

FOR YOUR **FUTURE**



2016/17 Overview



Richard McIndoe
Director SPFO

PROFESSIONAL PENSIONS

PENSIONS BUZZ

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?

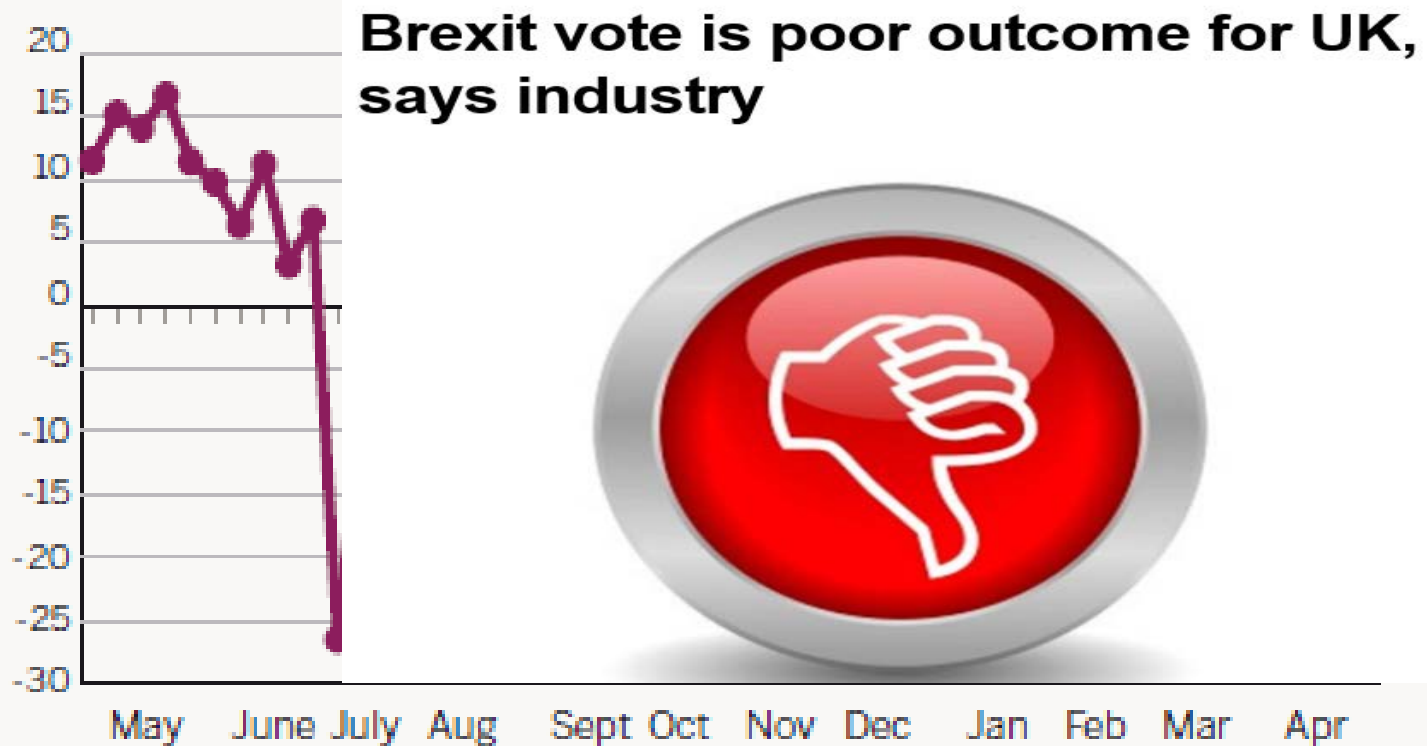


PROFESSIONAL PENSIONS

PENSIONS BUZZ

Weekly tracker

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



2016/17 Overview

FTSE 100

TODAY

1 MONTH

3 MONTHS

6 MONTHS

1 YEAR

3 YEARS

5 YEARS



Agenda

Session 1 – 2016/17 Review

- Investment
- Administration
- Finance

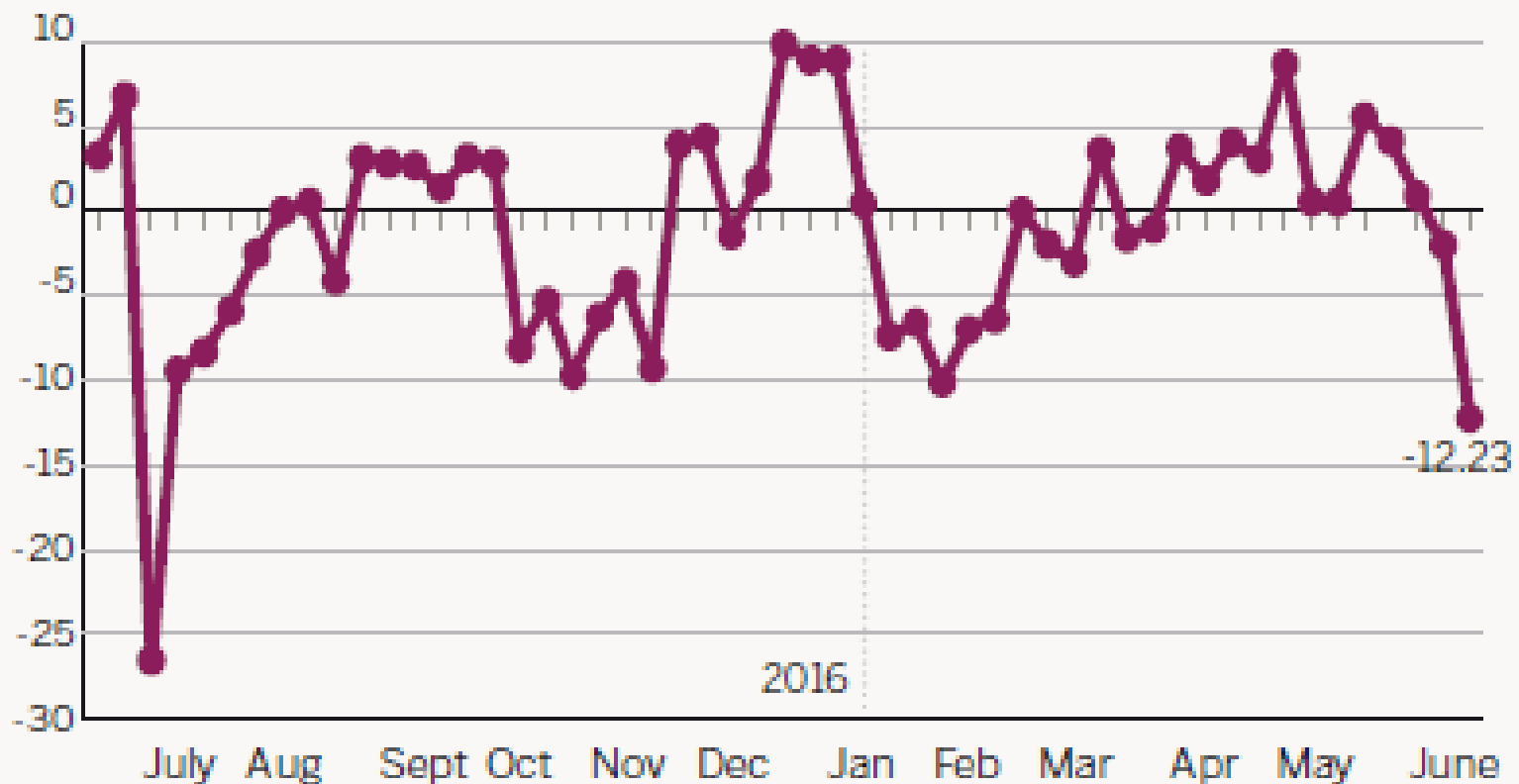
Session 2

- Governance
- Actuarial Update
- Economic Perspective

PROFESSIONAL PENSIONS

PENSIONS BUZZ

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



Awards

PROFESSIONAL PENSIONS
**PENSION
SCHEME
OF THE YEAR
AWARDS
2016**

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

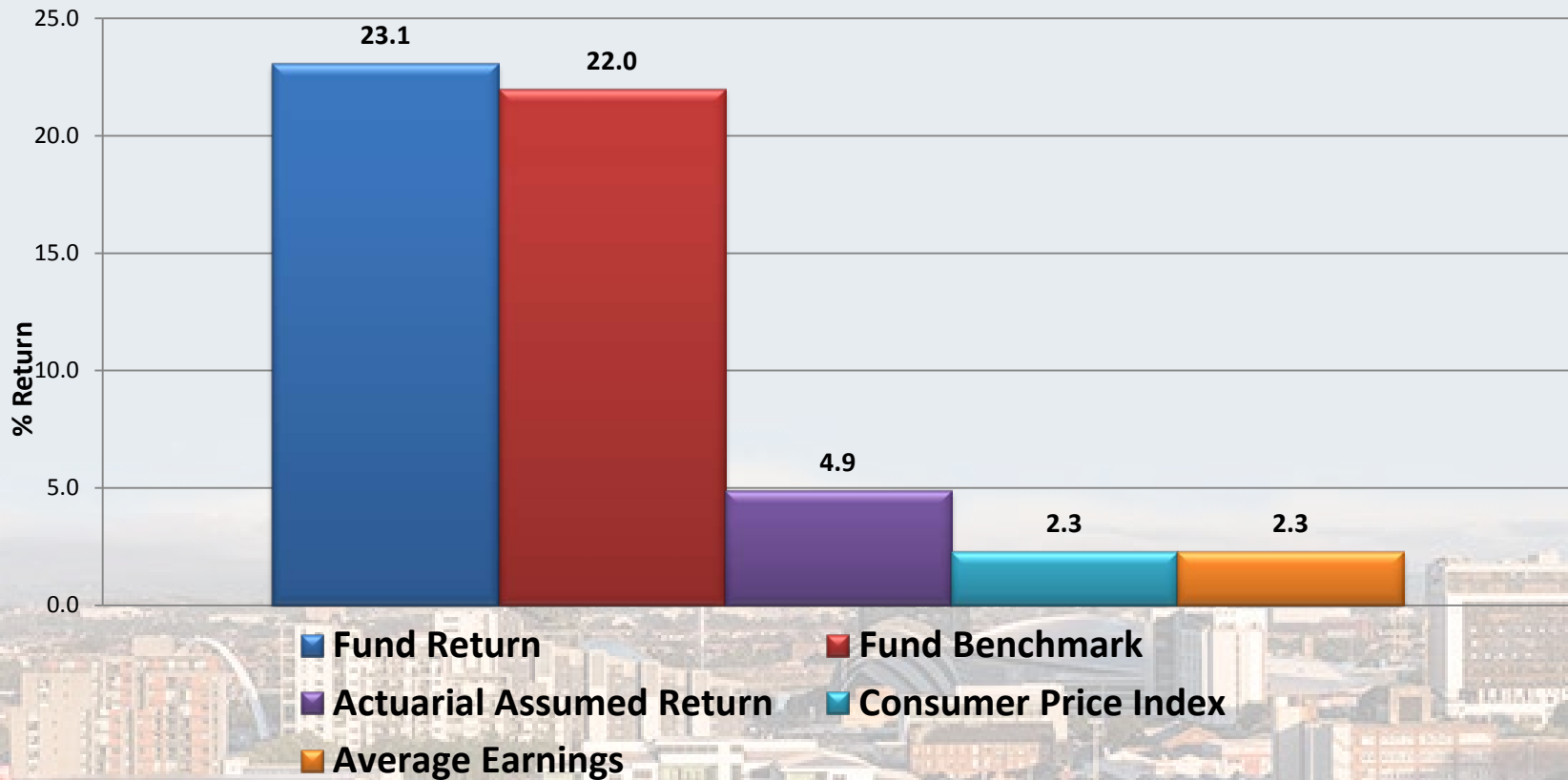
Investments



Jacqueline Gillies
Chief Investment Officer

Investment Performance

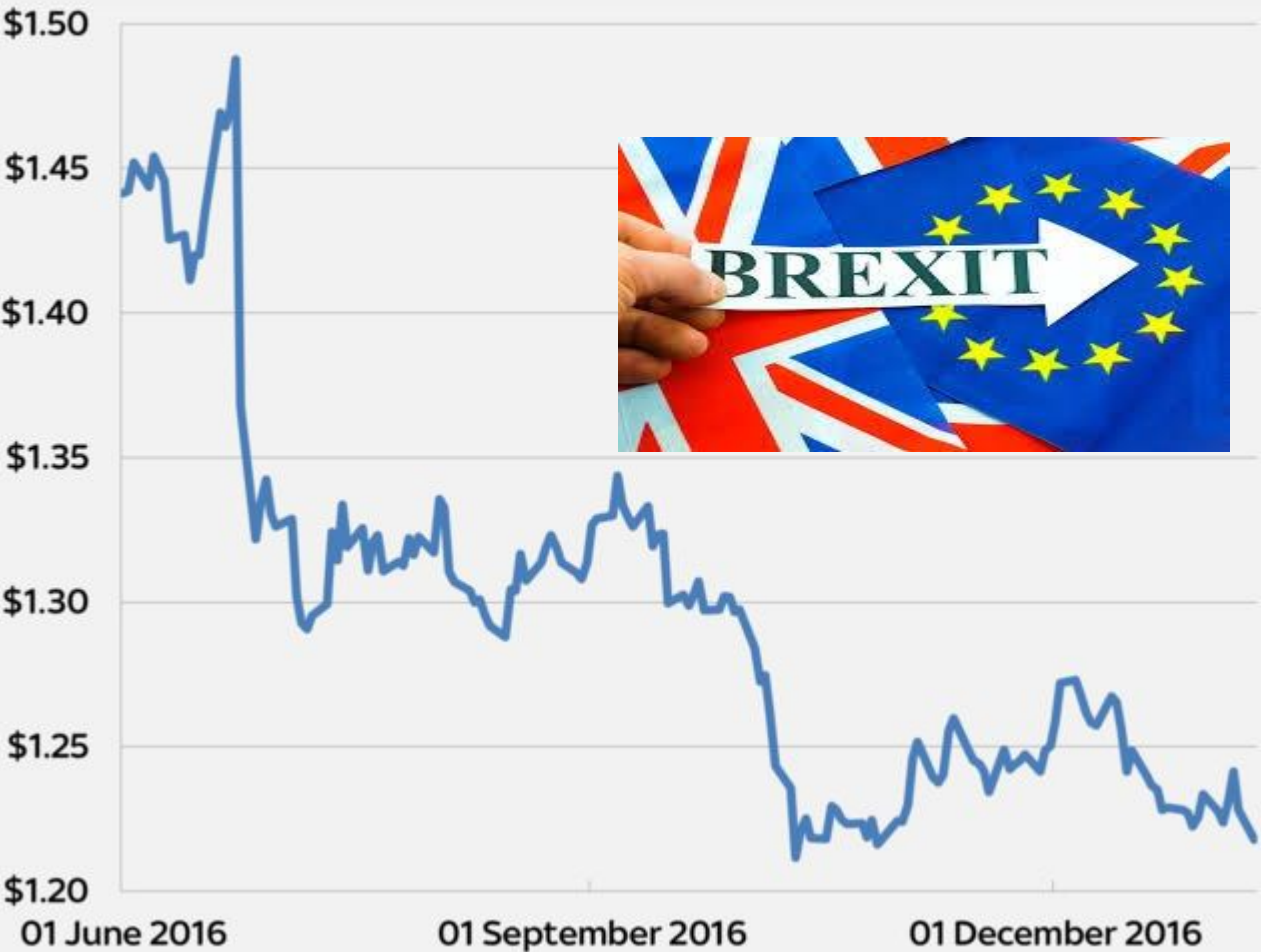
Fund performance for year ended 31 March 2017



Local authority universe ranking 16/17: 14th percentile

