

**UNIVERSITY OF MANCHESTER SUPERANNUATION SCHEME**  
**TRUSTEE'S ANNUAL REPORT AND FINANCIAL STATEMENTS**

**1 August 2012 to 31 July 2013**



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# UNIVERSITY OF MANCHESTER SUPERANNUATION SCHEME

## TRUSTEE'S ANNUAL REPORT AND FINANCIAL STATEMENTS

1 August 2012 to 31 July 2013

This is the formal annual report about the running and finances of the University of Manchester Superannuation Scheme (UMSS) and is intended as a means of providing the specialist information required to comply with the Occupational Pension Schemes (Disclosure of Information) Regulations 1996. It has been prepared in accordance with regulations made under Section 41 of the Pensions Act 1995. It will be available to members and pensioners on request and published on the UMSS website. A shorter and less technical version entitled Pensions News will be sent to all UMSS members, pensioners and deferred members.

### MANAGEMENT OF THE SCHEME

The main purpose of UMSS is to provide retirement benefits for its members, who are drawn from staff of the University of Manchester, employed in grades 1 to 5, and staff of its associated employers. UMSS is operated as a trust fund. It is registered under the Finance Act 2004 and the Trustee (UMSS Limited) knows of no reason why this registration might be prejudiced or withdrawn. The principal employer is the University of Manchester, Oxford Road, Manchester M13 9PL.

UMSS Limited has been corporate trustee of UMSS since 22 April 1996. The Memorandum and Articles of Association of UMSS Limited provide for there to be nine directors of the company. Five directors are nominated by the University and four are elected by the membership of the Scheme – one active member from each of the three main categories of staff, administrative, manual and technical employees and one pensioner member. Directors are appointed for an initial term of three years.

The trustee board of UMSS Limited is comprised as follows:

<b>University Nominated Directors</b>	<b>Member Elected Directors</b>
Mr J D Hanson (Chairman) (re-appointed 1 August 2011)	Mr C Walker (Pensioners) (retired 16 November 2011)
Mrs J N Shelton (re-appointed 1 August 2012)	Mr P Leigh (Technical Staff) (re-elected 21 October 2013)
Dr S Merrywest (appointed 1 April 2011)	Mr T Cleary (Manual Staff) (elected 8 March 2010)
Ms C Tansey (re-appointed 1 August 2013)	Ms A McDonnell (Administrative Staff) (retired 18 July 2013)
Professor C T Agnew (re-appointed 16 January 2012)	Mr W Allan (Pensioners) (elected 17 November 2011)
	Mr H Peters (Administrative Staff) (elected 19 July 2013)

Mrs Heather Mawson, Head of Pensions in the University's Directorate of Human Resources, is Company Secretary for UMSS Limited. Any enquiries regarding UMSS generally, on individual matters or concerning the contents of this Report and Financial Statements should be addressed (in the first instance) to Mrs Mawson in the Pensions Office, John Owens Building, The University of Manchester, Oxford Road, Manchester M13 9PL.

## PARTICIPATING EMPLOYERS

The following employers participate in UMSS in respect of their staff.

<b>Employer</b>	<b>Participation began</b>	<b>UMSS members at 31 July 2013</b>
The University of Manchester	22 July 1925	2,788
HECSU	1 February 1996	2
The University of Manchester Innovation Centre Ltd	1 February 1998	3
International Society	1 February 1999	4
Manchester Innovation Ltd	1 June 2003	0
Graduate Prospects	1 February 2004	30
The University of Manchester I3 Ltd	1 October 2004	37
University of Manchester Conferences Ltd	1 February 2006	136
	<b>Total</b>	3,000

Although there were no current employees of Manchester Innovation Ltd at the year end, it remains a participating employer.

## RELATED PARTIES

The University of Manchester provides administration, financial accounting services and pension payroll services for the Scheme. The cost, which is recharged to UMSS, amounted to £193,784 (2012: £164,224).

The amount due from the University at 31 July 2013 was £nil (2012: £nil) and amounts due from participating employers at 31 July 2013 were £7,500 (2012: £nil).

The following directors of UMSS Limited are members of the University of Manchester Superannuation Scheme. These members are entitled to receive benefits on the same basis as all other members: Mr W Allan, Mr T Cleary, Mr P Leigh, Ms A McDonnell and Mr H Peters.

## SCHEME CHANGES

In accordance with changes made to the scheme in April 2012, there was an increase in the contribution rate for members of the Final Salary section from 7% to 7.5% on 1 April 2013.

## LEGAL CHARGE OVER PROPERTIES

As part of the 2010 actuarial valuation, the University had agreed to pay additional contributions of £4.5m pa towards the deficit, with the legal charge being gradually released over a 5 year period. If the University fails financially and the scheme is in deficit, some or all of the properties would become assets of the scheme.

To date, two properties have been released as deficit contributions have been made in accordance with the Recovery Plan.

