STRATHCLYDE PENSION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

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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 2018 the Strathclyde Pension Fund had 233,312 members, 178 participating employers and investment assets of £20.8 billion.

FOREWORD

On behalf of the Strathclyde Pension Fund Committee, I am pleased to introduce an annual report which reflects a year of significant activity, continuing growth and considerable achievement in respect of the Fund.

The most notable achievement was the result of the actuarial valuation as at 31st March 2017 which was completed in the course of the year. This showed the Fund to be in surplus for the first time since the 2002 valuation. This in turn allowed contribution rates for the Main Employer Group to be maintained at their current level until 2021, marking 10 years of cost stability despite increasing funding challenges for all defined benefit schemes.

The most significant contribution to the valuation result came from the strong investment growth achieved by the Fund in the 3 years to the valuation date. Happily, growth continued in 2017/18 and investment assets were over £20 billion for the first time at the year end.

It was also a year of significant investment activity. The first phase of a planned programme of risk diversification was completed at the start of the year with the funding of an emerging market debt mandate of £300 million. A currency hedging programme was agreed and implemented during the year and, in light of the actuarial result, equity exposure was reduced by around £2 billion during December 2017. Towards the end of the year the Committee agreed a plan for the re-allocation of the equity sale proceeds and the next phase of risk reduction and diversification.

In the course of the year, the Committee also agreed 6 new investments by the Strathclyde Direct Investment Portfolio (DIP), the Fund's vehicle for alternative investment ideas. These included £180m in UK infrastructure, £50m in UK renewable energy, and £30m in UK regional lending to small companies. This took the total number of investments by the portfolio to 35, and capital committed to over £900 million.

With its emphasis on investments with a positive environmental, social or governance impact the DIP is an important element of the Fund's responsible investment strategy.

Other activity in respect of the strategy during the year included voting at company AGMs and EGMs, engagement with investment managers and individual companies, and participation in collaborative initiatives on a range of issues spanning the living wage, factory farming, carbon disclosure and climate change. The Fund continues to receive regular calls to divest from various companies and sectors but continues to resist this approach as being ineffective.

The Fund, of course, only exists to pay pensions. The core activity of pension scheme administration continued unabated throughout the year. Scheme membership continued to grow. Over 76,000 pensions were in payment from Strathclyde Pension Fund Office at the year end and total membership was over 233,000.

Auto enrolment was both a significant source of new membership and a focus of much employer and SPFO activity. Other administration priorities were submission of accurate member data for the actuarial valuation, and issue of annual benefit statements. Both were accomplished successfully.

The SPFO digital communications strategy saw a total of over 63,000 members registered to use the Fund’s online portal for regular updates about their pension. An employer portal went live during the year to a very positive response.

Finally, my thanks to new and continuing members of the Committee and Board, together with our advisers, staff at SPFO, and our employers for all their continuing hard work for the Fund and its members.

Councillor Allan Gow
City Treasurer, and Convener of Strathclyde Pension Fund Committee
June 2018

MANAGEMENT COMMENTARY

Strategy and objectives

The Fund's longer term policies, objectives and strategies are agreed by the Strathclyde Pension Fund Committee and set out in its policy documents. These cover governance, 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: www.spfo.org.uk. All have a common purpose: to ensure that the Fund is appropriately managed in order to secure the payment of pensions benefits now and in the future to over 233,000 members.

Business plan

The committee agrees an annual business plan to ensure that ongoing management and development of the Fund is in line with the longer term policy, objectives and strategy. The plan sets out resource requirements, Key Performance Indicators (KPIs) and business and development priorities for the coming year. The major projects for 2017/18 were completion of the three-yearly actuarial valuation and initiation of a review of investment strategy based on the valuation results. These were completed successfully, as were other priorities which included ensuring compliance with MiFID II (the European Markets in Financial Instruments Directive) which was incorporated into UK law in January 2018. Achievement against KPI targets for day to day activity is reported to the committee quarterly. Details are included in the Administration and Investment sections of this annual report.

Funding

The 3-yearly actuarial valuation is a significant milestone both for the amount of effort entailed in completing it, and for its importance in indicating the progress that has been made towards the funding target. The 2017 valuation result was a considerable achievement – the target of 100% funding having been met for the first time since 2002 and exceeded by a margin of around 5%. This is a very welcome outcome in terms of validating the funding and investment strategies which have been adopted, and for the reassurance it provides to scheme employers and members. However, the valuation also indicated that the way ahead may be more difficult. Future investment returns are expected to be much lower than in recent years, meaning the employer cost of future service will be greater. For most employers this is not an immediate problem as the existing surplus can be used to maintain contributions at their current level. But it does represent an ongoing challenge for the funding and investment strategies to address.

Investment

The Fund's total investment return for the year was +6.0%. This may pale in comparison to the exceptional return of over +23% the previous year, but is still remarkable in several ways, not least for consolidating those gains in a 9th consecutive year of growth rather than paying them back which is an ever present investment possibility.

The FTSE all share index returned a little over +1% for the year, global market indices a little over +2%. The Fund's benchmark return was +3.9%. These underpinned the total gain of +6.0%, but significant value was added by a number of the Fund's specialist portfolios: global small companies +17.2%, UK property +11.2%, private equity +11.0%, and emerging market equity +8.8%.

Performance relative to benchmark was also helped by the sale of £2 billion out of equity portfolios in the third quarter, before some nervousness crept into markets to produce a negative fourth quarter.

Performance relative to benchmark was positive for a 4th consecutive year. The Fund`s average annual return over the last 5 years now stands at +10.1% p.a., comfortably ahead of the strategic benchmark return of +9.0% and significantly better than the actuary's long-term investment assumption which is now +3.5% p.a.

The short-term performance gain from having reduced equity exposure during the year was welcome, but the Fund`s investment objective is longer term and more focused on risk and volatility reduction.

Investment (continued)

Increased diversification and reduced volatility have been the drivers of strategic changes over the last 3 years, including the implementation of a currency hedging strategy this year. They will continue to be the strategic focus following the Committee's approval towards the end of the year of a further phase of strategy change for implementation over the next 3 years.

As shown in the financial statements, investment income from dividends, rents and interest was £285 million for the year. Capital growth – change in market value of investments – was £967 million.

Closing net assets of the Fund were £20.806 billion, another new high and an increase of £1.1 billion from 31st March 2017 (page 28).

Administration and Membership

The financial statements show pension and lump sum payments of £548 million together with refunds and transfers of £33 million. These are the sum of hundreds of thousands of individual payments diligently processed by the administration teams within Strathclyde Pension Fund Office (SPFO). SPFO and employers also had an important role to play in ensuring member data submitted to the actuary for the three-yearly valuation was of high quality.

Resourcing this task may explain some of the variability in Administration performance indicators, but customer satisfaction was generally high.

Total contributions and other income receivable from members was £549 million, producing a net outflow of £31 million from dealings with members, broadly similar to last 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. Membership changes are driven by a variety of forces, and this year auto enrolment activity by a number of the Fund's large employers produced a significant increase in employee membership.

In fact, numbers for all member categories grew during the year. Total membership as at 31st March 2018 was 233,312, 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 facet of which is to give increased predictability of returns and income.

Employer numbers reduced from 182 to 178 as a result of managed exit arrangements.

Communications

As the scheme membership grows, so too does its complexity. During the year Scottish Government carried out a consultation on a new set of scheme regulations. The 2018 regulations will consolidate the 2014 regulations, amendments already made, and a number of new amendments. Ongoing growth and change mean that member communications become ever more important.

We continue to develop the SPFO digital communications strategy to address this. Members registered to actively use our *SPFOnline* service, increased from 52,000 to almost 64,000 over the year. Recently introduced system improvements will allow better content management and increased customisation of this service.

Risk

The Fund has a strong risk management culture. The funding and investment strategies are firmly risk-based and the actuarial valuation is essentially an exercise in risk management. Whilst the current funding position is very satisfactory, the future reliance on investment returns to sustain current employer contribution rates has increased and this was reflected in an amendment to the risk registerwhich is shown on page 24. Ongoing investment strategy changes are designed to address this by reducing the exposure to equity markets and the risk of failing to meet objectives. There was only one other significant change in risk ratings for more immediate operational risks - MiFID II compliance reduced significantly on succesful completion of this project.

Conclusion

The Fund won 5 UK and European pensions industry awards in the course of the year – for best UK scheme (twice), investment strategy, communications and use of alternative investments. These are a very welcome endorsement of the quality of management and strength of performance which are summarised above and set out in more detail in the individual Financial, Investment, Funding and Administration sections of the Annual Report. There will always be challenges to face, but the Fund is well prepared for them.

No.3 Fund

The No.3 Fund has been closed to new membership since it was created in 1993. As a result it is well past its natural growth phase and starting to enter run-off. Total payments to members in 2017/18 were £7.790 million, significantly more than member income of £1.692 million (page 58). The Fund value decreased from £211 million to £207 million (page 59). The Fund has been largely de-risked in recent years in anticipation of entering this phase. The actuarial valuation confirmed a funding level of 114%, sufficient to meet all member liabilities without any further employer contributions for the remaining life of the fund. Some further de-risking was completed during the year, and further consideration will be given to the optimal strategy for the management of the end phase of this fund.

To be signed on completion of audit

KEY TRENDS

MEMBERSHIP AND MEMBER TRANSACTIONS

	2013/14	2014/15	2015/16	2016/17	2017/18
Employers	215	202	200	183	178
Employee Members	87,197	90,057	92,717	94,647	98,870
Deferred Members	47,243	49,215	50,545	53,465	57,759
Pensioners	70,404	71,605	73,012	74,748	76,683
Total Members	**204,844**	**210,877**	**216,274**	**222,860**	**233,312**

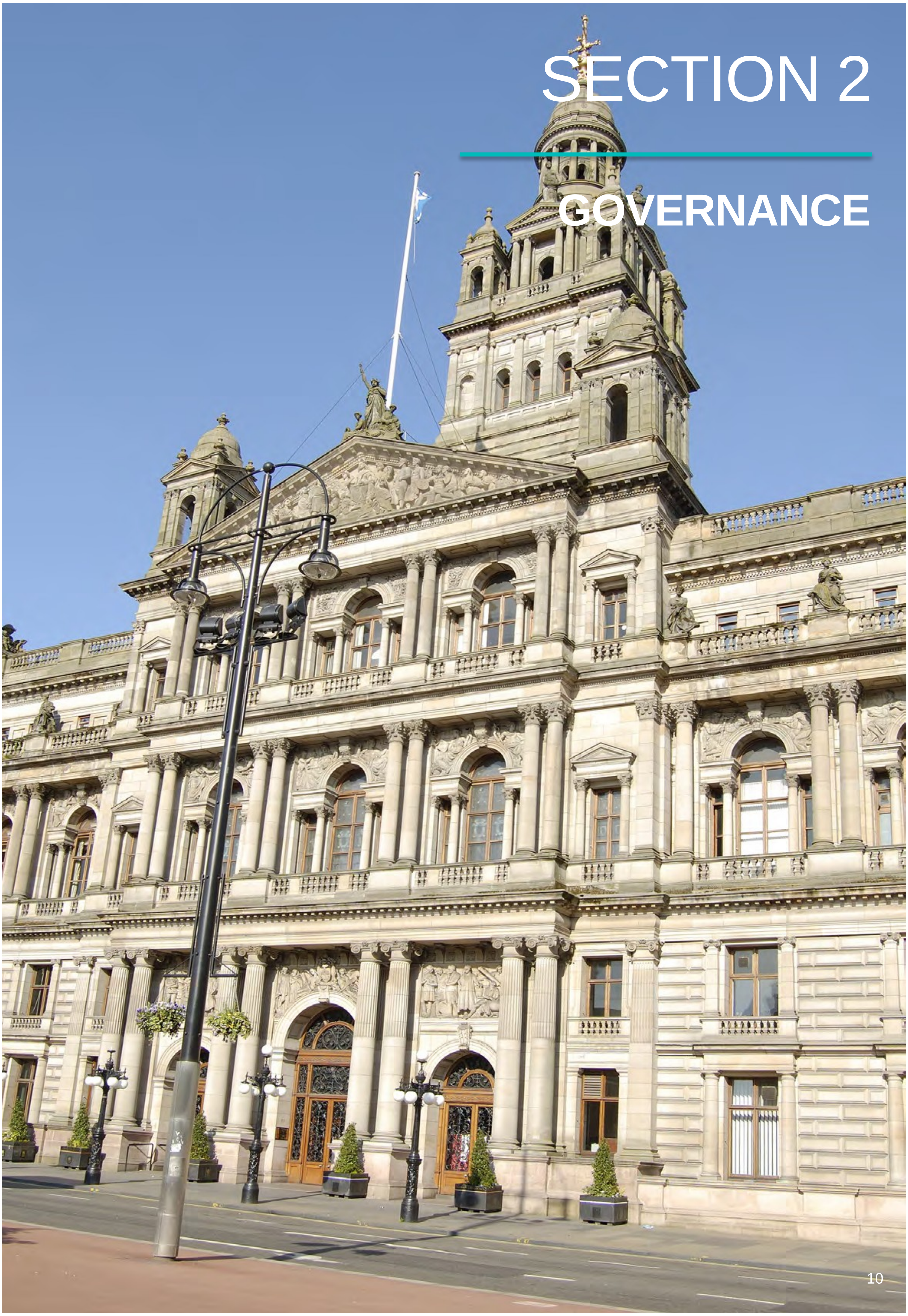
	(£000)	(£000)	(£000)	(£000)	(£000)
Employer Contributions	368,250	373,129	391,445	398,279	416,761
Employee Contributions	110,282	113,041	116,760	122,077	125,492
Lump Sums Paid	(95,792)	(98,845)	(104,098)	(120,882)	(125,487)
Pensions Paid	(371,118)	(388,953)	(396,791)	(411,007)	(422,583)
Other Payments	(9,904)	(17,684)	(17,541)	(19,582)	(25,663)
Net	**1,718**	**(19,312)**	**(10,225)**	**(31,115)**	**(31,480)**

INVESTMENTS

	2013/14	2014/15	2015/16	2016/17	2017/18
	(£000)	(£000)	(£000)	(£000)	(£000)
Opening Value	13,066,241	13,944,975	15,758,296	16,058,521	19,699,384
Investment Income	194,257	199,973	228,708	251,869	285,195
Costs	(111,190)	(94,641)	(92,533)	(100,662)	(113,742)
Member Transactions	1,718	(19,312)	(10,225)	(31,115)	(31,480)
Change in Value	793,949	1,727,301	174,275	3,520,771	966,852
Closing Value	**13,944,975**	**15,758,296**	**16,058,521**	**19,699,384**	**20,806,209**

SECTION 2

GOVERNANCE



WHO MANAGES THE STRATHCLYDE PENSION FUND?

