



# ANNUAL REPORT AND FINANCIAL STATEMENTS

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**FOR THE YEAR ENDED  
31 MARCH 2016**





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# SECTION 1

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## INTRODUCTION





## ABOUT STRATHCLYDE PENSION FUND

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

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

**Strathclyde is the second largest of the LGPS funds.**

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

- The scheme rules take the form of a series of regulations – the Local Government Pension Scheme (Scotland) Regulations. The regulations are Scottish Statutory Instruments (SSIs). There are separate sets of regulations to set out the scheme benefits, investment arrangements and governance requirements.
- The LGPS is a multi-employer defined benefit scheme. The benefits are based on final salary for all service to 31st March 2015 and career average earnings for benefits from 1st April 2015.
- The Strathclyde Pension Fund was created in 1974. It has been managed by Glasgow City Council since 1996.
- The Fund is a pool into which member and employer contributions are paid. The money is invested so that pension benefits can be paid as they fall due.
- Participating employers include the 12 local authorities in the west of Scotland; Police Scotland, Scottish Fire and Rescue, and Scottish Water; a number of universities and colleges; local authority subsidiary companies and contractors; and a wide range of other organisations with funding or service links to the local authority sector.
- As at 31st March 2016 the Strathclyde Pension Fund had 216,274 members, 200 participating employers and investment assets of over £16 billion.

## FOREWORD

Having served on the Strathclyde Pension Fund Committee continuously since 2010 and as Vice-convener since 2012, it was a great honour to take the chair as Convener in January 2016. In that context, I am happy to report that in the year to 31st March 2016 the Fund achieved a 7th consecutive year of investment growth with total investment assets standing at over £16 billion for the first time at the year end. Membership figures also increased to a new high of over 216,000.

A fund of the size and complexity of the Strathclyde Pension Fund inevitably faces a steady series of new developments, opportunities and challenges. This has been so over the year 2015/16 and is set to continue. The role of the committee is to oversee developments and make strategic decisions in respect of the opportunities and challenges. The committee is greatly assisted in this role by the Pension Board, a team of internal and external advisers, and the staff of the Strathclyde Pension Fund Office (SPFO) who diligently implement the decisions.

During 2015/16 the committee considered a series of recommendations relating to the investment strategy of the Fund and agreed a number of changes designed to address the challenges presented by the Fund's maturing membership and liability profile and the continuing low inflation, low growth economic environment. These changes involve some interesting and very attractive new investment opportunities: the Fund made its first strategic allocations during the year to private debt (£300m) and multi-asset credit (£450m), both areas traditionally dominated by investment banks but now open to other institutional lenders and investors.

The theme of bank-replacement investment activity has been one which the Fund has pursued through its New Opportunities Portfolio since 2009. During 2015/16 the portfolio was re-branded as the Strathclyde Direct Investment Portfolio and made 10 new investment commitments totalling some £300m. These include a broad range of renewable energy activity (offshore

wind, onshore wind, community power schemes and a new anaerobic digestion plant); plus areas as diverse as UK infrastructure, small company debt and equity financing, trade finance and local property. Now with a total of 25 separate lines of investment, the portfolio services a broad range of market needs, and benefits from a diverse stream of investment returns.

The Committee pays particular attention to the Fund's responsible investment strategy and receives a detailed report on its latest developments and activities at every meeting. A review of the strategy was completed during the year and a number of new strands of activity were agreed with a particular focus on developing a smart and sensible carbon management strategy.

On the scheme administration side, the committee's principal role is to monitor performance and developments. This year saw a very major development with the introduction of a new career average scheme – LGPS 2015 – replacing the final salary scheme for all service from 1st April 2015. I am pleased to report that this significant change was accomplished with great success by the SPFO and the Fund's employers and only minor teething problems were experienced.

Alongside the new scheme, new governance arrangements for public sector pension funds were introduced. In line with the new requirements, we established a Pension Board of employer and trade union representatives which now meets alongside the Committee and supports its work.

I would like to take this opportunity to record my thanks to my colleagues on the Strathclyde Pension Fund Committee and Board, our various advisers, and the staff of the pension fund office for their continuing support and dedication.



**Bailie Philip Braat**  
**City Treasurer and Convener,**  
**Strathclyde Pension Fund**  
**Committee**  
**June 2016**

# MANAGEMENT COMMENTARY

## Strategy and objectives

The Fund's longer term policies, objectives and strategies are agreed by the Strathclyde Pension Fund Committee and set out in its policy documents. These cover governance and the funding, investment, administration and communications strategies. Each of these is reproduced or summarised within this annual report. All documents are available from the Fund's website at: [www.spfo.org.uk](http://www.spfo.org.uk) All have a common purpose: to secure the payment of pensions benefits now and in the future to the Fund's 216,000 members.

## Business plan

The committee agrees an annual business plan to ensure that ongoing management and development of the Fund is in line with the longer term policy, objectives and strategy. The plan sets out resource requirements, Key Performance Indicators (KPIs) and business and development priorities for the coming year. Priorities for 2015/16 included completing the review of investment strategy initiated alongside the 2014 actuarial valuation of the Fund; implementation of the new LGPS 2015 scheme rules and governance arrangements; and review of responsible investment strategy and actuarial and investment consultancy arrangements. Each of these was successfully progressed over the course of the year whilst day-to-day performance targets were achieved in most areas of activity.

## Investment

Concerns over slowing growth, falling oil prices and geopolitical unrest weighed heavily on global equity markets throughout 2015/16 causing ongoing volatility and resulting in most markets, with the notable exception of the US, posting negative returns for the year. In spite of this, the Fund achieved a positive outcome.

The Fund's total investment return for the year was +2.1%. This marked a 7th consecutive year of investment growth albeit at a more subdued level than in previous years and driven more by income than capital growth. Investment income from dividends, rents and interest was £229m. Capital growth - change in market value of investments - was £174 million.

Performance relative to benchmark was positive for a 3rd consecutive year. Average annual return over the last 5 years now stands at 7.5% p.a., comfortably ahead of the strategic benchmark return of +6.9% and significantly better than the actuary's long-term investment assumption of +4.9% p.a.

Closing net assets of the Fund were £16.059 billion, another new high and an increase of £300 million from 31st March 2015.

The Fund's investment strategy remains heavily biased towards equities but this is changing. Over the course of the year, the Committee agreed a series of investment proposals which will result in a significant reduction in equity exposure in favour of a broader asset base. New investments agreed included private debt, global credit and UK infrastructure (with a focus on renewable energy). This strategic shift reflects the Fund's changing member, liability and cash-flow dynamics which are reducing its tolerance for the volatility which accompanies equity market returns. New investments are more focused on predictable returns, longer holding periods, and income and inflation protection.

## Funding

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





A trend of strong investment returns outpaced or matched by growth in the valuation of the liabilities started before the 2011 actuarial valuation and continued over the last year. The estimated funding position at 31st March 2016 was 86.1%. This was largely unchanged from the previous year-end (86.2%), though there was considerable intra-year volatility.

### **Administration**

After much preparation the new career average version of the Local Government Pension Scheme - LGPS 2015 - went "live" with effect from 1st April 2015. This was a major milestone, though its immediate impact is in some ways limited. Member benefits accrued prior to that date are fully protected, so for the foreseeable future the vast majority of liabilities and pension paid will be based on the "old" final salary scheme. The administrative challenge has been to manage the complexity of adding the new LGPS 2015 1/49th career average accrual to the previous 1/60th and 1/80th final salary rates and their various historic protections, amendments and transitional arrangements. The implementation project within Strathclyde Pension

Fund Office (SPFO) was entirely successful, albeit the resource required had some detrimental effect on day-to-day processing times. The only significant delays resulted from delayed receipt of factor tables used in a number of calculations including transfer values. A fairly limited number of members were impacted and the issue was resolved by September.

Some delays in processing also resulted from a major incident in the Council's primary data centre in December which caused significant disruption to systems across the Council. Crucially, SPFO suffered no loss or corruption of data, but did suffer several unplanned days of system downtime. In spite of this, turnaround performance was achieved in 9 out of 11 categories over the year as a whole. Performance in processing retirements, both provisional and actual, was behind target throughout the year, though considerable improvement had been made by the year end.

### **Communications**

In addition to the administrative impact, the increasing complexity of the scheme presents a

major communications challenge: how to help members fully understand their own pensions situation and options. Both are essential to ensuring optimal member outcomes. With this in mind, a complete re-design of the Fund's website was commissioned and the site [www.spfo.org.uk](http://www.spfo.org.uk) was re-launched during October with clearer, better organised member content. By then every member had been issued with an individual login to the SPFOOnline facility which allows them to view their own pension record, update their personal details, and use a range of modelling tools. This completed the first phase of the Fund's digital communications strategy. Future phases will focus on further improving members' access to digital information and increasing member usage. At 31st March 2016 a total of 43,148 members had registered to actively use SPFOOnline, well ahead of the target figure of 30,000.

### Membership

Numbers for all member categories grew during the year. Total membership as at 31st March 2016 was 216,274, the highest it has been to date. Notably, employee membership, which had reached a peak in 2009 before declining sharply for the 3 following years, surpassed the 2009 level this year and finished at a new high of 92,717. Employee contributions increased from £113 million to £117 million. Total income from dealing with members increased from £493 million to £513 million.

Expenditure on members increased from £512 million to £523 million, a slightly lower rate of growth than previously. Net member cash flow was negative for the first time last year. That was the case again in the year to 31st March 2016, but the net expenditure figure reduced from £19 million to £10 million. It is still likely that net expenditure will increase over future years, but that may not be a linear or rapid change. Investment income will provide ample cover of this for the foreseeable future.

### Risk

The main risks reflected in the risk register were largely unchanged over the year. Both the funding and investment strategies are firmly risk-based and long-term in perspective. More immediate operational risks are reviewed in a programme of

internal and external audit. Some 14 audit reports were received by the Committee during the year. An appropriate action plan was agreed and is being implemented in each instance.

The future is inherently uncertain, and this unpredictability can increase as a result of new developments or events such as the UK referendum on EU membership shortly after the year end. But this tends to increase the volatility of Fund performance and progress rather than the absolute risk of failing to achieve objectives.

### Conclusion

The individual Financial, Investment, Funding and Administration sections of the Annual Report provide a detailed analysis of performance and progress. In summary, the year to 31st March 2016 was very satisfactory for the Strathclyde Pension Fund, characterised by continuing growth in value and membership, good all round performance against targets, and steady progress towards strategic objectives.

### No.3 Fund

The No.3 Fund has been closed to new membership since it was created in 1993. As a result it is well past its natural growth phase and starting to enter run-off. Total payments to members in 2015/16 were £7.110 million, significantly more than member income of £2.487m. The Fund has been largely de-risked in recent years in anticipation of entering this phase. Fund value reduced from £187 million to £184 million over the year. But liabilities also reduced from around £198 million to £197 million. Given its mature membership and liability-matching investment strategy, this is likely to be the broad trend of this Fund's remaining life cycle.

### Baillie Philip Braat

City Treasurer and Convener,  
Strathclyde Pension Fund Committee  
27 September 2016

### Annemarie O'Donnell

Chief Executive,  
Glasgow City Council  
27 September 2016

### Lynn Brown

Executive Director of  
Financial Services,  
Glasgow City Council  
27 September 2016

## KEY TRENDS

### MEMBERSHIP AND MEMBER TRANSACTIONS

	2011/12	2012/13	2013/14	2014/15	2015/16
Employers	226	233	215	202	200
Employee Members	81,522	81,994	87,197	90,057	92,717
Deferred Members	46,622	46,274	47,243	49,215	50,545
Pensioners	67,543	68,857	70,404	71,605	73,012
<b>Total Members</b>	<b>195,687</b>	<b>197,125</b>	<b>204,844</b>	<b>210,877</b>	<b>216,274</b>

	(£000)	(£000)	(£000)	(£000)	(£000)
Employer Contributions	398,708	382,255	368,250	373,129	391,445
Employee Contributions	109,807	107,683	110,282	113,041	116,760
Lump Sums Paid	(135,572)	(106,820)	(95,792)	(98,845)	(104,098)
Pensions Paid	(320,557)	(346,939)	(371,118)	(388,953)	(396,791)
Other Payments	(4,888)	(8,825)	(9,904)	(17,684)	(17,541)
<b>Net</b>	<b>47,498</b>	<b>27,354</b>	<b>1,718</b>	<b>(19,312)</b>	<b>(10,225)</b>

### INVESTMENTS

	2011/12	2012/13	2013/14	2014/15	2015/16
	(£000)	(£000)	(£000)	(£000)	(£000)
Opening Value	11,320,372	11,450,885	13,066,241	13,944,975	15,758,296
Investment Income	154,467	167,528	194,257	199,973	228,708
Costs	(22,306)	(23,412)	(111,190)	(94,641)	(92,533)
Member Transactions	47,498	27,354	1,718	(19,312)	(10,225)
Change in Value	(49,146)	1,443,886	793,949	1,727,301	174,275
<b>Closing Value</b>	<b>11,450,885</b>	<b>13,066,241</b>	<b>13,944,975</b>	<b>15,758,296</b>	<b>16,058,521</b>



# SECTION 2

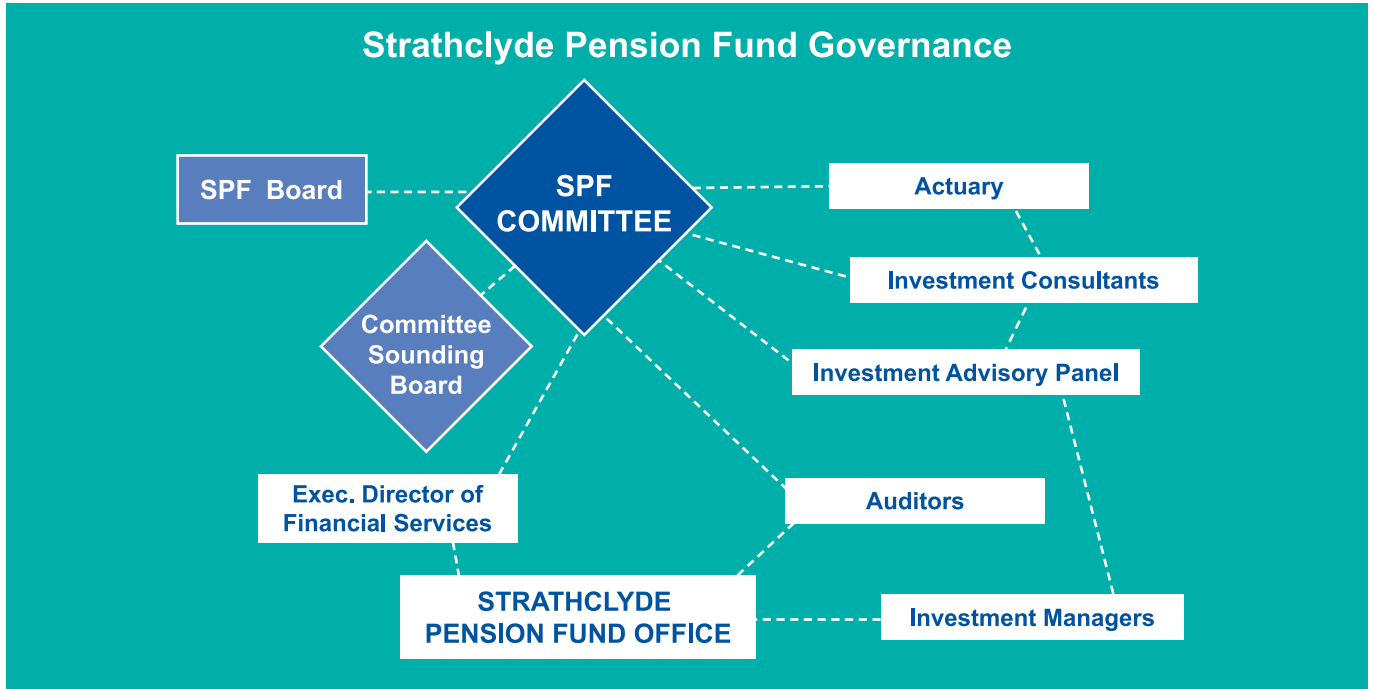
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## GOVERNANCE



# WHO MANAGES THE STRATHCLYDE PENSION FUND?

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



**The Strathclyde Pension Fund Committee** is the main decision-making body for the Fund.

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

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

**The Executive Director of Financial Services** is the principal adviser to the Committee.

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

**The actuary** provides advice on funding.

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

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

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

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

## STRATHCLYDE PENSION FUND COMMITTEE

The Council and the Committee recognise that they have fiduciary duties and responsibilities towards pension scheme members, participating employers and local taxpayers that are analogous to those holding the office of trustee in the private sector. The Committee is comprised of elected members of Glasgow City Council. Its membership as at 31st March 2016 is shown below.

