Glasgow CITY COUNCIL

NOTICE OF MEETING

Strathclyde Pension Fund Board

Agenda **Wednesday, 19th March 2025 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. **SAB Updates**
   Latest SAB bulletins attached for information/discussion.

Part 2: Strathclyde Pension Fund Committee Agenda

Papers for the meeting of the Strathclyde Pension Fund Committee at 13:30 hours on 19th March 2025 have been issued to Board members. The Board is invited to discuss and comment on the papers and their contents.

1. Training - Actuarial Update - Presentation by Hymans Robertson.

2. Funding update - Report by Director of Strathclyde Pension Fund. **Page(s) 1 to 24**

3. Direct Impact Portfolio - Investment proposals - Reports by Director of Strathclyde Pension Fund.

   (a) Clean Growth Fund II; and **Page(s) 25 to 34**

   (b) Octopus Affordable Housing. **Page(s) 35 to 46**

4. Risk Policy and Strategy and Risk Register - Report by Director of Strathclyde Pension Fund. **Page(s) 47 to 78**

5. 2025/26 Business Plan - Report by Director of Strathclyde Pension Fund. **Page(s) 79 to 118**

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

   (a) Global Internal Audit Standards; and **Page(s) 119 to 138**

   (b) Internal audit plan 2025/26. **Page(s) 139 to 146**

7. Annual audit plan 2024/25 - Report by Director of Strathclyde Pension Fund. **Page(s) 147 to 190**

8. Administration update - Report by Director of Strathclyde Pension Fund. **Page(s) 191 to 198**

9. Finance update - Report by Director of Strathclyde Pension Fund. **Page(s) 199 to 202**

10. Investment update - Report by Director of Strathclyde Pension Fund. **Page(s) 203 to End**

Contact Officer: Avril Wyber
Committee Officer
Committee Services
City Chambers
Glasgow
G2 1DU
Telephone: 07557545863
e-mail avril.wyber@glasgow.gov.uk

STRATHCLYDE PENSION FUND BOARD MINUTES

Item 2
19th March 2025

Glasgow, 27th November 2024.

Strathclyde Pension Fund Board.

Present: Andy Thompson, GMB (Chair); Councillor Ian Davis, South Ayrshire Council; Scott Donohoe and Stephen Kelly, UNISON; and Councillor Sandy Watson, North Lanarkshire Council.

Apologies: Thomas Glavin, UNITE; and Darren Paterson, Scotland Police Authority.

Attending: A Wyber (Clerk); R McIndoe, Director of Strathclyde Pension Fund; J Gillies, I Jamieson, R Keery, L Martin, L Welsh (Strathclyde Pension Fund Office); and S MacLean (for the Executive Director of Finance).

Conflicts of Interest.

1 There were no conflicts of interest.

Minutes of previous meeting

2 The minutes of the meeting of 11th September 2024 were submitted and approved, subject to minor amendments.

Scheme Advisory Board update noted.

3 There was submitted and noted the Scheme Advisory Board Bulletin for October 2024.

Review of Direct Impact Portfolio – Presentation noted.

4 The Board heard and noted a presentation by officers from Strathclyde Pension Fund Office in relation to the Direct Impact Portfolio (DIP), advising

(1) of the history of DIP;

(2) of the current strategy, overview, commitments, decision-making, monitoring and performance of the DIP;

(3) of the impact of DIP;

(4) of the actuarial valuation for 2023;

(5) of the DIP co-investment programme;

(6) of the review of the investment strategy and of the proposed recommendations in relation to the strategy which would be considered at Strathclyde Pension Fund Committee on 27th November 2025.

Legal & General Investment Management – Presentation noted.

5 The Board noted that Legal & General Investment Management proposed to make a presentation on Economic and Market update to Strathclyde Pension Fund Committee on 27th November 2024.

Provision of mortality screening service – Proposed appointment noted.

6 There was submitted a report by the Director of Strathclyde Pension Fund regarding the outcome of a tendering exercise for the provision of a mortality screening service for Strathclyde Pension Fund.

After consideration, the Board noted the proposed appointment of Heywood Pension Technologies to provide a mortality screening service for Strathclyde Pension Fund, for a 6-year contract with effect from 6th December 2024 to 5th December 2030 at an estimated cost of £14,000 per annum.

UK Property Portfolio – Development works at Bankside House – Proposed appointment noted.

7 There was submitted a report by the Director of Strathclyde Pension Fund regarding the outcome of a tendering exercise for the provision of development works at Bankside House for Strathclyde Pension Fund UK Property Portfolio.

After consideration, the Board noted the proposed appointment of Scott Osborn Ltd to carry out development works at Bankside House for Strathclyde Pension Fund UK Property Portfolio, at an estimated cost of £23,752,365.15.

Direct Impact Portfolio – Review of Investment Strategy noted.

8 There was submitted a report by the Director of Strathclyde Pension Fund regarding a review of the Direct Impact Portfolio (DIP) Investment Strategy, advising

(1) that Strathclyde Pension Fund Business Plan 2024/25 had included a review of DIP, including objectives, strategy, structure and capacity;

(2) that DIP investment proposals were assessed on their own merits within an agreed framework, based on Strathclyde Pension Fund’s overall risk-return objectives and specific DIP parameters, as detailed in the report;

(3) of a summary of the portfolio, as at 30th June 2024;

(4) of the progress since the conclusion of the most recent review of the DIP strategy and operating arrangements in November 2021 and which had agreed 4 separate recommendations which have all been implemented; and

(5) of the 2024 review of DIP and the conclusions and recommendations for each of the areas, as detailed in the report.

After consideration, the Board noted

(a) the report;

(b) that it was proposed that

   (i) there be no change to the objectives, structure or governance;

   (ii) there be an increase in the Direct Impact Portfolio's target allocation from 5% to 7.5% of the total Fund within a range of 5% to 10% (calculated by Net Asset Value); and

   (iii) that there be an increase in the minimum targeted return (Net IRR) for individual fund proposals to 6.5% (currently 5%); and

   (iv) appropriate target returns would continue to be assessed on a fund-by-fund basis with regard to the perceived risk;

   (v) there would be one change to the individual investment guidelines below:-

      (A) target investment size £30m to £100m;

      (B) minimum investment £20m; and

      (C) maximum investment £250m (currently - greater of £250m or 1% of Total Fund Value); and

   (vi) there be an increase in the total amount of the co-investment programme from £200m to £300m and an increase to the maximum individual co-investment ticket size from £15m to £25m.

Review of pension payroll process noted.

9 There was submitted and noted a report by the Head of Audit and Inspection regarding the outcome of an Internal Audit review of the pension payroll process within Strathclyde Pension Fund Office.

Internal Audit – Follow-up audits noted.

10 There was submitted and noted a report by the Head of Audit and Inspection regarding the outcome of follow-up audits by Internal Audit in relation to Strathclyde Pension Fund Office for the period from 5th June to 8th November 2024.

Strathclyde Pension Fund - Administration performance – Position noted etc.

11 There was submitted a report by the Director of Strathclyde Pension Fund advising of performance and current issues within the pensions administration area of Strathclyde Pension Fund Office as at 30th September 2024.

After consideration, the Board noted

(1) the report; and

(2) that the Government had launched a consultation on inheritance tax on pensions and what the proposed changes would mean with a closing date of 22nd January 2025.

Financial statements – Current position noted.

12 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 8 to 18th October 2024.

Strathclyde Pension Fund – Investment performance noted.

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

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

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

(3) the outcome of the Investment Advisory Panel meeting of 14th November 2024; and

(4) stewardship activity during Quarter 3.

Risk Register – Position noted.

14 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.

Scottish Local Government Pension Scheme
www.lgpsab.scot

Scheme Advisory Board

Trade Union Side Secretary
Simon Watson
UNISON
Grampian Resource Centre
7, Alford Place
Aberdeen AB10 1YD
Tel: 01224 620624
s.watson@unison.co.uk

Employers Side Secretary
Jonathan Sharma
COSLA
Verity House,
19 Haymarket Yards
Edinburgh EH12 5BH
Tel: 0131 474 9269
jonathan@cosla.gov.uk

January 2025

BULLETIN

Disputes between Boards and Committees: The SAB agreed a process to follow for referrals from local boards / committees. These referrals can be made to the SAB for advice if there are issue where agreement cannot be reached between local boards and committees. The process has not been used before, but has recently been initiated for the first time.

GAD (Government Actuary Department) representatives gave a presentation setting out the process for the **2024 scheme valuation**, data for which will be analyzed over the coming months and years.

The SAB met with representatives from Barnett Waddingham who have been retained to provide **specialist briefings** on specific topics which would be too time consuming for SAB advisors. The initial three items are climate reporting regulations, UK government policy agenda, and cost control mechanisms.

On **exit credits** for employers leaving the LGPS, the SAB clarified that the approach Funds should use is that contained in the new funding strategy statement guidance.

The SPPA highlighted the minor changes to regulations putting the **McCloud remedy** into effect, and a possible dispensation such that Funds would not need to provide McCloud underpin information on 2024/25 benefit statements.

The SPPA also highlighted a desire from Ministers for views of the SAB on **Scottish LGPS Funds investments** in Scottish infrastructure and equities, and views on the UK government LGPS reform agenda in England and Wales.

Observers at the SAB: The SAB meeting had observers from local LGPS Boards, and looked forward to welcoming others at subsequent meetings

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.

Scottish Local Government Pension Scheme
www.lgpsab.scot
Scheme Advisory Board

Trade Union Side Secretary
Simon Watson
UNISON
Grampian Resource Centre
7, Alford Place
Aberdeen AB10 1YD
Tel: 01224 620624
s.watson@unison.co.uk

Employers Side Secretary
Gareth Dixon
COSLA
Verity House,
19 Haymarket Yards
Edinburgh EH12 5BH
Tel: 0131 474 9271
garethd@cosla.gov.uk

March 2025

BULLETIN

Over the last 18 months SAB have engaged in a series of training events on the LGPS. With the UK agenda progressing and the **Fit for the Future** consultation, Ministers reminded the SAB of their request for a view on the intentions of the UK Government and their 'pooling agenda'. The SAB received a briefing note from its external advisors, and agreed to hold a special event in the near future, including discussion on divergent views on alternative ways forward, to agree the principles for a response on this.

Related to this, Ministers have also asked for details from Funds about their **investments in Scotland**, and all Funds have been asked for responses which the SAB will collate.

The SAB's **cost control** working group had been examining whether a 'pre-breach' mechanism was needed in case the SLGPS' "cost collar" was breached, which would trigger changes in scheme benefits. After examining the mechanics of this, and the likelihood of it being used ,now that the Treasury's mechanism includes an economic check, the SAB decided against taking this forward.

GAD reported that the 2024 overall **scheme valuation** was now underway, and all data has been received to be processed. There is a long process before any changes, if these are needed at all, are introduced in April 2027. In addition, GAD prepares a "Section 13" report looking at the valuations of individual funds, and this is due in spring / summer 2025.

The SPPA reported on their response to the consultation on **exit credits**, and concluded that they would bring forward changes to broadly align to those made in England and Wales in 2020 to give funds discretion over payment of these. Scottish Ministers have now laid these regulations in parliament. The SAB previously advised Funds to look to the principles in the new Funding Strategy Statement guidance about how to exercise any discretion.

On **climate change risk**, the SAB received a paper from its external advisor looking at how regulations could be changed to incorporate this agenda, based on the regulations already applying to private sector schemes. It was suggested that mirroring existing regulations would give a more sustainable approach, and the SAB agreed to reconvene its working group to take this forward.

On **resourcing**, the SAB agreed to take on a part-time policy advisor for an initial period of at least a year to support the work of the joint secretaries.

And finally, after supporting the SAB throughout its entire existence, employer-side secretary Jonathan Sharma announced he was now taking his own pension and retiring. The SAB thanked him for his dedicated work, and welcomed Gareth Dixon, his replacement.

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

Further details on our website www.lgpsab.scot.

Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

Contact: Richard McIndoe, Ext: 77383

Item 2

19th March 2025

Funding Update

Purpose of Report:

To provide an update on:
- SPF's funding position; and
- a regulatory change relating to funding and the Funding Strategy Statement.

Recommendations:

The Committee is asked:
- **to NOTE** the contents of this report; and
- **to APPROVE** the proposed amendment to SPF's Funding Strategy Statement – subject to consultation as described.

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

1 Background

SPF exists to make provision for and pay members' pensions now and in the future. The Funding Strategy Statement (FSS) describes how SPF ensures that sufficient resources are available to meet all pension liabilities as they fall due. The funding position is formally assessed every 3 years in the triennial actuarial valuation carried out by the Fund's actuaries, Hymans Robertson. Hymans also provide tools and reporting to facilitate monitoring of the interim funding position between formal valuations.

2 Funding Update

Hymans Robertson's Funding Update Report as at 28th February 2025 is attached for information. The report shows an improvement in the funding level from **147%** at the last formal valuation date – 31st March 2023 - to **179%** at end February.

3 Scheme Developments

3.1 Consultation – Exit Credits

On 9th May 2024, Scottish Ministers initiated a consultation seeking views on a potential change to the regulations. The proposed change 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.

Under the current regulations, the exit credit is calculated by the actuary, with no discretion on the part of the administering authority. Under the amended regulations the administering authority is required to determine the amount of the exit credit taking into account the actuarial calculation alongside various factors which are specified in the regulation. The amount determined may be zero.

The short technical consultation lasted for 3 weeks from 9th May to 30th May, and the Local Government Pension Scheme (Scotland) (Amendment) (No.2) Regulations 2024 were due to come into force on 29th June.

On 1st July 2024, SPPA advised that they were still considering the larger than expected number of comments received during the consultation. They intended to have further dialogue with stakeholders, and the Scheme Advisory Board had set up a sub group to work on draft guidance. Therefore possible changes to the draft regulations were put on hold.

3.2 SPPA Response

On 13th February 2025, SPPA published its response to the consultation. The response:

- sets out the background to the consultation;
- provides a summary of consultation responses;
- confirms Scottish Ministers' intention to bring forward the proposed amendments to come into force on 2nd April 2025; and
- proposes that Scottish administering authorities adopt the approach set **out in the '****Guidance for Preparing and Maintaining a Funding Strategy Statement (FSS)**' recently published by the Local

Government Pension Scheme Advisory Board in England and Wales. This guidance is intended to assist employers and funds when agreeing ‘an exit strategy’.

3.3 Guidance

Employer Exits are dealt with in Section C - Employer events. Paragraphs 88 to 91 are particularly relevant and are included as **Appendix A** to this report.

The guidance provides that the FSS should:

- set out the fund’s policy on employers leaving the fund;
- include a statement of principles to be followed in relation to process and calculations;
- set out the termination assumption basis;
- the factors that may be considered and the process to be followed in exercising any discretion in decisions;
- be clear on the decision-making process and principles; and
- state how and when exiting employers and others affected by the decision (such as guarantors) will be able to make representations, timescales for making decisions and any rights or options to have decisions reconsidered, including reference to the appeals and adjudication provisions contained in the relevant LGPS Regulations.

4 SPF Funding Strategy Statement (FSS)

4.1 Current FSS

SPF’s current FSS was approved for publication at the conclusion of the 2023 actuarial valuation in March 2024. Employer exits are dealt with in Appendix 4 – Funding Strategy for Individual Employers. Section 4.7 of the Appendix deals with Cessation Policy.

4.2 SPF Policy and Practice

In establishing the amount of any exit payment or credit, SPF seeks to protect the interests of other employers remaining in the Fund from the likelihood of any material loss emerging in future in respect of the exiting employer’s liabilities. This requires the actuary to adopt valuation assumptions which provide a higher probability of achieving the funding target than those that are used for ongoing employers. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis.

In most instances it is not anticipated that the change to the regulations should result in a change to SPF’s current practice. The actuarial approach adopted already protects the Fund and its remaining employers against future adverse outcomes.

There may be some exceptions, typically where the employer’s circumstances give rise to a lack of clarity over the “ownership” of the funding surplus which constitutes the exit credit. This is most likely to occur where:

- the employer’s participation in SPF has resulted from a transfer of staff from another employer; and/or

- another employer has been exposed to funding risk by providing a guarantee for the exiting employer; and/or
- the exiting employer's participation in SPF has been of short duration.

In these circumstances the revised regulations would require consultation with the related employer before a determination is made.

4.3 Proposal - Revised FSS

To address this development it is proposed that SPF's current FSS should be amended as follows:

- delete the current wording at section 4.7 of Appendix 4; and
- insert the revised wording set out in **Appendix B** to this report.

Subject to consultation – see below - this amendment would be effective as and when the revised regulations come into force.

4.4 Consultation

Regulation 56 (3) of the Local Government Pension Scheme (Scotland) regulations 2018 require SPF to consult with such persons as it considers appropriate before making any change to its FSS. It is proposed that SPF would publish the amended FSS on its website for open consultation for a period of 4 weeks after the revised regulations come into force.

4.5 Review

SPF's FSS will next be reviewed as part of the 2026 actuarial valuation process.

4.6 Determinations – Committee Approval

Exit arrangements are managed by officers in accordance with the FSS and the regulations and with assistance and advice from the actuary. Exit credits and exit payments are made under the delegated authority to manage SPF liabilities.

In future, before any exit credit is paid, the SPF Committee will be asked to review and approve any determination which is required by the regulations.

5 Policy and Resource Implications

Resource Implications:

Financial:	None at this time.
Legal:	None at this time.
Personnel:	None at this time.
Procurement:	None at this time.

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 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.	N/a.
Climate Impacts:	
Does the proposal support any Climate Plan actions? Please specify:	Not directly. .
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; and
.

Appendices

A ‘***Guidance for Preparing and Maintaining a Funding Strategy Statement (FSS)***’ **– extract**

B **Proposed amendment to Strathclyde Pension Fund Funding Strategy Statement (SPF FSS)**

Attachments

1 **Funding Update Report as at 28 February 2025**

'*Guidance for Preparing and Maintaining a Funding Strategy Statement (FSS)*' – extract

Preparing for exit and events which may trigger termination

88. The FSS should also set out the fund's policy in the annex or clearly signpost to any separate policy on employers leaving the fund and the events which trigger or allow an exit from the fund.

89. While each case needs to be treated on its own merits, funds should include in their FSS a statement of principles to be followed in relation to process and the calculations involved with employer exits. That statement should explain how it intends to balance the interests of the fund, the scheme members, the interests 20 of the exiting employer and the interests of the remaining employers. The FSS should clearly outline the justification and principles which would contribute to decisions around employer exits. Although, the FSS cannot be too prescriptive, the FSS should outline the decision-making process to allow the document to be a practical aid to employers on the decision-making process which is followed. If the fund has a separate policy on exiting, then this should be clearly signposted in the FSS.

90. The FSS should also set out in general terms the termination assumptions basis on which surpluses or deficits will be calculated. Where the fund has a discretion in decisions on the level of exit payment to be paid, the FSS should set out the factors that may be considered and the process to be followed in exercising that discretion. Funds may wish to note that some helpful advice was given in the judgment of the High Court at paragraph 161 in the case of Enterprise Managed Service Ltd & Anor, R (On the Application Of) v Secretary of State for the Ministry of Housing, Communities and Local Government [2021] EWHC 1436 (Admin) (27 May 2021).

91. Although approaches to exit credits may vary by employer type and case specific factors the FSS should be clear on the decision-making principles and process to be considered. In terms of process, the FSS should state how and when exiting employers and others affected by the decision (such as guarantors) will be able to make representations, timescales for making decisions and any rights or options to have decisions reconsidered, including reference to the appeals and adjudication provisions contained in the relevant LGPS Regulations.

Proposed amendment to Strathclyde Pension Fund Funding Strategy Statement (SPF FSS)

4.7 Exit Policy

4.7.1 Exiting Employers

Employers' participation in the Fund is generally assumed to be open-ended. However, there are circumstances where an employer's participation ceases and it becomes an exiting employer. These include:

- where the employer no longer has an employee contributing towards the Fund;
- where either party voluntarily terminates the admission agreement by giving an appropriate period of notice to the other party (or parties);
- the employer ceasing to be eligible under the regulations to participate in the Fund;
- the insolvency, winding up or liquidation of the employer;
- any breach by the employer of any of its obligations under the admission agreement that they have failed to remedy to the satisfaction of the Fund; or
- a failure by the employer to pay any sums due to the Fund within the period required by the Fund.

Employer exits are managed in accordance with the regulations (regulation 61) which require a revised actuarial valuation and certificates to be obtained in respect of the exiting employer.

In managing employer exits the administering authority will seek to protect its interests and the interests of other employers remaining in the Fund from the likelihood of any material loss emerging in future in respect of the exiting employer's liabilities.

Members' interests - their accrued pension rights - are fully protected and are not impacted by the amount of the exit payment.

4.7.2 Revised Actuarial Valuation

In carrying out the revised valuation on exit the actuary will generally adopt a valuation assumptions basis which provides a higher probability of achieving the funding target than the basis that is used for ongoing employers where the Fund has ongoing recourse to the employer to make good any future funding shortfall. This approach results in a higher value being placed on the liabilities on a cessation basis than would be the case under a valuation on the ongoing funding basis. The administering authority determines the appropriate assumptions basis having taken advice from the actuary. The current cessation funding basis is summarised in schedule 7 to this FSS.

4.7.3 Exit Payments

An exiting employer is liable under the regulations to make or receive an exit payment after which no further payments are due to or from that employer in respect of its liabilities.

Where the revised actuarial valuation establishes that there is an excess of liabilities in the Fund relating to that employer over the assets, the exit payment due from the employer will be the amount of that excess as at the exit date as calculated and certified by the actuary on the cessation funding basis.

Where the revised actuarial valuation establishes that there is an excess of assets in the Fund relating to that employer over the liabilities, the Fund will determine the amount of the exit credit payable to the employer, which may be zero.

4.7.4 Exit Payment Arrangements

Any exit payment will initially be calculated as a single capital sum for immediate payment. In the first instance payment of this sum, less any amount recoverable from a bond or indemnity, will be sought from the exiting employer. Alternative payment arrangements will be considered and may be implemented subject to agreement of suitable terms. These include:

- where the exiting employer has a guarantor which is a participating employer in the Fund, the assets and liabilities of the exiting employer may be transferred to the account of the guarantor and the exit payment recovered through ongoing contributions by the guarantor;
- where the exiting employer has a guarantor which is not a participating employer in the Fund, payment may be sought from the guarantor;
- payment by instalments spread over a number of years may be agreed; or
- a deferred debt agreement, whereby a suspension notice is issued in respect of the exit payment, the employer continues to pay contributions at an agreed amount, and the debt and contributions are re-assessed at subsequent triennial valuations.

Under any of these arrangements, the administering authority may agree to accept security against the exit debt to facilitate a more flexible payment arrangement.

4.7.5 Unpaid Amounts

In the event that the Fund is not able to recover the exit payment in full directly from the exiting employer or from any guarantor, bond or indemnity, the unpaid amounts will be shared amongst all of the remaining employers in the Fund. The Fund will take all reasonable steps to avoid this situation by enforcing the exit debt on the departing employer and actively working with employers to manage the exit process.

4.7.6 Exit Credits - Determination

The actuarial approach adopted already protects the Fund and its remaining employers against future adverse outcomes. So SPF's default approach will be to determine that the exit credit payable will be the amount of the excess of assets in the Fund relating to that employer over the liabilities as at the exit date as calculated and certified by the actuary on the cessation funding basis.

However, each case will be considered on its own merits and there may be some exceptions. In exercising its discretion to determine the amount of any exit credit the administering authority will have regard to the following factors:

- the extent to which there is an excess of assets in the fund relating to that employer over the liabilities;
- the proportion of this excess of assets which has arisen because of the value of the employer's contributions;

- any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any related body as listed in the regulations;
- any other relevant factors, which might include:
  - the terms of any admission agreement or guarantee;
  - the exiting employer's obligations to SPF and the extent of its exposure to investment and funding risks while participating in SPF;
  - the methodology used to calculate the employer's funding position during the period of its participation – including on admission and exit;
  - whether the employer's participation in SPF has resulted from a transfer of staff from another employer;
  - whether another employer has been exposed to funding risk by providing a guarantee for the exiting employer;
  - whether the exiting employer's participation in SPF has been of short duration;
  - whether the employer's participation commenced before the exit credit regulations became effective in 2018;
  - whether the employer's termination has terminated earlier than anticipated, and if so the reason for termination;
  - any outstanding amounts due to SPF, which may be deducted from any exit credit before payment.

4.7.7 Exit Credits – Process

The process to be followed will as far as possible be as follows:

- once exit has been confirmed, SPF will notify the employer, and any other relevant body of its intention to make a determination;
- the employer and any other relevant body will have a period of one month after notification to make any representations unless otherwise agreed between the parties;
- SPF will determine the proposed amount of the exit credit (which may be zero) as soon as possible after the exit date and will notify the employer and any other relevant body;
- the employer and any other relevant body will again have a period of one month after notification to make any representations unless otherwise agreed between the parties;
- SPF will then make a determination of the final amount of the exit credit;
- in the event of any remaining disagreement, the employer or other relevant body should request that SPF review the decision in the first instance, or may seek to have the determination reconsidered under any provisions contained in the relevant regulations;
- the exit and the amount of the exit credit will be recorded in a minute of agreement; and
- SPF will then arrange payment within 6 months of the exit date or such longer period as may be agreed.

4.7.8 Exit Management and Planning

SPF will actively manage the exit process by:

- seeking to identify exiting employers ahead of the likely exit date;
- setting contribution rates to anticipate any imminent exit;
- providing employers with details of their individual funding position, including exit

debt/credit figures, at each actuarial valuation or at other times on request; and
- engaging with employers on the exit payment and other arrangements.

Employers are encouraged to contact SPF well in advance of any planned or potential exit.

Strathclyde Pension Fund

Funding update report at 28 February 2025

This report is addressed to the Administering Authority of the Strathclyde Pension Fund (the Fund). This document should be read in conjunction with the fund's current Funding Strategy Statement.

The purpose of this report is to provide the funding position of the Strathclyde Pension Fund as at 28 February 2025 and show how it has changed since the previous valuation at 31 March 2023. This report has not been prepared for use for any other purpose and should not be so used. The report should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. Hymans Robertson LLP accept no liability where the report is used by or disclosed to a third party unless such liability has been expressly accepted in writing. Where permitted, the report may only be released or otherwise disclosed in a complete form which fully discloses the advice and the basis on which it is given.

The figures presented in this report are prepared only for the purposes of providing an illustrative funding position and have no validity in other circumstances. In particular, they are not designed to meet regulatory requirements for valuations, and do not constitute an 'indicative actuarial valuation' under LGPS (Scotland) Regulation 61 (2A).

This report also contains the data and assumptions underlying the results and the reliances and limitations which apply to them.

Surplus/(deficit)
£14.3bn
+£5.5bn vs last valuation

Funding level
179%
+32% vs last valuation

Required return
2.7%
-0.1% vs last valuation

Return likelihood
> 95%
+2% vs last valuation

Results

Funding position update

The table on this page shows the estimated funding position at 28 February 2025 on the Fund's Ongoing basis (as defined in the Fund's FSS). The table also shows what future investment return would be required for the Fund to be 100% funded, along with the likelihood of the investment strategy achieving this return. The equivalent results at 31 March 2023 on the Ongoing basis are shown for comparison. An increase in the likelihood corresponds to an improvement in the funding position (and vice versa).

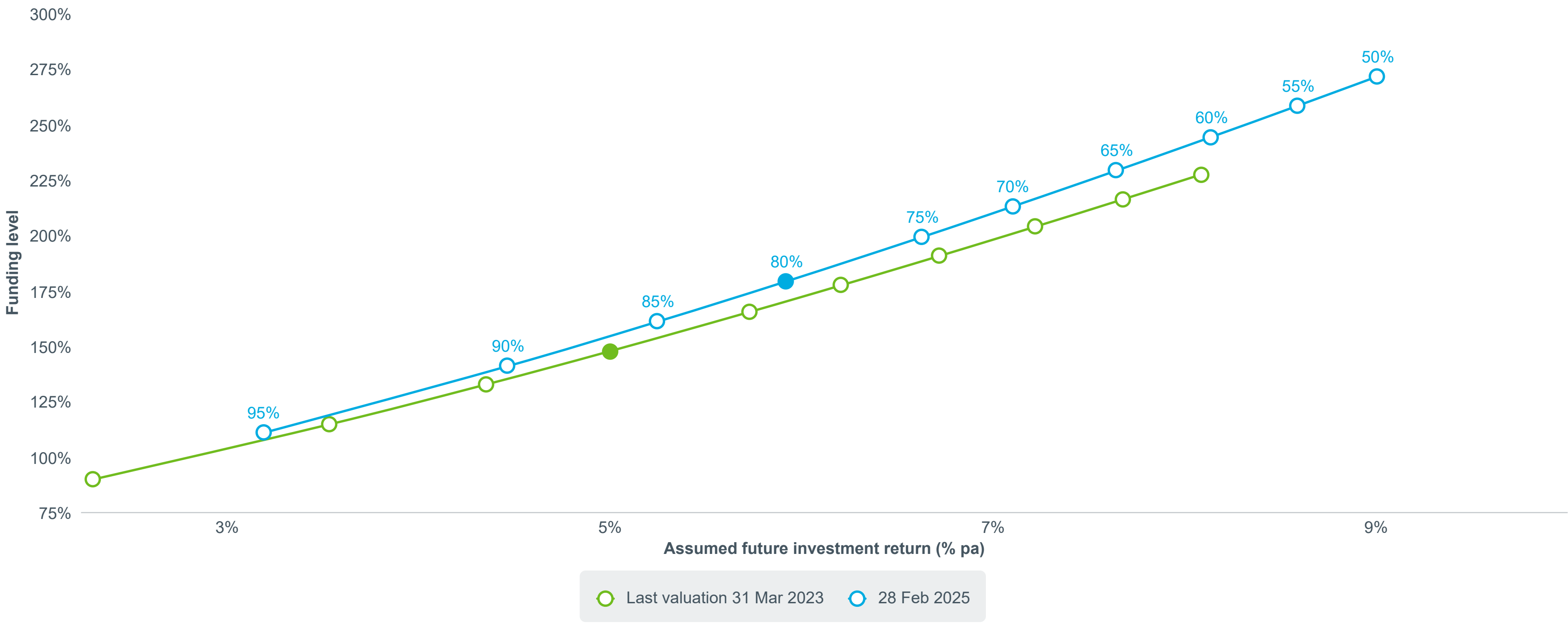
Please note that the asset value at 28 February 2025 shown in this report may differ to the actual asset value at that date. The asset value in this report is an estimate based on a rollforward from 31 March 2023 using estimated cashflows (see section A2) and estimated investment returns (see section A3). This approach ensures the asset value is consistent with the liabilities and gives a more reliable estimate of the funding position than if the actual asset value was used.

Monetary amounts in £bn		Ongoing basis	
		31 March 2023	28 February 2025
	Assets	27.9	32.5
Liabilities	Active members	8.2	8.5
	Deferred pensioners	2.1	1.9
	Pensioners	8.7	7.8
	Total liabilities	19.0	18.1
	Surplus/(deficit)	8.9	14.3
	Funding level	147%	179%
	Required return (% pa)*	2.8%	2.7%
	Likelihood of achieving this return	93%	> 95%

** Future investment return for funding level to be 100%*

Understanding the funding level

To help better understand the funding level, the chart below shows how the funding level varies with the assumed rate of future investment returns at 31 March 2023 and 28 February 2025. The percentages next to each point on the lines show the likelihood of the investment strategy achieving that return at the respective date (for further details see section A5). The solid-coloured point indicates the funding level on the Fund's chosen assumptions.



Funding level progression

The chart below shows how the funding level has progressed between 31 March 2023 and 28 February 2025. It allows for changes in market conditions and other factors described in Appendix B.

Next steps

Change in funding level since the last valuation is to be expected due to the volatile nature of both the Fund's assets and liabilities. However, understanding the factors underlying the change may help inform the Fund's ongoing monitoring of its funding strategy and risk management.

The results at 28 February 2025 in this report are estimates based on rolling forward the fund's funding position from 31 March 2023. You should understand the methodology and limitations of this approach described in Appendices B and C, and that factors such as changes to the investment strategy and membership profile may not be fully reflected in the results. No decisions should be made solely on the results in this report.

Please get in touch with your Hymans Robertson contact if you wish to discuss the results in this report further.

Appendix A - Data and assumptions

A.1 Membership data

The membership data underlying the figures in this report was supplied by the fund for the purpose of the valuation at 31 March 2023 and is summarised below:

31 March 2023	Number	Avg. age	Accrued benefit (£k pa)	Payroll (£k pa)
Active members	114,937	53.1	586,305	2,820,162
Deferred pensioners	74,235	52.2	153,106	
Pensioners and dependants	90,085	67.9	613,987	

Average ages are weighted by liability.

The membership is assumed to evolve over time in line with the demographic assumptions described in the Fund's FSS. Please see Appendix A for details of the rollforward methodology which includes the estimated changes in membership data which have been allowed for.

A.2 Cashflows since the valuation at 31 March 2023

We have allowed for the following cashflows in estimating the assets and liabilities at 28 February 2025.

Estimated cashflows (£k)	31 March 2023 to 28 February 2025
Employer contributions	751,337
Employee contributions	347,569
Benefits paid	1,480,978

Cashflows are assumed to be paid daily. Contributions are based on the estimated payroll, certified employer contributions (including any lump sum contributions) and the average employee contribution rate at 31 March 2023. Benefits paid are projections based on the membership at 31 March 2023.

A.3 Investment returns since the valuation at 31 March 2023

Investment strategy	Actual/ index	From	To	Return
Whole fund	Actual	1 April 2023	30 September 2024	13.06%
Whole fund	Index	1 October 2024	28 February 2025	4.4%

The total investment return for the whole period is 18.04%.

A.4 Financial assumptions

Assumption	31 March 2023	28 February 2025
Funding basis	Ongoing	Ongoing
Discount rate (% pa)	5.0%	5.9%
Pension increases (% pa)	2.7%	2.7%

Salary increases are assumed to be 0.7% pa above pension increases, plus an additional promotional salary scale.

For further details on the methodology used to derive the assumptions, please see the Fund's FSS.

A.5 Demographic assumptions

Life expectancy (years)	Ongoing basis	
	Male	Female
Pensioners	19.8	22.5
Non-pensioners	20.6	24.2

Life expectancies are from age 65 and are based on the Fund's membership data at 31 March 2023. Non-pensioners are assumed to be aged 45 at that date. All other demographic assumptions are the same as at the most recent valuation at 31 March 2023.

Appendix B - Technical information

B.1 Funding update methodology

The last formal valuation of the fund was carried out as at 31 March 2023. The results in this report are based on rolling forward the results of the last formal valuation to 28 February 2025 using approximate methods. The roll-forward allows for:

- estimated cashflows over the period as described in section A.2
- investment returns over the period (estimated where necessary) as described in section A.3
- changes in financial assumptions as described in section A.4
- estimated additional benefit accrual.

The CARE, deferred and pensioner liabilities at 28 February 2025 include a total adjustment of 2.8% to reflect the difference between actual September CPI inflation values (up to 30 September 2024) and the assumption made at 31 March 2023. The adjustment for each year's actual inflation is applied from 31 October 2024 that year, cumulative with prior years' adjustments, which may lead to step changes in the funding level progression chart.

In preparing the updated funding position at 28 February 2025, the membership is assumed to have changed since 31 March 2023 in line with the demographic assumptions described in the Fund's FSS. No allowance has been made for any other changes. The principal reason for this is that insufficient information is available to make any such adjustment. Significant membership movements, or any material difference between estimated inputs and actual experience, may affect the reliability of the results. The Fund should consider whether any such factors mean that the roll forward approach may not be appropriate.

No allowance has been made for any early retirements or bulk transfers since 31 March 2023. There is also no allowance for any changes to Local Government Pension Scheme (LGPS) benefits except where noted in the formal valuation report or Funding Strategy Statement.

Where the Fund has moved to a different funding basis since 31 March 2023 this may give rise to step changes in the funding level on the date of the change.

B.2 Sensitivity of results to assumptions

The results are particularly sensitive to the real discount rate assumption (the discount rate net of pension increases) and the assumptions made for future longevity.

If the real discount rate used to value the accrued liabilities was lower then the value placed on those liabilities would increase. For example, if the real discount rate at 28 February 2025 was 1.0% pa lower then the liabilities on the Ongoing basis at that date would increase by 18.7%.

In addition, the results are sensitive to unexpected changes in the rate of future longevity improvements. If life expectancies improve at a faster rate than allowed for in the assumptions then, again, a higher value would be placed on the liabilities. An increase in life expectancy of 1 year would increase the accrued liabilities by around 3-5%.

Appendix C - Reliances and limitations

The report should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. Hymans Robertson LLP accept no liability where the report is used by or disclosed to a third party unless such liability has been expressly accepted in writing. Where permitted, the report may only be released or otherwise disclosed in a complete form which fully discloses the advice and the basis on which it is given.

The last formal valuation of the fund was carried out as at 31 March 2023 and this report relies upon the results of that valuation. The reliances and limitations that applied to that valuation apply equally to these results. The results of the valuation have been projected forward using approximate methods. The margin of error in these approximate methods increases as time goes by. The method may not be appropriate if there have been significant data changes since the previous formal valuation (for example redundancy exercises, significant unreduced early retirements, ill health retirements and bulk transfers). The methodology assumes that actual experience since the valuation at 31 March 2023 has been in line with assumptionss.

The data used in this exercise is summarised in section 3. Data provided for the purposes of the formal valuation at 31 March 2023 was checked at the time for reasonableness and consistency with other sources. Data provided since then (eg actual investment returns) has been used as-is.

The data is the responsibility of the Administering Authority and the results rely on the data.

The results in this schedule are based on calculations run on 5 March 2025 using the data set out in section 3. Any other factors coming to light after this report was prepared have not been allowed for and could affect the results. If any data has materially changed since 5 March 2025 the results could be materially different if they were recalculated.

Some financial assumptions may be based on projections from our Economic Scenario Service (ESS) model which is only calibrated at each month-end. Results between month ends use the latest available calibration, adjusted in line with the movement in market conditions. This adjustment is approximate and there may be step changes at month-end dates when a new ESS monthly calibration is factored in.

The methodology underlying these calculations mean that the results should be treated as indicative only. The nature of the fund's investments means that the surplus or deficit identified in this report can vary significantly over short periods of time. This means that the results set out should not be taken as being applicable at any date other than the date shown.

As with all modelling, the results are dependent on the model itself, the calibration of the underlying model and the various approximations and estimations used. These processes involve an element of subjectivity and may be material depending on the context. No inferences should be drawn from these results other than those confirmed separately in writing by a consultant of Hymans Robertson LLP.

Decisions should not be based solely on these results and your Hymans Robertson LLP consultant should be contacted to discuss any appropriate action before any is taken. Hymans Robertson LLP accepts no liability if any decisions are based solely on these results or if any action is taken based solely on such results.

This report complies with the relevant Technical Actuarial Standards.

Glasgow City Council

Strathclyde Pension Fund Committee

Report by Richard McIndoe, Director of Strathclyde Pension Fund

Contact: Lorraine Martin Ext: 77427

Item 3(a)

19th March 2025

Direct Impact Portfolio (DIP)
Investment Proposal – Clean Growth Fund II

Purpose of Report:

To set out a proposal for an investment of £30m within DIP.

Recommendations:

The Committee is asked to **APPROVE** an investment of £30m in Clean Growth Fund II by DIP.

