FOR YOUR FUTURE
2016/17 Overview

Richard McIndoe
Director SPFO
Weekly tracker

How likely is it that scheme investments will be at a higher value in six months?
Weekly tracker

How likely is it that scheme investments will be at a higher value in six months?
Weekly tracker

How likely is it that scheme investments will be at a higher value in six months?

Brexit vote is poor outcome for UK, says industry
2016/17 Overview

FTSE 100

TODAY | 1 MONTH | 3 MONTHS | 6 MONTHS | 1 YEAR | 3 YEARS | 5 YEARS

Aug '16 | Oct '16 | Dec '16 | Feb '17 | Apr '17 | Jun '17

7,547.63 | 7,164.31 | 6,781.00 | 6,397.68 | 6,014.37 | 5,831.05
Agenda

**Session 1 – 2016/17 Review**
- Investment
- Administration
- Finance

**Session 2**
- Governance
- Actuarial Update
- Economic Perspective
How likely is it that scheme investments will be at a higher value in six months?
Awards

Public Sector Scheme of the Year

Winner: Strathclyde Pension Fund

Highly Commended: Norfolk Pension Fund

Finalists:
Lancashire County Pension Fund
Lothian Pension Fund
Norfolk Pension Fund
North East Scotland Pension Fund
Strathclyde Pension Fund
Surrey Pension Fund
West Yorkshire Pension Fund
Investments

Jacqueline Gillies
Chief Investment Officer
Investment Performance

Fund performance for year ended 31 March 2017

Local authority universe ranking 16/17: 14th percentile
Dow Jones Industrial Average
The Fund has adopted a risk-return asset framework as the basis for modelling and agreeing investment strategy.
The current objectives of the investment strategy are to achieve:
• a greater than \( \frac{2}{3} \) probability of being 100% funded by 2026; and
• a less than 10% probability of falling below 70% funded over the next three years.

<table>
<thead>
<tr>
<th>Asset</th>
<th>Current</th>
<th>Alt 1</th>
<th>Alt 2</th>
<th>Alt 3</th>
<th>Alt 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Equity</td>
<td>72.5</td>
<td>62.5</td>
<td>52.5</td>
<td>42.5</td>
<td>32.5</td>
</tr>
<tr>
<td>Hedging/Insurance</td>
<td>4.5</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Credit</td>
<td>3.0</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>S/T Enhanced Yield</td>
<td>7.5</td>
<td>15.0</td>
<td>20.0</td>
<td>25.0</td>
<td>30.0</td>
</tr>
<tr>
<td>L/T Enhanced Yield</td>
<td>12.5</td>
<td>15.0</td>
<td>20.0</td>
<td>25.0</td>
<td>30.0</td>
</tr>
<tr>
<td>Return (% p.a.)</td>
<td>6.1</td>
<td>6.0</td>
<td>5.9</td>
<td>5.8</td>
<td>5.5</td>
</tr>
<tr>
<td>Volatility (% p.a.)</td>
<td>13</td>
<td>12</td>
<td>11</td>
<td>10</td>
<td>9</td>
</tr>
</tbody>
</table>
Investment Strategy and Structure

- Sold £2.7 billion of **Equity** across 4 portfolios; £100 million from **Hedging /Insurance (UK Gilts)**
- Re-invested £1.2 billion into **Equity**
- Invested £1 billion into debt mandates to increase exposure to **Short term enhanced yield**
- Investment c£400 million into a US **Credit** mandate with Legal and General
- Remainder held in cash to fund ongoing commitments to **Short Term Enhanced Yield**
## Current allocations

