NOTICE OF MEETING

Strathclyde Pension Fund Board

Agenda **Wednesday, 27th November 2024 at 11:30 hours**

Part 1: Pension Board Business

1. Conflicts of Interest
   Board members are reminded to declare any new conflicts or potential conflicts.

2. Minutes of previous meeting.

3. Scheme Advisory Board Update
   Latest SAB bulletin attached.

4. Review of Direct Impact Portfolio
   Presentation by Strathclyde Pension Fund Officers.

Part 2: Strathclyde Pension Fund Committee Agenda

Papers for the meeting of the Strathclyde Pension Fund Committee at 13:30 hours on 27th November 2024 have been issued to Board members. The Board is invited to discuss and comment on the papers and their contents.

1. Training - Presentation by Legal & General Investment Management.

2. Award of Contracts - Report by Director of Strathclyde Pension Fund:

   (a) Data Services - Mortality Screening; and **Page(s) 1 to 6**

   (b) UK Property Portfolio - Development works at Bankside House. **Page(s) 7 to 12**

3. Direct Impact Portfolio - Review of Investment Strategy - Report by Director of Strathclyde Pension Fund. **Page(s) 13 to 46**

4…/

4. Internal Audit - Reports by Head of Audit and Inspection:

   (a) Pension Payroll Process; and **Page(s) 47 to 56**

   (b) Follow-up report. **Page(s) 57 to 60**

5. Administration - Update - Report by Director of Strathclyde Pension Fund. **Page(s) 61 to 70**

6. Finance - Update - Report by Director of Strathclyde Pension Fund. **Page(s) 71 to 76**

7. Investment - Update - Report by Director of Strathclyde Pension Fund. **Page(s) 77 to 116**

8. Risk Register - Update - Report by Director of Strathclyde Pension Fund. **Page(s) 117 to End**

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STRATHCLYDE PENSION FUND
BOARD'S MINUTES

Item 2

27th November 2024

Glasgow, 11th September 2024.

Strathclyde Pension Fund Board.

Present:	Councillor Sandy Watson, North Lanarkshire Council (Chair); Councillor Ian Davis, South Ayrshire Council; Scott Donohoe, UNISON; Thomas Glavin, UNITE and Stephen Kelly, UNISON.
Apologies:	Darren Paterson, Scotland Police Authority and Andy Thompson, GMB.
Attending:	A Wyber (Clerk); R McIndoe, Director of Strathclyde Pension Fund; J Gillies, I Jamieson, R Keery, L Martin and L Welsh (Strathclyde Pension Fund Office) and S MacLean (Financial Services).

Register of Interests for 2024/25 noted etc.

1 There was submitted a report by the Director of Strathclyde Pension Fund regarding the rules, policies and procedures relating to declaration and registration of Board members' interest.

After consideration, the Board noted

(1) the rules, policies and procedures relating to members' interests; and

(2) the Register of Interests for 2024/25 as detailed in the report, subject to amendments in relation to Councillor Sandy Watson, North Lanarkshire Council's declarations of interest.

Minutes of previous meeting.

2 The minutes of the meeting of 26th June 2024 were submitted and approved.

Appointment of Chair etc approved.

3 The Board were advised that under the Pension Fund regulations, employers and trade unions Chair the Board for alternative years and it had now been the turn of the trade union side to Chair the meeting.

After consideration, the Board agreed

(1) to appoint Andy Thompson, GMB, as the Chair of this Board; and

(2) that in the absence of Andy Thompson, Councillor Sandy Watson, North Lanarkshire Council would Chair the meeting.

Future Training Event noted.

4 The Board noted that the LGPS Investment Seminar Scotland 2024 would take place in Edinburgh on 31st October to 1st November 2024.

Creating a sustainable future for Scottish LGPS - Letter from Councillor David Parker, Borders Council – UNISON's concerns noted – Circulation of letter to members of Strathclyde Pension Fund Committee agreed.

5 Scott Donohue, UNISON raised concerns regarding a letter from Councillor David Parker, Borders Council regarding creating a sustainable future for the Scottish LGPS, advising that

(1) UNISON's view on the matter was as follows:-

"The letter appears to have been sent out to the pension fund, and possibly others. It is an attempt by a prominent Borders councillor, also vice-chair of the Scheme Advisory Board, to bypass the legitimate role of the Scheme Advisory Board. It aims to set an agenda for the future of Scottish LGPS Funds - workers deferred wages - under the guidance of the investment industry and without any trade union input. This had7 not been supported by the Borders LGPS Board, on which UNISON had representatives.

UNISON was completely opposed to this attempt to bypass agreed statutory joint structures for discussing the future of its members pension funds. UNISON view it as illegitimate and anti-trade union";

(2) UNISON requested that members of Strathclyde Pension Fund Board and Committee express their opposition to this initiative; and

(3) he wished to raise the matter at today's Strathclyde Pension Fund Committee meeting.

After consideration and having heard officers advice that Strathclyde Pension Fund Committee would not be the appropriate place to raise this matter, the Board

(a) noted UNISON's views on the matter; and

(b) agreed that a copy of Councillor David Parker's letter be circulated to members of this Board and Strathclyde Pension Fund Committee for their information.

Dates and times for 2025 noted.

6 The Board noted the dates and times of Strathclyde Pension Fund Board and Committee meetings for 2025.

Strathclyde Pension Fund – Draft annual audit report 2023/24 noted.

7 There was submitted and noted a report by the Director of Strathclyde Pension Fund detailing EY's draft annual audit report for 2023/24 for Strathclyde Pension Fund.

Strathclyde Pension Fund – Audited Annual Accounts 2023/24 noted.

8 With reference to the minutes of Strathclyde Pension Fund Committee of 26th June 2024 (Print 3, page 184) accepting the unaudited Annual Accounts for 2023/24 and noting that the unaudited accounts would be submitted to EY, who upon completion of the audit would report its findings to this committee by the end of September 2024, there was submitted a report by EY regarding the audited Annual Accounts for 2023/24.

After consideration, the Board noted the report in conjunction with the draft EY annual audit report in relation to the audit of the accounts and the full copy of Strathclyde Pension Fund's audited Annual Accounts for 2023/24

Hymans Robertson – Presentation noted.

9 The Board noted that Hymans Robertson would make a presentation at Strathclyde Pension Fund Committee today on the Pension Regulator's General Code of Practice.

Strathclyde Pension Fund - Compliance with Pension Regulator's General Code of Practice noted.

10 There was submitted and noted a report by the Director of Strathclyde Pension Fund regarding a review of Strathclyde Pension Fund's Compliance with the Pension Regulator's General Code of Practice, advising

(1) that the Pension Regulator (TPR) had published a single General Code of Practice (GCoP) for all pension schemes including the public sector which came into effect on 28th March 2024;

(2) that following publication of the GCoP, Hymans Robertson had launched a TPR General Code of Practice compliance checker for Local Government Pension Scheme funds and Strathclyde Pension Fund had completed an initial assessment of its GCoP compliance using this purchased self-assessment tool, as detailed in the report; and

(3) of the next steps and action plan, as detailed in Appendix A to the report.

Direct Impact Portfolio – Quinbrook Renewables Impact Fund II – investment proposal noted.

11 There was submitted a report by the Director of Strathclyde Pension Fund regarding a proposal to invest in Quinbrook Renewables Impact Fund II, advising

(1) of the investment proposal; and

(2) of the expected return from the fund, the main risks and the exit strategy.

After consideration, the Board noted the proposal to invest £60m in Quinbrook Renewables Impact Fund II by the Direct Impact Portfolio.

Strathclyde Pension Fund - Administration performance – Position noted.

12 There was submitted and noted a report by the Director of Strathclyde Pension Fund advising of performance and current issues within the benefits administration area of Strathclyde Pension Fund Office as at 30th June 2024.

Financial statements – Current position noted.

13 There was submitted and noted a report by the Director of Strathclyde Pension Fund regarding financial statements for the administration of Strathclyde Pension Fund detailing the administration cost monitoring and cash flow statements for period 6 to 23rd August 2024.

Strathclyde Pension Fund – Investment performance noted.

14 There was submitted and noted a report by the Director of Strathclyde Pension Fund regarding

(1) the investment performance to 30th June 2024;

(2) a summary of the distribution of portfolios and Direct Impact Portfolio investment as at 30th June 2024;

(3) the outcome of the Investment Advisory Panel meetings of 9th May and 15th August 2024; and

(4) stewardship activity during Quarter 2.

Strathclyde Pension Fund – Funding – Position noted.

15 There was submitted and noted a report by the Director of Strathclyde Pension Fund regarding the funding position for Strathclyde Pension Fund as at 31st July 2024, advising

(1) that the funding position of Strathclyde Pension Fund was formally assessed every 3 years in the triennial actuarial valuation carried out by the Fund's actuaries, Hymans Robertson;

(2) that between formal valuation, Hymans Robertson provided tools and reporting to facilitate monitoring of the interim funding position of Strathclyde Pension Fund and the funding report, as detailed in an appendix to the report had shown an improvement in the funding level from 147% at the 31st March 2023 valuation to 163% at the 31st July 2024 valuation;

(3) of the Scottish Government's consultation on proposed change to the Pension Regulations which would create a discretion for administering authorities to determine the amount of exit credit which should be payable to an employer leaving the Local Government Pension Scheme; and

(4) of Strathclyde Pension Fund's policy and practice in relation to exit payments.

Business Plan 2024/25 – Progress noted.

16 There was submitted and noted a report by the Director of Strathclyde Pension Fund regarding an update on progress in respect of the business and development priorities listed in the Fund's 2024/25 Business Plan, as detailed in an appendix to the report.

Risk Register – Position noted.

17 There was submitted and noted a report by the Director of Strathclyde Pension Fund regarding an update on the risk register and the most significant risks for Strathclyde Pension Fund Office, as detailed in an appendix to the report.

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Item 3
27th November 2024

October 2024

BULLETIN

Gender Pensions Gap – A Scottish online webinar on this has been arranged by the SAB for the LGPS community in Scotland. This will include Alexandra Miles (Pensions Equity Group), Jo Donnelly (E&W SAB Secretary), and Martin Smith (GAD). It will be on Teams at 12-2pm on Tuesday 26 November 2024. All are welcome to join at https://tinyurl.com/SLGPSGenderPensionsGap.

Exit Credit Regulations – New regulations are due to be laid giving funds more clarity on calculating credits for exiting employers. The SAB is developing associated guidance, and both are expected by the end of the year.

Good Governance – the SAB has approached funds and boards to identify dates for a good governance conference, primarily aimed at board members, now likely to be in the new year.

Cost Transparency System – the re-procurement of this system is under review, and funds are being consulted by the working group (which includes SAB representation). The focus is on maximising the potential of the system, and ensuring value for money.

Fund Annual Reports – the SAB approved a paper recommending funds comply with the CIPFA approved Fund Annual Reporting guidance, developed by the English and Welsh SAB with Scottish input.

Scheme Cost Control – The SAB is using its external support to finalise proposals on the appropriateness of a ‘pre-breach’ mechanism should the scheme cost collar be breached.

External Support – This resource was also agreed to be initially used to produce briefing papers on the strategic direction of UK pensions policy and on good practice on addressing climate risk in investments.

SAB Chairs – the SAB annually rotates its chair between employer and trade union sides, and appointed David Parker form the employer side as chair, and Andy Thompson from the trade union side as vice-chair. Views were expressed regarding avoiding conflicts of interest.

The SAB is also keen to hear **your views on this bulletin**, and how it can be improved. Please email the join secretaries jonathan@cosla.gov.uk and s.watson@unison.co.uk.

Further details on our website www.lgpsab.scot.

Item 2(a)

27th November 2024

Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

Contact: Linda Welsh, Pension Scheme Manager, Ext: 77463

Appointment: Data Services - Mortality Screening

Purpose of Report:

To conclude a tendering exercise for the provision of a mortality screening service.

Recommendations:

The Committee is asked to **APPROVE** the appointment of **Heywood Pension Technologies** to provide mortality screening services.

Ward No(s):	Citywide: ✓
Local member(s) advised: Yes ☐ No ☐	consulted: Yes ☐ No ☐

1 Background

Review of the member data services arrangements and contract is included as a development priority in the SPF 2024/25 business plan.

The main objective of the required service is to improve the accuracy of member records in accordance with TPR guidance on record keeping. Mortality screening services will allow SPF to check the existence of members thus avoiding the over-payment of pension benefits and the potential of fraud where pensioner or dependant members have died. SPF is therefore seeking to appoint an efficient and effective supplier to deliver the member data services.

The current contract for member data services ceased on 30th September 2024.

2 Tendering Process

Following consultation with GCC's Corporate Procurement Unit and promotion of National and collaborative Frameworks, it was agreed that the most appropriate procurement route to deliver this contract would be a mini-competition process under Lot 3 of the National Local Government Pension Scheme (LGPS) ISP and Member Data Services Framework agreement, reference number NCCT42646.

After a previous tendering exercise was, curtailed this exercise commenced on 16th September 2024 when an Invitation to Mini-Competition was issued to all 6 suppliers appointed to the framework.

The 6 suppliers who received the mini-competition documentation were:

- Accurate Data Services Limited
- Capita Pension Solutions Ltd
- Heywood Pension Technologies
- Lexis Nexis Risk Solutions UK Ltd
- Target Professional Services (UK) Ltd
- The Tracing Group Ltd

Of the 6 suppliers, 4 submitted a tender by 1st October 2024, the deadline for submissions.

The mini-competition documentation included a detailed scope of the services required by the Fund and requested responses to 3 technical questions designed to assess the quality of each of the suppliers' proposals, as well as seeking detailed pricing information for commercial and value for money assessment. Fair work practices were also assessed, and details of voluntary community benefits were requested. The mini-competition award criteria were divided as follows:

- Quality 80%
- Price 20%

The evaluation panel comprising officers of the Fund and the Corporate Procurement Unit (CPU) assessed the tender responses and allocated a score to each candidate. CPU assessed the pricing and fair work practices submissions and allocated a score to each candidate. The final scores for each candidate were as follows:

• Accurate Data Services Ltd	84.5
• Capita Pension Solutions Ltd	87
• Heywood Pension Technologies	92
• The Tracing Group Ltd	66

On the basis of the award criteria, **Heywood Pension Technologies** tendered the most advantageous proposal for the Fund.

3 Top Scoring Supplier: Heywood Pension Technologies

Heywood:

- have been providing industry-leading software solutions for over 50 years;
- have the solutions, capabilities and experience to meet the requirements of the contract;
- are the existing provider of SPF's pensions database system;
- have a wealth of other clients including 68 of the 98 LGPS administering authorities and 54 Police & Fire schemes; and
- provide solutions to the Scottish Public Pensions Agency (SPPA) which administers Scottish schemes for Police & Fire, NHS, and Teachers, serving over half a million members, as well as the national health and social care pension scheme in Northern Ireland through HSC BSO.

This ensures that they continue to invest and develop their software and their people, enabling them to continue to meet the needs of their customers without distraction by:

- harnessing the power of digital engagement
- driving operational efficiency
- delivering unique insights through advanced data analytics

Heywood have over 200 staff based at their Altrincham office and, on average, their consultants have ten years' experience in the industry. Their staff are heavily involved in industry initiatives and have representatives on PASA's Pensions Dashboards, and Data Working Groups.

4 Implementation

Appendix A provides a summary of the scope of service required by the Fund.

Subject to conclusion of contract, the appointment will be effective from 6th December 2024 and will run until 5th December 2030 in line with the conditions of the LGPS framework.

5 Policy and Resource Implications

Resource Implications:

Financial:	Total cost of the contract is expected to be in the region of £14,000 per annum over a 6-year period. This is in line with current expenditure for this service. Prices are fixed for the first year then subject to inflation.
Legal:	Standard call-off terms are agreed with

suppliers when the framework is put in place, allowing only for minor amendments by clients. These terms have already been reviewed by a GCC solicitor.

Personnel:	No issues.
Procurement:	The framework and call off process are described in section 2 above.

Council Strategic Plan: SPF supports all Missions within the Grand Challenge of: ***Enable staff to deliver essential services in a sustainable, innovative and efficient way for our communities.*** The LGPS is one of the key benefits which enables the Council to recruit and retain staff.

Equality and Socio-Economic Impacts:

Does the proposal support the Council's Equality Outcomes 2021-25? Please specify.	No impact
What are the potential equality impacts as a result of this report?	No specific impacts.
Please highlight if the policy/proposal will help address socio-economic disadvantage.	n/a

Climate Impacts:

Does the proposal support any Climate Plan actions? Please specify:	No
What are the potential climate impacts as a result of this proposal?	None

Will the proposal contribute to Glasgow's net zero carbon target?	No
Privacy and Data Protection Impacts:	To be provided for in the legal documentation for the proposed service.
Are there any potential data protection impacts as a result of this report Y/N	No data protection impacts identified.
If Yes, please confirm that a Data Protection Impact Assessment (DPIA) has been carried out	Yes

6 Recommendation

The Committee is asked to **APPROVE** the appointment of **Heywood Pension Technologies** to provide Mortality Screening services.

Appendix A

Scope of Service

Core Service – Mortality Screening

The supplier will provide mortality screening services that include but are not limited to the following;

- Monthly mortality screening reports for pensioner, dependant and teachers compensation members. Approximately 102,000 records currently fall into this category and are being screened on a monthly basis. This figure is likely to increase by between 5-10% during the duration of the contract.
- Be able to accept and return all data electronically to and from the Fund using a secure and encrypted data transfer method.
- Ensure reports are provided on the fifth day of each month, in CSV or Excel format only.
- The supplier must accept a fresh data cut for screening purposes from the Fund monthly.
- Utilising extensive, current and appropriate data sets for efficient and economical screening.
- Ensure monthly reports are comprehensive, accurate and include clear confidence indicators confirming the source of the notification and how likely the match is that has been found.
- Ensure the data sources utilised are frequently updated with all confirmed positive match results removed immediately to ensure duplicate or unnecessary processing is minimised.
- The supplier must ensure all data is received, processed and returned in accordance with the highest industry standards for data management and protection.

Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

Contact: Jacqueline Gillies, Ext: 75186

Item 2(b)

27th November 2024

UK Property Portfolio – Award of Development Contract

Purpose of Report:

To conclude a tendering exercise for the provision of development works (Bankside House) for the Strathclyde Pension Fund property portfolio.

Recommendations:

The Committee is asked to **APPROVE** the appointment of **Scott Osborn Limited** to carry out development works (Bankside House) for the Strathclyde Pension Fund Property Portfolio.

Ward No(s):	Citywide: ✓
Local member(s) advised: Yes ☐ No ☐	consulted: Yes ☐ No ☐

1 Background

The Fund has invested in the UK property market for over 30 years, and its investment strategy currently allocates 9% of total assets to UK property.

DTZ was appointed to manage the Fund's UK property portfolio in 2010, when the portfolio was valued at c.£682million. Since DTZ's appointment, the value of the portfolio has risen to £2,330 million, largely as a result of positive investment performance, but also due to re-investment of rental income and new capital allocation. At 30th September 2024, the portfolio comprised 56 properties and 1 indirect investment, covering the spectrum of industrial, office, retail and other sectors. In line with the growth of the portfolio, the average property size has grown from £13.3m in 2010 to £40m today.

In recent years, DTZ has moved more of the portfolio into inflation linked leases and defensive assets. In addition, the manager has acquired a number of development assets on the Fund's behalf. DTZ has recommended that the Fund proceed with the redevelopment of one asset, Bankside House, an office building situated at 76-80 Southwark Street, London.

An initial tendering exercise was completed during 2022/2023, but due to a delay in planning permission being received and time elapsed, DTZ have followed legal advice to re-run the tender process.

Bankside House was valued at £18.9m as at 30th September 2024.

2 Tendering Process

Following initial consultation with GCC's legal and procurement teams, DTZ, acting as agent for the Fund, have followed a full public procurement process to re-tender the contract for the redevelopment of Bankside House. They have been advised on legal and procurement aspects of the tender process by the Fund's specialist legal advisors, CMS. Cogent Building Consultancy have acted as Project Manager within the procurement process.

The tendering exercise commenced on 2 July 2024 when a contract notice was published on Public Contracts Scotland and Find a Tender Service (FTS). The contract was procured under an open procedure.

The ITT included detailed drawings and scopes of work for all technical services required. Bidders were required to respond to questions covering 4 technical criteria designed to assess the quality of each of the supplier's proposals, fair work practices and detailed pricing information for commercial and value for money assessment. The tender award criteria were divided as follows:

Fair Work First Practices	5%
Scope of Requirements	10%
Implementation- programme	10%
Key Issues-understanding	10%
Resources and Key Personnel	5%
Price	60%

One bid was received and on the basis of the award criteria, **Scott Osborn Limited** achieved an overall score of 95%.

3 Top scoring supplier: Scott Osborn Limited

Scott Osborn Limited are a principal contractor based in Stansted, Essex. They have a track record in delivering development projects of a similar type and complexity. Scott Osborn have been trading for a period in excess of 35 years and are therefore an established business. They returned the lowest price and a high quality and thorough tender return in all other aspects.

4 Implementation

Appendix A sets out a summary scope of works required by the Fund.

Terms agreed, subject to award, will run from approximately March 2025 to May 2027.

5 Policy and Resource Implications

Resource Implications:

Financial:	Total fixed price cost of the contract is **£23,752,365.15**.
Legal:	The form of building contract to be used will be JCTDB2016 with amendments. The Fund's specialist legal services provider to the property portfolio, CMS, have advised on contract terms for the works.
Personnel:	No issues.
Procurement:	The process was conducted in accordance with public procurement rules.

Council Strategic Plan: SPF supports all Missions within the Grand Challenge of: ***Enable staff to deliver essential services in a sustainable, innovative and efficient way for our communities.*** The LGPS is one of the key benefits which enables the Council to recruit and retain staff.

Equality and Socio-Economic Impacts:

Does the proposal support the Council's Equality Outcomes 2021-25? Please specify.	Equalities issues are addressed in the Fair Work First assessment of bidders for this contract. In addition, equalities issues are addressed in the Fund's Responsible Investment Strategy, in

	the scheme rules which are the responsibility of Scottish Government and in the Fund's Communications Policy which has been the subject of an Equalities Impact Assessment.
What are the potential equality impacts as a result of this report?	All appointed contractors are vetted using a third party provider. Checks are undertaken and policies and procedure documentation is required in relation to national living wage policy, underage labour and modern slavery.
Please highlight if the policy/proposal will help address socio-economic disadvantage.	n/a

Climate Impacts:

Does the proposal support any Climate Plan actions? Please specify:	Yes. Strathclyde Pension Fund's Climate Change strategy is being developed in line with Item 34 of the Council's Climate Action Plan. SPF's stewardship activity addresses all of the SDGs to some degree. This is reported regularly to the SPF Committee in a quarterly Investment Update. DTZ Investors have committed to achieving net-zero for SPF's direct property portfolio by 2040.
What are the potential climate impacts as a result of this proposal?	The embodied carbon emissions will be minimised through DTZ relying on criteria set out in its refurbishment guidelines and vetting procedures which the contractor is required to comply with. This includes policies around responsible sourcing of sustainable materials, recycling waste and re-using materials where possible and a conscious effort to exclude or reduce the use of toxic materials. DTZ has modelled the operational energy of the scheme. This notes that the estimated energy intensity use is 113.1kWh/m2, which is 13% lower than the UKGBC's target for whole building energy use intensity for commercial offices of 130kWh/m2. A Life Cycle Analysis has been undertaken and it is expected that the embodied carbon of the development will be below the best practice level for the LETI benchmark.

	Carbon emissions will be generated as part of the proposed works, however the proposal will create a more efficient building with a reduced level of operational emissions post construction. The current EPC rating is a D rating and the building post refurbishment is predicted to obtain a B rating. Mains natural gas will not be used as a fuel source post refurbishment with the building being run on electricity only. BREEAM Excellent is being targeted.
Will the proposal contribute to Glasgow's net zero carbon target?	N/a.
Privacy and Data Protection Impacts:	
Are there any potential data protection impacts as a result of this report Y/N	No.
If Yes, please confirm that a Data Protection Impact Assessment (DPIA) has been carried out	N/a.

6 Recommendation

The Committee is asked to **APPROVE** the appointment of **Scott Osborn Limited** to carry out development works (Bankside House) for the Strathclyde Pension Fund Property Portfolio.

Appendix A

Scope of Works

Bankside House spans two sites which were formerly separate buildings and were redeveloped to form a single office building in 1971. The original Victorian warehouse structure remains to the eastern portion of the site while the western end was constructed in 1971. The property was substantially remodelled and clad in 2001.

The contract works comprise the design, construction, remodelling and refurbishment of the existing office and ancillary plant accommodation at basement, and ground to fourth floor levels. The existing fifth floor level is to be demolished and new fifth and sixth floors will be constructed with new plant and roof terrace above. The building will be substantially rebuilt or reclad to the west, south and part north elevations. New terraces will be formed at fifth and sixth floors to the rear. Internally, the cores are to be rebuilt to provide high quality office plates over basement to sixth floors. The entrance will remain on the corner of Great Guildford and Southwark Streets. New cycle store and plant areas will be provided at basement level, along with a new feature stair linking the office accommodation at ground and basement.

The works to be carried out on the property include but are not limited to the following:

- The main entrance will remain in its current location but be substantially remodelled and refurbished;
- The central core consisting of the main stair and two passenger lifts will be relocated to the northern boundary. This will require new structure to be built at the location of the current single storey area to the north;
- The existing eastern core will be replaced with a new fire fighting core;
- A stair will provide access from basement to ground floor serving the cycle and plant areas;
- A new feature stair will be provided between the ground and basement office suites;
- The existing rendered combustible polystyrene cladding will be removed and replaced with a new blue façade including new bay windows along Great Guildford and Southwark Streets;
- The existing balconies on the northern façade will be removed and new private terraces will be formed at fifth and sixth floors;
- The existing fifth floor level is to be demolished and a new fifth and sixth floors will be constructed with new plant and roof terrace above; and,
- Internal fabric and services will be replaced.

As part of the refurbishment works the proposed scheme includes the following sustainability credentials:

- Minimum B EPC rating;
- BREEAM Excellent;
- WELL Building Standard certification;
- Decarbonisation of the building through the removal of existing gas supply;
- Installation of air source heat pump to control air handling;
- Improved wall and roof insulation to reduce solar gain and heat loss;
- CO_2 sensors to improve efficiency of the ventilation system; and
- Floor by floor energy metering and daylight lighting dimming and movement sensors to improve lighting efficiency.

Glasgow City Council

Strathclyde Pension Fund Committee

Report by Richard McIndoe, Director of Strathclyde Pension Fund

Contact: Ian Jamison Ext: 77385

Item 3

27th November 2024

Direct Impact Portfolio: Review of Investment Strategy

Purpose of Report:
To conclude a review of the Direct Impact Portfolio (DIP) investment strategy.

