CHAIRMAN’S STATEMENT

Dear Member

I have pleasure in presenting the Trustees’ Annual Short Report which informs members of the key issues relating to the University of Aberdeen Superannuation and Life Assurance Scheme for the year ending 31 July 2011.

Specifically the Report is a shortened version of the full Trustees’ Report and includes details of membership, the financial position of the Scheme and investment performance. It also incorporates the annual Scheme Summary Funding Statement which provides an indication of the Scheme’s financial security. A copy of the full Trustees’ Report is available on request from the Pensions Office in the Finance Section.

During the year the Trustees met on five occasions. The Scheme’s assets are managed by Legal & General Investment Management and over the year the total value of the Scheme’s assets increased from £81.2 million to £88.8 million. The Trustees regularly review the performance of the fund managers and will continue to do so.

From 1 August 2011, the Scheme moved to a CARE basis for all future service benefits. This change followed extensive consultations between the University, Scheme members and other interested parties.

Under CARE, a block of pension is earned each year, based on the Pensionable Salary for that year, and this block is increased each year by an inflation factor, until retirement. This differs from the Final Salary basis, where pensionable service was earned each year and the total service accrued at retirement was applied to the salary in force at retirement.

The Trustees have received reassurance that the University remains committed to the continuance of the Scheme.

Your pension benefits do not change as a result of investment performance, but are based on your service and pensionable salary. Any cost of those benefits in excess of your contributions is met by the University.

During the year, Towers Watson were the consultants to the Scheme and Mr David Gordon was the Scheme Actuary. Following the year end, Xfinity Consulting were appointed as consultants, and Mr Jonathan Seed was appointed as Scheme Actuary, both with effect from 1 November 2011.

Included in this report are details of some external sources of useful information relating to pensions. Scheme specific information can be obtained from Suzanne Laing in the Pensions Office.

Dr Alistair Mair
Chairman of Trustees
University of Aberdeen Superannuation & Life Assurance Scheme

Trustees’ Short Report 2010-2011

Benefits

- The Scheme provides defined pension and lump sum benefits for members on retirement, or for their dependants on death before or after retirement.

- The University operates Pensions Plus which provides members with a more tax effective way of contributing towards the Scheme.

Pension Increases

In accordance with the Scheme Rules, all pensions in payment in excess of the Guaranteed Minimum Pension (GMP) were increased by 3%. Additional increases were also paid as necessary to bring the overall increase on each member's pension in payment up to 3%.

Membership

Any full or part time employee aged between 18 and 60 is eligible to join the Scheme. The membership of the Scheme is summarised in the following table:

The membership statistics are:

<table>
<thead>
<tr>
<th></th>
<th>31 July 2011</th>
<th>31 July 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active members</td>
<td>615</td>
<td>742</td>
</tr>
<tr>
<td>Pensioners</td>
<td>947</td>
<td>905</td>
</tr>
<tr>
<td>Deferred Members</td>
<td>618</td>
<td>574</td>
</tr>
</tbody>
</table>

Contributions

During the Scheme year, contributions were paid in accordance with Scheme Rules. The employee contribution rate is 7.05%, and the University's contribution rate is 17.1% of pensionable salaries plus the death-in-service premium.

Additional Voluntary Contributions

You may improve your benefits by paying Additional Voluntary Contributions (AVCs) to a money purchase AVC policy with Prudential (Scheme A).

Members with maturing Scheme A benefits can defer the purchase of an annuity to a date later than the date they take their main scheme benefits, although an annuity must be purchased by age 75. The Pensions Office can provide full details.

It is now also possible to effect, within certain limits, a Stakeholder Pension concurrently but it is recommended that Independent Financial Advice is taken when considering this option.
### Income and Expenditure

