

STRATHCLYDE PENSION FUND
ANNUAL REPORT AND
FINANCIAL STATEMENTS
For the year ended 31 March 2015



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Foreword and Management Commentary



Total investment return for the year was +13.4%. This marked a 6th consecutive year of investment growth. Closing net assets were £15.8 billion, another new high and an increase of £1.8 billion from 31st March 2014.

At the risk of stating the obvious, the purpose of a pension fund is to pay pensions. A simple objective in one sense, but less so when the pension scheme rules are complex and changing, the economic environment is unusual and uncertain and the scale of the operation is very large and still growing.

In this context, sound governance and strategic management are essential. The foundations of this for the Strathclyde Pension Fund are its funding, investment and administration strategies. The year to 31st March 2015 saw significant progress and development in each of these areas with all 3 key strategies delivering good results and undergoing some degree of review.

Funding

The funding target is to have sufficient assets to cover all of the pensions entitlements accrued by the Fund's members, though it is acknowledged that the position will fluctuate over time. The funding level is formally measured every 3 years in an actuarial valuation.

The latest valuation, as at 31st March 2014, was concluded towards the end of the financial year and a funding level of 94.3% was confirmed by the actuary. Whilst this was short of the 100% target, it was sufficient for the actuary to certify a continuation until 2018 of the current contribution rate of 19.3% (of pensionable pay) for the Fund's principal employers. This marks 7 years of stability for the 12 councils and other major employers who participate in the Fund – affording them some certainty in a very difficult budgetary environment.

The funding plan targets payment of the deficit within 12 years – a shorter recovery period than that adopted by most local government pension scheme funds – and a fairly high probability – 66% to 75% of achieving this. All in all this was a very satisfactory result.

The Fund's investment strategy contributed positively to the actuarial result - asset growth was greater than expected. This was more than outstripped, however, by growth in the value placed on the liabilities. The quantum of expected pensions payments has not changed significantly, but the projected cost - based on current gilt yields – has increased relentlessly.

This trend continued through the year to 31st March 2015, so that, in spite of continuing investment growth, the funding level reduced further to an estimated 86.2% at year end.

Investment

Total investment return for the year was +13.4%. This was comfortably ahead of the strategic benchmark return of +13.0% and significantly better than the actuary's long-term investment assumption of +4.9% p.a.

2014/15 marked a 6th consecutive year of investment growth. Even allowing for the sharp market downturn in 2009 the Fund's 10-year return now stands at +8.1% p.a. Inflation over the period was less than 3% p.a.

Investment income from dividends, rents and interest was a little over £200m. The bulk of the total return came from capital growth - change in market value of investments was £1.76 billion.

Closing net assets of the Fund were £15.76 billion, another new high and an increase of £1.8 billion from 31st March 2014.

The Fund's investment strategy remains heavily biased towards equities. The strategic benchmark - the Fund's model portfolio - comprises 72.5% equity, 12.5 % property and 15% bonds. As at 31st March 2015 the FT All Share index had returned +8.3% p.a. over 5 years, FT World +10.3% p.a. This has served the Fund well as the return figures above demonstrate.

The Fund continues to mature. The actuarial valuation showed that the proportion of liabilities attributable to active members had reduced from 49.5% in 2011 to 46.8% in 2014. In this context the Fund has less tolerance for the volatility which accompanies equity market returns. With this in mind, towards the end of the year the Committee agreed a new risk-based investment framework which over time will be used to formulate a more diversified investment strategy.

The groundwork for this process of diversification has already been started within the Fund's New Opportunities Portfolio. Established in 2010, the Committee agreed 9 new investments for this portfolio during the year bringing the total to 19

with a total commitment value of £328 million. Total drawn down by the portfolio during the year was £88m.

There was a clear emphasis on renewable energy infrastructure amongst the new investments which included specialist wind and solar UK funds and a generalist global renewables fund. This adds to the diversification already achieved through this portfolio into small company financing, direct lending, healthcare royalties and local property.

Each of the investments in the New Opportunities Portfolio is likely to have some positive impact beyond the financial returns which are its first priority. That impact may be local, economic, environmental or some combination of these or other factors which will give added value to the investment case. As part of the continuing review of investment strategy, the committee agreed to increase the capacity of the New Opportunities Portfolio from 3% to 5% of total Fund assets.

Our new investments represent a bottom-up approach to responsible investment. This complements our more established top-down approach of ensuring that environmental, social and governance issues are recognised and addressed. We have pursued this through our investment managers for many years. In the year just ended we reinforced this approach with the appointment of a specialist agency who will engage with companies and managers regarding these issues on our behalf. We have also been active ourselves on a number of fronts including direct engagement with FTSE 100 companies to support the Living Wage campaign.

Administration

Much of the focus of the last year has been on the introduction of the new career average version of the Local Government Pension Scheme – LGPS 2015. Although the scheme did not become effective until 1st April 2015, the implementation project demanded much time and resource from Strathclyde Pension Fund Office (SPFO) throughout the year and particularly in the last quarter. Time and resource well spent as all key aspects of the project – training, systems development and communications in particular – were successfully completed prior to the go-live date.

As with the “old” scheme, the efficient administration of LGPS 2015 will rely on employers and SPFO working effectively together in scheme members’ interests. In March the Committee agreed a revised administration strategy which sets out how this will be achieved. The new scheme regulations require each scheme manager to have a communications policy, and this also was agreed by the committee in March. The policy has a simple vision: that everyone with any interest in the Fund should have ready access to all the information they need. Key principles include clarity of message, purpose and impact. Various media will be used in implementation but the priority will be digital delivery.

The actuarial valuation confirmed that scheme membership, which had dropped sharply between 2008 and 2011, had started to increase again. This trend continued through the current year which saw employee membership increase from 87,431 to 90,057. Employee contributions increased from £110 million to £113 million. Total income from dealing with members increased from £485 million to £493 million.

Expenditure on members increased from £483 million to £512 million. The largest single factor in this was an annual pension increase of 2.7%. The payroll also grew through a net increase in pensioner membership from 70,482 to 71,605 over the course of the year.

Last year, total contributions received from members and employers marginally exceeded total pensions payments made. Net income from dealing with members was a little less than £2 million. That changed this year to a net expenditure figure of £19 million, and our forecasts are that this is the start of a long-term trend with pensions expenditure likely to continue to increase more quickly than contributions income. Our projections also anticipate that investment income - £201 million this year – will grow at least as quickly, providing ample cash-flow cover for benefits payments. Even more so if income generation is given greater priority within the investment strategy.

In summary, the year to 31st March 2015 was another successful one for the Fund both for the growth and progress achieved during the period itself and for the direction that has been set for the future.

No.3 Fund

The No.3 Fund grew from £155.6m to £186.9m over the year. Actuarial valuation as at 31st March 2014 confirmed a funding level of 95.9% on a gilts basis. The funding target is 100% on a cessation basis. On this measure funding improved over 2014/15 from 91% to 94%. The No.3 Fund has taken steps over recent years reduce risk. This will be useful in informing the risk-based strategy now being adopted for the main fund.

Councillor Paul Rooney

City Treasurer and
Convener, Strathclyde Pension Fund Committee
23 September 2015

Annemarie O'Donnell

Chief Executive,
Glasgow City Council

23 September 2015

Lynn Brown

Executive Director of
Financial Services
Glasgow City Council

23 September 2015

Statement of Responsibilities

The Council's Responsibilities

Glasgow City Council as the administering authority for the Strathclyde Pension Fund is required to:

- Make arrangements for the proper administration of Strathclyde Pension Fund's financial affairs and to secure that the proper officer of the authority has responsibility for the administration of those affairs. In relation to Strathclyde Pension Fund, that officer is the Executive Director of Financial Services.
- Manage the affairs of Strathclyde Pension Fund to secure the economic, efficient and effective use of resources and safeguard its assets.
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- Approve Strathclyde Pension Fund's Annual Accounts for signature.

I certify that the Annual Accounts have been approved for signature by Strathclyde Pension Fund Committee at its meeting on 23 September 2015.

Councillor Paul Rooney

City Treasurer and
Convener, Strathclyde Pension Fund Committee
23 September 2015

The Executive Director of Financial Services' Responsibilities

The Executive Director of Financial Services is responsible for the preparation of Strathclyde Pension Fund's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

In preparing the Annual Accounts, the Executive Director of Financial Services has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with legislation; and
- Complied with the local authority Accounting Code (in so far as it is compatible with legislation).

The Executive Director of Financial Services has also:

- Kept adequate accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the financial statements give a true and fair view of the financial position of the Strathclyde Pension Fund as at 31 March 2015 and the transactions of the Fund for the year then ended.

Lynn Brown MA (Hons) CPFA

Executive Director of Financial Services

23 September 2015

About The Fund

The Fund was established during 1974 by Strathclyde Regional Council and transferred to Glasgow City Council on 1st April 1996.

Glasgow City Council is the administering authority for the Strathclyde Pension Fund. The council carries out this role in accordance with the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.

The Fund is a pool into which employees' and employers' contributions and investment income are paid and from which pensions and other lump sum benefits are paid out to Local Government Pension Scheme members.

All pension contributions and benefits are paid in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008. These functions are carried out by the Strathclyde Pension Fund Office (SPFO), a division of the council's Financial Services department.

The Fund's investments are managed in accordance with the Local Government Pension Scheme (Scotland) (Management and Investment of Funds) Regulations 2010. Investments are mostly externally managed by investment managers appointed by the council and overseen by the investment team within SPFO.

The Scheme regulations are available on the Fund's website at www.spfo.org.uk

A summary of the benefits structure, and a break-down of membership across participating employers are included in the report on the 2014 actuarial valuation which is available at: <http://www.spfo.org.uk/index.aspx?articleid=9412>

Membership

Over the 12 months to 31 March 2015 the Fund's total membership grew from 204,844 to 210,877.

This includes:

- 90,057 employee members (87,197 in 2014)
- 49,215 deferred members (47,243 in 2014)
- 71,605 pensioners (70,404 in 2014).

Strathclyde Pension Fund Committee

Glasgow City Council is the administering authority for the Strathclyde Pension Fund. The council delegates this responsibility to the Strathclyde Pension Fund Committee.

The council and the committee recognise that they have fiduciary duties and responsibilities towards pension scheme members, participating employers and local taxpayers that are analogous to those holding the office of trustee in the private sector. The Committee is comprised of elected members of Glasgow City Council. Its membership as at 31st March 2015 is shown below.

Committee members may also be scheme members either under the provisions for Councillor members or as a result of previous service as employee members.

Current committee membership is displayed on our website at: www.spfo.org.uk



Cllr Paul Rooney
(Convener)



Bailie Philip Braat



Cllr Elizabeth Cameron



Cllr Stephen Curran



Cllr Norman MacLeod



Bailie Allan Stewart



Cllr Keiran Wild



Cllr Pauline McKeever

Training Policy and Practice

On 3rd March 2014 the Strathclyde Pension Fund Committee agreed to adopt the following Training Policy and Practice statements.

Policy Statement

- Glasgow City Council, as administering authority for the Strathclyde Pension Fund, recognises the importance of ensuring that all staff and members charged with financial administration and decision-making with regard to the Fund and the local government pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.
- The Council therefore seeks to utilise individuals who are both capable and experienced and will provide or arrange training for staff and members of the pensions decision-making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

- These policies and practices will be guided by reference to the comprehensive framework of knowledge and skills requirements as set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.
- The Council will report on an annual basis how these policies have been put into practice throughout the financial year.

The Council has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Executive Director of Financial Services, who will act in accordance with the Council's policy statement, and with *CIPFA Standards of Professional Practice* (where relevant).

Practice Statement

- Glasgow City Council, as administering authority for the Strathclyde Pension Fund, adopts the key recommendations of *the Code of Practice on Public Sector Pensions Finance Knowledge and Skills*.
- The Council recognises that effective financial administration and decision-making can only be achieved where those involved have the requisite knowledge and skills.
- Accordingly the Council will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.

Investment Managers

At 31st March 2015



OLDFIELD PARTNERS LLP

PANTHEON



PIMCO



VERITAS ASSET MANAGEMENT
REAL RETURN INVESTING

Other Service Providers



G·E·S



HYMANS ROBERTSON

On the pulse of
the property world



Northern Trust



The WM Company
A State Street business

Risk Register

A detailed Risk Register has been established and maintained for the Strathclyde Pension Fund.

The Risk Register is monitored on an ongoing basis by officers and by the Investment Advisory Panel.

The top risks, in terms of their residual ranking, are reported to the Strathclyde Pension Fund Committee each quarter for review. The top risks as at 31 March 2015 were as follows:

Risk ID	Description	Probability	Impact	Ranking	Previous Ranking
SPFO 01	Fund's investments fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term. Impact: long-term underfunding; potential increase in employer contribution rates.	3	4	12	12
SPFO 03	Fall in risk-free returns on Government bonds. Impact: rise in value of liabilities; long-term underfunding; potential increase in employer contribution rates	3	4	12	12
SPFO 05	Pay and price inflation significantly more or less than anticipated. Impact: increase in liabilities; increase in asset price volatility; potential underfunding; potential increase in employer contribution rates	4	3	12	12
SPFO 15	Failure of investment market(s). Impact: illiquidity or loss of investments.	3	4	12	12
SPFO 23	Pensions administration system failure. Impact: staff downtime, loss of service delivery, potential failure to pay pensions.	3	4	12	12
SPFO 31	Employers' failure to carry out statutory functions including submission of member data and contributions to SPFO. Impact: missing, incomplete and incorrect records on pensions administration system; undermines service delivery and causes difficulties in establishing correct benefits at individual level and liabilities at whole of Fund level.	4	3	12	12

Probability and impact are each scored out of 5, so a ranking of 12 after control actions represents a moderate risk in terms of the Council's overall risk matrix.

Representative Forum

The Strathclyde Pension Fund Representative Forum is a quarterly, formal meeting of designated representatives forming a broad cross-section of the Fund's stakeholders. Current membership is displayed on the SPFO website.

The Forum was established in 2005 to provide an interface between the Fund's stakeholders and the Strathclyde Pension Fund Committee.

It allows interested parties, on a representative basis, to contribute to decisions regarding the Fund and facilitates ongoing dialogue on the management of the Fund and pensions issues generally between all interested parties.

During 2014/15 the Forum's membership was as follows.

Cllr Paul Rooney, Glasgow City Council (Convener)	Sharon Dalli, Police Scotland
Cllr Philip Braat, Glasgow City Council (Vice-Convener)	Janet Thomson, Glasgow Clyde College
Stephen West, West Dunbartonshire Council	Fiona Saunders, University of Strathclyde
Cllr Ian McAlpine, East Renfrewshire Council	Martin Booth, Glasgow Life
Kate O'Hagan, South Ayrshire Council	Alison Dougall, South Lanarkshire Leisure & Culture
Jackie Taylor, South Lanarkshire Council	Connie Crawford, Richmond Fellowship
Cllr Bob Burrows, North Lanarkshire Council	Loretta Gaffney, Easterhouse Citizens Advice
Cllr Mike Holmes, Renfrewshire Council	Stewart Young, UCATT
Ian Black, East Dunbartonshire Council	Robert Gordon, UNITE
Martin Rose, East Ayrshire Council	Stephen Kelly, Unison Scotland
Angus Grosshart, North Ayrshire Council	Drew Kyle, Inverclyde Council
Cllr Duncan MacIntyre, Argyll & Bute Council	William Bremner, GMB Scotland
Alison Fettes, Scottish Water	Deirdre Forsyth, Pensioners Representative
Iain Shaw, Scottish Fire & Rescue	Gavin Scott, Deferred Pensioners Representative

In December 2014, the Strathclyde Pension Fund Committee agreed to the formation of a Pension Board effective from 1st April 2015 to comply with the Local Government Pension Scheme (Governance (Scotland) Regulations 2015). The functions of the Representative Forum are largely superseded by the role of the Board. The Representative Forum arrangement was, therefore, to be discontinued after 31st March 2015.

Funding Strategy Statement

As part of the 2014 actuarial valuation exercise, the Funding Strategy Statement was reviewed and the following revised statement was agreed in March 2015. The statement will be reviewed again during the 2017 actuarial valuation.

1. Introduction

Glasgow City Council is the administering authority for the Strathclyde Pension Fund. The Council delegates this responsibility to the Strathclyde Pension Fund Committee. The Council and the committee recognise that they have fiduciary duties and responsibilities towards pension scheme members, participating employers and local taxpayers that are analogous to those holding the office of trustee in the private sector. This statement sets out the approach to funding which the committee adopts in light of those duties.

Further background details are set out in Schedule 1 of this statement.

2. Purpose of the Funding Strategy Statement (FSS)

The stated purpose of the FSS is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

These objectives are desirable individually, but may be mutually conflicting. This statement sets out how the administering authority balances the conflicting aims of affordability and stability of contributions, transparency of processes, and prudence in the funding basis.

3. Aims and Purpose of the Pension Fund

The Fund is the vehicle for the delivery of scheme benefits.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income;
- invest monies in accordance with policy formulated by the administering authority; and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.

The aims of the Fund are to:

- ensure that sufficient resources are available to meet all liabilities as they fall due;
- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers and employers;
- manage employers' liabilities effectively; and
- maximise the returns from investments within reasonable risk parameters;

as defined in the Local Government Pension Scheme (Scotland) Regulations.

The objectives of the funding strategy are consistent with these aims. The objectives of the funding strategy are set out in Schedule 2 of this statement.

The aims of the pension fund can only be achieved if all parties involved in its operation exercise their statutory duties and responsibilities conscientiously and diligently.

4. Responsibilities of Key Parties

The Fund is a multi-employer arrangement with over 200 participating employers. The administering authority manages the Fund to deliver the scheme benefits and to ensure that each employer is responsible for its own liabilities within the Fund.

The responsibilities of the key parties involved in management of the Fund are set out in Schedule 3 to this statement.

5. Target Funding Level

The funding level is the amount of assets compared to liabilities expressed as a percentage.

- The target funding level is at least 100%.
- The target recovery period for any deficit is the weighted average working lifetime of the active membership.
- There are many inherent uncertainties in the funding process and a wide range of possible outcomes. It is acknowledged that the actual funding level will fluctuate as a result.
- The strategy, therefore, targets an acceptable likelihood of meeting the target funding level within the target recovery period.

Funding Strategy Statement (continued)

For the Fund as a whole and for ongoing employers the funding level will be measured on an ongoing actuarial basis, taking advance credit for investment returns above the risk-free rate.

For employers whose participation in the Fund is to cease the funding level will be measured on a more prudent cessation basis and contribution rates will be set accordingly.

