
STRATHCLYDE PENSION FUND

ANNUAL REPORT AND ACCOUNTS

08

FOR THE YEAR TO 31ST MARCH 2008



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BAILIE JIM MCNALLY

CONVENER'S INTRODUCTION

GLASGOW CITY COUNCIL ADMINISTERS THE LOCAL GOVERNMENT PENSION SCHEME (LGPS) ON BEHALF OF 12 LOCAL AUTHORITIES AND OVER 200 OTHER PUBLIC SECTOR BODIES IN THE WEST OF SCOTLAND.

AS AT 31ST MARCH 2008, THE FUND HAD NET ASSETS OF £9.479 BILLION AND OVER 185,000 SCHEME MEMBERS. THE FUND IS ONE OF THE 20 LARGEST PENSION FUNDS IN THE UK, THE 50 LARGEST IN EUROPE AND THE 150 LARGEST IN THE WORLD.

It gives me great pleasure to introduce the Fund's Annual Report And Accounts for the year to 31st March 2008 as Convener of the Strathclyde Pension Fund Committee.

I became Convener after the May 2007 Council elections, having been returned as the elected councillor for Glasgow Newlands/Auldburn. Having served on the Council and the Committee since 1999, I am fully aware of the responsibilities of the position of Convener, and of the invaluable role that the Fund plays in the provision of retirement benefits.

I am also well aware of the challenges ahead for the Local Government Pension Scheme (LGPS) and its participating employers, as investment markets continue to digest the implications of the credit crunch that has beset the global economy over the last year, and a new LGPS is introduced in the coming year.

Whilst I am confident that the Fund has the investment, governance and operational structures in place to face these challenges, I will ensure that the Committee continues to monitor, review and improve these structures and that they continue to underpin the performance of the Fund and its service to its members.

SUMMARISING THE YEAR FROM 1ST APRIL 2007 TO 31ST MARCH 2008:

- » The Fund's membership grew by around 5,000 to:

91,000 ACTIVE MEMBERS

36,000 DEFERRED MEMBERS

59,000 PENSIONERS

- » The Fund's investments fell by 3.0%.
- » Significant decisions by the Committee included re-appointing Northern Trust as Global Custodian, signing the United Nations Principles For Responsible Investment, increasing the currency strategy and restructuring the No. 3 Fund.

The Fund's recent successes in winning industry awards evidence a consistent pattern of excellence, and I am enjoying playing my part in maintaining the proud history of providing retirement security for those who contribute to the Fund.

Bailie Jim McNally



LYNN BROWN EXECUTIVE DIRECTOR OF FINANCIAL SERVICES, GLASGOW CITY COUNCIL

ABOUT THE FUND

THE FUND WAS ESTABLISHED IN 1974 BY STRATHCLYDE REGIONAL COUNCIL AND TRANSFERRED TO GLASGOW CITY COUNCIL ON 1ST APRIL 1996.

THE FUND IS A POOL INTO WHICH EMPLOYEES' AND EMPLOYERS' CONTRIBUTIONS AND INVESTMENT INCOME ARE PAID, AND FROM WHICH PENSIONS AND OTHER LUMP SUM BENEFITS ARE PAID OUT TO LOCAL GOVERNMENT PENSION SCHEME MEMBERS.

All pension benefits are paid in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998.

The Fund's investments are externally invested in accordance with the Local Government Pension Scheme (Scotland) (Management and Investment of Funds) Regulations 1998.

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.

A full list of the Fund's contributing employers is included later in this document in the section entitled "Fund Membership".

OUR VALUES:

- » Accuracy, accessibility and speed of response
- » People, participation and partnership
- » Proactiveness, initiative and innovation
- » Transparency, accountability and value for money.

OUR OBJECTIVES:

- » To deliver a professional, high quality service through having highly skilled, motivated and empowered staff
 - » To be fully accountable to all stakeholders for the governance of the Fund and for scheme administration
 - » To achieve 100% accuracy of our member database in partnership with all our stakeholders.
-

STRATHCLYDE PENSION FUND COMMITTEE

GLASGOW CITY COUNCIL HAS THE STATUTORY ROLE OF ADMINISTERING AUTHORITY FOR THE STRATHCLYDE PENSION FUND. IT DELEGATES THIS ROLE TO THE STRATHCLYDE PENSION FUND COMMITTEE.

The Committee is comprised of seven elected members of Glasgow City Council. The Committee decides policy and investment strategy for the Fund and appoints investment managers, advisers and consultants, taking advice from the Representative Forum, from the Investment Advisory Panel, and from external consultants.

During 2007/08 membership of the Strathclyde Pension Fund Committee was as follows.

Bailie Jim McNally (Convener)

Councillor Paul Coleshill

Councillor Aileen Colleran

Councillor Stephen Curran

Councillor Khalil Malik

Councillor John McKenzie

Councillor Ruth Simpson



Bailie
Jim McNally (Convener)



Councillor
Paul Coleshill



Councillor
Aileen Colleran



Councillor
Stephen Curran



Councillor
Khalil Malik



Councillor
John McKenzie



Councillor
Ruth Simpson

INVESTMENT MANAGERS

OTHER SERVICE PROVIDERS

Actuaries 	Auditors 	AVC Provider 	Global Custodian 	Investment Advisers 	Performance Measurement
Performance Measurement 	Performance Measurement 	Solicitors 	Solicitors 	Solicitors 	Valuers

REPRESENTATIVE FORUM

THE STRATHCLYDE PENSION FUND REPRESENTATIVE FORUM IS A QUARTERLY, FORMAL MEETING OF DESIGNATED REPRESENTATIVES FORMING A BROAD CROSS-SECTION OF THE FUND'S STAKEHOLDERS.

THE FORUM WAS ESTABLISHED AT THE END OF 2005 TO PROVIDE AN INTERFACE BETWEEN THE FUND'S STAKEHOLDERS AND THE STRATHCLYDE PENSION FUND COMMITTEE. IT ALLOWS INTERESTED PARTIES, ON A REPRESENTATIVE BASIS, TO CONTRIBUTE TO DECISIONS REGARDING THE FUND AND FACILITATES ONGOING DIALOGUE ON THE MANAGEMENT OF THE FUND AND PENSIONS ISSUES GENERALLY BETWEEN ALL INTERESTED PARTIES.

DURING 2007/08 THE FORUM'S MEMBERSHIP WAS AS FOLLOWS:

Baillie Jim McNally	Glasgow City Council	Andrew Shoolbread	SOSCN
Cllr Stephen Curran	Glasgow City Council	Neil Wylie	SPT
Cllr James Robb	Argyll & Bute Council	Eileen Howat	South Ayrshire Council
Robin Baker	East Ayrshire Council	Jackie Taylor	South Lanarkshire Council
Ian Black	East Dunbartonshire Council	Sarah O'Donnell	Strathclyde Fire & Rescue
Cllr Ralph Robertson	East Renfrewshire Council	Andrew Heron	University of West of Scotland
Julie Blackburn	Glasgow Metropolitan College	Tricia O'Neill	West Dunbartonshire Council
Eliot Leviten	Glasgow School of Art	Robert Gordon	Amicus
Alan Puckrin	Inverclyde Council	Tommy Asken	GMB Scotland
Angus Grossart	North Ayrshire Council	Frank Murphy	T&G section of UNITE
Cllr Robert Burrows	North Lanarkshire Council	Stewart Young	UCATT
Douglas Paxton	Reid Kerr College	Joe Connolly	UNISON
Cllr Alan Noon	Renfrewshire Council	David Thomson	Pensioner Representative
Frank Burns	Scottish Enterprise		



STATEMENT OF INVESTMENT PRINCIPLES

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.

ADVISERS

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

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.

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.

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 sub-divisions. 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.

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.

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.

RISK

The Fund acknowledges that its equity based investment strategy may entail significant risk including short-term volatility or longer term underfunding. The administering authority's strategy recognises the relatively immature liabilities of the Fund and the secure nature of most employers' covenants and is biased towards equities in the pursuit of long-term higher returns than from bonds. 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.

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.

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.

SOCIAL, ENVIRONMENTAL & ETHICAL CONSIDERATIONS

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.

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.

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.

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.



