

STRATHCLYDE PENSION FUND

ANNUAL REPORT
FOR THE YEAR TO 31ST MARCH 2011





2011

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CONVENER'S INTRODUCTION

Scheme year 2010/2011 was a year of “moving on” for Strathclyde Pension Fund:

- Strathclyde Pension Fund Office (SPFO) relocated after 20 years in Queen Street to a new home in the City's International Financial Services District
- the Fund experienced a significant shift in its membership profile as large numbers of members retired early in widespread severance programmes
- SPFO's staffing base reduced by 16 as part of this trend
- significant reform proposals emerged for the Local Government Pension Scheme
- the Fund's investments grew at a more normal rate, moving on from the dramatic recovery of the previous year following the market crash after the credit crunch
- the Fund's Annual Report & Accounts are this year audited separately from those of Glasgow City Council

Overall the Fund's membership grew slightly over the year to 195,052 comprising:

85,261 active members.

45,384 deferred members / undecided leavers.

64,407 pensioners.

Significant milestones over the last year included:

- the production of the Fund's first Governance Compliance Statement.
- the first review of performance against the Administration Strategy.

As at 31 March 2011 the Fund was estimated to be 90.8% funded. The estimated funding position does not yet take any account of the change from RPI to CPI for pension increases that should improve funding levels by about 5%.

Councillor Paul Rooney
Convener, Strathclyde Pension Fund Committee

Note: Cllr Rooney replaced Bailie McNally in June 2011



2010 / 2011 was one of our busiest years ever on the benefits administration side of our activities, as we played our part in delivering downsizing programmes in Scottish local government.

I am very proud that we:

- processed an unprecedented level of retirements whilst maintaining our high levels of service
- moved office seamlessly in August 2010
- commenced an ongoing process of streamlining our activities

The financial statements contained in this pension fund annual report show:

- employee contributions levelling off at £116m as active membership stops growing
- a significant increase in lump sum payments from £110m to £150m as a result of the high level of retirements

On the investments side of our activities:

- the Fund produced a total annual return of 7.7% for 2010 / 2011.
- the Fund's net asset value of £11,325m at 31st March 2011 was a new high water mark and an increase of over £908m over the year.

One measure of how well we performed is our continued success in winning industry awards, including:

- Professional Pensions Public Sector Scheme of the Year 2010
- Funds Europe European Public Sector Institutional Investor of 2010
- Pensions Week / Pensions Management Large Scheme of the Year 2010

Lynn Brown
Executive Director of Financial Services
Glasgow City Council

ABOUT THE FUND

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

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

The Fund's investments are externally managed in accordance with the Local Government Pension Scheme (Scotland) (Management and Investment of Funds) regulations 2010.

All pension benefits are paid in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) regulations 2008.

OUR VALUES

- accuracy, accessibility and speed of response
- people, participation and partnership
- proactiveness, initiative and innovation
- transparency, accountability and value for money

OUR OBJECTIVES

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

GOVERNANCE COMPLIANCE STATEMENT

1. Role and responsibilities

Glasgow City 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 over 200 other large and small employers.

The main functions are:

- management and investment of scheme funds
- administration of scheme benefits

These functions are carried out in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972.

Glasgow carries out its role as Administering Authority via:

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

SPFO also acts as administrator for the unfunded Police and Fire pension schemes and as a payroll agent for compensatory added years payments within the Teachers Superannuation Scheme.

2. Delegation

The function of maintaining the Strathclyde Pension Fund is delegated by Glasgow City 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 at: <http://www.spfo.org.uk/Governance/>

3. Terms of delegation

The terms, structure and operational procedures of delegation are set out in the Council’s Scheme of Delegated Functions and Standing Orders. These are available at:

http://www.glasgow.gov.uk/en/YourCouncil/Council_Committees/

4. Committee meetings

Regular 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>

5. Representation

The Strathclyde Pension Fund Committee is comprised solely of elected members of Glasgow City Council. Employing authorities (including authorities which are not Scheme employers) and scheme members are represented at the Strathclyde Pension Fund Representative Forum. The Fund’s Policy on Representation, which sets out the Forum arrangements, is available at: <http://www.spfo.org.uk/Governance/SPF+Representative+Forum/Policyonrepresentation/>

6. Compliance

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 is available at: <http://www.spfo.org.uk/Governance/PolicyDocuments/>

George Black
Chief Executive, GCC
17 November 2011

Councillor Paul Rooney
Convener, SPF Committee
17 November 2011

STRATHCLYDE PENSION FUND COMMITTEE

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

The Committee is comprised of elected members of Glasgow City Council.

Its membership during 2010 / 2011 was as below.

Bailie James McNally (Convener)

Cllr Philip Braat

Cllr Paul Coleshill

Cllr Stephen Curran

Cllr Khalil Malik

Cllr Gordon Mathieson

Cllr John McKenzie

Cllr Tom McKeown

Cllr Ruth Simpson

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





INVESTMENT MANAGERS



OTHER SERVICE PROVIDERS



RISK REGISTER

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

The Risk Register is monitored on an ongoing basis by officers and by the Investment Advisory Panel. The top 5 risks, in terms of their residual ranking, are reported to the Strathclyde Pension Fund Committee each quarter for review.

The top risks as at 31 March 2011 were as follows.

Risk ID	Description	Probability	Impact	Residual Risk Score
SPFO1	Fund's investments fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term. Impact: increase in employer contribution rates.	3	4	12
SPFO3	Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities. Impact: increase in employer contribution rates	3	4	12
SPFO8	Accelerating patterns of early retirements and early leavers. Impact: pressure on cash flow and funding equation.	4	3	12
SPFO23	CPX System Failure. Impact: Staff downtime, loss of service delivery.	3	4	12

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



REPRESENTATIVE FORUM

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

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

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

During 2010/11 the Forum's membership was as follows.

Bailie James McNally	Glasgow City Council (Convener)
Cllr Philip Braat	Glasgow City Council (Vice-Convener)
Cllr Robin Currie	Argyll & Bute Council
Janet Thomson	Cardonald College
Robin Baker	East Ayrshire Council
Ian Black	East Dunbartonshire Council
Cllr Ralph Robertson	East Renfrewshire Council
Julie Blackburn	Glasgow Metropolitan College
Eliot Leviten	Glasgow School of Art
Angus Grossart	North Ayrshire Council
Cllr Robert Burrows	North Lanarkshire Council
Cllr Alan Noon	Renfrewshire Council
Eileen Howatt	South Ayrshire Council
Jackie Taylor	South Lanarkshire Council
Iain Shaw	Strathclyde Fire & Rescue
Vincent Gardiner	West Dunbartonshire Council
Robert Gordon	Amicus (UNITE)
Frank Murphy	T&G section of UNITE
Stewart Young	UCATT
Joe Connolly	UNISON
David Thomson	Pensioners Representative

FUNDING STRATEGY STATEMENT

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability and stability of contributions, transparency of processes, and prudence in the funding basis.

It is available in full from the Governance/Policy documents area of our website.

Some points worth highlighting from the latest statement are that:

- it is assumed that the Fund's equity investments will deliver an average additional return of 1.6% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation
- it is assumed that property and corporate bonds will deliver an average return in excess of gilts of 1% a year and 0.5% a year respectively
- from 1st April 2010 strain on the Fund costs was extended to all retirements on redundancy or efficiency grounds where the scheme member is over 60 and would otherwise have suffered an actuarial reduction to their benefits
- Annex B contains a summary of our policy on Administering Authority's discretions

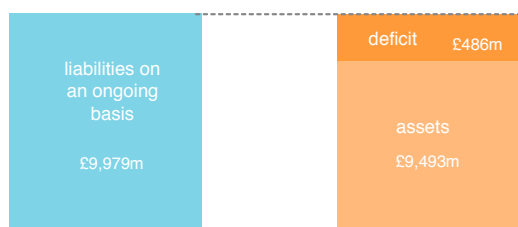
2008 VALUATION EXECUTIVE SUMMARY

Executive summary

We have carried out an actuarial valuation of the Strathclyde Pension Fund ('the Fund') as at 31 March 2008 ('the valuation date'). The results are presented in this report and summarised below.

The Fund's objective of holding sufficient assets to meet the estimated current cost of providing members' past service benefits) was not met at the valuation date. The funding level was 95% (compared to 97% at 31 March 2005) and there was a funding shortfall of £486m.

The Fund's financial position at the valuation date is illustrated graphically in the chart below.



Without anticipating an element of future equity out-performance, the 'gilt-based' funding level would be 71% at the valuation date, and there would be a shortfall of £3,889m.

The employers' average future service contribution rate as at 31 March 2008 (ignoring the past service shortfall) is 17.9% of pensionable pay. Assuming that a funding level of 100% is to be targeted over a period of the average remaining working lifetime of the active members (currently 11 years), the common contribution rate (employers' total contribution rate) is 20.6% of pensionable pay. These figures take advance credit for outperformance of the Fund's assets relative to gilt yields on the valuation basis, as set out in the Funding Strategy Statement. Ignoring this credit for outperformance, the future service rate would be 29.7%, and the total common contribution rate would be 47.0% of pensionable pay.

Adjustments have been made to the common rate of employers' contribution to take account of certain circumstances that are peculiar to individual employers, as required by Regulation 76(6) of the Local Government Pension Scheme (Scotland) Regulations 1998 and confirmed in the Funding Strategy Statement. The minimum contributions to be paid by each employer from 1 April 2009 to 31 March 2012 are shown in the Statement to the Rates and Adjustment Certificate in Appendix H.

