



Annual Report for the Year Ended 31 July 2017

for

**University of Manchester Superannuation
Scheme**

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for the Year Ended 31 July 2017**

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**Trustee and Advisers
for the Year Ended 31 July 2017**

CHAIR:	Mr J D Ferns
TRUSTEE BOARD:	UMSS Limited
SECRETARY TO THE TRUSTEE:	Mrs H Mawson
SPONSORING EMPLOYER:	The University of Manchester Oxford Road Manchester M13 9PL
ENQUIRIES:	Mrs H Mawson Head of Pensions The University of Manchester Pensions Office John Owens Building Oxford Road Manchester, M13 9PL UMSS@manchester.ac.uk
ACTUARY:	Mr C Cowling (FIA) JLT Benefit Solutions Ltd St James's House 7 Charlotte Street Manchester M1 4DZ
AUDITORS:	Grant Thornton UK LLP 4 Hardman Square Spinningfields Manchester Greater Manchester M3 3EB
SOLICITORS:	Walker Morris Kings Court 12 King Street Leeds LS1 2HL
INVESTMENT CONSULTANT:	Mercer Limited Belvedere 12 Booth Street Manchester M2 4AW
BANKERS:	National Westminster Bank Plc Spinningfields Square Quay Street Manchester Greater Manchester M3 3LY

**Report of the Trustee
for the Year Ended 31 July 2017**

The Trustee present their report for the year ended 31 July 2017.

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the Finance Act 2004 and the Trustee (UMSS Limited) knows of no reason why this registration might be prejudiced or withdrawn.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

University Nominated Directors	Member Elected Directors
Mr J Ferns (Chair) (appointed 1 June 2015)	Mr W Allan (Pensioners) (re-elected 17 November 2017)
Professor CT Agnew (re-appointed 16 January 2015)	Mr P Leigh (Technical Staff) (re-elected 21 October 2016)
Dr S Merrywest (re-appointed 31 March 2017)	Mr M Mullin (Manual Staff) (elected 24 April 2014)
Mrs JN Shelton (re-appointed 31 July 2015)	Mr K McDermott (Administrative Staff) (elected 10 October 2016)
Mr H Peters (appointed 1 April 2016)	

Report of the Trustee
for the Year Ended 31 July 2017

SCHEME ADVISERS

Fund and Investment Managers	Short Name	Address
Schroder Private Equity Fund of Funds II Aberdeen SVG	Aberdeen	31 Gresham Street, London , EC2V 7QA
Lime Property Fund Unit Trust Aviva Investors	Aviva	No 1 Poultry, London, EC2R 8EJ
BlackRock NTR Renewable Power Fund BlackRock Investment Management (UK) Ltd	BlackRock	12 Throgmorton Avenue, London, EC2N 2DL
Vintage Fund VI Offshore, L.P. GS Private Equity Partners 2004 Offshore Holdings, L.P. Goldman Sachs Asset Management L.P	GSAM	200 West, New York 10282 New York
Broad Street Real Estate Credit Partners II Offshore Feeder Fund L.P. Goldman Sachs & Co	GS&Co	200 West, New York 10282 New York
GS Hedge Fund Portfolio Institutional plc Goldman Sachs Asset Management International	GSAMI	Peterborough Court, 133 Fleet Street, London, EC4A 2BB
ICG - Longbow Real Estate Debt Instruments III S.a.r.l ICG – Longbow	ICG-Longbow	Juxon House, 100 St Pauls Churchyard, London, EC4M 8BU
LaSalle Real Estate Debt Strategies II GP LaSalle Investment Management	LaSalle	1 Curzon Street, London, W1J 5HD
AAA-AA-A Bonds-All Stocks Index AAA-AA-A Bonds-Over 15 years Index Cash High Yield Bond Index Linked Leverage Gilt Funds Leverage Gilt Funds LPI Property Fund Over 15 years Index-Linked Gilts Sterling Liquidity UK Equity (5% Capped) Passive World Developed Equity Index World Developed Equity Index GBP Hedged Legal & General Investment Management Ltd	LGIM	One Coleman Street, London, EC2R 5AA
M&G European Loan Fund C GBP M&G Real Estate Debt Fund II & III M&G Real Estate Debt Fund LP M&G Secured Property Fund Income Fund M&G Investment Management Ltd	M&G	Laurence Pountney Hill, London, EC4R 0HH
North Haven Credit Partners II Morgan Stanley Investment Management	Morgan Stanley	1585 Broadway, New York, New York 10036
Pictet Institutional Emerging Local Currency Debt-Z GBP Pictet Asset Management Ltd	Pictet	Moor House, 120 London Wall, London, EC2Y 5ET
Real Estate Finance Fund L.P.GAM (U.K.) Ltd Fund managed by Renshaw Bay LLP until 02/10/2015 GAM (U.K.) Ltd	Renshaw Bay	63 St James's Street, London, SW1A 1LY

**Report of the Trustee
for the Year Ended 31 July 2017**

PARTICIPATING EMPLOYERS

Employer	Participation began	Employees at 31 July 2017
The University of Manchester	22 July 1925	3,102
HECSU	1 February 1996	1
The University of Manchester Innovation Centre Ltd	1 February 1998	8
International Society	1 February 1999	6
Manchester Innovation Ltd	1 June 2003	0
Graduate Prospects Ltd	1 February 2004	22
The University of Manchester I3 Ltd	1 October 2004	36
The University of Manchester Conferences Ltd	1 February 2006	<u>294</u>
Total		<u><u>3,469</u></u>

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 £189,097 (2016: £169,029). The amount due from the University at 31 July 2017 was £nil (2016: £nil) and amounts due from participating employers at 31 July 2017 were also £nil (2016: £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, Mr M Mullin and Mr K McDermott.