RICHARD MCINDOE HEAD OF PENSIONS

INVESTMENT ADVISORY PANEL

THE ROLE OF THE INVESTMENT ADVISORY PANEL IS TO PROVIDE ADVICE TO THE STRATHCLYDE PENSION FUND COMMITTEE AND TO ASSIST ITS MEMBERS IN THE DISCHARGE OF THEIR RESPONSIBILITIES. THE COMMITTEE DELEGATES MUCH OF THE INVESTMENT MONITORING FUNCTION TO THE PANEL.

The panel also spends considerable time developing and monitoring investment strategy. Members of the Committee may attend panel meetings in an observer capacity, at their discretion.

PANEL MEMBERSHIP DURING 2007/08 WAS:

DICK BARFIELD

Investment Adviser

RUSSELL BORLAND

Managing Partner, Hymans Robertson

LYNN BROWN

Director of Financial Services, Glasgow City Council

CAROLINE BURTON

Investment Adviser

DAVID CRUM

Chief Pensions Officer (Investments)
Strathclyde Pension Fund

RICHARD MCINDOE

Head of Pensions, Strathclyde Pension Fund

PROF. GEOFFREY WOOD

Investment Adviser

INVESTMENT STRATEGY

THE FUND'S INVESTMENT STRATEGY IS SUMMARISED IN ITS STRATEGIC BENCHMARK. FOLLOWING A REVIEW OF STRATEGY THE FOLLOWING BENCHMARK WAS IMPLEMENTED ON 1ST APRIL 2007.

ASSET CLASS	REVISED BENCHMARK %
EQUITIES	73
GLOBAL	15
UK	31.5
OVERSEAS	21.5
PRIVATE EQUITY	5
PROPERTY	12
BONDS	15
INDEX LINKED	3
UK GILTS	3
CORPORATE	6
OVERSEAS	3
CASH	0
TOTAL	100

The Fund's strategy does not include an allocation to cash but does incorporate a currency overlay strategy.

The Fund's benchmark was not amended during the year, but the notional exposure to currency overlay was increased from £450 million to £1,050 million.

INVESTMENT MANAGER STRUCTURE

The investment assets of the Fund are externally managed. A revised investment manager structure was implemented in April 2007. There were no changes to the structure during the remainder of the year. The investment management arrangements as at 31st March 2008 are summarised and illustrated below.

MANDATE	MANAGER	ALLOCATION AS AT 31ST MARCH 2008 %
MULTI ASSET - PASSIVE	LEGAL & GENERAL	24.0
GLOBAL EQUITY	BAILLIE GIFFORD	15.6
GLOBAL EQUITY	CAPITAL INTERNATIONAL	15.0
GLOBAL EQUITY (Unconstrained)	ALLIANCE BERNSTEIN	3.8
GLOBAL EQUITY (Unconstrained)	EDINBURGH PARTNERS	2.3
GLOBAL EQUITY (Unconstrained)	INVESCO	3.5
GLOBAL EQUITY (Unconstrained)	LAZARD	4.5
SPECIALIST - PROPERTY	GOODMAN PI	9.9
SPECIALIST - BONDS	HENDERSON	4.3
SPECIALIST - BONDS	WESTERN	5.2
EQUITIES - UK SMALL COMPANIES	GARTMORE	2.0
EQUITIES - OVERSEAS SMALL COMPANIES	JP MORGAN	2.3
SPECIALIST - PRIVATE EQUITY	PANTHEON	3.5
SPECIALIST - PRIVATE EQUITY	PARTNERS GROUP	1.0
SPECIALIST - EMERGING MARKETS	GENESIS	2.4
CURRENCY OVERLAY	MELLON, MILLENNIUM RECORD	0.7*
TOTAL		100

*Record and Mellon manage currency for the Fund on an overlay basis which does not require a pre-funded balance to be held. Millennium's mandate is partly pre-funded.

RECORD	MELLON	MILLENNIUM
L&G	BAILLIE GIFFORD CAPITAL INTERNATIONAL EDINBURGH PARTNERS INVESCO LAZARD ALLIANCE BERNSTEIN	HENDERSON WESTERN GENESIS PANTHEON PARTNERS GROUP JP MORGAN GARTMORE GOODMAN PI

MULTI ASSET PASSIVE

GLOBAL EQUITY

SPECIALIST MANDATES

ACTIVE CURRENCY

Northern Trust were re-appointed as the Fund's Global Custodian during the year and will continue their crucial role of safekeeping and servicing the Fund's investment assets.

INVESTMENT PERFORMANCE

THE STRATHCLYDE PENSION FUND (MAIN FUND) PRODUCED A TOTAL ANNUAL RETURN OF +6.9% FOR 2007. THE SCHEME-SPECIFIC BENCHMARK RETURNED +6.1%. THE AVERAGE UK PENSION FUND, AS MEASURED BY THE WM ALL FUNDS UNIVERSE RETURNED +7.0%. THE AVERAGE LOCAL AUTHORITY PENSION FUND, AS MEASURED BY THE WM LOCAL AUTHORITY UNIVERSE, RETURNED +6.1% FOR THE YEAR.

SUMMARY

UK pensions funds enjoyed a fifth successive year of positive investment performance in 2007. But it was clear, mid-year, that the landscape was changing rapidly. "Sub-prime" became firmly embedded in the investment vocabulary as concerns about how low-grade US mortgages had been packaged and sold caused a global credit crunch. There was widespread financial and political fallout. And volatility and selectivity returned dramatically to markets.

By convention, the Fund's main performance report is produced on a calendar year (to 31st December) basis. A local authority comparison on an accounting year (to 31st March) basis is also included in this report.

BACKGROUND – INVESTMENT MARKETS

2007 started well, just as 2006 had finished. Economic growth and company profits were robust. The global economy remained buoyant. But there were already some clouds on the horizon. The sustainability of US consumer spending was questionable and the first hints of mortgage default and growing lending restrictions emerged early in the year. "Sub-prime" would later become the dominant theme for the year, as revelations regarding US lending and credit resale practices grew, provoking a full-blown credit crunch and a banking crisis requiring widespread and repeated central bank intervention.

Volatility, which had been at historically low levels for an extended period, returned dramatically to equity markets in the second half of the year. Intra day market movements of **1%**, **2%** or **3%** became commonplace and movements in individual stocks and sectors were many times this, as selectivity and divergence also returned. But, overall, equities proved surprisingly resilient bouncing back repeatedly.

The FTSE All Share Index returned **+5.3%** for the year. The FTSE All World Index returned **+8.3%**.

Bond markets were similarly lively. Global government bond markets posted strong gains in the latter part of the year as investors moved to price in a recession in the US amid ongoing concerns about the extent of the credit crunch and the knock-on effects on the wider real economy. The JPM Global Government Bond Index returned **+9.2%**. The FTSE UK All Gilts Index returned **+5.4%**. In contrast, credit endured one of its worst quarters in Q4/2007. Many corporates pulled issuance as the high market volatility suppressed buyers. There was a continual threat of fire sales on mortgage-backed securities. And rating agencies downgraded many complex debt vehicles into technical default status. The Merrill Lynch Sterling Non Gilts Index returned just **+0.1%** for 2007. But many sectors and individual securities were strongly negative as risk generally was re-priced.

After being strong for the last few years, sterling started to weaken towards the end of 2007 reaching an historic low of 0.7614 against the euro. The US dollar reached 27-year lows against sterling, euro and the Canadian dollar as the Fed pursued an aggressive monetary policy and support for the currency disappeared.

After a long period of strength, UK commercial property returns deteriorated sharply towards the end of the year, triggered by a collapse in investor confidence as availability of finance for real estate investment vanished. Monthly returns for both November and December were the worst in the history of the Investment Property Databank (IPD) Index. The 2007 IPD Universe return was **-4.4%**.

PERFORMANCE MEASUREMENT

All performance figures are independently verified.

In 2003 the Fund appointed Northern Trust as provider of independent investment performance measurement. Previously (in fact since 1976) the WM Company had held this appointment. 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 over two thirds of the UK pension fund market.

LONG TERM PERFORMANCE

The Fund has achieved a very respectable 10-year annualised return of +7.8%. This has stayed comfortably ahead of both price and earnings inflation. Perhaps more importantly it also exceeds the actuary's long-term assumption which is currently +6.3%. The investment policy has therefore been a success in absolute terms.

