

keeping on track

Statement from the Chairman of USS 2

Keep us informed! 3

Keep in touch with your scheme 4
USS will come to visit you
A new arrival on Pensions TV

Reducing the cost of your pension 5
College & University Support Network
Summary Funding Statement

Prudential 6
Audit Commission Exercise

Coming soon www.uss.co.uk/ 7
Transfers-in

Responsible Investment 8

Financial Summary 10



Statement from the Chairman of USS

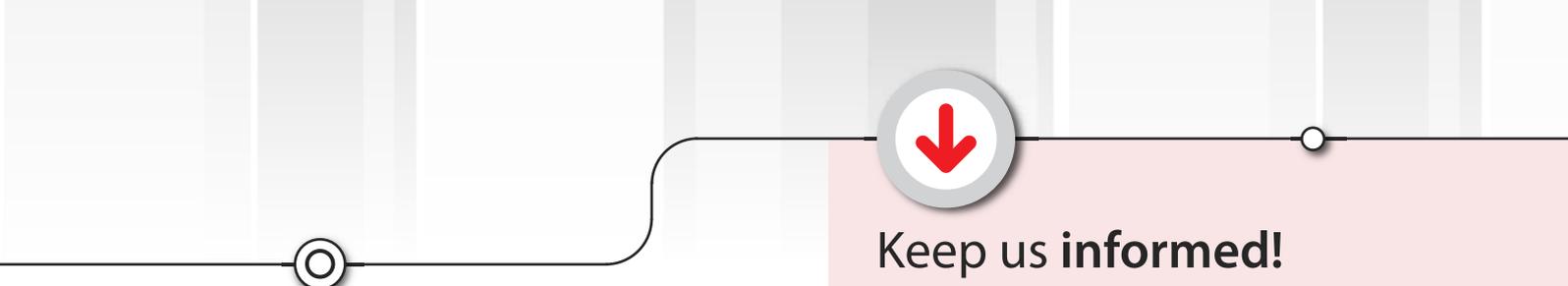
Sir Martin Harris

Running a final salary pension scheme continues to be very challenging for trustees. The last year has seen turmoil and high volatility in investment markets around the world, and it seems that the pattern will continue for some time. Alarming financial news seems to have been dominating the media headlines.

You will, of course, want to know what this means for your pension in USS. So let me say straight away that although the volatility of the markets is reflected in the valuation of the scheme as at 31 March 2008, which is reported in the Financial Summary, the board of USS remains confident that, as long-term investors, we can see our way through these troubled times. To highlight just how volatile recent months have been, it is worth noting that if we had produced this report as at the autumn of 2007 (ie just six months earlier), the scheme's funding would have been significantly higher. So, it is our belief that despite the short-term turmoil in the markets, our focus should be on the long term, and that you should be confident that the security of the pension rights that you have built up is not under threat in any way.

However, we are not complacent about the need to ensure that USS continues to meet the sector's needs. We have taken steps to spread the investment risks in our portfolio, whilst targeting strong returns, by moving a substantial amount from our equity investments into alternative asset classes such as private equity and infrastructure. We are also very aware that the scheme's long-term viability is dependent upon the participating employers and our members being satisfied with the level of benefits being provided and their cost.

This is a valuation year for USS. Every three years we carry out a detailed examination of the scheme's assets and liabilities to ensure that we are funding appropriately to meet the liabilities. This work has not yet been fully completed but the early indications are that on the new statutory funding basis USS as at 31 March 2008 is fully funded. We will, however, be writing to you again early next year with the full results. Also, we are working with employer and trade union representatives to assist them in discussions they are currently undertaking about the future cost of USS membership, which is increasing,



amongst other things, because of the increasing longevity of our members. We should know the outcome of those discussions later next year.

In the meantime the members of the board of USS remain confident that its long-term investment strategy, positive cash-flow and strong employer covenant mean that it can meet its commitments to those receiving a pension from USS, former members with deferred benefits and current members.

We expect the challenging times to prevail for some time, but the scheme has strong foundations and has funding that would be the envy of many. The board of USS feels confident that, in conjunction with the scheme's stakeholders, we can continue to provide a scheme that provides good benefits at affordable cost.



Sir Martin Harris
Chairman



Keep us informed!

If you are a deferred or pensioner member of the scheme then enclosed with this report you will find a form that you can use to tell us about any changes to your personal details. It's important that this information is kept up-to-date.

If you are still an active member of the scheme and you received this report from your institution then don't worry, you don't need to tell us directly about this type of change because your employer looks after that for you.

