

# Financial & Actuarial Information Sheet

for No. 3 Fund members for the scheme year 2009 / 2010



## INTRODUCTION

The No. 3 Fund is a sub-fund of the Strathclyde Pension Fund. The No. 3 Fund 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 Fund was established. The No. 3 Fund 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 the No. 3 Fund 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 Fund are externally managed and the investment management arrangements as at 31 March 2010 are shown below:

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

Cash balances were managed by the Fund's Global Custodian, Northern Trust.

Over the past year various analyses and recommendations from Hymans Robertson proposing a revised and accelerated de-risking strategy for the No. 3 Fund have been considered.

The No. 3 Fund structure as at 31st March 2010 was as follows:

|                                    | UK<br>£000    | Non UK<br>£000 | Total<br>£000  |
|------------------------------------|---------------|----------------|----------------|
| <b>Investment Assets</b>           |               |                |                |
| Equities (incl convertible shares) | 34,752        | 0              | 34,752         |
| Pooled Investment Vehicles         | 343           | 78,003         | 78,346         |
| Derivative Contracts               | 28            | 0              | 28             |
| Cash Deposits                      | 0             | 634            | 634            |
| Debtors                            | 249           | 48             | 297            |
| <b>Total</b>                       | <b>35,372</b> | <b>78,685</b>  | <b>114,057</b> |
| <b>Invested Liabilities</b>        |               |                |                |
| Derivative Contracts               | -28           | 0              | -28            |
| Creditors                          | -68           | -56            | -124           |
| <b>Total</b>                       | <b>-96</b>    | <b>-56</b>     | <b>-152</b>    |
| <b>Current Assets</b>              | <b>4204</b>   | <b>0</b>       | <b>4204</b>    |
| <b>Net Assets</b>                  | <b>39,480</b> | <b>78,629</b>  | <b>118,109</b> |

## FUND ACCOUNTS

(for the year ended 31st March 2010)

|  | 2008/09<br>£000 | 2009/10<br>£000 |
|--|-----------------|-----------------|
| <b>FUND INCOME</b>   |                 |                 |
| Contributions receivable from employers                    | 3,715           | 3,984           |
| Contributions receivable from members                      | 351             | 368             |
| <b>BENEFITS PAYABLE</b>                                    |                 |                 |
| Pensions   | 3,350           | 3,568           |
| Commutation of pension and lump sum retirement benefits    | 1,098           | 776             |
| Lump sum death benefits                                    | 5               | 0               |
| Individual transfers out to other schemes                  | 37              | 481             |
| <b>ADMIN EXPENSES</b>                                      |                 |                 |
|  | 28              | 27              |
| <b>Net addition/reduction from dealings with members</b>   | <b>-452</b>     | <b>-500</b>     |
| <b>RETURNS ON INVESTMENTS</b>                              |                 |                 |
| Investment income  | 2,240           | 2,051           |
| Change in market value of investments                      | -14,489         | 26,084          |
| Taxation   | 17              | 13              |
| Investment management expenses                             | 50              | 45              |
| <b>Net returns on investments</b>                          | <b>-12,316</b>  | <b>28,077</b>   |
| <b>Net increase / decrease in the Fund during the year</b> | <b>-12,768</b>  | <b>27,577</b>   |
| <b>Add : opening net assets of the Fund</b>                | <b>103,300</b>  | <b>90,532</b>   |
| <b>Closing net assets of the Fund</b>                      | <b>90,532</b>   | <b>118,109</b>  |

## INVESTMENT PERFORMANCE TO 31 DECEMBER 2010

### Long Term Performance

|                        | Annualised Returns |            |             | Year to     |             |              |            |             |             |             |             |              |              |
|------------------------|--------------------|------------|-------------|-------------|-------------|--------------|------------|-------------|-------------|-------------|-------------|--------------|--------------|
|                        | 3<br>Years         | 5<br>Years | 10<br>Years | Dec<br>10   | Dec<br>09   | Dec<br>08    | Dec<br>07  | Dec<br>06   | Dec<br>05   | Dec<br>04   | Dec<br>03   | Dec<br>02    | Dec<br>01    |
| <b>Fund return</b>     | <b>7.0</b>         | <b>7.8</b> | <b>6.2</b>  | <b>15.3</b> | <b>16.8</b> | <b>-8.9</b>  | <b>6.8</b> | <b>11.4</b> | <b>20.7</b> | <b>11.9</b> | <b>18.3</b> | <b>-12.3</b> | <b>-10.5</b> |
| <b>Fund benchmark</b>  | <b>3.2</b>         | <b>5.3</b> | <b>5.0</b>  | <b>12.0</b> | <b>12.8</b> | <b>-12.9</b> | <b>6.5</b> | <b>10.6</b> | <b>21.2</b> | <b>12.1</b> | <b>18.6</b> | <b>-13.2</b> | <b>-9.9</b>  |
| WM All Funds Universe  | 2.6                | 5.0        | 4.6         | 12.8        | 15.1        | -4.0         | 7.0        | 10.5        | 20.1        | 11.2        | 17.0        | -13.9        | -8.9         |
| Retail Prices Index    | 2.7                | 3.2        | 2.8         | 4.7         | 0.6         | 2.7          | 4.2        | 4.0         | 2.4         | 3.4         | 2.6         | 2.5          | 1.0          |
| Consumer Prices Index  | 3.1                | 2.8        | 2.2         | 3.4         | 2.1         | 3.9          | 2.0        | 2.8         | 2.1         | 1.4         | 1.4         | 1.5          | 1.1          |
| Average Earnings Index | 1.3                | 3.4        | 3.6         | 1.8         | 0.7         | 1.8          | 5.3        | 5.3         | 4.2         | 4.1         | 4.0         | 2.3          | 3.3          |

The first in a series of potential de-risking steps, moving 15% out of equities and 10% out of property, was implemented during 2010, with the proceeds being invested in UK 2027, UK 2032 and UK 2042 index-linked gilts.

## 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       |
| <b>Deficit</b>   | <b>14</b> |

Liabilities have been valued on an “ongoing” basis anticipating an element of future outperformance from equity investments.

The deficit funding position indicates 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 No. 3 Fund’s estimated position as at 31 December 2010 was that, on a swaps basis, it was 85% funded. This figure does not take any account of prospective change from RPI to CPI for future pension increases. This should improve funding levels by c5%.

## FURTHER INFORMATION

The full report on the 2008 actuarial valuation, our annual report 2010 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.

### Strathclyde Pension Fund Office

Managing the Local Government Pension Scheme in the west of Scotland

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