

# University of Edinburgh Staff Benefits Scheme

Annual Report and Financial Statements

31 March 2023

Scheme Registration Number: 10102234

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## SECTION 1 – TRUSTEE AND ITS ADVISERS

### THE TRUSTEES

The Trustees of the University of Edinburgh Staff Benefits Scheme are set out below:

#### University appointed

Mr Richard Davidson (retired 31 July 2022)

Ms Doreen Davidson (retired as an individual trustee 31 December 2022)

Scottish Pension Trustees Limited (represented by Julia Miller) (Chair - retired as an individual trustee 31 December 2022)

Mrs Ashley Shannon (resigned 29 July 2022)

EUSBS Trustees Limited (appointed 25 July 2022)  
(represented by Mrs Ashley Shannon)

#### Trustee Directors

##### University appointed

Ms Doreen Davidson (appointed 31 December 2022)

Scottish Pension Trustees Limited (represented by Julia Miller) (Chair - appointed 31 December 2022)

Mrs Ashley Shannon (appointed 25 July 2022)

Ms Kathryn Graham (appointed 10 August 2023)

##### Secretary to the Trustee

#### Member nominated

Mr Khushaal Joshi (retired as an individual trustee 31 December 2022)

Ms Lauren Reid (retired 31 July 2022)

#### Member nominated

Mr Khushaal Joshi (appointed 31 December 2022)

Mr James Hardacre (appointed 3 February 2023)

Mrs Ann Fraser (until 1 September 2023)

Pensions Manager

Charles Stewart House, 9-16 Chambers Street  
Edinburgh

EH1 1HT

Mr Andrew Mills (from 1 September 2023)

Hymans Robertson LLP

20 Waterloo Street

Glasgow

G2 6DB

### ADVISERS

The advisers to the Trustee are set out below:

#### Actuary

Susan McIlvogue of Hymans Robertson LLP

#### Auditor

RSM UK Audit LLP

#### Legal Adviser

Shepherd & Wedderburn LLP

#### Administrator

The University of Edinburgh

Hymans Robertson LLP

#### Investment Adviser

Hymans Robertson LLP

**TRUSTEE AND ITS ADVISERS (CONTINUED)**

**ADVISERS (CONTINUED)**

**Investment Managers**

Adams Street Partners LLC  
Baillie Gifford & Co  
Barings LLC  
Legal & General Investment Management  
Legal & General Investment Management Build to  
Rent Fund LP (appointed 5 August 2022)  
Morgan Stanley Investment Management Ltd  
Threadneedle Investments Ltd

**AVC Providers**

Standard Life

**Custodians**

BNP Paribas Securities Services and  
Administration Ltd  
BNY Mellon  
Citi  
HSBC  
Northern Trust  
State Street Bank and Trust Company

**Bankers**

Barclays Plc

**Principal Employer**

The University Court of the University of  
Edinburgh

## SECTION 2 – TRUSTEE’S REPORT

The Trustee of the University of Edinburgh Staff Benefits Scheme is pleased to present its report together with the audited financial statements and actuarial statements of the Scheme for the year ended 31 March 2023. The purpose of the report is to describe how the Scheme and its investments have been managed during the year.

Further information on the Scheme can be obtained from Ann Fraser, Pensions Manager, 9 - 16 Chambers Street, Edinburgh, EH1 1HT.

## MANAGEMENT OF THE SCHEME

### LEGAL STATUS

The Scheme is a Registered Pension Scheme under the provisions of Schedule 36 of the Finance Act 2004.

The University of Edinburgh Staff Benefits Scheme was governed by a Definitive Trust Deed and Rules dated 17 May 1968 with subsequent amendments. The most up to date version of the Trust Deed and Rules is dated January 2017 and supersedes the previous version. Two deeds of amendment dated June 2022 came into effect during the period which amended the rules under which Trustees are appointed.

### TRUSTEE

The Trustees of the Scheme are appointed under the terms of the Trust Deed and Rules and, with effect from 31 December 2022, the Trustee directors of the Scheme are appointed under the terms of both the Trust Deed and Rules and the articles of association of EUSBS Trustees Limited.

The University Court of the University of Edinburgh as principal employer may by that Deed appoint or replace Trustees, subject to the statutory requirements relating to member-nominated trustees. Trustees appointed to 31 December 2022, Trustee Directors appointed since then as at 31 March 2023 and any changes during the year then ended or since the year end are given on page 1. The term of office of a Member Nominated Trustee / Trustee Director is 6 years.

### Principal Employer’s powers to appoint Trustees under Scheme Rules

The rules on the Trustee’s length of office were changed with effect from 4 June 2022 as follows:

“A trustee appointed (or re-appointed) under Clause 8.2.1 shall be appointed for a period of 4 years (or for such period as the Principal Employer shall determine)”. The rules relating to member nominated trustees are as follows:

- c. There shall be such number of member-nominated Trustees as are required in terms of section 16 of the Pensions Act 1995, who shall be selected in accordance with such arrangements as are made by the Trustees pursuant to that section and in accordance with the appropriate rules (within the meaning of section 20 of the Pensions Act 1995). A person selected in accordance with such arrangements and the appropriate rules shall, upon being so selected, automatically become a Trustee of the Scheme and shall hold such office until such time as he or she ceases to hold office in accordance with those arrangements resigns by notice in writing given to the other Trustees or dies.

***Mr Joshi and Mr Hardacre were appointed under this term.***

**TRUSTEE'S REPORT (CONTINUED)****TRUSTEE (CONTINUED)**

The terms on which Trustees other than member nominated trustees are appointed state as follows:

**Principal Employer's powers to appoint Trustees under Scheme Rules**

Under clause 8.2.1 of the Scheme's rules, the Principal Employer shall, subject to the Scheme's requirements for member nominated trustees, appoint as Trustees:

- (i) one person chosen from amongst those persons holding the offices of Principal, Vice Principal, Secretary or Director of Corporate Services of the University of Edinburgh or such other person nominated by the Principal of the University and agreed to by the Principal Employer who holds a senior executive position at the University and;
- (ii) such further persons as the Principal Employer may determine from time to time.

***Mrs Shannon was appointed under point (i). Ms Davidson, Scottish Pension Trustees Limited (represented by Julia Miller), EUSBS Trustees Limited and Ms Graham were appointed under point (ii).***

***All appointments since 25 July 2022 have been made in accordance with the equivalent provisions of the articles of association of EUSBS Trustees Limited.***

The Trustees / Trustee met 4 times during the year at full board meetings, with additional meetings of the investment sub-committee and governance sub-committee during the year and ad-hoc meetings to discuss the 31 March 2021 valuation as and when required. All decisions are taken by simple majority with the Chair having the casting vote.

The Trustee has established the following committees:

- Investment sub-committee (meets quarterly).
- Governance sub-committee (meets at least bi-annually)

both of which are governed by terms of reference approved by the main Board.

The Trustee has delegated the day-to-day management and operation of the Scheme's affairs to professional organisations as set out on page 1. The Trustee has written agreements in place with each of them.

**TRUSTEE'S REPORT (CONTINUED)****FINANCIAL DEVELOPMENT OF THE SCHEME**

The financial statements have been prepared and audited in accordance with regulations made under Section 41(1) and (6) of the Pensions Act 1995.

The fund account shows that the net assets of the Scheme decreased from £537,046,290 at 31 March 2022 to £418,675,734 at 31 March 2023. The decrease in net assets is accounted for by:

|   | <b>31 March<br/>2023</b> | <b>31 March<br/>2022</b> |
|---|--------------------------|--------------------------|
|   | <b>£</b>                 | <b>£</b>                 |
| Member related income   | 18,356,970               | 12,570,872               |
| Member related payments                                       | (17,958,137)             | (17,998,588)             |
| <b>Net additions/(withdrawals) from dealings with members</b> | <b>398,833</b>           | <b>(5,427,716)</b>       |
| Net returns on investments                                    | (123,197,593)            | 34,086,114               |
| <b>Net (decrease)/increase in the year</b>                    | <b>(122,798,760)</b>     | <b>28,658,398</b>        |
| Net assets at start of year                                   | 537,046,290              | 508,387,892              |
| <b>Net assets at end of year</b>                              | <b>414,247,530</b>       | <b>537,046,290</b>       |

**PENSION INCREASES**

The Scheme provides for guaranteed increases on pensions in payment as follows:

- Pension in excess of Guaranteed Minimum Pension ("GMP") built up before 6 April 1997 which can be commuted for a lump sum does not increase once in payment.
- Remaining pension in excess of GMP built up before 6 April 1997 will increase in line with Consumer Price Index ("CPI") up to a maximum of 6% per annum.
- Pension built up after 5 April 1997 and before 1 January 2011 will increase in line with CPI up to a maximum of 6% per annum.
- Pension built up after 1 January 2011 and before 1 January 2017 will increase in line with Retail Price Index ("RPI") up to a maximum of 5%.
- Pension built up after 1 January 2017 will increase in line with CPI up to a maximum of 5%.

During the Scheme year, pension increases were applied in accordance with the Scheme Rules as follows:

- Pensions in payment were increased with effect from 1 April 2022 as follows:
  - Pension in excess of GMP built up before 6 April 1997 which can be commuted for a lump sum: 0%.
  - Remaining pension in excess of GMP built up before 6 April 1997: 3.1%.
  - Pension built up after 5 April 1997 and before 1 January 2011: 3.1%.
  - Pension built up after 1 January 2011 and before 1 January 2017: 4.9%.
  - Pension built up after 1 January 2017: 3.1%.
  - GMPs accrued before 6 April 1988: 0% (increases in line with the annual rise in RPI are guaranteed by the State)
  - GMPs accrued after 5 April 1988: 3% (in accordance with the statutory revaluation orders)
- Deferred pensions were increased in accordance with statutory requirements.
- All increases were in accordance with the Trust Deed and Rules of the Scheme or legislative requirements. There were no discretionary increases awarded in the year.

**TRUSTEE'S REPORT (CONTINUED)****SCHEME BENEFITS**

Benefits for service accrued up to 31 December 2010 are based on final salary with all benefits accrued from 1 January 2011 onwards based on a Career Average Revalued Earnings ("CARE") arrangement basis.

The normal retirement age for all members in respect of pre 1 January 2017 service is 65. The normal retirement age for all members in respect of post 1 January 2017 service is aligned to State Pension Age.

**TRANSFER VALUES**

The individual transfer values paid out of the Scheme have been calculated and verified as prescribed in Section 97 of the Pension Schemes Act 1993. The transfer values paid were not reduced below the actuarially calculated value.

**ACTUARIAL POSITION**

The Financial Statements set out on pages 26 to 42 do not take into account the liabilities to provide pension benefits which fall due after the year end. The most recent valuation of the Scheme was carried out as at 31 March 2021. This showed that there was a deficit in the Scheme of £43m relative to the technical provisions. Following completion of the valuation, a Schedule of Contributions was certified by the Scheme Actuary on 23 June 2022 and is summarised below:

**In respect of future accrual of benefits:**

The University will pay the following:

|                  |  |
|------------------|--|
| From 1 July 2022 | 34.9% of Pensionable Salary less the applicable member contribution rate |
|------------------|--|

Members will pay the following:

|                  |                            |
|------------------|----------------------------|
| From 1 July 2022 | 9.1% of Pensionable Salary |
|------------------|----------------------------|

Where an active member participates in the salary sacrifice arrangements, the University will pay the appropriate additional contribution to the Scheme in lieu of salary.

**In respect of the shortfall in funding:**

In accordance with the Recovery Plan dated 23 June 2022, the University will pay the following in respect of the shortfall:

- £3,388,568.09 paid in June 2022;
- £1.5m payable in April 2023;
- £1.5m payable in April 2024; and
- An amount payable annually, starting from April 2025 with the final payment due in April 2029, which will be a proportionate contribution reflecting the period from 1 April 2029 to 31 December 2029. The amount payable will be equal to £1.1m plus any increase in the Consumer Price index from September 2021 to the September preceding the payment date.

The Trustee has been granted a number of contingent assets by the University. These consist of securities over a number of properties owned by the University. Each security is subject to a standard security agreement and becomes enforceable if an event of default occurs. Such events include the insolvency of the University or it ceasing to carry on business.



**TRUSTEE'S REPORT (CONTINUED)****ACTUARIAL POSITION (CONTINUED)**

The formal actuarial certificate required by statute to be included in this Annual Report from the Scheme Actuary appears in Section 7.

**REPORT ON ACTUARIAL LIABILITIES**

Under Section 222 of the Pensions Act, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits built up by members, based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the University, and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full valuation of the Scheme was carried out as at 31 March 2021. This showed:

- The value of the technical provisions was £551m
- The value of the assets was £508m

The table on the next page summarises the method and key assumptions used in the 31 March 2021 actuarial valuation, together with those used for the previous valuation, and the reasons for any change.

The actuarial method used to calculate the technical provisions was the projected unit method.

The next actuarial valuation is due to take place as at 31 March 2024.

