

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

**1 August 2014 to 31 July 2015**



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# UNIVERSITY OF MANCHESTER SUPERANNUATION SCHEME

## TRUSTEE'S ANNUAL REPORT AND FINANCIAL STATEMENTS

1 August 2014 to 31 July 2015

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the Finance Act 2004 and the Trustee (UMSS Limited) knows of no reason why this registration might be prejudiced or withdrawn.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

<b>University Nominated Directors</b>	<b>Member Elected Directors</b>
Mr J Ferns (Chair) (appointed 1 June 2015)	Mr W Allan (Pensioners) (re-elected 17 November 2014)
Professor CT Agnew (acting Chair to 31 May 2015) (re-appointed 16 January 2015)	Mr P Leigh (Technical Staff) (re-elected 21 October 2013)
Dr S Merrywest (re-appointed 31 March 2014)	Mr M Mullin (Manual Staff) (elected 24 April 2014)
Mrs JN Shelton (re-appointed 31 July 2015)	Mr H Peters (Administrative Staff) (elected 18 July 2013)
Ms C Tansey (re-appointed 1 August 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 2015</b>
The University of Manchester	22 July 1925	2931
HECSU	1 February 1996	1
The University of Manchester Innovation Centre Ltd	1 February 1998	3
International Society	1 February 1999	15
Manchester Innovation Ltd	1 June 2003	0
Graduate Prospects	1 February 2004	25
The University of Manchester I3 Ltd	1 October 2004	34
University of Manchester Conferences Ltd	1 February 2006	283
	<b>Total</b>	3292

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 £167,662 (2014: £101,886). The amount due from the University at 31 July 2015 was £nil (2014: £nil) and amounts due from participating employers at 31 July 2015 were also £nil (2014: nil).

The following directors of UMSS Limited are members of UMSS. These members are entitled to receive benefits on the same basis as all other members: Mr W Allan, 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 continued as part of the 2013 valuation agreement.

All properties have been released as deficit contributions have been made in accordance with the Recovery Plans under the 2010 and 2013 valuations.

## **SCHEME ADVISERS**

Specialist advice and services are provided by the following:

<b>Scheme Actuary</b>	Mr C Cowling (FIA) JLT Benefit Solutions Ltd St James's House 7 Charlotte Street Manchester M1 4DZ
<b>Investment Consultant</b>	Mercer Ltd Belvedere 12 Booth St Manchester M2 4AW
<b>Solicitors</b>	Walker Morris Kings Court 12 King Street Leeds LS1 2HL
<b>Bankers</b>	National Westminster Bank Plc Manchester University Union 323 Oxford Rd Manchester M13 9PS
<b>Auditors</b>	Grant Thornton UK LLP 4 Hardman Square Spinningfields Manchester M3 3EB

