UNIVERSITY OF ABERDEEN

University of Aberdeen Superannuation & Life Assurance Scheme

Annual Report for the Year ended 31 July 2017

Scheme Registration Number 10052894

Annual Report
For the Year ended 31 July 2017

This Report relates to the operation of the University of Aberdeen Superannuation and Life Assurance Scheme ("the Scheme") during the year ended 31 July 2017.

The Report has been prepared in accordance with Regulations made under Section 41 of the Pensions Act 1995 and consists of the following Parts: -

Annual Report
For the Year ended 31 July 2017

Part 1: Trustees' Report

a) SCHEME ADVISERS

The Trustees retain a number of professional advisers in connection with the operation of the Scheme. The advisers currently appointed are as follows:

Actuary	Mr Jonathan Seed Xafinity Consulting Ltd Scotia House Castle Business Park Stirling FK9 4TZ
Scheme Consultants	Xafinity Consulting Ltd Scotia House Castle Business Park Stirling FK9 4TZ
Administrator	Equiniti Pension Solutions Prudential Scotia House Castle Business Park Stirling FK9 4TZ
Auditor	KPMG LLP 319 St Vincent Street Glasgow G2 5AS
AVC Providers	Prudential Scotia House Castle Business Park Stirling FK9 4UE
Annuity Provider	Prudential Scotia House Castle Business Park Stirling FK9 4UE

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Investment Managers	Legal & General Investment Management One Coleman Street London EC2R 5AA
Life Assurer	Canada Life 3 Rivergate Temple Quay Bristol BS1 6ER
Lawyer	Pinsent Masons 131 Bothwell Street Glasgow G2 7EQ
Banker	Bank of Scotland plc 39 Albyn Place Aberdeen AB10 1YN
Contact for further information & enquiries about the scheme	Pensions Office Finance Section King's College Aberdeen AB24 3FX e-mail: pensions@abdn.ac.uk

b) REVIEW OF THE MANAGEMENT AND DEVELOPMENT OF THE SCHEME

1.1. Introduction

This report relates to the operation of the Scheme during the year ended 31 July 2017. Membership of the Scheme is open to all eligible employees of the University who are over age 18. The Scheme provides benefits on a member's retirement or death based on the member's earnings at that time, in accordance with the Scheme rules. This report is addressed primarily to the Scheme's members, but any eligible employees who are interested in joining the Scheme should contact the Pensions Office at the address given on page 4.

1.2. Management of the Scheme

During the year under review the Trustees of the Scheme have been as follows:

Ms Jacquelynn Craw	Independent Chairwoman
Mrs Caroline Inglis	University Secretary
Mr David Beattie	Director of Finance
Mr Mark Whittington	University Court nominated
Mrs Diane Massie	Member-nominated
Mr David Walton	Member-nominated

The power to appoint and remove Trustees is vested in the University Court. Trustee appointments will cease if the Trustee ceases to be a member of the Scheme or resigns from the University.

The Trustee body includes two membership representative Trustees elected by the active members of the Scheme. The arrangements for appointing membership representatives comply with the Member Nominated Trustee requirements of the Pensions Act 2004.

Trustees are invited to attend Trustee meetings at which a minimum of two must be present for valid decisions to be taken. Decisions require the majority support of those Trustees present. Trustee meetings are normally held every three months, but can be called more frequently where necessary. During the year the Trustees met six times.

1.3. Sponsoring Employer

The Scheme is provided for support staff of the University of Aberdeen. The University provides administrative support to the Scheme.

1.4. Scheme Booklet

The Scheme Guide and factsheets are available on the Pensions website
www.abdn.ac.uk/staffnet/working-here

1.5. Contributions Receivable

During the year to 31 July 2017, employer contributions were payable at a rate of 17.50% of members' pensionable salaries. This comprised 11.7% in respect of future service and 5.8% in respect of the shortfall in funding. Employee contributions were paid at a rate of 7.05%. In addition, the employer is responsible for paying the cost of insuring death-in-service and for certain other contributions in specific circumstances.

Employees have the option of entering a Salary Sacrifice arrangement, whereby their pensionable salary is unchanged, but their gross salary is reduced by 7.05%. Consequently the employer, on behalf of the employee, pays contributions of 7.05% of the pensionable salary, in addition to the 17.50% already being paid.

1.6. Review of the Financial Development of the Scheme

The financial statements have been prepared and audited in accordance with regulations made under Section 41 (1) and (6) of the Pensions Act 1995. These show that the Scheme's assets increased in value from £135.9 million to £149.5 million over the Scheme year.

1.7. Actuary's Report

The Report on Actuarial Liabilities which forms part of the Trustees Annual Report is included on page 32.The Trustees are bound by law to instruct the Scheme Actuary to carry out a financial health check of the Scheme. Every three years a formal actuarial valuation is conducted which involves a series of assumptions relating to inflation, investment returns, salaries, interest rates and longevity. The calculations are used to establish the anticipated cost of providing the benefits paid by the Scheme over the long term.

The Scheme's financial security

The last full actuarial valuation was performed by Jonathan Seed of Xafinity Consulting as at 31 July 2016. This showed that, based on the assumptions set out in the Trustees' Statement of Funding Principles:

The value of the technical provisions was:	£158.7 million
The Scheme's assets were valued at:	£135.5 million
This means that there was a shortfall of:	£23.2 million
The funding level was:	85%

The position of the Scheme was also reviewed at 31 July 2017, which showed a significant improvement in the funding position, with the shortfall reducing to £8.9million.