Ward No(s):

Citywide: ✓

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

1 Background

1.1 Portfolio Establishment

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

1.2 Review

The NOP strategy has been subject to 3-yearly reviews with the name changing to the Direct Investment Portfolio in 2015. The most recent review was concluded in November 2021. This made no change to the objectives, structure, overall size parameters, risk and return parameters, or governance structure, but did result in an increase in the individual investment size parameters and a further name change to the Direct Impact Portfolio (DIP).

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.

The following proposal has been assessed using this framework and has been reviewed by the SPF Committee Sounding Board.

2 New Investment Proposal

2.1 Key Terms

Name	**Clean Growth Fund II**
Investment vehicle	English Limited Partnership
Manager	Clean Growth Investment Management (CGIM)
Sector	Venture Capital (clean technology sector)
Investment objective	To provide venture capital to accelerate the commercial development of innovative, climate related clean technologies
Term	10 years (subject to 2 x 1-year extensions)
Target size	£150m (Hard Cap £200m)
Proposed DIP investment	£30m
Target return	Internal Rate of Return (IRR) of 20% (Net) / Multiple of Invested Capital of 2.5x

2.2 Investment Summary

Clean Growth Fund II (CGF2) is a venture capital (VC) fund focused on identifying early stage, sustainable technologies in the clean technology ("cleantech") sector.

CGF2 is the successor fund to CGIM's first fund (CGF) in which DIP made a £20m commitment. CGF is a £101m fund which has created a portfolio of 19 investee companies which are performing strongly to date.

As with CGF, the companies targeted for investment by CGF2 will be capable of reducing greenhouse gas (GHG) emissions and accelerating the energy transition, reducing pollution or other adverse environmental effects and/or of promoting positive climate benefits through innovative new technologies. The fund's aim is to provide capital to accelerate the commercial development of innovative cleantech technologies, while at the same time generating attractive financial returns for investors.

A commitment to CGF2 by DIP of £30m is proposed. This is subject to the fund securing a minimum total (including SPF's commitment) of £75m across a single or multiple closes. This would be restricted to £20m if total commitments are less than £75m but more than £50m.

2.3 Investment Rationale

Transformative, innovative and/or disruptive technologies are critical to the achievement of a low carbon economy and for promoting improved resource efficiencies, than are available from existing products and processes.

The demand for innovative solutions in the sector has grown rapidly with greater public awareness of climate risk. Consumers are increasingly demanding that the goods and services they buy are from sustainable sources, while there is a simultaneous regulatory drive from government in support of a Net Zero strategy and towards greater levels of investment in innovative early-stage technology, and particularly cleantech.

There is currently a significant shortfall of scale-up funding available, particularly at the early/pre-revenue stage to allow these technologies to achieve commercial scale. While the amount of VC investment in digital and/or Software as a Service (SaaS) technology has grown in recent years, this has not been replicated to an equivalent extent in respect of the cleantech sector.

CGF2 will be managed by CGIM, a firm established in 2019 by Beverley Gower-Jones, a high profile and established leader in the commercialisation of innovative, UK cleantech solutions, with close links developed over many years with the UK Government, mainly via the Department for Energy Security and Net Zero (DESNZ), previously the Department for Business, Energy and Industrial Strategy (BEIS) which invested in the initial CG fund.
More information on the investment manager is included in **Schedule 1.**

2.4 Risks

The main risks of the proposed investment in the CGF2 fund are considered to be as follows:

- Product Risk;
- Market Risk;
- Management Risk.

A summary of risks and key mitigants is contained in **Schedule 2**.

2.5 Projected Return

The fund is targeting an Internal Rate of Return (IRR) of 20% (Net) and a Multiple of Invested Capital of 2.5x.

This is considered an appropriate target return given the relatively higher risk nature of the fund's early-stage VC investment strategy.

2.6 Exit

CGF2 will have a 10-year term, which may be extended by up to a maximum of 2 years. It is envisaged that DIP's investment in the fund will be repaid from the sale or refinance of the portfolio companies by later stage investment or corporate entities.

2.7 Fees

The **Management Fee** is typical of the managers in DIP's equity/VC portfolio. The fee will be calculated on fund commitments during the investment period (5 years in this case) and will benefit from an annual reduction from year 6.. Overall, the level of the anticipated blended fee is slightly lower than average in DIP's experience of the VC/private equity market.

Carried interest (or performance related) provisions also apply to the fund. These will be structured such that Clean Growth, as manager will require to perform strongly before it benefits under these provisions.

The Management Fee is in line with DIP's typical experience in the VC market, while the Carried Interest structure/rates are relatively typical. Overall, the fee levels are considered acceptable.

2.8 ESG and Impact

By its nature, CGF2 is strongly aligned to the decarbonisation of the climate and the reduction of GHG emissions, and CGIM is highly committed to operating as a business on strong sustainability principles. The businesses in which it will invest will be well positioned to make a positive contribution to a sustainable future. CGIM believe companies that recognise and manage ESG issues are better placed to avoid risk and deliver sustainable long-term growth.

CGIM became a signatory to the UN Principles of Responsible Investment in January 2021 and also achieved Certified B Corp status in May 2024.

A summary of the fund's ESG and Impact factors is contained in **Schedule 3.**

2.9 Investment Size and Cash Requirements

SPF Fund value at 31st December 2024	£31,206m
DIP allocation (target 7.5% of main fund) NAV	£ 2,340m
Current DIP NAV	£ 1,607m
NAV Range (Lower) 5%	£ 1,560m
NAV Range (Upper) 10%	£ 3,121m

2.10 Investment Strategy

The proposed investment falls within the Venture Capital sector and therefore the Fund's Equity allocation. Venture Capital is a key area of investment focus for DIP.

Allocations following this investment based on SPF values at 31st December 2024 and total DIP commitments to Equity would be as follows: -

Equity, £ in DIP	£361m
Equity, % in DIP	16%
Equity (DIP), % of Total Fund	1.2%

3 Policy and Resource Implications

Resource Implications:

Financial: Investment of £30m to be drawn as required. Fee structure is considered to be in line with the market.

Legal:	The investment will be subject to satisfactory completion of due diligence, including review and execution of appropriate legal documentation.
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***. 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 policy.
What are the potential equality impacts as a result of this report?	None
Please highlight if the policy/proposal will help address socio-economic disadvantage.	None
Climate Impacts:	
Does the proposal support any Climate Plan actions? Please specify:	Yes – Clean Growth has been a signatory to the PRI (UN supported Principles for Responsible Investment) since 2021 and is a certified carbon neutral organisation which has recently become accredited as a B Corp Certified organisation. CGIM applied to obtain B Corp certification on 29th August 2023 identifying them as the top performing venture capital fund in the UK This is consistent with 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?	No specific contribution from this proposal, although there are anticipated to be a number of investments in the sustainability space and which will result in the reduction or displacement of carbon emissions.
Will the proposal contribute to Glasgow's net zero carbon target?	No specific contribution from this proposal.
Privacy and Data Protection Impacts:	To be fully provided for in the legal documentation for the proposed investment.
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

4 Recommendations

The Committee is asked to **APPROVE** an investment of £30m in Clean Growth Fund II by DIP.

Schedule 1 **Investment Manager: Clean Growth Fund II**
Schedule 2 **Investment Specific Risks**
Schedule 3 **Impact and ESG**

Investment Manager: Clean Growth Investment Management

Clean Growth Investment Management (CGIM) is one of the UK's leading specialist climate tech investment firms, investing VC into the UK's most promising companies in the sector with the strongest commercial potential. Its key personnel have strong credentials and experience in the targeted sectors, specifically in the investment and commercialisation of new, innovative/sustainable technology.

Beverley Gower-Jones (BGJ), Managing Partner of CGIM, is also CEO (and owner) of Carbon Limiting Technologies Ltd (CLT), a consultancy business she founded in 2006. From 2012 until 2022, CLT was the delivery partner for BEIS's £72m Energy Entrepreneur Fund (EEF), a grant award scheme targeting the most promising innovations in the cleantech sector. BGJ has 30+ years' experience in this sector having co-founded Shell Technology Ventures, developing a £500m technology transfer program there before becoming Performance Director, Ventures Section of QinetiQ (the MoD's former R&D business, where she worked with Jonathan Tudor).

CLT is comprised of c.40 highly experienced technology specialists with over 600 years of combined experience in the power, transport, industry, buildings and waste sectors. They have the expertise and will undertake the appraisal of the technical & commercial feasibility of new technologies as part of the fund's due diligence, as well as providing incubation (i.e. commercialisation) support to investee companies. Since 2006 CLT has provided incubator services to over 500 businesses.

Dr Jonathan Tudor (JT), Investment Partner of CGIM, has 20+ years' experience creating, building, investing in and managing technology-based start-up businesses, both within corporate and VC structures. Most recently JT was Technology and Strategy Director at Centrica where he managed its £100m energy transition fund, prior to which he led BP Ventures and was Venture Director at QinetiQ.

CGIM has an impressive Advisory Board selected for their subject matter expertise, experience in investing in early-stage tech businesses and spheres of influence: -

- **Professor Chris Rapley** is Professor of Climate Science at Imperial College London, a Distinguished Visiting Scientist at NASA's Jet Propulsion Lab and Chairman of the London Climate Change Partnership.
- **Vicki Bakhshi**, is Director of the Governance & Sustainable Investment Team at BMO Global Asset Mgt, specialising in climate change and impact investing. She was previously the Prime Minister's Policy Advisor on Climate Change and is on the board of the Institutional Investors Group on Climate Change (IIGCC).
- **George Whitehead** has worked in the VC industry for c.20 years including at Octopus Ventures & was Chairman of the Venture Capital Trust Association.
- **Robert Bahns**, also has c.20 years of VC experience, including as Venture Partner at IP Group, one of the UK's most active early-stage technology investment companies and as Director of Technology Ventures at Touchstone
- **Gershon Cohen** was formerly Global Head of Infrastructure Investments at Abrdn and Global Head of Project Finance at Lloyds Banking Group.
- **Robert Branagh** is a senior pensions professional, most recently ex-CEO of the London Pensions Fund Authority.

Investment Specific Risks

Product Risk

While the fund will only consider opportunities which have demonstrated their technological feasibility in a pilot test (rather than commercial) environment, there is still product and/or engineering risk in respect of the ability to successfully scale the product/service and its ability to operate successfully in a commercial scenario.

The specialist sectoral and technical expertise that will be committed by the CLT consultants on behalf of the fund represent the mitigation to this key risk. It should be stressed that their hands-on support for the commercialisation phase of the companies (rather than just the capital invested) is a key element of the fund's proposition.

Market Risk

Occasionally despite the technology being successfully engineered, scaled-up and tested in a commercial environment, the product fails to engage the market, or gains insufficient traction with the anticipated customer base. The market could also determine that the product offers insufficient benefits for the cost or alternatively a better technology emerges rendering the product/service obsolete.

Assessment of the addressable market, the value proposition of the technology, the route to market and the critical management skillsets required, are all key aspects of the commercialisation process undertaken as part of the post-investment incubator support services. This is CLT's key specialism, and each portfolio company will benefit from their consultancy services.

Management Risk

The early stage and dynamic nature of the businesses the fund seeks to invest in means that they are unlikely to have fully developed management teams. One of the CGIM's key tasks is therefore to ensure that the management teams are supported and supplemented as required to enable them to execute the agreed strategy.

Early-stage businesses often experience difficulties, complications, setbacks or delays. Such setbacks can be challenging even for experienced management.

It is for this reason that CGIM's key investment criteria include an appraisal of the management team's execution capabilities, although clearly this is still no guarantee of success. As with any VC fund, the Manager will support the management as far as possible, however in some instances there will be no alternative but to effect changes.

Impact and ESG

Clean growth technology enables economic activity to deliver goods and services whilst generating significantly lower emissions of greenhouse gases. Investments made by the Clean Growth Fund (CGF) are consistent with the objective of accelerating the deployment of innovative clean growth technologies and solutions.

The Fund will only make investments in companies seeking to commercialise promising innovative Clean Growth solutions. Achieving reductions in the emissions of greenhouse gases is a key performance indicator and differentiator of the Fund.

Principles

- The CGF will only invest in companies that satisfy its 'clean growth' criteria, which includes no detriment to the wider environment in pursuit of reduced GHG emissions;
- The CGF will integrate environmental assurance into its investment due diligence and monitoring and into its reporting to investors;
- The CGF will report environmental impact for each investee and in aggregate for the Fund.

B Corp

B Corp is a third-party standard given to for-profit organisations that reach a set ESG threshold. The assessment measures a company's entire social and environmental impact, considering factors such as impact on an organisation's people, community and environment, and customers, as well as a company's governance structure and accountability. The certification process is rigorous, with applicants required to provide evidence of responsible practices relating to energy supplies, waste and water use, worker compensation, diversity, corporate transparency, amongst others. CGIM applied to obtain B Corp certification in August 2023 and achieved a score of 133.8 (against a pass mark of 80) making them the top performing venture capital fund in the UK. There are only 11 other fund managers in the UK of similar employee size that are B Corp certified in equity investing and the average score is 100.

Through their work and investments in the cleantech sector, CGIM seek to foster sustainable, responsible and transparent practices and provide essential ongoing business support to investee companies via a close collaboration with sister-company Carbon Limiting Technologies, the long-established cleantech incubator. They believe that aligning to good ESG practices is essential to investing in and building strong, sustainable and prosperous businesses that have a positive impact on both people and the planet. The B Corp status shows the firm's commitment to greater accountability and transparency in the sector, and have legally embedded their commitment in the company's articles.

On an annual basis the Fund undertakes an ESG survey of all portfolio company employees for ESG performance data that forms part of LP quarterly reporting metrics. CGF works extremely diligently to ensure diversity of age, gender and ethnicity in the portfolio including measures such as ensuring all recruitment shortlists include 50% diversity candidates.

Glasgow City Council

Strathclyde Pension Fund Committee

Report by Richard McIndoe, Director of Strathclyde Pension Fund

Contact: Ian Jamison Ext: 77385

Item 3(b)

19th March 2025

Direct Impact Portfolio (DIP)
Investment Proposal – Octopus Affordable Housing Fund

Purpose of Report:

To set out a proposal for an investment of £50m within DIP.

Recommendations:

The Committee is asked to **APPROVE** an investment of £50m in Octopus Affordable Housing Fund by DIP.

Ward No(s): Citywide: ✓

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

1 Background

1.1 Portfolio Establishment

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

1.2 Review

The NOP strategy has been subject to 3-yearly reviews with the name changing to the Direct Investment Portfolio in 2015 and again in 2021 to the Direct Impact Portfolio. The most recent review was concluded in November 2024. This made no change to the objectives, structure, risk parameters or governance structure, but did result in increases to the DIP's overall allocation and minimum required investment return and a minor amendment to the definition of the maximum investment size. The Co-Investment Programme was also extended, in conjunction with an increase in the maximum co-investment size.

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 2024 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. Minimum Investment Return (Net IRR) of **6.5%**.
Capacity	Target allocation of **7.5%** of total Fund (based on Net Asset Values). Range of **5%** to **10%** of total Fund.
Investment Size	Target: **£30m** to **£100m** Minimum: **£20m** Maximum: **£250m**
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 Programme	Existing Co-Investment Programme (CIP) increased to £300m with maximum investment per asset increased to £25m, subject to the CIP investment parameters.

The following proposal has been assessed using this framework and has been reviewed by the SPF Committee Sounding Board.

2 New Investment Proposal

2.1 Key Terms

Name	**Octopus Affordable Housing Fund**
Investment vehicle	English registered private limited partnership
Manager	Octopus Real Estate
Sector	Affordable Housing
Investment objective	To generate resilient, index-linked income and capital appreciation via the creation of a portfolio of UK Affordable Housing assets
Term	Evergreen (no fixed term)
Target size	£300m (Hard Cap £1bn+)
Proposed DIP investment	£50m
Target return	Total Return of 7% p.a. (Net) over rolling 5-year periods / Cash Yield 3.5% p.a.

2.2 Investment Summary

The Octopus Affordable Housing Fund (OAHF or “the fund”) seeks to deliver resilient, index-linked income and accompanying capital appreciation by funding the delivery and being a responsible long-term owner of a portfolio of high-quality General Needs and Extra Care (i.e. older persons’) Affordable Housing across the UK.

An important differentiating characteristic of the fund will be the relatively strong emphasis placed on the energy efficiency of the homes.

A commitment by DIP of £50m to OAHF is proposed.

Octopus Real Estate (ORE) is a specialist fund manager investing equity and debt finance into the UK commercial and residential real estate (RE) market. Part of the Octopus Group, it has been investing into the RE market for 17 years and will be the fund’s manager.

OAHF aims to contribute to addressing two current key issues, namely the UK’s structural housing crisis and the current cost of living crisis.

More information on the investment manager is included in **Schedule 1.**

2.3 Investment Rationale

ORE’s investment strategy for OAHF is based on its analysis of the Affordable Housing sector in the UK which encompasses: -

- the significant shortage of quality, genuinely Affordable Housing;
- the current cost of living crisis;
- the ageing UK population;

- the geographical distribution of wealth and opportunity across the UK.

Accordingly, the 4 key impact themes underpinning the investment strategy are:

- accelerating the delivery of new, genuinely affordable, quality homes;
- reducing fuel poverty;
- delivering Affordable Housing for older people; and
- supporting levelling-up across the UK.

The fund's assets will either be acquired as i) newly built, standing investments from; or ii) via the funding of the construction of the development pipelines of housing associations (HAs), local authorities (LAs) and/or other third-party developers.

For the past number of years, HAs/LAs have required to allocate ever higher proportions of their budgets to the improvement, refurbishment, safety and energy efficiency of their existing housing stock, which has been to the detriment of the development of new housing projects.

2.4 Investment Management

In respect of OAHF, ORE seeks to work in partnership with regulated HAs/LAs to facilitate the construction of their new housing development pipelines, primarily through "forward commitment" (acquiring the properties on a "turnkey" basis on full completion) or less often via "forward funding" (acquiring the sites at a very early stage of the construction phase and funding the HAs/LAs to manage the construction process to completion). In either case, following completion the fund will partner with the HA/LA concerned in the management, maintenance and operation of the properties.

OAHF will own the affordable homes through its subsidiary, NewArch, a Registered Provider (RP) of social housing, which is regulated by the Regulator of Social Housing (RSH).

This has several benefits, including ensuring that the fund's housing activities will be subject to full, independent regulatory oversight, while also enabling the fund to acquire newly constructed housing under Section 106 provisions. This is the obligation on housebuilders to construct a specified number of Affordable Homes as part of the relevant planning consent for a given site, which they are then required to sell to an RP. It also allows the fund to obtain housing grants from housing bodies such as Homes England, and to employ a direct-let model with the day-to-day management of the properties being undertaken by approved HA/LA partners under long-term management agreements or leases.

The fund, via NewArch, may therefore acquire newly constructed housing stock from HAs/LAs as detailed above; via Section 106 purchases; or alternatively through the acquisition of parts of larger housing developments direct from housebuilders, where material discounts make this attractive. Under any of these scenarios however, the fund will not assume planning risk.

2.5 Investments

The fund is targeting a portfolio with: -

- at least 50% (likely to be materially higher) in General Needs rented homes, with the remainder in intermediate tenures (e.g. Intermediate Rent, Shared Ownership, Rent to Buy etc);
- up to 35% in Extra Care (i.e. older-persons' Affordable Homes);
- up to 15% in private rented units;
- up to 10% in non-residential (i.e. commercial) real estate.

All homes will be benchmarked against appropriate industry-standard measures of quality, including sustainability standards.

One of the fund's core aims is to materially reduce the effects of fuel poverty in its housing portfolio, with all homes requiring a minimum energy efficiency rating of EPC B (with a target of EPC A). An EPC rating of E is currently required in the UK for rented homes (due to rise to C by 2030).

By way of context, the average UK home has a D rating, with an annual average energy bill of £2,340, whereas the typical newly built UK home has a B rating and an average bill of £1,039. Homes with an A rating will have average bills materially lower than this, and in some cases, potentially even zero.

2.6 Other Investors

OAHF has secured commitments of £242.5m from 7 institutional investors, 6 of which (representing £230m of the total) are UK LGPS funds (or pools).

2.7 Risks

The main risks of the proposed investment in OAHF are considered to be as follows:

- Site Origination Risk;
- Construction Risk;
- Letting Risk.

A summary of risks and key mitigants is contained in **Schedule 2**.

2.8 Projected Return

The fund has a target return expressed as a Total Return of 7% p.a. (net), annualised over 5-year rolling periods and a Cash Yield of 3.5% p.a., with effect from the operational phase of the projects (i.e. once completed & let).

This is considered to be a satisfactory target return for the perceived risk of the Affordable Housing sector as represented by the fund's strategy.

2.9 Exit

The fund is an evergreen or open-ended investment vehicle which means that it has no fixed maturity date, and so additional commitments may be raised and deployed throughout the fund's life. A liquidity mechanism is provided within the fund's strategy following a minimum period of 4 years, although this is not guaranteed and will be subject to market conditions.

2.10 Fees

The Management Fee is structured into a one-off element on the acquisition of each development in addition to an ongoing element. This structure is typical of DIP's experience of the Affordable Housing sector. The ongoing element of the fee incorporates a modest discount based on the size of DIP's proposed commitment. A Carried Interest (or performance fee) however is not applicable.

The Management Fee is therefore considered satisfactory in the context of the sector, while it is relatively unusual for carried interest not to apply.

2.11 ESG and Impact

Octopus Group integrates ESG and Impact considerations across all its business activities and investment products, in line with its Responsible Investment policy and overseen by its Responsible Investment Committee. The latter is comprised of the Group's most senior executives to ensure accountability and compliance with the policy.

A summary of the fund's ESG and Impact factors is contained in **Schedule 3.**

2.12 Investment Size and Cash Requirements

SPF Fund value at 31st December 2024	£31,206m
DIP allocation (target 7.5% of main fund) NAV	£ 2,340m
Current DIP NAV	£ 1,607m
NAV Range (Lower) 5%	£ 1,560m
NAV Range (Upper) 10%	£ 3,121m

2.13 Investment Strategy

The proposed investment falls within the Property sector and therefore the Fund's Long Term Enhanced Yield allocation. Affordable Housing is a key area of investment focus for DIP.

Allocations following this investment based on SPF values at 31st December 2024 and total DIP commitments to Property would be as follows: -

Property, £ in DIP	£420m
Property, % in DIP	18%
Property (DIP), % of Total Fund	1.3%
LTEY, % Total Fund (target 21.0%)	19%

3 Policy and Resource Implications

Resource Implications:

Financial: Investment of £50m to be drawn as required. Fee structure is considered to be in line with the market.

Legal:	The investment will be subject to satisfactory completion of due diligence, including review and execution of appropriate legal documentation.
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***. 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 policy.
What are the potential equality impacts as a result of this report?	None
Please highlight if the policy/proposal will help address socio-economic disadvantage.	By definition, Affordable Housing projects benefit key workers (amongst others) who would otherwise be unable to afford private housing (purchase or rent) while the fund's focus on lower energy bills also assists with cost of living challenges.
Climate Impacts:	
Does the proposal support any Climate Plan actions? Please specify:	More energy efficient housing contributes to an overall reduction in carbon emissions.
What are the potential climate impacts as a result of this proposal?	The UK's property heating/energy efficiency sector currently offers significant potential decarbonisation opportunities, to which the proposal seeks to contribute.
Will the proposal contribute to	As noted above.

Glasgow's net zero carbon target?	
Privacy and Data Protection Impacts:	To be fully provided for in the legal documentation for the proposed investment.
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

4 Recommendations

The Committee is asked to **APPROVE** an investment of £50m in Octopus Affordable Housing Fund by DIP.

Schedule 1	**Investment Manager: Octopus Real Estate**
Schedule 2	**Investment Specific Risks**
Schedule 3	**Impact and ESG**

Investment Manager: Octopus Real Estate

Octopus Real Estate (ORE) is a division of Octopus Investments Ltd and part of the Octopus Group, an independent, multi-strategy, predominantly UK-focused investment management business with Assets Under Management (AUM) of £10.5bn (Sept 2024). Established in 2000, the Octopus Group is majority owned by its founders and 900+ employees. It invests in real estate, energy infrastructure, healthcare real estate, venture capital, smaller company investment, and fund of fund investing, in both the public and private markets.

The Octopus Group has a long-term outlook focused on creating value in selected markets. Its investment principles have been adopted across business lines and are focused on markets that have been neglected or with disenfranchised stakeholders. As a result of this Octopus seeks to gain a deep understanding of a few select markets to identify opportunities and develop businesses, investments and solutions to reshape these markets.

ORE is based in offices in London and Manchester and is a specialist RE fund manager investing in the UK market and providing debt finance for UK commercial and residential property. It has a 17-year track record, 90 employees and AUM of £3.8bn (Sept 2024) with 6 investment strategies across debt and equity. The ORE division comprises sub-teams including care homes, retirement living, residential, commercial & development debt and Affordable Housing.

ORE has extensive experience in being a long-term investor and specialist landlord of social care assets, including in UK elderly and specialist care homes (92 nursing homes), retirement living (2 institutionally funded investment strategies) & residential development assets, as well as a number of commercial real estate debt funds.

The 3 key individuals managing the OAHF fund are Jack Burnham, Kevin Beirne and Peter Merchant, all of whom have extensive social housing experience, as well as in running other long-term impact focused investments.

Jack Burnham (Head of Affordable Housing) joined ORE in 2022 from a HA with over 5,000 homes, where he spent 5 years as Executive Director of Growth & Investment, leading the growth programme named as the 3rd fastest growing HA in 2022 with over 1,000 units under development.

Octopus Group’s energy expertise provides a unique proposition for HA/LA partners in terms of retrofitting existing homes as well as the energy strategy on new builds, enabling additional energy-related, cost of living benefits outwith normal investment parameters.

Investment Specific Risks

Site Origination Risk

The fund's strategy is predicated on the development of fully consented housing projects by their HA/LA (and/or other third party) owners currently unable to construct them due to financial constraints, or the acquisitions of completed housing stock from housebuilders either under Section 106 provisions or on discounted portfolio bases. In any of these scenarios the main constraint is investment capital rather than the scarcity of development opportunities and so the current risk of failing to identify sufficient development opportunities is considered low.

Construction Risk

For those developments where the housing stock won't be acquired outright on final completion (i.e. forward funded developments which are expected to represent a minority of projects), the HA/LA or third-party vendor will assume the construction risk. For forward funded developments however, it is not possible for the fund to fully mitigate the potential financial risk of the insolvency of the contractor concerned. While the HA/LA developer and OAHF (as funder) will be protected at least to an extent by various mitigants including step-in rights, collateral warranties, performance guarantees and contract retentions etc., much will still depend on the financial circumstances of the development at the time.

Strong, reputable, national construction contractors will be engaged by the HA/LA developers in agreement with the fund, on fixed price building contracts (with cost over-runs, delays and liquidated damages risk lying with the contractor) to allow for an appropriate level of financial protection in the event of contractor failure. As forward funding lenders, the fund would monitor the construction process and will advance funding on an arrears basis on a formal development valuation basis.

The risk of contractors failing can never be eliminated. In this scenario the developer will require to engage replacement contractors using the performance bonds, guarantees, contract retentions and other measures to cover the extra financial costs.

Letting Risk

The sheer scale of the current imbalance between supply and demand of housing in general and Affordable Housing in particular, is such that the risk of not letting the completed housing units is considered very low indeed.

Impact and ESG

The OAHF has a comprehensive Responsible Investment (RI) Policy which sets out the fund's approach to identifying and managing ESG risks and delivering impact.

The RI policy is supplemented by a range of other related policies which will apply to the fund including: -

- The Impact Framework defines the social impact associated with the fund's investments and includes KPIs linked to the Sustainability Reporting Standard for Social Housing. This will be formally reviewed annually by The Good Economy, a leading independent social impact consultancy and will incorporate a review of the fund's ESG performance against its 4 key impact themes (see Section 2.3);

- The Quality Book governs the quality of assets to ensure their compliance with the fund's high minimum standards, as well as to measure the impact credentials of new investments;

- The fund's long-term Asset Management Strategy serves to ensure that Octopus manages and maintains the fund's assets to a high-quality standard, with the ultimate aim of operating to a "Net Zero" basis;

- The fund's Social Housing Governance, Regulation and Oversight Policy sets out the fund's approach to meet the regulatory requirements for NewArch, the fund's RP which is regulated by the RSH;

- The fund will only be partnering with HAs which are also regulated by the RSH for the ongoing management of the housing portfolio. These partnerships are key to the development of new stock and the successful day-to-day management of the homes over the longer term;

- In respect of sustainability, all properties will be built to EPC B standard or higher and where possible the Manager will seek to implement the Octopus Energy (the energy generation and supply division of the group) Zero Bills strategy under which the fund's houses, through a combination of energy efficiency measures, solar panels, low carbon/renewable energy power/heat sources, battery & electric vehicle technology etc, will facilitate materially lower or potentially even zero energy bills for the occupiers.

Octopus has been a signatory to the UN supported Principles of Responsible Investment (UNPRI) since 2020 and has also been awarded the status of a Certified B-Corporation since 2021. The latter recognises businesses that meet the highest standards of verified social and environmental performance, public transparency and legal accountability to balance profit and purpose. In becoming a B-Corp, Octopus changed its constitution so that every decision made considers the interests of their employees, communities, customers, shareholders and the environment.

Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

Contact: Richard McIndoe, Ext: 77383

Item 4
19th March 2025

Risk Policy & Strategy and Risk Register

Purpose of Report:

To present updated versions of the Strathclyde Pension Fund:

- Risk Policy & Strategy Statement; and
- Risk Register.

Recommendations:

The Committee is asked:

- **to APPROVE** the Risk Policy & Strategy Statement; and
- **to NOTE** the current risk register.

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

1 **Background**

Review of the Risk Policy and Strategy Statement is a priority in SPF's 2024/25 Business Plan. Unlike the Fund's other policy documents, the Risk Policy is not a requirement of the scheme regulations. It is however considered a matter of best practice and a requirement of the Pensions Regulator (TPR).

2 **Current Risk Policy and Strategy Statement**

The current Risk Policy and Strategy Statement was approved by the SPF Committee in March 2019.

The Statement sets out a common basis for risk management across the other policies and strategies. The Fund's policy documents are available on its website at: www.spfo.org.uk

3 **Review**

The review considered a number of sources including

- the CIPFA publication *Managing Risk in the Local Government Pension Scheme;*
- the Pensions Regulator's (TPR) *General Code of Practice; and*
- Glasgow City Council's *Risk Management Policy and Framework*.

4 **Updated Risk Policy and Strategy Statement**

The updated statement is attached.

It reflects existing practice within Strathclyde Pension Fund Office together with changes since the previous Statement was published, in particular TPR's replacement of the previous Code *14 –Governance and administration of public service pension schemes* with the General (single) Code.

5 **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.

6 **Current Register**

6.1 **Summary**

The risk register as at 28th February 2025 is summarised as follows.

Total Risks	Very High Risks	High Risks
36	0	4

Changes since last review (31 October 2024)

New	Closed	Increased	Decreased	Static
0	0	0	0	36

6.2 Changes

There have been no changes since the last review which was reported to the committee in November 2024.

6.3 Emerging Risks

The risk environment changes constantly, though this does not always lead to immediate changes in individual risk assessments. As previously reported, the changes in government in both the UK and the US in the last year look set to bring significant changes for UK domestic pensions policy and for the global economy, geopolitics, action on climate change and a raft of other issues. But at this stage it remains unclear just how they will impact on SPF and its investments. SPF will continue to monitor developments and re-assess risk impact.

6.4 Distribution

Current distribution of risks is summarised as follows.

Impact

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

← significant risk zone

6.5 Risks and Mitigations

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

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? 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	N/a.

Assessment (DPIA) has
been carried out

8 **Recommendations**

The Committee is asked **to APPROVE** the Risk Policy & Strategy Statement and **to NOTE** the current risk register.

Strathclyde Pension Fund

Risk Policy and Strategy

published April 2025

Risk Policy and Strategy

CONTENTS

Appendices

1. Introduction

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

2. Background

Risk is the chance that an action or event might happen and that it could have an impact on SPF's ability to achieve its objectives.

No organisation can completely eliminate risk. This is particularly so for a pension fund:

- SPF exists to pay future pension benefits;
- the future is inherently uncertain;
- there is therefore a risk that the investment assets of the Fund will be less or more than the pension liabilities.

That risk is managed through the Funding Strategy.

Other risks are managed through the investment, administration, governance and communications strategies. This Statement of Risk Policy & Strategy sets out a common basis for risk management across those strategies.

3. Risk Policy Aim

Risk should be eliminated, transferred or controlled as far as possible. The aim is to embed risk awareness and management into the processes and culture of SPF to help ensure that SPF objectives are met.

4. SPF Objectives

SPF's principal objectives are set out in its funding, investment, administration and communications strategies. **Appendix A** provides a summary of these objectives as set out in those strategies.

5. Risk Management Objectives

SPF's principal risk management objectives are to:

- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk;
- ensure consistent application of the risk methodology across all activities;
- integrate risk management into SPF's culture and day-to-day activities;
- raise awareness of the need for risk management by all those connected with the delivery of services;
- enable SPF to anticipate and respond positively to change; and
- minimise the cost of risk, while maximising the returns achieved by taking managed risks.

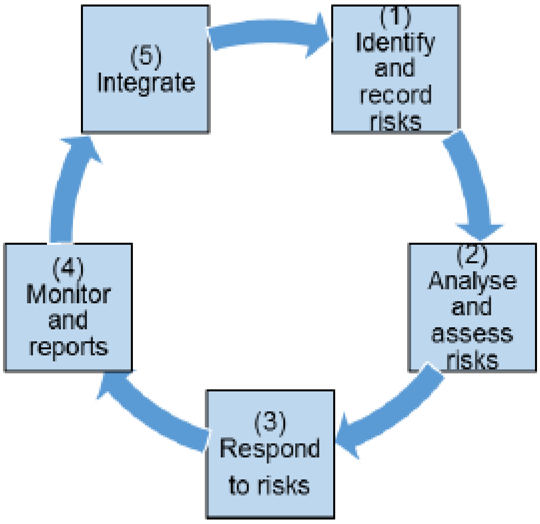
How this is achieved will vary depending on the type of risk and the activity involved:

- within scheme administration the objective is to eliminate risk as far as possible.
- within investment activity the objective is to balance risk and return.

6. Risk Management Strategy

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

Risk Management Process



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

6.1 Risk Identification and Recording

This is the process of recognising risks and opportunities that may impact upon SPF objectives. The process is both proactive and reactive. It involves horizon scanning for new or emerging risks and hazards; and learning from review of how past and current risks have manifested.

Principal sources for identification of risks are:

- the existing SPF risk register
- internal audit reports
- external audit reports
- performance monitoring and review
- publications from authoritative sources including the Pensions Regulator, the Local Government Pensions Committee, the CIPFA Pensions Panel, and the Scheme Advisory Board
- participation in industry networks including the Scottish Pensions Liaison Group, Investment & Governance Group, and Pensions & Lifetime Savings Association
- advice from actuarial, investment and legal consultants
- SPF's annual business plan.

An integral part of the development of any new strategy, business priority or investment proposal is the specific consideration and identification of risks.

Once identified, risks will be recorded, usually on the risk register which is the primary control document for the subsequent analysis, control and monitoring of risks. Risks will also be recorded on individual project initiation documents. A customised risk template has been developed and is used for each Direct Impact Portfolio investment.

The risk register records:

- risk Ref.
- risk description (Risk/ Cause/ Effect)
- related objective
- risk category
- inherent (pre-control) risk scoring
- controls and mitigating actions
- residual (post-control) risk scoring
- previous risk scoring
- ownership

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

6.2 Risk Analysis and Assessment

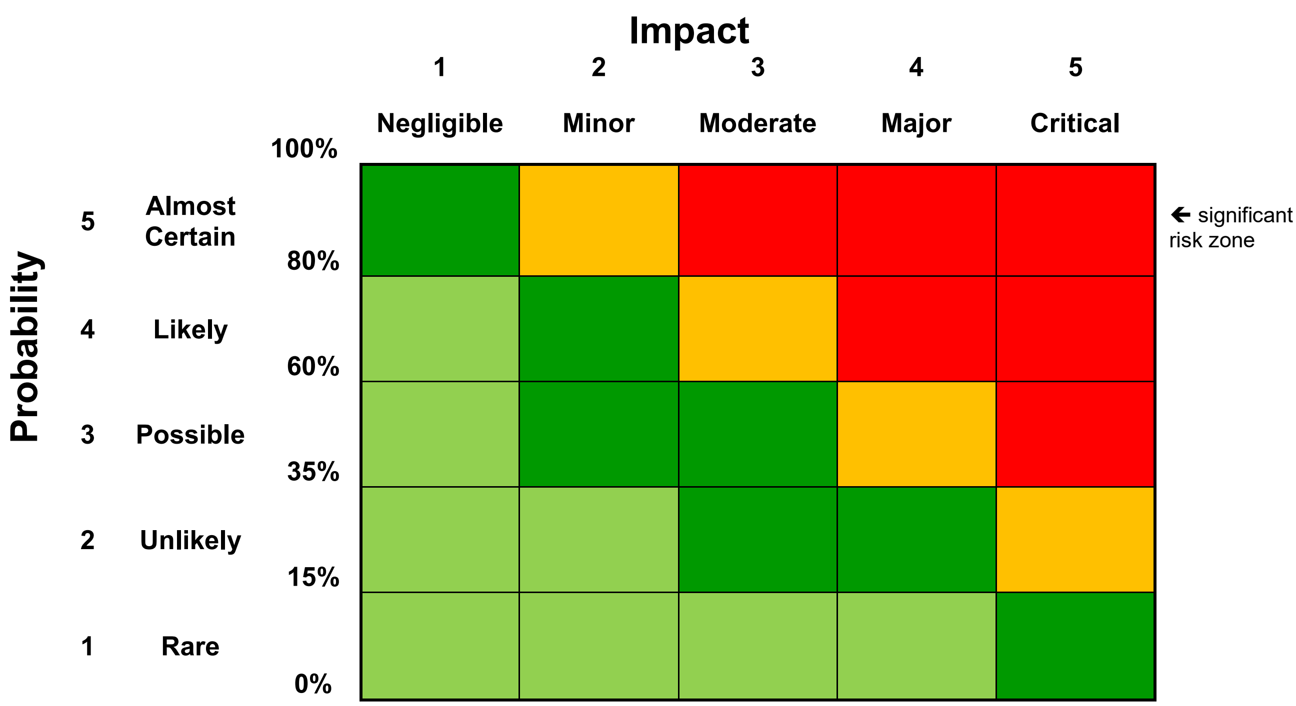
Having identified potential risks, the next stage of the process is to analyse and profile each of them.

For this SPF uses a standard methodology and template:

- each risk is scored from 1 to 5 for probability
- each risk is scored from 1 to 5 for impact

The product of these scores provides a risk ranking.
This is illustrated in the matrix below.

Risk Tolerance Matrix



6.3 Risk Response

Risks may be tolerated, treated, transferred or terminated. In practice, most will be treated. This means that controls will be introduced and mitigating actions taken to reduce the likelihood and adverse consequences of a risk event occurring. Control mechanisms will vary depending on the type of risk and the activity involved. Key mechanisms include:

- governance and decision making structures
- systemic procedures and controls
- resource allocation and management (internal and external)
- separation of duties
- diversification of investments
- authorisation and checking procedures
- actuarial review
- internal audit review and assurance
- external audit review
- regulatory framework and review.

Controls for each risk are described in the risk register and reviewed regularly.

6.4 Risk Monitoring and Reporting

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

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

As part of the review, consideration will be given to whether:

- the nature of the risk has changed
- the control environment has changed
- the probability of the risk occurring has changed
- the impact of the risk occurring has changed
- any new or emerging risks need to be considered.

