



**ANNUAL REPORT  
AND FINANCIAL  
STATEMENTS**

FOR THE YEAR  
ENDED 31  
MARCH 2012



# 2011 2012





# Contents



4	Foreword	18	Statement of Investment Principles
5	Statement of Responsibilities	21	Investment Advisory Panel
6	About the Fund	23	Investment strategy
7	Governance Compliance Statement	24	Investment performance
8	Strathclyde Pension Fund Committee	26	Responsible investment
9	Training Policy and Practice	28	Administration performance
11	Risk Register	36	Financial statements
13	Representative Forum	58	Fund membership
14	Funding Strategy Statement	61	No. 3 Fund
16	2011 Valuation Executive Summary	64	No. 3 Fund Financial Statements
	N.B. full report available at	80	Independent Auditor's Report
	<a href="http://www.spfo.org.uk/Governance/Reports/ActuarialValuation/">http://www.spfo.org.uk/Governance/Reports/ActuarialValuation/</a>	82	Contacts

## FOREWORD



At more than £11 billion, Strathclyde Pension Fund is one of the UK's largest, providing pension benefits for almost 200,000 members drawn from over 200 separate employers.

The Fund's outstanding achievement during 2011/12 was the completion of the actuarial valuation as at 31st March 2011 confirming a funding level of 97.3%. This falls a little short of the 100% funding target, but given the economic backdrop against which the valuation was completed this is a very satisfactory position which gives substantial reassurance to scheme members and also provided some relief to participating employers as it allowed contribution rates to be held at their 2011 level until 2015 for the majority of employers.

Another significant feature of the actuarial results was the Fund's increasing maturity.

For the first time at this valuation the liabilities attributable to pensioner and deferred members were greater than those attached to contributing members.

This is a clear product of the extensive payroll reduction programmes being undertaken by scheme employers. These continued throughout 2011/12 with more than 3,000 new retirements, albeit this has reduced from the previous year's total of more than 4,000. The trend is apparent in the financial statements.

A summary of the main statements is provided below.

**Fund Account** – shows income and expenditure from the Fund in relation to scheme members and the investment and administration of the Fund. The account also reconciles the Fund's net assets at the start of the year to the net assets at the year end.

**Net Assets Statement** - shows the type and value of all net assets at the year end.

**Notes to the Fund Account** – provides supporting details and analysis of the figures in the Fund Account and Net Assets Statement.

The Fund Account shows members contributions reduced for the first time in many years from £116m in 2010/11 to £110m in 2011/12. Total receipts from employers reduced from £427m to £399m, whilst benefits paid increased from £445m to £456m. In total, net additions from dealing with members reduced significantly from £118m to £43m.

In contrast, investment income increased from £141m to £154m providing ample cover for any continuing increase in pensions payments.

Investment markets were supported by the monetary stimulus provided through central bank policies of Quantitative Easing (QE). This helped the Fund's investments to make gains of £49m so that the Net Assets Statement shows a closing net assets figure of £11,451m representing a new high-water mark.

Valuation of the Fund's liabilities – the projected cost of future pensions – is based on gilt yields which also felt the impact of QE so that the estimated funding position at year end had fallen to 80.7%. This has no immediate impact given that employer contributions have been agreed until 2015. It is likely that scheme reform, which was not progressed in Scotland during the last year, will be considered further before then.

**Lynn Brown MA (Hons) CPFA**  
Executive Director of Financial Services  
Glasgow City Council

# STATEMENT OF RESPONSIBILITIES

## 1. Responsibilities

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

- Make arrangements for the proper administration of Strathclyde Pension Fund's financial affairs and to ensure that a council officer has the responsibility for the administration of those affairs. In relation to Strathclyde Pension Fund, that officer is the Executive Director of Financial Services;
- Manage the affairs of Strathclyde Pension Fund to secure the economic, efficient and effective use of resources and safeguard its assets;
- Approve Strathclyde Pension Fund's Statement of Accounts (in Scotland, the audited accounts must be laid before a meeting of the council within two months of receipt of the audit certificate).

## 2. The Executive Director of Financial Services' responsibilities

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

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

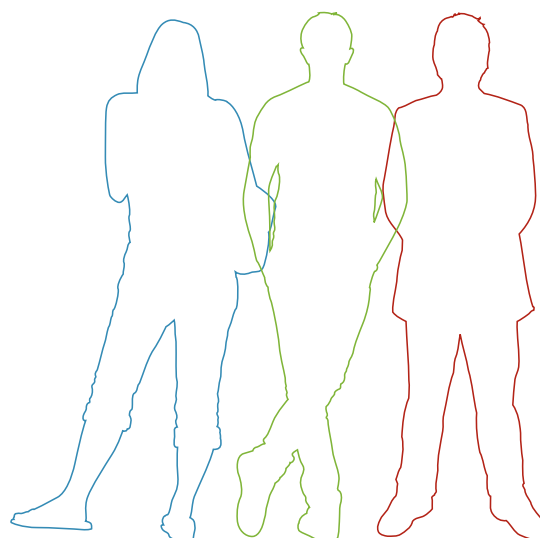
- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code.

The Executive Director of Financial Services has also:

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

I certify that the accounts give a 'true and fair view' of the financial position of Strathclyde Pension Fund as at 31 March 2012 and the income and expenditure for the year then ended.

**Lynn Brown MA (Hons) CPFA**  
Executive Director of Financial Services  
Glasgow City Council  
26 September 2012



## 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.

Over the 12 months to 31 March 2012 the Fund's total membership grew slightly from 195,052 to 195,339.

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

A summary of the benefits structure, and a break-down of membership across participating employers are included in the report on the 2011 actuarial valuation which is available at: <http://www.spfo.org.uk/Governance/Reports/ActuarialValuation/>

The Scheme regulations are available at <http://timeline.lge.gov.uk/>

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

Glasgow carries out its role as Administering Authority via:

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

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/](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,  
Glasgow  
City Council

Councillor Paul Rooney  
Convener,  
Strathclyde Pension Fund  
Committee

## 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 2011 / 2012 was as below.

CLlr Paul Rooney (Convener) (Part year)

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CLlr Philip Braat

---

CLlr Paul Coleshill

---

CLlr Stephen Curran

---

CLlr Khalil Malik

---

CLlr John McKenzie

---

CLlr Tom McKeown

---

Bailie James McNally (Convener) (Part year)

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CLlr Ruth Simpson

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Committee members are also scheme members either under the provisions for Councillor members or as result of previous service as employee members. Current committee membership is displayed on our website at: [www.spfo.org.uk](http://www.spfo.org.uk)





# TRAINING POLICY AND PRACTICE

**On 7th March 2012 the Strathclyde Pension Fund Committee agreed to adopt the following Training Policy and Practice statements.**

## **Policy Statement**

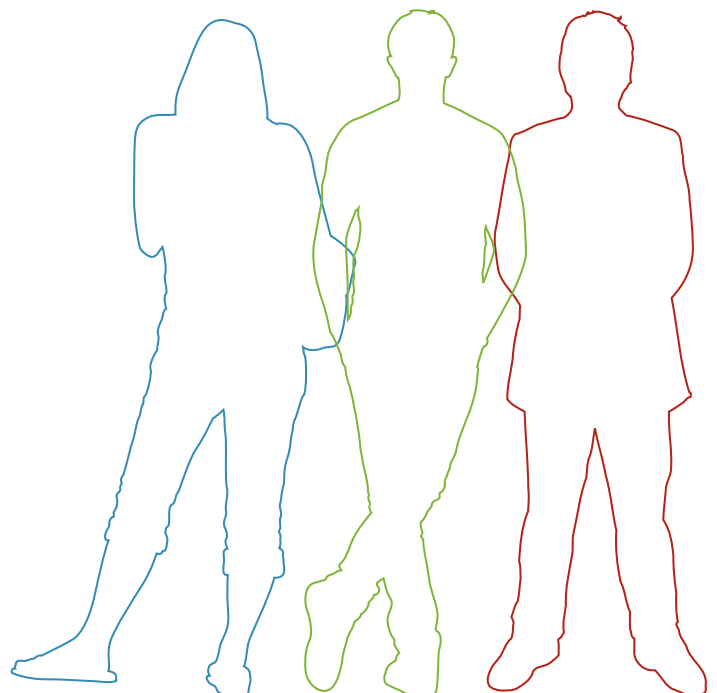
- Glasgow City Council, as administering authority for the Strathclyde Pension Fund, recognises the importance of ensuring that all staff and members charged with financial administration and decision-making with regard to the Fund and the local government pension scheme are fully equipped with the knowledge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

## **Practice Statement**

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

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

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



## INVESTMENT MANAGERS



## NEW OPPORTUNITIES PORTFOLIO



## OTHER SERVICE PROVIDERS



## RISK REGISTER

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

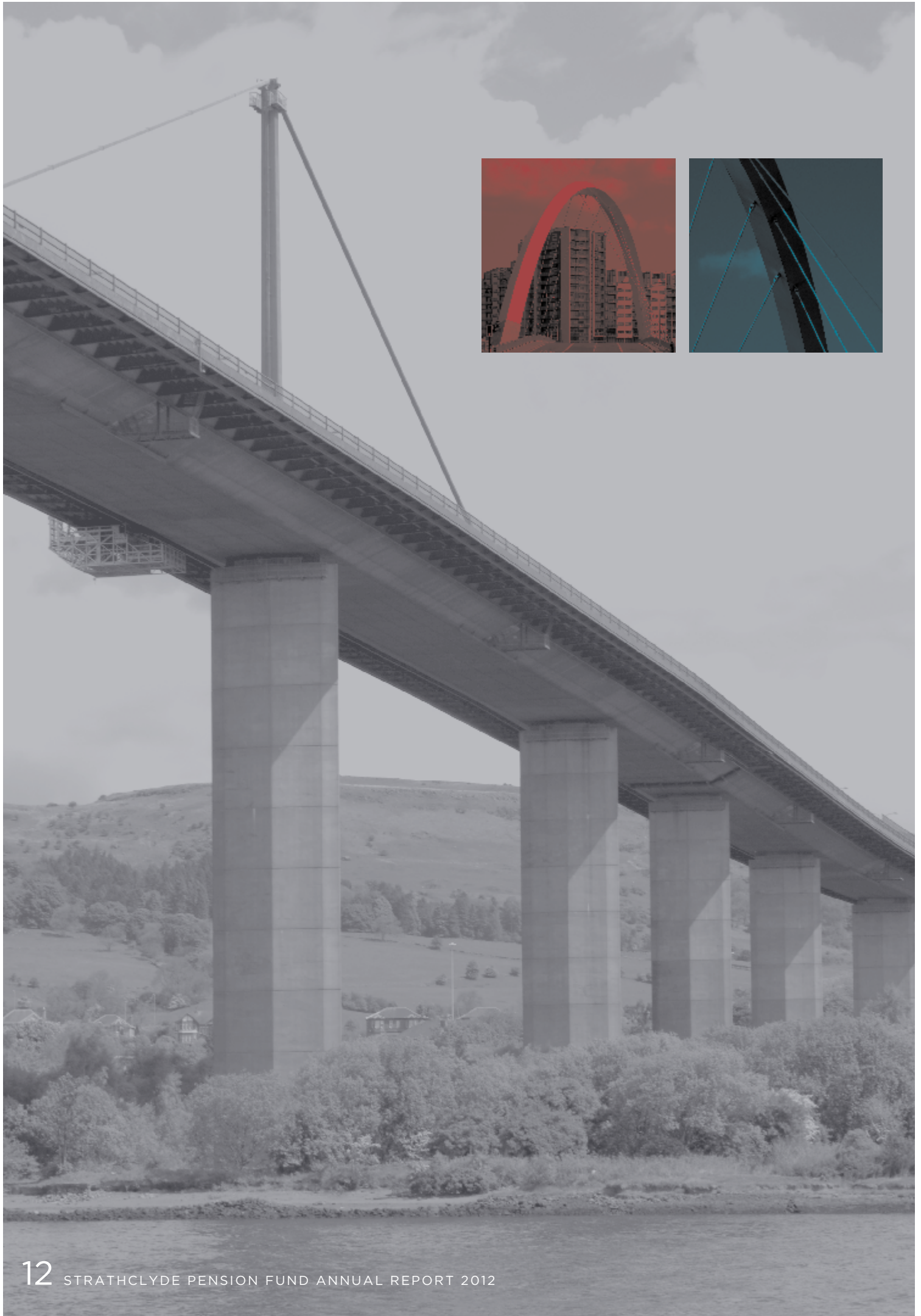
The Risk Register is monitored on an ongoing basis by officers and by the Investment Advisory Panel.

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 2012 were as follows.

Risk ID	Description	Probability	Impact	Ranking	Previous Ranking
SPFO1	Fund's investments fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term. <b>Impact:</b> increase in employer contribution rates.	4	4	16	12
SPFO3	Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities. <b>Impact:</b> increase in employer contribution rates	4	4	16	12
SPFO5	Pay and price inflation significantly more or less than anticipated. <b>Impact:</b> illiquidity or loss of investments	4	3	12	12
SPFO15	Failure of investment market(s). <b>Impact:</b> illiquidity or loss, of investments.	4	3	12	10
SPFO23	Pensions Administration System Failure. <b>Impact:</b> Staff downtime, loss of service delivery.	4	3	12	12

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



## REPRESENTATIVE FORUM

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

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

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

During 2011/12 the Forum's membership was as follows.

Cllr Paul Rooney	Glasgow City Council (Convener) (Part year)
Cllr Philip Braat	Glasgow City Council (Vice-Convener)
Bailie James McNally	Glasgow City Council (Convener) (Part year)
Cllr Robin Currie	Argyll & Bute Council
Janet Thomson	Cardonald College
Ian Black	East Dunbartonshire Council
Cllr Ralph Robertson	East Renfrewshire Council
Eliot Leviten	Glasgow School of Art
Cllr Robert Burrows	North Lanarkshire Council
Cllr Alan Noon	Renfrewshire Council
Eileen Howatt	South Ayrshire Council
Jackie Taylor / Bill Graham / Margaret Hogg	South Lanarkshire Council
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

As part of the 2011 actuarial valuation exercise, the Funding Strategy Statement was reviewed during the year and the following revised statement was agreed in March 2012.