Contributions to the Scheme

To eliminate the funding shortfall at 31 July 2017 the Trustees and the University agreed on a Recovery Plan, where the employer would continue to contribute 5.8% of active members' pensionable salaries to 31 December 2017 and £725,000 per annum from 1st January 2018 to 31 January 2029.

The ongoing contribution rate required to meet the cost of each additional year's accrual of pension benefits was also assessed. It was agreed that members would continue to contribute 7.05% of their pensionable salary while the employer would meet the balance of the cost by contributing 11.7% of pensionable salaries to 31 December 2017 and 18.4% thereafter.

If the Scheme were wound-up

At 31 July 2016 the Scheme's assets could not have paid for the full benefits of all members to be provided by an insurance company if the Scheme had wound-up at that date (without additional contributions from the University of Aberdeen). This is common for most UK pension schemes. At that date, the Scheme's assets were estimated to be around 53% of the cost of the associated premium – the University would have been liable for the balance.

The Trustees are required by law to consider what the funding position would have been had the Scheme wound-up at the valuation date. However, neither the Trustees nor the University are thinking of winding-up the Scheme.

1.8. Scheme Membership

Active Members

At 31 July 2016		612
Adjustment to opening figure		(2)
Add:	New entrants	111
Less:	Leavers to deferred	(49)
	Retirements	(16)
	Refunds	(28)
	Deaths	(1)
	At 31 July 2017	**627**

Pensioners

At 31 July 2016		977
Adjustment to opening figure		(1)
Add:	Active retirements	16
	Deferred retirements	23
	Dependants pensions becoming payable	8
Less:	Deaths	(48)
	At 31 July 2017	**975**

Deferred Members

At 31 July 2016		690
Adjustment to opening figure		(17)
Add:	Leavers with deferred pensions	49
Less:	Pensions becoming payable	(23)
	Cash settlements on retirement	(10)
	Transfers out	(19)
	Refunds	(1)
	At 31 July 2017	**669**

Of the above pensioners there are 105 whose benefits are partially secured by insurance policies held in the name of the Trustees. The majority of these were set up before 1 August 1984, when the Scheme switched from an insured to a managed fund, while the remainder relate to additional contributions paid by some members under a money-purchase arrangement.

1.9. Ill Health Early Retirement

During the year no ill-health early retirements came into payment. There were none in the previous year.

1.10. Disputes

There were no disputes during the year.

1.11. Transfer Payments

All cash equivalents (transfer values) paid during the year have been calculated and verified in the manner required by the regulations under section 97 of the Pension Schemes Act 1993. None of the cash equivalents paid were less than the amount required by Regulations. No allowance is made for discretionary pension increases.

c) INVESTMENT REPORT

The Trustees have prepared a Statement of Investment Principles (SIP) which sets out their policies on investment and their strategy for achieving them, a copy of which is available on request.

The SIP was updated and formally approved in June 2016.

Investment Target

The benchmark distribution of the Scheme's assets is to be maintained in the following proportions: 55% equities split between UK 15% and overseas 40%, index-linked bonds 25%, property 7.5% and diversified fund 12.5%.

Valuation and Distribution of Assets

The valuation and underlying distribution of assets in the investment portfolio at 31 July were as follows:

	2017 %	Benchmark %	Range %	2016 %	Benchmark %
UK Equities	15.4	15.0	+/-1.5	14.3	15.0
Overseas Equities	36.4	20.0	+/-2.0	41.6	40.0
Overseas Equities - Hedged	4.3	20.0		-	-
Index Linked	24.1	25.0	+/-2.0	24.9	25.0
Property	6.9	7.5	n/a	6.8	7.5
Diversified Fund	12.9	12.5	+/-1.0	12.4	12.5
TOTAL	100.0	100.0		100.0	100.0

	2017	2016
Valuation	£148,214,769	£134,307,108
Insurance Policies- Annuities	£1,195,100	£1,376,200
AVCs	£154,470	£303,060
Investment value Per accounts	**£149,564,339**	**£135,986,368**

Investment Returns

The time-weighted investment returns on the Scheme's assets were as follows:

TIME-WEIGHTED RETURNS TO 31 JULY 2017						
	Last Twelve Months		3 Years		5 Years	
	Fund	Index	Fund	Index	Fund	Index
Investment Sector Fund	%	%	% pa	% pa	%pa	%pa
UK Equity Index	15.3	14.9	8.1	7.9	10.70	10.50
World (ex UK) Equity Index	19.1	18.4	16.8	16.8	16.1	16.1
World (ex UK) Equ Ind GBP Hedged	n/a	n/a	n/a	n/a	n/a	n/a
Over 5y Index-Linked Gilts	4.1	4.1	12.3	12.3	8.9	8.9
Managed Property	12.6	n/a	n/a	n/a	n/a	n/a
Diversified Fund	10.4	17.2	n/a	n/a	n/a	n/a
Total Assets	**13.1**	**n/a**	**13.2**	**n/a**	**12.5**	**n/a**

