

# IN TOUCH



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# WELCOME TO IN TOUCH

*I am delighted to introduce In Touch 2010 from our new offices in Glasgow's International Financial Services District.*

*Our new building will make the SPFO family even closer knit, as we are on a single floor.*

*It has also helped us to make a large stride towards becoming a paperless office.*

*One example is that we now have dual computer screens on our desks. This technology lets us more easily work on individual pension records that by their nature comprise many different and often long electronic documents.*

*To keep things as simple as possible for you, our telephone numbers, emails and website address are the same. Our new postal address is shown on the back page of this In Touch.*

## **How your benefits will keep pace with inflation**

*The Chancellor's announced in the June budget that public service pensions would keep pace with inflation by using CPI (Consumer Prices Index) as opposed to RPI (Retail Prices Index).*

*As CPI rose by 3.1% in the year to 30 September 2010, this should be the basis for the increase to your deferred benefits from April 2011.*

*To put this in context, those still working in local government received a 0.65% pay increase this year and are likely to see no increase for the next 2 years.*

## **Finally I would like to remind you of a number of things:**

- *If you are currently working in local government, you can re-join the Fund to build up further benefits.*
- *There are many current high profile Government pension initiatives that could impact your LGPS or State pension, such as the Independent Public Service Pensions Commission and changes to the taxation of pensions. Our website will continue to have the latest on these.*
- *Your deferred benefits will not be affected by the proposed changes in pension annual allowances from April 2011 but this may change if you link them up with current LGPS active membership.*
- *Deferred benefits are usually 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 your benefits were deferred.*
- *You can guide us as to who you would like any death benefits paid to by completing our nomination forms. These are available from the deferred members area of our website and the back page has a flowchart about protecting your loved ones.*



**Andrew Knox**  
Chief Pensions Officer  
Strathclyde Pension Fund Office

## **RPI / CPI**

*Although both indices are measures of inflation, RPI and CPI are calculated using different methods and include different items. One major difference between RPI and CPI is that CPI does not include mortgage interest payments, meaning that CPI will generally rise less than RPI.*

*Both the RPI and the CPI are calculated by the Office for National Statistics, and are explained on their website at [http://www.statistics.gov.uk/downloads/theme\\_economy/cp\\_brief\\_guide\\_2004.pdf](http://www.statistics.gov.uk/downloads/theme_economy/cp_brief_guide_2004.pdf)*

# SCHEME YEAR 2009 / 2010

The Fund produced a total annual return of 36.3% for 2009 / 2010. The average UK pension fund returned 30.3 % in the same period.

As at 31 March 2010 the Fund's total asset value was £10,307m and the Fund was estimated to be 89.8% funded.

The Fund's membership has grown slightly to 193,488 comprising:

- 89,109 active members.
- 43,090 deferred members / undecided leavers.
- 61,289 pensioners.

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

- Approving our Administration Strategy. This new document sets out how we will work in partnership with our scheme employers and our respective roles and responsibilities.
- Making a number of changes to our investment strategy and approach including reappointing Hymans Robertson as our investment consultants.

Looking ahead, I am confident that we will continue to deliver an excellent pension scheme for you, with strengthened investment, governance and operational structures.



**Bailie James McNally**  
Convener, Strathclyde Pension Fund Committee

*2009 / 2010 was a year of phenomenal success for the Fund.*

*The Fund's value at 31st March 2010 was a new high water mark and an increase of over £2.5 billion over the year.*

*The year's investment return was one of the best ever and certainly the best in real (inflation adjusted) terms.*

*The year was also one of the best years ever for the benefits administration side of the Fund, starting with the very successful implementation of the New Scheme at 1st April 2009 and carrying on with business as usual throughout the year.*

*One measure of how good 2009 / 2010 was is our success in winning various industry awards.*

*So whatever challenges lie ahead, I'm confident that we have strengthened ourselves and positioned ourselves extremely well to face them.*



**Lynn Brown**  
Executive Director of Financial Services  
Glasgow City Council

## **TOPS (The Online Pensions Service)**

Did you know that you can now do the following on our website at [www.spfo.org.uk](http://www.spfo.org.uk)

- Amend your contact details.
- Check your personal details.
- Check the information that your employer has provided us with.
- 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)".

