibility of including further groups of non-academic staff within the scheme.

Scheme membership

During the year 10,554 new members joined the scheme and at 31 March 1998 the total membership, including pensioners and those entitled to deferred benefits, was 140,620 compared with 133,166 a year earlier. Further details of the changes in membership during the year are contained in the section "Membership Statistics" on page 35 and over the five years ended 31 March 1998 in the Summary on page 59.

The proportion of eligible new employees choosing not to join USS at their first opportunity was 21%. While there may be valid reasons for the decisions of some employees not to join USS, the figure continues to be of concern to the committee. Similarly, the extent of the variation between individual institutions is very considerable but this may in part reflect the composition of their staff. The committee has attempted to give widespread publicity to the serious disadvantages that may be experienced if employees do not decide to join USS. Of particular concern is the position of the dependants of an employee who has chosen not to join thereby foregoing the important death benefits available to dependants under USS. The alternative of the State Earnings Related Pension

Scheme (SERPS) provides little and most personal pensions provide only a modest benefit. The committee recognises that some employees may wish to change their original decision not to join USS, possibly because their circumstances have changed. Where an eligible employee has chosen not to join, possibly because of having no dependants or of being employed on a short-term contract, an option to join at a later date is available.

Rule amendments

The current USS rules are represented by the Supplemental Declaration of Trust which was executed on 7 February 1994 and, as at 31 March 1998, twelve deeds of amendment. The tenth, eleventh and twelfth deeds of amendment were executed during the year. The tenth deed contained a number of minor amendments to the rules which had been made, *inter alia*, to clarify Inland Revenue limits as they apply to the scheme and to correct drafting mistakes and erroneous cross-references. The eleventh deed of amendment introduced a number of benefit improvements which:

- abolished the provision to suspend surviving spouses' pensions on remarriage or cohabitation;
- extended from 10 to 15 years the age gap between a deceased member and their surviving spouse/dependant at which the survivor's pension falls to be reduced, for active members only;
- increased the death in service lump sum to two-and-a-half times salary; and
- provided a special one-off enhancement of 0.9% to the pension increases on the USS element of pensions payable and deferred pensions at 1 April 1997.

The twelfth deed of amendment contained a number of consequential and technical changes to the rules, mainly necessitated by the changes contained in the eleventh deed of amendment.

Pension increases

Rule 15 of USS provides that pensions in payment, deferred pensions and deferred lump sums payable from the main section shall be increased in a similar manner to the increases provided

for official pensions under the Pensions (Increase) Act 1971. As reported last year, USS pensions were increased by 3% on 21 April 1997.

On 21 April 1998 pensions which satisfied certain qualifying conditions and began before 22 April 1997 were increased by 3.6% with smaller increases applying for pensions which began after that date. Deferred pensions and deferred lump sums were increased by the same rate.

That part of the pension payable from the main section of USS which represents the Guaranteed Minimum Pension is generally not increased in accordance with the above as increases are paid by the Department of Social Security. This is explained in detail in the USS booklet *Pension Increases - Information for USS Pensioners* which has been issued to all USS pensioners.



Rule 15 also provides that pensions payable from the supplementary section shall be increased to the extent that the trustee company, acting on actuarial advice, decides. As a result, pensions arising from the supplementary section were increased at the same rates as those that applied to the main section.

Contribution rates

The rates of contributions payable by members and institutions between 1 April 1997 and 31 March 1998 were as follows:

USS Main Section	Member	6% of salary
	Institution	14% of salary
USS Supplementary Section	Member	0.35% of salary
	Institution	Nil

Actuarial matters

The actuary has carried out an actuarial review as at 31 March 1998 which examines the progress of the scheme since the last valuation as at 31 March 1996. A statement by the actuary on the review is shown on page 57. It draws the conclusion that although the overall financial position of the scheme has deteriorated since the 1996 valuation (primarily as a result of the removal of tax relief on UK equity dividends in the 1997 budget) the assets of the scheme remain sufficient to cover the accrued liabilities as at 31 March 1998.

Accounting matters

The accounts for Universities Superannuation Scheme and Universities Superannuation Scheme Limited (the trustee company) are set out later in this booklet.

The accounts of the trustee company show an increase in operating costs from £10.6 million in 1996/97 to £11.3 million in 1997/98, a rise of 6.3%. The increase in costs arises mainly from increased investment costs, part of which is due to the increase in staff costs caused by an underestimate of performance related bonuses in the accounts for the year ended 31 March 1997.

Other administration costs have increased by 3% during a year in which there has been an increase in the operational workload of the pensions department of approximately 9%. Further details regarding the operating costs and a review of the activities for the year are given in the Directors' Report on page 60.

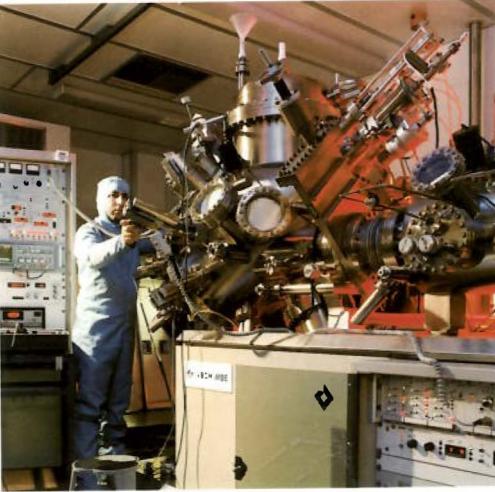
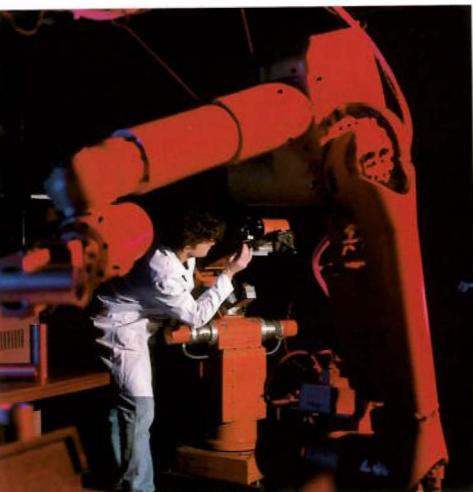
Investment policy

There were no changes made during the year in the arrangements for investment management of securities. The arrangements for management of the assets and custody, together with the approximate proportion managed or held by each manager as at 31 March 1998, are as follows:

- (a) 28% is administered internally on the advice of HSBC James Capel Quantitative Techniques on a basis to track the FT-SE-A All-Share Index of UK equities (with Chase Manhattan Bank as custodian);
- (b) 47% is actively managed in-house by the trustee company's London Investment Office (with Chase Manhattan Bank as custodian). Of this 42% are securities and 5% are property assets;
- (c) 8% is managed by Baillie Gifford (with Bankers Trust Company as custodian);
7% is managed by PDFM (with Bankers Trust Company as custodian);
8% is managed by Schroder Investment Management (with Bankers Trust Company as custodian);
- (d) 2% of the fund is represented by insurance policies.

The managers in (b) and (c) above each manage their share of USS securities on the basis of a balanced brief taking into account the fact that approximately 28% of the USS fund is invested in line with an index of UK equities.

The year to 31 December 1997 was another very good year for pension fund performance. The fund's performance for the year was ahead of one of the dual targets, the WM 40th percentile, but behind the second target of the FT-SE-A All-Share Index + 1%. Over five years the fund outperformed the WM 40th percentile but underperformed the very demanding FT-SE-A All-Share Index + 1% target.

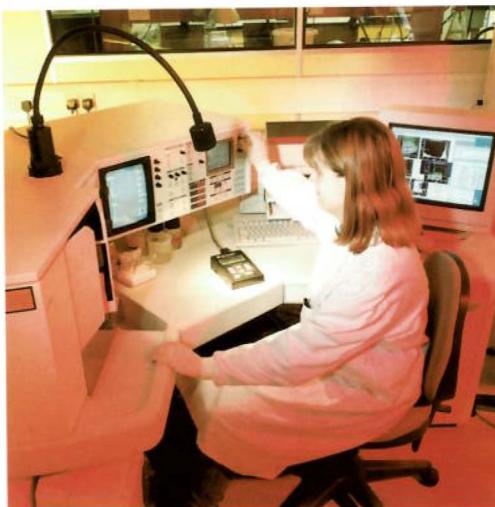


Further details of the investment targets, investment performance and the amounts being managed by each manager are given in the report of the investment committee.

The present investment management structure was set up in January 1993 with the intention that it would be reviewed after five years. The investment committee began that review in December 1997 and revised arrangements are expected to be in place by 1 January 1999.

As was reported last year it is a requirement of the Pensions Act 1995 that the trustees of each pension fund draw up and maintain a statement of investment principles. This statement should lay down the investment objectives of the pension fund and explain why these objectives are suitable for the particular circumstances of the fund. The management committee took the view that for USS this statement should provide significantly greater information about the management of the scheme's investments than is required under the Act. The full text, which was agreed following consultation with the participating employers, appears on pages 30 to 34. The statement is unchanged from last year but will be amended during 1998 to reflect the new fund management arrangements.

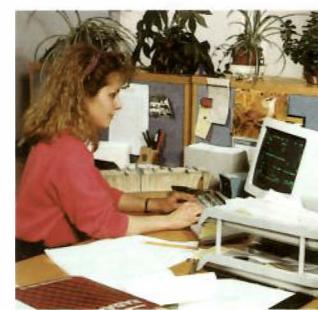
The statement of investment principles also sets out the trustee company's policy on corporate governance and ethical and environmental considerations. During the year votes have been cast on



the basis of its guidelines on all resolutions at the general meetings of UK companies in the USS portfolio. Meetings have been held with company management on a regular basis. The committee has considered a number of representations on ethical and environmental issues of concern to some members of the scheme. The committee has determined that the policy outlined in the statement of investment principles is the best way to protect members' and employers' interests for the foreseeable future.

Administration

The service provided to members and institutions was monitored each quarter and in the areas of highest priority, which include the prompt payment of benefits, the prescribed standards were consistently achieved. Reports showing achievements compared with targets are reviewed regularly and are discussed at meetings of the institutions' finance officers' group, a liaison committee which met twice during the year.



Two seminars were held during the year at the Liverpool office and one at Oxford as part of the ongoing programme of activities to foster good communication between the trustee company and the members of staff at institutions who are involved with the administration of the scheme. Two institutions' advisory panels were established, comprising administrators who regularly deal with USS issues with the purpose of providing feedback and comments on proposed changes to procedures. The panels met three times during the year and discussed a wide range of topics providing the trustee company with helpful advice and comments about benefit statements, new forms and the new guide for members. The annual meeting with institutions' representatives took place in London in November 1997 and a full report of the proceedings was circulated subsequently to all institutions.

The trustee company reviews its activities regularly in conjunction with its advisers in order to ensure that the scheme remains fully compliant with all relevant legislation and other requirements. During the year it was necessary for the trustee company, the actuary and the auditor jointly to inform the Occupational Pensions Regulatory Authority (OPRA) of late payment of contributions to the scheme by institutions on four occasions. Each late payment occurred as a result of an administrative problem or oversight and in each case contributions were remitted in full within a few days of the due date. For two of the cases OPRA have confirmed that they will be taking no action and their response is awaited in respect of the other two cases.

The Pensions Act 1995 required the trustees or managers of an occupational pension scheme to have introduced by 6 April 1997 formal arrangements for the resolution of disputes with members about matters relating to the scheme. These arrangements must provide for a specified officer of the scheme, on the application of a complainant, to give a decision on such a dispute and for the trustees or managers, on the application of the complainant following that decision, to review the matter in question and either confirm the decision or give a new decision in its place. The management committee decided that the first decision in this process should be taken by the chief

pensions manager and that the advisory committee, augmented for this purpose alone by two members of the management committee (one nominated by the CVCP and the other by the AUT) take the second decision. This internal dispute resolution procedure was used for the first time during the year. Five members and pensioners launched complaints against the trustee company. Two of these complaints were subsequently considered by the advisory committee, in its enlarged second-stage dispute resolution capacity.

Since the prohibition in April 1988 (under the Social Security Act 1986) of compulsory membership of occupational pension schemes as a condition of employment, about one-fifth of employees eligible to join USS have elected not to do so, which means that they will either have a personal pension or be participating in SERPS. This suggests, as mentioned earlier in the section relating to scheme membership, that a significant number of university employees continue to take decisions about their pension arrangements which might not be in their best interests.

Disclosure requirements

The general rights which members and beneficiaries have always had to request information under trust law have been greatly supplemented by statutory disclosure requirements which now apply under the Occupational Pensions Schemes (Disclosure of Information) Regulations 1996. Where the requirement is for a document to be available for reference by an interested person, it is met by the provision to each institution from our Liverpool office of a *Disclosure Kit* containing the required documents. Other information, for example *A guide for members*, must be provided to every new member and supplies are available from Liverpool to enable institutions to issue them as part of their appointment procedures. Individual statements are required on the happening of certain events such as leaving service, retirement or death and these are provided by our Liverpool office as part of the processing of such benefits.

The above disclosure regulations require that a number of statements are made in a document which accompanies the audited accounts and actuarial statement and, insofar as they do not appear elsewhere in the *Report and Accounts*, they are given below.

A copy of the statement on pension trust principles issued by the Occupational Pensions Board (the functions of which were assumed by OPRA in April 1997) has been issued to each member of the management committee. A copy is held at the trustee company's registered office and is available for inspection by those persons.

Enquiries about the scheme generally or about an individual's entitlement should be sent to the trustee company's registered office.

Transfer values paid during the year were determined in accordance with the Pension Schemes Act 1993 and appropriate regulations. No transfer values paid represented less than their full cash equivalent.