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

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



**Bailie Philip Braat**  
(Convener)



**Councillor Malcolm  
Cunning**  
(Vice Convener)



**Bailie Elizabeth  
Cameron**



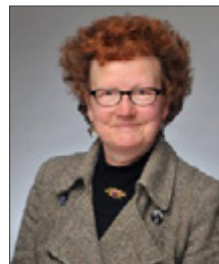
**Cllr Stephen Curran**



**Bailie Norman  
MacLeod**



**Bailie Allan Stewart**



**Bailie Dr Nina Baker**



**Cllr Pauline  
McKeever**

Under its Terms of Reference, the Committee has the power to discharge all functions and responsibilities relating to the Council's role as administering authority for the Strathclyde Pension Fund in terms of the Local Government (Scotland) Act 1994 and the Public Service Pensions Act 2013.

## COMMITTEE SOUNDING BOARD

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

As at 31st March 2016 the Sounding Board membership comprised:

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

## STRATHCLYDE PENSION FUND BOARD

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

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

As at 31st March 2016 the Strathclyde Pension Fund Board membership comprised:

### Employer Representatives

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

### Trade Union Representatives

- |                          |                      |
|--------------------------|----------------------|
| • <b>Andrew Thompson</b> | <b>GMB</b>           |
| • <b>Stewart Young</b>   | <b>UCATT</b>         |
| • <b>James Corry</b>     | <b>Unison</b>        |
| • <b>Robert Gordon</b>   | <b>UNITE (Chair)</b> |

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

- **James Corry (Trade Unions)**
- **Lynn Brown (Employers)**

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



The Pension Board also meets separately from the Pension Committee with the agreement of the Pension Committee.

## INVESTMENT ADVISORY PANEL

The Investment Advisory Panel is responsible for:

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

As at 31st March 2016 the Investment Advisory Panel membership comprised **investment officers** from the Fund and representatives from **Hymans Robertson** as the Fund's **actuary** and **investment consultant** together with 3 independent expert advisers:

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

**Eric Lambert** is an actuary. He had a 35 year career in a number of senior investment roles at first Scottish Widows and subsequently Edinburgh based World Markets (WM) Company, the then leading provider of performance measurement, benchmarking and analytic services to the UK and international pensions industry. He is currently an adviser to 3 other Local Government Pension Schemes and a private sector fund.

**Iain Beattie** is a fellow of the faculty of actuaries and had a 20 year career in investment

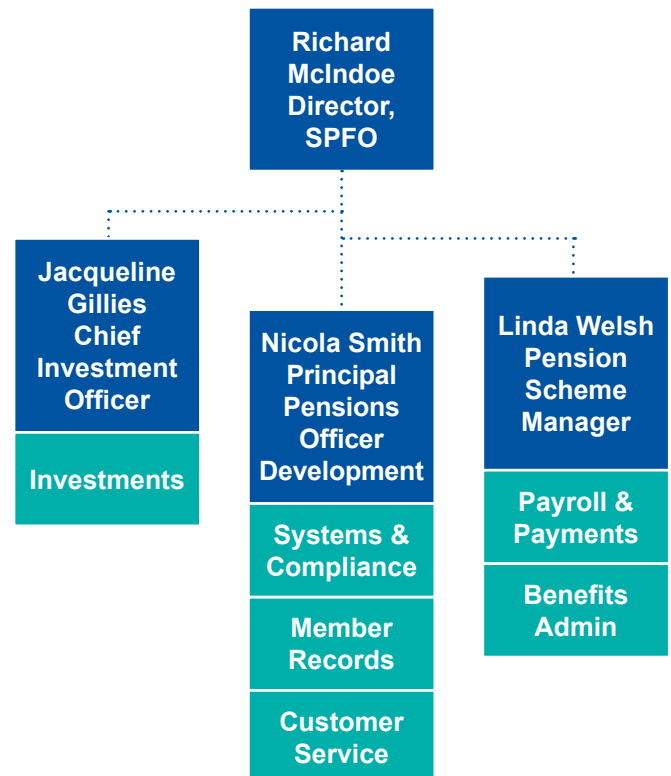
management at a number of Scottish investment houses. His roles included Portfolio Manager, Director, Head of International Equities, and Deputy Chief Investment Officer. He subsequently spent 10 years as a Senior Investment Consultant in Edinburgh and London.

## STRATHCLYDE PENSION FUND OFFICE (SPFO)

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

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

The SPFO structure is illustrated below.



## INVESTMENT MANAGERS AND OTHER SERVICES PROVIDERS AS AT 31ST MARCH 2016

The Investment Managers are responsible for:

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

### INVESTMENT MANAGERS



There were no manager changes in the course of the year.

### OTHER SERVICE PROVIDERS



# TRAINING POLICY AND PRACTICE STATEMENTS

## POLICY STATEMENT

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

## PRACTICE STATEMENT

- Glasgow City Council, as administering authority for the Strathclyde Pension Fund, adopts the key recommendations of *the Code of Practice on Public Sector Pensions Finance Knowledge and Skills*.
- The Council recognises that effective financial administration and decision-making can only be achieved where those involved have the requisite knowledge and skills.
- Accordingly the Council will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.
- These policies and practices will be guided by reference to the comprehensive framework of knowledge and skills requirements as set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.
- The Council will report on an annual basis how these policies have been put into practice throughout the financial year.
- The Council has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Executive Director of Financial Services, who will act in accordance with the Council's policy statement, and with *CIPFA Standards of Professional Practice* (where relevant).



## ANNUAL GOVERNANCE STATEMENT 2015/16

### ROLE AND RESPONSIBILITIES

Glasgow City Council (“the Council”) has statutory responsibility for the administration of the Local Government Pension Scheme (“LGPS”) in the West of Scotland, both on its own behalf and in respect of the other 11 local authorities in the former Strathclyde area, and close to 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 and Public Service Pensions Act 2013.

Glasgow carries out its role as Administering Authority via:

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

### DELEGATION

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

## TERMS OF DELEGATION

The terms, structure and operational procedures of delegation are set out in the Council's Scheme of Delegated Functions and Standing Orders.

These are available at: <https://www.glasgow.gov.uk/index.aspx?articleid=17758>

## COMMITTEE MEETINGS

Meetings of the Strathclyde Pension Fund Committee are held quarterly. Occasional ad hoc meetings are also held as required. Committee meeting dates are listed in the Council Diary which is available at: <http://www.glasgow.gov.uk/councillorsandcommittees/calendar.asp>

## REPRESENTATION

The Strathclyde Pension Fund Committee is comprised solely of elected members of Glasgow City Council.

## COMPLIANCE

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

## PENSION BOARD

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

## SCOPE OF RESPONSIBILITY

As the administering authority for the Fund, the Council is responsible for ensuring that its business, including that of the Fund, is conducted in accordance with the law and proper standards,

and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a statutory duty to make arrangements to secure best value under the Local Government in Scotland Act 2003.

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

The Council has approved and adopted a Local Code of Corporate Governance (the Code), which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) Framework: Delivering Good Governance in Local Government. A copy of The Code is available on the council's website at: <http://www.glasgow.gov.uk/index.aspx?articleid=17539>

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

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

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

The Committee's terms of reference state that the Committee has the power to discharge all functions and responsibilities relating to the Council's role as administering authority for the Strathclyde Pension Fund in terms of the Local Government (Scotland) Act 1994, the Public Service Pensions Act 2013 and the scheme regulations. The Committee is also responsible for the governance arrangements including regulatory compliance and implementation of audit recommendations.

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

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

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

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

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

## REVIEW OF EFFECTIVENESS

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

A review of the Fund's governance framework is conducted on an annual basis by means of a self assessment questionnaire based on the principles contained in the CIPFA/SOLACE Framework. Issued by Internal Audit it is designed to allow the Director of the Strathclyde Pension



Fund to determine the extent to which the Fund complies with these principles. The accuracy of the responses to this questionnaire is reviewed and tested on a rolling basis by Internal Audit, and this was last undertaken as part of the 2013/14 assurance audits.

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

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

There were no significant governance issues in 2014/15 specific to the Strathclyde Pension

Fund and none within the Council's Governance Statement which were of relevance to the Strathclyde Pension Fund.

### **INTERNAL AUDIT OPINION**

Assurance work undertaken within the Strathclyde Pension Fund in 2015/16 as part of the agreed audit plan included the following reviews:

- The Strathclyde Pension Fund's arrangements for dealing with early leavers from the Fund, both those with less than two years membership who receive a refund of their contributions, and contributions for those who have more than two years membership and the membership is deferred.



- The Strathclyde Pension Fund's arrangements for monitoring the performance of its property portfolio management agents.
- An assessment of the arrangements for training and qualifications within the Strathclyde Pension Fund. This review sought to gain assurance that there were adequate arrangements in place to ensure that required staff have the necessary training and qualifications to undertake their duties; that arrangements are in place to ensure training and qualifications are updated as required and that up to date training records are maintained.
- The Strathclyde Pension Fund's arrangements for managing its ICT assets. This review sought to gain assurance that there was an up to date ICT asset register in place and that staff were aware of their responsibilities under the acceptable use, information security and other relevant policies.
- The Strathclyde Pension Fund's arrangements for the payment of death grants over which it has discretion on who to pay. The review sought to gain assurance that there was consistency and transparency over these payments and that payments were in accordance with documented procedures.



## SIGNIFICANT GOVERNANCE ISSUES

Glasgow City Council's Head of Audit and Inspection has confirmed that there are no significant governance issues that require to be reported as a result of the work undertaken by Internal Audit in 2015/16.

The Strathclyde Pension Fund uses and relies on a number of the Council systems, processes and controls. As such, any significant governance issues reported in the Council's Annual Governance Statement are considered for relevance to the Strathclyde Pension Fund. The Council's 2015/16 Annual Governance Statement included reference to an audit of Business Continuity and IT Disaster Recovery Management, which was subject to an unsatisfactory audit opinion.

On 15 December 2015 an incident involving the air handling unit and fire suppression system occurred in the Council's primary data centre. The incident caused significant disruption to the Council's ICT systems. Whilst key business operations were able to continue, such as payments processing and access to social care information, the incident caused significant disruption across the Council group. The Council continues to investigate the incident and conduct lessons-learned reviews. An Internal Audit into Disaster Recovery and Business Continuity controls concluded that the control environment was unsatisfactory and has identified a number of improvement actions for the Council and its ICT partner ACCESS. The incident has highlighted the need to improve the ICT disaster recovery and business continuity controls, including those for the Altair pensions system.

## CERTIFICATION

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance that operate in the Strathclyde Pension Fund. The work undertaken by Internal Audit has shown that, with the exception of those matters listed above, the arrangements in place are operating as planned. We consider the governance and internal control environment operating during 2015/16 to provide reasonable and objective assurance that any significant risks impacting on the Fund's ability to achieve its objectives will be identified and actions taken to avoid or mitigate the impact.

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

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

### **Bailie Philip Braat**

City Treasurer and Convener,  
Strathclyde Pension Fund Committee  
27 September 2016

### **Annemarie O'Donnell**

Chief Executive,  
Glasgow City Council  
27 September 2016

## GOVERNANCE COMPLIANCE ASSESSMENT FOR THE YEAR TO 31ST MARCH 2016

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

### Structure

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

### Committee Membership and Representation

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

### Selection and Role of Lay members

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

### Voting

All committee members have full voting rights.

### Training/Facility time/Expenses

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

### Meetings (frequency/quorum) and Access

The Committee and Board meet at least quarterly. An Annual General Meeting is also held and is attended by a wider group of stakeholders.

### Scope

Regular reports considered by the Committee and Board include:

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

### Publicity

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

### Risk Register

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

The risk register is monitored on an ongoing basis by officers. The complete register is reviewed and approved periodically by the Committee. The principal risks, in terms of their residual ranking, are reported to the Committee each quarter. The principal risks as at 31st March 2016 are summarised on the following page.

Risk ID	Description	Probability ( /5)	Impact ( /5)	Residual Risk Rating ( /25)	Previous Rating (Mar 2015) ( /25)
SPFO5	Pay and price inflation significantly more or less than anticipated.  <b>Impact:</b> increase in liabilities; increase in asset price volatility; potential underfunding; potential increase in employer contribution rates	4	3	12	12
SPFO23	Issues with pensions administration system and other related systems.  <b>Impact:</b> staff downtime, loss of service delivery, potential failure to pay pensions,	3	4	12	12
SPFO31	Employers' failure to carry out statutory functions including submission of member data and contributions to SPFO.  <b>Impact:</b> 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
SPFO7	Pensioners living longer than anticipated in actuarial valuation.  <b>Impact:</b> increase in liabilities; underfunding; potential increase in employer contribution rates.	3	3	9	10
SPFO9	Changes to scheme regulations and other pensions legislation.  <b>Impact:</b> increasing administrative complexity, communications challenges, increase in member opt-outs; pressure on cash flow and funding equation.	3	3	9	9
SPFO30	Failure to recruit, retain and develop appropriate staff.  <b>Impact:</b> loss or failure of service delivery	3	3	9	9



# SECTION 3

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## FINANCIAL STATEMENTS



## STRATHCLYDE PENSION FUND NO. 1

### Fund Account

<i>Restated 2014/15 £000</i>		Note	2015/16 £000
	<b>Contributions and Benefits</b>		
	<b>Income</b>		
373,129	Contributions from Employers	12	391,445
113,041	Contributions from Employees	12	116,760
5,866	Transfers in from Other Pension Funds		3,796
841	Other		553
<b>492,877</b>			<b>512,554</b>
	<b>Expenditure</b>		
388,953	Pensions Payments	12	396,791
98,845	Lump Sum and Death Benefit Payments	12	104,098
24,391	Payments To and On Account of Leavers	13	21,890
<b>512,189</b>			<b>522,779</b>
<b>19,312</b>	<b>Net Reduction from Dealings with Members</b>		<b>10,225</b>
<b>94,641</b>	<b>Management Expenses</b>	14	<b>92,533</b>
	<b>Returns on Investments</b>		
199,973	Investment Income	17	228,708
1,727,301	Change in Market Value of Investments		174,275
<b>1,927,274</b>	<b>Net Returns on Investments</b>		<b>402,983</b>
<b>1,813,321</b>	<b>Net Increase in the Fund during the Year</b>		<b>300,225</b>
13,944,975	Add : Opening Net Assets of the Scheme		15,758,296
<b>15,758,296</b>	<b>Closing Net Assets of the Scheme</b>		<b>16,058,521</b>

## STRATHCLYDE PENSION FUND NO. 1

### Net Assets Statement as at 31 March 2016

2014/15 £000		Note	2015/16 £000
	<b>Investment Assets</b>		
5,836,266	Equities	8,11	5,833,989
6,417,504	Pooled Investment Vehicles	8,11	6,237,577
1,546,669	Private Equity / Infrastructure	8,11	1,826,370
41	Index Linked Securities	8,11	171
10,901	Derivative Contracts	8,11	5,576
1,379,200	Property	8,11	1,570,520
539,680	Cash Deposits	8,11	530,699
33,621	Other Investment Assets	8,11	29,759
<b>15,763,882</b>			<b>16,034,661</b>
(41,865)	Investment Liabilities		(29,603)
82,689	Current Assets		98,916
(46,410)	Current Liabilities		(45,453)
<b>15,758,296</b>	<b>Net Assets of the Fund as at 31 March</b>		<b>16,058,521</b>

The unaudited accounts were issued on 20 June 2016 and the audited accounts were authorised for publication on 27 September 2016.

**Lynn Brown OBE MA (Hons) CPFA**  
Executive Director of Financial Services  
27 September 2016

## 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 includes:

- Employees and pensioners of the 12 local authorities in the former Strathclyde area;
- Civilian employees and pensioners of Police Scotland and Scottish Fire and Rescue Service who along with the Scottish Police Authority 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 participating employers as at 31 March 2016 can be found on pages 118 -120. The major employers and other scheduled bodies are detailed below:

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



## 2. Basis of Preparation

The Financial Statements have been prepared in accordance with the guidelines set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The Financial Statements summarise the transactions of the Fund during the year and the net assets at the year end. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 7 of these accounts.

