Strathclyde Pension Fund

ANNUAL REPORT

& FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

CONTENTS

- Strathclyde Pension Fund is part of the Local Government Pension Scheme (LGPS)
- It is one of 11 LGPS funds in Scotland and around 100 in the UK
- Strathclyde is the second largest of the UK LGPS funds
- The LGPS is a statutory scheme established under primary legislation – the Superannuation Act 1972 and Public Service Pensions Act 2013

- The scheme rules take the form of a series of regulations – the Local Government Pension Scheme (Scotland) Regulations. The regulations are Scottish Statutory Instruments (SSIs). There are separate sets of regulations to set out the scheme benefits, investment arrangements and governance requirements.
- The LGPS is a multi-employer, defined benefit scheme. The benefits are based on final salary for all service to 31st March 2015 and career average earnings for benefits from 1st April 2015.
- The Strathclyde Pension Fund was created in 1974. It has been managed by Glasgow City Council since 1996.
- The Fund is a pool into which member and employer contributions are paid. The money is invested so that pension benefits can be paid as they fall due.
- Participating employers include the 12 local authorities in the west of Scotland; Police Scotland, Scottish Fire and Rescue, and Scottish Water; a number of universities and colleges; local authority subsidiary companies and contractors; and a wide range of other organisations with funding or service links to the local government sector.
- As at 31st March 2020 the Strathclyde Pension Fund had **253,000** members, **168** participating employers and investment assets of **£20.9 billion**.

The Strathclyde Pension Fund was created in 1974. It has been managed by Glasgow City Council since 1996.

It was all going so well.

When the Strathclyde Pension Fund Committee met at the start of March, the Fund's value had reached £23.7 billion, estimated funding level was 110.2%, and the 2019/20 business plan priorities had largely been delivered.

However, the year to 31st March 2020 will largely be defined by and remembered for its last few weeks. Coronavirus was recognised as an emerging risk at that meeting on 3rd March, not least in the day's actuarial briefing on longevity and mortality trends. At that date, confirmed cases were around 100,000 and the global death toll had just exceeded 3,000. UK incidence was minimal. But things progressed rapidly from there: the first UK death was reported on 6th March; the outbreak was declared a global pandemic by the World Health Organisation (WHO) on 11th March; and by the end of the month, global cases were approaching 1,000,000 and deaths 50,000. And that was still only the beginning.

At 31st March it was clear that the pandemic was going to affect all aspects of normal life. This was reflected in the new vocabulary of social distancing, self-isolation, lockdown, and furlough.

Similarly, COVID-19 will impact on all aspects of pension fund activity. This was already apparent at the year end with Strathclyde Pension Fund Office (SPFO) closed, staff working from home to maintain the service, investment values sharply lower, and emergency committee arrangements in place.

There may be worse to come – a severe recession is almost inevitable. There will also be recovery and renewal, but that is likely to be protracted, uneven and to a world that is different in many ways to its pre-Coronavirus equivalent.

Strathclyde Pension Fund may also emerge changed in some ways, but change has been a fairly constant feature of the Fund's evolution. In the last few years, in particular, changes have been made consciously to add resilience to the Fund and its operations. Specifically:

- Investments, which had a value of **£20.9** billion at the year end are more diversified than ever before to ensure that risk is dispersed as broadly as possible;
- Cash-flow, including contributions income of **£660 million**, pensions payments of **£678 million**, and investment income of **£338 million** is closely monitored and managed to ensure that there are always sufficient funds available for immediate payment requirements; and
- Membership, which exceeded **250,000** for the first time in the course of the year enjoys a largely digital service, much of which can be managed and delivered remotely.

These features, together with the diligence and dedication of SPFO staff, and the knowledge and expertise of advisers and decision-makers will sustain the Fund through whatever challenges the remainder and aftermath of the current crisis may present.

Councillor Richard Bell

City Treasurer, and Convener of Strathclyde Pension Fund Committee

Introduction

2019/20 may ultimately be remembered for its final few weeks. During that period, the perception of Coronavirus changed from it being a somewhat rare tropical disease to a global pandemic and an imminent threat both to life and the established way of life in the UK. The impact of that overshadowed much that had happened in the year up to that point, and will continue to dominate business and all other activity for the foreseeable future. The following commentary summarises the year in its entirety including, but not only, the final defining period.

Strategy and Objectives

The Strathclyde Pension Fund (SPF) has one overriding objective: to secure the payment of pensions benefits now and in the future to its members. That is the common purpose of the Fund’s longer-term policies, objectives and strategies. These are agreed by the Strathclyde Pension Fund Committee and set out in its policy documents. These documents cover governance, risk, funding, investment, administration and communications. Each of these is reproduced or summarised within this annual report. All documents are available from the Fund’s website at: www.spfo.org.uk

In the context of the Coronavirus pandemic, the objective of paying pensions assumed a much shorter-term focus. Ensuring that the monthly pensions payroll is run and all payments are in bank accounts on the due date is the overriding priority of the Fund’s business continuity plan. The plan was implemented towards the end of the year. Strathclyde Pension Fund Office closed on 24th March. The April payroll was run remotely a few days after the year end without incident and it was anticipated that this would be the operating arrangement for the immediate future.

Business Plan

The committee agrees an annual business plan to ensure that ongoing management and development of the Fund is in line with the longer term policy, objectives and strategy. The plan sets out resource requirements, Key Performance Indicators (KPIs) and business and development priorities for the coming year. The priorities for 2019/20 included:

- an extensive review of the administration function;
- continuing structural changes previously agreed in a review of the investment strategy;
- tenders for global custody and property conveyancing; and
- further work on climate change reporting.

All development projects made good progress or were completed over the course of the year. Some delays were experienced, particularly where there was reliance on third parties. Coronavirus may further delay the 2 administration projects which were not completed by the year end (GMP Reconciliation and

Equal Pay Settlements). Further details of the business plan are included in the Governance section of this annual report.

Achievement against KPI targets for day to day activity is reported to the committee throughout the year. Details are included in the Administration and Investment sections of this annual report.

Administration and Membership

A significant milestone was achieved in the course of the year when SPF membership exceeded 250,000 for the first time. A presentation was made to the newest member to mark the occasion. This merited some celebration given that the Fund exists for the benefit of its members; growing membership is positive in terms of cash flow and funding; and the members may derive some assurance from this – safety in numbers.

Together with this growth in numbers, the increasing complexity of the scheme prompted an extensive review of the administration function. This was completed during the year, and a revised administration strategy was agreed and published. To deliver the strategy, an increased and enhanced staffing structure was also agreed. Implementation of this had started in the final quarter of the year and will continue in 2020/21, but only after a hiatus in recruitment as a result of the Coronavirus lockdown arrangements.

There was no hiatus in administration activity in respect of the virus, but operational arrangements moved to a business continuity footing towards the end of March with increasing numbers of staff working from home. This culminated in the closure of the office for an indeterminate period from 24th March (It subsequently re-opened with a minimal staff presence from 6th April).

Under these contingency arrangements, payment of the monthly pensions payroll is prioritised. In addition, new transactions continue to be processed (with the exception of transfers which were suspended for a period), and member enquiries are dealt with by email (the SPFO call centre service was also suspended). Activity is prioritised in line with COVID-19 guidance issued by the Pensions Regulator. These arrangements do not attempt to replicate business as usual, but do ensure that all core functions are attended to. This operational model is sustainable indefinitely, but inevitably results in reduced responsiveness, extended processing times, and an accumulation of tasks which can only be addressed once some semblance of normal activity has resumed. This should not present any significant financial risk to the business or to scheme members, but will represent a significant operational and management challenge.

The financial statements show pension and lump sum payments of £648 million together with refunds and transfers of £31 million. Total contributions and other income receivable from members was £660 million, producing a net outflow of £18 million from dealings with members, a reduction from £52 million the previous year. The year-end cash balance was unusually high at £195 million. This was a result of 2 high-value receipts at the end of the year: one contributions payment in respect of backdated equal pay settlements, and one bulk transfer payment - together with a decision to transfer £100 million from investment balances to ensure ample cover for pensions payments in the event that income from employers is interrupted as a result of Coronavirus precautions in the new financial year.

Employer numbers reduced from 172 to 168, continuing a trend of some years' standing. Main factors underlying this trend have been consolidation of employers in certain sectors, and smaller employers preferring alternative, defined contribution, pension arrangements.

Performance against Key Performance Indicators was very good. Member satisfaction remained high. No regulatory breaches occurred which required to be reported to the Pension Regulator. One breach which had been reported in respect of 2018/19 was remedied in the course of 2019/20. Further breaches may occur in 2020/21 as a result of contingency working arrangements potentially delaying some transactions and notifications. The Regulator has indicated that a reasonable, pragmatic and proportionate approach to reporting and enforcement will be applied, at least in the near term.

Communications

Members registered to actively use the SPFOnline service increased from 73,000 to over 83,000 over the course of the year. This is consistent with the digital focus of the SPF communications strategy. It is also invaluable in the context of Coronavirus as it provides a self-service route for members to answer many of their own queries without direct staff contact. An upgrade of this service was completed during the year providing additional functionality and an improved look and feel.

The SPF Employer Self Service portal serves a similar function for employers, allowing them to access their members' data on the SPFO system and carry out illustrative calculations to assist with workforce management.

During the year, the committee agreed a deadline of 31st March 2021 for all employers to adopt the SPF data management solution, i-Connect. This will further consolidate digital delivery and processing. 98 employers were using i-Connect at the 2019/20 year end.

A review of the communications strategy is included in the 2020/21 business plan.

Investment

The quarter to 31st March 2020 was the worst for global equity markets since 2008. The FTSE All Share Index dropped by a little over 25% in the quarter and 18% over the financial year. This was a direct result of both the immediate economic impact of the Coronavirus epidemic and an anticipated deep recession or depression to ensue.

The Fund's total investment return for the year was -3.5% *(2018/19 +5.9%)*. Most of the loss came from equity portfolios, which had previously provided 10 consecutive years of positive returns. The Fund's equity return was -6.3%. There were also some sharp falls in other portfolios – e.g. emerging market debt (-20.4%) and multi-asset credit (-15.5%). Broadly, though the Fund's non-equity investments held up reasonably well with positive annual returns from real assets including UK property (+2.5%), global real estate (+11.0) and global infrastructure (+3.7%).

Initial indications are that the strategy of greater diversification which has been pursued by SPF over the last 5 years and more has been beneficial in providing some resilience in these nervous and volatile times. That must come with certain caveats however: year-end valuation of some assets was accompanied by material uncertainty clauses; further valuation write-downs were confirmed after performance reporting had been completed; and the outlook for many sectors looks far from certain.

On the positive side: falling markets will provide buying opportunities; the Fund's significant allocations to private markets do mean that committed funds are available to support existing investments and fund new ones; and central banks and governments have been quick to pledge support for companies and economies.

The year's return of -3.5% was +0.6% ahead of benchmark. 3 and 5 year annualised return figures are +2.7% and +6.4%. Both of these are also comfortably ahead of benchmark. But significantly, the 3-year return is less than the actuary's long-term assumption of +3.5% p.a., so will have a negative impact on the actuarial valuation to be carried out as at 31st March 2020.

Investment activity during the year included continuing expansion of the internally managed Direct Investment Portfolio, funding of new private debt mandates, completion of climate-related financial disclosures and a review of climate-related risks and opportunities.

As shown in the financial statements, investment income from dividends, rents and interest was £338 million for the year. Change in market value of investments was a reduction of £1,185 million. Closing net assets of the Fund were £20,941 million, a decrease of £995 million from 31st March 2019.

The FTSE All Share Index dropped by a little over 25% in the quarter and 18% over the financial year. Strathclyde Pension Fund's total investment return for the year was-3.5%.

Investment income was £338m, significantly increased as a result of changes in investment strategy.

Funding

The reporting date of 31st March 2020 also marks the date of the next actuarial valuation of the Fund. Completion of this will be the overarching priority of the 2020/21 business plan. Draft results should be available by November or December. Clearly the funding level will have suffered as a result of investment falls in the final quarter of 2019/20. Interim monitoring indicates that the funding surplus reported at the 2017 valuation persisted through most of the intervaluation period but dropped to a deficit of around 5% at the year end. However, this is before re-setting key assumptions including longevity and the discount rate. For employers, the more important result is the employer contribution rate. There will be pressure on this, but it is influenced as much by future return expectations as by historic returns. Other factors including remediation of age discriminatory aspects of the scheme rules subsequent to the McCloud judgement, and the statutory cost cap mechanism may also have an impact. Much work remains to be done and it is too early to speculate as to the outcome of the valuation. Meantime, the Fund’s Main Employer Group continue to pay a contribution rate of 19.3% of pensionable payroll. Other employers pay the rates certified at the 2017 valuation.

Risk

The actuarial valuation is a major exercise in risk management. Aside from this, the Fund has a strong risk management culture. This is reflected in its Risk Policy and Strategy Statement which sets out a common basis for risk management across the other policies and strategies. Central to this is the Risk Register. The register was reviewed as at 31st March 2020 in light of the Coronavirus pandemic. Pension fund risks are mostly long-term in nature and most remained unchanged, but the risk of both employers and SPFO failing to meet some statutory deadlines was increased. Longevity risk reduced. Cash flow risk increased but remains only moderate. Climate related financial loss had been added as a separate risk in the course of the year. The summary Risk Register is included in the Governance section of this annual report.

Governance

There were no changes to the Fund’s governance structure during the year, but some changes to personnel: two new committee members and one new board member. Richard Bell replaced Allan Gow as Convener from 26th March 2020.

At a meeting on 17th March 2020, the Council’s Emergency Committee agreed that all committee meetings be cancelled for the foreseeable future and that until further notice all delegations to committees, with the exception of the City Administration Committee, be suspended.

No.3 Fund

On 5th December 2018, the Strathclyde Pension Fund Committee had approved the proposed merger of the Strathclyde No. 3 Pension Fund into the Aberdeen City Council Transport Fund. In June 2019, Scottish Ministers issued a direction to this effect in terms of paragraph 3 of schedule 4 of the scheme regulations. As a result, and following the transfer of all assets and liabilities of the No. 3 Fund to Aberdeen City Council Transport Fund, the No. 3 Fund was wound up as at 2nd December 2019 with no further involvement or responsibility for its liabilities remaining with the Strathclyde Pension Fund. A final set of financial statements as at that date has been prepared and included in this annual report.

Conclusion

Strathclyde Pension Fund had achieved much during 2019/20 prior to the wholesale disruption caused by Coronavirus which ultimately shaped the year. The foreseeable future will be dominated by the recovery and aftermath from the virus. SPF is well positioned to withstand this as it has previous crises, but there can be no doubt that there will be difficult times ahead.

Councillor Richard Bell
City Treasurer and Convener
Strathclyde Pension Fund Committee

Annemarie O'Donnell
Chief Executive
Glasgow City Council

Martin Booth
Executive Director of Finance
Glasgow City Council

Membership and Member Transactions

Members	2015/16	2016/17	2017/18	2018/19	2019/20
Employers	200	183	178	172	168
Employee Members	92,717	94,647	98,870	100,441	108,492
Deferred Members	50,545	53,465	57,759	62,599	63,796
Pensioners	73,012	74,748	76,683	79,234	81,470
Total Members	**216,274**	**222,860**	**233,312**	**242,274**	**253,758**
Transactions	**(£000)**	**(£000)**	**(£000)**	**(£000)**	**(£000)**
Employer Contributions	391,445	398,279	416,761	437,552	483,844
Employee Contributions	116,760	122,077	125,492	131,119	148,610
Lump Sums Paid	(104,098)	(120,882)	(125,487)	(137,713)	(166,893)
Pensions Paid	(396,791)	(411,007)	(422,583)	(452,656)	(478,793)
Other Payments	(17,541)	(19,582)	(25,663)	(30,414)	(4,760)
Net Transactions	**(10,225)**	**(31,115)**	**(31,480)**	**(52,112)**	**(17,992)**

During 2019, total membership exceeded 250,000 for the first time.

Net cash outflow for member transactions reduced from £52m to £18m.

Investments

	2015/16 (£000)	2016/17 (£000)	2017/18 (£000)	2018/19 (£000)	2019/20 (£000)
Opening Value	15,758,296	16,058,521	19,699,384	20,806,209	21,936,058
Investment Income	228,708	251,869	285,195	282,241	331,691
Management Expenses	(92,533)	(100,662)	(113,742)	(125,692)	(124,109)
Member Transactions	(10,225)	(31,115)	(31,480)	(52,112)	(17,992)
Change in Value	174,275	3,520,771	966,852	1,025,412	(1,184,967)
Closing Value	**16,058,521**	**19,699,384**	**20,806,209**	**21,936,058**	**20,940,681**

Cash Flow Forecast

	2019/20 (£000)	2020/21 (£000)	2021/22 (£000)	2022/23 (£000)	2023/24 (£000)	2024/25 (£000)
Pensions Income	635,960	650,740	667,334	684,198	701,337	718,757
Pensions Expenditure	(694,342)	(733,395)	(760,024)	(787,145)	(815,070)	(843,821)
Net Pensions Cash Flow	**(58,382)**	**(82,655)**	**(92,690)**	**(102,947)**	**(113,733)**	**(125,064)**
Net Investment Income	286,923	297,348	308,145	319,330	330,912	342,910

		2025/26 (£000)	2026/27 (£000)	2027/28 (£000)	2028/29 (£000)	2029/30 (£000)
Pensions Income		736,457	754,444	772,722	791,296	810,168
Pensions Expenditure		(873,423)	(903,897)	(935,265)	(967,552)	(1,000,784)
Net Pensions Cash Flow		**(136,966)**	**(149,453)**	**(162,543)**	**(176,256)**	**(190,616)**
Net Investment Income		355,336	368,206	381,535	395,340	409,637

- The figures above provide an estimate of annual cash flows over the next 10 years.
- Forecasts are based on 2018/19 actual cash flows.
- Investment income provides multiple cover for net pensions cash flow throughout the forecast period.
- This should remain the case even if, as seems likely, there is a reduction in investment income due to suspension or cancellation of dividends and rental payments as a result of Coronavirus.

Strathclyde Pension Fund

SECTION 2

GOVERNANCE

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

STRATHCLYDE PENSION FUND GOVERNANCE

Glasgow City Council's **Strathclyde Pension Fund Committee** is the main decision-making body for the Fund.

The **Committee Sounding Board** reviews proposals before they are considered by the Committee for decision.

The **Pension Board** assists the Committee in securing compliance with the regulations, other legislation and the requirements of the Pensions Regulator.

The **Executive Director of Finance** is the responsible officer.

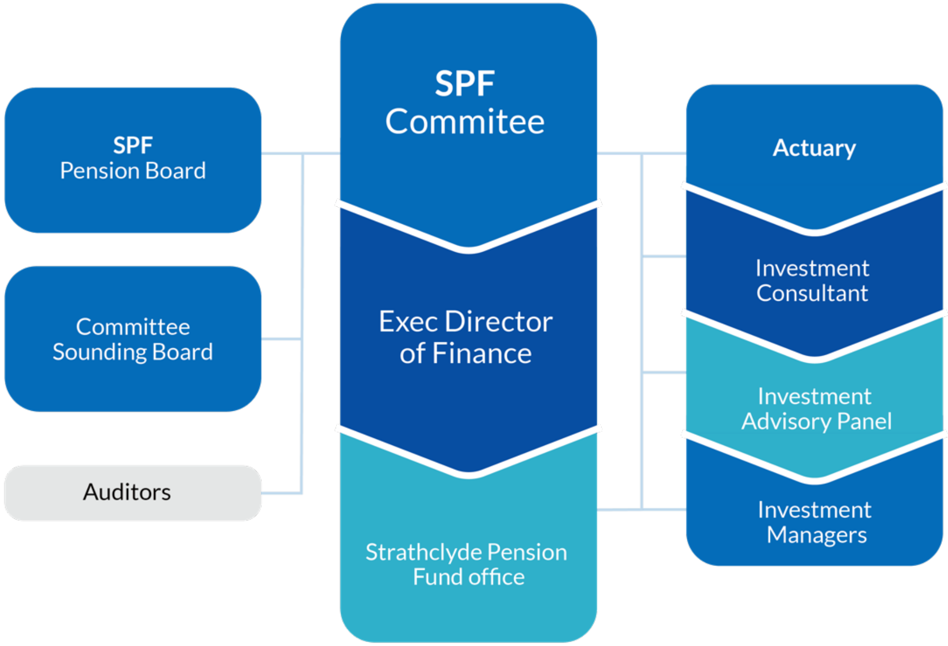
The **Director of Strathclyde Pension Fund** is the principal adviser to the Committee and to the Board and is the senior officer within the **Strathclyde Pension Fund Office** which administers the scheme, manages the Fund and implements Committee decisions.

The **actuary** provides advice on funding. The **investment consultants** provide advice on all aspects of investment objectives, strategy and structure.

The **Investment Advisory Panel** develops investment strategy and monitors investment performance.

The **internal and external auditors** review risk, controls, and the financial statements.

The **investment managers** manage the Fund's investment portfolios.



STRATHCLYDE PENSION FUND COMMITTEE

The Council and the Committee recognise that they have fiduciary duties and responsibilities towards pension scheme members and participating employers that are analogous to those holding the office of trustee.

The Committee is comprised of elected members of Glasgow City Council. Its membership as at 31st March 2020 is shown opposite.

Norman MacLeod and Euan Blockley left the committee during the year. Ruairi Kelly and David Meikle joined. Richard Bell replaced Allan Gow as Convener towards the end of the year.

Current committee membership is displayed on the Fund's website at: https://www.spfo.org.uk/index.aspx?articleid=16036

Under its Terms of Reference, the Committee has the power to discharge all functions and responsibilities relating to the Council's role as administering authority for the Strathclyde Pension Fund in terms of the Local Government (Scotland) Act 1994 and the Public Service Pensions Act 2013.

Committee members may also be scheme members either under the provisions for Councillor membership or as a result of previous service as employee members or both.

Councillor Richard Bell (Convener)

Councillor Allan Gow

Councillor Ruairi Kelly (Vice Convener)

Councillor Mandy Morgan

Councillor Christina Cannon

Bailie Philip Braat

Councillor Martha Wardrop

Councillor David Meikle

STRATHCLYDE PENSION FUND BOARD

The Local Government Pension Scheme (Governance) (Scotland) regulations require each administering authority to establish a board with responsibility for assisting in relation to securing compliance with the regulations and other legislation relating to the governance and administration of the Scheme and with requirements imposed in relation to the Scheme by the Pensions Regulator.

A Pension Board has to comprise an equal number of representatives appointed by scheme employers and relevant trade unions.

As at 31st March 2020 the Strathclyde Pension Fund Board membership comprised:

Employer Representatives

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

Trade Union Representatives

(Chair) Andrew Thompson	**GMB**
Siobhan McCready	**UNITE**
Stephen Kelly	**UNISON**
James Corry	**UNISON**

The Joint Secretaries to the Pension Fund Board were:

James Corry (Trade Unions)
Morag Johnston (Employers)

In accordance with the regulations the Pension Board meets at the same place and time as the Pension Committee to consider the same agenda as the Committee. The Chair of the Pension Fund Committee acts as Chair of that meeting. The Pension Board also meets separately from the Pension Committee with the agreement of the Pension Committee.

SOUNDING BOARD

Since 2009 the Strathclyde Pension Fund Committee has maintained a working group or Sounding Board drawn from its membership. The main function of the Sounding Board is to review proposals before they are considered by the Committee for decision – in particular investment proposals for the Direct Investment Portfolio and proposals relating to development of investment strategy.

As at 31st March 2020 the Sounding Board membership comprised:

Cllr Allan Gow
Cllr Ruairi Kelly (Vice-Convener)
Bailie Philip Braat (Lord Provost)

INVESTMENT ADVISORY PANEL

The Investment Advisory Panel is responsible for:

- Developing investment strategy
- Monitoring investment performance
- Assisting in the selection and appointment of investment managers
- Setting and reviewing detailed investment mandate terms and guidelines
- Implementation of the passive rebalancing strategy
- Monitoring cash flows
- Implementation of the private equity, private debt and global real estate programmes.

Throughout the year to 31st March 2020 the Investment Advisory Panel membership comprised investment officers from the Fund and representatives from Hymans Robertson as the Fund's actuary and investment consultant together with 3 independent expert advisers:

Professor Geoffrey Wood was born and educated in Aberdeen. He is currently Emeritus Professor of Economics at the Cass Business School in London. He is also an adviser to the Parliamentary Contributory Pension Fund and has served as Special Advisor to the Treasury Select Committee. He has previously held various professorships and advisory roles including as a Special Advisor to the Bank of England. He is a widely published author and speaker.

Eric Lambert is an investment actuary. He had a 40 year career in a number of senior investment roles, first at Scottish Widows and subsequently Edinburgh based World Markets (WM) Company, the then leading provider of performance measurement, benchmarking and analytic services to the UK and international pensions industry. He is currently an adviser to 2 other Local Government Pension Schemes and a private sector fund.

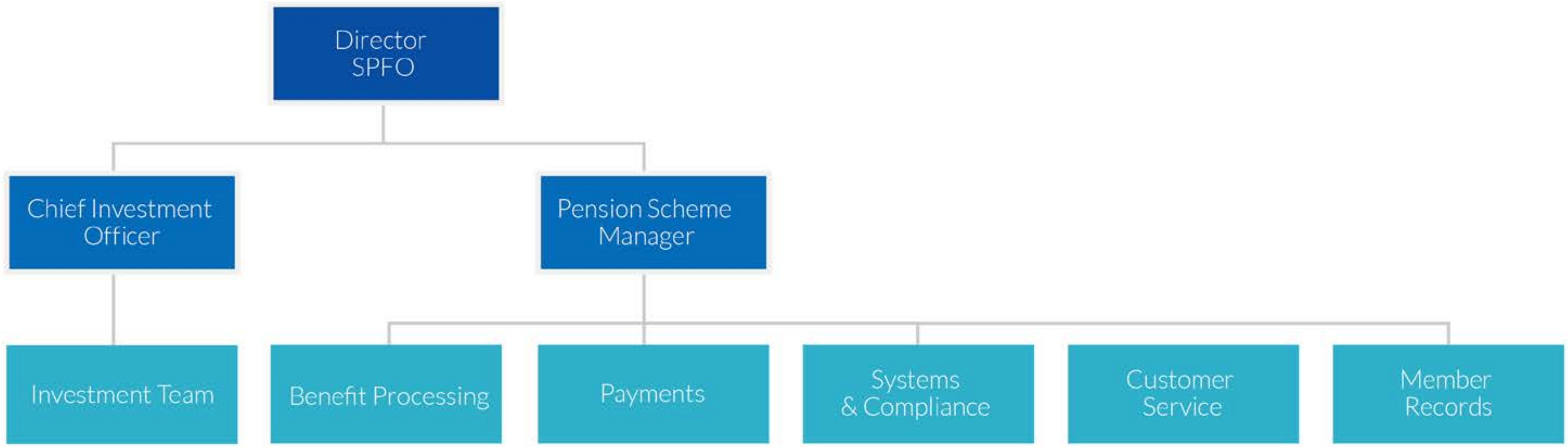
Iain Beattie qualified as an actuary and had a 20 year career in investment management at a number of Scottish investment houses. His roles included Portfolio Manager, Director, Head of International Equities, and Deputy Chief Investment Officer. He subsequently spent 10 years as a Senior Investment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

STRATHCLYDE PENSION FUND OFFICE (SPFO)

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

The Executive Director of Finance oversees the department and is the Proper Officer responsible for the Strathclyde Pension Fund.

The SPFO structure is illustrated below.


Director
SPFO
Chief Investment
Officer
Pension Scheme
Manager
Investment Team
Benefit Processing
Payments
Systems
& Compliance
Customer
Service
Member
Records

INVESTMENT MANAGERS AND OTHER SERVICES PROVIDERS AS AT 31ST MARCH 2020

The Investment Managers are responsible for:

- Portfolio management including individual decisions on purchase retention and sale of investments
- Decisions on corporate actions and corporate governance (proxy voting)
- Responsible investment activity including analysis and engagement with portfolio companies

INVESTMENT MANAGERS

Alentra, Ashmore, Barings, Baillie Gifford, DTZ Investors, Genesis, ICG, J.P.Morgan Asset Management, Lazard Asset Management, Lombard Odier Investment Managers, OHA Oak Hill Advisors, OP Oldfield Partners, Pantheon, Partners Group, PIMCO, Ruffer, Veritas Asset Management, Legal & General Investment Management

OTHER SERVICE PROVIDERS

Audit Scotland	Avison Young	Sustainalytics	Hymans Robertson	Northern Trust	Northern Trust
Audit of accounts	Property portfolio valuation	ESG engagement	Actuarial services	Performance measurement	Global custody
Pinsent Masons	Glasgow City Council	MSCI	Hymans Robertson	CMS Law.Tax	Prudential
Legal services	Corporate support services	Carbon footprinting	Investment consultancy	Legal services (Property)	AVC provider

POLICY STATEMENT

Glasgow City Council, as administering authority for the Strathclyde Pension Fund, recognises the importance of ensuring that all staff and members charged with financial administration and decision- making with regard to the Fund and the local government pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

The Council therefore seeks to utilise individuals who are both capable and experienced and will provide or arrange training for staff and members of the pensions decision-making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

PRACTICE STATEMENT

Glasgow City Council, as administering authority for the Strathclyde Pension Fund, adopts the key recommendations of the Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

The Council recognises that effective financial administration and decision-making can only be achieved where those involved have the requisite knowledge and skills.

