



06

STRATHCLYDE PENSION FUND

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR TO 31ST MARCH 2006

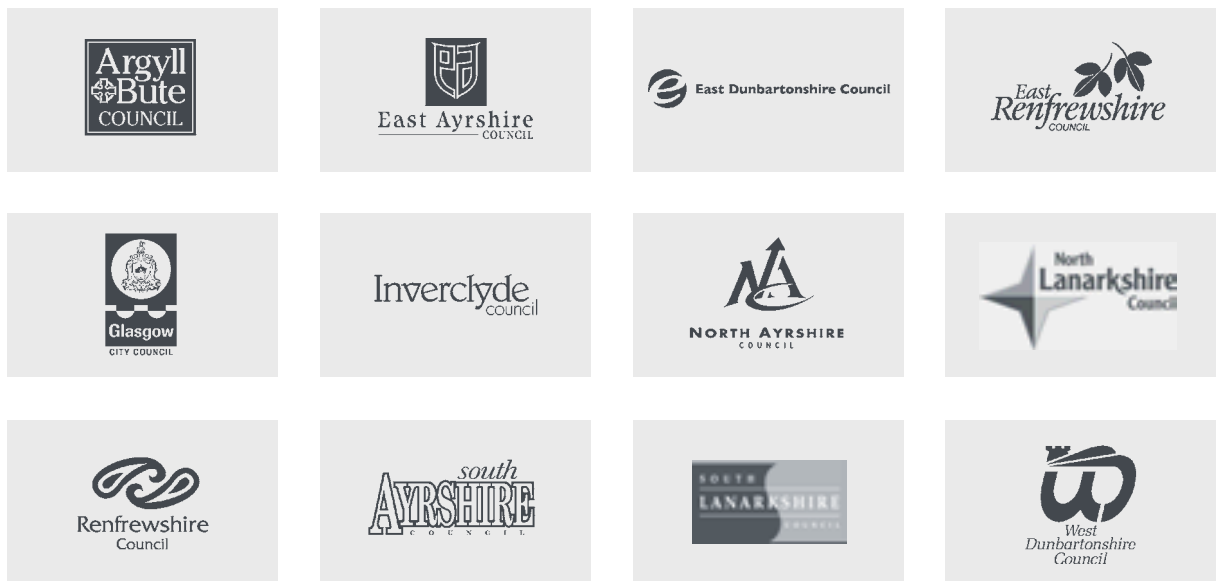
CONTENTS

01	.....	STRATHCLYDE PENSION FUND	22	.....	INVESTMENT REPORT
02	.....	SUB-COMMITTEE	26	.....	STATEMENT OF INVESTMENT PRINCIPLES
03	.....	ADVISERS AND MANAGERS	27	.....	FINANCIAL STATEMENTS
04	.....	CONVENER'S INTRODUCTION	28	.....	FUND NO. 1
06	.....	DIRECTOR'S SUMMARY REPORT	29	.....	NOTES TO THE ACCOUNTS 2005/06
08	.....	REPRESENTATIVE FORUM	30	.....	ACTUARIAL VALUATION
10	.....	ADMINISTRATION REPORT	34	.....	FUND NO.3
15	.....	LARGE FUND OF THE YEAR AWARD	36	.....	NOTES TO THE ACCOUNTS 2005/06
16	.....	MARKET REPORT	37	.....	COMMUNICATIONS REPORT
			38	.....	FUND MEMBERSHIP
			40	.....	CONTACTS



- Strathclyde Pension Fund is a pool into which employees' and employers' contributions and income from investments are paid, and from which pensions and other lump sum benefits are paid out in accordance with the provisions of the Local Government Pension Scheme (Scotland) regulations.
- The Fund services the 12 Unitary Authorities in the west of Scotland together with over 200 other public sector bodies, large and small.
- Fund administration is carried out by the Strathclyde Pension Fund Office, for both the No.1 Fund (the main Fund) and also the No.3 Fund (Strathclyde Buses Fund).
- The Pension Fund was previously administered by Strathclyde Regional Council and was not subject to disaggregation on local government reorganisation, but transferred intact to Glasgow City Council at 1st April 1996.
- The investment assets of the Fund are externally managed.
- Investment policy and strategy are the responsibility of the Strathclyde Pension Fund Sub-Committee who take advice from the Investment Advisory panel and from the Fund's external consultants.

These are the 12 unitary authorities covering the Strathclyde area.



04 STRATHCLYDE PENSION FUND SUB-COMMITTEE

STATUTORY RESPONSIBILITY FOR THE ADMINISTRATION OF THE STRATHCLYDE PENSION FUND RESIDES SOLELY WITH GLASGOW CITY COUNCIL. THE COUNCIL DELEGATES THIS RESPONSIBILITY TO THE STRATHCLYDE PENSION FUND SUB-COMMITTEE WHICH IS THE DECISION-MAKING BODY FOR THE FUND.

The Sub-Committee is comprised of 10 elected Members of Glasgow City Council. Sub-Committee meetings are open to the public. All papers are freely available on both the Council's and the Fund's internet sites.

During 2005/06, Sub-Committee Members were as follows:



Councillor
Ruth Simpson
Convener



Councillor
Aileen Colleran



Councillor
Malcolm Cunning



Councillor
Eamon Fitzgerald



Councillor
John Lynch



Councillor
Robert MacBean



Councillor
John McKenzie



Bailie
Malcolm McLean



Councillor
James McNally



Councillor
John Mason

Investment Advisory Panel

The role of the Panel is to provide advice to the Strathclyde Pension Fund Sub-Committee and to assist its Members in the discharge of their responsibilities. In particular, much of the investment monitoring function is delegated by the Sub-Committee to the Investment Advisory Panel, and the Panel also spends considerable time developing and monitoring investment strategy.

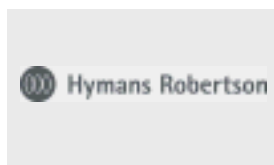
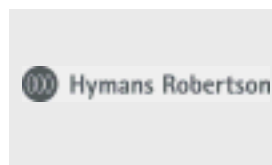
Members of the Strathclyde Pension Fund Sub-Committee may attend Panel meetings in an observer capacity, at their discretion.

Investment Advisory Panel Members

Dick Barfield : Investment Adviser
 Ronnie Bowie : Senior Partner, Hyman Robertson
 Lynn Brown : Director of Financial Services
 Caroline Burton : Investment Adviser
 David Crum : Chief Pensions Officer (Investments)
 Richard McIndoe: Head of Pensions

**Professor Neil Hood CBE -
In Memorium**

Neil Hood, who had been a member of the Investment Advisory Panel since 1990, died on 2nd February 2006 after a prolonged illness. Neil made a significant contribution to the Investment Advisory Panel over the years, and his loss will be keenly felt on both a professional and personal level.

**Investment Managers****Other Service Providers****Actuaries****Investment Advisers****Global Custodian****AVC Provider****Solicitors**

- Glasgow City Council Legal Services
- Nabarro Nathanson

Auditors

- Audit Scotland

Valuers

- Colliers CRE

Performance Measurement

- WM Co.
- Northern Trust
- Investment Property Databank

THE YEAR TO 31ST MARCH 2006 WAS CHARACTERISED BY A COMBINATION OF EXCEPTIONALLY STRONG PERFORMANCE FROM THE FUND AGAINST A BACKGROUND OF CONTINUING UNCERTAINTY REGARDING WIDER PENSIONS ISSUES.



Councillor Ruth Simpson
Convener
Strathclyde Pension Fund Sub-Committee

The year to 31st March 2006 was characterised by a combination of exceptionally strong performance from the Fund against a background of continuing uncertainty regarding wider pensions issues. The Fund's performance is analysed in detail throughout this Annual Report and summarised in an overview provided by the Director of Financial Services.

At the end of 2005 the Fund was named LGC Large Fund of the Year, an accolade of which we are very proud.

The uncertainty, and unease, regarding the wider pensions environment was exemplified in the nationwide industrial action which took place during March over future changes to the Local Government Pension Scheme including the potential removal of the "Rule of 85".

Changes to the Scheme rules are ultimately outwith the control of the Council. The final decisions regarding these matters will rest with central not local government. Instead the Council continues to focus on its own responsibilities as Administering Authority for the Fund.

One such responsibility on which I have been particularly focused since becoming Convener of the Strathclyde Pension Fund Sub-Committee in 2003 is the Governance of the Fund and the robustness of its decision-making and management processes. In the last year we made a very significant addition to the Governance structure with the creation, after wide consultation, of the Strathclyde Pension Fund Representative Forum.

The Forum brings together representatives of all of the Fund's main stakeholder groups, in particular participating employers and trade unions, in a formal quarterly meeting. This will facilitate ongoing dialogue on the management of the Fund and on wider pensions issues to the benefit of all interested parties. This has already proved to be the case in its initial meetings.

At the end of 2005 the Fund was named LGC Large Fund of the Year, an accolade of which we are very proud. We view the award as an independent endorsement of our belief that in addition to our financial strength, which is confirmed in the accounting statements, we are able to demonstrate our commitment to more qualitative aspects of pensions provision including sound management, a strong identity and excellent service delivery to our members.



ACCOUNTABILITY IS ALWAYS EASIER WHEN THE RESULTS BEING PRESENTED ARE GOOD. SO I AM VERY HAPPY TO PROVIDE AN OVERVIEW OF A FUND WHICH IS IN VERY GOOD SHAPE. THIS IS BORNE OUT IN THE DETAIL CONTAINED IN THE REMAINDER OF THIS ANNUAL REPORT.



Lynn Brown
*Director of Financial Services
Glasgow City Council*

Accountability is always easier when the results being presented are good. So I am very happy to provide an overview of a Fund which is in very good shape. This is borne out in the detail contained in the remainder of this annual report.

With a funding level of 97% the Strathclyde Fund is in a much better position than the vast majority of local government funds.