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

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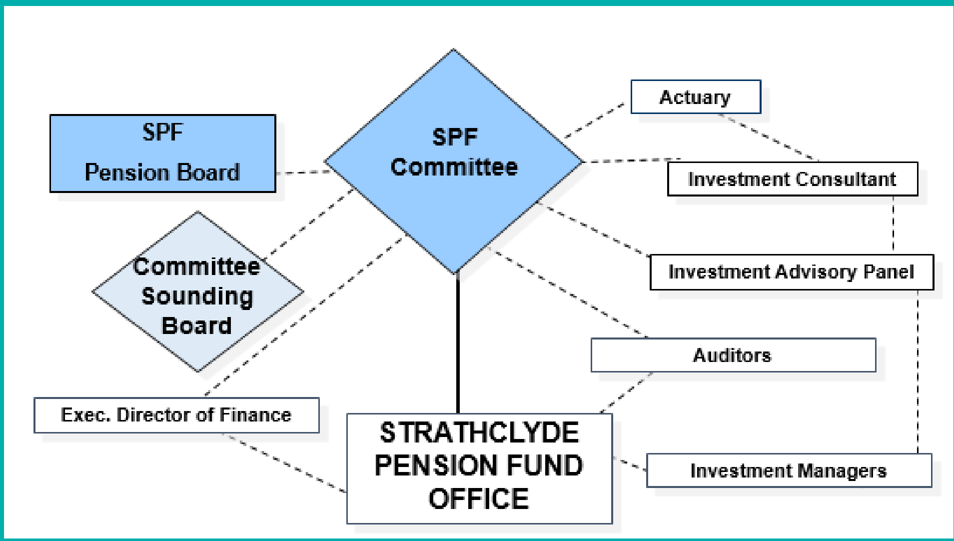
Strathclyde Pension Fund Governance



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.

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 2018 is shown below.

Current committee membership is displayed on the Fund's website at: **www.spfo.org.uk**

Allan Gow (Convener)

Jennifer Layden

Christina Cannon

Norman MacLeod (Vice Convener)

Mandy Morgan

Euan Bockley

Martha Wardrop

Philip Braat

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.

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 2018 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 2018 the Strathclyde Pension Fund Board membership comprised:

Employer Representatives

- **Cllr Tom Fisher** **North Lanarkshire Council**
- **Cllr Collette Stevenson** **South Lanarkshire Council Renfrewshire**
- **Cllr John Shaw** **Council**
- **Mark Dickson** **Scottish Water**

Trade Union Representatives

- **Andrew Thompson** **GMB (Chair)**
- **Brian Gallagher** **UNITE**
- **Stephen Kelly** **UNISON**
- **James Corry** **UNISON**

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.

INVESTMENT ADVISORY PANEL

The Investment Advisory Panel is responsible for:

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

Throughout the year to 31st March 2018 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 Special Advisor to the Treasury Select Committee. He has previously held various professorships and advisory roles including as a Special Advisor to the Bank of England. He is a widely published author and speaker.

Eric Lambert is an 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.

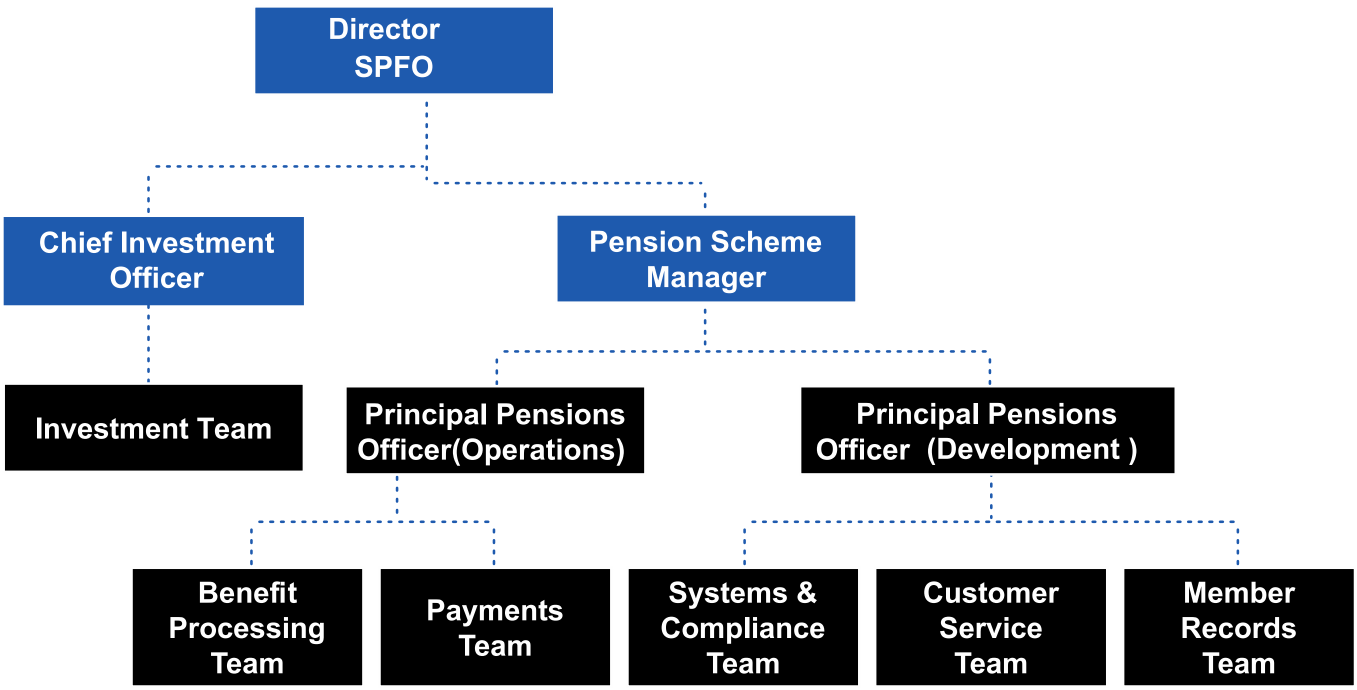
Iain Beattie is a fellow of the faculty of actuaries and had a 20 year career in investment management at a number of Scottish investment houses. His roles included Portfolio Manager, Director, Head of International Equities, and Deputy Chief Investment Officer. He subsequently spent 10 years as a Senior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

STRATHCLYDE PENSION FUND OFFICE (SPFO)

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

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 2018

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
VERITAS ASSET MANAGEMENT REAL RETURN INVESTING
DTZ INVESTORS
J.P.Morgan Asset Management
Legal & General INVESTMENT MANAGEMENT
Partners Group REALIZING POTENTIAL IN PRIVATE MARKETS
RUFFER
Alcentra
OHA OAK HILL ADVISORS
BARINGS
Ashmore

OTHER SERVICE PROVIDERS

AUDIT SCOTLAND
GVA An APLEONA company
G·E·S®
HYMANS ROBERTSON
On the pulse of the property world IPD
NORTHERN TRUST
Pinsent Masons
Glasgow
PRUDENTIAL
C/M/S/ Law.Tax
MSCI

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).

ANNUAL GOVERNANCE STATEMENT 2017/18

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 170 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: **http://www.glasgow.gov.uk/councillorsandcommittees/calendar.asp**

REPRESENTATION

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

COMPLIANCE

The Committee arrangements were compliant with guidance provided by Scottish Ministers. The extent of this is detailed in the Strathclyde Pension Fund – Governance Compliance 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:
Local Code of Corporate Governance - Glasgow City Council

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: **http://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 2010*".

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

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

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

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

- Funding: long terms cash flows and financial requirements are assessed in the three-yearly actuarial valuations. A quarterly funding projection is also produced by the Fund actuary.

- Investment: day-to-day management of investments is outsourced to a number of external parties. Detailed investment records are maintained by the Fund's external investment managers and global custodian and summarised in regular investment reports.

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

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

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

REVIEW OF EFFECTIVENESS

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

Pension Fund to determine the extent to which the Fund complies with these principles. The accuracy of the responses to this questionnaire is reviewed and tested on a rolling basis by Internal Audit.

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

UPDATE ON SIGNIFICANT GOVERNANCE ISSUES PREVIOUSLY REPORTED

There were no significant governance issues in 2016/17 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 2017/18 the following assurance reviews were undertaken:

- Preparedness for auto enrolement :
- Administration of transfers :
- Arrangements for guarantors and covenants :
- Management of the Direct Investment Portfolio :

Compliance with the Markets in Financial Instruments Directive , and the I-Connect system

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 effectivenes of the governance and control environment which operated during 2017/18.

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 2017/18.

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.

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.

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 2017/18 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.

To be signed on completion of audit

GOVERNANCE COMPLIANCE STATEMENT FOR THE YEAR TO 31ST MARCH 2018

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

Voting

All committee members have full voting rights.

Training/Facility time/Expenses

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

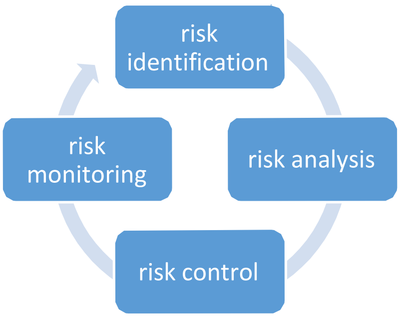
Publicity

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

RISK POLICY & STRATEGY



In December 2016, the Committee agreed a Risk Policy & Strategy Statement which is available from the Publications area of the website at: www.spfo.org.uk

Risk Register

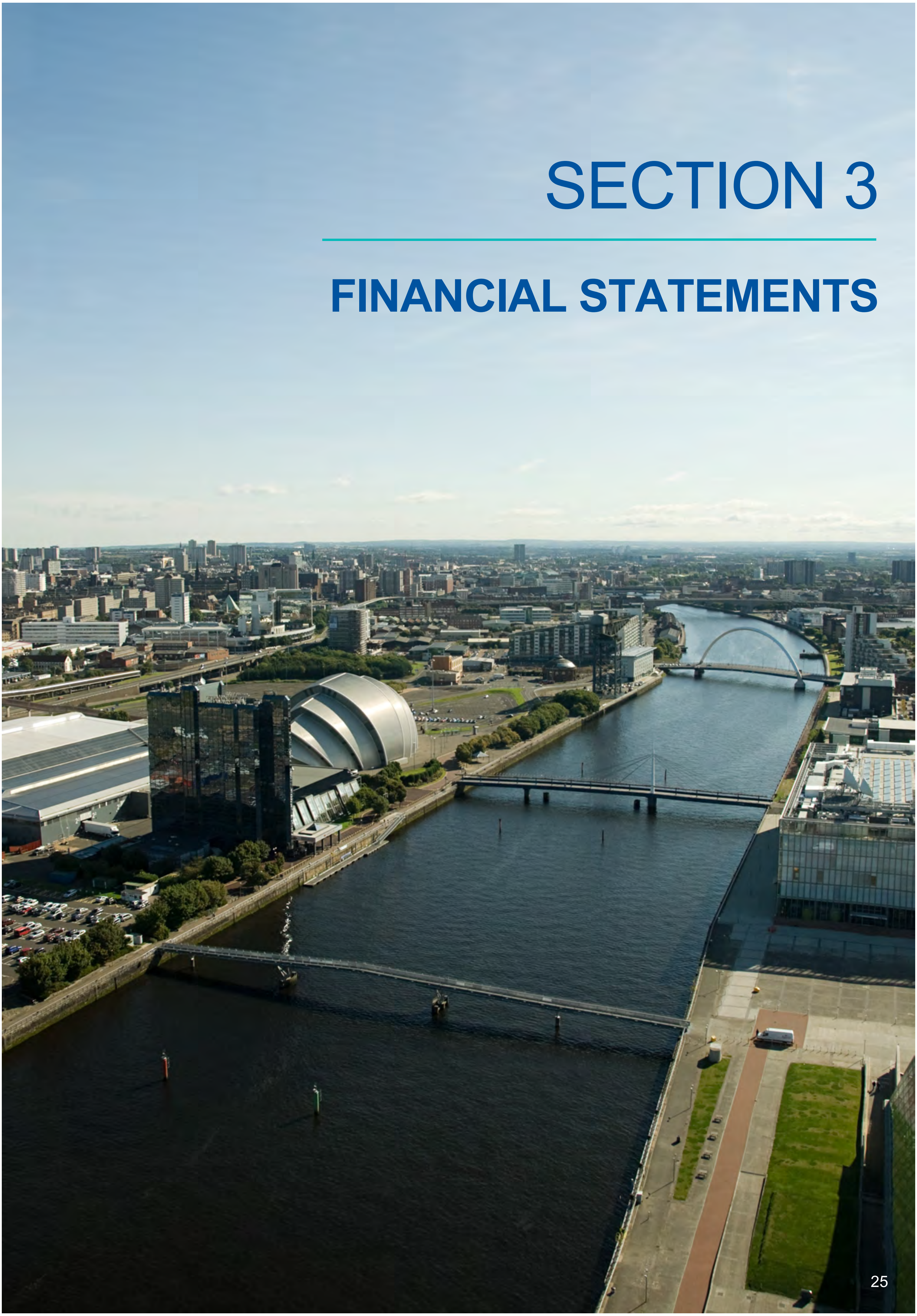
A detailed risk register is maintained as part of the risk strategy.

The risk register is monitored on an ongoing basis by officers. The complete register is reviewed and approved periodically by the Committee. The principal risks, in terms of their residual ranking, are reported to the Committee each quarter. The principal risks as at 31st March 2018 are summarised below.

Risk ID	Description	Probability (/5)	Impact (/5)	Residual Risk Rating (/25)	*Previous Rating (Mar 2017) (/25)*
SPFO5	Pay and price inflation significantly more or less than anticipated.	4	3	**12**	***12***
SPFO31	Employers' failure to carry out statutory functions including submission of member data and contributions to SPFO.	4	3	**12**	***12***
SPFO23	Fund's investments fail to deliver returns in line with the anticipated returns underpinning the valuation of the liabilities over the long term.	2	5	**10**	***8***
SPFO7	Pensioners living longer than anticipated in actuarial valuation.	3	3	**9**	*9*
SPFO9	Changes to scheme regulations and other pensions legislation.	3	3	**9**	***9***
SPFO30	Failure to recruit, retain and develop appropriate staff.	3	3	**9**	***9***
SPFO23	Issues with pensions administration system and other related systems.	3	3	**9**	***9***
SPFO57	GMP reconciliation. Failure to complete exercise before DWP withdrawal of service in 2018.	3	3	**9**	***9***

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.

These annual accounts were considered by the Strathclyde Pension Fund Committee at its meeting on 13 June 2018 and will be submitted to the Strathclyde Pension Fund Committee to be approved for signature no later than 30 September 2018

EXECUTIVE DIRECTOR OF FINANCE

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 2018 and the transactions of the Fund for the year then ended.

Martin Booth BA, CPFA, MBA
Executive Director of Finance
14 June 2018

STRATHCLYDE PENSION FUND NO. 1

Fund Account

2016/17 £000		Note	2017/18 £000
	Contributions and Benefits		
	Income		
398,279	Contributions from Employers	12	416,761
122,077	Contributions from Employees	12	125,492
5,320	Transfers in from Other Pension Funds		6,375
547	Other		539
526,223			**549,167**
	Expenditure		
411,007	Pensions Payments	12	422,583
120,882	Lump Sum and Death Benefit Payments	12	125,487
25,449	Payments To and On Account of Leavers	13	32,577
557,338			**580,647**
31,115	**Net Reduction from Dealings with Members**		**31,480**
100,662	Management Expenses	14	113,742
131,777	**Net Reduction including Fund Management Expenses**		**145,222**
	Returns on Investments		
251,869	Investment Income	17	285,195
3,520,771	Change in Market Value of Investments		966,852
3,772,640	**Net Returns on Investments**		**1,252,047**
3,640,863	**Net Increase in the Fund during the Year**		**1,106,825**
16,058,521	Add : Opening Net Assets of the Scheme		19,699,384
19,699,384	**Closing Net Assets of the Scheme**		**20,806,209**

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 2018

2016/17 £000		Note	2017/18 £000
	Investment Assets		
6,908,995	Equities	8,11	4,804,105
7,714,332	Pooled Investment Vehicles	8,11	10,395,403
2,303,118	Private Equity / Infrastructure	8,11	2,482,126
171	Index Linked Securities	8,11	14
280,304	Derivative Contracts	8,11	1,697
1,673,011	Property	8,11	1,880,660
874,126	Cash Deposits	8,11	1,205,640
221,671	Other Investment Assets	8,11	66,114
19,975,728			**20,835,759**
(315,245)	Investment Liabilities		(64,276)
93,523	Current Assets	28	96,995
(54,622)	Current Liabilities	29	(62,269)
19,699,384	**Net Assets of the Fund as at 31 March**		**20,806,209**

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 14 June 2018.