Accordingly the Council will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.

These policies and practices will be guided by reference to the comprehensive framework of knowledge and skills requirements as set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

The Council will report on an annual basis how these policies have been put into practice throughout the financial year.

The Council has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Executive Director of Finance, who will act in accordance with the Council’s policy statement, and with CIPFA Standards of Professional Practice (where relevant).

TRAINING PLAN

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

The 2019/20 training plan was agreed at the Committee's meeting on 5th June 2019.

Training delivered during the year included the following.

- Induction training for new committee and board members

- Committee/ Board Briefings on:
  - Credit Markets (Oak Hill Advisers)
  - Infrastructure Investing (JP Morgan)
  - Thematic Investing (Lazard)
  - Actuarial Valuation 2020/Longevity Trends (Hymans Robertson/Club Vita)

- Attendance at:
  - LGC Investment Seminar Scotland 2019
  - Scottish LGPS Training Event 2019
  - CIPFA Scottish Pensions Workshop 2019
  - PLSA Investment Conference 2020

- Support in completing The Pensions Regulator's Public Service Toolkit

In addition, many agenda items considered at Committee and Board meetings are to note for information.

RISK POLICY & STRATEGY

No organisation can completely eliminate risk. This is particularly so for a pension fund. The Fund exists to pay future pension benefits. The future is inherently uncertain. There is therefore a risk that the investment assets of the Fund will be less or more than the pension liabilities. That risk is managed through the Funding Strategy. Other risks are managed through the investment, administration, governance and communications strategies.

In March 2019, the Committee agreed an updated Risk Policy & Strategy Statement which is available from the Publications area of the website at: www.spfo.org.uk

The statement sets out a common basis for risk management across the Fund's strategies.

RISK MANAGEMENT PROCESS

The risk management process should be a continuous cycle as illustrated opposite.

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

RISK IDENTIFICATION AND RECORDING

A detailed risk register is maintained and is central to risk management.

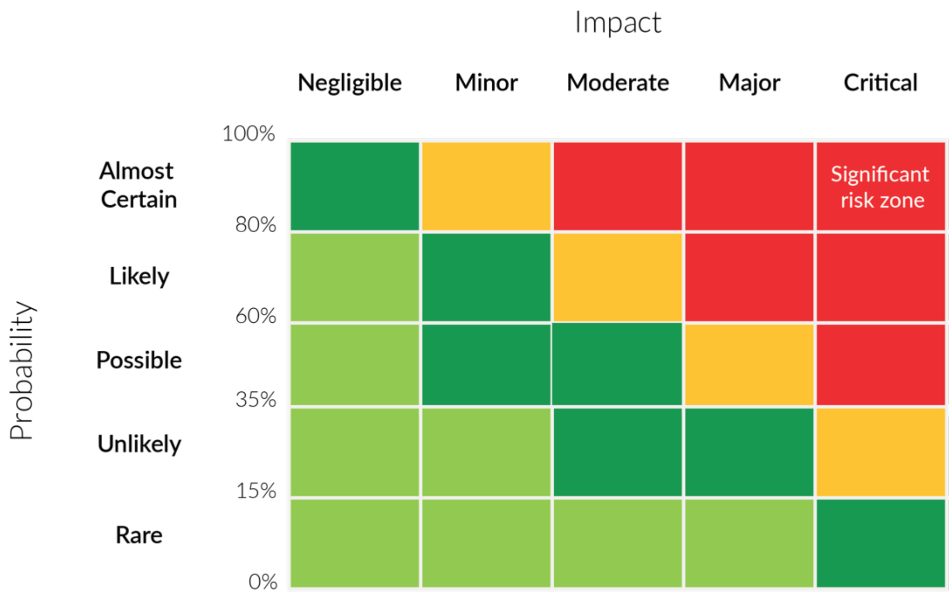
The risk register records:

- risk ID
- risk description
- related objective
- risk category
- inherent (pre-control) risk scoring
- controls and mitigating actions
- residual (post-control) risk scoring
- previous risk scoring
- ownership

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

RISK ANALYSIS AND ASSESSMENT

Having identified potential risks, the next stage of the process is to analyse and profile each of them. This is illustrated in the risk tolerance matrix overleaf.



RESPONSE TO RISK

Risks may be tolerated, treated, transferred or terminated. In practice, most will be treated. Controls and mitigating actions are shown in the risk register.

RISK MONITORING AND REPORTING

Regular review of the risk register is central to risk monitoring (see note). The register is reviewed by:

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

Note: COVID-19 has not been considered as a separate risk in the risk register. The impact of this on all other risks has however been considered and risk scores have been amended as required.

The principal risks in terms of their residual ranking as at 31st March 2020 are summarised below.

Risk Ref No.	Risk Title / Risk Description	Residual Probability (/5)	Residual Impact (/5)	Residual Risk (/25)	Residual Rank	Movement
SPFO5	**RISK:** Pay and price inflation significantly more or less than anticipated. **CAUSE:** Macro economic. **EFFECT:** Increase in liabilities; increase in asset price volatility; potential underfunding; potential increase in employer contribution rates.	3	4	12	High	Static
SPFO31	**RISK:** Employer failure to carry out statutory functions including submission of member data and contributions to SPFO. **CAUSE:** Under-resourcing/Scheme Complexity. **EFFECT:** Missing, incomplete and incorrect records on pensions administration system; undermines service delivery and causes difficulties in establishing correct benefits at individual member level, and liabilities at employer and whole of Fund level; potential issues with the Pensions Regulator.	3	4	12	High	Increased
SPFO1	**RISK:** Fund’s investments fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term. **CAUSE:** Macro economic. **EFFECT:** Long-term underfunding; significant increase in employer contribution rates.	2	5	10	High	Static
SPFO23	**RISK:** Issues with pensions administration system and other related systems. **CAUSE:** Outages, hardware and software failure, cyber attack. EFFECT: Staff downtime, loss of service delivery, data loss, and potential failure to pay pensions.	3	3	9	Medium	Static

Risk Ref No.	Risk Title / Risk Description	Residual Probability (/5)	Residual Impact (/5)	Residual Risk (/25)	Residual Rank	Movement
SPFO30	**RISK:** Failure to recruit, retain and develop appropriate staff. **CAUSE:** Employment Market changes. **EFFECT:** Loss or failure of service delivery.	3	3	9	Medium	Static
SPFO9	**RISK:** Changes to scheme regulations and other pensions legislation. **CAUSE:** Political or legislative **EFFECT:** Increasing administrative complexity, communications challenges. Potential issues with the Pensions Regulator. Increase in liabilities	3	3	9	Medium	Static

RISK INTEGRATION

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

Each year, the Strathclyde Pension Fund Committee is asked to agree a business plan. The plan sets out objectives, resourcing requirements, key performance indicators, and business and development priorities for the Fund for the coming year. The 2019/20 plan was agreed in March 2019. The table below provides a review of progress in respect of the business and development priorities listed in the plan.

Item Investments	Description	RAG Status	Progress Summary
Investment Strategy	Continue development of investment structure towards full implementation of the Alt 2 strategy (see page 121-127 for further details).	Complete	Alt 2 allocations to managers and portfolios all agreed and implemented. Actual portfolio balances will take further time to reflect this as funds are drawn down to private markets portfolios. 1% allocated to cash to partially reflect that interim position.
Direct Investment Portfolio	Develop proposals for infrastructure co-investment and extension of local property investment as described in 2018 DIP review.	Complete	First proposal for infrastructure co-investment agreed at September committee. KPMG engaged to look at property portfolio options and completed initial review. Clydebuilt portfolio to be extended to 2023. Further solution required thereafter.
Property Conveyancing	Review arrangements for conveyancing in respect of the UK property portfolio.	Complete	Concluded with appointment of CMS at September 2019 committee.
Custody Tender	Commence review of global custody arrangements and associated services including cash management, performance measurement, securities lending and currency management.	Complete	Hymans Robertson engaged to advise. Tender to be completed during 2020. Existing contract extended to December 2020.
Responsible Investment	Review Climate Related Financial Disclosures.	Complete	Climate Related Financial Disclosures included in 2018/19 annual report.
Responsible Investment	Review Climate Related Risks and Opportunities.	Complete	Report and recommendations considered at March 2020 committee.

Climate Related Financial Disclosures were included in the 2018/19 annual report for the first time.

Item Pensions Administration	Description	RAG Status	Progress Summary
Administration Strategy	Review administration strategy, data improvement plan, administration structure and resource.	Complete	Report covering strategy and data improvement plan agreed at November 2019 committee. Report on SPFO Structure approved by Workforce Planning Board in December 2019. Revised structure and budget included in 2020/21 Business Plan and approved at March 2020 committee together with final report on administration strategy.
GMP Reconciliation	Complete implementation of integrated solution for Guaranteed Minimum Pension (GMP) reconciliation and remediation project.	Delayed	Reconciliation 98.8% complete per latest ITM report and 96.0% of cases resolved. Remediation phase delayed as a result of process changes by HMRC - now due to start after July 2020.
Equal Pay Settlements	Manage pensions implications of employer equal pay settlements.	Delayed	Final GCC data received in December. Employer contribution agreed and paid towards financial year end. Pension record adjustments and revised payments to be processed during 2020.
Occupational Health	Review arrangements for provision of certification by an Occupational Health Practitioner in respect of ill-health retirals.	Complete	SPFO using GCC contract with PAM from January 2020.

Item	Description	RAG Status	Progress Summary
Finance			
Central Support	Review level and cost of central support provided by GCC.	Complete	Final report concluded that amounts recharged to SPFO were essentially correct, but a number of improvements in process and provision of back-up information were identified and will be implemented. This may lead to increased charges in later years as costs are more clearly identified.
Treasury Management	Review internal treasury management function.	Complete	A number of improvements around the process for accounting and payment of VAT relating to the DTZ property portfolio were identified and will be implemented. Review did not produce any other material findings.
Governance			
No.3 Fund	Complete merger into Aberdeen City Council Transport Fund.	Complete	Administration and communication workstreams completed by August. Asset transfer completed in tranches between August and January. Final cash transfer completed in March.
Actuarial Valuation	Preparation for actuarial valuation as at 31st March 2020.	Complete	Initial planning meeting with Hymans Robertson in October. Data meeting in January. Covenant review meeting with PWC in January. Further planning meeting in February. High level plan agreed.

This is a summary assessment of the extent to which delegation, or the absence of a delegation, complies with guidance given by Scottish Ministers and, to the extent that it does not so comply, the reasons for not complying. The guidance takes the form of 9 principles.

STRUCTURE

The Strathclyde Pension Fund Committee discharges all functions and responsibilities relating to Glasgow City Council's role as administering authority for the Strathclyde Pension Fund. The Strathclyde Pension Fund Board includes employer and trade union representatives. The Board meets alongside the Committee and a formal report of each separate meeting of the Board is included on the agenda of the subsequent Committee meeting.

The Strathclyde Pension Fund Committee discharges all functions and responsibilities relating to Glasgow City Council's role as administering authority for the Strathclyde Pension Fund.

COMMITTEE MEMBERSHIP AND REPRESENTATION

The Board meets alongside the Committee and includes both local authority and admitted body representatives. The trade unions represent employee, deferred and pensioner members.

SELECTION AND ROLE OF LAY MEMBERS

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

VOTING

All committee members have full voting rights.

TRAINING/FACILITY TIME/EXPENSES

A training policy, practice statement and plan are agreed each year. These apply equally to the Committee and Board. Training logs are maintained for Committee and Board members.

MEETINGS (FREQUENCY/QUORUM) AND ACCESS

The Committee and Board meet at least quarterly. Strathclyde Pension Fund Committee papers are available on the Glasgow City Council website. An Annual General Meeting is also held and is attended by a wide group of stakeholders.

SCOPE

Regular reports considered by the Committee and Board include:

- scheme administration;
- scheme developments;
- investment performance;
- investment strategy;
- responsible investment;
- finance;
- funding;
- risk;
- audit;
- the Fund's business plan; and
- *ad hoc* reports on other pensions issues.

PUBLICITY

The Fund's website at www.spfo.org.uk has a section of its About Us area dedicated to governance.

CONCLUSION

The Fund's governance arrangements are fully compliant with the scheme's governance regulations. The arrangements also comply with guidance given by the Scottish Ministers with one exception. The exception is that there is no provision for a member of the Board to be a member of the Committee. The guidance pre-dates the governance regulations and does not reflect the current mandatory arrangement where the Board and Committee meet at the same time and in the same place.

Councillor Richard Bell
City Treasurer and Convener
Strathclyde Pension Fund Committee

Annemarie O'Donnell
Chief Executive
Glasgow City Council

1. ROLE AND RESPONSIBILITIES

Glasgow City Council ("the Council") has statutory responsibility for the administration of the Local Government Pension Scheme ("LGPS") in the West of Scotland, both on its own behalf and in respect of the other 11 local authorities in the former Strathclyde area, and around 160 other large and small employers.

The main functions are management and investment of the Strathclyde Pension Fund and administration of scheme benefits. These functions are carried out in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972 and Public Service Pensions Act 2013.

Glasgow carries out its role as Administering Authority via:

- the Strathclyde Pension Fund Committee and Strathclyde Pension Fund Board
- the Strathclyde Pension Fund Office (SPFO), a division of the Council's Financial Services Department
- the Strathclyde Pension Fund (the Fund).

2. DELEGATION

The function of maintaining the Strathclyde Pension Fund is delegated by the Council to its Strathclyde Pension Fund Committee. Certain parts of the function are further delegated to the Executive Director of Finance and the Director of Strathclyde Pension Fund as set out in the Fund's Statement of Investment Principles and Administration Strategy. The Fund's policy documents are available in the Publications area of its website at: www.spfo.org.uk

The function of maintaining the Strathclyde Pension Fund is delegated by the Council to its Strathclyde Pension Fund Committee.

3. TERMS OF DELEGATION

The terms, structure and operational procedures of delegation are set out in the Council's Scheme of Delegated Functions and Standing Orders. These are available at: Key Corporate Governance Policy Plans - Glasgow City Council

4. COMMITTEE MEETINGS

Meetings of the Strathclyde Pension Fund Committee are held quarterly. Occasional ad hoc meetings are also held as required. Committee meeting dates are listed in the Council Diary which is available at: www.glasgow.gov.uk/councillorsandcommittees/calendar.asp

5. REPRESENTATION

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

6. COMPLIANCE

The Committee arrangements were compliant with guidance provided by Scottish Ministers. The extent of this is detailed in the Strathclyde Pension Fund – Governance Compliance Statement included in the Fund's annual report.

7. PENSION BOARD

The Strathclyde Pension Fund Board was established on 1st April 2015 in terms of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015, replacing the previous Representative Forum. The Strathclyde Pension Fund Board is comprised of representatives from the Fund's principal employers and trade unions.

8. SCOPE OF RESPONSIBILITY

As the administering authority for the Fund, the Council is responsible for ensuring that its business, including that of the Fund, is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a statutory duty to make arrangements to secure best value under the Local Government in Scotland Act 2003.

In discharging this overall responsibility, the Strathclyde Pension Fund Committee is responsible for putting in place proper arrangements (known as the governance framework) for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance (the Code), which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) Framework: Delivering Good Governance in Local Government. A copy of The Code is available on the council's website at: www.glasgow.gov.uk/index.aspx?articleid=17539

The work of the Strathclyde Pension Fund is governed by the Code and by regulations specific to administration of pension funds. The Strathclyde Pension Fund is governed by the Local Government Pension Scheme (Scotland) Regulations. These include requirements for the preparation and production of a number of key policy documents including a Funding Strategy Statement and Statement of Investment Principles. These documents set out the Fund's objectives together with the main risks facing the Fund and the key controls in place to mitigate those risks. A Risk Register is maintained to facilitate detailed risk monitoring, and an annual Business

The Strathclyde Pension Fund is governed by the Local Government Pension Scheme (Scotland) Regulations.

Plan is produced to agree development and business priorities. All of these documents are available at the Fund's website at: www.spfo.org.uk

The Council's Executive Director of Finance is responsible for arranging the proper administration of the financial affairs of the Strathclyde Pension Fund and is professionally qualified and suitably experienced to lead the finance function. The Strathclyde Pension Fund complies with the CIPFA Statement on "*The Role of the Chief Financial Officer in Local Government 2016*".

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

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

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

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

- **Funding:** long terms cash flows and financial requirements are assessed in the three-yearly actuarial valuations. A quarterly funding projection is also produced by the Fund actuary.
- **Investment:** day-to-day management of investments is outsourced to a number of external parties. Detailed investment records are maintained by the Fund's external investment managers and global custodian and summarised in regular investment reports.
- **Administration:** the Fund uses Altair, a bespoke LGPS administration system, for calculating and recording pensions benefits. Payments are made from the Fund's bank account, and the Council's SAP-based financial system is used for reporting.

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

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

9. REVIEW OF EFFECTIVENESS

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

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

The Strathclyde Pension Fund complies with the requirements of the CIPFA Statement on "The Role of the Head of Internal Audit in Public Organisations 2019". Glasgow City Council's Head of Audit and Inspection has responsibility for the Strathclyde Pension Fund's internal audit function and is professionally qualified and suitably experienced to lead and direct internal audit staff. The Internal Audit service generally operates in accordance with the Public Sector Internal Audit Standards.

10. UPDATE ON SIGNIFICANT GOVERNANCE ISSUES PREVIOUSLY REPORTED

There were no significant governance issues in 2018/19 specific to the Strathclyde Pension Fund. Nor were there any significant governance issues within the Council`s governance statement of relevance to the Strathclyde Pension Fund.

11. INTERNAL AUDIT OPINION

During 2019/20 the following assurance reviews were undertaken:

- Governance
- Committee Effectiveness
- Travel, expenses and purchase cards
- Investment Income

Based on the audit work undertaken, the assurances provided by the Executive Director of Finance and the Director of Strathclyde Pension Fund, it is the Head of Audit and Inspection's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the governance and control environment which operated during 2019/20.

12. SIGNIFICANT GOVERNANCE ISSUES

Glasgow City Council's Head of Audit and Inspection has confirmed that there are no significant governance issues that require to be reported as a result of the work undertaken by Internal Audit in 2019/20.

The Strathclyde Pension Fund uses and relies on a number of the Council systems, processes and controls. As such, any significant governance issues within the Council are considered for relevance to the Strathclyde Pension Fund. There were no significant issues within the Council during 2019/20 relevant to the Strathclyde Pension Fund.

13. IMPACT OF COVID-19

The governance arrangements set out in this Statement operated for the majority of the year until the impact of the global Coronavirus pandemic led to some changes in responsibilities, decision making structures, priorities and working arrangements from March 2020.

On 17 March 2020, the Council's Emergency Committee implemented temporary decision-making arrangements to reduce the need for face-to-face meetings during the pandemic. All Council, Committee and Community Planning Partnership meetings were cancelled and delegations to officers were increased temporarily, with any decisions requiring approval by elected members being taken by a reduced-membership City Administration Committee.

In response to the emergency, a clear command and control structure was invoked to ensure clarity of strategic response, responsibilities, frequent reporting and close partnership working with partner organisations and the Government.

Focus was on continuing business critical activities to support citizens, communities and businesses across the city and providing emergency assistance. Flexible and different working arrangements have been developed, including new ways of using ICT to access and share information. Wherever possible, this accords with existing information security procedures and controls however, in some cases, greater information security risks have been temporarily accepted to enable such activity. Approval processes and support are in place for these decisions.

The impact of the pandemic is not expected to be short-term. It will likely increase demand for services and present financial pressures over the months and years ahead. The Council has commenced planning for the recovery and renewal of services, including the reinstatement of internal control frameworks and major programmes of activity, where these have been amended or suspended. At the time of writing, governance structures are being developed to oversee and deliver the recovery programme. Arrangements have also been made to ensure lessons learned from the Council's response and recovery phases are captured and used to inform improvements to business continuity, incident management and operational arrangements and controls.

The Council's response to COVID-19 has set the context for Strathclyde Pension Fund's response, albeit with some local variations, and will also provide the framework for the recovery phase.

It is the Head of Audit and Inspection's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the governance and control environment which operated during 2019/20.

14. CERTIFICATION

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance that operated in the Strathclyde Pension Fund during 2019/20. The work undertaken by Internal Audit has shown that the arrangements in place are operating as planned. We consider the governance and internal control environment operating during 2019/20 to provide reasonable and objective assurance that any significant risks impacting on the Fund's ability to achieve its objectives will be identified and actions taken to avoid or mitigate the impact.

Where areas for improvement have been identified and action plans agreed, we will ensure that they are treated as priority and progress towards implementation is reviewed by the Strathclyde Pension Fund Leadership Team, Board and Committee.

We will continue to review and enhance, as necessary, our governance arrangements.

Councillor Richard Bell
City Treasurer and Convener
Strathclyde Pension Fund Committee

Annemarie O'Donnell
Chief Executive
Glasgow City Council

Strathclyde Pension Fund

SECTION 3

FINANCIAL STATEMENTS

The Council's Responsibilities

Glasgow City Council, as the administering authority for the Strathclyde Pension Fund, is required to:

- Make arrangements for the proper administration of Strathclyde Pension Fund's financial affairs and to secure that the proper officer of the authority has responsibility for the administration of those affairs. In relation to Strathclyde Pension Fund, that officer is the Executive Director of Finance;

- Manage the affairs of Strathclyde Pension Fund to secure the economic, efficient and effective use of resources and safeguard its assets;

- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014 and The Coronavirus (Scotland) Act 2020), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003); and

- Approve Strathclyde Pension Fund's Annual Accounts for signature.

I certify that the Annual Accounts have been approved for signature by Strathclyde Pension Fund Committee at its meeting on 25 November 2020.

Councillor Richard Bell
City Treasurer and Convener
Strathclyde Pension Fund Committee

Executive Director of Finance's Responsibilities

The Executive Director of Finance is responsible for the preparation of Strathclyde Pension Fund's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

In preparing the Annual Accounts, the Executive Director of Finance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with legislation; and
- Complied with the Local Authority Accounting Code (in so far as it is compatible with legislation).

The Executive Director of Finance has also:

- Kept adequate accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the financial statements give a true and fair view of the financial position of the Strathclyde Pension Fund No.1 Fund as at 31 March 2020 and of the No.3 Fund as at 2 December 2019 and the transactions of both Funds for the periods then ended.

Martin Booth BA, FCPFA, MBA
Executive Director of Finance

The financial statements give a true and fair view of the financial position of the Strathclyde Pension Fund as at 31 March 2020 and the transactions of the Fund for the year.

Fund Account

2018/19 £000		**Note**	**2019/20 £000**
	Contributions and Benefits Income		
437,552	Contributions from Employers	8	483,844
131,119	Contributions from Employees	8	148,610
9,092	Transfers in from Other Pension Funds		25,438
363	Other		362
578,126			**658,254**
	Expenditure		
452,656	Pensions Payments	8	478,793
137,713	Lump Sum and Death Benefit Payments	8	166,893
39,869	Payments To and On Account of Leavers	9	30,560
630,238			**676,246**
52,112	**Net Reduction from Dealings with Members**		**17,992**
125,692	Management Expenses	10	124,109
177,804	**Net Reduction including Fund Management Expenses**		**142,101**
	Returns on Investments		
287,671	Investment Income	12	338,350
(5,430)	Taxes on Income	13	(6,659)
1,025,412	Change in Market Value of Investments		(1,184,967)
1,307,653	**Net Returns on Investments**		**(853,276)**
1,129,849	**Net Increase/(Reduction) in the Fund during the Year**		**(995,377)**
20,806,209	Add: Opening Net Assets of the Scheme		21,936,058
21,936,058	**Closing Net Assets of the Scheme**		**20,940,681**

The Fund Account shows the payments to pensioners, contribution receipts from employers and scheme members, and the income, expenditure and change in market value of the Fund’s investments.

Net Assets Statement as at 31 March 2020

2018/19 £000		Note	2019/20 £000
	Investment Assets		
5,172,017	Equities	14,15	4,767,958
10,440,821	Pooled Investment Vehicles	14,15	9,207,504
3,391,088	Private Equity / Infrastructure	14,15	4,024,183
10	Index Linked Securities	14,15	8
2,837	Derivative Contracts	14,15	6,570
2,031,700	Property	14,15	2,126,139
854,442	Cash Deposits	14,15	609,114
33,745	Other Investment Assets	14,15	38,864
21,926,660			**20,780,340**
(36,249)	Investment Liabilities		(46,444)
192	Long-Term Debtors	23	371
120,638	Current Assets	24	243,818
(75,183)	Current Liabilities	25	(37,404)
21,936,058	**Net Assets of the Fund as at 31 March**		**20,940,681**

Net assets of the fund as at 31st March 2020 were £20.9 billion

The Net Assets Statement represents the value of assets and liabilities as at 31 March (excluding liability to pay pensions).

The unaudited financial statements were issued on 3 July 2020 and the audited financial statements were authorised for issue by Martin Booth on 25 November 2020.

Martin Booth BA, FCPFA, MBA
Executive Director of Finance

1. General Description of the Fund and its Membership

The Strathclyde Pension Fund was established in 1974 by Strathclyde Regional Council. Glasgow City Council became the Administering Authority for the Fund on 1 April 1996. The Fund is a pool into which employees' and employers' contributions and income from investments are paid. The Fund is also a pool from which pensions and other lump sum benefits are paid out in accordance with the provisions of the Local Government Pension Scheme (Scotland) Regulations.

The Local Government Pension Scheme is a statutory scheme established under the Superannuation Act 1972 and the Public Service Pensions Act 2013.

Glasgow City Council has delegated decision making for the Fund to its Strathclyde Pension Fund Committee. Scheme and Fund administration is carried out by the Strathclyde Pension Fund Office (SPFO), a division of the Council's Financial Services Department. The investment assets of the Fund are externally managed.

Fund Membership

Membership of the Strathclyde Pension Fund includes:

- Employees and pensioners of the 12 local authorities in the former Strathclyde area;
- Civilian employees and pensioners of Police Scotland and Scottish Fire and Rescue Service along with the Scottish Police Authority;
- Employees and pensioners of other scheduled bodies;
- Employees and pensioners of admitted bodies; and
- Deferred pensioners of scheduled and admitted bodies. The full list of participating employers as at 31 March 2020 can be found on pages 167-169. The major employers and other scheduled bodies are detailed below:

Major Employers	Other Scheduled Bodies
Argyll and Bute Council	Ayrshire College
East Ayrshire Council	City of Glasgow College
North Ayrshire Council	Glasgow Clyde College
South Ayrshire Council	Glasgow Kelvin College
West Dunbartonshire Council	New College Lanarkshire
East Dunbartonshire Council	South Lanarkshire College
Glasgow City Council	West College Scotland
North Lanarkshire Council	Ayrshire Valuation Joint Board
South Lanarkshire Council	Dunbartonshire Valuation Joint Board
East Renfrewshire Council	Lanarkshire Valuation Joint Board
Renfrewshire Council	Renfrewshire Valuation Joint Board
Inverclyde Council	Scottish Police Authority
Scottish Water	University of West of Scotland
Police Scotland	Visit Scotland
Scottish Fire and Rescue Service	
Strathclyde Partnership for Transport	

2. Basis of Preparation

The Annual Accounts have been prepared in accordance with the guidelines set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The Annual Accounts summarise the transactions of the Fund during the year and the net assets at the year end. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 7 of these accounts.

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

The accounts have been prepared on a going concern basis.

3. Summary of Significant Accounting Policies

Fund Account

Contributions Income

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

Transfers To and From Other Schemes

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

Investment Income

Interest income is recognised in the Fund accounts as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis. Dividend income is recognised on the date the shares are quoted ex-dividend. Distributions from pooled funds are recognised at the date of issue. Any amounts not received by the end of the reporting period in relation to dividend income or distributions from pooled funds are disclosed in the Net Assets Statement as a current financial asset. Property income consists primarily of rental income.

Change in Market Value

Changes in the net market value of investments comprise all realised and unrealised profits/losses during the year.

Benefits Payable

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

Taxation

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

Management Expenses Include the Following:

Administrative Expenses

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

Oversight and Governance Costs

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

Investment Management Expenses

All investment management expenses are accounted for on an accruals basis. External investment manager fees are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments changes. In instances where an investment manager's fee note has not been received by the balance sheet date, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the Fund Account. In cases where charges relate to an investment fund as a whole an estimate needs to be made of the costs applicable to the Pension Fund's holding. In 2019/20 £1.186m of fees are based on such estimates (2018/19 £8.168m). The cost of obtaining investment advice from external consultants is included in investment management charges. The cost of the Fund's management team are charged direct to the Fund and a proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.