The approach to funding strategy for individual employers, including the policies on admission and cessation, is set out in Schedule 4.

6. Contributions Strategy

The contributions strategy aims to ensure that the target funding level is achieved at both Fund and employer level in a manner which is fair and affordable for employers.

The Fund actuary will calculate a common employer contribution rate as required by the scheme regulations.

Individual adjustments will then be applied to each employer to reflect their particular circumstances including the strength of their covenant, and their individual membership experience within the Fund.

The Fund will adopt measures to stabilise the common contribution rate and will seek to limit changes to a maximum of +1% or -1% of pensionable pay each year.

For employers with a less secure covenant or where participation in the Fund may cease, rates and adjustments will be set to minimise risk to the Fund and its other employers.

The contributions strategy is set out in Schedule 5 to this statement.

7. Links to Investment Policy set out in the Statement of Investment Principles

The investment strategy is set for the long-term but is monitored constantly and reviewed every 3 years using asset-liability modelling to ensure that it remains appropriate to the Fund's liability profile.

The Fund initially applies a single investment strategy for all employers but may apply notional or actual variations after agreement with individual employers.

8. The Identification of Risks and Counter Measures

The Fund actively manages risk and maintains a detailed risk register which is reviewed on a quarterly basis.

The key financial, demographic, regulatory and governance risks are set out in Schedule 6 to this statement.

Schedules:

1. Background
2. Objectives of the Funding Strategy
3. Responsibility of Key Parties involved in management of the Fund
4. Funding Strategy for individual employers
5. Contributions Strategy
6. Key financial, demographic, regulatory and governance risks

The full statement including schedules is available from the publications area of the SPFO website at: www.spfo.org.uk

Actuarial Valuation as at 31st March 2014

Executive summary

We have carried out an actuarial valuation of the Strathclyde Pension Fund No 1 Fund ('the Fund') as at 31 March 2014. The results are presented in this report and are briefly summarised below.

What is the funding objective?

The Fund has an objective of having a combined investment and funding strategy that delivers at least a 2/3rds likelihood of achieving its funding target within the average future working lifetime of employee members (about 12 years). The funding target is defined as having sufficient assets to cover the value of the expected benefit payments to be made to members in future (the liabilities) as assessed on the assumptions set out in the Funding Strategy Statement.

Has the funding objective been met?

The table below summarises the Fund's progress in respect of meeting its funding objective as at 31 March 2014:

	31 March 2011 (£m)	31 March 2014 (£m)
Past Service Liabilities	11,642	14,788
Market Value of Assets	11,322	13,949
Surplus / (Deficit)	(320)	(839)
Funding Level	97.3%	94.3%

The increase in deficit reflects the adverse conditions which the Fund has had to contend with since the previous valuation. In particular, the decrease in real gilt yields has increased the value placed on the Fund's liabilities.

How will the funding objective be met in future?

The table below summarises the required contribution from the Fund's employers (e.g. the Common Contribution Rate) which would be sufficient to meet the funding objective going forward:

Contribution Rates	31 March 2011 (% of pay)	31 March 2014 (% of pay)
Common Contribution Rate	19.4%	19.3%

The Common Contribution Rate is a theoretical figure. In practice, each employer that participates in the Fund has its own underlying funding position and circumstances, giving rise to its own contribution rate requirement. The minimum contributions to be paid by each employer from 1 April 2015 to 31 March 2018 are shown in the Rates and Adjustment Certificate in **Appendix G**.

The combination of the Fund's long term investment strategy and an average employer contribution rate of 19.3% of pay being paid in future is sufficient to maintain at least a 2/3rds likelihood of the funding target being met within the future working lifetime of employee members.

Catherine McFadyen

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

31 March 2015

Steven Law

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

31 March 2015

Statement of Investment Principles

1. Introduction

Glasgow City Council is the administering authority for the Strathclyde Pension Fund. The Council delegates this responsibility to the Strathclyde Pension Fund Committee. The Council and the committee recognise that they have fiduciary duties and responsibilities towards pension scheme members, participating employers and local taxpayers that are analogous to those holding the office of trustee in the private sector. In carrying out those duties the committee adopts the following approach.

2. Regulations

Management of the Fund's investments is carried out in accordance with relevant governing legislation and regulations, in particular the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) regulations. Schedule 1 to this statement contains certain disclosures required by the regulations.

3. Key Principles

There have been a number of underlying investment principles which have guided the evolution of the Fund's structure. These principles will be as important in the future as they have been in the past. The key principles are as follows;

Long-term perspective – by the nature of its liabilities and sponsor covenants, the Fund is able to take a long-term view and position its investment strategy accordingly.

Diversification – the Fund seeks to diversify its investments in order to benefit from a variety of return patterns.

Efficiency – the Fund aims to achieve an efficient balance between investment risk and reward.

Competitive advantage – the Fund's size, time-perspective and risk appetite give it some competitive advantages which it seeks to exploit.

Pragmatism – the Fund recognises that there are implementation considerations including cost and manageability which may lead it to favour practical investment solutions over optimised model structures.

Stewardship – the Fund is a responsible investor and adopts policies and practices which acknowledge the importance of environmental, social and governance (ESG) issues.

4. Investment Objective

The Fund's investment objective is to support the funding strategy by adopting an investment strategy and structure which incorporate an appropriate balance between risk and return.

5. Investment Strategy

The Fund's investment strategy broadly defines the types of investment to be held and the balance between different types of investment. The strategy reflects the Fund's key investment principles, is agreed by the committee and reviewed regularly. The investment strategy is consistent with the Funding Strategy.

6. Investment Structure

The committee agrees an investment structure to deliver the investment strategy. The current investment objective, strategy and structure are set out in Schedule 2 to this statement.

7. Roles and Responsibilities

The roles and responsibilities of the main parties involved in management of the Fund are set out in Schedule 3 to this statement.

8. Risk

In line with its investment objective the Fund takes investment risk including equity risk and active management risk. It is understood and acknowledged that this leads to significant volatility of returns and an ultimate risk that its objectives will not be met. The Fund pursues a policy of lowering risk through diversification of investments by asset class, manager and geography. Risk is also controlled by setting appropriate benchmarks and investment guidelines and maintaining a robust investment monitoring regime. The Fund employs a global custodian to ensure safekeeping and efficient servicing of its assets.

9. Liquidity and Cash Flow

The majority of the Fund's investments are traded on major stock markets and could be realised quickly if required. There is also significant investment in illiquid assets, in particular property and private equity which provide diversification and a return premium respectively. The Fund monitors cash flow to ensure there is sufficient investment income to meet immediate pensions payments.

10. Responsible Investment

The Fund is a signatory to the United Nations Principles for Responsible Investment and has adopted the principles as its responsible investment policy. The principles are set out in full in Schedule 4.

11. Exercise of Rights

The Fund ensures that the votes attaching to its holdings in all quoted companies, both in the UK and Overseas, are exercised whenever practical. The Fund's voting policy is exercised by its Investment Managers in accordance with their

Statement of Investment Principles (continued)

own corporate governance policies, and taking account of current best practice including the UK Corporate Governance and Stewardship Codes.

12. Additional Voluntary Contributions (AVCs)

The Fund provides an in-house AVC arrangement. Further details, including investment choices available to scheme members are set out in Schedule 5.

13. CIPFA/Myners Principles

The Fund is compliant with each of the six Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2009 published by CIPFA and based on the updated Myners

principles. Further details are set out in Schedule 6.

14. Stock Lending

The Fund participates in a securities lending programme managed by its global custodian. All stock on loan is fully collateralised with a margin above daily mark-to-market value. The programme is also indemnified by the custodian and provides a low-risk source of added value.

The full Statement of Investment Principles including Schedules is available from the Fund's website at www.spfo.org.uk

Investment Advisory Panel

The role of the Investment Advisory Panel is to provide advice to the Strathclyde Pension Fund Committee and to assist the committee in the discharge of its responsibilities. The committee delegates much of the investment monitoring function to the panel.

As a key element of its governance arrangements, the Strathclyde Pension Fund maintains an Investment Advisory Panel (IAP). The role of the IAP is to provide support and advice to the Strathclyde Pension Fund Committee and to carry out certain functions on behalf of the Committee.

Panel membership during 2014/15 was:

Lynn Brown	Executive Director of Financial Services, Glasgow City Council
Richard McIndoe	Head of Pensions, Strathclyde Pension Fund
Jacqueline Gillies	Chief Pensions Officer (Investments), Strathclyde Pension Fund
Richard Keery	Investment Manager, Strathclyde Pension Fund
Professor Geoffrey Wood	Investment Adviser
Eric Lambert	Investment Adviser
Iain Beattie	Investment Adviser
David Walker	Investment Consultant, Hymans Robertson
Ronnie Bowie	Senior Partner, Hymans Robertson
Andy Green	Partner, Hymans Robertson

The functions of the IAP include:

- developing investment strategy
- monitoring investment performance
- assisting in the selection and appointment of investment managers
- setting and reviewing detailed investment mandate terms and guidelines
- implementation of the passive rebalancing strategy
- monitoring cash flows
- implementation of the private equity programme.

Investment Strategy

The Fund's investment strategy broadly defines the types of investment to be held and the balance between different types of investment.

The Fund's investment objective is to support the funding strategy by adopting an investment strategy and structure which incorporate an appropriate balance between risk and return. In March 2015, the Strathclyde Pension Fund Committee agreed that the current objectives of the strategy should be to achieve:

- a greater than 2/3 probability of being funded by 2026 and
- a less than 10% probability of falling below 70% funded over the next three years

The Fund's investment strategy broadly defines the types of investment to be held and the balance between different types of investment. The strategy reflects the Fund's key investment principles, is agreed by the committee and reviewed regularly. The investment strategy is consistent with the Funding Strategy.

The Strathclyde Pension Fund Committee agrees an investment structure to deliver the investment strategy.

Details of the current investment objective, strategy and structure are set out in Schedule 2 to the Statement of Investment Principles which is available on the Fund's website.

Asset Structure 2014/15

Asset Class	Distribution As at 1 April 2014		Distribution As at 31 March 2015	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
Equity	75.6	72.5	74.6	72.5
Bonds	12.8	15.0	12.2	15.0
Property	9.0	12.5	10.7	12.5
Cash	2.6	0.0	2.5	0.0
TOTAL	100.0	100.0	100.0	100.0

Changes in the actual allocation over the year largely reflect equity and bond market movements and asset purchases within the property portfolio. The Fund continued to be overweight in equities but underweight in bonds and property. Cash balances include managers' working capital and balances held to fund private equity drawdowns and property purchases.

The Fund's established practice is to complete a review of its investment strategy and structure subsequent to completion of each triennial actuarial valuation. In March 2015, the Strathclyde Pension Fund Committee agreed a risk-based asset framework to be adopted as the basis for modeling and agreeing investment strategy. The framework includes the following asset categories and objectives.

Asset Category	Main Objectives
Equity	To generate return.
Hedging/Insurance	To reduce the exposure of the funding level to variations in interest rates and inflation.
Credit	To ensure additional yield, provide income and reduce funding volatility.
Short Term Enhanced Yield	To provide an income stream above the expected return on investment grade corporate bonds
Long Term Enhanced Yield	To provide a long-term income stream and a degree of inflation protection.

Detailed implementation proposals for a more diversified strategy will be developed for consideration by the Committee.

Investment Performance

Summary

Markets rose during 2014/15 and in the US and UK, equity markets hit all-time highs. Mixed economic data, a sharp decline in oil price and Central Bank interventions led to an increase in the volatility of security prices throughout the year, but overall:

- all major equity markets did well, led by the US, Japan and Emerging Markets.
- Government, index linked and corporate bond markets gained considerably.
- Sterling depreciated against the US dollar but gained against the Euro and the Japanese yen.
- The UK commercial property market continued a strong run, although by the start of 2015 the rate of growth had started to slow.

Against this backdrop:

- the **Strathclyde Pension Fund** produced a total return of **+13.4%** for 2014/15
- the Fund's **benchmark** returned **+13.0%**
- the **average UK pension fund**, as measured by the WM All Funds Universe, returned **+15.3 %**
- the **average local authority pension fund**, as measured by the WM Local Authority Universe, returned **+13.2%** for the year.

10 Year Performance

Year to end	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	3 Year % p.a.	5 Year % p.a.	10 Year % p.a.
Retail Prices	2.4	4.8	3.8	-0.4	4.4	5.3	3.6	3.3	2.5	0.9	2.2	3.1	3.0
Consumer Prices	1.9	2.9	2.4	3.0	3.2	4.2	3.5	2.8	1.7	0.2	1.5	2.4	2.6
Average Earnings	5.2	5.0	3.8	-2.1	6.7	2.0	1.2	-0.3	1.7	3.3	1.5	1.7	2.6
Fund Return	27.2	7.4	-2.9	-20.8	36.9	7.7	1.1	14.4	7.0	13.4	11.6	8.6	8.1
Benchmark	26.6	8.1	-3.9	-21.0	41.1	8.6	1.8	13.3	7.1	13.0	11.1	8.6	8.3
WM Average	24.2	7.0	-1.0	-18.1	30.3	8.1	6.2	13.1	4.4	15.3	10.9	9.3	8.2

Performance measurement

All performance figures are independently verified.

In 2003 the Fund appointed Northern Trust as the provider of independent investment performance measurement.

Previously (since 1976) the WM Company had held this appointment.

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 across the UK pension fund market.

Detailed quarterly and annual investment reports are available from the Fund's website.

Performance commentary

Returns for 2014/2015 and for all longer time periods are well ahead of all inflation measures and of actuarial expectations.

Over 3 years the Fund is ahead of its benchmark, but over 5 and 10 years the Fund return has been behind benchmark and the WM All Funds Universe. Poor performance by the property portfolio and the unconstrained equity strategy have detracted most from returns over the longer term.

Performance by asset class

The Fund's performance during scheme year 2014/15 by asset class is summarised in the table below.

Investment Performance (continued)

Annual Returns 2014/15

Asset Class	Fund Return (%)	Benchmark Return (%)	Relative Return (%)
Equity			
UK	4.2	6.6	-2.4
North America	23.7	25.1	-1.4
Europe	8.6	7.7	0.9
Japan	31.0	27.1	3.9
Pacific	18.6	10.6	8.0
Emerging Markets	11.6	14.2	-2.6
RAFI Global All World 3000	14.7	14.7	0.0
RAFI Emerging Markets	7.6	8.0	-0.4
UK Corporate Bonds	13.1	13.1	0.0
UK Gilts	13.9	13.9	0.0
UK Index Linked Gilts	21.1	21.1	0.0
Fixed Income - Absolute Return	3.3	0.6	2.7
Private Equity	14.8	6.6	8.2
Property	17.9	18.1	-0.2
Total Fund	13.4	13.0	0.4

Largest Holdings

The 20 largest equity and indirect holdings as at 31st March 2015 are shown in the tables below.

Top Twenty Equity Holdings

No.	Stock	£m	% of Fund
1	Samsung Electronics	79.9	0.5
2	Microsoft Corp	77.8	0.5
3	Apple Inc	65.4	0.4
4	Naspers	61.9	0.4
5	Taiwan Semiconductor	57.0	0.4
6	Rio Tinto	54.8	0.3
7	Hong Kong Exchanges	54.8	0.3
8	Nestle	53.8	0.3
9	Prudential	52.6	0.3
10	Capita plc	50.8	0.3
11	Svenska Handelsbkn	46.5	0.3
12	Oracle Corp	44.4	0.3
13	Comcast Corp	43.3	0.3
14	Atlas Copco	43.2	0.3
15	Citigroup	41.2	0.3
16	Fairfax Financial Holdings	40.1	0.3
17	Ryanair	39.6	0.3
18	Arm Holdings	38.5	0.2
19	Rakuten	37.7	0.2
20	Mitsubishi UFJ	36.2	0.2
	Total	1,019.4	6.5

Top Twenty Indirect Holdings

No.	Stock	£m	% of Fund
1	L&G UK Equity Index Fund	2,159.8	13.7
2	Pimco Absolute Return Fund	1,036.5	6.6
3	L&G FTSE RAFI Global Fund	658.2	4.2
4	L&G Corporate Bond Fund	576.7	3.7
5	L&G North America Equity Index	472.1	3.0
6	L&G Europe Equity Index Fund	376.2	2.4
7	L&G Index Linked >5 year Fund	213.7	1.4
8	L&G Japan Equity Index Fund	204.8	1.3
9	Genesis Emerging Mkts Co	202.0	1.3
10	Genesis Emerging Mkts Unit Trust	157.3	1.0
11	L&G FTSE RAFI Emerging Mkts	154.8	1.0
12	L&G Asia Pac ex Jap Index Fund	120.3	0.8
13	Partners Global Real Estate 2011	117.0	0.7
14	L&G All Stocks Gilt Index Fund	97.0	0.6
15	Pantheon USA VII	90.2	0.6
16	Pantheon USA VIII	90.0	0.6
17	Partners Direct Real Estate 2011	77.3	0.5
18	Pantheon USA Fund VI	77.0	0.5
19	Pantheon Europe Fund VI	59.9	0.4
20	Pantheon Europe Fund V	57.9	0.4
	Total	6,998.7	44.5

Policy

The Fund is a signatory to the United Nations Principles for Responsible Investment and has adopted the principles as its responsible investment policy.

The text of the principles is as follows.

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:

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

Activity

Responsible Investment activity is carried out by each of the Fund's investment managers. In addition, in 2012 the Fund appointed Global Engagement Services (GES) as its specialist responsible investment engagement overlay provider. After a review and tendering exercise in 2014 GES were again appointed. The Fund also carries out some direct engagement activity on its own behalf.

Reporting

Each manager must report to the Fund every quarter on proxy voting activity and company engagements undertaken. A responsible investment report combining this with GES and Fund activity is considered by the Strathclyde Pension Fund Committee every quarter. Reports can be viewed on the Fund's website at www.spfo.org.uk

The following list is a selection of the engagement topics reported over the year:

- UK Corporate Governance Code
- Slave labour
- Protection of endangered species
- Human rights
- Inhumane weapons
- Fossil fuel to renewables
- Tax transparency
- Oil and gas exploration and extraction in the Arctic
- EU Shareholder Rights Directive
- Japanese stewardship code
- Fire & building safety in Bangladesh garment industry
- Safety initiatives in the Oil & Gas industry
- Executive remuneration
- Supply chain scrutiny in the garment industry
- Labour standards in the Phillippines
- Business conduct in Burma
- Mine safety
- Climate change
- Welfare and sustainability in the cocoa industry
- The Living Wage
- Oil and gas exploration in Western Sahara
- Shareholders rights in France
- Child labour.