PERFORMANCE

The Fund's performance during 2007 by asset class is summarised in the following table:

ASSET CLASS	FUND RETURN (%)	BENCHMARK RETURN (%)
UK EQUITIES	4.7	5.3
OVERSEAS EQUITIES		
US	1.8	5.6
EUROPE	12.7	15.7
JAPAN	-5.8	-6.4
PACIFIC	39.5	34.6
EMERGING MARKETS	35.2	37.4
UK BONDS	2.4	1.3
OVERSEAS BONDS	4.8	9.2
UK INDEX LINKED	8.7	8.6
CASH / ALTS	13.5	5.3
UK PROPERTY	-4.0	-5.5
TOTAL FUND	6.9	6.1

	1998 %	1999 %	2000 %	2001 %	2002 %	2003 %	2004 %	2005 %	2006 %	2007 %	3YR ANNUALISED	5YR ANNUALISED	10YR ANNUALISED
RETAIL PRICES	2.8	1.8	2.9	0.7	2.9	2.8	3.5	2.2	4.4	4.3	%	%	%
AVG. EARNINGS	4.2	6.3	4.8	2.4	3.5	4.3	4.2	4.2	4.0	3.8			
FUND B/MARK	14.0	28.3	(4.3)	(10.0)	(16.5)	20.9	11.2	21.5	12.2	6.1	13.1	14.4	7.5
FUND RETURN	13.0	28.2	(2.5)	(9.7)	(15.4)	19.9	11.9	22.2	11.8	6.9	13.5	14.4	7.8
WM ALL FUNDS	14.0	21.3	(1.3)	(8.9)	(13.9)	17.0	11.2	20.1	10.5	7.0	12.4	13.1	7.1
FUND RANKING*	57	7	64	43	35	18	21	9	22	32	12	8	7

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:

	2002/ 2003 %	2003/ 2004 %	2004/ 2005 %	2005/ 2006 %	2006/ 2007 %	2007/ 2008 %	3YR %	5YR ANNUALISED %	10YR %
FUND RETURN	-20.8	26.6	12.4	27.2	7.4	-3.0	9.8	13.5	5.9
LOCAL AUTHORITY AVERAGE	-19.5	23.4	11.3	24.9	7.0	-2.8	9.1	12.4	5.1
FUND RANKING (/100)*	62	10	13	9	36	47	21	5	7

*Fund Ranking is based on WM company's "league table" of UK pension funds where 1 is top and 100 is bottom.

RESPONSIBLE INVESTMENT

POLICY

The Fund has had a Corporate Governance Policy since the early 1990s which recognises the importance of corporate governance and proxy voting and requires its investment managers to make full use of the voting rights attaching to shareholdings.

The Fund's first Socially Responsible Investment (SRI) policy was agreed during 2000. The Fund believes that, where they may be relevant to shareholder value, social, environmental and ethical considerations are among the factors that investment 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.

REPORTING

Each manager must report back to the Fund every quarter on proxy voting activity and SRI engagements undertaken. Consolidated reports on both corporate governance and SRI are considered by the Strathclyde Pension Fund Committee every quarter. Reports can be viewed either at www.spfo.org.uk or at www.glasgow.gov.uk.

Voting activity during 2007/08 is summarised in the following tables

Voting Results 2007/08 UK (excluding stocks on loan)

MANAGER	No. of Meetings	No. of AGMs	No. of EGMs	No. of Resolutions	Votes For	Votes Against	Abstentions	Not Voted	Proxies Lodged	Proxies Not Lodged
ALLIANCE BERNSTEIN	1	0	1	1	1	0	0	0	1	0
BAILLIE GIFFORD	52	44	8	689	681	5	3	0	52	0
CAPITAL INTERNATIONAL	44	37	7	605	588	16	1	0	44	0
EDINBURGH PARTNERS	1	0	1	1	1	0	0	0	1	0
GARTMORE	284	216	68	2,196	2,108	36	52	0	284	0
INVESCO	0	0	0	0	0	0	0	0	0	0
LAZARD	1	1	0	13	13	0	0	0	1	0
LEGAL & GENERAL	531	337	194	4,373	4,272	88	13	0	531	0
SCHRODERS (NO.3)	47	40	7	634	615	10	9	0	47	0
TOTAL	961	675	286	8,512	8,279	155	78	0	961	0
					97%	2%	1%	0%	100%	0%

Voting Results 2007/08 Overseas

MANAGER	No. of Meetings	No. of AGMs	No. of EGMs	No. of Resolutions	Votes For	Votes Against	Abstentions	Not Voted	Proxies Lodged	Proxies Not Lodged
ALLIANCE BERNSTEIN	14	7	7	83	75	5	1	2	13	1
BAILLIE GIFFORD	82	70	12	757	657	38	0	62	77	5
CAPITAL INTERNATIONAL	251	218	33	2,919	2,617	236	1	65	242	9
EDINBURGH PARTNERS	7	6	1	70	48	2	0	20	5	2
INVESCO	4	3	1	31	0	0	0	31	0	4
JP MORGAN	356	287	69	2,415	2,094	198	53	70	344	12
LAZARD	25	14	11	144	124	20	0	0	25	0
SCHRODERS	21	15	6	218	182	33	3	0	21	0
SCHRODERS (NO.3)	70	70	0	867	799	67	0	1	69	1
TOTAL	830	690	140	7,504	6,596	599	58	251	796	34
					88%	8%	1%	3%	96%	

During 2007/08, the Fund's external investment managers reported on several hundred specific company engagements.

The scope of engagement has noticeably grown and increasingly includes small companies and overseas companies.

Climate change and sustainability are increasingly dominant themes, but engagement frequently also involves human rights and employee issues.

The following list is just a selection of the engagement topics on which managers reported over the year:

ADVERTISING STANDARDS
AIDS AND AVAILABILITY OF RETROVIRALS
BIOFUELS
BRIBERY AND CORRUPTION
BURMA
CHEAP SALE OF ALCOHOL
CLINICAL TRIALS IN DEVELOPING COUNTRIES
DRUG TRIAL STANDARDS
EMERGING MARKET LABOUR STANDARDS
FINANCIAL CRIME
FINANCIAL INCLUSION
GENETICALLY MODIFIED CROPS
THE GLOBAL CITIZEN
HUMAN RIGHTS
INCLUSION OF DIVERSITY

LOCALLY SOURCED PRODUCE
MANUFACTURING SECURITY
PHARMACEUTICAL RESIDUE
PRICE MANIPULATION
PRODUCT ACCESSIBILITY
SOUTHERN SUDAN
SUB-PRIME LENDING
SUSTAINABLE CONSTRUCTION
SYNTHETIC FUEL
UNION REPRESENTATION
UNITED NATIONS GLOBAL COMPACT
WATER MANAGEMENT
WATER: CHEAP AND ABUNDANT, BUT NOT FOR LONG
WORK-RELATED LOST-TIME ACCIDENTS



JACQUELINE GILLIES CHIEF PENSIONS OFFICER (INVESTMENTS)

2007/08 DEVELOPMENTS

FairPensions

The Fund was identified, in the FairPensions December 2007 UK Pension Scheme Transparency Survey on ESG Issues, as one of the UK's leading pension schemes for clearly making environmental, social and governance (ESG) issues and related engagement integral to its risk management and value maximisation strategies.

UNITED NATIONS PRINCIPLES FOR RESPONSIBLE INVESTMENT



In January 2008 the Fund became a signatory to the United Nations Principles for Responsible Investment (UNPRI) – which are summarised opposite.

The Fund had already endorsed the spirit of the Principles within its own SRI policy and taken many of the actions recommended. But becoming a signatory to the principles will add some extra discipline, weight and context to implementation of the Fund's existing SRI and corporate governance policies with its investment managers. A priority for 2008/09 will be reviewing and improving adherence to the principles.

UNITED NATIONS PRINCIPLES FOR RESPONSIBLE INVESTMENT

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- » **We will incorporate ESG issues into investment analysis and decision-making processes**
- » **We will be active owners and incorporate ESG issues into our ownership policies and practices**
- » **We will seek appropriate disclosure on ESG issues by the entities in which we invest**
- » **We will promote acceptance and implementation of the Principles within the investment industry**
- » **We will work together to enhance our effectiveness in implementing the Principles**
- » **We will each report on our activities and progress towards implementing the Principles.**

We encourage other investors to adopt the Principles.