## 1. Introduction

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

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

## 2. Purpose of the Funding Strategy Statement (FSS)

The stated purpose of the FSS is:

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

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

## 3. Aims and Purpose of the Pension Fund

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

### The purpose of the Fund is to:

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

### The aims of the Fund are to:

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

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

The objectives of the funding strategy are set out in Schedule 2 of this statement.

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

#### 4. Responsibilities of Key Parties

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

The responsibilities of the key parties involved in management of the Fund are set out in Schedule 3 to this statement. The approach to funding strategy for individual employers including the policies on admission and cessation is set out in Schedule 4

#### 5. Solvency Issues and Target Funding Levels

The target funding level is at least 100%. The actual funding level may fluctuate but the investment strategy and contributions strategy will be set to achieve the target level over time. The target recovery period for any deficit is the average working lifetime of the active membership.

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

The Fund will adopt measures to stabilise the contribution rate for ongoing employers with a good covenant and will seek to limit changes in the contribution rate payable by them to a maximum of +1% or -1% of pensionable pay each year.

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

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

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

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

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

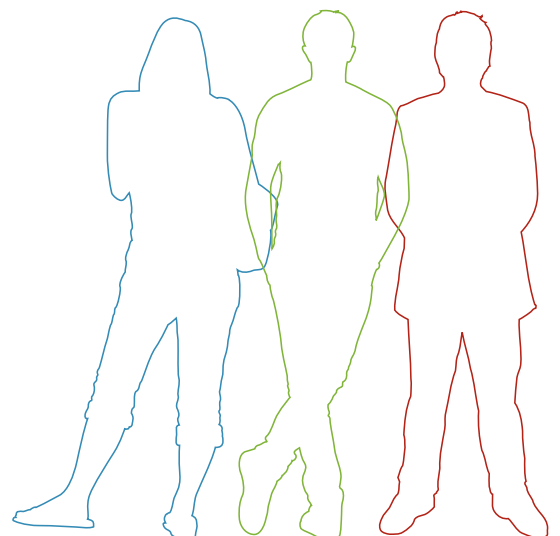
Using the current investment strategy and contribution strategy the Fund has an acceptable probability of achieving its target Funding level.

#### 7. The Identification of Risks and Counter Measures

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

The key financial, demographic, regulatory and governance risks are set out in Schedule 5 to this statement

The full statement including schedules is available from the Governance/Policy Documents area of the SPFO website at: <http://www.spfo.org.uk/Governance/PolicyDocuments/FundingStratStrategy/>



# 2011 VALUATION EXECUTIVE SUMMARY



## Executive summary

We have carried out an actuarial valuation of the Strathclyde Pension Fund – No 1 Fund ('the Fund') as at 31 March 2011. The results are presented in this report and are briefly summarised below.

### Funding position

The table below summarises the financial position of the Fund at 31 March 2011 in respect of benefits earned by members up to this date. Also shown for reference are the corresponding figures from 2008.

Past Service Position	2008 (£m)	2011 (£m)
Past Service Liabilities	9,979	11,642
Market Value of Assets	9,493	11,322
Surplus / (Deficit)	(486)	(320)
<b>Funding Level</b>	<b>95.1%</b>	<b>97.3%</b>

The results show that the Fund had not met its objective of holding sufficient assets to meet the estimated current cost of past service benefits at 31 March 2011. The funding level has increased from 95.1% at the previous valuation at 31 March 2008 to 97.3% at this valuation. This has resulted in the deficit decreasing from £486m at 31 March 2008 to £320m at 31 March 2011.

### Contribution rates

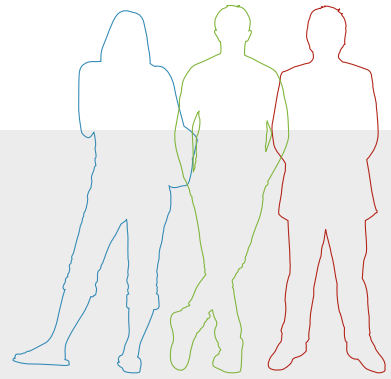
The table below summarises the average employer contribution rate that would be required, based on this triennial valuation. Also shown for reference are the corresponding figures from 2008.

Contribution Rates	2008 (% of pay)	2011 (% of pay)
Future Service Rate	17.9%	17.5%
Past Service Adjustment	2.7%	1.9%
Total Contribution Rate	20.6%	19.4%

The common contribution rate for the whole Fund at 31 March 2011 is 19.4% of pay. This comprises the anticipated cost of new benefits being earned by members in future (17.5%) plus the additional contributions (1.9%) required to repay the deficit over the average future remaining working life of members (currently 9.7 years). This common contribution rate is in addition to the contributions that will be made by members.

The common contribution rate is calculated by considering the Fund as a whole. In practice, each employer that participates in the Fund has its own underlying funding position and circumstances, giving rise to its own contribution rate requirement. Where appropriate, an adjustment to the common rate has been determined for each employer. The minimum contributions to be paid by each employer from 1 April 2012 to 31 March 2015 are shown in the Rates and Adjustments Certificate in **Appendix H**.





### Assumptions

The results shown above make a prudent allowance for the expectation that the Fund's equity-type investments will outperform gilts/bonds over the long term – the latter being in theory a closer match to the Fund's liabilities. If we were to make no allowance for this anticipated outperformance, we estimate that the funding level at 31 March 2011 would be 77% corresponding to a deficit of £3,479m with a common contribution rate of 44.5% of pay.

Our calculations explicitly allow for the change in benefit indexation from RPI to CPI as announced in the Emergency Budget of June 2010. No allowance has been made for the possible effect on the Fund of future changes to the LGPS proposed as a part of the current public sector pension reforms. The results of the valuation are highly sensitive to the actuarial assumptions we have made about the future. If actual future demographic and economic experience does not match these assumptions, the financial position of the Fund could improve or deteriorate materially. This is precisely why the position of the Fund is monitored via regular valuations.

[Redacted Signature]

Lorna Tonner  
Fellow of the Institute and Faculty of Actuaries  
For and on behalf of Hymans Robertson LLP  
30 March 2012

[Redacted Signature]

Catherine McFadyen  
Fellow of the Institute and Faculty of Actuaries  
For and on behalf of Hymans Robertson LLP  
30 March 2012

# 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 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)**

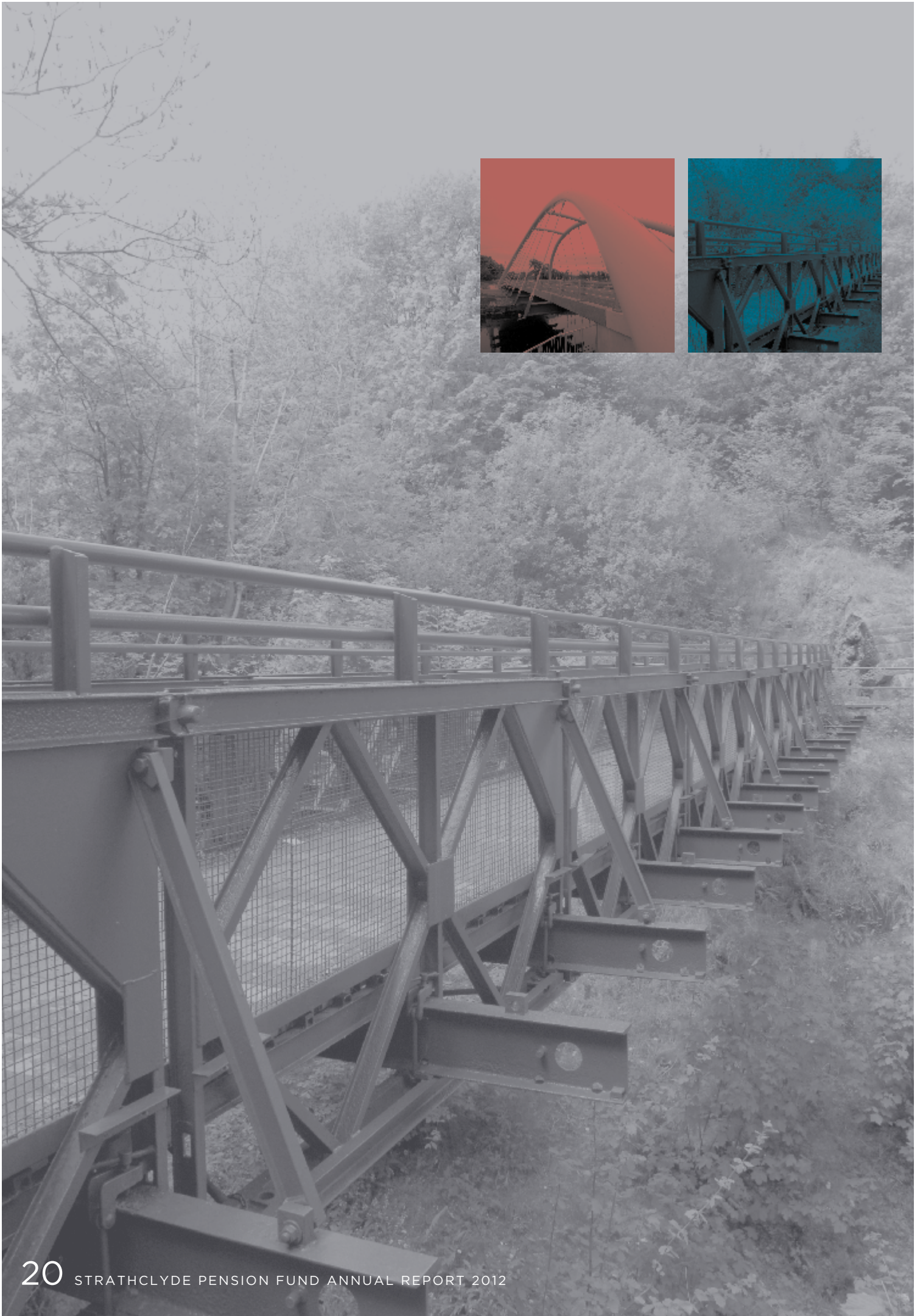
The Fund provides an in-house AVC arrangement. Further details, including investment choices available to scheme members are set out in Schedule 5.

## **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/>



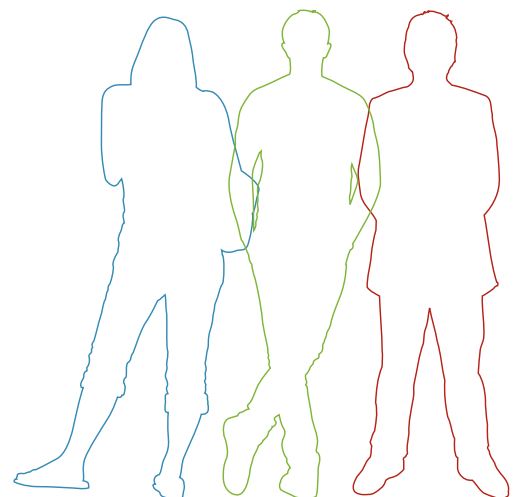
## INVESTMENT ADVISORY PANEL

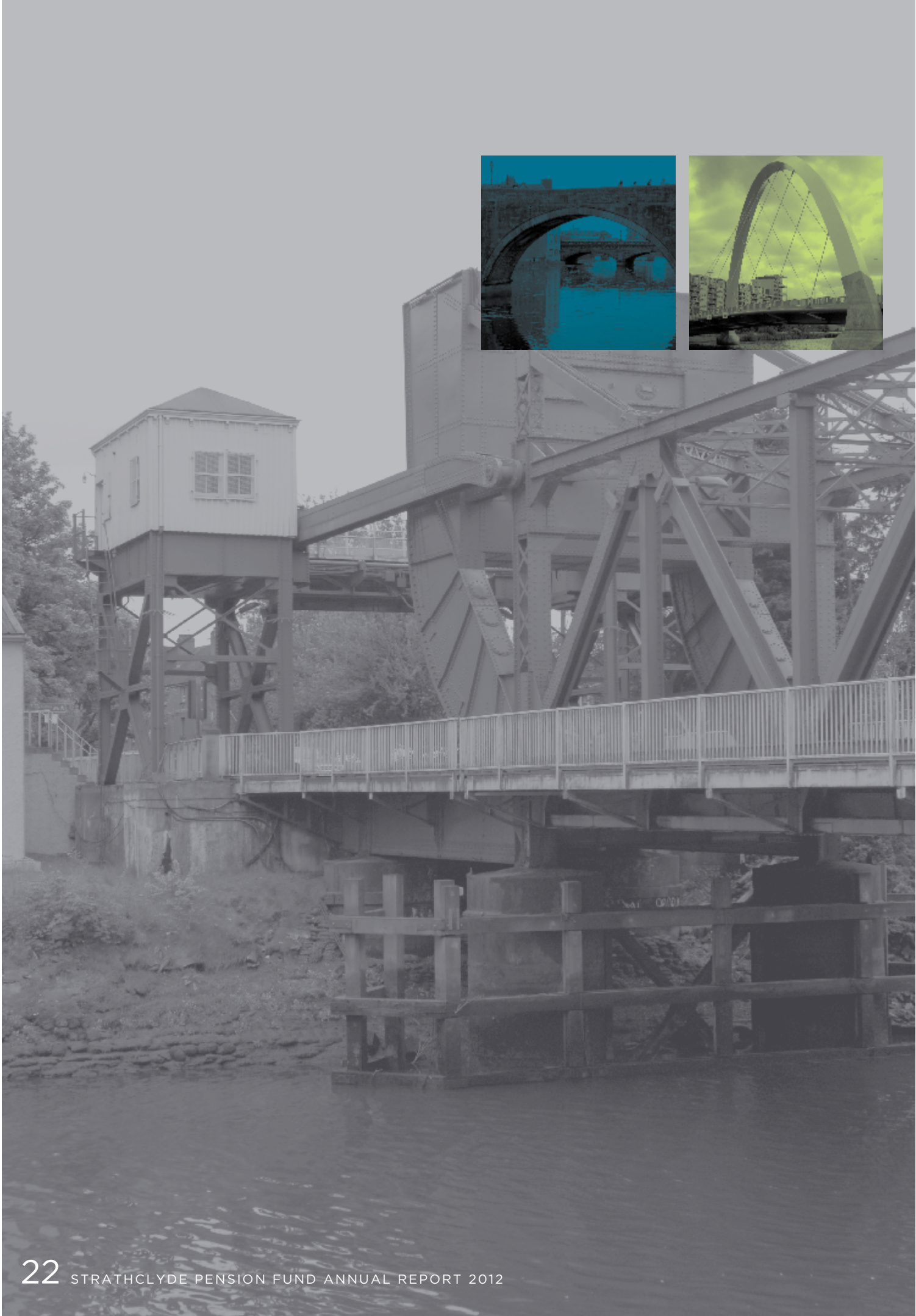
The role of the Investment Advisory Panel is to provide advice to the Strathclyde Pension Fund Committee and to assist its members in the discharge of their responsibilities. The Committee delegates much of the investment monitoring function to the panel.

