

**UNIVERSITY OF ABERDEEN SUPERANNUATION AND LIFE  
ASSURANCE SCHEME  
STATEMENT OF INVESTMENT PRINCIPLES–AUGUST 2010**

**Introduction**

- 1** In order to fulfil its obligations under Section 35(1) of the Pensions Act 1995, as amended by section 244 of the Pensions Act 2004 and Statutory Instrument 2005 No. 3378 (The Occupational Pension Schemes (Investment) Regulations 2005), the Trustees of the University of Aberdeen Superannuation and Life Assurance Scheme (the Scheme) are required to prepare a Statement of Investment Principles, in accordance with its power of investment under Clause 60 of the Definitive Trust Deed.
- 2** The Trustees have consulted and will consult with the investment consultant, Scheme Actuary, as appropriate, in regularly reviewing this document. The Trustees have also consulted and will consult with the University of Aberdeen as the principal employer.
- 3** A copy of this Statement, as revised from time to time, will be provided to the investment managers, the investment consultant, the Actuary and the University.
- 4** In preparing this document the Trustees have had regard to the requirements of the Pensions Act concerning diversification of investments and suitability of investments and the Trustees will consider those requirements on any review of this document or any change in their investment policy. The Trustees will refer to this document where necessary to ensure that they exercise their powers of investment so as to give effect to the principles set out in it as far as is reasonable.

**Myners Code**

- 5** The Myners Code makes a number of recommendations for the governance, investment and monitoring of the Scheme's assets. The Trustees have reviewed the arrangements for the Scheme in the light of the Code. The Trustees are not remunerated in their capacity as Trustees and believe that this approach is appropriate. The Trustees have formulated an annual business plan which will form the basis for future reviews of Trustee performance. Other issues raised by the Code are considered within the rest of this document.

**Investment Decisions**

- 6** The Trustees are responsible for investment policy, asset allocation strategy, manager structure, mandates, selection and review, and for investment monitoring. The Trustees recognise that these responsibilities require a high level of skill and expertise, and they will undertake training and seek advice from their professional advisors as required.
- 7** The Trustees delegate functions to an investment subcommittee. This subcommittee comprises the Trustees together with individuals appointed by the Trustees from within the University.
- 8** In accordance with the Financial Services and Markets Act 2000, the Trustees will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed Investment Manager or Managers. This may include the use of pooled funds managed by an insurance company or companies. Under Section 36 of the Pensions Act, such investments are termed direct investments and are classed as retained

investments. It is therefore the Trustees' policy to obtain appropriate advice regarding the suitability of such investments on a regular basis. In each case, the investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Plan competently.

- 9 Investment managers have been appointed for all aspects of the day to day management of the assets of the Scheme, including the selection of appropriate assets, and the administration and safe-keeping of those assets, within certain mandates.
- 10 The Trustees have not delegated any decision-making other than delegating the day-to-day management of the investments to Legal & General Investment Management, the currently appointed investment managers. They consider that this is appropriate, having regard to the size of the Scheme. The Trustees have agreed that at present the assets of the Scheme will be invested as set out in part 19 of this document.

All investment decisions relating to the Scheme are under the control of the Trustees without constraint, by the University.

- 11 The Trustees agree with the principle of separate competition for actuarial and investment contracts. However, the Trustees believe that the current arrangement (using a single advisory firm for both actuarial and investment advice) has certain advantages for the Scheme. They will continue with this arrangement until it ceases to be appropriate.
- 12 The Scheme's advisors are paid either on a project basis, or on a time-cost basis, within agreed budgets.
- 13 The investment consultant has a particular responsibility to assist in monitoring the Scheme's managers and to help review the investment strategy.

#### **General Investment Objectives/Strategy**

- 14 The principal objective is to ensure that at all times the assets and returns thereon are sufficient to meet the liabilities of the scheme as they fall due. Investment policies are agreed in the context of the Scheme's Statement of Funding Principles. These policies have the objective of trying to avoid undue volatility in contribution rates.
- 15 The Trustees consider that an asset allocation policy for the Scheme which corresponds to this benchmark will ensure that the assets of the Scheme include suitable investments, that those assets are appropriately diversified and that there is a reasonable expectation of meeting the objectives in part 14 of this document. The Trustees also believe that the resulting asset mix is currently appropriate for controlling the risks identified in part 41.
- 16 The Trustees will review their investment strategy regularly and will follow the results of any actuarial valuation in consultation with the Actuary and the consultant.
- 17 The fund has a scheme specific benchmark in place.

#### **Mandates**

- 18 The investment mandate with Legal & General Investment Management dated [XX August 2010] and as amended from time to time reflects the above objectives and strategy. The investment managers are remunerated on a fee basis calculated on the value of the assets under management.

## Strategic Asset Allocation

- 19** The Trustees' policy is that there should be sufficient investments in liquid or readily realisable assets to meet cash flow requirements in the majority of foreseeable circumstances. The asset allocation strategy is agreed for the Scheme as a whole with differing elements of that overall strategy applied to each respective manager, if applicable. The asset allocation strategy is shown in part 22 of this document. The Trustees also consider that where asset allocations as a whole have moved away from the overall benchmark, that this will be corrected over time through cash flow (ongoing contributions from members and the University) together with rebalancing carried out by the investment manager.
- 20** The Trustees do not directly hold any employer-related investments, as defined by section 40 of the Pensions Act 1995.

