



Top of the class



Strathclyde Pension Fund Office (SPFO) is proud of the achievements of its staff and delighted that a further 3 of its Pension Payroll staff have achieved the IPPM Diploma in Pensions Management.

Congratulations to Audrey Boyce, Maria Coggans and Jacqueline MacGregor, who have all worked tirelessly for 2 years to achieve their qualification.

Sharing in their success is another member of the Payroll staff, David Warren who achieved the IPPM Foundation

Certificate in Pensions Administration.

SPFO is fully committed to delivering a first class pensions administration service to its membership, and believes that the best way of providing a quality service is to develop its staff.

Strathclyde Pension Fund & the NFI (NATIONAL FRAUD INITIATIVE)

Strathclyde Pension Fund has a duty to protect the public funds it administers.

To this end from time to time it may use information provided to it for the prevention and detection of fraud and share it with other bodies concerned with public funds solely for these purposes. The Pension Fund will be participating in an anti-fraud initiative

organised by Audit Scotland, which is being carried out under powers in section 100 of the Local Government (Scotland) Act 1973 and section 53 of the Local Government in Scotland Act 2003. We will be required to provide details of pensioners to appointed

auditors so that they can be compared with other information provided by the Council and other public bodies, to ensure that no pensions are being paid to persons or partners who are no longer entitled to them, and also with housing benefit records to ensure that the occupational pension income is declared.

Whilst ensuring that only those who are entitled to a pension receive one, similar exercises have uncovered underpayments to pensioners and other errors, which were rectified. These exercises, therefore, help to ensure the best use of public funds.

Investment Report

ANNUAL REPORT 2004

PERFORMANCE MEASUREMENT

In 2003 the Fund appointed Northern Trust as provider of independent investment performance measurement. This role complements their existing functions as the Fund's global custodian.

Previously (in fact since 1976) performance measurement had been carried out by the WM Company, an Edinburgh based subsidiary of State Street bank. The Fund has maintained a relationship with WM Co. to provide an annual investment report including comparison with the WM Universes which capture performance data from up to 1,000 UK pension funds.

The analysis presented in the following sections comprises:

- fund and benchmark returns as calculated by Northern Trust;
- Universe comparisons as provided by WM Co.; and
- property returns calculated by the Investment Property Databank (IPD).

All returns are total gross investment return figures expressed in percentage terms.

In line with the industry norm, the Fund's principal investment review is presented on a calendar year basis for 2003. Figures for the financial year - 1st April 2003 to 31st March 2004 - are also available and are shown in the Local Authority Review.

BACKGROUND

The early part of 2003 remained overshadowed by the now 3 year old bear market. The first quarter saw further negative returns and a new low was reached during March. This seemed to mark a turning point, however, and for the remainder of the year equity markets rose strongly boosted by the speedy end of official hostilities in Iraq, improvements in economic data and the implications of \$350 billion of tax cuts in the US. This ensured that 2003 went on record as a year of significant recovery for pension funds and other investors.

2003 RESULTS

Fund Return	19.9%
Benchmark Return	20.9%
Average UK Fund Return	17.0%

The Strathclyde Pension Fund's asset structure - as a result of its customised benchmark - differs from that of the average UK fund. A higher exposure to equities and lower allocation to bonds had been detrimental in the previous 3 years of falling equity markets but was very beneficial as markets recovered in 2003.

The Fund's return was -1.0% behind its own benchmark, largely as a result of being overweight in property and underweight in equities. These same features had had a positive performance impact in the preceding 2 years. There was also some marginal impact from investment manager underperformance and from the process of restructuring portfolios at the end of the year.

The Fund's returns by asset class were as follows.

ASSET CLASS	Fund Return	Benchmark Return
UK Equities	22.1%	20.9%
Overseas Equities		
US	19.5%	16.4%
Europe (ex UK)	28.5%	29.7%
Japan	23.3%	23.0%
Pacific	35.2%	31.4%
Emerging Markets	37.9%	40.5%
UK Bonds	5.8%	4.7%
Overseas Bonds	6.1%	3.0%
UK Index Linked	7.6%	7.0%
Cash/Other	0.6%	-
UK Property	14.1%	10.1%
Total Funds	19.9%	20.9%

REVIEW

(see Review table)

The strong recovery in 2003 was of course extremely welcome. But it was not sufficient to undo all of the damage of the 3 preceding years. As a result the middle-term returns remain very depressed. The 3 year annualised return is negative. And even over 5 years returns have failed to keep up with either price or earnings inflation. But the Fund has outperformed both its own benchmark (introduced in 1998) and the average UK fund over this period. The longer term record is better in absolute terms. The 10 year annualised return of +6.3% per annum comfortably outstrips inflation and is close to the