<table>
<thead>
<tr>
<th>Asset</th>
<th>31st March 2017</th>
<th>31st March 2016</th>
<th>Target allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Equity</td>
<td>68.6</td>
<td>72.9</td>
<td>62.5</td>
</tr>
<tr>
<td>Hedging/Insurance</td>
<td>1.4</td>
<td>2.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Credit</td>
<td>5.4</td>
<td>3.6</td>
<td>6.0</td>
</tr>
<tr>
<td>S/T Enhanced Yield</td>
<td>8.3</td>
<td>6.6</td>
<td>15.0</td>
</tr>
<tr>
<td>L/T Enhanced Yield</td>
<td>12.4</td>
<td>13.5</td>
<td>15.0</td>
</tr>
<tr>
<td>Cash</td>
<td>3.9</td>
<td>1.4</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Manager</td>
<td>Annual Return (%)</td>
<td>Benchmark Return (%)</td>
<td>Relative Return (%)</td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>-------------------</td>
<td>----------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Legal &amp; General</td>
<td>26.9</td>
<td>26.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Baillie Gifford</td>
<td>32.7</td>
<td>30.7</td>
<td>1.5</td>
</tr>
<tr>
<td>Lazard</td>
<td>29.0</td>
<td>32.2</td>
<td>-2.4</td>
</tr>
<tr>
<td>Veritas</td>
<td>26.3</td>
<td>32.2</td>
<td>-4.5</td>
</tr>
<tr>
<td>Oldfield</td>
<td>48.2</td>
<td>31.9</td>
<td>12.4</td>
</tr>
<tr>
<td>Henderson</td>
<td>9.0</td>
<td>21.7</td>
<td>-10.4</td>
</tr>
<tr>
<td>JP Morgan</td>
<td>34.6</td>
<td>35.5</td>
<td>-0.7</td>
</tr>
<tr>
<td>Genesis</td>
<td>31.9</td>
<td>36.5</td>
<td>-3.4</td>
</tr>
<tr>
<td>Pantheon</td>
<td>21.5</td>
<td>22.0</td>
<td>-0.4</td>
</tr>
<tr>
<td>Partners Group (Private Equity)</td>
<td>21.2</td>
<td>22.0</td>
<td>-0.7</td>
</tr>
<tr>
<td>Direct Investment Portfolio</td>
<td>7.7</td>
<td>0.7</td>
<td>7.0</td>
</tr>
<tr>
<td>PIMCO</td>
<td>0.5</td>
<td>3.4</td>
<td>-2.8</td>
</tr>
<tr>
<td>DTZ</td>
<td>5.4</td>
<td>3.5</td>
<td>1.8</td>
</tr>
<tr>
<td>Partners Group (Real Estate)</td>
<td>21.2</td>
<td>2.4</td>
<td>18.3</td>
</tr>
<tr>
<td>Legal &amp; General (EM Future)</td>
<td>27.0</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>TOTAL FUND</td>
<td>23.1</td>
<td>22.0</td>
<td>1.1</td>
</tr>
</tbody>
</table>
Investment Performance

Annualised 3 Yearly Returns (% per year)

- Fund Return
- Benchmark Return
- Relative Excess Return

Mar-08

% p.a.

-20.0 -15.0 -10.0 -5.0 0.0 5.0 10.0 15.0 20.0

% p.a.

-2.0 -1.5 -1.0 -0.5 0.0 0.5 1.0 1.5 2.0

-10.0 -5.0 0.0 5.0 10.0 15.0 20.0
Investment Performance

Long Term Performance

- 3 Year Annualised
- 5 Year Annualised
- 10 Year Annualised

- Fund Return
- Relative Return
- Average Earnings
- Fund Benchmark
- Consumer Price Index
- Average Earnings
Guiding Principles

**ESG Integration**
- 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.

**Active Ownership**
- The Fund prefers to adopt a policy of risk monitoring and engagement in order to positively influence company behaviour and enhance shareholder value, influence that would be lost through a divestment approach.
Corporate Governance – Voting

- 54,853 resolutions at 4,984 company meetings
- 100% of total votes lodged (UK & Overseas)
- 89% of votes in support of management
Responsible Investment

2016/17 ESG - Engagement topics

- Slave labour
- Protection of endangered species
- Human rights
- Factory farming emissions
- Inhumane weapons
- Fossil fuel to renewables
- Tax transparency
- Oil and gas exploration in the Arctic
- Corporate corruption
- Worker safety in Bangladesh garment industry
- Vehicle Emissions

- Executive remuneration
- Labour rights
- UK Corporate Governance Code
- Mine safety
- **Climate change**
- Child Labour in the cocoa industry
- The Living Wage
- Water rights
- Farm animal welfare
- Deforestation
- Indigenous people’s rights
The Asset Owners Disclosure Project (AODP)
Global Climate 500 Index

- Rates the world’s 500 largest asset owners on their success at managing climate risk within their portfolios.