This is a short extract from the Annual Accounts:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net assets of Scheme at 1 August</strong></td>
<td>81,225,999</td>
<td>67,651,951</td>
</tr>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members' Ordinary Contributions</td>
<td>20,282</td>
<td>41,758</td>
</tr>
<tr>
<td>Members' Scheme B AVCs</td>
<td>76,554</td>
<td>75,822</td>
</tr>
<tr>
<td>University Contributions</td>
<td>3,282,771</td>
<td>3,631,013</td>
</tr>
<tr>
<td>Transfer Values</td>
<td>126,600</td>
<td>81,665</td>
</tr>
<tr>
<td>Other Income</td>
<td>142,367</td>
<td>17,244</td>
</tr>
<tr>
<td><strong>Total Income (A)</strong></td>
<td>3,648,574</td>
<td>3,847,502</td>
</tr>
<tr>
<td><strong>Expenditure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pensions</td>
<td>3,086,551</td>
<td>2,818,040</td>
</tr>
<tr>
<td>Lump Sums</td>
<td>1,576,616</td>
<td>706,171</td>
</tr>
<tr>
<td>Transfer Values</td>
<td>948,425</td>
<td>652,068</td>
</tr>
<tr>
<td>Other benefits for leavers</td>
<td>18,372</td>
<td>32,335</td>
</tr>
<tr>
<td>Insurance premiums</td>
<td>127,683</td>
<td>118,336</td>
</tr>
<tr>
<td>Administration charges</td>
<td>410,386</td>
<td>337,057</td>
</tr>
<tr>
<td><strong>Total Expenditure (B)</strong></td>
<td>6,168,033</td>
<td>4,664,007</td>
</tr>
<tr>
<td><strong>Returns on Investments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>187,070</td>
<td>2,240,653</td>
</tr>
<tr>
<td>Change in market value of investments</td>
<td>10,127,107</td>
<td>12,442,431</td>
</tr>
<tr>
<td>Investment management expenses</td>
<td>(228,687)</td>
<td>(292,531)</td>
</tr>
<tr>
<td><strong>Net returns on investments (C)</strong></td>
<td>10,088,490</td>
<td>14,390,553</td>
</tr>
<tr>
<td>Net increase/(decrease) in fund over year (A minus B plus C)</td>
<td>7,569,031</td>
<td>13,574,048</td>
</tr>
<tr>
<td><strong>Net assets of Scheme at 31 July</strong></td>
<td>88,795,030</td>
<td>81,225,999</td>
</tr>
</tbody>
</table>
Scheme Assets

The Trustees are obliged by law to manage the assets of the Scheme in such a way as to ensure they will be sufficient to meet the increasing liabilities now and in the future. The assets accrue in three principal ways: contributions from the members and the University, investment income and capital appreciation. The day-to-day management of the assets has been delegated to Legal & General Investment Management.

The Trustees have established a "Statement of Investment Principles" in accordance with the guidelines set by the Myners Code of UK institutional investment. This Code is a voluntary statement of best practice and is a set of investment principles for pension funds. It covers such key areas as decision-making procedures, the fund's objectives, asset allocation, adequate expert advice, fund managers' mandates, appropriate benchmarks and performance measurement and transparency of reporting.

The Trustees have procedures in place to review and update the Statement if appropriate, at least once a year. A copy of the full Statement of Investment Principles is available from the Pensions Office on request.

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.

Legal & General's investment objective is to maintain the Scheme's distribution close to the benchmark and within the stated ranges.

Investment Strategy

One of the key duties of the Trustees is to set the ongoing investment strategy of the Scheme and ensure that it remains appropriate. It is important that a balance is set between retaining investment stability and long-term growth potential against taking unnecessary risk for short-term gain. To help the Trustees achieve this balance, they work closely with their professional investment managers who implement all day-to-day investment decisions, and monitor their performance on an ongoing basis.

The table below summarises the overall spread of investments.

<table>
<thead>
<tr>
<th></th>
<th>31 July 2011</th>
<th>31 July 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK Equities</td>
<td>20.1</td>
<td>28.7</td>
</tr>
<tr>
<td>Overseas Equities</td>
<td>49.2</td>
<td>44.1</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>7.4</td>
<td>-</td>
</tr>
<tr>
<td>Fixed Interest UK Bonds</td>
<td>7.5</td>
<td>12.3</td>
</tr>
<tr>
<td>Index Linked Bonds</td>
<td>15.8</td>
<td>12.0</td>
</tr>
<tr>
<td>Cash</td>
<td>-</td>
<td>2.9</td>
</tr>
</tbody>
</table>
University of Aberdeen Superannuation & Life Assurance Scheme

Trustees’ Short Report 2010-2011

Auditors

The Income and Expenditure statement in this Short Report is an abbreviated version of the full Accounts of the Scheme. These form part of the formal Trustees’ Report and the accounts were audited as required by the Regulations by KPMG, the appointed auditors.