The results of the valuation are very sensitive to the actuarial assumptions made. If actual future demographic and economic experience does not match the assumptions, the financial position of the Fund could deteriorate materially.

Alison Murray

Fellow of the Faculty of Actuaries

31 March 2009

Catherine McFadyen

Fellow of the Faculty of Actuaries

March 2009

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STATEMENT OF INVESTMENT PRINCIPLES

1. Introduction

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

4. Investment Objective

The Fund's investment objective is to reduce the cost to employers of providing pension benefits by adopting a strategy and structure which produce an expected return on investments which exceeds that of a minimum risk model portfolio.

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. Risk is also be 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

The majority of the Fund's investments are traded on major stock markets and could be realised quickly if required. The Fund does not rely on investment income or realisation of investments to meet immediate pensions payments. This allows it to selectively invest in illiquid assets which provide a return premium.

10. Responsible Investment

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

11. Exercise of Rights

The Fund ensures that the votes attaching to its holdings in all quoted companies, both in the UK and Overseas, are exercised whenever practical. The Fund's voting policy is exercised by its Investment Managers in accordance with their own corporate governance policies, and taking account of current best practice including the Combined Code on Corporate Governance.

12. Additional Voluntary Contributions (AVCs)

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

13. CIPFA/Myners Principles

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

The full Statement of Investment Principles including Schedules is available at:

[http://www.spfo.org.uk/Investments/
InvestmentStrategy/StatementInvestment/](http://www.spfo.org.uk/Investments/InvestmentStrategy/StatementInvestment/)



INVESTMENT ADVISORY PANEL

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

The panel also spends considerable time developing and monitoring investment strategy. Members of the Committee may attend panel meetings in an observer capacity, at their discretion.

Panel membership during 2010/11 was:

Dick Barfield	Investment Adviser
Ronnie Bowie	Senior Partner, Hymans Robertson
Lynn Brown	Director of Financial Services, Glasgow City Council
Caroline Burton	Investment Adviser
Jacqueline Gillies	Chief Pensions Officer (Investments), Strathclyde Pension Fund
Richard Keery	Investment Manager, Strathclyde Pension Fund
Richard McIndoe	Head of Pensions, Strathclyde Pension Fund
Linda Selman	Partner, Hymans Robertson
David Walker	Investment Consultant, Hymans Robertson
Prof. Geoffrey Wood	Investment Adviser

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 Strathclyde Pension Fund Committee and reviewed regularly. The investment strategy is consistent with the Funding Strategy.

The Strathclyde Pension Fund Committee agrees an investment structure to deliver the investment strategy. The current investment objective, strategy and structure are set out in Schedule 2 to the Statement of Investment Principles.

Asset Structure 2010/2011

Asset Class	Distribution As at 1 April 2010			Distribution As at 31 March 2011		
	Fund Actual (%)	Fund B/Mark (%)	WM (%)	Fund Actual (%)	Fund B/Mark (%)	WM (%)
Equities	69.3	68	54.7	68.4	68	51.7
Bonds	13.3	15	30.5	12.8	15	32.8
Private Equity	6.6	5	n/a	7.7	5	4.2
Cash / Alternatives	3.7	0	9.1	4.8	0	5.5
Property	7.2	12	5.7	6.3	12	5.9
TOTAL FUND	100	100	100	100	100	100

Note: the Fund's strategy does not include an allocation to cash but does incorporate a currency overlay strategy.

Fund Managers 2010/2011

Manager	Value 1 April 2010		Value 31 March 2011	
	(£m)	(%)	(£m)	(%)
Legal & General	3,619	35.1	3,903	34.9
Baillie Gifford	1,190	11.6	1,308	11.7
Capital International	952	9.2	1,026	9.2
DTZ	n/a	n/a	741	6.5
Pantheon	476	4.6	599	5.4
Lazard	503	4.9	536	4.8
PIMCO	460	4.5	482	4.3
Currency / Cash	245	2.4	399	3.6
Alliance Bernstein	330	3.2	345	3.1
Invesco	297	2.9	322	2.9
JP Morgan	261	2.5	308	2.8
Partners Group	221	2.1	282	2.5
Edinburgh Partners	251	2.4	250	2.2
Gartmore	207	2.0	244	2.2
Threadneedle	223	2.2	223	2.0
Genesis	320	3.1	214	1.9
New Opportunities	n/a	n/a	9	0.0
Partners Group Global Real Estate	n/a	n/a	5	0.0
Aberdeen	752	7.3	n/a	n/a
TOTAL FUNDS	10,307	100.0	11,196	100.0

INVESTMENT PERFORMANCE

SUMMARY

2010/ 2011 was a turbulent year for financial markets, with the sovereign debt crisis in Europe, the housing crisis, persistent unemployment and implementation of a second round of quantitative easing in the US, and policy tightening in China. However global recovery appeared to have taken hold, but with distinct differences between the faster growing emerging economies and slower growing developed economies.

The Fund produced a total annual return of +7.7% for 2010/2011. The scheme-specific benchmark returned +8.5%. The average UK pension fund, as measured by the WM All Funds Universe returned, +8.0 %. The average local authority pension fund, as measured by the WM Local Authority Universe, returned +8.0% for the year.

LONG TERM PERFORMANCE

Year to 31 March	Mar 02	Mar 03	Mar 04	Mar 05	Mar 06	Mar 07	Mar 08	Mar 09	Mar 10	Mar 11	3Yr Annualised	5Yr Annualised	10 Yr Annualised
	%	%	%	%	%	%	%	%	%	%	%	%	%
Retail Prices	1.3	3.1	2.6	3.2	2.4	4.8	3.8	-0.4	4.2	5.3	3.0	3.5	3.0
Consumer Prices	1.6	1.5	1.3	1.7	1.9	2.9	2.4	3.0	3.2	4.2	3.5	3.1	2.4
Avg. Earnings	2.8	4.2	4.6	4.1	5.8	6.7	4.7	-1.1	6.7	-0.2	2.7	3.3	3.8
Fund Return	-0.2	-20.9	26.6	12.4	27.2	7.4	-2.9	-20.8	36.9	7.7	5.3	4.0	5.7
Fund Benchmark	-1.1	-22.1	28.0	12.9	26.6	8.1	-3.8	-21.0	41.3	8.6	6.6	4.7	5.9
WM Average	-1.0	-18.5	22.6	11.6	24.2	7.0	-1.0	-18.1	30.1	8.0	5.4	4.1	5.7
Fund Ranking	23	34	25	18	10	30	88	71	23	50	52	46	24

The table above shows that the Fund has achieved a 10-year annualised return of +5.7%. This is below (-0.4%) the Actuary's current assumed return of +6.1% per annum.

This return is a result in particular of poor performance by certain individual managers and property over the last three years. Performance is ahead of average earnings and price inflation over the period.

PERFORMANCE MEASUREMENT

All performance figures are independently verified.

In 2003 the Fund appointed Northern Trust as provider of independent investment performance measurement. Previously (in fact since 1976) the WM Company had held this appointment. The Fund has maintained a relationship with WM Co. to provide an annual investment report including comparison with the WM Universes which capture performance data from over two thirds of the UK pension fund market.

INVESTMENT PERFORMANCE BY ASSET CLASS

The Fund's performance during scheme year 2010/11 by asset class is summarised in the following table.

Asset Class	Fund Return	Benchmark Return	WM Average Return	Fund Ranking (v WM)
	(%)	(%)	(%)	(/100)
UK Equities	9.9	9.1	9.9	35
Overseas Equities				
US	10.7	10.4	10.7	31
Europe	10.6	7.5	10.6	23
Japan	0.6	-4.2	0.6	4
Pacific	11.1	15.3	11.1	77
Emerging Markets	10.2	11.0	9.8	66
UK Corporates	5.2	5.2	n/a	n/a
UK Gifts	5.2	5.2	n/a	n/a
Index Linked	6.8	6.9	6.8	40
Fixed Income - Absolute Return	3.0	0.6	n/a	n/a
Private Equity	7.5	11.5	7.5	69
Cash / Alternatives	-1.2	2.1	-1.5	86
Property	2.0	10.2	6.8	78
TOTAL FUNDS	7.7	8.1	8.0	46

Asset class performance against the WM All Funds Universe was mixed, but the significant underperformance of the property portfolio compared with the WM Universe resulted in overall Fund underperformance of -0.3%.

RESPONSIBLE INVESTMENT REPORTING

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 principles are set out in full in Schedule 4 of the Statement of Investment Principles.



Each manager must report back to the Fund every quarter on proxy voting activity and SRI engagements undertaken. A responsible investment report is considered by the Strathclyde Pension Fund Committee every quarter. Reports can be viewed either at: <http://www.spfo.org.uk/Governance/SPFCommittee/Minutesreportsandagendas/> or at http://www.glasgow.gov.uk/en/YourCouncil/Council_Committees/

Voting activity during 2010/11 is summarised in the following tables.