Pound vs US Dollar since June

SOURCE: REUTERS





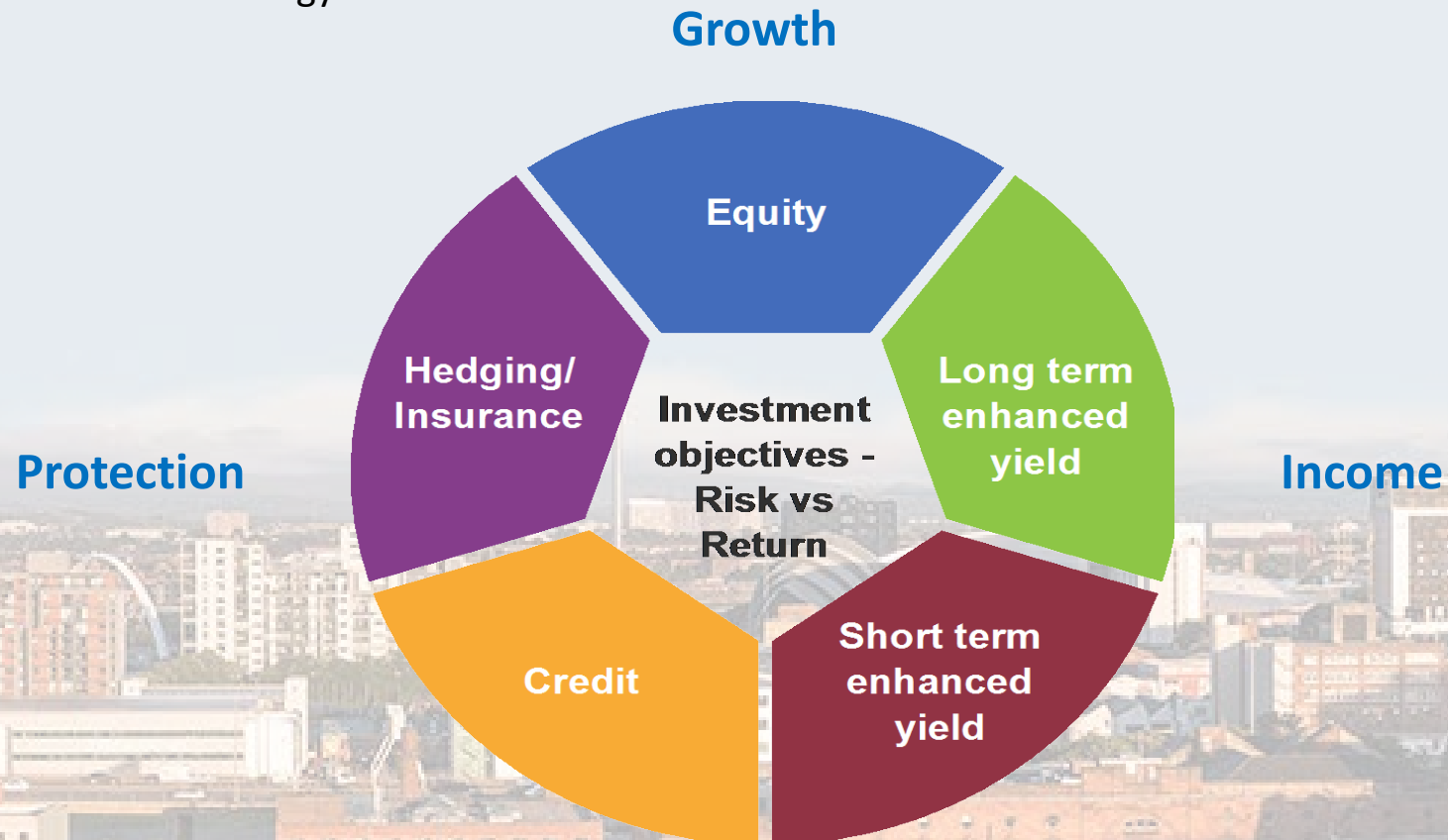
Dow Jones Industrial Average



SOURCE: TRADINGECONOMICS.COM | DOW JONES

Investment Strategy

- The Fund has adopted a risk-return asset framework as the basis for modelling and agreeing investment strategy



Investment Strategy and Structure

The current objectives of the investment strategy are to achieve:

- a greater than 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.

Asset	Current	Alt 1	Alt 2	Alt 3	Alt 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
S/T Enhanced Yield	7.5	15.0	20.0	25.0	30.0
L/T Enhanced Yield	12.5	15.0	20.0	25.0	30.0
Return (% p.a.)	6.1	6.0	5.9	5.8	5.5
Volatility (% p.a.)	13	12	11	10	9

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**

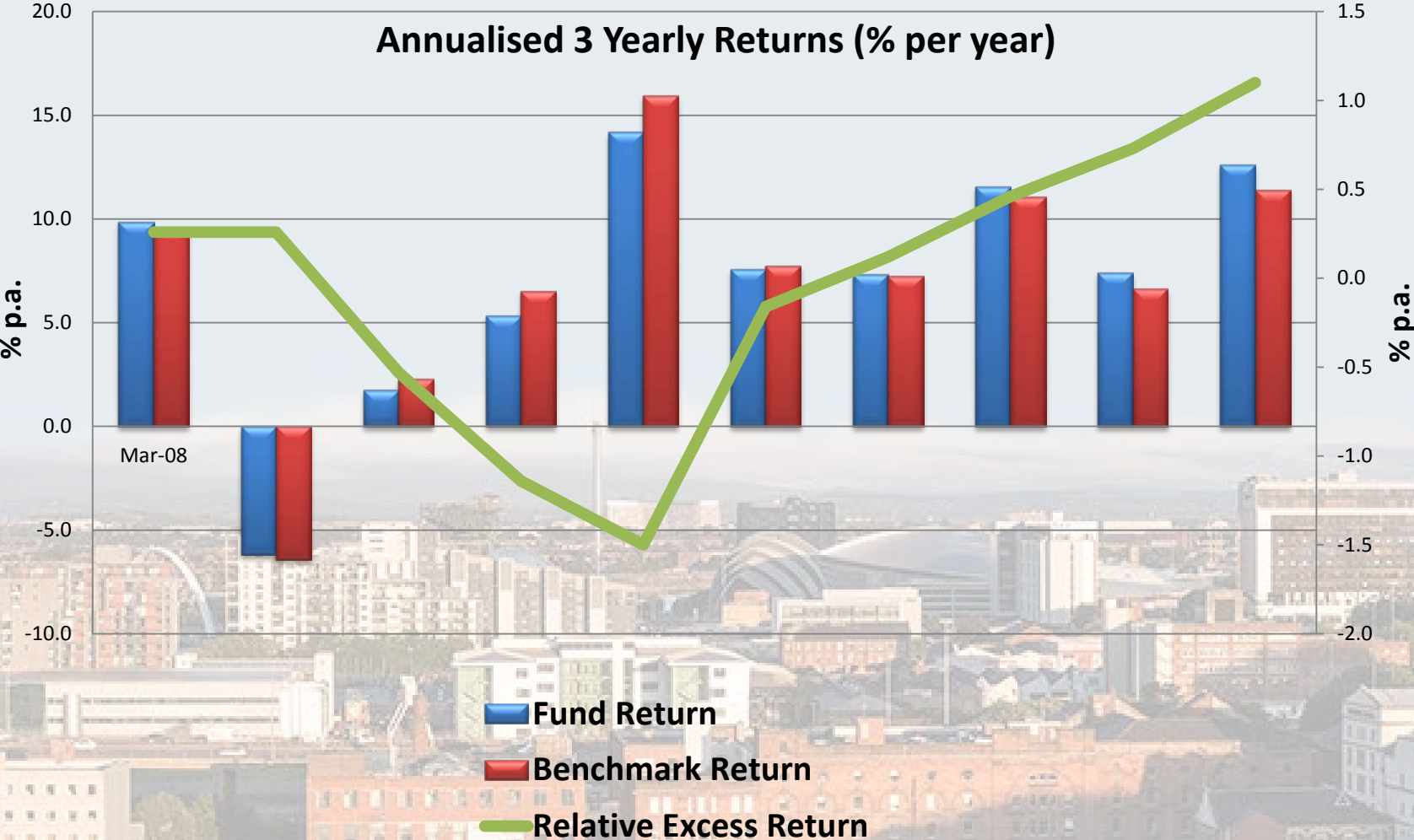
Current allocations

Asset	31 st March 2017	31 st March 2016	Target allocation
	%	%	%
Equity	68.6	72.9	62.5
Hedging/Insurance	1.4	2.0	1.5
Credit	5.4	3.6	6.0
S/T Enhanced Yield	8.3	6.6	15.0
L/T Enhanced Yield	12.4	13.5	15.0
Cash	3.9	1.4	-
Total	100.0	100.0	100.0