Net Asset Statement

Financial Assets

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

Valuation of Investments

Quoted investments are valued at closing prices. These prices may be the last trade prices or bid prices depending on the convention of the stock exchange or other market on which they are quoted. Overseas investments and cash are stated in sterling using exchange rates as at close of business on 31 March 2020. The direct property portfolio was valued at 31 March 2020 by Avison Young, the valuer being qualified for that purpose in accordance with the Royal Institute of Chartered Surveyor (RICS) Valuation Standards manual. Private equity investments have been included at the Fund managers' valuation adjusted for cash movements since the last valuation date where that is earlier than the valuation date. Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published or if single priced at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is invested in the Fund, net of applicable withholding tax.

Foreign Currency Transactions

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

Derivatives

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

Cash and Cash Equivalents

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

Liabilities

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

Contingent Assets and Liabilities

Contingent assets and liabilities reflect possible assets or financial obligations to the Fund where the potential amount is unable to be estimated and/or it is still not deemed probable that an obligating event has arisen. Contingent assets and liabilities are not recognised in the Net Assets Statement but are disclosed by way of narrative in the notes (see Note 29).

Actuarial Present Value of Promised Retirement Benefits

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

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits in a note to the Net Assets Statement (Note 7).

Additional Voluntary Contributions

Strathclyde Pension Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential as its AVC provider. Standard Life is the legacy provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year. AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (SSI 2010/233) but are disclosed as a note only (Note 31).

Events After the Balance Sheet Date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue. Two types of events may be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Annual Accounts are adjusted to reflect such events; and
- Those that are indicative of conditions that arose after the reporting period – the Annual Accounts are not adjusted to reflect such events, but where this would have a material effect, the nature and estimated financial impact of such events is disclosed in the notes.

New Standards Issued but not yet Adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2020/21 Code:

- Annual improvements to IFRS Standards 2015-2017 Cycle; and
- IAS19: Amendments to Employee Benefits, Plan Amendment, Curtailment or Settlement.

The code requires implementation from 1 April 2020 and there is therefore no impact on the 2019/20 Annual Accounts. Overall, these new or amended standards are not expected to have a significant impact on the Annual Accounts. This also applies to Fund 3 Annual Accounts per page 79.

4. Critical Judgements in Applying Accounting Policies

Determining the fair value of investments in private markets involves a degree of subjectivity. Valuations are inherently based on forward looking estimates and judgements involving many factors and can result in investment assets being reclassified between financial years. Where reclassification of an investment has taken place the prior year balance has been restated. The value of the Fund's private equity, private debt, private real estate and infrastructure investments was £4,024.2m at 31st March 2020 (£3.391.1m at 31st March 2019). The private markets figure of £4,024.2m includes £1,802.7m private equity (£1,736.2m in 2018/19), £612.7m private debt (£390.7m in 2018/19), £515.8m private real estate (£456.3m in 2018/19) and £1,093.0m (£807.9m in 2018/19) infrastructure. These have all been categorised as 'Level 3' investments, that is investments where an error in at least one input could have a significant effect on an instrument's valuation. A detailed breakdown of the Fund's assets according to the reliability and quality of the information used to determine fair value is provided in Note 20 Financial Instruments.

The outbreak of Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11 March 2020 impacted in various ways on global financial markets:

- Public markets experienced significant volatility around the financial year end;
- Private markets experienced a slowdown in activity in the first quarter, particularly towards the end of the accounting period. As a result, there was a limited number of transactions on which to base valuations. Managers generally followed the same valuation process and procedures that were used in previous years. However, many have made greater use than previously of fair value adjustments to earlier valuations in order to establish 31 March valuations. Inputs have included public market movements, general partner estimates, and company specific considerations. The fair value adjustments applied are significantly higher (negative) than those applied in prior years (given the public market correction observed and indications received from general partners).
- Avison Young's valuation of the Fund's UK property portfolio includes a "Material Valuation Uncertainty Clause". The response to COVID-19 meant that they were faced with an unprecedented set of circumstances on which to base a judgement. As at the valuation date, they considered that less weight could be attached to previous market evidence for comparison purposes to inform opinions of value. Their valuations are therefore reported on the basis of 'material valuation uncertainty' as per the *RICS Valuation – Global Standards* effective from 31 January 2020. Consequently, less certainty – and a higher degree of caution – should be attached to their valuation than would normally be the case. For the avoidance of doubt, this does not mean that the valuation cannot be relied upon. Rather, the material uncertainty clause is used in order to be clear and transparent with all parties, in a professional manner that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case.

The pension fund liability is calculated every 3 years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 7. The estimate is subject to significant variances based on changes to the underlying assumptions.

5. Prior Period Adjustments, Changes in Accounting Policies and Estimates

Prior period adjustments may arise as a result of a change in accounting policy or to correct a material error. Changes in accounting policy are only made when required by a proper accounting practice or to provide more reliable or relevant information on the Fund's financial position. Where a change is made it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period, as if the new policy had always applied. Changes in accounting estimation techniques are applied in the current and future years.

6. Actuarial Position of the Fund

In accordance with Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 an actuarial valuation of the Strathclyde Pension Fund was carried out as at 31 March 2017. Results of the valuation were confirmed during March 2018 and a copy of the valuation report was issued to all participating employers.

The funding level as at 31 March 2017 was 105.0% (94.3% at 31 March 2014) and there was a funding surplus of £939 million (£839 million shortfall at 31 March 2014):

	£ million
Fund Assets	19,699
Fund Liabilities	(18,760)
Surplus	**939**

The Fund liabilities were valued on an "ongoing" basis anticipating that the Fund's investments will produce returns which exceed those available from government bonds.

The funding target of 100% had been achieved and exceeded at the valuation date.

The whole fund Primary and Secondary employer contribution rates were 27.1% and -7.5%. In practice individual employers pay rates based on their own funding position and membership profile. The Main Employer Group contribution rate was held at 19.3% for the 3 years to 31 March 2021.

Funding Policy

On completion of the actuarial valuation as at 31 March 2017 the Fund published a revised Funding Strategy Statement in accordance with regulation 56 of the Regulations. The actuary's report and the Funding Strategy Statement are available from www.spfo.org.uk or from the Strathclyde Pension Fund Office, Capella Building, 6th Floor, 60 York Street, Glasgow G2 8JX.

Funding Projection as at 31 March 2020

An intervaluation monitoring report provided by the Fund's actuary as at 31 March 2020 recorded a projected funding position of 95.3%. The next formal funding valuation will be carried out as at 31 March 2020 with results being available by 31 March 2021.

Funding Method

At the 2017 actuarial valuation and for previous valuations a funding method was used that identifies separately the expected cost of members' benefits in respect of:

- Scheme membership completed before the valuation date ("past service"); and
- Scheme membership expected to be completed after the valuation date ("future service").

The funding strategy and the methodology adopted by the actuary incorporate a risk-based approach which allows for thousands of possible future economic scenarios when assessing the likelihood of contributions being sufficient to meet both the accrued and future liabilities over a given time horizon for the Fund and for each employer.

The funding objective is to achieve the funding target over the target funding period. The funding target (amount of assets compared to liabilities expressed as a percentage) is at least 100% using appropriate actuarial assumptions.

The target funding period and recovery period for any deficit is the weighted average future working lifetime of the active membership – currently around 14 years for the whole Fund. There are many inherent uncertainties in the funding process and a wide range of possible outcomes. It is acknowledged that the actual funding level will fluctuate as a result.

The funding strategy targets at least a 2/3rds probability of achieving the target, and a higher probability where possible.

The actuary's report on the valuation is required to include a Rates and Adjustments certificate which specifies for each employer the primary rate and the secondary rate of the employer's contribution for each of the three years beginning with 1 April in the year following that in which the valuation date falls. The primary rate for each employer is the expected cost of future service for that employer's membership. The secondary rate is any percentage or amount by which, in the actuary's opinion, contributions at the primary rate should be increased or reduced by reason of any circumstances peculiar to that employer.

The primary and secondary rates for each employer from 1 April 2018 to 31 March 2021 are shown in the Rates and Adjustments certificate in Appendix F to the valuation report which is available from www.spfo.co.uk.

For the Fund's Main Employer Group the total rate to be paid is as shown below:

3 years to	Rate (as % of pensionable payroll)
31 March 2021	19.3

7. Actuarial and Other Major Assumptions

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. For valuation purposes the actuary uses assumptions about the factors affecting the Fund's finances in the future.

The most sensitive assumptions are detailed below:

Assumption	Derivation	Nominal %	Real %
Price inflation (CPI) / Pension Increases / Deferred Revaluation	Market expectation of long term future RPI inflation as measured by the geometric difference between yields on fixed and index-linked Government bonds as at the valuation date less 1.0% p.a.	2.4	-
Pay increases	Price inflation (CPI) plus 1.2% p.a.	3.6	1.2
Gilt-based discount rate	The yield on fixed-interest government bonds	1.7	-0.7
Pre-retirement funding basis discount rate	Gilt-based discount rate plus an asset outperformance assumption of 2.0% p.a.	3.7	1.3
Post-retirement funding basis discount rate	Gilt-based discount rate plus an asset outperformance assumption of 1.6% p.a.	3.3	0.9

In addition to the financial assumptions outlined above, valuation results are also sensitive to demographic assumptions. These include assumptions about the future longevity of members and about whether on retirement they will exchange some of their pension for additional tax-free cash (the commutation assumption).

For this valuation, the actuary adopted assumptions which give the following sample average future life expectancies for members (2014 figures included for comparison):

	Actives & Deferreds		Current Pensioners	
Assumed life expectancy at age 65	Male	Female	Male	Female
2014 Valuation	24.8	26.2	22.1	23.6
2017 Valuation	23.4	25.8	21.4	23.7

Further details of the mortality assumptions adopted for the 2017 valuation can be found in Appendix C to the valuation report. Note that the figures for actives and deferred/pensioners assume that they are aged 45 at the valuation date.

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

Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is estimated at £22,982 million as at 31 March 2020 (£25,949 million as at 31 March 2019). This includes an estimate of the potential increase in past service benefits arising from the High Court ruling on the McCloud case.

The actuary has estimated that a 0.5% decrease in the real discount rate would lead to an increase in the pension liability of £2,540 million. Similarly, a 0.5% increase in the rates of salary increase and pension increase would increase the liability by £532 million and £1,967 million respectively.

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2020 and 31 March 2019. The actuary estimates that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £2,729 million and that the impact from any change in demographic and longevity assumptions is to decrease the actuarial present value by £889 million.

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2017. It should be noted that the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose.

8. Contributions and Benefits

	Administering Authority £000	Other Scheduled Bodies £000	Admitted Bodies £000	Total £000
Contributions				
Employer	97,403	278,632	91,538	**467,573**
Augmentation	265	8,181	7,825	**16,271**
Total Employers	**97,668**	**286,813**	**99,363**	**483,844**
Employees	30,941	87,901	29,768	**148,610**
Benefits				
Pension	65,840	348,696	64,257	**478,793**
Lump Sum and Death Benefits	23,971	104,284	38,638	**166,893**
Total Benefits	**89,811**	**452,980**	**102,895**	**645,686**

9. Payments To and On Account of Leavers

2018/19 £000		**2019/20 £000**
1,563	Refunds to members leaving service	1,685
52	Payments for members joining state scheme	113
761	Group Transfers	0
37,493	Individual Transfers	28,762
39,869		**30,560**

10. Management Expenses

The total management expenses were as follows:

2018/19 £000		**2019/20 £000**
3,916	Administrative Costs	4,170
120,331	Investment Management Expenses	118,597
1,445	Oversight and governance costs	1,342
125,692		**124,109**

Oversight and governance costs include £0.057m (2018/19 £0.056m) in respect of the external audit fee to Audit Scotland. Investment management expenses include £3.220m in respect of transaction costs (2018/19 £3.206m). There were no external audit fees for any other services during the year.

11. Investment Expenses

The total investment expenses were as follows:

2018/19 £000		**2019/20 £000**
116,514	Management Fees	114,635
3,206	Transaction Costs	3,220
155	Custody Fees	121
63	Performance Monitoring Fees	74
146	Actuarial Fees – Investment Consultancy	70
247	Consultancy Fees	477
120,331		**118,597**

The investment management fees shown include -£0.981m million (2018/19 £13.676 million) in respect of performance related fees paid to the Fund’s investment managers. In accordance with CIPFA guidance investment management costs deducted from an investment value are recognised as a cost in the Fund Account.

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

12. Investment Income

Total investment income was as follows:

2018/19 £000		**2019/20 £000**
109,756	Dividends	116,635
4,666	Pooled Investments	4,052
68,267	Venture Capital and Partnerships	115,498
10,111	Interest and other	9,090
94,871	Rents	93,075
287,671	**Investment income**	**338,350**

2018/19 £000	**Net Property Rental Income**	**2019/20 £000**
94,871	Rental Income	93,075
(11,890)	Direct Operating Expenses	(16,791)
82,981	**Net Income**	**76,284**

13. Taxes on Income

2018/19 £000		2019/20 £000
5,430	Withholding tax – equities	6,659
5,430		**6,659**

14. Investments

Statement of Movement in Investments

	Market Value as at 31 March 2019 £000	Purchases and Derivative Payments £000	Sales and Derivative Receipts £000	Change in Market Value £000	Market Value as at 31 March 2020 £000
Investment Assets					
Equities	*5,172,017*	1,668,306	(1,692,078)	(380,287)	4,767,958
Pooled Investment Vehicles	*10,440,821*	0	(269,764)	(963,553)	9,207,504
Private Equity / Infrastructure	*3,391,088*	978,347	(441,317)	96,065	4,024,183
Index Linked Securities	*10*	0	(2)	0	8
Property	*2,031,700*	235,105	(87,287)	(53,379)	2,126,139
	21,035,636	**2,881,758**	**(2,490,448)**	**(1,301,154)**	**20,125,792**
Derivative Contracts:	*1,447*	45,521	(11,899)	(28,499)	6,570
Other Investment Balances:					
Cash Deposits	*854,442*			42,469	609,114
Receivable for Sales of Investments	*5,923*			(64)	5,320
Investment Income Due	*27,822*			0	33,544
Spot FX Contracts	*(5)*			(3,701)	(5)
Payable for Purchases of Investments	*(34,854)*			75	(46,439)
Net Investment Assets	***21,890,411***	**2,927,279**	**(2,502,347)**	**(1,290,874)**	**20,733,896**

Other movements during the year include all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. The reason for the difference of £105.907m in the change in market value per the above table and the Fund Account on page 41 is due to notional management expenses and transaction costs netted off against assets by fund managers.

Transaction Costs

Transaction costs are included in the cost of purchases and sale proceeds and are charged directly to the Fund. Transaction costs on listed securities include broker commissions, which are payments for the execution of trades and other levies such as exchange fees, settlement fees and clearing fees; transaction taxes, including stamp duty and other financial transaction taxes, and entry or exit charges that may arise when a holding in a pooled vehicle is bought or sold.

In addition to the transaction costs disclosed above, indirect costs may be incurred through the bid-offer spread on some pooled investment vehicles. The amount of such costs are separately provided to the Fund.

Derivatives

Derivatives comprise futures and forward derivative contracts. The market values as at 31 March 2020 and a summary of contracts held are summarised in the tables on the following page:

31 March 2019 £000		**31 March 2020 £000**
2,835	Futures	6,570
(1,388)	Forwards	0
1,447	**Market Value**	**6,570**

Contract	Settlement Date	Asset £000	Liability £000	Net £000
Derivatives – Futures				
Overseas Equity Futures - L&G US	Various	14	0	14
Overseas Equity Futures – L&G Emerging Market Future	Various	6,556	0	6,556
Contracts Held at 31 March 2020		**6,570**	**0**	**6,570**

The Fund uses futures for the purposes of efficient portfolio management and or risk reduction.

During the year, the Fund's equity managers used futures to manage risk. All futures and contracts are exchange traded.

Forwards

The Fund's equity managers use forward foreign exchange contracts for the purposes of efficient portfolio management. As at 31 March 2020 there was £nil forward foreign exchange contracts.

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

15. Analysis of Investments

Investments can be further analysed as follows:

Market Value as at 31 March 2019 £000		**Market Value as at 31 March 2020 £000**
	Fixed Interest Securities	
	UK	
5	Corporate Quoted	5
	Overseas	
5	Corporate Quoted	3
10		**8**
	Equities	
	UK	
763,116	Quoted	604,013
	Overseas	
4,408,901	Quoted	4,163,945
5,172,017		**4,767,958**
	Pooled Funds – Additional Analysis	
	UK	
2,440,200	Fixed Income Unit Trust	2,381,142
3,443,545	Equity Unit Trust	3,000,916
0	Private Equity/Infrastructure	0
423,712	Cash Balances	176,508
	Overseas	
664,940	Fixed Income Unit Trust	561,884
3,457,067	Equity Unit Trust	3,077,221
10,429,464		**9,197,671**
3,391,088	Private Equity/Infrastructure	4,024,183
11,357	Commodities	9,833
2,031,700	Property	2,126,139
5,434,145		**6,160,155**
854,442	Cash Deposits	609,114
2,837	Derivatives	6,570
33,745	Other Investment Assets	38,864
(36,249)	Investment Liabilities	(46,444)
21,890,411	**Net Investment Assets**	**20,733,896**

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

16. Fund Management

Investment Managers and Mandates

The market value of assets under the management of Fund managers as at 31 March 2020 was £20,734 million.

Investment management arrangements as at 31 March 2020 are summarised below:

Asset Class	Fund Manager	% Managed	Market Value £000
Multi Asset - Passive	Legal & General	32.80	6,801,592
Global Equity	Baillie Gifford	7.90	1,638,346
Global Equity	Lazard	2.96	613,010
Global Equity	Veritas	2.91	603,151
Global Equity	Oldfield	2.78	575,871
Specialist – Global Real Estate	Partners Group	2.02	418,559
Specialist – Absolute Return Bonds	PIMCO	5.03	1,042,092
Specialist – Equities (Overseas Small Companies)	JP Morgan	3.40	704,383
Specialist – Equities (UK Small Companies)	Lombard Odier	1.10	227,352
Specialist – Private Equity	Pantheon Ventures	5.09	1,056,203
Specialist – Private Equity	Partners Group	3.63	752,803
Specialist – Emerging Markets	Genesis	1.72	357,615
Specialist – Emerging Market Future	Legal & General	0.27	56,590
Specialist – Direct Investment Portfolio	Various	4.09	848,070
Specialist – Multi Asset Credit	Barings Multi-Asset Credit	2.71	562,613
Specialist – Multi Asset Credit	Oakhill Advisors	1.89	391,318
Specialist – Private Debt	Alcentra	1.34	277,444
Specialist – Private Debt	Barings Global Loan Funds	0.99	205,246
Specialist – Private Debt	Partners Group Private Debt	0.01	1,200
Specialist – Global Infrastructure	JP Morgan	2.52	522,823
Specialist – Private Real Estate Debt	ICG Longbow	0.26	54,116
Specialist – Long Only Absolute Return	Ruffer	1.00	208,077
Emerging Market Debt	Ashmore	1.92	397,988
Cash	Northern Trust	0.83	172,491
Specialist - Property	DTZ	10.83	2,244,943
		100.0%	**20,733,896**

Private Equity

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

17. Notifiable Holdings

Notifiable holdings are holdings which exceed 5% of the total value of Fund net assets. As at 31 March 2020 the Fund had holdings of £1,703m (9.1%) in L&G US Equity Fund (Hedged), £1,042m (5.6%) in PIMCO PARS III Absolute Return Fund and £967m (5.2%) in L&G UK Equity (5% Market Cap) Fund.

18. Property Holdings

As at 31 March 2020 the Fund held direct property assets with a value of £2,105m (2018/19 £2,032m). This valuation was calculated by Avison Young on the Fund's behalf in accordance with RICS Valuation Standards manual.

Avison Young's valuation of the Fund's UK property portfolio includes a "Material Valuation Uncertainty Clause". The response to COVID-19 meant that they were faced with an unprecedented set of circumstances on which to base a judgement. As at the valuation date, they considered that less weight could be attached to previous market evidence for comparison purposes to inform opinions of value. Their valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Valuation – Global Standards effective from 31 January 2020. Consequently, less certainty – and a higher degree of caution – should be attached to their valuation than would normally be the case. For the avoidance of doubt, this does not mean that the valuation cannot be relied upon. Rather, the material uncertainty clause is used in order to be clear and transparent with all parties, in a professional manner that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case.

As at 31 March 2020 the Fund held indirect UK property assets of £21m (2018/19 £nil).

2018/19 £000		2019/20 £000
1,880,660	Opening balance	2,031,700
196,375	Additions	235,105
(48,881)	Disposals	(87,287)
3,546	Change in Market Value	(53,379)
2,031,700	**Closing balance**	**2,126,139**

The future minimum lease payments receivable by the fund as at 31 March 2020 are shown in the next table.

2018/19 £000		2019/20 £000
88,300	Within one year	84,000
253,600	Between one and five years	245,100
507,400	Later than five years	382,800
849,300	**Total future lease payments due**	**711,900**

19. Stock Lending

The Fund participates in a stock lending programme managed by its Global Custodian, Northern Trust. All loans are fully collateralised. As at 31 March 2020 stock with a value of £459.1m was on loan (£435.6m as at 31 March 2019).

20. Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair values of financial assets and liabilities by category and net asset statement heading for the year ended 31 March 2020.

31 March 2019				31 March 2020		
Fair value through profit & loss £000	*Loans & receivables £000*	*Financial liabilities at amortised cost £000*		Fair value through profit & loss £000	Loans & receivables £000	Financial liabilities at amortised cost £000
			Financial Assets			
5,172,017	*0*	*0*	Equities	4,767,958	0	0
10,440,821	*0*	*0*	Pooled Investment Vehicles	9,207,504	0	0
3,391,088	*0*	*0*	Private Equity/ Infrastructure	4,024,183	0	0
10	*0*	*0*	Index Linked Securities	8	0	0
0	*0*	*0*	Property	0	0	0
2,837	*0*	*0*	Derivative Contracts	6,570	0	0
59,304	*795,138*	*0*	Cash	39,268	569,846	0
0	*33,745*	*0*	Other Investment Balances	0	38,864	0
19,066,077	***828,883***	***0***		**18,045,491**	**608,710**	**0**
			Financial Liabilities			
0	*0*	*(1,390)*	Derivatives	0	0	0
0	*0*	*(34,859)*	Other Investment Liabilities	0	0	(46,444)
0	***0***	***(36,249)***		**0**	**0**	**(46,444)**
19,066,077	***828,883***	***(36,249)***	**Net Financial Assets**	**18,045,491**	**608,710**	**(46,444)**

The table below shows net gains and losses on financial instruments for the year ended 31 March 2020:

31 March 2019 £000		**31 March 2020 £000**
	Financial Assets	
935,783	Fair value through profit and loss	(1,247,775)
9,115	Loans and receivables	42,544
	Financial Liabilities	
(17,436)	Fair value through profit and loss	(28,499)
(1,448)	Loans and receivables	(3,765)
926,014	**Total**	**(1,237,495)**

The following table summarises the market values of the Fund's financial assets and liabilities by class of instrument for the year ended 31 March 2020:

Market Value 31 March 2019 £000		**Market Value 31 March 2020 £000**
	Financial Assets	
19,066,077	Fair value through profit and loss	18,045,491
828,883	Loans and receivables	608,710
	Financial Liabilities	
(36,249)	Financial liabilities measured at amortised cost	(46,444)
19,858,711	**Total**	**18,607,757**

The £18,608m net financial assets shown above plus property (£2,126m) and long-term debtors and current assets (£244m) less current liabilities (£37m) equals £20,941m Net Assets as at 31 March 2020 on page 42.

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

Level 1

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

Level 2

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

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of private equity investments are based on valuations provided by the general partners of the private equity funds in which the Fund has invested. Such valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken quarterly.

Private markets experienced a slowdown in activity in the first quarter, particularly towards the end of the accounting period. As a result, there was a limited number of transactions on which to base valuations. Managers generally followed the same valuation process and procedures that were used in previous years. However, many have made greater use than previously of fair value adjustments to earlier valuations in order to establish 31st March valuations. Inputs have included public market movements, general partner estimates, and company specific considerations. The fair value adjustments applied are significantly higher (negative) than those applied in prior years (given the public market correction observed and indications received from general partners).

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

31 March 2019				*31 March 2020*		
Level 1 £000	*Level 2 £000*	*Level 3 £000*		**Level 1 £000**	**Level 2 £000**	**Level 3 £000**
			Financial Assets			
13,249,163	*2,408,877*	*3,408,036*	Fair Value through profit and loss	12,021,316	1,999,500	4,024,675
822,958	*5,923*	*2*	Loans and receivables	603,388	5,320	2
14,072,121	***2,414,800***	***3,408,038***		**12,624,704**	**2,004,820**	**4,024,677**
			Financial Liabilities			
(24,132)	*(12,116)*	*0*	Financial liabilities measured at amortised cost	(31,834)	(14,610)	0
(24,132)	***(12,116)***	***0***		**(31,834)**	**(14,610)**	**0**
14,047,989	***2,402,684***	***3,408,038***	**Net Financial Assets**	**12,592,870**	**1,990,210**	**4,024,677**

The total value of Net Financial Assets for Levels 1, 2 and 3 as at 31 March 2019 in the above table is £18,608m (£19,859m 2018/19) which matches the financial instruments market value shown in the table on the previous page. The Fund's property assets of £2,126m (see Note 18 for details) are also classed as level 3, taking the total value of Net Financial Assets to £20,734m which matches the Net Investments Assets total per the Net Assets Statement.

	Market value as at 31 March 2019 *£000*	Transfers in/out of Level 3 £000	Purchases £000	Sales £000	Unrealised gains (losses) £000	Realised gains (losses) £000	Market value as at 31 March 2020 £000
Overseas Equities	*179*	0	0	2	(21)	0	160
UK Equities	*333*	0	0	(27)	27	0	333
Overseas Equity Funds	19	(60)	0	0	41	0	0
UK Quoted	*0*	0	0	0	0	0	0
Overseas Venture Capital	*1,945,375*	60	304,682	(282,444)	(23,481)	127,796	2,071,988
UK Venture Capital	*1,445,713*	15,000	658,605	(159,910)	(80,397)	73,185	1,952,196
UK Fixed Income Funds	*16,417*	(15,000)	0	0	(1,417)	0	0
	3,408,036	**(0)**	**963,287**	**(442,379)**	**(105,248)**	**200,981**	**4,024,677**

The Fund's primary long-term risk is that its assets will fall short of its liabilities

21. Nature and Extent of Risks Arising From Financial Instruments

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

Market Risk

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

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

Other Price Risk

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

Other Price Risk - Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, the following movements in market price risk are reasonably possible for the 2019/20 reporting period:

Asset Type	Potential Market Movement (+/-)
UK Equities	27.5%
Overseas Equities	28.0%
Corporate Bonds (short term)	5.0%
Corporate Bonds (medium term)	9.8%
Index Linked Gilts	7.4%
Private Equity and Infrastructure Funds	28.4%
Commodities	16.2%
Cash	0.3%
Senior Loans	7.2%
Absolute Return Bonds	3.9%
UK Property	14.2%
Total Fund Volatility	**18.8%**

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory. The tables below show the change in the net assets available to pay benefits had the market price of the investments increased or decreased in line with the table above.

Potential Market Movements

Asset Type	Value as at 31 March 2020 £000	Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	609,114	0.3	610,942	607,287
Investment portfolio assets:				
UK bonds	5	5.0	5	4
Corporate bonds (Medium term)	3	9.8	4	3
UK equities	604,013	27.5	770,117	437,910
Overseas equities	4,163,945	28.0	5,329,849	2,998,040
UK fixed income unit trusts	2,381,142	7.4	2,557,347	2,204,938
Overseas fixed income unit trusts	561,884	9.8	616,949	506,819
UK equity unit trusts	3,000,916	27.5	3,826,168	2,175,664
Overseas equity unit trusts	3,077,221	28.0	3,938,843	2,215,599
Pooled Investment Vehicles	9,833	16.2	11,426	8,240
Cash Funds	176,508	0.3	177,037	175,978
Private Equity and Infrastructure	4,024,183	28.4	5,167,052	2,881,315
Property	2,126,139	14.2	2,428,051	1,824,227
Net derivative assets	6,570	0.0	6,570	6,570
Investment income due	33,544	0.0	33,544	33,544
Pending Spot FX	(5)	0.0	(5)	(5)
Amounts receivable for sales	5,320	0.0	5,320	5,320
Amounts payable for purchases	(46,439)	0.0	(46,439)	(46,439)
Total	**20,733,896**		**25,432,780**	**16,035,014**

The prior year comparators for 2018/19 are as follows:

Asset Type	*Value as at 31 March 2019 £000*	*Change %*	*Value on Increase £000*	*Value on Decrease £000*
Cash and cash equivalents	*742,307*	*0.5*	*746,018*	*738,595*
Investment portfolio assets:				
UK bonds	*5*	*4.4*	*5*	*5*
Corporate bonds (Medium term)	*5*	*10.5*	*5*	*4*
UK equities	*763,116*	*16.6*	*889,794*	*636,439*
Overseas equities	*4,408,901*	*16.9*	*5,154,005*	*3,663,797*
UK fixed income unit trusts	*2,440,200*	*7.2*	*2,615,895*	*2,264,506*
Overseas fixed income unit trusts	*664,940*	*10.5*	*734,759*	*595,122*
UK equity unit trusts	*3,443,545*	*16.6*	*4,015,174*	*2,871,917*
Overseas equity unit trusts	*3,457,067*	*16.9*	*4,041,311*	*2,872,822*
Pooled Investment Vehicles	*11,357*	*16.1*	*13,185*	*9,528*
Cash Funds	*535,847*	*0.5*	*538,526*	*533,168*
Private Equity and Infrastructure	*3,391,088*	*28.3*	*4,350,766*	*2,431,410*
Property	*2,031,700*	*14.3*	*2,322,233*	*1,741,167*
Net derivative assets	*1,447*	*0.0*	*1,447*	*1,447*
Investment income due	*23,715*	*0.0*	*23,715*	*23,715*
Pending Spot FX	*(5)*	*0.0*	*(5)*	*(5)*
Amounts receivable for sales	*10,030*	*0.0*	*10,030*	*10,030*
Amounts payable for purchases	*(34,854)*	*0.0*	*(34,854)*	*(34,854)*
Total	***21,890,411***		***25,422,009***	***18,358,813***

Interest Rate Risk

The Fund invests in financial assets with the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2019 is set out below.