**TRUSTEE'S REPORT (CONTINUED)****REPORT ON ACTUARIAL LIABILITIES (CONTINUED)**

| Assumption                      | This valuation   | Previous valuation*  | Rationale for change  |
|---------------------------------|--|--|---|
| Discount rate                   | Market implied gilt yield curve plus 1.6% p.a.   | 3.19% pa   | Changes in Hymans reporting, approach is consistent to previous valuation   |
| RPI inflation                   | Market implied RPI curve less 0.2% p.a. inflation risk premium   | 3.12% pa   | Changes in Hymans reporting, approach is consistent to previous valuation   |
| CPI inflation                   | RPI curve less 1.0% p.a. up to 2030 and RPI curve less 0.1% p.a. thereafter  | 2.12% pa   | Changes in Hymans reporting and to allow for the RPI-CPI consultation, with RPI expecting to become CPI-H in 2030 |
| Salary inflation                | CPI curve plus 1.0% p.a.   | 3.12% pa   | Changes in Hymans reporting, approach is consistent to previous valuation   |
| Mortality – base table          | 2020 VITA tables   | SAPS S2 tables with scheme-specific adjustments:<br><b>Non-pensioners</b><br>117%/ 109% for males/ females<br><b>Pensioners</b><br>111%/ 105% for males/ females | Updated based on latest Club Vita analysis.   |
| Mortality – future improvements | CMI 2020 model with an initial addition to improvements of 0.5% and a long term rate of improvement of 1.5% p.a. for males and females | CMI 2017 core projections with long-term improvement rate of 1.5% pa for men and women   | Updated to reflect the latest mortality improvements by CMI   |

\*A full yield curve approach has been used, where the discount rate and inflation assumption varies by term. The financial assumptions shown above are approximate single equivalent rates based on the benefit cashflows for the Scheme.

**PENSION INCREASES (IN PAYMENT)**

Inflation-linked pension increase assumptions are derived from the relevant RPI/CPI inflation assumption allowing for maximum and minimum annual increases.

**TRUSTEE'S REPORT (CONTINUED)****SCHEME MEMBERSHIP**

The reconciliation of the Scheme membership during the year ended 31 March 2023 is shown below:

|   |              |
|---|--------------|
| Active Members                            |              |
| <b>As at 31 March 2022</b>                | <b>1,637</b> |
| Prior year adjustment                     | 1            |
| <b>As at 1 April 2022</b>                 | <b>1,638</b> |
| New joiners                               | 202          |
| Retirements                               | (48)         |
| Leavers – deferred                        | (94)         |
| Leavers - refund                          | (23)         |
| Leavers with benefits pending             | (13)         |
| Death in service                          | (2)          |
| Transfers out                             | (2)          |
| Other Leavers                             | (3)          |
| <b>Active Members as at 31 March 2023</b> | <b>1,655</b> |

|  |              |
|--|--------------|
| Pensioner Members (including spouses and dependants) |              |
| <b>As at 31 March 2022</b>                           | <b>2,302</b> |
| Retirements  | 94           |
| Deaths   | (83)         |
| Spouses and dependants                               | 24           |
| Full commutation                                     | (1)          |
| <b>Pensioner Members as at 31 March 2023</b>         | <b>2,336</b> |

|   |              |
|---|--------------|
| Deferred Pensioner Members                            |              |
| <b>As at 31 March 2022</b>                            | <b>2,215</b> |
| Leavers from active membership                        | 94           |
| Transfers out from deferred membership                | (4)          |
| Retirements   | (46)         |
| Deaths  | (2)          |
| Other   | (4)          |
| <b>Deferred Pensioner Members as at 31 March 2023</b> | <b>2,253</b> |

The prior year adjustment relates to late notification of membership movements to the Scheme Administrators.

## TRUSTEE'S REPORT (CONTINUED)

# INVESTMENT REPORT

### MARKET REVIEW

The following market review provides an update on the major developments in the global economy and performance of asset classes relevant to the Scheme's investments over the 12 months to 31 March 2023.

Global growth slowed over 2022 amid soaring interest rates and inflation but falling energy prices, strong labour markets, and firm consumption have led to an unexpected resilience in recent economic data. As a result, 2023 GDP forecasts for the major advanced economies have seen upwards revisions in recent months. However, the quarterly pace of global growth is expected to ease from here as the lagged impact of interest rate increases weighs on activity and the boost from China's re-opening fades.

Year-on-year headline CPI inflation peaked at 11.1%, 10.6% and 9.1% in the UK, eurozone and US, respectively in the second half of 2022. Despite an easing in inflation, largely owing to falling energy prices, headline CPI remains elevated in March 2023, at 10.1%, 6.9% and 5.0% in the UK, eurozone and US, respectively. Core inflation measures, which exclude volatile energy and food components, also remain well in excess of central bank targets: year-on-year core CPI in the UK, eurozone and US stood at 6.2%, 5.7%, and 5.6% in March 2023.

In response, the major central banks have embarked on one of the most aggressive rate hiking cycles on record amidst concerns that core inflation might become ingrained. Interest rates were raised from historically low levels; reaching 5.0% p.a., 4.25% p.a., and 3.0% p.a., in the US, UK, and eurozone, respectively. High inflation and interest rate rises saw yields and volatility rise sharply in government bond markets. In the wake of the UK's mini-budget in September selling of gilts by leveraged investors threatened to get out of, with yields only falling back from their September peak following intervention by the Bank of England. UK 10-year yields increased from 1.6% p.a. to 3.5% p.a. while equivalent US yields rose 1.2% p.a., to 3.5% p.a., and German yields increased 1.7% p.a., to 2.3% p.a.

UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, fell 0.8% p.a. to 3.6% p.a.

Despite recent tightening, inflation and growth concerns weighed on credit markets over the past year, with global investment grade credit spreads widening 0.3% p.a. to 1.5% p.a. and speculative-grade credit spreads widening 0.9% p.a., to 5.1% p.a.

Despite rallying strongly since its low in October 2022, the FTSE All World Index Total Return Index fell 5.0% over the period. Energy was the best performing sector, boosted by surging oil and gas prices. Consumer discretionary and technology were among the worst performing sectors over the year amidst cost-of-living pressures and rising rates, while recent banking stresses resulted in a significant hit to financial stocks.

The improvement in consumer and business sentiment in Europe, on the back of falling gas prices, led European equities to outperform. UK equities also experienced an outperformance due to above average exposure to the energy sector and sterling weakness for the most part of 2022, particularly against the dollar, which flattered the large proportion of overseas earnings in the index.

The UK sterling and Japanese yen fell 2.7% and 4.2% respectively over the past 12 months in trade-weighted terms while equivalent dollar and euro measures rose 4.2% and 2.9%, respectively.

**TRUSTEE'S REPORT (CONTINUED)****INVESTMENT REPORT (CONTINUED)****MARKET REVIEW (CONTINUED)**

The MSCI UK Monthly Property Total Return Index declined 14.7% year-on-year primarily due to a 18.8% fall in capital values. Values fell across the three main commercial sectors and were most pronounced in the industrial sector.

**PORTFOLIO REVIEW**

The Trustee has a mix of active and passive pooled investment mandates and have appointed investment managers within a structure as follows:

**PORTFOLIO VALUATION**

|  | 31 March 2023      |                               | 31 March 2022      |                               |
|--|--------------------|-------------------------------|--------------------|-------------------------------|
|  | Market value<br>£  | Percentage<br>of total<br>(%) | Market value<br>£  | Percentage<br>of total<br>(%) |
| <b><i>Global equities</i></b>              |                    |                               |                    |                               |
| Baillie Gifford                            | 43,734,080         | 10.6                          | 76,524,195         | 14.4                          |
| Legal and General                          | 45,668,275         | 11.0                          | 92,768,272         | 17.5                          |
| <b>Total Equities</b>                      | <b>89,402,355</b>  | <b>21.6</b>                   | <b>169,292,467</b> | <b>31.9</b>                   |
| <b><i>Liability driven investments</i></b> |                    |                               |                    |                               |
| Legal and General                          | 130,617,135        | 31.6                          | 100,958,598        | 19.0                          |
| <b><i>Multi-Asset Credit</i></b>           |                    |                               |                    |                               |
| Barings                                    | 42,654,842         | 10.3                          | 48,783,016         | 9.2                           |
| <b><i>Property</i></b>                     |                    |                               |                    |                               |
| Threadneedle                               | 25,155,403         | 6.1                           | 40,834,060         | 7.7                           |
| Legal and General                          | 14,745,386         | 3.6                           | -                  | 0.0                           |
| <b>Total Property</b>                      | <b>39,900,789</b>  | <b>9.7</b>                    | <b>40,834,060</b>  | <b>7.7</b>                    |
| <b><i>Private Equity</i></b>               |                    |                               |                    |                               |
| Morgan Stanley                             | 38,599,439         | 10.5                          | 39,164,702         | 8.6                           |
| ASP Global Fund                            | 9,104,107          | 2.1                           | 1,445,830          | 0.3                           |
| <b>Total Private Equity</b>                | <b>47,703,546</b>  | <b>12.6</b>                   | <b>40,610,532</b>  | <b>8.9</b>                    |
| <b><i>Private Debt</i></b>                 |                    |                               |                    |                               |
| Barings                                    | 33,353,623         | 8.1                           | 26,784,935         | 5.0                           |
| <b><i>Diversified Growth</i></b>           |                    |                               |                    |                               |
| Baillie Gifford                            | 23,281,686         | 5.6                           | 75,423,458         | 14.2                          |
| <b><i>Sterling Liquidity</i></b>           |                    |                               |                    |                               |
| Legal and General                          | 2,211,829          | 0.5                           | 21,740,638         | 4.1                           |
| <b>Total</b>                               | <b>409,125,805</b> | <b>100.0</b>                  | <b>524,427,704</b> | <b>100.0</b>                  |

Note: Percentages may not add due to rounding. Valuations shown on a bid value basis where possible.

The Investment Strategy is agreed by the Trustee after taking appropriate advice. Subject to complying with the agreed strategy, the day-to-day management of the Scheme's investment portfolio is the responsibility of the investment managers.

## TRUSTEE'S REPORT (CONTINUED)

## INVESTMENT REPORT (CONTINUED)

## STEWARDSHIP AND ENGAGEMENT

The Trustee believes that good stewardship and environmental, social and governance ("ESG") issues may have a material impact on investment returns. The following are excerpts from the Statement of Investment Principles that cover the Trustee's policies on stewardship and manager engagement.

### Financially material considerations

The Trustee recognises that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process. The Trustee further recognises that the financial materiality of any factor, including ESG factors, is context specific and that whilst some factors may be relevant to certain stocks/assets, they may not be relevant to others.

The Trustee will consider such factors in the development and implementation of their investment arrangements, for the purposes of determining the selection, retention and realisation of investments, where there is sufficient data or evidence to allow them to systematically do so. Where there is not sufficient data or evidence, they will engage with their investment managers to ensure they take such considerations into account within their decision making.

The 2018 Investment Regulations came into effect on 1 October 2019. The regulations aim to clarify language around the consideration of broader long-term financial risks, in particular:

- 1 how the Trustee takes account of 'financially material considerations' over the appropriate time horizon, including, but not limited to, ESG factors, including climate change
- 2 the Trustee's policies, in relation to various stewardship activities for the assets held
- 3 the extent to which any non-financial matters are taken into account.

The new regulations also seek to encourage trustees to take greater ownership and be aware of the consequences of their responsible investment policies, rather than adopting a 'box ticking' approach.

### Non financially material considerations

Given the objectives of the Scheme, the Trustee has not considered any non-financially material factors in the development and implementation of their investment strategy. The Trustee has not imposed any restrictions or exclusions to the investment arrangements based on non-financially material factors.

### Stewardship and voting

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with agreed policies.

The Trustee has adopted a policy of delegating voting decisions on stocks to their investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The investment managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

Where relevant, the Trustee has reviewed the voting policies of their investment managers and determined that these policies are appropriate. On an annual basis, the Trustee will request its investment managers provide details of any change in their house policy. Where appropriate, the Trustee will engage with and may seek further information from its investment managers on how portfolios may be affected by a particular issue.

**TRUSTEE'S REPORT (CONTINUED)****INVESTMENT REPORT (CONTINUED)****Stewardship and voting (continued)**

The Trustee does not engage directly but believe it is sometimes appropriate for its investment managers to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to their investments in order to consider the management of conflicts of interest and improve corporate behaviours, improve performance and mitigate financial risks. Where necessary, investment managers are expected to notify the Trustee of any issue on which it may be beneficial for the Trustee to undertake further engagement. The Trustee will review engagement activity undertaken by its investment managers as part of their broader monitoring activity.

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are responsible for investing in new issuance, the Trustee expects the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustee separately considers any conflicts of interest arising in the management of the Scheme and its investments and has ensured that each manager has an appropriate conflicts of interest policy in place.

**Manager Engagement and Portfolio Turnover**

The Trustee has appointed its investment managers to deliver returns relative to specific benchmarks, which overall will align to deliver the broader Scheme investment strategy. The Trustee ensures that its managers have clearly defined benchmarks, objectives and management parameters.

