

UNIVERSITY OF MANCHESTER SUPERANNUATION SCHEME

TRUSTEE'S ANNUAL REPORT AND FINANCIAL STATEMENTS

1 August 2013 to 31 July 2014



Contents

Page

Management of the Scheme	1
Participating Employers	2
Related Parties	2
Scheme Changes	2
Legal Charge over Properties	2
Scheme Advisers.....	3-4
The Fund	5
Contributions	6
Change in the Fund	6
Custodial Arrangements	6
Asset Allocation	6-7
Investment Review	7-8
Investment Performance.....	8-9
Investment Management Fees	9
Statement of Investment Principles.....	9
Voluntary Code of Best Practice	9-10
Actuarial Position.....	10
Pension Increases	10
Transfer Values	10
Employer Related Investments	10
Responsible investment and corporate governance.....	11
Membership Statistics.....	11
Financial Statements	11
Trustee's Responsibilities Statement	12
Independent Auditor's Report	13
Independent Auditor's Statement about Contributions	14
Summary of Contributions	15

Fund Account	16
Statement of Net Assets	17
Notes to the Financial Statements	18-24
Actuarial Statements	25-26

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UNIVERSITY OF MANCHESTER SUPERANNUATION SCHEME

TRUSTEE'S ANNUAL REPORT AND FINANCIAL STATEMENTS

1 August 2013 to 31 July 2014

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 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the Finance Act 2004 and the Trustee (UMSS Limited) knows of no reason why this registration might be prejudiced or withdrawn.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:

University Nominated Directors	Member Elected Directors
Mrs J N Shelton (re-appointed 31 July 2012)	Mr P Leigh (Technical Staff) (Re-elected 21 October 2013)
Dr S Merrywest (re-appointed 31 March 2014)	Mr T Cleary (Manual Staff) (8 March 2010 – 23 April 2014)
Ms C Tansey (re-appointed 1 August 2013)	Mark Mullin (Manual Staff) (Elected 24 April 2014)
Professor C T Agnew (Acting Chairman) (re-appointed 16 January 2012)	Mr H Peters (Administrative Staff) (elected 18 July 2013)
Mr JD Hanson, sadly passed away. Chair from 22 April 1996 to 29 October 2014	Mr W Allan (Pensioners) (elected 17 November 2011)

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.

Employer	Participation began	UMSS members at 31 July 2014
The University of Manchester	22 July 1925	2965
HECSU	1 February 1996	1
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	28
The University of Manchester I3 Ltd	1 October 2004	34
University of Manchester Conferences Ltd	1 February 2006	220
	Total	3255

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 and pension payroll services for the Scheme. The cost, which is recharged to UMSS, amounted to £101,886 (2013: £193,784). The amount due from the University at 31 July 2014 was £nil (2013: £nil) and amounts due from participating employers at 31 July 2014 were also £nil (2013: £7,500).

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, Mr H Peters and Mr M Mullin.

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. The release of properties continues as part of the 2013 valuation agreement.

To date, four 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 ST Manchester M2 4AW
Solicitors	Walker Morris Kings Court 12 King Street Leeds LS1 2HL
Bankers	National Westminster Bank Plc Manchester University Union 323 Oxford Rd Manchester M13 9PS
Auditors	Grant Thornton UK LLP 4 Hardman Square Spinningfields Manchester M3 3EB

SCHEME ADVISERS (continued)

Investment Managers	Address
Aberdeen SVG	31 Gresham Street London EC2V 7QA
Aida Capital Ltd	33 King Street London SW1Y 6RJ
Aviva Investors	Lime Property Fund No 1 Poultry London EC2R 8EJ
Blackrock Investment Management (UK) Ltd	12 Throgmorton Avenue London EC2N 2DL
Goldman Sachs Asset Management L.P	32 Old Slip New York 10005
Goldman Sachs Hedge Fund Strategies LLC	701 Mount Lucas Road Princeton New Jersey 08540
ICG – Longbow	Juxon House 100 St Pauls Churchyard London EC4M 8BU
La Salle Investment Management	1 Curzon Street London W1J 5HD
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
Renshaw Bay LLP	3 rd Floor 48 Dover Street London W15 4FF

THE FUND

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

- Legal & General Investment Management Ltd (LGIM)
- Aida Capital (Aida)
- Goldman Sachs Asset Management International Ltd (GSAM)
- AberdeenSVG (Aberdeen)
- Aviva Investors Global Services Ltd (Aviva)
- M&G Investment Management Ltd (M&G)
- Pictet Asset Management Ltd (Pictet)
- Intermediate Capital Group Longbow (Longbow)
- BlackRock Investments (BlackRock - new investment made during the year)
- LaSalle Investment Management (LaSalle - new investment made during the year)
- Renshaw Bay LLP (Renshaw - new investment made during the year)

It is the policy of the Trustee to maximise the expected 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 Trustee bank accounts.