**SCHEME ADVISERS (continued)**

<b>Investment Managers and Fund</b>	<b>Short name</b>	<b>Address</b>
<b>Aberdeen SVG</b> Schroder Private Equity Fund of Funds II	Aberdeen	31 Gresham Street London EC2V 7QA
<b>Aviva Investors</b> Lime Property Fund Unit Trust	Aviva	No 1 Poultry London EC2R 8EJ
<b>BlackRock Investment Management (UK) Ltd</b> BlackRock NTR Renewable Power Fund	BlackRock	12 Throgmorton Avenue London EC2N 2DL
<b>Goldman Sachs Asset Management L.P</b> GS Private Equity Partners 2004 Offshore Holdings, L.P. Vintage Fund VI Offshore, L.P.	GSAM	200 West New York New York 10282
<b>Goldman Sachs &amp; Co</b> Broad Street Real Estate Credit Partners II Offshore Feeder Fund L.P.	GS&Co	200 West New York New York 10282
<b>Goldman Sachs Asset Management International</b> GS Hedge Fund Portfolio Institutional plc	GSAMI	Peterborough Court 133 Fleet Street London EC4A 2BB
<b>ICG – Longbow</b> ICG – Longbow Real Estate Debt Instruments III S.a.r.l.	ICG-Longbow	Juxon House 100 St Pauls Churchyard London EC4M 8BU
<b>LaSalle Investment Management</b> LaSalle Real Estate Debt Strategies II GP	LaSalle	1 Curzon Street London W1J 5HD
<b>Legal &amp; General Investment Management Ltd</b> LPI Property Fund UK Equity (5% Capped) Passive AAA-AA-A Bonds-All Stocks Index AAA-AA-A Bonds-Over 15 years Index Over 15 years Index-Linked Gilts High Yield Bond Cash Sterling Liquidity	LGIM	One Coleman Street London EC2R 5AA
<b>M&amp;G Investment Management Ltd</b> M&G European Loan Fund C GBP M&G Real Estate Debt Fund LP M&G Real Estate Debt Fund II & III M&G Secured Property Fund Income Fund	M&G	Laurence Pountney Hill London EC4R 0HH
<b>Morgan Stanley Investment Management</b> North Haven Credit Partners II	Morgan Stanley	25 Cabot Square Canary Wharf Floor 07 London E14 4QA
<b>Pictet Asset Management Ltd</b> Pictet Institutional Emerging Local Currency Debt-Z GBP	Pictet	Moor House 120 London Wall London EC2Y 5ET
<b>GAM (U.K.) Ltd</b> Renshaw Bay Real Estate Finance Fund L.P. Fund managed by Renshaw Bay LLP until 02/10/2015	Renshaw Bay	63 St James's Street London SW1A 1LY

## THE FUND

The investments comprising the fund of UMSS have been managed during the year by the investment managers listed on page 4.

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. The majority of assets are held in unitised funds. Working balances and money pending investment are held in Trustee bank accounts or cash vehicles with the investment managers.

LGIM manage the Scheme's equities, bonds and cash. These assets comprised around 67% of the Scheme's assets at the year end, which is around 3% 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. The Scheme also invests in infrastructure through a fund managed by BlackRock. In addition, the Scheme holds shares in a fund managed by M&G that invests in secured loans, a fund managed by Morgan Stanley that invests in private debt, 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, the first of which has drawn down €18.3m with no further drawdowns to come and the other two have currently drawn down approximately £5.7m in total as at 31 July 2015 out of a commitment of £15.0m. At the same date the ICG-Longbow fund had drawn down approximately £13.8m out of a commitment of £15.0m, while the LaSalle fund had drawn down £6.7m out of a commitment of £15.0m, and the Renshaw Bay fund had drawn down £5.8m out of a commitment of £15.0m. Finally the GS&Co fund had drawn down \$11.2m out of a commitment of \$20.0m.

The Scheme holds a small investment in a fund of hedge funds vehicle with GSAMI and over the course of the year has been gradually reducing exposure to this.

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, from which 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. For members who fund their membership via PensionChoice, the salary exchange plan for employees of the University, UMC and UMI3, the contribution rate for members is 0% and the employer contributes 27.25% for final salary members and 26.25% for CARE members. The University and participating employers paid 19.75% of pensionable salaries for non PensionChoice members towards the ongoing cost. The University paid £6.0m p.a. towards the deficit in accordance with the Recovery Plan agreed following the 31 July



2013 actuarial valuation and the final deficit contribution of £583,200 in respect of former MILGPS members; Graduate Prospects made deficit payments totalling £117,500.

Further details in respect of contributions are detailed on page 15 and in note 3.

## CHANGE IN THE FUND

At the beginning of the year the total net assets of the Scheme were £403,302,352. As a result of net additions from dealings with members of £9,709,326 and net returns on investments of £30,821,214 the net assets of the Scheme (including AVCs and cash deposits) had a market value of £443,832,892 at 31 July 2015.

## CUSTODIAL ARRANGEMENTS

The majority of the Scheme's assets are invested in pooled funds and so the Trustee does not need to directly appoint custodians for those assets. 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 2015, first by manager and then by asset class.