USS has no employer-related investments other than the contributions due from institutions disclosed in note 14 of the USS accounts. The scheme's assets are invested in accordance with the Occupational Pension Schemes (Investment) Regulations 1996.

The accounts have been prepared and audited in accordance with regulations made under section 41(1) and (6) of the Pensions Act 1995.



41(1) and (6) of the Pensions Act 1995.

Year 2000

A project to assess the impact of the year 2000 date change is underway. Integrated systems tests are taking place and all appropriate suppliers have been requested to provide details of the testing they are carrying out and confirmation that they are working towards compliance with the British Standards Institute's Standards of Computer Software. There is regular reporting of project progress to the computer steering, audit and management committees, as well as independent quality assurance over project progress from the internal audit manager. Senior management will continue to progress the programme of events and ensure that all key tasks are fully completed. In these circumstances we do not anticipate that there will be any disruption to the payment of benefits up to and beyond the millennium. In addition to the above work we have commissioned Jones Lang Wootton to progress a plan to assess the impact of the year 2000 on embedded systems, particularly within equipment in properties within the USS investment portfolio.

Acknowledgements

The management committee again wishes to record its appreciation of the services given by all those who are concerned in the administration and management of USS, including the staff of the trustee company in Liverpool and London and the officers of the institutions which participate in the scheme. It wishes also to thank the various USS consultants and advisers who, by their specialist knowledge and experience, make a valuable contribution to the work of the trustee company.

Signed on behalf of the management committee

Graeme J Davies
Chairman

INVESTMENT COMMITTEE

The investment committee advises the trustee company on all matters relating to the investment of the fund's assets.

HIGHLIGHTS OF 1997/98

- Investment returns were extremely positive in the year to 31 December 1997. The return for the total fund was 17.5%, far in excess of average earnings growth and price inflation of 4.7% and 3.6% respectively.
- The 10 year return for the fund was 13.5% per annum, just ahead of the average pension fund return of 13.3% per annum and, again, well ahead of growth in average earnings of 5.9% per annum and retail prices of 4.5% per annum over the same period.
- Including cash flow and capital appreciation, the assets of the fund were valued at £17.2 billion on 31 March 1998 compared to £13.6 billion a year earlier.
- The investment committee started its review of how the fund should be managed in December 1997. The new arrangement is expected to be in place by 1 January 1999 and it is intended that it should run for five years.
- The Labour government granted independence to the Bank of England on certain policy issues and this was received favourably by the markets as was the government's commitment to a tight fiscal policy over the course of the business cycle.
- The government's withdrawal in the 1997 budget of pension funds' ability to reclaim Advance Corporation Tax on dividend payments reduced the cash flow into the fund by £70 million per annum. The reduction in corporation tax rates from 33% to 31% should ameliorate this impact to some extent over the longer term if companies are able to increase their dividends.
- Merger activity continued at a high level and a number of companies bought back their own shares, whereas there were only a few rights issues. This additional liquidity tended to support equity markets as did the continuing favourable economic outlook, combined with low inflation.
- Direct contact was made with over 2000 companies in the year to 31 March 1998 in order to assess their financial and social performance.
- The statement of investment principles which determines the way in which the investments are managed is contained on pages 30 to 34. This will be amended during 1998 to reflect the new fund management arrangements.

INVESTMENT MANAGEMENT

The fund's investments are divided between those under the direct control of USS Ltd and those managed externally. The internal investment team at the London Investment Office manages the majority of the assets. A separate fund designed to match the performance of the Financial Times Stock Exchange Actuaries All-Share Index (FT-SE-A All-Share Index) is run in-house on advice provided by HSBC James Capel Quantitative Techniques.

The external managers at the commencement of the year to 31 March 1998 were PDFM Limited, Schroder Investment Management Limited and Baillie Gifford & Co, all of whom have a balanced fund mandate.

During the year these managers were remunerated on the following bases - PDFM through a performance-related fee and Schroder Investment Management and Baillie Gifford & Co through fixed fees.

There were no significant changes in the way in which the assets were managed during the year to 31 March 1998.

Jones Lang Wootton administer the properties within the portfolio and advise on their selection. For these services they charge both management and transaction-related fees.

An analysis of the total investments of the fund at 31 March 1998, along with the comparative figures for the preceding year, is set out in the following table. The investments are stated at market value and details of the changes in value are summarised in Note 8 to the USS accounts on page 52.

TOTAL INVESTMENTS OF THE FUND

Type of Investment	Fixed Interest £m	Index-Linked £m	Equities £m	Properties £m	Cash and Equivalent £m	31 March 1998 Total £m	31 March 1998 Total %	31 March 1997 Total £m	31 March 1997 Total %
Investments under the direct control of USS Ltd									
Quoted securities									
UK	550.7	—	3,342.8	—	—	3,893.5	22.6	3,230.5	23.8
Overseas	335.9	—	2,485.4	—	—	2,821.3	16.4	2,262.3	16.7
Unquoted securities									
UK	—	—	1.8	—	—	1.8	—	5.1	—
Overseas	—	—	—	—	—	—	—	—	—
Property									
UK	—	—	—	909.6	—	909.6	5.3	840.2	6.1
Cash/stockbroker balances									
UK	—	—	—	—	338.8	338.8	1.9	116.9	0.9
Overseas	—	—	—	—	79.6	79.6	0.5	66.0	0.5
Sub-total	886.6	—	5,830.0	909.6	418.4	8,044.6	46.7	6,521.0	48.1
Investments managed internally on the basis of external advice									
Index fund									
UK	—	—	4,770.9	—	(14.6)	4,756.3	27.6	3,426.1	25.3
Overseas	—	—	0.8	—	—	0.8	—	0.8	—
Sub-total	—	—	4,771.7	—	(14.6)	4,757.1	27.6	3,426.9	25.3
Investments managed externally									
Baillie Gifford									
UK	—	—	1,052.8	—	25.1	1,077.9	6.3	844.0	6.2
Overseas	92.5	—	259.6	—	23.6	375.7	2.1	251.8	1.9
PIDFM									
UK	188.6	140.0	306.7	—	156.4	791.7	4.6	704.3	5.1
Overseas	216.4	—	257.6	—	4.3	478.3	2.8	373.5	2.8
Schroder									
UK	112.3	55.3	675.7	—	129.2	972.5	5.6	709.1	5.2
Overseas	77.7	—	383.5	—	(0.5)	460.7	2.7	443.8	3.3
Life assurance policies									
UK	66.3	3.1	140.7	17.9	16.7	244.7	1.4	230.9	1.7
Overseas	—	—	37.7	—	—	37.7	0.2	43.3	0.5
Sub-total	753.8	198.4	3,114.3	17.9	354.8	4,439.2	25.7	3,600.7	26.6
Total investments									
UK	917.9	198.4	10,291.4	927.5	651.5	12,986.7	75.3	10,107.1	74.1
Overseas	722.6	—	3,424.5	—	107.0	4,254.1	24.7	3,441.5	25.4
Total	1,640.5	198.4	13,715.9	927.5	758.5	17,240.8	100.0	13,548.6	100.0
Percentage at 31 March 1998									
UK	5.3	1.1	59.7	5.4	3.8		75.3		
Overseas	4.2	—	19.9	—	0.6		24.7		
Total percentage	9.5	1.1	79.6	5.4	4.4		100.0		
Total percentage at 31 March 1997									
	10.7	1.1	78.2	6.4	3.6			100.0	

WM PENSION FUND SURVEY FOR THE YEAR TO 31 DECEMBER 1997

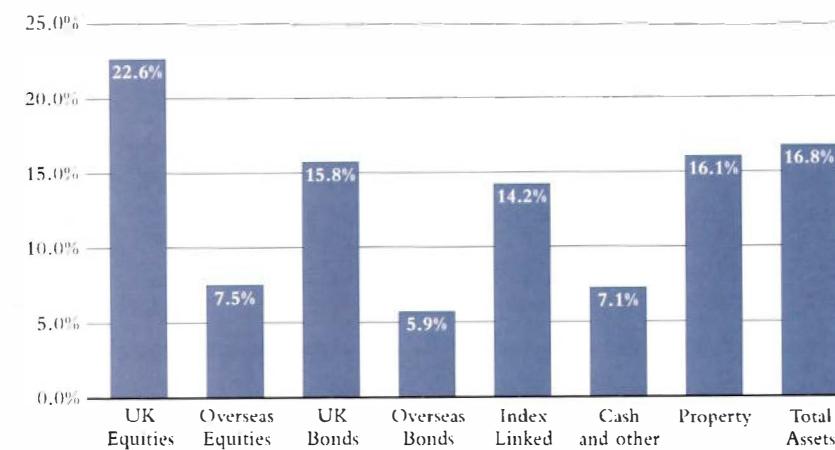
The fund participates in the above survey of pension fund performance. In 1997 the survey covered 1,624 funds with a combined value of £449 billion representing over three-quarters of total UK pension funds by value.

Average pension fund results for 1997

Investment returns in 1997 reported in the survey showed that the average pension fund performed well with most asset classes showing strong returns, the exceptions being Japan and the Pacific equity markets.

Total investment returns for 1997 in sterling

WM All Pension Funds Survey



USS RESULTS

The previous section showed the average pension fund results. This section analyses the performance of USS itself.

The fund adopted the following dual performance target from 1 January 1994:

To exceed the return on the FT-SE-4 All-Share Index by 1% per annum and the 40th percentile of the WM ex-property universe of all funds over a rolling five-year period.

The dual target was adopted to encourage the managers to invest more heavily in equities than the average pension fund. This should result in superior returns over the longer period (5-10 years) on which a relatively immature fund like USS should be concentrating. However, it may result in the performances of the fund differing significantly year by year from the average in the WM Survey.

Longer term results

Over the 10 years to 31 December 1997, the total fund returned 13.5% per annum against the average for all funds in the WM Survey of 13.3%. These figures compare with the average earnings increases of 5.9% per annum and retail price index growth of 4.5% per annum. Over this period therefore the fund comfortably met its actuarial target.

Compared with the 50 largest funds of over £1.5 billion which represent 53% of assets in the WM Survey, USS performed better than average.

Performance over the five years to 31 December 1997

The present investment management arrangement has been in place since late 1992 with performance being measured from the beginning of 1993. Taking the five years 1993 to 1997 together, the following annualised returns were achieved:

WM All Funds Survey ex property	Annualised Return %	Percentile Rank
London Investment Office	14.5	25
Schroder Investment Management	14.3	33
Baillie Gifford	14.1	41
PDFM	12.8	86
WM All Funds Survey cum property	Annualised Return %	Percentile Rank
TOTAL FUND	14.1	38

Over this period, the 40th percentile, the first part of the performance target, was 14.2% and Schroders and the London Investment Office achieved this. None of the managers beat the FT-SE-A All-Share Index +1%, namely 17.6%. In fact no manager in the survey bettered this target. Over the five year period the total fund including property returned 14.1% against the average fund performance of 13.7%.

Performance in 1997

In 1997, the total fund performance was between its dual targets. By returning 17.5%, the fund was at the 28th percentile in the WM Survey ahead of the 40th percentile target but 7.1% behind the second target of FT-SE-A All-Share Index +1%. The fund's overweight position in the Pacific markets and its underweight position in North American equities detracted from the overall performance result.

The total returns achieved for USS by the external balanced managers and the London Investment Office, after apportioning the UK indexed fund, are shown below:

WM All Funds Survey ex property	Annualised Return %	Percentile Rank
Baillie Gifford	18.6	14
London Investment Office	18.1	22
Schroder Investment Management	16.5	46
PDFM	14.8	73
WM All Funds Survey cum property	Annualised Return %	Percentile Rank
TOTAL FUND	17.5	28

The FT-SE-A All-Share Index returned 23.6%, making the target return 24.6% for the individual managers; thus all managers failed to reach this demanding target which was interestingly not achieved by any of the managers in the WM Universe.

Investment Management Review

The committee consider the results over the last five years for the fund as a whole to be satisfactory and for the managers with the exception of PDFM to be good, when compared with the WM

Pension Fund Survey. However, the fund as a whole and also the managers have failed to come close to achieving the very demanding target of outperforming the FT-SE-A All-Share Index by 1% per annum.

It is clear that the dual target has failed to achieve as substantial a bias in favour of equities as had been expected. The committee is currently reviewing the investment management structure and process with a view *inter alia* to clarifying these objectives. The revised arrangements including revised performance targets will be in place from 1 January 1999.

INVESTMENT REPORT

The majority of the world's economies continued to grow at a satisfactory rate during 1997. Expansion seen in the USA and the UK was reinforced by an increasing pace of activity in the European economies.

However, events in the Far East and Japan caused concern.

The Japanese economy failed to make any significant progress despite a very supportive monetary and fiscal policy.

Events in the smaller Asian economies provided a good deal of anxiety in the second half of the year. Significant currency devaluations in these countries were followed by a material slowing in most of these economies. The contagion effect which was expected to spread to the more developed economies has not yet materially occurred. However, the impact on the domestic economies of these countries should not be underestimated. They are likely to see periods of disappointing growth for some considerable time with an increasing risk of social unrest. The impact on the already weak Japanese economy will also be significant and will further delay any meaningful growth in that economy.

During 1997, the European economies made considerable efforts to conform to the Maastricht criteria to enable them to join the European Monetary Union. In the event it now appears that 11 countries which wished to join have managed to do so. However, it remains to be seen whether the concept of monetary union will survive. The degree of political will to make the venture a success should not be underestimated. Within the London Investment Office, the investment portfolio has been structured to take account of a weak Euro and declining short term interest rates which we think will dominate the European scene for the next year or so.