As at 31 March 2019 £000	Asset Type	As at 31 March 2020 £000
854,442	Cash Balances – Investments	609,114

Interest Rate Sensitivity Analysis

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

As at 31 March 2019 £000	*+100 BPS £000*	*-100 BPS £000*	Asset Type	As at 31 March 2020 £000	+100 BPS £000	-100 BPS £000
854,442	*862,987*	*845,898*	Cash Balances – Investments	609,114	615,205	603,023

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the Fund's base currency (GBP). The Fund holds both monetary and non-monetary assets denominated in currencies other than GBP. Investment managers are expected to manage currency risk.

Currency Risk – Sensitivity Analysis

Based on historical analysis of movement in the currencies to which the Fund is exposed, it is considered that a 10% fluctuation in currency is reasonable. The table below shows the impact a 10% strengthening / weakening of the pound against the various currencies to which the Fund is exposed would have on the net assets available to pay benefits, assuming all other variables, in particular interest rates, remain constant.

Asset Type	Value as at 31 March 2020 £000	Change %	Value on Increase £000	Value on Decrease £000
Overseas quoted equities	4,163,945	10.0	4,580,340	3,747,551
Overseas fixed income	561,884	10.0	618,072	505,696
Overseas equity funds	3,077,221	10.0	3,384,943	2,769,499
Total	**7,803,050**		**8,583,355**	**7,022,746**

Credit Risk

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

22. Analysis of Investment Assets (IAS19)

In accordance with the requirements of IAS19 the following statement provides a detailed analysis of investment assets as at 31 March 2020 with comparators for 2019.

31 March 2019				31 March 2020		
Quoted £000	*Unquoted £000*	*Total £000*		Quoted £000	Unquoted £000	Total £000
			Equity Securities			
1,312,311	*0*	*1,312,311*	Consumer	1,166,862	0	1,166,862
1,165,713	*8,414*	*1,174,127*	Manufacturing	1,066,688	6,346	1,073,034
286,116	*0*	*286,116*	Energy and Utilities	227,112	0	227,112
947,052	*3,894*	*950,946*	Financial Institutions	762,844	1,052	763,896
560,405	*4,483*	*564,888*	Health and Care	626,424	0	626,424
880,109	*3,520*	*883,629*	Information Technology	924,139	163	924,302
			Debt Securities			
5	*5*	*10*	Corporate Bonds (investment grade)	3	5	8
0	*0*	*0*	Corporate Bonds (non-invest grade)	0	0	0
0	*0*	*0*	UK Government	0	0	0
0	*0*	*0*	Other	0	0	0
0	*3,391,088*	*3,391,088*	Private Equity	0	4,007,344	4,007,344
			Real Estate			
0	*2,031,700*	*2,031,700*	UK Property	0	2,126,139	2,126,139
0	*0*	*0*	Overseas Property	0	0	0
			Investment Funds and Unit Trusts			
416,280	*6,484,331*	*6,900,611*	Equities	356,417	5,898,247	6,254,664
664,940	*2,440,201*	*3,105,141*	Bonds	561,884	2,397,961	2,959,845
0	*0*	*0*	Hedge Funds	0	0	0
0	*11,357*	*11,357*	Commodities	0	9,833	9,833
0	*92,110*	*92,110*	Property	0	118,803	118,803
633,340	*483,016*	*1,116,356*	Cash Funds	0	39,268	39,268
			Derivatives			
0	*0*	*0*	Inflation	0	0	0
0	*0*	*0*	Interest Rate	0	0	0
0	*(1,388)*	*(1,388)*	Foreign Exchange	0	0	0
2,835	*0*	*2,835*	Futures	6,570	0	6,570
44,051	*24,523*	*68,574*	**Cash and Cash Equivalents**	420,950	8,842	429,792
6,913,157	***14,977,254***	***21,890,411***	**Totals**	**6,119,893**	**14,614,003**	**20,733,896**

23. Long Term Debtor

Long-term debtors of the Fund represent the amount of additional tax charges incurred by members who are in breach of their Lifetime Tax Allowance (LTA) limit. These additional charges have been paid upfront by the Fund and will be reimbursed by these members over a period of time through additional pension deductions.

As at 31 March 2019 £000	**Long-Term Debtors**	**As at 31 March 2020 £000**
192	Lifetime Tax Allowance	371

24. Current Assets

2018/19 £000		**2019/20 £000**
	Debtors	
58,646	• Contributions due – employers	41,978
3,162	• Sundry Debtors	1,531
58,830	Cash Balances	200,309
120,638		**243,818**

25. Current Liabilities

2018/19 £000		**2019/20 £000**
59,249	Sundry creditors	22,295
15,934	Benefits payable	15,109
75,183		**37,404**

26. Events After the Balance Sheet Date

Capital markets remained volatile, and the impact of COVID-19 continued to impact on all aspects of normal life after the balance sheet date, but there were no material events between 31 March 2020 and the date of signing that require to be reflected in the Annual Accounts.

In August 2020 the Government announced that the estimated impact for McCloud (the Court of Appeal judgement against discrimination of pension scheme members based on their age) may now be less than half of the previously estimated figure of £266 million. Although this does not impact on the primary financial statements of the Fund, the Fund's actuaries have estimated that the overall impact of this will be to reduce the increase to the actuarial present value of promised retirement benefits of the Fund by £149 million to £22,982 million as shown in Note 7.

27. Transactions with Related Parties

Pension receipts and payments including VAT are transacted using Glasgow City Council’s financial systems and the Pension Fund’s banking arrangements. Throughout the year the Fund maintains a cash balance for this purpose which is listed as ‘cash deposits’ in the Net Assets Statement. During 2019/20 the amount recharged by Glasgow City Council to the Strathclyde Pension Fund for administration costs was £4.107m (2018/19 £3.938m). There is an outstanding creditor of £9.700m between the Council and Strathclyde Pension Fund as at 31 March 2020.

The key management personnel of the fund are the Director of Pensions, the Chief Investment Officer and the Pension Scheme Manager. Total remuneration including short-term employee benefits and post- employment benefits payable to key management personnel was £299,000 (£286,000 2018/19). Key management personnel had accrued pensions totalling £77,295 (£69,439 2018/19) and lump sums totalling £85,558 (£82,225 2018/19) at the end of the period.

A remuneration report providing disclosures in respect of elected members and chief officers of the Council, including those with authority and responsibility for the Strathclyde Pension Fund is included in Glasgow City Council’s Annual Report and Annual Accounts which are available from the Council’s website at www.glasgow.gov.uk

Committee members may also be scheme members under the provisions for Councillor membership or as a result of previous service as employee members.

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

28. Contractual Commitments

As at 31 March 2020 the Fund had contractual commitments of £8,112m within its private equity, private debt, infrastructure and global real estate portfolios, of which £2,880m remains undrawn.

29. Contingent Assets and Liabilities

Contingent Liabilities reflect possible liabilities facing the Fund where the potential amount is unable to be estimated, and/or it is still not deemed probable that an obligatory event has arisen.

On 26 October 2018, The High Court ruled that Guaranteed Minimum Pensions (GMP) should be equalised between men and women to address the discrepancies in members' benefits arising from the contracting out of the additional state pension between 17 May 1990 and 6 April 1997. The Fund recognises the potential for liabilities arising from GMP equalisation however due to ongoing legal appeals and clarification of what has to be included it is not possible to quantify the impact this will have on the Fund at this time.

The Goodwin tribunal relates to a recent employment tribunal that changes the pension entitlement of male survivors in opposite sex marriages to take into account the female member's service from 6 April 1978. Previously, the male spouse survivor's entitlement was based on service accrued from 6 April 1988. The change is backdated to 5 December 2005. The change therefore affects the pension of male spouse survivors where their entitlement arose (i.e. where the female member died) on or after 5 December 2005. It is too early to know what the likely effect may be on LGPS members' benefits at this time.

30. Statement of Investment Principles

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

31. Additional Voluntary Contributions (AVCs)

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

The market value of AVCs as at 31 March 2020 was £55.8m (2018/19 £55.0m). Contributions which are used in their entirety to purchase investments, totalled £9.2m (2018/19m £9.5m) whilst sales of investments to settle benefits due to members totalled £9.8m (2018/19 £9.4m). The change in market value of investments over the year was £1.5m (2018/19 £1.2m).

Strathclyde Pension Fund

FINANCIAL STATEMENTS: FUND NO.3

The No. 3 Fund is a sub-fund of the Strathclyde Pension Fund.

Fund and scheme administration for the No. 3 Fund are carried out by Glasgow City Council within the Strathclyde Pension Fund Office (SPFO) in exactly the same way as for the main fund, as all members' benefits are governed by the same regulations.

Most sections from this report should therefore be read as forming part of the pension fund annual report of the No. 3 Fund.

In addition, further information specific to the No. 3 Fund is provided as follows:

- Statement of Investment Principles: the No. 3 Fund has its own SIP.
- Funding Strategy Statement: the No. 3 Fund has its own Funding Strategy Statement.
- Actuarial Valuation: a separate actuarial valuation of the No.3 Fund is carried out.
- Investment performance: this is detailed in the table below.
- Fund membership: there is only one contributing employer to the No. 3 Fund, First Bus (Glasgow).

Policy documents and reports for the No.3 Fund are available on the SPFO website at https://www.spfo.org.uk/index.aspx?articleid=14819

No.3 Fund: 10 Year Investment Performance

	% p.a.										Annualised		
	Mar 11	Mar 12	Mar 13	Mar 14	Mar 15	Mar 16	Mar 17	Mar 18	Mar 19	Dec 19	3 Year	5 Year	10 Year
Retail Prices	5.3	3.8	3.3	2.6	1.0	1.4	3.0	3.7	2.5	2.4	3.1	2.5	3.0
Consumer Prices	4.1	3.6	2.7	1.7	0.1	0.3	2.2	2.6	1.9	1.7	2.2	1.6	2.2
Average Earnings	2.4	0.4	0.2	1.9	2.0	2.0	2.2	2.5	3.4	-3.3	3.1	2.8	2.2
Fund Return	**8.8**	**10.1**	**14.7**	**-0.1**	**21.3**	**0.8**	**17.1**	**1.0**	**4.9**	**1.8**	**3.3**	**5.8**	**8.5**
Benchmark	**7.2**	**2.8**	**15.0**	**2.5**	**20.7**	**1.7**	**15.3**	**1.6**	**5.1**	**0.5**	**3.2**	**5.4**	**7.6**

On 5 December 2018, Glasgow City Council's Strathclyde Pension Fund Committee approved the merger of the No. 3 Fund into the Aberdeen City Council Transport Fund. Scottish Ministers subsequently issued a direction to this effect in terms of paragraph 3 of schedule 4 of the scheme regulations. The merger became effective with the signing of the admission agreement on 2 December 2019. The financial statements of the No.3 Fund are reflective of the position as at this date. All balances held at 2 December 2019 were subsequently transferred to the Aberdeen City Council Transport Fund prior to 31 March 2020 and therefore not subject to the impact of the COVID-19 pandemic. The No. 3 Fund has now been wound up with no further involvement or responsibility for its liabilities remaining with the Strathclyde Pension Fund.

Fund Account

2018/19 £000		Note	2019/20 to 2 December 2019 £000
	Contributions and Benefits Income		
35	Contributions from Employers	8	**0**
142	Contributions from Employees		42
177			**42**
	Expenditure		
5,913	Pensions Payments		**2,726**
1,842	Lump Sum and Death Benefit Payments		**342**
566	Payments To and On Account of Leavers	9	**518**
8,321			**3,586**
8,144	**Net Reduction from Dealings with Members**		**3,544**
207	Management Expenses	10	186
8,351	**Net Reduction including Fund Management Expenses**		**3,730**
	Returns on Investments		
201	Investment Income	12	**5**
9,873	Change in Market Value of Investments		**8,266**
10,074	**Net Returns on Investments**		**8,271**
1,723	**Net (Decrease) / Increase in the Fund during the Year**		**4,541**
206,896	Add: Opening Net Assets of the Scheme		208,619
208,619	**Closing Net Assets of the Scheme**		**213,160**

The Fund Account shows the payments to pensioners, contribution receipts from employers and scheme members, and the income, expenditure and change in market value of the Fund’s investments.

Net Assets Statement as at 2 December 2019

2018/19 £000		Note	2019/20 to 2 December 2019 £000
	Investment Assets		
209,454	Pooled Investment Vehicles	13,14	183,200
84	Cash Deposits	13,14	89
209,538			**183,289**
93	Current Assets	21	31,271
(1,012)	Current Liabilities	21	(1,400)
208,619	**Net Assets of the Fund as at 31 March**		**213,160**

The Net Assets Statement represents the value of assets and liabilities as at 2 December (excluding liability to pay pensions) at which date responsibility for administering the assets and liabilities transferred from Glasgow City Council to Aberdeen City Council in its capacity as an administering authority of the scheme.

The unaudited financial statements were issued on 3 July 2020 and the audited financial statements were authorised for issue by Martin Booth on 25 November 2020.

Martin Booth BA, FCPFA, MBA
Executive Director of Finance

1. General Description of the Fund and its Membership

The Strathclyde Pension Fund was established in 1974 by Strathclyde Regional Council. Glasgow City Council became the Administering Authority for the Fund on 1 April 1996. The Fund is a pool into which employees' and employers' contributions and income from investments are paid, and from which pensions and other lump sum benefits are paid out in accordance with the provisions of the Local Government Pension Scheme (Scotland) regulations.

The Local Government Pension Scheme is a statutory scheme established under the Superannuation Act 1972.

The No.3 Fund is a sub-fund of the Strathclyde Pension Fund. The Fund was established in February 1993 in order to preserve the pensionable benefits of those remaining employees (1,362) of Strathclyde Buses who had transferred from the service of Strathclyde Regional Council upon the implementation of the Transport Act 1985 in October 1986. The value of those employees' benefits and the assets in respect of them were actuarially assessed by Hymans Robertson, the Fund's actuaries, when the Fund was established. The No.3 Fund is an "admission agreement fund" as defined within the regulations and was established as a closed fund – i.e. it is not open to new membership.

Glasgow City Council has delegated decision making for the Fund to its Strathclyde Pension Fund Committee. Scheme and Fund administration are carried out by the Strathclyde Pension Fund Office (SPFO), a division of the Council's Financial Services Department. The investment assets of the Fund are externally managed.

On 5th December 2018, Glasgow City Council's Strathclyde Pension Fund Committee approved the merger of the No. 3 Fund into the Aberdeen City Council Transport Fund. Scottish Ministers subsequently issued a direction to this effect in terms of paragraph 3 of schedule 4 of the scheme regulations. The merger was finalised with the signing of an admission agreement on 2 December 2019, and the Annual Accounts of the No.3 Fund are reflective of the position as at this date. Any balances held at 2 December 2019 were subsequently transferred to the Aberdeen City Council Transport Fund prior to 31 March 2020. The No. 3 Fund has now been wound up with no further involvement or responsibility for its liabilities remaining with the Strathclyde Pension Fund.

2. Basis of Preparation

The Financial Statements have been prepared in accordance with the guidelines set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The Financial Statements summarise the transactions of the Fund during the year and the net assets at the year end. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 7 of these accounts.

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

The financial statements have been prepared on a going concern basis. Responsibility for administering the assets and liabilities transferred at the accounting date to Aberdeen City Council, but there was no termination event, members benefits were unaffected, no crystalisation of liabilities occurred, and assets were available for transfer in specie.

3. Summary of Significant Accounting Policies

Fund Account

Contributions Income

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

Transfers to Other Schemes

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

New Standards Issued but not yet Adopted

In order to provide improved analysis of the fund's financial position the Fund Account and Net Assets Statement have now adopted a more summarised and concise format and additional notes to the accounts have been added in order to provide further analysis. Please refer to page 49 for new standards issued but not yet adopted.

Investment Income

Interest income is recognised in the Fund accounts as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis. Dividend income is recognised on the date the shares are quoted ex-dividend.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period in relation to dividend income or distributions from pooled funds are disclosed in the Net Assets Statement as a current financial asset.

Changes in Market Value

Changes in the net market value of investments comprise all realised and unrealised profits/losses during the year.

Benefits Payable

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

Taxation

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

Management Expenses Include the Following

Administrative Expenses

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

Investment Management Expenses

All investment management expenses are accounted for on an accruals basis. External investment manager fees are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. In instances where an investment manager's fee note has not been received by the balance sheet date, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the Fund Account. In 2019/20 £nil fees are based on such estimates (2018/19 £0.03m). The cost of obtaining investment advice from external consultants is included in investment management charges. The cost of the Council's in-house Fund management team are charged direct to the Fund and a proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.

Net Assets Statement

Financial Assets

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

Valuation of Investments

Quoted investments are valued at closing prices. These prices may be the last trade prices or bid prices depending on the convention of the stock exchange or other market on which they are quoted. Overseas investments and cash are stated in sterling using exchange rates as at close of business on 2 December 2019. Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published or if single priced at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is invested in the Fund, net of applicable withholding tax.

Foreign Currency Transactions

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

Derivatives

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

Cash and Cash Equivalents

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

Liabilities

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

Contingent Assets and Liabilities

Contingent assets and liabilities reflect possible assets or financial obligations to the Fund where the potential amount is unable to be estimated and/or it is still not deemed probable that an obligating event has arisen. Contingent assets and liabilities are not recognised in the Net Assets Statement but are disclosed by way of narrative in Note 25.

Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits in a note to the Net Assets Statement (Note 7).

Events After the Balance Sheet Date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue. Two types of events may be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Annual Accounts are adjusted to reflect such events; and
- Those that are indicative of conditions that arose after the reporting period – the Annual Accounts are not adjusted to reflect such events, but where this would have a material effect, the nature and estimated financial impact of such events is disclosed in the notes.

4. Critical Judgements in Applying Accounting Policies

Determining the fair value of private equity investments involves a degree of subjectivity. Valuations are inherently based on forward-looking estimates and judgements involving many factors. The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 7. The estimate is subject to significant variances based on changes to the underlying assumptions. A detailed breakdown of the Fund's assets according to the reliability and quality of the information used to determine the fair value is provided in Note 18 Financial Instruments.

5. Prior Period Adjustments, Change in Accounting Policies and Estimates

Prior period adjustments may arise as a result of a change in accounting policy or to correct a material error. Changes in accounting policy are only made when required by a proper accounting practice or to provide more reliable or relevant information on the fund's financial position. Where a change is made it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period, as if the new policy had always applied. Changes in accounting estimation techniques are applied in the current and future years.

6. Actuarial Position

In accordance with Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 an actuarial valuation of the Strathclyde Pension Fund – Fund No.3 was carried out as at 31 March 2017. Results of the valuation were confirmed during March 2018.

The funding level as at 31 March 2017 was 114% (96% at 31 March 2014) and there was a funding surplus of £26 million (£6 million shortfall at 31 March 2014):

	£ million
Fund Assets	211
Fund Liabilities	(185)
Surplus	**26**

The Funding Objective was exceeded: there was a surplus of assets relative to the assessed cost of members' benefits on the target funding basis of £26m.

Liabilities have been valued using a discount rate based on the gilts nominal yield curve at the valuation date and reflecting the yields available on suitable investments over the different durations of the liabilities. This is consistent with the de-risking objectives of the Fund and the proximity of an exit event. The Fund still holds a growth portfolio but the discount rate does not incorporate any outperformance assumption for this.

Funding Policy

On completion of the actuarial valuation as at 31 March 2017 the Fund published a revised Funding Strategy Statement in accordance with regulation 56 of the Regulations.

The actuary's report and the Funding Strategy Statement are available from www.spfo.org.uk/index.aspx?articleid=14819 or the Strathclyde Pension Fund Office, Capella Building, 6th Floor, 60 York Street, Glasgow G2 8JX.

Funding Projection as at 2 December 2019

An intervaluation monitoring report provided by the Fund's actuary as at 30 September 2019 recorded a projected funding position of 109.3%. This was the closest quarter end to the formal transfer of the Fund on 2 December 2019 and is regarded as a broadly accurate reflection of the position within the Fund as at the transfer date. The No. 3 Fund has now been wound up with no further involvement or responsibility for its liabilities remaining with the Strathclyde Pension Fund and therefore the Aberdeen City Council Transport Fund will be responsible for the next formal funding valuation as at 31 March 2020.

Funding Method

At the 2017 actuarial valuation and for previous valuations a funding method was used that identifies separately the expected cost of members' benefits in respect of:

- Scheme membership completed before the valuation date ("past service"); and
- Scheme membership expected to be completed after the valuation date ("future service").

To determine the employer's contribution requirement for future service the actuary assesses the cost of future service benefits over the expected remaining period of contributory membership of employee members, taking account of expected future salary increases. The contribution rate required to meet the expected cost of future service benefits is then derived as this value less expected member contributions expressed as a percentage of the value of members' pensionable pay over their expected remaining period of contributory membership. This is known as the "Attained Age method".

The total contribution rate payable is the employer's share of the cost of future benefit accrual (the Primary Rate), plus any increase or reduction certified by the actuary the Secondary Rate). At the 2017 valuation the actuary calculated a Primary Rate of 53.3% and a Secondary Rate reduction of -53.3% in light of the significant funding surplus, giving a total rate payable by the employer of 0%.

The total contributions payable for the period from 1 April 2018 to 31 March 2021 are shown in the table below:

3 Years to	Primary Rate	Secondary Rate
31 March 2021	53.3%	-53.3%

The secondary rate is conditional on the present value of future employer contributions in respect of the primary rate, discounted on the valuation basis as at the calculation date, being less than the value of the funding surplus on that date. The calculation date will be 30 September in advance of each contribution period (i.e. 30 September 2019 for contributions due between 1 April 2020 and 31 March 2021). Where the present value of future primary rate contributions is greater than the funding surplus, the secondary rate will revert to 0.0% p.a.

7. Actuarial Assumptions

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

Assumption	31 March 2017	
Price inflation (CPI)	Gilts implied inflation curve	-1.0% p.a. with a floor of zero
Pay increases	Gilts implied inflation curve	+0.375% p.a.
Funding basis discount rate (pre-retirement)	Gilts nominal yield curve	
Funding basis discount rate (post-retirement)	Gilts nominal yield curve	

In addition to the financial assumptions outlined above, valuation results are also sensitive to demographic assumptions. These include assumptions about the future longevity of members and about whether on retirement they will exchange some of their pension for additional tax-free cash (the commutation assumption).

For this valuation, the actuary adopted assumptions which give the following sample average future life expectancies for members (2014 figures included for comparison):

	Actives & Deferreds		Current Pensioners	
Assumed life expectancy at age 65	**Male**	**Female**	**Male**	**Female**
2014 Valuation	23.6	25.2	22.1	23.6
2017 Valuation	22.3	25.3	21.4	24.0

Further details of the mortality assumptions adopted for the 2017 valuation can be found in Appendix C to the valuation report. Note that the figures for actives and deferred/pensioners assume that they are aged 55 at the valuation date. The valuation report can be found on the Fund's website at https://www.spfo.org.uk/index.aspx?articleid=14819

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

Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is estimated at £156m as at 2 December 2019 (£161m as at 31 March 2019) including an estimate of the potential increase in past service benefits arising from the High Court ruling of the McCloud case. The actuary has estimated that a 0.5% decrease in the real discount rate would lead to an increase in the pension liability of £11m. Similarly, a 0.5% increase in the rate of salary increase and in the rate of pension increase would increase the liability by £1m and £10m respectively. A 1 year increase in life expectancy would increase the liabilities by around 3-5%.The valuation has been carried out on an IAS19 basis.

The assumptions used are those adopted for the Administering Authority IAS19 report and are different between financial years. The actuary estimates that the impact of the change in financial assumptions to 2 December 2019 is to increase the actuarial present value by £2m and that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £4m.
Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2017. It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the No.3 Fund. They should not be used for any other purpose.

8. Contributions and Benefits

The sole employer contributing to the Fund is Strathclyde Buses, now part of FirstGroup. Due to the funding surplus at the 2017 actuarial valuation date the employers contribution rate was set as 0.0% and there have been £nil contributions paid in the year to 2nd December 2019.

9. Payments To and On Account of Leavers

2018/19 *£000*		**2019/20 to 2 December 2019 £000**
566	Individual Transfers	518

10.Management Expenses

The total administrative expenses were as follows:

2018/19 *£000*		**2019/20 to 2 December 2019 £000**
34	Administrative, governance and audit costs	97
173	Investment Management Expenses	89
207		**186**

The £97,000 represents a single recharge from Fund 1 to cover costs.

11.Investment Expenses

The total investment expenses were as follows:

2018/19 *£000*		**2019/20 to 2 December 2019 £000**
173	Management Fees	89
173		**89**

12.Investment Income

Investment Income of £5,000 is all from Interest on Cash Deposits.

13.Investments

Statement of Movement in Investments

	Market Value as at 31 March 2019	Purchases and Derivative Payments	Sales and Derivative Receipts	Change in Market Value	Market Value as at 2 December 2019
	£000	£000	£000	£000	£000
Investment Assets					
Pooled Investment Vehicles	*209,454*	0	(34,520)	8,266	**183,200**
Other Investment Balances:					
Cash Deposits	*84*	0	0	5	**89**
Net Investment Assets	***209,538***	**0**	**(34,520)**	**8,271**	**183,289**

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

Transaction Costs

Transaction costs are included in the cost of purchases and sale proceeds and are charged directly to the Fund. Transaction costs such as fees, commissions and stamp duty incurred during the year was £nil (£nil in 2018/19).

In addition to the transaction costs disclosed above, indirect costs may be incurred through the bid-offer spread on some pooled investment vehicles. The amount of any such costs is not separately provided to the Fund.

Derivatives

There were no derivative balances as at 2 December 2019 (£nil at 31 March 2019).

14.Analysis of Investments

Investments can be further analysed as follows:

Market Value 31 March 2019 £000		**Market Value 2 December 2019 £000**
	Pooled Funds – Additional Analysis	
	UK	
124,382	Fixed Income Unit Trust	124,576
14,053	Equity Unit Trust	0
55,007	Cash Funds	58,624
	Overseas	
16,012	Equity Unit Trust	0
209,454		**183,200**
84	Cash Deposits	89
0	Other Investment Balances	0
209,538	**Net Investment Assets**	**183,289**

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

15. Fund Management

The investment assets of the Fund are externally managed.

Investment management arrangements as at 2 December 2019 are shown below:

Asset Class	**Fund Manager**	**% Managed**	**Market Value £000**
Liability Driven Investment Strategy	Legal & General	100	183,285
Equities	Legal & General	0	4
		100%	**183,289**

Cash balances were managed by the Fund's Global Custodian, Northern Trust.

The market value of assets under the management of Fund managers as at 2 December 2019 was £183.3m.

16. Notifiable Holdings

As at 2 December 2019 the Fund had holdings exceeding 5% of the total value of net assets in:

	£000	%
Legal & General Sterling Liquidity Fund	47,180	25.7
Legal & General Corporate Bonds	35,003	19.1
1.25% Index Linked Government Bonds Nov 32	19,305	10.5
1.25% Index Linked Government Bonds Nov 27	17,535	9.6
0.625% Index Linked Government Bonds Nov 42	13,938	7.6
Legal & General Sterling Liquidity Plus Fund	11,444	6.2
0.75% Index Linked Government Bonds Nov 47	10,788	5.9

17. Stock Lending

The Fund may participate in a stock lending programme managed by its Global Custodian, Northern Trust. All loans are fully collateralised. As at 2 December 2019 stock with a market value of £nil was on loan (£nil as at 31 March 2019).

18. Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair values of financial assets and liabilities by category and Net Assets Statement heading for the reporting period ended 2 December 2019.

