Retirement Solutions

Scottish Housing Associations' Pension Scheme
Defined Benefit Accounting

Supplementary Asset Information

31 March 2024

1. Purpose

This report provides supplementary background information for employers participating in the Scottish Housing Associations' Pension Scheme (the "Scheme") and their auditors in relation to the preparation of accounting disclosures under Section 28 of FRS 102.

The report includes:

- the market value of the invested assets of the Scheme applicable for disclosures ending 31 March 2024
- a description of the underlying funds at that date
- the process describing how Scheme assets are divided amongst participating employers, leading to the asset values contained in the employer FRS 102 disclosures

2. Market Value of Scheme Assets

A summary of the assets of the Scheme applicable for disclosures ending 31 March 2024 is set out below:

Asset name	Market Value £000s
Growth Assets	
Global Equity	79,168
Absolute Return	30,928
Distressed Opportunities	25,336
Credit Relative Value	24,242
Alternative Risk Premia	24,782
Emerging Markets Debt	12,062
Risk Sharing	41,305
Insurance-Linked Securities	4,275
Property	29,114
Infrastructure	65,926
Private Equity	544
Private Debt	27,706
Opportunistic Illiquid Credit	27,393
High Yield	114
Cash	17,836
Matching Plus	
Long Lease Property	5,121
Secure Income	22,969
Liability Driven Investment (LDI)	
Liability Driven Investment	248,943
Net Current Assets	
Net Current Assets	844
Currency Hedging	
Currency Hedging	(297)
Total	**688,311**

The figure on the previous page excludes assets held in respect of members' additional voluntary contributions, and assets in respect of insured pensioners. These assets and the corresponding liabilities have been excluded from this valuation.

3. Investment Funds

Descriptions of the underlying investment funds are set out below:

3.1 Growth Assets Portfolio

The purpose of the Growth Assets Portfolio is to deliver a return in excess of the Scheme's liabilities. There is an inherent level of risk involved in investing in growth assets, which is managed by creating a diversified portfolio that is expected to deliver returns in a number of economic scenarios. The Growth Assets Portfolio is split into five sub-portfolio, with each sub-portfolio consisting of a number of funds that are expected to derive their returns from a common factor.

3.1.1 Equity

Investments in this sub-portfolio provide exposure to the equity risk premium, the additional rate of return investors require to compensate them for the risk of holding stocks as compared with holding a 'risk free' asset.

Asset Name	Description
Global Equity	The Global Equity Fund invests in global listed equity markets, covering both developed and emerging markets. It invests both passively and actively, with the aim of delivering returns in excess of a global index.

3.1.2 Market Neutral

Investments in this sub-portfolio provide access to investment strategies that look to produce returns in a number of economic scenarios, generally without relying on positive performance of equity (and often credit) markets. The strategies in this sub-portfolio invest in a range of asset classes and instruments, and should not be considered an asset class in themselves; the main driver of return is a manager's ability to successfully allocate across different types of instruments.

Asset Name	Description
Absolute Return	Absolute Return is a term used to describe a collection of strategies that aim to deliver positive returns in all market environments. They achieve this by either allocating across different asset classes, seeking to benefit from the fact that asset returns can diverge in different market conditions, or through the identification of individual trade ideas that seek to exploit specific market anomalies.
Distressed Opportunities	The Distressed Opportunities strategy seeks to invest in stressed or distressed securities, and is able to take positions anywhere in the capital structure. The majority of the portfolio is expected to be invested in debt securities, and achieves returns through the identification of mispriced securities or restructuring exercises.
Credit Relative Value	This strategy invests both long and short in a range of corporate bonds and loans. Its primary aim is to capture a significant amount of the upside associated with the high yield bond market, whilst preserving capital during down periods.
Alternative Risk Premia	Alternative Risk Premia is a quantitative based strategy that seeks to exploit well documented premia that are observable in financial markets. These include value, momentum and quality. The strategy is able to go both long and short, and holds an extremely diversified portfolio in order to capture a wide range of information.

3.1.3 Credit

Investments in this sub-portfolio give schemes exposure to the credit risk premium. This typically means investing in debt instruments that earn a return over the risk free rate (such as UK government bonds) in compensation for assuming the risk that a borrower will not meet their contractual repayments, of either interest or capital.

Asset Name	Description
Emerging Markets Debt	This strategy invests in the debt securities of governments in emerging markets, such as Brazil, Mexico and South Africa. The securities purchased are typically issued in the currency denomination of the issuing country (for example Mexican bonos issued in Mexican pesos), as opposed to US dollars. The strategy takes views of both the level of interest being paid, as well as the attractiveness of the local currency relative to the US dollar.

3.1.4 Insurance

Investments in this sub-portfolio aim to give holders exposure to the insurance premium, where the return is derived from providing insurance to a third party.

Asset Name	Description
Risk Sharing	Risk sharing is also commonly referred to as regulatory capital relief. Returns are earned from the credit risk primarily associated with loans to small to medium sized entities. It can be thought of being an extension of direct lending, however rather than seeking to bypass the banking sector it looks to work with banks to help recycle capital back into the economy.
Insurance-linked Securities	An insurance-linked securities (ILS) mandate derives its return from insurance premiums received for assuming property risk associated with natural catastrophes. The main exposure within the portfolio is US wind and earthquake risk given these are typically the risks that insurance companies have significant exposure to, and are willing to pay attractive levels in order to free up capital on their balance sheet.