Voting Results

2010/2011

UK

Manager	No of meetings	No. of AGM's	No. of EGM's	No of Resolutions	Votes For	Votes Against	Abstentions	Not Voted	Proxies Lodged	Proxies Not Lodged
AllianceBernstein	14	14	0	166	162	4	0	0	14	0
Baillie Gifford	14	13	1	176	169	7	0	0	14	0
Capital International	27	25	2	435	409	26	0	0	27	0
Edinburgh Partners	7	6	1	76	76	0	0	0	7	0
Gartmore	254	189	65	1,472	1,408	32	30	2	253	1
Invesco	12	12	0	142	125	1	16	0	12	0
Lazard	13	12	1	234	234	0	0	0	13	0
Legal & General	789	607	182	8,454	8,220	196	38	0	789	0
Schroders (No. 3)	62	50	12	645	627	17	1	0	62	0
Total	1,192	928	264	11,800	11,430	283	85	2	1,191	1
					97%	2%	1%	0%	100%	0%

**Voting Results
2010/2011**

Overseas

Manager	No of meetings	No. of AGM's	No. of EGM's	No of Resolutions	Votes For	Votes Against	Abstentions	Not Voted	Proxies Lodged	Proxies Not Lodged
AllianceBernstein	77	61	16	1,307	1,114	140	17	36	73	4
Baillie Gifford	97	65	32	922	819	23	0	80	90	7
Capital International	170	146	24	1,250	1,050	157	8	35	168	2
Edinburgh Partners	32	28	4	707	591	92	0	24	32	0
Genesis	130	79	51	1,380	1,154	113	22	91	130	0
Invesco	124	113	11	1,257	935	80	13	229	110	14
JP Morgan	338	286	52	2,930	2,427	355	3	145	318	20
Lazard	128	99	29	1,540	1,425	86	0	29	126	2
Legal & General	106	86	20	1,064	939	108	17	0	106	0
Schroders (No. 3)	124	106	18	1,735	1,387	62	7	279	116	8
Total	1,326	1,069	257	14,092	11,841	1,216	87	948	1,269	57
					84%	9%	1%	7%	96%	4%

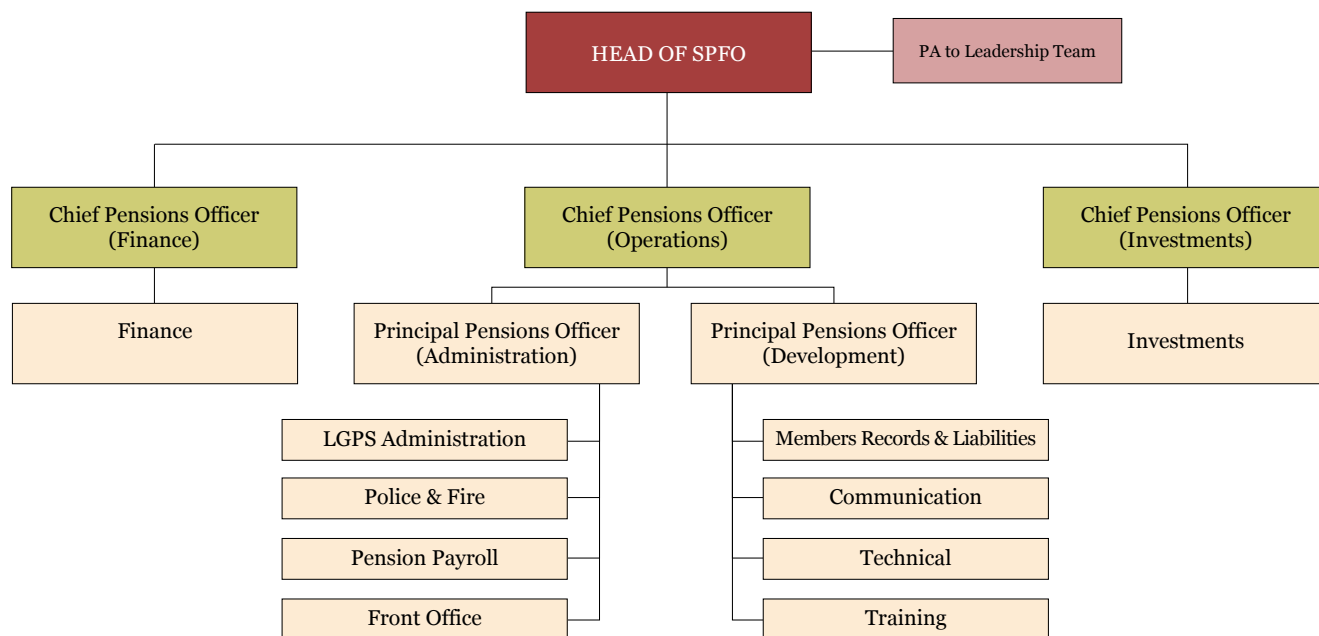


The following list is just a selection of the engagement topics on which managers reported over the year:

- post acquisition environmental and social matters in Brazilian mining companies
- safety and environmental performance in Brazilian offshore oil exploration
- extraction of oil from tar sands in Canada
- investments in cluster munitions and controversial weapons
- Dodd-Frank Wall Street Reform and Consumer Protection Act
- environmental and safety records at Chinese cement and concrete suppliers
- natural Resource exploration in the Democratic Republic of Congo
- UK Stewardship Code
- European Union Green Paper on Corporate Governance
- responsible investing in the fixed-income investment universe
- investment banking remuneration policy
- minimising the use of hazardous substances in the pharmaceutical industry
- community relations programs in the Niger Delta by the oil and gas industry
- mergers and acquisitions regulation in the Indian stock market.
- carbon capture and storage
- mining safety in Kazakhstan
- the implications of water scarcity in China
- remuneration reports and long term incentive schemes
- compensation and incentives for non-executive directors
- environmental and community risks associated with palm oil production in the Amazon region
- sustainability and forest management in the European paper and packaging industry
- oil spill cleanup operation in the Timor Sea
- global standards for preventing and addressing the risk of adverse human rights impacts linked to business activity
- increase and standardise reporting on employee health and wellbeing
- micro-finance and inclusive financial services
- nuclear power generation and the environment

ADMINISTRATION

SPFO STAFFING STRUCTURE



ADMINISTRATION PERFORMANCE

A detailed administration performance report is presented quarterly to both the Representative Forum and the Committee. It is publicly available on our website.

Target measures for a range of core processes representative of SPFO's service delivery to its members are agreed in the annual Business Plan. The table below shows the targeted and actual performance for 2010/2011, together with previous year comparators.

SPFO TURNAROUND PERFORMANCE 1ST APRIL 2010 TO 31 MARCH 2011

Performance throughout the year has been extremely strong, ahead of target in almost all processes in spite of increased volumes, staff departures, office relocation and weather disruption. Provisional retiral calculations are a little behind target due to the volumes created by multiple employer early retirement programmes.

AVERAGE DAYS TO COMPLETE

Processes	Volumes	20 days %	15 days %	12 days %	10 days %	7 days %	5 days %	3 days %	Target %	Previous Year on Target %	% Workload Outstanding
1. New Starts											
New Start Admin	4,646	-	-	-	-	-	-	99.78	95.00	99.17	0.04
2. Deferred Benefits											
Deferred Calcs	2,356	-	-	-	-	99.61	99.23	97.49	90.00	95.71	0.00
3. Retiral											
Provisionals	6,039	97.23	91.67	80.97	74.99	-	-	-	85.00	84.72	1.46
Actual	4,159	96.63	94.85	91.50	90.40	83.84	-	-	85.00	90.72	2.44
4. Early Leaver Options											
Benefit Options Calcs	2,117	-	99.19	99.05	98.72	97.92	-	-	85.00	96.90	0.00
Refunds	1,512	-	99.33	98.67	98.41	94.97	-	-	85.00	96.90	0.00
5. Transfers In											
TV in Calcs	235	98.95	99.14	98.42	98.29	92.34	-	-	85.00	96.64	0.42
6. Transfers Out											
Club Transfers	194	100.00	98.33	92.77	87.22	-	-	-	85.00	97.27	2.02
Non Club Transfers	87	98.85	97.70	95.40	87.35	-	-	-	85.00	93.02	1.13

Target

CUSTOMER FEEDBACK

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

Our rolling customer surveys reassure us that we are getting things right and providing high levels of customer satisfaction. We also use them to target future development of our service. Our results for the year to 31 March 2011 are as follows.

	Joiners	Leavers	Deferreds	Retirals
Forms issued	4,646	1,152	2,356	4,159
Responses	633	592	99	934
Response rate (%)	13.6	39.1	4.2	22.4
2010/11 "Satisfaction Rating" (%)	80.4	80.1	80.0	90.3
2009/10 (%)	79.3	79.9	79.8	91.4
2008/09 (%)	77.9	78.7	79.8	91.1

A minimum overall score of 80% for joiner, refund and leaver transactions and 90% for retirals were agreed as targets for 2010/11. For the first time this year, SPFO achieved target in all transaction categories.

PENSION ADMINISTRATION STRATEGY

Strathclyde Pension Fund Office developed its Pension Administration Strategy in accordance with Regulation 60A of the LGPS (Administration) (Scotland) Regulations 2008 following consultation with scheme employers.

It was approved by the Strathclyde Pension Fund Committee in March 2010.

It sets the service standards required from employers to fulfil statutory obligations and to ensure delivery of an effective and efficient pensions administration service to all scheme members.

It will enable SPFO to deliver the following SPFO service objectives:

- to provide a fully integrated pensions service from cradle to grave
- to provide a consistently high quality of service throughout the pensions life cycle
- to ensure continuity of income from salary / wage to retirement pension
- to facilitate easy access for our members to our systems and services
- to achieve straight through electronic processing from the receipt of data by employers to the provision of services and payment of scheme benefits to our membership.

The regulations require publication of annual reports dealing with the extent to which the administering authority and its employing authorities have achieved the levels of performance established under the strategy.

This first such report is available at:
<http://www.glasgow.gov.uk/councillorsandcommittees/submissiondocuments.asp?submissionid=50028>

The following sections are extracted from that report.

Contact with SPFO

Employers are required to provide at least one named contact to act as liaison with SPFO. As at 31st March 2011, the position was as follows.