FINANCIAL DEVELOPMENT

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

ACTUARIAL STATUS OF THE SCHEME

The relevant Actuarial Statements from the valuation conducted as at 31 July 2016 certified by the Scheme Actuary on 31 October 2017, appear at the end of this Report and Financial Statements.

Report of the Trustee
for the Year Ended 31 July 2017

MEMBERSHIP

Details of membership of the scheme during the year are shown below:

Active members

At start of year		3,331	
Prior year adjustments		54	
New members joining		<u>663</u>	
			4,048
Members retiring	(54)		
Deaths in service	(3)		
Transfers to other pension schemes	(15)		
Members leaving prior to pensionable age	(196)		
Members leaving with refunds	<u>(311)</u>		
			<u>(579)</u>
At end of year			3,469

Pensioners

At start of year		2,184	
Prior year adjustments		(3)	
Members retiring		58	
Deferred pensioners reaching pensionable age		50	
Spouses and dependants		<u>27</u>	
			2,316
Deaths during year		<u>(80)</u>	
At end of year			2,236

Deferred pensioners

At start of year		2,813	
Prior year adjustments		39	
Deferred pensioners during year		<u>196</u>	
			3,048
Deferred pensioners reaching pensionable age	(50)		
Deaths during year	(9)		
Transfers to other pension schemes	<u>(17)</u>		
			<u>(76)</u>
At end of year			<u>2,972</u>

Total membership at 31 July 2017

8,677

The prior year adjustments relate to the timing of the person leaving/joining the scheme and when the reports are run. Previously the reports were not picking up people dated into previous periods, this has now been rectified and going forward although there will still be timing issues year on year.

PENSION INCREASES

Increases were made on 1 April 2017 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 2.5% for benefits earned before 1 April 2012 (matching the rise in the Retail Prices Index over the 12 months to 31 December 2016) and 1.6% on benefits earned after 31 March 2012 (matching the rise in the Consumer Prices Index over the 12 months to 31 December 2016).

**Report of the Trustee
for the Year Ended 31 July 2017**

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 2 (2016:4) and the number of individual transfers out was 32 (2016: 21).

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 Trustee 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.

With effect from 15 April 2016, on actuarial advice, UMSS ceased to participate in the Public Sector Transfer Club.

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 on-going 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.

Further details in respect of contributions are detailed on page 19 and in note 2.

CHANGE IN THE FUND

At the beginning of the year the total net assets of the Scheme were £500,694,157. As a result of net additions from dealings with members of £9,672,767 and net returns on investments of £43,136,027 the net assets of the Scheme had a market value of £553,502,951 as at 31 July 2017.

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.

**Report of the Trustee
for the Year Ended 31 July 2017**

**INVESTMENT MANAGEMENT
THE FUND**

The investments comprising the fund of UMSS have been managed during the year by the investment managers listed on page 3.

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 manages equities, bonds, LDI and cash on behalf of the Scheme. These assets comprised around 68% of the Scheme's assets at the year-end, which is around 3% higher 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 £12.0m in total as at 31 July 2017 out of a commitment of £15.0m. At the same date the Longbow fund had drawn down approximately £13.8m out of a commitment of £15.0m, while the LaSalle fund had drawn down £13.0m out of a commitment of £15.0m, and the GAM fund had drawn down £14.1m out of a commitment of £15.0m. Finally the GS&Co fund had drawn down \$12.7m out of a commitment of \$20.0m.

The Scheme holds a small investment in a fund of hedge funds vehicle 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.

Report of the Trustee
for the Year Ended 31 July 2017

INVESTMENT MANAGEMENT – continued

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.

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 2017, first by manager and then by asset class.

Manager	Market Value (£000's)	(%)
LGIM (Main)	364,317	68.3
Aviva	16,607	3.1
LGIM (Property)	25,336	4.8
GSAM, GS&CO, GSAMI	14,956*	2.8
Aberdeen SVG	284*	0.1
M&G	49,030*	9.2
Pictet	12,350	2.3
ICG Longbow	10,284*	1.9
Blackrock	16,075*	3.0
LaSalle	8,750*	1.6
GAM	8,443*	1.6
Morgan Stanley	7,132*	1.3
Total	533,564	100.0

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

* Assets values as at 30 June 2017 / 31 March 2017 (allowing for subsequent cash flows) due to infrequency of valuations of illiquid assets. All foreign currencies converted to sterling as at 31 July 2017 FX rates.

Asset Class	Market Value(£000's)	(%)
Global Equities	190,782	35.8
Liability Driven Investments (LDI)	143,325	26.9
High Yield Bonds	20,002	3.7
Secured Income Property	66,935	12.5
Hedge Funds	11*	0
Private Equity	9,666	1.8
Secured Loans	22,734*	4.3
Emerging Market Debt	12,350	2.3
Real Estate Debt	41,476*	7.8
Cash/Money Market	10,207	1.9
Infrastructure	16,076	3.0
Total	533,564	100.0

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

* Assets values as at 30 June 2017 / 31 March 2017 (allowing for subsequent cash flows) due to infrequency of valuations of illiquid assets. All foreign currencies converted to sterling as at 31 July 2017 FX rates.