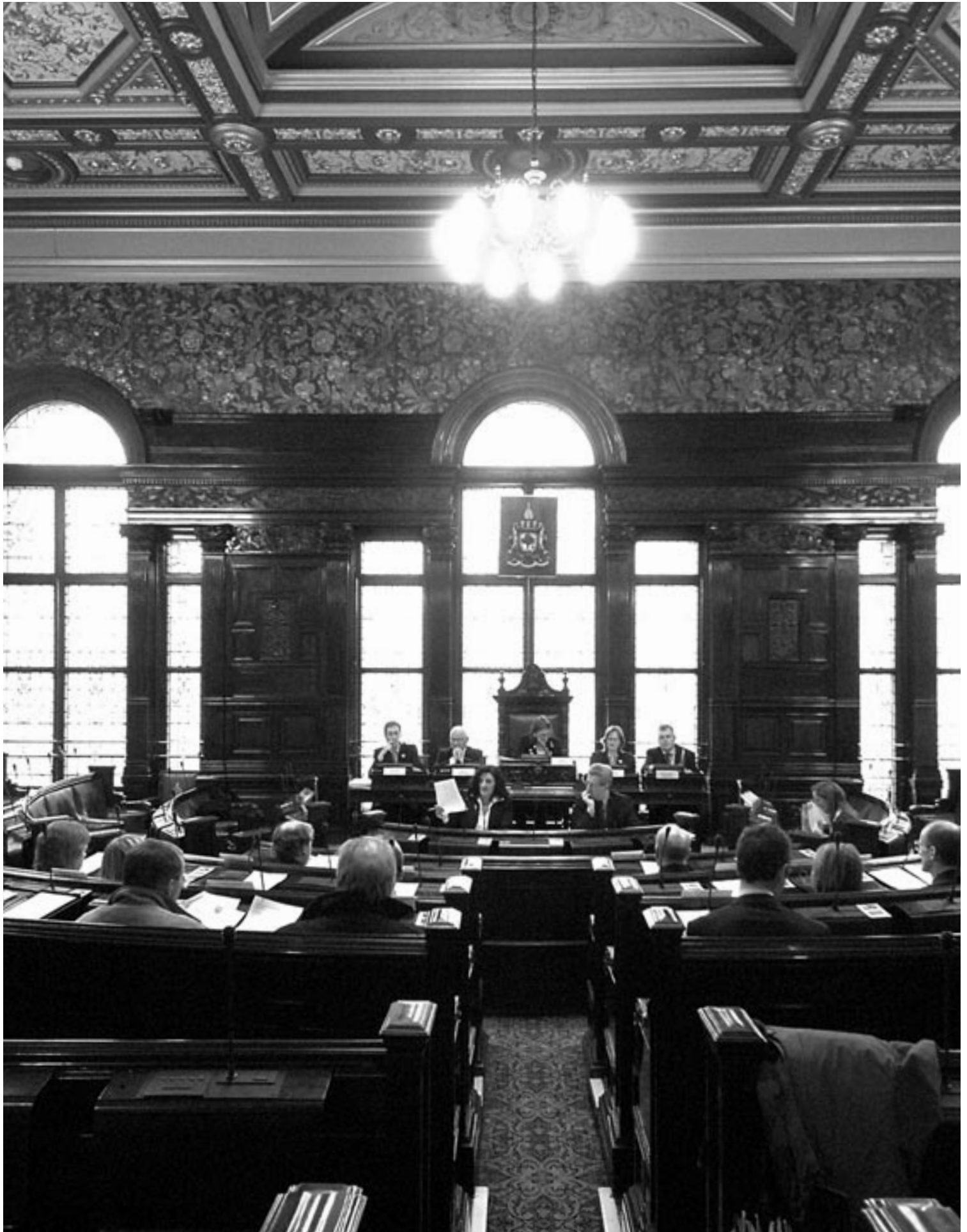
- The **Fund Accounts** confirm that 2005/06 was another year of strong growth so that the closing net asset value of more than **£8.9 billion** is a new high watermark in terms of the size of the Fund. This is the result of investment income of **£187million** and capital growth of **£1.7 billion** together with positive net cash flow from employers and members of **£98 million**.
- The **Investment Report** analyses this as an investment return of **+27.2%** for the financial year thanks to exceptionally buoyant markets. The Fund's return compares favourably with its own objectives and with returns achieved by other funds in both the corporate and Local Authority sectors.
- The **Actuarial Valuation** which was completed during the year shows a slightly more mixed picture. With a funding level of **97%** the Strathclyde Fund is in a much better position than the vast majority of local government funds. This result was also better than had been anticipated at the start of the valuation exercise. It does mean, though, that the Fund is showing a deficit for the first time in 30 years. The situation remains very manageable - the employer contribution rates have been targeted at recovering the deficit over a little more than **10 years** - a much shorter period than most funds are targeting. But, the resultant rise in contribution rates clearly represents an additional financial burden for employers.

- A significant factor in keeping the employer rates lower than had been anticipated was the huge effort, on the part of both the Strathclyde Pension Fund Office and employers, that went into checking the valuation data, which is sourced from personnel and payroll records. Improvements in the data quality were instrumental in allowing the actuary to establish that the initial funding position was better than had been anticipated. And this had a material impact on the employer contribution rates. The **Administration Report** expands on this and lists a number of other significant developments on the administration side. In particular, the issuance by SPFO to its members of **82,000** combined benefits statements and **20,000** deferred benefits statements during the year represented a significant enhancement to our existing communications with members.

These were the highlights of the year. There is much additional detail in this Annual Report, which I hope may be of interest. There are also undoubtedly some major challenges ahead, not least the imminent introduction of various amending regulations culminating in a new scheme, potentially within the next two years. I am pleased to confirm that the Strathclyde Pension Fund can face these challenges from a continuing position of strength.

Lyn Brown

010 REPRESENTATIVE FORUM



DURING 2005 A FULL REVIEW OF THE FUND'S POLICY ON REPRESENTATION WAS CARRIED OUT IN CONSULTATION WITH EMPLOYERS, TRADE UNIONS AND OTHER INTERESTED PARTIES.

During 2005 a full review of the Fund's policy on representation was carried out in consultation with employers, trade unions and other interested parties. This led to the establishment, in December 2005, of the Strathclyde Pension Fund Representative Forum. The Forum is a quarterly formal meeting of designated representatives forming a broad cross-section of the Fund's stakeholders.

The Forum is designed to:

- Provide an interface between the Fund's stakeholders and the Strathclyde Pension Fund Sub-Committee;
- Allow interested parties, on a representative basis, to contribute to decisions regarding the Fund; and
- Facilitate ongoing dialogue on the management of the Fund and pensions issues generally between all interested parties.

During 2005/06, Representative Forum membership was as follows.

Chair: Cllr. Ruth Simpson	Glasgow City Council
Vice Chair: Cllr. James McNally	Glasgow City Council
Gary Mulvaney	Argyll & Bute Council
Chief Executive	East Ayrshire Council
Karen Mitchell	East Dunbartonshire Council
Alan Lafferty	East Renfrewshire Council
Les Campbell	Glasgow Housing Association
Julie Blackburn	Glasgow Metropolitan College
Eliot Leviten	Glasgow School of Art
Alan Puckrin	Inverclyde Council
Paul Doak	North Ayrshire Council,
Gerard McElroy	North Lanarkshire Council
Douglas Paxton	Reid Kerr College
John Kenny	Renfrewshire Council
Alison Fettes	Scottish Water
Andrew Shoolbread	SOSCN
Eileen Howat	South Ayrshire Council
Louise Murphy	South Lanarkshire Council
Alan Macleod	Strathclyde Police
John McColgan	University of Strathclyde
Tricia O'Neill	West Dunbartonshire Council
Robert Gordon	Amicus
Tommy Asken	GMB Scotland
Frank Murphy	T&G Scotland
Stuart Young	UCATT
Joe Connolly	UNISON
David Thomson	Pensioner Representative



Andy Knox
Principal Pensions Officer



Strathclyde Pension Fund Office (SPFO)

Strathclyde Pension Fund Office (SPFO) is a division of Glasgow City Council's Financial Services department. SPFO administers the Local Government Pension Scheme (LGPS) on behalf of the twelve local authorities situated in the former Strathclyde area, and for over 200 other employing bodies, in accordance with Glasgow's statutory role as Administering Authority.

SPFO also administers the Police and Fire Pension Schemes on behalf of Strathclyde Police Force and Strathclyde Fire & Rescue and pays Teachers Compensation payments under the Scottish Teachers Superannuation Scheme on behalf of scheme employers and in conjunction with the Scottish Public Pensions Agency.

The Local Government Pension Scheme (LGPS)

The LGPS is a traditional final salary scheme where benefits are generally related to the member's length of scheme membership and pay during the final year of membership. Scheme benefits are defined by statute and are not dependent on investment performance or prevailing market conditions, therefore providing a secure pension scheme with little or no risk to members' benefits. The Scheme rules are currently under review but the Government has affirmed its continuing commitment to maintain the LGPS as a statutory defined benefit scheme.

Membership

As at 31st March 2006, LGPS membership administered by SPFO comprised:
88,000 active members;
30,000 deferred members;
and 57,000 pensioners.

Police, Fire and Teachers Scheme membership comprises a further **15,000** members.

Staffing and Structure

Administration Sections
 Three administration sections within the Pension Fund Office deliver a full range of benefit calculation services to the membership of the Local Government, Police and Fire Pension schemes. The statistics in the operational performance table provide a summary of the performance delivered by these sections during the year 2005/2006. In addition, the performance of these sections provides the basis for the data used in the CIPFA benchmarking clubs in which Strathclyde Pension Fund participates.

Technical Section

The Technical Section provides training, systems support and maintenance - ensuring that new system developments are tested and implemented, that system integrity and availability is maintained and that pensions legislation is consistently interpreted and implemented.

Pensions Payroll

The Pensions Payroll section is responsible for all pensions payments to LGPS, Police and Fire pensioners including spouses' and dependants' benefits, and for Teachers' compensation payments.

The section processes payments with a value of over **£30m** per month. Continuity of income from employment to retirement for members is a priority for SPFO and the Pensions Payroll team are committed to ensuring that members receive prompt and accurate payment of pension and lump sum benefits.

Communications

A dedicated Communications Team is responsible for implementing the Communications Strategy to ensure appropriate communication and accountability between the Fund and all of its stakeholders.

14 ADMINISTRATION REPORT



Service Delivery Update, Actuarial Valuation

In addition to the routine administrative functions, the year to 31st March 2006 carried the additional challenge of processing membership data for the triennial actuarial valuation.

This involved:

- gathering payroll data from employers;
- carrying out validation checks;
- correcting errors;
- supplying a datafile in respect of the entire Fund membership to the actuary; and
- resolving further data queries raised by the actuary.

All processing was completed within an extremely tight and demanding timescale to allow the valuation to progress on schedule.

Very significant improvements in the quality of data as compared to previous years were achieved. This results in improved efficiency within SPFO and a better service to pension scheme members. In addition, there was a tangible financial benefit to employers as improvements in the data quality were instrumental in allowing the Fund's actuary, in the course of the 2005 valuation, to revisit the 2002 position. This resulted in re-statement of the opening position, leading to a better than anticipated 2005 funding level. The resultant employer contribution rate rises were therefore materially less than originally expected and advised to employers.