Investment Performance: Manager Summary

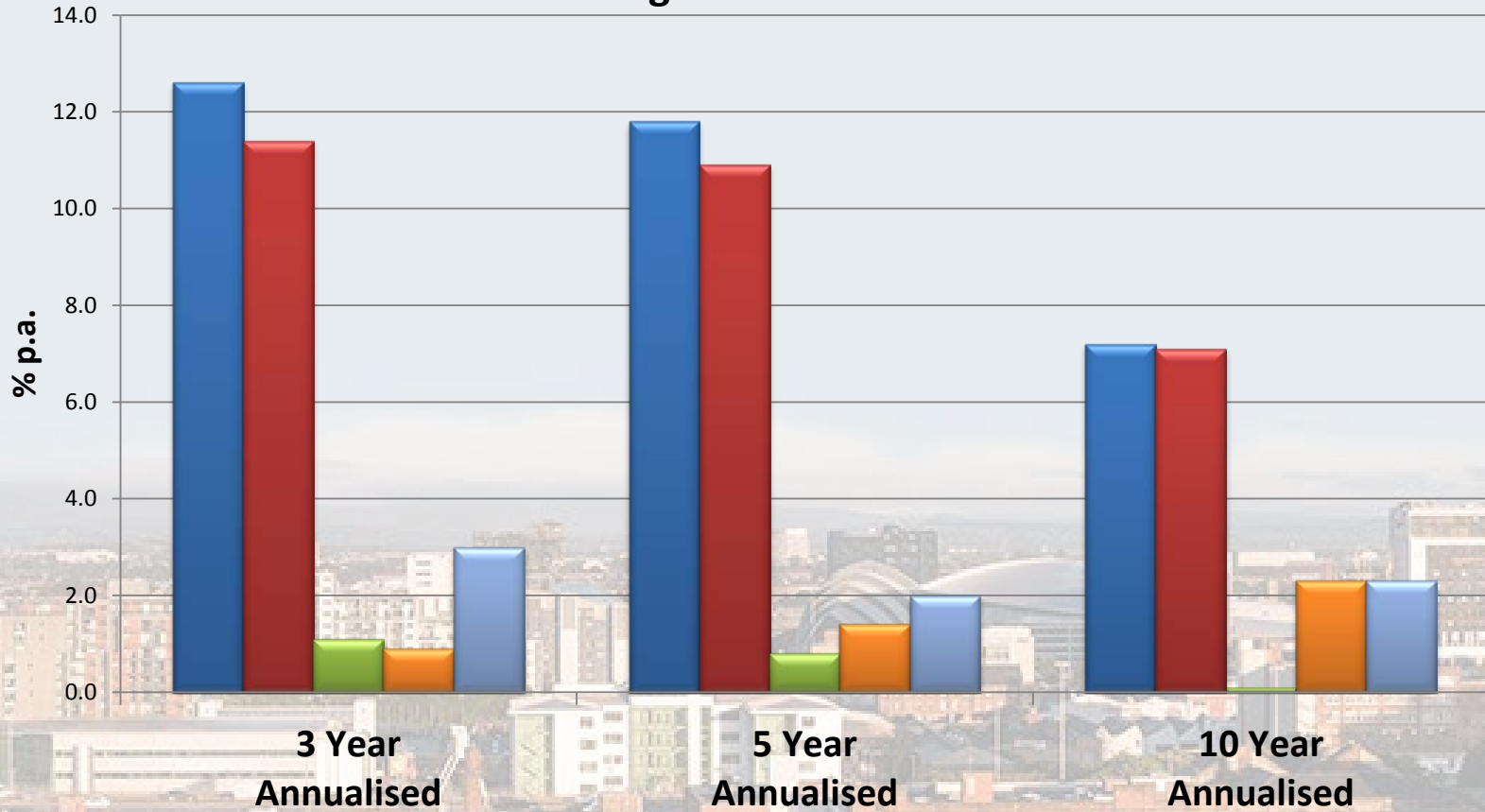
Manager	Annual Return (%)	Benchmark Return (%)	Relative Return (%)
Legal & General	26.9	26.4	0.4
Baillie Gifford	32.7	30.7	1.5
Lazard	29.0	32.2	-2.4
Veritas	26.3	32.2	-4.5
Oldfield	48.2	31.9	12.4
Henderson	9.0	21.7	-10.4
JP Morgan	34.6	35.5	-0.7
Genesis	31.9	36.5	-3.4
Pantheon	21.5	22.0	-0.4
Partners Group (Private Equity)	21.2	22.0	-0.7
Direct Investment Portfolio	7.7	0.7	7.0
PIMCO	0.5	3.4	-2.8
DTZ	5.4	3.5	1.8
Partners Group (Real Estate)	21.2	2.4	18.3
Legal & General (EM Future)	27.0	n/a	n/a
TOTAL FUND	23.1	22.0	1.1

Investment Performance



Investment Performance

Long Term Performance



■ Fund Return
■ Relative Return
■ Average Earnings

Axis Title

■ Fund Benchmark
■ Consumer Price Index



Responsible Investment

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.

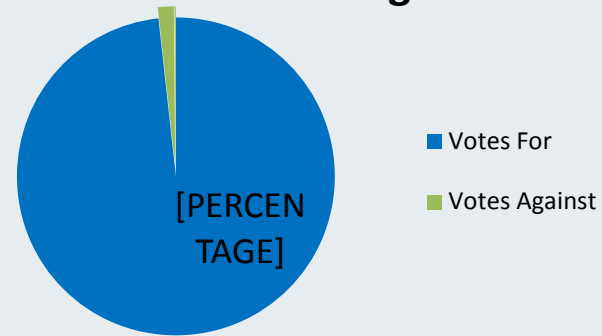
Active Ownership

- 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.

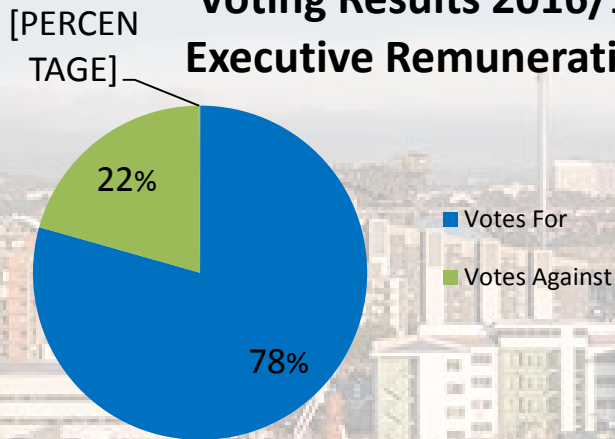
Responsible Investment

- **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

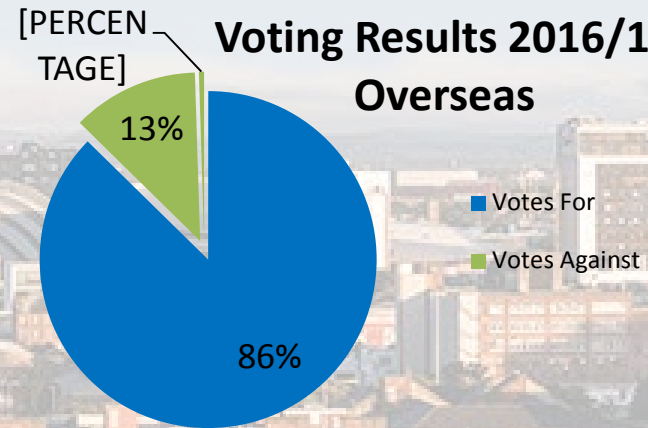
Voting Results 2016/17 United Kingdom



Voting Results 2016/17 Executive Remuneration



Voting Results 2016/17 Overseas



Responsible Investment

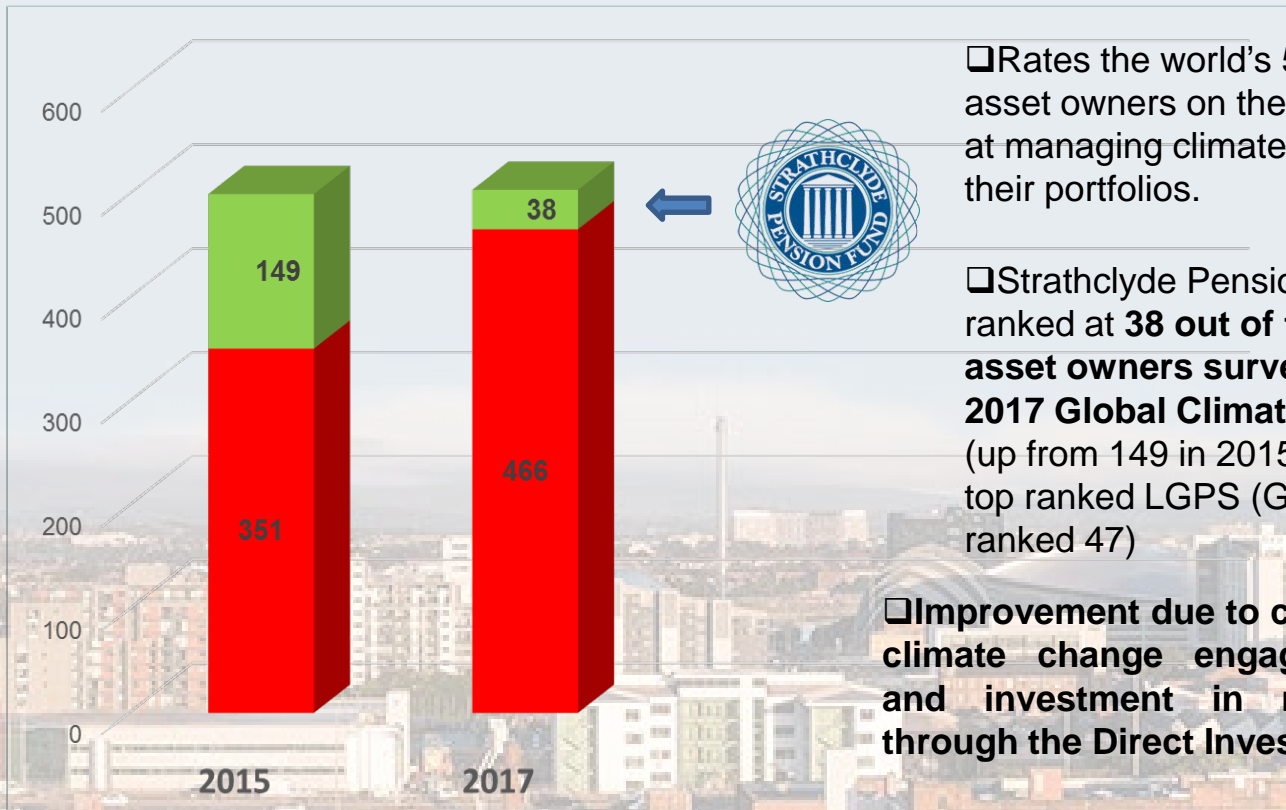
2016/17 ESG - Engagement topics

- 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

Responsible Investment

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.



Responsible Investment

Key Engagement Initiatives

The logo for RE100, featuring the letters 'RE' in black and '100' in white on a green square background.

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.

The logo for FAIRR, with 'FAIRR' in large blue letters and 'FARM ANIMAL INVESTMENT RISK & RETURN' in smaller blue letters to the right. Below 'FAIRR' is the text 'A COLLIER INITIATIVE'.

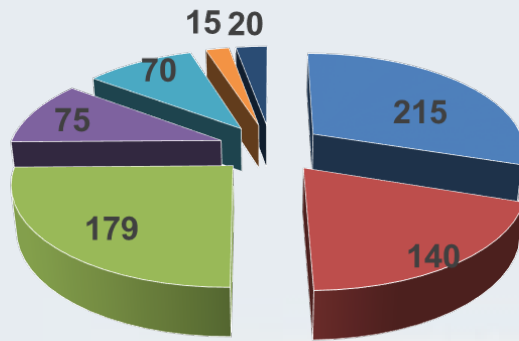
Farm Animal Investment Risk and Return (FAIRR) - Collaborative initiative of 60 investors with \$1.9 trillion in assets encouraging analysis and engagement around the long-term risks that factory farming poses to portfolios. Livestock farming produces more global greenhouse gases than the transport sector.

The logo for CDP, featuring a red stylized cross icon and the letters 'CDP' in large red font. Below it is the tagline 'DRIVING SUSTAINABLE ECONOMIES' in red.

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

Direct Investment Portfolio: Commitment Breakdown by Sector (£m)



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

- Renewable Energy
- Credit
- Infrastructure
- Property
- Growth Capital
- Supported Living
- Venture Capital

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.**

Direct Investment Portfolio

- **Renewable Energy - Green Investment Bank's Offshore Wind Fund**

Green
Investment
Bank

GIB Offshore Wind Fund's green impact

- ✓ 1.45GW producing over 4,500 GWh renewable electricity each year
- ✓ Avoidance of almost 2 million tonnes of greenhouse gas emissions annually

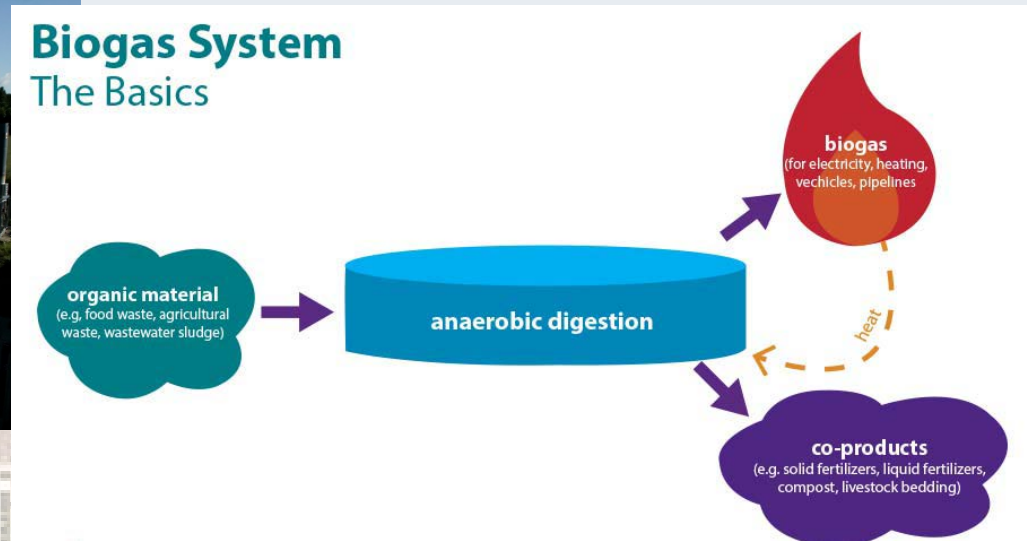
Sheringham Shoal, a 317 MW offshore wind farm located off the North Norfolk coast

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



NHS Dumfries & Galloway Hospital

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.