The panel also spends considerable time developing and monitoring investment strategy.

Panel membership during 2011/12 was:

Dick Barfield	Investment Adviser
Ronnie Bowie	Senior Partner, Hymans Robertson
Lynn Brown	Executive 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
Eric Lambert	Investment Consultant, Hymans Robertson
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 2011/2012

Asset Class	Distribution As at 1 April 2011		Distribution As at 31 March 2012	
	Fund Actual (%)	Fund Benchmark (%)	Fund Actual (%)	Fund Benchmark (%)
Equity	76.1	73.0	75.5	73.0
Bonds	12.8	15.0	11.5	15.0
Property	6.3	12.0	7.5	12.0
Cash	4.8	0.0	5.5	0.0
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

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

# INVESTMENT PERFORMANCE

## SUMMARY

The past year was once again a turbulent time in financial markets. The major economic event was the European sovereign debt crisis, but financial markets were affected by other developments, including political events in the Middle East and the US credit downgrade. The UK did not escape unscathed. Continued fiscal austerity and the subsequent fall in consumer spending, combined with high inflation, tipped the economy back into recession.

Against this backdrop, the Fund produced a total annual return of +1.1% for 2011/2012. The scheme-specific benchmark returned +1.8%. The average UK pension fund, as measured by the WM All Funds Universe, returned +6.2%. The average local authority pension fund, as measured by the WM Local Authority Universe, returned +2.6% for the year.

## LONG TERM PERFORMANCE

Year to 31 March	Mar 03	Mar 04	Mar 05	Mar 06	Mar 07	Mar 08	Mar 09	Mar 10	Mar 11	Mar 12	3Yr	5Yr	10Yr
	Annualised												
	%	%	%	%	%	%	%	%	%	%	%	%	%
Retail Prices	3.1	2.6	3.2	2.4	4.8	3.8	-0.4	4.4	5.3	3.6	4.5	3.3	3.3
Consumer Prices	1.5	1.3	1.7	1.9	2.9	2.4	3.0	3.2	4.2	3.5	3.6	3.3	2.6
Avg. Earnings	4.5	4.6	3.8	5.2	5.0	3.8	-2.1	6.1	2.0	0.2	2.7	2.0	3.3
<b>Fund Return</b>	<b>-20.9</b>	<b>26.6</b>	<b>12.4</b>	<b>27.2</b>	<b>7.4</b>	<b>-2.9</b>	<b>-20.8</b>	<b>36.9</b>	<b>7.7</b>	<b>1.1</b>	<b>14.2</b>	<b>2.8</b>	<b>5.8</b>
<b>Benchmark</b>	<b>-22.1</b>	<b>28.0</b>	<b>12.9</b>	<b>26.6</b>	<b>8.1</b>	<b>-3.8</b>	<b>-21.0</b>	<b>41.3</b>	<b>8.6</b>	<b>1.8</b>	<b>16.0</b>	<b>3.5</b>	<b>6.2</b>
WM Average	-18.5	22.6	11.6	24.2	7.0	-1.0	-18.1	30.3	8.1	6.2	14.4	3.9	6.0

## PERFORMANCE BY ASSET CLASS

The Fund's performance during scheme year 2011/12 by asset class is summarised in the following table.

## PERFORMANCE MEASUREMENT

All performance figures are independently verified.

In 2003 the Fund appointed Northern Trust as the 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.



## ANNUAL RETURNS 2011/12

Asset Class	Fund Return	Benchmark Return	Relative
	%	%	%
UK Equities	1.2	1.4	-0.2
Overseas Equities			
US	4.8	6.9	-2.0
Europe	-6.8	-10.5	4.1
Japan	0.9	0.8	0.2
Pacific	-0.7	-5.1	4.7
Emerging Markets	-6.7	-8.2	1.7
UK Corporates	8.9	8.8	0.1
UK Gilts	14.4	14.5	0.0
Index Linked	21.3	21.1	0.1
Fixed Income - Absolute Return	2.6	0.8	1.8
Private Equity	2.2	1.4	0.8
Property	1.4	7.8	-5.9
<b>TOTAL FUND</b>	<b>1.1</b>	<b>1.8</b>	<b>-0.7</b>

## FUND MANAGERS 2011/12

Manager	1st April	1st April	31st March	31st March
	2011 £m	2011 %	2012 £m	2012 %
Legal & General	3,903	34.8	4,107	36.1
Baillie Gifford	1,308	11.6	1,290	11.4
Capital International	1,026	9.2	954	8.4
DTZ	741	6.6	819	7.2
Pantheon	599	5.4	651	5.7
Lazard	536	4.8	542	4.8
PIMCO	482	4.3	494	4.4
Invesco	322	2.9	347	3.1
Partners Group	282	2.5	318	2.8
Alliance Bernstein	345	3.1	312	2.8
JP Morgan	308	2.8	285	2.5
Edinburgh Partners	250	2.2	249	2.2
Henderson	244	2.2	242	2.1
Currency / Cash	399	3.6	229	2.0
Cash (Formerly Threadneedle)	223	2.0	224	2.0
Genesis	214	1.9	203	1.8
Partners Group Global Real Estate	5	0.0	69	0.6
New Opportunities	9	0.1	9	0.1
<b>TOTAL</b>	<b>11,196</b>	<b>100.0</b>	<b>11,344</b>	<b>100.0</b>

# RESPONSIBLE INVESTMENT



## 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.

## REPORTING

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/](http://www.glasgow.gov.uk/en/YourCouncil/Council_Committees/)

## Voting Results 2011/2012

### 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
Alliance Bernstein	6	5	1	110	107	3	0	0	6	0
Baillie Gifford	14	13	1	242	229	11	2	0	14	0
Capital International	31	27	4	556	528	28	0	0	31	0
Edinburgh Partners	9	8	1	192	192	0	0	0	9	0
Henderson	243	195	48	2,026	1,956	33	34	3	242	1
Invesco	8	8	0	153	148	1	4	0	8	0
Lazard	10	10	0	241	240	1	0	0	10	0
Legal & General	743	603	140	9,366	9,097	250	19	0	743	0
Schroders (No. 3)	56	48	8	963	943	14	6	0	56	0
<b>Total</b>	<b>1,120</b>	<b>917</b>	<b>203</b>	<b>13,849</b>	<b>13,440</b>	<b>341</b>	<b>65</b>	<b>3</b>	<b>1,119</b>	<b>1</b>
					<b>97%</b>	<b>3%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>

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

**Voting Results**  
**Annual Report 2011/12**  
**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
Alliance Bernstein	72	60	12	<b>1,203</b>	1,007	146	2	48	68	4
Baillie Gifford	94	76	18	<b>940</b>	839	20	3	78	89	5
Capital International	192	156	36	<b>2,286</b>	2,148	128	9	1	189	3
Edinburgh Partners	39	32	7	<b>759</b>	689	70	0	0	39	0
Genesis	140	83	57	<b>1,216</b>	1,075	97	25	19	136	4
Henderson	3	2	1	<b>19</b>	19	0	0	0	3	0
Invesco	97	89	8	<b>1,092</b>	907	73	0	112	91	6
JP Morgan	287	250	37	<b>2,823</b>	2,472	338	2	11	286	1
Lazard	122	104	18	<b>1,468</b>	1,312	153	3	0	122	0
Legal & General	632	601	31	<b>7,490</b>	6,962	446	82	0	632	0
Schroders (No. 3)	147	125	22	<b>1,828</b>	1,383	86	0	359	125	22
<b>Total</b>	<b>1,825</b>	<b>1,578</b>	<b>247</b>	<b>21,124</b>	<b>18,813</b>	<b>1,557</b>	<b>126</b>	<b>628</b>	<b>1,780</b>	<b>45</b>
					<b>89%</b>	<b>7%</b>	<b>1%</b>	<b>3%</b>	<b>98%</b>	<b>2%</b>

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

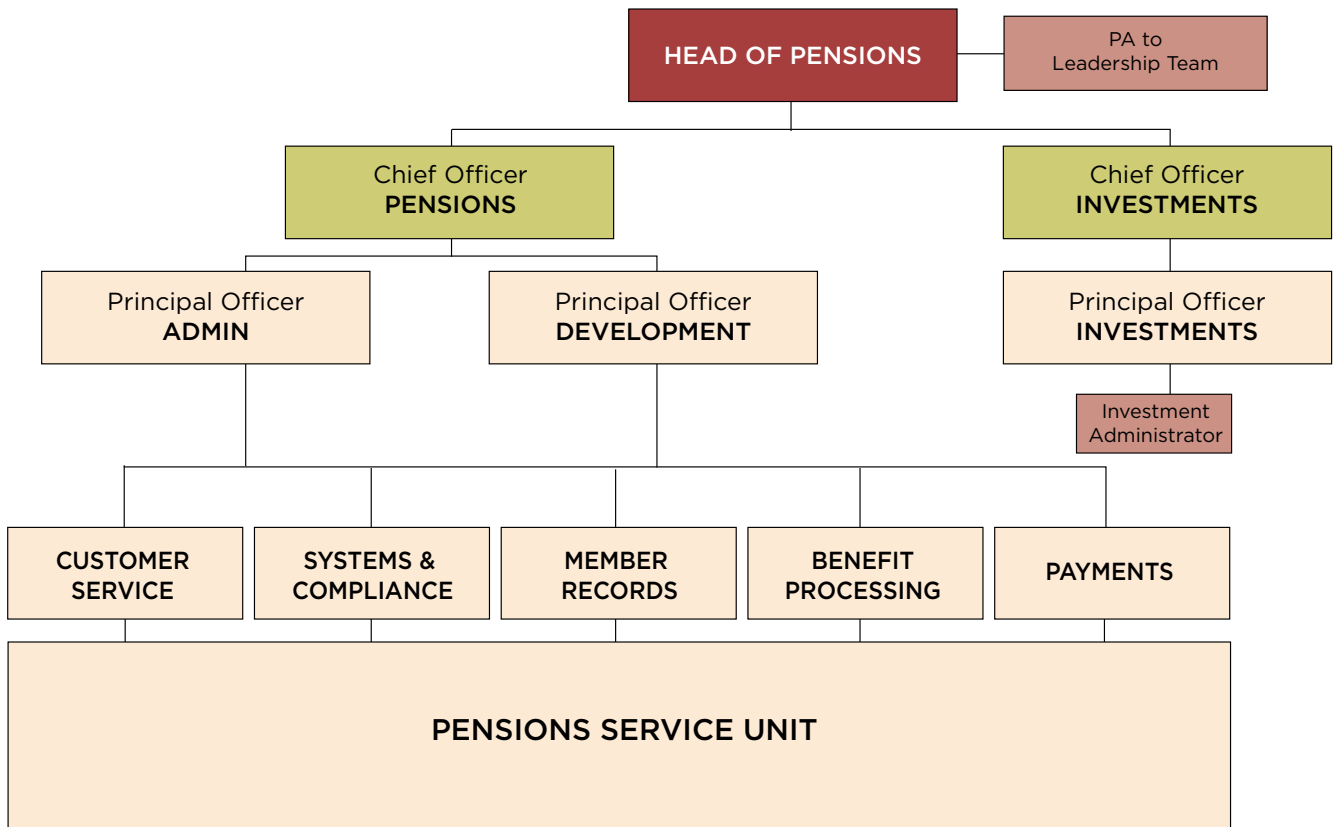
The following list is just a selection of the engagement topics on which managers reported over the year:

- Is the business of business, business?
- Chinese automotive producers
- Oil and gas operations in the Brazilian rain forest
- Ecosystem services
- Large-scale gas production and transmission projects
- Corporate social responsibility, ambitions and projects
- China: air and water emissions, labour conditions and wage rates, and health and safety performance
- Will the environmental impacts of fertilisers constrain their future use?
- Oil & gas exploration: the environmental and social issues encountered through operations in Papua New Guinea
- Demographics
- Hydraulic fracturing and its environmental impacts
- Climate Change

# ADMINISTRATION

## SPFO STAFFING STRUCTURE

A service reform was agreed in the course of the year with a final staffing establishment of 85. Implementation is ongoing. The revised structure model is shown below.



## ADMINISTRATION PERFORMANCE

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

Target measures for a range of core processes representative of SPFO’s service delivery to its members are agreed in the annual Business Plan. The table below shows the targeted and actual performance for 2011/2012, together with previous year comparators.

## SPFO TURNAROUND PERFORMANCE 1ST APRIL 2011 TO 31 MARCH 2012

### 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	1,321	-	-	-	-	-	-	99.73	95.00	99.91	0.62
2. Deferred Benefits											
Deferred Calcs	3,855	-	-	-	-	98.87	99.68	98.91	90.00	97.47	0.00
3. Retirement											
Provisionals	3,294	85.20	71.32	57.16	-	-	-	-	85.00	88.45	0.09
Actual	3,039	90.65	85.67	82.42	78.94	-	-	-	85.00	89.53	3.55
4. Early Leaver Options											
Benefit											
Options Calcs	2,430	-	99.42	99.09	98.84	97.98	-	-	90.00	99.79	0.00
Refunds	1,550	-	99.67	99.16	98.58	97.35	-	-	90.00	92.62	0.00
5. Transfers In											
TV in Calcs	707	99.71	99.00	98.67	98.58	96.88	-	-	85.00	94.20	0.00
6. Transfers Out											
Club Transfers	89	92.05	86.36	84.09	70.45	-	-	-	90.00	94.39	1.12
Non Club Transfers	85	92.71	88.54	85.42	78.13	-	-	-	90.00	100.00	0.00



## 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 comments received in survey responses to target future development of our service. Our results for the year to 31 March 2012 are as follows.