31 March 2019				2 December 2019		
Fair value through profit & loss £000	*Loans & receivables £000*	*Financial liabilities at amortised cost £000*		Fair value through profit & loss £000	Loans & receivables £000	Financial liabilities at amortised cost £000
			Financial Assets			
209,454	*0*	0	Pooled Investment Vehicles	183,200	0	0
0	*84*	0	Cash	0	**89**	0
0	*0*	0	Other Investment Balances	0	0	0
209,454	***84***	**0**	**Total Financial Assets**	**183,200**	**89**	**0**
209,454	***84***	***0***	**Net Financial Assets**	**183,200**	**89**	**0**

The table below shows net gains and losses on financial instruments for the year ended 2 December 2019:

31 March 2019 £000		2 December 2019 £000
	Financial Assets	
9,891	Fair value through profit and loss	8,266
9,891	**Total**	**8,266**

The following table summarises the market values of the Fund's financial assets and liabilities by class of instrument compared with their fair values for the year ended 2 December 2019:

Market Value as at 31 March 2019 £000		Market Value as at 2 December 2019 £000
	Financial Assets	
209,454	Fair value through profit and loss	183,200
84	Loans and receivables	89
209,538	**Total**	**183,289**

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

Level 1

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

Level 2

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

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of private equity investments are based on valuations provided by the general partners of the private equity funds in which the Fund has invested. Such valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken quarterly.

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

31 March 2019				2 December 2019		
Level 1 £000	*Level 2 £000*	*Level 3 £000*		Level 1 £000	Level 2 £000	Level 3 £000
			Financial Assets			
14,568	*194,886*	*0*	Fair Value through profit and loss	0	183,200	0
84	*0*	*0*	Loans and receivables	89	0	0
14,652	***194,886***	***0***	**Total Financial Assets**	**89**	**183,200**	**0**
14,652	***194,886***	***0***	**Net Financial Assets**	**89**	**183,200**	**0**

19. Nature and Extent of Risks Arising From Financial Instruments

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

Market Risk

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

Other Price Risk

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, the following movements in market price risk are reasonably possible for the 2019/20 reporting period:

Asset Type	Potential Market Movement (+/-)
UK Equities	27.5%
Overseas Equities	28.0%
Index Linked Gilts (short term)	4.1%
Index Linked Gilts (medium term)	7.4%
Index Linked Gilts (long term)	9.3%
Cash	0.3%
Long Term Gilts	10.5%
Corporate Bonds (Medium Term)	9.8%
Total Fund Volatility	**4.9%**

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory. The tables below show the change in the net assets available to pay benefits had the market price of the investments increased or decreased in line with the table above.

Asset Type	Value as at 2 December 2019 £000	Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	89	0.3	89	89
Investment portfolio assets:				
UK fixed income unit trusts	124,576	9.3	136,162	112,990
Cash Funds	58,624	0.3	58,800	58,448
Total	**183,289**		**195,051**	**171,527**

The prior year comparators for 2018/19 are as follows:

Asset Type	*Value as at 31 March 2019 £000*	*Change %*	*Value on Increase £000*	*Value on Decrease £000*
Cash and cash equivalents	*84*	*0.5*	*84*	*84*
Investment portfolio assets:				
UK fixed income unit trusts	*124,382*	*9.2*	*135,825*	*112,938*
UK equity unit trusts	*14,053*	*16.6*	*16,385*	*11,720*
Overseas equity unit trusts	*16,012*	*16.9*	*18,718*	*13,306*
Cash Funds	*55,007*	*0.5*	*55,283*	*54,733*
Total	***209,538***		***226,295***	***192,781***

Interest Rate Risk

The Fund invests in financial assets with the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund’s direct exposure to interest rate movements as at 2 December 2019 and 31 March 2019 is set out below.

As at 31 March 2019 £000		As at 2 December 2019 £000
84	Cash Balances – Investments	89

Interest Rate Sensitivity Analysis

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

As at 31 March 2019 £000	*+100 BPS £000*	*-100 BPS £000*	**Asset Type**	**As at 2 December 2019 £000**	**+100 BPS £000**	**-100 BPS £000**
84	*85*	*83*	Cash Balances – Investments	89	90	88

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the Fund's base currency (GBP). The Fund holds both monetary and non monetary assets denominated in currencies other than GBP. Investment managers are expected to manage currency risk.

Currency Risk – Sensitivity Analysis

Based on historical analysis of movement in the currencies to which the Fund is exposed, it is considered that a 10.0% fluctuation in currency is reasonable.

As at 2 December 2019 the Fund had £nil Overseas Unit Trusts and therefore no exposure to this risk.

Credit Risk

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

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

20. Analysis of Investment Assets (IAS19)

In accordance with the requirements of IAS19 the following statement provides a detailed analysis of investment assets as at 2 December 2019 with comparators for 2019.

31 March 2019			Asset Type	2 December 2019		
Quoted £000	*Unquoted £000*	*Total £000*		Quoted £000	Unquoted £000	Total £000
			Investment funds and unit trusts:			
0	*33,794*	*33,794*	Equities	0	3,897	3,897
0	*120,653*	*120,653*	Bonds	0	120,679	120,679
84	*55,007*	*55,091*	Cash and cash equivalents	89	58,624	58,713
84	***209,454***	***209,538***	**Totals**	**89**	**183,200**	**183,289**

21. Current Assets and Liabilities

There were £31.271m Current Assets as at 2 December 2019. As part of the merger of the No.3 fund into the Aberdeen City Council Transport Fund, all data in respect of Fund members was transferred to Aberdeen City Council to allow that authority to pay the retired members' pensions with effect from August 2019. A first tranche of assets was transferred around that date to fund the pensions payments. That transaction is reflected in the Current Assets amount as a prepayment.
Current Liabilities of £1.400m are all sundry creditors.

22. Events after the Balance Sheet Date

The remaining assets of the No.3 Fund were transferred in their entirety to the Aberdeen City Council Transport Fund after 2 December 2019 and before the date of signing.

23. Transactions with Related Parties

Pension receipts and payments are transacted using Glasgow City Council's financial systems and the Pension Funds banking arrangements. Throughout the year the Fund maintains a cash balance for this purpose which is listed as 'cash deposits' in the Net Assets Statement. During 2019/20 the amount recharged by Glasgow City Council to the Strathclyde Pension Fund for administration costs was £0.039m (2018/19 £0.034m).

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

24. Contractual Commitments

The Fund had no contractual commitments at the year end.

25. Contingent Assets and Liabilities

Contingent Liabilities reflect possible liabilities facing the Fund where the potential amount is unable to be estimated, and/or it is still not deemed probable that an obligatory event has arisen.

On 26 October 2018, The High Court ruled that Guaranteed Minimum Pensions (GMP) should be equalised between men and women to address the discrepancies in members' benefits arising from the contracting out of the additional state pension between 17 May 1990 and 6 April 1997. The Fund recognises the potential for liabilities arising from GMP equalisation however due to ongoing legal appeals and clarification of what has to be included it is not possible to quantify the impact this will have on the Fund at this time.

26. Statement of Investment Principles

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

Strathclyde Pension Fund

SECTION 4

FUNDING

The Local Government Pension Scheme regulations require each administering authority to obtain an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2017 and in every third year afterwards. The regulations require each administering authority, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written statement setting out their funding strategy.

In completing the valuation the actuary must have regard to the current version of the administering authority's funding strategy statement.

The actuarial valuation is essentially a measurement of the Fund's liabilities. The funding strategy deals with how the liabilities will be managed. In practice, review of the Funding Strategy Statement and completion of the actuarial valuation are carried out in tandem to ensure that the measurement and management processes are cohesive.

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

At the 2017 actuarial valuation, the actuary reported a funding position of 105%. The following total employer contribution rates were certified for the Fund's Main Employer Group including the 12 local authorities.

- 19.3% (of pensionable payroll) from 1st April 2018;
- 19.3% (of pensionable payroll) from 1st April 2019; and
- 19.3% (of pensionable payroll) from 1st April 2020.

In completing the valuation, the actuary assesses the particular circumstances of each employer including the strength of its covenant, and its individual membership experience within the Fund. The actuary applies individual adjustments to each employer to reflect these circumstances. This results in a higher contribution rate than the baseline 19.3% and/or an annual cash contribution at a fixed amount being certified for many employers.

The next actuarial valuation and review of the Funding Strategy Statement will be carried out as at 31st March 2020 and must be completed by 31st March 2021.

The Fund has online access to a client portal provided by the actuary. This allows ongoing monitoring of the estimated progression of the funding level. As at 31st March 2020 this showed an indicative funding position of 95%.

As part of the 2017 actuarial valuation exercise, the Funding Strategy Statement was reviewed and the following revised statement was agreed in March 2018. The statement will be reviewed again during the 2020 actuarial valuation. The statement has 6 schedules which are not reproduced here but can be found in the full version in the Publications area of the Fund's website at www.spfo.org.uk

1. Introduction

Glasgow City Council is the administering authority for the Strathclyde Pension Fund. The Council delegates this responsibility to the Strathclyde Pension Fund Committee. The Council and the Committee recognise that they have fiduciary duties and responsibilities towards pension scheme members and participating employers that are analogous to those holding the office of trustee in the private sector.

This statement sets out the approach to funding which the committee adopts in light of those duties. Further background details are set out in Schedule 1 of this statement.

2. Purpose of the Funding Strategy Statement (FSS)

Preparation and publication of the FSS is a regulatory requirement. The stated purpose is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

These objectives are desirable individually, but may be mutually conflicting. This statement sets out how the administering authority balances the potentially conflicting aims of affordability and stability of contributions, transparency of processes, and prudence in the funding basis.

3. Aims and Purpose of the Pension Fund

The Fund is the vehicle for the delivery of scheme benefits. The purpose of the Fund is to:

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

The aims of the Fund are to:

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

Preparation and publication of the Funding Strategy Statement is a regulatory requirement.

The objectives of the funding strategy are consistent with these aims. The objectives are set out in Schedule 2 of this statement.

The aims of the pension fund can only be achieved if all parties involved in its operation exercise their statutory duties and responsibilities conscientiously and diligently.

4. Responsibilities of Key Parties

The Fund is a multi-employer arrangement with 168 participating employers. The administering authority manages the Fund to deliver the scheme benefits and to ensure that each employer is responsible for its own liabilities within the Fund.

The responsibilities of the key parties involved in management of the Fund are set out in Schedule 3 to this statement.

5. Solvency and Long Term Cost Efficiency

Employer contribution rates are required to be set at an appropriate level to ensure the solvency of the Fund and long term cost efficiency of the scheme.

In this context:

- solvency means that the rate of employer contributions should be set at such a level as to ensure that the scheme's liabilities can be met as they arise; and
- long-term cost-efficiency implies that the rate must not be set at a level that gives rise to additional costs. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the time.

These requirements are reflected in the funding objective.

6. Funding Objective

The funding objective is to achieve the funding target over the target funding period.

In this context:

- The funding target (amount of assets compared to liabilities expressed as a percentage) is at least 100% using appropriate actuarial assumptions.
- The target funding period and recovery period for any deficit is the weighted average future working lifetime of the active membership – currently around 14 years.
- There are many inherent uncertainties in the funding process and a wide range of possible outcomes. It is acknowledged that the actual funding level will fluctuate as a result.
- The funding strategy targets at least a 2/3rds probability of achieving the target, and a higher probability where possible.

For the Fund as a whole and for ongoing employers the funding level will be measured on an ongoing actuarial basis, taking advance credit for investment returns above the risk-free rate indicated by long-dated UK gilt yields.

For employers whose participation in the Fund is to cease the funding level will be measured on a more prudent cessation basis and contribution rates will be set accordingly.

The approach to funding strategy for individual employers including the policies on admission and cessation is set out in Schedule 4.

7. Contributions Strategy

The contributions strategy aims to ensure that the target funding level is achieved at both Fund and employer level in a manner which is fair and affordable for employers.

For ongoing employers with a good covenant the Fund will adopt measures to stabilise the contribution rate and will seek to limit changes in the rate payable by them.

For employers with a less secure covenant or where participation in the Fund may cease, rates and adjustments will be set to minimise risk to the Fund and its other employers.

The contributions strategy is set out in Schedule 5 to this statement.

8. Links to Investment Strategy set out in the Statement of Investment Principles (SIP)

The investment strategy is set for the long-term but is monitored continually and reviewed every 3 years using asset-liability modelling to ensure that it remains appropriate to the Fund's liability profile.

The Fund initially applies a single investment strategy for all employers but may apply notional or actual variations after agreement with individual employers.

Details of the investment strategy are set out in the Fund's Statement of Investment Principles which is available at:

https://www.spfo.org.uk/index.aspx?articleid=14498

9. The Identification of Risks and Counter Measures

Risk management is integral to the governance and management of the Fund at a strategic and operational level. The Fund actively manages risk and maintains a detailed risk register which is reviewed on a quarterly basis.

Details of risk management are set out in the Fund's Risk Policy and Strategy Statement which is available at:

https://www.spfo.org.uk/index.aspx?articleid=20464

The key financial, demographic, regulatory, and governance risks are set out in Schedule 6 to this statement.

Schedules:

1. Background
2. Objectives of the Funding Strategy
3. Responsibility of Key Parties involved in management of Fund
4. Funding Strategy for individual employers
5. Contributions Strategy
6. Key financial, demographic, regulatory and governance risks
7. Statistical Appendix: key figures from the 2017 actuarial valuation

The full statement including schedules is available from the publications area of the SPFO website at:
https://www.spfo.org.uk/index.aspx?articleid=16031

The contributions strategy aims to ensure that the target funding level is achieved at both Fund and employer level in a manner which is fair and affordable for employers.

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2018. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:

- to ensure the solvency of the Fund and the solvency of individual employers' share of the Fund;
- to ensure the long term cost efficiency of the scheme in order to secure as far as possible its affordability to employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- to provide a framework for the investment strategy of the Fund;
- to help employers recognise and manage pension liabilities as they accrue;
- to inform employers of the risks and potential costs associated with pension funding;
- to minimise the degree of short-term change in the level of each employer's contributions where the administering authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations; and
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

In effect, the FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 was as at 31 March 2017. This valuation revealed that the Fund's assets, which at 31 March 2017 were valued at £19,699 million, were sufficient to meet 105% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2017 valuation was £939 million.

Each employer had contribution requirements set at the valuation for the period from 1 April 2018 to 31 March 2021, with the aim of achieving full funding within a time horizon and probability measure as per the FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2017 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth and inflation to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value. The key financial assumptions adopted for the 2017 valuation were as follows:

Financial assumptions	31 March 2017
Pre-retirement Discount Rate	3.7%
Post-retirement Discount Rate	3.3%
Salary increase assumption	3.6%
Benefit increase assumption (CPI)	2.4%

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2016 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.5% p.a. for males and 1.25% p.a. for females. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Financial assumptions	Males	Females
Current Pensioners	21.4 years	23.7 years
Future Pensioners*	23.4 years	25.8 years

*Currently aged 45

Copies of the 2017 valuation report and Funding Strategy Statement are available on www.spfo.org.uk

Experience over the period since 31 March 2017

Having made steady progress since the last formal valuation, markets were disrupted by COVID-19 towards the end of the 2019/20 financial year. As a result, the funding level is estimated to have reduced versus that reported at the 2017 valuation to the extent that the Fund is estimated to be in deficit as at 31 March 2020, the date of the next formal valuation.

Craig Alexander FFA
For and on behalf of Hymans Robertson LLP
4 May 2020

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2018. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- to ensure the long term cost efficiency of the scheme in order to secure as far as possible its affordability to the employer;
- to provide a framework for the investment strategy of the Fund;
- to help the employer recognise and manage pension liabilities as they accrue;
- to inform the employer of the risks and potential costs associated with pension funding;
- to minimise the degree of short-term change in the level of the employer's contributions where the administering authority considers it reasonable to do so; and
- to reduce the risk to the main Fund and ultimately to the Council Tax payer from the employer defaulting on its pension obligations.

In effect, the FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping the Employer's contributions stable.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 was as at 31 March 2017. This valuation revealed that the Fund's assets, which at 31 March 2017 were valued at £211 million, were sufficient to meet 114% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2017 valuation was £26 million. As a result of the significant funding surplus, the Employer had regular contribution requirements set at 0% of pensionable pay for the period from 1 April 2018 to 31 March 2021. This contribution rate is subject to the Fund remaining in a strong financial position and full details of this are set out in the FSS and 2017 valuation report.

The No.3 Fund's assets, which at 31 March 17 were valued at £211 million, were sufficient to meet 114% of the liabilities.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2017 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth and inflation to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.
The key financial assumptions adopted for the 2017 valuation were as follows:

Financial assumptions	31 March 2017
Funding Basis Discount Rate	Gilts nominal yield curve
Salary Increases	Gilts implied inflation curve + 0.375% p.a.
Benefit Increases	Gilts implied inflation curve - 1.0% p.a., with a floor of zero

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2016 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.5% p.a. for males and 1.25% p.a. for females. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.4 years	24.0 years
Future Pensioners*	22.3 years	25.3 years

*Currently aged 55

Copies of the 2017 valuation report and Funding Strategy Statement are available on www.spfo.org.uk

Experience over the period since April 2017

The overall funding level reduced slightly between the previous formal valuation and the accounting date, 2 December 2019. The liabilities increased due to falling real bond yields, but positive investment experience on the Fund's assets largely offset this impact. The liabilities also increased due to additional accrual of benefits by the active members in the Fund (with no contributions paid in by the Employer to meet this additional accrual). On 5th December 2018, Glasgow City Council's Strathclyde Pension Fund Committee approved the proposed merger of the No. 3 Fund into the Aberdeen City Council Transport Fund. Scottish Ministers subsequently issued a direction to this effect in terms of paragraph 3 of schedule 4 of the scheme regulations. As a result, and following the transfer of all assets and liabilities of the No. 3 Fund to Aberdeen City Council Transport Fund, the No. 3 Fund was wound up as at the accounting date with no further involvement or responsibility for its liabilities remaining with the Strathclyde Pension Fund.

Craig Alexander FFA
For and on behalf of Hymans Robertson LLP
6 May 2020

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

1. Introduction

Glasgow City Council is the administering authority for the Strathclyde Pension Fund, including the No.3 Fund. The Council delegates this responsibility to the Strathclyde Pension Fund Committee. The Council and the Committee recognise that they have fiduciary duties and responsibilities towards pension scheme members and participating employers that are analogous to those holding the office of trustee in the private sector. This statement sets out the approach to funding which the Committee adopts in light of those duties.

Further background details are set out in Schedule 1 of this statement.

2. Purpose of the Funding Strategy Statement (FSS)

The stated purpose of the FSS is:

a. to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
b. to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
c. to take a prudent longer-term view of funding those liabilities.

These objectives are desirable individually, but may be mutually conflicting. This statement sets out how the administering authority balances the conflicting aims of affordability and stability of contributions, transparency of processes, and prudence in the funding basis.

3. Aims and Purpose of the Pension Fund

The Fund is the vehicle for the delivery of scheme benefits. The purpose of the Fund is to:

a. receive monies in respect of contributions, transfer values and investment income;
b. invest monies in accordance with policy formulated by the administering authority; and
c. pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.

The aims of the Fund are to:

d. ensure that sufficient resources are available to meet all liabilities as they fall due;
e. manage the employer's liabilities effectively;
f. seek investment returns within reasonable risk parameters; and
g. enable employer contribution rates to be kept as nearly constant as possible at reasonable cost to the employer while achieving and maintaining fund solvency and long term cost efficiency.

Following the transfer of all assets and liabilities of the No. 3 Fund to Aberdeen City Council Transport Fund, the No. 3 Fund was wound up as at the accounting date with no further involvement or responsibility for its liabilities remaining with the Strathclyde Pension Fund.

The objectives of the funding strategy are consistent with these aims. The objectives are set out in Schedule 2 of this statement.

The aims of the pension fund can only be achieved if all parties involved in its operation exercise their statutory duties and responsibilities conscientiously and diligently.

4. Responsibilities of Key Parties

The responsibilities of the key parties involved in management of the Fund are set out in Schedule 3 to this statement.

5. Solvency and Long Term Cost Efficiency

Employer contribution rates are required to be set at an appropriate level to ensure the solvency of the Fund and long term cost efficiency of the scheme.

In this context:

a. solvency means that the rate of employer contributions should be set at such a level as to ensure that the scheme's liabilities can be met as they arise; and
b. long-term cost-efficiency implies that the rate must not be set at a level that gives rise to additional costs. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the time.

These requirements are reflected in the funding objective.

6. Funding Objective

The No.3 Fund has been closed to new employers since it was established in 1993. The Fund is now very mature. Liabilities in respect of pensioners are considerably greater than those in respect of the active membership which has greatly reduced. New accrual will cease in the foreseeable future when there is no more active membership. The employer is expected to exit the Fund at that time.

The funding target is to be 100% funded on a cessation basis at the employer exit point in order to minimise any exit debt or credit payable.

The exit funding strategy is set out in Schedule 4 to this statement. The contributions strategy is set out in Schedule 5 to this statement.

7. Links to Investment Strategy set out in the Statement of Investment Principles (SIP)

The No.3 Fund's investment strategy has been progressively de-risked since 2005 and now includes a large component of broadly liability matched assets. This is consistent with the funding objective.

8. The Identification of Risks and Counter Measures

Risk management is integral to the governance and management of the Fund at a strategic and operational level. The Fund actively manages risk and maintains a detailed risk register which is reviewed on a quarterly basis.

Details of risk management are set out in the Fund's Risk Policy and Strategy Statement which is available at www.spfo.org.uk

The key financial, demographic, regulatory, and governance risks are set out in Schedule 6 to this statement

9. Actuarial Valuation as at 31st March 2017

Key figures from the actuarial valuation of the No.3 Fund as at 31st March 2017 are set out in Schedule 7.

The full statement including schedules is available from the publications area of the SPFO website at: https://www.spfo.org.uk/index.aspx?articleid=14819

Strathclyde Pension Fund

SECTION 5

INVESTMENTS

The Statement of Investment Principles (SIP) is the Fund's main investment policy document. The SIP is reviewed regularly and updated to reflect any changes agreed by the Strathclyde Pension Fund Committee. The statement has 5 schedules which are not reproduced here but can be found in the full version on the Fund's website at https://www.spfo.org.uk/index.aspx?articleid=14498

1. Introduction

Glasgow City Council is the administering authority for the Strathclyde Pension Fund. The Council delegates this responsibility to the Strathclyde Pension Fund Committee. The Council and the Committee recognise that they have fiduciary duties and responsibilities towards pension scheme members and participating employers that are analogous to those holding the office of trustee in the private sector. In carrying out those duties the committee adopts the following approach.

2. Regulations

Management of the Fund's investments is carried out in accordance with relevant governing legislation and regulations, in particular the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) regulations.
Schedule 1 to this statement contains certain disclosures required by the regulations.

3. Key Principles

There have been a number of underlying investment principles which have guided the evolution of the Fund's structure. These principles will be as important in the future as they have been in the past. The key principles are as follows:

Long-term perspective – by the nature of its liabilities and sponsor covenants, the Fund is able to take a long-term view and position its investment strategy accordingly.

Diversification – the Fund seeks to diversify its investments in order to benefit from a variety of return patterns.

Efficiency – the Fund aims to achieve an efficient balance between investment risk and reward.

Competitive advantage – the Fund's size, time-perspective and risk appetite give it some competitive advantages which it seeks to exploit.

Pragmatism – the Fund recognises that there are implementation considerations including cost and manageability which may lead it to favour practical investment solutions over optimised model structures.

Stewardship – the Fund is a responsible investor and adopts policies and practices which acknowledge the importance of environmental, social and governance (ESG) issues.

4. Investment Objective

The Fund's investment objective is to support the funding strategy by adopting an investment strategy and structure which incorporate an appropriate balance between risk and return. The current objectives of the investment strategy should be to achieve:

- a greater than 2/3 probability of being 100% funded over the future working lifetime of the active membership (the target funding period) and
- a less than 10% probability of falling below 70% funded over the next three years.

5. Investment Strategy

The Fund's investment strategy broadly defines the types of investment to be held and the balance between different types of investment. The strategy reflects the Fund's key investment principles, is agreed by the Committee and reviewed regularly. The investment strategy is consistent with the Funding Strategy.

6. Investment Structure

The Committee agrees an investment structure to deliver the investment strategy. The current investment objective, strategy and structure are set out in Schedule 2 to this statement.

7. Roles and Responsibilities

The roles and responsibilities of the main parties involved in management of the Fund are set out in Schedule 3 to this statement.

8. Risk

In order to achieve its investment objective the Fund takes investment risk including equity risk and active management risk. It is understood and acknowledged that this leads to significant volatility of returns and an ultimate risk that its objectives will not be met. The Fund pursues a policy of lowering risk through diversification of investments by asset class, manager and geography. Risk is also controlled by setting appropriate benchmarks and investment guidelines and maintaining a robust investment monitoring regime. The Fund employs a global custodian to ensure safekeeping and efficient servicing of its assets.

9. Liquidity and Cash Flow

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

10. Responsible Investment

The Fund is a signatory to the United Nations Principles for Responsible Investment and has adopted the principles as its responsible investment policy. The principles are set out in full in Schedule 4 together with a note on the Fund's strategy for applying them in practice.

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

11. Exercise of Rights

The Fund ensures that the votes attaching to its holdings in all quoted companies, both in the UK and Overseas, are exercised whenever practical. The Fund's voting policy is exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance and Stewardship Codes.

12. Additional Voluntary Contributions (AVCs)

The Fund provides an in-house AVC arrangement. Further details including investment choices available to scheme members, are set out in Schedule 5.

13. CIPFA/Myners Principles

The Fund is compliant with guidance given by Scottish Ministers. This includes each of the six *Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2009* published by CIPFA and based on the updated Myners principles. Further details are set out in Schedule 6.

14. Stock Lending

The Fund participates in a securities lending programme managed by its global custodian. All stock on loan is fully collateralised with a margin above daily mark-to-market value. The programme is also indemnified by the custodian and provides a low-risk source of added value.

15. Schedules:

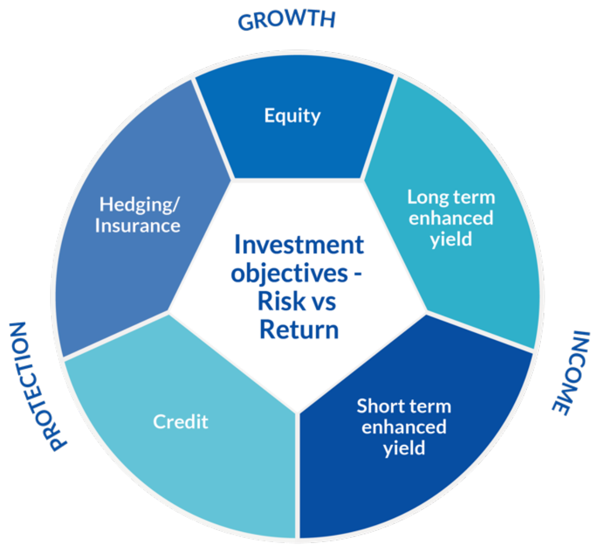
1. LGPS Regulations - Disclosures
2. Investment Objectives, Strategy and Structure
3. Investment Roles & Responsibilities
4. Responsible Investment Policy and Strategy
5. AVC arrangements
6. CIPFA/Myners Principles – Assessment of Compliance

The full SIP including schedules is available from the Publications area of the SPFO website at www.spfo.org.uk/index.aspx?articleid=14498

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

Following the 2014 actuarial valuation, the Fund adopted a risk/return asset framework as the basis for modelling and agreeing investment strategy. The risk/return framework is summarised in the table and chart below.

Asset Category	Main Objectives
Equity	To generate return
Hedging / Insurance	To reduce the exposure of the funding level to variations in interest rates and inflation
Credit	To ensure additional yield, provide income and reduce funding volatility
Short-term Enhanced Yield	To provide an income stream above the expected return on investment grade corporate bonds
Long-term Enhanced Yield	To provide a long-term income stream and a degree of inflation protection



In common with many Local Government Pension Scheme funds, the 2014 and 2017 valuations of the Strathclyde Pension Fund confirmed that:

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

Using the risk/return framework as a basis for modelling, a route-map for strategy development that reflects these changing dynamics was agreed in 2015 and is shown in the table below.

A phased implementation process has been adopted which will reduce risk, increase diversification and ensure that the strategy of the Fund changes with the liability profile over time. Implementation of Step 1 was completed during 2016/17. In 2018, the Strathclyde Pension Fund Committee agreed that Step 2 should be adopted as the strategic target model.

Strathclyde Pension Fund Risk/ Return Framework

Asset Category	Start	Step 1	Step 2	Step 3	Step 4
	%	%	%	%	%
Equity	72.5	62.5	52.5	42.5	32.5
Hedging/Insurance	4.5	1.5	1.5	1.5	1.5
Credit	3.0	6.0	6.0	6.0	6.0
Short-Term Enhanced Yield (STEY)	7.5	15.0	20.0	25.0	30.0
Long-Term Enhanced Yield (LTEY)	12.5	15.0	20.0	25.0	30.0
	100	100	100	100	100
Return (% p.a.)	6.1	6.0	5.9	5.8	5.5
Volatility (% p.a.)	13	12	11	10	9

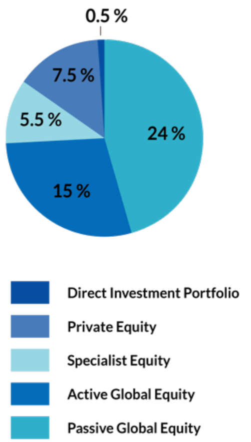
In 2018, Strathclyde Pension Fund Committee agreed that Step 2 should be adopted as the strategic target model.
The Fund completed implementation of an investment structure consistent with Step 2 during 2019/2020.