The Trustee will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustee to ensure that it is appropriate for the needs of the Scheme. The Trustee will take advice in determining the appropriateness of each manager and mandate for the Scheme. By investing in this manner, the Trustee is confident that the managers appointed will make decisions which are commensurate with the period over which the Trustee expects to be invested in each mandate.

The Trustee reviews the performance of each of its mandates on a regular basis against a series of metrics, including financial performance against the benchmark and objectives of the mandate. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed. The Trustee draws input from its investment adviser to support any such review of and engagement with its investment managers. Where necessary, the Trustee will highlight any areas of concern identified during such reviews to the manager as part of its engagement process.

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set on an ad valorem basis. Where appropriate to the nature of the mandate, the term of the mandate and the role the mandate plays within the investment strategy, the Trustee may agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark, typically in conjunction with a lower ad valorem fee. The Trustee periodically reviews the fees paid to all of its managers against industry standards.

**TRUSTEE'S REPORT (CONTINUED)****INVESTMENT REPORT (CONTINUED)****Manager Engagement and Portfolio Turnover (continued)**

The Trustee recognises the long-term nature of their liability profile and appoints its managers to invest in such a way that generates long term sustainable returns. The Trustee will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Scheme objectives.

The duration of each mandate is determined by the Trustee at the inception of each mandate. For open-ended investments, the Trustee generally engages with managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustee expects the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated although all mandates are subject to ongoing review against various financial and non-financial metrics in addition to its continued appropriateness within the investment strategy. For close-ended investments, the Trustee expects the term of the appointment to be the lifetime of the investment.

The Trustee has expectations of the level of turnover within each mandate which are determined at the inception of the mandate, based on the Trustee's knowledge of the manager, investment process and the nature of the underlying portfolio. Whilst the Trustee expects financial performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee also expects managers to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period, including details of the costs associated with transactions. The Trustee will challenge the manager if there is a material deviation in portfolio turnover from expectations or historic experience within the mandate.

The net of fees returns achieved by the individual managers together with their respective benchmarks for the year and three years to 31 March 2023 are shown in the table on the next page.



**TRUSTEE'S REPORT (CONTINUED)****INVESTMENT REPORT (CONTINUED)****SCHEME PERFORMANCE**

| Investment return to 31 March 2023<br>Net of fees | One Year |             | Three Years |                  |       |
|---|----------|-------------|-------------|------------------|-------|
|   | Fund %   | Benchmark % | Fund % p.a. | Benchmark % p.a. |       |
| <b>Global Equities</b>                            |          |             |             |                  |       |
| Baillie Gifford                                   | Active   | -4.8        | -0.9        | 11.4             | 18.3  |
| Legal and General                                 | Passive  | -0.9        | -1.4        | 19.3             | 19.0  |
| <b>Liability Driven Investments</b>               |          |             |             |                  |       |
| Legal and General                                 | Passive  | -84.4       | -84.4       | -45.5            | -45.5 |
| <b>Multi-Asset Credit</b>                         |          |             |             |                  |       |
| Barings   | Active   | -4.8        | 6.6         | 6.5              | 5.6   |
| <b>Property</b>                                   |          |             |             |                  |       |
| Threadneedle                                      | Active   | -13.8       | -14.5       | 2.3              | 2.6   |
| Legal and General                                 | Active   | -           | -           | -                | -     |
| <b>Diversified Growth</b>                         |          |             |             |                  |       |
| Baillie Gifford                                   | Active   | -8.8        | 5.8         | 3.6              | 4.4   |
| <b>Sterling Liquidity</b>                         |          |             |             |                  |       |
| Legal and General                                 | Active   | 2.0         | 2.0         | 0.8              | 0.7   |
| <b>Total Scheme<br/>(excl. Private Markets)</b>   |          |             |             |                  |       |
|   |          | -26.3       | -27.0       | -1.4             | -2.4  |
| <b>Private Equity</b>                             |          |             |             |                  |       |
| Morgan Stanley *                                  |          | 8.0         | -0.9        | 21.7             | 16.1  |
| ASP Funds *                                       |          | -8.0        | -0.9        | -                | -     |
| <b>Private Debt</b>                               |          |             |             |                  |       |
| Barings *   |          | 4.7         | 6.0         | 6.9              | 6.0   |
| <b>Total Scheme<br/>(incl. Private Markets)</b>   |          |             |             |                  |       |
|   |          | -22.8       | -23.5       | 0.8              | -0.6  |

Note: The Legal and General Build to Rent Property fund does not yet have a long enough track record to report 1-year and 3-year performance. Inception date is 26 January 2023.

Note: The Private Equity Mandates with ASP do not yet have a long enough track record to report 3-year performance. Inception date is 23 December 2021 for the Global Fund and 11 July 2022 for the Co-Investment Fund.

\* The Morgan Stanley, Adams Street Partners and Barings Private Debt fund performance figures represent the internal rate of return for the private equity and private lending portfolios in GBP.

**INVESTMENT MANAGERS**

There were some portfolio changes over the 12 months to 31 March 2023.

In 2021, the Trustee agreed to implement a new 3.0% strategic allocation to property and towards the end of 2022, the Scheme was successfully admitted into the LGIM Build To Rent Property Fund.

In order to maintain the Scheme's strategic allocation of 6.0% to private debt, the Trustee agreed to make a £10.0m commitment to the new vintage of the Barings Global Private Loan Fund, the Barings Global Private Loan Fund 4.

**TRUSTEE'S REPORT (CONTINUED)****INVESTMENT REPORT (CONTINUED)****INVESTMENT MANAGERS (CONTINUED)**

Following a material rise in the Scheme's funding level since the 31 March 2021 Actuarial valuation date, the Trustee agreed to de-risk the Scheme's investment strategy to lock in some of these gains and reduce future funding volatility over the period.

This de-risking consisted of:

- Decreasing the 31.0% strategic allocation to global equities to 26.0% (whilst still maintaining the strategic 50:50 split of global equities);
- Decreasing the 14.0% strategic allocation to diversified growth to 9.0%; and
- Increasing the 22.0% strategic allocation to Liability Driven Investment ("LDI") to 32.0%.

The Scheme also increased its liability hedging to 70% on interest rates and 60% on inflation on a Technical Provision basis during the year.

The following transitions took place during the year:

**Q2 2022**

- £6.0m was invested in the Barings Global High Yield Strategies Fund to rebalance the strategic allocation back up to its 10% strategic target. This was funded from spare cash available in the Legal & General ("LGIM") Sterling Liquidity Fund ("SLF").
- In order to support liability hedging arrangements, £10.1m was invested into the LGIM LDI Portfolio, funded from an £8.1m sale from the LGIM RAFI Fund and £2.0m of cash available in the Trustee Bank Account

**Q3 2022**

- In order to support liability hedging arrangements, £14.2m was invested into the LGIM LDI Portfolio, funded from a £9.1m sale from the LGIM RAFI Fund and £5.1m of cash available in the Trustee Bank Account.

**Q4 2022**

- As part of Scheme de-risking, £12.5m was disinvested from the Baillie Gifford Global Alpha Fund and £12.5m was disinvested from the Baillie Gifford Diversified Growth Fund. The proceeds were invested into the LDI Portfolio.
- Further, £23.0m was disinvested from the Baillie Gifford Diversified Growth Fund with £21.3m of the proceeds invested into the LDI Portfolio and the remaining proceeds used to meet drawdowns from the Scheme's private equity allocation with Adams Street Partners ("ASP").
- £34.0m was disinvested from the LGIM RAFI Fund and invested into the LGIM LDI Portfolio in order to support liability hedging arrangements and meet modest near term cashflow requirements.

**TRUSTEE'S REPORT (CONTINUED)****INVESTMENT REPORT (CONTINUED)****INVESTMENT MANAGERS (CONTINUED)****Q1 2023**

- £15m was invested in the LGIM Build to Rent Property Fund. This was funded from an £8.7m sale from the Threadneedle Property Fund and a £6.3m sale from the LGIM Sterling Liquidity Fund.
- £6.5m was disinvested from the Barings Global High Yield Strategies Fund and transferred to the LDI Portfolio to support the increase in the Scheme's liability hedging.
- £15.2m was disinvested from the Baillie Gifford Global Alpha Fund and invested into the LGIM RAFI Fund to rebalance the Scheme's global equity allocation.
- £7.65m was disinvested from the Baillie Gifford Diversified Growth Fund, the proceeds used to meet drawdowns from the Scheme's private debt allocation with Barings and the remaining £1.5m proceeds used to replenish the level of collateral within the LDI Portfolio .

Against high inflationary pressures and rising interest rates, gilt yields continued to rise over 2022. However, following the UK government's announcement of the "mini budget" on 23 September 2022, gilt yields significantly accelerated upwards. As a result, the Scheme's LDI Portfolio fell materially in value and cash was required to maintain the Scheme's liability hedging and recapitalise the underlying gilt and index-linked gilt funds held within the LDI Portfolio at extremely short notice, as gilt yields rose day by day. Over this period of extreme market volatility, there were a number of transitions to meet recapitalisation events and top up the Scheme's LDI Portfolio with cash from the LGIM Sterling Liquidity Fund and Trustee Bank Account.

The Trustee continues to review investment performance on a regular basis, focusing on results over a three to five-year time horizon.

**MANAGER PERFORMANCE**

The value of the Scheme's assets decreased over the 12 months to 31 March 2023, returning -26.3% (excluding Private Markets) and -22.8% (including Private Markets) (net of fees) over the period. This was largely driven by the Scheme's allocation to the LDI mandate as with real gilt yields significantly increasing over the period.

The Scheme's liability hedging assets returned -84.4% on an absolute basis over the 12 months as real yields increased for three out of the four quarters. However, the value of the Scheme's LDI assets moved in line with the Scheme's liabilities over the period, as intended.

Over the longer 3-year period to 31 March 2023, the Scheme returned -1.4% p.a. (excluding Private Markets) and 0.8% p.a. (including Private Markets) (net of fees).

**INVESTMENT PRINCIPLES**

The Trustee has produced a Statement of Investment Principles ("SIP"), which incorporates the investment strategy, in accordance with Section 35 of the Pensions Act. The Trustee reviewed its Statement of Investment Principles during the Scheme year and amended it to reflect the relevant agreed changes. The updated SIP reflects the strategic benchmark showing under Note 13.7.

A copy can be obtained on request from the Secretary to the Trustee at the address shown on page 1.

**TRUSTEE'S REPORT (CONTINUED)****INVESTMENT REPORT (CONTINUED)****INVESTMENT CHARGES**

The table below shows the investment management fees for the Scheme's mandates which were invested during the year to 31 March 2023.

| Manager           | Fee Rate (p.a.)   |
|-------------------|---|
| Legal and General | <p>RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund: 0.223% p.a. (Discounted Fee)</p> <p>LDI Portfolio</p> <p>Single Stock/Unleveraged Gilt Funds;</p> <p>0.100% p.a. on first £5m, 0.075% p.a. on next £5m, 0.050% on next £20m and 0.030% on balance above £30m. Applied to each individual Single Stock/Unleveraged Gilt Fund.</p> <p>Matching Plus/Leveraged Gilt Funds;</p> <p>0.240% p.a. on first £25m, 0.075% p.a. on next £5m, 0.170% on balance above £25m. Applied to aggregate value of holdings in Matching Plus/Leveraged Gilt Funds.</p> <p>Enhanced Service Agreement (LDI): 0.015% p.a., applied to average offer value of LDI Portfolio.</p> <p>Build to Rent Property Fund: 0.13% p.a. of NAV, applied on drawn capital commitment.</p> <p>Sterling Liquidity Fund: 0.125% p.a.</p>  |
| Baillie Gifford   | <p>Global Alpha: 0.65% p.a.</p> <p>Diversified Growth Fund: 0.5% p.a., assuming the allocation to Global Alpha continues to be significant.</p>   |
| Barings           | <p>High Yield Credit: 0.5% p.a., applied to the NAV of the Scheme shares.</p> <p>Private Debt:</p> <p>GPLF 3: 0.85% p.a., additional performance fee of 10% of profits subject to a minimum 6% IRR to investors.</p> <p>GPLF 4: 0.79% p.a., additional performance fee of 10% of profits subject to a minimum 5.5% IRR to investors.</p>  |
| Morgan Stanley    | <p>PMF III and IV</p> <p>1.00% p.a. on capital committed until the fifth anniversary of the first capital call. Thereafter, the fee will be a constant percentage of the Scheme's proportionate share of capital committed to underlying investments, less the amount of capital returned.</p> <p>PMF V</p> <p>1.00% p.a. on capital committed until the fifth anniversary of the first capital call. Thereafter, the fee will fall to a percentage equal to 75% of the percentage used to calculate the fee for the preceding year.</p> <p>PMF VI</p> <p>1.00% p.a. on capital committed until the fifth anniversary of the first capital call. Thereafter, the fee will fall to a percentage equal to 85% of the percentage used to calculate the fee for the preceding year.</p> <p>PMF VII</p> <p>0.90% p.a. on capital committed until the fifth anniversary of the first capital call. Thereafter, the fee will fall to a percentage equal to 85% of the percentage used to calculate the fee for the preceding year.</p> <p>In addition, all Morgan Stanley mandates have a performance fee of 5% of net profits annually.</p> |

**TRUSTEE'S REPORT (CONTINUED)****INVESTMENT REPORT (CONTINUED)****INVESTMENT CHARGES (CONTINUED)**

| Manager               | Fee Rate (p.a.)   |
|-----------------------|---|
| Adams Street Partners | Global Investment Fund: 0.59% p.a., average management fee over 15-year period, allowing for ramp up and tail down periods.<br><br>Co-Investment Fund: 0.50% p.a., average management fee, allowing for deployment pace, applied to invested capital. |
| Threadneedle          | Property Unit Trust: 0.68% p.a.   |

Fees charged by Baillie Gifford and Legal and General are included in the Fund Account (see note 12). Fees charged by other investment managers are reflected in the unit prices of the investments and are not directly charged to the Trustee. These fees are included within change in market value.