LGIM manage the Scheme's equities, bonds and cash. These assets comprised around 70% of the Scheme's assets at the year end, which is around 2% lower than at the beginning 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 also invests with five real estate debt managers. The Scheme invests in three real estate debt funds managed by M&G which have currently drawn down approximately £16.6m in total as at 31 July 2014. At the same date the Longbow fund had drawn down approximately £10.2m out of a commitment of £15.0m, while the LaSalle fund had drawn down £3.1m out of a commitment of £15.0m, and the Renshaw fund had drawn down £5.6m out of a commitment of £15.0m. Finally the GSAM fund had drawn down c. \$1.8m out of a commitment of \$20.0m.

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. The Scheme's holdings with Aida were wound up in January 2014. Small residual balances remain in another fund which will be further reduced over time.

The Scheme added the BlackRock NTR Renewable Power Fund to its investments over the year, committing \$24m to the infrastructure fund and to date \$9.4m has been drawn down.

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 7.5% of pensionable salaries; members of the 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 £371,548,893. As a result of net additions from dealings with members of £9,707,726 and net returns on investments of £22,045,733 the net assets of the Scheme had a market value of £403,302,352 at 31 July 2014.

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 2014, first by manager and then by asset class.

Manager	Market Value (£000's)	(%)
LGIM (Main)	279,426	69.6
Aviva	15,306	3.8
LGIM (Property)	20,490	5.1
GSAM	6,134*	1.5
Aberdeen	783*	0.2
M&G	46,177**	11.5
Pictet	10,226	2.5
Longbow	10,278*	2.6
BlackRock	4,400*	1.1
LaSalle	3,153*	0.8
Renshaw	5,282*	1.3
Total	401,654	100.0

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

*Assets values as at 30 June 2014 (allowing for subsequent cashflows) due to infrequency of valuations of illiquid assets.

**M&G REDF I, II and III values are as at 30 June 2014 due to quarterly valuations

Asset Class	Market Value (£000's)	(%)
UK Equities	140,994	35.1
Corporate Bonds	92,912	23.1
High Yield Bonds	16,200	4.0
Secured Income Property	56,303	14.0
Hedge Funds	66*	0.0
Private Equity	5,777*	1.4
Secured Loans	13,524*	3.4
Emerging Market Debt	10,226	2.5
Real Estate Debt	31,932*	8.0
Cash / Money Market	29,319	7.3
Infrastructure	4,400*	1.1
Total	401,654	100.0

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

* Assets values as at 30 June 2014 (allowing for subsequent cashflows) due to infrequency of valuations of illiquid assets. All foreign currencies converted to sterling as at 31 July 2014 FX rates

As at 31 July 2014, excluding AVC investments and short term deposits in bank accounts, the Scheme's assets were valued at £401,654,256. Exposure to equities was 35.1%, bonds and cash was 30.4%, property was 14.0% and 20.4% to 'alternative' investments, which includes high yield debt, secured loans, hedge funds, private equity, infrastructure, 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 51.7% at the end of the year, which is below the target of 60% but within the control ranges set out in the Trustee's Statement of Investment Principles.

INVESTMENT REVIEW

Against the backdrop of continued monetary easing by the world's major central banks, both growth and defensive assets delivered positive returns over the 12 month period to 31 July 2014. As the recovery of all major developed economies, notably the UK, began to broaden and the eurozone emerged from recession, investor sentiment gradually improved with increased risk appetite. Whilst wage growth remained low, improvement was seen in employment and labour market. By the end of the second quarter of 2014, market volatility significantly reduced to pre-2008 level and most developed markets experienced above-trend growth.

The UK was at the forefront of the global upturn, as growth appeared to have retained solid momentum in 2014 with accelerated business investment and strong demand in the housing market. On the back of the expectation that the Bank of England would raise interest rate sooner than their US and Eurozone counterparts, Sterling continued to appreciate against their currencies.

