



# ANNUAL REPORT AND FINANCIAL STATEMENTS

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**FOR THE YEAR ENDED  
31 MARCH 2017**

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# SECTION 1

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## INTRODUCTION



# FOR YOUR FUTURE



## ABOUT STRATHCLYDE PENSION FUND

Strathclyde Pension Fund is part of the Local Government Pension Scheme (LGPS).

It is one of 11 LGPS funds in Scotland and around 100 in the UK.

Strathclyde is the second largest of the UK LGPS funds.

The LGPS is a statutory scheme established under primary legislation – the Superannuation Act 1972 and Public Service Pensions Act 2013.

- The scheme rules take the form of a series of regulations – the Local Government Pension Scheme (Scotland) Regulations. The regulations are Scottish Statutory Instruments (SSIs). There are separate sets of regulations to set out the scheme benefits, investment arrangements and governance requirements.
- The LGPS is a multi-employer defined benefit scheme. The benefits are based on final salary for all service to 31st March 2015 and career average earnings for benefits from 1st April 2015.
- The Strathclyde Pension Fund was created in 1974. It has been managed by Glasgow City Council since 1996.
- The Fund is a pool into which member and employer contributions are paid. The money is invested so that pension benefits can be paid as they fall due.
- Participating employers include the 12 local authorities in the west of Scotland; Police Scotland, Scottish Fire and Rescue, and Scottish Water; a number of universities and colleges; local authority subsidiary companies and contractors; and a wide range of other organisations with funding or service links to the local government sector.
- As at 31st March 2017 the Strathclyde Pension Fund had 222,860 members, 183 participating employers and investment assets of £19.7 billion.

## FOREWORD

Having become City Treasurer and Strathclyde Pension Fund Committee Convener after the Council elections on 4<sup>th</sup> May 2017, I am pleased to introduce an annual report which shows the Fund in very strong shape after another successful year.

The headline results for the year were significant growth in both Fund value and membership. Total investment assets were over £19 billion for the first time at the year end, an increase of over £3.6 billion over the year.

Total membership was almost 223,000, an increase of more than 6,000.

Employee membership is expected to increase further in the year ahead as the transitional period for auto enrolment ends in September 2017 and large numbers of employees who have previously opted out of the scheme will be re-enrolled.

The future direction of investment returns is much harder to predict. The Fund's investment strategy retains a majority exposure to equity markets, though this was reduced during the year as the first phase of a planned programme of risk diversification was completed. But the value of investments can go down as well as up particularly after 8 consecutive years of positive returns which have seen the Fund's value more than double since the financial crisis of 2008/09.

New investments included strategic allocations to a mix of debt strategies. By year end, over £570 million was invested in private and multi-asset debt. An emerging market debt mandate of c.£300 million remained to be funded but cash had been realised from equity mandates to achieve this.

The Strathclyde Direct Investment Portfolio, the Fund's vehicle for alternative investment ideas also continued to grow. 6 new investments were agreed totalling £150 million and spanning core UK infrastructure, green energy, a Scottish software and technology fund, and equity and debt financing for growing UK businesses. This takes the total number of investments by the portfolio to 31, and capital committed to over £700 million.

Developments in the Fund's responsible investment strategy were focused on the investment risks associated with climate change. The Fund carried out its first carbon foot-printing of portfolios during the year. The results were encouraging in confirming that the Fund's portfolios are less carbon intensive than a market-neutral strategy. The results will inform ongoing discussions with portfolio managers and the foot-printing exercise will be repeated in due course. The Fund receives regular calls to divest from fossil fuels (and various other sectors) but continues to resist this approach as being less effective than a smart and sensible carbon management strategy and active engagement with companies and industry participants. The Fund became a member of the Institutional Investor Group on Climate Change during the year.

With growing membership and ever-increasing complexity, scheme administration relies very heavily on the diligence and experience of Strathclyde Pension Fund Office (SPFO) and its staff to ensure that members receive meaningful information and accurate benefits at the appropriate time. SPFO continues to deliver these and to develop improvements in digital services and communications with members and employers.

The accounting year end on 31<sup>st</sup> March also marks the date of the triennial actuarial valuation. The valuation and accompanying activity including review of the funding and investment strategies will be a central focus for much of the year to come.

Council elections have brought some changes to membership of both the Strathclyde Pension Fund Committee and Board, but not to the overall governance framework set out in the scheme regulations and the strong governance culture adopted by the Fund.



**Councillor Allan Gow**  
**City Treasurer, and Convener**  
**of Strathclyde Pension Fund**  
**Committee**  
**September 2017**

# MANAGEMENT COMMENTARY

## Strategy and objectives

The Fund's longer term policies, objectives and strategies are agreed by the Strathclyde Pension Fund Committee and set out in its policy documents. These cover governance and the funding, investment, administration and communications strategies. During 2016/17 a new Risk Policy and Strategy Statement was published. Each of these is reproduced or summarised within this annual report. All documents are available from the Fund's website at: [www.spfo.org.uk](http://www.spfo.org.uk). All have a common purpose: to secure the payment of pensions benefits now and in the future to the Fund's 223,000 members.

## Business plan

The committee agrees an annual business plan to ensure that ongoing management and development of the Fund is in line with the longer term policy, objectives and strategy. The plan sets out resource requirements, Key Performance Indicators (KPIs) and business and development priorities for the coming year. Priorities for 2016/17 included implementing a series of agreed changes to the investment strategy; implementing changes to the responsible investment strategy; the final stage of implementation of the new LGPS 2015 scheme; and development of measures to secure ongoing compliance with the requirements of the Pensions Regulator. Each of these was successfully progressed or concluded over the course of the year whilst day-to-day performance targets were achieved in most areas of activity.

## Investment

Positive growth, low inflation and a scaling back of interest rate expectations in the US provided a generally positive economic backdrop to the year. Markets did display some nervousness, particularly around the two major political events -

the UK "Brexit" referendum in June and the US presidential elections in November – but ultimately reacted very positively to both results. In particular, the UK's decision to leave the European Union resulted in a marked weakening in sterling which may not be universally welcome, but did have the effect of increasing the value of many UK companies with significant revenues in other, strengthening currencies. The majority of the Fund's investments are overseas, and the sterling value of these holdings increased significantly.

The Fund's total investment return for the year was +23.1%, a very good year by any standard but all the more remarkable for representing an 8<sup>th</sup> consecutive year of investment growth. Investment income from dividends, rents and interest was £252m. Capital growth - change in market value of investments - was £3,521 million.

Performance relative to benchmark was positive for a 3rd consecutive year. Average annual return over the last 5 years now stands at 11.8% p.a., comfortably ahead of the strategic benchmark return of +10.9% and significantly better than the actuary's long-term investment assumption of +4.9% p.a.

Closing net assets of the Fund were £19.699 billion, another new high and an increase of £3.6 billion from 31st March 2016 (page 27).

While equity markets were the main driver of performance over the year, the main focus of activity was on reducing the Fund's equity allocation in favour of a more broadly diversified strategy including private debt, emerging market debt, global credit and UK infrastructure (with a focus on renewable energy). The first phase of this strategic shift was completed over the year, though its impact was offset to some extent by the strong market performance. Further phases will be considered as part of the next phase of review which will be based on the results of the actuarial valuation of the Fund's liabilities to be carried out as at 31<sup>st</sup> March 2017.



## Funding

The 2017 actuarial valuation will not be concluded until early 2018. 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.

In spite of the very strong investment returns experienced since the last valuation it is unlikely that the target of 100% funding will have been achieved. A trend of growth in the valuation of the liabilities which started before the 2011 actuarial valuation continued over the last year offsetting much of the investment gain. The cost of future benefits is also likely to have increased.

## Administration

For the first half of the year, the focus of much administration activity within Strathclyde Pension Fund Office (SPFO) remained on the new career average version of the Local Government Pension Scheme - LGPS 2015. This had been successfully introduced on 1st April 2015, but the final stage of implementation involved collating employer year-end returns to enable issue of benefit statements to all contributing members by the statutory deadline of 31st August 2016. With co-operation

from employers this was achieved with a 98% success rate.

Alongside the new scheme, SPFO had acquired a new regulator – the Pension Regulator (TPR) extending its exiting remit to include responsibility for the public service schemes for the first time. During the year SPFO agreed a plan to ensure compliance with the Regulator's *Code of practice 14: governance and administration of public service pension schemes*. A procedure for reporting to the Regulator was developed and adopted. Other measures are ongoing.

Administration performance did experience some adverse impact from the additional complexities involved in the LGPS 2015 scheme. Overall, data completeness and quality was very good by year end; customer satisfaction levels were good; but turnaround times for processing were behind target.

## Communications

Throughout the year we continued to promote the SPFO digital communications strategy. At 31st March 2017 a total of almost 52,000 members had registered to actively use our *SPFOonline* service, comfortably ahead of the target figure of 50,000.

Our most significant new communications initiative was the launch at our 2016 AGM of a membership campaign under the tagline: “For Your Future”. This was designed as a counter to a number of emerging issues which might tempt members to leave the scheme - salaries reducing in real terms, Freedom & Choice legislation, pensions scams, and removal of the National Insurance rebate in April 2016

## Membership

Numbers for all member categories grew during the year. Total membership as at 31st March 2017 was 222,860, its highest level to date. Notably, employee membership, which had reached a peak in 2009 before declining sharply for the 3 following years, finished this year at a new high of 94,647. Employee contributions increased from £117 million to £122 million. Total income from dealing with members increased from £513 million to £526 million.

Expenditure on members increased from £523 million to £557 million. Net member cash flow has become negative in the last couple of years. That was the case again in the year to 31st March 2017, and the net expenditure figure increased from £10 million to £31 million (page 26). It is likely that net expenditure will continue to increase over future years, but that may not be a linear or rapid change. Investment income will provide ample cover of this for the foreseeable future.

## Risk

The funding and investment strategies are firmly risk-based and long-term in perspective. Events such as Brexit may increase volatility of performance and progress but should not fundamentally increase the risk of failing to meet objectives. There was some revision of ratings for more immediate operational risks. These included a reduction in the pension system risk as a result of improved disaster recovery and business continuity arrangements. Two new risks were added: MiFID II Compliance and GMP Reconciliation. Both are technical compliance issues which all UK pension funds need to address before 2018.

## Conclusion

The individual Financial, Investment, Funding and Administration sections of the Annual Report provide a detailed analysis of performance and progress. In summary, the year to 31st March 2017 was very successful for the Strathclyde Pension Fund in terms of continuing growth in value and membership. Performance against targets was very satisfactory, and further progress was made towards strategic objectives, in particular the revised investment strategy. However, the low-growth, low interest rate environment does present challenges for all pension funds; and the public sector economy continues to experience considerable pressure.

## No.3 Fund

The No.3 Fund has been closed to new membership since it was created in 1993. As a result it is well past its natural growth phase and starting to enter run-off. Total payments to members in 2016/17 were £7.042 million, significantly more than member income of £3.371 million (page 58). The Fund has been largely de-risked in recent years in anticipation of entering this phase. Fund value increased from £184 million to £211 million over the year (page 59). Liabilities also increased but the funding position improved from an estimated 93% to 96%. Given its mature membership and liability-matching investment strategy, this is likely to be the broad trend of this Fund’s remaining life cycle.

Councillor Allan Gow  
City Treasurer and Convener,  
Strathclyde Pension Fund Committee  
26 September 2017

Annemarie O'Donnell  
Chief Executive,  
Glasgow City Council  
26 September 2017

Morag Johnston  
Acting Executive Director of Financial Services,  
Glasgow City Council  
26 September 2017

# KEY TRENDS

## MEMBERSHIP AND MEMBER TRANSACTIONS

	2012/13	2013/14	2014/15	2015/16	2016/17
Employers	233	215	202	200	183
Employee Members	81,994	87,197	90,057	92,717	94,647
Deferred Members	46,274	47,243	49,215	50,545	53,465
Pensioners	68,857	70,404	71,605	73,012	74,748
<b>Total Members</b>	<b>197,125</b>	<b>204,844</b>	<b>210,877</b>	<b>216,274</b>	<b>222,860</b>

	(£000)	(£000)	(£000)	(£000)	(£000)
Employer Contributions	382,255	368,250	373,129	391,445	398,279
Employee Contributions	107,683	110,282	113,041	116,760	122,077
Lump Sums Paid	(106,820)	(95,792)	(98,845)	(104,098)	(120,882)
Pensions Paid	(346,939)	(371,118)	(388,953)	(396,791)	(411,007)
Other Payments	(8,825)	(9,904)	(17,684)	(17,541)	(19,582)
<b>Net</b>	<b>27,354</b>	<b>1,718</b>	<b>(19,312)</b>	<b>(10,225)</b>	<b>(31,115)</b>

## INVESTMENTS

	2012/13	2013/14	2014/15	2015/16	2016/17
	(£000)	(£000)	(£000)	(£000)	(£000)
Opening Value	11,450,885	13,066,241	13,944,975	15,758,296	16,058,521
Investment Income	167,528	194,257	199,973	228,708	251,869
Costs	(23,412)	(111,190)	(94,641)	(92,533)	(100,662)
Member Transactions	27,354	1,718	(19,312)	(10,225)	(31,115)
<b>Change in Value</b>	<b>1,443,886</b>	<b>793,949</b>	<b>1,727,301</b>	<b>174,275</b>	<b>3,520,771</b>
<b>Closing Value</b>	<b>13,066,241</b>	<b>13,944,975</b>	<b>15,758,296</b>	<b>16,058,521</b>	<b>19,699,384</b>

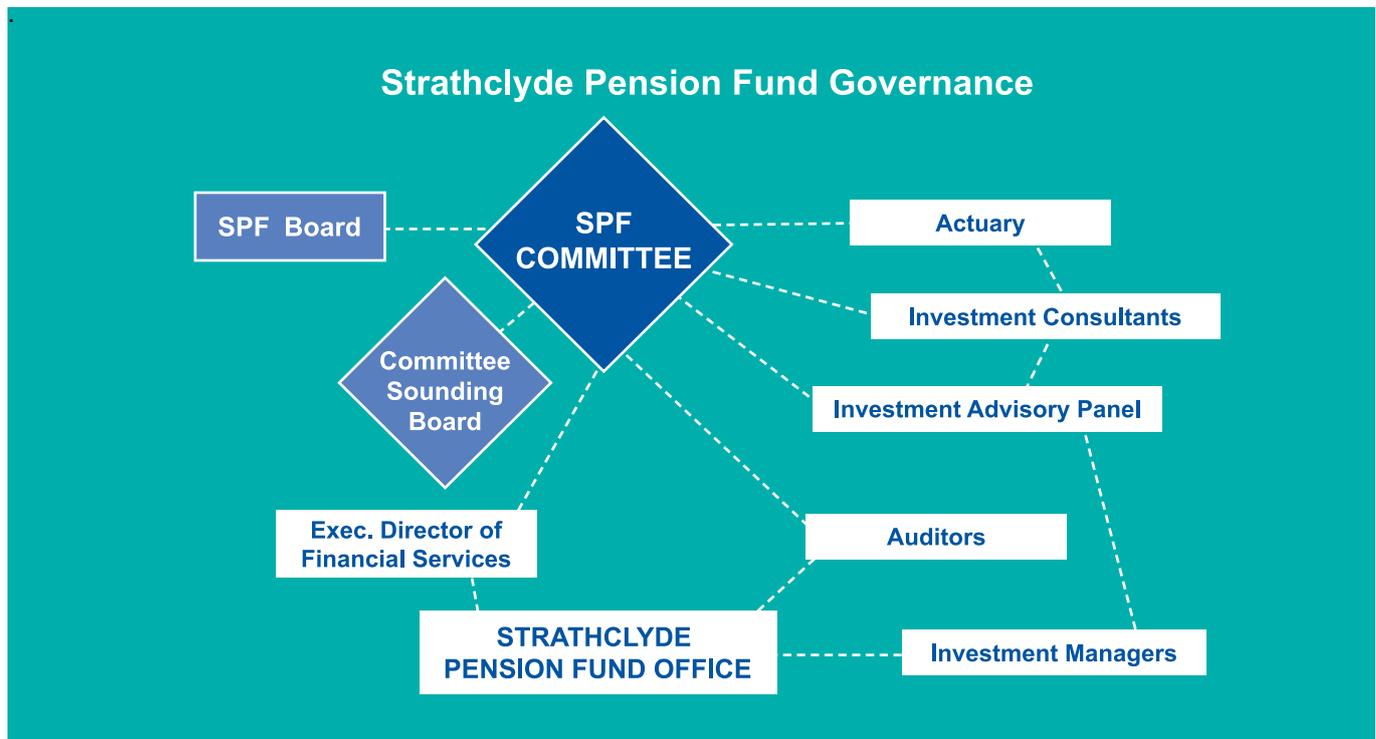
# SECTION 2

## GOVERNANCE



# WHO MANAGES THE STRATHCLYDE PENSION FUND?

Given the size and complexity of the Strathclyde Pension Fund there are a large number of decision makers, advisers and practitioners involved in running it. The key roles are illustrated and summarised below and described further on the following pages



Glasgow City Council's **Strathclyde Pension Fund Committee** is the main decision-making body for the Fund.

**The Committee Sounding Board** reviews proposals before they are considered by the Committee for decision.

**The Pension Board** assists the Committee in securing compliance with the regulations, other legislation and the requirements of the Pensions Regulator.

**The Executive Director of Financial Services** is the responsible officer. The **Director of Strathclyde Pension Fund** is the principal adviser to the Committee.

**The Strathclyde Pension Fund Office** administers the scheme, manages the Fund and implements Committee decisions.

**The actuary** provides advice on funding. **The investment consultants** provide advice on all aspects of investment objectives, strategy and structure.

**The Investment Advisory Panel** develops investment strategy and monitors investment performance.

**The internal and external auditors** review risk, controls, and the financial statements.

**The investment managers** manage the investment portfolios.

## 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 throughout the year to 31st March 2017 is shown below.

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

Current committee membership is displayed on our website at: [www.spfo.org.uk](http://www.spfo.org.uk)



**Bailie Philip Braat  
(Convener)**



**Councillor Malcolm  
Cunning  
(Vice Convener)**



**Bailie Elizabeth  
Cameron**



**Cllr Stephen  
Curran**



**Bailie Norman  
MacLeod**



**Bailie Allan Stewart**



**Bailie Dr Nina  
Baker**



**Cllr Pauline  
McKeever**

Under its Terms of Reference, 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 and the Public Service Pensions Act 2013.

## COMMITTEE SOUNDING BOARD

Since 2009 the Strathclyde Pension Fund Committee has maintained a working group or Sounding Board drawn from its membership. The main function of the Sounding Board is to review proposals before they are considered by committee for decision – in particular investment proposals for the Direct Investment Portfolio and proposals relating to development of investment strategy.