An aerial photograph of a city skyline, likely Denver, Colorado, featuring a large stadium with a distinctive blue and white curved roof. The city is densely packed with various buildings, including modern high-rises and older brick structures. The sky is clear and blue, and the overall scene is captured from a high vantage point.

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.

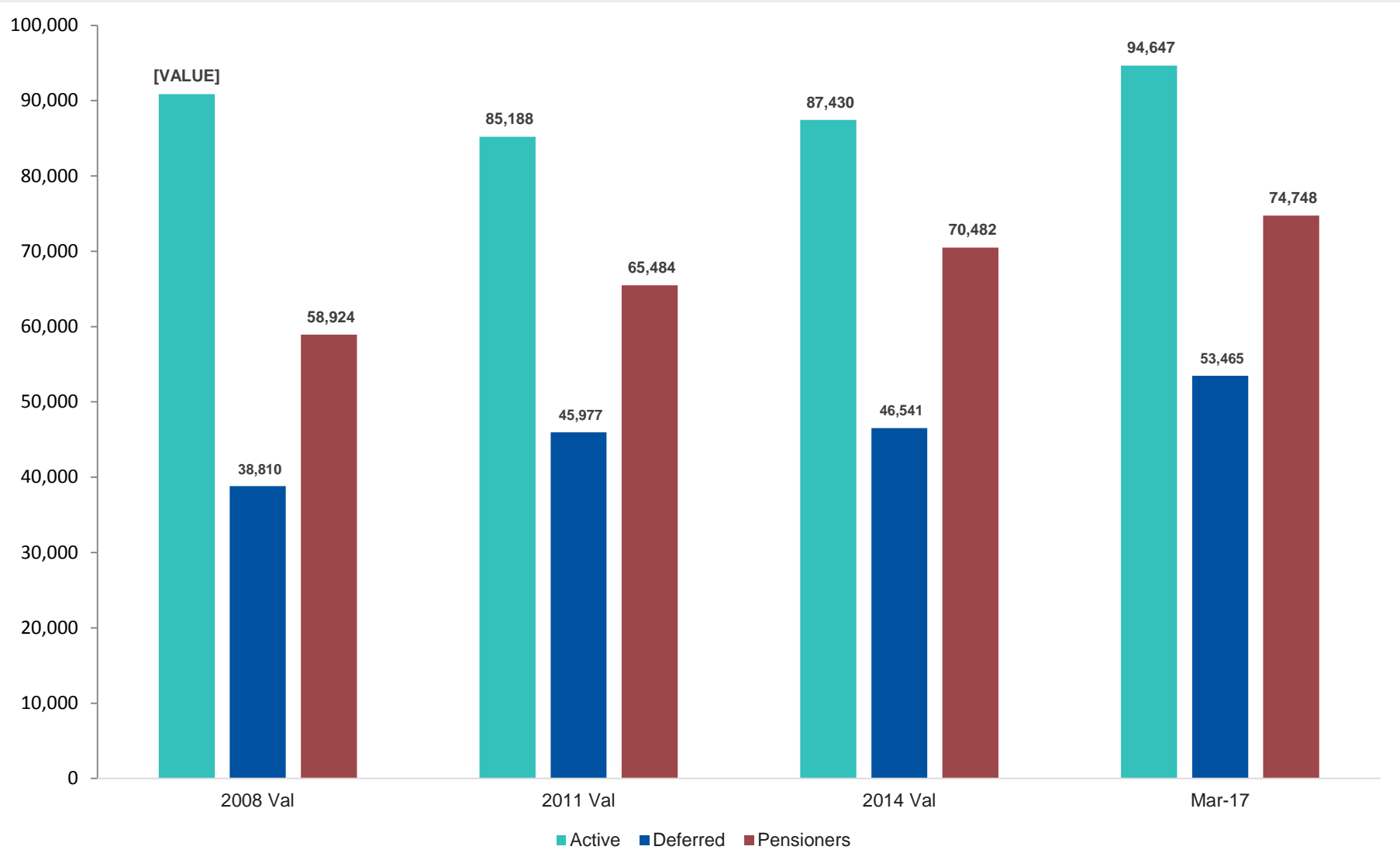
(2) The statement must be issued no later than five months after the end of the Scheme year to which it relates.

- First year of Career Average Revalued Earnings Scheme
- 98% of active membership at 31st March 2016 received an Annual Benefit Statement.

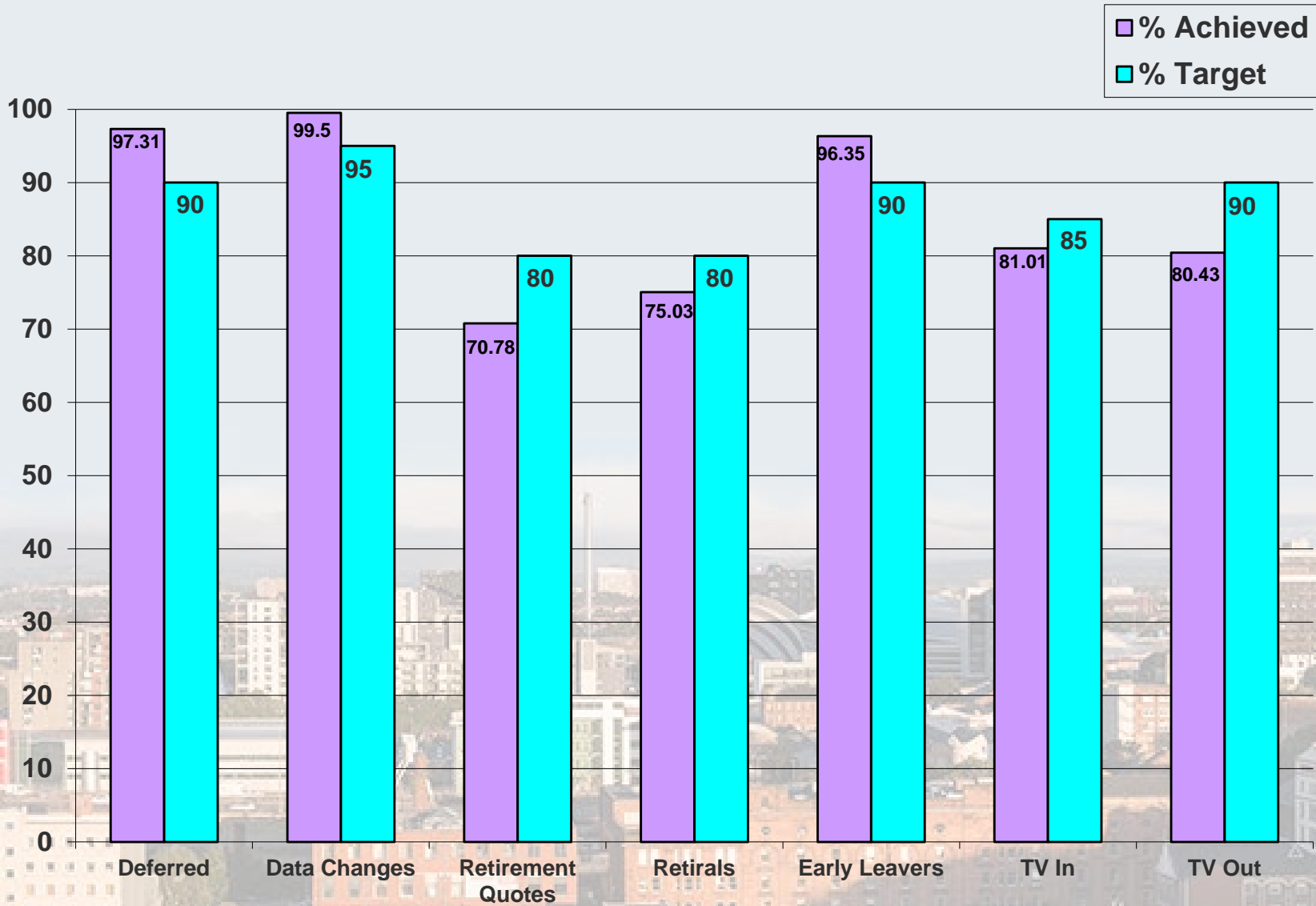
Fantastic achievement



SPFO Membership



SPFO Performance



Employers' Performance

Service Standard	% achieved
New start good quality data (Local Authority Employers)	72%
Electronic notification of changes received (Local Authority Employers)	60%
Prior notice of retirement (2 months)	35%
Submission of year-end contribution return by the 20 th May	76%
Remittance of employee and employer contributions by the 19 th of the month following deduction (Local Authority Employers)	99%

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

IT PAYS TO STAY

UNIVERSITY OF LIVERPOOL

HOW IT WORKS

LGPS 2014 IS A CAREER AVERAGE REVALUED EARNINGS (CARE) SCHEME THAT WORKS LIKE THIS

From 1 April 2015, you will have a Personal Account in LGPS 2014 for each employer you work for.

Your Personal Account will add the pension you have earned in that employer for each year of contribution, before April 31st 2015.

For each year in LGPS 2014, you will get a Pension Credit up to 1% of your pay.

PERSONAL PAY

Your pensionable pay is the amount of pay you receive, you are contributing, including your normal pay, with allowances and other relevant benefit pay.

Your pensionable pay will be your actual earnings including any additional hours up to your normal time frame.

YOUR PENSION ACCOUNT

Year	Personal Account	Personal Pay	Pension Credit	Total
Year 01	£10,000 + 4%	£224.00	£224.00	£10,448.00
Year 02	£208.16	£214.20	£214.20	£636.56
Year 03	£436.32	£224.49	£224.49	£885.30
Year 04	£674.48	£234.68	£234.68	£1,143.84
Year 05	£912.64	£244.86	£244.86	£1,402.36

February 2014 03

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FOR YOUR FUTURE

YOUR BENEFITS ARE VALUABLE

HOLD ON TO YOUR BENEFITS IT PAYS TO BE IN

Even if you are contacted by a solicitor or pension company about taking more of your benefits as a lump sum, don't give up your benefits rights. You can have the best of both worlds from the LGPS.

You should be getting an enhanced pension for life. And LGPS pensions continue to accrue. I nominated collaborating services on your death.

Beware of Fraudsters

Don't let your benefits become easy to lose. Fraudsters are targeting all people for you and claiming that they can:

- Keep you cash in your pension early
- Provide you with a pension transfer

What they don't say is that you could have a significant tax bill. If you opt for cash you will be managing with a cash to survive "your pension" "your death".

For more information about the dangers of "pension liberation" visit the following Government sponsored website: www.pensionliberationwarning.org.uk

A lifetime's savings lost in a moment.

Pension scams. Don't get stung

Member 0308

04 www.spf.org.uk

ARE YOU PROTECTING YOUR LOVED ONES?

NO ONE BORN FREE

The LGPS provides a great package of benefits, but to protect your loved ones, you need to ensure that you have nominated beneficiaries, particularly if:

- You are aged 65 or over
- You have children from a previous marriage
- You may be married
- Your partner is younger than you

LEGACY PLAN

If you are about to participate in the LGPS, you should consider a legacy plan. This is a way of ensuring that your pension benefits go to the people you want them to go to.

PROBATION

Beneficiaries only have limited rights to your pension benefits. If you are a beneficiary of a pension, you should consider a legacy plan.

IF YOU ARE SAVING WITH YOUR PARTNER

If you are saving with your partner, you should ensure that you have nominated beneficiaries for your pension.

1. They have a pension contribution

2. You have a nomination of beneficiary for your pension

3. They are a beneficiary of your pension

4. They are a beneficiary of your pension

NO ONE NOMINATED?

February 2014 01

SPFOnline

SPFOonline

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

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SPFOnline

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SPFOnline is available to active, deferred and pensioner members.

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



Call us
0345 890 8999



email us
spfo@glasgow.gov.uk



Write to us
Strathclyde Pension Fund Office, PO Box 27001, Glasgow G2 9EW

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[Funding](#)[New Strathclyde Pension](#)
[Fund Committee \(22 May](#)
[Employers](#)[Active members](#)
[Deferred members](#)[Benefit Calculator](#)
[Contribution Calculator](#)[How to...](#)
[Excel spreadsheets](#)[Investment Strategy and](#)
[Structure](#)

Next steps for

The logo for SPFOnline, featuring the text "SPFOnline" in white, sans-serif font on a teal rectangular background.


