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Aberdeen Standard Investments

Investing for Universities - we can help

July 2020

University's investment needs go well beyond returns, and so must your asset manager.

Who are we?

Aberdeen Standard Investments (ASI) is a trusted partner of universities, charities, local authorities and other public bodies, large and small. We look to establish long-term partnerships with all of our clients to help them meet their evolving investment needs.

Investors continue to trust us to deliver high-quality investment products and solutions to make their assets work for them. Our breadth of investment capabilities is extensive, and our investment solutions are among the most innovative in the market.

How we can help universities

- **We provide cash management solutions**
- **We offer innovative investment solutions across a range of asset classes for endowments**
- **We can help address defined benefit pension shortfalls and manage liabilities**

Each university is unique, with different priorities and challenges. For that reason, we tailor our investment solutions to meet your requirements. With our extensive resource and experience, our aim is to address your objectives with effective, proven solutions.

Contents

Cash management and liquidity

- While bank accounts are often considered the simplest place to hold cash, increasing numbers of institutions are using money market funds as an efficient way of managing their working capital. Also termed liquidity funds, money market funds offer similar facilities to traditional bank accounts plus a number of advantages.
- In particular, money market funds aim to preserve the value of your capital while also aiming to achieve returns above those of traditional deposits. They are readily accessible and provide diversification, thereby reducing counterparty risk.
- In the prevailing uncertainty, the capital preservation, liquidity and yield offered by money market funds are of particular value to investors. Low interest rates and economic challenges remain prominent challenges for the university sector. Ensuring every penny is working to achieve the best-possible risk-adjusted return can make a considerable difference to ongoing funding.

Please see below snapshot of the investment fundamentals in our ASI Sterling solution, illustrating the diversity and quality of the assets.

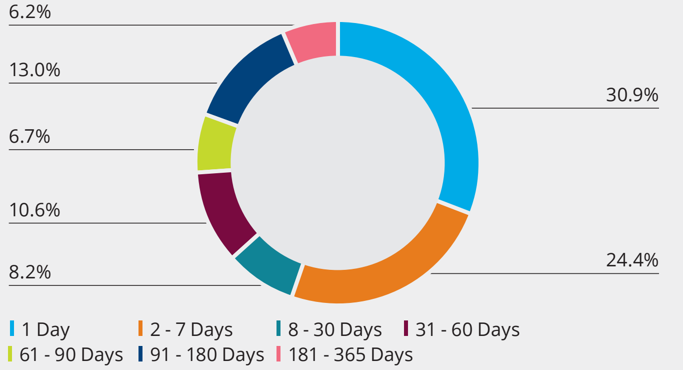
Benefits of ASI money market funds

- **Capital preservation:** ASI's money market fund holds investments with over 50 highly-rated counterparties across the globe across the globe, providing high-quality diversification. Therefore, holding money in a bank deposit account alongside ASI's money market fund allows you to reduce concentration risk.
- **Liquidity:** as a AAA rated fund we adhere to strict guidelines for overnight and weekly maturing assets. Universities benefit as we can pay out redemption requests the same day and there is no limit to the number of withdrawals you can request[1].
- **Yield:** being able to hold a hold a proportion of high quality investments up to a maximum maturity of 397 days enables us to offer an enhanced yield vs the overnight interest rates.

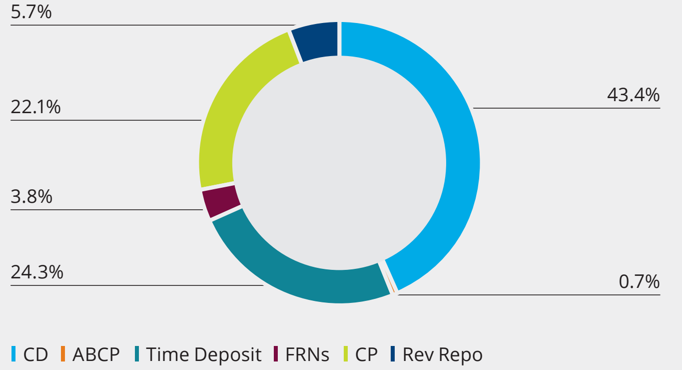
Aberdeen Standard Liquidity Fund (Lux) GBP