The objective is to ensure that risk control remains effective and that risk management evolves and improves over time as far as possible.

6.5 Risk Integration

Risk should not just be considered as a stand-alone issue. It should be an integral part of strategic and operational planning and management.

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

7 Risk Categories

The principal categories and specific types of risk facing SPFO can be summarised as follows.

Primary Risk Category	SPFO Risk Type
▪ Legislative/Regulatory	Governance / Compliance risk
▪ Financial	Funding/liability and investment risks
▪ HR/People	Resource and skill risks
▪ Operational	Administrative risk, employer risk

- Technological — IT, cyber and data security risk
- Reputational — Reputational risk

A brief description of some of the specific types of risk is included at **Appendix B**.

8 Assurance

To provide some assurance as to risk management and control, SPF has previously applied the three lines of defence concept:

- First Line – comes from within the organisation and includes policies, procedures and performance data and statistics. First line assurance is not independent or objective.
- Second Line – relates to the oversight of management activity. It is separate to those responsible for delivery and provides a more objective insight but is not independent. Examples include compliance assessments and reviews.
- Third Line – independent assurance that provides an opinion on the governance, risk management and control. Includes internal audit.

Appendix C contains a summary Assurance Map. This will be developed further within SPFO.

9 The Pensions Regulator (TPR)

In 2024, TPR published a single General Code of Practice (**GCoP**) for all pension schemes including public service schemes.. This became effective on 28th March 2024. GCoP includes a module titled: The governing body: Risk management. **Appendix D** contains a summary of the module's contents, together with SPF's initial assessment of its compliance.

Appendix A	**Summary of SPF Objectives**
Appendix B	**Summary of SPF Risk Types**
Appendix C	**Summary of SPF Assurance Map**
Appendix D	**TPR GCoP Compliance: SPF Summary Scorecard**

Strathclyde Pension Fund

Summary of Strathclyde Pension Fund Objectives

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

Aims of the Fund
To:
- ensure that sufficient resources are available to meet all liabilities as they fall due;
- manage employers' liabilities effectively;
- seek investment returns within reasonable risk parameters; and
- enable employer contribution rates to be kept as nearly constant as possible at reasonable cost to the employers while achieving and maintaining fund solvency and long term cost efficiency.

Funding Objectives
The funding objective is to ensure that sufficient funds are available to pay all members' pensions now and in the future.

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

The current combined objectives of the funding and investment strategies are to achieve:
- a greater than 80% probability of being 100% funded over the average future working lifetime of the active membership (the target funding period – 13 years at the 2023 actuarial valuation); and
- a less than 10% probability of falling below 80% funded over the next three years.

Administration Objectives
SPFO holds extensive personal data and processes very high volumes of transactions for its very large membership. The administration strategy aims to ensure that:
- a high quality pension service is delivered to all scheme members;
- pension benefits are paid accurately and on time;
- successful partnership working develops between SPFO and its employers;
- performance standards are understood, achieved and reported; and
- performance and service delivery comply with the Local Government Pension Scheme (LGPS) regulations, other related legislation and The Pensions Regulator's Code of Practice.

Communications Objectives

To:

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

Governance Compliance Objectives

To maintain an appropriate governance structure with appropriate arrangements for:

- Membership and representation
- Selection and roles
- Voting
- Training and support
- Meetings and access
- Scope of governance
- Publicity

Training Plan Objective

To ensure that all staff, Committee members and Board members with a role in the management and governance of the Strathclyde Pension Fund are fully equipped with the knowledge, skills and understanding to discharge the duties and responsibilities allocated to them.

Summary of Strathclyde Pension Fund Risk Types

As administering authority the council has a statutory and fiduciary responsibility to scheme members and participating employers.

Funding/Liability Risk
Ultimately SPF exists to pay pensions. The obligation to scheme members represents the Fund's principal liability. The amount of this liability is uncertain. Current estimates and eventual payments are dependent on factors including:

- interest rates
- inflation rates
- discount rates
- and life expectancy and other demographic factors.

Each of these represents a risk that liabilities will be greater or less than anticipated.

Investment Risk
Future investment returns are uncertain and may be more or less than anticipated. Specific risk areas include:

- appropriateness of strategy
- manager and asset performance
- individual and systemic market risk
- security of assets
- counterparty failure
- concentration, credit, contract, currency, duration, macroeconomic and idiosyncratic risks.

Administrative Risk
This comprises particular exposure to risks in areas including

- IT system dependency
- cyber security
- business continuity
- service provision
- communications
- data management
- process management
- financial management.

Financial Risk
SPF processes very significant volumes of financial transactions across both the investment and administration functions. This entails exposure to risks in areas including:

- fraud
- cyber security
- banking system
- liquidity management

Employer Risk
The administering authority is dependent on its employers fulfilling their statutory duties, in particular:

- deduction and submission of contributions
- data management
- process management
- member engagement

There is also a risk of orphaned liabilities through employer default.

Resource and Skill Risk
The pension fund is a relatively specialist function operating on a very large scale in terms of process and asset values and volumes. This requires significant resources and specialist skills and expertise.

Regulatory and Compliance Risk
Occupational pension are heavily regulated and governed by thousands of pages of general and scheme-specific legislation.

Reputational Risk
Public service pensions attract intense scrutiny and some negative commentary. There is also an opportunity to enhance organisational reputation through demonstrable good practice and impact.

Summary SPF Assurance Map

Business Area	Internal Assurance Activity		Independent Assurance
	First	**Second**	**Third**
SPF	▪ Management ▪ Strategy, Policy & Procedure ▪ Regulations ▪ Staff training/qualifications	▪ Governance Structure ▪ Service Support ▪ Council Policies, Procedures and standing Orders ▪ Annual Report and Accounts	▪ Internal Audit ▪ External Audit ▪ External Governance & Assurance
Investments	▪ Statement of Investment Principles ▪ Training Plan ▪ Experienced SPFO investment team ▪ External investment managers ▪ Investment Management Agreements	▪ Investment Advisory Panel ▪ Committee reporting ▪ Investment consultants ▪ Global custodian	▪ FCA ▪ FRC ▪ CMA ▪ PRI ▪ Independent valuers ▪ Investment manager auditors
Funding	▪ Funding Strategy Statement ▪ Training Plan	▪ Actuarial Valuation	▪ GAD section 13 Review ▪ Employer auditors and actuaries
Scheme Administration	▪ Pension Administration Strategy ▪ Communications Policy ▪ Training Plan ▪ Experienced SPFO administration team	▪ Committee reporting ▪ Pensions administration system	▪ TPR ▪ TPO ▪ Actuarial valuation

Strathclyde Pension Fund

TPR General Code of Practice
SPF Summary Scorecard

Requirements	Current rating
Scheme managers of public service pension schemes are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and with the requirements of the law.	Fully met
The governing body should identify risks, record them, and regularly review and evaluate them.	Fully met
The scheme manager should have in place internal controls, including; The arrangements and procedures to be followed in the administration and management of the scheme The systems and arrangements for monitoring that administration and management, and Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.	Fully met
The governing body should design internal controls which ensure that the scheme is administered and managed in accordance with the requirements of the law and the scheme rules. The scheme's internal controls should also: Include a clear separation of duties for those performing them, and processes for escalation and decision-making Require the exercise of judgement, where appropriate, in assessing the risk profile of the scheme and in designing appropriate controls.	Fully met
The governing body should make sure that their internal controls are documented.	Fully met
A scheme's internal controls should be reviewed at least annually. However, the review of controls can be staggered if they address different areas of a scheme's operations or governance.	Fully met
Reviews should also be carried out when: Substantial changes to the scheme take place. These include changes to pension scheme personnel, service providers, scheme advisors, or administration and other IT systems; A control is not working to the standard required by the law.	Fully met
When designing internal controls governing bodies should consider TPR expectations.	Fully met
To maintain internal controls governing bodies should consider TPR expectations.	Fully met
The governing body may consider using assurance reports to assess whether the scheme or a service provider meets the relevant legislative requirements on internal controls.	Fully met
If selecting a suitable internal auditor, the governing body should consider: The candidate's independence Any actual or potential conflicts of interest (see Conflicts of interest) The candidate's knowledge of the subject.	Not applicable
The governing body should read and understand assurance reports provided by service providers to establish if the controls used by the organisations that they outsource various functions to are adequate. This will also include assurance reports produced by the scheme's investment manager and custodian.	Fully met

Strathclyde Pension Fund

They should consider the scope of such reports and the degree to which these are applicable. For	
Governing bodies should consider having a continuity plan that meets the requirements of Appendix 14	Fully met
When identifying and evaluating risks, governing bodies should consider conflicts of interest.	Fully met
Where management of conflicts of interest form part of the scheme manager's internal controls the following expectation apply; Members of governing bodies should understand when potential and actual conflicts arise legal and professional requirements and legislation that apply to English local authorities should apply	Fully met
Where management of conflicts of interest does not form part of the scheme manager's internal controls the following expectation apply; Members of governing bodies should understand when potential and actual conflicts arise Legal and professional requirements and legislation that apply to English local authorities should apply.	Fully met
Governing bodies should have processes in place to ensure that their decision-making is not compromised by actual or potential conflicts.	Fully met
Governing bodies should consider seeking independent legal advice, to help decide whether an actual or potential conflict of interest can be eliminated (and if so, the best way of achieving it).	Fully met
Regarding the pension board, scheme managers of public service pension schemes must: Be satisfied that a prospective member of the pension board does not have a conflict of interest Remain satisfied that none of the members of the pension board has a conflict of interest	Fully met
Regarding the pension board, scheme managers of public service pension schemes should: Circulate the register of interests and the other relevant documents to the pension board for ongoing review Publish these documents (for example, on a scheme's website)	Fully met

Email: spfo@glasgow.gov.uk

Tel: 0345 890 8999

Website: www.spfo.org.uk

lgps | Local Government Pension Scheme

SPFO - Detailed Risk Report

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: Paying inaccurate benefits. Potential issues with the Pensions Regulator. and reputational damage.	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 refelec 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, audit criticism, legal challenge, reputational damage, financial penalties.	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	Rigorous planning and project management; support from Corporate Finance.	3	4	**12**	

Ref		Title	Description	Mitigation / Control	Residual Impact	Residual Probability	Residual Score	Movement since last Assessment
			reputational damage.					
FIN	0388	Inflation Impact	RISK: Pay and price inflation significantly more or less than anticipated for a protracted period. CAUSE: Macroeconomic. EFFECT: Increase in liabilities; increase in asset price volatility; potential underfunding; potential increase in employer contribution rates	Actuarial valuation; inter-valuation monitoring; asset liability modelling; some inflation protection in assets.	3	3	**9**	
FIN	0389	Scheme employer Statutory Function Failure	RISK: Scheme employer failure to carry out statutory functions including submission of member data and contributions to SPFO. CAUSE: Under-resourcing/Scheme Complexity. EFFECT: Missing, incomplete and incorrect records on pensions administration system; undermines service delivery and causes difficulties in establishing correct benefits at individual member level, and liabilities at employer and whole of Fund level. Potential issues with the Pensions Regulator.	Regular communication with employers and their staff including Pensions in Partnership, Technical Bulletins, Employers Forum, Pension Board, scheme guide, liaison officers, dedicated employer area on SPFO website. Employers' HR and payroll controls. SPFO check individual records at points of significant transaction. Periodic bulk data checking by actuary. Member Records team within SPFO. Administration Strategy. Data improvement plan. I Connect. Employer Self Service.	3	3	**9**	
FIN	0392	Pensioner Mortality	RISK: Pensioners living longer than anticipated in actuarial valuation. CAUSE: Social economic EFFECT: Increase in liabilities; underfunding; potential increase in employer contribution rates.	Set mortality assumptions with some allowance for future increases in life expectancy. Fund participates in Club Vita to monitor mortality experience. Cost cap introduced in LGPS	3	3	**9**	

Ref		Title	Description	Mitigation / Control	Residual Impact	Residual Probability	Residual Score	Movement since last Assessment
				2015 should limit impact.				
FIN	0394	Resource and Skills	RISK: Failure to recruit, retain and develop appropriate staff. CAUSE: Competitive employment market and scheme complexity. EFFECT: Deterioration of service delivery.	Robust but flexible staffing structure; conditions and staff development in line with Council policies and practice; additional internal training and development.	3	3	**9**	
FIN	0398	Discount Rate	RISK: Fall in interest rates and risk-free returns on Government bonds. CAUSE: Macro-economic. EFFECT: Rise in value of liabilities; long-term underfunding; potential increase in employer contribution rates.	Performance of both assets and liabilities is monitored quarterly. Full actuarial valuation is carried out every three years. Funding Strategy includes smoothing measures to provide stability of contributions.	3	3	**9**	
FIN	0416	Cash flow issues	RISK: Cash flow issues. CAUSE: Failure of cashflow monitoring systems. EFFECT: Insufficient cash available to pay pensions or meet investment commitments.	Cash flow projections and regular monitoring of bank account, financial ledger, pensions administration system. Global custody arrangements.	3	3	**9**	
FIN	2183	Gearing Effect	RISK: Fund liabilities grow more quickly than employer payrolls. CAUSE: different drivers of growth affecting Fund (inflation, longevity, maturity, investment returns) and employers (public sector financing, budgetary constraints). EFFECT: Increased volatility; any underfunding may require increase in employer contribution rates disproportionate to payrolls.	Funding Strategy; actuarial valuations; inter-valuation monitoring; asset liability modelling: funding surplus.	3	3	**9**	
FIN	0390	Fund Investment Impact	RISK: Fund's investments fail to deliver returns in line with the anticipated	Performance of both assets and liabilities is monitored	4	2	**8**	

Ref		Title	Description	Mitigation / Control	Residual Impact	Residual Probability	Residual Score	Movement since last Assessment
			returns underpinning valuation of liabilities over the long-term. CAUSE: Macro Economic. EFFECT: Long-term underfunding; significant increase in employer contribution rates.	quarterly. Strategy development is discussed every quarter by the Investment Advisory Panel and reviewed fully every 3 years in line with the actuarial valuation which anticipates long-term returns on a relatively prudent basis. Current strategy targets: - a greater than 80% probability of being 100% funded over the 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.				
FIN	0396	Banking system failure	RISK: Issues with banking or BACS system. CAUSE: Outages, hardware and software failure and cyber attack. EFFECT: Payment delays potentially including monthly pension payroll to 90,000 pensioners.	BACS business continuity, disaster recovery and contingency arrangements; SPFO business continuity, disaster recovery and contingency arrangements.	4	2	**8**	
FIN	0397	Investment failure	RISK: Significant failure of individual investment(s). CAUSE: Default, fraud, operational or trading issues. EFFECT: Illiquidity or loss of asset value.	Diversified investment strategy and structure. Robust governance and monitoring framework.	2	4	**8**	
FIN	0399	Failure of investment markets	RISK: Failure of investment market(s). CAUSE: Systemic. EFFECT: Illiquidity or loss of investments.	Diversified long-term investment strategy focused on developed markets and managed by experienced market participants. Market	4	2	**8**	

Ref		Title	Description	Mitigation / Control	Residual Impact	Residual Probability	Residual Score	Movement since last Assessment
				regulation. Robust governance and investment monitoring framework.				
FIN	0401	Global custodian failure	RISK: Significant issues with Global Custodian. CAUSE: Corporate and / or systemic EFFECT: Loss of investments or control of investments. No access to accounting data.	Annual diligence review and periodic re-tendering. Banking and FCA regulation. Fund's assets not on custodian's balance sheet.	4	2	**8**	
FIN	0402	Breach of Pensions Act & other disclosure requirements	RISK: Breach of Pensions Act and other disclosure requirements. CAUSE: Failure to implement Communication Strategy and Administration Strategy. EFFECT: Member challenge, legal challenge, audit criticism, reputational damage, potential overpayment of pensions, action by the Pensions Regulator	Well developed communications and administration strategy. Pensions Administration system; standardised operational procedures; participation in Class User Group and Scottish Pensions Liaison Group; staff training. Legal support. Internal Systems & Compliance team.	2	4	**8**	
FIN	1583	Climate-related financial loss	**RISK: climate-related financial loss. CAUSE: failure of climate change strategy; failure of global economy to address climate change issues. EFFECT: obsolescence imapairment or stranding of assets; changing consumer demand patterns; changing cost structure (including emissions pricing).**	Climate Change Strategy, Climate Action Plan, Net Zero Investment Framework, Responsible Investment Strategy, Diversification of Investments, Direct Impact Portfolio and other positive investment opportunities.	4	2	**8**	
FIN	1584	Structual Reform of LGPS Funds.	**RISK: Structural reform of LGPS funds. CAUSE: Change of government policy. EFFECT: Operational and investment disruption, transitional costs, loss of**	Robust defence of current structure continuing development of existing policy and strategy, operational & investment performance.	4	2	**8**	

Ref		Title	Description	Mitigation / Control	Residual Impact	Residual Probability	Residual Score	Movement since last Assessment
			local control.					
FIN	0404	Collective Investment Vehicle issues	RISK: Issues with collective investment vehicle(s). CAUSE: Lack of transparency. EFFECT: Loss of value or liquidity or ability to access or control investment.	Well developed selection and due diligence process. Robust monitoring framework. Banking and FCA regulation. Insurance and liability provisions in investment agreements.	2	3	**6**	
FIN	0405	No access to workplace	RISK: Unable to access workplace. CAUSE: Fire, flood , major incident. EFFECT: Staff downtime, loss of service delivery, potential failure to pay pensions.	Professional property management and maintenance. Property Services contingency plan. Business Continuity Plan and Disaster Recovery Plan.	2	3	**6**	
FIN	0407	Breach of tax regulations (scheme administration)	RISK: Breach of tax regulations (scheme administration). CAUSE: Mis-application of tax requirements. EFFECT: Incorrect payment to pensioners or to HMRC; HMRC penalties.	Pensions administration system; standardised operational procedures; reconciliations; participation in Class User Group and Scottish Pensions Liaison Group; staff training.	2	3	**6**	
FIN	0408	Breach of tax regulations (investments)	RISK: Breach of tax regulations (investments). CAUSE: Mis-application of tax requirements. EFFECT: Failure to reclaim withholding tax; failure to comply with filing requirements; inefficient tax structures.	Global custodian responsible for tax reclaims; some use of external tax consultants; manager responsibility for pooled funds; review by legal advisors.	2	3	**6**	
FIN	0409	Poor stewardship of fund's assets	RISK: Poor stewardship of Fund's assets. CAUSE: Failure to implement Responsible Investment Strategy. EFFECT: Potential erosion of investment returns; reputational damage.	Responsible investment strategy; IMA provisions; engagement overlay; participation in LAPFF and other groups; transparent reporting; Direct Investment Portfolio.	3	2	**6**	

Ref		Title	Description	Mitigation / Control	Residual Impact	Residual Probability	Residual Score	Movement since last Assessment
FIN	0410	Problematic staff absence	RISK: Staff absence rises to problematic levels. CAUSE: Epidemic, Pandemic. EFFECT: Loss or failure of service delivery.	Council attendance management polices; HR and manager support; Health and wellbeing champion; flexible workforce; Business Continuity Plan.	2	3	**6**	
FIN	0411	Investment benchmark not achieved	RISK: Failure to achieve investment performance benchmark. CAUSE: Active Investment under performance. EFFECT: Undermines investment strategy; poor value for money.	Diversified investment manager structure. Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark. Regular review of mandates. Triennial review of investment structure. Investment Advisory Panel review.	2	3	**6**	
FIN	0412	Actuarial Loss	RISK: Actuarial loss. CAUSE: Changing pattern of demographic experience including early retiral, ill health retiral, withdrawal, 50:50 uptake, commutation, marriage/partnership. EFFECT: Pressure on cash flow and funding equation.	Monitored in actuarial valuation. Strain on the fund charges. Il health retirement experience is monitored and insurance is available. Cash flow monitoring.	2	3	**6**	
FIN	0413	VAT: Partial exemption limit breach	RISK: Breach of the VAT partial exemption limit. CAUSE: Failure of reporting procedures. EFFECT: Would expose the Council to a financial loss of around £10m of which approximately £1.5m would be borne by the Pension Fund.	The Fund "opts to tax" properties wherever appropriate; monitoring of new transactions; advice from Council's VAT officer; control on purchase of residential properties.	3	2	**6**	
FIN	0414	Public Liability	RISK: Public Liability. CAUSE: Property portfolio - exposure through direct ownership of properties within portfolio.	Property management and insurance arrangements.	2	3	**6**	

Ref		Title	Description	Mitigation / Control	Residual Impact	Residual Probability	Residual Score	Movement since last Assessment
			EFFECT: Potential personal injury or environmental liability and reputational damage.					
FIN	0420	Fraud/Theft/Negligence/Bribery	RISK: Fraud/Theft/Negligence/Bribery. CAUSE: Dishonesty by SPFO staff, members or external investment manager. EFFECT: Overpayment, unauthorised payment, system corruption, audit criticism, reputational damage,loss of value to the Fund, loss of control over investments.	System controls and security, peer and supervisor checking, audit and monitoring arrangements. NFI exercise and data services mortality screening. Manager selection and monitoring processes; indemnities in Investment Management Agreements; FCA and other Regulation; separation of assets from management via global custody arrangement.	2	3	**6**	
FIN	0423	Governance Compliance	RISK: Breach of FOI or SAR legislation CAUSE: Freedom of Information responses outwith 20 day limit. SAR requests outwith 28 calendar days. EFFECT: Audit criticism, legal challenge, reputational damage, financial penalties.	GDPR/Council protocol includes correct allocation of request, regular review of FOI/SAR log and monitoring of requests.	3	2	**6**	
FIN	0406	Breach of LGPS Governance Regulations	RISK: Breach of LGPS governance regulations. CAUSE: Failure of governance framework. EFFECT: Audit criticism, legal challenge, reputational damage, intervention by the Pension Regulator and/or Scheme Advisory Board.	Council standing orders and scheme of delegation; audit and control functions; high degree of transparency; new governance structures and procedures established to comply with governance regulations.	2	2	**4**	
FIN	0418	MiFiD non - compliance	RISK: MiFID compliance. SPF re-classified as retail investor. CAUSE:	Governance structure; engagement with investment	2	2	**4**	

Ref		Title	Description	Mitigation / Control	Residual Impact	Residual Probability	Residual Score	Movement since last Assessment
			Failure to evidence investment capabality. EFFECT: Inability to make new investments. Potential requirement to terminate existing investments.	managers, consultants, and legal advisers; existing status as professional investor firmly established.				
FIN	0421	Loss in securities lending	RISK: Loss in securities lending programme. CAUSE: Counterparty default. EFFECT: Investment losses.	Programme managed by experienced third party, Northern Trust; Fund is indemnified within programme; all loans are fully collateralised.	2	2	**4**	
FIN	0422	LGPS investment Regulation: Non compliance	RISK: Non-compliance with LGPS investment regulations and broader regulatory regime. CAUSE: Failure of disclosure or monitoring. EFFECT: Audit criticism, legal challenge, reputational damage.	Mandates structured to ensure compliance. Robust monitoring framework. Legal advice.	2	2	**4**	
FIN	0400	Employer default	RISK: Employer default. CAUSE: Employers ceasing to exist with insufficient funding or adequacy of a bond, or with liabilities for unfunded discretionary payments, or administering authority failure to enforce the debt. EFFECT: Residual liability falls on remaining employers, potential termination of unfunded payments.	Regulations, Funding Strategy, admissions policy and process, guarantees from existing Scheme employers, covenant review, pre-payment wherever possible, monitoring of contributions, in-depth membership analysis via actuarial valuation, employers required to advise of any structural changes.	1	3	**3**	

Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

Contact: Richard McIndoe, Ext: 77383

Item 5

19th March 2025

2025/26 Business Plan

Purpose of Report:

To present a Business Plan for 2025/26 for the Strathclyde Pension Fund including a proposed budget to deliver the plan.

Recommendations:

The Committee is asked **to APPROVE** the attached 2025/26 Business Plan including the proposed budget.

Ward No(s):

Citywide: ✓

Local member(s) advised: Yes ☐ No ☐

consulted: Yes ☐ No ☐

1 Policy and Resource Implications

Resource Implications:

Financial:	The business plan incorporates the SPFO 2025/26 budget – see para 3.4.
Legal:	None.
Personnel:	None.
Procurement:	The business plan includes one or more projects which will entail procurement exercises. Procurement exercises are carried out with assistance from GCC corporate procurement unit and in accordance with GCC procedures and applicable regulations.

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, 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?	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. Strathclyde Pension Fund's Climate Change strategy is being developed in line with Item 34 of the Council's Climate Action Plan. Appendices 6 and 7 of the business plan

	address climate change priorities. 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.
What are the potential climate impacts as a result of this proposal?	Priorities listed in Appendices 6 and 7 will have a positive impact.
Will the proposal contribute to Glasgow's net zero carbon target?	Priorities listed in Appendices 6 and 7 will contribute to SPF's net zero carbon target.

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.

2 Recommendation

The Committee is asked to approve the attached 2025/26 Business Plan including the proposed budget.

<u>Attachment</u>

Strathclyde Pension Fund 2025/26 Business Plan

Strathclyde Pension Fund

2025/26 Business Plan

STEWARDSHIP CODE

PRI Principles for Responsible Investment

2025/26 Business Plan

CONTENTS

Appendices

Section 1 – Fund Governance

1.1 Role and Responsibilities

Glasgow City Council (GCC) has statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in the West of Scotland, both on its own behalf and in respect of around 140 other employers including the 11 other local authorities in the former Strathclyde area.

The main functions are:

- administration of scheme benefits; and
- management and investment of scheme funds.

These functions are carried out in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Public Service Pensions Act 2013 and the Superannuation Act 1972.

GCC carries out its role as Administering Authority via:

- the Strathclyde Pension Fund Committee, to which the council has delegated power to discharge all functions relating to its role as administering authority;
- the Strathclyde Pension Fund Pension Board which assists the committee with compliance;
- the Strathclyde Pension Fund Office (SPFO), a division of the Council's Financial Services Department; and
- the Strathclyde Pension Fund (SPF or the Fund).

1.2 Policy, Objectives and Strategy

SPF's overriding objective is to ensure that all members' pensions are paid now and in the future. To achieve this, detailed policies, objectives and strategies are agreed by the committee. These are set out in various policy documents. The main documents are the:

- Funding Strategy Statement;
- Statement of Investment Principles;
- Pension Administration Strategy;
- Communications Policy;
- Risk Policy and Strategy Statement; and
- Governance Compliance Statement.

A summary of each of the main policy documents is included at **Appendix 1**.

Policy documents are published on the Fund's website at: www.spfo.org.uk

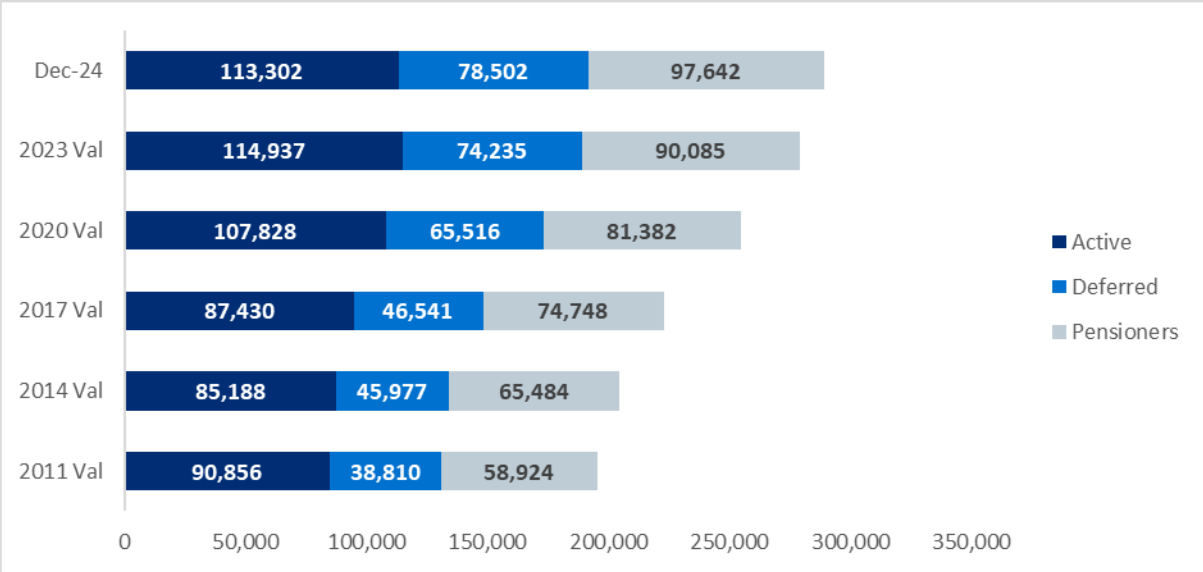
1.3 Business Plan

The committee agrees an annual business plan to ensure that ongoing management and development of the Fund is in line with the longer-term policies, objectives and strategy. The 2025/26 business plan is set out in the following sections.

Section 2 – Fund Profile

2.1 Membership

The membership profile of the Strathclyde Pension Fund as at 31st December 2024 and at recent actuarial valuations is summarised as follows.



SPFO also acts as a payroll agent for compensatory added years payments to over **7,700** members of the Scottish teachers' superannuation scheme.

2.2 Assets

As at 31 December 2024 the Fund had total investment assets of approximately **£31.2 billion** *(2023: £29.1bn)*. Day-to-day management of the assets is carried out by external fund managers appointed by the Council in its role as Administering Authority.

2.3 Liabilities

Estimated value of liabilities – present value of future pension payments - as at 31 December 2024 was **£17.8 billion** *(2023: £19.3bn).* Estimated funding position was **178%** *(2023 c.152%).* This will next be reviewed in the triennial actuarial valuation as at 31st March 2026.

2.4 Income and Expenditure Flow

The income and expenditure profile is summarised as follows.

	2022/23 Per accounts £m	**2023/24 Per accounts £m**	**2024/25 Probable £m**	**2025/26 Estimate £m**
Pensions Income	*752*	*846*	*612*	476
Pensions Expenditure	*(756)*	*(850)*	*(899)*	(953)
Net Pensions Cash Flow	***(4)***	***(4)***	***(314)***	**(430)**
Investment Income	***412***	***496***	***512***	**537**

Strathclyde Pension Fund

There was a sharp reduction in income in 2024/25 as a result of the revised contributions strategy agreed at the 2023 actuarial valuation. The income profile will be similar in 2025/26 before increasing in 2026/27.
Cash flows are monitored and managed on an ongoing basis within SPFO, and reviewed regularly by the Investment Advisory Panel to agree actions to fund benefits as necessary.

Key factors in this monitoring are that:

- investment Income shown includes distributed income only. The majority of income is earned and re-invested within pooled investment vehicles, but most of this could be made available for distribution to the Fund if required.
- Around 50% of investment assets are considered liquid This figure comprises listed global equities and multi-asset passive pooled funds which, on a phased basis, can be realised within 14 days (sufficient to accommodate decision, instruction to managers, trade and settlement).
- Any shortfall in net pensions cash flows can easily be covered from some combination of:
    - investment cash deposits
    - investment income and/or
    - sale of liquid investments

Appendix 2 sets out a more detailed 10-year cash flow forecast.

Key features of this are that:

- temporary reductions in employer contributions rates mean that the projected shortfall in benefits cash flow will significantly exceed distributed investment income in 2025/26; and
- from 2026/27 some, but not all, investment income will be required to fund benefits cash flow.

Section 3 - Resources

3.1 Staffing

The Fund is headed up by a director and 10 Investment staff. Total administration staff in post at 31st December 2024 was 84 (FTE 79) this includes 2 modern apprentices. 8 administration pension officers were recruited during December. As part of this recruitment exercise 3 existing Modern Apprentices were successful in gaining full time employment, 5 external candidates will commence during February. The current structure is summarised in **Appendix 3**.

.

3.2 Training and Development

SPFO has made a demonstrable commitment to training and development. Much of this is delivered internally.

In addition, staff have been encouraged and supported by SPFO in gaining professional qualifications through the Institute of Payroll Professionals (IPP). IPP attainment within SPFO is as follows.

SPFO Staff	IPP level attained
11	Diploma in Pensions Management
9	Foundation Degree in Pensions Administration and Management
32	Foundation in Pensions administration
11	Certificate in Pensions Administration

During 2024, SPFO subscribed to our software suppliers online learning tool TEC (Training and Education Centre). This portal provides a variety of online courses for staff, ranging from general pensions knowledge to more in depth system and workflow specific courses. Managers can also create and assign learning plans for individuals in TEC.

The Local Government Association (LGA) is currently working with The Pensions Management Institute (PMI) on the provision of a level 2 (GCSE equivalent) and a level 3 (A-level equivalent) qualification that will be LGPS specific. Pilot courses are due to start in April 2025. This will be reviewed with a proposed implementation date during 2026.

SPFO also has a number of graduates in various disciplines, one qualified accountant, and staff with a variety of other relevant qualifications.

SPFO staff participate fully in the various elements of Glasgow City Council's organisational development strategy. These include Performance Coaching and Review for all staff. Staff also make extensive use of a diverse range of training modules and resources which are available through the GOLD (Glasgow Online Learning Development) portal.

SPFO's recruitment strategy has relied heavily on the modern apprentice programme since its introduction: 14 permanent staff at a variety of grades started their SPFO careers as modern apprentices. Modern apprentices are required to complete an SVQ in Business Administration (either level 2 or level

3), they are supported in this by both their manager and their qualified Team Assessors who meet regularly with the apprentices to discuss and review their progress.

3.3 Systems & IT

SPFO is an established user of *Altair* – a bespoke Local Government Pension Scheme administration system. The *Altair* application is upgraded four times a year and SPFO is currently running version *25.1.* Within *Altair*, SPFO has implemented *Task Management, Workflow* and *Performance Measurement* modules. These, along with *Altair Insights* form the core of process planning, management and monitoring, data analytics and measuring data quality. *Altair* is aligned with a Document Image Processing System (DIPS) to achieve straight-through electronic processing.

It also provides:

- *i-Connect,* a secure portal which allows employers to send data submissions direct to SPFO and to upload documents for processing; and
- internet based Self Service functionality through the member portal, *SPFOnline.* In early 2025, SPFO will migrate to the new platform *Engage*, which has been built following Web Content Accessibility Guidelines (WCAG) with member experience at the forefront. For SPF members this means a portal that will be more intuitive to navigate with information presented in a way that's easier to understand. Being a new application *Engage* also comes with stringent security measures, including multi-factor authentication (MFA) and Electronic Identification Verification (EIdV).

Ongoing use, continuous development, and increasing member sign-up in these areas are key aspects of the SPFO administration strategy and communications policy.

For other finance functions, SPFO uses the Council's SAP-based systems.

The Investments Team has secure, on-line access to detailed investment portfolio data via the *Passport* system of the Fund's global custodian, Northern Trust, which forms the primary accounting record for the Fund's investments. The Fund accesses an increasing number of investment manager reports via on-line client portals.

All staff have laptops which provide remote network and systems access. This facilitates hybrid working and flexibility and resilience of working arrangements.

3.4 SPFO Cost Budget

SPFO costs include costs of scheme administration together with oversight and governance costs (which includes consultancy fees, legal and procurement costs, audit fees, and part of the central support charge).

The annual SPFO budget for 2024/25 and proposed budget for 2025/26 are summarised as follows.

SPFO Budget	*2024/25 £000*	2025/26 £000	Movement £000
Employee Costs	*4,342*	4,505	163
Property Costs	*648*	664	16
Supplies and Services	*1,247*	1,421	174
Transport Costs	*0*	0	0
Contracted Services	*412*	430	18
Central Support	*1,275*	1,308	33
Total Expenditure	***7,924***	**8,328**	**404**
Income	*-177*	(177)	0
Bank Interest	*-3,860*	(8,650)	(4,790)
Net Expenditure	***3,887***	**(8,827)**	**(4,790)**

The 2025/26 budget shows a net increase in expenditure of **£404k** over the 2024/25 budget **(+5.1%)**.
This is mainly attributable to: pay increases, incremental salary increases and employer national insurance increase; introduction of a water rates budget, and increases to utility charges; increased provision for IT costs in relation to increased banding costs and payroll system enhancements; and a general CPI increase provision.

The SPFO budget is met from the Fund in accordance with the scheme regulations.

3.5 Investment Management Costs

The Fund incurs substantial external management expenses as a result of its outsourced model. Total annual expenditure per the audited financial statements is summarised as follows.

	2021/22 £000	*2022/23 £000*	*2023/24 £000*
Investment management	*167,839*	*159,752*	*183,893*
Oversight and governance	*1,401*	*1,651*	*1,791*
Total	***169,240***	***161,403***	***185,684***

Investment management costs include fees charged by investment managers together with fees deducted within pooled investment vehicles. SPF discloses all costs in accordance with the CIPFA guidance on *Accounting for Local Government Pension Scheme Management Expenses,* albeit this is not a mandatory requirement. SPF also supports the Cost Transparency Initiative which has facilitated better identification and disclosure of these costs and in time should lead to more consistency of reporting between pension funds.

Investment costs are based on contractually agreed fee scales, and are mostly paid on an *ad valorem* (market value) basis, sometimes with an additional performance element. They therefore vary with investment market fluctuations and manager performance. Outturn costs for 2024/25 and costs for 2025/26 will depend on market values and manager performance. For this reason, no estimate is provided. All costs are closely monitored and controlled to ensure value for money. In accordance with the LGPS Regulations, all administrative and investment expenses are charged to the Fund.

Section 4 – Pensions Administration Performance

4.1 Key Functions

Key functions within the Pensions Administration sections of SPFO are summarised in the following table.

Section	Key Functions
Digital Communications	▪ call handling and switchboard ▪ data exchange; SPFO inboxes; document upload; *Pulse* messaging ▪ mail sorting, scanning & issue ▪ development of *SPFOnline* & website ▪ design of all publications ▪ member, employer and staff communications
Employer & Data Management	▪ monitoring, reconciliation and reporting of *i-Connect* ▪ employer management ▪ data quality – maintaining member data base ▪ employer admissions and exits ▪ actuarial valuation

Compliance	▪ system & website(s) maintenance
	▪ data protection, system security, cyber security and business continuity
	▪ regulatory compliance
	▪ audit
	▪ procurement/contracts
	▪ information compliance:
	    • data breaches
	    • freedom of information requests
	    • subject access requests
	▪ health and safety
	▪ office management

Pre-retirement Transactions	▪ updates for new members and status changes ▪ calculation and processing of a range of provisional benefits ▪ calculation and processing of a range of transactions in and out of the Fund
Post-retirement Transactions	▪ calculation and processing actual retirement benefits ▪ calculations of all death benefits ▪ recalculations
Payments	▪ payments in: monthly member, employer and additional contributions ▪ payments out: lump sums, transfers, refunds, and monthly pension payroll

Strathclyde Pension Fund

4.2 Objectives and Strategy

The objectives of the Administration Strategy are to ensure that:

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

4.3 Performance Measurement and Monitoring - KPIs

The emphasis for performance monitoring is on member experience and statutory compliance. Key Performance Indicators (KPIs for each service area are monitored and reported regularly to the Committee. These are set out below. Definitions of the KPIs are included at **Appendix 4**.

New guidance on Preparing the Pension Fund Annual Report for LGPS Funds was issued during 2024/25. In light of this some additional Performance Indicators and processes will be captured in the SPF Annual Report.

4.3.1 Digital Communications - KPIs

Customer Surveys

Results of customer surveys from 1st April to 31st December 2024 and targets for 2025/26 are summarised in the following table.