Recommendations:
The Committee is asked to **NOTE** the contents of this report and to **APPROVE** the following recommendations in respect of DIP:

- no change to objectives, structure or governance;
- an increase in DIP's target allocation from 5% to **7.5%** of total Fund within a range of **5%** to **10%** (calculated by Net Asset Value);
- an increase in the minimum targeted return (Net IRR) for individual fund proposals to **6.5%** (currently 5%);
- appropriate target returns to continue to be assessed on a fund-by-fund basis with regard to the perceived risk;
- one change to the individual investment guidelines:
  - Target investment size: **£30m** to **£100m**;
  - Minimum investment: **£20m;**
  - Maximum investment: **£250m** (currently - greater of **£250m** or **1%** of Total Fund Value);
- an increase in the total amount of the co-investment programme to **£300m** (currently £200m) and an increase to the maximum individual co-investment ticket size to **£25m** (currently £15m).

Ward No(s):	Citywide: ✓
Local member(s) advised: Yes ☐ No ☐	Consulted: Yes ☐ No ☐

1 Background

1.1 Current Review

The SPF business plan for 2024/25 was approved by the Committee in March 2024. Amongst the priorities for the year, it includes a review of DIP, including objectives, strategy, structure and capacity. This is consistent with previous practice of reviewing every 3 years, after the actuarial valuation and review of overall SPF investment strategy.

1.2 Previous Reviews

In December 2009, the Committee agreed to establish a New Opportunities Portfolio (NOP) with a broad remit to invest in assets for which there was an attractive investment case but to which the then current structure did not provide access.

The NOP strategy has been reviewed every 3 years. It was re-branded twice, firstly as the Direct Investment Portfolio in 2015 and then as the Direct Impact Portfolio (DIP) in 2021, to better reflect the broader impact aspect of DIP investments.

The most recent review of the DIP strategy and operating arrangements was concluded in November 2021.

1.3 Implementation Framework

DIP investment proposals are assessed on their own merits within an agreed implementation framework based on SPF's overall risk-return objectives and specific DIP parameters.

The framework agreed at the 2021 review is summarised below.

Direct Impact Portfolio	
Objectives	Primary objective identical to overall SPF investment objective. Secondary objective of adding value through investments with a positive local, economic or ESG (environmental, social, governance) impact.
Strategy & Structure	In line with SPF risk-return framework but focused on the UK and the Equity, Long Term Enhanced Yield and Short Term Enhanced Yield asset categories.
Risk and Return	Portfolio benchmark return of **CPI +3% p.a.** Individual risk and return objectives for each investment.
Capacity	Target allocation of **5%** of total Fund (based on Net Asset Values). Range of **2.5%** to **7.5%** of total Fund.
Investment Size	Target: **£30m** to **£100m;** Minimum: **£20m;** Maximum: greater of **£250m** or **1%** of Total Fund Value.
Decision Making	3 stage process with review and satisfactory due diligence by officers, followed by a presentation to the Sounding Board before a proposal is taken to Committee for approval, subject to completion of legal documentation.

Monitoring	Includes individual investment reports, participation in advisory boards, and a quarterly DIP monitoring report which is reviewed by the Fund's Investment Advisory Panel.
Co-investment	Existing co-investment programme should be extended in order to maximise its effectiveness, subject to development of a detailed proposal.

2 Portfolio Summary

The portfolio as at 30th June 2024 can be summarised as follows:

	Since Inception (£m)	**Current Portfolio (£m)**
Total Commitments Agreed	**2,239**	**2,141**
Amounts Drawn Down by Managers	**1,753**	**1,677**
+ Increase in Value	**560**	**514**
- Received Back in Distributions	**663**	**663**
- Realisations	**122**	**-**
= Total Net Asset Value (NAV)	**1,528**	**1,528**

Based on the current total Fund value, DIP's target allocation and range are as follows:

SPF Fund value at 30th June 2024	£30,585m
DIP allocation (target 5% of main fund) NAV	£ 1,529m
Current DIP NAV	**£ 1,528m**
NAV Range (Lower) 2.5%	£ 765m
NAV Range (Upper) 7.5%	£ 2,294m

The portfolio comprised **63** separate investments.
A current schedule of investments is included at **Appendix A**.

Notes:

1. In addition, a co-investment program of **£200m** was approved at the March 2022 Committee meeting. To date 2 co-investments (each for £15m / included above) have been invested, with a third approved but not yet drawn. The remaining **£155m** remains to be allocated and is not included above.

2. The portfolio comprised **63** separate investments at the above period end date, but is now 65 including 2 more recently approved investments, namely i) a £60m commitment to Quinbrook's QRIF2 fund; and ii) a £15m co-investment to a Temporis battery storage project. Both of these are currently in the legal review process, however neither is reflected in the above tables.

3 Performance

3.1 Portfolio Performance

Portfolio performance to 30th June 2024 is as follows:

	Q2 2024 (%)	1 year (%)	3-year (% p.a.)	5-year (% p.a.)	Since Inception (% p.a.)
DIP	**-0.7**	**0.6**	**8.6**	**5.9**	**7.4**
DIP Benchmark*	**1.3**	**7.1**	**9.5**	**7.4**	**3.2**
SPF	**1.1**	**9.7**	**3.9**	**6.5**	**11.0**

Source: Northern Trust
* CPI +3% pa from 2019; previously LIBOR

Performance continues to be positive over the longer-term periods (3 years+) but with a marked softening over the past 12 months.

Sectoral performance is as follows:

	3-year		5-year		10-year	
	DIP (% p.a.)	*SPF (% p.a.)*	DIP (% p.a.)	*SPF (% p.a.)*	DIP (% p.a.)	*SPF (% p.a.)*
Equity	**11.1**	***5.0***	**18.4**	***9.1***	**15.6**	***10.3***
STEY	**7.7**	***2.7***	**6.9**	***3.4***	**4.7**	***n/a***
LTEY	**8.5**	***5.2***	**4.9**	***3.6***	**5.6**	***n/a***
Total	**8.6**	**3.9**	**5.9**	**6.5**	**6.5**	**8.4**

On a sectoral basis, DIP has outperformed the main SPF returns over all periods. However, DIP lags SPF's aggregate return due to its relatively low equity weighting.

The main drivers for DIP's performance have been:

Positive Drivers (longer term periods):-

- strong returns from the inflation-linked revenues underpinning the majority of LTEY investments which form the bulk of DIP;
- DIP returns exhibited a close correlation with inflation as it increased and then reverted to more historical levels;
- strong performance from the private equity and private debt funds.

Detractors (shorter term periods):-

- increased discount rates, resulting from higher interest rates and returns on "risk free" assets, have led to investors seeking higher returns and additional margins for risk and illiquidity, resulting in a weakening of valuations and therefore also fund returns;

- stronger power prices over the past couple of years were initially positive for Renewable Energy asset valuations and fund returns, however power prices have now decreased (although remain higher than historical averages) and asset valuations and fund returns have consequently softened;
- Private Equity managers are reporting lower valuation multiples applying to their portfolio companies, despite the generally satisfactory financial performance of most. This is primarily a result of fundraising markets being tighter, resulting in companies becoming more focused on cashflow and profitability at the expense of growth, on which company valuations are often reliant.

3.2 Individual Investment Performance

Overall, the portfolio has performed well as have a majority of its individual investments. On a RAG analysis:

- **56** investments are rated **green**
- **7** are rated **amber**
- **None red**
- **2** (QRIF2 & Temporis) are unrated pending completion of legals.

4 Progress Since Last Review

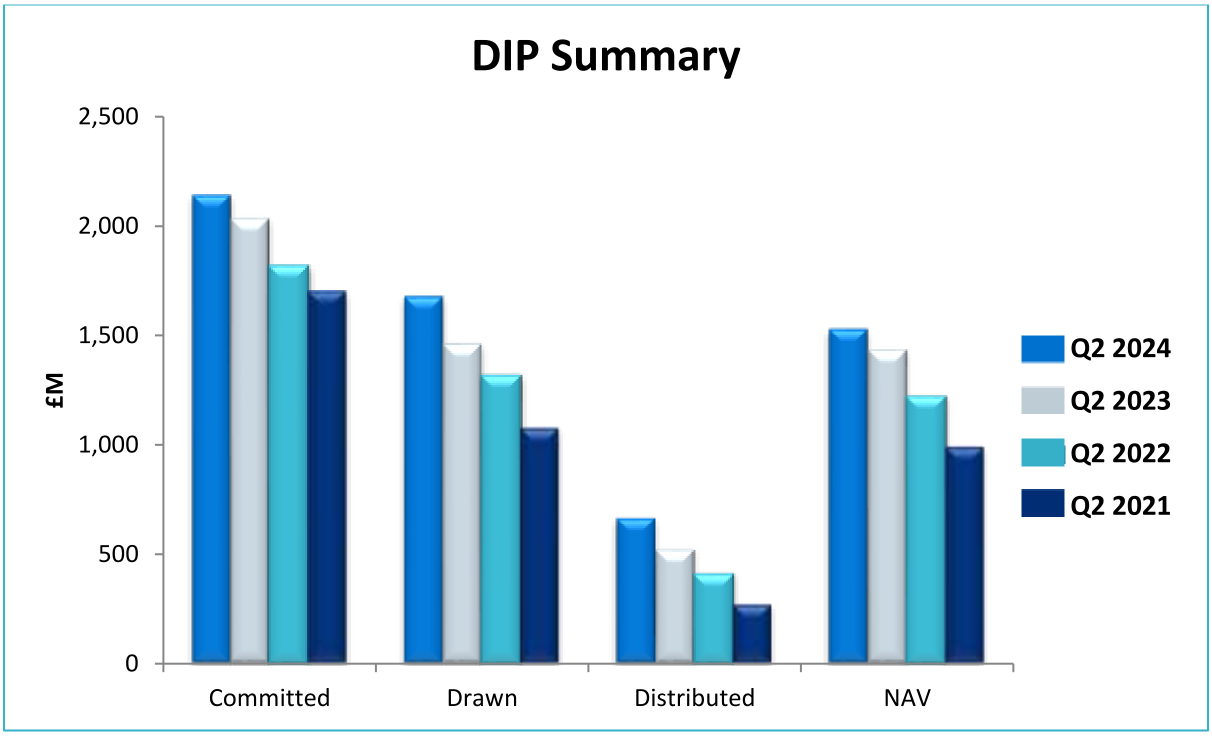
The Committee agreed 4 separate recommendations at the conclusion of the 2021 review including:

- no change to the objectives, structure, overall size parameters, risk and return parameters or governance structure;
- amendments to the individual investment guidelines including increases to i) the lower level of the target investment range (£30m); the minimum investment size (£20m); and to the maximum investment size (greater of £250m or 1% of the Total Fund Value);
- an extension of the co-investment programme to maximise its effectiveness; and
- a refresh of the DIP's profile by renaming it the Direct Impact Portfolio; redesigning the DIP website page to highlight the portfolio's achievements; and remarketing DIP with a brief campaign to increase awareness of the portfolio and its objectives.

All have since been implemented.

Total of individual investments has increased from 53 to 63 (now 65).

The chart below shows how the portfolio financials have developed since 2021.



5 2024 Review

5.1 Background

- The 2024 DIP review follows on from the 2023 actuarial valuation of SPF and the 2023/24 review of SPF investment strategy. Key developments from those exercise which form the context for the DIP review are:
- Significantly improved SPF funding level – **147%** at 31st March 2023 (previously 106%).
- Increase in discount rate (expected future investment return – now **5.0% p.a.** (previously 3.0%).
- Liabilities continue to mature – active member liabilities now **43%** of total (previously 45.3%).
- Ongoing trend of increasing cash-flow requirements to pay pensions.
- Outcomes of SPF investment strategy review included risk reduction (equity allocation reduced to **47%** - previously 52.5%), and increased focus on climate transition.
- SPF strategy review created capacity for increase in DIP allocation to **7.5%** of total SPF, subject to detailed review.

Main features of the economic background to the 2024 review are a less predictable inflationary outlook and higher interest rates in comparison to 2021.

5.2 Scope of Review

The following aspects of DIP have been reviewed:

- Objectives
- Strategy and Structure
- Size
- Diversification
- Risk and Return

- Measuring Impact
- Cost
- Governance
- Profile

Conclusions and recommendations in each of these areas are set out in the sections below.

6 Objectives

6.1 Primary Objective

The primary objective of the DIP is identical to the Fund's overall investment objective. That is to support the funding strategy by adopting an investment strategy and structure which incorporate an appropriate balance between risk and return with the aim of achieving:

- a greater than **80%** probability of being **100%** funded over the average future working lifetime of the active membership (the target funding period); and
- a less than **10%** probability of falling below **80%** funded over the next three years.

The DIP risk and return objectives are also broadly similar to those of the Fund overall. Further details are set out in the Risk and Return section at 10 below.

6.2 Secondary Objective

The Direct Impact Portfolio has a secondary objective of adding value through investments with a positive local, economic or ESG (environmental, social, governance) impact. Further details are set out in the Measuring Impact section at 11 below.

No change to the objectives is currently proposed.

7 Strategy & Structure

7.1 Strategy

A summary of the current DIP investment strategy is included at **Appendix B**. Just as the objective for DIP is the same as that of the Fund overall, the risk-return framework is also the same. No change to the overall strategy is proposed, though some implementation changes are considered below.

7.2 Structure

A summary of the current DIP structure is included at **Appendix C**.

At a very high level, DIP's allocation is dominated by long term enhanced yield investments primarily in the infrastructure, renewable energy and housing sectors. This has been a result of consistent availability of attractive LTEY opportunities, rather than a top-down allocation decision. Beneath that, there is more than adequate diversification by sector, manager, vintage year and individual asset. No change to the structure is proposed.

8 Size

8.1 Background

DIP was established in 2009 with a maximum capacity of £300m, which was subsequently increased to a maximum DIP Net Asset Value (NAV) of **3%** of total Fund **NAV**, and then again in 2015 to **5%** of total Fund **NAV**. At the 2018 review, it was agreed that DIP should have a target size of **5%** of total Fund **value** together with a range of **2.5%** to **7.5%** of total Fund value. No changes were made at the 2021 review.

8.2 Current Position

The table below provides a summary of DIP actual allocation compared to target allocation as at 30th September 2021 and 30th June 2024.

	2021 (£m)	**2024 (£m)**
Total Fund NAV	*27,907*	30,585
DIP NAV	***1,053***	**1,528**
DIP Target NAV (5%)	***1,395***	**1,529**
DIP NAV Range (Lower) 2.5%	*698*	765
DIP NAV Range (Upper) 7.5%	*2,093*	2,294
Undrawn Commitments	***591***	**465**

DIP has made excellent progress in reaching the current target allocation during the past 3 years through a combination of new commitments, ongoing drawdowns in respect of existing commitments, and the "denominator effect", when the overall Fund value (i.e. the denominator) reduced for a period in 2022/23.

The actual NAV of **£1,528m** is at the 5% target and comfortably within the target range. The actual NAV plus undrawn commitments would exceed the 5% target but still be within the target range. Any new commitments would push the allocation above target and introduce the risk of breaching the upper range.

8.3 Projected Position

As part of the review, portfolio modelling was carried out to provide projections of portfolio growth under a variety of economic scenarios. Three examples are included at **Appendix D**.

No absolute conclusions can be drawn from the modelling as there are too many variables involved, however the projections would suggest the following:

- The current DIP strategy, shown as **Scenario 1**, severely limits DIP's capacity to make new commitments.
- Increasing the target allocation to **7.5%**, within a range from 5% to 10%, as shown in **Scenario 2** would create capacity for new commitments. DIP would again be below its target allocation initially but the modelling suggests that the target of 5% could be achieved within around 6 years if the current pace of new commitments (c.10% or £200m p.a. was maintained). The allocation would then remain at or around target for the remainder of the projection period.

- One of many potential variables is a market downturn. This is illustrated as **Scenario 3**. This would result in target being achieved much earlier. Allocation would then exceed target but remain well within the upper range.

Clearly, many other scenarios are possible.

8.4 DIP Capacity: Proposal to Increase

It is now proposed to increase the target allocation to **7.5%** of total Fund value, and operating within a range of **5%** to **10%**. This increased figure is viewed as a longer-term target to be achieved over 2 or more DIP review periods, to ensure a sustainable and balanced pace of new investments, to maintain diversification by vintage and also to be achievable within current DIP resourcing.

8.5 Individual Investments

The size of individual DIP investments has grown broadly in line with the overall size of DIP and the Fund. Early investments were typically in a range of £5m to £10m while recent investments have more typically been in a range of £30m to £60m. The existing guidelines for investment size allow scope for this trend to continue for individual new DIP investments.

- **Target investment size: £30m** to **£100m**
- **Minimum investment: £20m**
- **Maximum investment: £250m** (currently greater of **£250m** or **1%** of Total Fund Value)

As is currently the case, each investment will be considered on its own merits and the recommended ticket size will be determined by the specific characteristics of the proposal. It is proposed to restate the Maximum amount to the absolute figure of £250m, deleting the linkage to Total Fund Value. This is because 1% of Total Fund Value is now an unrealistic figure in the context of a single DIP commitment.

9 Diversification

9.1 Background

Appendix C demonstrates that DIP is well diversified by sector, manager, asset class and vintage year. While it is important that the underlying diversification should be maintained, it is also important that the portfolio should not become over-diversified as this would tend to increase costs and resource requirements and dilute returns. This is partly addressed through the increasing average lot sizes described above.

For similar reasons DIP has also invested in subsequent funds with individual managers after a successful first investment. This will continue where appropriate.

Another means to manage over-diversification is through co-investment.

9.2 Co-Investment Proposal

A co-investment is an additional investment in a specific asset made by an investor in a fund, alongside an investment by that fund in the same asset and managed by the same fund manager. This allows the investor to increase exposure to individual assets held within the portfolio. Typically, co-investments are offered at a management fee significantly lower than the fund's fee. SPF has successful co-investment programmes within its private equity portfolios.

The 2021 review led to the extension of DIP's co-investment strategy in the form of the Co-Investment Programme (CIP) which was approved by the Committee in March 2022. Further details of the CIP are set out in **Appendix E.**

Given the proposed increase in the overall DIP allocation, it is now proposed to increase the overall size of the CIP program to **£300m** (currently £200m) and the individual maximum co-investment ticket size to **£25m** (currently £15m). The total amount of co-investments with a particular manager will remain restricted to the amount committed to the associated main fund with that manager.

10 Risk and Return

10.1 Return Parameters

DIP's current return parameters are:

- a benchmark return of **CPI +3% p.a.** for DIP as a whole;
- a minimum expected IRR of **5%** for individual investments; and
- indicative return expectations for each of the sectors covered by DIP.

Market return expectations have changed since the last review, driven by increases in inflation, interest rates, and bond yields. This is reflected in the increased discount rate used in SPF's 2023 actuarial valuation.

As a result, an increase in the minimum expected return for individual investments to **6.5%** is now proposed. This is not anticipated to materially restrict the flexibility of DIP to consider new investment opportunities.

Further details of expected sector returns are set out in **Appendix F.**

10.2 Risk Register

At the 2018 review a new risk template was introduced and has subsequently been applied to each investment.

Appendix G shows the current summary risk register in respect of the DIP portfolio as a whole. This aggregates the individual risk ratings for each DIP investment. Overall, as at 30th September 2024, DIP had a relatively low risk rating of 6.0 across all 65 approved funds.

11 Measuring Impact

Risk and return remain the primary considerations for DIP investments, but local and ESG impacts are an important secondary consideration. These impacts were quantified for the first time in the 2018 review.

The following table summarises headline impacts achieved by DIP to date.

Impact	
Environmental (figures reflect DIP's weighted stake in funds' assets and therefore DIP's direct impact):	For 2023:-
Clean Energy Generated (GWh p.a.)	**610**
Carbon Reduction (tonnes p.a.)	**173,432**
Sufficient to Power (homes p.a.)	**311,575**
Social (Infrastructure funds) – stakes in:	Total / (in Scotland)
Schools/Educational Facilities	**220 / (102)**
Hospitals/Healthcare Facilities	**46 / (13)**
Govt/Police/Fire/Legal/Military offices/accomodation	**109 / (0)**
Renewable Energy Assets (or "farms")	**476 / (74)**
	Projects / (Units)
Social Housing Projects	**62 / (15,042)**
Student Accommodation Assets	**32 / (14,041)**
Governance	
PRI signatories	**31/(35)**
Local (funds' stakes - value or no. of assets in):	
Local/Scottish Investments (infrastructure funds)	**>£690m**
Local/Scottish Investments (housing units)	**>£350m**
Scottish Affordable Housing units	**1,129**
Scottish Build to Rent housing units	**670**
Scottish wind farms (no. of turbines)	**54 (495)**
Scottish hydro assets	**10**
Other Scottish renewable energy assets	**10**

DIP has other positive impacts including job creation and support, economic regeneration, and development of new technologies. However, these are less measurable in terms of additionality of impact than the headline figures above.

Further details of DIP's positive impacts are included at **Appendix H**.

12 Cost

DIP operates in private rather than listed markets. As a consequence, DIP investment management costs are materially higher than management costs for SPF overall, although at similar levels to other private markets portfolios in the Fund. This is reduced as far as possible by fee negotiation and investment selection which will continue.

The CIP to date has, and is expected to continue to achieve lower fees than existing infrastructure and/or renewable energy investments. The increasing portfolio size and size of individual investments should also achieve some economy, though this may be limited.

13 Governance

DIP's governance process is summarised as follows.

DIP Strategy	▪ Strategy and guidelines agreed by SPF Committee.
Investment Sourcing	▪ Led by SPFO officers. ▪ DIP has an established profile in the UK investment market and this creates a steady pipeline of opportunities for review and analysis.
Investment Analysis	▪ Officers review and filter investment opportunities and carry out initial diligence. ▪ Further external diligence as appropriate including by investment and legal consultants (Hymans Robertson and Pinsent Masons).
Decision-Making	▪ Review by Committee Sounding Board. ▪ Final investment decision by SPF Committee with assistance from the SPF Board.
Monitoring and Reporting	▪ Monitoring of individual investments by officers. ▪ Quarterly report on DIP progress reviewed by Investment Advisory Panel. ▪ Summary report reviewed by committee and included in Annual Report.

The governance structure and process are further illustrated in **Appendix I**.

External consultancy and legal support are provided by Hymans Robertson and Pinsent Masons respectively, since their appointments were both renewed in July 2021. The existing structure and process work well and no further change is considered necessary at this time.

As the portfolio continues to grow, additional resource may be required within SPFO to ensure that investment sourcing, analysis, monitoring and reporting can continue to be undertaken with the necessary level of rigour and diligence. Ongoing resource requirements will be kept under review.

14 Profile

DIP has been established for 15 years, has built a significant portfolio of investments and has been open for business throughout that period - i.e. DIP has received and reviewed new proposals, has had a pipeline of investments under review, and has always had capacity for new investments through a variety of market circumstances and investment cycles.

DIP therefore has a distinct and well developed profile in the institutional investment marketplace both locally and across the UK. It has been a founder or cornerstone investor in a number of funds which may otherwise not have become established and is regularly a first-close investor in new or follow-on funds. The DIP investment team are confident that they are offered all, or at least the vast majority of (particularly local) opportunities which fit the agreed criteria, including importantly the required impact aspect. This view has been tested with consultants and other contacts, and is well supported, with no evidence to the contrary. No changes are therefore proposed to DIP's profile.

15 Policy and Resource Implications

Resource Implications:

Financial:	None at this time
Legal:	None at this time
Personnel:	None
Procurement:	None
Council Strategic Plan:	SPF supports the mission: ***to enable staff to deliver essential services in a sustainable, innovative and efficient way for our communities***. A review of the Direct Impact Portfolio is included as a priority in the SFP 2024/25 Business Plan.

Equality and Socio-Economic Impacts:

Does the proposal support the Council's Equality Outcomes 2021-25? Please specify.	Equalities issues are addressed in the Fund's responsible investment policy.
What are the potential equality impacts as a result of this report?	No specific impact from this proposal.
Please highlight if the policy/proposal will help address socio-economic disadvantage.	The investments undertaken by DIP contribute to supporting a significant number of high quality jobs across the UK, both in terms of the construction and thereafter the management of the underlying portfolio assets.

Climate Impacts:

Does the proposal support any Climate Plan actions? Please specify:	Yes. DIP is an important element of Strathclyde Pension Fund's Climate Change strategy, which is being developed in line with Item 34 of the Council's Climate Action Plan.

What are the potential climate impacts as a result of this proposal?	Continued investment in renewable energy infrastructure and clean technology private equity funds.
Will the proposal contribute to Glasgow's net zero carbon target?	DIP contributes to SPF's net zero carbon target in the form of renewable energy infrastructure and clean technology private equity funds.
Privacy and Data Protection Impacts:	None
Are there any potential data protection impacts as a result of this report Y/N	N
If Yes, please confirm that a Data Protection Impact Assessment (DPIA) has been carried out	N/A

16 Recommendations

The Committee is asked **to NOTE** the contents of this report and **to APPROVE** the following recommendations:

- no change proposed to the DIP's objectives, structure or governance;
- an increase to DIP's target allocation from 5% to **7.5%** of the Fund within a range of **5%** and **10%** (calculated by Net Asset Value);
- an increase to the minimum targeted return (Net IRR) for individual fund proposals to **6.5%** (currently 5%);
- appropriate target returns to continue to be assessed on a fund-by-fund basis with regard to the perceived risk;
- one change proposed to the individual investment guidelines:
    - Target investment size: **£30m** to **£100m**;
    - Minimum investment: **£20m**;
    - Maximum investment: **£250m** (currently greater of **£250m** or **1%** of Total Fund Value);
- An increase in the total amount of the existing co-investment programme to **£300m** (currently £200m) and an increase to the maximum individual co-investment to **£25m** (currently £15m).