Portfolio statistics

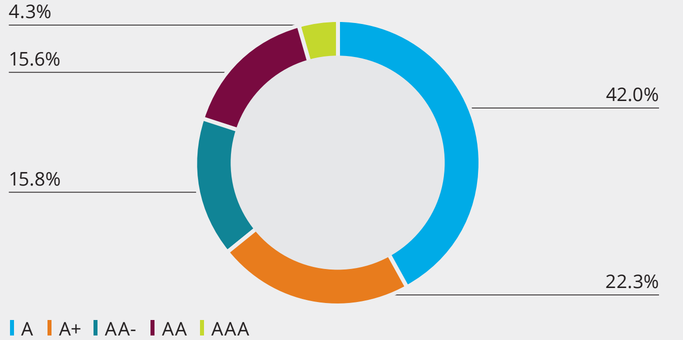
Maturity Profile



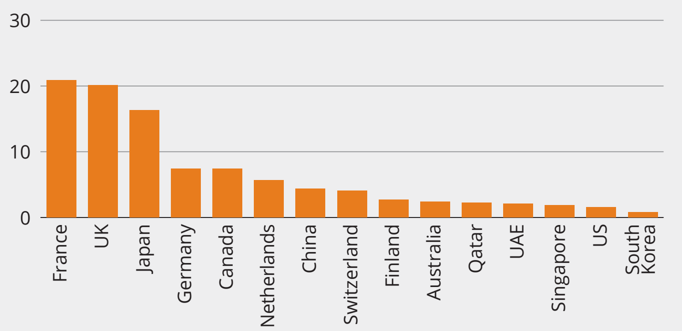
Asset Allocation



Long Term Credit Ratings



Country Allocation



Source: Aberdeen Standard Investments, June 2020. NB: Figures may not add up due to rounding

[1] Redemptions are priced and paid out at 13:30 BST with hourly payments run from 10:00 BST to 13:30 BST.

Endowments

We recognise no two clients have the same requirements. As asset managers, we believe our role is to provide investment choices that are right for the client, to meet their needs, values and investment beliefs without compromising returns.

We know endowment values vary across institutions. As well as aiming to ensure these funds deliver good returns, we're aware that clients need to know what they're invested in. Increasing numbers of UK universities are signing up to socially responsible investing, with more than 50% committing to fossil fuel disinvestment over the next few years.

As pioneers of environmental, social and governance (ESG) investing, we've built strong resource in this area. ASI manages a wide array of asset classes - from fixed income and equities, to private markets, infrastructure and more. Whatever the asset class, detailed ESG analysis is an integral part of our investment process. For investors who want to go further, we offer funds with specific exclusions, and funds that focus on addressing specific problems such as climate change and inequality.

As a recent example of how we can seek to uphold ESG principles while still achieving attractive investment returns, in June 2020, we acquired a 100% stake in a portfolio of solar assets in Poland. This comprises 351 megawatt of operational/near-term operational state-of-the art solar farms. Revenues from all of the projects are underpinned by a 15-year guaranteed tariff under Poland's renewable energy support scheme. As well as providing a stable flow of investment returns, the projects will supply around 155,000 homes with power and reduce carbon emissions by 311,000 tonnes each year.

We outlined some of our current views on responsible investing at the World Economic Forum in Davos in January this year. Our main theme was 'Capital Allocation for a Sustainable World', a conversation we're continuing. If you'd like to be involved, please contact us – we're keen to work with universities to share ideas and develop investment solutions that support their values while also delivering the returns they need.

Responsible Investment Approaches

ASI has a number of solutions aligned to different investor preferences

Values Investor	Sustainable Investor	Thematic Investor	Impactful Investor
For clients with particular ethical or religious views who do not wish to invest in certain types of companies.	For clients who want to reduce exposure to the long term risks associated with ESG factors and companies which fail to meet recognised sustainability standards while seeking improvement in business practices / approach through targeted engagement.	For clients seeking to benefit from exposure to a specific ESG theme in their portfolios.	For clients seeking to make a positive difference and a return through exposure to companies that intentionally deliver products or solutions that have a measurable beneficial social or environmental impact or have a material alignment to one or more of the UN's SDGs.
Ethical Fund Range Enhanced Index Range	Sustainable & Responsible (SRI) Fund Range	Carbon Mitigation Strategy	Impact fund range Sustainable Development Funds

Source: Aberdeen Standard Investments, September 2019.

Benefits of ILPS for DB clients

Defined benefit university pension schemes
University defined benefit (DB) pension schemes vary greatly in terms of funding levels, ranging from fully funded to severely underfunded. This can have a marked effect on a university's balance sheet liabilities, and income and expenditure statement. The question is, how can we control asset and liability risks while maintaining target returns?