- Strathclyde Pension Fund is ranked at 38 out of the 500 asset owners surveyed in the 2017 Global Climate 500 Index (up from 149 in 2015) and is the top ranked LGPS (GMPF ranked 47)

- Improvement due to carbon footprinting, climate change engagement initiatives, and investment in renewable energy through the Direct Investment Portfolio.
Responsible Investment

- Trucost carbon audit of equity portfolios identifies the main sources of carbon and provides a basis for targeted climate change engagement.

- *Key Findings-*
  - Carbon footprint of the Fund’s equity portfolio was 7% lower than the carbon footprint of the MSCI All Country World Index.
  - Ten companies contributed nearly half of the carbon footprint and 22.3% of the carbon footprint comes from two companies in the Utilities sector.
  - No evidence that oil and gas stocks are a major factor in the Fund’s carbon footprint.
  - Construction & Materials the worst performing equity sector = 6.9% more carbon intensive than the benchmark. Cement companies are the most carbon intensive holdings in the portfolio.
RE100 - Collaborative initiative of 32 investors covering $1 trillion in assets supporting companies that make a public pledge to switch to 100% renewable electricity for their international operations. At the close of 2016 there were 96 corporate members of RE100 including 42 companies with goals to achieve 100% renewable electricity by 2024.

Farm Animal Investment Risk and Return (FAIRR) - Collaborative initiative of 60 investors with $1.9 trillion in assets encouraging analysis and engagement around the long-term risks that factory farming poses to portfolios. Livestock farming produces more global greenhouse gases than the transport sector.

Carbon Disclosure Project Carbon Action - Collaborative initiative to accelerate company action on carbon reduction and energy efficiency activities. In 2016, 329 investors with US$25 trillion in assets under management asked 1,300 companies across 17 high emitting industries to take specific actions in response to climate change.
Direct Investment Portfolio

DIP investments are typically illiquid, self-liquidating, and opportunistic. Focussed on investment in Scotland and the rest of the UK, strong fundamentals are usually enhanced by a positive local, economic or ESG (Environmental, Social, Governance) impact which adds value to the investment rationale. **Renewable Energy, Infrastructure and Credit** comprise the three largest sector exposures.

- **Investments agreed**: 31
- **Investment commitments agreed**: £714m
- **Net Asset Value (NAV)**: £383m
- **Total capacity at 5% max NAV**: £980m
Direct Investment Portfolio

- Renewable Energy - Green Investment Bank’s Offshore Wind Fund

Sheringham Shoal, a 317 MW offshore wind farm located off the North Norfolk coast
Direct Investment Portfolio

- Renewable Energy - Iona Environmental Infrastructure

St Boswells Biogas Limited
Charlesfield, St Boswells
Direct Investment Portfolio

- Infrastructure - Aberdeen UK infrastructure fund

![Baillieston Interchange](image1)
![NHS Dumfries & Galloway Hospital](image2)
Direct Investment Portfolio

- During 2016/17, the Committee agreed the following commitments:

- £30m to Equitix Fund IV, which will develop and manage core infrastructure assets in the UK.

- An additional £30m to the Green Investment Bank’s Offshore Wind Fund.

- £20m to the Maven Regional Buyout Fund, to invest in SMEs with a UK regional approach and focus on the smaller end of the buyout market.

- £10m to Pentech Fund III, which will invest in early stage software with a clear focus on UK companies.

- £20m to Iona Capital Ltd’s new fund (Iona Environmental Infrastructure 3 LP), which will build, own and operate small-scale renewable energy plants across the UK.