<u>**Appendices**</u>

A Schedule of DIP Investments
B Summary of DIP Investment Strategy
C Summary of DIP Investment Structure
D Example Portfolio Modelling
E DIP Co-Investment Programme (CIP)
F Indicative Returns
G Risk Template
H Measuring Impact
I DIP Governance Structure

Appendix A

Schedule of DIP Investments at 30th June 2024

Fund	Vintage Year of Fund	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
SEP II	2000	VC	Equity	5	5	0	4	0
SEP III	2006	GC	Equity	5	5	0	18	0
Panoramic Enterprise Capital Fund 1 LP	2010	GC	Equity	3	3	0	9	1
Iona Environmental Infrastructure LP	2011	RE	LTEY	10	10	0	4	6
Scottish Loans Fund	2011	CR	STEY	6	6	0	7	0
SEP IV LP	2011	GC	Equity	5	5	0	7	4
Epidarex Fund II	2013	VC	Equity	5	5	0	3	5
Healthcare Royalties Partners III LP	2013	CR	STEY	20	19	0	19	7
Resonance British Wind Energy Income Ltd	2013	RE	LTEY	10	10	0	7	9
Clydebuilt Fund LP	2014	PR	LTEY	75	75	0	72	17
Dalmore PPP Equity PiP Fund	2014	INF	LTEY	50	50	0	36	43
Albion Community Power LP	2015	RE	LTEY	40	40	0	14	42
Alpha Social Long Income Fund	2015	SL	LTEY	15	15	0	5	19
Equitix Fund IV LP	2015	INF	LTEY	30	30	0	13	29
Funding Affordable Homes	2015	PR	LTEY	30	30	0	0	31

Appendix A

Schedule of DIP Investments at 30th June 2024

Fund	Vintage Year of Fund	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
Macquarie GIG Renewable Energy Fund I	2015	RE	LTEY	80	80	0	63	64
Muzinich UK Private Debt Fund	2015	CR	STEY	15	15	0	15	0
NTR Wind I LP	2015	RE	LTEY	39	35	4	41	34
Panoramic Growth Fund 2 LP	2015	GC	Equity	13	12	1	16	5
Temporis Operational Renewable Energy Strategy (TORES II) (prev. TREF)	2015	RE	LTEY	30	30	0	8	39
Beechbrook UK SME Credit II Fund	2016	CR	STEY	30	29	1	21	19
Legal & General UK Build to Rent Fund	2016	PR	LTEY	75	75	0	4	76
Pemberton UK Mid-Market Direct Lending Fund	2016	CR	STEY	40	37	3	40	21
PIP Multi-Strategy Infrastructure LP(Foresight)	2016	INF	LTEY	130	120	10	58	84
SEP V LP	2016	GC	Equity	20	20	0	11	28
Dalmore Capital Fund 3 LP	2017	INF	LTEY	50	50	0	14	53
Greencoat Solar Fund II LP	2017	RE	LTEY	50	50	0	15	45
Hermes Infrastructure Fund II	2017	INF	LTEY	50	42	8	12	46
Iona Renewable Infrastructure LP	2017	RE	LTEY	14	14	0	1	15
Maven Regional Buyout Fund	2017	GC	Equity	20	18	2	17	8
Pentech Fund III	2017	VC	Equity	10	7	3	0	8
TDC II (prev Tosca Debt Capital Fund II LP)	2017	CR	STEY	30	24	6	17	13

Appendix A

Schedule of DIP Investments at 30th June 2024

Fund	Vintage Year of Fund	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
Temporis Operational Renewable Energy Strategy (TORES)	2017	RE	LTEY	30	28	2	7	51
Equitix Fund V LP	2018	INF	LTEY	50	50	0	13	52
Invesco Real Estate Finance Fund II (formerly GAM REFF II)	2018	CR	STEY	20	14	6	14	10
Capital Dynamics Clean Energy Infrastructure VIII	2019	RE	LTEY	40	36	4	4	36
Epidarex Fund III	2019	VC	Equity	15	11	4	0	11
Palatine Private Equity Fund IV	2019	GC	Equity	25	15	10	13	14
Places for People Scottish Mid-Market Rental (SMMR) Fund	2019	PR	LTEY	45	35	10	2	39
TDC III (prev Tosca Debt Capital Fund III LP)	2019	CR	STEY	30	21	9	10	24
Clean Growth Fund	2020	VC	Equity	20	14	6	0	14
Equitix Fund VI LP	2020	INF	LTEY	50	50	0	4	52
Equitix MA 19 LP (Co-investment Fund)	2020	INF	LTEY	50	50	0	7	54
Quinbrook Renewables Impact Fund	2020	RE	LTEY	50	48	2	0	52
Beechbrook UK SME Credit III Fund	2021	CR	STEY	40	30	10	3	30
Clydebuilt Fund II LP	2021	PR	LTEY	100	68	32	1	68
Dalmore Capital Fund 4 LP	2021	INF	LTEY	50	50	0	4	51
Dalmore II 39 LP	2021	INF	LTEY	50	30	20	3	31

Appendix A

Schedule of DIP Investments at 30th June 2024

Fund	Vintage Year of Fund	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
Iona Resource and Energy Efficiency (Strathclyde) LP	2021	RE	LTEY	6	6	0	0	7
Man GPM RI Community Housing Fund	2021	PR	LTEY	30	24	6	0	25
SEP VI LP	2021	GC	Equity	30	10	20	0	9
Temporis Impact Strategy V LP (TISV)	2021	RE	LTEY	50	36	14	3	41
NextPower UK ESG Fund	2022	RE	LTEY	60	26	34	1	27
Palatine Impact Fund II	2022	GC	Equity	25	8	17	0	8
Panoramic SME Fund 3 LP	2022	GC	Equity	25	5	20	0	4
Capital Dynamics Clean Energy UK Fund	2023	RE	LTEY	60	1	59	0	0
Foresight Regional Investment V LP	2023	GC	Equity	30	4	26	0	3
Par Equity Northern Scale-Up Fund	2023	VC	Equity	25	6	19	0	5
Schroders Greencoat Glasgow Terrace	2023	RE	LTEY	15	15	0	0	15
Corran Environmental Fund II	2024	GC	Equity	20	9	11	0	9
Equitix Fund VII LP	2024	INF	LTEY	50	0	50	0	0
Palatine Private Equity Fund V	2024	GC	Equity	30	0	30	0	0
Temporis (TISV Co-invest1 LP)	2024	RE	LTEY	15	15	0	0	15
Total as at 30/06/2024				**2,141**	**1,677**	**465**	**663**	**1,528**
Total as at previous quarter 31/03/2024				**2,046**	**1,602**	**444**	**625**	**1,490**

Appendix A

Schedule of DIP Investments at 30th June 2024

Realised Investments								
Fund	**Vintage Year of Fund**	**Sector**	**Asset Category**	**SPF Commitment (£m)**	**Cumulative Drawdowns (£m)**	**Undrawn Commitment (£m)**	**Cumulative Distributions (£m)**	**Net Asset Value (£m)**
Aberdeen UK Infrastructure Partners LP	2012	INF	LTEY	28	28	0	57	0
Aviva Investors PIP Solar PV LP	2015	RE	LTEY	20	3	0	4	0
City Legacy (Athletes Village)	2013	CR	STEY	35	33	2	39	0
Foresight Infra Holdco Ltd (prev PIP Ltd)	2013	INF	LTEY	1	1	0	1	0
GAM REFF I (formerly Renshaw Bay)	2012	CR	STEY	10	7	3	10	0
Markham Rae	2016	CR	STEY	0	1	0	0	0
SEP Environmental Capital Fund LP	2014	RE	LTEY	4	4	0	11	0
Total as at 30/06/2024				**98**	**77**	**5**	**122**	**0**

Summary of DIP Investment Strategy

In November 2015 the Committee agreed that the portfolio should adopt the risk-return asset framework that had been agreed for development of Strathclyde Pension Fund's (SPF) investment strategy. The framework is illustrated 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 practice, only 3 of the 5 asset categories in the risk-return framework are represented in DIP. 2 categories, Hedging/Insurance and Credit are not represented. This is unlikely to change in the near future.

In addition the following principles are applied to potential DIP investments.

- Risk, size, sector, cash-flow and exit factors each need to be considered on a deal-by-deal basis and in the context of the Fund as a whole.
- Investments should:
  - complement the Fund's existing investment strategy with respect to its risk and return objectives;
  - not overburden the current resources of the Fund;
  - have clear and well developed legal and governance provisions;
  - be structured appropriately. Preference is for multi-asset, multi-investor portfolios in order to mitigate risk.
  - be FCA regulated;
  - be Sterling denominated;
  - be predominately UK;
  - have a stable team with a good business plan and a proven track record in their field;
  - have other, suitable key investors;
- Due diligence will be completed before any formal commitment is made. This will include detailed review of:
  - risk and return characteristics
  - the industry and/or sector
  - legal documentation

Summary of DIP Investment Strategy

- local and ESG impact and
- fair working practices.

▪ All managers must be prepared to treat SPF as a professional client (MiFID II)

Key characteristics of DIP investments which differentiate them from the main SPF investment structure are summarized as follows.

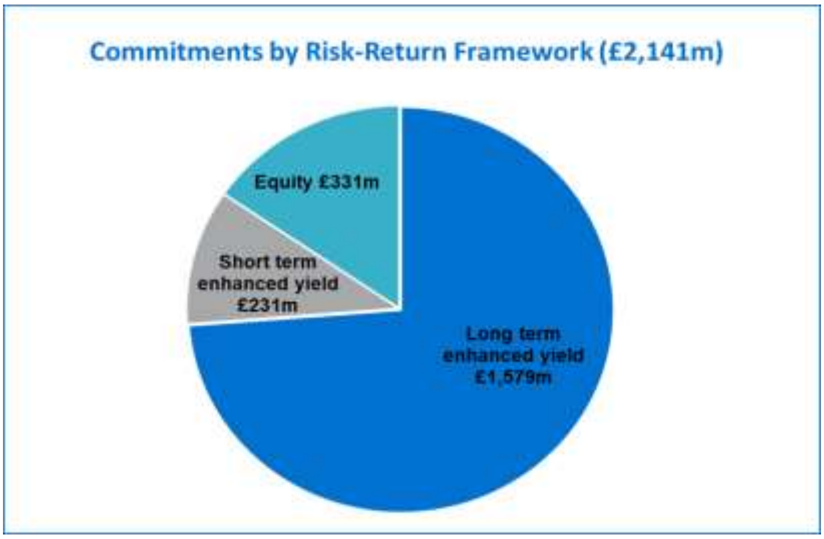
	Main Structure	Direct Investment Portfolio
Investment Characteristics	▪ Liquid, evergreen, strategic. ▪ Global. ▪ Lot size >1% of Fund.	▪ Illiquid, self-liquidating, opportunistic. Local, economic or ESG (Environmental, Social, Governance) impact. ▪ Sterling and UK based. ▪ Lot size <1% of Fund.

Appendix C

Summary of DIP Investment Structure

Asset Category Allocation

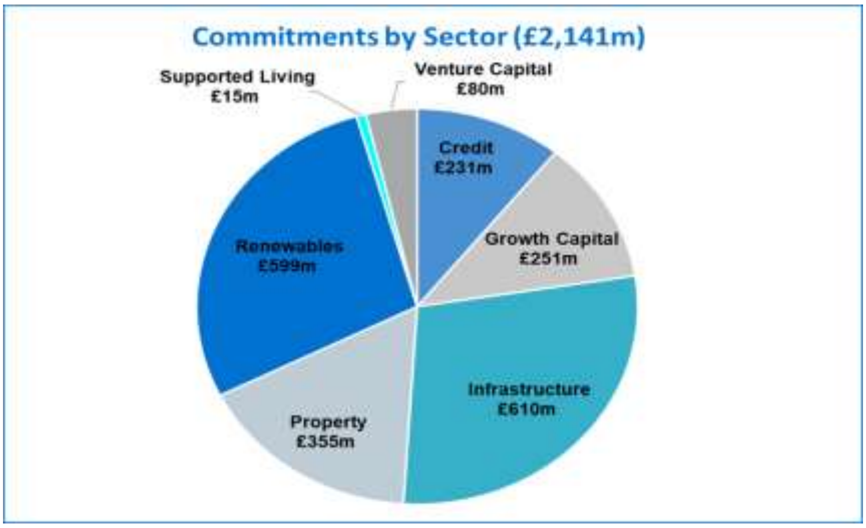
The current structure in relation to the Fund's risk-return framework is illustrated in the chart below which shows total DIP commitments as at 30th June 2024.



Long term enhanced yield investments – infrastructure, renewables, and local property – continue to dominate the current DIP allocation profile. The 2018 review considered whether it would be preferable to achieve a more balanced allocation for DIP but concluded that, so long as a balanced strategy was maintained across the Fund as a whole, it was not important for DIP to reflect a similar balance. It is more important that DIP maintains its opportunistic approach, though this will inevitably lead to some bias towards the areas which demonstrate the most opportunities or best investment value over any particular period. LTEY investments typically have a much longer fund life than other categories and this compounds their dominance. For the foreseeable future it is therefore likely that DIP will retain a bias towards long term enhanced yield.

Sector Allocation

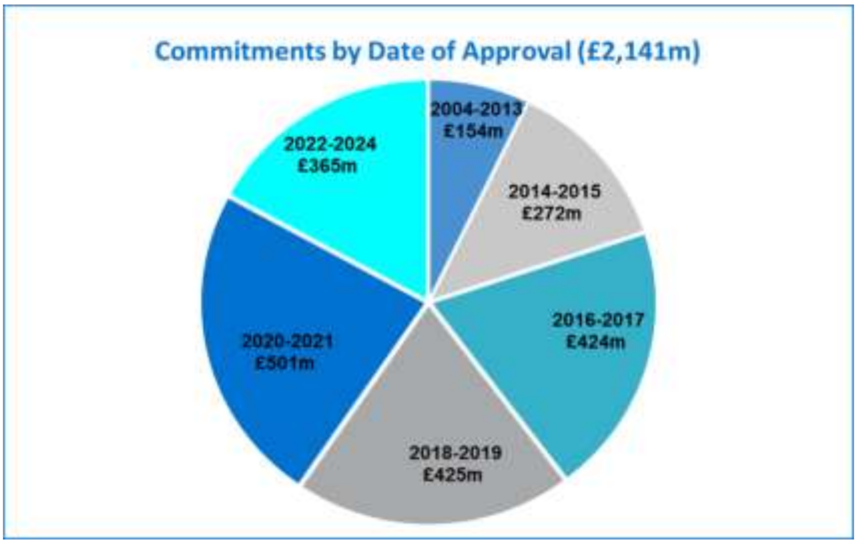
Below the asset category level, DIP is further diversified across individual sectors. Allocation as at 30th June 2024 is illustrated in the chart below.



Summary of DIP Investment Structure

Within each sector there is further diversification by fund manager and individual investment asset, particularly within renewable energy and infrastructure.

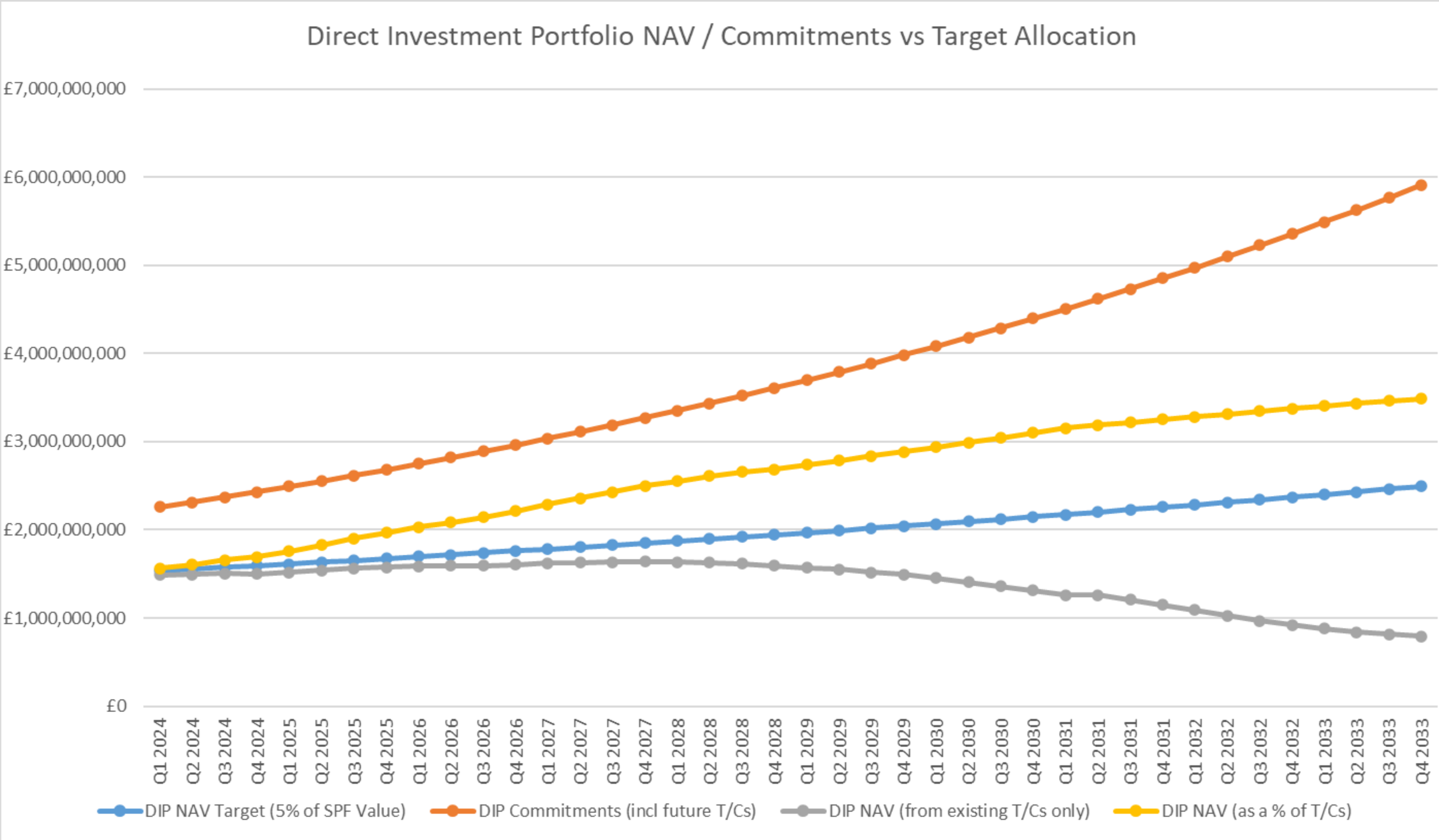
Commitments by Year of Approval
The chart below shows the commitments made by DIP split out by the year of Committee approval as at 30th June 2024.



The chart shows a fairly even spread across vintage year. This is generally positive as it provides a further form of diversification which should reduce volatility of cash flow and performance.

Example Portfolio Modelling – Commitment Projections

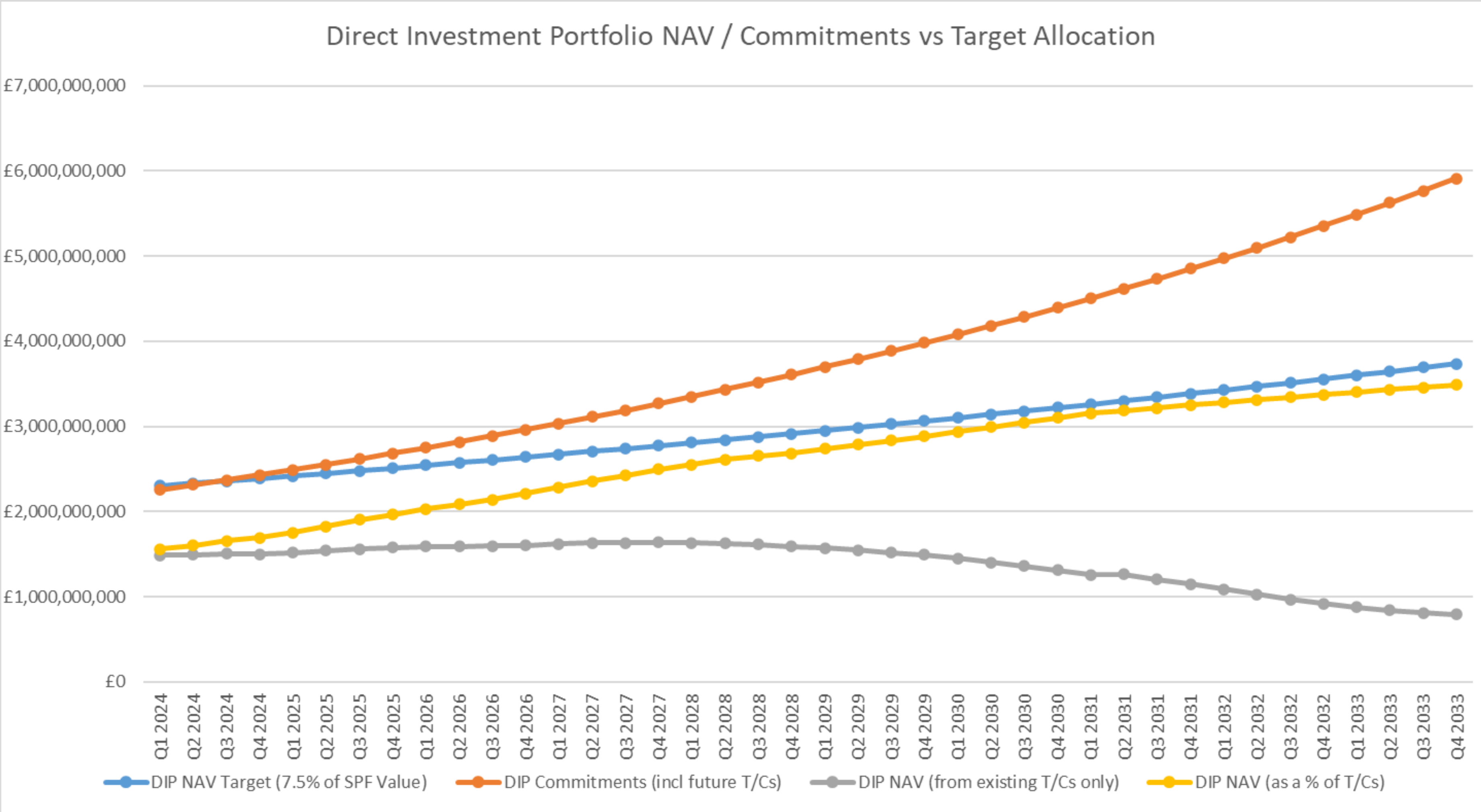
Scenario 1:- Current Strategy
(DIP Target 5.0% / SPF Growth 5% p.a. / New DIP commitments at +10% p.a.)



Appendix D

Example Portfolio Modelling – Commitment Projections

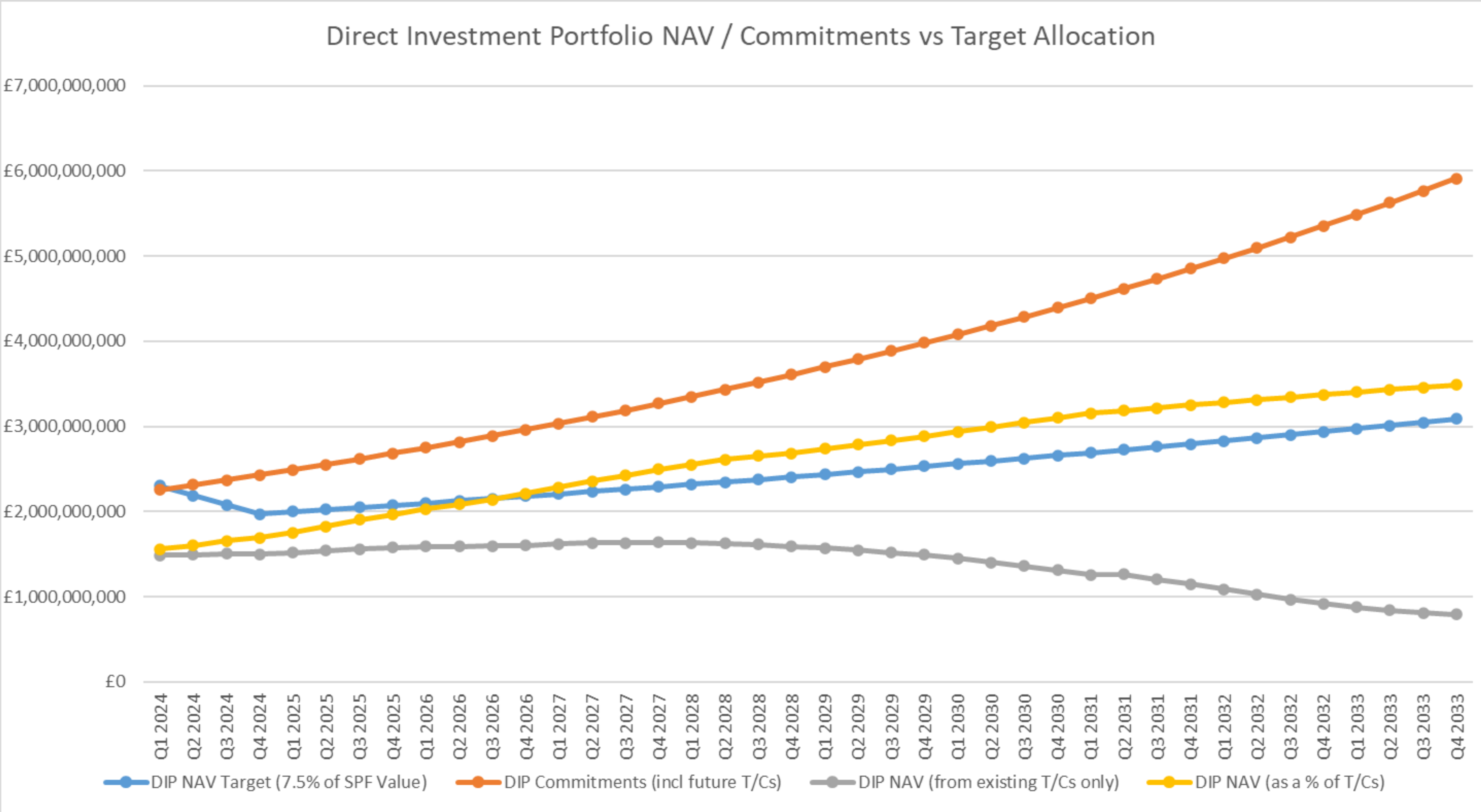
Scenario 2:- Increase Allocation
(DIP Target 7.5% / SPF Growth 5% p.a. / New DIP commitments at +10% p.a.)



Appendix D

Example Portfolio Modelling – Commitment Projections

Scenario 3:- Market Downturn
DIP Target 7.5% (currently 5%) / SPF Downturn -20% / New DIP commitments at +10% p.a.



Appendix E

DIP Co-Investment Programme (CIP)

This £200m programme facilitated the approval by SPF officers of individual UK co-investments of up to £15m each, subject to the following parameters:

- co-investments to be made only in UK assets;
- co-investments to be in assets where there is an existing fund investment;
- co-investments with any specific manager will never total more than the existing fund investment with that manager;
- co-investments to be a maximum of £15m in any single asset;
- a summary report of the proposed co-investment transaction to be provided to SPF prior to acquisition;
- SPF to have a right of veto of the proposed transaction.

The parameters ensure that the asset concerned is aligned with the investment strategy of an existing fund and should therefore be suitable for a co-investment.

The primary advantage of the CIP is the relative speed at which co-investments can be undertaken.

The transaction veto has been utilised on one occasion to date where the proposed funding structure for a co-investment opportunity was considered unattractive and could also be used, for example, where the performance of managers hasn't been as strong as anticipated. The right of veto, which will be exercised by SPF officers, provides an additional measure of control.

Two co-investments, each of £15m, have been drawn to date under the CIP. A third has been approved and is currently in legals.

The three co-investment transactions undertaken to date are:-

- Schroders Greencoat - to support the acquisition of a large operational portfolio of 53 UK solar farms (invested);
- Temporis Capital - for the acquisition of the 50% stake in a 23 turbine windfarm located in Dumfries and Galloway that the manager did not already own (invested); and
- Temporis Capital - to support the construction of 2 fully consented battery energy storage systems (BESS) in the highlands of Scotland (currently in legals).

The CIP built upon 2 previous DIP co-investments of £50m each, agreed alongside DIP commitments to specific Dalmore and Equitix infrastructure funds. The CIP provides more flexibility as it can be invested with any existing manager alongside a co-mingled fund in which DIP has an existing commitment, subject to the CIP parameters; the satisfactory performance by the manager concerned; as well as the proposal's attractiveness.