Throughout the year to 31st March 2017 the Sounding Board membership comprised:

- **Bailie Philip Braat (Convener)**
- **Cllr Malcolm Cunning (Vice-Convener)**
- **Bailie Norman MacLeod**

## STRATHCLYDE PENSION FUND BOARD

The Local Government Pension Scheme (Governance) (Scotland) regulations require each administering authority to establish a board with responsibility for assisting in relation to securing compliance with the regulations and other legislation relating to the governance and administration of the Scheme and with requirements imposed in relation to the Scheme by the Pensions Regulator.

A Pension Board has to comprise an equal number of representatives appointed by scheme employers and relevant trade unions.

As at 31st March 2017 the Strathclyde Pension Fund Board membership comprised:

### Employer Representatives

- |                              |  |
|------------------------------|--|
| • <b>Cllr Andrew Spowart</b> | <b>North Lanarkshire Council (Chair)</b> |
| • <b>Cllr Gerry Convery</b>  | <b>South Lanarkshire Council</b>         |
| • <b>Cllr Michael Holmes</b> | <b>Renfrewshire Council</b>              |
| • <b>Mark Dickson</b>        | <b>Scottish Water</b>                    |

### Trade Union Representatives

- |                          |   |
|--------------------------|---|
| • <b>Andrew Thompson</b> | <b>GMB</b>  |
| • <b>Stewart Young</b>   | <b>UCATT (to 6<sup>th</sup> June 2016)</b>                              |
| • <b>Ronnie Regan</b>    | <b>UCATT (7<sup>th</sup> June 2016 to 24<sup>th</sup> January 2017)</b> |
| • <b>James Corry</b>     | <b>Unison</b>   |
| • <b>Robert Gordon</b>   | <b>UNITE (Chair)</b>  |

The **Joint Secretaries** to the Pension Board were:

- **James Corry (Trade Unions)**
- **Lynn Brown (Employers) (to 30<sup>th</sup> September 2016)**
- **Morag Johnston (Employers) (from 1<sup>st</sup> October 2016)**

In accordance with the regulations the Pension Board meets at the same place and time as the Pension Committee to consider the same agenda as the Committee. The Chair of the Pension Fund Committee *acts as Chair of that meeting. The Pension Board also meets separately from the Pension Committee with the agreement of the Pension Committee.*

## INVESTMENT ADVISORY PANEL

The Investment Advisory Panel is responsible for:

- 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, private debt and global real estate programmes.

Throughout the year to 31st March 2017 the Investment Advisory Panel membership comprised **investment officers** from the Fund and representatives from **Hymans Robertson** as the Fund's **actuary** and **investment consultant** together with 3 independent expert advisers:

**Professor Geoffrey Wood** was born and educated in Aberdeen. He is currently Emeritus Professor of Economics at the Cass Business School in London. He is also an adviser to the Parliamentary Contributory Pension Fund and Special Advisor to the Treasury Select Committee. He has previously held various professorships and advisory roles including as a Special Advisor to the Bank of England. He is a widely published author and speaker.

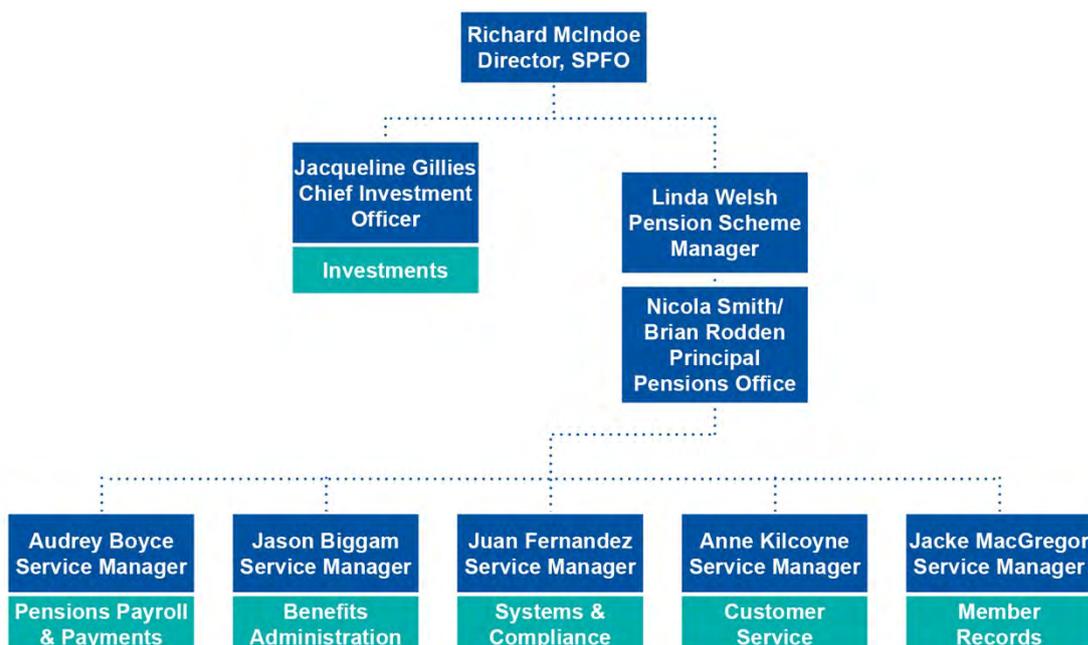
**Eric Lambert** is an investment actuary. He had a 40 year career in a number of senior investment roles, first at Scottish Widows and subsequently Edinburgh based World Markets (WM) Company, the then leading provider of performance measurement, benchmarking and analytic services to the UK and international pensions industry. He is currently an adviser to 3 other Local Government Pension Schemes and a private sector fund. **Iain Beattie** is a fellow of the faculty of actuaries and had a 20 year career in investment management at a number of Scottish investment houses. His roles included Portfolio Manager, Director, Head of International Equities, and Deputy Chief Investment Officer. He subsequently spent 10 years as a Senior Investment Consultant in Edinburgh and London.

## STRATHCLYDE PENSION FUND OFFICE (SPFO)

SPFO is a division of Glasgow City Council's Financial Services Department.

**Morag Johnston, Acting Executive Director of Financial Services** oversees the department and is the Proper Officer responsible for the Strathclyde Pension Fund.

The SPFO structure is illustrated below.



## INVESTMENT MANAGERS AND OTHER SERVICES PROVIDERS AS AT 31ST MARCH 2017

The Investment Managers are responsible for:

- portfolio management including individual decisions on purchase retention and sale of investments
- decisions on corporate actions and corporate governance (proxy voting)
- responsible investment activity including analysis and engagement with companies.

### INVESTMENT MANAGERS



### OTHER SERVICE PROVIDERS



# 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.

## 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.
- 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).



## **ANNUAL GOVERNANCE STATEMENT 2016/17**

### **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 more than 170 other large and small employers.

The main functions are management and investment of the Strathclyde Pension 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 and Public Service Pensions Act 2013.

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](http://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: [Key Corporate Governance Policy Plans - Glasgow City Council](#)

## 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.

## COMPLIANCE

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

## PENSION BOARD

The Strathclyde Pension Fund Board was established on 1st April 2015 in terms of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015, replacing the previous Representative Forum. The Strathclyde Pension Fund Board is comprised of representatives from the Fund's principal employers and trade unions.

## 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:

[Local Code of Corporate Governance - Glasgow City Council](#)

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:

<http://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 and is professionally

qualified and suitably experienced to lead the finance function. The Strathclyde Pension Fund complies with the CIPFA Statement on “*The Role of the Chief Financial Officer in Local Government 2010*”.

These arrangements also 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 Public Service Pensions Act 2013 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, which 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 Director of the Strathclyde



Pension Fund 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.

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.

## **UPDATE ON SIGNIFICANT GOVERNANCE ISSUES PREVIOUSLY REPORTED**

There were no significant governance issues in 2015/16 specific to the Strathclyde Pension Fund. However the Council's governance statement referred to an audit of Business Continuity and IT Disaster Recovery Management, which was

subject to an unsatisfactory audit opinion and identified a number of improvement actions for the Council and its ICT partner ACCESS. During 2016/17, a number of actions have been undertaken to strengthen the Council's resilience:

- Remedial action has taken place to improve Disaster Recovery arrangements at the Council's data centre;
- There has been a successful migration to a new purpose built back-up site, providing more storage capacity and scalability to meet future Disaster Recovery and resilience needs, and
- An IT Disaster Recovery policy is now in place and Business Continuity is now a standing agenda items at both the Council's IT Asset and ICT Advisory Boards.

Work is ongoing to determine the Council's priority applications and the required recovery timescales for these. A new Business Continuity Management Framework has been agreed and is expected to go live in June 2017. A programme



of Business Continuity Plan testing has also been developed, with the first Council wide test scheduled for June 2017. Internal Audit will review the effectiveness of the new arrangements as part of the 2017/18 audit plan.

## **INTERNAL AUDIT OPINION**

During 2016/17 the following assurance reviews were completed:

- administration of the career average scheme;
- arrangements for the review and scrutiny of

investment managers fees;

- assessment of the arrangements within Strathclyde Pension Fund to comply with the requirements of the Pensions Regulator.

In addition a review of the assurance activities undertaken across the Strathclyde Pension Fund Office was undertaken with the results presented within an Assurance Map. An Assurance Map provides a view of risk and controls that are derived from assurance activity across the organisation. It enables prioritisation of assurance

and audit work, and identifies any areas of duplication of scrutiny in order to move towards integrated assurance.

## **SIGNIFICANT GOVERNANCE ISSUES**

Glasgow City Council's 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 2016/17.

The Strathclyde Pension Fund uses and relies on a number of the Council systems, processes and controls. As such, any significant governance issues reported in the Council's Annual Governance Statement are considered for relevance to the Strathclyde Pension Fund. There are no significant issues included within the Council's Annual Governance Statement with relevance to the Strathclyde Pension Fund.

## **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. The work undertaken by Internal Audit has shown that the arrangements in place are operating as planned. We consider the governance and internal control environment operating during 2016/17 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, Board and Committee.

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

**Councillor Allan Gow**  
City Treasurer and Convener  
Strathclyde Pension Fund Committee  
26 September 2017

**Annemarie O'Donnell**  
Chief Executive  
Glasgow City Council  
26 September 2017

# GOVERNANCE COMPLIANCE STATEMENT FOR THE YEAR TO 31ST MARCH 2017

This is 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.

## Structure

The Strathclyde Pension Fund Committee discharges all functions and responsibilities relating to the Council's role as administering authority for the Strathclyde Pension Fund. The Strathclyde Pension Fund Board includes employer and trade union representatives. The Board meets alongside the Committee and a formal report of each separate meeting of the Board is included on the agenda of the subsequent Committee meeting.

## Committee Membership and Representation

The Board meets alongside the Committee and includes both local authority and admitted body representatives. The trade unions represent employee, deferred and pensioner members.

## Selection and Role of Lay members

The Committee has a clear Terms of Reference. The Board has its own Constitution. Both can be found in the About Us>Governance area of the Fund's website at: [www.spfo.org.uk](http://www.spfo.org.uk)

## Voting

All committee members have full voting rights.

## Training/Facility time/Expenses

A training policy, practice statement and plan are agreed each year. The training policy and practice statements and training plan apply equally to the Committee and Board. A training log is maintained for Committee and Board members.

## Meetings (frequency/quorum) and Access

The Committee and Board meet at least quarterly. Strathclyde Pension Fund Committee papers are available on the Glasgow City Council website. An Annual General Meeting is also held and is attended by a wider group of stakeholders.

## Scope

Regular reports considered by the Committee and Board include:

- scheme administration;
- scheme developments;
- investment performance;
- investment strategy;
- responsible investment;
- finance;
- funding;
- risk;
- audit;
- the Fund's business plan; and
- *ad-hoc* reports on other pensions issues.

## Publicity

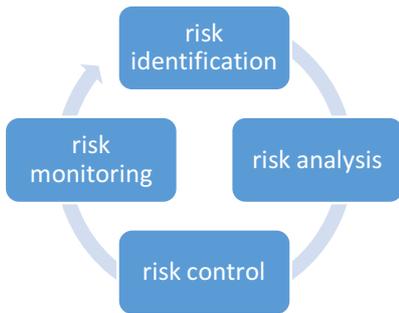
The Fund's website at [www.spfo.org.uk](http://www.spfo.org.uk) has a section of its About Us area dedicated to governance.

## Risk Register

A detailed risk register has been established and maintained for the Strathclyde Pension Fund and the Strathclyde Pension Fund Office (SPFO) (page 24).

The risk register is monitored on an ongoing basis by officers. The complete register is reviewed and approved periodically by the Committee. The principal risks, in terms of their residual ranking, are reported to the Committee each quarter. The principal risks as at 31st March 2017 are summarised on the following page.

## RISK POLICY & STRATEGY



In December 2016, the Committee agreed a Risk Policy & Strategy Statement which is available from the Publications area of the website at: [www.spfo.org.uk](http://www.spfo.org.uk)

## Risk Register

A detailed risk register is maintained as part of the risk strategy.

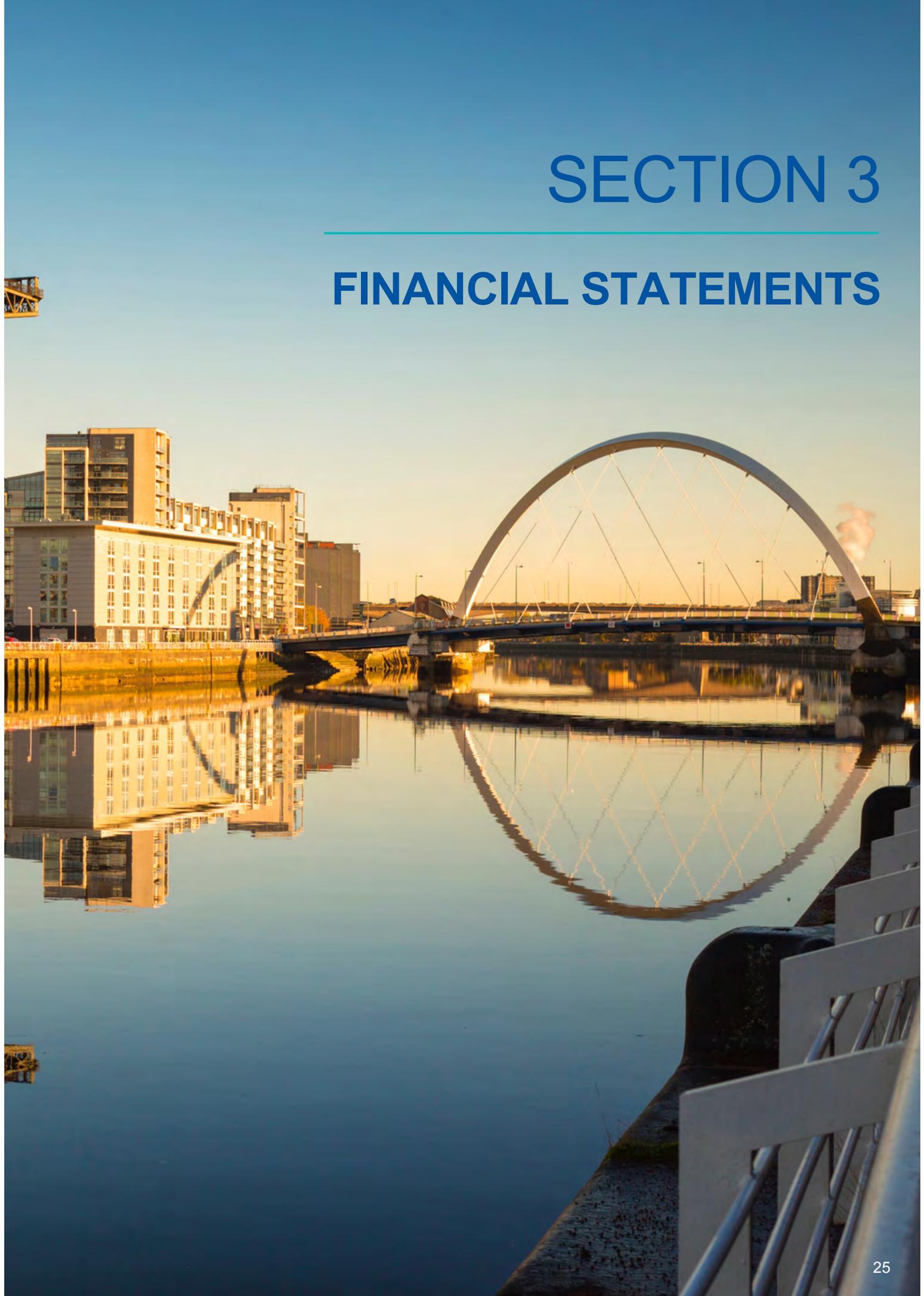
The risk register is monitored on an ongoing basis by officers. The complete register is reviewed and approved periodically by the Committee. The principal risks, in terms of their residual ranking, are reported to the Committee each quarter. The principal risks as at 31st March 2017 are summarised below.

Risk ID	Description	Probability ( /5)	Impact ( /5)	Residual Risk Rating ( /25)	Previous Rating (Mar 2016) ( /25)
<b>SPFO5</b>	Pay and price inflation significantly more or less than anticipated.	4	3	<b>12</b>	<b>12</b>
<b>SPFO31</b>	Employers' failure to carry out statutory functions including submission of member data and contributions to SPFO.	4	3	<b>12</b>	<b>12</b>
<b>SPFO23</b>	Issues with pensions administration system and other related systems.	3	3	<b>9</b>	<b>12</b>
<b>SPFO7</b>	Pensioners living longer than anticipated in actuarial valuation.	3	3	<b>9</b>	<b>9</b>
<b>SPFO9</b>	Changes to scheme regulations and other pensions legislation.	3	3	<b>9</b>	<b>9</b>
<b>SPFO30</b>	Failure to recruit, retain and develop appropriate staff.	3	3	<b>9</b>	<b>9</b>
<b>SPFO56</b>	MiFID compliance. European Directive due to be implemented in Jan 2018 may see LGPS fund re-classified as retail investors.	3	3	<b>9</b>	-
<b>SPFO57</b>	GMP reconciliation. Failure to complete exercise before DWP withdrawal of service in 2018.	3	3	<b>9</b>	-

# SECTION 3

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## FINANCIAL STATEMENTS



# STRATHCLYDE PENSION FUND NO. 1

## Fund Account

2015/16 £000		Note	2016/17 £000
	<b>Contributions and Benefits</b>		
	<b>Income</b>		
391,445	Contributions from Employers	12	398,279
116,760	Contributions from Employees	12	122,077
3,796	Transfers in from Other Pension Funds		5,320
553	Other		547
<b>512,554</b>			<b>526,223</b>
	<b>Expenditure</b>		
396,791	Pensions Payments	12	411,007
104,098	Lump Sum and Death Benefit Payments	12	120,882
21,890	Payments To and On Account of Leavers	13	25,449
<b>522,779</b>			<b>557,338</b>
<b>10,225</b>	<b>Net Reduction from Dealings with Members</b>		<b>31,115</b>
<b>92,533</b>	<b>Management Expenses</b>	14	<b>100,662</b>
<b>102,758</b>	<b>Net Reduction including Fund Management Expenses</b>		<b>131,777</b>
	<b>Returns on Investments</b>		
228,708	Investment Income	17	251,869
174,275	Change in Market Value of Investments		3,520,771
<b>402,983</b>	<b>Net Returns on Investments</b>		<b>3,772,640</b>
<b>300,225</b>	<b>Net Increase in the Fund during the Year</b>		<b>3,640,863</b>
15,758,296	Add : Opening Net Assets of the Scheme		<b>16,058,521</b>
<b>16,058,521</b>	<b>Closing Net Assets of the Scheme</b>		<b>19,699,384</b>

The Fund Account shows the payments to pensioners, contribution receipts from employers and scheme members, and the income, expenditure and change in market value of the Fund's investments.