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

## 3. Summary of Significant Accounting Policies

# FUND ACCOUNT

- **Contributions Income**

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

- **Transfers to and from other schemes**

Transfer values represent the amounts received and paid during the year for members who

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

- **Investment Income**

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

- **Benefits payable**

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

- **Taxation**

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

**Management expenses include the following:**

- **Administrative Expenses**

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

- **Oversight and governance costs**

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

- **Investment management expenses**

All investment management expenses are accounted for on an accruals basis. External investment manager fees are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments changes. In instances where an investment manager's fee note has not been received by the balance sheet date, an estimate based on the market

value of their mandate as at the end of the year is used for inclusion in the fund account. In cases where charges relate to an investment fund as a whole an estimate needs to be made of the costs applicable to the Pension Fund's holding. In 2015/16 £9.793 million of fees is based on such estimates (2014/15 £10.472 million). The cost of obtaining investment advice from external consultants is included in investment management charges. The cost of the Fund's management team are charged direct to the Fund and a proportion of the council's costs representing management time spent by officers on investment management is also charged to the Fund.

## NET ASSETS STATEMENT

- **Financial Assets**

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

- **Valuation of Investments**

Quoted investments are valued at closing prices. These prices may be the last trade prices or bid prices depending on the convention of the stock exchange or other market on which they are quoted. Overseas investments and cash are stated in sterling using exchange rates as at close of business on 31 March 2016. The direct property portfolio was valued at 31 March 2016 by GVA Grimley, the valuer being qualified for that purpose in accordance with the Royal Institute of Chartered Surveyor (RICS) Valuation Standards manual. Private equity investments have been included at the Fund managers' valuation adjusted for cash movements since the last valuation date. Pooled investment

vehicles are valued at closing bid price if both bid and offer prices are published or if single priced at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is invested in the Fund, net of applicable withholding tax.

- **Foreign currency transactions**

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

- **Derivatives**

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

- **Cash and cash equivalents**

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

- **Liabilities**

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

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

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

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

- **Additional Voluntary contributions**

Strathclyde Pension Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual

contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year. AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (SSI 2010/233) but are disclosed as a note only (Note 22).

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

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2016/17 Code:

- IAS16 Property Plant and Equipment
- Annual Improvements to IFRS 2010-2012 and 2012-2014 Cycles
- IAS 19 Employee Benefits
- IAS 1 Presentation of Financial Statements
- IAS 24 Related Party Disclosures

The Code requires implementation from 1 April 2016 and there is therefore no impact on the 2015/16 annual accounts (also applies to Fund 3).

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

#### **4. Critical Judgements in Applying Accounting Policies**

Determining the fair value of private equity investments involves a degree of subjectivity. Valuations are inherently based on forward-

looking estimates and judgements involving many factors. Unquoted equities are valued by the general partners using guidelines set out by the British Venture Capital Association. The value of private equities as at 31 March 2016 was £1,265.4 million (£1,180.8 million at 31 March 2015). The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 7. The estimate is subject to significant variances based on changes to the underlying assumptions.

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

There have been no events since 31 March 2016 and up to the date when these accounts were authorised that require any adjustments to these accounts.

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

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

Following on from the introduction of the updated CIPFA Accounting for Local Government Pension Scheme Management Costs 2016 edition, prior period adjustments to the previously reported 2014/15 Financial position have been necessary in respect of management expenses and change in market value of investments. The effect in the fund account in 2014/15 is to reduce management expenses by £35.784m from £130.425m to

£94.641m and correspondingly reduce the change in market value of investments by £35.784m from £1,763.085m to £1,727.301m.

## 6. Actuarial Position of the Fund

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

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

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

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

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

- **Funding Policy**

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

- **Funding Projection as at 31 March 2016**

An intervaluation monitoring report provided by the Fund’s actuary as at 31 March 2016 recorded a projected funding position of 86.1%. The next formal funding valuation will be carried out as at 31 March 2017 with results being available by 31 March 2018.

- **Funding Method**

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

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

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

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

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

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

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

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

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

## 7. Actuarial and other major assumptions

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

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

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

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

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

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

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

### Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is estimated at £19,152 million as at 31 March 2016 (£20,441 million as at 31 March 2015). The valuation has been carried out on an IAS19 basis.

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

## 8. Investments

### Statement of Movement in Investments

	Market Value as at 31 March 2015 £000	Purchases and Derivative Payments £000	Sales and Derivative Receipts £000	Change in Market Value £000	Market Value as at 31 March 2016 £000
<b>Investment Assets</b>					
Equities	5,836,266	1,370,616	(1,288,012)	(84,881)	5,833,989
Pooled Investment Vehicles	6,417,504	4,453	(50,461)	(133,919)	6,237,577
Private Equity / Infrastructure	1,546,669	431,028	(369,774)	218,447	1,826,370
Index Linked Securities	41	73	(88)	145	171
Property	1,379,200	219,740	(130,263)	101,843	1,570,520
	<b>15,179,680</b>	<b>2,025,910</b>	<b>(1,838,598)</b>	<b>101,635</b>	<b>15,468,627</b>
Derivative Contracts:	10,901	599,584	(585,118)	(19,791)	5,576
Other Investment Balances:					
Cash Deposits	539,680			6,983	530,699
Receivable for Sales of Investments	8,397				3,555
Investment Income Due	25,222				23,765
Spot FX Contracts	2				(1)
Derivative contracts	(7,356)				(867)
Payable for Purchases of Investments	(34,509)				(26,296)
<b>Net Investment Assets</b>	<b>15,722,017</b>	<b>2,625,494</b>	<b>(2,423,716)</b>	<b>88,827</b>	<b>16,005,058</b>

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

- **Transaction Costs**

Transaction costs are included in the cost of purchases and sale proceeds and are charged directly to the Fund. Transaction costs such as fees, commissions and stamp duty incurred during the year amounted to £3.620 million (£3.294 million in 2014/15).

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 2016 and a summary of contracts held are summarised in the tables on the following page:



	<b>31 March 2015</b> £000	<b>31 March 2016</b> £000
Futures	3,555	4,709
Forwards	(10)	(0)
<b>Market Value</b>	<b>3,545</b>	<b>4,709</b>

<b>Contract</b>	<b>Settlement Date</b>	<b>Asset £000</b>	<b>Liability £000</b>	<b>Net £000</b>
<b>Derivatives – Futures</b>				
FUT Jun 15 L&G	Jun-15	4,709	(0)	4,709
<b>Contracts Held at 31 March 2016</b>		<b>4,709</b>	<b>(0)</b>	<b>4,709</b>

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

- **Forwards**

<b>Derivatives – Forward Foreign Exchange Contract</b>	<b>Settlement Date</b>	<b>Asset £000</b>	<b>Liability £000</b>	<b>Net £000</b>
Various Currency Forwards	1 month	867	(867)	(0)
<b>Contracts Held at 31 March 2016</b>		<b>867</b>	<b>(867)</b>	<b>(0)</b>

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 2016 was £16,005 million.

**Investment management arrangements as at 31 March 2016 are summarised below:**

Asset Class	Fund Manager	% managed
Multi Asset – Passive	Legal & General	40.3
Global Equity	Baillie Gifford	12.0
Global Equity	Lazard	4.7
Global Equity	Veritas	3.3
Global Equity	Oldfield Partners	2.6
Specialist – Property	DTZ	10.0
Specialist – Global Real Estate	Partners Group	2.3
Specialist – Absolute Return Bonds	PIMCO	6.5
Specialist – Equities (Overseas Small Companies)	JP Morgan	3.1
Specialist – Equities (UK Small Companies)	Henderson	2.3
Specialist – Private Equity	Pantheon Ventures	4.5
Specialist – Private Equity	Partners Group	3.5
Specialist – Emerging Markets	Genesis	2.1
Specialist – Emerging Market Future	Legal & General	0.6
Specialist – New Opportunities Portfolio	Various	1.4
Cash	Northern Trust	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 2016 the Fund held direct property assets with a value of £1,571 million (2014/15 £1,379 million). This valuation was calculated by GVA Grimley on the Fund's behalf in accordance with RICS Valuation Standards manual.

As at 31 March 2016 the Fund did not hold any indirect UK property assets (2014/15 nil).

## 10. Notifiable Holdings

Notifiable holdings are holdings which exceed 5% of the total value of Fund net assets. As at 31 March 2016 the Fund had holdings of £2,054 million (13.2 %) in Legal & General UK Equity Fund and £1,035 million (6.7%) in PIMCO PARS II Fund.

## 11. Analysis of Investments

Investments can be further analysed as follows:

<i>Market Value as at 31 March 2015 £000</i>		<i>Market Value as at 31 March 2016 £000</i>
	<b>Fixed Interest Securities</b>	
	<b>UK</b>	
6	Corporate Quoted	153
	<b>Overseas</b>	
35	Corporate Quoted	18
<u>41</u>		<u>171</u>
	<b>Equities</b>	
	<b>UK</b>	
892,450	Quoted	781,695
	<b>Overseas</b>	
4,937,898	Quoted	5,037,459
<u>5,830,348</u>		<u>5,819,154</u>
	<b>Pooled Funds – Additional Analysis</b>	
	<b>UK</b>	
1,921,255	Fixed Income Unit Trust	1,935,869
3,122,443	Equity Unit Trust	2,979,175
	<b>Overseas</b>	
0	Fixed Income Unit Trust	0
1,373,806	Equity Unit Trust	1,322,533
<u>6,417,504</u>		<u>6,237,577</u>
1,546,669	Private Equity/Infrastructure	1,826,370
5,918	Commodities	14,835
1,379,200	Property	1,570,520
<u>2,931,787</u>		<u>3,411,725</u>
539,680	Cash Deposits	530,699
10,901	Derivatives	5,576
33,621	Other Investment Assets	29,759
(41,865)	Investment Liabilities	(29,603)
<u>15,722,017</u>	<b>Net Investment Assets</b>	<u>16,005,058</u>

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

**12. Contributions and Benefits**

	Administering Authority £000	Other Scheduled Bodies £000	Admitted Bodies £000	Total £000
<b>Contributions</b>				
Employer	50,184	229,556	85,234	<b>364,974</b>
Augmentation	423	16,940	9,108	<b>26,471</b>
<b>Total Employers</b>	<b>50,607</b>	<b>246,496</b>	<b>94,342</b>	<b>391,445</b>
Employees	16,393	72,283	28,084	<b>116,760</b>
<b>Benefits</b>				
Pension	59,917	288,076	48,798	<b>396,791</b>
Lump Sum and Death Benefit	11,797	71,861	20,440	<b>104,098</b>
	<b>71,714</b>	<b>359,937</b>	<b>69,238</b>	<b>500,889</b>

**13. Payments To and On Account of Leavers**

2014/15 £000		2015/16 £000
1,261	Refunds to members leaving service	1,202
719	Payments for members joining state scheme	527
0	Group transfers	469
22,411	Individual Transfers	19,692
<b>24,391</b>		<b>21,890</b>

**14. Management Expenses**

The total management expenses were as follows:

Restated 2014/15 £000		2015/16 £000
3,175	Administrative Costs	3,195
89,771	Investment Management Expenses	87,629
1,695	Oversight and governance costs	1,709
<b>94,641</b>		<b>92,533</b>

Oversight and governance costs include £0.062m (2014/15 £0.062m) in respect of the external audit fee. Investment management expenses include £2.287m in respect of transaction costs contained within investment management expenses (2014/15 £3.294m).

## 15. Investment Expenses

The total investment expenses were as follows:

<b>2014/15</b> <b>£000</b>		<b>2015/16</b> <b>£000</b>
89,084	Management Fees	86,880
79	Custody Fees	126
103	Performance Monitoring Fees	49
192	Actuarial Fees – Investment Consultancy	155
313	Consultancy Fees	419
<b>89,771</b>		<b>87,629</b>

The investment management fees shown above include £14.299 million ( 2014/15 £23.603 million) in respect of performance related fees paid to the Fund investment managers. In accordance with CIPFA guidance investment management costs deducted from an investment value are recognised as a cost in the Fund Account.

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

## 16. Events after the balance sheet date

There were no material events between 31 March 2016 and the date of signing that require to be reflected in the Financial Statements.

On 23 June 2016, following the European Referendum, the United Kingdom voted to leave the European Union. In light of the uncertainty around the process and timing of leaving the European Union, the Fund is not in a position to define the impact on its activities or any financial implications at this time. It is recognised that both assets and liabilities have increased in value following the referendum.

## 17. Investment Income

Investment income of £228.708m (£199.973m 2014/15) includes £121.002m from dividends (£112.484m 2014/15), £34.457m from Venture, Capital and Partnerships (£20.773m 2014/15), £2.620m interest and other (£2.384m 2014/15) and £72.065m rents (£65.416m 2014/15) partly offset by £1.436m tax (£1.084m 2014/15). Net property rental income is as shown below:

<b>2014/15</b> <b>£000</b>		<b>2015/16</b> <b>£000</b>
65,416	Rental Income	72,065
(12,525)	Direct Operating Expenses	(11,415)
<b>52,891</b>	<b>Net Income</b>	<b>60,650</b>

## 18. Taxes on Income

<b>2014/15</b> <b>£000</b>		<b>2015/16</b> <b>£000</b>
1,084	Withholding tax - equities	1,436
<b>1,084</b>		<b>1,436</b>

Withholding tax – equities is netted off against investment income. In 2014/15 Withholding tax – equities was disclosed separately in the Fund Account.

## 19. Property Holdings

<b>2014/15</b> <b>£000</b>		<b>2015/16</b> <b>£000</b>
1,020,995	Opening balance	1,379,200
221,515	Additions	217,927
(33,921)	Disposals	(128,636)
170,611	Change in Market Value	102,029
<b>1,379,200</b>	<b>Closing balance</b>	<b>1,570,520</b>

The future minimum lease payments receivable by the fund as at 31 March 2016 are £73.8 million within one year (£65.8m 2014/15), £229.4 million between one and five years (£199.7m 2014/15) and £319.1 million later than five years (£448.3m 2014/15).

## 20. Transactions with Related Parties

Pension receipts and payments including VAT are transacted using Glasgow City Council's financial systems and the Pension Fund's banking arrangements. Throughout the year the Fund maintains a cash balance for this purpose which is listed as 'cash balances' in the net assets statement. During 2015/16 the amount recharged by Glasgow City Council to the Strathclyde Pension Fund for administration costs was £3.101 million (2014/15 £2.925 million). There is an outstanding creditor of £4.822m between the Council and Strathclyde Pension Fund as at 31 March 2016.

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

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

## 21. Stock Lending

The Fund participates in a stock lending programme managed by its Global Custodian, Northern Trust. All loans are fully collateralised. As at 31 March 2016 stock with a value of £457.0 million was on loan (£380.5 million as at 31 March 2015).

## 22. Contractual Commitments

As at 31 March 2016 the Fund had contractual commitments of £3,953 million within its private equity and global real estate portfolios, of which £1,552 million remains undrawn.

## 23. 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 2016 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.

## 24. Statement of Investment Principles

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

## 25. Additional Voluntary Contributions (AVCs)

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

The market value of AVCs as at 31 March 2016 was £45.1 million (2014/15 £43.6 million). Contributions which are used in their entirety

to purchase investments, totalled £7.6 million (2014/15 £6.5 million) whilst sales of investments to settle benefits due to members totalled £6.6 million (2014/15 £6.6 million). The change in market value of investments over the year was £0.5 million (2014/15 £2.8 million). The values reported in the 2015/16 financial statements for AVCs were based on estimates and have been updated above to reflect the actual position.

## 26. Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair values of financial assets and liabilities by category and net asset statement heading for the year ended 31 March 2016.