Voting Results 2014/15 United Kingdom

	No of meetings	No. of AGM's	No. of EGM's	No of Resolutions	Votes For	Votes Against	Abstentions	Not Voted*	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	19	19	0	378	363	15	0	0	19	0
Genesis	0	0	0	0	0	0	0	0	0	0
Henderson	145	142	3	1386	1,357	23	6	0	145	0
JP Morgan	2	2	0	6	6	0	0	0	2	0
Lazard	3	3	0	88	84	4	0	0	3	0
Legal & General	792	628	164	11,029	10,750	278	1	0	792	0
Oldfield Partners	2	2	0	48	48	0	0	0	2	0
Veritas	5	5	0	91	90	1	0	0	5	0
Total	968	801	167	13,026	12,698	321	7	0	968	0
% of Total					98%	2%	0%	0%	100%	0%

* Items showing as Not Voted when the proxy has been lodged are agenda items classed as non-voting.

The expected norm would be for an investment manager, having invested in a company, to support that company's management in all but exceptional cases. The table below shows how votes were actually cast. Votes against management and abstentions are analysed in more detail in the voting record schedule which is available on the Fund's website at www.spfo.org.uk

Voting Results 2014/15 - Overseas

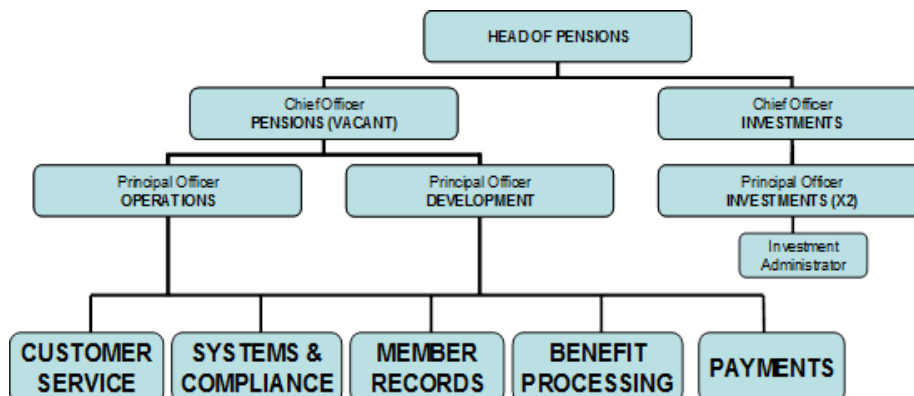
	No of meetings	No. of AGM's	No. of EGM's	No of Resolutions	Votes For	Votes Against	Abstentions	Not Voted*	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	58	53	5	732	657	28	18	29	55	3
Genesis	178	118	60	1,756	1,536	147	48	25	177	1
Henderson	26	24	2	206	195	5	6	0	26	0
JP Morgan	407	362	45	3,697	3,179	444	62	12	402	5
Lazard	92	82	10	1,238	1,137	78	9	14	91	1
Legal & General	2,895	2,307	588	31,103	26,547	4,517	39	0	2,895	0
Legal & General - Segregated	88	82	6	1,134	1,049	45	22	18	87	1
Oldfield Partners	13	12	1	276	248	26	1	1	13	0
Veritas	109	64	45	374	315	28	0	31	109	0
Total	3,866	3,104	762	40,516	34,863	5,318	205	130	3,855	11
% of Total					86%	13%	1%	0%	100%	0%

Administration

Strathclyde Pension Fund Office (SPFO) Staffing Structure

Total staff in post at 31 March 2015 was 81 (FTE 79.2) including 7 commonwealth apprentices.

The staffing structure model is shown below.



Administration performance

A detailed administration performance report is presented quarterly to the Strathclyde Pension fund Committee and is published on the SPFO website.

Target measures for a range of core processes representative of SPFO's service delivery to its members are agreed in the annual Business Plan. The table below shows the targeted and actual performance for 2014/15 together with previous year comparators.

SPFO Turnaround Performance 1st April 2014 to 31st March 2015

Actual										
Processes	Volumes	20 days	15 days	12 days	10 Days	7 days	5 days	3 Days	Target %	Previous Year on Target
1. Data Changes										
Data Changes Admin	12,843				99.40%	98.61%			95.00%	93.48%
2. Deferred Benefits										
Deferred Calcs	2,175					100.00%	98.52%	97.51%	90.00%	98.78%
3. Retiral										
Provisionals	2,447	76.62%	66.61%	58.03%					80.00%	23.48%
Actual	2,191	82.88%	76.03%	70.74%	65.90%				80.00%	37.43%
4. Early leaver Options										
Benefit Options Calcs	2,720		99.33%	99.15%	98.82%	98.19%			90.00%	99.08%
Refunds	2,053		98.22%	97.26%	95.46%	92.69%			90.00%	94.08%
5. Transfers In										
Quotations	121	99.17%	99.17%	99.17%	96.69%				85.00%	N/A
Actuals	113	100.00%	100.00%	100.00%	100.00%	99.11%			85.00%	88.49%
6. Transfers Out										
Quotations	885	100.00%	100.00%	99.43%					90.00%	N/A
Club Transfers	65	100.00%	100.00%	98.46%					90.00%	84.84%
Non Club Transfers	219	98.17%	95.89%	93.15%					90.00%	87.13%

Over 2014/15, target was achieved in 9 out of 11 categories. Performance for retirals – both actual and provisional – was behind target throughout the year, though significant improvement was made from the previous year.

Administration (continued)

Customer Satisfaction

In 2007, SPFO introduced a rolling customer survey. Scheme members receive a one-page questionnaire when each significant transaction is processed. This provides regular data on members' satisfaction with the quality of service provided.

Our rolling customer surveys reassure us that we are getting things right and providing high levels of customer satisfaction. We also use comments received in survey responses to target future development of our service. Our results for the year to 31 March 2015 are as follows.

	New Starts	Refunds	Deferreds	Retirals
Forms issued	4,892	2,053	2,175	2,191
Responses	30	905	52	855
Response rate (%)	0.6	44.1	2.4	39.0
“Satisfaction Rating” (%)	75.3	81.3	73.7	88.06
Target Performance (%)	80.0	80.0	80.0	90.0
<i>2013/14 Performance (%)</i>	<i>77.8</i>	<i>83.7</i>	<i>81.3</i>	<i>89.0</i>
<i>2012/13 Performance (%)</i>	<i>81.3</i>	<i>81.0</i>	<i>82.3</i>	<i>90.8</i>

Customer satisfaction remains good. Figures for changes and retirals were behind target, but due to the low response rate this might not be properly representative of customer experience. Retirals results were a little below target, refunds a little ahead.

Pension Administration strategy

SPFO introduced its first pension administration strategy in March 2010. The committee agreed an amended strategy in March 2015.

Strategy objectives

The strategy aims to ensure that:

- a high quality pension service is delivered to all scheme members;
- pension benefits are paid accurately and on time;
- successful partnership working develops between SPFO and its employers;
- performance standards are understood, achieved and reported; and
- performance and service delivery comply with the Local Government Pension Scheme (LGPS) regulations, other related legislation and The Pensions Regulator's Codes of Practice.

Roles and Responsibilities

The strategy sets out the roles and responsibilities of both SPFO and scheme employers.

Performance and Service Standards

Service standards and Key Performance Indicators (KPIs) for SPFO are set each year in a business plan which is approved by Strathclyde Pension Fund Committee. The Pensions Administration Strategy sets out the performance and service standards required from employers.

Monitoring and Reporting

Performance against Key Performance Indicators is reported to the Committee on a quarterly basis and published on the SPFO website. Employers' performance during the year to 31st March 2015 is set out below.

Administration strategy (continued)

Contact with SPFO

Employers are required to provide at least one named contact to act as liaison with SPFO. As at 31st March 2015, the position was as follows.

	No. of Employers	%	2013/14 %
Named contact provided to SPFO	202	100	100
Named contact NOT provided to SPFO	0	0	0

Policy Statements

Regulation 61 requires all employers to formulate and publish their policy on the exercise of their discretions and to provide a copy to SPFO. As at 31st March 2015, the position was as follows.

	No. of Employers	%	2013/14 %
Policy Statement received by SPFO	179	88.6	91.2
Policy Statement NOT received by SPFO	23	11.4	8.8

Compliance Certificates

The compliance certificate is a statement by the employer verifying that it has complied with a range of SPFO and regulatory requirements in relation to pensions administration. It is a requirement under the pension administration strategy and an audit requirement that employing authorities complete and forward to SPFO their compliance certificate duly signed by their chief finance officer or equivalent together with their year-end return.

As at 31st March 2015, the position was as follows.

	No. of Employers	%	2013/14 %
Compliance Certificate received by SPFO	137	67.8	80.4
Compliance Certificate NOT received by SPFO	65	32.2	19.5

SPFO will continue to pursue employers who have not yet returned a compliance certificate.

Supply of data: local authorities

New Start and membership changes information passed by local authorities to SPFO must be supplied electronically. All information must be validated by the employer prior to submission. As at 31st March 2015, the position was as follows.

	No. of Local Authority Employers	%	2013/14 %
Electronic data received by SPFO	12	100	100
Electronic data NOT received by SPFO	0	0	0

Supply of data: other employers

Other Employers have also been asked to submit new start and membership changes information electronically since 2011.

As at 31st March 2015, the overall position was as follows.

	No. of Employers	%	2013/14 %
Electronic data received by SPFO	37	18.3	20.0
Electronic data NOT received by SPFO	165	81.7	80.0

Administration (continued)

New start information

New Start information must be submitted monthly by employers to SPFO for each new scheme member and for each separate employment where the member has multiple concurrent employments.

For 2014/15, the performance of local authority employers was as follows.

Authority	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Argyll & Bute	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
East Ayrshire	Y	N	N	Y	Y	N	N	Y	Y	N	N	N
East Dunbartonshire	N	N	N	N	Y	N	Y	Y	N	N	Y	N
East Renfrewshire	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
GCC	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Inverclyde	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
North Ayrshire	N	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
North Lanarkshire	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Police Service Scotland	N	N	Y	Y	N	Y	Y	Y	N	N	N	Y
Renfrewshire	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
South Ayrshire	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
South Lanarkshire	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Scottish Fire and Rescue Service	N	N	N	N	N	N	Y	N	N	N	N	N
West Dunbartonshire	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

Key

Y	Good quality data has been received by SPFO
N	No data was received

Data deemed to be of high quality has increased significantly this year from 48% (2013/14) to 77% (2014/15).

Administration (continued)

Notification of Changes

SPFO must receive prompt notification from employers of changes to members' terms of employment which impact on their scheme membership, such as changes to hours worked and notification of breaks in service. Notification of these changes is critical to ensure SPFO received data as follows during 2014/15.

Authority	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Hrs, Addr & name changes ==>												
Argyll & Bute	YYY	Y--	Y--	--Y	Y--	Y--	Y--	YY-	YYY	YYY	YYY	YYY
East Ayrshire	NNN	NNN	NNN	NNN	YYY	YYY	NNN	YYY	YYY	NNN	YYY	NNN
East Dunbartonshire	NNN	NNN	NNN	NNN	YYY	YYY	NNN	YYY	NNN	NNN	Y-Y	NNN
East Renfrewshire	YY-	YYY	YYY	NNN	YYY	YY-	YYY	YY-	YYY	YYY	YYY	YYY
GCC	YNN	YYN	YNN	YNN	YNN	YNN	YNN	YNN	YNN	YNN	YNN	YNN
Inverclyde	Y-Y	YYY	YYY	YYY	YYY	Y-Y	Y-Y	Y-Y	YYY	YYY	YYY	YYY
North Ayrshire	NYN	YNN	YYY	YNN	YYY	YYY	YYY	YYY	YYY	YYY	YYY	YYY
North Lanarkshire	YYN	YYN	YYN	YYY	YYN	YNN	YYY	YYY	YYY	YYY	YYY	YYY
Police Scotland	NNN	NNN	NNN	NNN	NNN	NNN	NNN	NNN	NNN	NNN	NNN	NNN
Renfrewshire	YYY	YYY	YYY	YYY	YYY	YYY	YYY	YYY	YYY	YYY	YYY	YYY
South Ayrshire	YYY	YYY	YNN	NYN	YYY	YYY	YYY	YNN	NNN	YNN	YNN	NYN
South Lanarkshire	YYY	YYY	YNY	YYY	YYY	YYY	YYY	YYY	YYY	YYY	YYY	YYY
Scottish Fire and Rescue	NNN	NNN	NNN	NNN	NNN	NYN	NNN	NNN	NNN	NNN	NNN	NNN
West Dunbartonshire	NNN	YYY	YYY	YYY	YYY	YYY	YYY	YYY	YYY	YYY	YYY	YYY

Key

YYY

Electronic data received for Hours, Address and Name Changes

--

Nil return received

NNN

Electronic data not received

Flow of this data from employers has improved this year.

Starters and early leavers - exception rate

The pension administration strategy requires employers to forward scheme new start forms to SPFO within one month of a member's date of joining. Similarly, for early leavers from the scheme, employers must send the early leaver form either electronically or hard copy to SPFO within one month of the member's date of leaving the scheme. An analysis of exceptions, where SPFO has not been notified of starters or leavers, is included in the quarterly administration report to committee.

As at 31st March 2015, the summary position was as follows.

	Members	%	2013/14 %
Record Status OK	90,054	98.05	98.72
Missing new start details	1,001	1.09	0.73
Missing leaver details	792	0.86	0.55

The aggregate prior and current year exception rate of 1.99% achieves the year-end target of <2.0%.

Administration (continued)

Prior notice of member retirement

The pension administration strategy requires that employers forward actual retirement forms to SPFO between two and three months prior to the member's agreed retirement date. SPFO must receive this prior notice to enable the member to make informed choices on the retirement benefit package that best suits their long term financial needs, and to ensure that the correct benefits are paid.

For the period 1st April 2014 to 31st March 2015, the summary position was as follows.

	No.	%	2013/14
Total retirements notified	2,104		2,016
>2 months notice received	771	36.64	40.0%
<2 months notice received	1,333	63.36	60.0%

There has been a slight slippage in retirements being received within the required timescales.

Submission of year-end contribution returns

By 20th May each year employers must provide SPFO with year-end contribution information to 31st March of that year. Information must be compliant with SPFO's specification. Each return must be accompanied by the completed SPFO compliance certificate duly signed by the chief finance officer or equivalent. Year-end data that does not comply with the approved format or specification is returned to the employer to be corrected and re-submitted.

For 2014/15 (submissions relating to 2013/14) performance was as follows.

	No.	%	2013/14
Total employer returns	218		236
Received by 20th May	200	91.7	79.2%
Not received by 20th May	18	8.3	20.8%

Significant improvement was achieved this year.

Remittance of employee and employer contributions to SPFO

Employee and employer contributions must be paid to SPFO monthly by BACS or exceptionally by cheque. Under the Pensions Act 1995, all contributions (but not additional voluntary contributions) should be credited to SPFO by 19th of the month following that in which they were deducted. These timescales are replicated in the pensions administration strategy.

2014/15 performance of local authority employers was as follows.

Employing Authority	Payments on time
Argyll & Bute Council	12/12
East Ayrshire Council	11/12
North Ayrshire Council	12/12
South Ayrshire Council	12/12
West Dunbartonshire Council	12/12
East Dunbartonshire Council	12/12
Glasgow City Council	12/12
North Lanarkshire Council	12/12
South Lanarkshire Council	12/12
East Renfrewshire Council	11/12
Renfrewshire Council	11/12
Inverclyde Council	12/12
Scottish Water	12/12
Police Service Scotland	12/12
Scottish Fire & Rescue	13/13

Incidence of late payment is slightly higher for other employers but not significantly so. SPFO only rarely requires to issue reminder letters to employers for late payment.

Remittance of additional voluntary contributions (AVCs) to Prudential

Employers are required to pay members' AVC contributions direct to the Fund's AVC provider, Prudential, by 19th of the month following that in which they were deducted.

10 instances where employers have not remitted members' AVC contributions within these timescales have been reported by Prudential to SPFO. This is a similar figure to last year.

Fund No.1

2013/14 Restated £000	STRATHCLYDE PENSION FUND NO. 1 Fund Account	Note	£000	2014/15 £000
	Dealings with Members, Employers and Others Directly Involved in the Scheme			
	Contributions Receivable			
	From Employers			
(340,975)	Normal	12	(350,997)	
<u>(27,275)</u>	Augmentation	<u>12</u>	<u>(22,132)</u>	
(368,250)				(373,129)
	From Members			
(110,282)	Normal	12		(113,041)
	Transfers In			
(5,839)	Individual Transfers in from Other Schemes		(5,866)	
<u>0</u>	Group Transfers in from Other Schemes		<u>0</u>	
(5,839)				(5,866)
	Other Income			
(692)	Other Income			(841)
	Benefits Payable			
371,118	Pensions	12	388,953	
83,820	Commutation of Pension and Lump Sum Retirement Benefits	12	83,915	
<u>11,972</u>	Lump Sum Death Benefits	<u>12</u>	<u>14,930</u>	
466,910				487,798
	Payments To and On Account of Leavers			
733	Refunds of Contributions		1,262	
439	State Scheme Premiums		719	
0	Group Transfers out to Other Schemes		0	
<u>15,263</u>	Individual Transfers out to Other Schemes		22,410	
16,435				24,391
(1,718)	Net (Addition) / Reduction from Dealings with Members			19,312
108,253	Management Expenses	13		130,425
	Return on Investments			
	Investment Income			
(7)	Interest from Fixed Interest Securities		0	
(112,557)	Dividends from Equities		(112,484)	
0	Income from Index Linked Securities		0	
(3,132)	Income from Pooled Investment Vehicles		0	
(56,148)	Gross Rents from Properties	15	(65,416)	
(2,312)	Interest on Cash Deposits		(2,384)	
(20,101)	Income from private equity/infrastructure and other		(20,773)	
(194,257)				(201,057)
(793,949)	Change in Market Value of Investments			(1,763,085)
2,937	Taxation			1,084
(985,269)	Net Returns on Investments			(1,963,058)
(878,734)	Net (Increase) / Decrease in the Fund during the Year			(1,813,321)
(13,066,241)	Add : Opening Net Assets of the Scheme			(13,944,975)
(13,944,975)	Closing Net Assets of the Scheme			(15,758,296)

STRATHCLYDE PENSION FUND ANNUAL REPORT AND FINANCIAL STATEMENTS
For the year ended 31 March 2015

Fund No.1

2013/14 Restated £000	STRATHCLYDE PENSION FUND NO. 1 Net Assets Statement as at 31 March 2015	Note	£000	2014/15 £000
INVESTMENT ASSETS				
5,065,466	Equities (including convertible shares)	8,11	5,836,266	
53	Index Linked Securities	8,11	41	
5,901,604	Pooled Investment Vehicles	8,11	6,417,504	
1,374,670	Private Equity / Infrastructure	8,11	1,546,669	
6,688	Derivative Contracts	8,11	10,901	
1,020,995	Property	8,11	1,379,200	
482,839	Cash Deposits	8,11	539,680	
<u>36,924</u>	Other Investment Balances	8,11	<u>33,621</u>	
13,889,239				15,763,882
INVESTMENT LIABILITIES				
(1,585)	Derivative Contracts	8,11	(7,356)	
<u>(30,946)</u>	Creditors	8,11	<u>(34,509)</u>	
(32,531)				(41,865)
CURRENT ASSETS				
29,643	Contributions due from Employers		33,524	
12,942	Strain on the Fund Debtors		681	
72,752	Cash Balances		40,110	
<u>10,725</u>	Other Current Assets		<u>8,374</u>	
126,062				82,689
CURRENT LIABILITIES				
(17,052)	Unpaid Benefits		(23,752)	
<u>(20,743)</u>	Other Current Liabilities		<u>(22,658)</u>	
(37,795)				(46,410)
13,944,975	Net Assets			15,758,296

The unaudited accounts were issued on 25 June 2015
and the audited accounts were authorised for publication on
23 September 2015

Lynn Brown MA (Hons) CPFA
Executive Director of Financial Services
23 September 2015

2. Basis of Preparation

The Financial Statements have been prepared in accordance with the guidelines set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The Financial Statements summarise the transactions of the Fund during the year and the net assets at the year end. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 7 of these accounts.

