

STRATHCLYDE PENSION FUND
ANNUAL REPORT AND
FINANCIAL STATEMENTS
For the year ended 31 March 2014



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Foreword



This was the fifth consecutive year of investment growth. As a result, closing net assets of the Fund achieved another new high of £13.9 billion as at 31st March 2014, an increase of nearly £900 million in the year.

On Sept. 15th 2008, investment bank Lehman Brothers filed for bankruptcy, setting off turmoil in financial markets worldwide. As we passed the 5-year anniversary of that momentous period during 2013/14, it was worth pausing for thought on how the world had changed in those intervening years. Many mighty institutions had simply disappeared. Firstly, Lehman itself and several of its peers. Then, as the crisis spread from Wall St. to High St., more familiar names which had seemed part of the fabric of everyday life. Remember Woolworths?

Those who have survived that turbulent period have had to become leaner or stronger. In many ways the Strathclyde Pension Fund has become both. During the last year the Fund's asset base continued to strengthen. Total return on investments for the year was 7.0%.

This was the fifth consecutive year of investment growth. As a result, closing net assets of the Fund achieved another new high of £13.9 billion as at 31st March 2014, an increase of nearly £900 million in the year. Investment income, including dividends, interest payments and rent comprised £183 million of this. The remainder was market gains.

Many local authorities and other employers have adapted to the current period of austerity by reducing their workforces. As a result, employee membership of the Fund fell quite dramatically in the early years of the financial crisis. During 2013/14, there were some signs that this process had stabilised as contributions from members showed a modest increase from £108 million in 2012/13 to £110 million this year, a reversal of the previous trend.

Given that much of the workforce reduction has been achieved through voluntary redundancy and early retirement, it is no surprise that the pension payroll continued to grow. Pensions paid in 2012/13 of £347 million grew to £371 million this year.

Lump sum benefits paid at retirement reduced this year from £94 million to £84 million, again suggesting that the pace of retirements is now abating.

For the first time in very many years, total member payments exceeded contributions received. The net figure of £2 million is

small in the context of the Fund, and particularly the £183 million of income available from investments. It may, though, be significant as a symbol of the Fund's changing dynamics.

Lastly, the Fund's liabilities have also been affected by the economic events of the last years. The quantum of expected pensions payments has not changed significantly, but the projected cost - based on current gilt yields - has increased relentlessly. The estimated actuarial value of the liabilities was £17.5 billion at the year end. The funding position overall is expected to have improved over the year, but this will be fully assessed in the actuarial valuation which will be carried out over the next months.

Looking ahead to 2014/15, the main event for all in Glasgow and Scotland over the summer will be the XXth Commonwealth Games. By analogy, the dominant theme for all connected with Strathclyde Pension Fund will be to get set, on their marks, and ready to GO when the starting pistol sounds next April for LGPS 2015, the new career average pension scheme.

Lynn Brown MA (Hons) CPFA
Executive Director of Financial Services and Deputy Chief Executive
Glasgow City Council

The Fund's main financial statements are included in this annual report and are summarised as follows.

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.

Statement of Responsibilities

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 and Deputy Chief Executive;
- 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).

The Executive Director of Financial Services and Deputy Chief Executive's responsibilities

The Executive Director of Financial Services and Deputy Chief Executive 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 and Deputy Chief Executive 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 and Deputy Chief Executive 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 2014 and the income and expenditure for the year then ended.

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Lynn Brown MA (Hons) CPFA

Executive Director of Financial Services and Deputy Chief Executive

September 2014

About The Fund

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

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

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

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

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

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

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/index.aspx?articleid=9412>

Membership

Over the 12 months to 31 March 2014 the Fund's total membership grew from 197,473 to 204,844.

This includes:

- 87,197 employee members (81,994 in 2013)
- 47,243 deferred members (46,622 in 2013)
- 70,404 pensioners (68,857 in 2013)

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

Glasgow carries out its role as Administering Authority via:

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

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. From 1 April 2015 the Police and Fire pension schemes for uniformed staff will be administered by the Scottish Public Pensions Agency.

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 and Deputy Chief Executive 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/index.aspx?articleid=9402>

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/index.aspx?articleid=2952>

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, can be found on pages 82-83.

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 can be found on Pages 84-87.

Councillor Paul Rooney

Convener, Strathclyde Pension Fund Committee

George Black

Chief Executive, Glasgow City Council

Strathclyde Pension Fund Committee

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

The council and the committee recognise that they have fiduciary duties and responsibilities towards pension scheme members, participating employers and local taxpayers that are analogous to those holding the office of trustee in the private sector. The Committee is comprised of elected members of Glasgow City Council. Its membership as at 31st March 2014 is shown below.

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

Current committee membership is displayed on our website at: <http://www.spfo.org.uk/index.aspx?articleid=2410>



Cllr Paul Rooney
(Convener)



Bailie Philip Braat



Cllr Elizabeth Cameron



Cllr Stephen Curran



Cllr Norman MacLeod



Bailie Allan Stewart



Cllr Keiran Wild



Cllr Pauline McKeever

Training Policy and Practice

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

Policy Statement

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

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

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

Practice Statement

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

Investment Managers

At 31st March 2014



OLDFIELD PARTNERS LLP

PANTHEON



PIMCO



VERITAS ASSET MANAGEMENT
REAL RETURN INVESTING

Other Service Providers



G·E·S



HYMANS ROBERTSON

On the pulse of
the property world



Northern Trust



The WM Company
A State Street business

Risk Register

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

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

The top 6 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 2014 were as follows:

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

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

Representative Forum

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

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

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

During 2013/14 the Forum's membership was as follows.

Cllr Paul Rooney, Glasgow City Council (Convener)	Barbara Gifford, Police Scotland
Cllr Philip Braat, Glasgow City Council (Vice-Convener)	Janet Thomson, Glasgow Clyde College
Stephen West, West Dunbartonshire Council	Fiona Saunders, University of Strathclyde
Ian McAlpine, East Renfrewshire Council	Martin Booth, Glasgow Life
Eileen Howatt, South Ayrshire Council	Alison Dougall, South Lanarkshire Leisure & Culture
Jackie Taylor, South Lanarkshire Council	Connie Crawford, Richmond Fellowship
Cllr Bob Burrows, North Lanarkshire Council	Loretta Gaffney, Easterhouse Citizens Advice
Cllr Mike Holmes, Renfrewshire Council	Stewart Young, UCATT
Ian Black, East Dunbartonshire Council	Robert Gordon, UNITE
Martin Rose, East Ayrshire Council	Stephen Kelly, Unison Scotland
Angus Grosshart, North Ayrshire Council	Fiona McFetridge, Renfrewshire Council
Cllr Fred Hall, Argyll & Bute Council	David Marshall, Renfrewshire Council
Alison Fettes, Scottish Water	Deirdre Forsyth, Pensioners Representative
Eileen Baird, Scottish Fire & Rescue	Gavin Scott, Deferred Pensioners Representative

Funding Strategy Statement

As part of the 2011 actuarial valuation exercise, the Funding Strategy Statement was reviewed and the following revised statement was agreed in March 2012. The statement will be reviewed again during the 2014 actuarial valuation.

1. Introduction

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

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

2. Purpose of the Funding Strategy Statement (FSS)

The stated purpose of the FSS is:

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

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

3. Aims and Purpose of the Pension Fund

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

The purpose of the Fund is to:

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

The aims of the Fund are to:

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

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

The objectives of the funding strategy are 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.

Funding Strategy Statement (continued)

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

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/index.aspx?articleid=9402>

Actuarial Valuation

Executive Summary

We have carried out an actuarial valuation of the – 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)
Funding Level	95.1%	97.3%

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 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.

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

Statement of Investment Principles

1. Introduction

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

2. Regulations

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

3. Key Principles

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

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

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

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

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

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

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 and Cash Flow

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

10. Responsible Investment

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

Statement of Investment Principles (continued)

11. Exercise of Rights

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

12. 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.

14. Stock Lending

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

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

<http://www.spfo.org.uk/index.aspx?articleid=9402>

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.

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

Panel membership during 2013/14 was:

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

At 31st March 2014 Dick Barfield stood down from the Panel having served 10 years. Dick made an invaluable contribution to the work of the Panel over that period which was greatly appreciated.

The functions of the IAP include:

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

Investment Strategy

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

The Fund's investment objective is to 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.

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

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

Asset Structure 2013/2014

Asset Class	Distribution As at 1 April 2013		Distribution As at 31 March 2014	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
Equity	76.3	72.5	75.6	72.5
Bonds	13.4	15.0	12.8	15.0
Property	7.6	12.5	9.0	12.5
Cash	2.7	0.0	2.6	0.0
TOTAL	100.0	100.0	100.0	100.0

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

The Fund's established practice is to complete a review of its investment strategy and structure subsequent to completion of each triennial actuarial valuation.

Investment Performance

Summary

2013/2014 saw mixed conditions in markets, which still hung on the impact of extraordinary monetary policy. On the back of weak, positive economic growth:

- European and US equities did well
- but signs of slowing growth and fears of a hard landing in China caused emerging market equities to fall
- most bond markets fell over the financial year after the announcement of some reduction in quantitative easing by the US Federal Reserve
- some of the highest investment returns were achieved in UK commercial property where activity in markets outside London picked up markedly.

Against this backdrop:

- the **Strathclyde Pension Fund** produced a total return of **+7.0%** for 2013/2014
- the scheme **benchmark** returned **+7.1%**
- the **average UK pension fund**, as measured by the WM All Funds Universe, returned **+4.4 %**
- the **average local authority pension fund**, as measured by the WM Local Authority Universe, returned **+6.3%** for the year.

Long Term Performance

Year to end	Mar -05	Mar -06	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	3 Year Annualised	5 Year Annualised	10 Year Annualised
	%	%	%	%	%	%	%	%	%	%			
Retail Prices	3.2	2.4	4.8	3.8	-0.4	4.4	5.3	3.6	3.3	2.5	3.1	3.8	3.3
Consumer Prices	1.7	1.9	2.9	2.4	3.0	3.2	4.2	3.5	2.8	1.7	2.7	3.1	2.7
Average Earnings	3.8	5.2	5.0	3.8	-2.1	6.1	2.0	0.2	-0.6	1.5	0.9	2.4	2.7
Fund Return	12.4	27.2	7.4	-2.9	-20.8	36.9	7.7	1.1	14.5	7.0	7.4	12.8	8.0
Benchmark	12.9	26.6	8.1	-3.9	-21.0	41.3	8.6	1.8	13.6	7.1	7.3	13.6	8.3
WM Average	11.6	24.2	7.0	-1.0	-18.1	30.3	8.1	1.0	12.9	4.4	7.7	11.8	7.8

Performance measurement

All performance figures are independently verified.