The Fund completed implementation of an investment structure consistent with Step 2 during 2019/2020.

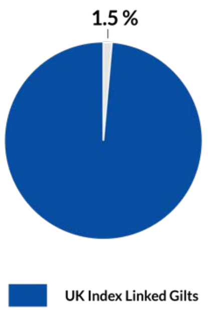
Investment Structure

The Step 2 investment structure is broken down by asset class in the charts below.

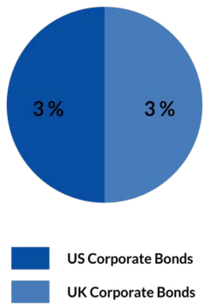
Equity



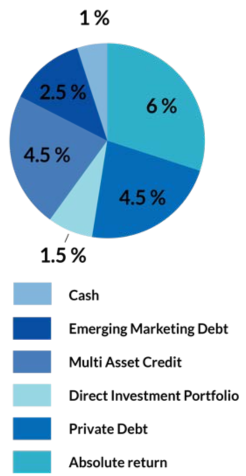
Hedging/Insurance



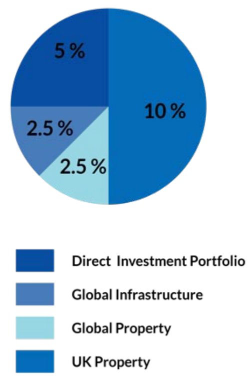
Credit



STEY



LTEY



Investment mandates are managed by 18 external institutional investment managers. In addition, a target of 5% of Fund is invested opportunistically within the Fund's Direct Investment Portfolio (DIP). A further 28 investment companies manage specialist funds within DIP.

ASSETS UNDER MANAGEMENT

The following allocation and holdings tables use the valuation of the Fund's custodian, Northern Trust, at 31st March. This valuation does not include the market value adjustment to private market holdings made in the accounting statements.

Allocations by Asset Category

Asset allocation at the end of March 2020 and March 2019 was as follows:

Asset Category	*31 Mar 2019 (£m)*	*31 Mar 2019 (%)*	31 Mar 2020 (£m)	31 Mar 2020 (%)	Step 2 Target (%)
Equity	*12,784*	*58.4*	11,765	56.2	52.5
Hedging & insurance	*306*	*1.4*	327	1.6	1.5
Credit	*1,248*	*5.7*	1,302	6.2	6.0
STEY	*3,240*	*14.8*	3,258	15.6	20.0
LTEY	*3,480*	*15.9*	3,875	18.5	20.0
Cash	*832*	*3.8*	406	1.9	-
Total	***21,890***	***100.0***	**20,933**	**100.0**	**100.0**

- The Fund's Equity portfolios decreased in value over the year as a result of the sharp falls in global equity markets in February and March 2020.
- Funding of a new private real estate debt mandate with ICG Longbow, and of 3 new segregated private corporate debt mandates with Barings, Alcentra and Partners Group commenced in 2019/20, and will increase the amount invested in STEY over the next 2-3 years.
- The Fund's cash balance reduced as a result of total net drawdowns to private equity, debt, property and infrastructure investments of £255m (Equity, STEY and LTEY) and transfers to fund pension benefits cash-flow.

Investment Manager Allocations

Each external investment manager is appointed to manage a specified target % allocation of total Fund investment assets. The breakdown of the Fund's assets by investment manager, mandate type and asset class at end March 2019 and March 2020 was as follows:

Manager	Mandate Type (%)	*31 Mar 2019 (%)*	31 Mar 2020 (%)	Step 2 Allocation (%)
Legal & General	Passive global equity	*26.2*	24.0	24.0
Baillie Gifford	Active global ex US equity	*7.6*	7.8	7.5
Lazard	Active global equity	*3.4*	2.9	2.5
Oldfield	Active global equity	*3.2*	2.8	2.5
Veritas	Active global equity	*3.3*	2.9	2.5
Henderson	Specialist equity	*1.2*	1.1	1.0
JP Morgan	Specialist equity	*3.5*	3.4	3.0
Genesis	Specialist equity	*1.9*	1.7	1.5
Pantheon	Private equity	*4.7*	5.4	5.0
Partners Group	Private equity	*3.2*	4.0	2.5
DIP	Private equity	*0.2*	0.2	0.5
Equity		***58.4***	**56.2**	**52.5**
Legal and General	Passive index linked	*1.4*	1.6	1.5
Hedging/ Insurance		***1.4***	**1.6**	**1.5**
Legal and General	Passive Corporate Bonds	*5.7*	6.2	6.0
Credit		***5.7***	**6.2**	**6.0**

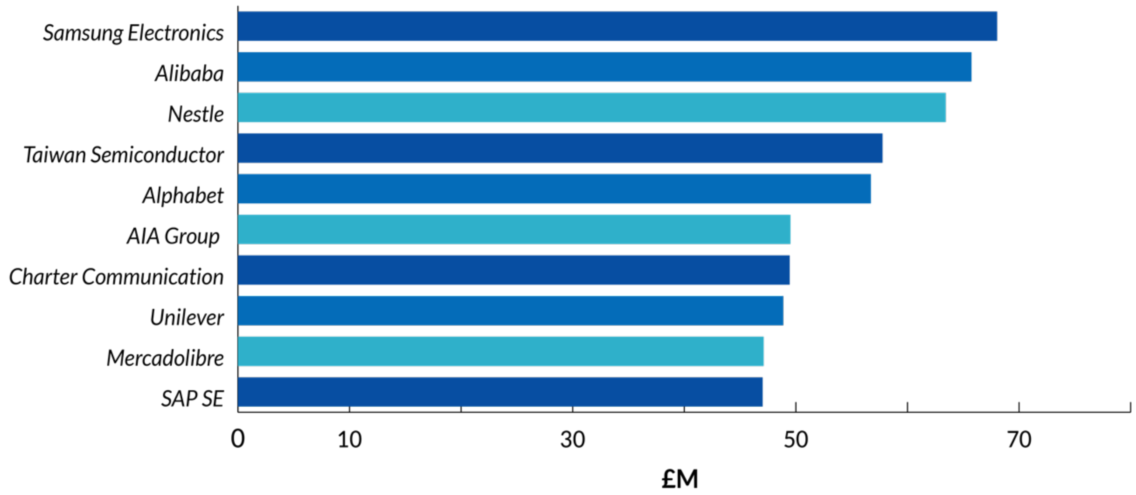
Investment mandates are managed by 18 institutional investment managers. In addition, 5% of total Fund is invested opportunistically within the Direct Investment Portfolio (DIP). A further 28 investment companies manage DIP assets.

Manager	Mandate Type (%)	*31st Mar 2019 (%)*	31st Mar 2020 (%)	Step 2 Allocation (%)
PIMCO	Absolute return	*4.8*	4.9	5.0
Ruffer	Absolute return	*0.9*	1.0	1.0
Barings	Multi-asset credit	*3.0*	2.7	2.75
Oak Hill Advisors	Multi-asset credit	*2.0*	1.9	1.75
Alcentra	Private corporate debt	*0.8*	1.4	1.25
Barings	Private corporate debt	*0.7*	1.0	1.25
Partners Group	Private corporate debt	*0*	0	1.0
ICG- Longbow	Private real estate debt	*0*	0.3	1.0
Ashmore	Emerging market debt	*2.3*	1.9	2.5
DIP	Various	*0.3*	0.5	1.5
Cash	-	-	-	1.0
STEY		***14.8***	**15.6**	**20.0**
DTZ	UK direct property	*9.7*	10.5	10.0
Partners Group	Global property	*2.0*	2.1	2.5
JP Morgan	Global infrastructure	*1.4*	2.5	2.5
DIP	Various	*2.8*	3.4	5.0
LTEY		***15.9***	**18.5**	**20.0**
Cash		***3.8***	**1.9**	**-**
Total		***100.0***	**100.0**	**100.0**

Listed equity, multi-asset credit and emerging market debt portfolios decreased in value as a result of turbulent global investment markets in the final quarter of the financial year. Increased allocation to private debt and private equity portfolios, the DTZ property portfolio, the JPM International Infrastructure Fund and the Direct Investment Portfolio, were the result of both positive investment performance and cash contributions made by the Fund to finance new investment.

Holdings Snapshot

As at 31st March 2020

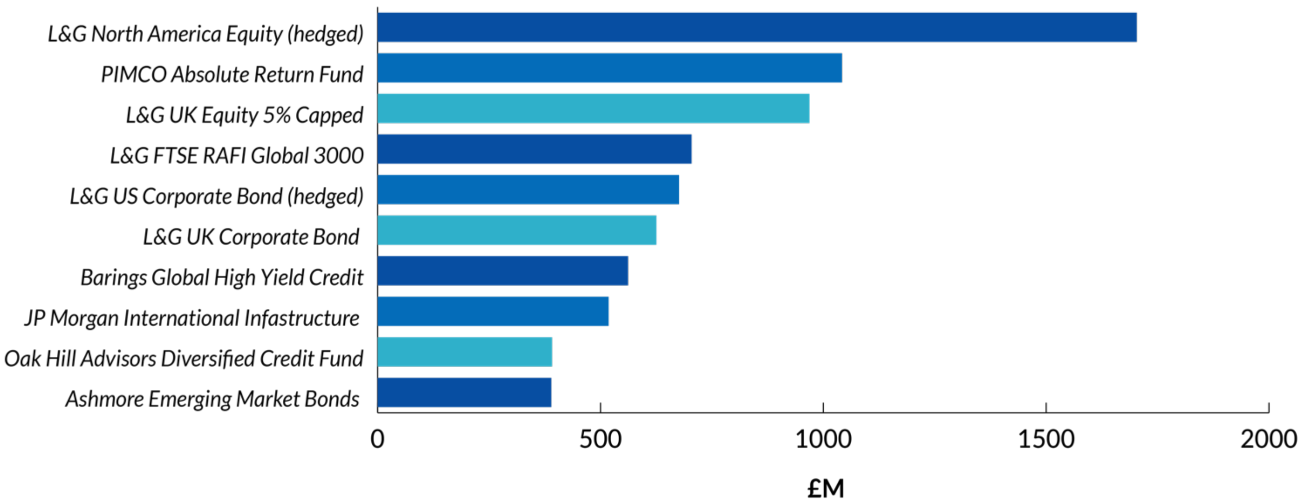


£4,788m Equity

1,390 listed holdings
22.9% total Fund

£9,217m Pooled Funds

20 pooled holdings
44.1% total Fund



£3,751m Private Markets

112 alternative funds
17.9% total Fund

£2,126m UK Property

57 Investments
10.5% total Fund

Market Commentary

Global stock markets rose in the first three quarters of the financial year, trading in a relatively narrow range until October 2019, before rising steadily into the close of the year. In the first half of Quarter 1 2020 the rally continued, thanks to the truce in the US-China trade war, greater clarity on Brexit, and a global monetary easing cycle. Then fears of the impact of COVID-19 sent world stock markets plummeting, as investors worried about the threat the pandemic posed to the global economy.

Central banks around the world initiated emergency measures to contain the economic fall-out and boost investor confidence. In the US, the Federal Reserve lowered interest rates to zero and pledged to run an open-ended asset purchase programme. In Europe, the Bank of England delivered two emergency rate cuts, leaving interest rates at an historic low of 0.1%, and the European Central Bank announced a programme to purchase up to €750 billion in government and corporate bonds.

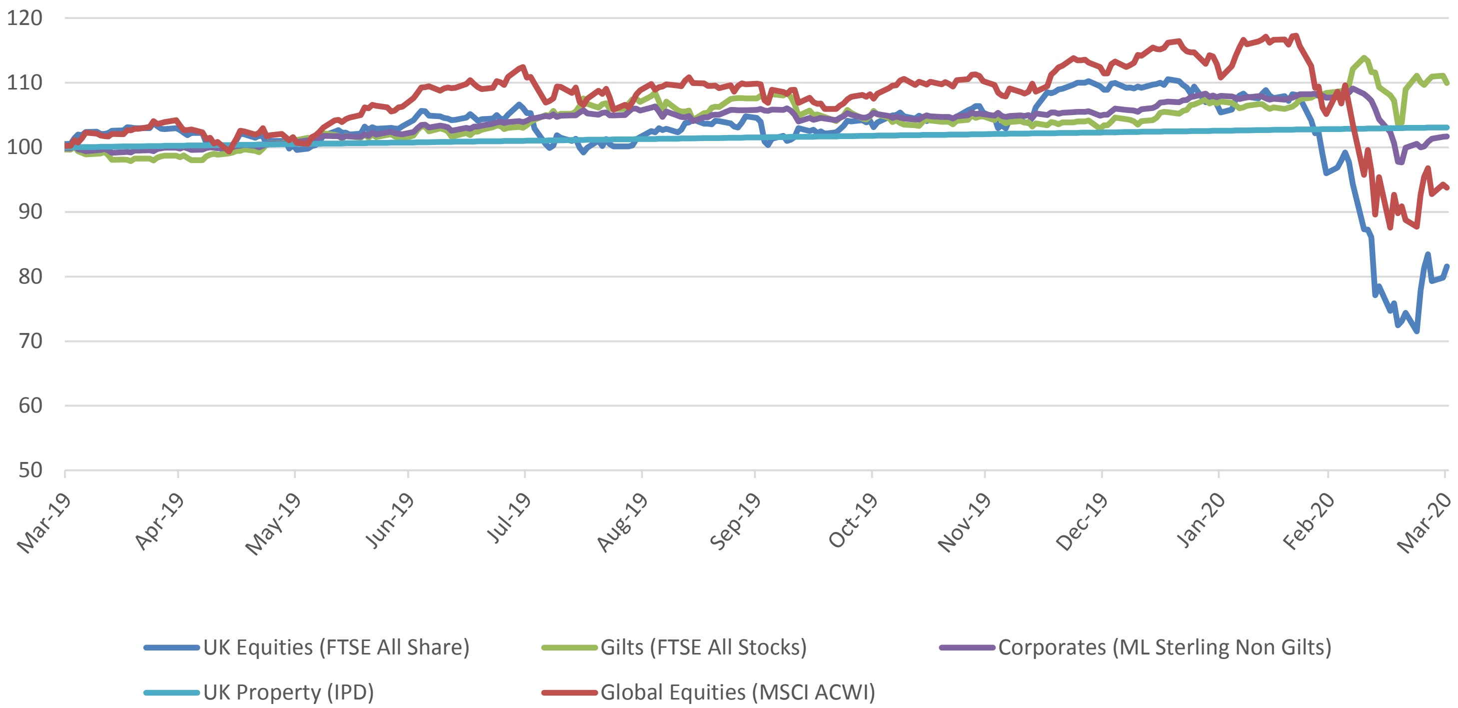
In addition to the actions of central banks, national governments introduced multi-billion pound fiscal rescue packages. While the actions of policymakers helped markets recoup some of their losses in the final week of March, investors remained nervous amid the considerable volatility. Global equity market performance for Q1 2020 was the worst since the financial crisis of 2008, with developed and emerging market falls in the final few weeks resulting in negative returns for the 2019/20 financial year as a whole.

Global government bond yields generally fell in the first half of the financial year, amid concerns that world economic growth might be faltering, before rising over Quarter 4 2019 as a result of US led global interest rate cuts and growing optimism of positive progress in US-China trade talks. US, UK and German 10 year bond yields then plummeted in Quarter 1 2020, reflecting investors' flight from risk assets to perceived safe havens as the rapid spread of COVID-19 impacted heavily on economic activity.

Following mixed performance at the end of 2019, corporate bonds returned to positive performance in January and February 2020, before credit spreads spiked dramatically as investors assessed the impact of COVID-19. Fears that default rates among lower-rated borrowers could rise sharply triggered a slide in high yield bond prices. Emerging market bonds slumped amid worries over the global demand outlook.

Sterling appreciation in the fourth quarter of 2019 was wiped out in March 2020 following a surge in investor demand for dollars, concern over the UK's impending departure from the EU and, given deficit shortfalls in both the UK's current account and government budget, concern over the size of fiscal response to COVID-19. Challenging conditions in the retail market continued to dampen UK property returns in each of the 3 quarters to end December 2019. Timing of the UK lockdown in late March meant there was little market evidence by the end of the financial year to justify much downward revision in property valuations and so capital values fell a relatively muted -2.6% in Q1 2020 compared with other markets.

Market Returns 2019/20

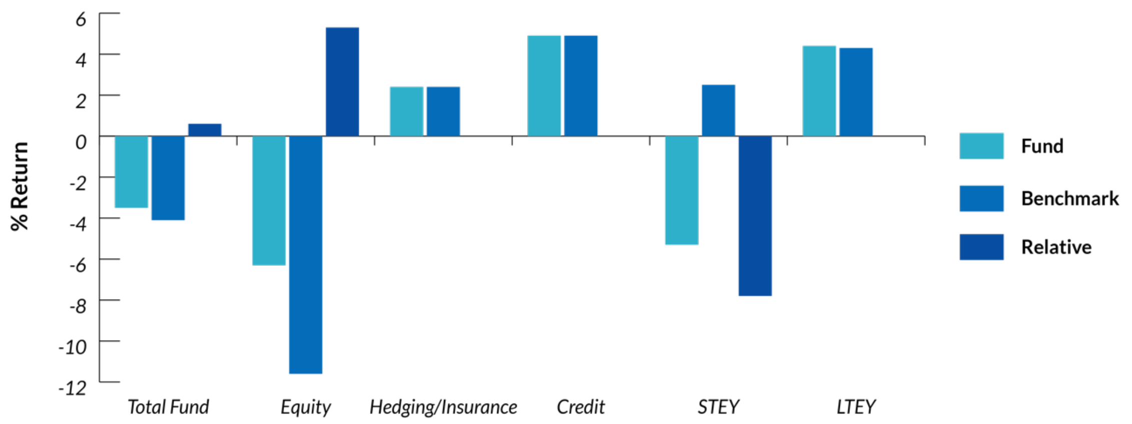


Performance Measurement

The Fund measures performance using the service provided by its global custodian, Northern Trust. The performance objective for each investment manager with an active investment mandate is to outperform a benchmark, which may be a cash plus target or an appropriate market index or performance universe. The performance of the Fund as a whole is measured against a blended benchmark, based on individual manager benchmarks and allocations. Details of the Fund's current benchmark are provided in Schedule 2 of the Fund's Statement of Investment Principles.

The Fund's performance has been calculated based on Northern Trust's valuation of the Fund at 31st March 2020. This valuation does not include the market value adjustment to private market holdings made in the accounting statements.

Investment Returns for 2019/20
Fund and Asset Class Performance



Strathclyde Pension Fund returned -3.5% in 2019/2020, compared to a benchmark return of -4.1%.

Strathclyde Pension Fund returned -3.5% over 2019/2020, 0.6% ahead of its benchmark return of -4.1%

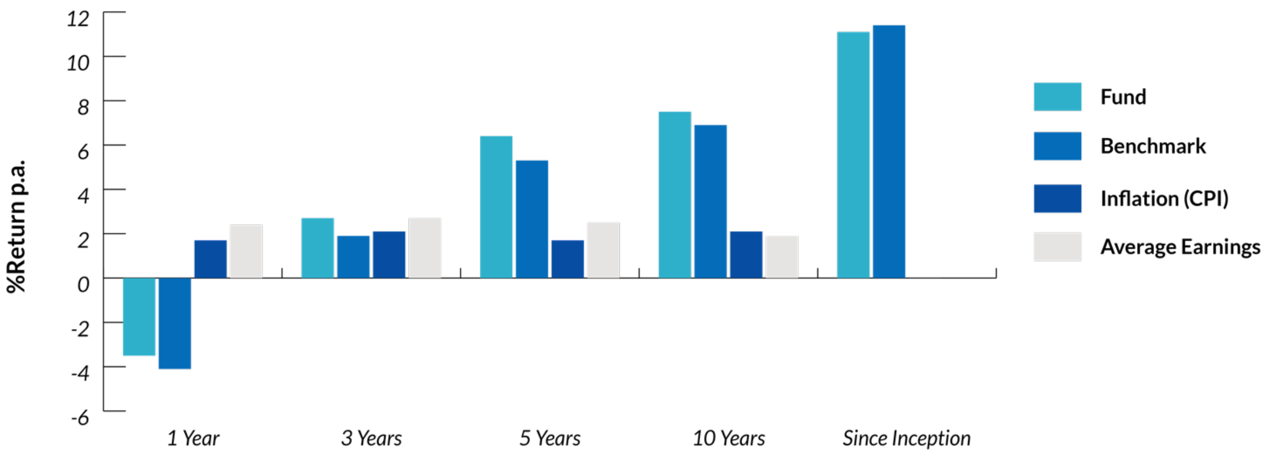
- While Equity was the worst performing asset class on an absolute basis, it was the best performing asset in relative terms, with the portfolios of global equity managers Baillie Gifford, Lazard and Veritas, small cap managers Lombard Odier and JP Morgan and private equity managers Pantheon and Partners Group holding up particularly well relative to their market benchmarks.
- STEY portfolios contributed least to total Fund performance and returned significantly less than the

overall benchmark for this asset class. Negative relative performance from multi-asset credit managers Barings and Oak Hill, emerging market debt manager Ashmore and absolute return bond manager PIMCO detracted most from overall return.

- LTEY portfolios achieved a combined return of 4.4%. This was marginally ahead of benchmark. The DTZ property portfolio outperformed over the one year period but the Partners Group global real estate and JPM international infrastructure portfolios both underperformed their benchmarks.
- The Hedging/ Insurance and Credit asset classes are invested in index-linked gilts and UK/ US corporate bond passive funds respectively. Both asset classes performed positively and in line with benchmark.

Longer Term Performance

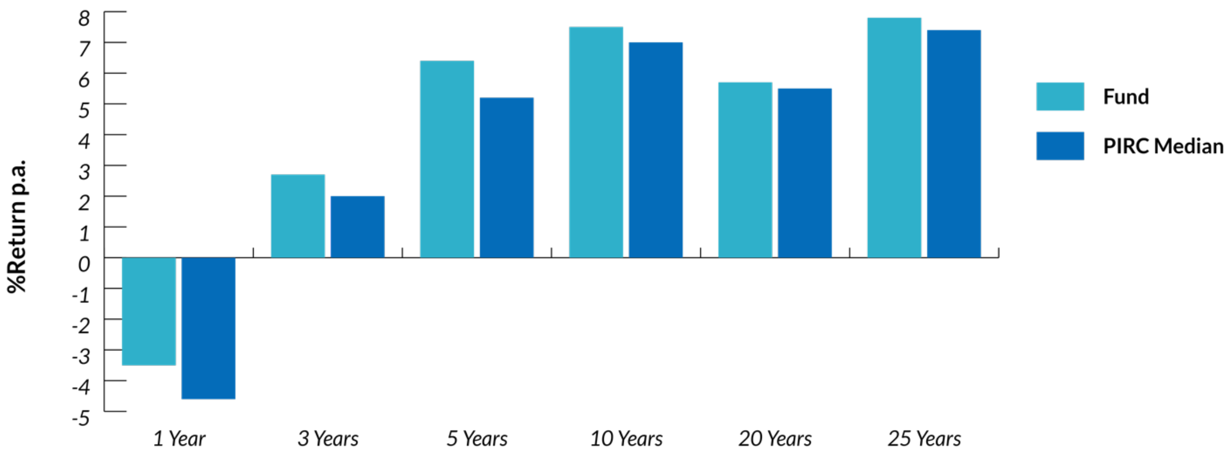
Long Term Performance to 31st March 2020



The Fund has performed strongly over the short, medium and long term, in one instance matching, but otherwise out-performing inflation and average earnings over all time periods except the latest financial year, and out-performing the Fund specific benchmark over 1, 3, 5 and 10 years. Despite recent equity market falls, equity investments remain the largest contributor to the Fund’s positive absolute performance over the past 10 Years, with rising property markets the second largest factor.
Strong performance of individual portfolios, most notably the Baillie Gifford global equity portfolio, the JP Morgan global small cap portfolio and the Pantheon and Partners Group private equity portfolios, has added further value on a relative basis.

Pension Fund Returns

Strathclyde Pension Fund subscribes to PIRC's Local Authority Pension Performance Analytics Services, which gathers and compares the performance of UK Local Authority Pension Funds. Strathclyde Pension Fund has exceeded median performance over all time periods. The Fund has ranked in the top quartile of local authority funds over the 5, 10, 20 and 25 year time periods.



Investment Management Costs

The level of fees and expenses paid by the Fund to individual investment managers is relative to the complexity involved in managing a particular investment asset and strategy, the associated risk and expected investment returns. The Fund complies with CIPFA guidance on investment management costs when completing its financial statements. Fees and expenses incurred within a pooled investment vehicle as a result of that vehicle's investment in other pooled funds are not included in the Fund's financial statements, as the Fund has no control over these costs. This type of 'fund of fund' investing typically occurs in private market investments. CIPFA suggest that these 'Tier 2' expenses can be included for information elsewhere in the annual report. Investment manager estimates of the Fund's share of 'Tier 2' costs for 2019/20 were £40.5m (2018/19 £51.4m).

The Local Government Pension Scheme (LGPS) Code of Transparency

The LGPS Scheme Advisory Board in England and Wales launched a Code of Transparency in May 2017, publishing a cost template that would allow pension funds to gather cost information for listed investment assets in a consistent manner. Since then the Financial Conduct Authority has set up a new organisation, the Cost Transparency Initiative, to take forward the work of standardising cost disclosure across the investment industry.

The Fund is a strong supporter of the work carried out to date on cost transparency, and has encouraged all if its institutional investment managers to sign up to the LGPS Code. The Fund has engaged with managers of the Direct Investment Portfolio to encourage them to complete the cost template relevant to their asset class.

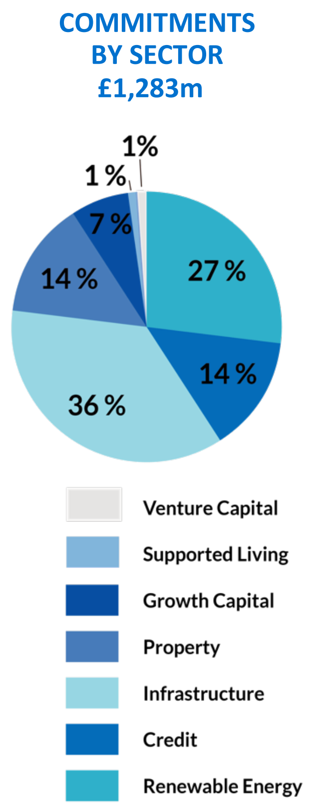
Background and Strategy

In December 2009, the Strathclyde Pension Fund Committee agreed to establish a New Opportunities Portfolio (NOP) with a broad remit to invest in assets for which there was an attractive investment case but to which the current structure did not provide access. The NOP strategy was reviewed in 2012 and in 2015. It was re-branded as the Direct Investment Portfolio (DIP) in 2015.

The most recent review of the DIP strategy was concluded in December 2018. The

framework agreed at the 2018 review is summarized below.

Direct Investment Portfolio: Investment Strategy	
Objectives	Primary objective identical to overall Fund investment objective. Secondary objective of adding value through investments with a positive local, economic or ESG (environmental, social, governance) impact.
Strategy & Structure	In line with the Fund's risk-return framework but focused on the UK and on Equity, Long Term Enhanced Yield and Short Term Enhanced Yield asset categories.
Risk and Return	Individual risk and return objectives for each investment. Total DIP benchmark: LIBOR to 31st December 2018, CPI +3% thereafter.
Capacity	Target allocation of 5% of total Fund (based on Net Asset Values). Range of **2.5%** to **7.5%** of total Fund.
Investment Size	Target: **£20m** to **£100m** Minimum: **£10m** Maximum: greater of **£200m** or **1%** of Total Fund Value.



Assets under Management

At 31st March 2020, DIP commitments totalled £1,283m, or 6.1% of total Fund. The Net Asset Value of Investments was £837m or 4% of total Fund. DIP investments span 7 broad sectors with Infrastructure and Renewable Energy comprising the 2 largest components and representing a combined total of 63% of the total portfolio.

Infrastructure/Renewables

19 Investments
£813m committed
239 schools
49 hospitals
14,870 social housing units

Property

4 Investments
£190m committed
£75m in Strathclyde area
7 UK supported living projects

Credit

8 Investments
£177m committed
54 loans to SME's
18 loans to health companies
11 loans to property

Venture/Growth Capital

10 Investments
£103m committed
10 funds totalling £103m in Scotland
5 Scottish fund managers

Portfolio Progress 2019/20

New Investments during the Year

Infrastructure/Renewables

£50m to **Equitix Fund VI LP**, to build a diversified portfolio of infrastructure assets in the UK with the aim of delivering stable, inflation linked cashflows to investors.