As at 31 July 2017, excluding AVC investments and short term deposits in bank accounts, the Scheme's assets were valued at £533,564,134. Exposure to equities was 35.8%, LDI was 26.9%, property was 12.5%, cash was 1.9% and 22.9% to 'alternative' investments, which includes high yield debt, secured loans, hedge funds, private equity, infrastructure, emerging market debt and real estate debt.

**Report of the Trustee
for the Year Ended 31 July 2017**

INVESTMENT MANAGEMENT - continued

INVESTMENT REVIEW

Over the 12 month period to 31 July 2017, growth assets posted strong returns with equity markets in particular continuing to surge on the back of generally positive economic data and the largely accommodative monetary policies of the world's major central banks. Defensive assets did not experience the same level of positive returns across the board, with yield rises in some regions leading to negative returns for some bond assets. A number of key political events including the aftermath of the UK referendum result, the unexpected victory for Donald Trump in the US Presidential Election in November 2016 and the UK General Election in June 2017 led to some market volatility during the period, though this was generally contained. Overall the year has seen very low levels of market volatility.

In the UK, despite the triggering of Article 50 in March 2017 by Prime Minister Theresa May there remains significant political and economic uncertainty surrounding the nature of the UK's exit from the European Union. The General Election in June 2017, which resulted in a hung parliament, served to further bolster these uncertainties. Economists now forecast UK real GDP growth for 2017 to be 1.6% (compared with forecasts of 2.2% prior to the referendum) while inflation, as measured by the change in the Consumer Price Index, is expected to be 2.9% - reflecting the depreciation of sterling.

Financial markets continue to be sensitive to the actions of the world's major central banks. In the US, the Federal Reserve Bank (the "Fed") increased its target rate by 0.25% at each of its December, March and June meetings and noted plans for reducing the size of its balance sheet going forward. Elsewhere, in Europe economic sentiment continued to strengthen, suggesting the economic recovery is gathering momentum. Following the European Central Bank's ("ECB") announcement in December 2016 that its extended Quantitative Easing programme would continue until December 2017 at the earliest, albeit at a slightly reduced pace of asset purchases, it announced in March 2017 that further stimulus to this is unlikely to be needed in the near term. In the UK, subdued growth expectations culminated in further loosening of monetary policy by the Bank of England in August 2016, which led to a downward shift in government bond yields though this was later revised. The Bank of Japan announced an explicit shift to yield curve targeting in September 2016, whilst market sentiment and investor confidence appears to be growing. Emerging markets benefitted from positive economic and corporate momentum and saw capital inflows over the year.

Equities

At a global level, developed markets as measured by the FTSE World Index, returned 18.5%, meanwhile a return of 22.4% was recorded by the FTSE AW Emerging Markets Index.

At a regional level, European markets returned 24.6% as indicated by the FTSE World Europe ex UK Index. UK stocks as measured by the FTSE All Share Index returned 14.9%. The FTSE USA Index returned 17.1%, while the FTSE Japan Index returned 16.1%. Equity market total return figures are in sterling terms over the year to 31 July 2017.

Fixed interest

UK Government Bonds as measured by the FTSE Gilts All Stocks Index returned -2.5%, while long dated issues as measured by the corresponding Over 15 Year Index returned -5.0%.

The FTSE All Stocks Index Linked Gilts Index returned 3.9% with the corresponding Over 5 Year Index returning 4.1%.

Corporate debt as measured by the Bank of America Merrill Lynch Sterling Non Gilts Index returned 1.2%.

Bond market total return figures are in sterling terms over the year to 31 July 2017.

Property

UK property investors continued to benefit from the improving property market. Over the 12 month period to 31 July 2017, the IPD UK All Property Index returned 8.4%.

Currencies

Over the year to 31 July 2017, Sterling fell c.0.7% against the US Dollar from \$1.33 to \$1.32. Sterling appreciated c.7.1% against the Yen from ¥136.07 to ¥145.67, and also depreciated against the Euro by c.5.8% from €1.19 to €1.12 over the same period.

**Report of the Trustee
for the Year Ended 31 July 2017**

INVESTMENT MANAGEMENT - continued

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, high yield bonds, LDI and cash, gross of fees) and also the total assets (main portfolio plus alternative asset classes, net of fees) over 1, 3 and 5 years to 30 June 2017 are set out in the table below:

	1 Year Fund (%)	3 Years Fund (%)	5 Years Fund (%)
Main Portfolio	14.8	9.3	9.9
Total Assets	12.8	9.2	9.3

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 and LGIM LPI Property returned 7.4%, 6.7% and 7.5% respectively over the twelve months to 30 June 2017 (all net of manager fees - source: Investment Managers / Mercer calculations).

Alternative Assets

The secured loans fund managed by M&G returned 6.4% and the emerging markets debt fund managed by Pictet returned 7.4% over the same period (again, both net of fees).

RESPONSIBLE INVESTMENT AND CORPORATE GOVERNANCE

The Trustee believes that good stewardship and environmental, social and governance (ESG) issues may have a material impact on investment returns. The Trustee has 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.

VOLUNTARY CODE OF BEST PRACTICE

The Myners principles codify best practice in investment decision-making. Whilst compliance with the principles is voluntary, pension fund Trustee 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 Trustee.

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 Trustee 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.