3.1.5 Illiquidity

Investments in this sub-portfolio provide schemes access to investment strategies that look to invest in a range of illiquid assets, both equity and debt. By investing in these assets investors expect to earn a return superior to what would otherwise be available through holding more liquid securities that can be sold at short notice; this is referred to as the 'illiquidity premium'.

Asset Name	Description
Property	The Property mandate provides exposure to the UK property market. Its primary aim is to deliver a yield in excess of the broader universe, with a secondary target of delivering capital appreciation. Rental increases are expected to be largely linked to the open market.
Infrastructure	The Infrastructure portfolio provides a diversified exposure to global unlisted infrastructure projects. It consists of both operating companies where value is created through identifying and executing operational efficiencies, and greenfield projects that design and construct new assets in order to increase the stock of infrastructure assets available. Infrastructure assets are defined as those key to the proper functioning of the economy.
Private Equity	Private Equity is investing in the equity of companies which are not listed on a stock exchange. Private Equity investors are commonly the sole investor (or one of a small number of investors) in the company and thus exercise a greater level of control over the business. This control allows private equity investors the ability to make changes to the business with the aim of increasing its value over time.
Private Debt	This mandate invests in the loans made to small to medium sized entities, with earnings of between €20-100m per annum. This takes advantage of European banks withdrawing from certain parts of the lending market due to more stringent regulatory rules, which requires them to hold more capital against expected losses arising from the loan pools on their balance sheet. Deals are typically sourced from borrowers directly, rather than through bank syndications.

Opportunistic Illiquid Credit	This mandate invests in a range of illiquid credit instruments, including corporate debt, residential real estate lending and speciality finance. The strategy seeks to take advantage of the retrenchment of banks in a number of areas of the lending market due to higher capital charges placed upon them by regulators. TPT is able to make use of its long-term investment horizon to provide the necessary finance at attractive rates of return.

3.1.6 Other

Asset Name	Description
High Yield	The High Yield mandate is a global strategy investing in debt instruments issued by corporate entities with a sub-investment grade credit rating. The holders of this debt are compensated for the increase risk of default by receiving a higher rate of interest than is available in investment grade issuance. It captures returns by dynamically allocating over a business cycle and exploiting the inefficiencies in the pricing of default risk.
Cash	This is cash mandate which is primarily used to maintain short-term liquidity in order to pay out pension scheme benefits.

3.2 Matching Plus Portfolio

The assets held in the Matching Plus Portfolio are expected to provide a return above the Scheme's liabilities by investing in assets that provide a high degree of certainty with regard to the outcome; this is generally achieved by holding a portfolio of investment grade assets that deliver returns through yield. The level of risk, and therefore return, is expected to be lower than those found within the Growth Assets Portfolio.

Asset Name	Description
Long Lease Property	The Long Lease Property mandate gives exposure to UK property where a large proportion of the valuation is derived from the value assigned to the lease. Typically these leases are long dated in nature, secured against tenants with strong covenants and have rent reviews that are either fixed in nature or linked to rises in inflation.
Secure Income	This mandate invests in debt instruments associated with private placement corporate loans, commercial real estate lending and infrastructure debt. The loans are expected to be long dated in nature, with a high degree of certainty over repayment of both interest and capital. Given the illiquid nature of the investments it is expected that an additional return will be earned over publicly traded equivalents.

3.3 Liability Driven Investment (LDI) Portfolio

The LDI portfolio mitigates interest rate and inflation risks that are present in the Scheme liabilities. This is achieved by holding a combination of government bonds (gilts) and swaps.

Asset Name	Description
Liability Driven Investment (LDI)	Liability Driven Investment (LDI) is a risk mitigation strategy that hedges the interest rate and inflation risks associated with scheme liabilities. This is achieved using a portfolio of leverage gilts and/or interest rate swaps, with the exact composition dependent on the specific characteristics of the liability cashflows.

3.4 Net Current Assets

Also included in the asset list is the value of Net Current Assets in the Scheme. This value is not an investment but still forms part of the Scheme's total assets.

3.5 Currency Hedging

Asset Name	Description
Currency Hedging	The purpose of currency hedging is to reduce the volatility of portfolio returns given currency moves. This mandate hedges exposure to USD, EUR and JPY.

4. Determining an employer’s fair value of assets

The Scheme is a non-segregated multi-employer Scheme and does not, therefore, have ring-fenced assets for each participating employer.

The fair value of an employer’s assets in the Scheme for the purpose of FRS 102 is determined as the employer’s share of the market value of the Scheme assets, split in proportion to the employer’s share of the trustee’s triennial funding liabilities (termed ‘Technical Provisions’) at the accounting date. This process has been adopted as it is the approach adopted by the trustee should an employer bulk transfer from the Scheme to an alternative defined benefit scheme. In order to obtain this fair value for an employer, the trustee’s funding liabilities are calculated for all employers at the accounting date. Each employer’s percentage share of the total funding liabilities is then determined. That percentage share is then applied to the market value of the assets of the scheme as at the accounting date.

Calculate funding liabilities for each employer	Determine % share of funding liabilities for each employer	Obtain market value of Scheme assets	Determine an employer’s fair value of assets (2 multiplied by 3)
1	**2**	**3**	**4**

If you have any questions on the above please contact us on frs102@tpt.org.uk or 0113 394 2668.

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