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

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

The Fund has maintained a relationship with WM Co. to provide an annual investment report including comparison with the WM Universes which capture performance data from across the UK pension fund market.

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

Performance commentary

Returns for 2014 and for all longer periods are ahead of all inflation measures and of actuarial expectations.

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

Performance by asset class

The Fund's performance during scheme year 2013/14 by asset class is summarised in the following table.

Investment Performance (continued)

Annual Returns 2013/14

Asset Class	Fund Return (%)	Benchmark Return (%)	Relative
UK Equities	10.3	8.8	1.4
Overseas Equities			
North America	10.0	10.3	-0.3
Europe	17.5	18.3	-0.6
Japan	2.3	-1.6	3.9
Pacific	-7.4	-6.6	-0.8
Emerging Markets	-7.3	-9.2	2.1
UK Corporate Bonds	1.4	1.5	-0.1
UK Gilts	-2.6	-2.6	0.0
UK Index Linked Gilts	-4.4	-4.4	0.1
Fixed Income - Absolute Return	0.5	0.5	0.0
Private Equity	7.1	8.8	-1.5
Property	13.1	11.8	1.2
Total Fund	7.0	7.1	-0.1

Fund Managers 2013/14

Manager	1 April 2013 £m	1 April 2013 %	31 March 2014 £m	31 March 2014 %
Legal & General	5,626	43.3	5,800	41.7
Baillie Gifford	1,648	12.7	1,707	12.3
DTZ	863	6.7	1,029	7.4
Pimco	839	6.5	1,003	7.3
Pantheon	722	5.6	711	5.1
Lazard	632	4.9	652	4.7
Partners Group (Private Equity)	408	3.1	426	3.1
Veritas	377	2.9	426	3.1
Oldfield	375	2.9	406	2.9
Henderson	357	2.8	370	2.7
JP Morgan	347	2.7	410	3.0
Genesis	329	2.5	330	2.4
Cash	251	1.8	309	2.2
Partners Group (Real Estate)	194	1.5	234	1.7
New Opportunities	11	0.1	53	0.4
Total Fund	12,979	100	13,866	100

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 to the Fund every quarter on proxy voting activity and company engagements undertaken. A responsible investment report is considered by the Strathclyde Pension Fund Committee every quarter. Reports can be viewed either at:

<http://www.glasgow.gov.uk/councillorsandcommittees/latestMeetings.asp?sort=1&page=5> or at
<http://www.glasgow.gov.uk/councillorsandcommittees/committee.asp?bodyid=17&bodytitle=Strathclyde+Pension+Fund+Committee>

Voting Results Annual Report 2013/14 United Kingdom

	No of meetings	No. of AGM's	No. of EGM's	No of Resolutions	Votes For	Votes Against	Abstentions	Not Voted*	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	17	17	0	344	335	9	0	0	17	0
Genesis	0	0	0	0	0	0	0	0	0	0
Henderson	200	153	47	1,778	1,711	43	17	7	199	1
JP Morgan	0	0	0	0	0	0	0	0	0	0
Lazard	10	10	0	233	233	0	0	0	10	0
Legal & General	729	594	135	9,765	9,515	250	0	0	729	0
Oldfield Partners	3	3	0	62	62	0	0	0	3	0
Schroders (No 3 Fund)	53	48	5	982	965	12	5	0	53	0
Veritas	6	5	1	27	27	0	0	0	6	0
Total	1,018	830	188	13,191	12,848	314	22	7	1,017	1
% of Total					98%	2%	0%	0%	100%	0%

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

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

Voting Results Annual Report 2013/14 Overseas

	No of meetings	No. of AGM's	No. of EGM's	No of Resolutions	Votes For	Votes Against	Abstentions	Not Voted*	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	75	69	6	925	841	37	3	44	72	3
Genesis	165	114	51	1,996	1,835	126	32	3	165	0
Henderson	17	13	4	150	144	5	1	0	17	0
JP Morgan	404	368	36	3,286	2,676	496	6	108	397	7
Lazard	105	99	6	1,413	1,261	84	8	60	104	1
Legal & General	1,994	1,764	230	21,270	18,375	2,739	156	0	1,994	0
Oldfield Partners	18	17	1	210	186	24	0	0	18	0
Schroders (No 3 Fund)	131	123	8	1,548	1,305	58	2	183	115	16
Veritas	30	25	5	54	54	0	0	0	30	0
Total	2,939	2,592	347	30,852	26,677	3,569	208	398	2,912	27
% of Total					86%	12%	1%	1%	99%	1%

* 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:

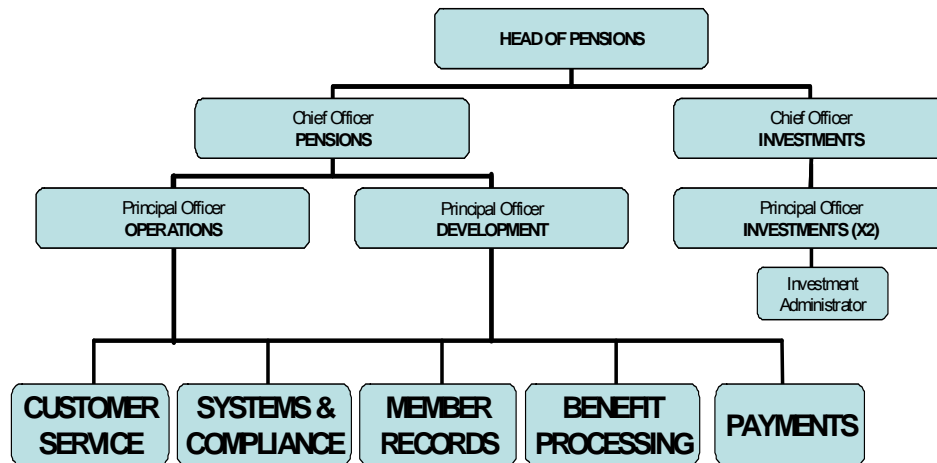
- Executive remuneration
- Supply chain policies and management
- Oil & Gas operations in the Niger Delta
- Offshore deep-water Oil & Gas operations in Nigeria
- Labour standards within China
- UK Working Group on Collective Engagement
- Controversial security contracts in the occupied territories
- Copper mining in Zambia
- Green House Gas emissions
- Black Economic Empowerment (BEE) regulations in South Africa
- Welfare and sustainability in the Cocoa industry
- Living Wage
- Russian Federation's Code of Corporate Governance
- Real Estate Energy Performance Certificates
- Protection of endangered species
- Human Rights
- Shale gas exploration in the UK
- Health & safety and technology
- Fossil fuel to renewables
- Supply chain, opportunities and challenges
- Bauxite mining in India
- Oil and gas exploration and extraction in the Arctic
- EU Shareholder Rights Directive
- Japanese Stewardship code
- UN Convention on the Rights of the Child
- Fire & Building safety in Bangladesh garment industry.

Administration

SPFO Staffing Structure

Total staff in post at 31 March 2014 was 82 (FTE 80.2) including 5 commonwealth apprenticeses.

The staffing 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 2013/14, together with previous year comparators.

SPFO Turnaround Performance 1st April 2013 to 31st March 2014

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
1. Data Changes										
Data Changes Admin	13,315				97.70%	93.48%			95.00%	92.54%
2. Deferred Benefits										
Deferred Calcs	2,559					99.80%	99.60%	98.78%	90.00%	98.83%
3. Retiral										
Provisionals	3,181	41.21%	30.97%	23.48%					85.00%	67.39%
Actual	2,137	54.93%	46.23%	41.69%	37.43%				85.00%	65.13%
4. Early leaver Options										
Benefit Options Calcs	1,867		99.51%	99.35%	99.30%	99.08%			90.00%	99.43%
Refunds	1,353		98.96%	97.56%	96.30%	94.08%			90.00%	96.66%
5. Transfers In										
TV In Calcs	113	100.00%	96.46%	94.25%	92.03%	88.49%			85.00%	93.85%
6. Transfers Out										
Club Transfers	66	93.93%	90.9%	84.84%					90.00%	88.31%
Non Club Transfers	171	91.23%	88.89%	87.13%					90.00%	85.38%

 Target

Administration (continued)

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 2014 are as follows:

	Changes	Refunds	Deferreds	Retirals
Forms issued	13,391	1,353	2,559	2,137
Responses	849	515	166	414
Response rate (%)	6.3	38.1	6.5	19.4
“Satisfaction Rating” (%)	77.8	83.7	81.3	89.0
Target Performance	80.0	80.0	80.0	90.0
2012/13 (%)	81.3	81.0	82.3	90.8
2011/12 (%)	80.7	80.3	78.9	89.9

Customer satisfaction remains high. Target was achieved in 2 areas and missed in 2. Albeit behind target, the rating for retirals suggests that the failure to meet the efficiency target is not having a material detrimental impact on customer service.

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.spfo.org.uk/index.aspx?articleid=9402>

The following sections are extracted from that report.

Administration strategy (continued)

Contact with SPFO

Employers are required to provide at least one named contact to act as liaison with SPFO. As at 31st March 2014, the position was as follows:

	No. of Employers	%	2012/13 %
Named contact provided to SPFO	215	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 2014, the position was as follows:

	No. of Employers	%	2012/13 %
Policy Statement received by SPFO	196	91.2	82.9
Policy Statement NOT received by SPFO	19	8.8	17.1

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 2014, the position was as follows:

	No. of Employers	%	2012/13 %
Compliance Certificate received by SPFO	173	80.5	83.3
Compliance Certificate NOT received by SPFO	42	19.5	16.7

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 2014, the position was as follows:

	No. of Local Authority Employers	%	2012/13 %
Electronic data received by SPFO	12	100	100
Electronic data NOT received by SPFO	0	0	0

Supply of data: admitted bodies

Admitted bodies have been required to submit new start and membership changes information electronically since 31st March 2011. As at 31st March 2014, the position was as follows:

	No. of Admitted Body Employers	%	2012/13 %
Electronic data received by SPFO	43	20.0	19.5
Electronic data NOT received by SPFO	172	80.0	80.5

Some progress in 2013/14 has been made, but a long way still to go.