	Joiners	Refunds	Deferreds	Retirals
<b>Forms issued</b>	<b>1,321</b>	<b>1,550</b>	<b>3,855</b>	<b>3,039</b>
<b>Responses</b>	<b>565</b>	<b>789</b>	<b>216</b>	<b>737</b>
<b>Response rate (%)</b>	<b>42.7</b>	<b>50.9</b>	<b>5.6</b>	<b>24.2</b>
<b>“Satisfaction Rating” (%)</b>	<b>80.7</b>	<b>80.3</b>	<b>78.9</b>	<b>89.9</b>
2010/11 (%)	80.4	80.1	80.0	90.3
2009/10 (%)	79.3	79.9	79.8	91.4

A minimum overall score of 80% for joiner, refund and leaver transactions and 90% for retirals were agreed as targets for 2011/12. SPFO achieved target in 2 transaction categories and was fractionally behind in 2.

## 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. A revised strategy was approved by the Committee in September 2011.

The strategy 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 enables 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 latest such report is available at:  
<http://www.glasgow.gov.uk/councillorsandcommittees/agenda.asp?meetingid=11940>

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 2012, the position was as follows.

	No.of Employers	%	2010 / 11 %
Named contact provided to SPFO	235	100	100
Named contact NOT provided to SPFO	0	0	0

### Policy statements

Regulation 61 requires all employers to formulate and publish their policy on the exercise of their discretions and to provide a copy to SPFO. As at 31st March 2012, the position was as follows.

	No.of Employers	%	2010 / 11 %
Policy statement received by SPFO	235	100	43
Policy statement NOT received by SPFO	0	0	57

Significant improvement has been achieved this year. SPFO formulated a “model” policy statement that authorities may adopt and tailor to their own specific requirements.

This level of assistance appears to have been a significant contributing factor in the full compliance rate now reported.

## Compliance certificates

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

As at 31st March 2012, the position was as follows.

	No. of Employers	%	2010 / 11 %
Compliance certificate received by SPFO	173	73.6	80
Compliance certificate NOT received by SPFO	62	26.4	20

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

## Supply of data: local authorities

New Start and membership changes information passed by local authorities to SPFO must be supplied electronically from 30th September 2010. All information must be validated by the employer prior to submission.

As at 31st March 2012, the position was as follows.

	No. of Local Authority Employers	%	2010 / 11 %
Electronic data received by SPFO	11	91.67	83
Electronic data NOT received by SPFO	1	8.33	17

## Supply of data: admitted bodies

Admitted bodies are required to submit new start and membership changes information electronically from 31st March 2011.

As at 31st March 2012, the position was as follows.

	No. of Admitted Body Employers	%	2010 / 11 %
Electronic data received by SPFO	43	18.3	5
Electronic data NOT received by SPFO	192	81.7	95




Good progress in 2011/12 but a long way still to go.



## 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. For 2011/12, the performance of local authority employers was as follows

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 Ayrshire	N	N	N	N	N	N	N	N	N	N	N	N
East Dunbartonshire	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	Y
East Renfrewshire	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Glasgow	N	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Inverclyde	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	N
North Ayrshire	Y	Y	Y	N	Y	N	Y	N	Y	N	Y	N
North Lanarkshire	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Renfrewshire	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
South Ayrshire	N	N	N	Y	N	N	Y	N	N	N	N	Y
South Lanarkshire	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
West Dunbartonshire	N	N	Y	N	N	Y	N	Y	Y	Y	Y	Y




KEY  Good quality data has been received by SPFO  Data was received but required amendment before uploading  No data was received

Incidence of good quality data being received has increased to 27.7% this year from 19.4% last year, largely as a result of an enhanced data transfer spreadsheet developed by SPFO.

## 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 2012, the position for local authority employers was as follows.

Employers Submission of Member Data Changes to SPFO 01/04/2011 to 31/03/12												
Authority	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March
Argyll & Bute	N	N	N	N	N	N	Y	Y	Y	Y	Y	Y
East Ayrshire	Hard Copy Data Only Received											
East Dunbartonshire	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	Y
East Renfrewshire	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
GCC	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Inverclyde	N	N	N	N	N	N	N	N	Y	Y	Y	N
North Ayrshire	Y	Y	Y	N	Y	Y	Y	Y	Y	N	Y	Y
North Lanarkshire	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y
Renfrewshire	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
South Ayrshire	N	Y	N	N	N	Y	Y	Y	N	Y	Y	N
South Lanarkshire	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
West Dunbartonshire	Hard Copy Data Only Received								Y	Y	Y	Y

KEY  Good quality data has been received by SPFO  Data was received but required amendment before uploading  No data was received

Incidence of good quality data being received has decreased to 27.0% this year from 43.7% last year.

### 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 2012, the summary position was as follows.

	Members	%	2010 / 11
Total active records	83,158	100	100
Record status OK	81,661	98.2	97.2
Missing new start details	799	1.0	1.7
Missing leaver details	698	0.8	1.1

Good progress has been made throughout the year. The overall target year end maximum exception rate of 2.0% has 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 to enable the member to make informed choices on the retirement benefit package that best suits their long term financial needs, and to ensure that the correct benefits are paid.

For the period 1st April 2011 to 31st March 2012, the summary position was as follows.

	No	%	2010 / 11
Total retirements notified	3,022	100	4,270
>2 months notice received	1,063	35	21
<2 months notice received	1,959	65	79

Some improvement has been achieved, partly because the volume of early retirements has begun to reduce from the unprecedented level of 2010/11.

### 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 2011 to 31st March 2012, summary performance was as follows.

	No	%	2010 / 11
Total SPFO enquiries	4,808	100	100
Response <= 7 days	2,727	57	47
Response > 7 days	1,713	36	40
No response	368	7	13

The obvious consequence of delayed responses to SPFO enquiries 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 2011/12 (submissions relating to 2010/11) performance was as follows.

	No	%	2010 / 11 %
Total employer returns	235	100.0	100
Received by 20th May	95	40.4	54
Not received by 20th May	140	59.6	46

The majority of scheme employers failed to submit their year end return by the target date with some returns being received as late as the end of August 2011. SPFO were still able to meet the extremely tight timescales for completion of the actuarial valuation but with a significant strain on staff resources.

### 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.

2011/12 performance of local authority employers was as follows

EMPLOYING AUTHORITY	Payments made on time
Argyll & Bute Council	12/12
East Ayrshire Council	11/12
North Ayrshire Council	12/12
South Ayrshire Council	11/12
West Dunbartonshire Council	12/12
East Dunbartonshire Council	12/12
Glasgow City Council	12/12
North Lanarkshire Council	12/12
South Lanarkshire Council	11/12
East Renfrewshire Council	12/12
Renfrewshire Council	12/12
Inverclyde Council	10/12
Scottish Water	12/12
Strathclyde Police Authority	12/12
Strathclyde Fire & Rescue	13/13

Incidence of late payment is slightly higher for other employers but not significantly so. SPFO have only been required to issue reminder letters to 3 smaller admitted bodies for late payments.

### 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. 9 instances where employers have not remitted members' AVC contributions within these timescales have 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. The fund had no borrowings outstanding at the end of the accounting period.

# FINANCIAL STATEMENTS

2010/11 £000	STRATHCLYDE PENSION FUND NO.1 FUND ACCOUNT	NOTE	£000	2011/12 £000
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME</b>				
	<b>Contributions receivable</b>			
	From employers			
(331,702)	- normal	12	(332,001)	
(95,384)	- augmentation	12	(66,707)	
<u>(427,086)</u>				(398,708)
	From members			
(116,273)	- normal	12		(109,807)
	<b>Transfers in</b>			
(9,675)	- individual transfers in from other schemes		(7,249)	
(34,771)	- group transfers in from other schemes		0	
<u>(44,446)</u>				(7,249)
	<b>Other income</b>			
(909)	- other income			(1,126)
	<b>Benefits payable</b>			
283,282	- pensions	12	320,557	
	- commutation of pension and lump sum retirement benefits	12	122,957	
150,910	- lump sum death benefit	12	12,615	
<u>11,164</u>				
445,356				456,129
	<b>Payments to and on account of leavers</b>			
957	- refunds of contributions		1,243	
628	- state scheme premiums		937	
2,253	- group transfers out to other schemes		0	
<u>16,595</u>	- individual transfers out to other schemes		11,083	
20,433				13,263
5,353	<b>Administrative expenses</b>	13		4,376
<b>(117,572)</b>	<b>Net (additions) / reductions from dealings with members</b>			<b>(43,122)</b>
<b>RETURNS ON INVESTMENTS</b>				
	<b>Investment income</b>			
0	- interest from fixed interest securities		0	
(90,223)	- dividends from equities		(105,520)	
0	- income from index linked securities		0	
(2,614)	- income from pooled investment vehicles		(239)	
(44,250)	- net rents from properties		(43,640)	
(2,448)	- interest on cash deposits		(3,560)	
<u>(1,039)</u>	- other		(1,508)	
(140,574)				(154,467)
(664,826)	<b>Change in market value of investments</b>			49,146
3,476	<b>Taxation</b>			4,471
16,371	<b>Investment management expenses</b>	14		13,459
<b>(785,553)</b>	<b>Net returns on investments net (increase) / decrease in the fund during the year</b>			<b>(87,391)</b>
<b>(903,125)</b>	<b>net (increase) / decrease in the fund during the year</b>			<b>(130,513)</b>
(10,417,247)	Add: opening net assets of the scheme			(11,320,372)
<u>(11,320,372)</u>	<b>Closing net assets of the scheme</b>			<b>(11,450,885)</b>

2010/11 £000	STRATHCLYDE PENSION FUND NO.1 NET ASSETS STATEMENT AS AT 31 MARCH 2012	NOTE	2011/12 £000	£000
<b>INVESTMENT ASSETS</b>				
4,947,235	Equities (including convertible shares)	8,11	4,847,605	
53	Index linked securities	8,11	63	
1,146,636	Pooled Investment vehicles - unit trusts	8,11	1,007,026	
3,893,376	Pooled investment vehicles - managed funds	8,11	4,097,089	
396,574	Derivative contracts	8,11	378,002	
697,812	Property	8,11	791,450	
486,027	Cash deposits	8,11	572,067	
50,551	Other investment balances	8,11	47,712	
<u>11,618,264</u>				11,741,014
<b>INVESTMENT LIABILITIES</b>				
(397,605)	Derivative contracts	8,11	(372,661)	
(46,088)	Creditors	8,11	(43,711)	
<u>(443,693)</u>				(416,372)
<b>CURRENT ASSETS</b>				
29,985	Contributions due from employers		37,733	
50,391	Unpaid benefits		25,041	
74,504	Cash balances		81,456	
12,191	Other current assets		11,897	
<u>167,071</u>				156,127
<b>CURRENT LIABILITIES</b>				
(9,402)	Unpaid benefits		(5,999)	
(11,868)	Other current liabilities		(23,885)	
<u>(21,270)</u>				(29,884)
<b>11,320,372</b>	<b>Net Assets</b>			<b>11,450,885</b>

The unaudited accounts were issued on 26 June 2012 and the audited accounts were authorised for issue on 26 September 2012.

**Lynn Brown, MA (Hons) CPFA**  
Executive Director of Financial Services  
26 September 2012

## NOTES TO THE ACCOUNTS FUND No 1

### 1. General description of the Fund and its membership

The Strathclyde Pension Fund was established in 1974 by Strathclyde Regional Council. Glasgow City Council became the Administering Authority for the Fund on 1 April 1996. The Fund is a pool into which employees' and employers' contributions and income from investments are paid, and from which pensions and other lump sum benefits are paid out in accordance with the provisions of the Local Government Pension Scheme (Scotland) Regulations. The Local Government Pension Scheme is a statutory scheme established under the Superannuation Act 1972 and 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;
- Deferred pensioners of scheduled and admitted bodies

### 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

In addition almost 200 admitted bodies participate as employers in the Fund.

#### 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. Basis of preparation

The Financial Statements have been prepared in accordance with the guidelines set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The Financial Statements summarise the transactions of the Fund during the year and the net assets at the year end. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 8 of these accounts.

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

## 3. Summary of significant accounting policies

### FUND ACCOUNT

#### • Contributions income

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

#### • Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In. Group transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

#### • Investment income

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

#### • Benefits payable

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

#### • Taxation

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

#### • Administrative expenses

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

- **Investment management expenses**

All investment management expenses are accounted for on an accruals basis. External investment manager fees are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments changes. In instances where an investment manager's fee note has not been received by the balance sheet date, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2011/12 £0.208m of fees is based on such estimates (2010/11 £0.247m). The cost of obtaining investment advice from external consultants is included in investment management charges. The cost of the Fund's management team are charged direct to the Fund and a proportion of the council's costs representing management time spent by officers on investment management is also charged to the Fund.

## NET ASSETS STATEMENT

- **Financial assets**

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

- **Valuation of investments**

Quoted investments are valued at closing prices. These prices may be the last trade prices or bid prices depending on the convention of the stock exchange or other market on which they are quoted. Overseas investments and cash are stated in sterling using exchange rates as at close of business on 31 March 2012. The direct property portfolio was valued at 31 March 2012 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. Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published or if single priced at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is invested in the Fund, net of applicable withholding tax.

- **Foreign currency transactions**

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

- **Derivatives**

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

- **Cash and cash equivalents**

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

- **Liabilities**

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



- **Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits in a note to the net assets statement (note 8).

- **Additional voluntary contributions**

Strathclyde Pension Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential and Standard Life as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year. AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (SSI 2010/233) but are disclosed as a note only (Note 21).

#### 4. Critical judgements in applying accounting policies

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the general partners using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2012 was £926.5m (£856.5m at 31 March 2011). The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 8. The estimate is subject to significant variances based on changes to the underlying assumptions.

#### 5. Events after the balance sheet date

There have been no events since 31 March 2012 and up to the date when these accounts were authorised that require any adjustments to these accounts.

#### 6. Actuarial position of the Fund

In accordance with Regulation 32 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 an actuarial valuation of the Strathclyde Pension Fund was carried out as at 31 March 2011. Results of the valuation were confirmed during March 2012 and a copy of the valuation report was issued to all participating employers.

The funding level as at 31 March 2011 was 97.3% (95.1% at 31 March 2008) and there was a funding shortfall of £322 million (£486 million at 31 March 2008):

	£ million
Fund Assets	11,320
Fund Liabilities	(11,642)
<b>Deficit</b>	<b>(322)</b>

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

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

- **Funding policy**

On completion of the actuarial valuation as at 31 March 2011 the Fund published a revised Funding Strategy Statement in accordance with regulation 31 of the Local Government Pension Scheme (Administration)(Scotland) Regulations 2008. The actuary's report and the Funding Strategy Statement are available from [www.spfo.org.uk](http://www.spfo.org.uk) or the Strathclyde Pension Fund Office, Capella Building, 6th Floor, 60 York Street, Glasgow G2 8JX.

