



# FUNDNEWS 2008

FUNDNEWS THE NEWSLETTER OF THE STRATHCLYDE PENSION FUND

[WWW.SPFO.ORG.UK](http://WWW.SPFO.ORG.UK)

## IN THIS ISSUE

- 02\_WELCOME
- 03\_KEY MESSAGES IN THIS FUNDNEWS
- 04\_CONVENER'S SUMMARY REPORT
- 06\_THE NEW LGPS
- 10\_INVESTMENTS
- 12\_WHAT YOU SAY ABOUT US
- 13\_FUND ACCOUNTS
- 14\_ACTUARIAL VALUATION
- 15\_INCREASING YOUR PENSION
- 16\_CONTACTING US

# WELCOME TO FUNDNEWS 2008

It gives me great pleasure to introduce Fundnews 2008. The last year has seen a lot of change in the Strathclyde Pension Fund Office. We split our administration function into two divisions, Operations & Development.

We now have a division, Development, able to focus on delivering our pensions administration service of the future, free of the day-to-day hustle and bustle of a busy pensions administration operation.

My new boss, Sharon McKechnie, joined us in Dec 2007 to head up the Development division as Chief Pensions Officer (Development). And, also in December, I increased the Communications team's resource by recruiting an additional Senior Communications Officer, Chris Frohlich.

We are really proud of the changes that we have made in the last year in the ways that we communicate with you. We have:

- » **Been given a Plain English Crystal Mark for our re-designed annual benefit statements. These will be despatched to you by early December.**
- » **Tested a pilot facility for members to access their pension record online.**
- » **Introduced an 0845 number and a call centre staffed by a newly-formed Front Office Team who will also be happy to meet with you if you come to our offices.**

The feedback from our members that appears in quotes throughout this year's Fundnews tells us that we are both doing things right and doing the right things.

Being "Highly Commended" for our scheme governance and our administration at the Engaged Investor Trustee Awards 2008, then winning the Premier Scheme and Best Administration (Public Sector) categories at the Scheme of the Year awards has been the icing on the cake for me.

Looking ahead Sharon will be leading the project tasked with introducing the new Scottish Local Government Pension Scheme (LGPS) on 1 April 2009. There is a lot more about the new LGPS on pages six to nine.

The new LGPS will be our number one communications priority over the next year. We have already established a dedicated area in our website. Chris updates this regularly, with "Member Updates" that cover each aspect of the changes in more detail. Over the next six months he will be managing the delivery of a range of communications to explain the implications of the new LGPS to you.



**Alistair Gray**

*Communications Team Leader  
Strathclyde Pension Fund Office*



» ALISTAIR GRAY



# KEY MESSAGES IN THIS FUNDNEWS



» LYNN BROWN

The key messages that we would like you to take from this edition of Fundnews are that:

- » The Fund's membership and income continue to grow.
- » Investment returns were very good until the end of 2007, but 2008 has been much more difficult.
- » The Fund remains very strong: it is one of the 20 largest pension funds in the UK, the 50 largest in Europe and the 150 largest in the world.
- » The new LGPS is fairer and more flexible than the old LGPS, but there are some important changes you need to be aware of.

**Lynn Brown**

Executive Director of Financial Services  
Glasgow City Council

The last few months have been the most dramatic period for investors that most people can remember. massive financial institutions on both sides of the atlantic that were previously believed to be "too big to fail" have had to be bailed out or bought out or, in the case of Lehman Brothers, have simply collapsed.

**You should rest assured that the security and value of the pension you have built up with us is unaffected by these events.**

We expect the value of the Fund to rise and fall but the LGPS is a Defined Benefit scheme, so pensions are not affected by investment returns. And members' pensions are underwritten in turn by the Fund, the employers and ultimately the government. Even in the context of these extraordinary events, the position of scheme members is secure. It is also worth noting that all of our current pensions payments are met from cash. It will be many years before the Fund needs to start using its investment income to pay pensions. And even longer before it needs to realise investments in order to do so.

**So there is really no reason for any Fund member to be concerned.**

## ANNUAL MEETING 2008

212 delegates, representing employers and trade unions, attended our annual meeting on Friday 20 June 2008.

Feedback questionnaires from the delegates rated our annual meeting very highly, with the presentation about implementing the new LGPS on 1 April 2009 receiving a particularly favourable response.

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.

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

*"An excellent speaker who makes pensions fun"*

*"I could listen to the Professor all day"*

“ THE FEEDBACK FROM OUR MEMBERS THAT APPEARS IN QUOTES THROUGHOUT THIS YEAR'S FUNDNEWS TELLS US THAT WE ARE BOTH DOING THINGS RIGHT AND DOING THE RIGHT THINGS ”

# CONVENER'S SUMMARY REPORT

It gives me great pleasure to summarise what has been happening at the Strathclyde Pension Fund since I became its Convener in June 2007. Having served on the Council and the Strathclyde Pension Fund Committee since 1999, I am fully aware of the invaluable role that the Fund plays in the provision of retirement benefits. I am also well aware of the challenges ahead for the LGPS and its participating employers, as investment markets continue to digest the implications of the credit crunch that has beset the global economy over the last year, and a new LGPS is introduced in the coming year.