# STRATHCLYDE PENSION FUND NO. 1

## Net Assets Statement as at 31 March 2017

2015/16 £000		Note	2016/17 £000
	<b>Investment Assets</b>		
5,833,989	Equities	8,11	6,908,995
6,237,577	Pooled Investment Vehicles	8,11	7,714,332
1,826,370	Private Equity / Infrastructure	8,11	2,303,118
171	Index Linked Securities	8,11	171
5,576	Derivative Contracts	8,11	280,304
1,570,520	Property	8,11	1,673,011
530,699	Cash Deposits	8,11	874,126
29,759	Other Investment Assets	8,11	221,671
<b>16,034,661</b>			<b>19,975,728</b>
(29,603)	Investment Liabilities		(315,245)
98,916	Current Assets		93,523
(45,453)	Current Liabilities		(54,622)
<b>16,058,521</b>	<b>Net Assets of the Fund as at 31 March</b>		<b>19,699,384</b>

The Net Assets Statement represents the value of assets and liabilities as at 31 March (excluding liability to pay pensions).

The unaudited accounts were issued on 19 June 2017 and the audited accounts were authorised for publication on 20 September 2017.

Morag Johnston CPFA  
Acting Executive Director of Financial Services  
26 September 2017

# NOTES TO THE ACCOUNTS – FUND NO. 1

## 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 the Public Service Pensions Act 2013.

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.

## Fund Membership

Membership of the Strathclyde Pension Fund includes:

- Employees and pensioners of the 12 local authorities in the former Strathclyde area;
- Civilian employees and pensioners of Police Scotland and Scottish Fire and Rescue Service who along with the Scottish Police Authority;
- Employees and pensioners of other scheduled bodies;
- Employees and pensioners of admitted bodies;
- Deferred pensioners of scheduled and admitted bodies

The full list of participating employers as at 31 March 2017 can be found on pages 109 -111. The major employers and other scheduled bodies are detailed below:

Major Employers	Other Scheduled Bodies
Argyll and Bute Council	Ayrshire College
East Ayrshire Council	City of Glasgow College
North Ayrshire Council	Glasgow Clyde College
South Ayrshire Council	Glasgow Kelvin College
West Dunbartonshire Council	New College Lanarkshire
East Dunbartonshire Council	South Lanarkshire College
Glasgow City Council	West College Scotland
North Lanarkshire Council	Ayrshire Valuation Joint Board
South Lanarkshire Council	Dunbartonshire Valuation Joint Board
East Renfrewshire Council	Lanarkshire Valuation Joint Board
Renfrewshire Council	Renfrewshire Valuation Joint Board
Inverclyde Council	Scottish Police Authority
Scottish Water	University of West of Scotland
Police Scotland	Visit Scotland
Scottish Fire and Rescue Service	
Strathclyde Partnership for Transport	

## 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 2016/17 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 and then netted off against investment income.

#### **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 2016/17 £5.267 million of fees is based on such estimates (2015/16 £9.793 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.

- **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 2017. The direct property portfolio was valued at 31 March 2017 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 25).

- **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 2017/18 Code:

- Amendment to the reporting of transaction costs - 2017/18 Code
- Amendment to the reporting of investment concentration - 2017/18 Code

To ensure best practice and adherence to professional guidance both of these amendments have been reflected in the 2016/17 final accounts.

IAS19 provides guidance on the attribution of employee benefits. IAS1 covers disclosures required in the financial statements and materiality around disclosures. IAS 24 requires disclosures and outstanding balances with an entity's related parties. IFRS improvements are generally minor, principally providing clarification. Overall, these new or amended standards are not expected to have a significant impact on the Annual Accounts.

#### **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 private equities as at 31 March 2017 was £1,449.5 million (£1,265.4 million at 31 March 2016). 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.

#### **5. 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.

## 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
<b>Fund Assets</b>	13,949
<b>Fund Liabilities</b>	(14,788)
<b>Deficit</b>	<b>(839)</b>

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](http://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 2017

An intervaluation monitoring report provided by the Fund’s actuary as at 31 March 2017 recorded a projected funding position of 87.6%. 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 12.1 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 G to the valuation report which is available from the Publications area of the Fund's website at [www.spfo.org.uk](http://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 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 %
<b>Price inflation (CPI) / Pension Increases / Deferred Revaluation</b>	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	-
<b>Pay increases</b>	Price inflation (CPI) plus 2.3% p.a.	4.5	1.8
<b>Gilt-based discount rate</b>	The yield on fixed-interest government bonds	3.5	0.8
<b>Pre-retirement funding basis discount rate</b>	Gilt-based discount rate plus an asset outperformance assumption of 1.6% p.a.	5.1	2.4
<b>Post-retirement funding basis discount rate</b>	Gilt-based discount rate plus an asset outperformance assumption of 1.2% p.a.	4.7	2.0

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 £25,136 million as at 31 March 2017 (£19,152 million as at 31 March 2016). The actuary has estimated that a 0.5% decrease in the real discount rate would lead to an increase in the pension liability of £2,856 million. Similarly, a 0.5% increase in the rate of salary increase and pension increase rates would increase the liability by £1,043 million and £1,720 million respectively. 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

	Market Value as at 31 March 2016 £000	Purchases and Derivative Payments £000	Sales and Derivative Receipts £000	Change in Market Value £000	Market Value as at 31 March 2017 £000
<b>Investment Assets</b>					
Equities	5,833,989	1,620,168	(2,341,666)	1,796,504	6,908,995
Pooled Investment Vehicles	6,237,577	2,705,176	(2,513,888)	1,285,467	7,714,332
Private Equity / Infrastructure	1,826,370	514,056	(368,370)	331,061	2,303,118
Index Linked Securities	171	0	(7)	7	171
Property	1,570,520	206,749	(79,028)	(25,230)	1,673,011
	<b>15,468,627</b>	<b>5,046,149</b>	<b>(5,302,959)</b>	<b>3,387,809</b>	<b>18,599,627</b>
Derivative Contracts:	4,709	1,024,707	(1,048,433)	20,134	1,117
Other Investment Balances:					
Cash Deposits	530,699			12,063	874,126
Receivable for Sales of Investments	3,555				194,782
Investment Income Due	23,765				26,889
Spot FX Contracts	(1)				(3)
Payable for Purchases of Investments	(26,296)				(36,055)
<b>Net Investment Assets</b>	<b>16,005,058</b>	<b>6,070,856</b>	<b>(6,351,392)</b>	<b>3,420,006</b>	<b>19,660,483</b>

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. Property Assets have been restated during the year to include £1.786m in respect of real estate which were previously classified as Private Equity/Infrastructure.

- **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 £7.087 million (£3.620 million in 2015/16).

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 2017 and a summary of contracts held are summarised in the tables on the following page:

	<b>31 March 2016</b> <b>£000</b>	<b>31 March 2017</b> <b>£000</b>
Futures	4,709	1,795
Forwards	(0)	(678)
<b>Market Value</b>	<b>4,709</b>	<b>1,117</b>

<b>Contract</b>	<b>Settlement Date</b>	<b>Asset £000</b>	<b>Liability £000</b>	<b>Net £000</b>
<b>Derivatives – Futures</b>				
Overseas Equity Futures- L&G US	Various	1,827	0	1,827
Overseas Equity Futures – L&G Emerging Market Future	Various		(32)	(32)
<b>Contracts Held at 31 March 2017</b>		<b>1,827</b>	<b>(32)</b>	<b>1,795</b>

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**

<b>Derivatives – Forward Foreign Exchange Contract</b>	<b>Settlement Date</b>	<b>Asset £000</b>	<b>Liability £000</b>	<b>Net £000</b>
Less than 1 year Currency Forwards	1 month	188,677	(188,692)	(15)
Less than 1 year Currency Forwards	1 – 6 months	89,800	(90,463)	(663)
<b>Contracts Held at 31 March 2017</b>		<b>278,477</b>	<b>(279,155)</b>	<b>(678)</b>

The above table summarises the contracts held by maturity date – 5 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 2017 was £19,660 million.

Investment management arrangements as at 31 March 2017 are summarised below:

Asset Class	Fund Manager	% managed	Market Value £000
Multi Asset – Passive	Legal & General	42.3	7,600,852
Global Equity	Baillie Gifford	12.4	2,233,642
Global Equity	Lazard	4.2	755,690
Global Equity	Veritas	4.1	737,076
Global Equity	Oldfield Partners	4.4	798,633
Specialist – Global Real Estate	Partners Group	2.3	420,946
Specialist – Absolute Return Bonds	PIMCO	5.8	1,040,231
Specialist – Equities (Overseas Small Companies)	JP Morgan	2.8	500,909
Specialist – Equities (UK Small Companies)	Henderson	1.5	266,133
Specialist – Private Equity	Pantheon Ventures	4.7	844,886
Specialist – Private Equity	Partners Group	3.3	599,139
Specialist – Emerging Markets	Genesis	2.5	441,005
Specialist – Emerging Market Future	Legal & General	0.4	64,864
Specialist – Direct Investment Portfolio	Various	2.1	383,884
Specialist – Multi Asset Credit	Various	2.6	461,244
Specialist – Private Debt	Various	0.6	109,436
Cash	Northern Trust	4.0	713,808

- **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 2017 the Fund held direct property assets with a value of £1,671 million (2015/16 £1,571 million). This valuation was calculated by GVA Grimley on the Fund's behalf in accordance with RICS Valuation Standards manual.

As at 31 March 2017 the Fund held indirect UK property assets of £2 million (2015/16 nil).

## 10. Notifiable Holdings

Notifiable holdings are holdings which exceed 5% of the total value of Fund net assets. As at 31 March 2017 the Fund had holdings of £1,448 million (8.06%) in LGIM RAFI Global 3000 Index Fund, £1,292m (7.19%) in LGIM UK Equity Index Fund and £1,040 million (5.79%) in PIMCO Absolute Return Fund.

## 11. Analysis of Investments

Investments can be further analysed as follows:

<b>Market Value as at 31 March 2016 £000</b>		<b>Market Value as at 31 March 2017 £000</b>
	<b>Fixed Interest Securities</b>	
	<b>UK</b>	
153	Corporate Quoted	153
	<b>Overseas</b>	
18	Corporate Quoted	18
<b>171</b>		<b>171</b>
	<b>Equities</b>	
	<b>UK</b>	
781,695	Quoted	756,127
	<b>Overseas</b>	
5,037,459	Quoted	6,139,423
<b>5,819,154</b>		<b>6,895,550</b>
	<b>Pooled Funds – Additional Analysis</b>	
	<b>UK</b>	
1,935,869	Fixed Income Unit Trust	1,053,359
2,979,175	Equity Unit Trust	6,105,887
0	Private Equity/Infrastructure	895,513
	<b>Overseas</b>	
0	Fixed Income Unit Trust	306,272
1,322,533	Equity Unit Trust	248,814
<b>6,237,577</b>		<b>8,609,845</b>
1,826,370	Private Equity/Infrastructure	1,407,604
14,835	Commodities	13,445
1,570,520	Property	1,673,011
<b>3,411,725</b>		<b>3,094,060</b>
530,699	Cash Deposits	874,126
5,576	Derivatives	280,305
29,759	Other Investment Assets	221,671
(29,603)	Investment Liabilities	(315,245)
<b>16,005,058</b>	<b>Net Investment Assets</b>	<b>19,660,483</b>

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

## 12. Contributions and Benefits

	Administering Authority £000	Other Scheduled Bodies £000	Admitted Bodies £000	Total £000
<b>Contributions</b>				
Employer	50,792	240,508	93,172	<b>384,472</b>
Augmentation	186	10,322	3,299	<b>13,807</b>
<b>Total Employers</b>	<b>50,978</b>	<b>250,830</b>	<b>96,471</b>	<b>398,279</b>
Employees	16,758	75,965	29,354	<b>122,077</b>
<b>Benefits</b>				
Pension	61,524	297,019	52,464	<b>411,007</b>
Lump Sum and Death Benefit	13,627	78,836	28,419	<b>120,882</b>
	<b>75,151</b>	<b>375,855</b>	<b>80,883</b>	<b>531,889</b>

## 13. Payments To and On Account of Leavers

2015/16 £000		2016/17 £000
1,202	Refunds to members leaving service	1,375
527	Payments for members joining state scheme	391
469	Group Transfers	1,331
19,692	Individual Transfers	22,352
<b>21,890</b>		<b>25,449</b>

## 14. Management Expenses

The total management expenses were as follows:

2015/16 £000		2016/17 £000
3,195	Administrative Costs	3,255
87,629	Investment Management Expenses	96,353
1,709	Oversight and governance costs	1,054
<b>92,533</b>		<b>100,662</b>

Oversight and governance costs include £0.053m (2015/16 £0.062m) in respect of the external audit fee. Investment management expenses include £7.087m in respect of transaction costs (2015/16 £3.620m). There were no external audit fees for any other services during the year.

## 15. Investment Expenses

The total investment expenses were as follows:

<b>2015/16</b> <b>£000</b>		<b>2016/17</b> <b>£000</b>
86,880	Management Fees	95,495
126	Custody Fees	143
49	Performance Monitoring Fees	55
155	Actuarial Fees – Investment Consultancy	85
419	Consultancy Fees	575
<b>87,629</b>		<b>96,353</b>

The investment management fees shown above include £14.185 million (2015/16 £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.

## 16. Events after the balance sheet date

There were no material events between 31 March 2017 and the date of signing that require to be reflected in the Financial Statements.

## 17. Investment Income

Investment income of £251.869m (£228.708m 2015/16) includes £136.363m from dividends (£121.002m 2015/16), £39.227m from Venture, Capital and Partnerships (£34.457m 2015/16), £0.566m interest and other (£2.620m 2015/16) and £78.300m rents (£72.065m 2015/16) partly offset by £2.587m tax (£1.436m 2015/16). Net property rental income is as shown below:

<b>2015/16</b> <b>£000</b>		<b>2016/17</b> <b>£000</b>
72,065	Rental Income	78,300
(11,415)	Direct Operating Expenses	(7,856)
<b>60,650</b>	<b>Net Income</b>	<b>70,444</b>

## 18. Taxes on Income

2015/16 £000		2016/17 £000
1,436	Withholding tax - equities	2,587
<b>1,436</b>		<b>2,587</b>

Withholding tax – equities is netted off against investment income.

## 19. Property Holdings

2015/16 £000		2016/17 £000
1,379,200	Opening balance	1,570,520
217,927	Additions	206,211
(128,636)	Disposals	(79,028)
102,029	Change in Market Value	(26,478)
<b>1,570,520</b>	<b>Closing balance</b>	<b>1,671,225</b>

The difference in the closing balance above from the Property figure in the Net Assets Statement on page 27 is due to indirect UK Property Assets held.

The future minimum lease payments receivable by the fund as at 31 March 2017 are £81.4 million within one year (£73.8m 2015/16), £249.9 million between one and five years (£229.4m 2015/16) and £335.6 million later than five years (£319.1m 2015/16).

## 20. 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 2016/17 the amount recharged by Glasgow City Council to the Strathclyde Pension Fund for administration costs was £3.208 million (2015/16 £3.101 million). There is an outstanding creditor of £12.961m between the Council and Strathclyde Pension Fund as at 31 March 2017.

The key management personnel of the fund are the Director of Pensions, Chief Investment Officer and the Pension Scheme Manager. Total remuneration including short-term employee benefits and post-employment benefits payable to key management personnel was £244,000 (£229,000 2015/16). Key management personnel had accrued pensions totalling £52,642 (2015/16 £47,418) and lump sums totalling £71,451 (2015/16 £69,909) at the end of the period.

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](http://www.glasgow.gov.uk)

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

## 21. 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 2017 stock with a value of £389.8 million was on loan (£457.0 million as at 31 March 2016).

## 22. Contractual Commitments

As at 31 March 2017 the Fund had contractual commitments of £4,833 million within its private equity, private debt, infrastructure and global real estate portfolios, of which £2,100 million remains undrawn.

## 23. Contingent Assets and Liabilities

There are no contingent assets or liabilities.

## 24. 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](http://www.spfo.org.uk) or on request from the SPFO.

## 25. 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 2017 was £49.9 million (2015/16 £45.1 million). Contributions which are used in their entirety to purchase investments, totalled £8.1 million (2015/16 £7.6 million) whilst sales of investments to settle benefits due to members totalled £7.9 million (2015/16 £6.6 million). The change in market value of investments over the year was £4.7 million (2015/16 £0.5 million). The values reported in the 2015/16 financial statements for AVCs were based on estimates and have been updated above to reflect the actual position.

## 26. 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 2017.

<i>Restated Fair value through profit &amp; loss £000</i>	<i>Loans &amp; receivables £000</i>	<i>Financial liabilities at amortised cost £000</i>		<i>Fair value through profit &amp; loss £000</i>	<i>Loans &amp; receivables £000</i>	<i>Financial liabilities at amortised cost £000</i>
<b>31 March 2016</b>				<b>31 March 2017</b>		
			<b>Financial Assets</b>			
5,833,989	0	0	Equities	6,908,995	0	0
6,237,577	0	0	Pooled Investment Vehicles	7,714,332	0	0
1,826,370	0	0	Private Equity / Infrastructure	2,303,118	0	0
171	0	0	Index Linked Securities	171	0	0
0	0	0	Property Derivative	1,785	0	0
5,576	0	0	Contracts	280,304	0	0
0	530,699	0	Cash		874,126	0
0	29,759	0	Other Investment Balances		221,671	0
<b>13,903,683</b>	<b>560,458</b>	<b>0</b>		<b>17,208,705</b>	<b>1,095,797</b>	<b>0</b>
			<b>Financial Liabilities</b>			
(867)	0	0	Derivatives	(279,188)	0	0
0	0	(28,736)	Other Investment Liabilities		0	(36,057)
<b>(867)</b>	<b>0</b>	<b>(28,736)</b>		<b>(279,188)</b>	<b>0</b>	<b>(36,057)</b>
<b>13,902,816</b>	<b>560,458</b>	<b>(28,736)</b>	<b>Net Financial Assets</b>	<b>16,929,517</b>	<b>1,095,797</b>	<b>(36,057)</b>

Due to a reclassification of investment assets the 2015/16 figures have been restated.