<i>Restated Fair value through profit &amp; loss £000</i>	<i>Loans &amp; receivables £000</i>	<i>Financial liabilities at amortised cost £000</i>		<i>Fair value through profit &amp; loss £000</i>	<i>Loans &amp; receivables £000</i>	<i>Financial liabilities at amortised cost £000</i>
<b>31 March 2015</b>				<b>31 March 2016</b>		
			<b>Financial Assets</b>			
5,836,266	0	0	Equities	5,833,989	0	0
			Pooled Investment			
6,417,504	0	0	Vehicles	6,237,577	0	0
			Private Equity /			
1,546,669	0	0	Infrastructure	1,826,370	0	0
			Index Linked			
41	0	0	Securities	171	0	0
10,901	0	0	Derivative Contracts	5,576	0	0
0	539,680	0	Cash	0	530,699	0
			Other Investment			
0	33,621	0	Balances	0	29,759	0
<b>13,811,381</b>	<b>573,301</b>	<b>0</b>		<b>13,903,683</b>	<b>560,458</b>	<b>0</b>
			<b>Financial Liabilities</b>			
(7,356)	0	0	Derivatives	(867)	0	0
			Other Investment			
0	0	(34,509)	Liabilities	(28,736)	0	0
<b>(7,356)</b>	<b>0</b>	<b>(34,509)</b>		<b>(29,603)</b>	<b>0</b>	<b>(0)</b>
<b>13,804,025</b>	<b>573,301</b>	<b>(34,509)</b>	<b>Net Financial Assets</b>	<b>13,874,080</b>	<b>560,458</b>	<b>(0)</b>



The table below shows net gains and losses on financial instruments for the year ended 31 March 2016:

31 March 2015		31 March 2016
<b>£000</b>	<b>Financial Assets</b>	<b>£000</b>
1,511,126	Fair value through profit and loss	(393)
1,316	Loans and receivables	6,983
0	Financial liabilities measured at amortised cost	0
	<b>Financial Liabilities</b>	
1,089	Fair value through profit and loss	(13,302)
0	Loans and receivables	0
0	Financial liabilities measured at amortised cost	0
<b>1,513,531</b>	<b>Total</b>	<b>(6,712)</b>

The following table summarises the carrying values of the Fund's financial assets and liabilities by class of instrument compared with their fair values for the year ended 31 March 2016:

31 March 2015			31 March 2016	
Carrying Value £000	Fair Value £000		Carrying Value £000	Fair Value £000
		<b>Financial Assets</b>		
13,811,381	13,811,381	Fair value through profit and loss	13,903,683	13,903,683
519,448	572,226	Loans and receivables	503,947	560,458
<b>14,330,829</b>	<b>14,383,607</b>		<b>14,407,630</b>	<b>14,464,141</b>
		<b>Financial Liabilities</b>		
(7,356)	(7,356)	Fair value through profit and loss	(837)	(867)
(15,564)	(33,434)	Financial liabilities measured at amortised cost	(5,660)	(28,736)
<b>(22,920)</b>	<b>(40,790)</b>		<b>(6,497)</b>	<b>(29,603)</b>
<b>14,307,909</b>	<b>14,342,817</b>	<b>Total</b>	<b>14,401,133</b>	<b>14,434,538</b>

The £14,435m net investment assets shown above plus property (£1,571m) and current assets (£99m) less current liabilities (£46m) equals £16,059m Net Assets as at 31 March 2016 on page 31.



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

#### **Level 1**

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

#### **Level 2**

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

#### **Level 3**

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such

instruments would include unquoted equity investments and hedge fund of funds which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

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

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

Level 1 £000	Level 2 £000	Level 3 £000		Level 1 £000	Level 2 £000	Level 3 £000
<b>31 March 2015</b>				<b>31 March 2016</b>		
			<b>Financial Assets</b>			
10,423,201	1,848,040	1,559,480	Fair Value through profit and loss	11,046,073	1,039,225	1,841,212
553,962	0	0	Loans and receivables	513,717	23,914	0
<b>10,977,163</b>	<b>1,848,040</b>	<b>1,559,480</b>		<b>11,559,790</b>	<b>1,063,139</b>	<b>1,841,212</b>
			<b>Financial Liabilities</b>			
(24,008)	0	0	Fair Value through profit and loss	0	(8,954)	0
(17,858)	0	0	Financial liabilities measured at amortised cost	(20,649)	0	0
<b>(41,866)</b>	<b>0</b>	<b>0</b>		<b>(20,649)</b>	<b>(8,954)</b>	<b>0</b>
<b>10,935,297</b>	<b>1,848,040</b>	<b>1,559,480</b>	<b>Net Financial Assets</b>	<b>11,539,141</b>	<b>1,054,185</b>	<b>1,841,212</b>

The total value of Net Financial Assets for Levels 1,2 and 3 as at 31 March 2016 in the above table is £14,435m (£14,342m 2014/15) which matches the financial instruments fair value shown in the table on page 49.

## 27. Nature and Extent of Risks Arising From Financial Instruments

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

reviewed by the committee on a quarterly basis. The Fund's assets are externally managed, and the investment managers adhere to their own risk management strategies.

### Market Risk

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

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

## Other Price Risk

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

### Other Price Risk - Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, the following movements in market price risk are reasonably possible for the 2015/16 reporting period:

Asset Type	Potential Market Movement (+/-)
UK Equities	17.1%
Overseas Equities	19.6%
Overseas Bonds	9.5%
UK Bonds	6.7%
Index Linked Gilts	5.1%
Private Equity/ Infrastructure	28.7%
Commodities	20.0%
Cash	0.6%

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



## Potential Market Movements

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

The prior year comparators for 2014/15 are as follows:

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

## Interest Rate Risk

The Fund invests in financial assets with the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2015 is set out below.

Asset Type	As at 31 March 2015 £000	As at 31 March 2016 £000
Cash Balances – Investments	539,680	530,699

## 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 2016 £000	+100 BPS £000	-100 BPS £000
Cash Balances – Investments	530,699	536,006	525,392

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

## 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	Value as at 31 March 2016 £000	Change %	Value on Increase £000	Value on Decrease £000
Overseas quoted securities	5,037,459	13.0	5,692,328	4,382,589
Overseas unquoted securities	0	13.0	0	0
Overseas fixed income	0	13.0	0	0
Overseas unit trusts	1,322,533	13.0	1,494,462	1,150,604
Hedge funds overseas equity	0	13.0	0	0
Hedge funds overseas fixed interest	0	13.0	0	0
Overseas public sector bonds (quoted)	0	13.0	0	0
Overseas corporate bonds (quoted)	18	13.0	20	16
<b>Total</b>	<b>6,360,010</b>		<b>7,186,790</b>	<b>5,533,193</b>

### Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The Fund's cash balances are managed by Northern Trust and are invested in AAA rated money market funds.

### 28. Current Assets

2014/15 £000		2015/16 £000
	Debtors:	
34,205	• Contributions due - employers	36,384
8,374	• Sundry debtors	4,162
40,110	Cash Balances	58,370
<b>82,689</b>		<b>98,916</b>

### 29. Current Liabilities

2014/15 £000		2015/16 £000
22,658	Sundry creditors	22,569
23,752	Benefits payable	22,884
<b>46,410</b>		<b>45,453</b>



### 30. Analysis of Investment Assets (IAS19)

In accordance with the requirements of IAS19 the following statement provides a detailed analysis of investment assets as at 31 March 2016 with comparators for 2015.

Quoted £000	Unquoted £000	Total £000		Quoted £000	Unquoted £000	Total £000
<b>31 March 2015</b>				<b>31 March 2016</b>		
			<b>Equity Securities</b>			
1,528,795	273	1,529,068	Consumer	1,612,864	0	1,612,864
1,180,331	11,611	1,191,942	Manufacturing	1,190,788	8,975	1,199,763
451,234	143	451,377	Energy and Utilities	417,724	1,224	418,948
1,122,003	37	1,122,040	Financial Institutions	1,045,376	26	1,045,402
651,266	333	651,599	Health and Care	631,875	333	632,208
899,055	1,094	900,149	Information Technology	909,469	500	909,969
			<b>Debt Securities</b>			
0	0	0	Corporate Bonds (investment grade)	0	0	0
0	47	47	Corporate Bonds (non-invest grade)	0	171	171
0	0	0	UK Government	0	0	0
0	0	0	Other	0	0	0
0	1,481,249	1,481,249	<b>Private Equity</b>	0	1,826,370	1,826,370
			<b>Real Estate</b>			
0	1,379,200	1,379,200	UK Property	0	1,553,247	1,553,247
0	0	0	Overseas Property	0	0	0
			<b>Investment funds and unit trusts:</b>			
359,123	4,137,126	4,496,249	Equities	4,112,974	188,735	4,301,709
0	1,921,255	1,921,255	Bonds	897,278	1,038,591	1,935,869
0	0	0	Hedge Funds	0	0	0
5,918	0	5,918	Commodities	14,835	0	14,835
0	53,474	53,474	Property	0	0	0
0	7,335	7,335	Cash Funds	0	0	0
			<b>Derivatives</b>			
0	0	0	Inflation	0	0	0
0	0	0	Interest rate	0	0	0
0	(8)	(8)	Foreign exchange	0	(1)	(1)
3,555	0	3,555	Futures	0	4,709	4,709
0	527,568	527,568	<b>Cash and cash equivalents</b>	0	548,995	548,995
<b>6,201,280</b>	<b>9,520,737</b>	<b>15,722,017</b>	<b>Totals</b>	<b>10,833,183</b>	<b>5,171,875</b>	<b>16,005,058</b>

# STATEMENT OF RESPONSIBILITIES

## THE COUNCIL'S RESPONSIBILITIES

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

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

I certify that the Annual Accounts have been approved for signature by Strathclyde Pension Fund Committee at its meeting on 27 September 2016.

**Baillie Philip Braat**  
City Treasurer and Convener,  
Strathclyde Pension Fund Committee  
27 September 2016

## THE EXECUTIVE DIRECTOR OF FINANCIAL SERVICES' RESPONSIBILITIES

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

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

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

The Executive Director of Financial Services has also:

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

I certify that the financial statements give a true and fair view of the financial position of the Strathclyde Pension Fund as at 31 March 2016 and the transactions of the Fund for the year then ended.

**Lynn Brown OBE MA (Hons) CPFA**  
Executive Director of Financial Services  
27 September 2016



# SECTION 4

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## NO. 3 FUND



## STRATHCLYDE PENSION FUND NO. 3

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

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

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

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

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

Policy documents and reports for the No.3 Fund are available on the SPFO website at [www.spfo.org.uk](http://www.spfo.org.uk)

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

											Annualised		
	Mar '07	Mar '08	Mar '09	Mar '10	Mar '11	Mar '12	Mar '13	Mar '14	Mar '15	Mar '16	3 Year	5 Year	10 Year
Retail Prices	4.8	3.8	-0.4	4.4	5.3	3.6	3.3	2.5	0.9	1.2	1.5	2.2	2.9
Consumer Prices	2.9	2.4	3.0	3.2	4.2	3.5	2.8	1.7	0.2	0.5	0.7	1.7	2.4
Average Earnings	5.0	3.8	-2.1	6.7	2.0	1.2	-0.3	1.7	3.3	1.8	2.5	1.6	2.2
<b>Fund Return</b>	<b>7.7</b>	<b>2.4</b>	<b>-12.4</b>	<b>32.8</b>	<b>8.8</b>	<b>10.1</b>	<b>14.7</b>	<b>-0.1</b>	<b>21.3</b>	<b>0.8</b>	<b>6.9</b>	<b>9.1</b>	<b>8.1</b>
<b>Benchmark</b>	<b>7.3</b>	<b>-0.3</b>	<b>-14.1</b>	<b>26.3</b>	<b>7.5</b>	<b>2.3</b>	<b>15.0</b>	<b>0.6</b>	<b>20.7</b>	<b>1.75</b>	<b>8.0</b>	<b>8.3</b>	<b>7.8</b>
WM Average	7.0	-1.0	-18.1	30.3	8.1	6.2	13.1	4.4	15.3	0.8	6.7	7.8	5.9

# STRATHCLYDE PENSION FUND NO. 3

## Fund Account

2014/15 £000		Note	2015/16 £000
	<b>Contributions and Benefits</b>		
	<b>Income</b>		
4,829	Contributions from Employers		2,259
272	Contributions from Employees		228
<b>5,101</b>			<b>2,487</b>
	<b>Expenditure</b>		
4,792	Pensions Payments		5,046
1,589	Lump Sum and Death Benefit Payments		1,957
243	Payments To and On Account of Leavers		107
<b>6,624</b>			<b>7,110</b>
<b>1,523</b>	<b>Net Reduction from Dealings with Members</b>		<b>4,623</b>
<b>343</b>	<b>Management Expenses</b>	11	<b>326</b>
	<b>Returns on Investments</b>		
500	Investment Income		394
32,611	Change in Market Value of Investments		1,326
<b>33,111</b>	<b>Net Returns on Investments</b>		<b>1,720</b>
<b>31,245</b>	<b>Net Increase / (Decrease) in the Fund during the Year</b>		<b>(3,229)</b>
155,612	Add : Opening Net Assets of the Scheme		186,857
<b>186,857</b>	<b>Closing Net Assets of the Scheme</b>		<b>183,628</b>

## STRATHCLYDE PENSION FUND NO. 3

### Net Assets Statement as at 31 March 2016

2014/15 £000		Note	2015/16 £000
	<b>Investment Assets</b>		
185,609	Pooled Investment Vehicles	6,9	185,004
83	Cash Deposits	6,9	84
2	Other Investment Assets	6,9	0
<b>185,694</b>			<b>185,088</b>
1,177	Current Assets		20
(14)	Current Liabilities		(1,480)
<b>186,857</b>	<b>Net Assets of the Fund as at 31 March</b>		<b>183,628</b>

The unaudited accounts were issued on 20 June 2016 and the audited accounts were authorised for publication on 27 September 2016.

**Lynn Brown OBE MA (Hons) CPFA**  
Executive Director of Financial Services  
27 September 2016



# 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 2015/16 which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The Financial Statements summarise the transactions of the Fund during the year and the net assets at the year end. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 5 of these accounts.

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

## 3. Summary of Significant Accounting Policies

### FUND ACCOUNT

- **Contributions Income**

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

- **Transfers to other schemes**

Transfer values represent the amounts paid during the year for members who have left the Fund during the financial year and are calculated in accordance with the Local Government Pension

Scheme Regulations. Individual transfers out are accounted for when paid, which is normally when the member liability is discharged.

- **Prior Period Adjustments**

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

- **Investment Income**

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

- **Benefits payable**

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

- **Taxation**

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains

tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

### **Management expenses include**

- **Administrative Expenses**

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

- **Investment management expenses**

All investment management expenses are accounted for on an accruals basis. External investment manager fees are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. In instances where an investment manager's fee note has not been received by the balance sheet date, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2015/16 nil fees are based on such estimates (2014/15 nil). The cost of obtaining investment advice from external consultants is included in investment management charges. The cost of the council's in-house Fund management team are charged direct to the Fund and a proportion of the council's costs representing management time spent by officers on investment management is also charged to the Fund.

## **NET ASSETS STATEMENT**

- **Financial Assets**

Financial assets are included in the net assets

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

- **Valuation of Investments**

Quoted investments are valued at closing prices. These prices may be the last trade prices or bid prices depending on the convention of the stock exchange or other market on which they are quoted. Overseas investments and cash are stated in sterling using exchange rates as at close of business on 31 March 2016. Unquoted holdings in private equity funds have been included at the Fund managers' valuation adjusted for cash movements since the last valuation date. Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published or if single priced at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is invested in the Fund, net of applicable withholding tax.

- **Foreign currency transactions**

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

- **Derivatives**

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

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

- **Cash and cash equivalents**

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

- **Liabilities**

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

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

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

standards. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits in a note to the net assets statement (note 5).

#### 4. Actuarial Position

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

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

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

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

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

- **Funding Policy**

On completion of the actuarial valuation as at 31 March 2014 the Fund published a revised Funding Strategy Statement in accordance with regulation 31 of the Local Government Pension Scheme (Administration)(Scotland) Regulations 2008.

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

- **Funding Projection as at 31 March 2016**

An intervaluation monitoring report provided by the Fund's actuary as at 31 March 2016 recorded a projected funding position of 93%. The next formal funding valuation will be carried out as at 31 March 2017 with results available by 31 March 2018.

- **Funding Method**

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

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

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

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

- the average remaining period of contributory membership of the current active members.

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

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

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

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



## 5. Actuarial Assumptions

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

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

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

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

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

Further details of the mortality assumptions adopted for the 2014 valuation can be found in Appendix E to the valuation report. Note that the figures for actives and deferred/pensioners assume that they are aged 55 at the valuation date. The valuation report can be found on the Fund's website at [www.spfo.org.uk](http://www.spfo.org.uk)

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

- **Actuarial Present Value Of Promised Retirement Benefits**

The actuarial present value of promised retirement benefits is estimated at £154 million as at 31 March 2016 (£167 million as at 31 March 2015). The valuation has been carried out on an IAS19 basis.