Whilst I am confident that the Fund has the investment, governance and operational structures in place to face these challenges, I will ensure that the Strathclyde Pension Fund Committee continues to monitor, review and improve these structures and that they continue to underpin the performance of the Fund and its service to its members.

As at 31st March 2008, the Fund had assets of £9,479 million and over 185,000 scheme members.

Summarising the Year:

- » The Fund's membership grew by around 5,000 to:
  - 91,000 active members
  - 36,000 deferred members
  - 59,000 pensioners
- » The Fund's investments fell by 3.0%.

Significant decisions by the new Committee, in its first year, included re-appointing Northern Trust as Global Custodian, signing the United Nations Principles for Responsible Investment, increasing the currency strategy and restructuring the No. 3 Fund.

The Fund's recent successes in winning industry awards in the 2008 Professional Pensions Scheme of the Year awards evidence a consistent pattern of excellence, and I am enjoying playing my part in maintaining the proud history of providing retirement security for those who contribute to the Fund.



**Bailie Jim McNally**

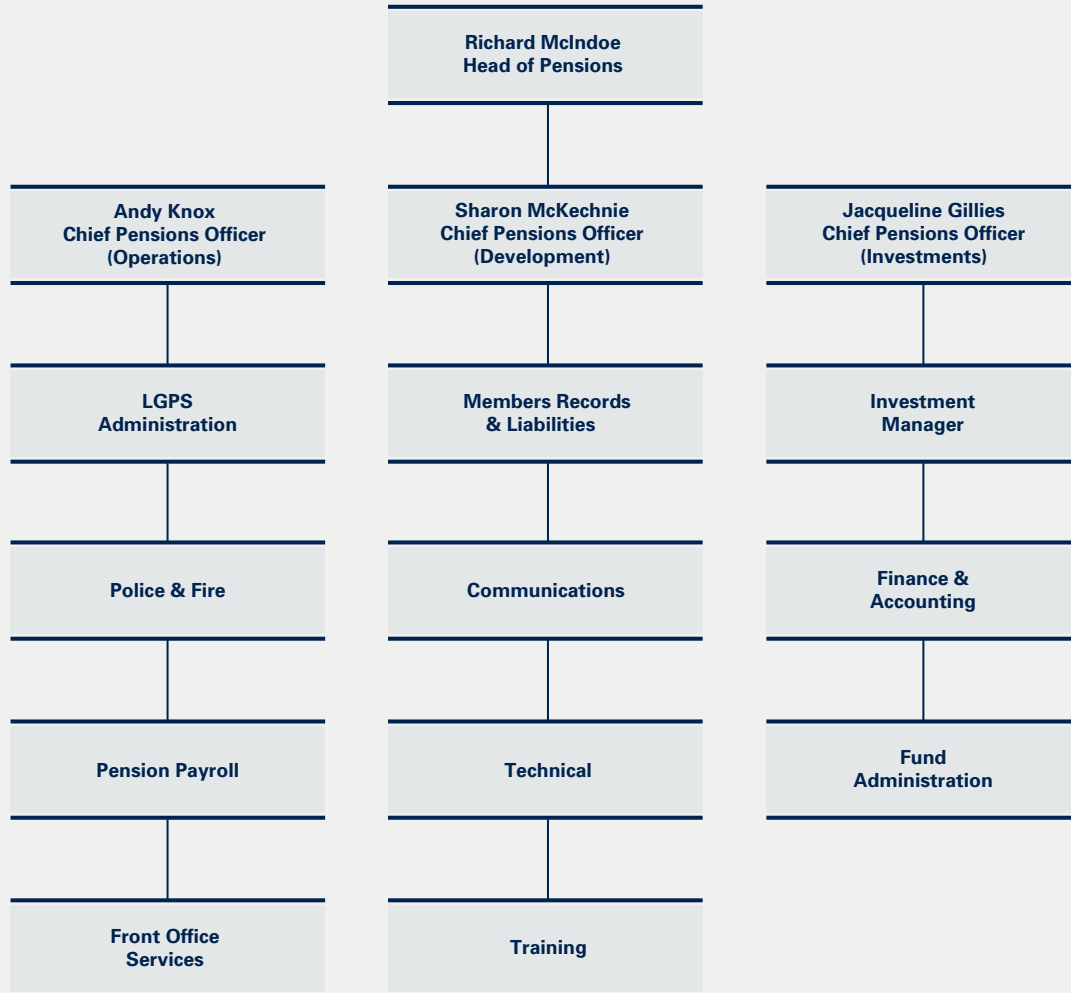
*Convener  
Strathclyde Pension Fund Committee*

“ OVERALL THIS SERVICE  
HAS BEEN EXCELLENT ”



» BAILIE JIM McNALLY

# STRATHCLYDE PENSION FUND OFFICE



## OUR VALUES

- » Accuracy, accessibility and speed of response
- » People, participation and partnership
- » Proactiveness, initiative and innovation
- » Transparency, accountability and value for money

## OUR OBJECTIVES

- » To deliver a professional, high quality service through having highly skilled, motivated and empowered staff
- » To be fully accountable to all stakeholders for the governance of the fund and for scheme administration
- » To achieve 100% accuracy of our member database in partnership with all our stakeholders

“ A FANTASTIC MODEL OF PUBLIC SERVICE PROVISION ”

# THE LGPS IS CHANGING FOR YOU, CHANGING FOR THE BETTER

A new LGPS will be introduced from 1st April 2009 for all members of the Fund who are paying into the scheme.