- Exceed the 2017/18 target of 53,000 registered members
- Changing mind sets
- Councillors going digital
- Becoming Pensioners

Member Experience




Satisfaction rating and feedback


Target – 80%	Target – 90%
Refunds – 82.8%	Retirals 88.3%




“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 !”

An aerial photograph of a city skyline, likely Denver, Colorado, featuring a large stadium with a distinctive blue and white curved roof. The city is densely packed with various buildings, including modern high-rises and older brick structures. The sky is clear and blue, and the overall scene is captured from a high vantage point.

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



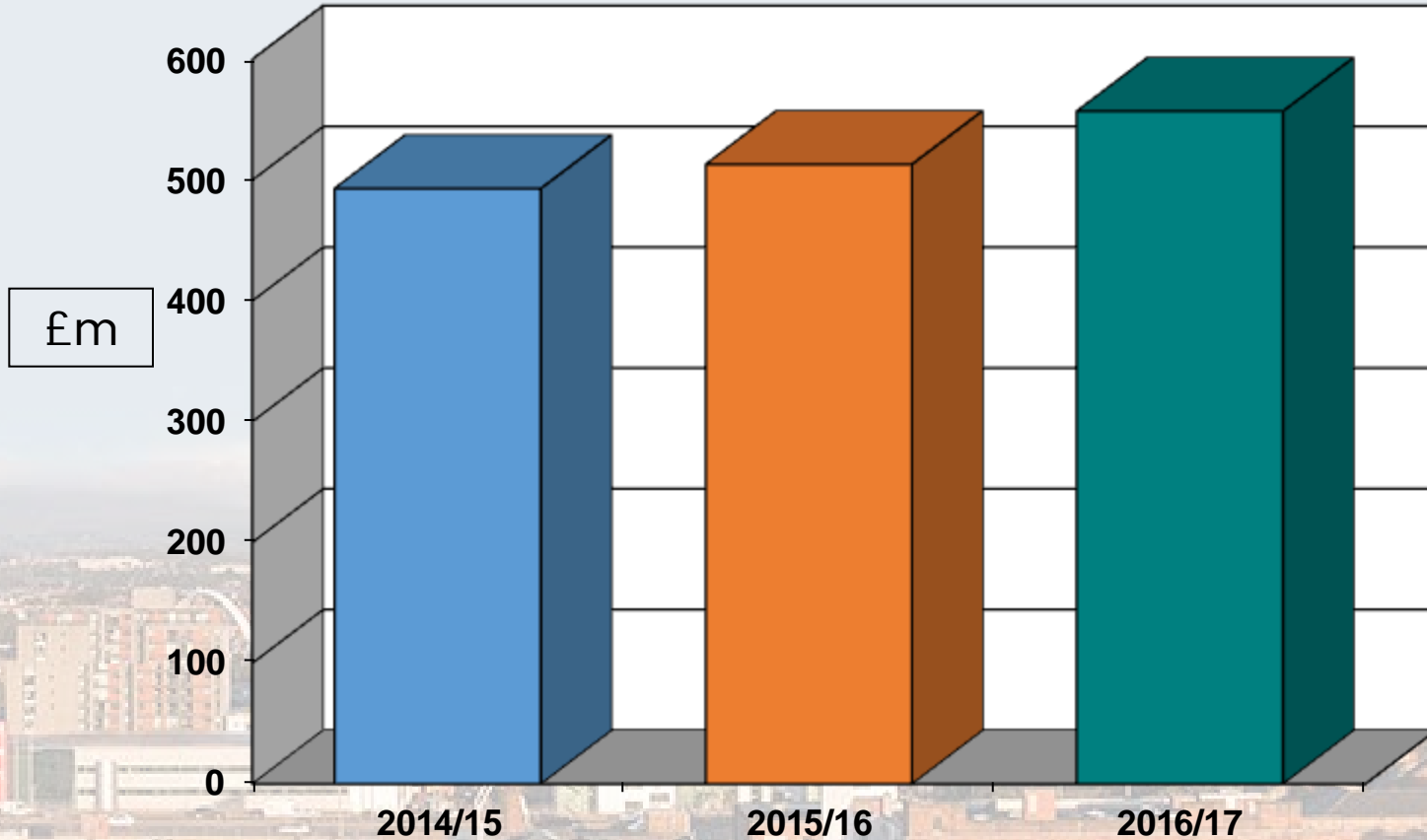
2016/17 Annual Accounts – Members

2015/16

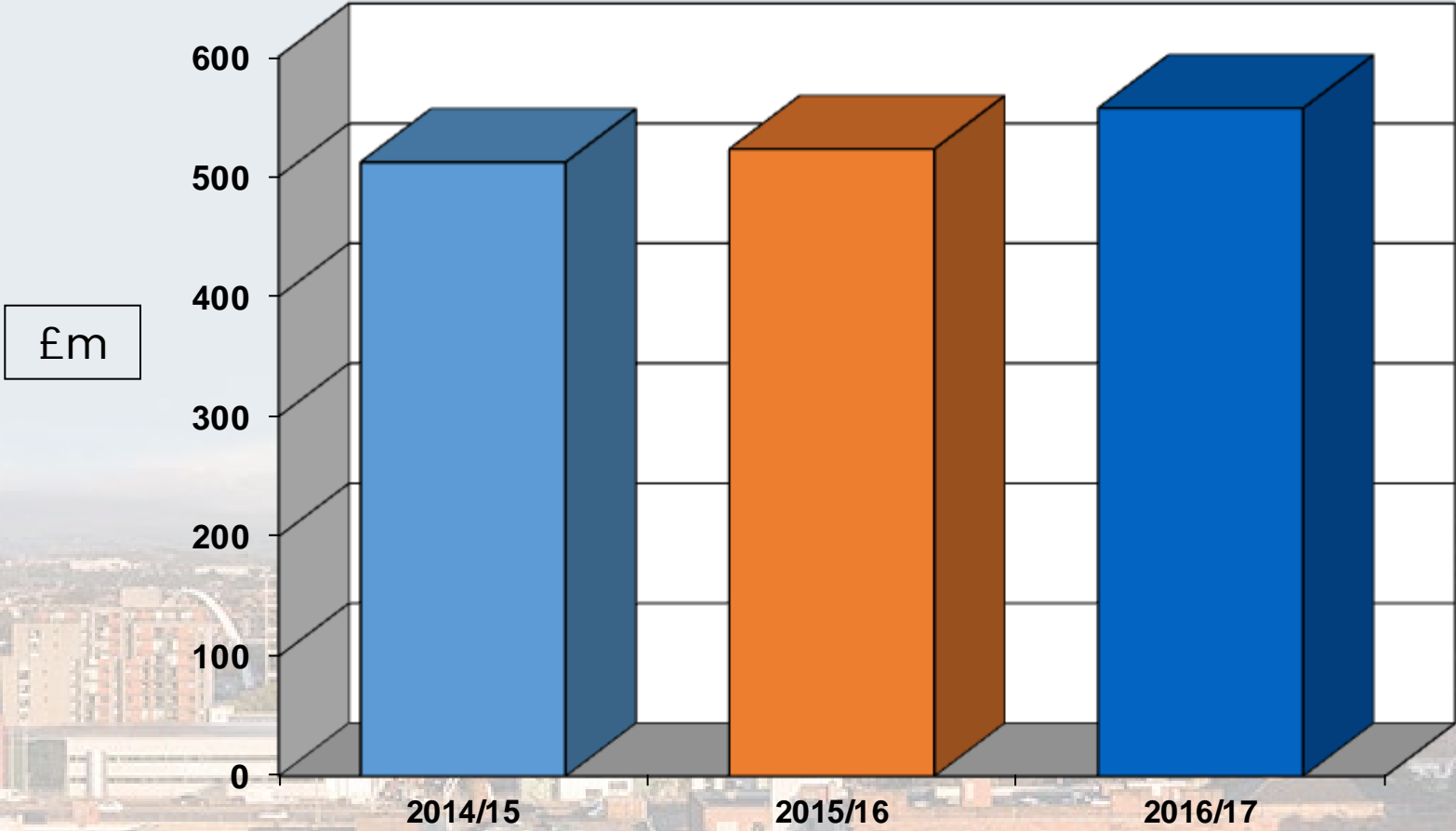
2016/17

<i>£m</i>	FUND INCOME	<i>£m</i>
391	Contributions receivable from employers	398
117	Contributions receivable from employees	122
4	Transfers in	5
1	Other income	1
513		526
FUND PAYMENTS		
397	Pensions	411
104	Lump sums and Death Benefits	121
22	Payments to and on account of Leavers	25
523		557
-10	Net Addition/Reduction - from dealings with members	-31

Total Income from Members and Employers



Total Expenditure from Dealing with Members



Return on Investments

£3.7bn



2016/17 Accounts – Return on Investment

2015/16

2016/17

£m

RETURNS ON INVESTMENTS

£m

229

Investment income

252

(93)

Management expenses

(101)