Market highlights 12 months to 31 July 2017

Economic overview

Global economic activity has improved markedly over the past twelve months. The recovery has been particularly strong in the manufacturing sector, accompanied by an upturn in global trade volumes, although recent data suggests this could now have peaked, with inventories starting to rise from a low level. Higher commodity prices over the second half of 2016 have been reflected in rising consumer price inflation in the major developed economies. While the recovery has been broad-based, it has been led by the US where growth accelerated during the latter half of 2016 driven by consumer demand. As President Trump's unexpected victory in the November presidential election focused investors on the prospect of increased infrastructure spending and tax cuts, the Federal Reserve (Fed) signalled a gradual tightening of monetary policy, raising interest rates in three times over the last six months. The Fed also signalled it would begin unwinding its asset purchase programme, known as quantitative easing (QE), in the autumn. After the UK unexpectedly voted to leave the European Union (EU) in the June referendum, the Bank of England cut interest rates to 0.25% and extended QE. While the UK economy has weathered the aftermath of last year's EU referendum vote well, more recent data has signalled a slowdown in activity with the inconclusive outcome to the general election and Brexit negotiations adding to the uncertainty. Both the European Central Bank and the Bank of Japan continued with the unorthodox policy of negative interest rates. In recent months, European economic indicators have highlighted a significant improvement in both manufacturing and service sector activity, while in Japan exports have been a significant contributor to growth. The Chinese authorities have adopted a range of policy initiatives to facilitate the economy's transition from export and investment-driven growth towards consumption and services, with growth exceeding expectations for the second quarter of 2017. Both the Brazilian and Russian economies saw a turn of fortunes as the year progressed, given the boost of stable commodity markets.

Equities

Equity markets recorded double-digit percentage gains as investors became more positive on the prospects for global economic growth. Globally, equities have also been underpinned by companies buying back their own shares. Since the turn of the calendar year however, there has been a cooling of the so-called reflation trade that dominated equity markets in the latter half of 2016 when commodity-related sectors and financials performed relatively well. Instead, investors favoured more defensive sectors such as consumer staples and healthcare as central banks signalled the prolonged era of ultra-loose monetary policy was coming to an end. In contrast, sectors closely correlated with bonds struggled, such as utilities and telecoms, as bond markets globally sold off. Energy stocks have also underperformed as OPEC's move to introduce production quotas has failed to restore equilibrium in global oil markets, as North American shale inventories have risen. Amongst developed markets Europe outperformed, reflecting growing confidence over the economic outlook and a reduction in political risks in early 2017. Emerging markets outperformed the World Index as investors became less concerned about the risk of protectionist US trade policies.

Bonds
Although the major government bond markets were initially underpinned by demand from risk-averse investors, as interest rates remained very low worldwide, an improving global growth outlook and rising inflationary pressures meant most government bond markets recorded a loss over the year. Since late 2016 longer-term interest rates in the major economies have moved higher, particularly in the US where investors discounted Fed rate hikes and looser fiscal policy, but also latterly in Europe as the ECB signalled it may begin tapering its QE programme earlier than expected. In the UK the sharp, post-referendum devaluation of sterling raised expectations that inflation will accelerate over the coming year and consequently index-linked gilts outperformed their conventional counterparts. The Bank of England's decision to add high quality corporate bonds to its QE programme in August provided a much-needed boost for sterling-denominated bonds and sparked a wave of new issuance. Emerging bond markets have attracted substantial inflows from international investors looking for higher levels of income, outperforming major government bond markets.

Property
Data on the UK commercial real estate market highlighted a downturn in the aftermath of the EU referendum result. Capital values fell over the summer months in response to heightened economic uncertainty, although there were signs of stabilisation during the autumn as several commercial property funds reopened. In recent months, there is evidence that overseas demand for UK commercial property picked up across all areas of the market boosted by the weakness of sterling. However, the pace of rental growth has eased considerably in recent quarters, although investor demand for the asset class remains robust with loose monetary policy and very low returns on government bonds providing a major support to values.

Investment Report for the year ended 31 July 2017

The assets of the Scheme are invested in an insurance policy with Legal & General Assurance (Pensions Management) Limited, part of the Legal & General Group, which is one of the largest financial institutions in the United Kingdom.

The policy is designed for corporate and public sector Pension Schemes and takes full advantage of the tax exemptions available to an insurance policy of this type. It is a unitised policy and the value of the units fluctuates directly in relation to the value of the underlying assets. All units are redeemable at bid prices that are calculated from independent, external pricing sources. The assets underlying the units are held by independent corporate custodians which are regularly reviewed by external auditors.

Legal & General's investment brief is to apply cash flows in accordance with instructions received from the Trustees or their authorised Administrators.

Basis of Investment Manager's Fees
The fees for Legal & General Investment Management are charged on a quarterly basis on the average value of the funds during the quarter, on the following basis:-

UK Equities
0.10% per annum on the first £10 million
0.075% per annum on the next £10 million
0.06% per annum on the next £30 million
0.05% per annum thereafter
World (ex UK) Equities
0.22% per annum on the first £5 million
0.19% per annum on the next £10 million
0.16% per annum on the next £35 million
0.13% per annum thereafter
World (ex UK) Equities – GBP Hedged
0.243% per annum on the first £5 million
0.213% per annum on the next £10 million
0.183% per annum on the next £35 million
0.153% per annum thereafter
Gilts
0.10% per annum on the first £5 million
0.075% per annum on the next £5 million
0.05% per annum on the next £20 million
0.03% per annum thereafter
Property
0.70% per annum on the first £2.5 million
0.65% per annum on the next £2.5 million
0.60% per annum thereafter
Diversified Fund
0.30% per annum.

d) STATEMENT OF TRUSTEES' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, are the responsibility of the trustees. Pension scheme regulations require the trustees to make available to scheme members, beneficiaries and certain other parties, audited financial statements for each scheme year which:

(i) 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

(ii) contain the information specified in 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*.