## **SCHEME ADVISERS**

Specialist advice and services are provided by the following:

### **Scheme Actuary**

Mr C Cowling (FIA)  
JLT Benefit Solutions Ltd  
St James's House  
7 Charlotte Street  
Manchester  
M1 4DZ

### **Investment Consultant**

Mercer Ltd  
Belvedere  
12 Booth Street  
Manchester  
M2 4AW

### **Solicitors**

Walker Morris  
Kings Court  
12 King Street  
Leeds LS1 2HL

### **Bankers**

Barclays Bank plc  
1 Marsden Street  
Manchester  
M3 1HW

National Westminster Bank Plc  
323 Oxford Road  
Manchester  
M13 9PS

### **Auditors**

Grant Thornton UK LLP  
4 Hardman Square  
Spinningfields  
Manchester  
M3 3EB

## **SCHEME ADVISERS (continued)**

### **Investment Managers**

Aida Capital Ltd  
33 King Street  
London  
SW1Y 6RJ

Aviva Investors  
Lime Property Fund  
No 1 Poultry  
London  
EC2R 8EJ

Goldman Sachs Asset Management L.P.  
32 Old Slip  
New York 10005

ICG – Longbow  
42 Wigmore Street  
London  
W1U 2RY

Goldman Sachs Hedge Fund Strategies LLC  
701 Mount Lucas Road  
Princeton  
New Jersey 08540

Legal & General Investment Management Ltd  
One Coleman Street  
London  
EC2R 5AA

M&G Investment Management Ltd  
Laurence Pountney Hill  
London  
EC4R 0HH

Pictet Asset Management Ltd  
Moor House  
120 London Wall  
London  
EC2Y 5ET

Aberdeen SVG (formerly called Schroder Investment Management Ltd)  
Bow Bells House  
Bead Street  
London  
EC4M 9HH

## THE FUND

The investments comprising the fund of UMSS have been managed during the year by:

- Legal & General Investment Management Ltd (LGIM)
- Aida Capital Ltd (Aida)
- Goldman Sachs Asset Management International Ltd (GSAM)
- Aberdeen SVG (Aberdeen) – (formerly Schroder)
- Aviva Investors Global Services Ltd (Aviva)
- M&G Investment Management Ltd (M&G) (Two additional funds were invested in during the year)
- Pictet Asset Management Ltd (Pictet)
- Intermediate Capital Group (ICG) Longbow (New investment made during the year)

It is the policy of the Trustee to maximise the return on assets whilst not exposing the assets of the Scheme to undue risk. This policy gives due emphasis to the spread of the Scheme's assets over the various categories of investment. It is the Trustee's policy that single investments should not represent a significant proportion of the Scheme's total assets. The Scheme's assets are invested in accordance with the employer-related investment regulations.

The overall investment policy is determined by the Trustee after it has taken appropriate advice. Day to day investment decisions are delegated to investment managers who operate within the guidelines laid down by the Trustee. Assets are held in unitised funds. Working balances and money pending investment are held in bank accounts.

LGIM manage the Scheme's equities, bonds and cash, which comprised around 72% of the Scheme's assets at the year end, broadly in line with the position at the start of the year.

The Scheme currently invests in three property funds managed by Aviva, M&G and LGIM respectively.

With regard to the Scheme's other investments, exposure to private equity is via funds operated by GSAM and Aberdeen. In addition, the Scheme holds shares in a fund managed by M&G that invests in secured loans and a fund managed by Pictet that invests in emerging market debt.

The Scheme has invested in a Real Estate Debt Fund managed by M&G. As at the end of July 2013, around €18.3 million of the total commitment had been drawn down. In addition, two further investments were made in M&G Real Estate Debt Funds, investing £7.5 million in each, and a further £1.5 million (out of a total commitment of £15 million) in the ICG Longbow Real Estate Debt Fund.

The Scheme holds small investments in fund of hedge fund vehicles and over the course of the year has been gradually reducing exposure to these. Small residual balances remain which will be further reduced over time.

In addition, UMSS Ltd has delegated power via a Board resolution to the Finance Director of the University of Manchester, to manage those short-term deposits on a day to day basis that are not held by any of the external investment managers.

## CONTRIBUTIONS

The fund of UMSS contains the contributions paid by both the participating employers and members, together with income derived from investments and capital gains on the sale of investments. It is from this fund that benefits are paid out.

During the year active members in the final salary section contributed at 7% of pensionable salaries up to 31 March 2013 and 7.5% from 1 April 2013; members of the new CARE section contributed 6.5% of pensionable salaries. The University and participating employers paid 19.75% of pensionable salaries towards the ongoing cost and £4.5m towards the deficit in accordance with the Recovery Plan agreed following the 31 July 2010 actuarial valuation.

Further details in respect of contributions are detailed on page 15.

