

Audited

# Annual Report and Accounts

2018/19



**Tayside**  
Pension Fund

*Administered by Dundee City Council*

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## ABOUT THE FUND

- Tayside Pension Fund has been administered by Dundee City Council since 1<sup>st</sup> April 1996. It is part of the Local Government Pension Scheme (LGPS), which is a statutory scheme established under the primary legislations of the Superannuation act 1972 and Public Service Pensions Act 2013.
- As at 31<sup>st</sup> March 2019, Tayside Pension Fund had investment assets of £3.903 billion, and a membership of 48,935 across 46 participating employers. These participating employers include 3 local authorities, as well as their subsidiary companies and contractors; a number of universities and colleges; and a range of organisations with funding or service links to local government.
- There are approximately 100 LGPS funds in the UK, with 11 of these in Scotland. Tayside is the 4<sup>th</sup> largest of the 11 Scottish LGPS funds in asset size. The LGPS is a multi-employer defined benefit scheme, whose benefits up until 31<sup>st</sup> March 2015 was based upon final salary. Since this date, benefits are based upon career average.
- The rules by which the LGPS scheme operates by are set out in the Local Government Pension Scheme (Scotland) Regulations which are Scottish Statutory Instruments (SSIs). Separate regulations set out scheme benefits, investment and governance requirements.



## **Foreword by the Executive Director of Corporate Services**

On behalf of Tayside Pension Fund, I am pleased to present the 2018/19 Annual Report and Financial Statements of Tayside Pension Fund. It is my hope that this report will provide members, employers and other interested stakeholders with useful information on the activities of the Fund during the financial year, as well as its investment performance and financial statements.

It has been an extremely arduous year in terms of market volatility due to the increased levels of geo-political uncertainty we have experienced on a global scale. I am pleased to report that despite the challenges encountered, the Fund has continued to grow in a sustainable manner through its strategic long term investment view. This sound investment management has enabled the Fund to maintain employer's contributions at a stable 17%, and I'd like to take this opportunity to recognise the Sub-Committee and Board for their work with Officers and the funds advisors in the prudent decision making and scrutiny in sustaining this.

Legislation introduced during the year saw the ability for active members to retire following their 55th birthday, without their employers consent, and the Pensions Team have provided support to both employers and members in order to provide relevant information and calculations as requested. This, coupled with increased numbers of leavers and also the joining of new members, demonstrated the team's continued commitment and dedication in light of higher levels of service demand. I would like to thank the Pension Fund team for their contributions in providing an increasingly complex service to the Fund's stakeholders.

The new era of increased data protection legislation was heralded with the arrival of GDPR in May 2018, bringing with it the need for process updates and amendments to existing documentation. Successful implementation was achieved, and these new processes and reporting regimes are now firmly embedded into the Fund's daily operations.

With increased focus on risk management during the year, the Fund introduced a formal Risk Policy & Strategy to effectively mitigate risks which may otherwise impact on achievement of the Fund's objectives, this was achieved by implementing comprehensive risk management arrangements which set out Tayside Pension Fund's Risk Appetite, describing the approach to risk which the Sub-Committee adopts in light of their fiduciary duties; and further reinforces an already well-developed risk culture.

The challenging and volatile environment is anticipated to continue in the forthcoming year and I look forward to working with the Sub-Committee, Board, Officers and Staff in delivering improved performance, and continuing the increased growth in the fund's assets.

**Gregory Colgan**  
**Executive Director of Corporate Services**



### **Report by the Chair of the Pension Sub-Committee**

In its role as administering authority of Tayside Pension Fund, Dundee City Council has delegated the responsibility for all matters relating to the investment of assets and the overall governance of Tayside Pension Fund to its Pension Sub-Committee. The Pension Sub-Committee consists of 6 elected members from Dundee City Council, and it is their role, and mine, as its Chair to ensure that the Fund meets its primary objective of providing members' pension benefits on their retirement; and to also ensure that the Fund complies with Local Government Pension Scheme Regulations and all other relevant legislation.

In light of the turbulent global market environment, I am extremely pleased to report that the growth in value of the net assets to £3.89bn from £3.69bn was in keeping with the Fund's actuarial requirements and investment objectives.

Fund membership continues to grow. This year we have seen membership growth of 2% from previous year, bringing membership to almost 49,000. This increase in new members coupled with a 4% increase in members now in retirement has resulted in increased workloads for the team administering the fund, and I'd like to thank them for their hard work and dedication.

Having an appropriate investment strategy is crucial, especially with geopolitical uncertainty becoming the new norm. The Pensions Sub-Committee are committed to ensuring that investment returns are suitable, achievable and sustainable in order to maintain stable employer contribution levels and continue to support the payment of pension benefits. During the year, the Fund appointed KPMG as their investment advisors and have worked with them in developing a Statement of Investment Beliefs as well as a full review of the Fund's Investment Strategy and asset allocation. As a result in increased global market dynamics, the fund transitioned mandates to be more responsive, and recommenced securities lending which had been suspended since 2008.

March 2020 is the date of the next triennial valuation, and this along with the ever changing global economic climate will no doubt present further challenges, but also potential opportunities, and I look forward to working with the Fund's officers, staff and advisors in the coming year, and like to thank them as well as the Sub-Committee and Pension Board for their continued commitment to Tayside Pension Fund.

**Bailie Willie Sawers**  
**Chair of Pension Sub-Committee**



## **Report by the Chair of the Pension Board**

The role of the Pensions Board is to ensure compliance with the various legislative requirements of Local Government Pension Schemes, and also the requirements of the Pensions Regulator. Being made up of both employer and member representatives, we undertake a vital role in helping to ensure the correct governance and functioning of Tayside Pension Fund.

During the year we have overseen the review of a number of strategies and changes to investment operations, as well as providing continuing oversight and challenge to general pension operations. The Board's knowledge and experience continues to grow with both attendance at training events, but also the regular attendance of meetings. The Board has attended all of the quarterly Pension Sub-Committee meetings and I have seen increasing levels of engagement in relation to the fund's governance at these meetings. As a Board, we have shown active interest in all matters relating to the pension fund brought before the Pensions Sub-Committee for consideration during the year, with particular scrutiny of environmental, social and corporate governance matters, where we have challenged the Fund's officers and investment managers in relation to responsible stewardship whilst ensuring clear perspective remains in relation to their legal fiduciary duties.

The review of the structure of the Local Government Pension Scheme in Scotland was carried out during the year by the Pensions Institute on behalf of the Scottish Scheme Advisory Board. The Board had oversight of the Fund's response to this consultation, which reflected on the currently healthy funding profile of Tayside Pension Fund and we await the outcome of the review which is expected over the coming months.

As required by the constitution, the Chair of the Pension Board rotates between employer and member representatives, and my tenure will come to an end on 31<sup>st</sup> March 2019. I therefore take this opportunity to wish the incoming Chairperson well in their role, and also express my gratitude to my Pension Board colleagues for their ongoing commitment to supporting the Board over the last year, ensuring that both members and employers continue to be well represented within the governance and running of the fund, and look forward to continuing my membership of Tayside Pension Board in the coming year.

**Arthur Nicoll**  
**Member Representative & Chair of Tayside Pension Board**

## MANAGEMENT COMMENTARY

### Introduction

The Annual Report has been prepared in accordance with the Code of Practice on Local Authority Accounting for the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector, and the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003. It is intended to keep members, employers and other interested stakeholders informed about the administration and performance of the Local Government Pension Scheme (LGPS) Fund that Dundee City Council is responsible for administering.

### Purpose and Aims

The purpose of the Fund is to receive monies in respect of contributions, and invest appropriately in order to pay out the required monies in respect of Local Government Pension Scheme (the Scheme) benefits.

In order to achieve this, the fund aims to ensure that:

- sufficient resources are available to meet all liabilities as they fall due;
- employer contribution rates to be kept as nearly constant as possible and at reasonable cost;
- employer's liabilities are managed effectively;
- income from investments is maximised within reasonable risk parameters

### Policies, Strategies & Objectives

The primary objective of Tayside Pension Fund is to provide for scheme members' pension and lump sum benefits on their retirement or for their dependants on death before or after retirement, on a defined benefits basis. In order to achieve their objectives, the Fund have policies and strategies which are agreed by the Pension Sub-Committee and set out in their policy and strategy documents.

The following investment policies and strategies underwent review over the year:

- Treasury Management Policy & Strategy
- Statement of Investment Principles
- Environmental, Social and Corporate Governance Policy
- Funding Strategy Statement
- Risk Management Policy & Strategy
- Investment Strategy
- Statement of Investment Principles

Further information on all of the above can be found at our website <http://www.taysidepensionfund.org/tayside-pension-fund/about-us/forms-and-publications/>

### 2018/19 Events and Activities

#### Procurement Exercises:

- Appointment of KPMG as Investment Consultants

Following a procurement exercise undertaken in May 2018, KPMG were appointed as investment consultants to the Fund for a period of 3 years with a further 2 year extension based on satisfactory performance. This contract commenced on 2nd July 2018. KPMG demonstrated a detailed knowledge and in-depth understanding of the Fund in relation to its current asset allocation, funding position and performance measurement of managers, as well as the investment style and strategies employed. They provided clear reasoning on topical issues and focussed on specific risks. KPMG provided well thought out strategic and operational solutions demonstrating their investment skills and experience especially tailoring to suit the specific needs of Tayside Pension Fund.

Their overall approach provided officers with reassurance of their depth of resource and the quality and level of service provided to consultancy clients. Further information can be found in the following reports:

<https://www.dundee.gov.uk/reports/reports/276-2018.pdf>

- Procurement for consultancy services to undertake a scheme employer covenant review

Delegated authority was agreed to appoint a service provider to undertake an exercise to review the covenants of the employers of Tayside Pension Fund. Employer covenant is the extent of the employer's legal obligation and financial ability to support the scheme now and in the future. Assessing the covenant is about understanding the extent to which the employer can afford to support the scheme now and in the future, including the risks to this support being available when it is needed. The review is to be conducted in line with the regulatory guidance as specified by the Pensions Regulator in its document 'Assessing and monitoring the employer covenant'. Appointment of service provider will be made in June 2019.

Further information can be found in the following report:

<https://www.dundee.gov.uk/reports/reports/132-2019.pdf>

## Changes to Regulation / Legislation:

- The Local Government Pension Scheme (Scotland) Regulations 2018

These regulations came into effect from 1 June 2018. This introduced the ability for employees to now choose to retire without employer consent and receive full retirement benefits from age 55 rather than age 60, albeit these benefits would be subject to actuarial reduction.

Further information can be found by following this link:

<https://www.legislation.gov.uk/ssi/2018/141/contents/made>

## Strategic Investment Changes

- Statement of Investment Beliefs

In order to ensure that investment strategies employed by the Fund remain consistent with their investment beliefs, a formal Statement of Investment Beliefs has been developed in order to support the Fund in underpinning the investment decision-making process for the future, and also act as a reference point for understanding why investment decisions have been, and are, made.

Further information can be found in the following report:

<https://www.dundee.gov.uk/reports/reports/128-2019.pdf>

- Review of Fund Main Benchmark

In recent years, there have been changes made to both the fund's investment strategy and funding strategy, and as a result, changes have been made to the underlying investment components of the fund. Although individual changes had not resulted in a requirement for the main fund benchmark to be reviewed, over recent times, the fund has seen that divergence between the underlying components of the Main Fund Benchmark and the Main Fund Policy Benchmark has increased. KPMG, as the fund's investment consultants undertook a review and proposed a revised benchmark more in line with the current investment strategy

- Investment Strategy Review

KPMG undertook a high level review of the existing investment strategy and its appropriateness in meeting its objectives in line with the medium to long term actuarial requirements. They proposed a number of potential refinements to assist in meeting strategic investment objectives.

- Securities Lending

Authorisation was granted to resume Securities Lending within the pension portfolio for applicable asset classes. These activities do not have any detrimental impact in terms of loss of economic benefit in terms of investment returns, but do generate income which will be used to assist cash flow requirements, reducing need to disinvest from assets to pay pension benefits.



## Consultations

- Review of the Structure of the Scottish Local Government Pension Scheme

The consultation instructed by the Scottish Scheme Advisory Board was launched during June 2018. The Pensions Institute were commissioned to manage the consultation process. The consultation deadline for response was 7th December 2018.

The consultations objective was to seek to establish the views of employers and employee representative groups on whether outcomes for the members and sponsors of the Scottish Local Government Pension Scheme (SLGPS) can be improved by altering the structure of the scheme. The consultation asked these stakeholders to compare the advantages and disadvantages of the current scheme structure against three options that, by differing degrees, consolidate the functions of the scheme's 11 constituent funds by collaboration, pooling and merger. The consultation was limited to the two stakeholder groups, with no specialist advisors or investment managers permitted to provide response.

The 4 options identified in the Consultation Report were to:

- retain the current structure with 11 funds
- promote cooperation in investing and administration between the 11 funds
- pool investments between the 11 funds
- merge the 11 funds into one or more funds

The 4 criteria against which each of the options was to be assessed were:

- cost of investing
- governance
- operating risks
- infrastructure investment

Tayside Pension Fund's response to the consultation stated that the preferred option was to promote cooperation in investing and administration between the 11 funds as the Fund already enjoys considerable benefits of scale in terms of cost which is demonstrated by the independent annual reviews undertaken by Audit Scotland, and has in place an appropriate and effective governance structure and risk management processes.

The Fund is not clear what would be gained by members or employers from the proposed alternative models of pooled or merged funds, but is certain, though, that there would be significant costs and risks associated with any change. The Fund believe that any pooling or merger of funds should only occur where individual funds are in agreement that this would be to the benefit of their members and employers.

The Fund's response documented the low contribution rate which is based upon the localised asset and liability profile of the fund, its underlying funding position and bespoke investment strategy, and whilst protection would be sought to retain this should the pooling or merger option be chosen as the optimal structure, there is no guarantee that any future investment strategy determined at larger scale would sustain this. The risks that a change of structure could result in a rise in employer contribution rates, and in turn a potential change in benefits would not be supported by the Fund as this would not be in the best interest of the scheme membership.

A draft report of the outcome of the consultation was presented at the Scheme Advisory Board meeting of 24<sup>th</sup> April 2019 and this will be reported to the Finance Secretary of Scotland in due course.

## I.T. Developments

- Pensionsweb (Online Self-Service)

In January 2019 letters were issued to the pensioner members advising them that with effect from 2019/20 that payslips would be available to view and print using the online member's area of Pensionsweb. Approximately 15,000 letters were issued and as at March 2019, approximately 2,900 members had registered and requests had been received from approximately 1,400 members wishing to continue the issue of paper payslips.

In terms of the employer's online portal, a new Cessation Form was issued to allow all employers to issue details regarding their scheme leavers/retirements in a consistent manner. This spreadsheet based form provides the employers with sections to complete regarding both Career Average Pay and Final Pay (FTE).

Discussion and review of this form will be carried out in 2019/20 to ensure that it provides Tayside Pension Fund with the information required to accurately and efficiently calculate members benefits, and also to ensure that the lay out is in a format that is easy to understand and complete by the scheme employers.

## Related Legislation published during 2018/19

SI2018-338	The Public Service Pensions Revaluation Order 2018
SI2018-271	The Social Security Revaluation of Earnings Factors Order 2018.
SI2018-279	The Guaranteed Minimum Pensions Increase Order 2018.
SI2018-367	The Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2018.
SI2018/333	The Pensions Increase (Review) Order 2018.

All of the above have been applied to members' records, or issued to fund employers as required.

## Training, Development and Communication

- Pension Sub-Committee and Board Training

A national training event was held in September 2018 by the LGPS Scotland Investment & Governance Group for all Scottish funds. The event programme covered a wide range of topics which would not generally be covered through in house training:

- Investment fee transparency
- Role of the Pensions Regulator
- Role of the Pension Board
- Climate Change and Investment Strategy
- Complexities of the LGPS Benefits and new flexibilities for members
- Government oversight of LGPS funding
- GDPR

Throughout the year, having previously completed the essential public service modules, the newer Pensions Board and Sub-Committee members undertook the remaining modules from the Pensions Regulator Trustee Toolkit.

Investment training sessions have also been delivered as well as quarterly fund manager presentations and these have provided newer members with in-depth product knowledge, but also acted as essential refresher sessions for the more experienced. A full training plan for 2019 was presented in March.

- Employers

The Annual Employers Forum was held on 12th November and attracted over 40 attendees across the Fund's employers. The forum covered the following topics:

- The Local Government Pension Scheme (Scotland) Regulations 2018
- GMP Reconciliation
- Staffing
- Pensionsweb Self Service
- Rule of 85
- Other news and updates

- Employer / Members Sessions

The following sessions were held over the financial year:

<b>Employer</b>	<b>Topic</b>
Police Scotland	Pensionsweb training
Carnoustie Golf Links	Pensionsweb training
Perth & Kinross Council	Update and performance discussion
Dundee Airport	General Scheme Presentations (2 sessions held)
DCC – Contract Services Shop Stewards	Discussion on 2018 Regulations & Rule of 85
DCC – City Development	Discussion on 2018 Regulations & Rule of 85

## Fund Update

### Membership

The Local Government Pension Scheme is voluntary and is open to all employees of the Scheduled and Admitted Bodies, page 86 provides detail as to the employers within Tayside Pension Fund. The change to membership of the Tayside Fund between 31 March 2018 and 31 March 2019 can be noted below:

	<u>31<sup>st</sup> March 2018</u>	<u>31<sup>st</sup> March 2019</u>
Contributing Members	18,815	19,091
Pensioners	15,524	16,102
Deferred Pensioners	8,533	8,838
Undecided or Frozen	5,130	4,904
	<hr/>	<hr/>
	48,002	48,935

### Changes in Membership - Admission of Admitted Body - Sodexo

The admission of this new body was approved following a procurement exercise by the Scottish Fire & Rescue Service and subsequent transfer of staff to the new employer. The admission is for the 3 year period of the contract, with Scottish Fire & Rescue Service covering actuarial costs and are also providing appropriate guarantee to cover the employer's liabilities.