The trustees have supervised the preparation of the financial statements and have agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. They are also responsible for:

- assessing the scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to wind up scheme, or have no realistic alternative but to do so; and
- making available each year, commonly in the form of a trustees' annual report, information about the scheme prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

The trustees also have certain responsibilities in respect of contributions which are set out in the statement of trustees' responsibilities accompanying the trustees' summary of contributions.

The trustees are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities.

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Part 2: Financial Statements

FUND ACCOUNT
for the year ended 31 July 2017

	Notes	2017 £	2017 £	2016 £
Contributions and Benefits				
Contributions receivable	2	**3,138,731**		3,203,284
Transfers in	3	**0**		47,005
Other income	4	**75,894**		0
			3,214,625	3,250,289
Benefits payable	5	**5,611,538**		5,336,081
Leavers	6	**633,002**		519,987
Life assurance premiums	7	**69,961**		73,075
Administrative expenses	8	**450,853**		330,620
			6,765,354	6,259,763
Net withdrawals from dealing with members			**(3,550,729)**	(3,009,474)
Returns on Investments				
Investment income	9	**136,500**		138,947
Change in market value of investments	11	**17,336,913**		16,281,968
Investment management expenses	10	**(268,278)**		(226,747)
Net gains on investments			**17,205,135**	16,194,168
Net increase in fund during the year			**13,654,406**	13,184,694
Net assets of the Scheme at 1 August			**135,891,765**	122,707,071
Net assets of the Scheme at 31 July			**149,546,171**	135,891,765

The notes on pages 18 to 25 form part of these financial statements

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STATEMENT OF NET ASSETS (available for benefits)

	Notes	2017 £	2016 £
Investment assets:			
Pooled Investment Vehicles	11	**148,214,769**	134,307,108
Insurance Policies	11	**1,195,100**	1,376,200
AVCs	11	**154,470**	303,060
Current Assets	15	**490,518**	439,908
Current Liabilities	16	**(508,686)**	(534,511)
		149,546,171	135,891,765

The notes on pages 18 to 25 form part of these financial statements

The Financial Statements summarise the transactions and the net assets of the Scheme except that the value of partly insured annuities is not included in the Net Asset Statement. The Financial Statements do not take account of the liabilities to pay pensions and other benefits in the future. The actuarial position of the Scheme which does take account of such liabilities is dealt with in the Report on Actuarial Liabilities included on page 32 of the Annual Report which should be read in conjunction with the Financial Statements.

Signed for and on behalf of the Trustees of the University of Aberdeen Superannuation and Life Assurance Scheme on 23 February 2018

[redacted] [redacted]

[redacted]

NOTES (forming part of the Financial Statements)

1. **Principal Accounting Policies**
The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important policies which have been applied consistently, is set out below.

Basis of Preparation
The financial statements have been prepared in accordance with the Financial Reporting Standard 102 - the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with the guidance set out in the Statement of Recommended Practice (SORP) (revised November 2014). This is the first year FRS 102 and the Revised SORP have applied to the Scheme's financial statements. The Scheme Trustees have taken advantage of the option to adopt the revised Fair Value Hierarchy outlined in the amendment to FRS 102 (March 2016) for an accounting period earlier than that required in the Standard.

Investments
Investments are included at fair value.

Pooled Investment Vehicles are valued based on the bid price quoted by the investment manager at the year end.

Transaction costs on buying and selling are included in the purchase costs and deducted from the sales proceeds.

Annuities purchased in the name of the Trustees which provide pension benefits for certain members are included in these Financial Statements at the amount of the related obligation, determined using the prescribed S179 assumptions and methodology based on market conditions as at the relevant date. Annuity valuations are provided by the Scheme Actuary. Annuities are issued by Scottish Amicable.

Administrative expenses
Administration expenses are accounted for on an accruals basis.

Contributions receivable

* Normal contributions, both from the members and from the employer, are accounted for as they fall due under the schedule of contributions.
* Additional voluntary contributions from the members are accounted for in the month deducted from payroll.
* Employer's deficit funding contributions are accounted for as they fall due under the schedule of contributions.

Transfer values
Transfer values have been included in the accounts when received and paid. They do not take account of members who have notified the scheme of their intention to transfer.

Income from investments
Income arising from the underlying investments of the pooled investment vehicle which is re-invested in the pooled investment vehicle is reflected in the unit price and reported within 'change in market value'.

Annuity income reflects pensions paid directly by annuity providers. The corresponding pensions are reflected in Benefits Payable.

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 and unrealised changes in market value.

Investment manager's fees
Investment management expenses are incurred by the Scheme based on the monthly market valuations of the portfolio and accounted for on an accruals basis.

Benefits Payable
Pensions and lump sums are accounted for on an accruals basis from the date the option is exercised.