## CHANGE IN THE FUND

At the beginning of the year the total net assets of the Scheme were £327,826,931. As a result of net additions from dealings with members of £4,992,031 and net returns on investments of £38,729,931 the net assets of the Scheme had a market value of £371,548,893 at 31 July 2013.

## CUSTODIAL ARRANGEMENTS

The Scheme's assets are invested in pooled funds and so the Trustee does not need to directly appoint custodians. The Trustee will monitor the custodial arrangements in respect of the pooled funds in which the Scheme's assets are invested and the Scheme's auditor is also authorised to make whatever investigations it deems necessary as part of the annual audit procedure.

## ASSET ALLOCATION

The Fund is invested in a diversified mix of assets. The tables below show the distribution of the invested assets as at 31 July 2013, first by manager and then by asset class.

<b>Manager</b>	<b>Market Value (£000's)</b>	<b>(%)</b>
LGIM (Main)	268,986	73.8
Aviva	14,818	4.1
LGIM (Property)	18,548	5.1
Aida	0	0.0
GSAM	3,309*	0.9
Aberdeen	1,179*	0.3
M&G	44,968**	12.4
Pictet	11,031	3.0
Longbow	1,561*	0.4
<b>Total</b>	<b>364,400</b>	<b>100.0</b>

Source: Investment Managers. Figures may not sum due to rounding.

\*Assets values as at 30 June 2013 due to infrequency of valuations of illiquid assets.

\*\*M&G REDF I, II and III values are as at 30 June 2013 with REDF III valued at £0 due to quarterly valuations.

<b>Asset Class</b>	<b>Market Value (£000's)</b>	<b>(%)</b>
UK Equities	133,322	36.6
Corporate Bonds	83,906	23.0
High Yield Bonds	14,347	3.9
Secured Income Property	51,768	14.2
Hedge Funds	118*	0.0
Private Equity	4,370*	1.2
Secured Loans	12,820	3.5
Emerging Market Debt	11,031	3.0
Real Estate Debt	15,306**	4.2
Cash / Money Market	37,411	10.3
<b>Total</b>	<b>364,400</b>	<b>100.0</b>

Source: Investment Managers. Figures may not sum due to rounding.

\*Assets values as at 30 June 2013 due to infrequency of valuations of illiquid assets.

\*\* M&G REDF I, II and III values are as at 30 June 2013 with REDF III valued at £0 due to quarterly valuations.

As at 31 July 2013, excluding AVC investments and short term deposits in bank accounts, the Scheme's assets were valued at £364,399,586. Exposure to equities was 37.3%, bonds and cash was 32.9% and 29.9% to 'alternative' investments, which includes property, high yield, secured loans, hedge funds, private equity, emerging market debt and real estate debt.

Overall, the Scheme's exposure to 'real' assets, which includes equities, property, hedge funds and private equity was 52.7% at the end of the year, which is below the target of 60% but within the control ranges set out in the Statement of Investment Principles.

## **INVESTMENT REVIEW**

### **Economic Background**

Volatility remained high in global financial markets over the year to 31 July 2013. Following the conclusion of the US Presidential Election in November 2012 and the deal reached by the US congress to address the "fiscal cliff" at the start of 2013, market sentiment improved. With the belief that "tail risks" had been meaningfully reduced, investors adopted a more upbeat mood towards risky assets in the first few months in 2013. However, optimism was tested over the uncertainty of the Italian elections and the EU-IMF bail-out of Cyprus in March. A speech to Congress by Fed Chairman Ben Bernanke in May 2013 hinting a potential tapering of the US's quantitative easing programme triggered a sharp fall in markets across the globe.

The global recovery continued to be lacklustre but was increasingly characterised by divergent cycles between the developed and emerging worlds. The June Consensus Economics forecast for real global GDP growth in 2013 is 2.5%. (Source: Consensus Economics June 2013). Recoveries appeared finally to be gaining traction in the US while Japan benefitted from the renewed fiscal stimulus and a lower yen. Whilst growth in the region was still in the contraction state, the downturn in the Eurozone GDP may also be close to bottoming. The recovery in the UK continued to falter with Moody's downgrade of the UK Credit rating to Aa1 in February 2013 highlighting the continued concerns over the weakness of the UK economy and its growth prospects.

Growth in the emerging worlds continued to undershoot expectations in the face of weak export demand and falling commodity prices. Concerns over growth in China remained, although this may be seen in hindsight as a helpful cooling-off process.

## Equity Markets

At a global level, the FTSE World index returned 26.3% whilst the FTSE AW Advanced Emerging Markets index rose 4.8%. Emerging markets equities lagged developed markets equities as economic and corporate earnings growth continued to lose momentum and liquidity conditions steadily tightened.

At a regional level, European markets as measured by the FTSE World Europe ex UK index, increased 36.0%. UK and US stocks also recorded strong growth. The FTSE All Share index grew 24.3% while the FTSE USA index rose 29.6% respectively.