	No.of Employers	%
Named contact provided to SPFO	226	100
Named contact NOT provided to SPFO	0	0

Policy statements

Regulation 61 requires all employers to formulate and publish their policy on the exercise of their discretions and to provide a copy to SPFO. As at 31st March 2011, the position was as follows.

	No.of Employers	%
Policy statement received by SPFO	96	43
Policy statement NOT received by SPFO	130	57

SPFO has taken all reasonable steps to encourage employers to fulfil this statutory obligation but has no authority under the regulations to compel employers to provide their policy statements. Frequent reminders have been issued to employers that have not forwarded policy statements. In addition SPFO has formulated a “model” policy statement that employers may adopt and tailor to their own specific requirements.

Compliance certificates

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

As at 31st March 2011, the position was as follows.

	No. of Employers	%
2010 compliance certificate received by SPFO	180	80
2010 compliance certificate NOT received by SPFO	46	20

Supply of data: local authorities

New start and membership changes information passed by local authorities to SPFO must be supplied electronically by 30th September 2011. All information must be validated by the employer prior to submission.

As at 31st March 2011, the position was as follows.

	No. of Local Authority Employers	%
Electronic data received by SPFO	10	83
Electronic data NOT received by SPFO	2	17

Supply of data: admitted bodies

Admitted bodies are required to submit new start and membership changes information electronically by 31st March 2011. As at 31st March 2011, the position was as follows.

	No. of Admitted Body Employers	%
Electronic data received by SPFO	11	5
Electronic data NOT received by SPFO	203	95

New start information

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

As at 31st March 2011, the position for local authority employers was as follows.

Employers Submission of New Start Data to SPFO 01/04/2010 to 31/03/2011												
Authority	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March
Argyll & Bute	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
East Dunbartonshire	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	N
East Renfrewshire	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
GCC	N	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Inverclyde	N	N	Y	N	Y	Y	Y	N	Y	N	Y	Y
North Ayrshire	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
North Lanarkshire	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y	Y
South Ayrshire	Y	Y	N	Y	Y	Y	Y	N	N	Y	Y	Y
South Lanarkshire	Y	Y	Y	Y	Y	Y	N	Y	N	Y	N	Y
Renfrewshire	Hard Copy Data Only Received								Y	N	Y	Y
East Ayrshire	Hard Copy Data Only Received											
West Dunbartonshire	Hard Copy Data Only Received											

KEY

Y	Good quality data has been received by SPFO	N	No data was received
Y	Data was received but required amendment before uploading	N	There were no new starts for that employer in that month

Notification of changes

SPFO must receive prompt notification from employers of changes to members' terms of employment which impact on their scheme membership, such as changes to hours worked and notification of breaks in service. Notification of these changes is critical to ensure that SPFO data is correct when producing information for the actuarial valuation and ultimately to ensure the correct benefits are paid. The Pensions Administration Strategy requires that where employers submit data electronically SPFO must be notified of such changes in the month following the date of change.

As at 31st March 2011, the position for local authority employers was as follows.

Employers Submission of Member Data Changes to SPFO 01/04/2010 to 31/03/2011												
Authority	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March
Argyll & Bute	Hard Copy Data Only Received											
East Dunbartonshire	Y	Y	Y	Y	Y	N	Y	Y	Y	N	Y	N
East Renfrewshire	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
GCC	N	N	N	N	N	N	Y	Y	N	Y	N	N
Inverclyde	Hard Copy Data Only Received											
North Ayrshire	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
North Lanarkshire	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
South Ayrshire	Hard Copy Data Only Received											
South Lanarkshire	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Renfrewshire	Hard Copy Data Only Received								Y	N	Y	Y
East Ayrshire	Hard Copy Data Only Received											
West Dunbartonshire	Hard Copy Data Only Received											

KEY

Y	Notification of data changes received	N	No such data changes occurred.
N	No notification of data changes received		

Starters and leavers – exception rate

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

As at 31st March 2011, the position was as follows.

	Members	%
Total active members	85,249	100
Record status OK	82,882	97.2
Missing new start records	1,436	1.7
Missing leaver records	931	1.1

Good progress has been made throughout the year but several employers have failed to make sufficient progress meaning that overall the target maximum exception rate of 2.0% has not been achieved.

Prior notice of member retirement

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

For the period 1st April 2010 to 31st March 2011, the summary position was as follows.

	No.	%
Total retirements notified	4,270	100.0
>2 months notice received	889	21
<2 months notice received	3,381	79

Employer response to SPFO enquiries

There are inevitably occasions where, after it receives notifications from employers, further information is required by SPFO to allow calculations to be completed or a particular service delivered. The Pensions Administration Strategy stipulates a response time from employers to such SPFO enquiries of between 5 to 7 working days depending on the process involved. For the purposes of this report an employer response time of 7 working days for enquiries has been used in assessing employer performance.

For the period 1st April 2010 to 31st March 2011, summary performance was as follows.

	No.	%
Total SPFO enquiries	5,129	100
Response <= 7 days	2,425	47
Response > 7 days	2,036	40
No response	668	13

The obvious consequence of delayed responses to SPFO enquiries by employers is a corresponding increase in the length of time taken to deliver services to members.

Submission of year-end contribution returns

By 20th May each year employers must provide SPFO with year-end contribution information to 31st March of that year. Information must be compliant with SPFO's specification. Each return must be accompanied by the completed SPFO compliance certificate duly signed by the Chief Finance Officer or equivalent. Year-end data that does not comply with the approved format or specification is returned immediately to the employer to be corrected and must be re-submitted to Strathclyde Pension Fund Office within 7 working days.

For 2010/11 (submissions relating to 2009/10) performance was as follows.

	No.	%
Total employer returns	226	100
Received by 20th May	122	54
Not received by 20th May	104	46

A significant improvement is required to meet the extremely tight timescales for completion of the actuarial valuation as at 31 March 2011.

Remittance of employee and employer contributions to SPFO

Employee and employer contributions must be paid to SPFO on a monthly basis by BACS payment or exceptionally by cheque. Under the Pensions Act 1995, all contributions (but not additional voluntary contributions) should be credited to SPFO by 19th of the month following that in which they were deducted.

These timescales are replicated in the Pensions Administration Strategy. Analysis shows that it is common practice for employers to make their contributions payments to SPFO on 19th of the month. Due to BACS processing timescales monies will not be credited to SPFO until after 19th of the month. All employers have now been instructed that contribution payments should be made and in the SPFO bank account by 19th of the month following deduction.

Remittance of additional voluntary contributions (AVCs) to Prudential

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

6 instances where employers have not remitted members' AVC contributions within these timescales has been reported by Prudential to SPFO.

On being notified that employers have been late in remitting AVC contributions to Prudential, SPFO writes to those employers requesting an explanation.

FINANCIAL STATEMENTS

STRATHCLYDE PENSION FUND NO.1 FUND ACCOUNT (YEAR TO 31 MARCH 2011)

	2009/10 £000	2010/11 £000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME		
Contributions receivable		
From employers		
- normal	-317,430	-331,702
- augmentation	<u>-46,555</u>	<u>-95,384</u>
	-363,985	-427,086
From members		
- normal	-115,861	-116,273
Transfers in		
- individual transfers in from other schemes	-22,891	-9,675
- group transfers in from other schemes	<u>0</u>	<u>-34,771</u>
	-22,891	-44,446
Other income		
- other income	-427	-909
Benefits payable		
- pensions	267,802	283,282
- commutation of pension and lump sum retirement benefits	110,903	150,910
- lump sum death benefits	<u>9,386</u>	<u>11,164</u>
	388,091	445,356
Payments to and on account of leavers		
- refunds of contributions	998	957
- state scheme premiums	689	628
- group transfers out to other schemes	716	2,253
- individual transfers out to other schemes	<u>31,038</u>	<u>16,595</u>
	33,441	20,433
Administrative expenses	5,709	5,353
Net additions from dealings with members	<u>- 75,923</u>	<u>-117,572</u>
RETURNS ON INVESTMENTS		
Investment income		
- interest from fixed interest securities	-3,541	0
- dividends from equities	-93,441	-90,223
- income from index linked securities	-7,654	0
- income from pooled investment vehicles	-9,887	-2,614
- net rents from properties	-36,911	-44,250
- interest on cash deposits	-2,954	-2,448
- other	<u>-787</u>	<u>-1,039</u>
	-155,175	-140,574
Change in market value of investments	-2,604,903	-664,826
Taxation	3,277	3,476
Investment management expenses	<u>13,392</u>	<u>16,371</u>
Net returns on investments	-2,743,409	-785,553
Net increase (-) / decrease in the Fund during the year	-2,819,332	-903,125
Add: opening net assets of the Fund	-7,597,915	-10,417,247
Closing net assets of the Fund	<u>-10,417,247</u>	<u>-11,320,372</u>

NET ASSETS STATEMENT

	2009/10 £000	2010/11 £000
Investment assets		
Equities (including convertible shares)	4,411,798	4,947,235
Index linked securities	40	53
Pooled investment vehicles - Unit Trusts	1,213,066	1,146,636
Pooled investment vehicles - Managed Funds	3,609,107	3,893,376
Derivative contracts	1,145,002	396,574
Property	737,810	697,812
Cash deposits	316,184	486,027
Other investment assets	<u>45,341</u>	<u>50,551</u>
	11,478,348	11,618,264
Investment liabilities		
Derivative contracts	-1,145,428	-397,605
Creditors	<u>-37,743</u>	<u>-46,088</u>
	-1,183,171	-443,693
Current assets		
Contributions due from employers	25,229	29,985
Unpaid benefits	33,322	50,391
Cash balances	72,449	74,504
Other current assets	<u>6,564</u>	<u>12,191</u>
	137,564	167,071
Current liabilities		
Unpaid benefits	-6,080	-9,402
Other current liabilities	<u>-9,414</u>	<u>-11,868</u>
	-15,494	-21,270
Net assets	<u>10,417,247</u>	<u>11,320,372</u>

The unaudited accounts were issued on 30 June 2011 and the audited accounts were authorised for issue on 17 November 2011.