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

## 6. Investments

### Statement of Movement in Investments

	Market Value as at 31 March 2015 £000	Purchases and Derivative Payments £000	Sales and Derivative Receipts £000	Change in Market Value £000	Market Value as at 31 March 2016 £000
<b>Investment Assets</b>					
Pooled Investment Vehicles	185,609	23,109	(24,715)	1,001	185,004
	<b>185,609</b>	<b>23,109</b>	<b>(24,715)</b>	<b>1,001</b>	<b>185,004</b>
Other Investment Balances:					
Cash Deposits	83			1	84
Investment Income Due	2				0
<b>Net Investment Assets</b>	<b>185,694</b>	<b>23,109</b>	<b>(24,715)</b>	<b>1,002</b>	<b>185,088</b>

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

- **Transaction Costs**

Transaction costs are included in the cost of purchases and sale proceeds and are charged directly to the Fund. Transaction costs such as fees, commissions and stamp duty incurred during the year was nil (£nil in 2014/15).

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

- **Derivatives**

There were no derivative balances as at 31 March 2016. (£nil at 31 Mar 2015).

## 7. Fund Management

The investment assets of the Fund are externally managed.

Investment management arrangements as at 31 March 2016 are shown below:

Asset Class	Fund Manager	% managed
Liability Driven Investment Strategy	Legal & General	83.8
Multi Asset – Absolute Return	Ruffer	16.2

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 2016 was £185.1 million.

## 8. Notifiable Holdings

As at 31 March 2016 the Fund had holdings exceeding 5% of the total value of net assets in:

	£000	%
Ruffer Absolute Return Fund	30,053	17.9
Legal & General HD Active Corp (All Stocks)	29,677	17.7
1.25% Index Linked Government Bonds Nov 32	15,015	9.0
1.25% Index Linked Government Bonds Nov 27	14,444	8.6
Legal & General Libor Fund	11,097	6.6
Legal & General UK Equity Index Fund	9,149	5.5
0.625% Index Linked Government Bonds Nov 42	9,752	5.8
Legal & General 2055 Leveraged Gilt Fund	8,513	5.1



## 9. Analysis of Investments

Investments can be further analysed as follows:

<i>Market Value as at 31 March 2015 £000</i>		<i>Market Value as at 31 March 2016 £000</i>
	<b>Pooled Funds – Additional Analysis</b>	
	<b>UK</b>	
75,918	Fixed Income Unit Trust	78,984
71,613	Equity Unit Trust	38,680
18,484	Cash Funds	17,738
	<b>Overseas</b>	
19,594	Equity Unit Trust	49,602
<u>185,609</u>		<u>185,004</u>
83	Cash Deposits	84
2	Other Investment Balances	0
<b>185,694</b>	<b>Net Investment Assets</b>	<b>185,088</b>

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

## 10. Contributions and Benefits

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

## 11. Management Expenses

The total administrative expenses were as follows:

<i>2014/15 £000</i>		<i>2015/16 £000</i>
30	Administrative Costs	30
313	Investment Management Expenses	296
<b>343</b>		<b>326</b>

## 12. Investment Management Expenses

The total investment expenses were as follows:

2014/15 £000		2015/16 £000
313	Management Fees	296
<b>313</b>		<b>296</b>

## 13. Transactions with Related Parties

Pension receipts and payments are transacted using Glasgow City Council's financial systems and the Pension Funds banking arrangements. Throughout the year the Fund maintains a cash balance for this purpose which is listed as 'cash balances' in the net assets statement. During 2015/16 the amount recharged by Glasgow City Council to the Strathclyde Pension Fund for administration costs was £0.030m (2014/15 £0.030m).

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

## 14. Stock Lending

The Fund may participate in a stock lending programme managed by its Global Custodian, Northern Trust. All loans are fully collateralised. As at 31 March 2016 stock with a market value of nil was on loan (nil as at 31 March 2015).

## 15. Contractual Commitments

The Fund had no contractual commitments at the year end.

## 16. Contingent Assets and Liabilities

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

## 17. Statement of Investment Principles

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

## 18. Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair values of financial assets and liabilities by category and net asset statement heading for the year ended 31 March 2016.

<i>Restated Fair value through profit &amp; loss £000</i>	<i>Loans &amp; receivables £000</i>	<i>Financial liabilities at amortised cost £000</i>		<i>Fair value through profit &amp; loss £000</i>	<i>Loans &amp; receivables £000</i>	<i>Financial liabilities at amortised cost £000</i>
<b>31 March 2015</b>				<b>31 March 2016</b>		
			<b>Financial Assets</b>			
185,609	0	0	Private Equity / Infrastructure	185,004	0	0
0	83	0	Cash	0	84	0
0	2	0	Other Investment Balances	0	0	0
<b>185,609</b>	<b>85</b>	<b>0</b>		<b>185,004</b>	<b>84</b>	<b>0</b>
<b>185,609</b>	<b>85</b>	<b>0</b>	<b>Net Financial Assets</b>	<b>185,004</b>	<b>84</b>	<b>0</b>

The table below shows net gains and losses on financial instruments for the year ended 31 March 2016:

<b>31 March 2015</b>		<b>31 March 2016</b>
<b>£000</b>	<b>Financial Assets</b>	<b>£000</b>
32,287	Fair value through profit and loss	1,001
<b>32,287</b>	<b>Total</b>	<b>1,001</b>

The following table summarises the carrying values of the Fund's financial assets and liabilities by class of instrument compared with their fair values for the year ended 31 March 2016:

<b>31 March 2015</b>			<b>31 March 2016</b>	
<i>Carrying Value £000</i>	<i>Fair Value £000</i>		<i>Carrying Value £000</i>	<i>Fair Value £000</i>
<b>£000</b>	<b>£000</b>	<b>Financial Assets</b>	<b>£000</b>	<b>£000</b>
185,609	185,609	Fair value through profit and loss	185,004	185,004
85	85	Loans and receivables	84	84
<b>185,694</b>	<b>185,694</b>		<b>185,088</b>	<b>185,088</b>
<b>185,694</b>	<b>185,694</b>	<b>Total</b>	<b>185,088</b>	<b>185,088</b>

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

### Level 1

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

### Level 2

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

### Level 3

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

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

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

<i>Level 1</i> £000	<i>Level 2</i> £000	<i>Level 3</i> £000		<i>Level 1</i> £000	<i>Level 2</i> £000	<i>Level 3</i> £000
<b>31 March 2015</b>				<b>31 March 2016</b>		
			<b>Financial Assets</b>			
31,305	135,822	0	Fair Value through profit and loss	30,052	137,214	0
83	18,484	0	Loans and receivables	84	17,738	0
<b>31,388</b>	<b>154,306</b>	<b>0</b>		<b>30,136</b>	<b>154,952</b>	<b>0</b>
<b>31,388</b>	<b>154,306</b>	<b>0</b>	<b>Net Financial Assets</b>	<b>30,136</b>	<b>154,952</b>	<b>0</b>

## 19. Nature and Extent of Risks Arising From Financial Instruments

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

### Market Risk

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

### Other Price Risk

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

### Other Price Risk - Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, the following movements in market price risk are reasonably possible for the 2015/16 reporting period:

Asset Type	Potential Market Movement (+/-)
UK Equities	17.1%
Overseas Equities	19.6%
Index Linked Gilts	9.5%
Cash	0.6%

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.

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

The prior year comparators for 2014/15 are as follows:

<b>Asset Type</b>	<b>Value as at 31 March 2015 £000</b>	<b>Change  %</b>	<b>Value on Increase  £000</b>	<b>Value on Decrease  £000</b>
<b>Cash and cash equivalents</b>	83	0.6	84	82
<b>Investment portfolio assets:</b>				
UK fixed Income unit trusts	75,918	6.7	81,004	70,832
UK equity unit trusts	71,613	17.0	83,787	59,439
Overseas equity unit trusts	19,594	20.1	23,532	15,656
Cash Funds	18,484	0.6	18,595	18,373
Investment income due	2	0.0	2	2
<b>Total</b>	<b>185,694</b>		<b>207,004</b>	<b>164,384</b>

## Interest Rate Risk

The Fund invests in financial assets with the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2015 is set out below.

<b>Asset Type</b>	<b>As at 31 March 2015 £000</b>	<b>As at 31 March 2016 £000</b>
Cash Balances – Investments	83	84

## Interest Rate Sensitivity Analysis

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

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

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

## 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	Value as at 31 March 2016 £000	Change %	Value on Increase £000	Value on Decrease £000
Overseas unit trusts	49,602	13.00	56,050	43,154
<b>Total</b>	<b>49,602</b>		<b>56,050</b>	<b>43,154</b>

### Credit Risk

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

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

### 20. Analysis of Investment Assets (IAS19)

In accordance with the requirements of IAS19 the following statement provides a detailed analysis of investment assets as at 31 March 2016 with comparators for 2015.

Quoted £000	Unquoted £000	Total £000		Quoted £000	Unquoted £000	Total £000
<b>31 March 2015</b>				<b>31 March 2016</b>		
			<b>Investment funds and unit trusts:</b>			
0	91,207	91,207	Equities	0	88,283	88,283
0	75,918	75,918	Bonds	0	78,984	78,984
0	18,569	18,569	Cash and cash equivalents	0	17,821	17,821
<b>0</b>	<b>185,694</b>	<b>185,694</b>	<b>Totals</b>	<b>0</b>	<b>185,088</b>	<b>185,088</b>



# SECTION 5

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## FUNDING





## FUNDING

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

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

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

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

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

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

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

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

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

## FUNDING STRATEGY STATEMENT

As part of the 2014 actuarial valuation exercise, the Funding Strategy Statement was reviewed and the following revised statement was agreed in March 2015. The statement will be reviewed again during the 2017 actuarial valuation. The statement has 6 schedules which are not reproduced here but can be found in the full version on the Fund's website at [www.spfo.org.uk](http://www.spfo.org.uk)

### 1. Introduction

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

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

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

**The stated purpose of the FSS is:**

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

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

### 3. Aims and Purpose of the Pension Fund

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

**The purpose of the Fund is to:**

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

**The aims of the Fund are to:**

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

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

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

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

#### **4. Responsibilities of Key Parties**

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

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

#### **5. Target Funding Level**

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

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

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

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

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

#### **6. Contributions Strategy**

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

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

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

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

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

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

### **7. Links to Investment Strategy set out in the Statement of Investment Principles (SIP)**

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

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

### **8. The Identification of Risks and Counter Measures**

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

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

#### **Schedules:**

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

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



# STRATHCLYDE PENSION FUND NO 1 FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2015/16

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

## Description of Funding Policy

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

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

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

## Funding Position as at the last formal funding valuation

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

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

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

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



## Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

## Assumptions

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

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

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

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

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

\*Currently aged 45

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

## Experience over the period since April 2014

Experience has been worse than expected since the last formal valuation (excluding the effect of any membership movements). Real bond yields have fallen placing a higher value on liabilities. The effect of this has been partially offset by strong asset returns. Funding levels are therefore likely to have worsened and deficits increased over the period.

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

Steven Law FFA  
Fellow of the Institute and Faculty of Actuaries  
For and on behalf of Hymans Robertson LLP  
18 May 2016

Hymans Robertson LLP  
20 Waterloo Street  
Glasgow  
G2 6DB

# STRATHCLYDE PENSION FUND NO 3 FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2015/16

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

## Description of Funding Policy

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

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

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

## Funding Position as at the last formal funding valuation

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

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

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

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

## Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

## Assumptions

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

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

31 March 2014		
Financial assumptions	The better of	
Funding Basis Discount Rate	Gilts nominal yield curve	Swaps nominal yield once
Salary Increases	Gilts implied inflation curve + 0.375% p.a.	Swaps implied inflation curve + 0.375% p.a.
Benefit Increases	Gilts implied inflation curve - 0.8% p.a., with a floor of zero	Swaps implied inflation curve - 0.8% p.a., with a floor of zero

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

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

\*Currently aged 55

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

## Experience over the period since April 2014

Experience has been better than expected since the last formal valuation (excluding the effect of any membership movements). Real bond yields have fallen dramatically placing a higher value on liabilities. The effect of this has been offset by the effect of strong asset returns. Funding levels are therefore likely to have improved and deficits reduced over the period.

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

Steven Law FFA  
Fellow of the Institute and Faculty of Actuaries  
For and on behalf of Hymans Robertson LLP  
18 May 2016

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20 Waterloo Street  
Glasgow  
G2 6DB



# SECTION 6

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## INVESTMENT



# STATEMENT OF INVESTMENT PRINCIPLES

*The Statement of Investment Principles (SIP) is the Fund's main investment policy document. The SIP is reviewed regularly, and the current SIP was approved by the Strathclyde Pension Fund Committee in March 2015. The statement has 6 schedules which are not reproduced here but can be found in the full version on the Fund's website at [www.spfo.org.uk](http://www.spfo.org.uk)*

## 1. Introduction

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

## 2. Regulations

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

## 3. Key Principles

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

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

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

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

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

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

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

## 4. Investment Objective

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

## 5. Investment Strategy

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

## 6. Investment Structure

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

## 7. Roles and Responsibilities

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

## 8. Risk

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

## 9. Liquidity and Cash Flow

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

## 10. Responsible Investment

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

## 11. Exercise of Rights

The Fund ensures that the votes attaching

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

## 12. Additional Voluntary Contributions (AVCs)

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

## 13. CIPFA/Myners Principles

The Fund is compliant with each of the six *Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2009* published by CIPFA and based on the updated Myners principles. Further details are set out in Schedule 6.

## 14. Stock Lending

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

## 15. Schedules:

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

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

## INVESTMENT STRATEGY

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

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

In March 2015, the Strathclyde Pension Fund Committee agreed a risk-based asset framework to be the basis for modelling and agreeing the investment strategy. The risk based framework is illustrated in this graphic and summarised in the table below:



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

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

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

The Fund’s investment strategy is in a transitional phase to reflect these changing dynamics.

The strategic focus is changing and in 2015 the Committee agreed a phased process which will reduce risk, increase diversification and ensure that the strategy changes with the liability profile over time.



Asset	Current	Step 1	Step 2	Step 3	Step 4
	%	%	%	%	%
<b>Equity</b>	<b>72.5</b>	<b>62.5</b>	<b>52.5</b>	42.5	32.5
<b>Hedging/Insurance</b>	<b>4.5</b>	<b>2.5</b>	<b>2.5</b>	2.5	2.5
<b>Credit</b>	<b>3.0</b>	<b>5.0</b>	<b>5.0</b>	5.0	5.0
<b>Short Term Enhanced Yield</b>	<b>7.5</b>	<b>15.0</b>	<b>20.0</b>	25.0	30.0
<b>Long Term Enhanced Yield</b>	<b>12.5</b>	<b>15.0</b>	<b>20.0</b>	25.0	30.0
	<b>100</b>	<b>100</b>	<b>100</b>	100	100
<b>Return (% p.a.)</b>	<b>6.1</b>	<b>6.0</b>	<b>5.9</b>	5.8	5.5
<b>Volatility (% p.a.)</b>	<b>13</b>	<b>12</b>	<b>11</b>	10	9

The Committee agreed that detailed implementation proposals should be developed and brought forward to achieve this. Over the last 12 months the Step 1 changes have largely been agreed. Step 2 will follow over the next couple of years. Steps 3 and 4 are for future consideration.

