ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

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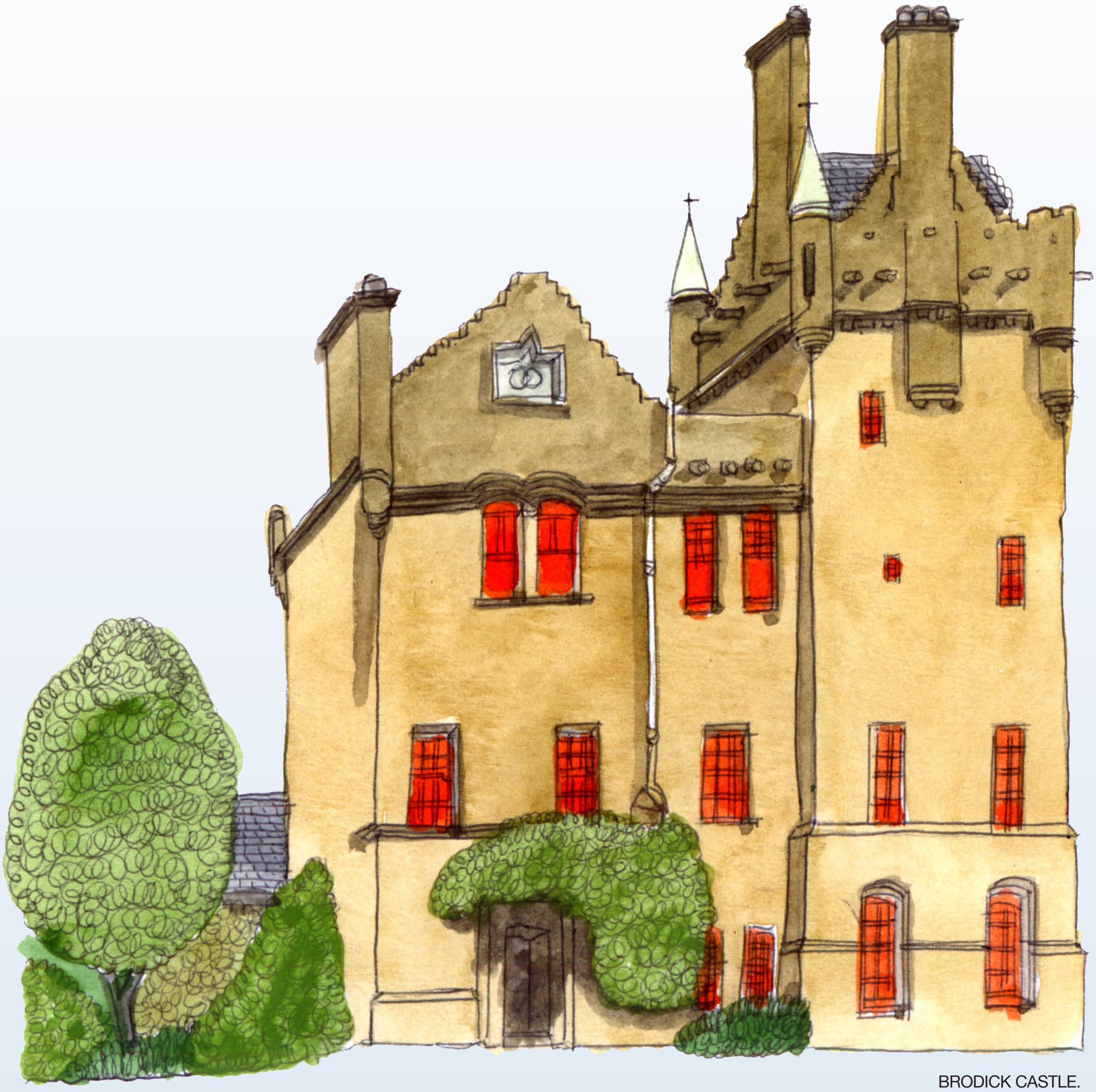


BRODICK CASTLE.

SECTION 1
INTRODUCTION

ABOUT STRATHCLYDE PENSION FUND

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

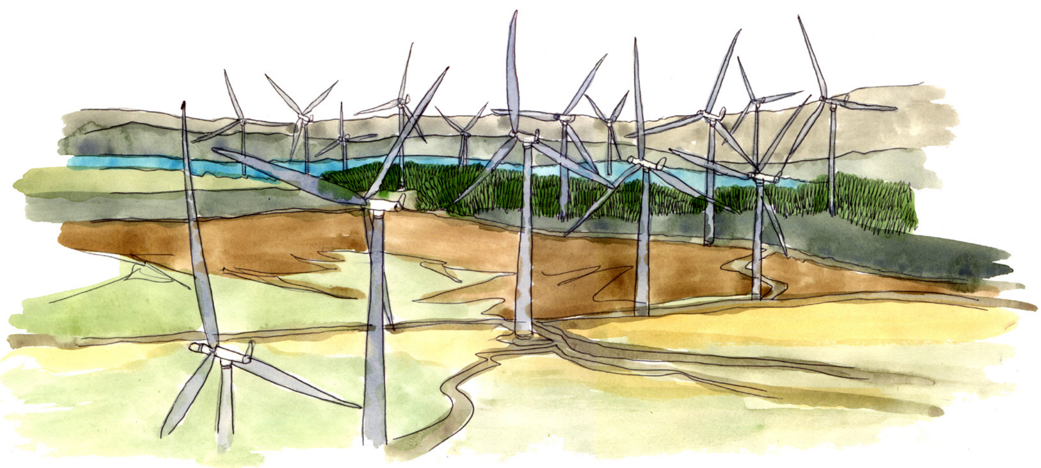
It is one of 11 LGPS funds in Scotland and around 100 in the UK.

Strathclyde is the second largest of the UK LGPS funds.

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

- The scheme rules take the form of a series of regulations – the Local Government Pension Scheme (Scotland) Regulations. The regulations are Scottish Statutory Instruments (SSIs). There are separate sets of regulations to set out the scheme benefits, investment arrangements and governance requirements.
- The LGPS is a multi-employer defined benefit scheme. The benefits are based on final salary for all service to 31st March 2015 and career average earnings for benefits from 1st April 2015.
- The Strathclyde Pension Fund was created in 1974. It has been managed by Glasgow City Council since 1996.
- The Fund is a pool into which member and employer contributions are paid. The money is invested so that pension benefits can be paid as they fall due.
- Participating employers include the 12 local authorities in the west of Scotland; Police Scotland, Scottish Fire and Rescue, and Scottish Water; a number of universities and colleges; local authority subsidiary companies and contractors; and a wide range of other organisations with funding or service links to the local government sector.
- As at 31st March 2019 the Strathclyde Pension Fund had over 242,000 members, 172 participating employers and investment assets of £21.9 billion in Fund No.1 and £0.2 billion in Fund No.3 which is a closed sub-fund with only one employer, First Bus (Glasgow).

FOR YOUR **FUTURE**



FOREWORD

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

Under its Terms of Reference, the Strathclyde Pension Fund Committee has the power to discharge all functions and responsibilities relating to Glasgow City Council's role as administering authority for the Strathclyde Pension Fund.

This includes both decision-making and monitoring, though the Committee also relies to a great extent on advice, support and scrutiny provided by the Fund's extended governance structure including the Pension Board, Investment Advisory Panel, auditors, actuaries and consultants. I would like to start by thanking all concerned for their contribution to what has been another very successful year for the Fund.

Headline figures which attest to this success include:
- an investment return of **+5.9%**
- a **10th** consecutive year of positive returns
- estimated funding level of **109%**
- employee membership exceeded **100,000** for the first time
- total membership exceeded **242,000**
- closing asset value of **£21.9 billion**, an increase of **£1.1 billion**.

These results are very gratifying. But much of the real work of the Committee and those assisting it is in preparing and making the decisions on policy, strategy and structure which produce the results and ensure that the Fund will also show resilience when economic conditions are less benign or other challenges are presented.

Many of the Committee's decisions during 2018/19 focused on increasing the diversification of the investment base in line with the revised strategy agreed towards the end of 2017/18. To this end, the Committee agreed a series of new investments. These included:
- **£200m** in an absolute return fund with a view to providing balanced growth and capital protection;
- **£500m** in global infrastructure to broaden the infrastructure strategy beyond the existing UK investments;
- Extending the private debt programme to 4.5% of total Fund (close to **£1bn** at current valuation) with the award of 4 new mandates including a first strategic allocation to real estate debt; and
- 7 new investments by the Fund's Direct Investment Portfolio (DIP) with a total value of **£205m**. These span UK social infrastructure, SME lending, venture capital in the Scottish life sciences sector, community power and renewable energy infrastructure.

The Committee concluded a review of the Direct Investment Portfolio and agreed a number of changes including increases in its overall capacity and in the target size of individual investments.

The review revealed that almost all DIP investments were performing well in investment terms and that additional measurable impacts from its investments included carbon reduction of more than **87,000** tonnes per annum, contribution to the creation of more than **3,000** jobs since inception, and economic and social benefits from infrastructure construction including **92** schools and **14** hospitals. These figures will have increased further with subsequent investments and will continue to do so.

The Committee also agreed:
- a vigorous and comprehensive response to consultation on the future structure of the scheme in Scotland;
- a revised risk policy and strategy statement and;
- other items including appointment of an independent property valuer, and annual training and business plans.

As ever, thanks also to all staff at SPFO for putting these decisions into effect and for their continuing hard work for the Fund and its members and employers.

Councillor Allan Gow
City Treasurer, and Convener of Strathclyde Pension Fund Committee
September 2019

MANAGEMENT COMMENTARY

Strategy and objectives

The Strathclyde Pension Fund has one overriding objective: to secure the payment of pensions benefits now and in the future to over 242,000 members. That is the common purpose of the Fund's longer term policies, objectives and strategies. These are agreed by the Strathclyde Pension Fund Committee and set out in its policy documents. These cover governance, risk, 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: **https://www.spfo.org.uk/index.aspx?articleid=16026**

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. The priorities for 2018/19 included:

- development of the investment structure to accommodate the revised target investment strategy which had been agreed by the Committee in February 2018 at the conclusion of the 3-yearly actuarial valuation;
- review of the Fund's internally managed Strathclyde Direct Investment Portfolio; and
- a number of separate scheme administration and member communications projects.

All made satisfactory progress or were completed over the course of the year, though some delays were experienced particularly where there was reliance on third parties. Further details are included in the Governance section of this annual report.

Achievement against KPI targets for day to day activity is reported to the committee throughgout the year. Details are included in the Administration and Investment sections of this annual report.

Funding

The most recent 3-yearly actuarial valuation of the Fund was completed immediately prior to the start of the 2018/19 financial year. Revised employer contribution rates for some employers became effective from 1st April 2019. But for most, including all those in the Fund's Main Employer Group whose employer rate remained stable at 19.3%, there was no change.

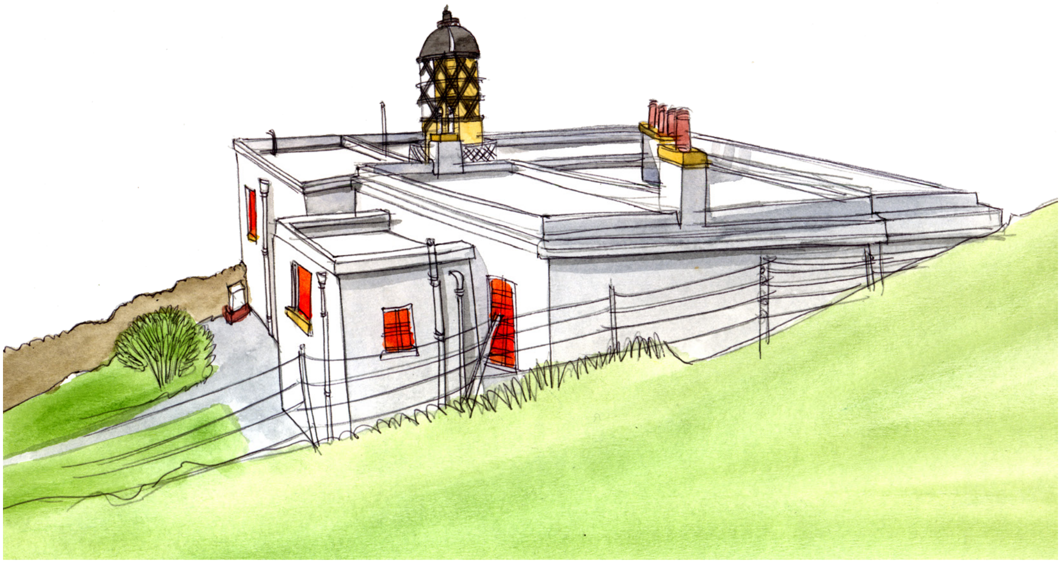
The next formal actuarial valuation of the Fund will be as at 31st March 2020. Interim monitoring showed that the funding surplus reported at the 2017 valuation persisted throughout 2018/19 and that the funding position had improved to an estimated 108.7% at the year end. In isolation, this bodes well for the 2020 valuation, but much could change in the next year and there are issues both general (Brexit, economic growth, geopolitics) and pensions specific (GMP equalisation, the scheme cost cap mechanism, legal challenges on the grounds of age discrimination) which could ensure that funding pressures continue to be an issue for the scheme. The Fund will continue to develop its funding and investment strategies to address these.

Investment

The Fund's total investment return for the year was +5.9% (2017/18 +6.0%). This represented a remarkable 10th consecutive year of growth.

Returns were again largely driven by equity market performance. The FTSE all share index returned over +6% for the year, global market indices over +10%. The Fund's benchmark return was +5.9%, so relative performance for the year was flat overall as positive and negative contributions from individual portfolios summed to zero.

Longer term relative performance remains good. 3 and 5 year annualised return figures are +11.5% p.a. and +9.9% p.a. respectively, both +1% ahead of benchmark and significantly better than the actuary's long-term investment assumption which is now +3.5% p.a.



MULL OF KINTYRE LIGHTHOUSE.

Like economies, investment markets and especially equity markets are inherently cyclical in nature. It is impossible to gauge in advance with any accuracy the length and strength of a growth phase or the likely turning point. But a turning point will come.

The Fund's investment strategy has not been developed with any particular turning point in mind, but with the longer term aim of reflecting the increasing maturity of the liability and cash flow profiles. Development has entailed reduction of growth assets, broader diversification, and an increase in income-generating and protection assets. This progressed in the year with new investments in global infrastructure, absolute return and real estate debt and additional investments in corporate private debt. This, and continued new investment by the internally managed Direct Investment Portfolio, took the Fund a considerable way towards implementation of the revised strategic benchmark agreed by the Committee in February 2018.

The final quarter of 2018 provided an indication that the increased diversification has improved the Fund's resilience. October 2018 was the worst month for global equities since 2012, and markets fell again sharply in December. The UK market lost over -10% in the quarter. The US market over -11%. Dominant investor concerns were future economic growth, trade conflicts, and political uncertainty. In this context, the Fund's quarterly return of -5.4% was relatively benign with many of the non-equity portfolios producing positive returns. Markets recorded a sharp recovery in the first quarter of 2019 so that the Fund finished ahead for the financial year.

As shown in the financial statements, investment income from dividends, rents and interest was £288 million for the year. Capital growth – change in market value of investments – was £1,025 million. Closing net assets of the Fund were £21.936 billion, another new high and an increase of £1.1 billion from 31st March 2018.

Administration and Membership

The financial statements show pension and lump sum payments of £590 million together with refunds and transfers of £40 million.

These are the sum of hundreds of thousands of individual payments diligently processed by the administration teams within Strathclyde Pension Fund Office (SPFO). Administration is a complex function, not least because of the complexity of the scheme and its regulations. In addition to the 2014 regulations which created the new career average scheme, benefits are preserved under the 2008, 1998 and earlier versions of the scheme, and a host of transitional protections and other provisions apply.

Production of the 2018 regulations, which became effective in June 2018 and consolidated the 2014 regulations with subsequent amendments, may have been intended to simplify this to to a certain degree. It is doubtful whether this was achieved, particularly as further amendment regulations were immediately required in order to correct errors and ensure that transitional provisions continue to apply. These, the Miscellaneous Amendment Regulations 2019, were still awaited at the year end.

An additional layer of complexity emerged mid-way through the year when, in September, HM Treasury announced a reduction in its Superannuation Contributions Adjusted for Past Experience (SCAPE) discount rate to reflect reduced expectations of long-term GDP growth. Unlike other UK public sector schemes, the Local Government Pension Scheme does not use the SCAPE rate to set employer contributions. However, it underpins many of the calculations carried out within SPFO. Following the change, numerous factor tables had to be re-calculated by the Government Actuary's Department before being uploaded for use in the SPFO system. Associated guidance and in some cases methodologies also changed. This process was still ongoing at year end.

Administration arrangements also required review in light of the EU's General Data Protection Regulation (GDPR) which became effective in the UK in May 2018. All necessary preparations to ensure compliance within SPFO had been made ahead of that date.

Against this background of complexity and change, performace against Key Performance Indicators was a little mixed: member satisfaction remained high; data was somewhat improved; but turnaround times for certain processes were some way behind internal and statutory targets. Further details are included in the Administration section of this annual report.

The Pensions Regulator's presence has been increasingly evident since oversight of the administration and governance of public sector schemes was added to its remit in 2015. Since then the Fund has upgraded or added procedures and documentation to comply with the Regulator's Code of Practice. Breaches are logged internally and, at the year end, one - processing delays in respect of deferred benefits information - required to be reported to the Regulator.

A review of the administration strategy, structure and resource has been included in the 2019/20 business plan.

Total contributions and other income receivable from members was £578 million, producing a net outflow of £52 million from dealings with members, an increase from £31 million the previous year.

The recent trend has been an increase in the net outflow from member transactions, and that trend is expected to continue for the foreseeable future, but may not occur evenly year on year as membership changes ebb and flow.

This year numbers for all member categories grew. Employee membership exceeded 100,000 for the first time. Total membership as at 31st March 2019 was 242,274, its highest level to date. Investment income will continue to provide ample cover for member payments, particularly in light of continuing investment strategy changes, one aspect of which is to give increased predictability of returns and income.

Employer numbers reduced from 178 to 172, mainly as a result of managed exit arrangements. These included the first exit credit payments to departing employers which were in funding surplus. This was newly enabled by the provisons of the 2018 regulations.

Communications
The continuing growth in membership and increasing complexity in the scheme rules described above mean that member communications become ever more important.

The SPFO communications strategy continues to address this particularly with its focus on digital delivery. Members registered to actively use our SPFOnline service, increased from 64,000 to 73,000 over the course of the year. Preparatory work on an upgrade of this service was completed during the year and a re-launch is planned for early 2019/20.

After much preparation and some delay, an Employer Self Service portal was launched in December 2018. This allows Fund employers to access their members' data on the SPFO system and carry out illustrative calculations to assist with workforce management. This is much more efficient than the traditional model where SPFO carried out these calculations on employers' behalf.

Risk

The Fund has a strong risk management culture. This is reflected in its Risk Policy and Strategy Statement which sets out a common basis for risk management across the other policies and strategies. At its March 2019 meeting, the Committee approved an updated Risk Statement incorporating changes suggested by underlying guidance produced by CIPFA, the Pensions Regulator and the administering authority.

The format of the Risk Register was revised in line with the updated Risk Statement. There were just 2 changes to the content of the register over the year: 1 residual rating was reduced (issues with collective investment vehicles), 1 new risk was added (breach of tax regulations was split to reflect separate investment and scheme administration risks). The summary Risk Register is incuded in the Governance section of this annual report.

Governance

There were no changes to the Fund's governance structure during the year, and only minimal change in personnel – each of the Committee and Board had one member change.

There may be changes in future as a result of a review of the structure of the scheme in Scotland which is being carried out by the Scheme Advisory Board. As part of this process the Committee approved a response to a consultation with scheme interests which closed in December 2018. Initial outcomes are expected during 2019/20.

No.3 Fund

The No.3 Fund has been closed to new employers since it was established in 1993. The Fund is now very mature. Active membership is greatly reduced, falling below 100 in the course of the year. New accrual will cease in the foreseeable future when there is no more active membership. The sole employer, First Glasgow, is expected to exit the Fund at this time. For some years now the Fund's strategy has focused on this exit point, and a further review of how this might best be managed was included in the 2018/19 Business Plan. The conclusion, agreed by the Committee in December, was that merger of the No.3 Fund with a similar LGPS arrangement managed for First Group by the North East Scotland Pension Fund would provide an efficient and effective solution for all interests. This will be effected in the course of 2019/20 and the No.3 Fund will be wound up, drawing a line under a considerable success story - the No.3 Fund has a large surplus Fund and has been largely de-risked.

Conclusion

Strathclyde Pension Fund's response to the consultation on the structure of the scheme in Scotland which took place during the year was a robust defence of its existing capabilities and demonstrable success. 2018/19 provided further evidence of this with continuing growth, diversification and innovation both in investment and across other areas of Fund activity. The Fund won the LGPS Investment Strategy of the Year award thanks to the success of its specialist equity portfolios and Direct Investment Portfolio.

Councillor Allan Gow
City Treasurer and Convenor Strathclyde Pension Fund Committee
September 2019

Annemarie O'Donnell
Chief Executive Glasgow City Council
September 2019

Martin Booth
Executive Director of Finance Glasgow City Council
September 2019

KEY TRENDS

Membership and Member Transactions

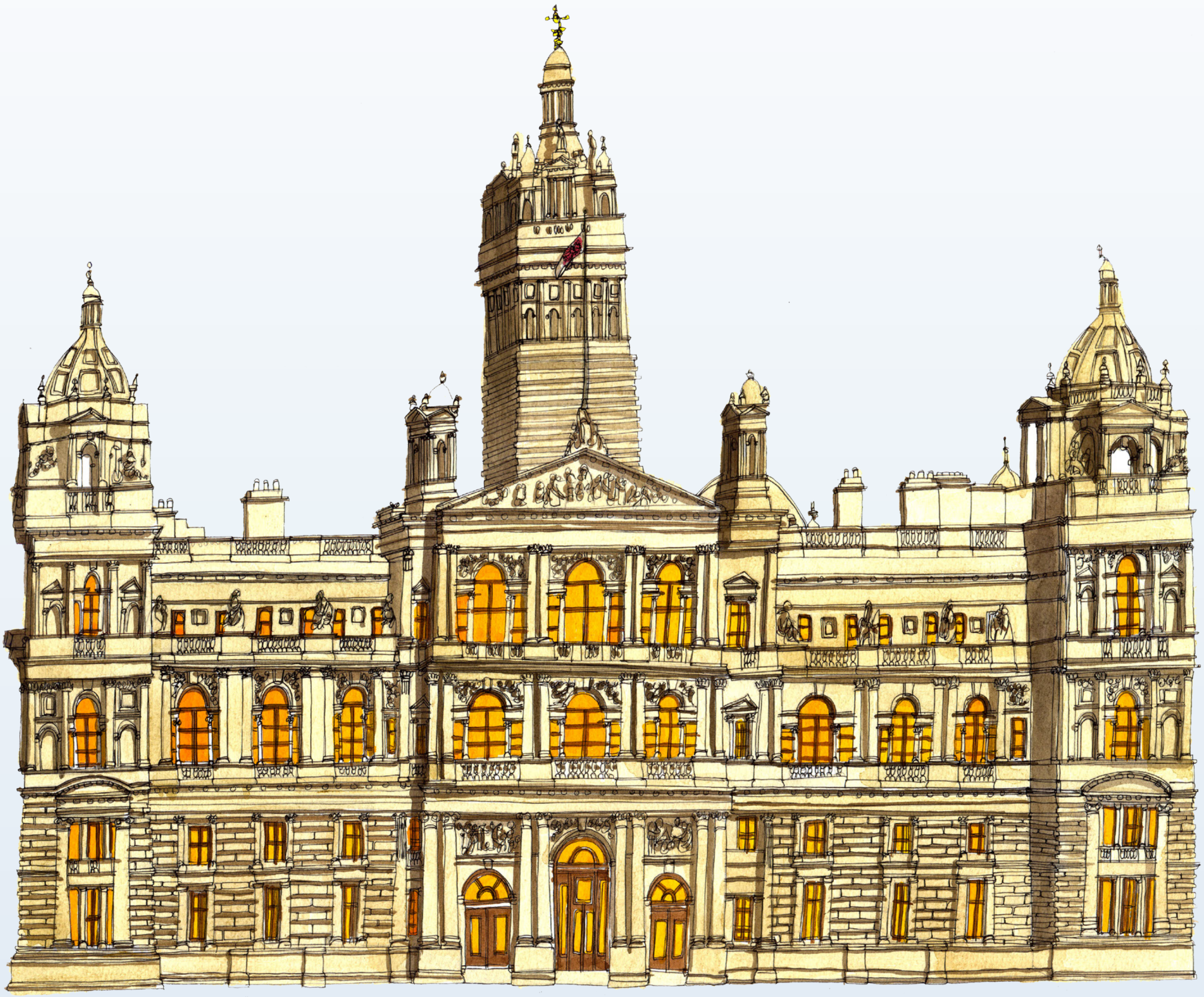
	2014/15	2015/16	2016/17	2017/18	2018/19
Employers	202	200	183	178	172
Employee Members	90,057	92,717	94,647	98,870	100,441
Deferred Members	49,215	50,545	53,465	57,759	62,599
Pensioners	71,605	73,012	74,748	76,683	79,234
Total Members	**210,877**	**216,274**	**222,860**	**233,312**	**242,274**
	£000	**£000**	**£000**	**£000**	**£000**
Employer Contributions	373,129	391,445	398,279	416,761	**437,552**
Employee Contributions	113,041	116,760	122,077	125,492	**131,119**
Lump Sums Paid	(98,845)	(104,098)	(120,882)	(125,487)	**(137,713)**
Pensions Paid	(388,953)	(396,791)	(411,007)	(422,583)	**(452,656)**
Other Payments	(17,684)	(17,541)	(19,582)	(25,663)	**(30,414)**
Net	**(19,312)**	**(10,225)**	**(31,115)**	**(31,480)**	**(52,112)**

Investments

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Opening Value	13,944,975	15,758,296	16,058,521	19,699,384	20,806,209
Investment Income	199,973	228,708	251,869	285,195	282,241
Costs	(94,641)	(92,533)	(100,662)	(113,742)	(125,692)
Member Transactions	(19,312)	(10,225)	(31,115)	(31,480)	(52,112)
Change in Value	1,727,301	174,275	3,520,771	966,852	1,025,412
Closing Value	**15,758,296**	**16,058,521**	**19,699,384**	**20,806,209**	**21,936,058**

Cash Flow Forecast

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Pensions Income	562,267	593,762	615,143	625,588	636,186	646,940
Pensions Expenditure	(615,367)	(635,436)	(656,971)	(679,210)	(702,285)	(726,109)
Net Pensions Cash Flow	(53,100)	(41,674)	(41,828)	(53,622)	(66,099)	(79,169)
Net Investment Income	261,177	264,880	274,557	284,583	294,970	305,731



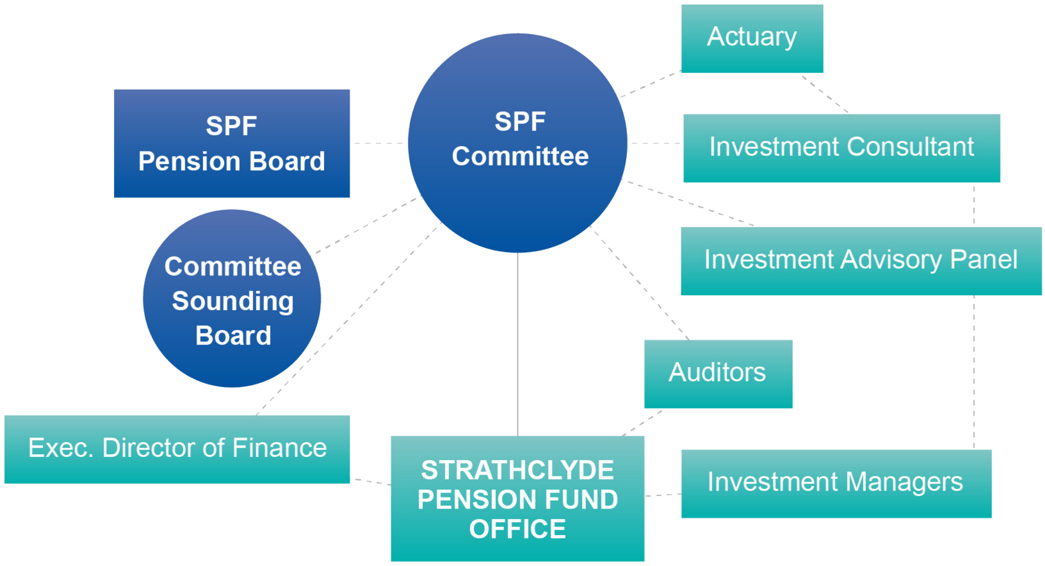
GLASGOW CITY CHAMBERS

SECTION 2
GOVERNANCE

WHO MANAGES 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.