Across the world, price pressures remain very subdued and, in particular, commodity prices which occasionally rebound, have generally trended lower. Wage pressures which have been building up in a number of economies over the past year, are showing no signs of being reflected in consumer prices.

Profit margins though do appear to be coming under pressure in those economies which are more advanced in the business cycle. It is however rather perverse that the economic problems in the Asian economies could prolong this economic cycle and the upward move in the non-Asian equity markets.

It is significant that a change of government during 1997 in the United Kingdom and higher short term rates, together with the removal of Advance Corporation Tax relief for pension funds, have had no adverse impact on the equity market which has continued to rise throughout the year. Short term interest rates, we believe, are unlikely to rise significantly from their current levels.

Inflationary pressures remain subdued and, in our opinion, are not fully reflected at the long end of the bond market, either in the UK or internationally. We anticipate that real yields will fall from

this level leading to some further appreciation at the long end of the bond market. This downward shift in real yields will be aided and abetted by a perceived reduction in economic growth in those economies regarded as being in the later stages of the business cycle.

However, the economic situation in Japan is giving cause for concern as is the situation in Asia. If the Japanese economy is unable to return to a sustained growth path, this will have a debilitating effect on both the Asian region and the more developed economies of western Europe and the United States. It is in some of these western economies where corporate profits are very high and have been rising at a seemingly unsustainable rate. Here there are signs that corporate profit margins are coming under pressure and this could well lead to a reversal in corporate fortunes with a substantial negative impact on stock markets. We are already seeing some straws in the wind that this is beginning to happen, especially in the United States and in the United Kingdom.

The high level of corporate and institutional liquidity should however continue to give support to markets. In the longer term, the continuing favourable demographics of an ageing population will lead to an increasing demand for equity investments, especially in western Europe and the more developed industrialised countries.

Factors supportive of the markets mentioned in last year's report again remain the principal support during 1998. Ample liquidity in Japan, which is being used to purchase US government bonds and release liquidity for further purchases of other assets, is continuing to be a major source of strength for world equity markets. It is however a moot point whether the stock markets can continue their upward path in the face of declining profit margins and potentially higher inflation and, like last year, it is higher inflation that remains a major threat to financial markets. In our opinion inflationary pressures have been delayed by the events in the Asian economies and currencies. We feel it is becoming increasingly more difficult for markets to make progress from these levels but, on balance, we think there will be modest appreciation in financial markets during 1998.

The performance of the major markets for the year to 31 March 1998 is shown below:

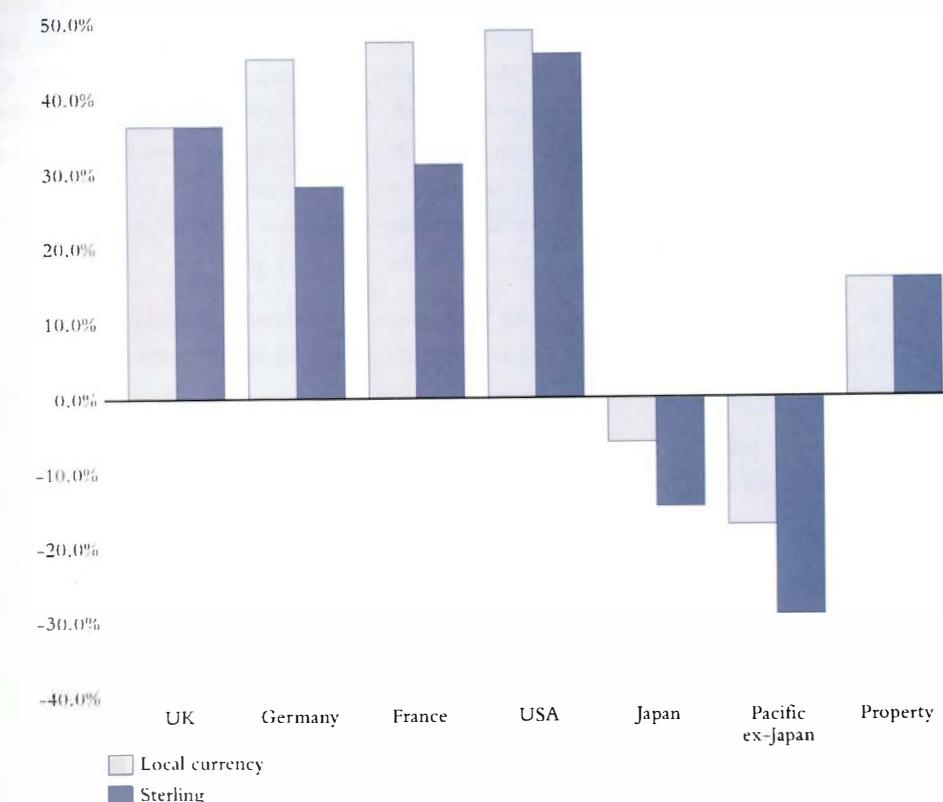
EQUITY AND FIXED INTEREST MARKET TOTAL RETURNS FOR THE YEAR TO 31 MARCH 1998

	Equities		Fixed Interest	
	Local Currency %	Sterling %	Local Currency %	Sterling %
UK	36.5	36.5	17.3	17.3
Germany	45.3	28.5	8.9	(3.7)
France	47.5	31.4	8.6	(3.5)
USA	49.0	46.1	11.8	9.6
Japan	(6.3)	(14.7)	5.7	(3.8)
Pacific ex-Japan	(17.1)	(29.0)	—	—
UK Index-linked	—	—	16.4	16.4
UK Property	15.8	15.8	—	—

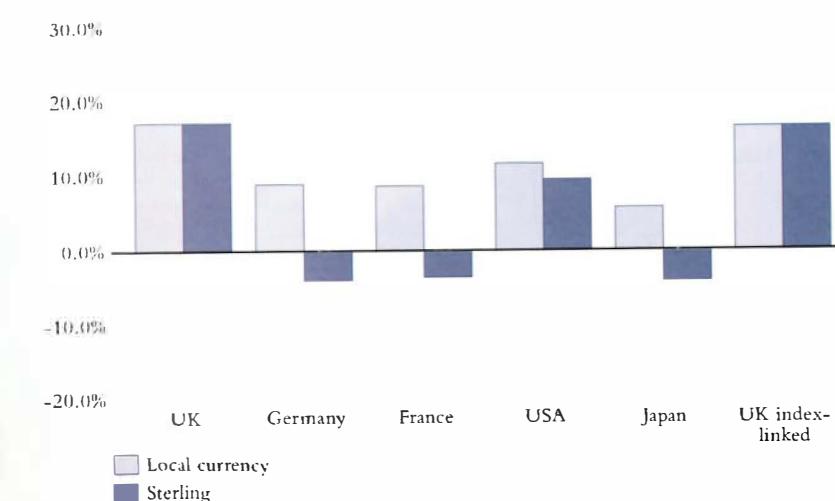
Source:

FT Actuaries World Indices
Lombard Odier Company Bond Indices
Investment Property Databank Monthly Index

Equities



Fixed Interest



CORPORATE GOVERNANCE

The London Investment Office made over 2,000 direct company contacts during 1997 to enable us to understand the companies more fully from all angles financially, environmentally and ethically. It is through these meetings that we aim to influence company managements on issues of corporate governance. It is time consuming but, in the long run, we believe it will be beneficial for the fund and therefore for the pensioners and members of USS.

PROPERTY

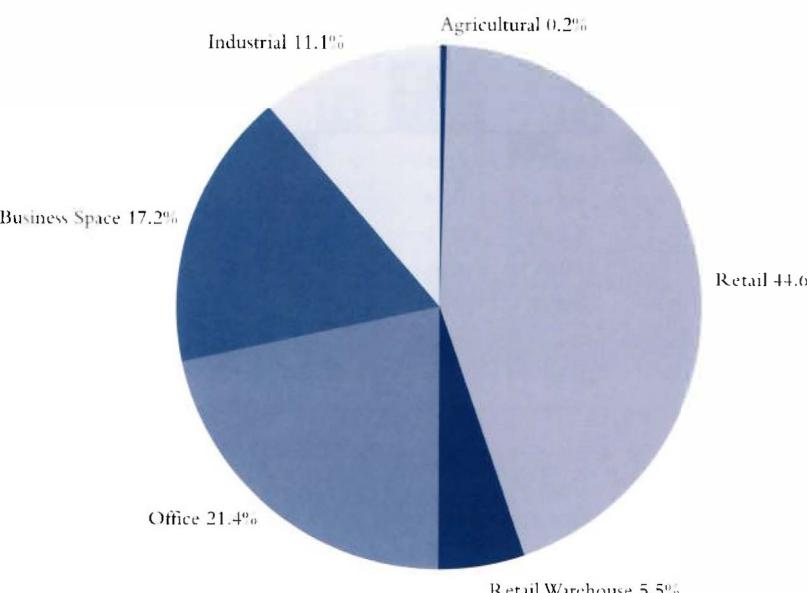
Property continued to perform strongly throughout 1997 and into the first quarter of 1998. Yields fell by 0.5% over the year as rental growth supported significant increases in capital values. The Investment Property Databank All Property Monthly Index had shown a total return of 10.7% for the 12 months to March 1997 but this jumped to 15.8% for the twelve months to March 1998 with rental growth at its highest rate for seven years. Other indices showed even higher returns: for example, the much larger IPI Index returned 17.8% for the year to 31 December 1997. Institutions are nevertheless cautious about undertaking speculative development and in the absence of over-supply, healthy returns are forecast for the next three years.

Even so, in 1997 property underperformed the WM return for total assets by about three-quarters of a percent, although it did out-perform bonds marginally during the year. Property yields remain high relative to bonds and the sector should remain in favour with investors for the next 12 months.

The fund's property portfolio was independently valued by Colliers Erdman Lewis at 31 March 1998 at £909,550,000 and a breakdown by type and geographical location is shown below:

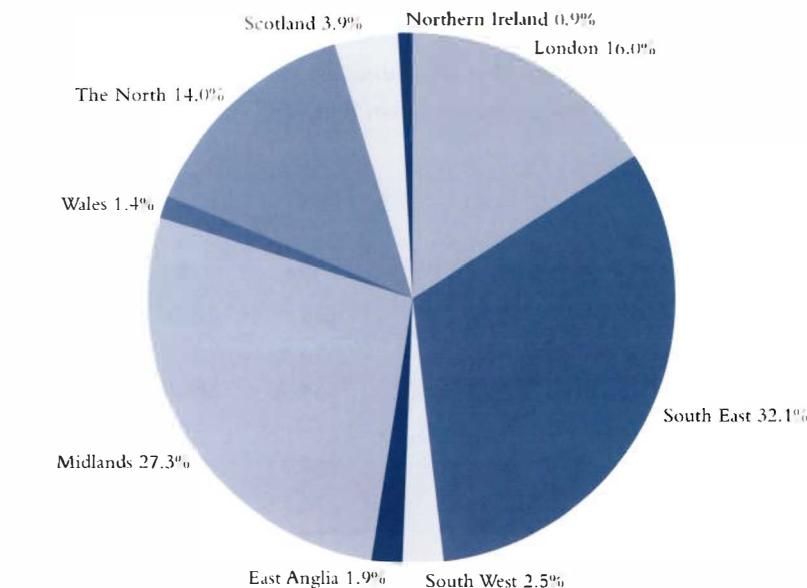
USS property portfolio - type of investment

	Freehold £m	Leasehold £m	Total £m	%
Retail	363.1	42.9	406.0	44.6
Retail Warehouse	50.0	-	50.0	5.5
Office	161.4	33.7	195.1	21.4
Business space	149.1	6.9	156.0	17.2
Industrial	75.0	26.1	101.1	11.1
Agricultural	1.4	-	1.4	0.2
TOTAL	800.0	109.6	909.6	100.0



USS property portfolio - geographical location (including development commitments)

	£m	%
London	145.1	16.0
South East	291.9	32.1
South West	23.1	2.5
East Anglia	17.6	1.9
Midlands	248.0	27.3
Wales	13.7	1.4
The North	127.0	14.0
Scotland	35.2	3.9
Northern Ireland	8.0	0.9
TOTAL	909.6	100.0



Net income for the year to 31 March 1998 fell to £60.1 million following the sale of some high yielding properties. With one exception, new investment was in the form of development commitments. The majority of the properties are subject to upward-only rent reviews every five years.

New investment and sales

During the year the fund made its first acquisition in Northern Ireland by agreeing to purchase the Forestside Shopping Centre in Belfast from the developer, J Sainsbury PLC. The purchase will not actually take place until the scheme is completed in the autumn of 1998. Situated just three miles south east of the city centre, it comprises 30 shops plus stores for Sainsbury, Marks & Spencer and Dunnes and totals 310,000 sq ft gross together with 1,400 car spaces. The centre is already largely pre-let and the total commitment for the fund will be approximately £50 million.

The fund also agreed to finance the development of a factory outlet retail centre and district centre at Whiteley Village near Fareham in Hampshire at an estimated cost of £55 million. The project includes a supermarket, a pub and sites for a church and medical centre with completion programmed for early 2000. This is a prosperous area of high population with good prospects of growth.

The fund's first major retail park was also acquired for £36 million at Bromborough (on the Wirral). It comprises a total of 175,000 sq ft on 13.7 acres and has helped to redress the fund's underweight position in this high performing sector.

As forecast in last year's report, important sales were completed in respect of large, over-rented, office buildings at London SW3 (£30.25 million), Sunbury (£8.5 million), and Newbury (£25.5 million). Additionally, a shop at Dundee was sold for £7.675 million and a portfolio of smaller, mixed commercial properties at Bromley, Evesham, Maidenhead and Teddington was sold for a total of £7.11 million. All the sales were concluded at or above the independent valuation of March 1997.

