

IN TOUCH



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WELCOME TO IN TOUCH

It gives me great pleasure to introduce In Touch 2009, our newsletter for deferred members - that is, members who have built up benefits with us but who are not currently contributing to the pension scheme. With In Touch we aim to keep you informed about the Fund, the Strathclyde Pension Fund Office and pension matters generally.

I would like to start with a reminder that, if you are currently working in local government, you can re-join the Fund to build up further benefits. There's never been a better time to be in the Local Government Pension Scheme (LGPS) and make the most of working in the public sector.

Next, a reminder of your pension benefits. As a deferred member your benefits will remain within the Fund until they become payable or until you decide to transfer them. Your deferred benefits will be paid from your 65th birthday. They can be paid to you from your 60th birthday onwards, but taking them earlier than 65 will reduce their value unless you are protected by the rule of 85. Your benefits can be paid immediately if you become ill and the illness means that you would be permanently unable to do the job that you held before you got your deferred benefits.

Your deferred benefits are fully inflation proofed: their value increases each April in line with inflation over the 12 months to the previous 30 September. For the first time ever the Retail Prices Index (RPI) fell over a year to 30 September: it went down 1.4% in the year to 30 September 2009.

This means there will be no increase to your deferred benefits this year. The rules for local government pension increases are that a deferred pension cannot be reduced for inflation being negative. So I can reassure you that the benefits you have built up will not be reduced in April 2010.

You may next receive an inflation increase in April 2011 depending on what happens to inflation in the 12 months to 30 September 2010. Remember also that your benefits are completely secure, guaranteed by the Scottish government and unaffected by investment returns.

We want you to have all the information you need about your pension. Visitors to our website may already have noticed that we have recently enhanced our service to our deferred members by allowing you to access your pension record online via TOPS (The Online Pensions Service).

Finally I would just like to remind you that you can guide us as to who you would like any death benefits paid to by completing a simple nomination form. The form helps us with quick and accurate payment of these benefits and is available from the deferred members area of our website.



Alistair Gray
Communications Team Leader
Strathclyde Pension Fund Office

OUR ONLINE SERVICE IS TOPS (The Online Pensions Service)

Did you know that you can now do the following on our website at www.spfo.org.uk in Internet Explorer?

- Amend your contact details.
- Check your personal details.
- Check the information that your employer has provided us with.
- Ask us for information/calculations.
- Change your nominated beneficiaries.

To request a password for online access, go to our website's homepage and click on "I am interested in TOPS (The Online Pensions Service)".

CONVENER'S SUMMARY REPORT

The past year has been a very challenging one for anyone involved with pensions and especially those involved in local government pensions.

What started as a credit crunch in 2007 had turned into one of the worst economic and banking crises in history by 2008. By 2009 it has become a recession whose length and depth remain hard to predict. There can be no one untouched by events like the bank bail out, the collapse in demand for goods and services and the huge cost pressures on businesses.

Strathclyde Pension Fund has clearly been affected. The value of the Fund has dropped sharply and a variety of investment issues have had to be addressed in the course of the year.

These have included the nationalisation of banks in which we are shareholders, a small number of defaults on bonds which we hold, and delays in finding tenants for some of the buildings in the property portfolio.

Difficult times. But the Fund will ride out these problems.

We have always taken the view that we are investing for the long term. So, even if there are further falls in value, we are well structured for a recovery in markets, some of which we have seen in 2009.

Aside from investment, the challenge of introducing the new LGPS has been the main focus for us over the last year. I'm pleased to report that the project has been a success, with our communications programme receiving many well-deserved plaudits.

Another success story for us has been the 2008 actuarial valuation. The combined efforts of the SPFO and our employers to clean up our member records reaped significant rewards, resulting in the Fund being 95% funded as at 31 March 2008.

These data cleansing efforts were also recognised by Glasgow City Council in their 2009 Flourish awards for team excellence. Our actuarial valuation project team led by Sharon McKechnie scooped the prize for "Improving the efficiency and effectiveness of our services".

Summarising the year to 31 March 2009:

- The Fund's membership grew slightly to:
 - 91,148 active members.
 - 40,804 deferred members.
 - 59,754 pensioners.
- The Fund's investments fell by 20.8%.

Significant decisions by the Strathclyde Pension Fund Committee over the last year included:

- The introduction and ongoing monitoring of a detailed Risk Register.
- A detailed review of our adherence to the UN Principles for Responsible Investment.
- Stopping transfers in from non-public sector pension schemes.