Further information can be found in the following reports:

<https://www.dundee.gov.uk/reports/reports/387-2018.pdf>

<https://www.dundee.gov.uk/reports/reports/123-2019.pdf>

### Membership Funding

The Funds are financed by the contributions made by members and their employers as well as income earned from the investment of the Funds' monies.

The employees' contribution levels are tiered based on a percentage of pensionable pay. Contributions are made by active members of the fund in accordance with the LGPS (Scotland) Regulations 2014 and range from 5.5% to 12.0% of pensionable pay. Employer contributions are set based on triennial valuations undertaken by actuaries in accordance with Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014. The employers' contribution levels are reviewed every three years by the Funds' actuaries as part of their actuarial valuation of the Funds

Paying due regard to the Fund's Funding Strategy whilst maintaining consistency of rate, solvency of the fund, and long term cost efficiency; as at 31<sup>st</sup> March 2017, the Fund's actuary, Barnett Waddingham recommended that the employer contribution remain at 17%

### Performance

- Fund Investment

The current investment strategy ensures that investment performance is effectively managed and monitored by the governance arrangements, where decisions are delegated to the Pension Sub-Committee of the Policy and

Resources Committee. Investment decisions are made based on advice from Council Officers and professional external advisers. These decisions are scrutinised by the Pension Board who meet with the Pension Sub-Committee on a quarterly basis.

The strategic asset allocation of both funds is as follows (following the Investment Strategy in Review approved on 3<sup>rd</sup> December 2018):

Equities:	65%
Bonds:	13%
Property:	12%
Alternatives:	10%

In the year to 31 March 2019, the Fund return of 6.39% slightly underperformed the benchmark return of 6.60%. The Fund did however outperform in all other time periods (3 years, 5 years, and from inception). The Fund value increased to £3.893bn in the twelve month period. Further detail in respect of this is contained within the Performance Commentary.

- Peer Comparison

Following the outcome of the all Scottish LGPS 2017/18 Annual Report analysis undertaken by Audit Scotland, they reported the following in regards to Tayside Pension Fund performance against peers within Scottish LGPS:

- 6<sup>th</sup> highest return on investments
- 2<sup>nd</sup> highest investment income as a proportion of opening investments
- 2<sup>nd</sup> lowest administration costs as a proportion of new assets
- Lowest investment management expenses as a proportion of net assets
- 2<sup>nd</sup> highest deficit from dealings with members as a proportion of net assets\*

\* Pensions payments exceeded member contributions and investment income due to the large volumes of normal and voluntary early retirements of scheme members over the financial year.

The Government Actuary department also undertook an evaluation in 2016/17 of all pension funds in order to standardise local valuation results, and Tayside Pension Fund were reported as having the 3<sup>rd</sup> highest funding level across the Scottish LGPS Funds.

## Risk Management

- Risk Management Policy & Strategy

Although Tayside Pension Fund's risk management practices are well established, with maintained risk registers in operation since 2011, there had been no formal risk policy or strategy adopted until March 2019. The policy and strategy developed largely reflects existing practices, and also draws on guidance from the CIPFA publication Managing Risk in the Local Government Pension Scheme and from the Pensions Regulator's code of practice for public service pension schemes.

Further information can be found in the following report:  
<https://www.dundee.gov.uk/reports/reports/119-2019.pdf>

The following summarises the key risks which are monitored and presented quarterly:

- Failure to process pension payments and lump sums on time
- Failure to collect and account for contributions from employers and employees on time
- Insufficient funds to meet liabilities as they fall due
- Inability to keep service going due to loss of main office, computer system or staff
- Loss of funds through fraud or misappropriation
- Unable to participate in scheme in event of faster than anticipated maturity of the fund
- Significant rises in employer contributions due to poor/negative investment returns
- Failure of global custodian resulting in potential financial loss or loss of information
- Failure of Investment Manager resulting in potential financial loss
- Equity Risk resulting in potential financial loss

- Active Manager Risk resulting in potential financial loss
- Failure to comply with LGPS and other regulations
- Failure to hold personal data securely (incorporating Cyber Crime)
- Failure to keep pension records up-to-date and accurate
- Lack of expertise on Pension Committee, Pension Board or amongst officers
- Over reliance on key officers
- Failure to communicate properly with stakeholders
- Employer Covenant Risk

## Future Outlook

Global market volatility and geopolitical uncertainties present investment challenges as well as threat of increasing interest rates. Potential challenges are also posed to the Fund's operations, employers and members by new technologies and legislation. The Fund continues to believe that it remains in a strong position to in order to overcome these challenges to ensure effective and efficient management is maintained and that member's interests are protected.

## 2018/19 Accounts

A summary of the main statements is provided below:

Statement of Responsibilities for the Statement of Accounts – outlining the responsibilities of the administering authority and the Executive Director of Corporate Services.

Fund Account – showing income and expenditure from the fund in relation to scheme members and the investment and administration of the fund. The account also compares the fund's net assets at the start and end of the financial year.

The Tayside Pension fund account shows that contributions of £96.741m increased by £0.126m during the year to 31 March 2019 and the benefits payable were £111.252m which increased by £7.581m. Contributions have increased slightly as there were more active members participating in the scheme during 2018/19 and benefits payable increased due to increased pensioners.

Net Asset Statement – showing the type and value of all net assets at the end of the financial year. The Tayside Pension Fund's net assets increased to £3,893.1m from £3,690.6m in 2018.

Notes to the Fund Accounts – providing supporting evidence and analysis of the information contained within the Fund Account and Net Asset Statement.



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**Gregory Colgan**  
Executive Director of Corporate  
Services  
Dundee City Council

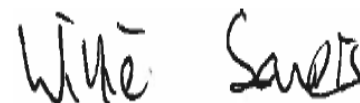
23 September 2019



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**David Martin**  
Chief Executive  
Dundee City Council

23 September 2019



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**Bailie Willie Sawers**  
Chair of Pension Sub-  
Committee  
Tayside Pension Funds

23 September 2019

## TAYSIDE PENSION FUND STATISTICS

The tables below show a 5 year analysis of Membership, Member transactions and Net Asset Movements.

<b>Membership</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
Number of Employers	44	45	45	46	46
Active Members	17,622	18,343	18,184	18,815	19,091
Deferred Members	10,911	11,764	12,602	13,663	13,742
Pensioners	13,643	14,171	14,714	15,524	16,102
<b>Total Membership</b>	<b>42,176</b>	<b>44,278</b>	<b>45,500</b>	<b>48,002</b>	<b>48,935</b>

<b>Member Transactions</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
	£000	£000	£000	£000	£000
Employer Contributions	68,776	67,576	69,594	72,684	72,110
Employee Contributions	22,636	23,036	23,518	23,931	24,631
Transfers In	3,324	2,547	2,310	2,414	1,919
Lump Sums Paid	(21,104)	(20,337)	(22,564)	(23,244)	(24,538)
Pension Paid	(68,545)	(72,335)	(75,312)	(80,427)	(86,714)
Transfer Out	(5,238)	(2,596)	(8,355)	(3,816)	(6,314)
Administration costs	(1,232)	(1,323)	(1,378)	(1,500)	(1,932)
<b>Net withdrawals</b>	<b>(1,383)</b>	<b>(3,432)</b>	<b>(12,187)</b>	<b>(9,958)</b>	<b>(20,838)</b>

<b>Net Asset Movements</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
	£000	£000	£000	£000	£000
Opening Net Assets	2,463,063	2,843,135	2,839,602	3,445,123	3,690,623
Investment Income	56,574	58,956	62,227	83,182	94,450
Management Costs	(11,921)	(7,589)	(8,516)	(9,248)	(9,028)
Member Transactions	(1,383)	(3,432)	(12,187)	(9,958)	(20,838)
Repatriation of Transport Fund	-	-	-	70,774	-
Change in Market Value	336,802	(51,468)	563,997	110,750	137,914
<b>Closing Net Assets</b>	<b>2,843,135</b>	<b>2,839,602</b>	<b>3,445,123</b>	<b>3,690,623</b>	<b>3,893,121</b>

## THE MANAGEMENT OF TAYSIDE PENSION FUND

### Pension Sub-Committee

Tayside Pension Fund is administered by Dundee City Council as the administering authority with responsibility for the management of the fund delegated to the Tayside Pension Sub-Committee. This Sub-Committee meets quarterly and oversees the supervision and administration of the fund's investments, sets the investment strategy and also oversees pension administration. The day to day operational matters are further delegated in the main to the Executive Director of Corporate Services.

The table below show the membership of the Pension Sub-Committee to 31<sup>st</sup> March 2019:

Bailie Willie Sawers (Chairperson)
Bailie Kevin Keenan
Councillor Philip Scott
Councillor Anne Rendall
Councillor Gregor Murray
Vacant*

\* Councillor Brian Gordon died on 26th February 2019.

All committee members are members of Tayside Pension Funds.

### Local Pension Board

As a result of legislative changes to the governance arrangements in relation to pension schemes within the public sector, Dundee City Council as an administering authority for the Local Government Pension Scheme (LGPS), is required to have in place a local Pension Board.

The Pension Board was established on 1<sup>st</sup> April 2015 and is separate from the Pension Sub-Committee. The Pension Board are responsible for assisting in securing compliance with the regulation and other legislation relating to the governance and administration of the Scheme and also the requirements of the Pensions Regulator.

The role of the Pension Board is to assist the Tayside Pension Fund in complying with all of the legislative requirements and making sure that the scheme is being efficiently & effectively governed and managed.

The Pension Board members work in conjunction with Dundee City Council in its role as the administering authority and with officers of the Tayside Pension Fund to ensure that your pension scheme is being run properly and scheme members get the best service. The local Pension Board must have an equal number of scheme member and scheme employer representatives and board members are appointed for a term of 5 years (in line with local government election cycle).

The table below show the membership of the Pension Board as at 31st March 2019:

Name	Representing	Organisation
Mr Arthur Nicoll (Chairperson)	Member	UNISON
Mr Kenny Dick	Employer	Social Care & Social Work Improvement Scotland
Mr Gordon Murray*	Employer	Carnoustie Golf Links
Cllr Bob Brawn	Employer	Perth & Kinross Council
Vacant	Employer	Angus Council
Ms Claire Shepherd	Member	UNITE
Mr George Ramsay	Member	UNITE
Mr Stephen Massey	Member	GMB Scotland
Mr Gordon Weir	Employer (substitute)	Social Care & Social Work Improvement Scotland
Ms Margaret McGuire	Member	UNISON

	(substitute)	
Ms Helen Meldrum*	Member (substitute)	GMB Scotland

\* denotes board members who are not members of Tayside Pension Funds.

The Pension Sub-Committee and Pension Board must undergo continuous regular training which can be delivered locally or nationally (as a minimum attending full induction sessions and completing The Pensions Regulator's Essential Public Service Modules within their Trustee Toolkit). The Pension Sub-Committee and Pension Board hold joint meetings on a quarterly basis, and each member of the Pension Sub-Committee and Pension Board is required to declare any financial and non-financial interests they have in the items of business for consideration at each meeting, identifying the relevant agenda item and the nature of their interest. Full details of the scheme's governance structure is contained in the scheme's Governance Compliance Statement on pages 21-22.

## Tayside Pension Fund Officers

The day-to-day running of Tayside Pension Fund is carried out by the Financial Services Team within the Corporate Finance Section of the Corporate Services Directorate of Dundee City Council. The division functions include investment and pension administration. The investment responsibilities include the monitoring and selection of selection of external investment managers and advisors. Over the year, principal officers were:

Gregory Colgan	Executive Director of Corporate Services
Sandy Flight	Head of Corporate Finance
Tracey Russell	Senior Financial Services Manager
Roger Mennie	Head of Democratic and Legal Services

## Scheme Advisory Board

The Scheme Advisory Board for the Local Government Pension Scheme in Scotland was set up following the Public Service Pensions Act 2013. The Board's main function is to advise Scottish Ministers, when requested, on the desirability of changes to the Scheme. They can also provide advice to scheme managers and pension boards in relation to effective and efficient administration and management of the Scheme in Scotland.

The membership of the Scheme Advisory Board comprises of seven member representatives and seven employer representatives and a Joint Secretary is appointed in support of each of the Member and Employer groups. There is more information on the Scheme Advisory Board at [www.lgpsab.scot](http://www.lgpsab.scot).

## Fund Managers

Alliance Bernstein  
Baillie Gifford & Co  
Fidelity Pension Management  
Goldman Sachs Asset Management  
Legal & General Investment Management  
M&G Investment Management  
Schroder Property Investment Management

## Investment Advisor

### Actuary

### Custodian

### Banker

### Auditor

### Corporate Governance Advisor

### Performance Measurement

KPMG LLP  
Barnett Waddingham  
Northern Trust  
Royal Bank of Scotland  
Audit Scotland  
Pension & Investment Research Consultants Ltd (PIRC)  
Northern Trust



## ANNUAL GOVERNANCE STATEMENT

Dundee City Council is the administering authority and scheme manager of Tayside Pension Fund, a local government pension fund covering the three local authorities in the former Tayside area, and over 40 other large and small employers. The main functions of the Administering Authority are the administration of scheme benefits and the investment of the assets of the Fund. These functions are conducted in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972.

### Role of the Administering Authority

The role of Dundee City Council as the Administering Authority of Tayside Pension Fund is carried out via:

- The Pension Sub-Committee
- The Pension Board
- The Corporate Finance Section within the Corporate Services Directorate of the Council

The Council has set up the Pension Sub-Committee with the delegated responsibility to control and resolve all matters relating to the investment of assets and the overall governance of Tayside Pension Fund. It is the role of the Pensions Committee to:

- Ensure that the Fund is:
  - Compliant with the Local Government Pension Scheme Regulations and all other legislation that governs the administration of the fund.
  - Valued as required and that reports received on each valuation are considered.
- Be responsible for:
  - Setting the investment objectives and policy and the strategic asset allocation in the light of the Fund's liabilities.
  - Appointing, reviewing, and assessing the performance of investment managers, investment consultants, custodians and actuaries.
  - Ensuring appropriate arrangements are in place for the administration of benefits.
  - Ensure appropriate additional voluntary contributions arrangements are in place.
  - Providing scrutiny for the Fund, reviewing the Annual governance Statement, Annual Accounts and all audit reports and arrangements.
- Prepare, maintain and publish the following:
  - Governance Compliance Statement.
  - Funding Strategy Statement.
  - Statement of Investment Principles.
  - Environmental, Social and Corporate Governance Policy.
  - Administration Strategy
  - Communications Policy
  - Treasury Policy and Strategy

The Pension Sub-Committee consists of 6 elected members from the administering authority, supported by officers of the administering authority (including the Executive Director of Corporate Services, who carries out the Section 95 duties on behalf of Dundee City Council). The Sub Committee meets quarterly at joint meetings with the Pensions Board. Additional meetings are arranged as required should the need arise.

The Pension Board is separate from the Pension Sub-Committee, and responsible for assisting Dundee City Council (as Scheme Manager) in relation to securing compliance with the 2014 Regulations and other legislation relating to the governance and administration of the Scheme, as well as the requirements of the Pensions Regulator. The Pension Board may consider any matter concerning pensions it deems relevant to the activities of the Pensions Sub-Committee in relation to their remit and role defined in the 2014 regulations.

The Pensions Board consist of equal numbers of trade union representatives and employer representatives, drawn from councils and scheduled or admitted bodies in membership of the fund.

Under the same 2014 regulations, the governance arrangements also included the introduction of the national Scheme Advisory Board, whose role is to provide advice to the Scottish Ministers as requested, and furthermore to provide advice to the Scheme Managers or the Scheme's Pension Boards in relation to the effective and efficient administration and management of the Scheme and any Funds within the Scheme. The Scottish Public Pensions Agency (SPPA) is responsible for maintaining the rules of the Local Government Pension Scheme in Scotland on behalf of the Scottish Ministers and is deemed a "Responsible Authority" under the terms of the 2013 Act. In addition, the powers of the Pensions Regulator were also extended to cover standards of governance and administration in the Local Government Pension Scheme.

### **Assurance**

Internal audit services for the Tayside Pension Fund are currently provided by Dundee City Council's Internal Audit Service in line with a formal Service Level Agreement (1 April 2017 – 31 March 2020). DCC's Internal Audit Service operates in conformance with the Public Sector Internal Audit Standards (PSIAS), which apply to all internal audit service providers within the public sector, and the Local Authority Accounts (Scotland) Regulations 2014. The requirements under PSIAS represent best practice and these, along with the Regulations, are mandatory.

The Senior Manager – Internal Audit prepares an annual internal audit plan for the Council, which outlines the work to be undertaken. The internal audit plan is developed utilising a risk-based methodology and takes into account the requirement placed upon the Senior Manager – Internal Audit to deliver an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control framework. Dundee City Council's 2018/19 Internal Audit Annual Report, was presented to the Council's Scrutiny Committee on 26 June 2019 (Report No. 221-2019), concludes that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and control for the year to 31 March 2019.