Appendix F

Indicative Returns

Asset Category	Sector	Indicative Return (Net IRR)	Sub sector returns (Net IRR)
Equity	Private Equity	**>12%**	▪ Buyout >12% ▪ Growth capital >15% ▪ Venture capital >20% ▪ Returns may vary by +/- 5% depending on target sector, investment stage, average investment size, etc.
Short Term Enhanced Yield	Private Debt (direct lending)	**>6%**	▪ Senior secured >6% ▪ Leveraged / unitranche >8% ▪ Subordinated/mezzanine >10% ▪ Funds may invest in more than one type of debt. Target return will reflect expected allocation between different types.
	Private Debt (real assets)	**>6%**	▪ Real estate debt >8% ▪ Infrastructure debt >6%
Long Term Enhanced Yield	Infrastructure	**7-12%**	▪ Social, transportation, energy, environmental, communications. ▪ Returns and yields dependent on sector, asset type, leverage and whether assets are operational or under construction, core or value add and whether returns are generated from availability based contractual revenue streams or are demand (i.e. usage) based.
	Renewable Energy	**7-12%**	▪ On/off shore wind, hydro, solar, battery storage, bioenergy. ▪ Returns and yields dependent on sector, asset type, leverage, whether assets are operational or under construction, or from the sale of the assets or the energy generated, whether subject to hedging (CfDs - contracts for difference), PPAs (power purchase agreements) or are exposed to merchant risk.
	Housing	**6.5-10%**	▪ Affordable, Build to Rent, private rental sector, shared ownership etc ▪ Returns and yields dependent on sector, asset type, geography, whether assets are operational or under construction and whether returns are generated from capital appreciation or from contractual or demand-based income stream.

Risk Template

In March 2019, the Committee approved a revised Risk Policy and Strategy Statement. The statement sets out a common basis for risk management across the Fund's strategies.

As a key part of the risk strategy, a detailed risk register has been established and is maintained for the Strathclyde Pension Fund (SPF). A separate register is maintained for DIP. This is summarised below as at 30th September 2024:

	MAJOR/CATASTROPHIC Significant concerns regarding the ability of the investment to meet its target	15+
	MODERATE Concern regarding either one or a combination of factors.	10-14
	MINOR No concerns at this time.	5-9
	INSIGNIFICANT Risk is easily mitigated by normal day to day process.	1-4

				Impact				
				1 **Insignificant**	**2** **Minor**	**3** **Moderate**	**4** **Major**	**5** **Critical**
Probability	**5**	**Almost Certain**	**90%**	5	10	15	20	25
	4	**Likely**	**70%**	4	8	12	16	20
	3	**Possible**	**50%**	3	6	9	12	15
	2	**Unlikely**	**30%**	2	4	6	8	10
	1	**Rare**	**10%**	1	2	3	4	5

← significant risk zone

Risk Template

RISK Ref No.	RISK	RESIDUAL ASSESSMENT					
		Risk Title/Risk Description		Residual Probability	Residual Impact	Residual Risk	Movement
DIP01	Deployment Risk	Risk	Deployment	0.7	0.9	1.6	↓
		Cause	Failure to invest fund commitments				
		Effect	No return on investment				
DIP02	Operational Risk	Risk	Operational	2.6	2.9	7.7	↓
		Cause	Disruption due to poor functioning or damage to physical assets				
		Effect	Delay or inability to meet target returns				
DIP03	Counterparty/ Default Risk	Risk	Counterparty/Default	2.4	2.9	7.5	↓
		Cause	Failure to meet contractual requirement or payment(s)				
		Effect	Credit Losses				
DIP04	Management/ People/Key-person Risk	Risk	Key person event	2.3	2.6	6.3	↓
		Cause	Failure of management team				
		Effect	Pause in investment process				
DIP05	Valuation Risk	Risk	Valuation	2.4	2.9	7.0	↓
		Cause	Overpayment for assets at point of investment				
		Effect	Reduction in returns				
DIP06	Inflation Risk	Risk	Inflation	2.3	2.6	6.2	↑
		Cause	Macro economic				
		Effect	Increase in asset price volatility				
DIP07	Legislative/ Regulatory Risk	Risk	Legislative/Regulatory	2.2	2.6	6.0	↓
		Cause	Political or legislative				
		Effect	Adverse effect on assets				
DIP08	Concentration Risk	Risk	Concentration	2.0	2.7	5.7	↓
		Cause	Assets not diversified				
		Effect	Counterparty or asset exposure unprotected				
DIP09	Exit/Liquidity Risk	Risk	Exit/Liquidity	2.3	2.9	6.9	↔
		Cause	Changes in markets				
		Effect	Inability to realise investment value				
DIP10	Idiosyncratic Risk	Risk	Idiosyncratic Risk	2.0	2.5	5.2	↓
		Cause	Covid 19				
		Effect	Global				
			Average	2.1	2.6	6.0	
					Portfolio Rank		

Movement	
Static	↔
Up	↑
Down	↓

Appendix H

Measuring Impact

Asset Category	Main ESG Impacts	Local Impacts
Equity	Provision of venture and growth capital to facilitate small company start-ups and expansion. Creates and supports employment. Also supports economic growth and technological development in a range of sectors including biotechnology, medical devices, pharmaceuticals, energy efficiency and IT.	DIP's equity managers have a very strong local presence: SEP, Panoramic and Maven are based in Glasgow; while Epidarex, Pentech, Par Equity, Foresight & Corran are located in Edinburgh, all with a strong Scottish focus and significant links to local business networks and universities within their respective sectors (life sciences, technology, engineering, IT and clean growth). All equity managers however are investing across the UK.
Short Term Enhanced Yield	Provision of loan capital to private sector companies, particularly micro, small and medium sized enterprises (SMEs). Supports employment. Provides economic stability.	One of DIP's first investments was the Scottish Loans Fund (SLF) managed by Maven Capital in Glasgow. DIP was a founder investor and agreed 2 separate commitments of £5m. SLF raised £113m in total commitments but only drew down £70m of those funds. There have been few subsequent local STEY opportunities for DIP and none which have been considered suitable.
Long Term Enhanced Yield	**Infrastructure:** construction and maintenance of physical assets; improved built environment; social value. Projects in which DIP has invested have built, refurbished or are maintaining: ▪ **220** schools / educational facilities; ▪ **46** hospitals / healthcare facilities; ▪ **109** public sector (i.e. Govt, police, legal, fire, military accommodation facilities; ▪ **62 / 15,042** social housing projects / units; ▪ **32 / 14,041** student accommodation projects / units.	Core infrastructure funds' investments include: ▪ **139** assets located in Scotland – total NAV c.**£780m** ▪ DIP's weighted share of total NAV c.**£80m**
	Renewable Energy: construction and/or operation of renewable energy infrastructure assets across a range of technologies including onshore and	Renewable Energy investments are distributed across the UK but include: **74** assets located in Scotland comprising stakes in:

Measuring Impact

	offshore wind, solar, battery storage, hydro, community power, and anaerobic digestion. During 2023, DIP's weighted stakes in renewable energy funds/assets (i.e. directly attributable to DIP) were responsible for: ▪ Generating **610 GWh** of renewable energy (sufficient to power over **310,000** homes); and ▪ Avoid the emission of **173,000** tonnes of CO_2e.	▪ 54 windfarms (495 turbines); ▪ 10 hydro projects (9 run of river and 1 baseload hydro assets); ▪ 6 Anaerobic Digestions plants; & ▪ 4 synchronous condensers (to stabilise the grid). Many of these also provide additional community benefits in the form of agreed financial donations.
	Property: support for local property market; regeneration from development sites; provision of new housing; positive local economic impact.	DIP has committed **£45m** to the Places for People Scottish mid-market rental fund and **£75m** to the Legal & General UK Build to Rent fund. Together these have constructed (or are in the advance stages of building): ▪ **1,799** housing units across **12** sites in Scotland, of which ▪ **1,280** across **7** sites are in Strathclyde ▪ Total NAV of the Scottish units c.**£255m** ▪ DIP's share of total NAV is c.**£37m.** LTEY also includes the Clydebuilt property fund portfolios, with the first fund (£75m) originally created by DIP 2013 and fund 2 (£100m) created in 2021 as fund 1 progressed through the asset realisation phase. The Clydebuilt funds are a local SPF property initiative with a focus on development and regeneration and between the 2 funds have invested over £180m in 18 separate properties in the Strathclyde area. Notable projects include: the construction of retail parks in Port Glasgow (completed 2019) and in the Gorbals, Glasgow (completed 2020); and the ongoing redevelopment of a shopping centre in Shawlands, Glasgow to a (now consented) mixed-use retail and residential "village".

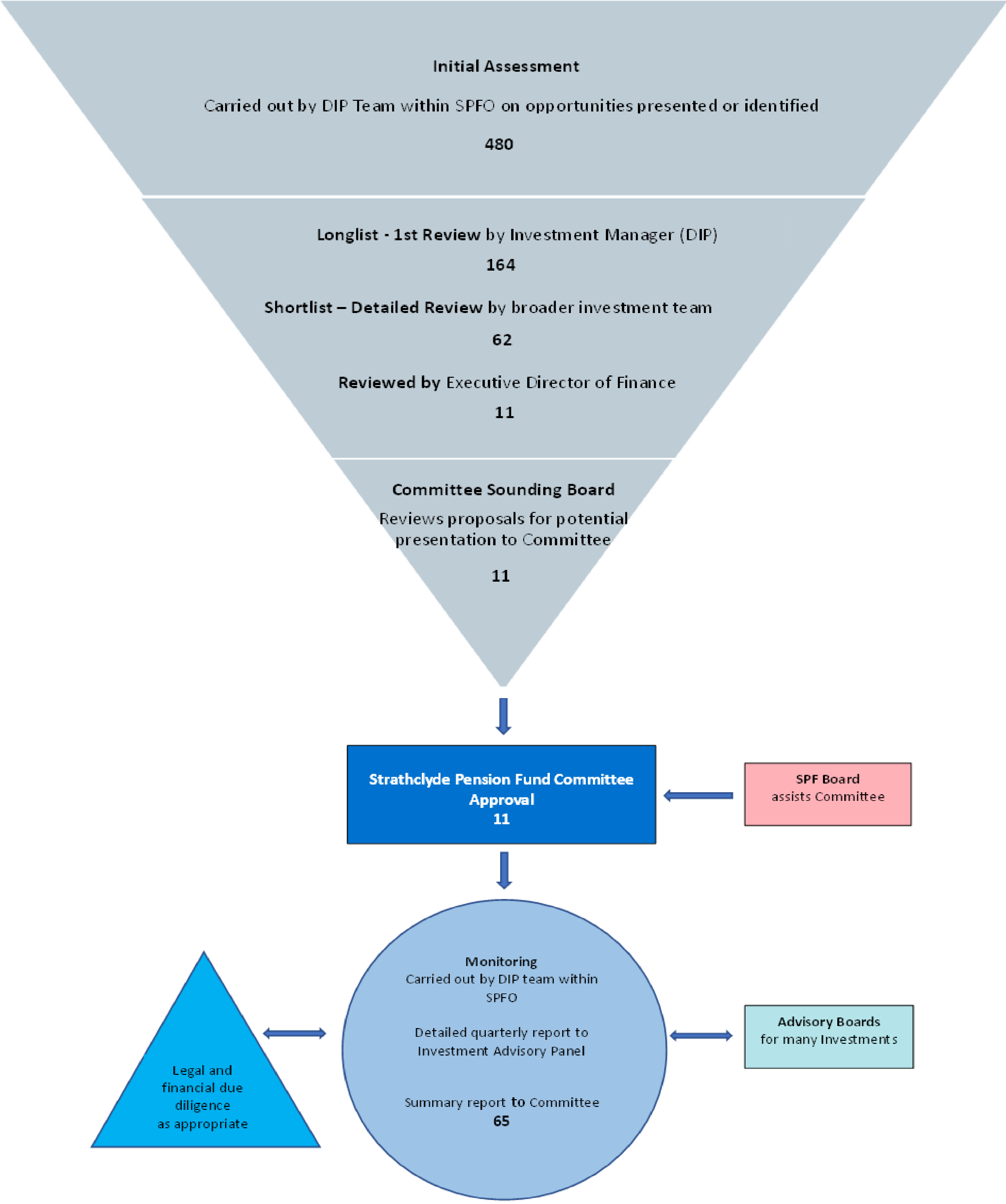
Measuring Impact

		Other place-based investments have included £30m working capital for construction of the Athletes Village in the East end of Glasgow.

Appendix I

DIP Governance Structure

The DIP Governance Structure is illustrated below, together with figures for the number of proposals considered in the 3 years to end June 2024.



Glasgow City Council

Strathclyde Pension Fund Committee

Report by Head of Audit and Inspection

Contact: Duncan Black Ext: 74053

Item 4(a)
27th November 2024

INTERNAL AUDIT – Pension Payroll Process

Purpose of Report:

To present the results of the Internal Audit review of the Pension Payroll Process.

Note:

In most cases one of four opinions is expressed:

1. The control environment is satisfactory i.e. audit testing found no concerns with the control environment.
2. A reasonable level of assurance can be placed upon the control environment i.e. audit testing found no major weaknesses in the control environment but some improvements could be made.
3. A limited level of assurance can be placed upon the control environment i.e. improvements are necessary to ensure the control environment is fit for purpose.
4. The control environment is unsatisfactory i.e. significant improvements are required before any reliance can be placed upon the control environment.

Recommendations:

The Committee is asked to note the contents of this report and **AGREE** the audit recommendation that the Head of Audit and Inspection submits a further report to Committee on the implementation of the actions contained in the Action Plan.

Ward No(s):	Citywide: ✓
Local member(s) advised: Yes ☐ No ☐	consulted: Yes ☐ No ☐

Glasgow City Council Internal Audit Section
Committee Summary
Strathclyde Pension Fund Office – Pension Payroll Process

1 Introduction

1.1 As part of the agreed Internal Audit plan, we have carried out a review of the pension payroll arrangements in place within the Strathclyde Pension Fund Office (SPFO).

1.2 The Strathclyde Pension Fund pays approximately £591m (net) each year in monthly pension payroll payments to approximately 101k beneficiaries.

1.3 The scope of the audit was to gain assurance that appropriate arrangements are in place for the administration of monthly payroll payments to SPFO members. This included a review of the key controls in the following areas:

- Procedures and training covering the payroll pension process.
- Arrangements for the commencement and termination of pension payments.
- Arrangements for ensuring that pension payments are complete, accurate, timely and only made to valid payees.
- Processes for making adjustments and variations to payments.
- Identification and recovery of overpayments.
- Management review (e.g. exception reporting) and reconciliation processes.
- Accuracy of the records held within the pension system.
- Pension system access and segregation of duties; and
- Business continuity arrangements for the payment of pensions.

1.4 The following was not included within the scope of audit:

- Lump sum payments; and
- The accuracy of pension payment calculations.

2 Audit Opinion

2.1 Based on the audit work carried out a reasonable level of assurance can be placed upon the control environment. The audit has identified some scope for improvement in the existing arrangements and two recommendations which management should address.

3 Main Findings

3.1 We are pleased to report that the key controls are in place and are generally operating effectively. We found that there are appropriate arrangements for the commencement and termination of pension payments and for the creation of a spouse or dependant record where required. For a sample of cases involving new starts, dependant records, terminations and amendments reviewed, we found that payments had been made in line with the procedures in place, these had been processed in a timely manner and were consistent with the information contained on Altair. Second officer checks had also been undertaken to validate the information being processed in all cases that we reviewed. Processes are in place for ensuring that requests to amend member bank account details are appropriately controlled and there are robust processes in place for the recovery of any identified overpayments. Through undertaking data analytics of June 2024 payments made, we found that multiple payments were not made to the same pension record and there were valid reasons for any cases where the same bank account details were used (for example joint accounts).

3.2 There are documented procedures in place which are available to all relevant staff and officers processing amendments on the system are adequately trained. Appropriate system controls are in place to prevent a member of the team from bypassing the correct process and creating a new member record and processing payments.

3.3 A reconciliation is completed to agree the pension payroll values to the financial ledger, and to the amount charged against the bank account. Adequate back up and storage arrangements are in place to ensure that payroll payments can be made in the event of a personnel or system loss.

3.4 However, we also found some opportunities for improvement. There are no scheduled review dates for documented procedures in place. Whilst various exception reports are produced, we found that a clear and robust audit trail is not always in place to show which officer has completed the amendments to Altair records (as a result of these reports). In addition, the officers who run and check the bank details exception reports, have access to amend bank details on the system.

3.5 An action plan is provided at section four outlining our observations, risks, and recommendations. We have made two recommendations for improvement. The priority of each recommendation is:

Priority	Definition	Total
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	0
Medium	Less critically important controls absent, not being operated as designed or could be improved.	1
Low	Lower level controls absent, not being operated as designed or could be improved.	1
Service Improvement	Opportunities for business improvement and/or efficiencies have been identified.	0

3.6 The audit has been undertaken in accordance with the Public Sector Internal Audit Standards.

3.7 We would like to thank officers involved in this audit for their cooperation and assistance.

3.8 It is recommended that the Head of Audit and Inspection submits a further report to Committee on the implementation of the actions contained in the attached Action Plan.

4 Action Plan

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: The procedures in place covering the pension payroll processes are reviewed regularly.				
1	There are documented procedures in place covering the core pension payroll processes. However, we found that most of the procedures have only been reviewed/updated recently as a result of this audit and no future review dates are currently scheduled. This increases the risk that the documented procedures could become outdated and no longer fit for purpose.	SPFO management should ensure that all procedures relating to the pension payroll processes are reviewed at least annually to ensure they remain up to date.	**Low**	**Response:** Accepted Review of processes will now form part of the annual meeting set up to create the payroll calendar for the following year. **Officer Responsible for Implementation:** Finance – Service Manager **Timescales for Implementation:** 30 November 2024

Glasgow City Council Internal Audit Section
Committee Summary
Strathclyde Pension Fund Office – Pension Payroll Process

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Appropriate management review processes are in place.				
2	Several exception reports are produced, including reports to identify deleted records, variances between pension records and pension payment amounts, and bank detail amendments. However, for a number of exception reports reviewed, we found opportunities for improvement in the quality of the audit trail which is retained to highlight the nature and reason for amendments to member records arising from the findings from the exception reports. Although regular exception reports detailing amendments to bank details are produced and a sample is reviewed to confirm that amendments are legitimate and have been processed and approved correctly, we found that there is currently no separation of duties as the officers who run and check the reports also have access to amend bank details on the system. We were advised that these senior officers should not amend bank details and that access to this cannot be removed as this function sits within an area of the system required for other crucial functions. It is noted that these staff members cannot create a new record	SPFO management should ensure that amendments made to Altair as a result of the exception report investigation process are appropriately documented and subject to review and authorisation. SPFO management should ensure that an independent officer runs the bank detail amendment report and confirms that the senior officer performing the bank detail amendment check has not made any amendments during the period. A record of the confirmation should be recorded for future reference.	**Medium**	**Response:** Accepted Service manager (SM) and Assistant Service Manger (ASM) – Tasks will be created for any changes as a result of monthly payroll reports. If any payroll data has to be deleted a task will be created for SM/ASM to review prior to deletion. Principle Pension Officer (PPO) – Will be provided with a monthly audit report allowing them to review any changes made to bank details by SM/ASM. **Officer Responsible for Implementation:** Finance Service/Assistant Manager Principle Pension Officer **Timescales for Implementation:** 30 November 2024

No.	Observation and Risk	Recommendation	Priority	Management Response
	on the system, therefore would only be able to amend existing member details. Management also confirmed that it is not possible for the check to be undertaken by an officer out with the team as they would not have the required permissions. System access is set up to ensure appropriate segregation of duties exist. This increases the risk of unauthorised changes being made to pension records.			

Policy and Resource Implications

Resource Implications:

Financial:	Internal Audit services are included within the Central Support Services cost.
Legal:	None
Personnel:	None
Procurement:	None

Equality and Socio-Economic Impacts:

Does the proposal support the Council's Equality Outcomes 2021-25? Please specify.	No specific proposals are included within this report.
What are the potential equality impacts as a result of this report?	No significant impact.
Please highlight if the policy/proposal will help address socio-economic disadvantage.	There are no equality impacts as a result of this report.

Climate Impacts:

Does the proposal support any Climate Plan actions? Please specify:	Not Applicable
What are the potential climate impacts as a result of this proposal?	Not Applicable
Will the proposal contribute to Glasgow's net zero carbon target?	Not Applicable
Privacy and Data Protection Impacts:	None

5 Recommendation

5.1 The Committee is asked to note the contents of this report and **AGREE** the audit recommendation that the Head of Audit and Inspection submits a further report to Committee on the implementation of the actions contained in the Action Plan.

Glasgow City Council

Strathclyde Pension Fund Committee

Report by Head of Audit and Inspection

Contact: Duncan Black Ext: 74053

Item 4(b)

27th November 2024

AUDIT RECOMMENDATIONS

Purpose of Report:

To provide an update on the status of audit recommendations agreed previously with the Strathclyde Pension Fund Office (SPFO).

Recommendations:

It is recommended that Committee notes the progress made in terms of the recommendations implemented and **AGREE** that the Head of Audit and Inspection submits further reports on the status of outstanding recommendations.

Ward No(s):	Citywide: ✓
Local member(s) advised: Yes ☐ No ☐	consulted: Yes ☐ No ☐

1. Introduction

1.1 This report provides a summary of the status of Internal Audit recommendations previously reported to Committee. This report includes:

- A summary of the outstanding recommendations;
- A summary of the progress made since the previous report; and
- A register of outstanding recommendations.

2. Outstanding Recommendations

2.1 Since the last report that was presented to the Committee on 26 June 2024, management have been responsible for following up recommendations which are due to have been implemented. As at 08 November 2024 there are no recommendations outstanding.

2.2 During the period from 5 June 2024 to 08 November 2024, SPFO management satisfactorily implemented three recommendations. Appendix One shows the progress made during the period.

3 Policy and Resource Implications

Resource Implications:

Financial:	Internal Audit services are included within the Central Support Services cost.
Legal:	None
Personnel:	None
Procurement:	None

Equality and Socio-Economic Impacts:

Does the proposal support the Council's Equality Outcomes 2021-25? Please specify.	No specific proposals are included within this report.
What are the potential equality impacts as a result of this report?	No significant impact.

Please highlight if the policy/proposal will help address socio-economic disadvantage.	There are no equality impacts as a result of this report.

Climate Impacts:

Does the proposal support any Climate Plan actions? Please specify:	Not Applicable
What are the potential climate impacts as a result of this proposal?	Not Applicable
Will the proposal contribute to Glasgow's net zero carbon target?	Not Applicable

Privacy and Data Protection Impacts:	None

4 Recommendations

4.1 It is recommended that Committee notes the progress made in terms of the recommendations implemented and **AGREE** that the Head of Audit and Inspection submits further reports on the status of outstanding recommendations.

Appendix One – Progress since previous report

	Compliance with Cyber Security Principles	Scheme Administration – Data Analytics	Total
Outstanding or not yet due as at 5 June 2024	1	0	**1**
Added to the Register during Period	0	3	**3**
Outstanding as at 08 November 2024	0	0	**0**
Not yet due as at 08 November 2024	0	1	**1**
Implemented in Period	**1**	**2**	**3**

Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

Contact: Linda Welsh, Pension Scheme Manager, Ext: 77463

Item 5

27th November 2024

Administration Update

Purpose of Report:

To update the Committee on pensions administration activity and to present a summary of performance to 30th September 2024.

Recommendations:

The Committee is asked **to NOTE** the contents of this report.

Ward No(s): Citywide: ✓

Local member(s) advised: Yes ☐ No ☐ consulted: Yes ☐ No ☐

1 **Strathclyde Pension Fund Office (SPFO)**

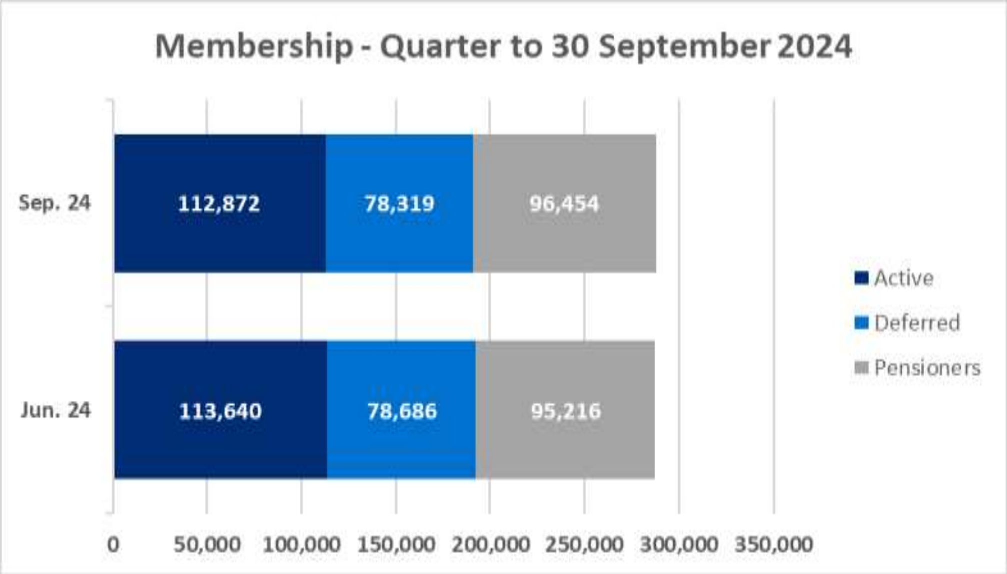
Total staff in post at 30th September 2024 was 94 (FTE 87.2). This includes 5 modern apprentices. Workplan baseline is 105.

Some vacancies remain, with recruitment ongoing. SPFO is continuing with hybrid working. Current arrangement is for staff members to be in the office a minimum of two days a week.

2 **Membership**

Scheme membership is summarised as follows.

2.1 **Local Government Pension Scheme (LGPS)**



Total membership increased from *287,542* to **287,645** over the quarter. There was again a slight decrease in active membership. Deferred membership also decreased.

Main changes contributing to the net increase of 103 were:

- **3,178** new records (*4,000 last quarter*)
- **1,277** retirals (*1,114 last quarter)*
- **409** refunds (*452 last quarter)*
- **890** deferred (*1,126 last quarter)*
- **423** deferred into payment (*556 last quarter*)
- **1,009** deaths (*977 last quarter).*

Some additional analysis of scheme membership is set out in **Appendix 1** for information.

2.2 **Teachers Compensation**

In addition to its statutory function of administering the LGPS, SPFO also acts as a payroll agent for compensatory added years' payments to 7,780 members of the Scottish teachers' superannuation scheme.

3 SPFO Performance

Over **60,000** processes were completed in the quarter to 30th June 2024 (*last quarter **47,000**).* Performance for the quarter is summarised as follows.