- **Funding projection as at 31 March 2012**

An intervaluation monitoring report provided by the Fund's actuary as at 31 March 2012 recorded a projected funding position of 80.7%. The next formal funding valuation will be carried out as at 31 March 2014 with results being available by 31 March 2015.

- **Funding method**

At the 2011 actuarial valuation and for previous valuations a funding method was used that identifies separately the expected cost of members' benefits in respect of:

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

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

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

The total contribution rate payable is the cost of future benefit accrual, increased by an amount calculated to bring the funding level back to 100% - the "past service adjustment". At the 2011 valuation the past service adjustment was based on repaying the funding deficit over 9.7 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 2011 is as follows:

	<b>Pensionable Payroll</b>
<b>31 March 2011</b>	<b>%</b>
<b>Total Future Service Cost</b>	<b>23.7</b>
Less Employee Contributions	6.4
Add Expenses	0.2
<b>Net Employer Service Cost</b>	<b>17.5</b>
Past Service Adjustment	1.9
<b>Total Employer Contribution Rate</b>	<b>19.4</b>

The total contribution rate is calculated by considering the Fund as a whole. In practice, each employer that participates in the Fund has its own underlying funding position and circumstances, giving rise to its own contribution rate requirement. Where appropriate an adjustment to the total rate has been determined for each employer. Adjustments have been certified as a combination of increased % of pensionable payroll and/or a monetary amount. The minimum contributions to be paid by each employer from 1 April 2012 to 31 March 2015 are shown in the Rates and Adjustments certificate in Appendix H to the valuation report which is available from the Governance area of the Fund's website at [www.spfo.org.uk](http://www.spfo.org.uk) or on request from SPFO. For most employers the total rate to be paid has been stabilised at the 2011/12 level for a further 3 years as shown below.

	<b>Rate (as % of pensionable payroll)</b>
<b>Year to</b>	<b>%</b>
31 March 2013	19.3
31 March 2014	19.3
31 March 2015	19.3

## 7. Actuarial and other major assumptions

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

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

Assumption	Derivation	Nominal %	Real %
Price inflation (CPI) / Pension Increases/ Deferred Revaluation	Market expectation of long term future RPI inflation as measured by the geometric difference between yields on fixed and index-linked Government bonds as at the valuation date less 0.8% p.a.	2.8	-
Pay increases *	Price inflation (CPI) plus 2.3% p.a.	5.1	2.3
Gilt - based discount rate	The yield on fixed-interest government bonds	4.3	1.5
Pre retirement funding basis discount rate	Gilt based discount rate plus an asset outperformance assumption of 1.6% p.a.	5.9	3.1
Post- retirement funding basis discount rate	Gilt based discount rate plus an asset outperformance assumption of 1.2% p.a.	5.5	2.7

\* 1% p.a. nominal for the period to 31 March 2013 then reverting to 5.1% p.a. thereafter plus an allowance for promotional pay increases.

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

For this valuation, the actuary adopted assumptions which give the following sample average future life expectancies for members (2008 figures included for comparison):

Assumed life expectancy at age 65	Activities & Deferreds		Current Pensioners	
	Male	Female	Male	Female
2008 Valuation	21.7	24.6	20.3	23.2
2011 Valuation	23.3	25.3	21.0	23.4

Further details of the mortality assumptions adopted for the 2011 valuation can be found in Appendix E to the valuation report. Note that the figures for actives and deferred/pensioners assume that they are aged 45 at the valuation date.

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

## Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is estimated at £13,110 million as at 31 March 2012 (£13,207 million as at 31 March 2011). 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 2011. It should be noted that the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose

## 8. Investments

### Statement of Movement in Investments

	Opening Market Value £000	Purchases and Derivative Payment £000	Sales and Derivative Receipts £000	Other Movements £000	Closing Market Value £000
<b>Investment Assets</b>					
Equities (including convertible shares)	4,947,235	1,836,226	(1,647,380)	(288,476)	4,847,605
Index Linked Securities	53	711	(462)	(239)	63
Pooled Investment Vehicles -					
Unit Trusts	1,146,636	70,859	(268,814)	58,345	1,007,026
Pooled Investment Vehicles -					
Managed Funds	3,893,376	91,185	(91,185)	203,713	4,097,089
Derivative Contracts	396,574	(53)	(15)	(18,504)	378,002
Property	697,812	262,163	(153,733)	(14,792)	791,450
Cash Deposits	486,027	0	0	86,040	572,067
Other Investment Balances	50,551	0	0	(2,839)	47,712
<b>Total Assets</b>	<b>11,618,264</b>	<b>2,261,091</b>	<b>(2,161,589)</b>	<b>23,248</b>	<b>11,741,014</b>
<b>Investment Liabilities</b>					
Derivative Contracts	(397,605)	0	0	24,944	(372,661)
Creditors	(46,088)	0	0	2,377	(43,711)
<b>Total Liabilities</b>	<b>(443,693)</b>	<b>0</b>	<b>0</b>	<b>27,321</b>	<b>(416,372)</b>
<b>Net Investment Assets</b>	<b>11,174,571</b>	<b>2,261,091</b>	<b>(2,161,589)</b>	<b>50,569</b>	<b>11,324,642</b>

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

#### • Transaction costs

Transaction costs are included in the cost of purchases and sale proceeds and are charged directly to the Fund. Transaction costs such as fees, commissions and stamp duty incurred during the year amounted to £3.877 million (£5.147 million in 2010/2011).

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

- **Derivatives**

Derivatives comprise futures and forward derivative contracts. The market values as at 31 March 2012 and a summary of contracts held are summarised in the tables below:

	31 March 2011 £000	31 March 2012 £000
Futures	47	41
Forwards	(1,078)	5,300
<b>Market Value as at 31 March 2012</b>	<b>(1,031)</b>	<b>5,341</b>

Contract	Settlement Date	Asset £000	Liability £000	Net £000
<b>Derivatives - Futures</b>				
EMNI S&P 500	3 Months	41	0	41
<b>Contracts Held at 31 March 2012</b>		<b>41</b>	<b>0</b>	<b>41</b>

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

- **Forwards**

Derivatives - Forward Foreign Exchange Contract	Settlement Date	Asset £000	Liability £000	Net £000
Various Currency Forwards	1 Month	45,908	(46,006)	(98)
Various Currency Forwards	2 Months	299,779	(294,329)	5,450
Various Currency Forwards	4 Months	22,926	(23,015)	(89)
Various Currency Forwards	5 Months	9,348	(9,311)	37
<b>Contracts Held at 31 March 2012</b>		<b>377,961</b>	<b>(372,661)</b>	<b>5,300</b>

The above table summarises the contracts held by maturity date - 9 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.

## 9. Fund management

### • Investment managers and mandates

The market value of assets under the management of Fund managers as at 31 March 2012 was £11,325 million.

Investment management arrangements as at 31 March 2012 are summarised below:

Asset Class	Fund Manager	% managed
Multi Asset – Passive	Legal and General	36.1
Global Equity	Baillie Gifford	11.4
Global Equity	Capital International	8.4
Global Equity	Lazard	4.8
Global Equity	Invesco	3.1
Global Equity	Alliance Bernstein	2.8
Global Equity	Edinburgh Partners	2.2
Specialist – Property	DTZ	7.2
Specialist – Global Real Estate	Partners Group	0.6
Specialist – Absolute Return Bonds	PIMCO	4.4
Specialist – Equities (Overseas Small Companies)	JP Morgan	2.5
Specialist – Equities (UK Small Companies)	Henderson	2.1
Specialist – Private Equity	Pantheon	5.7
Specialist – Private Equity	Partners Group	2.8
Specialist – Emerging Markets	Genesis	1.8
Specialist – New Opportunities Portfolio	Various	0.1
Cash	Northern Trust	1.5
Cash	Formerly Threadneedle*	2.0
Currency Overlay	Millennium*	0.5

### • Absolute return bonds

On 7 September 2011, the Strathclyde Pension Fund Committee agreed to terminate the Threadneedle Absolute Return Bond Mandate. Threadneedle commenced the process of disinvestment in September 2011, with the process being completed during October 2011.

The proceeds were held in Northern Trust Cash Funds pending the outcomes of the 2011 actuarial valuation, asset liability study and investment strategy review.

### • 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 2012 the Fund held direct property assets with a value of £728.3 million. This valuation was calculated by Colliers CRE on the Fund's behalf in accordance with RICS Valuation Standards manual.

As at 31 March 2012 the Fund's indirect UK property assets had a value of £63.1 million. This valuation was conducted by external valuers CBRE, King Sturge and DTZ and prepared in accordance with RICS Valuation Standards manual.

## 10. Notifiable holdings

Notifiable holdings are holdings which exceed 5% of the total value of Fund net assets. As at 31 March 2012 the Fund had holdings of £1,960 million (17.1%) in Legal and General UK Equity Fund and £1,330 million (11.6%) in Legal & General North America Equity Index.

## 11. Analysis of investments

Investments can be further analysed as follows:

	Quoted £000	Unquoted £000	Other £000	Total £000
<b>Assets</b>				
Equities (including convertible shares)	3,809,162	1,038,443	0	4,847,605
Index Linked Securities	58	5	0	63
Pooled Investment Vehicles – Unit Trusts	442,446	564,580	0	1,007,026
Pooled Investment Vehicles – Managed Funds	0	4,097,089	0	4,097,089
Derivative Contracts	41	377,961	0	378,002
Property	0	791,450	0	791,450
Cash Deposits	0	535,095	36,972	572,067
Other Investment Balances	12,801	27,629	7,282	47,712
<b>Total Assets</b>	<b>4,264,508</b>	<b>7,432,252</b>	<b>44,254</b>	<b>11,741,014</b>
<b>Liabilities</b>				
Derivative Offset	0	(372,661)	0	(372,661)
Creditors	0	(43,711)	0	(43,711)
<b>Total Liabilities</b>	<b>0</b>	<b>(416,372)</b>	<b>0</b>	<b>(416,372)</b>
<b>Net Investment Assets</b>	<b>4,264,508</b>	<b>7,015,880</b>	<b>44,254</b>	<b>11,324,642</b>

## 11. Analysis of investments continued

	UK £000	Overseas £000	Total £000
<b>Assets</b>			
Equities (including convertible shares)	1,281,313	3,566,292	4,847,605
Index Linked Securities	5	58	63
Pooled Investment Vehicles – Unit Trusts	652,728	354,298	1,007,026
Pooled Investment Vehicles – Managed Funds	2,769,122	1,327,967	4,097,089
Derivative Contracts	377,961	41	378,002
Property	791,450	0	791,450
Cash Deposits	572,067	0	572,067
Other Investment Balances	38,667	9,045	47,712
<b>Total Assets</b>	<b>6,483,313</b>	<b>5,257,701</b>	<b>11,741,014</b>
<b>Liabilities</b>			
Derivative Offset	(372,661)	0	(372,661)
Creditors	(43,711)	0	(43,711)
<b>Total Liabilities</b>	<b>(416,372)</b>	<b>0</b>	<b>(416,372)</b>
<b>Net Investment Assets</b>	<b>6,066,941</b>	<b>5,257,701</b>	<b>11,324,642</b>

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

## 12. Contributions and benefits

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

	Administering Authority £000	Other Scheduled Bodies £000	Admitted Bodies £000	Total £000
<b>Contributions</b>				
Employee	(17,006)	(69,067)	(23,734)	(109,807)
Employer	(75,920)	(231,769)	(91,019)	(398,708)
<b>Benefits</b>				
Pension	43,317	245,176	32,064	320,557
Lump Sum	31,167	78,223	26,182	135,572



### 13. Administrative expenses

The total administrative expenses were as follows:

2010/11 £000		2011/12 £000
3,365	Employee Costs	2,995
1,430	Support Services including IT	933
299	Printing and Publications	264
70	External Audit Fees	64
259	Actuarial Fees	114
<b>5,423</b>		<b>4,370</b>

The table above shows a difference of -£6,000 2011/12 (2010/11 £70,000) from the fund account as audit fees are shown in the above table in the year which they relate to whereas in the fund account they are shown on an accruals basis.

### 14. Investment expenses

The total administrative expenses were as follows:

2010/11 £000		2011/12 £000
15,726	Management Fees	12,665
248	Custody Fees	192
61	Performance Monitoring Service	135
124	Actuarial Fees - Investment Consultancy	213
212	Consultancy Fees	254
<b>16,371</b>		<b>13,459</b>

### 15. Transactions with related parties

Pension receipts and payments are transacted using Glasgow City Council's financial systems and the Pension Fund's banking arrangements. Throughout the year the Fund maintains a cash balance for this purpose which is listed as 'cash balances' in the net assets statement. During 2011/12 the amount recharged by Glasgow City Council to the Strathclyde Pension Fund for administration costs was £3.167m (2010/11 £3.365m).

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

### 16. 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 2012 stock with a value of £66.4 million was on loan (£49.4 million as at 31 March 2011).

### 17. Contractual commitments

As at 31 March 2012 the Fund had contractual commitments of £2,133 million within its private equity and global real estate portfolios, of which £856 million remains undrawn.

## **18. 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.

## **19. Statement of Investment Principles**

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

## **20. 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 2012 was £35.1 million (2010/11 £32.4 million). Contributions which are used in their entirety to purchase investments, totalled £11.0 million (2010/11 £10.5 million) whilst sales of investments to settle benefits due to members totalled £8.7 million (2010/11 £9.4 million). The change in market value of investments over the year was £0.5 million (2010/11 £1.7 million).

## **21. Financial instruments**

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair values of financial assets and liabilities by category and net asset statement heading for the year ended 31 March 2012.