L&G funds are free from charge or lien except for the provisions of the floating charge and any security instrument put in place in the normal course of business.

**TRUSTEE'S REPORT (CONTINUED)****STATEMENT OF TRUSTEE'S RESPONSIBILITIES**

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102), are the responsibility of the Trustee.

Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an annual report.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising, a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions. Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

DocuSigned by:

*Julia Miller*

Julia Miller

Trustee Director

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DocuSigned by:

*James Hardacre*

James Hardacre

Trustee Director

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Date

## TRUSTEE'S REPORT (CONTINUED)

# FURTHER INFORMATION

### INTERNAL DISPUTE RESOLUTION (“IDR”) PROCEDURES

It is a requirement of the Pensions Act 1995 that the trustees of all occupational pension schemes must have Internal Dispute Resolution procedures in place for dealing with any disputes between the trustees and the scheme beneficiaries. A dispute resolution procedure has been agreed by the Trustee, details of which can be obtained by writing to the Secretary to the Trustee at the address on page 1 of this report.

### CONTACT FOR FURTHER INFORMATION

Any enquiries or complaints about the Scheme, including requests from individuals about their benefits or for a copy of Scheme documentation, should be sent to the Secretary to the Trustee at the address on page 1 of this report. Members can also obtain details about their benefits through the member portal operated by Hymans, Prism, details of which can be obtained in the member newsletter or by application to the Scheme Secretary.

### THE MONEY & PENSIONS SERVICE (“MaPS”)

This service is available at any time to assist members and beneficiaries with pensions questions and issues they have been unable to resolve with the Trustee of the Scheme. MaPS has launched MoneyHelper to help with money and pension choices. MoneyHelper is impartial, backed by the government and free to use.

The Money and Pensions Service  
Holborn Centre  
120 Holborn  
London  
EC1N 2TD  
Tel: 0800 011 3797

[www.moneyhelper.org.uk](http://www.moneyhelper.org.uk)

### THE PENSIONS OMBUDSMAN

Members have the right to refer a complaint to The Pensions Ombudsman free of charge. The Pensions Ombudsman deals with complaints and disputes which concern the administration and/or management of occupational and personal pension schemes.

Contact with The Pensions Ombudsman about a complaint needs to be made within three years of when the events(s) the member is complaining about happened – or, if later, within three years of when they first knew about it (or ought to have known about it). There is discretion for those time limits to be extended.

The Pensions Ombudsman can be contacted at:

10 South Colonnade  
Canary Wharf  
London  
E14 4PU  
Tel: 0800 917 4487

Email: [enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk)

[www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

Members can also submit a complaint form online:

<https://www.pensions-ombudsman.org.uk/submit-complaint>

**TRUSTEE’S REPORT (CONTINUED)**

**FURTHER INFORMATION (CONTINUED)**

**THE PENSIONS REGULATOR (“TPR”)**

The Pensions Regulator has the objectives of protecting the benefits of members, promoting good administration and reducing the risk of claims on the Pension Protection Fund. TPR has the power to investigate schemes, to take action to prevent wrongdoing in or maladministration in relation to pension schemes and to act against employers who fail to abide by their pension obligations. TPR may be contacted at the following address:

The Pensions Regulator  
Telecom House  
125-135 Preston Road  
Brighton  
BN1 6AF  
Tel: 0345 600 7060  
Email: [customersupport@tpr.gov.uk](mailto:customersupport@tpr.gov.uk)  
[www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

**PENSION TRACING SERVICE**

The Pension Tracing Service is provided by the Department for Work and Pensions and can help members find pensions relating to service with other employers.


Contact details for their services are as follows:

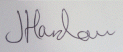
Tel: 0800 731 0193  
[www.gov.uk/find-pension-contact-details](http://www.gov.uk/find-pension-contact-details)

**APPROVAL OF THE REPORT BY THE TRUSTEE**

The investment report included in this annual report and financial statements forms part of the Trustee’s report.

Signed for and on behalf of the Trustee of the University of Edinburgh Staff Benefits Scheme by:

DocuSigned by:  
 Julia Miller Trustee Director  
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 James Hardacre Trustee Director  
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## SECTION 3 – INDEPENDENT AUDITOR’S REPORT

### INDEPENDENT AUDITOR’S REPORT TO THE TRUSTEE OF THE UNIVERSITY OF EDINBURGH STAFF BENEFITS SCHEME

#### Opinion

We have audited the financial statements of University of Edinburgh Staff Benefits Scheme for the year ended 31 March 2023 which comprise the fund account, the statement of net assets (available for benefits) and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2023, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

In auditing the financial documents, we have concluded that the Scheme’s Trustee use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Scheme’s Trustee with respect to going concern are described in the relevant sections of this report.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Scheme's Trustee is responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Responsibilities of the Trustee

As explained more fully in the Trustee's responsibilities statement set out on page 20 the Trustee is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to liquidate the Scheme's or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the audit engagement team:

- obtained an understanding of the nature of the environment, including the legal and regulatory frameworks that the Scheme operates in and how the Scheme is complying with the legal and regulatory frameworks;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

As a result of these procedures we consider the most significant laws and regulations that have a direct impact on the financial statements are the Pensions Act 1995 and 2004 and regulations made under them and FRS 102, including the Financial Reports of Pension Schemes 2018 (the Pensions SORP). We performed audit procedures to detect non-compliances which may have a material impact on the financial statements which included reviewing financial statement disclosures.

The audit engagement team identified the risk of management override of controls as the area where the financial statements were most susceptible to material misstatement due to fraud. Audit procedures performed included but were not limited to testing manual journal entries and other adjustments, evaluating the business rationale in relation to significant, unusual transactions and transactions entered into outside the normal course of business and challenging judgments and estimates.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Use of our report

This report is made solely to the Scheme's Trustee as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirements to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:  
  
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RSM UK Audit LLP  
Statutory Auditor  
Chartered Accountants  
Third floor, Centenary House  
69 Wellington Street  
Glasgow  
G2 6HG

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## SECTION 4 – FINANCIAL STATEMENTS

### FUND ACCOUNT FOR YEAR ENDED 31 MARCH 2023

|   |      | 2023                      | 2022                      |
|---|------|---------------------------|---------------------------|
|   | Note | £                         | £                         |
| <b>CONTRIBUTIONS AND BENEFITS</b>                             |      |                           |                           |
| Contributions - Employer                                      | 4    | 17,812,931                | 12,036,273                |
| - Member  | 4    | 340,954                   | 327,025                   |
| Other income  | 5    | 203,085                   | 207,574                   |
|   |      | <u>18,356,970</u>         | <u>12,570,872</u>         |
| Benefits paid or payable                                      | 6    | (16,210,295)              | (16,273,764)              |
| Payments to and on account of leavers                         | 7    | (106,378)                 | (342,908)                 |
| Other payments  | 8    | (177,354)                 | (170,964)                 |
| Administrative expenses                                       | 9    | (1,464,110)               | (1,210,952)               |
|   |      | <u>(17,958,137)</u>       | <u>(17,998,588)</u>       |
| <b>Net additions/(withdrawals) from dealings with members</b> |      | <b>398,833</b>            | <b>(5,427,716)</b>        |
| <b>RETURNS ON INVESTMENTS</b>                                 |      |                           |                           |
| Investment income   | 11   | 12,952,308                | 23,637,632                |
| Change in market value of investments                         | 13   | (135,379,046)             | 11,518,647                |
| Investment management expenses                                | 12   | (770,855)                 | (1,070,165)               |
| <b>Net returns on investments</b>                             |      | <u>(123,197,593)</u>      | <u>34,086,114</u>         |
| <b>Net (decrease)/increase in the Scheme during the year</b>  |      | <b>(122,798,760)</b>      | <b>28,658,398</b>         |
| <b>Balance of the Scheme at the start of the year</b>         |      | <b>537,046,290</b>        | <b>508,387,892</b>        |
| <b>Balance of the Scheme at the end of the year</b>           |      | <u><b>414,247,530</b></u> | <u><b>537,046,290</b></u> |

The notes on pages 28 to 42 form part of these financial statements.

**FINANCIAL STATEMENTS (CONTINUED)**  
**STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AS AT 31 MARCH 2023**

|  |      | 2023               | 2022               |
|--|------|--------------------|--------------------|
|  | Note | £                  | £                  |
| Investment assets                              | 13   |                    |                    |
| Pooled investment vehicles                     |      | 409,125,805        | 524,427,704        |
| AVC  |      | 301,993            | 275,197            |
| Accrued income                                 |      | 329,971            | 1,163,028          |
|  |      | <u>409,757,769</u> | <u>525,865,929</u> |
| Current assets                                 | 14   | 4,912,681          | 11,823,993         |
| Current liabilities                            | 15   | (422,920)          | (643,632)          |
| <b>Net Assets of the Scheme as at 31 March</b> |      | <u>414,247,530</u> | <u>537,046,290</u> |

These financial statements summarise the transactions of the Scheme and deal with the net assets at the disposition of the Trustee. They do not take account of the obligations to pay pensions and benefits, which fall after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities included in the Trustee's Report. These financial statements should be read in conjunction with that report.

The financial statements on pages 26 to 42 were approved by the Trustee on

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 Julia Miller Trustee Director  
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 James Hardacre Trustee Director  
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Date

The notes on pages 28 to 42 form part of these financial statements.

# SECTION 5 – NOTES TO THE FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

### 1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS 102) – The Financial Reporting Standard applicable in the UK and Republic of Ireland, and the guidance set out in the Statement of Recommended Practice (Revised 2018) (“the SORP”).

The financial statements are prepared on a going concern basis, which the Trustee believes to be appropriate as it believes that the Scheme has adequate resources to realise its assets and meet pension payments in the normal course of affairs (continue to operate) for at least the next twelve months. In reaching this conclusion, the Trustee has taken into account the expected performance of the sponsoring employer and its ability to continue as a going concern to gain comfort that it will continue to make contributions as they fall due. This assessment, together with income and capital growth from its assets and the contingent assets the Scheme holds over the University property gives the Trustee confidence to prepare the financial statements on a going concern basis.

### 2 IDENTIFICATION OF THE FINANCIAL STATEMENTS

The Scheme is established as a trust under Scottish law. The address for enquiries to the scheme is: Mrs Ann Fraser, Pensions Manager, Charles Stewart House, 9-16 Chambers Street, Edinburgh, EH1 1HT. The Scheme is a defined benefit (“DB”) scheme and is open to new members and to future accrual.

### 3 ACCOUNTING POLICIES

The principal accounting policies, which have been consistently applied during the year, are set out below.

#### 3.1 Contributions

Employer’s and members’ contributions (including salary sacrifice) are accounted for when they are deducted from pay by the employer at rates agreed between the Trustee and the employer based on the recommendation of the Actuary and the schedule of contributions. Members’ additional voluntary contributions are accounted for on an accruals basis.

Employer deficit funding contributions are accounted for on an accruals basis, in accordance with the schedule of contributions under which they are payable.

Augmentation contributions are accounted for in accordance with the agreement under which they are payable.

#### 3.2 Transfer Values

Individual transfers to and from the Scheme during the year are included in the financial statements on the basis of when the member liability is accepted or discharged, normally when the transfer is paid or received.

#### 3.3 Benefits paid or payable

Benefits are accounted for in the period in which the member notifies the Trustee of their decision on the type or amount of benefit to be taken or, if there is no member choice, on the date of retirement or leaving.

Pensions in payment are accounted for in the period to which they relate.

#### 3.4 Administrative expenses and investment management expenses

Administrative expenses and investment management expenses are accounted for on an accruals basis. The majority of investment manager fees are charged within the underlying funds as disclosed in the Trustee’s Report.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)****3.5 Investment Income**

When income from pooled investment vehicles is distributed it is included in investment income when the Scheme's right to receive payment is established. Income from pooled investment vehicles that is not distributed is reflected in the unit price. Other interest is accounted for on an accruals basis.

**3.6 Investments**

The statement of net assets includes investments at valuation – details of the valuation techniques involved in estimating fair values of certain investments are included in this note and note 13.