Whilst emerging markets were laggards in 2013, economic conditions started to improve in the first half of 2014. However the political unrest in Ukraine and the instability in the Middle East undermined the growth prospect in the emerging world. Equity and debt investments in emerging markets remained highly volatile, albeit returns (particularly emerging market equity) picked up over July.

Equities

Most of the developed markets posted strong positive returns over the year to 31 July 2014. At a global level, developed markets as measured by the FTSE World index, returned 4.6%. Despite the significant selloff in the emerging markets at the beginning of 2014, they also exhibited a positive return over the same period, with the FTSE AW Emerging Markets underperforming developed markets as a whole and returning 4.0% over the period (in sterling terms).

At a regional level, European markets returned 4.1% as indicated by the FTSE World Europe ex UK index.

At a country level, UK stocks as measured by the FTSE All Share index returned 5.6%. The FTSE USA index returned 5.1%, while the FTSE Japan index fell by 0.6%.

Equity market total return figures are in Sterling terms over the 12 month period to 31 July 2014.

Fixed interest

Bond assets across the board generated positive performance. UK Government Bonds, as measured by the FTSE Gilts All Stocks Index, returned 2.6%, while long dated issues as measured by the corresponding Over 15 Year Index returned by 6.7%. The yield for the FTSE Gilts All Stocks index increased slightly over the year from 2.88% to 2.93%

The FTSE All Stocks Index Linked Gilts index returned 4.5% with the corresponding 15 year index also exhibiting a positive return of 7.1%.

Credit spreads contracted over the year and continued to move lower as investors priced in lower defaults and less volatility. Corporate debt as measured by the BofA Merrill Lynch Sterling Non-Gilts index returned 5.4%

Property

UK property investors continued to benefit from the improving property market. Over the 12 month period to 31 July 2014, the IPD UK All Property Index returned 18.5% in Sterling terms.

Currencies

Sterling appreciated strongly against the other three major currencies. Over the 12 month period to 31 July 2014, Sterling rose 11.4% against the US Dollar from \$1.516 to \$1.688 and 16.4% against the Yen from ¥149.111 to ¥173.616. Sterling also appreciated against the Euro by 10.5% from €1.142 to €1.262 over the same period.

INVESTMENT PERFORMANCE

The Trustee reviews the performance of the fund 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 2014 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	10.1	11.0	8.5	9.0	11.5	11.8
Total Assets	9.4		7.7		10.4	

Source: Investment Managers/Mercer

Property Assets

The Scheme's property funds Aviva Lime, M&G SPIF and LGIM LPI Property returned 8.6% (net of fees), 11.4% (net) and 9.4% (gross) respectively over twelve months to 30 June 2014.

Alternative Assets

The secured loans fund managed by M&G returned 6.0% (net) and the emerging markets debt fund managed by Pictet returned -9.2% (gross) 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:

Fund	% pa
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 on the next £12.5 million, 0.2 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.

RESPONSIBLE INVESTMENT AND CORPORATE GOVERNANCE

The Trustees believe that good stewardship and environmental, social and governance (ESG) issues may have a material impact on investment returns. The Trustees have given the investment managers full discretion when evaluating ESG issues and in exercising right and stewardship obligations attached to the Scheme's investments.

Similarly, the Scheme's voting rights are exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

Equity managers who are regulated by appropriate UK (or other relevant) authorities are expected to report on their adherence to the UK Stewardship Code on an annual basis.

ACTUARIAL POSITION

The relevant Actuarial Statements from the valuation conducted as at 31 July 2010, and as at 31 July 2013 certified by the Scheme Actuary on 8 August 2011 and 16 July 2014, 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 2014 as provided for in the Scheme rules. The increase was exclusive of Guaranteed Minimum Pensions and amounted to 2.7% for benefits earned before 1 April 2012. (matching the rise in the Retail Prices Index over the 12 months to 31 December 2013) and 2% on benefits earned after 31 March 2012 (matching the rise in the CPI over the 12 months to 31 December 2013).

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 6 (2013:9) and the number of individual transfers out was 54 (2013: 48).

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.