2024 Performance	*Refunds*	*Retirals*
Forms issued	***1,387***	***4,684***
Responses	*74*	*1,022*
Response rate (%)	*5.3*	*21.8*
"Satisfaction Rating" (%)	***87.6***	***86.4***
2023/24 full year (%)	*77.6*	*86.1*
2024/25 target (%)	*80.0*	*90.0*
2025/26 target (%)	**80.0**	**90.0**

The targets will remain unchanged for 2025/26.

Pension Updates

Results of customer surveys during 2024 and targets for 2025 are summarised in the following table.

Member Status	*2024 Score*		2025 Target	
	Content (%)	*Format (%)*	Content	Format (%)
Active	***77.9***	***75.2***	**77.0**	**77.0**
Deferred	***73.5***	***71.6***	**72.0**	**72.0**

Website/SPFOnline

Improving and increasing SPFO's digital delivery of communications is a key priority. The focus of activity is continuous development, and increasing website usage and member sign up to SPFOnline. Migration to a new

Strathclyde Pension Fund

SPFOnline platform *Engage, planned for 2025/26,* will require all registered members to complete an additional verification process. To reflect the impact of this, the 2025/26 target will remain unchanged from 2024/25 for.

Website	**Measure**	***2024/25 Target***	***2024 Actual***	**2025/26 Target**
www.spfo.org.uk	▪ total weekly visitors ▪ unique weekly visitors	***9,000*** ***5,000***	***8,042*** ***2,242***	**9,000** **5,000**
SPFOnline	▪ members registered* ▪ logged in YTD	***146,000*** ***77,000***	***146,027*** ***109,413***	**146,000** **110,000**

**Split by status*
- *Active –* ***73,458***
- *Deferred –* ***25,718***
- *Pensioners –* ***46,851***

4.3.2 Employer & Data Management- KPIs

Having complete and accurate member data is essential for the efficient and effective management of pensions administration. An ongoing business priority for SPFO is improvement in the member database and timeous and accurate i-Connect submissions.

Data Quality

The Pensions Regulator (TPR) has set targets for common data of:
- **100%** accuracy for data created after June 2010; and
- **95**% accuracy for data created before that date.

TPR also provides guidance on scheme-specific data but has not set prescriptive targets as this should be agreed at individual scheme level.
All pension funds are required to make an annual scheme return to TPR.

Altair Insights allows SPFO to monitor Data Quality Scores in real time with regular updates and inflight projects impacting the results positively and negatively. Results for the data quality tests for those members in scope are summarised below.

	TPR Tests Passed (%)				
	2023/24		***2024/25***		**2025/26**
Data Type	***SPFO target***	***2023 Actual***	***SPFO target***	***2024 Actual***	**SPFO target**
Common data	***98***	***98.1***	***98.3***	***97.3***	**98.3**
Scheme-specific data	***97***	***97.3***	***97.6***	***97.2***	**97.6**

2025/26 targets will remain unchanged from 2024/25.

Strathclyde Pension Fund

Employer i-Connect Submissions
Employers are required to submit regular electronic returns via i-Connect no later than the 19th of the month following the reporting period. SPFO monitors receipt of these submissions. Past performance and 2025/26 targets are as follows.

Local Authority Employers	*Actual 2023*	*Target 24/25*	*Actual 2024*	Target 25/26
i-Connect submissions received by SPFO by due date	***87%***	***100%***	***87%***	**100%**

4.3.3 Pre-retirement Transactions - KPIs
Key criteria here are accuracy and efficiency. Accuracy is ensured through rigorous system and manual checks. Efficiency figures are produced by the performance measurement module of the *Altair* system and measure average times taken to turn around tasks on the system. 2025/26 targets are unchanged from 2024/25 for New Starts, Refunds and Retiral Estimates. A revised target of 85% (previously 90%) has been set for Deferred members.

Turnaround Times				
Process	**Description**	**Target Days 2025/26**	**Target % 2025/26**	**Statutory Deadline**
New Starts	Processing of new scheme members	**15**	**95%**	**1 month**
Refunds	Processing and payment of refund in receipt of members election to a refund of contributions	**7**	**90%**	**n/a***
Deferred Members	Calculation of future retirement benefits for early leavers from scheme who don't have immediate access to benefits	**20**	**85%**	**2 months**
Retiral Estimate	Quotation of expected retiral benefits.	**20**	**80%**	**2 months**

*Disclosure requirements do not stipulate a timescale but require that payment is made as soon as is considered reasonable.

4.3.4 Compliance – KPI's
SPFO complaints are actioned in accordance with Glasgow City Council complaints handling procedure. All complaints are recorded using Lagan, the Council's system for complaints monitoring and recording. These targets are unchanged from 24/25.

Complaint	Response Target
Stage 1	**5 working days**
Stage 2	**20 working days**

4.3.5 Finance - KPIs

The single most important critical function of SPFO is to ensure that the monthly pensions payroll runs on its due date. A key objective is to ensure that all necessary additions, deletions and amendments have been made before it runs. Performance targets are as follows.

Task	***Target 2024/25***	***Actual 2024***	**Target 2025/26**
Pensions payroll run on time	***100%***	***100%***	**100%**
New retirals processed for due date	***95%***	***94%***	**95%**
Retirement lump sums paid on retirement date	***95%***	***83%***	**95%**
Deferred pensions processed for due date	***95%***	***90%***	**95%**
Deferred lump sums paid on due date	***95%***	***100%***	**95%**
Contributions income received on due date	***100%***	***99%***	**100%**

Strathclyde Pension Fund

Section 5 – Investment Performance

5.1 Key Functions

Key functions of the investment section within SPFO are summarised in the following table.

Key Functions
▪ development and implementation of investment strategy and structure ▪ monitoring of strategy, portfolio and investment manager performance, and other service providers ▪ management of the Direct Impact Portfolio (DIP), investment cash flows, private markets programmes, and ▪ stewardship including development and management of the responsible investment and climate change strategies.

5.2 Investment Objective

- The Fund's investment objective is to support the funding strategy by adopting an investment strategy and structure which incorporate an appropriate balance between risk and return.
- The 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. A full review of strategy is carried out every three years alongside the triennial actuarial valuation to ensure that investment is aligned to the changing profile of the Fund's liabilities and that the investment strategy is consistent with the Funding Strategy.
- The current objectives of the investment strategy are to achieve:
  - At least an **80% probability** of being **100%** funded within the average future working lifetime of the membership; and
  - a less than **10% probability** of falling below **80%** funded over the next three years.

5.3 Investment Strategy

The following framework is used for development of the investment strategy.

Strathclyde Pension Fund

The strategy is reviewed every 3 years using asset liability modelling based on results of the triennial actuarial valuation of the Fund. Strategic allocations have changed as summarised below.

Asset Category	*2011 (%)*	*2014 (%)*	*2017 (%)*	2024 (%)
Equity	***72.5***	***62.5***	***52.5***	**47.0**
Hedging / Insurance	***4.5***	***1.5***	***1.5***	**10.0**
Credit	***3.0***	***6.0***	***6.0***	**5.0**
Short-term Enhanced Yield (STEY)	***7.5***	***15.0***	***20.0***	**17.0**
Long-term Enhanced Yield (LTEY)	***12.5***	***15.0***	***20.0***	**21.0**
Total	***100***	***100***	***100***	**100**

5.4 Investment Performance

5.4.1 Investment Returns

The Fund's global custodian, Northern Trust, is responsible for independent performance measurement and provides detailed quarterly reports on all aspects of investment performance. Performance is measured on a total return basis including investment income and capital gains.

Overall investment performance is measured against:

- the strategic benchmark;
- the actuarial return assumption of **+5.0%** per annum at the 2023 actuarial valuation (+*3.0%* at the 2020 valuation); and
- the PIRC Local Authority universe.

Individual manager performance is measured relative to benchmarks and targets based on published investment indices or added value against cash (SONIA) or inflation (CPI).

Further details of the current investment objectives, strategy and structure are shown in **Appendix 5**.

5.4.2 Stewardship

The Fund is a signatory to the Principles for Responsible Investment (PRI) and has adopted the principles as its responsible investment policy. In addition, the Fund has developed a climate change strategy.

The Fund regularly reports on its stewardship activity and measures the progress of its stewardship policies in the following ways:

- Completion of PRI Assessments
- Submission of annual Stewardship Reports to the UK's Financial Reporting Council (FRC). These are assessed by the FRC and SPF has been named as a signatory to the UK Stewardship Code each year since its re-launch in 2021.
- Annual reporting of SPF's approach to climate risk using the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) Framework.
- Membership of the Paris Aligned Investment Initiative, which includes annual reporting of climate change related activity from 2023 onwards.

Section 6 – Business and Development Priorities

6.1 2024/25 Priorities

A review of the priorities listed in the 2024/25 business plan is included at **Appendix 6**. Progress has been very good. 10 of the 13 listed priorities are ranked green – with 5 of those complete or very nearly complete. 3 are ranked amber – of which 2 have experienced delays but are now complete. None is red.

6.2 2025/26 Priorities

A summary of SPFO's business and development priorities for 2025/26 is included at **Appendix 7**. These include completion of critical stages in ongoing projects such as the McCloud Remedy and Pensions Dashboard; and preparation for the next iteration of the Fund's triennial review cycle based around the actuarial valuation as at 31st March 2026.

6.3 SPF Committee

An agenda plan for SPF committee meetings is included at **Appendix 8**.

Strathclyde Pension Fund

Appendix 1

Policy Documents

Policy Document	Description
Funding Strategy Statement	Preparation and publication of the **FSS** is a regulatory requirement. The stated purpose is: ▪ to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward; ▪ to support the desirability of maintaining as nearly constant employer contribution rates as possible; and ▪ to take a prudent longer-term view of funding those liabilities. Update FSS guidance was published during 2024/25. **Last published: March 2024.** **Review: 2026/27 alongside actuarial valuation as at 31st March 2026.**
Statement of Investment Principles	Preparation and publication of the **SIP** is a regulatory requirement. The statement must cover policy on: ▪ the types of investments to be held; ▪ the balance between different types of investments; ▪ risk, including the ways in which risks are to be measured and managed; ▪ the expected return on investments; ▪ the realisation of investments; ▪ the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments; ▪ the exercise of the rights (including voting rights) attaching to investments, if (a fund) has any such policy; and ▪ stock lending. **Last published: March 2024.** **Review: 2026/27 as part of investment strategy review to be carried out alongside actuarial valuation as at 31st March 2026.**
Pension Administration Strategy	Preparation and publication of the **PAS** is a regulatory requirement. The PAS aims to ensure that: ▪ a high quality pension service is delivered to all scheme members; ▪ pension benefits are paid accurately and on time; ▪ successful working partnership develops between SPF and its employers; ▪ performance standards are understood and achieved; and ▪ performance and service delivery comply with the LGPS regulations, other related legislation and The Pensions Regulator's Code of Practice. **Last published: July 2023.** **Review: 2025/26.**
Communications Policy	Preparation and publication of the Communications Policy is a regulatory requirement. The

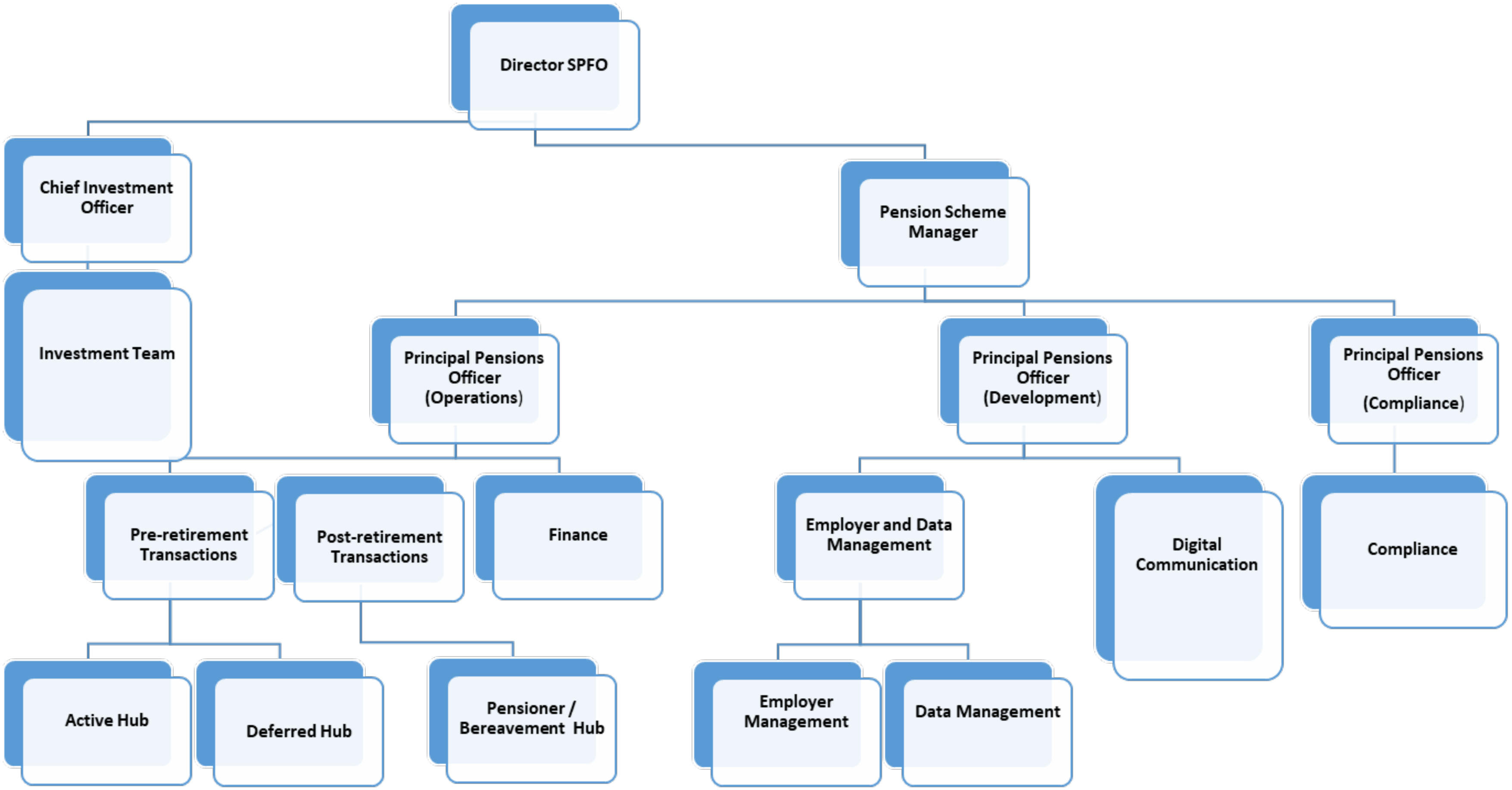
	statement must set out policy on: ▪ the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers; ▪ the format, frequency and method of distributing such information or publicity; and ▪ the promotion of the Scheme to prospective members and their employers. **Last published: April 2024.** **Review: 2027/28.**
Risk Policy & Strategy Statement	The Statement of Risk Policy & Strategy sets out a common basis for risk management across the funding, investment communications, and administration strategies. **Last published: March 2019.** **Review: 2024/25.**
Governance Compliance Statement	Preparation and publication of the **Governance Compliance Statement** is a regulatory requirement. The statement must set out : ▪ whether the authority delegates its functions, or part of its functions under the Regulations to a committee, a sub-committee or an officer of the authority; ▪ if the authority does so- • the terms, structure and operational procedures of the delegation; • the frequency of any committee or sub-committee meetings; • whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights; ▪ the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Scottish Ministers and, to the extent that it does not so comply, the reasons for not complying; and ▪ details of the terms, structure and operational procedures relating to the local pension board established under regulation 5 (pension boards) of the Governance Regulations. **Last published: June 2024 as part of 2023/24 Annual Report.** **Review: April/June 2025 as part of 2024/25 Annual Report.**

Appendix 2

10-Year Cash Flow Forecast

	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000	2030/31 £000	2031/32 £000	2032/33 £000	2033/34 £000	2034/35 £000
Pensions Transactions										
Income										
Employee Contributions	214,620	222,350	230,341	244,409	259,317	275,115	291,854	309,591	328,383	348,293
Employers Contributions	214,620	598,635	620,148	658,023	698,161	740,694	785,762	833,515	884,109	937,711
Strain on the Fund	34,490	35,421	36,377	37,359	38,368	39,404	40,468	41,561	42,683	43,835
Added Years	499	512	526	540	555	570	585	601	617	634
Transfer Values in	11,686	12,002	12,326	12,659	13,001	13,352	13,713	14,083	14,463	14,854
Other	177	182	187	192	197	202	207	213	219	225
Total Income	**476,092**	**869,102**	**899,905**	**953,182**	**1,009,599**	**1,069,337**	**1,132,589**	**1,199,564**	**1,270,474**	**1,345,552**
Expenditure										
Pensions Expenditure	700,309	747,534	797,784	851,250	908,133	968,647	1,033,020	1,101,493	1,174,324	1,251,785
Lump Sums	194,929	200,192	205,597	211,148	216,849	222,704	228,717	234,892	241,234	247,747
Death Gratuities	26,759	27,481	28,223	28,985	29,768	30,572	31,397	32,245	33,116	34,010
Refunds	1,755	1,802	1,851	1,901	1,952	2,005	2,059	2,115	2,172	2,231
Transfer Values out	20,541	21,096	21,666	22,251	22,852	23,469	24,103	24,754	25,422	26,108
Admin Costs	9,102	9,348	9,600	9,859	10,125	10,398	10,679	10,967	11,263	11,567
Total Expenditure	**953,395**	**1,007,453**	**1,064,721**	**1,125,394**	**1,189,679**	**1,257,795**	**1,329,975**	**1,406,466**	**1,487,531**	**1,573,448**
Total Movement	**-477,303**	**-138,351**	**-164,816**	**-172,212**	**-180,080**	**-188,458**	**-197,386**	**-206,902**	**-217,057**	**-227,896**
Investment Activity										
Bank Interest	8,650	7,500	7,000	4,550	4,550	4,550	4,550	4,550	4,550	4,550
Investment Income	406,140	426,447	447,769	470,157	493,665	518,349	544,266	571,479	588,624	606,282
Manager Fees	-38,053	-39,080	-40,135	-41,219	-42,332	-43,475	-44,649	-45,855	-47,093	-48,365
Net Investment Income	**376,737**	**394,867**	**414,634**	**433,488**	**455,883**	**479,424**	**504,167**	**530,174**	**546,081**	**562,467**
Total Net Movement	**-100,566**	**256,516**	**249,818**	**261,276**	**275,803**	**290,966**	**306,781**	**323,272**	**329,024**	**334,571**

SPFO Staffing Structure



KPI Definitions

Section	KPI	Definition
Digital Communications	Satisfaction Ratings • transactions • annual pension updates	Source: on completion of each refund or retiral transaction, the member is issued with an email with a link to a survey which if completed will return directly to SPFO. Returns are collated and reported to the Committee as well as being used internally to monitor and improve customer service quality. The survey asks the customer to rate the overall online process. It also provides an opportunity for feedback/improvements. Respondents are asked to rate the service on the following scale. 1. Very Poor 2. Fairly Poor 3. Average 4. Fairly Good 5. Very Good The KPI is the average rating from all correspondents for the overall process expressed as a percentage. Online survey respondents answering Very Easy or Fairly Easy to the question: *How wouldyou rate the following aspects of your update: i Content; ii Format?*
	www.spfo.org.uk • weekly visitors • unique weekly visitors	Source: Google Analytics Total number of individual occasions on which the website is accessed over the time period. The number of unduplicated (counted only once) visitors to the website over the course of a specified time period".
	SPFOnline	Source: *Altair* pensions system *SPFOnline* is a member self service portal. It provides members with direct, secure access to their own SPFO pensions record and allows them to:

Strathclyde Pension Fund

KPI Definitions

	▪ the total number of members who have completed the registration process and ▪ the total number of members who have logged in in the year per *Altair Insights*.	• check details held • amend contact details • estimate benefits • request information or calculations and • upload documents To use *SPFOnline* members need to obtain an activation key and complete a short online registration process. Source: figures provided by *Altair Insights*.
Employer & Data Management	• Membership figures	Source: figures provided by *Altair Insights*. Membership figures are based on posts, not individuals – so members with multiple posts may be counted several times. **Active members** are those currently paying contributions and accruing service. **Deferred members** are those who have previously contributed but no longer do so. Mostly these are members who will be paid a pension in due course, but the figure also includes some who are due a refund of contributions. **Pensioner members** are those currently in receipt of a pension. The figure includes previously active members and dependents.

Strathclyde Pension Fund

KPI Definitions

	• Data Quality • Submission of i-Connect returns	The Pensions Regulator provides the following definitions. **Common Data** are basic items which are used to identify scheme members, including surname, sex, national insurance number, postcode, date of birth, etc. **Scheme Specific (Conditional) Data** are items relating to the member's pension, including employer name, salary records, service history, contributions history, etc. *Altair* Insights allows SPFO to monitor Data Quality Scores in real time, and tests for those members in scope. Employers should submit regular electronic returns via i-Connect no later than the 19th of the month following the reporting period. A submission is considered complete when all expected payrolls have been fully processed for the reporting period. Submissions should identify all starters, leavers, salary, contribution and member data changes. The KPI is based on all employers and ,expressed as: no. of valid submissions/no. of expected submissions.
Pre-retirement Transactions	• Turnaround Times	Source: the Task Management and Performance measurement module of the *Altair* pensions system measures the period that elapses between a task first being logged to the system and finally closed as complete, minus any time when the task or queries on it have been referred to the employer or other external parties. The statutory deadline measures the period that elapses between a task first being logged to the system and finally closed as complete. For each process the internal KPI measures the total days taken by SPFO to complete each transaction in the period. The target is expressed as x% of transactions completed within a target time of y days. When measuring against the statutory deadline however, the target is expressed as x% of transactions completed before the statutory deadline has expired.
Compliance	• Complaints	Source: *Lagan,* Glasgow City Council's monitoring and recording system. Stage 1 complaints must be answered in 5 working days, Stage 2 complaints 20 working days. The

Strathclyde Pension Fund

KPI Definitions

		target measures the volume of complaints received against the actual average days it took to complete giving an overall percentage achieved. Number of upheld complaints expressed as a percentage of overall complaints received.
Finance	• Pensions payroll run on time	Source: RBS/BACS SPFO makes all monthly pensions payments via a single BACS pay run on 15th of each month (or previous business day where 15th is not a business day). The KPI measures whether or not the BACS payroll ran on the due date each month.
	• New retirals processed for due date	Source: *Altair* pensions system When a member retires, SPFO aims to ensure that, where the required notice period has been observed, they receive their first pensions payment on 15th of the month after the month of their retiral. The KPI measures the total incidence of this being achieved each month and is expressed as a percentage of total members retiring (excluding ill health retirals and retirals with AVCs involved).
	• Retiral lump sums paid on retirement date	Source: *Altair* pensions system When a member retires SPFO aims to ensure that, where the required notice period has been observed, they receive any retirement lump sum on the first day of their retirement – i.e. the day after their last day of employment. The KPI measures the total incidence of this being achieved each month and is expressed as a percentage of total members retiring (excluding ill health retirals and retirals with AVCs involved).
	• Deferred pensions processed for due date	Source: *Altair* pensions system When a deferred member elects to take their pensions and submits all relevant documentation, SPFO aims to ensure that they receive their first pensions payment on the 15th of the month after the member's election/retirement date. The KPI measures the total incidence of this being achieved each month and is expressed as a percentage of total members retiring (excluding ill health deferred medicals and members with AVC's)

Appendix 4

KPI Definitions

	• Deferred lump sum paid on due date	Source: *Altair* pensions system When a deferred member retires SPFO aims to pay any retirement lump sum within 5 days of the calculation being completed or for future deferred retirements within 5 days of the member's retirement date. The KPI measures the total incidence of this being achieved each month and is expressed as a percentage of total members retiring (excluding ill health deferred medicals and members with AVCs).
	• Contributions income received on due date	Source: SPFO Bank account/ SAP ledger system All member and employer contributions should be credited to SPFO's bank account by 19th of month following that in which the member contributions were deducted. The KPI measures the total contributions by value received on time and is expressed as a percentage.
Investments	• Total Return *v* Benchmark Return	Source: the Fund's global custodian, Northern Trust, is responsible for independent performance measurement and provides detailed quarterly reports on all aspects of investment performance based primarily on data from the assets held in custody by them. Total return is measured as the increase or decrease in the total value of investments as a result of income received together with realised or unrealised gains in the market value of the investment, expressed as a percentage of the value of the investment at the start of the measurement period. The benchmark return is the total return on a defined market index or combination of indices. The KPI measures total return for the Fund or the portfolio compared with the strategic benchmark or portfolio benchmark return.
Business & Development Priorities	(Red)	Significant issues or delays mean that item may not be completed as envisaged.
	(Amber)	Some issues or delays but item will be completed largely as envisaged.
	(Green)	No material issues or delays.

Strathclyde Pension Fund

Appendix 5

Investment Objectives, Strategy & Structure
2024 allocation by manager and mandate type

Asset Category / Mandate Type	Manager	Target (%)	Benchmark
Equity		**47.0**	
Passive	**L&G Global**	**13.9**	Low carbon index composite
	L&G RAFI	**4.1**	RAFI Low Carbon Index
U/c Global	**Baillie Gifford**	**7.5**	MSCI All Countries World index
	Lazard	**2.5**	MSCI All Countries World index
	Veritas	**2.5**	MSCI All Countries World index
	Oldfield	**2.5**	MSCI All Countries World index
Specialist	**Lombard Odier**	**1.0**	Specialist smaller companies index
	JP Morgan	**3.0**	Regional smaller co. indices
	RBC/ Fidelity	**2.0**	MSCI Emerging Markets Index
Private Equity	**Pantheon / PG**	**7.5**	MSCI All Countries World index +5%
DIP Equity	**Various**	**0.5**	CPI +3%
Hedging/Insurance		**10**	
Passive I/L	**UK Index Linked**	**5.0**	FTSE Index Linked over 5 Years
	UK Gilts	**5.0**	FTSE All Stocks
Credit		**5**	
Passive Credit	**L&G Corporate**	**2.5**	Low carbon UK/US indices
	L&G Buy&Maintain	**2.5**	Iboxx Sterling Non Gilts 5+ Index
STEY		**17**	
Absolute Return	**PIMCO**	**4.0**	SONIA +3.25%
	Ruffer	**2.0**	SONIA+3%
Multi Asset Credit	**Barings**	**2.25**	SONIA+4%
	Oak Hill	**1.75**	SONIA +4%
Private Debt	**Barings**	**1.75**	SONIA +4%
	Partners Group	**1.0**	SONIA +4%
	Pantheon	**0.75**	SONIA +4%
	ICG Longbow	**1.0**	SONIA +4%
DIP STEY	**Various**	**1.5**	CPI +3%
Cash	**Northern Trust**	**1.0**	SONIA
LTEY		**21**	
Property	**DTZ**	**9.0**	IPD Quarterly Universe
	Partners Group	**2.0**	8% p.a. absolute return (£ adjusted)
Infrastructure	**JP Morgan**	**4.5**	8% p.a. absolute return
DIP LTEY	**Various**	**5.5**	CPI +3%
Total		**100**	

Appendix 6

Review of 2024/25 Business & Development Priorities

Item	Description	Timetable/ Actions/ Progress	RAG Status
Governance			
Risk Policy	Review SPF risk policy.	Originally due to complete by December 2024. Delayed to March 2025 for SPF Committee approval.	**Complete**
TPR GCoP	Review new TPR General Code of Practice in order to ensure SPFO compliance.	Compliance checker purchased from Hymans Robertson, and used for gap analysis. Briefing, and report on outcomes and actions delivered to SPF Committee at September meeting. Internal audit to review and report by June 2025.	**Complete**
Pensions Administration			
Pensions Dashboard	Preparation for launch of the Dashboard including ensuring compliance with the data specification and connection, security and technical standards.	Heywood signed off as Integrated Service Provider for SPFO. Dashboard dashboard now part of *Altair Insights.* Timing agreed as Phase I (Testing) for 5 weeks from Feb 2025. Phase II (Connection) June 2025. Statutory deadline for LGPS September 2025. Public access and Dashboard project go-live 2026.	**In progress**
McCloud Remediation	Implementation phase of McCloud remedy to address age discrimination in the LGPS 2015 transitional protections.	Regulations in place from late 2023. Guidance published during 2024. Finalisation of Remedy Period data for all members in scope (c.65,000) completed at 2023/24 year end. Ongoing checking of McCloud impact for deferred and active members now business as usual. c.400 payment revisions for current pensioners to be processed by March 2025. Content of benefit statements to be reviewed in 2025. Payment revisions for other statuses (transfers out, deaths) to be progressed during 2025/26.	**In progress**

Strathclyde Pension Fund

Appendix 6

Review of 2024/25 Business & Development Priorities

Item	Description	Timetable/ Actions/ Progress	RAG Status
Data Services	Review of member data services arrangements and contract.	Tender for new contract issued in July. Abandoned in August due to multiple issues with bids received and award criteria. Re-issued on revised basis in late September and award to Heywood approved at November committee. Implementation in progress.	**Complete**
ICT Arrangements	Review arrangements including hosting arrangements and Heywood contract(s) in light of GCC Future of ICT project.	Aim to achieve clarity on future arrangements by March 2025. Heywood contract expected to be extended. SPF has completed positive appraisal of benefits of Heywood hosting, based on information from other LGPS funds, but clarification of costs and contractual arrangements is still required from SIIT/CGI. Neither party has been responsive.	**In Progress**
Investments			
Investment Strategy and Structure	Implement changes agreed as part of 2023 review.	Main strategic changes, including passive equity transition to climate transition indices, equity reduction, and switch to gilts completed early in year. Corporate bond switch to buy and hold complete. RBC appointed for emerging markets equity mandate, now funded to initial allocation target. Corporate bond switch to low carbon transition index expected to complete by March. Work ongoing on liquidation of Fidelity emerging markets holding.	**Largely complete**
DIP	Review of Direct Impact Portfolio strategy and structure.	Final report approved at November meeting of SPF Committee. Main recommendations: an increase in target size from 5% to 7.5% of total assets; and an increased return requirement – minimum 6.5% p.a.	**Complete**
TCFDs	Preparation for publication of revised Climate-related Financial Disclosures	Regulation/guidance awaited but unlikely to be issued for 2024/25 year end. Revised NZIF being reviewed meantime.	**Ongoing**

Strathclyde Pension Fund

Appendix 6

Review of 2024/25 Business & Development Priorities

Item	Description	Timetable/ Actions/ Progress	RAG Status
Communications			
SPF 50	Preparations for SPF 50th anniversary in 2025 including key messages, re-branding, and communications deliverables.	Bright Signals appointed in January to provide design support including new branding and deliverables. Phase 1 - branding - to complete by March. Phase 2 - deliverables by end April.	**In progress**
Emerging Priorities			
SFRS Consolidation	Scottish Fire and Rescue Service will consolidate its Scottish LGPS membership from 8 funds into one - SPF.	Hymans Robertson providing project oversight. Transfer planned in 2 tranches. Tranche 1 completed successfully in November/December. Tranche 2 to complete in February/March.	**Complete**
Annual Report	New guidance on LGPS annual reports published during year and adopted by Scheme Advisory Board in Scotland.	SPF compliance reviewed with a view to adopting as far as possible starting with 2024/25 annual report. Entails additional data gathering and reporting, in particular in respect of administration KPIs. Priority KPIs for year 1 and 2 to be set out in 2024/25 Business Plan.	**In Progress**
Member Self Service	Migration to new *Heywood Engage* platform.	Current platform will no longer be supported after 2025. Targeting transfer and go-live in March/April 2025.	**In Progress**

Strathclyde Pension Fund

2025/26 Business & Development Priorities

Item	Description	Actions/ Outcomes/ Estimated Timetable
Governance		
Actuarial Valuation 2026	Planning and preparation for the statutory triennial valuation as at 31st March 2026.	Review data quality. Draft plan for completion of valuation within 12 month regulatory timescale. Preliminary discussion of funding strategy. Complete preparation by March 2026.
Assurance Mapping	Develop Assurance Mapping for SPF as part of Risk Strategy.	Map current risk register. Complete by March 2026.
Pensions Administration		
Pensions Dashboard	The Pensions Dashboards is a UK-wide initiative to provide clear and simple information to individuals who have multiple pension savings, including their State Pension. Deadline for LGPS connection is September 2025.	Complete testing phase by April to ensure data readiness and technical compliance. Connect with Dashboard ecosystem ahead of the statutory deadline for LGPS of September 2025. Preparation and planning for public access go-live in October 2026 including agreeing matching criteria, protocols, and response processes.
McCloud Remedy	Final phase of McCloud Remedy to address and remove age discrimination in the LGPS 2015 transitional protections.	Content of annual benefit statements in respect of McCloud impact to be reviewed ahead 2025 issue. Complete payment revisions for “other” (non-pensioner) statuses (transfers out, deaths, etc.) during 2025/26.
ICT Arrangements	Migration of Altair pensions system to cloud-based solution hosted by Heywood.	Go/no-go decision by September. Remainder of timetable subject to SIIT/CGI agreement.
Pension Administration Strategy (PAS)	Triennial review of PAS.	Review and re-draft by November. Statutory consultation on draft. Agree and publish final PAS by March 2026.

Strathclyde Pension Fund

Appendix 7

2025/26 Business & Development Priorities

Item	Description	Actions/ Outcomes/ Estimated Timetable
Investments		
Climate Action Plan	Review of SPF Climate Action Plan agreed in 2023.	Review to include: progress to date; revised Net Zero Investment Framework "NZIF 2.0" published during 2024; TCFDs; TNFDs; future alignment and targets. Complete by March 2026.
Investment Strategy and Structure	Preparation for review in line with 2026 actuarial valuation.	To include: consideration of multiple/alternative investment strategies for employers; outcomes of review of SPF CAP (see above); agree priorities and plan for 2025/26 review. Complete by March 2026.
Communications		
SPF 50	May 2025 marks 50th anniversary of SPF's creation in 1975.	To include: rebranding, publication(s) celebratory event(s). Ongoing throughout 2025.

Strathclyde Pension Fund

Appendix 8

Committee Agenda Plan

<u>26th June 2025</u>	<u>10th September 2025*</u>	<u>26th November 2025</u>	<u>March 2026</u>
Training: Global custody and securities servicing – Northern Trust.	**Training:** ESG, stewardship and climate solutions – Sustainalytics.	**Training:** Tbc – LGIM.	**Training:** tbc
<u>Items for Approval</u>	**<u>Items for Approval</u>**	**<u>Items for Approval</u>**	**<u>Items for Approval</u>**
DIP: tbc	DIP: tbc	DIP: tbc	DIP: tbc
Unaudited Annual Report	Annual Audit Report* Audited Annual Report*		Climate Action Plan - review
Training Policy, Practice & Plan			2026/27 Business Plan
		Pension Administration Strategy - Draft	Pension Administration strategy – Final
Internal audit reports and annual report	Internal audit reports	Internal audit reports	Internal audit plan and reports
<u>Items for Noting</u> Gifts and Hospitality Register	**<u>Items for Noting</u>** Investment Update	**<u>Items for Noting</u>** Investment Update	**<u>Items for Noting</u>** Investment Update
	Administration Update	Administration Update	Administration Update
	Finance Update	Finance Update	Finance Update
	Business plan update		Annual Audit Plan 2025/26
	Risk Register	Risk Register	Risk Register
Funding Update	Funding Update	Funding Update	Funding Update

* a separate meeting may be required to receive the Annual Audit Report and approve the audited Annual Report and Financial Statements depending on audit timetable.

Strathclyde Pension Fund

Email: spfo@glasgow.gov.uk

Tel: 0345 890 8999

Website: www.spfo.org.uk

Local Government Pension Scheme

Glasgow City Council

Strathclyde Pension Fund Committee

Report by Head of Audit and Inspection

Contact: Duncan Black Ext: 74053

Item 6(a)

19th March 2025

GLOBAL INTERNAL AUDIT STANDARDS AND UPDATED AUDIT CHARTER

Purpose of Report:

To provide the Committee with an overview of the approach to ensuring compliance with the new Global Internal Audit Standards in the UK Public Sector (GIAS) during 2025/26.

The report includes an update to the Internal Audit Charter at Appendix 1, including a new Mandate section as required by the GIAS.

Recommendations:

Members are asked to NOTE the contents of the report and APPROVE the updated Internal Audit Mandate and Charter (at Appendix 1).

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

Global Internal Audit Standards

1.1 From 1 April 2025 Internal Audit teams in the UK will be working to new professional standards. These will be a combination of the Global Internal Audit Standards (GIAS) and the Application Note "Global Internal Audit Standards in the UK Public Sector". For Local Authorities, the Code of Practice on the Governance of Internal Audit should also be used to interpret some of the essential conditions in the new standards.

1.2 Whilst 1 April 2025 is the effective date for the new standards, Internal Audit teams will not be required to demonstrate full compliance on this date. They must work in accordance with the new standards from 1 April in order to build up their conformance.

1.3 The move to the new standards is a significant change for Internal Audit, requiring an update to the Internal Audit Charter and certain ways of working. In turn this will require amendments to the Internal Audit manual and additional training for team members. The updated Internal Audit Charter is provided at Appendix 1 for approval and includes a new Mandate section as required by the GIAS and UK Application Note.

1.4 Internal Audit is currently undertaking a gap analysis, comparing the current ways of working under the existing Public Sector Internal Audit Standards (PSIAS) to the new GIAS. This will then enable a detailed action plan to be prepared, outlining all the required steps to achieve compliance. A report will be brought back to the June Committee outlining progress against these actions, including any other updated standing documents.

1.5 The GIAS will also require close engagement with Council and Strathclyde Pension Fund (SPF) management. The Chief Internal Auditor will therefore attend the Council CMT and the SPF management team to discuss the changes in more detail and agree changes to the ways of working with management under the new arrangements.

1.6 To achieve conformance with the standards, the SPF will need to demonstrate that all aspects of the standards are met, including the governance of Internal Audit. This covers the oversight and support for Internal Audit from the SPF committee and senior management. The GIAS include requirements more specific to other sectors. Therefore to assist local government bodies achieve conformance, as noted at 1.1, CIPFA has introduced a new Code of Practice on the Governance of Internal Audit in Local Government. The Code is aimed at those responsible for ensuring effective governance for Internal Audit, including the committee and senior management. Much of the Code brings together existing good practice as per existing CIPFA guidance and so will not require significant change. However, the Code will be included in the gap analysis mentioned at 1.4 and will feature in the 2025/26 SPF Annual Governance Statement and Internal Audit quality assessments.

2. 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?	Not applicable
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?	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

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	Not applicable

3. Recommendations

3.1 Members are asked to note the contents of the report and approve the updated Internal Audit Mandate and Charter (at Appendix 1).

INTERNAL AUDIT CHARTER

Presented to Strathclyde Pension Fund Committee: March 2025
Next Review Date: March 2026

1. Introduction

1.1 The Local Authority Accounts (Scotland) Regulations 2014 make it a statutory requirement for a local authority to operate a professional objective internal auditing service. Section 95 of the Local Government (Scotland) Act 1973 specifies that all Scottish Councils are required to have in place arrangements for ensuring propriety, regularity and best value in their stewardship of public funds.

1.2 The authority for setting professional standards for internal audit in the UK public sector rests with the Relevant Internal Audit Standard Setters (RIASS). The RIASS have determined that the Global Internal Audit Standards (GIAS), issued by the Institute for Internal Auditors (IIA), are a suitable basis for the practice of internal auditing in the UK public sector, subject to interpretations and requirements set out in the Application Note "Global Internal Audit Standards in the UK Public Sector". For UK Local Authorities, the Code of Practice on the Governance of Internal Audit should also be used to interpret some of the essential conditions in the new standards.