Martin Booth BA, CPFA, MBA
Executive Director of Finance
14 June 2018

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 2018 can be found on pages 109 -111. 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 2017/18 which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The Financial Statements summarise the transactions of the Fund during the year and the net assets at the year end. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 7 of these accounts.

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

3. Summary of Significant Accounting Policies

FUND ACCOUNT

- **Contributions Income**

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

- **Transfers to and from other schemes**

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

- **Investment Income**

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

- **Benefits payable**

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

- **Taxation**

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

Management expenses include the following:

- **Administrative Expenses**

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

- **Oversight and governance costs**

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

- **Investment management expenses**

All investment management expenses are accounted for on an accruals basis. External investment manager fees are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments changes. In instances where an investment manager's fee note has not been received by the balance sheet date, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the fund account. In cases where charges relate to an investment fund as a whole an estimate needs to be made of the costs applicable to the Pension Fund's holding. In 2017/18 £9.906 million of fees is based on such estimates (2016/17 £5.267 million). The cost of obtaining investment advice from external consultants is included in investment management charges. The cost of the Fund's management team are charged direct to the Fund and a proportion of the council's costs representing management time spent by officers on investment management is also charged to the Fund.

NET ASSETS STATEMENT

- **Financial Assets**

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

- **Valuation of Investments**

Quoted investments are valued at closing prices. These prices may be the last trade prices or bid prices depending on the convention of the stock exchange or other market on which they are quoted. Overseas investments and cash are stated in sterling using exchange rates as at close of business on 31 March 2018. The direct property portfolio was valued at 31 March 2018 by GVA Grimley, the valuer being qualified for that purpose in accordance with the Royal Institute of Chartered Surveyor (RICS) Valuation Standards manual. Private equity investments have been included at the Fund managers' valuation adjusted for cash movements since the last valuation date. Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published or if single priced at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is invested in the Fund, net of applicable withholding tax.

- **Foreign currency transactions**

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

- **Derivatives**

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

- **Cash and cash equivalents**

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

- **Liabilities**

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

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

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

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

- **Additional Voluntary contributions**

Strathclyde Pension Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year. AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (SSI 2010/233) but are disclosed as a note only (Note 25).

- **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 2018/19 Code:

- IFRS9 Financial Instruments
- IAS12 Income Taxes

The code requires implementation from 1 April 2018 and there is therefore no impact on the 2017/ 2018 annual accounts.
IFRS9 is a new standard that authorities are required to adhere to in relation to financial instruments. IAS12 recognises amendments in relation to recognition of deferred tax assets for unrealised losses. Overall, these new or amended standards are not expected to have a significant impact on Annual Accounts.

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. The value of the Fund's private equity, private debt, private real estate and infrastructure investments was £2,497.7m at 31st March 2018 (£2,318.1m at 31st March 2017). The private markets figure of £2,497.7m includes £1,385.1m private equity (£1,449.5m in 2017), £263.2m private debt (£109.8m in 2017), £483.5m private real estate (£480.2m in 2017) and £365.9m (£278.6m in 2017) 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 26 Financial Instruments.

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 2018

An intervaluation monitoring report provided by the Fund's actuary as at 31 March 2018 recorded a projected funding position of 105.6%. 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):

	Actives & Deferreds		Current Pensioners	
Assumed life expectancy at age 65	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 £22,787 million as at 31 March 2018 (£25,136 million as at 31 March 2017). The actuary has estimated that a 0.5% decrease in the real discount rate would lead to an increase in the pension liability of £2,409 million. Similarly, a 0.5% increase in the rates of salary increase and pension increase would increase the liability by £372 million and £1,892 million respectively.

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2018 and 31 March 2017. The actuary estimates that the impact of the change in financial assumptions to 31 March 2018 is to decrease the actuarial present value by £1,595m and that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £109m.

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. Investments

Statement of Movement in Investments

	Market Value as at 31 March 2017 £000	Purchases and Derivative Payments £000	Sales and Derivative Receipts £000	Change in Market Value £000	Market Value as at 31 March 2018 £000
Investment Assets					
Equities	6,908,995	1,472,758	(3,846,003)	268,355	4,804,105
Pooled Investment Vehicles	7,714,332	16,356,267	(14,034,086)	358,890	10,395,403
Private Equity / Infrastructure	2,303,118	649,098	(603,025)	1 32,935	2,482,126
Index Linked Securities	171	0	(219)	62	14
Property	1,673,011	149,968	(24,239)	81,920	1,880,660
	18,599,627	**18,628,091**	**(18,507,572)**	**842,162**	**19,562,308**
Derivative Contracts:	1,117	2,157	(37,862)	35,015	427
Other Investment Balances:					
Cash Deposits	874,126			(4,803)	1,205,640
Receivable for Sales of Investments	194,782			407	41,804
Investment Income Due	26,889				24,310
Spot FX Contracts	(3)			(2,465)	(12)
Payable for Purchases of Investments	(36,055)			(150)	(62,994)
Net Investment Assets	**19,660,483**	**18,630,248**	**(18,545,434)**	**870,166**	**20,771,483**

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

- **Transaction Costs**

Transaction costs are included in the cost of purchases and sale proceeds and are charged directly to the Fund. Transaction costs 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 2017/2018, these amounted to £4.161 million (£7.087 million in 2016/17).

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 2018 and a summary of contracts held are summarised in the tables on the following page:

	31 March 2017 £000	**31 March 2018 £000**
Futures	*1,795*	(1,228)
Forwards	*(678)*	1,655
Market Value	***1 ,117***	**427**

Contract	**Settlement Date**	**Asset £000**	**Liability £000**	**Net £000**
Derivatives – Futures				
Overseas Equity Futures- L&G US	Various	0	(37)	(37)
Overseas Equity Futures – L&G Emerging Market Future	Various	0	(1,191)	(1,191)
Contracts Held at 31 March 2018		**0**	**(1,228)**	**(1,228)**

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	20	(42)	(22)
Less than 1 year Currency Forwards	1 – 6 months	1,677	0	1,677
Contracts Held at 31 March 2018		**1,697**	**(42)**	**1,655**

The above table summarises the contracts held by maturity date – 5 foreign currencies being involved. All contracts are traded on an over the counter basis.

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

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

9. Fund Management

- **Investment Managers and Mandates**

The market value of assets under the management of Fund managers as at 31 March 2018 was £20,771 million.

Investment management arrangements as at 31 March 2018 are summarised below:

Asset Class	Fund Manager	% managed	Market Value £000
Multi Asset- Passive	Legal & General	41.3	7,785,220
Global Equity	Baillie Gifford	8.6	1,615,797
Global Equity	Lazard	3.4	640,714
Global Equity	Veritas	3.2	602,890
Global Equity	Oldfield	3.5	661,880
Specialist – Global Real Estate	Partners Group	2.2	408,652
Specialist – Absolute Return Bonds	Pimco	5.6	1,051,555
Specialist – Equities (Overseas Small Companies)	JP Morgan	3.9	742,963
Specialist – Equities (UK Small Companies)	Henderson	1.3	243,650
Specialist – Private Equity	Pantheon Ventures	4.3	811,460
Specialist – Private Equity	Partners Group	3.0	572,422
Specialist – Emerging Markets	Genesis	2.3	440,942
Specialist – Emerging Market Future	Legal & General	0.5	91,237
Specialist – Direct Investment Portfolio	Various	3.0	561,179
Specialist – Multi Asset Credit	Various	5.7	1,081,264
Specialist – Private Debt	Various	1.1	210,993
Emerging Market Debt	Ashmore	2.7	512,697
Cash	Northern Trust	4.4	828,685

- **Private Equity**

Unquoted holdings in private equity funds have been included at the Fund managers' valuation adjusted for cash movements since the last valuation date. Unquoted Fund investments are valued at fair value as determined by the Directors or General Partner. The valuations provided by the general partners or managers typically reflect the fair value of the Company's capital account balance of each Fund investment, including unrealised gains and losses, as reported in the Financial Statements of the respective Fund. Private equity investments are typically illiquid and resale is restricted.

- **Property**

As at 31 March 2018 the Fund held direct property assets with a value of £1,881 million (2016/17 £1,671 million). This valuation was calculated by GVA Grimley on the Fund's behalf in accordance with RICS Valuation Standards manual.

As at 31 March 2018 the Fund held indirect UK property assets of £ nil (2016/17 £2 million).

10. Notifiable Holdings

Notifiable holdings are holdings which exceed 5% of the total value of Fund net assets. As at 31 March 2018 the Fund had holdings of £1,772m (9.4%) in L&G US Equity Fund (Hedged), £1,102 million (5.9%) in L&G UK Equity (5% Market Cap) Fund and £1,052 million (5.6%) in PIMCO PARS III Absolute Return Fund.

11. Analysis of Investments

Investments can be further analysed as follows:

Market Value as at 31 March 2017 £000		**Market Value as at 31 March 2018 £000**
	Fixed Interest Securities	
	UK	
153	Corporate Quoted	4
	Overseas	
18	Corporate Quoted	10
171		**14**
	Equities	
	UK	
756,127	Quoted	712,126
	Overseas	
6,139,423	Quoted	4,091,979
6,895,550		**4,804,105**
	Pooled Funds – Additional Analysis UK	
1,053,359	Fixed Income Unit Trust	2,404,872
6,105,887	Equity Unit Trust	3,289,143
895,513	Private Equity/Infrastructure	0
0	Cash Balances	917,700
	Overseas	
306,272	Fixed Income Unit Trust	651,733
248,814	Equity Unit Trust	3,121,542
8,609,845		**10,384,990**
1,407,604	Private Equity/Infrastructure	2,482,126
13,445	Commodities	10,413
1,673,011	Property	1,880,660
3,094,060		**4,373,199**
874,126	Cash Deposits	1,205,640
280,305	Derivatives	1,697
221,671	Other Investment Assets	66,114
(315,245)	Investment Liabilities	(64,276)
19,660,483	**Net Investment Assets**	**20,771,483**

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

12. Contributions and Benefits

	Administering Authority £000	Other Scheduled Bodies £000	Admitted Bodies £000	Total £000
Contributions				
Employer	53,599	247,059	98,583	**399,241**
Augmentation	560	12,404	4,556	**17,520**
Total Employers	**54,159**	**259,463**	**103,139**	**416,761**
Employees	17,567	77,931	29,994	**125,492**
Benefits				
Pension	63,769	301,479	57,335	**422,583**
Lump Sum and Death Benefit	16,946	82,428	26,113	**125,487**
	80,715	**383,907**	**83,448**	**548,070**

13. Payments To and On Account of Leavers

2016/17 £000		**2017/18 £000**
1,375	Refunds to members leaving service	1,516
391	Payments for members joining state scheme	318
1,331	Group Transfers	0
22,352	Individual Transfers	30,743
25,449		**32,577**

14. Management Expenses

The total management expenses were as follows:

2016/17 £000		**2017/18 £000**
3,255	Administrative Costs	3,440
96,353	Investment Management Expenses	108,832
1,054	Oversight and governance costs	1,470
100,662		**113,742**

Oversight and governance costs include £0.054m (2016/17 £0.053m) in respect of the external audit fee. Investment management expenses include £4.161m in respect of transaction costs (2016/17 £7.087m). There were no external audit fees for any other services during the year.

15. Investment Expenses

The total investment expenses were as follows:

2016/17 £000		**2017/18 £000**
95,495	Management Fees	108,298
143	Custody Fees	144
55	Performance Monitoring Fees	80
85	Actuarial Fees – Investment Consultancy	92
575	Consultancy Fees	218
96,353		**108,832**

The investment management fees shown above include £7.655 million (2016/17 £14.185 million) in respect of performance related fees paid to the Fund investment managers. In accordance with CIPFA guidance investment management costs deducted from an investment value are recognised as a cost in the Fund Account.

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

16. Events after the balance sheet date

There were no material events between 31 March 2018 and the date of signing that require to be reflected in the Financial Statements.

17. Investment Income

Investment income of £285.195m (£251.869m 2016/17) includes £131.086m from dividends (£136.363m 2016/17), £3.176m from Pooled Investments (£nil 2016/17), £63.592m from Venture, Capital and Partnerships (£39.227m 2016/17), £6.706m interest and other (£0.566m 2016/17) and £87.088m rents (£78.300m 2016/17) partly offset by £6.453m tax (£2.587m 2016/17). Net property rental income is as shown below:

2016/17 £000		**2017/18 £000**
78,300	Rental Income	87,088
(7,856)	Direct Operating Expenses	(9,186)
70,444	**Net Income**	**77,902**

18. Taxes on Income

2016/17 £000		2017/18 £000
2,587	Witholding tax - equities	6,453
2,587		**6,453**

Withholding tax – equities is netted off against investment income.

19. Property Holdings

2016/17 £000		2017/18 £000
1,570,520	Opening balance	1,671,225
206,211	Additions	149,968
(79,028)	Disposals	(21,888)
(26,478)	Change in Market Value	81,355
1,671,225	**Closing balance**	**1,880,660**

The future minimum lease payments receivable by the fund as at 31 March 2018 are £78.9 million within one year (£81.4m 2016/17), £244.7 million between one and five years (£249.9m 2016/17) and £543.8 million later than five years (£335.6m 2016/17).

20. Transactions with Related Parties

Pension receipts and payments including VAT are transacted using Glasgow City Council's financial systems and the Pension Fund's banking arrangements. Throughout the year the Fund maintains a cash balance for this purpose which is listed as 'cash balances' in the net assets statement. During 2017/18 the amount recharged by Glasgow City Council to the Strathclyde Pension Fund for administration costs was £3.399 million (2016/17 £3.208 million). There is an outstanding creditor of £23.649m between the Council and Strathclyde Pension Fund as at 31 March 2018.

The key management personnel of the fund are the Director of Pensions, 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 £254,000 (£244,000 2016/17). Key management personnel had accrued pensions totalling £59,830 (2016/17 £52,642) and lump sums totalling £75,178 (2016/17 £71,451) 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**
There were no other material transactions with related parties during the year.

21. Stock Lending

The Fund participates in a stock lending programme managed by its Global Custodian, Northern Trust. All loans are fully collateralised. As at 31 March 2018 stock with a value of £417.4 million was on loan (£389.8 million as at 31 March 2017).

22. Contractual Commitments

As at 31 March 2018 the Fund had contractual commitments of £5,538 million within its private equity, private debt, infrastructure and global real estate portfolios, of which £1,817 million remains undrawn.

23. Contingent Assets and Liabilities

There are no contingent assets or liabilities.

24. Statement of Investment Principles

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

25. Additional Voluntary Contributions (AVCs)

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

The market value of AVCs as at 31 March 2018 was £53.7 million (2016/17 £49.9 million). Contributions which are used in their entirety to purchase investments, totalled £9.2 million (2016/17 £8.1 million) whilst sales of investments to settle benefits due to members totalled £7.8 million (2016/17 £7.9 million). The change in market value of investments over the year was £2.4 million (2016/17 £4.7 million).

26. Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair values of financial assets and liabilities by category and net asset statement heading for the year ended 31 March 2018.