**Summary of Contributions Payable
During the Scheme Year Ended 31 July 2017**

£

Contributions payable under the Schedule of Contributions

Employer

Normal	2,636,500
Deficit funding	6,120,000
PensionChoice	16,648,515

Employee

Normal	816,295
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Total contributions payable under the Schedule	26,221,310
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Other contributions

Additional voluntary contributions	36,442
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Total contributions payable to the Scheme	<u>26,257,752</u>
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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 2017. The scheme auditor reports on contributions payable under the Schedule in the Auditor's Statement about Contributions.

As at 31 July 2017, 82% of members used PensionChoice to fund their membership of UMSS.

In all material respects, contributions payable were paid in accordance with the Schedule of Contributions dated 16 July 2014.

Signed on behalf of the Trustee:

.....
UMSS Limited

Date:

**Trustee's Responsibilities Statement
for the Year Ended 31 July 2017**

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', are the responsibility of the trustee. Pension scheme regulations require UMSS Ltd 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 its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement as to whether the financial statements have been prepared in accordance with the Statement of Recommended Practice "Financial Reports of Pension Schemes."

UMSS Ltd has supervised the preparation of the financial statements and have agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

UMSS Ltd is also responsible for making available certain other information about the scheme in the form of an Annual Report.

UMSS Ltd 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 employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. UMSS Ltd is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the employers in accordance with the Schedule of Contributions and with the Scheme rules and recommendations of the actuary. Where breaches of the schedule occur, UMSS Ltd is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pension Regulator and the members.

UMSS Ltd 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 an appropriate system of internal control.

**Report of the Independent Auditors to the Trustee of
University of Manchester Superannuation
Scheme**

Opinion

We have audited the financial statements of University of Manchester Superannuation Scheme for the year ended 31 July 2017 which comprise the fund account, the statement of net assets and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

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 2017, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the scheme's 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustee has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Trustee are responsible for the other information. The other information comprises the information included in the annual report set out on pages 2 to 12 and 28 to 30, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Trustee for the financial statements

As explained more fully in the Trustee's responsibilities statement set out on page 12, the scheme's Trustee are responsible for the preparation of financial statements which show a true and fair view, and for such internal control as the Trustee determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee are responsible for assessing the pension scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intend to liquidate the scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester

Date:

**Statement of the Independent Auditors about Contributions
under Regulation 4 of The Occupational Pension Schemes
(Requirement to obtain Audited Accounts and a Statement
from the Auditor) Regulations 1996 to the Trustee of
University of Manchester Superannuation
Scheme**

We have examined the Summary of Contributions to University of Manchester Superannuation Scheme ('the Scheme'), for the scheme year ended 31 July 2017, to which this statement is attached.

Who we are reporting to

This statement is made solely to the pension scheme's trustee, as a body, in accordance with Pension 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 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 audit work, for this statement, or for the opinions we have formed.

Respective responsibilities of Trustee and auditors

As explained more fully in the Trustee's Responsibilities Statement set out on page 12, the scheme's trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions 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 an 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 2017 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

Date:

Statement of Changes in Net Assets Available for Benefits
for the Year Ended 31 July 2017

	Notes	2017 £	2016 £
CONTRIBUTIONS AND BENEFITS			
Employer contributions		25,405,015	25,023,889
Employee contributions		<u>852,737</u>	<u>870,755</u>
Total contributions	2	26,257,752	25,894,644
Transfers in	3	132,754	64,471
Other income	4	<u>216,728</u>	<u>282,471</u>
		26,607,234	26,241,586
Benefits paid or payable	5	(13,323,253)	(14,308,214)
Payments to and on account of leavers	6	(1,737,160)	(540,905)
Other payments	7	(684,589)	(293,498)
Administrative expenses	8	<u>(1,189,465)</u>	<u>(964,582)</u>
		(16,934,467)	(16,107,199)
Net additions from dealings with members		<u>9,672,767</u>	<u>10,134,387</u>
RETURNS ON INVESTMENTS			
Investment income	9	10,342,289	8,366,970
Change in market value of investments	11	35,072,414	39,388,848
Investment management expenses	10	<u>(2,278,676)</u>	<u>(1,028,940)</u>
Net returns on investments		<u>43,136,027</u>	<u>46,726,878</u>
NET INCREASE IN THE FUND DURING THE YEAR		52,808,794	56,861,265
NET ASSETS OF THE SCHEME			
AT 1 AUGUST 2016		<u>500,694,157</u>	<u>443,832,892</u>
AT 31 JULY 2017		<u>553,502,951</u>	<u>500,694,157</u>

Statement of Net Assets Available for Benefits

31 July 2017

	Notes	2017 £	2016 £
INVESTMENT ASSETS			
Pooled investment vehicles	13	533,564,134	494,338,739
AVC investments	14	-	4,843
Cash		7,708,593	5,932,342
Other investment balances		<u>638,399</u>	<u>463,869</u>
		541,911,126	500,739,793
Current assets	17	13,121,884	1,766,395
Current liabilities	18	<u>(1,530,059)</u>	<u>(1,812,031)</u>
NET ASSETS OF THE SCHEME AT 31 JULY 2017		<u>553,502,951</u>	<u>500,694,157</u>

The financial statements 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 actuarial position of the scheme, which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities on pages 29 and 30, and these financial statements should be read in conjunction with that Report.

These financial statements were approved by the Trustee on

Signed on behalf of the Trustee:

.....
UMSS Limited

**Notes to the Financial Statements
for the Year Ended 31 July 2017**

1. **ACCOUNTING POLICIES**

Basis of preparing the financial statements

The financial statements set out on pages 16 and 17 have been prepared in accordance with the Occupational Pension Schemes (Requirement to Obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and with the guidelines set out in the Statement of Recommended Practice (SORP), Financial Reports of Pension Schemes (revised November 2014). This is the first year that FRS 102 and the revised SORP have been applied to the scheme's financial statements.