Fair value through profit & loss	Loans & receivables	Financial liabilities at amortised cost		Fair value through profit & loss	Loans & receivables	Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
31 March 2011				31 March 2012		
<b>Financial Assets</b>						
4,947,235	0	0	Equities	4,847,605	0	0
53	0	0	Index Linked Securities	63	0	0
			Pooled Investment Vehicles			
1,146,636	0	0	-Unit Trusts	1,007,026	0	0
			Pooled Investments Vehicle			
3,893,376	0	0	- Managed Funds	4,097,089	0	0
396,574	0	0	Derivative Contracts	378,002	0	0
0	486,027	0	Cash	0	572,067	0
0	50,551	0	Other Investment Balances	0	47,712	0
<b>10,383,874</b>	<b>536,578</b>	<b>0</b>		<b>10,329,785</b>	<b>619,779</b>	<b>0</b>
<b>Financial Liabilities</b>						
(397,605)	0	0	Derivatives	(372,661)	0	0
0	0	(46,088)	Other Investment Liabilities	0	0	(43,711)
<b>(397,605)</b>	<b>0</b>	<b>(46,088)</b>		<b>(372,661)</b>	<b>0</b>	<b>(43,711)</b>
<b>9,986,269</b>	<b>536,578</b>	<b>(46,088)</b>	<b>Net Financial Assets</b>	<b>9,957,124</b>	<b>619,779</b>	<b>(43,711)</b>

The table below shows net gains and losses on financial instruments for the year ended 31 March 2012:

31 March 2011		31 March 2012
£000	Financial Assets	£000
701,299	Fair value through profit and loss	(2,247)
(13,263)	Loans and receivables	(6,618)
0	Financial liabilities measured at amortised cost	0
	<b>Financial Liabilities</b>	
0	Fair value through profit and loss	0
0	Loans and receivables	0
(435)	Financial liabilities measured at amortised cost	8,345
<b>687,601</b>	<b>Total</b>	<b>(520)</b>

The following table summarises the carrying values of the Fund's financial assets and liabilities by class of instrument compared with their fair values for the year ended 31 March 2012:

31 March 2011			31 March 2012	
Carrying Value	Fair Value		Carrying Value	Fair Value
£000	£000		£000	£000
		<b>Financial Assets</b>		
8,031,758	10,383,874	Fair value through profit and loss	8,073,211	10,329,785
511,641	536,578	Loans and receivables	597,923	619,779
0	0	Financial liabilities measured at amortised cost	0	0
<b>8,543,399</b>	<b>10,920,452</b>		<b>8,671,134</b>	<b>10,949,564</b>
		<b>Financial Liabilities</b>		
0	(397,605)	Fair value through profit and loss	0	(372,661)
0	0	Loans and receivables	0	0
(35,935)	(46,088)	Financial liabilities measured at amortised cost	(37,337)	(43,711)
<b>(35,935)</b>	<b>(443,693)</b>		<b>(37,337)</b>	<b>(416,372)</b>
<b>8,507,464</b>	<b>10,476,759</b>	<b>Total</b>	<b>8,633,797</b>	<b>10,533,192</b>

The net investment assets of £10,533 million shown in the above table plus property assets £791 million equates to the total net investment assets of £11,324 million shown in the Net Assets Statement.

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

#### Level 1

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

#### Level 2

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

#### Level 3

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

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

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

Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
£000	£000	£000		£000	£000	£000
31 March 2011				31 March 2012		
<b>Financial Assets</b>						
8,676,644	328,797	1,378,433	Fair Value through profit and loss	8,459,778	792,929	1,077,078
536,578	0	0	Loans and receivables	619,779	0	0
0	0	0	Financial liabilities measured at amortised cost	0	0	0
<b>9,213,222</b>	<b>328,797</b>	<b>1,378,433</b>		<b>9,079,557</b>	<b>792,929</b>	<b>1,077,078</b>
<b>Financial Liabilities</b>						
(397,605)	0	0	Fair Value through profit and loss	(372,661)	0	0
0	0	0	Loans and receivables	0	0	0
(46,088)	0	0	Financial liabilities measured at amortised cost	(43,711)	0	0
<b>(443,693)</b>	<b>0</b>	<b>0</b>		<b>(416,372)</b>	<b>0</b>	<b>0</b>
<b>8,769,529</b>	<b>328,797</b>	<b>1,378,433</b>	<b>Net Financial Assets</b>	<b>8,663,185</b>	<b>792,929</b>	<b>1,077,078</b>

## 22. Nature and extent of risks arising from financial instruments

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

### Market risk

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

### Other price risk

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

### Other price risk - sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, the following movements in market price risk are reasonably possible for the 2012/13 reporting period:

Asset Type	Potential Market Movement (+/-)
UK Equities	14.7%
Overseas Equities	14.7%
UK Bonds	4.1%
Index Linked Gilts	7.7%
Cash	0.0%
Property	6.2%
Alternatives	9.7%

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

Asset Type	Value as at 31 March 2012	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
<b>Equities</b>				
<b>UK Equities</b>	757,254	14.7%	868,570	645,938
Private Equity	524,059	9.7%	574,893	473,225
<b>Overseas Equities</b>				
Equities	3,107,118	14.7%	3,563,864	2,650,372
Private Equity	402,413	9.7%	441,447	363,379
<b>Pooled Investment Vehicles</b>				
UK Equities	2,114,343	14.7%	2,425,151	1,803,535
Overseas Equities	1,682,115	14.7%	1,929,386	1,434,844
UK Bonds	1,307,507	4.1%	1,361,115	1,253,899
Real Estate Unit Trust	150	6.2%	159	141
<b>Real Estate Fund of Funds</b>	56,761	6.2%	60,280	53,242
<b>Index Linked Securities</b>	63	7.7%	68	58
<b>Derivatives (Net)</b>	5,341	0%	5,341	5,341
<b>Cash</b>	572,067	0%	572,067	572,067
<b>Other Investment Balances</b>				
Asset Sales	24,846	0%	24,846	24,846
Accrued Income	22,866	0%	22,866	22,866
<b>Investment Liabilities</b>	(43,711)	0%	(43,711)	(43,711)
<b>Total</b>	<b>10,533,192</b>		<b>11,806,342</b>	<b>9,260,042</b>

The prior year comparators for 2010/11 are as follows:

<b>Asset Type</b>	<b>Value as at 31 March 2011</b>	<b>Percentage Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>£000</b>
<b>UK Equities</b>				
Equities	802,440	14.7%	920,399	684,481
Private Equity	498,581	9.7%	546,943	450,219
<b>Overseas Equities</b>				
Equities	3,284,061	14.7%	3,766,818	2,801,304
Private Equity	357,924	9.7%	392,643	323,205
<b>Pooled Investment Vehicles</b>				
UK Equities	1,911,295	14.7%	2,192,255	1,630,335
Overseas Equities	1,695,527	14.7%	1,944,769	1,446,285
UK Bonds	1,433,190	4.1%	1,491,951	1,374,429
Real Estate Unit Trust	0	6.2%	0	0
<b>Real Estate Fund of Funds</b>	4,229	6.2%	4,491	3,967
<b>Index Linked Securities</b>	53	7.7%	57	49
<b>Derivatives (Net)</b>	(1,031)	0%	(1,031)	(1,031)
<b>Cash</b>	486,027	0%	486,027	486,027
<b>Other Investment Balances</b>				
Asset Sales	29,345	0%	29,345	29,345
Accrued Income	21,206	0%	21,206	21,206
<b>Investment Liabilities</b>	(46,088)	0%	(46,088)	(46,088)
<b>Total</b>	<b>10,476,759</b>		<b>11,749,785</b>	<b>9,203,733</b>

#### Interest rate risk

The Fund invests in financial assets with the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2012 and 31 March 2011 is set out below.

<b>Asset Type</b>	<b>As at 31 March 2011</b>	<b>As at 31 March 2012</b>
	<b>£000</b>	<b>£000</b>
Cash Balances - Investments	486,027	572,067

### Interest rate sensitivity analysis

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

Asset Type	As at 31 March 2012	+100 BPS	-100 BPS
	£000	£000	£000
Cash Balances – Investments	572,067	577,788	566,346

Asset Type	As at 31 March 2011	+100 BPS	-100 BPS
	£000	£000	£000
Cash Balances – Investments	486,027	490,887	418,167

### Currency risk

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

### Currency risk – sensitivity analysis

Based on historical analysis of movement in the currencies to which the Fund is exposed, it is considered that a 9.9% fluctuation in currency is reasonable. The table below shows the impact a 9.9% strengthening / weakening of the pound against the various currencies to which the Fund is exposed would have on the net assets available to pay benefits, assuming all other variables, in particular interest rates, remain constant.

Asset Type	As at 31 March 2012	% Change	Value on Increase	Value on Decrease
	£000		£000	£000
<b>Overseas Equity</b>				
Equity	3,107,118	9.9%	3,414,723	2,799,513
Private Equity	402,413	9.9%	442,252	362,574
<b>Pooled Investment Vehicles</b>				
Overseas Equities	1,682,115	9.9%	1,848,644	1,515,586
Real Estate Unit Trusts	150	9.9%	165	135
<b>Real Estate Fund of Funds</b>	56,761	9.9%	62,380	51,142
<b>Index Linked Securities</b>	58	9.9%	64	52
<b>Derivatives</b>	41	9.9%	45	37
<b>Other Investment Balances</b>	9,045	9.9%	9,940	8,150
<b>Total</b>	<b>5,257,701</b>		<b>5,778,213</b>	<b>4,737,189</b>

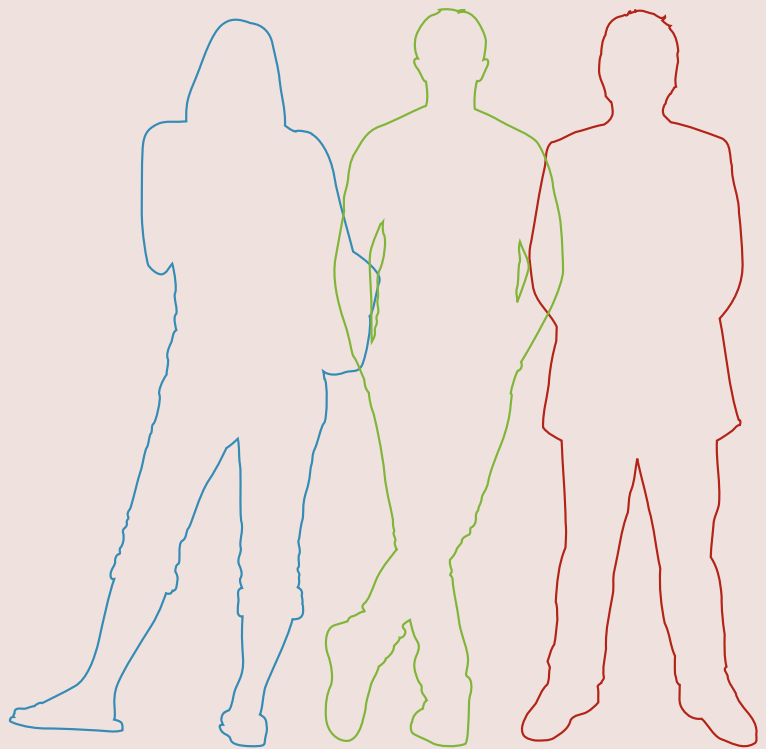


**Credit Risk**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

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



## 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 LLP  
Ayrshire Housing  
Ayrshire North Community Housing Organisation Ltd  
Ayrshire Valuation Joint Board

### B

Balfour Beatty Workplace Limited  
BAM Construct UK Ltd  
Bridgeton Calton And Dalrnarnock 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  
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 (T/A Geeza Break)  
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  
(Dalbeth & St Euphrasia's)

## 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 School of Art  
Glasgow Women's Aid  
Good Shepherd Centre  
(Dalbeth & St Euphrasia's)  
Govan Law Centre  
Govanhill Housing Association  
Greater Easterhouse Women's Aid  
Greenspace Scotland

## H

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

## 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 (Ayr) 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  
Lovell

## M

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

## P

Parkhead Citizens Advice Bureau  
Parkhead Housing Association Ltd  
Paths For All Partnership  
Pensioners Action Group East

## 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  
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  
South West Scotland Community Justice Authority  
SportScotland  
St Columba's School Limited  
St Philip's Approved School  
Stow College  
Strathclyde Fire & Rescue  
Strathclyde Partnership for Transport  
Strathclyde Police Authority  
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  
Tollcross Housing Association  
Town Centre Activities Limited

## U

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

## V

Visit Scotland (Ayrshire)  
Visit Scotland (Glasgow)  
Voluntary 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

## 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 4g) at: <http://www.glasgow.gov.uk/councillorsandcommittees/Agenda.asp?meetingid=10267>
- 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 2011 valuation report for the No.3 Fund is available at: <http://www.spfo.org.uk/Governance/Reports/ActuarialValuation/> and the 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 03	Mar 04	Mar 05	Mar 06	Mar 07	Mar 08	Mar 09	Mar 10	Mar 11	Mar 12	3Yr Annualised Year	5Yr Annualised Year	10 Yr Annualised Year
Retail Prices	3.1	2.6	3.2	2.4	4.8	3.8	-0.4	4.4	5.3	3.6	4.5	3.3	3.3
Consumer Prices	1.5	1.3	1.7	1.9	2.9	2.4	3.0	3.2	4.2	3.5	3.6	3.3	2.6
Avg. Earnings	4.5	4.6	3.8	5.2	5.0	3.8	-2.1	6.1	2.0	0.2	2.7	2.0	3.3
<b>Fund Return</b>	<b>-18.1</b>	<b>24.7</b>	<b>12.1</b>	<b>24.7</b>	<b>7.7</b>	<b>2.4</b>	<b>-12.4</b>	<b>32.8</b>	<b>8.8</b>	<b>10.1</b>	<b>16.7</b>	<b>7.4</b>	<b>8.2</b>
<b>Benchmark</b>	<b>-17.9</b>	<b>24.8</b>	<b>11.9</b>	<b>25.4</b>	<b>7.3</b>	<b>-0.3</b>	<b>-14.1</b>	<b>26.3</b>	<b>7.5</b>	<b>2.3</b>	<b>11.6</b>	<b>3.5</b>	<b>6.3</b>
WM Average	-18.5	22.6	11.6	24.2	7.0	-1.0	-18.1	30.3	8.1	1.0	14.3	2.8	5.8

The No. 3 Fund had no borrowings outstanding at the end of the accounting period.

# 2011 VALUATION REPORT



## Executive summary

We have carried out an actuarial valuation of the Strathclyde Pension Fund - No 3 Fund ('the Fund') as at 31 March 2011. The results are presented in this report and are briefly summarised below.

### Funding position

The table below summarises the financial position of the Fund at 31 March 2011 in respect of benefits earned by members up to this date. Also shown for reference are the corresponding figures from 2008.