STRATHCLYDE PENSION FUND GOVERNANCE



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

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

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

The Executive Director of Finance is the responsible officer. The **Director of Strathclyde Pension Fund** is the principal adviser to the Committee and to the Board.

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 and participating employers 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 2019 is shown below.


Allan Gow (Convener)


Richard Bell


Christina Cannon


Norman MacLeod (Vice Convener)


Mandy Morgan


Euan Blockley


Martha Wardrop


Philip Braat

Jennifer Layden left the committee during the year. Richard Bell joined. There were no other changes.

Current committee membership is displayed on the Fund's website at:
https://www.spfo.org.uk/index.aspx?articleid=16036

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

COMMITTEE SOUNDING BOARD

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

Throughout the year to 31st March 2019 the Sounding Board membership comprised:

- **Cllr Allan Gow (Convener)**
- **Bailie Norman MacLeod (Vice-Convener)**
- **Bailie Philip Braat (Depute Lord Provost)**

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 2019 the Strathclyde Pension Fund Board membership comprised:

Employer Representatives

• **Cllr Tom Fisher**	**North Lanarkshire Council**
• **Cllr Collette Stevenson**	**South Lanarkshire Council (Chair)**
• **Cllr John Shaw**	**Renfrewshire Council**
• **Mark Dickson**	**Scottish Water**

Trade Union Representatives

• **Andrew Thompson**	**GMB**
• **tbc**	**UNITE**
• **Stephen Kelly**	**UNISON**
• **James Corry**	**UNISON**

Brian Gallagher left the Pension Board during February. A replacement Unite representative had not been confirmed at the year end.

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

- **James Corry (Trade Unions)**
- **Morag Johnston (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.

STRATHCLYDE PENSION FUND BOARD

The Investment Advisory Panel is responsible for:

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

Throughout the year to 31st March 2019 the Investment Advisory Panel membership comprised investment officers from the Fund and representatives from Hymans Robertson as the Fund's actuary and investment consultant together with 3 independent expert advisers:

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

Eric Lambert is an investment actuary. He had a 40 year career in a number of senior investment roles, first at Scottish Widows and subsequently Edinburgh based World Markets (WM) Company, the then leading provider of performance measurement, benchmarking and analytic services to the UK and international pensions industry. He is currently an adviser to 2 other Local Government Pension Schemes and a private sector fund.

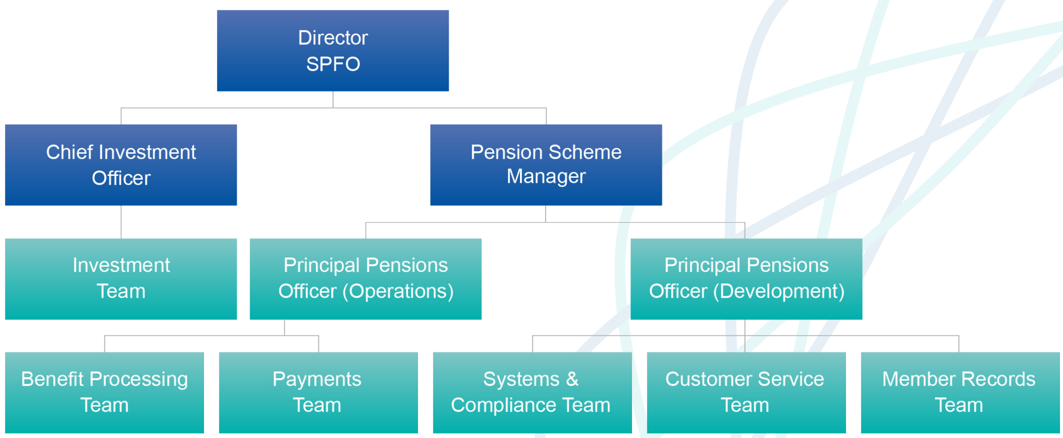
Iain Beattie qualified as an actuary and had a 20 year career in investment management at a number of Scottish investment houses. His roles included Portfolio Manager, Director, Head of International Equities, and Deputy Chief Investment Officer. He subsequently spent 10 years as a Senior Investment Consultant in Edinburgh and London.

STRATHCLYDE PENSION FUND OFFICE (SPFO)

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

The Executive Director of Finance 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 2019

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

Baillie Gifford
Genesis
Henderson Global Investors
Lazard Asset Management
Pantheon
PIMCO
OP Oldfield Partners
Legal & General Investment Management
Veritas Asset Management
DTZ Investors
J.P.Morgan Asset Management
Partners Group
Ruffer
Alcentra
OHA Oak Hill Advisors
Barings
Ashmore

OTHER SERVICE PROVIDERS

Audit Scotland	Audit of accounts
GVA An Apleona company	Property portfolio valuation
G·E·S	ESG Engagement
Hymans Robertson	Actuarial Services
IPD	Property portfolio performance measurement
Northern Trust	Global custody and asset servicing
Pinsent Masons	Legal services
Glasgow	Legal, accounting IT and other support services
Prudential	AVC provider
CMS Law.Tax	Legal services
MSCI	Carbon foot-printing
Hymans Robertson	Investment consultant

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 Finance, who will act in accordance with the Council's policy statement, and with CIPFA Standards of Professional Practice (where relevant).

RISK POLICY & STRATEGY

No organisation can completely eliminate risk. This is particularly so for a pension fund. The Fund exists to pay future pension benefits. The future is inherently uncertain. There is therefore a risk that the investment assets of the Fund will be less or more than the pension liabilities. That risk is managed through the Funding Strategy. Other risks are managed through the investment, administration, governance and communications strategies.

In March 2019, the Committee agreed an updated Risk Policy & Strategy Statement which is available from the Publications area of the website at: www.spfo.org.uk

The statement sets out a common basis for risk management across the Fund's strategies.

RISK MANAGEMENT PROCESS

The risk management process should be a continuous cycle of risk identification and recording, analysis and assessment, response, monitoring and reporting. This is illustrated below.

The SPF risk management strategy sets out how each of these elements of the process will be addressed.

RISK IDENTIFICATION AND RECORDING

A detailed risk register is maintained and is central to risk management.

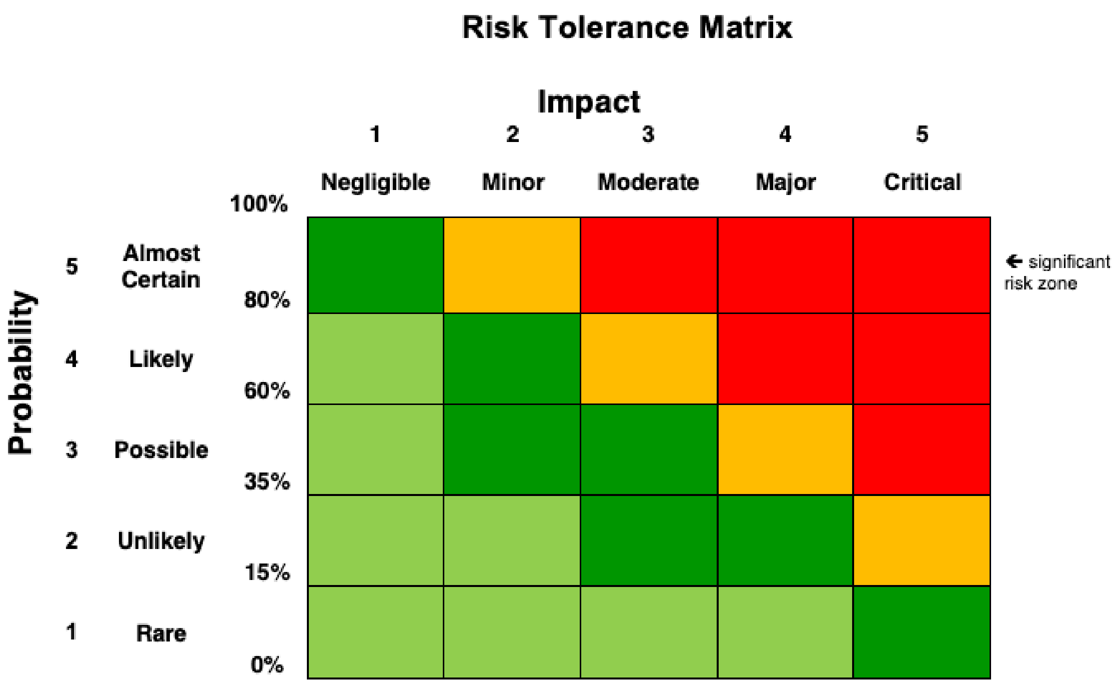
The risk register records:

- risk ID
- risk description
- related objective
- risk category
- inherent (pre-control) risk scoring
- controls and mitigating actions
- residual (post-control) risk scoring
- previous risk scoring
- ownership

The register provides a simple, systematic and consistent basis for analysis, understanding, communication, management, monitoring and reporting of risks.

RISK IDENTIFICATION AND RECORDING

Having identified potential risks, the next stage of the process is to analyse and profile each of them. This is illustrated in the risk tolerance matrix below.



Response to Risk

Risks may be tolerated, treated, transferred or terminated. In practice, most will be treated. Controls and mitigating actions are shown in the risk register.

Risk Monitoring and Reporting

Regular review of the risk register is central to risk monitoring. The register is reviewed by:

- the SPFO Leadership Team at least quarterly and
- the SPF Committee and Board at least annually (a summary is reviewed more regularly).

The principal risks in terms of their residual ranking as at 31st March 2019 are summarised below.

			RESIDUAL ASSESSMENT		
Risk Ref No	**Risk Title/Risk Description**	**Residual Probability**	**Residual Impact**	**Residual Risk**	**Movement**
SPFO5	RISK: Pay and price inflation significantly more or less than anticipated. CAUSE: Macro economic. EFFECT: Increase in liabilities; increase in asset price volatility; potential underfunding; potential increase in employer contribution rates.	3	4	12	Static
SPFO31	Risk : Employer failure to carry out statutory functions including submission of member data and contributions to SPFO. CAUSE: Under-resourcing/ Scheme Complexity. EFFECT: Missing, incomplete and incorrect records on pensions administration system; undermines service delivery and causes difficulties in establishing correct benefits at individual member level, and liabilities at employer and whole of Fund level; potential issues with the Pensions Regulator.	3	4	12	Static

SPFO1	RISK: Fund's investments fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term. CAUSE: Macro economic. EFFECT: Long-term underfunding; significant increase in employer contribution rates.	2	5	10	Static
SPFO23	RISK: Issues with pensions administration system and other related systems. CAUSE: Outages, hardware and software failure, cyber attack. EFFECT: Staff downtime, loss of service delivery, data loss, and potential failure to pay pensions.	3	3	9	Static
SPFO7	RISK: Pensioners living longer than anticipated in actuarial valuation. CAUSE: Socio economic EFFECT: Increase in liabilities; underfunding; potential increase in employer contribution rates.	3	3	9	Static
SPFO9	RISK: Changes to scheme regulations and other pensions legislation. CAUSE: Political or legislative EFFECT: Increasing administrative complexity, communications challenges. Potential issues with the Pensions Regulator. Increase in liabilities	3	3	9	Static
SPFO30	RISK: Failure to recruit, retain and develop appropriate staff. CAUSE: Employment Market changes. EFFECT: Loss or failure of service delivery.	3	3	9	Static
SPFO57	RISK: Failure to complete GMP reconciliation exercise. CAUSE: DWP withdrawal of service. EFFECT: Over/underpayment of pensions. Liability for any net cost. Reputational damage. Action by the Pensions Regulator.	3	3	9	Static

RISK INTEGRATION

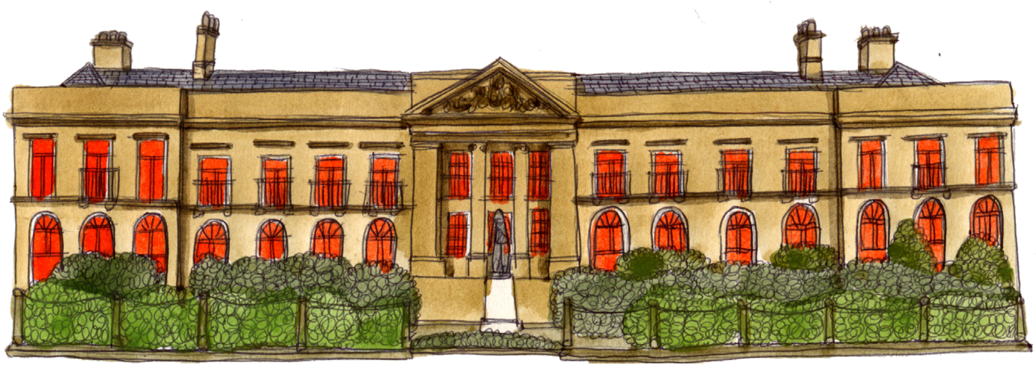
Consideration of risk forms part of established routines for monitoring and development within SPFO's administration, communications, investment and funding functions.

BUSINESS PLAN

Each year, the Strathclyde Pension Fund Committee is asked to agree a business plan. The plan sets out objectives, resourcing requirements, key performance indicators, and business and development priorities for the Fund for the coming year. The 2018/19 plan was agreed in February 2018. The table below provides a review of progress in respect of the business and development priorities listed in the plan.

Item	Description	Status/ Progress Summary
Finance		
Cash-flow modelling	Develop more detailed cash flow model, particularly for investment income.	**Complete:** • Cash-flow models developed and implemented for Direct Investment Portfolio and other portfolios • Benefits cash-flow model reviewed and improved.
Investments		
Investment Strategy	Review of investment strategy and structure including developing an investment structure which is consistent with the Alt 2 strategy (see page 93-95 for further details).	**Complete:** • Plan agreed by Committee in February 2018 • Absolute return and global infrastructure allocations agreed in May 2018 • Private debt tender processes completed at SPF committee in March 2019.
Direct Investment Portfolio	Review of the Direct Investment Portfolio arrangements and capacity.	**Complete:** • SPF Committee agreed report in December 2018 including various recommendations relating to portfolio implementation
No.3 Fund	Review of investment strategy including possibility of insurance buy-in arrangement.	**Complete:** • SPF committee agreed in principle a merger of the No.3 Fund into the Aberdeen City Transport Fund • Officers developing detailed plan with First Group and Aberdeen City Council.
Property Valuer	Review of arrangements for independent valuation of the UK property portfolio.	**Complete:** • Tender process completed at SPF committee in March 2019.
Custody Tender	Commence review of global custody arrangements and associated services including cash management, performance measurement, securities lending and currency management.	**Complete:** • Procurement options reviewed. Tender process to start in 2019/20.

Pensions Administration		
GMP equalisation	Implement integrated solution for Guaranteed Minimum Pension (GMP) reconciliation and remediation project	**In progress / satisfactory but some delay:** • Reconciliation phase live with specialist sub-contractor, ITM • Progress reports received monthly • Original completion date of March 2019 delayed to June/July due to DWP response times.
Pensions System	Review Altair system provision contracts with Heywood.	**Complete:** • Contracts novated to GCC as administering authority. Now on rolling basis with no expiry date. Will be subject to future review and possible novation to GCC's IT contractor, CGI.
Secure Portal for Data	Investigate options for secure portal for exchange of data with employers.	**In progress but some delay:** • Revised date for this project March 2019 now subject to further delay • Report awaited from CGI on options and feasibility.
Communications		
Digital Communications	Continue implementation of digital communications strategy including: • complete employer self service (ESS) rollout • further on-boarding of employers to i-connect • re-launch Member Self Service with upgraded functionality.	**In progress/satisfactory after some delay:** • ESS rolled out and individual training for Employers delivered as required. SPF strategy developed to manage employer usage. • i-connect now live or in test with 58 employers (increase of 26 since 1st April 2018) • re-launch of MSS expected by end June 2019.



COUNTY BUILDINGS, AYR.

GOVERNANCE COMPLIANCE STATEMENT FOR THE YEAR TO 31ST MARCH 2019

This is a summary 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 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

VOTING

All committee members have full voting rights.

TRAINING/FACILITY TIME/EXPENSES

A training policy, practice statement and plan are agreed each year. These apply equally to the Committee and Board. Training logs are maintained for Committee and Board members.

MEETINGS (FREQUENCY/QUORUM) AND ACCESS

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

SCOPE

Regular reports considered by the Committee and Board include:

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

PUBLICITY

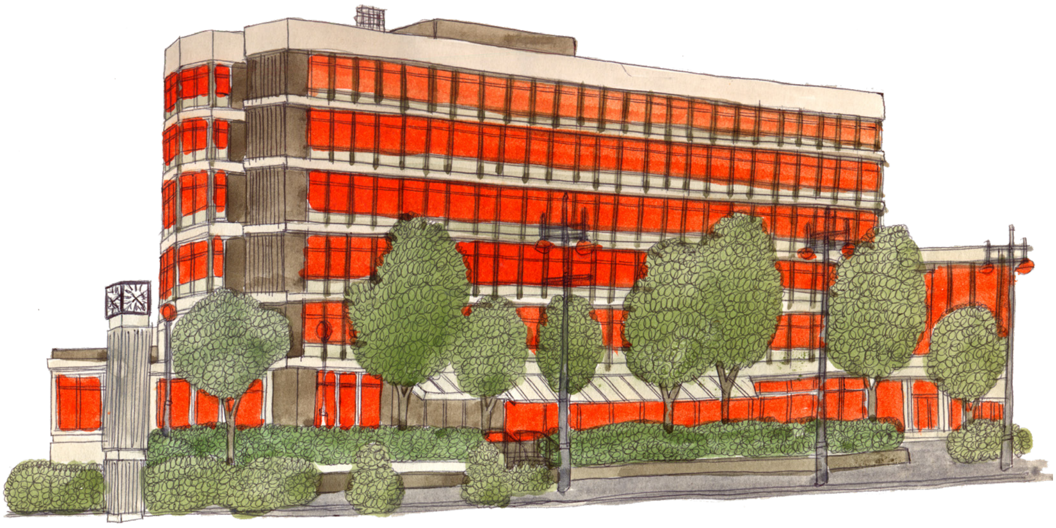
The Fund's website at www.spfo.org.uk has a section of its About Us area dedicated to governance.

CONCLUSION

The Fund's governance arrangements are fully compliant with the scheme regulations and with guidance given by the Scottish Ministers with one exception. The exception is that there is no provision for a member of the Board to be a member of the Committee. The guidance pre-dates the governance regulations and does not reflect the current mandatory arrangement where the Board and Committee meet at the same time and in the same place.

Councillor Allan Gow
City Treasurer and Convenor
Strathclyde Pension Fund Committee
September 2019

Annemarie O'Donnell
Chief Executive Glasgow City Council
September 2019



MOTHERWELL CIVIC CENTRE.

ANNUAL GOVERNANCE STATEMENT 2018/19

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 around 160 other large and small employers.

The main functions are management and investment of the Strathclyde Pension Fund and administration of scheme benefits. These functions are carried out in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972 and Public Service Pensions Act 2013.

Glasgow carries out its role as Administering Authority via:

- the Strathclyde Pension Fund Committee and Strathclyde Pension Fund Board
- 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 Finance 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

TERMS OF DELEGATION

The terms, structure and operational procedures of delegation are set out in the Council's Scheme of Delegated Functions and Standing Orders. These are available at:
Key Corporate Governance Policy Plans - Glasgow City Council

COMMITTEE MEETINGS

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

REPRESENTATION

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

COMPLIANCE

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

PENSION BOARD

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

SCOPE OF RESPONSIBILITY

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

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

The Council has approved and adopted a Local Code of Corporate Governance (the Code), which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) Framework: Delivering Good Governance in Local Government. A copy of The Code is available on the council's website at:
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

The Council's Executive Director of Finance is responsible for arranging the proper administration of the financial affairs of the Strathclyde Pension Fund and is professionally qualified and suitably experienced to lead the finance function. The Strathclyde Pension Fund complies with the CIPFA Statement on "The Role of the Chief Financial Officer in Local Government 2016".

These arrangements also include an internal audit of the internal control environment which should:

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

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

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

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

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

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

REVIEW OF EFFECTIVENESS

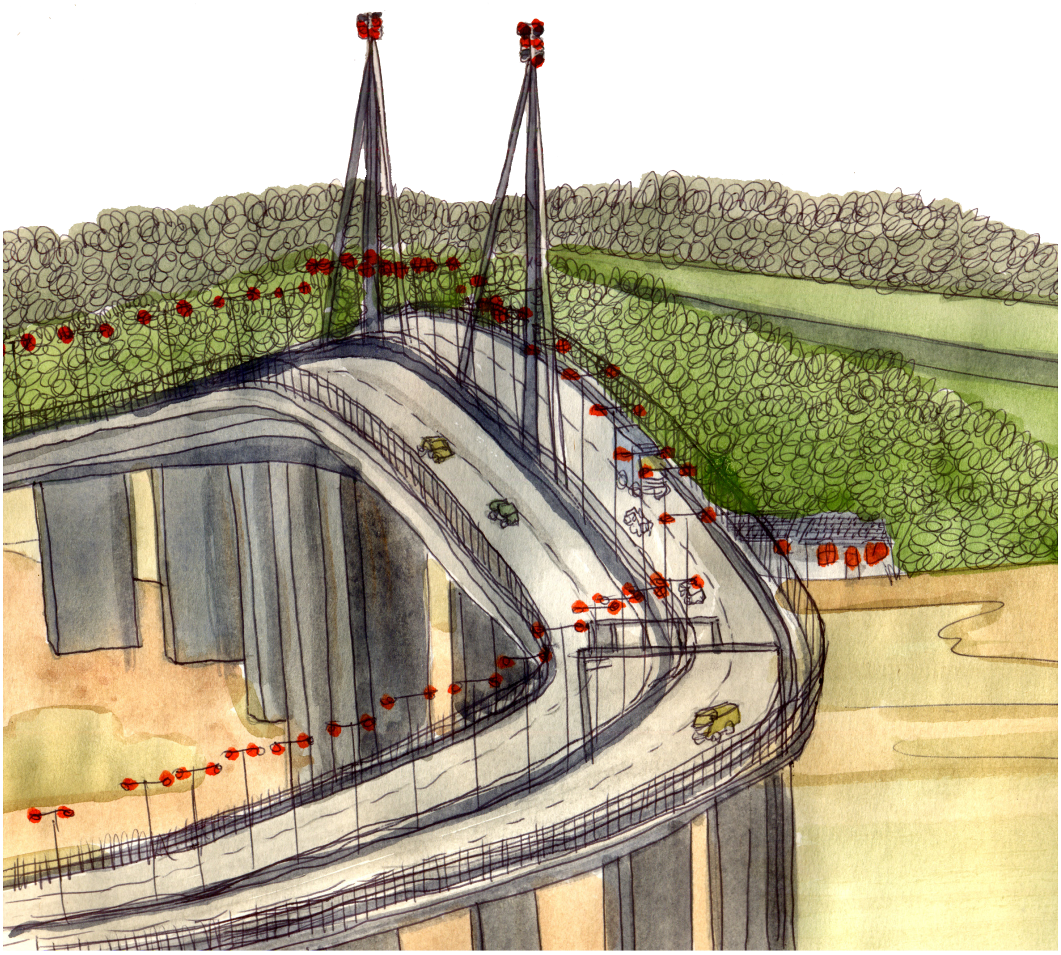
The Council and the Strathclyde Pension Fund have systems of internal control designed to manage risk to a reasonable level. Internal controls cannot eliminate risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is an ongoing process designed to identify and prioritise the risks to the achievement of the Fund's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised. A review of the Fund's governance framework is conducted on an annual basis by means of a self assessment questionnaire based on the principles contained in the CIPFA/SOLACE Framework. Issued by Internal Audit it is designed to allow the Director of the Strathclyde Pension Fund to determine the extent to which the Fund complies with these principles. The accuracy of the responses to this questionnaire is reviewed and tested on a rolling basis by Internal Audit.

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

The Strathclyde Pension Fund complies with the requirements of the CIPFA Statement on "The Role of the Head of Internal Audit in Public Organisations 2019". The Strathclyde Pension Fund's appointed Chief Internal Auditor has responsibility for the Strathclyde Pension Fund's internal audit function and is professionally qualified and suitably experienced to lead and direct internal audit staff. The Internal Audit service generally operates in accordance with the Public Sector Internal Audit Standards.

UPDATE ON SIGNIFICANT GOVERNANCE ISSUES PREVIOUSLY REPORTED

There were no significant governance issues in 2017/18 specific to the Strathclyde Pension Fund. Nor were there any significant governance issues within the Council`s governance statement of relevance to the Strathclyde Pension Fund



INTERNAL AUDIT OPINION

During 2018/19 the following assurance reviews were undertaken:

- Gifts and Hospitality
- Reputation Management
- General Data Protection Regulations compliance
- Payroll
- Investment – Direct Investment Portfolio

Based on the audit work undertaken, the assurances provided by the Executive Director of Finance and the Director of Strathclyde Pension Fund, it is the Head of Audit and Inspection's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the governance and control environment which operated during 2018/19.

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 2018/19.

The Strathclyde Pension Fund uses and relies on a number of the Council systems, processes and controls. As such, any significant governance issues within the Council are considered for relevance to the Strathclyde Pension Fund. There were no significant issues within the Council during 2017/18 relevant to the Strathclyde Pension Fund. However, we have noted one area where work is ongoing across the Council relating to Business Continuity and Disaster Recovery. Management continue to refine business continuity plans and disaster recovery arrangements to ensure they are robust and fully effective in the event of a disaster impacting Council systems.