The Fund's Financial Statements are generally prepared on an accruals basis. The net assets statement does not include liabilities to pay pensions and benefits after the end of the Fund year and the accruals concept is applied accordingly. Receipts and payments in respect of the transfer of benefits to and from other schemes are treated on a cash basis.

3. Summary of Significant Accounting Policies

Fund Account

• Contributions Income

Normal contributions, both from members and employers, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate. Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amounts in respect of strain on the fund due in a year but unpaid will be classed as a current financial asset. Employers' augmentation contributions are accounted for on a cash basis.

• Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out

are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In. Group transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

• Investment Income

Interest income is recognised in the Fund accounts as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis. Dividend income is recognised on the date the shares are quoted ex-dividend. Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period in relation to dividend income or distributions from pooled funds are disclosed in the net assets statement as a current financial asset. Property income consists primarily of rental income. Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

• Benefits payable

Pension and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

• Taxation

The Fund is a registered public service scheme under section 1 (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Management expenses include the following:

• Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff and accommodation costs of the pensions administration team are charged direct to the Fund. Management and other overheads are apportioned to the Fund in accordance with council policy.

• Oversight and governance costs

All oversight and governance costs are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management and other overheads are apportioned to this activity and charged as expenses to the Fund.

• Investment management expenses

All investment management expenses are accounted for on an accruals basis. External investment manager fees are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments changes. In instances where an investment manager's fee note has not been received by the balance sheet date, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the fund account. In cases where charges relate to an investment fund as a whole an estimate needs to be made of the costs applicable to the Pension Fund's holding. In 2014/15 £10.472 million of fees is based on such estimates (2013/14 £2.670 million). The cost of obtaining investment advice from external consultants is included in investment management charges. The cost of the Fund's management team are charged direct to the Fund and a proportion of the council's costs representing management time spent by officers on investment management is also charged to the Fund.

Net Assets Statement

• Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the

date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising in the fair value of an asset are recognised by the Fund. Strain on the fund debtors have changed during 2014/15 from annual billing in October each year to pay as you go and this is the main reason for the reduction in this debtor value between years.

• Valuation of Investments

Quoted investments are valued at closing prices. These prices may be the last trade prices or bid prices depending on the convention of the stock exchange or other market on which they are quoted. Overseas investments and cash are stated in sterling using exchange rates as at close of business on 31 March 2015. The direct property portfolio was valued at 31 March 2014 by GVA Grimley, the valuer being qualified for that purpose in accordance with the Royal Institute of Chartered Surveyor (RICS) Valuation Standards manual. Private equity investments have been included at the Fund managers' valuation adjusted for cash movements since the last valuation date. Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published or if single priced at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is invested in the Fund, net of applicable withholding tax.

• Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

• Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value. The value of future contracts is determined using exchange prices at the reporting date. Amounts due from or owed

to the broker are the amounts outstanding in respect of the initial margin and variation margin. The value of exchange traded options is determined using the exchange price for closing out the option at the reporting date. The value of over-the-counter contract options is based on quotations from an independent broker. Where this is not available, the value is provided by the investment manager using generally accepted option-pricing models with independent market data. The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

• Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

• Liabilities

The Fund recognises financial liabilities at fair value at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund. The Financial Statements do not take account of obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Fund, which does take account of such obligations, is summarised below and fully reported elsewhere. These Financial Statements should be read in conjunction with that information.

• Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits in a note to the net assets statement (note 7).

• Additional Voluntary contributions

Strathclyde Pension Fund provides an additional

voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year. AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (SSI 2010/233) but are disclosed as a note only (Note 22).

• New standards issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2015/16 Code:

- IFRS 13 Fair Value measurement
- Annual Improvements to IFRS 2010-2012 and 2011-2013 Cycles

4. Critical Judgements in Applying Accounting Policies

Determining the fair value of private equity investments involves a degree of subjectivity. Valuations are inherently based on forward-looking estimates and judgements involving many factors. Unquoted equities are valued by the general partners using guidelines set out by the British Venture Capital Association. The value of unquoted private equities as at 31 March 2015 was £1,180.8 million (£1,149.2 million at 31 March 2014). The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 7. The estimate is subject to significant variances based on changes to the underlying assumptions.

5a. Events after the balance sheet date

There have been no events since 31 March 2015 and up to the date when these accounts were authorised that require any adjustments to these accounts.

5b. Prior Period Adjustments, Changes in Accounting Policies and Estimates

Prior period adjustments may arise as a result of a change in accounting policy or to correct a material error. Changes in accounting policy are only made when required by a proper accounting practice or to provide more reliable or relevant information on the fund's financial position. Where a change is made it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period, as if the new policy had always applied. Changes in accounting estimation techniques are applied in the current and future years.

Following on from the introduction of CIPFA Accounting for Local Government Pension Scheme Management Costs, prior period adjustments to the previously reported 2013/14 Financial position have been necessary in respect of administration expenses, gross/net rents, investment management expenses, management expenses and change in market value of investments. This guidance advised that the cost of investments contained within Pension Fund's financial statements should fully reflect the fees charged in order to improve transparency, comparable data and completeness of financial reporting. The restated cost of investment management expenses in 2013/14 is £108.253m (0.8% of net assets). In addition, to provide improved analysis of net assets and associated income, there have been changes in the Net Assets Statement to Equities and Private Equity/Infrastructure and also in the Returns and Investment Statement to dividends from equities and income from private equities/infrastructure and other.

Table 1 - Effect on Fund Account and Returns on Investments

Heading	2013/14 Original £000	Adjustment £000	2013/14 Restated £000
Administration Expenses	3,889	(3,889)	0
Dividends	(131,634)	19,077	(112,557)
Income from Private Equities/Other	(1,024)	(19,077)	(20,101)
Gross/Net Rents	(44,772)	(11,376)	(56,148)
Investment Management Expenses	18,363	(18,363)	0
Management Expenses	0	108,253	108,253
Change in Market Value of Investments	(719,324)	(74,625)	(793,949)

Table 2 - Effect on Net Asset Statement

Heading	2013/14 Original £000	Adjustment £000	2013/14 Restated £000
Equities (including convertible shares)	6,440,136	(1,374,670)	5,065,466
Private Equity/Infrastructure	0	1,374,670	1,374,670

6. Actuarial Position of the Fund

In accordance with Regulation 32 of the Local Government Pension Scheme (Administration)(Scotland) Regulations 2008 an actuarial valuation of the Strathclyde Pension Fund was carried out as at 31 March 2014. Results of the valuation were confirmed during March 2015 and a copy of the valuation report was issued to all participating employers.

The funding level as at 31 March 2014 was 94.3% (97.3% at 31 March 2011) and there was a funding shortfall of £839 million (£320 million at 31 March 2011):

	£ million
Fund Assets	13,949
Fund Liabilities	(14,788)
Deficit	(839)

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

The deficit funding position indicates that the Fund’s objectives were not fully met at the valuation date, however, the Funding Policy seeks to ensure that these are met over the long term.

• Funding Policy

On completion of the actuarial valuation as at 31 March 2014 the Fund published a revised Funding Strategy Statement in accordance with regulation 31 of the Local Government Pension Scheme (Administration)(Scotland) Regulations 2008. The actuary’s report and the Funding Strategy Statement are available from www.spfo.org.uk or the Strathclyde Pension Fund Office, Capella Building, 6th Floor, 60 York Street, Glasgow G2 8JX.

• Funding Projection as at 31 March 2015

An intervaluation monitoring report provided by the Fund’s actuary as at 31 March 2015 recorded a projected funding position of 86.2%. The next formal funding valuation will be carried out as at 31 March 2017 with results being available by 31 March 2018.

• Funding Method

At the 2014 actuarial valuation and for previous valuations a funding method was used that identifies separately the expected cost of members’ benefits in respect of:

- Scheme membership completed before the valuation date (“past service”);
- Scheme membership expected to be completed after the valuation date (“future service”).

To determine the employers’ contribution requirement for future service of the Fund as a whole and for employers who continue to admit new members, the cost of future service benefits for the year following the valuation date, taking account of expected future salary increases, is assessed.

The contribution rate required to meet the expected cost of future service benefits is derived as this value less expected member contributions expressed as a percentage of the value of members’ pensionable pay over the year. This is known as the “Projected Unit Method”.

The total contribution rate payable is the cost of future benefit accrual, increased by an amount calculated to bring the funding level back to 100% - the “past service adjustment”. At the 2014 valuation the past service adjustment was based on repaying the funding deficit over 12.3 years - the average remaining period of contributory membership of the current active members.

The total employers’ contribution rate based on the funding position as at 31 March 2014 is 19.3%.

The total contribution rate is calculated by considering the Fund as a whole. In practice, each employer that participates in the Fund has its own underlying funding position and circumstances, giving rise to its own contribution rate requirement. Where appropriate an adjustment to the total rate has been determined for each employer. Adjustments have been certified as a combination of increased % of pensionable payroll and/or a monetary amount. The minimum contributions to be paid by each employer from 1 April 2015 to 31 March 2018 are shown in the Rates and Adjustments certificate in Appendix H to the valuation report which is available from the Governance area of the Fund’s website at www.spfo.org.uk or on request from SPFO.

For most employers the total rate to be paid is as shown below:

Year to	Rate (as % of pensionable payroll)
31 March 2016	19.3
31 March 2017	19.3
31 March 2018	19.3

7. Actuarial and other major assumptions

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. For valuation purposes the actuary uses assumptions about the factors affecting the Fund's finances in the future. The most sensitive assumptions are detailed below:

Assumption	Derivation	Nominal %	Real %
Price inflation (CPI) / Pension Increases / Deferred Revaluation	Market expectation of long term future RPI inflation as measured by the geometric difference between yields on fixed and index-linked Government bonds as at the valuation date less 0.8% p.a.	2.7	-
Pay increases *	Price inflation (CPI) plus 2.3% p.a.	4.5	1.8
Gilt - based discount rate	The yield on fixed-interest government bonds	3.5	0.8
Pre- retirement funding basis discount rate	Gilt-based discount rate plus an asset outperformance assumption of 1.6% p.a.	5.1	2.4
Post- retirement funding basis discount rate	Gilt-based discount rate plus an asset outperformance assumption of 1.2% p.a.	4.7	2.0

* 1% p.a. nominal for the period to 31 March 2015 then reverting to 5.1% p.a. thereafter plus an allowance for promotional pay increases.

In addition to the financial assumptions outlined above, valuation results are also sensitive to demographic assumptions. These include assumptions about the future longevity of members and about whether on retirement they will exchange some of their pension for additional tax-free cash (the commutation assumption).

For this valuation, the actuary adopted assumptions which give the following sample average future life expectancies for members (2011 figures included for comparison):

Assumed life expectancy at age 65	Actives & Deferreds		Current Pensioners	
	Male	Female	Male	Female
2011 Valuation	23.3	25.3	21.0	23.4
2014 Valuation	24.8	26.2	22.1	23.6

Further details of the mortality assumptions adopted for the 2014 valuation can be found in Appendix E to the valuation report. Note that the figures for actives and deferred/pensioners assume that they are aged 45 at the valuation date.

The commutation assumption adopted by the actuary is that future pensioners will elect to exchange pension for additional tax-free cash up to 50% of HMRC limits for service to 31 March 2009 and 75% of HMRC limits for service from 1 April 2009.

Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is estimated at £20,441 million as at 31 March 2015 (£17,527 million as at 31 March 2014). The valuation has been carried out on an IAS19 basis.

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2014. It should be noted that the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose.

8. Investments

Statement of Movement in Investments

	Restated Opening Market Value £000	Purchases and Derivative Payments £000	Sales and Derivative Receipts £000	Other Movements £000	Closing Market Value £000
Investment Assets					
Equities (including convertible shares)	5,065,466	1,215,861	(830,466)	385,405	5,836,266
Index Linked Securities	53	0	(24)	12	41
Pooled Investment Vehicles	5,901,604	114,121	(204,663)	606,442	6,417,504
Private Equity / Infrastructure	1,374,670	313,359	(321,619)	180,259	1,546,669
Derivative Contracts	6,688	105	(2,713)	6,821	10,901
Property	1,020,995	221,619	(33,921)	170,507	1,379,200
Cash Deposits	482,839	0	0	56,841	539,680
Other Investment Balances	36,924	0	0	(3,303)	33,621
Total Assets	13,889,239	1,865,065	(1,393,406)	1,402,984	15,763,882
Investment Liabilities					
Derivative Contracts	(1,585)	450,744	(450,783)	(5,732)	(7,356)
Creditors	(30,946)	0	0	(3,563)	(34,509)
Total Liabilities	(32,531)	450,744	(450,783)	(9,295)	(41,865)
Net Investment Assets	13,856,708	2,315,809	(1,844,189)	1,393,689	15,722,017

Other movements during the year include all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

• Transaction Costs

Transaction costs are included in the cost of purchases and sale proceeds and are charged directly to the Fund. Transaction costs such as fees, commissions and stamp duty incurred during the year amounted to £3.294 million (£6.675 million in 2013/14).

In addition to the transaction costs disclosed above, indirect costs may be incurred through the bid-offer spread on some pooled investment vehicles. The amount of such costs are not separately provided to the Fund.

• Derivatives

Derivatives comprise futures and forward derivative contracts. The market values as at 31 March 2015 and a summary of contracts held are summarised in the tables below:

	31 March 2014 £000	31 March 2015 £000
Futures	5,105	3,555
Forwards	(2)	(10)
Market Value as at 31 March	5,103	3,545

Contract	Settlement Date	Asset £000	Liability £000	Net £000
Derivatives – Futures				
FUT Jun 15 L&G	Jun-15	3,704	(149)	3,555
Contracts Held at 31 March 2015		3,704	(149)	3,555

The Fund uses futures for the purposes of efficient portfolio management and or risk reduction. During the year, the Fund's equity managers used futures to manage risk. All futures and contracts are exchange traded.

• Forwards

Derivatives – Forward Foreign Exchange				
Contract	Settlement Date	Asset £000	Liability £000	Net £000
Various Currency Forwards	1 Month	7,197	(7,207)	(10)
Contracts Held at 31 March 2015		7,197	(7,207)	(10)

The above table summarises the contracts held by maturity date – 6 foreign currencies being involved. All contracts are traded on an over the counter basis.

The Fund's equity managers use forward foreign exchange contracts for the purposes of efficient portfolio management.

Derivative market pricing is provided by the Fund's Global Custodian Northern Trust.

9. Fund Management

• Investment Managers and Mandates

The market value of assets under the management of Fund managers as at 31 March 2015 was £15,722 million.

Investment management arrangements as at 31 March 2015 are summarised below:

Asset Class	Fund Manager	% managed
Multi Asset – Passive	Legal and General	41.7
Global Equity	Baillie Gifford	12.3
Global Equity	Lazard	5.0
Global Equity	Veritas	3.2
Global Equity	Oldfield Partners	2.9
Specialist – Property	DTZ	9.0
Specialist – Global Real Estate	Partners Group	1.9
Specialist – Absolute Return Bonds	PIMCO	6.6
Specialist – Equities (Overseas Small Companies)	JP Morgan	3.0
Specialist – Equities (UK Small Companies)	Henderson	2.3
Specialist – Private Equity	Pantheon Ventures	4.7
Specialist – Private Equity	Partners Group	3.1
Specialist – Emerging Markets	Genesis	2.3
Specialist – Emerging Market Future	Legal and General	0.7
Specialist – New Opportunities Portfolio	Various	0.7
Cash	Northern Trust	0.6

• Private Equity

Unquoted holdings in private equity funds have been included at the Fund managers' valuation adjusted for cash movements since the last valuation date. Unquoted Fund investments are valued at fair value as determined by the Directors or General Partner. The valuations provided by the general partners or managers typically reflect the fair value of the Company's capital account balance of each Fund investment, including unrealised gains and losses, as reported in the Financial Statements of the respective Fund. Private equity investments are typically illiquid and resale is restricted.

• Property

As at 31 March 2015 the Fund held direct property assets with a value of £1,379 million (2013/14 £1,021 million). This valuation was calculated by GVA Grimley on the Fund's behalf in accordance with RICS Valuation Standards manual.

As at 31 March 2015 the Fund did not hold any indirect UK property assets (2013/14 nil).

10. Notifiable Holdings

Notifiable holdings are holdings which exceed 5% of the total value of Fund net assets. As at 31 March 2015 the Fund had holdings of £2,160 million (13.7 %) in Legal and General UK Equity Fund and £1,037 million (6.6%) in PIMCO PARS II Fund.

