



University of Aberdeen Superannuation & Life Assurance Scheme

**Annual Report for the
Year ended 31 July 2021**

Scheme Registration Number 10052894

Annual Report

For the Year ended 31 July 2021

This Report relates to the operation of the University of Aberdeen Superannuation and Life Assurance Scheme ("the Scheme") during the year ended 31 July 2021.

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

1. Trustees' Report:	3
a) Scheme Advisers	
b) Review of the Management and Development of the Scheme	
c) Investment Report	
d) Implementation Statement	
e) Statement of Trustees' Responsibilities	
f) Compliance	
 2. Financial Statements	 31
 3. Independent Auditor's Report	 47
 4. Summary of Contributions Payable	 51
 5. Independent Auditor's Statement about Contributions	 52
 6. Actuarial Statements	 54
 7. Actuarial Liabilities	 55

Annual Report

For the Year ended 31 July 2021

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

Gerry Devenney (Appointed 10th December 2021)
Steven Scott (Resigned 17th December 2021)
XPS Pensions Group
Scotia House
Castle Business Park
Stirling FK9 4TZ

Scheme Consultants

XPS Pensions Group
Scotia House
Castle Business Parks
Stirling FK9 4TZ

Administrator

Equiniti Pension Solutions
Prudential
Scotia House
Castle Business Park
Stirling FK9 4TZ

Auditor

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

AVC Providers

Prudential
Scotia House
Castle Business Park
Stirling FK9 4UE

Annual Report

For the Year ended 31 July 2021

Annuity Provider

Prudential
Scotia House
Castle Business Park
Stirling FK9 4UE

Investment Managers

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

Ninety One (from June 2021)
55 Gresham Street
London EC2V 7EL

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

Annual Report

For the Year ended 31 July 2021

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 2021. 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 and subsequently the Trustees of the Scheme have been as follows:

Ms Jacquelynn Crow	Independent Chairwoman
Mr Mark Whittington	University Court nominated
Mrs Diane Massie	Member-nominated
Mr Owen Cox	Member-nominated
Professor Alex Kemp	University Court nominated
Professor Richard Wells	University Court nominated

Annual Report

For the Year ended 31 July 2021

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. Trustees' meetings are normally held every three months but can be called more frequently where necessary. During the year the Trustees met four 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. The principal employer is the University of Aberdeen, and the participating employers are the Rocking Horse Nursery and A.U.S.A.

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 2021, employer contributions were payable at a rate of 12.5% to October 2020 and 13.4% from November 2020, in respect of future service and £725,000 per annum in respect of the shortfall in funding. Employee contributions were paid at a rate of 8.0%.

Employees have the option of entering a Salary Sacrifice arrangement, whereby their pensionable salary is unchanged, but their gross salary is reduced by the employee contribution of 8%. Consequently the employer, on behalf of the employee, paid contributions of 8.0% of the pensionable salary, in addition to the contributions of 12.5%/13.4% 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 £169.8 million to £180.1 million over the Scheme year.

Annual Report

For the Year ended 31 July 2021

1.7. Actuary's Report

The Report on Actuarial Liabilities which forms part of the Trustees Annual Report is included on page 56. 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 XPS Pensions Group as at 31 July 2019. This showed that, based on the assumptions set out in the Trustees' Statement of Funding Principles:

The value of the technical provisions was:	£173.6 million
The Scheme's assets were valued at:	£164.0 million
This means that there was a shortfall of:	£9.6 million
The funding level was:	94%

The position of the Scheme was reviewed at 31 July 2021 when the shortfall had decreased to £3.3million. The next full actuarial valuation is due at 31 July 2022.

A report on actuarial liabilities is included in section 7 of this report.

Contributions to the Scheme

To eliminate the funding shortfall at 31 July 2019 the Trustees and the University agreed on a Recovery Plan, where the employer contributed £725,000 per annum until 31 January 2029, payable in equal monthly amounts.

Due to the Covid-19 pandemic, under the new schedule of contributions certified by the Actuary on 25 November 2020, the Trustees have agreed to defer payment of 50% of the deficit funding contributions due for the years to 31 July 2021 and 31 July 2022. The deferred amount will be paid in full in equal monthly amounts over the following three years.

As a result of sponsoring employer's improved cash flow position the remaining 50% of the deficit funding contributions due for the year to 31 July 2021 were paid in full in July 2021. The current agreement to pay 50% of the deficit funding contributions for the year to 31 July 2022 remains in place.

The employer's rate was increased to 13.4% from 27 October 2020 under the new schedule of contributions certified by the actuary on 25 November 2020.

If the Scheme were wound-up

At 31 July 2019 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 61% of the cost of the associated premium – the University would have been liable for the balance.

Annual Report

For the Year ended 31 July 2021

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 2020		676
Add:	New entrants	87
Less:	Leavers to deferred	(27)
	Retirements	(18)
	Active to Waiting to Transfer	(7)
	Opt Out	(24)
	Refunds	(8)
	Deaths	(1)
At 31 July 2021		678

Active to Waiting to Transfer are members who have withdrawn but have not yet decided to transfer out or receive a refund of contributions.

Pensioners

At 31 July 2020		875
Add:	Active retirements	18
	Deferred retirements	12
	Dependants pensions becoming payable	13
Less:	Deaths	(39)
At 31 July 2021		882

Deferred Members

At 31 July 2020		691
Add:	Leavers with deferred pensions	27
Less:	Pensions becoming payable	(12)
	Transfers out	(8)
	Deaths	(3)
At 31 July 2021		695

Of the above pensioners there are 81 (2020: 87) 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.

Annual Report

For the Year ended 31 July 2021

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.

1.12. Changes to the Scheme

Following the 2016 Valuation the University granted security to the Scheme over certain University properties, to the value of £9.1 million, and in May 2019 this was replaced by a Pension Bond. In October 2020 the value of the Bond was increased to £9.6 million.

1.13. GMP Equalisation

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Trustees of the Scheme are aware that the issue will affect the Scheme and will be considering this at a future meeting and decisions will be made as to the next steps.

Furthermore, in November 2020, the High Court handed down a second judgement involving the Lloyds Banking Group's defined pension benefit pension schemes. This latest judgement confirms the Defined Benefit (DB) schemes which provide GMPs need to revisit and where necessary top up historic Cash Equivalent Transfer Values that were calculated based on unequalised benefits. Again, the issues determined by the judgement arise in relation to many other defined benefit pension schemes. The Trustees will consider next steps as the Scheme has experienced significant historical transfers out which will be subject to adjustment as a result of this second ruling. Any adjustments necessary will be recognised in the financial statements for the year in which they are calculated. It is not possible to estimate the value of any such adjustments at this time.

There is still uncertainty surrounding the calculations but based on an initial assessment of the likely backdated amounts and related interest the Trustees do not expect these to be material to the financial statements and therefore have not included a liability in respect of these matters in the financial statements. They will be accounted for in the year in which they are determined.

Annual Report

For the Year ended 31 July 2021

1.14. COVID-19

COVID-19 has caused significant disruption to economic activity which has been reflected in global stock market fluctuations and, in turn, in the valuation of pension scheme assets. This matter has been further detailed in Note 20 to the financial statements.

The Trustees continue to monitor this ever evolving situation and are liaising with their advisers and Principal Employer to limit the impact of COVID-19.

1.15. Scheme Actuary

S Scott, the Scheme Actuary, resigned on 17 December 2021. The Trustee filled the vacancy in the office of Scheme Actuary by appointing G Devenney on 10 December 2021. As required by Regulations made under the Pensions Act 1995, S Scott confirmed in his notice of resignation that he knew of no circumstances connected with the resignation that significantly affected the interests of the members, prospective members or beneficiaries of the Scheme.

Annual Report

For the Year ended 31 July 2021

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 the UASLAS pensions page of the University of Aberdeen website under the heading 'other documents'.
<https://www.abdn.ac.uk/staffnet/working-here/pensions-208.php#faq19>

The SIP was updated and formally approved in December 2021 (previous update September 2020). The 2021 SIP does not include the Managed Property Fund/Sterling Liquidity Fund as they are no longer included in the Scheme's updated investment strategy. The latest SIP was updated to reflect the new investment strategy.