CERTIFICATION

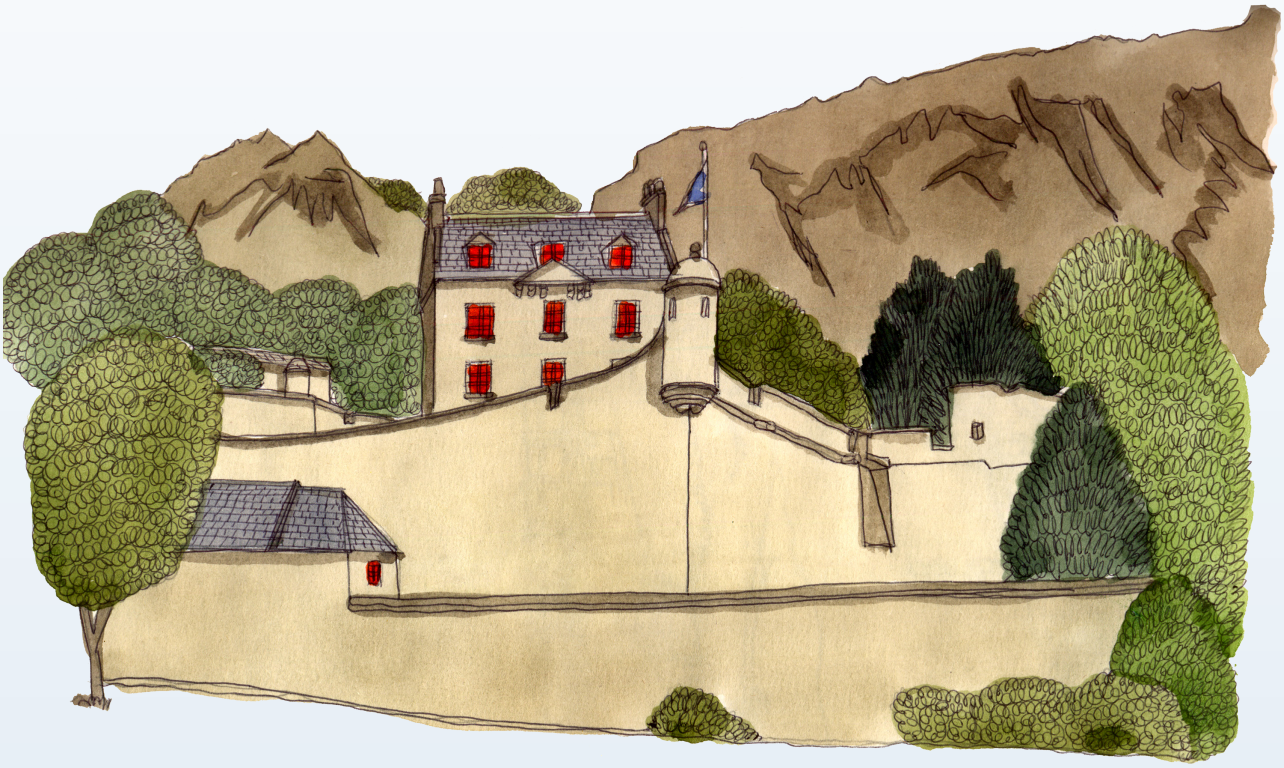
It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance that operate in the Strathclyde Pension Fund. The work undertaken by Internal Audit has shown that the arrangements in place are operating as planned. We consider the governance and internal control environment operating during 2018/19 to provide reasonable and objective assurance that any significant risks impacting on the Fund's ability to achieve its objectives will be identified and actions taken to avoid or mitigate the impact.

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

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

Councillor Allan Gow
City Treasurer and Convenor Strathclyde Pension Fund Committee
September 2019

Annemarie O'Donnell
Chief Executive Glasgow City Council
September 2019



DUMBARTON CASTLE.

SECTION 3
FINANCIAL STATEMENTS

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 Finance.
- 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 4 September 2019.

Councillor Allan Gow
City Treasurer and Convener
Strathclyde Pension Fund Committee
4 September 2019

Executive Director Of Finance's Responsibilities

The Executive Director of Finance 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 Finance 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 Finance 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 2019 and the transactions of the Fund for the year then ended.

Martin Booth BA, FCPFA, MBA
Executive Director of Finance
4 September 2019

STRATHCLYDE PENSION FUND NO. 1

Fund Account

2017/18 £000		Note	2018/19 £000
	Contributions and Benefits Income		
416,761	Contributions from Employers	8	437,552
125,492	Contributions from Employees	8	131,119
6,375	Transfers in from Other Pension Funds		9,092
539	Other		363
549,167			**578,126**
	Expenditure		
422,583	Pensions Payments	8	452,656
125,487	Lump Sum and Death Benefit Payments	8	137,713
32,577	Payments To and On Account of Leavers	9	39,869
580,647			**630,238**
31,480	**Net Reduction from Dealings with Members**		**52,112**
113,742	Management Expenses	10	125,692
145,222	**Net Reduction including Fund Management Expenses**		**177,804**
	Returns on Investments		
291,648	Investment Income	12	287,671
(6,453)	Taxes on Income	13	(5,430)
966,852	Change in Market Value of Investments		1,025,412
1,252,047	**Net Returns on Investments**		**1,307,653**
1,106,825	**Net Increase in the Fund during the Year**		**1,129,849**
19,699,384	Add: Opening Net Assets of the Scheme		20,806,209
20,806,209	**Closing Net Assets of the Scheme**		**21,936,058**

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

STRATHCLYDE PENSION FUND NO. 1

Net Assets Statement as at 31 March 2019

2017/18 £000		Note	2018/19 £000
	Investment Assets		
4,804,105	Equities	14,15	5,172,017
10,395,403	Pooled Investment Vehicles	14,15	10,440,821
2,482,126	Private Equity / Infrastructure	14,15	3,391,088
14	Index Linked Securities	14,15	10
1,697	Derivative Contracts	14,15	2,837
1,880,660	Property	14,15	2,031,700
1,205,640	Cash Deposits	14,15	854,442
66,114	Other Investment Assets	14,15	33,745
20,835,759			**21,926,660**
(64,276)	Investment Liabilities		(36,249)
0	Long-Term Debtors	23	192
96,995	Current Assets	24	120,638
(62,269)	Current Liabilities	25	(75,183)
20,806,209	**Net Assets of the Fund as at 31 March**		**21,936,058**

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

The unaudited accounts were issued on 11 June 2019 and the audited accounts were authorised for publication on 4 September 2019.

Martin Booth BA, FCPFA, MBA
Executive Director of Finance
4 September 2019

NOTES TO THE ACCOUNTS – FUND NO. 1

1. General Description of the Fund and its Membership

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

The Local Government Pension Scheme is a statutory scheme established under the Superannuation Act 1972 and the Public Service Pensions Act 2013.

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

Fund Membership

Membership of the Strathclyde Pension Fund includes:

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

The full list of participating employers as at 31 March 2019 can be found on pages 126-128.
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 2018/19 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.

The accounts have been prepared on a going concern 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 2018/19 £8.168m of fees is based on such estimates (2017/18 £9.906m). 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 Asset 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 2019. The direct property portfolio was valued at 31 March 2019 by Avison Young, 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.

- **Contingent Assets and Liabilities**
  Contingent assets and liabilities reflect possible assets or financial obligations to the Fund where the potential amount is unable to be estimated and/or it is still not deemed probable that an obligating event has arisen. Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes (see Note 29).

- **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. Standard Life is the legacy 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 31).

- **Events After the Balance Sheet Date**
  Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue. Two types of events may be identified:
  - Those that provide evidence of conditions that existed at the end of the reporting period – the Financial Statements are adjusted to reflect such events; and
  - Those that are indicative of conditions that arose after the reporting period – the Financial Statements are not adjusted to reflect such events, but where this would have a material effect, the nature and estimated financial impact of such events is disclosed in the notes.

- **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 2019/20 Code:

  - IAS40 Investment Property: Transfers of Investment Property
  - Annual improvements to IFRS Standards 2014-2016 Cycle
  - IFRIC22 Foreign Currency Transactions and Advance Consideration
  - IFRIC23 Uncertainty over Income Tax Treatments
  - IFRS9 Financial Instruments: Amendments to Prepayment Features with Negative Compensation

  The code requires implementation from 1 April 2019 and there is therefore no impact on the 2018/2019 annual accounts. Overall, these new or amended standards are not expected to have a significant impact on Annual Accounts. This also applies to Fund 3 financial statements per page 61.

4. Critical Judgements in Applying Accounting Policies

Determining the fair value of investments in private markets involves a degree of subjectivity. Valuations are inherently based on forward looking estimates and judgements involving many factors and can result in investment assets being reclassified between financial years. Where reclassification of an investment asset has taken place the prior year balance has been restated. The value of the Fund's private equity, private debt, private real estate and infrastructure investments was £3,391.1m at 31st March 2019 (£2,482.1m at 31st March 2018). The private markets figure of £3,391.1m includes £1,736.2m private equity (£1,385.1m in 2018), £390.7m private debt (£263.2m in 2017/2018), £456.3m private real estate (£467.9m in 2017/2018) and £807.9m (£365.9m in 2017/2018) infrastructure. These have all been categorised as 'Level 3' investments, that is investments where an error in at least one input could have a significant effect on an instrument's valuation. A detailed breakdown of the Fund's assets according to the reliability and quality of the information used to determine fair value is provided in Note 20 Financial Instruments.

The pension fund liability is calculated every 3 years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 7. The estimate is subject to significant variances based on changes to the underlying assumptions.

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

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

6. Actuarial Position of the Fund

In accordance with Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 an actuarial valuation of the Strathclyde Pension Fund was carried out as at 31 March 2017. Results of the valuation were confirmed during March 2018 and a copy of the valuation report was issued to all participating employers.

The funding level as at 31 March 2017 was 105.0% (94.3% at 31 March 2014) and there was a funding surplus of £938 million (£839 million shortfall at 31 March 2014):

	£ million
Fund Assets	19,699
Fund Liabilities	(18,761)
Surplus	**938**

The Fund liabilities were valued on an "ongoing" basis anticipating that the Fund's investments will produce returns which exceed those available from government bonds.

The funding target of 100% had been achieved and exceeded at the valuation date.

The whole fund Primary and Secondary employer contribution rates were 27.1% and -7.5%. In practice individual employers pay rates based on their own funding position and membership profile. The Main Employer Group contribution rate was held at 19.3% for the 3 years to 31 March 2021.

- ### Funding Policy

  On completion of the actuarial valuation as at 31 March 2017 the Fund published a revised Funding Strategy Statement in accordance with regulation 56 of the Regulations. The actuary's report and the Funding Strategy Statement are available from www.spfo.org.uk or from the Strathclyde Pension Fund Office, Capella Building, 6th Floor, 60 York Street, Glasgow G2 8JX.

- ### Funding Projection as at 31 March 2019

  An intervaluation monitoring report provided by the Fund's actuary as at 31 March 2019 recorded a projected funding position of 108.7%. The next formal funding valuation will be carried out as at 31 March 2020 with results being available by 31 March 2021.

- ### Funding Method

  At the 2017 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").

  The funding strategy and the methodology adopted by the actuary incorporate a risk-based approach which allows for thousands of possible future economic scenarios when assessing the likelihood of contributions being sufficient to meet both the accrued and future liabilities over a given time horizon for the Fund and for each employer.

The funding objective is to achieve the funding target over the target funding period. The funding target (amount of assets compared to liabilities expressed as a percentage) is at least 100% using appropriate actuarial assumptions.

The target funding period and recovery period for any deficit is the weighted average future working lifetime of the active membership – currently around 14 years for the whole Fund. 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 funding strategy targets at least a 2/3rds probability of achieving the target, and a higher probability where possible.

The actuary's report on the valuation is required to include a Rates and Adjustments certificate which specifies for each employer the primary rate and the secondary rate of the employer's contribution for each of the three years beginning with 1 April in the year following that in which the valuation date falls. The primary rate for each employer is the expected cost of future service for that employer's membership. The secondary rate is any percentage or amount by which, in the actuary's opinion, contributions at the primary rate should be increased or reduced by reason of any circumstances peculiar to that employer.

The primary and secondary rates for each employer from 1 April 2018 to 31 March 2021 are shown in the Rates and Adjustments certificate in Appendix F to the valuation report which is available from www.spfo.org.uk

For the Fund's Main Employer Group the total rate to be paid is as shown below:

3 years to	Rate (as % of pensionable payroll)
31 March 2021	19.3

7. Actuarial and Other Major Assumptions

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

Assumption	Derivation	Nominal %	Real %
Price inflation (CPI) / Pension Increases / Deferred Revaluation	Market expectation of long term future RPI inflation as measured by the geometric difference between yields on fixed and index-linked Government bonds as at the valuation date less 1.0% p.a.	2.4	-
Pay increases	Price inflation (CPI) plus 1.2% p.a.	3.6	1.2
Gilt-based discount rate	The yield on fixed-interest government bonds	1.7	-0.7
Pre-retirement funding basis discount rate	Gilt-based discount rate plus an asset outperformance assumption of 2.0% p.a.	3.7	1.3
Post-retirement funding basis discount rate	Gilt-based discount rate plus an asset outperformance assumption of 1.6% p.a.	3.3	0.9

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 (2014 figures included for comparison):

Assumed life expectancy at age 65	Actives & Deferreds		Current Pensioners	
	Male	Female	Male	Female
2014 Valuation	24.8	26.2	22.1	23.6
2017 Valuation	23.4	25.8	21.4	23.7

Further details of the mortality assumptions adopted for the 2017 valuation can be found in Appendix C to the valuation report. Note that the figures for actives and deferred/pensioners assume that they are aged 45 at the valuation date.

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

Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is estimated at £25,949 million as at 31 March 2019 (£22,787 million as at 31 March 2018) including an estimated £266 million increase as a result of the High Court ruling on the McCloud case. The actuary has estimated that a 0.5% decrease in the real discount rate would lead to an increase in the pension liability of £2,785 million. Similarly, a 0.5% increase in the rates of salary increase and pension increase would increase the liability by £479 million and £2,109 million respectively.

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2019 and 31 March 2018. The actuary estimates that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £2,016 million and that there is no impact from any change in demographic and longevity assumptions because they are identical to the previous period.

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2017. 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. Contributions and Benefits

	Administering Authority £000	Other Scheduled Bodies £000	Admitted Bodies £000	Total £000
Contributions				
Employer	63,263	258,820	95,293	**417,376**
Augmentation	935	15,121	4,120	**20,176**
Total Employers	**64,198**	**273,941**	**99,413**	**437,552**
Employees	20,376	80,932	29,811	**131,119**
Benefits				
Pension	66,027	325,676	60,953	**452,656**
Lump Sum and Death Benefit	18,863	94,199	24,651	**137,713**
Total Benefits	**84,890**	**419,875**	**85,604**	**590,369**

9. Payments To and On Account of Leavers

2017/18 £000		**2018/19 £000**
1,516	Refunds to members leaving service	1,563
318	Payments for members joining state scheme	52
0	Group Transfers	761
30,743	Individual Transfers	37,493
32,577		**39,869**

10. Management Expenses

The total management expenses were as follows:

2017/18 £000		**2018/19 £000**
3,440	Administrative Costs	3,916
108,832	Investment Management Expenses	120,331
1,470	Oversight and governance costs	1,445
113,742		**125,692**

Oversight and governance costs include £0.056m (2017/18 £0.054m) in respect of the external audit fee to Audit Scotland. Investment management expenses include £3.206m in respect of transaction costs (2017/18 £4.161m). There were no external audit fees for any other services during the year.

11. Investment Expenses

The total investment expenses were as follows:

2017/18 £000		2018/19 £000
104,137	Management Fees	116,514
4,161	Transaction Costs	3,206
144	Custody Fees	155
80	Performance Monitoring Fees	63
92	Actuarial Fees – Investment Consultancy	146
218	Consultancy Fees	247
108,832		**120,331**

The investment management fees shown include £13.676m million (2017/18 £7.655 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.

12. Investment Income

The total investment income was as follows:

2017/18 £000		2018/19 £000
131,086	Dividends	109,756
3,176	Pooled Investments	4,666
61,394	Venture Capital and Partnerships	68,267
8,904	Interest and other	10,111
87,088	Rents	94,871
291,648	**Investment income**	**287,671**

Due to a reclassification of investment assets between Venture Capital & Partnerships and Interest & Other the 2017/18 figures have been restated.

2017/18 £000	**Net Property Rental Income**	2018/19 £000
87,088	Rental Income	94,871
(9,186)	Direct Operating Expenses	(11,890)
77,902	**Net Income**	**82,981**

13. Taxes on Income

2017/18 £000		2018/19 £000
6,453	Withholding tax - equities	5,430
6,453		**5,430**

14. Investments

Statement of Movement in Investments

	Market Value as at 31 March 2018 £000	Purchases and Derivative Payments £000	Sales and Derivative Receipts £000	Change in Market Value £000	Market Value as at 31 March 2019 £000
Investment Assets					
Equities	*4,804,105*	1,581,610	(1,528,170)	314,472	5,172,017
Pooled Investment Vehicles	*10,395,403*	921,975	(1,244,717)	368,160	10,440,821
Private Equity / Infrastructure	*2,482,126*	1,112,163	(456,351)	253,150	3,391,088
Index Linked Securities	*14*	0	(4)	0	10
Property	*1,880,660*	196,375	(48,881)	3,546	2,031,700
	19,562,308	**3,812,123**	**(3,278,123)**	**939,328**	**21,035,636**
Derivative Contracts:	*427*	28,683	(10,227)	(17,436)	1,447
Other Investment Balances:					
Cash Deposits	*1,205,640*			9,067	854,442
Receivable for Sales of Investments	*41,804*			(122)	5,923
Investment Income Due	*24,310*			0	27,822
Spot FX Contracts	*(12)*			(1,325)	(5)
Payable for Purchases of Investments	*(62,994)*			49	(34,854)
Net Investment Assets	***20,771,483***	**3,840,806**	**(3,288,350)**	**929,561**	**21,890,411**

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. The reason for the difference of £95.851m in the change in market value per the above table and the Fund Account on page 32 is due to notional management expenses and transaction costs netted off against assets by fund managers.

- ### Transaction Costs

Transaction costs are included in the cost of purchases and sale proceeds and are charged directly to the Fund. Transaction costs on listed securities include broker commissions, which are payments for the execution of trades and other levies such as exchange fees, settlement fees and clearing fees; transaction taxes, including stamp duty and other financial transaction taxes, and entry or exit charges that may arise when a holding in a pooled vehicle is bought or sold.

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 separately provided to the Fund.

- ## Derivatives

Derivatives comprise futures and forward derivative contracts. The market values as at 31 March 2019 and a summary of contracts held are summarised in the tables on the following page:

31 March 2018 £000		**31 March 2019 £000**
(1,228)	Futures	2,835
1,655	Forwards	(1,388)
427	**Market Value**	**1,447**

Contract	Settlement Date	Asset £000	Liability £000	Net £000
Derivatives – Futures				
Overseas Equity Futures - L&G US	Various	16		16
Overseas Equity Futures – L&G Emerging Market Future	Various	2,819		2,819
Contracts Held at 31 March 2019		**2,835**	**0**	**2,835**

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

- ## Forwards

Derivatives – Forward Foreign Exchange Contract	Settlement Date	Asset £000	Liability £000	Net £000
Less than 1 year Currency Forwards	1 month	2	0	2
Less than 1 year Currency Forwards	1-6 months	0	(1,390)	(1,390)
Contracts Held at 31 March 2019		**2**	**(1,390)**	**(1,388)**

The above table summarises the contracts held by maturity date – 2 foreign currencies being involved. All contracts are traded on an over the counter basis.

The Fund's 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.

15. Analysis of Investments

Investments can be further analysed as follows:

Market Value as at 31 March 2018 £000		**Market Value as at 31 March 2019 £000**
	Fixed Interest Securities	
	UK	
4	Corporate Quoted	5
	Overseas	
10	Corporate Quoted	5
14		**10**
	Equities	
	UK	
712,126	Quoted	763,116
	Overseas	
4,091,979	Quoted	4,408,901
4,804,105		**5,172,017**
	Pooled Funds – Additional Analysis	
	UK	
2,404,872	Fixed Income Unit Trust	2,440,200
3,289,143	Equity Unit Trust	3,443,545
0	Private Equity/Infrastructure	0
917,700	Cash Balances	423,712
	Overseas	
651,733	Fixed Income Unit Trust	664,940
3,121,542	Equity Unit Trust	3,457,067
10,384,990		**10,429,464**
2,482,126	Private Equity/Infrastructure	3,391,088
10,413	Commodities	11,357
1,880,660	Property	2,031,700
4,373,199		**5,434,145**
1,205,640	Cash Deposits	854,442
1,697	Derivatives	2,837
66,114	Other Investment Assets	33,745
(64,276)	Investment Liabilities	(36,249)
20,771,483	**Net Investment Assets**	**21,890,411**

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

16. Fund Management

- ### Investment Managers and Mandates

The market value of assets under the management of Fund managers as at 31 March 2019 was £21,890 million.

Investment management arrangements as at 31 March 2019 are summarised below:

Asset Class	Fund Manager	% Managed	Market Value £000
Multi Asset – Passive	Legal & General	35.2	7,714,979
Global Equity	Ballie Gifford	7.6	1,671,708
Global Equity	Lazard	3.4	734,361
Global Equity	Veritas	3.3	713,922
Global Equity	Oldfield	3.2	703,595
Specialist – Global Real Estate	Partners Group	2.0	437,287
Specialist – Absolute Return Bonds	Pimco	4.8	1,054,487
Specialist – Equities (Overseas Small Companies)	JP Morgan	3.5	769,850
Specialist – Equities (UK Small Companies)	Henderson	1.1	249,462
Specialist – Private Equity	Pantheon Ventures	4.7	1,034,214
Specialist – Private Equity	Partners Group	3.2	692,930
Specialist – Emerging Markets	Genesis	1.9	421,386
Specialist – Emerging Market Future	Legal & General	0.4	83,319
Specialist – Direct Investment Portfolio	Various	3.4	735,885
Specialist – Multi Asset Credit	Barings Multi-Asset Credit	3.0	665,331
Specialist – Multi Asset Credit	Oakhill Advisors	2.0	436,388
Specialist – Private Debt	Alcentra	0.8	179,951
Specialist – Private Debt	Barings Global Loan Funds	0.7	147,895
Specialist – Global Infrastructure	JP Morgan	1.4	300,036
Specialist – Long Only Absolute Return	Ruffer	0.9	201,387
Emerging Market Debt	Ashmore	2.3	498,991
Cash	Northern Trust	1.5	319,465
Specialist - Property	DTZ	9.7	2,123,582
		100.0%	**21,890,411**

- **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.

17. Notifiable Holdings

Notifiable holdings are holdings which exceed 5% of the total value of Fund net assets. As at 31 March 2019 the Fund had holdings of £1,903m (9.6%) in L&G US Equity Fund (Hedged), £1,170m (5.9%) in L&G UK Equity (5% Market Cap) Fund and £1,054m (5.3%) in PIMCO PARS III Absolute Return Fund.

18. Property Holdings

As at 31 March 2019 the Fund held direct property assets with a value of £2,032m (2017/18 £1,881m). This valuation was calculated by Avison Young on the Fund's behalf in accordance with RICS Valuation Standards manual.

As at 31 March 2019 the Fund held indirect UK property assets of £nil (2017/18 £nil).

2017/18 £000		2018/19 £000
1,671,225	Opening balance	1,880,660
149,968	Additions	196,375
(21,888)	Disposals	(48,881)
81,355	Change in Market Value	3,546
1,880,660	**Closing balance**	**2,031,700**

The future minimum lease payments receivable by the fund as at 31 March 2019 are shown in the next table.

2017/18 £000		2018/19 £000
78,900	Within one year	88,300
244,700	Between one and five years	253,600
543,800	Later than five years	507,400
867,400	**Total future lease payments due**	**849,300**

19. 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 2019 stock with a value of £435.6m was on loan (£417.4m as at 31 March 2018).

20. 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 2019.

31 March 2018				31 March 2019		
Fair value through profit & loss £000	*Loans & receivables £000*	*Financial liabilities at amortised cost £000*		Fair value through profit & loss £000	Loans & receivables £000	Financial liabilities at amortised cost £000
			Financial Assets			
4,804,105	*0*	*0*	Equities	5,172,017	0	0
10,395,403	*0*	*0*	Pooled Investment Vehicles	10,440,821	0	0
2,482,126	*0*	*0*	Private Equity/ Infrastructure	3,391,088	0	0
14	*0*	*0*	Index Linked Securities	10	0	0
0	*0*	*0*	Property	0	0	0
1,697	*0*	*0*	Derivative Contracts	2,837	0	0
24,007	*1,181,633*	*0*	Cash	59,304	795,138	0
0	*66,114*	*0*	Other Investment Balances	0	33,745	0
17,707,352	***1,247,747***	***0***		**19,066,077**	**828,883**	**0**
			Financial Liabilities			
0	*0*	*(1,271)*	Derivatives	0	0	(1,390)
0	*0*	*(63,005)*	Other Investment Liabilities	0	0	(34,859)
0	***0***	***(64,276)***		**0**	**0**	**(36,249)**
17,707,352	***1,247,747***	***(64,276)***	**Net Financial Assets**	**19,066,077**	**828,883**	**(36,249)**

Due to a reclassification of investment assets between Loans & Receivables and Fair Value through Profit & Loss the 2017/18 figures have been restated.

The table below shows net gains and losses on financial instruments for the year ended 31 March 2019:

31 March 2018 £000		31 March 2019 £000
	Financial Assets	
760,808	Fair value through profit and loss	935,783
407	Loans and receivables	9,115
	Financial Liabilities	
35,015	Fair value through profit and loss	(17,436)
(7,418)	Loans and receivables	(1,448)
788,812	**Total**	**926,014**

The following table summarises the market values of the Fund's financial assets and liabilities by class of instrument for the year ended 31 March 2019:

Market Value 31 March 2018 £000		Market Value 31 March 2019 £000
	Financial Assets	
17,707,352	Fair value through profit and loss	19,066,077
1,247,747	Loans and receivables	828,883
	Financial Liabilities	
(64,276)	Financial liabilities measured at amortised cost	(36,249)
18,890,823	**Total**	**19,858,711**

The £19.859m net investment assets shown above plus property (£2,032m) and current assets (£120m) less current liabilities (£75m) equals £21,936m Net Assets as at 31 March 2019 on page 33.

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

Level 1

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

Level 2

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

Level 3

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

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

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

31 March 2018				*31 March 2019*		
Level 1 £000	***Level 2 £000***	***Level 3 £000***		**Level 1 £000**	**Level 2 £000**	**Level 3 £000**
			Financial Assets			
12,294,462	*2,911,626*	*2,501,264*	Fair Value through profit and loss	13,249,163	2,408,877	3,408,036
1,165,110	*82,635*	*2*	Loans and receivables	822,958	5,923	2
13,459,572	***2,994,261***	***2,501,266***		**14,072,121**	**2,414,800**	**3,408,038**
			Financial Liabilities			
(24,018)	*(40,258)*	*0*	Financial liabilities measured at amoritised cost	(24,132)	(12,116)	0
(24,018)	***(40,258)***	***0***		**(24,132)**	**(12,116)**	**0**
13,435,554	***2,954,003***	***2,501,266***	**Net Financial Assets**	**14,047,989**	**2,402,684**	**3,408,038**

The total value of Net Financial Assets for Levels 1, 2 and 3 as at 31 March 2019 in the above table is £19,859m (£18,891m 2017/18) which matches the financial instruments market value shown in the table on the previous page. The Fund's direct property assets of £2,032m (see Note 18 for details) are also classed as level 3, taking the total value of Net Financial Assets to £21,891m which matches the Net Investments Assets total per the Net Assets Statement.