In compiling the plan, input from Elected Members, senior management and any other relevant parties is sought and cognisance is taken of emerging issues. Part of that annual process involves the consideration of risk relating to the Tayside Pension Fund and, with that in mind, a specific allocation of time is provided where considered appropriate in the internal audit plan for the review of internal controls surrounding the Tayside Pension Fund. In addition, assurances surrounding the implementation status of previously agreed recommendations, including those relating to the Tayside Pension Fund, are obtained from management via Pentana, the Council's corporate performance / risk management system, and reported as part of the annual progress review exercise to the Council's Scrutiny Committee. Some assurances can also be taken from non-specific internal audit reviews that have been reported on throughout the year and referred to in the Council's Annual Report, where the area reviewed is considered relevant to the Tayside Pension Fund.

During 2018/19, an internal audit report for the Tayside Pension Fund was issued following a review to assess if the LGPS PensionsWEB self-service module was being fully utilised by scheduled and admitted bodies and anticipated benefits were being realised. The report was submitted to the Pension Sub-Committee and Pension Board on 25 March 2019 (Article IX, Report No. 129-2019). The annual progress review exercise mentioned above, which was reported to Scrutiny Committee on 26 September 2018 (Article VI), Report No. 295-2018) included two Tayside Pension Fund specific recommendations originating from separate internal audits, relating to disaster recovery and business continuity, and review of Treasury Management Practices.

The fund also takes part in the National Fraud Initiative in order to identify if fraud has been committed and pensions have been wrongly paid, and take subsequent recovery action. However occasionally wrong payments are made because of genuine error and this could result in payments to pensioners being increased. These exercises therefore help promote the best use of public funds. No significant fraud or errors were identified during this process.

### **Employer Communication**

The Fund also holds annual investment forums for employers and the trade unions. The agenda for these meetings include presentations by the Fund's Investment and Administration specialists and from the Fund's Actuary, when appropriate. The topics covered include the actuarial and funding position, the benefits structure and investment performance, changes to legislation or regulations, and review of effectiveness.

## Scope of Responsibility

Dundee City Council has the responsibility for ensuring that the business of Tayside Pension Fund is conducted in accordance with the law and appropriate standards, and for ensuring there is a sound system of governance (incorporating the system of internal control) and that monies are safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a statutory duty under the Local Government in Scotland Act 2003, to make arrangements to secure best value, which is defined as continuous improvement in the way its functions are carried out.

In discharging these overall responsibilities, Councillors and senior officers are responsible for implementing effective arrangements for governing the Council's affairs, and facilitating the effective exercise of its functions, including arrangements for the management of risk.

Dundee City Council has adopted a Local Code of Corporate Governance that is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) framework 'Delivering Good Governance in Local Government'. In 2016, CIPFA extensively revised the Code in its publication "Delivering Good Governance in Local Government: Framework and the accompanying Guidance notes for Scottish Authorities, 2016 edition. This statement explains how Dundee City Council delivers good governance through the seven key principals within the framework and reviews the effectiveness of those arrangements. This statement explains how Dundee City Council has complied with the Seven Principals Local Code of Corporate Governance and how it meets the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

## The Governance Framework

Tayside Pension Fund operates within the wider governance framework of Dundee City Council. The governance framework comprises the systems, processes, cultures and values by which the Council is managed. It enables the Council to monitor the achievement of objectives and consider whether those objectives have led to the delivery of appropriate, cost-effective services; and also provides direction for stakeholder engagement and communication.

The Local Code of Corporate Governance is supported by detailed evidence of compliance which is regularly reviewed by a working group of senior officers.

Within the overall control arrangements the system of internal financial control is intended to ensure that assets are safeguarded, transactions are authorised and properly recorded, and material errors or irregularities are either prevented or would be detected within a timely period. It is based on a framework of regular management information, financial regulations, administrative procedures and management supervision.

The overall control arrangements include:

- Identifying the Council's objectives in the Council Plan, Community Plan and Local Outcomes Improvement Plan (City Plan).
- Compliance of The Executive Director of Corporate Services with the five principles of the role of the Chief Financial Officer, as set out in CIPFA guidance.
- Monitoring of objectives by the Council and senior officers.
- A systematic approach to monitoring service performance at elected member, senior officer and project level.
- Reporting performance regularly to Council committees.
- Clearly defined Standing Orders and Schemes of Administration covering Financial Regulations, Tender Procedures and Delegation of Powers.
- A Monitoring Officer to ensure compliance with laws and regulations.
- Council Management Team, as well as service management teams.
- A Scrutiny Committee, as well as Service Committees, also responsible for scrutiny.
- Approved anti-fraud and corruption strategies including "whistle-blowing" arrangements under the Public Interest Disclosure Act 1998.
- An Integrity Group, and a Serious Organised Crime Group.
- Participating in National Fraud Initiative strategy for sharing and cross-matching data.

- Formal project appraisal techniques and project management disciplines.
- Setting targets to measure financial and service performance.
- Formal revenue and capital budgetary control systems and procedures.
- Clearly defined capital expenditure guidelines.
- The assurances provided by internal audit through their independent review work of the Council's internal control systems.
- Dundee City Council's People Strategy

## Review of Effectiveness

Members and officers of the Council are committed to the concept of sound governance and the effective delivery of Council services and take into account comments made by external and internal auditors and other review agencies and inspectorates and prepare actions plans as appropriate.

The effectiveness of the governance framework is reviewed annually by a working group of senior officers. Their regular review of the Local Code of Corporate Governance has identified the Council as being 96% (2017/18: 94%) compliant with guidelines.

In addition Executive Directors from each service have made a self-assessment, in conjunction with their senior management teams, of their own governance, risk management and internal control arrangements. This involved the completion of a 55-point checklist covering seven key governance areas of Service Planning and Performance Management; Internal Control Environment; Fraud Prevention and Detection; Budgeting, Accounting and Financial Control; Risk Management and Business Continuity; Asset Management; and Partnerships. This again indicated a high level of compliance, with an overall score above 89% (2017/18: 87%).

The Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards and reports functionally to the Scrutiny Committee. Conformance with the PSIAS has been confirmed independently by East Lothian Council, through the completion of a formal External Quality Assurance process. Internal Audit undertakes an annual programme of work, which is reported to the Scrutiny Committee. The Senior Manager – Internal Audit provides an independent opinion on the adequacy and effectiveness of the Council's governance, risk management and control framework.

## Continuous Improvement Agenda

The following are service improvements specific to Tayside Pension Fund achieved during 2018/19:

- Review of a number of policies as follows:
  - Treasury Management Policy & Strategy
  - Statement of Investment Principles
  - Environmental, Social and Corporate Governance Policy
  - Funding Strategy Statement
  - Risk Management Policy & Strategy
  - Statement of Investment Principles
- Statement of Investment Beliefs developed
- Investment strategy review and review of the fund benchmark
- Introduction of self service module for pensioners
- Procurement exercises for investment consultants and for consultancy services to undertake a scheme employer covenant review
- Resumed securities lending operations
- Training program for new Pension Board and Pension Sub-Committee members, with ongoing CPD for experienced members.
- Improved utilisation of Pensionsweb by employers to improve performance and service.

The following are service improvements specific to Tayside Pension Fund planned for 2019/20:

- Implementation of member self-service for deferred and active members in order to improve effectiveness and efficiencies.
- Scheme employer covenant review
- Full implementation of task management within pension administration.

Information on the Fund is available from the following links:

Minutes of Joint Pension Sub-Committee and Pension Board meetings –  
[http://www.dundee.gov.uk/minutes/meetings?in\\_cc=35&in\\_dat=1](http://www.dundee.gov.uk/minutes/meetings?in_cc=35&in_dat=1)

Fund Website - <http://www.taysidepensionfund.org/tayside-pension-fund/about-us/forms-and-publications>

- The Statement of Investment Principles, concerning the approach to the investment of the fund.
- The Business Plan, communicating the aims and objectives of the Fund for the forthcoming year.
- The Treasury Management Policy and Strategy for the forthcoming year.
- The Actuary's report on the 2017 valuation.
- The Funding Strategy Statement, concerning the management of the identification and management of the Fund's liabilities.
- The Risk Policy & Register
- The Annual Governance Statement and Statement of Investment Beliefs which sets out the Funds approach
- Environmental, Social and Corporate Governance Policy for investment.
- Pension Administration Strategy
- Communications Policy
- The Governance Compliance Statement, setting out the governance arrangements and compliance with regulations.

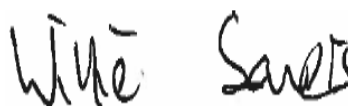
## Conclusion

The annual review demonstrates sufficient evidence that the code's principles of delivering good governance in local government operated effectively and compliance with the Local Code of Corporate Governance in all significant respects. The Fund are committed to monitoring the implementation of improvements noted in the Annual Governance Statement at next year's annual review.




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**David Martin**  
 Chief Executive  
 Dundee City Council  
 23 September 2019




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**Bailie Willie Sawers**  
 Chair of Pension sub-committee  
 Tayside Pension Funds  
 23 September 2019

## GOVERNANCE COMPLIANCE STATEMENT

### 1. Role and Responsibilities

Dundee City Council has statutory responsibility for the administration of the Local Government Pension Scheme (“LGPS”) in respect of the three local authorities in the former Tayside area, and over 40 other large and small employers.

The main functions are:

- management and investment of scheme funds; 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.

Dundee City Council carries out its role as Administering Authority via:

- The Tayside Pension Fund Sub-Committee of the Policy & Resources Committee;
- Tayside Pension Fund within the Corporate Finance Section of the Councils Corporate Services Directorate.

Tayside Pension Fund also acts as a payroll agent for compensatory added years payments within the Teachers Superannuation Scheme.

### 2. Delegation

The function of maintaining the Tayside Pension Fund is delegated by Dundee City Council to its Tayside Pension Fund Sub-Committee. The Fund’s policy documents are available at:

<https://www.taysidepensionfund.org/tayside-pension-fund/about-us/forms-and-publications/>

### 3. Terms of Delegation

The terms, structure and operational procedures of delegation are set out in the report to Dundee City Council’s Policy & Resources Committee on 9<sup>th</sup> February 2015. The report is available at:

<http://www.dundee.gov.uk/reports/reports/447-2014.pdf>

### 4. Committee Meetings

Regular meetings of Tayside Pension Fund Sub-Committee are held quarterly. Committee meeting dates are listed in the Council Diary which is available at:

<https://www.dundee.gov.uk/service-area/corporate-services/democratic-and-legal-services/minutes-meetings-and-reports>

### 5. Representation

The Tayside Pension Fund Sub-Committee is comprised solely of elected members of Dundee City Council. Employing authorities and scheme members are represented on Tayside Pension Fund Pension Board.

## 6. Compliance

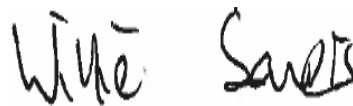
The following demonstrates the assessment to the extent that the fund is in compliance with guidance given by Scottish Ministers and, to the extent that it does not so comply, the reasons for not complying are contained within the full Governance Compliance Statement which is available at:

<https://www.taysidepensionfund.org/tayside-pension-fund/about-us/forms-and-publications/>



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**David Martin**  
Chief Executive  
Dundee City Council  
23 September 2019



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**Bailie Willie Sawers**  
Chair of Pension sub-committee  
Tayside Pension Funds  
23 September 2019

## RISK POLICY & STRATEGY

### 1. Introduction

Dundee City Council is the administering authority for the Tayside Pension Fund (TPF). The Council delegates this responsibility to the Pension Sub-Committee of the Policy & Resources Committee. In recognition of their fiduciary duties and responsibilities towards pension scheme members, participating employers and local taxpayers, this document sets out Tayside Pension Fund's Risk Management Policy, Strategy and Risk Appetite, describing the approach to risk which the Sub-Committee adopts in light of their fiduciary duties.

The purpose of the Policy and Strategy is to effectively mitigate risks which may otherwise impact on achievement of the Fund's objectives, by implementing comprehensive risk management arrangements. These arrangements include, among others: development and maintenance of comprehensive risk registers; setting out of responsibilities for the management and escalation of risks; and responsibility for regular review and updating of Policy and Strategy.

The Policy and Strategy of Tayside Pension Fund have been framed in line with that of the administering authority, in that the recognition of the requirements for effective corporate governance and the benefits of risk management as an organisational management tool. It will assist the Fund in ensuring that risks which may impact on the achievement of objectives are effectively managed.

### 2. Background

Risk can be defined as the combination of the likelihood of an event occurring and the level of impact on the Pension Fund's ability to achieve its objectives if it does occur. Pension funds exist in order to pay future pension benefits. No organisation can completely eliminate risk due to the inherent uncertainties of the global economic environment, and there is therefore a risk that the investment assets of pension funds will be less or more than the pension liabilities. This Risk Policy & Strategy sets out a common basis for risk management.

### 3. Risk Types

The principal types of risk facing Tayside Pension Fund can be summarised as:

- liability risk
- investment risk
- administrative risk
- employer risk
- resource and skill risk
- regulatory and compliance risk and
- reputational risk

A more detailed description of each of the above risks is included on page 26.

### 4. Risk Policy

Risk should be eliminated, transferred or controlled as far as possible. To achieve this Tayside Pension Fund will ensure that risk management is integral to the governance and management of the Fund at both strategic and operational levels. The aim is to integrate risk awareness and management into both the processes and the culture of Tayside Pension Fund to help ensure that the Fund's objectives are met. This policy will be subject to annual review.

### 5. Risk Management Objectives

Tayside Pension Fund's principal risk management objectives are to:

- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk;
- ensure consistent application of the risk management methodology across all activities; and
- minimise the cost of risk.

How this is achieved will vary depending on the type of risk and the activity involved. In relation to pension fund administration, the objective is to eliminate risk as far as possible; whereas the objective is to balance risk and return in relation to pension fund investment.



## 6. Risk Management Strategy

The risk management process should be a continuous cycle. This is illustrated below:



### 6.1. Identifying Risks

This is the process of recognising risks and opportunities that may impact upon the Fund's objectives. The process is both proactive and reactive. Principal sources for identification of risks are:

- the existing Tayside Pension Fund risk register
- internal and external audit reports
- advice from actuarial, investment and legal consultants
- performance monitoring and review
- publications from
  - The Pensions Regulator
  - Scheme Advisory Board
  - Local Government Pensions Committee
  - CIPFA Pensions Panel
- participation in industry networks
  - Scottish Pensions Liaison Group (Pension Administration)
  - SLGPS Investment & Governance Group

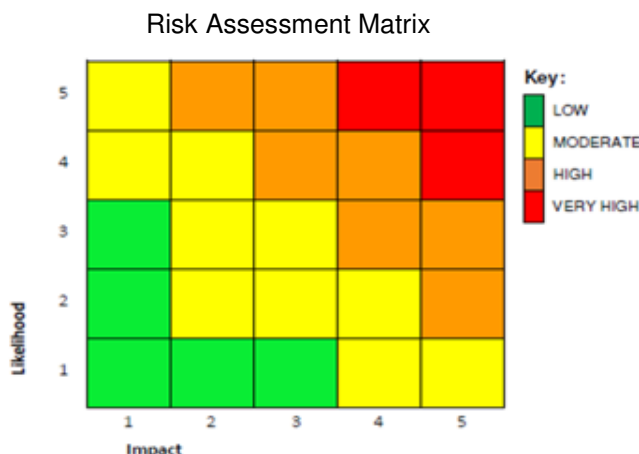
Identifying risks is an integral part of the development of any new strategy or investment proposal. Once identified, risks will be recorded on the risk register which is the primary control document for the subsequent analysis, control and monitoring of risks.

### 6.2. Risk Assessment

For this Tayside Pension Fund uses a standard methodology and template:

- each risk is scored from 1 to 5 for probability
- each risk is scored from 1 to 5 for impact

The product of these scores provides a risk ranking which is recorded in the Risk Register which provides a simple, systematic and consistent basis for analysis, understanding, communication, control, and monitoring of risks.



The table above shows the Fund’s standard risk assessment matrix, which provides a graphic representation of where risk sits. The underlying suite of risk assessments are required to be completed in Pentana, which is the Dundee City Council risk management system that the Fund utilises. The assessment process is straightforward and intuitive with the assessments and ‘scoring’ matrix utilised by the Council used as the core assessment tool, as well as advice from the Council’s Risk Management service.

**6.3. Controlling Risk (Treat or Avoid)**

Risk control describes actions taken to reduce the likelihood and adverse consequences of a risk event occurring. Control mechanisms will vary depending on the type of risk and the activity involved. Key mechanisms include:

- governance and decision making structures as outlined in the Annual Governance Statement and Governance Compliance Statement (these are contained in the annual accounts).
- systemic procedures and controls
- resource allocation and management (internal and external)
- segregation of duties

**6.4. Monitoring & Reviewing Risk**

Regular review of the risk register is central to risk monitoring. The register is reviewed quarterly by:

- the officers of the Fund
- the Pensions Sub-Committee and Board

As part of the review consideration will be given to whether:

- the nature of the risk has changed
- the control environment has changed
- the probability of the risk occurring has changed
- the impact of the risk occurring has changed
- any new or emerging risks need to be considered.

The objective is to ensure that risk control remains effective and that risk management evolves and improves over time as far as possible.

Consideration of risk also forms part of the established investment, administration and funding monitoring arrangements.

**7. Risk Appetite**

Whilst the need to minimise risks and to effectively control excessive exposure to the types of risks noted is of prime importance, the Fund is prepared to accept risk where this enables opportunities to be taken, where these risks can be adequately managed by the deployment of effective control measures.

The Fund would not strategically have an appetite for risks falling into the higher risk sector of the risk matrix, and where risks at this level are unavoidable, steps must be taken to ensure that effective control and monitoring arrangements are established. Opportunities should be taken wherever possible to mitigate the risk through the implementation of control measures designed to reduce impact and / or likelihood.