1.3 The GIAS require the Chief Audit Executive (CAE) to implement and maintain an Internal Audit Charter that sets out the purpose, position and scope of Internal Audit in the organisation. The Charter is reviewed and approved annually by the Senior Management Team, and the Strathclyde Pension Fund Committee.

2. Purpose

2.1 In line with the GIAS, the purpose of Internal Audit is to strengthen the Pension Fund's ability to create, protect and sustain value by providing the Pension Fund and management with independent, risk-based and objective assurance, advice, insight and foresight.

2.2 The GIAS also set out that Internal Audit is most effective when:

- Internal Audit is performed by competent professionals in conformance with the GIAS (UK Public Sector);
- The Internal Audit function is independently positioned with direct accountability to the Committee; and
- Internal Auditors are free from undue influence and committed to making objective assessments.

2.3 Internal Audit assurance is provided by delivering an annual programme of audit work that independently and objectively assesses the design and effectiveness of the controls established to manage the Pension Fund's most significant risks. The scope of Internal Audit covers all activities across the Pension Fund.

2.4 The CAE will report annually to the Pension Fund Committee and senior management on the function's conformance with the GIAS (UK Public Sector), which will be assessed through a quality assurance and improvement programme.

2.5 In addition to their primary role, the CAE will also support management and the Council's Section 95 Officer in undertaking their duties. The CAE will also advise on the control implications of system or process changes; assist management in their duties to prevent and detect fraud and corruption; and aim to add value to the Pension Fund in all its undertakings.

3. Internal Audit Mandate

3.1 The authority for Internal Audit is derived from the Local Authority Accounts (Scotland) Regulations 2014. The mandate sets out the authority, roles and responsibilities, and empowers the Internal Audit function to provide the Pension Fund Committee and senior management with independent, risk-based, and objective assurance, advice, insight, and foresight.

3.2 The Internal Audit function's authority is created by its direct reporting relationship to the Committee. Such authority allows for unrestricted access to the Committee. This authorises the Internal Audit function to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out Internal Audit responsibilities.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
- Obtain assistance from the necessary personnel of the Pension Fund, and services from within or outside the Pension Fund to complete internal audit services.

3.3 The GIAS set out the duty on internal auditors to be faithful custodians of the information they gather, sharing only in limited, defined and controlled ways, and describes the need for awareness of responsibilities in protecting information and demonstrating respect for the confidentiality, privacy and ownership of information.

3.4 In line with the GIAS (UK Public Sector) internal auditors must also be aware of circumstances under which sharing or publication of information will be required. They must be aware of their organisation's policies and procedures for routine publication of certain information and where there are statutory obligations to share or publish information, for example Freedom of Information requirements.

4. Definitions

4.1 The following definitions have been adopted as set out in the GIAS 2024 Glossary:

Internal Audit	*An independent, objective assurance and advisory service designed to add value and improve an organisation's operations. It helps an organisation establish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.*
Assurance services	*Services through which internal auditors perform objective assessments to provide assurance. The nature and scope of assurance services are determined by Internal Audit.*
Advisory services	*Services through which internal auditors provide advice to an organisation's stakeholders without providing assurance or taking on management responsibilities. The nature and scope of advisory services are subject to agreement with relevant stakeholders.*
Independence	*Freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.*

5. Independence, Position and Reporting Relationships

5.1 The GIAS state that the CAE should be positioned at a level in the organisation that enables Internal Audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the Internal Audit function.

5.2 The CAE reports functionally to the Pension Fund Committee and administratively (for example, day-to-day operations) to the Section 95 Officer and the Management Team. This positioning provides the organisational authority and status to bring matters directly to senior management and escalate matters to the Pension Fund Committee, when necessary, without interference and supports the internal auditors' ability to maintain objectivity.

5.3 The CAE is required to confirm to the Pension Fund Committee, at least annually, the organisational independence of the Internal Audit function. If the governance structure does not support organisational independence, the CAE must document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence. The CAE must disclose to the Pension Fund Committee any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the Internal Audit function's effectiveness and ability to fulfil its mandate.

5.4 To ensure that Internal Audit independence and objectivity is maintained for assurance services, Internal Audit will remain free from interference from anyone within the Pension Fund in relation to audit selection, scope, procedures, frequency, timing, and report content.

5.5 Where Internal Audit also has responsibility for non-audit activities, the GIAS require that appropriate arrangements are established to avoid conflicts of interest. Additionally, Internal Audit will not be permitted to audit any activities for which they have previously been responsible within a period of one year and will not engage in any other activity that may impair judgment or independence.

5.6 For advisory / 'critical friend' services, the Internal Audit role will be specifically restricted to providing guidance, views, and opinions. To comply with independence requirements, Internal Audit will not be involved in any aspects of operational decisions subsequently taken by management

6. Internal Audit Authority and Oversight

6.1 To establish, maintain, and ensure that Internal Audit function has sufficient authority to fulfil its duties, the Pension Fund Committee will give consideration to the following requirements for review and approval.

GIAS requirement regarding authority and oversight	Review	Approve [1]
Consider, with the CAE and senior management, the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the Internal Audit function.	X	
Ensure the CAE has unrestricted access to and communicates and interacts directly with the Pension Fund Committee, including in private meetings without senior management present.	X	
Consider with the CAE and senior management any other topics that should be included in the Internal Audit charter.	X	
Participate in discussions with the CAE and senior management about the 'essential conditions' described in the GIAS which establish the foundation that enables an effective Internal Audit function.	X	
Approve the Internal Audit charter, which includes the internal audit mandate and the scope and types of Internal Audit services.		X
Review and approve the Internal Audit charter annually, specifically considering changes affecting the organisation, such as changes in the type, severity, and interdependencies of risks.	X	X
Approve the risk-based Internal Audit plan.	X	X
Review the Internal Audit function's budget and other resources.	X	
Provide input to senior management on the appointment and removal of the CAE, ensuring adequate	X	

[1] (or recommend approval to the appropriate decision making corporate body)

GIAS requirement regarding authority and oversight	Review	Approve [1]
competencies and qualifications and conformance with the GIAS (UK Public Sector).		
Review and provide input to senior management on the CAE's performance.	X	
Receive communications from the CAE about the Internal Audit function including its performance relative to its plan.	X	
Ensure a Quality Assurance and Improvement Programme (QAIP) has been established and review the results annually.	X	
Make appropriate inquiries of senior management and the CAE to determine whether scope or resource limitations are inappropriate.	X	

6.2 The Pension Fund Committee, CAE and Senior Management will ensure that Internal Audit at all times:

- Has unrestricted access to all Pension Fund records, cash, property, assets and people, where necessary on demand and without prior notice;
- Can obtain explanations as is required to satisfy the probity of any matter under consideration;
- Can require the production of any records and other such property as is deemed necessary.

6.3 All senior officers must report to the CAE at the earliest opportunity all actual or perceived losses (cash, stock, equipment or data), all suspected or actual instances of theft, embezzlement, fraud, corruption or any other impropriety.

7. Internal Audit Objectives and Responsibilities

7.1 Ethics and Professionalism

The CAE will ensure that internal auditors:

- conform with the GIAS (UK Public Sector) including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, confidentiality and the Nolan Seven Principles of Public Life;

- understand, respect, meet, and contribute to the legitimate and ethical expectations of the Pension Fund and can recognise conduct that is contrary to those expectations;
- encourage and promote an ethics-based culture in the Pension Fund; and
- report organisational behaviour that is inconsistent with the Pension Fund's ethical expectations, as described in applicable policies and procedures.

7.2 Objectivity

The CAE will ensure that the Internal Audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the CAE determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

- assessing specific operations for which they had responsibility within the previous year;
- performing operational duties for the Pension Fund;
- initiating or approving transactions external to the Internal Audit function;
- directing the activities of any employee that is not employed by the Internal Audit function, except to the extent that such employees have been appropriately assigned to Internal Audit teams or to assist internal auditors.

Internal auditors will:

- disclose impairments of independence or objectivity, in fact or appearance, to the CAE as soon as possible;
- exhibit professional objectivity in gathering, evaluating, and communicating information;
- make balanced assessments of all available and relevant facts and circumstances; and
- take necessary precautions to avoid conflicts of interest, bias, and undue influence.

The CAE will disclose impairments of independence or objectivity to the Pension Fund Committee at least annually.

7.3 Managing the Internal Audit Function

The CAE has the responsibility to:

- at least annually, develop a risk-based Internal Audit plan that considers the input of the Pension Fund Committee, and senior management;
- discuss the plan with the Pension Fund Committee and senior management and submit the plan to the Pension Fund Committee for review and approval;
- communicate the impact of resource limitations on the Internal Audit plan to the Pension Fund Committee and senior management;
- review and adjust the Internal Audit plan, as necessary, in response to changes in the Pension Fund's business, risks, operations, programmes, systems, and controls;
- communicate with the Pension Fund Committee and senior management if there are significant interim changes to the plan;
- ensure Internal Audit engagements are performed, documented, and communicated in accordance with the GIAS;
- follow up on audit findings and confirm the implementation of significant recommendations or action plans and communicate the results of Internal Audit services to the Pension Fund Committee and senior management, and for each audit as appropriate;
- ensure the Internal Audit function collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the GIAS and fulfil the Internal Audit mandate;
- identify and consider trends and emerging issues that could impact the Pension Fund, and communicate these to the Pension Fund Committee and senior management as appropriate;
- consider emerging trends and successful practices in internal auditing;
- establish and ensure adherence to methodologies designed to guide the Internal Audit function;
- ensure adherence to the Pension Fund's relevant policies and procedures unless such policies and procedures conflict with the Internal Audit Charter or GIAS. Any such conflicts will be resolved or documented and communicated to the Pension Fund Committee and senior management; and
- coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the CAE cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the Pension Fund Committee.

7.4 Communication with the Pension Fund Committee and Senior Management

The CAE will report to the Pension Fund Committee and senior management on:

- the Internal Audit function's mandate;

- the Internal Audit plan and performance;
- Internal Audit resources;
- significant revisions to the Internal Audit plan and resources;
- potential impairments to independence, including relevant disclosures as applicable;
- results from the QAIP, which include the Internal Audit function's conformance with the GIAS (UK Public Sector) and action plans to address the Internal Audit function's deficiencies and opportunities for improvement;
- significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the Pension Fund Committee that could interfere with the achievement of the Fund's strategic objectives;
- outcomes of assurance and advisory services;
- management's responses to risk that the Internal Audit function determines may be unacceptable, or acceptance of a risk that is beyond the Pension Fund's risk appetite.

8. Management Responsibilities

8.1 Management will cooperate with Internal Audit on audits and provide access to records, systems and personnel as required within a reasonable timeframe following the request.

8.2 Assurance engagements will be subject to a written terms of reference and report. Advisory and agile engagements will be agreed in writing (for example via email or written terms of reference) and a relevant output agreed (for example full report/summary findings, focused feedback or an action plan). Management will nominate a senior point of contact for each engagement.

8.3 All fieldwork will conclude with a clearance meeting where Internal Audit will brief the key contact(s) on the emerging findings. Draft reports will be shared with management for agreement as to the factual accuracy of draft findings raised, and understanding of Internal Audit recommendations designed to address the control weaknesses identified.

8.4 It is management's responsibility to agree to either:

- accept and fully implement all Internal Audit recommendations;
- agree to address the risks identified by adopting an alternative approach to that recommended by Internal Audit; or
- accept the risk associated with not implementing Internal Audit recommendations with supporting rationale.

8.5 When a draft audit report is delivered, management are required to agree to the recommendations in the action plan, including specifying officer responsibility and anticipated dates for the implementation. Internal Audit will consider the timeliness of implementation dates according to the associated risk level identified.

8.6 Management is responsible for ensuring that agreed management actions are implemented in full and effectively sustained.

8.7 The GIAS require the CAE to report to both senior management and the Pension Fund Committee, details of management's response to risk that (based on the CAE's judgement) may be unacceptable to the Pension Fund. Consequently, any Internal Audit findings where management has accepted the risk will be highlighted in Internal Audit reports.

9. Scope and Types of Internal Audit Services

9.1 The scope of Internal Audit services covers the entire breadth of the Pension Fund. The scope includes all functions, activities, assets, data, projects and personnel.

9.2 The scope of Internal Audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the Pension Fund Committee and management on the adequacy and effectiveness of governance, risk management, and control processes for the Pension Fund.

9.3 The nature and scope of any advisory services will be agreed with the party requesting the service, provided the internal audit function does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management.

9.4 Internal Audit engagements may include evaluating whether:

- risks relating to the achievement of the Pension Fund's strategic objectives are appropriately identified and managed;
- the actions of officers, directors, management, employees, and contractors or other relevant parties comply with the Pension Fund and Council's policies, procedures, and applicable laws, regulations, and governance standards;
- the results of operations and projects/programmes are consistent with established goals and objectives;
- operations and projects/programmes are being carried out effectively, efficiently, ethically, and equitably;
- established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Pension Fund;

- fraud risks are being managed effectively;
- the integrity of information and the means used to identify, measure, analyse, classify, and report such information is reliable; and
- resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.

10. Internal Audit Plan

10.1 The CAE will submit an annual Internal Audit Plan to the Pension Fund Committee for review and approval which is designed to support provision of an evidence-based annual opinion. This Plan will be developed, based on a risk-based prioritisation of the audit universe. The CAE will seek input from a range of key stakeholders including Pension Fund Committee Members, the Director of Pensions, Section 95 officer and senior management.

10.2 The nature of evolving risks makes it likely that the audit assignments included in the work programme may be subject to change. Consequently, the Internal Audit Plan will be subject to regular review by the CAE and any proposed changes to the approved plan (due to emerging risks and issues) will be approved by both senior management and the Pension Fund Committee.

10.3 The GIAS (UK Public Sector) requires the CAE to coordinate with internal and external assurance providers to consider relying on their work and minimise duplication of effort.

10.4 The GIAS (UK Public sector) recognises that there are various relevant outside assurance providers whose authority flows from separate legal or regulatory sources beyond the control or influence of the CAE, and they may not have any ability to access the work of those assurance providers or gain insight into the scope and timing of their work. Under these circumstances the CAE must consider whether it is possible or practical to co-ordinate. Where they do not co-ordinate, they must set out to the Committee the barriers which prevent effective co-ordination.

10.5 Where adopted, a consistent process for the basis of reliance should be established as, where reliance is placed on the work of others, the CAE remains accountable and responsible for ensuring that there is adequate support for conclusions and opinions reached where reliance has been placed on work performed by other assurance providers.

10.6 Therefore, when dealing with an external party, Internal Audit will clearly define the respective roles, responsibilities, and other expectations (including restrictions on distribution of results of the engagement and access to engagement records).

10.7 Internal Audit also reserves the right to raise findings on areas that have not been specifically included in the Plan where significant or systemic control gaps are evident.

11. Resourcing

11.1 The GIAS (UK Public Sector) requires the CAE to effectively deploy and manage financial, human and technological resources to implement the Internal Audit strategy and achieve its plan and mandate. The Application Note: Global Internal Audit Standards in the UK Public Sector notes that funding processes for Internal Audit functions in the public sector vary and may prevent the CAE from being able to seek or obtain additional funding due to other funding priorities within the organisation. This may impact the way in which the CAE uses resources. In line with the GIAS (UK Public Sector) the basis for conformance is as follows:

- where there are constraints on resources, the CAE must develop a resource strategy which suggests practical approaches for consideration by the relevant Committee;
- the CAE must inform the Committee of the impact of insufficient resources and any options available to mitigate that impact; and
- where there are constraints, the CAE must set out what alternative approaches apply to the Internal Audit service, and then seek to manage financial, human and IT resources within those constraints.

11.2 The CAE must inform the Committee of any resource management arrangements at the organisation that may put at risk the ability of the internal audit function to fulfil its mandate.

11.3 The Internal Audit Plan will include the budgeted resource requirements needed to deliver proposed audit engagements. It will also include a contingency to address unplanned work. Should circumstances arise during the year that suggests that available resource levels will fall or appear to be falling below the level required to deliver the Plan, the CAE will communicate the impact of resource limitations to senior management and the Pension Fund Committee.

12. Prevention and Detection of Fraud and Corruption

12.1 Pension Fund Management is responsible for the prevention and detection of fraud or corruption. Internal Audit will assist management in the discharge of this responsibility. Audit procedures alone cannot guarantee that all fraud or corruption will be detected. Internal Audit will, however, exercise an appropriate level of professional scepticism during audit work and be alert to risks and exposures that could allow the opportunity for fraud or corruption to occur.

12.2 Discovery of any suspected or actual fraud or irregularity that affects the Pension Fund should be reported immediately to the CAE and information on suspected or actual fraud may inform the annual audit opinion and the risk-based Internal Audit work programme. The CAE may then direct Internal Audit resources to investigate, or assist management investigations, into suspected and actual cases.

13. Follow-Up of Agreed Audit Actions

13.1 It is Management's responsibility to implement agreed audit actions. Internal Audit will follow up and report progress with implementation of agreed management actions to support closure of findings raised on a regular basis and seek to confirm that they have been undertaken within agreed timescales.

13.2 The follow up process involves review of evidence provided by management to support implementation of agreed management actions, and proportionate re-performance testing to confirm that they have been effectively implemented and sustained.

13.3 If, following initial agreement to implement an agreed management action, management subsequently decide to risk accept either the full or partial risks associated with a recommendation, a risk acceptance proforma should be completed by management which details the mitigating actions and residual risks. Internal Audit will then process the closure as 'Closed – Management Accepts Risk' and all risk acceptances will be reported to the Pension Fund Committee within the Follow Up report.

14. Quality Assurance and Improvement Programme (QAIP)

14.1 The CAE is responsible for ensuring the quality of audit work and that the Internal Audit function is continuously seeking improvement. The GIAS (UK Public Sector) defines quality as a combined measure of conformance with the GIAS and achievement of the Internal Audit function's performance objectives.

14.2 The CAE will develop, implement, and maintain a Quality Assurance & Improvement Programme (QAIP) that covers all aspects of the Internal Audit function. The QAIP will include external and internal assessments of the function's conformance with the GIAS (UK Public Sector), as well as performance measurement to assess the Internal Audit function's progress towards achievement of its objectives and promotion of continuous improvement. If applicable, the assessment must include plans to address the function's deficiencies and opportunities for improvement.

14.3 The CAE will report annually to the Pension Fund Committee and senior management on progress with the QAIP, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments.

14.4 External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Council, whose qualifications must meet the requirements set out in the GIAS (UK Public Sector).

14.5 Compliance with the CIPFA Code of Practice for the Governance of Internal Audit in Local Government must also be reflected in internal and external quality assessments.

15. Annual Reporting and Overall Conclusion

15.1 In line with the GIAS (UK Public Sector) the CAE must, at least annually:

- conclude on the overall adequacy and effectiveness of the Pension Fund's framework of governance, risk management and control (annual opinion); and
- include a statement on conformance with the GIAS (UK Public Sector) and the results of the QAIP.

15.2 The annual opinion for the Pension Fund is based on the outcomes of the audits included in the Internal Audit Plan, progress in addressing any prior year significant issues, progress with implementation of agreed management actions, the result of any other Internal Audit activities that have identified control gaps exposing the Pension Fund to risk, and the professional judgement of the CAE.

16. Communication and Reporting

16.1 The CAE will report regularly to the Pension Fund Committee on the progress with, and results of its work enabling review and scrutiny as summarised below.

Report	Frequency
Internal Audit Charter	Annually (March/April)
Internal Audit Strategy and Annual Plan	Annually (March / April)
Internal Audit Assurance reports, other Internal Audit activity reports and Follow-Up reports	At least quarterly
Proposed material changes to the Internal Audit Plan	At least six-monthly
Internal Audit Annual Report and Opinion, including: • effectiveness of the governance, risk management and control framework; • Internal Audit independence; and	Annually (June)

Report	Frequency
• conformance with the GIAS (UK Public Sector) including ethics and professionalism requirements.	
Internal Audit Quality reporting, including: • results of internal assessments; • progress of corrective action plans; and • compliance with CIPFA Code of Practice for the Governance of Internal Audit in Local Government.	Annually
External Quality Assessments	5-yearly

17. Approval and Changes to the Internal Audit Mandate and Charter

17.1 The Internal Audit Charter is subject to approval by the Pension Fund Committee and Section 95 officer on an annual basis. Approval is evidenced through Pension Fund Committee and management team meeting papers and minutes.

17.2 Circumstances may justify a change to the Charter. Such circumstances may include but are not limited to:

- a significant change in the GIAS (UK Public Sector);
- a significant reorganisation within the Pension Fund;
- significant changes in the CAE, the Pension Fund Committee, and/or senior management;
- significant changes to the Pension Fund's strategies, objectives, risk profile, or the environment in which the Pension Fund operates;
- changes to laws or regulations that may affect the nature and/or scope of Internal Audit Services.

Glasgow City Council

Strathclyde Pension Fund Committee

Report by Head of Audit and Inspection

Contact: Duncan Black Ext: 74053

Item 6(b)

19th March 2025

INTERNAL AUDIT PLAN 2025/26

Purpose of Report:

To inform the Committee of the outputs which Members and senior officers can expect from Internal Audit in 2025/26 and to seek the approval of the Committee to implement the Audit Plan for 2025/26.

Recommendations:

Members are asked to approve the implementation of the Strathclyde Pension Fund Audit Plan for 2025/26.

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

PLEASE NOTE THE FOLLOWING:

Any Ordnance Survey mapping included within this Report is provided by Glasgow City Council under licence from the Ordnance Survey in order to fulfil its public function to make available Council-held public domain information. Persons viewing this mapping should contact Ordnance Survey Copyright for advice where they wish to licence Ordnance Survey mapping/map data for their own use. The OS web site can be found at <http://www.ordnancesurvey.co.uk> "

If accessing this Report via the Internet, please note that any mapping is for illustrative purposes only and is not true to any marked scale

Annual Audit Plan 2025/26

1. Introduction

1.1 The current Public Sector Internal Audit Standards (PSIAS) and the new Global Internal Audit Standards (GIAS) in the UK Public Sector require the Chief Internal Auditor to submit a risk-based audit plan to an appropriate Audit Committee for approval. This report presents the proposed internal annual audit plan for the Strathclyde Pension Fund for 2025/26.

2. Background

2.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion on the control environment within the Strathclyde Pension Fund. The annual audit plan is designed to assist the Head of Audit & Inspection in formulating that opinion.

2.2 In developing the annual audit plan, we:

- Consolidated our understanding of the Strathclyde Pension Fund through discussions with senior management and a review of key strategic documentation;
- Consulted risk registers to understand the nature of inherent risks facing the Strathclyde Pension Fund; and
- Considered previous audit recommendations to identify other internal and external factors.

2.3 Internal Audit work going forward will be undertaken in accordance with the Global Internal Audit Standards (GIAS) for the UK Public Sector. These new standards come into effect from 1 April 2025 and have been adopted by the Relevant Internal Audit Standard Setters (RIASS). The RIASS includes, among others, HM Treasury, the Scottish Government and the Chartered Institute of Public Finance and Accountancy (CIPFA).

3. Approach

3.1 The audit plan shows the outputs which members of the Committee and management can expect from Internal Audit during 2025/26. For each audit assignment, we will agree a terms of reference with management prior to commencing fieldwork. A summary of our findings will be agreed in draft with management, prior to reporting to this Committee.

3.2 Our reports will include a summary of main audit findings, highlighting any control weaknesses and recommendations for improvement. Any significant area of control weakness will be reported in the Annual Assurance Statement.

3.3 The GIAS in the UK Public Sector require that the audit plan should be kept under review to reflect any changing priorities and emerging risks. We will therefore ensure the plan remains relevant and reflects any changes to the inherent risks at the Strathclyde Pension Fund. The Strathclyde Pension Fund Committee will be asked to approve any material adjustments to the audit plan.

4. Internal Audit Outputs in 2025/26

4.1 The main output from Internal Audit in 2025/26 will be the Head of Audit & Inspection's annual report. This provides assurance to the Committee, and senior management on matters of governance and internal control within the Strathclyde Pension Fund.

4.2 The annual report will be based principally on the work undertaken by Internal Audit during the year to complete the audit plan.

4.3 The key areas we will cover in 2025/26, and on which we will provide assurance, are shown in Appendix 1, together with the main control risks associated with these areas.

4.4 Glasgow City Council participates in the National Fraud Initiative (NFI) which is a nationwide data matching function undertaken by NFI on behalf of Audit Scotland. Strathclyde Pension Fund Office staff are responsible for investigating data matches notified to it by NFI.

4.5 Details of the audit coverage in the key areas in the last few years, is included at Appendix 2.

5. Indirect Audit Outputs in 2025/26

5.1 There are a number of other audits undertaken by Internal Audit, which although not directly undertaken for the Pension Fund, will cover processes or procedures which affect the administration of the Fund, and which the Head of Audit and Inspection will consider as part of the Annual Assurance Statement.

6. Resources

6.1 In 2025/26, 40 days are available to carry out the planned assurance audit work.

6.2 We have identified a dedicated team to deliver the internal audit plan to the Strathclyde Pension Fund however we are able to draw upon additional audit and specialist resources as required.

7. 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?	Not applicable
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?	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
Are there any potential data protection impacts	No

as a result of this report Y/N	
If Yes, please confirm that a Data Protection Impact Assessment (DPIA) has been carried out	Not applicable

8. Recommendations

8.1 Members are asked to approve the implementation of the Strathclyde Pension Fund Audit Plan for 2025/26.

Strathclyde Pension Fund – Audit Plan 2025/26 **APPENDIX 1**

Assurance Area	Planned Internal Audit Activity	Link to Risks (where applicable)	Link to SPF Business Plan Priority (where applicable)
Information Technology	**Altair Application** To provide assurance that the main Pensions system, Altair, is operating as expected.	FIN0391 – System failure	ICT arrangements
Finance	**Direct Impact Portfolio** To review the Direct Impact Portfolio governance arrangements, to provide assurance that these are operating as intended.	n/a	Direct Investment Portfolio – strategy and structure
Follow up	Audit the progress against Internal Audit recommendations, undertaking additional testing as required. Summary progress updates will be reported to the Board and Committee	n/a	n/a
Head of Audit's Annual Opinion		n/a	n/a

Strathclyde Pension Fund – Internal Audit Coverage 2020/21 – 2025/26 **APPENDIX 2**

Assurance Area	Audit Activity	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Governance	Information Technology	✓					
	Governance of Projects within the business plan	✓					
	Board Governance		✓				
	Information security/Information management			✓			
	Cyber Security				✓		
	Scheme Administration				✓		
Compliance	Ad hoc Payments		✓				
	Customer Engagement			✓			
	Scheme of Delegation			✓			
	Payroll					✓	
	Compliance with Code of Practice (Pensions Regulator)					✓	
Information Technology	Altair Application						✓
Finance	Direct Impact Portfolio						✓

Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

Contact: Richard McIndoe, Ext: 77383

Item 7
19th March 2024

Annual Audit Plan 2024/25

Purpose of Report:

To present EY's plan for audit of the Fund's 2024/25 annual report and financial statements.

Recommendations:

The Committee is asked **to NOTE** the Annual Audit Plan.

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

1 **Policy and Resource Implications**

Resource Implications:

Financial:	Audit Fees are covered in Appendix E of EY's report.
Legal:	Section 12 of the Local Government in Scotland Act 2003 places a duty on a local authority to observe proper accounting practices. Section 99 of the Local Government (Scotland) Act 1973 (as amended) places a duty on auditors, in auditing the accounts of the local authority, to satisfy themselves that proper accounting practices have been observed in the preparation of those accounts.
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, 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 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:	Yes. Climate change reporting is listed as an area of audit focus within the annual audit plan.
What are the potential climate impacts as a result of this proposal?	See above.
Will the proposal contribute to Glasgow's net zero carbon target?	N/a.

Privacy and Data Protection Impacts:

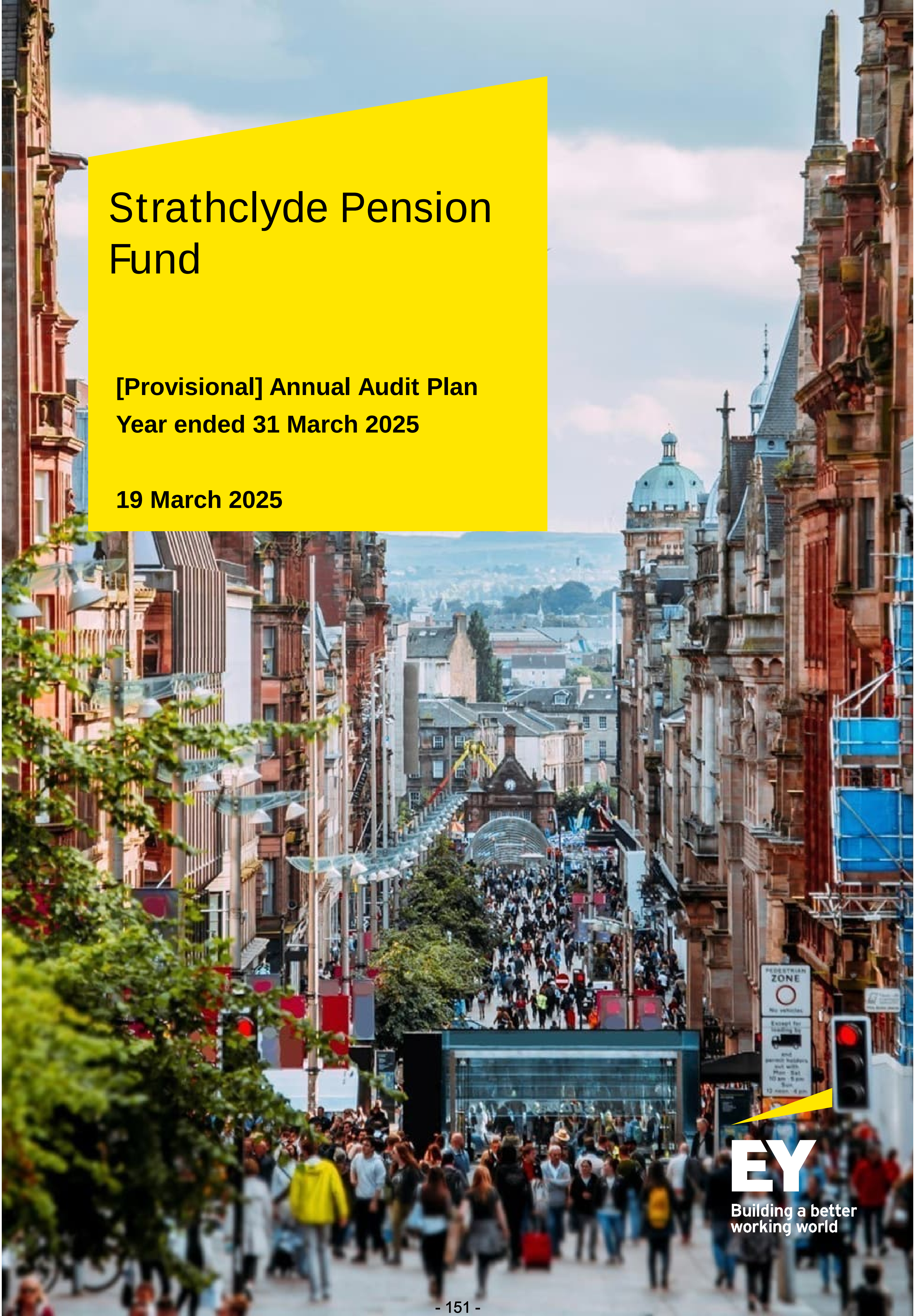
Are there any potential data protection impacts as a result of this report Y/N	No.
If Yes, please confirm that a Data Protection Impact Assessment (DPIA) has been carried out	N/a.

2 Recommendations

The Committee is asked **to NOTE** the Annual Audit Plan.

<u>Attachment</u>

[Provisional] Annual Audit Plan Year Ended 31 March 2025



Strathclyde Pension Fund

[Provisional] Annual Audit Plan
Year ended 31 March 2025

19 March 2025

EY
Building a better working world

This report

This report has been prepared in accordance with the Terms of Appointment Letter, through which Audit Scotland and the Accounts Commission have appointed us as external auditor for the Strathclyde Pension Fund for financial years 2022/23 to 2026/27.

This report is for the benefit of the Pension Fund and is made available to Audit Scotland and the Accounts Commission (together “the Recipients”). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Accessibility

Our report will be available on Audit Scotland’s website and we have therefore taken steps to comply with the Public Sector Bodies Accessibility Regulations 2018.

Contents

1. Executive summary

Purpose of our plan

The Accounts Commission for Scotland appointed EY as the external auditor of Strathclyde Pension Fund (“Pension Fund” or “the Fund”) for the five-year period to 2026/27.

This [Provisional] Annual Audit Plan, prepared for the benefit of management and the Pension Fund Committee, sets out our proposed audit approach for the audit of the financial for the year ended 31 March 2025. In preparing this plan, we have continued to develop our understanding of the Pension Fund through:

- Regular discussions with management,
- Review of key documentation, including Pension Fund committee reports; and
- Our understanding of the environment in which the Pension Fund is currently operating.

[Our planning procedures for our 2024/25 audit are ongoing and if required, we will prepare an update to this plan on the completion of those procedures.]

Our audit quality ambition is to consistently deliver high-quality audits that serve the public interest. A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, including observations of where the Pension Fund employs best practice and where processes can be improved. As we note in Appendix F, we will follow up each recommendation throughout our appointment to ensure implementation.

We use data insights where possible to form our audit recommendations to support the Pension Fund in improving its practices for financial management and control, and in aspects of the wider scope dimensions of audit. These are highlighted throughout our reporting together with our judgements and conclusions regarding arrangements.

After consideration by the Pension Fund Committee, the finalised plan will be provided to Audit Scotland and published on their website.

Scope and Responsibilities

We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in June 2021; International Standards on Auditing (UK); relevant legislation; and other guidance issued by Audit Scotland. The Code sets out the responsibilities of both the Pension Fund and the auditor, more details of which are provided in Appendix A.

Our key contacts:

Hassan Rohimun, Engagement Partner
HRohimun@uk.ey.com

Olga Potapova, Senior Manager
opotapova@uk.ey.com

Financial Statements audit

We are responsible for conducting an audit of the Pension Fund's financial statements. We provide an opinion as to:

- whether they give a true and fair view, in accordance with applicable law and the 2024/25 Code of Accounting Practice, of the income and expenditure of the Fund for the year ended 31 March 2025 and;
- have been properly prepared in accordance with IFRSs, as interpreted and adapted by the 2024/25 Code; and
- whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

We also review and report on the consistency of the other information prepared and published along with the financial statements.

We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. Our key considerations and materiality values are set out in Exhibit 1, below.

Independence

We confirm that we have undertaken client and engagement acceptance procedures, including our assessment of our continuing independence to act as your external auditor. Further information is available in Appendix B.

Exhibit 1: Materiality Assessment in 2024/25

Planning Materiality	Performance Materiality	Reporting Threshold
Overall materiality for the financial statements based on 1% of Pension Fund's 2023/24 Net Assets (PY:1%)	We have assessed performance materiality at 75% of overall materiality for the financial statements. (PY: 75%)	Level of error that we will report to the Pension Fund Committee.
£305.6 million (PY: £305.6 million)	£229.2 million: (PY: £229.2 million)	£15.2 million (PY: £15.2 million)

Based on our understanding of the expectations of financial statement users, we apply a lower materiality level to key management personnel disclosure. We apply professional judgement to consider the materiality of Related Party Transactions to both parties.

Wider Scope and Best Value

As public sector auditors, our responsibilities extend beyond the audit of the financial statements. The Code of Audit Practice (2021) requires auditors to consider the arrangements put in place by the Pension Fund to meet their Best Value obligations as part of our proportionate and risk-based wider-scope audit work. This requires consideration of:

- the Pension Fund's arrangements to secure sound financial management;
- the regard shown to financial sustainability;
- clarity of plans to implement the vision, strategy and priorities of the Pension Fund, and the effectiveness of governance arrangements for delivery; and
- The use of resources to improve outcomes.

Best Value considerations will be integrated with our wider scope annual audit work. We will report on how the Pension Fund demonstrates that it has Best Value arrangements in place to secure continuous improvement.

Exhibit 2: Summary of significant risks identified for the audit in 2024/25

One significant risk impacting the audit of financial statement has been identified in Section 3:

Risk of fraud through management override of control, including a specific risk of management override in posting investment asset valuation journals for level 2 and level 3 assets	Under ISA 240 there is a presumed risk that accounting records may be misstated due overriding controls that otherwise appear to be operating effectively. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. For Strathclyde Pension Fund, we have determined that this lies with the valuation of investment assets and thus rebut the expenditure risk. We have determined that a specific risk of management override exists in relation to the valuation of level 2 and level 3 assets and have associated a fraud risk to this. We are not applying this risk to level 1 assets as the opportunity to manipulate the valuation of level 1 assets does not exist.
Valuation of complex investments	We identified the valuation of complex investments as a risk in our consideration of the risk of management override. Due to the fact that there are no publicly quoted prices available we have also identified the valuation of complex investments as a significant risk.
Valuation of Property, plant and equipment	The Fund has a significant portfolio of directly held property investments (£2.3 billion as at 31 March 2024). The valuation of land and buildings is subject to a number of assumptions and judgements. A small movement in these assumptions could have a material impact on the financial statements.

2. Sector developments

Introduction

In accordance with the principles of the Code, our audit work considers key developments in the sector. We obtain an understanding of the strategic environment in which the Pension Fund operates to inform our audit approach.

Future Fund Structures

A consultation on the review of the current structure of the Local Government Pension Schemes in Scotland was launched in summer 2018 by the Scheme Advisory Board (SAB) with consultees asked to consider four structural options: the status Quo for 11 funds, increased collaboration between the funds, pooling of assets and fund merger.

The Pension Fund responded to the consultation and stated that:

• It is not clear what would be gained by its members or participating employers from adopting any of the proposed alternative models.

• It is certain, though, that there would be significant costs and risks associated with any change.

The SAB review is still ongoing, with a Strategic Programme Manager appointed in 2021 to undertake the required analysis.

The project group has researched and analysed existing reports and information relating to options for the future. It then undertook a gap analysis of the information which would be needed to develop detailed business cases for the various options.

Consolidation into Strathclyde Pension Fund

In 2024/25 the Scottish Fire and Rescue Service began consolidating their Local Government Pension Scheme participation from eight Funds in Scotland into Strathclyde Pension Fund. At the time of drafting this report, the first instalment of these transfers had already occurred, with receipts of £123m.

Further receipts are anticipated in the 2024/25 year.

Climate change risk and climate change reporting

In 2023/24 Strathclyde Pension Fund continued to develop its climate change risk strategy. The Pension Fund has identified Climate Change as a systemic risk and thus a material long-term financial risk.

Strathclyde Pension Fund's Climate Change strategy has the explicit objective of implementing an investment strategy that is consistent with achieving the goal of global net-zero emissions by 2050. Strathclyde Pension Fund has a target of net-zero emissions across its own portfolios by 2050.

The Fund has invested in a number of collaborative engagement initiatives that have a specific Climate Change remit.

The Fund is a founding member of Climate Action 100+. This is a five-year initiative that uses carbon mapping data to target the worst corporate climate offenders directly, to curb their emissions, improve climate governance and strengthen disclosure.

According to Scheme Advisory Board (SAB), there is a move to make climate risk reporting mandatory for the Local Government Pension Scheme sector, in line with private sector pension funds. Strathclyde Pension Fund supports the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). TCFD provides a global framework to enable stakeholders to understand the financial system's exposure to climate-related risks particularly affecting organisations most likely to experience climate-related financial impacts from transition and physical risks.