3.1 Payments

SPFO Payments	SPFO Target	Achieved	*Last quarter*
Pensions payroll run on time	**100%**	**100%**	***100%***
New retirals processed for due payroll date	**95%**	**90.4%**	***94.8%***
Deferred retirals processed for due date	**95%**	**98%**	***97.1%***
Retirement lump sums paid on retirement date	**95%**	**83%**	***87.7%***
Deferred lump sums processed for due date	**95%**	**100%**	***100%***

3.2 Other Transactions

Transaction	Volume	SPFO			Statutory	
		Target		Actual	Deadline	Actual
		Days	%	%		%
New Records	**3,178**	**15**	**95.0**	**100**	**1 month**	**100**
Refunds	**542**	**7**	**90.0**	**99.5**	**n/a**	**n/a**
Deferred	**904**	**10**	**90.0**	**68**	**2 months**	**87**
Retiral Estimates	**554**	**20**	**80.0**	**80.5**	**2 months**	**98.2**

3.3 Customer Satisfaction

	Refunds	Retirals
Forms issued	**409**	**1,700**
Responses	17	371
Response rate (%)	4.2	21.8
Satisfaction Rating (%)	**88.2**	**87.0**
Target	**80.0**	**90.0**
2023/24 full year (%)	*77.6*	*86.1.*

Response and satisfaction rate for retirals have improved this quarter. There was a slight decrease for refunds but target was achieved for this category.

3.4 Complaints

Category	No.	Days to Respond		Achieved (%)	Upheld (%)
		Target	Actual (Average)		
Process delay	**4**	**5**	**22**	**50**	**75**
Quality of information	**2**	**5**	**4.5**	**100**	**50**
Staff attitude	**1**	**5**	**2**	**100**	**100**
Staff efficiency/error	**1**	**5**	**5**	**100**	**100**
Procedure	**1**	**5**	**3**	**100**	**100**
Process delay- 2nd stage	**1**	**20**	**12**	**100**	**100**

3.5 Performance Commentary

Performance over the quarter was mixed:

- SPFO's overriding administration priority is to ensure that the monthly pensions payroll is run and payments are received on time by the 96,000+ pensioner members. Payroll was run and paid each month without incident.
- Some transactions did not achieve target. This was largely due to resourcing issues. This is being addressed by recruiting an additional 9 posts, which will take SPFO to the workplan baseline of 105.
- The trend of increased numbers of retirals seen in 2023/24 continued this quarter.
- During the quarter a breach of law was reported to TPR. The breach was a result of a failure to include the McCloud Remedy underpin information for qualifying active members on the 2024 Annual Benefit Statements (ABS), due to be issued by 31st August 2024. The legislation as it is currently written requires Administering Authorities to include the McCloud Remedy underpin in ABS from this year onwards**.** However, this is not currently feasible. Scottish Government is consulting on draft regulations to modify the requirement to include underpin information in the 2024 ABS. The amendments to the regulations will be backdated to 1st October 2023 and will result in the reported breach being extinguished. The consultation will also consider whether to give administering authorities discretionary power to exclude underpin information in the 2025 statements for certain members.

4 Employers

4.1 Participating Employers

The table below shows the number of employers participating in the Fund. Employers include the 12 Local Authorities in the West of Scotland, whose employees constitute around 80% of the active membership.

Total employers at 1st Jul 2024	**146**
New employers	0
Exiting employers	3
Total employers at 30th Sep 2024	**143**

There were 3 exits this quarter which are summarised below.

Employer	Background	Exit Status
Equals Advocacy	Equals Advocacy had been an admitted body since 2001. The employer had 4 members at the date of the 2023 actuarial valuation.	Equals Advocacy became an exiting employer on the retirement of the last contributing scheme member at 31st May 2024. An exit credit agreement was completed and an exit credit paid to the employer in line with regulation 61.
East Renfrewshire Carers	East Renfrewshire Carers had been an admitted body since 2002. The employer had 8 members at the date of the 2023 actuarial valuation.	East Renfrewshire Carers became an exiting employer on the retirement of the last contributing scheme member at 26th July 2024. An exit credit agreement was completed and an exit credit paid to the employer in line with regulation 61.
AMEY Public Services	Amey had been an admitted body since 2010 as a result of a contract with North Lanarkshire Council. The employer had 27 members at the date of the 2023 actuarial valuation, including 10 employee members.	AMEY became an exiting employer on the expiry of the contract with NLC on 30th September 2024. An exit credit agreement is still to be concluded.

4.2 Employer Payments to SPFO

Employers are required to pay contributions to SPFO by 19th of the month after they are deducted from payroll.

All Employers	Target (%)	Actual (%)	Last Quarter
Contributions received by SPFO by due date	**100**	**99**	***98***

There were 6 incidences of late payments this quarter. None had any material cash flow impact.

4.3 Employer *i-Connect* Submissions

Employers are required to submit regular electronic data returns via *i-Connect* no later than 19th of the month following the reporting period. The table below summarises the number of valid returns received on time from the Fund's employers.

Jul	Aug	Sep	Total	Total Expected	Target	Achieved	Last Quarter
125	121	125	**371**	**433**	**100%**	**86%**	**87%**

SPFO will continue to work closely with employers to ensure data is submitted by the due date.

5 Digital Communications

Improving and increasing SPFO's digital delivery is a key priority. Digital uptake as at 30th September 2024 is summarised as follows.

Customer Engagement	2024/25 Actual	2024/25 Target	*2023/24 Actual*
Total signed up for *SPFOnline*	**143,820**	**146,000**	***135,568***
Logged in during YTD	**63,511**	**77,000**	***69,945***
Weekly visits to: www.spfo.org.uk	**8,933**	**9,000**	***8,825***

SPFOnline is a portal which allows members to view and amend their pension records and carry out illustrative pension calculations. Increasingly, it is also being developed to provide member information and documentation, and to allow member transactions to be completed online. For example:
Annual Benefit Statements (ABS) were issued during August to all active members:

- **66%** were issued via SPFOnline with notification via email;
- **30%** were issued via SPFOnline with notification by letter; and only
- **4%** were issued hard copy.

ABS had been issued to active members in August. Since they were issued:

- **43%** of registered active members have logged in to SPFOnline;
- Reminder emails have been issued to those who have not logged in;
- **16%** of active members that were notified by letter have now registered; and
- **1,533** address changes and **2,363** nomination updates have also been completed, presumably as a response to the statements.

Feedback surveys were issued to all registered active and deferred members. The table below shows the satisfaction ratings.

Survey Results Satisfaction Rating	2024/25 Actual	2024/25 Target	*2023/24 Actual*
Active members	**77.9%**	**77%**	***66.3%***
Deferred members	**67.2%**	**70%**	***65.5%***

Survey results in both categories have improved from last year, though deferred member results are still a little way short of target.

Pension savings statements for Annual Allowance were issued shortly after the quarter end, ahead of the statutory deadline of 6th October.

6 Scheme Developments

6.1 The Local Government Pension Scheme (Remediable Service) (Scotland) Regulations 2023.

On 1st October 2023, the Local Government Pension Scheme (LGPS Regulations were amended in Scotland to remedy the unlawful discrimination identified by the courts in the *McCloud case.* Appropriate changes were made to the final salary statutory underpin protection. Subsequent to those changes, the scheme in England & Wales made further amendments which SPPA considers should be incorporated to the Scottish regulations in order to bring the scheme into line with the schemes in England &Wales and Northern Ireland. The changes are minor technical amendments but are important to limit any further risks to legal challenge regarding unlawful discrimination, and to ensure the remedy works as intended.
The regulations are due to be laid on 12 December 2024.

6.2 Budget 2024

Consultation on inheritance tax on pensions

The Government has launched a consultation on Inheritance tax on pensions: liability, reporting and payment.

The proposed changes would mean that:

- LGPS death grants would be subject to Inheritance Tax from April 2027;
- personal representatives would calculate whether any Inheritance Tax was due, and pass on the relevant information to the pension scheme administrator; and
- administering authorities would be responsible for paying and reporting to HMRC any Inheritance Tax deducted from an LGPS death grant.

The consultation will close on 22 January 2025.

6.3 Inflation Increase

UK CPI for the year to 30th September 2024 has been confirmed as +1.7%. It is expected that this will be the basis for April 2025's pension increase of pensions in payment, and revaluation of all career average benefits for active and deferred members. This needs to be confirmed in the Pensions Increase (Review) Order and Public Service Pensions Revaluation Order which will be made in parliament early in 2025.

7 Policy and Resource Implications

Resource Implications:

Financial:	None.
Legal:	None.
Personnel:	None.
Procurement:	None.

Council Strategic Plan:	SPF supports all Missions within the Grand Challenge of: ***Enable staff to deliver essential services in a sustainable, innovative and efficient way for our communities.*** The LGPS is one of the key benefits which enables the Council to recruit and retain staff.
Equality and Socio-Economic Impacts:	
Does the proposal support the Council's Equality Outcomes 2021 - 25	Equalities issues are addressed in the scheme rules which are the responsibility of Scottish Government, in the Fund's Communications Policy which has been the subject of an Equalities Impact Assessment, and in the Fund's Responsible Investment strategy.
What are the potential equality impacts as a result of this report?	N/a
Please highlight if the policy/proposal will help address socio economic disadvantage.	N/a.
Climate Impacts:	
Does the proposal support any Climate Plan actions? Please specify:	N/a. Monitoring report. Strathclyde Pension Fund's Climate Change strategy is being developed in line with Item 34 of the Council's Climate Action Plan.
What are the potential climate impacts as a result of this proposal?	N/a.
Will the proposal contribute to Glasgow's net zero carbon target?	N/a.
Privacy and Data Protection impacts:	
Are there any potential data protection impacts as a result of this report Y/N	No.

If Yes, please confirm that a Data Protection Impact Assessment (DPIA) has been carried out	N/a.

8 Recommendation

The Committee is asked to note the contents of this report.

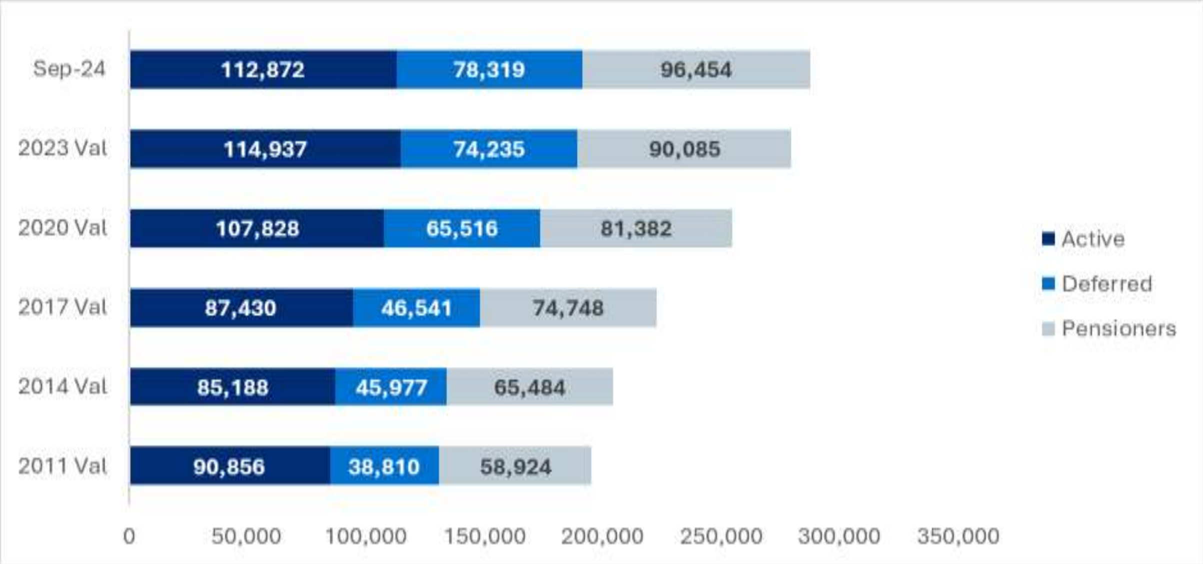
Appendices

Appendix 1 Membership – Additional Analysis

Membership – Additional Analysis

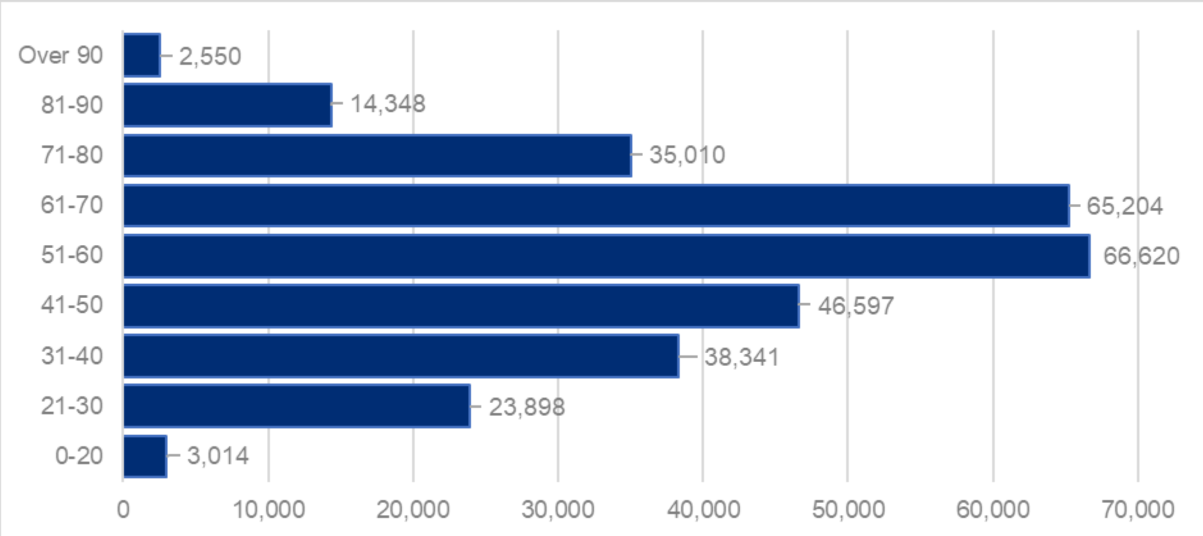
Longer-Term Trends

This chart shows movement in membership since the 2011 actuarial valuation. Active membership reduced initially, but the trend had been a steady increase in all membership categories since 2011. Since the 2023 valuation there has been a consistent decrease in active membership, this quarter also shows a slight decrease in deferred.

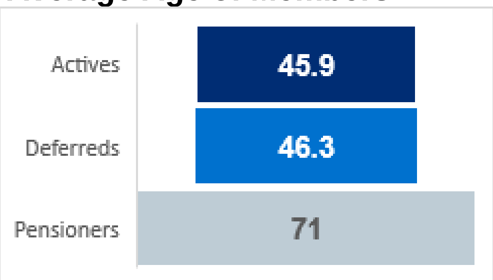


Total Members by Current Age

This illustrates the broad age span of SPF membership.



Average Age of Members



Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

Contact: Shona MacLean Ext: 21837

Item 6

27th November 2024

Finance Update

Purpose of Report:

To present financial statements comprising:

- a 2024/25 administration cost monitoring statement; and
- a 2024/25 cash flow monitoring statement.

The report also includes a brief update on the SPF annual audit.

Recommendations:

The committee are asked to NOTE the contents of this report.

Ward No(s): Citywide: ✓

Local member(s) advised: Yes ☐ No ☐ consulted: Yes ☐ No ☐

1 Introduction

Financial transactions and data for the Strathclyde Pension Fund are held and processed on a number of different systems. These can be broken broadly into three areas as follows:

- **Funding:** long term cash flows and financing requirements are assessed in the three yearly actuarial valuation carried out by Hymans Robertson.

- **Investment:** detailed investment records are maintained by the Fund's external investment managers and global custodian and summarised in regular investment reports.

- **Administration:** pensions benefits are calculated and recorded on the *Altair* pensions system within Strathclyde Pension Fund Office (SPFO). Payments are made from and received into the SPFO bank account. The Council's SAP-based financial systems are used for reporting.

This report presents a current overview of the administration costs and cash flow for SPFO.

2 Administration Cost Monitoring Statement

The undernoted summary statement details the administration costs for 2024/25 to period 8, ending 18th October 2024.

Year to date actual expenditure of **£4.106m** is broadly in line with the comparable year to date budget of **£4.070 m.**

Expenditure is offset by other income and interest received into the day to day operating bank accounts for the period**.**

The year to date bank interest is **£3.06m** higher than budget, mainly due to short term cash balances following the transfer of funds from investments, which were requested to ensure sufficient cash flow being available for the day to day expenses of the fund. Other operating income is performing better than the year to date budget due to annual billings being levied.

2024/25 Annual Budget (£000)	SPFO Budget	2024/25 YTD		
		Actual (£000)	**Budget (£000)**	**Variance (£000)**
4,342	Employee costs	2,092	2,079	(13)
648	Property costs	366	360	(6)
1,247	Supplies and services	695	693	(2)
0	Transport costs	0	0	0
412	Contracted services	251	229	(22)
1,275	Central support	702	709	7
7,924	**Total Expenditure**	**4,106**	**4,070**	**(36)**
(177)	Operating income	(312)	(98)	214
(3,860)	Interest receivable	(5,207)	(2,147)	3,060
(4,037)	**Total Income**	**(5,519)**	**(2,245)**	**3,274**
3,887	**Net Expenditure/(Income)**	**(1,413)**	**1,825**	**3,238**

3 Cash Flow Statement

The cash flow statement shows receipts, payments and current cash balances.

Cash Flows	2024/25		
	Actual YTD (£000)	**Estimate 2023/24 (£000)**	**Probable Outturn (£000)**
Opening Balance	**230,481**	**230,481**	**230,481**
Cash Movements:			
Expenditure	(516,147)	(978,696)	(923,937)
Income	208,150	477,437	407,082
Net Addition / Reduction(-)	**(307,997)**	**(501,259)**	**(516,855)**
Interest Received	5,207	3,860	6,813
Transfer from Investments	250,000	400,000	450,000
Closing Bank Balance	**177,691**	**133,802**	**170,439**

Probable outturn figures for both expenditure and income are currently below the original estimate for the year. The net position suggests a net reduction slightly larger than originally anticipated. Further transfers from investments will be arranged as required over the course of the year.

4 **Annual Audit of Accounts**

At its meeting on 11th September 2024, the Committee:

- noted the draft EY annual audit report in relation to the audit of the accounts and the full copy of Strathclyde Pension Fund's audited Annual Accounts for 2023/24; and
- approved the Audited Annual Accounts 2023/24 for signature, subject to the conclusion of the audit by EY.

A small number of audit items were unresolved, and as a result the Annual Accounts were not signed by the statutory deadline of 30th September. It is understood that all but one of these were substantially resolved during October, but that one item was still outstanding and the Annual Accounts remained unsigned in November. The outstanding item is a request, made towards the end of the audit, for information on SPF in relation to ISA 315 and IT risks. This had to be referred to CGI, and a response was still awaited.

5 **Policy and Resource Implications**

Resource Implications:

Financial:	None
Legal:	None
Personnel:	None
Procurement:	None

Council Strategic Plan:	Strathclyde Pension Fund aligns with the theme of a well governed city.
Equality and Socio-Economic Impacts:	
Does the proposal support the Council's Equality Outcomes 2022-25	Equalities issues are addressed in the Fund's Responsible Investment strategy, in the scheme rules which are the responsibility of Scottish Government and in the Fund's Communications Policy which has been the subject of an Equalities Impact Assessment.
What are the potential equality impacts as a result of this report?	No specific equalities impacts.
Please highlight if the policy/proposal will help address socio economic disadvantage.	Not applicable
Climate Impacts:	
Does the proposal support any Climate	N/A. Monitoring report.

Plan actions? Please specify:	Strathclyde Pension Fund's Climate Change strategy is being developed in line with Item 34 of the Council's Climate Action Plan.
What are the potential climate impacts as a result of this proposal?	N/A.
Will the proposal contribute to Glasgow's net zero carbon target?	N/A.
Privacy and Data Protection impacts:	None

6 Recommendations

The committee are asked to note the contents of the report.

Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

Contact: Jacqueline Gillies, Ext: 75186

Item 7

27th November 2024

Investment Update

Purpose of Report:

To provide the Committee with an investment update including a summary of:

- investment performance to 30th September 2024
- distribution of portfolios and DIP investments as at 30th September 2024
- the Investment Advisory Panel meeting of 14th November 2024
- stewardship activity during Quarter 3 2024.

Recommendations:

The Committee is asked **to NOTE** the contents of this report.

Ward No(s): Citywide: ✓

Local member(s) advised: Yes ☐ No ☐ consulted: Yes ☐ No ☐

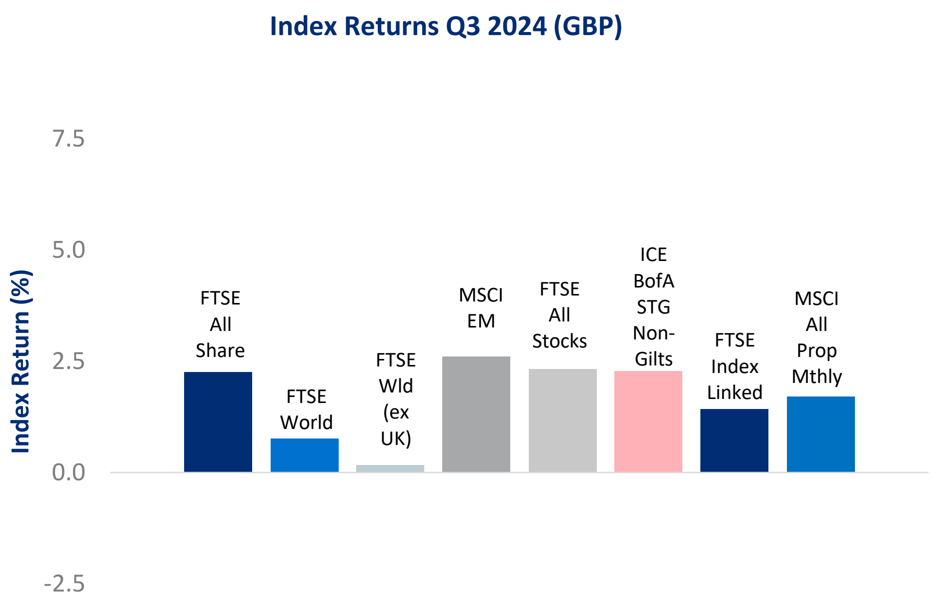
1 **Background**

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's current investment objectives and strategy are detailed in **Appendix 1**. The strategy is reflected in the Fund's strategic benchmark and individual portfolio benchmarks. Investment performance is measured by the Fund's global custodian, Northern Trust.

2 **Market Performance**

Global equity markets rose over the quarter, rallying to all-time highs by the end of September. The key drivers were easing inflation figures in the US, a 50-basis-point (bps) interest rate cut by the US Federal Reserve and continued optimism over advancements in artificial intelligence. In the US, the S&P 500 traded to new highs, while in Europe shares also rose, chiefly influenced by the positive outlook for the US economy and lower interest rates. UK equities ended the quarter marginally higher but underperformed global equities.

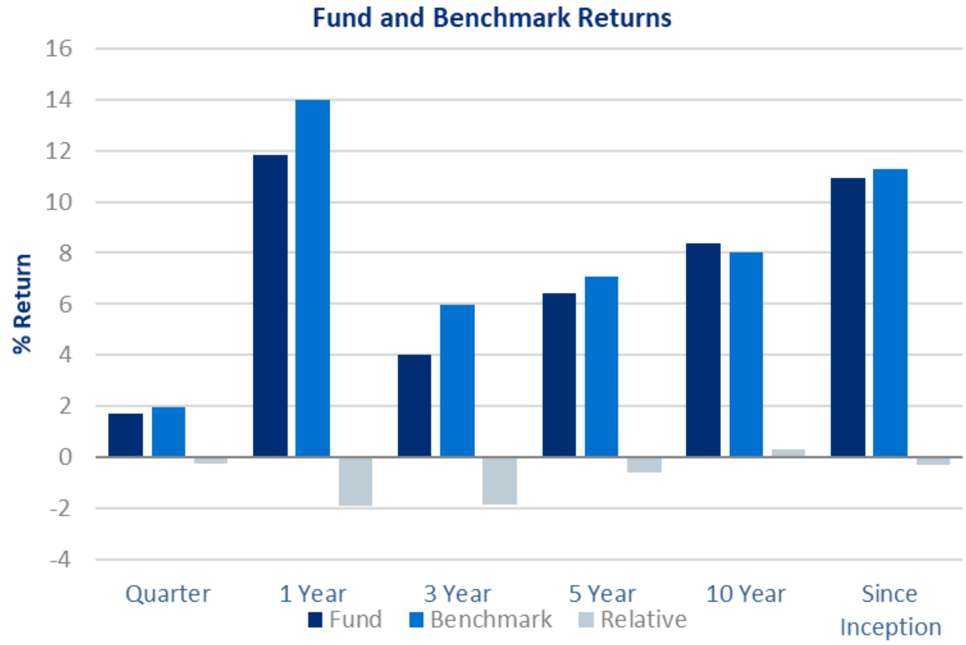
Government bond yields fell and so prices rose. Benchmark 10-year yields in the US, the UK, Germany and Japan all ended the quarter lower. Notably, the US yield curve ended its inversion towards the end of the period, with 10-year treasuries once again yielding more than two-year bonds. The yield on 10-year German bunds fell from 2.46% to 2.06% during the three-month period. Euro area inflation fell to 2.2% in August, and the European Central Bank cut its deposit rate for the second time in September. In the UK, the Bank of England cut interest rates by 25bps in August and left rates unchanged at its September meeting. Inflation was flat at 2.2% in August however consumer confidence fell more than expected in September, ahead of the Autumn budget.



- The **FTSE All Share** Index returned **+2.3%,** the **FTSE World ex UK** index **+0.2%** and the **MSCI Emerging Markets** index **+2.6%**, compared with Q2 returns of **+3.7%**, **+2.7%** and **+5.0%** respectively.
- The **FTSE All Stock Index** returned **2.3%** compared with **-0.9%** in Q2.
- **Sterling** rose by **+1.9%** against the euro and **+6.1%** against the dollar.
- The **MSCI All property monthly return index** returned **+1.3%**. Returns were largely derived from income, with all sectors delivering positive total returns.

3 Fund Performance

The **Fund's value** at 30th September 2024 was **£30,864m**, an increase on the 30th June valuation of **£30,596m**.



The **Fund's total return** for Quarter 3 2024 was **+1.7**%, behind the benchmark return of **+2.0%.** Over 1 year, 3 years and 5 years the Fund's total return has been positive but behind benchmark, while over 10 years it has outperformed. Further analysis of Fund and asset class performance can be found in **Appendix 2**.

Each of the Fund's investment managers has an individual portfolio benchmark. In Quarter 3:

- 10 managers outperformed their benchmark; and
- 11 managers underperformed.

Further analysis of manager performance can be found in **Appendix 3**.