ADMINISTRATION

SPFO STRUCTURE

Strathclyde Pension Fund Office (SPFO) is a division of Glasgow City Council's Financial Services department.

Following a comprehensive review of SPFO in 2007, it now has a total staff of 107 in 3 divisions: Development, Investments and Operations.

DEVELOPMENT COMPRISES:

- » A Communications team handling all aspects of customer and employer communications
- » A Technical team responsible for system support
- » A Training team responsible for staff development
- » A Member Records & Liabilities Team responsible for maintaining and improving the LGPS member database of over 180,000 records.

THE INVESTMENTS AND FINANCE TEAM ENSURE THAT THE INVESTMENT, FINANCIAL MANAGEMENT, ACCOUNTING AND GOVERNANCE ARRANGEMENTS FOR THE FUND ARE:

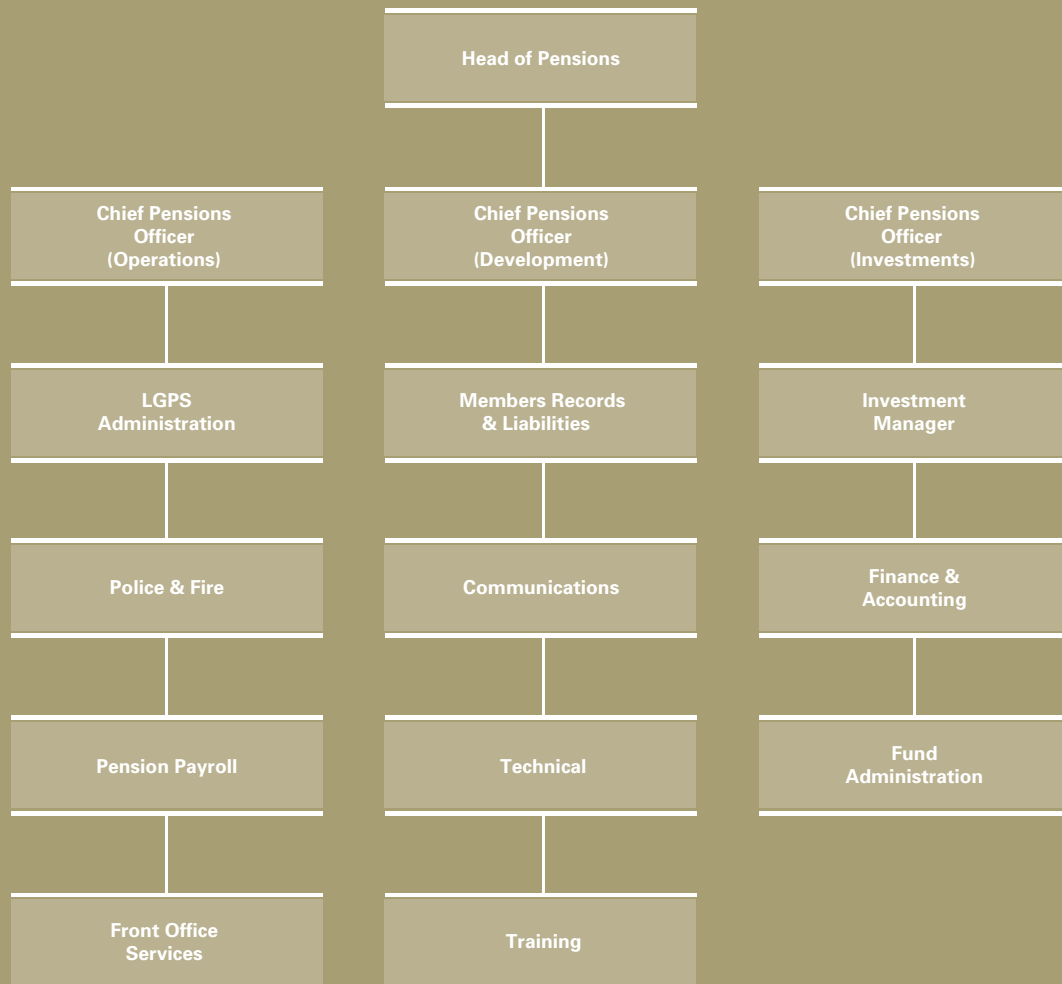
- » Developed in line with or ahead of industry best practice
- » Diligently implemented in compliance with all legal and regulatory requirements
- » Appropriate to the needs of the Fund's various stakeholder groups.

OPERATIONS COMPRISES:

- » 3 LGPS Administration teams, each dealing with a range of employers and around 30,000 active (employee) members per team
 - » A Pensions Payroll team paying around 75,000 pensions each month
 - » A Police and Fire team administering the Police and Fire pensions schemes
 - » A Front Office team including a mini call centre dealing with customer enquiries.
-



SPFO STRUCTURE



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 lifecycle. 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 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, consistently achieves them and reports performance widely. A detailed performance report is presented to both the Representative Forum and Committee quarterly, and is publicly available on the SPFO and Glasgow City Council websites.

The table opposite shows the volumes processed, average days turnaround time and achievement of target for the completion of the main SPFO procedures.

ACTIVITY	VOLUME		AVERAGE DAYS		% ON TARGET	
	2007/08	(06/07)	2007/08	(06/07)	2007/08	(06/07)
NEW STARTS	7,227	7,080	0.46	1.79	98.8	97.6
RETIRAL QUOTES	5,140		10.17		76.8	
RETIRALS	1,744	1,577	4.25	6.53	91.8	78.4
EARLY LEAVER OPTIONS	4,791		6.1		86.9	
DEFERRED BENEFITS	4,205	2,709	1.61	2.45	92.9	95.0
TRANSFERS IN	1,244	1,293	4.79	7.79	86.0	75.3
TRANSFERS OUT (CLUB)	230	270	8.4	11.1	83.8	76.4
TRANSFERS OUT (NON CLUB)	83	62	10.9	17.3	78.0	75.8

CUSTOMER SERVICE

Efficient processing is the bedrock of customer service. Over the last year SPFO has taken some important steps to increase its focus on service quality by:

- » Producing and publishing a Customer Charter
- » Reviewing communications, enhancing their visual impact, working with the Plain English campaign towards obtaining Crystal Mark accreditation, and using Google Analytics to provide sophisticated monitoring of website traffic

- » Introducing a rolling customer survey which provides regular data on members' satisfaction with the quality of service provided.

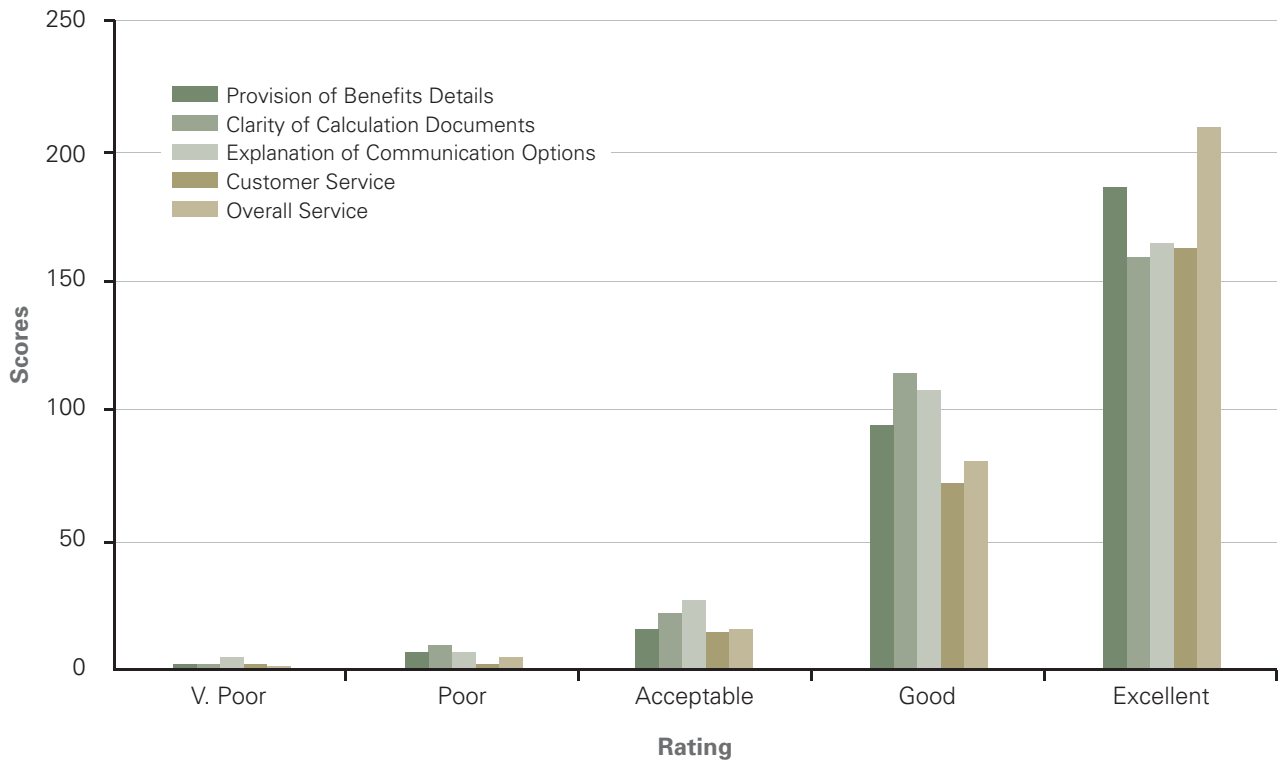
The survey is designed to be user-friendly: on completion of each significant transaction the member is issued with a one-page questionnaire for return to SPFO. Returns are used internally to monitor and improve customer service quality. Statistics are collated and reported regularly. The latest results for scheme joiners and retirals are shown overleaf and below:

SURVEY RESULTS 2007/08 – SCHEME JOINERS

	QUARTER TO				2007/08
	JUN 07	SEP 07	DEC 07	MAR 08	
FORMS ISSUED	1,825	1,665	1,231	1,955	6,676
TOTAL RESPONSES	262	250	142	339	993
RESPONSE RATE (%)	14.4	15.0	11.5	17.3	14.5
AVERAGE ("SATISFACTION RATING")	(%)	(%)	(%)	(%)	(%)
Q.1 TIMESCALE - RECEIPT OF DOCUMENTATION	75.6	74.7	71.0	67.7	71.4
Q.2 CLARITY OF DOCUMENTATION	78.2	78.2	77.6	77.9	77.9
Q.3 CLARITY-EXPLANATION OF TRANSFER RIGHTS	79.4	79.1	78.2	78.6	78.7
Q.4 DEALING WITH ENQUIRIES	78.0	76.9	77.9	76.5	76.9
Q.5 CLARITY - INCREASING BENEFITS	72.7	74.1	74.5	74.1	74.0
OVERALL SERVICE QUALITY	80.3	79.1	77.9	76.9	78.1

A minimum item score in each category of 75%, and a minimum overall score of 80% have been agreed as targets for 2008/09.

RETIRALS RESULTS 2007/08



MEMBER DATA

Historically the member database has been incomplete and the quality of member data has been unsatisfactory. Huge improvements have been made in the last year by SPFO working 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 and improved. The current position for the Fund's principal employers is as follows:

31ST MARCH 2008

EMPLOYER	MISSING JOINER DETAILS	MISSING LEAVER DETAILS	ACTIVE MEMBERS	ERROR RATE (%)
ARGYLL & BUTE	235	370	3,388	17.9
EAST AYRSHIRE	79	80	3,996	4.0
NORTH AYRSHIRE	128	310	4,753	9.2
SOUTH AYRSHIRE	165	192	3,310	10.8
WEST DUNBARTONSHIRE	142	287	3,908	11.0
EAST DUNBARTONSHIRE	74	188	2,868	9.1
GLASGOW	880	601	15,985	9.3
NORTH LANARKSHIRE	1,241	446	9,258	18.2
SOUTH LANARKSHIRE	85	357	10,150	4.4
EAST RENFREWSHIRE	19	112	2,788	4.7
RENFREWSHIRE	411	144	5,711	9.7
INVERCLYDE	55	140	2,578	7.6
SCOTTISH WATER	15	29	1,345	3.3
STRATHCLYDE POLICE	14	21	2,713	1.3
STRATHCLYDE FIRE	7	4	518	2.1
GRAND TOTAL	3,550	3,281	73,269	9.3

The overall error rate has reduced from 17% as at 31st March 2007.



We are Strathclyde
Pension Fund Office.

We administer
your pension rights.

These are our
commitments to you.

We will

Be approachable, courteous
and professional.

We will

Respond quickly and efficiently
to your enquiry.

We will

Ask for your opinion of our
service and publish our findings.

We will

Listen to your suggestions and
comments regarding our service.

We will

Treat you the way that we would
expect to be treated ourselves.

Complaints

If you are unhappy with the
service you received from us then
we have a complaints procedure
for you to follow.

Happy?

If you are happy with us then by
all means let us know.

Information

For further information call
0141 287 7416, email
alistair.gray@fs.glasgow.gov.uk
or visit www.spfo.org.uk

Strathclyde Pension Fund Office -
Administering the Local Government
Pension Scheme in the West of Scotland.

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.

SUMMARY OF BENEFITS

EXISTING LOCAL GOVERNMENT PENSION SCHEME

- » When the member leaves service or withdraws from membership with under two years qualifying service, there will be payable:

A refund of contributions

Or

A transfer payment of actuarial value of the deferred pension may be made to another approved pension arrangement.

In addition

Continuing employees will be required to contribute to either the State Second Pension Scheme or to a Pension Plan.

- » When the member leaves service or withdraws from membership with over two years qualifying service, he/she will receive:

A pension payable from age 60 based on reckonable service and pensionable pay at the date of leaving

Plus

A tax-free lump sum payable at retirement of three times the initial annual level of pension.

Or

A transfer payment of the actuarial value of the deferred pension may be made to another approved pension arrangement.

- » When the member retires, he/she will receive:

A pension of one eightieth of final pensionable pay for each year of reckonable service

Plus

A tax-free lump sum of three times the initial annual level of pension.

And on death

The spouse will receive one half of the pension being paid to the member.

- » When the member dies in service, there will be payable:

A lump sum of 2 times pensionable pay depending on service and contributions

Plus

If a member had at least 2 years' reckonable service, a spouse's pension of one half of the pension the member would have received had he/she retired due to ill health on the date of death.

NEW LOCAL GOVERNMENT PENSION SCHEME

The LGPS has been under review for several years. The review will result in the introduction of a new scheme from 1st April 2009 for those members of the Fund who are still accruing benefits in the LGPS.

In many ways the new scheme will be the same as the current scheme. The aim of the proposals is to reform the LGPS to make sure that it is cost effective, viable and sustainable over the longer term. The proposals aim to provide equal access for all local government employees to a set of scheme benefits that are both fair and affordable.

The headline changes are that:

- » Employee contribution rates will vary according to earnings
 - » The accrual rate will change from 1/80th to 1/60th
 - » There will be no automatic lump sum but an option to commute part of the pension into a tax-free lump sum
 - » The minimum retirement age will be increased from 50 to 55
 - » Employer consent to accessing benefits before 65 will only be required in respect of those under age 60
 - » There will be an increased death in service benefit
 - » Cohabiting partners will be recognised for dependants benefits
 - » The level of ill health benefits will be dependent on the likelihood of future employment and on actual plus prospective service.
-



ANDY KNOX CHIEF PENSIONS OFFICER (OPERATIONS)