<b>SUMMARY OF RISK TYPES</b>
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**Funding/Liability Risk**

Tayside Pension Fund's overall objective is to pay pensions. The obligation to scheme members represents the Fund's principal liability. The amount of this liability is uncertain. Current estimates and eventual payments are dependent on factors including:

- interest rates
- salary inflation
- wage inflation and
- life expectancy

Each of these represents a risk that liabilities will be greater or less than anticipated.

**Investment Risk**

Future investment returns are uncertain and may be more or less than anticipated. Specific risk areas include:

- appropriateness of strategy
- manager and asset performance
- individual and systemic market risk
- security of assets
- counterparty failure
- concentration, credit, contract, currency, duration, macroeconomic

**Administrative Risk**

As administering authority the council has a statutory responsibility to other participating councils, employers and scheme members. This entails particular exposure to risks in areas including

- IT system and facility dependency
- business continuity
- service provision
- communications
- process management
- financial management

**Employer Risk**

The administering authority is dependent on its employers fulfilling their statutory duties, in particular:

- deduction and submission of contributions
- data management
- process management
- member engagement

There is also a risk of orphaned liabilities through employer default.

**Resource and Skill Risk**

The pension fund is a relatively specialist function operating on a very large scale in terms of process and asset values and volumes. This requires significant resources and specialist skills and expertise.

**Regulatory and Compliance Risk**

Occupational pension are heavily regulated and governed by general and LGPS-specific legislation.

**Reputational Risk**

Public service pensions attract intense scrutiny and commentary. There is also an opportunity to enhance organisational reputation through demonstrable good practice.

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Administering Authority's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of the financial affairs of the Pension Funds in its charge and to secure that one of its officers has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this authority, that officer is the Executive Director of Corporate Services.
- Manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets.
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), 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).
- Approve the Annual Accounts for signature.



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**Baillie Willie Sawers**

Chair of Pension sub-committee

Tayside Pension Funds

23 September 2019

## The Executive Director of Corporate Service's Responsibilities

The Executive Director of Corporate Services is responsible for the preparation of the Pension Funds statement of accounts which, in terms of CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice), is required to present a true and fair view of the financial position of the Pension Funds at the accounting date and their income and expenditure for the year (ended 31 March 2019).

In preparing these statements of accounts, the Executive Director of Corporate Services has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with legislation
- Complied with the Code of Practice, except where stated in the Statement of Accounting Policies and Notes to the Accounts

The Executive Director of Corporate Services has also:

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

## Statement of Accounts

The Statement of Accounts presents a true and fair view of the financial position of the Pension Funds as at 31 March 2019, and their income and expenditure for the year ending 31 March 2019.



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**Gregory Colgan BAcc (Hons), ACMA, CGMA**

Executive Director of Corporate Services

Dundee City Council

23 September 2019

## INDEPENDENT AUDITOR'S REPORT

### Independent auditor's report to the members of Dundee City Council as administering authority for Tayside Pension Fund 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 and accounts of Tayside Pension Fund for the year ended 31 March 2019 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and the 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 2018/19 (the 2018/19 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the financial transactions of the Tayside Pension Fund during the year ended 31 March 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 2018/19 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 10 April 2017. The period of total uninterrupted appointment is 3 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.

#### 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 Corporate Services 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 have reported in a separate Annual Audit Report, which is 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 Corporate Services and the Tayside Pension Sub-Committee for the financial statements**

As explained more fully in the Statement of Responsibilities, the Executive Director of Corporate Services 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 Corporate Services 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 Corporate Services 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.

The Tayside Pension Sub-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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

## **Other information in the annual report and accounts**

The Executive Director of Corporate Services is responsible for the other information in the annual report and accounts. 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 accounts 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
- 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 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.



## **Fiona Mitchell-Knight**

Audit Director  
Audit Scotland  
4th Floor, South Suite  
The Athenaeum Building  
8 Nelson Mandela Place  
Glasgow  
G2 1BT

23 September 2019



## TAYSIDE PENSION FUND - FUND ACCOUNT

2017/2018 £000		2018/2019 £000
		Note
	<b>Dealings with Members, Employers and other directly involved in the fund</b>	
72,684	Employers' contributions	5 72,110
23,931	Employees' contributions	5 24,631
2,414	Transfers in from other pension funds	7 1,919
99,029		98,660
(103,671)	Benefits	6 (111,252)
(3,816)	Payments to and on account of leavers	8 (6,314)
(107,487)		(117,566)
(8,458)	Net Withdrawals from dealings with members	(18,906)
(1,500)	Administration Expenses	21 (1,932)
(9,958)	<b>Net Withdrawals from dealings with Members including Administration Expenses</b>	<b>(20,838)</b>
	<b>Returns on Investments</b>	
83,390	Investment Income	9 94,450
110,750	Change in Market Value of Investments	10a 137,914
(9,248)	Investment Management Expenses	22 (9,028)
184,892	<b>Net Returns on Investments</b>	<b>223,336</b>
(208)	Net Contribution and Withdrawals	-
70,774	Repatriation of Transport Fund assets	-
245,500	<b>Net increase in Fund during the year</b>	<b>202,498</b>
<b>3,445,123</b>	<b>Opening Net Assets of the scheme</b>	<b>3,690,623</b>
<b>3,690,623</b>	<b>Closing Net Assets of the scheme</b>	<b>3,893,121</b>

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

## TAYSIDE PENSION FUND NET ASSETS STATEMENT

2017/18 £000		Note	2018/19 £000
3,703,710	Investment Assets	10	3,902,965
(23,033)	Investment Liabilities	10	(21,653)
<b>3,680,677</b>	<b>Total Net Investments</b>	<b>10</b>	<b>3,881,312</b>
15,966	Current Assets	18	17,025
<b>3,696,643</b>			<b>3,898,337</b>
(6,020)	Current Liabilities	19	(5,216)
<b>3,690,623</b>	<b>Net assets of the fund available to fund benefits at the end of the reporting period</b>		<b>3,893,121</b>



**Gregory Colgan BAcc (Hons), ACMA, CGMA**  
 Executive Director of Corporate Services  
 Dundee City Council  
 23 September 2019

The Net Asset Statement represents the value and liabilities as at 31 March 2019 (excluding liability to pay pensions).

The Unaudited Accounts were issued on 24<sup>th</sup> June 2019 and the Audited Accounts were authorised for issue on 23<sup>rd</sup> September 2019.

## NOTES TO TAYSIDE PENSION FUND FINANCIAL STATEMENTS

### 1 - The Local Government Pension Scheme

The LGPS is one of the largest public sector pension schemes in the UK. It is a nationwide pension scheme for people working in local government or working for other types of employer participating in the scheme. The LGPS in Scotland is administered locally through 11 local pension funds.

The LGPS is a statutory scheme established under primary legislation of the Superannuation Act 1972 and the Public Services Pensions Act 2013. Changes to scheme rules are discussed at national level by employee and employer representatives but can only be amended with the approval of the Scottish Parliament and are issued as Scottish Statutory Instruments (SSIs).

Dundee City Council is the administering authority for Tayside Pension Fund.

Tayside Pension Fund is maintained for the benefit of its membership (including existing and deferred pensioners). This comprises the majority of Local Government employees within Dundee City Council, Perth and Kinross Council and Angus Council as well as 43 other bodies (page 86). Teachers are not included in the Scheme as they have a separate, nationally established, statutory arrangement.

### 2 - Basis of Preparation of the Financial Statements

The financial statements summarise the Fund's transactions for the 2018/19 financial year and its position as at the 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. In addition, consideration has been given to the Local Government Pension Scheme Fund Accounts 2018/19 - example accounts and disclosure checklist published by the Chartered Institute of Public Finance Accountants (CIPFA).

The financial statements also present the net assets available to pay pension benefits. These do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. Local authorities responsible for administering a pension fund that forms part of the LGPS are required by The Local Government Pension Scheme (Scotland) Regulations 2014 to publish a pension fund annual report, which is required to include a Fund Account and Net Assets Statement prepared in accordance with proper accounting practices.

### 3 - Statement of Accounting Policies

A summary of the more important accounting policies, which have been consistently applied, is set out below:-

#### Investments

Investments are included at market values, which are assessed as follows:-

A - UK quoted securities are valued at "bid" market prices at close of business on the last working day of the financial year.

B - Overseas securities are valued at "bid" market prices from the relevant overseas stock exchanges converted at closing rates of exchange on the last day of the financial year.

C - Unlisted investments, which comprise the Fund Manager's Unit Trusts and Open Ended Investment Companies, are valued at "bid" market prices on the last working day of the financial year as supplied by the Fund Manager.

#### Income and Expenditure

The accounts have been prepared on an accruals basis; that is income and expenditure is included as it is earned or incurred, not as it is received or paid, except for Transfer Values which are included when they are paid or received.

## **Investment Income**

Income from fixed interest, index linked securities and other interest receivable is taken into account on an accruals basis. Income from all other Marketable Securities is taken into account on the date when stocks are quoted ex-dividend.

## **Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents comprise short term lending that is repayable on demand or within 3 months of the Balance Sheet date and that is readily convertible to known amounts of cash with insignificant risk of change in value.

## **Contributions**

Contributions represent the amounts received from organisations participating in the Fund, these may be from the administering authority, and other scheduled bodies or admitted bodies. Such amounts relate both to their own employer contributions and to those of their pensionable employees. Employee and employer's contributions due as at 31 March 2019 have been accrued.

## **Foreign Currency**

Income and expenditure arising from transactions denominated in a foreign currency are translated into £ sterling at the exchange rate in operation on the date on which the transaction occurred. Where the transaction is to be settled at a contracted rate that rate is used.

## **Investment Management Expenses**

Investment Management expenses consist of direct charges in line with Management Agreements, Management Charges levied on pooled funds, overseas charges and non-recoverable withholding tax, less Brokers' commission rebate.

## **Administrative Overheads and Expenses**

The Pension Administration and Pension Investment sections of Dundee City Council are responsible for administering the Pension Fund. The above sections receive an allocation of the overheads of the Council, this is based on the amount of central services consumed. Costs which can be directly charged to the fund during the financial year will be.

## **Acquisition Cost**

Any acquisition costs of investments are included in the Book Cost of the investment.

## **Additional Voluntary Contributions**

Additional voluntary contributions are separately invested from those of the funds. Additional voluntary contributions are not included in the financial statements in accordance with section 5(2)(c) of The Pensions Scheme (Management and Administration of Funds) Regulations 1998, but are disclosed as notes only (note 16).

## **Transfers to and from other Schemes**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with 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. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

## 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.

## VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## 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. Derivatives are valued at fair value on the following bases: assets at bid price, and liabilities at offer price. Changes in the fair value are included in the change in market value in the Fund Account. The value of open futures 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 forward foreign exchange contracts is based on market forward exchange rates at the year-end and determined as the gain or loss that would arise if the contract were matched at the year-end with an equal and opposite contract.

## 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 on the date the fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the fund.

## Financial Liabilities

Financial liabilities are included in the net assets statement on a fair value basis as at the reporting date. A financial liability is recognised 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.

## Fair Value Measurement

The Fund measures its financial assets at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – unobservable inputs for the asset or liability.

## Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS 19 Post-Employment Benefits and relevant actuarial standards. As permitted under the Code, the financial statements include a note disclosing the actuarial present value of retirement benefits (see Note 17).

## 4 - Related Party Transactions

### Dundee City Council

Tayside Pension Funds are administered by Dundee City Council, consequently there is a strong relationship between the council and pension fund.

Details of the transactions and balances with Dundee City Council disclosed in the fund account and net asset statement are provided below -

	2018 £000	2019 £000
<u>Transactions</u>		
Administration Costs	1,135	1,192
<u>Balances</u>		
Due from Dundee City Council as at 31 March	3,103	4,029

### Key Management Personnel

The key management personnel of the fund is the Section 95 officer, the Executive Director of Corporate Services. Total remuneration payable, as allocated to pension fund (7%), is set out below:

	2018 £000	2019 £000
Short-term benefits	8	8
Post-employment benefits	1	1

A remuneration report providing disclosures in respect of elected members and chief officers of the council, including those with authority and responsibility for the Tayside Pension Fund is included within Dundee City Council's Annual Report and Accounts which are available from the council's website ([www.dundee.gov.uk](http://www.dundee.gov.uk)).

## 5 – Contributions Receivable

The total contributions receivable, analysed between administering authority, other scheduled bodies and admitted bodies, were as follows -

	2017/2018			Total £000
	Administering Authority £000	Scheduled Bodies £000	Admitted Bodies £000	
Member contributions	7,129	12,448	4,354	23,931
Employer contributions	19,931	34,901	11,791	66,623
Strain on Fund	351	4,925	368	5,644
Deficit Recovery	-	-	417	417
<b>Total</b>	<b>27,411</b>	<b>52,274</b>	<b>16,930</b>	<b>96,615</b>

	2018/2019			Total £000
	Administering Authority £000	Other Scheduled Bodies £000	Admitted Bodies £000	
Member contributions	7,368	12,716	4,547	24,631
Employer contributions	20,763	35,930	12,380	69,073
Strain on Fund	132	2,803	100	3,035
Deficit recovery	-	-	2	2
<b>Total</b>	<b>28,263</b>	<b>51,449</b>	<b>17,029</b>	<b>96,741</b>

## 6 – Benefits Payable

The total benefits payable, analysed between administering, other scheduled bodies and admitted bodies, were as follows -

	Total Benefits Payable (incl. Lump Sums)		Lump sums (Retirement and Death Benefits)	
	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000
Administering Authority	35,714	38,709	6,054	7,646
Other Scheduled Bodies	53,855	56,794	13,482	12,822
Admitted Bodies	14,102	15,749	3,708	4,070
	<b>103,671</b>	<b>111,252</b>	<b>23,244</b>	<b>24,538</b>

## 7 – Transfers In From Other Pension Funds

The total transfer values received, analysed between administering, other scheduled bodies and admitted bodies, were as follows -

	Transfer Values Received	
	2017/18 £000	2018/19 £000
Administering Authority	522	155
Other Scheduled Bodies	993	888
Admitted Bodies	899	876
	<b>2,414</b>	<b>1,919</b>

## 8 – Payments To And on Account Of Leavers

The total transfer values paid and refunds, analysed between administering, other scheduled bodies and admitted bodies, were as follows -

	Transfer Values Paid		Refunds	
	2017/18	2018/19	2017/18	2018/19
	£000	£000	£000	£000
Administering Authority	986	3,144	67	52
Other Scheduled Bodies	2,359	1,870	89	99
Admitted Bodies	243	1,116	72	33
	<b>3,588</b>	<b>6,130</b>	<b>228</b>	<b>184</b>

## 9 - Investment Income

	2017/18	2018/19
	£000	£000
Fixed Interest Securities	16,782	21,636
Dividends from Equities	41,458	56,315
Income from Index Linked Securities	175	-
Income from Pooled Investment Vehicles	25,921	17,819
Interest on Cash Deposits	145	268
Securities Lending	-	51
Other Income	172	397
	<b>84,653</b>	<b>96,486</b>
Withholding Tax	(1,263)	(2,036)
	<b>83,390</b>	<b>94,450</b>

## 10 – Investments

Market Value as at	31 March 2018	31 March 2019
<b>Investment Assets</b>	£000	£000
Fixed Interest Securities	531,384	559,080
Equities	2,123,940	2,238,215
Pooled Investments	511,174	548,565
Pooled Property Investments	434,543	472,896
Private Equity / Infrastructure	1,088	830
Derivative contracts	4,082	4,339
Cash deposits	64,335	56,160
Investment Income due	14,918	15,967
Amounts receivable for sales	18,128	5,604
Amounts receivable for pending spot FX	-	11
Other Investment assets	118	1,298
<b>Total Investment Assets</b>	<b>3,703,710</b>	<b>3,902,965</b>



## Investment Liabilities

Derivative contacts	(910)	(2,211)
Amounts payable for purchases	(17,857)	(15,449)
Amounts payable for pending spot FX	(77)	-
Other Investment liabilities	(4,189)	(3,993)
<b>Total Investment Liabilities</b>	<b>(23,033)</b>	<b>(21,653)</b>
<b>Net Investment Assets</b>	<b>3,680,677</b>	<b>3,881,312</b>

## 10a Reconciliation of Movements in Investments and Derivatives

	Market value at 31/03/18	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market value at 31/03/19
	£000	£000	£000	£000	£000
Fixed Interest Securities	531,384	182,604	(172,709)	17,801	559,080
Equities	2,123,940	604,812	(580,967)	90,430	2,238,215
Pooled Investments	511,174	4,887	(7,406)	39,910	548,565
Pooled property Investments	434,543	36,525	(8,535)	10,363	472,896
Private equity / Infrastructure	1,088	-	(306)	48	830
	3,602,129	828,828	(769,923)	158,552	3,819,586
Derivative contracts	3,172	59,439	(38,143)	(22,340)	2,128
	3,605,301	888,267	(808,066)	136,212	3,821,714
Other investment balances	(4,071)			2,029	(2,696)
Cash deposits	64,335			919	56,160
Amounts receivable for sales	18,128			(38)	5,604
Investment income due	14,918			-	15,967
Spot FX contracts	(77)			(1,184)	11
Amounts payable for purchases	(17,857)			(24)	(15,448)
<b>Net Financial Assets</b>	<b>3,680,677</b>			<b>137,914</b>	<b>3,881,312</b>