Equity market Total Return figures are in Sterling terms over the 12 month period to 31 July 2013.

## Bonds

Returns on UK Government Bonds as measured by the FTSE Gilts All Stocks Index fell 3.6%, while long dated issues as measured by the corresponding Over 15 Year Index decreased by 6.6%. The yield for the FTSE Gilts All Stocks index rose over the year from 2.3% to 2.9%

Off the back of the announcement that there would be no change to the Retail Price Inflation (RPI) measure in early January 2013, the index linked market had had some significant moves in the first quarter of 2013. The FTSE All Stocks Index Linked Gilts index returned 2.7% with the corresponding 15 Year Index also exhibiting a positive return of 3.6% over the year.

Corporate debt as measured by the BofA Merrill Lynch Sterling Non-Gilts index continued to give a positive return. Over the year to 31 July 2013 corporate debt returned 4.5%.

Bond market Total Return figures are in Sterling terms over the 12 month period to 31 July 2013.

## Property

Over the 12 month period to 31 July 2013, the IPD UK All Property Index returned 4.7% in sterling terms. The three main sectors of the UK Property market each recorded positive returns over the period (retail: 2.8%; office: 6.7%; and; industrial: 6.4%).

## Currencies

Over the 12 month period to 31 July 2013, Sterling rose 21.9% against the Yen from ¥122.37 to ¥149.11. Sterling depreciated against the US Dollar by 3.2%, falling from \$1.57 to \$1.52 and by 10.3% against the Euro, falling from €1.27 to €1.14.

## INVESTMENT PERFORMANCE

The Trustee reviews the performance of the funds on a quarterly basis and normally meets the managers at least annually. Whilst the majority of the underlying assets are freely marketable, a number of the unitised investments (property, private equity, hedge funds and real estate debt) are not readily marketable. The performance of the main portfolio (equities, bonds and cash) and also the total assets (main portfolio plus alternative asset classes) over 1, 3 and 5 years to 30 June 2013 are set out in the table below:

	1 Year		3 Years		5 Years	
	Fund (%)	B'mark (%)	Fund (% pa)	B'mark (% pa)	Fund (% pa)	B'mark (% pa)
Main Portfolio	11.4	11.9	10.0	10.2	7.1	7.3
<b>Total Assets</b>	<b>10.7</b>		<b>9.3</b>		<b>5.3</b>	

Source: Investment Managers/Mercer

## Property Assets

The Scheme's property funds Aviva Lime, M&G SPIF and LGIM LPI Property returned 7.1%, 9.1% and 9.0% respectively over twelve months to 30 June 2013.

## Alternative Assets

The secured loans fund managed by M&G returned 7.0% and the emerging markets debt fund managed by Pictet returned 4.5% over the same period.

## INVESTMENT MANAGEMENT FEES

The fees paid to investment managers are based on the terms of the individual management agreements held with each of them; the charges levied by the unitised funds are reflected in the unit price.

The fees charged by LGIM are levied on the funds in which the Scheme is invested and are as follows:

<b>Fund</b>	<b>% pa</b>
UK Equities	0.06
Corporate Bonds	0.07
Index-Linked Gilts	0.04
High Yield Bonds	0.40 on the first £10 million, 0.375 thereafter
Money Market	0.09
Liquidity	0.09
Cash	0.04
LPI Property	0.30 on the first £7.5 million, 0.25 thereafter

## STATEMENT OF INVESTMENT PRINCIPLES

UMSS Ltd has drawn up a Statement of Investment Principles as required by section 35 of the Pensions Act 1995 and subsequent legislation. The Statement is reviewed annually. A copy is on the website and available to members on request.

## VOLUNTARY CODE OF BEST PRACTICE

The Myners principles codify best practice in investment decision-making. Whilst compliance with the principles is voluntary, pension fund trustees are expected to consider their applicability to their own fund and report on a 'comply or explain' basis how they have used them.

The principles were initially published in 2001 following a Government sponsored review of institutional investment by Paul Myners, which found shortcomings in the expertise and organisation of investment decision-making by pension fund trustees.

In March 2008 the Government consulted on proposals to update the Myners principles. This led to the publication of a revised set of six principles for Defined Benefit (DB) schemes in October 2008, together with the establishment of an Investment Governance Group (IGG) to oversee the industry-led framework for the application of the principles.

While there are now only six DB principles, in place of the original ten, their scope is largely unchanged. The principles continue to emphasise the essentials of investment governance, notably the importance of effective decision-making, clear investment objectives and a focus on the nature of each scheme's liabilities. The principles also require that trustees include a statement of the scheme's policy on responsible ownership in the Statement of Investment Principles and report periodically to members on the discharge of these responsibilities.

The Trustee, together with its professional advisers, regularly reviews how it stands in relation to the revised Myners principles.