<b>Manager</b>	<b>Market Value (£000's)</b>	<b>(%)</b>
LGIM (Main)	295,306	66.8
Aviva	15,843	3.6
LGIM (Property)	22,183	5.0
GSAM	14,942*	3.4
Aberdeen	529*	0.1
M&G	42,577*	9.6
Pictet	9,206	2.1
ICG-Longbow	14,120*	3.2
BlackRock	11,583*	2.6
LaSalle	6,788*	1.5
Renshaw Bay	6,136*	1.4
Morgan Stanley	2,574*	0.6
<b>Total</b>	<b>441,785</b>	<b>100.0</b>

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

\*Assets values as at 30 June 2015 / 31 March 2015 (allowing for subsequent cashflows) due to infrequency of valuations of illiquid assets.

All foreign currencies converted to sterling as at 31 July 2015 FX rates.

<b>Asset Class</b>	<b>Market Value (£000's)</b>	<b>(%)</b>
UK Equities	149,779	33.9
Corporate Bonds	104,711	23.7
High Yield Bonds	16,650	3.8

<b>Asset Class</b>	<b>Market Value (£000's)</b>	<b>(%)</b>
Secured Income Property	60,057	13.6
Hedge Funds	59*	0.0
Private Equity	8,241*	1.9
Secured Loans	16,702*	3.8
Emerging Market Debt	9,206	2.1
Real Estate Debt	40,631*	9.2
Cash / Money Market	24,165	5.5
Infrastructure	11,583*	2.6
<b>Total</b>	<b>441,785</b>	<b>100.0</b>

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

\* Assets values as at 30 June 2015 / 31 March 2015 (allowing for subsequent cashflows) due to infrequency of valuations of illiquid assets.

All foreign currencies converted to sterling as at 31 July 2015 FX rates.

As at 31 July 2015, excluding AVC investments and short term deposits in bank accounts, the Scheme's assets were valued at £441,784,717. Exposure to equities was 33.9%, corporate bonds and cash was 29.2%, property was 13.6% and 23.3% 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 52.0% 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**

Both growth and defensive assets delivered strong returns over the 12 month period to 31 July 2015 in sterling terms, largely due to the strengthening of the US dollar. Most of the world's central banks continued to ease monetary policy over the period. Meanwhile, strong economic growth at the start of the 12 month period slowed somewhat in late 2014 and early 2015, but macroeconomic indicators pointed to a return to a positive trend in the second quarter of the year, especially in the developed world.

Performance in sterling terms was positive both for growth and defensive assets. In the UK, economic growth remained strong throughout the year, as the Office for National Statistics revised the real GDP growth rate for 2014 from 2.6% to 2.8%, the fastest calendar year growth rate since 2006. The annual inflation rate fell to zero in February 2015 and remained very low, hitting just 0.1% in May 2015.

Whilst economic growth in the UK has been strong, growth was strongest in the US which led to a US dollar rally against sterling and most other currencies. Sterling, however, appreciated against the euro and the Japanese yen. More recently, in the second quarter, sterling rebounded against the US dollar following the General Election, although over the year sterling was still lower.

Emerging market assets and currencies underperformed their developed counterparts, as falling commodity prices and the rising US dollar negatively affected a number of emerging economies.

### **Equities**

At a global level, developed markets as measured by the FTSE World Index, returned 12.3% while a return of -3.1% was recorded by the FTSE AW Emerging Markets Index.

At a regional level, European markets returned 9.6% as indicated by the FTSE World Europe ex UK Index. UK stocks as measured by the FTSE All Share Index returned 5.4%. The FTSE USA Index returned 20.1%, while the FTSE Japan Index returned 18.3%.

Equity market total return figures are in sterling terms over the 12 month period to 31 July 2015.

### Fixed interest

Falling yields meant that UK Government Bonds as measured by the FTSE Gilts All Stocks Index returned 9.5%, while long dated issues as measured by the corresponding Over 15 Year Index returned 17.3%. The yield for the FTSE Gilts All Stocks Index fell over the year from 2.9% to 2.2%.

The FTSE All Stocks Index Linked Gilts Index returned 16.1% with the corresponding Over 15 Year Index also producing a positive return of 24.9%.

Corporate debt as measured by the BofA Merrill Lynch Sterling Non-Gilts Index returned 7.6%.

Bond market total return figures are in sterling terms over the 12 month period to 31 July 2015.