Step 1 changes agreed over the year include:

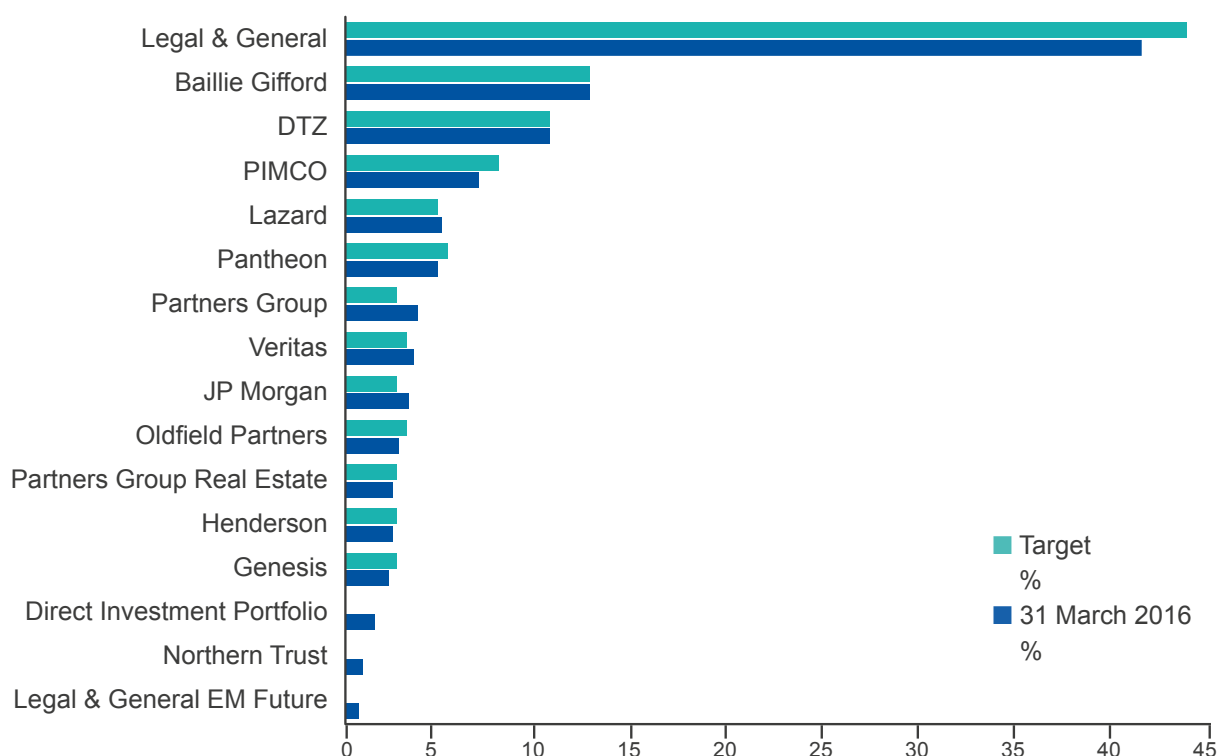
- Within *short-term enhanced yield*, the Committee agreed to invest £300m and £150m in multi-asset credit mandates with Babson Capital and Oak Hill Advisors respectively, and to invest £150m in Alcentra's Clareant European Direct Lending Fund II and £150m in Babson Global Private Loan Funds; the Committee also agreed to move its PIMCO mandate from the PARS II product to PARS III;
- The Committee agreed revised regional and manager allocations for the Fund's quoted equity portfolios;

- The Fund's New Opportunities Portfolio was re-branded as the *Direct Investment Portfolio*. The maximum capacity of the Direct Investment Portfolio is 5% of Total Fund NAV, and the Committee agreed that the objectives of the risk based structure above should be used as the framework for assessing any new investments made through the Direct Investment Portfolio.

## Asset Allocations

Manager and holding exposure at 31st March 2016 is illustrated in the charts below:

**Manager Allocation v Target (%) as at 31 March 2016**



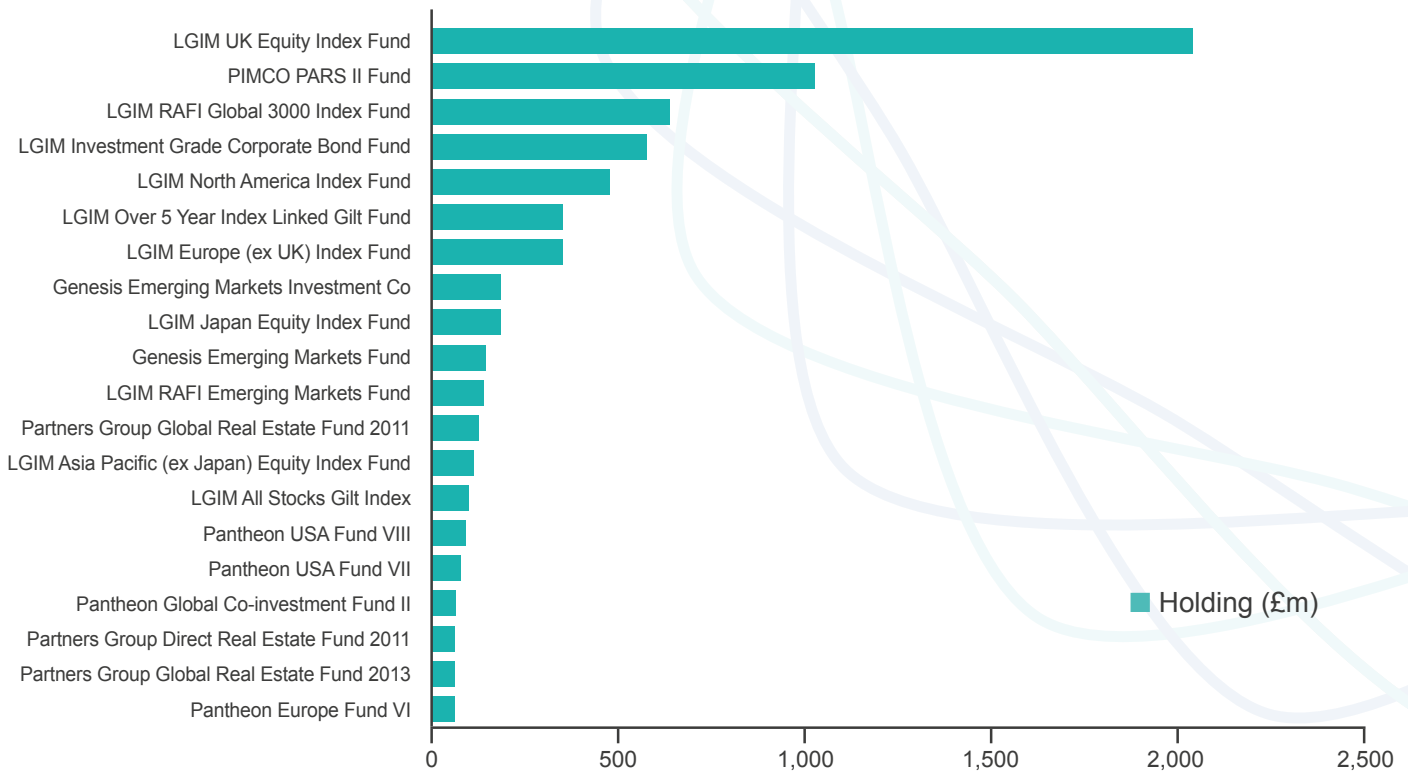
While the transition described above is in progress, the Fund's strategic asset allocation remains 72.5% Equity, 15% Bonds and 12.5% Property.

Actual allocation at the end of March 2016 and March 2015 are shown below:

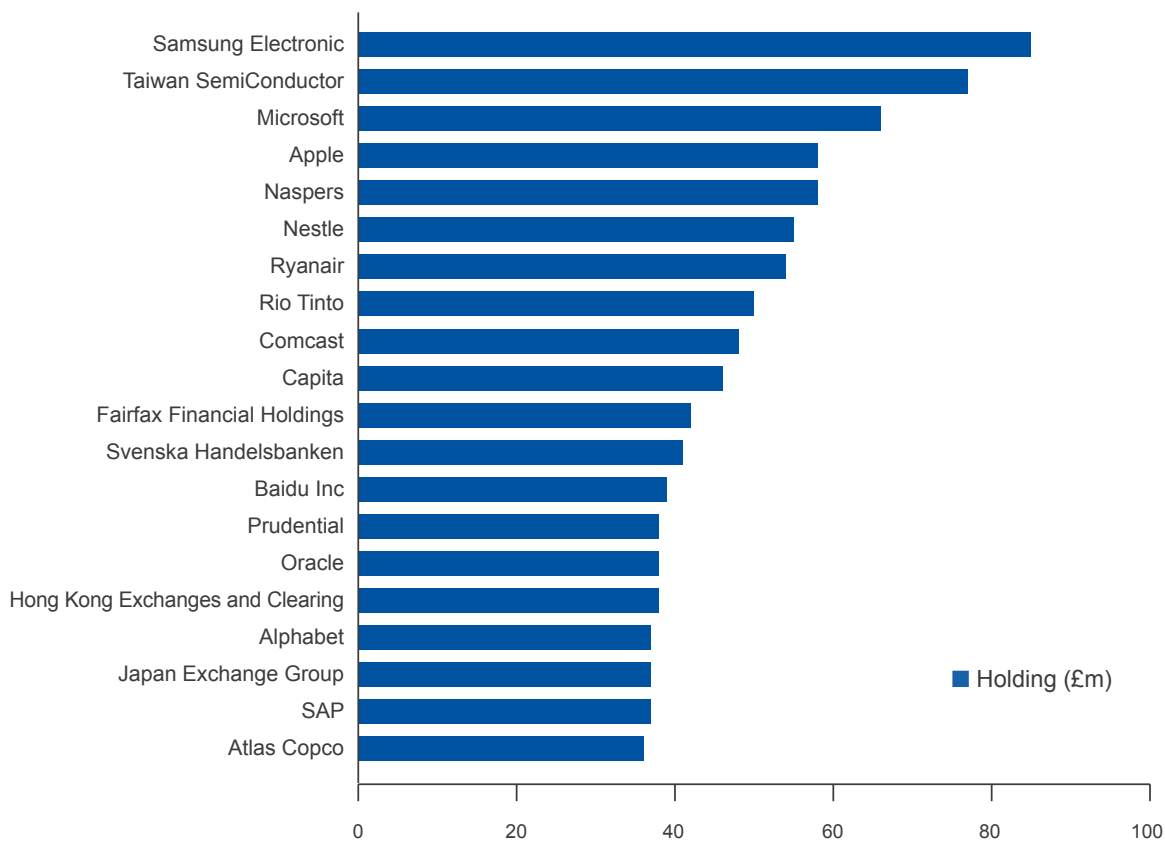
Asset Class	Allocation 31 March 2016	Allocation 31 March 2015	Target Allocation
	%	%	%
<b>Equity</b>	72.6	74.6	72.5
<b>Bonds</b>	12.1	12.2	15.0
<b>Property</b>	12.1	10.7	12.5
<b>Cash</b>	3.2	2.5	0
<b>Total</b>	100.0	100.0	100.0

Changes in asset allocation over the year are largely a result of market movements in each asset class, except with regard to property holdings, where purchases as well as appreciation in the value of underlying assets increased the overall weight of the Fund's UK and Global portfolios.

### Top Pooled Fund Holdings (£m)

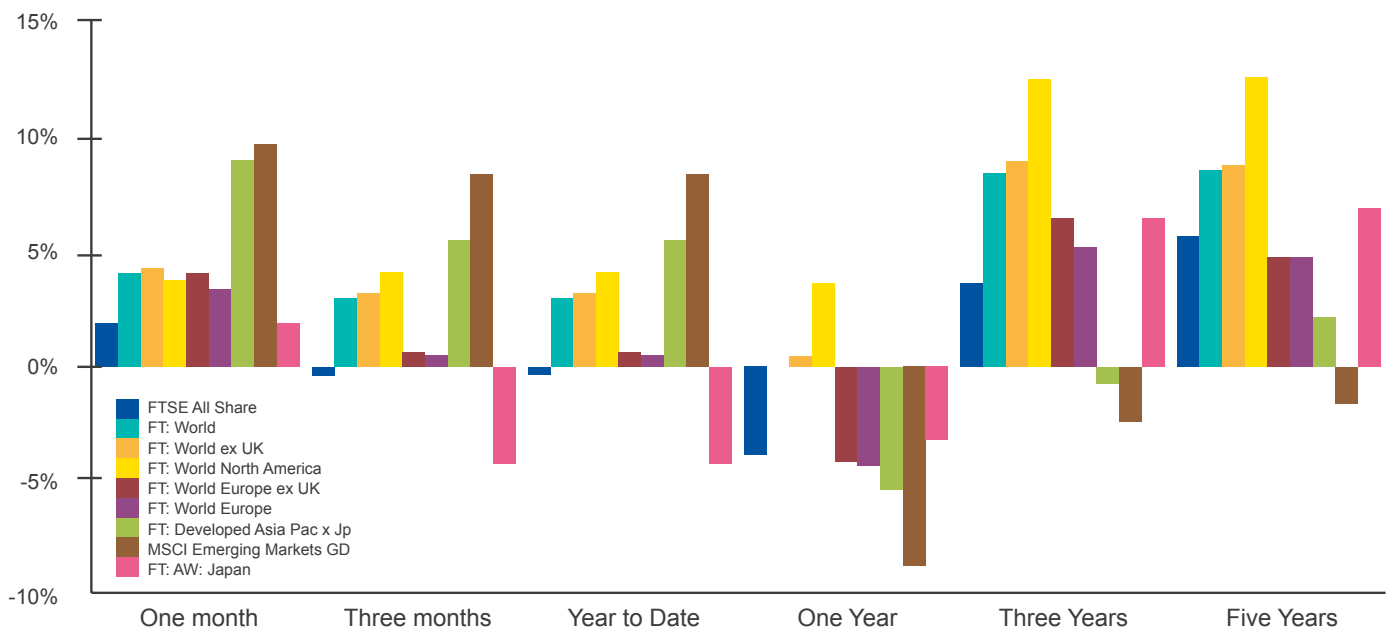


### Top Equity Holdings (£m)



In all, the Fund directly held 1,351 separate lines of equity as at 31st March 2016 across 35 separate investment markets. In addition, pooled funds provide coverage of entire markets, unlisted (private equity) companies and some highly specialist investment areas.

### Equity Market Performance to 31st March 2016



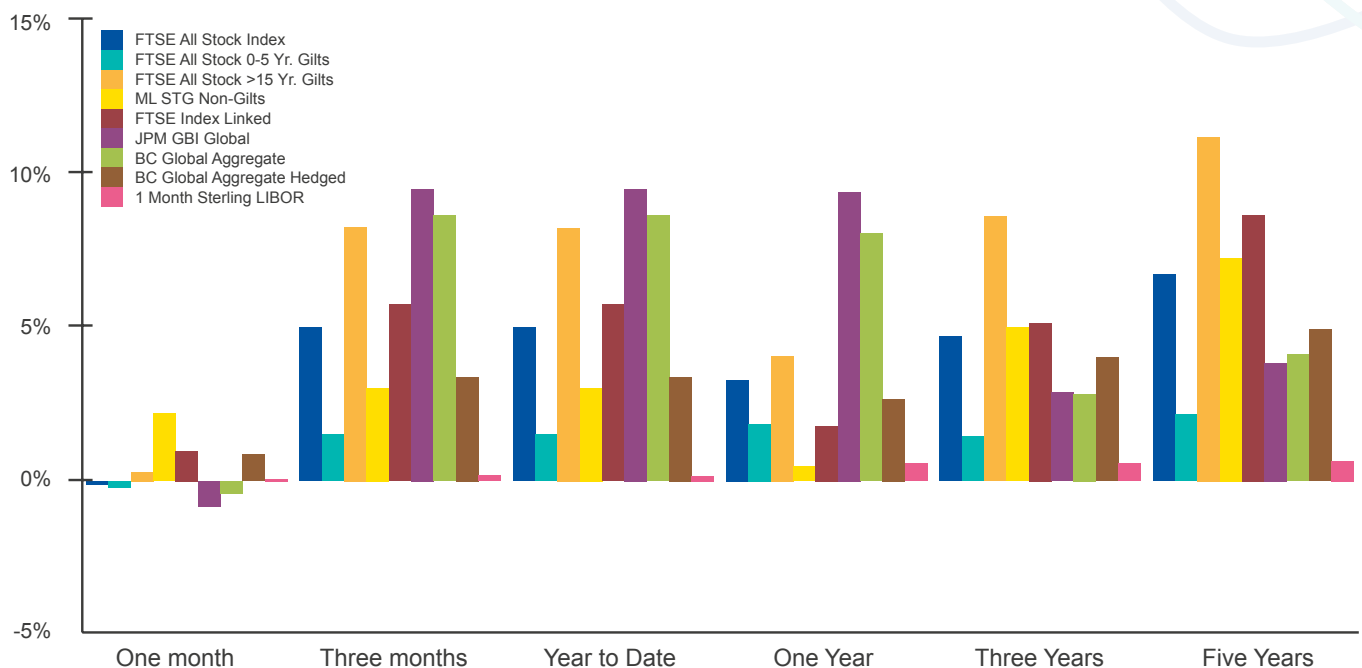
# INVESTMENT PERFORMANCE

## Market Commentary

The year to 31 March 2016 began well, with both the UK and US equity markets having reached new highs towards the end of March 2015. As the year progressed, however, fears of slowing growth became more widespread; falling oil prices, a potential Greek exit from the Euro and uncertainty over the timing of US interest rate rises all weighed on markets. Equity markets were volatile through the majority of the year, and both developed and emerging markets ended down, as evidenced in the chart below.