Investment Target

The benchmark distribution of the Scheme's assets is to be maintained in the following proportions: 7.5% equities split between overseas 3.75% and overseas hedged 3.75%, index-linked bonds 5%, property 5.0%, diversified fund 25.0%, dynamic diversified fund 25.0%, matching core funds 25% and sterling liquidity fund 7.5%.

Valuation and Distribution of Assets

The valuation and underlying distribution of assets in the investment portfolio (excluding insurance policies and AVCs) at 31 July were as follows:

	2021 %	Benchmark %	Range %	2020 %	Benchmark %
UK Equities	-	-	+/-1.5	-	-
Overseas Equities	-	3.8	+/-2.0	4.4	3.8
Overseas Equities - Hedged	11.1	3.8		4.1	3.8
Matching Core Funds	23.0	25.0	-	24.6	25.0
Index Linked	4.7	5.0	+/-2.0	5.6	5.0
Property	4.7	5.0	n/a	4.5	5.0
Sterling Liquidity Fund	4.3	7.5	-	7.9	7.5
Diversified Fund	26.4	25.0	+/-1.0	24.5	25.0
Dynamic Diversified Fund	25.8	25.0	+/-1.0	24.4	25.0
TOTAL	100.0	100.0		100.0	100.0

	2021	2020
Pooled investment vehicles	£179,817,870	£168,896,680
Insurance Policies- Annuities	£710,618	£952,824
AVCs	£80,853	£54,608
Investment value per financial	<u>£180,609,341</u>	<u>£169,904,112</u>

Annual Report

For the Year ended 31 July 2021

statements

Investment Returns

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

TIME-WEIGHTED RETURNS TO 31 JULY 2021						
Investment Sector Fund	Last Twelve Months		3 Years		5 Years	
	Fund %	Index %	Fund % pa	Index % pa	Fund %pa	Index %pa
Managed Property Fund	9.96	n/a	3.33	n/a	n/a	n/a
Matching Core Fixed Short	(24.51)	(24.76)	n/a	n/a	n/a	n/a
Matching Core Fixed Long Fund (Series 1)	(19.86)	(20.14)	n/a	n/a	n/a	n/a
Sterling Liquidity Fund	0.08	0.02	n/a	n/a	n/a	n/a
Matching Core Real Short Fund (Series 1)	0.43	0.79	n/a	n/a	n/a	n/a
Matching Core Real Long Fund (Series 1)	2.53	2.36	n/a	n/a	n/a	n/a
Dynamic Diversified Fund	11.90	4.59	6.24	4.95	n/a	n/a
Over 5 Year Index-Linked Gilts Index Fund	1.50	1.49	7.53	7.51	6.12	6.11
World (ex UK) Equity Index Fund	23.39	23.40	12.34	12.30	13.63	13.59
Diversified Fund	14.34	31.24	7.03	12.99	7.31	13.71
World (ex UK) Equity Index Fund - GBP Currency Hedged	30.74	30.78	13.27	13.28	n/a	n/a
Ninety One Fund - I Acc GBP	8.70	5.50	5.00	5.00	n/a	n/a
Total Assets	9.38	n/a	8.07	n/a	8.72	n/a

Market highlights 12 months to 31 July 2021

Economic overview

In response to the extreme market volatility caused by the swift spread of COVID-19 around the world, and the extraordinary lockdown measures implemented to control it, central banks and governments worldwide supplied and sustained an extensive range of monetary and fiscal stimulus packages to underpin the global economy. Eighteen months into the global pandemic,

Annual Report

For the Year ended 31 July 2021

the success of vaccine rollouts across the developed world, in particular, mean that policymakers are starting to look further ahead and beyond COVID-19 emergency measures.

Following the Brexit deal that was signed on Christmas Eve and the inauguration of US President Biden, with the promise of further fiscal stimulus in the US, the first quarter of 2021 started on a positive note. Despite some fears of rising inflation amid strong economic growth and continued central bank support, the US Federal Reserve (Fed) kept rates low, as did its European and UK counterparts. Despite measures of US consumer price inflation showing rapid rises, the Fed repeatedly argued that higher inflation would prove temporary, and that interest rates would not increase until its twin goals of sustained inflation of 2% and maximum employment had been met. The Bank of England maintained its benchmark interest rate at 0.1% throughout the year and kept its bond-buying programme unchanged while sounding a note of caution over early signs of a stronger-than-expected economic recovery from the pandemic. The European Central Bank (ECB), meanwhile, maintained asset purchases as part of the Pandemic Emergency Purchase Programme, planning to buy up to €1.85 trillion of bonds until at least the end of March 2022. A tweaking of monetary policy guidance in July 2021 gave the central bank leeway to maintain ultra-loose policy even as inflation creeps up, signalling a 'lower for longer' interest rate environment.

Meanwhile, President Biden successfully began his extensive fiscal stimulus programme: US Congress passed the president's US\$1.9 trillion fiscal stimulus package, triggering investor optimism. Details on his proposed US\$1.8 trillion childcare and education package were also announced as the next phase of the wide-ranging spending spree began its journey into law. Concerns over higher inflation and a subsequent rise in rates remained front and centre for investors as the second quarter began, although the rise in 10-year Treasury yields seen since the start of the year slowed and showed signs of reversing towards the end of the period following further reassurance from the Fed that no immediate changes to policy were on the agenda, coupled with increasing perceptions of geopolitical risk on the back of deteriorating relations between Russia and the US. The spread of the Delta variant of COVID-19 further dampened appetite for risk in the closing month of the year under review, leading to a fall in benchmark government bond yields.

Equities

Global equity indices made strong gains over the past year as investors weighed up the likely trajectory of the economic recovery from the pandemic. Unprecedented stimulus from central banks and the creation of effective vaccines were the two pillars of the rebound.

Against this backdrop, UK equities significantly lagged the global rebound but nevertheless made notable gains over the 12-month period. The UK's service-oriented economy effectively ground to a halt in the early months of the pandemic, and the government's slow decision-making did little to reassure investors that domestic stocks would perform well in the months ahead. The picture brightened significantly in the closing months of 2020, however, after the UK became the first country in the world to approve a COVID-19 vaccine. That, coupled with an historic trade deal between the EU and UK just before the year end, led to a relief rally in stocks as the dreaded 'no-deal' scenario had been avoided. This momentum was sustained in the early months of 2021 as the UK led the way with its vaccine rollout, despite a harsh winter lockdown, with economic indicators showing a strong recovery as shops and restaurants opened their doors once again. Growth then slowed as the year wore on, with investor attention turning to the seemingly

Annual Report

For the Year ended 31 July 2021

unstoppable rise of the US economy, followed by greater interest in Europe as the region's vaccination programme made belated progress.

US equity markets outperformed their developed market peers as decisive action from the country's central bank, political leaders and corporations steered the economy through the various stages of the pandemic. Throughout the early months of global lockdowns US equity returns were powered by the technology sector – clear beneficiaries of the 'stay at home' environment, with technology used to facilitate work and shopping. While returns from the sector faded during the rotation into value stocks driven by general economic improvement early in 2021, earnings growth from the sector's biggest names kept on surpassing expectations even as consumers were granted more freedom to spend their money outside their four walls. The sector also benefited from the retreat of US Treasury yields in the closing months of the year under review, as lower yields make the sector's high valuations easier to stomach.

European equity returns lagged the broader index. COVID-19 hit many of the region's biggest economies hard: Italy, Spain, France and Germany all endured torrid periods and long stretches under lockdown conditions. At a sector level, banks suffered early in the period as a result of the ECB opting to suspend dividends to bolster capital reserves, though on an annual basis the sector performed strongly, benefiting from the rebound in cyclical sectors and an eventual easing of dividend restrictions. Along with financials, the leading European equity sectors on an annual basis were information technology (which benefited from increased working from home during lockdowns) and materials (a beneficiary of the recovery in cyclicals). In the closing months of the year under review European equity markets performed well, with the region's vaccination programme gaining traction and economic indicators pointing to a strong recovery, helped by a commitment to ongoing support from the ECB.