# INVESTMENTS

## STRATEGY

Over the last year we have:

- Increased our holdings in US and UK equity market indices.
- Reviewed our property strategy.
- Restructured our bond portfolios, giving them an absolute return objective and replacing Henderson and Western with two new managers (PIMCO and Threadneedle).
- Increased the frequency and depth of our monitoring.
- Continued to build our private equity programmes.
- Terminated one currency mandate.
- Reinstated our securities lending programme on a more selective basis than previously.
- Created a “New Opportunities” portfolio of up to the lesser of 3% of total Fund assets or £300m at the time of any new investment on an opportunistic basis to provide access to areas not covered by the existing strategy.

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



**Jacqueline Gillies**  
Chief Pensions Officer (Investments)

ASSET CLASS	(%)
UK Equities	18 - 53
Overseas Equities	14 - 49
<i>North America</i>	11 - 26
<i>Europe (ex UK)</i>	0 - 35
<i>Japan</i>	0 - 35
<i>Pacific</i>	0 - 35
<i>Emerging Markets</i>	1 - 36
Private Equity	5 - 10
<b>Total Equities</b>	<b>73</b>
<b>Property</b>	<b>12</b>
Index Linked Securities	1.5
UK Gilts	3
Corporate Bonds	3
Absolute Return Bonds	7.5
<b>Total Fixed Interest</b>	<b>15</b>
<b>TOTAL</b>	<b>100</b>

## STRUCTURE

Our current 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.

MILLENNIUM		RECORD	
LEGAL & GENERAL	BAILLIE GIFFORD	JP MORGAN	
	ALLIANCE BERNSTEIN	GARTMORE	
	EDINBURGH PARTNERS	GENESIS	
	CAPITAL INTERNATIONAL	PANTHEON	
	INVESCO	PARTNERS	
	LAZARD	THREADNEEDLE	
		PIMCO	
		ABERDEEN	

MULTI ASSET PASSIVE

GLOBAL EQUITY

SPECIALIST MANDATES

CURRENCY OVERLAY

## PERFORMANCE

The Fund has achieved a 10 year annualised return of 4% over the last ten scheme years that run from 1 April to 31 March.

This is 2.1% below the Actuary's current assumed return of 6.1% per annum and illustrates that, despite the recovery in financial markets, the turmoil caused by the credit crunch has still had a negative impact on the long term performance of the Fund.

Year to 31 March	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	3Yr	5Yr	10Yr
	%	%	%	%	%	%	%	%	%	%	Annualised		
											%	%	%
<b>Retail Prices</b>	2.3	1.3	3.1	2.6	3.2	2.4	4.8	3.8	-0.4	4.2	2.6	2.9	2.7
<b>Avg. Earnings</b>	4.9	3.0	3.4	3.9	4.4	3.9	4.3	4.9	-0.4	4.5	2.9	3.4	3.7
<b>Fund Benchmark</b>	-9.5	-1.1	-22.2	28.0	12.9	26.6	8.1	-3.8	-21.0	41.3	2.4	8.0	4.0
<b>Fund Return</b>	-8.6	-0.2	-20.8	26.6	12.4	27.2	7.4	-2.9	-20.8	36.3	1.6	7.4	4.0
<b>WM All Funds</b>	-6.8	-1.0	-18.5	22.6	11.6	24.2	7.0	-1.0	-18.1	30.3	1.8	7.0	3.7
<b>Fund Ranking</b>	56	23	34	25	18	10	30	8	71	24	56	34	36

**STOP PRESS:** The value of the Fund was £10,469m as at 31 October 2010, having rallied following May's sovereign debt crisis.

## RESPONSIBLE INVESTMENT

The Fund is a signatory to the United Nations Principles for Responsible Investment (UNPRI), and we have been active in pushing the responsibility agenda.

We want to know that managers are engaging with companies.



We are looking for assurances from managers that they are really looking at the potential financial impact of labour policies, employment policies and environmental policies.