FINANCIAL STATEMENTS

2006/07 £000	STRATHCLYDE PENSION FUND FUND ACCOUNTS (YEAR TO 31 MARCH 2008)	2007/08 £000
<u>Dealings with members, employers and others directly involved in the scheme</u>		
<u>Contributions Receivable</u>		
From employers		
246,983	- normal	269,022
<u>18,616</u>	- additional	<u>16,643</u>
265,599		285,665
From members		
95,638	- normal	100,041
<u>Transfers In</u>		
20,330	- individual transfers in from other schemes	23,175
	- group transfers in from other schemes	<u>1,421</u>
		24,596
<u>Other Income</u>		
351	- other income	364
381,918	Total income from dealings with members, etc	410,666
<u>Benefits Payable</u>		
220,903	- pensions	235,288
45,187	- commutation of pension and lump sum retirement benefits	57,264
<u>6,023</u>	- lump sum death benefits	<u>5,125</u>
272,113		297,677
<u>Payments To And On Account Of Leavers</u>		
1,470	- refunds of contributions	1,152
3,521	- group transfers out to other schemes	0
<u>14,794</u>	- individual transfers out to other schemes	<u>15,705</u>
19,785		16,857
3,542	Administrative Expenses	4,028
295,440	Total expenditure from dealings with members, etc	318,562
<u>86,478</u>	<u>Net additions from dealings with members, etc</u>	<u>92,104</u>
<u>Returns on investments</u>		
<u>Investment Income</u>		
31,476	- interest from fixed interest securities	25,454
127,185	- dividends from equities	125,321
1,064	- income from index linked securities	67
5,963	- income from pooled investment vehicles	9,168
34,401	- net rents from properties	41,824
13,813	- interest on cash deposits	20,359
<u>1,955</u>	- other	<u>2,635</u>
215,857		224,828

2006/07 £000	FUND ACCOUNTS (continued)	2007/08 £000
452,716	Change In Market Value Of Investments	(500,113)
3,123	Taxation	4,774
17,144	Investment Management Expenses	19,391
648,306	Net returns on investments	(299,450)
734,784	Net increase (decrease) in the fund during the year	(207,346)
8,951,587	Add: opening net assets of the Fund	9,686,371
9,686,371	Equals: closing net assets of the Fund	9,479,025

2006/07 £000	NET ASSETS STATEMENT	2007/08 £000
<u>Investment assets</u>		
<u>Quoted</u>		
173,897	- Fixed interest securities (public sector)	115,414
496,749	- Fixed interest securities (other)	1,230,241
4,853,777	- Equities	4,429,845
72,356	- Index linked securities	4,412
2,142,807	- Pooled investment vehicles (managed funds)	1,779,504
314,669	- Pooled investment vehicles (unit trusts)	269,505
<u>Unquoted</u>		
155,996	- Pooled investment vehicles (property unit trust)	144,100
814,501	- Property	758,250
214,213	- Venture capital	407,736
250,042	Cash deposits	175,275
2,327	Other investments	(2,876)
9,491,334	Total investment assets	9,311,406
117,485	Other investment balances	39,148
<u>Net current assets and liabilities</u>		
22,379	- contributions due from employer	22,267
10,118	- unpaid benefits	9,063
53,018	- cash balances	102,119
(7,963)	- other current liabilities	(4,978)
9,686,371	Net assets	9,479,025

NOTES TO THE ACCOUNTS 2007/08

BASIS OF PREPARATION

The accounts have been prepared on an accruals basis to 31st March 2008, 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.

Valuations of the investments have been carried out by each of the Fund's investment managers at mid market prices at 31st March 2008. Items denominated in foreign currencies have been translated into sterling at the closing foreign exchange rate at 31st March 2008.

Valuation of the property portfolio was carried out at 31st March 2008 by an independent valuer.

AVCs

The AVC scheme is currently managed by Prudential. AVCs are invested separately from the main Fund, on a money purchase basis. Members of the AVC scheme receive an annual statement informing them of the value of their individual fund.

The market value of AVCs as at 31st March 2008 (including values held with previous managers) was £27.7 million. Contributions, which are used in their entirety to purchase investments, totalled £5.1 million. Sales of investments to settle benefits due to members totalled £3.1 million. The change in market value of investments over the year was £0.7 million.

AUDIT

The 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.

INVESTMENTS

The market value of assets managed by investment managers, excluding cash and AVCs, as at 31st March 2008 was £9.14 billion. Of this, £5.1 billion related to UK investments, and the remaining £4.04 billion was invested overseas.

The portfolios allocated to each investment manager are detailed in the Investment Strategy section of this report. Cash balances are managed by the Fund's global custodian, Northern Trust.

Property assets comprised £628 million freehold, £130 million long lease/leasehold, and £144 million unit trusts.

The Fund participates in a stocklending programme managed by its global custodian, Northern Trust. As at 31st March 2008 the total amount of stock released by the Fund under this arrangement was £586 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.



SHARON MCKECHNIE CHIEF PENSIONS OFFICER (DEVELOPMENT)

ACTUARIAL VALUATION

WE ARE CURRENTLY WORKING ON THE FORMAL, ACTUARIAL VALUATION AS AT 31ST MARCH 2008. IT WILL BE COMPLETED BY 31ST MARCH 2009. REVISED EMPLOYER CONTRIBUTION RATES WILL BE EFFECTIVE FROM 1ST APRIL 2009.

DATE	31 MAR 2005 £M	31 MAR 2006 £M	31 MAR 2007 £M	31 MAR 2008 £M
ASSETS	7,005	9,020	9,755	9,555
LIABILITIES	7,235	8,651	9,026	10,740
SURPLUS/DEFICIT	(230)	369	729	(1,185)
FUNDING LEVEL	96.8%	104.3%	108.1%	89.0%

BACKGROUND

In accordance with the Local Government Pension Scheme (Scotland) Regulations 1998, an actuarial valuation of the Fund is carried out every three years by a consulting actuary.

The actuarial valuation establishes the funding position at the valuation date and sets employer contribution rates for the following 3 years. The last formal valuation was at 31st March 2005.

On its completion the Fund commissioned Hymans Robertson to provide regular funding updates between formal valuations. The estimated funding position as at 31st March 2008 on this basis is shown above. The results of the 2005 actuarial valuation remain the latest formal position, and these are also reproduced above.

2008 FUNDING PROJECTION

The funding updates provided by Hymans Robertson 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.

ESTIMATED FUNDING POSITION

The projected funding position reported by Hymans Robertson can be summarised as above.

The position improved steadily from March 2005 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. A reversal in investment returns in the last quarter and further inflation of the valuation of liabilities leaves a substantial projected deficit at the end of the inter-valuation period.

LIMITATIONS

An advisory warning on the limitations of this approach is included in Hymans Robertson's interim monitoring reports.

2005 ACTUARIAL VALUATION

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 February 2006, and a copy of the valuation report was issued to all participating employers. The report is summarised as follows:

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 in constructing tables to reflect best estimates of future trends.

At this valuation the actuary incorporated revised mortality tables for current employee members.

Financial

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

OVERALL ANTICIPATED LONG TERM RETURN FROM : -	NOMINAL (% P.A)	REAL (% P.A)
EQUITIES	6.7%	3.8%
BONDS (50% GILTS 50% CORPORATES)	5.0%	2.1%
PROPERTY	5.7%	2.8%
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%.