- £40m to the Pemberton UK Mid-Market Lending Fund, which will focus on senior loan investments in UK mid-markets.
Questions?
Administration

Linda Welsh
Pension Scheme Manager
Agenda

- **What we *have* achieved**
  - Annual Benefit Statements
  - SPFO Performance
  - Employer Performance

- **What we *want* to achieve**
  - Compliance with The Pension Regulator
  - Employer Engagement
  - Digital Delivery
  - Improving the member experience
FOR YOUR FUTURE

2016 AGM
Annual Benefit Statements

The Local Government Pension Scheme (Scotland) Regulations 2015

Reg 87 –

(1) An administering authority must issue an annual benefit statement to each of its active, deferred and pension credit members.

(2) The statement must be issued no later than five months after the end of the Scheme year to which it relates.

• First year of Career Average Revalued Earnings Scheme

• 98% of active membership at 31st March 2016 received an Annual Benefit Statement.

Fantastic achievement
SPFO Membership

<table>
<thead>
<tr>
<th>Year</th>
<th>Active</th>
<th>Deferred</th>
<th>Pensioners</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 Val</td>
<td>38,810</td>
<td>58,924</td>
<td>38,810</td>
</tr>
<tr>
<td>2011 Val</td>
<td>45,977</td>
<td>65,484</td>
<td>45,977</td>
</tr>
<tr>
<td>2014 Val</td>
<td>46,541</td>
<td>70,482</td>
<td>46,541</td>
</tr>
<tr>
<td>Mar-17</td>
<td>53,465</td>
<td>74,748</td>
<td>53,465</td>
</tr>
</tbody>
</table>

The chart shows the membership numbers for different years and categories: Active, Deferred, and Pensioners.
SPFO Performance

- Deferred: 97.31% Achieved, 90% Target
- Data Changes: 99.5% Achieved, 95% Target
- Retirement Quotes: 70.78% Achieved, 80% Target
- Retirals: 75.03% Achieved, 80% Target
- Early Leavers: 96.35% Achieved, 90% Target
- TV In: 81.01% Achieved, 85% Target
- TV Out: 80.43% Achieved, 90% Target
## Employers’ Performance

<table>
<thead>
<tr>
<th>Service Standard</th>
<th>% achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>New start good quality data (Local Authority Employers)</td>
<td>72%</td>
</tr>
<tr>
<td>Electronic notification of changes received (Local Authority Employers)</td>
<td>60%</td>
</tr>
<tr>
<td>Prior notice of retirement (2 months)</td>
<td>35%</td>
</tr>
<tr>
<td>Submission of year-end contribution return by the 20th May</td>
<td>76%</td>
</tr>
<tr>
<td>Remittance of employee and employer contributions by the 19th of the month following deduction (Local Authority Employers)</td>
<td>99%</td>
</tr>
</tbody>
</table>
What we want to achieve

- Compliance with The Pensions Regulator
- Employer Engagement
- Digital Delivery
- Improving the member experience
Pensions Administration Strategy

• **Purpose:**
  - To set out the roles and responsibilities of SPFO and its employers; and
  - To clearly establish the levels of performance SPFO and its employers are expected to achieve in carrying out their functions.

• **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 Pension Regulators Code of Practice.

• **Roles and Responsibilities:**
  - Statutory responsibilities and service standards of both SPFO and scheme employers

• **Monitoring and Reporting**

• **SPFO Policy on Discretions**
Code of practice

- Governing your scheme
  - knowledge and understanding required by pension board members
  - conflicts of interest and representation
  - publishing information about schemes

- Administration
  - scheme record-keeping
  - maintaining contributions
  - providing information to members

- Resolving issues
  - internal dispute resolution
  - reporting breaches of law
• Transitional period allowed employers to delay automatic enrolment for eligible jobholders until 30th September 2017

• 1st October 2017 becomes the assessment date where the employer must assess whether the worker is an eligible jobholder

• SPF require clarification of expected numbers

• SPF to introduce new processes for AE joiners and Opt Outs to allow separation from business as usual process
Employer Engagement

- Appointed Employer Engagement Manager – Karen Sweeney

Remit –

- Ensure timely and accurate data is received
- Resolve issues at source
- Automate flow of information on a monthly basis
- Individual one to one meetings
- Data Improvement Plans
- I-connect
Digital Delivery
Communications Policy

• **Vision:** everyone with any interest in the Fund should have ready access to all the information they need.