Administration (continued)

New start information

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

For 2013/14, the performance of local authority employers was as follows:

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

Incidence of receipt of data deemed to be of high quality has increased from 45% in 2012/13 to 48% in 2013/14.

Key	
Y	Good quality data has been received by SPFO
Y	Data was received but required amendment before uploading
N	No electronic data was received

Administration (continued)

Notification of changes

As at 31st March 2014, the position for local authority employers was as follows.

Authority	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March
Hrs, Addr & name changes ==>												
Argyll & Bute	NYN	YNN	YNN	NNN	NNN	NNN	YNN	YNY	YNN	NNN	NYN	YYY
East Ayrshire	NNN	NNN	NNN	NNN	NNN	NNN	NNN	NNN	NNN	NNN	NNN	NNN
East Dunbartonshire	NNN	YYN	YYY	NYN	YYY	NNN	YYY	NNN	YYY	NNN	YYY	NYN
East Renfrewshire	YYY	YNN	YYY	YYY	NNN	YYY	YYY	NNN	NYN	YYY	YYN	YYN
Glasgow City Council	YNN	YNN	YNN	YNN	YNN	YNN	YNN	YNN	YNN	YNN	YNN	YNN
Inverclyde	NNN	YNY	YNY	NNY	YNY	YNY	NNN	YNN	NNN	YNY	YNY	YNN
North Ayrshire	NYN	YYY	YYN	NYN	YYY	YYY	YNY	YYY	YYY	YYY	YNN	YYY
North Lanarkshire	YYY	YYY	YYY	YYY	NNN	YYN	YYY	YYN	YYN	YNN	YNN	YYY
Police Scotland	NYN	NYN	NNN	NNN	NNN	NNN	NNN	NNN	NNN	NNN	NNN	NNN
Renfrewshire	NYN	YYY	YYY	YYY	YYY	YYY	YYY	YYY	YYY	YYY	YYY	NNN
South Ayrshire	YYY	NYN	NYN	YNN	YYY	YYY	YYN	YYY	YYY	YYY	YYN	YYY
South Lanarkshire	YYY	YYY	YYY	YYY	YYY	YYY	YYN	YYY	YYY	YYY	YYY	YYY
Scottish Fire and Rescue Service	NNN	NNN	NYN	NNN	NNN	NNN	NNN	NNN	NNN	YYY	NNN	NYN
West Dunbartonshire	YYY	YYY	YYY	YYY	YYN	YYY	YYY	YYY	YYY	YYY	YYY	YYY

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.

Key	
YYY	Electronic data received for Hours, Address and Name Changes
NNN	Electronic data not received

Starters and early leavers - exception rate

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

As at 31st March 2014, the summary position was as follows.

	Members	%	2012/13 %
Record Status OK	87,197	98.7	97.8
Missing new start details	635	0.7	0.7
Missing leaver details	481	0.6	1.5

The aggregate prior and current year exception rate of 1.28% achieves the year end target of <2.0%.

Administration (continued)

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 2013 to 31st March 2014, the summary position was as follows:

	No.	%	2012/13
Total retirements notified	2,016		2,120
>2 months notice received	807	40	36%
<2 months notice received	1,209	60	64%

Some improvement has been achieved, partly because the volume of early retirements has begun to reduce from the unprecedented level of 2011/12.

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 2013 to 31st March 2014, summary performance was as follows:

	No.	%	2012/13
Total SPFO enquiries	3,508		3,937
Response <= 7 days	2,390	68	78%
Response > 7 days	980	28	21%
No response	138	4	1%

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 2013/14 (submissions relating to 2012/13) performance was as follows:

	No.	%	2012/13
Total employer returns	236		233
Received by 20th May	187	79.2	76.4%
Not received by 20th May	49	20.8	23.6%

Significant improvement was achieved this year.

Administration (continued)

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.

2013/14 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	12/12
West Dunbartonshire Council	12/12
East Dunbartonshire Council	11/12
Glasgow City Council	12/12
North Lanarkshire Council	12/12
South Lanarkshire Council	12/12
East Renfrewshire Council	11/12
Renfrewshire Council	12/12
Inverclyde Council	11/12
Scottish Water	12/12
Police Scotland	12/12
Scottish Fire & Rescue Service	13/13

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

Remittance of additional voluntary contributions (AVCs) to Prudential

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

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

Fund No.1

2012/13 £000	STRATHCLYDE PENSION FUND NO. 1 Fund Account	Note	£000	2013/14 £000
	Dealings with Members, Employers and Others Directly Involved in the Scheme			
	Contributions Receivable			
	From Employers			
(330,525)	Normal	12	(340,975)	
<u>(51,730)</u>	Augmentation	<u>12</u>	<u>(27,275)</u>	
(382,255)				(368,250)
	From Members			
(107,683)	Normal	12		(110,282)
	Transfers In			
(6,798)	Individual Transfers in from Other Schemes		(5,839)	
0	Group Transfers in from Other Schemes		<u>0</u>	
(6,798)				(5,839)
	Other Income			
(888)	Other Income			(692)
	Benefits Payable			
346,939	Pensions	12	371,118	
94,415	Commutation of Pension and Lump Sum Retirement Benefits	12	83,820	
12,405	Lump Sum Death Benefits	<u>12</u>	<u>11,972</u>	
453,759				466,910
	Payments To and On Account of Leavers			
648	Refunds of Contributions		733	
127	State Scheme Premiums		439	
0	Group Transfers out to Other Schemes		0	
<u>15,736</u>	Individual Transfers out to Other Schemes		<u>15,263</u>	
16,511				16,435
4,273	Administrative Expenses	13		3,889
(23,081)	Net (Addition) / Reduction from Dealings with Members			2,171
	Return on Investments			
	Investment Income			
0	Interest from Fixed Interest Securities		(7)	
(111,283)	Dividends from Equities		(131,634)	
0	Income from Index Linked Securities		0	
(3,933)	Income from Pooled Investment Vehicles		(3,132)	
(48,666)	Net Rents from Properties	15	(44,772)	
(2,755)	Interest on Cash Deposits		(2,312)	
<u>(891)</u>	Other		<u>(1,024)</u>	
(167,528)				(182,881)
(1,443,886)	Change in Market Value of Investments			(719,324)
3,932	Taxation			2,937
15,207	Investment Management Expenses	14		18,363
(1,592,275)	Net Returns on Investments			(880,905)
(1,615,356)	Net (Increase) / Decrease in the Fund during the Year			(878,734)
(11,450,885)	Add : Opening Net Assets of the Scheme			(13,066,241)
(13,066,241)	Closing Net Assets of the Scheme			(13,944,975)

Fund No.1

2012/13	STRATHCLYDE PENSION FUND NO. 1			2013/14
£000	Net Assets Statement as at 31 March 2014	Note	£000	£000
	INVESTMENT ASSETS			
5,955,591	Equities (including convertible shares)	8,11	6,440,136	
61	Index Linked Securities	8,11	53	
1,184,560	Pooled Investment Vehicles – Unit Trusts	8,11	1,334,238	
4,508,891	Pooled Investment Vehicles – Managed Funds	8,11	4,567,366	
979	Derivative Contracts	8,11	6,688	
831,310	Property	8,11	1,020,995	
479,032	Cash Deposits	8,11	482,839	
<u>30,503</u>	Other Investment Balances	8,11	<u>36,924</u>	
12,990,927				13,889,239
	INVESTMENT LIABILITIES			
(3,243)	Derivative Contracts	8,11	(1,585)	
<u>(29,179)</u>	Creditors	8,11	<u>(30,946)</u>	
(32,422)				(32,531)
	CURRENT ASSETS			
38,909	Contributions due from Employers		29,643	
25,046	Strain on the Fund Debtors		12,942	
77,165	Cash Balances		72,752	
<u>8,084</u>	Other Current Assets		<u>10,725</u>	
149,204				126,062
	CURRENT LIABILITIES			
(13,818)	Unpaid Benefits		(17,052)	
<u>(27,650)</u>	Other Current Liabilities		<u>(20,743)</u>	
(41,468)				(37,795)
13,066,241	Net Assets			13,944,975

The unaudited accounts were issued on 24 June 2014 and the audited accounts were authorised for issue on 19 September 2014

Lynn Brown MA (Hons) CPFA
 Executive Director of Financial Services
 and Deputy Chief Executive
 19 September 2014

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 Police Scotland and Scottish Fire and Rescue Service who along with Scottish Police Authority came into being on 1 April 2013;
- Employees and pensioners of other scheduled bodies;
- Employees and pensioners of admitted bodies;
- Deferred pensioners of scheduled and admitted bodies

The full list of scheme employers as at 31 March 2014:

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

2. Basis of Preparation

The Financial Statements have been prepared in accordance with the guidelines set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The Financial Statements summarise the transactions of the Fund during the year and the net assets at the year end. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 7 of these accounts.

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

3. Summary of Significant Accounting Policies

Fund Account

• Contributions Income

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

• Transfers to and from other schemes

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

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

• Investment Income

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

• Benefits payable

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

• Taxation

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

- **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 2013/14 £2.670m of fees is based on such estimates (2012/13 £0.967m). The cost of obtaining investment advice from external consultants is included in investment management charges. The cost of the Fund's management team are charged direct to the Fund and a proportion of the council's costs representing management time spent by officers on investment management is also charged to the Fund.

Net Assets Statement

- **Financial Assets**

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

- **Valuation of Investments**

Quoted investments are valued at closing prices. These prices may be the last trade prices or bid prices depending on the convention of the stock exchange or other market on which they are quoted. Overseas investments and cash are stated in sterling using

exchange rates as at close of business on 31 March 2014. The direct property portfolio was valued at 31 March 2014 by GVA Grimley, the valuer being qualified for that purpose in accordance with the Royal Institute of Chartered Surveyor (RICS) Valuation Standards manual. 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 7).