11. Analysis of Investments

Investments can be further analysed as follows:

Asset Class	Quoted £000	Unquoted £000	Other £000	Total £000
Assets				
Equities (including convertible shares)	5,836,266	0	0	5,836,266
Index Linked Securities	41	0	0	41
Pooled Investment Vehicles	0	0	6,417,504	6,417,504
Private Equity / Infrastructure	0	0	1,546,669	1,546,669
Derivative Contracts	0	0	10,901	10,901
Property	0	0	1,379,200	1,379,200
Cash Deposits	0	0	539,680	539,680
Other Investment Balances	0	0	33,621	33,621
Total Assets	5,836,307	0	9,927,575	15,763,882
Liabilities				
Derivative contracts	0	0	(7,356)	(7,356)
Creditors	0	0	(34,509)	(34,509)
Total Liabilities	0	0	(41,865)	(41,865)
Net Investment Assets	5,836,307	0	9,885,710	15,722,017

Note: Cash balances are managed by the Fund's Global Custodian, Northern Trust.

Asset Class	UK £000	Overseas £000	Total £000
Assets			
Equities (including convertible shares)	892,450	4,943,816	5,836,266
Index Linked Securities	6	35	41
Pooled Investment Vehicles	5,043,698	1,373,806	6,417,504
Private Equity / Infrastructure	685,717	860,952	1,546,669
Derivative Contracts	10,901	0	10,901
Property	1,379,200	0	1,379,200
Cash Deposits	539,680	0	539,680
Other Investment Balances	33,621	0	33,621
Total Assets	8,585,273	7,178,609	15,763,882
Liabilities			
Derivative contracts	(7,356)	0	(7,356)
Creditors	(34,509)	0	(34,509)
Total Liabilities	(41,865)	0	(41,865)
Net Investment Assets	8,543,408	7,178,609	15,722,017

Note: Cash balances are managed by the Fund's Global Custodian, Northern Trust.

12. Contributions and Benefits

The total contributions receivable and benefits payable analysed between the Administering Authority, Other Scheduled Bodies and Admitted Bodies were as follows:

	Administering Authority £000	Other Scheduled Bodies £000	Admitted Bodies £000	Total £000
Contributions				
Employee	(16,243)	(70,175)	(26,623)	(113,041)
Employer	(49,312)	(238,072)	(85,745)	(373,129)
Benefits				
Pension	58,307	284,653	45,993	388,953
Lump Sum	7,383	73,626	17,836	98,845

13. Management Expenses

The total management expenses were as follows:

Restated 2013/14 £000		2014/15 £000
2,912	Administrative Costs	3,175
103,953	Investment Management Expenses	125,555
1,388	Oversight and governance costs	1,695
108,253		130,425

Oversight and governance costs include £0.062m (2013/14 £0.062m) in respect of the external audit fee.

Investment management expenses include £3.294m in respect of transaction costs contained within investment management expenses (2013/14 £4.091m).

14. Investment Expenses

The total investment expenses were as follows:

Restated 2013/14 £000		2014/15 £000
103,315	Management Fees	124,868
199	Custody Fees	79
101	Performance Monitoring Fees	103
123	Actuarial Fees – Investment Consultancy	192
215	Consultancy Fees	313
103,953		125,555

The investment management fees shown above include £23.603 million (2013/14 £14.299 million) in respect of performance related fees paid to the Fund investment managers. In accordance with CIPFA guidance investment management costs deducted from an investment value are recognised as a cost in the Fund Account.

Quantification of these costs involves requesting the relevant fund managers for information not all of which can be independently verified. In cases where charges relate to an investment fund as a whole an estimate needs to be made of the costs applicable to the Pension Fund's holding. There is a risk that the value of investment fees deducted from investments is incorrectly stated. However, this third party evidence is scrutinised and reviewed for completeness, accuracy and reasonableness to minimise this risk and as the costs are offset by a corresponding adjustment to the change in market value of investment any inaccuracy in the cost estimate will not change the reported net movement in the fund for the year.

15. Property Income

2013/14 £000		2014/15 £000
56,148	Rental Income	65,416
(11,375)	Direct Operating Expenses	(12,525)
44,773	Net Income	52,891

16. Property Holdings

2013/14 £000		2014/15 £000
831,310	Opening balance	1,020,995
115,789	Additions	221,515
(22,150)	Disposals	(33,921)
96,046	Change in Market Value	170,611
1,020,995	Closing balance	1,379,200

The future minimum lease payments receivable by the fund as at 31 March 2015 are £65.8 million within one year, £199.7 million between one and five years and £448.3 million later than five years.

17. Transactions with Related Parties

Pension receipts and payments including VAT are transacted using Glasgow City Council's financial systems and the Pension Fund's banking arrangements. Throughout the year the Fund maintains a cash balance for this purpose which is listed as 'cash balances' in the net assets statement. During 2014/15 the amount recharged by Glasgow City Council to the Strathclyde Pension Fund for administration costs was £2.925 million (2013/14 £2.778 million). There is an outstanding debtor of £4.109m between the Council and Strathclyde Pension Fund as at 31 March 2015.

A remuneration report providing disclosures in respect of elected members and chief officers of the council, including those with authority and responsibility for the Strathclyde Pension Fund is included in Glasgow City Council's Annual Report and Financial Statements which are available from the council's website at www.glasgow.gov.uk.

There were no other material transactions with related parties during the year.

18. Stock Lending

The Fund participates in a stock lending programme managed by its Global Custodian, Northern Trust. All loans are fully collateralised. As at 31 March 2015 stock with a value of £380.5 million was on loan (£426.5 million as at 31 March 2014).

19. Contractual Commitments

As at 31 March 2015 the Fund had contractual commitments of £2,919 million within its private equity and global real estate portfolios, of which £785 million remains undrawn.

20. Contingent Assets and Liabilities

The Fund participates from time to time in securities litigation with a view to recovering investment losses as a result of companies' breach of their duties to investors or potential investors. As at 31st March 2015 the Fund was one of a group of investors pursuing a claim against Royal Bank of Scotland (RBS) for losses arising from the 2008 rights issue which preceded RBS' acquisition of ABN AMRO. The case is predicated on the premise that

the RBS prospectus for the rights issue was misleading to investors. The Fund had no material contingent liabilities at the year-end and there were no material non-adjusting events occurring subsequent to the year-end.

21. Statement of Investment Principles

In accordance with Regulations 12 and 14 of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 the Fund maintains and publishes a written statement of the principles governing decisions about investments. The statement is available at www.spfo.org.uk or on request from the SPFO.

22. Additional Voluntary Contributions (AVCs)

AVC investments are managed by Prudential and Standard Life. As these are invested separately from the investments of the Fund itself and secure extra benefits only for the AVC contributors on an individual basis, the relevant figures have not been included in the Financial Statements. Members participating in this arrangement receive an annual statement confirming the amount held in their account and the movements in the year.

The market value of AVCs as at 31 March 2015 was £43.6 million (2013/14 £40.9 million). Contributions which are used in their entirety to purchase investments, totalled £6.5 million (2013/14 £6.7 million) whilst sales of investments to settle benefits due to members totalled £6.6 million (2013/14 £8.5 million). The change in market value of investments over the year was £2.8 million (2013/14 £1.9 million). The values reported in the 2013/14 financial statements for AVCs were based on estimates and have been updated above to reflect the actual position.

23. Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair values of financial assets and liabilities by category and net asset statement heading for the year ended 31 March 2015.

<i>Restated Fair value through profit & loss</i>	<i>Loans & receivables</i>	<i>Financial liabilities at amortised cost</i>		<i>Fair value through profit & loss</i>	<i>Loans & receivables</i>	<i>Financial liabilities at amortised cost</i>
<i>£000</i>	<i>£000</i>	<i>£000</i>		<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>31 March 2014</i>				<i>31 March 2015</i>		
Financial Assets						
5,065,466	0	0	Equities	5,836,266	0	0
53	0	0	Index Linked Securities	41	0	0
5,901,604	0	0	Pooled Investment Vehicles	6,417,504	0	0
1,374,670	0	0	Private Equity / Infrastructure	1,546,669	0	0
6,688	0	0	Derivative Contracts	10,901	0	0
0	482,839	0	Cash	0	539,680	0
0	36,924	0	Other Investment Balances	0	33,621	0
12,348,481	519,763	0		13,811,381	573,301	0
Financial Liabilities						
(1,585)	0	0	Derivatives	(7,356)	0	0
0	0	(30,946)	Other Investment Liabilities	0	0	(34,509)
(1,585)	0	(30,946)		(7,356)	0	(34,509)
12,346,896	519,763	(30,946)	Net Financial Assets	13,804,025	573,301	(34,509)

The table below shows net gains and losses on financial instruments for the year ended 31 March 2015:

<i>31 March 2014</i>			<i>31 March 2015</i>	
<i>£000</i>			<i>£000</i>	
645,298	Financial Assets	Fair value through profit and loss	1,511,126	
(4,258)	Loans and receivables		1,316	
0	Financial liabilities measured at amortised cost		0	
	Financial Liabilities			
(1,845)	Fair value through profit and loss		1,089	
0	Loans and receivables		0	
0	Financial liabilities measured at amortised cost		0	
639,195	Total		1,513,531	

The following table summarises the carrying values of the Fund's financial assets and liabilities by class of instrument compared with their fair values for the year ended 31 March 2015:

31 March 2014			31 March 2015	
Carrying Value	Fair Value £000		Carrying Value	Fair Value £000
Financial Assets				
12,348,481	12,348,481	Fair value through profit and loss	13,811,381	13,811,381
484,217	519,763	Loans and receivables	519,448	572,226
12,832,698	12,868,244		14,330,829	14,383,607
Financial Liabilities				
(1,585)	(1,585)	Fair value through profit and loss	(7,356)	(7,356)
(13,161)	(30,946)	Financial liabilities measured at amortised cost	(15,564)	(33,434)
(14,746)	(32,531)		(22,920)	(40,790)
12,817,952	12,835,713	Total	14,307,909	14,342,817

The net investment assets of £14,343 million shown in the above table plus property assets £1,379 million equates to the total net investment assets of £15,722 million shown in the Net Assets Statement.

The valuation of financial instruments has been classified into three levels according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed interest securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available, for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of private equity investments are based on valuations provided by the general partners of the private equity funds in which the Fund has invested. Such valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken quarterly.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into Levels 1 to 3, based on the level at which fair value is observable.

<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>		<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
<i>£000</i>	<i>£000</i>	<i>£000</i>		<i>£000</i>	<i>£000</i>	<i>£000</i>
31 March 2014			31 March 2015			
Financial Assets						
9,244,835	1,719,187	1,384,459	Fair Value through profit and loss	10,423,201	1,848,040	1,559,480
519,747	0	16	Loans and receivables	553,962	0	0
9,764,582	1,719,187	1,384,475		10,977,163	1,848,040	1,559,480
Financial Liabilities						
(1,585)	0	0	Fair Value through profit and loss	(24,008)	0	0
(30,946)	0	0	Financial liabilities measured at amortised cost	(17,858)	0	0
(32,531)	0	0		(41,866)	0	0
9,732,051	1,719,187	1,384,475	Net Financial Assets	10,935,297	1,848,040	1,559,480

24. Nature and Extent of Risks Arising From Financial Instruments

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund while maximising the opportunity for gains. This is achieved through asset diversification (by asset class, geographical region, sector and Fund manager) to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet forecasted cashflows. These risks are managed as part of the overall pension fund investment management programme. Responsibility for risk

management rests with the Strathclyde Pension Fund Committee. Actuarial and investment consultants are retained to advise on risk. A risk register is maintained and reviewed by the committee on a quarterly basis. The Fund's assets are externally managed, and the investment managers adhere to their own risk management strategies.

Market Risk

Market risk is the risk of loss from fluctuations in equity prices, interest rates, foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The Fund's investment managers are expected to identify, manage and control market risk exposure within acceptable parameters whilst optimising the return on risk. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The Fund is exposed to share price risk, arising from investments held by the Fund for which the future price is uncertain. All security investments present a risk of loss of capital. The Fund's investment managers mitigate this price risk through the diversification of securities and are monitored to ensure they remain within the limits specified in the investment management guidelines.

Other Price Risk - Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, the following movements in market price risk are reasonably possible for the 2014/15 reporting period:

Asset Type	Potential Market Movement (+/-)
UK Equities	17.0%
Overseas Equities	20.1%
Overseas Bonds	6.7%
UK Bonds	4.8%
Index Linked Gilts	6.7%
Private Equity/Infrastructure	28.6%
Commodities	13.8%
Cash	0.6%
Property	14.7%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular the foreign currency exchange rates and interest rates, remain the same. The tables below show the change in the net assets available to pay benefits had the market price of the investments increased or decreased in line with the table above.

Potential Market Movements

Asset Type	Value as at 31 March 2015	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash and cash equivalents	539,680	0.6%	542,919	536,442
Investment portfolio assets:				
UK bonds	6	4.8%	6	6
Overseas bonds	35	6.7%	37	32
UK equities	892,449	17.0%	1,044,166	740,733
Overseas equities	4,937,898	20.1%	5,930,416	3,945,381
UK fixed Income unit trusts	1,921,255	6.7%	2,049,979	1,792,531
Overseas fixed Income unit trusts	0	0.0%	0	0
UK equity unit trusts	3,122,443	17.0%	3,653,258	2,591,628
Overseas equity unit trusts	1,373,806	20.1%	1,649,941	1,097,671
Pooled property Investments	0	0.0%	0	0
Hedge Fund	0	0.0%	0	0
Private equity/Infrastructure funds	1,546,669	28.6%	1,989,016	1,104,321
Commodities	5,918	13.8%	6,735	5,102
Net derivative assets	3,545	0.0%	3,545	3,545
Investment income due	24,148	0.0%	24,148	24,148
Pending Spot FX	2	0.0%	2	2
Amounts receivable for sales	8,396	0.0%	8,396	8,396
Amounts payable for purchases	(33,433)	0.0%	(33,433)	(33,433)
Obliq. Return Cash Collateral Hld	0	0.0%	0	0
Total	14,342,817		16,869,131	11,816,505

The prior year comparators for 2013/14 are as follows:

Asset Type	Value as at 31 March 2014	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash and cash equivalents	482,839	0.6%	485,736	479,942
Investment portfolio assets:				
UK bonds	6	0.0%	6	6
Overseas bonds	47	0.0%	47	47
UK equities	1,522,430	16.6%	1,775,153	1,269,707
Overseas equities	4,911,976	19.4%	5,864,899	3,959,053
UK fixed Income unit trusts	1,772,257	9.6%	1,942,394	1,602,120
Overseas fixed Income unit trusts	0	9.6%	0	0
UK equity unit trusts	2,791,405	16.6%	3,254,778	2,328,032
Overseas equity unit trusts	1,337,941	19.4%	1,597,502	1,078,380
Pooled property Investments	0	0.0%	0	0
Hedge Fund	0	0.0%	0	0
Private equity/Infrastructure funds	0	0.0%	0	0
Commodities	5,732	13.7%	6,517	4,947
Property	0	0.0%	0	0
Net derivative assets	5,103	0.0%	5,103	5,103
Investment income due	25,263	0.0%	25,263	25,263
Pending Spot FX	0	0.0%	0	0
Amounts receivable for sales	10,086	0.0%	10,086	10,086
Amounts payable for purchases	(29,372)	0.0%	(29,372)	(29,372)
Oblig. Return Cash Collateral Hld	0	0.0%	0	0
Total	12,835,713		14,938,112	10,733,314

Interest Rate Risk

The Fund invests in financial assets with the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2014 is set out below.

Asset Type	As at 31 March 2014	As at 31 March 2015
	£000	£000
Cash Balances – Investments	482,839	539,680

Interest Rate Sensitivity Analysis

Interest rates can vary and can affect both income to the Fund and the value of net assets available to pay benefits. The analysis in the table below assumes that all other variables, in particular exchange rates, remain constant and shows the effect of a +/-100 Basis Points (BPS) change in interest rates on the net assets available to pay benefits.

Asset Type	As at 31 March 2015	+100 BPS	-100 BPS
	£000	£000	£000
Cash Balances – Investments	539,680	545,077	534,283

Asset Type	As at 31 March 2014	+100 BPS	-100 BPS
	£000	£000	£000
Cash Balances – Investments	482,839	487,667	478,011

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the Fund's base currency (GBP). The Fund holds both monetary and non monetary assets denominated in currencies other than GBP. Investment managers are expected to manage currency risk.

Currency Risk – Sensitivity Analysis

Based on historical analysis of movement in the currencies to which the Fund is exposed, it is considered that a 13.0% fluctuation in currency is reasonable. The table below shows the impact a 13.0% strengthening / weakening of the pound against the various currencies to which the Fund is exposed would have on the net assets available to pay benefits, assuming all other variables, in particular interest rates, remain constant.

Asset Type	As at 31 March 2015	% Change	Value on Increase	Value on Decrease
	£000		£000	£000
Overseas quoted securities	4,937,898	13.0%	5,579,825	4,295,971
Overseas unquoted securities	0	13.0%	0	0
Overseas fixed income	0	13.0%	0	0
Overseas unit trusts	1,373,806	13.0%	1,552,401	1,195,211
Hedge funds overseas equity	0	13.0%	0	0
Hedge funds overseas fixed	0	13.0%	0	0
Overseas public sector bonds	0	13.0%	0	0
Overseas corporate bonds	35	13.0%	40	30
Total	6,311,739		7,132,266	5,491,212

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The Fund's cash balances are managed by Northern Trust and are invested in AAA rated money market funds.

25. Analysis of Investment Assets (IAS19)

In accordance with the requirements of IAS19 the following statement provides a detailed analysis of investment assets as at 31 March 2015 with comparators for 2014.

