XPS Investment

University of Aberdeen Superannuation and Life Assurance Scheme

Statement of Investment Principles

October 2021

Statement of Investment Principles

The Trustees of the University of Aberdeen Superannuation and Life Assurance Scheme ("the Scheme") have prepared this Statement of Investment Principles ("the SIP") in accordance with the Pensions Act 1995 ("the Act") as amended and the Occupational Pension Scheme (Investment) Regulations 2005 as well as the principles recommended by the Myners Code.

It supersedes any previous SIP and reflects the investment policy agreed by the Trustees in respect of assets covering Defined Benefit liabilities, Defined Benefit liabilities and AVCs.

This SIP will be reviewed at least every three years or immediately after any significant change in investment policy.

Before preparing this SIP the Trustees have:

- Obtained and considered the written advice from the Scheme's Investment Consultant, XPS Pensions Group, who is suitably qualified through ability and experience and has appropriate knowledge.
- Consulted the employer.

Choosing investments

The Trustees set the investment strategy and investment policies for the Scheme.

The Trustees have considered the Scheme's liabilities and strength of Employer covenant when setting the investment strategy and policies.

The Trustees rely on Investment Managers for the day-to-day management of the Scheme's assets but retain control over all decisions made about the investments in which the Scheme invests.

Where Investment Managers are delegated discretion under Section 34 of the Act, the Investment Manager will exercise their investment powers in accordance with the Act, relevant and subsequent regulations, and this SIP.

The Trustees rely on the Investment Managers to appoint appropriate Custodians for pooled funds who are responsible for the safekeeping of the assets of the Scheme.

The Trustees rely on the Investment Managers to appoint appropriate Administrators or Registrars for pooled funds who are responsible for keeping records of the Scheme's entitlement within the pooled funds.

Investment objective and strategy

Investment objective

The Trustees have set the following objectives:

- To achieve a fully funded position on a Technical Provisions basis by 31 January 2029. In particular, the discount rate used in calculating the value of assets required underpinning that target is gilts + 2.75% p.a. before retirement and +0.75% p.a. after retirement.
- To implement an investment strategy targeting a return of 2.0% pa in excess of gilts, where gilts are represented by the UK 10 year nominal gilt yield..
- To acquire suitable assets to achieve the above objective whilst controlling volatility and the long-term costs of the Scheme.
- To adhere to the provisions contained within this SIP.

Investment strategy

The Trustees intend to meet the investment objective by investing in a diversified portfolio of return-seeking and liability-matching assets.

The Trustees can utilise a wide range of passively and actively managed investments, including (but not limited to):

- Assets or funds primarily utilised to match liability risk (typically movements in long term interest rates and inflation) including gilts, swaps and repos and the use of derivatives and leverage.
- Assets or funds primarily used to outperform the liabilities over the long term including equity, private markets, hedge funds, commodities, currency, bon ds and other forms of credit, property, infrastructure and insurance including the use of derivatives and leverage. Illiquid assets can be used where a higher return or lower risk is expected.
- Assets or funds primarily used to provide immediate liquidity such as cash or cash instruments.
- Assets or funds that combine liability outperformance, liability hedging or liquidity characteristics including the use of derivatives and leverage.
- Annuity or insurance policies designed to match the specific characteristics of the Scheme’s liabilities or membership.

Alignment of Incentives

Based on the structure set out in Appendix A, 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 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 because their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – is 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.

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 Trustee therefore makes decisions about the retention of Investment Managers, accordingly.

Voting Rights

As the Scheme invests in pooled funds, the Trustees acknowledge that it cannot directly influence the policies and practices of the companies in which the pooled funds invest. It has therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers.

The Trustees encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees.

If the Trustees become aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that it deems inadequate or that the results of such engagement are mis-aligned with the Trustees' expectations and the investment mandate guidelines provided, then the Trustees may consider terminating the relationship with that Investment Manager.

Investment restrictions

The Trustees intend to adhere to the following restrictions:

- No more than 5% of Scheme assets can be held in investments related to the Employer.
- Whilst borrowing on a temporary basis is permitted, this option will only be utilised where absolutely necessary or where it is expected to reduce overall risk (e.g. for very short time periods during an asset transfer).
- Investment in derivative instruments may only be made where they contribute to risk reduction or facilitate efficient portfolio management.
- Stock lending is permitted at the discretion of the Scheme's Investment Managers in line with their overall investment objectives, policies and procedures.

Investment risk

The Trustees have identified a number of risks including (but not limited to):

- Employer covenant risk
- Liability risks: Interest rate risk, Inflation risk, Longevity risk
- Asset risks: Equity risk, Property risk, Currency risk, Credit risk, Interest rate risk, Inflation risk
- Strategy risks: Asset allocation risk, Liquidity risk (including collateral risk), Growth asset risk (including currency risk)
- Implementation risks: Investment manager risk, Counterparty risk, Operational risk
- Environmental, Social and Governance risks: the risk that environmental, social and governance factors are not given significant consideration. This is addressed by having a policy whereby such factors are given appropriate consideration in relation to current and future decisions made.

These risks are measured and managed by the Trustees as follows:

- The Trustees have set an investment strategy that adheres to the contents of this SIP.
- The Trustees receive strategic investment advice from the Investment Consultant that may include risk modelling and quantification (e.g. Value at Risk) whenever strategic changes are considered.
- The Trustees undertake regular monitoring of the Scheme's investments supplemented by information provided by both the Investment Managers and Investment Consultant, as well as advice from the latter.
- The Trustees periodically assess the strength of the Employer covenant and uses external expertise where appropriate.
- The Trustees delegate the day-to-day management of some of these risks to the appointed Investment Managers.
- The Trustees consider the Investment Managers' role and approach to managing risk is considered when selecting appropriate Investment Managers.
- The Trustees utilise custodian relationships to ensure Scheme assets are held securely.
- The Trustees assess whether appropriate controls are put in place by themselves, the Investment Consultant, Investment Managers and Custodians (where there is a direct relationship).