It is very important that all members and pensioners make sure that the nomination form, MO1, is up to date. We use the information on this form should we need to pay the life insurance element of your pension. We will look at how current your nomination form is when considering who should receive the life insurance benefits, so we recommend that you complete this form every three years regardless of whether you are changing your nomination.

You can get the form from the website and from a number of USS publications.



Keep in touch with your scheme

Hopefully we all keep a close eye on our bank account and other finances but perhaps many of us don't pay regular attention to our pension, a package that for many can be their most valuable asset when they retire.

We're not suggesting that you check it out every week but there are ways that you can keep up-to-date with the scheme...

USS will come to visit you...

With the assistance and consent of your employer USS will visit your institution to hold presentations about the scheme benefits and any changes. These are open to all staff eligible for USS and to all ages – you don't need to be close to retirement to benefit from attending. These events have proven very popular with attendees – there's a formal presentation and then plenty of time afterwards to raise any questions you might have.

If you'd like to attend, speak to the pensions contact at your employer to see if a session has been arranged or if one could be arranged. Details of our planned visits are also available on the USS website.



A new arrival on Pensions TV

New maternity leave TV programme



We have a range of *Pensions TV* programmes on the USS website covering joining the scheme, transfers-in, leaving the scheme, overseas issues, absence and recently we've added a new programme on maternity leave.

None of the programmes are very long and it's an accessible way to learn more about the scheme.

More information about USS is available from our website, where you can access *Pensions TV*, interactive modellers, financial information about the scheme and all the publications we issue.



Reducing the cost of your pension

Since April 2007 USS institutions have been able to introduce 'salary sacrifice' arrangements for standard member contributions to the scheme in addition to similar arrangements for other approved benefits, such as childcare vouchers.

Under such an arrangement your pay is reduced by the amount of your standard pension contribution and your employer then pays the contribution directly to USS on your behalf. The advantage to you is a saving on your national insurance contributions.

But what affect does this have on your pension? Salary sacrifice arrangements have no effect on the amount of your salary used in any USS benefit calculations and the employer must continue to pay the full value of pension contributions to USS based on the salary before any sacrifice is made. However, this arrangement is not suitable for members who expect to contribute to USS for less than 2 years and plan to take a refund of contributions.

If your employer operates a salary sacrifice arrangement, please contact them for further details on how that works. If you want some general information on salary sacrifice for pension contributions see USS factsheet 26 on the USS website.

College & University Support Network

The College and University Support Network offer a range of services to people who are employed in the higher and further education sectors. We have enclosed a leaflet from them which explains more about their function, and also explains how you may be able to contribute to their work.

Summary Funding Statement

We usually include a copy of the Summary Funding Statement, which sets out the current funding levels of the scheme, with your Members' Annual Report. As we are carrying out the full triennial valuation this year we have decided to wait until all the results are in before we send you the summarised version.

We'll be writing to you again early in 2009 with the Summary Funding Statement.



Prudential

If you have a Prudential money purchase AVC you can access your account online at www.pru.co.uk/universities. Your username is the Plan code (U291) followed by your 9 digit national insurance number. The first time you access the site your password will be your national insurance number and you will be prompted to change it to one of your choosing.

Prudential also operate a Telejoining line on 0845 0700 007* which you can call for more information about the money purchase AVC or to start making payments. If you are interested in the added years AVC you should talk to your employer or visit our website.

There are other pension products available to you which are not associated with USS. If you are unsure about the suitability of an AVC you may wish to consult a Financial Adviser. Details of advisers who have received training from USS are available from the planning section of the USS website

**Lines open 9am- 7pm Monday to Friday and 9am-1pm on Saturday. Calls may be monitored or recorded for quality and security purposes.*

Audit Commission Exercise

In accordance with the Data Protection Act 1998, Universities Superannuation Scheme Ltd is required to inform you that along with other organisations it is taking part in the Audit Commission's National Fraud Initiative 2008/09. This initiative checks the data we hold against registered deaths to identify cases where pensions are still being paid despite the pensioner's death. This data matching exercise meets the requirements of the data protection law. The Audit Commission will be processing the data for this purpose only, and will comply with the data protection principles.

The main purpose for our participation is to ensure that USS benefits are paid to the correct beneficiaries. It will also assist in the identification of potential beneficiaries following the death of a deferred member.

This will not affect members who are currently contributing to the scheme and is for information purposes only. You do not need to take any action.



Coming soon - www.uss.co.uk!

This year our award-winning website topped 3 million page hits! Quite a milestone and we're very pleased. We're currently working on our new website which we think will be even better. We're changing the address to www.uss.co.uk, completely redesigning the look and feel and introducing new functionality.