Lynn Brown, MA (Hons) CPFA
Executive Director of Financial Services
17 November 2011

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 to, and from which pensions and other lump sum benefits are paid out in accordance with the provisions of the Local Government Pension Scheme (Scotland) Regulations.

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

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 comprises:

- Employees and pensioners of the 12 local authorities in the former Strathclyde area;
- Civilian employees and pensioners of Strathclyde Police and Strathclyde Fire and Rescue;
- Employees and pensioners of other scheduled bodies;
- Employees and pensioners of admitted bodies;
- Pensioners formerly employed by Strathclyde Regional Council and the 19 District Councils within the former Strathclyde area;
- Former employees of authorities in existence pre 1975.

The full list of scheduled bodies is as follows:

Major employers

Argyll & Bute Council
East Ayrshire Council
North Ayrshire Council
South Ayrshire Council
West Dunbartonshire Council
East Dunbartonshire Council
Glasgow City Council
North Lanarkshire Council
South Lanarkshire Council
East Renfrewshire Council
Renfrewshire Council
Inverclyde Council
Scottish Water
Strathclyde Police Authority
Strathclyde Fire and Rescue
Strathclyde Partnership for Transport

Other scheduled bodies

Anniesland College
Ayr College
Ayrshire Valuation Joint Board
University Of The West of Scotland
Cardonald College
Central College
Clydebank College
Coatbridge College
Cumbernauld College
Dunbartonshire Valuation Joint Board
Glasgow College of Nautical Studies
Glasgow Metropolitan College
James Watt College
John Wheatley College
Kilmarnock College
Lanarkshire Valuation Joint Board
Langside College
Motherwell College
North Glasgow College
Reid Kerr College
Renfrewshire Valuation Joint Board
South Lanarkshire College
Stow College
Visit Scotland
Scottish Police Services Authority

2. Accounting Policies

The Financial Statements have been prepared in accordance with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Scheme Accounts 2007 (SORP). The Financial Statements summarise the transactions of the Fund during the year and the net assets at the year end.

• Basis

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.

• 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 2011. The direct property portfolio was valued at 31 March 2011 by Colliers CRE, the valuer being qualified for that purpose in accordance with the Royal Institute of Chartered Surveyor (RICS) Valuation Standards manual. Unquoted holdings in private equity funds have been included at the fund managers' valuation adjusted for cash movements since the last valuation date.

• Investment Income

Dividends are accounted for when the price of the stock is quoted on an ex-dividend basis. Interest is included in the accounts on an accruals basis.

• Liabilities

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.

3. Actuarial Position of the Fund

In accordance with Regulation 76 of the Local Government Pension Scheme (Scotland) Regulations 1998 an actuarial valuation of the Strathclyde Pension Fund was carried out as at 31 March 2008. Results of the valuation were confirmed during March 2009 and a copy of the valuation report was issued to all participating employers.

The funding level as at 31 March 2008 was 95% (97% at 31 March 2005) and there was a funding shortfall of £486 million:

	£ million
Fund Assets	9,493
Fund Liabilities	-9,979
Deficit	-486

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 2008 the Fund published a revised Funding Strategy Statement in accordance with regulation 75A of the Local Government Pension Scheme (Scotland) Regulations 1998. The actuary's report and the Funding Strategy Statement are available from www.spfo.org.uk or the Strathclyde Pension Fund Office, Capella Building, 6th Floor, 60 York Street, Glasgow G2 8JX

• Funding Projection as at 31 March 2011

An intervaluation monitoring report provided by the Fund's actuary as at 31 March 2011 recorded a projected funding position of 90.8%. The next formal funding valuation will be carried out as at 31 March 2011 with results being available by 31 March 2012.

• Funding Method

At the 2008 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, are 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".

3. Actuarial Position of the Fund continued

The common 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 2008 valuation the past service adjustment was based on repaying the funding deficit over 11 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 2008 is as follows:

31 March 2008	Pensionable Payroll %
Total Future Service Cost	24.0
Less Employee Contributions	-6.3
Add Expenses	0.2
Net Employer Future Service Cost	17.9
Past Service Adjustment	2.7
Total Employer Contribution Rate	20.6

In order to achieve stability of contributions, the required increase is phased in. The following common contribution rates for employers were agreed:

Year to	Rate (as % of pensionable payroll)
31 March 2010	17.3
31 March 2011	18.2
31 March 2012	19.3

In addition, a number of employers have been set contribution rates which include individual adjustments (increases). In most cases this is due to the employers closing membership of the Fund to new employees. The full list of these rates and adjustments are detailed in the valuation report, and are available from www.spfo.org.uk or on request from the SPFO.

4. Actuarial Assumptions

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

Assumption	Derivation	Nominal %	Real %
Price inflation (RPI)	Market expectation of long term future inflation as measured by the geometric difference between yields on fixed and index-linked Government bonds as at the valuation date	3.6	-
Pay increases *	Assumed to be 1.5% p.a. in excess of price inflation	5.1	1.5
Gilt - based discount rate	The yield on fixed-interest (nominal) and index linked (real) Government bonds	4.5	0.9
Funding basis discount rate	Assumed to be 1.6% p.a. above the yield on fixed interest Government bonds	6.1	2.5

* Plus an allowance for promotional pay increases.

In addition to the financial assumptions outlined above, valuation results are also sensitive to the future longevity of members. The assumptions used by the actuary in respect of future life expectancies for member profiles are detailed below:

Assumptions to assess funding position at 31 March 2008*	Male Officers	Female Officers
Average future life expectancy (in years) for a pensioner aged 65 at the valuation date	20.3	23.2
Average future life expectancy (in years) at age 65 for a non-pensioner aged 45 at the valuation date	21.7	24.6
Average future life expectancy (in years) at age 45 for a non-pensioner aged 45 at the valuation date	40.9	43.9

* Based on PMA92 and PFA92 mortality tables with projections based on members' years of birth, allowing for a loading of 110% on the rate of mortality.

• Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is estimated at £13,207 million as at 31 March 2011 (£15,021 million as at 31 March 2010). 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 2008.

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.

5. Investments

Statement of Movement in Investments

	Opening Market Value £000	Purchases and Derivative Payment £000	Sales and Derivative Receipts £000	Other Movements £000	Closing Market Value £000
Investment Assets					
Equities (including convertible shares)	4,411,798	1,952,397	-1,492,153	75,193	4,947,235
Index Linked Securities	40	0	0	13	53
Pooled Investment Vehicles -					
Unit Trusts	1,213,066	54,228	-56,301	-64,357	1,146,636
Pooled Investment Vehicles -					
Managed Funds	3,609,107	82,271	-84,649	286,647	3,893,376
Derivative Contracts	1,145,002	0	0	-748,428	396,574
Property	737,810	27,472	-28,627	-38,843	697,812
Cash Deposits	316,184	0	0	169,843	486,027
Other Investment Balances	45,341	0	0	5,210	50,551
Total Assets	11,478,348	2,116,368	-1,661,730	-314,722	11,618,264
Investment Liabilities					
Derivative Contracts	-1,145,428	0	0	747,823	-397,605
Creditors	-37,743	0	0	-8,345	-46,088
Total Liabilities	-1,183,171	0	0	739,478	-443,693
Net Investment Assets	10,295,177	2,116,368	-1,661,730	424,756	11,174,571

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

• Transaction Costs

Transaction costs are included in the cost of purchases and sale proceeds and are charged directly to the Fund. Transaction costs such as fees, commissions and stamp duty incurred during the year amounted to £5.147 million (£8.297 million in 2009/2010).

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 is not separately provided to the Fund.

- **Derivatives**

Derivatives comprise futures and forward derivative contracts. The market values as at 31 March 2011 and a summary of contracts held are summarised in the tables below:

	31 March 2010	31 March 2011
	£000	£000
Futures	46	47
Forwards	-472	-1,078
Market Value as at 31 March	-426	-1,031

Contract	Settlement Date	Asset £000	Liability £000	Net £000
Derivatives - Futures				
EMNI S&P 500	3 Months	47	0	47
Contracts Held at 31 March 2011		47	0	47

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

- **Forwards**

Derivatives - Forward Foreign Exchange Contract	Settlement Date	Asset £000	Liability £000	Net £000
Various Currency Forwards	1 Month	295,717	-296,917	-1,200
Various Currency Forwards	2 Months	55,158	-53,555	1,603
Various Currency Forwards	3 Months	22,116	-23,578	-1,462
Various Currency Forwards	4 Months	23,536	-23,555	-19
Various Currency Forwards	5 Months	0	0	0
Various Currency Forwards	6 Months	0	0	0
Contracts Held at 31 March 2011		396,527	-397,605	-1,078

The above table summarises the contracts held by maturity date – 8 foreign currencies being involved. All contracts are traded on an over the counter basis.

The Fund's currency and bond 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.

6. Fund Management

• Investment Managers and Mandates

The market value of assets under the management of fund managers as at 31 March 2011 was £11,175 million.