- **Additional Voluntary contributions**

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

- **New standards issued but not yet adopted**

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2014/15 Code:

- IFRS 13 Fair Value measurement
- IAS 32 Financial Instruments: Presentation
- Annual Improvements to IFRS 2009-2011 Cycle

4. Critical Judgements in Applying Accounting Policies

Determining the fair value of private equity investments involves a degree of subjectivity. Valuations are inherently based on forward-looking estimates and judgements and judgements involving many factors. Unquoted equities are valued by the general partners using guidelines set out by the British Venture Capital Association. The value of unquoted private equities as at 31 March 2014 was £1,149.2m (£1,089.9m at 31 March 2013). The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 7. The estimate is subject to significant variances based on changes to the underlying assumptions.

5. Events after the balance sheet date

There have been no events since 31 March 2014 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 £320 million (£486 million at 31 March 2008):

	£ million
Fund Assets	11,322
Fund Liabilities	(11,642)
Deficit	(320)

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 or the Strathclyde Pension Fund Office, Capella Building, 6th Floor, 60 York Street, Glasgow G2 8JX.

• Funding Projection as at 31 March 2014

An intervaluation monitoring report provided by the Fund’s actuary as at 31 March 2014 recorded a projected funding position of 87.9%. 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:

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

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 2014 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 or on request from SPFO. For most employers the total rate to be paid has been stabilised at the 2012/13 level for a further year as shown below.

Year to	Rate (as % of pensionable payroll)
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 2015 then reverting to 5.1% p.a. thereafter plus an allowance for promotional pay increases.

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

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

	Actives & Deferreds		Current Pensioners	
	Male	Female	Male	Female
Assumed life expectancy at age 65				
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 £17,527 million as at 31 March 2014 (£15,707 million as at 31 March 2013). 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 Payments £000	Sales and Derivative Receipts £000	Other Movements £000	Closing Market Value £000
Investment Assets					
Equities (including convertible shares)	5,955,591	1,576,968	(1,470,662)	378,239	6,440,136
Index Linked Securities	61	264	(80)	(192)	53
Pooled Investment Vehicles – Unit Trusts	1,184,560	261,765	(75,847)	(36,240)	1,334,238
Pooled Investment Vehicles – Managed Funds	4,508,891	812,411	(1,057,427)	303,491	4,567,366
Derivative Contracts	979	3,166	5,794	(3,251)	6,688
Property	831,310	115,789	(22,150)	96,046	1,020,995
Cash Deposits	479,032	0	0	3,807	482,839
Other Investment Balances	30,503	0	0	6,421	36,924
Total Assets	12,990,927	2,770,363	(2,620,372)	748,321	13,889,239
Investment Liabilities					
Derivative Contracts	(3,243)	0	0	1,658	(1,585)
Creditors	(29,179)	0	0	(1,767)	(30,946)
Total Liabilities	(32,422)	0	0	(109)	(32,531)
Net Investment Assets	12,958,505	2,770,363	(2,620,372)	748,212	13,856,708

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 £6.675 million (£6.098 million in 2012/13).

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 2014 and a summary of contracts held are summarised in the tables below:

	31 March 2013 £000	31 March 2014 £000
Futures	(2,263)	5,105
Forwards	(1)	(2)
Market Value as at 31 March	(2,264)	5,103

Contract	Settlement Date	Asset £000	Liability £000	Net £000
Derivatives – Futures				
FUT Jun 14 NYL MSCI EMG	Jun-14	5,105	0	5,105
Contracts Held at 31 March 2014		5,105	0	5,105

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	1,583	(1,585)	(2)
Contracts Held at 31 March 2014		1,583	(1,585)	(2)

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

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

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

9. Fund Management

• Investment Managers and Mandates

The market value of assets under the management of Fund managers as at 31 March 2014 was £13,857 million.

Investment management arrangements as at 31 March 2014 are summarised below:

Asset Class	Fund Manager	% managed
Multi Asset – Passive	Legal and General	41.9
Global Equity	Baillie Gifford	12.3
Global Equity	Lazard	4.7
Global Equity	Veritas	3.1
Global Equity	Oldfield Partners	2.9
Specialist – Property	DTZ	7.4
Specialist – Global Real Estate	Partners Group	1.7
Specialist – Absolute Return Bonds	PIMCO	7.3
Specialist – Equities (Overseas Small Companies)	JP Morgan	3.0
Specialist – Equities (UK Small Companies)	Henderson	2.7
Specialist – Private Equity	Pantheon Ventures	5.1
Specialist – Private Equity	Partners Group	3.1
Specialist – Emerging Markets	Genesis	2.4
Specialist – New Opportunities Portfolio	Various	0.2
Cash	Northern Trust	1.4
Transition Account		0.8

• 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 2014 the Fund held direct property assets with a value of £1,021.0 million (2012/13 £831.3 million). This valuation was calculated by GVA Grimley on the Fund's behalf in accordance with RICS Valuation Standards manual.

As at 31 March 2014 the Fund did not hold any indirect UK property assets (2012/13 nil).

10. Notifiable Holdings

Notifiable holdings are holdings which exceed 5% of the total value of Fund net assets. As at 31 March 2014 the Fund had holdings of £1,933 million (14.4%) in Legal and General UK Equity Fund and £843 million (6.3%) in PIMCO PARS II Fund.

11. Analysis of Investments

Investments can be further analysed as follows:

Asset Class	Quoted £000	Unquoted £000	Other £000	Total £000
Assets				
Equities (including convertible shares)	6,434,404	0	5,732	6,440,136
Index Linked Securities	53	0	0	53
Pooled Investment Vehicles – Unit Trusts	1,334,238	0	0	1,334,238
Pooled Investment Vehicles – Managed Funds	0	4,567,366	0	4,567,366
Derivative Contracts	0	6,688	0	6,688
Property	0	1,020,995	0	1,020,995
Cash Deposits	0	454,935	27,904	482,839
Other Investment Balances	14,978	15,929	6,017	36,924
Total Assets	7,783,673	6,065,913	39,653	13,889,239
Liabilities				
Derivative Offset	0	(1,585)	0	(1,585)
Creditors	0	(30,946)	0	(30,946)
Total Liabilities	0	(32,531)	0	(32,531)
Net Investment Assets	7,783,673	6,033,382	39,653	13,856,708

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

Asset Class	UK £000	Overseas £000	Total £000
Assets			
Equities (including convertible shares)	1,522,430	4,917,706	6,440,136
Index Linked Securities	6	47	53
Pooled Investment Vehicles – Unit Trusts	1,150,880	183,358	1,334,238
Pooled Investment Vehicles – Managed Funds	3,412,783	1,154,583	4,567,366
Derivative Contracts	6,688	0	6,688
Property	1,020,995	0	1,020,995
Cash Deposits	482,839	0	482,839
Other Investment Balances	36,924	0	36,924
Total Assets	7,633,545	6,255,694	13,889,239
Liabilities			
Derivative Offset	(1,585)	0	(1,585)
Creditors	(30,946)	0	(30,946)
Total Liabilities	(32,531)	0	(32,531)
Net Investment Assets	7,601,014	6,255,694	13,856,708

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

12. Contributions and Benefits

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

	Administering Authority £000	Other Scheduled Bodies £000	Admitted Bodies £000	Total £000
Contributions				
Employee	(15,852)	(69,138)	(25,292)	(110,282)
Employer	(72,120)	(213,804)	(82,326)	(368,250)
Benefits				
Pension	56,086	272,863	42,169	371,118
Lump Sum	9,958	70,853	14,981	95,792

13. Administrative Expenses

The total administrative expenses were as follows:

2012/13 £000		2013/14 £000
3,056	Employee Costs	2,778
669	Support Services including IT	702
266	Printing and Publications	207
64	External Audit Fees	62
218	Actuarial Fees	140
4,273		3,889

14. Investment Expenses

The total investment expenses were as follows:

2012/13 £000		2013/14 £000
14,729	Management Fees	17,725
156	Custody Fees	199
134	Performance Monitoring Fees	101
148	Actuarial Fees – Investment Consultancy	123
40	Consultancy Fees	215
15,207		18,363

Further investment management costs are charged within pooled investment vehicles including private equity funds and global real estate funds. These costs are reflected in the Fund net asset value.

15. Property Income

2012/13 £000		2013/14 £000
57,151	Rental Income	56,147
(8,485)	Direct Operating Expenses	(11,375)
48,666	Net Income	44,772

16. Property Holdings

2012/13 £000		2013/14 £000
791,450	Opening balance	831,310
181,437	Additions	115,789
(148,214)	Disposals	(22,150)
6,637	Change in Market Value	96,046
831,310	Closing balance	1,020,995

17. 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 2013/14 the amount recharged by Glasgow City Council to the Strathclyde Pension Fund for administration costs was £2.778m (2012/13 £3.056m).

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

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

18. Stock Lending

The Fund participates in a stock lending programme managed by its Global Custodian, Northern Trust. All loans are fully collateralised. As at 31 March 2014 stock with a value of £426.5 million was on loan (£29.0 million as at 31 March 2013).

19. Contractual Commitments

As at 31 March 2014 the Fund had contractual commitments of £2,870 million within its private equity and global real estate portfolios, of which £998 million remains undrawn.

20. Contingent Assets and Liabilities

The fund participates from time to time in securities litigation with a view to recovering investment losses as a result of companies' breach of their duties to investors or potential investors. As at 31st March 2014 the fund was one of a group of investors pursuing a claim against Royal Bank of Scotland (RBS) for losses arising from the 2008 rights issue which preceded RBS' acquisition of ABN AMRO. The case is predicated on the premise that the RBS prospectus for the rights issue was misleading

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

21. Statement of Investment Principles

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

22. Additional Voluntary Contributions (AVCs)

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

The market value of AVCs as at 31 March 2014 was £41 million (2012/13 £40.9 million). Contributions which are used in their entirety to purchase investments, totalled £6.7 million (2012/13 £8.5 million) whilst sales of investments to settle benefits due to members totalled £8.5 million (2012/13 £7.2 million). The change in market value of investments over the year was £1.9 million (2012/13 £1.4 million). The values reported in the 2012/13 financial statements for AVCs were based on estimates and have been updated above to reflect the actual position.