• **Objectives:**
  - To *improve understanding* of the scheme and the Fund.
  - To *promote* the benefits of the scheme.
  - To allow members to make *informed decisions*.

• **Principles:** our communications will
  - Have a clear *purpose*.
  - Have a clear *message*.
  - Be *well written* and presented.
  - Make an *impact*.

• **Development:** priority is to increase and improve *digital delivery*

• **Measurement:** annual *targets*

• **Programme:** for each audience group
Communications
28,068 of active members completed registration
32% of membership

9,640 of deferred members completed registration
26% of membership

14,690 of pensioner members completed registration
21% of membership

27% of total membership completed registration
SPFOnline

By signing up for SPFOnline, you are accepting its Terms and Conditions, Privacy Policy and Statement and Cookie Policy.

SPFOnline is available to active, deferred and pensioner members.

If you have more than one pension record, you only need to sign up once.
Next steps for

- Exceed the 2017/18 target of 53,000 registered members
- Changing mind sets
- Councillors going digital
- Becoming Pensioners
Member Experience
Satisfaction rating and feedback

<table>
<thead>
<tr>
<th></th>
<th>Target – 80%</th>
<th>Target – 90%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refunds</td>
<td>82.8%</td>
<td>Retirals</td>
</tr>
<tr>
<td></td>
<td></td>
<td>88.3%</td>
</tr>
</tbody>
</table>

“Excellent service”

“Well deserving of its good reputation, the whole process was seamless and efficient, Thank you!”

“From beginning to conclusion excellent staff, helpful and professional”

“Thank you so much, first class service and so many members as well!”
Questions?
Finance

Paul Murphy
Finance Manager
Final Accounts 2016/17

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 MARCH 2017
Agenda

• 2016/17 Annual Accounts
  – Fund Account
  – Return on Investments
  – Net Assets Statement

• Current and previous year movement and trends

• Future
## 2016/17 Annual Accounts – Members

### Fund Income

<table>
<thead>
<tr>
<th>£m</th>
<th>2015/16</th>
<th>Description</th>
<th>£m</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>391</td>
<td></td>
<td>Contributions receivable from employers</td>
<td>398</td>
<td></td>
</tr>
<tr>
<td>117</td>
<td></td>
<td>Contributions receivable from employees</td>
<td>122</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td>Transfers in</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td></td>
<td>Other income</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td><strong>513</strong></td>
<td></td>
<td></td>
<td><strong>526</strong></td>
<td></td>
</tr>
</tbody>
</table>

### Fund Payments

| £m   | 2015/16 | Description                                                      | £m   | 2016/17 |
|------|---------|                                                                |------|---------|
| 397  |         | Pensions                                                         | 411  |         |
| 104  |         | Lump sums and Death Benefits                                     | 121  |         |
| 22   |         | Payments to and on account of Leavers                           | 25   |         |
| **523** |       |                                                                | **557** |       |

**Net Addition/Reduction - from dealings with members**

| £m   | 2015/16 | Description                                                      | £m   | 2016/17 |
|------|---------|                                                                |------|---------|
| -10  |         |                                                                | -31  |         |
Total Income from Members and Employers

<table>
<thead>
<tr>
<th>Year</th>
<th>Income (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014/15</td>
<td>500</td>
</tr>
<tr>
<td>2015/16</td>
<td>550</td>
</tr>
<tr>
<td>2016/17</td>
<td>600</td>
</tr>
</tbody>
</table>
Total Expenditure from Dealing with Members