Trustees & Advisers

The Trustees responsible for the Scheme at the end of the year were:-

Dr Alistair Mair        Independent Chairman
Mr Steven John Cannon  University Secretary
Mrs Diane Massie       Elected Member Representative
Mr Brian Paterson      Elected Member Representative
Ms Irene Bews          Director of Finance
Vacant                  University Court Member

Appointment of Trustees

The arrangements for appointing membership representatives comply with the Member Nominated Trustee requirements of the Pensions Act 2004. The current member-nominated trustees have been elected to serve for the three year period to July 2013.

The specialist advisers appointed by the Trustees are:-

Actuary                Mr David Gordon (to 31 October 2011)
                        Mr Jonathan Seed (from 1 November 2011)
Consultants           Towers Watson Ltd (to 31 October 2011)
                        Xfinity Consulting (from 1 November 2011)
Administrators         Xfinity Paymaster
Auditors               KPMG LLP
Investment Managers    Baillie Gifford & Co (to September 2010)
Legal Advisers         Legal & General Investment Management (from October 2010)
Bankers               McGrigors LLP
                        Bank of Scotland PLC
Nomination Forms

If you die in service there is a lump sum benefit of 3 times your salary at date of death, plus a return of contributions, plus interest. This payment is normally free of inheritance tax and is payable under the discretionary powers of the Trustees. You are recommended to make your wishes known to the Trustees by completing a Nomination Form which will give guidance to the Trustees on how this lump sum should be paid on death in service. The Forms are held in confidence and may be lodged in a sealed envelope. The Form can be revised from time to time if your circumstances change.

As the Trustees have now expanded the definition of “dependant” to cover partners (of either sex) a second Nomination Form, called the Potential Dependant Nomination Form, has been introduced. Details can be found in the members’ booklet.

Both forms are available on the University's pension website www.abdn.ac.uk/finance/pensions, or from the Pensions Office. It is important that these forms are kept up to date.

Disputes

There is a procedure for dealing with any dispute involving a member of the Scheme and the necessary forms are available from the Pensions Office in the Finance Section. The arbiter appointed to deal with the first stage of any dispute is Mrs Margaret Stevenson. There were no disputes during the Scheme year.
University of Aberdeen Superannuation and Life Assurance Scheme
Summary Funding Statement 2010-2011

The following questions and answers are intended to assist you in understanding the purpose of the Summary Funding Statement and the information provided within it.

Why are you providing a statement on the funding of the Scheme?
Members have always been able to request detailed information about the funding of the Scheme. However, current legislation means that the Trustees must now automatically provide you with a summary of the funding position.

How often will I receive a Summary Funding Statement?
A statement similar to this statement will usually be provided on an annual basis to all Scheme members and beneficiaries.

What must this statement include?
The Summary Funding Statement has to contain a number of different pieces of information. These include:
- the funding position at the last formal valuation;
- the steps being taken to eliminate any funding shortfall;
- an estimate of the position if the Scheme had been ‘wound up’;
- an explanation of any change in the funding position from that disclosed in the Summary Funding Statement provided last year.

In addition, you have to be informed as to whether or not any payment has been made to the University of Aberdeen (‘the University’) from the Scheme since the date of the previous Summary Funding Statement.

How is the Scheme funded?
The Scheme pays retirement pensions and, following a member’s death, may pay benefits to dependants. The money to provide these benefits comes from contributions paid to the Scheme. These contributions are then invested by the Trustees and held in a common fund from which the benefits are paid.

Active members of the Scheme currently contribute 7.05% of their pensionable salary (either directly or via Pension Plus). The University pays the balance of the cost of providing the benefits and the expenses of running the Scheme. Accordingly, the Scheme’s ability to pay the benefits depends on the continuing financial support of the University.

What is the funding objective when setting the University’s contribution rate?
The Pensions Act 2004 introduced a Statutory Funding Objective requiring pension plans to have sufficient assets to cover their ‘technical provisions’, namely the liabilities accrued to date. In plain English, this translates into an objective that the ongoing Scheme should have enough money at any time to:
- continue to pay existing retirement pensions to current pensioners;
- pay future lump sums and retirement pensions in respect of the accrued benefit entitlements of current employees (active members) and former employees (deferred members).
University of Aberdeen Superannuation and Life Assurance Scheme
Summary Funding Statement 2010-2011

How are the University’s contributions determined?