The speculative office developments funded at Manchester and Reading were completed at the end of the year and are expected to be let during 1998. A new 1,000 space multi-storey car park was constructed at the Telford Shopping Centre to enhance long term performance and a number of its major stores are already seeking to expand. Greater preference will be placed on industrial property for future investment but all three main sectors will be considered together with the leisure sector which is currently experiencing strong growth.

NET NEW INVESTMENT

An analysis of the net new investment undertaken during the year to 31 March 1998, along with the comparative figures for the preceding year, is set out in the table below:

	1998		1997	
	£m	%	£m	%
Securities	418.6	66.5	776.4	120.6
Property	(10.4)	(1.7)	18.1	2.8
Life assurance policies	(59.2)	(9.4)	(58.4)	(9.1)
Managed fund	—	—	(84.1)	(13.0)
Cash deposits	204.7	32.5	15.0	2.3
Stockbroker balances	76.1	12.1	(23.1)	(3.6)
	629.8	100.0	643.9	100.0

An analysis of the net new investment in securities and property for the year to 31 March 1998, along with comparative figures for the preceding year is set out in the table below:

	1998		1997	
	£m	%	£m	%
UK Equities	74.2	18.2	286.6	36.1
Overseas Equities	214.1	52.4	189.7	23.9
Index-linked	27.8	6.8	(134.4)	(16.9)
UK Fixed Interest	(69.0)	(16.0)	338.4	42.5
Overseas Fixed Interest	171.5	42.0	96.1	12.1
Property	(10.4)	(2.5)	18.1	2.3
	408.2	100.0	794.5	100.0

INVESTMENT IN LIFE ASSURANCE POLICIES

The portfolio distribution as at 31 March 1998, along with the comparative figures for the preceding year, is set out below:

	1998		1997	
	£m	%	£m	%
UK Equities	139.6	49.4	132.7	48.4
Overseas Equities	37.4	13.2	43.3	15.8
Index-linked	3.1	1.1	3.7	1.3
UK Fixed Interest	65.7	23.2	57.2	20.9
Property	17.8	6.3	21.5	7.8
Cash	19.2	6.8	15.8	5.8
	282.8	100.0	274.2	100.0

DISTRIBUTION OF ASSETS

The portfolio distribution as at 31 March 1998 and the comparative figures for the preceding year, is set out below:

	1998			1997		
	£m	£m	%	£m	£m	%
UK fixed interest						
British Government						
Conventional	843.5			858.8		
Index-linked	195.3			145.4		
Other debentures & loan stocks	8.1			1.2		
	1,046.9		6.2	1,005.4		7.6
Overseas fixed interest						
North America	560.6			331.4		
Europe	146.0			186.8		
Japan	16.0			—		
Pacific	—			17.6		
	722.6		4.2	535.8		4.0
Total fixed interest	1,769.5		10.4	1,541.2		11.6
UK equities						
Resources	869.2			796.8		
General manufacturers	1,185.7			1,183.6		
Consumer goods	1,789.3			1,336.8		
Services	2,922.1			1,690.8		
Utilities	490.3			813.7		
Financials	2,644.0			1,480.5		
Investment trusts	233.3			199.1		
Unit trusts	95.1			100.5		
Futures & options	(81.1)			—		
Unquoted	2.7			5.1		
	10,150.6		59.9	7,606.9		57.3
Overseas equities						
America	701.1			390.5		
Japan	342.2			443.6		
Europe	1,620.8			1,063.3		
Pacific	609.3			826.4		
Other	113.5			85.5		
	3,386.9		20.0	2,809.3		21.2
Total equities	13,537.5		79.9	10,416.2		78.5
Total securities	15,307.0		90.3	11,957.4		90.1
Property	909.6		5.3	840.2		6.3
Cash deposits	662.3		3.9	473.4		3.6
Stockbroker balances	79.5		0.5	3.4		—
Total investments (excluding life assurance policies)	16,958.4		100.0	13,274.4		100.0

LARGEST EQUITY HOLDINGS

A list of the fund's largest twenty equity holdings together with their percentage of the total fund (excluding life assurance policies) is shown below:

	Value £m	%
Glaxo Wellcome	453	2.7
HSBC Holdings	415	2.4
Lloyds TSB Group	409	2.4
British Petroleum	373	2.2
Shell Transport & Trading	322	1.9
British Telecom	316	1.9
Smithkline Beecham	285	1.7
Vodafone	194	1.1
Barclays	190	1.1
Prudential Corp	175	1.0
Diageo	173	1.0
Halifax	162	1.0
Cable & Wireless	159	0.9
Zeneca	158	0.9
BAT Industries	142	0.8
National Westminster	141	0.8
Unilever	121	0.7
Marks & Spencer	110	0.6
Abbey National	99	0.6
Royal & Sun Alliance	98	0.6
	4,495	26.3

Signed on behalf of the investment committee

Mark Fitzalan Howard
Chairman

JOINT NEGOTIATING COMMITTEE

The functions of the joint negotiating committee are to approve amendments to the rules proposed by the trustee company, to initiate or consider alterations to the rules and to consider any alterations proposed by the advisory committee arising out of the operation of the rules. The joint negotiating committee also has powers under the Articles of Association of the trustee company and under the scheme rules in connection with the appointment of co-opted directors and with the remuneration of directors.

With effect from 1 August 1997 Dr Joanna de Groot replaced Dr E Wade as a committee member appointed by the AUT.

The committee met on two occasions during the year. As indicated in last year's report, a number of benefit improvements were introduced during the early part of the year ended 31 March 1998 which had been agreed by the committee during the previous year, notably the abolition of the provision to suspend surviving spouses' pensions on remarriage or cohabitation, and an increase in the death in service lump sum to two-and-a-half times salary.

A major issue to which the committee directed its mind during the year was the pensionability of part-time employees who have previously not been considered to be in 'regular' employment. USS is open to both full-time and part-time employees provided they are in the regular employment of an institution. In practice, this is interpreted as meaning those employees who are in receipt of monthly non-fluctuating salaries or who otherwise are employed on a regular monthly contract. Although there is not at present any legal requirement for USS to admit employees who do not fall into this category, the committee is considering whether, and if so, to what extent, the rules of the scheme could be amended so as to permit or require membership of USS to be offered more widely. It became apparent that before the committee was in a position to make any recommendations there was a need for further research and information as to which categories of staff are primarily affected by exclusion by the current operation of the rules, their numbers, ages and prospective career paths over the coming decade. A steering group was set up to oversee and direct such research, the final results of which are expected to be available in the summer of 1998.

Signed on behalf of the joint negotiating committee

Kenneth Berrill
Chairman

ADVISORY COMMITTEE

The functions of the advisory committee are to advise the trustee company on the exercise of its powers and discretions (other than those relating to investment matters), on difficulties in the implementation or application of the rules and on any complaints received from members or participating institutions, and any other matters on which the trustee company requires advice.

Three meetings were held during the year. With effect from 1 August 1997 Dr D Green replaced Dr D J Wright as a committee member appointed by the AUT.

The majority of questions raised on the application or interpretation of the rules of USS were dealt with by the senior officers. The remainder, in which the circumstances did not fall clearly within the trustee company's guidelines and which required detailed consideration by the advisory committee during the year comprised three cases relating to the reduction in a spouse's pension where the spouse was more than 15 years younger than the deceased member, four relating to full commutation of pension on the grounds of serious ill-health, and one relating to the calculation of pensionable salary.

As reported in the last edition of the USS report and accounts, the Pensions Act 1995 required the trustees and managers of occupational pension schemes to make arrangements for the resolution of disputes with members about matters in relation to the scheme. The management committee decided that the first stage of this process would be a decision taken by the chief pensions manager and that the role of the advisory committee would be extended to confer upon it an executive decision-making power limited to the resolution of second stage disputes, ie where the member had declined to accept the chief pensions manager's decision. Two members of the management committee were appointed to the advisory committee to assist the advisory committee, so enlarged, to act in that capacity. It was necessary for the enlarged committee to meet on only one occasion during the year, when it considered and confirmed the decisions given in two cases at stage one of the internal dispute resolution procedure, one relating to a complaint about the application of the facility (now withdrawn) to repay previous refunds of contributions and the other one relating to the calculation of pensionable service.

Signed on behalf of the advisory committee

C L Rice
Chairman

STATEMENT OF INVESTMENT PRINCIPLES

Introduction

The Pensions Act 1995 requires trustees to prepare and keep up-to-date a written statement recording the investment policy of the scheme. The purpose of this document is not only to satisfy the requirements of the Act but also to outline the broad investment principles governing the investment policy of the scheme.

The statement has been agreed by the management committee of Universities Superannuation Scheme (USS) on written advice from the investment committee, a sub-committee of the management committee, and William M Mercer Ltd, the scheme actuary, and following consultation with the participating employers or their appointed representatives.

Changes to this statement require the agreement of the management committee following receipt of written advice from the investment committee and the scheme actuary and following consultation with the participating employers or their appointed representatives.

The management committee will review the statement at least every three years in the light of each triennial actuarial valuation. The investment committee will monitor compliance with this statement at least annually and will obtain written confirmation from the investment managers that they have exercised their powers of investment with a view to giving effect to the principles contained herein as far as reasonably practicable.

The investment committee of the management committee is established under the articles of association of the trustee company, USS Ltd, and under the rules of the scheme to advise the trustee company on all questions relating to the investment of the assets of the fund. It consists of between three and eight people of whom at least one must be a member of the management committee and not more than five shall be persons other than directors whom the management committee may decide to appoint because they have special skills or are able to give competent advice to the trustee company on the policy to be adopted from time to time for investment of the fund.

The management committee, as the governing body of the trustee company, retains the overall power of investment in relation to the fund but may from time to time delegate to the investment committee on such terms as it may impose the power of the trustee company to decide the investment policy of the fund. The investment committee is required to notify to the management committee its decisions concerning the investment policy of the fund. Any changes in the investment policy will be notified to the management committee on a quarterly basis.

Investment objective

The trustee's duty is to act in the best financial interests of all classes of scheme member and accordingly to ensure that the assets are invested to secure the benefits under the scheme.

The managers are therefore instructed to give primary consideration to the financial prospects of any investment they hold or consider holding.

The fund's investment objective is to meet its investment performance target. This objective is consistent with the scheme's relative immaturity and with funding the scheme's benefits at the lowest cost over the long term, having regard to the minimum funding requirement of the Pensions Act 1995 and having regard to the attitude of the Committee of Vice-Chancellors and Principals and of the management committee towards the risk of higher contributions at some time in the future. At the last triennial valuation as at 31 March 1996 the scheme's funding level comfortably exceeded its minimum funding requirement level. The aim is to seek to maintain an adequate funding cushion such that the risk of deterioration to the MFR ratio to below 100% is at an acceptable level.

The investment performance target for the global securities under the direct control of USS Ltd and its balanced managers is to exceed the return on the FT-SE-A All-Share Index by 1% per annum and the 40th percentile of the WM ex-property universe of all funds over rolling five-year periods.

The dual target is likely to result in the performance of the fund differing significantly year by year from the average fund in the WM Survey. However, it should result in superior returns over the longer (five to ten years) period on which an immature fund like USS should be concentrating.

Property investments similarly have a dual performance target to exceed the return on the FT-SE-A All-Share Index by 1% per annum and the 40th percentile of the Investment Property Databank (IPD) universe of all funds over rolling five-year periods.

Corporate governance

The proper corporate governance of companies in which the fund invests is of importance to USS Ltd. The trustee has adopted guidelines based on the recommendations of the Cadbury and Greenbury Committees. Votes are cast on the basis of these guidelines on resolutions at the general meetings of all UK companies and where appropriate at the general meetings of all overseas companies in which the fund has investments.

Ethical and environmental considerations

With regard to ethical investment the trustee company is bound by the following legal principles which are based on recent decisions in the courts and which apply to all pension schemes:

- (a) trustees are free to adopt a policy of ethical investment, provided that they treat the financial interests of all classes of scheme members as paramount and their investment policies are consistent with the standards of care and prudence required by law;
- (b) trustees are free to avoid certain kinds of prudent investment which they consider scheme members would regard as objectionable so long as they make equally financially advantageous and prudent investments elsewhere. They may also make 'ethical' investments provided these are otherwise justifiable on investment grounds;
- (c) trustees are not entitled to subordinate the interests of members to ethical or social demands. The financial performance of the fund consistent with proper diversification and prudence, is paramount.

In practice the size of the USS fund and the legal obligation imposed on the trustee company to ensure proper diversification and suitability of investments having regard to its liabilities, taken with the scheme's relative immaturity mean that the fund should be properly represented in a wide range of quoted equity market sectors so as to maximise the financial return on fund investments.

Accordingly, the trustee company is legally prevented from instructing the managers to invest wholly or primarily on ethical or environmental considerations alone and has not done so. However, the trustee expects that the boards of companies in which it invests should pay due regard to environmental matters and thereby further the long term financial interests of their shareholders. Ethical and environmental issues arise not only in board policy decisions but in daily operations. The trustee cannot become involved in these decisions and therefore looks to the directors of a company to manage that company's affairs taking proper account of the shareholders' long term interests.

The trustee company is also mindful of the desirability of maintaining a stable long term employer contribution rate and the pursuit of an investment policy with a significant ethical element could (because of its potentially adverse impact on fund returns) be inconsistent with that objective.

Investment manager structure

The securities investments of the fund are currently managed by a number of discretionary balanced managers and one index tracking manager. The reason for using a number of different managers is to spread the investment risk of the scheme. The management structure is subject to review by the investment committee and the management committee.