LGPS Updated Guidance

Regulation 56 of the Local Government Pension Scheme (Scotland) Regulations 2018 sets out how administering authorities are required to prepare and maintain a Funding Strategy Statement (FSS).

In January 2025, updated guidance was issued on preparing and maintaining a FSS, which replaces the 2016 guidance produced by CIPFA. The aim of the guidance is to ensure consistency of terminology among LGPS and structure for ease of access to users. The FSS plays an integral role in setting out the fund's approach to managing long-term funding requirements and funding risk in LGPS whilst enabling stability and sustainability for participating scheme employers.

Guidance on preparing the Pension Fund Annual Report was published in April 2024. The purpose of the guidance is to assist funds with the preparation and publication of the annual report and to ensure reporting is consistent and provides comparable data for all funds.

Cost Transparency Reporting Tool

Fees, charges and returns are important elements for the LGPS, and the SAB in Scotland has agreed to participate in the Online Cost transparency system run by Byhiras on behalf of the English and Welsh LGPS SAB.

The system provides a single service for administering authorities to obtain information on costs and performance from different investment managers and it aims to help administering authorities deliver cost savings and improve investment outcomes.

3. Financial statements: Our approach and assessment of significant risks

Introduction

The publication of the annual financial statements allow the Pension Fund to demonstrate accountability for, and its performance in the use of its resources. They are prepared in accordance with proper accounting practice, which is represented by the 2024/25 Code of Practice on Local Authority Accounting in the United Kingdom ("the Code").

Our responsibilities

We are responsible for conducting an audit of the Pension Fund's financial statements. We provide an opinion as to:

- whether they give a true and fair view in accordance with applicable law and the 2024/25 Code of the state of affairs of the Pension Fund as at 31 March 2025 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs, as interpreted and adapted by the 2024/25 Code; and
- whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

We also review and report on the consistency of the other information prepared and published by the Pension Fund along with its financial statements.

Other Statutory Information

The management commentary and narrative reporting within the financial statements continues to be an area of increased scrutiny as a result of rising stakeholder expectations, including continuing interest by the Financial Reporting Council.

Audit approach

We will continue to follow a predominantly substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

We will adopt a "data first" approach across all stages of the audit. We integrate technology into our audits to improve the way we are able to analyse and interact with your data, driving both audit quality and the insight that we can offer your Finance Team and Pension Fund Committee.

During our planning procedures, we determine which accounts, disclosures and relevant assertions could contain risks of material misstatement.

Our audit involves:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, error or design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Audit Approach continued

- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting. Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence to express an opinion on the financial statements.
- Reading other information contained in the financial statements to form assessment, including that the annual report is fair, balanced and understandable.
- Ensuring that reporting to the Pension Fund Committee appropriately addresses matters communicated by us and whether it is materially inconsistent with our understanding and the financial statements.
- We rigorously maintain auditor independence (refer to Appendix B).

Materiality

For planning purposes, materiality for 2024/25 has been set at £305.6 million (2023/24: £305.6 million). This represents 1% of the Pension Fund's net assets (Exhibit 3). Materiality will be reassessed throughout the audit process and will be communicated to the Pension Fund Committee within our annual audit report.

Our 2024/25 assessment concluded that gross operating expenditure remains the most appropriate basis for determining planning materiality for the Pension Fund.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations.

Specific materiality

We consider all accounts and disclosures within the financial statements individually to ensure an appropriate materiality is used. In determining their materiality, we consider both the quantitative and qualitative factors that could drive materiality for the users of the financial statements. Accordingly, we determine it is appropriate to use lower levels of materiality for some areas of the financial statements, including:

- Key management personnel disclosure - Fees, charges and returns are important elements for the LGPS, and the SAB in Scotland has agreed to participate in the Online Cost transparency system run by Byhiras on behalf of the English and Welsh LGPS SAB. The system provides a single service for administering authorities to obtain information on costs and performance from different investment managers and it aims to help administering authorities deliver cost savings and improve investment outcomes
- Related party transactions – which are considered material when they are material to either party in the transaction. We do not apply a specific materiality level but consider each transaction individually.

Exhibit 3: Our assessment of materiality in 2024/25

Element	Explanation	Value
Planning materiality	The amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. This represents 1% (2023/24: 1%) of the Pension Fund's prior year net assets. We will reassess and update our overall materiality level upon receipt of the 2024/25 draft financial statements. Materiality will be reassessed throughout the audit process and will be communicated to the Pension Fund Committee within our Annual Audit Report.	£305.6 million (2023/24: £305.6 million)
Performance materiality	Materiality at an individual account balance, which is set to reduce the risk that the aggregate of uncorrected and undetected misstatements exceeds Planning Materiality to an acceptably low level. We have set it at 75% of planning materiality (2023/24: 75%).	£229.2 million (2023/24: £229.2 million)
Reporting level	The amount below which misstatements whether individually or accumulated with other misstatements, would not have a material effect on the financial statements. This is set at 5% of planning materiality. In 2023/24, this was set at £15.2 million (5% of Planning Materiality).	£15.2 million (2023/24: £15.2 million)

Our response to significant risks

Introduction

Auditing standards require us to make communications to those charged with governance throughout the audit. At Strathclyde Pension Fund, we have agreed that these communications will be to the Pension Fund Committee. The financial statements and our annual audit report will also be reported to the Pension Fund.

One of the key purposes of our annual audit plan is to communicate our assessment of the risk of material misstatement in the financial statements.

We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement

We set out in the following sections the significant risks (including fraud risks denoted by *) that we have identified for the current year audit, along with the rationale and expected audit approach. In 2024/25 we have identified three significant risks:

- Risk of fraud through management override of control, including a specific risk of management override in posting investment asset valuation journals for level 2 and level 3 assets*
- Valuation of complex investments
- Valuation of directly held properties

The risks identified may change to reflect any significant findings or subsequent issues we identify during the audit. We will provide an update to the Pension Fund Committee if our assessment changes significantly during the audit process.

1. Risk of fraud through management override of control, including a specific risk of management override in posting investment asset valuation journals for level 2 and level 3 assets *

Financial statement impact

In the 2023/24 audited financial statements the Fund held £2.61 billion of Level 2 and £6.98 billion of Level 3 net financial assets.

What is the risk?

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We respond to this risk on every engagement.

ISA (UK) 240 also requires us to assume that fraud risk from revenue recognition is a significant risk. In the public sector, we extend our consideration to the risk of material misstatement by manipulation of expenditure. For the Pension Fund, we rebut the risk of fraud in revenue and expenditure recognition, however, still consider revenue and expenditure balances through the lens of management override of controls.

We have determined that a specific risk of management override exists in relation to the valuation of level 2 and level 3 assets and have associated a fraud risk to this. We do not apply this risk to level 1 assets as the opportunity to manipulate the valuation of level 1 assets does not exist.

What work will we perform?

We will:

- Inquire of management about risks of fraud and the controls to address those risks;
- Consider the effectiveness of management's controls designed to address the risk of fraud;
- Understand the oversight given by those charged with governance of management's processes over fraud;
- Obtain third party confirmations of the Fund's externally held investment balances at the Pension Fund's year end 31 March 2025 from both custodians and investment managers. We will investigate any differences in valuation between these sources and agree the final agreed balance for investments in the accounts.
- Consideration of the impact of any geopolitical events on investments valuation and its accounting implication.

We will perform mandatory procedures regardless of specifically identified fraud risks, including:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Assess accounting estimates for evidence of management bias; and
- Evaluate the business rationale for significant unusual transactions.

We will also obtain supporting documentation through independent confirmations of contributions by the Fund's scheduled bodies and their auditors, in line with the Audit Scotland protocols. We will consider whether we need to perform any other specific audit procedures throughout the audit.

2. Valuation of complex investments

Financial statement impact

Within the 2023/24 financial statements, the Fund held £2.61 billion of Level 2 and £6.98 billion of Level 3 net financial assets.

What is the risk?

Valuation of complex investments has been considered as part of our consideration of the fraud risk of management override. We also identified this as a significant risk reflecting the complexity of this area.

As of 31 March 2024, the Fund held net investments of £27.9 billion of which 34% (£9.5 billion) were classified as Level 2 and Level 3 investments, meaning there are no publicly quoted prices available for these types of investments in an active market. We have therefore assigned a significant risk to the valuation of Private Equity, Infrastructure Funds, Property Funds and Pooled Investments Vehicles.

The Fund's property assets of £2.3 billion as at 31 March 2024 are also classed as Level 3. We have assigned a separate significant risk to this class of assets as described at the next page.

What work will we perform?

We will:

- Review relevant controls' reports for qualifications or exceptions that may affect the audit risk and scope and obtain bridging letters for the period between report dates and financial statement dates where they differ.
- For each Fund manager we will obtain the most up to date Financial Statements for each investment/Fund, and the capital statement for the date of the Financial Statements along with the capital statement as of 31 March 2025. We will review the audit opinions for the fund to identify any possible issues with the valuation in the year and recalculate the Fund's share of the investment based on its percentage ownership.
- Review the basis of the valuation for unquoted investments to be satisfied that it is in line with the Fund's accounting policy and CIPFA requirements.
- Assess the impact of any scope and differences arising from the timing of valuation reports for 31 March 2025 on the financial statements, including the turnaround impact from prior year unadjusted differences.

3. Valuation of Directly Held Properties

Financial statement impact

As at 31 March 2024, the Fund held £2.3 billion as directly held property, which is valued annually by an external valuer and classified as Level 3 assets.

What is the risk?

The Fund has a significant portfolio of directly held property investments.

The valuation of land and buildings is subject to a number of assumptions and judgements. A small movement in these assumptions could have a material impact on the financial statements.

What work will we perform?

We will:

- Assess the competence of management experts;
- Review the basis of valuation for properties and assessing the appropriateness of the valuation methods used;
- Engage our own internal valuation specialists (EY Real Estates) to review a sample of properties;
- Perform analytical procedures and checking the valuation output for reasonableness against our own expectations;
- Sample test additional valuations, testing key asset information used by the valuers in performing their valuation (e.g. yields and revenue costs).

Other Audit Matters - Going Concern

Audit requirements

In accordance with the CIPFA Code of Practice on Local Government Accounting, the Pension Fund prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity.

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.

Under ISA (UK) 570, we are required to undertake challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. In light of substantial financial pressures facing the Pension Fund, including the cost-of-living crisis, inflationary pressures, we place increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the Pension Fund and its financial sustainability.

Our work on going concern requires us to:

- challenge management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;
- challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtain and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Pension Fund obtained throughout our audit;
- conduct a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- necessary consideration regarding the appropriateness of financial statement going concern disclosures.

Due to the anticipated continuation of service provision, we expect that the going concern basis of accounting will continue to be appropriate for the Pension Fund.

Other Audit Matters – IAS 26 Reporting

Audit requirements

The Fund disclose the actuarial present value of promised retirement benefits and the fair value of scheme assets in line with IAS 26 reporting requirements.

The Fund's IAS 26 disclosure as at 31 March 2024 shows that the actuarial present value of promised retirement benefits was £21.240 billion as at 31 March 2024, with the fair value of scheme assets disclosed as £30.566 billion.

The figure is material and subject to complex estimation techniques and judgements by the Actuary, Hymans Robertson. The estimate is based on the 2023 triennial valuation and takes into account local factors such as mortality rates and expected pay rises along with other assumptions regarding changes in inflation and investment yields when calculating the liability.

There is a risk that the valuation uses inappropriate assumptions to value the liability as at the 31 March 2024.

We therefore associate an inherent risk to this area.

Our work on the IAS 26 disclosure requires us to:

- Assess the competence of managements expert, Hymans Robertson;
- Engage with the NAO's consulting actuary (PwC) and our EY Pensions Advisory Team to review the IAS 26 approach applied by the actuary are reasonable and compliant with IAS 26;
- Ensure that the IAS 26 disclosure is in line with the relevant standards and consistent with the valuation provided by the Actuary; and
- Engage EY Pensions Specialists to perform a roll-forward calculation for the IAS 19 calculation at one of the scheduled bodies.

.

4. Wider Scope Dimensions

Introduction

In June 2021, Audit Scotland and the Accounts Commission published a revised Code of Audit Practice. This establishes the expectations for public sector auditors in Scotland for the term of the current appointment.

Risk assessment and approach

The Code sets out the four dimensions that comprise the wider scope audit for public sector in Scotland:

- Financial management;
- Financial sustainability;
- Vision, Leadership and Governance; and
- The use of resources to improve outcomes.

The Code of Audit Practice requires that, in addition to financial statement significant risks, auditors are required to identify significant risks within the wider scope dimensions as part of our planning risk assessment. We consider these risks, identified as "areas of wider scope audit focus", to be areas where we expect to direct most of our audit effort, based on:

- our risk assessment at the planning stage, including consideration of Audit Scotland's Code of Audit Practice Supplementary Guidance (February 2023); and
- the identification of any national areas of risk within Audit Scotland's annual planning guidance.

Any changes in this assessment will be communicated to the Pension Fund Committee.

Our wider scope audit work, including follow up of prior year findings, and the judgements and conclusions reached in these areas, contribute to the overall assessment of and assurance over the achievement of Best Value.

Financial Sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

The value of the Fund' increased by 9.7% to £30.6 billion during 2023/24, with investment performance slightly below the benchmark return set for the year. The Fund generated a return of +9.9% against a benchmark of +12.8%. The Fund's funding position is strong, although it faces significant uncertainty due to the current economic climate.

Significant geopolitical uncertainty remains in the medium term on market returns. Current slow economic growth also presents risks to the overall position of the Fund.

The Annual Audit Report 2023/24 concluded that given the healthy net asset position at 31 March 2024, there was no concerns about the financial stability of the Fund. However, in the current economic climate the Fund will need to maintain focus on the viability of the funding strategy. A revised strategy was agreed in a meeting of Strathclyde Pension Fund Committee on 19th March 2024. It was agreed that a modest reduction in equity risk, in favour of protection assets, would be prudent when the funding level is so strong.

Our response

Our assessment of the Pension Fund's financial sustainability arrangements, will focus on:

- Review of financial reporting to Pension Board, including management accounts and budgets/medium term financial planning, financial strategy going forward;
- We will assess the movement in the Fund's net assets since the triennial valuation as of 31st March 2023, published in March 2024, and assess progress in delivering the Fund's investment strategy; and
- Review of investment strategy for the Fund and investment performance reporting.

Financial Management

Financial management means having sound budgetary processes. Audited bodies require the ability to understand the financial environment and whether internal controls are operating effectively. Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.

The 2023/24 Annual Audit Report concluded that the Fund has appropriate and effective financial management arrangements in place which includes comprehensive reporting of investment performance. A review of systems did not identify any significant control weaknesses which could affect the Fund's ability to report financial and other relevant data in financial systems. The only recommendation that was made in the 2023/24 Annual Audit Report was in relation to one area still outstanding from the 22/23 recommendations, which has been communicated again to management:

1. Journal Approval Process

The majority of journals posted by the finance team are prepared and informally approved by the Finance Manager and posted by the Financial Accountant. No formal journal approval process is in place.

Our response

Our assessment of the Pension Fund's financial management arrangements, will focus on:

- whether there are sufficient financial skills and capacity within the finance function;
- the Fund's participation and progress in the National Fraud Initiative and other counter fraud arrangements;
- arrangements to ensure systems of internal control are operating effectively, drawing upon our ISA (UK) 315 procedures;
- financial monitoring arrangements, including clarity about ant changes to budgets and projections during the year;
- internal control environment resulting from the hybrid working arrangements;
- we will follow up on progress made in the highlighted improvement area in the 2023/24 Annual Audit Report.

Vision, Leadership and Governance

The effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Glasgow City Council is the administering authority for Strathclyde Pension Fund. The Council has delegated responsibility for governance to the Executive Director of Finance. The Strathclyde Pension Fund Committee is the main decision-making body of the Fund. It is supported by the Pension Board and is responsible for establishing arrangements that ensure the proper conduct of the affairs of the Fund. It is also responsible for ensuring that decisions are made within the terms of the Local Government Pension Scheme.

The 2023/24 Annual Audit Report concluded that the Fund has appropriate arrangements to support good governance and accountability. There is effective scrutiny, challenge and informed decision making by committee.

The Fund participates in the National Fraud Initiative (NFI) exercise through the administering authority, Glasgow City Council. Responsibility for investigating data matches lies with the internal audit function, which is shared across the Council and Pension Fund. A total of 3,111 matches were identified in the 2023/24 exercise for the Pension Fund to investigate, which remains an ongoing exercise. In addition to NFI, the Fund also use the Tell us Once service, which is used to notify Pension Funds of registered deaths, and the LGPS database, which helps to ensure that individuals are not being paid duplicate benefits from different Pension Fund. The risk of fraud is included on the Pension Fund's risk register, with a series of mitigating controls in place to respond to the risk. However, it was noted in our 2023/24 Annual Audit Report that Risk Policy has not been updated since 2019, despite a three-yearly review. The Pension fund has implemented a formal tracker as per our recommendation but has still not yet introduced a new Risk Policy, however this was scheduled for 2024/25 review which we will follow up on.

Our response

Our assessment of the Pension Fund's arrangements in 2024/25 will focus on:

- consideration of the disclosures within the Governance Statement, including any findings from the annual review of the effectiveness of the system of internal control and the quality of data used throughout the organisation;
- review of the coverage of internal audit arrangements during 2024/25, including any significant findings identified and the work done to address issues identified;

Vision, Leadership and Governance (cont.)

- consideration of whether the Pension Fund demonstrates adequate progress against external and internal audit recommendations to ensure they are implemented in a timely manner;
- consideration of the quality of reporting and information provided to key decision makers, and evidence of effective challenge and scrutiny.
- whether arrangement are in place for ensuring compliance with regulatory requirements, addressing requests from the regulator and reporting as applicable.

Use of Resources to Improve Outcomes

The Pension Fund's approach to demonstrating economy, efficiency, and effectiveness through the use of resources to improve outcomes.

We recognise that the Pension Fund's performance continues to be impacted by changing behaviours following the pandemic on financial markets and investments, and indirectly by the various geopolitical world events (conflict in Ukraine). The net assets position in 2023/24 increased by £2.7 billion, the Fund generated a return of +9.9% against a benchmark of +12.8%.

Audit Scotland has also identified the national target in relation to tackling climate change. There are specific legal responsibilities placed on public bodies to contribute to reducing greenhouse gas emissions, to adapt to climate change, to act sustainably and to report on progress. As a result, we will consider the Pension Fund's strategy for climate change, alongside any narrative reporting in the financial statements.

Our response

We have identified an area of audit focus in relation to climate change in Exhibit 4 below. Our work in this area will include consideration of:

- the Pension Fund's climate change strategy and progress reporting arrangements; and
- any narrative reporting in the financial statements.

Other work in 2024/25 will consider the Pension Fund's arrangements to report performance, and the escalation process where performance continues to be challenging.

Exhibit 4: Use of resources area of focus

Climate change reporting	The Fund are aligned to the Paris Agreement's overall goal of global net zero by 2050 and have implemented an interim target for carbon reduction of at least 45% from the baseline by 2030. The Pension Fund should therefore have a plan to reduce their direct and indirect emissions. Audit Scotland has published their Auditing Climate Change strategy update in December 2024, discussing their aim to hold public bodies to account for their actions, spend and disclosures in relation to climate change which we will review alongside our audit procedures.

Appendices

A Code of audit practice: Responsibilities

B Independence report

C Required communications with the Pension Fund Committee

D Timeline of communications and deliverables

E Audit fees

F Prior year audit recommendations

G Additional audit information

EY

A Code of audit practice: Responsibilities

Audited Body Responsibilities

Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. The features of proper financial stewardship include the following:

Corporate governance

Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.

Financial statements and related reports

Audited bodies must prepare annual accounts comprising financial statements and other related reports. They have responsibility for:

- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;
- maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their accounts and related reports disclosures;
- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority
- preparing and publishing, along with their financial statements, related reports such as an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements
- ensuring that the management commentary (or equivalent) is fair, balanced and understandable.

It is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

Standards of conduct for prevention and detection of fraud and error

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

A Code of audit practice: Responsibilities continued

Maintaining a sound financial position

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified;
- compliance with any statutory financial requirements and achievement of financial targets;
- balances and reserves, including strategies about levels and their future use;
- how they plan to deal with uncertainty in the medium and longer term; and
- the impact of planned future policies and foreseeable developments on their financial position.

Responsibilities for Best Value, community planning and performance

Local government bodies have a duty to make arrangements to secure Best Value. Best Value is defined as continuous improvement in the performance of the body's functions. In securing Best Value, the local government body is required to maintain an appropriate balance among:

- the quality of its performance of its functions
- the cost to the body of that performance
- the cost to persons of any service provided by it for them on a wholly or partly rechargeable basis.

In maintaining that balance, the local government body shall have regard to:

- efficiency
- effectiveness
- economy
- the need to meet the equal opportunity requirements.

The local government body shall discharge its duties under this section in a way which contributes to the achievement of sustainable development.

In measuring the improvement of the performance of a local government body's functions for the purposes of this section, regard shall be had to the extent to which the outcomes of that performance have improved.

The Scottish Government's Statutory Guidance on Best Value (2020) requires

bodies to demonstrate that they are delivering Best Value in respect of seven themes:

1. Vision and leadership
2. Governance and accountability
3. Effective use of resources
4. Partnerships and collaborative working
5. Working with communities
6. Sustainability
7. Fairness and equality.

The Community Empowerment (Scotland) Act 2015 is designed to help empower community bodies through the ownership or control of land and buildings, and by strengthening their voices in decisions about public services.

Specified audited bodies are required to prepare and publish performance information in accordance with Directions issued by the Accounts Commission.

Code of audit practice: Responsibilities continued

Internal audit

Public sector bodies are required to establish an internal audit function as a support to management in maintaining effective systems of control and performance. With the exception of less complex public bodies the internal audit programme of work is expected to comply with the Public Sector Internal Audit Standards and, other than local government, requirements set out in the Scottish Public Finance Manual.

Internal audit and external audit have differing roles and responsibilities. External auditors may seek to rely on the work of internal audit as appropriate.

Appointed Auditors' Responsibilities

Appointed auditors' statutory duties for local government bodies are contained

within Part VII of the Local Government (Scotland) Act 1973, as amended.

These are to:

- audit the accounts and place a certificate (i.e. an independent auditor's report) on the accounts stating that the audit has been conducted in accordance with Part VII of the Act
- satisfy themselves, by examination of the accounts and otherwise, that:
  - the accounts have been prepared in accordance with all applicable statutory requirements
  - proper accounting practices have been observed in the preparation of the accounts
- the body has made proper arrangements for securing Best Value and is complying with its community planning duties
- hear any objection to the financial statements lodged by an interested person.

Appointed auditors should also be familiar with the statutory reporting responsibilities in section 102 of the Local Government (Scotland) Act 1973, including those relating to the audit of the accounts of a local government body.

B Independence Report

Introduction

The FRC Ethical Standard and ISA (UK) 260 ‘Communication of audit matters with those charged with governance’, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, (as revised for periods beginning after December 2024) requires that we communicate both at the planning stage and at the conclusion of the audit. The aim is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

During the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY charged to you for the provision of services during the period, analysed in appropriate categories, are disclosed.

Required Communications

Planning Stage

- The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your directors and us;
- The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- The overall assessment of threats and safeguards;
- Information about the general policies and process within EY to maintain objectivity and independence.

Final Stage

To allow you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide:

- a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and management, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- Details of non-audit/additional services provided, and the fees charged in relation thereto;
- Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence;
- Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and
- An opportunity to discuss auditor independence issues.

We confirm that we have undertaken client and engagement continuance procedures, including our assessment of our continuing independence to act as your external auditor.

C Required communications

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Pension Fund Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	This audit planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	This audit planning report
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process • Findings and issues regarding the opening balance on initial audits	Audit results report – September 2025

C

Required communications

Our Reporting to you

Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty; • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and, • The adequacy of related disclosures in the financial statements.	Audit results report – September 2025
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation; • The effect of uncorrected misstatements related to prior periods; • A request that any uncorrected misstatement be corrected; • Corrected misstatements that are significant; and, • Material misstatements corrected by management.	Audit results report – September 2025
Fraud	• Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity; • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist; and, • A discussion of any other matters related to fraud.	Audit results report – September 2025
Internal controls	Significant deficiencies in internal controls identified during the audit.	Audit results report – September 2025

C Required communications

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	• Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and, • Difficulty in identifying the party that ultimately controls the entity.	Audit results report – September 2025
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards; and, • Information about the general policies and process within the firm to maintain objectivity and independence.	This audit planning report and audit results report (September 2025)
External confirmations	• Management's refusal for us to request confirmations. • Inability to obtain relevant and reliable audit evidence from other procedures.	Audit results report – September 2025
Representations	Written representations we are requesting from management and/or those charged with governance.	Audit results report – September 2025

C Required communications

Our Reporting to you

Required communications	What is reported?	When and where
Consideration of laws and regulations	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off. • Enquiry of the Pension Fund Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Pension Fund Committee may be aware of.	Audit results report – September 2025
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Audit results report – September 2025
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	Audit results report – September 2025
Best Value and Wider Scope judgements and conclusions	Our reporting will include a clear narrative that explains what we found and the auditor's judgement in respect of the effectiveness and appropriateness of the arrangements that audited bodies have in place regarding the wider-scope audit.	Audit results report – September 2025
Key audit matters	The requirement for auditors to communicate key audit matters, which apply to listed companies and entities which have adopted the UK Corporate Governance Code in the private sector, applies to annual audit reports prepared under the Code.	Audit results report – September 2025

D Timeline of communication and deliverables

2025

Month	Audit activity	Deliverable	Timing
January			
February	Risk assessment for Financial Statements and wider scope audit dimensions	Submission of quarterly fraud return	
March	Walkthrough of key systems and processes	Annual Audit Plan	19 March 2025
April			
May			
June	Update meeting with Finance Team	Submission of quarterly fraud return	
July	Year end audit fieldwork		
August			
September	Audit completion procedures	Annual Audit Report	30 September 2025

E Audit Fees

2024/25 Fees

The Pension Fund's audit fee is determined in line with Audit Scotland's fee setting arrangements. Audit Scotland will notify auditors about the expected fees each year following submission of Audit Scotland's budget to the Scottish Commission for Public Audit, normally in December. The remuneration rate used to calculate fees is increased annually based on Audit Scotland's scale uplift.

	2024/25	2023/24
Component of fee:		
Auditor remuneration – expected fee	£96,970	£93,060
Additional audit procedures (note 1)	Note 1	£34,280
Audit Scotland fixed charges:		
Pooled costs	£2,440	£3,390
Sectoral price cap	(£26,430)	(£24,840)
Total fee	£TBC	£105,890

The expected fee, set by Audit Scotland, assumes that the Pension Fund has well-functioning controls, an effective internal audit service, and an average risk profile.

Where auditors identify that additional work is required because of local risks and circumstances, the auditor may negotiate an increase to the auditor remuneration of up to 10% independently with management, or above 10% with the approval from Audit Scotland.

We will agree a timetable and expectations for the audit with management. Should additional audit requirements arise, due to delays or emerging areas of risk, we will raise these with management through the course of the audit and agree variations as appropriate, and report the final position to the Pension Fund Committee within our Annual Audit Report.

Note 1

As initially agreed with both management and Audit Scotland as part of our 2022/23 audit there are two recuring elements of work for which additional fees are due. These areas of work relate to the additional procedures required to review complex, hard to value assets held by the Fund, and additional work required from changes to our overall risk assessment of the Fund, in line with the requirements of ISA 315. In 2023/24 the additional fees for these two areas amounted to £23,082. Given the recuring nature there will be a similar scope variation for the 2024/25 financial year and we anticipate that the variation will be in the region of £30,000 - £40,000. If we identify any other areas requiring additional audit work, we will: inform management of the nature of the work required; confirm the level of level of associated fees; and if appropriate liaise with Audit Scotland for their approval.

F Prior year audit recommendations

As part of our annual audit procedures, we will follow up the specific recommendations made within our 2023/24 Annual Audit Report. The outstanding recommendation from prior year is outlined below, along with the response from management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1.	The majority of journals posted by the finance team are prepared and informally approved by the Finance Manager and posted by the Financial Accountant. No formal journal approval process is in place. We consider this to be a weakness in internal controls, as this process demonstrates a lack of segregation of duties or formal journal approval and increases the risk of management override.	Management should review the journal posting and approval process and consider implementing a formal policy. Grade 1	Management response: Through these discussions, it has been agreed that going forward, the Finance Manager will produce a register of journals posted at each month end which will be sent to the Director for review. Responsible officer: Shona MacLean, Finance Manager. Implementation date: Reviewed ahead of 2024/25 audit

G Additional audit information

Introduction

In addition to the key areas of audit focus outlined within the plan, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities under auditing standards

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the going concern basis of accounting.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Read other information contained in the financial statements, the Pension Fund Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Purpose and evaluation of materiality

- For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.
- Materiality determines the locations at which we conduct audit procedures, and the level of work performed on individual account balances and financial statement disclosures.
- The amount we consider material at the end of the audit may differ from our initial determination. At this stage it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit, we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Additional audit information continued

Audit Quality Framework / Annual Audit Quality Report

- Audit Scotland are responsible for applying the Audit Quality Framework across all audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team responsible are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.

- We support reporting on audit quality by proving additional information including the results of internal quality reviews undertaken on our public sector audits. The most recent audit quality report can be found at: https://audit.scot/publications/quality-of-public-audit-in-scotland-annual-report-202324
- EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details can be found in our annual Transparency Report: https://www.ey.com/en_uk/about-us/transparency-report

This report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland through which the Auditor General has appointed us as external auditor of Strathclyde Pension Fund for financial years 2022/23 to 2026/27.

This report is for the benefit of the Pension Fund and is made available to the Accounts Commission and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Anna Anthony, our Managing Partner, 25 Churchill Place, London E14 5EY. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you.

Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP
The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

UKC-030109 (UK) 08/23. Artwork by Creative UK.
ED NONE

In line with EY's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

ey.com/uk

Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

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

Item 8

19th March 2025

Administration Update

Purpose of Report:

To update the Committee on pensions administration activity and to present a summary of performance to 31st December 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)

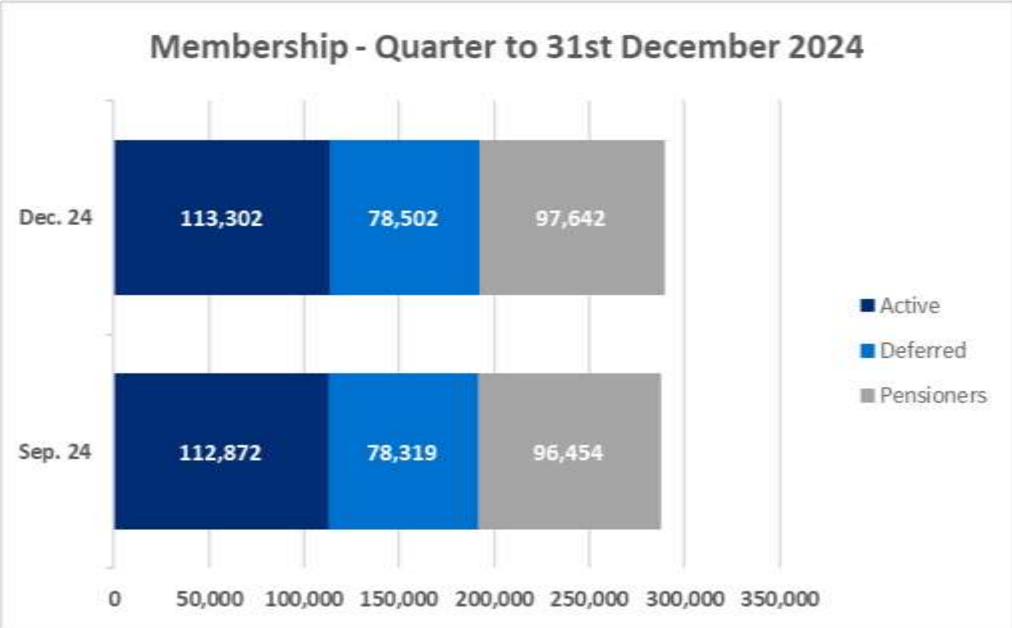
Total administration staff in post at 31st December 2024 was 84 (FTE 79). This includes 2 modern apprentices. 8 Pension Officers were recruited during December. As part of this recruitment exercise: 3 existing Modern Apprentices were successful in gaining permanent employment; and 5 external candidates were due to commence during February.

SPFO is continuing with hybrid working. Current arrangement is for all 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 *287,645* to **289,446** over the quarter. Membership increased in all categories. This is a change to the recent trend where active membership has been decreasing. Figures this quarter were heavily influenced by the transfer in of 760 members (250 active, 210 deferred, 300 pensioner) as part of tranche 1 of an exercise to consolidate all Scottish Fire & Rescue's LGPS membership into SPF.

Main changes contributing to the net increase of 1,801 were:

- **3,720** new records (*3,178 last quarter*)
- **840** retirals (*1,277 last quarter)*
- **526** refunds (*409 last quarter)*
- **1,568** deferred (*890 last quarter)*
- **474** deferred into payment (*423 last quarter*)
- **813** deaths (*1,009 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 7,715 members of the Scottish teachers' superannuation scheme.

3 SPFO Performance

Over **73,000** processes were completed in the quarter to 31st Dec 2024 (*last quarter **60,000**).* 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%**	**93.6%**	***90.4%***
Deferred retirals processed for due date	**95%**	**97%**	***98%***
Retirement lump sums paid on retirement date	**95%**	**91%**	***83%***
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	**3,720**	**15**	**95.0**	**100**	**1 month**	**100**
Refunds	**526**	**7**	**90.0**	**99.8**	**n/a**	**n/a**
Deferred	**1,568**	**10**	**90.0**	**66**	**2 months**	**77**
Retiral Estimates	**333**	**20**	**80.0**	**55.6**	**2 months**	**98.5**

3.3 Customer Satisfaction

	Refunds	Retirals
Forms issued	**526**	**1,314**
Responses	268	352
Response rate (%)	51	26.8
Satisfaction Rating (%)	**90**	**85.6**
Target	**80.0**	**90.0**
2023/24 full year (%)	*77.6*	*86.1.*

Response rate for both retirals and refunds have improved this quarter. Target was achieved for refunds but slightly below for retirals.

3.4 Complaints

Category	No.	Days to Respond		Achieved (%)	Upheld (%)
		Target	Actual (Average)		
Process delay	**5**	**5**	**4**	**100**	**60**
Waiting time telephone	**1**	**5**	**1**	**100**	**100**
Quality of information	**1**	**5**	**5**	**100**	**0**
*Other	**1**	**5**	**19**	**0**	**100**

Waiting time telephone – 2nd stage	**1**	**20**	**2**	**100**	**100**
Process delay- 2nd stage	**1**	**20**	**4**	**100**	**0**

* member not happy with transfer options. A complex case that took a full investigation. This was the reason for delay in providing response to the complaint.

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 97,000+ pensioner members. Payroll was run and paid each month without incident.
- Some transactions did not achieve target, in particular deferred options and estimates. This was due to a mixture of resourcing issues and clearing deferred backlog cases. An additional 678 deferred options were issued this quarter.

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 70% of the active membership.

Total employers at 1st Oct 2024	**143**
New employers	0
Exiting employers	1
Total employers at 31st Dec 2024	**142**

There was one employer exit this quarter which is summarised below.

Employer	Background	Exit Status
Sanctuary Scotland	Sanctuary Scotland (or its predecessor, Cumbernauld Housing Association) had been an admitted body in SPF since 2000 and had 4 scheme members at the date of the 2023 actuarial valuation.	Sanctuary became an exiting employer at 31st December 2024. An exit credit will be paid in line with Regulation 61.

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**	***99***

There were 5 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.

Oct	Nov	Dec	Total	Total Expected	Target	Achieved	Last Quarter
123	121	121	**365**	**429**	**100%**	**85%**	**86%**

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 31st December 2024 is summarised as follows.

Customer Engagement	2024/25		*2023/24*
	Actual	Target	*Actual*
Total signed up for *SPFOnline*	**145,781**	**146,000**	***135,568***
Logged in during YTD	**93,537**	**77,000**	***69,945***
Weekly visits to: www.spfo.org.uk	**7,267**	**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:

SPF's annual newsletter, Pension News, was issued to **86**,**224** pensioners.

- **51%** were issued via SPFOnline with notification via email;
- **37%** were issued via SPFOnline with notification by letter; and only
- **12%** were issued hard copy.

Life Certificates were issued to **1,089** overseas pensioners to verify their existence.

- **79%** were issued via SPFOnline with notification via email;
- **10%** were issued via SPFOnline with notification by letter; and only
- **11%** were issued hard copy.

There was also an option to upload the signed certificate online.

6 Scheme Developments

6.1 Budget 2024 - Consultation on Inheritance Tax on Pensions

As announced in its 2024 Autumn Budget, the Government launched a technical consultation on Inheritance tax on pensions: liability, reporting and payment.

A joint response was submitted on behalf of Strathclyde Pension Fund and the other Scottish LGPS funds.

The main highlights of the technical response are:

- the administrative and reporting burden placed on Pension Scheme Administrators would be hugely disproportionate to the actual impact of the change in terms of tax liability;
- proposed timescales are likely to be unachievable in many instances; and
- clarification is required in various areas.

The consultation closed on 22 January 2025. The proposed changes are due to take effect from 06 April 2027.

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.

<u>Appendices</u>

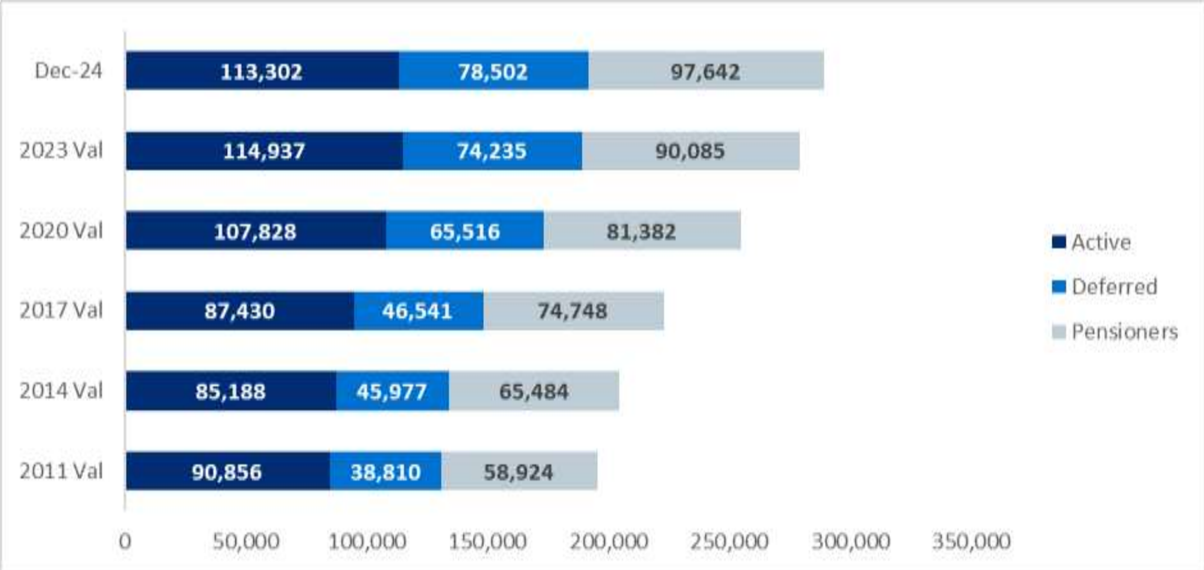
Appendix 1 Membership – Additional Analysis

Appendix 1

Membership – Additional Analysis

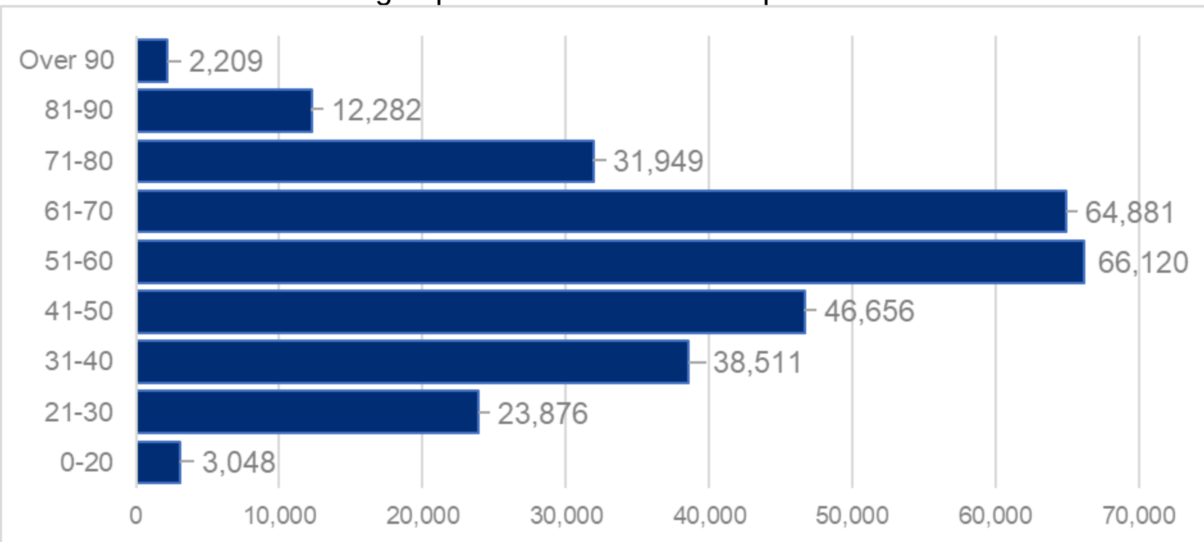
Longer-Term Trends

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 each quarter but there has been an increase this quarter from 112,872 to 113,302.