SPFO will continue to work with its participating employers to ensure that they provide timely and accurate data in respect of members so that the integrity of the SPFO database can be maintained, ensuring further improvements in the accuracy of data for future valuations.

Preparing the data for the 2005 valuation entailed a significant diversion of resources within SPFO from the day-to-day delivery of services such as retirement benefit calculations and transfer value calculations.

Despite this additional pressure, a number of significant developments were also undertaken in order to improve the overall quality of service delivered to members.

Administration Developments

Benefit Statements

As a key element of its communications strategy SPFO has been issuing annual benefit statements to all active LGPS members for the past five years, providing them with details of their LGPS pension entitlement. During 2005/06, for the first time SPFO issued Combined Benefit Statements to all active members. Combined statements include details of State Scheme benefits for members in addition to their Local Government Pension Scheme benefits. The aim in delivering this service is to provide members with a broader overview of their potential income in retirement and to enable them to carry out more informed financial planning.

In all SPFO issued some 82,000 Combined Benefits Statements. This generated over 2,000 responses from members either notifying minor changes to their records or seeking further information.

Deferred Benefit Statements

During 2005, amendment LGPS regulations introduced a requirement for all funds to provide annual benefit statements to deferred members from April 2007. (A deferred member is someone who has terminated scheme contributions without the entitlement to immediate payment of a retirement pension and lump sum as they have not yet reached retirement age.)



SPFO issued benefits statements to all of its 27,000 deferred members (with the exception of those for whom no current address is held) in October 2005 – some 18 months ahead of the statutory deadline.

The feedback from deferred members regarding this service has been very positive with many admitting that they had simply forgotten about their entitlement to benefits from this Fund and that this notification had come as a pleasant surprise.

Electronic Data Capture

During 2005/2006 SPFO stepped up its efforts to encourage employers to submit data electronically. A number of employers are now submitting new member data, changes to members' hours and details of lost service by electronic means. But the majority of employers have yet to be converted. The ultimate aim is to move all employers from the labour intensive paper based method of notification of these items to full electronic delivery at the earliest possible date.

Operational Performance

Strathclyde Pension Fund Office (SPFO) is an established user of Class CPX – a bespoke Local Government Pension Scheme administration system. SPFO employs the latest Windows version - Axis e. The system configuration uses a merged employee and pensioner database to ensure continuity of service throughout the pensions life-cycle. Within Axis e, SPFO has implemented Task Management Workflow and Performance Measurement modules. These now form the core of process planning, management and monitoring. Axis-e is aligned with a Document Image Processing System (DIPS) to achieve straight-through electronic processing.

As a result of this integrated IT approach SPFO is able to achieve and demonstrate a very high level of performance.

SPFO sets itself targets well inside statutory timescales, continually achieves them and reports performance widely. A detailed performance report is presented to both the Representative Forum and Pension Fund Sub-Committee quarterly and is publicly available on the SPFO and Council websites.

The table below shows the volumes processed and average days turnaround time for the completion of the main SPFO procedures. Work in progress shows the volume of outstanding cases per procedure as at 31st March 2006.

Table of Operational Performance

Activity	Volume (05/06)	(04/05)	Average Days	(04/05)	Work In Progress	(04/05)
Retirals	1618	1384	3.66	2.93	1	0
Estimates	4046	3759	6.30	4.71	30	29
Deferred Benefits	2883	3679	1.79	2.15	6	1
Refunds	3262	3419	4.02	4.12	18	17
Transfer Out Quotes	600	593	5.58	3.30	5	3
Transfers Inwards Actuals	1658	1884	2.62	1.13	5	8
Transfers Inward Quotes	1918	2252	5.49	4.33	7	4
New Start Administration	10674	9324	0.94	13.85	26	31

16 ADMINISTRATION REPORT



Whilst overall operational performance remained strong, some slippage was experienced in certain procedures during the year mainly due to the additional pressures on the office resulting from work undertaken to complete the actuarial valuation. It is anticipated that this situation will continue as proposed amendments to the Local Government Pension Scheme to accommodate tax simplification measures will provide greater flexibility and choice to members in the benefits available to them. This will necessitate a change to benefit calculation processes and documentation to ensure that members are provided with full information on which to base their choices.

Increasing Volumes

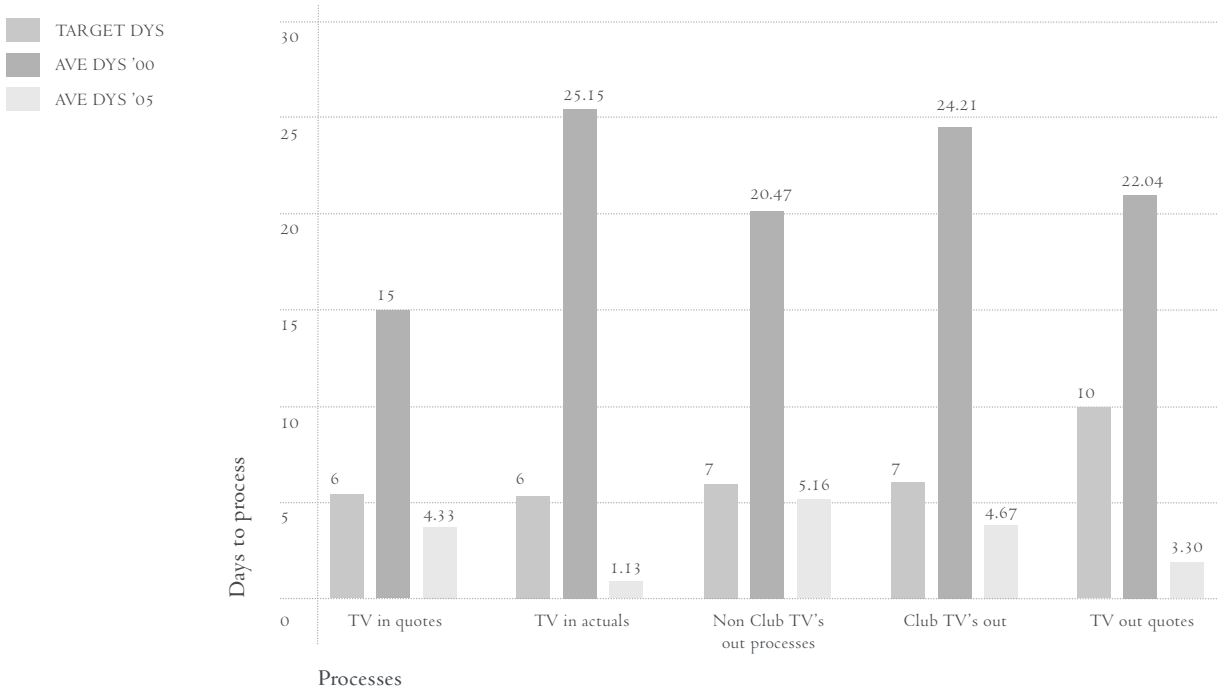
Comparison of the total number of processes logged through the Axis e system over the last three years shows a significant increase in the total workload of the office as summarised in the table below.

Processes completed '05/'06	97,624
Processes completed '04/'05	81,161
Processes completed '03/'04	82,665

Large Fund Of The Year Award

Strathclyde Pension Fund Office was delighted to secure the LGC large fund of the year award towards the end of 2005. Improvement in administration performance over the previous five years was a significant factor in the award nomination as illustrated in the following graph.

Transfers Performance 2000 to 2005



AT THE END OF 2005 THE FUND WAS NAMED LGC LARGE FUND OF THE YEAR, AN ACCOLADE OF WHICH WE ARE VERY PROUD. WE VIEW THE AWARD AS AN INDEPENDENT ENDORSEMENT OF OUR BELIEF THAT IN ADDITION TO OUR FINANCIAL STRENGTH, WHICH IS CONFIRMED IN THE ACCOUNTING STATEMENTS, WE ARE ABLE TO DEMONSTRATE OUR COMMITMENT TO MORE QUALITATIVE ASPECTS OF PENSIONS PROVISION INCLUDING SOUND MANAGEMENT, A STRONG IDENTITY AND EXCELLENT SERVICE DELIVERY TO OUR MEMBERS.



GLOBAL EQUITY MARKETS ROSE STRONGLY IN 2005, WITH DOUBLE-DIGIT GAINS IN ALMOST EVERY MARKET. THEY FOUND SUPPORT IN STRONG MERGER-AND-ACQUISITION ACTIVITY AND THE LOW INTEREST RATE ENVIRONMENT DESPITE RISING OIL PRICES AND A SERIES OF DEVASTATING NATURAL DISASTERS.



David Crum
Chief Pensions Officer (Investments)

Global equity markets rose strongly in 2005, with double-digit gains in almost every market. They found support in strong merger-and-acquisition activity and the low interest rate environment despite rising oil prices and a series of devastating natural disasters.

Emerging markets outperformed developed markets, surprising many who had expected them to struggle in the face of rising US interest rates. Stocks were supported by a strong global economy, healthy profit growth, reasonable valuations and low long-term bond yields. Crude

In November, the Government cautiously welcomed recommendations for reform of the UK's pension structure as outlined by the Pension Commission's Turner Report, saying that any changes must be affordable.

oil prices posted double-digit gains on the back of tighter supply and firmer demand. The US spot price broke through the US\$70 barrier as strong hurricanes in the US

disrupted oil and refinery production, although it eased later in the year. Oil was up around 43% overall.

Global terrorism and natural disasters dominated world news. The US was struck by several devastating hurricanes that disrupted oil and gas production around the US Gulf Coast. The Federal Reserve responded to investors' mounting concern over inflation by raising the federal funds rate in eight moves to 4.25% over the year. By the year-end, market observers began to predict the end of the monetary tightening cycle. The Fed took the view that, while higher energy costs could exacerbate inflationary pressures, core inflation had been relatively low and longer-term inflation expectations remained contained. The US dollar strengthened notably against all the major currencies, with the exception of the Canadian dollar.

The European economies remained relatively weak, with unemployment still high overall, mixed results from business and consumer confidence surveys and a build-up in inflationary pressures. The European Central Bank raised interest rates by 25 basis points to 2.25% in December. The Swiss National Bank also increased rates by a quarter percent, taking its target range for the three-month Libor rate to 0.5%–1.5%.