## **ACTUARIAL POSITION**

The relevant Actuarial Statements from the valuation conducted as at 31 July 2010, certified by the Scheme Actuary on 5 August 2011, appear at the end of this Report and Financial Statements.

## **PENSION INCREASES**

Pensions paid to retired members including deferred benefits for payment to early leavers on reaching normal retirement age were increased at 1 April 2013 as provided for in the Scheme rules. The increase was exclusive of Guaranteed Minimum Pensions and amounted to 3.1% for benefits earned before 1 April 2012 (matching the rise in the Retail Prices Index over the 12 months to 31 December 2012) and 2.7% on benefits earned after 31 March 2012 (matching the rise in the Consumer Prices Index over the 12 months to 31 December 2012).

## **TRANSFER VALUES**

Transfer values paid during the year to other registered schemes outside the Public Sector Transfer Club were calculated in accordance with regulations issued under Section 97 of the Pension Schemes Act 1993 and did not include an allowance for discretionary benefits. None of the transfer values were less than the amount provided by paragraph (1) of Section 97 of the Pension Schemes Act 1993. Transfer values received during the year were exchanged for rights in UMSS in accordance with the Transfer Club regulations. The number of individual transfers in completed during the year was 9 (2012: 7) and the number of individual transfers out was 48 (2012: 154).

UMSS began to participate in the Public Sector Transfer Club on 1 October 1998. From 1 January 2004 UMSS Limited, on actuarial advice, suspended individual transfers in to the Scheme from all schemes that do not participate in the Public Sector Transfer Club.

From 1 October 2008 new regulations come into force that require trustees of pension schemes to set the assumptions used in calculating Cash Equivalent Transfer Values. UMSS Limited has consulted with the actuary and has complied with the new regulations from 1 October 2008.

## **EMPLOYER RELATED INVESTMENTS**

There were no employer related investments held during the year or at the year end.

## **SCHEME MERGER**

During the year, agreement was reached between the trustee of UMSS, the trustees of the Manchester Innovation Ltd Group Pension Scheme (MILGPS) and the University of Manchester to merge UMSS and MILGPS.

This was confirmed by a deed of merger dated 28 August 2013 signed by all parties and a deed of amendment for UMSS dated 28 August 2013.

The liabilities to be transferred from MILGPS post year end comprise 49 deferred members. Annuitants' benefits are fully secured with Aviva and continue to be paid by Aviva.

## MEMBERSHIP STATISTICS

	2012-13	2011-12
<b>Current Members</b>		
Current members at start of year	2552	2,542
Adjustment	-	(1)
Joiners	953	291
Leavers:		
• Refunds	(356)	(58)
• deferred/undecided	(105)	(155)
Retirements:		
• at normal pension age	(6)	(10)
• early without enhancements	(18)	(43)
• late	(8)	(5)
• ill-health	(7)	(5)
• early retirement scheme	(0)	(1)
Deaths during the year	(5)	(3)
Current members at end of year	3,000	2,552

## Pensioners

Pensioners at start of year	2,025	1,969
Adjustment	(3)	(4)
Retirements:		
• from current members	39	65
• from deferred members	36	34
New spouses'/dependants'/children's pensions	23	30
Deaths	(57)	(64)
Commutations and ceased pensions	(6)	(5)
Pensioners at end of year	2,057	2,025

**Deferred** pensioners at the year end totalled 2,690 members (2011-12: 2,624).

Changes that were notified after the cut-off date for last year's Annual Report are included where relevant as an adjustment in the table above.

## FINANCIAL STATEMENTS

Financial Statements for the year ended on 31 July 2013 together with details of the investments held by the Scheme and an auditor's report are set out in the financial statements and investments appendix to this Report.

The Financial Statements have been prepared and audited in accordance with Sections 41 (1) and (6) of the Pensions Act 1995.

The Independent Auditor's Statement about Contributions and the Trustee's Summary of Contributions are set out on pages 14 and 15.

## TRUSTEE'S RESPONSIBILITIES STATEMENT

The Financial Statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, are the responsibility of the Trustee. Pension scheme regulations require UMSS Limited to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice, 'Financial Reports of Pension Schemes'.

UMSS Limited has supervised the preparation of the Financial Statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. UMSS Limited is also responsible for making available certain other information about the Scheme in the form of an annual report.

UMSS Limited is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employers and the active members of the Scheme and the dates on or before which such contributions are to be paid. UMSS Limited is also responsible for keeping records of contributions received in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, UMSS Limited is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and the members.

UMSS Limited also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of internal controls.

Signed on behalf of UMSS Limited on

JN Shelton  
Chair of Audit & Finance Committee  
UMSS Limited

## INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE UNIVERSITY OF MANCHESTER SUPERANNUATION SCHEME

We have audited the financial statements of the University of Manchester Superannuation Scheme for the year ended 31 July 2013 which comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### Respective responsibilities of trustees and auditor

As explained more fully in the Trustee's Responsibilities Statement on page 12, UMSS Limited is responsible for the preparation of financial statements which show a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustee; and the overall presentation of the financial statements which comprises the Trustee's report, investment report and actuarial information. In addition, we read all the financial and nonfinancial information in the rest of the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 July 2013, 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;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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.

Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
Manchester

## **INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE OF THE UNIVERSITY OF MANCHESTER SUPERANNUATION SCHEME**

We have examined the Summary of Contributions to the University of Manchester Superannuation Scheme in respect of the scheme year ended 31 July 2013 which is set out on page 15.

### **Respective responsibilities of trustees and the auditor**

As explained more fully in the Trustee's Responsibilities Statement on page 12, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of the active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedules of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedules of Contributions and to report our opinion to you.

### **Scope of work on Statement about Contributions**

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the Summary of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions. This includes examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedules of Contributions.

### **Statement about contributions payable under the Schedule of Contributions**

In our opinion, contributions for the Scheme year ended 31 July 2013 as reported in the Summary of Contributions and payable under the Schedules of Contributions have, in all material respects, been paid at least in accordance with the Schedules of Contributions certified by the Scheme Actuary on 8 August 2011.

Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
Manchester

## SUMMARY OF CONTRIBUTIONS

### Trustee's Summary of Contributions payable under the schedule in respect of the Scheme year ended 31 July 2013

This Summary of Contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the employer and member contributions payable to the Scheme under the Schedules of Contributions certified by the actuary on 8 August 2011 in respect of the Scheme year ended 31 July 2013. The scheme auditor reports on contributions payable under the Schedule in the Auditor's Statement about Contributions.

#### Contributions payable under the Schedule in respect of the Scheme year £'000s

Employer:

Normal contributions	2,504
PensionChoice	12,643
Augmentation contributions to provide additional benefits on retirement	0
Deficit contributions in accordance with the Recovery Plan	4,520

Member:

Normal contributions	674
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#### Contributions payable in addition to those due under the Schedule

Member additional voluntary contributions	26
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**Total contributions payable as reported in the accounts** 20,367

In all material respects, contributions payable were paid in accordance with the Schedules of Contributions dated 8 August 2011.

Signed on behalf of UMSS Limited

JN Shelton  
Chair of the Audit & Finance Committee  
UMSS Limited

## FUND ACCOUNT FOR THE YEAR ENDED 31 July 2013

<b>Contributions and benefits</b>	<i>Note</i>	<b>2013</b> £	<b>2012</b> £
Contributions receivable	3	20,366,985	19,184,587
Individual transfers in		281,263	40,234
Other income	4	348,819	206,825
		<hr/>	<hr/>
		20,997,067	19,431,646
		<hr/>	<hr/>
Benefits payable	5	11,337,297	11,246,298
Payments to and on account of leavers	6	3,327,466	13,413,492
Other payments	7	369,347	290,213
Administrative expenses	8	970,926	677,729
		<hr/>	<hr/>
		16,005,036	25,627,732
		<hr/>	<hr/>
<b>Net additions/(withdrawals) from dealings with members</b>		4,992,031	(6,196,086)
		<hr/>	<hr/>
<b>Returns on investments</b>			
Investment income	9	4,800,077	2,356,927
Change in market value of investments	10	34,284,171	17,437,737
Investment management expenses	11	(354,317)	(347,337)
		<hr/>	<hr/>
<b>Net returns on investments</b>		38,729,931	19,447,327
		<hr/>	<hr/>
<b>Net increase in the fund during the year</b>		43,721,962	13,251,241
<b>Net assets of the Scheme at start of year</b>		327,826,931	314,575,690
		<hr/>	<hr/>
<b>Net assets of the Scheme at end of year</b>		371,548,893	327,826,931
		<hr/> <hr/>	<hr/> <hr/>

## STATEMENT OF NET ASSETS AT 31 July 2013

<b>Investment assets</b>	Note 10	<b>2013</b> £	<b>2012</b> £
Pooled investment vehicles		364,399,586	324,514,974
Cash deposits		7,800,000	2,675,000
Other investment balances		207,591	193,949
AVC investments		6,664	6,439
		372,413,841	327,390,362
 <b>Current assets</b>	12	471,114	1,436,309
<b>Current liabilities</b>	13	(1,336,063)	(999,740)
		371,548,893	327,826,931
 <b>Net assets of the scheme at 31 July 2013</b>		371,548,893	327,826,931

The financial statements were approved by UMSS Limited on and signed on its behalf by

JN Shelton  
Chair of the Audit & Finance Committee  
UMSS Limited

## Notes to the Financial Statements for the year ended 31 July 2013

### 1 Basis of preparation

The financial statements set out on pages 16 to 24 have been prepared in accordance with the Occupational Pension Schemes (Requirement to Obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and with the guidelines set out in the Statement of Recommended Practice (SORP, revised July 2008): Financial Reports of Pension Schemes.