MEMBERSHIP STATISTICS

	2013-14	2012-13
Current Members		
Current members at start of year	3000	2552
Joiners	658	953
Leavers:		
• Refunds	(286)	(356)
• deferred/undecided	(79)	(105)
Retirements:		
• at normal pension age	(8)	(6)
• early without enhancements	(20)	(18)
• late	(5)	(8)
• ill-health	(5)	(7)
• early retirement scheme	0	0
Deaths during the year	(6)	(5)
Current members at end of year	3249	3000

Pensioners

Pensioners at start of year	2057	2025
Adjustment	-	(3)
Retirements:		
• Flexible Retirement	1	-
• from current members	38	39
• from deferred members	35	36
New spouses'/dependants'/children's pensions	26	23
Deaths	(66)	(57)
Commutations and ceased pensions	(4)	(6)
Pensioners at end of year	2087	2057

Deferred pensioners at the year end totalled 2740 members, including 49 deferred members transferred in from the Manchester Innovation Ltd Group Pension Scheme (MILGPS), (2012-2013:2690).

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 2014 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 2014 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).

This report is made solely to the Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

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 Trustees; and the overall presentation of the financial statements. 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 2014, 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 2014 which is set out on page 15.

This report is made solely to the Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our work, for this statement, or for the opinions we have formed.

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 2014 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 and 16 July 2014.

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 2014

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 08 August 2011 and 16 July 2014 in respect of the Scheme year ended 31 July 2014. 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	3,117
PensionChoice	13,518
Deficit contributions in accordance with the Recovery Plan	5,007
Members:	
Normal contributions	894
Contributions payable in addition to those due under the Schedule	
Member additional voluntary contributions	16
Total contributions payable as reported in the accounts	<u><u>22,552</u></u>

In all material respects, contributions payable were paid in accordance with the Schedules of Contributions dated 8 August 2011 and 16 July 2014.

Signed on behalf of UMSS Limited

JN Shelton
Chair of the Audit & Finance Committee
UMSS Limited

FUND ACCOUNT FOR THE YEAR ENDED 31 July 2014

Contributions and benefits	<i>Note</i>	2014 £	2013 £
Contributions receivable	3	22,552,303	20,366,985
Transfers in	3	3,576,086	281,263
Other income	4	263,612	348,819
		<hr/>	<hr/>
		26,392,001	20,997,067
		<hr/>	<hr/>
Benefits payable	5	12,883,074	11,337,297
Payments to and on account of leavers	6	2,662,646	3,327,466
Other payments	7	279,246	369,347
Administrative expenses	8	859,309	970,926
		<hr/>	<hr/>
		16,684,275	16,005,036
		<hr/>	<hr/>
Net additions from dealings with members		9,707,726	4,992,031
		<hr/>	<hr/>
Returns on investments			
Investment income	9	4,679,367	4,800,077
Change in market value of investments	10	17,711,632	34,284,171
Investment management expenses	11	(345,266)	(354,317)
		<hr/>	<hr/>
Net returns on investments		22,045,733	38,729,931
		<hr/>	<hr/>
Net increase in the fund during the year		31,753,459	43,721,962
Net assets of the Scheme at start of year		371,548,893	327,826,931
		<hr/>	<hr/>
Net assets of the Scheme at end of year		403,302,352	371,548,893
		<hr/> <hr/>	<hr/> <hr/>

STATEMENT OF NET ASSETS AT 31 July 2014

Investment assets	Note	2014 £	2013 £
Pooled investment vehicles	10	401,654,256	364,399,586
Cash deposits		2,000,000	7,800,000
Other investment balances		193,759	207,591
AVC investments		9,052	6,664
		<hr/>	<hr/>
		403,857,067	372,413,841
Current assets	12	289,983	471,114
Current liabilities	13	(844,698)	(1,336,062)
		<hr/>	<hr/>
Net assets of the scheme at 31 July 2014		403,302,352	371,548,893
		<hr/> <hr/>	<hr/> <hr/>

The accounts summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year.

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 2014

1 Basis of preparation

The financial statements set out on pages 21 to 25 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, additional and PensionChoice contributions are accounted for in the period to which the corresponding pay relates.
- ii. Employer augmentation 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.

3 Contributions receivable	2014	2013
	£	£
Employer		
Normal	3,117,210	2,287,272
PensionChoice	13,518,384	12,642,760
Deficit contributions	5,006,500	4,520,000
Members		
Normal	894,153	890,439
AVCs	16,056	26,514
	22,552,303	20,366,985
	22,552,303	20,366,985

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. 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 £4.5m pa starting on 1 August 2011. The Recovery Plan for the 31 July 2013 actuarial valuation increased the amount of deficit contributions to £6m pa, effective from 1 August 2014.