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			2017	2016
		£	£	£
2.	**Contributions receivable**			
	Employer - normal	**1,454,018**		1,485,100
	Employer - salary sacrifice, on behalf of the employee	**823,903**		845,583
	Employer - contribution to deficit	**720,796**		728,900
	Employer - death-in-service contributions	**69,961**		73,075
	Total employer		**3,068,678**	3,132,658
	Employee - normal	**48,820**		40,559
	Employee - additional voluntary contributions	**21,233**		30,067
	Total employee		**70,053**	70,626
			3,138,731	3,203,284

The above AVC contributions are made to an insured money purchase policy with Prudential Assurance Company Ltd, the value of which is included in the Net Assets Statement.

Deficit funding contributions are payable at a rate of 5.8% of pensionable salaries until 31 July 2017 in line with the schedule of contributions / scheme funding recovery plan in place for the year.

		2017	2016
		£	£
3.	**Transfers in**		
	Transfer values received - individuals	**0**	47,005

		2017	2016
		£	£
4	**Other income**		
	Claims on term insurance policies	**75,894**	0

		2017	2016
		£	£
5	**Benefits payable**		
	Pensions payable	**4,420,667**	4,311,980
	Lump sums on retiral	**1,062,970**	1,024,101
	Lump sums on death -in- service	**75,894**	0
	Lump sums on death -in- deferment	**24,827**	0
	Lump sums on death -in- retirement	**27,180**	0
		5,611,538	5,336,081

Pension payments include £136,500 (2016: £138,947) of pensions paid directly by the annuity provider.

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		2017	2016
		£	£
6	**Leavers**		
	Transfer values payable - individual	621,879	507,923
	Refunds to early leavers	5,744	8,337
	State scheme premiums payable	4,049	1,684
	Tax paid	1,330	2,043
		633,002	519,987

		2017	2016
		£	£
7	**Life Assurance Premiums**		
	Current year premium	69,961	73,075

		2017	2016
		£	£
8	**Administrative expenses**		
	Administration charge	88,549	87,533
	Consultants fees	174,557	106,593
	Audit fee	10,822	9,110
	PPF levy	82,247	77,214
	Pension Regulator levy	9,654	8,700
	Administration, legal and insurance costs	85,024	41,470
		450,853	330,620

		2017	2016
		£	£
9	**Investment income**		
	Annuity income	136,500	138,947

		2017	2016
		£	£
10	**Investment management expenses**		
	Investment managers' charges	268,278	226,747

11 **Investments**	Value at 1.8.16	Purchases	Sales	Change in market value	Value at 31.7.17
Pooled Investment Vehicles (PIVs)	134,307,108	25,848,430	(29,446,508)	17,505,739	**148,214,769**
Insurance policies - annuities	1,376,200	-	-	(181,100)	**1,195,100**
Money Purchase AVCs	303,060	21,233	(182,097)	12,274	**154,470**
	135,986,368	25,869,663	(29,628,605)	17,336,913	**149,564,339**

The holdings in PIVs are analysed below:-	**2017**	**% holding**	**2016**	**% holding**
LGIM UK Equity Index	22,766,567	15.4	19,224,349	14.3
LGIM World (ex UK) Equity Index	54,031,708	36.4	55,874,398	41.6
LGIM World (ex UK) Equ Ind GBP Hgd	6,333,470	4.3	0	0.0
LGIM Over 5years Index-Linked Gilts	35,771,093	24.1	33,418,368	24.9
Managed Property	10,275,207	6.9	9,095,598	6.8
Diversified Growth fund	19,036,724	12.9	16,694,395	12.4
	148,214,769	100	134,307,108	100

All of the Pooled Investment Vehicles are held in unit linked insurance contracts.

AVC Investments
The Trustees hold 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 confirming the amounts held to their account and the movements in the year.

12. **Investment Fair Value Hierarchy**
The fair value of financial instruments has been disclosed using the following hierarchy.

Level 1: the unadjusted quoted price in an active market for identical assets or liabilities which the entity can access at the measurement date.

Level 2: inputs other than quoted prices included in Level 1 which are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: inputs which are unobservable (i.e. for which market data is unavailable) for the asset or liability.

A fair value measurement is categorised in its entirety on the basis of the lowest level input which is significant to the fair value measurement in its entirety.

The Scheme's investment assets and liabilities fall within the above hierarchy categories as follows:

Fair value breakdown at 31 July 2016

Category	1	2	3
Pooled investment vehicles	**0**	**134,307,108**	**0**
LGIM UK Equity Index	0	19,224,349	0
LGIM World (ex UK) Equity Index	0	55,874,397	0
LGIM Over 5y Index-Linked Gilts	0	33,418,368	0
LGIM Managed Property	0	9,095,597	0
LGIM Diversified Fund	0	16,694,396	0
Insurance Policies – Annuities	0	0	**1,376,200**
AVC Investments	0	**0**	**303,060**
Total	**0**	**134,307,108**	**1,679,260**

Fair value breakdown at 31 July 2017

Category	1	2	3
Pooled investment vehicles	**0**	**148,214,769**	**0**
LGIM UK Equity Index	0	22,766,567	0
LGIM World (ex UK) Equity Index	0	54,031,708	0
LGIM World (ex UK) Equity Index - Hedged	0	6,333,470	0
LGIM Over 5y Index-Linked Gilts	0	35,771,093	0
LGIM Managed Property	0	10,275,207	0
LGIM Diversified Fund	0	19,036,724	0
Insurance Policies – Annuities	**0**	**0**	**1,195,100**
AVC Investments	**0**	**0**	154,470
Total	**0**	**148,214,769**	**1,349,570**

13. Investment Risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that the counterparty of a financial instrument could default on its obligations, or delay payment of contractual income and the Scheme will incur a financial loss as a result.