	Market value as at 31 March 2018 £000	**Transfers in/out of Level 3 £000**	**Purchases £000**	**Sales £000**	**Unrealised gains (losses) £000**	**Realised gains (losses) £000**	**Market value as at 31 March 2019 £000**
Overseas Equities	*3,193*	(3,014)	0	0	0	0	179
UK Equities	*333*	0	0	0	0	0	333
Overseas Equity Funds	32	0	0	0	(13)	0	19
UK Quoted	*5*	0	0	0	(5)	0	0
Overseas Venture Capital	*1,591,225*	0	399,979	(216,730)	70,909	99,992	1,945,375
UK Venture Capital	*890,900*	0	712,185	(239,621)	(17,231)	99,480	1,445,713
UK Fixed Income Funds	*15,576*	0	0	0	841	0	16,417
	2,501,264	**(3,014)**	**1,112,164**	**(456,351)**	**54,501**	**199,472**	**3,408,036**

During 2018/19, there were no transfers from Level 2 to Level 1.

21. 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 2018/19 reporting period:

Asset Type	Potential Market Movement (+/-)
UK Equities	16.6%
Overseas Equities	16.9%
Corporate Bonds (short term)	4.4%
Corporate Bonds (medium term)	10.5%
Index Linked Gilts	7.2%
Private Equity and Infrastructure Funds	28.3%
Commodities	16.1%
Cash	0.5%
Senior Loans	5.9%
Absolute Return Bonds	3.0%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory. The tables below show the change in the net assets available to pay benefits had the market price of the investments increased or decreased in line with the table above.

Potential Market Movements

Asset Type	Value as at 31 March 2019 £000	Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	742,307	0.5	746,018	738,595
Investment portfolio assets:				
UK bonds	5	4.4	5	5
Corporate bonds (Medium term)	5	10.5	5	4
UK equities	763,116	16.6	889,794	636,439
Overseas equities	4,408,901	16.9	5,154,005	3,663,797
UK fixed income unit trusts	2,440,200	7.2	2,615,895	2,264,506
Overseas fixed income unit trusts	664,940	10.5	734,759	595,122
UK equity unit trusts	3,443,545	16.6	4,015,174	2,871,917
Overseas equity unit trusts	3,457,067	16.9	4,041,311	2,872,822
Pooled Investment Vehicles	11,357	16.1	13,185	9,528
Cash Funds	535,847	0.5	538,526	533,168
Private Equity and Infrastructure Funds	3,391,088	28.3	4,350,766	2,431,410
Net derivative assets	1,447	0.0	1,447	1,447
Investment income due	23,715	0.0	23,715	23,715
Pending Spot FX	(5)	0.0	(5)	(5)
Amounts receivable for sales	10,030	0.0	10,030	10,030
Amounts payable for purchases	(34,854)	0.0	(34,854)	(34,854)
Total	**19,858,711**		**23,099,776**	**16,617,646**

The prior year comparators for 2017/18 are as follows:

Asset Type	*Value as at 31 March 2018 £000*	*Change %*	*Value on Increase £000*	*Value on Decrease £000*
Cash and cash equivalents	*1,160,522*	*0.5*	*1,166,324*	*1,154,719*
Investment portfolio assets:				
UK bonds	*5*	*4.1*	*5*	*4*
Corporate bonds (Medium term)	*10*	*10.2*	*11*	*9*
UK equities	*712,126*	*16.8*	*831,763*	*592,489*
Overseas equities	*4,091,979*	*17.9*	*4,824,443*	*3,359,514*
UK fixed income unit trusts	*2,404,872*	*7.2*	*2,578,023*	*2,231,721*
Overseas fixed income unit trusts	*651,733*	*10.2*	*718,210*	*585,257*
UK equity unit trusts	*3,289,143*	*16.8*	*3,841,718*	*2,736,567*
Overseas equity unit trusts	*3,121,541*	*17.9*	*3,680,298*	*2,562,786*
Pooled Investment Vehicles	*10,413*	*16.1*	*12,090*	*8,737*
Cash Funds	*962,819*	*0.5*	*967,633*	*958,005*
Private Equity and Infrastructure Funds	*2,482,126*	*28.3*	*3,184,567*	*1,779,684*
Net derivative assets	*427*	*0.0*	*427*	*427*
Investment income due	*20,016*	*0.0*	*20,016*	*20,016*
Pending Spot FX	*(12)*	*0.0*	*(12)*	*(12)*
Amounts receivable for sales	*46,097*	*0.0*	*46,097*	*46,097*
Amounts payable for purchases	*(62,994)*	*0.0*	*(62,994)*	*(62,994)*
Total	***18,890,823***		***21,808,619***	***15,973,026***

Due to a reclassification of investment assets within Cash funds, Amounts receivable for sales and Amounts payable for purchases the 2017/18 figures have been restated.

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 2019 and 31 March 2018 is set out below.

As at 31 March 2018 £000	Asset Type	As at 31 March 2019 £000
1,205,640	Cash Balances – Investments	854,442

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.

As at 31 March 2018 £000	*+100 BPS £000*	*-100 BPS £000*	Asset Type	As at 31 March 2019 £000	+100 BPS £000	-100 BPS £000
1,205,640	*1,217,697*	*1,193,584*	Cash Balances – Investments	854,442	862,987	845,898

Currency Risk

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

Currency Risk – Sensitivity Analysis

Based on historical analysis of movement in the currencies to which the Fund is exposed, it is considered that a 10% fluctuation in currency is reasonable. The table below shows the impact a 10% 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 2019 £000	Change %	Value on Increase £000	Value on Decrease £000
Overseas quoted equities	4,408,906	10.0	4,849,796	3,968,015
Overseas fixed income	664,940	10.0	731,434	598,446
Overseas equity funds	3,457,067	10.0	3,802,774	3,111,360
Total	**8,530,913**		**9,384,004**	**7,677,821**

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.

22. 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 2019 with comparators for 2018.

31 March 2018				31 March 2019		
Quoted £000	*Unquoted £000*	*Total £000*		Quoted £000	Unquoted £000	Total £000
			Equity Securities			
1,330,178	*3,772*	*1,333,950*	Consumer	1,312,311	0	1,312,311
1,077,746	*3,264*	*1,081,010*	Manufacturing	1,165,713	8,414	1,174,127
277,679	*0*	*277,679*	Energy and Utilities	286,116	0	286,116
895,456	*0*	*895,456*	Financial Institutions	947,052	3,894	950,946
525,915	*5,380*	*531,295*	Health and Care	560,405	4,483	564,888
684,557	*158*	*684,715*	Information Technology	880,109	3,520	883,629
			Debt Securities			
651,733	*0*	*651,733*	Corporate Bonds (investment grade)	5	5	10
0	*14*	*14*	Corporate Bonds (non-invest grade)	0	0	0
0	*0*	*0*	UK Government	0	0	0
0	*0*	*0*	Other	0	0	0
0	*2,482,126*	*2,482,126*	Private Equity	0	3,391,088	3,391,088
			Real Estate			
0	*1,880,660*	*1,880,660*	UK Property	0	2,031,700	2,031,700
0	*0*	*0*	Overseas Property	0	0	0
			Investment funds and unit trusts			
5,899,355	*511,329*	*6,410,684*	Equities	416,280	6,484,331	6,900,611
908,374	*1,496,498*	*2,404,872*	Bonds	664,940	2,440,201	3,105,141
0	*0*	*0*	Hedge Funds	0	0	0
10,413	*0*	*10,413*	Commodities	0	11,357	11,357
0	*26,623*	*26,623*	Property	0	92,110	92,110
0	*0*	*0*	Cash Funds	633,340	483,016	1,116,356
			Derivatives			
0	*0*	*0*	Inflation	0	0	0
0	*0*	*0*	Interest rate	0	0	0
0	*0*	*0*	Foreign exchange	0	(1,388)	(1,388)
427	*0*	*427*	Futures	2,835	0	2,835
1,069,298	*1,030,528*	*2,099,826*	**Cash and cash equivalents**	44,051	24,523	68,574
13,331,131	***7,440,352***	***20,771,483***	**Totals**	**6,913,157**	**14,977,254**	**21,890,411**

23. Long Term Debtor

Long-term debtors of the Fund represent the amount of additional tax charges incurred by members who are in breach of their Lifetime Tax Allowance (LTA) limit. These additional charges have been paid upfront by the Fund and will be reimbursed by these members over a period of time through additional pension deductions. As at 31st March 2019, the Fund had long-term debtors of £0.192m in relation to this.

24. Current Assets

2017/18 £000		2018/19 £000
	Debtors	
39,566	• Contributions due – employers	58,646
5,711	• Sundry Debtors	3,162
51,718	Cash Balances	58,830
96,995		**120,638**

25. Current Liabilities

2017/18 £000		2018/19 £000
46,281	Sundry creditors	59,249
15,988	Benefits payable	15,934
62,269		**75,183**

26. Events After the Balance Sheet Date

On 20 December 2018, the Court of Appeal upheld a claim from firefighters and a group of over 200 judges that changes made to their pension scheme were discriminatory based on a member's age (the McCloud case). The government's right to appeal this decision was denied in June 2019 meaning that this legal ruling is now expected to have an impact on other public sector workers who have also seen similar changes to their pension schemes. Although this does not impact on the primary financial statements of the Fund, the Fund's actuaries have estimated that the overall impact of this will be to increase the actuarial present value of promised retirement benefits of the Fund by £266 million to £25,949 million as shown in Note 7.

27. 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 deposits' in the net assets statement. During 2018/19 the amount recharged by Glasgow City Council to the Strathclyde Pension Fund for administration costs was £3.938m (2017/18 £3.399m). There is an outstanding creditor of £36.236m between the Council and Strathclyde Pension Fund as at 31 March 2019.

The key management personnel of the fund are the Director of Strathclyde Pension Fund, Chief Investment Officer and the Pension Scheme Manager. Total remuneration including short-term employee benefits and post- employment benefits payable to key management personnel was £286,000 (£259,000 2017/18). Key management personnel had accrued pensions totalling £69,439 (£59,830 2017/18) and lump sums totalling £82,225 (£75,178 2017/18) at the end of the period.

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

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

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

28. Contractual Commitments

As at 31 March 2019 the Fund had contractual commitments of £6,829m within its private equity, private debt, infrastructure and global real estate portfolios, of which £2,397m remains undrawn.

29. Contingent Assets and Liabilities

Contingent Liabilities reflect possible liabilities facing the Fund where the potential amount is unable to be estimated, and/or it is still not deemed probable that an obligatory event has arisen.

On 26 October 2018, The High Court ruled that Guaranteed Minimum Pensions (GMP) should be equalised between men and women to address the discrepancies in members' benefits arising from the contracting out of the additional state pension between 17 May 1990 and 6 April 1997. The Fund's actuary has carried out calculations in order to estimate the impact that the GMP indexation changes will have on the pension fund liabilities. The estimate assumes that the permanent solution eventually agreed will be equivalent in cost to extending the interim solution which was agreed following the outcome of the consultation published in January 2018. The actuary has estimated the impact to the Fund at £81 million. However further consultation is required to identify a permanent solution and this is the trigger event. As this is yet to occur this is still deemed to be a contingent liability.

30. Statement of Investment Principles

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

31. 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 2019 was £55.0m (2017/18 £53.7m). Contributions which are used in their entirety to purchase investments, totalled £9.5m (2017/18m £9.2m) whilst sales of investments to settle benefits due to members totalled £9.4m (2017/18 £7.8m). The change in market value of investments over the year was £1.2m (2017/18 £2.4m).

STRATHCLYDE PENSION FUND NO. 3

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

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

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

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

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

Policy documents and reports for the No.3 Fund are available on the SPFO website at
https://www.spfo.org.uk/index.aspx?articleid=14819

No.3 Fund: 10 Year Investment Performance

	% p.a.										Annualised		
	Mar 10	Mar 11	Mar 12	Mar 13	Mar 14	Mar 15	Mar 16	Mar 17	Mar 18	Mar 19	3 Year	5 Year	10 Year
Retail Prices	4.0	5.3	3.8	3.3	2.6	1.0	1.4	3.0	3.7	2.7	3.3	2.7	2.9
Consumer Prices	3.3	4.1	3.6	2.7	1.7	0.1	0.3	2.2	2.6	2.2	2.4	1.5	2.3
Average Earnings	4.2	2.4	0.4	0.2	1.9	2.2	2.0	2.3	2.5	0.6	1.8	1.9	1.9
Fund Return	**32.8**	**8.8**	**10.1**	**14.7**	**-0.1**	**21.3**	**0.8**	**17.1**	**1.0**	**4.9**	**7.5**	**8.7**	**10.7**
Benchmark	**26.4**	**7.2**	**2.8**	**15.0**	**2.5**	**20.7**	**1.7**	**15.3**	**1.6**	**5.1**	**7.2**	**8.6**	**9.5**

On 5th December 2018, Glasgow City Council's Strathclyde Pension Fund Committee approved the proposed merger of the No. 3 Fund into the Aberdeen City Council Transport Fund. The transfer of all assets and liabilities of the No. 3 Fund to Aberdeen City Council Transport Fund is expected to be completed by December 2019 at which point the No. 3 Fund would be wound up with no further involvement or responsibility for its liabilities remaining with the Strathclyde Pension Fund.

STRATHCLYDE PENSION FUND NO. 3

Fund Account

2017/18 £000		Note	2018/19 £000
	Contributions and Benefits Income		
1,511	Contributions from Employers	8	35
181	Contributions from Employees		142
1,692			**177**
	Expenditure		
5,612	Pensions Payments		5,913
1,894	Lump Sum and Death Benefit Payments		1,842
284	Payments To and On Account of Leavers		566
7,790			**8,321**
6,098	**Net Reduction from Dealings with Members**		**8,144**
486	Management Expenses	9	207
6,584	**Net Reduction including Fund Management Expenses**		**8,351**
	Returns on Investments		
502	Investment Income	11	201
2,107	Change in Market Value of Investments		9,873
2,609	**Net Returns on Investments**		**10,074**
(3,975)	**Net Increase in the Fund during the Year**		**1,723**
210,871	Add: Opening Net Assets of the Scheme		206,896
206,896	**Closing Net Assets of the Scheme**		**208,619**

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

STRATHCLYDE PENSION FUND NO. 3

Net Assets Statement as at 31 March 2019

2017/18 £000		Note	2018/19 £000
	Investment Assets		
208,114	Pooled Investment Vehicles	12,13	209,454
83	Cash Deposits	12,13	84
208,197			**209,538**
0	Current Assets	20	93
(1,301)	Current Liabilities	20	(1,012)
206,896	**Net Assets of the Fund as at 31 March**		**208,619**

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

The unaudited accounts were issued on 11 June 2019 and the audited accounts were authorised for publication on 4 September 2019

Martin Booth BA, FCPFA, MBA
Executive Director of Finance
4 September 2019

NOTES TO THE ACCOUNTS – FUND NO. 3

1. General Description of the Fund and its Membership

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

The Local Government Pension Scheme is a statutory scheme established under the Superannuation Act 1972.

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

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

On 5th December 2018, Glasgow City Council's Strathclyde Pension Fund Committee approved the proposed merger of the No. 3 Fund into the Aberdeen City Council Transport Fund. The transfer of all assets and liabilities of the No. 3 Fund to Aberdeen City Council Transport Fund is expected to be completed by December 2019 at which point the No. 3 Fund would be wound up with no further involvement or responsibility for its liabilities remaining with the Strathclyde Pension Fund.

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 2018/19 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.

In cognisance of the proposed transfer of the No. 3 Fund between Public Sector bodies, there are no going concern issues as, following the transfer, members will still be members of the LGPS with a different administering authority with everything else remaining the same. The accounts have therefore been prepared on a going concern 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.

- **New Standards Issued but not yet Adopted**

  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 been added in order to provide further analysis. Please refer to page 38 for new standards issued but not yet adopted.

- **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 2018/19 £0.03m fees are based on such estimates (2017/18 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 2019. 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. 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

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.

- **Contingent Assets and Liabilities**

  Contingent assets and liabilities reflect possible assets or financial obligations to the Fund where the potential amount is unable to be estimated and/or it is still not deemed probable that an obligating event has arisen. Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes (see Note 24).

- **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).

- **Events After the Balance Sheet Date**

  Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue. Two types of events may be identified:

  - Those that provide evidence of conditions that existed at the end of the reporting period – the Financial Statements are adjusted to reflect such events; and
  - Those that are indicative of conditions that arose after the reporting period – the Financial Statements are not adjusted to reflect such events, but where this would have a material effect, the nature and estimated financial impact of such events is disclosed in the notes.

4. Critical Judgements in Applying Accounting Policies

Determining the fair value of investments involves a degree of subjectivity. Valuations are inherently based on forward-looking estimates and judgements involving many factors. The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 7. The estimate is subject to significant variances based on changes to the underlying assumptions. A detailed breakdown of the Fund's assets according to the reliability and quality of the information used to determine fair value is provided in Note 17 Financial Instruments.

5. Prior Period Adjustments, Change in Accounting Policies and Estimates

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

6. Actuarial Position

In accordance with Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 an actuarial valuation of the Strathclyde Pension Fund – Fund No.3 was carried out as at 31 March 2017. Results of the valuation were confirmed during March 2018.

The funding level as at 31 March 2017 was 114% (96% at 31 March 2014) and there was a funding surplus of £26 million (£6 million shortfall at 31 March 2014):

	£ million
Fund Assets	211
Fund Liabilities	(185)
Surplus	**26**

The Funding Objective was exceeded: there was a surplus of assets relative to the assessed cost of members' benefits on the target funding basis of £26m.

Liabilities have been valued using a discount rate based on the gilts nominal yield curve at the valuation date and reflecting the yields available on suitable investments over the different durations of the liabilities. This is consistent with the de-risking objectives of the Fund and the proximity of an exit event. The Fund still holds a growth portfolio but the discount rate does not incorporate any outperformance assumption for this.

- ### Funding Policy

  On completion of the actuarial valuation as at 31 March 2017 the Fund published a revised Funding Strategy Statement in accordance with regulation 56 of the Regulations.

  The actuary's report and the Funding Strategy Statement are available from www.spfo.org.uk/index.aspx?articleid=14819 or **the Strathclyde Pension Fund Office, Capella Building, 6th Floor, 60 York Street, Glasgow G2 8JX.**

- **Funding Projection as at 31 March 2019**

An intervaluation monitoring report provided by the Fund's actuary as at 31 March 2019 recorded a projected funding position of 112%. The next formal funding valuation will be carried out as at 31 March 2020 with results available by 31 March 2021.

- **Funding Method**

At the 2017 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 employer's share of the cost of future benefit accrual (the Primary Rate), plus any increase or reduction certified by the actuary the Secondary Rate). At the 2017 valuation the actuary calculated a Primary Rate of 53.3% and a Secondary Rate reduction of -53.3% in light of the significant funding surplus, giving a total rate payable by the employer of 0%.
The total contributions payable for the period from 1 April 2018 to 31 March 2021 are shown in the table below:

3 Years to	Primary Rate	Secondary Rate
31 March 2021	53.3%	-53.3%

The secondary rate is conditional on the present value of future employer contributions in respect of the primary rate, discounted on the valuation basis as at the calculation date, being less than the value of the funding surplus on that date. The calculation date will be 30 September in advance of each contribution period (i.e. 30 September 2019 for contributions due between 1 April 2020 and 31 March 2021). Where the present value of future primary rate contributions is greater than the funding surplus, the secondary rate will revert to 0.0% p.a.

7. 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 2017	
Price inflation (CPI)	Gilts implied inflation curve	-1.0% p.a. with a floor of zero
Pay increases	Gilts implied inflation curve	+0.375% p.a.
Funding basis discount rate (pre-retirement)	Gilts nominal yield curve	
Funding basis discount rate (post-retirement)	Gilts 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 (2014 figures included for comparison):

	Actives & Deferreds		Current Pensioners	
Assumed life expectancy at age 65	**Male**	**Female**	**Male**	**Female**
2014 Valuation	23.6	25.2	22.1	23.6
2017 Valuation	22.3	25.3	21.4	24.0

Further details of the mortality assumptions adopted for the 2017 valuation can be found in Appendix C 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 https://www.spfo.org.uk/index.aspx?articleid=14819

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 £161m as at 31 March 2019 (£153m as at 31 March 2018) including an estimated £1 million increase as a result of the High Court ruling on the McCloud case. The actuary has estimated that a 0.5% decrease in the real discount rate would lead to an increase in the pension liability of £11m. Similarly, a 0.5% increase in the rate of pension increase would increase the liability by £10m. A 1 year increase in life expectancy would increase the liabilities by around 3-5%.
The valuation has been carried out on an IAS19 basis. The assumptions used are those adopted for the Administering Authority IAS19 report and are different between financial years. The actuary estimates that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £8m and that there is no impact from any change in demographic and longevity assumptions because they are identical to the previous period.

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2017. It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the No.3 Fund. They should not be used for any other purpose.

8. Contributions and Benefits

The sole employer contributing to the Fund is Strathclyde Buses, now part of FirstGroup. The Contributions from Employers total of £0.035m on the Fund Account all relates to Employer Contributions from FirstGroup.

9. Management Expenses

The total administrative expenses were as follows:

2017/18 £000		2018/19 £000
33	Administrative, governance and audit costs	34
453	Investment Management Expenses	173
486		**207**

The £34,000 represents a single recharge from Fund 1 to cover costs.

10. Investment Expenses

The total investment expenses were as follows:

2017/18 £000		2018/19 £000
453	Management Fees	173
453		**173**

11. Investment Income

Investment Income of £201,000 is from Pooled Investment Vehicles (£200,000) and Interest on Cash Deposits (£1,000).

12. Investments

Statement of Movement in Investments

	Market Value as at 31 March 2018 £000	Purchases and Derivative Payments £000	Sales and Derivative Receipts £000	Change in Market Value £000	Market Value as at 31 March 2019 £000
Investment Assets					
Pooled Investment Vehicles	*208,114*	55,820	(64,370)	9,890	209,454
	208,114	**55,820**	**(64,370)**	**9,890**	**209,454**
Other Investment Balances:					
Cash Deposits	*83*	**0**	**0**	**1**	**84**
Net Investment Assets	***208,197***	**55,820**	**(64,370)**	**9,891**	**209,538**

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. The reason for the difference of £0.018m in the change in market value per the above table and the Fund Account on page 61 is due to notional management expenses and transaction costs netted off against assets by fund managers.

- **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 2017/18).

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 2019 (£nil at 31 March 2018).

13. Analysis of Investments

Investments can be further analysed as follows:

Market Value 31 March 2018 £000		Market Value 31 March 2019 £000
	Pooled Funds – Additional Analysis	
	UK	
116,335	Fixed Income Unit Trust	124,382
11,539	Equity Unit Trust	14,053
45,408	Cash Funds	55,007
	Overseas	
34,832	Equity Unit Trust	16,012
208,114		**209,454**
83	Cash Deposits	84
0	Other Investment Balances	0
208,197	**Net Investment Assets**	**209,538**

14. Fund Management

The investment assets of the Fund are externally managed.

Investment management arrangements as at 31 March 2019 are shown below:

Asset Class	Fund Manager	% Managed	Market Value £000
Liability Driven Investment Strategy	Legal & General	86	179,473
Multi Asset - Absolute Return	Ruffer	7	14,569
Equities	Legal & General	7	15,496
		100%	**209,538**

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 2019 was £209.5m.

15. Notifiable Holdings

As at 31 March 2019 the Fund had holdings exceeding 5% of the total value of net assets in:

	£000	%
Legal & General Sterling Liquidity Fund	43,641	20.8
Ruffer Absolute Return Fund	14,569	7.0
Legal & General Sterling Liquidity Plus Fund	11,366	5.4
Legal & General Corporate Bonds	33,150	15.8
1.25% Index Linked Government Bonds Nov 32	18,621	8.9
1.25% Index Linked Government Bonds Nov 27	17,152	8.2
0.625% Index Linked Government Bonds Nov 42	13,497	6.4
0.75% Index Linked Government Bonds Nov 47	10,477	5.0

16. 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 2019 stock with a market value of £nil was on loan (£nil as at 31 March 2018).

17. 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 recognized. 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 2019.

31 March 2018				31 March 2019		
Fair value through profit & loss £000	*Loans & receivables £000*	*Financial liabilities at amortised cost £000*		Fair value through profit & loss £000	Loans & receivables £000	Financial liabilities at amortised cost £000
			Financial Assets			
208,114	*0*	*0*	Pooled Investment Vehicles	209,454	0	0
0	*83*	*0*	Cash	0	84	0
0	*0*	*0*	Other Investment Balances	0	0	0
208,114	***83***	***0***	**Total Financial Assets**	**209,454**	**84**	**0**
208,114	***83***	***0***	**Net Financial Assets**	**209,454**	**84**	**0**

The table below shows net gains and losses on financial instruments for the year ended 31 March 2019:

31 March 2018 £000		31 March 2019 £000
	Financial Assets	
1,693	Fair value through profit and loss	9,891
1,693	**Total**	**9,891**

The following table summarises the market values of the Fund's financial assets and liabilities by class of instrument compared with their fair values for the year ended 31 March 2019:

Market Value as at 31 March 2018 £000		Market Value as at 31 March 2019 £000
	Financial Assets	
208,114	Fair value through profit and loss	209,454
83	Loans and receivables	84
208,197	**Total**	**209,538**

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.

31 March 2018				31 March 2019		
Level 1 £000	*Level 2 £000*	*Level 3 £000*		Level 1 £000	Level 2 £000	Level 3 £000
			Financial Assets			
14,705	*193,409*	*0*	Fair Value through profit and loss	14,568	194,886	0
83	*0*	*0*	Loans and receivables	84	0	0
14,788	***193,409***	***0***	**Total Financial Assets**	**14,652**	**194,886**	**0**
14,788	***193,409***	***0***	**Net Financial Assets**	**14,652**	**194,886**	**0**

18. 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.ed to determine fair values.

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 2018/19 reporting period:

Asset Type	Potential Market Movement (+/-)
UK Equities	16.6%
Overseas Equities	16.9%
Index Linked Gilts	9.2%
Cash	0.5%
Long Term Gilts	12.9%
Corporate Bonds (Medium Term)	10.5%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory. The tables below show the change in the net assets available to pay benefits had the market price of the investments increased or decreased in line with the table above.

Asset Type	Value as at 31 March 2019 £000	Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	84	0.5	84	84
Investment portfolio assets:				
UK fixed income unit trusts	124,382	9.2	135,825	112,938
UK equity unit trusts	14,053	16.6	16,385	11,720
Overseas equity unit trusts	16,012	16.9	18,718	13,306
Cash Funds	55,007	0.5	55,283	54,733
Total	**209,538**		**226,295**	**192,781**

The prior year comparators for 2017/18 are as follows:

Asset Type	***Value as at 31 March 2019 £000***	***Change %***	***Value on Increase £000***	***Value on Decrease £000***
Cash and cash equivalents	*83*	*0.5*	*83*	*83*
Investment portfolio assets:				
UK fixed income unit trusts	*116,335*	*9.2*	*127,038*	*105,632*
UK equity unit trusts	*11,539*	*16.8*	*13,477*	*9,600*
Overseas equity unit trusts	*34,832*	*17.9*	*41,067*	*28,597*
Cash Funds	*45,408*	*0.5*	*45,636*	*45,182*
Total	***208,197***		***227,301***	***189,094***

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 2019 and 31 March 2018 is set out below.

As at 31 March 2018 £000		**As at 31 March 2019 £000**
83	Cash Balances – Investments	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.