The balanced managers have as their performance target the performance target of the fund (as set out above). In measuring their performance their portfolios are assumed to include their proportion of the index tracking fund.

The objective of the index tracking fund is to match the return on the FT-SE- AAll-Share Index. This fund is managed by the internal manager acting on the advice of HSBC James Capel Quantitative Techniques.

At 31 December 1996 the securities assets of the fund were allocated between the managers in an approximate ratio of :

	%
Internally managed balanced fund	46
Index tracking fund	27
Baillie Gifford	9
PDFM	9
Schroders	9

This can fluctuate due to market forces.

Cash flow is allocated between the managers in order to maintain the desired split. The allocation of cash is reviewed and approved by the investment committee on a quarterly basis.

Investment strategy and asset mix

The investment committee sets guidelines for asset allocation for the combined fund. These guidelines are reviewed quarterly by the investment committee and the investment managers taken as a whole are required to operate within the global guidelines. The guidelines set for asset allocation between different investment classes are consistent with the investment committee's views on the appropriate balance between risk and return and have due regard to the long term liabilities of the scheme.

The investment managers are aware of the investment objective of the fund and set their individual investment strategy to meet the objective within the guidelines imposed. The monitoring guideline at 31 December 1996 was:

	%
UK equities	56.3
Overseas equities	20.4
Index linked	1.1
Bonds	9.7
Property	6.3
Cash	6.2

If there is a departure of more than 5% either side of this asset distribution, the investment specialists on the investment committee will be notified. In this way, market movements and asset allocation shifts are monitored and any changes, if desired, approved by the chairman of the investment committee after consultation with the investment specialists.

Investment policy is determined by the belief that over the longer term equity investment will provide superior returns to other investment classes and will more closely match the liabilities of the scheme. The fund has a high exposure to equities through a geographically and industrially diversified portfolio.

The total investment in each broad asset class is determined by the fund's investment managers under their delegated authorities within the above monitoring guidelines set by the investment committee after consideration of the minimum funding requirements of the Pensions Act 1995, long term funding solvency and investment management risk. No more than 4% of the total fund by market value can be invested in one security and no more than 10% of the market capitalisation of any one company can be held without prior authority from the chairman of the investment committee, both constraints to apply as at the date of purchase.

Managers may not invest in securities not quoted on a recognised or designated investment exchange and not currently held by the fund. Further investment in such unquoted securities which are currently held in the internally managed fund requires the approval of the chairman of the investment committee.

Additional assets

The fund continues to hold life assurance policies with the Equitable Life Assurance Society (ELAS) assigned to it in respect of former FSSU members. The value of policies held as at 31 December 1996 was less than 2.5% of the fund. It is the intention of the trustee to convert these policies to a managed fund and ultimately to bring the assets under the investment control of the discretionary balanced managers within a timescale agreed by ELAS.

Additional voluntary contributions from members to purchase additional benefits on a money purchase basis are invested separately and managed by Prudential Assurance.

Monitoring performance

The performance of each investment manager is measured quarterly by the WM Company. The performance is measured against the fund's dual targets of the FT-SE- AAll-Share Index and the WM Universe. The performance of the investment managers and the fund is reported quarterly to the investment committee.

The performance of the property portfolio is also separately measured against the IPD Universe. The IPD performance data is incorporated within the WM Universe data for measurement of the performance of the whole fund.

The internal auditor and chief investment officer visit the external investment managers to check the quality and effectiveness of procedures on a regular basis. The internal auditor monitors the internal management to check the quality and effectiveness of procedures on a regular basis.

Level of scheme maturity

An exercise carried out in conjunction with the actuary in 1995 confirmed the trustee's view of the scheme's relative immaturity and this is kept under review by the trustee company.

The scheme is cash flow positive and does not need to realise investments to meet liabilities.

Stock lending

USS is authorised by the scheme rules to participate in stock lending and has decided to exercise those powers, restricted however to the overseas equity portion of the internal manager's portfolio under a stock lending programme managed by the internal manager's custodian bank.

UNIVERSITIES SUPERANNUATION SCHEME
STATEMENT OF INVESTMENT PRINCIPLES

Securities lending, which in fact involves the transfer of ownership in the securities concerned to approved borrowers against a secured contractual obligation to return to USS securities of the same type and nominal value, takes place when an investor loans securities from its portfolio (in the above sense) to meet the temporary needs of counterparties, such as broker-dealers, who use the securities to support their market activity. The lender receives collateral from the borrower for the duration of the loan in return for the lent securities and the borrower pays the lender a fee. Legal documentation ensures the lender in effect remains entitled to the dividends that relate to the lent securities.

USS has concluded that the risks associated with stock lending in accordance with the above stock lending programme are not intrinsically different from those of other market operations and are justified in the light of the return to the scheme in terms of the annual stock lending fees capable of generation. The securities lending programme focuses on risk mitigation. All loans are pre-collateralised (ie no stock is released to a borrower until the custodian receives collateral in excess of the value of the loaned stock). If the stock loaned increases to a value greater than the collateral held for USS' account, to secure the promise to return equivalent securities, further collateral must be provided to USS by the borrower. The custodian indemnifies USS if insufficient collateral is held in the event of borrower default. The custodian assesses the credit worthiness of all borrowers and only lends to those on its approved borrowers list. The banks used to hold collateral by way of cash deposits and provide letters of credit must have an acceptable credit rating and are restricted to those currently approved by USS for cash deposit placings.

Derivatives

Each of the discretionary balanced managers is permitted to use derivatives within limitations specified by the investment committee. The current limit is 5% of funds under their management, including their share of the index fund, and the use of derivatives is solely for the efficient management of the portfolio.

Underwriting

The balanced managers are permitted to underwrite issues provided they are prepared to hold all the stock to be underwritten.

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

UNIVERSITY INSTITUTIONS

No.	Name	Pensioner Members	PENSIONERS	
				Spouses, Dependants and Dependant Children
0100	Aberdeen	1,188	424	84
4100	Aston	428	296	80
4300	Bath	828	267	45
6600	Belfast	1,522	373	91
1000	Birmingham	1,923	795	165
4200	Bradford	750	315	75
1100	Bristol	1,965	489	99
4400	Brunel	565	233	41
7035	Buckingham	92	27	7
1200	Cambridge (University)	3,437	633	200
1202	Christ's	12	4	2
1204	Churchill	24	4	1
1206	Clare	8	3	-
1208	Clare Hall	4	-	2
1210	Corpus Christi	12	2	2
1212	Darwin	2	3	1
1214	Downing	13	8	2
1216	Emmanuel	15	3	2
1218	Fitzwilliam	11	5	1
1220	Girton	30	9	1
1222	Gonville & Caius	23	8	5
1224	Hughes Hall	-	1	1
1226	Jesus	17	5	1
1228	King's	28	5	1
1230	Lucy Cavendish	16	6	-
1232	Magdalene	10	4	2
1234	New Hall	21	10	-
1236	Newnham	21	18	3
1238	Pembroke	22	5	-

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

UNIVERSITY INSTITUTIONS continued

No.	Name		MEMBERS		PENSIONERS	
			Pensioner Members		Spouses, Dependants and Dependant Children	
1240	Peterhouse		14	3	—	
1242	Queens'		11	—	1	
1245	Robinson		12	4	—	
1246	St Catharine's		14	2	—	
1255	St Edmund's		2	1	—	
1250	St John's		29	4	2	
1252	Selwyn		10	1	—	
1254	Sidney Sussex		11	1	—	
1258	Trinity		32	8	1	
1260	Trinity Hall		13	2	2	
1268	Wolfson		5	2	—	
4700	City		700	244	59	
7016	Cranfield		856	305	65	
0700	Dundee		1,116	249	47	
1300	Durham (University)		1,050	305	55	
1301	St Chad's		2	—	—	
1500	East Anglia		861	247	37	
0200	Edinburgh		2,620	705	171	
1700	Essex		586	127	30	
1600	Exeter		807	320	54	
0300	Glasgow		2,215	580	122	
0800	Heriot-Watt		676	165	30	
1800	Hull		850	288	69	
3100	Keele		539	192	41	
1900	Kent at Canterbury		693	216	28	
2100	Lancaster		814	273	47	
2000	Leeds		2,399	731	178	
2200	Leicester		1,173	268	58	
2300	Liverpool		1,623	511	117	

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

UNIVERSITY INSTITUTIONS continued

No.	Name		MEMBERS		PENSIONERS	
			Pensioner Members		Spouses, Dependants and Dependant Children	
2497	London (University)		468	550	140	
2408	Birkbeck		373	116	22	
2466	Eastman Dental Institute		41	3	1	
2401	Goldsmiths' College		355	75	4	
2480	Heythrop		12	1	—	
2409	Imperial Coll of Science, Technology & Medicine	2,384	616	137		
2440	Institute of Cancer Research		176	8	—	
2465	Institute of Child Health (part of University College)	169	4	1		
2403	Institute of Education		312	157	35	
2474	Institute of Psychiatry (part of King's College)	206	5	3		
2410	King's College London		1,348	468	90	
2412	London School of Economics & Political Science	576	161	43		
2434	London School of Hygiene & Tropical Medicine	301	56	22		
2413	Queen Mary & Westfield College	968	408	83		
2426	Royal Free Hospital School of Medicine	201	42	6		
2447	Royal Holloway and Bedford New College	499	181	29		
2436	Royal Veterinary College		139	45	14	
2428	St George's Hospital Medical School		264	46	11	
2415	School of Oriental & African Studies	315	129	38		
2416	School of Pharmacy		76	25	3	
2430	United Medical & Dental Schools		568	163	50	
2417	University College		2,632	698	121	
2419	Wye College		112	52	13	
2484	London Business School		183	25	5	
4600	Loughborough		1,007	302	90	
2500	Manchester		2,582	861	175	
5100	UMIST		958	323	47	
1400	Newcastle-upon-Tyne		1,661	552	125	
2600	Nottingham		1,887	486	100	

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependant Children
8900	Open	1,825	350	78
2700	Oxford (University)	3,313	799	230
2701	All Souls	26	9	3
2702	Balliol	23	5	—
2703	Brasenose	11	4	2
2704	Christ Church	47	5	3
2705	Corpus Christi	17	6	2
2706	Exeter	14	2	3
2707	Hertford	14	3	1
2708	Jesus	18	4	—
2709	Keble	14	3	—
2710	Lady Margaret Hall	15	6	1
2734	Linacre	5	2	—
2711	Lincoln	12	4	2
2712	Magdalen	23	10	4
2735	Harris Manchester	10	1	—
2732	Mansfield	20	3	3
2713	Merton	17	8	1
2714	New College	37	7	2
2715	Nuffield	35	8	2
2716	Oriel	21	5	—
2717	Pembroke	10	3	1
2718	Queen's	23	7	—
2736	Regent's Park	1	—	—
2719	St Anne's	14	9	—
2720	St Antony's	13	7	1
2721	St Catherine's	20	7	1
2722	St Edmund Hall	9	2	1
2723	St Hilda's	24	7	—

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependant Children
2724	St Hugh's	20	5	—
2725	St John's	31	6	—
2726	St Peter's	15	4	1
2727	Somerville	16	7	—
7028	Templeton	29	10	2
2728	Trinity	10	3	—
2729	University	14	7	1
2730	Wadham	17	6	—
2733	Wolfson	17	4	—
2731	Worcester	14	7	1
2800	Reading	1,225	376	95
0400	St Andrews	673	185	47
4800	Salford	700	400	60
2900	Sheffield	2,141	523	104
3000	Southampton	1,869	421	87
0500	Stirling	655	135	30
0600	Strathclyde	1,242	439	109
4000	Surrey	955	276	42
3200	Sussex	818	286	46
6800	Ulster	1,268	249	50
3900	Wales (University)	61	16	3
3300	Aberystwyth	545	231	55
3400	Bangor	645	228	59
3500	College of Cardiff	1,293	518	126
3800	Lampeter	118	28	8
3600	Swansea	834	284	65
3700	University of Wales College of Medicine	491	85	25
5000	Warwick	1,311	235	44
5200	York	988	149	25
Old university institutions total		77,139	22,676	4,962

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS		PENSIONERS	
		Pensioner Members		Spouses, Dependants and Dependant Children	
New universities admitted for limited membership only					
8100	Bournemouth	1	-	-	
8080	Brighton	3	-	-	
8110	Coventry	4	-	-	
8060	De Montfort	2	-	-	
8010	Glamorgan	2	-	-	
8040	Hertfordshire	1	-	-	
8050	Huddersfield	1	-	-	
8090	Nottingham Trent	9	1	-	
8120	Oxford Brookes	1	-	-	
8070	Plymouth	4	-	-	
8020	South Bank	17	-	-	
8030	Thames Valley	1	-	-	
8130	Westminster	1	-	-	
New university institutions total		47	1	-	
All university institutions total		77,186	22,677	4,962	