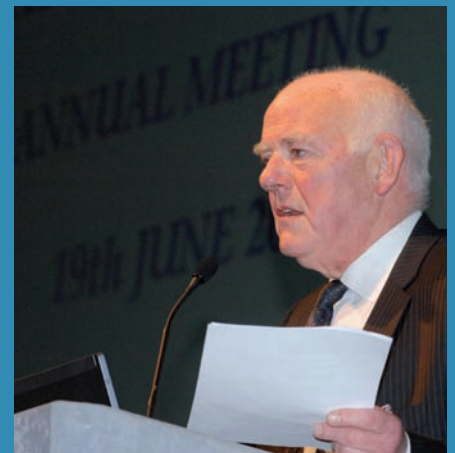
Improvements like these continue to strengthen the investment, governance and operational structures that we have in place. And we remain committed to the development of the Fund and the service we provide to scheme members and other stakeholders.

The LGPS has been the subject of a lot of comment in the press in recent months. Critics say that it is too generous on the one hand and insufficiently funded on the other. I am happy to defend the Strathclyde Pension Fund on both counts.

The LGPS is a very good scheme. And the new LGPS introduced some improvements as well as spreading the cost more fairly amongst members. But the average pension paid by the Fund is fairly modest at less than £4,500 per year.

The actuary reported a 5% deficit when the Fund was valued last year. This will have increased since then as a result of falling investment markets. No surprise, as we expect the value of the Fund to rise and fall but to grow over time to meet its purpose of paying pensions many years from now.

The LGPS is a defined benefit scheme, so pensions are not affected by investment returns and you can rest assured about the security and value of the pension you have built up.



Bailie James McNally
Convener, Strathclyde Pension Fund Committee

INVESTMENTS

STRATEGY

In September 2009 the Committee made a number of decisions to conclude the three-yearly review of the Fund's investment strategy and structure. Active equity exposure will be reduced. Passive exposure will increase. To improve the efficiency of the structure, active exposure to the US and UK equity markets will be limited.

Restructuring of the bond portfolios, including the termination of Henderson and Western and funding of PIMCO and Threadneedle will take place during the fourth quarter.

The property strategy will be reviewed by means of a tendering exercise. And a "New Opportunities" portfolio may be created to provide access to areas not covered by the existing strategy.

In March, the National Association of Pension Funds came out strongly in favour of our investment strategy. The NAPF is firmly of the view that an equity based approach is appropriate for a local government pension fund with a long term investment horizon.

Our revised investment strategy is summarised in our strategic benchmark:

| ASSET CLASS | % |
|---------------------|-------|
| UK Equity | 18–53 |
| Overseas Equity | 14–49 |
| Private Equity | 5–10 |
| Total Equity | 73 |
| Commercial Property | 12 |
| Bonds | 15 |

STRUCTURE

Our revised investment structure includes a variety of specialisms. In each case we use best-in-class specialist managers to make the most of the potential of the investments.

| RECORD | MELLON | MILLENNIUM |
|--------|-----------------------|----------------|
| L&G | BAILLIE GIFFORD | PIMCO |
| | CAPITAL INTERNATIONAL | THREADNEEDLE |
| | EDINBURGH PARTNERS | GENESIS |
| | INVESCO | PANTHEON |
| | LAZARD | PARTNERS GROUP |
| | ALLIANCE BERNSTEIN | JP MORGAN |
| | | GARTMORE |
| | | ABERDEEN PI |



MULTI ASSET
PASSIVE



GLOBAL
EQUITY



SPECIALIST
MANDATES



ACTIVE
CURRENCY

PERFORMANCE

The Fund has achieved a 10 year annualised return of +2.5% over the last ten scheme years that run from 1 April to 31 March.

This return illustrates the dramatic impact that the recent turmoil in financial markets has had on the long term performance of the Fund. Performance is now below average earnings and price inflation for the 10 year period. Nevertheless the Fund remains ahead of its benchmark over 1, 3, 5 and 10 years.

In comparison to the median UK pension fund, measured by the WM All Funds index, the Fund has outperformed over 10 years.

2008/2009 proved to be one of the most difficult and extraordinary periods in financial markets for a generation.

What had started as a 'credit crunch' in 2007 developed in to one of the worst banking crises in history.

The presence of deteriorating 'sub-prime' mortgage assets on the books of commercial and investment banks led to takeovers, bankruptcies and government intervention among financial firms.

Central banks and governments across the globe synchronised interest rate cuts, developed large scale spending plans, recapitalised banks and created multiple programmes, all designed to restore liquidity to frozen credit markets.

Global markets responded with extreme volatility. At times the FTSE 100 swung up to **+/-10%** on a daily basis. Despite a rally in equity markets in March 2009, the FTSE All Share Index ended the year down **29.3%**, while the FTSE World Index lost **20.0%**.