174

Change in market value of
investments

3,521

310

Net returns on investments

3,672

300

**Net movement in the Fund during
the year**

3,641

ADD

15,758

Opening net assets as at 1st April

16,058

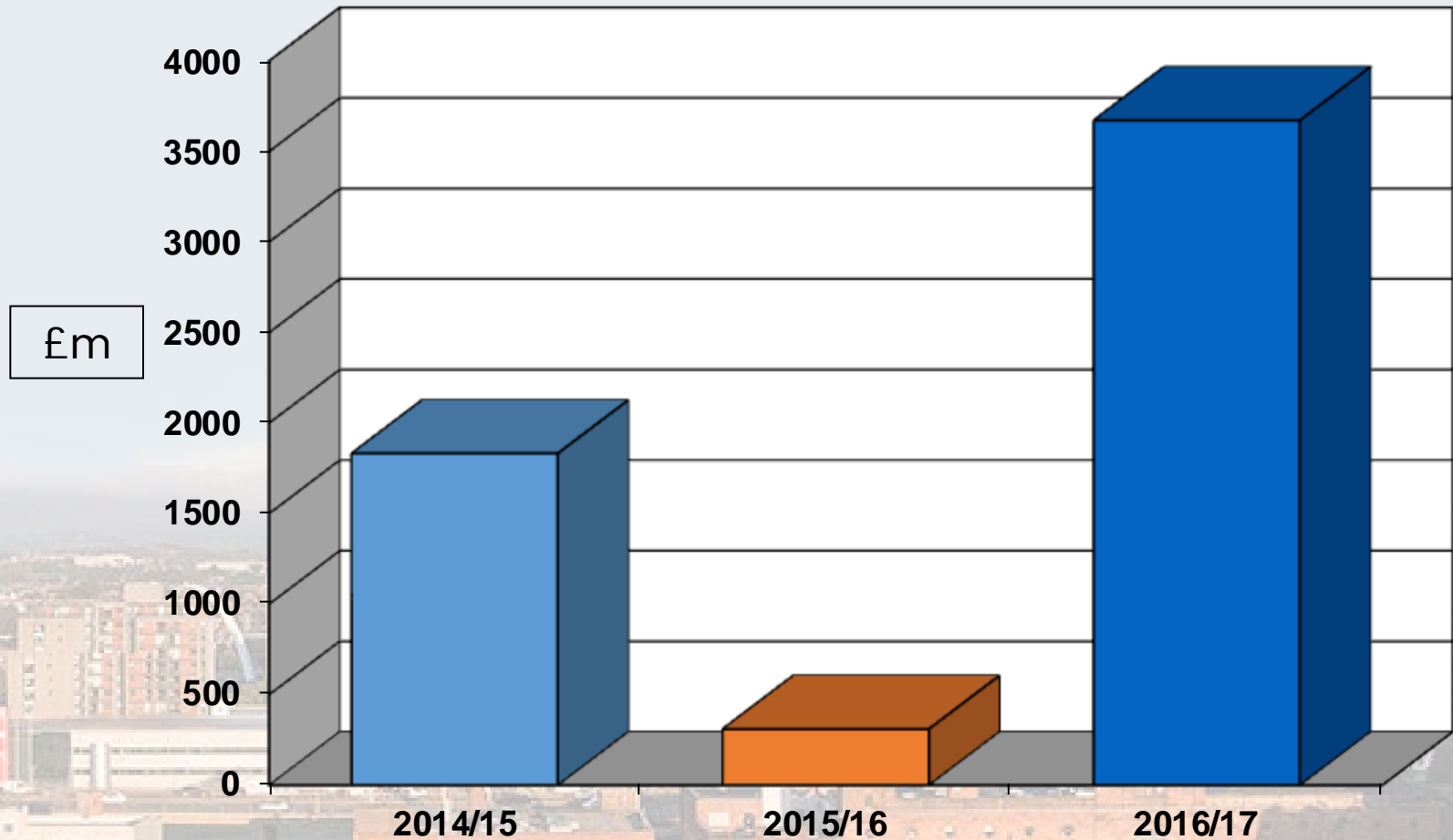
EQUALS

16,058

Closing net assets as at 31st March

19,699

Net Return on Investments



Net Assets

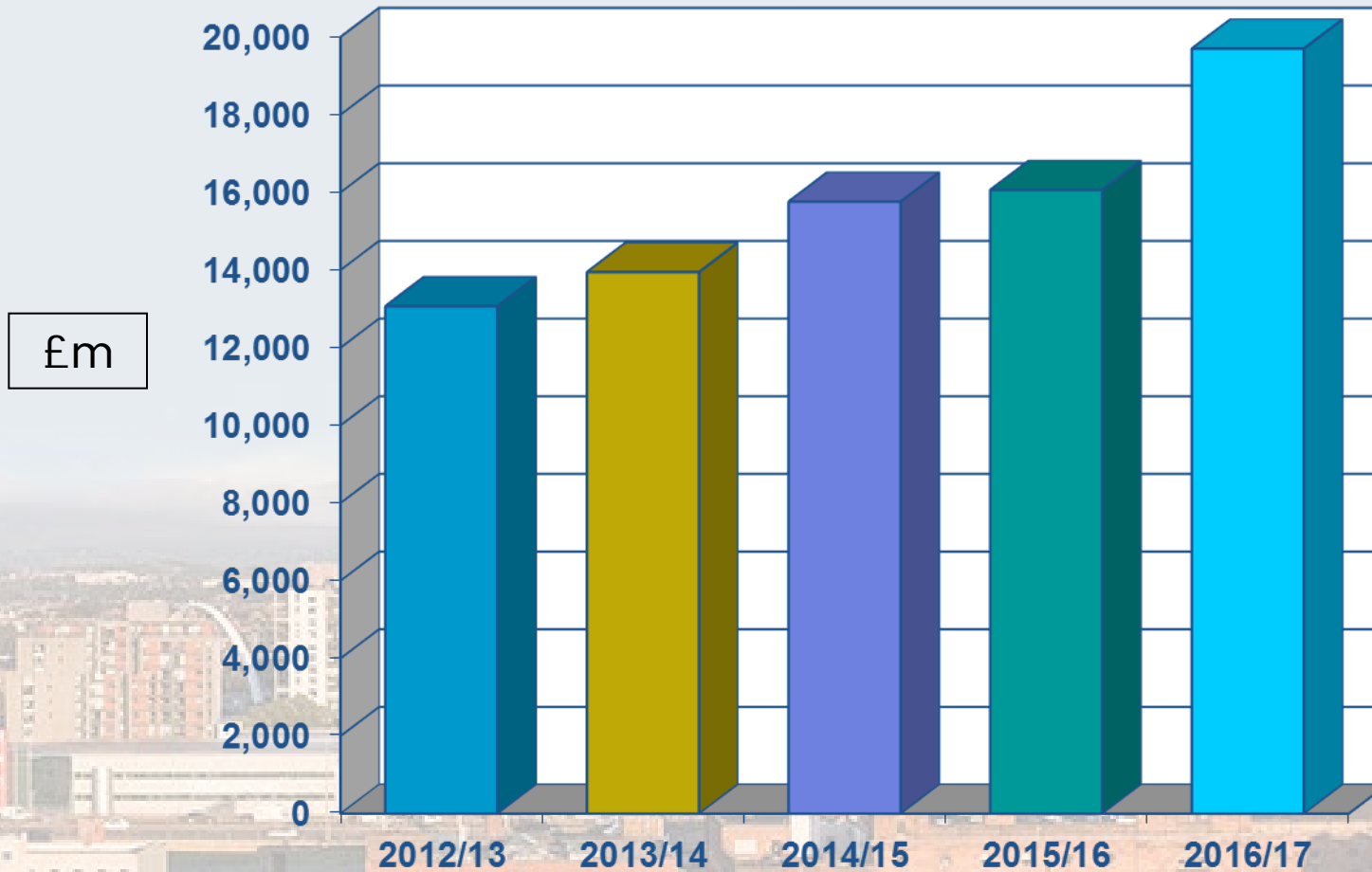
£19.7bn



2016/17 Annual Accounts – Net Assets

<i>2015/16</i>		2016/17
£m	Investment Assets	£m
7,660	Equities	9,213
6,238	Pooled Investment Vehicles	7,714
6	Derivative Contracts	280
1,571	Property	1,673
560	Cash and Other	1,096
16,035		19,976
(30)	Investment liabilities	(315)
99	Current Assets	93
(46)	Current Liabilities	(55)
16,058	Net Assets	19,699

Closing Net Assets of the Fund



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



An aerial photograph of a city skyline, likely St. Louis, Missouri, featuring the Gateway Arch and the Scottrade Center stadium. The image is overlaid with a semi-transparent light blue gradient. The word "Questions?" is centered in a large, bold, black font.

Questions?

Governance

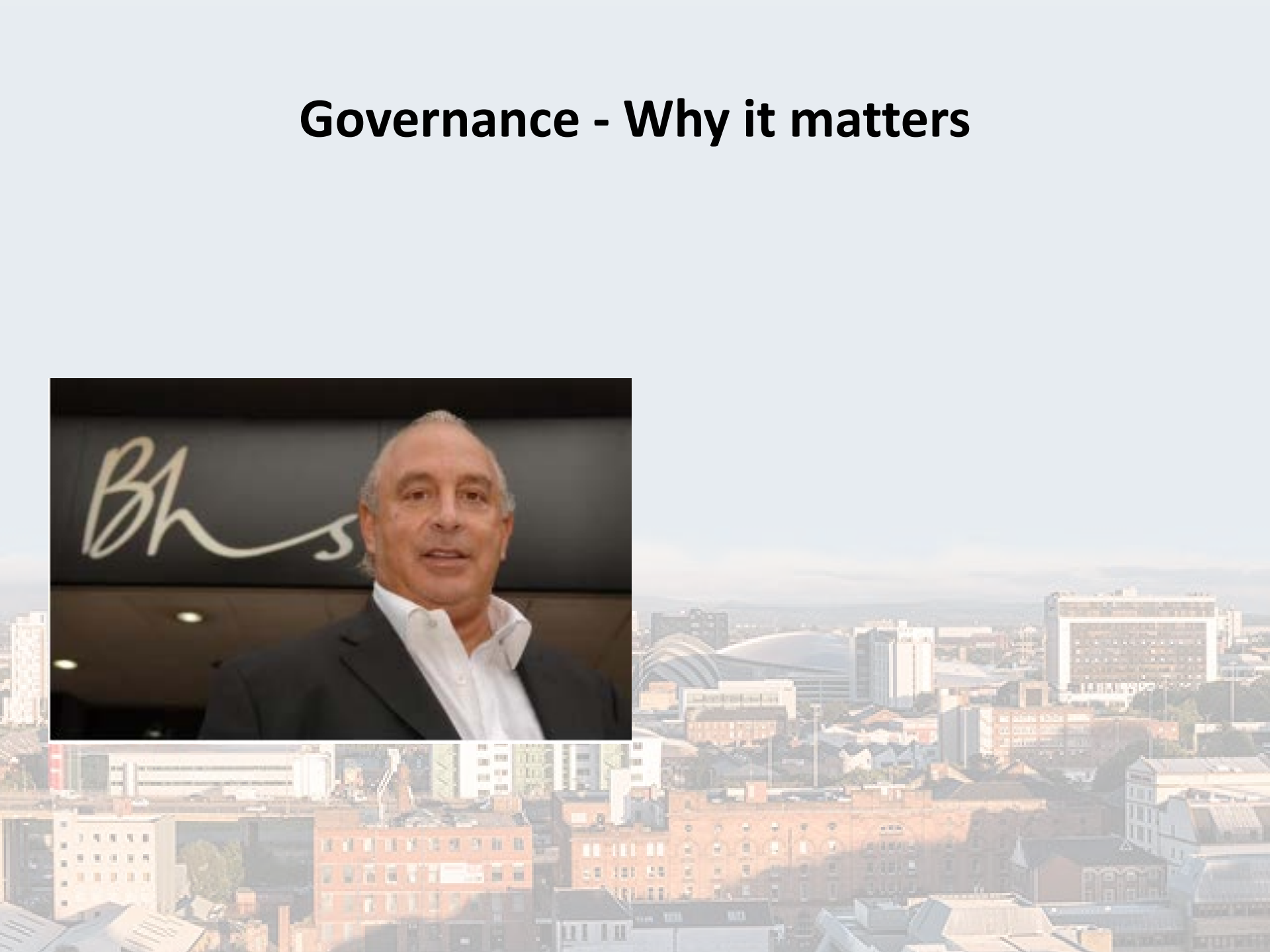


Richard McIndoe
Director SPFO

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

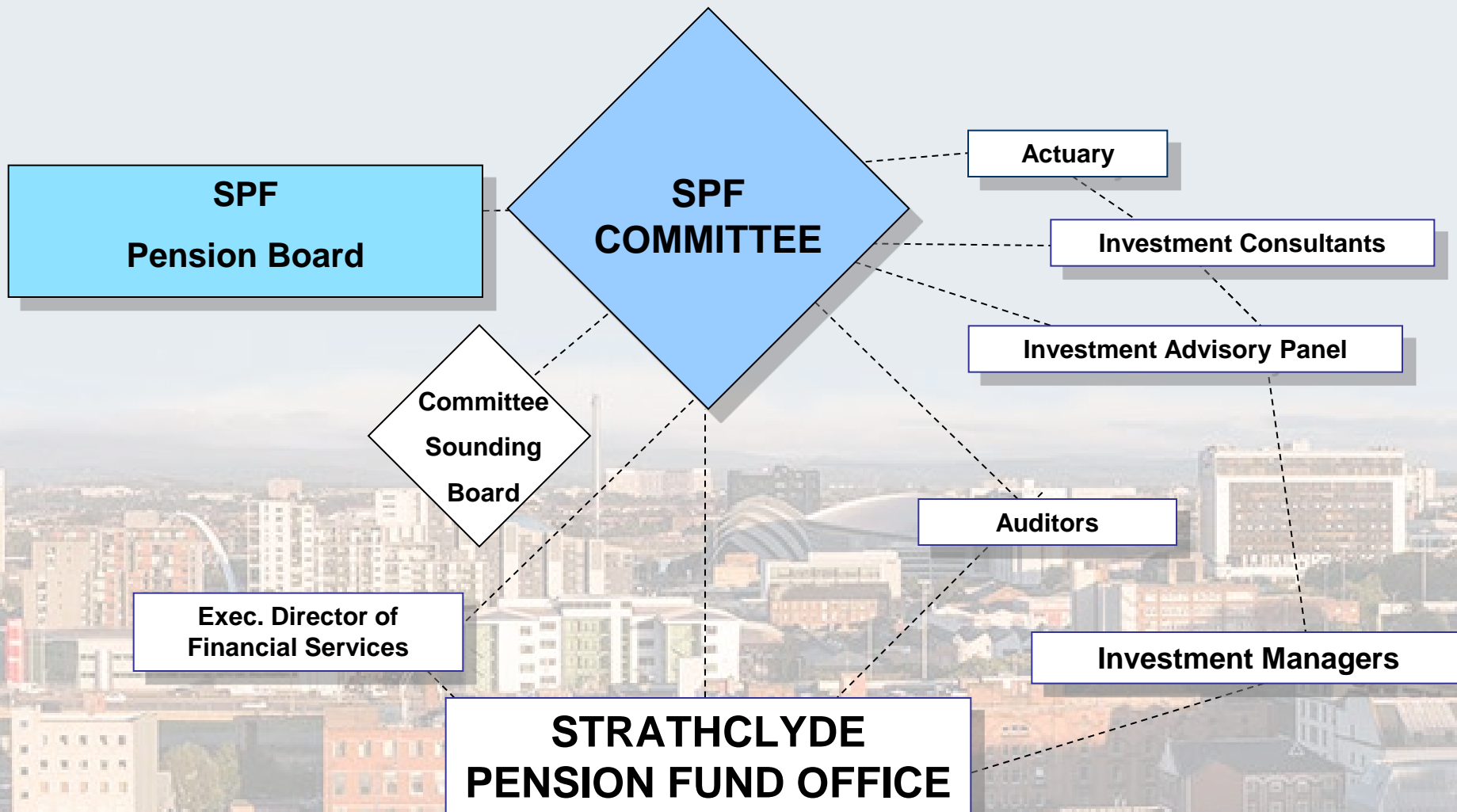
BHS Pension Scheme: The UK Pensions Regulator and the pariah