The new LGPS will give you:

- » **More** pension
- » **More** flexibility on retirement
- » **More** targeted ill health benefits
- » **More** protection for your loved ones

The new LGPS will be much as expected in last year's Fundnews.

More details about the new LGPS will be provided to you in a special booklet that you will receive with your 2008 annual benefit statement in early December. You will also be provided with an updated Employee Guide to the LGPS in March/April 2009.

In the meantime you can obtain more information about the new LGPS from our website. Our homepage has a "click thru" that will take you directly to an area dedicated to the new LGPS. The area contains a number of "Member Updates" that go into specific aspects of the new LGPS in detail.

Please note that the information in this Fundnews is only a guide to aspects of the new LGPS. It does not supersede the underlying regulations that govern the LGPS.

## FIRSTLY A WORD OF REASSURANCE

If you're already paying into the LGPS on 31 March 2009 and you continue to have a contract of employment on 1 April 2009, your existing benefits will be safeguarded.

You will automatically start to build up benefits in the new LGPS from 1 April 2009.

## THE LGPS IS ONE OF THE BEST PENSION SCHEMES AVAILABLE

Very few employers now offer a pension scheme as good as the LGPS. And the new LGPS is even better than before. It is fairer and more flexible. As a member you will enjoy the following secure and high quality benefits at retirement:

- » A pension based on your final salary.
- » A pension that increases each year in line with price inflation.
- » A pension payable to your surviving spouse, registered civil partner or nominated cohabiting partner on your death after retirement.
- » The ability to exchange some of your pension for a tax free lump sum.

And you will also be protected against permanent ill health or death in service with:

- » Lump sum death in service protection of three times your pay.
- » A pension for your surviving spouse, surviving registered civil partner or surviving nominated cohabiting partner on your death.
- » A permanent ill health pension paid from any age for those with two years service who are permanently unable to work.

The LGPS is supported by the Government as well as contributing employers. Member contributions attract income tax relief and national insurance reductions that significantly reduce the cost to you.

## YOUR CONTRIBUTIONS TO THE NEW LGPS

In the new LGPS the flat 6% (or the flat 5% for some manual staff) gross contribution rate will be abolished. Your gross contribution rate is your contribution rate before tax and national insurance relief.

Your gross contribution to the new LGPS for the period 1 April 2009 to 31 March 2010 will depend on your **annual full time equivalent rate of pay** on 31 March 2009. There are five different percentage rates for five tranches of pay:

In the new LGPS your contribution rate will depend on your pay.

Pay tranche	Contribution rate (%)
Up to and including £18,000	5.50
Above £18,000 and up to £22,000	7.25
Above £22,000 and up to £30,000	8.50
Above £30,000 and up to £40,000	9.50
Above £40,000	12.00

An example:

Tom's full time equivalent rate of pay at the previous 31 March was £31,000.

**Tom's contribution for this year is calculated as:**

5.50% x £18,000	= £990
7.25% x £4,000	= £290
8.50% x £8,000	= £680
9.50% x £1,000	= £95
<u>£31,000</u>	<u>£2,055</u>

Tom's average gross contribution rate would be 6.63% = 2,055/31,000.

**After taking account of tax and national insurance breaks, Tom's gross contribution rate of 6.63% would be reduced to a net contribution of 3.99% using 2008/9's tax/national insurance rates and bands.**

Calculation and deduction of your contributions will be taken care of by your pay office, just as it is now. But you should be aware that you will pay more from next April if your full-time equivalent earnings are above £23,500 a year or if you currently pay the 5% rate.

If you work part time, your contribution rate will be based on the whole time pay rate for your job. You will, of course, only pay contributions on the pay you actually earn.

An example:

Dick's full time equivalent rate of pay in the previous financial year was £30,000, and he worked 15 hours a week in a post where the full time hours were 30 hours a week i.e. "half hours".

**If Dick was working full time, Dick's contribution rate for this year would be calculated on 2 x £15,000 = £30,000 as:**

5.50% x £18,000	= £990
7.25% x £4,000	= £290
8.50% x £8,000	= £680
	<u>£1,960</u>

**In other words "full time" Dick's average gross contribution rate would be 6.53% = 1,960/30,000.**

"Half hours" Dick would pay a contribution of 6.53% of £15,000 = £980.

To help you to calculate what your gross contribution rate will be from 1 April 2009, we have introduced a contribution calculator on our website. The calculator will tell you your estimated gross average contribution rate.

In future the pay tranches will be increased in line with price inflation. From 2012 employee contributions may be affected by the potential introduction of a 'cost sharing' arrangement.