4 Asset Allocation

The Fund's asset allocation can be summarised as follows:

Asset Class	*30 Jun 2024 (£m)*	*30 Jun 2024 (%)*	30 Sep 2024 (£m)	30 Sep 2024 (%)	Target (%)
Equity	*16,573*	*54.2*	15,381	**49.8**	**47.0**
Hedging & insurance	*1,697*	*5.5*	3,097	**10.0**	**10.0**
Credit	*1,605*	*5.2*	1,680	**5.4**	**5.0**
Short term enhanced yield	*5,329*	*17.4*	5,024	**16.3**	**17.0**
Long Term enhanced yield	*5,392*	*17.6*	5,682	**18.4**	**21.0**
Total	***30,596***	***100.0***	**30,864**	**100.0**	**100.0**

In March 2024, the SPF Committee agreed a revised investment strategy and structure to be effective from 1 April 2024. The process of transitioning to the revised strategy commenced in Q2 and continued during Q3 2024. Transition activity in Q3 2024 included:

- LGIM transitioned c.4% of regional market cap equity funds into LGIM gilt and index-linked funds as per the Fund's revised Equity and Hedging/Insurance allocations.
- The second and final trade out of the Ashmore (STEY) mandate was settled on 2 July.
- £180m was invested in the JP Morgan Institutional Infrastructure Fund (LTEY) to bring the mandate into line with the revised target allocation (4.5% of total Fund).

Officers are working with active emerging market managers Genesis and Fidelity and new manager RBC GAM to plan the transition between these funds, with the first investments into the RBC core emerging market equity strategy scheduled to completed late in Q4 2024.

Planning of the transition to new Legal and General Buy and Maintain and Low Carbon passive corporate bond mandates is also underway.

For further details on the Fund's managers and current allocations, see **Appendix 4.**

5 Direct Impact Portfolio (DIP)

A summary of the performance and activity of the Fund's Direct Impact Portfolio and a schedule of current investments can be found at **Appendix 5**.

6 Investment Advisory Panel

The Fund's Investment Advisory Panel met on14th November 2024. A note of the Panel's meetings is set out in **Appendix 6**.

7 Stewardship: Responsible Investment

A summary of responsible investment activity is included **at Appendix 7**.

8 Policy and Resource Implications

Resource Implications:

Financial:	None. Monitoring report.
Legal:	None.
Personnel:	None.
Procurement:	None

Council Strategic Plan: SPF supports all Missions within the Grand Challenge of: ***Enable staff to deliver essential services in a sustainable, innovative and efficient way for our communities.*** The LGPS is one of the key benefits which enables the Council to recruit and retain staff.

Equality and Socio-Economic Impacts:

Does the proposal support the Council's Equality Outcomes 2021-25? Please specify.	Equalities issues are addressed in the Fund's Responsible Investment strategy. A summary of responsible investment activity is included **at Appendix 7**.
What are the potential equality impacts as a result of this report?	N/a.
Please highlight if the policy/proposal will help address socio-economic disadvantage.	N/a.

Climate Impacts:

Does the proposal support any Climate Plan actions? Please specify:	Yes. Strathclyde Pension Fund's Climate Change strategy aligns with Item 34 of the Council's Climate Action Plan. SPF's stewardship activity addresses all of the SDGs to some degree. A summary of responsible investment activity is included **at Appendix 7**.
What are the potential climate impacts as a result of this proposal?	N/a.
Will the proposal contribute to Glasgow's net zero carbon target?	N/a.

Privacy and Data Protection Impacts:	No.
Are there any potential data protection impacts as a result of this report Y/N	
If Yes, please confirm that a Data Protection Impact Assessment (DPIA) has been carried out	N/a

9 Recommendation

The Committee is asked **to NOTE** the contents of the report.

Appendices

Investment Objectives and 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 current objectives of the investment strategy should be to achieve:

- a greater than 2/3 probability of being 100% funded over the average future working lifetime of the active membership (the target funding period); and
- a less than 10% probability of falling below 80% funded over the next three years.

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 Fund has adopted a risk-return asset framework as the basis for modelling and agreeing investment strategy.

Strategic asset allocations set following the 4 most recent actuarial valuations, along with the actuary's assumed returns are shown below:

Asset	*2014* *%*	*2017* *%*	*2020* *%*	2023 %
Equity	*62.5*	*52.5*	*52.5*	**47.0**
Hedging & insurance	*1.5*	*1.5*	*1.5*	**10.0**
Credit	*6.0*	*6.0*	*6.0*	**5.0**
Short term enhanced yield	*15.0*	*20.0*	*20.0*	**17.0**
Long term enhanced yield	*15.0*	*20.0*	*20.0*	**21.0**
	100	*100*	*100*	100
Return (% p.a.)	*5.9*	*5.1*	*3.0*	5.0

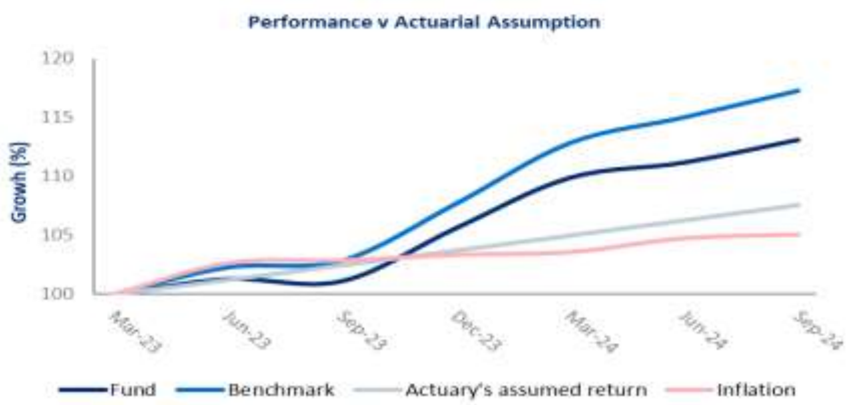
Fund and Asset Class Performance

1. Returns by Asset Class

Asset Class	Latest Quarter Fund %	Latest Quarter B'mark %	Latest Quarter Relative %	1 Year Fund %	1 Year B'mark %	1 Year Relative %	3 Years Fund %	3 Years B'mark %	3 Years Relative %	5 Years Fund %	5 Years B'mark %	5 Years Relative %
Equity	1.3	1.9	(0.6)	15.7	21.0	(4.4)	4.9	7.8	(2.7)	8.9	9.7	(0.8)
Hedging & Ins	2.1	1.9	0.1	1.9	1.8	0.1	0.9	(10.6)	12.8	0.4	(6.4)	7.2
Credit	4.7	4.7	(0.0)	12.7	12.7	0.0	(3.5)	(3.5)	0.0	(1.0)	(1.0)	0.0
STEY	2.1	2.0	0.1	9.4	8.5	0.8	3.3	6.0	(2.6)	3.7	5.1	(1.3)
LTEY	1.6	1.3	0.3	2.6	3.3	(0.7)	4.8	4.7	0.1	3.7	4.2	(0.5)
Total Fund	1.7	2.0	(0.2)	11.8	14.0	(1.9)	4.0	6.0	(1.9)	6.4	7.1	(0.6)

2. Performance Attribution

3. Performance vs Actuarial Assumption



- In Q3, Equity underperformed, while STEY and LTEY portfolios outperformed benchmark. In absolute terms, all asset classes delivered positive returns.
- Over 1, 3 and 5 years, Equity is the best performing asset class in absolute terms but has underperformed on a relative basis.
- Over Q3, 1, 3 and 5 years, investment manager performance, particularly in listed equity portfolios, has detracted from Fund return. Over 1 and 5 years, asset allocation has added value.
- Fund performance remains comfortably ahead of the assumed actuarial return and inflation.

Manager Performance

1 Equity
1.1 Manager Performance Summary

Equity						
Manager		**Current Quarter (%)**	**1 Year (% p.a)**	**3 Years (% p.a.)**	**5 Years (% p.a.)**	**Since Inception (% p.a)**
Baillie Gifford	Actual	0.3	19.4	0.0	6.6	8.8
	Relative	(0.3)	(0.8)	(8.0)	(2.6)	0.9
Lazard	Actual	0.0	12.8	5.1	8.8	9.6
	Relative	(0.4)	(5.9)	(2.9)	(1.3)	0.4
Oldfield	Actual	3.8	8.9	4.3	3.6	7.9
	Relative	3.3	(9.2)	(3.7)	(6.0)	(4.1)
Veritas	Actual	2.7	15.5	6.1	8.3	12.2
	Relative	2.2	(3.6)	(2.0)	(1.8)	0.1
Lombard Odier	Actual	1.3	21.2	(3.5)	11.2	7.3
	Relative	1.2	8.0	3.8	6.8	2.9
JP Morgan	Actual	1.6	13.9	(4.0)	6.1	11.4
	Relative	(1.2)	(0.3)	(5.0)	(0.4)	1.7
Active EM Equity[1]	Actual	0.9	15.6	(3.3)	1.1	8.7
	Relative	(1.5)	0.9	(4.9)	(3.7)	1.2
Pantheon	Actual	(5.9)	(6.1)	4.2	9.6	13.2
	Relative	(6.3)	(21.7)	(3.8)	3.0	4.3
Partners Group	Actual	(1.1)	(0.9)	4.1	10.8	11.2
	Relative	(1.6)	(17.4)	(3.8)	4.1	4.8
L&G Equity[(2)]	Actual	3.7	24.7	8.4	10.3	9.9
	Relative	(0.2)	(1.1)	(0.4)	(0.3)	-
L&G RAFI	Actual	2.7	19.3	10.1	10.1	10.2
	Relative	0.1	0.4	0.4	0.2	(0.0)
L&G EM Equity	Actual	4.3	15.8	-	-	1.8
	Relative	(0.5)	(1.0)	-	-	(1.4)
Total	**Actual**	**1.3**	**15.7**	**4.9**	**8.9**	**9.3**
	Relative	**(0.6)**	**(4.4)**	**(2.7)**	**(0.8)**	**0.1**

1.2 Manager Performance Commentary

Equity underperformed over the quarter; 6 of the 9 active managers underperformed their benchmarks. **Oldfield** and **Veritas** were the strongest performers in both absolute and relative terms, and the **Lombard Odier** portfolio also outperformed. Weakest performers were private equity managers **Pantheon** and **Partners Group**, while specialist smaller companies manager **JP Morgan** and **Active Emerging Markets** underperformed.

Over 5 years, **Baillie Gifford, Lazard, Oldfield, Veritas, JP Morgan** and **Active Emerging Markets** (Genesis and Fidelity) are behind benchmark. **Lombard Odier** has been the strongest performer over 5 years and the allocation to private assets (managed by **Pantheon** and **Partners Group**) has been beneficial in the long term.

After being the weakest performer in Q2 in both absolute and relative terms, **Veritas** outperformed in Q3 2024, nudging since inception performance back above benchmark. **Unilever** was the strongest performing stock, as the company continues

Manager Performance

to benefit from restructuring, while **Alphabet** was the largest detractor largely due to the company losing an antitrust case in the US.

Oldfield outperformed their benchmark, with **Alibaba** and **Fresenius** the strongest contributors in the quarter. Over the longer term, Oldfield have significantly underperformed, being the weakest performer over five years and since inception.

Pantheon and **Partners Group** underperformed over the quarter. Both managers are behind benchmark for the year but have outperformed over 5 years and since inception. The most recent Total Value / Paid In multiples, which compares the total value (funds distributed and residual value) with capital called, was 1.77x for both **Pantheon** and **Partners Group**.

2 Short Term Enhanced Yield

2.1 Manager Performance Summary

Short term enhanced yield						
Manager		**Current Quarter (%)**	**1 Year (% p.a)**	**3 Years (% p.a.)**	**5 Years (% p.a.)**	**Since Inception (% p.a)**
PIMCO	Actual	3.0	10.1	4.4	4.7	3.0
	Relative	1.0	1.6	(2.2)	(0.8)	(0.0)
Ruffer	Actual	2.4	4.4	1.4	4.7	5.1
	Relative	0.5	(3.4)	(4.8)	(0.5)	0.0
Barings (Multi Credit)	Actual	2.8	12.3	2.2	3.2	3.4
	Relative	0.6	2.8	(5.0)	(2.9)	(2.2)
Oak Hill	Actual	2.5	11.5	5.2	5.0	4.4
	Relative	0.3	2.2	(2.2)	(1.2)	(1.2)
Barings (Private Debt)	Actual	2.7	11.3	8.3	6.9	6.1
	Relative	0.5	1.9	0.7	0.6	0.4
Alcentra	Actual	(0.7)	4.8	4.9	5.7	6.2
	Relative	(2.9)	(4.0)	(2.5)	(0.5)	0.5
ICG Longbow	Actual	1.1	4.0	4.3	n/a	3.6
	Relative	(1.0)	(4.7)	(3.0)	n/a	(2.6)
Partners Group (Private Debt)	Actual	1.8	10.5	6.9	n/a	4.8
	Relative	(0.4)	1.2	(0.6)	n/a	(1.5)
Total	**Actual**	**2.1**	**9.4**	**3.3**	**3.7**	**3.2**
	Relative	**0.1**	**0.8**	**(2.6)**	**(1.3)**	**(1.2)**

2.2 Manager Performance Commentary

Short-term enhanced yield outperformed in Q3 with 5 out of 8 managers outperforming their benchmarks, On a relative basis, **PIMCO** was the strongest performer**,** while **Alcentra** was the weakest performer.

The STEY strategy is behind benchmark over 3 and 5 years, with only **Barings Private Debt** outperforming. Overall STEY performance is in line with benchmark since inception.

The **PIMCO** portfolio outperformed the benchmark over Q3 and was also the strongest performer in absolute terms. Q3 performance was driven mainly by contributions from duration and currency strategies. Spread strategies were also slightly positive. PIMCO performance remains behind benchmark over 3 and 5 years and in line with benchmark since inception.

Manager Performance

The **Barings Multi-Asset Credit** portfolio outperformed over Q3 and was also one of the strongest STEY performers in absolute terms. Each underlying credit strategy within the portfolio contributed to positive performance, as historically attractive coupons, moderating inflation and resilient issuer fundamentals provided a favourable environment for high yield credit. Over 3 and 5 years and since inception, portfolio performance remains behind benchmark.

Alcentra underperformed in Q3 and is behind benchmark over all time periods except since inception. The separately managed account (SMA) is the strongest performing portfolio of the Fund's 3 investments with Alcentra, while Alcentra fund II is the weakest performer. At the 2023/24 investment strategy review, the Fund decided to let the Alcentra portfolio wind down over time.

3 Long Term Enhanced Yield

3.1 Manager Performance Summary

Long term enhanced yield						
Manager		Current Quarter (%)	1 Year (% p.a)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a)
DTZ	Actual	2.1	3.2	2.0	2.4	6.1
	Relative	0.8	3.2	1.7	1.5	0.3
Partners Group RE (2)	Actual	(1.1)	(12.1)	(0.9)	(1.8)	5.0
	Relative	(1.7)	(16.6)	(9.5)	(8.8)	(3.3)
JP Morgan IIF	Actual	1.7	10.7	10.0	7.9	7.2
	Relative	(0.2)	2.5	1.8	(0.1)	(0.7)
Total	**Actual**	**1.6**	**2.6**	**4.8**	**3.7**	**5.0**
	Relative	**0.3**	**(0.7)**	**0.1**	**(0.5)**	**(0.1)**

3.2 Manager Performance Commentary

Performance of the long-term enhanced yield allocation was ahead of benchmark in Q3 2024. **Partners Group and JP IIF underperformed**, but the **DTZ** UK property portfolio performed positively in absolute and relative terms.

The strategy has underperformed over the longer term, with only **DTZ** outperforming the benchmark over 5 years and since inception. **JP Morgan IIF** has delivered the strongest absolute return over 3 and 5 years and since inception.

DTZ outperformed in Q3, when the UK property portfolio's total return comprised a capital return of 0.7% and an income return of 1.1%. This compared to a capital and income return of 0.2% and 1.4% respectively for the MSCI Monthly Index. Asset total returns were polarised over the quarter, ranging from +9.9% to –14.3%. Longer term, the portfolio continues to outperform despite the cost associated with a trebling in size since 2012.

Partners Group are behind their strategic benchmark (8% per annum adjusted for currency movements) over all time periods but are ahead of the FTSE/EPFA NAREIT Total Return Index reported by the manager over 3 years and since inception. The portfolio has a Total Value / Paid In multiple of 1.18x.

Appendix 4

Portfolio Summary 30th September 2024

	Equity		Hedging & Insurance		Credit		Short Term Enhanced Yield		Long Term Enhanced Yield		Total		Target
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	%
L&G	6,065	*19.7%*	3,097	*10.0%*	1,680	*5.4%*					**10,843**	***35.1%***	*33.0%*
Baillie Gifford	2,430	*7.9%*									**2,430**	***7.9%***	*7.5%*
Lazard	976	*3.2%*									**976**	***3.2%***	*2.5%*
Oldfield	865	*2.8%*									**865**	***2.8%***	*2.5%*
Veritas	949	*3.1%*									**949**	***3.1%***	*2.5%*
Lombard Odier	440	*1.4%*									**440**	***1.4%***	*1.0%*
JP Morgan	922	*3.0%*							1,413	*4.6%*	**2,334**	***7.6%***	*7.5%*
Active EM Equity	367	*1.2%*									**367**	***1.2%***	*0.0%*
Pantheon	1,317	*4.3%*					0	*0.0%*			**1,317**	***4.3%***	*5.8%*
Partners Group	916	*3.0%*					319	*1.0%*	572	*1.9%*	**1,806**	***5.9%***	*5.5%*
PIMCO							1,145	*3.7%*			**1,145**	***3.7%***	*4.0%*
Ruffer							553	*1.8%*			**553**	***1.8%***	*2.0%*
Barings (multi-credit)							709	*2.3%*			**709**	***2.3%***	*2.3%*
Oak Hill Advisors							571	*1.9%*			**571**	***1.9%***	*1.8%*
Barings (private debt)							421	*1.4%*			**421**	***1.4%***	*1.8%*
Alcentra							272	*0.9%*			**272**	***0.9%***	*0.0%*
ICG Longbow							317	*1.0%*			**317**	***1.0%***	*1.0%*
DTZ									2,390	*7.7%*	**2,390**	***7.7%***	*9.0%*
DIP	133	*0.4%*					113	*0.4%*	1,307	*4.2%*	**1,553**	***5.0%***	*7.5%*
Cash							604	*2.0%*			**604**	***2.0%***	*1.0%*
Total	**15,381**	**49.8%**	**3,097**	**10.0%**	**1,680**	**5.4%**	**5,024**	**16.3%**	**5,682**	**18.4%**	**30,864**	**100.0%**	**98.0%**
Target		**47.0%**		**10.0%**		**5.0%**		**17.0%**		**21.0%**		**100.0%**	

Direct Impact Portfolio

1 Portfolio Summary

The portfolio can be summarised as follows.

	Since Inception (£m)	Current Portfolio (£m)
Total Commitments Agreed	**2,312**	**2,214**
Amounts Drawn Down by Managers	**1,784**	**1,707**
+ Increase in Value	**581**	**536**
- Received Back in Distributions	**699**	**699**
- Realisations	**122**	**-**
= Total Net Asset Value (NAV)	**1,544**	**1,544**

Based on a current total Fund value of **£30,864m**, DIP's **5%** target allocation is a NAV of **£1,543m**.

The portfolio comprises **65** separate investments. In addition, a co-investment program of **£200m** was approved at the March 2022 meeting of the SPF Committee. To date 3 co-investments, each for £15m, have been invested, with the remaining **£155m** yet to be allocated which is not included in the table above.

In Q3, total drawdowns and distributions amounted to **£30m** and **£36m** respectively.

2 Performance

Portfolio performance to 30 September 2024 is as follows:

	Q3 2024		3 Year		5 Year		Since Inception [1]	
	DIP % (p.a.)	SPF % (p.a.)	DIP % (p.a.)	SPF % (p.a.)	DIP % (p.a.)	SPF % (p.a.)	DIP % (p.a.)	SPF % (p.a.)
Equity	1.9	1.3	10.0	4.9	15.4	8.9	15.3	-
LTEY	2.0	1.6	8.4	4.8	5.2	3.7	3.9	-
STEY	2.9	2.1	8.3	3.3	7.0	3.7	2.8	-
TOTAL FUND	**2.1**	**1.7**	**8.5**	**4.0**	**6.0**	**6.4**	**7.4**	**7.8**

[1] **total is from DIP's inception date in 2001**

Performance continues to be positive over the longer-term periods (3 years+) but with a marked softening over the past 12 months.

Factors that have contributed positively over the longer term include:

- strong returns from the predominantly inflation-linked revenues underpinning the majority of the LTEY investments, such as infrastructure, renewable energy & housing funds, which form the bulk of DIP;
- strong historical performance from the multiple private equity, and to a lesser extent also the private debt funds although the overall total amount invested in these asset classes is smaller than infrastructure and renewable energy.

Direct Impact Portfolio

Factors that have detracted over the short term include:

- stronger power prices over the past couple of years were initially positive for renewable energy asset valuations and therefore fund returns, however power prices have now largely reverted to more historical norms and asset valuations are experiencing an element of easing;
- managers are reporting that increased discount rates, resulting from the increase in the return on “risk free” assets, plus added margins for risk and illiquidity, is resulting in a weakening of valuations and therefore returns;
- Private equity managers are reporting lower valuation multiples applying in their markets, despite the generally satisfactory financial performance of the vast majority of underlying portfolio companies. This is primarily due to initial and follow-on fundraising markets being materially tighter, resulting in portfolio companies becoming more focused on cashflow and profitability at the expense of growth (on which valuations are closely based).

Overall, the portfolio has performed well as have the majority of individual investments. On a RAG analysis:

- **57** investments are rated **green**;
- **7** are **amber**;
- **1** in **legals**;
- **None red**.

A complete list of current DIP investments and their progress to date is shown below.

Appendix 5

Direct Impact Portfolio

3 DIP Investments

Fund	Vintage Year	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
Asset Category: Equity								
Clean Growth Fund	2020	Venture Capital	Equity	20	14	6	0	14
Corran Environmental Fund II	2024	Growth Capital	Equity	20	9	11	0	9
Epidarex Fund II	2013	Venture Capital	Equity	5	5	0	3	4
Epidarex Fund III	2019	Venture Capital	Equity	15	11	4	0	11
Foresight Regional Investment V LP	2023	Growth Capital	Equity	30	7	23	0	5
Maven Regional Buyout Fund	2017	Growth Capital	Equity	20	18	2	17	8
Palatine Impact Fund II	2022	Growth Capital	Equity	25	10	15	0	7
Palatine Private Equity Fund IV	2019	Growth Capital	Equity	25	17	8	16	14
Palatine Private Equity Fund V	2024	Growth Capital	Equity	30	0	30	0	0
Panoramic Enterprise Capital Fund 1 LP	2010	Growth Capital	Equity	3	3	0	9	1
Panoramic Growth Fund 2 LP	2015	Growth Capital	Equity	13	12	1	16	5
Panoramic SME Fund 3 LP	2022	Growth Capital	Equity	25	5	20	0	6
Par Equity Northern Scale-Up Fund	2023	Venture Capital	Equity	25	6	19	0	7
Pentech Fund III	2017	Venture Capital	Equity	10	8	2	0	8
SEP II	2000	Venture Capital	Equity	5	5	0	4	0
SEP III	2006	Growth Capital	Equity	5	5	0	18	0
SEP IV LP	2011	Growth Capital	Equity	5	5	0	7	4
SEP V LP	2016	Growth Capital	Equity	20	20	0	12	28
SEP VI LP	2021	Growth Capital	Equity	30	10	20	0	9
Total as at 30/09/2024	**Q3**			**331**	**168**	**163**	**103**	**142**

Appendix 5

Direct Impact Portfolio

Fund	Vintage Year	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
Asset Category: LTEY								
Albion Community Power LP	2015	Renewables	LTEY	40	40	0	10	41
Alpha Social Long Income Fund	2015	Support Living	LTEY	15	15	0	5	19
Capital Dynamics Clean Energy Infrastructure VIII	2019	Renewables	LTEY	40	37	3	4	39
Capital Dynamics Clean Energy UK Fund	2023	Renewables	LTEY	60	0	60	0	0
Clydebuilt Fund II LP	2021	Property	LTEY	100	68	32	2	66
Clydebuilt Fund LP	2014	Property	LTEY	75	75	0	72	16
Dalmore Capital Fund 3 LP	2017	Infrastructure	LTEY	50	50	0	14	52
Dalmore Capital Fund 4 LP	2021	Infrastructure	LTEY	50	50	0	5	50
Dalmore II 39 LP	2021	Infrastructure	LTEY	50	30	20	3	30
Dalmore PPP Equity PiP Fund	2014	Infrastructure	LTEY	50	50	0	36	44
Equitix Fund IV LP	2015	Infrastructure	LTEY	30	30	0	13	28
Equitix Fund V LP	2018	Infrastructure	LTEY	50	50	0	15	52
Equitix Fund VI LP	2020	Infrastructure	LTEY	50	50	0	4	52
Equitix Fund VII LP	2024	Infrastructure	LTEY	50	31	19	0	29
Equitix MA 19 LP (Co-Investment Fund)	2020	Infrastructure	LTEY	50	50	0	7	57
Funding Affordable Homes	2015	Property	LTEY	30	30	0	0	29
Greencoat Solar Fund II LP	2017	Renewables	LTEY	50	50	0	16	45
Hermes Infrastructure Fund II	2017	Infrastructure	LTEY	50	42	8	12	44
Iona Environmental Infrastructure LP	2011	Renewables	LTEY	10	10	0	4	6
Iona Renewable Infrastructure LP	2017	Renewables	LTEY	14	14	0	1	15

Appendix 5

Direct Impact Portfolio

Fund	Vintage Year	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
Asset Category: LTEY (cont'd)								
Iona Resource and Energy Efficiency (Strathclyde) LP	2021	Renewables	LTEY	6	6	0	0	7
Legal & General UK Build to Rent Fund	2016	Property	LTEY	75	75	0	4	76
Macquarie GIG Renewable Energy Fund I	2015	Renewables	LTEY	80	80	0	67	61
Man GPM RI Community Housing Fund	2021	Property	LTEY	30	25	5	0	26
NextPower UK ESG Fund	2022	Renewables	LTEY	60	27	33	1	30
NTR Wind I LP	2015	Renewables	LTEY	39	34	4	34	37
PIP Multi-Strategy Infrastructure LP(Foresight)	2016	Infrastructure	LTEY	130	120	10	58	86
Places for People Scottish Mid-Market Rental (SMMR) Fund	2019	Property	LTEY	45	40	5	4	40
Quinbrook Renewables Impact Fund (QRIF1)	2020	Renewables	LTEY	50	42	8	0	47
Quinbrook Renewables Impact Fund (QRIF2)	2024	Renewables	LTEY	60	0	60	0	0
Resonance British Wind Energy Income Ltd	2013	Renewables	LTEY	10	10	0	8	8
Temporis Impact Strategy V LP (TISV)	2021	Renewables	LTEY	50	30	20	9	39
Temporis Operational Renewable Energy Strategy (TORES)	2017	Renewables	LTEY	30	21	9	11	49
Temporis Operational Renewable Energy Strategy (TORES II) (prev. TREF)	2015	Renewables	LTEY	30	30	0	11	38
Total as at 30/09/2024	**Q3**			**1,609**	**1,313**	**296**	**431**	**1,260**

Direct Impact Portfolio

Fund	Vintage Year	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
Asset Category: STEY								
Beechbrook UK SME Credit II Fund	2016	Credit	STEY	30	29	1	24	17
Beechbrook UK SME Credit III Fund	2021	Credit	STEY	40	33	7	7	32
Healthcare Royalties Partners III LP	2013	Credit	STEY	19	18	0	18	6
Invesco Real Estate Finance Fund II (formerly GAM REFF II)	2018	Credit	STEY	20	14	6	15	9
Muzinich UK Private Debt Fund	2015	Credit	STEY	15	15	0	15	0
Pemberton UK Mid-Market Direct Lending Fund	2016	Credit	STEY	40	37	3	41	18
Scottish Loans Fund	2011	Credit	STEY	6	6	0	7	0
TDC II (prev Tosca Debt Capital Fund II LP)	2017	Credit	STEY	30	24	6	18	13
TDC III (prev Tosca Debt Capital Fund III LP)	2019	Credit	STEY	30	21	9	17	17
Total as at 30/09/2024	**Q3**			**230**	**197**	**33**	**162**	**113**
Co-investment Programme								
Schroders Greencoat Glasgow Terrace	2023	Renewables	LTEY	15	15	0	1	16
Temporis (TISV Co-invest1 LP)	2024	Renewables	LTEY	15	15	0	2	13
Temporis CIP (BESS)	2024 (in legals)	Renewables	LTEY	15	0	15	0	0
DIP Portfolio Total								
Total as at 30/09/2024	**Q3**			**2,214**	**1,707**	**507**	**699**	**1,544**
Total as at 30/06/2024	**Q2**			**2,141**	**1,677**	**465**	**663**	**1,528**

Appendix 6

Investment Advisory Panel Meeting November 2024

MINUTES OF MEETING ON Thursday 14th November 2024

PRESENT:	**Richard McIndoe**	Director
	Prof. Geoffrey Wood	Investment Advisor
	Iain Beattie	Investment Advisor
	Alistair Sutherland	Investment Advisor
	David Walker	Hymans Robertson
	Ben Farmer	Hymans Robertson
	Jacqueline Gillies	Chief Investment Officer
	Syed Muslim	Assistant Investment Manager
	Ian Jamison	Investment Manager
	Lorraine Martin	Assistant investment Manager

1. Minutes from Last Meeting & any Matters Arising

The minutes of the Panel meeting on 15th August 2024 were agreed to be an accurate record.