## 10b Analysis of Investments

Market Value as at	31 March 2018	31 March 2019
	£000	£000
<b>Fixed Interest Securities</b>		
UK Public sector quoted	46,124	26,723
UK Corporate quoted	148,084	166,741
Overseas Public sector quoted	15,096	14,594
Overseas Corporate quoted	322,080	351,022
	<hr/>	<hr/>
	531,384	559,080
<b>Equities</b>		
UK quoted	638,409	663,661
Overseas quoted	1,485,531	1,574,554
	<hr/>	<hr/>
	2,123,940	2,238,215
<b>Pooled Investments</b>		
UK Fixed income unit trust	89,277	91,727
UK Equity unit trust	19,751	18,214
Overseas Equity unit trust	402,146	438,624
	<hr/>	<hr/>
	511,174	548,565
<b>UK Pooled Property Investments</b>	434,543	472,896
<b>Private Equity / Infrastructure – UK venture capital</b>	1,088	830
<b>Investment assets</b>		
Derivative contracts	4,082	4,339
Cash deposits	64,335	56,160
Investment Income due	14,918	15,967
Amounts receivable for sales	18,128	5,604
Amounts receivable for pending spot FX	-	11
Other Investment assets	118	1,298
	<hr/>	<hr/>
	101,581	83,379
<b>Total Investment Assets</b>	<hr/> <b>3,703,710</b> <hr/>	<hr/> <b>3,902,965</b> <hr/>
<b>Investment Liabilities</b>		
Derivative contacts	(910)	(2,211)
Amounts payable for purchases	(17,857)	(15,449)
Amounts payable for pending spot FX	(77)	-
Other Investment liabilities	(4,189)	(3,993)
	<hr/>	<hr/>
<b>Total Investment Liabilites</b>	<b>(23,033)</b>	<b>(21,653)</b>
	<hr/>	<hr/>
<b>Net Investment Assets</b>	<b>3,680,677</b>	<b>3,881,312</b>

## 10c Investments Analysed by Fund Manager

The Fund's investment assets are under the management of seven external fund managers. At 31 March 2019 the market value of these investment assets was £3,881.3m (2018 £3,680.7m), managed as follows:

		2018		2019	
		£000	%	£000	%
Schroders Property	Property	436,705	11.9	474,658	12.2
Fidelity	Equity	759,009	20.6	814,853	21.0
Baillie Gifford	Equity	474,827	12.9	488,997	12.6
Alliance Bernstein	Equity	549,314	14.9	558,656	14.4
Goldman Sachs	Bond	327,883	8.9	339,011	8.7
Fidelity	Bond	318,275	8.6	331,437	8.6
Baillie Gifford	Equity	458,496	12.6	478,865	12.4
M & G	Infrastructure	1,088	-	830	-
Legal & General	Equity	354,622	9.6	392,644	10.1
GSAM Broad Street	Infrastructure	458	-	1,327	-
<b>Net Investment Assets</b>		<b>3,680,677</b>	<b>100.0</b>	<b>3,881,278</b>	<b>100.0</b>

The following investments represent more than 5% of the net assets of the scheme as at 31 March 2019.

	Market value as at 31/03/2018 £000	% of total fund	Market value as at 31/03/2019 £000	% of total fund
Legal & General All World Equity Index (OFC)	354,622	9.63%	392,644	10.12%
	<u>354,622</u>		<u>392,644</u>	

## 11 - Analysis of Derivatives

The Funds approach to derivatives is to allow individual managers to participate in derivative contracts subjects to limits set out in their investment management agreements. The Fund holds cash assets to allow for cashflow purposes. Fund managers will also on occasion hold forward currency contracts.

### Futures

Type	Expires	Economic exposure £000	Market Value as at 31/03/2018 £000	Economic exposure £000	Market Value as at 31/03/2019 £000
<b>Assets</b>					
UK Fixed Income Futures	Less than one year	4,913	74	-	-
UK Cash Futures	Less than one year	-	-	-	-
Overseas Fixed Income Futures	Less than one year	34,100	411	40,262	526
Overseas Cash Futures	Less than one year	-	-	-	-
<b>Total assets</b>			<b>485</b>		<b>526</b>

<b>Liabilities</b>						
Overseas Fixed	Less than one year	(35,299)	(506)	(113,256)	(1,824)	
Income Futures						
<b>Total liabilities</b>			<b>(506)</b>		<b>(1,824)</b>	
<b>Net futures</b>			<b>(21)</b>		<b>(1,298)</b>	

### Open Forward Currency Contracts

Settlements	Currency bought	Local Value 000	Currency sold	Local Value 000	Asset value 000	Liability value 000
Up to one month	GBP	203,070	USD	(262,270)	1,948	(50)
Up to one month	USD	613	JPY	(67,744)	1	-
Up to one month	GBP	7,826	JPY	(1,087,345)	284	(1)
Up to one month	JPY	571,553	GBP	(3,929)	62	(26)
One to six months	GBP	2,906	AUD	(5,400)	-	(28)
One to six months	GBP	6,289	JPY	(916,661)	-	(86)
One to six months	GBP	25,253	EUR	(28,963)	311	(61)
Up to one month	GBP	3,215	AUD	(5,748)	83	-
One to six months	EUR	5,441	GBP	(4,724)	1	(20)
Up to one month	GBP	60,006	EUR	(68,534)	965	(64)
Up to onemonth	USD	19,399	GBP	(14,779)	100	-
One to six months	CAD	1,141	GBP	(666)	-	(11)
One to six months	GBP	25,961	USD	(33,900)	39	(40)
One to six months	USD	1,060	GBP	(800)	11	-
Up to one month	EUR	2,678	GBP	(2,300)	8	-
<b>Open forward currency contracts at 31 March 2019</b>					<b>3,813</b>	<b>(387)</b>
<b>Net forward currency contracts at 31 March 2019</b>						<b>3,426</b>
<b>Prior year comparative:</b>					<b>Asset value</b>	<b>Liability value</b>
<b>Open forward currency contracts at 31 March 2018</b>					<b>3,597</b>	<b>(404)</b>
<b>Net forward currency contracts at 31 March 2018</b>						<b>3,193</b>

The economic exposure represents the nominal value of securities purchased under future contracts and therefore the value subject to market movements. All future contracts are exchange traded. The Fund uses futures for the purposes of efficient portfolio management and/or risk reduction.

Futures and Forwards are used for the purposes of risk management. The Portfolio uses futures and forward currency contracts to attempt to protect the value of securities and related receivables and payables against changes in future foreign exchange rates.

## 12 - Fair Value

### Fair Value Hierarchy

Market Value as at 31/03/2019	Quoted market price	Using observable inputs	With significant observable inputs	Total
	Level 1 £000	Level 2 £000	Level 3 £000	£000
Financial assets at fair value through profit and loss	2,280,543	1,519,344	47,680	3,847,567
Loans and receivables	12,216	43,182	-	55,398
Financial liabilities at a fair value through profit and loss	(5,681)	(15,972)	-	(21,653)
<b>Net financial assets</b>	<b>2,287,078</b>	<b>1,546,554</b>	<b>47,680</b>	<b>3,881,312</b>

Market Value as at 31/03/2018	Quoted market price	Using observable inputs	With significant observable inputs	Total
	Level 1 £000	Level 2 £000	Level 3 £000	£000
Financial assets at fair value through profit and loss	2,165,590	1,393,892	46,847	3,606,329
Loans and receivables	15,314	82,067	-	97,381
Financial liabilities at a fair value through profit and loss	(4,695)	(18,338)	-	(23,033)
<b>Net financial assets</b>	<b>2,176,209</b>	<b>1,457,621</b>	<b>46,847</b>	<b>3,680,677</b>

### 12a Reconciliation of Fair Value Measurements within Level 3

	Market Value as at 31/03/2018 £000	Purchases £000	Sales £000	Unrealised gains (losses) £000	Realised gains (losses) £000	Market Value as at 31/03/2019 £000
Overseas Equities	6,476	-	(633)	368	(872)	5,339
UK property Funds	39,283	818	(72)	1,410	72	41,511
UK Venture Capital	1,088	-	(305)	(258)	305	830
<b>Total</b>	<b>46,847</b>	<b>818</b>	<b>(1,010)</b>	<b>1,520</b>	<b>(495)</b>	<b>47,680</b>

## 12b Sensitivity of Assets Valued at Level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors (KPMG), Tayside Pension Fund has determined that the valuation methods are likely to be accurate to within the following ranges, and has set out the below consequent potential impact on the closing value of the investments held at 31 March 2019.

	Assessed valuation range (+/-)	Value as at 31/03/2019 £000	Value on Increase £000	Value on Decrease £000
Overseas Equities	5%	5,339	5,606	5,072
UK property Funds	10%	41,511	45,662	37,360
UK Venture Capital	15%	830	955	706
<b>Total</b>		<b>47,680</b>	<b>52,223</b>	<b>43,138</b>

## 13 - Financial Instruments

### a Classification of Financial Instruments

Market Value as at 31/03/2018			Market Value as at 31/03/2019		
Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000	£000	£000	£000
<b>Financial assets</b>					
531,384	-	-	559,080	-	-
2,123,939	-	-	2,238,215	-	-
511,174	-	-	548,565	-	-
434,543	-	-	472,896	-	-
1,088	-	-	830	-	-
4,082	-	-	4,339	-	-
17,328	47,008	-	22,333	33,827	-
118	14,918	-	1,309	15,967	-
-	18,128	-	-	5,604	-
<b>3,623,656</b>	<b>80,054</b>	<b>-</b>	<b>3,847,567</b>	<b>55,398</b>	<b>-</b>
<b>Financial liabilities</b>					
-	-	(910)	-	-	(2,211)
-	-	(4,266)	-	-	(3,993)
-	-	(17,857)	-	-	(15,449)
-	-	<b>(23,033)</b>	-	-	<b>(21,653)</b>
<b>3,623,656</b>	<b>80,054</b>	<b>(23,033)</b>	<b>3,847,567</b>	<b>55,398</b>	<b>(21,653)</b>
<b>3,680,677</b>			<b>3,881,312</b>		
<b>Grand Total</b>			<b>Grand Total</b>		

## b Net Gains and Losses on Financial Instruments

Market Value as at 31/03/2018		Market Value as at 31/03/2019
£000	<b>Financial Assets</b>	£000
110,854	Fair value through profit and loss	158,551
71	Loans and receivables	2,948
	<b>Financial Liabilities</b>	
31,594	Fair value through profit and loss	(22,339)
(16,320)	Loans and receivables	(1,246)
126,199		137,914

## 14 - Transaction Costs

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the fund such as fees, commissions, stamp duty and other fees. The total for the year was £0.902m (2018 £1.697m).

## 15 - Stock Lending

The total amount of stock released to third parties under a stock lending arrangement at 31 March 2019 was £191.9m (2018 nil). These assets continue to be recognised in the Fund's financial statements. No liabilities are associated with the loaned assets. Stock lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower.

## 16 - Additional Voluntary Contributions (AVCs)

As AVCs are invested separately from the investments of the scheme itself and secure extra benefits on a money purchase basis for members that have elected to contribute, it has been decided in accordance with The Pensions Scheme (Management and Investment of Funds) Regulations 1998 not to include the relevant figures in the financial statements.

Net Asset Value	31 March 2018	31 March 2019
	£000	£000
Prudential	4,746	5,764
Standard Life	4,318	4,240
Contributions Received	2017/18	2018/19
	£000	£000
Prudential	1,635	1,940
Standard Life	269	217

## 17 - Actuarial Present Value of Promised Retirement Benefits

The actuarial value of the promised retirement benefits as at 31 March 2019, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £4,515.0m (2018 £4,255.6m) of which £4,365.7m (2018 £4,124.6) is a vested obligation and £149.3m (2018 £131.0m) is a non-vested obligation. This figure is used for statutory accounting purposes by Tayside Pension Fund and complies with the requirements of IAS26. The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting of contributions payable to the Fund.

As noted above, the liabilities above are calculated on an IAS19 basis and therefore will differ from the results of the 2017 triennial funding valuation because IAS19 stipulates a discount rate rather than a rate which reflects market rates.

IAS19 Assumptions Used	2017/18	2018/19
	%	%
Inflation / pension increase rate	2.30	2.40
Salary increase rate	3.30	3.40
Discount rate	2.55	2.40

## 18 – Current Assets

	2017/18	2018/19
	£000	£000
Contributions Due from Employers	8,537	9,638
Cash and Bank	4,957	6,000
Pending sales ledger income	1,175	522
Management fees rebate from Fidelity	707	273
Employer cessation valuation	587	589
Miscellaneous debtors	3	3
	<u>15,966</u>	<u>17,025</u>

## 19 – Current Liabilities

	2017/18	2018/19
	£000	£000
Unpaid benefits	3,334	2,353
Custodian fees	34	32
Investment Manager Fees	2,243	1,978
Consultancy fees	5	27
Pending purchase ledger payments	261	763
Outsourcing contract	56	4
Miscellaneous creditors	67	50
HMRC	20	9
	<u>6,020</u>	<u>5,216</u>

## 20 - Audit Fee & Other Services

The Fund have been subject to a separate external audit to that of the Council. The Fund incurred an audit fee of £25,119 for the financial year (2018 £24,390). During 2018/19 financial year the Fund received no other services from Audit Scotland.

## 21 – Management Expenses

	2017/18	2018/19
	£000	£000
Administrative costs	1,403	1,828*
Investment management expenses	9,248	9,028
Oversight and governance costs	97	104
	<u>10,748</u>	<u>10,960</u>

\* Administration costs include outsourcing costs (£263k) of one-off exercise in Guaranteed Minimum Pension equalisation which will continue into 2019/20.

## 22 – Investment Expenses

	2017/18	2018/19
	£000	£000
Management fees	8,982	7,949
Custody fees	126	100
Performance monitoring service	28	28
Investment consultancy	44	51
Broker Commission	68	(2)
Transaction costs	-	902
	<u>9,248</u>	<u>9,028</u>

Investment Management fees as a %age of Net Financial Assets	0.25%	0.23%
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## 23 – 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). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure market risk (other 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 the Fund's forecast cash flows.

The new Career Average Revalued Earnings (CARE) scheme came into effect on 1 April 2015. There is an increased risk of error/communication failure due to lack of awareness of new scheme regulations. The Fund manages this risk through employer updates, a newsletter, and specialist sessions at an annual forum.

Responsibility for managing the Fund's risk rests with the Pension Sub-Committee. A risk register for the Fund has been established to identify and analyse the risks that the Fund faces.

### Market Risk

Market risk is the risk of loss from fluctuations in currency, interest rate risk and other price risk. The level of risk exposure depends on, but is not limited to, market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geography, industry sectors and individual securities. To mitigate market risk, the Fund and its investment adviser undertake appropriate monitoring of market conditions and benchmark analysis.

### 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 securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification, and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

#### Other price risk – sensitivity analysis

Following analysis of historical data and expended investment return movements, in consultation with the Council's investment adviser, it has been determined that the following movements in market price risk are reasonably possible for this reporting period.

	Potential Market Movement
	+/- per annum
<b>Equities</b>	
UK	20.5%
Emerging Markets	30.0%
Global	21.0%
<b>Bonds</b>	
UK Index-Linked Gilts	11.2%
UK Gilts	6.7%
UK Corporate	9.0%
Other	7.0%
<b>Property</b>	13.0%
<b>Alternatives</b>	22.0%
<b>Cash</b>	0.9%

Source: KPMG

Potential price changes are determined based on the historical volatility of asset class returns and expected future returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets and are based on the investment adviser's 10 year capital market assumptions for asset class volatilities as at 31 March 2019.

If the market price of the Fund's investments increases/decreases in line with the above, the change in the net assets available to pay benefits in the market price could be as follows:

	Value £	% Change	Potential change in year in the net assets available to pay benefits	
			Favourable Market Movement £	Unfavourable Market Movement £
<b>Equities</b>				
UK	681,874,251	20.50%	821,658,473	542,090,030
Emerging Markets	-	30.0%	-	-
Global	2,013,178,508	21.0%	2,435,945,995	1,590,411,022
<b>Bonds</b>				
UK Index-Linked Gilts	91,727,178	11.20%	102,000,622	81,453,734
UK Gilts	26,723,087	6.70%	28,513,534	24,932,640
UK Corporate	166,741,479	9.0%	181,748,212	151,734,746
Other	364,317,651	7.0%	389,819,886	338,815,415
<b>Property</b>	472,895,912	13.0%	534,372,380	411,419,443
<b>Alternatives</b>	830,064	22.0%	1,012,678	647,450
<b>Cash</b>	63,024,216	0.9%	63,591,433	62,546,998

Source: KPMG/Northern Trust

## Interest rate sensitivity analysis

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. Some of these investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market conditions.

The Fund's interest rate risk is routinely monitored by the Fund and its investment adviser, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund recognises that interest rates can vary, and can affect both income to the Fund and the value of the net assets available to pay benefits.

The Fund's direct exposure to interest rate movement as at 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

The analysis assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 Basis Points (BPS) change in interest rates (assuming a parallel shift in the interest rate curve):

Asset Type	Carrying amount as at 31 March 2019 (£)	Potential change in year in the net assets available to pay benefits £	
		100bps	-100bps
Fixed Interest Securities	559,079,904	-36,931,679	36,931,679
Cash	56,159,814	0	0
<b>Total change in assets available</b>	<b>615,239,718</b>	<b>-36,931,679</b>	<b>36,931,679</b>

Source: Northern Trust

A 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value and vice versa. A 1% increase in interest rates may potentially increase the interest rate income received on cash and cash equivalents by £561,598 and vice versa.