## MORE PENSION

The LGPS will remain a final salary scheme, with the pension accrual rate increasing to 1/60th (from 1/80th).

The pension accrual rate is the speed at which you build up pension benefits. You will get 1/60th of your final salary amount for each year of pensionable service as your pension.

The (3/80th) tax free lump sum payable at retirement provided by the old LGPS will be replaced by the right to choose to convert part of the 1/60th pension into tax free cash at a rate of £1 of pension for £12 of lump sum. This means that you will have more choice at retirement.



**STAFF WERE HELPFUL AND DEALT WITH MY ENQUIRY EFFICIENTLY**



**In the new LGPS you will choose how much pension to swap for tax-free cash at retirement.**

The new 1/60th LGPS not only provides more pension for those not needing tax free cash. It also gives **everyone** more pension per year after exchanging some of their pension for the level of tax-free cash that the old LGPS would have provided.

Arlene has 18 years service in the LGPS, is taking her benefits at 65 and has a final salary of £25,000.

**If Arlene had only been\* in the old LGPS, her benefits would have been calculated as follows:**

Arlene's pension = 18 yrs x £25,000 ÷ 80	= £5,625
Arlene's lump sum = 3 x £5,625	= £16,875

**If Arlene had only been\* in the new LGPS, her benefits would have been calculated as follows:**

Arlene's pension = 18 yrs x £25,000 ÷ 60	= £7,500
--	----------

In the new LGPS no automatic lump sum is payable, but Arlene can choose to exchange part of her total pension for a tax-free cash lump sum. The conversion rate used is £12 of lump sum for every £1 of pension given up.

For Arlene to have a lump sum of £16,875 (as under the old LGPS), she would have to give up £16,875/12 = £1,406.25. This would reduce Arlene's new LGPS pension to £6,093.75 (7,500.00 – 1,406.25).

**In other words Arlene will receive an extra pension of £468.75 (= 6,093.75 – 5,625.00) as a result of the introduction of the new LGPS.**

\* Note: in reality it will not be possible for Arlene to choose between the old LGPS and the new LGPS. Any membership before 1 April 2009 will entitle members to retirement benefits from the old LGPS, with membership from 1 April 2009 building up benefits in the new LGPS.

To work out a LGPS pension after 1 April 2009 two calculations will be necessary:

- » Service up to 31 March 2009 x 1/80th of pay (and 3/80ths for lump sum), *and*
- » Service from 1 April 2009 x 1/60th of pay.

Betty is retiring with a final salary of £20,000, pre 2009 membership of 20 years and post 2009 membership of 7 years.

**Betty's benefits will be calculated as follows:**

Betty's pension from old LGPS =	
20 yrs x £20,000 ÷ 80	= £5,000.00

Betty's pension from new LGPS =	
7 yrs x £20,000 ÷ 60	= £2,333.33

<b>Betty's total LGPS pension</b>	<b>= £7,333.33</b>
-----------------------------------	--------------------

**Betty will also receive a lump sum from the old LGPS of 3 x £5,000.00 = £15,000.00**



## MORE TARGETED ILL HEALTH BENEFITS

If you have two years' pensionable service and are certified as unable to perform your duties because of permanent ill health, the new LGPS will provide pensions based on prospective service (not on completed service as in the old LGPS).

**In the new LGPS ill health benefits will depend on your future ability to work.**

In the new LGPS ill health benefits will be tiered according to ability to carry out other gainful employment (in Local Government or otherwise) before age 65.

For part timers, this period of extra membership is scaled down in proportion to part time hours worked at date of leaving against full time equivalent hours at that date.

If an approved and independent registered medical practitioner certifies that:

- » **You have no reasonable prospect of paid employment in Local Government or otherwise**
- » **For not less than 30 hours per week**
- » **For a period of not less than 12 months before age 65.**

You will receive an immediate permanent ill health pension based on your accrued membership plus 100% of prospective membership to age 65.

If you are judged to have a reasonable prospect of returning to paid employment before age 65, the new LGPS will provide an immediate permanent ill health pension based on your accrued membership plus 25% of your prospective membership between leaving and age 65.

Existing members of the LGPS will need to meet the new criteria for qualifying for a permanent ill health pension. They will however be protected by a guarantee of being no worse off when the length of their permanent ill health pensionable service is calculated under the new LGPS.

## MORE PROTECTION FOR YOUR LOVED ONES

Currently a partner's pension can only be paid to your spouse or registered civil partner. In the new LGPS it can also be paid to a nominated cohabiting partner.

**In the new LGPS nominated cohabiting partners will be recognised.**

A partner's pension will only be payable if you have two years' service. It will continue to be based on a standard accrual rate of 1/160th. This means that a partner's pension will not be adversely affected by you exchanging pension for tax free cash at retirement.

For nominated or registered civil partners pension will be based only on membership since 6 April 1988.

Children's pensions for up to two children at 1/320th of salary for each year of total actual and prospective service are also provided. These are not subject to you having a minimum period of membership before benefit is payable.

If no survivor's pension is payable to a surviving widow, widower, registered civil partner or nominated cohabiting partner, enhanced rates of children's pension are payable.