Asia Pacific equity returns were positive, though they tailed off towards the end of the review period amid fears that China's economy was overheating and amid increasing regulatory pressures on some sectors. As the first country to suffer from the COVID-19 pandemic, China was also the first country to marshal its response, and subsequently one of the first economies to benefit from rising global demand for consumer goods. By the end 2020, however, it was apparent that China was in danger of overheating, with expectations of tightening lending conditions exacerbated by several high-profile defaults in the property development sector. The country's leading technology companies also came under increasing regulatory pressure as the state made it clear that it would not allow the likes of Alibaba founder Jack Ma to challenge its power. In July the private tuition sector faced similar pressures, leading to a large sell-off in Chinese equities as investors factored in the possibility of wider regulatory interventions. Emerging markets delivered positive returns over the year, though they underperformed the global average as a result of a significant decline in the closing months of the period. Although many emerging market countries benefited from a higher oil price as a result of improved consumption forecasts, the rise of the US dollar against emerging market currencies weighed on returns. The headline decline in emerging market equities over the year masks significant variation between the sector's various constituent countries. As mentioned above, China saw heavy selling amid signs of an economic slowdown and regulatory worries, resulting in the country dragging down the index. By contrast, India posted strong gains on an annual basis despite its patchy record on COVID-19.

Annual Report

For the Year ended 31 July 2021

Bonds

Yields on government bonds rose as an improving economic backdrop over the year since the onset of the pandemic led investors to favour equities, though the rise tailed off during the second half of the review period on inflationary worries and COVID-19-related risk aversion.

In the opening months of the review period rising developed market GDP, coupled with unprecedented quantitative easing, led to expectations of sustained inflation in the months ahead, weighing on fixed income generally. US Treasury yields showed a strong rise as a result of the booming economic recovery in the country, while benchmark European and UK government bond yields also rose somewhat. Nonetheless, the ECB stated that it would act to contain rising borrowing costs to relieve the burden on corporates in the region to keep the fragile economic recovery on track. US Treasury yields declined towards the end of the period on the back of reassurance from the Fed that policy change would not be forthcoming until employment returned to pre-pandemic levels. The spread of the Delta variant of COVID-19 also increased the appeal of safe-haven investments in the final month of the year under review.

Bond spreads narrowed considerably in the early months of the review period. With spreads at very tight levels, investment grade debt in developed countries effectively tracked underlying government bond yields towards the end of the review period, with little cushion available in the event of a rise in underlying yields. This dynamic was in evidence across the US, UK and Europe, though government bond yields in Europe have barely risen in comparison to the US and UK. High yield remained supported by investors seeking returns in a world of low fixed income rates. Spreads widened slightly in July, though they remain at historic tights. Emerging market debt yields rose over the year, with political risk in Brazil and Turkey weighing on investor sentiment. The marked rise in the strength of the US dollar over most of the period under review also put emerging market borrowing costs in the spotlight, with the International Monetary Fund warning in March that another debt crisis may be on the horizon.

Property

UK commercial property values declined significantly over the period as a whole, primarily due to the retail sector, with shuttered businesses struggling to make rental payments. Only at the end of the year in review did this part of the market see some recovery, with capital values rising after a long period of decline. The owners of shopping centres have been badly hit by the combination of rent arrears and declining property values. Returns from office space have been more resilient, posting modest gains over the 12 months. Industrial property, meanwhile, has been the best-performing sector, gaining in part from increased demand for warehousing to support the retail e-commerce boom.

Incentives to align investment managers' investment strategy and decisions with the trustees' policies

Based on the structure set out in the Appendix, the Trustees consider the arrangements with the Investment Managers to be aligned with the Scheme's overall strategic objectives. Details of each specific mandate are set out in the pooled fund documentation with each Investment Manager. The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation

Annual Report

For the Year ended 31 July 2021

preferences at any time, within any scope given to them through any asset allocation parameters or guidelines set by the Trustees or governing the pooled funds in which the Scheme is invested. The Trustees will ensure that the Scheme's assets are predominantly invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees' expectations.

Incentives for the investment manager to make decisions based on assessments about medium to long-term financial and nonfinancial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term

The Trustees encourage Investment Managers to make decisions in the long-term interests of the Scheme. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights in line with the investment mandate guidelines provided. This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns.

As covered in more detail in this document, the Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers, accordingly.

How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the trustees' policies

The Trustees will receive, and consider, regular performance monitoring reports from the Investment Adviser which review performance over the quarter, one and three year periods. This monitoring helps to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustees may carry out a more in depth review of a particular Investment Manager. Investment Managers will also attend Trustees meetings as requested.

The Investment Adviser has also carried out a review of how well the Trustees' guidelines in relation to ESG factors are incorporated into each Investment Manager's processes and the Trustees will re-assess progress on ESG issues periodically.

The duration of the arrangement with the asset manager:

Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities.

Investment Report for the year ended 31 July 2021

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.

Annual Report

For the Year ended 31 July 2021

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 Ninety One are charged on a quarterly basis on the average value of the fund during the quarter, on the following basis: -

Rebate Rate	Current Management Fee	Effective Management Fee
0.30%	0.65%	0.35%

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
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
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
Gilts
0.10% per annum on the first £5 million
0.075% per annum on the next £5 million

Annual Report

For the Year ended 31 July 2021

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 on the first £25 million.
0.25% per annum thereafter
Dynamic Diversified Fund
0.38% per annum on the investment.
Matching Core Fix Short Ser 1
0.24% per annum on 66% of value
0.17% per annum on 34% of value
Matching Core Fix Long Ser 1
0.24% per annum on 66% of value
0.17% per annum on 34% of value
Matching Core Real Short Ser 1
0.24% per annum on 66% of value
0.17% per annum on 34% of value
Matching Core Real Long Ser 1
0.24% per annum on 66% of value
0.17% per annum on 34% of value
Sterling Liquidity Fund
0.125% per annum on the first £5,000,000
0.100% per annum on the next £5,000,000
0.075% per annum thereafter

Annual Report

For the Year ended 31 July 2021

d) IMPLEMENTATION STATEMENT FOR THE YEAR ENDED 31 JULY 2021

Purpose

This statement provides information on how, and the extent to which, the Trustees' policies in relation to the exercising of rights (including voting rights), attached to the Scheme's investments (excluding AVCs), and engagement activities have been followed during the year ended 31st July 2021 ("the reporting year"). In addition, the statement provides a summary of the voting behaviour and most significant votes cast during the reporting year.

Background

The Trustees' policies in relation to ESG and voting issues are documented in their Statement of Investment Principles, dated September 2021 (note that it reflects the investment strategy in place as at 31st July 2021). The previous Statements were dated September 2019 and September 2020, and so are the relevant Statements to the year under review.

The latest review of the Statement of Investment Principles

During the reporting year, the Scheme's SIP was reviewed and amended with effect from September 2020. This review was initiated by regulations that took effect on the 1st October 2020 requiring Trustees to update their SIP to include the following:

- > Additional information on the Trustees' policy in relation to:
 - The exercise of rights (including voting rights) attaching to investments; and
 - The undertaking of engagement activities in respect of the investments (e.g. the approach to monitoring investment managers over how they take into account performance, strategy, capital structure, management of actual or potential conflicts of interest and ESG issues in relation to issuers of debt or equity).
- > The Trustees' policy relating to arrangements with asset managers, including how the following matters are set out:
 - Incentives for asset managers to align their investment strategy and decisions with the Trustees investment policies;
 - Incentives for asset managers to make decisions based on medium to long term financial and non-financial performance assessments of an issuer of debt or equity and to engage with the issuer in order to improve performance over the medium to long term;
 - How the method and time horizon of the evaluation of an asset manager's performance and the remuneration for their services are in line with the Trustees' investment policies;
 - The monitoring of "portfolio turnover costs" incurred by the asset manager and how the trustees define and monitor targeted portfolio or turnover range; and
 - The duration of the arrangement with the asset manager.

The subsequent update was completed in September 2021 to reflect the changes to the investment portfolio outlined overleaf.