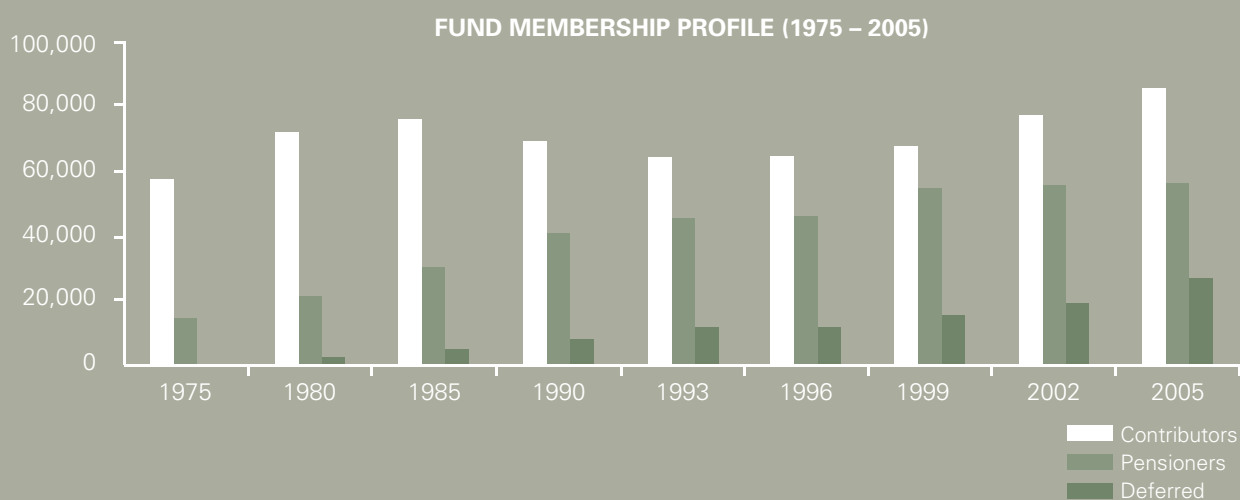
Maturity

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

ACTUARIAL HISTORY

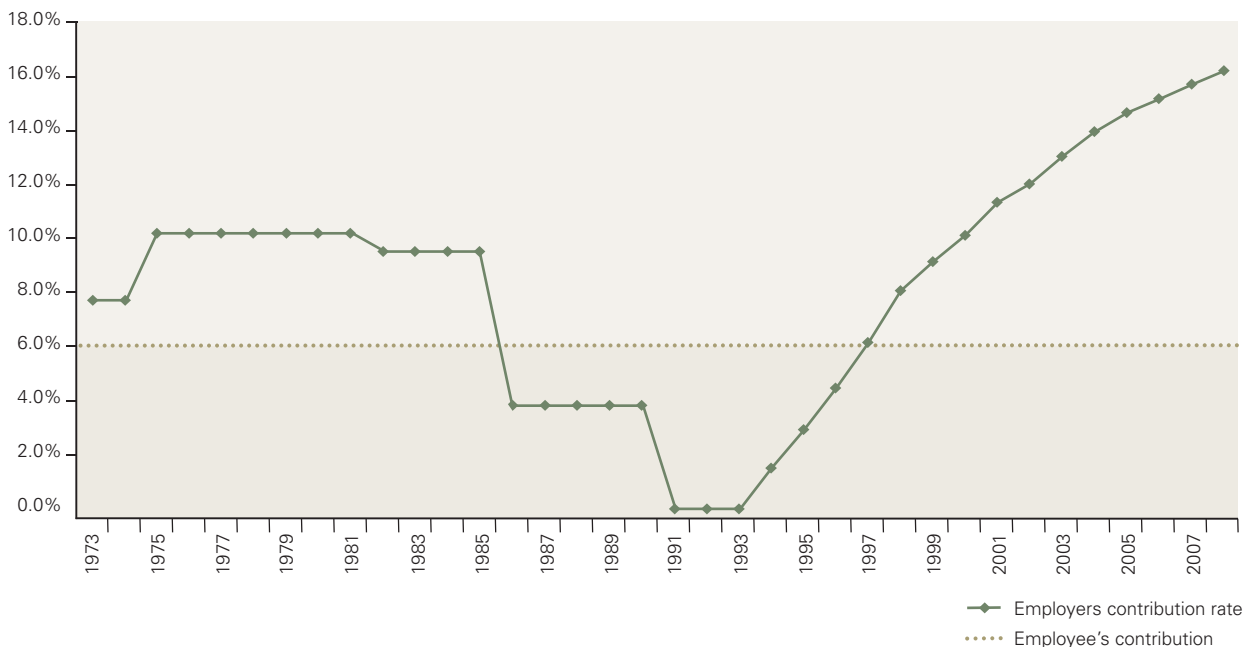
The chart below outlines the ratio of contributors to pensioners over the 30-year history of the Fund. The ratio of pensioners to current contributors has increased steadily over the years. More recently however, the number of contributors has grown to over 86,000, whilst the number of pensioners has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



COMPARISON OF EMPLOYER AND EMPLOYEE CONTRIBUTION RATES

This 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 new LGPS will include changes to the employee contribution rate and scope for a cost sharing agreement between employers and members.



FUNDING STRATEGY STATEMENT

In accordance with revised Regulations, and after consultation with interested parties the Fund published its first Funding Strategy Statement in 2006. 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.

FUND MEMBERSHIP

THE FULL LIST OF MEMBER ORGANISATIONS THAT MADE CONTRIBUTIONS TO THE FUND DURING 2007/2008 AND WILL CONTINUE TO DO SO, 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
 Scottish Water
 South Ayrshire Council
 South Lanarkshire Council
 Strathclyde Fire & Rescue
 Strathclyde Partnership For Transport
 Strathclyde Police Authority
 West Dunbartonshire Council

Ayrshire Valuation Joint Board
 Dunbartonshire & Argyll & Bute Valuation Joint Board
 Lanarkshire Valuation Joint Board
 Renfrewshire Valuation Joint Board
 Visit Scotland (Ayrshire)
 Visit Scotland (Glasgow)

Anniesland College
 Ayr 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 to Employment Ayr Ltd
 Alcohol Focus Scotland
 Alternatives West Dumbarton
 Community Drug Services
 AMEY BFO Services Ltd (Renfrewshire Schools PPP)
 Arden Out of School Project
 Argyll & Bute Local Learning Partnership Ltd
 Argyll Community Housing Association Ltd
 Auchinback Active Ltd
 Ayr Action for Mental Health
 Ayr Housing Aid Centre
 Ayr North Community Forum
 Ayrshire Housing
 Ayrshire Initiatives Ltd
 Ayrshire North Community Housing Organisation Ltd

B

Befriending & Respite Services Ltd
 Bridgeton, Calton And Dalmarnock
 Credit Union
 Broadwood Stadium (Cumbernauld) Ltd

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
 City Building (Glasgow) LLP
 City Parking (Glasgow) LLP
 Clydebank Rebuilt
 Coatbridge Citizens Advice Bureau
 Colleges Open Learning Exchange Group
 Community Central Hall
 Community Enterprise In Strathclyde
 Community Safety Trust
 Community Volunteers
 Enabling Youth Ltd
 Craigholme School
 Culture & Sport Glasgow
 Culture & Sport Glasgow (Trading)
 Cumbernauld Housing Partnership Ltd
 Cycling Scotland

D

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

E

East Ayrshire Carers Centre
 East Dunbartonshire Town Centre Management Centre
 East End Community Law Centre
 East End Respite Care Group
 East Renfrewshire Carers
 Easterhouse Citizens Advice Bureau
 Employee Counselling Service
 Enable Services Ltd
 Equals Advocacy Partnership

FUND NO.3 FINANCIAL STATEMENTS & ACTUARIAL VALUATION

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, Hymans 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.

INVESTMENTS

A review of the No.3 Fund's investment strategy was completed during the year. Given that the Fund is closed to new members the review concluded that the investment strategy should be amended as follows in order to progressively de-risk the Fund by reducing equity exposure.

	EXISTING STRATEGY %	STAGE 1 %	FINAL
GROWTH PORTFOLIO	75	75	30
ACTIVE EQUITY	60	45	10
ABSOLUTE RETURN		15	10
PROPERTY	15	15	10
MATCHING PORTFOLIO	25	25	70
INDEX-LINKED GILTS	12.5		
CORPORATE BONDS	12.5		
LDI FUNDS		25	70
TOTAL	100	100	100

Implementation of Stage 1 was completed during March 2008. A switching mechanism has also been agreed to take the Fund in phases to the final position indicated above.

A revised investment structure was also implemented as follows:

PORTFOLIO	MANAGER
GROWTH PORTFOLIO	
ACTIVE EQUITY	SCHRODERS
ABSOLUTE RETURN	RUFFER
PROPERTY	SCHRODERS
MATCHING PORTFOLIO	LEGAL & GENERAL

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	£78.0M
FUND LIABILITIES	£90.4M
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 2007	420%	1,920
31 MARCH 2008	440%	2,004
31 MARCH 2009	460%	2,100

METHOD

The method of calculating the employers' contribution rate is known as the Attained Age Method. The key feature of this method is that it calculates the future 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 (% P.A)	REAL (% P.A)
OVERALL ANTICIPATED LONG TERM RETURN FROM: -		
EQUITIES	6.7%	3.8%
GILTS	4.7%	1.8%
CORPORATE BONDS	5.2%	2.3%
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%.

2008: ESTIMATED FUNDING POSITION

During 2007 the No.3 Fund commissioned Hymans Robertson to provide a funding update. (See Main Fund – Actuarial Valuation section of this report for further details of the funding projection process.)