Contributions

Employee contributions, including AVCs, are accounted for by the Trustee when they are deducted from pay by the Employer, except for the first contribution due where the employee has been auto-enrolled by the Employer, in which case it is accounted for when received by the scheme.

Employer normal contributions that are expressed as a rate of salary are accounted for on the same basis as employee contributions, in accordance with the Schedule of Contributions in force during the year.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the Schedule of Contributions or on receipt if earlier with the agreement of the Employer and the Trustee.

Employer S75 debt contributions are accounted for when a reasonable estimate of the amount due can be determined.

Payments to members

Pensions in payment are accounted for in the period to which they relate.

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, they are accounted for on the date of retirement or leaving.

Opt-outs are accounted for when the Scheme is notified of the opt-out.

Individual transfers in and out of the Scheme are accounted for when member liability is accepted or discharged which is normally when the transfer amount is paid or received.

Expenses

Expenses are accounted for on an accruals basis.

Investment income

Income from pooled investment vehicles is accounted for when declared by the fund manager.

Change in market value of investments

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Investments

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.

Notes to the Financial Statements
for the Year Ended 31 July 2017

1. ACCOUNTING POLICIES - continued

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.

2. CONTRIBUTIONS

	2017 £	2016 £
Employer contributions		
Normal	2,636,500	2,769,779
Deficit funding	6,120,000	6,120,000
PensionChoice	<u>16,648,515</u>	<u>16,134,110</u>
	<u>25,405,015</u>	<u>25,023,889</u>
Employee contributions		
Normal	816,295	855,514
Additional voluntary contributions	<u>36,442</u>	<u>15,241</u>
	<u>852,737</u>	<u>870,755</u>
Total contributions	<u>26,257,752</u>	<u>25,894,644</u>

PensionChoice contributions are made under the salary exchange arrangement introduced on 1 June 2009. Further details are provided on pages 6 and 11 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 £120,000 (2016: £120,000) were made during the year by Graduate Prospects Limited.

3. TRANSFERS IN

	2017 £	2016 £
Individual transfers in from other schemes	<u>132,754</u>	<u>64,471</u>

4. OTHER INCOME

	2017 £	2016 £
Claims on term insurance policies	<u>216,728</u>	<u>282,471</u>

**Notes to the Financial Statements
for the Year Ended 31 July 2017**

5.	BENEFITS PAID OR PAYABLE	2017	2016
		£	£
	Pensions	10,717,326	10,365,735
	Lump sum death benefits	216,728	330,954
	Lump sums on retirement	2,389,199	3,414,833
	Ill health benefits	-	196,692
		<u>13,323,253</u>	<u>14,308,214</u>
6.	PAYMENTS TO AND ON ACCOUNT OF LEAVERS	2017	2016
		£	£
	Refunds of contributions in respect of non-vested leavers	100,229	39,482
	Individual transfers out to other schemes	1,623,866	496,158
	Income tax on refunds to members	13,065	5,265
		<u>1,737,160</u>	<u>540,905</u>
7.	OTHER PAYMENTS	2017	2016
		£	£
	Premiums on term insurance policies	574,759	251,541
	State scheme premiums	109,830	41,957
		<u>684,589</u>	<u>293,498</u>
8.	ADMINISTRATIVE EXPENSES	2017	2016
		£	£
	Administration and processing	189,097	169,029
	Actuarial fee	132,598	99,034
	Audit fee	22,880	19,200
	Legal fees	9,540	15,940
	Investment consultancy fees	137,717	154,001
	Computer costs	94,888	36,470
	PLSA subscriptions	2,515	24,649
	PPF levy	558,499	401,765
	Bank charges	699	587
	Communication consultancy	34,996	34,401
	Miscellaneous	6,036	9,506
		<u>1,189,465</u>	<u>964,582</u>
9.	INVESTMENT INCOME	2017	2016
		£	£
	Income from pooled investment vehicles	10,316,516	8,348,686
	Interest on cash deposits	25,773	18,284
		<u>10,342,289</u>	<u>8,366,970</u>

**Notes to the Financial Statements
for the Year Ended 31 July 2017**

10. INVESTMENT MANAGEMENT EXPENSES

	2017	2016
	£	£
Administration, management and custody	<u>2,278,676</u>	<u>1,028,940</u>

In previous years 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 price of the investments as a result these would have been included in the change in market valuation. In a change in the management of the funds Goldman Sachs and M&G investment managers no longer offset their fees within the valuation of the fund hence the increase in expenses compared to prior year.

11. RECONCILIATION OF INVESTMENTS

	Value at 1/8/16	Purchases at cost	Sales proceeds	Change in market value	Value at 31/7/17
	£	£	£	£	£
Pooled investment vehicles	494,338,739	72,320,341	(68,172,203)	35,077,257	533,564,134
AVC investments	<u>4,843</u>	-	-	<u>(4,843)</u>	-
	<u>494,343,582</u>	<u>72,320,341</u>	<u>(68,172,203)</u>	<u>35,072,414</u>	533,564,134
Cash	5,932,342				7,708,593
Other investment balances	<u>463,869</u>				<u>638,399</u>
	<u>500,739,793</u>				<u>541,911,126</u>

12. TRANSACTION COSTS

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.