Market risk: this comprises currency risk, interest rate risk and other price risk.
Currency risk is the risk that the value of assets will change due to movements in foreign exchange rates.
Interest rate risk is the risk that the value of fixed-rate instruments will change due to movements in market interest rate expectations.
Price risk is the risk that the value of a financial instrument will change due to movements in market prices or indices.

Following advice from a professionally qualified investment adviser, the Trustees have agreed to an appropriate investment strategy for the Scheme. The investment strategy has been set taking in to account a number of factors including; the profile and value of the liabilities of the Scheme, the strength of employer covenant and the long-term funding objectives agreed with the Employer.

The Scheme has a broad allocation of around 76% of investments being in return-seeking assets, designed to deliver a return above that expected of a risk-free of return. The remaining 24% is allocated to liability matching assets, designed to partially offset the movements in the Scheme's liabilities caused by movements in interest rates and inflation. This asset split reflects the Trustees' view of the most appropriate investments balancing risk/reward characteristics of the funds the Scheme is invested in.

The Scheme invests in pooled investment vehicles, operated by one investment manager; Legal & General Investment Management. The Trustees and their advisors carry out thorough due diligence before the appointment of new managers and before any new monies are allocated to a new fund. The Trustees are also required to take appropriate investment advice from a qualified professional. All decisions made by the Trustees in relation to the investment strategy are subject to and comply with Section 36 of the Pensions Act 1995.

The Trustees are required to regularly review, and if necessary, update the Scheme's Statement of Investment Principles. This is a statutory document which sets out, amongst other items: how the Scheme invests, the long-term investment strategy for the Scheme, the policy for rebalancing, the benchmarks and objectives of the managers, the Trustees' policy for monitoring performance and reviewing managers' role within the strategy. Details of the custodian arrangements can also be found in the document.

Information on the Trustees' approach to risk management is set out in the sections below. The Scheme's AVC investments have not been included in these risks as they are not considered material in relation to the overall investments of the Scheme.

As the Scheme invests in pooled investment vehicles and insured policies only, it is subject to direct credit risk on these investments and the investment risks described in the table below are viewed as being indirect. This is because it is the underlying holdings which are directly exposed to these risks, to which the Scheme is then indirectly exposed.

Risk exposures over the period	Credit Risk	Currency Risk	Interest Rate Risk	Other Price Risk
LGIM UK Equity Index	✗	✗	✗	✓
LGIM World (ex UK) Equity Index	✗	✓	✗	✓
LGIM World (ex UK) Equity Index GBP Hedged	✗	✗	✗	✓
LGIM Over 5y Index-Linked Gilts	✓	✗	✓	✓
LGIM Managed Property	✓	✗	✗	✓
LGIM Diversified Fund	✓	✓	✓	✓

Investment risks - Credit risk

The Scheme invests in pooled investment vehicles. These are exposed to direct credit risk, with there being an extreme, albeit low, risk that the investment manager becomes defunct, acts fraudulently or that the manager no longer acts on the Scheme's behalf or in the Scheme's best interests. However, this is mitigated by the use of custodian relationships and by the ongoing monitoring undertaken by the advisors and Trustees of the Scheme

For pooled investment vehicles credit risk arises where there is a dependence on the pooled arrangement to deliver the cash flows which support the fair value and units, or shares in the pooled arrangement can only be transacted with the pool manager. If the Scheme's interest in a pooled arrangement can be traded in the open market then the Scheme, generally, does not have direct credit risk to the pooled arrangement. All other credit risk exposure can be deemed to be indirect due to the underlying asset classes within the pooled investment vehicles.

The Scheme has had exposure to indirect counterparty risk via the World (ex UK) Equity Fund, the Managed Property Fund and the Diversified Fund, which may use derivatives for efficient portfolio management. The latter two funds also have the remit to invest in Money Market and Fixed Income instruments, which have direct credit risk based on the counterparty's credit rating. As at the 2017 Scheme year end, over 61% of assets were invested in these four funds.

The Trustees seek to mitigate credit risk by investing in a range of passively and actively managed pooled funds. Where there is exposure to indirect credit, this is a deliberate action taken by the Trustees and is partially mitigated by limiting the exposure to be investment grade credit only, and even then, the manager will have a maximum level of exposure to both the asset class and single-party exposure.

The Scheme is also exposed to a small element of indirect credit risk through the Index Linked Gilt Fund which has a direct link to the British Government credit rating, albeit the probability of default is anticipated to be much less than that associated with corporations.

The Scheme held investments in funds amounting to c£125.4m at the end of the accounting period which have indirect exposure to credit risk, approximately 85% of total Scheme assets. In practice, c£19.0m of this is invested in the Diversified fund where the exposure to credit risk would be far less than 100% and is expected to change due to the active management of this fund.

Overall, indirect credit risk is not considered to be a significant risk within the Scheme's investment strategy.

Investment risks – Currency risk

During the year the Scheme had some exposure to currency risk through the World (ex UK) Equity Fund and the Diversified Fund, which have the remit to invest a portion of their holding in overseas equities and fixed income instruments that may be non-sterling denominated. The World (ex UK) equity fund is fully exposed to currency movements and returns are not hedged back to sterling. The Diversified Fund is actively managed and partially hedges foreign currency movements. During the year the Scheme moved 4% of the world equity holdings into a sterling hedged version of the Fund, reducing the currency risk of the portfolio.