# FUND ACCOUNTS 2009/10



“We are constantly looking for ways to reduce our costs and have seen 6 of our staff of just over 100 retire over the last year without being replaced. And we now only produce our Annual Report electronically saving £4,000 a year on printing and distribution and reducing our carbon footprint”

Alison Duffy, Fund Finance Manager

*For the year ended 31 March 2010.*

	2008/09 £000	2009/10 £000
<b>FUND INCOME</b>		
Contributions receivable from employees	104,829	115,861
Contributions receivable from employers	292,381	317,430
Additional contributions from employers	20,090	46,555
Transfers in	22,616	22,891
Other income	377	427
	<b>440,293</b>	<b>503,164</b>
<b>FUND PAYMENTS</b>		
Pensions	247,481	267,802
Lump sums	72,050	120,289
Refund of contributions	970	998
Transfers out	16,008	31,754
State scheme premiums	1,466	689
Administrative and other expenses borne by the Fund	4,085	5,709
	<b>342,060</b>	<b>427,241</b>
Net addition from dealings with members	<b>98,233</b>	<b>75,923</b>
Pensions and other payments during the year were met from current income, so there was no need to draw down cash from investment portfolios.		
<b>RETURNS ON INVESTMENTS</b>		
Investment income	231,619	155,175
Investment management expenses	(17,495)	(13,392)
Overseas tax	(3,345)	(3,277)
Change in market value of investments	(2,177,802)	2,604,903
<b>Net returns on investments</b>	<b>(1,967,023)</b>	<b>2,743,409</b>
<b>Net movement in the Fund during the year</b>	<b>(1,868,790)</b>	<b>2,819,332</b>
ADD: Opening net assets as at 1st April	<b>9,466,705</b>	<b>7,597,915</b>
EQUALS: Closing net assets as at 31st March	<b>7,597,915</b>	<b>10,417,247</b>

It should be noted that these accounts show assets only. Liabilities are shown in the actuarial valuation. Our annual report provides detailed financial information about our scheme year 2009/2010 and is available from the Governance/Reports/AnnualReportAndAccounts area of our website.

# ACTUARIAL VALUATION

Our actuary carries out a formal actuarial valuation of the Fund every three years.

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.



**Average LGPS fund 72% funded**     **SPF 89.8% funded**

Source: Hymans Robertson Navigator Report as at 31 March 2010

Since 2008 the funding level has worsened due to investment conditions and as at 31 March 2010 we were 89.8% funded.

However we are confident that the funding deficit is manageable through a combination of increased employer contribution rates and a relatively aggressive investment strategy.

Although the details of how the emergency budget proposals for CPI indexation of benefits are unclear, they are likely to improve our funding position, as CPI usually grows by less than RPI.

You should be aware that, whatever the funding position is, your benefits are guaranteed by legislation.

## ANNUAL MEETING 2010

Our annual meeting is a formal set piece that reports more widely on the decisions taken at quarterly Strathclyde Pension Fund Committee and Representative Forum 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 all of our key staff available to answer questions and to discuss all aspects of our performance.

This year over 150 delegates, representing contributing employers, members and trade unions, attended our annual meeting on Friday 18 June.

The guest speaker was Sir Tom Farmer who gave the meeting an interesting, inspirational and thought-provoking insight into the subjects of success and achievement.

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

***“Always worth coming along to”***  
***“Easy to understand and humorous”***

A full set of the slides used at the meeting, together with a list of delegates and biographies of the speakers, is available from the news story about our annual meeting in the “News” area of our website.



# Setting the pace in pensions...

Over the last year we have been set more challenges than ever before.