European markets overcame a political stalemate and uncertainty following an inconclusive national election in Germany, which left investors concerned about a loss of momentum behind economic reforms in the region, when Angela Merkel was elected chancellor. At the end of the year, EU budget negotiations concluded in a compromise deal in which the UK agreed to give up some of its rebate in return for the EU reviewing its spending plans, including the common agricultural policy.

In the UK, Prime Minister Tony Blair's Labour Party was re-elected following a general parliamentary election on 5 May. UK economic growth slowed as the interest rate increases instituted in late 2003 and 2004 appeared to curb household spending in 2005. The UK Chancellor drastically reduced his growth estimate for 2005 from 3%–3.5% to 1.75%. To stimulate the economy, interest rates were cut by 25 basis points to 4.5% in August. The UK yield curve continued to flatten. At the end of September, three-month gilts yielded 4.28%, while the yield on the 30-year government bond was 4.24%. The launch of the 50-year index-linked government bond in the same month, priced at 19 basis points below the 30-year linker, met with good demand and the issuance was increased from £1 billion to £1.25 billion. In November, the Government cautiously welcomed recommendations for reform of the UK's pension structure as outlined by the Pension Commission's Turner Report, saying that any changes must be affordable.

Japan's economy began 2005 by pulling out of its recession at a slow pace, with unemployment rising and business confidence falling during the first part of the year. The government and the Bank of Japan both signalled that deflation was nearing an end. Key developments included the banking sector's return to financial health, an historic merger between mega banks Mitsubishi Tokyo Financial Group and UFJ, and Sony's appointment of its first non-Japanese CEO, Howard Stringer, in an effort to revive its cornerstone electronics hardware business. Japanese stocks began the year slowly compared to other developed markets, but recovered somewhat in the middle of the year. Towards the end of the year, real GDP figures reaffirmed the gradual improvement of the economy. The Nikkei 225 Stock Average was up 40.2% on the year. China's economy remained strong, while in Australia, short-term interest rates stayed on hold at 5.5%. Over the year, New Zealand increased its official cash rate in three moves to 7.25%.



EQUITY RETURNS WERE POSITIVE ACROSS MOST SECTORS. THE ENERGY SECTOR WAS BOOSTED BY HIGHER OIL PRICES, WHILE THE MATERIALS SECTOR ALSO SHOWED A SOLID PERFORMANCE.

Equity returns were positive across most sectors. The energy sector was boosted by higher oil prices, while the materials sector also showed a solid performance, with stocks supported by the rise in raw materials prices generated by strong global demand.

Supply tightness coupled with robust demand from China and elsewhere contributed to surging prices for various commodities. Gold rose to US\$512 dollars an ounce. Utilities were also solid performers, with investors favouring their defensive characteristics of stable earnings and solid dividend yields.

The financials sector also did well, with diversified financial services companies and commercial banks boosting results. Technology stocks endured many difficult months, but sentiment on the sector eventually brightened on better earnings and signs that semiconductor-related companies were at the early stages of a cyclical recovery.



Latin America was the best-performing region in the emerging markets index, rising 50% over the year (in US dollar terms). Chinese equities lagged the broader emerging markets.

The weakest areas of the market were the consumer discretionary and telecommunication services sectors. Consumer discretionary stocks were hurt by persistent doubts about the sustainability of the US consumer; disappointing earnings, declining market share and credit downgrades for the auto companies, along with the bankruptcy filing of auto parts maker Delphi; and weak fundamentals for traditional media companies. The telecommunications sector was by far the poorest-performing sector in 2005.

It lagged on concerns relating to future earnings growth, heightened competition, new technologies and the potential for acquisitions that fail to add value for shareholders. Vodafone's announcement in November of disappointing earnings guidance due to margin pressure in its Japanese and European businesses also weighed on the sector. However, there was a fair amount of M&A activity in the sector. Spain's Telefonica bid for O2 in the UK, Vodafone Group took a stake in Indian mobile company Bharti Tele-Ventures and Virgin Mobile rejected a bid from NTL.

Latin America was the best-performing region in the emerging markets index, rising 50% over the year (in US dollar terms). Latin America's growth has been driven by export growth and supported by the surge in oil and commodity prices. The region's current accounts ended 2005 with a surplus near 1% of GDP, the highest level in more than 25 years. Shares of Brazilian and Colombian banks, Argentine and Brazilian oil producers, and Mexican telecommunications and materials companies had strong results.

Chinese equities lagged the broader emerging markets. An overhang of supply from IPOs and concerns over excess industrial capacity hurting profits weighed on the stock market. Fixed-asset investment in the economy has been huge and industrial capacity has been steadily increasing at a faster pace than demand. The government made strides in cleaning up the banking system, which has been burdened by a high stock of non-performing loans and is seen as a major weak link in the economy. Technology stocks were strong in Korea, with shares of index heavyweight Samsung Electronics supported partly by growing demand for NAND flash memory, of which it is the largest producer.

Disclaimer: This report is issued by Capital International Limited (which is authorized and regulated by the Financial Services Authority) and Capital International S.A. In the case of Capital International Limited clients, this publication is intended for intermediate customers only and should not be relied upon by private customers. While Capital International uses reasonable efforts to obtain information from sources which it believes to be reliable, Capital International makes no representation or warranty as to the accuracy, reliability or completeness of the information. The publication is intended merely to highlight issues, and not to be comprehensive or to provide advice. ©Copyright 2006. Capital International Limited and Capital International S.A. All rights reserved.

THE FUND ACCOUNT
ANOTHER YEAR OF STRONG GROWTH
NET ASSET VALUE OF MORE THAN
WATERMARK IN TERMS OF THE S

THIS IS THE RESULT OF
INCOME OF £187 MILLION AND CONTRIBUTIONS OF
£1.7 BILLION TOGETHER WITH PENSIONS PAID
FROM EMPLOYERS AND MEMBER

S CONFIRM THAT 2005/06 WAS
D WTH SO THAT THE CLOSING
N £8.9 BILLION IS A NEW HIGH
SIZE OF THE FUND.

OF POSITIVE INVESTMENT
APITAL GROWTH OF
OSITIVE NET CASH FLOW
S OF £98 MILLION.

IN 2003 THE FUND APPOINTED NORTHERN TRUST AS PROVIDER OF INDEPENDENT INVESTMENT PERFORMANCE MEASUREMENT. THE FUND'S TOTAL INVESTMENT RETURN FOR 2005 WAS 22.2%.



Richard McIndoe
Head of Pensions

In 2003 the Fund appointed Northern Trust as provider of independent investment performance measurement. The Fund has maintained a relationship with WM Co. to provide an annual investment report including comparison with the WM Universes which capture performance data from up to 1,000 UK pension funds.

The analysis presented in the following sections comprises:

- Fund and benchmark returns as calculated by Northern Trust;
- Universe comparisons as provided by WM Co. ; and
- property returns calculated by the Investment Property Databank (IPD).

All returns are total gross investment return figures expressed in percentage terms. In line with the industry norm, the Fund's principal investment review is presented on a calendar year basis for 2005. Figures for the financial year – 1st April 2005 to 31st March 2006 – are also available and are shown in the Local Authority Review.

2005 Results

Strathclyde Pension Fund Return	22.2%
Strategic Benchmark Return	21.5%
WM Average Fund Return	20.1%

Background

Equity markets in the UK, the rest of Europe and parts of Asia delivered high returns in 2005. Japan in particular saw a strong recovery in equity market confidence. The US market lagged Europe, partly due to the rapid rise in interest rates experienced there, and the already high stock market valuations. In the UK, equities as measured by the FTSE All Share Index returned +22.0% in 2005, compared to +7.4% for Gilts.

The Fund's return was a relative +0.6% ahead of the strategic benchmark. Reversing the previous year's trend, there were more managers who outperformed, as opposed to managers who underperformed. Baillie Gifford (Global Equity), Pantheon Ventures (Private Equity), JP Morgan (Overseas Small Companies), and Capital International (Global Equity) each contributed +0.2% to the total Fund relative performance. Arlington (Property), which was one of the top performing managers last year, underperformed in 2005. Schroders (Global Equity) and Gartmore (UK Small Companies) each detracted -0.1% from performance. Cash, which had accumulated to £130 million, was a slight drag on performance, also detracting -0.1% from total relative performance.

The Fund's returns by asset class were as follows:

Asset Class	Fund Return %	B/mark Return %
UK Equities	21.3	22.0
Overseas Equities US	20.9	20.2
Europe	26.4	24.1
Japan	43.3	39.7
Pacific	28.2	29.1
Emerging Markets	56.4	50.5
UK Bonds	9.4	11.3
Overseas Bonds	9.3	4.3
UK Index Linked	9.9	9.6
Cash / Other	17.5	11.9
UK Property	17.8	18.8
Total Fund	22.2	21.5



Review

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	3Yr	5Yr	10 Yr
	%	%	%	%	%	%	%	%	%	%	Annualised		
											%	%	%
Retail Prices	2.5	3.6	2.8	1.8	2.9	0.7	2.9	2.8	3.5	2.2	2.8	2.4	2.6
Avg. Earnings	4.2	4.9	4.2	6.3	4.8	2.4	3.5	4.4	4.0	4.2	4.2	3.7	4.3
Fund B/mark	-	-	-	28.3	(4.3)	(10.0)	(16.5)	20.9	12.2	21.5	18.1	4.4	8.4
Fund Return	10.4	14.8	13.0	28.2	(2.5)	(9.7)	(15.4)	19.9	11.9	22.2	17.9	4.6	8.4
WM All Funds	10.7	16.8	14.0	21.3	(1.3)	(8.9)	(13.9)	17.0	11.2	20.1	16.0	4.2	8.0
Fund Ranking	68	73	57	7	64	43	35	18	23	11	7	18	-

The strong recovery witnessed in 2003 & 2004 continued in 2005, with another double digit return for the Fund. The 3-year return of +17.9% per annum is slightly behind the benchmark, but the 5-year return of +4.6% is ahead of the benchmark figure of +4.4%. The Fund created a specific benchmark in 1999, when previously its performance had been measured against the WM All Funds index. The 10-year return of +8.4% per annum is in line with the benchmark, ahead of the Average Fund, and comfortably ahead of inflation and average earnings.