The table below shows net gains and losses on financial instruments for the year ended 31 March 2017:

<b>31 March 2016</b>		<b>31 March 2017</b>
<b>£000</b>	<b>Financial Assets</b>	<b>£000</b>
(393)	Fair value through profit and loss	3,414,286
6,983	Loans and receivables	12,063
0	Financial liabilities measured at amortised cost	0
	<b>Financial Liabilities</b>	
(13,302)	Fair value through profit and loss	20,134
0	Loans and receivables	0
0	Financial liabilities measured at amortised cost	0
<b>(6,712)</b>	<b>Total</b>	<b>3,446,483</b>

The following table summarises the market values of the Fund's financial assets and liabilities by class of instrument for the year ended 31 March 2017:

<b>31 March 2016</b>		<b>31 March 2017</b>
<b>Market Value £000</b>		<b>Market Value £000</b>
	<b>Financial Assets</b>	
13,903,683	Fair value through profit and loss	17,208,705
560,458	Loans and receivables	1,095,797
	<b>Financial Liabilities</b>	
(867)	Fair value through profit and loss	(279,187)
(28,736)	Financial liabilities measured at amortised cost	(36,057)
<b>14,434,538</b>	<b>Total</b>	<b>17,989,258</b>

The £17,989m net investment assets shown above plus property (£1,671m) and current assets (£94m) less current liabilities (£55m) equals £19,699m Net Assets as at 31 March 2017 on page 27.



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 tables 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.

<b>Level 1 £000</b>	<b>Level 2 £000</b>	<b>Level 3 £000</b>		<b>Level 1 £000</b>	<b>Level 2 £000</b>	<b>Level 3 £000</b>
<b>31 March 2016</b>				<b>31 March 2017</b>		
<b>11,046,073</b>	<b>1,039,225</b>	<b>1,841,184</b>	<b>Financial Assets</b>			
			Fair Value through profit and loss	13,384,275	1,475,123	2,350,371
<b>513,717</b>	<b>23,914</b>	<b>28</b>	Loans and receivables	892,206	194,782	8,810
<b>11,559,790</b>	<b>1,063,139</b>	<b>1,841,212</b>		<b>14,276,481</b>	<b>1,669,905</b>	<b>2,359,181</b>
			<b>Financial Liabilities</b>			
<b>0</b>	<b>(8,954)</b>	<b>0</b>	Fair Value through profit and loss	(32)	(293,952)	0
<b>(20,649)</b>	<b>0</b>	<b>0</b>	Financial liabilities measured at amortised cost	(22,324)	0	0
<b>(20,649)</b>	<b>(8,954)</b>	<b>0</b>		<b>(22,356)</b>	<b>(293,952)</b>	<b>0</b>
<b>11,539,141</b>	<b>1,054,185</b>	<b>1,841,212</b>	<b>Net Financial Assets</b>	<b>14,254,125</b>	<b>1,375,953</b>	<b>2,359,181</b>

The total value of Net Financial Assets for Levels 1,2 and 3 as at 31 March 2017 in the above table is £17,989m (£14,435m 2015/16) which matches the financial instruments market value shown in the table on page 45.

	<b>Market value as at 31 March 2016</b>	<b>Transfers in/out of Level 3</b>	<b>Purchases</b>	<b>Sales</b>	<b>Unrealised gains (losses)</b>	<b>Realised gains (losses)</b>	<b>Market value as at 31 March 2017</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Overseas Equities	8,708	10,396	0	(1,027)	10,499	352	28,928
UK Equities	1,988	2,064	0	0	(627)	(219)	3,206
Overseas Equity Funds	240	0	60	(154)	(248)	154	52
UK Equity Funds	0	0	0	0	0	0	0
UK Quoted	4	210	0	0	(62)	0	152
Overseas Venture Capital	1,065,074	0	357,707	(217,112)	113,869	88,067	1,407,605
UK Property	1,627	0	538	0	(379)	0	1,786
UK Venture Capital	759,670	0	157,209	(152,117)	58,195	72,556	895,513
UK Fixed Income Funds	3,873	0	9,300	0	(44)	0	13,129
	<b>1,841,184</b>	<b>12,670</b>	<b>524,814</b>	<b>(370,410)</b>	<b>181,203</b>	<b>160,910</b>	<b>2,350,371</b>

During 2016/17, there were no transfers from Level 2 to Level 1.

## 27. 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 2016/17 reporting period:

Asset Type	Potential Market Movement (+/-)
UK Equities	15.8%
Overseas Equities	18.4%
Overseas Bonds	10.1%
Corporate Bonds (short term)	4.3%
Corporate Bonds (medium term)	10.1%
Index Linked Gilts	7.1%
Private Equity/Infrastructure	28.5%
Commodities	15.8%
Property	14.2%
Cash	0.0%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory. 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 2017 £000	Change %	Value on Increase £000	Value on Decrease £000
<b>Cash and cash equivalents</b>	838,854	0.0	838,854	838,854
<b>Investment portfolio assets:</b>				
UK bonds	152	4.3	159	146
Overseas bonds	18	10.1	20	16
UK equities	756,127	15.8	875,595	636,659
Overseas equities	6,139,423	18.4	7,269,077	5,009,769
UK fixed Income unit trusts	1,053,359	7.1	1,128,147	978,570
Overseas fixed Income unit trusts	306,272	10.1	337,205	275,338
UK equity unit trusts	6,105,887	15.8	7,070,617	5,141,157
Overseas equity unit trusts	248,814	18.4	294,596	203,032
Pooled property Investments	0	0	0	0
Hedge Fund	0	0	0	0
Private equity/Infrastructure funds	2,303,117	28.5	2,959,506	1,646,729
Commodities	13,445	15.8	15,569	11,320
Property	1,786	14.2	2,039	1,532
Net derivative assets	1,117	0.0	1,117	1,117
Investment income due	23,033	0.0	23,033	23,033
Pending Spot FX	(3)	0.0	(3)	(3)
Amounts receivable for sales	194,782	0.0	194,782	194,782
Amounts payable for purchases	(13,730)	0.0	(13,730)	(13,730)
<b>Total</b>	<b>17,972,453</b>		<b>20,996,583</b>	<b>14,948,321</b>

The prior year comparators for 2015/16 are as follows:

<b>Asset Type</b>	<b>Value as at 31 March 2016 £000</b>	<b>Change  %</b>	<b>Value on Increase  £000</b>	<b>Value on Decrease  £000</b>
<b>Cash and cash equivalents</b>	481,830	0.6	484,721	478,939
<b>Investment portfolio assets:</b>				
<i>UK bonds</i>	153	6.7	163	143
<i>Overseas bonds</i>	18	9.5	20	16
<i>UK equities</i>	781,695	17.1	915,365	648,025
<i>Overseas equities</i>	5,037,459	19.6	6,024,801	4,050,117
<i>UK fixed Income unit trusts</i>	1,935,869	5.1	2,034,598	1,837,140
<i>Overseas fixed Income unit trusts</i>	0	0.0	0	0
<i>UK equity unit trusts</i>	2,979,175	17.1	3,488,614	2,469,736
<i>Overseas equity unit trusts</i>	1,322,533	19.6	1,581,749	1,063,317
<i>Pooled property Investments</i>	0	0.0	0	0
<i>Hedge Fund</i>	0	0.0	0	0
<i>Private equity/Infrastructure funds</i>	1,826,370	28.7	2,350,538	1,302,202
<i>Commodities</i>	14,835	20.0	17,802	11,868
<i>Net derivative assets</i>	4,709	0.0	4,709	4,709
<i>Investment income due</i>	20,388	0.0	20,388	20,388
<i>Pending Spot FX</i>	(1)	0.0	(1)	(1)
<i>Amounts receivable for sales</i>	3,556	0.0	3,556	3,556
<i>Amounts payable for purchases</i>	(5,647)	0.0	(5,647)	(5,647)
<b>Total</b>	<b>14,402,942</b>		<b>16,921,376</b>	<b>11,884,508</b>

## 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 2017 and 31 March 2016 is set out below.

<b>Asset Type</b>	<b>As at 31 March 2016</b> <b>£000</b>	<b>As at 31 March 2017</b> <b>£000</b>
Cash Balances – Investments	530,699	874,126

## 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.

<b>Asset Type</b>	<b>As at 31 March 2017</b> <b>£000</b>	<b>+100 BPS</b> <b>£000</b>	<b>-100 BPS</b> <b>£000</b>
Cash Balances – Investments	874,126	882,867	865,385

<b>Asset Type</b>	<b>As at 31 March 2016</b> <b>£000</b>	<b>+100 BPS</b> <b>£000</b>	<b>-100 BPS</b> <b>£000</b>
Cash Balances – Investments	530,699	536,006	525,392

## 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 10.0% fluctuation in currency is reasonable. The table below shows the impact a 10.0% 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	Value as at 31 March 2017 £000	Change %	Value on Increase £000	Value on Decrease £000
Overseas quoted securities	6,139,423	10.0	6,753,365	5,525,480
Overseas unquoted securities	0	10.0	0	0
Overseas fixed income	0	10.0	0	0
Overseas unit trusts	248,814	10.0	273,695	223,933
Hedge funds overseas equity	0	10.0	0	0
Hedge funds overseas fixed interest	0	10.0	0	0
Overseas public sector bonds (quoted)	0	10.0	0	0
Overseas corporate bonds (quoted)	18	10.0	20	16
<b>Total</b>	<b>6,388,255</b>		<b>7,027,080</b>	<b>5,749,429</b>

## 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.

## 28. Current Assets

2015/16 £000		2016/17 £000
36,384	Debtors:	
4,162	• Contributions due - employers	39,642
58,370	• Sundry debtors	4,485
	Cash Balances	49,396
<b>98,916</b>		<b>93,523</b>

## 29. Current Liabilities

2015/16 £000		2016/17 £000
22,569	Sundry creditors	33,059
22,884	Benefits payable	21,563
<b>45,453</b>		<b>54,622</b>

### 30. 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 2017 with comparators for 2016.

Quoted £000	Unquoted £000	Total £000		Quoted £000	Unquoted £000	Total £000
			<b>Equity Securities</b>			
1,612,864	0	1,612,864	Consumer	1,896,183	1,229	1,897,412
1,190,788	8,975	1,199,763	Manufacturing	1,479,869	29,978	1,509,847
417,724	1,224	418,948	Energy and Utilities	453,097	362	453,459
1,045,376	26	1,045,402	Financial Institutions	1,285,015	0	1,285,015
631,875	333	632,208	Health and Care	691,648	333	691,981
909,469	500	909,969	Information Technology	1,057,241	569	1,057,810
			<b>Debt Securities</b>			
0	0	0	Corporate Bonds (investment grade)	0	306,272	306,272
0	171	171	Corporate Bonds (non-invest grade)	0	171	171
0	0	0	UK Government	0	0	0
0	0	0	Other	0	0	0
0	1,826,370	1,826,370	<b>Private Equity</b>		2,303,117	2,303,117
			<b>Real Estate</b>			
0	1,553,247	1,553,247	UK Property	0	1,654,543	1,654,543
0	0	0	Overseas Property	0	0	0
			<b>Investment funds and unit</b>			
4,112,974	188,735	4,301,709	Equities	192,243	6,162,575	6,354,818
897,278	1,038,591	1,935,869	Bonds	0	1,053,361	1,053,361
0	0	0	Hedge Funds	0	0	0
14,835	0	14,835	Commodities	13,445	0	13,445
0	0	0	Property	0	0	0
0	0	0	Cash Funds	0	0	0
			<b>Derivatives</b>			
0	0	0	Inflation	0	0	0
0	0	0	Interest rate	0	0	0
0	(1)	(1)	Foreign exchange	0	0	0
0	4,709	4,709	Futures	0	1,117	1,117
0	548,995	548,995	<b>Cash and cash equivalents</b>	0	1,078,115	1,078,115
<b>10,833,183</b>	<b>5,171,875</b>	<b>16,005,058</b>	<b>Totals</b>	<b>7,068,741</b>	<b>12,591,742</b>	<b>19,660,483</b>

# 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 20 September 2017.

**Councillor Allan Gow**  
City Treasurer and Convener,  
Strathclyde Pension Fund Committee  
26 September 2017

## **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 2017 and the transactions of the Fund for the year then ended.

**Morag Johnston CPFA**

Acting Executive Director of Financial Services

26 September 2017

## STRATHCLYDE PENSION 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.
- 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](http://www.spfo.org.uk)

### No.3 Fund: 10 Year Investment Performance

											Annualised		
	Mar '08	Mar '09	Mar '10	Mar '11	Mar '12	Mar '13	Mar '14	Mar '15	Mar '16	Mar '17	3 Year	5 Year	10 Year
Retail Prices	3.8	-0.4	4.4	5.3	3.6	3.3	2.5	0.9	1.2	3.1	1.9	2.3	2.8
Consumer Prices	2.4	3.0	3.2	4.2	3.5	2.8	1.7	0.2	0.5	2.3	0.9	1.4	2.3
Average Earnings	3.8	-2.1	6.7	2.0	1.2	-0.3	1.7	3.3	1.8	2.3	3.0	2.3	2.3
<b>Fund Return</b>	<b>2.4</b>	<b>-12.4</b>	<b>32.8</b>	<b>8.8</b>	<b>10.1</b>	<b>14.7</b>	<b>-0.1</b>	<b>21.3</b>	<b>0.8</b>	17.1	12.7	10.4	8.5
<b>Benchmark</b>	<b>-0.3</b>	<b>-14.1</b>	<b>26.3</b>	<b>7.5</b>	<b>2.3</b>	<b>15.0</b>	<b>0.6</b>	<b>20.7</b>	<b>1.75</b>	15.3	12.3	10.8	8.2

# STRATHCLYDE PENSION FUND NO. 3

## Fund Account

2015/16 £000		Note	2016/17 £000
	<b>Contributions and Benefits</b>		
	<b>Income</b>		
2,259	Contributions from Employers		3,136
228	Contributions from Employees		235
<b>2,487</b>			<b>3,371</b>
	<b>Expenditure</b>		
5,046	Pensions Payments		5,348
1,957	Lump Sum and Death Benefit Payments		1,340
107	Payments To and On Account of Leavers		354
<b>7,110</b>			<b>7,042</b>
<b>4,623</b>	<b>Net Reduction from Dealings with Members</b>		<b>3,671</b>
<b>326</b>	<b>Management Expenses</b>	11	<b>336</b>
<b>4,949</b>	<b>Net Reduction including Fund Management Expenses</b>		<b>4,007</b>
	<b>Returns on Investments</b>		
394	Investment Income		408
1,326	Change in Market Value of Investments		30,842
<b>1,720</b>	<b>Net Returns on Investments</b>		<b>31,250</b>
<b>(3,229)</b>	<b>Net Increase / (Decrease) in the Fund during the Year</b>		<b>27,243</b>
186,857	Add : Opening Net Assets of the Scheme		183,628
<b>183,628</b>	<b>Closing Net Assets of the Scheme</b>		<b>210,871</b>

The Fund Account shows the payments to pensioners, contribution receipts from employers and scheme members, and the income, expenditure and change in market value of the Fund's investments.

# STRATHCLYDE PENSION FUND NO. 3

## Net Assets Statement as at 31 March 2017

2015/16 £000		Note	2016/17 £000
	<b>Investment Assets</b>		
185,004	Pooled Investment Vehicles	6,9	210,919
84	Cash Deposits	6,9	84
<b>185,088</b>			<b>211,003</b>
20	Current Assets		209
(1,480)	Current Liabilities		(341)
<b>183,628</b>	<b>Net Assets of the Fund as at 31 March</b>		<b>210,871</b>

The Net Assets Statement represents the value of assets and liabilities as at 31 March (excluding liability to pay pensions).

The unaudited accounts were issued on 19 June 2017 and the audited accounts were authorised for publication on 20 September 2017.

**Morag Johnston CPFA**

Acting Executive Director of Financial Services

26 September 2017

# 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.

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 2016/17 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**

In order to provide improved analysis of the fund's financial position the fund account and net assets statement have now adopted a more summarised and concise format and additional notes to the accounts have being added in order to provide further analysis.

- **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 2016/17 nil fees are based on such estimates (2015/16 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 2017. 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.

- **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.

- **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](http://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 2017**

An intervaluation monitoring report provided by the Fund's actuary as at 31 March 2017 recorded a projected funding position of 96.3%. 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 2016 to 31 March 2018 are shown in the table below:

<b>Year to</b>	<b>Rate (as % of pensionable payroll)</b>	<b>Additional Monetary Payments £000</b>
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.



## 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 valuation report can be found on the Fund's website at [www.spfo.org.uk](http://www.spfo.org.uk)

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 £185 million as at 31 March 2017 (£154 million as at 31 March 2016). The actuary has estimated that a 0.5% decrease in the real discount rate would lead to an increase in the pension liability of £14million. Similarly, a 0.5% increase in the rate of salary increase and pension increase rates would increase the liability by £2million and £12million respectively. 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.

## 6. Investments

### Statement of Movement in Investments

	<b>Market Value as at 31 March 2016 £000</b>	<b>Purchases and Derivative Payments £000</b>	<b>Sales and Derivative Receipts £000</b>	<b>Change in Market Value £000</b>	<b>Market Value as at 31 March 2017 £000</b>
<b>Investment Assets</b>					
Pooled Investment Vehicles	185,004	63,812	(68,404)	30,507	210,919
	<b>185,004</b>	<b>63,812</b>	<b>(68,404)</b>	<b>30,507</b>	<b>210,919</b>
Other Investment Balances:					
Cash Deposits	84				84
<b>Net Investment Assets</b>	<b>185,088</b>	<b>63,812</b>	<b>(68,404)</b>	<b>30,507</b>	<b>211,003</b>

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 (£nil in 2015/16).

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**

There were no derivative balances as at 31 March 2017 (£nil at 31 Mar 2016).

## 7. Fund Management

The investment assets of the Fund are externally managed.

Investment management arrangements as at 31 March 2017 are shown below:

Asset Class	Fund Manager	% managed	Market Value £000
Liability Driven Investment Strategy	Legal & General	84.0	177,171
Multi Asset – Absolute Return	Ruffer	16.0	33,747

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 2017 was £211.0 million.