## Manager structure

- 21** Legal & General Investment Management are employed as passive investment managers to the Scheme. All day-to-day investment decisions are delegated to properly qualified and authorised fund managers of pension fund portfolios. An Investment Management Agreement has been exchanged with the managers and this is reviewed from time to time to ensure that the manner in which the managers make investments on the Trustees' behalf is suitable for the scheme and appropriately diversified.
- 22** The performance objective is to achieve a rate of return in line with a benchmark consisting of the following assets over:

Asset Allocation	Benchmark	Control Ranges	Indices
UK equities	20.0%	+/-2.00%	FTSE All Share
Overseas equities	50.0%	+/-2.50%	FTSE World (ex UK)
<i>Bonds:</i>			
UK Fixed Interest	7.5%	+/-0.75%	FTSE Over 15 Years UK Gilt Index
UK Index Linked Gilts	15.0%	+/-1.50%	FTSE Over 5 Years Index-Linked Index
Corporate Bonds	7.5%	+/-0.75%	iBoxx Non-Gilts Over 15 Year Index

- 23** The benchmark weightings will be allowed to drift daily in accordance with the movements of the component indices relative to each other, but will be rebalanced on a quarterly basis.

## Kinds of Investments/Suitability

- 24** The Trustees have selected investment managers who hold only the kinds of investments which are deemed to be suitable for pension schemes and in accordance with the Trust Deed and Rules of the scheme.
- 25** The Trustees have discretion as to the appropriate investment vehicles made available to members of the scheme for their voluntary contributions. Members may make voluntary contributions to the scheme itself to accrue higher benefits and any such contributions will be invested in the assets managed by the Investment Managers. The Trustees take advice from properly qualified consultants on the type of investment vehicle suitable for voluntary contributions. The current vehicles available to members are range of funds administered by Prudential Assurance.

## **Socially Responsible Investing**

- 26** When appointing or reviewing the appointment of investment managers the Trustees will seek to appoint investment manager(s) which encourage best corporate practice in the areas of environmental and social impact provided this does not act to the detriment of the return or risk to the scheme.
- 27** The Trustees will obtain a Statement from the investment manager setting out their policy and will require the Investment Manager to notify them if that policy changes.

## **Corporate Governance**

- 28** When appointing or reviewing the appointment of investment managers, the Trustees will seek to appoint an investment manager which encourages best corporate practice in the areas of corporate governance, and will vote with the scheme shares at Companies' general meetings. The Trustees will obtain a statement from the investment managers setting out their policy and will require the manager to notify them if and when that policy changes. The Trustees are aware that this area is currently under review by the UK Government, and will implement any changes as required by future legislation.

## **Realising Investments**

- 29** Investments may be realised from the investment portfolios as required to provide funds to make payment of benefits and costs under the scheme. The investment managers have discretion to realise investments within the portfolios for the purpose of making new investments. The selection of individual investments within the funds to be realised is at the discretion of the investment managers.

## **Scheme Funding**

- 30** The Trustees commission actuarial valuations in line with the requirements of the Pensions Act 2004 and associated Regulations (including the Code of Practice issued by the Pensions Regulator). The main purpose of these investigations is to review the financial position of the Scheme relative to the Statutory Funding Objective, which is then recorded in the Statement of Funding Principles established by the Trustees having taken actuarial advice and consulted the University. If a shortfall of assets relative to Technical Provisions is identified, the Trustees, in consultation with the University, will prepare a Recovery Plan for the Scheme. The Recovery Plan will aim to restore the Scheme to a balanced position over an agreed period from the valuation date.
- 31** The Trustees consider that the Investment Principles outlined in this document are consistent with the Statement of Funding Principles and the Recovery Plan. The Trustees will continue to monitor closely progress of the Scheme against this Plan.

## **Monitoring the Investment Managers**

- 32** All investment decisions and the overall performance of the Investment Managers are monitored by the Trustees with the assistance of the investment consultant.
- 33** The investment managers provide the Trustees with quarterly statements of the assets held along with a quarterly report on the results of the past investment strategy and the recommended future policy, and any changes to the processes applied to their portfolios.
- 34** The investment managers will inform the Trustees of any changes in the internal performance objective and any guidelines of any pooled managed funds in which the Trustees may invest.

- 35** The Trustees will assess the quality of the performance and processes of the investment managers and of the managers' compliance with the requirements of the Pensions Act 1995, as amended by section 245 of the Pensions Act 2004 from time to time.
- 36** The Managers are required to inform the Trustees immediately of any breach of this statement, any serious breach of internal operating procedures, or any material change in the knowledge and experience of those involved in managing the Scheme's investments.

### **Risk Management**

- 37** The Trustees recognise a number of risks involved in the investment of the assets of the Scheme:
- Solvency risk and mismatching risk:
    - are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies
    - are managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.
  - Manager risk:
    - is measured by the expected deviation of the prospective risk and return, as set out in the manager(s)' objectives, relative to the investment policy
    - is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the manager(s)' investment process
  - Liquidity risk:
    - is measured by the level of cashflow required by the Scheme over a specified period
    - is managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy
  - Political risk:
    - is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention
    - is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy
  - Sponsor risk:
    - is measured by the level of ability and willingness of the University to support the continuation of the Scheme and to make good any current or future deficit
    - is managed by assessing the interaction between the Scheme and the University's business, as measured by a number of factors, including the creditworthiness of the University and the size of the pension liability relative to a number of metrics reflecting the financial strength of the University
- 38** The Trustees continue to monitor these risks.

## **Review of Statement**

- 39** This statement will be reviewed regularly and following an unscheduled actuarial valuation triggered by Pensions Act 1995 or a valuation requested by the Regulator under the scheme specific requirements of the Pensions Act 2004.
- 40** The Trustees will also monitor as appropriate at the formal meetings with the investment managers, investment consultant and Actuary that the various reviews mentioned in this Statement are carried out.