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

NON-UNIVERSITY INSTITUTIONS

No.	Name	MEMBERS		PENSIONERS	
		Pensioner Members		Spouses, Dependants and Dependant Children	
7113	Aberdeen Univ Research & Ind Services Ltd	2	-	-	
7010	Animal Health Trust	34	4	-	
7040	Arthritis Research Campaign	1	2	-	
7154	Associated Examining Board	2	4	-	
7011	Association of Commonwealth Universities	22	34	4	
7108	Aston Techn Planning & Management Services Ltd	-	-	-	
7067	Beatson Institute for Cancer Research	41	2	-	
7084	BLCMP (Library Services) Ltd	5	2	-	
7037	Brewing Research International	47	9	1	
7012	British Glass Manufacturers' Confederation	3	5	-	
7110	British Inst at Amman for Archaeology & History	1	-	-	
7030	British Institute in Eastern Africa	1	-	-	
7091	British Institute of Archaeology at Ankara	1	1	-	
7112	British Institute of International & Comp Law	1	1	-	
7061	British Institute of Persian Studies	-	1	-	
7097	British Psychological Society	4	-	-	
7087	British School at Athens	3	1	1	
7092	British School at Rome	2	-	-	
7033	British School of Archaeology in Iraq	-	-	-	
7034	British School of Archaeology in Jerusalem	3	1	-	
7050	British University Sports Federation	-	-	-	
7133	Brunel Institute of Organisation & Social Studies	4	1	-	
7122	Burden Neurological Institute	5	-	-	
7116	Cambridge Crystallographic Data Centre	25	1	-	
7060	Cancer Research Campaign	11	8	-	
7153	CASE	2	-	-	
7015	College of Estate Management	26	16	11	
7121	Committee of Vice-Chancellors and Principals	25	6	2	
7100	Company of Biologists Ltd	-	-	-	

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependant Children
7098	Culham College Inst for Church Related Education	1	—	—
7145	Dartington Hall Trust	4	—	—
7055	East Grinstead Med Research Trust (Blond Labs Ltd)	2	1	—
7159	Edexcel Foundation	47	4	—
7164	Edinburgh Business School	7	—	—
7032	Edinburgh University Students' Association	7	1	—
7089	Ewing Foundation	2	1	—
7120	Family Policy Studies Centre	—	—	—
7051	FSSU Secretariat	—	—	1
7041	Geographical Association	4	1	1
7152	Gray Laboratory	24	—	—
7148	Gyosei International College in the UK	26	—	—
7025	Henley Management College	48	27	2
7157	Higher Education Careers Service Unit	7	1	—
7135	Higher Education Statistics Agency Ltd	11	—	2
7053	History of Parliament Trust	27	4	—
7143	Homerton College	8	1	—
7036	Inns of Court School of Law	51	11	3
7079	Institute of Community Studies	7	4	2
7137	Inst of Contemporary History & Wiener Library Ltd	—	—	—
7017	Institute of Development Studies	60	28	3
7056	Institute of Food Science & Technology	3	—	—
7029	Institute for Employment Studies	7	7	—
7124	International Institute of Biotechnology	1	—	—
7132	International Society (Manchester)	1	—	—
7149	International Students House	3	—	—
7054	Joint Library of Hellenic & Roman Societies	—	2	—
7147	JNT Association	26	2	2
7066	Journal of Endocrinology Ltd	—	1	—

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependant Children
2482	Lister Institute of Preventive Medicine	1	7	2
7117	Ludwig Inst for Cancer Research - Middlesex Branch	20	—	—
7039	Ludwig Inst for Cancer Research - St Mary's Branch	15	4	—
7090	Marie Curie Cancer Care	28	2	5
7125	Marine Biological Association of the United Kingdom	15	—	—
7026	Mathilda & Terence Kennedy Inst of Rheumatology	23	7	3
7096	Modern Humanities Research Association	1	1	—
7094	Motor Industry Research Association	73	31	7
7059	Museum Documentation Association	—	—	—
7114	Nat Collections of Ind & Marine Bacteria Ltd	3	3	—
7018	National Inst of Economic & Social Research	17	8	1
7080	Norfolk Agricultural Station (Morley Res Centre)	13	2	—
7073	Northern College for Residential Adult Education	24	3	2
7024	Northern Examinations and Assessment Board	41	19	3
7146	Northern Ireland Council for Postgraduate Med & Dental Educ	4	1	—
7115	Northern Ireland Economic Research Centre	9	—	3
7048	Numerical Algorithms Group Ltd	63	1	1
7155	Nuffield Trust	3	—	—
7161	OMCRG	—	—	—
7058	Open University Worldwide	11	3	—
7023	Overseas Development Institute	29	3	—
7118	Oxford Centre for Islamic Studies	3	—	—
7031	Oxford Centre for Postgraduate Hebrew Studies	13	1	—
7163	Oxford Policy Institute	1	—	—
7104	Pain Relief Foundation	2	—	—
7075	Policy Studies Institute	28	11	2
7139	Preformation of Undergraduate Engineers	10	—	—
7134	Prince of Wales's Institute of Architecture	5	—	—
7162	Quality Assurance Agency	28	5	4

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS		PENSIONERS	
		Pensioner Members		Spouses, Dependants and Dependant Children	
7052	Reading University Students' Union	—	—	—	—
7156	Regulatory Policy Institute	1	—	—	—
7123	Richmond College	38	—	—	—
7160	Royal Academy of Music	2	—	—	—
7081	Royal College of Paediatrics and Child Health	2	1	—	—
7020	Royal College of Surgeons of England	54	25	8	—
7021	Royal Geographical Society	3	3	1	—
7082	Royal Institute of International Affairs	4	—	—	—
7077	Royal Institution	16	6	—	—
7158	Royal Northern College of Music	1	—	—	—
7064	Royal Society	—	—	1	—
7070	Royal Society of Edinburgh	4	1	—	—
7022	Ruskin College	25	13	3	—
7144	SAUL Trustee Company	4	1	—	—
7105	School Mathematics Project	3	2	—	—
7130	Scottish Association for Marine Science	18	—	—	—
7131	Southern Universities Management Services	4	2	—	—
7042	Strangeways Research Laboratory	7	6	3	—
7049	Students' Union University of Leicester	1	2	1	—
7138	Thrombosis Research Institute	20	1	—	—
7109	Trade Union Research Unit Ltd	2	—	—	—
7141	TUIREG	2	—	—	—
7106	Universities and Colleges Admissions Service	26	9	3	—
7150	Universities and Colleges Employers Association	3	1	—	—
7151	Universities and Colleges Staff Development Agency	3	3	—	—
7140	University of Leeds Innovations Ltd	8	—	—	—
7129	University of Swansea Students' Union	1	—	—	—
9999	USS Ltd	101	17	3	—
7165	Westhill College of Higher Education	1	—	—	—

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS		PENSIONERS	
		Pensioner Members		Spouses, Dependants and Dependant Children	
7065	Wildfowl & Wetlands Trust	1	—	9	—
7142	WP Management Ltd	1	—	—	—
7027	York Archaeological Trust	2	—	1	—
7076	Zoological Society of London	24	—	10	—
—	Withdrawn institutions	—	—	56	6
Non-university institutions total		1,520	—	476	97
All institutions total		78,706*	—	23,153	5,059

*Included in this figure (but counted once only) are 1,574 members who have more than one appointment.

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

SUMMARY OF MOVEMENTS during the year ended 31 March 1998

Members	University Institutions	Non-University Institutions	Totals
Total members at 1 April 1997	75,388	1,491	76,879
New members	10,351	203	10,554
Retirements - Ill-health	182	8	190
- Other	1,779	46	1,825
Deaths	74	3	77
Leavers	610	14	624
- Refunds	289	4	293
- Transfers	5,182	95	5,277
- Deferred benefits and undecided	258	3	261
Withdrawals	1	-	1
- Refunds	22	1	23
- Transfers	156	-	156
Total members at 31 March 1998	77,186	1,520	78,706

*Retrospective withdrawals are members who withdrew from USS within three months of the date of joining the scheme with retrospective effect to the date of commencing employment at a USS institution.

In addition USS Ltd was notified during the year of 2,386 employees who became eligible to join the scheme but who elected not to do so.

Pensioner Members	University Institutions	Non-University Institutions	Totals
Total pensioners at 1 April 1997	21,050	406	21,456
New pensioners	2,098	80	2,178
Deaths	471	10	481
Total pensioners at 31 March 1998	22,677	476	23,153

In addition at 31 March 1998, there were 4,351 pensions being paid to spouses and dependants and 708 annuities being paid to dependent children. Deferred pensioners not yet receiving a pension totalled 33,702.

UNIVERSITIES SUPERANNUATION SCHEME
USS ACCOUNTS

FUND ACCOUNT for the year ended 31 March 1998

	Note	1998 £m	1997 £m
Contributions and Benefits			
Contributions receivable	3	456.5	501.3
Premature retirement scheme receipts		55.5	46.2
Individual transfers in		90.7	30.8
Benefits payable	4	451.3	402.5
Leavers	5	19.6	23.3
Administration costs	6	5.9	5.8
Net additions from dealings with members		125.9	146.7
Returns on Investments			
Investment income	7	499.3	509.3
Change in market value of investments	8	3,062.4	930.6
Investment management expenses		(5.3)	(4.8)
Net returns on investments		3,556.4	1,435.1
Net increase in the fund during the year		3,682.3	1,581.8
Fund at start of year		13,668.5	12,086.7
Fund at end of year		17,350.8	13,668.5

STATEMENT OF NET ASSETS as at 31 March 1998

	Note	1998 £m	1997 £m
Investments			
Securities	10	15,307.0	11,957.4
Property	11	909.6	840.2
Life assurance policies	12	282.4	274.2
Cash deposits		662.3	473.4
Stockbroker balances	13	79.5	3.4
		17,240.8	13,548.6
Net current assets	14	110.0	119.9
Total net assets, representing the fund balance		17,350.8	13,668.5

The financial statements on pages 47 to 54 and the statement of trustee's responsibilities on page 55 were approved by the trustee, Universities Superannuation Scheme Limited, on 30 July 1998 and were signed on its behalf by:

Graeme J Davies
Chairman

D B Chynoweth
Chief Executive

NOTES TO THE ACCOUNTS for the year ended 31 March 1998

1. Basis of preparation

The financial statements have been prepared in accordance with the recommendations of the Statement of Recommended Practice (SORP) "Financial Reports of Pension Schemes" except that transactions and fund values in respect of money purchase AVCs have not been disclosed in the fund account and the net assets statement on the grounds that the amounts involved are not material.

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the statement by the actuary on page 57 of the annual report and these financial statements should be read in conjunction with it.

2. Accounting policies

A summary of the significant accounting policies which have been applied consistently by the scheme is set out below.

Contributions

Contributions represent the amounts returned by the participating institutions as being those due to the scheme in respect of the year of account. The responsibility for ensuring the accuracy of contributions rests with institutions which, under the terms of the trust deed regulating USS, are ultimately responsible for ensuring the solvency of the scheme.

Receipts under the premature retirement scheme are accounted for in the period in which they fall due.

Investment income

Investment income is brought into account on the following bases:

- (a) Dividends and interest from quoted and unquoted securities, on the date that the scheme becomes entitled to the income;
- (b) Interest on cash deposits, as it accrues;
- (c) Property rental income, as it accrues;
- (d) Interest on advances for property developments, which is credited to the fund account and forms part of the cost of the relevant development, as it accrues until the earlier of the development becoming a completed property or the contracted purchase price being reached.

Property

A completed property is one that has received an architect's certificate of practical completion and which is either substantially let or, although not substantially let, is neither within the period of contractors' defects nor is expected to be the subject of further building works. Developments in progress include any property which is not a completed property.

Life assurance policies

Policy proceeds and premiums paid are not treated as income and outgoings but are accounted for within the value at which the life assurance policies are included in the statement of net assets.

Rates of exchange

Assets and liabilities denominated in overseas currencies are translated into sterling at the rates of exchange ruling at the balance sheet date and any exchange movements on translation are included in the fund account.

Net transfers

Transfers to and from the fund are accounted for on the basis of amounts received and paid during the year.

Investments

Investments are included in the statement of net assets at current value at the year end.

The current values are as follows:

- (a) Quoted securities – at mid market value;
- (b) Unquoted securities – at trustee company's valuation;
- (c) Property – on the basis of open market value;
- (d) Life assurance policies – at the amount disclosed by an annual actuarial valuation.

Changes in current values are shown as movements in the fund account in the year in which they arise.

3. Contributions

	1998 £m	1997 £m
Main section		
Employers' contributions	305.7	358.7
Members' basic contributions	130.8	124.2
Members' additional voluntary contributions	12.4	11.1
	448.9	494.0
Supplementary section		
Members' contributions	7.6	7.3
	456.5	501.3

The employers' contribution rate was reduced from 18.55% of pensionable salaries to 14% with effect from 1 January 1997.

Additional voluntary contributions referred to above represent contributions made to purchase additional pensionable service under the rules of the scheme.

Money purchase additional voluntary contributions

A money purchase additional voluntary contribution facility is administered by the Prudential Assurance Company Limited.

Individual members' contributions are deducted from their salaries and paid direct to the Prudential by the institutions. The contributions are invested through the Prudential on behalf of the individuals concerned to provide additional benefits within the overall limits laid down by the Inland Revenue. The contributions paid and the investments purchased are not included in the accounts.

The value of the accumulated additional voluntary contributions at 31 March 1998 was £30 million (1997 £16.7 million). Contributions from members during the year amounted to £13.1 million

from which administration expenses of £131,400 were deducted by the Prudential. Payouts to members during the year amounted to £982,000. The income derived from interest and bonuses in the year was £1,083,000.

4. Benefits payable

	1998 £m	1997 £m
Main section		
Pensions	343.7	309.4
Lump sums on or after retirement	96.0	83.8
Lump sums on death in service	6.0	4.6
	445.7	397.8
Supplementary section		
Pensions	4.2	3.5
Lump sums on or after retirement	1.1	0.9
Lump sums on death in service	0.3	0.3
	5.6	4.7
	451.3	402.5

5. Payments on account of leavers

	1998 £m	1997 £m
Individual transfers to other schemes	18.1	21.8
Payments for members joining state scheme	0.5	0.8
Refunds to members leaving service	1.0	0.7
	19.6	23.3

6. Administration costs

In accordance with the trust deed, the costs of managing and administering the scheme, incurred by the trustee company, are chargeable to USS. Details are given in the financial statements of the trustee company (Universities Superannuation Scheme Limited : Registered No. 1167127).