£m

<table>
<thead>
<tr>
<th>Year</th>
<th>Expenditure (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014/15</td>
<td>500</td>
</tr>
<tr>
<td>2015/16</td>
<td>600</td>
</tr>
<tr>
<td>2016/17</td>
<td>600</td>
</tr>
</tbody>
</table>
Return on Investments

£3.7bn
# 2016/17 Accounts – Return on Investment

<table>
<thead>
<tr>
<th>2015/16</th>
<th>2016/17</th>
<th><strong>£m</strong></th>
<th><strong>£m</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Returns on Investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Investment income</td>
<td>229</td>
<td>252</td>
</tr>
<tr>
<td></td>
<td>Management expenses</td>
<td>(93)</td>
<td>(101)</td>
</tr>
<tr>
<td></td>
<td>Change in market value of</td>
<td>174</td>
<td>3,521</td>
</tr>
<tr>
<td></td>
<td>investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>310</td>
<td>Net returns on investments</td>
<td>310</td>
<td>3,672</td>
</tr>
<tr>
<td>300</td>
<td>Net movement in the Fund during</td>
<td>300</td>
<td>3,641</td>
</tr>
<tr>
<td></td>
<td>the year</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**ADD**

| 15,758  | Opening net assets as at 1st April | 16,058 |

**EQUALS**

| 16,058  | Closing net assets as at 31st March | 19,699 |
Net Return on Investments

£m

2014/15

2015/16

2016/17
Net Assets

£19.7bn
## 2016/17 Annual Accounts – Net Assets

<table>
<thead>
<tr>
<th>2015/16</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>Investment Assets</td>
</tr>
<tr>
<td>7,660</td>
<td>Equities</td>
</tr>
<tr>
<td>6,238</td>
<td>Pooled Investment Vehicles</td>
</tr>
<tr>
<td>6</td>
<td>Derivative Contracts</td>
</tr>
<tr>
<td>1,571</td>
<td>Property</td>
</tr>
<tr>
<td>560</td>
<td>Cash and Other</td>
</tr>
<tr>
<td>16,035</td>
<td></td>
</tr>
<tr>
<td>(30)</td>
<td>Investment liabilities</td>
</tr>
<tr>
<td>99</td>
<td>Current Assets</td>
</tr>
<tr>
<td>(46)</td>
<td>Current Liabilities</td>
</tr>
<tr>
<td>16,058</td>
<td>Net Assets</td>
</tr>
</tbody>
</table>
Closing Net Assets of the Fund

£m

![Bar chart showing the closing net assets of the fund from 2012/13 to 2016/17. The values increase each year, starting from around £14,000 in 2012/13 and rising to over £19,000 in 2016/17.](chart.png)
Financial Summary

• Net Assets increased from £16.1bn to £19.7bn

• Highest ever Net Assets Value

• Triennial revaluation 94.3%. Intervaluation 88%
Summary

• Increasing fund expenditure and income

• Leads to reduction but investment income sufficient to cover this

• Net Assets increasing to highest ever level of £19.7bn
Future

• Auto-enrolment expected to return fund account to a surplus in future years

• Inflation on payroll

• Market conditions
Questions?
Governance

Richard McIndoe
Director SPFO
Governance - Why it matters
Governance - Why it matters
Governance - Why it matters

BHS collapse: what happens to the retailer's pension fund?

BHS stores close today but pensioners face decades of pain

Sir Philip Green puts £363m into pension fund of collapsed retailer BHS after threats to strip his knighthood

BHS Pension Scheme: The UK Pensions Regulator and the pariah
Agenda

• SPFO Governance

• LGPS Scotland Governance

• Pension Industry Governance
Strathclyde Pension Fund Governance

SPF COMMITTEE

- SPF Pension Board
- Committee Sounding Board
- Exec. Director of Financial Services
- Actuary
- Investment Consultants
- Investment Advisory Panel
- Auditors
- Investment Managers

STRATHCLYDE PENSION FUND OFFICE
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.