THE HELP I RECEIVED WITH EVERY ASPECT OF THE PROCESS WAS EXCELLENT AND COULDN'T BE FAULTED. THANK YOU FOR EVERYTHING



# Changing for you changing for the better...

Your new and improved  
Local Government Pension Scheme  
- from 1st April 2009



More pension More flexibility More targeted ill health benefits More protection for your loved ones - from 1st April 2009



## NOMINATING COHABITING PARTNERS

In the new LGPS, you will be able to nominate a cohabiting partner, of either the opposite or same sex, to receive a survivor's pension on your death.

To be able to make a nomination, all of the following conditions must have applied to both you and your nominated cohabiting partner for a continuous period of AT LEAST 2 YEARS on the date you both sign the cohabiting partner nomination form:

- » Both you and your nominated cohabiting partner are, and have been, free to marry each other or enter into a civil partnership with each other, *and*
- » You and your nominated cohabiting partner have been living together as if you were husband and wife, or civil partners, *and*
- » Neither you nor your nominated cohabiting partner has been living with someone else as if you/they were husband and wife or civil partners, *and*
- » Either your nominated cohabiting partner is financially dependent on you or you are financially interdependent on each other.

A nomination is NOT valid if all of the above conditions have not been met for a continuous period of AT LEAST 2 YEARS on the date you sign the form.

Your partner is financially dependent on you if you have the highest income.

Financially interdependent means that you rely on your joint finances to support your standard of living. It doesn't mean that you need to be contributing equally. For example, if your partner's income is a lot more than yours, he or she may pay the mortgage and most of the bills and you may pay for the weekly shopping. This would mean that you are financially interdependent.

Please note:

On your death we would need to verify that the conditions for nomination have been satisfied, for example, a confirmation that you lived in a shared household with shared household spending, or that you had a bank account or mortgage in joint names. There would be a right of appeal, if we decide not to pay a pension and your partner believes that he/she is entitled.

Completing and returning the cohabiting partner nomination form will be important, as we cannot pay a pension to a nominated cohabiting partner without a valid cohabiting partner nomination form.

If you require a cohabiting partner nomination form, please contact us or download one from our website.



CONTACTED OFFICE BY  
PHONE & BY LETTER AND  
RESPONSES WERE: HELPFUL,  
EFFICIENT, QUICK AND  
INFORMATIVE

The screenshot shows a web browser window with the URL <http://www.spfo.org.uk/Employers/TechnicalBulletins/new+lgps+area.htm>. The page header includes the Strathclyde Pension Fund logo and navigation links: Home, Contact Us, Site Map, and Access. A search bar is also present. The main content area is titled 'New LGPS area' and contains the following text:

This area provides a range of information designed to help stakeholders understand the implications of the new Local Government Pension Scheme (LGPS) that is coming in on 1 April 2009.

Just click on the appropriate link below:

- a pdf of a [general article](#) about the new LGPS.
- a Member Update on [permanent ill health](#).
- a Member Update on [1/60 is better than 1/80 + 3/80](#).
- a Member Update on [taking tax free cash at retirement](#).

On the left side of the page, there is a sidebar with the following links: [Employers Guide](#), [Employer Timeline](#), [Technical Bulletins](#), [Employers List](#), and [Forms](#).

# INVESTMENTS

## STRATEGY

At Strathclyde Pension Fund, our:

- » Assets of £9.479bn as at 31 March 2008;
- » Regular and secure flow of contributions from our employers; *and*
- » Membership profile (91,000 active members, 36,000 deferred members and 59,000 pensioners) – still open and still growing,

allow us to:

- » Take a professional, long-term view of investment
- » Consider all opportunities: *and*
- » Continue to invest for growth.

This is reflected in our current investment strategy and our continuing desire to enhance and improve returns.

Our investment strategy is summarised in our strategic benchmark. Our strategy remains equity focused (investing in company shares), as this is wholly compatible with our long-term objectives. The following benchmark was implemented on 1st April 2007.

ASSET CLASS	REVISED BENCHMARK %
<b>EQUITIES</b>	<b>73</b>
GLOBAL	15
UK	31.5
OVERSEAS	21.5
PRIVATE EQUITY	5
<b>PROPERTY</b>	<b>12</b>
<b>BONDS</b>	<b>15</b>
INDEX LINKED	3
UK GILTS	3
CORPORATE	6
OVERSEAS	3
<b>CASH</b>	<b>0</b>
<b>TOTAL</b>	<b>100</b>

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.

RECORD	MELLON	MILLENNIUM
LEGAL & GENERAL	BAILLIE GIFFORD	HENDERSON
	CAPITAL INTERNATIONAL	WESTERN
	EDINBURGH PARTNERS	GENESIS
	INVESCO	PANTHEON
	LAZARD	PARTNERS GROUP
	ALLIANCE BERNSTEIN	JP MORGAN
		GARTMORE
		ABERDEEN PI

MULTI ASSET  
PASSIVE

GLOBAL  
EQUITY

SPECIALIST  
MANDATES

ACTIVE  
CURRENCY

We regularly review our investment arrangements to:

- » Ensure that the strategy and structure remain appropriate and consistent with the actuarial valuation and Asset Liability Modelling results;
- » Recognise that new investment themes and opportunities emerge over time and that there may be merit in gradually incorporating some of these; *and*
- » Progressively improve the efficiency of the investment structure in terms of investment risk versus expected investment return.