To determine how much money the Scheme requires from the University, the Trustees obtain valuations once every three years from the Scheme Actuary.

These compare the value of the benefits earned by the members to the valuation date with the value of the existing Scheme assets – to give the accrued funding position - along with assessing the estimated cost of future benefits that will be earned by the members under the Scheme.

In a valuation, assumptions have to be made such as expected investment returns on the Scheme’s assets, how salaries might change, and how long members are expected to live. Inevitably, actual experience will vary from the previous assumptions made, and the assumptions about the future will be reassessed at each subsequent valuation. As a result, the level of required contributions will fluctuate over time.

What happens if the funding level is below the target?

If an actuarial valuation shows Scheme assets to be less than the accrued liabilities, the Trustees have to agree a Recovery Plan with the University that is aimed at eliminating the funding shortfall within an agreed timescale. This would usually entail the payment of extra contributions by the University (on top of those for future benefit accrual).

Benefits will continue to be paid in full from the ongoing Scheme if the funding level is temporarily below target. However, the Trustees may reduce transfer values to allow for the funding position of the Scheme.

When is the next formal valuation of the Scheme?

The next formal actuarial valuation of the Scheme is due to be carried out as at 31 July 2013. The Trustees will receive, in the interim, approximate updates on the funding position from the Scheme Actuary on a yearly basis.

What happens if the Scheme were to be wound-up?

‘Winding up’ a pension scheme means terminating the scheme. In this circumstance, the Scheme’s assets would be used to secure individual members’ benefits with an insurance company.

If the Scheme were to wind up and, at that time, there were insufficient Scheme assets to enable accrued benefits to be fully secured, the University would be legally required to make good the balance of the cost.

However, if the University were then insolvent and unable to pay the full balance, not all members would receive the full amount of their benefits due under the Scheme. Accordingly, there is a risk that, if the University becomes insolvent at some time in the future and triggers a winding-up of the Scheme, benefits could be cut back for some or all members.

To provide some ‘safety net’ for a pension plan winding up with insufficient assets at a time when the sponsoring employer is insolvent, the Government has established the Pension Protection Fund to ensure the provision of a minimum level of compensation.

Please note that the attached Summary Funding Statement is required by law to set out an estimate to the solvency position had the Scheme been wound up. This does not mean that the University is currently considering winding up the Scheme.
University of Aberdeen Superannuation and Life Assurance Scheme
Summary Funding Statement 2010-2011

Where can I get more information about the Pension Protection Fund?

More information is available from the Pension Protection Fund’s website at www.pensionprotectionfund.org.uk, or by writing to the Pension Protection Fund at: Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

Why are the costs associated with winding up so high?

You will see from this Summary Funding Statement that the 31 July 2010 valuation shows a ‘shortfall’ on winding-up which is significantly greater than the on-going ‘shortfall’. This is because the estimated cost of securing the accrued benefits with an insurance company is significantly greater than the anticipated cost of paying benefits from the Scheme as a continuing entity.

Insurers are obliged to take a very cautious view of the future due to statutory solvency margin requirements and the fact that if they underestimate the true cost they cannot subsequently go back to the Trustees for extra funds; in addition, they need to make a profit. In contrast, whilst the Scheme continues, the Trustees can follow a more balanced and diversified investment strategy with the intention of reducing the overall cost, reflecting the continuing existence of the University and after taking into consideration its financial strength.

I have some questions about this statement, who can I contact?

Post:  Pensions Office
       Finance Department
       University of Aberdeen
       King’s College
       Aberdeen
       AB24 3FX

Telephone:  01224 27 22 89  E-mail: pensions@abdn.ac.uk

Where can I get further information about the Scheme?

The following information relating to the ongoing management of the Scheme is available to you.

- The Statement of Funding Principles which sets out how the Scheme will be funded.
- The Schedule of Contributions which sets out how much money is being paid into the Scheme and when.
- The Recovery Plan which explains how the funding shortfall is being made up.
- The Statement of Investment Principles which sets out the principles applied to the investment of the Scheme assets.
- The Annual report and accounts which set out the Scheme’s income and expenditure.
- The members’ booklet, which explains the main features of the Scheme.
- The latest full Actuarial Valuation Report.
- The Actuary’s most recent interim updating report.