7. Investment income

	1998 £m	1997 £m
Dividends from UK equities	257.9	293.5
Net property income	60.1	61.1
Dividends from overseas equities	49.7	45.5
Income from UK fixed interest securities	64.7	38.1
Income from overseas fixed interest securities	29.0	30.4
Income from index-linked securities	4.2	5.0
Interest on cash deposits	33.7	34.4
Underwriting commissions	0.1	0.8
Translation differences	(0.1)	0.5
	499.3	509.3

Investment management costs are shown as a deduction from investment income and comprise all costs directly attributable to the scheme's investment activities, including the operating costs of the London Investment Office, the costs of management and agency services rendered by third parties.

8. Changes in value of investments

The changes in the value of investments are shown below.

	Purchases Current value 1997	Purchases during the year at cost £m	Proceeds of sales during the year £m	Changes in value during the year £m	Current value 1998 £m
Securities	11,957.4	6,561.0	(6,142.4)	2,931.0	15,307.0
Property	840.2	68.2	(78.6)	79.8	909.6
Life assurance policies	274.2	2.1	(61.3)	67.4	282.4
Cash deposits	473.4	204.7	-	(15.8)	662.3
	13,545.2	6,836.0	(6,282.3)	3,062.4	17,161.3
Stockbroker balances		3.4			79.5
	13,548.6				17,240.8

Changes in the value of investments comprise both realised gains (losses) on investments sold during the year and unrealised gains (losses) on investments held at the year end.

9. Taxation

UK tax

USS is an exempt approved scheme under the Income & Corporation Taxes Act 1988 and is therefore not normally liable to UK income tax on income from investments directly held nor to capital gains tax arising from the disposal of such investments.

Overseas tax

Investment income from overseas investments may be subject to deduction of local withholding taxes. Where no double taxation agreement exists between the UK and the country in which the income arises, the tax suffered is deducted from the income to which it relates.

Investment income arising from stocks and securities in the United States of America is exempt from US tax under the Internal Revenue Code.

10. Securities

	1998 £m	1997 £m
Quoted		
UK equities	10,147.9	7,601.8
Overseas equities	3,386.9	2,809.3
UK fixed interest	851.6	860.0
Overseas fixed interest	722.6	535.8
Index-linked	195.3	145.4
	15,304.3	11,952.3
Unquoted		
UK equities	2.7	5.1
	15,307.0	11,957.4

11. Property

	1998 £m	1997 £m
UK completed properties	866.0	824.0
UK developments in progress	43.6	16.2
	909.6	840.2
Properties analysed by type:		
Freehold	800.0	720.3
Leasehold	109.6	119.9
	909.6	840.2

The completed properties were valued independently by Colliers Erdman Lewis Ltd, chartered surveyors as at 31 March 1998 and 31 March 1997. The developments in progress were valued independently by Colliers Erdman Lewis Ltd, chartered surveyors as at 31 March 1998.

12. Life assurance policies

The scheme continues to hold policies with the Equitable Life Assurance Society which were assigned to it in respect of former FSSU members, the majority of the policies being "with profits".

The basis of valuation is stated in Note 2.

13. Stockbroker balances

	1998 £m	1997 £m
Amount due to stockbrokers	(3.7)	(57.8)
Amount due from stockbrokers	83.2	61.2
	79.5	3.4

14. Net current assets

	1998 £m	1997 £m
Current assets		
Dividends receivable	73.7	80.8
Contributions due from institutions	52.9	52.7
Life assurance policy proceeds due	1.7	2.9
Other debtors	3.0	2.1
Cash at bank and in hand	4.9	6.5
Due from USS Ltd	-	0.4
	136.2	145.4
Current liabilities		
Property creditors	11.4	12.5
Benefits payable	10.0	3.3
Other creditors	4.5	9.7
Due to USS Ltd	0.3	-
	26.2	25.5
	110.0	119.9

15. Financial commitments

	1998 £m	1997 £m
Property		
Contracts placed but not provided for	56.6	11.1
Securities		
Forward commitments for unpaid calls on securities and underwriting contracts	2.5	0.7

16. Self investment

The scheme has no employer related investments other than contributions due from institutions, as disclosed in note 14, which represent less than 0.5% of the scheme's net assets as at 31 March 1998.

17. Related party transactions

There are no related party transactions other than transactions between the scheme and its trustee company. The trustee company provides administration services, the cost of which includes directors' emoluments as detailed in note 5 of the trustee company accounts, and investment management services to the scheme, charging £5.9 million and £5.3 million respectively, with a balance due from the scheme of £0.3 million at 31 March 1998.

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 (the Regulations) require that the trustee (Universities Superannuation Scheme Limited) obtains financial statements for each scheme year which give a true and fair view of the financial transactions of the scheme during the year and of the disposition at the end of the year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year, and which contain the information specified in Regulation 3 of, and the Schedule to, the Regulations. The trustee is responsible for ensuring that:

- suitable accounting policies are selected and applied;
- judgements and estimates that are reasonable and prudent are made;
- the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the scheme will continue in operation.

The trustee is responsible for ensuring that adequate accounting records exist which disclose with reasonable accuracy at any time the financial position of the scheme and which enable it to ensure that the financial statements comply with the Regulations. It is also responsible for safeguarding the assets of the scheme and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS to the trustee and members of the Universities Superannuation Scheme

We have audited the financial statements on pages 47 to 54.

Respective responsibilities of the trustee and auditors

As described on page 55 the scheme's trustee (Universities Superannuation Scheme Limited) is responsible for obtaining audited financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements which have been prepared by the scheme administrators and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the trustee in the preparation of the financial statements, and of whether the accounting policies are appropriate to the scheme's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the financial transactions of the scheme during the year ended 31 March 1998 and of the disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year, and contain the information specified in Regulation 3 of, and the Schedule to, the (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

In our opinion the contributions payable to the scheme during the year ended 31 March 1998 have been paid in accordance with the scheme rules and with the recommendation of the actuary.

Coopers & Lybrand
Chartered Accountants and Registered Auditors
Liverpool
30 July 1998

STATEMENT BY THE ACTUARY for the year ended 31 March 1998

- 1 An actuarial valuation of the Universities Superannuation Scheme (the scheme) was carried out as at 31 March 1996, with the results set out in our report dated March 1997.
- 2 The formal actuarial statement on the scheme as required under Regulation 8 of the Occupational Pension Schemes (Disclosure of Information) Regulations 1986 is shown separately.
- 3 The conclusions from the 1996 valuation were that part of the past service surplus should be used to reduce the institutions' contribution rate below that required for future service benefits alone. It was agreed that with effect from 1 January 1997 the institutions would contribute at the rate of 14.0% of salaries, subject to review at the next valuation at 31 March 1999.
- 4 On the instructions of the management committee an actuarial review of the scheme has been completed at 31 March 1998.
- 5 The purpose of the actuarial review is to compare the experience of the scheme since the last valuation with the assumptions then made. This is to determine whether the scheme has been progressing satisfactorily or whether any deterioration has taken place which requires remedial action.
- 6 The items which have affected the scheme during the two years under review and the effect of each are described below:
 - (a) The overall investment performance measured in terms of gross dividends, rents and interest received has been less favourable than the assumptions made at the 1996 valuation and this has resulted in a decrease in the value given to the scheme's assets.
 - (b) The removal of tax relief on UK equity dividends has reduced the past service surplus. This has acted also to increase the long-term cost of the scheme to the participating institutions.
 - (c) Salary increases since the 1996 valuation have been lower than assumed in the valuation, thereby reducing the anticipated liabilities of the scheme.
 - (d) The pension increases in April 1997 and 1998 were lower than those assumed in the 1996 valuation and therefore have the effect of reducing the anticipated liabilities of the scheme.
 - (e) Benefit improvements granted since the valuation have reduced the past service surplus.
- 7 During the period under review the actual mortality of pensioners and active members has been assumed to be in line with the mortality assumptions made at the 1996 valuation. The assumption that retirements, other than those arising because of ill-health, will on average be at age 60 has also been retained.
- 8 The results of our review show that, although the overall financial position of the scheme has deteriorated since the 1996 valuation (primarily as a result of the loss of tax credits), the assets of the scheme remain sufficient to cover the accrued liabilities as at 31 March 1998.
- 9 As described in paragraph 3 above, the rate of contribution currently being paid by the institutions is 14.0% of salaries. On the basis of the interim review carried out, I am pleased to recommend that this current rate of contribution can continue in force until the completion of the next actuarial valuation at 31 March 1999.

William M Mercer Ltd
Liverpool L2 3QB
23 June 1998

M B Reid
Fellow of the Institute of Actuaries

ACTUARIAL STATEMENT made for the purposes of Regulation 8 of the Occupational Pension Schemes (Disclosure of Information) Regulations 1986.

Name of scheme: Universities Superannuation Scheme

Effective date of valuation: 31 March 1996

1. Security of accrued rights

In my opinion the scheme's assets existing on the effective date fully cover its liabilities as at that date, including liabilities arising in respect of the service of pensioners and deferred pensioners prior to the effective date and on the basis that the service of active members terminates on that date.

2. Security of prospective rights

In my opinion, the resources of the scheme are likely, in the normal course of events, to meet in full the liabilities of the scheme as they fall due. In giving this opinion, I have assumed that the following amounts will be paid to the scheme:

Description of contributions

From 31 March 1996 until 31 December 1996

By the members: 6.35% of salary as specified in the rules

By the employing institutions: 18.55% of salary for each member

From 1 January 1997 onwards

By the members: 6.35% of salary as specified in the rules

By the employing institutions: 14.0% of salary for each member

Subject to review at future actuarial valuations.

3. Summary of methods and assumptions used

In giving the opinion in section 1, the assets have been taken at market value at the valuation date and the liabilities for active members and deferred pensioners calculated using the basis for determining "cash equivalents" as defined in Section 97 of the Pension Schemes Act 1993, ie the basis for calculating transfer payments for these members. The liabilities for pensioners have been calculated as an estimate of the cost of securing their pensions with an insurance company.

In expressing the opinion given in section 2, I have adopted the actuarial methods and assumptions described in detail in my formal report dated March 1997 on the actuarial valuation of the scheme as at 31 March 1996. The principal actuarial assumptions are as follows:

3.1 The long term yield which may be expected to be earned on new investments over a considerable period in the future, allowing for both income and capital appreciation, will exceed the general rate of salary increases as a result of inflation by 2% per annum, and the general rate of price increases by 3.5% per annum.

3.2 An allowance has been made for salary increases which are granted in excess of general increases as a result of inflation.

3.3 Allowance has been made for withdrawals from the scheme prior to normal pension age through leaving employment, ill-health, death or retirement in good health.

The valuation method used was the projected unit method.

William M Mercer Limited
Liverpool
23 June 1998

M B Reid
Fellow of the Institute of Actuaries

FIVE YEAR SUMMARY - FUND ACCOUNTS for years ended 31 March

	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Contributions and benefits					
Contributions	457	501	489	451	422
PRS receipts	56	46	40	23	33
Transfers in	90	31	24	31	33
	603	578	553	505	488
Benefits payable					
Pensions	348	313	282	260	240
Lump sums	103	90	72	56	62
Transfers out	18	22	14	16	20
Refunds	1	1	1	1	1
	470	426	369	333	323
Returns on investments (net of investment management costs)					
	502	505	449	374	318
Administration costs of the trustee (excluding investment management costs)					
	5.9	5.8	5.8	4.1	3.6
Changes in value of investments					
	3,062	931	1,637	(231)	1,148
Investments of the fund (at current values) at 31 March					
Securities	15,307	11,958	10,344	8,051	7,902
Property	910	840	783	840	849
Life assurance policies	282	274	277	265	299
Managed fund	—	—	78	95	121
Cash deposits	662	474	465	395	290
Stockbroker balances	80	3	27	75	(43)
	17,241	13,549	11,974	9,721	9,418
Membership numbers at 31 March					
Contributing members	78,700	76,900	74,700	70,200	67,000
Pensioners	28,200	26,100	24,200	22,700	21,500
Deferred pensioners	33,700	30,200	26,200	23,300	20,800
	140,600	133,200	125,100	116,200	109,300

REPORT OF THE DIRECTORS for the year ended 31 March 1998

The directors submit their report and the accounts for the year ended 31 March 1998.

Principal activity

The company, which is limited by guarantee and does not have a share capital, was established to undertake and discharge the office of trustee of any superannuation scheme but in particular to act as the trustee of the Universities Superannuation Scheme (USS).

Operating costs and review of activities

The operating costs for the year amounted to £11,242,000 this amount being recoverable from USS. This compares with £10,601,000 for the year ended 31 March 1997.

The increase in operating costs arises mainly from increased investment staff costs due to the underaccrual of performance related bonuses for the year ended 31 March 1997.

Other administration costs have increased by 3% during a year in which there has been an increase in the operational workload of the pensions department of approximately 9%. Staff costs in Liverpool are again down on the previous year.

Further investment has been made in information technology to enable the company to continue to achieve increases in efficiency and quality and maintain its levels of service to its members and institutions. During the year new initiatives have been started with the introduction of workflow technology and an electronic communications strategy. The first phase of the communications strategy is the establishment of an Internet web site which is being developed to enable interactive processing between the company and the institutions.

Detailed planning has taken place with regard to "year 2000" compliance and a number of issues are being progressed to ensure that the company's systems continue to work up to and beyond the millennium.

In-house reporting on work in progress has been greatly enhanced and reports are now available at departmental and individual level to enable workflow planning and to measure throughput against performance standards.