*Fair value measurement*

The Scheme measures its investment in financial instruments such as units in pooled investment vehicles and other investments, at fair value at each reporting date.

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction. FRS 102 and the SORP requires the use of a three-level hierarchy to analyse the fair value of investments (refer Note 13 to the financial statements).

*Pooled Investment Vehicles and Additional voluntary contributions ("AVC") Investments*

The Scheme invests in pooled investment vehicles and AVC Investments which are not quoted on an active market but for which the investment manager provides daily or weekly prices. The fair value of these funds is taken as the single price provided by the investment manager or the bid price where there is a bid and offer spread at the reporting date or if not available, at a date prior to but nearest to the reporting date. Shares in other pooled arrangements have been valued at the latest available net asset value ("NAV"), determined in accordance with fair value principles, provided by the pooled investment manager.

Private equity investments are valued in accordance with the valuation guidelines of the International Private Equity and Venture Capital valuation guidelines.

**3.7 Change in Market Value**

The change in market value in the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits or losses realised on sales of investments during the year.

**3.8 Foreign Currencies**

Amounts denominated in foreign currencies at the year-end are translated into sterling (the Scheme's functional currency) at the rate ruling at the year end. Differences on foreign currency transactions are included in the fund account within the change in the market value of investments to which they relate.

Investment income and purchases and sales of foreign currency holdings denominated in foreign currencies are recorded at the rate of exchange on the date of the transaction.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)****4 CONTRIBUTIONS**

|                                    | 2023              | 2022       |
|------------------------------------|-------------------|------------|
|                                    | £                 | £          |
| <b>Employers:</b>                  |                   |            |
| Normal                             | 9,857,530         | 7,647,788  |
| Deficit funding                    | 4,500,000         | 1,078,013  |
| Salary sacrifice*                  | 3,455,401         | 3,300,786  |
| Additional**                       | -                 | 9,686      |
|                                    | <b>17,812,931</b> | 12,036,273 |
| <b>Members:</b>                    |                   |            |
| Normal                             | 208,586           | 203,495    |
| Additional voluntary contributions | 132,368           | 123,530    |
|                                    | <b>340,954</b>    | 327,025    |
|                                    | <b>18,153,885</b> | 12,363,298 |

Employer normal, salary sacrifice and deficit contributions and member normal contributions are paid in accordance with the rates set out in the Schedule of Contributions that were effective during the year. Under the previous Schedule of Contributions, the following deficit reduction contribution payments were made:

- £1,111,431.91 paid in April 2022.

Following the 31 March 2021 triennial valuation, an updated Schedule of Contributions was agreed between the Trustee and the University and was certified by the Scheme Actuary on 23 June 2022. It requires the University to pay the following deficit reduction contributions from the date of signing:

- £3,388,568.09 paid in June 2022;
- £1.5m payable in April 2023;
- £1.5m payable in April 2024; and
- An amount payable annually, starting from April 2025 with the final payment due in April 2029, which will be a proportionate contribution reflecting the period from 1 April 2029 to 31 December 2029. The amount payable will be equal to £1.1m plus any increase in the Consumer Price index from September 2021 to the September preceding the payment date.

\*Salary Sacrifice was implemented with effect from 1 January 2008. All eligible members were informed of the proposals and given the option to opt out.

\*\*Employer additional contributions relate to specific amounts paid by the employer to augment members' benefits.



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)****5 OTHER INCOME**

|                                   | <b>2023</b>    | 2022    |
|-----------------------------------|----------------|---------|
|                                   | <b>£</b>       | £       |
| Bank interest                     | <b>124,727</b> | 11,679  |
| Other                             | -              | 142     |
| Claims on term insurance policies | <b>78,357</b>  | 195,753 |
|                                   | <b>203,084</b> | 207,574 |

**6 BENEFITS PAID OR PAYABLE**

|   | <b>2023</b>       | 2022       |
|---|-------------------|------------|
|   | <b>£</b>          | £          |
| Pensions                                      | <b>13,356,211</b> | 12,749,236 |
| Commutations and lump sum retirement benefits | <b>2,747,998</b>  | 3,292,854  |
| Lump sum death benefits                       | <b>106,086</b>    | 231,674    |
|   | <b>16,210,295</b> | 16,273,764 |

**7 PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

|                                       | <b>2023</b>    | 2022    |
|---------------------------------------|----------------|---------|
|                                       | <b>£</b>       | £       |
| Refunds to members leaving service    | <b>239</b>     | 2,998   |
| Individual transfers to other schemes | <b>106,140</b> | 339,910 |
|                                       | <b>106,379</b> | 342,908 |

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)****8 OTHER PAYMENTS**

|                                     | <b>2023</b>    | 2022    |
|-------------------------------------|----------------|---------|
|                                     | £              | £       |
| Premiums on term insurance policies | <b>177,354</b> | 170,964 |

**9 ADMINISTRATIVE EXPENSES**

|                                   | <b>2023</b>      | 2022      |
|-----------------------------------|------------------|-----------|
|                                   | £                | £         |
| Administration and actuarial fees | <b>601,788</b>   | 564,130   |
| Audit fee                         | <b>23,960</b>    | 25,660    |
| Legal fees                        | <b>171,356</b>   | 50,679    |
| Other adviser fees                | <b>7,415</b>     | 28,200    |
| Investment consultancy fees       | <b>299,376</b>   | 171,061   |
| Pensions regulator levy           | <b>313,738</b>   | 332,342   |
| Trustee expenses                  | <b>46,477</b>    | 38,880    |
|                                   | <b>1,464,110</b> | 1,210,952 |

**10 TAX**

The University of Edinburgh Staff Benefits Scheme is a registered pension scheme for tax purposes under the Finance Act 2004. The Scheme is therefore exempt from taxation except for certain withholding taxes relating to overseas investment income. Tax charges are accrued on the same basis as the investment income to which they relate (see Note 11 below).

**11 INVESTMENT INCOME**

|  | <b>2023</b>       | 2022       |
|--|-------------------|------------|
|  | £                 | £          |
| Income from pooled investment vehicles | <b>12,952,308</b> | 23,637,632 |

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)****12 INVESTMENT MANAGEMENT EXPENSES**

|                               | <b>2023</b>           | 2022             |
|-------------------------------|-----------------------|------------------|
|                               | £                     | £                |
| Administration and management | <b>770,855</b>        | 1,081,625        |
| Investment rebates            | -                     | (11,460)         |
|                               | <u><b>770,855</b></u> | <u>1,070,165</u> |

**13 INVESTMENTS****13.1 INVESTMENT ASSETS**

|                            | <i>Value at 31<br/>March 2022</i> | <i>Purchase<br/>cost</i> | <i>Sales<br/>proceeds</i> | <i>Change in<br/>market value</i> | <i>Value at 31<br/>March 2023</i> |
|----------------------------|-----------------------------------|--------------------------|---------------------------|-----------------------------------|-----------------------------------|
|                            | £                                 | £                        | £                         | £                                 | £                                 |
| Pooled investment vehicles | <b>524,427,704</b>                | 477,549,824              | (457,483,459)             | (135,368,264)                     | <b>409,125,805</b>                |
| AVC investments            | <u><b>275,197</b></u>             | <u>74,420</u>            | <u>(36,842)</u>           | <u>(10,782)</u>                   | <u><b>301,993</b></u>             |
|                            | <b>524,702,901</b>                | <u>477,624,244</u>       | <u>(457,520,301)</u>      | <u>(135,379,046)</u>              | <b>409,427,798</b>                |
| Accrued income             | <u><b>1,163,028</b></u>           |                          |                           |                                   | <u><b>329,971</b></u>             |
|                            | <u><b>525,865,929</b></u>         |                          |                           |                                   | <u><b>409,757,769</b></u>         |

Pooled investment vehicles are managed by companies registered in the UK, US and Luxembourg.

Where the investments are held in managed and unitised funds the change in market value also includes expenses both implicit and explicit to the Scheme and any reinvested income, where the income is not distributed.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees.

Indirect transaction costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Scheme.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)****13 INVESTMENTS (CONTINUED)****13.2 POOLED INVESTMENT VEHICLES (“PIV”)**

The holdings of PIVs are analysed below:

|                              | <b>2023</b>        | 2022        |
|------------------------------|--------------------|-------------|
|                              | £                  | £           |
| Equities                     | <b>89,402,355</b>  | 169,292,467 |
| Diversified Growth           | <b>23,281,686</b>  | 75,423,458  |
| Multi-Asset Credit           | <b>42,654,842</b>  | 48,783,016  |
| Property                     | <b>39,900,790</b>  | 40,834,060  |
| Bonds                        | <b>57,117,452</b>  | -           |
| Private Equity               | <b>47,703,545</b>  | 40,610,532  |
| Private Debt                 | <b>33,353,623</b>  | 26,784,935  |
| Liability Driven Investments | <b>73,499,683</b>  | 100,958,598 |
| Sterling Liquidity           | <b>2,211,829</b>   | 21,740,638  |
|                              | <b>409,125,805</b> | 524,427,704 |

**13.3 ADDITIONAL VOLUNTARY CONTRIBUTION INVESTMENTS**

During the year the Trustee held assets within the main pooled investment vehicles and invested separately from the main fund in the form of individual insurance policies with Utmost Life and Standard Life Assurance Company securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement confirming the amounts held to their account and the movements in the year. AVC investments are managed by companies registered in the UK.

|               | <b>2023</b>    | 2022    |
|---------------|----------------|---------|
|               | £              | £       |
| Standard Life | <b>301,993</b> | 275,197 |

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)****13 INVESTMENTS (CONTINUED)****13.4 CONCENTRATION OF INVESTMENTS**

The following investments account for more than 5% of the Scheme's net assets:

|   | <b>2023</b> | <b>2023</b>        | 2022       | 2022               |
|---|-------------|--------------------|------------|--------------------|
|   | £           | % of net<br>assets | £          | % of net<br>assets |
| Legal and General RAFI Fundamental Global<br>Reduced Carbon Pathway Equity Index Fund | 45,688,275  | 11                 | 92,768,272 | 17                 |
| Baillie Gifford Global Alpha Growth Fund C Inc  | 43,734,080  | 11                 | 76,524,195 | 14                 |
| Morgan Stanley Private Markets Funds  | 38,599,439  | 9                  | 39,164,702 | 7                  |
| Barings Global High Yield Credit Strategies   | 42,654,842  | 10                 | 48,783,016 | 9                  |
| Barings Private Loan Fund 3   | 27,401,577  | 7                  | 26,784,935 | 5                  |
| Threadneedle Property Unit Trust Fund   | 25,155,403  | 6                  | 40,834,060 | 8                  |
| Baillie Gifford Diversified Growth Fund C Inc   | 23,281,686  | 6                  | 75,423,458 | 14                 |

Note: LGIM LDI has not been included in the above table. This is due to the above investments being considered at an underlying fund level and none of the underlying funds in the LGIM LDI portfolio account for more than 5% of the Scheme's net assets.

**13.5 INVESTMENTS FAIR VALUE HIERARCHY**

The fair value of financial instruments has been analysed using the following fair value hierarchy:

|         |   |
|---------|---|
| Level 1 | The unadjusted quoted price in an active market for identical assets or liabilities which the entity can access at the assessment date.                                   |
| Level 2 | Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly. |
| Level 3 | Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.   |

| <b>As at 31 March 2023</b> | <b>Level 1</b> | <b>Level 2</b>     | <b>Level 3</b>     | <b>Total</b>       |
|----------------------------|----------------|--------------------|--------------------|--------------------|
|                            | £              | £                  | £                  | £                  |
| Pooled investment vehicles | -              | 288,167,847        | 120,957,958        | 409,125,805        |
| AVC investments            | -              | 301,993            | -                  | 301,993            |
| Accrued income             | 329,971        | -                  | -                  | 329,971            |
|                            | <b>329,971</b> | <b>288,469,840</b> | <b>120,957,958</b> | <b>409,757,769</b> |

| As at 31 March 2022        | Level 1          | Level 2            | Level 3            | Total              |
|----------------------------|------------------|--------------------|--------------------|--------------------|
|                            | £                | £                  | £                  | £                  |
| Pooled investment vehicles | -                | 416,198,177        | 108,229,527        | 524,427,704        |
| AVC investments            | -                | 275,197            | -                  | 275,197            |
| Accrued income             | 1,163,028        | -                  | -                  | 1,163,028          |
|                            | <b>1,163,028</b> | <b>416,473,374</b> | <b>108,229,527</b> | <b>525,865,929</b> |

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)****13 INVESTMENTS (CONTINUED)****13.6 POOLED INVESTMENT VEHICLES**

The Scheme also invests in pooled investment vehicles which are not quoted in an active market and which may be subject to notice periods, restrictions on redemptions or lock up periods. The Scheme classifies such funds as Level 3.

Private equity and debt funds are fair valued, typically using the practical expedient methodology which results in a Net Asset Value ("NAV") provided by the General Partner ("GP"). For the investments not fair valued using the practical expedient method the investment is fair valued by the fair valuation committee. Such investments are typically fair valued using such valuation techniques as a discounted cash flow model or EBITDA. The Trustee classifies the private equity, private debt, and property funds, as Level 3.