The last year has been focused on bedding in our revised manager structure.

Additional highlights of our investment activity over the period have been successfully increasing both our private equity (investing in companies that are owned privately) and active currency (investing in foreign exchange markets) exposure, to £425m and £1,050m respectively.

## PERFORMANCE

The table below shows that we have achieved consistently strong investment returns and a high ranking against other UK funds (where 1 is top and 100 is bottom). This all adds up to a very respectable 10-year annualised return of +7.5%.

	1998 %	1999 %	2000 %	2001 %	2002 %	2003 %	2004 %	2005 %	2006 %	2007 %	3YR ANNUALISED %	5YR ANNUALISED %	10YR ANNUALISED %
RETAIL PRICES	2.8	1.8	2.9	0.7	2.9	2.8	3.5	2.2	4.4	4.3			
AVG. EARNINGS	4.2	6.3	4.8	2.4	3.5	4.3	4.2	4.2	4.0	3.8			
FUND B/MARK	14.0	28.3	(4.3)	(10.0)	(16.5)	20.9	11.2	21.5	12.2	6.1	13.1	14.4	7.8
FUND RETURN	13.0	28.2	(2.5)	(9.7)	(15.4)	19.9	11.9	22.2	11.8	6.9	13.5	14.4	7.5
WM ALL FUNDS	14.0	21.3	(1.3)	(8.9)	(13.9)	17.0	11.2	20.1	10.5	7.0	12.4	13.1	7.1
FUND RANKING	57	7	64	43	35	18	21	9	22	32	12	8	7

To set the Fund's investment performance in context, UK pensions funds enjoyed a fifth successive year of positive investment performance in 2007.

But it was clear, mid-year, that the landscape was changing rapidly. "Sub-prime" became firmly embedded in the investment vocabulary. Concerns about how low-grade US mortgages had been packaged and sold caused a global credit crunch. There was widespread financial and political fallout. And volatility and selectivity returned dramatically to markets.

The inflationary pressures of rising energy and food prices caused further shocks to markets. In the first quarter of 2008 global equities fell sharply. Deteriorating conditions in credit markets and simultaneous slowdowns in the US, Europe and Japan raised concerns over the health of the world economy. Government bonds posted positive returns as yields declined.

Whilst it is difficult to pinpoint the specific cause of such a dramatic loss of confidence on the part of investors, a range of factors have contributed. The first few weeks of 2008 alone witnessed weak economic data from the United States, emerging problems at the big 'monoline' insurers and the huge trading loss at Societe Generale due to the actions of a rogue trader.

Markets tumbled still further in March following the near collapse and bail out of Bear Stearns, the American investment bank. The decline in banking shares is unsurprising given continued write-downs and new capital injections to shore up beleaguered balance sheets.

Emerging Markets have also suffered, even though their fundamental growth remains intact, suggesting that sentiment has taken a turn for the worse across the board.

In the first quarter of 2008 the Fund's return for the quarter was -7.1%, fractionally ahead of the benchmark return of -7.2%.

In the second quarter of 2008 the Fund's total return for the quarter was -1.6%, ahead of its benchmark return of -1.8%.

Weakness in the banking sector developed into a full-blown banking crisis in September. The Fund's total return for the third quarter - to end September 2008 - was -8.4%. This is a bad quarter by any standard. But not unprecedented even in recent experience: Q1/2008 saw a return of -7.1%; Q3/2002 -14.2%; and Q3/1996 -9.6.

Looking ahead, it is clear that the year to 31 March 2009 will be a bad one for investors across the globe. The Fund continues to focus on its long-term investment strategy.

## SOCIAL, ENVIRONMENTAL AND ETHICAL ISSUES

In January 2008 the Fund became a signatory to the United Nations Principles for Responsible Investment (UNPRI).

Becoming a signatory to the principles will add some extra discipline, weight and context to implementation of the Fund's existing Socially Responsible Investment (SRI) and corporate governance policies with its investment managers.

## UNITED NATIONS PRINCIPLES FOR RESPONSIBLE INVESTMENT

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries.

In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

We also recognise that applying these Principles may better align investors with broader objectives of society.

Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- » We will incorporate ESG issues into investment analysis and decision-making processes.
- » We will be active owners and incorporate ESG issues into our ownership policies and practices.
- » We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- » We will promote acceptance and implementation of the Principles within the investment industry.
- » We will work together to enhance our effectiveness in implementing the Principles.
- » We will each report on our activities and progress towards implementing the Principles.

A priority for 2008/09 will be to review and improve adherence to the principles.

The Fund had already endorsed the spirit of the Principles within its own SRI policy and taken many of the actions recommended.