## 8. Notifiable Holdings

As at 31 March 2017 the Fund had holdings exceeding 5% of the total value of net assets in:

	£000	%
Ruffer Absolute Return Fund	33,778	16.0
Legal & General Corporate Bonds	31,372	14.9
1.25% Index Linked Government Bonds Nov 32	17,363	8.2
1.25% Index Linked Government Bonds Nov 27	16,217	7.7
0.625% Index Linked Government Bonds Nov 42	12,552	6.0
Legal & General UK Equity Index Fund	11,912	5.6
Legal & General Libor Fund	11,198	5.3
Sterling Liquidity Fund	17,030	8.1

## 9. Analysis of Investments

Investments can be further analysed as follows:

Market Value as at 31 March 2016 £000		Market Value as at 31 March 2017 £000
	<b>Pooled Funds – Additional Analysis</b>	
	<b>UK</b>	
78,984	Fixed Income Unit Trust	119,131
38,680	Equity Unit Trust	16,085
17,738	Cash Funds	17,030
	<b>Overseas</b>	
49,602	Equity Unit Trust	58,673
<b>185,004</b>		<b>210,919</b>
84	Cash Deposits	84
0	Other Investment Balances	0
<b>185,088</b>	<b>Net Investment Assets</b>	<b>211,003</b>

**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:

<b>2015/16</b> <b>£000</b>		<b>2016/17</b> <b>£000</b>
30	Administrative, governance and audit costs	32
296	Investment Management Expenses	304
<b>326</b>		<b>336</b>

The £32,000 represents a single recharge from Fund 1 to cover costs.

## 12. Investment Management Expenses

The total investment expenses were as follows:

<b>2015/16</b> <b>£000</b>		<b>2016/17</b> <b>£000</b>
296	Management Fees	304
<b>296</b>		<b>304</b>

## 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 2016/17 the amount recharged by Glasgow City Council to the Strathclyde Pension Fund for administration costs was £0.032m (2015/16 £0.030m).

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

## 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 2017 stock with a market value of nil was on loan (nil as at 31 March 2016).

## 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](http://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 2017.

<i>Restated Fair value through profit &amp; Loss £000</i>	<i>Loans &amp; receivables £000</i>	<i>Financial liabilities at amortised cost £000</i>		<i>Fair value through profit &amp; loss £000</i>	<i>Loans &amp; receivables £000</i>	<i>Financial liabilities at amortised cost £000</i>
<b>31 March 2016</b>				<b>31 March 2017</b>		
			<b>Financial Assets</b>			
185,004	0	0	Private Equity / Infrastructure	210,919	0	0
0	84	0	Cash	0	84	0
0	0	0	Other Investment Balances	0	0	0
<b>185,004</b>	<b>84</b>	<b>0</b>		<b>210,919</b>	<b>84</b>	<b>0</b>
<b>185,004</b>	<b>84</b>	<b>0</b>	<b>Net Financial Assets</b>	<b>210,919</b>	<b>84</b>	<b>0</b>

Due to a reclassification of investment assets the 2015/16 figures have been restated.

The table below shows net gains and losses on financial instruments for the year ended 31 March 2017:

<b>31 March 2016</b>		<b>31 March 2017</b>
<b>£000</b>	<b>Financial Assets</b>	<b>£000</b>
1,001	Fair value through profit and loss	30,507
<b>1,001</b>	<b>Total</b>	<b>30,507</b>

The following table summarises the market values of the Fund's financial assets and liabilities by class of instrument compared with their fair values for the year ended 31 March 2017:

<b>31 March 2016</b>		<b>31 March 2017</b>
<b>Market Value £000</b>		<b>Market Value £000</b>
<b>£000</b>	<b>Financial Assets</b>	<b>£000</b>
167,267	Fair value through profit and loss	193,889
17,822	Loans and receivables	17,114
<b>185,089</b>	<b>Total</b>	<b>211,003</b>

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.

<b>Level 1</b> <b>£000</b>	<b>Level 2</b> <b>£000</b>	<b>Level 3</b> <b>£000</b>		<b>Level 1</b> <b>£000</b>	<b>Level 2</b> <b>£000</b>	<b>Level 3</b> <b>£000</b>
<b>31 March 2016</b>				<b>31 March 2017</b>		
			<b>Financial Assets</b>			
30,052	137,214	0	Fair Value through profit and loss	33,778	160,111	0
84	17,738	0	Loans and receivables	84	17,030	0
<b>30,136</b>	<b>154,952</b>	<b>0</b>		<b>33,862</b>	<b>177,141</b>	<b>0</b>
<b>30,136</b>	<b>154,952</b>	<b>0</b>	<b>Net Financial Assets</b>	<b>33,862</b>	<b>177,141</b>	<b>0</b>

## 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 2016/17 reporting period:

Asset Type	Potential Market Movement (+/-)
UK Equities	15.8%
Overseas Equities	18.4%
Index Linked Gilts	9.0%
Cash	0.0%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory. 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 2017 £000	Change %	Value on Increase £000	Value on Decrease £000
<b>Cash and cash equivalents</b>	84	0.0	84	84
<b>Investment portfolio assets:</b>				
UK fixed Income unit trusts	119,131	9.0	129,854	108,410
UK equity unit trusts	16,085	15.8	18,626	13,543
Overseas equity unit trusts	58,673	18.4	69,469	47,878
Cash Funds	17,030	0.0	17,030	17,030
<b>Total</b>	<b>211,003</b>		<b>235,063</b>	<b>186,945</b>

The prior year comparators for 2015/16 are as follows:

Asset Type	Value as at 31 March 2016 £000	Change %	Value on Increase £000	Value on Decrease £000
<b>Cash and cash equivalents</b>	84	0.6	85	83
<b>Investment portfolio assets:</b>				
UK fixed Income unit trusts	78,984	9.5	86,487	71,481
UK equity unit trusts	38,680	17.1	45,294	32,066
Overseas equity unit trusts	49,602	19.6	59,324	39,880
Cash Funds	17,738	0.6	17,844	17,632
<b>Total</b>	<b>185,088</b>		<b>209,034</b>	<b>161,142</b>

## 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 2017 and 31 March 2016 is set out below.

<b>Asset Type</b>	<b>As at 31 March 2016</b> <b>£000</b>	<b>As at 31 March 2017</b> <b>£000</b>
Cash Balances – Investments	84	84

## 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.

<b>Asset Type</b>	<b>As at 31 March 2017</b> <b>£000</b>	<b>+100 BPS</b> <b>£000</b>	<b>-100 BPS</b> <b>£000</b>
Cash Balances – Investments	84	85	83

<b>Asset Type</b>	<b>As at 31 March 2016</b> <b>£000</b>	<b>+100 BPS</b> <b>£000</b>	<b>-100 BPS</b> <b>£000</b>
Cash Balances – Investments	84	85	83

## 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 10.0% fluctuation in currency is reasonable. The table below shows the impact a 10.0% 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.

<b>Asset Type</b>	<b>Value as at</b> <b>31 March 2017</b> <b>£000</b>	<b>Change</b> <b>%</b>	<b>Value on Increase</b> <b>£000</b>	<b>Value on</b> <b>Decrease</b> <b>£000</b>
Overseas unit trusts	58,673	10.00	64,541	52,806
<b>Total</b>	<b>58,673</b>		<b>64,541</b>	<b>52,806</b>

## 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 2017 with comparators for 2016.

<b>Quoted £000</b>	<b>Unquoted £000</b>	<b>Total £000</b>		<b>Quoted £000</b>	<b>Unquoted £000</b>	<b>Total £000</b>
<b>31 March 2016</b>				<b>31 March 2017</b>		
			<b>Investment funds and unit trusts:</b>			
0	88,283	88,283	Equities	0	74,758	74,758
0	78,984	78,984	Bonds	0	119,131	119,131
0	17,821	17,821	Cash and cash equivalents	84	17,030	17,114
<b>0</b>	<b>185,088</b>	<b>185,088</b>	<b>Totals</b>	<b>84</b>	<b>210,919</b>	<b>211,003</b>

## 21. 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. 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 5. The estimate is subject to significant variances based on changes to the underlying assumptions.

## 22. Events after the balance sheet date

There were no material events between 31 March 2017 and the date of signing that require to be reflected in the Financial Statements.

## 23. Prior Period Adjustments, Change 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.

## **24. Investment Income**

Investment Income of £0.408m is all from Pooled Investment Vehicles.

## **25. Current Assets and Liabilities**

Current Assets include £0.040m contributions from employer and £0.169m sundry debtors. Current Liabilities of £0.341m are all sundry creditors.

# **STRATHCLYDE PENSION FUND NO 3 FUND**

## **(“THE FUND”)**

### **ACTUARIAL STATEMENT FOR 2016/17**

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2014. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

#### **Description of Funding Policy**

The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- to provide a framework for the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help the employer recognise and manage pension liabilities as they accrue;
- to inform the employer of the risks and potential costs associated with pension funding;
- to minimise the degree of short-term change in the level of the employer’s contributions where the administering authority considers it reasonable to do so; and
- to reduce the risk to the main Fund and ultimately to the council tax payer from the employer defaulting on its pension obligations.

In effect, the FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping the Employer’s contributions stable.

#### **Funding Position as at the last formal funding valuation**

The most recent actuarial valuation carried out under Regulation 32 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008 was as at 31 March 2014. This valuation revealed that the Fund’s assets, which at 31 March 2014 were valued at £156 million, were sufficient to meet 96% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2014 valuation was £7 million.

The Employers’ contributions for the period 1 April 2015 to 31 March 2018 were set in accordance with the Fund’s funding policy as set out in its FSS.

#### **Principal Actuarial Assumptions and Method used to value the liabilities**

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2015.

#### **Method**

The liabilities were assessed using the projected accrued benefits method.

## Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2014 valuation were as follows:

31 March 2014		
Financial assumptions	The better of	
Funding Basis Discount Rate	Gilts nominal yield curve	Swaps nominal yield once
Salary Increases	Gilts implied inflation curve + 0.375% p.a.	Swaps implied inflation curve + 0.375% p.a.
Benefit Increases	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

The key demographic assumption was the allowance made for longevity. The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2012 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.5% p.a. for males and 1.25% p.a. for females. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	23.6 years
Future Pensioners*	23.6 years	25.2 years

\*Currently aged 55

Copies of the 2014 valuation report and Funding Strategy Statement are available on [www.spfo.org.uk](http://www.spfo.org.uk)

## Experience over the period since April 2014

The Fund's experience has been better than expected since the last formal valuation (excluding the effect of any membership movements). Real bond yields have fallen sharply which places a significantly higher value on liabilities. The effect of this has been offset by strong asset returns. The overall impact on the funding position at 31 March 2017 is that funding levels have likely improved since the last formal valuation. This excludes the impact of possible changes to funding assumptions for the 2017 formal valuation and membership experience which will be measured as part of that valuation: these items may improve or worsen the funding position.

The next actuarial valuation will be carried out as at 31 March 2017. The Funding Strategy Statement will also be reviewed at that time.

Steven Law FFA  
Fellow of the Institute and Faculty of Actuaries  
For and on behalf of Hymans Robertson LLP  
2 May 2017

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# SECTION 4

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## FUNDING





## FUNDING

The Local Government Pension Scheme regulations require each administering authority to obtain an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2014 and in every third year afterwards. In completing the valuation the actuary must have regard to the current version of the administering authority's funding strategy statement

The regulations require each administering authority, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written statement setting out their funding strategy.

The actuarial valuation is essentially a measurement of the Fund's liabilities. The funding strategy deals with how the liabilities will be managed. In practice, review of the FSS and completion of the actuarial valuation are carried out in tandem to ensure that the measurement and management processes are cohesive.

Members' benefits are guaranteed by statute. Members' contributions are set at a rate which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The Funding

Strategy focuses on the pace at which these benefits are funded and on practical measures to ensure that employers pay for their own liabilities.

At the 2014 actuarial valuation, the following employer contribution rates were certified for the Fund's main employers including the 12 local authorities.

- 19.3% (of pensionable payroll) from 1st April 2015;
- 19.3% (of pensionable payroll) from 1st April 2016; and
- 19.3% (of pensionable payroll) from 1st April 2017.

In completing the valuation, the actuary assesses the particular circumstances of each employer including the strength of its covenant, and its individual membership experience within the Fund. The actuary applies individual adjustments to each employer to reflect these circumstances. This results in a higher contribution rate than the baseline 19.3% and/or an annual cash contribution at a fixed amount being certified for many employers.

The next actuarial valuation and review of the Funding Strategy statement will be carried out as at 31st March 2017.

# 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. The statement has 6 schedules which are not reproduced here but can be found in the full version in the Publications area of the Fund's website at [www.spfo.org.uk](http://www.spfo.org.uk)

## 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 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 183 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.

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 Strategy set out in the Statement of Investment Principles (SIP)**

The investment strategy is set for the long-term but is monitored continually 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 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](http://www.spfo.org.uk)



# **STRATHCLYDE PENSION FUND NO 1 FUND**

## **(“THE FUND”)**

### **ACTUARIAL STATEMENT FOR 2016/17**

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2014. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

#### **Description of Funding Policy**

The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund and the solvency of individual employers’ share of the Fund;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- to provide a framework for the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue;
- to inform employers of the risks and potential costs associated with pension funding;
- to minimise the degree of short-term change in the level of each employer’s contributions where the administering authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations; and
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

In effect, the FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

#### **Funding Position as at the last formal funding valuation**

The most recent actuarial valuation carried out under Regulation 32 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008 was as at 31 March 2014. This valuation revealed that the Fund’s assets, which at 31 March 2014 were valued at £13,949 million, were sufficient to meet 94% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2014 valuation was £839 million.

Individual employers’ contributions for the period 1 April 2015 to 31 March 2018 were set in accordance with the Fund’s funding policy as set out in its FSS.

#### **Principal Actuarial Assumptions and Method used to value the liabilities**

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2015.

## Method

The liabilities were assessed using the projected accrued benefits method.

## Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2014 valuation were as follows:

31 March 2014		
Financial assumptions	Nominal	Real
Pre Retirement Discount Rate	5.1%	2.4%
Post Retirement Discount Rate	4.7%	2.0%
Salary Increases	4.5%	1.8%
Price Inflation / Pension Increases	2.7%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2012 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.5% p.a. for males and 1.25% p.a. for females. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	23.6 years
Future Pensioners*	24.8 years	26.2 years

\*Currently aged 45

Copies of the 2014 valuation report and Funding Strategy Statement are available on [www.spfo.org.uk](http://www.spfo.org.uk)

## Experience over the period since April 2014

The Fund's experience has been worse than expected since the last formal valuation (excluding the effect of any membership movements). Real bond yields have fallen sharply which places a significantly higher value on liabilities. The effect of this will have been partially offset by strong asset returns. The overall impact on the funding position at 31 March 2017 is that funding levels have likely worsened and deficits increased since the last formal valuation. This excludes the impact of possible changes to funding assumptions for the 2017 formal valuation and membership experience which will be measured as part of that valuation: these items may improve or worsen the funding position.

The next actuarial valuation will be carried out as at 31 March 2017. The Funding Strategy Statement will also be reviewed at that time.

Steven Law FFA  
Fellow of the Institute and Faculty of Actuaries  
For and on behalf of Hymans Robertson LLP  
2 May 2017

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# SECTION 5

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## INVESTMENT



# STATEMENT OF INVESTMENT PRINCIPLES

The Statement of Investment Principles (SIP) is the Fund's main investment policy document. The SIP is reviewed regularly, and updated to reflect any changes agreed by the Strathclyde Pension Fund Committee. The statement has 5 schedules which are not reproduced here but can be found in the full version on the Fund's website at [www.spfo.org.uk](http://www.spfo.org.uk)

## 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 adopt 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. The current objectives of the investment strategy should be to achieve:

- a greater than 2/3 probability of being 100% funded by 2026; and
- a less than 10% probability of falling below 70% funded over the next three years.

## 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 order to achieve 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. The Fund has agreed De-risking and Re-balancing strategies which are summarised in Schedule 2. 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 together with a summary of the Fund's strategy for applying them in practice

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

## 12. 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 5.

## 13. 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 market-to-market value. The programme is also indemnified by the custodian and provides a low-risk source of added value.

## 14. Schedules:

1. LGPS Regulations - Disclosures
2. Investment Objectives, Strategy and Structure
3. Investment Roles & Responsibilities
4. UN Principles for Responsible Investment
5. CIPFA/Myners Principles – Assessment of Compliance

The full SIP including schedules is available from the Publications area of the SPFO website at [www.spfo.org.uk](http://www.spfo.org.uk)

## INVESTMENT STRATEGY

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.

The Fund has adopted a risk/return asset framework as the basis for modelling and agreeing investment strategy. The risk/return framework is illustrated opposite and summarised in the table below:



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

In common with many Local Government Pension Scheme funds the Strathclyde Pension Fund is at a tipping point where:

- pensioner and deferred liabilities have just begun to outweigh active member liabilities; and
- cash-flow from members to the Fund is shifting from a net income figure to net outflow.

The investment strategy is being developed to reflect these changing dynamics. Using the risk/return framework as a basis for modelling, a route-map for strategy development has been agreed. This is summarized in the table below.

A phased implementation process is being adopted which will reduce risk, increase diversification and ensure that the strategy of the Fund changes with the liability profile over time.

<b>Asset</b>	<b>Start</b>	<b>Step 1</b>	<b>Step 2</b>	<i>Step 3</i>	<i>Step 4</i>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
<b>Equity</b>	<b>72.5</b>	<b>62.5</b>	<b>52.5</b>	42.5	32.5
<b>Hedging/Insurance</b>	<b>4.5</b>	<b>1.5</b>	<b>1.5</b>	1.5	1.5
<b>Credit</b>	<b>3.0</b>	<b>6.0</b>	<b>6.0</b>	6.0	6.0
<b>Short-Term Enhanced Yield</b>	<b>7.5</b>	<b>15.0</b>	<b>20.0</b>	25.0	30.0
<b>Long-Term Enhanced Yield</b>	<b>12.5</b>	<b>15.0</b>	<b>20.0</b>	25.0	30.0
	<b>100</b>	<b>100</b>	<b>100</b>	100	100
<b>Return (% p.a.)</b>	<b>6.1</b>	<b>6.0</b>	<b>5.9</b>	5.8	5.5
<b>Volatility (% p.a.)</b>	<b>13</b>	<b>12</b>	<b>11</b>	10	9

Step 1 changes were implemented during 2016/17. Step 2 will follow over the next couple of years. Steps 3 and 4 are for future consideration.