**13.7 INVESTMENT RISKS**

The Trustee aims to invest the assets of the Scheme such that, in combination with the contributions received, there will be sufficient resources to meet the members' benefits as they fall due. The Trustee does so by taking into account considerations such as the strength of the employer covenant and after receiving professional advice from Hymans Robertson LLP. The over-riding funding objectives for the Scheme are to set contributions at a level such that there will be sufficient assets in the Scheme to meet the obligations to the beneficiaries in full.

The current benchmark strategy for the Scheme has been set using advice from investment consultants and is as follows:

| <b>Mandate</b>               | <b>Allocation %</b> |
|------------------------------|---------------------|
| Global Equities              | 26                  |
| Diversified Growth           | 9                   |
| Multi Asset Credit           | 10                  |
| Property                     | 10                  |
| Private Equity               | 7                   |
| Private Debt                 | 6                   |
| <b>Total Growth assets</b>   | <b>68</b>           |
| Liability Driven Investments | 32                  |
| <b>Total Matching Assets</b> | <b>32</b>           |
| <b>Total Assets</b>          | <b>100</b>          |

The Trustee has appointed external investment managers to conduct the day-to-day management of the Scheme's investment portfolio. This includes:-

- Investment of the Scheme's assets.
- Preparation of quarterly reporting including a review of investment performance.
- Providing fund accounting data concerning the investment portfolio and transactions.
- Attending Trustee's meetings as and when necessary.

In order to achieve this objective, it is necessary to take investment risk. The key principles which guide the level and type of risk taken are:

- Risk should only be taken where a commensurate reward is expected;
- Risk should only be taken where the expected reward is required to give a reasonable chance of meeting the Scheme's objectives; and,

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)****13 INVESTMENTS (CONTINUED)****13.7 INVESTMENT RISKS (CONTINUED)**

- Risk should be diversified so that the Scheme is not overly exposed to any particular risk or source of return (whether an asset class or manager).

The key risks associated with the current investment strategy (excluding AVC investments and accrued income) are:

**Interest rate risk**

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Scheme is subject to indirect interest rate risk, both in absolute terms, and also unhedged risks in relation to the liabilities. The Scheme is 70% and 60% hedged (on a Technical Provisions basis) against interest rates and inflation, respectively, however it is still vulnerable to changes in interest rates impacting the value of unhedged liabilities.

The Scheme's hedging assets consist of leveraged gilts and index-linked gilts managed by Legal and General (see Liability Driven Investment amounts on the table on page 39. To a lesser extent, the value of the bonds held within the pooled diversified growth fund (see table on page 39 may provide an element of interest rate protection. If interest rates fall, the value of these investments will rise and similarly, if interest rates rise, the value of these investments will fall. This partially offsets the impact on the funding level of interest rates changing the value of the liabilities.

**Other price risk**

Other price risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Indirect other price risk arises principally from the Scheme's growth assets, which include equities, private equity, private debt, multi-asset credit, property and diversified growth pooled investment vehicles (see table on page 39). Some of the Scheme's managers also use derivatives as a way of obtaining efficient exposure to investment markets, and these are also subject to other price risk. The following table shows the Scheme's pooled investment vehicles that hold a small proportion of the below Market Value in derivatives:

|                                      | <b>2023</b>       | 2022       |
|--------------------------------------|-------------------|------------|
|                                      | £                 | £          |
| Baillie Gifford Diversified Growth   | <b>23,281,686</b> | 75,423,458 |
| Barings Global High Yield Strategies | <b>42,654,842</b> | 48,783,016 |

Note: The table above excludes the derivatives in the Legal and General LDI portfolio (2023: £132,828,963; 2022: £102,006,024) which are held for hedging purposes within pooled investment vehicles.

The Trustee manages other price risk by constructing a diverse portfolio of investments across various markets and with various investment managers.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)****13 INVESTMENTS (CONTINUED)****13.7 INVESTMENT RISKS (CONTINUED)****Currency risk**

This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

The Scheme's strategy includes investments in overseas assets and is therefore subject to direct currency risk. This is through the Morgan Stanley and Adams Street Partners private equity funds which are denominated in US Dollars (see table on page 39). As such, the Sterling valuation of this investment is directly influenced by changes in the GBP/USD foreign exchange rate.

The Scheme's exposure to currency risk is mitigated by hedging a proportion of the risk, through investing in certain GBP-hedged share classes, The Barings Global High Yield Credit Strategies Fund (2023: £42,654,842; 2022: £48,783,016) is denominated in US Dollars. However, the Scheme is invested in the GBP-hedged share class therefore the manager hedges 100% of the currency risk on the Scheme's behalf. Similarly, the Barings private debt funds (2023: £33,259,367; 2022: £26,784,935) are also denominated in USD, however, as the Scheme is invested in the GBP tranches the manager aims to fully hedge the currency risk. The fund also aims to fully hedge the currency risk in the underlying loans to the US Dollar thereby removing this indirect currency risk.

The Scheme is also subject to indirect currency risk due to a proportion of the underlying financial instruments held within the pooled investment vehicles being denominated in overseas currencies. In particular, the pooled global equity fund with Baillie Gifford, private equity, multi-asset credit and diversified growth mandates are subject to currency risk (see table on page 39).

The Scheme invests in the currency hedged share class of the Legal & General RAFI (Research Affiliates Fund Index) Fundamental Global Reduced Carbon Pathway Equity Index Fund to decrease the Scheme's exposure to currency risk in equity markets.

Overall, the Scheme hedges c.52% of its direct and indirect overseas currency risk.

**Credit risk**

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Scheme is subject to indirect credit risk from its exposure to bonds, cash, property and other fixed income assets contained within the pooled fund investments (see table on page 39). The Trustee manages credit risk by maintaining a diverse portfolio of investments across various markets and with various investment managers.

The majority of the Scheme's holdings in pooled investment vehicles are either unrated or sub investment grade. Direct credit risk arising from pooled investment vehicles as shown in note 13.2 is mitigated by:

- the underlying assets of the pooled arrangements being ring-fenced from the manager;
- the regulatory environments in which the managers operate; and,
- diversification of investments amongst a number of pooled arrangements.

The Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitor any changes to the regulatory and operating environment of the manager.



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)****13 INVESTMENTS (CONTINUED)****13.7 INVESTMENT RISKS (CONTINUED)****Credit Risk (Continued)**

The Scheme's cash is held within the Sterling Liquidity pooled investment vehicle (see table on page 39) with institutions which are at least investment grade credit rated.

A summary of pooled investment vehicles by type of arrangement is as follows:

|  | <b>2023</b>        | 2022        |
|--|--------------------|-------------|
|  | £                  | £           |
| Unit Linked Insurance Contracts          | <b>178,497,240</b> | 215,467,508 |
| Unit Trusts                              | <b>39,900,789</b>  | 40,834,060  |
| Open-ended Investment Company ("OEIC")   | <b>109,670,608</b> | 200,730,669 |
| Shares of Limited Liability Partnerships | <b>81,057,168</b>  | 67,395,467  |
|  | <b>409,125,805</b> | 524,427,704 |

The following table illustrates the extent to which the Scheme's investments are subject to indirect risks:

| <b>Pooled Investment Vehicle</b> | <b>Market Value<br/>31 Mar 2023</b> | <b>Market Value<br/>31 Mar 2022</b> | <b>Interest<br/>rate risk</b> | <b>Other price<br/>risk</b> | <b>Currency<br/>risk</b> | <b>Credit<br/>risk</b> |
|----------------------------------|-------------------------------------|-------------------------------------|-------------------------------|-----------------------------|--------------------------|------------------------|
|                                  | £                                   | £                                   |                               |                             |                          |                        |
| Equities                         | 89,402,355                          | 169,292,467                         | No                            | Yes                         | Yes*                     | No                     |
| Diversified Growth               | 23,281,686                          | 75,423,458                          | Yes                           | Yes                         | Yes                      | Yes                    |
| Multi-asset Credit               | 42,654,842                          | 48,783,016                          | Yes                           | Yes                         | No                       | Yes                    |
| Property                         | 39,900,790                          | 40,834,061                          | No                            | Yes                         | No                       | Yes                    |
| Bonds                            | 57,117,452                          | -                                   |                               |                             |                          |                        |
| Private Equity                   | 47,703,545                          | 40,610,530                          | No                            | Yes                         | Yes                      | No                     |
| Private Debt                     | 33,353,623                          | 26,784,935                          | Yes                           | Yes                         | No                       | Yes                    |
| Liability Driven Investment      | 73,499,683                          | 100,958,598                         | Yes                           | No                          | No                       | Yes                    |
| Cash                             | 2,211,829                           | 21,740,638                          | Yes                           | No                          | No                       | Yes                    |
| <b>Total</b>                     | <b>409,125,805</b>                  | <b>524,427,703</b>                  | -                             | -                           | -                        | -                      |

\*As at 31 March 2023 £45,668,275 (2022: £92,768,272) of the global equity holdings were currency hedged.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)****13 INVESTMENTS (CONTINUED)****13.7 INVESTMENT RISKS (CONTINUED)****Credit Risk (Continued)**

In addition the Trustee has identified a number of other risks that will impact on the funding level and contribute to funding risk which they consider when assessing the risk profile of the Scheme's investments. These include:

- **Cashflow risk** – the Trustee manages this risk by taking into account the timing of future payments in order to minimise the probability that there is a shortfall in liquid assets relative to the Scheme's liabilities. The Trustee regularly monitors the cash balance.
- **Risk of lack of diversification** – the Trustee ensures that the assets held by the Scheme within each mandate and asset class are well diversified, that is, there is no single investment within each mandate or asset class that is material in the context of the Scheme as a whole. The Trustee monitors this via investments reports produced by the managers.
- **Covenant risk** – the Trustee manages this risk by considering the strength of the sponsor when setting the investment strategy, and by consulting with the employer as to the suitability of the proposed strategy.
- **Operational risk** – the Trustee manages this risk by ensuring that all advisors and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

**14 CURRENT ASSETS**

|                                    | 2023             | 2022              |
|------------------------------------|------------------|-------------------|
|                                    | £                | £                 |
| Cash balances                      | 3,533,208        | 10,803,428        |
| Employers contributions receivable | 1,253,240        | 915,213           |
| Members contributions receivable   | 27,117           | 28,088            |
| Benefits paid in advance           | 38,643           | 67,642            |
| Sundry income due                  | 60,472           | 9,622             |
|                                    | <u>4,912,680</u> | <u>11,823,993</u> |

The outstanding contributions were received post year end within the timescales in the Schedule of Contributions.

**15 CURRENT LIABILITIES**

|                          | 2023           | 2022           |
|--------------------------|----------------|----------------|
|                          | £              | £              |
| Tax due to HMRC          | 131,083        | 117,970        |
| Accrued expenses         | 276,846        | 458,377        |
| Accrued benefits payable | 14,991         | 67,285         |
|                          | <u>422,920</u> | <u>643,632</u> |

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)****16 CAPITAL COMMITMENT**

The Trustee appointed Morgan Stanley Investment Management Ltd in November 2006. Morgan Stanley Investment Management Ltd manages the Morgan Stanley Private Equity mandate for the Scheme. The Scheme has committed to invest in Private Market Funds ("PMF") PMF III, PMF IV, PMF V, PMF VI and PMF VII funds.

As at 31 March 2023 the amount of the undrawn commitment in relation to these funds was approximately £7.9 million (\$9.8m), (2022: £10.4 million (\$13.7m)). A timetable for the settlement of these commitments has not yet been agreed with the fund manager.

The Scheme has also committed £30.0m to Barings Global Private Loan Fund 3 and £10.0m to Barings Global Private Loan Fund 4. As of 31 March 2023 the amount of undrawn commitment in relation to these funds were c.£ 2.8m (2022: £3.9m) and c.£4.3m (2022: N/A), respectively. However due to the Scheme's commitment to Barings Global Private Loan Fund 3, being largely funded, Barings are unlikely to call the Scheme's remaining £2.8m commitment - as is a standard practice for senior loan funds.

The Scheme has also committed a total of \$35.0m to the Adams Street Partners Private Equity mandate (made up of a \$28.0m commitment to the ASP 2022 Global Investment Fund and a \$7.0m commitment to the ASP Co-Investment Fund V). As of 31 March 2023, the undrawn commitments in relation to these funds were c.£14.7m (\$18.2m). and c.£4.8m (\$6.0m), respectively.

The Scheme committed £15m to the LGIM Build to Rent Fund which was fully drawn in the year.

**17 RELATED PARTY TRANSACTIONS**

The University of Edinburgh provides certain administration services to the Scheme. The fee payable for these services was £56,545 for the year ended 31 March 2023 (2022: £56,546).

Trustee fees for services provided by Scottish Pension Trustees totalling £46,018 (2022: 38,880) was paid by the Scheme.

There are two Trustee Directors (2022: two Trustee) who are contributing members of the Scheme and their contributions are included in employee and employer contributions. The amounts are paid in accordance with the Schedule of Contributions.