As at 31 March 2018 £000	***+100 BPS £000***	***-100 BPS £000***	**Asset Type**	**As at 31 March 2019 £000**	**+100 BPS £000**	**-100 BPS £000**
83	*84*	*82*	Cash Balances – Investments	84	85	83

Currency Risk

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

Currency Risk – Sensitivity Analysis

Based on historical analysis of movement in the currencies to which the Fund is exposed, it is considered that a 10.0% fluctuation in currency is reasonable. The table below shows the impact a 10.0% strengthening / weakening of the pound against the various currencies to which the Fund is exposed would have on the net assets available to pay benefits, assuming all other variables, in particular interest rates, remain constant.

Asset Type	Value as at 31 March 2019 £000	Change %	Value on Increase £000	Value on Decrease £000
Overseas unit trusts	16,012	10.00	17,613	14,411
Total	**16,012**		**17,613**	**14,411**

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.

19. 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 2019 with comparators for 2018.

31 March 2018				31 March 2019		
Quoted £000	*Unquoted £000*	*Total £000*	**Asset Type**	Quoted £000	Unquoted £000	Total £000
			Investment funds and unit trusts:			
0	*46,371*	*46,371*	Equities	0	33,794	33,794
0	*116,335*	*116,335*	Bonds	0	120,653	120,653
0	*45,491*	*45,491*	Cash and cash equivalents	84	55,007	55,091
0	***208,197***	***208,197***	**Totals**	**84**	**209,454**	**209,538**

20. Current Assets and Liabilities

Current Assets of £0.093m are all sundry debtors. Current Liabilities of £1.012m are all sundry creditors.

21. Events After the Balance Sheet Date

On 20 December 2018, the Court of Appeal upheld a claim from firefighters and a group of over 200 judges that changes made to their pension scheme were discriminatory based on a member's age (the McCloud case). The government's right to appeal this decision was denied in June 2019 meaning that this legal ruling is now expected to have an impact on other public sector workers who have also seen similar changes to their pension schemes. Although this does not impact on the primary financial statements of the Fund, the Fund's actuaries have estimated that the overall impact of this will be to increase the actuarial present value of promised retirement benefits of the Fund by £1 million to £161 million as shown in Note 7.

22. 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 deposits' in the net assets statement. During 2018/19 the amount recharged by Glasgow City Council to the Strathclyde Pension Fund for administration costs was £0.034m (2017/18 £0.033m).

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

23. Contractual Commitments

The Fund had no contractual commitments at the year end.

24. Contingent Assets and Liabilities

Contingent Liabilities reflect possible liabilities facing the Fund where the potential amount is unable to be estimated, and/or it is still not deemed probable that an obligatory event has arisen.

On 26 October 2018, The High Court ruled that Guaranteed Minimum Pensions (GMP) should be equalised between men and women to address the discrepancies in members' benefits arising from the contracting out of the additional state pension between 17 May 1990 and 6 April 1997. The Fund's actuary has carried out calculations in order to estimate the impact that the GMP indexation changes will have on the pension fund liabilities. The estimate assumes that the permanent solution eventually agreed will be equivalent in cost to extending the interim solution which was agreed following the outcome of the consultation published in January 2018. The actuary has estimated the impact to the Fund at £3 million. However further consultation is required to identify a permanent solution and this is the trigger event. As this is yet to occur this is still deemed to be a contingent liability.

25. Statement of Investment Principles

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

TITAN CRANE, GREENOCK.

SECTION 4
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 2017 and in every third year afterwards. 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.

In completing the valuation the actuary must have regard to the current version of the administering authority's funding strategy statement.

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 Funding Strategy Statement 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.

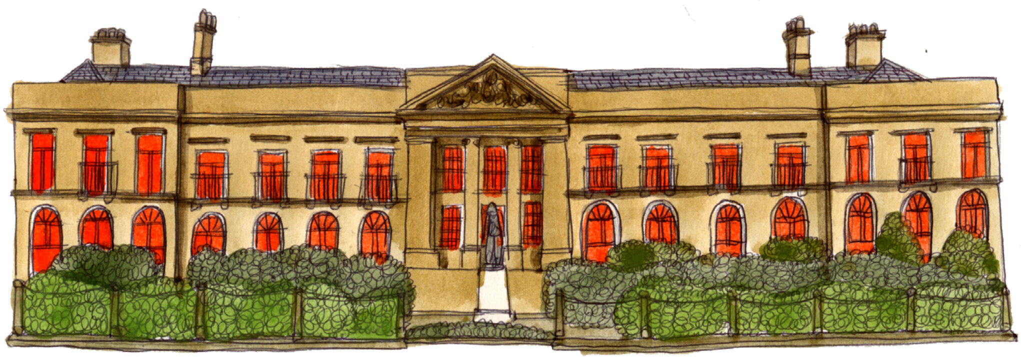
At the 2017 actuarial valuation, the actuary reported a funding position of 105%. The following total employer contribution rates were certified for the Fund's Main Employer Group including the 12 local authorities.

- 19.3% (of pensionable payroll) from 1st April 2018;
- 19.3% (of pensionable payroll) from 1st April 2019; and
- 19.3% (of pensionable payroll) from 1st April 2020.

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

The next actuarial valuation and review of the Funding Strategy Statement will be carried out as at 31st March 2020.

The Fund has online access to a client portal provided by the actuary. This allows ongoing monitoring of the estimated progression of the funding level. As at 31st March 2019 this showed an indicative funding position of 109%.



COUNTY BUILDINGS, AYR.

STRATHCLYDE PENSION FUND NO 1 FUND FUNDING STRATEGY STATEMENT

As part of the 2017 actuarial valuation exercise, the Funding Strategy Statement was reviewed and the following revised statement was agreed in March 2018. The statement will be reviewed again during the 2020 actuarial valuation. The statement has 6 schedules which are not reproduced here but can be found in the full version in the Publications area of the Fund's website at www.spfo.org.uk

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 and participating employers 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)

Preparation and publication of the FSS is a regulatory requirement. The stated purpose 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 potentially 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;
- manage employers' liabilities effectively;
- seek investment returns within reasonable risk parameters; and
- enable employer contribution rates to be kept as nearly constant as possible at reasonable cost to the employers and taxpayers while achieving and maintaining fund solvency and long term cost efficiency

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 178 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. Solvency and Long Term Cost Efficiency

Employer contribution rates are required to be set at an appropriate level to ensure the solvency of the Fund and long term cost efficiency of the scheme.

In this context:

- **solvency** means that the rate of employer contributions should be set at such a level as to ensure that the scheme's liabilities can be met as they arise; and
- **long-term cost-efficiency** implies that the rate must not be set at a level that gives rise to additional costs. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the time.

These requirements are reflected in the funding objective.

6. Funding Objective

The funding objective is to achieve the funding target over the target funding period.

In this context:

- The funding target (amount of assets compared to liabilities expressed as a percentage) is at least 100% using appropriate actuarial assumptions.
- The target funding period and recovery period for any deficit is the weighted average future working lifetime of the active membership – currently around 14 years.
- 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 funding strategy targets at least a 2/3rds probability of achieving the target, and a higher probability where possible.

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 indicated by long-dated UK gilt yields.

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.

7. 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.

For ongoing employers with a good covenant the Fund will adopt measures to stabilise the contribution rate and will seek to limit changes in the rate payable by them.

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.

8. **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.

   Details of the investment strategy are set out in the Fund's Statement of Investment Principles which is available at **www.spfo.org.uk**

9. **The Identification of Risks and Counter Measures**
   Risk management is integral to the governance and management of the Fund at a strategic and operational level. The Fund actively manages risk and maintains a detailed risk register which is reviewed on a quarterly basis.

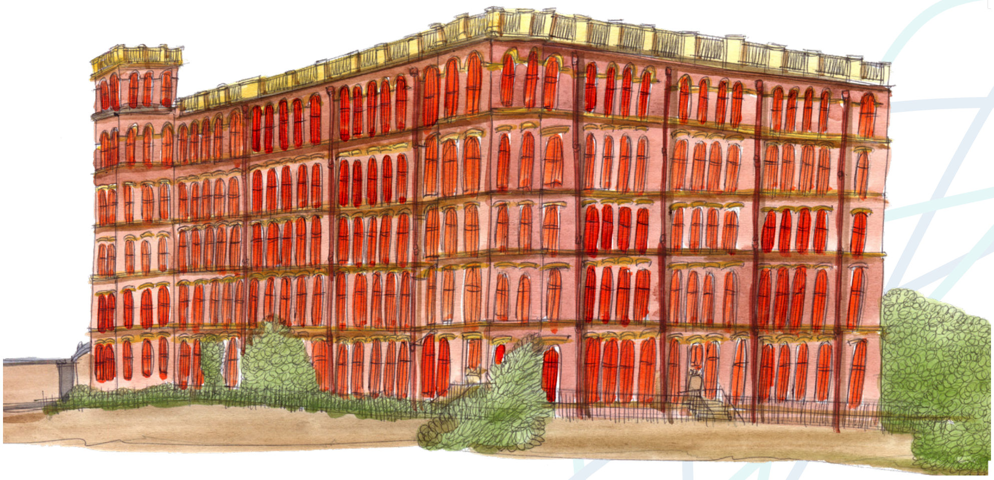
   Details of risk management are set out in the Fund's Risk Policy and Strategy Statement which is available at **https://www.spfo.org.uk/index.aspx?articleid=20464**

   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
   7. Statistical Appendix: key figures from the 2017 actuarial valuation

   The full statement including schedules is available from the publications area of the SPFO website at: **https://www.spfo.org.uk/index.aspx?articleid=16031**



WATERMILL, PAISLEY.

STRATHCLYDE PENSION FUND NO 1 FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2018/19

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 solvency of the Fund and the solvency of individual employers' share of the Fund;
- to ensure the long term cost efficiency of the scheme in order to secure as far as possible its affordability to employers;
- 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;
- 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 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 was as at 31 March 2017. This valuation revealed that the Fund's assets, which at 31 March 2017 were valued at £19,699 million, were sufficient to meet 105% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2017 valuation was £939 million.

Each employer had contribution requirements set at the valuation for the period from 1 April 2018 to 31 March 2021, with the aim of achieving full funding within a time horizon and probability measure as per the FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2017 valuation report.

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 and inflation 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 2017 valuation were as follows:

Financial assumptions	31 March 2017
Pre-retirement Discount Rate	3.7%
Post-retirement Discount Rate	3.3%
Salary increase assumption	3.6%
Benefit increase assumption (CPI)	2.4%

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2016 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement 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:

Financial assumptions	Males	Females
Current Pensioners	21.4 years	23.7 years
Future Pensioners*	23.4 years	25.8 years

*Currently aged 45

Copies of the 2017 valuation report and Funding Strategy Statement are available on **www.spfo.org.uk**

Experience over the period since 31 March 2017

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. However, the return earned on the Fund's investments has more than offset the change in liabilities resulting in a small improvement in the funding level when compared to 2017.

Steven Law FFA

For and on behalf of Hymans Robertson LLP
29 April 2019

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

STRATHCLYDE PENSION FUND NO 3 FUND (“THE FUND”)
ACTUARIAL STATEMENT FOR 2018/19

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 ensure the long term cost efficiency of the scheme in order to secure as far as possible its affordability to the employer;
- to provide a framework for the investment strategy of the Fund
- 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 employer contributions stable.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 was as at 31 March 2017. This valuation revealed that the Fund’s assets, which at 31 March 2017 were valued at £211 million, were sufficient to meet 114% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2017 valuation was £26 million. The employer had contribution requirements set at the valuation for the period from 1 April 2018 to 31 March 2021, with the aim of achieving full funding as per the FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2017 valuation report.

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 and inflation 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 2017 valuation were as follows:

Financial assumptions	31 March 2017
Funding Basis Discount Rate	Gilts nominal yield curve
Salary Increases	Gilts implied inflation curve + 0.375% p.a.
Benefit Increases	Gilts implied inflation curve - 1.0% p.a., with a floor of zero

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2016 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.5% p.a. for both males and for females. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Financial assumptions	Males	Females
Current Pensioners	21.4 years	24.0 years
Future Pensioners*	22.3 years	25.3 years

*Currently aged 55

Copies of the 2017 valuation report and Funding Strategy Statement are available on **www.spfo.org.uk**

Experience over the period since 31 March 2017

The liabilities have increased over the period as a result of falling real bond yields. This has largely been offset by positive investment return experience. However, contributions received over the period are less than the cost of benefits accruing in order to reduce the surplus in the Fund. Therefore, the funding level has reduced slightly since the previous formal valuation.

Steven Law FFA

For and on behalf of Hymans Robertson LLP
29 April 2019

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

STRATHCLYDE PENSION FUND NO 3 FUND FUNDING STRATEGY STATEMENT

1. Introduction

Glasgow City Council is the administering authority for the Strathclyde Pension Fund, including the No.3 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 and participating employers 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;
- manage the employer's liabilities effectively;
- seek investment returns within reasonable risk parameters; and
- enable employer contribution rates to be kept as nearly constant as possible at reasonable cost to the employer while achieving and maintaining fund solvency and long term cost efficiency.

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

5. **Solvency and Long Term Cost Efficiency**

Employer contribution rates are required to be set at an appropriate level to ensure the solvency of the Fund and long term cost efficiency of the scheme.
In this context:

- **solvency** means that the rate of employer contributions should be set at such a level as to ensure that the scheme's liabilities can be met as they arise; and
- **long-term cost-efficiency** implies that the rate must not be set at a level that gives rise to additional costs. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the time.

These requirements are reflected in the funding objective.

6. **Funding Objective**

The No.3 Fund has been closed to new employers since it was established in 1993. The Fund is now very mature. Liabilities in respect of pensioners are considerably greater than those in respect of the active membership which has greatly reduced. New accrual will cease in the foreseeable future when there is no more active membership. The employer is expected to exit the Fund at that time.

The funding target is to be 100% funded on a cessation basis at the employer exit point in order to minimise any exit debt or credit payable.

The exit funding strategy is set out in Schedule 4 to this statement. 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 No.3 Fund's investment strategy has been progressively de-risked since 2005 and now includes a large component of broadly liability matched assets. This is consistent with the funding objective.

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

Risk management is integral to the governance and management of the Fund at a strategic and operational level. The Fund actively manages risk and maintains a detailed risk register which is reviewed on a quarterly basis.

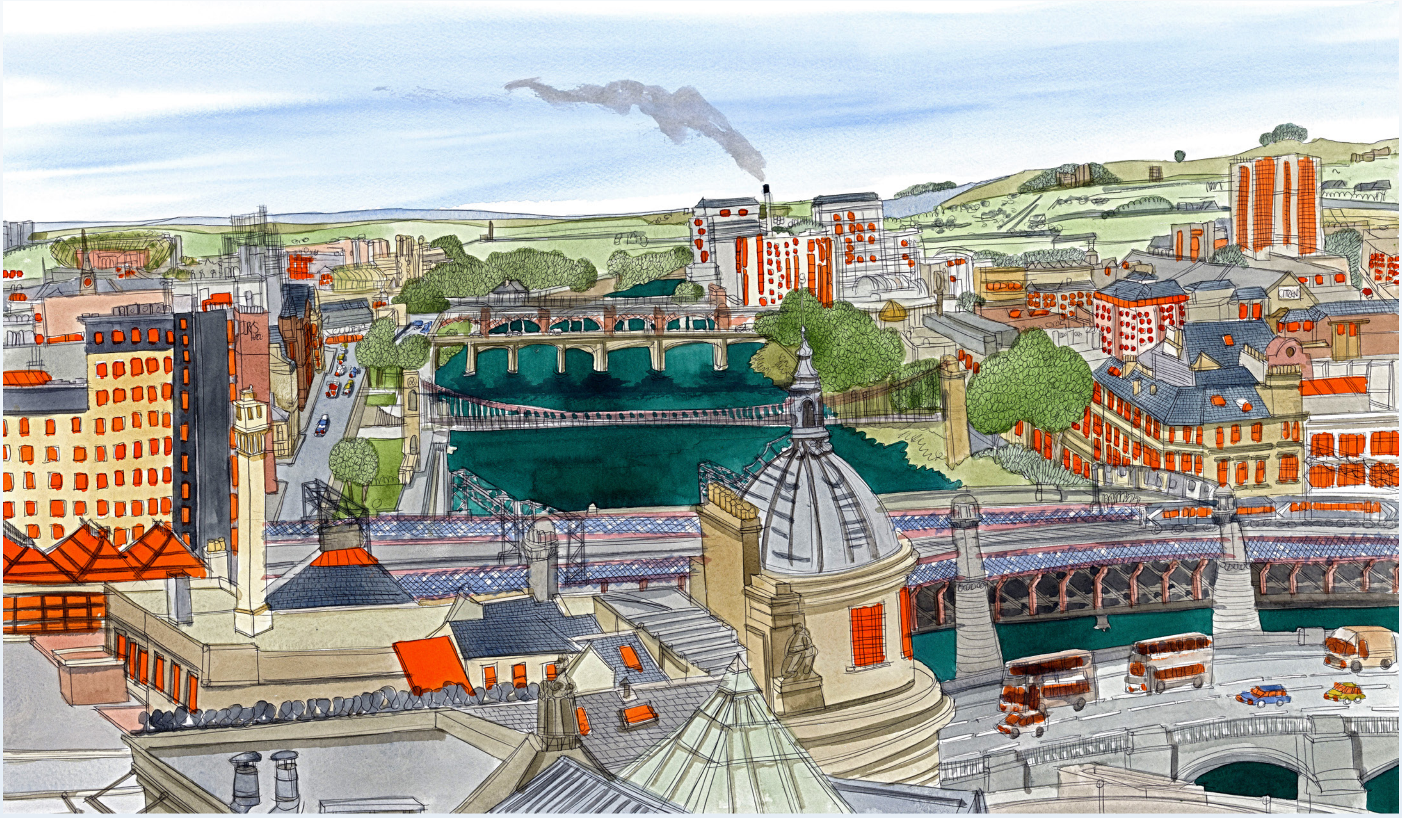
Details of risk management are set out in the Fund's Risk Policy and Strategy Statement which is available at **www.spfo.org.uk**

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

9. **Actuarial Valuation as at 31st March 2017**

Key figures from the actuarial valuation of the No.3 Fund as at 31st March 2017 are set out in Schedule 7.

The full statement including schedules is available from the publications area of the SPFO website at: **https://www.spfo.org.uk/index.aspx?articleid=14819**



GLASGOW EAST.

SECTION 5
INVESTMENT

STATEMENT OF INVESTMENT PRINCIPLES

The Statement of Investment Principles (SIP) is the Fund's main investment policy document. The SIP is reviewed regularly, and updated to reflect any changes agreed by the Strathclyde Pension Fund Committee. The statement has 5 schedules which are not reproduced here but can be found in the full version on the Fund's website at https://www.spfo.org.uk/index.aspx?articleid=14498

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 and participating employers that are analogous to those holding the office of trustee in the private sector. In carrying out those duties the committee adopts the following approach.

2. Regulations

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

3. Key Principles

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

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

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

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

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

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

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

4. Investment Objective

The Fund's investment objective is to support the funding strategy by adopting an investment strategy and structure which incorporate an appropriate balance between risk and return. The current objectives of the investment strategy should be to achieve:

- a greater than 2/3 probability of being 100% funded over the future working lifetime of the active membership (the target funding period) and
- a less than 10% probability of falling below 70% funded over the next three years.

5. Investment Strategy

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

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

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

8. **Risk**
   In order to achieve its investment objective the Fund takes investment risk including equity risk and active management risk. It is understood and acknowledged that this leads to significant volatility of returns and an ultimate risk that its objectives will not be met. The Fund pursues a policy of lowering risk through diversification of investments by asset class, manager and geography. 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, including property, infrastructure, private equity and private debt. These provide diversification, a return premium and some inflation protection. The Fund monitors cash flow to ensure there is sufficient investment income to meet immediate and anticipated pensions payments.

10. **Responsible Investment**
    The Fund is a signatory to the United Nations Principles for Responsible Investment and has adopted the principles as its responsible investment policy. The principles are set out in full in Schedule 4 together with a note on the the Fund's strategy for applying them in practice.

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

12. **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 guidance given by Scottish Ministers. This includes 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 mark-to-market value. The programme is also indemnified by the custodian and provides a low-risk source of added value.

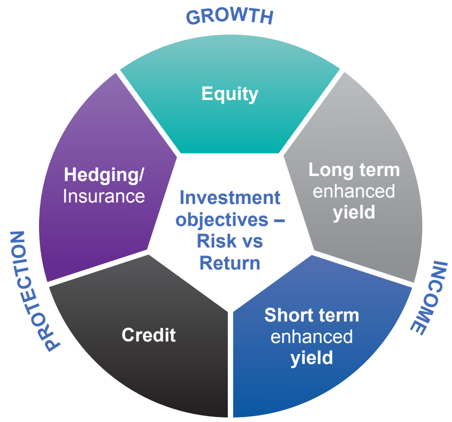
15. **Schedules:**
    1. LGPS Regulations - Disclosures
    2. Investment Objectives, Strategy and Structure
    3. Investment Roles & Responsibilities
    4. Responsible Investment Policy and Strategy
    5. AVC arrangements
    6. CIPFA/Myners Principles – Assessment of Compliance

The full SIP including schedules is available from the Publications area of the SPFO website at www.spfo.org.uk/index.aspx?articleid=14498

INVESTMENT STRATEGY

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

Following the 2014 actuarial valuation, the Fund adopted a risk/return asset framework as the basis for modelling and agreeing investment strategy. The risk/return framework is illustrated opposite and summarised in the table below.



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

In common with many Local Government Pension Scheme funds, the 2014 and 2017 valuations of the Strathclyde Pension Fund confirmed that:

- pensioner and deferred liabilities outweigh active member liabilities; and
- cash-flow from members to the Fund has shifted from a net income figure to a net outflow.

Using the risk/return framework as a basis for modelling, a route-map for strategy development that reflects these changing dynamics was agreed in 2015 and is shown in the table overleaf.

A phased implementation process has been adopted which will reduce risk, increase diversification and ensure that the strategy of the Fund changes with the liability profile over time. Implementation of Step 1 was completed during 2016/17. In 2018, the Strathclyde Pension Fund Committee agreed that Step 2 should be adopted as the strategic target model.

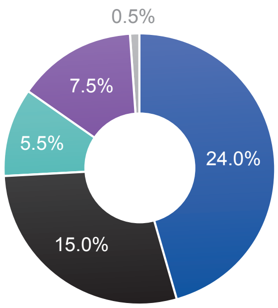
Strathclyde Pension Fund Risk/ Return Framework

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

Investment Structure

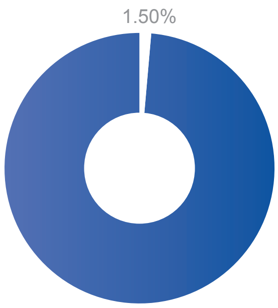
The Step 2 investment structure is broken down by asset class in the charts below.

Equity



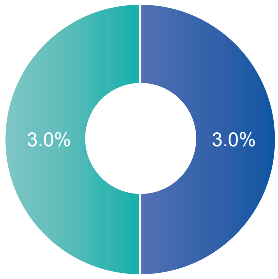
- Passive Global Equity
- Active Global Equity
- Specialist Equity
- Private Equity
- Direct Investment Portfolio

Hedging/Insurance



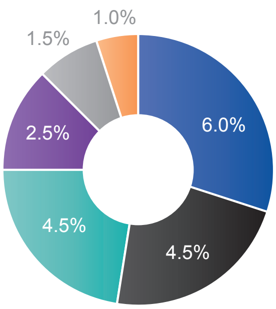
- UK Index Linked Gilts

Credit



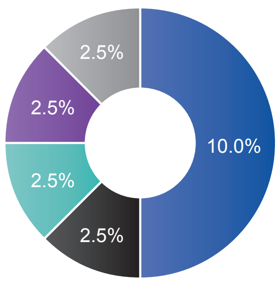
- UK Corporate Bonds
- US Corporate Bonds

STEY



- Absolute Return
- Private Debt
- Direct Investment Portfolio
- Multi Asset Credit
- Emerging Market Debt
- Unallocated

LTEY



- UK Property
- Global Property
- Global Infrastructure
- Direct Investment Portfolio
- Unallocated

Investment mandates are managed by 17 external institutional investment managers. In addition, a target of 5% of Fund is invested opportunistically within the Fund's Direct Investment Portfolio (DIP). A further 26 investment managers manage specialist funds within DIP.

The Fund is focused on identifying and implementing an investment structure consistent with Step 2 over the next 2 to 3 years. Good progress was made towards this during 2018/19.

ASSETS UNDER MANAGEMENT

Allocations by asset category

Asset allocation at the end of March 2019 and March 2018 was as follows:

Asset Category	*31 Mar 2018 (£m)*	*31 Mar 2018 (%)*	31 Mar 2019 (£m)	31 Mar 2019 (%)	Step 2 Target (%)
Equity	*11,777*	*56.7*	12,784	58.4	52.5
Hedging & insurance	*270*	*1.3*	306	1.4	1.5
Credit	*1,225*	*5.9*	1,248	5.7	6.0
STEY	*3,822*	*18.4*	3,240	14.8	20.0
LTEY	*2,763*	*13.3*	3,480	15.9	20.0
Cash	*914*	*4.4*	832	3.8	-
Total	***20,771***	***100.0***	**21,890**	**100.0**	**100.0**

As part of the implementation of the Step 2 strategy, the Fund completed the following during 2018/19:

- Appointment of JP Morgan to invest £500m (2.5% of total Fund) in global infrastructure. £300m was invested in January 2019, increasing the value of the Fund's investment in LTEY. The remaining allocation of £200m was invested on 1st April 2019.
- Investment of £200m in Ruffer's Absolute Return Fund, increasing the amount invested in STEY.
- Procurement of 1 new private real estate debt manager, ICG-Longbow, and the appointment of 3 incumbents, Barings, Alcentra and Partners Group, to manage segregated, evergreen private corporate debt portfolios. These mandates will begin funding during 2019/20 and increase the amount invested in STEY.

The Fund's Equity portfolios increased in value over the year largely as a result of positive equity market performance. Net drawdowns of £124m to private equity mandates, £84m to private debt mandates and £101m to direct investment portfolios funds further increased the value of the Fund's Equity, STEY and LTEY investments respectively.

The Fund retains overweight positions in Equity and Cash while the implementation of the Step 2 strategy continues. 2.5% of STEY and 1.0% of LTEY remains unallocated and finalising these allocations will be the focus of the next stage of strategy development and implementation.