These functions include: ... *scheme administration, investment, policy, actuarial, safekeeping, accounting, governance, support the work of SPFO, development of the LGPS.*
<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allan Gow</td>
<td>Convener</td>
</tr>
<tr>
<td>Ken Andrew</td>
<td></td>
</tr>
<tr>
<td>Christina Cannon</td>
<td></td>
</tr>
<tr>
<td>Norman MacLeod</td>
<td>Vice-Convener</td>
</tr>
<tr>
<td>Mandy Morgan</td>
<td></td>
</tr>
<tr>
<td>Euan Blockley</td>
<td></td>
</tr>
<tr>
<td>Martha Wardrop</td>
<td></td>
</tr>
<tr>
<td>Philip Braat</td>
<td></td>
</tr>
</tbody>
</table>
Strathclyde Pension Fund
Pension Board

**Responsibilities**

Assisting the Scheme Manager in securing compliance with:

- Regulations and other legislation
- Requirements of the Pensions Regulator

**Meetings**

“A Pension Board is to meet at the same place and at the same time as the Pension Committee to consider the same agenda. The Chair of the Pension Committee is entitled to act as chair of that meeting.”

*LGPS Governance Regulations 2015*
2017/18 Draft Workplan

Sep

**Monitoring:** Administration, Financial, Investment, Risk, Business Plan  
**Audit:** Annual Audit Report, internal audit reports  
**Decision:** Annual Report, Direct Investment Portfolio

Dec

**Monitoring:** Administration, Financial, Investment, Risk Register  
**Audit:** internal audit reports  
**Decision:** Preliminary Actuarial Valuation Results & Draft Funding Strategy, Direct Investment Portfolio

Mar

**Monitoring:** Administration, Financial, Investment, Risk, Business Plan  
**Audit:** internal audit reports, audit plans  
**Decision:** Actuarial Valuation Report, FSS, Review of Investment Strategy, Direct Investment Portfolio, Business Plan 2018/19
Responsibilities

• to provide advice to the Scottish Ministers, at the Scottish Ministers’ request, on the desirability of changes to the Scheme

• to provide advice (on request or otherwise) to the scheme managers or the Scheme’s pension boards in relation to the effective and efficient administration and management of the scheme or any pension fund of the scheme.

Workplan

Includes:

i. Mechanism for the funding levy
ii. Collection and Consistency of Fund Data
iii. Transparency of Investments
iv. Structure Review
v. Fiduciary Duty
vi. Funding & cost cap
Dear Scurr,

I am writing in connection with the draft Work Plan for the Local Government Pension Scheme Advisory Board (SAB), drawn together by Jane O’Donnell, COSLA, and Dave Watson, Unison.

I would like to thank you and the members for establishing the Scheme Advisory Board and for developing the Work Plan for my approval. The Work Plan will focus and provide an approach to that issue.

(ii) that in due course I would be interested in the Board’s views on the merits of merging or pooling funds’ assets, noting that the UK government is taking a particularly directive approach to that issue;

(iii) whilst recognising the merits of the Board’s bi-partite composition, it is important that there is very close working between the Board and the SPPA on matters of policy. SPPA acts as the custodian of the LGPS regulations on my behalf and therefore I expect there to be clear evidence of that close working relationship; and

St Andrew’s House, Regent Road, Edinburgh EH1 2DG
www.gov.scot
What Government Asked For –

*a) Scale – “half a dozen” pools; >£25bn*

*b) Strong governance & decision making*

*c) Reduced costs & provision of excellent value for money*

*d) Improved capacity & capability to invest in infrastructure*
### Structure Review - Scotland

| Status quo | The current model has been in place since 1974 and has worked fairly effectively with the Scottish funds generally better positioned than their counterparts in England & Wales. There are weaknesses, however, in terms of cost effectiveness, resource and expertise particularly amongst the smaller funds. |
| Shared services | The last review of the structure, the *Pathfinder Project* in 2011 led to some shared procurement of investment consultants and other advisers and investment managers. There may be more scope for activity of this sort. |
| Investment pooling | A review of the LGPS in England & Wales has been ongoing since 2013. This has resulted in the 89 funds being required to create 6 combined investment pools each of at least £25bn. The UK government believes that this will result in economies of scale and increased investment in infrastructure. |
| Fund mergers – potentially into 1, 2 or 3 funds | Merger was the original direction of both the *Pathfinder Project* and the current review in England & Wales but was not the recommended outcome of either. |
Governance Review