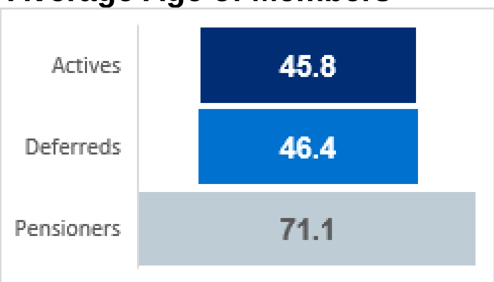


Total Members by Current Age

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 9

19th March 2025

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.

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 summary statement below shows the administration costs for 2024/25 to period 12 ending 7th February 2025.

2024/25 Annual Budget (£000)	**SPFO Budget**	**2024/25 YTD**		
		Actual (£000)	**Budget (£000)**	**Variance (£000)**
4,342	Employee costs	3,388	3,723	335
648	Property costs	544	555	11
1,247	Supplies and services	1,067	1,069	2
0	Transport costs	0	0	0
412	Contracted services	390	353	(37)
1,275	Central support	1,093	1,093	0
7,924	**Total Expenditure**	**6,482**	**6,793**	**311**
(177)	Operating income	(388)	(151)	237
(3,860)	Interest receivable	(7,655)	(3,310)	4,345
(4,037)	**Total Income**	**(8,043)**	**(3,461)**	**4,582**
3,887	**Net Expenditure/(Income)**	**(1,561)**	**3,332**	**(4,893)**

Year to date actual expenditure of **£6.482m** is **£0.311m** lower than the comparable year to date budget of **£6.793m.** This is mainly within employee costs and due to vacancies during the course of the year.

Expenditure is offset by interest received into the day-to-day operating bank accounts and other income. The year-to-date bank interest is **£7.655m**, which is **£4.345m** higher than budget, mainly due to higher cash balances being held following the transfer of funds from investments. Other operating income is also performing better than the year-to-date budget due to annual billings being levied early.

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	(802,279)	(978,696)	(925,682)
Income	471,426	477,437	612,389
Net Addition / Reduction(-)	**(330,853)**	**(501,259)**	**(313,293)**
Interest Received	7,655	3,860	7,973
Transfer from Investments	250,000	400,000	300,000
Closing Bank Balance	**157,283**	**133,082**	**225,161**

Probable outturn figure for expenditure is currently below the original estimate for the year.

Actual income figure includes **£123m** which was received from other funds as part of an exercise by Scottish Fire & Rescue Services to consolidate all of its LGPS interests into SPF. This was not included in the original estimate, and probable outturn is significantly higher than the original estimate as a result.

The net position is therefore better than originally anticipated, though still a large net reduction. Transfers from investments are arranged as required over the course of the year.

4 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 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:	None

5 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 10

19th March 2025

Investment Update

Purpose of Report:

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

- investment performance to 31st December 2024
- distribution of portfolios and DIP investments as at 31st December 2024
- the Investment Advisory Panel meeting of 13th February 2025
- stewardship activity during Quarter 4 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 ☐

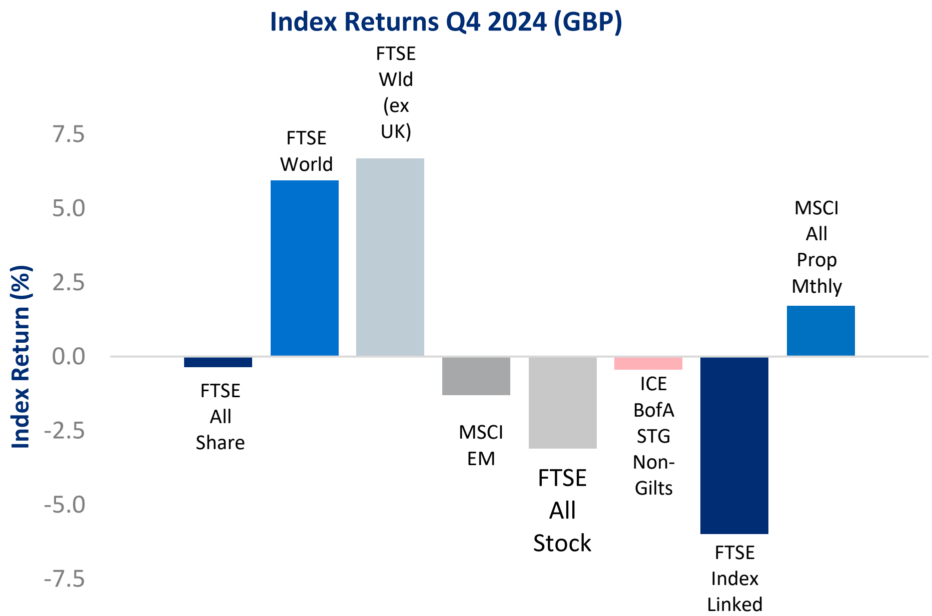
1 **Background**

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 ended 2024 up almost 20% in USD terms. In the final quarter, markets rose in November and early December, before slipping back towards the year end. The US election result had a positive impact as markets anticipated a policy program that would support economic growth, lower taxes and reduce regulation. Conversely, in Europe, the potential for the Trump administration to impose trade tariffs was seen as a risk. Political uncertainty in France and Germany also weighed on markets. UK equities fell into negative territory as inflation rose and the Bank of England made the decision to hold interest rates at its final meeting of the year.

Global Government bond yields rose, with benchmark 10-year yields in the US, the UK, Germany and Japan all higher at the close of the quarter. In the US, yields rose significantly from 3.8% to 4.8% as inflation persisted and the Fed indicated that there would only be two interest rate cuts in 2025. In Germany, yields on 10-year bunds rose from 2.0% to 2.7% as headline inflation and GDP growth protections were revised down. UK 10-year treasury gilt yields increased from 4.0% to 4.5%, the highest rate since March, as inflation rose and GDP fell. In Japan yields rose from 0.9% to 1.1% as the bank of Japan maintained its short-term interest rate and gave little indication as to how soon rates could rise. In the corporate bond market, yields increased and credit spreads tightened.

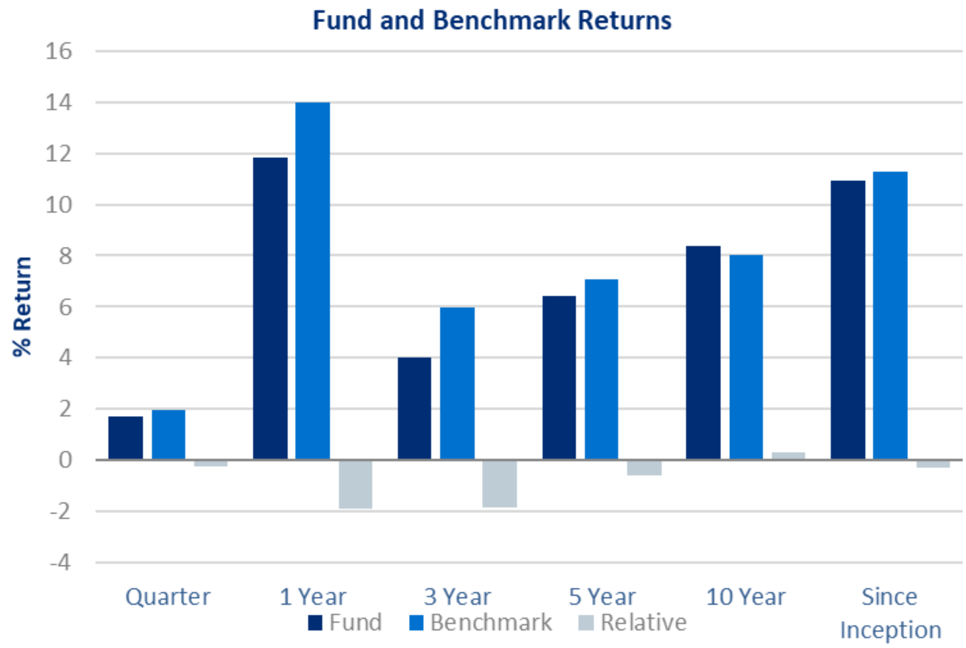


- The **FTSE All Share** Index returned **-0.4%,** the **FTSE World ex UK** index **+6.7%** and the **MSCI Emerging Markets** index **-1.3%**, compared with Q3 returns of **+2.3%**, **+0.2%** and **+2.6%** respectively.
- The **FTSE All Stock Index** returned **-3.1%** compared with **+2.3%** in Q3.
- **Sterling** rose by **+0.6%** against the euro and fell **-6.6%** against the dollar.

- The **MSCI All property monthly return index** returned **+2.6%**, comprised of a capital return of +1.2% and an income return of +1.4%. Industrials, retail and hotels were the strongest performing sectors over the quarter.

3 Fund Performance

The **Fund's value** at 31st December 2024 was **£31,206m**, an increase on the 30th September valuation of **£30,864m**.



The **Fund's total return** for Quarter 4 2024 was **+1.1**%, behind the benchmark return of **+1.7%.** 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 4:

- 6 active managers outperformed their benchmark; and
- 14 active 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 Sep 2024 (£m)*	*30 Sep 2024 (%)*	31 Dec 2024 (£m)	31 Dec 2024 (%)	Target (%)
Equity	*15,381*	*49.8*	15,846	**50.8**	**47.0**
Hedging & insurance	*3,097*	*10.0*	2,936	**9.4**	**10.0**
Credit	*1,680*	*5.4*	1,633	**5.2**	**5.0**
Short term enhanced yield	*5,024*	*16.3*	4,933	**15.8**	**17.0**
Long Term enhanced yield	*5,682*	*18.4*	5,858	**18.8**	**21.0**
Total	***30,864***	***100.0***	**31,206**	**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 and Q4 2024. Transition activity in Q4 2024 includes:

- LGIM transitioned 2.5% of passive corporate bond holdings to the LGIM Future World Net Zero Buy and Maintain Credit fund in two tranches during October and November.
- The Genesis holding was redeemed in 3 tranches during October. The proceeds were invested in the RBC Emerging Markets Equity Fund during December 2024.

The following transition activity is ongoing:

- Officers are working through options for divesting the Fidelity Emerging Markets fund holdings. Proceeds will be invested in the RBC Emerging Markets Equity fund to reach the final target allocation of 2.0% of fund.
- LGIM are working to transition the current UK and US credit funds to Low Carbon Transition credit funds
- In December 2024, the committee approved an additional £200m commitment to ICG Longbow. Officers are working through the legal and subscription process and expect the commitment to be complete late February 2025.

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 on 13th February 2025. 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**. Highlights include:

- In September, the Fund received the results of its **2024 PRI Assessment**. The Fund submitted information for 4 assessment areas or 'modules' which can receive possible scores from 1 star (lowest) to 5 stars (highest). The Fund scored a maximum 5 stars for 2 of the modules assessed, and 4 stars for the remaining 2 modules.
- Ahead of the **COP 16 United Nations Biodiversity Conference** in Cali Colombia, the Fund co-signed a letter from a global coalition of investors representing over USD 2.5 trillion urging governments to take ambitious policy and regulatory action to halt and reverse global biodiversity loss.
- In October the Fund supported a collaborative **PRI** investor engagement letter to **General Mills, Inc.** regarding forced and child labour in sugar supply chain in India.
- **Sustainalytics** issued its final report for the thematic engagement, **Climate Change - Sustainable Forests and Finance** which aimed to address climate-related risks and advocate for emissions reduction across global food systems. Through the course of 3 years of engagement with companies in the commodities, food and financial sector, Sustainalytics

have seen improvement across a range of performance metrics. Sustainalytics will continue dialogue with most of the companies included in Sustainable Forests and Finance through a new programme - Biodiversity & Natural Capital (BNC) Thematic Stewardship.

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.

<u>Appendices</u>

Appendix 1	**Investment Objectives and Strategy**
Appendix 2	**Fund and Asset Class Performance**
Appendix 3	**Manager Performance**
Appendix 4	**Portfolio Summary**
Appendix 5	**Direct Impact Portfolio**
Appendix 6	**Investment Advisory Panel**
Appendix 7	**Stewardship Activity**

Appendix 1

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 **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 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**

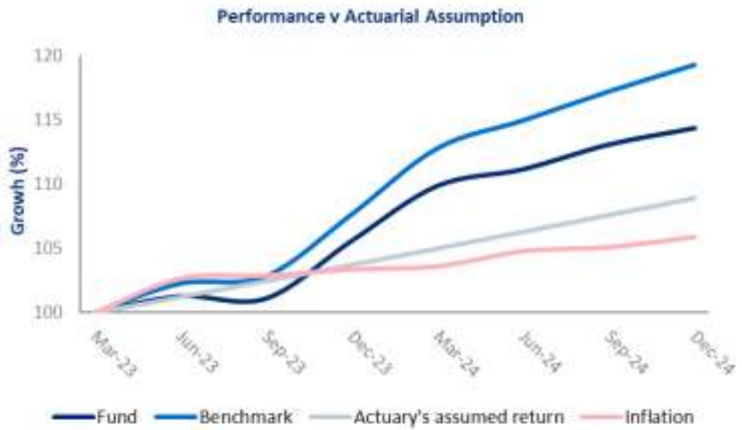
Fund and Asset Class Performance

1. Returns by Asset Class

	Latest Quarter			1 Year			3 Years			5 Years		
Asset Class	Fund %	B'mark %	Relative %	Fund %	B'mark %	Relative %	Fund %	B'mark %	Relative %	Fund %	B'mark %	Relative %
Equity	2.5	3.7	(1.2)	12.3	17.6	(4.5)	4.5	7.3	(2.6)	8.6	9.8	(1.0)
Hedging & Ins	(5.2)	(5.2)	0.0	(3.4)	(3.5)	0.1	(0.9)	(13.7)	14.8	1.3	(5.5)	7.2
Credit	(2.6)	(2.9)	0.3	0.8	0.4	0.3	(4.5)	(4.6)	0.1	(1.5)	(1.5)	0.1
STEY	0.8	1.9	(1.1)	5.8	7.6	(1.7)	3.8	6.4	(2.5)	3.4	5.2	(1.7)
LTEY	2.1	1.7	0.4	5.3	4.6	0.6	3.6	4.3	(0.6)	4.0	4.6	(0.5)
Total Fund	1.1	1.8	(0.6)	8.3	10.8	(2.3)	3.4	5.4	(1.9)	6.2	7.1	(0.8)

2. Performance Attribution

3. Performance vs Actuarial Assumption



- In Q4, LTEY and Credit outperformed their benchmarks. In absolute terms, Equity was the strongest performer, while Credit and Hedging and Insurance delivered negative 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 Q4, 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	4.0	14.1	1.3	6.4	8.9
	Relative	(2.1)	(5.0)	(6.8)	(3.7)	0.8
Lazard	Actual	1.7	8.5	3.7	9.2	9.6
	Relative	(4.1)	(9.3)	(4.2)	(1.9)	0.2
Oldfield	Actual	(1.7)	3.9	3.4	2.5	7.6
	Relative	(7.3)	(13.1)	(4.5)	(8.0)	(4.6)
Veritas	Actual	4.2	14.9	6.3	8.8	12.3
	Relative	(1.7)	(3.9)	(1.8)	(2.3)	(0.0)
Lombard Odier	Actual	(2.6)	9.2	(4.2)	7.3	7.1
	Relative	(1.8)	3.5	3.0	5.6	2.7
JP Morgan	Actual	2.8	10.3	(2.9)	5.7	11.4
	Relative	1.6	1.8	(4.5)	(0.3)	1.7
Active EM Equity[1]	Actual	3.2	13.4	(1.1)	0.9	8.7
	Relative	4.2	3.3	(2.9)	(3.0)	1.3
RBC	Actual	-	-	-	-	(2.4)
	Relative	-	-	-	-	(1.6)
Pantheon	Actual	8.6	5.6	5.3	12.8	13.4
	Relative	2.4	(11.7)	(2.7)	5.6	4.3
Partners Group	Actual	(1.0)	(3.7)	2.1	10.9	10.9
	Relative	(6.6)	(19.5)	(5.6)	3.8	4.3
L&G Equity[(2)]	Actual	2.1	18.3	7.1	9.4	9.9
	Relative	0.1	(0.9)	(0.4)	(0.3)	-
L&G RAFI	Actual	2.6	15.3	9.6	10.0	10.2
	Relative	0.2	0.6	0.5	0.3	0.0
L&G EM Equity	Actual	0.4	13.8	2.9	-	1.8
	Relative	(0.8)	(1.8)	(0.8)	-	(1.5)
Total	**Actual**	**2.5**	**12.3**	**4.5**	**8.6**	**9.4**
	Relative	**(1.2)**	**(4.5)**	**(2.6)**	**(1.0)**	**(0.1)**

1.2 Manager Performance Commentary

Equity underperformed over the quarter; 7 of the 10 active managers underperformed their benchmarks. **Pantheon** outperformed their benchmark and were the strongest performer on absolute terms, while **Active EM Equity** (Genesis and Fidelity) was the strongest performer on a relative basis. **Lombard Odier** underperformed their benchmark and were the weakest performer on an absolute basis. In terms of relative performance, **Oldfield, Lazard** and **Partners Group** were weakest. **RBC** was funded in tranches throughout December; the since inception figure in the table above is behind benchmark.

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.

Manager Performance

Active EM Equity outperformed over the quarter, mainly due to the realised gain on the divestment from the Genesis Emerging Markets fund.

Oldfield underperformed their benchmark, with **Samsung Electronics** and **Heineken** being the main detractors. Over the longer term, Oldfield have significantly underperformed, being the weakest performer over five years and since inception.

Pantheon outperformed 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, were 1.81x and 1.77x respectively.

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	0.7	6.3	5.7	4.1	3.0
	Relative	(1.2)	(1.8)	(1.3)	(1.5)	(0.1)
Ruffer	Actual	(3.6)	(1.5)	(0.3)	3.8	4.3
	Relative	(5.4)	(8.8)	(6.7)	(1.6)	(0.9)
Barings (Multi Credit)	Actual	1.3	8.9	2.8	3.1	3.4
	Relative	(0.7)	(0.2)	(4.8)	(3.2)	(2.2)
Oak Hill	Actual	0.9	8.1	5.3	4.7	4.4
	Relative	(1.2)	(0.9)	(2.4)	(1.6)	(1.3)
Barings (Private Debt)	Actual	2.1	10.6	8.5	7.0	6.2
	Relative	0.0	1.4	0.6	0.5	0.4
Alcentra	Actual	1.3	4.0	4.7	5.1	6.2
	Relative	(0.8)	(4.6)	(3.0)	(1.3)	0.4
ICG Longbow	Actual	1.1	3.3	4.9	4.4	3.6
	Relative	(1.0)	(5.3)	(2.8)	(1.9)	(2.6)
Partners Group (Private Debt)	Actual	1.6	8.2	7.0	n/a	4.9
	Relative	(0.4)	(0.7)	(0.8)	n/a	(1.5)
Total	**Actual**	**0.8**	**5.8**	**3.8**	**3.4**	**3.2**
	Relative	**(1.1)**	**(1.7)**	**(2.5)**	**(1.7)**	**(1.3)**

2.2 Manager Performance Commentary

Short-term enhanced yield underperformed in Q4 with 7 out of 8 managers underperforming their benchmarks. **Barings Private Debt** was the strongest performer in both absolute and relative terms. **Ruffer** was the weakest performer on both an absolute and relative basis.

The STEY strategy is behind benchmark over 3 and 5 years, with only **Barings Private Debt** outperforming.

The **Barings Private Debt** portfolio performed in line with benchmark over the quarter and has outperformed over 1,3 and 5 years. Performance was driven by the separately managed account (SMA). In Q3 (the latest quarter for which data is available) 4

Manager Performance

investments were realised with a total value paid in multiple of 1.3x and IRR and average IRR of 9.6%.

Ruffer underperformed the benchmark over the quarter and is behind benchmark over the longer term. Absolute returns are negative over the quarter and 1, 3 and 5 years. The fund's aim of having a balance between protection and growth assets was frustrated as Trump's election victory drove investor optimism in the US to extreme highs, while at the same time holdings in the yen, gold miners and inflation linked bonds suffered.

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	2.6	8.6	0.6	2.8	6.2
	Relative	1.2	6.4	1.2	1.7	0.4
Partners Group RE (2)	Actual	(2.1)	(12.7)	(2.9)	(1.6)	4.8
	Relative	(5.4)	(19.5)	(11.9)	(10.0)	(3.6)
JP Morgan IIF	Actual	2.6	10.6	9.2	7.8	7.3
	Relative	0.6	2.4	1.1	(0.2)	(0.6)
Total	**Actual**	**2.1**	**5.3**	**3.6**	**4.0**	**5.1**
	Relative	**0.4**	**0.6**	**(0.6)**	**(0.5)**	**(0.0)**

3.2 Manager Performance Commentary

Performance of the long-term enhanced yield allocation was ahead of benchmark in Q4 2024. The **DTZ** UK direct property portfolio and **JP Morgan Institutional Infrastructure Fund** outperformed their benchmarks, while **Partners Group** underperformed**.**

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 Q4. The portfolio benefited from capital growth of £25.5m driven mainly by the industrial assets in the portfolio as a result of increasing rental values and improving yields.

Partners Group are behind their strategic benchmark (8% per annum adjusted for currency movements) over all time periods and are behind 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 1.15x.

Appendix 4

Portfolio Summary 31st December 2024

	Equity		Hedging & Insurance		Credit		Short Term Enhanced Yield		Long Term Enhanced Yield		Total		Target
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	%
L&G	6,135	*19.7%*	2,936	*9.4%*	1,633	*5.2%*					**10,704**	***34.3%***	*33.0%*
Baillie Gifford	2,526	*8.1%*									**2,526**	***8.1%***	*7.5%*
Lazard	992	*3.2%*									**992**	***3.2%***	*2.5%*
Oldfield	850	*2.7%*									**850**	***2.7%***	*2.5%*
Veritas	989	*3.2%*									**989**	***3.2%***	*2.5%*
Lombard Odier	429	*1.4%*									**429**	***1.4%***	*1.0%*
JP Morgan	947	*3.0%*							1,449	*4.6%*	**2,396**	***7.7%***	*7.5%*
Active EM Equity	120	*0.4%*									**120**	***0.4%***	*0.0%*
Pantheon	1,419	*4.5%*					0	*0.0%*			**1,419**	***4.5%***	*5.8%*
Partners Group	878	*2.8%*					324	*1.0%*	587	*1.9%*	**1,788**	***5.7%***	*5.5%*
RBC	424	*1.4%*									**424**	***1.4%***	*2.0%*
PIMCO							1,153	*3.7%*			**1,153**	***3.7%***	*4.0%*
Ruffer							533	*1.7%*			**533**	***1.7%***	*2.0%*
Barings (multi-credit)							719	*2.3%*			**719**	***2.3%***	*2.3%*
Oak Hill Advisors							576	*1.8%*			**576**	***1.8%***	*1.8%*
Barings (private debt)							404	*1.3%*			**404**	***1.3%***	*1.8%*
Alcentra							259	*0.8%*			**259**	***0.8%***	*0.0%*
ICG Longbow							330	*1.1%*			**330**	***1.1%***	*1.0%*
DTZ									2,443	*7.8%*	**2,443**	***7.8%***	*9.0%*
DIP	136	*0.4%*					110	*0.4%*	1,379	*4.4%*	**1,625**	***5.2%***	*7.5%*
Cash							525	*1.7%*			**525**	***1.7%***	*1.0%*
Total	**15,846**	**50.8%**	**2,936**	**9.4%**	**1,633**	**5.2%**	**4,933**	**15.8%**	**5,858**	**18.8%**	**31,206**	**100.0%**	**100.0%**
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	**1,827**	**1,751**
+ Increase in Value	**635**	**589**
- Received Back in Distributions	**733**	**733**
- Realisations	**122**	**-**
= Total Net Asset Value (NAV)	**1,607**	**1,607**

Based on a current total Fund value of **£31,206m**, DIP's **5%** target allocation is a NAV of **£1,560m**.

The portfolio comprises **65** separate investments. In addition, a co-investment program of was approved at the March 2022 meeting of the SPF Committee and increased to £300m at the November 2024 meeting. To date 3 co-investments, each for £15m, have been invested, with the remaining **£255m** yet to be allocated which is not included in the table above.

In Q4, total drawdowns and distributions amounted to **£30m** and **£36m** respectively.

2 Performance

Portfolio performance to 31st December 2024 is as follows:

	Q4 2024		3 Year		5 Year	
	DIP	SPF	DIP	SPF	DIP	SPF
	% (p.a.)	% (p.a.)	% (p.a.)	% (p.a.)	% (p.a.)	% (p.a.)
Equity	-1.8	2.5	6.3	4.5	15.3	8.6
LTEY	2.8	2.1	8.0	3.6	5.6	4.0
STEY	2.6	0.8	8.5	3.8	7.3	3.4
TOTAL	**2.4**	**1.1**	**7.8**	**3.4**	**6.4**	**6.2**

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

Performance continues to be positive over the longer-term periods (3 years+) but with a softening over shorter periods. The main drivers are:-

Positive Drivers (longer term returns): -

- strong returns from the mainly inflation-linked revenues underpinning the majority of the LTEY investments, such as the infrastructure (Infra), renewable energy (RE) & housing funds, which form the bulk of DIP;

Direct Impact Portfolio

- strong historical performance from the multiple private equity (PE), and to a lesser extent also the private debt funds, although the overall total amount invested in these asset classes is smaller than in Infra & RE.

Detractors (shorter term returns): -

- stronger power prices over the past couple of years were initially positive for RE 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;
- 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 fund returns;
- lower valuation multiples applying in PE 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:

- **58** investments are rated **green**;
- **7** are **amber**;
- **None red**.

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

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	15
Corran Environmental Fund II	2024	Growth Capital	Equity	20	13	7	0	13
Epidarex Fund II	2013	Venture Capital	Equity	5	5	0	3	4
Epidarex Fund III	2019	Venture Capital	Equity	15	11	4	1	10
Foresight Regional Investment V LP	2023	Growth Capital	Equity	30	10	20	0	8
Maven Regional Buyout Fund	2017	Growth Capital	Equity	20	18	2	17	10
Palatine Impact Fund II	2022	Growth Capital	Equity	25	10	15	0	8
Palatine Private Equity Fund IV	2019	Growth Capital	Equity	25	17	8	16	16
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	17	4
Panoramic SME Fund 3 LP	2022	Growth Capital	Equity	25	7	18	1	6
Par Equity Northern Scale-Up Fund	2023	Venture Capital	Equity	25	7	18	0	8
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	3
SEP V LP	2016	Growth Capital	Equity	20	20	0	12	24
SEP VI LP	2021	Growth Capital	Equity	30	10	20	0	9
Total as at 31/12/2024	**Q2**			**331**	**179**	**152**	**106**	**149**

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	19	35
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	41
Capital Dynamics Clean Energy UK Fund	2023	Renewables	LTEY	60	11	49	0	11
Clydebuilt Fund II LP	2021	Property	LTEY	100	68	32	3	67
Clydebuilt Fund LP	2014	Property	LTEY	75	75	0	72	17
Dalmore Capital Fund 3 LP	2017	Infrastructure	LTEY	50	50	0	14	53
Dalmore Capital Fund 4 LP	2021	Infrastructure	LTEY	50	50	0	5	51
Dalmore II 39 LP	2021	Infrastructure	LTEY	50	30	20	3	31
Dalmore PPP Equity PiP Fund	2014	Infrastructure	LTEY	50	50	0	37	43
Equitix Fund IV LP	2015	Infrastructure	LTEY	30	30	0	13	28
Equitix Fund V LP	2018	Infrastructure	LTEY	50	50	0	15	53
Equitix Fund VI LP	2020	Infrastructure	LTEY	50	50	0	4	54
Equitix Fund VII LP	2024	Infrastructure	LTEY	50	28	22	0	49
Equitix MA 19 LP (Co-Investment Fund)	2020	Infrastructure	LTEY	50	50	0	7	58
Funding Affordable Homes	2015	Property	LTEY	30	30	0	0	27
Greencoat Solar Fund II LP	2017	Renewables	LTEY	50	50	0	17	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

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)
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	5	76
Macquarie GIG Renewable Energy Fund I	2015	Renewables	LTEY	80	80	0	69	58
Man GPM RI Community Housing Fund	2021	Property	LTEY	30	26	4	0	27
NextPower UK ESG Fund	2022	Renewables	LTEY	60	31	29	2	33
NTR Wind I LP	2015	Renewables	LTEY	39	34	4	36	35
PIP Multi-Strategy Infrastructure LP(Foresight)	2016	Infrastructure	LTEY	130	120	10	61	83
Places for People Scottish Mid-Market Rental (SMMR) Fund	2019	Property	LTEY	45	40	5	4	46
Quinbrook Renewables Impact Fund (QRIF1)	2020	Renewables	LTEY	50	44	6	-3	50
Quinbrook Renewables Impact Fund (QRIF2)	2024	Renewables	LTEY	60	14	46	0	14
Resonance British Wind Energy Income Ltd	2013	Renewables	LTEY	10	10	0	8	8
Temporis Impact Strategy V LP (TISV)	2021	Renewables	LTEY	50	32	18	9	41
Temporis Operational Renewable Energy Strategy (TORES)	2017	Renewables	LTEY	30	20	10	12	48
Temporis Operational Renewable Energy Strategy (TORES II) (prev. TREF)	2015	Renewables	LTEY	30	30	0	11	38
Total as at 31/12/2024	**Q2**			**1,609**	**1,343**	**265**	**452**	**1,311**

Direct Impact Portfolio

Asset Category: STEY								
Beechbrook UK SME Credit II Fund	2016	Credit	STEY	30	29	1	25	17
Beechbrook UK SME Credit III Fund	2021	Credit	STEY	40	34	6	9	30
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	46	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	18	16
Total as at 31/12/2024	**Q2**			**230**	**198**	**32**	**171**	**110**
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	3	23
Temporis (TISV Co-invest1 LP TISV 2)	2024	Renewables	LTEY	15	0	15	0	0
DIP Portfolio Total								
Total as at 31/12/2024	**Q4**			**2,214**	**1,751**	**464**	**733**	**1,607**
Total as at 30/09/2024	**Q3**			**2,214**	**1,707**	**507**	**699**	**1,547**

Investment Advisory Panel Meeting February 2025

MINUTES OF MEETING ON Thursday 13th February 2025

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
	Richard Keery	Investment Manager
	Ian Jamison	Investment Manager
	Lorraine Martin	Assistant investment Manager
	Moira Gillespie	Investment Assistant
	David Warren	Investment Administrator

1. Minutes from Last Meeting & any Matters Arising

The minutes of the Panel meeting on 14th November 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 **Q4 2024** was +**1.1%**, behind the benchmark return of **+1.7%**. Performance for the year to 31st December 2024 was positive (+**8.3%**), but below benchmark (**+10.8%**). 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 Overseas Currency Hedge

In September 2017, the Strathclyde Pension Fund Committee agreed that the Fund would hedge 33% of its currency exposure arising from overseas equity by switching investments in LGIM passive index funds to currency hedged alternatives. In March 2021 and again in 2024, as part of the Fund's triennial review of investment strategy, the Committee agreed to maintain currency hedging of overseas equity exposure.

The Panel reviewed a monitoring report that indicated that:

- the Fund's overseas hedge ratio at end December was **35.1%** vs its target of **33%**.

- the currency hedge had added value to the Fund in the 12 months to 31st December due to the appreciation in Sterling against the US dollar and other major currencies.
- since the inception of the hedging strategy, total gains from currency had been reduced by the hedge, mainly as a result of the depreciation of Sterling against the US dollar.

The Panel remained supportive of the current hedging target weight of **33%** of overseas listed equity.

2.5 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:

- **58** investments are rated **green**;
- **7** are **amber**;
- **None red**.

2.6 Funding Level Monitoring

The Panel reviewed an updated Funding level report from Hymans Robertson. The funding level at the end of December 2024 was estimated to have increased to **178%**, compared with the funding level of **147%** at the last valuation date, 31st March 2023.

2.7 Investment Cost Monitoring

The Panel reviewed a benchmarking report produced by CEM covering the period to 31st March 2024. Main findings included:

- **34%** of SPF assets rated as high cost versus a global peer group average of **29%**
- SPF cost of **70.8bps** was above the CEM LGPS universe cost of **69.4bps**
- SPF 5-year net total return of **+6.9% p.a.** was above the LGPS median of **+6.6% p.a.**
- SPF 5-year benchmark return of **+7.3% p.a.** was above the LGPS median of **+6.3% p.a.**
- SPF 5-year net value added of **-0.4% p.a.** was below the LGPS median of **+0.4% p.a.**
- SPF benchmarked costs had fallen from **83.4bps** in 2020 to **70.8bps** in 2024
- SPF 10-year realized Sharpe ratio of **0.8** was above the LGPS median of **0.74**

The Panel concluded that the CEM report provided some assurance and no real surprises regarding SPF costs.

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.

Main points were that:

- 2025 forecasted net cash flow is **+£343m**

- 2024 actual net cash flow from private markets was **+£159m –** see table below

	2024	
	Estimate (£m)	**Actual (£m)**
Distributions	646	539
Calls	-515	-380
Net	**+131**	**+159**

- central cash balance at 31st December 2024 was +**£525m**
- this had decreased by **£77m** during the quarter as the Fund continued implementation of its revised investment strategy
- a transfer from investments of **£100m** in Q1 2025 will be required to cover benefit payments.

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

3.2 Rebalancing Strategy

The Panel reviewed a rebalancing report showing Fund allocations vs new strategy allocations as at 31st December 2024.

As a result of the transition activity carried out during the year, allocations were generally very close to the new strategic targets agreed at the conclusion of the investment strategy review.

There were no breaches of ranges and the Panel agreed that no rebalancing action was required.

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 31st December 2024:

- Spreads on both US and UK investment grade credit are substantially below 20-year medians. Global credit spreads are significantly below the 25th percentile levels. This supports reducing passive credit.

- Nominal gilt yields are now attractive relative to Hymans' assessment of fair value based on long-term growth and inflation forecasts, across all maturities. This supports overweight allocation to nominal gilts.
- Real yields are still attractive out beyond 10 years. However, implied inflation is expensive when assessed against the framework terms. This supports holding a lower allocation 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 investment grade credit and index-linked gilts and a consequent overweight in gilts. The Panel agreed to proceed with the allocation changes as indicated subject to checking implementation feasibility and any impact on strategy review changes to the LGIM passive corporate bond mandate which are still to be completed.

4. Manager Reviews

4 investment managers attended the Investment Advisory Panel:

- **DTZ**
- **Baillie Gifford**
- **Lombard Odier**
- **JP Morgan (Global Small Cap)**

Performance of each of the managers was reviewed.

4.1 DTZ

The DTZ UK property portfolio is currently valued at **£2,355m**, or **7.6%** of total Fund, versus a target weight of 9%. DTZ provided an update on the current portfolio and performance together with an outline of investment strategy for 2025 and a progress update on their climate change and net zero strategy.

4.2 Baillie Gifford

The Baillie Gifford global equity portfolio is currently valued at **£2,526m**, or **8.1%** of total Fund, versus a target weight of 7.5%. Baillie Gifford provided an update on the current portfolio and performance including the most recent transactions, together with an explanation of their revised approach to climate change and net zero.

4.3 Lombard Odier

The Lombard Odier UK Smaller Companies equity portfolio is currently valued at **£429m**, or **1.4%** of total Fund, versus a target weight of 1.0%. Lombard Odier provided an update on the current portfolio, performance and investment markets together with an outline of their approach to active engagement and sustainability.

4.4 JP Morgan (Global Small Cap)

The JP Morgan equity portfolio is currently valued at **£947m**, or **3%** of total Fund, versus a target weight of 3%. JP morgan provided an update on the current portfolio, performance and regional investment markets together with an outline of their approach to managing portfolios.

5 Investment Strategy and Structure

5.1 Transition Update

Appendix 6

Investment Advisory Panel Meeting February 2025

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 Q4 2024 included:

- A phased reduction of the Fund's allocation to Equity and the increase in allocation to Hedging/ Insurance (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 JP Morgan International Infrastructure Fund (drawn down July 2024).
- A switch from the L&G passive corporate bond portfolio to L&G Future World Net Zero Buy and Maintain Credit fund (Q4 2024).
- Completed first phase of transition of emerging market equity mandates. Transition between Genesis and RBC completed (Q4 2024).
- Commitment to the Pantheon Private Debt Fund completed (Q4 2024) and will be drawn down over time.

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

- Transition of emerging market equity mandates still to complete, with the second phase – transition between Fidelity and RBC expected to begin in early 2025.
- Transition to new Low Carbon Transition buy and passive corporate bond mandates with LGIM will complete in early 2025.
- Commitment to ICG Longbow real estate debt fund VII will complete during Q1 2025 and be drawn down over time.

5.2 Value Equity Manager Overview

Hymans Robertson provided a follow-up paper to previous discussions regarding the Oldfield global equity mandate.

Investment Advisory Panel Meeting February 2025

The Panel had previously discussed the long-term feasibility of the Oldfield strategy and agreed that it would be prudent for the Fund to gain an understanding of other global equity value investment products.
Hymans Roberson presented a paper that provided a recap on recent developments at Oldfield and explored the wider global value equity universe with a comparative analysis of some alternative managers.

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

- The Panel will keep Oldfield under review and ask them to attend the next meeting of the Panel in May.
- Officers will work with Hymans to further explore alternative strategies and procurement options.