**18 EMPLOYER RELATED INVESTMENTS**

There were no employer related investments at any time during the year within the meaning of section 40 (2) of the Pensions Act 1995 (2022: nil).

**19 GMP COURT CASE**

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension GMP benefits.

Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)****19 GMP COURT CASE (CONTINUED)**

In November 2020 a further High Court judgment was made in respect of GMP equalisation and historic transfer values. The judge ruled that historic transfer values would fall under the scope of GMP equalisation and that trustees of pensions schemes remain liable to members where transfer value payments reflected unequalised GMP benefits.

For the actuarial valuation as at 31 March 2021, the Trustee has included a loading of 0.16% to the Scheme's technical provisions to account for GMP equalisation.

The Trustee agreed a method to equalise future transfer values at the 10 March 2021 Trustee meeting, of which Hymans Robertson implemented from 1 April 2021.

The Trustee and the Employer agreed the method by which to equalise GMP benefits for current members in June 2023 (method B / dual records) and preparatory work continued within the year.

## SECTION 6 – INDEPENDENT AUDITOR’S STATEMENT ABOUT CONTRIBUTIONS

### INDEPENDENT AUDITOR’S STATEMENT ABOUT CONTRIBUTIONS UNDER REGULATION 4 OF THE OCCUPATIONAL PENSION SCHEMES (REQUIREMENT TO OBTAIN AUDITED ACCOUNTS AND A STATEMENT FROM THE AUDITOR) REGULATIONS 1996, TO THE TRUSTEE OF THE UNIVERSITY OF EDINBURGH STAFF BENEFITS SCHEME

#### STATEMENT ABOUT CONTRIBUTIONS PAYABLE UNDER SCHEDULES OF CONTRIBUTIONS

We have examined the summary of contributions payable to the University of Edinburgh Staff Benefits Pension Scheme on page 44 in respect of the scheme year ended 31 March 2023.

In our opinion contributions for the Scheme year ended 31 March 2023 as reported in the attached summary of contributions on page 44 and payable under the Schedules of Contributions have, in all material respects, been paid at least in accordance with the Schedules of Contributions certified by the Actuary on 24 June 2019 and 23 June 2022.

#### SCOPE OF WORK ON STATEMENT ABOUT CONTRIBUTIONS

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions on page 44 have in all material respects been paid at least in accordance with the Schedules of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedules of Contributions.

#### RESPECTIVE RESPONSIBILITIES OF TRUSTEE AND THE AUDITOR

As explained more fully on page 20 in the Statement of Trustee’s Responsibilities, the Scheme’s Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the Employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the scheme and for monitoring whether contributions are made to the scheme by the employer in accordance with the Schedules of Contributions.

It is our responsibility to provide a Statement about Contributions paid under the Schedules of Contributions and to report our opinion to you.

#### Use of our statement

This statement is made solely to the scheme’s Trustee as a body, in accordance with the Pensions Act 1995. Our audit work has been undertaken so that we might state to the scheme’s Trustee those matters we are required to state to them in an auditor’s statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the scheme and the scheme’s Trustee as a body, for our audit work, for this statement, or for the opinions we have formed.

RSM UK Audit LLP  
Statutory Auditor  
Chartered Accountants  
Third floor, Centenary House  
69 Wellington Street  
Glasgow  
G2 6HG

DocuSigned by:  
*Linda Gray*  
68E825EBB56247E...

Date 18-Sep-2023 | 13:16 BST

### TRUSTEE'S SUMMARY OF CONTRIBUTIONS PAYABLE UNDER THE SCHEDULE IN RESPECT OF THE SCHEME YEAR ENDED 31 MARCH 2023

This Summary of Contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the employer and member contributions payable to the Scheme under the Schedules of Contributions certified by the Actuary on 24 June 2019 and 23 June 2022 in respect of the Scheme year ended 31 March 2023. The Scheme auditor reports on these contributions payable under the Schedules in the Auditors' Statement about Contributions.

### SUMMARY OF CONTRIBUTIONS PAYABLE IN THE YEAR

During the year, the contributions payable to the Scheme were as follows:

|   | Employer          | Employee       |
|---|-------------------|----------------|
|   | £                 | £              |
| <b>Required by the Schedules of Contributions</b>       |                   |                |
| Normal contributions                                    | 9,857,530         | 208,586        |
| Salary sacrifice  | 3,455,401         | -              |
| Deficit funding   | 4,500,000         | -              |
| Additional  | -                 | -              |
| <b>Total required by the Schedules of Contributions</b> | <b>17,812,931</b> | <b>208,586</b> |
| <b>Other contributions payable</b>                      |                   |                |
| Additional Voluntary Contributions                      | -                 | 132,368        |
| <b>Total (as per Note 4)</b>                            | <b>17,812,931</b> | <b>340,954</b> |

Signed for and on behalf of the Trustee of the University of Edinburgh Staff Benefits Scheme by:

DocuSigned by:

*Julia Miller*

Julia Miller

Trustee Director

A56546564BC0419...

DocuSigned by:

*James Hardacre*

James Hardacre

Trustee Director

BB2A55CBAD014C8...

18-Sep-2023 | 12:31 BST

Date

# SECTION 7 – SCHEDULE OF CONTRIBUTIONS AND ACTUARIAL CERTIFICATION



University of Edinburgh Staff Benefits Scheme | Hymans Robertson LLP

## University of Edinburgh Staff Benefits Scheme ('the Scheme') Schedule of Contributions

This schedule sets out the contributions that will be paid to the Scheme. This schedule applies from the date it is certified by the Scheme Actuary until 31 December 2029. It replaces the previous schedule dated June 2019.

This schedule has been prepared with the agreement of the University of Edinburgh ('the University') and after taking the advice of Susan McIlvogue ('the Scheme Actuary'). This schedule has been certified by the Scheme Actuary and the certificate is included in the appendix.

### Pensionable Salary

For the purpose of this schedule, Pensionable Salary is defined as a member's basic salary plus any additional allowances that have been agreed in employee contracts for this purpose, or as subsequently amended by the Scheme's Trust Deed and Rules.

For the purpose of calculating University contributions, any reduction in the rate of Pensionable Salary as a result of maternity, paternity or sick leave will be ignored unless advised otherwise by the University.

### University and member contributions

The total level of contributions required in respect of future service will be 34.9% p.a. of Pensionable Salary, payable no less frequently than monthly.

Contributions in respect of future service are split between the active members of the Scheme and the University.

The University will pay contributions at a rate equal 34.9% p.a. of Pensionable Salary less the applicable member contribution rate. Members currently pay contributions at a rate of 9.1% p.a. of Pensionable Salary. The University will pay the balance of contributions to ensure the total level of required contributions is paid. Where an active member participates in the salary sacrifice arrangements, the University will pay the appropriate contributions in relation to that member.

Should the member contribution rate be amended in future then the University's contributions will be adjusted accordingly to ensure the total contribution rate of 34.9% p.a. of Pensionable Salary is maintained.

The above contributions are due to be paid to the Scheme by the University by the 19<sup>th</sup> of the following month or by the 22<sup>nd</sup> of the following month if paid electronically. However, the trustees and the University can agree for payments to be made earlier if appropriate and, if so, the date of payment will become the due date.

This schedule does not cover the University's commitment to pay across to the Trustees additional voluntary contributions made by members.

### University deficit reduction contributions

The 31 March 2021 actuarial valuation showed that the Scheme had a funding deficit relative to the Scheme's statutory funding objective. The University shall pay the following deficit reduction contributions:

- £3,388,568.09 payable in June 2022;
- £1.5m payable in April 2023;
- £1.5m payable in April 2024; and
- An amount payable annually, starting from April 2025 with the final payment due in April 2029, which will be a proportionate contribution reflecting the period from 1 April 2029 to 31 December 2029. The amount payable will be equal to £1.1m plus any increase in the Consumer Price Index from September 2021 to the September preceding the payment date.

June 2022

001



In addition, the University shall pay the cost, as determined by the Scheme Actuary, of any benefit augmentations requested by the University and approved by the Trustees.

#### Expenses, Levies, Fees and Insurance Premiums

The University's contributions include an allowance for the following which are payable by the Scheme:

- the premium required to obtain life insurance cover;
- the Pension Protection Fund levy and other pension scheme levies;
- any fees falling due to the Scheme administrator, investment manager or other professional advisors; and
- other expenses of the trustees that are reasonably incurred in the course of performing its duties as trustees.

#### Prepared by the trustees of the Scheme

Signature  on behalf of the trustees  
A5654B564BC0419  
 Print name Julia Miller Position Chair of Trustees  
 Date 22-Jun-2022 | 14:34 BST

#### Agreed by the University

Signature  on behalf of the University  
7B4A36A907EB411  
 Print name The Principal Position Principal and Vice-Chancellor, University  
 Date 23-Jun-2022 | 16:13 BST

This schedule of contributions is provided to meet the requirements of section 227 of the Pensions Act 2004.





University of Edinburgh Staff Benefits Scheme | Hymans Robertson LLP

## University of Edinburgh Staff Benefits Scheme

### Schedule of Contributions – Actuarial Certificate

#### Adequacy of contributions

In my opinion, the contributions shown in this schedule are such that the statutory funding objective on 31 March 2021 can be expected to be met by the end of the period specified in the recovery plan dated June 2022.

#### Consistency with statement of funding principles

In my opinion, this schedule of contributions is consistent with the statement of funding principles dated June 2022.

Please note that the adequacy of contributions statement in this certificate relates to the Scheme's statutory funding objective. For the avoidance of doubt this certificate does not mean that the contributions shown in this schedule would be enough to secure the Scheme's full liabilities with annuities if the Scheme were to wind up.

|                  |   |
|------------------|---|
| Signature        | <small>DocuSigned by:</small><br><i>Susan McIlvogue</i>   |
| Date             | <small>R1E6D7BC16F6491</small><br>23-Jun-2022   18:26 BST |
| Name             | Susan McIlvogue   |
| Qualification    | Fellow of the Institute and Faculty of Actuaries          |
| Name of Employer | Hymans Robertson LLP                                      |
| Address          | 20 Waterloo Street, Glasgow, G2 6DB                       |

This certificate is provided to meet the requirements of regulation 10(6) of The Occupational Pension Schemes (Scheme Funding) Regulations 2005.

## SECTION 8 – IMPLEMENTATION STATEMENT

### Statement of Compliance with the University of Edinburgh Staff Benefits Pension Scheme's Stewardship Policy for the year ending 31 March 2023.

#### Introduction

This is the Trustee's statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the Trustee has complied with the Scheme's Stewardship Policy during the period from 1 April 2022 to 31 March 2023.

#### Stewardship policy

The Trustee's Stewardship (voting and engagement) Policy sets out how the Trustee will behave as an active owner of the Scheme's assets which includes the Trustee's approach to;

- the exercise of voting rights attached to assets; and
- undertaking engagement activity, including how the Trustee monitors and engages with its investment managers and any other stakeholders.

You can review the Stewardship Policy, which can be found within the Statement of Investment Principles, at: <https://www.uoesbspensions.co.uk/resources/statement-of-investment-principles-november-2022/>. A copy of both the Statement of Investment Principles and this statement can also be found at: <https://www.uoesbspensions.co.uk/resources/>.

The Trustee has delegated voting and engagement activity in respect of the underlying assets to the Scheme's investment managers. The Trustee believes it is important that its investment managers take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with management on issues which affect a company's financial performance.

The Trustee's own engagement activity is focused on its dialogue with the Scheme's investment managers which is undertaken in conjunction with its investment advisers. The Trustee meets regularly with its managers (at least annually) and the Trustee considers managers' exercise of their stewardship both during these meetings and through reporting provided by its investment adviser.

The Trustee also monitors compliance with its Stewardship Policy on a regular basis and is satisfied that it has complied with the Scheme's Stewardship Policy over the last year.

### Voting activity

The Trustee seeks to ensure that its managers are exercising voting rights and, where appropriate, monitors managers' voting patterns. The Trustee also monitors investment managers' voting on particular companies or issues that affect more than one company.

At 31 March 2023, the Scheme held equity assets through three different mandates. The Trustee's investment managers have reported on how votes were cast in each of these mandates as set out in the tables below.

| Strategy/Fund name   | Baillie Gifford<br>Global Alpha<br>Growth Fund | Baillie Gifford<br>Diversified<br>Growth Fund | LGIM<br>RAFI Fundamental<br>Global Reduced<br>Carbon Pathway<br>Equity Index Fund |
|--|--|---|---|
| Proportion of Scheme assets<br>(as at 31 March 2023)       | 10.6%  | 5.7%  | 11.1%   |
| No. of meetings eligible to vote at<br>during the year     | 94   | 97  | 3,407   |
| No. of resolutions eligible to vote<br>on during the year  | 1,173  | 1,061   | 39,878  |
| % of resolutions voted                                     | 98.3%  | 97.9%   | 99.7%   |
| % of resolutions voted with<br>management                  | 97.2%  | 95.8%   | 78.9%   |
| % of resolutions voted against<br>management               | 2.5%   | 3.3%  | 19.8%   |
| % of resolutions abstained                                 | 0.3%   | 1.0%  | 1.3%  |
| % of meetings with at least one<br>vote against management | 21.3%  | 22.7%   | 69.5%   |

Note: Percentage totals may not equal 100% due to rounding.