Investment Manager Allocations

Each external investment manager is appointed to manage a specified target % allocation of total Fund investment assets. The breakdown of the Fund's assets by investment manager, mandate type and asset class at end March 2018 and March 2019 was as follows:

Manager	Mandate Type %	*31 Mar 2018 (%)*	31 Mar 2019 (%)	Step 2 Allocation %
Legal & General	Passive global equity	*25.9*	26.2	24.0
Baillie Gifford	Active global ex US equity	*7.8*	7.6	7.5
Lazard	Active global equity	*3.1*	3.4	2.5
Oldfield	Active global equity	*3.2*	3.2	2.5
Veritas	Active global equity	*2.9*	3.3	2.5
Henderson	Specialist equity	*1.2*	1.2	1.0
JP Morgan	Specialist equity	*3.6*	3.5	3.0
Genesis	Specialist equity	*2.1*	1.9	1.5
Pantheon	Private equity	*3.9*	4.7	5.0
Partners Group	Private equity	*2.7*	3.2	2.5
Direct Investment Portfolio	Private equity	*0.2*	0.2	0.5
Equity		***56.6***	**58.4**	**52.5**
Legal and General	Passive index linked	*1.3*	1.4	1.5
Hedging/ Insurance		***1.3***	**1.4**	**1.5**
Legal and General	Passive corporate bonds	*5.9*	5.7	6.0
Credit		***5.9***	**5.7**	**6.0**
Pimco	Absolute return	*5.1*	4.8	5.0
Ruffer	Absolute return	-	0.9	1.0
Barings	Multi-asset credit	*3.1*	3.0	2.75
Oak Hill Advisors	Multi-asset credit	*2.1*	2.0	1.75
Alcentra	Private corporate debt	*0.5*	0.8	1.25
Barings	Private corporate debt	*0.5*	0.7	1.25
Partners Group	Private corporate debt	-	0	1.0
ICG- Longbow	Private real estate debt	-	0	1.0
Ashmore	Emerging market debt	*2.5*	2.3	2.5
Direct Investment Portfolio	Various	*0.2*	0.3	1.5
Unallocated	N/a	-	-	1.0
STEY		***14.0***	**14.8**	**20.0**
DTZ	UK direct property	*9.1*	9.7	10.0
Partners Group	Global property	*2.0*	2.0	2.5
JP Morgan	Global infrastructure	-	1.4	2.5
Direct Investment Portfolio	Various	*2.2*	2.8	2.5
Unallocated	N/a	-	-	2.5
LTEY		***13.3***	**15.9**	**20.0**
Cash		***8.9***	**3.8**	**-**
Total		***100.0***	**100.0**	**100.0**

The majority of manager portfolios increased in value in the 2018/19 financial year as a result of positive investment performance. Increased allocations to the Alcentra and Barings private debt portfolios, the Pantheon and Partners Group Private Equity portfolios, the DTZ Property portfolio and the Direct Investment Portfolio, were the result of both investment performance and cash contributions made by the Fund to finance new investment.

Holdings Snapshot

As at 31st March 2019

1,335
Listed equity holdings
£5,177m
23.6% *of total Fund*

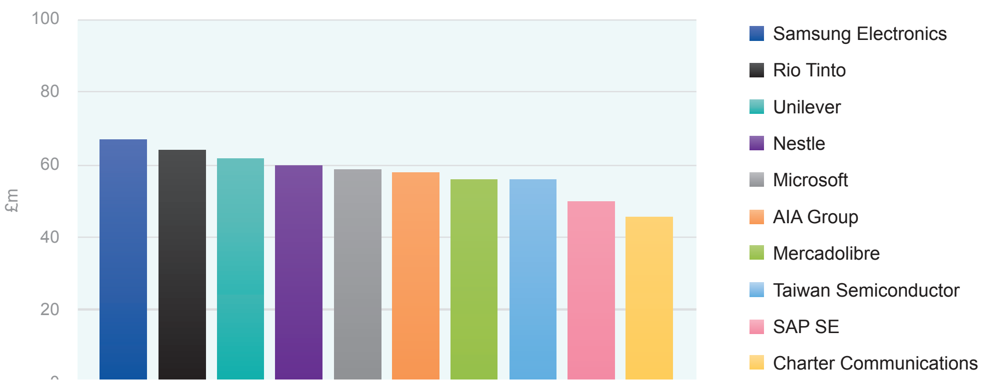
18
Equity and debt pooled funds
£9,999m
45.7% *of total Fund*

117
Private market funds
£3,408m
15.6% *of total Fund*

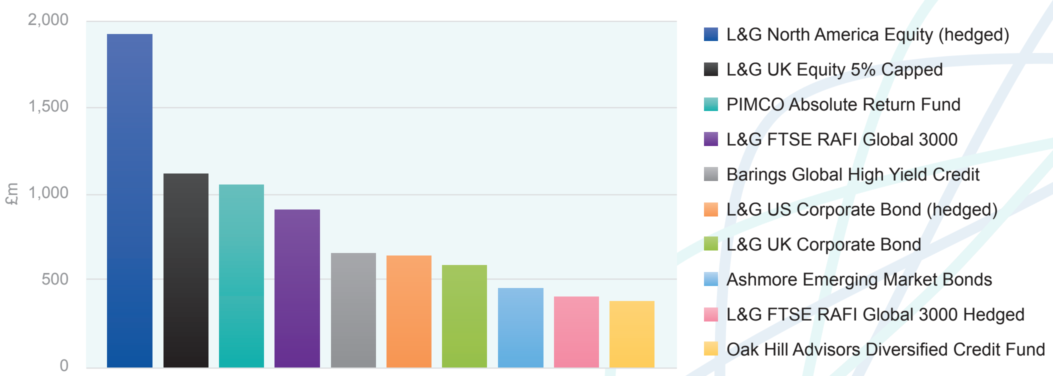
Direct exposure to
38
Investment markets

57
UK Properties
£2,031m
9.3% *of total Fund*

Top Equity Holdings (£m)



Top Pooled Fund Holdings (£m)



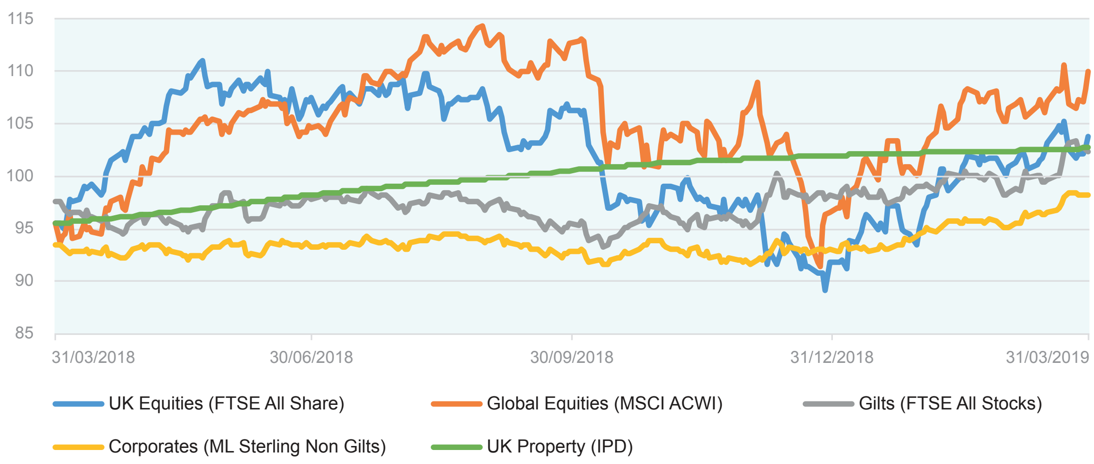
INVESTMENT PERFORMANCE REPORT

Market Commentary

Following a difficult start to 2018, high levels of global equity market volatility continued into the new financial year, as investors worried about the impact of the on-going trade dispute between the US and China and the uncertain political outlook in Europe. Initially, these concerns were set against a backdrop of steady economic growth, gradually rising inflation rates and accommodative monetary policy. Developed equity markets therefore climbed higher over the first six months, with US indices leading the way and reaching new all time highs during Q3 2018. In contrast, concerns over the potential impact of a trade dispute with China and the economic performance of some individual countries meant emerging market indices weakened over the same period.

After such a positive start, deepening worries over the economic outlook dragged developed equities lower in Q4 2018, particularly during December 2018 when all major indices fell sharply. An interest rate hike from the Federal Reserve, a protracted government shutdown and evidence that economic headwinds were building were the principal factors causing US equities to lead the slide, with UK equities suffering from Brexit woes as the likelihood of a 'no deal' exit from the European Union increased. Japanese and European equities suffered similar falls.

Market Returns 2018/19



In a stark reversal of fortune, equity markets rebounded in Q1 2019. The US Federal Reserve's decision to put interest rate hikes on hold and some optimism that the US-China trade talks were making progress improved investor sentiment. Emerging markets participated in the rally but returns lagged developed markets. The strong recovery in the first quarter of Q1 2019 meant developed indices achieved a positive return over the financial year.

Global government bond yields generally edged up in the first half of the financial year but then fell back during Q4 2018 and Q1 2019, in light of softer economic data and despite the more dovish stance adopted by the US Federal Reserve. Corporate bonds experienced similar swings in performance throughout the period, with high yield bonds suffering particularly in December 2018. Major corporate bond markets ended the year higher, however, as perceived economic headline risks receded. Volatility of Sterling remained high on the back of Brexit uncertainty, with the UK currency falling against the Dollar but rising slightly against the Euro. The UK Property market performed positively over the year as a whole, but returns in the second half of the year were lower as capital falls in the retail sector accelerated.

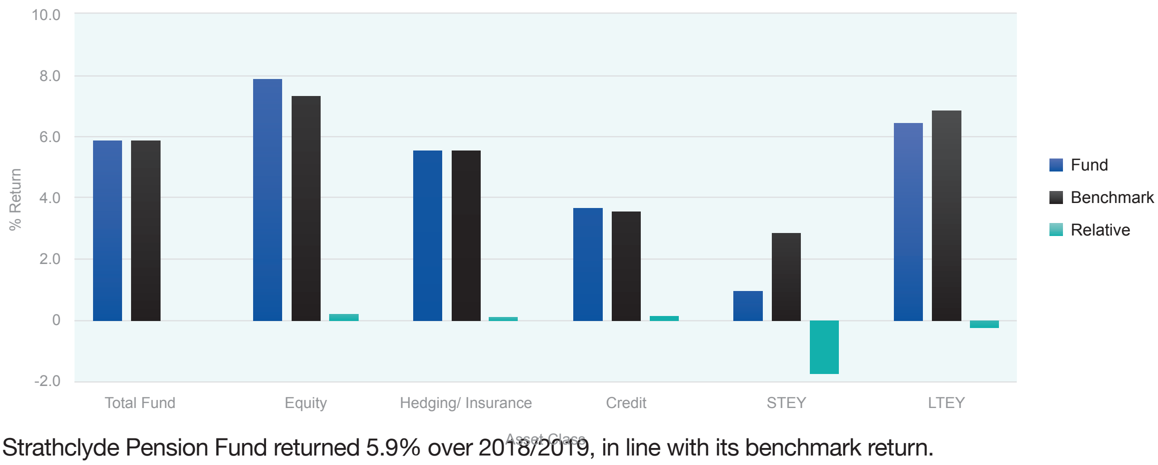
INVESTMENT PERFORMANCE

Performance Measurement

The Fund measures performance using the service provided by its global custodian, Northern Trust. The performance for each investment manager with an active investment mandate is to outperform a benchmark, which may be a cash plus target or an appropriate market index or performance universe. The performance of the Fund as a whole is measured against a blended benchmark, based on individual manager benchmarks and allocations. Details of the Fund's current benchmark are provided in Schedule 2 of the Fund's Statement of Investment Principles.

Investment Returns for 2018/19.

Fund and Asset Class Performance

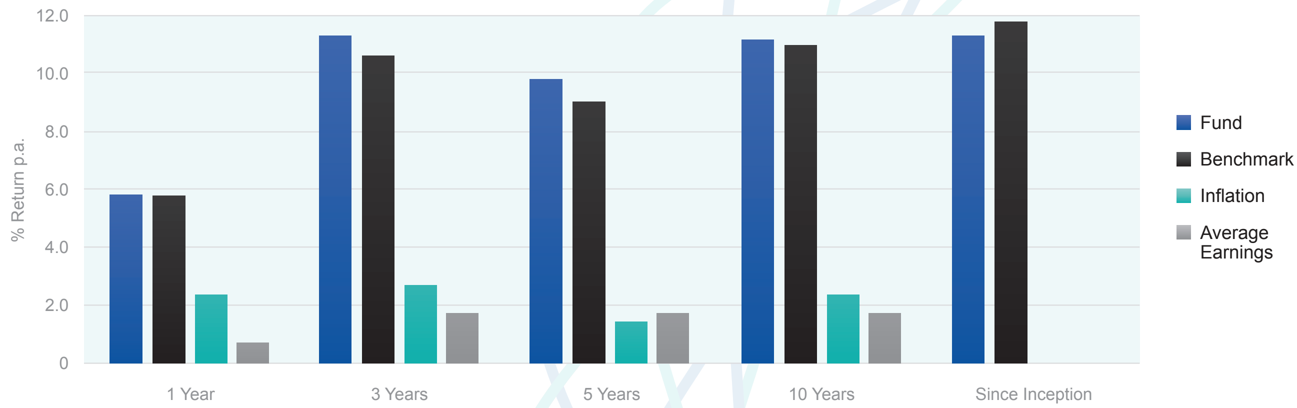


Strathclyde Pension Fund returned 5.9% over 2018/2019, in line with its benchmark return.

- **Equity** was the best performing asset class on both an absolute and relative basis, with global equity managers Lazard and Veritas, UK small cap manager Henderson, emerging market manager Genesis and private equity managers Pantheon and Partners Group achieving returns significantly in excess of their benchmarks.
- **STEY** portfolios contributed least to total Fund performance and returned less than their overall benchmark. Negative relative performance of multi-asset credit managers Barings and Oak Hill and absolute return bond manager PIMCO detracted most from the overall return for this asset class.
- **LTEY** portfolios achieved a combined return of 6.4%. This was marginally behind benchmark, with the two largest portfolios, DTZ UK direct property and Partners Group global real estate, both underperforming their benchmarks.
- The **Hedging/ Insurance** and **Credit** asset classes are invested in index-linked gilts and UK/ US corporate bond passive funds respectively. Both asset classes performed positively and in line with benchmark, with index-linked gilts doing particularly well for yet another year.

Longer Term Performance

Long Term Performance to 31st March 2019

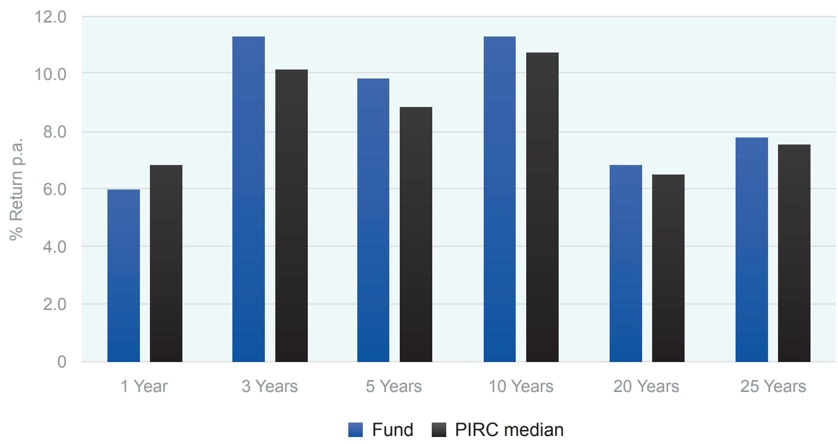


The Fund has performed strongly over the short, medium and long term, out performing inflation and average earnings over all time periods and the Fund specific benchmark over 3, 5 and 10 Years. The equity bull market that has followed the Great Financial Crisis of 2008-2009 has been the largest contributor to the Fund's positive absolute performance over the past 10 Years, with rising property markets the second largest factor. Strong performance of individual portfolios, most notably the Baillie Gifford global equity portfolio, the JP Morgan global small cap portfolio and the Pantheon private equity portfolio, has added further value on a relative basis.

Pension Fund Returns

Strathclyde Pension Fund subscribes to PIRC's Local Authority Pension Perfomance Analytics Services, which gathers and compare the performance of UK Local Authority Pension Funds. Strathclyde Pension Fund performance was below median UK Local Authority Fund performance over 1 year, but has exceeded median performance over all other time periods. The Fund has ranked in the top quartile of local authority funds over the 3, 5, 10 and 20 year time periods. Performance of the Fund's listed and private equity portfolios has been particularly strong relative to that of other local authority funds.

Pension Fund Returns to 31st March 2019
PIRC Local Authority Universe



Investment Management Costs

The level of fees and expenses paid by the Fund to individual investment managers is relative to the complexity involved in managing a particular investment asset and strategy, the associated risk and expected investment returns. The Fund complies with CIPFA guidance on investment management costs when completing its financial statements. Fees and expenses incurred within a pooled investment vehicle as a result of that vehicle's investment in other pooled funds are not included in the Fund's financial statements, as the Fund has no control over these costs.
This type of 'fund of fund' investing typically occurs in private market investments. CIPFA suggest that these 'Tier 2' expenses can be included for information elsewhere in the annual report. Investment manager estimates of the Fund's share of 'Tier 2' costs for 2018/19 were £51.4m (2017/18 £52.7m).

The Local Government Pension Scheme (LGPS) Code of Transparency

The LGPS Scheme Advisory Board in England and Wales launched a Code of Transparency in May 2017, publishing a cost template that would allow pension funds to gather cost information for listed investment assets in a consistent manner. Since then the Financial Conduct Authority has set up a new organisation, the Cost Transparency Initiative, to take forward the work of standardising cost disclosure across the investment industry.
The Fund is a strong supporter of the work carried out to date on cost transparency, and has encouraged all if its listed equity investment managers to sign up to the LGPS Code. The Fund has engaged with managers of other asset classes to encourage them to complete the cost template relevant to their asset class as and when it becomes available.

DIRECT INVESTMENT PORTFOLIO (DIP)

Background and Strategy

In December 2009, the Strathclyde Pension Fund Committee agreed to establish a New Opportunities Portfolio (NOP) with a broad remit to invest in assets for which there was an attractive investment case but to which the current structure did not provide access. The NOP strategy was reviewed in 2012 and in 2015. It was re-branded as the Direct Investment Portfolio (DIP) in 2015.

The most recent review of the DIP strategy was concluded in December 2018.

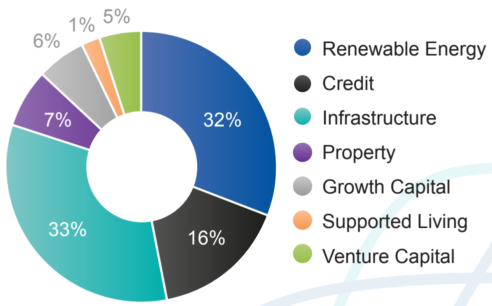
The framework agreed at the 2018 review is summarized below.

Direct Investment Portfolio: Investment Strategy	
Objectives	Primary objective identical to overall Fund investment objective. Secondary objective of adding value through investments with a positive local, economic or ESG (environmental, social, governance) impact.
Strategy & Structure	In line with the Fund's risk-return framework but focused on Equity, Long Term Enhanced Yield and Short Term Enhanced Yield asset categories.
Risk and Return	Individual risk and return objectives for each investment Total DIP benchmark: LIBOR to 31st December 2018, CPI +3% thereafter.
Capacity	Target allocation of 5% of total Fund (based on Net Asset Values). Range of **2.5%** to **7.5%** of total Fund.
Investment Size	Target: **£20m** to **£100m** Minimum: £10m Maximum: greater of **£200m** or **1%** of Total Fund Value.

Assets under Management

At 31st March 2019, DIP commitments totalled **£1,103m**, or **5.0%** of total Fund. The Net Asset Value of Investments was **£724m** or **3.3%** of total Fund. DIP investments span 7 broad sectors with Infrastructure, Renewable Energy and Credit comprising the 3 largest components and representing a combined total of 80% of the total portfolio.

Commitments by Sector (£1,103m)



Portfolio Snapshot

As at 31st March 2019

40 *live investments*	**£1,103m** *committed*	**£730m** *deployed*
NAV **£724m**	**3** *exits to date*	

Infrastructure/Renewables

19 funds
£715m committed
141 Schools
31 Hospitals
14,900 social housing units

Credit

8 funds
£175m committed
60 loans to SMEs
22 loans to Healthcare companies
28 loans to Property

Property

2 funds
£90m committed
£75m in Strathclyde area
7 UK supported living projects

Venture/Growth Capital

11 funds
£123m committed
£93m in Scotland
10 Scottish Funds

Portfolio Progress 2018/19

New Investments

Infrastructure/Renewables

£50m to **Equitix Fund V LP**, Investing in Core Infrastructure in the UK, Including hospitals, schools, social housing, renewable energy, university accommodation and other transport projects.

£50m to **Greencoat Solar Fund II** One of the UK's largest renewable energy infrastructure managers acquiring a diversified portfolio of operating, ground mounted solar farms in the UK.

An additional **£20m** to **Albion Community Power**. Owners and operators of small-scale renewable energy plants across the UK.

Venture/Growth Capital

£15m to **Epidarex Fund III** – Investing in early stage, high growth life science companies including biotechnology, medical devices and pharmaceuticals.

£20m to **Par Equity**, making investments in private, early growth companies with innovative diagnostic, treatment or monitoring benefits.

Credit

£30m to **Beechbrook UK SME Capital II Fund**, focusing on direct lending to Small and Medium sized Enterprise in UK based companies.

£20m to **GAM Real Estate Fund II**, providing debt finance to the commercial real estate sector. The fund lends against a portfolio of diversified commercial properties.

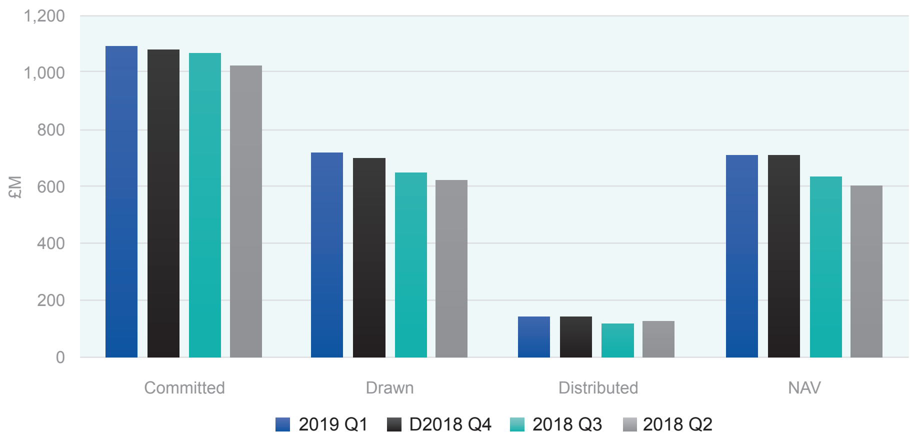
Review of Investment Opportunities

During the year SPF direct investment team has reviewed 124 opportunities across a range of asset classes.

- Infrastructure (12)
- Renewable Energy (18)
- Credit (42)
- Venture/Growth Capital (31)
- Property (19)
- Supported Living (2)

7 Investment opportunities were approved at Committee in the financial year.

DIP Summary

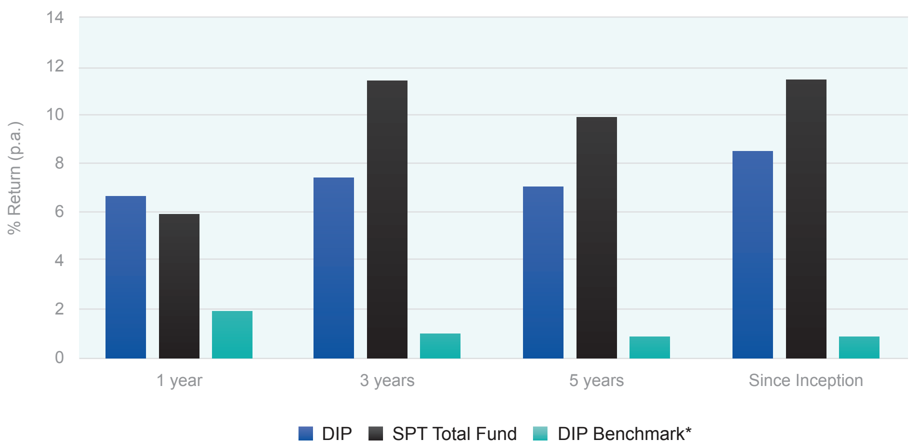


Change in Investment profile

The value of DIP commitments increased by **£201m** in the financial year and totalled **£1,103m** at 31st March 2019.

The net asset value of DIP increased by **£173m** in 2018/19. **£50m** of distributions brought the total received since inception to **£152m**.

DIP Performance to 31st March 2019



* DIP Benchmark: 3 month LIBOR to 31st Dec 2018, CPI +3% from 1st Jan 2019

Investment Performance

DIP has performed well against both its benchmark and the main Fund, achieving a net return of **8.5% per annum** since inception and showing less volatility than the Fund overall.

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.

Responsible Investment activity is carried out by:

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

Reporting

The Strathclyde Pension Fund Committee receives regular reports summarising the Fund's responsible investment activity. Reports can be viewed on the Fund's website at **www.spfo.org.uk**

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

- Child labour
- Fire & Building safety in the Bangladesh garment industry
- Climate Change
- Welfare and sustainability in the cocoa industry
- Executive remuneration
- Water rights
- Farm animal welfare
- Corporate corruption
- Cybersecurity
- The Living Wage
- Deforestation
- UK Corporate Governance Code
- Labour rights
- Protection of endangered species
- Human rights
- Inhumane weapons
- Fossil fuel to renewables
- Tax transparency
- Factory farming emissions
- Indigenous land rights

Responsible Investment Partnerships

The United Nations backed Principles for Responsible Investment works to understand the investment implications of environmental, social and governance (ESG) factors and to support its investor signatories in incorporating these factors into their investment and ownership decisions. The PRI's 6 Principles contribute to developing a more sustainable global financial system with nearly 1,700 signatories, from over 50 countries, representing US$62 trillion.

The Local Authority Pension Fund Forum (LAPFF) brings together 71 public sector pension funds in the UK with combined assets of over £175 billion to promote the long-term investment interests of member funds and beneficiaries, and to maximise their influence as shareholders whilst promoting the highest standards of corporate governance and corporate responsibility at investee companies.

ShareAction is a UK charity that promotes responsible investment. ShareAction aims to improve corporate behaviour on environmental, social and governance issues. The charity has launched numerous campaigns, with support from savers, charities, unions, faith groups and other civil society organisations to engage with investors to bring about change. The Fund is an active supporter of their Living Wage campaign and Workforce Disclosure Initiative.

Farm Animal Investment Risk and Return (FAIRR) is a collaborative initiative which aims to encourage analysis and engagement around the long-term risks that factory farming poses to portfolios. The Fund is one of 70 institutional investors representing nearly $5 trillion in assets supporting FAIRR's collaborative investor engagement on antibiotics The engagement asks 20 global food companies to limit antibiotic use in their supply chains to protect public health and long-term value creation.

The Institutional Investors Group on Climate Change (IIGC) is a collaborative platform of over 130 members, from 9 countries, representing over €16 trillion in assets which provides investors with a collaborative platform to encourage public policies, investment practices and corporate behaviour that address long-term risks and opportunities associated with Climate Change.

The Carbon Disclosure Project (CDP) is a collaborative initiative to accelerate company action on carbon reduction and energy efficiency activities. The Fund is an active supporter of three CDP initiatives.