Annual Report

For the Year ended 31 July 2021

Investment-related activity during the reporting year

Over the year, the Trustees agreed a modest de-risking of the Scheme, and a further diversification towards investments providing contractual income. The first step of implementation began in March 2021 when the Scheme committed £20m to the LGIM Secure Income. The next step was implemented in June 2021 when the Scheme invested £20m in the Ninety One Global Total Return Credit Fund, funded from the Scheme's global equity holding. The Scheme also recalibrated its liability hedge over the year, to manage the variability of the assets and liabilities of the Scheme.

Manager selection exercises

One of the main ways in which the policies in relation to ESG are expressed is via manager selection exercises: the Trustees seek advice from XPS on the extent to which their views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. During the reporting year, the Trustees introduced the Ninety One Global Total Return Credit Fund and the LGIM Secure Income Fund. These funds were recommended by XPS, using various criteria. One of the criteria, in acknowledgement of the Trustees' updated ESG policy, was that the investment managers had been found to have a credible ESG capability, with decisions linked to that capability applied to the fund to an acceptable degree. Another key criterion in this appointment was that the Ninety One Global Total Return Credit Fund offered a more diversified portfolio, delivering a less volatile performance with more liquidity.

Ongoing governance

The Trustees, with the assistance of XPS, monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in the SIP.

Beyond the governance work currently undertaken, the Trustees believe that their approach to, and policy on, ESG matters will evolve over time based on developments within the industry and, at least partly, on a review of data relating to the voting and engagement activity conducted annually.

Adherence to the Statement of Investment Principles

During the reporting year the Trustees are satisfied that they followed their policies within the Statement of Investment Principles (including on the exercise of voting rights) to an acceptable degree.

Voting activity

The main asset class where the investment managers will have voting rights is equities. The Scheme has equity exposure as part of the strategies for the LGIM Diversified and Dynamic Diversified funds. Therefore, a summary of the voting behaviour and most significant votes cast by each of the relevant investment manager organisations is as follows:

Annual Report

For the Year ended 31 July 2021

Legal and General Investment Management (sourced from the investment manager)

Voting Information

Diversified Fund: The manager voted on 98.68% of resolutions of which they were eligible out of 90870 eligible votes. The manager abstained from 0.70% of resolutions of which they were eligible to vote.

Dynamic Diversified Fund: The manager voted on 99.86% of resolutions of which they were eligible out of 65734 eligible votes. The manager abstained from 0.91% of resolutions of which they were eligible to vote.

World (ex UK) Equity Index Funds: The manager voted on 99.83% of resolutions of which they were eligible out of 37840 eligible votes. The manager abstained from 0.89% of resolutions of which they were eligible to vote.

Investment Manager Client Consultation Policy on Voting

LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all our clients. Our voting policies are reviewed annually and take into account feedback from our clients.

Every year, LGIM holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and fellow investors) are invited to express their views directly to the members of the Investment Stewardship team. The views expressed by attendees during this event form a key consideration as we continue to develop our voting and engagement policies and define strategic priorities in the years ahead. We also take into account client feedback received at regular meetings and/ or ad-hoc comments or enquiries.

Investment Manager Process to determine how to Vote

All decisions are made by LGIM's Investment Stewardship team and in accordance with our relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This ensures our stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.

How does this manager determine what constitutes a 'Significant' Vote?

As regulation on vote reporting has recently evolved with the introduction of the concept of 'significant vote' by the EU Shareholder Rights Directive II, LGIM wants to ensure we continue to help our clients in fulfilling their reporting obligations. We also believe public transparency of our vote activity is critical for our clients and interested parties to hold us to account. For many years, LGIM has regularly produced case studies and/ or summaries of LGIM's vote positions to clients for what we deemed were 'material votes'. We are evolving our approach in line with the new regulation and are committed to provide our clients access to 'significant vote' information.

Annual Report

For the Year ended 31 July 2021

In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association (PLSA) guidance. This includes but is not limited to:

- High profile vote which has such a degree of controversy that there is high client and/ or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's
- annual Stakeholder roundtable event, or where we note a significant increase in requests from clients on a particular vote; provided by the Pensions & Lifetime Savings Association (PLSA) guidance. This includes but is not limited to:
- High profile vote which has such a degree of controversy that there is high client and/ or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event, or where we note a significant increase in requests from clients on a particular vote;
- Sanction vote as a result of a direct or collaborative engagement;
- Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

We provide information on significant votes in the format of detailed case studies in our quarterly ESG impact report and annual active ownership publications.

The vote information is updated on a daily basis and with a lag of one day after a shareholder meeting is held. We also provide the rationale for all votes cast against management, including votes of support to shareholder resolutions.

If you have any additional questions on specific votes, please note that LGIM publicly discloses its vote instructions on our website at: <https://vds.issgovernance.com/vds/#/MjU2NQ==/>

Does the manager utilise a Proxy Voting System? If so, please detail

LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and we do not outsource any part of the strategic decisions. Our use of ISS recommendations is purely to augment our own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that we receive from ISS for UK companies when making specific voting decisions

To ensure our proxy provider votes in accordance with our position on ESG, we have put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what we consider are minimum best practice standards which we believe all companies globally should observe, irrespective of local regulation or practice.

We retain the ability in all markets to override any vote decisions, which are based on our custom voting policy. This may happen where engagement with a specific company has provided additional information (for example from direct engagement, or explanation in the annual report) that allows us to apply a qualitative overlay to our voting judgement. We have strict monitoring controls to ensure our votes are fully and effectively executed in accordance with our voting policies by our service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform us of rejected votes which require further action.

Annual Report

For the Year ended 31 July 2021

Diversified Fund: Top 5 Significant Votes during the Period			
Company	Voting Subject	How did the Investment Manager Vote?	Result
Juewei Food Co., Ltd.	Resolution 1 Approve Report of the Board of Directors (date: 07/05/2021)	Against	This resolution was approved by shareholders.
LGIM will continue to engage with the company and monitor progress. Rationale: The company is deemed to not meet minimum standards with regards to climate risk management and disclosure.			
Unisplendour Co., Ltd.	Resolution 10.1 Elect Yu Yingtao as Director (date: 17/05/2021)	LGIM voted against the resolution (management recommendation: for).	99.7% of shareholders supported the resolution.
LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress. Rationale: LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.			
Shopify Inc.	Resolution 1a Elect Director Tobias Luetke (date: 26/05/2021)	Withhold	99.2% of shareholders supported the resolution.
LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress. Rationale: LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 we have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 we are voting against all combined board chair/CEO roles. Furthermore, we have published a guide for boards on the separation of the roles of chair and CEO (available on our website), and we have reinforced our position on leadership structures across our stewardship activities – e.g. via individual corporate engagements and director conferences.			
Pioneer Natural Resources Company	Resolution 1k Elect Director Phoebe A. Wood (date: 27/05/2021)	Against	89.5% of shareholders supported the resolution.
LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress. Rationale: LGIM views gender diversity as a financially material issue for our clients, with implications for the assets we manage on their behalf. For 10 years, we have been using our position to engage with companies on this issue. As part of our efforts to influence our investee companies on having greater gender balance, in 2020, LGIM increased its expectations on gender diversity on the board by placing a vote against the largest 100 companies in the S&P500 and the S&P/TSX where there is less than 25% women on the board. In 2021, we expanded the scope of our vote policy to include all			

Annual Report

For the Year ended 31 July 2021

companies in the S&P 500 and the S&P/TSX. Our expectation is for all companies in this market to reach a minimum of 30% women on the board and at senior management level by 2023.

Pfizer Inc.	Resolution 1.2 Elect Director Albert Bourla (date: 22/04/2021)	Against	94.1% of shareholders supported the resolution.
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LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.

Rationale: LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 we have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 we are voting against all combined board chair/CEO roles. Furthermore, we have published a guide for boards on the separation of the roles of chair and CEO (available on our website), and we have reinforced our position on leadership structures across our stewardship activities – e.g. via individual corporate engagements and director conferences.