In instances where returns are not hedged, then this is a deliberate and calculated action taken by the manager as a means to generate additional returns through expected currency movements. The Trustees were comfortable with the amount of risk this introduces in the context of the overall investment strategy.

The value of Scheme's assets invested in funds that are exposed to currency risk as at the end of the accounting period was approximately £73.1 million, approximately 49% of overall assets. This was through investment in the World (ex UK) Equity fund and the Diversified fund, the latter of which will not be fully exposed to currency risk.

Of the foreign currency exposure that was not hedged, the vast majority was in relation to the US Dollar. Other exposures, albeit less significant, were to the Euro and Japanese Yen.

Investment risks - Interest rate risk

The liability matching fund managed by Legal and General is the principal source of indirect exposure to interest rate movements. Approximately 21% of the total assets are invested in the Over 5 Year Index-Linked Gilt fund, around £35.8m.

This level of exposure was a deliberate position taken by the Trustees, in order to obtain exposure to interest rate movements and achieve partial matching of the Scheme's liabilities. The objective of this exposure is to mitigate the impact of adverse movements of interest rates which increase the value placed on the liabilities. The allocation to this fund has been deemed appropriate by the Trustees, given the profile of the liabilities of the Scheme and after receiving investment advice.

The Trustees recognise that only 24% of the Scheme's assets have exposure to gilt movements and therefore are designed to only capture part of the interest rate movement. So even though the Trustees have taken steps to mitigate a proportion of interest rate risk, they have not fully mitigated the risk.

The Scheme also had indirect exposure to changes in interest rate movements via some of the instruments used by the Diversified fund, although this exposure will be part of a diverse portfolio. In addition, the Scheme's investment in the Property Fund is also exposed to indirect interest rate risk from its share of debt within its indirect investments.

The Scheme has approximately £65.1million invested in funds which are exposed to indirect interest rate risk, 44% of overall Scheme assets. However, the exposure through the Diversified will typically have a very short duration or may be temporary holdings, as part of the managers' active approach to investing.

The primary source of exposure to interest rate movement was via the Over 5 Year Index-Linked Gilt which amounted to approximately £35.7million at the end of the accounting year.

Investment risks - Other risks, including price risk

The Scheme will have had indirect exposure to price risks and other risks over the year through its holdings in the Property and the World Equity Funds as well as the Diversified fund which can invest in a mix of equities, bonds, property and cash.

All of the Scheme's assets are indirectly exposed to price risk, due to the managers' exposure to underlying asset classes, their ability to use derivatives within the funds and the additional factors which determine an asset's price beside those described above, such as inflation and liquidity premium.

The Trustees are aware of these risks and manages this exposure to overall price movements by constructing a diverse portfolio of investments across various asset classes and markets.

14. **Insurance Policies - Annuities**

The legacy annuity policies relate to benefits for 105 individuals. The Trustees no longer purchase annuities to meet Scheme liabilities. The annuities were issued by Scottish Amicable and are valued by the Scheme Actuary.

		2017	2016
		£	£
15.	**Current assets**		
	Cash in bank	226,603	205,611
	Contributions due from the employer	256,815	228,197
	Prepaid expenses	7,100	6,100
		490,518	439,908

			£
16.	**Current liabilities**		
	Accrued expenses	(125,200)	(100,300)
	Unpaid benefits	(381,114)	(418,892)
	Other creditors	(2,372)	(15,319)
		(508,686)	(534,511)

17. **Related party transactions**
The University of Aberdeen, which is the Employer, provides administrative support to the pension scheme and charged £8,400 for this service for the year. At 31 July 2017, the University of Aberdeen was due to pay £258,158 (2016 £248,549) to the Scheme for the July 2017 contributions. These were paid in August 2017 in accordance with the requirements of the Schedule of Contributions.

18. **Employer related investments**
The Scheme did not hold any employer related investments during the year or at the year end. (2016 none)

Part 3: Independent Auditor's Report to the Trustees of the University of Aberdeen Superannuation & Life Assurance Scheme

Opinion

We have audited the financial statements of the University of Aberdeen Superannuation and Life Assurance Scheme ("the scheme") for the year ended 31 July 2017 which comprise the Fund Account and the Statement of Net Assets (available for benefits) and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the scheme during the scheme year ended 31 July 2017 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 UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- contain the information specified in Regulation 3 of 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the scheme in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The trustees are responsible for the other information, which comprises the trustees' report (including the report on actuarial liabilities and the summary of contributions), and the actuarial certification of the schedule of contributions. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our accounts audit work, the information therein is materially misstated or inconsistent with the accounts or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

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Trustees' responsibilities

As explained more fully in their statement set out on page 15, the scheme trustees are responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the 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 they either intend to wind up the scheme, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the scheme trustees, 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 trustees 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 trustees, as a body, for our audit work, for this report, or for the opinions we have formed.

[redacted]

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
St Vincent Plaza
319 St Vincent Street
Glasgow
G2 5AS

Date: 28 February 2018

Part 4: Summary of Contributions Payable

Statement of Trustees' Responsibilities in respect of Contributions

The scheme's Trustees are 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. The scheme's Trustees are also responsible for keeping records of contributions received in respect of any active member of the scheme and for procuring that contributions are made to the scheme in accordance with the schedules.