Investment management arrangements as at 31 March 2011 are summarised below:

Asset Class	Fund Manager	% managed
Multi Asset – Passive	Legal and General	34.88
Global Equity	Baillie Gifford	11.70
Global Equity	Capital International	9.18
Global Equity	Lazard	4.80
Global Equity	Alliance Bernstein	3.09
Global Equity	Invesco	2.88
Global Equity	Edinburgh Partners	2.24
Specialist – Property	DTZ	6.50
Specialist – Global Real Estate	Partners Group	0.04
Specialist – Absolute Return Bonds	PIMCO	4.32
Specialist – Absolute Return Bonds	Threadneedle	2.00
Specialist – Equities (Overseas Small Companies)	JP Morgan	2.75
Specialist – Equities (UK Small Companies)	Gartmore	2.16
Specialist – Private Equity	PantheonVentures	5.37
Specialist – Private Equity	Partners Group	2.53
Specialist – Emerging Markets	Genesis	1.92
Specialist – New Opportunities Portfolio	Various	0.08
Cash	Northern Trust	3.00
Currency Overlay	Millennium*	0.56

• Currency Overlay

Millennium manage currency for the Fund on an overlay basis which does not require a pre-funded balance to be held (previously managed by Record Currency Management until September 2010, when the mandate was suspended).

• 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 2011 the Fund held direct property assets with a value of £633.865 million. This valuation was calculated by Colliers CRE on the Fund's behalf in accordance with RICS Valuation Standards manual.

As at 31 March 2011 the Fund's indirect property assets had a value of £63.947 million. This valuation was conducted by external valuers CBRE, King Sturge and DTZ and prepared in accordance with RICS Valuation Standards manual.

7. Notifiable Holdings

Notifiable holdings are holdings which exceed 5% of the total value of Fund net assets. As at 31 March 2011 the Fund had holdings of £1,850 million (16.56%) in Legal and General UK Equity Fund and £1,323 million (11.84%) in Legal & General North America Equity Index.

8. Analysis of Investments

Investments can be further analysed as follows:

	Quoted £000	Unquoted £000	Other £000	Total £000
Assets				
Equities (including convertible shares)	4,032,012	915,223	0	4,947,235
Index Linked Securities	48	5	0	53
Pooled Investment Vehicles - Unit Trusts	361,779	784,857	0	1,146,636
Pooled Investment Vehicles - Managed Funds	0	3,893,376	0	3,893,376
Derivative Contracts	396,574	0	0	396,574
Property	0	697,812	0	697,812
Cash Deposits	0	435,515	50,512	486,027
Other Investment Balances	33,938	10,546	6,067	50,551
Total Assets	4,824,351	6,737,334	56,579	11,618,264
Liabilities				
Derivative Offset	-397,605	0	0	-397,605
Creditors	-21,166	-24,922	0	-46,088
Total Liabilities	-418,771	-24,922	0	-443,693
Net Investment Assets	4,405,580	6,712,412	56,579	11,174,571

8. Analysis of Investments continued

	UK £000	Overseas £000	Total £000
Assets			
Equities (including convertible shares)	1,301,021	3,646,214	4,947,235
Index Linked Securities	5	48	53
Pooled Investment Vehicles -			
Unit Trusts	770,590	376,046	1,146,636
Pooled Investment Vehicles -			
Managed Funds	2,573,895	1,319,481	3,893,376
Derivative Contracts	0	396,574	396,574
Property	697,812	0	697,812
Cash Deposits	486,027	0	486,027
Debtors	<u>38,609</u>	<u>11,942</u>	<u>50,551</u>
Total Assets	5,867,959	5,750,305	11,618,264
Liabilities			
Derivative Offset	0	-397,605	-397,605
Creditors	-46,088	0	-46,088
Total Liabilities	-46,088	-397,605	-443,693
Net Investment Assets	5,821,871	5,352,700	11,174,571

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

9. Contributions and Benefits

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

	Administering Authority £000	Other Scheduled Bodies £000	Admitted Bodies £000	Total £000
Contributions				
Employee	-18,549	-73,168	-24,556	-116,273
Employer	-73,990	-259,005	-94,091	-427,086
Benefits				
Pension	35,899	219,324	28,059	283,282
Lump Sum	48,753	85,783	27,538	162,074

10. Transactions with Related Parties

Pension receipts and payments are transacted using Glasgow City Council's financial systems and banking arrangements. Throughout the year the Fund maintains a cash balance within the council's loans fund for this purpose which is listed as 'cash balances' in the net assets statement.

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

11. Stock Lending

The Fund participates in a stock lending programme managed by its Global Custodian, Northern Trust. All loans are fully collateralised. Stock released as at 31 March 2011 was £49.4 million (£2.3 million as at 31 March 2010).

12. Contractual Commitments

As at 31 March 2011 the Fund had contractual commitments of £1,749 million within its private equity and global real estate portfolios, of which £675 million remains undrawn.

13. 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.

14. Statement of Investment Principles

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

15. 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 2011 was £32.4 million (£29.6 million). Contributions which are used in their entirety to purchase investments, totalled £10.5 million (£8.1 million) whilst sales of investments to settle benefits due to members totalled £9.4 million (£6.3 million). The change in market value of investments over the year was £1.7 million (£2.9 million).



FUND MEMBERSHIP

A

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

B

BAM Construt UK Ltd
Befriending and Respite Services Ltd
Bridgeton Calton And Dalmarnock Credit Union

C

Caladh House
Cardonald College
Care Partners
Cassiltoun Housing Association
Central College Of Commerce
Cernach Housing Association
Childcare First Ltd
City Building (Glasgow) LLP
City Markets (Glasgow) LLP
City Parking (Glasgow) LLP
City Property (Glasgow) LLP
Clyde Gateway Urban Regeneration Company
Clydebank College
Clydebank Rebuilt
Coatbridge Citizens Advice Bureau
Coatbridge College
Coalition For Racial Equality And Rights
Community Central Hall
Community Enterprise in Strathclyde
Community Volunteers Enabling Youth Ltd
CORA Foundation
Cordia (Contracts) LLP
Cordia (Services) LLP
Craigholme School
Creative Scotland
Culture & Sport Glasgow (T/A Glasgow Life)
Culture & Sport (Trading) C.I.C.
Cumbernauld College
Cumbernauld Housing Partnership Ltd

D

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

E

East Ayrshire Carers Centre Limited
East Ayrshire Council
East Dunbartonshire Citizens Advice Bureau
East Dunbartonshire Council
East End Respite Care Group
East Renfrewshire Carers
East Renfrewshire Council
Easterhouse Citizens Advice Bureau
Employee Counselling Service
Enable Services Ltd
Engage Renfrewshire
Equals Advocacy Partnership Mental Health

F

First Bus
Flourish House
Forth & Oban Ltd
Fyne Homes Limited

G

Geilsland School Beith for Church of Scotland
(Crossreach)
General Teaching Council for Scotland
Glasgow 2014 Ltd
Glasgow Association For Mental Health
Glasgow Caledonian University
Glasgow City Council
Glasgow City Heritage Trust
Glasgow City Marketing Bureau Limited
Glasgow Community and Safety Services Ltd
Glasgow Community Justice Authority
Glasgow Council for Voluntary Service
Glasgow Credit Union
Glasgow East Regeneration Agency Ltd
Glasgow East Women's Aid
Glasgow Film Theatre
Glasgow Housing Association
Glasgow Humane Society
Glasgow Metropolitan College
(known as City of Glasgow College)
Glasgow North East Carers Centre
Glasgow School of Art
Glasgow West Housing Association Ltd
Glasgow Women's Aid
Good Shepherd Centre (Dalbeth & St Euphrasia's)
Govan Law Centre
Govanhill Housing Association
Greenspace Scotland

H

H.E.L.P (Argyll & Bute) Ltd
Haden Building Management (North Lanarkshire Council's Education 2010 PPP)
Hansel Alliance
Hansel Foundation
Hemat Gryffe Women's Aid
HIE Argyll & the Islands
Hill's Trust Home School Community Project
(now Govan Home and Education Link Project)
Hillhead Housing Association 2000
Home Group Ltd
Home Start MAJIK
Hutchesons Educational Trust

I

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

J

James Watt College
John Wheatley College
Jordanhill School

K

Kenmure St Mary's Boys School
Kerr & Smith Ltd
Kibble School
Kilmarnock College
Kings Theatre Glasgow Ltd

L

Lanarkshire Association for Mental Health
Lanarkshire Community Justice Authority
Lanarkshire Housing Association Ltd
Lanarkshire Valuation Joint Board
Langside College
Learning and Teaching Scotland
Linstone Housing Association Ltd
Loch Lomond & The Trossachs National Park Authority

M

Mitie PFI Ltd (Argyll & Bute Education PPP Project)
Mitie PFI Ltd (East Ayrshire Education PPP Project)
Mitie PFI Ltd (North Ayrshire Education PPP Project)
Mitie PFI Ltd (South Ayrshire Education PPP Project)
Motherwell College

N

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

P

Parkhead Citizens Advice Bureau
Parkhead Housing Association Ltd
Parkinson's Self Help Group
Paths For All Partnership
Pensioners Action Group East
Possil/Milton Community Renewal Ltd

Q

Queens Cross Housing Association

R

Rape Crisis Centre
RCA Trust
Regen: FX Youth Trust
Reid Kerr College
Reidvale Adventure Playground
Renfrewshire Carers Centre
Renfrewshire Council
Renfrewshire Leisure Ltd
Renfrewshire Valuation Joint Board
River Clyde Homes
Riverside Inverclyde
Routes to Work Limited
Routes to Work South
Royal Scottish Academy of Music & Drama