Restated 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**
31 March 2017				**31 March 2018**		
			Financial Assets			
6,908,995	*0*	*0*	Equities	4,804,105	0	0
7,714,332	*0*	*0*	Pooled Investment Vehicles	10,395,403	0	0
2,303,118	*0*	*0*	Private Equity / Infrastructure	2,482,126	0	0
171	*0*	*0*	Index Linked Securities	14	0	0
1,785	*0*	*0*	Property	0	0	0
280,304	*0*	*0*	Derivative Contracts	1,697	0	0
0	*874,126*	*0*	Cash		1,205,640	0
0	*221,671*	*0*	Other Investment Balances		66,114	0
17,208,705	***1,095,797***	***0***		**17,683,345**	**1,271,754**	**0**
			Financial Liabilities			
(279,188)	*0*	*0*	Derivatives	(1,271)	0	0
0	*0*	*(36,057)*	Other Investment Liabilities		0	(63,005)
(279,188)	***0***	***(36,057)***		**(1,271)**	**0**	**(63,005)**
16,929,517	***1,095,797***	***(36,057)***	**Net Financial Assets**	**17,682,074**	**1,271,754**	**(63,005)**

The table below shows net gains and losses on financial instruments for the year ended 31 March 2018:

31 March 2017		31 March 2018
£000	**Financial Assets**	**£000**
3,414,286	Fair value through profit and loss	760,808
12,063	Loans and receivables	407
0	Financial liabilities measured at amortised cost	0
	Financial Liabilities	
20,134	Fair value through profit and loss	35,015
0	Loans and receivables	(7,418)
0	Financial liabilities measured at amortised cost	0
3,446,483	**Total**	**788,812**

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 2018:

31 March 2017		31 March 2018
Market Value £000		**Market Value £000**
	Financial Assets	
17,208,705	Fair value through profit and loss	17,683,345
1,095,797	Loans and receivables	1,271,754
	Financial Liabilities	
(279,187)	Fair value through profit and loss	(1,271)
(36,057)	Financial liabilities measured at amortised cost	(63,005)
17,989,258	**Total**	**18,890,823**

The £18,891m net investment assets shown above plus property (£1,880m) and current assets (£97m) less current liabilities (£62m) equals £20,806m Net Assets as at 31 March 2018 on page 27.

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.

Level 1 £000	*Level 2 £000*	*Level 3 £000*		**Level 1 £000**	**Level 2 £000**	**Level 3 £000**
31 March 2017				**31 March 2018**		
			Financial Assets			
13,384,275	*1,475,123*	*2,350,371*	Fair Value through profit and loss	12,294,462	2,911,626	2,501,264
892,206	*194,782*	*8,810*	Loans and receivables	1,165,110	82,635	2
14,276,481	***1,669,905***	***2,359,181***		**13,459,572**	**2,994,261**	**2,501,266**
			Financial Liabilities			
(32)	*(293,952)*	*0*	Fair Value through profit and loss	(1,228)	(40,258)	0
(22,324)	*0*	*0*	Financial liabilities measured at amortised cost	(22,790)	0	0
(22,356)	***(293,952)***	***0***		**(24,018)**	**(40,258)**	**0**
14,254,125	***1,375,953***	***2,359,181***	**Net Financial Assets**	**13,435,554**	**2,954,003**	**2,501,266**

The total value of Net Financial Assets for Levels 1, 2 and 3 as at 31 March 2018 in the above table is £18,891m (£17,989m 2016/17) which matches the financial instruments market value shown in the table on page 45.

	Market value as at 31 March 2017 £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 2018 £000**
Overseas Equities	28,928	(14,566)	3,014	(418)	(13,900)	135	3,193
UK Equities	3,206	0	0	(1,245)	1,427	(3,055)	333
Overseas Equity Funds	52	0	0	(0)	(20)	0	32
UK Quoted	152	0	0	(209)	62	0	5
Overseas Venture Capital	1,407,605	35,050	383,825	(327,748)	(62,326)	154,819	1,591,225
UK Property	1,786	(2,351)	0	0	565	0	0
UK Venture Capital	895,513	(32,700)	227,871	(240,226)	(76,139)	116,581	890,900
UK Fixed Income Funds	13,129	0	1,626	0	821	0	15,576
	2,350,371	**(14,567)**	**616,336**	**(569,846)**	**(149,510)**	**268,480**	**2,501,264**

During 2017/18, there were no transfers from Level 2 to Level 1.

27. Nature and Extent of Risks Arising From Financial Instruments

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

Market Risk

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

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

Other Price Risk

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

Other Price Risk - Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, the following movements in market price risk are reasonably possible for the 2017/18 reporting period:

Asset Type	Potential Market Movement (+/-)
UK Equities	16.8%
Overseas Equities	17.9%
Corporate Bonds (short term)	4.1%
Corporate Bonds (medium term)	10.2%
Index Linked Gilts	7.2%
Private Equity / Property/ Infrastructure	28.3%
Commodities	16.1%
Cash	0.5%
Senior Loans Absolute	5.1%
Return Bonds	2.8%

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 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	917,700	0.5	922,289	913,112
Private Equity/ Property 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	41,803	0.0	41,803	41,803
Amounts payable for purchases	(40,204)	0.0	(40,204)	(40,204)
Total	**18,864,200**		**21,781,771**	**15,946,629**

The prior year comparators for 2016/17 are as follows:

Asset Type	***Value as at 31 March 2017 £000***	***Change %***	***Value on Increase £000***	***Value on Decrease £000***
Cash and cash equivalents	*838,854*	*0.0*	*838,854*	*838,854*
Investment portfolio assets:				
UK bonds	*152*	*4.3*	*159*	*146*
Overseas bonds	*18*	*10.1*	*20*	*16*
UK equities	*756,127*	*15.8*	*875,595*	*636,659*
Overseas equities	*6,139,423*	*18.4*	*7,269,077*	*5,009,769*
UK fixed Income unit trusts	*1,053,359*	*7.1*	*1,128,147*	*978,570*
Overseas fixed Income unit trusts	*306,272*	*10.1*	*337,205*	*275,338*
UK equity unit trusts	*6,105,887*	*15.8*	*7,070,617*	*5,141,157*
Overseas equity unit trusts	*248,814*	*18.4*	*294,596*	*203,032*
Private equity/Infrastructure funds	*2,303,117*	*28.5*	*2.959.506*	*1.646.729*
Commodities	*13,445*	*15.8*	*15,569*	*11,320*
Property	*1,786*	*14.2*	*2,039*	*1,532*
Net derivative assets	*1,117*	*0.0*	*1,117*	*1,117*
Investment income due	*23,033*	*0.0*	*23,033*	*23,033*
Pending Spot FX	*(3)*	*0.0*	*(3)*	*(3)*
Amounts receivable for sales	*194,782*	*0.0*	*194,782*	*194,782*
Accounts Payable for purchases	*(13,730)*	*0.0*	*(13,730)*	*(13,730)*
Total	***17,972,453***		***20,996,583***	***14,948,321***

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 2018 and 31 March 2017 is set out below.

Asset Type	*As at 31 March 2017 £000*	As at 31 March 2018 £000
Cash Balances – Investments	*874,126*	1,205,640

Interest Rate Sensitivity Analysis

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

Asset Type	As at 31 March 2018 £000	+100 BPS £000	-100 BPS £000
Cash Balances – Investments	1,205,640	1,217,697	1,193,584

Asset Type	*As at 31 March 2017 £000*	*+100 BPS £000*	*-100 BPS £000*
Cash Balances – Investments	*874,126*	*882,867*	*865,385*

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 2018 £000*	**Change %**	**Value on Increase £000**	**Value on Decrease £000**
Overseas quoted securities	4,091,978	10.0	4,501,176	3,682,781
Overseas unquoted securities	0	10.0	0	0
Overseas fixed income	0	10.0	0	0
Overseas unit trusts	3,121,541	10.0	3,433,695	2,809,387
Hedge funds overseas equity	0	10.0	0	0
Hedge funds overseas fixed interest	0	10.0	0	0
Overseas public sector bonds (quoted)	0	10.0	0	0
Overseas corporate bonds (quoted)	10	10.0	11	9
Total	**7,213,529**		**7,934,882**	**6,492,177**

Credit Risk

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

28. Current Assets

2016/17 £000		**2017/18 £000**
	Debtors:	
39,642	• Contributions due - employers	39,566
4,485	• Sundry debtors	5,711
49,396	Cash Balances	51,718
93,523		**96,995**

29. Current Liabilities

2016/17 £000		**2017/18 £000**
33,059	Sundry creditors	46,281
21,563	Benefits payable	15,988
54,622		**62,269**

30. Analysis of Investment Assets (IAS19)

In accordance with the requirements of IAS19 the following statement provides a detailed analysis of investment assets as at 31 March 2018 with comparators for 2017.

Quoted £000	Unquoted £000	Total £000		Quoted £000	Unquoted £000	Total £000
31 March 2017				31 March 2018		
			Equity Securities			
1,896,183	1,229	1,897,412	Consumer	1,330,178	3,772	1,333,950
1,479,869	29,978	1,509,847	Manufacturing	1,077,746	3,264	1,081,010
453,097	362	453,459	Energy and Utilities	277,679	0	277,679
1,285,015	0	1,285,015	Financial Institutions	895,456	0	895,456
691,648	333	691,981	Health and Care	525,915	5,380	531,295
1,057,241	569	1,057,810	Information Technology	684,557	158	684,715
			Debt Securities			
0	306,272	306,272	Corporate Bonds (investment grade)	651,733	0	651,733
0	171	171	Corporate Bonds (non-invest grade)	0	14	14
0	0	0	UK Government	0	0	0
0	0	0	Other	0	0	0
0	2,303,117	2,303,117	**Private Equity**		2,482,100	2,482,100
			Real Estate			
0	1,654,543	1,654,543	UK Property	0	1,880,660	1,880,660
0	0	0	Overseas Property	0	0	0
			Investment funds and unit			
192,243	6,162,575	6,354,818	Equities	5,899,355	511,355	6,410,710
0	1,053,361	1,053,361	Bonds	908,374	1,496,498	2,404,872
0	0	0	Hedge Funds	0	0	0
13,445	0	13,445	Commodities	10,413	0	10,413
0	0	0	Property	0	26,623	26,623
0	0	0	Cash Funds	0	0	0
			Derivatives			
0	**0**	**0**	Inflation	0	0	0
0	0	0	Interest rate	0	0	0
0	0	0	Foreign exchange	0	0	0
0	1,117	1,117	Futures	427	0	427
0	1,078,115	1,078,115	**Cash and cash equivalents**	1,069,298	1,030,528	2,099,826
7,068,741	**12,591,742**	**19,660,483**	**Totals**	**13,331,131**	**7,440,352**	**20,771,483**

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 www.spfo.org.uk

No.3 Fund: 10 Year Investment Performance (% p.a.)

											Annualised		
	Mar 09	Mar 10	Mar 11	Mar 12	Mar 13	Mar 14	Mar 15	Mar 16	Mar 17	Mar 18	3 Year	5 Year	10 Year
Retail Prices	-0.1	4.0	5.3	3.8	3.3	2.6	1.0	1.4	3.0	3.7	2.7	2.3	2.8
Consumer Prices	3.0	3.3	4.1	3.6	2.7	1.7	0.1	0.3	2.2	2.6	1.7	1.4	2.4
Average Earnings	-2.8	4.2	2.4	0.4	0.2	1.9	2.2	2.0	2.3	2.5	2.3	2.2	1.5
Fund Return	**-12.4**	**32.8**	**8.8**	**10.1**	**14.7**	**-0.1**	**21.3**	**0.8**	**17.1**	**1.0**	**6.0**	**7.6**	**8.7**
Benchmark	**-14.1**	**26.4**	**7.2**	**2.8**	**15.0**	**2.5**	**20.7**	**1.7**	**15.3**	**1.6**	**6.0**	**8.1**	**7.3**

STRATHCLYDE PENSION FUND NO. 3

Fund Account

2016/17 £000		Note	2017/18 £000
	Contributions and Benefits		
	Income		
3,136	Contributions from Employers		1,511
235	Contributions from Employees		181
3,371			**1,692**
	Expenditure		
5,348	Pensions Payments		5,612
1,340	Lump Sum and Death Benefit Payments		1,894
354	Payments To and On Account of Leavers		284
7,042			**7,790**
3,671	**Net Reduction from Dealings with Members**		**6,098**
336	Management Expenses	11	486
4,007	**Net Reduction including Fund Management Expenses**		**6,584**
	Returns on Investments		
408	Investment Income		502
30,842	Change in Market Value of Investments		2,107
31,250	**Net Returns on Investments**		**2,609**
27,243	**Net Increase / (Decrease) in the Fund during the Year**		**(3,975)**
183,628	Add : Opening Net Assets of the Scheme		210,871
210,871	**Closing Net Assets of the Scheme**		**206,896**

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 2018

2016/17 £000		**Note**	**2017/18 £000**
	Investment Assets		
210,919	Pooled Investment Vehicles	6,9	208,114
84	Cash Deposits	6,9	83
211,003			**208,197**
209	Current Assets	25	0
(341)	Current Liabilities	25	(1,301)
210,871	**Net Assets of the Fund as at 31 March**		**206,896**

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 14 June 2018.

Martin Booth BA, CPFA, MBA
Executive Director of Finance
14 June 2018

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.

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 2017/18 which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The Financial Statements summarise the transactions of the Fund during the year and the net assets at the year end. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 5 of these accounts.

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

3. Summary of Significant Accounting Policies

FUND ACCOUNT

- **Contributions Income**

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

- **Transfers to other schemes**

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

- **Prior Period Adjustments**

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

- **Investment Income**

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

- **Benefits payable**

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

- **Taxation**

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

Management expenses include

- **Administrative Expenses**

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

- **Investment management expenses**

All investment management expenses are accounted for on an accruals basis. External investment manager fees are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. In instances where an investment manager’s fee note has not been received by the balance sheet date, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2017/18 nil fees are based on such estimates (2016/17 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 2018. Unquoted holdings in private equity funds have been included at the Fund managers' valuation adjusted for cash movements since the last valuation date. Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published or if single priced at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is invested in the Fund, net of applicable withholding tax.

- **Foreign currency transactions**

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

- **Derivatives**

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

- **Cash and cash equivalents**

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

- **Liabilities**

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

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

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

4. Actuarial Position

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

- **Funding Projection as at 31 March 2018**

An intervaluation monitoring report provided by the Fund's actuary as at 31 March 2018 recorded a projected funding position of 114.1%. 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 2018 for contributions due between 1 April 2019 and 31 March 2020). 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.

5. Actuarial Assumptions

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

Assumption	31 March 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 **www.spfo.org.uk**

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

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

The actuarial present value of promised retirement benefits is estimated at £153 million as at 31 March 2018 (£185 million as at 31 March 2017). The actuary has estimated that a 0.5% decrease in the real discount rate would lead to an increase in the pension liability of £10million. Similarly, a 0.5% increase in the rate of pension increase would increase the liability by £10million. 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.

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.

6. Investments

Statement of Movement in Investments

	Market Value as at 31 March 2017 £000	Purchases and Derivative Payments £000	Sales and Derivative Receipts £000	Change in Market Value £000	Market Value as at 31 March 2018 £000
Investment Assets					
Pooled Investment Vehicles	210,919	34,063	(38,561)	1,693	208,114
	210,919	**34,063**	**(38,561)**	**1,693**	**208,114**
Other Investment Balances:					
Cash Deposits	84				83
Net Investment Assets	**211,003**	**34,063**	**(38,561)**	**1,693**	**208,197**

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

- **Transaction Costs**

Transaction costs are included in the cost of purchases and sale proceeds and are charged directly to the Fund. Transaction costs such as fees, commissions and stamp duty incurred during the year was nil (£nil in 2016/17).

