

FINANCIAL & ACTUARIAL INFORMATION SHEET FOR NO. 3 FUND MEMBERS FOR THE SCHEME YEAR 2010 / 2011



Introduction

The No. 3 Fund is a sub-fund of the Strathclyde Pension Fund. It was established in February 1993 in order to preserve the pensionable benefits of those remaining employees (1,362) of Strathclyde Buses who had transferred from the service of Strathclyde Regional Council upon the implementation of the Transport Act 1985 in October 1986.

The value of those employees' benefits and the assets in respect of them were actuarially assessed by Hymans Robertson, the Fund's actuaries, when the No. 3 Fund was established. It is an "admission agreement fund" as defined within the regulations and was established as a closed fund – i.e. it is not open to new membership.

The sole employer contributing to it is First Glasgow, a subsidiary of First Group.

Fund and scheme administration are carried out by Glasgow City Council within the Strathclyde Pension Fund Office (SPFO).

Investment Arrangements

The investment assets of the No. 3 Fund are externally managed, and the investment management arrangements as at 31 March 2011 are shown below:

| Asset Class | Fund Manager | % managed |
|----------------------------|-----------------|-----------|
| Multi Asset – Passive | Legal & General | 27.00 |
| Multi Asset – Passive | Ruffer | 18.00 |
| Global Equity and Property | Schroder | 55.00 |

Note: Cash balances are managed by the Fund's Global Custodian, Northern Trust.

Fund Structure

The No. 3 Fund structure as at 31st March 2011 was as follows:

| Assets | UK £m | Overseas £m | Total £m |
|--|------------|----------------|-------------|
| Equities (including convertible shares) | 14 | 11 | 25 |
| Index Linked Securities Public Sector | 23 | 0 | 23 |
| Pooled Investment Vehicles - | | | |
| Unit Trusts | 57 | 6 | 63 |
| Real Estate Unit Trusts | 6 | 0 | 6 |
| Derivative Contracts | 0 | 0 | 0 |
| Cash Deposits | 2 | 0 | 2 |
| Debtors | 5 | 0 | 5 |
| Total Assets | 107 | 17 | 124 |

Investment Performance

| Year to 31 March | Mar 02 % | Mar 03 % | Mar 04 % | Mar 05 % | Mar 06 % | Mar 07 % | Mar 08 % | Mar 09 % | Mar 10 % | Mar 11 % | 3Yr Annualised % | 5Yr Annualised % | 10 Yr Annualised % |
|---------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------------|------------------------|--------------------------|
| Retail Prices | 1.3 | 3.1 | 2.6 | 3.2 | 2.4 | 4.8 | 3.8 | -0.4 | 4.2 | 5.3 | 3.0 | 3.5 | 3.0 |
| Consumer Prices | 1.6 | 1.5 | 1.3 | 1.7 | 1.9 | 2.9 | 2.4 | 3.0 | 3.2 | 4.2 | 3.5 | 3.1 | 2.4 |
| Avg. Earnings | 2.8 | 4.2 | 4.6 | 4.1 | 5.8 | 6.7 | 4.7 | -1.1 | 6.7 | -0.2 | 2.7 | 3.3 | 3.8 |
| Fund Return | -1.6 | -18.0 | 24.7 | 12.1 | 0.0 | 5.3 | 9.8 | 6.0 | 32.8 | 8.8 | 8.2 | 6.9 | 7.0 |
| Fund Benchmark | -1.6 | -17.9 | 24.8 | 11.9 | 0.0 | 4.2 | 7.8 | 2.6 | 26.3 | 7.5 | 5.2 | 4.5 | 5.8 |
| WM Average | -1.0 | -18.5 | 22.6 | 11.6 | 24.2 | 7.0 | -1.0 | -18.1 | 30.1 | 8.0 | 5.4 | 4.1 | 5.7 |

Further de-risking of the No.3 Fund occurred in December 2010. This involved the sale of active equity and property from the Schroders portfolio, and the interim purchase of long dated index linked gilts prior to transition to a full liability matching structure with Legal & General.

Fund Accounts

| For years ending 31 March | 2009/10 £000 | 2010/11 £000 |
|--|-----------------|-----------------|
| DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME | | |
| Contributions receivable | | |
| From employers | | |
| - normal | 1,602 | 1,586 |
| - augmentation | <u>2,382</u> | <u>2,500</u> |
| | 3,984 | 4,086 |
| From members | | |
| - normal | 368 | 357 |
| Benefits payable | | |
| - pensions | 3,568 | 3,673 |
| - commutation of pension and lump sum retirement benefits | 776 | 948 |
| - lump sum death benefits | <u>0</u> | <u>114</u> |
| | 4,344 | 4,735 |
| Payments to and on account of leavers | | |
| - individual transfers out to other schemes | 481 | 345 |
| Administrative expenses | | |
| | 27 | 28 |
| Net reduction from dealings with members | | |
| | 500 | 665 |
| RETURNS ON INVESTMENTS | | |
| Investment income | | |
| - dividends from equities | 877 | 872 |
| - income from index linked securities | 0 | 55 |
| - income from pooled investment vehicles | 1,060 | 1,194 |
| - interest on cash deposits | 60 | 30 |
| - other | <u>54</u> | <u>0</u> |
| | 2,051 | 2,151 |
| Change in market value of investments | | |
| | 26,084 | 8,252 |
| Taxation | | |
| | 13 | 7 |
| Investment management expenses | | |
| | 45 | 23 |
| Net returns on investments | | |
| | <u>28,077</u> | <u>10,373</u> |
| Net increase in the Fund during the year | | |
| | 27,577 | 9,708 |
| Add : opening net assets of the scheme | | |
| | <u>90,532</u> | <u>118,109</u> |
| Closing net assets of the scheme | | |
| | <u>118,109</u> | <u>127,817</u> |

Actuarial Position of The Fund

In accordance with Regulation 76 of the Local Government Pension Scheme (Scotland) Regulations 1998 an actuarial valuation of the No. 3 Fund was carried out as at 31 March 2008. Results of the valuation were confirmed during March 2009.

The funding level as at 31 March 2008 was 88% (86% at 31 March 2005) and there was a funding shortfall of £14 million:

| | £ million |
|------------------|-----------|
| Fund assets | 103 |
| Fund liabilities | 117 |
| Deficit | 14 |

Liabilities had been valued on an “ongoing” basis anticipating an element of future out-performance from equity investments.

The deficit funding position indicated that the No. 3 Fund’s objectives were not fully met at the valuation date. The funding policy seeks to ensure that the funding objectives are met over the remaining life of the No. 3 Fund.

In order to achieve this First Glasgow agreed to make significant contributions into the No. 3 Fund as follows.

| Year to | Employer contribution rate (as % of pensionable payroll) | Additional monetary payments (£000) |
|---------------|--|-------------------------------------|
| 31 March 2010 | 25.8 | 2,400 |
| 31 March 2011 | 27.8 | 2,500 |
| 31 March 2012 | 29.6 | 2,600 |

The next formal actuarial valuation of the No. 3 Fund is currently being carried out as at 31 March 2011.

The funding level is expected to be similar to the position in 2008 but will have deteriorated between March and September 2011.

Further Information

The full report on the 2008 actuarial valuation, our annual report 2011, the No. 3 Fund’s Statement of Investment Principles and the No. 3 Fund’s Funding Strategy Statement are available on the Fund’s or Glasgow City Council’s website or on request from SPFO.

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