Quoted £000	Unquoted £000	Total £000		Quoted £000	Unquoted £000	Total £000
31 March 2014				31 March 2015		
			Equity Securities			
1,256,415	318	1,256,733	Consumer	1,528,795	273	1,529,068
1,104,552	10,380	1,114,932	Manufacturing	1,180,331	11,611	1,191,942
504,061	199	504,260	Energy and Utilities	451,234	143	451,377
901,154	56	901,210	Financial Institutions	1,122,003	37	1,122,040
521,477	333	521,810	Health and Care	651,266	333	651,599
776,134	478	776,612	Information Technology	899,055	1,094	900,149
			Debt Securities			
0	0	0	Corporate Bonds (investment)	0	0	0
0	60	60	Corporate Bonds (non-	0	47	47
0	0	0	UK Government	0	0	0
0	0	0	Other	0	0	0
0	1,354,067	1,354,067	Private Equity	0	1,481,249	1,481,249
			Real Estate			
0	1,020,995	1,020,995	UK Property	0	1,379,200	1,379,200
0	0	0	Overseas Property	0	0	0
			Investment funds and unit			
147,467	3,981,880	4,129,347	Equities	359,123	4,137,126	4,496,249
0	1,772,257	1,772,257	Bonds	0	1,921,255	1,921,255
0	0	0	Hedge Funds	0	0	0
5,732	0	5,732	Commodities	5,918	0	5,918
0	9,520	9,520	Property	0	53,474	53,474
0	16	16	Cash Funds	0	7,335	7,335
			Derivatives			
0	0	0	Inflation	0	0	0
0	0	0	Interest rate	0	0	0
0	(2)	(2)	Foreign exchange	0	(8)	(8)
5,105	0	5,105	Futures	3,555	0	3,555
0	484,054	484,054	Cash and cash equivalents	0	527,568	527,568
5,222,097	8,634,611	13,856,708	Totals	6,201,280	9,520,737	15,722,017

Fund Membership – Participating Employers

A

Access to Employment Ayr Ltd
ACCESS (Service Glasgow LLP)
Alternatives West Dumbarton Community Drug Services
AMEY BFO Services Ltd (Renfrewshire Schools PPP)
Amey Public Services LLP
Argyll & Bute Council
Argyll & Bute Local Learning Partnership Ltd
(T/A Argyll College)
Argyll Community Housing Association Ltd
Aspire2gether Ltd
Auchenback Active Ltd
Ayr Action for Mental Health Limited
Ayr Housing Aid Centre
Ayr Renaissance LLP
Ayrshire College
Ayrshire Housing
Ayrshire North Community Housing Organisation Ltd
Ayrshire Valuation Joint Board

B

BAM Construct UK Ltd (East Renfrewshire)
BAM Construct UK Ltd (West Dunbartonshire)
Bridgeton Calton And Dalmarnock Credit Union

C

Cassiltoun Housing Association
Childcare First Ltd
City Building (Glasgow) LLP
City of Glasgow College
City Parking (Glasgow) LLP
City Property (Glasgow) LLP
Clyde Gateway Urban Regeneration Company
Coatbridge Citizens Advice Bureau
Coalition For Racial Equality And Rights
Cofely Workplace Ltd
College Development Network
Community Central Hall
Community Enterprise in Strathclyde
CORA Foundation
Cordia (Services) LLP
Craigholme School
Creative Scotland
Culture & Sport Glasgow (T/A Glasgow Life)
Culture NL Limited.
Cumbernauld Housing Partnership Ltd

D

Deaf Connections
Developing Strathclyde Ltd
Dunbartonshire & Argyll & Bute Valuation Joint Board

E

East Ayrshire Council
East Ayrshire Leisure Trust
East Dunbartonshire Citizens Advice Bureau
East Dunbartonshire Council
East Dunbartonshire Leisure and Culture Trust
East End Respite Care Group (T/A Geeza Break)
East Renfrewshire Carers
East Renfrewshire Council
Easterhouse Citizens Advice Bureau
Elior UK PLC
Employee Counselling Service
Enable Services Ltd
Engage Renfrewshire
Equals Advocacy Partnership Mental Health

F

First Bus
Flourish House
Forth & Oban Ltd
Fyne Homes Limited

G

Geilsland School Beith for Church of Scotland
(Crossreach)
General Teaching Council for Scotland
Glasgow Association for Mental Health
Glasgow Caledonian University
Glasgow City Council
Glasgow City Heritage Trust
Glasgow City Marketing Bureau Limited
Glasgow Clyde College
Glasgow Community and Safety Services Ltd
Glasgow Community Justice Authority
Glasgow Council for Voluntary Service
Glasgow Credit Union
Glasgow East Women's Aid
Glasgow Film Theatre
Glasgow Housing Association
Glasgow Kelvin College
Glasgow School of Art
Glasgow West Housing Agency
Glasgow Women's Aid
Good Shepherd Centre (Dalbeth & St Euphrasia's)
Govan Law Centre
Govanhill Housing Association
Greater Easterhouse Women's Aid
Greenspace Scotland

H

H.E.L.P (Argyll & Bute) Ltd
Hansel Alliance
Hansel Foundation
Hemat Gryffe Women's Aid
HIE Argyll & the Islands (now Argyll & The Islands Enterprise Company Limited)
Hill's Trust Home School Community Project
(now Govan Home and Education Link Project)
Hillhead Housing Association 2000

I

Inverclyde Council
Inverclyde Leisure
Irvine Bay Urban Regeneration Company
Irvine Housing Association

J

Jordanhill School
Jobs and Business Glasgow

K

Kenmure St Mary's Boys School
Kibble School
Kings Theatre Glasgow Ltd

L

Lanarkshire Association for Mental Health
Lanarkshire Community Justice Authority
Lanarkshire Housing Association Ltd
Lanarkshire Valuation Joint Board
Linstone Housing Association Ltd
Loch Lomond & The Trossachs National Park Authority

M

Maryhill Housing Association
Milnbank Housing Association
Mitie PFI Ltd (Argyll & Bute Education PPP Project)
Mitie PFI Ltd (East Ayrshire Education PPP Project)
Mitie PFI Ltd (North Ayrshire Education PPP Project)
Mitie PFI Ltd (South Ayrshire Education PPP Project)

N

New College Lanarkshire
New Gorbals Housing Association
North Ayr Resource Centre
North Ayrshire Council
North Ayrshire Leisure Ltd
North Glasgow Housing Association
North Lanarkshire Carers Together
North Lanarkshire Council
North Lanarkshire Leisure Ltd
North Lanarkshire Properties
Notre Dame Child Guidance Clinic

P

Parkhead Citizens Advice Bureau
Parkhead Housing Association Ltd
Police Scotland

Q

Queens Cross Housing Association

R

Rape Crisis Centre
RCA Trust
Regen: FX Youth Trust
Reidvale Adventure Playground
Renfrewshire Carers Centre
Renfrewshire Council
Renfrewshire Leisure Ltd
Renfrewshire Valuation Joint Board
River Clyde Homes
Riverside Inverclyde
Routes to Work Limited
Routes to Work South
Royal Conservatoire of Scotland

S

SACRO
Scottish Environmental & Outdoor Centres Association Ltd
Scottish Fire and Rescue Service
Scottish Library & Information Council
Scottish Maritime Museum Trust
Scottish Out Of School Care Network
Scottish Police Authority
Scottish Qualifications Authority
Scottish Society for the Mentally Handicapped
Scottish Water
Scottish Water Business Stream Ltd
Scotwest Credit Union Ltd
SEEMIS Group LLP
Shettleston Housing Association
Skills Development Scotland Ltd
South Ayrshire Council
South Ayrshire Energy Agency
South Lanarkshire College
South Lanarkshire Council
South Lanarkshire Leisure & Culture Limited
Southside Housing Association
South West Scotland Community Justice Authority
SportScotland
St Columba's School Limited

St Philip's Approved School
Strathclyde Partnership for Transport
Strathclyde Wing Hong Chinese Elderly Group
Strathleven Regeneration Company Ltd

T

The Advocacy Project
The Alpha Project
The Financial Fitness Resource Team
The Jeely Piece Club
The Milton Kids D.A.S.H. Club
The Richmond Fellowship Scotland Ltd
The Scottish Centre for Children with Motor Impairments
The Village Story Telling Centre
The Volunteer Centre
TNT UK Ltd
Tollcross Housing Association
Town Centre Activities Limited

U

University of Aberdeen (ex Northern College)
University of Dundee (ex Northern College)
University of Edinburgh (ex Moray House College)
University of Glasgow
(ex St. Andrew's College Staff Only)
University of Glasgow (ex SCRE employees only)
University of Strathclyde
University of The West Of Scotland (Paisley Campus)
University of The West Of Scotland
(ex Bell College of Technology)
UTHEO Limited

V

Visit Scotland (Ayrshire)
Visit Scotland (Glasgow)
Voluntary Association for Mental Welfare

W

West College Scotland
West Dunbartonshire Council
West Dunbartonshire Leisure Trust
West of Scotland Colleges Partnership
West of Scotland Racial Equality Council
West of Scotland Loan Fund Limited
Women's Support Project

Y

Youth Counselling Services Agency

Fund No. 3

The No. 3 Fund is a sub-fund of the Strathclyde Pension Fund.

Fund and scheme administration for the No. 3 Fund are carried out by Glasgow City Council within the Strathclyde Pension Fund Office (SPFO) in exactly the same way as for the main fund, as all members' benefits are governed by the same regulations.

Most sections from this report should therefore be read as forming part of the pension fund annual report of the No. 3 Fund.

In addition, further information specific to the No. 3 Fund is provided as follows.

- Statement of Investment Principles: the No. 3 Fund has its own SIP.
- Funding Strategy Statement: the No. 3 Fund has its own Funding Strategy Statement.

- Actuarial Valuation: a separate actuarial valuation of the No.3 Fund is carried out. The executive summary is copied below.
- Investment performance: this is detailed in the table below.
- Fund membership: there is only one contributing employer to the No. 3 Fund, First Bus (Glasgow).

Policy documents and reports for the No.3 Fund are available on the SPFO website at www.spfo.org.uk

No.3 Fund: 10 Year Investment Performance

	Mar '06	Mar '07	Mar '08	Mar '09	Mar '10	Mar '11	Mar '12	Mar '13	Mar '14	Mar '15	Annualised		
											3 Year	5 Year	10 Year
Retail Prices	2.4	4.8	3.8	-0.4	4.4	5.3	3.6	3.3	2.5	0.9	2.2	3.1	3.0
Consumer Prices	1.9	2.9	2.4	3.0	3.2	4.2	3.5	2.8	1.7	0.2	1.5	2.4	2.6
Average Earnings	5.2	5.0	3.8	-2.1	6.7	2.0	1.2	-0.3	1.7	3.3	1.5	1.7	2.6
Fund Return	24.7	7.7	2.4	-12.4	32.8	8.8	10.1	14.7	-0.1	21.3	11.6	10.7	10.3
Benchmark	25.4	7.3	-0.3	-14.1	26.3	7.5	2.3	15.0	0.6	20.7	12.5	9.4	8.6
WM Average	24.2	7.0	-1.0	-18.1	30.3	8.1	6.2	13.1	4.4	15.3	10.9	9.3	8.2

Fund No. 3

Actuarial Valuation as at 31st March 2014

Executive summary

We have carried out an actuarial valuation of the Strathclyde Pension Fund – No 3 Fund ('the Fund') as at 31 March 2014. The results are presented in this report and are briefly summarised below.

What is the funding objective?

The Fund has an objective of meeting, but not exceeding, the funding target by the time the last employee member leaves employment. The funding target is defined as having sufficient assets to cover the value of the expected benefit payments to be made to members in future (the liabilities) as assessed on the assumptions set out in the Funding Strategy Statement.

Has the funding objective been met?

The table below summarises the Fund's progress in respect of meeting its funding objective as at 31 March 2014:

Past Service Position	Gilts Basis	Gilts Basis
	31 March 2011	31 March 2014
	(£m)	(£m)
Past Service Liabilities	143	162
Market Value of Assets	128	156
Surplus / (Deficit)	(16)	(7)
Funding Level	89.1%	95.9%

The Fund moved closer to the funding target over the period since the last valuation. This is as a result of strong investment performance and the significant deficit contributions made to the Fund over the inter-valuation period.

How will the funding objective be met in future?

The table below summarises the contributions required from 1 April 2015 in respect of both benefits accruing and deficit recovery payments.

Year	Employer Contribution Rate	Deficit Recovery Payments
	% of payroll	
1 April 2015 to 31 March 2016	46.4%	£0
1 April 2016 to 31 March 2017	46.4%	£1,400,000*
1 April 2017 to 31 March 2018	46.4%	£2,800,000*

* Where the funding level on the Fund's cessation basis (interim settlement target) exceeds 95% as at 30 September, the deficit contributions will not be due for the following year. Where a deficit contribution is due, they will be set as the minimum of the amounts shown above and the amount required to bring the Fund's funding level up to 95% on the Fund's cessation basis (interim settlement target) as at 30 September of the previous year (e.g. 30 September 2015 for contributions due between 1 April 2016 and 31 March 2017).

Catherine McFadyen

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

31 March 2015

Steven Law

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

31 March 2015

STRATHCLYDE PENSION FUND ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2015

Fund No.3

2013/14	STRATHCLYDE PENSION FUND NO. 3			2014/15
Restated	Fund Account	Note	£000	£000
£000				
	Dealings with Members, Employers and Others Directly Involved in the Scheme			
	Contributions Receivable			
	From Employers			
(1,185)	Normal		(2,202)	
<u>(2,729)</u>	Augmentation		(2,627)	
(3,914)				(4,829)
	From Members			
(310)	Normal			(272)
	Benefits Payable			
4,470	Pensions		4,792	
1,505	Commutation of Pension and Lump Sum Retirement Benefits		1,448	
0	Lump Sum Death Benefits		141	
5,975				6,381
	Payments to and on account of leavers			
297	Individual Transfers Out to Other Schemes			243
2,048	Net (Addition) / Reduction from Dealings with Members			1,523
507	Management Expenses	11		343
	Return on Investments			
	Investment Income			
(426)	Dividends from Equities		0	
(186)	Income from Index Linked Securities		0	
(874)	Income from Pooled Investment Vehicles		(467)	
(32)	Interest on Cash Deposits		(31)	
<u>0</u>	Other		<u>0</u>	
(1,518)				(498)
962	Change in Market Value of Investments			(32,611)
6	Taxation			(2)
(550)	Net Returns on Investments			(33,111)
2,005	Net (Increase) / Decrease in the Fund during the Year			(31,245)
(157,617)	Add : Opening Net Assets of the Scheme			(155,612)
(155,612)	Closing Net Assets of the Scheme			(186,857)

Fund No.3

2013/14 £000	STRATHCLYDE PENSION FUND NO. 3 Net Assets Statement as at 31 March 2015	Note	£000	2014/15 £000
INVESTMENT ASSETS				
4	Equities (including convertible shares)	6,9	0	
0	Index Linked Securities – Public Sector	6,9	0	
141,767	Pooled Investment Vehicles	6,9	185,609	
0	Private Equity / Infrastructure	6,9	0	
0	Derivative Contracts	6,9	0	
14,733	Cash Deposits	6,9	83	
<u>404</u>	Other Investment Balances	6,9	<u>2</u>	
156,908				185,694
INVESTMENT LIABILITIES				
0	Derivative Contracts	6,9	0	
<u>0</u>	Creditors	6,9	<u>0</u>	
0				0
CURRENT ASSETS				
240	Contributions due from Employer		239	
0	Cash Balances		0	
<u>18</u>	Other Current Assets		<u>938</u>	
258				1,177
CURRENT LIABILITIES				
0	Unpaid Benefits		0	
<u>(1,554)</u>	Other Current Liabilities		<u>(14)</u>	
(1,554)				(14)
155,612	Net Assets			186,857

The unaudited accounts were issued on 25 June 2015 and the audited accounts were authorised for publication on 23 September 2015

Lynn Brown, MA (Hons) CPFA
Executive Director of Financial Services
23 September 2015

Notes to the Accounts – Fund No. 3

1. General Description of the Fund and its Membership

The Strathclyde Pension Fund was established in 1974 by Strathclyde Regional Council. Glasgow City Council became the Administering Authority for the Fund on 1 April 1996. The Fund is a pool into which employees' and employers' contributions and income from investments are paid, and from which pensions and other lump sum benefits are paid out in accordance with the provisions of the Local Government Pension Scheme (Scotland) regulations.

The Local Government Pension Scheme is a statutory scheme established under the Superannuation Act 1972 and is contracted out of the state second pension.

The No.3 Fund is a sub-fund of the Strathclyde Pension Fund. The 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. Glasgow City Council has delegated decision making for the Fund to its Strathclyde Pension Fund Committee. Scheme and Fund administration are carried out by the Strathclyde Pension Fund Office (SPFO), a division of the council's Financial Services Department. The investment assets of the Fund are externally managed.

2. Basis of Preparation

The Financial Statements have been prepared in accordance with the guidelines set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The Financial Statements summarise the transactions of the Fund during the year and the net assets at the year end. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 5 of these accounts.

The Fund's Financial Statements are generally prepared on an accruals basis. The net assets statement does not include liabilities to pay pensions and benefits after the end of the Fund year and the accruals concept is applied accordingly. Receipts and payments in respect of the transfer of benefits to and from other schemes are treated on a cash basis.

3. Summary of Significant Accounting Policies

Fund Account

• Contributions Income

Normal contributions, both from members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate. Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

• Transfers to other schemes

Transfer values represent the amounts paid during the year for members who have left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers out are accounted for when paid, which is normally when the member liability is discharged.

• Prior period adjustments

Following on from the introduction of CIPFA Accounting for Local Government Pension Scheme Management Costs in 2014/15 a prior period adjustment to the previously reported 2013/14 financial position has been necessary. These changes have been made in the 2013/14 financial position to administration expenses and management expenses in the fund account and investment management expenses and change in market value of investments in the returns on investments statement. This change has resulted in adjustments in the fund account to administration expenses (£0.029m original and nil restated) and management expenses (£nil original and £0.507m restated) and in the returns on investments statement to investment management expenses (£0.106m original and nil restated) and change in market value of investments (£1.334m original and £0.962m restated).

Notes to the Accounts – Fund No. 3

• Investment Income

Interest income is recognised in the Fund accounts as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis. Dividend income is recognised on the date the shares are quoted ex-dividend. Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period in relation to dividend income or distributions from pooled funds are disclosed in the net assets statement as a current financial asset. Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

• Benefits payable

Pension and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

• Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Management expenses include

• Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Management, accommodation and other overheads are apportioned to the Fund in accordance with council policy.

• Investment management expenses

All investment management expenses are accounted for on an accruals basis. External investment manager fees are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. In instances where an investment manager's fee note has not been received by the balance sheet date, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2014/15 no fees are based on such estimates (2013/14 nil). The cost of obtaining investment advice from external consultants is included in investment management charges. The cost of the council's in-house Fund management team are charged direct to the Fund and a proportion of the council's costs representing management time spent by officers on investment management is also charged to the Fund.

Net Assets Statement

• Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising in the fair value of asset are recognised by the Fund.

• Valuation of Investments

Quoted investments are valued at closing prices. These prices may be the last trade prices or bid prices depending on the convention of the stock exchange or other market on which they are quoted. Overseas investments and cash are stated in sterling using exchange rates as at close of business on 31 March 2015. Unquoted holdings in private equity funds have been included at the Fund managers' valuation adjusted for cash movements since the last valuation date. Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published or if single priced at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is invested in the Fund, net of applicable withholding tax.