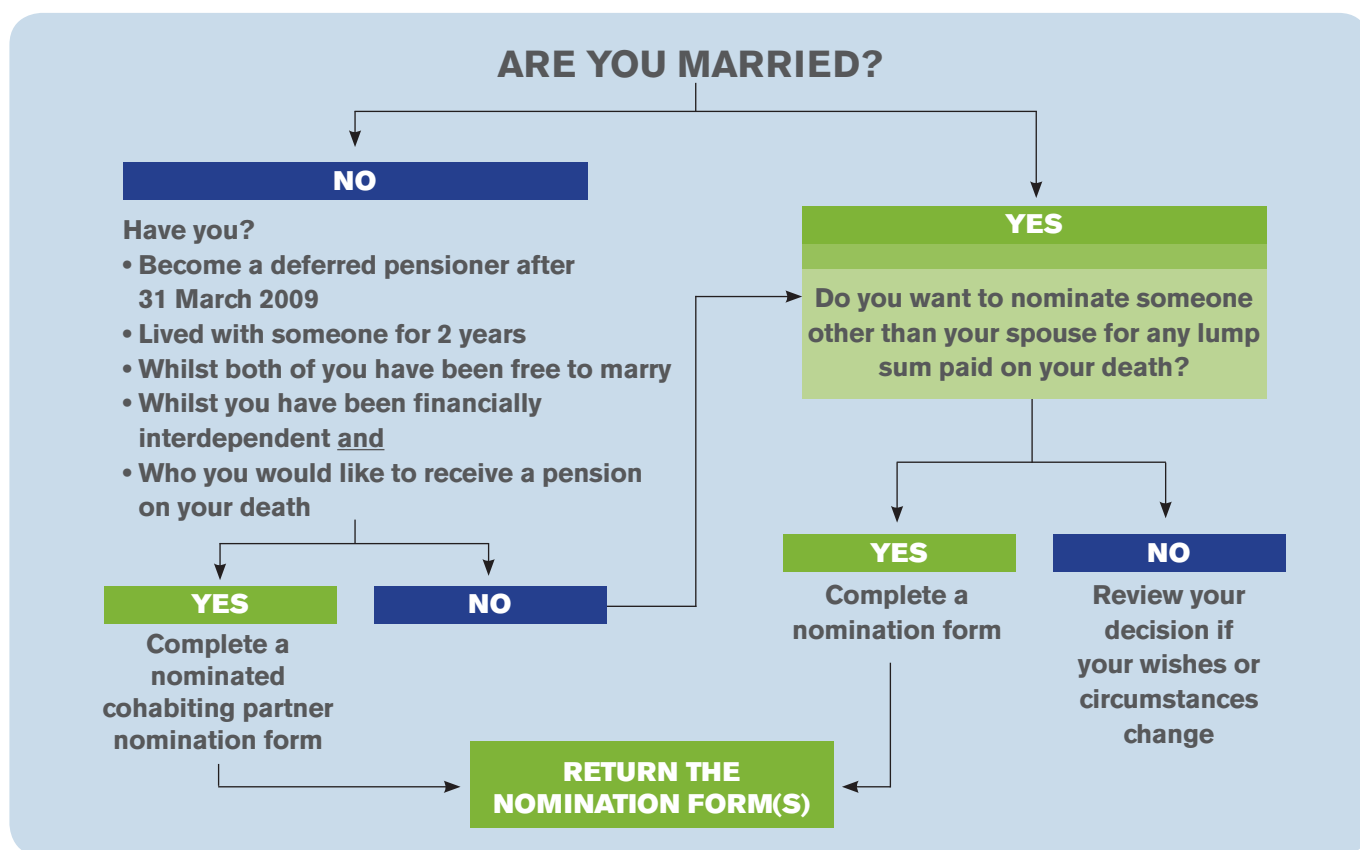
A massive increase in voluntary redundancy programmes by a number of our employers has been accompanied by significant reductions in our staff.

Looking back over 30 years we can't recall a year with so many things being added to our plans at the start of the year.

Despite the scale of change we have risen so successfully to the challenges that we:

- Retained our prestigious crown of **Public Sector Scheme of the Year** at this year's Pension Scheme of the Year Awards ceremony on 16 September 2010.
- Were crowned Funds Europe European Public Sector Institutional Investor of the Year for the third year running on 2 December 2010.

# Protecting your loved ones



## CONTACTING US

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

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.

## VISITING US

We will no longer be operating a drop-in visiting facility, as the new building will not accommodate this. Instead, you can visit us by appointment made either with an SPFO contact or via our switchboard on 0845 213 0202.

Web: [www.spfo.org.uk](http://www.spfo.org.uk)

Email: [spfo@glasgow.gov.uk](mailto:spfo@glasgow.gov.uk)

Tel: 0845 213 0202

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