- **CDP Carbon Action** - Collaborative initiative to accelerate company action on carbon reduction and energy efficiency activities.
- **CDP Water** – Asks companies to provide data about their efforts to manage and govern freshwater resources.
- **CDP – Forests** – Asks companies to provide data on their efforts to stop deforestation

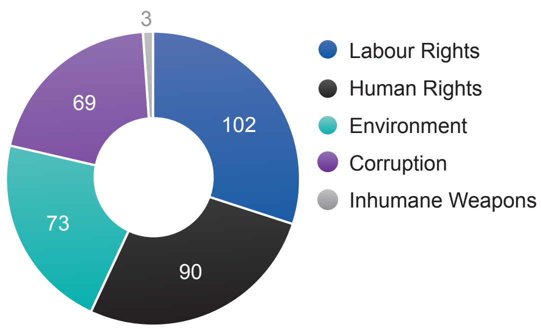
Climate Action 100+ was launched in December 2017 with the support of 225 investors representing $26.3 trillion in assets. Entities backing the project include many of the UK's local authority schemes, and some of the most influential Australian, Canadian and US public pension funds. Co-ordinators include the Institutional Investors Group on Climate Change (IIGCC), and Principles for Responsible Investment (PRI). The five year initiative will use carbon mapping data to target the worst climate offenders directly, to curb their emissions, improve climate governance and strengthen disclosure. The goal is to cut global emissions by 80 per cent by 2050.

Global Engagement Services

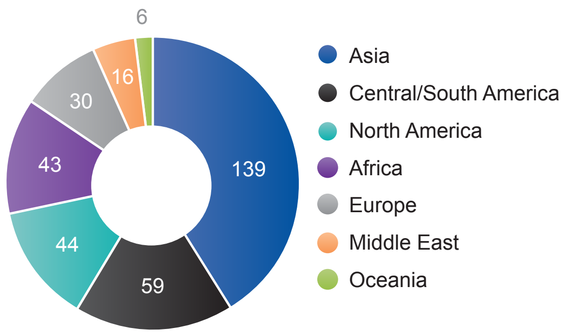
The Funds external investment managers are assisted by responsible investment specialist, **Global Engagement Services (GES)**, who co-ordinate engagement efforts and provide detailed research to focus the collaborative effort of the investment managers.

In 2018, GES engaged on or evaluated 337 cases associated with violations of international norms and conventions. In addition, they resolved 34 cases and archived 116. Meetings were held with 108 companies relating to these cases, including 70 conference calls and 38 face-to-face meetings. In total, GES was in contact with companies 1,858 times through emails, conference calls and meetings.

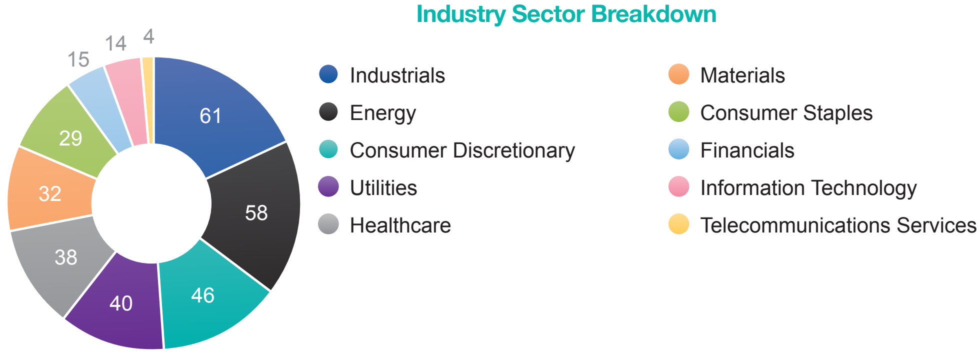
Types of Engagement



Geographic Breakdown

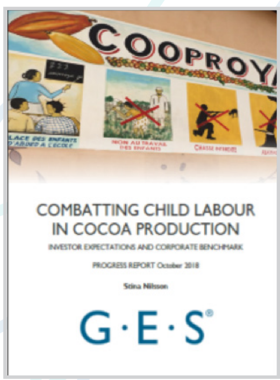


Industry Sector Breakdown



GES engagement highlights in 2018:

GES engaged with a range of companies in 2018 including **HSBC Holdings** regarding financial crime; **Phillips 66** and **Enbridge Energy Partners** regarding the Dakota Access Pipeline project and the rights of indigenous peoples; **Apple Inc.** regarding allegations of labour rights violations in its supply chain; **Chevron Corp.** regarding environmental damage in the Ecuadorian Amazon; **Korea Electric Power Corporation** regarding corruption scandals in South Korea; **Nestle SA** regarding allegations of labour rights violations in the company's seafood supply chain in Thailand and **Bunge Limited** regarding deforestation in Brazil and Bolivia.



GES has engaged with the cocoa industry for many years on the issue of child labour. In 2018 GES launched its second public report on the issue, including investor expectations and a corporate benchmark of leading cocoa and chocolate companies including **Nestle, Hershey and Lindt**. The report is available at:
https://www.sustainalytics.com/esg-research/corporate-benchmark-cocoa-investor-expectations-3/

Climate Risk

The Fund supports the recommendations of the **Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)**. TCFD provides a global framework to enable stakeholders to understand the financial system's exposure to climate-related risks particularly affecting organisations most likely to experience climate-related financial impacts from transition and physical risks. The TCFD has been endorsed by over 450 companies, including 280 financial institutions representing a combined market capitalisation of over US$8 trillion and nearly US$100 trillion assets under management. The Fund has committed to reporting on its approach to climate risk using the TCFD framework for asset owners and sets out below its approach to managing climate risk within the TCFD's four thematic areas of Governance, Strategy, Risk Management and Metrics and Targets.

Governance

Recommended Disclosure (a)
Describe the board's oversight of climate-related risks and opportunities.

The Strathclyde Pension Fund (SPF) Committee receives regular reports on the Fund's responsible investment activity including Climate Change.

Since 2015 the SPF Committee has considered 4 separate reports specifically addressing Climate Change risks. These are summarised as follows:

- August 2015 the Committee considered a report investigating the feasibility, cost and benefits of introducing partial or complete fossil fuel divestment for the Strathclyde Pension Fund.
- March 2016 the Committee considered a report concluding a review of the Fund's Responsible Investment strategy.
- September 2016 the Committee considered a report reviewing the Fund's progress in developing a Climate Change strategy.
- December 2016 the Committee considered a report which presented summary findings of:
  - carbon footprint analysis of the Fund's listed equities;
  - a review of non-exclusion, passive, low carbon investment solutions; and
  - an investigation of membership of additional industry forums or initiatives to support engagement work around key issues such as Climate Change.

The Committee and officers are directly involved in analysis and decision making in respect of the Fund's Direct Investment Portfolio (DIP). The DIP portfolio is supporting technology and solutions crucial for the transition to a low carbon UK economy. To date the Fund has committed over £334m to renewable energy infrastructure investments which include specialist onshore and offshore wind funds, UK solar funds and generalist renewables and community power funds.

Recommended Disclosure (b)
Describe management's role in assessing and managing climate related risks and opportunities.

Day-to-day management of SPF's Climate Change strategy is delegated to the external investment managers, who operate under the SPF's policy on Responsible Investment which is overseen by the Fund's internal investment team with oversight from the Director of Pensions.

A bi-annual carbon footprinting exercise is used to assess both the risks from Climate Change and also areas of opportunity. Strathclyde employs a specialist advisor, Global Engagement Services (GES), to focus engagement activity and to monitor voting activity on active equity holdings, with specific focus on Climate Change related resolutions.

Strathclyde incorporates voting alerts from the Local Authority Pension Fund Forum (LAPFF) on Climate Change within its voting activity. The Fund leverages partnerships and initiatives - including the LAPFF, the Institutional Investor Group on Climate Change (IIGCC), the Principles for Responsible Investment (PRI), ShareAction and CDP - to identify and manage climate risk.

SPF has completed the new voluntary climate-related elements of the annual PRI survey and will reflect on the results with a view to incorporating the transparency report into Scheme reporting.

As stated above the Fund's officers are directly involved in analysis and decision making in respect of the Direct Investment Portfolio.

The Director of Pensions is accountable to the Strathclyde Pension Fund Committee for delivery of the Climate Change strategy.

Strategy

Recommended Disclosure a)
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

SPF has a global investment strategy widely diversified by geography, asset class, sector and manager. Given the diversified nature of the Fund's strategy it will be exposed to all of the risks identified in the TCFD analysis, though the degree and timing of the impact cannot be accurately gauged.

SPF is primarily an equity investor, therefore the Fund's primary concern is that its investment managers and the management of the companies in which they invest have fully assessed climate –related risks and the potential impact on asset valuations, in particular from:

- obsolescence, impairment or stranding of assets;
- changing consumer demand patterns; and
- changing cost structures including increased emissions pricing, insurance and investment in new technologies.

The Fund also recognise that there is uncertainty over the direction and speed of policy changes in this area.

With respect to short term policy risk the Fund has closely monitored the status of its property investments including results of the Global Real Estate Sustainability Benchmark (GRESB) annual assessment and assessment of portfolio compliance with Minimum Energy Efficiency Standards (MEES).

With respect to medium and longer term risk the Fund ensures responsible investment considerations, including Climate Change, continue to be imbedded throughout the investment and management processes of all the external investment managers and that the managers continue to manage climate related risks and opportunities.

As a public sector fund, reputational risk is also a particular concern, though not for financial reasons.

Recommended Disclosure b)
Describe the impact of climate related risks and opportunities on the organisation's businesses, strategy, and financial planning.

Responsible investment principles and considerations, including Climate Change and Sustainability are addressed in investment manager and other service provider appointments and included in Investment Management Agreements.

The transition to a low carbon UK economy has presented a range of investment opportunities for the DIP portfolio over the year including UK wind, solar, hydro & biomass renewable energy projects.

During the year SPF also committed £500m to a global Infrastructure fund with a one third allocation to renewable energy assets.

The Fund has reviewed passive equity low carbon investment funds and concluded development of these approaches should be monitored but not adopted as part of the Fund's strategy at this time. The Fund will only invest where positive environmental outcomes are expected to correlate with positive financial performance.

All of the Fund's investment managers are PRI signatories. Most managers within the Direct Investment Portfolio are also signatories. The Fund strongly encourages managers to become signatories and to adhere to the principles.

Recommended Disclosure c)
Describe the resilience of the organisation's strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario.

SPF believes that Climate Change is a systemic risk and thus, a material long-term financial risk for any investor that must meet long-term obligations.

The Fund recognises that scenario testing is an inexact science due in part to inadequate disclosure from portfolio companies. The Fund continues to encourage greater levels of climate-related disclosures through engagement, voting and supporting campaigns seeking enhanced company disclosure to address this issue.

The Fund is well diversified and has allocations to real assets and the renewable energy sector therefore Climate Change risks should have a relatively limited impact on returns.

Risk Management

Recommended Disclosure a)
Describe the organisation's processes for identifying and assessing climate-related risks.

SPF's external investment managers are responsible for identifying and managing all risks associated with their investments, and this includes Climate Change. This means that external investment managers take into account any climate-related risks when making their investment decisions. The Fund's internal investment team and specialist advisor, GES, work with managers to help ensure that climate risks are being assessed and addressed. The Fund's listed equity carbon footprinting is used to inform this process.

The Fund has also made use of the Transition Pathway (TPI) Toolkit and thematic, sector and company specific research from GES to observe climate risk management in listed equity stocks.

Recommended Disclosure b)
Describe the organisation's processes for managing climate related risks.

- Development of Specific Investment Strategies
  The Direct Investment Portfolio has committed over £334m to renewable energy infrastructure investments which include specialist onshore and offshore wind funds, UK solar funds and generalist renewables and community power funds. SPF also invests in a global infrastructure fund with a one third allocation to renewable energy assets.
- Formal Advice
  A key element in the development of SPF's Climate Change strategy has been the measurement of carbon emissions and intensity. This was carried out in order to more fully understand the carbon risk sources and dynamics. To achieve this SPF engaged the leading carbon audit service provider, MSCI, to provide a carbon footprint of the Fund's listed equity portfolios. The Fund is committed to repeating this foot-printing on a bi-annual basis and investigating the inclusion of other asset classes in addition to listed equities.
- Exercise of Ownership Responsibilities
  In terms of SPF's Responsible Investment strategy, activity relating to Climate Change risk is carried out by:
  - the Fund's investment managers who are required to exercise the Fund's voting rights, to incorporate analysis of Environmental, Social and Governance (ESG) issues into their investment analysis and expected to engage on these issues with the companies in which they invest;
  - GES, a specialist responsible investment engagement overlay provider and
  - the Fund itself through direct engagement, and collaboration with other investors including the Local Authority Pension Fund Forum (LAPFF), ShareAction, Institutional Investor Group on Climate Change (IIGCC), Carbon Action and other ad hoc alliances.

  The Fund has expended considerable effort in supporting collaborative engagement initiatives that have a specific Climate Change remit. The Fund is a founding member of Climate Action 100+. This is a five year initiative that will use carbon mapping data to target the worst corporate climate offenders directly, to curb their emissions, improve climate governance and strengthen disclosure. The Fund is also a supporter of the RE100 Renewable Energy and EP100 initiatives and a signatory to Carbon Action and the Water and Forest programs of CDP.

Recommended Disclosure c)
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

The Fund's UK property investments are subject of the Global Real Estate Sustainability Benchmark (GRESB) annual assessment and assessment of portfolio compliance with Minimum Energy Efficiency Standards (MEES).

The Fund currently reports extensively on environmental, social and governance issues including Climate Change. This includes:

- a quarterly report on Responsible Investment Activity which is considered by the SPF Committee and published on the Fund's website at www.spfo.org.uk
- coverage within the Fund's Annual Report, member newsletters, and at its AGM; and
- annual PRI reporting and assessment survey including the new climate-related indicators based on the TCFD recommendations.

Responsible Investment risks are named specifically in the Fund's risk register alongside assessments of the risk in terms of impact and likelihood and the named risk owner.

Metric and Targets

Recommended Disclosure a)
Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process.

SPF monitors the voting and engagement of all its external Investment Managers on issues including Climate Change.

SPF has engaged the leading carbon audit service provider, MSCI, to provide carbon and emissions footprinting of the Fund's listed equity portfolios in 2016 and in 2018.

For each listed equity portfolio, the carbon footprinting enabled the identification of the top 10 assets responsible for contributing to the carbon footprint of that portfolio. This information was communicated to external investment managers to ensure that they are aware of where their greatest exposures lie.

The Fund is committed to repeating this foot-printing on a bi-annual basis and investigating the inclusion of other asset classes in addition to listed equities.

Recommended Disclosure b)
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

SPF has considered Scopes 1 and 2 in its analysis. Scope 3 data was not considered to be of a sufficiently robust standard to incorporate.

The TCFD recommendations call for asset owners to disclose a weighted average carbon footprint. In 2018 the Fund's weighted average listed equity footprint is 192.5 tCO_2e/£ revenue, which is 4.8% lower than in 2016 and 6.2% lower than that of the MSCI All Country World Index. The analysis further highlights that dominant sectors, in terms of emissions, tend to be Energy, Utilities, and Materials.

The carbon footprinting analysis has considered the risk of 'Stranded Assets' in the Fund's listed equity by calculating the total potential emissions from fossil fuel reserves as tons of CO_2. In 2018 the total potential emissions from fossil fuel reserves was 23.7 million tCO_2e, which is 23.8% lower than in 2016 and 23.7% lower than that of the MSCI All Country World Index.

Recommended Disclosure c)
Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets.

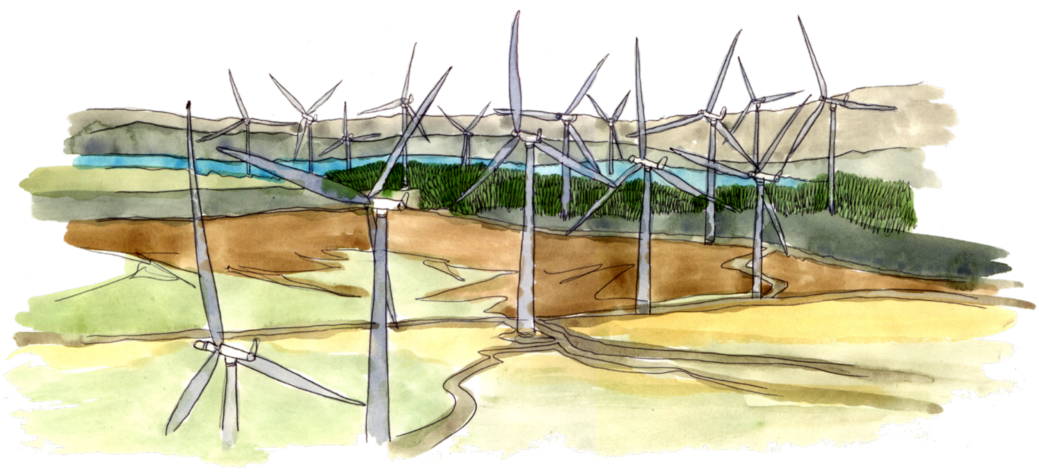
The Fund will continue to allocate to the low carbon economy primarily through the Direct Investment Portfolio and via the direct allocation to infrastructure where renewable energy and other low carbon aligned areas offer significant opportunity.

The Fund is not currently using quantitative targets as part of its Climate Change strategy.

Voting Results
2018/19 United Kingdom

The Fund ensures that the votes attaching to its holdings in all quoted companies 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. The Fund occasionally votes shares directly, usually in support of shareholder motions.

	No. of Meetings	No. of AGMs	No. of EGMs	Combined AGM/EGM	No. of Resolutions	Votes For	Votes Against	Abstentions	Not Voted	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	**9**	9	0	0	**223**	215	8	0	0	9	0
Genesis	**7**	7	0	0	**121**	119	2	0	0	7	0
Henderson	**99**	80	19	0	**1,359**	1,313	25	6	15	99	0
JP Morgan	**18**	15	3	0	**351**	329	2	0	20	18	0
Lazard	**3**	2	1	0	**171**	170	1	0	0	3	0
Legal & General	**784**	623	161	0	**10,913**	10,086	826	1	0	784	0
Legal & General – Segregated Portfolio	**5**	5	0	0	**87**	71	6	0	10	5	0
Oldfield Partners	**4**	4	0	0	**93**	92	1	0	0	4	0
Veritas	**4**	4	0	0	**84**	79	5	0	0	4	0
Total	**933**	**749**	**184**	**0**	**13,402**	**12,474**	**876**	**7**	**45**	**933**	**0**
						93.1%	**6.5%**	**0.1%**	**0.3%**	**100%**	**0%**



WHITELEE WINDFARM.

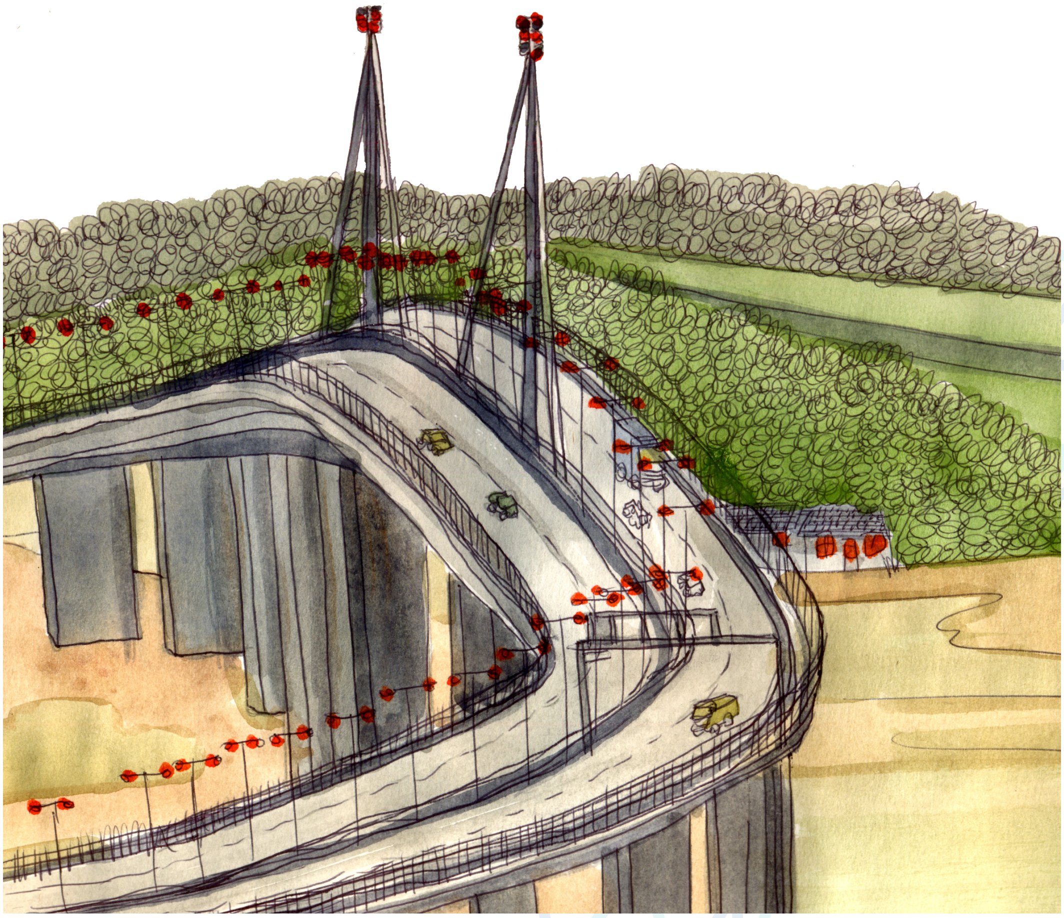
2018/19 Overseas

	Total Meetings	AGMs	EGMs	Combined AGM/EGM	No. of Resolutions	Votes For	Votes Against	Abstentions	Not Voted	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	**65**	48	10	7	**889**	743	50	10	86	85	0
Genesis	**318**	214	84	20	**3,466**	2,849	329	212	76	318	0
Henderson	**15**	13	2	0	**113**	109	4	0	0	15	0
JP Morgan	**383**	319	54	10	**3,480**	2,811	478	29	162	383	0
Lazard	**90**	81	3	6	**1,225**	1,094	58	6	67	90	0
Legal & General	**3,255**	2,630	625	0	**37,083**	30,036	6,696	351	0	3,255	0
Legal & General – Segregated Portfolio	**607**	560	31	16	**7,738**	6,901	322	176	339	607	0
Oldfield Partners	**25**	16	8	1	**302**	261	40	0	1	25	0
Veritas	**29**	23	4	2	**382**	348	31	3	0	29	0
Total	**4,787**	**3,904**	**821**	**62**	**54,678**	**45,152**	**8,008**	**787**	**731**	**4,807**	**0**
						82.6%	**14.7%**	**1.4%**	**1.3%**	**100%**	**0%**

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

Most resolutions involve routine matters of business and the expectation would be for managers to vote for the majority of proposals.

The tables above show how votes were actually cast.



ERSKINE BRIDGE.

STRATHCLYDE PENSION FUND NO 3 STATEMENT OF INVESTMENT PRINCIPLES

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

2. **Background – No.3 Fund**
   The No.3 Fund was established in 1993 as a sub-fund of the Strathclyde Pension Fund. It is an admission agreement fund in terms of regulation 52 of the Local Government Pension Scheme (Scotland) regulations 2014. First Glasgow is the only employer in the No.3 Fund. No new entrants have been admitted since the Fund was first established. It is treated as a closed fund.

3. **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.

4. **Key Principle**
   Because it is closed the (No.3) Fund will have a finite duration. Over time this will limit the amount of investment risk appropriate to its strategy.

5. **Investment Objective**
   The investment objective is to support the funding strategy by adopting an investment strategy and structure which incorporate an appropriate balance between risk and return. Given the No.3 Fund's finite duration, this means adopting a liability-matching investment approach with a view to achieving and then maintaining 100% funding.

6. **Investment Strategy**
   The No.3 Fund has adopted a liability driven investment strategy with a mix of return- seeking growth assets and liability-matching assets. The strategy includes a mechanism to de-risk progressively by reducing the growth assets and increasing the liability-matching assets.

7. **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.

8. **Roles and Responsibilities**
   The roles and responsibilities of the main parties involved in management of the No.3 Fund are set out in Schedule 3 to this statement.

9. **Risk**

In order to achieve its investment objective the Fund takes some investment risk including equity risk and active management risk. It is acknowledged that this leads to volatility of returns and an ultimate risk that its objectives will not be met. Risk is controlled by diversification and other risk management techniques within portfolios, 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. A de-risking mechanism is integral to the (No.3) Fund's investment strategy.

10. **Liquidity**

The employer pays significant cash contributions which provide most of the liquidity the (No.3) Fund needs to meet benefits payments. The majority of investments are either traded on major stock markets or have specific liquidity provisions which ensure they can be realised quickly if required. As it continues to de-risk, the Fund will develop a cash-flow matching mechanism within its strategy.

11. **Responsible Investment**

The Fund is a signatory to the United Nations Principles for Responsible Investment and has adopted the principles as its responsible investment policy. The principles are set out in full in Schedule 4 together with a summary of the Fund's strategy for applying them in practice.

12. **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.

13. **Guidance**

The Fund complies with guidance given by the Scottish Ministers. This includes each of the six Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2009 published by CIPFA and based on the updated Myners principles. Further details are set out in Schedule 5.

14. **Stock Lending**

The Strathclyde Pension 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. The No.3 Fund has participated in this programme but its assets are now held in pooled vehicles and are not available for lending.

The full SIP including schedules is available from the Publications area of the SPFO website at **https://www.spfo.org.uk/index.aspx?articleid=14489**

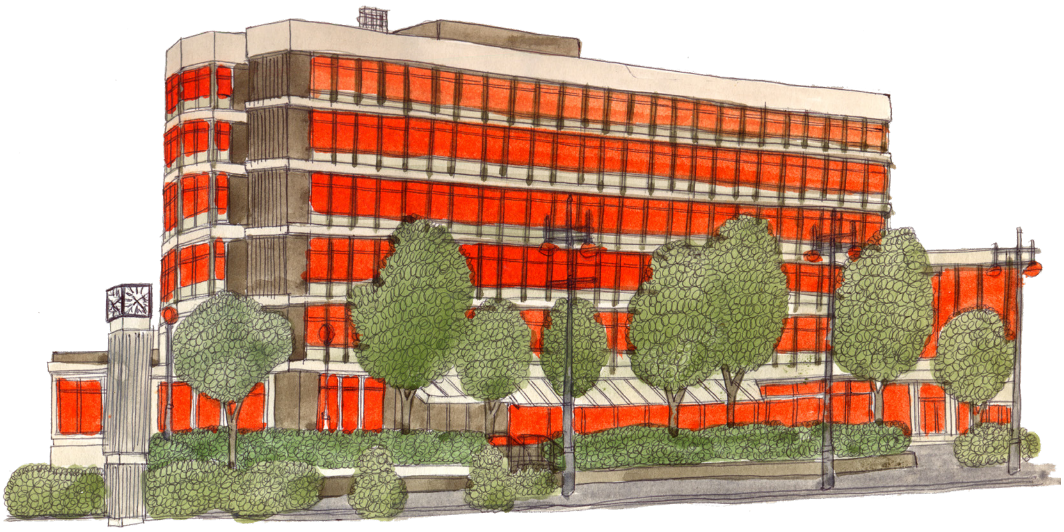
No.3 Fund - Current Strategy and Structure

The No.3 Fund adopted a de-risking strategy after the 2005 actuarial valuation. The strategy involved reducing exposure to equity and other higher-risk assets in favour of lower risk, liability matching assets. The strategy was implemented in stages as a series of funding level triggers were achieved. The final trigger was reached at the 2017 actuarial valuation and the final de-risking stage was implemented in early 2018.

As at 31 March 2019 the Fund structure was as follows.