Annual Report

For the Year ended 31 July 2021

Dynamic Diversified Fund: Top 5 Significant Votes during the Period			
Company	Voting Subject	How did the Investment Manager Vote?	Result
Aston Martin Lagonda Global Holdings Plc	Resolution 3 Re-elect Lawrence Stroll as Director (date: 25/05/2021)	Against	83.3% of shareholders supported the resolution.
<p>LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.</p> <p>Rationale: LGIM views gender diversity as a financially material issue for our clients, with implications for the assets we manage on their behalf. For 10 years, we have been using our position to engage with companies on this issue. As part of our efforts to influence our investee companies on having greater gender balance, we apply voting sanctions to those FTSE 350 companies that do not have a minimum of 30% women on the board. We also apply voting sanctions to the FTSE 100 companies that do not have 30% women on their executive committee. For smaller companies we expect at least one woman at board level.</p>			
WH Group Limited	Resolution 2a Elect Wan Long as Director (date: 01/06/2021)	LGIM voted against the resolution (against management)	75.2% of shareholders supported the resolution.
<p>LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.</p> <p>Rationale: LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.</p>			
IHS Markit Ltd.	Resolution 1a Elect Director Lance Uggla (date: 05/05/2021)	Against	95.5% of shareholders supported the resolution.
<p>LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.</p> <p>Rationale: LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 we have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 we are voting against all combined board chair/CEO roles. Furthermore, we have published a guide for boards on the separation of the roles of chair and CEO (available on our website), and we have reinforced our position on leadership structures across our stewardship activities – e.g. via individual corporate engagements and director conferences.</p>			
Cummins Inc.	Resolution 1 Elect Director N. Thomas Linebarger (date: 11/05/2021)	Against	89.5% of shareholders supported the resolution.
<p>LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.</p>			

Annual Report

For the Year ended 31 July 2021

Rationale: LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 we have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 we are voting against all combined board chair/CEO roles. Furthermore, we have published a guide for boards on the separation of the roles of chair and CEO (available on our website), and we have reinforced our position on leadership structures across our stewardship activities – e.g. via individual corporate engagements and director conferences.

Koito Manufacturing Co., Ltd.	Resolution 2.1 Elect Director Otake, Masahiro (date: 29/06/2021)	LGIM voted against the resolution (management recommendation: for).	70.1% of shareholders supported the resolution.
<p>LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.</p> <p>Rationale: LGIM views gender diversity as a financially material issue for our clients, with implications for the assets we manage on their behalf. For 10 years, we have been using our position to engage with companies on this issue. As part of our efforts to influence our investee companies on having greater gender balance and following a campaign on gender diversity in Japan in 2019, we decided to escalate our voting policy. In 2020, we announced we would be voting against all companies in the large-cap TOPIX 100 index that do not have at least one woman on their board. In 2021, we expanded the scope of our policy to vote against TOPIX Mid 400 companies that do not have at least one woman on the board.</p>			

World (ex UK) Equity Index Fund: Top 5 Significant Votes during the Period

Company	Voting Subject	How did the Investment Manager Vote?	Result
AmerisourceBergen Corporation	Resolution 3: Advisory Vote to Ratify Named Executive Officers' Compensation (date: 11/03/2021)	LGIM voted against the resolution.	The resolution encountered a significant amount of oppose votes from shareholders, with 48.36% voting against the resolution and 51.63% supporting the proposal.
<p>LGIM continues to engage with US companies on their pay structures and has published specific pay principles for US companies.</p>			

Annual Report

For the Year ended 31 July 2021

<p>Rationale: During the same year the Company recorded a \$6.6 billion charge related to opioid lawsuits, its CEO's total compensation was approximately 25% higher than the previous year. By excluding the settlement costs, the Compensation Committee ensured executive pay was not impacted by an operating loss of \$5.1bn (on unadjusted basis). LGIM has in previous years voted against executives' pay packages due to concerns over the remuneration structure not comprising a sufficient proportion of awards assessed against the company's performance. We voted against the resolution to signal our concern over the overall increased compensation package during a year that the company recorded a \$6.6bn charge related to opioid lawsuits and a total operating loss of \$5.1 billion.</p>			
Sanwa Holdings Corp.	Resolution 2.1 Elect Director Takayama, Toshitaka (date: 22/06/2021)	LGIM voted against the resolution (management recommendation: for).	89.0% of shareholders supported the resolution.
<p>LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress. Rationale: LGIM views gender diversity as a financially material issue for our clients, with implications for the assets we manage on their behalf. For 10 years, we have been using our position to engage with companies on this issue. As part of our efforts to influence our investee companies on having greater gender balance and following a campaign on gender diversity in Japan in 2019, we decided to escalate our voting policy. In 2020, we announced we would be voting against all companies in the large-cap TOPIX 100 index that do not have at least one woman on their board. In 2021, we expanded the scope of our policy to vote against TOPIX Mid 400 companies that do not have at least one woman on the board.</p>			
Principal Financial Group, Inc.	Resolution 1.2 Elect Director Daniel J. Houston (date: 18/05/2021)	Against	94.7% of shareholders supported the resolution.
<p>LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress. Rationale: LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 we have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 we are voting against all combined board chair/CEO roles. Furthermore, we have published a guide for boards on the separation of the roles of chair and CEO (available on our website), and we have reinforced our position on leadership structures across our stewardship activities – e.g. via individual corporate engagements and director conferences.</p>			
Fidelity National Information Services, Inc.	Resolution 1f Elect Director Gary A. Norcross (date: 19/05/2021)	Against	95.7% of shareholders supported the resolution.
<p>LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress. Rationale: LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 we have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 we are voting against all combined board chair/CEO roles. Furthermore, we have published a guide for boards on the separation of the roles of chair and CEO (available on our website), and we have reinforced our position on leadership structures across our stewardship activities – e.g. via individual corporate engagements and director conferences.</p>			

Annual Report

For the Year ended 31 July 2021

Genuine Parts Company	Resolution 1.3 Elect Director Paul D. Donahue (date: 29/04/2021)	Withhold	93.8% of shareholders supported the resolution.
<p>LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.</p> <p>Rationale: LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 we have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 we are voting against all combined board chair/CEO roles. Furthermore, we have published a guide for boards on the separation of the roles of chair and CEO (available on our website), and we have reinforced our position on leadership structures across our stewardship activities – e.g. via individual corporate engagements and director conferences.</p>			

Annual Report

For the Year ended 31 July 2021

e) STATEMENT OF TRUSTEES' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The audited financial statements, which are required 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 the 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 fair and impartial.

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.

The Trustees are responsible for the maintenance and integrity of the Scheme and financial information included on the Scheme's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Annual Report

For the Year ended 31 July 2021

f) COMPLIANCE

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.

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.

Pension Increases

All pensions in payment were increased with effect from 1st April 2020. 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.

Calculation of Transfer Values

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

Approval of the Trustees' Report

The Trustees' Report, which includes the Investment Report, the Implementation Statement, the Report on Actuarial Liabilities and the Statements of Trustees' Responsibilities, was approved by the Trustees on 25 February 2022.

Signed for and on behalf of the Trustees of the University of Aberdeen Superannuation and Life Assurance Scheme on 25 February 2022.

[Redacted Signature]

[Redacted Name]

[Redacted Title]

Annual Report

For the Year ended 31 July 2021

Part 2: Financial Statements

FUND ACCOUNT

for the year ended 31 July 2021

	Notes	£	2021 £	2020 £
Contributions and Benefits				
Contributions receivable - employer	2	3,564,485		3,471,452
Contributions receivable – employee	2	81,733		84,017
Transfers in	3	3,063		5,114
Other income	4	70,472		145,369
			3,719,753	3,705,952
Benefits payable	5	6,376,934		6,162,430
Payments to and on account of leavers	6	245,287		596,774
Life assurance premiums	7	79,817		74,922
Administrative expenses	8	516,373		633,470
			7,218,411	7,467,596
Net withdrawals from dealing with members			(3,498,658)	(3,761,644)
Returns on Investments				
Investment income	9	289,562		125,000
Change in market value of investments	11	13,996,206		9,744,064
Investment management expenses	10	(465,787)		(441,189)
Net returns on investments			13,819,981	9,427,875
Net increase in fund during the year			10,321,323	5,666,231
Net assets of the Scheme at 1 August			169,813,367	164,147,136
Net assets of the Scheme at 31 July			180,134,690	169,813,367

The notes on pages 33 to 46 form part of these financial statements

Annual Report

For the Year ended 31 July 2021

STATEMENT OF NET ASSETS (available for benefits)

	Notes	2021	2020
		£	£
Investment assets:			
Pooled Investment Vehicles	11	179,605,161	168,896,680
Insurance Policies	11	710,618	952,824
AVCs	11	80,853	54,608
Current Assets	15	1,054,767	634,673
Current Liabilities	16	(1,316,709)	(725,418)
		<u>180,134,690</u>	<u>169,813,367</u>

The notes on pages 33 to 46 form part of these financial statements

The Financial Statements summarise the transactions and the net assets of the Scheme. 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 55 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 25 February 2022.