<i>Fair value through profit & loss</i>	<i>Loans & receivables</i>	<i>Financial liabilities at amortised cost</i>		<i>Fair value through profit & loss</i>	<i>Loans & receivables</i>	<i>Financial liabilities at amortised cost</i>
£000	£000	£000		£000	£000	£000
31 March 2013				31 March 2014		
Financial Assets						
5,955,591	0	0	Equities	6,440,136	0	0
61	0	0	Index Linked Securities	53	0	0
1,184,537	23	0	Pooled Investment Vehicles – Unit Trusts	1,334,238	0	0
4,508,891	0	0	Pooled Investment Vehicles – Managed Funds	4,567,366	0	0
979	0	0	Derivative Contracts	6,688	0	0
0	479,032	0	Cash	0	482,839	0
0	30,503	0	Other Investment Balances	0	36,924	0
11,650,059	509,558	0		12,348,481	519,763	0
Financial Liabilities						
(3,243)	0	0	Derivatives	(1,585)	0	0
0	0	(29,179)	Other Investment Liabilities	0	0	(30,946)
(3,243)	0	(29,179)		(1,585)	0	(30,946)
11,646,816	509,558	(29,179)	Net Financial Assets	12,346,896	519,763	(30,946)

The table below shows net gains and losses on financial instruments for the year ended 31 March 2014:

31 March 2013			31 March 2014	
£000				£000
1,473,454	Financial Assets			645,298
(900)	Fair value through profit and loss			(4,258)
0	Loans and receivables			0
	Financial liabilities measured at amortised cost			
	Financial Liabilities			
3,014	Fair value through profit and loss			(1,845)
0	Loans and receivables			0
(2,119)	Financial liabilities measured at amortised cost			0
1,473,449	Total			639,195

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 2014:

31 March 2013			31 March 2014	
Carrying Value	Fair Value £000		Carrying Value	Fair Value £000
Financial Assets				
11,650,082	11,650,082	Fair value through profit and loss	12,348,481	12,348,481
452,094	509,535	Loans and receivables	484,217	519,763
12,102,176	12,159,617		12,832,698	12,868,244
Financial Liabilities				
0	(3,243)	Fair value through profit and loss	(1,585)	(1,585)
(14,253)	(29,179)	Financial liabilities measured at amortised cost	(13,161)	(30,946)
(14,253)	(32,422)		(14,746)	(32,531)
12,087,923	12,127,195	Total	12,817,952	12,835,713

The net investment assets of £12,836 million shown in the above table plus property assets £1,021 million equates to the total net investment assets of £13,857 million shown in the Net Assets Statement.

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

Level 1

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

Level 2

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

Level 3

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

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

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

<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>		<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
<i>£000</i>	<i>£000</i>	<i>£000</i>		<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>31 March 2013</i>				<i>31 March 2014</i>		
Financial Assets						
9,555,424	838,728	1,255,907	Fair Value through profit and loss	9,244,835	1,719,187	1,384,459
509,558	0	0	Loans and receivables	519,747	0	16
10,064,982	838,728	1,255,907		9,764,582	1,719,187	1,384,475
Financial Liabilities						
(3,243)	0	0	Fair Value through profit and loss	(1,585)	0	0
(29,179)	0	0	Financial liabilities measured at amortised cost	(30,946)	0	0
(32,422)	0	0		(32,531)	0	0
10,032,560	838,728	1,255,907	Net Financial Assets	9,732,051	1,719,187	1,384,475

24. Nature and Extent of Risks Arising From Financial Instruments

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

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

Market Risk

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

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

Other Price Risk

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

Other Price Risk - Sensitivity Analysis

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

Asset Type	Potential Market Movement (+/-)
UK Equities	16.6%
Overseas Equities	19.4%
Corporate Bonds	9.6%
UK Bonds	0%
Index Linked Gilts	5.0%
Cash	0.6%
Property	14.7%

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

investments increased or decreased in line with the table above.

Asset Type	Value as at 31 March 2014	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash and cash equivalents	482.839	0.6%	485.736	479.942
Investment portfolio assets:				
UK bonds	6	0.0%	6	6
Overseas bonds	47	0.0%	47	47
UK equities	1,522,430	16.6%	1,775,153	1,269,707
Overseas equities	4,911,976	19.4%	5,864,899	3,959,053
UK fixed Income unit trusts	1,772,257	9.6%	1,942,394	1,602,120
Overseas fixed Income unit trusts	0	9.6%	0	0
UK equity unit trusts	2,791,405	16.6%	3,254,778	2,328,032
Overseas equity unit trusts	1,337,941	19.4%	1,597,502	1,078,380
Pooled property Investments	0	0.0%	0	0
Hedge Fund	0	0.0%	0	0
Private equity/Infrastructure funds	0	0.0%	0	0
Commodities	5,732	13.7%	6,517	4,947
Property	0	0.0%	0	0
Net derivative assets	5,103	0.0%	5,103	5,103
Investment income due	25,263	0.0%	25,263	25,263
Pending Spot FX	0	0.0%	0	0
Amounts receivable for sales	10,086	0.0%	10,086	10,086
Amounts payable for purchases	(29,372)	0.0%	(29,372)	(29,372)
Obliq. Return Cash Collateral Hld	0	0.0%	0	0
Total	12,835,713		14,938,112	10,733,314

The prior year comparators for 2012/13 are as follows:

Asset Type	Value as at 31 March 2013	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash and cash equivalents	479,032	0.8%	482,864	475,200
Investment portfolio assets:				
UK bonds	5	7.3%	5	4
Overseas bonds	56	7.3%	60	52
UK equities	1,463,778	16.0%	1,697,983	1,229,574
Overseas equities	4,483,950	19.0%	5,335,900	3,631,999
UK fixed Income unit trusts	1,745,713	7.3%	1,873,150	1,618,276
Overseas fixed Income unit trusts	23	7.3%	25	22
UK equity unit trusts	2,339,605	16.0%	2,713,942	1,965,268
Overseas equity unit trusts	1,608,110	19.0%	1,913,651	1,302,569
Hedge Fund	0	0.0%	0	0
Pooled property Investments	0	0.0%	0	0
Private equity/Infrastructure funds	0	0.0%	0	0
Commodities	7,863	14.5%	9,003	6,723
Property	0	0.0%	0	0
Net derivative assets	(2,264)	0.0%	(2,264)	(2,264)
Investment income due	19,620	0.0%	19,620	19,620
Pending Spot FX	0	0.0%	0	0
Amounts receivable for sales	10,363	0.0%	10,363	10,363
Amounts payable for purchases	(28,659)	0.0%	(28,659)	(28,659)
Oblia. Return Cash Collateral Hld	0	0.0%	0	0
Total	12,127,195		14,025,643	10,228,747

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 2014 and 31 March 2013 is set out below.

Asset Type	As at 31 March 2013	As at 31 March 2014
	£000	£000
Cash Balances – Investments	479,032	482,839

Interest Rate Sensitivity Analysis

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

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

Asset Type	As at 31 March 2013	+100 BPS	-100 BPS
	£000	£000	£000
Cash Balances – Investments	479,032	483,822	474,242

Currency Risk

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

Currency Risk – Sensitivity Analysis

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

Asset Type	As at 31 March 2014	% Change	Value on Increase	Value on Decrease
	£000		£000	£000
Overseas quoted securities	4,911,976	13.0%	5,550,532	4,273,419
Overseas unquoted securities	0	13.0%	0	0
Overseas fixed income	0	13.0%	0	0
Overseas unit trusts	1,337,941	13.0%	1,511,873	1,164,008
Hedge funds overseas equity	0	13.0%	0	0
Hedge funds overseas fixed	0	13.0%	0	0
Overseas public sector bonds	0	13.0%	0	0
Overseas corporate bonds	47	13.0%	53	41
Total	6,249,964		7,062,458	5,437,468

Credit Risk

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

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

25. Analysis of Investment Assets (IAS19)

In accordance with the requirements of IAS19 the following statement provides a detailed analysis of investment assets as at 31 March 2014 with comparators for 2013.

Quoted £000	Unquoted £000	Total £000		Quoted £000	Unquoted £000	Total £000
31 March 2013				31 March 2014		
			Equity Securities			
1,130,713	1,076	1,131,789	Consumer	1,256,415	318	1,256,733
1,037,628	2,023	1,039,651	Manufacturing	1,104,552	10,380	1,114,932
528,813	0	528,813	Energy and Utilities	504,061	199	504,260
886,636	1,047	887,683	Financial Institutions	901,154	56	901,210
470,377	333	470,710	Health and Care	521,477	333	521,810
648,553	713	649,266	Information Technology	776,134	478	776,612
			Debt Securities			
0	0	0	Corporate Bonds (investment)	0	0	0
0	61	61	Corporate Bonds (non-UK Government)	0	60	60
0	0	0	Other	0	0	0
0	1,251,253	1,251,253	Private Equity	0	1,354,067	1,354,067
			Real Estate			
0	831,310	831,310	UK Property	0	1,020,995	1,020,995
0	0	0	Overseas Property	0	0	0
			Investment funds and unit			
345,069	3,602,646	3,947,715	Equities	147,467	3,981,880	4,129,347
0	1,745,713	1,745,713	Bonds	0	1,772,257	1,772,257
0	0	0	Hedge Funds	0	0	0
7,863	0	7,863	Commodities	5,732	0	5,732
0	(8,594)	(8,594)	Property	0	9,520	9,520
0	18	18	Cash Funds	0	16	16
			Derivatives			
0	0	0	Inflation	0	0	0
0	0	0	Interest rate	0	0	0
0	(1)	(1)	Foreign exchange	0	(2)	(2)
(2,263)	0	(2,263)	Futures	5,105	0	5,105
0	477,519	477,519	Cash and cash equivalents	0	484,054	484,054
5,053,389	7,905,117	12,958,506	Totals	5,222,097	8,634,611	13,856,708

Fund Membership – Participating Employers

A

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

B

Balfour Beatty Workplace Limited
BAM Construct UK Ltd
Bridgeton Calton And Dalmarnock Credit Union

C

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

D

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

E

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

F

First Bus
Flourish House
Forth & Oban Ltd
Fyne Homes Limited

G

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

H

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

I

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

J

Jordanhill School
Jobs and Business Glasgow

K

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

L

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

N

New College Lanarkshire
New Gorbals Housing Association
North Ayr Resource Centre
North Ayrshire Council

North Ayrshire Leisure Ltd
North Glasgow Housing Association
North Lanarkshire Carers Together
North Lanarkshire Council
North Lanarkshire Leisure Ltd
North Lanarkshire Properties
Notre Dame Child Guidance Clinic