Trustee Summary of Contributions Payable

During the year ended 31 July 2017, the contributions payable to the Scheme by the Employer were as follows:

	Employee £	Employer £
Contributions Payable under the Schedule of Contributions		
Normal contributions	48,820	1,454,018
Salary Sacrifice contributions (for employee)	-	823,903
Additional contributions:		
Deficit Funding contributions	-	720,796
Death-in-service contributions	-	69,961
Total required by schedule of contributions	**48,820**	**3,068,678**
Other contributions payable		
Member – additional voluntary	21,233	-
Total, as per Fund Account	**70,053**	**3,068,678**

Signed for and on behalf of the Trustees of the University of Aberdeen Superannuation and Life Assurance Scheme on 23 February 2018.

[redacted] [redacted]

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For the Year ended 31 July 2017

Part 5: Independent Auditor's Statement about Contributions to the Trustees of the University of Aberdeen Superannuation & Life Assurance Scheme.

Statement about contributions

We have examined the summary of contributions payable under the schedule of contributions to the University of Aberdeen Superannuation & Life Assurance Scheme in respect of the scheme year ended 31 July 2017 which is set out on page 28.

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 actuary on 2 July 2014.

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.

Respective responsibilities of trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities set out on page 28, the scheme's trustees are 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 trustees are also responsible for keeping records in respect of contributions received in respect of 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 to the scheme and to report our opinion to you.

The purpose of our work and to whom we owe our responsibilities

This statement is made solely to the scheme's trustees, 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 trustees 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 trustees, as a body, for our work, for this statement, or for the opinions we have formed.

[redacted]

[redacted]

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
St Vincent Plaza
319 St Vincent Street
Glasgow

Date: 28 February 2018

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Part 6: Actuarial Statements

xafinity

Certification of Schedule of Contributions

University of Aberdeen Superannuation and Life Assurance Scheme ("the 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 can be expected to be met by the end of the period specified in the Recovery Plan dated 21 December 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 21 December 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 their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Signature	[redacted]	Date	8/1/2018
Name	[redacted].	Qualification	Fellow of the Institute and Faculty of Actuaries
Address	Scotia House Castle Business Park Stirling FK9 4TZ	Employer	Xafinity Consulting Limited

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Appendix G – Certification of Technical Provisions

University of Aberdeen Superannuation and Life Assurance Scheme

Calculation of Technical Provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 31 July 2016 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustees of the Scheme and set out in the Statement of Funding Principles dated 21 December 2017.

Signature:	[redacted]	Date:	2 February 2018
Name:	[redacted]	Qualification:	Fellow of the Institute and Faculty of Actuaries
Address:	Scotia House Castle Business Park Stirling FK9 4TZ	University:	Xafinity Consulting Limited

Part 7: Actuarial Liabilities

7.1. Report on Actuarial Liabilities (forming part of the Trustees' Report)

Under s222 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 Trustees and the Employer and set out in the Statement of Funding Principles, which is available to the scheme members on request.

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

The value of the Technical Provisions was:	£157,382,219
The value of the assets as at that date was:	£134,212,505

The method and significant assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Statement of Funding Principles):

7.2. Method

The Actuarial Method to be used in the calculations of the technical provisions is the Projected Unit Method.

7.3. Significant Actuarial Assumptions

Discount rate (before retirement)

4.30%	Yield on index-linked gilts plus a margin for asset outperformance relative to gilts

Discount rate (after retirement)

2.30%	Yield on Bank of England gilts plus a margin for asset outperformance relative to gilts

Future RPI inflation

2.90%	Bank of England UK implied inflation for a maturity consistent with the duration of the Scheme's liabilities

Future CPI inflation

2.15%	RPI minus 0.5%

Deferred pension revaluation

2.15%	CPI

7.4. Pension increases in payment

GMP accrued before 6 April 1988 (pre '88 GMP)	-	Non-increasing
GMP accrued from 6 April 1988 (post '88 GMP)	2.15%	CPI max 3%
Pension in excess of GMP	2.90%	RPI

7.5. Mortality before and after Retirement:

Mortality is assumed to follow the Self-Administered Pension Schemes (SAPS) "S2" tables with a 105% multiplier for males and a 100% multiplier for females. Future improvements follow the Continuous Mortality Investigation (CMI) 2016 projection model with a long term improvement trend rate of 1.25% per annum.

Part 8: Compliance Statement

8.1. Constitution

The Scheme is governed by a Definitive Trust Deed and Rules dated 6th July 1965 and Supplementary Definitive Trust Deeds and Rules dated 26th April 1982 and 23rd March 1995. The Registration number in the Register of Occupational Pension Schemes is 10052894.

8.2. Taxation Status

The Scheme is exempt approved under Chapter 1, Part XIV of the Income and Corporation Taxes Act 1988. The Trustees know of no reason why this approval may be prejudiced or withdrawn.

8.3. Pension Increases

All pensions in payment were increased with effect from 1st April 2017. In respect of benefits attributable to service to 31 July 2011, the increase was the higher of 3% or RPI and in respect of benefits attributable to service from 1 August 2011, the increase was the lower of CPI or 5%. All the figures are guaranteed by the Scheme rules.

8.4. Calculation of Transfer Values

No allowance is made in the calculation of transfer values for discretionary pension increases.