[Redacted Signature]

[Redacted Name]

Annual Report

For the Year ended 31 July 2021

NOTES (forming part of the Financial Statements)

1.1 Identification of Financial Statements

The Scheme is established as a trust under English Law. The address of the Scheme's principal office is Pensions Office, Finance Section, King's College, Aberdeen AB24 3FX

The address for enquiries to the Scheme is included on page 4 of the Trustee's Report.

The Scheme is a registered pension scheme under the Chapter 2, Part 4 of the Finance Act 2004. This means that contributions by employers and employees are normally eligible for tax relief, and income and capital gains earned by the Scheme receive preferential tax treatment.

1.2 Basis of Preparation

The financial statements have been prepared in accordance with the Occupational Pension Scheme (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 the guidance set out in the Statement of Recommend Practice (Revised 2018).

The financial statements are prepared on a going concern basis, which the Trustees believe to be appropriate as they believe that the Scheme has adequate resources to meet obligations as they fall due for at least the next twelve months from the approval of these financial statements.

In reaching this conclusion, the Trustees considered the impact of the COVID-19 outbreak on the Scheme and on the Sponsoring Employer, University of Aberdeen.

On this basis, whilst the impact of the COVID-19 outbreak cannot be accurately predicted, given the strong funding position, the Trustees consider that the Scheme will nevertheless continue to operate. Following this assessment, the Trustees concluded it was appropriate to prepare the financial statements on a going concern basis.

1.3 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.

Currency

The Scheme's functional currency and presentational currency is pounds sterling (GBP).

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.

The LGIM Managed Property Fund included a material uncertainty clause in its valuation as a result of the COVID-19 pandemic. Trading in the fund was suspended with effect from 20 March 2020 until

Annual Report

For the Year ended 31 July 2021

1 October 2020. The valuers of the underlying properties have advised that conditions exist in the real estate markets that may result in uncertainty in the reliability of the valuation reported. Nonetheless, these represent the best estimate of the current valuation at the year-end date and have not been adjusted.

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 most recent Scheme Funding Valuation assumptions updated for market conditions at the reporting date 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.

Benefits Payable

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

Transfer values

Transfer values have been included in the financial statements 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.

Ninety One investment income is accounted for in the period in which it falls due on an accruals basis.

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.

Annual Report

For the Year ended 31 July 2021

	£	2021 £	2020 £
2. Contributions receivable			
Employer – normal	1,816,750		1,722,491
Employer - salary sacrifice, on behalf of the employee	1,022,735		1,023,961
Employer – deficit funding	725,000		725,000
Total employer		3,564,485	3,471,452
Employee – normal	80,653		78,433
Employee - additional voluntary contributions	1,080		5,584
Total employee		81,733	84,017
		3,646,218	3,555,469

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 in equal monthly amounts at a rate £725,000 per annum until January 2029. These are in line with the schedule of contributions/ scheme funding recovery plan in place for the year.

Due to the Covid-19 pandemic, the Trustees have agreed to defer payment of 50% of the deficit funding contributions due for the years to 31 July 2021 and 31 July 2022. As a result of sponsoring employer's improved cash flow position the remaining 50% of the deficit funding contributions due for the year to 31 July 2021 were paid in full in July 2021. The current agreement to pay 50% of the deficit funding contributions for the year to 31 July 2022 remains in place. The deferred amount will be paid in full in equal monthly amounts over the following three years unless the amounts are paid in full in the year ended 31 July 2022 as well.

	2021 £	2020 £
3. Transfers in		
Transfer values received - individuals	3,063	5,114

	2021 £	2020 £
4 Other income		
Claims on term insurance policies	67,251	138,513
Interest received	0	4,070
Sundries	3,221	2,786
	70,472	145,369

Annual Report

For the Year ended 31 July 2021

	2021 £	2020 £
5 Benefits payable		
Pensions payable	5,093,598	4,840,778
Lump sums on retiral	1,160,783	1,018,076
Pensions rectification exercise	0	43,934
Trivial Commutation cash lump sums	0	69,524
Lump sums on death -in- service	67,251	187,676
Lump sums on death -in- deferment	55,302	2,442
	6,376,934	6,162,430

Pension payments include £77,000 (2020: £125,000) of pensions paid directly by the annuity provider.

The Pensions Rectification Exercise in 2020 resulted from a review of the administration procedures for calculating pensions, which the Trustees asked for following a clarification of the Scheme rules relating to equalisation of benefits. The review found that some pensions had been miscalculated so the Trustees arranged for these pensions to be recalculated, with arrears and interest being paid to the pensioners affected. The cost in the current year relates to charges paid to HMRC in respect of these pension arrears.

	2021 £	2020 £
6 Payments to and on account of leavers		
Transfer values payable - individual	201,846	585,638
Refunds to early leavers	20,255	9,142
Tax paid	23,186	1,994
	245,287	596,774

	2021 £	2020 £
7 Life Assurance Premiums		
Current year premium	79,817	74,922

Annual Report

For the Year ended 31 July 2021

	2021 £	2020 £
8 Administrative expenses		
Administration charge	100,519	101,051
Consultants fees	195,813	268,973
Audit fee	12,550	12,500
PPF levy	72,519	97,639
Pension Regulator levy	11,525	10,471
Administration, legal and insurance costs	123,447	142,836
	516,373	633,470

	2021 £	2020 £
9 Investment income		
Annuity income	76,853	125,000
Ninety One dividend	212,709	0
	289,562	125,000

	2021 £	2020 £
10 Investment management expenses		
Investment managers' charges	465,787	441,189

11 Total Investments	<u>Value at 1.8.20</u>	<u>Purchases</u>	<u>Sales</u>	<u>Change in market value</u>	<u>Value at 31.7.21</u>
Pooled Investment Vehicles (PIVs)	168,896,680	20,946,406	(24,451,172)	14,213,247	179,605,161
Insurance policies - annuities	952,824	-	-	(242,206)	710,618
Money Purchase AVCs	54,608	1,080	-	25,165	80,853
	169,904,112	20,947,486	(24,451,172)	13,996,206	180,396,632

Annual Report

For the Year ended 31 July 2021

Concentration of investments:	2021	% of net assets	2020	% of net assets
Diversified Growth fund	47,404,348	26.4	41,428,182	24.5
Dynamic Diversified Growth fund	46,305,278	25.8	41,342,437	24.5
Matching Core Real Long Ser 1	24,393,063	13.6	23,793,660	14.1
Ninety One - Global Total Return				
Credit I Income - 2 Fund	19,778,548	11.1	-	0.0
Matching Core Real Short Ser 1	9,499,340	5.3	9,452,733	5.6
Sterling Liquidity Fund	7,770,565	4.3	13,355,084	7.9

Analysis of Pooled Investment Vehicles:

<u>Type of Fund</u>	2021	2020
Equity	19,778,548	14,235,679
Bond	8,533,535	9,403,292
Property	8,391,944	7,632,719
Diversified Growth	93,709,626	82,770,619
Matching Core	41,420,943	41,499,287
Sterling Liquidity	7,770,565	13,355,084
	<u>179,605,161</u>	<u>168,896,680</u>

Legal and General investments are held in Unit Linked insurance contracts and the Ninety One investments are held in an Open Ended Investment Company.