### Property

UK property investors continued to benefit from the improving property market. Over the 12 month period to 31 July 2015, the IPD UK All Property Index returned 16.2%. The three main sectors of the UK Property market each recorded positive returns over the period (retail: 10.6%; office: 21.3%; and; industrial 20.7%).

### Currencies

Over the 12 month period to 31 July 2015, sterling fell 7.6% against the US dollar from \$1.688 to \$1.561. Sterling appreciated 11.4% against the yen from ¥173.62 to ¥193.34, and also appreciated against the euro by 11.9% from €1.262 to €1.412 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 2015 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	5.5	5.7	9.0	9.5	9.1	9.5
<b>Total Assets</b>	<b>6.0</b>		<b>8.3</b>		<b>8.4</b>	

Source: Investment Managers/Mercer.

Comments on the performance of funds outside the main portfolio are set out below.

### Property Assets

The Scheme's property funds Aviva Lime, M&G Secure Property Income Fund and LGIM LPI Property returned 9.1%, 7.9% and 8.4% respectively over the twelve months to 30 June 2015 (all net of manager fees – source: Investment Managers/Mercer calculations).

### Alternative Assets

The secured loans fund managed by M&G returned 4.3% and the emerging markets debt fund managed by Pictet returned -7.8% over the same period (both net of manager fees – source: Investment Managers/Mercer calculations).

## 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 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 UMSS 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 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 2013 certified by the Scheme Actuary on 16 July 2014, appear at the end of this Report and Financial Statements.

## **PENSION INCREASES**

Increases were made on 1 April 2015 to pensions being paid to retired members and to deferred benefits held by early leavers as provided for in the Scheme rules. The increase was exclusive of Guaranteed Minimum Pensions and amounted to 1.6% for benefits earned before 1 April 2012 (matching the rise in the Retail Prices Index over the 12 months to 31 December 2014) and 0.5% on benefits earned after 31 March 2012 (matching the rise in the Consumer Prices Index over the 12 months to 31 December 2014).

## **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 (2014:6) and the number of individual transfers out was 27 (2014: 54).

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 regulations came 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**

Employer related investments, via the LGIM AAA-AA-A Bonds All Stocks Index Fund and the LGIM AAA-AA-A Bonds Over 15 Years Index Fund, held during the year or at the year end were less than 1% of the fund.

## MEMBERSHIP STATISTICS

	2014-2015	2013-2014
<b>Current Members</b>		
Current members at start of year	3249	3000
Joiners	463	658
Leavers:		
• Refunds	(290)	(286)
• deferred/undecided	(83)	(79)
Retirements:		
• at normal pension age	(3)	(8)
• early without enhancements	(31)	(20)
• late	(5)	(5)
• ill-health	(3)	(5)
Deaths during the year	(5)	(6)
Current members at end of year	3292	3249

## Pensioners

Pensioners at start of year	2087	2057
Retirements:		
• Flexible Retirement	10	1
• from current members	42	38
• from deferred members	46	35
New spouses'/dependants'/children's pensions	25	26
Deaths	(72)	(66)
Commutations and ceased pensions	(6)	(4)
Pensioners at end of year	2132	2087

**Deferred** pensioners at the year end totalled 2681 members (2014:2740).

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 2015 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 2015 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 and 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 which comprises the Trustee's Annual Report and Actuarial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with the knowledge acquired by us in the course of performing the audit. 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 2015, 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.



## **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 2015 which is set out on page 15.

This statement 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 and 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 Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedule 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 Schedule 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 Schedule of Contributions.

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

In our opinion, contributions for the Scheme year ended 31 July 2015 as reported in the Summary of Contributions and payable under the Schedule of Contributions have, in all material respects, been paid at least in accordance with the Schedule of Contributions certified by the Scheme Actuary on 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 2015

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 Schedule of Contributions certified by the actuary on 16 July 2014 in respect of the Scheme year ended 31 July 2015. The scheme auditor reports on contributions payable under the Schedule in the Auditor's Statement about Contributions.

As at 31 July 2015, 81% of members used PensionChoice to fund their membership of UMSS.