Corporate bond markets were similarly chaotic and the spreads of financial sector bonds over government securities soared to record highs.

Returns in the UK commercial property market deteriorated sharply as financing for investment vanished and confidence levels plummeted.

Meanwhile, falling stock markets and growing signs of a global economic downturn caused an exodus to government securities, with FTSE All Stock Gilt Index returning **+10.3%** for the year. The US dollar rose **+38%** against sterling and **+19%** against the Euro as investors perceived the currency as a 'safe-haven'. But sterling suffered significant depreciation against all major currencies as concerns deepened over the UK's weak economic outlook.

Looking ahead, we have always taken the view that we are investing for the long term. Our allocation to equities aims to deliver a long term return in excess of the rate of growth of the accrued liabilities.

STOP PRESS: The six months starting on 1 April 2009 have seen a recovery in investment values: by 30 Sept the Fund's value had risen to £9,273m.

| Year to 31 March | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 3Yr | 5Yr | 10Yr |
|-----------------------|------|------|------|-------|------|------|------|------|------|-------|------------|-----|------|
| | % | % | % | % | % | % | % | % | % | % | Annualised | | |
| | | | | | | | | | | | % | % | % |
| Retail Prices | 2.6 | 2.3 | 1.3 | 3.1 | 2.6 | 3.2 | 2.4 | 4.8 | 3.8 | -0.4 | 2.7 | 2.7 | 2.6 |
| Avg. Earnings | 5.5 | 4.9 | 3.0 | 3.4 | 3.9 | 4.4 | 3.9 | 4.3 | 4.9 | -0.4 | 3.0 | 3.4 | 3.8 |
| Fund Benchmark | 15.8 | -9.5 | -1.1 | -22.2 | 28.0 | 12.9 | 26.6 | 8.1 | -3.8 | -21.0 | -6.4 | 3.3 | 2.0 |
| Fund Return | 18.9 | -8.6 | -0.2 | -20.8 | 26.6 | 12.4 | 27.2 | 7.4 | -2.9 | -20.8 | -6.2 | 3.4 | 2.5 |
| WM All Funds | 14.2 | -6.8 | -1.0 | -18.5 | 22.6 | 11.6 | 24.2 | 7.0 | -1.0 | -18.1 | -4.6 | 3.7 | 2.4 |
| Fund Ranking | 14 | 56 | 23 | 34 | 25 | 18 | 10 | 30 | 8 | 71 | 65 | 44 | 33 |

Our website has a Jargon Buster that explains some of the terms we use.

Responsible investment

We are delighted to report that we have achieved third place in the 2009 FairPensions survey of responsible investment performance.

We were the highest-placed local authority pension scheme in the survey.

Our third place is one place higher than we achieved in FairPensions' last survey two years ago. And it was achieved against stiffer competition: the 2009 survey included 30 of the UK's largest pension schemes instead of just 20 in the 2007 survey.

Our score also rose to 90%, compared to 85% in 2007.

In their assessment of our responsible investment performance FairPensions commented that:

"Strathclyde Pension Fund continues to show strong commitment and action on responsible investment."

"The Strathclyde Pension Fund is to be commended for its clear commitment to responsible investment, as evidenced through their detailed policies and practice, and their strong understanding of the fundamental importance of transparency."

At a time when the financial world has been facing scrutiny over the current economic crisis, receiving such a prestigious endorsement for our approach to investment is a source of great pride. It reflects the commitment and effort we continue to devote to responsible investment.

Given the manifold financial problems of the last year across the globe, and the resultant loss in fund values it would be easy to lose sight of the importance of social, environmental and governance issues. We believe that in many ways the opposite is true, and that, if value and confidence are to be rebuilt, these issues simply cannot be ignored.

FUND ACCOUNTS

2008/09

For the year ended 31 March 2009

| | 2007/08 £000 | 2008/09 £000 |
|---|------------------|--------------------|
| FUND INCOME | | |
| Contributions receivable from employees | 100,041 | 104,829 |
| Contributions receivable from employers | 269,022 | 292,381 |
| Additional contributions from employers | 16,643 | 20,090 |
| Transfers in | 24,596 | 22,616 |
| Other income | 364 | 377 |
| | 410,666 | 440,293 |
| FUND PAYMENTS | | |
| Pensions | 235,288 | 247,481 |
| Lump sums | 62,389 | 72,050 |
| Refund of contributions | 1,152 | 970 |
| Transfers out | 15,705 | 16,008 |
| State scheme premiums | | 1,466 |
| Administrative and other expenses borne by the Fund | 4,028 | 4,085 |
| | 318,562 | 342,060 |
| Net addition from dealings with members | 92,104 | 98,233 |
| RETURNS ON INVESTMENTS | | |
| Investment income | 224,828 | 231,619 |
| Investment management expenses | (19,391) | (17,495) |
| Overseas tax | (4,774) | (3,345) |
| Change in market value of investments | (512,433) | (2,177,802) |
| Net returns on investments | (311,770) | (1,967,023) |
| Net movement in the Fund during the year | (219,666) | (1,868,790) |
| ADD | | |
| Opening net assets as at 1st April | 9,686,371 | 9,466,705 |
| EQUALS | | |
| Closing net assets as at 31st March | 9,466,705 | 7,597,915 |