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.

Annual Report

For the Year ended 31 July 2021

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 levels as follows:

Fair value breakdown at 31 July 2021

Level	1	2	3
Pooled investment vehicles	-	179,817,870	
<i>LGIM Matching Core Fixed Short</i>	-	4,003,120	-
<i>LGIM Matching Core Fixed Long</i>	-	3,525,420	-
<i>LGIM Matching Core Real Short</i>	-	9,499,340	-
<i>LGIM Matching Core Real Long</i>	-	24,393,063	-
<i>LGIM Over 5y Index-Linked Gilts</i>	-	8,533,535	-
<i>LGIM Managed Property</i>	-	8,391,944	-
<i>LGIM Sterling Liquidity Fund</i>	-	7,770,565	-
<i>LGIM Diversified Fund</i>	-	47,404,348	-
<i>LGIM Dynamic Diversified Fund</i>	-	46,305,278	-
<i>Ninety One Global Total Return Credit Fund</i>	-	19,778,548	-
Insurance Policies – Annuities	-	-	710,618
AVC Investments	-	-	80,853
Total	-	179,605,161	791,471

Annual Report

For the Year ended 31 July 2021

Fair value breakdown at 31 July 2020

Level	1	2	3
Pooled investment vehicles	-	161,263,961	-
<i>LGIM World (ex UK) Equity Index</i>	-	7,365,636	-
<i>LGIM World (ex UK) Equity Index - Hedged</i>	-	6,870,043	-
<i>LGIM Over 5y Index-Linked Gilts</i>	-	9,403,292	-
<i>Matching Core Fixed Short</i>	-	3,854,272	-
<i>Matching Core Fixed Long</i>	-	4,398,622	-
<i>Matching Core Real Short</i>	-	9,452,733	-
<i>Matching Core Real Long</i>	-	23,793,660	-
<i>LGIM Managed Property</i>	-	-	7,632,719
<i>Sterling Liquidity Fund</i>	-	13,355,084	-
<i>LGIM Diversified Fund</i>	-	41,428,182	-
<i>LGIM Dynamic Diversified fund</i>	-	41,342,437	-
Insurance Policies – Annuities	-	-	952,824
AVC Investments	-	-	54,608
Total	-	161,263,961	8,640,151

As a result of the COVID-19 pandemic, trading in the LGIM Managed Property Fund was suspended from 20 March 2020 until 1 October 2020. The Fund has therefore been classified as a Level 3 Asset as at 31 July 2020.

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: this is the risk that the value of assets will change due to movements in foreign exchange rates.

Interest rate risk: this is the risk that the value of fixed-rate instruments will change due to movements in market interest rate expectations.

Price risk: this is the risk that the value of a financial instrument will change due to movements in market prices or indices.

The Scheme has a broad strategic allocation of c.70% of investments being in return-seeking assets, designed to deliver a return above that expected of a risk-free of return. The remaining c.30% 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

Annual Report

For the Year ended 31 July 2021

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 Legal & General Investment Management and Ninety One UK Limited. 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 only, then all the investment risks described 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 via the pooled investment vehicle.

Risk exposures over the period	Credit Risk	Currency Risk	Interest Rate Risk	Other Price Risk
LGIM Matching Core Fixed Short	✓	×	✓	×
LGIM Matching Core Fixed Long	✓	×	✓	×
LGIM Matching Core Real Short	✓	×	✓	✓
LGIM Matching Core Real Long	✓	×	✓	✓
LGIM Over 5y Index-Linked Gilts	✓	×	✓	✓
LGIM Managed Property	✓	×	✓	✓
LGIM Sterling Liquidity Fund	✓	×	✓	×
LGIM Diversified Fund	✓	✓	✓	✓
LGIM Dynamic Diversified Fund	✓	✓	✓	✓
Ninety One Global Total Return Credit Fund	✓	✓	✓	✓

Annual Report

For the Year ended 31 July 2021

Investment risks - Credit risk

Credit risk 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.

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 counterparty risk via the LGIM Matching Core Funds, Diversified Fund, and Dynamic Diversified Fund, and the Ninety One Global Return Total Credit Fund which may use derivatives for efficient portfolio management. The LGIM Managed Property Fund, Diversified Fund, Dynamic Diversified Fund, Sterling Liquidity Fund, and the Ninety One Global Return Total Credit fund 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 2021 Scheme year end, c.95%¹ of assets were invested in these 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 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 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.£179.8m at the end of the accounting period which have indirect exposure to credit risk, c.100% of total Scheme assets. In practice, c.£93.7m of this is invested in the Diversified Fund and the Dynamic 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 these Funds.

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

¹ All Scheme Asset Valuations have been calculated without Scheme AVCs included

Annual Report

For the Year ended 31 July 2021

Investment risks – Currency risk

Currency risk is the risk that the value of assets will change due to movements in foreign exchange rates.

During the year the Scheme had some exposure to currency risk through the LGIM Diversified Fund, Dynamic Diversified Fund, and the Ninety One Global Total Return Credit Fund which have the remit to invest in overseas equities and fixed income instruments that may be non-sterling denominated. The Diversified Fund and Dynamic Diversified Fund are both actively managed and partially hedge foreign currency movements.

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 c.£113.7m, c.63% of overall assets. This was through investment in the LGIM Diversified Fund, Dynamic Diversified Fund, and the Ninety One Global Total Return Credit Fund, none of which are 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

Interest rate risk is the risk that the value of fixed-rate instruments will change due to movements in market interest rate expectations.

The liability matching funds managed by Legal and General and the Ninety One Global Total Return Credit fund are the principal sources of exposure to interest rate movements. Approximately 39% of the total assets are invested in these funds, c.£69.9m as at 31 July 2021.

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 these funds has been deemed appropriate by the Trustees, given the profile of the liabilities of the Scheme and after receiving investment advice.

The Scheme also had exposure to changes in interest rate movements via some of the instruments used by the Diversified Fund, Dynamic Diversified Fund, and Sterling Liquidity Fund, although the exposure in these funds 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 c.£179.8m invested in funds which are exposed to interest rate risk, c.100% of overall Scheme assets. However, the exposure through the Diversified Fund and the Dynamic Diversified Fund will typically have a short duration or may be temporary holdings, as part of the managers' active approach to investing.

Annual Report

For the Year ended 31 July 2021

Investment risks - Other risks, including price risk

Price risk is the risk that the value of a financial instrument will change due to movements in market prices or indices.

The LGIM Over 5 Year Index-Linked Gilts, Managed Property, Diversified, Dynamic Diversified, Matching Core Real Long, Matching Core Real Short, and the Ninety One Global Total Return Credit funds are 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. This equates to c.£179.8m of the Schemes assets, c.100%.

The Trustees are aware of these risks and manage 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 81 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.

	2021 £	2020 £
15. Current assets		
Cash in bank	458,741	252,644
Contributions due from the employer	305,127	300,079
Prepaid expenses	78,190	81,950
Other Debtors	212,709	0
	<u>1,054,767</u>	<u>634,673</u>

Other debtors include £212,709 of Ninety One income received post year-end.

	2021 £	2020 £
16. Current liabilities		
Accrued expenses	(354,933)	(272,500)
Unpaid benefits	(949,081)	(452,143)
Other creditors	(12,695)	(775)
	<u>(1,316,709)</u>	<u>(725,418)</u>

17. Related party transactions

The University of Aberdeen, which is the Employer, provides administrative support to the pension scheme and charged £26,800 for this service for the year (2020: £26,800).

At 31 July 2021 the Employer owed £305,127 to the Scheme (2020: £300,079) for the July 2021 contributions. These were paid in August 2021 in accordance with the requirements of the Schedule of Contributions.

Annual Report

For the Year ended 31 July 2021

One active member and one pensioner member are trustees of the Scheme, with contributions and benefits being paid in line with the Scheme Rules.

18. Employer related investments

The Scheme did not hold any employer related investments during the year or at the year end. (2020: none)

19. Contingent Liabilities – GMP equalisation

As explained on page 10 of the Trustees report, on 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Trustees of the Scheme are aware that the issue will affect the Scheme and will be considering this at a future meeting and decisions will be made as to the next steps.