<b>Contributions payable under the Schedule in respect of the Scheme year</b>	<b>£'000s</b>
Employer:	
Normal contributions	2,746
PensionChoice	14,813
Deficit contributions in accordance with the Recovery Plan	6,701
Members:	
Normal contributions	861
<b>Contributions payable in addition to those due under the Schedule</b>	
Member additional voluntary contributions	23
<b>Total contributions payable as reported in the accounts</b>	<u><u>25,144</u></u>

In all material respects, contributions payable were paid in accordance with the Schedule of Contributions dated 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 2015

<b>Contributions and benefits</b>	<i>Note</i>	<b>2015</b> £	<b>2014</b> £
Contributions receivable	3	25,143,850	22,552,303
Individual transfers in		52,428	3,576,086
Other income	4	434,796	263,612
		<hr/>	<hr/>
		25,631,074	26,392,001
		<hr/>	<hr/>
Benefits payable	5	13,114,650	12,883,074
Payments to and on account of leavers	6	1,532,856	2,662,646
Other payments	7	342,676	279,246
Administrative expenses	8	931,566	859,309
		<hr/>	<hr/>
		15,921,748	16,684,275
		<hr/>	<hr/>
<b>Net additions from dealings with members</b>		9,709,326	9,707,726
		<hr/>	<hr/>
<b>Returns on investments</b>			
Investment income	9	10,109,840	4,679,367
Change in market value of investments	10	21,193,967	17,711,632
Investment management expenses	11	(482,593)	(345,266)
		<hr/>	<hr/>
<b>Net returns on investments</b>		30,821,214	22,045,733
		<hr/>	<hr/>
<b>Net increase in the fund during the year</b>		40,530,540	31,753,489
<b>Net assets of the Scheme at start of year</b>		403,302,352	371,548,893
		<hr/>	<hr/>
<b>Net assets of the Scheme at end of year</b>		443,832,892	403,302,352
		<hr/> <hr/>	<hr/> <hr/>

## STATEMENT OF NET ASSETS AT 31 July 2015

<b>Investment assets</b>	Note	<b>2015</b> £	<b>2014</b> £
Pooled investment vehicles	10	441,784,717	401,654,256
Cash deposits		1,700,000	2,000,000
Other investment balances		667,079	193,759
AVC investments		4,833	9,052
		444,156,629	403,857,067
<b>Current assets</b>	12	187,518	289,983
<b>Current liabilities</b>	13	(511,255)	(844,698)
		443,832,892	403,302,352
<b>Net assets of the scheme at 31 July 2015</b>		443,832,892	403,302,352

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 2015

### 1 Basis of preparation

The financial statements set out on pages 16-24 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, additional 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>2015</b>	<b>2014</b>
	£	£
<b>Employer</b>		
Normal	2,745,842	3,117,210
PensionChoice	14,813,338	13,518,384
Deficit contributions	6,700,700	5,006,500
<b>Members</b>		
Normal	861,203	894,153
AVCs (in fund only)	22,767	16,056
	25,143,850	22,552,303
	25,143,850	22,552,303

PensionChoice contributions are made under the salary exchange arrangement introduced on 1 June 2009. Further details are provided on pages 5 & 15 of this Annual Report. The Recovery Plan agreed at the 31 July 2013 actuarial valuation increased the amount of deficit contributions from £4.5m pa to £6m pa, effective from 1 August 2014.

Contributions of £583,200 due under the MILGPS Schedule of Contributions and Recovery Plan were paid to UMSS in September 2014 and Graduate Prospects made deficit payments of £117,500.

<b>4 Other income</b>	<b>2015</b>	<b>2014</b>
	£	£
L&G: death in service benefits receivable	434,796	263,612
	434,796	263,612
	434,796	263,612

<b>5 Benefits payable</b>	<b>2015</b>	<b>2014</b>
	£	£
Pensions	9,852,152	9,397,499
Lump sums on retirement	2,722,035	2,721,947
Lump sum death benefits	257,837	291,335
Lump sum ill health benefits	282,626	472,293
	13,114,650	12,883,074
	13,114,650	12,883,074