P

Parkhead Citizens Advice Bureau
Parkhead Housing Association Ltd
Pensioners Action Group East
Police Scotland

Q

Queens Cross Housing Association

R

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

S

SACRO
Scottish Environmental & Outdoor Centres Association Ltd
Scottish Fire and Rescue Service
Scottish Further Education Unit
Scottish Library & Information Council
Scottish Maritime Museum Trust
Scottish Out Of School Care Network
Scottish Police Authority
Scottish Qualifications Authority
Scottish Society for the Mentally Handicapped
Scottish Water
Scottish Water Business Stream Ltd
Scotwest Credit Union Ltd
SEEMIS Group LLP
Shettleston Housing Association
Skills Development Scotland Ltd

South Ayrshire Council
South Ayrshire Energy Agency
South 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
Strathclyde Partnership for Transport
Strathclyde Wing Hong Chinese Elderly Group
Strathleven Regeneration Company Ltd

T

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

U

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

V

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

W

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

Y

Youth Counselling Services Agency

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 at: <http://www.spfo.org.uk/index.aspx?articleid=9404>
- Funding Strategy Statement: the No. 3 Fund has its own Funding Strategy Statement which is available at: <http://www.spfo.org.uk/index.aspx?articleid=9404>
- Actuarial Valuation: the full 2011 valuation report for the No.3 Fund is available at: <http://www.spfo.org.uk/index.aspx?articleid=9404> 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

	Mar '05	Mar '06	Mar '07	Mar '08	Mar '09	Mar '10	Mar '11	Mar '12	Mar '13	Mar '14	Annualised		
											3 Year	5 Year	10 Year
Retail Prices	3.2	2.4	4.8	3.8	-0.4	4.4	5.3	3.6	3.3	2.5	3.1	3.8	3.3
Consumer Prices	1.7	1.9	2.9	2.4	3.0	3.2	4.2	3.5	2.8	1.7	2.7	3.1	2.7
Average Earnings	3.8	5.2	5.0	3.8	-2.1	6.1	2.0	0.2	-0.6	1.5	0.9	2.4	2.7
Fund Return	12.1	24.7	7.7	2.4	-12.4	32.8	8.8	10.1	14.7	-0.1	8.1	12.8	9.4
Benchmark	11.9	25.4	7.3	-0.3	-14.1	26.3	7.5	2.3	15.0	0.6	6.0	10.0	7.6
WM Average	11.6	24.2	7.0	-1.0	-18.1	30.3	8.1	1.0	12.9	4.4	7.7	11.8	7.8



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)
Funding Level	88%	89%

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.
Total (Common) Contribution Rate	29.6% plus £2.5m* p.a.	33.4% plus £2.6m p.a.

* 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.

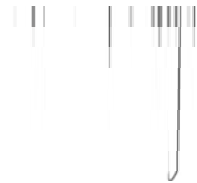
The minimum contributions to be paid by the employer from 1 April 2012 to 31 March 2015 are shown in the Rates and Adjustments Certificate in **Appendix H**.



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

31 March 2012

Catherine McFadyen

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

31 March 2012

STRATHCLYDE PENSION FUND ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2014

Fund No.3

2012/13 £000	STRATHCLYDE PENSION FUND NO. 3 Fund Account	Note	£000	2013/14 £000
	Dealings with Members, Employers and Others Directly Involved in the Scheme			
	Contributions Receivable			
	From Employers			
(1,435)	Normal		(1,185)	
(2,600)	Augmentation		(2,729)	
(4,035)				(3,914)
	From Members			
(320)	Normal			(310)
	Benefits Payable			
4,168	Pensions		4,470	
1,820	Commutation of Pension and Lump Sum Retirement Benefits		1,505	
17	Lump Sum Death Benefits		0	
6,005				5,975
	Payments to and on account of leavers			
262	Individual Transfers Out to Other Schemes			297
48	Administrative Expenses	11		29
1,960	Net (Addition) / Reduction from Dealings with Members			2,077
	Return on Investments			
	Investment Income			
(693)	Dividends from Equities		(426)	
(323)	Income from Index Linked Securities		(186)	
(965)	Income from Pooled Investment Vehicles		(874)	
(6)	Interest on Cash Deposits		(32)	
0	Other		0	
(1,987)				(1,518)
(18,157)	Change in Market Value of Investments			1,334
7	Taxation			6
100	Investment Management Expenses	12		106
(20,037)	Net Returns on Investments			(72)
(18,077)	Net (Increase) / Decrease in the Fund during the Year			2,005
(139,540)	Add : Opening Net Assets of the Scheme			(157,617)
(157,617)	Closing Net Assets of the Scheme			(155,612)

Fund No.3

2012/13 £000	STRATHCLYDE PENSION FUND NO. 3 Net Assets Statement as at 31 March 2014	Note	£000	2013/14 £000
	INVESTMENT ASSETS			
26,877	Equities (including convertible shares)	6,9	4	
40,969	Index Linked Securities – Public Sector	6,9	0	
82,727	Pooled Investment Vehicles – Unit Trusts	6,9	141,767	
4,953	Pooled Investment Vehicles – Real Estate Unit Trusts	6,9	0	
8	Derivative Contracts	6,9	0	
1,007	Cash Deposits	6,9	14,733	
<u>389</u>	Other Investment Balances	6,9	<u>404</u>	
156,930				156,908
	INVESTMENT LIABILITIES			
(9)	Derivative Contracts	6,9	0	
<u>(67)</u>	Creditors	6,9	<u>0</u>	
(76)				0
	CURRENT ASSETS			
459	Contributions due from Employer		240	
345	Cash Balances		0	
<u>79</u>	Other Current Assets		<u>18</u>	
883				258
	CURRENT LIABILITIES			
(45)	Unpaid Benefits		0	
<u>(75)</u>	Other Current Liabilities		<u>(1,554)</u>	
(120)				(1,554)
157,617	Net Assets			155,612

The unaudited accounts were issued on 24 June 2014 and the audited accounts were authorised for issue on 19 September 2014

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Lynn Brown, MA (Hons) CPFA
Executive Director of Financial Services and
Deputy Chief Executive
19 September 2014

Notes to the Accounts – Fund No. 3

1. General Description of the Fund and its Membership

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

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

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

The value of those employees' benefits and the assets in respect of them were actuarially assessed by Hymans Robertson, the Fund's actuaries, when the Fund was established. The No.3 Fund is an "admission agreement fund" as defined within the regulations and was established as a closed fund – i.e. it is not open to new membership. Glasgow City Council has delegated decision making for the Fund to its Strathclyde Pension Fund Committee. Scheme and Fund administration are carried out by the Strathclyde Pension Fund Office (SPFO), a division of the council's Financial Services Department. The investment assets of the Fund are externally managed.

2. Basis of Preparation

The Financial Statements have been prepared in accordance with the guidelines set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 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.

Notes to the Accounts – Fund No. 3

• Investment Income

Interest income is recognised in the Fund accounts as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis. Dividend income is recognised on the date the shares are quoted ex-dividend. Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period in relation to dividend income or distributions from pooled funds are disclosed in the net assets statement as a current financial asset. 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 2013/14 no fees are based on such estimates (2012/13 £0.036m). 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 2014. Unquoted holdings in private equity funds have been included at the Fund managers' valuation adjusted for cash movements since the last valuation date. Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published or if single priced at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is invested in the Fund, net of applicable withholding tax.

Notes to the Accounts – Fund No. 3

• Foreign currency transactions

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

• Derivatives

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

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):

	£ million
Fund Assets	127.8
Fund Liabilities	(143.4)
Deficit	(15.6)

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

The deficit funding position indicates that the Fund's objectives were not fully met at the valuation date. The Funding Policy seeks to ensure that the funding objectives are met over the remaining life of the Fund.

Notes to the Accounts – Fund No. 3

• Funding Policy

On completion of the actuarial valuation as at 31 March 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 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 2014 recorded a projected funding position of 97%. 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:

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

The total contributions payable for the period 1 April 2014 to 31 March 2015 are shown in the table below:

Year to	Rate (as % of pensionable payroll)	Additional Monetary Payments £000
31 March 2015	33.4	2,600

Notes to the Accounts – Fund No. 3

5. Actuarial Assumptions

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

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

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

For this valuation, the actuary adopted assumptions which give the following sample average future life expectancies for members (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 £148 million as at 31 March 2014 (£138 million as at 31 March 2013). 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.

Notes to the Accounts – Fund No. 3

6. Investments

Statement of Movement in Investments

	Opening Market Value £000	Purchases and Derivative Payments £000	Sales and Derivative Receipts £000	Other Movements £000	Closing Market Value £000
Investment Assets					
Equities (including convertible shares)	26,877	1,923	(31,162)	2,366	4
Index Linked Securities Public Sector	40,969		(38,504)	(2,465)	0
Pooled Investment Vehicles – Unit Trusts	82,727	91,291	(30,773)	(1,478)	141,767
Pooled Investment Vehicles – Real					
Estate Unit Trusts	4,953	266	(5,504)	285	0
Derivative Contracts	8	15,284	(15,271)	(21)	0
Cash Deposits	1,007			13,726	14,733
Other Investment Balances	389			15	404
Total Assets	156,930	108,764	(121,214)	12,428	156,908
Investment Liabilities					
Derivative Contracts	(9)			9	0
Creditors	(67)			67	0
Total Liabilities	(76)	0	0	76	0
Net Investment Assets	156,854	108,764	(121,214)	12,504	156,908

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 £0.02m (£0.03m in 2012/13).

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 2014 are nil.

Notes to the Accounts – Fund No. 3

7. Fund Management

The investment assets of the Fund are externally managed.

Investment management arrangements as at 31 March 2014 are shown below:

Asset Class	Fund Manager	% managed
Liability Driven Investment Strategy	Legal and General	78.5
Multi Asset – Absolute Return	Ruffer	17.9
Global Equity and Property	Schroder	3.6
Government Bonds	Schroder	0

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 2014 was £156.9 million. During 2013/14 the fund implemented a de-risking strategy which resulted in significant movements between the asset categories as shown in the net assets statement.