A big project like this takes some time so to make sure it runs smoothly we'll be phasing it in, starting in Spring 2009. Initially we'll be improving the online administration for your institution's pensions administrator. We'll then start to phase-in a secure area for members starting with a pilot exercise for a small group who will be able to log-in and see details of their own pension in a similar way to online banking. Over the longer term we plan to open this access to all our members. We'll also be introducing new functionality for pensioners and deferred members in later phases of development. All the modellers and Pensions TV will still be available too. You'll still be able to use the current site until these changes are made so you can continue to take advantage of all the useful information there to learn more about your pension.

We take a great deal of care with your personal information and to comply with the Data Protection Act 1998. Occasionally it is necessary for us to share information with other participating employers and with scheme advisers for the purposes of administering your pension. When we do this we make every effort to keep your information secure.



Transfers-in

You can use pension benefits from other pension schemes (including some overseas schemes) to buy you extra service in USS. This is called a transfer-in. It costs nothing to investigate and there's no obligation to proceed, so it's worth looking into.

Previous Public Sector pension? These transfers receive beneficial treatment but you must apply within 2 years of joining USS or less in some cases.

[For more information... See factsheet 2,](#) the transfers-in Pensions TV programme and obtain a transfer request form at www.uss.co.uk or from your employer.



Responsible Investment

As in previous years, USS continues to take its role as a long term and responsible investor very seriously. Working with internal fund managers and collaborating with pension funds and other investors from around the world, we have continued to address environmental, social and governance issues associated with our investments.

A key focus of our Responsible Investment (RI) activities over the past year has been the implementation of the recommendations of the review of responsible investment policy and strategy as reported last year. The main areas of activity for the fund have therefore been engagement with companies, the integration of extra-financial issues into the investment decision-making processes within the fund, and a continuation of market-facing activities.

The RI team has worked closely with the in-house portfolio managers across a number of key markets. In addition to the increased provision of voting, research and advice on companies, in-depth joint research and meetings have been undertaken on targeted companies. More broadly, the RI team has engaged with companies on a broad range of extra-financial issues.

The types of issues on which the fund engages include:

- Corporate investments and activities in oppressive regimes;
- Business operations in emerging markets for pharmaceutical companies;
- Climate change, specifically adaptation;
- Remuneration, particularly in relation to the introduction of new long-term management incentive schemes;
- Succession planning for senior management;
- Communication with shareholders;
- Strategic and operational issues;
- Shareholder access to and quality of independent non-executive directors; and
- Reputational risk management.



USS believes that integration of RI should not be limited to public equities and increasing attention has been paid to alternative assets (and in particular private equity), and the fund's property portfolio. In private equity, a process has been formulated to ensure that RI issues are considered as part of the due diligence process prior to investment in a private equity manager. In addition, in autumn 2007, the RI team worked closely with the Alternative Assets team to coordinate a joint investor response to the Walker Consultation on transparency and disclosure in private equity. In real estate, our Property team has led on accumulating data on the environmental performance at the majority of the fund's properties, and in setting targets for the reduction in energy use, water consumption, and waste production. These are important developments as very few pension funds are addressing RI in non-equity assets, so USS is leading the way.

The market focussed activities have continued. USS personnel have spoken on RI at conferences in markets all around the world including conferences in China, Taiwan, Canada, the USA, and numerous European countries. USS worked with a group of other UK investors to publish a report on the need for corporations and investors to respond to the challenge to

adapt to a changing climate. USS was the only UK pension fund to participate in the P8, which is a meeting of large global pension funds (akin to G8), convened under the auspices of HRH the Prince of Wales, to discuss the role that large asset owners can play in addressing climate change. USS continues to be active in the US market, with a particular focus on the link between executive remuneration and corporate performance and other corporate governance practices. USS continues to play a significant role in the development and operation of the Principles for Responsible Investment. Finally, a third stage of the Pharma Futures project has been co-convened by USS which will explore how Pharmaceutical companies can ensure sustainable returns in emerging markets.

In recognition of the fund's activities in RI, USS maintained its leadership position in the *Fair Pensions* UK Pension Scheme Transparency Survey on Environmental, Social and Governance Issues 2007. In addition, USS also won awards from *Professional Pensions* for both Corporate Governance and Responsible Investment. We also received a nomination in the 'ESG leaders' category at the pan-European *Investment & Pensions Europe* awards and a Special Commendation at the *Funds Europe* awards 2007.