### 2 Accounting Policies

The accounts are prepared on an accruals basis. The principal accounting policies which the Trustee has adopted are set out below.

#### 2a Investments

- i. Investments are included at market value at the date of the net assets statement.
- ii. The majority of listed investments are stated at the bid market price or the last trade price, depending on the convention of the stock exchange on which they are quoted, at the date of the net assets statement.
- iii. Fixed interest securities are stated at their clean prices. Accrued income is accounted for within investment income.
- iv. Unquoted securities are included at fair value estimated by the Trustee based on advice from the investment manager.
- v. Pooled Investment Vehicles are included at the bid price.

#### 2b Investment income

- i. Dividends from quoted securities are accounted for when the security is declared ex-dividend.
- ii. Interest is accrued on a daily basis.
- iii. Investment income is reported net of attributable tax credits but gross of withholding taxes which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge.
- iv. Investment income arising from the underlying investments of the Pooled Investment Vehicles is reinvested within the Pooled Investment Vehicles and reflected in the unit price. It is reported within 'Change in Market Value'.

## **2c Foreign currencies**

Balances denominated in foreign currencies are translated at the rate ruling at the net assets statement date. Transactions denominated in foreign currencies are translated at the rate ruling at the date of the transaction.

Differences arising on translation in respect of investments are accounted for in the change in market value of investments during the year.

## **2d Contributions**

- i. Employee normal and additional contributions are accounted for when deducted from pay. Employer normal and PensionChoice contributions are accounted for in the period to which the corresponding pay relates.
- ii. Employer deficit contributions are accounted for in the period they fall due as payable to the Scheme.

## **2e Payments to members**

- i. Benefits are accounted for in the period in which the member notifies the Trustee of his decision on the type or amount of benefit to be taken or, if there is no member choice, on the date of retirement or leaving.
- ii. Individual transfers in or out are accounted for when paid or received which is normally when member liability is accepted/discharged.
- iii. Group transfers are accounted for in accordance with the terms of the transfer agreement.

## **2f Expenses**

Expenses are accounted for on an accruals basis.

<b>3 Contributions receivable</b>	<b>2013</b>	<b>2012</b>
	£	£
<b>Employer</b>		
Normal	2,287,272	2,374,414
PensionChoice	12,642,760	11,481,908
Augmentation contributions		16,046
Deficit	4,520,000	4,500,000
<b>Members</b>		
Normal	890,439	696,648
AVCs	26,514	115,571
	<hr/>	<hr/>
	20,366,985	19,184,587
	<hr/>	<hr/>

PensionChoice contributions are made under the salary exchange arrangement introduced on 1 June 2009. Further details are provided on page 6 of this Annual Report. Augmentation contributions are paid by the employer into the Scheme on an ad hoc basis when the commitment arises.

Employer deficit contributions are required in accordance with the Recovery Plan agreed following the 31 July 2010 actuarial valuation. The University of Manchester has agreed to make a special contribution of £4,500,000 pa.

Members' normal contributions include, from 1 April 2012, additional contributions in excess of the Schedule of Contributions; following scheme changes, members in the Final Salary section contributed at a rate of 7% of their pensionable salaries up to 31 March 2013 and 7.5% from 1 April 2013. In addition, members of the new CARE section contributed 6.5% of their pensionable salaries.

<b>4 Other income</b>	<b>2013</b>	<b>2012</b>
	£	£
L&G: death in service benefits receivable	348,819	206,825
	<hr/>	<hr/>
	348,819	206,825
	<hr/>	<hr/>

<b>5 Benefits payable</b>	<b>2013</b>	<b>2012</b>
	£	£
Pensions	9,120,583	8,587,146
Pension Sharing Order	0	47
Lump sums on retirement	1,657,477	2,452,280
Lump sum death benefits	389,417	206,825
Lump sum ill health benefits	169,820	-
	<hr/>	<hr/>
	11,337,297	11,246,298
	<hr/>	<hr/>

<b>6</b>	<b>Payments to and on account of leavers</b>	<b>2013</b>	<b>2012</b>
		£	£
	Refunds to members leaving the Scheme	35,458	45,044
	Income tax on refunds to members	1,503	1,214
	Individual transfers to other schemes	3,290,505	13,367,234
		<hr/>	<hr/>
		3,327,466	13,413,492
		<hr/>	<hr/>
<b>7</b>	<b>Other payments</b>	<b>2013</b>	<b>2012</b>
		£	£
	State scheme premiums	35,505	32,337
	L&G – death in service insurance premium	333,842	257,876
		<hr/>	<hr/>
		369,347	290,213
		<hr/>	<hr/>
<b>8</b>	<b>Administrative expenses</b>	<b>2013</b>	<b>2012</b>
		£	£
	Actuarial fees	153,456	78,830
	Audit fees	25,260	18,525
	Bank charges	405	112
	Computer costs	89,406	64,371
	Administration fee	193,784	164,224
	PPF Levy	322,227	202,181
	Miscellaneous	18,427	87,428
	Consultancy fees	43,221	12,210
	Communication materials	124,740	49,848
		<hr/>	<hr/>
		970,926	677,729
		<hr/>	<hr/>
<b>9</b>	<b>Investment Income</b>	<b>2013</b>	<b>2012</b>
		£	£
	Unitised funds	4,792,931	2,351,225
	Interest on cash deposits	7,146	5,701
		<hr/>	<hr/>
		4,800,077	2,356,927
		<hr/>	<hr/>