Notes to the Accounts – Fund No. 3

• Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

• Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value. The value of future contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin. The value of exchange traded options is determined using the exchange price for closing out the option at the reporting date. The value of over-the-counter contract options is based on quotations from an independent broker. Where this is not available, the value is provided by the investment manager using generally accepted option-pricing models with independent market data. The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contracts were matched at the year-end with an equal and opposite contract.

• Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

• Liabilities

The Fund recognises financial liabilities at fair value at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund. The Financial Statements do not take account of

obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the scheme, which does take account of such obligations, is summarised below and fully reported elsewhere. These Financial Statements should be read in conjunction with that information.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits in a note to the net assets statement (note 5).

4. Actuarial Position

In accordance with Regulation 32 of the Local Government Pension Scheme (Administration)(Scotland) Regulations 2008 an actuarial valuation of the Strathclyde Pension Fund - Fund No.3 was carried out as at 31 March 2014. Results of the valuation were confirmed during March 2015.

The funding level as at 31 March 2014 was 96% (89% at 31 March 2011) and there was a funding shortfall of £6 million (£15.6 million at 31 March 2011):

	£ million
Fund Assets	156
Fund Liabilities	(162)
Deficit	(6)

Liabilities have been valued using a discount rate based on the better of the gilts nominal yield curve or swaps equivalent. This is consistent with the de-risking objectives of the Fund. The Fund still holds a substantial growth portfolio but the discount rate does not incorporate any out performance assumption from this.

The deficit funding position indicates that the 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 Fund.

Notes to the Accounts – Fund No. 3

• Funding Policy

On completion of the actuarial valuation as at 31 March 2014 the Fund published a revised Funding Strategy Statement in accordance with regulation 31 of the Local Government Pension Scheme (Administration)(Scotland) Regulations 2008. The actuary's report and the Funding Strategy Statement are available from www.spfo.org.uk or the Strathclyde Pension Fund Office, Capella Building, 6th Floor, 60 York Street, Glasgow G2 8JX.

• Funding Projection as at 31 March 2015

An intervaluation monitoring report provided by the Fund's actuary as at 31 March 2015 recorded a projected funding position of 94%. The next formal funding valuation will be carried out as at 31 March 2017 with results available by 31 March 2018.

• Funding Method

At the 2014 actuarial valuation and for previous valuations a funding method was used that identifies separately the expected cost of members' benefits in respect of:

- Scheme membership completed before the valuation date ("past service");
- Scheme membership expected to be completed after the valuation date ("future service").

To determine the employer's contribution requirement for future service the actuary assesses the cost of future service benefits over the expected remaining period of contributory membership of employee members, taking account of expected future salary increases. The contribution rate required to meet the expected cost of future service benefits is then derived as this value less expected member contributions expressed as a percentage of the value of members' pensionable pay over their expected remaining period of contributory membership.

This is known as the "Attained Age method".

The total contribution rate payable is the cost of future benefit accrual, increased by an amount calculated to bring the funding level back to 100% - the "past service adjustment". At the 2014 valuation the past service adjustment was based on repaying the funding deficit over 5.9 years - the average remaining period of contributory membership of the current active members.

The total employers' contribution rate based on the funding position as at 31 March 2014 is 46.4%.

The total contributions payable for the period 1 April 2015 to 31 March 2018 are shown in the table below:

Year to	Rate (as % of pensionable payroll)	Additional Monetary Payments £000
31 March 2016	46.4	0
31 March 2017	46.4	1,400
31 March 2018	46.4	2,800

Deficit contributions will be conditional on the funding level on the fund's cessation basis as at 30 September of the previous year. Where the funding level exceeds 95% as at 30 September, the deficit contributions will not be due for the following year. Where the deficit contribution is due it will be set at the lesser of the amount shown above and the amount required to bring the Fund's funding level up to 95% on the Fund's cessation basis.

Notes to the Accounts – Fund No. 3

5. Actuarial Assumptions

For valuation purposes the actuary uses assumptions about the factors affecting the Fund's finances in the future. The most sensitive financial assumptions are detailed below:

Assumption	31 March 2014	
	The better of	
Price inflation (CPI)	Gilts implied inflation curve -0.8% p.a., with a floor of zero	Swaps implied inflation curve -0.8% p.a., with a floor of zero
Pay increases*	Gilts implied inflation curve +0.375% p.a	Swaps implied inflation curve +0.375% p.a
Funding basis discount rate (pre-retirement)	Gilts nominal yield curve	Swaps nominal yield curve
Funding basis discount rate (post-retirement)	Gilts nominal yield curve	Swaps nominal yield curve

In addition to the financial assumptions outlined above, valuation results are also sensitive to demographic assumptions. These include assumptions about the future longevity of members and about whether on retirement they will exchange some of their pension for additional tax-free cash (the commutation assumption).

For this valuation, the actuary adopted assumptions which give the following sample average future life expectancies for members (2011 figures included for comparison):

Assumed life expectancy at age 65	Actives & Deferreds		Current Pensioners	
	Male	Female	Male	Female
2011 Valuation	22.3	24.7	21.0	23.4
2014 Valuation	23.6	25.2	22.1	23.6

Further details of the mortality assumptions adopted for the 2014 valuation can be found in Appendix E to the valuation report. Note that the figures for actives and deferred/pensioners assume that they are aged 55 at the valuation date.

The commutation assumption adopted by the actuary is that future pensioners will elect to exchange pension for additional tax-free cash up to 50% of HMRC limits for service to 31 March 2009 and 75% of HMRC limits for service from 1 April 2009.

• Actuarial Present Value Of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is estimated at £167 million as at 31 March 2015 (£148 million as at 31 March 2014). The valuation has been carried out on an IAS19 basis.

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2014. It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose.

Notes to the Accounts – Fund No. 3

6. Investments

Statement of Movement in Investments

	Opening Market Value £000	Purchases and Derivative Payments £000	Sales and Derivative Receipts £000	Other Movements £000	Closing Market Value £000
Investment Assets					
Equities (including convertible shares)	4		(4)		0
Index Linked Securities Public Sector	0				0
Pooled Investment Vehicles	141,767	22,375	(10,820)	32,287	185,609
Private Equity / Infrastructure	0			0	0
Derivative Contracts	0				0
Cash Deposits	14,733			(14,650)	83
Other Investment Balances	404			(402)	2
Total Assets	156,908	22,375	(10,824)	17,235	185,694
Investment Liabilities					
Derivative Contracts	0			0	0
Creditors	0			0	0
Total Liabilities	0	0	0	0	0
Net Investment Assets	156,908	22,375	(10,824)	17,235	185,694

Other movements during the year include all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

• Transaction Costs

Transaction costs are included in the cost of purchases and sale proceeds and are charged directly to the Fund. Transaction costs such as fees, commissions and stamp duty incurred during the year was nil (£0.02m in 2013/14).

In addition to the transaction costs disclosed above, indirect costs may be incurred through the bid-offer spread on some pooled investment vehicles. The amount of any such costs is not separately provided to the Fund.

• Derivatives

Derivatives comprise forward foreign exchange contracts. The market values as at 31 March 2015 are nil.

Notes to the Accounts – Fund No. 3

7. Fund Management

The investment assets of the Fund are externally managed.

Investment management arrangements as at 31 March 2015 are shown below:

Asset Class	Fund Manager	% managed
Liability Driven Investment Strategy	Legal and General	83.1
Multi Asset – Absolute Return	Ruffer	16.9

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

The market value of assets under the management of Fund managers as at 31 March 2015 was £185.7 million. During 2013/14 the fund implemented a de-risking strategy which resulted in significant movements between the asset categories as shown in the net assets statement.

8. Notifiable Holdings

As at 31 March 2015 the Fund had holdings exceeding 5% of the total value of net assets in:

	£000	%
Ruffer Absolute Return Fund	31,303	18.7
Legal and General HD Active Corp (All Stocks)	30,083	18.0
1.25% Index Linked Government Bonds Nov 32	14,958	8.9
1.25% Index Linked Government Bonds Nov 27	14,387	8.6
Legal and General Libor Fund	11,018	6.6
Legal and General UK Equity Index Fund	9,703	5.8
0.625% Index Linked Government Bonds Nov 42	9,674	5.8
Legal and General 2055 Leveraged Gilt Fund	8,620	5.1

9. Analysis of Investments

Investments can be further analysed as follows:

	Quoted £000	Unquoted £000	Other £000	Total £000
Assets				
Equities (including convertible shares)	0	0	0	0
Index Linked Securities	0	0	0	0
Pooled Investment Vehicles	0	185,609	0	185,609
Private Equity / Infrastructure	0	0	0	0
Derivative Contracts	0	0	0	0
Cash Deposits	0	0	83	83
Other Investment Balances	0	0	2	2
Total Assets	0	185,609	85	185,694
Liabilities				
Derivative Contracts	0	0	0	0
Creditors	0	0	0	0
Total Liabilities	0	0	0	0
Net Investment Assets	0	185,609	85	185,694

Notes to the Accounts – Fund No. 3

	UK £000	Overseas £000	Total £000
Assets			
Equities (including convertible shares)	0	0	0
Index Linked Securities Public Sector	0	0	0
Pooled Investment Vehicles	166,015	19,594	185,609
Private Equity / Infrastructure	0	0	0
Derivative Contracts	0	0	0
Cash Deposits	83	0	83
Other Investment Balances	2	0	2
Total Assets	166,100	19,594	185,694
Liabilities			
Derivative Contracts	0	0	0
Creditors	0	0	0
Total Liabilities	0	0	0
Net Investment Assets	166,100	19,594	185,694

Note: Cash balances are managed by the Fund's Global Custodian, Northern Trust.

10. Contributions and Benefits

The sole employer contributing to the Fund is Strathclyde Buses, now part of FirstGroup.

11. Management Expenses

The total administrative expenses were as follows:

<i>Restated</i> 2013/14 £000		2014/15 £000
29	Administrative Costs	30
478	Investment Management	313
507		343

12. Investment Management Expenses

The total investment expenses were as follows:

2013/14 £000		2014/15 £000
478	Management Fees	313
478		313

13. Transactions with Related Parties

Pension receipts and payments are transacted using Glasgow City Council's financial systems and the Pension Funds banking arrangements. Throughout the year the Fund maintains a cash balance for this purpose which is listed as 'cash balances' in the net assets statement. During 2014/15 the amount recharged by Glasgow City Council to the Strathclyde Pension Fund for administration costs was £0.030m (2013/14 £0.029m).

Notes to the Accounts – Fund No. 3

14. Stock Lending

The Fund may participate in a stock lending programme managed by its Global Custodian, Northern Trust. All loans are fully collateralised. As at 31 March 2015 stock with a market value of nil was on loan (nil as at 31 March 2014).

15. Contractual Commitments

The Fund had no contractual commitments at the year end.

16. Contingent Assets and Liabilities

The Fund had no material contingent assets or liabilities at the year end and there were no material non-adjusting events occurring subsequent to the year end.

17. Statement of Investment Principles

In accordance with Regulations 12 and 14 of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 the Fund maintains and publishes a written statement of the principles governing decisions about investments. The statement is available at www.spfo.org.uk or on request from the SPFO.

18. Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair values of financial assets and liabilities by category and net asset statement heading for the year ended 31 March 2015.

<i>Fair value through profit & loss</i>	<i>Loans & receivables</i>	<i>Financial liabilities at amortised cost</i>		<i>Fair value through profit & loss</i>	<i>Loans & receivables</i>	<i>Financial liabilities at amortised cost</i>
£000	£000	£000		£000	£000	£000
31 March 2014				31 March 2015		
Financial Assets						
4	0	0	Equities	0	0	0
0	0	0	Index Linked Securities	0	0	0
141,767	0	0	Pooled Investment Vehicles	185,609	0	0
0	0	0	Private Equity / Infrastructure	0	0	0
0	0	0	Derivative Contracts	0	0	0
0	14,733	0	Cash	0	83	0
0	404	0	Other Investment Balances	0	2	0
141,771	15,137	0		185,609	85	0
Financial Liabilities						
0	0	0	Derivatives	0	0	0
0	0	0	Other Investment Liabilities	0	0	0
0	0	0		0	0	0
141,771	15,137	0	Net Financial Assets	185,609	85	0

Notes to the Accounts – Fund No. 3

The table below shows net gains and losses on financial instruments for the year ended 31 March 2015:

31 March 2014		31 March 2015
£000	Financial Assets	£000
(1,292)	Fair value through profit and loss	32,287
(28)	Loans and receivables	0
0	Financial liabilities measured at amortised cost	0
	Financial Liabilities	
(14)	Fair value through profit and loss	0
0	Loans and receivables	0
0	Financial liabilities measured at amortised cost	0
(1,334)	Total	32,287

The following table summarises the carrying values of the Fund's financial assets and liabilities by class of instrument compared with their fair values for the year ended 31 March 2015:

31 March 2014			31 March 2015	
Carrying Value	Fair Value		Carrying Value	Fair Value
£000	£000		£000	£000
		Financial Assets		
134,262	134,262	Fair value through profit and loss	185,609	185,609
22,646	22,646	Loans and receivables	85	85
0	0	Financial liabilities measured at amortised cost	0	0
156,908	156,908		185,694	185,694
		Financial Liabilities		
0	0	Fair value through profit and loss	0	0
0	0	Loans and receivables	0	0
0	0	Financial liabilities measured at amortised cost	0	0
0	0		0	0
156,908	156,908	Total	185,694	185,694

The valuation of financial instruments has been classified into three levels according to the quality and reliability of information used to determine fair values.

Notes to the Accounts – Fund No. 3

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed interest securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available, for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The values of private equity investments are based on valuations provided by the general partners of the private equity funds in which the Fund has invested. Such valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken quarterly.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into Levels 1 to 3, based on the level at which fair value is observable.

Level 1 £000 31 March 2014	Level 2 £000	Level 3 £000		Level 1 £000 31 March 2015	Level 2 £000	Level 3 £000
			Financial Assets			
28,126	106,132	4	Fair Value through profit and loss	31,305	135,822	0
15,114	7,532	0	Loans and receivables	83	18,484	0
0	0	0	Financial liabilities measured at amortised cost	0	0	0
43,240	113,664	4		31,388	154,306	0
			Financial Liabilities			
0	0	0	Fair Value through profit and loss	0	0	0
0	0	0	Loans and receivables	0	0	0
0	0	0	Financial liabilities measured at amortised cost	0	0	0
0	0	0		0	0	0
43,240	113,664	4	Net Financial Assets	31,388	154,306	0

Notes to the Accounts – Fund No. 3

19. Nature and Extent of Risks Arising From Financial Instruments

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund while maximising the opportunity for gains. This is achieved through asset diversification (by asset class, geographical region, sector and Fund manager) to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet forecasted cashflows. These risks are managed as part of the overall pension fund risk management programme. Responsibility for the Fund's risk management strategy rests with the Strathclyde Pension Fund Committee. A risk register is maintained and reviewed by the committee on a quarterly basis. The Fund's assets are externally managed, and the investment managers adhere to their own risk management strategies.

Market Risk

Market risk is the risk of loss from fluctuations in equity prices, interest rates, foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The Fund's investment managers are expected to identify, manage and control market risk exposure within acceptable parameters whilst optimising the return on risk. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The Fund is exposed to share price risk, arising from investments held by the Fund for which the future price is uncertain. All security investments present a risk of loss of capital. The Fund's investment managers mitigate this price risk through the diversification of securities and are monitored to ensure they remain within the investment management guidelines.

Other Price Risk - Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, the following movements in market price risk are reasonably possible for the 2014/15 reporting period:

Asset Type	Potential Market Movement (+/-)
UK Equities	17.0%
Overseas Equities	20.1%
Index Linked Gilts	6.7%
Cash	0.6%

Notes to the Accounts – Fund No. 3

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular the foreign currency exchange rates and interest rates, remain the same. The tables below show the change in the net assets available to pay benefits had the market price of the investments increased or decreased in line with the table above.

Asset Type	Value as at 31 March 2015 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	83	0.6%	84	82
Investment portfolio assets:				
UK bonds	0	0.0%	0	0
Overseas bonds	0	0.0%	0	0
UK equities	0	0.0%	0	0
Overseas equities	0	0.0%	0	0
UK fixed Income unit trusts	75,918	6.7%	81,004	70,832
Overseas fixed Income unit trusts	0	0.0%	0	0
UK equity unit trusts	71,613	17.0%	83,787	59,439
Overseas equity unit trusts	19,594	20.1%	23,532	15,656
Pooled property Investments	0	0.0%	0	0
Hedge Fund	0	0.0%	0	0
Private equity/Infrastructure funds	0	0.0%	0	0
Cash Funds	18,484	0.6%	18,595	18,373
Property	0	0.0%	0	0
Net derivative assets	0	0.0%	0	0
Investment income due	2	0.0%	2	2
Pending Spot FX	0	0.0%	0	0
Amounts receivable for sales	0	0.0%	0	0
Amounts payable for purchases	0	0.0%	0	0
Obligation to Return Cash Collateral Hld	0	0.0%	0	0
Total	185,694		207,004	164,384

The prior year comparators for 2013/14 are as follows:

Asset Type	Value as at 31 March 2014 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	14,733	0.6%	14,822	14,645
Investment portfolio assets:				
UK bonds	0	0.0%	0	0
Overseas bonds	0	0.0%	0	0
UK equities	4	16.6%	4	3
Overseas equities	0	19.4%	0	0
UK fixed Income unit trusts	52,195	9.6%	57,206	47,184
Overseas fixed Income unit trusts	0	9.6%	0	0
UK equity unit trusts	65,724	16.6%	76,635	54,815
Overseas equity unit trusts	16,316	19.4%	19,481	13,150
Pooled property Investments	0	0.0%	0	0
Hedge Fund	0	0.0%	0	0
Private equity/Infrastructure funds	0	0.0%	0	0
Cash Funds	7,532	0.6%	7,577	7,486
Property	0	0.0%	0	0
Net derivative assets	0	0.0%	0	0
Investment income due	23	0.0%	23	23
Pending Spot FX	0	0.0%	0	0
Amounts receivable for sales	381	0.0%	381	381
Amounts payable for purchases	0	0.0%	0	0
Obligation to Return Cash Collateral Hld	0	0.0%	0	0
Total	156,908		176,129	137,687

Notes to the Accounts – Fund No. 3

Interest Rate Risk

The Fund invests in financial assets with the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2014 is set out below.

Asset Type	As at 31 March 2014	As at 31 March 2015
	£000	£000
Cash Balances – Investments	14,733	83

Interest Rate Sensitivity Analysis

Interest rates can vary and can affect both income to the Fund and the value of net assets available to pay benefits. The analysis in the table below assumes that all other variables, in particular exchange rates, remain constant and shows the effect of a +/-100 BPS change in interest rates on the net assets available to pay benefits.