S

SACRO
Scottish Environmental & Outdoor Centres Association Ltd
Scottish Further Education Unit
Scottish Library & Information Council
Scottish Maritime Museum Trust
Scottish Out Of School Care Network
Scottish Police Services Authority
Scottish Qualifications Authority
Scottish Society for the Mentally Handicapped
Scottish Water
Scottish Water Business Stream Ltd
Scotwest Credit Union Ltd
SEEMIS Group LLP
Shettleston Housing Association
Skills Development Scotland Ltd
South Ayrshire Council
South Ayrshire Energy Agency
South Ayrshire Women's Aid & Women's Centre
South Lanarkshire College
South Lanarkshire Council
South Lanarkshire Leisure & Culture Limited
Southside Housing Association
SportScotland
St Columba's School Limited
St Philip's Approved School
Stow College
Strathclyde Fire & Rescue
Strathclyde Partnership for Transport
Strathclyde Police
Strathclyde Wing Hong Chinese Elderly Group
Strathleven Regeneration Company Ltd

T

TATA Consultancy Services Limited
The Advocacy Project
The Alpha Project
The Bishops Conference of Scotland Social Welfare Commission
The Financial Fitness Resource Team
The Jeely Piece Club
The Milton Kids D.A.S.H. Club
The Richmond Fellowship Scotland Ltd
The Scottish Centre for Children with Motor Impairments
The Scottish Institute of Human Relations
The Time Capsule Monklands Trust
The Village Story Telling Centre
The Volunteer Centre
TNT UK Ltd
Town Centre Activities Limited

U

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

V

Visit Scotland (Ayrshire)
Visit Scotland (Glasgow)
Voluntary Action East Renfrewshire
Voluntary Association for Mental Welfare

W

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

Y

Youth Counselling Service Agency

NO. 3 FUND

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 which is available (under item 4f) at: http://www.glasgowcitycouncil.co.uk/committee_minutes/public/extdocviewtop.asp?CID=2495&DATE=10/03/2010&TIME=12:00&DAY=Wednesday&PAGE=1
- **Funding Strategy Statement:** the No. 3 Fund has its own Funding Strategy Statement which is available at: <http://www.spfo.org.uk/Governance/PolicyDocuments/FundingStratStrategy/>
- **Actuarial Valuation:** the full 2008 valuation report for the No.3 Fund is available at: <http://www.spfo.org.uk/Governance/Reports/ActuarialValuation/> and the 2008 valuation executive summary is provided below
- **Investment performance:** this is detailed in the table below
- **Fund membership:** there is only one contributing employer to the No. 3 Fund, First Bus

LONG TERM PERFORMANCE

Year to 31 March	Mar	Mar	Mar	Mar	Mar	Mar	Mar	Mar	Mar	Mar	3Yr	5Yr	10 Yr
	02	03	04	05	06	07	08	09	10	11			
	%	%	%	%	%	%	%	%	%	%	Annualised		
	%	%	%	%	%	%	%	%	%	%	%	%	%
Retail Prices	1.3	3.1	2.6	3.2	2.4	4.8	3.8	-0.4	4.2	5.3	3.0	3.5	3.0
Consumer Prices	1.6	1.5	1.3	1.7	1.9	2.9	2.4	3.0	3.2	4.2	3.5	3.1	2.4
Avg. Earnings	2.8	4.2	4.6	4.1	5.8	6.7	4.7	-1.1	6.7	-0.2	2.7	3.3	3.8
Fund Return	-1.6	-18.0	24.7	12.1	0.0	5.3	9.8	6.0	32.8	8.8	8.2	6.9	7.0
Fund Benchmark	-1.6	-17.9	24.8	11.9	0.0	4.2	7.8	2.6	26.3	7.5	5.2	4.5	5.8
WM Average	-1.0	-18.5	22.6	11.6	24.2	7.0	-1.0	-18.1	30.1	8.0	5.4	4.1	5.7

HYMANS ROBERTSON LLP

Executive summary

We have carried out an actuarial valuation of the Strathclyde Pension Fund – No 3 Fund ('the Fund') as at 31 March 2008 ('the valuation date'). The results are presented in this report and summarised below.

The Fund's objective of holding sufficient assets to meet the estimated current cost of providing members' past service benefits) was not met at the valuation date. The funding level was 88% (compared to 86% at 31 March 2005) and there was a funding shortfall of £14m.

Without anticipating an element of future equity out-performance, the 'gilt-based' funding level would be 79% at the valuation date, and there would be a gilts shortfall of £27m.

The Fund's financial position at the valuation date is illustrated graphically in the chart below.



The employer's future service contribution rate as at 31 March 2008 (ignoring the past service shortfall) is 29.6% of pensionable pay. Assuming that a funding level of 100% is to be targeted over a period equal to the average expected remaining period of contributory membership of current active members, capital lump sum payments of £2.5m (increasing at 4% per annum) will be required in addition to the employer's future service rate. These figures take advance credit from outperformance of the Fund's assets relative to gilt yields on the valuation basis, as set out in the Funding Strategy Statement. Ignoring this credit for outperformance the funding position would be 79%, and the employer's contribution rate would be 32.3% of pay plus capital lump sums of £4.8m, increasing at 4% per annum.

The minimum contributions to be paid by the employer from 1 April 2009 to 31 March 2012 are shown in the Statement to the Rates and Adjustment Certificate in Appendix H.

The results of the valuation are very sensitive to the actuarial assumptions made. If actual future demographic and economic experience does not match the assumptions, the financial position of the Fund could deteriorate materially. Further, market conditions have deteriorated significantly since the valuation date, leading to a lower funding level and a higher contribution requirement at a current date.

Alison Murray

Fellow of the Faculty of Actuaries

31 March 2009

Catherine McFadyen

Fellow of the Faculty of Actuaries

March 2009

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NO. 3 FUND FINANCIAL STATEMENTS

FUND ACCOUNT (YEAR TO 31ST MARCH 2011)

	2009/10 £000	2010/11 £000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME		
Contributions receivable		
From employers		
- normal	-1,602	-1,586
- augmentation	<u>-2,382</u>	<u>-2,500</u>
	-3,984	-4,086
From members		
- normal	-368	-357
Benefits payable		
- pensions	3,568	3,673
- commutation of pension and lump sum retirement benefits	776	948
- lump sum death benefits	<u>0</u>	<u>114</u>
	4,344	4,735
Payments to and on account of leavers		
- individual transfers out to other schemes	481	345
Administrative expenses	27	28
Net addition (-) / reduction from dealings with members	500	665
RETURNS ON INVESTMENTS		
Investment income		
- dividends from equities	-877	-872
- income from index linked securities	0	-55
- income from pooled investment vehicles	-1,060	-1,194
- interest on cash deposits	-60	-30
- other	<u>-54</u>	<u>0</u>
	-2,051	-2,151
Change in market value of investments	-26,084	-8,252
Taxation	13	7
Investment management expenses	45	23
Net returns on investments	<u>-28,077</u>	<u>-10,373</u>
Net increase (-) / decrease in the Fund during the year	-27,577	-9,708
Add : opening net assets of the scheme	<u>-90,532</u>	<u>-118,109</u>
Closing net assets of the scheme	<u>-118,109</u>	<u>-127,817</u>

NO. 3 FUND NET ASSETS STATEMENT AS AT 31 MARCH 2011

	2009/10 £000	2010/11 £000
Investment assets		
Equities (including convertible shares)	34,752	24,589
Index Linked Securities – Public Sector	0	22,984
Pooled investment vehicles - Unit Trusts	64,267	63,829
Pooled investment vehicles - Real Estate Unit Trusts	14,079	6,281
Derivative Contracts	28	17
Cash deposits	634	2,050
Other investment assets	<u>237</u>	<u>4,605</u>
	113,997	124,355
Investment liabilities		
Derivative Contracts	-28	-17
Creditors	<u>-68</u>	<u>-119</u>
	-96	-136
Current assets		
Contributions due from employer	223	208
Cash balances	3,981	3,388
Other current assets	<u>60</u>	<u>33</u>
	4,264	3,629
Current liabilities		
Other Current Liabilities	-56	-31
Net assets	118,109	127,817

The unaudited accounts were issued on 30 June 2011 and the audited accounts were authorised for issue on 17 November 2011.

Lynn Brown, MA (Hons) CPFA
Executive Director of Financial Services
17 November 2011

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 to, and from which pensions and other lump sum benefits are paid out in accordance with the provisions of the Local Government Pension Scheme (Scotland) regulations.

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

The No.3 Fund is a sub-fund of the Strathclyde Pension Fund. The Fund was established in February 1993 in order to preserve the pensionable benefits of those remaining employees (1,362) of Strathclyde Buses who had transferred from the service of Strathclyde Regional Council upon the implementation of the Transport Act 1985 in October 1986.

The value of those employees' benefits and the assets in respect of them were actuarially assessed by Hymans Robertson, the Fund's actuaries, when the Fund was established. The No.3 Fund is an "admission agreement fund" as defined within the regulations and was established as a closed fund – i.e. it is not open to new membership.

Glasgow City Council has delegated decision making for the Fund to its Strathclyde Pension Fund Committee. Scheme and Fund administration are carried out by the Strathclyde Pension Fund Office (SPFO), a division of the council's Financial Services Department. The investment assets of the Fund are externally managed.

2. Accounting Policies

The Financial Statements have been prepared in accordance with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Scheme Accounts 2007 (SORP). The Financial Statements summarise the transactions of the Fund during the year and the net assets at the year end.

• Basis

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 from and to other schemes are treated on a cash basis.

• 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 at the close of business on 31 March 2011.

• Investment Income

Dividends are accounted for when the price of the stock is quoted on an ex-dividend basis. Interest is included in the accounts on an accruals basis.

• Liabilities

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. Financial Statements should be read in conjunction with that information.

