



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
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- 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 Scheme's Investments



- 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;

<i>Fund</i>	<i>Type of Asset</i>	<i>Allocation (% of total assets)</i>
UK Equity Index Fund	<i>Equity</i>	15%
World (ex UK) Equity Index Fund	<i>Equity</i>	40%
Index Linked Gilts (Over 5 Years) Index Fund	<i>Bond</i>	25%
Property Fund	<i>Alternative</i>	7.5%
Diversified Fund	<i>Equity</i>	12.5%

Questions?



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