Past Service Position	2008 (£m)	2011 (£m)
Past Service Liabilities	116.8	143.4
Market Value of Assets	102.5	127.8
Surplus / (Deficit)	(14.3)	(15.6)
<b>Funding Level</b>	<b>88%</b>	<b>89%</b>

The results show that the Fund had not met its objective of holding sufficient assets to meet the estimated current cost of past service benefits at 31 March 2011. The funding level has risen from 88% at the previous valuation at 31 March 2008 to 89% at this valuation. However, the deficit has increased from £14.3m at 31 March 2008 to £15.6m at 31 March 2011.

### Contribution rates

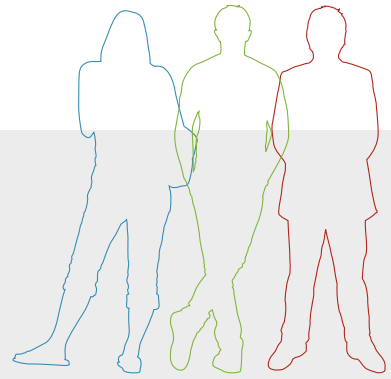
The table below summarises the average employer contribution rate that would be required, based on this triennial valuation. Also shown for reference are the corresponding figures from 2008.

Contribution Rates	2008 (% of pay)	2011 (% of pay)
Future Service Rate	29.6%	33.4%
Past Service Adjustment	£2.5m* p.a.	£2.6m p.a.
<b>Total (Common) Contribution Rate</b>	<b>29.6% plus £2.5m* p.a.</b>	<b>33.4% plus £2.6m p.a.</b>

\* Increasing by 4% per annum.

The contribution rate for the Fund at 31 March 2011 is 33.4% of pay plus £2.6m p.a. This comprises the anticipated cost of new benefits being earned by members in future (33.4%) plus the additional contributions required to repay the deficit over a 6.2 year period (£2.6m p.a.). This contribution rate is in addition to the contributions that will be made by members.

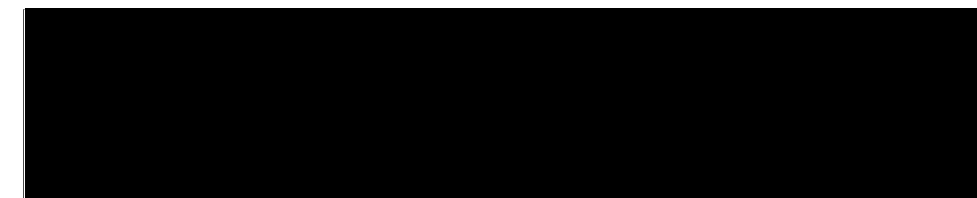
The minimum contributions to be paid by the employer from 1 April 2012 to 31 March 2015 are shown in the Rates and Adjustments Certificate in **Appendix H**.



### Assumptions

Our calculations explicitly allow for the change in benefit indexation from RPI to CPI as announced in the Emergency Budget of June 2010. No allowance has been made for the possible effect on the Fund of the outcomes of the current review of public sector pensions as these are still uncertain at the time of writing.

The results of the valuation are highly sensitive to the actuarial assumptions we have made about the future. If actual future demographic and economic experience does not match these assumptions, the financial position of the Fund could improve or deteriorate materially. This is precisely why the position of the Fund is monitored via regular valuations.



Lorna Tonner  
Fellow of the Institute and Faculty of Actuaries  
For and on behalf of Hymans Robertson LLP  
30 March 2012

Catherine McFadyen  
Fellow of the Institute and Faculty of Actuaries  
For and on behalf of Hymans Robertson LLP  
30 March 2012

## NO. 3 FUND FINANCIAL STATEMENTS

2010/11 £000	STRATHCLYDE PENSION FUND NO.3 FUND ACCOUNT	NOTE	£000	2011/12 £000
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME</b>				
	<b>Contributions receivable</b>			
	From employers			
(1,586)	- normal		(1,540)	
<u>(2,500)</u>	- augmentation		<u>(2,600)</u>	
(4,086)				(4,140)
	From members			
(357)	- normal			(345)
	<b>Benefits payable</b>			
3,673	- pensions		3,805	
948	- commutation of pension and lump sum retirement benefits		1,093	
<u>114</u>	- lump sum death benefits		<u>135</u>	
4,735				5,033
	<b>Payments to and on account of leavers</b>			
345	Individual transfers out to other schemes			170
28	Administrative expenses	11		65
<b>665</b>	<b>Net (addition) / reductions from dealings with members</b>			<b>783</b>
<b>RETURNS ON INVESTMENTS</b>				
	<b>Investment income</b>			
(872)	- dividends from equities		(664)	
(55)	- income from index linked securities		(313)	
(1,194)	- income from pooled investment vehicles		(899)	
(30)	- interest on cash deposits		(7)	
<u>(0)</u>	- other		<u>(0)</u>	
(2,151)				(1,883)
(8,252)	<b>Change in market value of investments</b>			(10,661)
7	<b>Taxation</b>			7
23	Investment management expenses	12		31
<b>(10,373)</b>	<b>Net returns on investments</b>			<b>(12,506)</b>
<b>(9,708)</b>	<b>Net (increase) / decrease in the Fund during the year</b>			<b>(11,723)</b>
(118,109)	Add: opening net assets of the Scheme			(127,817)
<b>(127,817)</b>	<b>Closing net assets of the Scheme</b>			<b>(139,540)</b>



## NO. 3 FUND NET ASSETS STATEMENT AS AT 31 MARCH 2012

2010/11 £000		NOTE	£000	2011/12 £000
<b>INVESTMENT ASSETS</b>				
24,589	Equities (including convertible shares)	6,9	22,406	
22,984	Index linked securities – public sector	6,9	37,035	
63,829	Pooled investment vehicles – unit trusts	6,9	71,224	
6,281	Pooled investment vehicles – Real estate unit trusts	6,9	4,792	
17	Derivative contracts	6,9	12	
2,050	Cash deposits	6,9	875	
4,605	Other investment balances	6,9	437	
<u>124,355</u>				136,781
<b>INVESTMENT ASSETS</b>				
(17)	Derivative contracts	6,9	(12)	
<u>(119)</u>	Creditors	6,9	(35)	
(136)				(47)
<b>CURRENT ASSETS</b>				
208	Contributions due from employer		237	
3,388	Cash balances		2,619	
<u>33</u>	Other current assets		46	
3,629				2,902
<b>CURRENT LIABILITIES</b>				
0	Unpaid benefits		(8)	
<u>(31)</u>	Other current liabilities		(88)	
(31)				(96)
<b>127,817</b>	<b>Net Assets</b>			<b>139,540</b>

The unaudited accounts were issued on 26 June 2012 and the audited accounts were authorised for issue on 26 September 2012.

**Lynn Brown, MA (Hons) CPFA**  
Executive Director of Financial Services  
26 September 2012.

## NO. 3 FUND NOTES TO THE ACCOUNTS 11 / 12

### 1. General description of the Fund and its membership

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

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

The No.3 Fund is a sub-fund of the Strathclyde Pension Fund. The Fund was established in February 1993 in order to preserve the pensionable benefits of those remaining employees (1,362) of Strathclyde Buses who had transferred from the service of Strathclyde Regional Council upon the implementation of the Transport Act 1985 in October 1986. The value of those employees' benefits and the assets in respect of them were actuarially assessed by Hymans Robertson, the Fund's actuaries, when the Fund was established. The No.3 Fund is an "admission agreement fund" as defined within the regulations and was established as a closed fund - i.e. it is not open to new membership.

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

### 2. Basis of preparation

The Financial Statements have been prepared in accordance with the guidelines set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The Financial Statements summarise the transactions of the Fund during the year and the net assets at the year end. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 5 of these accounts.

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

### 3. Summary of significant accounting policies

#### FUND ACCOUNT

##### • Contributions income

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

##### • Transfers to other schemes

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

##### • Investment income

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

- **Benefits payable**

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

- **Taxation**

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

- **Administrative expenses**

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

- **Investment management expenses**

All investment management expenses are accounted for on an accruals basis. External investment manager fees are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. In instances where an investment manager's fee note has not been received by the balance sheet date, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2011/12 £0.023m of fees is based on such estimates (2010/11 £0.010m). The cost of obtaining investment advice from external consultants is included in investment management charges. The cost of the council's in-house Fund management team are charged direct to the Fund and a proportion of the council's costs representing management time spent by officers on investment management is also charged to the Fund.

## **NET ASSETS STATEMENT**

- **Financial assets**

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

- **Valuation of investments**

Quoted investments are valued at closing prices. These prices may be the last trade prices or bid prices depending on the convention of the stock exchange or other market on which they are quoted. Overseas investments and cash are stated in sterling using exchange rates as at close of business on 31 March 2012. Unquoted holdings in private equity funds have been included at the Fund managers' valuation adjusted for cash movements since the last valuation date. Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published or if single priced at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is invested in the Fund, net of applicable withholding tax.

- **Foreign currency transactions**

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

- **Derivatives**

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

• **Cash and cash equivalents**

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

• **Liabilities**

The Fund recognises financial liabilities at fair value at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

The Financial Statements do not take account of obligations to pay pensions and benefits which fall due after the end of the year.

The actuarial position of the scheme, which does take account of such obligations, is summarised below and fully reported elsewhere. These Financial Statements should be read in conjunction with that information.

• **Actuarial present value of promised retirement benefits**

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

**4. Actuarial position of the Fund**

In accordance with Regulation 32 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 an actuarial valuation of the Strathclyde Pension Fund - Fund No.3 was carried out as at 31 March 2011. Results of the valuation were confirmed during March 2012.

The funding level as at 31 March 2011 was 89% (88% at 31 March 2008) and there was a funding shortfall of £15.6 million (£14.3 million at 31 March 2008):

	<b>£million</b>
Fund Assets	127.8
Fund Liabilities	(143.4)
<b>Deficit</b>	<b>(15.6)</b>

Liabilities have been valued using a discount rate based on the better of the gilts nominal yield curve or swaps equivalent. This is consistent with the de-risking objectives of the Fund.

The Fund still holds a substantial growth portfolio but the discount rate does not incorporate any out performance assumption from this.

The deficit funding position indicates that the Fund’s objectives were not fully met at the valuation date.

The Funding Policy seeks to ensure that the funding objectives are met over the remaining life of the Fund. .

• **Funding policy**

On completion of the actuarial valuation as at 31 March 2011 the Fund published a revised Funding Strategy Statement in accordance with regulation 31 of the Local Government Pension Scheme (Administration)(Scotland) Regulations 2008.

The actuary’s report and the Funding Strategy Statement are available from [www.spfo.org.uk](http://www.spfo.org.uk) or the Strathclyde Pension Fund Office, Capella Building, 6th Floor, 60 York Street, Glasgow G2 8JX.

• **Funding projection as at 31 March 2011**

An intervaluation monitoring report provided by the Fund’s actuary as at 31 March 2012 recorded a projected funding position of 81%.

The next formal funding valuation will be carried out as at 31 March 2014 with results available by 31 March 2015.

• **Funding method**

At the 2011 actuarial valuation and for previous valuations a funding method was used that identifies separately the expected cost of members’ benefits in respect of:

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

To determine the employer’s contribution requirement for future service the actuary assesses the cost of future service benefits over the expected remaining period of contributory membership of employee members, taking account of expected future salary increases.

The contribution rate required to meet the expected cost of future service benefits is then derived as this value less expected member contributions expressed as a percentage of the value of members’ pensionable pay over their expected remaining period of contributory membership. This is known as the “Attained Age method”.

The total contribution rate payable is the cost of future benefit accrual, increased by an amount calculated to bring the funding level back to 100% - the “past service adjustment”.

At the 2011 valuation the past service adjustment was based on repaying the funding deficit over 6.2 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 2011 is as follows:

	<b>Pensionable Payroll</b>
<b>31 March 2011</b>	%
<b>Total Future Service Cost</b>	<b>38.8</b>
Less Employee Contributions	(5.9)
Add Expenses	0.5
<b>Net Employer Future Service Cost</b>	<b>33.4</b>
Past Service Adjustment	£2.6m p.a.
<b>Total Employer Contribution Rate</b>	<b>33.4%</b> <b>plus £2.6m p.a.</b>

The total contributions payable for the period 1 April 2012 to 31 March 2015 are shown in the table below:

<b>Year to</b>	<b>Rate (as % of pensionable payroll)</b>	<b>Additional Monetary Payments £000</b>
31 March 2013	33.4	2,600
31 March 2014	33.4	2,600
31 March 2015	33.4	2,600

## 5. Actuarial assumptions

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

31 March 2011 Assumption	The better of	
Price inflation (CPI)	Gilts implied inflation curve -0.8% p.a., with a floor of zero	Swaps implied inflation curve -0.8% p.a., with a floor of zero
Pay increases*	Gilts implied inflation curve +0.375% p.a	Swaps implied inflation curve +0.375% p.a
Funding basis discount rate (pre-retirement)	Gilts nominal yield curve	Swaps nominal yield curve
Funding basis discount rate (post-retirement)	Gilts nominal yield curve	Swaps nominal yield curve

\*Plus an allowance for promotional pay increases.

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

For this valuation, the actuary adopted assumptions which give the following sample average future life expectancies for members (2008 figures included for comparison):

Assumed life expectancy at age 65	Actives & Deferreds		Current Pensioners	
	Male	Female	Male	Female
2008 Valuation	21.1	24.0	20.3	23.2
2011 Valuation	22.3	24.7	21.0	23.4

Further details of the mortality assumptions adopted for the 2011 valuation can be found in Appendix E to the valuation report. Note that the figures for actives and deferred/pensioners assume that they are aged 55 at the valuation date.

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

### • Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is estimated at £119 million as at 31 March 2012 (£105 million as at 31 March 2011). 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 2011.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose.