13. POOLED INVESTMENT VEHICLES

	2017	2016
	£	£
Equity	190,782,288	162,847,001
Bonds	20,002,050	37,939,177
Property	108,410,343	113,212,534
Hedge funds	10,955	31,052
Other	60,825,763	57,793,054
Liability Driven Investments (LDI)	143,325,070	104,474,613
Cash Instruments	<u>10,207,665</u>	<u>18,041,308</u>
	<u>533,564,134</u>	<u>494,338,739</u>

14. 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.

	2017	2016
	£	£
AVC investments	<u>-</u>	<u>4,843</u>

Notes to the Financial Statements
for the Year Ended 31 July 2017

15. FAIR VALUE DETERMINATION

Early adoption:

In March 2016, amendments were made to FRS 102 revising the disclosure requirements for financial institutions and retirement benefit plans with respect to the fair value hierarchy disclosure. Schemes shall apply these amendments for accounting periods commencing on or after 1 January 2017, however early adoption is permitted. The Trustee have chosen to early adopt the amendments. The SORP will require amendment in due course, however amendments will not be necessary before any changes to FRS102 can take effect. This is because a change in accounting standards after a SORP has been issued means that any inconsistent provisions of a SORP cease to have effect.

Levels:

The fair value of financial instruments has been estimated using the following fair value hierarchy:

Level 1 The unadjusted quoted price in an active market for identical assets or liabilities that the Scheme can access at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset, either directly or indirectly.

Level 3 Inputs are unobservable (i.e. for which market data is unavailable) for the asset.

The scheme's investment assets have been fair valued using the above hierarchy categories as follows:

	Level 1 £	Level 2 £	Level 3 £	2017 Total £
Pooled investment vehicles	-	533,564,134	-	533,564,134
AVC investments	-	-	-	-
Cash	7,708,593	-	-	7,708,593
Other investment balances	638,399	-	-	638,399
	<u>8,346,992</u>	<u>533,564,134</u>	<u>-</u>	<u>541,911,126</u>

	Level 1 £	Level 2 £	Level 3 £	2016 Total £
Pooled investment vehicles	-	494,338,739	-	494,338,739
AVC investments	-	4,843	-	4,843
Cash	5,932,342	-	-	5,932,342
Other investment balances	463,869	-	-	463,869
	<u>6,396,211</u>	<u>494,343,582</u>	<u>-</u>	<u>500,739,793</u>

**Notes to the Financial Statements
for the Year Ended 31 July 2017**

16. INVESTMENT RISK DISCLOSURES

Financial Reporting Standard ("FRS") 102 requires the disclosure of information in relation to certain investment risks to which the Scheme is exposed to at the end of the reporting period. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises four types of risk: currency risk, interest rate risk, inflation rate risk and other price risk, each of which is further detailed as follows:

- Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

- Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.

- Inflation rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in actual or expected levels of inflation.

- Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk, inflation rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee has produced a Statement of Investment Principles ("SIP") in accordance with Section 35 of the Pensions Act 1995. A copy of the Statement can be downloaded from www.umss.co.uk and is available on request. A key objective of the Trustee is to invest the Scheme's assets in the best interests of the members and beneficiaries. To achieve this in a risk controlled way, the Scheme's investments are diversified, both by type of investment (equities, bonds, property etc), geography and by exposure to different investment management firms.

The Scheme has exposure to the above risks because of the investments it makes to implement its investment strategy. The Trustee manages its investment risks taking into account the Scheme's strategic investment objectives. The investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolios.

Further information on the Trustee's approach to risk management, credit and market risk is set out below. This does not include the legacy insurance policies nor AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

Notes to the Financial Statements
for the Year Ended 31 July 2017

16. INVESTMENT RISK DISCLOSURES - continued

Investment strategy

The Scheme's invested assets as at 31 July 2017 and 31 July 2016 are detailed in the table below.

	31 July 2017 (£m)	31 July 2016 (£m)
Equities	216.6	188.5
Global Equities	190.8	162.8
Private Equity	9.7	9.0
Infrastructure	16.1	16.7
Growth Fixed Income Assets	163.5	163.1
Secured Income Property	66.9	62.9
Hedge Funds	0.0	0.0
High Yield Bonds	20.0	17.8
Emerging Market Debt	12.4	11.6
Secured Loans and Private Debt	22.7	20.5
Real Estate Debt	41.5	50.3
Matching Assets	153.5	142.7
Corporate Bonds	-	20.1
Liability Driven Investments (LDI)	143.3	104.5
Cash/Money Market	10.2	18.1
Total	533.6	494.3

Source: Investment Managers. Figures may not sum due to rounding. Some illiquid holdings are not valued monthly; as a result assets values as at 30 June / 31 March (allowing for subsequent cash flows) have been due to infrequency of valuations of illiquid assets. All foreign currencies converted to sterling as at 31 July FX rates.

Investment Strategy

The Scheme's investment strategy (the target proportions of the Scheme to be invested across the principal market sectors of equities, bonds etc) is agreed by the Trustee after taking appropriate advice, and is set with the aim of meeting the Scheme's investment objectives.

The Trustee's objective is to invest the Scheme's assets in the best interests of the members and beneficiaries, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries.

Within this framework, the Trustee is aiming to generate an investment return, over the long term, above that of the actuarial assumptions under which the funding plan has been agreed.

Subject to complying with the agreed strategy, the day-to-day management of the Scheme's asset portfolio is delegated by the Trustee to professional investment managers.