8. Notifiable Holdings

As at 31 March 2014 the Fund had holdings exceeding 5% of the total value of net assets in:

	£000	%
Legal and General HD Active Corp (All Stocks)	28,501	21.2
Ruffer Absolute Return Fund	28,103	20.9
1.25% Index Linked Government Bonds Nov 27	12,879	9.6
1.25% Index Linked Government Bonds Nov 32	12,815	9.5
Legal and General – Enhanced Matching Fund 2035 RPI	8,883	6.6
0.625% Index Linked Government Bonds Nov 42	7,669	5.7

9. Analysis of Investments

Investments can be further analysed as follows:

	Quoted £000	Unquoted £000	Other £000	Total £000
Assets				
Equities (including convertible shares)	4	0	0	4
Index Linked Securities	0	0	0	0
Pooled Investment Vehicles – Unit Trusts	0	141,767	0	141,767
Pooled Investment Vehicles – Real Estate Unit Trusts	0	0	0	0
Derivative Contracts	0	0	0	0
Cash Deposits	0	0	14,733	14,733
Other Investment Balances	0	0	404	404
Total Assets	4	141,767	15,137	156,908
Liabilities				
Derivative Contracts	0	0	0	0
Creditors	0	0	0	0
Total Liabilities	0	0	0	0
Net Investment Assets	4	141,767	15,137	156,908

Notes to the Accounts – Fund No. 3

	UK £000	Overseas £000	Total £000
Assets			
Equities (including convertible shares)	4	0	4
Index Linked Securities Public Sector	0	0	0
Pooled Investment Vehicles – Unit Trusts	125,452	16,315	141,767
Pooled Investment Vehicles – Real Estate Unit Trusts	0	0	0
Derivative Contracts	0	0	0
Cash Deposits	14,733	0	14,733
Other Investment Balances	404	0	404
Total Assets	140,593	16,315	156,908
Liabilities			
Derivative Contracts	0	0	0
Creditors	0	0	0
Total Liabilities	0	0	0
Net Investment Assets	140,593	16,315	156,908

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:

2012/13 £000		2013/14 £000
28	Employee Costs	29
20	Actuarial Fees	0
48		29

12. Investment Expenses

The total investment expenses were as follows:

2012/13 £000		2013/14 £000
58	Management Fees	106
42	Actuarial Fees	0
100		106

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 2013/14 the amount recharged by Glasgow City Council to the Strathclyde Pension Fund for administration costs was £0.029m (2012/13 £0.028m)

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

Notes to the Accounts – Fund No. 3

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 2014 stock with a market value of nil was on loan (£125,000 as at 31 March 2013).

15. Contractual Commitments

The Fund had no contractual commitments at the year end.

16. Contingent Assets and Liabilities

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

17. Statement of Investment Principles

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

18. Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair values of financial assets and liabilities by category and net asset statement heading for the year ended 31 March 2014.

<i>Fair value through profit & loss</i>	<i>Loans & receivables</i>	<i>Financial liabilities at amortised cost</i>		<i>Fair value through profit & loss</i>	<i>Loans & receivables</i>	<i>Financial liabilities at amortised cost</i>
£000	£000	£000		£000	£000	£000
31 March 2013				31 March 2014		
Financial Assets						
26,877	0	0	Equities	4	0	0
40,969	0	0	Index Linked Securities	0	0	0
82,727	0	0	Pooled Investment Vehicles – Unit Trusts	141,767	0	0
4,953	0	0	Pooled investment Vehicles – Real Estate Unit Trusts	0	0	0
8	0	0	Derivative Contracts	0	0	0
0	1,007	0	Cash	0	14,733	0
0	389	0	Other Investment Balances	0	404	0
155,534	1,396	0		141,771	15,137	0
Financial Liabilities						
(9)	0	0	Derivatives	0	0	0
0	0	(67)	Other Investment Liabilities	0	0	0
(9)	0	(67)		0	0	0
155,525	1,396	(67)	Net Financial Assets	141,771	15,137	0

Notes to the Accounts – Fund No. 3

The table below shows net gains and losses on financial instruments for the year ended 31 March 2014:

31 March 2013			31 March 2014	
£000	Financial Assets			£000
18,156	Fair value through profit and loss			(1,292)
0	Loans and receivables			(28)
0	Financial liabilities measured at amortised cost			0
	Financial Liabilities			
0	Fair value through profit and loss			(14)
0	Loans and receivables			0
0	Financial liabilities measured at amortised cost			0
18,156	Total			(1,334)

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 2014:

31 March 2013			31 March 2014	
Carrying Value	Fair Value		Carrying Value	Fair Value
£000	£000		£000	£000
		Financial Assets		
111,668	155,534	Fair value through profit and loss	134,262	134,262
1,178	1,396	Loans and receivables	22,646	22,646
0	0	Financial liabilities measured at amortised cost	0	0
112,846	156,930		156,908	156,908
		Financial Liabilities		
0	(9)	Fair value through profit and loss	0	0
0	0	Loans and receivables	0	0
(76)	(67)	Financial liabilities measured at amortised cost	0	0
(76)	(76)		0	0
112,770	156,854	Total	156,908	156,908

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

Notes to the Accounts – Fund No. 3

Level 1

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

Level 2

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

Level 3

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

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

Level 1 £000 31 March 2013	Level 2 £000	Level 3 £000		Level 1 £000 31 March 2014	Level 2 £000	Level 3 £000
			Financial Assets			
104,221	51,313	0	Fair Value through profit and loss	28,126	106,132	4
1,396	0	0	Loans and receivables	15,114	7,532	0
0	0	0	Financial liabilities measured at amortised cost	0	0	0
105,617	51,313	0		43,240	113,664	4
			Financial Liabilities			
(9)	0	0	Fair Value through profit and loss	0	0	0
0	0	0	Loans and receivables	0	0	0
(67)	0	0	Financial liabilities measured at amortised cost	0	0	0
(76)	0	0		0	0	0
105,541	51,313	0	Net Financial Assets	43,240	113,664	4

Notes to the Accounts – Fund No. 3

19. Nature and Extent of Risks Arising From Financial Instruments

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

Market Risk

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

Other Price Risk

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

Other Price Risk - Sensitivity Analysis

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

Asset Type	Potential Market Movement (+/-)
UK Equities	16.6%
Overseas Equities	19.4%
Corporate Bonds	9.6%
Index Linked Gilts	5.0%
Cash	0.6%

Notes to the Accounts – Fund No. 3

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

Asset Type	Value as at 31 March 2014 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	14.733	0.6%	14.822	14.645
Investment portfolio assets:				
UK bonds	0	0.0%	0	0
Overseas bonds	0	0.0%	0	0
UK equities	4	16.6%	4	3
Overseas equities	0	19.4%	0	0
UK fixed Income unit trusts	52.195	9.6%	57.206	47.184
Overseas fixed Income unit trusts	0	9.6%	0	0
UK equity unit trusts	65.724	16.6%	76.635	54.815
Overseas equity unit trusts	16.316	19.4%	19.481	13.150
Pooled property Investments	0	0.0%	0	0
Hedge Fund	0	0.0%	0	0
Private equity/Infrastructure funds	0	0.0%	0	0
Cash Funds	7.532	0.6%	7.577	7.486
Property	0	0.0%	0	0
Net derivative assets	0	0.0%	0	0
Investment income due	23	0.0%	23	23
Pending Spot FX	0	0.0%	0	0
Amounts receivable for sales	381	0.0%	381	381
Amounts payable for purchases	0	0.0%	0	0
Obligation to Return Cash Collateral Hld	0	0.0%	0	0
Total	156.908		176.129	137.687

The prior year comparators for 2012/13 are as follows:

Asset Type	Value as at 31 March 2013 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	1,007	0.8%	1,016	999
Investment portfolio assets:				
<i>UK bonds</i>	40,969	8.5%	44,451	37,487
<i>Overseas bonds</i>	0	0.0%	0	0
<i>UK equities</i>	18,847	16.0%	21,862	15,831
<i>Overseas equities</i>	8,030	19.0%	9,556	6,505
<i>UK fixed Income unit trusts</i>	15,158	10.4%	16,735	13,582
<i>Overseas fixed Income unit trusts</i>	0	0.0%	0	0
<i>UK equity unit trusts</i>	55,630	16.0%	64,531	46,729
<i>Overseas equity unit trusts</i>	11,938	19.0%	14,206	9,670
<i>Pooled property Investments</i>	0	0.0%	0	0
<i>Hedge Fund</i>	4,953	14.5%	5,671	4,235
<i>Private equity/Infrastructure funds</i>	0	0.0%	0	0
<i>Cash Funds</i>	0	0.0%	0	0
<i>Property</i>	0	0.0%	0	0
<i>Net derivative assets</i>	0	0.0%	0	0
<i>Investment income due</i>	318	0.0%	318	318
<i>Pending Spot FX</i>	0	0.0%	0	0
<i>Amounts receivable for sales</i>	71	0.0%	71	71
<i>Amounts payable for purchases</i>	(67)	0.0%	(67)	(67)
<i>Obligation to Return Cash Collateral Hld</i>	0	0.0%	0	0
Total	156,854		178,350	135,360

Notes to the Accounts – Fund No. 3

Interest Rate Risk

The Fund invests in financial assets with the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out below.

Asset Type	As at 31 March 2013	As at 31 March 2014
	£000	£000
Cash Balances – Investments	1,007	14,733

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 2014	+100 BPS	-100 BPS
	£000	£000	£000
Cash Balances – Investments	14,733	14,880	14,586

Asset Type	As at 31 March 2013	+100 BPS	-100 BPS
	£000	£000	£000
Cash Balances – Investments	1,007	1,018	997

Currency Risk

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

Notes to the Accounts – Fund No. 3

Currency Risk – Sensitivity Analysis

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

Asset Type	As at 31 March 2014 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas quoted securities				
Overseas unquoted securities				
Overseas fixed income				
Overseas unit trusts	16,315	13.00%	18,436	14,194
Hedge funds overseas equity				
Hedge funds overseas fixed interest				
Overseas public sector bonds (quoted)				
Overseas corporate bonds (quoted)				
Overseas corporate bonds (unquoted)				
Total	16,315		18,436	14,194

Credit Risk

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

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

20. Analysis of Investment Assets (IAS19)

In accordance with the requirements of IAS19 the following statement provides a detailed analysis of investment assets as at 31 March 2014 with comparators for 2013.