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 2018 (£nil at 31 Mar 2017).

7. Fund Management

The investment assets of the Fund are externally managed.

Investment management arrangements as at 31 March 2018 are shown below:

Asset Class	Fund Manager	% managed	Market Value £000
Liability Driven Investment Strategy	Legal & General	86	£178,876
Multi Asset - Absoulte Return	Ruffer	7	£14,705
Equities	Legal & General	7	£14,617

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 2018 was £208.2 million.

8. Notifiable Holdings

As at 31 March 2018 the Fund had holdings exceeding 5% of the total value of net assets in:

	£000	%
Ruffer Absolute Return Fund	14,705	7.0
Legal & General Corporate Bonds	31,295	15.3
1.25% Index Linked Government Bonds Nov 32	17,427	8.4
1.25% Index Linked Government Bonds Nov 27	16,142	7.8
0.625% Index Linked Government Bonds Nov 42	12,746	6.1
Legal & General Libor Fund	11,256	5.4

9. Analysis of Investments

Investments can be further analysed as follows:

Market Value as at 31 March 2017 £000		**Market Value as at 31 March 2018 £000**
	Pooled Funds – Additional Analysis	
	UK	
119,131	Fixed Income Unit Trust	116,335
16,085	Equity Unit Trust	11,539
17,030	Cash Funds	45,408
	Overseas	
58,673	Equity Unit Trust	34,832
210,919		**208,114**
84	Cash Deposits	83
0	Other Investment Balances	0
211,003	**Net Investment Assets**	**208,197**

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

10. Contributions and Benefits

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

11. Management Expenses

The total administrative expenses were as follows:

2016/17 £000		**2017/18 £000**
32	Administrative, governance and audit costs	33
304	Investment Management Expenses	453
336		**486**

The £33,000 represents a single recharge from Fund 1 to cover costs.

12. Investment Management Expenses

The total investment expenses were as follows:

2016/17 £000		**2017/18 £000**
304	Management Fees	453
304		**453**

13. Transactions with Related Parties

Pension receipts and payments are transacted using Glasgow City Council's financial systems and the Pension Funds banking arrangements. Throughout the year the Fund maintains a cash balance for this purpose which is listed as 'cash balances' in the net assets statement. During 2017/18 the amount recharged by Glasgow City Council to the Strathclyde Pension Fund for administration costs was £0.033m (2016/17 £0.032m).

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

14. Stock Lending

The Fund may participate in a stock lending programme managed by its Global Custodian, Northern Trust. All loans are fully collateralised. As at 31 March 2018 stock with a market value of nil was on loan (nil as at 31 March 2017).

15. Contractual Commitments

The Fund had no contractual commitments at the year end.

16. Contingent Assets and Liabilities

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

17. Statement of Investment Principles

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

18. Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair values of financial assets and liabilities by category and net asset statement heading for the year ended 31 March 2018.

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**
31 March 2017				**31 March 2018**		
			Financial Assets			
210,919	*0*	*0*	Pooled Investment Vehicles	208,114	0	0
0	*84*	*0*	Cash	0	83	0
0	*0*	*0*	Other Investment Balances	0	0	0
210,919	***84***	***0***	**Total Financial Assets**	**208,114**	**83**	**0**
210,919	***84***	***0***	**Net Financial Assets**	**208,114**	**83**	**0**

The table below shows net gains and losses on financial instruments for the year ended 31 March 2018:

31 March 2017		**31 March 2018**
£000	**Financial Assets**	**£000**
30,507	Fair value through profit and loss	1,692
30,507	**Total**	**1,692**

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 2018:

Market Value as at		Market Value as at
31 March 2017		31 March 2018
£000	**Financial Assets**	**£000**
193,889	Fair value through profit and loss	208,114
17,114	Loans and receivables	83
211,003	**Total**	**208,197**

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

Level 1

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

Level 2

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

Level 3

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

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

Level 1 £000	*Level 2 £000*	*Level 3 £000*		Level 1 £000	Level 2 £000	Level 3 £000
31 March 2017				**31 March 2018**		
			Financial Assets			
33,778	*160,111*	*0*	Fair Value through profit and loss	14,705	193,409	0
84	*17,030*	*0*	Loans and receivables	83	0	0
33,862	***177,141***	*0*	**Total Financial Assets**	**14,788**	**193,409**	**0**
33,862	***177,141***	***0***	**Net Financial Assets**	**14,788**	**193,409**	**0**

19. Nature and Extent of Risks Arising From Financial Instruments

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

Market Risk

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

Other Price Risk

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

Other Price Risk - Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, the following movements in market price risk are reasonably possible for the 2017/18 reporting period:

Asset Type	Potential Market Movement (+/-)
UK Equities	16.80%
Overseas Equities	17.90%
Index Linked Guilts	9.20%
Cash	0.50%
Long Term Gilts	12.70%
Corporate Bonds (Medium Term)	10.20%

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 2018 £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**

The prior year comparators for 2016/17 are as follows:

Asset Type	***Value as at 31 March 2017 £000***	***Change %***	***Value on Increase £000***	***Value on Decrease £000***
Cash and cash equivalents	*84*	*0.0*	*84*	*84*
Investment portfolio assets:				
UK fixed income unit trusts	*119,131*	*9.0*	*129,854*	*108,410*
UK equity unit trusts	*16,085*	*15.8*	*18,626*	*13,543*
Overseas equity unit trusts	*58,673*	*18.4*	*69,469*	*47,878*
Cash Funds	*17,030*	*0.0*	*17,030*	*17,030*
Total	***211,003***		***235,063***	***186,945***

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 2018 and 31 March 2017 is set out below.

Asset Type	*As at 31 March 2017 £000*	As at 31 March 2018 £000
Cash Balances – Investments	*84*	83

Interest Rate Sensitivity Analysis

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

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

Asset Type	*As at 31 March 2017 £000*	*+100 BPS £000*	*-100 BPS £000*
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 2018 £000	Change %	Value on Increase £000	Value on Decrease £000
Overseas unit trusts	34,832	10.00	38,316	31,349
Total	**34,832**		**38,316**	**31,349**

Credit Risk

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

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

20. Analysis of Investment Assets (IAS19)

In accordance with the requirements of IAS19 the following statement provides a detailed analysis of investment assets as at 31 March 2018 with comparators for 2017.

Quoted £000	*Unquoted £000*	*Total £000*		Quoted £000	Unquoted £000	Total £000
31 March 2017				31 March 2018		
			Investment funds and unit trusts:			
0	*74,758*	*74,758*	Equities	0	46,371	46,371
0	*119,131*	*119,131*	Bonds	0	116,335	116,335
84	*17,030*	*17,114*	Cash and cash equivalents	0	45,491	45,491
84	***210,919***	***211,003***	**Totals**	**0**	**208,197**	**208,197**

21. Critical Judgements in Applying Accounting Policies

Determining the fair value of private equity investments involves a degree of subjectivity. Valuations are inherently based on forward-looking estimates and judgements involving many factors. 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 5. The estimate is subject to significant variances based on changes to the underlying assumptions.

22. Events after the balance sheet date

There were no material events between 31 March 2018 and the date of signing that require to be reflected in the Financial Statements.

23. 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.

24. Investment Income

Investment Income of £0.502m is all from Pooled Investment Vehicles.

25. Current Assets and Liabilities

Current Assets include £nil contributions from employer and £nil sundry debtors. Current Liabilities of £1.301m are all sundry creditors.

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 FSS and completion of the actuarial valuation are carried out in tandem to ensure that the measurement and management processes are cohesive.

Members' benefits are guaranteed by statute. Members' contributions are set at a rate which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The Funding Strategy focuses on the pace at which these benefits are funded and on practical measures to ensure that employers pay for their own liabilities.

At the 2017 actuarial valuation, 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.

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 over 180 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.

- 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 **www.spfo.org.uk**

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: **www.spfo.org.uk**

STRATHCLYDE PENSION FUND NO 1 FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2017/18

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 £938 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 the projected accrued benefits method.

Assumptions

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.

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:

	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

Asset returns over the period have been slightly higher than the valuation discount rate and real bond yields at 31 March 2018 are at a similar level to 31 March 2017. Combining the impact of these leads to a broadly similar overall funding position at 31 March 2018 compared to the last formal valuation.

The next actuarial valuation will be carried out as at 31 March 2020. The Funding Strategy Statement will also be reviewed at that time.

Steven Law FFA

For and on behalf of Hymans Robertson LLP
17 May 2018

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

STRATHCLYDE PENSION FUND NO 3 FUND
("THE FUND")
ACTUARIAL STATEMENT FOR 2017/18

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 the Employer's 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 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:

31 March 2017		
Financial assumptions		
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 VitaCurves 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:

	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 April 2017

Asset returns over the period have been slightly higher than the valuation discount rate and real bond yields at 31 March 2018 are at a similar level to 31 March 2017. Combining the impact of these leads to a broadly similar overall funding positionat 31 March 2018 compared to the last formal valuation.

The next actuarial valuation will be carried out as at 31 March 2020. The Funding Strategy Statement will also be reviewed at that time.

Steven Law FFA
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
18 May 2018

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

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 **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. 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 by 2031; 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. The Fund has agreed De-risking and Re-balancing strategies which are summarised in Schedule 2. Risk is also controlled by setting appropriate benchmarks and investment guidelines and maintaining a robust investment monitoring regime. The Fund employs a global custodian to ensure safekeeping and efficient servicing of its assets.

9. Liquidity and Cash Flow

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

10. Responsible Investment

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

The Fund is compliant with each of the six *Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2009* published by CIPFA and based on the updated Myners principles. Further details are set out in Schedule 5.

13. 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.

14. Schedules:

1. LGPS Regulations - Disclosures
2. Investment Objectives, Strategy and Structure
3. Investment Roles & Responsibilities
4. UN Principles for Responsible Investment
5. 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**

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.

The Fund has 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 most recent (2014 and 2017) valuations of the Strathclyde Pension Funds confirmed that:

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

The investment strategy is being developed to reflect these changing dynamics. Using the risk/return framework as a basis for modelling, a route-map for strategy development has been agreed.

A phased implementation process is being adopted which will reduce risk, increase diversification and ensure that the strategy of the Fund changes with the liability profile over time.

Asset	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	**7.5**	**15.0**	**20.0**	*25.0*	*30.0*
Long-Term Enhanced Yield	**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*

Step 1 changes were agreed after the 2014 actuarial valuation. Implementation was completed during 2016/17. In February 2018, the Strathclyde Pension Fund Committee agreed that Step 2 should now be adopted as the strategic target model and that the Fund should focus on identifying and implementing an investment structure consistent with Step 2 over the next 3 years.

Interim Asset Allocation

During 2017/18, the actuarial valuation confirmed a funding position of 105%. As a result the Fund's de-risking strategy, which is based on a trigger level of 105% funding, was implemented. A sale of 10% of total Fund out of equities was instructed in December 2017, using derivatives. Physical equity sales took place over December 2017 and Quarter 1 2018 (total value £2.1bn), and derivative positions were then unwound.

Implementation of the de-risking strategy took the equity allocation form overweight to underweight against the Step 1 strategy, and closer than previously to the Step 2 strategy. It created a significant un-invested balance which was partially re-allocated to growth and income strategies during Quarter 1 2018 as follows:

- 3% of Fund was re-invested in short-term enhanced yield strategies with existing managers (£210m each to Oak Hill, Barings and Ashmore).
- 1% was allocated to DTZ (long -term enhanced yield) and Alcentra (short-term enhanced yield). These monies will be drawn down over time.

As of 31 March 2018, remaining proceeds from the de-risking exercise were being held in cash until such time as further allocations are agreed. The Fund's priority is to commence the implementation of Step 2 and reduce these uninvested balances. In the interim, the stategic allocation of the Fund has been revised to account for the de-risking that has taken place as follows:

Asset Class	Interim Target Allocation %
Equity	57.5
Hedging / Insurance	1.5
Credit	6.0
Short-Term Enhanced Yield	20.0
Long-Term Enhanced Yield	15.0
Cash	0.0
Total	**100.0**

In September 2017, the committee agreed a currency hedging strategy with a target hedging ratio of 33% of listed overseas equity. The strategy was implemented during Q4 2017 via the Legal & General portfolios.

Asset Allocations

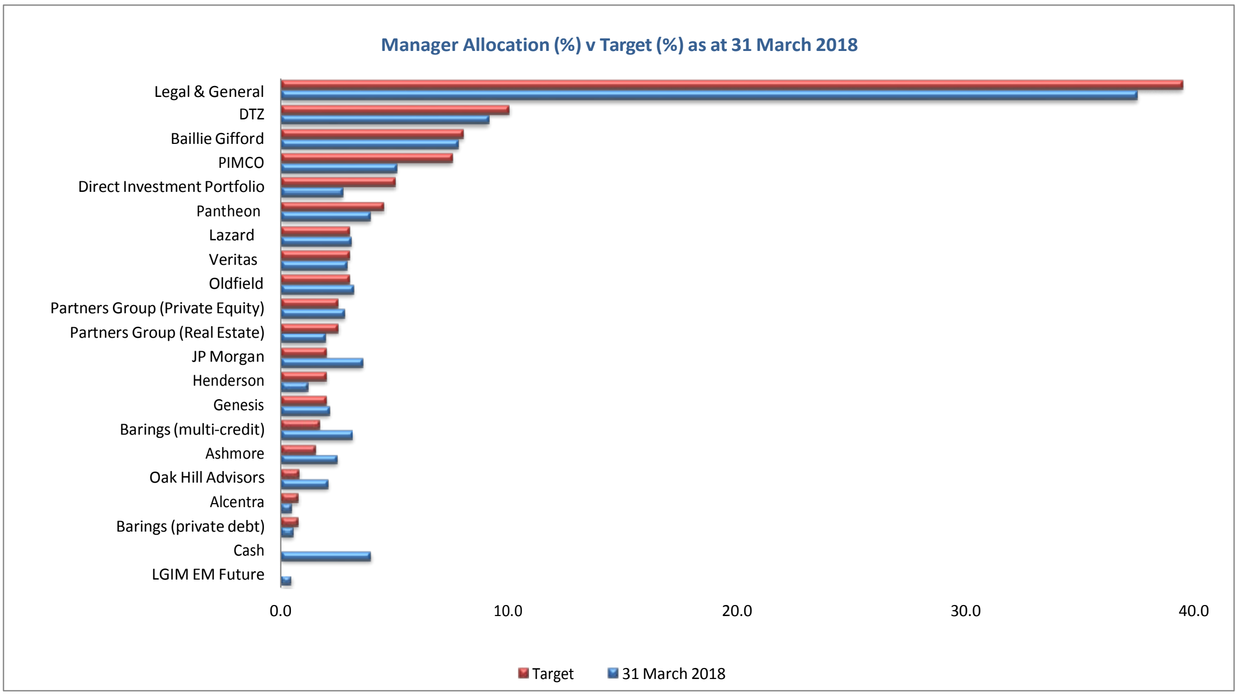
Actual allocation at the end of March 2018 and March 2017 were as follows:

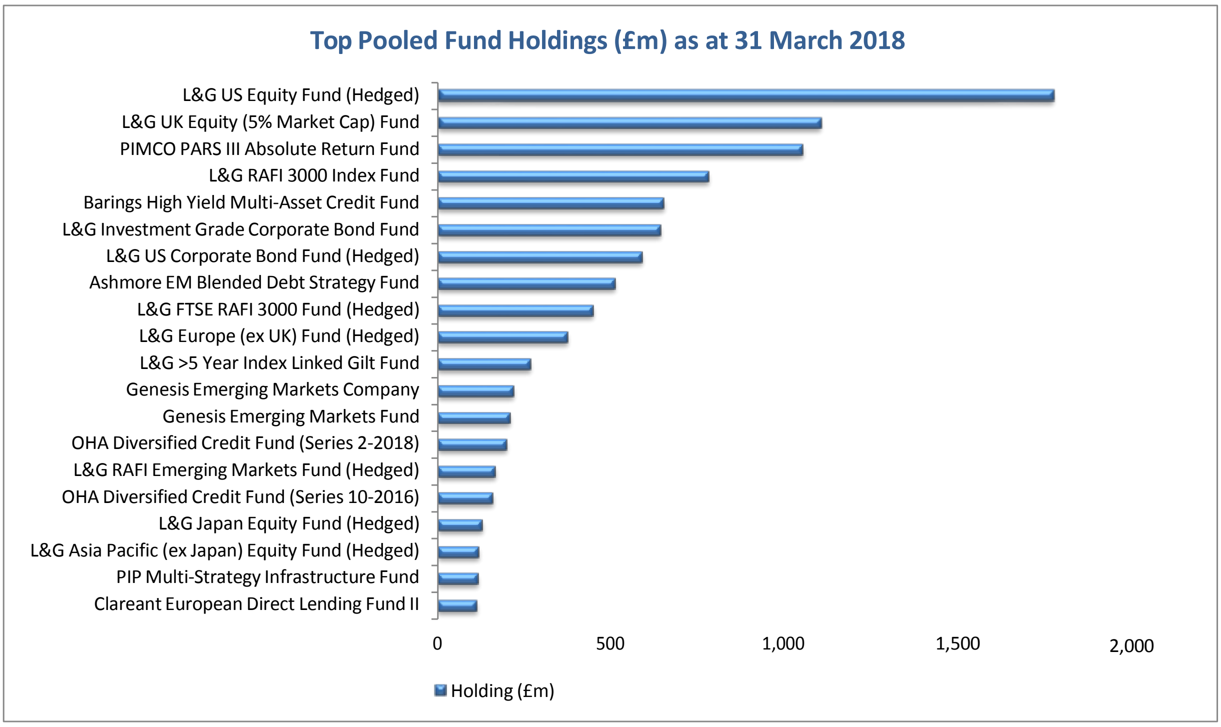
Asset Class	Allocation 31 March 2018 %	*Allocation 31 March 2017 %*	Target Allocation %
Equity	56.7	*68.6*	57.5
Hedging / Insurance	1.3	*1.4*	1.5
Credit	5.9	*5.4*	6.0
Short-Term Enhanced Yield	18.4	*8.3*	20.0
Long-Term Enhanced Yield	13.3	*12.4*	15.0
Cash	4.4	3.9	0.0
Total	**100.0**	***100.0***	**100.0**

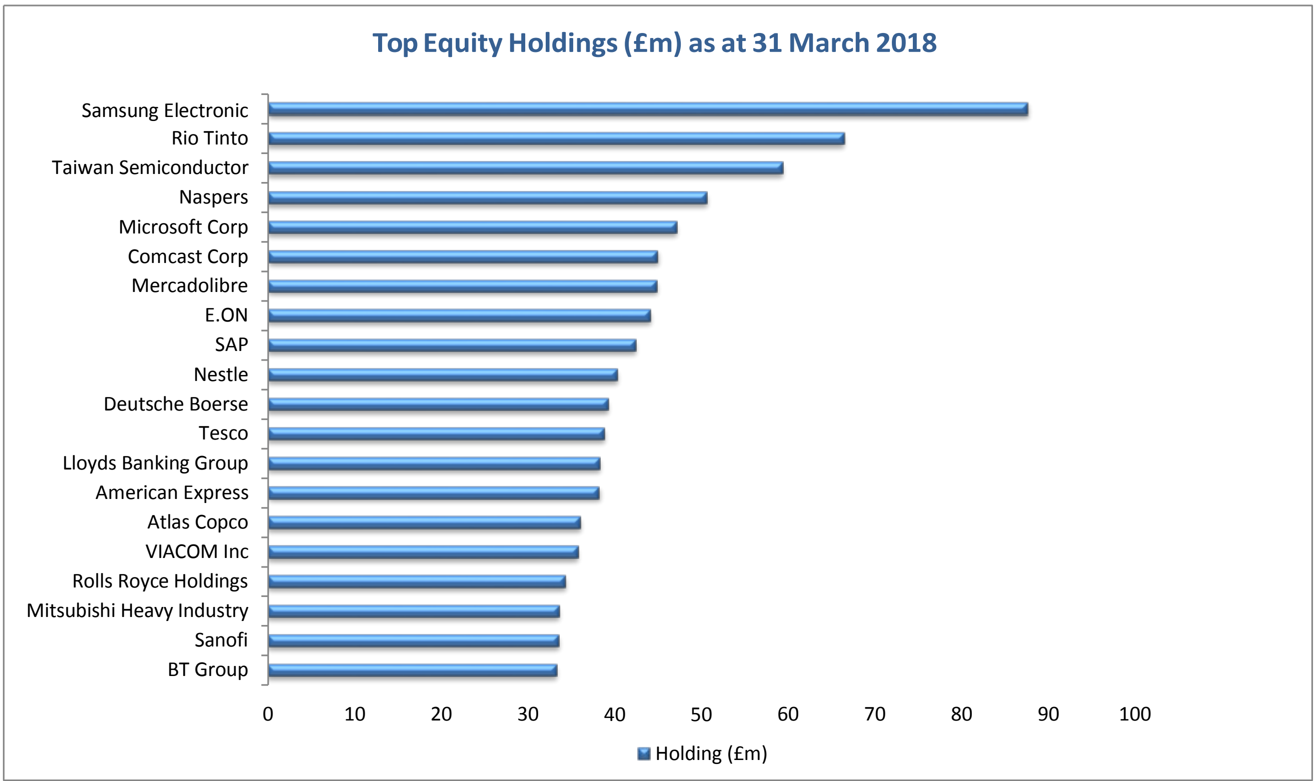
Implementation of the Fund's de-risking strategy accounted for most of the reduction in the Fund's equity exposure during 2017/18, while the allocation to short-term enhanced yield increased significantly as a result of :

- increased allocations to existing managers within this asset class and
- proceeds from de-risking held in cash strategies categorised as short-term enhanced yield

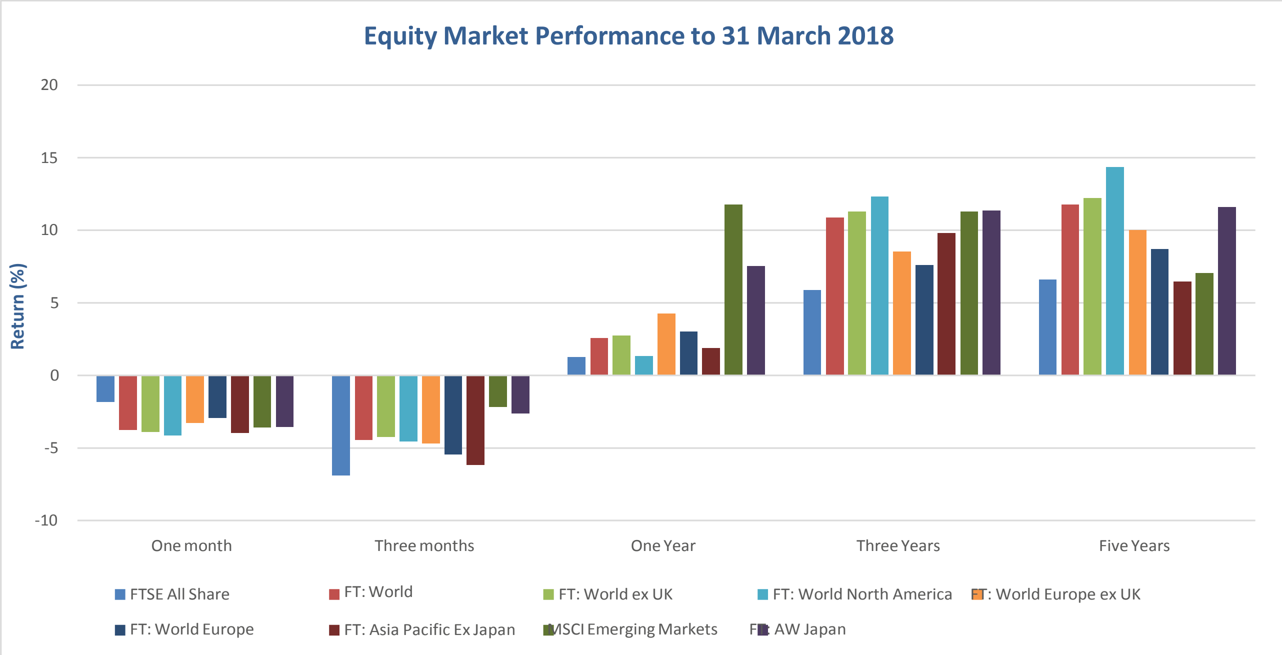
Manager and holding exposure at 31st March 2018 is illustrated in the charts below:







In all, the Fund directly held 1,585 separate lines of equity as at 31st March 2018 across 41 separate investment markets. In addition, pooled funds provide coverage of entire markets, unlisted (private equity) companies and some highly specialist investment areas.


Equity Market Performance to 31 March 2018
Return (%)
20
15
10
5
0
-5
-10
One month
Three months
One Year
Three Years
Five Years
FTSE All Share
FT: World
FT: World ex UK
FT: World North America
FT: World Europe ex UK
FT: World Europe
FT: Asia Pacific Ex Japan
MSCI Emerging Markets
FT: AW Japan

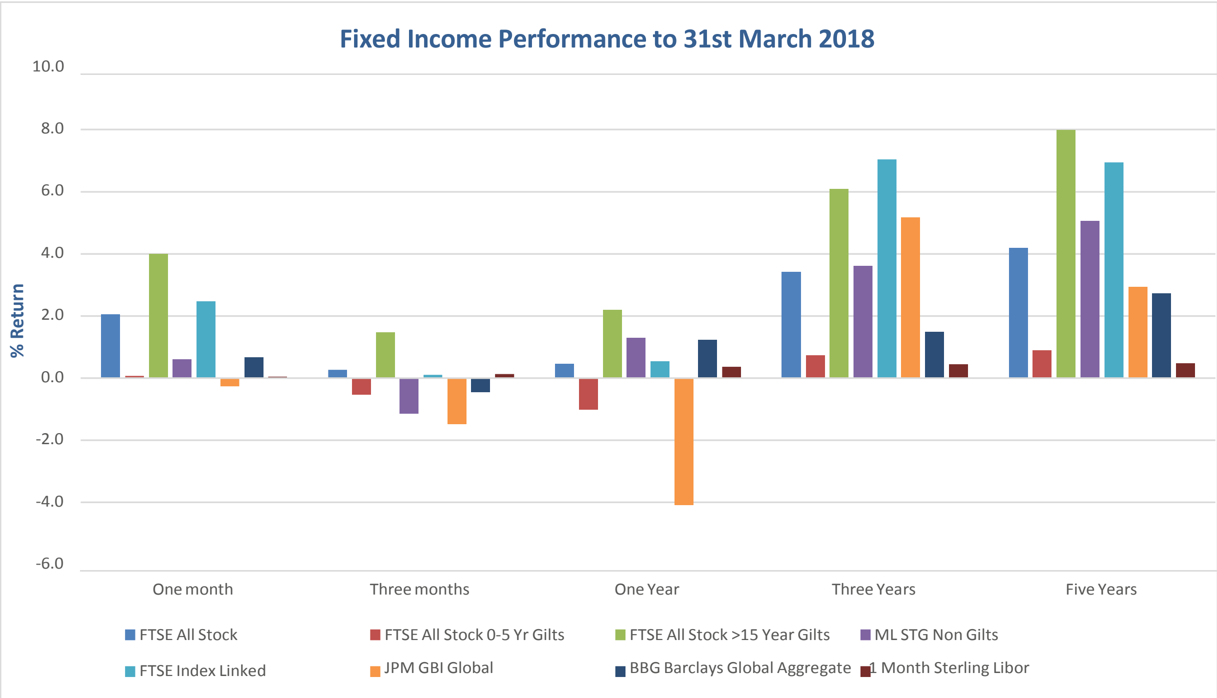
INVESTMENT PERFORMANCE

Market Commentary

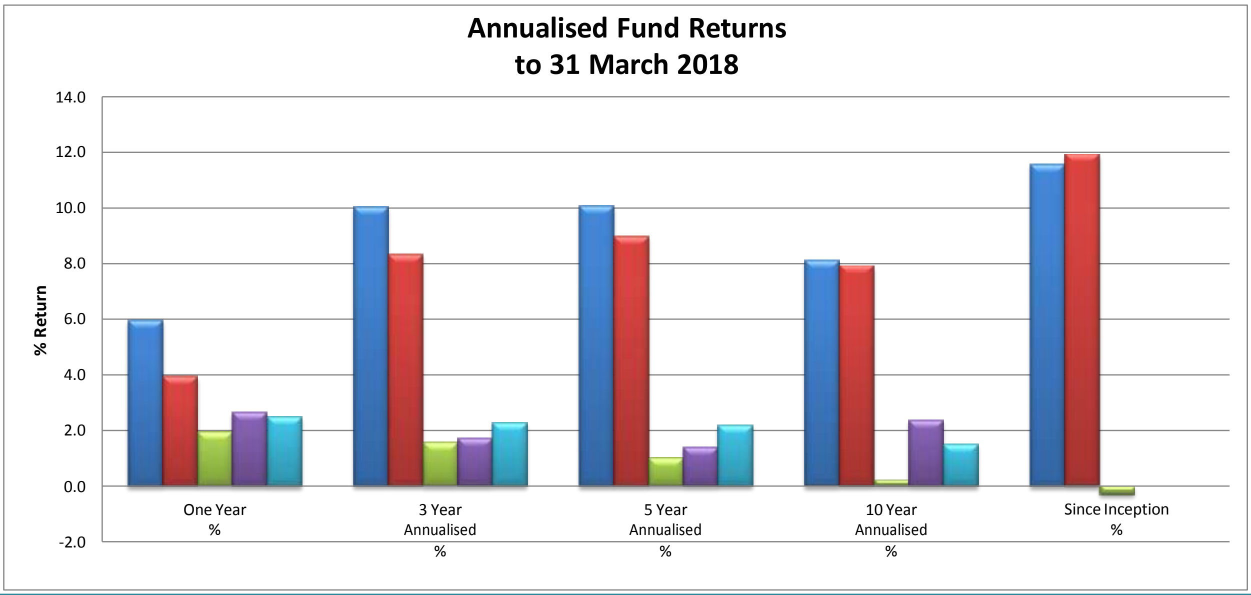
2017 was an extraordinary year for Global Equity Markets with month-on-month gains taking many to the brink of record highs. The FTSE All Share rose by +8.7% in the three quarters to end December 2017, and all other major indices rose over the same period. Bullish investor sentiment was due to broad based global economic growth and accelerating global trade.

Positive sentiment continued into Quarter 1 2018, when markets rode a virutal see-saw; rising in the best January since 1987, plummeting at the start of February on fears of rising inflation and interest rates globally, climbing again when those fears were allayed before falling in March as rhetoric around protectionist policies increased. Gains in the final days of the quarter were not enough to counter losses sustained in February, and while equity market returns for 2017/18 were positive, they were markedly lower than they might otherwise have been.