Given the investment objectives the Trustee has agreed to implement an investment strategy that allocates around 35% to Equities, 35% to Growth Fixed Income Assets and 30% to Matching Assets as detailed in the table below.

Notes to the Financial Statements
for the Year Ended 31 July 2017

16. INVESTMENT RISK DISCLOSURES - continued

	Target Allocation %	Normal Ranges %
Equities	35	25 – 45
Growth Fixed Income Assets	35	25 – 45
Matching Assets	30	20 – 40
Total	100	

Equities (or growth assets) are assets that generate expected returns above risk free rates through holding shares in listed and unlisted companies. These include public and private equities, and infrastructure.

Growth Fixed Income Assets (or cashflow generative assets) are those that typically generate inflation-linked cash flows, similar to the Scheme's liabilities, but also offer a yield above gilts. These include high yield bonds, emerging market debt, private debt, secured loans, real estate debt, and secured income property.

Matching Assets (or defensive assets) are those that share some characteristics with the liabilities. These include liability driven investments (LDI) and cash.

Credit risk

The Scheme is subject to credit risk as the Scheme invests in pooled investment vehicles, such as open ended investment companies, close ended investment companies and unit linked insurance contracts, and is therefore directly exposed to credit risk in relation to these pooled investment vehicles. The Scheme is also subject to credit risk from its cash balances that it holds with NatWest. The Scheme is also indirectly exposed to credit risks arising on some of the financial instruments held by pooled investment vehicles.

Direct Credit Risk

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements.

The Scheme's holdings in pooled investment vehicles are not rated by credit rating agencies. The Trustee manages and monitors the credit risk arising from its pooled investment arrangements by considering the nature of the arrangement, the legal structure and regulatory environment.

The Trustee carries out due diligence checks on the appointment of any new pooled investment managers and monitors any changes to the regulatory and operating environment of the pooled managers.

Indirect Credit Risk

Indirect credit risk arises in relation to underlying investments held in pooled investment vehicles which invest in a variety of debt and property related instruments, including Liability Driven Investments, Corporate Bonds, High Yield Debt, Secured Loans, Real Estate Debt and Emerging Market Debt.

The Trustee invests in pooled funds which hold credit related instruments with a view to adding value and indirect credit risk is mitigated through diversification of underlying security, investment manager and credit issuer to minimise the impact of default by any one issuer. Within the Liability Driven Investment Funds, credit risk is reduced by investing in government bonds, where the credit risk is minimal, and through the use of collateral arrangements for non-physical exposures.

As at 31 July 2017, these mandates represented 45.0% (2016: 45.5%) of the total invested assets.

Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are denominated in overseas currencies via pooled investment vehicles. The Trustee operates a policy of hedging a portion of non-Sterling currency exposure as appropriate, where it is possible to do so and where this risk is judged to be material. Currency hedging is carried out via pooled investment vehicles and the management of currency risk is delegated to the appointed managers and is managed within each manager's overall risk framework.

**Notes to the Financial Statements
for the Year Ended 31 July 2017**

16. INVESTMENT RISK DISCLOSURES - continued

The Scheme is exposed to currency risk via its investment in pooled investment vehicles which invest in global equity, private equity, infrastructure, high yield bonds, emerging market debt, secured loan funds as well as real estate debt funds with underlying investments denominated in foreign currencies.

The Scheme hedges half of the currency risk present in the allocation to global equity, the currency risk from the holdings of the high yield fund are predominately hedged back to sterling and currency risk remains unhedged on other asset class exposures.

As at 31 July 2017, 53.5% (2016: 55.0%) of the total investment portfolio had exposure to currency risk. However, half of the global equity exposure is hedged back to sterling, and so the net currency exposure is 35.2% (2016: 34.7%).

Interest rate risk

The Scheme is subject to interest rate risk because some of the Scheme's investments are sensitive to changes in interest rates.

The Trustee has set a benchmark of 35% of the total investment portfolio for growth fixed income assets which comprises higher yielding assets (such as high yield bonds, emerging market debt, private debt, secured loans, real estate debt, and secured income property) and a benchmark of 30% for matching assets which comprises LDI and cash. All of these assets are sensitive to changes in interest rates to some degree. As at 31 July 2017 the Scheme's liability driven investments mandate hedges c.47% of the Scheme's liability against movements in interest rates and inflation when measured on the Scheme's Technical Provisions basis.

For each of the above named investments, if interest rates fall, the value of investments will rise to help offset the increase in the present value of the actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the above named investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate.

The Trustee monitors the level of assets available within the LDI portfolio for use as collateral and operates a framework to ensure that if gilt yields rise then additional cash can be provided in a timely manner, should it be required.

As at 31 July 2017, growth fixed income assets represented 30.6% (2016: 33.0%) and matching assets represented 28.8% (2016: 28.8%) of the total investment portfolio respectively

Other price risk

Other price risk arises principally in relation to the Scheme's global equity, private equity, infrastructure, hedge funds and secured income property, held through underlying investments in pooled investment vehicles.

The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

As at 31 July 2017, these assets represented 53.1% (2016: 50.9%) of the total investment portfolio.

Inflation rate risk

The Scheme is subject to inflation rate risk because some of the Scheme's investments are sensitive to changes in actual or expected future inflation rates.

The LDI portfolio and the secured income property portfolio are exposed to inflation risk. If actual or expected future inflation increase, the value of these assets will rise to help match the increase in actuarial liabilities arising from the increase. Similarly, if actual or expected future inflation expectations fall, the LDI portfolio and the secured income property portfolio will fall in value, as will the actuarial liabilities. As at 31 July 2017 the Scheme's liability driven investments mandate hedges c.47% of the Scheme's liability against movements in interest rates and inflation when measured on the Scheme's Technical Provisions basis.