Agenda

- SPFO Governance
- LGPS Scotland Governance
- Pension Industry Governance



Strathclyde Pension Fund Governance



Strathclyde Pension Fund Committee

Terms of Reference

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.***

Strathclyde Pension Fund Committee



**Allan Gow
(Convener)**



Ken Andrew



Christina Cannon



**Norman MacLeod
(Vice-Convener)**



Mandy Morgan



Euan Blockley



Martha Wardrop



Philip Braat

Strathclyde Pension Fund Pension Board

4 x Employers

- Cllr. John Shaw
- Cllr. Tom Fisher
- Cllr. Collette Stevenson
- Mark Dickson

4 x TUs

- Andy Thompson
- James Corry
- Stephen Kelly
- Brian Gallagher

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

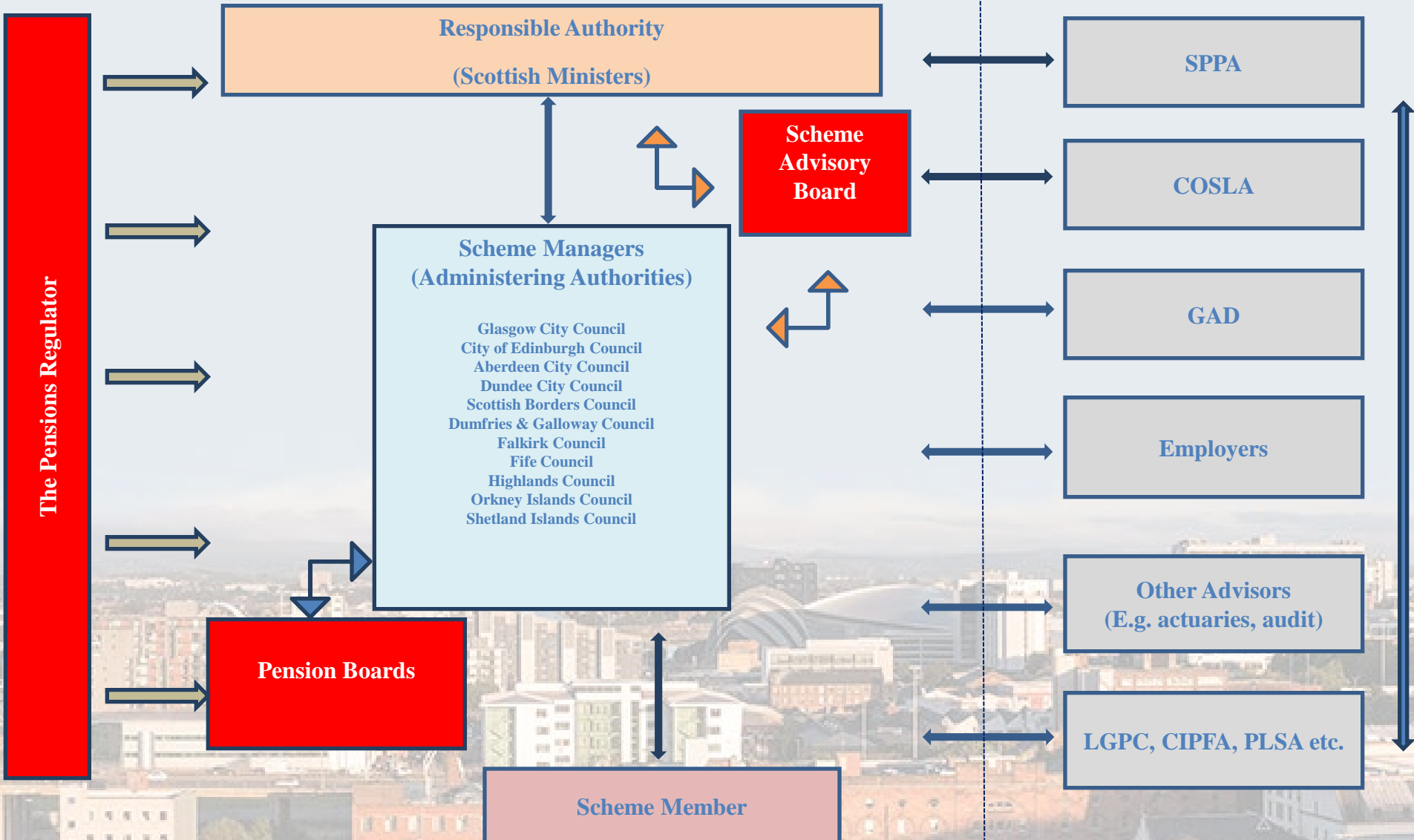
2017/18 Draft Workplan

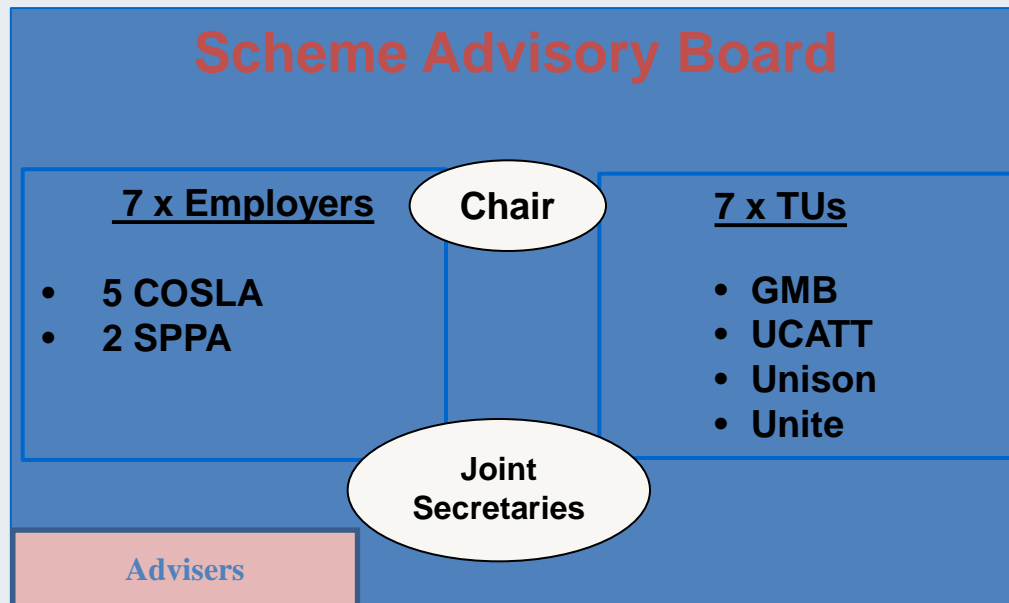
- 
- Sep** **Monitoring:** Administration, Financial, Investment, Risk, Business Plan
Audit: Annual Audit Report, internal audit reports
Decision: Annual Report, Direct Investment Portfolio
- Dec** **Monitoring:** Administration, Financial, Investment, Risk Register
Audit: internal audit reports
Decision: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

LOCAL GOVERNMENT PENSION SCHEME (SCOTLAND) – Governance Model

MANDATORY ROLES

OTHER STAKEHOLDERS





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

Scheme Advisory Board

Deputy First Minister
and Cabinet Secretary for Finance, Constitution and Economy
John Swinney MSP



T: 0300 244 4000
E: dfm@scotland.gsi.gov.uk

Cllr Stewart Cree
Chair
Local Government Pension Scheme Advisory Board
c/o jane.o'donnell@cosla.gov.uk



12 August 2015

Dear Stewart,

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 prioritise the Board's work going forward and the topics as set out in the Work Plan.

(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;

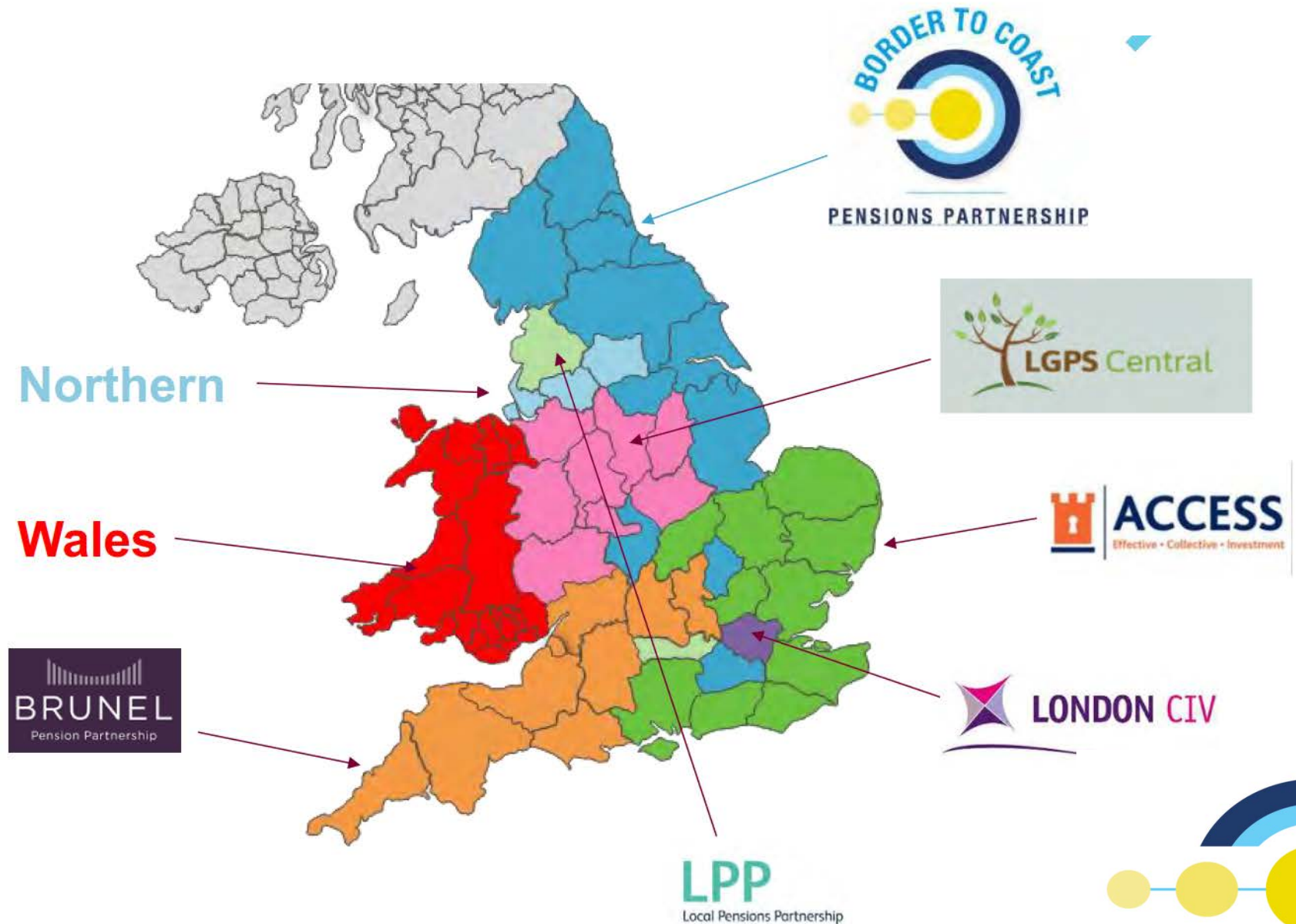
I would like to thank you and the members for establishing the Scheme Advisory Board and for developing the Work Plan for my approval. The Work Plan will focus and prioritise the Board's work going forward and the topics as set out in the Work Plan.

(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 3DG
www.gov.scot



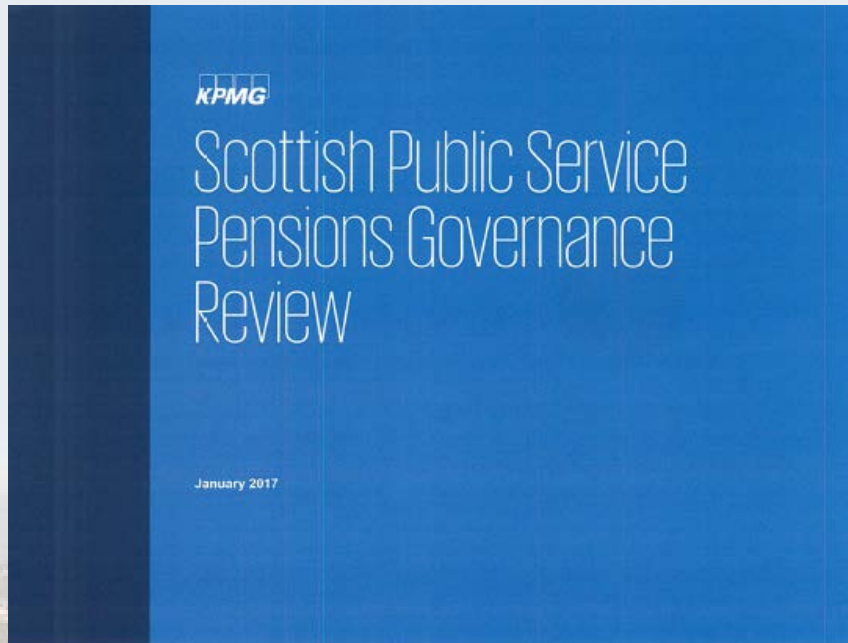
LGPS England & Wales



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 <i>Pathfinder Project</i> 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 <i>Pathfinder Project</i> 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 in compliance 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