Assets valued at £3,512,950 were transferred from the MILGPS into UMSS in September 2013. Contributions of £583,200 due under the MILGPS Schedule of Contributions and Recovery Plan were paid to UMSS in September 2014.

4 Other income	2014	2013
	£	£
L&G: death in service benefits receivable	263,612	348,819
	263,612	348,819
	263,612	348,819

5 Benefits payable	2014	2013
	£	£
Pensions	9,397,499	9,120,583
Lump sums on retirement	2,721,947	1,657,477
Lump sum death benefits	291,335	389,416
Lump sum ill health benefits	472,293	169,821
	12,883,074	11,337,297
	12,883,074	11,337,297

6	Payments to and on account of leavers	2014	2013
		£	£
	Refunds to members leaving the Scheme	57,562	35,458
	Income tax on refunds to members	27,281	1,503
	Individual transfers to other schemes	2,577,803	3,290,505
		<hr/>	<hr/>
		2,662,646	3,327,466
		<hr/>	<hr/>
7	Other payments	2014	2013
		£	£
	State scheme premiums	21,483	35,505
	L&G – death in service insurance premium	257,763	333,842
		<hr/>	<hr/>
		279,246	369,347
		<hr/>	<hr/>
8	Administrative expenses	2014	2013
		£	£
	Actuarial fees	101,054	153,456
	Audit fees	13,901	25,260
	Bank charges	347	405
	Computer costs	38,176	89,406
	Administration fee	101,886	193,784
	PPF Levy	420,350	268,959
	Miscellaneous	11,254	18,427
	Consultancy fees	93,815	43,221
	Communication materials	24,191	124,740
	Legal Fees	52,304	
	NAPF & Other Subscriptions	2,031	53,268
		<hr/>	<hr/>
		859,309	970,926
		<hr/>	<hr/>
9	Investment Income	2014	2013
		£	£
	Unitised funds	4,631,022	4,792,930
	Interest on cash deposits	48,345	7,146
		<hr/>	<hr/>
		4,679,367	4,800,076
		<hr/>	<hr/>

10

a Reconciliation of Investments held at beginning and end of year

	Value at 1 August 2013 £	Purchases at cost £	Sale Proceeds £	Change in market value £	Value at 31 July 2014 £
Pooled investment vehicles	364,399,586	30,423,045	(10,879,774)	17,711,399	401,654,256
AVC investments	6,664	2,155		233	9,052
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	364,406,250	30,425,200	(10,879,774)	17,711,632	401,663,308
Cash deposits	7,800,000				2,000,000
Outstanding dividends, withholding taxes and interest receivable	207,591				193,759
	<hr/>				<hr/>
	372,413,841				403,857,067
	<hr/>				<hr/>

b Details of investments held at year end

	2014 £	2013 £
<i>Pooled investment vehicles:</i>		
Unit Trusts		
- Property	15,305,960	14,817,776
- Other	383,712,594	345,817,921
Private Equity	2,569,833	3,645,644
Hedge Funds	65,869	118,245
	<hr/>	<hr/>
	401,654,256	364,399,586
	<hr/>	<hr/>

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

Cash deposits:

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

	2014	2013
	£	£
Equitable Life Assurance Society	9,052	6,664
	<hr/>	<hr/>
	9,052	6,664
	<hr/>	<hr/>

11 Investment management expenses

	2014	2013
	£	£
Legal & General Investment Management fees	289,922	273,817
Aviva Investors Management fees	2,109	2,099
Pictet Asset Management fees	53,235	78,401
	<hr/>	<hr/>
	345,266	354,317
	<hr/>	<hr/>

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

	2014	2013
	£	£
Income tax recoverable	112,147	112,147
Prepayments	36,622	34,874
Sundry debtors	682	0
Contributions receivable	98,661	7,500
Bank account	41,871	316,593
	<hr/>	<hr/>
	289,983	471,114
	<hr/>	<hr/>

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

13 Current liabilities	2014	2013
	£	£
Pension benefits payable	287,142	15,440
Sundry creditors	17,975	3,792
Accruals	539,581	1,316,830
	<hr/>	<hr/>
	844,698	1,336,062
	<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 2014 was £101,886 (2013: £193,784).

15 Employer related investment

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