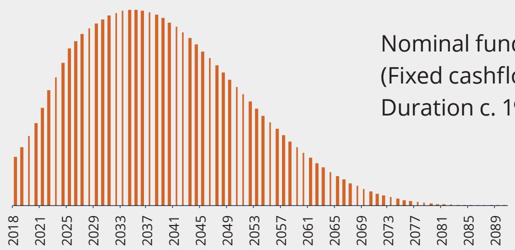
With this question in mind, we developed our Integrated Liability Plus Solution (ILPS). The purpose of the solution is two-fold. First, it hedges against movements in interest rates and inflation, which affect the liabilities. Second, it provides growth assets focused on delivering returns.

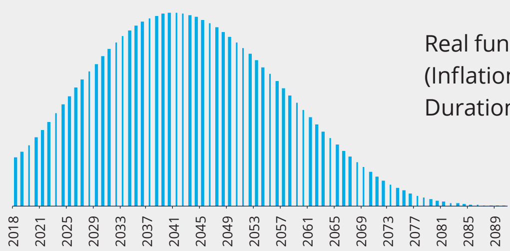
The function of the Hedging Portfolio within each ILPS is to help ensure the pension scheme's assets move in line with changes in the value of its liabilities, thus smoothing the path of the scheme's funding level (i.e. the ratio of assets to liabilities).

At the same time, the Growth Portfolio provides the opportunity for returns so that the funding level can steadily improve. Depending on which of our various solutions is chosen, the growth target might be cash + 5% per annum over rolling three-year periods, or cash + 3% per annum over rolling three-year periods, or returns in line with passive global equity markets.

The diagram below illustrates the impact that ILPS can have on assets, liabilities and funding levels.

Two cashflow profiles to build a liability hedge



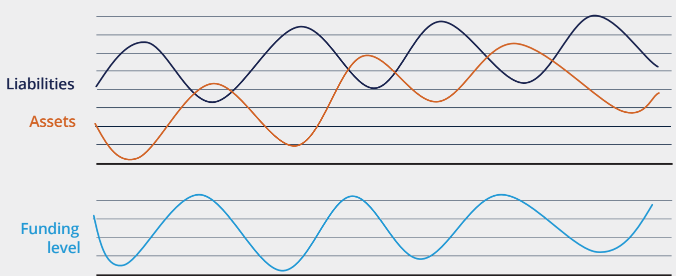


Source: Standard Life Investments, as at January 2019.

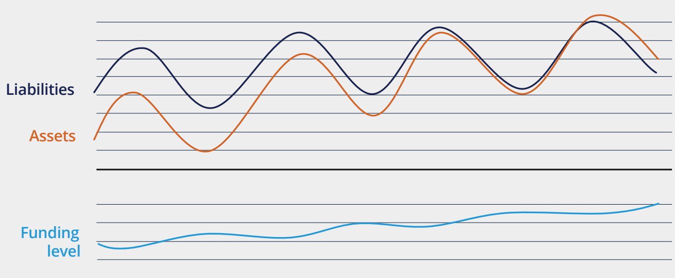
- The Hedging Portfolio in each ILPS fund aims to counteract movements in interest rates and inflation to help ensure the scheme's assets move in line with changes in the value of its liabilities.
- The Growth Portfolio in each ILPS fund targets positive annualised returns over the long term, in line with those you may already be used to. For example, LA Equity may be used to retain existing equity exposure, while LA AR III can be used to replace a diversified growth fund. In both cases, hedging is increased.
- Crucially, unlike traditional liability hedging (LDI) solutions, allocating some of the scheme's assets to ILPS need not entail a sacrifice of expected returns on those assets. For example, LA AR II might be used as a replacement for a traditional (indexed) gilt/bond portfolio to target a more precise liability hedge.

We illustrate some of these examples below, to show the improved liability hedging (illustrated by the size of the circling arrows) and the higher expected returns.

The traditional investment approach: assets do not match liabilities



A liability aware investment approach: assets and liabilities move together



To find out more, please contact:

Graeme Oudney
Associate Director
Mobile: +44 7834 319 094
Phone: 0131 372 1575
Email: graeme.oudney@aberdeenstandard.com

Peter Woodberry-Watts
Head of Liquidity Sales
Mobile:+44 7711 626 494
Phone: 020 7463 6185
Email: peter.woodberry-watts@aberdeenstandard.com

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