Local Authority Review
WM Performance Services produce a Local Authority Review on an accounting year (to 31st March) basis. The Fund's performance on this basis is shown in the table below:

	2000 / 01	2001 / 02	2002 / 03	2003 / 04	2004 / 05	2005 / 06	3Yr	5Yr
	%	%	%		%	%	Annualised	
							%	%
Fund Return	-8.6	-0.2	-20.8	26.6	12.4	27.2	21.9	7.4
Local Authority Average	-6.3	-0.5	-19.5	23.4	11.3	24.9	19.9	6.7
Fund Ranking (/100)*	74	29	62	10	13	9	-	-

Investment Strategy

The Fund's investment strategy is as follows:

Asset Class	Fund Weight (%)
UK Equities	38
Small Companies	3
Overseas Equities	29
North America	9.75
Europe (ex UK)	9.75
Japan	3.25
Pacific	3.25
Emerging Markets	3
Private Equity	5
Total Equity	75
Property	10
Index Linked	3
UK Gilts	3
Corporate Bonds	6
Overseas Bonds	3
Total Bonds	15
Total	100

The Fund remains committed to having a high Equity exposure, to benefit from the expected excess returns over bonds in the long term. The Fund also has a significant exposure to Property, with the remainder being held in Bonds.

Other Developments

The Investment Team undertook a number of significant tasks during the year.

Following on from the Actuarial Valuation, an Asset Liability Modelling exercise was carried out by the Fund's investment consultants, Hymans Robertson. The purpose was to inform a review of the Fund's investment strategy in light of the updated picture of the Fund's liabilities which emerged from the Valuation.

The actuarial valuation concluded that the Fund remained comparatively well funded. The ALM concluded that there was little justification for a major change to the present broad strategy, in particular the bond / equity split. But some recommendations regarding the detailed strategy and structure will be taken forward during 2006/07.

In addition, reviews of the Fund's Currency Strategy and Alternative Investments Strategy were carried out during the year. These will be concluded in the early part of 2006/07 with the appointment of an additional Private Equity Manager and a number of Currency managers.

01. Introduction

Glasgow City Council is the administering authority for the Strathclyde Pension Fund. Elected members of Glasgow City Council recognise that they have fiduciary duties and responsibilities towards beneficiaries, employers and local taxpayers that are analogous to those holding the office of Trustee in the private sector.

02. Advisers

The Council obtains expert, professional advice and maintains an independent Investment Advisory Panel of experts to assist it in managing the Fund.

03. Funding Policy

The primary objective of the Fund is to provide for members' pension and lump sum benefits on their retirement, or for their dependants' benefits on death before or after retirement, on a defined benefit basis. A separate Funding Strategy Statement exists, but in short the funding policy is that over the long term all accrued benefits should be fully covered by the actuarial value of the Fund's assets, and that in order to secure this objective an appropriate level of employer contributions and an appropriate investment policy should be agreed by the administering authority.

04. Investment Policy

The strategic benchmark, and in particular the allocation to equities, aims to deliver a long-term return in excess of the rate of growth of the accrued liabilities. Return enhancement is also sought through active management of most of the assets. It is anticipated that this will make a significant contribution to the overall control of the costs of providing benefits to members.

05. The Types of Investments to be Held

The Fund invests primarily in Equities (both UK and Overseas) with the balance invested in Bonds (UK and Overseas), Index-Linked stocks, and Property. Within these broad asset classes the Fund makes specific allocations to smaller subdivisions. These include Private Equity, Emerging Markets, Small Companies and Corporate Bonds. The Investment Managers are expected to maintain a diversified portfolio within each major asset class and sub-division.

06. Balance Between Different Types of Investments

The Fund has a customised strategic benchmark. In broadly defining the assets to be held and setting the asset allocation this benchmark provides an efficient balance between risk and return in the light of the liability profile and funding level of the Fund.

07. Expected Return on Investments

The strategic benchmark is expected to produce a return over the long term in excess of the risk free return. The majority of the Fund's assets are managed on an active basis. They are expected to outperform their respective benchmarks over the long term so that the investment performance achieved by the Fund is expected to exceed the rate of return assumed by the Actuary in the funding valuation.

8. Risk

The Fund acknowledges that its equity based investment strategy may entail significant short-term volatility. The Fund pursues a policy of lowering risk through diversification of both investments and investment managers. A management agreement is in place for each investment manager, which sets out the relevant benchmark performance target, asset allocation ranges, and restrictions, as determined by the Fund.

09. Monitoring

The Fund's advisers and/or Officers meet with each of its investment managers every quarter to monitor performance relative to performance targets. This discipline constrains the investment managers from deviating significantly from the intended approach, whilst permitting them flexibility to manage the Fund in such a way as to enhance returns.

10. Realisation of Investments

The majority of investments held by the Fund are quoted on major stock markets and could be realised quickly if required. Property and Private Equity investments, which are relatively illiquid, currently make up less than 15% of the Fund.

11. Social, Environmental & Ethical Consideration

The Fund believes that, where they may be relevant to shareholder value, social, environmental and ethical considerations are among the factors which managers should take into account when selecting investments for purchase, retention or sale. The Fund has instructed its investment managers to initiate a process of active engagement on these issues with companies in which the Fund has invested.

12. Exercise of Rights

The Fund ensures that the votes attaching to its holdings in all quoted companies, both in the UK and Overseas, are exercised whenever practical. The Fund's voting policy is exercised by its Investment Managers in accordance with their own policies and practices and taking account of current best practice and the Combined Code on Corporate Governance.

13. Custody

The Fund ensures separation of the custody of its assets from its investment managers and its officials by the employment of a Global Custodian.

14. Myners Principles

The Fund is compliant with each of the Myners Principles as set out in the CIPFA Pensions Panel guidance (Issue No. 5) published in April 2002.

Fund account			
2004/05			
£000		£000	£000
	Dealings with members, employers and others directly involved in the scheme		
	Contributions Receivable		
	From Employers		
204,686	- normal	226,843	
12,080	- additional	20,363	247,206
216,766			
	From Members		
86,011	- normal	91,464	
2,242	- additional voluntary	2,430	93,894
88,253			
	Transfers In		
31,494	- individual transfers in from other schemes		28,000
	Other Income		
235	- other income		339
	Benefits Payable		
200,462	- pensions	209,456	
27,930	- commutation of pension and lump sum retirement benefits	33,102	
5,531	- lump sum death benefits	5,179	247,737
233,923			
	Payments to and on account of leavers		
1,860	- refunds of contributions	1,664	
8,105	- group transfers out to other schemes	-	
15,843	- individual transfers out to other schemes	17,498	19,162
25,808			
	Other Payments		
1,074	- AVC benefits		1,127
3,047	Administrative Expenses		3,221
72,896	Net Additions from dealings with members		98,192
£000		£000	£000
	Returns on Investments		
	Investment Income		
36,431	- interest from fixed interest securities	41,063	
71,015	- dividends from equities	84,023	
1,088	- income from index linked securities	1,418	
12,225	- income from pooled investment vehicles	11,562	
29,868	- net rents from properties	31,572	
11,771	- interest on cash deposits	13,711	
2,349	- other	3,533	186,882
601,552	Change in Market Value of Investments		1,696,730
2,139	Taxation		2,460
12,184	Investment Management Expenses		14,684
751,976	Net Returns on Investments		1,866,468
824,872	Net Increase in the fund during the year		1,964,660
6,179,453	Add : Opening Net Assets of the Scheme		7,004,325
7,004,325	Closing Net Assets of the Scheme		8,968,985



Puja Parbhaker
Pension Fund Accountant

Net Assets Statement

	Investment Assets		
	Quoted		
230,661	- Fixed interest securities (Public Sector)	202,438	
308,222	- Fixed interest securities (Other)	378,439	
3,311,126	- Equities	4,115,577	
49,559	- Index Linked Securities	50,052	
1,695,644	- Pooled Investment Vehicles (Managed Funds)	2,447,203	
264,842	- Pooled Investment Vehicles (Unit Trusts)	344,855	
	Unquoted		
87,708	- Pooled Investment Vehicles (Property Unit Trust)	111,203	
608,043	- Property	747,547	
131,512	- Venture Capital	158,164	
158,651	Cash Deposits	250,579	8,806,057
21,583	Other Investment Balances		38,265
14,751	Separately invested AVC Funds		17,398
	Net Current Assets and Liabilities		
20,791	- contributions due from employer		19,551
1,485	- unpaid benefits		9,817
101,345	- cash balances		79,130
-1,598	- other current assets		-1233
<u>7,004,325</u>	Net Assets		<u>8,968,985</u>

Accounting Policies

Basis of Preparation

The accounts have been prepared on an accruals basis to 31st March 2006, in accordance with SORP1, Financial Reports of Pension Schemes, as adopted by CIPFA in the Accounting Code of Practice.

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the year end. These are covered within the actuarial valuation (see pages 30 - 33)

Valuations of the investments have been carried out by each of the fund managers at mid market prices at 31st March 2006. Items denominated in foreign currencies have been translated into sterling at the closing foreign exchange rate at 31st March 2006.

Valuation of the property portfolio was carried out at 31st December 2005 by an independent valuer. Property values have been trended to show the estimated value as at 31st March 2006.

Restatement

Due to a change in CIPFA's Accounting Code of Practice, Additional Voluntary Contributions are now included within the accounts. Therefore, 2004/05 opening balances have also been adjusted to reflect this change.

	£000
Previous Net Assets Balance as at 31/03/2005	6,989,574
Value of AVCs as at 31/03/2005	14,751
Restated Balance as at 31/03/2005	<u>7,004,325</u>

AVCs

The AVC scheme is currently managed by Prudential. AVCs are invested separately from the main Fund, on a money purchase basis. Members of this scheme receive an annual statement informing them of the value of their individual Fund. The total amount invested in AVCs (including values held with previous scheme managers) is as follows:

	£000
Opening Balance as at 01/04/05	14,751
Net Contributions	1,676
Change in Market Value of Investments	971
Market Value of AVCs as at 31/03/06	<u>17,398</u>

Audit

The Pension Fund accounts are audited as part of the audit of Glasgow City Council's financial statements. The audit certificate is included in the Council's audited accounts.

Fund Management

The investment assets of the Fund are externally managed. There were no manager changes during 2005/06.

Investment management arrangements as at 31st March 2006 are shown below.

Asset Class Management	Fund Manager	% Under
Multi Asset – Passive	Legal & General	25.2%
Global Equity	Baillie Gifford	16.7%
Global Equity	Capital International	16.0%
Global Equity	Schroder	15.4%
Specialist - Property	Arlington PI	9.8%
Specialist - Bonds	Henderson	3.9%
Specialist - Bonds	Western	3.9%
Equities - UK Small Co.s	Gartmore	2.2%
Equities - Overseas Small Co.s	JP Morgan	2.5%
Specialist - Venture Capital	Pantheon	2.3%
Specialist - Emerging Markets	Genesis	2.1%

The market value of assets managed by fund managers, excluding cash and AVCs, as at 31 March 2006 was £ 8,555 million. Of this, £5,851 million relates to UK investments, and the remaining £2,704 million is invested overseas. Cash balances are managed by the Fund's Global Custodian, Northern Trust.