Having been weighed down by uncertainties over Brexit and potential interest rate rises, Sterling rose towards the end of the year and was up against the dollar, buoyed as Britain and the European Union agreed to a 21 month Brexit transition period. The FTSE All Stocks index posted a marginal gain (+0.5%) as did the Sterling Corporate Bond Market (+1.3%). The performance of the UK commercial property market continued its ascent (+11.4%). Returns were supported by a buoyant industrial sector, and despite a decline in the number of transactions at the end of the year, overseas investors remained acquisitive.



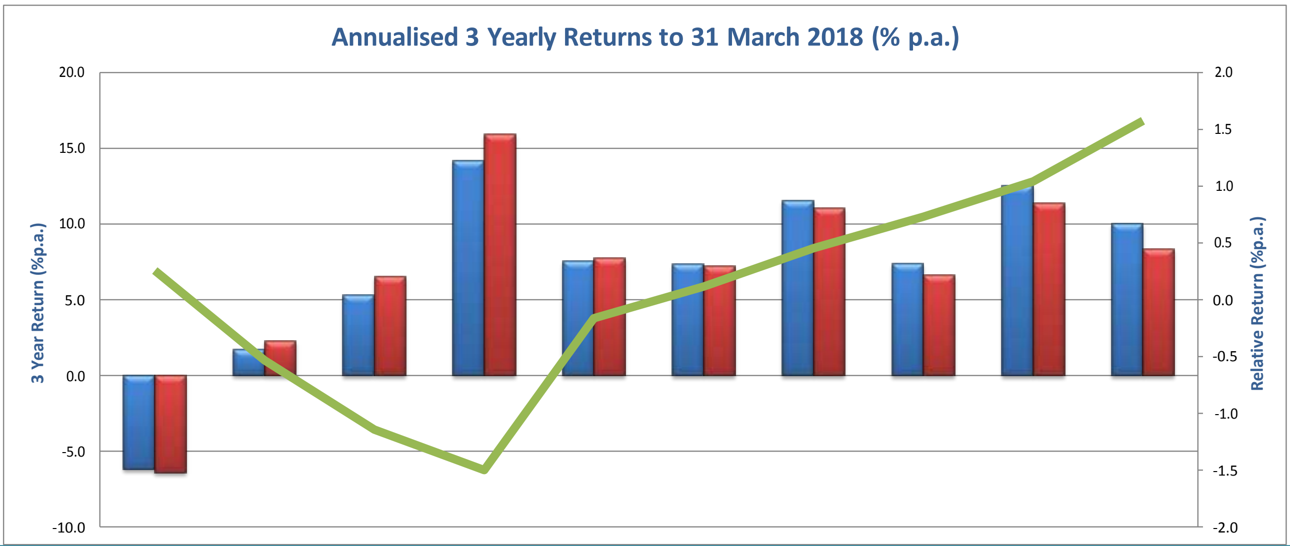
FUND PERFORMANCE



	One Year %	3 Year Annualised %	5 Year Annualised %	10 Year Annualised %	Since Inception %
Fund Return	6.0	10.0	10.1	8.1	11.6
Fund Benchmark	3.9	8.3	9.0	7.9	11.9
Relative Return	1.9	1.6	1.0	0.2	-0.3
Inflation	2.6	1.7	1.4	2.4	
Average Earnings	2.5	2.3	2.2	1.5	

Over the year to end March 2018, the Fund returned **+6.0%** against a benchmark return of **+3.9%**. Equity portfolios were the most significant contributors to both absolute and relative performance.

Over the long term, absolute returns have been strongly positive and the Fund has outperformed the benchmark over 3, 5 and 10 years.



	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
Fund Return	-6.2	1.7	5.3	14.2	7.6	7.4	11.6	7.4	12.5	10.0
Benchmark Return	-6.4	2.3	6.5	15.9	7.8	7.2	11.1	6.6	11.4	8.3
Relative Return	0.3	-0.5	-1.1	-1.5	-0.2	0.1	0.5	0.7	1.0	1.6

Rolling 3 year returns have steadily improved since 2014. Baillie Gifford's Global ex US equity portfolio and the Fund's private equity and property managers have contributed most to the Fund's relative outperformance over the 3 years to end March 2018.

The perfomance of the Fund's investment managers over 2017/18 is shown below:

Manager	Annual Return (%)	Benchmark Return (%)	Relative Return (%)
Legal & General	4.1	2.8	1.3
Baillie Gifford	9.4	4.3	4.9
Lazard	4.1	2.4	1.7
Oldfield	0.9	1.3	-0.3
Veritas	0.9	2.4	-1.4
Henderson	10.2	6.6	3.4
JP Morgan	17.2	8.0	8.4
Genesis	10.1	11.0	-0.8
Pantheon	8.8	1.2	7.5
Partners Group (Private Equity)	11.0	1.2	9.6
PIMCO	1.1	3.7	-2.5
Barings (Multi Credit)	3.8	4.4	-0.6
Oakhill Advisors	2.6	4.4	-1.7
Barings (Private Debt)	5.3	4.4	0.9
Alcentra	8.0	4.4	3.5
DTZ	11.2	10.4	0.8
Partners Group (Real Estate)	3.6	1.8	1.8
Direct Investment Portfolio	7.6	0.4	7.1
Total Fund	**6.0**	**3.9**	**1.9**

DIRECT INVESTMENT PORTFOLIO (DIP)

In December 2009, the Strathclyde Pension Fund Committee agreed an initial governance structure for a New Opportunities Portfolio, which was rebranded during 2015/16 as the Strathclyde Direct Investment Portfolio (DIP).

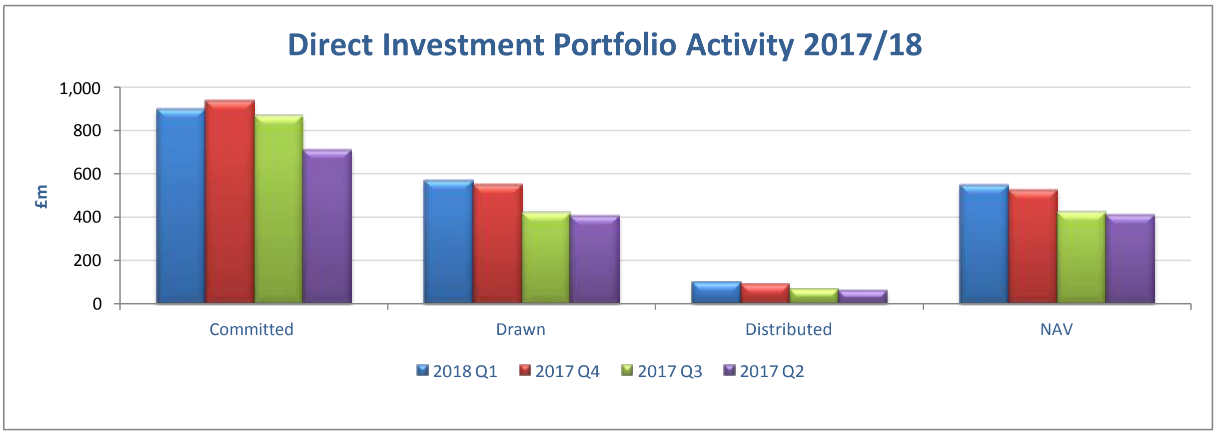
DIP investments are typically illiquid, self-liquidating, and opportunistic. Focused on investment in Scotland and the rest of the UK, strong fundamentals are usually enhanced by a positive local, economic or ESG (Environmental, Social, Governance) impact which adds value to the investment rationale.

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

During 2017/18, the Committee agreed the following commitments:

- £20m to Resonance British Wind Energy Income Ltd Fund II, to acquire and hold a portfolio of small & medium sized operational, onshore wind farms in the UK.
- £30m to Temporis Operational Renewable Energy Fund II, to invest in UK based wind and solar projects post-construction and in the early stages of their operating life.
- An additional £80m to Pensions Infrastructure Platform's UK Multi-Strategy Infrastructure Fund.
- £30m to Tosca Debt Fund to provide secured loans to UK regional businesses in the lower mid-market.
- £50m to Hermes Infrastructure Fund II to create a portfolio of direct investments in utilities, renewable energy, transport & social infrastructure assets.
- £50m to Dalmore Capital Fund 3 LP to generate income from a diversified portfolio of low volatility, infrastructure equity assets.

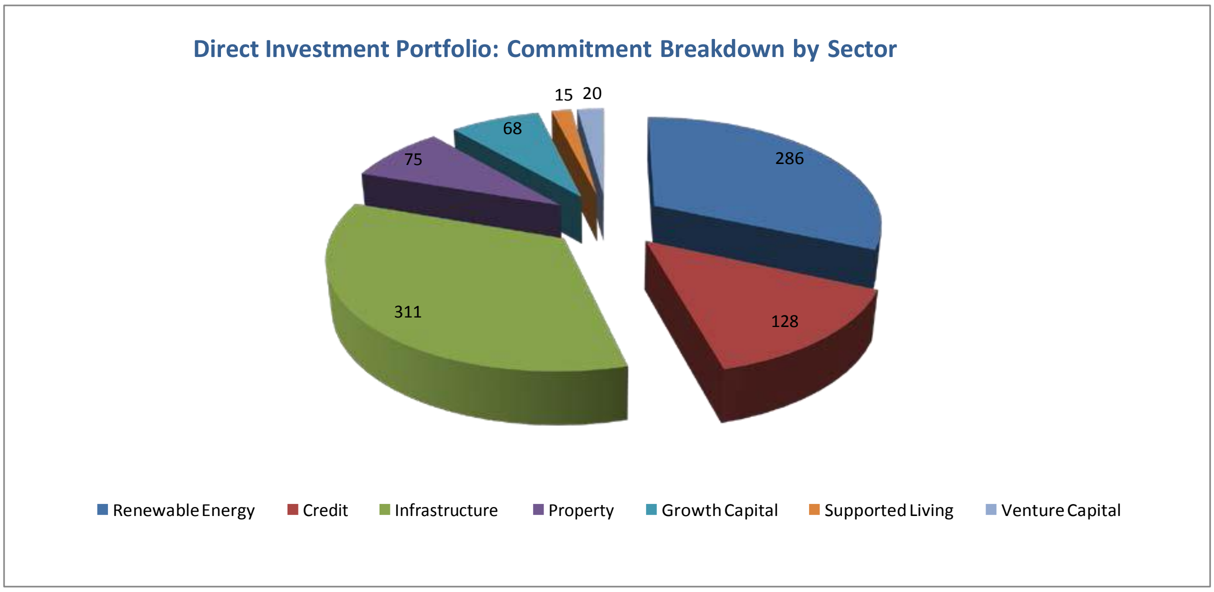
The chart below shows how the portfolio has developed over the course of 2017/18.



The Direct Investment Portfolio spans seven broad sectors with Infrastructure (34%), Renewable Energy

(32%) and Credit (14%) comprising the three largest components and representing a combined 80% of the overall portfolio. This is illustrated in the chart below.

Within Renewable Energy and Infrastructure in particular there is significant additional diversification by fund manager, sub-sector (wind, waste, solar) and across individual investment assets.



A complete list of Direct Investment Portfolio commitments as at 31 March 2018 is shown in the table below:

Fund	Vintage Year	Sector	SPF Commitment (£m)
Scottish Loans Fund	2011	Credit	10
GAM(formerly Renshaw Bay)	2014	Credit	10
Healthcare Royalties Partners III LP	2014	Credit	18
Muzinich UK Private Debt Fund	2016	Credit	20
Pemberton UK Mid-Market Direct Lending Fund	2017	Credit	40
Tosca Debt Fund	2017	Credit	30
SEP III	2006	Growth Capital	5
Panoramic Growth Equity Fund I	2010	Growth Capital	3
SEP IV LP	2011	Growth Capital	5
Panoramic Growth Equity Fund II	2015	Growth Capital	15
SEP V LP	2016	Growth Capital	20
Maven Regional Buyout Fund	2017	Growth Capital	20
PPP Equity PIP LP (Dalmore)	2014	Infrastructure	50
Equitix Fund IV LP	2016	Infrastructure	30
Pensions Infrastructure Limited	2016	Infrastructure	1
PIP Multi-Strategy Infrastructure LP	2016	Infrastructure	130
Dalmore Capital Fund 3 LP	2017	Infrastructure	50
Hermes	2017	Infrastructure	50
Clydebuilt Fund LP	2014	Property	75
Iona Environmental Infrastructure LP	2011	Renewable Energy	10
Albion Community Power PLC	2014	Renewable Energy	20
SEP Environmental Capital Fund LP	2014	Renewable Energy	5
Aviva Investors PIP Solar PV LP	2015	Renewable Energy	20
Green Investment Group Offshore Wind Fund LP	2015	Renewable Energy	80
Resonance British Wind Energy Income Ltd	2015	Renewable Energy	10
Temporis Renewable Energy LP (Offshore Wind)	2015	Renewable Energy	30
NTR Wind I LP (Project Gael)	2016	Renewable Energy	40
Iona Environmental Infrastructure LP 3	2017	Renewable Energy	20
Resonance British Wind Energy Income Ltd II	2017	Renewable Energy	20
Temporis Operational Renewable Energy Strategy LP Fund II	2017	Renewable Energy	30
Alpha Social Long Income Fund	2016	Supported Living	15
SEP II	2004	Venture Capital	5
Epidarex	2013	Venture Capital	5
Pentech Fund III	2017	Venture Capital	10
Total			**903**

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

A report summarising responsible investment activity is considered by the Strathclyde Pension Fund Committee every quarter. Reports can be viewed on the Fund's website at **www.spfo.org.uk**

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

Child labour

Fire & Building safety in the Bangladesh garment industry

Mine safety

- Climate change
- Welfare and sustainability in the cocoa industry
- Executive remuneration
- Water rights
- Farm animal welfare
- Corporate corruption
- Deforestation
- UK Corporate Governance Code
- Labour rights
- Protection of endangered species
- Human rights
- Inhumane weapons
- Fossil fuel to renewables
- Tax transparency
- Oil and gas exploration and extraction in the Arctic
- Factory farming emissions

The Living wage

Cybersecurity

Voting Results 2017/18 United Kingdom

	No. of Meetings	No. of AGM's	No of EGM's	Combined AGM/EGM	No. of Resolutions	Votes For	Votes Against	Abstentions	Not Voted	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	**12**	10	2	0	**251**	242	8	1	0	12	0
Genesis	**15**	11	4	0	**254**	228	4	22	0	15	0
Henderson	**111**	88	19	4	**1,246**	1,169	10	4	63	111	0
JP Morgan	**3**	2	1	0	**39**	35	4	0	0	3	0
Lazard	**10**	8	2	0	**182**	178	2	0	2	10	0
Legal & General	**775**	629	146	0	**11,217**	10,714	502	1	0	775	0
Legal & General - Segregated Portfolio	**4**	4	0	0	**66**	57	9	0	0	4	0
Oldfield Partners	**5**	3	2	0	**76**	76	0	0	0	5	0
Veritas	**4**	3	1	0	**70**	70	0	0	0	4	0
Total	**939**	**758**	**177**	**4**	**13,401**	**12,769**	**539**	**28**	**65**	**939**	**0**
						95.3%	**4.0%**	**0.2%**	**0.5%**	**100%**	**0%**

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.