Step 1 changes included:

- Reduction in the Fund's exposure to quoted equity and implementation of revised regional and manager quoted equity allocations;
- An increase in exposure to short-term enhanced yield strategies. This was achieved by utilising proceeds from equity sales to fund:
  - the appointment of Babson Capital and Oak Hill Advisors to manage multi-asset credit mandates
  - the appointment of Ashmore Investment Management to manage an emerging market debt portfolio
  - investment in Alcentra's Clareant European Direct Lending Fund II and in Babson Global Private Loan Funds;
- The Fund changed its PIMCO mandate so that it was better aligned with the return target for short-term enhanced yield, switching from the PARS II product to PARS III.

- The sale of nominal gilts, which, together with a portion of the Fund's listed equity sales, funded an increase in exposure to credit strategies.

Finally, the maximum capacity of the Fund's Direct Investment Portfolio was increased to 5% of total Fund NAV. The Committee agreed that the objectives of the risk /return structure above should be used as the framework for assessing any new investments made through the Direct Investment Portfolio.

## Asset Allocations

Actual allocation at the end of March 2017 and March 2016 against Step 1 targets are shown below:

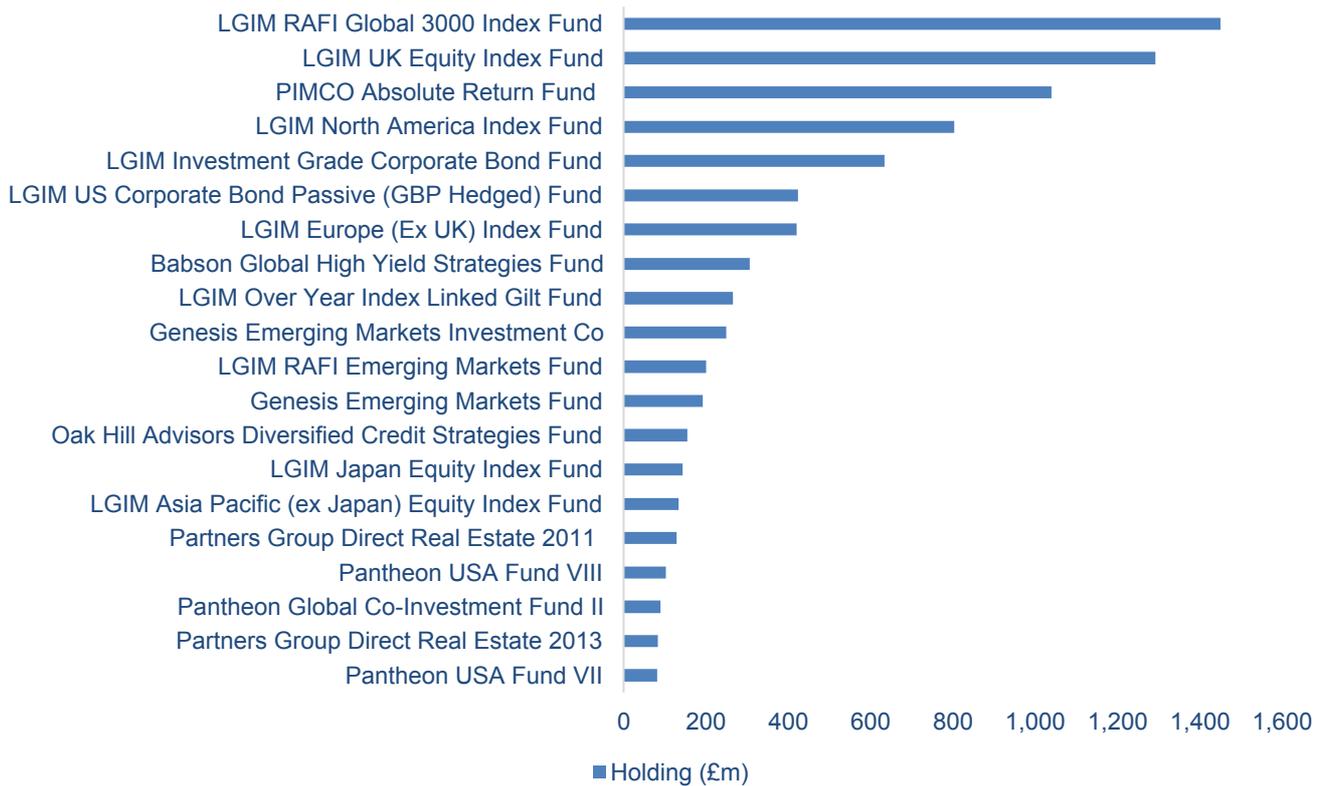
Asset Class	Allocation 31 March 2017	Allocation 31 March 2016	Target Allocation
	%	%	%
Equity	68.6	72.9	62.5
Hedging /Insurance	1.4	2.0	1.5
Credit	5.4	3.6	6.0
Short-Term Enhanced yield	8.3	6.6	15.0
Long-Term Enhanced yield	12.4	13.5	15.0
Cash	3.9	1.4	0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Strong performance of equity markets resulted in the Fund's exposure to equity remaining significantly above its new target level (62.5%) at 31st March 2017, while exposure to short-term enhanced yield strategies was still significantly below target.

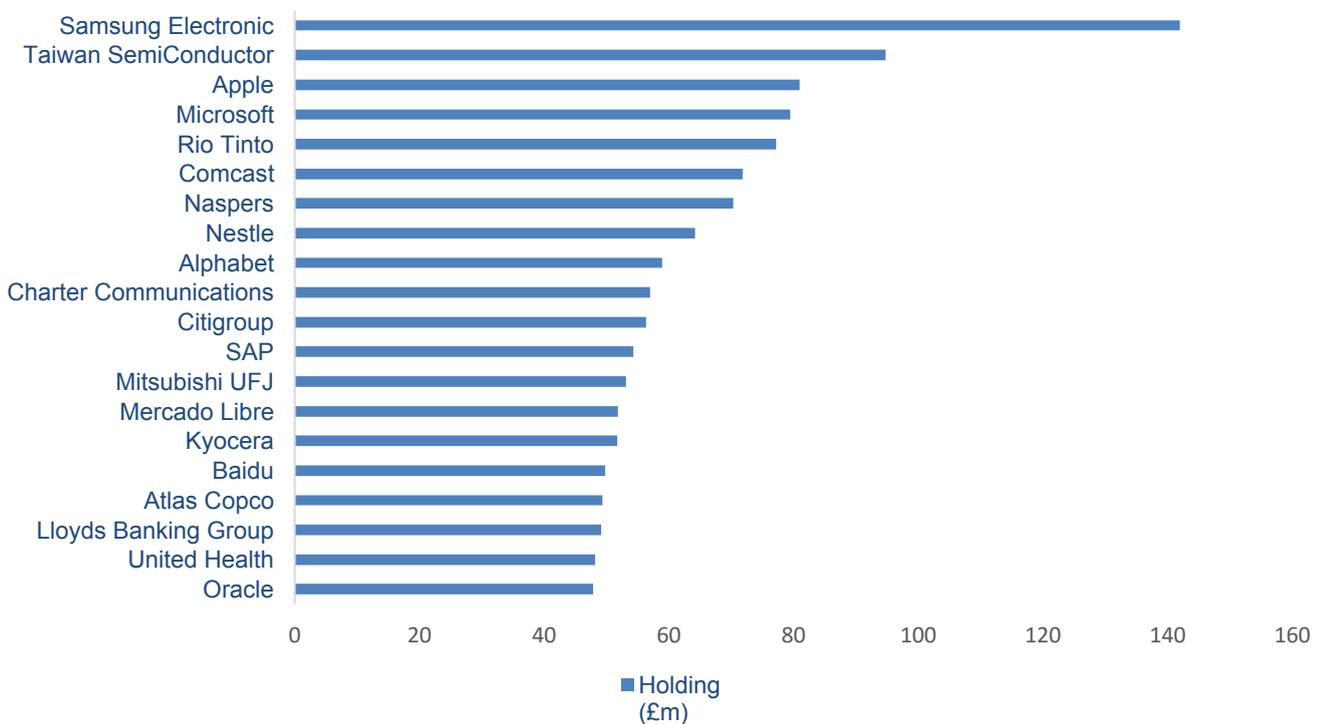
Manager and holding exposure at 31st March 2017 is illustrated in the charts below:



### Top Pooled Fund Holdings (£m)

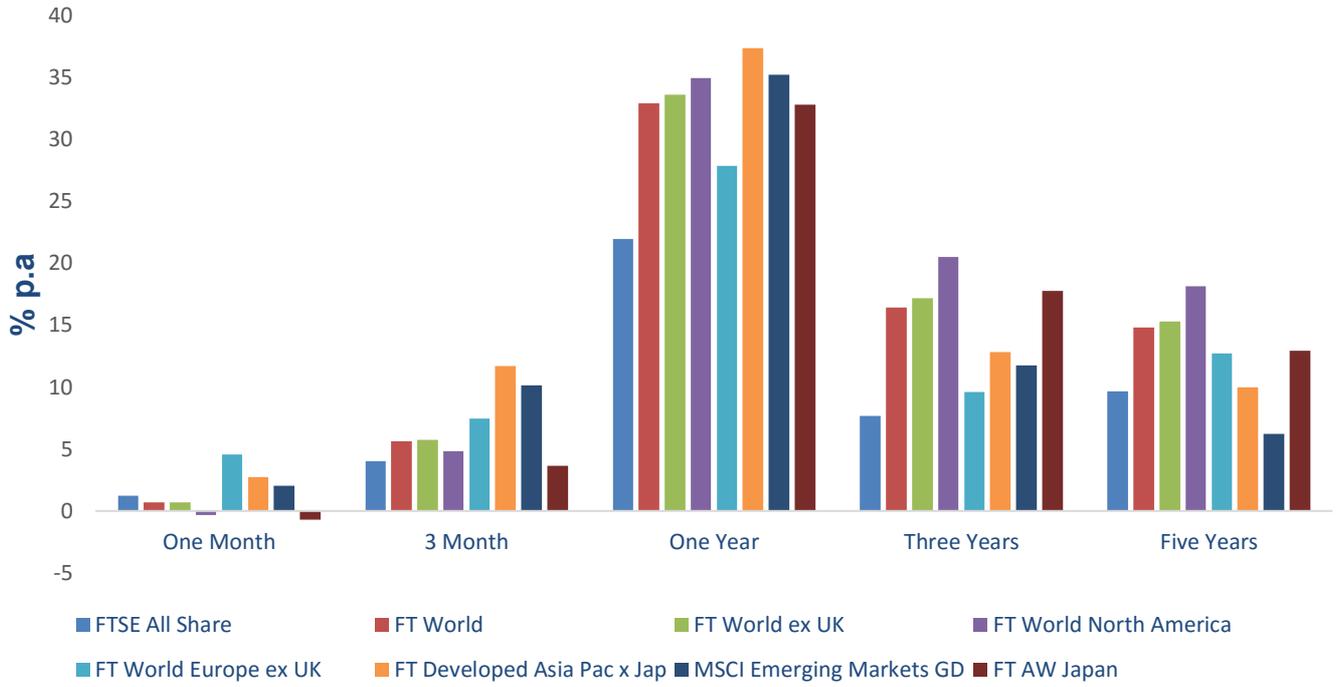


### Top Equity Holdings (£m)



In all, the Fund directly held 1,546 separate lines of equity as at 31st March 2017 across 39 separate investment markets. In addition, pooled funds provide coverage of entire markets, unlisted (private equity) companies and some highly specialist investment areas.

## Equity Market Performance to 31st March 2017



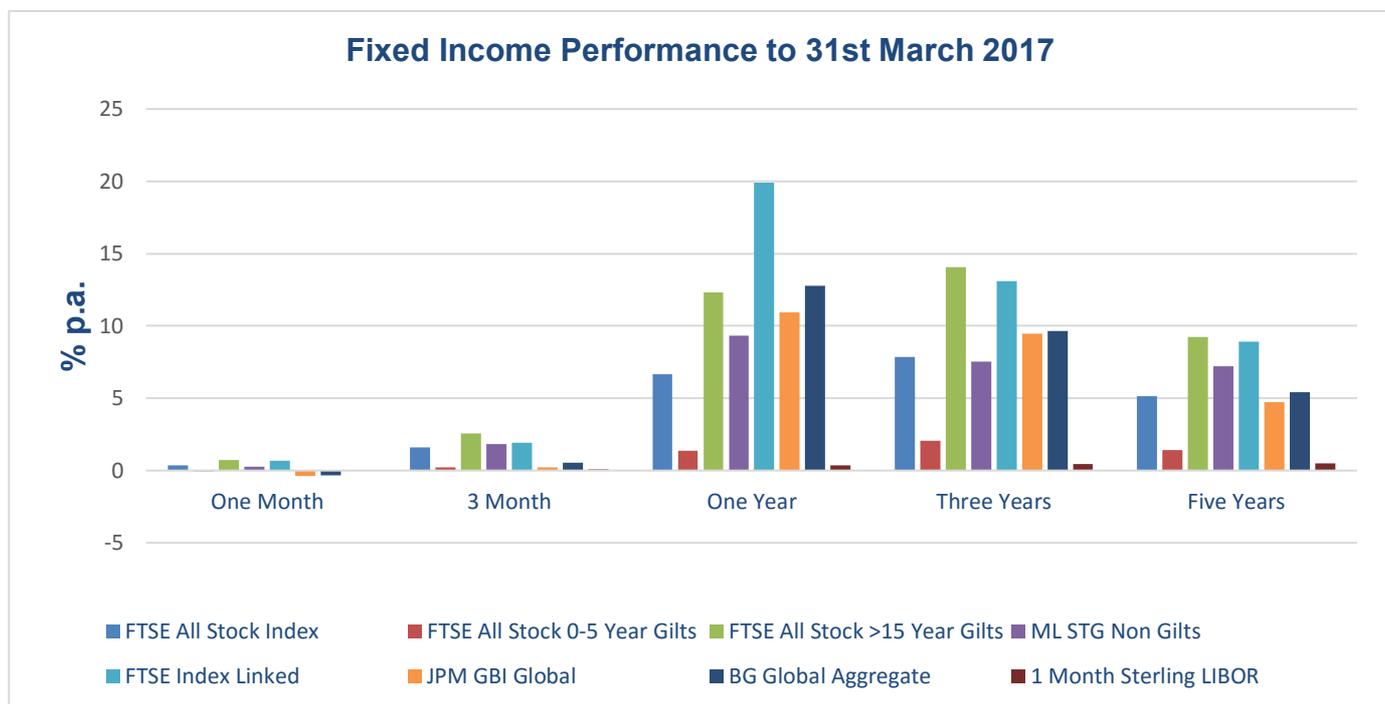
# INVESTMENT PERFORMANCE

## Market Commentary

Equity markets performed strongly in 2016/ 2017, despite the number of surprises thrown at them. The UK equity market fell immediately following the country’s decision to leave the EU, only to rally as central bank comments reassured investors. The sharp depreciation of sterling in the aftermath of the referendum result boosted earnings of larger companies and the FTSE 100 index hit new highs in the first quarter of 2017.

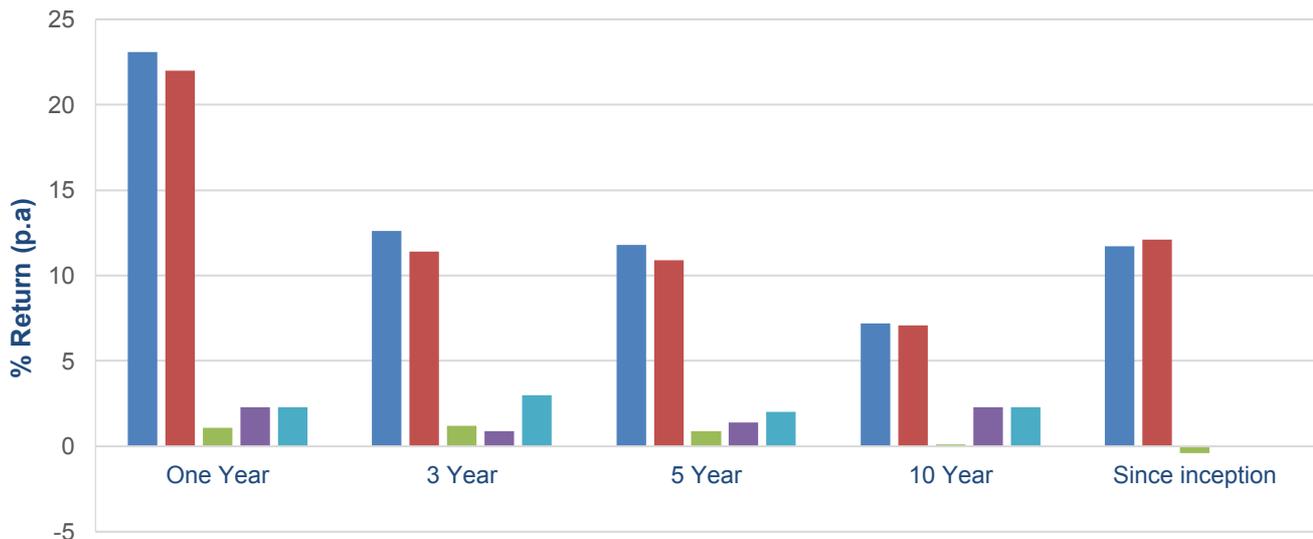
In the US, the surprise election of Donald Trump saw equities gain amid expectations of higher growth and inflation. Emerging markets recovered strongly in Q1 2017 as initial concerns over the geopolitical implications of a Trump presidency receded and an upturn in the Chinese economy provided a tailwind for investor sentiment. European markets also delivered solid gains; economic growth coupled with rising core inflation levels provided a constructive environment for corporate earnings, despite the headwind of a stronger euro.

Global government 10 year bond yields hit historic lows in the immediate aftermath of the UK’s EU referendum result, but rose following Trump’s election. Corporate bonds had a positive year, with high yield bonds performing particularly well. For the UK commercial real estate market, uncertainty after the EU referendum at first led to a fall in transaction levels; however the market bounced back strongly, and capital and rental growth remained positive into the new year.