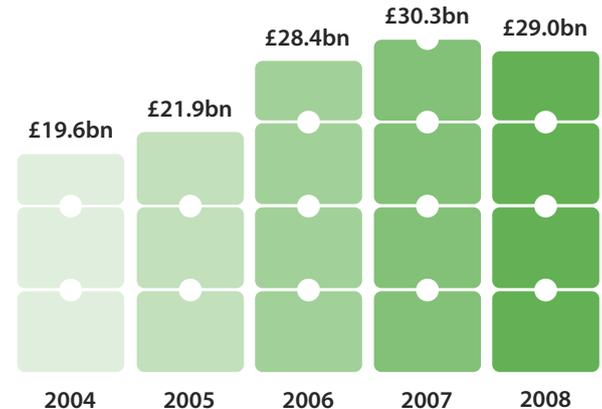
Financial Summary



Total membership of the scheme has increased by 5.6% to 252,639. The total number institutions has increased to 391.

Investment performance

The fund's investments have increased from £19.6 billion in 2004 to £29 billion as at 31 March 2008 (including money purchase AVC investments held with the Prudential) through strong investment returns and net positive cash flows over the period. Stock markets were strong for the fifth year running in calendar year 2007 with the fund returning 7.5% against its benchmark return of 6.3%, following returns of 9.9% in 2006 and 24% in 2005. However, adverse market movements in the first quarter of 2008 saw the value of the fund's investments at 31 March 2008 fall back to below their level at the start of the year. Over the ten year period to 31 December 2007, the fund has returned 6.8% per annum compared with its benchmark of 7.9% per annum, although it has comfortably exceeded both RPI and average earnings over that period.

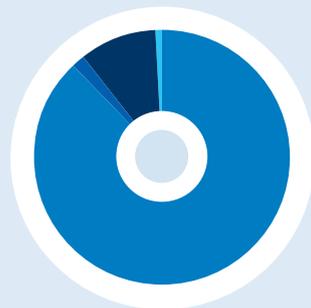




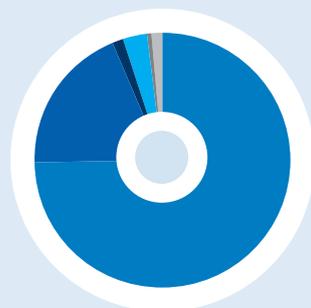
Income and expenditure

USS fund account for year ended 31 March 2008

	£m
Fund at start of year (restated)	30,358.1
Income for the year	
■ Contributions received	1,092.6
■ Premature Retirement	
■ Scheme receipts	19.7
■ Individual Transfers-in	123.3
■ Group Transfers-in	7.3
Total	1,242.9



Expenditure for the year	
■ Pensions payable	780.2
■ Lump sums on or after retirement	196.3
■ Lump sums on death-in-service	13.0
■ Individual transfers-out	32.8
■ Refund of contributions	4.3
■ Administration costs	14.3
Total	1,040.9



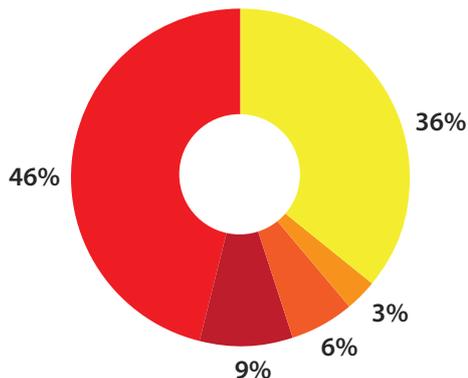
Net additions from dealings with members	202.0
--	-------

	£m
Returns on investments	
Investment income	952.9
Change in market value of investments	(2,388.6)
Investment management expenses	(26.3)
Net return on investments	(1,462.0)
Net increase in the fund during the year	(1,260.0)
Fund at the end of the year	29,098.1

The fund at the start of the year has been restated to include the value of the Prudential money purchase AVC scheme. This is in accordance with recommended practice for financial reporting for pension schemes. The effect of the change is to increase the total net assets by £220.3 million compared to the figure quoted in last year's Members' Annual Report.



Distribution of Assets



Percentage %

UK equities	36
Cash deposits	3
Property	6
Fixed interest	9
Overseas equities	46

The value of the fund fell from £30.1 billion at 31 March 2007 to £28.8 billion at 31 March 2008 (excluding money purchase AVC investments held with the Prudential). Included within these figures are £1,112.8m of alternative assets.

The fund's investments are divided among those under the direct control of Universities Superannuation Scheme Limited and those managed externally. The in-house investment team at the London Investment Office (LIO) manages the majority of the assets. In alternative assets the fund employs a number of external managers and funds that are selected and monitored by the LIO. A separate fund designed to match the performance of the FTSE All Share Index is run in-house on advice provided by HSBC Quantitative Techniques. The balance of the fund in the year was managed by Capital International and Wellington under specialist global equity mandates. Due to continuing disappointing performance, the mandate with Wellington was terminated at the end of November 2007 and the assets put under the management of the LIO.