• “...Board members were mostly very positive about purpose and roles of Boards...”
• “...Credit for establishing the Boards on time and incompliance with the regulations...”
• 18 recommendations re:
  — Roles and Responsibilities (2)
  — Training (3)
  — Support for Boards (4)
  — Board Composition (6)
  — Board Interaction (3)
Review of Defined Benefit Pensions
Review of Investment Industry

• “...interim findings raise a series of concerns about how effectively competition drives value for investors in the asset management sector...”

• Recommends: “...requiring increased transparency and standardisation of costs and charges...”
The Local Government Pension Scheme Advisory Board

Code of Transparency - Introduction

Introduction
The move toward investment fee transparency and consistency is seen by the Board as an important factor in the LGPS being perceived as a value led and innovative scheme. Transparency is also a target for the revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts and included in the government’s criteria for pooling investments.

To assist LGPS funds in obtaining the data they require in order to report costs on a transparent basis the Board has developed a voluntary Code of Transparency for LGPS asset managers.

The Code
The detail of the Code can be read here and investment managers who wish to sign up to the Code should download and return the letter found on the Code page.

The Template
Compliance with the Code will require managers to complete and submit the Template without request to their LGPS clients whether that be individual funds or pooled entities. The latest asset template will evolve in line with that used by the Investment Association for their Disclosure Code.

The LGPS Advisory Board Code of Transparency Logo
Signatories to the Code may use the Transparency “tick” logo on promotional material subject to the Code and Code Logo Use and Guidance.

Useful Links
- LGPS members site
- DCLG website
- Local Government Association
- The Pensions Regulator
- LGPS regs and guidance
- Scottish Public Pensions Agency

Home | Scheme Developments | Cost Transparency

Transparency Code
Government Green Paper

Security and Sustainability in Defined Benefit Pension Schemes

Figure 2: Distribution of DB members by type.\textsuperscript{21}

- Pensioner members: 47%
- Deferred members: 40%
- Active members: 13%

2016 saw the Pension Protection Fund make compensation payments of:

- £616m to circa 120,000 members
- with an average compensation of £4,000 per annum
Public service governance and administration survey

Summary of results and commentary

May 2017

The Pensions Regulator
Strathclyde Pension Fund Governance

SPF Committee

- SPF Pension Board
- Committee Sounding Board
- Exec. Director of Financial Services
- Actuary
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- Auditors
- Investment Managers

STRATHCLYDE PENSION FUND OFFICE
Questions?
An Economic Perspective

Geoffrey Wood
Perspectives v. Forecasts

• What’s the difference?

• Illustrated by Brexit Forecasts
Forecasts Wrong

• Why Wrong?

• Spurious Accuracy
• No thought about human behaviour
• No consideration of history
Perspectives the Opposite of That

• Look at history
• Take account of human behaviour
• Avoid spurious accuracy

(Many supposed forecast changes are within the margin of forecast error!)
Perspectives:

• The importance of the time horizon

• The classic definition of economics -
• “The study of mankind in the ordinary business of life”
Strathclyde Considered

• Time horizon could not be longer
• So can concentrate on long term (at least at first)
• What matters in Long Term?
• Growth
• Markets do not track growth, but cannot thrive without it
Growth Prospects?

• For the world, good

• For some parts, excellent

• Why and which?

• Claims of long-term slowdown valid?
Developing Countries

• China

• India

• South America
Developed

• Small ones – Australia, Canada, New Zealand, Norway
• The USA – why President Trump and does it matter?
• The Eurozone – a remedy from France?
• The UK
Conclusion

• Economic outlook not bad overall
• But risks: UK of slowdown and inflation, EMU of political strains, China of debt, USA of disappointed expectations.
• Bumpy short term, but long term a respectable future.
• Remember Adam Smith
Questions?