Bond (fixed income) markets fared better as investors sought safe-havens amid fears of slowing growth. Yields fell, and major government bond markets performed particularly well towards the end of the year. The Bank of England kept the UK's interest rates at historic lows, while both the European Central Bank and Bank of Japan extended their asset purchase schemes and cut interest rates to negative levels in a bid to encourage banks to lend more to the real economy.

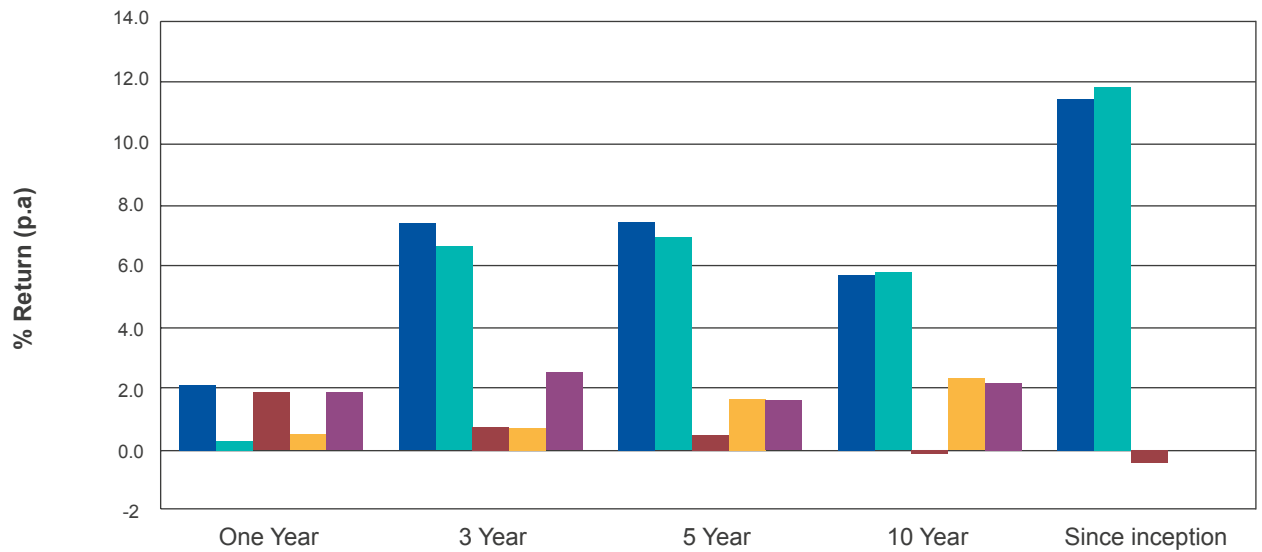
### Fixed Income Performance to 31st March 2016



UK property markets performed positively in 2015, largely due to capital appreciation. However, by the end of the first quarter of 2016, capital growth slowed on account of changes to Stamp Duty Land Tax and slowing rental value growth.

## FUND PERFORMANCE

## Annualised Fund Return



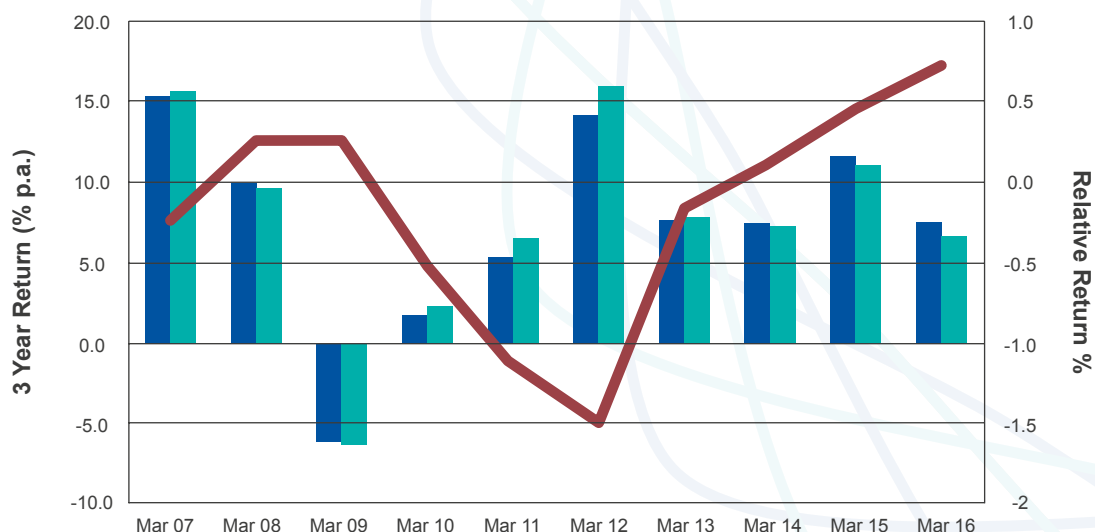
	One Year	3 Year Annualised	5 Year Annualised	10 Year Annualised	Since inception
■ Fund Return	2.1	7.4	7.5	5.7	11.5
■ Benchmark Return	0.3	6.6	6.9	5.8	11.9
■ Relative Return	1.9	0.7	0.5	-0.1	-0.4
■ Inflation	0.5	0.7	1.7	2.4	
■ Average Earnings	1.8	2.5	1.6	2.2	

Over the year to end March 2016, the Fund returned **+2.1%** against a benchmark return of **+0.3%**. The Fund's private equity and property portfolios were the most significant contributors to relative return.

Over the long term, absolute returns have been strongly positive and the Fund has outperformed the benchmark over 5 years, though returns are a little behind benchmark for 10 years and since inception.



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



	Mar '07	Mar '08	Mar '09	Mar '10	Mar '11	Mar '12	Mar '13	Mar '14	Mar '15	Mar '16
■ Fund Return	15.4	9.9	-6.2	1.7	5.3	14.2	7.6	7.4	11.6	7.4
■ Benchmark Return	15.6	9.6	-6.4	2.3	6.5	15.9	7.8	7.2	11.1	6.6
■ Relative Excess Return	-0.2	0.3	0.3	-0.5	-1.1	-1.5	-0.2	0.1	0.5	0.7

Following the 2011/12 investment strategy review and subsequent transition which involved the termination of several underperforming mandates, rolling 3 year relative returns have steadily improved.

The performance of the Fund's investment managers over 2015/16 is shown in the table below:

Manager	Annual Return (%)	Benchmark Return (%)	Relative Return (%)
Legal & General	-0.9	-0.6	-0.3
Baillie Gifford	-0.9	-5.8	5.2
Lazard	-3.9	-1.2	-2.7
Veritas	6.4	-1.2	7.7
Oldfield	-8.2	-1.2	-7.0
Henderson	3.7	4.1	-0.4
JP Morgan	4.5	1.0	3.5
Genesis	-6.9	-7.3	0.5
Pantheon	11.4	-3.9	16.0
Partners Group (Private Equity)	22.4	-3.9	27.4
Direct Investment Portfolio	11.9	-3.9	16.4
PIMCO	-0.2	0.7	-0.9
DTZ	14.7	13.3	1.2
Partners Group (Real Estate)	16.5	11.7	4.3
Legal & General (EM Future)	-12.2	n/a	n/a
<b>TOTAL FUND</b>	<b>2.1</b>	<b>0.3</b>	<b>1.9</b>

## DIRECT INVESTMENT PORTFOLIO (DIP)

In December 2009, the Strathclyde Pension Fund Committee agreed an initial governance structure for a New Opportunities Portfolio, which was rebranded during 2015/16 as the Strathclyde Direct Investment Portfolio (DIP). During the year the Committee agreed to increase internal resource for DIP and to appoint KPMG as investment consultant (projects and opportunities) to provide additional diligence on investment proposals.

DIP investments are typically illiquid, self-liquidating, and opportunistic. Strong fundamentals are usually enhanced by a positive local, economic or ESG (Environmental, Social, Governance) impact which adds value to the investment rationale.

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

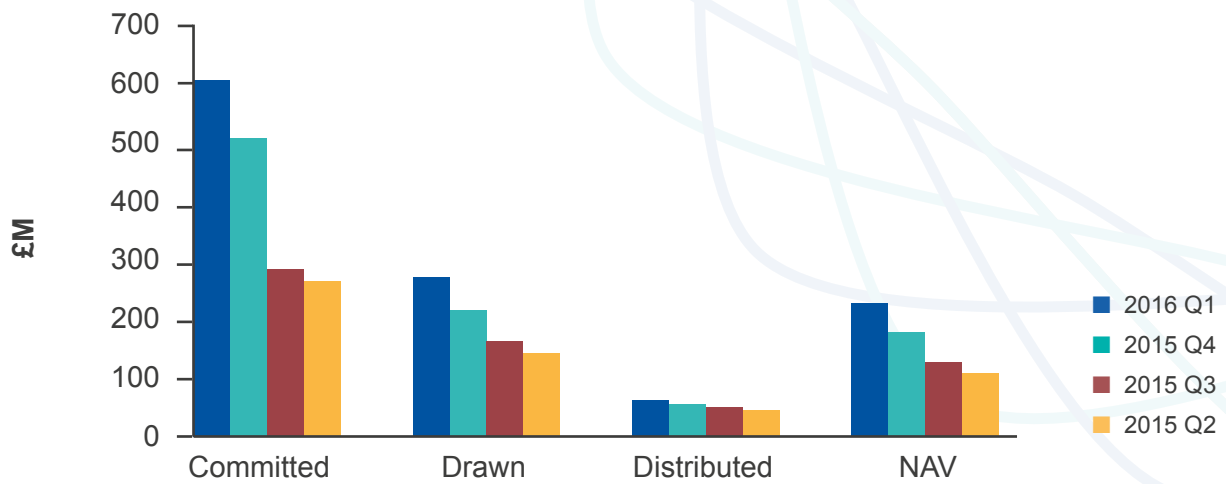
During 2015/16, the Committee agreed the following commitments:

- **£30m to Temporis Onshore Wind Fund**, for the development of UK mid-scale wind projects.
- **\$50m to the Markham Rae Trade Capital Partners Fund**
- **£20m to the Muzinich UK Private Debt Fund**, a direct lending fund focussed on small and medium sized companies (SMEs).
- An additional **£10m to Albion Community Power**, who build, own and operate small-scale renewable energy plants across the UK
- **£15m to Panoramic Growth Fund II**, which will invest in later stage growing SMEs across the UK.
- **£19m to Alpha Real Capital's Project Iron Sky**, the development of a biomass plant in Perthshire.
- **€52m to NTR Project Gael**, for investment in UK and Irish on-shore wind
- **£20m to latest fund from Scottish Equity Partners, SEP V**
- **£50m to the Pensions Infrastructure Platform's UK Multi-strategy Infrastructure Fund**.
- An additional **£25m to Clydebuilt**, a property fund focused on investment in the Strathclyde area.
- **£50m to the UK Green Investment Bank**, for investment in Offshore Wind Fund LP.



The chart below shows how the portfolio has developed over the course of 2015/16, with commitments and drawdowns increasing steadily over the the year.

### DIP Summary



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

Fund	Vintage Year	Sector	Commitment (£m)
SEP II	2004	Venture Capital	5
SEP III	2006	Growth Capital	5
Panoramic Growth Equity Fund I	2010	Growth Capital	5
Iona Environmental Infrastructure LP	2011	Renewable Energy	10
Scottish Loans Fund	2011	Credit	10
SEP IV	2011	Growth Capital	5
City Legacy	2013	Credit	35
Epidarex	2013	Venture Capital	5
Aberdeen UK Infrastructure Fund	2014	Infrastructure	28
Albion community Power plc	2014	Renewable Energy	20
Clydebuilt	2014	Property	75
Dalmore (PIP)	2014	Infrastructure	50
Healthcare Royalties	2014	Credit	17
Renshaw Bay Real Estate Finance Fund	2014	Credit	10
SEP Environmental Capital Fund	2014	Renewable Energy	5
Aviva (PIP)	2015	Infrastructure	20
Green Investment Bank	2015	Renewable Energy	50
Panoramic Growth Equity Fund II	2015	Growth Capital	15
Resonance British Wind Energy	2015	Renewable Energy	10
Temporis Wind Fund	2015	Renewable Energy	30
Alpha Real Capital Social Infrastructure Fund	2015	Supported Living	15
Alpha Real Capital Project Iron Sky	2016	Renewable Energy	19
Markham Rae	2016	Credit	35
Muzinich	2016	Credit	20
NTR Project Gael	2016	Renewable Energy	40
SEP V	2016	Venture Capital	20
PIP Multi-Strategy Infrastructure LP	2016	Infrastructure	50
<b>TOTAL</b>			<b>609</b>

# RESPONSIBLE INVESTMENT



## POLICY

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

The text of the principles is as follows:

*As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:*

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

## ACTIVITY

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

## REPORTING

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

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

- Slave Labour
- Protection of Endangered Species
- Human Rights
- Factory Farming Emissions
- Inhumane Weapons
- Fossil Fuel to Renewables
- Tax Transparency
- Oil and Gas Exploration and Extraction in the Arctic
- Corporate Corruption
- Fire and Building Safety in Bangladesh Garment Industry
- Safety Initiatives in the Oil and Gas Industry
- Executive Remuneration
- Labour Rights
- UK Corporate Governance Code
- Mine Safety
- Climate Change
- Child Labour in the Cocoa Industry
- The Living Wage
- Water Rights
- Farm Animal Welfare

## Voting Results 2015/16 United Kingdom

	No of meetings	No. of AGM's	No. of EGM's	Combined AGM/EGM	No of Resolutions	Votes For	Votes Against	Abstentions	Not Voted*	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	19	19	0	0	375	358	17	0	0	19	0
Genesis	0	0	0	0	0	0	0	0	0	0	0
Henderson	148	145	3	0	1,311	1,245	10	16	40	145	3
JP Morgan	0	0	0	0	0	0	0	0	0	0	0
Lazard	7	7	0	0	186	185	0	1	0	7	0
Legal & General	765	640	125	10	10,803	10,622	181	0	0	765	0
Oldfield Partners	4	4	0	0	66	65	0	0	1	4	0
Veritas	4	4	0	0	87	87	0	0	0	4	0
<b>Total</b>	<b>947</b>	<b>819</b>	<b>128</b>	<b>10</b>	<b>12,828</b>	<b>12,562</b>	<b>208</b>	<b>17</b>	<b>41</b>	<b>944</b>	<b>3</b>
						<b>98%</b>	<b>2%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>

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

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



## Voting Results 2015/16 - Overseas

	No of meetings	No. of AGM's	No. of EGM's	Combined AGM/EGM	No of Resolutions	Votes For	Votes Against	Abstentions	Not Voted*	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	<b>61</b>	58	3	3	<b>843</b>	798	25	18	2	61	0
Genesis	<b>188</b>	136	52	6	<b>1,948</b>	1,759	172	16	1	187	1
Henderson	<b>16</b>	14	2	0	<b>170</b>	164	6	0	0	16	0
JP Morgan	<b>405</b>	358	47	7	<b>3,642</b>	3,139	407	31	65	400	5
Lazard	<b>102</b>	93	9	7	<b>1,438</b>	1,230	94	12	102	97	5
Legal & General	<b>2,978</b>	2,381	597	27	<b>34,268</b>	29,634	4,520	114	0	2,978	0
Legal & General - Segregated Portfolio	<b>66</b>	63	3	25	<b>1,275</b>	1,158	58	26	33	64	2
Oldfield Partners	<b>19</b>	17	2	1	<b>306</b>	243	45	0	18	18	1
Veritas	<b>34</b>	27	7	3	<b>452</b>	393	31	0	28	33	1
<b>Total</b>	<b>3,869</b>	<b>3,147</b>	<b>722</b>	<b>79</b>	<b>44,342</b>	<b>38,518</b>	<b>5,358</b>	<b>217</b>	<b>249</b>	<b>3,854</b>	<b>15</b>
						<b>87%</b>	<b>12%</b>	<b>0%</b>	<b>1%</b>	<b>100%</b>	<b>0%</b>