FIGURE 1: ACTIVE MEMBERS OF OCCUPATIONAL PENSION SCHEMES: BY SECTOR, 1953 TO 2013

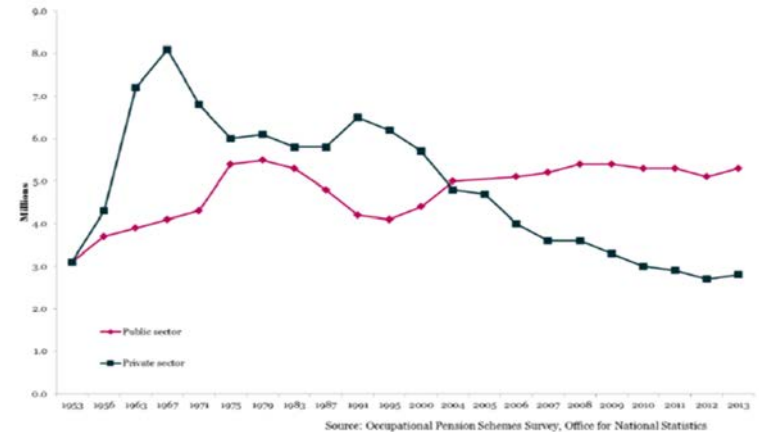
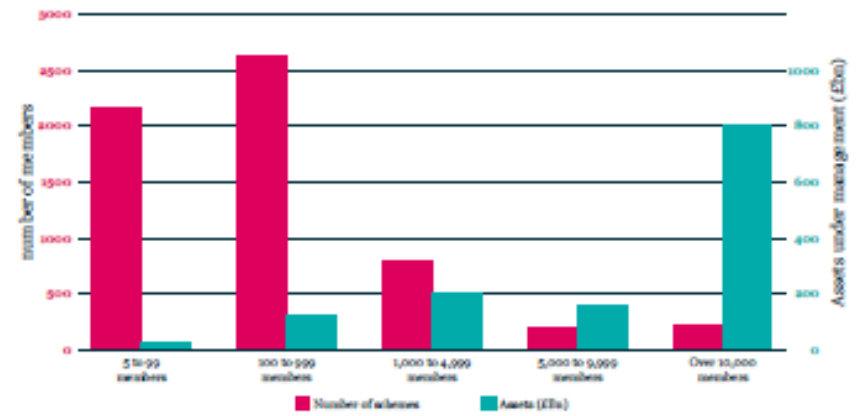


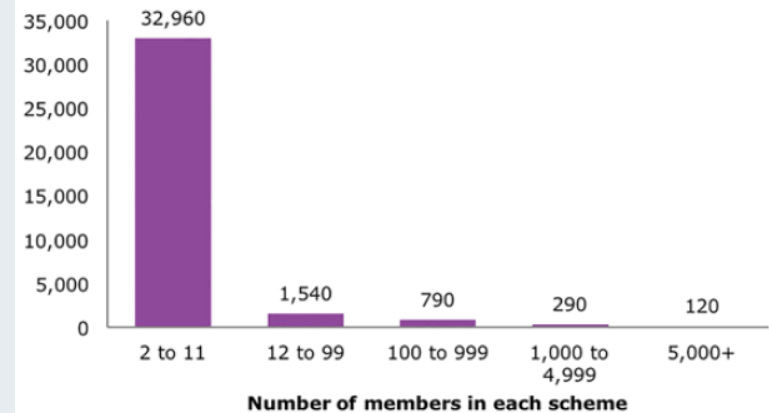
FIGURE 5: NUMBER OF MEMBERS & ASSETS UNDER MANAGEMENT BY SIZE OF SCHEME²⁰



Review of Investment Industry



Figure 1.10: Number of defined contribution trust-based pension schemes²¹



- “...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...”

Transparency Code

The Local Government Pension Scheme Advisory Board

[Welcome](#) [About the Board](#) [Board Committees](#) [Board Publications](#) [Scheme Developments](#) [Scheme Information](#) [Contact us](#)



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 GPFPA 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 listed 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.

[LGPS Advisory Board Logo Use and Guidelines pdf 462kb](#)

For copies of image files, including printable file formats and further information on the Logo's use and guidance, please [contact us](#)

Code of transparency

[Introduction](#)
[the Code](#)
[the Template](#)
[Manager list](#)

Useful Links

[LGPS members site](#)
[DCLG website](#)
[Local Government Association](#)
[The Pensions Regulator](#)
[LGPS regs and guides](#)
[Scottish Public Pensions Agency](#)



[Home](#) / [Scheme Developments](#) / [Code Transparency](#)

Government Green Paper



Department
for Work &
Pensions

Security and Sustainability in Defined Benefit Pension Schemes

Presented to Parliament
by the Secretary of State for Work and Pensions
by Command of Her Majesty
February 2017

Cm 9412

Around 11 million members in
Defined Benefit pension schemes



11 million

Decline in Defined Benefit schemes

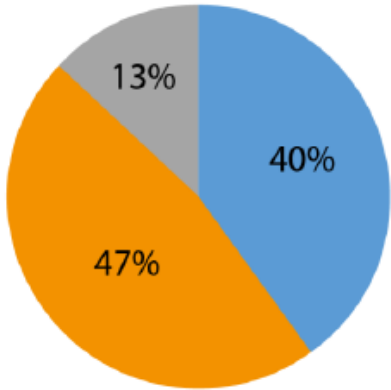
Active membership
in last 10 years



Open to new
members



Figure 2: Distribution of DB members by type.²¹



- Pensioner members
- Deferred members
- Active members

2016 saw the Pension Protection Fund make compensation payments of:

£616m



to circa 120,000 members



with an average
compensation of



per annum

Local Government Pension Scheme (LGPS)



Public Service Pensions Act 2013

CHAPTER 25

Explanatory Notes have been produced to assist in the understanding of this Act and are available separately

SCOTTISH STATUTORY INSTRUMENTS

2015 No. 60

PUBLIC SERVICE PENSIONS

The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015

Made - - - - 17th February 2015

Laid before the Scottish Parliament 19th February 2015

Coming into force - - 1st April 2015

The Scottish Ministers make the following Regulations in exercise of the powers conferred by sections 1, 2, 5 and 7 of, and paragraph 3(b) of Schedule 2 to, the Public Service Pensions Act 2013(a) and all other powers enabling them to do so.

In accordance with section 21 of that Act, they consulted representatives of such persons as appeared to them likely to be affected by these Regulations.

Citation, extent, commencement and interpretation

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015.

(2) These Regulations extend to Scotland.

(3) These Regulations come into force on 1st April 2015.

(4) In these Regulations—

“the 2014 Regulations” mean the Local Government Pension Scheme (Scotland) Regulations 2014(b);

“Pension Board” means a pension board established under regulation 5;

“Pension Committee” means the committee of a scheme manager with responsibility for pensions;

“the Pensions Regulator” means the Pensions Regulator established by section 1 of the Pensions Act 2004(c);

“relevant fund” means the pension fund or funds managed by a scheme manager in relation to whom a Pension Board has been established;

“relevant trade unions” means those trade unions which are accustomed from time to time to represent employees of local government in Scotland in negotiations with scheme employers;

“the Scheme” means the Local Government Pension Scheme established by the 2014 Regulations;

(a) 2013 c.25.
(b) S.S.I. 2014/164.
(c) 2004 c.35.

The Pensions Regulator

Public service governance and administration survey

Summary of results and commentary

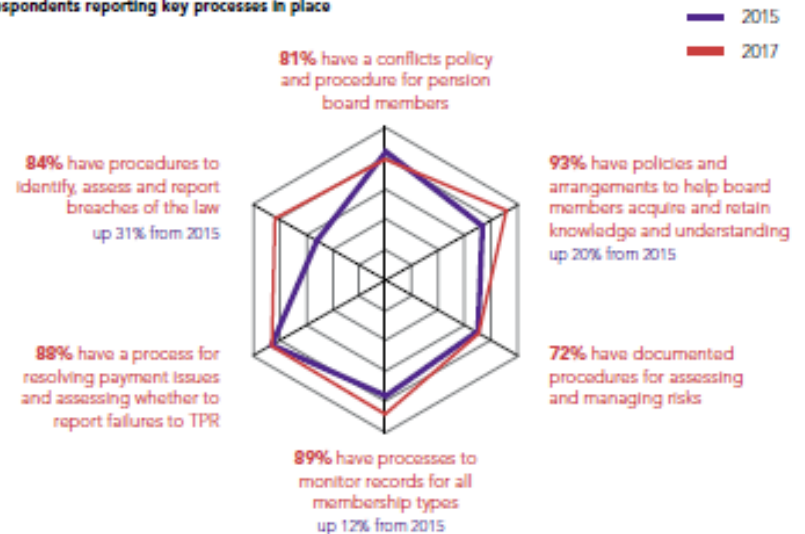
May 2017

The Pensions
Regulator

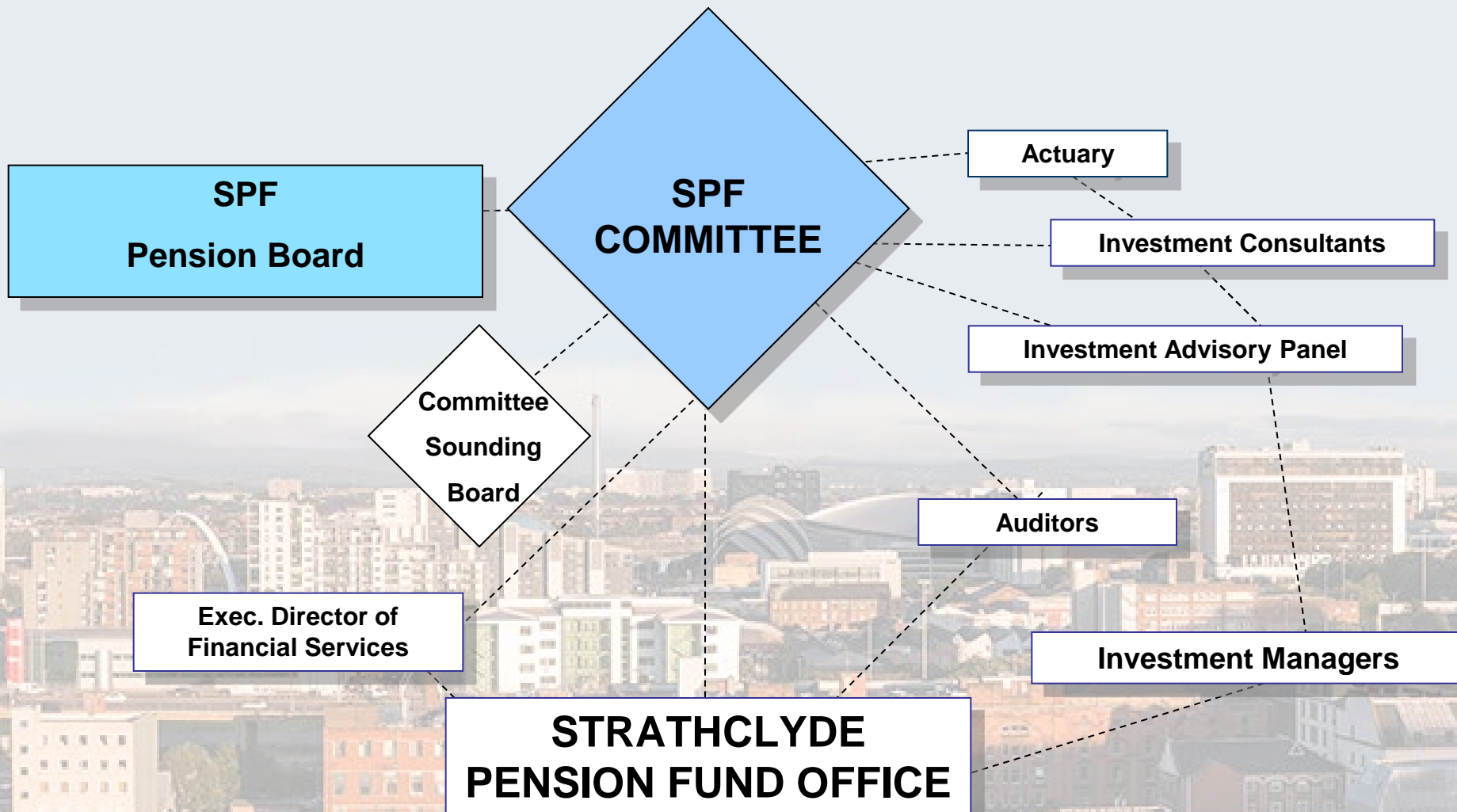
Internal controls

Survey respondents were asked to confirm if they had a number of key processes in place which we would expect to see in a well run scheme.

Respondents reporting key processes in place



Strathclyde Pension Fund Governance



An aerial photograph of a city skyline, likely Denver, Colorado, featuring a large stadium with a distinctive blue and white curved roof. The city is densely packed with various buildings, including modern high-rises and older brick structures. The sky is a clear, pale blue.

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 can not 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

An aerial photograph of a city skyline, likely Denver, Colorado, featuring a large stadium with a distinctive blue and white curved roof. The city is densely packed with various buildings, including modern high-rises and older brick structures. The sky is clear and blue, and the overall scene is captured from a high vantage point.

Questions?