Property assets comprise £ 595 million Freehold, £152 million Long Lease, and £111 million Unit Trusts.

The values of purchases and sales in the year were £ 9,043 million and £8,511 million respectively.

The Fund participates in a stocklending programme managed by its Global Custodian, Northern Trust. As at 31st March 2006 the total amount of stock released by the Fund under this arrangement was £1,220 million. Stock on loan is secured via a pooled collateralisation arrangement. Initial collateral levels are not less than 102% of the market value of the borrowed securities for loans of fixed income, and not less than 105% of the market value of the borrowed securities for loans of equity securities. Marking to market is performed every business day.

The Fund first published a Statement of Investment Principles in 1997. The Statement is updated annually. It is published on the Fund's website (www.spfo.org.uk), or is available on request from Strathclyde Pension Fund Office. A summary statement is included at page 26.

Other

The Fund had contractual commitments totalling £291.7 million at 31st March 2006 within its Private Equity portfolio.

There were no transactions with related parties during the year other than the balance with the City Council's loans fund, which is listed as 'cash balances' in the Net Assets Statement.

IN ACCORDANCE WITH REGULATION 76 OF THE LOCAL GOVERNMENT PENSION SCHEME (SCOTLAND) REGULATIONS 1998 AN ACTUARIAL VALUATION OF THE STRATHCLYDE PENSION FUND WAS CARRIED OUT AS AT 31ST MARCH 2005.



Alison Murray
Fund Actuary

In accordance with regulation 76 of the Local Government Pension Scheme (Scotland) regulations 1998 an actuarial valuation of the Strathclyde Pension Fund was carried out as at 31st March 2005. Results of the valuation were confirmed during March 2006, and a copy of the valuation report was issued to all participating employers. The report is summarised as follows.

Results

Funding Level

As at 31st March 2005, the funding position was as follows :

Fund Assets	£7,005m
Fund Liabilities	£7,235m
Deficit	£230m

This implies a funding level of **97%**, which has fallen from the previous valuation in 2002, when the funding level was 108%.

Common Contribution Rate

The Common Contribution Rate, calculated as 275%, comprises two elements:

- Future Service Funding Rate

The Future Service Funding Rate is the cost to employers of pensions benefits which will be earned after the valuation date. The actuary calculated the Future Service Funding Rate as 245% of employee contributions.

- Past Service Adjustment

This is the adjustment required to bring the funding level back to 100%, over the average remaining working life of employees (10.6 years), as set out in the Funding Strategy Statement. The actuary calculated the Past Service Adjustment as 30% of employee contributions.

Employer Contribution Rates

In order to achieve stability of contributions, the required increase is phased in over three years. The following common contribution rates for employers were agreed.

Year to	Rate (as % of employee contributions)
31 March 2007	260%
31 March 2008	270%
31 March 2009	280%

In addition, a number of employers have been set contribution rates which include individual adjustments (increases) In most cases this is because they have closed membership of the fund to new employees.

Method

The method of calculating the employers' contribution rate is known as the Projected Unit Method. The key feature of this method is that it provides a stable long term contribution rate if the average age of the workforce remains constant. If the admission of new entrants is such that the age of the membership profile increases then the contribution rate calculated at future valuations would be expected to increase.

Assumptions

Demographic

Demographic assumptions cover rates of mortality, retirement and withdrawal. The actuary is able to draw on a wide experience of Local Government Funds together with published tables to derive assumptions which are as close to best estimates as practicable.

Financial

The key financial assumptions used in the 2005 valuation were as follows.

Financial Assumptions	Nominal (% p.a)	Real (% p.a)
Overall Anticipated Long Term Return from :		
Equities	6.7%	3.8%
Bonds		
(50% Gilts 50% Corporates)	5.0%	2.8%
Property	5.7%	2.1%
Discount Rate	6.3%	3.4%
Pay Increases	4.4%	1.5%
Price Inflation	2.9%	

The valuation basis for setting employer contribution rates - the "ongoing valuation" anticipates an element of expected future returns from equities. Without anticipating future equity out-performance the funding level would be around 73%.

34 ACTUARIAL VALUATION

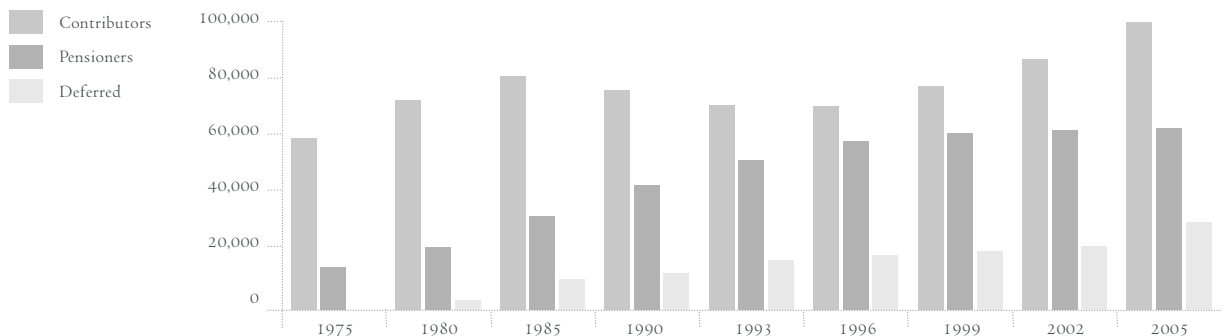
Funding Projection as at 31st March 2006

Subsequent to the 2005 valuation, the Fund commissioned Hymans Robertson to provide regular funding updates. These are projections based on the 2005 actuarial valuation results updated for subsequent movement in asset values; movement in bond yields (and therefore valuation of liabilities); cash flows; and benefit accruals. The projection is provided as a means of monitoring the funding position. It is not intended that it will result in any changes, particularly to employer contribution rates, during the inter-valuation period.

The projected funding position can be summarised as follows:

Date	31 Mar 2005 £m	31 Mar 2006 £m
Assets	7,005	9,020
Liabilities	7,235	8,651
Surplus/Deficit	(230)	369
Funding Level	96.8%	104.3%

The position improved after March 2006 as a result of substantial gains from investment returns. These were partially offset by a fall in real gilt yields and resultant increase in the valuation placed on liabilities. As a result of the fall in gilt yields the Future Service Contribution rate has risen from 245% at March 2005 to a projected 285% at 31st March 2006.

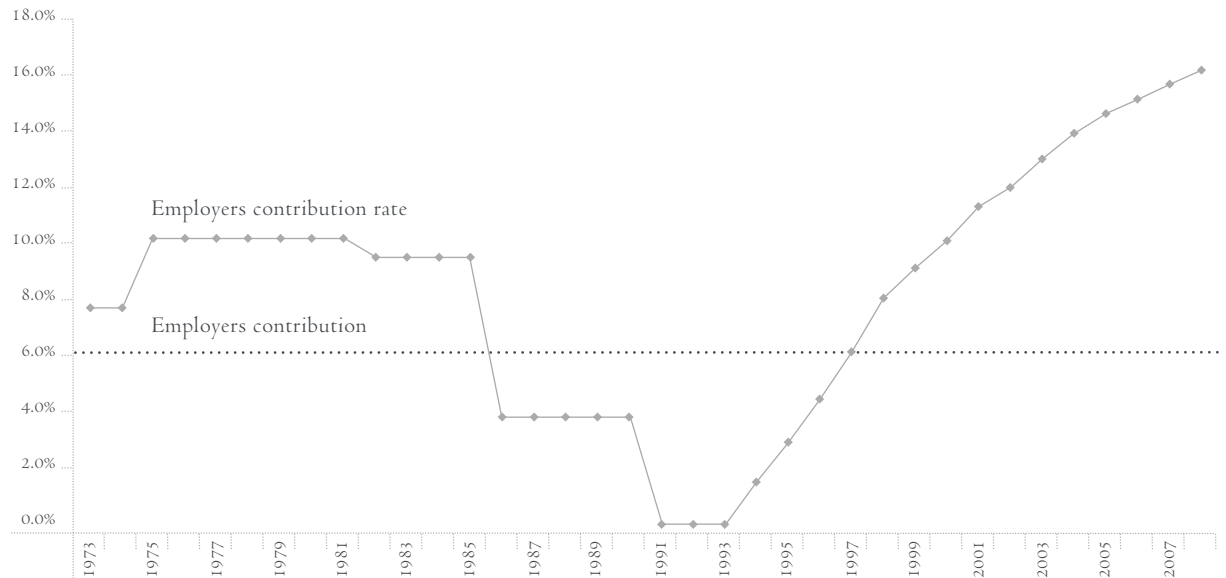
Fund Membership Profile (1975 – 2005)

The above chart outlines the ratio of contributors to pensioners over the 30-year history of the Fund. The ratio of pensioners to current contributors has increased steadily over the years. More recently however, the number of contributors has grown to over 86,000, whilst the number of pensioners has remained relatively steady.

Within the 2005 actuarial valuation, the maturity profile of the Fund's liabilities was as follows:

Past Service Liabilities	(£m)	(%)
Employee Members	3,982.1	55.0
Deferred Pensioners	572.9	7.9
Pensioners	2,680.2	37.1
Total	7,235.2	100

Comparison of Employer and Employee Contribution Rates



The above graph compares the contribution rates of employee and employer. Whilst the employee pays a fixed rate – 6% for the vast majority – the employer rate varies over time.

The employer rate is set by the actuary, following the triennial actuarial valuation of the Fund, to ensure its continuing solvency over the long term.

The recent trend of year-on year increases in the employer rate is common to most Local Government Pension Scheme funds. The LGPS is currently under review. Proposals for a new scheme will be issued during 2006/07 with a planned implementation date of April 2008.

Funding Strategy Statement

In accordance with revised Regulations, and after consultation with interested parties the Fund published its first Funding Strategy Statement during the year. The Statement provides a detailed explanation of the aims of the funding policy, the funding mechanism, the links to the investment strategy and the associated risks and control measures.

Further Information

The Funding Strategy Statement and the full Report on the 2005 Actuarial Valuation are available on the Fund's or the Council's website or on request from SPFO.