2 Monitoring

2.1 Market and Inflation Update

The Panel noted investment market and inflation updates from Hymans Robertson.

2.2 Quarterly Investment Performance Review

The Fund's return for **Q3 2024** was +**1.7%**, behind the benchmark return of **+2.0%**. Performance for the year to 30th September 2024 was positive (+**11.8%**), but below benchmark (**+14.0%**). The Fund's return is positive on an absolute basis over five years but behind benchmark and positive on both an absolute and relative basis over ten years.

2.3 Manager Ratings

Current officer assessments of the Fund's investment managers had been circulated, together with Hymans Robertson's manager update. The Panel discussed the ratings. On a Red, Amber, and Green (RAG) analysis:

- 15 of the Fund's managers were rated **green**
- 5 rated **amber**
- 2 were rated **red** following the Committee decision to review the emerging market equity portfolio.

2.4 Direct Impact Portfolio Monitoring Report

The Panel reviewed the quarterly monitoring report for the Direct Impact Portfolio (DIP). Overall the portfolio and most of its investments are progressing well. On a Red, Amber, Green (RAG) analysis:

- **57** investments are rated **green**;
- **7** are **amber**;
- **1** in **legals**;
- **None red**.

2.5 Funding Level Monitoring

The Panel reviewed an updated Funding level report from Hymans Robertson. The funding level at the end of September 2024 was estimated to have increased to **166%**, compared with the funding level of **147%** at the last valuation date, 31st March 2023.

3 Allocation

3.1 Cash flow

The Panel reviewed a schedule of estimated cash flows for the Fund's private market investment programmes - private equity, global real estate, the Direct Impact Portfolio and private debt commitments. Totals as at 30th September 2024 were as follows.

	2024	
	Estimate (£m)	**Actual (£m)**
Distributions	716	420
Calls	-519	-301
Net	**+198**	**+119**

The Fund's central cash balance at 30th September 2024 was +**£602m.** This decreased during the quarter as the Fund continued implementation of its revised investment strategy and +**£200m** was transferred to cover benefits cash flow. Detailed forecasting indicates further transfers from investments of **£100m** at end of Q4 2024 and Q1 2025 will be required to cover benefit payments. A further **£130m** will be required to fund the emerging market equity portfolio transition later in the year.

The IAP will revisit investment cash balances, private market flows and potential sources of cash to meet benefit payments for the remainder of 2024/25 and 2025/26 at its February meeting.

3.2 Rebalancing Strategy

The Panel reviewed a rebalancing report showing Fund allocations vs new strategy allocations as at 30th September 2024.

As a result of the ongoing restructuring of the Fund's investment strategy, emerging market equity, secondary private debt and corporate bond allocations were outwith new strategy allocations at end September 2024.

All other asset class, mandate and manager allocations were within target ranges. The Panel agreed that no immediate rebalancing action was required pending the conclusion of the transition to the new investment strategy and structure.

3.3 Relative Value Framework

The relative value framework was introduced following the 2020/21 review of investment strategy to generate additional value and reduce the risk of capital losses by varying implementation of the Fund's allocation held in protection assets. The framework was reviewed following the 2023/24 investment strategy review to account for revised strategic allocations to Hedging and Insurance and Credit assets.

Decisions to move away from the new strategic – or neutral - allocation of 2.5% Passive Credit (50/50 UK/US investment grade) and 10.0% Hedging and Insurance (50/50 UK gilts and index-linked gilts) allocation are based on pre-defined metrics.

The quarterly relative value report from Hymans Robertson provided the following summary assessment of the framework metrics at 30th September 2024:

- Spreads on both US and UK IG credit are substantially below 20-year medians.
- Despite a small fall in yields over the quarter, nominal gilt yields remain attractive relative to assessment of fair value based on long-term growth and inflation forecasts. This supports an allocation to gilts relative to cash.
- Real yields are still attractive as you look out beyond 15 years. However, implied inflation is expensive when assessed against the framework terms and would therefore suggest holding a lower allocation of index-linked gilts in favour of nominal gilts.

The Panel discussed the report's assessment of the latest metrics, which were supportive of moving to an underweight position in index-linked gilts and a consequent overweight in gilts. Given the time take to move to updated neutral positions as part of the recent strategy review, and the several weeks it would take to unwind these positions again, the Panel decided that it would be more pragmatic to maintain the current allocations and review again in Q1 2025.

3.4 Investment Income and Cash Flow

Analysis and modelling of current and future investment income cash-flows is updated annually and reviewed by the IAP to ensure that the Fund can meet its benefits cash flow requirements.

Income analysis separately identifies:

- Income that is currently distributed within portfolios and available for drawdown;
- Income that is earned within portfolios but not currently distributed ("re-invested income");

An updated 10 Year benefits cash flow forecast was reviewed by the Panel alongside the latest income forecasts. The funding strategy agreed at the 2023 actuarial valuation has resulted in a significant reduction in income from employer contributions in 2024/25, 2025/26 and 2026/27.

The main conclusions from the latest income and benefits cash flow analyses were as follows:

- Reductions in employer contribution rates over the current and next two financial years mean that the projected shortfall in benefits cash flow will exceed distributed investment income in 2024/25 and 2025/26.
- During 2024/25, the Fund has managed to ensure that sufficient cash is available from existing cash balances and from the sale of investments as part of the restructuring of mandates following the investment strategy review.

- Distributed income is currently predicted to be slightly less than the projected shortfall in funds from member transactions in 2025/26.

The Panel agreed that at its February 2025 meeting consideration should be given to tthe most appropriate source of funds, whether that is further investment rebalancing or investment income, to cover the shortfall in benefits cash flow during 2025/26.

4. Manager Reviews

3 investment managers attended the Investment Advisory Panel:

- **Oldfield**
- **ICG**
- **Partners Group**

Performance of each of the managers was reviewed.

4.1 Oldfield

The Oldfield global equity portfolio is currently valued at **£865m**, or **2.8%** of total Fund, versus a target weight of 2.5%. As well as an update on portfolio performance, Oldfield provided an update on its investment management business and on recent staff changes, including the departure of the two lead managers of the global equity strategy. Business and personnel developments at the firm were also the subject of a separate paper by Hymans Robertson.

The performance of the Oldfield portfolio, while positive on an absolute basis, is below benchmark since inception. This can largely be explained by the underperformance of the value investment style over the period as well as the concentrated nature of the Oldfield portfolio. The Panel has always been supportive of a balance between value and growth managers for its equity allocation and the Oldfield portfolio plays an important part in ensuring that balance is achieved. The Panel agreed, however, that it would be prudent for the Fund to gain an understanding of other global equity value investment products. Hymans will prepare a summary research paper for the Panel's November meeting.

In the meantime, officers will ask Oldfield to provide quarterly business updates to the Fund in addition to performance reporting.

4.2 ICG

The ICG private real estate debt portfolio is currently valued at **£317m**, or **1.0%** of Fund versus a target weight of 1.0%. ICG provided an update on the current portfolio and performance.

The ICG portfolio is currently at its target weight of 1.0% of total Fund. Cash flow forecasts show that realisations anticipated during 2025 will mean that the portfolio size will drop to 0.8% of total Fund by the end of 2025 and 0.3% of total Fund by the end of 2026, a materially underweight position. ICG recommended

- a new commitment of £200m to its latest fund, ICG Fund VIII, in Q1 2025, and
- a possible follow-on commitment in 2026

to stabilise the portfolio size at 1.0% of total Fund.

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The Panel considered the recommendation and agreed that the Fund should commit £200m to ICG Fund VIII in early 2025. The Panel will keep the requirement for any follow-on commitments in 2026 and beyond under review.

4.3 Partners Group

The Partners Group private equity portfolio is currently valued at **£916m** – **3.0%** of Fund versus a target weight of 2.5%. The private real estate portfolio is currently valued at **£571m** – **1.9%** of total Fund versus a target weight of 2.0%. The private debt portfolio is currently valued at **£319m** – **1.0%** of total Fund versus a target weight of 1.0%. Partners Group updated the Panel on the performance of the Fund's private equity, private real estate and private debt investments.

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The private equity portfolio is currently over the Fund's target weight and as a result, no new commitments are required. The private real estate portfolio is currently slightly under target weight. However, drawdown of existing commitments is expected to increase allocation to the Fund's target weighting by the end of 2024 and to stay at target during 2025.

The private debt portfolio is fully invested and is currently at target weight. The Panel agreed that commitment to the portfolio should be increased in order to maintain target weight. Officers will work with Partners to forecast future cash flows and adjust the total debt portfolio commitment accordingly.

5 Investment Strategy and Structure

5.1 Transition Update

At its meeting on 19th March 2024, the Committee agreed that the investment strategy summarised below should be adopted as the strategic target model for the Fund.

Asset	Previous Allocation %	Revised Allocation %
Equity	*52.5*	47
Hedging & insurance	*1.5*	10
Credit	*6*	5
Short term enhanced yield	*20*	17
Long term enhanced yield	*20*	21
	100	**100**

Implementation of the proposed new strategy requires changes to the underlying investment structure within each of the 5 asset classes. The Panel reviewed a paper setting out changes and implementation progress.

Changes that had begun or been completed in Q2 2024 included:

- A phased reduction of the Fund's allocation to Equity and the increase in allocation to Hedging/ Insurance (began May 2024, completed August 2024).
- A switch from the L&G market cap passive equity portfolio to Low Carbon Transition funds (June 2024).

- The reduction in the Fund's allocation to the L&G RAFI strategy, including the sale out of the RAFI Emerging Markets fund (Q2 2024).
- Termination of the investment mandate with Ashmore; reduction in the Barings multi-asset credit allocation (May/ June 2024).
- Increased allocation to global infrastructure/ the JPM international infrastructure fund (subscription completed in April 2024, drawn down July 2024).

Transition to new emerging market equity, corporate bond and secondary private debt mandates are required to complete the re-structuring of the Fund's investments:

- Transition of emerging market equity mandates with Genesis and Fidelity to RBC are still to complete, with the first phase– transition between Genesis and RBC – expected to take place towards the end of Q4 2024.
- Commitment to the Pantheon Private Debt Fund will complete in Q4 2024 and will be drawn down over time.
- Transition to new buy and maintain and passive corporate bond mandates with LGIM will complete during Q4 2024 and early 2025 respectively.

5.2 Short term enhanced yield (STEY) private credit allocation

The Fund reviewed the strategic allocation to private debt as part of the 2023/24 review of investment strategy. A proposal to alter manager allocations, including allowing the Alcentra allocation to run off, increasing the Barings allocation to 1.75% and allocating 0.75% of Fund to a new private debt secondaries mandate with Pantheon, was approved by the SPF Committee at its March meeting. However, it was noted that the revised private credit allocation would be subject to further review following the announcement of personnel departures from Barings.

Hymans presented a paper outlining the current and future NAV profile of the private debt allocation, together with its current assessments of the Fund's private debt managers.

Overall the flow of distributions back from existing investments would far exceed new contributions over the short and medium term. As a result, Hymans forecast that the Fund's allocation to private debt would fall significantly below target from 2025 onwards, unless new investments are made with either an existing or with a new investment manager.

The Panel discussed the conclusions of the Hymans analysis and agreed the following:

- the Alcentra mandate should still be run down.
- Barings had raised and invested new capital since the team departures in March and had made good progress in back filling vacancies, stabilising the situation at the firm, although progress in the European team had been slower. The Panel decided that
    - Barings should be permitted to make new investments, up to the level of distributions back from the existing portfolio, but in the US and Asia only until such time as the European team had been sufficiently rebuilt.

- The Fund's commitment to its separate managed account (SMA) with Barings would be raised to £400m in order to accommodate the re-investment of distributions.
- The strategic allocation to Barings of 1.75% of Fund that was agreed as part of the investment strategy review should be adopted, but kept under review as Barings continues to re-build its investment team.

- The Fund should make a £200m commitment to ICG Fund VII to ensure that this portfolio remained at its target weight of 1.0% of total Fund.
- The value of the Partners Group private debt portfolio is currently at its target weight of 1% of total Fund. The Panel agreed that commitment to the portfolio should be increased in order to maintain target weight. Officers will work with Partners to forecast future cash flows and adjust the total debt portfolio commitment accordingly.

5.3 Direct Impact Portfolio Investment Strategy

The Panel reviewed a summary of the changes proposed following this year's review of the Direct Impact Portfolio.

The Panel were supportive of the conclusions of the review, which are outlined in detail in a separate paper to Committee.

6 Governance

6.1 Strathclyde Pension Fund Committee.

The Panel noted the draft agenda for the next committee meeting on Wednesday 27th November 2024.

Appendix 7

Stewardship: Responsible Investment Activity

Responsible Investment: Quarter 3 2024
A summary of activity against each of the six United Nations Principles for Responsible Investment is provided below.

1. We will incorporate Environmental, Social and Governance (ESG) issues into investment analysis and decision-making processes

- In quarter 3 the Fund's equity manager, Veritas Asset Management, reported on how it uses the **United Nations Global Compact Screen ("UNGC")** to ensure international norms and standards are addressed in the investment process.
  The UNGC screen identifies companies involved in controversies where the company's alleged actions constitute a violation of one or more of the ten principles that cover environmental, anti-corruption, human rights and labour standards. On a monthly basis, utilising MSCI ESG research data and 'RAG' rating alert system, Veritas reviews all investee companies to determine if a company fails any of the global compact principles. If there are notable changes during the month, the Veritas system will distribute an email alert to the Investment Team, Compliance Team, and ESG Team. Veritas will identify which principle has been violated, assess the materiality of the violation, and engage with the business if required.

Fail	The company is implicated in one or more controversy cases where there are credible allegations that the company or its management inflicted serious large-scale harm in violation of global norms.
Watch List	The company is implicated in one or more controversy cases that are serious and warrant ongoing monitoring. However, based on information available to date, it does not constitute a significant breach of global norms according to the methodology.
Pass	According to the methodology, the company has not been implicated in any controversy case constituting a significant breach of global norms within the last three years.

  During quarter 3, no companies held in the SPF portfolio "Failed" the UN Global Compact screen. Three companies in the Fund (14.5%) were listed on the Global Compact "Watchlist" including **Amazon.com,** for a potential breach of Principle 3 – "Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining", specifically concerning warehouse employees staging strikes with the Verdi trade union demanding better salary and working conditions.

  Veritas will continue to monitor the company's progress in this area. Should this flag escalate to a "Fail", they will engage. Further detail is available in the Veritas ESG Framework at:
  https://www.vamllp.com/assets/VAM-LLP-ESG-Framework-June-2023.pdf

- The Fund's global infrastructure manager **JP Morgan** and UK property manager **DTZ** included high level results from the 2024 **Global Real Estate Sustainability Benchmark** (GRESB) annual asset assessment in their Q3 quarterly reports.

GRESB assesses ESG performance at the asset level for real estate and infrastructure asset operators, fund managers and investors that invest directly in real assets. The assessment offers high-quality ESG data and advanced analytical tools to benchmark ESG performance, identify areas for improvement and engage with companies.

In the 2024 assessment, the JP Morgan Infrastructure Investment fund ranked 6th in its peer group of 27 globally diversified private infrastructure funds. 6 IIF portfolio companies received a 5 star rating and 5 portfolio companies received a 4 star rating.

The DTZ UK portfolio obtained a score of 74/100 (30/30 for the Management module and 44/70 for the Performance module) and 2 Green Stars.

Full details of each manager's 2024 results will be provided in their Q4 reports,

2. We will be active owners and incorporate ESG issues into our ownership policies and practices

2.1 Voting

Managers' voting activity during the quarter to 30th September 2024 is summarised as follows.

Voting activity to 30th September 2024		
		(%)
Total meetings	**4,383**	
Votes for	25,603	77
Votes against	7,215	22
Abstentions	99	-
Not voted	349	1
No. of Resolutions	**33,266**	**100**

Voting activity in the quarter included:

- **Legal & General** voted against the election of the Board Chair at the **Hindalco Industries Ltd** AGM. This vote against management is in line with Legal & General's Climate Impact Pledge engagement escalation, whereby they vote against the re-election of the chair of the Board at companies lagging their minimum expectations on climate change. This is the second consecutive year Legal & General applied vote sanctions against the company on this basis. Disclosure of a forward-looking, coherent and quantified transition plan is still absent from the report, therefore falling short of expectations. Legal & General also note Hindalco has pushed back its short-term scope 1 and 2 emission intensity reduction target from 2025 to 2027. Despite three engagement meetings and multiple email exchanges, Legal & General are still unclear on a) Hindalco's plans to develop existing disclosure into a coherent transition plan, b) the process, accountability structures and resources in place to develop it over 2024 and c) timings of a planned disclosure. (the election of the Board Chair passed by 77%). Legal & General supported two shareholder resolutions at **General Mills**., asking the company to disclose regenerative agriculture practices within the supply chain and report on efforts to reduce plastic use. Legal & General believe additional disclosure as to regenerative agriculture practices, particularly the use of pesticides, throughout the value chain would be beneficial to more greatly understand health, climate and nature-related risks and impacts, and recommend the company report in line with the guidance from the Taskforce for Nature-related disclosures. Improving the recyclability of products will have a positive impact on climate change and biodiversity. (resolutions achieved 28% and 40% support respectively). Legal & General supported a shareholder resolution at **Darden Restaurants Inc**., asking the company to comply with World Health Organization Guidelines on Antimicrobial Use Throughout Supply Chains. Legal & General's Health Policy states their expectation that companies within the restaurant/out-of-home sector (e.g. fast-food companies) should require all their meat suppliers to comply with the WHO guidelines. Globally, most antibiotics are used not for humans, but for animals. The overuse of antibiotics is known to exacerbate AMR. Legal & General expect them to be transparent about their AMR strategy, the actions taken to implement it, and steps taken to monitor implementation. (resolution achieved 10% support).

- **Baillie Gifford** opposed a resolution to ratify the auditor at the **Advanced Drainage Systems** AGM. The ratification of the auditor was opposed because of the length of tenure. Baillie Gifford believe it is best practice for the auditor to be rotated regularly as this works to ensure independent oversight of the company's audit process and internal financial controls. (The resolution passed by 89%). At **Chewy**, Baillie Gifford opposed the executive compensation due to concerns with the structure of the policy which they do not believe are aligned with shareholders' best interests. (resolution passed). At **Prosus N.V**., Baillie Gifford opposed two resolutions relating to executive compensation. Baillie Gifford continue to have concerns with quantum and misalignment between pay and performance. Their concern also relates to the stretch of targets under the long-term incentive plan, all of which they do not deem to be in the best interest of long-term shareholders. Furthermore, a special 'moonshot' award for the CEO, in addition to the regular long-term incentive plan does not promote appropriate pay for performance. (resolutions passed). Baillie Gifford opposed executive remuneration at **Richemont.** Baillie Gifford opposed the approval of executive variable remuneration due to ongoing concerns with remuneration practices which they do not believe are in the best long-term financial interests of shareholders. Concerns include poor disclosure and a lack of responsiveness to previous shareholder dissent. (resolution passed by 76%). At **AeroVironment** Baillie Gifford abstained on the election of a director who is also a member of the audit committee due to ongoing concerns that the company's climate reporting is lagging behind its peers.

- **Veritas** opposed management remuneration proposals at **Richemont** due to lack of disclosures explaining variable pay outcomes, a lack of transparency on qualitative performance metrics and achievements, failure by the company to directly address significant shareholder dissent from last year's vote and because the board retains considerable discretion in the overall compensation framework.

- **JP Morgan** voted against executive compensation at **Sanlorenzo** where an EGM was called to approve an incentive plan for a newly appointed CEO of the group's subsidiaries. JP Morgan's concerns with the incentive plan were around a lack of disclosure on the performance conditions that would ultimately determine the overall size of the award. There were also several other aspects of the award that were unclear, including the methodology to used to calculate the initial price of the shares to be granted and whether or not the CEO would concurrently benefit from the existing long-term incentive plan.

2.2 Engagement

Engagement highlights during the quarter include the following.

- **Baillie Gifford** visited the **Ryanair Holdings plc** company HQ to better understand the skills of the new board appointees and to seek clarity on decarbonisation planning especially with regards to sustainable aviation fuel (SAF) and to explore supply chain disruption.

  The Chair justified recent board nominees in the context of operational execution. The sustainability team clarified SAF contracts and other measures targeting emissions reductions are embedded in their 2050 NZ plan. The COO introduced Ryanair LABS and discussed some of the supply chain bottlenecks currently facing the company.

  A thorough update was obtained on the business across operational, sustainability and supply chain matters. These meetings should help Baillie Gifford better calibrate the opportunity in the next few years and boost their confidence that Ryanair has a tangible edge in sustainability versus its LCC peers and long-haul carriers.

  Baillie Gifford engaged with French semiconductor company **Soitec SA** to encourage simplification of executive pay plans and the strengthening of minimum ownership requirements for executives.

  Baillie Gifford spoke to the chair of the remuneration committee, Delphine Segura Vaylet, following this year's AGM. On the call, they outlined reservations over the complexity of executive pay plans. Baillie Gifford also queried the suitability of some non-financial performance metrics included in the latest policy. The chair explained that the committee adopts a benchmarking approach each year but acknowledged Baillie Gifford concerns. She added that the non-financial metrics discussed would be reviewed by the committee. Finally, Baillie Gifford sought to understand the board's thinking on building executive ownership. Baillie Gifford noted levels of executive ownership and corresponding requirements are both relatively low. She agreed that this was a topic the board could pay more attention to going forward.

The chair appeared open to the feedback provided, intimating that action would be considered by the remuneration committee. She also asked if Baillie Gifford could share their updated remuneration principles, which they have committed to doing. Baillie Gifford look forward to being consulted on executive pay going forward and will monitor related developments.

- **Oldfield Partners** engaged with **Sanofi** regarding a court case that they and Bristol-Myers Squibb are facing in Hawaii with respect to the antiplatelet medication Plavix.

  This relates to the warning label of Plavix not being adjusted to reflect the appropriate safety and efficacy risks of the drug, specifically that around 30% of patients might have a reduced response to Plavix, particularly those of East Asian and Pacific Islander descent. Sanofi and BMS are appealing the ruling and argue that they provided appropriate information about the risks and benefits of Plavix, including regarding genetic variations that may affect the drug's efficacy for some populations. They are appealing based on the stance that they did not mislead healthcare providers or patients in Hawaii and that the penalties are excessive. Currently the suit will cost Sanofi $458m and raises the risk that another state could pursue a new case. Experience has highlighted the need to approach litigation in the pharmaceutical sector with extreme caution. In this instance, Oldfield are more comfortable that this relates to an initial filing that dates back to 2014 and Sanofi argue that while it is possible a new state could pursue a case, the events and circumstances would be from many years ago. Importantly, this represents a government enforcement action, rather than a product liability case brought by patients.

- As a household and healthcare company, there are several potentially material sustainability considerations associated with **LGH&H**, including the safety of their products, the evolution of their packaging, as well as the environmental and social impacts of their palm oil supply chain. Whilst the company continues to make progress in all three outlined areas, **Oldfield** engagement with them during the quarter highlighted that their domicile in South Korea and expectations of the local consumer base does have implications on progress relative to peers. When Oldfield questioned what prevented them from setting more specific medium- and longer-term targets for recycled and recyclable packaging, they argued that whilst overseas countries have a long history of using recycled plastics, with strong supply stability and consumer awareness, Korea is just getting started and with legal standards that keep changing, they are challenged to disclose longer-term goals. Similarly, their targets related to sustainable palm oil lag other regions and whilst they are working on what they describe as a realistic and practical plan to achieving 100% sustainably sourced palm oil, they do not currently have a timeframe to do so as they balance expense, sourcing availability etc. Accounting for regional nuance is an important part of Oldfield’s assessment of companies and in this instance, the manager encouraged LGH&H to set ambitious longer-term targets as the broader context allows.

Stewardship: Responsible Investment Activity

- **Oldfield Partners** engaged with **Tesco** on potential supply chain issues in relation to the Uyghur population in China.

  This quarter, prior allegations of Tesco's exposure in their seafood supply chain resurfaced. As a long-term investor in Tesco, Oldfield have over the years engaged with the team on the complexity of their supply chain and their oversight of various issues. Perhaps unsurprisingly, as the UK's biggest supermarket, they have always demonstrated comprehensive practices supported by thorough policies and procedures to ensure they adhere to consumer and regulatory expectations. Similarly, in this instance, they confirmed that they were no longer associated with the suppliers in question and pointed to their current work aimed at addressing specific challenges that heighten the risk of modern slavery in the fishing sector. During the engagement, Oldfield took the opportunity to explore Tesco's approach to incoming deforestation regulation, the EUDR (The European Union Deforestation Regulation). Acknowledging that the main driver of deforestation is the expansion of agricultural land that is linked to the production of commodities like cattle, cocoa, soy, palm oil and coffee, the regulation aims to ensure deforestation free products with an enhanced focus on traceability throughout the supply chain. With other distributors, Oldfield have seen that the requirement for increased traceability will result in significant initial cost to put the necessary frameworks in place. The Tesco team are well positioned to implement new regulation, having made significant progress with commodities such as palm oil in the recent past. Oldfield remain impressed by Tesco's overall approach. From a governance perspective, their sustainability teams are integrated into the commercial function, which supports their engagement with suppliers on sustainability matters alongside commercial considerations. Oldfield will continue dialogue where required.