As explained on page 10 of the Trustees report, in November 2020, the High Court handed down a second judgement involving the Lloyds Banking Group's defined pension benefit pension schemes. This latest judgement confirms the Defined Benefit (DB) schemes which provide GMPs need to revisit and where necessary top up historic Cash Equivalent Transfer Values that were calculated based on unequalised benefits. Again, the issues determined by the judgement arise in relation to many other defined benefit pension schemes. The trustees will consider next steps as the scheme has experienced significant historical transfers out which will be subject to adjustment as a result of this second ruling. Any adjustments necessary will be recognised in the accounts for the year in which they are calculated. It is not possible to estimate the value of any such adjustments at this time.

There is still uncertainty surrounding the calculations but based on an initial assessment of the likely backdated amounts and related interest the trustees do not expect these to be material to the financial statements and therefore have not included a liability in respect of these matters in the financial statements. They will be accounted for in the year in which they are determined.

20. COVID-19

As a result of the COVID-19 (Coronavirus) pandemic, there was a dramatic downturn in global markets in March 2020. The outbreak of COVID-19 has resulted in travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand, and general market uncertainty. The effects of COVID-19 have and may continue to adversely affect the global economy, the economies of certain nations, and individual issuers, all of which may negatively impact the Scheme's investment return and the fair value of the Scheme investments

Given the extreme volatility affecting all asset markets, and the extreme global economic uncertainty prevailing, it is not practicable to provide a quantitative estimate of the impact of the virus on the Scheme's assets at this time and no adjustments have been made

The Trustees have designed and implemented an investment strategy which takes a necessarily long-term view, whilst also having built in resilience to withstand short term fluctuations. The

Annual Report

For the Year ended 31 July 2021

Trustees continue to take proactive and considered steps, in conjunction with their advisers, to assess the situation and respond to it.

The LGIM Managed Property Fund included a material uncertainty clause in its valuation as a result of the COVID-19 pandemic. Trading in the fund was suspended with effect from 20 March 2020 until 1 October 2020. The valuers of the underlying properties have advised that conditions exist in the real estate markets that may result in uncertainty in the reliability of the valuation reported. Nonetheless, these represent the best estimate of the current valuation at the year-end date and have not been adjusted

Annual Report

For the Year ended 31 July 2021

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 & Life Assurance Scheme ("the Scheme") for the year ended 31 July 2021 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 2021 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

The Trustees have prepared the financial statements on the going concern basis as they do not intend to wind up the Scheme, and as they have concluded that the Scheme's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the Trustees' conclusions, we considered the inherent risks to the Scheme and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Trustees' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Trustees' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Scheme will continue in operation.

Annual Report

For the Year ended 31 July 2021

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud (“fraud risks”) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Trustees, as to the Scheme’s high-level policies and procedures to prevent and detect fraud, as well as enquiring whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Trustees’ Board minutes.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Trustees (or their delegates including Scheme Management) may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue in a pension scheme relates to contributions receivable as paid under an agreed schedule or pre-determined by the Trustees; there are no subjective issues or judgements required.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted after the first draft of the financial statements have been prepared.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Trustees and Scheme Management (as required by auditing standards), and discussed with the Trustees and Scheme Management the policies and procedures regarding compliance with laws and regulations.

As the Scheme is regulated by The Pensions Regulator, our assessment of risks involved gaining an understanding of the control environment including the Scheme’s procedures for complying with regulatory requirements and reading the minutes of Trustees’ meetings.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Scheme is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related pensions legislation) and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Annual Report

For the Year ended 31 July 2021

Secondly, the Scheme is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation, or the loss of the Scheme's registration. We identified the following areas as those most likely to have such an effect: pensions legislation and data protection legislation, recognising the financial and regulated nature of the Scheme's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Trustees and their delegates and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We have reported separately on contributions payable under the schedule of contributions in our statement about contributions on page 52 of the financial statements.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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 financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Trustees' responsibilities

As explained more fully in their statement set out on page 29, 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

Annual Report

For the Year ended 31 July 2021


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.




for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Date **28 February 2022**

Annual Report

For the Year ended 31 July 2021

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 Schedule.

Trustee Summary of Contributions Payable

During the year ended 31 July 2021, the contributions payable to the Scheme were as follows:

	Employee £	Employer £
Contributions Payable under the Schedule of Contributions		
Normal contributions	80,653	1,816,750
Salary Sacrifice contributions (for employee)	-	1,022,735
Deficit Funding contributions	-	725,000
Total required by the Schedule of Contributions (as reported on by the Scheme Auditor)	80,653	3,564,485
Other contributions payable		
Member – additional voluntary	1,080	-
Total, as per financial statements	81,733	3,564,485

Signed for and on behalf of the Trustees of the University of Aberdeen Superannuation and Life Assurance Scheme on 25 February 2022.

[Redacted signature area]

Annual Report

For the Year ended 31 July 2021

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 schedules of contributions to the University of Aberdeen Superannuation & Life Assurance Scheme in respect of the Scheme year ended 31 July 2021 which is set out on page 52.

In our opinion contributions for the Scheme year ended 31 July 2021 as reported in the summary of contributions and payable under the schedules of contributions have in all material respects, from 1 August 2020 to 28 October 2020 been paid at least in accordance with the schedule of contributions certified by the actuary on 7 January 2019 and subsequently been paid at least in accordance with the schedule of contributions certified by the actuary on 29 October 2020.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the schedules of contributions. This includes 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 schedules of contributions.

Respective responsibilities of trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities set out on page 52 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 schedules of contributions.

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

Annual Report

For the Year ended 31 July 2021

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.




for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Date: **28 February 2022**

Annual Report

For the Year ended 31 July 2021

Actuary's certification of schedule of contributions

University of Aberdeen Superannuation and Life Assurance 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 27 October 2020.

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 27 October 2020.

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



Date

29 October 2020

Name



Qualification

Fellow of the Institute
and Faculty of Actuaries

Address

Scotia House
Castle Business Park
Stirling
FK9 4TZ

Employer

XPS Pensions Consulting Limited

Annual Report

For the Year ended 31 July 2021

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 2019. This showed that on that date:

The value of the Technical Provisions was: £173,600,000

The value of the assets as at that date was: £164,000,000

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 (past service liabilities before retirement)

Bank of England gilt yield curve plus 2.75% per annum at each term
--

Discount rate (past service liabilities after retirement)

Bank of England gilt yield curve plus 0.75% per annum at each term
--

Discount rate (future service liabilities)

The past service liability discount rates plus 0.25% per annum at each term

Future RPI inflation

Risk First Gilt RPI Curve minus 0.15% per annum at each term
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Annual Report

For the Year ended 31 July 2021

Future CPI inflation

Future RPI inflation assumption minus 0.85% per annum at each term

Deferred pension revaluation

Set equal to the Future CPI inflation assumption with relevant caps and floors applied

Future Salary inflation

Set equal to the Future RPI inflation assumption

7.4. Pension increases in payment

GMP accrued before 6 April 1988 (pre '88 GMP)	Nil	Non-increasing
GMP accrued from 6 April 1988 (post '88 GMP)	Future CPI inflation	CPI max 3%
Pension in excess of GMP accrued prior to 2011	Future RPI inflation	RPI
Pension accrued between 2011 and 2020	Future CPI inflation capped at 5%	CPI max 5%
Pension accrued from 2020	Future CPI inflation, reduced by 0.2% p.a. and capped at 3%	CPI max 3%
An overall increase of 3% per annum applies for pension accrued prior to 2011.		

7.5. Mortality before and after Retirement:

The pre and post retirement mortality assumption is set equal to Self-Administered Pension Schemes (SAPS) "S3" tables with a 116% multiplier for males and a 106% multiplier for females. Future longevity improvement is assumed to follow the Continuous Mortality Investigation (CMI) 2018 projection model with a default smoothing parameter of 7.5 and an assumed long term rate of improvement of 1.25% per annum for both males and females.