Asset Type	As at 31 March 2015	+100 BPS	-100 BPS
	£000	£000	£000
Cash Balances – Investments	83	84	82

Asset Type	As at 31 March 2014	+100 BPS	-100 BPS
	£000	£000	£000
Cash Balances – Investments	14,733	14,880	14,586

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the Fund's base currency (GBP). The Fund holds both monetary and non monetary assets denominated in currencies other than GBP. Investment managers are expected to manage currency risk.

Notes to the Accounts – Fund No. 3

Currency Risk – Sensitivity Analysis

Based on historical analysis of movement in the currencies to which the Fund is exposed, it is considered that a 13.0% fluctuation in currency is reasonable. The table below shows the impact a 13.0% strengthening / weakening of the pound against the various currencies to which the Fund is exposed would have on the net assets available to pay benefits, assuming all other variables, in particular interest rates, remain constant.

Asset Type	As at 31 March 2015	% Change	Value on Increase	Value on Decrease
	£000		£000	£000
Overseas quoted securities				
Overseas unquoted securities				
Overseas fixed income				
Overseas unit trusts	19,594	13.00%	22,141	17,047
Hedge funds overseas equity				
Hedge funds overseas fixed interest				
Overseas public sector bonds (quoted)				
Overseas corporate bonds (quoted)				
Overseas corporate bonds (unquoted)				
Total	19,594		22,141	17,047

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The Fund's cash balances are managed by Northern Trust and are invested in AAA rated money market funds.

20. Analysis of Investment Assets (IAS19)

In accordance with the requirements of IAS19 the following statement provides a detailed analysis of investment assets as at 31 March 2015 with comparators for 2014.

<i>Quoted £000</i>	<i>Unquoted £000</i>	<i>Total £000</i>		<i>Quoted £000</i>	<i>Unquoted £000</i>	<i>Total £000</i>
31 March 2014				31 March 2015		
			Equity Securities			
0	0	0	Consumer	0	0	0
0	3	3	Manufacturing	0	0	0
0	0	0	Energy and Utilities	0	0	0
0	0	0	Financial Institutions	0	0	0
0	0	0	Health and Care	0	0	0
0	0	0	Information Technology	0	0	0
			Debt Securities			
0	0	0	UK Government	0	0	0
			Investment funds and unit			
0	82,041	82,041	Equities	0	91,207	91,207
0	52,195	52,195	Bonds	0	75,918	75,918
0	7,532	7,532	Hedge Funds	0	0	0
0	0	0	Property	0	0	0
0	15,137	15,137	Cash and cash equivalents	0	18,569	18,569
0	156,908	156,908	Totals	0	185,694	185,694

Annual Governance Statement 2014/15

Role and responsibilities

Glasgow City Council (“the Council”) has statutory responsibility for the administration of the Local Government Pension Scheme (“LGPS”) in the West of Scotland, both on its own behalf and in respect of the other 11 local authorities in the former Strathclyde area, and some 200 other large and small employers.

The main functions are management and investment of the fund and administration of scheme benefits. These functions are carried out in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972.

Glasgow carries out its role as Administering Authority via:

- the Strathclyde Pension Fund Committee
- the Strathclyde Pension Fund Office (SPFO), a division of the Council’s Financial Services Department
- the Strathclyde Pension Fund (the Fund)

Delegation

The function of maintaining the Strathclyde Pension Fund is delegated by the Council to its Strathclyde Pension Fund Committee. Certain parts of the function are further delegated to the Executive Director of Financial Services as set out in the Fund’s Statement of Investment Principles and Administration Strategy. The Fund’s policy documents are available in the Publications area of its website at:

www.spfo.org.uk

Terms of delegation

The terms, structure and operational procedures of delegation are set out in the Council’s Scheme of Delegated Functions and Standing Orders. These are available at: <http://www.glasgow.gov.uk/index.aspx?articleid=2952>

Committee meetings

Meetings of the Strathclyde Pension Fund Committee are held quarterly. Occasional ad hoc meetings are also held as required. Committee meeting dates are listed in the Council Diary which is available at:

<http://www.glasgow.gov.uk/councillorsandcommittees/calendar.asp>

Representation

The Strathclyde Pension Fund Committee is comprised solely of elected members of Glasgow City Council. During 2014/15 employing authorities and scheme members were represented at the Strathclyde Pension Fund Representative Forum. The Fund’s Policy on Representation, which sets out the Forum arrangements, is included in the Annual Report.

Compliance

The Committee and Representative Forum arrangements were compliant with guidance provided by Scottish Ministers. The extent of this is detailed in the Strathclyde Pension Fund – Governance Compliance Assessment included in the Fund’s annual report.

Pension Board

From 1st April 2015 the Representative Forum will be replaced by the Strathclyde Pension Fund Board established in terms of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015.

Scope of responsibility

As the administering authority for the Fund, the Council is responsible for ensuring that its business, including that of the Fund, is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a statutory duty to make arrangements to secure best value under the Local Government in Scotland Act 2003.

In discharging this overall responsibility, the Strathclyde Pension Fund Committee is responsible for putting in place proper arrangements (known as the governance framework) for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance (the Code), which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) Framework: Delivering Good Governance in Local Government. A copy of The Code is available on the council’s website at:

<http://www.glasgow.gov.uk/index.aspx?articleid=4441>

Annual Governance Statement 2014/15 Continued...

The work of the Strathclyde Pension Fund is governed by the Code and by regulations specific to administration of pension funds. The Strathclyde Pension Fund is governed by the Local Government Pension Scheme (Scotland) Regulations. These include requirements for the preparation and production of a number of key policy documents including a Funding Strategy Statement and Statement of Investment Principles. These documents set out the Fund's objectives together with the main risks facing the Fund and the key controls in place to mitigate those risks. A Risk Register is maintained to facilitate detailed risk monitoring, and an annual Business Plan is produced to agree development and business priorities. All of these documents are available at the Fund's website at:

www.spfo.org.uk

The Council's Executive Director of Financial Services is responsible for arranging the proper administration of the financial affairs of the Strathclyde Pension Fund. These arrangements include an internal audit of an internal control environment which should:

- safeguard the contributions made by employees and employers to provide funds to meet the future pension liabilities of the Fund's members,
- ensure control over the investment managers charged with growing the value of the Fund to meet future liabilities, and
- secure payment to the retired members of the Fund.

The Committee's terms of reference state that the Committee has the power to discharge all functions and responsibilities relating to the Council's role as administering authority for the Strathclyde Pension Fund in terms of the Local Government (Scotland) Act 1994, the Superannuation Act 1972 and the scheme regulations. The Committee is also responsible for the governance arrangements including regulatory compliance and implementation of audit recommendations.

Due to the structure and nature of the Strathclyde Pension Fund, financial data is held and transactions processed via a number of different sources, systems and reporting mechanisms:

- **Funding:** long terms cash flows and financial requirements are assessed in the three-yearly actuarial valuations. A quarterly funding projection is also produced by the Fund actuary.
- **Investment:** day-to-day management of investments is outsourced to a number of external parties. Detailed investment records are maintained by the Fund's external investment managers and global custodian and summarised in regular investment reports.

- **Administration:** the Fund introduced the current software package for calculating and recording pensions benefits in February 2013. Payments are made from the Fund's bank account, and the Council's SAP-based financial system is used for reporting.

Given the role of the external investment managers it is essential that the Fund obtains assurances on the adequacy of the internal financial control systems operated by them. The main source of this assurance is the annual audit report produced by each of the managers' independent service auditors. Fund officers obtain and review these reports for each of the investment managers and the global custodian, who is responsible for the safekeeping and servicing of the Fund's assets. Current practice is for the findings of these reports to be reported to the Strathclyde Pension Fund Committee only by exception where there are audit concerns.

As part of the investment monitoring, a reconciliation process is well established which involves the completion of a quarterly performance reconciliation and an accounting reconciliation by the custodian Northern Trust.

Review of effectiveness

The Council and the Strathclyde Pension Fund have systems of internal control designed to manage risk to a reasonable level. Internal controls cannot eliminate risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is an ongoing process designed to identify and prioritise the risks to the achievement of the Fund's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised.

A review of the Fund's governance framework is conducted on an annual basis by means of a self assessment questionnaire based on the principles contained in the CIPFA/SOLACE Framework. Issued by Internal Audit it is designed to allow the Head of Pensions to determine the extent to which the Fund complies with these principles. The accuracy of the responses to this questionnaire is reviewed and tested on a rolling basis by Internal Audit, and this was last undertaken as part of the 2013/14 assurance audits.

The Committee is responsible for ensuring the continuing effectiveness of the governance framework and system of internal control. The review of effectiveness is informed by the work of the Committee and SPFO, the Head of Audit and Inspection's annual report and by observations made by the external auditors.

Annual Governance Statement 2014/15 Continued...

Update on Significant Governance Issues Previously Reported

There were no significant governance issues in 2013/14 specific to the Strathclyde Pension Fund. However there was one area noted in the Council's Governance Statement which was of relevance to the Strathclyde Pension Fund.

A review of Firewall Management in 2013/14 identified a number of issues which resulted in the control environment being assessed as unsatisfactory. A detailed follow up was undertaken by Internal Audit during 2014/15, which confirmed that all recommendations have now been implemented.

Internal Audit Opinion

Assurance work undertaken within the Strathclyde Pension Fund in 2014/15 as part of the agreed audit plan included the following reviews:

- Risk management and business continuity arrangements, including a check that the control actions identified for the top five risks have been implemented. This review sought to gain assurance that sound arrangements were in place to manage the risks facing SPFO and that should a major business interruption occur there are arrangements in place to maintain the service.
- The Strathclyde Pension Fund's compliance with the Council's Complaints Handling Procedures. This review sought to gain assurance that the Strathclyde Pension Fund complies with the Council's Procedures, and therefore the Scottish Public Services Ombudsman requirements, when dealing with complaints received.
- Administration of travel and expenses, including booking and reimbursement, and the arrangements for dealing with gifts and hospitality both offered to and by the Strathclyde Pension Fund staff. This audit sought to gain assurance that there were adequate arrangements in place and that the Strathclyde Pension Fund complied with the Council policies.
- Arrangements for managing the information which the Strathclyde Pension Fund holds. The audit sought to gain assurance that there were adequate arrangements in place for creating, using, saving and deleting/destroying information.

- Arrangements for dealing with new starts to the pension scheme. This audit sought to gain assurance that new starts are processed accurately and in accordance with documented procedures.

The Head of Audit and Inspection has confirmed that there are no significant governance issues that require to be reported as a result of the work undertaken by Internal Audit in 2014/15.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance that operate in the Strathclyde Pension Fund. We have reviewed all the findings by Internal Audit and confirmed that there are no matters that require to be noted in this Statement, other than what has been outlined above. We consider the governance and internal control environment operating during 2014/15 to provide reasonable and objective assurance that any significant risks impacting on the Fund's ability to achieve its objectives will be identified and actions taken to avoid or mitigate the impact.

Where areas for improvement have been identified and action plans agreed, we will ensure that they are treated as priority and progress towards implementation is reviewed by the Strathclyde Pension Fund Leadership Team and Committee.

We will continue to review and enhance, as necessary, our governance arrangements.

Councillor Paul Rooney

City Treasurer and
Convenor, Strathclyde Pension Fund Committee
23 September 2015

Annemarie O'Donnell

Chief Executive, Glasgow City Council
23 September 2015

Policy on Representation

1. Policy

During the year to 31st March 2015 Glasgow City Council, in its role as Administering Authority for the Strathclyde Pension Fund, maintained a Representative Forum as the principal means to allow interested parties to comment on matters relating to the Fund.

2. Executive Responsibility

Glasgow City Council retained absolute executive responsibility for the Fund. The Strathclyde Pension Fund Committee is the formal decision making body for the Fund, and matters of fiduciary responsibility remain the exclusive preserve of the Strathclyde Pension Fund Committee.

3. Forum Objectives

By providing an interface between the Fund's stakeholders and the Strathclyde Pension Fund Committee the Forum allowed interested parties, on a representative basis, to contribute to decisions regarding the Fund.

4. Forum Remit and Role of Forum Members

Forum membership formed a broadly representative cross-section of the Fund's stakeholders. Members participate on this basis, and the Forum thus presented a representative view from the Fund's stakeholders. Consultation and communication with their stakeholder base was at the discretion of individual Forum members.

5. Meetings

The Forum was convened on the same cycle as the Strathclyde Pension Fund Committee with quarterly meetings in advance of the committee meetings. A minute of the Forum meetings was produced and included on the agenda of the committee meeting. Forum meetings were public. Agendas, reports and minutes are publicly available.

6. Chair

The Forum was chaired by the Convener of the Strathclyde Pension Fund Committee.

7. Committee Members

An additional committee member, the Vice-convener of the Strathclyde Pension Fund Committee, was nominated as the Chair's designated alternate.

8. Officer Support

Officer support to the Forum was provided by the Executive Director of Financial Services and officers from the Strathclyde Pension Fund Office. Support included the ongoing provision of information and training as appropriate.

9. Training

Training was provided for Forum members in accordance with the Fund's annual training plan.

10. Agenda

The agenda was based on the Committee agenda. Forum members were permitted to introduce additional agenda items subject to prior consultation with the Chair.

11. Administration

Administration was carried out by Glasgow City Council's Committee Services section.

12. Membership

For reasons of practicality, participation in the Forum was restricted to nominated representatives or their alternates. Membership was constituted as follows.

Stakeholder Group	Forum Places
Local Authorities	11
Scheduled Bodies	3
FE Colleges	1
Large Admitted Bodies	2
Medium Admitted Bodies	2
Small Admitted Bodies	2
Transferee Admitted Bodies	0
Administering Authority	2
Trade Unions	5
Pensioner/Deferred	2
Totals	30

Strathclyde Pension Fund – Governance Compliance Assessment for year to 31st March 2015

The following pages contain an assessment of the extent to which delegation, or the absence of a delegation, complies with guidance given by Scottish Ministers and, to the extent that it does not so comply, the reasons for not complying. The guidance takes the form of 9 principles.

The Principles

Structure

- a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.
- b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.
- c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.
- d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

	Non Compliant				Compliant
a)					✓
b)					✓
c)					✓
d)					✓

Note on compliance

The Strathclyde Pension Fund Committee discharges all functions and responsibilities relating to the Council's role as administering authority for the Strathclyde Pension Fund in terms of the Local Government (Scotland) Act 1994, the Superannuation Act 1972 and the Local Government Pension Scheme (Scotland) Regulations.

The Representative Forum membership includes employer, admitted body, and scheme member representatives including pensioner and deferred members.

A formal report of each meeting of the Representative Forum is included on the agenda of the subsequent Committee meeting.

The Committee Convener and Vice Convener are also members of the Representative Forum.

Committee Membership and Representation

- a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-
 - i) employing authorities (including non-scheme employers, e.g. admitted bodies);
 - ii) scheme members (including deferred and pensioner scheme members),
 - iii) where appropriate, independent professional observers, and

iv) expert advisors (on an ad-hoc basis).

- b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

	Non Compliant				Compliant
a)					✓
b)					✓

Note on compliance

The Representative Forum includes employing authority and admitted body representatives.

The Representative Forum includes trade union, pensioner and deferred member representatives.

The Representative Forum agenda is based on and usually identical to the Committee agenda.

The Fund's actuarial advisers, investment consultants and investment advisors routinely attend Committee meetings.

The training policy and practice statements and training plan apply equally to the Representative Forum and Committee.

Selection and role of lay members

- a) That Committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.
- b) That at the start of any meeting, Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.

	Non Compliant				Compliant
a)					✓
b)					✓

Note on compliance

All Committee and Representative Forum members are offered induction training covering the status, role and all of the functions of the respective bodies.

Declaration of interests are managed in line with the Code of Conduct issued by the Standards Commission for Scotland.

Voting

- a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

	Non Compliant				Compliant
a)					✓

Note on compliance

All Committee members have full voting rights.

Training/Facility time/Expenses

- a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.
- b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.
- c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.

	Non Compliant				Compliant		
a)							✓
b)							✓
c)							✓

Note on compliance
 A training policy, practice statement and plan are agreed each year.

The training policy and practice statements and training plan apply equally to the Representative Forum and Committee.

A training log is maintained for committee members.

Meetings (frequency/quorum)

- a) That an administering authority's main committee or committees meet at least quarterly.
- b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.
- c) That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented

	Non Compliant				Compliant		
a)							✓
b)							✓
c)							✓

Note on compliance
 Regular quarterly Committee meetings are held.

The Representative Forum meets quarterly a week or so ahead of the Committee to consider the same agenda and reports as the Committee.

An Annual General Meeting is also held and is attended by a wider group of stakeholders.

Access

- a) That subject to any rules in the council’s constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.

	Non Compliant				Compliant
a)					√

Note on compliance
The Representative Forum receives the same reports, documents and advice as the Committee.

Scope

- a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements

	Non Compliant				Compliant
a)					√

Note on compliance
The scope of the governance arrangements covers the whole spectrum of pensions issues.

Regular reports include coverage of:

- scheme administration;
- scheme reform;
- investment performance;
- investment strategy;
- responsible investment;
- finance;
- funding;
- risk;
- audit;
- the Fund’s business plan; and
- ad-hoc reports also cover other pensions issues.

Publicity

- a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

	Non Compliant				Compliant
a)					√

Note on compliance
The Fund’s website at www.spfo.org.uk has an entire section of its Publications area dedicated to governance.

Independent Auditor's Report

Independent auditor's report to the members of Glasgow City Council as administering body for Strathclyde Pension Fund and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Strathclyde Pension Fund for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Executive Director of Financial Services and auditor

As explained more fully in the Statement of Responsibilities, the Executive Director of Financial Services is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the funds' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Financial Services; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2014/15 Code of the financial transactions of the fund during the year ended 31 March 2015, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Opinion on other prescribed matter

In my opinion the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government; or
- the Governance Compliance Assessment does not comply with guidance from the Scottish Ministers.

I have nothing to report in respect of these matters.

Gillian Woolman MA FCA
Assistant Director
Audit Scotland
18 George Street
EDINBURGH
EH2 2QU

Date: 29 September 2015



CONTACTS

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Chief Pensions Officer (Finance) Paul Murphy
Chief Pensions Officer (Investments) Jacqueline Gillies
Principal Pensions Officer (Development) Nicola Smith
Principal Pensions Officer (Operations) Linda Welsh

Managing the Local Government Pension Scheme in the west of Scotland

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Delivering excellence in Scotland's public sector pensions

Ref: 2015 Annual Report 06/15