Voting Results 2017/18 Overseas

	Total Meetings	AGM's	EGM's	Combined AGM/EGM	No of Resolutions	Votes For	Votes Against	Abstentions	Not Voted	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	**65**	54	5	6	**937**	775	44	14	104	65	0
Genesis	**258**	165	71	22	**3,155**	2,802	209	82	62	258	0
Henderson	**16**	12	4	0	**107**	73	17	2	15	16	0
JP Morgan	**384**	324	39	21	**3,475**	2,671	431	27	346	384	0
Lazard	**91**	84	3	4	**1,342**	1,102	72	10	158	91	0
Legal & General	**3,006**	2,387	619	0	**35,477**	29,710	5,642	125	0	3,006	0
Legal & General - Segregated Portfolio	**217**	150	53	14	**2,770**	2,204	116	61	389	217	0
Oldfield Partners	**19**	17	2	0	**327**	216	56	0	55	19	0
Veritas	**29**	24	4	1	**478**	366	21	8	83	29	0
Total	**4,085**	**3,217**	**800**	**68**	**48,068**	**39,919**	**6,608**	**329**	**1,212**	**4,085**	**0**
						83.0%	**13.7%**	**0.7%**	**2.6%**	**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. Votes against and abstentions are analysed in more detail in the voting record schedule which is available on the Fund's website at **www.spfo.org.uk**

SECTION 6

ADMINISTRATION

ADMINISTRATION

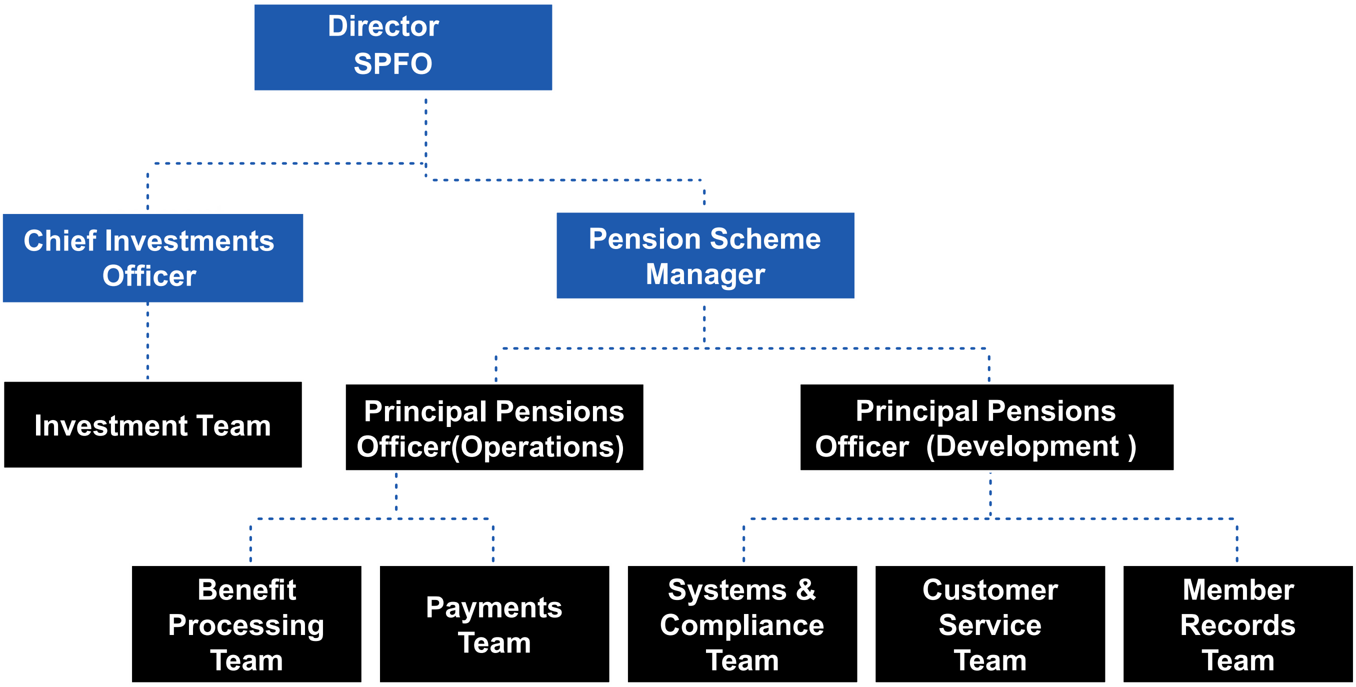
Administration of the Local Government Pension Scheme (LGPS) and its benefits for members of the Strathclyde Pension Fund is carried out by the Strathclyde Pension Fund Office (SPFO).

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

Total staff in post at 31st March 2018 was 93 (FTE 90.19). This included 10 modern apprentices.

The SPFO staffing structure model is shown below.

SPFO STRUCTURE



SCHEME MEMBERSHIP

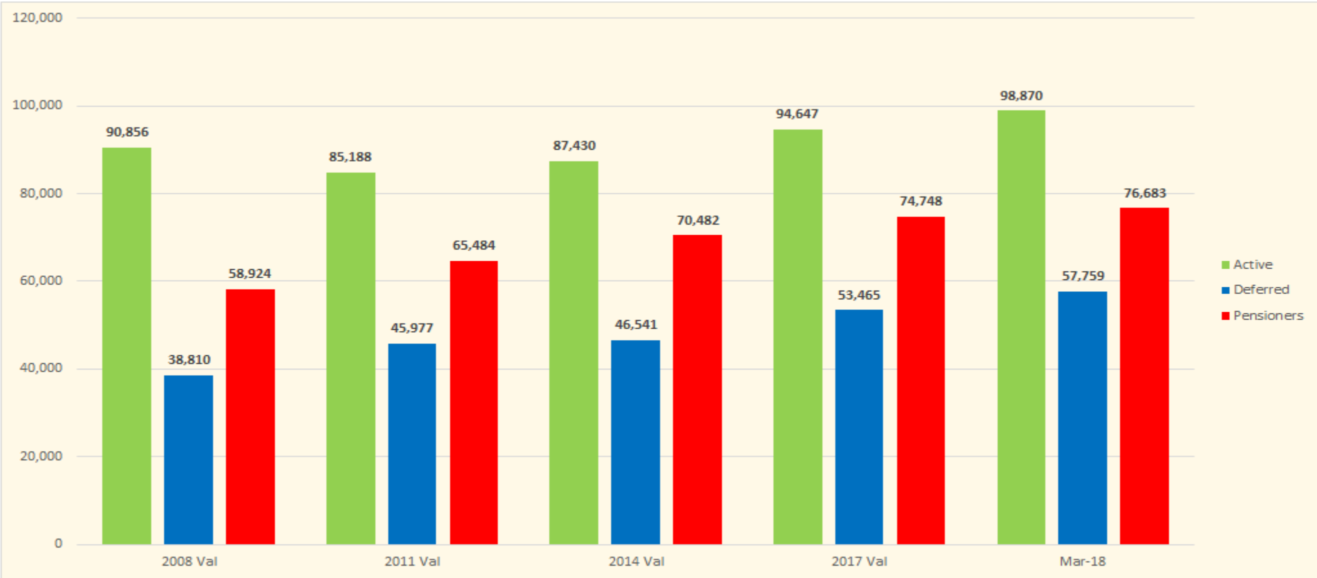
The following table summarises the movement in scheme membership over 2017/18.

MEMBERSHIP ANALYSIS - Strathclyde Pension Fund

STATUS	TOTAL AT 01/04/2017	TOTAL OFF	TOTAL ON	TOTAL AT 31/03/2018
Active	93,671	8,151	13,350	98,870
Deferred / Undecided Leavers	55,372	3,498	5,885	57,759
Pensioners	75,024	2,679	4,338	76,683
TOTAL	**224,067**	**14,328**	**23,573**	**233,312**

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

Membership Analysis as at 31st March 2018



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 on the LGPS 2015 website.

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

ADMINISTRATION STRATEGY

BACKGROUND

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

The strategy aims to ensure that:

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

SPFO SERVICE STANDARDS

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

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

PERFORMANCE – SPFO

Administration performance is reported quarterly to the Pension Board and to the Strathclyde Pension Fund Committee. All committee reports are published in the Governance area of the SPFO website at **www.spfo.org.uk**

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 2017/18.

TRANSACTION TURNAROUND PERFORMANCE 1ST APRIL 2017 TO 31ST MARCH 2018

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

The table below shows the targeted and actual performance for 2017/18 measured against the statutory timescales.

TURNAROUND PERFORMANCE						
Process	**Volumes**	**SPF Target Days**	**SPF Target %**	**SPF % achieved**	**Statutory Timescale**	**Statutory Timescale % achieved**
Membership Transactions						
Data Changes	16,309	15 days	95%	94.27%	One month from receipt	100%
Early Leavers:						
Refund Options	2,539	10 days	90%	83.77%	2 months from receipt	98.54%
Refund Actual	2,335	7 days	90%	94.13%	As soon as is reasonably practicable	N/A
Deferred Benefit	2,220	10 days	90%	71.62%	2 months from receipt	83.15%
Transfers						
Transfer in quotation	93	10 days	85%	77.63%	2 months of request	94.62%
Transfer in Actual	95	7 days	85%	83.16%	As soon as is reasonably practicable	N/A
Transfer Out Quotation	1,338	15 days	90%	35.89%	3 months of receipt (6 months)	97.38%
Club Transfers	95	12 Days	90%	78.95%	As soon as is reasonably practicable	N/A
Non Club Transfers	250	12 Days	90%	59.60%	As soon as is reasonably practicable	N/A
Retirements						
Estimates	3,159	20 days	80%	79.67%	2 months of request	98.00%
Payments						
Pensions payroll run on time	12	N/A	100%	100%	100%	100%
New retirals processed for due payroll date	1050	N/A	95%	92.23%	N/A	
Retirement lump sums paid on retirement date	1050	N/A	95%	92%	N/A	
Contribution income received by due date	12	N/A	100%	100%	100%	100%

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.

Over the year 2,135 retirals were processed, 1,050 were received within SPF's two months required notice period.

Performance was mixed in 2017/18. SPFs internal target was not achieved in a majority of categories measured , but achievement of statutory target was above 95% in all but one category.

CUSTOMER SERVICE

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

SURVEY RESULTS – 1ST APRIL 2017 TO 31ST MARCH 2018

	Refunds	Retirals
Forms issued	**2,335**	**2,135**
Responses	1,297	881
Response rate (%)	55.5	41.3
"Satisfaction Rating" (%)	**84.6**	**89.6**
Target (%)	80.0	90.0
2016/17 full year (%)	*82.8*	*88.6*

Response rate was high and satisfaction rating improved on the previous year for both categories. Satisfaction target was achieved for refunds. Retirals fell a little short of target.

SPFO DATA QUALITY

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

The table below shows the quality of data held by SPFO at 31st March 2018. The Pension Regulator's guidance sets a target of 100% accuracy for new common data received after June 2010.

SPFO Data	Current
Very good data with minimal requirements	
Forename	**100%**
Surname	**100%**
Membership Status	**100%**
Date of Birth	**99.99%**
NI Number	**98.78%**
Post Code	**98.77%**
Address	**93.85%**
Poor data with high cleansing requirements	

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

EMPLOYER SERVICE STANDARDS

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

PERFORMANCE - EMPLOYERS

The table below details the performance achieved by employers in 2017/18 in relation to key service standards. Performance is far from satisfactory, but did improve significantly for last year.

Service Standard	*Achieved 16/17*	Achieved 17/18
Good quality new member data received by SPFO (from Local Authority Employers)	*72%*	88%
Electronic data changes received (Local Authority Employers)	*60%*	74%
2 months prior notice of retirement received	*35%*	52%
Submission of year-end contribution return by 20th May	*76%*	66%
Remittance of employee and employer contributions by 19th of the month following deduction (Local Authority Employers)	*99%*	100%

STARTERS AND EARLY LEAVERS – EXCEPTION RATE

Employers are required to notify SPFO promptly of members joining or leaving the scheme. There is some incidence of failure to do this and regular reports are issued to employers identifying missing data, both historic and current. The table below summarises the position at 31st March 2018.

	Members	%
Record status matched	**97,185**	**98.3**
Missing new start data	**761**	**0.8**
Missing leaver data	**924**	**0.9**
Total employee members	**98,870**	**100**

The aggregate prior and current year exception rate of 1.70% achieves the year-end target of <2.0%.

REPORTING TO THE PENSIONS REGULATOR

During 2017/18 there were no instances of late payment of member contributions or other breaches which were considered to be of material significance such that they required to be reported to The Pensions Regulator. All breaches of the regulations which are identified are logged within SPFO.

FUND MEMBERSHIP – PARTICIPATING EMPLOYERS

A

Access to Employment Ayr Ltd
ACCESS (Service Glasgow LLP) **(E)**
Alternatives West Dumbarton Community Drug Services
AMEY BFO Services Ltd (Renfrewshire Schools PPP)
Amey Public Services LLP
Argyll & Bute Council
Argyll & Bute Local Learning Partnership Ltd
Argyll Community Housing Association Ltd
Aspire2gether Ltd
Auchenback Active Ltd
Ayr Action for Mental Health Limited
Ayr Housing Aid Centre
Ayr Renaissance LLP **(E)**
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)
Bridgeton Calton and Dalmarnock Credit Union

C

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

D

Deaf Connections
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 **(N)**
Enable Services Ltd **(E)**
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 City Marketing Bureau Limited
Glasgow Clyde College
Glasgow Colleges Regional Board **(N)**
Glasgow Community and Safety Services Ltd
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
HIE Argyll & the Islands (Argyll & The Islands Enterprise Company Limited)
Hillhead Housing Association 2000 **(E)**

I

Inverclyde Council
Inverclyde Leisure

J

Jordanhill School
Jobs and Business Glasgow

K

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

L

Lanarkshire Association for Mental Health
Lanarkshire Housing Association Ltd
Lanarkshire Valuation Joint Board
Linstone Housing Association Ltd
Live Argyll **(N)**
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
Notre Dame Child Guidance Clinic **(E)**

O

Optima Working in 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 Society for the Mentally Handicapped **(E)**
Scottish Water

Scottish Water Business Stream Ltd
SEEMIS Group LLP
Shettleston Housing Association
Skills Development Scotland Ltd
South Ayrshire Council
South Ayrshire Energy Agency
South Lanarkshire College
South Lanarkshire Council
South Lanarkshire Leisure & Culture Limited
Southside Housing Association
SportScotland
St Columba's School Limited
St Philip's Approved School
Strathclyde Partnership for Transport
Strathclyde Wing Hong Chinese Elderly Group
Strathleven Regeneration Company Ltd **(E)**

T

The Alpha Project
The Financial Fitness Resource Team The
The Jeely Piece Club **(E)**
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
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 Regional Equality Council
West of Scotland Loan Fund Limited

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 2017/18 is summarised in the following table.

Total employers at 1st April 2017	182
New employers	+4
Exiting employers	-8
Total employers at 31st March 2018	178

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

In 2016 we launched a membership campaign under the tagline "**For Your Future"** to assist with member recruitment and retention**.** Membership has increased significantly in each of the 2 subsequent years. The campaign was also instrumental in the Fund winning Professional Pensions Scheme of the year 2017, for Defined Benefit Communciations in the public sector.

During scheme year 2017 / 2018 we also:

- Further consolidated the success of our digital communications strategy with 11,700 new digital members registered for our data portal *SPFOnline* taking the total to over 63,000
- Produced and issued annual pension updates and newsletters to our employee and deferred members within the 31 August statutory deadline
- Delivered 91% 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	2017/18 Actual	2017/18 Target	*2016/17 Actual*
www.spfo.org.uk	total weekly visits	**4,892**	5,500	*4,987*
	unique weekly visitors	**3,708**	4,500	*3,969*
SPFOnline	members registered	**63,617**	53,000	*51,917*

Independent Auditors Report

To follow

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: Paul Murphy

Managing the Local Government Pension Scheme in the west of Scotland

CONTACT

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