6 Governance

6.1 Strathclyde Pension Fund Committee.

The Panel noted the draft agenda for the next committee meeting on Wednesday 19th March 2025.

Appendix 7

Stewardship: Responsible Investment Activity

Responsible Investment: Quarter 4 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

1.2 In quarter 4, the Fund's Infrastructure manager **JP Morgan** provided a report on the Infrastructure Investments Fund (IIF) 2024 **Global Real Estate Sustainability Benchmark (GRESB)** Annual Infrastructure Asset Assessment.

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. 2024 marks the eighth year for the GRESB infrastructure assessment and participation included 167 Funds and 694 assets.

Key takeaways from the 2024 report include:

- The IIF portfolio received 4 stars and a score of 94, an improvement of 1 point from the 2023 survey.
- IIF ranked 29th out of 116 Infrastructure Funds in GRESB score. (31st out of 119 Infrastructure Funds in 2023).
- 6 IIF portfolio companies have a maximum 5-star rating and 15 IIF companies received a score of 90 an above.
- 16 of 19 IIF portfolio companies improved score their score.
- 9 IIF portfolio companies are ranked in the top 200 assets (out of 694 assets).
- Sonnedix ranked 14th of all the 694 assets covered in the assessment with a score of 100 and was recognised as a GRESB sector leader. Sonnedix develops and operates utility-scale solar projects globally, including 3.7 GW of installed capacity (2.8 GW in 2023), 1.0 GW of projects in construction and 6.1 GW of capacity in documentation and development stages.

In addition to benchmarking performance against peers, IIF uses the GRESB assessment as a tool to formally engage with each portfolio company twice a year and serve as a guide for continuous improvement for material ESG drivers as well as monitoring and preparing for future ESG trends.

1.3 UK direct property portfolio manager **DTZ** received results for the SPF portfolio's 2024 submission to **GRESB**. The Fund received 2 stars and a score of 74/100 and remains above the peer average score. DTZ also provided a 2024 update on progress against the SPF portfolio's decarbonisation objectives. Absolute emissions (tCO2e) are 28% lower and emissions intensity (tCO2e/m2) has reduced by 57% since the 2019 baseline. The portfolio remains on target for a 2040 net zero with a consistent reduction of emissions intensity across Landlord (scope 1&2) and Tenant (scope 3).

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 31st December 2024 is summarised as follows.

Voting activity to 31st December 2024		
		(%)
Total meetings	**2,268**	
Votes for	10,093	75
Votes against	2,779	21
Abstentions	493	4
Not voted	78	1
No. of Resolutions		**100**

Voting activity in the quarter included:

- **Legal & General** voted against the resolution to approve the Remuneration Implementation Report at the **African Rainbow Minerals Ltd** AGM. For companies in high-risk sectors, where the health and safety of employees is key, Legal & General would expect a health and safety modifier to be introduced to the annual incentive to ensure that board members are held accountable for any loss of life within the workplace. The report offered limited disclosure on the manner the bonuses were determined, and the upward adjustment by the safety modifier was a cause for concern considering the fatality recorded during the year. Legal & General therefore voted against the resolution (approved by 95%). Legal & General opposed management and voted for a shareholder resolution asking for a report on AI data sourcing accountability at **Microsoft**. The company is facing increased legal and reputational risks related to copyright infringement associated with its data sourcing practices. While the company has strong disclosures on its approach to responsible AI and related risks, shareholders would benefit from greater attention to risks related to how the company uses third-party information to train its large language models. (resolution passed by 76%).

- **Baillie Gifford** opposed a resolution which sought authority to issue equity at UK housebuilder **Bellway,** because the potential dilution levels are not in the interests of shareholders (resolution passed by 90%). At **Microsoft Inc.**, Baillie Gifford opposed the ratification of the auditor because of the length of tenure. 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 (resolution supported by 36%).

Stewardship: Responsible Investment Activity

- **Lazard** opposed management at the **Estee Lauder Companies Inc.** AGM by voting against named executive officers' remuneration, as it was deemed not to be in the best long-term interests of shareholders (resolution passed).

- **Veritas** opposed management at the **Microsoft Inc.** AGM by voting for two shareholder resolutions. The first resolution requested a report on risks of operating in countries with significant human rights concerns. Veritas believe shareholders would benefit from increased disclosure regarding how the company is managing human rights-related risks in high-risk countries. The second resolution asked for a report on AI data sourcing accountability. A vote for this resolution was warranted as the company is facing increased risks related to copyright infringement. Although it discloses information about its assessment of AI risks generally, shareholders would benefit from greater attention to risks related to how the company uses third-party information to train its large language models.

2.2 Engagement

Engagement highlights during the quarter include the following.

- **Legal & General** engaged with **Colgate-Palmolive** as part of their commitment to using best efforts to tackle commodity-driven deforestation impacts in investment portfolios by 2025.

  Legal & General have been engaging with Colgate-Palmolive since November 2022, just after the initial publication of the Legal & General deforestation policy. In addition to written communications, they have met with company representatives twice (in 2022 and 2024). The engagements have been focused on Colgate's deforestation approach as well as challenges and opportunities in meeting their deforestation commitments. Legal & General have engaged with the Chief Sustainability Officer and explored how the company is ensuring supplier compliance and increased traceability across commodities as well as grievance mechanisms robustness and key escalations for non-compliance. Legal & General have also sought to encourage increased board oversight of deforestation and prioritisation of this issue within the company's risk management agenda.

  Colgate-Palmolive meets the minimum expectations on deforestation, as set out above. They have also demonstrated further progress. In addition to appreciating responsible sourcing as a critical issue, they have been building relationships and furthering engagement with their suppliers, including ending relationships with those found to be non-compliant. In terms of monitoring, they have introduced satellite imaging and are undertaking the complex process of mapping palm oil derivatives. Additionally, the company has a 'grievance log' for palm oil for 2023. In terms of oversight, the frequency of board-level updates on deforestation has increased.

  The next engagement with the company will focus on traceability progress across key commodities, collaborations and work done with their peers to eliminate deforestation. Legal & General will also continue to discuss the company's work on mapping and addressing deforestation risks across their supply chain.

- **Baillie Gifford** met with the **Amazon.com** ESG team to discuss several ongoing sustainability concerns. The areas of discussion included employee engagement, supply chain transparency, human rights implications with cloudhosting, AI governance and commitment to decarbonisation.

  The discussion enabled Baillie Gifford to understand the company's position on a variety of subjects. For each concern raised, Baillie Gifford were provided with evidence to robustly defend the company's position and counter suggestions of unsustainable practices. Baillie Gifford heard about various company-wide initiatives to support employee engagement, including the company's 'Dragonfly' software tool that records employee safety-related feedback to turn into measurable action - over 200,000 observations were actioned in 2023. The company's efforts to meaningfully improve working conditions have reduced recorded injury rates to substantially below the industry average. Baillie Gifford also learned about efforts to engage and monitor the company's vast supply chain to reduce the risk of human rights abuses. Baillie Gifford were informed about the company's continued, substantial decarbonisation ambitions, including contracting 28GW of renewable power in 2023, equivalent to more than 50 per cent of the installed capacity in the whole of the UK. Finally, the company highlighted the recent board appointment of Stanford University adjunct professor Dr. Andrew Ng. He was previously the head of Google Brain, Baidu's chief scientist and is currently the managing partner of an AI venture fund. His appointment will help to inform the board's perspective on the opportunities and challenges that AI presents from both a social and commercial perspective.

  Given the scale and complexity of the company's operations, Baillie Gifford expect to continue regularly engaging with the company on several sustainability challenges. Unlike some of Amazon's technology peers, the company continues to listen and engage with long-term investors on challenging topics. Baillie Gifford were able to hear the company's thoughts on different subjects that have regularly appeared on shareholder proposals and will continue to constructively engage and thoughtfully vote on each proposal.

  Baillie Gifford engaged with mining company **BHP** to discuss and evaluate BHP's revised Climate Transition Action Plan (CTAP) ahead of the October annual general meeting (AGM). The focus was on assessing improvements in shareholder engagement, scenario disclosure, and decarbonisation commitments since the initial 2021 CTAP.
  While the new CTAP has not increased the 2030 target for operational emissions reduction, progress towards the goal continues and has been accompanied by more granular disclosure of emissions and partnerships across the scope 3 value chain. That said, with only $75m indicated for projects exploring options for iron-to-steel decarbonisation over the next five

years, transparency on the future for this core part of the business remains limited. Baillie Gifford spent time discussing the construction and use of the company's planning scenarios noting that more sophisticated incorporation of physical risks might encourage more ambition in policy lobbying and capex. Other commodity companies are showing more leadership in this area.

Baillie Gifford welcomed the advances in the revised CTAP but noted continuing concerns regarding capital allocation for downstream decarbonisation, inadequate scenario integration, and weak policy advocacy. Baillie Gifford will continue to engage with management on these points.

Baillie Gifford engaged with the Japanese digital advertising company **CyberAgent, Inc.** to understand their approach to problem gambling, particularly in their expanding keirin betting business, and to discuss their succession planning strategy.

CyberAgent sees potential in integrating gambling with their AbemaTV platform. This business currently represents less than 10 per cent of overall group revenues. However, they currently lack a comprehensive strategy for addressing potential problem gambling, especially since many Winticket users are first-time gamblers. Problem gambling, also known as gambling addiction or compulsive gambling, is characterised by continued gambling despite the negative impact it may have on an individual's life. Initial consideration is being given to using artificial intelligence analysis to identify incidents of problem gambling, although this initiative is still in its infancy. Current efforts are primarily focused on disclosing information concerning addiction. This somewhat contrasts their approach in mobile gaming, where more protections are in place due to a younger audience demographic.

Succession planning is also an ongoing priority. Founder Fujita-san is working to identify a successor in the coming years. The process is currently centred on internal candidates who are undergoing training and attending seminars, with Fujita-san personally mentoring them on various business topics.

CyberAgent's approach to problem gambling is currently limited, and so will remain an engagement priority going forward.

- **Lazard** hosted a call with **Microsoft** to discuss the company’s views regarding shareholder proposals filed relating to reporting on risks of using external data via artificial intelligence and misinformation and disinformation of AI. Lazard also additionally sought clarity on board composition concerning over boarding concerns.

  The company highlighted its $13 billion investment in AI partnerships, integration of ChatGPT into Copilot, and public disclosures on AI governance and data sourcing practices. It also published a Privacy Report detailing its efforts to protect privacy and manage data. On board composition, one director holds several directorships at other businesses. The company noted the skills and expertise of this director are regarded highly, bringing value to the board despite their other board commitments. This engagement informed Lazard's voting position ahead of the AGM and future engagement will focus on broader sustainability issues and the company's commitments to enhanced reporting in 2025, as well as board composition.

- **Oldfield Partners** continued engagement with **Eni S.p.A** on their decarbonisation commitments.

  As an integrated energy company, many of Eni's decarbonisation targets are ambitious relative to competitors. Their comparative flaring data however is significant. Flaring is the process of burning off excess methane gas, typically at oil and gas production sites. Oldfield spoke with Eni to better understand their data here as an inconsistency with their target of zero routine flaring by 2025, five years prior to that of the expectation outlined by World Bank. They emphasised that progress will not always be linear and there are two key country specific reasons for the flaring data:
  1) Libya contributes to half of their reported flaring. A significant project is currently underway in the region, and its successful completion is expected to enable Eni to meet their zero routine flaring target by the end of 2025.
  2) A local partner in Iraq accounts for a portion of the data attributed by third parties. Eni disputes this as being directly attributable to them due to their role as a technical partner. Despite this, Eni has actively worked to influence the situation, achieving a 40% reduction in flaring in 2022.

  Eni's situation highlights the complexities of operating in regions with geopolitical and infrastructure constraints, reflecting the nuanced efforts required to meet ambitious decarbonisation goals. Nonetheless, Oldfield were reassured by their oversight and will look to see whether they deliver on their 2025 target for evidence of this approach.

- **J.P. Morgan** met with **Jet2** to discuss its decarbonisation strategy amidst increasing regulatory pressures in the UK and Europe.

  The conversation highlighted Jet2's commitment to reducing carbon intensity per revenue passenger kilometre by 35% by 2035, compared to 2019 levels. The company plans to achieve this through acquiring more fuel-efficient aircraft, increasing the use of Sustainable Aviation Fuel (SAF) to a minimum of 15% by 2035, and leveraging airspace modernization initiatives by the UK and EU.

  Jet2 acknowledges the challenges posed by dependencies on government actions for SAF availability and airspace improvements, emphasizing the need for policy support. The company has invested in SAF production facilities, although current UK production is lacking, necessitating potential imports. The company has shifted its focus from offsetting residual emissions through the voluntary carbon market to exploring carbon removals from 2025, aligning with evolving market sentiments and regulatory frameworks. Financially, the company is cautious about disclosing detailed cost projections due to uncertainties in SAF production and potential regulatory changes. In 2024, 90% of its Scope 1 emissions were covered by the UK and EU Emissions Trading Schemes, costing approximately £125 million. The company anticipates rising costs as free allowances are phased out by 2026, potentially impacting travel affordability.

J.P Morgan will continue to monitor Jet2's progress in obtaining SBTI validation and encourage enhanced disclosure on decarbonisation costs over time.

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.

- Legal & General engaged with Luxembourg-based multinational steel manufacturer **Arcelor Mittal** to seek disclosure around decarbonisation technologies.

  Legal & General have been engaging with Arcelor Mittal on climate change since 2020 and have been in regular contact with the company, regarding the steps they are taking to decarbonise their business. The Legal & General Investment Stewardship team was invited, alongside other investors, to attend a site visit to Arcelor Mittal’s Sestao steel plant, to learn about and observe their decarbonisation technologies, and gain a deeper understanding of the steps they are taking, and the challenges they face as a company and as part of the steel industry in reaching net zero. The plant produces low-carbon-emissions steel, which has a significantly lower CO_2 footprint than traditional steelmaking and uses the Electric Arc Furnace processes. In addition to seeing these processes in action, including the thin slab direct casting process, the company representatives enabled insightful discussions among the investor attendees.

  Seeing this scale of engineering in person put the company’s decarbonisation efforts, and the challenges they face, into perspective. One of Legal & General’s key ‘take-aways’ was the role of policy and demand creation in shaping decarbonisation efforts, which emphasises the importance of continuing to broaden investor engagement across value chains, and of continuing to use influence as an asset manager to encourage effective decarbonisation at the policy level.

- **Lazard** engaged with luxury group **LVMH** to seek disclosure around its supply chain processes following investigations at small sites in Italy where forced labour was discovered.

  Lazard reviewed the incident and the company’s response, as well as meeting with management. The meeting discussed the company’s risk management processes, partnerships with industry groups and supply chain audit providers, and senior leadership accountability and governance. LVMH acknowledged responsibility for the issues found and emphasized its robust supply chain due diligence programs, including zero-tolerance rules for suppliers failing audits. While Tier 1 and 2 subcontractors had signed the code of conduct and been audited satisfactorily, the company recognized the need for additional oversight. The company has also opened a training centre in Europe for sustainability training and is increasing internal management accountability and governance practices on supplier auditing. A new team has been established for supply chain auditing, and a partnership with Italian authorities and the fashion federation aims to create a national certification system for suppliers.

The engagement increased confidence in the company's management of supply chain risks, and Lazard plans to monitor the progress of these initiatives.

- **Oldfield** met with the CEO of **NOV** to seek improved emissions disclosure, as well as seeking clarity around their transition strategy.

  Addressing disclosure, NOV acknowledged the challenges posed by divergent U.S. and EU expectations, especially in relation to scope 3 emissions. While committed to meeting regulatory requirements, they described reporting as a shareholder cost. In addition, NOV highlighted their enthusiasm for innovation and their ability to contribute to decarbonisation within the sector, focusing currently on geothermal, carbon capture, and nuclear opportunities. On energy policy, they expressed a pragmatic outlook, noting that state-level decisions play a greater role than federal policies in shaping the US energy landscape, and did not expect an increase in the rig count because of a change in political leadership.

- Oldfield wrote to the team at **Samsung** to understand if Samsung had seen an increase in consumer or shareholder expectations to follow a similar path to Google and Amazon publicly investing in nuclear projects and if so, how they were responding to this.

  Samsung reiterated their commitment to transitioning to 100% renewable energy by 2050 and sooner for their overseas operations (2027). Their intention is to continue to diversify their procurement methods both domestically and internationally and their greatest challenge remains in South Korea where they are reliant on availability of renewables in their local market. As a founding member of the Asia Clean Energy Coalition (ACEC), Samsung look to address the current limited availability. Oldfield highlighted what they believe to be an over reliance today on renewable energy certificates to meet their objectives and look to see how they transition over time towards alternative sources that they outline including hydrogen, carbon capture, utilisation and storage (CCUS).

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

Stewardship: Responsible Investment Activity

- Currently all the Fund's investment managers are signatories to the PRI principles and 31 of the 33 managers within the Direct Investment 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.

- The Fund is a signatory the new **UK Stewardship Code** (2020). 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 sixteen 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.

- The Fund received the results of its **2024 PRI assessment** during Quarter 4. This year, over 3,000 signatories submitted their reports, including more than 1,600 organisations that chose to report voluntarily. These reporters not only benefit from a clear and comprehensive assessment of their responsible investment practices but also gain valuable insights into how their performance compares with peers in the industry.
  The Fund submitted information for 4 assessment areas or 'modules' which can receive possible star scores from 1 star (lowest) to 5 stars (highest). The Fund scored 5 stars for 2 of the modules assessed, and 4 stars for the remaining 2 modules.

- 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 below.

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	No	Yes	Yes	TCFD, FAIRR, IIGCC, CDP
Lazard	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, IIGCC
Oldfield	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, IIGCC

Stewardship: Responsible Investment Activity

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+
RBC	Net Zero 2050	No	Yes	Yes	TCFD, CA100+, 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
DTZ	Operational Net Zero 2030. Portfolio Net Zero 2040	No	No	Yes	TCFD, IIGCC, GRESB, BBP

***** Baillie Gifford withdrew from the Climate Action 100+ (CA100+) and the Net Zero Asset Managers (NZAM) initiatives in Q4 2024.

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).

- At the close of the quarter the **CDP Non-Disclosure Campaign** (NDC) published its 2024 report. The report highlights the campaign's impact, key outcomes, and how engagement efforts have driven corporate transparency among non-disclosing companies. This is a global investor-led campaign to drive enhanced corporate transparency around climate change, deforestation and water security. NDC targets those companies that continually decline to disclose, as well as providing a tangible process in which they can contribute to driving corporate action and broadening the coverage of environmental data. These companies emit more than 4,300+ megatonnes of carbon dioxide annually. Highlights from the 2024 report include:

- 276 signatories representing over US$21 trillion in assets participated in the 2024 Non-Disclosure Campaign, with 149 acting as lead participants and 127 as co-signers only.
- A record 1,998 companies were targeted by the participants out of 9,557 non-disclosers. This is a 26% increase on the number of companies targeted from the previous year.
- Of all companies targeted, 1,329 were specifically targeted to disclose on climate change and 373 on forests.
- Companies were 2.5 times more likely to disclose when targeted by investors through the 2024 campaign, reinforcing the NDC's consistent success.
- The campaign saw a record of 1,029 high-impact companies requested to disclose water related impacts and risks – marking a 122% increase from the previous year.
- The NDC campaign achieved notable results in Asia ex-Japan. 474 companies were targeted and there was an 83% increase in distinct company disclosures compared to last year.
- The food, beverage and agriculture sector had the highest disclosure rate of 32%.

  The full report is available on the CDP website: https://www.cdp.net/en

SPF has been an active supporter of the NDC since its inception in 2017. In the 2024 campaign the Fund was selected to lead the initiative's climate disclosures engagement with Indian based multinational conglomerate, **Reliance Industries** and water security and forests disclosure engagement with US based paints and coatings manufacturer, **PPG Industries, Inc.**, SPF organised collaborative letters to both companies encouraging them to provide information by completing the CDP Climate, Water Security and Forests questionnaires.

- Ahead of the **COP 16 United Nations Biodiversity Conference** in Cali Colombia, the Fund co-signed a letter from a global coalition of investors representing over USD 2.5 trillion urging governments to take ambitious policy and regulatory action to halt and reverse global biodiversity loss. The letter, co-ordinated by the Church of England Pensions Board and signed by investors from Australia, Canada, Denmark, the Netherlands, Sweden, Switzerland, the United States and the United Kingdom, calls on governments to set ambitious national targets, including sector transformation plans; implement mandatory disclosure on nature for companies; establish regulation that addresses the five drivers of biodiversity loss; and develop and scale financial mechanisms for nature.

The letter is available on the Church of England website at: https://www.churchofengland.org/media/finance-news/cop16-investors-worth-usd-25-trillion-call-governments-take-bold-action-biodiversity

- In October the Fund supported a collaborative **PRI** investor engagement letter to **General Mills, Inc.** regarding forced and child labour in sugar supply chain in India. The letter, supported by investors representing $1.05 trillion in assets and co-ordinated by the Michigan based UAW Retiree Medical Benefits Trust, expressed concern about the human rights risks in the General Mills sugar supply chain in Maharashtra, India, particularly for women and children.

  Recent reports in the New York Times have raised serious concerns about the food industry's efforts to protect the rights and well-being of sugarcane workers, with harrowing accounts of forced hysterectomies, among other abuses. Based on the reports, women often undergo hysterectomies to avoid menstruation-related health issues that interfere with their work. This extreme measure is driven by the need to continue working without interruption to repay debts to labour contractors. Of approximately 82,000 female sugarcane workers from Maharashtra's Beed district, about one in five had hysterectomies due to a lack of sanitation and quality public health facilities. In addition, approximately 200,000 children below the age of 14 migrate annually with their families to help harvest sugarcane. These children engage in back-breaking work and are kept from regular school attendance by the nomadic nature of sugarcane work. The conditions violate several international human rights conventions, including the International Labour Organization's (ILO) Convention No. 1823 on the Worst Forms of Child Labour and the Convention No. 29 on Forced Labour4, as well as the United Nations Convention on the Rights of the Child.

  General Mills classifies responsible sourcing as a significant issue for its business and its Supplier Code of Conduct prohibits forced labour and child labour. Unfortunately, the Code of Conduct applies only to Tier 1 direct suppliers and not to indirect and Tier 2+ suppliers. Considering that human rights risks increase further down the supply chain the company's ability to identify and address the grievances faced by the most vulnerable groups is in doubt. The gap between abuses uncovered through internal company auditing mechanisms and those identified through external, stakeholder-informed research raises substantial concerns for investors about General Mills' knowledge of and oversight over suppliers across the supply chain. While General Mills may audit compliance with its Code of Conduct, the effectiveness of these audits is in question. The reliance on supplier-paid audits and the inability of suppliers to act promptly to correct violations as per General Mills' satisfaction might not fully capture or address the more insidious and systemic human rights abuses occurring deeper within the supply chain, particularly those affecting vulnerable groups, such as women sugarcane workers in Maharashtra.

  The letter urges General Mills to enhance its due diligence and auditing processes to better detect and mitigate these risks, ensuring the protection of workers' rights throughout its entire supply chain and to engage directly with shareholders on this issue.

- ShareAction's **Good Work Investor Coalition**, currently representing over $7 trillion in assets under management, continues to focus engagement on the risks of low pay and insecure work, particularly in the UK retail sector. In support of this, the Fund co-signed a letter to the Rt Hon Angela Rayner MP, Deputy Prime Minister and Secretary of State for Housing, Communities & Local Government regarding the Government's workers' rights agenda. The letter expressed support for the ambitious new policies which the government has announced to address the alarming public health and economic impacts of unfair employment practices. Specifically, the letter called for:

  - a minimum wage that accounts for low-paid workers' cost of living.
  - ambitious policies which make work more secure and make sick pay fairer.
  - an increase in the rate of Statutory Sick Pay (SSP) from the current rate of £109.40 per week
  - at least a four week notice period for any changes in shift with compensation for shifts cancelled within this period.

- The Fund also co-signed **Good Work Investor Coalition** letters on Living Hours to several large UK based employers including **B&M**, **Greggs**, **Next**, **Tesco** and **Sainsbury's** asking them to consider accrediting to the Living Wage Foundation Living Hours accreditation standard. The standard presents an opportunity for Living Wage employers to go further and commit to providing security and stability for their workers and those working for their businesses on behalf of third-party contractors.

- In quarter 4 the **Farm Animal Investment Risk and Return Initiative** (FAIRR) released its latest report: Tracing Risk and Opportunity: The Critical Need for Traceability in Today's Seafood Supply Chains. This report discusses learnings and insights from Phase 1 of FAIRR's **Seafood Traceability** engagement, supported by 35 investors with US $6.5 trillion in combined assets and delivered in partnership with World Wildlife Fund (WWF-US), Planet Tracker, the World Benchmarking Alliance (WBA) and UNEP FI's Sustainable Blue Economy Finance Initiative.

  As global demand for seafood continues to grow and seafood supply chains become increasingly complex, transnational, and opaque, the sector must enhance efforts to address persistent and serious environmental and social issues including Illegal, Unreported, and Unregulated (IUU) fishing, forced labour and human rights violations, and the growing impacts of climate change, all of which expose seafood businesses and their stakeholders to material risks. Improved transparency about the origin and production methods of seafood is a critical first step towards eliminating these issues across supply chains. Supply chain traceability is an essential tool that can enable this transparency.

Key findings from the report include:

- Traceability is critical for seafood companies to mitigate a multitude of environmental and social risks – such as Illegal, Unreported and Unregulated (IUU) fishing, overfishing and human rights abuses. Currently, around 20% of the global wild-caught seafood supply originates from IUU fishing, costing the global economy between US $15-36 billion annually.
- Out of the seven companies assessed, only two, **Thai Union** and **Charoen Pokphand Foods,** have traceability commitments covering all seafood operations and aquaculture feed procurement, but implementation is limited.
- Companies rely on certifications for sustainability claims, but these do not ensure full-chain, digital and interoperable traceability.

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

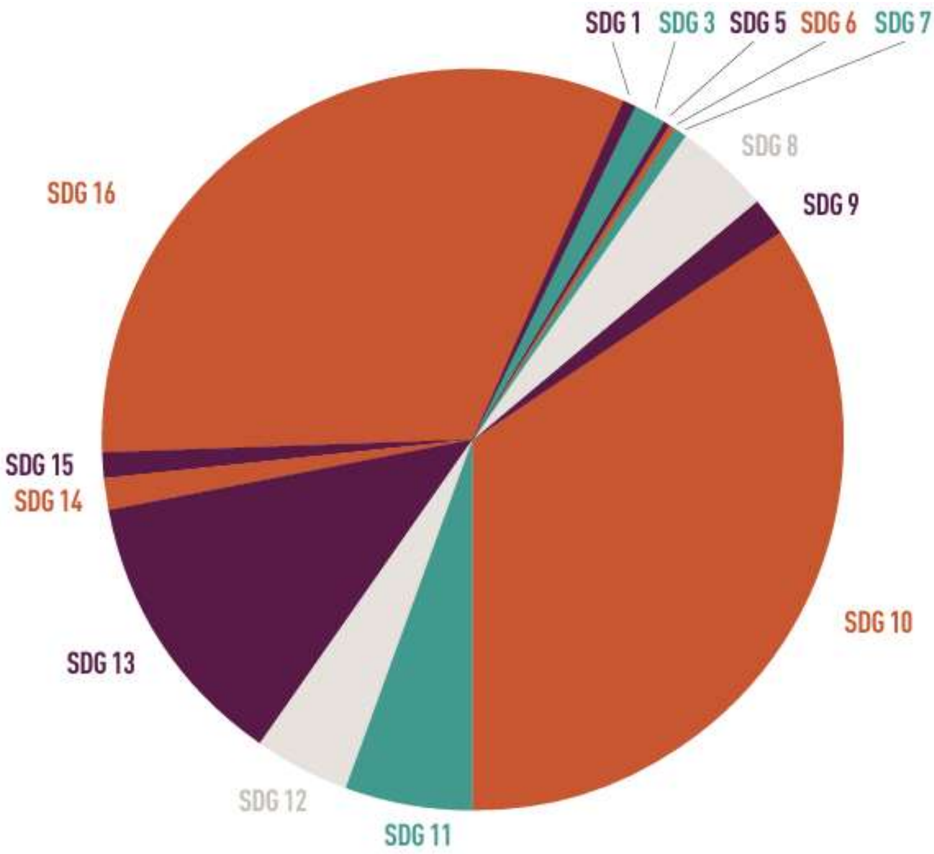
  - LAPFF held 24 meetings with companies during Q4. In addition, LAPFF received 38 responses from companies regarding their climate transition plans.
  - Letter to FTSE 100 Companies: LAPFF requested disclosures on company approaches to operating in, or having links to, conflict-affected and high-risk areas, to better understand corporate risk mitigation and due diligence.
  - Engagement with EV Manufacturers: Discussions with **Mercedes**, **Ford**, **VW**, **BMW**, and **GM** on their human rights due diligence processes within critical mineral supply chains, particularly in conflict-affected and high-risk areas (CAHRAs).
  - **Booking Holdings** & **Motorola Solutions**: Engagements focused on heightened human rights due diligence conflict-affected and high-risk areas, including the Occupied Palestinian Territory (OPT).
  - London Stock Exchange & Market Standards: Follow-up letters to the **LSEG** Chair, challenging the weakening of listing standards and calling for evidence-based decision-making to protect investor interests.
  - Housebuilders & Zero-Hours Contracts: Meetings with **Persimmon** on board governance and climate strategy, alongside engagements with **Hollywood Bowl** and **IHG** on the implications of the UK's proposed Employment Rights Bill and the phasing out of zero-hours contracts.
  - **Drax Group** & **BECCS**: Continued engagement on Drax's sustainability claims, subsidy reliance, and carbon capture feasibility, following its £25m settlement with Ofgem over misreporting biomass data.
  - Airline Sector & Decarbonisation: Discussions with **Wizz Air** and **IAG** on their net-zero pathways, SAF adoption, and operational challenges, building on Q3 engagements with **Ryanair**.
  - Tobacco & Single-Use Plastics: Engagement with **BAT** on plastic waste in cigarette filters and vaping products, highlighting slow progress in addressing regulatory and environmental risks.

Stewardship: Responsible Investment Activity

- Financial Institutions & Transition Finance: Meetings with **Mizuho**, **SMBC**, and **MUFG** as part of the Asia Research & Engagement group, assessing their alignment with a 1.5°C pathway.

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

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



LAPFF SDG ENGAGEMENTS	
SDG 1: No Poverty	2
SDG 2: Zero Hunger	0
SDG 3: Good Health and Well-Being	5
SDG 4: Quality Education	0
SDG 5: Gender Equality	1
SDG 6: Clean Water and Sanitation	1
SDG 7: Affordable and Clean Energy	2
SDG 8: Decent Work and Economic Growth	15
SDG 9: Industry, Innovation, and Infrastructure	6
SDG 10: Reduced Inequalities	121
SDG 11: Sustainable Cities and Communities	19
SDG12: Responsible Production and Consumption	15
SDG 13: Climate Action	43
SDG 14: Life Below Water	4
SDG 15: Life on Land	4
SDG 16: Peace, Justice, and Strong Institutions	113
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.

- **Sustainalytics Global Standards Engagement** Quarterly Report summarizes the shareholder engagement activities performed on behalf of investor clients during the quarter and includes updates on individual portfolio companies. Sustainalytics map these Global Standards Engagement cases with relevant **SDGs** (UN Sustainable Development Goals) and engagement dialogue aims to work toward achieving the sustainable outcomes. 124 Engage and Resolved cases in quarter 4 can be attributed to the following SDGs (as percentage of total cases).

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 engagements.

1 No Poverty	10%	10 Reduced Inequality	12%
2 Zero Hunger	6%	11 Sustainable Cities and Communities	9%
3 Good Health and Well-Being	27%	12 Responsible Consumption and Production	16%
4 Quality Education	2%	13 Climate Action	6%
5 Gender Equality	5%	14 Life Below Water	6%
6 Clean Water and Sanitation	6%	15 Life on Land	18%
7 Affordable and Clean Energy	0%	16 Peace and Justice, Strong Institutions	40%
8 Decent Work and Economic Growth	23%	17 Partnerships to Achieve the Goal	0%
9 Industry, Innovation and Infrastructure	7%		

- **Sustainalytics** issued its final report for the thematic engagement, **Climate Change – Sustainable Forests and Finance**.

  The **Climate Change—Sustainable Forests and Finance Thematic Engagement** aimed to address climate-related risks and advocate for emissions reduction across global food systems. Building on insights gained from Sustainalytics' Climate Transition engagement (2018 to 2021), the thematic engagement targeted companies across the agriculture value chain – from commodities to retailers, restaurants and the financial sector. The engagement objective focused on companies' management of decarbonization which should be in line with international disclosure standards and science-based targets aligning with a 1.5-degree pathway or beyond. In addition, companies should integrate their nature-related risks and forestry commitments into risk management, strategic planning, and disclosure.

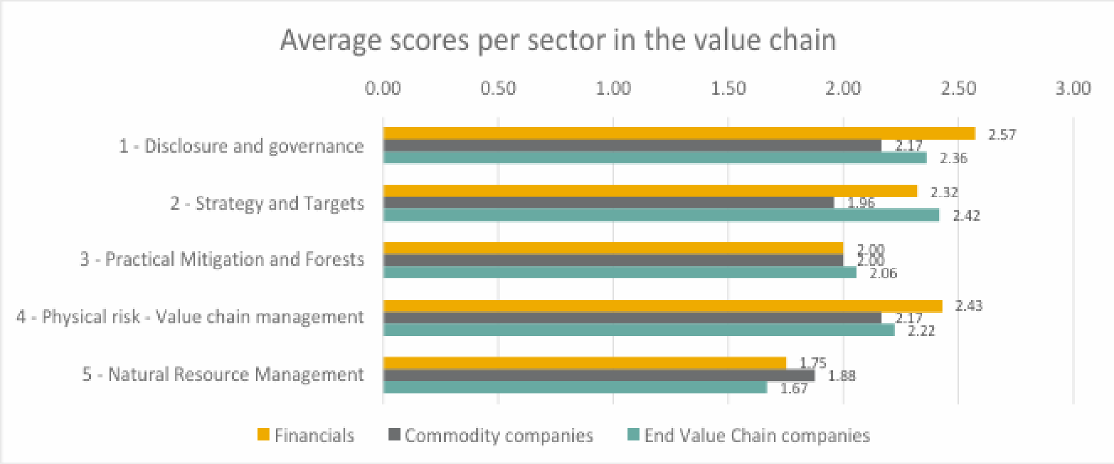
The engagement began in September 2021 and concluded in September 2024. The report summarized the progress made between the timeframe with an update on engagement efforts, high-level insights and outcomes and looking ahead. Over the 3 years of the engagement, Morningstar Sustainalytics held 114 meetings including 3 in-person meetings in the Netherlands and Singapore and conducted 1 field trip to Malaysia and Singapore. They also joined 20 company held events such as annual general meetings (AGMs) and webinars to update company's ESG and climate progress.

Throughout the past three years, the dialogues shifted from building relationships and developing more ambitious emissions reduction roadmaps to deepening the conversation around companies' forestry-related policies and due diligence approaches and their preparedness on upcoming regulatory requirements, such as the EU Deforestation Regulation (EUDR), Corporate Sustainability Reporting Directive (CSRD) and others. For the financial sector, besides their financed emissions mapping and portfolio decarbonization, the engagement also explored its sectoral policies and environmental and social risk assessments to eliminate negative impacts. For the soft commodities sector and end-value-chain companies, setting the Science Based Targets initiative's (SBTi) Forest, Land and Agriculture (FLAG) targets, supplier engagement and enhancing traceability were key focus areas. Specifically, the requirement of zero deforestation by 2025 as part of the SBTi FLAG guidance, was the most challenging part for companies to comply with. Nevertheless, we are pleased to see that three companies in the theme have renewed and verified their climate targets by SBTi, which Sustainalytics have cited as leading practices in dialogues with their peers. The implications of the EUDR have also been a focal point in the dialogues. Most companies are confident that they can comply with the regulations, however many highlighted that further clarifications would be needed from the EU and more work would need to be done on documentation to prove compliance.

One key engagement activity in the past three year is the engagement field trip Sustainalytics conducted to Malaysia and Singapore in March 2024. In addition to an in-person meeting with a Singaporean bank, Sustainalytics and a few investors also visited a palm oil company in Malaysia. They met with experts in climate transition, natural conservation, tree planting and human-animal conflict management. Besides learning their net zero journey experience and natural conservation efforts, Sustainalytics have built up a strong relationship with the companies.

Stewardship: Responsible Investment Activity

To specify engagement objectives and measure progress throughout the engagement, companies have been assessed on five Key Performance Indicators (KPIs) corresponding to various aspects across the agriculture value chain. The chart below gives the average scores per sector for financial companies, commodity companies and end value chain companies such as retailers and restaurants.



Disclosure and governance continues to score the highest among all KPIs. Sustainalytics have observed steady progress on KPI 2 (Strategy and Targets) and KPI 4 (Physical risk – Value chain management). Companies are disclosing further information regarding its strategies to meet their climate ambitions and their analysis on climate-related physical risks. KPI 5 on natural resource management is still the most challenging to improve on, especially for end value chain companies and financials due to complex value chains and portfolios. KPI 3 has proven to be the second most challenging as there are still some gaps in companies' current forestry-related commitments and policies. With the emerging attention on nature and upcoming regulatory requirements such as the EUDR, companies should further enhance their forestry-related due diligence and policy implementations.

In terms of insights by sectors, for financiers, KPI 2 shows the biggest progress over the three years of engagement. This is driven by various net zero initiatives, e.g., Net Zero Banking Alliance (NZBA) and Glasgow Financial Alliance for Net Zero (GFANZ), as six out of seven financiers Sustainalytics engaged with have already set targets and strategies for portfolio-based emissions reductions. KPI 3 and 5 continues to be the most challenging ones and therefore, Sustainalytics encouraged them to strengthen their sectoral policies, as well as expand their risk assessment to consider not only the project but also the clients' profile and potential impacts across supply chains. Some banks have mentioned that they are reviewing relevant policies to ensure alignment with their nature and biodiversity related commitments.

In terms of mid-value chain company's KPI performance, KPI 3 and 5 score highly because commodity companies have mostly conducted nature-related risk assessments, such as High Conservation Value (HCV) and High Carbon Stock (HCS) and often have better forestry-related commitments and strategies in place. One key topic with commodity companies is the implication of the EUDR. While most companies are confident that they can meet European regulatory requirements, it is still unclear from the EU side what documentation is needed to prove the alignment. Companies with higher certification rates and traceability find themselves well-prepared compared to their peers. Due to complicated supply chains, end-value chain companies face challenges in assessing their scope 3 emissions and nature-related risks. Nevertheless, Sustainalytics engagement has encouraged the companies to leverage their purchasing power, such as publicly disclosing their responsible sourcing policies and supplier expectations, to influence suppliers to comply with higher environmental and social standards and disclose further data across supply chain.

This report marks the last report for the Climate Change – Sustainable Forests and Finance Thematic Engagement. All the engagement dialogues with the current 22 companies have been transferred to the ongoing Biodiversity and Natural Capital Thematic Stewardship Programme. As climate and biodiversity topics are inextricably connected, Sustainalytics we will continue to drive systemic impacts with companies across the agricultural value chain by focusing on biodiversity and nature together.

This thematic engagement seeks to directly contribute to the Sustainable Development Goals. SDG 12 on Responsible Consumption and Production, SDG 13 on Climate Action, SDG 15 on Life on Land and SDG 17 Partnerships for the Goals. Further detail is available at: https://www.sustainalytics.com/investor-solutions/stewardship-services/engagement-services/thematic-engagement