<i>Quoted £000</i>	<i>Unquoted £000</i>	<i>Total £000</i>		<i>Quoted £000</i>	<i>Unquoted £000</i>	<i>Total £000</i>
31 March 2013				31 March 2014		
			Equity Securities			
5,913	0	5,913	Consumer	0	0	0
6,020	0	6,020	Manufacturing	0	3	3
3,905	0	3,905	Energy and Utilities	0	0	0
6,225	0	6,225	Financial Institutions	0	0	0
2,659	0	2,659	Health and Care	0	0	0
2,248	0	2,248	Information Technology	0	0	0
			Debt Securities			
0	41,085	41,085	UK Government	0	0	0
			Investment funds and unit			
8,905	58,673	67,578	Equities	0	82,041	82,041
0	15,158	15,158	Bonds	0	52,195	52,195
0	0	0	Hedge Funds	0	7,532	7,532
2,253	2,700	4,953	Property	0	0	0
0	1,111	1,111	Cash and cash equivalents	0	15,137	15,137
38,128	118,727	156,855	Totals	0	156,908	156,908

Annual Assurance Statement

Scope of responsibility

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

In discharging this overall responsibility, the Council's Corporate Management Team is responsible for putting in place proper arrangements (known as the governance framework) for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk. The Council has approved and adopted a Local Code of Corporate Governance (the Code), which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) Framework: Delivering Good Governance in Local Government.

The Annual Assurance Statement by Glasgow City Council is published in the Financial Statements each year and can be found on the Council's website at:

<http://www.glasgow.gov.uk/index.aspx?articleid=3134>

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

The regulations also require the administering authority to produce a Governance Compliance Statement which describes how it delegates the function of maintaining the pension fund. Glasgow City Council delegates this function to the Strathclyde Pension Fund Committee. Following the Local Government Election in May 2012 the committee terms of reference were reviewed. The revised terms confirm that the Committee has the power to discharge all functions and responsibilities relating to the Council's role as administering authority for the Strathclyde Pension Fund in terms of the Local Government

(Scotland) Act 1994, the Superannuation Act 1972 and the scheme regulations. The committee is also responsible for governance arrangements including regulatory compliance and implementation of audit recommendations.

Due to the structure and nature of the Strathclyde Pension Fund, financial data is held and transactions processed via a number of different sources, systems and reporting mechanisms. These can be broken broadly into three areas as follows.

- Funding: long term cash flows and financing requirements are assessed in the three yearly actuarial valuation. A quarterly funding projection is also produced by the Fund actuary.
- Investment: day-to-day management of investments is outsourced to a number of external parties. Detailed investment records are maintained by the Fund's external investment managers and global custodian and summarised in regular investment reports.
- Administration: in February 2013 a new software package for calculating and recording pensions benefits was introduced. Payments are made from the SPFO bank account, and the Council's SAP-based financial systems are used for reporting.

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

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

Review of effectiveness

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

Annual Assurance Statement Continued....

A review of the Council's governance framework is conducted on an annual basis by means of a self assessment questionnaire based on the principles contained in the CIPFA/SOLACE Framework. Issued by Internal Audit it is designed to allow the head of each service/organisation included in the Council's Financial Statements to determine the extent to which their service/organisation complies with these principles. The accuracy of the responses to these questionnaires is reviewed on a rolling basis by Internal Audit. In 2012/13 the Strathclyde Pension Fund was included separately in this process for the first time and the responses provided by staff have been reviewed by Internal Audit during 2013/14.

Strathclyde Pension Fund's external auditors, Audit Scotland, reviewed our systems of internal control and concluded that they operate effectively and can be rely upon for the preparation of the 2013/14 financial statements. The review highlighted one area where there is scope to strengthen controls in relation to checking pensions processing and plans to address this have been put in place.

Glasgow City Council's Head of Audit & Inspection has confirmed there are no significant governance issues that require to be reported as a result of the work undertaken by internal audit.

Significant governance issues

The system of governance (including the system of internal control) can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, that material errors or irregularities are either prevented or would be detected within a timely period and that significant risks impacting on the achievement of our objectives have been mitigated.

In 2013/14 no significant control issues were identified in the Glasgow City Council Annual Assurance Statement which would impact upon Strathclyde Pension Fund.

The reviews carried out by internal and external audit found no significant weaknesses in our control systems.

Conclusion

Systems are in place to continually review and improve the governance and internal control environment. We consider the governance and internal control environment operating during 2013/14 to provide reasonable and objective assurance that any significant risks impacting on the achievement of the Fund's principal objectives will be identified and actions taken to avoid or mitigate their impact.

Where areas for improvement have been identified and action plans agreed they are treated as a priority and progress towards their implementation is regularly reviewed by the Strathclyde Pension Fund Office Leadership Team.

Councillor Paul Rooney

Convener, Strathclyde Pension Fund Committee
September 2014

George Black

Chief Executive
September 2014

INTERNAL AUDIT ASSURANCE STATEMENT 2013/14

Scope of responsibility

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

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

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

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

Assurance Work undertaken by Internal Audit

The Council's Internal Audit section complies with the Public Sector Internal Audit Standards. Assurance work undertaken within SPFO in 2013/14 as part of an agreed audit plan included:

- A review of the status of the governance arrangements by sample checking the answers provided in the self assessment governance questionnaire completed in March 2013. This review sought to gain assurance that sound arrangements were in place.

- A review of the performance management reporting system in place. This review sought to gain assurance that SPFO has effective arrangements in place to monitor performance of the organisation using Key Performance Indicators (KPIs) and targets.
- A review of the procurement arrangements for pension fund managers. The purpose of this review was to gain assurance that the process for procuring fund managers is operating as designed and complies with the Council's Procurement Manual and Standing Orders. The audit included reviewing the tendering arrangements and the evaluation and contract award processes.

Governance issues

The system of governance (including the system of internal control) can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, that material errors or irregularities are either prevented or would be detected within a timely period and that significant risks impacting on the achievement of the organisation's objectives have been mitigated.

Based on the audit work undertaken during 2013/2014 the internal control arrangements are operating as planned and there are no significant issues, specific to the Pension Fund, which require to be reported.

It should be noted that the Council's Governance Statement refers to an issue of firewall management. The parts of the firewall tested did not directly affect the systems used by the Pension Fund but the council's IT provider ACCESS will implement any recommendations across all firewalls on the council's network.

Certification

It is my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the system of internal control in the Strathclyde Pension Fund Office.

Peter Marsh

Head of Audit and Inspection
September 2014

Strathclyde Pension Fund – Policy on Representation

1. Policy

Glasgow City Council, in its role as Administering Authority for the Strathclyde Pension Fund, will maintain a Representative Forum as the principal means to allow interested parties to comment on matters relating to the Fund.

2. Executive Responsibility

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

3. Forum Objectives

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

4. Forum Remit and Role of Forum Members

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

5. Meetings

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

6. Chair

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

7. Committee Members

An additional Committee member will be nominated as the Chair's designated alternate. Other Committee Members may attend in an observer role.

8. Officer Support

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

9. Training

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

10. Agenda

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

11. Administration

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

12. Membership

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

Stakeholder Group	Forum Places	Basis
Local Authorities	11	One from each authority except GCC
Scheduled Bodies	3	Police, Fire, and Water permanent
FE Colleges	1	

Large Admitted Bodies	2	2 from City Building, GHA, Culture & Sport, Skills Development Scotland, Strathclyde University
Medium Admitted Bodies	2	Invite or nominate
Small Admitted Bodies	2	Invite or nominate
Transferee Admitted Bodies	0	Include with Small Admitted Bodies
Administering Authority	2	Chair and alternate
Trade Unions	5	UNISON, AMICUS/UNITE, T&G/UNITE UCATT, GMB
Pensioner/Deferred	2	Refresh via Pensionnews/In Touch
Totals	30	

Nomination of representatives will be the responsibility of the various constituent groups, but SPFO will assist in the process where possible.

Strathclyde Pension Fund – Governance Compliance Assessment

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

The Principles

Structure

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

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

Note on compliance

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

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

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

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

Committee Membership and Representation

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

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

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

	Non Compliant				Compliant
a)					✓
b)					✓

Note on compliance
 The Representative Forum includes employing authority and admitted body representatives.
 The Representative Forum includes trade union, pensioner and deferred member representatives.
 The Representative Forum agenda is based on and usually identical to the Committee agenda.
 The Fund's actuarial advisers, investment consultants and investment advisors routinely attend Committee meetings.
 The training policy and practice statements and training plan apply equally to the Representative Forum and Committee.

Selection and role of lay members

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

	Non Compliant				Compliant
a)					✓
b)					✓

Note on compliance
 All Committee and Representative Forum members are offered induction training covering the status, role and all of the functions of the respective bodies.
 Declaration of interests are managed in line with the Code of Conduct issued by the Standards Commission for Scotland.

Voting

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

	Non Compliant				Compliant
a)					✓

Note on compliance
 All Committee members have full voting rights.

Training/Facility time/Expenses

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

	Non Compliant				Compliant	
a)					✓	
b)						
c)						

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

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

A summary of training undertaken is reported each year.

Meetings (frequency/quorum)

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

	Non Compliant				Compliant	
a)					✓	
b)						
c)						

Note on compliance
 Regular quarterly Committee meetings are held.

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

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

Access

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

	Non Compliant				Compliant
a)					√

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

Scope

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

	Non Compliant				Compliant
a)					√

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

Regular reports include coverage of:

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

Publicity

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

	Non Compliant				Compliant
a)					√

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

Independent Auditor's Report

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

I certify that I have audited the financial statements of Strathclyde Pension Fund for the year ended 31 March 2014 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 2013/14 (the 2013/14 Code).

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

Respective responsibilities of the Executive Director of Financial Services and Deputy Chief Executive and auditor

As explained more fully in the Statement of Responsibilities, the Executive Director of Financial Services and Deputy Chief Executive 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 Executive Director of Financial Services and Deputy Chief Executive; 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge

acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2013/14 Code of the financial transactions of the fund during the year ended 31 March 2014, 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 2013/14 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 matter

In my opinion the information given in the Explanatory 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
Assistant Director
Audit Scotland
18 George Street
Edinburgh
EH2 2QU

25 September 2014



CONTACTS

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

Managing the Local Government Pension Scheme in the west of Scotland

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Delivering excellence in Scotland's public sector pensions

Ref: 2014 Annual Report 06/14