## FUND PERFORMANCE

### Annualised Fund Return



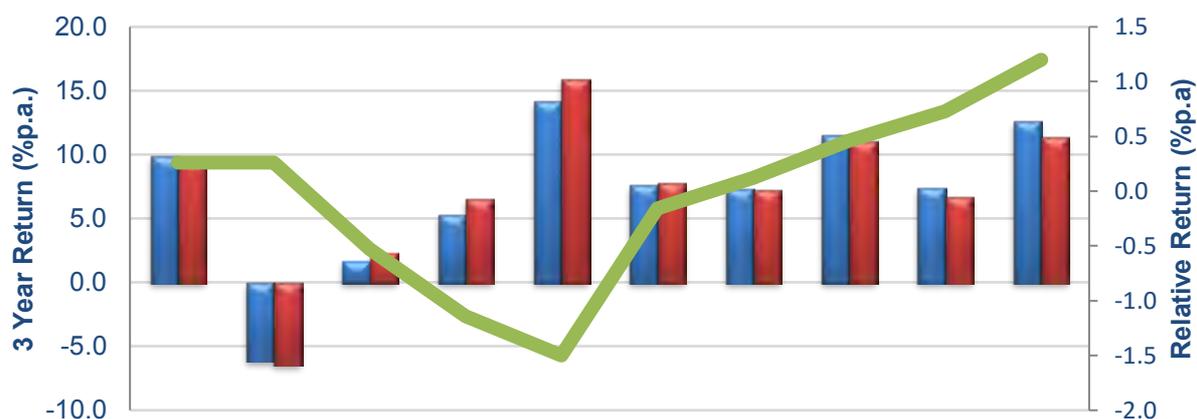
	One Year %	3 Year Annualised %	5 Year Annualised %	10 Year Annualised %	Since inception %
■ Fund Return	23.1	12.6	11.8	7.2	11.7
■ Benchmark Return	22.0	11.4	10.9	7.1	12.1
■ Relative Return	0.9	1.1	0.8	0.1	(0.4)
■ Inflation	2.3	0.9	1.4	2.3	n/a
■ Average Earnings	2.3	3.0	2.0	2.3	n/a

Over the year to end March 2017, the Fund returned **+23.1%** against a benchmark return of **+22.0%**. Equity portfolios were the most significant contributors to the Fund's strong absolute performance, while property holdings contributed most on a relative basis.

Over the long term, absolute returns have been strongly positive and the Fund has outperformed the benchmark over 3, 5 and 10 years.



### Rolling 3 Yearly Returns (% p.a.)



	Mar '08 %	Mar '09 %	Mar '10 %	Mar '11 %	Mar '12 %	Mar '13 %	Mar '14 %	Mar '15 %	Mar '16 %	Mar '17 %
■ Fund Return	9.9	-6.2	1.7	5.3	14.2	7.6	7.4	11.6	7.4	12.6
■ Benchmark Return	9.6	-6.4	2.3	6.5	15.9	7.8	7.2	11.1	6.6	11.4
■ Relative Excess Return	0.3	0.3	-0.5	-1.1	-1.5	-0.2	0.1	0.5	0.7	1.1

Rolling 3 year relative returns have steadily improved since 2014, in particular as a result of outperformance of the Fund's private equity and property portfolios.

The performance of the Fund's investment managers over 2016/17 is shown in the table below:

Manager	Annual Return (%)	Benchmark Return (%)	Relative Return (%)
Legal & General	26.9	26.4	0.4
Baillie Gifford	32.7	30.7	1.5
Lazard	29.0	32.2	-2.4
Veritas	26.3	32.2	-4.5
Oldfield	48.2	31.9	12.4
Henderson	9.0	21.7	-10.4
JP Morgan	34.6	35.5	-0.7
Genesis	31.9	36.5	-3.4
Pantheon	21.5	22.0	-0.4
Partners Group (Private Equity)	21.2	22.0	-0.7
Direct Investment Portfolio	7.7	0.7	7.0
PIMCO	0.5	3.4	-2.8
DTZ	5.4	3.5	1.8
Partners Group (Real Estate)	21.2	2.4	18.3
Legal & General (EM Future)	27.0		
<b>TOTAL FUND</b>	<b>23.1</b>	<b>22.0</b>	<b>1.1</b>

## DIRECT INVESTMENT PORTFOLIO (DIP)

In December 2009, the Strathclyde Pension Fund Committee agreed an initial governance structure for a New Opportunities Portfolio, which was rebranded during 2015/16 as the Strathclyde Direct Investment Portfolio (DIP).

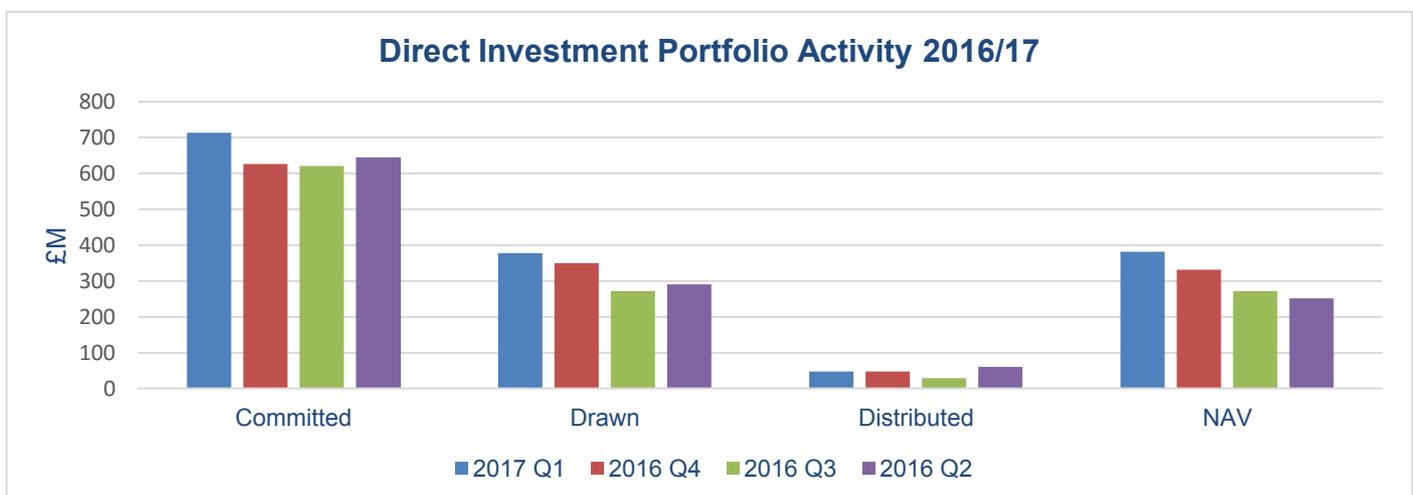
DIP investments are typically illiquid, self-liquidating, and opportunistic. Focused on investment in Scotland and the rest of the UK, strong fundamentals are usually enhanced by a positive local, economic or ESG (Environmental, Social, Governance) impact which adds value to the investment rationale.

The capacity of the Direct Investment Portfolio (DIP) has been gradually increased since its inception and currently stands at up to **5%** of the total Fund value.

During 2016/17, the Committee agreed the following commitments:

- **£30m** to **Equitix Fund IV**, which will develop and manage core infrastructure assets in the UK.
- An additional **£30m** to the **Green Investment Bank's Offshore Wind Fund**.
- **£20m** to the **Maven Regional Buyout Fund**, to invest in SMEs with a UK regional approach and focus on the smaller end of the buyout market.
- **£10m** to **Pentech Fund III**, which will invest in early stage software with a clear focus on UK companies.
- **£20m** to **Iona Capital Ltd's** new fund (**Iona Environmental Infrastructure 3 LP**), which will build, own and operate small-scale renewable energy plants across the UK.
- **£40m** to the **Pemberton UK Mid-Market Lending Fund**, which will focus on senior loan investments in UK mid-markets.

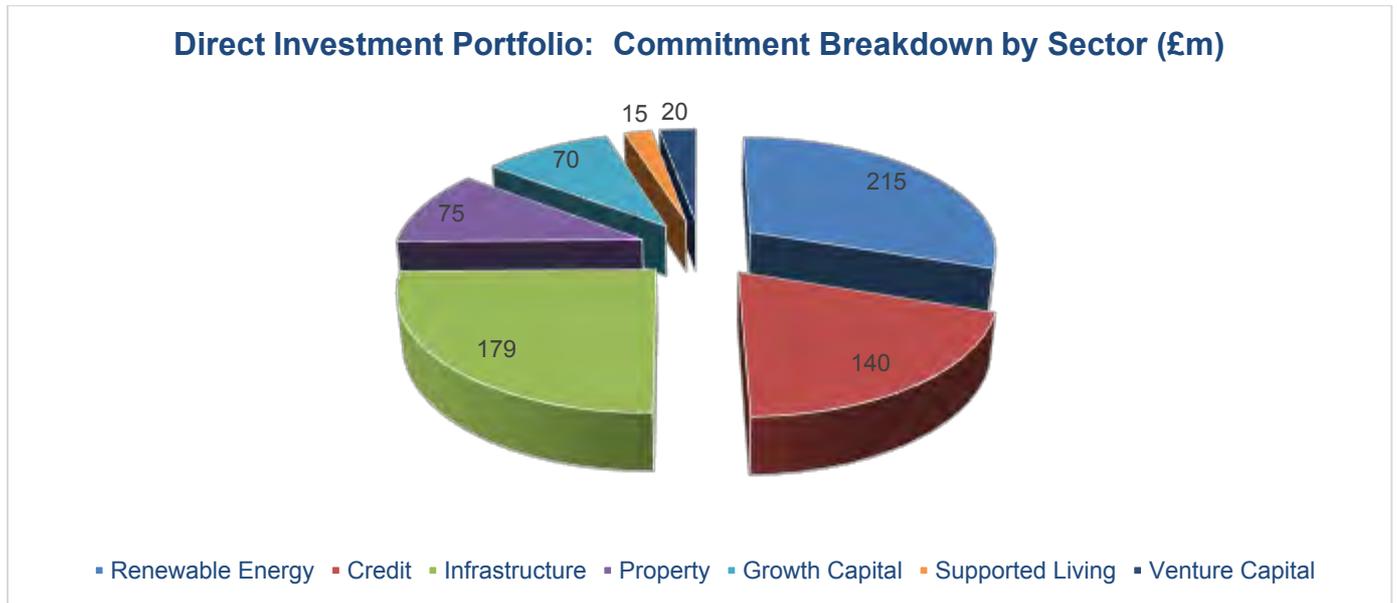
The chart below shows how the portfolio has developed over the course of 2016/17, with total commitments, drawdowns and Net Asset Value (NAV) all increasing over the year.



The Direct Investment Portfolio spans seven broad sectors with Renewable Energy (30%), Infrastructure

(25%) and Credit (20%) comprising the three largest components and representing a combined 75% of the overall portfolio. This is illustrated in the chart below.

Within Renewable Energy and Infrastructure in particular there is significant additional diversification by fund manager, sub-sector (wind, waste, solar) and across individual investment assets.



A complete list of Direct Investment Portfolio commitments is shown in the table below:

<b>Fund</b>	<b>Vintage Year</b>	<b>Sector</b>	<b>Commitment (£m)</b>
SEP II	2004	Venture Capital	5
SEP III	2006	Growth Capital	5
Panoramic Growth Equity Fund I	2010	Growth Capital	5
Iona Environmental Infrastructure LP	2011	Renewable Energy	10
Scottish Loans Fund	2011	Credit	10
SEP IV LP	2011	Growth Capital	5
Epidarex	2013	Venture Capital	5
Aberdeen UK Infrastructure Partners LP	2014	Infrastructure	28
Albion Community Power PLC	2014	Renewable Energy	20
Clydebuilt Fund LP	2014	Property	75
PPP Equity PIP LP (Dalmore)	2014	Infrastructure	50
Healthcare Royalties Partners III LP	2014	Credit	20
Renshaw Bay Real Estate Finance Fund LP	2014	Credit	10
SEP Environmental Capital Fund LP	2014	Renewable Energy	5
Aviva Investors PIP Solar PV LP	2015	Infrastructure	20
UK Green Investment Bank Offshore Wind Fund LP	2015	Renewable Energy	80
Panoramic Growth Equity Fund II	2015	Growth Capital	15
Resonance British Wind Energy Income Ltd.	2015	Renewable Energy	10
Temporis Renewable Energy LP	2015	Renewable Energy	30
Alpha Real Capital LLP Social Infrastructure Fund	2016	Supported Living	15
Markham Rae	2016	Credit	40
Muzinich UK Private Debt Fund	2016	Credit	20
NTR Wind I LP (Project Gael)	2016	Renewable Energy	40
SEP V LP	2016	Growth Capital	20
PIP Multi-Strategy Infrastructure LP	2016	Infrastructure	50
Equitix Fund IV LP	2016	Infrastructure	30
Pensions Infrastructure Limited	2017	Infrastructure	1
Maven Regional Buyout Fund	2017	Growth Capital	20
Pentech Fund III	2017	Venture Capital	10
Iona Environmental Infrastructure 3 LP	2017	Renewable Energy	20
Pemberton UK Mid-Market Direct Lending Fund	2017	Credit	40
<b>TOTAL</b>			<b>714</b>

## 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.**

Responsible Investment activity is carried out by:

- the Fund's investment managers who are required to exercise the Fund's voting rights, to incorporate analysis of ESG issues into their investment analysis and expected to engage on these issues with the companies in which they invest;
- Global Engagement Services (GES), a specialist responsible investment engagement overlay provider appointed by the Fund in 2012 and again in 2014; and
- the Fund itself through direct engagement, and collaboration with other investors including the Local Authority Pension Fund Forum (LAPFF), ShareAction, Institutional Investor Group on Climate Change (IIGCC), Carbon Action and other *ad hoc* alliances.

## REPORTING

A report summarising responsible investment 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](http://www.spfo.org.uk)

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

- Climate Change
- Protection of Endangered Species
- Factory Farming Emissions
- Inhumane Weapons
- Fossil Fuel to Renewables
- Tax Transparency
- Deforestation
- Fire and Building Safety in Bangladesh
- Indigenous People's Rights
- Executive Remuneration
- Vehicle Emissions
- Mine Safety
- Child Labour in the Cocoa Industry
- The Living Wage
- Water Rights
- Farm Animal Welfare

## Voting Results 2016/17 United Kingdom

	No of meetings	No. of AGM's	No. of EGM's	Combined AGM/EGM	No of Resolutions	Votes For	Votes Against	Abstentions	Not Voted*	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	16	15	1	0	225	212	13	0	0	16	0
Genesis	0	0	0	0	0	0	0	0	0	0	0
Henderson	142	119	23	0	1,167	1,126	11	8	22	142	0
JP Morgan	1	1	0	0	8	5	3	0	0	1	0
Lazard	10	10	0	0	169	148	2	0	19	10	0
Legal & General	786	633	123	30	10,786	10,484	302	0	0	786	0
Partners	3	3	0	0	42	41	1	0	0	3	0
Veritas	4	4	0	0	66	66	0	0	0	4	0
<b>Total</b>	<b>962</b>	<b>785</b>	<b>147</b>	<b>30</b>	<b>12,463</b>	<b>12,082</b>	<b>332</b>	<b>8</b>	<b>41</b>	<b>962</b>	<b>0</b>
						<b>98%</b>	<b>2%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>

\* 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 above 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](http://www.spfo.org.uk)



## Voting Results 2016/17 Overseas

	No. of meetings	No. of AGM's	No. of EGM's	Combined AGM/EGM	No of Resolutions	Votes For	Votes Against	Abstentions	Not Voted*	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	69	56	5	8	687	654	27	6	0	69	0
Genesis	244	158	75	11	2,427	2,204	159	56	8	244	0
Henderson	24	20	2	2	194	169	4	0	21	24	0
JP Morgan	413	368	36	9	2,966	2,435	435	62	34	412	1
Lazard	100	89	6	5	1,076	997	59	14	6	100	0
L&G	3,109	2,406	350	353	33,625	28,925	4,640	60	0	3,109	0
L&G – Segregated	66	44	3	19	916	856	31	29	0	66	0
Oldfield Partners	19	17	2	0	287	245	42	0	0	19	0
Veritas	32	24	6	2	356	319	26	11	0	32	0
<b>Total</b>	<b>4,076</b>	<b>3,182</b>	<b>485</b>	<b>409</b>	<b>42,534</b>	<b>36,804</b>	<b>5,423</b>	<b>238</b>	<b>69</b>	<b>4,075</b>	<b>1</b>
						<b>86%</b>	<b>13%</b>	<b>1%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>

\* 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 above 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](http://www.spfo.org.uk)



# SECTION 6

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## ADMINISTRATION



# ADMINISTRATION

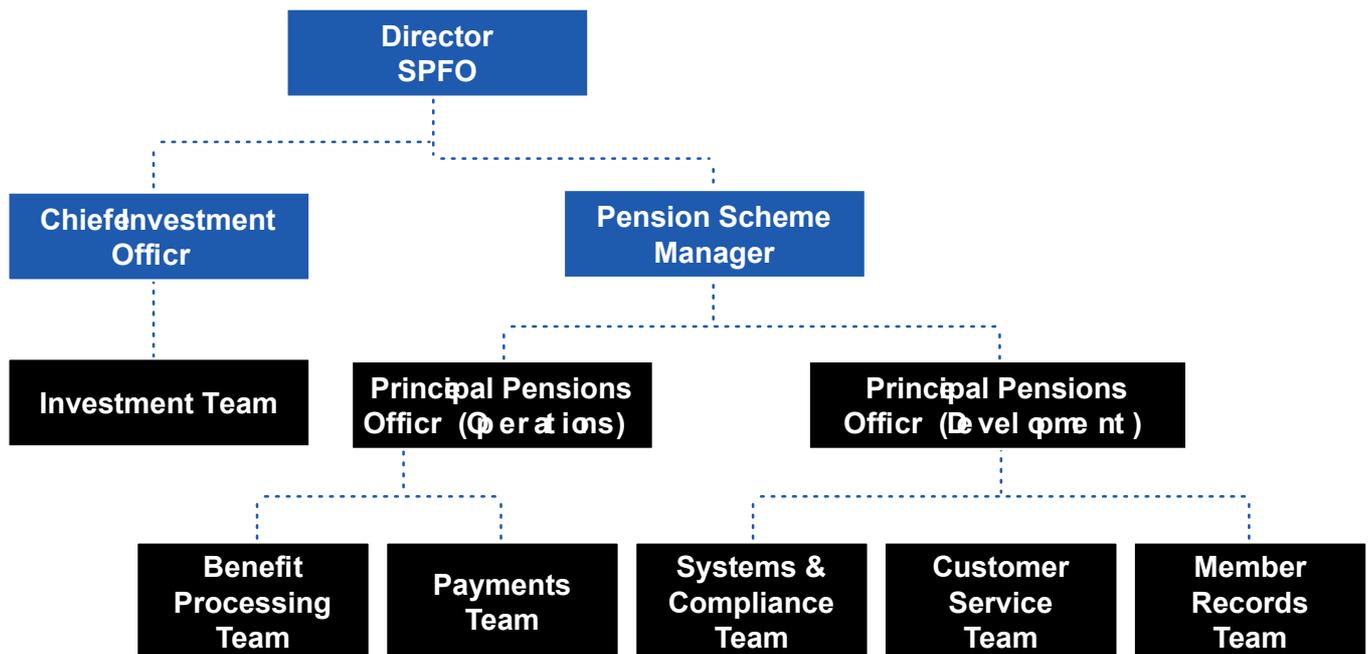
Administration of the Local Government Pension Scheme (LGPS) and its benefits for members of the Strathclyde Pension Fund is carried out by the Strathclyde Pension Fund Office (SPFO).

