University of Aberdeen Superannuation and Life Assurance Scheme
Member presentation – Scheme Investments

7 June 2016
What we will cover

- Pension Scheme Investments
- What are the main types?
  - Bonds
  - Equities
  - Alternative assets
- The Scheme’s Investments
Pension Scheme Investments

- Trustees’ **primary duty** – to ensure the assets are sufficient to pay all benefits
- Held **separately** from the University
- Assets kept in line with long term target through **investment returns** on existing assets and **cash contributions** from the University and members

- The main characteristics of any asset are **risk and return**
- The Trustees invest the Scheme assets in a **mix of asset types**
- There is a wide (and growing) range of asset types to select from
- The Trustees must seek advice when setting the Scheme’s investment strategy
Types of Investments (Bonds)

- **What is a bond?**
  - A loan to a company or government
  - In return, the investor receives interest payments and gets his/her money back after an agreed period
  - Very good market with bonds available over wide range of terms

- **Why are bonds useful for pension schemes?**
  - Good for matching pension payments, so a good investment for pension schemes
  - Expected to change in value in a similar way to the Scheme’s liabilities.
  - Known as ‘matching assets’.

- **What are the main characteristics?**
  - Seen as ‘less risky’ than Equities
  - Lower long term return expectations than equities
Types of Investments (Equities)

- **What are equities?**
  - Shares in the ownership of a business
  - An investment in the performance of the company

**Why are equities useful for pension schemes?**
- Provide higher expected returns than bonds
- Expected to keep up with inflation

- **How do pension schemes invest in equities?**
  - Via a fund manager (funds may be active or passive)
  - Passive funds aim to track the main equity markets in the UK and overseas

- **What are the main characteristics of equities?**
  - Higher expected long term return than bonds, but
  - Values are more volatile leading to increased risk
Types of Investments (Alternative)

- There are **other types of assets** available to the Trustees.
- For example:
  - **Property**; investment in a property itself or in a property fund.
  - **Infrastructure**; investment in transport projects, roads, railways etc.
  - **Commodities**; investment in various commodities including metals, oil, agriculture products etc.
  - **Private equity**; investment in privately held companies.
  - And many more …
- These tend not to form the majority of a pension scheme’s asset portfolio but are used to help ‘diversify’ the overall expected returns.
- **Diversification** (or ‘spread’) of assets helps to **reduce risk** and the likelihood that all of the assets in a portfolio perform poorly at the same time.
The Trustees have a ‘Statement of Investment Principles’.
This sets out the Scheme’s **detailed investment strategy**, including a break
down of the asset types held and the expected returns.
The Trustees, with advice from their investment consultants, review this regularly
to ensure that the strategy remains appropriate.
After each review, steps are taken to adjust the strategy if necessary.
The table below shows how the Scheme’s assets are currently invested:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Type of Asset</th>
<th>Allocation (% of total assets)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK Equity Index Fund</td>
<td>Equity</td>
<td>15%</td>
</tr>
<tr>
<td>World (ex UK) Equity Index Fund</td>
<td>Equity</td>
<td>40%</td>
</tr>
<tr>
<td>Index Linked Gilts (Over 5 Years) Index Fund</td>
<td>Bond</td>
<td>25%</td>
</tr>
<tr>
<td>Property Fund</td>
<td>Alternative</td>
<td>7.5%</td>
</tr>
<tr>
<td>Diversified Fund</td>
<td>Equity</td>
<td>12.5%</td>
</tr>
</tbody>
</table>
Questions?

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