For example during 2007/08, the Fund's investment managers reported on several hundred social, environmental or ethical topics, including:

<b>Advertising Standards</b>	<b>Inclusion of Diversity</b>
<b>Aids and Availability of Retrovirals</b>	<b>Locally Sourced Produce</b>
<b>Biofuels</b>	<b>Manufacturing Security</b>
<b>Bribery and Corruption</b>	<b>Pharmaceutical Residue</b>
<b>Burma</b>	<b>Price Manipulation</b>
<b>Cheap Sale of Alcohol</b>	<b>Product Accessibility</b>
<b>Clinical Trials in Developing Countries</b>	<b>Southern Sudan</b>
<b>Drug Trial Standards</b>	<b>Sub-Prime Lending</b>
<b>Emerging Market Labour Standards</b>	<b>Sustainable Construction</b>
<b>Financial Crime</b>	<b>Synthetic Fuel</b>
<b>Financial Inclusion</b>	<b>Union Representation</b>
<b>Genetically Modified Crops</b>	<b>United Nations Global Compact</b>
<b>The Global Citizen</b>	<b>Water Management</b>
<b>Human Rights</b>	<b>Water: Cheap and Abundant, but not for Long</b>
	<b>Work-related Lost-time Accidents</b>

# WHAT YOU SAY ABOUT US

Our challenge is to meet the pension needs of over 200 contributing employers and 200,000 members.

Our employers vary from small charities, through our core local authorities, to multi-national companies that have taken on local government contracts.

Our members range from apprentice manual workers and junior clerical staff, through skilled craftsmen and senior administrators, and including Directors and Chief Executives.

Historically our database has been incomplete and the quality of data has been unsatisfactory.

We have made huge improvements in the last year in our database. These improvements are reflected in what you say about us in our rolling customer surveys.

Your comments and level of satisfaction with the quality of service we are providing are shown throughout this Fundnews.

They tell us that we are both doing things right and doing the right things. And in addition, they provide an excellent basis for targeted future improvements to our service.



» PROFESSOR GEOFFREY WOOD

**“ CONTACTED OFFICE BY PHONE & BY LETTER AND RESPONSES WERE: HELPFUL, EFFICIENT, QUICK AND INFORMATIVE ”**

**“ EXCELLENT, THE STAFF HAVE BEEN VERY HELPFUL AND EFFICIENT ”**

**“ PRESENTATION AT INDUCTION WORKSHOP WAS EXCELLENT ”**

**“ VERY PLEASANT HELPFUL PEOPLE. GOOD RELIABLE INFORMATION ”**

**“ CONTACT MADE BY PHONE, STAFF VERY HELPFUL AND ANSWERED ALL MY QUESTIONS ”**

**“ QUICK RESPONSE TO ALL QUESTIONS & SIMPLE AND EASY TO UNDERSTAND COMMUNICATIONS ”**



# FUND ACCOUNTS 2007/08

FOR THE YEAR ENDED 31 MARCH 2008

<b>2006/07</b>		<b>2007/08</b>
<b>£000</b>		<b>£000</b>
	<b>FUND INCOME</b>	
95,638	Contributions Receivable from Employees	100,041
246,983	Contributions Receivable from Employers	269,022
18,616	Additional Contributions from Employers	16,643
20,330	Transfers In	24,596
351	Other Income	364
<b>381,918</b>		<b>410,666</b>
	<b>FUND PAYMENTS</b>	
220,903	Pensions	235,288
51,210	Lump Sums	62,389
1,470	Refund of Contributions	1,152
18,315	Transfers Out	15,705
3,542	Administrative and Other Expenses borne by the scheme	4,028
<b>295,440</b>		<b>318,562</b>
<b>86,478</b>	<b>Net Addition from Dealings With Members</b>	<b>92,104</b>
	<i>Pensions and other payments during the year were met from current income, so there was no need to draw down cash from investment portfolios.</i>	
	<b>RETURNS ON INVESTMENTS</b>	
215,857	Investment Income	224,828
(17,144)	Investment Management Expenses	(19,391)
(3,123)	Overseas Tax	(4,774)
452,716	Change in Market Value of Investments	(500,113)
<b>648,306</b>	<b>Net Returns on Investments</b>	<b>(299,450)</b>
<b>734,784</b>	<b>Net Increase in the Fund during the year</b>	<b>(207,346)</b>
	<i>Falls in investments markets during the year resulted in a decrease in Fund Value of just over £200million.</i>	
<b>8,951,587</b>	Opening Net Assets as at 1st April	<b>9,686,371</b>
<b>734,784</b>	Asset Movement During the Year	<b>(207,346)</b>
<b>9,686,371</b>	<b>Closing Net Assets as at 31st March</b>	<b>9,479,025</b>
	<i>The Fund recorded a closing balance of just under £9.5billion.</i>	

*It should be noted that these accounts show assets only. Liabilities are shown in the actuarial valuation.*

# ACTUARIAL VALUATION

To make advance provision for paying benefits to our members, we invest your contributions and your employer's contributions.

A consulting 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. You should be aware that, whatever this percentage is, your benefits from the LGPS are guaranteed by legislation.