£50m to **Equitix SPF Co-Investment Fund**, to facilitate the acquisition of additional co-investment stakes in larger UK assets alongside funds V & VI.

£40m to **Capital Dynamics Clean Energy Infrastructure Fund VIII**, to acquire and construct a portfolio of clean energy projects mainly in the UK and also in certain mature markets in Europe.

Venture/Growth Capital

£25m to **Palatine Private Equity Fund IV** – Investing in the UK lower mid-market with a regional focus outside of London.

Property

£75m to **Legal & General Build to Rent Fund**, to develop a portfolio of purpose built, private rented residential accommodation in the UK.

£25m to **Places for People Scottish Mid-Market Rental Fund**, developing 1,000+ purpose built, affordable residential units for rent in Scotland.

Review of Investment Opportunities

During the year SPF direct investment team reviewed **168** opportunities across a range of asset classes.

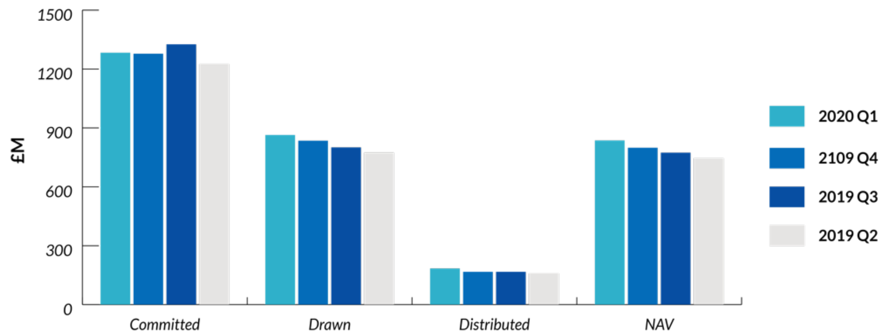
- Infrastructure (23)
- Renewable Energy (26)
- Credit (46)
- Venture/Growth Capital (40)
- Property (31)
- Supported Living (2)

6 Investment opportunities were approved by the Committee in the financial year.

Change in Investment Profile

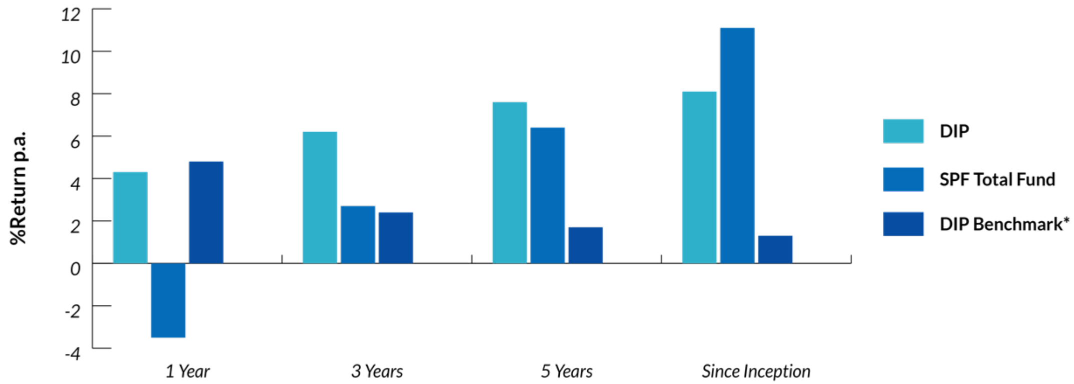
The value of DIP commitments increased by **£200m** in the financial year and totalled **£1,283m** at 31st March 2020.

The net asset value of DIP increased by **£113m** in 2019/20. **£32m** of distributions brought the total received since inception to **£184m**.



Investment Performance

DIP has performed well against both its benchmark and the main Fund, achieving a net return of **+8.1%** per annum since inception and showing less volatility than the Fund overall.



* DIP Benchmark: CPI +3% from 2019 , previously LIBOR

RESPONSIBLE INVESTMENT

POLICY

The Fund is a signatory to the United Nations Principles for Responsible Investment (PRI) and has adopted the principles as its responsible investment policy.

The text of the principles is as follows:

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

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

We believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios.

STRATEGY

Responsible Investment activity is carried out by:

- the Fund's investment managers who are required to exercise the Fund's voting rights, to incorporate analysis of ESG issues into their investment analysis and expected to engage on these issues with the companies in which they invest;
- Sustainalytics, a specialist responsible investment engagement overlay provider; and
- the Fund itself through direct engagement, and collaboration with other investors including the Local Authority Pension Fund Forum (LAPFF), ShareAction, Institutional Investor Group on Climate Change (IIGCC), Carbon Action and other *ad hoc* alliances.

PRI LEADERS GROUP

Strathclyde Pension Fund was included in the 2019 PRI Leaders' Group which consists of 47 asset owners – roughly equivalent to the top 10% of PRI asset owner signatories.

Reporting

The Strathclyde Pension Fund Committee receives regular reports summarising the Fund's responsible investment activity. Reports can be viewed on the Fund's website at www.spfo.org.uk.

Engagement

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

- Plastic waste
- Child labour
- Fire & Building safety in the Bangladesh garment industry
- Climate Change
- Welfare and sustainability in the cocoa industry
- Executive remuneration
- Water rights
- Farm animal welfare
- Corporate corruption
- Cybersecurity & Data Privacy
- The Living wage
- Deforestation
- UK Corporate Governance Code
- Labour rights
- Protection of endangered species
- Human rights
- Inhumane weapons
- Tax transparency
- Factory farming emissions
- Indigenous Land Rights
- Mining Waste

Signatory of:

PRI Principles for Responsible Investment

Member of the PRI 2019 Leaders' Group Asset owner selection, appointment and monitoring: LE and/or PE

There is clear evidence that engagement by investors with companies on ESG issues can create shareholder value.

PRI

Responsible Investment Partnerships

Signatory of: PRI Principles for Responsible Investment

The United Nations backed Principles for Responsible Investment works to understand the investment implications of environmental, social and governance (ESG) factors and to support its investor signatories in incorporating these factors into their investment and ownership decisions. The PRI's 6 Principles contribute to developing a more sustainable global financial system with nearly 2,300 signatories, from over 50 countries, representing US$70 trillion.

The Local Authority Pension Fund Forum (LAPFF) brings together 80 public sector pension funds and investment pools in the UK with combined assets of over £250 billion to promote the long-term investment interests of member funds and beneficiaries, and to maximise their influence as shareholders whilst promoting the highest standards of corporate governance and corporate responsibility at investee companies.

ShareAction is a UK charity that promotes responsible investment. ShareAction aims to improve corporate behaviour on environmental, social and governance issues. The charity has launched numerous campaigns, with support from savers, charities, unions, faith groups and other civil society organisations to engage with investors to bring about change. The Fund is an active supporter of their Living Wage campaign and Workforce Disclosure Initiative.

Farm Animal Investment Risk and Return (FAIRR) is a collaborative initiative which aims to encourage analysis and engagement around the long-term risks that factory farming poses to portfolios. The Fund is one of 70 institutional investors representing over US$20 trillion in assets supporting FAIRR's collaborative investor engagement on antibiotics. The engagement asks global food companies to limit antibiotic use in their supply chains to protect public health and long-term value creation.

The Institutional Investors Group on Climate Change (IIGCC) is the leading European investor body for collaboration on climate change. With over 230 members, from 9 countries, representing over €30 trillion in assets IIGCC provides investors with a collaborative platform to encourage public policies, investment practices and corporate behaviour that address long-term risks and opportunities associated with Climate Change.

The Carbon Disclosure Project (CDP) is a collaborative initiative to accelerate company action on carbon reduction and energy efficiency activities. The Fund is an active supporter of three CDP initiatives.

- CDP Carbon Action - Collaborative initiative to accelerate company action on carbon reduction and energy efficiency activities.
- CDP Water – Asks companies to provide data about their efforts to manage and govern freshwater resources.
- CDP – Forests – Asks companies to provide data on their efforts to stop deforestation

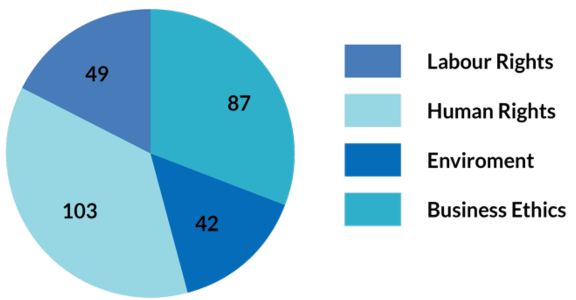
Climate Action 100+ was launched in December 2017 with the support of 225 investors representing $26.3 trillion in assets. Entities backing the project include many of the UK's local authority schemes, and some of the most influential Australian, Canadian and US public pension funds. Co-ordinators include the Institutional Investors Group on Climate Change (IIGCC), and Principles for Responsible Investment (PRI). The five-year initiative will use carbon mapping data to target the worst climate offenders directly, to curb their emissions, improve climate governance and strengthen disclosure. The goal is to cut global emissions by 80 per cent by 2050.

Sustainalytics

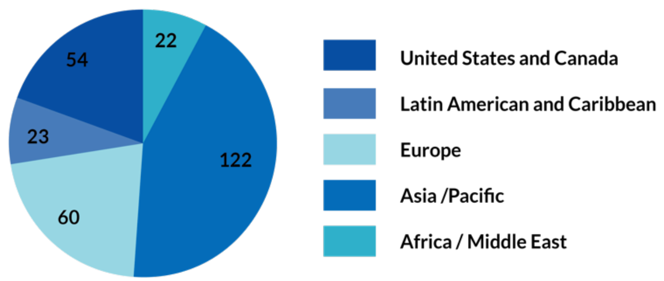
The Fund's external investment managers are assisted by responsible investment specialist, Sustainalytics, who co-ordinate engagement efforts and provide detailed research to focus the collaborative effort of the investment managers.

In 2019, Sustainalytics engaged on or evaluated **281** cases associated with violations of international norms and conventions. In addition, they resolved **28** cases and archived **190**. Meetings were held with **93** companies relating to these cases, including **64** conference calls and **29** face-to-face meetings. In total, Sustainalytics was in contact with companies **1,873** times through emails, conference calls and meetings.

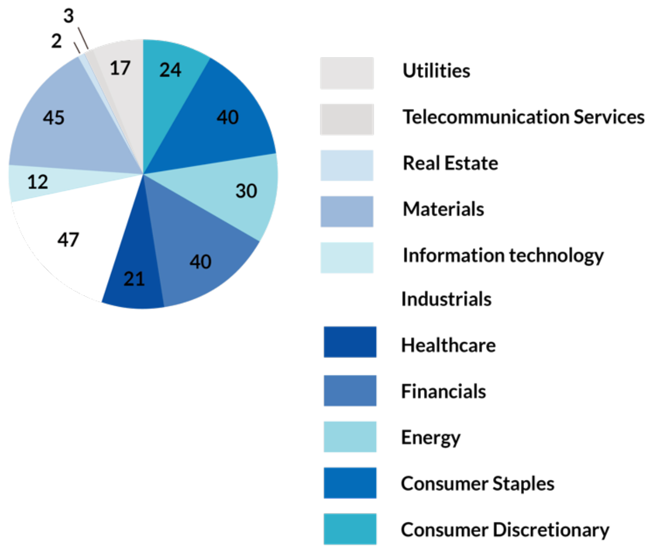
Types of Engagement



Geographic Breakdown



Industry Sector Breakdown



Sustainalytics engagement highlights in 2019:

Sustainalytics engaged with a range of companies in 2019 including General Motors regarding plastics and waste management; Royal Dutch Shell and ENI SPA. regarding alleged corrupt practices in Nigeria; Uber Technologies Inc. regarding data security practices and alleged misuse of customers and drivers data; Credit Suisse Group regarding risk management systems following allegations of money laundering; Boeing regarding commercial aircraft quality and safety; Edison International regarding public safety and wildfire mitigation; and 3M regarding alleged environmental pollution.

In 2019, Sustainalytics launched a new engagement initiative, Plastics and the Circular Economy. The three-year engagement programme will focus on companies in the packaging, electronics, and automotive industries and seek to challenge the substantial impact of plastic on human health and the environment. Details of the initiative is available at: https://www.sustainalytics.com/esg-blog/plastics-material-issue-for-investors/

Climate Risk

The Fund supports the recommendations of the **Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)**. TCFD provides a global framework to enable stakeholders to understand the financial system's exposure to climate-related risks particularly affecting organisations most likely to experience climate-related financial impacts from transition and physical risks. The TCFD has been endorsed by over 1,000 companies and financial institutions representing a combined market capitalisation of over US$12 trillion and nearly US$118 trillion assets under management. The Fund has committed to reporting on its approach to climate risk using the TCFD framework for asset owners and sets out below its approach to managing climate risk within the TCFD's four thematic areas of Governance, Strategy, Risk Management and Metrics and Targets.

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Governance

Recommended Disclosure (a)

Describe the board's oversight of climate-related risks and opportunities.

The Strathclyde Pension Fund (SPF) Committee is responsible for agreeing investment objectives, strategy and structure and for developing the responsible investment strategy. The Committee receives regular reports on the Fund's responsible investment activity including Climate Change.

Since 2015 the SPF Committee has considered 5 separate reports specifically addressing Climate Change risks. These are summarised as follows:

- August 2015 the Committee considered a report investigating the feasibility, cost and benefits of introducing partial or complete fossil fuel divestment for the Strathclyde Pension Fund.
- March 2016 the Committee considered a report concluding a review of the Fund's Responsible Investment strategy.
- September 2016 the Committee considered a report reviewing the Fund's progress in developing a Climate Change strategy.
- December 2016 the Committee considered a report which presented summary findings of:
  - carbon footprint analysis of the Fund's listed equities;
  - a review of non-exclusion, passive, low carbon investment solutions; and
  - an investigation of membership of additional industry forums or initiatives to support engagement work around key issues such as Climate Change.
- March 2020 the Committee considered a report reviewing the management of climate related risks and opportunities.

The Committee and officers are directly involved in analysis and decision making in respect of the Fund's Direct Investment Portfolio (DIP). The DIP portfolio is supporting technology and solutions crucial for the transition to a low carbon UK economy. To date the DIP portfolio has committed over £334m to renewable energy infrastructure investments which include specialist onshore and offshore wind funds, UK solar funds and generalist renewables and community power funds.

Recommended Disclosure (b)
Describe management's role in assessing and managing climate related risks and opportunities.

SPF management is responsible for implementation of Committee decisions.

Day-to-day implementation of SPF's Climate Change strategy is delegated to the external investment managers, who operate under SPF's policy on Responsible Investment and are responsible for:

- portfolio management including individual decisions on purchase retention and sale of investments
- decisions on corporate actions and corporate governance (proxy voting)
- responsible investment activity including analysis and engagement with companies.

This is overseen by the Fund's internal investment team with oversight from the Director of SPF.

A bi-annual carbon footprinting exercise is used to assess both the risks from Climate Change and also areas of opportunity. Strathclyde employs a specialist advisor, Sustainalytics, to focus engagement activity and to monitor voting activity on active equity holdings, with specific focus on Climate Change related resolutions.

Strathclyde incorporates voting alerts from the Local Authority Pension Fund Forum (LAPFF) on Climate Change within its voting activity. The Fund leverages partnerships and initiatives - including the LAPFF, the Institutional Investor Group on Climate Change (IIGCC), the Principles for Responsible Investment (PRI), ShareAction and CDP - to identify and manage climate risk.

SPF has completed the new climate-related elements of the annual PRI survey and will reflect on the results with a view to incorporating the transparency report into Scheme reporting.

As stated above the Fund's officers are directly involved in analysis and decision making in respect of the Direct Investment Portfolio.

The Director of SPF is accountable to the Strathclyde Pension Fund Committee for delivery of the Climate Change strategy.

Strategy

Recommended Disclosure a)

Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

SPF has a global investment strategy widely diversified by geography, asset class, sector and manager. Given the diversified nature of the Fund's strategy it will be exposed to all of the risks identified in the TCFD analysis, though the degree and timing of the impact cannot be accurately gauged.

SPF is primarily an equity investor, therefore the Fund's primary concern is that its investment managers and the management of the companies in which they invest have fully assessed climate –related risks and the potential impact on asset valuations, in particular from:

- obsolescence, impairment or stranding of assets;
- changing consumer demand patterns; and
- changing cost structures including increased emissions pricing, insurance and investment in new technologies.

The Fund also recognises that there is uncertainty over the direction and speed of policy changes in this area.

With respect to short term policy risk the Fund has closely monitored the status of its property investments including results of the Global Real Estate Sustainability Benchmark (GRESB) annual assessment and assessment of portfolio compliance with Minimum Energy Efficiency Standards (MEES).

With respect to medium and longer term risk, the Fund ensures responsible investment considerations, including Climate Change, continue to be imbedded throughout the investment and management processes of all the external investment managers and that the managers continue to manage climate related risks and opportunities. As a public sector fund, reputational risk is also a particular concern, though not for financial reasons.

SPF believes that Climate Change is a systemic risk and thus a material long-term financial risk.

Recommended Disclosure b)

Describe the impact of climate related risks and opportunities on the organisation's businesses, strategy, and financial planning.

Responsible investment principles and considerations, including Climate Change and Sustainability are addressed in investment manager and other service provider appointments and included in Investment Management Agreements.

The transition to a low carbon UK economy has presented a range of investment opportunities for the DIP portfolio over the year including UK wind, solar, hydro & biomass renewable energy projects. SPF has also committed £500m to a global Infrastructure fund with a one third allocation to renewable energy assets.

The Fund has reviewed passive equity low carbon investment funds and concluded development of these approaches should be monitored but not adopted as part of the Fund's strategy at this time. The Fund will only invest where positive environmental outcomes are expected to correlate with positive financial performance.

All of the Fund's investment managers are PRI signatories. Most managers within the Direct Investment Portfolio are also signatories. The Fund strongly encourages managers to become signatories and to adhere to the principles.

Recommended Disclosure c)
Describe the resilience of the organisation's strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario.

SPF believes that Climate Change is a systemic risk and thus, a material long-term financial risk for any investor that must meet long-term obligations.

The Fund recognises that scenario testing is an inexact science due in part to inadequate disclosure from portfolio companies. The Fund continues to encourage greater levels of climate-related disclosures through engagement, voting and supporting campaigns seeking enhanced company disclosure to address this issue.

The Fund is well diversified and has allocations to real assets and the renewable energy sector, therefore Climate Change risks should have a relatively limited impact on returns.

Risk Management

Recommended Disclosure a)
Describe the organisation's processes for identifying and assessing climate-related risks.

SPF's external investment managers are responsible for identifying and managing all risks associated with their investments, and this includes Climate Change. This means that external investment managers take into account any climate-related risks when making their investment decisions. The Fund's internal investment team and specialist advisor, Sustainalytics, work with managers to help ensure that climate risks are being assessed and addressed. The Fund's listed equity carbon footprinting is used to inform this process. The Fund has also made use of the Transition Pathway (TPI) Toolkit and thematic, sector and company specific research from Sustainalytics to observe climate risk management in listed equity stocks.

Recommended Disclosure b)
Describe the organisation's processes for managing climate related risks.

- **Development of Specific Investment Strategies**

The Direct Investment Portfolio has committed over £352m to renewable energy infrastructure investments which include specialist onshore and offshore wind funds, UK solar funds and generalist renewables and community power funds. SPF also invests in a global infrastructure fund with a one third allocation to renewable energy assets.

- **Formal Advice**

A key element in the development of SPF's Climate Change strategy has been the measurement of carbon emissions and intensity. This was carried out in order to more fully understand the carbon risk sources and dynamics. To achieve this SPF engaged the leading carbon audit service provider, MSCI, to provide a carbon footprint of the Fund's listed equity portfolios. The Fund is committed to repeating this foot-printing on a bi-annual basis and investigating the inclusion of other asset classes in addition to listed equities.

- **Exercise of Ownership Responsibilities**

In terms of SPF's Responsible Investment strategy, activity relating to Climate Change risk is carried out by:

- the Fund's investment managers who are required to exercise the Fund's voting rights, to incorporate analysis of Environmental, Social and Governance (ESG) issues into their investment analysis and expected to engage on these issues with the companies in which they invest;
- Sustainalytics, a specialist responsible investment engagement overlay provider and
- the Fund itself through direct engagement, and collaboration with other investors including the Local Authority Pension Fund Forum (LAPFF), ShareAction, Institutional Investor Group on Climate Change (IIGCC), Carbon Action and other ad hoc alliances.

The Fund has expended considerable effort in supporting collaborative engagement initiatives that have a specific Climate Change remit. The Fund is a founding member of Climate Action 100+. This is a five-year initiative that will use carbon mapping data to target the worst corporate climate offenders directly, to curb their emissions, improve climate governance and strengthen disclosure. The Fund is also a supporter of the RE100 Renewable Energy and EP100 initiatives and a signatory to Carbon Action and the Water and Forest programs of CDP.

Recommended Disclosure c)
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

SPF's overall approach to risk management is described in its Risk Policy & Strategy Statement which is available from the Publications area of the website at: www.spfo.org.uk. The statement is summarised in the Governance section of the Fund's annual report. Climate Change is addressed at risk SPFO61 which is summarised below.

Risk Title / Risk Description	Residual Probability (/5)	Residual Impact (/5)	Residual Risk (/25)	Residual Rank
RISK: Climate-related financial loss. **CAUSE:** failure of climate change strategy; failure of global economy to address climate change issues. **EFFECT:** obsolescence impairment or stranding of assets; changing consumer demand patterns; changing cost structure (including emissions pricing).	2	4	8	Medium

Control and mitigating actions listed against the risk include: Climate Change strategy, responsible investment strategy, diversification of investments, Direct Investment Portfolio and other positive investment opportunities.

The Fund currently reports extensively on environmental, social and governance issues including Climate Change. This includes:

- a quarterly report on Responsible Investment Activity which is considered by the SPF Committee and published on the Fund's website at www.spfo.org.uk
- coverage within the Fund's Annual Report, member newsletters, and at its AGM; and
- annual PRI reporting and assessment survey including the new climate-related indicators based on the TCFD recommendations.

The Fund's UK property investments are subject of the Global Real Estate Sustainability Benchmark (GRESB) annual assessment and assessment of portfolio compliance with Minimum Energy Efficiency Standards (MEES).

Control and mitigating actions listed against the risk from climate change include: SPF climate change strategy, responsible investment strategy, diversification of investments, Direct Investment Portfolio and other positive investment opportunities.

Metrics and Targets

Recommended Disclosure a)
Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process.

SPF monitors the voting and engagement of all its external Investment Managers on issues including Climate Change.

SPF has engaged the leading carbon audit service provider, MSCI, to provide carbon and emissions footprinting of the Fund's listed equity portfolios in 2016 and in 2018.

For each listed equity portfolio, the carbon footprinting enabled the identification of the top 10 assets responsible for contributing to the carbon footprint of that portfolio. This information was communicated to external investment managers to ensure that they are aware of where their greatest exposures lie.

The Fund is committed to repeating this foot-printing on a bi-annual basis and investigating the inclusion of other asset classes in addition to listed equities.

Explicit consideration of climate change will be incorporated into the actuarial valuation of the fund to be carried out as at 31st March 2020. This will include high-level scenario analysis.

Recommended Disclosure b)
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

SPF has considered Scopes 1 and 2 in its analysis. Scope 3 data was not considered to be of a sufficiently robust standard to incorporate.

The TCFD recommendations call for asset owners to disclose a weighted average carbon footprint. In 2018 the Fund's weighted average listed equity footprint was 192.5 tCO2e/£ revenue, which is 4.8% lower than in 2016 and 6.2% lower than that of the MSCI All Country World Index. The analysis further highlights that dominant sectors, in terms of emissions, tend to be Energy, Utilities, and Materials.

The carbon footprinting analysis has considered the risk of 'Stranded Assets' in the Fund's listed equity by calculating the total potential emissions from fossil fuel reserves as tons of CO2. In 2018 the total potential emissions from fossil fuel reserves was 23.7 million tCO2e, which is 23.8% lower than in 2016 and 23.7% lower than that of the MSCI All Country World Index.

Recommended Disclosure c)

Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets.

The Fund will continue to allocate to the low carbon economy primarily through the Direct Investment Portfolio and via the direct allocation to infrastructure where renewable energy and other low carbon aligned areas offer significant opportunity.

The Fund is not currently using quantitative targets as part of its Climate Change strategy but is considering a net-zero target.

Voting Results

2019/20 United Kingdom

The Fund ensures that the votes attaching to its holdings in all quoted companies are exercised whenever practical. The Fund's voting policy is exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance and Stewardship Codes. The Fund occasionally votes shares directly, usually in support of shareholder motions.

	No. of Meetings	No. of AGMs	No. of EGMs	Combined AGM/EGM	No. of Resolutions	Votes For	Votes Against	Abstentions	Not Voted	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	**5**	4	1	-	**178**	155	3	1	19	5	-
Genesis	**4**	4	-	-	**82**	82	-	-	-	4	-
JP Morgan	**28**	25	3	-	**464**	425	3	2	34	28	-
Lazard	**11**	10	1	-	**212**	208	4	-	-	11	-
Legal & General	**781**	628	153	-	**11,165**	10,468	697	-	-	781	-
Legal & General – Segregated Portfolio	**9**	9	-	-	**138**	106	21	-	11	9	-
Lombard Odier	**107**	89	18	-	**1,288**	1,186	11	14	77	107	-
Oldfield Partners	**4**	4	-	-	**93**	93	-	-	-	4	-
Veritas	**4**	4	-	-	**84**	77	6	1	-	4	-
Total	**953**	**777**	**176**	**-**	**13,704**	**12,800**	**745**	**18**	**141**	**953**	**-**
						94%	**5%**	**0%**	**1%**	**100%**	**0%**

2019/20 Overseas

	Total Meetings	AGMs	EGMs	Combined AGM/EGM	No. of Resolutions	Votes For	Votes Against	Abstentions	Not Voted	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	**73**	50	17	6	**975**	909	52	14	-	73	-
Genesis	**248**	168	60	20	**2,706**	2,350	268	84	4	248	-
JP Morgan	**416**	343	60	13	**3,666**	2,940	434	41	251	416	-
Lazard	**99**	81	11	7	**1,265**	1,067	60	6	132	99	-
Legal & General	**3,313**	2,465	848	-	**40,749**	32,510	7,913	326	-	3,313	-
Legal & General – Segregated Portfolio	**689**	646	33	10	**8,503**	6,902	580	235	786	689	-
Lombard Odier	**34**	21	12	1	**250**	223	3	2	22	34	-
Oldfield Partners	**19**	16	2	1	**268**	245	23	-	-	19	-
Veritas	**25**	22	2	1	**412**	326	27	2	57	25	-
Total	**4,916**	**3,812**	**1,045**	**59**	**58,794**	**47,472**	**9,360**	**710**	**1,252**	**4,916**	**-**
						81%	**16%**	**1%**	**2%**	**100%**	**0%**

Items shown as Not Voted when the proxy has been lodged are agenda items classed as non-voting.

Most resolutions involve routine matters of business and the expectation would be for managers to vote for the majority of proposals.

The tables above show how votes were actually cast.

1. Introduction

Glasgow City Council is the administering authority for the Strathclyde Pension Fund. The council delegates this responsibility to the Strathclyde Pension Fund Committee. The council and the committee recognise that they have fiduciary duties and responsibilities towards pension scheme members, participating employers and local taxpayers that are analogous to those holding the office of trustee in the private sector. In carrying out those duties the committee adopts the following approach.

2. Background – No.3 Fund

The No.3 Fund was established in 1993 as a sub-fund of the Strathclyde Pension Fund. It is an admission agreement fund in terms of regulation 52 of the Local Government Pension Scheme (Scotland) regulations 2014. First Glasgow is the only employer in the No.3 Fund. No new entrants have been admitted since the Fund was first established. It is treated as a closed fund.

3. Regulations

Management of the Fund's investments is carried out in accordance with relevant governing legislation and regulations, in particular the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) regulations. Schedule 1 to this statement contains certain disclosures required by the regulations.

4. Key Principle

Because it is closed the No.3 Fund will have a finite duration. Over time this will limit the amount of investment risk appropriate to its strategy.

5. Investment Objective

The investment objective is to support the funding strategy by adopting an investment strategy and structure which incorporate an appropriate balance between risk and return. Given the No.3 Fund's finite duration, this means adopting a liability-matching investment approach with a view to achieving and then maintaining 100% funding.

6. Investment Strategy

The No.3 Fund has adopted a liability driven investment strategy with a mix of return- seeking growth assets and liability-matching assets. The strategy includes a mechanism to de-risk progressively by reducing the growth assets and increasing the liability-matching assets.

Following the transfer of all assets and liabilities of the No. 3 Fund to Aberdeen City Council Transport Fund, the No. 3 Fund was wound up as at the accounting date with no further involvement or responsibility for its liabilities remaining with the Strathclyde Pension Fund.

7. Investment Structure

The committee agrees an investment structure to deliver the investment strategy. The current investment objective, strategy and structure are set out in Schedule 2 to this statement.