<b>6</b>	<b>Payments to and on account of leavers</b>	<b>2015</b>	<b>2014</b>
		£	£
	Refunds to members leaving the Scheme	56,630	57,562
	Income tax on refunds to members	11,927	27,281
	Individual transfers to other schemes	1,464,299	2,577,803
		<hr/>	<hr/>
		1,532,856	2,662,646
		<hr/>	<hr/>
<b>7</b>	<b>Other payments</b>	<b>2015</b>	<b>2014</b>
		£	£
	State scheme premiums	87,505	21,483
	L&G – death in service insurance premium	255,171	257,763
		<hr/>	<hr/>
		342,676	279,246
		<hr/>	<hr/>
<b>8</b>	<b>Administrative expenses</b>	<b>2015</b>	<b>2014</b>
		£	£
	Actuarial	64,574	101,054
	Administration	167,662	101,886
	Audit	19,108	13,901
	Bank charges	824	347
	Communication consultancy	44,874	24,191
	Computer costs	27,350	38,176
	Investment consultancy	125,580	93,815
	Legal	14,257	52,304
	Miscellaneous	24,409	11,254
	NAPF subscription	2,070	2,031
	PPF Levy	440,858	420,350
		<hr/>	<hr/>
		931,566	859,309
		<hr/>	<hr/>
<b>9</b>	<b>Investment Income</b>	<b>2015</b>	<b>2014</b>
		£	£
	Unitised funds	10,109,317	4,631,022
	Interest on cash deposits	523	48,345
		<hr/>	<hr/>
		10,109,840	4,679,367
		<hr/>	<hr/>



## 10

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

	Value at 1 August 2014 £	Purchases at cost £	Sale Proceeds £	Change in market value £	Value at 31 July 2015 £
Pooled investment vehicles	401,654,256	34,030,104	(15,097,829)	21,198,186	441,784,717
AVC investments (Equitable Life)	9,052	-	-	(4,219)	4,833
	401,663,308	34,030,104	(15,097,829)	21,193,967	441,789,550
Cash deposits	2,000,000				1,700,000
Outstanding dividends, withholding taxes and interest receivable	193,759				667,079
	403,857,067				444,156,629

## b Details of investments held at year end

	2015 £	2014 £
<i>Pooled investment vehicles:</i>		
Unit Trusts		
- Property	15,843,049	15,305,960
- Other	424,153,081	383,712,594
Private Equity	1,729,731	2,569,833
Hedge Funds	58,856	65,869
	441,784,717	401,654,256

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

*Cash deposits:*

Sterling deposits	1,700,000	2,000,000
	1,700,000	2,000,000

## 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>2015</b>	<b>2014</b>
	£	£
Equitable Life Assurance Society	4,833	9,052
	<hr/>	<hr/>
	4,833	9,052

## 11 Investment management expenses

	<b>2015</b>	<b>2014</b>
	£	£
UBS	3,287	-
LGIM	309,943	289,922
Aviva	3,466	2,109
Goldman Sachs	46,889	-
BlackRock	66,429	-
Pictet	52,579	53,235
	<hr/>	<hr/>
	482,593	345,266

Investment management expenses for Goldman Sachs (excluding Vintage Fund VI and Broad Street Real Estate Credit), Aberdeen and M&G are adjusted for in the unit process 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>2015</b>	<b>2014</b>
	£	£
Income tax recoverable	-	112,147
Prepayments	42,068	36,622
Sundry debtors	-	682
Contributions receivable*	110,982	98,661
Bank account	34,468	41,871
	<hr/>	<hr/>
	187,518	289,983

\*2015, Employer £42,325, Members £15,280, PensionChoice £53,091 and AVCs £286.

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

<b>13 Current liabilities</b>	<b>2015</b>	<b>2014</b>
	£	£
Pension benefits payable	143,926	287,142
Sundry creditors	1,441	17,975
Accruals	365,888	539,581
	<hr/>	<hr/>
	511,255	844,698
	<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 2015 was £167,662 (2014: £101,886).

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

Employer related investment, via the LGIM AAA-AA-A Bonds All Stocks Index Fund and the LGIM AAA-AA-A Bonds Over 15 Years Index Fund at the year end and at any time during the year was less than 1% of the fund.