## 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 functional currency of the Fund (£UK). The Fund does not have a currency hedging programme but individual investment managers may hedge some currencies from time to time on a tactical basis. As any hedging could be temporary, the analysis below does not allow for any currencies that are hedged at 31 March 2019. The Fund is invested in equities and bonds that are denominated in currencies other than £UK. The following table summarises the Fund's currency exposure at 31 March 2019:

Currency exposure – asset type	Asset value (£)
	31 March 2019
Overseas quoted securities	1,574,554,018
Overseas unit trusts	438,624,491
Overseas public sector bonds (quoted)	14,593,891
Overseas corporate bonds (quoted)	351,021,446
<b>Total Overseas assets</b>	<b>2,378,793,846</b>

Source: Northern Trust

### 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 financial assets and liabilities. The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Fund has an Annual Treasury Strategy which sets out the approach to credit risk for internally managed funds. Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. The Fund believes it has managed its exposure to credit risk, and the Fund has had no experience of default or uncollectable deposits over the past five financial years. The cash holding under its treasury management arrangements at 31 March 2019, including current account cash, was £6.0m (2018: £5.0m). This was held with the following institutions:-

	Credit Rating	Balance as at 31 March 2018 £'000	Balance as at 31 March 2019 £'000
Money Market Funds -			
Aberdeen Standard	AAAmf	2,610	1,090
Invesco	AAAmf	2,315	4,910
Current account -			
Royal Bank of Scotland	F1	33	17

### Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. The Fund has immediate access to its cash holdings. The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash.

### 24 – Assumptions made about the Future and Other Major Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from assumptions and estimates.

The items in the net assets statement as at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

## Actuarial present value of promised retirement benefits (note 17)

### Uncertainties

Estimation of the net liability depends on a number of complex judgements relating to discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries, Barnett Waddingham, is engaged to provide the fund with expert advice about the assumptions to be applied.

<b>Effect if actual results differ from assumptions</b>	<b>£000</b>	<b>£000</b>
Present value of total obligation	4,488,858	
<b>Sensitivity to</b>	<b>+0.1%</b>	<b>-0.1%</b>
Discount rate	4,402,783	4,576,703
Long term salary increase	4,501,727	4,476,091
Pension increases and deferred revaluation	4,563,747	4,415,466
<b>Sensitivity to</b>	<b>+1 year</b>	<b>-1 year</b>
Life expectancy assumptions	4,649,719	4,333,577

## Financial Assets and Liabilities measured at fair value

### Uncertainties

When the fair value of financial assets and financial liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using recognised valuation techniques but as these investments are not publically listed there is a degree of estimation involved in the valuation.

## 25 – Critical Judgements in Applying Accounting Policies

### Pension Fund Liability

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 the Actuarial Position (Note 17). This estimate is subject to significant variances based on changes to the underlying assumptions.

## 26 – Contingent Liabilities

As a result of a ruling in The Court of Appeal (the McCloud judgement) in December 2018, which relates to age discrimination arising from public sector pension scheme transition arrangements, there is the potential for an impact on employer pension liabilities for Tayside Pension Fund. Given the uncertainty around this judgement, with the government awaiting news of its right to an appeal, it is too early to know what the likely effect may be on LGPS members' benefits.

## 27 – Post Balance Sheet Event

The unaudited Statement of Accounts was issued by the Executive Director of Corporate Services on 24 June 2019. Events taking place after this date are not reflected in the financial statements or disclosure notes. There has been no material events since the date of the Net Asset Statement which have required any adjustments to these accounts.

## FUNDING

An actuarial valuation is required every three years in accordance with Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014. The main purpose of the valuation is to review the financial position of the Fund and to set appropriate contribution rates for each employer in the Fund.

The purpose of the three yearly actuarial valuation is to ensure that the Pension Fund has sufficient resources to provide for their members' pensions and lump sum benefits. The contribution from employees is fixed by statute and the only adjustable variable at each valuation is the level of employer's contributions.

The actuarial valuation is essentially a measurement of the Fund's liabilities, having specific regard to:

- the desirability of maintaining as nearly constant a primary rate as possible;
- the current version of the administering authority's funding strategy statement;
- the requirement to secure the solvency of the pension fund; and
- the long-term cost efficiency of the Scheme (i.e. the LGPS for Scotland as a whole), so far as relating to the pension fund.

The outcome of the 2017 actuarial valuation is that the employer's contributions for financial years 2018/19, 2019/20 and 2020/21 will continue at 17.0%, with exception of Travel Dundee where a fixed 40% employer contribution is applicable.

It is the responsibility of Dundee City Council, acting in its capacity as Administering Authority to the Tayside Pension Fund, to prepare, publish and maintain an annual Funding Strategy Statement having regard to guidance produced in February 2016 by the Chartered Institute of Public Finance and Accountancy (CIPFA) in a document entitled "Preparing and Maintaining a Funding Strategy Statement".

## FUNDING STRATEGY STATEMENT

### INTRODUCTION

This Funding Strategy Statement has been prepared in accordance with Regulation 56 of the Local Government Pension Scheme (Scotland) Regulations 2014 (the Regulations). The Statement describes the strategy of Dundee City Council acting in its capacity as Administering Authority (the Administering Authority) for the funding of Tayside Pension Fund (the Fund).

As required by Regulation 56(4), the Statement has been prepared having regard to guidance first published by CIPFA in March 2004, with revisions in September 2016 to reflect the introduction of the Public Service Pensions Act 2013, the new 2015 scheme and changes to investment regulations.

### PURPOSES OF THE STATEMENT

The four main purposes of this Statement are:

- To establish a clear and transparent strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward.
- To support the regulatory requirement in relation to the desirability of maintaining as nearly constant employer contribution rates as possible.
- To ensure solvency and long term cost efficiencies are met.
- To take a prudent longer-term view of funding the Fund's liabilities.

### CONSULTATION

In accordance with Regulation 56(3), all employers participating within the Fund have been consulted on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.

In addition, the Administering Authority has had regard to the Fund's Statement of Investment Principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010 (the Investment Regulations), as required by Regulation 56(4)(b)

The Fund Actuary, Barnett Waddingham, has also been consulted on the contents of this Statement.

## PURPOSE AND AIMS OF THE FUND

### Purpose of the Fund

- To pay out monies in respect of Local Government Pension Scheme (the Scheme) benefits, transfer values, costs, charges and expenses.
- To receive monies in respect of contributions, transfer values and investment income and other charges, costs and expenses.

### Aims of the Fund in Relation to the Funding Strategy

#### **1 *To enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the Scheme Employers and to the taxpayers.***

The Administering Authority recognises that the requirement to keep employer contribution rates as nearly constant as possible can run counter to the following requirements:

- the regulatory requirement to secure solvency, and that contribution rates be set at such a level to ensure that liabilities can be met as they arise
- that contribution rates not be set at a level that gives rise to additional costs (e.g. deferring costs to the future) in order to ensure long term cost efficiency
- the requirement that the costs should be reasonable, and
- maximising income from investments within reasonable cost parameters (see the fourth aim).

Producing low volatility in employer contribution rates requires material investment in assets that 'match' the employer's liabilities. In this context 'match' means assets that behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Scheme, such assets would tend to comprise index linked gilt edged investments.

Other classes of assets, such as shares and property, are perceived to offer higher long-term rates of return, on average, and consistent with the requirement to maximise the returns from investments, the Administering Authority invests a substantial proportion of the Fund in such assets. However, these assets are more risky in nature and that risk can manifest itself in volatile returns over short-term periods and a failure to deliver the expected return in the long-term.

This short-term volatility in investment returns can produce a consequent volatility in the measured financial and funding position of the Fund at successive valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of longer term actuarial funding models, smoothing adjustments and using volatility reserves at each valuation.

The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the actuarial funding models used at valuations and the resultant smoothness of employer contribution rates from one valuation period to the next.

#### **2 *To ensure that sufficient resources are available to meet all liabilities as they fall due.***

The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position on a daily basis to ensure that all cash requirements can be met.

### **3 To manage employers' liabilities effectively.**

The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by seeking regular actuarial and investment advice, ensuring that employers and Pension Sub-Committee members are properly informed and through regular monitoring of the financial and funding position.

### **4 To maximise the income from investments within reasonable risk parameters.**

The Administering Authority recognises the desirability of maximising investment income within reasonable risk parameters. Investment returns higher than those available on government stocks are sought through investment in other asset classes such as shares and property. The Administering Authority ensures that risk parameters are reasonable by:

- restricting investment to the levels permitted by the Investment Regulations,
- restricting investment to asset classes generally recognised as appropriate for UK pension funds,
- analysing the potential risk represented by those asset classes in collaboration with the Fund's Actuary, Investment Advisors and Fund Investment Managers.

## **RESPONSIBILITIES OF THE KEY PARTIES**

The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the Employers and the Fund Actuary.

### **Administering Authority**

The key responsibilities of the Administering Authority are set out below.

#### **1 To collect employer and employee contributions and, as far as the Administering Authority is able to, ensuring these contributions are paid by the due date.**

Individual employers must pay contributions in accordance with Regulations 65, 66 and 67 of the Regulations. The Administering Authority has advised all employers of its policy on the remittance of pension contributions and the procedures which will be taken in the event of late or non-payment. It is also a legal requirement that pension contributions be paid to the Fund by the 19th of the month following the month that they were deducted from employees' pay.

The Administering Authority will ensure that action is taken to recover assets from Admission Bodies whose Admission Agreement has ceased by:

- requesting that the Fund Actuary calculates the deficit at the date of the closure of the Admission Agreement,
- notifying the Admission Body that it must meet any deficit at the cessation of the Agreement.

#### **2 To invest surplus monies in accordance with the Regulations.**

The Administering Authority will comply with the Investment Regulations.

#### **3 To ensure that cash is available to meet liabilities as and when they fall due.**

The Administering Authority recognises this duty and discharges it in the manner set out in the Aims of the Fund in relation to the Funding Strategy.

#### **4 Manage the valuation process in consultation with the Fund Actuary.**

The Administering Authority ensures it communicates effectively with the Fund Actuary to:

- agree timescales for the provision of information and provision of valuation results,



- ensure provision of data of suitable accuracy,
- ensure that the Fund Actuary is clear about the Funding Strategy,
- ensure that participating employers receive appropriate communication throughout the process,
- ensure that reports are made available as required by Guidance and Regulation.

**5 *Prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement after due consultation with interested parties.***

The Administering Authority will ensure that both documents are prepared and maintained in the required manner.

**6 *To monitor all aspects of the Fund's performance and funding and amend these two documents if required.***

The Administering Authority monitors the investment performance and the financial and funding position of the Fund on a quarterly basis.

The Statement of Investment Principles and Funding Strategy Statement will be formally reviewed annually, unless circumstances dictate earlier amendment.

### **Individual Employers**

Individual employers are responsible for:

- deducting contributions from employees' pay,
- paying all contributions, including their employer contribution as determined by the Actuary, promptly by the due date,
- paying any interest due under Regulation 69 of the Local Government Pension Scheme (Scotland) Regulations 2014,
- exercising discretions within the regulatory framework and ensuring the Administering Authority has copies of current policies covering those discretions,
- paying for added years in accordance with agreed arrangements,
- paying the Strain on the Fund costs resulting from early retirements or exercises of discretion allowing the early payment of deferred benefits. Payment is due immediately unless it has been agreed that payment can be spread over a short period of years,
- notifying the Administering Authority promptly of all changes to membership, or other changes which affect future funding.
- providing timeous returns annually or monthly, as agreed, and for valuation purposes.
- ensuring that there is suitable covenant protection in place in the event of cessation.

### **The Fund Actuary**

The key responsibilities of the Fund Actuary are set out below.

**1 *To prepare valuations.***

The Fund Actuary will prepare valuations, including the setting of employers' contribution rates, after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement and relevant admission agreements.

Valuations will also be prepared in accordance with generally accepted actuarial methods and reported on in accordance with Technical Actuarial Standards (TAS's) issued by the Financial Reporting Council, to the extent that the TAS's are relevant to the Scheme.

**2 To prepare advice and calculations in connection with bulk transfers individual benefit-related matters together with any ad-hoc requirements agreed with the administering authority.**

Such advice will take account of the financial and funding position and Funding Strategy statement, along with other relevant matters.

## **SOLVENCY**

The Administering Authority will prudentially seek to secure the solvency of the Fund. For this purpose the Administering Authority defines solvency as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities in respect of service prior to the measurement date when measured using 'ongoing' actuarial methods and assumptions.

Ongoing actuarial methods and assumptions are taken to be measured by use of the Projected Unit method of valuation, using assumptions generally recognised as suitable for an open, ongoing UK pension fund with a sponsoring employer of sound covenant.

The financial assumptions used to assess the financial position will have regard to the yields and long-term returns that are expected from the underlying investment strategy. The Administering Authority understands the risks of such an approach if those additional returns fail to materialise.

Consistent with the aim of enabling employer contribution rates to be kept as nearly constant as possible, and having regard to the risks inherent in such an approach, the Administering Authority has also agreed with the Fund Actuary the use of explicit smoothing adjustments and using volatility reserves in making the solvency measurement.

## **FUNDING STRATEGY**

### **Valuation Methods**

Consistent with the aim of enabling employer contribution rates to be kept as nearly constant as possible, contribution rates are set by use of the Projected Unit valuation method for most employers.

The Projected Unit method produces contribution rates which target solvency over fixed periods in the future. It will tend to produce more stable contribution rates for those employers who expect a future flow of new entrants to the Fund, which would tend to keep the age distribution of members stable.

### **Valuation assumptions and funding model**

In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions adopted at the valuation can therefore be considered as:

- The statistical assumptions which are essentially estimates of the likelihood of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current or present value.

### **Future price inflation**

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date to provide an estimate of future price inflation as measured by the Retail Price Index (RPI). The RPI assumption adopted as at 31 March 2017 was 3.7% p.a.

### **Future pension increases**

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 0.9% p.a. is therefore made to the RPI assumption to derive the CPI assumption. The CPI assumption adopted as at 31 March 2017 was 2.8% p.a.

### **Future pay inflation**

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay inflation. Historically, there has been a close link between price and pay inflation with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2017 was CPI plus 1% p.a. An allowance has also been made for promotional increases.

### **Future investment returns/discount rate**

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The discount rate that is applied to the projected liabilities reflects a prudent estimate of the rate of investment return that is assumed to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the “ongoing” discount rate. The discount rate adopted for the 31 March 2017 valuation was 4.5% p.a.

For some employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected “termination date”), the employer becomes an exiting employer under Regulation 62.

The Fund Actuary will incorporate such an adjustment after consultation with the administering authority.

The adjustment to the discount rate for employers may be set to a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a “minimum risk” rather than on an ongoing basis if the Fund do not believe that there is another Scheme employer to take on the responsibility of the liabilities after the employer has exited the Fund. The aim is to minimise the risk of deficits arising after the termination date.

### **Asset valuation**

For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date and may also include a volatility reserve as a margin against future adverse experience.

### **Statistical assumptions**

The statistical assumptions incorporated into the valuation, such as future mortality rates, are based on national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of all of the assumptions adopted are included in the latest actuarial valuation report.

### **Pooling of employers**

Consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority permits all employers to be treated as a group for the purposes of setting contribution rates.

An exception to this general rule will be where an employer closes access to the fund for new employees or once employers have had no new membership for a five year period, the employers will be perceived to have closed fund status. This will have consequences for the liability profile and the actuary may set a separate rate for individual employers in this instance.

The Administering Authority recognises that common rates can give rise to cross subsidies from one employer to another over time. This can arise from different membership profiles of the different employers and from different experience, for example an excess of ill health retirements from one employer could lead to it being subsidised by

other grouped employers. However, over longer time periods it would be expected that the experience will even out between employers and each employer will, on average, pay a fair level of contributions. The benefit of common rate is that it should produce a less volatile contribution rate on average for each individual employer.

### **Recovery Period**

Where a valuation reveals that the Fund is in surplus or deficiency against the solvency measure, employer contribution rates will be adjusted to target restoration of the solvent position over a period of years (the recovery period). The recovery period applicable is set by the Administering Authority in consultation with the Fund Actuary, with a view to balancing the various funding requirements against the risks involved.

The Administering Authority recognises that a larger proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. However, the Administering Authority also recognises the risk in relying on long recovery periods and has agreed with the Fund Actuary to adopt prudent recovery periods consistent with the objective of keeping employer contribution rates as stable as possible.

### **Treatment and Recovery of Deficits on Closure of an Employer**

When an organisation participating in the Fund closes, the Fund Actuary will carry out a cessation valuation. The Administering Authority will then pursue the recovery of any deficiency from that organisation. The only exception to this is where a successor organisation which is also a participating employer in the Fund formally adopts the deficiency of the closing organisation as their own.

If an employer (other than a transferee admission body) fails and cannot pay the contributions due, Regulations require that all employers in the Fund must pay revised contributions to meet the shortfall.

In recent years the Administering Authority has adopted a policy of requiring admission bodies (other than transferee admission bodies) to obtain a guarantor. A guarantor is required to agree that it will meet the shortfall if the admission body closes and cannot pay the contributions due.

Some longer standing admission bodies do not have a guarantor. If one of these were to close in circumstances where they could not pay the contributions due, then all employers in the Fund would be required to pay revised contributions to meet the shortfall.

The position is different for transferee admission bodies. If a transferee admission body fails and cannot pay the contributions due, then the Scheme employer in relation to that transferee admission body must pay revised contributions to meet the shortfall.

If it appears to the administering authority that the insolvency risk of an employer with no guarantor is deemed to be material, then the Administering Authority will seek to agree measures (including bonds, security over assets or additional funding) with the employer to minimise the risk of any deficit on cessation being met from remaining employers.