REVIEW

	1994	1995
Retail Price Index	2.9%	3.2%
Average Earnings	4.4%	2.9%
Fund Benchmark	-	-
Fund Return	-3.6%	16.9%
Average UK Pension Fund	-3.9%	19.1%
Fund Ranking (/100)*	18	91

LOCAL AUTHORITY REVIEW

	1999/2000	2000/2001
Fund Return	18.7%	-8.6%
Local Authority Average	13.6%	-6.3%
Fund Ranking (/100)*	3	74

expected long-term return on assets. Relative performance suffered in the mid-1990's as a result of investment manager underperformance, but even so, performance is in line with the average UK fund over 10 years. The Fund ranks in the top half of the WM Universe over 3, 5 and 10 years.

LOCAL AUTHORITY REVIEW

WM Co. produce a Local Authority Review on an accounting year (to 31st March) basis. The Fund's performance on this basis is shown in the table above.

INVESTMENT ARRANGEMENTS

Following the actuarial valuation in 2002, a review of the Fund's investment arrangements was carried out during 2003. Revised arrangements were agreed during a series of meetings of the Strathclyde Pension Fund Sub-Committee during August 2003, and implemented towards the end of the year.

INVESTMENT STRATEGY

(see Investment Strategy table)

The Fund's investment strategy was revised as shown.

The principal features were an increased allocation to property and corporate bonds, and a consequent reduction in equity exposure. Within the equity allocation there was a further shift from UK to overseas, consistent with previous revisions to the Fund's strategy.

STRUCTURE

As part of the investment review the Fund tendered a number of large investment mandates during the year. The appointments subsequently made represented a significant step towards more specialist management.

A newly created global bond portfolio

Each mandate represents around 15% of total Fund value. All 3 managers were already running mandates for the Fund.

The Fund retained Legal & General as its passive manager together with JP Morgan Fleming and Gartmore (small companies), Aberdeen (property),

Pantheon (private equity) and Genesis (emerging markets).

A multi-asset portfolio managed by JP Morgan Fleming was deleted from the Fund's structure.

OTHER DEVELOPMENTS

During the year the Fund adopted a Business Plan and an Elected Member Training plan to ensure compliance with all of the Myners Principles for investment decision-making.

* Within the WM All Funds Universe of over 1,000 UK Pension Funds.

								Annualised		
1996	1997	1998	1999	2000	2001	2002	2003	3yrs	5yrs	10yrs
2.5%	3.6%	2.8%	1.8%	2.9%	0.7%	2.9%	2.8%	2.1%	2.2%	2.6%
4.9%	4.7%	4.1%	6.2%	4.5%	21.0%	4.1%	3.3%	3.2%	4.0%	4.1%
-	-	-	28.3%	-4.3%	-10.0%	-16.5%	20.9%	-3.1%	1.8%	-
10.4%	14.8%	13.0%	28.2%	-2.5%	-9.7%	-15.4%	19.9%	-2.9%	2.7%	6.3%
10.7%	16.8	14.0%	21.3%	-1.3%	-8.9%	-13.9%	17.0%	-2.8%	1.9%	6.4%
68	73	57	7	64	43	35	18	29	16	50

						Annualised		
2001/2002	2002/2003	2003/2004	3yrs	5yrs	10yrs			
-0.2%	-20.8%	26.6%	0.0%	1.7%	6.9%			
-0.5%	-19.5%	23.4%	-0.4%	1.0%	6.7%			
29	62	10	-	-	-			

was awarded to Western Asset, a dedicated bond house with its origins, and much of its present operations, in California. The Western mandate will be a little more aggressive than the fund's existing specialist bond mandate for which Henderson Global Investors were retained. Both mandates represent around 5% of total fund assets.

An equity manager search concluded with 3 appointments. Baillie Gifford, Capital International and Schroder were all awarded global equity mandates but with different regional allocations.

INVESTMENT STRATEGY	Existing		Revised	
UK Equities	46%	38%		
Small Companies	4%	3.1%		
Overseas Equities	28%	29%		
North America	6.8%	9.75%		
Europe (ex UK)	7.7%	9.75%		
Japan	5.3%	3.25%		
Pacific	5.0%	3.25%		
Emerging Markets	3.2%	3%		
Private Equity	3%	5%		
Total Equity	81%	75%		
Property	8%	10%		
Indexed Linked	4%	3%		
UK Gilts	2.5%	3%		
Corporate Bonds	2.5%	6%		
Overseas Bonds	2%	3%		
Total	100%	100%		

STRATHCLYDE PENSION FUND

FUND ACCOUNTS

The Pension Fund's accounts for the year ended 31st March 2004 are presented below.