Membership

The No. 3 Fund was established in February 1993 in order to preserve the pensionable benefits of those remaining employees (1,362) of Strathclyde Buses who had transferred from the service of Strathclyde Regional Council on the implementation of the Transport Act 1985 in October 1986. The value of those employees' accrued benefits, and the assets in respect of them were actuarially assessed by the Fund's actuaries, Hyman Robertson.

The No. 3 Fund was established as a closed Fund - i.e. it is not open to new membership.

The sole employer contributing to the No. 3 fund is First Glasgow, a subsidiary of First Group.

Administration

Fund and Scheme administration are carried out by Glasgow City Council within the Strathclyde Pension Fund Office.

Actuarial Position of the Fund

In accordance with Regulation 76 of the Local Government Pension Scheme (Scotland) Regulations 1998 an actuarial valuation of the No.3 Fund was carried out as at 31st March 2005. Results of the valuation were confirmed during March 2006. The results are summarised as follows:

Results

Funding Level

As at 31st March 2005, the funding position was as follows:

Fund Assets	£90.4m
Fund Liabilities	£78.0m
Deficit	£12.4m

This implies a funding level of 86%, which has fallen from the previous valuation in 2002, when the funding level was 98%.

Future Service Funding Rate

The Future Service Funding Rate is the cost to the employer of pensions benefits which will be earned after the valuation date. The actuary calculated the Future Service Funding Rate as 460% of employee contributions.

Past Service Adjustment

This is the adjustment required to bring the funding level back to 100%, over the average remaining working life of employees (7.1 years), as set out in the Funding Strategy Statement. The actuary calculated the Past Service Adjustment as a series of annual deficit recovery contribution payments starting with an initial payment of £1.9m per annum and increasing at the rate of 4.4% per annum.

Employer Contribution Rates

In order to achieve stability of contributions, the required increase is phased in over three years. The following contribution rates have been agreed with the employer and certified by the actuary.

Year to	Rate (as % of employee contributions)	Additional Monetary Payments (£000 per annum)
31 March 07	420%	1,920
31 March 08	440%	2,004
31 March 09	460%	2,100

Method

The method of calculating the employer's contribution rate is known as the Attained Age Method. The key feature of this method is that it calculates the futures service cost for the current workforce allowing for the ageing of that group of employees. Thus it effectively assumes that there will be no new employees joining the Fund.

Assumptions

Demographic

Demographic assumptions cover rates of mortality, retirement and withdrawal. The actuary is able to draw on a wide experience of Local Government funds together with published tables to derive assumptions which are as close to best estimates as is practicable.

Financial

The key financial assumptions used in the 2005 valuation were as follows:

Financial Assumptions	Nominal(% pa)	Real(% pa)
Overall Anticipated Long Term Return from :		
Equities	6.7%	3.8%
Gilts	4.7%	1.8%
Corporate Bonds	5.2%	3.3%
Property	5.7%	2.8%
Discount Rate – pre-retirement	6.7%	3.8%
Discount Rate – post-retirement	5.2%	2.1%
Pay Increases	4.4%	1.5%
Price Inflation	2.9%	

The valuation basis for setting employer contribution rates - the "ongoing valuation" anticipates an element of expected future returns from equities only in respect of pre-retirement liabilities. Without anticipating future equity out-performance the funding level would be around 76%.

Funding Strategy Statement

In accordance with revised Regulations, and after consultation with the employer, the No. 3 Fund published its first Funding Strategy Statement during the year. The Statement provides a detailed explanation of the aims of the funding policy, the funding mechanism, the links to the investment strategy and the associated risks and control measures.

Further Information

The Funding Strategy Statement and the full Report on the 2005 Actuarial Valuation are available on the Fund's or the Council's website or on request from SPFO.

2004/05			
£000		£000	£000
	Dealings with members, employers and others directly involved in the scheme		
	Contributions Receivable		
	From Employers		
1,467	- normal	1,446	
613	- additional	505	1,951
2,080			
	From Members		
367	- normal		362
	Benefits Payable		
2,569	- pensions	2,717	
523	- commutation of pension and lump sum retirement benefits	371	
33	- lump sum death benefits	29	3,117
3,125			
	Payments to and on account of leavers		
78	- individual transfers out to other schemes		69
19	Administrative Expenses		28
-775	Net Reduction from dealings with members		-901
	Returns on Investments		
	Investment Income		
380	- interest from fixed interest securities	438	
1,009	- dividends from equities	973	
88	- income from index linked securities	95	
662	- income from pooled investment vehicles	836	
97	- interest on cash deposits	115	
34	- other	30	2,487
6,152	Change in Market Value of Investments		16,383
18	Taxation		21
155	Investment Management Expenses		180
8,249	Net Returns on Investments		18,669
7,474	Net Increase in the fund during the year		17,768
70,478	Add : Opening Net Assets of the Scheme		77,952
<u>77,952</u>	Closing Net Assets of the Scheme		<u>95,720</u>
	Net assets statement		
	Investment Assets		
	Quoted		
8,564	- Fixed interest securities (Public Sector)	6,895	
3,707	- Fixed interest securities (Other)	301	
32,107	- Equities	37,207	
3,934	- Index Linked Securities	3,424	
14,525	- Pooled Investment Vehicles (Unit Trusts)	29,175	
	Unquoted		
12,224	- Pooled Investment Vehicles (Property Unit Trust)	15,124	
1,010	Cash Deposits	1,536	93,662
463	Other Investment Balances		329
	Net Current Assets and Liabilities		
177	- contributions due from employer		72
1,241	- cash balances		1,657
<u>77,952</u>	Net Assets		<u>95,720</u>

THE ACCOUNTS HAVE BEEN PREPARED ON AN ACCRUALS BASIS TO 31ST MARCH 2006, IN ACCORDANCE WITH SORP1, FINANCIAL REPORTS OF PENSION SCHEMES, AS ADOPTED BY CIPFA IN THE ACCOUNTING CODE OF PRACTICE.

Basis of Preparation

The accounts have been prepared on an accruals basis to 31st March 2006, in accordance with SORP1, Financial Reports of Pension Schemes, as adopted by CIPFA in the Accounting Code of Practice.

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the year end. These are covered within the actuarial valuation (see page 34).

Valuations of the investments have been carried out by each of the fund managers at mid market prices at 31st March 2006. Items denominated in foreign currencies have been translated into sterling at the closing foreign exchange rate at 31st March 2006.

Other

There were no transactions with related parties during the year other than the balance with the City Council's loans fund, which is listed as 'cash balances' in the net assets statement.

Fund Management

The Fund's investments are managed by Schroder Investment Management. The market value of assets managed by the fund manager, excluding cash, as at 31 March 2006 was £92.1million. Of this, £66.1 million relates to UK investments, and the remaining £26 million is invested overseas. Cash balances were managed by the Fund's Global Custodian, Northern Trust.

Property assets comprised £15.1million worth of Unit Trusts.

The values of purchases and sales in the year were £ 67.5 million and £ 62.9 million respectively. The Fund participates in a stocklending programme managed by its Global Custodian, NorthernTrust. As at 31st March 2006 the total amount of stock released by the Fund under this arrangement was £ 13.7 million. Stock on loan is secured via a pooled collateralisation arrangement. Initial collateral levels are not less than 102% of the market value of the borrowed securities for loans of fixed income, and not less than 105% of the market value of the borrowed securities for loans of equity securities. Marking to market is performed every business day.

01. SPFO Website - www.spfo.org.uk

Launched in 2001 the website contains a wealth of information for all those with an interest in the Fund.

As part of our ongoing efforts to improve our services to our stakeholders the website is being revamped with an expected roll-out of the new site in the latter part of 2006.

**02. Newsletters**

Our newsletters continue to be published on an annual basis. This year our Fundnews and Pensionnews publications were our most ambitious efforts yet, reflecting the profile that pensions news is taking in all of our working and retired lives.

03. Handbooks

Each new member receives a guide to the scheme. 9,758 of these guides were issued in the last year. These were part of our starters pack incorporating a guide, a nomination form, a prompt regarding previous pensionable service and details regarding how a member can top up their pension rights.

04. Technical Bulletins

Technical Bulletins are now an integral part of our communications with the Fund's participating employers. This year we issued 6 Technical Bulletins reflecting the variety and complexity involved in administering the Local Government Pension Scheme.

05. Meetings

Our Annual Meeting now attracts an attendance of over 200 - mainly employer and trade union representatives. In addition to presentation of the Fund accounts and formal investment and other reports, they hear a variety of guest speakers. Feedback confirms that the we have now developed a very successful Annual Meeting format. We continue to hold additional workshops and briefing sessions and give a variety of standard and ad hoc presentations, thus providing face-to-face all the information sought by our employers and scheme membership.

06. Consultation

A major initiative this year has been the formation of the Strathclyde Pension Fund Representative Forum, a quarterly formal meeting of employer and employee representatives which facilitates ongoing dialogue on the management of the Fund and pensions issues generally between all interested parties. The Panel has been an instant success with a good input from all involved.

07. Annual Report and Accounts

This year's Annual Report retains the high level of informational content from previous years but has a new look and feel following our collaboration with Glasgow-based Curious Group in producing this year's publication.

08. Benefit Statements

Issue of Benefit Statements has for some years been part of our annual routine. But we made two very significant enhancements this year.

Working with the Department of Work and Pensions, for the first time we included details of State Benefits alongside Local Government Pension Scheme benefits to give our members a more complete picture of their retirement provision. We also issued Benefit Statements to our deferred beneficiaries for the first time.

09. Service Level Agreements

We continue to advocate the use of Service Level Agreements between SPFO and its participating employers as a means to regulate the partnership and clarify the respective responsibilities of each of the parties to the ultimate benefit of Scheme members.

10. Promoting LGPS

Promotion of the Scheme and the benefits of membership are of paramount importance to the SPFO and the Communications Team. To this end, over the last year we carried out a concerted promotional campaign based on the message **'0-65 in a lot less time than you think - and we're with you every step of the way'**. The objectives of the campaign were to simultaneously provide:

- a reminder to employees of the importance of financial planning for retirement;
- reassurance to existing scheme members that the LGPS provides them with a very solid basis of retirement income;
- a prompt for them to consider additional payments or provision within the scheme; and
- encouragement to employees who have not yet joined the scheme to do so as a matter of urgency.

We have reason to believe that each of these objectives was successfully achieved.