Realising investments

The Trustees recognise that assets may need to be realised to meet Scheme obligations at any time.

The Trustees will ensure that an appropriate amount of readily realisable assets are held at all times, and this will be part of the assessment for including new investments within the strategy.

The Trustees will from time to time agree a policy for sourcing cash from the investments as required. Further details are set out in the Appendix A.

Monitoring

Portfolio Turnover Costs

The Trustees require the Investment Manager to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

Investment Manager Duration

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.

Performance and Remuneration Reporting

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.

Responsible investment

The Trustees have determined their approach to financially material considerations over the Scheme's long term funding horizon – including environmental, social and corporate governance ("ESG") factors – by acknowledging that there can be risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's investment managers. The Trustees require the Scheme's investment managers to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustees will seek advice from the Investment Adviser 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. Furthermore, the Trustees, along with assistance for the Investment Adviser, will 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 this Statement.

The Trustees have delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the investment managers and encourages them to vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

Further, the Trustees' policy is that non-financial matters[1] should not be taken into account in the selection, retention and realisation of investments.

[1] "Non- financial matters for this purpose is defined as the (where non-financial matters means the views of the members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the Scheme.

Fees

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Adviser to ensure it is in line with the Trustee's policies and with fee levels deemed by the Investment Adviser to be appropriate for the particular asset class and fund type.

Signed on behalf of the Trustees:

Signature: ....

Name: ....

Date: ....

Appendix A – Investment strategy

Overall strategy

The Trustees are currently reviewing the strategic allocation of the asset portfolio. The current allocation as of October 2021 is set out below.

Asset class	Strategic Allocation	Manager and fund	Objective
Multi-Asset	22.5%	Legal & General Dynamic Diversified Fund	Outperform the Bank of England base rate by 4.5% per year (before fees) with a maximum of two thirds equity volatility.
Multi-Asset	22.5%	Legal & General Diversified Fund	Provide long-term investment growth through exposure to a diversified range of asset classes.
LDI	30.0%	Legal & General Matching Core Funds	Index produced in conjunction with Markit – designed to include both swaps and gilts
Fixed Interest and Index-Linked Gilt Funds		Legal & General Unleveraged Gilt Bucket Funds	Provide exposure to a single fixed interest or index-linked Gilt
Secure Income	12.5%	Legal & General Secure Income Fund	Provides an attractive risk adjusted return and income in exchange for reduced liquidity and some complexity
Multi-Sector Credit	12.5%	Ninety-One Global Total Return Credit	Provides diversified exposure to a range of credit asset classes, which are contractual in nature with income streams
	100%		

Rebalancing investments

The Scheme does not have any formal rebalancing arrangements in place. The Trustees will review the allocation quarterly and if required will instruct the Investment Managers to rebalance towards the strategic allocation.

Realising investments

The Scheme invests in the Legal & General Secure Income fund and the NinetyOne Global Total Return Credit, which are designed to provide the Scheme a regular income stream. Where assets need to be realised in excess of this income, the Trustees will consult with the Investment Consultant regarding the source and timing of disinvestments. It is envisaged that where assets need to be realised, the source of disinvestments will be:

- 50% Legal & General Dynamic Diversified Fund
- 50% Legal & General Diversified Fund

AVCs

The Trustees made the following AVC investment available to members of the Scheme:

- Former Scot Am – Omni Pension (Series 3)

The AVC option was closed to new entrants in 2011. The Trustees will review the AVC provider in the light of its performance on a periodic basis. Performance of this fund will be measured relative to the individual benchmarks and objectives for the funds offered and/or to other providers offering similar fund options.

The Trustees are aware that members' AVC fund is subject to the same risks faced by the Scheme's investments, such as inflation risk eroding real returns. In addition, AVC members face the risk that their investments will not meet their future expectations (for example, if they are planning to purchase an annuity at retirement), lack of transparency on how their fund is managed and also that their AVC fund may fall in value.

Appendix B – Fund Benchmarks & Fees

Manager and fund	Manager Benchmark	Performance Target	Management Fees (AMC)
Legal & General Dynamic Diversified Fund	Bank of England base rate +4.5% p.a.	Base rate +4.5% per annum	0.38% p.a.
Legal & General Diversified Fund	FTSE Developed World Index - 50% GBP Hedged	Deliver a return in line with benchmark with 2/3rds of the volatility	0.30% p.a. for the first £25m 0.025% p.a. thereafter
Legal & General Matching Core Funds	Index produced in conjunction with Markit – designed to include both swaps and gilts	To deliver a return in line with respective benchmarks	0.20% p.a. for the first £7.5m 0.17% p.a. for the next £20.0m 0.15% p.a. thereafter
Legal & General Unleveraged Gilt Bucket Funds	Fund-specific benchmarks in line with respective Treasury Gilt	To deliver a return in line with respective benchmarks	0.1% p.a. for the first £5m 0.075% p.a. for the next £5m 0.050% p.a. for the next £20m 0.03% p.a. thereafter
Legal & General Secure Income Fund	Markit iBoxx £ Gilts 5 – 15 Years Index	To deliver a return of 2.5% p.a. above the benchmark measured over 3 year periods	0.15% p.a. for the first two years then 0.35% p.a. for the first £20m 0.033% p.a. for the next £30m 0.030% p.a. for the next £50m 0.29% thereafter
Ninety-One Global Total Return Credit	ICE LIBOR 3 Month GBP	Deliver a return of benchmark +4% p.a.	0.35% p.a.

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