2002/03 £000	FUND ACCOUNT	2003/04 £000
73,019	Contributions Receivable from Employees	79,460
159,913	Contributions Receivable from Employers	181,888
15,093	Additional Contributions from Employers	15,534
24,859	Transfers In	41,121
301	Other Income	219
273,185	Total Member Income	318,222
FUND PAYMENTS		
186,473	Pensions	192,325
33,760	Lump Sums	31,344
791	Refund of Contributions	1,548
14,275	Transfers Out	25,272
2,696	Administrative and Other Expenses	2,728
237,995	Total Member Payments	253,217
35,190	Net Addition from dealings with Members	65,005

Pensions and other payments during the year were met from current income, so there was no need to draw down cash from investment portfolios.

RETURN ON INVESTMENTS

138,334	Investment Income	163,690
(8,494)	Investment Management Expenses	(9,889)
(1,289)	Overseas Tax	(1,313)
(1,379,550)	Change in Market Value of Investments	1,125,545
(1,250,999)	Net Returns on Investments	1,278,033
(1,215,809)	Net Decrease in the Fund during the year	1,343,038

As markets recovered, the capital gains achieved in the year eliminated the losses suffered in 2002/03. Overall the Fund Value increased by over £1.3 billion.

ASSETS STATEMENT

6,039,199	Opening Net Assets of the Scheme	4,823,390
(1,215,809)	Asset Movement during the Year	1,343,038
4,823,390	Closing Net Assets of the Scheme	6,166,428

The extent of the stock market recovery has enabled the Fund to, once again, record a closing balance in excess of £6.1 billion.

Stocktake of the Local Government Pension Scheme

The "Stocktake" review of the Local Government Pension Scheme, which is currently being carried out by the Office of the Deputy Prime Minister, will lead to some very significant changes to the Scheme.

The aim of the Stocktake is to ensure the sustainability of the Local Government Pension Scheme. Changes will be made via revised Regulations for the Scheme in 2005 and 2006. These will include an increase in the minimum scheme retirement age from 50 to 55.

The good news for you as Pensioners of the scheme is that the review will not affect any aspect of your benefits.

Re-employment

Pensioners have a statutory obligation to inform SPFO of any period of re-employment with a Local Government Pension Scheme employer. This applies whether or not you rejoin the Local Government Pension Scheme.

As a general guide your new salary plus your gross annual pension cannot exceed your final pensionable salary at retirement (including pension increases). If it does then your pension will be reduced or suspended during your period of re-employment.

A separate issue is the amount of pensionable service which can be accrued. If on retirement you received Compensatory Added Years it is possible that you may exceed the maximum amount of service permitted under the Local Government Discretionary Payments (Scotland) Regulations if you are re-employed with a Scheme employer (whether you rejoin the Scheme or not).

Please contact Catherine Douglas, phone 0141 287 7432 if you require further information regarding this matter.

NEW FACES

There have been a number of changes amongst the senior personnel responsible for the Fund since the last issue of Pensionnews.

DIRECTOR

Lynn Brown became Glasgow City Council's new Director of Financial Services in September 2003 replacing George Black who is now Glasgow City Council's Chief Executive. Lynn, was previously Head of Corporate Finance at The City Of Edinburgh Council. She now has responsibility for the entire finance function at Glasgow, including the Strathclyde Pension Fund and Strathclyde Pension Fund Office.



INVESTMENTS SECTION

Pensions issues have become increasingly complex, and the investment decision-making process is surrounded by more rules and regulations than previously. In response to this, a new post of Chief Pensions Officer (Investments) was created within the SPFO structure earlier this year. The post was filled in July when David Crum was recruited from the Lothian Pension Fund where he had gained several years of "hands-on" investment experience, most recently as Head of Settlement and Systems. David is a member of the Association for Investment Management & Research and an associate member of the UK Society of Investment Professionals. He now heads up the Strathclyde Pension Fund's Investments Section which develops investment strategy and monitors investment performance, reporting to the Head of Pensions, Richard McIndoe



INVESTMENT ADVISORY PANEL

In addition to the internal Investments Section, the Fund retains the services of 4 investment experts who form the Investment Advisory Panel. The Panel is the main forum for monitoring the Fund's investment managers, and also plays a key role in guiding the decisions of the Pension Fund Sub-Committee. Angus Mathieson decided to stand down from the Investment Advisory Panel at the end of 2003 having made a very significant contribution to the work of the Panel over a 10 year period.

Dick Barfield was subsequently recruited to the Panel. Dick spent a large part of his career at Standard Life where he was Chief Investment Manager from 1988 until his departure in 1996.



Since then he has undertaken a varied portfolio of directorships and consultancy assignments for a variety of UK companies, pension funds and investment trusts.