The projected funding position reported by Hymans Robertson can be summarised as follows:

DATE	31 MAR 2005	31 MAR 2007	31 MAR 2008
	£M	£M	£M
ASSETS	78	105	105
LIABILITIES	90	107	119
SURPLUS/DEFICIT	(12)	(2)	(14)
FUNDING LEVEL	86.3%	98.2%	88.3%

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 2006. 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

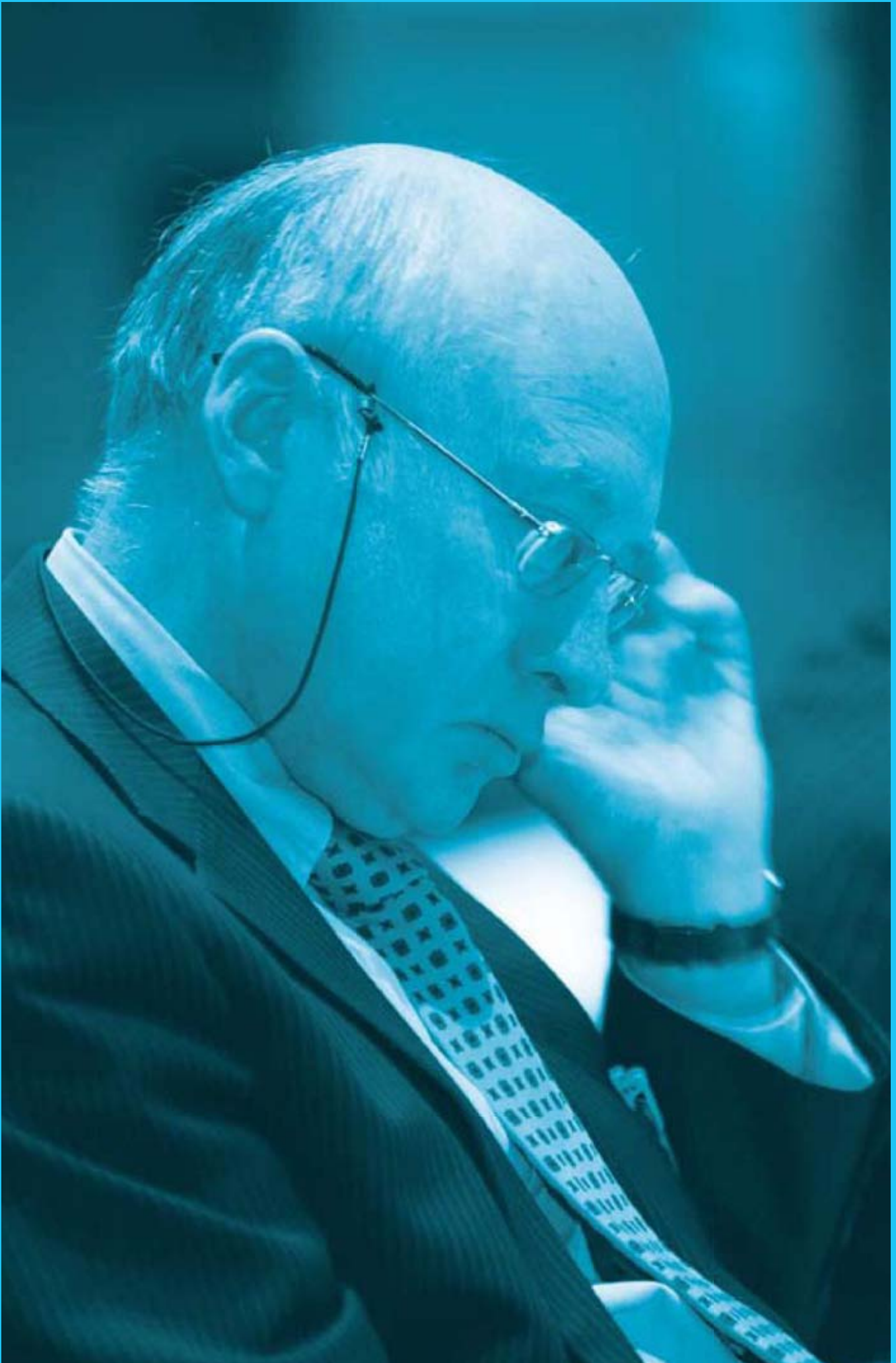
The Funding Strategy Statement and the full Report on the 2005 Actuarial Valuation are available on the Fund's or the Council's website or on request from SPFO.



FUND NO.3 FINANCIAL STATEMENTS

2006/07 £000	STRATHCLYDE PENSION FUND FUND ACCOUNTS NO 3 FUND (YEAR TO 31 MARCH 2008)	2007/08 £000
<u>Dealings with members, employers and others directly involved in the scheme</u>		
<u>Contributions Receivable</u>		
	From employers	
1,520	- normal	1,570
1,920	- additional	2,004
3,440		3,574
	From members	
362	- normal	353
<u>Benefits Payable</u>		
2,924	- pensions	3,103
562	- commutation of pension and lump sum retirement benefits	916
0	- lump sum death benefits	41
3,486		4,060
<u>Payments To And On Account Of Leavers</u>		
	- individual transfers out to other schemes	110
34	<u>Administrative Expenses</u>	32
282	<u>Net (reduction)/increase from dealings with members</u>	(275)
<u>Returns on investments</u>		
<u>Investment Income</u>		
288	- interest from fixed interest securities	305
1,590	- dividends from equities	1,288
75	- income from index linked securities	80
1,023	- income from pooled investment vehicles	819
203	- interest on cash deposits	360
102	- other	566
3,281		3,418
4,180	Change In Market Value Of Investments	(2,918)
29	Taxation	61
193	Investment Management Expenses	105
<u>7,239</u>	Net returns on investments	<u>334</u>
<u>7,521</u>	Net increase in the fund during the year	<u>59</u>
95,720	Add: Opening Net Assets of the Scheme	103,241
<u>103,241</u>	<u>Closing Net Assets of the Scheme</u>	<u>103,300</u>

2006/07	FUND NO 3 NET ASSETS STATEMENT	2007/08
£000		£000
	<u>Investment assets</u>	
	<u>Quoted</u>	
5,879	Fixed interest securities (Public Sector)	0
892	Fixed interest securities (Other)	0
42,378	Equities	33,829
3,446	Index linked securities	0
28,685	Pooled investment vehicles (Unit Trusts)	54,880
	<u>Unquoted</u>	
16,281	Pooled investment vehicles (Property Unit Trust)	10,037
2,227	Cash deposits	15,168
99,788	Total investment assets	113,914
208	Other investment balances	(14,930)
	<u>Net current assets and liabilities</u>	
183	Contributions due from employer	190
3,063	Cash balances	4,126
(1)	Other current liabilities	0
<u>103,241</u>	<u>Net assets</u>	<u>103,300</u>



PROFESSOR GEOFFREY WOOD

FUND NO.3 NOTES TO THE ACCOUNTS 2007/08

BASIS OF PREPARATION

The accounts have been prepared on an accruals basis to 31st March 2008, in accordance with SORP1, Financial Reports of Pension Schemes, as adopted by CIPFA in the Accounting Code of Practice. The No.3 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. Valuations of the investments have been carried out by each of the fund managers at mid market prices at 31st March 2008. Items denominated in foreign currencies have been translated into sterling at the closing foreign exchange rate at 31st March 2008.

OTHER

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

FUND MANAGEMENT

The No.3 Fund's investments are managed by Schroders, Ruffer and Legal & General. The market value of assets managed by the fund manager, excluding cash, as at 31st March 2008 was £98.7 million. Of this, £75.9 million relates to UK investments, and the remaining £22.8 million is invested overseas. Cash balances were managed by the Fund's Global Custodian, Northern Trust.

The No.3 Fund participates in a stocklending programme managed by its Global Custodian, Northern Trust. As at 31st March 2008 the total amount of stock released by the No.3 Fund under this arrangement was £5.65 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.

CONTACTS

KEY SPFO PERSONNEL

Head Of Pensions	Richard McIndoe
Chief Pensions Officer (Development)	Sharon McKechnie
Chief Pensions Officer (Investments)	Jacqueline Gillies
Chief Pensions Officer (Operations)	Andy Knox

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MANAGING THE LOCAL GOVERNMENT PENSION SCHEME IN THE WEST OF SCOTLAND

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