Important note: the results for the 2007/08 financial year have been restated due to post audit changes. The cumulative effect on reserves of prior year adjustments made during the period is a decrease of £12.320 million.

SUMMARY

Pensions and other payments during the year were met from current income, so there was no need to draw down cash from investment portfolios. Investment values fell significantly during the year as explained in "Investments".

ACTUARIAL VALUATION

The purpose of the Fund is to pay your benefits when they are due.

An actuary carries out a formal actuarial valuation of the Fund every three years. This valuation helps us to monitor whether enough money is going into the Fund and to decide where to invest.

The key output from the valuation is the Fund's percentage funding level. The latest, formal triennial actuarial valuation established that the Fund was 95% funded as at 31 March 2008, higher than almost any other Local Government Pension Scheme fund in the UK.

We recognise that since 31 March 2008 the funding level has worsened due to investment conditions. However we are confident that our relatively strong position makes the funding deficit manageable. You should be aware that, whatever the funding position is, your benefits from the LGPS are guaranteed by legislation.

The deficit will be tackled through a combination of increased employer contribution rates and a relatively aggressive investment strategy. Unusually amongst public sector funds we are still targeting recovery over the remaining working lifetime of scheme members – around 11 years in our case.

The Funding Strategy Statement and the 2008 Actuarial Valuation can be downloaded from our website.



ANNUAL MEETING 2009

One of the most important events for us each year is our annual meeting. It is a formal set piece that reports more widely on the decisions taken at quarterly Strathclyde Pension Fund Committee meetings.

We invite a wide range of trade union, employer and pensioner representatives to listen to our account of the progress we have made over the past year.

We also make available all of our key staff to answer questions and to discuss all aspects of our performance.

This year 154 delegates attended our annual meeting on Friday 19 June 2009.

Feedback questionnaires from the delegates rated our annual meeting very highly, with the presentation about administration receiving a particularly favourable response.

A full set of the slides used at the meeting and a list of delegates is available from the news story about our annual meeting in the "News" area of our website.

Annual meeting organiser, Doreen Shannon, picked out three comments from the feedback questionnaires to sum up the event:

"Staff are excellent to deal with"

"Great rapport with the audience"

"Very adept speaker, knowledgeable and interesting"

Strathclyde Pension Fund is a winner again...

We were delighted to win two of the most prestigious awards at the ninth Professional Pensions awards ceremony held at the Grange St. Paul's Hotel in London on 17 September 2009:

- Premier Scheme of the Year, for schemes that have investments of at least £2.5bn.
- Public Sector Scheme of the Year, for schemes whose members work in the public sector.

As one of the UK's largest pension funds, we believe that we received these prestigious industry endorsements for having led the way with Scotland's introduction of a new-look Local Government Pension Scheme, LGPS, on 1 April 2009.



At the 2009 Engaged Investor Trustee Awards ceremony in Haberdasher's Hall, London on Wednesday July 8 we were exceptionally proud to walk away with the Best Scheme Governance (Public Sector) Award. This year we have gone one better than last year where we were "highly commended" for our scheme governance:

STOP PRESS:

In December 2009 we won 3 further awards:

- European Public Sector Institutional Investor of the Year 2009, Funds Europe
- Best Administration, Pensions and Investment UK Scheme Awards 2009
- Best New Implementation of a Scheme/Benefits Strategy, Pensions and Investment UK Scheme Awards 2009

CONTACTING US

We are committed to keeping you fully informed about your pension.

To help us do so, please ensure that we have your current home address and personal details on file.

Whenever you contact us, please remember to quote your national insurance number on any correspondence with us, as this is key to your pension record.

Please note that our 0845 number charges calls at local rates and does not make any money for the Fund.

Our information is available in other ways, for example electronically enabling it to be read out loud by a computer, on request.

We can provide information in other languages, Braille or large print.

We also have access to audio aids and BSL (British Sign Language) interpreters.

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