- **J.P. Morgan** met with Spanish Real Estate company, **Merlin Properties** to discuss their strategic expansion plans for data centres and their approach to sustainability and corporate governance.

  Earlier this year, Merlin Properties raised 920 million euros to develop their existing landbank into data centres. Noting that data centre growth is expected to lead to exponential increases in power and water demand, JP Morgan engaged with the company to understand how they are navigating the competing priorities of energy and water availability, low carbon credentials and meeting the sustainability credentials of their hyperscale clients, such as Meta and Microsoft. The company confirmed that using renewable power is a requirement for their clients, but they are not willing to pay more for it. Their clients also require that their Power Usage Effectiveness (PUE) is low. Merlin's Spanish data centres have a market leading PUE of 1.15, helped by their joint venture partnership with Edged Energy. Merlin aims to be Net Zero for Scope 1 and 2 emissions by 2030 and in an effort to report its Scope 3 emissions, includes green clauses in contracts to encourage tenants to share energy consumption data. Unusually, Merlin's data centres consume no water for cooling. Their cooling solution is a closed loop circuit, which is particularly important in a high-water stress country like Spain. The company appears well positioned to deliver low carbon, low water usage data centres to its hyperscale clients in Spain and Portugal. JP Morgan will monitor industry uptake of closed-circuit colling systems as the company delivers on its data centre growth plans and monitor their plans to expand into new territories.

- **J.P. Morgan** engaged with **SAF-HOLLAND,** a German company that specialises in manufacturing axles and suspension systems for trucks and trailers. The objective of the engagement was to understand the viability of SAF-HOLLAND's Environmental, Social, and Governance (ESG) targets and their exposure to the broader automotive market's weaknesses, with many market peers revising down their ESG and battery electric vehicle penetration targets. Regarding end-market demand weakness, SAF-HOLLAND's revenue is not heavily reliant on truck Original Equipment Manufacturers (OEMs), with only 14% coming from the truck business, making them more exposed to the trailer market. Both the truck and trailer markets are currently normalizing after a few strong years, particularly in Europe, the Middle East, and Africa (EMEA) and North America. Regarding carbon targets and reduction, the company works with their customers hand in hand and aims to achieve net zero emissions by 2050. They are also considering applying to the Science Based Targets initiative (SBTi). Furthermore, SAF-HOLLAND is working on an electrified axle with an engine for trailers and an autonomous coupling solution for trucks and harbours. Both are in their pilot phase. On the governance side, following a significant cyber attack in 2023, they have implemented enhanced security measures.

2.3 We will seek appropriate disclosure on ESG issues by the entities in which we invest

Improved disclosure is a recurring theme of engagements with portfolio companies by investment managers and Sustainalytics.

- Baillie Gifford engaged with US-based e-commerce company **Coupang, Inc** to encourage reporting of scope 1 and 2 emissions to better understand its climate exposure and material risks.

  Climate considerations are crucial to Coupang's success for two main reasons: urban pollution and regulatory compliance. Coupang operates in densely populated areas of Korea, with 70 per cent of the population living within seven miles of a fulfilment centre. Seoul, known for its narrow streets and high vehicle usage, ranks among the worst cities globally for air pollution. Additionally, as a company listed in the US, Coupang must adhere to the latest SEC requirements to disclose scope 1 and 2 emissions. Currently, the company prioritises recycling and green packaging over emissions disclosure. Baillie Gifford recommended that Coupang begin disclosing its scope 1 and 2 emissions but advised against setting targets until the company has a clearer understanding of its carbon footprint. Furthermore, Baillie Gifford offered the support of their Climate Team and agreed to provide examples of companies in similar sectors. Following the meeting, the company indicated it is evaluating internally whether to include its scope 1 and 2 emissions in its forthcoming ESG report. Baillie Gifford look forward to studying the report once published.

Baillie Gifford engaged with **Petroleo Brasileiro S.A. (Petrobras)** to better understand how Petrobras' operational emissions reductions and governance controls are being implemented and to continue to encourage further progress.

Baillie Gifford met with Petrobras' head of governance and head of climate in Brazil, followed by a meeting with the chief financial officer (CFO) in London. Petrobras has environmental targets, including greenhouse gas emissions associated with oil and gas production. However, over the years, Baillie Gifford have encouraged the company to be more ambitious. The company highlighted that its reservoirs have enabled low-cost and lower carbon barrels, it has also invested in technologies for further emissions reduction. Examples of this would include new floating production, storage, and offloading (FPSO) vessels that have decarbonisation technologies. The company is resolutely focused on efficiency, identifying opportunities to go even further in eliminating flaring and improving energy consumption and supply. Of course, efficiency gains will become incrementally harder, so the company aims to stay abreast with new technology that can enable further improvement. Petrobras has one of the largest carbon capture and storage (CCS) programmes globally in the context of offshore oil and gas production, and this expertise is being extended to onshore CCS hubs. Petrobras has a strong safety record, but Baillie Gifford discussed how the company addresses governance and sustainability standards in new markets, where they highlighted new compliance and controls. While the company has embarked on energy transition projects, these remain a small part of its overall business. Management sees its expertise in biofuels and sustainable aviation fuels (SAF), as long-term opportunities for the business, but the CFO reiterated the focus of the company's mission, which is replacing oil reserves through ongoing exploration to underpin long-term production growth at the company. The meetings with Petrobras and other experts in Brazil helped Baillie Gifford better understand the company's governance and sustainability practices in the local context.

- **Oldfield** met with cooking equipment manufacturer, **Middleby** to better understand their approach to supporting the environmental goals of their clients.

  As a manufacturer of cooking equipment for the commercial, residential, and industrial foodservice market, Middleby are not a material emitter within the portfolio. They do however play an important role in the supply chain to brands with net zero commitments such as McDonalds. Oldfield were therefore interested to better understand their approach to innovation to support the environmental goals of their clients. Middleby shared that sustainability initiatives increasingly shape their strategic decisions however whilst they collaborate with clients, their main pressure to make progress here comes from shareholders. Their stated objectives include the reduction in energy consumption and the electrification of their products was a main theme of the discussion and an area of heightened interest. They also support clients in the reduction of water usage and food waste and these objectives are balanced alongside other factors such as product performance, safety and food quality. Going forward, Oldfield expect to see incremental improvements in Middleby's sustainability approach and their commitment to science-based targets and enhanced reporting suggests a gradual shift towards a more strategic approach to innovation. This should allow them to better address both the risks and opportunities of sustainable practices for their customers and Oldfield expect to continue dialogue with the team on this annually.

2.4 We will promote acceptance and implementation of the Principles within the investment industry

- Currently all the Fund's investment managers are signatories to the PRI principles and 31 of the 33 managers within the Direct Impact Portfolio are also signatories. The Fund strongly encourages managers to become signatories and to adhere to the principles. However, for some this will be less appropriate due to the specialised nature of their activities.

- In 2024, the Fund was again confirmed as a signatory to the UK Stewardship Code (2020). Of the 72 asset owners accepted this year, 28 are LGPS including 3 Scottish Funds.

- The Fund also encourages its external investment managers and service providers to demonstrate their commitment to effective stewardship by complying with the UK Stewardship Code. Currently fourteen of the Fund's investment managers and consultants Hymans Robertson and Sustainalytics are signatories. The full list of signatories to the Code is available at: https://www.frc.org.uk/investors/uk-stewardship-code/uk-stewardship-code-signatories.

- As signatories to PRI and the UK Stewardship Code the Fund's investment managers are committed to the highest standards of investment stewardship and participation in collaborative initiatives with other like-minded signatories, which seek to improve company behaviour, policies or systemic conditions. Climate change is a priority and to this end the managers participate in a variety of climate change focused industry initiatives and forums. This also involves collaborative lobbying on government and industry policy and regulations. A summary table of investment manager participation in collaborative initiatives is provided overleaf.

Stewardship: Responsible Investment Activity

Manager	Net Zero Policy	Net Zero Asset Manager Alliance (NZAM)	UK Stewardship Code	PRI Signatory	Other Initiatives
Legal & General	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, FAIRR, IIGCC
Baillie Gifford	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, FAIRR, IIGCC, CDP
Lazard	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, IIGCC
Oldfield	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, IIGCC
Veritas	Net Zero 2050	Yes	Yes	Yes	TCFD, SDG's, CDP
Lombard Odier	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, FAIRR, IIGCC, CDP
JP Morgan	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+
Genesis	Net Zero 2050	No	Yes	Yes	TPI, CDP, FAIRR
Fidelity	Net Zero 2050	Yes	Yes	Yes	TCFD, IIGCC, CA100+
Pantheon	No	No	No	Yes	TCFD
Partners Group	Manage assets towards Paris 2050	No	No	Yes	TCFD, SDG's
PIMCO	Manage assets towards Paris 2050	No	Yes	Yes	TCFD, CA100+, FAIRR, IIGCC
Ruffer	Net Zero 2050	Yes	Yes	Yes	TCFD, CDP, CA100+
Barings	Manage assets towards Paris 2050	No	Yes	Yes	UNGC, SDG's, TCFD
Oakhill	No	No	No	Yes	TCFD
Alcentra	Manage assets towards Paris 2050	No	Yes	Yes	TCFD, IIGCC
ICG	Net Zero by 2040	Yes	Yes	Yes	CDP, TCFD
Ashmore	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+
DTZ	Operational Net Zero 2030. Portfolio Net Zero 2040	No	No	Yes	TCFD, IIGCC, GRESB, BBP

Stewardship: Responsible Investment Activity

2.5 We will work together to enhance our effectiveness in implementing the Principles

The Fund seeks to improve the effectiveness of company engagement and voting by acting collectively with other institutional investors, charities, and interest groups. Working with ShareAction and others, the Fund has carried out direct collaborative engagement across a range of initiatives. It is also a member of industry collaborative forums including the Local Authority Pension Fund Forum, the Institutional Investors Group on Climate Change and the Carbon Disclosure Project (CDP).

- In September the Fund co-signed The Investor Agenda **2024 Global Investor Statement to Governments on the Climate Crisis.** This is the most comprehensive investor call for climate action yet, demanding a whole-of-government approach with policy implementation at all levels of government and urging enactment of policies that will unlock the private capital flows needed for a just transition to a climate-resilient, nature-positive, net-zero economy. This statement, coordinated by the seven Founding Partners of The Investor Agenda including the **Institutional Investors Group on Climate Change (IIGCC)**, was signed by 534 investors representing over USD $29 trillion in assets. The joint statement to all world governments urges a global race-to-the-top on climate policy and warns that laggards will miss out on trillions of dollars in investment if they aim too low and move too slow. The Statement calls for a whole-of-government approach across five critical policy groupings:
    - enacting economy-wide public policies;
    - implementing sectoral strategies, especially in high-emitting sectors;
    - addressing nature, water and biodiversity-related challenges contributing to and stemming from the climate crisis;
    - mandating climate-related disclosures across the financial system; and
    - facilitating further private investment into climate mitigation, resilience, and adaptation activities in emerging markets and developing economies.

  The full statement and list of current signatories is available at: https://theinvestoragenda.org/wp-content/uploads/2024/08/2024-Global-Investor-Statement-to-Governments-on-the-Climate-Crisis.pdf

- The Local Authority Pension Fund Forum (LAPFF) provided a Quarterly Engagement Report. The report highlights include:

    - LAPFF continued engagement with **Shell** and **BP** to test the companies claims of decarbonisation based on existing business models and to challenge the viability of their current business.
    - Engagement with UK power producer, **Drax,** regarding concerns about the continuation of government subsidy and significant issues with claims of net zero as well as continuity of supply of imported wood pellets.

Stewardship: Responsible Investment Activity

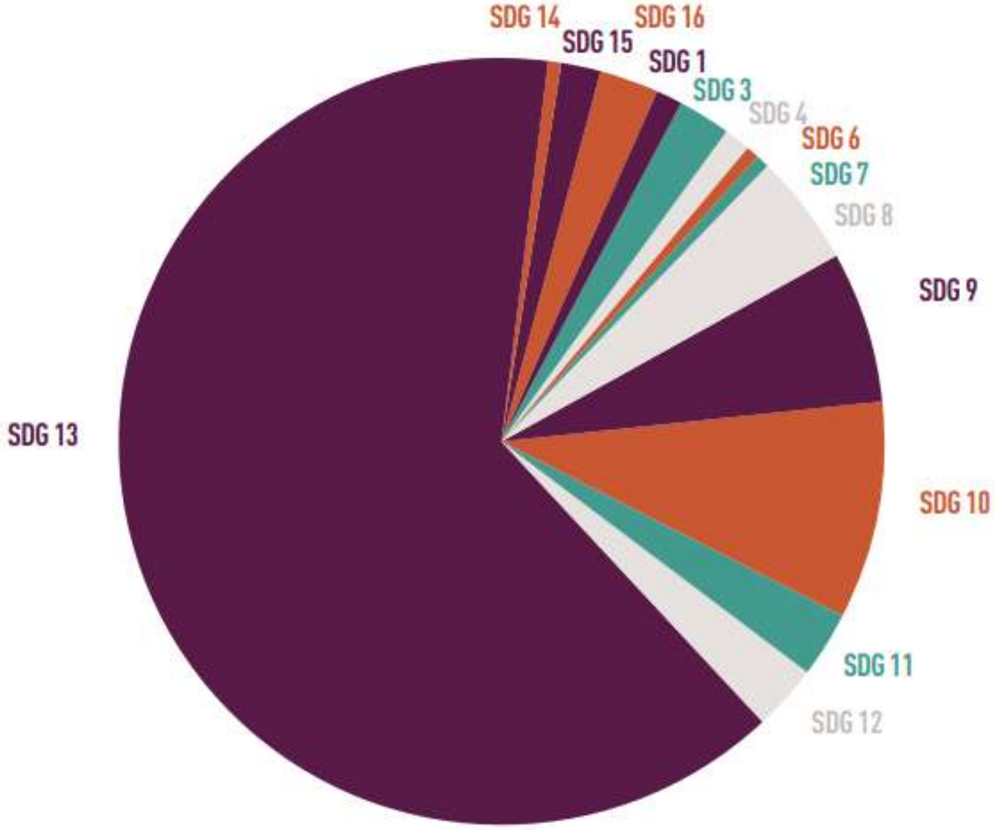
- LAPFF engaged with international steel producers **SSAB & ThyssenKrupp** on transition plans and on developing alternatives to coal/coke-based steel production.
- LAPFF met with **Kasikorn Bank**, one of the major financial institutions in Thailand, to discuss progress on its approach to sustainable finance.
- LAPFF engaged with cement company, **CRH** to discuss its actions towards achieving net zero.
- LAPFF met with three of the largest tobacco companies, **Philip Morris, Imperial Brands,** and **Japan Tobacco Inc.** to discuss single-use plastics in their product ranges. LAPFF is set to meet **British American Tobacco** in October to discuss these same issues.
- LAPFF engaged with shipping company, **Maersk** to for a second time to discuss heightened human rights due diligence and the company's approach to global conflict zones.
- LAPFF continued to engage the largest UK housebuilders on their climate transition strategies. In the quarter, LAPFF met the chair of **Bellway** to discuss its approach to decarbonisation and met with the Chief Operating Officer and the Group Company Secretary at **Vistry Group** to discuss the company's sustainability initiatives, its approach to reducing Scope 3 emissions, planning and pilots to be ready for the Future Homes Standard.
- As part of its support for the **Nature Action 100** (NA100) initiative LAPFF engaged with the Danish Pharmaceutical company **Novo Nordisk.**
- To achieve wider support for climate transition plan votes, LAPFF alongside **CCLA** organised a letter to FTSE 100 companies that have not provided such a vote over the past three years. The letter outlined the case for companies providing shareholders the opportunity to have a say on the company transition plan.
- LAPFF has been concerned about the weakening of standards relating to new entrants to the London listed companies' market, which has included, **Aston Martin Lagonda**, **NMC Health**, **Finablr** and **Quindell**, The LAPFF Executive convened a 'Capital Markets Working Group' in the light of a recent concerted campaign by some interests to further weaken the standards of the listing regime. That campaign has included the Capital Markets Industry Taskforce, which is just that, it is a coalition of "fee earning" interests rather than shareholder interests, including issues of investor protection. It is chaired by the CEO of the London Stock Exchange.
- LAPFF held meetings with **AstraZeneca**, **Pearson** and **Synthomer** to discuss the high levels of shareholder dissatisfaction. This included a meeting with the Chair of AstraZeneca, Michel Demaré, to discuss the company's approach to Executive compensation following opposition of 35.6% to the remuneration report at the 2024 AGM.

The LAPFF Quarterly Engagement Report is available at:
https://lapfforum.org/publications/category/quarterly-engagement-reports/

Stewardship: Responsible Investment Activity

LAPFF map their quarterly engagement cases to the **United Nations Sustainable Development Goals** (**SDGs)** as illustrated in the chart overleaf.

ENGAGEMENT DATA



LAPFF SDG ENGAGEMENTS	
SDG 1: No Poverty	2
SDG 2: Zero Hunger	0
SDG 3: Good Health and Well-Being	4
SDG 4: Quality Education	2
SDG 5: Gender Equality	0
SDG 6: Clean Water and Sanitation	1
SDG 7: Affordable and Clean Energy	1
SDG 8: Decent Work and Economic Growth	8
SDG 9: Industry, Innovation, and Infrastructure	11
SDG 10: Reduced Inequalities	16
SDG 11: Sustainable Cities and Communities	5
SDG12: Responsible Production and Consumption	5
SDG 13: Climate Action	111
SDG 14: Life Below Water	1
SDG 15: Life on Land	3
SDG 16: Peace, Justice, and Strong Institutions	4
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

Stewardship: Responsible Investment Activity

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, recognised the private sector as a key agent in addressing global challenges such as climate change, poverty, environmental degradation and inequality. Meaningful SDG strategies aligned with companies' business plans can link profit with sustainability and contribute to a more stable and sustainable world.

2.6 We will report on our activities and progress towards implementing the Principles

- Legal & General, Lazard, Baillie Gifford, JP Morgan, Lombard Odier, Veritas, Barings and Oldfield Partners provided reports on ESG engagement during the quarter. Sustainalytics provided a full engagement report for the quarter and an engagement progress update on individual portfolio companies.

- Officers of the Fund completed the annual **PRI** reporting and assessment survey in quarter 3. This online questionnaire is compulsory for all asset owner and investment manager signatories and contains questions covering implementation of the Principles and responsible investment activities. An assessment report is expected in quarter 4. This report will demonstrate how a signatory has progressed in its implementation of the Principles year-on-year and relative to peers across asset classes.

- **Sustainalytics Global Standards Engagement and Material Risks Engagement** Quarterly Reports summarize the shareholder engagement activities performed on behalf of investor clients during the quarter and includes updates on individual portfolio companies. Sustainalytics map these engagement cases with relevant **SDGs** (UN Sustainable Development Goals) and engagement dialogue aims to work toward achieving the sustainable outcomes. 785 engagement cases in quarter 3 can be attributed to the following SDGs (as percentage of total cases).

Appendix 7

Stewardship: Responsible Investment Activity

Sustainable Development Goals — Mapping Engagements

All engagements are mapped to the 17 UN Sustainable Development Goals (SDGs). The mapping is done by Morningstar Sustainalytics and refers to the focus and objective(s) of the engagement.

1 No Poverty	4%	10 Reduced Inequality	9%
2 Zero Hunger	2%	11 Sustainable Cities and Communities	10%
3 Good Health and Well-Being	27%	12 Responsible Consumption and Production	55%
4 Quality Education	4%	13 Climate Action	51%
5 Gender Equality	6%	14 Life Below Water	8%
6 Clean Water and Sanitation	10%	15 Life on Land	14%
7 Affordable and Clean Energy	22%	16 Peace and Justice, Strong Institutions	38%
8 Decent Work and Economic Growth	25%	17 Partnerships to Achieve the Goal	4%
9 Industry, Innovation and Infrastructure	28%		

Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

Contact: Richard McIndoe, Ext: 77383

Item 8

27th November 2024

Risk Register Update

Purpose of Report:

To present a summary of the current Strathclyde Pension Fund Risk Register.

Recommendations:

The Committee is asked **to NOTE** the contents of this report.

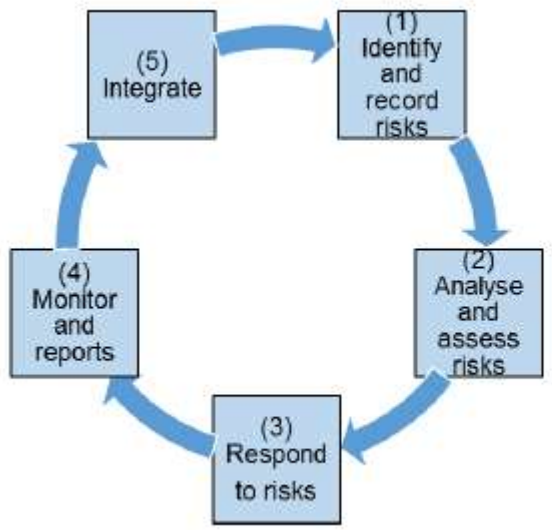
Ward No(s):	Citywide: ✓
Local member(s) advised: Yes ☐ No ☐	consulted: Yes ☐ No ☐

1 Background

In March 2019, the Committee approved a revised Risk Policy and Strategy Statement. Unlike the Fund's other policy documents, this is not a requirement of the regulations but is considered a matter of best practice. The Statement sets out a common basis for risk management across the Fund's other policies and strategies. The Fund's policy documents are available on its website at: www.spfo.org.uk . Review of the Risk Policy is included as a priority in SPF's 2024/25 Business Plan.

2 Risk Management Process

The risk management process is illustrated as follows.



3 Risk Register

As a key part of the Fund's risk strategy, a detailed risk register has been established and is maintained for the Strathclyde Pension Fund (SPF) and the Strathclyde Pension Fund Office (SPFO). The format is consistent with the corporate and departmental registers. The register provides a simple, systematic and consistent basis for recording, analysis, understanding, communication, management, monitoring and reporting of risks.

4 Current Register

4.1 Summary

The risk register as at 31st October 2024 is summarised as follows.

Total Risks	Very High Risks	High Risks
36	0	4

Changes since last review (31 March 2024)

New	Closed	Increased	Decreased	Static
0	0	0	0	36

4.2 Changes

There have been no changes since the last review.

4.3 Emerging Risks

The risk environment changes constantly but this does not always lead to immediate changes in individual risk assessments. Perhaps the most significant changes in recent months have been political – changes in government in both the UK and the US. Both of these may be significant for SPF:

- Pensions Policy in various forms is high on the new UK government's agenda, and a Pensions Review was announced at an early stage, followed by a call for evidence during September. Key themes: are scale and consolidation; costs v value; and investing in the UK. This directly involves the LGPS in England & Wales, but not in Scotland. Further announcements are expected in the near future.
  Separately, the autumn budget proposed one change which would affect the scheme in Scotland if introduced – bringing death grants into the scope of inheritance tax. It also included LGPS assets and liabilities in the new measure on which its fiscal targets will be based – Public Sector Net Debt. This has no immediate implications but may further increase the new government's interest in the LGPS.
- The US is the world's biggest economy and largest investment market. Consequently, SPF has significant direct investment exposure. The US also remains hugely important in terms of its global influence. Any change of policy direction could have significant repercussions on the global economy, geopolitics, action on climate change and a raft of other issues. The new administration is not yet in place and may remain unpredictable once it is. All this may indirectly affect SPF and its investments.

SPF will continue to monitor developments and re-assess risk impact.

4.4 Distribution

Current distribution of risks is summarised as follows.

Impact

Probability			1 Negligible	2 Minor	3 Moderate	4 Major	5 Critical
5	Almost Certain	80%–100%					
4	Likely	60%–80%		2	3		
3	Possible	35%–60%	1	9	7	1	
2	Unlikely	15%–35%		4	3	6	
1	Rare	0%–15%					

← significant risk zone

4.5 Risks and Mitigations

The most significant risks are summarised at **Appendix A**.

5 Policy and Resource Implications

Resource Implications:

Financial:	None
Legal:	None
Personnel:	None
Procurement:	None
Council Strategic Plan:	SPF supports all Missions within the Grand Challenge of: ***Enable staff to deliver essential services in a sustainable, innovative and efficient way for our communities.*** The LGPS is one of the key benefits which enables the Council to recruit and retain staff.
Equality and Socio-Economic Impacts:	
Does the proposal support the Council's Equality Outcomes 2021-25? Please specify.	N/a. Monitoring report.
What are the potential equality impacts as a result of this report?	No significant impact.
Please highlight if the policy/proposal will help address socio-economic disadvantage.	N/a.
Climate Impacts:	
Does the proposal support any Climate Plan actions? Please specify:	N/a. Monitoring report.
What are the potential climate impacts as a result of this proposal?	N/a.

Will the proposal contribute to Glasgow's net zero carbon target?	N/a.
Privacy and Data Protection Impacts:	
Are there any potential data protection impacts as a result of this report Y/N	No.
If Yes, please confirm that a Data Protection Impact Assessment (DPIA) has been carried out	N/a.

6 Recommendations

The Committee is asked **to NOTE** the contents of this report.

Appendix A

Risks as at 31st October 2024

Ref		Title	Description	Mitigation / Control	Residual Impact	Residual Probability	Residual Score	Movement since last Assessment
FIN	0391	**System Failure**	**RISK:** Issues with pensions administration system and other related systems. **CAUSE**: Outages, hardware and software failure, cyber attack. **EFFECT:** Staff downtime, loss of service delivery, data loss, and potential failure to pay pensions.	Access controls, firewalls and other system security measures. Robust system maintenance routines. Internal and external systems support. Back-up procedures. Disaster Recovery Plan. Business continuity plan.	4	3	**12**	
FIN	0393	**Scheme regulation change**	**RISK:** Failure to comply with changes to scheme regulations and other pensions legislation. **CAUSE:** Political or legislative **EFFECT:** Increasing administrative complexity, communications challenges, potential issues with the Pensions Regulator, potential incorrect information or payments to members, impact on liabilities.	The Administering Authority is alert to scheme developments. Officers participate in various scheme and industry groups (SPLG, IGG, SAB, CIPFA, PLSA, etc.) SPFO is a test site for software upgrades to reflect regulation changes.	3	4	**12**	
FIN	0403	**Data Breach**	**RISK:** Theft or loss/misuse of personal data. **CAUSE:** Cyber attack, human error, process failure. **EFFECT:** Breach of data protection legislation including GDPR, financial loss and/or penalties, audit criticism, legal challenge, reputational damage.	SPF compliance with GCC GDPR procedures; system security; secure data transfer; data sharing agreements (these are in place with larger employers and many but not all of the smaller ones, leaving some residual risk which is tolerated); staff awareness.	3	4	**12**	
FIN	0415	**Breach of statutory reporting guidelines**	**RISK:** Breach of statutory reporting guidelines. **CAUSE:** Failure to produce compliant accounts by deadline. Failure of audit process. **EFFECT:** Regulatory criticism, business disruption and reputational damage.	Rigorous planning and project management within SPFO; support from Corporate Finance.	3	4	**12**	