## 10

## a Reconciliation of Investments held at beginning and end of year

	Value at 1 August 2012 £	Purchases at cost £	Sale Proceeds £	Change in market value £	Value at 31 July 2013 £
Pooled investment vehicles	324,514,974	27,104,515	(21,504,074)	34,284,171	364,399,586
AVC investments	6,439	225	-	-	6,664
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	324,521,413	27,104,740	(21,504,074)	34,284,171	364,406,250
Cash deposits	2,675,000				7,800,000
Outstanding dividends, withholding taxes and interest receivable	193,949				207,591
	<hr/>				<hr/>
	327,390,362				372,413,841
	<hr/>				<hr/>

## b Details of investments held at year end

	2013 £	2012 £
<i>Pooled investment vehicles:</i>		
Unit Trusts		
- Property	14,817,776	14,606,362
- Other	345,817,921	301,032,946
Private Equity	3,645,644	3,946,231
Hedge Funds	118,245	4,929,435
	<hr/>	<hr/>
	364,399,586	324,514,974
	<hr/>	<hr/>

The companies operating the pooled investment vehicles are all registered in the United Kingdom.

*Cash deposits:*

Sterling deposits	7,800,000	2,675,000
	<hr/>	<hr/>
	7,800,000	2,675,000
	<hr/>	<hr/>

**c AVC investments**

The Trustee holds assets invested separately from the main fund to secure additional benefits on a money purchase basis for those members electing to pay Additional Voluntary Contributions. Members participating in this arrangement each receive an annual statement made up to 31 July confirming the amounts held to their account and the movements in the year. The aggregate amount of AVC investments is:

	<b>2013</b>	<b>2012</b>
	£	£
Equitable Life Assurance Society	6,664	6,439
	<hr/>	<hr/>
	6,664	6,439

**11 Investment management expenses**

	<b>2013</b>	<b>2012</b>
	£	£
UBS Global Asset Management fees	0	32,002
Legal & General Investment Management fees	273,817	229,963
Aviva Fund Management fees	2,099	3,394
Goldman Sachs Management fees	0	-
Pictet fees	78,401	81,978
	<hr/>	<hr/>
	354,317	347,337

Investment management expenses for AIDA Capital Ltd, Goldman Sachs Asset Management International Ltd, Aberdeen SVG and M&G Investment Management Ltd are adjusted for in the unit prices of the investments.

Costs are borne by the Scheme in relation to the transactions in pooled investment vehicles. However, such costs are taken into account in calculating the bid/offer price spread of these investments and are not therefore separately identifiable. The transaction costs for the prior year have not been disclosed as they are not readily available.

**12 Current assets**

	<b>2013</b>	<b>2012</b>
	£	£
Income tax recoverable	112,147	112,147
Prepayments	34,875	34,089
Sundry debtors	0	0
Contributions receivable	7,500	1,219,993
Bank account	316,593	70,080
	<hr/>	<hr/>
	471,114	1,436,309

All contributions receivable at the year end were paid at least in accordance with the Schedule of Contributions.

<b>13 Current liabilities</b>	<b>2013</b>	<b>2012</b>
	£	£
Pension benefits payable	15,440	861,829
Sundry creditors	3,793	2,274
Accruals	1,316,830	135,637
	<hr/>	<hr/>
	1,336,063	999,740
	<hr/>	<hr/>

#### **14 Related party transactions**

The University of Manchester (the sponsoring employer) pays the pensions on behalf of the Scheme. These are recharged to the Scheme.

The University also charges an administration fee which represents that portion of staff costs relating to the administration of the Scheme. The charge for the year ended 31 July 2013 was £193,784 (2012: £164,224).

#### **15 Employer related investment**

There was no employer related investment at either the year end or at any time during the year.

#### **16 Post balance sheet event**

As described on page 10, UMSS merged with MILGPS, effective 28 August 2013. Assets have been transferred a. from Aviva totaling £1,039,599.71 and b. the holding in the LGIM AAA-AA-A Bonds All Stocks Index and the AAA-AA-A Bonds over 15 years Index with a mid value of £2,431,609.93 was moved into the UMSS holding with LGIM on 1 October 2013.