The Trustee is satisfied that voting rights have been exercised across the vast majority of eligible resolutions on behalf of the Scheme, over the period.

LGIM has voted against a greater proportion of management resolutions over the year. This is typical of passive mandates that track an index with little choice over stock selection, versus an active manager being able to exercise choice when selecting investments. It is also indicative of LGIM exercising active stewardship through frequently taking a stance against management. The LGIM RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund invests across a high number of companies across various sectors and countries. This includes in emerging markets, where governance practices are not as high as in developed markets, leading to a higher proportion of votes against management.

### Voting activity (continued)

The majority of the resolutions that the managers voted on over the Scheme year were in relation to:

- General governance regarding remuneration policies and reports;
- Climate change and Net Zero pathway alignment; and,
- Election of Boards of Directors and Senior Management.

### Significant votes

The Trustee has asked its managers to report on the most significant votes cast within the portfolios they manage on behalf of the Trustee, and has summarised these below. The Trustee has confirmed why votes identified were significant, the size of the position in the portfolio, how the corresponding manager voted, any engagement the manager had undertaken with the company and the outcome of the vote.

From the managers' reports, the Trustee has selected the following votes as being of greater relevance to the Scheme:

#### **Netflix Inc. (Allocation of 0.45% in Baillie Gifford's Global Alpha Fund), 2 June 2022**

Baillie Gifford Global Alpha Growth Fund supported a shareholder resolution for Netflix Inc. to produce a report on the lobbying payments and contributions it had made over time, as Baillie Gifford believe enhanced disclosures and transparency on this would be in shareholders' best interests.

Baillie Gifford supported the resolution, with it also receiving 60% support from other shareholders. Given the majority support for the resolution, Netflix has since published a report on its political activity and made this publicly available.

This resolution is significant because it was submitted by shareholders and received a majority vote.

#### **Fraport AG Frankfurt Airport Services Worldwide (Allocation of 5.07% in Baillie Gifford's Diversified Growth Fund), 24 May 2022**

Baillie Gifford Diversified Growth Fund opposed the resolution to approve Fraport AG Frankfurt Airport Services Worldwide annual remuneration report – as Fraport AG Frankfurt Airport Services Worldwide had exercised discretion to amend the performance conditions detailed in its 2018 Long-Term Incentive Plan ("LTIP"). Baillie Gifford believe this amendment to be against shareholders' best interests.

Fraport AG Frankfurt Airport Services Worldwide Executive Committee's decision to adjust their Earnings Per Share ("EPS") targets to be negative for the 2021 Financial Year, resulted in Fraport AG Frankfurt Airport Services Worldwide 'achieving' 150% of their updated target over the period. Baillie Gifford believe further discretion should have been exercised when determining this executive compensation, preventing overpayments in years when the company experiences negative EPS performance. Baillie Gifford believe incentive pay should not be paid out at below median performance levels – as this would give potential for underperformance to be rewarded. Baillie Gifford encouraged the Fraport AG Frankfurt Airport Services Worldwide Supervisory Board to revise the condition such that no vesting would occur below median performance levels.

The remuneration report received majority shareholder approval.

The vote is significant because it opposed remuneration.

### Significant votes (continued)

#### **TotalEnergies SE (Allocation of 0.56% in LGIM's RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund), 25 May 2022**

LGIM voted against TotalEnergies SE's Sustainability and Climate Transition Plan.

Although LGIM recognise the progress TotalEnergies SE has made with regard to their net zero commitment, specifically with respect to the level of investments made in low carbon solutions and the strengthening of climate transition disclosures, LGIM remained concerned for TotalEnergies SE's short-term oil and gas production growth. TotalEnergies SE had not provided further details on how its production growth plans were consistent with its targeted 1.5 degrees trajectory, in alignment with the Paris Agreement. As such LGIM chose to vote against this resolution, in the absence of additional information on how TotalEnergies SE's upcoming production growth was aligned with its Sustainability and Climate Transition Plan.

This resolution is significant as it is an escalation of climate-related engagement undertaken by LGIM. TotalEnergies SE's Sustainability and Climate Transition Plan passed the shareholder resolution with c.89% support, however the Trustee continues to support manager engagement on the matter.

### Engagement activity

#### **Summary of Trustee engagement with managers**

The Trustee holds meetings with the Scheme's investment managers on a rolling schedule, seeing each manager once a year, where stewardship issues are discussed in further detail. Some of the areas discussed with the Scheme's managers are summarised below.

- The Trustee requested Baillie Gifford present on their Paris-Aligned version of the Global Alpha fund which, through additional carbon screens, offers a significantly lower weighted average greenhouse gas ("GHG") intensity. The steps for how ESG is incorporated into Baillie Gifford's investment process were also highlighted. Following this discussion, the Trustee transferred the Scheme's Global Alpha holding into its Paris Aligned equivalent.
- The Trustee held a discussion with Threadneedle on climate risk reporting and disclosures required, as well as the progress of key energy performance certificate ("EPC") targets for properties. As part of this, the Trustee evaluated Threadneedle's annual sustainability performance metrics, across energy consumption, greenhouse gas emissions, water and waste and overall climate risk resilience.
- The Trustee discussed Morgan Stanley's new fund, the 1GT Fund, which will target 1 gigaton of CO<sub>2</sub> emission avoidance across its portfolio. The Trustee was pleased to see this type of investment being offered by Morgan Stanley, though the Scheme's current overweight allocation to private equity means that additional investments are not being considered by the ISC at this time.

### Summary of manager engagement activity

The Trustee receives annual reporting on Baillie Gifford's engagement activity. The following table summarises the Baillie Gifford funds' key engagement activity for the 12-month period ending 31 December 2022.

| Categories engaged on               | Number of Engagements                       |  |
|-------------------------------------|---|--|
|                                     | Baillie Gifford<br>Global Alpha Growth Fund | Baillie Gifford<br>Diversified Growth Fund |
| Climate Change                      | 30  | 17   |
| Natural Resource Use                | 5   | 8  |
| Remuneration                        | 24  | 13   |
| Shareholder Rights                  | 9   | 2  |
| Company Disclosure and Transparency | 60  | 27   |

Over 2022, the Baillie Gifford Global Alpha Growth Fund carried out 98 engagements and the Baillie Gifford Diversified Growth Fund carried out 37 engagements. Engagements primarily focused on the understanding of companies' decarbonisation strategies, net zero transitions and ESG-related policies. The main methods of engagement were meetings and calls.

The Trustee receives annual reporting on LGIM's engagement activity. The following table summarises the top five engagement activity topics for the 12-month period ending 31 December 2022.

| Topic engaged on                    | Number of Engagements |
|-------------------------------------|-----------------------|
| Climate Change                      | 281                   |
| Deforestation                       | 264                   |
| Remuneration                        | 219                   |
| Shareholder rights                  | 212                   |
| Company Disclosure and Transparency | 120                   |

Note: Engagements may cover more than one topic.

LGIM carried out a total of 1,224 engagements over 2022. Engagements primarily focused on governance issues, followed by environmental issues and social issues. The main methods of engagement were written engagements, meeting and calls.

### Use of a proxy adviser

The Trustee's investment managers have made use of the services of the following proxy voting advisors over the Scheme year:

| Manager         | Proxy Advisor used |
|-----------------|--------------------|
| Baillie Gifford | ISS/Glass Lewis    |
| LGIM            | ISS                |

While LGIM is mostly in agreement with its proxy advisor, with 87.2% of the votes aligned with their recommendations, the manager is demonstrating ownership of votes and is willing to go against advice when deemed in the best interests of the Scheme and other investors. Baillie Gifford do not currently produce statistics on proxy advisor alignment. The Trustee has encouraged the manager to include this information in the future.

### Review of policies

The Trustee has committed to reviewing the managers' responsible investment policies regularly. The most recent review considered managers' broad approach to responsible investment issues in addition to considering any change in approach by the manager over the year.

The Trustee and its advisors remain satisfied that the responsible investment policies and (where appropriate) voting policies remain suitable for the Scheme.

## APPENDIX – PENSIONS GLOSSARY

**Actuarial Valuation:** appraisal of the scheme's assets and liabilities, using investment, economic, and demographic assumptions for the model to determine whether, at a certain date, The Trustees believe the scheme will have enough money to be able to pay the pensions promised to members.

**Additional Voluntary Contributions (“AVC’s”):** AVCs are additional contributions paid into the Scheme by the member to increase the benefits payable at retirement. The current AVC provider for the Staff Benefit Scheme is Standard Life.

**Annual Allowance (“AA”):** The maximum amount of pension savings on which a member can receive tax relief each tax year.

**Career Average Revalued Earnings:** Schemes (known as CARE schemes) are a form of Defined Benefit pension arrangement.

**Contingent assets:** Assets held outside a pension scheme which the scheme can claim when one or more specified “trigger” events occur (such as the insolvency of the sponsoring employer). They can be useful for trustees and employers as an alternative to cash in relation to scheme funding and also as a way in which to reduce a scheme's PPF levy.

**Contracting Out:** Up until 2016, pension schemes and their sponsoring employers had the option to opt out of the State Second Pension (State Earnings Related Pension Scheme) for their members. Members and employers made lower National Insurance contributions in exchange for the scheme providing a certain level of pension which was at least as good as the State Second Pension.

**Consumer Price Index (CPI):** The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care.

**Defined Benefit:** An employer-sponsored retirement plan where employee benefits are determined using a formula that considers several factors, such as length of employment and salary history.

**Defined Contributions:** A plan in which members and employers contribute a fixed amount or a percentage of pay which is invested and the proceeds used to buy a pension and/or other benefits at retirement.

**Financial Times Stock Exchange (“FTSE”):** now known as FTSE Russell Group, is a British financial organization that specializes in providing index offerings for the global financial markets.

**Gross Domestic Product (“GDP”):** Gross domestic product or GDP is a measure of the size and health of a country's economy over a period of time (usually one quarter or one year). It is also used to compare the size of different economies at a different point in time.

**General Data Protection Regulation (“GDPR”):** Introduced in 2018 to protect the data held by employers and pension schemes in relation to individuals.

**Guaranteed Minimum Pensions (GMPs):** Introduced from 6 April 1978 to allow occupational DB pension schemes to contract-out of the second tier of state pension provision (the State Second Pension). Schemes that were contracted-out on a GMP basis must provide members with benefits that are no less than a specified minimum, so that a contracted-out member does not lose out because they no longer receive all the elements of the state pension.

**Hedging:** Financial hedging is the action of managing price risk by using a financial derivative (like a future or an option) to offset the price movement of a related physical transaction.



## PENSIONS GLOSSARY (CONTINUED)

**Internal Dispute Resolution Procedure (“IDRP”):** The official process set up by pension schemes to deal with disputes between the Trustees and scheme beneficiaries.

**Lifetime Allowance (“LTA”):** The Lifetime Allowance is the highest value of pension savings you can draw without paying tax. The amount set by the Government is and the standard Lifetime Allowance is currently £1,073,100 (2021-2022).

**Member Nominated Trustees (“MNT”):** Under the Pensions Act 2004 trustees must ensure that arrangements are in place to provide for at least one-third member nominated trustees (MNTs) or, where there is a corporate trustee, one-third member-nominated directors (MNDs) and that those arrangements are implemented. The arrangements must include a nomination process and a selection process, and comply with other statutory requirements.

**Pension Commencement Lump Sum (“PCLS”):** Members can take up to 25% of the capitalised value of their pension benefit as a lump sum at retirement. This is also known as a tax-free lump sum or tax-free cash.

**Pension Protection Fund (“PPF”):** The PPF was established by the Pensions Act 2004 with effect from April 2005. The PPF’s main function is to provide compensation to members of eligible DB pension schemes where there are insufficient assets in the pension scheme to cover the PPF level of compensation.

**Retail Price Index (“RPI”):** The RPI is one of the two main measures of consumer inflation produced by the United Kingdom’s Office for National Statistics (ONS).

**Salary Sacrifice:** An arrangement whereby the member agrees to give up a portion of their salary in exchange for that part of the salary being paid into the pension scheme directly from the employer, thus lowering the amount of pay eligible for National Insurance contributions.

**Schedule of Contributions:** A legal document setting out the schedule of contributions payable to the scheme.

**State Pension Age:** The age individuals need to reach to be able to take payment of the UK State Pension.

**Statement of Investment Principles:** A written statement governing decisions about investments for the purposes of an occupational pension scheme.

**The Pensions Regulator:** TPR is the UK’s regulator of work-based pension schemes. Its primary objectives are to protect the benefits of members of work-based pension schemes; promote and improve understanding of the good administration of work-based pension schemes; reduce the risk of situations arising that may lead to compensation being payable from the PPF; in relation to scheme funding only, minimise any adverse impact on the sustainable growth of an employer; and maximise compliance with the automatic enrolment duties.