The last, formal triennial actuarial valuation established that the Fund was 96.8% funded as at 31 March 2005. Assets were £7,005m. Liabilities were £7,235m.

The interim monitoring as at 31 March 2008 estimates that the Fund is 89% funded, with assets of £9,555m and liabilities of £10,740m.

We are currently working on the formal, actuarial valuation as at 31 March 2008. It will be completed by 31 March 2009.

The Funding Strategy Statement and the 2005 Actuarial Valuation can be downloaded from our website.

Our retired members receive over £28m net from us each month. Before tax that represents over £32m a month being paid out from the Fund. In the last year there have been an extra 1,700 new retired members, and we expect that number to keep rising.

“  
EXCELLENT, THE INFORMATION  
PACK CLEARLY LAID OUT  
THE INFORMATION IN A WAY  
THAT WAS UNDERSTANDABLE”



# INCREASING YOUR PENSION

In the existing LGPS you can pay more to buy “added years” of pensionable service. The new LGPS will not offer this option. This means that, if you are interested in buying “added years”, you need to contact us as soon as possible.

If you are already buying “added years”, you will be able to continue to pay towards any existing “added years” contracts and receive extra benefits on the same basis that you had agreed to buy them.

In the new LGPS, you will have the option to pay additional regular contributions to buy additional LGPS pension for yourself and your dependants in multiples of £250 up to a maximum of £5,000 per year.

Members of the new LGPS will also continue to have the following additional options for increasing their benefits:

- » **Making “in house” additional voluntary contributions (AVCs) i.e. using the arrangement we have with Prudential.**
- » **Contributing to a free-standing AVC, personal pension or stakeholder pension i.e. by arranging something yourself.**



» SHARON MCKECHNIE



## NOMINATION FORM

If you die whilst you are a contributing member, a death grant of two years pensionable pay is payable from the Fund. This is in addition to any dependants’ pensions that are payable, and will increase to three times pensionable pay in the new LGPS.

You can guide us as to who you would want any death benefits paid to, by completing a simple nomination form now. There are two nomination forms available:

- » **Nomination form for spouse/civil partner.**
- » **Nomination form for nominated cohabiting partner.**

The advantage of completing a nomination form is that it will help with quick and accurate payment of benefits after your death.

If you have not completed a nomination form or want to change your nomination, please visit our website or contact us and we will send you the appropriate form to complete.

## PREVIOUS BENEFITS

To help you trace pension schemes which may be holding benefits belonging to you from previous employment, contact:

**Pension Tracing Service,  
The Pensions Service,  
Tyneview Park,  
Whitley Road,  
Newcastle-Upon-Tyne,  
NE98 1BA  
Tel: 0845 6002 537**

“

**I HAVE BEEN VERY SATISFIED WITH THE CONTENT OF THE REPLIES, WITH THE SPEED WITH WHICH MY ENQUIRIES WERE DEALT WITH AND THE MANNER OF THE STAFF ”**





Scheme of the Year 2005



Specialist Investment Management Award 2006



Best Investment Strategy 2007



Premier Scheme of the Year 2008  
Best in-house Administration Award 2008  
Website Design of the Year 2007



## STRATHCLYDE PENSION FUND IS THE BEST...

At the UK Pension Scheme Of The Year Awards 2008 ceremony on Thursday September 11, we were exceptionally proud to walk away with two of the main prizes:

- » Premier Scheme Of The Year
- » Best In House Administration

The awards, now in their eighth year, are the most competitive awards in the industry. They recognise the pension schemes that provide the highest level of services to their members across Britain, based on the strength, diversity and innovative qualities of individual schemes.

Accepting the Best In House Administration award at the gala dinner at London's Park Lane Hilton, hosted by broadcaster and former Conservative cabinet minister Michael Portillo, Andrew Knox, Chief Pensions Officer said:

*"This award is at the heart of what we're about: delivering service to our customers. It's what most of us spend most of our time doing. So it's great to have recognition that we're doing it well. Especially when it has been difficult working in a new structure and juggling the actuarial valuation and new scheme."*

In response to these prestigious endorsements of his team Richard McIndoe, Head of Pensions, remarked:

*"Winning one award is difficult. Winning two in one year is absolutely outstanding. The Premier Scheme Of The Year award is about everything we do: administration, communications, investment and governance. Ultimately it's about us working together successfully within SPFO as one business."*

## 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.**

## KEY SPFO PERSONNEL

Head Of Pensions  
Chief Pensions Officer (Development)  
Chief Pensions Officer (Investments)  
Chief Pensions Officer (Operations)

**Richard McIndoe**  
**Sharon McKechnie**  
**Jacqueline Gillies**  
**Andy Knox**



**Strathclyde Pension Fund**  
**Managing the Local Government**  
**Pension Scheme in the west of Scotland**

**Strathclyde Pension Fund Office,**  
**2nd Floor, 78 Queen Street, Glasgow G1 3DN**

**Tel: 0845 213 0202**  
**Email: [spfo@glasgow.gov.uk](mailto:spfo@glasgow.gov.uk)**  
**Web: [www.spfo.org.uk](http://www.spfo.org.uk)**