The above documents can be obtained by writing to the Pensions Office and are also available to download from: https://www.abdn.ac.uk/finance/staff/pensions/

Do I need to inform you of a change in my personal circumstances?

Yes, please help us to keep in touch with you by telling us if you change your address, your name or your marital status. To do so, you should write to the Pensions Office.

If for any reason you are thinking of leaving the Scheme you should consider seeking professional independent financial advice before making any decision.
University of Aberdeen Superannuation and Life Assurance Scheme
Summary Funding Statement 2010-2011

The latest actuarial valuation
The most recent formal actuarial valuation of the Scheme was carried out as at 31 July 2010.

The following summarises the accrued funding position as at that date, assuming that the Scheme would continue to operate as a going concern and would not be wound up:

- Value of Scheme assets £81.0m
- Value of accrued liabilities £96.8m
- Shortfall £15.8m
- Funding level 84%

The value of accrued liabilities (the 'technical provisions') represented the Trustees' estimate of the sum required at the date of valuation to meet all future benefit payments in respect of members' service to the date of valuation.

With the aim of removing the funding shortfall, the University agreed to pay contributions of:
  - 1.3% of members' pensionable salary from 1 April 2011 to 31 July 2011; increasing to
  - 5.8% of members' pensionable salary from 1 August 2011 to 31 July 2028.

These are on top of contributions paid by the University to meet the cost of benefit accrual for members' service after the valuation date and the expenses of running the Scheme.

More up-to-date information
The following summarises the estimated updated funding position of the Scheme as at 31 July 2011, assuming that the Scheme would continue to operate as a going concern and would not be wound up. The position as at the previous valuation date, 31 July 2010, is also shown for comparison.

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of Scheme assets</td>
<td>£88.6m</td>
<td>£81.0m</td>
</tr>
<tr>
<td>Value of accrued liabilities</td>
<td>£108.7m</td>
<td>£96.8m</td>
</tr>
<tr>
<td>Shortfall</td>
<td>£20.1m</td>
<td>£15.8m</td>
</tr>
<tr>
<td>Funding level</td>
<td>82%</td>
<td>84%</td>
</tr>
</tbody>
</table>

Change in funding position since the previous Summary Funding Statement
The shortfall increased from £15.8m to £20.1m between 31 July 2010 and 31 July 2011. The increase in the shortfall is mainly due to an increase in the value of the Scheme's liabilities. Changes in economic conditions and market interest rates since the previous valuation have affected the assumptions used to value the liabilities and have led to an increase in the liabilities. Although the value of the Scheme assets has also increased, changes in interest rates have led to a greater increase in the liabilities.
University of Aberdeen Superannuation and Life Assurance Scheme
Summary Funding Statement 2010-2011

Winding up

As required by legislation, as part of the formal valuation of the Scheme the Actuary assessed the funding position if the Scheme had been wound up as at 31 July 2010.

The following summarises the position at that date, assuming that the Scheme had wound up:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of Scheme assets</td>
<td>£ 81.0m</td>
</tr>
<tr>
<td>Value of winding up liabilities</td>
<td>£ 155.8m</td>
</tr>
<tr>
<td>Shortfall</td>
<td>£ 74.8m</td>
</tr>
<tr>
<td>Solvency level</td>
<td>52%</td>
</tr>
</tbody>
</table>

The shortfall is an estimate of the additional sum that would have been required from the University to ensure that all members' benefits could have been paid in full had the Scheme wound up on 31 July 2010.

Providing 'winding up' information is a formal legal requirement and does not imply that the University was considering winding-up the Scheme.

The Pensions Regulator

In certain circumstances the Pensions Regulator can direct how the Scheme's technical provisions must be calculated, can set the period for eliminating any funding shortfall, can specify the level of employer contributions to be paid - rather than leaving these issues to be determined by the Trustees – and has the power to modify the Scheme's future accrual of benefits.

No such circumstances have arisen.

Payments to the University

Money can only be paid back to the University from the Scheme in very limited circumstances such as when the Scheme's assets are higher than the cost of buying the benefits out with an insurance company.

There has not been any payment to the University out of Scheme funds since the date of the last Summary Funding Statement.