WHERE SERVICE COUNTS

SPFO website.....a hit!

The SPFO website is proving to be a firm favourite with members.

From its introduction in June 2001 to the date of writing the website has had 32,047 "Hits" (Internet terminology for a visitor to a website). After it featured in the last issue of Pensionsnews the hit count rose dramatically. We are now experiencing more than 200 hits per week, which reflects the level of interest that Pensions are currently generating.

The website contains information on various aspects of the Scheme; online member guides; a ready reckoner benefit calculator; details of fund investments; fund accounts; investment principles; and copies of all reports considered by the Pension Fund Sub-Committee.

The SPFO has been in consultation with scheme Employers regarding hyperlinks from their sites to the SPFO website to allow members easier access. Other planned enhancements to the site include hyperlinks to other pension related sites, such as OPAS, OPRA and LGPS. A facility for online member enquiries and form completion is under development.

So if you haven't already visited the website set your browser to www.spfo.org.uk and see what a store of information is available.

Your Views



Amongst the numerous letters, e-mails and phone call suggestions we received regarding improving your newsletter were:

MRS DOAK (Troon)

phoned to say she really enjoyed receiving 'Pensionsnews' and said it was nice to be consulted.

MALCOLM TEDSTILL (East Kilbride)

e-mailed to express his view, "Despite difficult financial conditions over the last years, the scheme appears to be operating well."

MARY WALKER (Airdrie)

wrote, "I read with interest your article in 'Pensionsnews - Help us Improve'. Gardening tips would be most helpful, especially hints on container pots for the less mobile"

"Also competitions are stimulating (keep the old grey matter ticking). There doesn't need to be expensive prizes, e.g. disposable cameras - to capture the grandchildren - Photo Frame to put the photo in. Stationery sets - Book of Stamps - Pen (handy for competitions). Vouchers - WH Smiths or Boots (treat yourself) - M & S are not handy if you don't live in Glasgow, Falkirk or Hamilton."

"A letters page might be handy for some looking to get in touch with old work-mates."

"I welcome the anti-fraud initiative as I detest fraudsters."

ROBERT GRESHAM (Bishopbriggs)

suggests an article on the benefits that would be payable on the demise of Pensioners.

ANNE LYONS (Hamilton)

wrote "I received your newsletter on Saturday a.m. I glanced at same and put it in the paper rack.

Previously I had never read past the front page but later that evening (much later) I read it throughout.

I must say I was impressed:- Well laid out; Facts and Figures one could believe; Layout of Payslip (long overdue!) which even after 18 years, I still struggle with - Please tell me (personally) what they all mean!!!!

However I digress - it was an excellent presentation. The bad news was expected in the present climate so the good news, no matter how small, was a reassuring bonus!!! What about a small letters page? Congrats to all!"

PLEASE KEEP YOUR LETTERS COMING!!



WHERE SERVICE COUNTS

Feedback

In response to our "Help us improve" article we received numerous letters and phone calls with helpful suggestions on how to improve your newsletter.

The responses ranged from requests for articles on specific pension topics to lifestyle ideas for future columns. We would like to thank the Pensioners who took the time to reply to our request, and hope to phase in the ideas in the future.

A very popular request was for a letters page, which we have introduced this year, some of the letters we received as a result of the "Help us improve" article have been published in this issue. So please keep the letters coming. Feedback from our Pensioners is very important to us, and will enable us to shape future issues of Pensionsnews to your requirements.

Please write to:

Alistair Gray, Senior Communications Officer
Strathclyde Pension Fund Office
Charlotte House, Floor 2, 78 Queen Street
Glasgow G1 3DN

or alternatively e-mail

alistair.gray@fs.glasgow.gov.uk

Moving House?

If you have moved house recently did you notify the Strathclyde Pension Fund Office?

As the Pension Fund Office is committed to keeping you fully informed about your Pension Rights, we need to have your current home address on file.

All changes of address should be notified to:

Strathclyde Pension Fund Office
Charlotte House, Floor 2
78 Queen Street,
Glasgow G1 3DN

Alternatively you can e-mail the Pension Fund Office at spfo@fs.glasgow.gov.uk

PLEASE REMEMBER
TO QUOTE YOUR PENSIONS REFERENCE NUMBER ON ANY CORRESPONDENCE, AS THIS IS THE KEY TO YOUR PENSION RECORD.

Contact details



Pension Payroll Section

Strathclyde Pension Fund Office
Charlotte House, Floor 2
78 Queen Street
Glasgow G1 3DN



Payroll Enquiries 0141 287 7373



Tax Enquiries - Inland Revenue
Call Centre 1 0845 0703703
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