As at 31 July 2017, secured income property represented 12.5% (2016: 12.7%) and LDI assets represented 26.9% (2016: 21.1%) of the total investment portfolio respectively.

**Notes to the Financial Statements
for the Year Ended 31 July 2017**

17. CURRENT ASSETS

	2017	2016
	£	£
Contributions due - employer	177,001	188,633
Contributions due - employee	61,442	65,905
Cash balances	11,472,045	126,231
Contributions due – PensionChoice	1,384,876	1,346,832
Contributions due - AVC's	1,725	1,788
Prepayments	<u>24,795</u>	<u>37,006</u>
	<u>13,121,884</u>	<u>1,766,395</u>

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

18. CURRENT LIABILITIES

	2017	2016
	£	£
Unpaid benefits	1,076,348	1,709,661
Accrued expenses	413,990	91,026
Sundry creditors	<u>39,721</u>	<u>11,344</u>
	<u>1,530,059</u>	<u>1,812,031</u>

19. RELATED PARTY DISCLOSURES

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 2017 was £189,097 (2016: £169,029).

Actuary's Certification of Schedule of Contributions

Name of scheme: University of Manchester Superannuation Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 July 2016 to be met by the end of the period specified in the recovery plan dated 31 October 2017.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 31 October 2017.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of the adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Mr C Cowling (FIA)

JLT Benefit Solutions Ltd
St James's House
7 Charlotte Street
Manchester
M1 4DZ

Date:

**Report on Actuarial Liabilities
(forming part of the Report of the Trustee)
for the Year Ended 31 July 2017**

As required by Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), the financial statements do not include liabilities in respect of promised retirement benefits.

Under Section 222 of the Pensions Act 2004, every scheme is subject to the statutory funding objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the employer and set out in the statement of funding principles, which is available to scheme members on request.

The most recent full actuarial valuation of the scheme was carried out on 31 July 2016. This showed that on that date:

The value of the technical provisions was: £708,100,000.

The value of the assets at that date was: £500,700,000.

This corresponds to a deficit of £207,400,000 and a funding level of 71%.

There has since been an updated valuation carried out as at 31 July 2017 which showed that the accumulated assets of the scheme now represent 74% of the technical provisions at this date.

The value of the technical provisions is based on pensionable service to the valuation date and assumptions about various factors that will influence the scheme in the future, such as the levels of investment returns and pay increases, when members will retire and how long members will live.

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the appendix to the statement of funding principles):

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

Note, the "gilt yield" referenced in the discount rate assumptions below refers to the annualised yield on the FTSE Actuaries' Government Securities 20 Year Fixed Interest Yield Index rounded to the nearer 0.1% per annum.

Past service discount interest rate: set by reference to the gilt yield plus 1.4% per annum decreasing linearly to the gilt yield plus 1.0% per annum over 20 years.

Future service discount interest rate: set by reference to the gilt yield at the valuation date plus 1.6% per annum.

Future Retail Price inflation (RPI): calculated using the Bank of England's implied inflation spot curve at a term of 20 years, rounded to the nearer 0.1% per annum, less a deduction of 0.1% per annum to reflect the "inflation risk premium" for fixed interest gilts and the high demand/low supply of index linked gilts relative to fixed interest gilts.

Future Consumer Price inflation (CPI): calculated from the assumption for RPI less an adjustment equal to 1.0% per annum.

Deferred pension revaluation: elements of pension in deferment which have future revaluation in line with RPI subject to a maximum of 5% per annum will be calculated as revaluing at the assumed rate of RPI inflation, subject to a minimum assumption of 0% per annum and a maximum assumption of 5% per annum.

Elements of pension in deferment which have future revaluation in line with CPI subject to a maximum of 5% per annum will be calculated as revaluing at the assumed rate of CPI inflation, subject to a minimum assumption of 0% per annum and a maximum assumption of 5% per annum.

Pension increases: elements of members' pensions which increase in payment in line with RPI subject to a maximum of 5% per annum will be taken to increase at the assumed rate of RPI growth, subject to a minimum assumption of 0% per annum and a maximum assumption of 5% per annum.

**Report on Actuarial Liabilities
(forming part of the Report of the Trustee)
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Pensions which increase in payment in line with CPI subject to a maximum of 5% per annum will be taken to increase at the assumed rate of CPI growth, subject to a minimum assumption of 0% per annum and a maximum assumption of 5% per annum.

Pensions which increase in payment in line with CPI subject to a maximum of 3% per annum will be taken to increase at the assumed rate of CPI growth, subject to a minimum assumption of 0% per annum and a maximum assumption of 3% per annum.

Pay increases: the rate of pensionable salary increase (inclusive of promotional increases) will be calculated in line with the RPI assumption plus 0.75% per annum.

Mortality: no allowance will be made for pre-retirement mortality.

The basis adopted for the valuation in respect of post retirement mortality was: Base mortality table - 100% of the mortality rates in the standard tables S2PMA for males and S2PFA for females, projected to the valuation date in line with the approach below.

Allowance for future improvements: CMI core projection model with a 1.5% per annum long term projected rate of improvement (CMI_2016 [1.5%]), using a year of birth approach.

Withdrawals: allowance will be made for members leaving the scheme.

Ill health early retirements: allowance will be made for active members to retire early from the scheme due to ill health.