8. Roles and Responsibilities

The roles and responsibilities of the main parties involved in management of the No.3 Fund are set out in Schedule 3 to this statement.

9. Risk

In order to achieve its investment objective the Fund takes some investment risk including equity risk and active management risk. It is acknowledged that this leads to volatility of returns and an ultimate risk that its objectives will not be met. Risk is controlled by diversification and other risk management techniques within portfolios, setting appropriate benchmarks and investment guidelines and maintaining a robust investment monitoring regime. The Fund employs a global custodian to ensure safekeeping and efficient servicing of its assets. A de-risking mechanism is integral to the (No.3) Fund's investment strategy.

10. Liquidity

The employer pays significant cash contributions which provide most of the liquidity the (No.3) Fund needs to meet benefits payments. The majority of investments are either traded on major stock markets or have specific liquidity provisions which ensure they can be realised quickly if required. As it continues to de-risk, the Fund will develop a cash-flow matching mechanism within its strategy.

11. Responsible Investment

The Fund is a signatory to the United Nations Principles for Responsible Investment and has adopted the principles as its responsible investment policy. The principles are set out in full in Schedule 4 together with a summary of the Fund's strategy for applying them in practice.

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 corporate governance policies, and taking account of current best practice including the UK Corporate Governance and Stewardship Codes.

13. Guidance

The Fund complies with guidance given by the Scottish Ministers. This includes each of the six Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2009 published by CIPFA and based on the updated Myners principles. Further details are set out in Schedule 5.

14. Stock Lending

The Strathclyde Pension Fund participates in a securities lending programme managed by its global custodian. All stock on loan is fully collateralised with a margin above daily market-to-market value. The programme is also indemnified by the custodian and provides a low-risk source of added value. The No.3 Fund has participated in this programme but its assets are now held in pooled vehicles and are not available for lending.

The full SIP including schedules is available from the Publications area of the SPFO website at https://www.spfo.org.uk/index.aspx?articleid=14489

No.3 Fund Merger

A ministerial direction for the merger of the Strathclyde No. 3 Fund into the Aberdeen City Council Transport Fund, which is administered by Aberdeen City Council, was issued in June 2019. The merger was formally concluded as at 2nd December 2019. All No.3 Fund investment assets were transferred, either in-specie or as cash proceeds from asset sales, between September 2019 and February 2020.

Strathclyde Pension Fund

SECTION 6

SCHEME ADMINISTRATION

STRATHCLYDE PENSION FUND OFFICE (SPFO)

Glasgow City Council is the administering authority for the Local Government Pension Scheme (LGPS) in the west of Scotland. To fulfil this role the Council has established and maintains the Strathclyde Pension Fund. Administration of LGPS benefits for members of the Fund is carried out by the Strathclyde Pension Fund Office (SPFO).

SPFO:

- is a division of Glasgow City Council's Financial Services Department; and
- administers the Scheme on behalf of 168 employers and over 253,000 members.

THE LOCAL GOVERNMENT PENSION SCHEME (LGPS)

The LGPS is a statutory scheme established under primary legislation – the Superannuation Act 1972 and Public Service Pensions Act 2013. The scheme rules take the form of a series of regulations – the Local Government Pension Scheme (Scotland) Regulations. The regulations are Scottish Statutory Instruments (SSIs).

The scheme benefits are set out in the Local Government Pension Scheme (Scotland) Regulations 2018 which are available here:
http://www.scotlgpsregs.org/schemeregs/lgpsregs2018/timeline.php

SCHEME BENEFITS

The Local Government Pension Scheme is a defined benefit scheme.

From 1st April 2015 benefits are accrued at a rate of 1/49th of pensionable pay on a career average basis. Prior to that date benefits were accrued on a final salary basis. These benefits are fully protected on the basis under which they were accrued.

A full description of the scheme benefits can be found in the Members area of the SPFO website at www.spfo.org.uk or at www.scotlgpsregs.org

The following table provides a summary.

Summary of Scheme Benefits

Membership up to 31 March 2009		Membership from 1 April 2009 to 31 March 2015		Membership From 1 April 2015
Annual Pension = (Service years/days x Final Pay) / 80	+	Annual Pension = (Service years/days x Final Pay) / 60	+	Annual Pension = Pensionable pay each year / 49 (half that if in 50/50 section)
+		+		+
Automatic tax-free cash lump sum = 3 x Annual Pension		No automatic tax-free cash lump sum but can convert pension.		No automatic tax-free cash lump sum but can convert pension.
+		+		+

- Annual revaluation and pensions increase in line with CPI inflation
- Partners' and dependents' pensions
- Ill health protection
- Death in service protection

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

ADMINISTRATION STRATEGY

SPFO introduced its first pension administration strategy in March 2010. The Strathclyde Pension Fund Committee agreed a revised strategy in March 2020.

The strategy sets out the procedures and performance standards required of both SPFO and its employers to ensure the efficient and effective administration of the pension scheme.

Aims and Objectives

The strategy aims to ensure that:

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

Achieving the Objectives

There are five key elements necessary to achieving the PAS objectives:

- clear roles and responsibilities
- performance and service standards
- good member data
- engagement and communication
- appropriate resource

The strategic approach to each of these is described in the strategy.

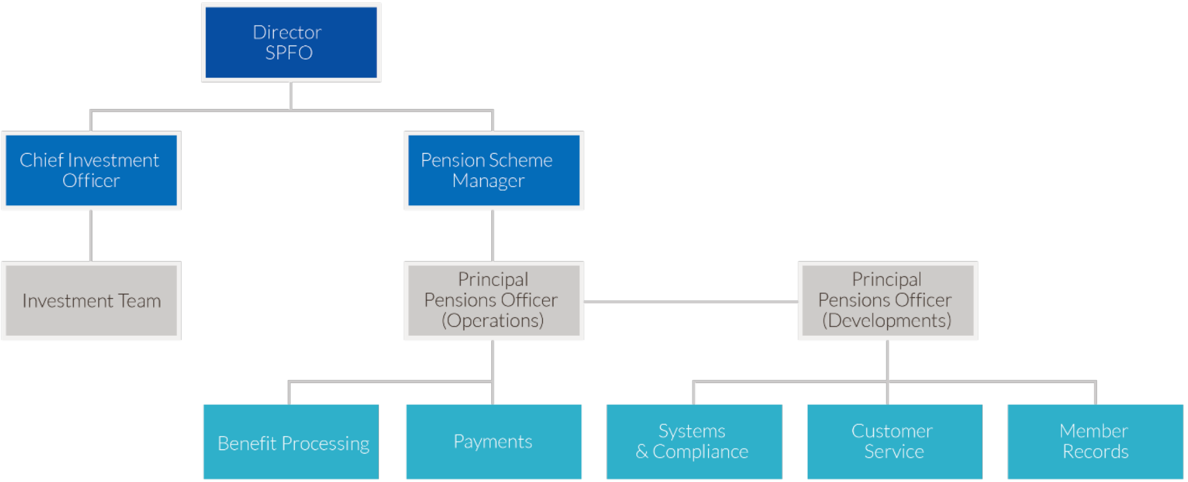
The strategy is published on the Fund's website at:
https://www.spfo.org.uk/index.aspx?articleid=16030

SPFO RESOURCE

Delivery of the PAS objectives requires both employers and SPFO to resource their operations with adequate numbers of staff with suitable knowledge and skills. SPFO resource is reviewed annually in the Business Plan which is approved by the SPF committee. SPFO's staffing structure is summarised below.

SPFO Structure

Total staff in post at 31st March 2020 was 86 (FTE 81.1). This included 5 modern apprentices. The SPFO staffing structure model is shown below.



Key functions

Benefit Processing

- calculation and processing of a range of provisional and actual benefits

Payments

- payments in: monthly contributions for c.168 employers and 107,000 employees
- payments out: lump sums and monthly pension payroll for 90,000 pensioners

Systems & Compliance

- system & website maintenance
- member communications
- data protection, system security and business continuity

Customer Service

- call handling and switchboard
- email: SPFO inboxes, pulse
- mail sorting, scanning & issue

Member Records

- maintain member database
- update for new members & status changes

Systems

SPFO is an established user of *Altair* – a bespoke Local Government Pension Scheme administration system. The *Altair* application is upgraded twice a year and SPFO are currently running on version 10. Within *Altair*, SPFO has implemented *Task Management, Workflow* and *Performance Measurement* modules. These form the core of process planning, management and monitoring. *Altair* is aligned with a Document Image Processing System (DIPS) to achieve straight-through electronic processing. It also provides internet based Member Self Service and Employer Self Service functionality together with *i-Connect,* a secure portal which allows employers to send data submissions direct to SPFO. Ongoing use, continuous development, and increasing member and employer sign-up in these areas are key aspects of the SPFO administration strategy.

Developments During 2019/20

The SPF 2019/20 business plan included a review of the administration strategy, data improvement plan, administration structure and resource. The review of structure and resource considered a number of factors which had changed since the current structure was introduced. These included:

- multiple changes to the scheme regulations;
- developments in the role and activities of the Pensions Regulator;
- growth in scheme membership to more than 250,000; and
- SPFO administration performance had been mixed and a 2018 internal audit report found that there was insufficient segregation of functions within SPFO.

A revised SPFO administration structure was approved and will be implemented during 2020/21.

After consultation with employers, a revised administration strategy was approved by the Committee with an effective date of 1st April 2020. The data improvement plan is included as an appendix to the strategy. A revised SPFO administration structure was also approved and will be implemented during 2020/21.

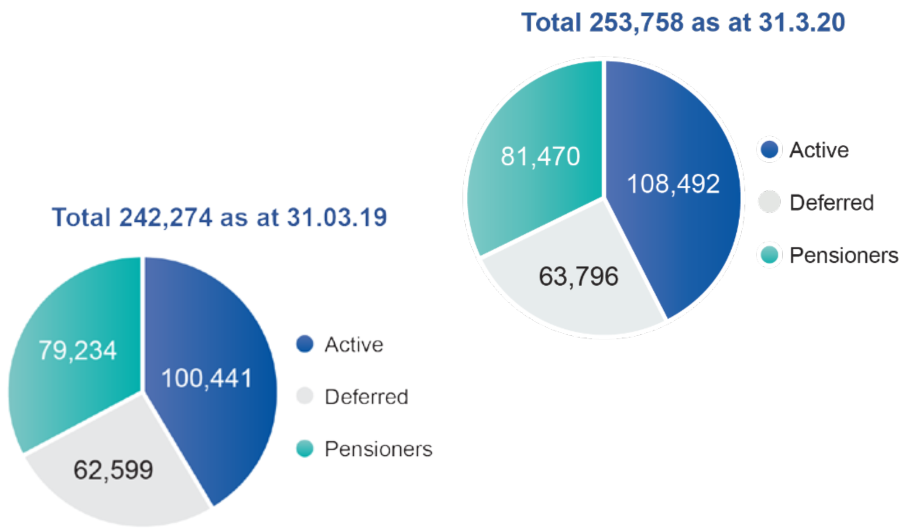
A review of the arrangements for provision of certification by an Occupational Health Practitioner in respect of ill-health retirals was also complete and resulted in SPFO using Glasgow City Council's contract with PAM with effect from January 2020.

All member records in respect of First (Glasgow) were successfully transferred to the North East Scotland Pension Fund as part of the merger of the Strathclyde (No.3) Pension Fund into the Aberdeen City Council Transport Fund.

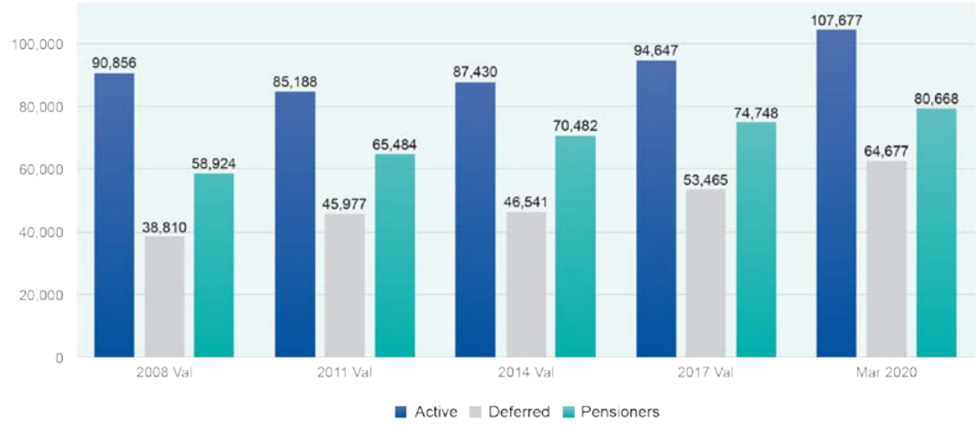
Two further projects - GMP Reconciliation and Equal Pay Settlements - made good progress during the year but were subject to delays by third parties and will be completed during 2020/21.

The charts below show movement in membership numbers over the last year and since the 2008 actuarial valuation of the Fund.

Growth in year



Growth in membership from 2008 to 2020



Membership exceeded 250,000 for the first time in the course of the year.

Administration Cost

	2018/19	2019/20
SPFO – Total Admin	£16.03 per member	£16.36 per member
SPFO – LGPS Admin	£14.41 per member	£14.22 per member
LGPS Average	£21.16 per member	£tbc

LGPS average figures are taken from the CIPFA LGPS benchmarking club when published.

SPFO Service Standards

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

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

Administration performance is reported regularly to the Pension Board and to the Strathclyde Pension Fund Committee. All committee reports are published in the Governance area of the SPFO website at:

www.spfo.org.uk

Performance for the year to 31st March 2020 is set out below.

Payment of Pensions

The single most important critical function of SPFO is to ensure that the monthly pensions payroll runs on its due date. This was achieved each month in 2019/20.

Customer Service

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

Survey Results 2019/20

	Refunds	Retirals
Forms issued	2,520	2,967
Responses	1,140	749
Response rate (%)	45.2	25.2
Satisfaction Rating (%)	**84.4**	**90.7**
Target (%)	80.0	90.0
2018/19 full year (%)	84.8	90.1

Response rate was good and target was achieved for both survey categories.

Transaction Turnaround

Pensions administration is carried out on the Altair pensions system. Turnaround performance is efficiently monitored through a workflow management system called Task Management. The table below shows the targeted and actual performance for 2019/20 together with statutory deadlines.

Turnaround performance 2019/20

		SPFO Targets			Statutory	
Process	Volumes	Target Days	Target %	Actual %	Deadline	SPF Actual %
Membership Transactions						
New Starts	20,983	15	95%	97%	1 month	97%
Refunds	2,520	7	90%	95%	As soon as reasonably practicable	N/A
Deferred Members	3,550	10	90%	94%	2 months	99%
Retiral Estimates	2,531	20	80%	91%	2 months	99%
Payments						
Pensions payroll run on due date	12	n/a	100%	100%	100%	100%
New retirals processed for due payroll date	2,967	n/a	95%	98%	n/a	n/a
Lump sums paid on retirement date	2,967	n/a	95%	97%	n/a	n/a
Contributions income received on due date	12	n/a	100%	100%	100%	100%

Performance was good in 2019/20. SPFO's internal target was achieved in all categories measured.

The SPF target is expressed as *x*% of transactions completed within a target time of *y* days. Performance against the statutory timescales is also shown.

Complaints

SPFO complaints are actioned in accordance with Glasgow City Council Complaints Handling procedure. All complaints are recorded using Lagan, the Council's system for complaint monitoring and recording.

Stage 1 complaints must be answered within 5 working days. Members can proceed to stage 2 if not satisfied with the response.

Stage 2 complaints must be answered within 20 working days. The Pension Scheme Manager responds to these. An acknowledgement letter must be issued within 3 days.

If the member remains dissatisfied they have the right to refer the complaint to the Scottish Public Services Ombudsman.

		Days to Respond		
Category	**Volume**	**Target**	**Actual (Average)**	**Achieved (%)**
Processing Delay	16	5	3	100
Procedure	2	5	4	50
Staff Attitude	1	5	29	0
Quality Of Information	7	5	4	100
Wait Time Correspondence	5	5	3	100
Other	3	5	9	67
Processing Delay – Stage 2	1	20	10	100
Quality of Information – Stage 2	3	20	9	100

Member Data

Employers are required to notify SPFO promptly of members joining or leaving the scheme. There is some incidence of failure to do this and regular reports are issued to employers identifying missing data, both historic and current. The table below summarises the position at 31st March 2020.

	Members	2019/20 %	Members	2018/19 %
Record status matched	107,499	99.1	99,041	98.6
Missing new start data	306	0.3	663	0.7
Missing leaver data	687	0.6	737	0.7
Total employee members	**108,492**	**100**	**100,441**	**100**

The missing data total of 0.9% for 2019/20 achieved the year-end target of <2.0% and is an improvement on the previous year figure of 1.4%.

Data Quality

The Pensions Regulator (TPR) has set targets for common data of:

- 100% accuracy for data created after June 2010; and
- 95% accuracy for data created before that date.

TPR also provides guidance on scheme-specific data but has not set prescriptive targets as this should be agreed at Scheme level.

The Pensions Regulator provides the following definitions:

- Common Data are basic items which are used to identify scheme members, including surname, sex, national insurance number, postcode, date of birth, etc.
- Scheme Specific (Conditional) Data are items relating to the member's pension, including employer name, salary records, service history, contributions history, etc.

SPFO subscribes to the Data Quality Service (DQS) provided by its software supplier (Aquila Heywood) to carry out data analysis.
Results across multiple fields and all member statuses are summarised below.

Data Type	Overall Tests Passed (%)		Records without a single data failure (%)		TPR Tests Passed (%)	
	2018	2019	*2018*	2019	*2018*	2019
Common data	*99.1*	99.3	*93.0*	94.5	*n/a*	**96.5**
Scheme-specific data	*97.2*	97.6	*88.5*	89.7	*n/a*	**94.7**

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

DQS tests all records held on the SPF system, including dead and exited members. The analysis will be provided annually to allow SPFO to measure progress towards TPR targets.

All pension funds are required to make an annual scheme return to TPR which includes summary figures for core data tests passed.

Reporting to the Pensions Regulator

All breaches of the regulations which are identified are logged within SPFO. Any breaches which might be of material significance to The Pension Regulator (TPR) require to be reported.

One breach was reported in respect of 2018/19 and remedied in the course of 2019/20.

No breaches which required to be reported occurred during 2019/2020

A

AMEY BPO Services Ltd (Renfrewshire Schools PPP)
Amey Public Services LLP
Argyll & Bute Council
Argyll College
Argyll Community Housing Association Ltd
Auchenback Active Ltd
Ayr Action for Mental Health Limited
Ayr Housing Aid Centre
Ayrshire College
Ayrshire Housing
Ayrshire North Community Housing
Ayrshire Valuation Joint Board

B

BAM Construct UK Ltd (East Renfrewshire)
BAM Construct UK Ltd (West Dunbartonshire)
Business Loans Scotland
Bridgeton Calton and Dalmarnock Credit Union

C

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

D

Dunbartonshire & Argyll & Bute Valuation Joint Board

E

East Ayrshire Council
East Ayrshire Leisure Trust
East Dunbartonshire Citizens Advice Bureau
East Dunbartonshire Council
East Dunbartonshire Leisure and Culture Trust
East Renfrewshire Carers
East Renfrewshire Council
East Renfrewshire Culture & Leisure Trust
Easterhouse Citizens Advice Bureau
Enable Glasgow
Engage Renfrewshire
Equals Advocacy Partnership Mental Health

F

First Glasgow (No.3 Fund) **(E)**
Flourish House
Forth & Oban Ltd
Fyne Homes Ltd.

G

Geilsland School Beith for Church of Scotland (Crossreach)
General Teaching Council for Scotland
Glasgow Association for Mental Health
Glasgow Caledonian University
Glasgow City Council
Glasgow City Heritage Trust
Glasgow Clyde College
Glasgow Colleges Regional Board
Glasgow Council for Voluntary Service
Glasgow Credit Union
Glasgow East Women's Aid
Glasgow Film Theatre
Glasgow Housing Association
Glasgow Kelvin College
Glasgow Life
Glasgow School of Art
Glasgow West Housing Agency
Glasgow Women's Aid
Good Shepherd Centre
Govan Home and Education Link Project
Govan Law Centre
Govanhill Housing Association
Greenspace Scotland

H

H.E.L.P. (Argyll & Bute) Ltd
Highland & Islands Enterprise Company Ltd.

I

Inverclyde Council
Inverclyde Leisure
ISS UK **(N)**

J

Jobs and Business Glasgow
Jordanhill School

K

Kibble School
Kings Theatre Glasgow Ltd

L

Lanarkshire Association for Mental Health
Lanarkshire Housing Association Ltd
Lanarkshire Valuation Joint Board
Linstone Housing Association Ltd
Live Argyll
Loch Lomond & The Trossachs National Park Authority

M

Maryhill Housing Association
Milnbank Housing Association
Mitie PFI Ltd (Argyll & Bute Education PPP)
Mitie PFI Ltd (East Ayrshire Education PPP)
Mitie PFI Ltd (North Ayrshire Education PPP)
Mitie PFI Ltd (South Ayrshire Education PPP)

N

New College Lanarkshire
New Gorbals Housing Association
North Ayrshire Council
North Ayrshire Leisure Ltd
North Glasgow Housing Association
North Lanarkshire Carers Together
North Lanarkshire Council
North Lanarkshire Leisure Ltd **(E)**
North Lanarkshire Properties

O

Optima (Working on Wellbeing)

P

Parkhead Housing Association Ltd
Police Scotland
Potential Living

Q

Queens Cross Housing Association

R

Rape Crisis Centre
RCA Trust
Regen: FX Youth Trust
Reidvale Adventure Playground
Renfrewshire Carers Centre
Renfrewshire Council
Renfrewshire Leisure Ltd
Renfrewshire Valuation Joint Board
River Clyde Homes
Riverside Inverclyde **(E)**
Routes to Work Limited
Royal Conservatoire of Scotland

S

SACRO
Sanctuary Scotland Housing Association
Scottish Canals
Scottish Environmental & Outdoor Centres
Scottish Fire and Rescue Service
Scottish Library & Information Council
Scottish Maritime Museum Trust
Scottish Out Of School Care Network
Scottish Police Authority
Scottish Qualifications Authority
Scottish Water
Scottish Water Business Stream Ltd
SEEMIS Group LLP
Shettleston Housing Association
Skills Development Scotland Ltd
Sodexo Ltd (Argyll & Bute)
Sodexo Ltd (Fire)
South Ayrshire Council
South Ayrshire Energy Agency
South Lanarkshire College
South Lanarkshire Council
South Lanarkshire Leisure & Culture Limited
Southside Housing Association
Sport Scotland
St Mary's Kenmure

St Philip's School
Strathclyde Partnership for Transport
Strathclyde Wing Hong Chinese Elderly Group

T

The Financial Fitness Resource Team
The Milton Kids D.A.S.H. Club
The Scottish Centre for Children with Motor Impairments
The Volunteer Centre
Tollcross Housing Association
Town Centre Activities Limited **(E)**

U

University of Aberdeen (ex Northern College)
University of Dundee (ex Northern College)
University of Edinburgh (ex Moray House)
University of Glasgow (ex St. Andrew's College)
University of Glasgow (ex SCRE employees only)
University of Strathclyde
University of The West of Scotland
UTHEO Limited

V

Visit Scotland (Ayrshire)
Visit Scotland (Glasgow)

W

West College Scotland
West Dunbartonshire Council
West Dunbartonshire Leisure Trust
West of Scotland Colleges Partnership **(E)**
West of Scotland Regional Equality Council

Y

Youth Counselling Services Agency

NEW AND EXITING EMPLOYERS

New employers may participate in the Fund subject to satisfying the requirements of the Local Government Pension Scheme Regulations and the Fund's policy on admissions.

The process for an exiting employer is set out in the regulations which require the Fund actuary to calculate an exit payment. The calculation is usually carried out on a discontinuance basis which means that the payment due from the employer can be substantial. SPFO has developed procedures to manage employer exits through phased payments both before and after the event.

Employer participation during 2019/20 is summarised in the following table.

Total employers as at 1st April 2019	172
New employers **(N)**	+1
Exiting employers **(E)**	-5
Total employers as at 31st March 2020	168

Communications Policy

SPFO adopted the following revised Communications policy with effect from 1st April 2015.

The Communications Policy will be reviewed during 2020/21.

1. VISION

Everyone with any interest in the Fund should have ready access to all the information they need.

2. OBJECTIVES

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

3. PRINCIPLES

3.1 Format

Our communications will:

- Have a clear purpose.
- Have a clear message.
- Be well written and presented.
- Make an impact.

3.2 Brand

The Strathclyde Pension Fund is a strong brand with which members and others identify. We will protect and promote it.

3.3 Content

Content will be relevant and timely.

3.4 Delivery

- We will use the most efficient and effective delivery media.
- We are committed to increasing digital access and delivery.

3.5 Measuring Success

- We will measure, monitor and report on our communications programme.
- We will encourage engagement, comment and feedback.

4. DEVELOPMENT PRIORITIES

Our current priority is to increase and improve digital delivery of our communications.

5. MEASUREMENT OF SUCCESS

We will measure our success in terms of customer engagement and satisfaction. Targets will be agreed in our annual business plan. Results will be reported annually.

6. PROGRAMME

Our current programme of communications is summarised in the following schedules which set out the audience, key messages, media used, and deliverables.

Communications Performance

During scheme year 2019/20 SPFO:

- produced and issued annual newsletters for all Employee, Pensioner and Deferred members.
- produced and issued annual benefit statements for all of employee members. 99% were issued by the 31st August statutory deadline. The remaining 1% related to new members and were issued later, once data had been obtained from employers.

Digital Communications

Improving and increasing digital delivery of communications is a key priority.
Progress is summarised in the table below.

Website	Measure	2019/20 Actual	2019/20 Target	*2018 Actual*
www.spfo.org.uk	total weekly visits	**7,259**	6,000	*5,868*
	unique weekly visitors	**4,692**	3,700	*3,567*
SPFOnline	members registered	**83,659**	70,000	*68,784*
i-Connect	total extract returns	**23**	18	*13*
	total online returns	**75**	85	*35*

During scheme year 2019/20 SPFO:

- further consolidated the success of the digital communications strategy with 10,596 new digital members registered for the data portal, SPFOnline, taking the total to over 83,659.
- delivered 90% of member newsletters to employee, deferred and pensioner members digitally
- agreed a deadline of 31st March 2021 for all employers to adopt the SPF data management solution, i-Connect.

Strathclyde Pension Fund

SECTION 7

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT – NO.1 FUND

Independent auditor's report to the members of Glasgow City Council as administering authority for Strathclyde Pension Fund No.1 and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of Strathclyde Pension Fund No.1 (the fund) for the year ended 31 March 2020 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the financial transactions of the fund during the year ended 31 March 2020 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed under arrangements approved by the Accounts Commission on 7 January 2019. The period of total uninterrupted appointment is 2 years. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter: Additional uncertainty on property valuations

I draw attention to Note 4 in the financial statements, which describes the effects of material uncertainties that exist in the valuation of the fund's UK property portfolio due to the impact of the Covid-19 pandemic. My opinion is not modified in respect of this matter.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

I report in a separate Annual Audit Report, available from the Audit Scotland website, the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Executive Director of Finance and Strathclyde Pension Fund Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Executive Director of Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Executive Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director of Finance is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Strathclyde Pension Fund Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual report

The Executive Director of Finance is responsible for the other information in the annual report. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and

INDEPENDENT AUDITOR'S REPORT – NO.1 FUND

- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

John Cornett FCPFA
Audit Director

Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

INDEPENDENT AUDITOR'S REPORT – NO.3 FUND

AUDIT SCOTLAND

Independent auditor's report to the members of Glasgow City Council as administering authority for Strathclyde Pension Fund No.3 and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of Strathclyde Pension Fund No.3 (the fund) for the period ended 2 December 2019 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the financial transactions of the fund during the period ended 2 December 2019 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed under arrangements approved by the Accounts Commission on 7 January 2019. The period of total uninterrupted appointment is 2 years. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

INDEPENDENT AUDITOR'S REPORT – NO.3 FUND

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

I report in a separate Annual Audit Report, available from the Audit Scotland website, the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Executive Director of Finance and Strathclyde Pension Fund Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Executive Director of Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Executive Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director of Finance is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Strathclyde Pension Fund Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITOR'S REPORT – NO.3 FUND

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual report

The Executive Director of Finance is responsible for the other information in the annual report. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the period for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the period for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the period for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

INDEPENDENT AUDITOR'S REPORT – NO.3 FUND

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

John Cornett FCPFA
Audit Director

Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

STRATHCLYDE PENSION FUND OFFICE – KEY PERSONS

Director:	Richard McIndoe.
Chief Investment Officer:	Jacqueline Gillies
Investment Manager:	Richard Keery
Investment Manager:	Ian Jamison
Pension Scheme Manager:	Linda Welsh
Principal Pensions Officer:	(Development) Nicola Smith
Principal Pensions Officer:	(Operations) Brian Rodden
Chief Finance Officer:	Stuart Tough

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