Work has also been carried out during the year on a number of important projects including the finalisation of plans for the production of benefit statements in 1998, a review of the fund's investment management structure and a review of the suitability of the scheme's accrual rate.

Fixed assets

The details of movements in fixed assets are set out in Note 13 to the accounts.

Directors

The directors of the company during the year were as follows:

Professor Sir Graeme Davies (chairman)	Professor Brian Fender
C D Donald (deputy chairman)	Professor Martin Harris
A S Bell	Lord Mark Fitzalan Howard
Dr Christine Challis (to 30.9.97)	Professor Sir Gareth Roberts
L Collinson	Dr G R Talbot
Angela Crum Ewing (from 1.10.97)	J W D Trythall
K F Dibben	

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the operating costs of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

Auditors

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998 and a resolution to appoint the new firm, PricewaterhouseCoopers, as auditors to the company will be proposed at the annual general meeting.

By order of the board

J P Williams
Secretary
30 July 1998

STATEMENT OF OPERATING COSTS for the year ended 31 March 1998

	Note	1998 £'000	1997 £'000
Personnel costs			
Employees' emoluments	4	4,119	3,668
Directors' emoluments and expenses	5	233	225
Recruitment, training and welfare		166	131
		4,518	4,024
Premises costs			
Rent, rates, service charges and utilities		1,137	1,024
Depreciation and maintenance		383	363
		1,520	1,387
Investment costs			
Securities management and custodian services		2,952	2,847
Securities management rebates	6	(1,544)	(1,624)
Property management	7	744	1,134
Legal costs - property management		167	162
- special investigation		88	39
- securities management		34	43
Property valuation		84	63
Investment performance measurement		60	60
Consultancy		5	2
Costs met by third parties	8	(40)	(51)
		2,550	2,675
Other costs			
Computer and information services costs	9	1,404	1,389
Professional fees	10	563	577
Office equipment		344	301
Travel and car costs		254	232
Institution liaison and member communication		165	128
Telephones and postage		141	120
Printing and stationery		130	151
IMRO membership		98	90
Pensions Act Levy		68	-
Insurances		51	53
Auditors' remuneration	11	36	37
Sundry expenditure		17	15
(Profit)/loss on disposal of fixed assets		(12)	(16)
Costs met by third parties	8	(605)	(562)
		2,654	2,515
Total operating costs - recoverable from USS	12	11,242	10,601

BALANCE SHEET as at 31 March 1998

	Note	1998 £'000	1997 £'000
Assets			
Fixed assets			
Tangible fixed assets	13	1,874	2,455
Current assets			
Debtors	14	966	731
Cash at bank and in hand		1	1
		967	732
Total assets		2,841	3,187
Liabilities			
Creditors - amounts falling due within one year	15	2,841	3,187
Total liabilities		2,841	3,187

The financial statements on pages 60 to 70 were approved by the board of directors on 30 July 1998 and were signed on its behalf by:

Graeme J Davies
Chairman

C D Donald
Deputy Chairman

CASH FLOW STATEMENT for the year ended 31 March 1998

	Note	1998 £'000	1997 £'000
Operating activities			
Cash received from USS		10,518	8,747
Operating costs paid	16	(10,116)	(8,984)
Net cash inflow/(outflow) from operating activities		402	(237)
Capital expenditure			
Purchase of tangible fixed assets		(436)	(501)
Sale of tangible fixed assets		34	47
Net cash outflow from investing activities		(402)	(454)
Decrease in cash		-	(691)

NOTES TO THE ACCOUNTS for the year ended 31 March 1998

1. The company, which is limited by guarantee and does not have a share capital, has no beneficial interest in the investments and other assets held in its name but not included in its balance sheet, since it holds these as the trustee of USS.

2. Format of accounts

A Profit and Loss Account is not presented with these accounts as such a statement is inappropriate to the operations of the company. The costs incurred and the method by which they are recovered are therefore set out in the Statement of Operating Costs.

A separate statement of total recognised gains and losses has not been presented as all gains and losses are included in the Statement of Operating Costs.

A separate note of historical cost profits and losses is not required as the accounts are prepared under the historic cost convention.

3. Accounting policies

Accounting convention

The accounts are prepared under the historic cost convention and on the accruals basis and comply with applicable Accounting Standards in the United Kingdom which have been consistently applied.

Depreciation of fixed assets

Depreciation is calculated so as to write off the cost of fixed assets on a straight line basis over the expected economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Office equipment	15
Alterations to rented premises	20
Computer equipment	20 and 33½
Motor cars	25
Computer software	33⅓

Pensions

USS Ltd participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Earnings Related Pension Scheme. The fund is valued every three years by a professionally qualified independent actuary using the projected unit method, the rates of contribution payable being determined by the trustee company on the advice of the actuary. In the intervening years the actuary reviews the progress of the scheme. Pension costs are assessed in accordance with the advice of the actuary, based on the latest actuarial valuation of the scheme, and are accounted for on the basis of charging the cost of providing pensions over the period during which the company benefits from the employees' services.

4. Employees' emoluments

	1998	1997
	£'000	£'000
The average weekly number of persons employed by the company during the year (excluding directors) was	112	122
Staff costs for the above persons were:		
Wages and salaries	3,426	3,003
Social security costs (national insurance contributions)	269	254
Pension costs (superannuation contributions)	354	399
Restructuring costs	70	12
	4,119	3,668

Performance related bonuses paid to investment staff in respect of 1996 were not finalised until after the completion of the prior year accounts and were underaccrued in those accounts by £174,000.

The reduction in the number of persons employed by the company is due to the completion in 1997 of the exercise to scan all the member files into computer images. This exercise had involved a number of staff who had been recruited on a temporary basis for the duration of the exercise.

	1998	1997
	£000	£000
Emoluments of the chief executive	133	127

The emoluments of the chief executive are shown on the same basis as for higher paid staff. USS Ltd's pension contributions to USS amounted to £12,600 (1997: £15,100). These are paid at the same rate as for other higher paid staff except for an additional payment in respect of life assurance.

Remuneration of other higher paid staff, excluding employer's pension contributions but including benefits in kind:

	1998	1997
£50,001 - £60,000	3	6
£60,001 - £70,000	4	3
£70,001 - £80,000	2	2
£80,001 - £90,000	1	1
£90,001 - £100,000	2	-
£100,001 - £110,000	-	-
£110,001 - £120,000	-	-
£130,001 - £140,000	1	1
£190,001 - £200,000	1	-
£220,001 - £230,000	-	1
£270,001 - £280,000	1	-

5. Directors' emoluments and expenses

	1998	1997
	£000	£000
Fees	198	192
Employer's costs - national insurance contributions	18	18
- VAT	5	5
Expenses	12	10
	233	225

Directors are remunerated on a basis which is approved by the Joint Negotiating Committee and is in accordance with the contribution which they make to the work of USS Ltd and their legal responsibilities.

No pension contributions are made on behalf of directors. Six of the directors are members of USS either as pensioners or through their employment with the institutions.

	1998	1997
	£000	£000
The emoluments of the chairman, who was also the highest paid director, amounted to:	32	31

The number of other directors whose annual emoluments fell into the following bands was:

	1998	1997
Nil - £5,000	1	-
£5,001 - £10,000	3	6
£10,001 - £15,000	5	3
£15,001 - £20,000	1	1
£20,001 - £25,000	1	1
£25,001 - £30,000	-	1
£30,001 - £35,000	1	-

6. Securities management rebates

Management fees and other charges incurred by securities managers on investment in their own in-house funds are rebated from the fees chargeable to USS Ltd. These costs are included within the book cost of the investments held by USS.

7. Property management

The reduction in property management costs arises as a result of the transfer to the fund accounts of that part of the property management fees which is recoverable from tenants, thus matching the costs with the corresponding revenue.

8. Costs met by third parties

Costs met by third parties represent the amount of the commission paid by USS to certain stockbrokers which is directed by the stockbrokers to the purchase of equipment and services for USS Ltd for investment management purposes.

9. Computer and information services costs

	1998	1997
	£000	£000
Investment information services	472	462
Investment accounting services	186	187
Computer running costs	275	261
Software depreciation	265	265
Hardware depreciation	186	193
Computer bureau fees	20	21
	1,404	1,389

10. Professional fees

	1998	1997
	£000	£000
Actuarial	225	240
Legal	117	203
Information technology consultancy	90	22
Committee members (other than directors)	43	36
Investment research	30	-
Public relations	17	18
Taxation	9	24
Other	32	34
	563	577

11. Auditors' remuneration

	1998 £'000	1997 £'000
USS	32	33
USS Ltd	4	4
	36	37

Remuneration of the company's auditors for provision of services other than for the audit of USS and USS Ltd was £9,000 for taxation advice (1997: £24,000).

12. Total operating costs - recoverable from USS

	1998 £'000	1997 £'000
Investment management costs	5,316	4,841
Other administration costs	5,926	5,760
	11,242	10,601

Investment management costs are those costs which are directly attributable to investment activities and include relevant personnel, premises and other costs.

Included in operating costs is a charge for depreciation of £995,000 (1997: £997,000).

13. Tangible fixed assets

	Alterations to Rented Premises	Computer Equipment	Computer Software	Office Equipment	Motor Cars	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 April 1997	1,625	989	1,530	1,070	284	5,498
Additions	3	89	229	10	105	436
Disposals	-	(4)	-	-	(64)	(68)
At 31 March 1998	1,628	1,074	1,759	1,080	325	5,866
Accumulated Depreciation						
At 1 April 1997	654	700	1,241	342	106	3,043
Charge for year	324	186	265	145	75	995
Disposals	-	(2)	-	-	(44)	(46)
At 31 March 1998	978	884	1,506	487	137	3,992
Net Book Value						
31 March 1998	650	190	253	593	188	1,874
Net Book Value						
31 March 1997	971	289	289	728	178	2,455

14. Debtors

	1998 £'000	1997 £'000
Due from USS	297	-
Prepayments	612	603
Other debtors	57	128
	966	731

15. Creditors - amounts falling due within one year

	1998 £'000	1997 £'000
Due to USS	-	427
Accrued expenditure	1,583	1,016
Taxation and social security	100	90
Other creditors	1,158	1,654
	2,841	3,187

16. Reconciliation of operating costs paid

	1998 £'000	1997 £'000
Operating costs - recoverable from USS	11,242	10,601
Depreciation	(995)	(997)
Profit on sale of tangible fixed assets	12	16
Increase in debtors (excluding USS)	(62)	131
(Increase) in creditors (excluding USS)	(81)	(767)
Operating costs paid	10,116	8,984

17. Value added tax

USS Ltd is registered for Value Added Tax activities and recovers a proportion of the input tax on administrative expenditure directly attributable to the scheme's investment activities.

18. Pension costs

USS Ltd participates in the Universities Superannuation Scheme, a pension scheme which provides benefits based on final pensionable salary for employees of all the 'old' UK Universities and some other employers. The assets of the scheme are held in a separate fund administered by the company.

The latest actuarial valuation of the scheme was at 31 March 1996. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salary and pensions. It was assumed that the investment return would be 8½% per annum, that salary scale increases would be 6½% per annum and that pensions would increase by 5% per annum. At the date of the last actuarial valuation, which was carried out using the projected unit method, the market value of the assets of the scheme was £12,087 million and the actuarial value of the assets was sufficient to cover 108% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The total pension cost for the company was £354,000 (1997: £399,000). The contribution rate payable by the company was 14% of pensionable salaries. The actuary to the Universities Superannuation Scheme has confirmed that it is appropriate to take the pensions cost in the company's accounts to be equal to the actual contributions paid during the year. In particular, the contribution rate recommended following the 1996 valuation has regard to the surplus disclosed, the benefit improvements introduced subsequent to the valuation and the need to spread surplus in a prudent manner over the future working lifetime of current scheme members.

19. Capital commitments

	1998 £000	1997 £000
Authorised and contracted but not provided for	—	—

20. Related party transactions

There are no related party transactions other than transactions between the trustee company and the scheme. The trustee company provides administration and investment management services to the scheme charging £5.9 million and £5.3 million respectively, with a balance due from the scheme of £0.3 million at 31 March 1998.

REPORT OF THE AUDITORS to the members of Universities Superannuation Scheme Limited

We have audited the financial statements on pages 60 to 70.

Respective responsibilities of directors and auditors

As described on page 61 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

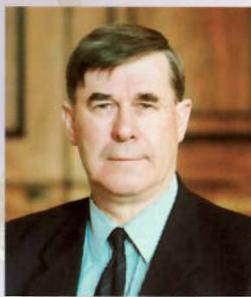
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 1998 and of its results and cash flow for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand
Chartered Accountants and Registered Auditors
Liverpool
30 July 1998



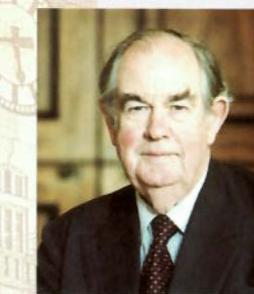
**Professor
Sir Graeme Davies**
Chairman



Colin Donald
Chairman
Finance & General
Purposes Committee



**Lord Mark Fitzalan
Howard OBE**
Chairman
Investment Committee



Kenneth Dibben
Chairman
Audit Committee



Len Collinson
Chairman
Remuneration Committee



Colin Rice
Chairman
Advisory Committee



Sir Kenneth Berrill
Chairman
Joint Negotiating Committee



David Chynoweth
Chief Executive



Peter Moon
Chief Investment Officer



Robbie Heywood
Chief Pensions Manager



Colin Hunter
Chief Accountant



John P Williams
Company Secretary



Robert Walden
Surveyor

USS