SPFO is a division of Glasgow City Council’s Financial Services Department.

Total staff in post at 31st March 2017 was 80 (FTE 78.47). This included 4 modern apprentices.

The SPFO staffing structure model is shown below.

## SPFO STRUCTURE



## SCHEME MEMBERSHIP

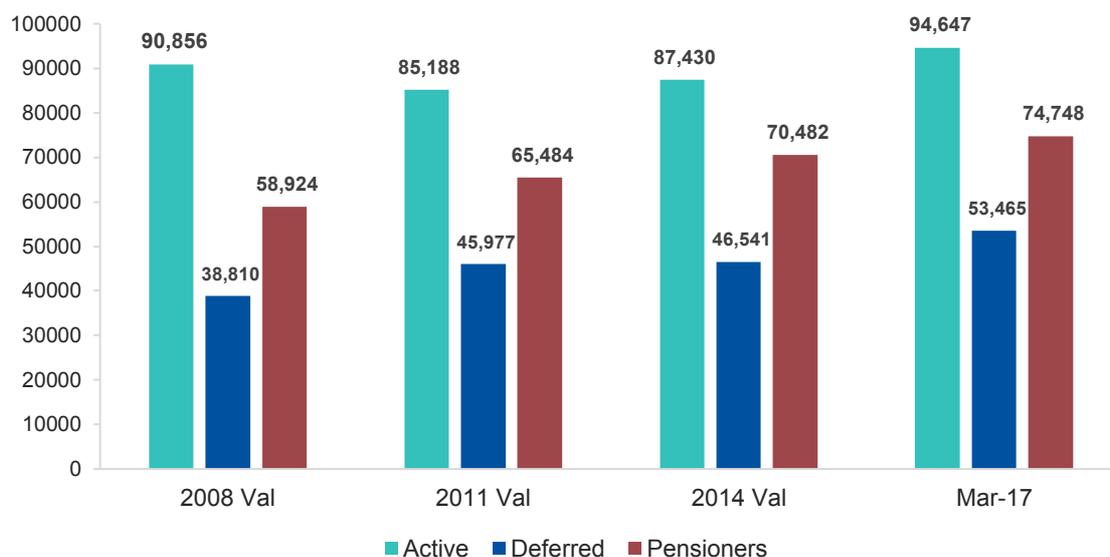
The following table summarises the movement in scheme membership over 2016/17.

### MEMBERSHIP ANALYSIS - Strathclyde Pension Fund

STATUS	TOTAL AT 01/04/2016	TOTAL OFF	TOTAL ON	TOTAL AT 31/03/2017
Active	92,847	5,144	4,338	94,647
Deferred / Undecided	50,835	2,236	3,687	53,465
Leavers				
Pensioners	73,274	2,179	3,223	74,748
<b>TOTAL</b>	<b>216,956</b>	<b>9,559</b>	<b>11,248</b>	<b>222,860</b>

The graph below charts movement in the membership numbers since the 2008 actuarial valuation.

### Membership Analysis as at 31st March 2017



## SCHEME BENEFITS

The Local Government Pension Scheme is a defined benefit scheme. From 1st April 2015 benefits are accrued at a rate of 1/49th of pensionable pay on a career average basis. Prior to that date benefits were accrued on a final salary basis. These benefits are fully protected on the basis under which they were accrued.

The following table gives a summary of scheme benefits.

Membership up to 31 March 2009		Membership from 1 April 2009 to 31 March 2015		Membership from 1 April 2015
Annual Pension = (Service years/days x Final Pay) / 80	+	Annual Pension = (Service years/days x Final Pay) / 60	+	Annual Pension = Pensionable pay each year / 49 (half that if in 50/50 section)
+		+		+
Automatic tax-free cash lump sum = 3 x Annual Pension		No automatic tax-free cash lump sum but can convert pension.		No automatic tax-free cash lump sum but can convert pension.
+		+		+
<ul style="list-style-type: none"> <li>• Annual revaluation and pensions increase in line with CPI inflation</li> <li>• Partners' and dependents' pensions</li> <li>• Ill health protection</li> <li>• Death in service protection</li> </ul>				

A full description of the scheme benefits can be found in the Members area of the SPFO website at [www.spfo.org.uk](http://www.spfo.org.uk) or on the LGPS 2015 website.

All benefits are paid in accordance with the Local Government Pension Scheme regulations.

# ADMINISTRATION STRATEGY

## BACKGROUND

Strathclyde Pension Fund introduced its first pension administration strategy in March 2010. The Strathclyde Pension Fund Committee agreed a revised strategy in March 2015. The strategy sets out the procedures and performance standards required of both SPFO and its employers to ensure the efficient and effective administration of the pension scheme.

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.

## SPFO SERVICE STANDARDS

The pension administration strategy sets out the statutory responsibilities of SPFO.

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.

## PERFORMANCE – SPFO

Administration performance is reported quarterly to the Pension Board and to the Strathclyde Pension Fund Committee. All committee reports are published in the Governance area of the SPFO website at [www.spfo.org.uk](http://www.spfo.org.uk)

## PAYMENT OF PENSIONS

The single most important critical function of SPFO is to ensure that the monthly pensions payroll runs on its due date. This was achieved each month in 2016/17.

## TRANSACTION TURNAROUND PERFORMANCE 1ST APRIL 2016 TO 31ST MARCH 2017

Pensions administration is carried out on the *Altair* pensions system. Operational efficiency is monitored through a workflow management system called *Task Management*.

The table below shows the targeted and actual performance for 2016/17 together with previous year comparison.

TURNAROUND PERFORMANCE										
Processes	Volumes	20 days	15 days	12 days	10 days	7 days	5 days	3 days	Target %	Previous Year on Target
<b>1. Data Changes</b>										
Data Changes Admin	11,411				99.98%	<b>99.50%</b>			<b>95.00%</b>	99.11%
<b>2. Deferred Benefits</b>										
Deferred Calcs	2,004					98.75%	98.40%	<b>97.31%</b>	<b>90.00%</b>	97.18%
<b>3. Retiral</b>										
Provisionals	3,742	<b>70.78%</b>							<b>80.00%</b>	61.54%
Actual	2,503	<b>75.03%</b>							<b>80.00%</b>	75.90%
<b>4. Early Leaver Options</b>										
Benefit Options Calcs	3,232		99.03%	99.01%	98.97%	<b>98.85%</b>			<b>90.00%</b>	98.37%
Refunds	2,144		99.11%	98.55%	97.81%	<b>95.38%</b>			<b>90.00%</b>	92.92%
<b>5. Transfers In</b>										
Quotations	85	76.47%	74.12%	72.94%	<b>72.94%</b>				<b>85.00%</b>	88.57%
Actuals	79	83.54%	81.01%	81.01%	81.01%	<b>81.01%</b>			<b>85.00%</b>	100.00%
<b>6. Transfers Out</b>										
Quotations	1,171	99.79%	<b>98.89%</b>						<b>90.00%</b>	99.24%
Club Transfers	134	92.38%	91.43%	<b>86.01%</b>					<b>90.00%</b>	95.38%
Non Club Transfers	178	91.45%	84.24%	<b>74.84%</b>					<b>90.00%</b>	92.64%

The target is expressed as x % of transactions completed within a target time of y days.

Performance was mixed in 2016/17. Target was achieved in 5 out of 11 categories measured. Performance for retirals, both actual and provisional, was behind target throughout the year, though considerable improvement from the previous year was achieved with provisionals.

## CUSTOMER SERVICE

SPFO uses a rolling customer survey to enable it to measure members' satisfaction with the quality of service delivery. Scheme members receive a one-page questionnaire when each significant transaction is processed. Survey results are summarised in the following table. In addition, comments received in the survey responses are followed up as a means to continuously improve service.

### SURVEY RESULTS – 1ST APRIL 2016 TO 31ST MARCH 2017

	Refunds	Retirals
<b>Forms issued</b>	<b>2,144</b>	<b>2,503</b>
Responses	1,127	1,142
Response rate (%)	52.6	45.6
<b>“Satisfaction Rating” (%)</b>	<b>82.8</b>	<b>88.6</b>
Target (%)	80.0	90.0
2015/16 full year (%)	81.1	87.2

Satisfaction target was achieved for refunds. Retirals fell a little short which is consistent with the slightly extended turnaround times reported above.

## SPFO DATA QUALITY

One of the SPFO business priorities in recent years has been improvement in the member database which was historically both incomplete and inaccurate. Substantial progress has been made to date.

The table below shows the quality of data held by SPFO at 31st March 2017. The Pension Regulator's guidance sets a target of 100% accuracy for new common data received after June 2010.

SPFO Data	Current
Very good data with minimal requirements	
Forename	100%
Surname	100%
Membership Status	100%
<i>Date of Birth</i>	99.99%
NI Number	98.67%
Post Code	97.97%
Address	93.08%
Poor data with high cleansing requirements	

The only area of significant weakness is in the address field. This relates to a cohort of historic deferred members for whom SPFO has either never held an address or with whom contact has been lost. A strategy is in place to trace these members before their benefits become due.

## EMPLOYER SERVICE STANDARDS

The pensions administration strategy sets out the roles and responsibilities of employers together with detailed service standards to which they should adhere.

## PERFORMANCE - EMPLOYERS

The table below details the performance achieved by employers in 2016/17 in relation to key service standards.

Service Standard	Achieved
Good quality new member data received by SPFO (from Local Authority Employers)	72%
Electronic data changes received (Local Authority Employers)	60%
2 months prior notice of retirement received	35%
Submission of year-end contribution return by 20th May	76%
Remittance of employee and employer contributions by 19th of the month following deduction (Local Authority Employers)	99%

## STARTERS AND EARLY LEAVERS – EXCEPTION RATE

Employers are required to notify SPFO promptly of members joining or leaving the scheme. There is some incidence of failure to do this and regular reports are issued to employers identifying missing data, both historic and current. The table below summaries the position at 31st March 2017.

	Members	%
<b>Record status matched</b>	<b>92,915</b>	<b>98.17</b>
<b>Missing new start data</b>	<b>676</b>	<b>0.71</b>
<b>Missing leaver data</b>	<b>1,056</b>	<b>1.12</b>
<b>Total employee members</b>	<b>94,647</b>	<b>100</b>

The aggregate prior and current year exception rate of 1.83% achieves the year-end target of <2.0%.

## REPORTING TO THE PENSIONS REGULATOR

During 2016/17 there were no instances of late payment of member contributions or other breaches which were considered to be of material significance such that they required to be reported to The Pensions Regulator. All breaches of the regulations which are identified are logged within SPFO.

## FUND MEMBERSHIP – PARTICIPATING EMPLOYERS

### A

Access to Employment Ayr Ltd  
ACCESS (Service Glasgow LLP)  
Alternatives West Dunbarton Community Drug Services  
AMEY BFO Services Ltd (Renfrewshire Schools PPP)  
Amey Public Services LLP  
Argyll & Bute Council  
Argyll & Bute Local Learning Partnership Ltd  
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  
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 (E)  
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 Limited (E)  
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 Renfrewshire Carers  
East Renfrewshire Council  
East Renfrewshire Culture & Leisure Trust  
Easterhouse Citizens Advice Bureau  
Enable Services Ltd  
Engage Renfrewshire  
Equals Advocacy Partnership Mental Health

### F

First Glasgow (No.3 Fund)  
Flourish House  
Forth & Oban Ltd  
Fyne Homes Limited

### G

Geeza Break (East End Respite Care Group) (E)  
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 (E)  
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  
Greenspace Scotland

## H

Hansel Alliance **(E)**  
Hansel Foundation **(E)**  
H.E.L.P (Argyll & Bute) Ltd  
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

Irvine Bay Urban Regeneration Company **(E)**  
Irvine Housing Association **(E)**  
Inverclyde Council  
Inverclyde Leisure

## 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 **(E)**  
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)  
Mitie PFI Ltd (East Ayrshire Education PPP)  
Mitie PFI Ltd (North Ayrshire Education PPP)  
Mitie PFI Ltd (South Ayrshire Education PPP)

## N

New College Lanarkshire  
New Gorbals Housing Association  
North Ayr Resource Centre **(E)**  
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

## O

Optima Working in Wellbeing **(N)**

## P

Parkhead Citizens Advice Bureau **(E)**  
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 (2) **(E)**  
Royal Conservatoire of Scotland

## S

SACRO  
Scottish Canals **(N)**  
Scottish Environmental & Outdoor Centres  
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 **(E)**  
 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 **(E)**  
 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 Alpha Project  
 The Advocacy Project **(E)**  
 The Financial Fitness Resource Team  
 The Jeely Piece Club  
 The Milton Kids D.A.S.H. Club  
 The Scottish Centre for Children with Motor Impairments  
 The Richmond Fellowship Scotland Ltd **(E)**  
 The Village Storytelling Centre **(E)**  
 The Volunteer Centre  
 TNT UK Limited **(E)**  
 Tollcross Housing Association  
 T.O.M. Airdrie Ltd  
 Town Centre Activities Limited

## U

University of Aberdeen (ex Northern College)  
 University of Dundee (ex Northern College)  
 University of Edinburgh (ex Moray House)  
 University of Glasgow (ex St. Andrew's College)  
 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 **(E)**

## Y

Youth Counselling Services Agency

**(N) = New employer during the year.**

**(E) = Employer Exited during the year.**

## NEW AND EXITING EMPLOYERS

New employers may participate in the Fund subject to satisfying the requirements of the Local Government Pension Scheme Regulations and the Fund's policy on admissions. The process for an exiting employer is set out in the regulations which require the Fund actuary to calculate an exit payment. The calculation is usually carried out on a discontinuance basis which means that the payment due from the employer can be substantial. SPFO has developed procedures to manage employer exits through phased payments both before and after the event.

Employer participation during 2016/17 is summarised in the following table.

Total employers at 1st April 2016	200
New employers	+2
Exiting employers	-19
<b>Total employers at 31st March 2017</b>	<b>183</b>

## **COMMUNICATIONS POLICY**

The Fund adopted the following revised Communications policy with effect from 1st April 2015.

### **1. VISION**

Everyone with any interest in the Fund should have ready access to all the information they need.

### **2. OBJECTIVES**

- To improve understanding of the scheme and the Fund.
- To promote the benefits of the scheme.
- To allow members to make informed decisions.

### **3. PRINCIPLES**

#### **3.1 Format**

Our communications will:

- Have a clear purpose.
- Have a clear message.
- Be well written and presented.
- Make an impact.

#### **3.2 Brand**

The Strathclyde Pension Fund is a strong brand with which members and others identify. We will protect and promote it.

#### **3.3 Content**

Content will be relevant and timely.

#### **3.4 Delivery**

- We will use the most efficient and effective delivery media.
- We are committed to increasing digital access and delivery.

#### **3.5 Measuring Success**

- We will measure, monitor and report on our communications programme.
- We will encourage engagement, comment and feedback.

### **4. DEVELOPMENT PRIORITIES**

Our current priority is to increase and improve digital delivery of our communications.

### **5. MEASUREMENT OF SUCCESS**

We will measure our success in terms of customer engagement and satisfaction. Targets will be agreed in our annual business plan. Results will be reported annually.

### **6. PROGRAMME**

Our current programme of communications is summarised in the following schedules which set out the audience, key messages, media used, and deliverables.

## COMMUNICATIONS – PERFORMANCE

At our 2016 AGM we launched a membership campaign under the tagline “**For Your Future**”. This was instrumental in increasing our employee membership by more than 6,000 over the year.

The tagline was designed as a:

- Positive reminder of the long-term benefits of scheme membership and
- Warning against the potential long-term consequences of a misguided short term decision

During scheme year 2016 / 2017 we also:

- Consolidated the success of our digital communications strategy with 8,700 new digital members registered for our data portal SPFOne taking the total to almost 52,000
- Produced and issued annual pension updates based on the new career average scheme to our employee and deferred members within the 31 August statutory deadline
- Delivered 90% of our member newsletters to our employee, deferred and pensioner members digitally

Progress in implementing the digital communications strategy is summarised in the following table.

### Digital Communications

Website	Measure	2016/17 Actual	2016/17 Target	2015/16 Actual
<b>www.spfo.org.uk</b>	total weekly visits	4,987	7,000	<b>6,948</b>
	unique weekly visitors	3,969	5,500	<b>5,751</b>
<b>SPFOne</b>	members registered	51,917	50,000	<b>43,148</b>



## Independent Auditor's Report

### Independent auditor's report to the members of Glasgow City Council as administering authority for Strathclyde Pension Fund No. 1 and Strathclyde Pension Fund No. 3 and the Accounts Commission

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 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### Report on the audit of the financial statements

#### Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of Strathclyde Pension Fund No.1 and Strathclyde Pension Fund No. 3 for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Accounts, the Net Assets Statements, and notes to the financial statements, including a summary of significant accounting policies. 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 2016/17 (the 2016/17 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the financial transactions of the funds during the year ended 31 March 2017 and of the amount and disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 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.

#### Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Responsibilities of the Acting Executive Director of Financial Services for the financial statements

As explained more fully in the Statement of Responsibilities, the Acting Executive Director of Financial Services is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Acting Executive Director of Financial Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor's responsibilities for the audit of the financial statements**

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. 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 circumstances of the funds and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Acting Executive Director of Financial Services; and the overall presentation of the financial statements.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## **Other information in the annual accounts**

The Acting Executive Director of Financial Services is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the annual accounts 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.

## **Report on other requirements**

### **Opinions on other prescribed matters**

I am required by the Accounts Commission to express an opinion on the following matters.

In my opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2014.

## **Matters on which I am required to report by exception**

I am required by the Accounts Commission 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.

I have nothing to report in respect of these matters.

David McConnell MA CPFA  
Assistant Director (Audit Services)  
Audit Scotland  
4<sup>th</sup> Floor, South Suite  
The Athenaeum Building  
8 Nelson Mandela Place  
Glasgow  
G2 1BT

September 2017

# STRATHCLYDE PENSION FUND OFFICE



**Director: Richard McIndoe**

**Chief Investment Officer: Jacqueline Gillies**

**Investment Manager: Richard Keery**

**Investment Manager: Ian Jamison**

**Pension Scheme Manager: Linda Welsh**

**Principal Pensions Officer: (Development) Nicola Smith**

**Principal Pensions Officer: (Operations) Brian Rodden**

**Chief Finance Officer: Paul Murphy**

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

## CONTACT

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