3. Actuarial Position

In accordance with Regulation 76 of the Local Government Pension Scheme (Scotland) Regulations 1998 an actuarial valuation of the No.3 Fund was carried out as at 31 March 2008. Results of the valuation were confirmed during March 2009. The funding level as at 31 March 2008 was 88% (86% at 31 March 2005) and there was a funding shortfall of £14 million:

	£ million
Fund Assets	103
Fund Liabilities	-117
Deficit	-14

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

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 2008 the Fund published a revised Funding Strategy Statement in accordance with regulation 75A of the Local Government Pension Scheme (Scotland) Regulations 1998.

The actuary's report and the Funding Strategy Statement are available from www.spfo.org.uk or the Strathclyde Pension Fund Office, Capella Building, 6th Floor, 60 York Street, Glasgow G2 8JX

• Funding Projection as at 31 March 2011

An intervaluation monitoring report provided by the Fund's actuary as at 31 March 2011 recorded a projected funding position of 88%. The next formal funding valuation will be carried out as at 31 March 2011 with results available by 31 March 2012.

• Funding Method

At the 2008 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 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 common 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 2008 valuation the past service adjustment was based on repaying the funding deficit over 6 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 2008 is as follows:

31 March 2008	Pensionable Payroll
Total Future Service Cost	35.1%
Less Employee Contributions	6.0%
Add Expenses	0.5%
Net Employer Future Service Cost	29.6%
Past Service Adjustment	£2.5 million*
Total Employer Contribution Rate	29.6% plus £2.5m*

* increasing by 4% per annum

In order to achieve stability of contributions, the required increase is phased in. The following common contribution rates for employers were agreed:

Year to	Rate (as % of pensionable payroll)	Additional Monetary Payments £000
31 March 2010	25.8	2,400
31 March 2011	27.8	2,500
31 March 2012	29.6	2,600

4. 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 Derivation

Price inflation (RPI)	Swaps implied inflation curve
Pay increases*	Swaps implied inflation curve +0.375%
Funding basis discount rate (pre-retirement)	Swaps nominal yield curve plus 2% per annum
Funding basis discount rate (post-retirement)	Swaps nominal yield curve

*Plus an allowance for promotional pay increases.

4. Actuarial Assumptions continued

In addition to the financial assumptions outlined, valuation results are also sensitive to the future longevity of members. The assumptions used by the actuary in respect of future life expectancies for member profiles are detailed below:

Assumptions to Assess Funding Position at 31 March 2008*	Male Officers	Female Officers
Average future life expectancy (in years) for a pensioner aged 65 at the valuation date	20.3	23.2
Average future life expectancy (in years) at age 65 for a non-pensioner aged 45 at the valuation date	21.7	24.6
Average future life expectancy (in years) at age 45 for a non-pensioner aged 45 at the valuation date	40.9	43.9

* Based on PMA92 and PFA92 mortality tables with projections based on members' years of birth, allowing for a loading of 110% on the rate of mortality.

• Actuarial Present Value Of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is estimated at £105 million as at 31 March 2011 (£127 million as at 31 March 2010). 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 2008. 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.

5. Investments

Statement of Movement in Investments

	Opening Market value £000	Purchases and Derivative Payment £000	Sales and Derivative Receipts £000	Other Movements £000	Closing Market Value £000
Investment Assets					
Equities (including convertible shares)	34,752	8,431	-18,045	-549	24,589
Index Linked Securities Public Sector	0	45,387	-22,693	290	22,984
Pooled Investment Vehicles -					
Unit Trusts	64,267	2,450	-4,917	2,029	63,829
Pooled Investment Vehicles -					
Real Estate Unit Trusts	14,079	11,987	-20,484	699	6,281
Derivative Contracts	28	0	0	-11	17
Cash Deposits	634	0	0	1,416	2,050
Other Investment Balances	237	0	0	4,368	4,605
Total Assets	113,997	68,255	-66,139	8,242	124,355
Investment Liabilities					
Derivative Contracts	-28	0	0	11	-17
Creditors	-68	0	0	-51	-119
Total Liabilities	-96	0	0	-40	-136
Net Investment Assets	113,901	68,255	-66,139	8,202	124,219

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

- **Transaction Costs**

Transaction costs are included in the cost of purchases and sale proceeds and are charged directly to the Fund. Transaction costs such as fees, commissions and stamp duty incurred during the year amounted to £57,000 (£39,000 in 2009/10).

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

- **Derivatives**

Derivatives comprise forward foreign exchange contracts. The Market values as at 31 March 2011 are shown in the table below:

Contract	Settlement Date	Asset £000	Liability £000	Net £000
Various Currency Forwards	1 Month	17	-17	0
Contracts Held at 31 March 2011		17	-17	0

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

The Fund's currency and bond 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.

6. Fund Management

The investment assets of the Fund are externally managed.

Investment management arrangements as at 31 March 2011 are shown below:

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

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 2011 was £124 million.

7. Notifiable Holdings

As at 31 March 2011 the Fund had holdings exceeding 5% of the total value of net assets in:

	£000	%
Legal and General HD Active Corp (All Stocks)	23,100	19.5
Ruffer Absolute Return Fund	22,200	18.8
1.25% Index Linked Government Bonds Nov 27	8,400	7.1
1.25% Index Linked Government Bonds Nov 32	8,400	7.1
Legal and General – Enhanced Matching Fund 2035 RPI	6,500	5.5

8. Analysis of Investments

Investments can be further analysed as follows:

	Quoted £000	Unquoted £000	Other £000	Total £000
Assets				
Equities (including convertible shares)	24,589	0	0	24,589
Index Linked Securities	22,984	0	0	22,984
Pooled Investment Vehicles - Unit Trusts	0	63,829	0	63,829
Pooled Investment Vehicles - Real Estate Unit Trusts	0	6,281	0	6,281
Derivative Contracts	17	0	0	17
Cash Deposits	0	0	2,050	2,050
Other Investment Balances	0	0	4,605	4,605
Total Assets	47,590	70,110	6,655	124,355
Liabilities				
Derivative Contracts	-17	0	0	-17
Creditors	-119	0	0	-119
Total Liabilities	-136	0	0	-136
Net Investment Assets	47,454	70,110	6,655	124,219
		UK £000	Overseas £000	Total £000
Assets				
Equities (including convertible shares)		13,862	10,727	24,589
Index Linked Securities Public Sector		22,984	0	22,984
Pooled Investment Vehicles - Unit Trusts		57,285	6,544	63,829
Pooled Investment Vehicles - Real Estate Unit Trusts		6,281	0	6,281
Derivative Contracts		0	17	17
Cash Deposits		2,050	0	2,050
Debtors		4,549	56	4,605
Total Assets		107,011	17,344	124,355
Liabilities				
Derivative Contracts		0	-17	-17
Creditors		-119	0	-119
Total Liabilities		-119	-17	-136
Net Investment Assets		106,892	17,327	124,219

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

9. Contributions and Benefits

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

10. Transactions with Related Parties

Pension receipts and payments are transacted using Glasgow City Council's financial systems and banking arrangements. Throughout the year the Fund maintains a cash balance within the council's loans fund for this purpose which is listed as 'cash balances' in the net assets statement.

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

11. 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 2011 stock with a market value of £300,000 was on loan (£67,000 as at 31 March 2010).

12. Contractual Commitments

The Fund had no contractual commitments at the year end.

13. 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.

14. Statement of Investment Principles

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

INDEPENDENT AUDITOR'S REPORT

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

I certify that I have audited the financial statements of Strathclyde Pension Fund for the year ended 31 March 2011 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code).

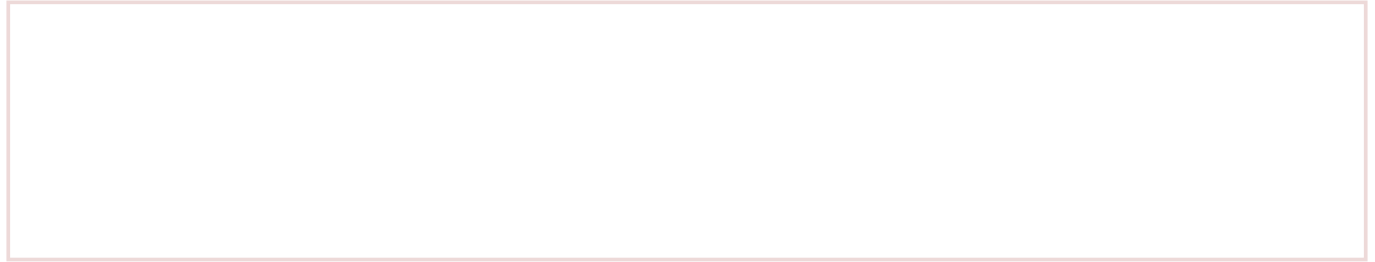
This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Responsible Financial Officer and auditor

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

Scope of the audit of the financial statements

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



Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2010/11 Code of the financial transactions of the fund during the year ended 31 March 2011, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Fiona Mitchell-Knight FCA
Assistant Director of Audit
Audit Scotland
7th Floor
Plaza Tower
East Kilbride
G74 1LW

November 2011

Contacts

Head of Pensions
Chief Pensions Officer (Finance)
Chief Pensions Officer (Investments)
Chief Pensions Officer (Operations)

Richard McIndoe
Alison Duffy
Jacqueline Gillies
Andy Knox

Managing the Local Government Pension Scheme in the west of Scotland

Strathclyde Pension Fund, P.O. Box 27001, Glasgow G2 9EW
Email: spfo@glasgow.gov.uk
Web: www.spfo.org.uk
Tel: 0845 213 0202

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