### **Stepping**

Consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or should be reached by a series of steps over future years. The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach and will examine the financial impact and risks associated for each employer. The Administering Authority's policy is to limit the number of permitted steps to three annual steps.

### **Monitoring of the Financial and Funding Position between Valuations**

The Administering Authority will monitor the financial and funding position of the Fund between triennial valuations. If it is considered appropriate, an indicative interim valuation is carried out. The purpose of this monitoring process is to give employers advance warning of likely changes that may be required following the next triennial valuation. This allows improved budgeting decisions to be made and allows an employer to take an informed decision on paying additional contributions.

## IDENTIFICATION OF RISKS AND COUNTER MEASURES

The Administering Authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund and will take appropriate action to limit the impact of these both before, and after, they emerge wherever possible. The main risks to the Fund are set out below.

### Demographic (including mortality risk)

The main demographic risks include changing retirement patterns and longevity. The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently and reports on developments. The Administering Authority will agree with the Fund Actuary any changes that are necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

If significant demographic changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and will review the bonds that are in place for transferee admitted bodies.

### Regulatory & Legislative

These risks relate to changes in regulations, national pension requirements or HMRC rules. The Administering Authority will keep abreast of all proposed changes and, where possible and after careful consideration, express its opinion during consultation periods. The Administering Authority's policy will be to ask the Fund Actuary to assess the impact on costs of any changes and, where these are likely to be significant, the Administering Authority will notify employers of this likely impact and the timing of any change.

### Governance

The Administering Authority's policy is to require regular communication between itself and employers and to ensure regular reviews of such items as financial and funding positions and legislative changes.

### Statistical/Financial (investment & inflation risk)

This covers items such as the performance of markets and the Fund's investment managers, asset reallocation in volatile markets, pay and price inflation varying from anticipated levels, or the effect of possible increases in employer contribution rates on service delivery and on employers.

The Administering Authority reviews each investment manager's performance quarterly and regularly considers the asset allocation of the Fund. It will also receive quarterly update on the effect of market movements on the Fund's overall financial and funding position.

### Solvency Measure

The Administering Authority recognises that allowing for future investment returns in excess of those available on government bonds introduces an element of risk, in that those additional returns may not materialise. The Administering Authority's policy will be to monitor the underlying position assuming no such excess returns are achieved to ensure that the funding target remains realistic relative to the risk position.

### Smoothing

The Administering Authority recognises that utilisation of a smoothing adjustments and volatility reserves introduces an element of risk, in that they may not produce the only measure of the underlying financial and funding position. The Administering Authority's policy is to review the impact of such adjustments at each valuation to ensure that they remain within acceptable limits.

### Recovery Period

The Administering Authority recognises that permitting deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length.

## Stepping

The Administering Authority recognises that permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process.

The Administering Authority's policy is to discuss risks inherent in each situation with the Fund Actuary and limit the number of permitted steps to three annual steps.

## **LINKS TO INVESTMENT POLICY AS SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES**

The Administering Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk in the investment policy set out in the Statement of Investment Principles and the funding policy set out in this statement.

In order to assist in setting the Fund's investment policy, an investment strategy review is carried out. This study examines the Fund's current investment strategy's appropriateness in light of the nature of the Fund's liabilities. The study is carried out at the total Fund level, not at the level of each employer. The strategic asset allocation benchmark adopted is set in reference to the nature of the Fund's liabilities.

The current strategic asset allocation implemented is based upon an investment strategy review conducted by the Fund's Investment Advisor, KPMG LLP, and in reference to the nature of the liabilities as outlined in the Fund's 31 March 2017 actuarial valuation. The strategy review concluded that a diversified portfolio, investing across active equities (55%), passive equities (10%), property (12%), bonds (13%) and alternative and opportunistic investments (10%) is a suitable long term strategic asset allocation for the Fund. The degree and nature of risks attaching to such a portfolio, when taken in conjunction with the expected returns, were considered by the Committee to be appropriate for the Fund at that time.

The Administering Authority will continue to monitor the suitability of the investment policy in the light of the Fund's developing liabilities and finances.

The Administering Authority will continue to review the Funding Strategy Statement and the Statement of Investment Principles to ensure that the overall risk profile remains appropriate. Such reviews may use asset liability modelling or other analysis techniques.

## **FUTURE MONITORING**

The Administering Authority plans to review formally this Statement as part of the triennial valuation process unless circumstances arise which require earlier action.

The Administering Authority will monitor the financial and funding position of the Fund on an appropriate basis at regular intervals between valuations and will discuss with the Actuary whether any significant changes have arisen that require action.



# Tayside Pension Fund

Actuary's Statement as at 31 March 2019

**Barnett Waddingham LLP**

## Introduction

The last full triennial valuation of the Tayside Pension Fund ("the Fund") was carried out as at 31 March 2017 as required by Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 28 March 2018.

## Asset value and funding level

At 31 March 2017, the smoothed value of assets used for valuation purposes and which included a 10% volatility reserve deduction was £3,162m which represented 107% of the liabilities of the Fund valued on an ongoing basis.

## Contribution rates

The contribution rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due, or "primary rate";
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The 2017 valuation certified a total primary rate of 21.5% p.a. of pensionable pay. Each employer body participating in the Fund has to pay a contribution rate consisting of the employer's individual primary rate and a secondary rate reflecting the employer's particular circumstances and funding position within the Fund.

Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

## Assumptions

The assumptions used to value the liabilities at 31 March 2017 are summarised below:

Assumptions as at 31 March 2017	
Discount rate	4.5% p.a.
Pay increases	3.8% p.a.
Pension increases	2.8% p.a.
Post-retirement mortality (member) - base table	130% of the S2PA tables
Allowance for improvements in life expectancy	2016 CMI Model with a long-term rate of improvement of 1.5% p.a. and smoothing parameter of 7.5
Retirement age	For each tranche of benefit, the "tranche retirement age" is the earliest age a member could retire with unreduced benefits. Each member is assumed to retire at the weighted average of these for all tranches of benefit.
Allowance for cash commutation	Members will commute pension at retirement to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension



## Updated position

Using assumptions consistent with those adopted at the 2017 valuation, we estimate that at 31 March 2019 there is sufficient volatility reserve to maintain the funding level at the previous valuation level of 107%.

The next formal valuation will be carried out as at 31 March 2020 with new contribution rates set from 1 April 2021.

**Roisin McGuire FFA**  
**Associate, Barnett Waddingham LLP**



## STATEMENT OF INVESTMENT BELIEFS

Tayside Pension Fund has developed a Statement of Investment Beliefs to ensure that investment strategies employed by the Fund remains consistent with their investment beliefs.

This Statement of Investment Beliefs has been designed to support the Fund in underpinning the investment decision-making process for the future, and also as a reference point for understanding why investment decisions have been, and are, made.

The Statement of Investment Beliefs should be viewed in conjunction with the Fund's Statement of Investment Principles, Funding Strategy Statement and Environmental, Social and Governance ("ESG") Policy.

The statement will be reviewed periodically to ensure that it remains both in-line with the documents noted above and with the Fund's overall objectives, which are set out in the Fund's Funding Strategy Statement, which are noted below as:

- To maximise investment income within reasonable risk parameters so as to ensure that sufficient resources are available to manage liabilities effectively, and that all liabilities are met as they fall due; and,
- Build up the required assets in such a way that employer contributions remain stable in the short term and at reasonable cost to the Fund's Employers and to the taxpayers over the longer term.

### **There is a fundamental link between funding level and investment strategy:**

Tayside Pension Fund exists in order to pay members pension benefits as they fall due, and in order to determine an appropriate investment strategy to meet the level of return required. The Fund thus believe that this fundamental link between funding and investment is crucial, and actuarial input is essential when setting investment strategy.

### **Clearly defined investment objectives are important for success:**

Tayside Pension Fund appreciate the need to generate a sufficient level of investment return to meet objectives. However, the Fund also recognises that there are a number of potential investment risks that need to be understood and managed in order to provide an appropriate level of certainty and to ensure there is sufficient capital and liquidity to pay the Fund members' benefits as they fall due. The fund believe that clearly defined investment objectives is key in providing focus in implementing their investment strategy, and in doing so, assisting the Fund meet its long-term goals.

### **Investment strategy has a relatively long term horizon in line with the Fund's liability profile:**

The Fund has a very long investment time horizon as a result of the Fund's liability profile. The Fund believe in applying long term thinking in order to seek and deliver long term sustainable returns, and in this, the Fund may justifiably hold some investments over many years in the beliefs that longer term investments have historically proven to generate more wealth than short term investments; and that investors are rewarded for holding certain illiquid assets and are therefore willing to have an allocation to such assets to take advantage of this illiquidity premium and comfortable, and as a result, the Sub-Committee are comfortable holding an allocation to these less liquid assets as part of a suitably diverse investment portfolio.

Whilst the Fund monitor and manage short term investment performance, the prime focus is on longer term investment horizons of up to 10 years and the investment performance over this longer period, in line with the Fund's long term investment beliefs.

### **Strategic Asset allocation is the primary investment decision:**

Tayside Pension Fund believe that strategic asset allocation is the greatest driver of returns for the Fund and therefore understand that asset allocation is the most important investment decision. Manager and stock selection and portfolio monitoring are highly important but of second order to the strategic asset allocation decision in delivering value for money for all of the stakeholders in the Fund.

### **Diversification is important for managing risk and also results in more stable investment returns:**

Tayside Pension Fund believe that diversification across differing classes of assets reduces the volatility of returns and results in a better long-term risk adjusted return, which is to the benefit of all of the stakeholders in the Fund. As a result, the Fund invests across a broad range of asset classes (including, but not limited to equities, bonds, property, as well as less liquid opportunistic investments, as appropriate) and appoints a number of asset managers to reduce manager specific risks.

**Risks should be appropriate, and be managed:**

Tayside Pension Fund acknowledge that in order to achieve the required level of returns required to support the affordability and sustainability of the fund that a certain level of investment risk is unavoidable, however this risk must be not be unnecessary, but be appropriate and in-line with long term investment objectives.

**Equities are expected to generate strong investment returns over the long term:**

Tayside Pension Fund believe that over the long-term equities will deliver strong investment returns, and as a result the Fund retains a meaningful allocation to equities. The Fund believe that equities will drive total Fund performance and are therefore comfortable holding a material allocation to equities to help drive growth to meet benefit payments.

**Active investment management can add value after fees and other costs:**

Tayside Pension Fund believe that, in certain asset classes, such as equities, carefully selected investment managers can add value, after fees and other costs, through active management. Because of this belief, the majority of the Fund's assets are actively managed. The Fund acknowledge that consistent outperformance is difficult to achieve and therefore dedicate time and effort in selecting and monitoring the performance of their asset managers. The Fund also appoints an investment advisor to provide assistance and guidance.

**Fees and costs should be minimised wherever possible:**

Tayside Pension Fund believe that fees and costs should be minimised wherever possible as they reduce overall investment returns. Fees and other costs are regularly reviewed and renegotiated (as appropriate) to ensure optimal value for money and avoidance of unnecessary costs. The Fund evaluate investment performance net of fees and will only appoint an active manager who they believe can outperform net of fees. The Fund regularly engages with investment managers and undertakes procurement exercises to achieve the most competitive fees on behalf of the Fund.

**It is important to invest responsibly:**

Tayside Pension Fund believe that managers should invest responsibly, incorporating all environmental, social and governance (ESG) factors which could not only have material financial effect on the Fund in terms of fund and its reputation. To ensure incorporation of ESG into investment decision making, the Fund require that all investment managers to be signatories to the United Nations Principals of Responsible Investment. The Fund has an ESG policy which is regularly reviewed, and which outlines a specific provision for the Fund's long term ambition to completely divest from tobacco stocks, and the Sub-Committee expect the Fund's investment managers to adhere to this approach.

**Responsible Stewardship and active engagement with companies is more effective in seeking to initiate change rather than divesting:**

Tayside Pension Fund is supportive of encouraging positive ESG practices within the companies that it invests in. The Fund tasks their investment managers to engage with companies to encourage positive ESG practices, and to report to the Fund on their engagement in relation to the following key areas of concern:

- Employee Care
- Human Rights
- Sustainability and the Environment

The Fund use an independent voting advisory service, and as part of ongoing monitoring, the Fund requires the investment managers to report on their voting activity, as this reflects the Fund's commitment to encouraging best practice.

**Governance and decision making is critical to success and should focus should be on the areas of greatest importance:**

Tayside Pension Fund seeks to avoid unnecessary complexity, where possible, to reduce costs, free up time and resources, and promotes focus on strategic decision making, such as asset allocation, where the greatest value is expected to be added. Complexity is only introduced to the investment structure where it is clear that it is expected to add value net of cost.

## STATEMENT OF INVESTMENT PRINCIPLES

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 approved by the Pension Sub-Committee.

### INTRODUCTION

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 require administering authorities to prepare, maintain and publish a written Statement of Investment Principles. A Statement of Investment Principles should cover the policy on:

- The types of investments to be held
- The balance between different types of investments
- Risk, including the ways in which risks are to be measured and managed
- The expected return on investments
- The realisation of investments
- The extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments
- The exercise of the rights (including voting rights) attaching to investments
- Stock lending
- The extent of compliance with the six principles of investment practice set out in

CIPFA publication "Investment Decision Making and Disclosure in Local Government Pension Scheme: A Guide to the Application of the Myners Principles" (December 2009).

### ADMINISTRATION AND GOVERNANCE

Tayside Pension Fund is administered by Dundee City Council in accordance with Section 24 of its Financial Regulations. Investment policy and decisions are delegated to the Pension Sub-Committee of the Policy and Resources Committee which comprises 6 elected members from Dundee City Council. The Pension Board, comprising of 4 employer representatives (external to the administering authority) and 4 trade union representatives (representing all types of members) assist the Sub-Committee with securing compliance to the regulations.

Investment decisions are made based on advice from Council Officers and professional external advisers. The Sub-Committee and Pension Board meet quarterly.

### INVESTMENT ROLES AND RESPONSIBILITIES

The full remit of the Sub-Committee is shown on page 70.

### OBJECTIVE OF THE FUND

The primary objective of the Tayside Pension Fund is to provide for scheme members' pension and lump sum benefits on their retirement or for their dependants on death before or after retirement, on a defined benefits basis. There is limited discretion to vary these benefits.

The investment principles of the Fund have been set to ensure that the Fund meets its objective. This document outlines the investment principles governing the investment policy of the Fund.

### INVESTMENT STRUCTURE, STRATEGY & OBJECTIVES

The Fund's investment policy will be directed to achieving and maintaining a fully funded scheme and where practical, a stable employers contribution rate. There is also a requirement to maintain sufficient cash to meet liabilities as they fall due for payment. The Fund uses a Statement of Investment Beliefs which has been designed to support the Fund in underpinning the investment decision making processes and also as a reference point for understanding why investment decisions have been, and are, made.

Equities, Managed Funds, Unit Trusts, Partnerships, Investment Trusts, Open Ended Investment Companies, Bonds, Underwriting, Property, Stock Lending, Direct Lending, Cash, Commission Recapture and Currency. Derivatives may

be used, but only for efficient portfolio management or the reduction of risk. All investments and investment limits will comply with the Local Government Pension Scheme (Scotland) (Management and Investment of Funds) Regulations 2010.

## **INVESTMENT MANAGERS**

The Fund will employ Investment Managers who are judged most suitable to manage the assets of the Fund. The Fund currently employs a range of managers that have been chosen in light of the overall investment strategy and have benchmarks and targets set to provide a prudent and balanced investment exposure to an acceptable level of investment risk.

Objectives and targets have been set to ensure a prudent and balanced investment exposure, which helps control the level of investment risk. The performance of these managers is monitored on a quarterly basis.

## **BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENTS**

A target has been agreed with each Manager which gives the Manager the balance between different types of investments. These provide an efficient balance between risk and return.

The Investment Managers are given full discretion over the choice of individual stocks within agreed parameters and are expected to maintain a diversified portfolio.

## **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 objectives will not be met.

The Fund will seek to control risk through proper diversification of investments and Investment Managers. The tracking error of each manager's portfolio is reported to the Sub-Committee quarterly.

The initial risk register (Article III of the Minute of Meeting of the Superannuation Sub-Committee of the Policy and Resources Committee of 21 February 2011, Report No 114-2011 refers) sets the framework for the Fund's acknowledgement of, and appetite for risk. The risk register is reviewed and updated quarterly.

## **EXPECTED RETURN**

Investment Managers will be held accountable for their performance through a regime of performance measurement against targets.

The Benchmark and performance target set for each Manager are intended to ensure that the total fund investment returns achieved are in excess of that assumed in the Actuarial Valuation.

## **REALISATION OF ASSETS**

The Fund will hold sufficient cash to meet the likely benefit payments. Additionally, the Fund will hold sufficient assets in liquid or readily realisable form to meet any unexpected cashflow requirements so that the realisation of assets will not disrupt the Fund's overall policy. The Managers may determine whether or not to sell particular investments and which investments to sell to raise cash as and when required for meeting cash requirements notified to the Manager.

## **ADVISORS**

Investment Consultant  
Corporate Governance  
Actuarial

KPMG LLP  
Pensions Investment Research Consultants Ltd (PIRC)  
Barnett Waddingham

## **PERFORMANCE MEASUREMENT**

Quarterly and Annual performance figures are provided by Northern Trust and considered by the Sub-Committee.

## **CUSTODIAN**

Northern Trust is the sole custodian for the Fund's assets.

## **AUDITORS**

Audit Scotland.