Membership of the Strathclyde Pension Fund comprises:

- _ Employees and pensioners of the 12 Unitary Authorities in the former Strathclyde area ;
- _ Civilian employees and pensioners of Strathclyde Police and Strathclyde Fire and Rescue;
- _ Employees and pensioners of other Scheduled bodies;
- _ Employees and pensioners of Admitted Bodies;
- _ Pensioners formerly employed by Strathclyde Regional Council and the 19 District Councils within the former Strathclyde area;
- _ Former employees of authorities in existence pre 1975

The full list of member organisations that made contributions to the Fund during 2005/2006 is as follows:

Scheduled Bodies

Argyll & Bute Council
 East Ayrshire Council
 East Dunbartonshire Council
 East Renfrewshire Council
 Glasgow City Council
 Inverclyde Council
 North Ayrshire Council
 North Lanarkshire Council
 Renfrewshire Council
 South Ayrshire Council
 South Lanarkshire Council
 West Dunbartonshire Council

Scottish Water
 Strathclyde Fire & Rescue
 Strathclyde Passenger Transport
 Strathclyde Police Authority

Ayrshire Valuation Joint Board
 Dunbartonshire and Argyll and Bute Valuation Joint Board
 Lanarkshire Valuation Joint Board
 Renfrewshire Valuation Joint Board

Anniesland College
 Ayr College
 Bell College
 Cardonald College
 Central College Of Commerce
 Clydebank College
 Coatbridge College
 Cumbernauld College
 Glasgow College Of Nautical Studies
 Glasgow Metropolitan College
 James Watt College
 John Wheatley College
 Kilmarnock College
 Langside College
 Motherwell College
 North Glasgow College
 Reid Kerr College
 South Lanarkshire College
 Stow College

Admitted Bodies

A

Access North Ayr Advocacy Project
 Alcohol Focus Scotland
 Alpha Project Alternatives
 Arden Out of School Project
 Argyll & Bute Local Learning Partnership Ltd
 Argyll & Islands Enterprise Company Ltd

Auchenback Active Limited
 Ayr Action for Mental Health
 Ayr Housing Aid Centre
 Ayrshire & Arran Tourist Board
 Ayrshire Housing
 Ayrshire Initiatives Limited
 Ayrshire North Community Housing Organisation Ltd

B

Befriending & Respite Services Limited
 Bridgeton Calton And Dalmarnock Credit Union

C

Caladh House
 Childrens Home
 Cambuslang Community Carers
 Care Partners (Three Towns Family Respite)
 Castlemilk Environment Trust
 Castlemilk Stress Centre
 Castlemilk Youth Complex
 Childcare First
 Clydebank Rebuilt
 Coatbridge Citizens Advice Bureau
 Community Central Hall
 Colleges Open Learning
 Exchange Group
 Community Enterprise In Strathclyde
 Community Volunteers
 Enabling Youth Ltd
 CORA Foundation
 Craigholme School
 Cumbernauld Housing Partnership Limited
 Cycling Scotland

D

Deaf Connections
 Dixon Hall Day Centre For Retired Citizens
 Drumchapel Adventure Group
 Developing Strathclyde

E

East Ayrshire Carers Centre
 East Ayrshire Employment Initiative
 East Dunbartonshire Town Centre Management Ltd
 East End Community Law Centre
 East End Partnership Ltd
 East End Respite Care Group
 East Renfrewshire Carers
 East Renfrewshire Council For The Voluntary Sector
 Easterhouse Citizens Advice Bureau
 Employee Counselling Service
 Enable Services Ltd
 Equals Advocacy Partnership

F

Financial Fitness Resource Team
 First Bus
 Flourish House
 Fyne Homes

G

Geilsland School
 General Teaching Council for Scotland
 Glasgow Alliance
 Glasgow Anti-Racist Alliance
 Glasgow Association For Mental Health
 Glasgow Caledonian University
 Glasgow City Marketing Bureau
 Glasgow Colleges Group
 Glasgow Council for Voluntary Services
 Glasgow Cultural Enterprises Ltd
 Geilsland School

G	K	P	S
General Teaching Council for Scotland	Kenmure St Mary's Boys School	Parkinson's Self Help Group	Social Welfare Commission
Glasgow Alliance	Kibble School	Paths For All Partnership	Bishops Conference of Scotland
Glasgow Anti-Racist Alliance	Kings Theatre Glasgow Ltd	Pensioners Action Group East	South Ayrshire Energy Agency
Glasgow Association For Mental Health		Possil/Milton Community Renewal Ltd	South Ayrshire Women's Aid
Glasgow Caledonian University	L	Prospects for Employment	South Lanarkshire Leisure
Glasgow City Marketing Bureau	Lanarkshire Housing Association		Springboig St John's School
Glasgow Colleges Group	Lanarkshire Association for Mental Health	R	SportScotland
Glasgow Council for Voluntary Services	Larkfield Ladybird Pre 5 Centre	Rape Crisis Centre	St Columba's School
Glasgow Cultural Enterprises Ltd	Learning and Teaching Scotland	Reidvale Adventure Playground	St Philip's Approved School
Glasgow Film Theatre	Linstone Housing Association Ltd	Renfrew Council on Alcohol	Strathclyde European Partnership
Glasgow Housing Association	Loch Lomond & The Trossachs National Park	Renfrewshire Leisure Ltd	Strathclyde Wing Hong Chinese Elderly Group
Glasgow North East Carers Centre		Renfrewshire Carers Centre	
Glasgow School of Art	M	Richmond Fellowship Scotland	T
Glasgow Women's Aid	Meridian	Routes to Work	Tannahil Centre Ltd
Good Shepherd Centre	Milton Kids Dash Club	Royal Scottish Academy of Music & Drama	Town Centre Initiatives
Govan Law Centre			Time Capsule (Monklands)
Greater Easterhouse Women's Aid	N	S	U
Greater Easterhouse Development Company Ltd	New Lanark Conservation and Civic Trust	SACRO	University of Aberdeen (ex Northern College)
Greenspace Scotland	North Ayr Resource Centre	Scottish Centre for Children With Motor Impairments	University of Dundee (ex Northern College)
	North Ayrshire Leisure Ltd	Scottish Enterprise – Careers Scotland	University of Edinburgh (ex Moray House College)
H	North Lanarkshire Carers Together	Scottish Environmental & Outdoor Centres Assoc Ltd	University of Glasgow (ex St Andrews College)
H.E.L.P (Argyll & Bute) Ltd	Northwest Economic Network	Scottish Further Education Unit	University of Glasgow (ex SCRE)
Hamilton Furniture Initiative	Notre Dame Child Guidance Clinic	Scottish Institute of Human Relations	University of Paisley
Hansel Alliance		Scottish Institute of Sport	University of Strathclyde
Hansel Foundation	O	Scottish Library & Information Council	Urtheo Limited
Hemat Gryffe Women's Aid	Objective 3 Partnership (Scotland) Ltd	Scottish Maritime Museum Trust	V
Hillhead Housing Association	One Plus One Parent Families – Strathclyde	Scottish Out Of School Care Network	Village Story Telling Centre
Hills Trust Parents Community Group	Outdoor Resource Base	Scottish Qualifications Authority	Voluntary Association for Mental Welfare
Home Group Limited		Scottish Screen	Volunteer Centre
Home Start Kintyre	P		W
Housing Wider Action Group	Paisley Partnership Regeneration Company	Scottish Society For The Mentally Handicapped	West of Scotland Colleges Partnership
Hutchesons Educational Trust	Parkhead Citizens Advice Bureau	Scottish Society For The Mentally Handicapped Homes	West of Scotland Loan Co.
	Parkhead Housing Association Ltd	Scottish Throughcare & Aftercare Forum	West of Scotland Community Relations Council
I		SCOTSS	Women's Support Project
Inverclyde Leisure		Scotwest Credit Union Ltd	Y
Irvine Housing Association		SLIMS	Youth Counselling Service
J			
Jeely Piece Club			
Jordanhill School			

42 CONTACTS

Head Of Pensions

Richard McIndoe

Strathclyde Pension Fund
4th Floor
78 Queen Street
Glasgow G1 3DN
Tel. 0141 287 7383

Investment

David Crum

Chief Pensions Officer
(Investments)
Strathclyde Pension Fund
4th Floor
78 Queen Street
Glasgow G1 3DN
Tel. 0141 287 7434

Operations

Janet Cassidy

Chief Pensions Officer
(Benefits)
Strathclyde Pension Fund
2nd Floor
78 Queen Street
Glasgow G1 3DN
Tel. 0141 287 7414

Accounting

Puja Parbhaker

Pension Fund Accountant
4th Floor
78 Queen Street
Glasgow G1 3DN
Tel. 0141 287 7398

Employer Communications

Alistair Gray

Senior Communications
Officer
Strathclyde Pension Fund
4th Floor
78 Queen Street
Glasgow G1 3DN
Tel. 0141 287 7416

Pensions In Payment

Cathy Douglas

Senior Pensions Payroll
Officer
Strathclyde Pension Fund
2nd Floor
78 Queen Street
Glasgow G1 3DN
Tel. 0141 287 7432

Employee Benefits

If you are employed by :

East Dunbartonshire Council / East Renfrewshire Council /
Glasgow City Council / Strathclyde Buses / Strathclyde Fire
and Rescue. Tel: 0141 287 7341

North Ayrshire Council / South Ayrshire Council / South
Lanarkshire Council / Strathclyde Police / West Dunbartonshire
Council Tel: 0141 287 7342

Argyll & Bute Council / East Renfrewshire Council /
Inverclyde Council / North Lanarkshire Council / Renfrewshire
Council / Strathclyde Passenger Transport / Scottish Water
Tel: 0141 287 7343

All Other Employers Tel: 0141 287 7420

Internet

Email spfo@glasgow.gov.uk

Web www.spfo.org.uk

Other Useful Addresses

Internal Disputes Resolution Procedure

For disputes involving our administration of the Local
Government Pension Scheme Regulations, application forms
can be obtained from the Strathclyde Pension Fund Office, and
should be submitted to : - The Director of Financial Services,
Glasgow City Council, City Chambers, Glasgow G1 1DU, who
will allocate your case to one of two appointed independent
experts. Matters involving maladministration should also be
referred to the Director of Financial Services.

Previous Benefits

To help you trace pension schemes which may be holding
benefits belonging to you from previous employment, contact :
**The Pension Schemes Registry, PO Box 1NN,
Newcastle-Upon-Tyne, NE99 1NN**

Telephone 0191 225 6316 Fax 0191 225 6390/6391

Website www.thepensionsregulator.gov.uk



STRATHCLYDE PENSION FUND
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR TO 31ST MARCH 2006

Strathclyde Pension Fund
2nd Floor, 78 Queen Street
Glasgow G1 3DN

Email spfo@glasgow.gov.uk
Web www.spfo.org.uk