## 6. Investments

### Statement of Movement in Investments

	Opening Market value £000	Purchases and Derivative Payment £000	Sales and Derivative Receipts £000	Other Movements £000	Closing Market Value £000
<b>Investment Assets</b>					
Equities (including convertible shares)	24,589	7,300	(5,007)	(4,476)	22,406
Index Linked Securities Public Sector	22,984	7,375		6,676	37,035
Pooled Investment Vehicles - Unit					
Trusts	63,829	16,890	(16,310)	6,815	71,224
Pooled Investment Vehicles - Real					
Estate Unit Trusts	6,281		(1,525)	36	4,792
Derivative Contracts	17			(5)	12
Cash Deposits	2,050			(1,175)	875
Other Investment Balances	4,605			(4,168)	437
<b>Total Assets</b>	<b>124,355</b>	<b>31,565</b>	<b>(22,842)</b>	<b>3,703</b>	<b>136,781</b>
<b>Investment Liabilities</b>					
Derivative Contracts	(17)			5	(12)
Creditors	(119)			84	(35)
<b>Total Liabilities</b>	<b>(136)</b>	<b>0</b>	<b>0</b>	<b>89</b>	<b>(47)</b>
<b>Net Investment Assets</b>	<b>124,219</b>	<b>31,565</b>	<b>(22,842)</b>	<b>3,792</b>	<b>136,734</b>

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

#### • Transaction costs

Transaction costs are included in the cost of purchases and sale proceeds and are charged directly to the Fund. Transaction costs such as fees, commissions and stamp duty incurred during the year amounted to £30,000 (£57,000 in 2010/11).

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 2012 are shown in the table below:

<b>Derivatives - Forward Foreign Exchange</b>				
<b>Contract</b>	<b>Settlement Date</b>	<b>Asset £000</b>	<b>Liability £000</b>	<b>Net £000</b>
Various Currency Forwards	1 Month	12	(12)	0
<b>Contracts Held at 31 March 2012</b>		<b>12</b>	<b>(12)</b>	<b>0</b>

The above table summarises the contracts held by maturity date - 2 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.

## 7. Fund management

The investment assets of the Fund are externally managed. Investment management arrangements as at 31 March 2012 are shown below:

Asset Class	Fund Manager	% managed
Liability Driven Investment Strategy	Legal and General	27.5
Multi Asset – Absolute Return	Ruffer	16.7
Global Equity and Property	Schroder	28.4
Government Bonds	Schroder	27.4

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 2012 was £137 million.

## 8. Notifiable holdings

As at 31 March 2012 the Fund had holdings exceeding 5% of the total value of net assets in:

	£000	%
Legal and General HD Active Corp (All Stocks)	25,200	18.1
Ruffer Absolute Return Fund	22,900	16.4
1.25% Index Linked Government Bonds Nov 27	12,500	9.0
1.25% Index Linked Government Bonds Nov 32	12,300	8.8
Legal and General – Enhanced Matching Fund 2035 RPI	8,800	6.3
0.625% Index Linked Government Bonds Nov 42	7,200	5.2

## 9. Analysis of investments

Investments can be further analysed as follows:

	Quoted £000	Unquoted £000	Other £000	Total £000
<b>Assets</b>				
Equities (including convertible shares)	22,406	0	0	22,406
Index Linked Securities	37,035	0	0	37,035
Pooled Investment Vehicles – Unit Trusts	3,835	67,389	0	71,224
Pooled Investment Vehicles – Real Estate				
Unit Trusts	0	4,792	0	4,792
Derivative Contracts	0	12	0	12
Cash Deposits	0	0	875	875
Other Investment Balances	0	0	437	437
<b>Total Assets</b>	<b>63,276</b>	<b>72,193</b>	<b>1,312</b>	<b>136,781</b>
<b>Liabilities</b>				
Derivative Contracts	0	(12)	0	(12)
Creditors	0	(35)	0	(35)
<b>Total Liabilities</b>	<b>0</b>	<b>(47)</b>	<b>0</b>	<b>(47)</b>
<b>Net Investment Assets</b>	<b>63,276</b>	<b>72,146</b>	<b>1,312</b>	<b>136,734</b>



	UK £000	Overseas £000	Total £000
<b>Assets</b>			
Equities (including convertible shares)	15,496	6,910	22,406
Index Linked Securities Public Sector	37,035	0	37,035
Pooled Investment Vehicles - Unit Trusts	61,204	10,020	71,224
Pooled Investment Vehicles - Real Estate			
Unit Trusts	4,792	0	4,792
Derivative Contracts	12	0	12
Cash Deposits	875	0	875
Other Investment Balances	401	36	437
<b>Total Assets</b>	<b>119,815</b>	<b>16,966</b>	<b>136,781</b>
<b>Liabilities</b>			
Derivative Contracts	(12)	0	(12)
Creditors	(35)	0	(35)
<b>Total Liabilities</b>	<b>(47)</b>	<b>0</b>	<b>(47)</b>
<b>Net Investment Assets</b>	<b>119,768</b>	<b>16,966</b>	<b>136,734</b>

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

#### 10. Contributions and benefits

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

#### 11. Administrative expenses

The total administrative expenses were as follows:

2010/11 £000		2011/12 £000
28	Employee Costs	28
0	Actuarial Fees	37
<b>28</b>		<b>65</b>

#### 12. Investment expenses

The total administrative expenses were as follows:

2010/11 £000		2011/12 £000
23	Management Fees	31
<b>23</b>		<b>31</b>

#### 13. Transactions with related parties

Pension receipts and payments are transacted using Glasgow City Council's financial systems and the Pension Funds banking arrangements. Throughout the year the Fund maintains a cash balance for this purpose which is listed as 'cash balances' in the net assets statement. During 2011/12 the amount recharged by Glasgow City Council to the Strathclyde Pension Fund for administration costs was £0.028m (2010/11 £0.028m)

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

#### 14. 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 2012 stock with a market value of £230,000 was on loan (£300,000 as at 31 March 2011).

#### 15. Contractual commitments

The Fund had no contractual commitments at the year end.

#### 16. Contingent assets and liabilities

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

#### 17. Statement of Investment Principles

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

#### 18. Financial instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair values of financial assets and liabilities by category and net asset statement heading for the year ended 31 March 2012.

Fair value through profit & loss	Loans & receivables	Financial liabilities at amortised cost		Fair value through profit & loss	Loans & receivables	Loans & liabilities at amortised cost
£000	£000	£000		£000	£000	£000
31 March 2011				31 March 2012		
<b>Financial Assets</b>						
24,589	0	0	Equities	22,406	0	0
22,984	0	0	Index Linked Securities	37,035	0	0
			Pooled Investment Vehicles			
63,829	0	0	-Unit Trusts	71,224	0	0
			Pooled investment Vehicles -			
6,281	0	0	Real Estate Unit Trusts	4,792	0	0
17	0	0	Derivative Contracts	12	0	0
0	2,050	0	Cash	0	875	0
0	4,605	0	Other Investment Balances	0	437	0
<b>117,700</b>	<b>6,655</b>	<b>0</b>		<b>135,469</b>	<b>1,312</b>	<b>0</b>
<b>Financial Liabilities</b>						
(17)	0	0	Derivatives	(12)	0	0
0	0	(119)	Other Investment Liabilities	0	0	(35)
<b>(17)</b>	<b>0</b>	<b>(119)</b>		<b>(12)</b>	<b>0</b>	<b>(35)</b>
<b>117,683</b>	<b>6,655</b>	<b>(119)</b>	<b>Net Financial Assets</b>	<b>135,457</b>	<b>1,312</b>	<b>(35)</b>

The table below shows net gains and losses on financial instruments for the year ended 31 March 2012:

31 March 2011	31 March 2012		£000
		<b>Financial Assets</b>	
8,213		Fair value through profit and loss	10,644
39		Loans and receivables	17
0		Financial liabilities measured at amortised cost	0
		<b>Financial Liabilities</b>	
0		Fair value through profit and loss	0
0		Loans and receivables	0
0		Financial liabilities measured at amortised cost	0
<b>8,252</b>	<b>Total</b>		<b>10,661</b>

The following table summarises the carrying values of the Fund's financial assets and liabilities by class of instrument compared with their fair values for the year ended 31 March 2012:

31 March 2011			31 March 2012	
Carrying Value £000	Fair Value £000		Carrying Value £000	Fair Value £000
		<b>Financial Assets</b>		
95,483	117,700	Fair value through profit and loss	103,474	135,469
6,398	6,655	Loans and receivables	998	1,312
0	0	Financial liabilities measured at amortised cost	0	0
<b>101,881</b>	<b>124,355</b>		<b>104,472</b>	<b>136,781</b>
		<b>Financial Liabilities</b>		
0	(17)	Fair value through profit and loss	0	(12)
0	0	Loans and receivables	0	0
(119)	(119)	Financial liabilities measured at amortised cost	(35)	(35)
(119)	(136)		(35)	(47)
<b>101,762</b>	<b>124,219</b>	<b>Total</b>	<b>104,437</b>	<b>136,734</b>

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

#### Level 1

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

#### Level 2

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

### Level 3

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

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

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

Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
£000	£000	£000		£000	£000	£000
31 March 2011				31 March 2012		
			<b>Financial Assets</b>			
53,883	60,063	3,754	Fair Value through profit and loss	92,168	43,301	0
6,655	0	0	Loans and receivables	1,312	0	0
			Financial liabilities measured at			
0	0	0	amortised cost	0	0	0
<b>60,538</b>	<b>60,063</b>	<b>3,754</b>		<b>93,480</b>	<b>43,301</b>	<b>0</b>
			<b>Financial Liabilities</b>			
(17)	0	0	Fair Value through profit and loss	(12)	0	0
0	0	0	Loans and receivables	0	0	0
			Financial liabilities measured at			
(119)	0	0	amortised cost	(35)	0	0
<b>(136)</b>	<b>0</b>	<b>0</b>		<b>(47)</b>	<b>0</b>	<b>0</b>
<b>60,402</b>	<b>60,063</b>	<b>3,754</b>	<b>Net Financial Assets</b>	<b>93,433</b>	<b>43,301</b>	<b>0</b>

### 19. Nature and extent of risks arising from financial instruments

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

#### Market risks

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

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

### Other price risk

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

### Other price risk - sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, the following movements in market price risk are reasonably possible for the 2012/13 reporting period:

Asset Type	Potential Market Movement (+/-)
UK Equities	14.7%
Overseas Equities	14.7%
UK Bonds	4.1%
Index Linked Gilts	7.7%
Cash	0.0%
Property	6.2%

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

Asset Type	Value as at 31 March 2012	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
<b>UK Equities</b>	15,496	14.7%	17,774	13,218
<b>Overseas Equities</b>	6,910	14.7%	7,926	5,894
<b>Pooled Investment Vehicles</b>				
UK Equities	58,128	14.7%	66,673	49,583
Overseas Equities	10,020	14.7%	11,493	8,547
UK Bonds	3,076	4.1%	3,202	2,950
Real Estate Unit Trust	4,792	6.2%	5,089	4,495
<b>Index Linked Securities</b>	37,035	7.7%	39,887	34,183
<b>Derivatives (Net)</b>	0	0.0%	0	0
<b>Cash</b>	875	0.0%	875	875
<b>Other Investment Balances</b>				
Asset Sales	123	0.0%	123	123
Accrued Income	314	0.0%	314	314
<b>Investment Liabilities</b>	(35)	0.0%	(35)	(35)
<b>Total</b>	<b>136,734</b>		<b>153,321</b>	<b>120,147</b>

The prior year comparators for 2010/11 are as follows:

Asset Type	Value as at 31 March 2011	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
<b>UK Equities</b>	13,862	14.7%	15,900	11,824
<b>Overseas Equities</b>	10,727	14.7%	12,304	9,150
<b>Pooled Investment Vehicles</b>				
UK Equities	54,496	14.7%	62,507	46,485
Overseas Equities	6,544	14.7%	7,506	5,582
UK Bonds	2,789	4.1%	2,903	2,675
Real Estate Unit Trust	6,281	6.2%	6,670	5,892
<b>Index Linked Securities</b>	22,984	7.7%	24,754	21,214
<b>Derivatives (Net)</b>	0	0.0%	0	0
<b>Cash</b>	2,050	0.0%	2,050	2,050
<b>Other Investment Balances</b>				
Asset Sales	4,348	0.0%	4,348	4,348
Accrued Income	257	0.0%	257	257
<b>Investment Liabilities</b>	(119)	0.0%	(119)	(119)
<b>Total</b>	<b>124,219</b>		<b>139,080</b>	<b>109,358</b>

#### Interest rate risk

The Fund invests in financial assets with the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's direct exposure to interest rate movements as at 31 March 2012 and 31 March 2011 is set out below.

Asset Type	As at 31 March 2011	As at 31 March 2012
	£000	£000
Cash Balances - Investments	2,050	875

#### Interest rate sensitivity analysis

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

Asset Type	As at 31 March 2012	+100 BPS	-100 BPS
	£000	£000	£000
Cash Balances - Investments	875	884	866

Asset Type	As at 31 March 2011	+100 BPS	-100 BPS
	£000	£000	£000
Cash Balances - Investments	£2,050	2,071	2,030

## Currency risk

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

### Currency risk - sensitivity analysis

Based on historical analysis of movement in the currencies to which the Fund is exposed, it is considered that a 10.4% fluctuation in currency is reasonable.

The table below shows the impact a 10.4% strengthening / weakening of the pound against the various currencies to which the Fund is exposed would have on the net assets available to pay benefits, assuming all other variables, in particular interest rates, remain constant.

Asset Type	As at 31 March 2012	% Change	Value on Increase	Value on Decrease
	£000		£000	£000
Overseas Equity	6,910	10.4%	7,629	6,191
Pooled Investment Vehicles				
Overseas Equities	10,020	10.4%	11,062	8,978
<b>Other Investment Balances</b>	36	0%	36	36
<b>Total</b>	<b>16,966</b>		<b>18,727</b>	<b>15,205</b>

## Credit risk

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

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

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GLASGOW CITY COUNCIL AS ADMINISTERING BODY FOR THE STRATHCLYDE PENSION FUND AND THE ACCOUNTS COMMISSION FOR SCOTLAND

I certify that I have audited the financial statements of the Strathclyde Pension Fund for the year ended 31 March 2012 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 2011/12 (the 2011/12 Code).

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

## **Respective responsibilities of the Responsible Financial Officer and auditor**

As explained more fully in the Statement of Responsibilities, 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 2011/12 Code of the financial transactions of the fund during the year ended 31 March 2012, 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 2011/12 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.

### **Opinion on other prescribed matters**

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

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

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

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

I have nothing to report in respect of these matters.

Gillian Woolman MA FCA  
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## Contacts

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Delivering excellence in Scotland's public sector pensions

Ref: 2012 Annual Report 11/12