# SECTION 7

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## ADMINISTRATION



## ADMINISTRATION

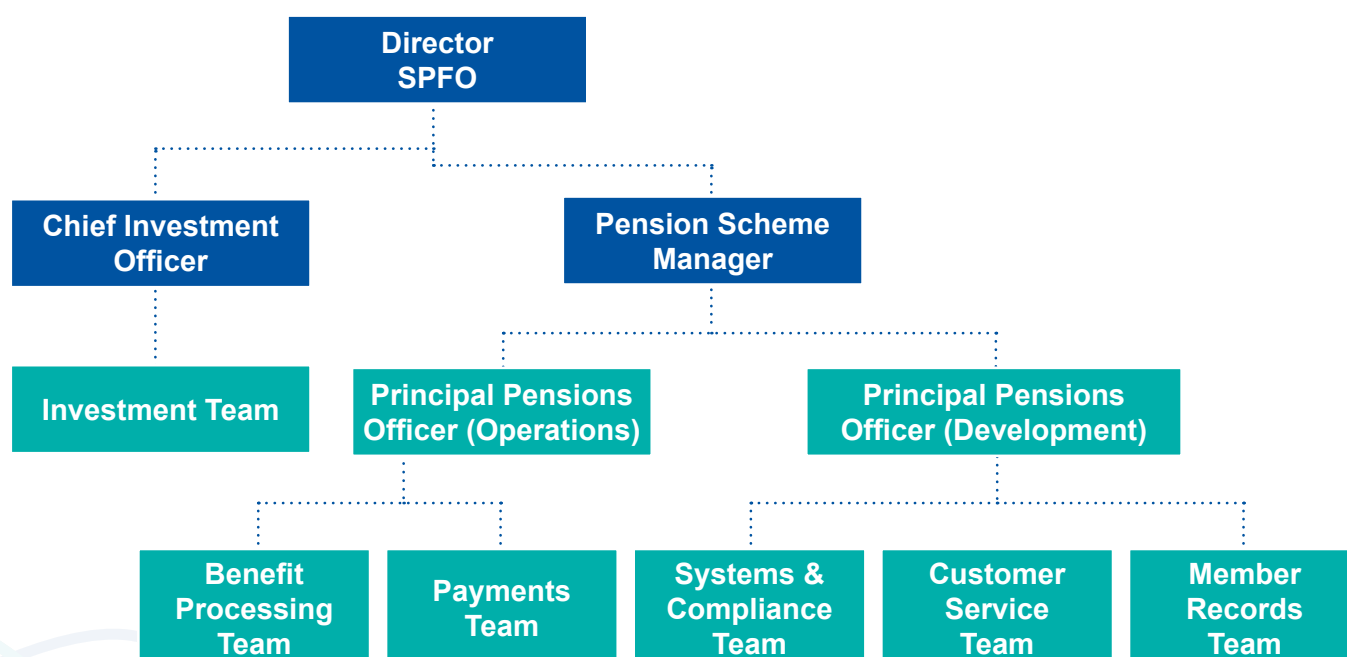
Administration of the Local Government Pension Scheme (LGPS) and its benefits for members of the Strathclyde Pension Fund is carried out by the Strathclyde Pension Fund Office (SPFO).

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

Total staff in post at 31st March 2016 was 83 (FTE 81.2). This included 5 Commonwealth apprentices.

The SPFO staffing structure model is shown below.

### SPFO STRUCTURE



### SCHEME MEMBERSHIP

The following table summarises the movement in scheme membership over 2015/16.

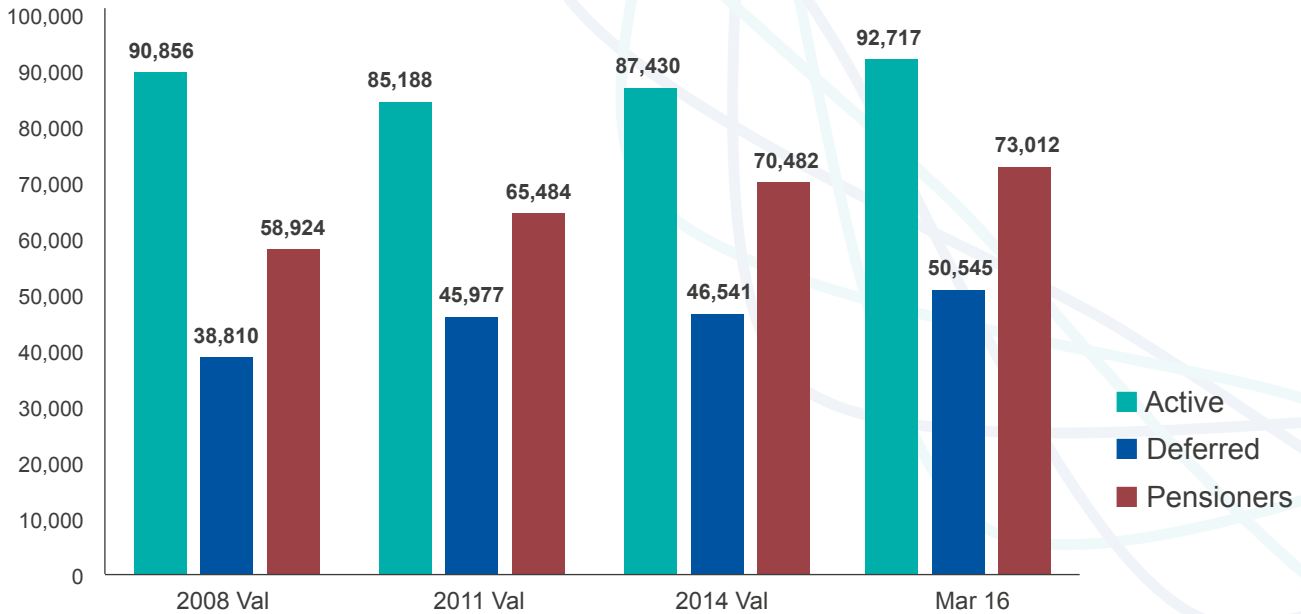
#### MEMBERSHIP ANALYSIS - Strathclyde Pension Fund

STATUS	TOTAL AT 01/04/2015	TOTAL OFF	TOTAL ON	TOTAL AT 31/03/2016
Active	90,057	2,933	2,023	92,717
Deferred / Undecided Leavers	49,215	2,302	2,077	50,545
Pensioners	71,605	1,486	2,122	73,012
<b>TOTAL</b>	<b>210,877</b>	<b>6,721</b>	<b>6,222</b>	<b>216,274</b>



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

### Membership Analysis as at 31st March 2016



## SCHEME BENEFITS

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

The following table gives a summary of scheme benefits.

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

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

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

# ADMINISTRATION STRATEGY

## BACKGROUND

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

The strategy aims to ensure that:

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

## SPFO SERVICE STANDARDS

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

Service standards and Key Performance Indicators (KPIs) for SPFO are set each year in a business plan which is approved by Strathclyde Pension Fund Committee.

## PERFORMANCE - SPFO

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

## PAYMENT OF PENSIONS

The single most important critical function of SPFO is to ensure that the monthly pensions payroll runs on its due date. This was achieved each month in 2015/16.

## TRANSACTION TURNAROUND PERFORMANCE 1ST APRIL 2015 TO 31ST MARCH 2016

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

The table below shows the targeted and actual performance for 2015/16 together with previous year comparison.

ACTUAL										
Processes	Volumes	20 days	15 days	12 days	10 days	7 days	5 days	3 days	Target %	Previous Year on Target
<b>1. Data Changes</b>										
Data Changes Admin	10,391				99.11%	<b>99.11%</b>			<b>95.00%</b>	98.61%
<b>2. Deferred Benefits</b>										
Deferred Calcs	2,372					98.86%	98.52%	<b>97.18%</b>	<b>90.00%</b>	97.51%
<b>3. Retiral</b>										
Provisionals	3,393	<b>61.54%</b>							<b>80.00%</b>	58.03%
Actual	2,054	<b>75.90%</b>							<b>80.00%</b>	65.90%
<b>4. Early Leaver Options</b>										
Benefit Options Calcs	2,582		99.26%	99.11%	98.95%	<b>98.37%</b>			<b>90.00%</b>	98.19%
Refunds	1,850		98.59%	97.73%	96.81%	<b>92.92%</b>			<b>90.00%</b>	92.69%
<b>5. Transfers In</b>										
Quotations	35	100.00%	97.14%	91.43%	<b>88.57%</b>				<b>85.00%</b>	96.69%
Actuals	36	100.00%	100.00%	100.00%	100.00%	<b>100.00%</b>			<b>85.00%</b>	99.11%
<b>6. Transfers Out</b>										
Quotations	921	96.67%	<b>99.24%</b>						<b>90.00%</b>	99.43%
Club Transfers	65	98.46%	96.92%	<b>95.38%</b>					<b>90.00%</b>	98.46%
Non Club Transfers	163	96.93%	95.09%	<b>92.64%</b>					<b>90.00%</b>	93.15%

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

Over 2015/16, target was achieved in 9 out of 11 categories measured. Performance for retirals, both actual and provisional, was behind target throughout the year, though considerable improvement was made from the previous year.

## CUSTOMER SERVICE

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

### SURVEY RESULTS - 1ST APRIL 2015 TO 31ST MARCH 2016

	Refunds	Retirals
<b>Forms issued</b>	<b>1,850</b>	<b>2,054</b>
Responses	873	909
Response rate (%)	47.2	44.3
<b>“Satisfaction Rating” (%)</b>	<b>81.1</b>	<b>87.2</b>
Target (%)	80.0	90.0
2014/15 full year (%)	81.3	88.0

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

## SPFO DATA QUALITY

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

The table below shows the quality of data held by SPFO at 31st March 2016. The Pension Regulator's guidance sets a target of 100% accuracy for new common data received after June 2010.

SPFO Data	Current
<b>Very good data with minimal requirements</b>	
Forename	100.0%
Surname	100.0%
Membership Status	100.0%
Date of Birth	99.99%
NI Number	98.51%
Post Code	97.52%
Address	91.57%
<b>Poor data with high cleansing requirements</b>	

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

## EMPLOYER SERVICE STANDARDS

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

## PERFORMANCE - EMPLOYERS

The table below details the performance achieved by employers in 2015/16 in relation to key service standards.

Service Standard	Achieved
Good quality new member data received by SPFO (from Local Authority Employers)	62%
Electronic data changes received (Local Authority Employers)	60%
2 months prior notice of retirement received	66%
Submission of year-end contribution return by 20th May	63%
Remittance of employee and employer contributions by 19th of the month following deduction (Local Authority Employers)	98%

## STARTERS AND EARLY LEAVERS – EXCEPTION RATE

Employers are required to notify SPFO promptly of members joining or leaving the scheme. There is some incidence of failure to do this and regular reports are issued to employers identifying missing data, both historic and current. The table below summarises the position at 31st March 2016.

	Members	%
<b>Record status matched</b>	<b>91,078</b>	<b>98.24</b>
<b>Missing new start data</b>	<b>727</b>	<b>0.78</b>
<b>Missing leaver data</b>	<b>912</b>	<b>0.98</b>
<b>Total employee members</b>	<b>92,717</b>	<b>100</b>

The aggregate prior and current year exception rate of 1.76% achieves the year-end target of <2.0%.

## REPORTING TO THE PENSIONS REGULATOR

During 2015/16 there were no instances of late payment of member contributions or other breaches which were considered to be of material significance such that they required to be reported to The Pensions Regulator.

## FUND MEMBERSHIP – PARTICIPATING EMPLOYERS

- A**
- Access to Employment Ayr Ltd
  - ACCESS (Service Glasgow LLP)
  - Alternatives West Dumbarton Community Drug Services
  - AMEY BFO Services Ltd (Renfrewshire Schools PPP)
  - Amey Public Services LLP
  - Argyll & Bute Council
  - Argyll & Bute Local Learning Partnership Ltd (T/A Argyll College)
  - Argyll Community Housing Association Ltd
  - Aspire2gether Ltd
  - Auchenback Active Ltd
  - Ayr Action for Mental Health Limited
  - Ayr Housing Aid Centre
  - Ayr Renaissance LLP
  - Ayrshire College
  - Ayrshire Housing
  - Ayrshire North Community Housing Organisation Ltd
  - Ayrshire Valuation Joint Board
- B**
- BAM Construct UK Ltd (East Renfrewshire)
  - BAM Construct UK Ltd (West Dunbartonshire)
  - Bridgeton Calton And Dalmarnock Credit Union
- C**
- Cassiltoun Housing Association
  - Childcare First Ltd
  - City Building (Glasgow) LLP
  - City of Glasgow College
  - City Parking (Glasgow) LLP
  - City Property (Glasgow) LLP
  - Clyde Gateway Urban Regeneration Company
  - Coatbridge Citizens Advice Bureau
  - Coalition For Racial Equality And Rights
  - Cofely Workplace Ltd
  - College Development Network
  - Community Central Hall
  - Community Enterprise in Strathclyde
  - CORA Foundation
  - Cordia (Services) LLP
  - Craigholme School
  - Creative Scotland
- D**
- Culture & Sport Glasgow (T/A Glasgow Life)
  - Culture NL Limited.
  - Cumbernauld Housing Partnership Ltd
- E**
- Deaf Connections
  - Developing Strathclyde Ltd
  - Dunbartonshire & Argyll & Bute Valuation Joint Board
- F**
- 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
  - East Renfrewshire Culture & Leisure Trust
  - Easterhouse Citizens Advice Bureau
  - Enable Services Ltd
  - Engage Renfrewshire
  - Equals Advocacy Partnership Mental Health
- G**
- First Bus
  - Flourish House
  - Forth & Oban Ltd
  - Fyne Homes Limited
- H**
- 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  
 Greenspace Scotland

## H

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

## I

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

## J

Jordanhill School  
 Jobs and Business Glasgow

## K

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

## L

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

## M

Maryhill Housing Association

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

## N

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

## P

Parkhead Citizens Advice Bureau  
 Parkhead Housing Association Ltd  
 Police Scotland

## Q

Queens Cross Housing Association

## R

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

**S**

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

**T**

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

**U**

University of Aberdeen (ex Northern College)  
 University of Dundee (ex Northern College)

University of Edinburgh (ex Moray House 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

**NEW AND EXITING EMPLOYERS**

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

Employer participation during 2015/16 is summarised in the following table.

Total employers at 1st April 2015	200
New employers	+2
Exiting employers	-2
<b>Total employers at 31st March 2016</b>	<b>200</b>



## COMMUNICATIONS POLICY

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

### 1. VISION

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

### 2. OBJECTIVES

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

### 3. PRINCIPLES

#### 3.1 Format

Our communications will:

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

#### 3.2 Brand

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

#### 3.3 Content

Content will be relevant and timely.

#### 3.4 Delivery

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

#### 3.5 Measuring Success

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

### 4. DEVELOPMENT PRIORITIES

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

### 5. MEASUREMENT OF SUCCESS

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

### 6. PROGRAMME

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

## COMMUNICATIONS – PERFORMANCE

During 2015/16 SPFO produced and issued annual benefit statements to its active and deferred members and complied with the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations. SPFO also completed the initial roll out of its digital communications strategy.

- All members were issued with a log-in to the secure website SPFOonline where they can view their pension account and make certain amendments to their personal details.
- The majority of member newsletters were issued in digital format for the first time.
- The **www.spfo.org.uk** website was completely re-designed and was re-launched during October 2015.
- Glasgow City Council and its associated companies successfully adopted i-connect, SPFO's secure interface between its pensions system and employers' payroll systems.

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

### Digital Communications

Website	Measure	2015/16 Actual (Average)	2015/16 Target	2014/15 Actual
www.spfo.org.uk	total weekly visitors	6,948	6,200	<b>5,734</b>
	unique weekly visitors	5,751	4,800	<b>4,511</b>
SPFOonline	members registered	43,148	30,000	<b>27,763</b>



## 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 2016 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 2015/16 (the 2015/16 Code).

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

### **Respective responsibilities of the Executive Director of Financial Services and auditor**

As explained more fully in the Statement of Responsibilities, the Executive Director of Financial Services is responsible for the preparation of 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 the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2015/16 Code of the financial transactions of the fund during the year ended 31 March 2016, 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 2015/16 Code; and

- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

**Opinion on other prescribed matter**

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

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

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

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

I have nothing to report in respect of these matters.

Gillian Woolman MA FCA CPFA  
Assistant Director  
Audit Scotland  
102 West Port  
EDINBURGH  
EH3 9DN

September 2016



# STRATHCLYDE PENSION FUND OFFICE



**Director: Richard McIndoe**

**Chief Investment Officer: Jacqueline Gillies**

**Investment Manager: Richard Keery**

**Pension Scheme Manager: Linda Welsh**

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

**Chief Finance Officer: Paul Murphy**

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

## CONTACT

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**Glasgow**

**G2 9EW**