Jones Lang La Salle and DTZ advise on investment and property management, covering the retail and commercial portions of the property portfolio respectively. For these services they are



remunerated primarily through a management fee and, in some cases, they may benefit from transaction fees.

The fund continues to diversify into alternative assets. Its continuing high cash flow and levels of liquidity have enabled it to take advantage of investment opportunities arising out of the credit crisis to accelerate this programme. As at the end of July 2008, the alternative assets portfolio now accounts for 4% of the portfolio (with amounts committed taking this to 11.6% of the fund) with the aim of increasing this to 20% over the medium term, embracing a wide spectrum of alternative assets including private equity, absolute returns and commodities amongst other classes.

Statement of Investment Principles

It is a requirement of the Pensions Act that trustees draw up and maintain a Statement of Investment Principles. This statement is available in the Report & Accounts and from the USS website.

Largest Equity Holdings

	Value £m	Percentage %
Royal Dutch Shell	705.8	2.4
HSBC HDG	628.0	2.2
BP	625.2	2.2
Vodafone Group	565.8	2.0
Rio Tinto	461.9	1.6
BHP Billiton	351.7	1.2
Glaxosmithkline	351.0	1.2
BG Group	268.9	0.9
Anglo American	248.6	0.8
Tesco	220.4	0.8

A full list of the fund holdings along with corporate governance issues is available from the USS website.



Auditors Report

It is the opinion of the auditors KPMG LLP that the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the financial transactions of the scheme during the scheme year ended 31 March 2008 and of the amount and disposition at that date of its assets and liabilities (other than liabilities to pay pensions and benefits after the end of the scheme year); and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995.

It is also their opinion that contributions for the scheme year ended 31 March 2008 as reported in the summary of contributions and payable under the schedule have in all material respects been paid at least in accordance with the schedule of contributions certified by the Actuary on 31 January 2006.

Further Information

The Pensions Advisory Service (TPAS) and the Pensions Ombudsman can be contacted at :

11 Belgrave Road, London, SW1V 1RB

TPAS:

t: 0845 601293

e: enquiries@pensionsadvisoryservice.org.uk

w: www.pensionsadvisoryservice.org.uk

The Pensions Ombudsman:

t: 0207 834 9144

e: enquiries@pensions-ombudsman.org.uk

w: www.pensions-ombudsman.org.uk

Active members should contact their employing institution with any enquiries relating to their benefits. Deferred members, pensioners and beneficiaries should contact us directly:

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

t: 0151 227 4711 (Local rate 0845 068 1110)

f: 0151 236 3173

e: postbox@usshq.co.uk



Management of the scheme

The directors of Universities Superannuation Scheme Ltd as 1 August 2008 were:

Sir Martin Harris (Chairman), Professor John Bull CBE, Michael Butcher, Lady Merrison, Professor David Eastwood, Baroness Warwick of Undercliffe, Howard Jacobs, David McDonnell, Virginia Holmes, D Guppy, Joseph Devlin and Sir Muir Russell.

The principal officers and advisers of Universities Superannuation Scheme Ltd as 1 August 2008 were:

Chief Executive

T H Merchant

Chief Investment Officer

P G Moon

Chief Financial Officer

C S Hunter

Pensions Policy Manager

B Mulkern

Pensions Operations Manager

B Steventon

Company Secretary

I M Sherlock

Head of IT

I J Hall

Communications Manager

C G Busby

Head of Business Services

A R Little

Actuary

E S Topper of Mercer, Clarence House, Clarence Street, Manchester, M2 4DW

Solicitors

DLA Piper, India Buildings, Liverpool, L2 0NH

Auditors

KPMG LLP, St James' Square, Manchester, M2 6DS

Bankers

Barclays Bank Plc, 7th Floor, 1 Marsden Street, Manchester, M2 1HW

Investment Consultants

Mercer

Custodians

JP Morgan plc, Bank of New York Mellon

Investment performance measurement

Investment Property Databank Limited, HSBC

Retail property investment adviser and property manager

Jones Lang LaSalle

Commercial property investment adviser and property manager

DTZ Debenham Tie Leung

A large print version of this Members' Annual Report is available on request from USS.

Universities Superannuation Scheme Ltd

a: Royal Liver Building, Liverpool L3 1PY
t: 0151 227 4711 (Local rate 0845 068 1110)
f: 0151 236 3173
e: postbox@usshq.co.uk
w: www.uss.co.uk