Structure	Investment Manager	*Portfolio Value (£m)*	Portfolio Weight (Actual) (%)	Portfolio Weight (Target) (%)
Growth Portfolio		***30***	**14.3**	**15.0**
Equities	Legal & General	*15*	7.4	7.5
Absolute Return	Ruffer	*15*	6.9	7.5
Matching Portfolio		***180***	**85.7**	**85.0**
LDI Bonds	Legal & General	*136*	64.8	85.0
Cash		*44*	20.9	
Total		***210***		**100.0**

In December 2018, the Strathclyde Pension Fund Committee agreed in principle a proposal to merge the No.3 Fund with the North East Scotland Pension Funds managed by Aberdeen City Council.



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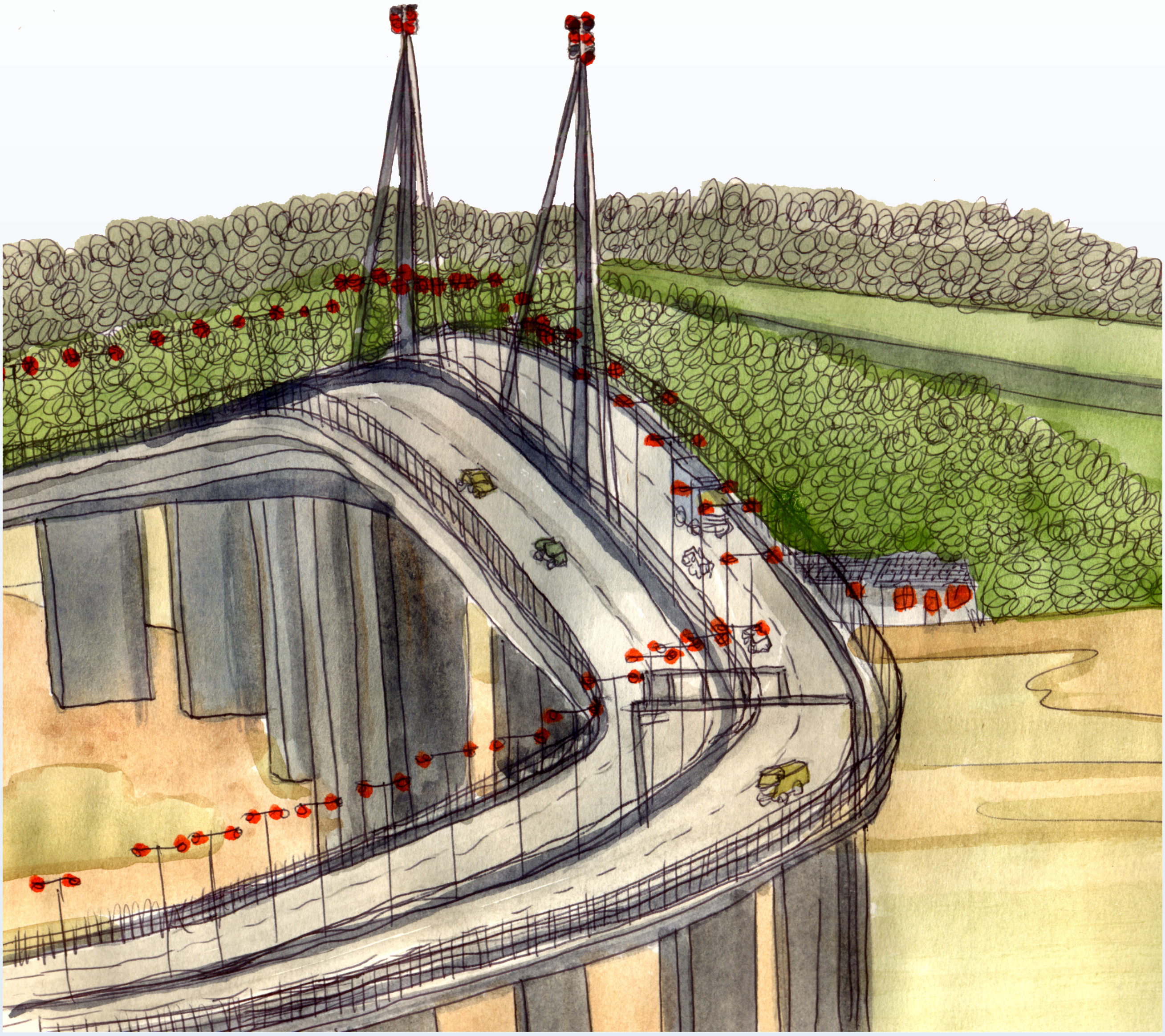


ERSKINE BRIDGE

SECTION 6
SCHEME ADMINISTRATION

SCHEME ADMINISTRATION

Strathclyde Pension Fund is the largest fund in the statutory Local Government Pension Scheme (LGPS) for Scotland

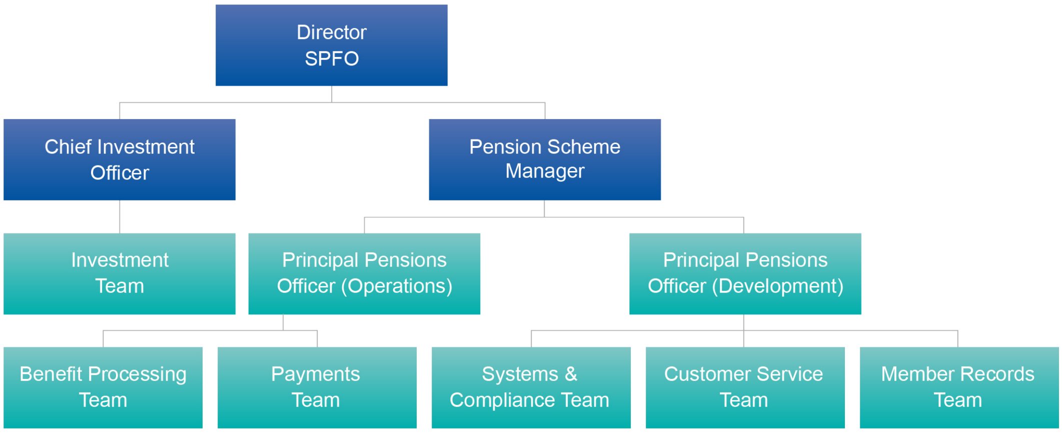
Administration of LGPS benefits for members of the Fund is carried out by the Strathclyde Pension Fund Office (SPFO).

SPFO:
- is a division of Glasgow City Council's Financial Services Department; and
- administers the Scheme on behalf of 172 employers and over 242,000 members.

HOW THE SERVICE IS DELIVERED

Total staff in post at 31st March 2019 was 89 (FTE 81.1). This included 4 modern apprentices. The SPFO staffing structure model is shown below.

SPFO Structure



ADMINISTRATION STRATEGY

SPFO 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.

ADMINISTRATION STRATEGY

Section	Key functions	Volume
Customer Service	• call handling and switchboard • email: SPFO inboxes, pulse • mail sorting, scanning & issue	• 46,000 calls per annum • 4,500 messages per annum. • 800 items per day
Systems & Compliance	• system & website maintenance • member communications • data protection, system security and business continuity	• 306,000 visits per annum • 198,000 benefit statements, newsletters to all members
Member Records	• maintain member database • update for new members & status changes	• 240,000 records • 26,000 per annum
Benefit Processing	• calculation and processing of a range of provisional and actual benefits	• 22,000 per annum
Payments	• payments in: monthly contributions for c.180 employers and 96,000 employees • payments out: lump sums and monthly pension payroll for 85,000 pensioners	• >£560m per annum • >£620m per annum

SYSTEMS

SPFO is an established user of Altair – a bespoke Local Government Pension Scheme administration system. Within Altair, SPFO has implemented Task Management Workflow and Performance Measurement modules. These form the core of process planning, management and monitoring. Altair is aligned with a Document Image Processing System (DIPS) to achieve straight-through electronic processing. It also provides internet based Member Self Service and Employer Self Service functionality together with i-Connect, a secure portal which allows employers to send data submissions direct to SPFO. Ongoing use, continuous development, and increasing member and employer sign-up in these areas are key aspects of the SPFO digital strategy.

DEVELOPMENT ACTIVITIES DURING 2018/19

- An internal project was set up to ensure arrangements were in place for the implementation of the new General Data Protection Regulation. A full audit of the process was carried out. Audit Opinion - Based on the audit work carried out, assurance can be taken that the control environment is satisfactory. No recommedations for improvement were made.

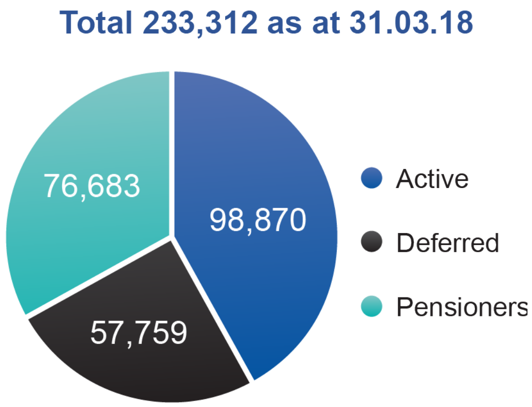
- GMP Reconcillation Exercise – significant progress has been achieved to date with 78% of records having been reconciled/resolved.

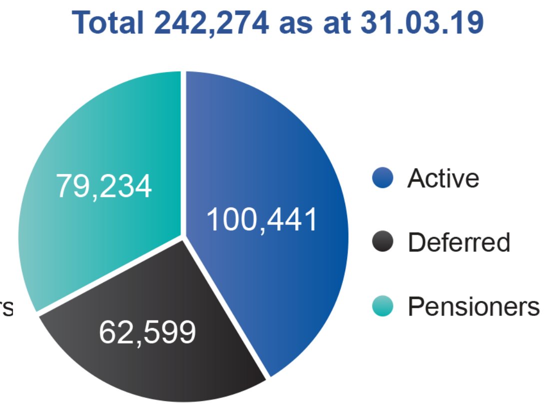
- I-Connect – satisfactory progress made with 48 employers now using the i-Connect platform to transfer data from their systems to the SPFO pensions system . I-Connect achieves a shift from annual to monthly upload. This will improve the timeliness and accuracy of data received from employers.

MEMBERSHIP

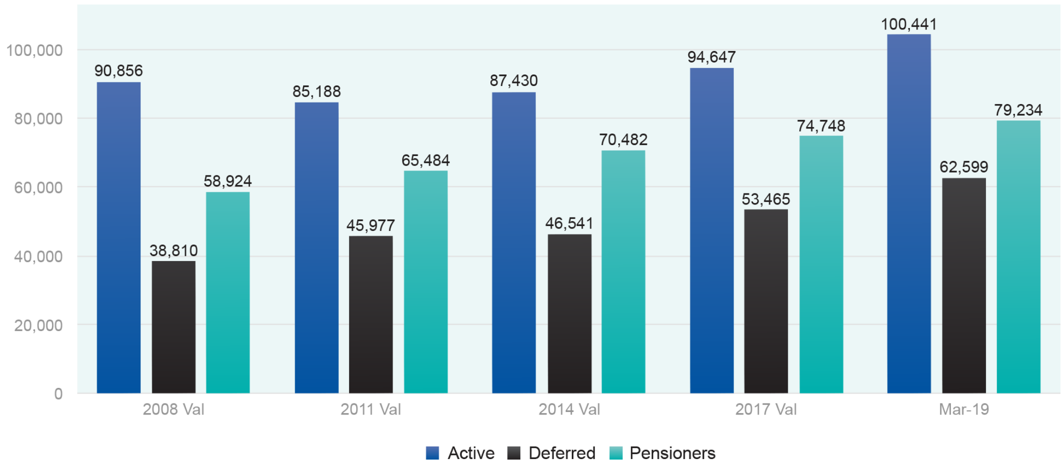
The charts below show movement in membership numbers over the last year and since the 2008 actuarial valuation of the Fund.

Growth in year





Growth in membership from 2008 to 2019



Administration Cost

	2017/18	2018/19
SPFO	£19.02 per member	£19.78 per member
LGPS Average	£21.16 per member	£tbc

LGPS average figures are taken from the CIPFA LGPS benchmarking club.

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.
+		+		+
• Annual revaluation and pensions increase in line with CPI inflation • Partners' and dependents' pensions • Ill health protection • Death in service protection				

A full description of the scheme benefits can be found in the Members area of the SPFO website at www.spfo.org.uk or at www.scotlgpsregs.org

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

PERFORMANCE

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. The KPI definitions are also set out within the business plan

Administration performance is reported regularly 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

Performance for the year to 31st March is set out below.

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 2018/19.

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 2018/19

	Refunds	Retirals
Forms issued	2,140	2,696
Responses	1,074	850
Response rate (%)	50.2	31.5
"Satisfaction Rating" (%)	84.8	90.1
Target (%)	80.0	90.0
2017/18 full year (%)	84.6	89.6

Response rate was good and satisfaction rating improved on the previous year for both categories. Target was achieved for both.

Transaction Turnaround

Pensions administration is carried out on the Altair pensions system. Turnaround performance is efficiently monitored through a workflow management system called Task Management. The table below shows the targeted and actual performance for 2018/19 together with statutory deadlines.

Turnaround performance 2018/19

		SPF			Statutory	
Process	**Volumes**	**Target Days**	**Target %**	**Actual %**	**Deadline**	**SPF Actual %**
Membership Transactions						
New Starts	14,248	15	95%	63%	1 month	84%
Refunds	2,140	7	90%	94%	As soon as reasonably practicable	N/A
Deferred Members	3,898	10	90%	29%	2 months	47%
Retiral Estimates	3,708	20	80%	88%	2 months	98%
Payments						
Pensions payroll run on due date	12	n/a	100%	100%	100%	100%
New retirals processed for due payroll date	896	n/a	95%	99%	n/a	n/a
Lump sums paid on retirement date	896	n/a	95%	92%	n/a	n/a
Contributions income received on due date	12	n/a	100%	99%	100%	99%

The SPF target is expressed as x% of transactions completed within a target time of y days. Performance against the statutory timescales is also shown.

Performance was mixed in 2018/19. SPFs internal target was achieved in four of the categories measured. Statutory target was not achieved in three categories, albeit retiral estimates fell just short of target. Failure to meet deadlines for new starts was due to changes required for the implementation of GDPR. In addition, SPFO resource was diverted to prioritise data processing for the year-end and for production of annual benefit statements. The year-end exercise increases the volume of deferred calculations requiring to be processed. A data improvement plan has been developed to address this.

Complaints

SPFO complaints are actioned in accordance with Glasgow City Council Complaints Handling procedure. All complaints are recorded using Lagan, the Council's system for complaint monitoring and recording.

Stage 1 complaints must be answered within 5 working days. Members can proceed to stage 2 if not satisfied with the response.

Stage 2 complaints must be answered within 20 working days. The Pension Scheme Manager will respond to these. An acknowledgement letter must be issued within 3 days.

If the member still remains dissatisfied they have the right to refer the complaint to the Scottish Public Services Ombudsman.

Complaints 2018/19

		Days to respond		
Category	**Volume**	**Target**	**Actual Average**	**Achieved (%)**
Processing Delay	12	5	3	100
Procedure	1	5	3	100
Staff Efficiency	1	5	1	100
Quality Of Information	6	5	2	100
Wait Time Correspondence	1	5	4	100
Other – Flexible Retirement not available from Employer	1	5	1	100
Processing Delay – Stage 2	3	20	6	100
Other – Stage 2 -Flexible Retirement not available from Employer	1	20	3	100

Reporting to the Pensions Regulator

All breaches of the regulations which are identified are logged within SPFO. Any breaches which might be of material significance to The Pension Regulator (TPR) require to be reported. During 2018/19 one breach was considered potentially of material significance.

This related to a failure to issue deferred benefit entitlement and options notifications within the 2 month statutory timescale. The breach was first logged internally on 31st March 2018. Initially, it was anticipated that the situation could be remedied in early course and therefore did not require to be reported. However, the failure persisted throughout the year to 31st March 2019 and was reported by SPFO to TPR after the year end.

MEMBER DATA

Data Completeness

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 2019 and for prior year.

	Members	2018/19 %	Members	2017/18 %
Record status matched	99,041	98.6	97,185	98.3
Missing new start data	663	0.7	761	0.8
Missing leaver data	737	0.7	924	0.9
Total employee members	100,441	100	98,870	100

The missing data total of 1.4% for 2018/19 achieves the year-end target of <2.0% and is an improvement on the previous year figure of 1.7%.

Data Quality

The Pensions Regulator (TPR) has set targets for common data of:

- **100%** accuracy for data created after June 2010; and
- **95%** accuracy for data created before that date.

TPR also provides guidance on scheme-specific data but has not set prescriptive targets as this should be agreed at Scheme level.

During 2018 SPFO subscribed to the Data Quality Service (DQS) provided by its software supplier (Aquila Heywood) to carry out data analysis. Initial results based on 383,980 member records tested across multiple fields and all statuses are summarised below.

Data Type	2018 of tests passed %	2018 records without a single data failure %
Common data	99.1%	93%
Scheme-specific data	97.2%	88.5%

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.

The Pensions Regulator provides the following definitions.
Common Data are basic items which are used to identify scheme members, including surname, sex, national insurance number, postcode, date of birth, etc.
Scheme Specific (Conditional) Data are items relating to the member's pension, including employer name, salary records, service history, contributions history, etc.

DQS tests all records held on the SPF system, including dead and exited members. The analysis will be provided annually to allow SPFO to measure progress towards TPR targets.

FUND MEMBERSHIP – PARTICIPATING EMPLOYERS

A
Access to Employment Ayr Ltd **(E)**
Alternatives West Dumbarton Community Drug Services **(E)**
AMEY BFO Services Ltd (Renfrewshire Schools PPP)
Amey Public Services LLP
Argyll & Bute Council
Argyll College
Argyll Community Housing Association Ltd
Aspire2gether Ltd **(E)**
Auchenback Active Ltd
Ayr Action for Mental Health Limited
Ayr Housing Aid Centre
Ayrshire College
Ayrshire Housing
Ayrshire North Community Housing Ayrshire Valuation Joint Board

B
BAM Construct UK Ltd (East Renfrewshire)
BAM Construct UK Ltd (West Dunbartonshire)
Business Loans Scotland **(N)**
Bridgeton Calton and Dalmarnock Credit Union

C
Cassiltoun Housing Association
CGI UK Ltd **(N)**
Childcare First Ltd
City Building (Contracts)
City Building (Glasgow) LLP
City of Glasgow College
City Parking (Glasgow) LLP
City Property (Glasgow) LLP
Clyde Gateway Urban Regeneration Company
Coalition For Racial Equality And Rights
Coatbridge Citizens Advice Bureau
Cofely Workplace Ltd
College Development Network
Community Central Hall
CORA Foundation
Cordia LLP **(E)**
Craigholme School
Creative Scotland
Culture NL Limited

D
Deaf Connections **(E)**
Dunbartonshire & Argyll & Bute Valuation Joint Board

E
East Ayrshire Council
East Ayrshire Leisure Trust
East Dunbartonshire Citizens Advice Bureau
East Dunbartonshire Council
East Dunbartonshire Leisure and Culture Trust
East Renfrewshire Carers
East Renfrewshire Council
East Renfrewshire Culture & Leisure Trust
Easterhouse Citizens Advice Bureau
Enable Glasgow
Engage Renfrewshire
Equals Advocacy Partnership Mental Health

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

G
Geilsland School Beith for Church of Scotland (Crossreach)
General Teaching Council for Scotland
Glasgow Association for Mental Health
Glasgow Caledonian University
Glasgow City Council
Glasgow City Heritage Trust
Glasgow Clyde College
Glasgow Colleges Regional Board
Glasgow Community and Safety Services Ltd **(E)**
Glasgow Council for Voluntary Service
Glasgow Credit Union
Glasgow East Women's Aid
Glasgow Film Theatre
Glasgow Housing Association
Glasgow Kelvin College
Glasgow Life
Glasgow School of Art
Glasgow West Housing Agency
Glasgow Women's Aid
Good Shepherd Centre (Dalbeth & St Euphrasia's)
Govan Home and Education Link Project
Govan Law Centre
Govanhill Housing Association
Greenspace Scotland

H
H.E.L.P (Argyll & Bute) Ltd
Hemat Gryffe Women's Aid
Highland & Islands Enterprise Company Ltd.

I
Inverclyde Council Inverclyde Leisure

J
Jobs and Business Glasgow
Jordanhill School

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

L
Lanarkshire Association for Mental Health
Lanarkshire Housing Association Ltd
Lanarkshire Valuation Joint Board
Linstone Housing Association Ltd
Live Argyll
Loch Lomond & The Trossachs National Park Authority

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

N
New College Lanarkshire
New Gorbals Housing Association
North Ayrshire Council
North Ayrshire Leisure Ltd
North Glasgow Housing Association
North Lanarkshire Carers Together
North Lanarkshire Council
North Lanarkshire Leisure Ltd
North Lanarkshire Properties

O
Optima (Working on Wellbeing)

P
Parkhead Housing Association Ltd
Police Scotland
Potential Living

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
Royal Conservatoire of Scotland

S
SACRO
Sanctuary Scotland Housing Association
Scottish Canals
Scottish Environmental & Outdoor Centres
Scottish Fire and Rescue Service
Scottish Library & Information Council
Scottish Maritime Museum Trust
Scottish Out Of School Care Network
Scottish Police Authority
Scottish Qualifications Authority
Scottish Water
Scottish Water Business Stream Ltd
SEEMIS Group LLP
Shettleston Housing Association
Skills Development Scotland Ltd
Sodexo Ltd (Fire) **(N)**
Sodexo Ltd (Argyll) **(N)**
South Ayrshire Council
South Ayrshire Energy Agency
South Lanarkshire College
South Lanarkshire Council
South Lanarkshire Leisure & Culture Limited
Southside Housing Association
SportScotland
St Columba's School **(E)**
St Philip's Approved School
Strathclyde Partnership for Transport
Strathclyde Wing Hong Chinese Elderly Group)

T

The Alpha Project **(E)**
The Financial Fitness Resource Team
The Milton Kids D.A.S.H. Club
The Scottish Centre for Children with Motor Impairments
The Volunteer Centre
Tollcross Housing Association
T.O.M. Airdrie Ltd **(E)**
Town Centre Activities Limited

U

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

V

Visit Scotland (Ayrshire)
Visit Scotland (Glasgow)

W

West College Scotland
West Dunbartonshire Council
West Dunbartonshire Leisure Trust
West of Scotland Colleges Partnership
West of Scotland Loan Fund Limited **(E)**
West of Scotland Regional Equality Council

Y

Youth Counselling Services Agency

(N) = New employer during the year.
(E) = Employer Exited during the year.

NEW AND EXITING EMPLOYERS

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

Employer participation during 2018/19 is summarised in the following table.

Total employers as at 1st April 2018	178
New employers	+4
Exiting employers	-10
Total employers as at 31st March 2019	172

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

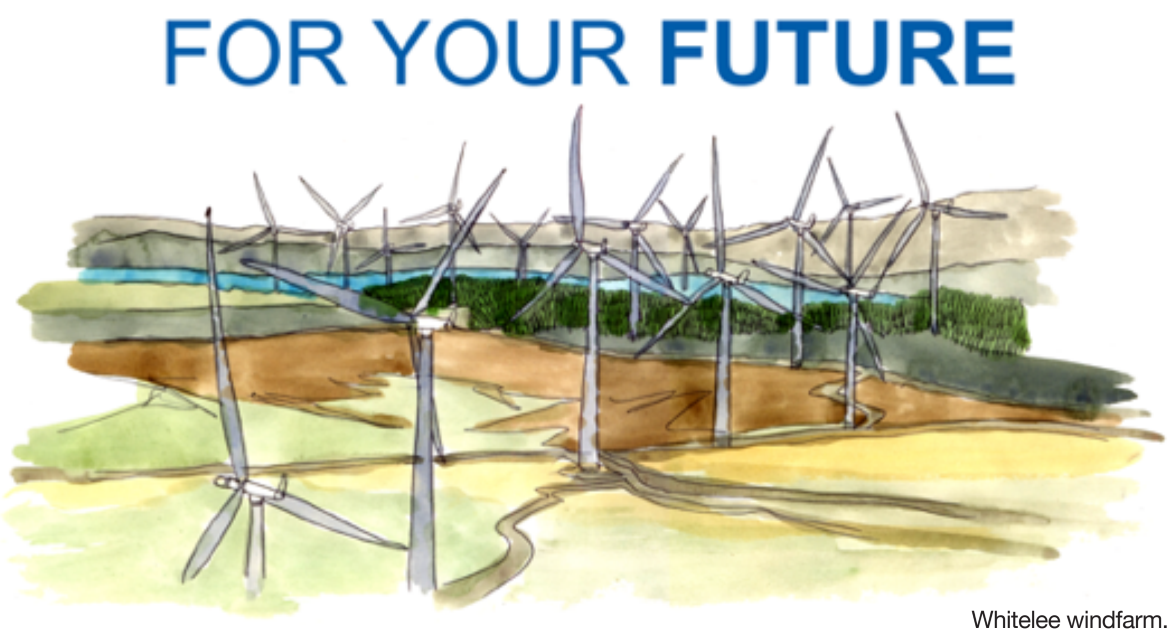
During scheme year 2018-19 we:

- Further consolidated the success of our digital communications strategy with 9,446 new digital members registered for our data portal SPFOnline taking the total to over 73,063.
- Produced and issued annual newsletters to all our Employee, Pensioner and Deferred members.
- Produced and issued annual benefit statements to all of our employee members. 98% were issued within the 31 August statutory deadline. The remaining 2% related to new members and were issued later, once data had been obtained from employers.
- Delivered 88% of our member newsletters to our employee, deferred and pensioner members digitally.

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

Digital Communications

Website	Measure	2018/19 Actual	2018/19 Target	2017/18 Actual
www.spfo.org.uk	total weekly visits	6,001	5,000	*4,892*
	unique weekly visitors	3,609	3,000	*3,708*
SPFOnline	members registered	73,063	67,000	*63,617*
i-Connect	total extract returns total online returns	13 35	n/a n/a	*n/a* *n/a*



Whitelee windfarm.

SECTION 7
INDEPENDENT AUDITOR’S REPORT

Independent Auditor's Report

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

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of Strathclyde Pension Fund No.1 and Strathclyde Pension Fund No.3 (the funds) for the year ended 31 March 2019 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Accounts, the Net Assets Statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the 2018/19 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the financial transactions of the funds during the year ended 31 March 2019 and of the amount and disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed under arrangements approved by the Accounts Commission on 7 January 2019. This is the first year of my appointment. I am independent of the funds in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions elating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the funds' ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

I have reported in a separate Annual Audit Report, which is available from the [Audit Scotland website](), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Executive Director of Finance and Strathclyde Pension Fund Committee for the financial statements

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

In preparing the financial statements, the Executive Director of Finance is responsible for assessing he funds' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Strathclyde Pension Fund Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual report

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

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

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

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

John Cornett FCPFA
Audit Director

Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

September 2019

STRATHCLYDE PENSION FUND OFFICE

Director: Richard McIndoe

Chief Investment Officer: Jacqueline Gillies

Investment Manager: Richard Keery

Investment Manager: Ian Jamison

Pension Scheme Manager: Linda Welsh

Principal Pensions Officer: (Development) Nicola Smith

Principal Pensions Officer: (Operations) Brian Rodden

Chief Finance Officer: Stuart Tough

Managing the Local Government Pension Scheme in the west of Scotland

CONTACT

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