## **SOCIALLY RESPONSIBLE INVESTMENT (SRI)**

Whilst recognising its over-riding fiduciary duties the fund will continue to encourage its managers to engage on issues with companies in which it holds investment. The managers will be instructed to summarise this engagement activity in their quarterly Investment Reports. The key areas will continue to be Employee Care, Human Rights, Sustainability and the Environment.

In addition the fund believes that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios through time. So, where it is consistent with its fiduciary duty, the Fund would follow the principles below:

- Incorporate ESG issues into investment analysis and decision-making processes - this would require to be done by the investment managers and monitored by the Fund.
- Be an active owner and incorporate ESG issues into ownership policies and practices - this will be mainly achieved by exercising voting rights and the engagement activity of managers.
- Seek appropriate disclosure of ESG issues by entities in which the Fund is invested - this will be achieved through investment manager engagement.
- Report on activities and progress. A six-monthly report will continue to be prepared for the Sub-Committee.

## **CORPORATE GOVERNANCE**

The Fund will vote through its Fund Managers on all global security holdings in accordance with the recommendations of its voting consultants. Managers will be advised to use its best endeavours to vote in accordance with its voting guidelines.

## **CLASS ACTIONS**

Both the fund and its custodian monitor class actions in relation to any investments it has held. It will participate in these where any additional benefit can be achieved.

## **COMPLIANCE**

The Pension Sub-Committee will take advice on general investment matters from the Executive Director of Corporate Services and external advisers as appropriate. The Pension Board will assist in securing compliance to regulations.

The Pension Investment Sub-Committee will review this Statement annually or sooner if there is a change in policy in any of the areas covered.

## **SCOTTISH MINISTERS' GUIDANCE**

The Fund adheres to the six principles within CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles" (December 2009).

## INVESTMENT ROLES AND RESPONSIBILITIES

### Introduction

The Fund pursues a policy of seeking enhanced returns whilst lowering risk through diversification of both investments and investment managers. In order to achieve this it has delegated day to day investment decisions to a number of external investment managers. A management agreement is in place for each Investment Manager, which sets out the relevant benchmark, performance target, asset allocation ranges, and any restrictions, as determined by the Fund.

### Tayside Pension Fund Sub-Committee is responsible for:

- Setting the investment objectives and policy and the strategic asset allocation in the light of the Fund's liabilities.
- Appointing, reviewing, and assessing the performance of investment managers, investment consultants, custodians and actuaries.
- Ensuring appropriate arrangements are in place for the administration of benefits.
- Ensure appropriate additional voluntary contributions arrangements are in place.
- Ensure adequate audit arrangements are in place.
- Prepare, maintain and publish the following:
  - Governance Compliance Statement.
  - Funding Strategy Statement.
  - Statement of Investment Principles.
  - Environmental, Social and Corporate Governance Policy.
  - Administration Strategy
  - Communications Policy
  - Treasury Policy and Strategy

The Committee is supported by council officers and external advisers.  
The Committee may appoint a working group to develop specific initiatives.

### Tayside Pension Fund Pension Board is responsible for:

- to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS
- to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator in such other matters as the LGPS regulations may specify
- to secure the effective and efficient governance and administration of Tayside Pension Fund

### The Executive Director of Corporate Services is responsible for:

- governance of the Fund
- implementation of Committee decisions
- committee and board training

### The Investment Consultant is responsible for:

- advice on setting investment objectives and strategy
- advice on appropriate investment management structures
- advice on asset classes and investment vehicles
- assistance with investment manager monitoring
- assistance with investment manager selection, retention and termination
- benchmark advice
- advising on the appropriate content of Investment Management and other related agreements.

### 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 companies

**The Global Custodian is responsible for:**

- safekeeping of assets
- servicing of assets including income collection
- execution of transactions, corporate actions and proxy voting
- record keeping and primary accounting
- securities lending (if authorised)
- cash management
- performance measurement

**The Actuary is responsible for:** measurement, monitoring, advice and information relating to the Fund's liabilities and the relationship between its investment assets and liabilities.

**INVESTMENT STRATEGY**

The Fund's investment objective is to support the funding strategy by adopting a suitable investment strategy and structure, incorporating the appropriate balance of returns for the accepted level of risk. The current funding strategy requires the Fund to hold the following diversified portfolio and achieve the required returns, however, this is subject to review following the outcome of the 2017 actuarial valuation with stipulates a required return of 6.3% p.a. from its current blend and weighting of asset classes in order to achieve the key investment objective of maintaining the ability to meet current and future pension liabilities through effective long term investment, whilst acting prudently where possible to protect its funding level and maintaining stable and affordable employer contribution rates (currently 17%).

<b>Tayside Main Fund - Target Future Asset Allocation</b>		
<b>Asset Class</b>	<b>Allocation</b>	<b>Required Nominal Return p.a.</b>
Equities	65%	7.5%
Gilts	13%	1.9%
Bonds		2.6%
Property	12%	6.3%
Local and Alternative Opportunities	10%	5.05% overall, with individual returns appropriate to level of risk.

The Fund's overall investment strategy had the following set benchmarks which were effective since 1<sup>st</sup> April 2017:

<b>EQUITIES</b>	<b>FIXED INCOME</b>	<b>PROPERTY</b>
80% MSCI AW Index 20% FTSE All Share Index	65% Libor + 5% 20% ML Sterling Non-Gilts Index 15% FTSE Index-Linked Over 5yr Index	100% IPD All Balanced Property Funds Weighted Average Index



In order to ensure a prudent and balanced investment exposure to an acceptable level of investment risk, these were further refined at portfolio level following review in December 2018 as follows:

Main Fund Benchmark		Proposed Main Fund Benchmark	
FTSE All Share	28.0%	FTSE All Share	15.7%
FTSE AW Developed North America	17.0%	FTSE AW Developed North America	6.1%
FTSE AW Developed Europe (ex UK)	9.0%	FTSE AW Developed Europe (ex UK)	2.4%
FTSE Japan	7.0%	FTSE Japan	1.2%
MSCI AC APAC Ex Japan	2.5%	FTSE All World	10.0%
MSCI Emerging Markets Index	6.5%	MSCI AC World GD	12.0%
ML Sterling UK Gilts	3.0%	MSCI AC World ND	21.0%
FTSE Index-Linked Over 5 Years	5.0%	FTSE AW Developed Asia Pacific Ex Japan	0.5%
IPD All Balanced Property Funds	12.0%	FTSE AW Emerging Markets Index	1.1%
ML Sterling Non-Gilts	10.0%	ML Sterling UK Gilts	6.5%
Total	100.0%	FTSE Index-Linked Over 5 Years	2.5%
		IPD All Balanced Property Funds	12.0%
		3 month LIBOR + 3%	9.0%
		Total	100.0%

Note: Inception date of 16 October 2009

## INVESTMENT PERFORMANCE

### Market Commentary

#### Global Equities Summary:

Global equities gained in sterling terms over the 12-months to March 2019. Healthy corporate earnings provided support, while rising US interest rates, trade tensions, political uncertainty in Europe, and concerns about emerging markets elevated market volatility. Equities came under pressure in the fourth calendar quarter of 2018 as concerns over global growth intensified, and markets suffered as a consequence. Nonetheless, investor sentiment improved in the first calendar quarter of 2019 amid expectations of a US-China trade deal and the accommodative monetary policy stance in major economies. Notably, the US Federal Reserve signalling a possible end to interest rate hikes at its January meeting amid rising global economic risks.

The European Central Bank announced that it will launch a new targeted subsidised lending programme in September 2019, while pushing back guidance for future interest rate moves at its March 2019 meeting. The Bank of Japan kept the monetary policy steady through the year amid decreasing optimism about the export reliant economy. Chinese authorities also introduced measures to support growth.

Meanwhile, the UK delayed Brexit after politicians rejected deals to withdraw from the European Union. Against this backdrop, equities in the US, Europe and Pacific ex Japan advanced, while Japanese stocks fell. Emerging market equities ended almost flat, underperforming developed markets.

#### Global Fixed Income Summary:

Global bond markets posted positive returns over the year to 31<sup>st</sup> March 2019. Yields on highly rated government bonds declined as central banks across the world adopted a cautious monetary policy stance, reflecting a combination of weak economic data and uncertainty over US-China trade negotiations. The yield on 10-year US Treasuries touched its lowest level in almost 16 months.

In Europe, investors flocked towards safe-haven assets as the eurozone economy witnessed a very disappointing end to 2018. Business growth slowed to its weakest pace in over two years in December, as a manufacturing-led slowdown showed signs of spreading to the service industry. Japanese government bonds followed suit and rallied over the period.

On the policy front, the US Federal Reserve raised its benchmark interest rate three times. However, in 2019, it indicated that it would not raise interest rates this year. The ECB also said that it will hold interest rates steady at least through the end of 2019. Investors' interest towards corporate debt was driven by the US Federal Reserve's accommodative monetary policy stance and easing concerns over US-China trade frictions.

Credit markets continued to perform well due to the rally in government bonds and posted positive total returns, thus offsetting the widening in credit spreads. In the US, slower than expected growth, higher Fed fund rates in 2018, stock market volatility and China-US trade tensions led to a widening of credit spreads. European credit spreads widened to two-year highs in 2018 due to macroeconomic headwinds, the potential ban on menthol cigarettes by the US Food and Drug Administration and the issuance of multi-tranche euro corporate bonds at low levels by Volkswagen.

### **Global Equities - Market Outlook**

As 2019 continues, caution is warranted in equity markets. Underlying conditions have not improved following the rebound in markets, as risks in the global economy continue. Slowing growth is likely to continue in the near term, especially with the prospect for weaker company earnings.

At the regional level, the outlook for the US is relatively positive, with the Federal Reserve looking likely to return to interest rate cuts, rather than increases. This, together with the hopes of an amicable trade resolution between the US and China are supportive of equities. Among global markets, the US stands out in terms of strength of economic data. However, a global economic slowdown remains a key concern.

In the near-term, the eurozone's export-led economy remains uncertain due to concerns relating to Brexit, trade frictions between the US and its major trading partners and vulnerabilities in emerging markets. The European Central Bank has reduced the eurozone's growth forecast for 2019 and also changed its forward guidance to keep interest rates at current levels for the rest of the year, which should support equity valuations. Brexit uncertainty also clouds the economic outlook for the UK.

For Japan the outlook is broadly positive. While weak inflation and exports could be reasons for concern, a healthy domestic economy supported by rapid growth and an increase in tourism supports the outlook for equity returns.

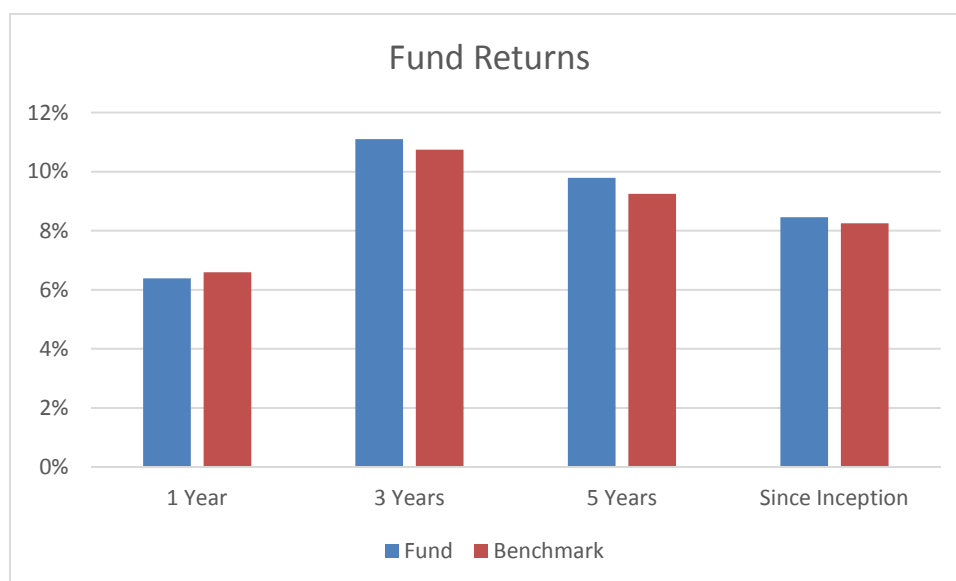
### **Global Fixed Income - Market Outlook**

Conditions for non-government bonds ("Credit") continues to deteriorate. At the macroeconomic level there is little support from central banks in terms of interest rate cuts, or fiscal stimulus (i.e. tax cuts). Alongside this, the UK economy has suffered from a lengthy and confusing Brexit process. This has led to investment being postponed and reduced the tailwinds for UK growth. There are some bright spots though, with sterling Credit holding up better than their US and European counterparts. In addition, it is important to consider the likely reaction from the Bank of England (BoE) under a market-unfriendly Brexit outcome. To support markets and the economy, the BoE would likely respond with monetary stimulus, perhaps even a combination of interest rate cuts and further quantitative easing. Overall, a cautious approach is appropriate with market volatility on the rise.

## **FUND PERFORMANCE**

### **Performance Commentary**

In the year to 31 March 2019, the Fund returned 6.39% which slightly underperformed the benchmark return of 6.60%. Whilst the fund performance rallied following the quarter to 31<sup>st</sup> December 2018, it did not manage to fully recover in relation to its benchmark by the 31<sup>st</sup> of March 2019. The following graph details the outperformance of the fund across all periods:



During the year, the performance of the equity managers was as follows:

**Alliance Bernstein** – was behind benchmark with a return of 2.64% versus 9.42% for the benchmark.

The portfolio's performance over the last year has been disappointing. Although stock markets rose over the full period from April 2018 to March 2019, high levels of anxiety drove a sharp downturn in the fourth quarter of 2018, driven by fears that escalating trade tensions and broader geopolitical concerns could further slow an already decelerating global economy. As a result, the portfolio's modestly pro-cyclical sector positions detracted. More broadly, the portfolio's value bias has hurt over the last year as investors have preferred higher quality companies with better earnings growth in the face of economic uncertainty.

The main driver of the portfolio's under-performance was negative stock selection. The largest detractors reflected a mix of company and industry-specific issues as well as broader market factors. The largest individual detractor, for example, was jewellery company Pandora, which has continued to struggle with a bloated store footprint and weak results. Other detractors, such as aluminium producer Alcoa, and companies in the semi-conductor supply chain, suffered both from the impact of trade tensions and concerns about weakening industry conditions.

Alliance Bernstein's view is that equity markets are likely to produce decent returns over the next year. Although earnings growth has slowed, it remains positive in the US and Europe, and valuations are down from recent elevated levels. Alliance Bernstein expect stock selection across well-diversified industries and regions to provide additional returns.

Whilst Alliance Bernstein had tried to provide reassurance of improvements in performance during the financial year, this was not evidenced, and at the Pension Sub-Committee & Pension Board meeting of 24<sup>th</sup> June 2019 it was agreed to transfer investments held by Alliance Bernstein to LGIM. This transfer took place mid-July and was net of a small proportion of non-transferrable assets of approximately £47m in value which were sold and used for portfolio rebalance and cashflow management. The Sub-Committee believe that there are more suitable investment solutions and managers that will better meet the investment objectives for the Fund over the longer term.

**Baillie Gifford Global Equities** - was behind benchmark with a return of 9.85% versus 11.06% for the benchmark.

The global equity portfolio was behind its benchmark but again remains well ahead since the Fund first invested in this strategy in 2009. The US housing online platform Zillow and airline Ryanair both lost value over the period although this was partially offset by good returns from a diverse range of businesses including Amazon, the US health insurer Anthem, Indian bank ICICI and heart pump manufacturer Abiomed.

**Baillie Gifford UK Equities** - was behind benchmark with a return of 5.48% versus 6.36% for the benchmark.

The UK equity portfolio managed by Baillie Gifford was behind the benchmark in the year, but remains well ahead over the longer term. During the year Prudential was weak, partly on Brexit concerns, while investment companies St James's Place and Jupiter Fund Management also suffered from volatile markets and rising costs. This was offset by

better performance from long term holdings such as packaging business Bunzl, health and safety company Halma and the diversified miner BHP Billiton as well as internet platform stocks Rightmove and Autotrader.

In both Baillie Gifford portfolios, the companies are generally performing at least in line with expectations in operational terms, but economic and political uncertainty will continue to cause shorter term volatility. The portfolios have little exposure to some big, traditional sectors such as oil & gas, cars, banks, high street retailers and big pharmaceuticals as Baillie Gifford feel that there are better opportunities to be had by investing in companies that will disrupt these. Baillie Gifford believe that the Fund should benefit as more commerce goes online, as savings volumes grow, as Asia continues to grow wealthier and also as technologies transform the healthcare, transport, energy and many other industries.

**Fidelity Investment Management** – was behind benchmark with a return of 7.40% versus 10.45% for the benchmark.

The fund generated positive returns but underperformed the index over the period. Certain information technology (IT) and energy holdings suffered from concerns regarding a slowdown in the broader markets, while conviction positions in the defensive utilities and health care sectors contributed to returns.

Within IT, some stocks were negatively impacted by weakness in the smartphone value chain and the semiconductor markets. Nonetheless, we continue to focus on technology businesses with recurring revenues and cash flows; strong pricing power; and experienced and motivated management teams that are investing in newer technologies. Notably, positions in Ciena and Worldpay helped to offset some of the overall detractor from the IT sector.

The energy sector was weighed down by volatile crude oil prices, with holdings in Halliburton and Marathon Petroleum figuring among the major detractors from performance. Earlier in the period, Halliburton's shares declined and the holding was sold. The position in Marathon Petroleum which came under pressure on concerns relating to impact of weak crack spreads on its margins, remains a key holding in the portfolio.

On a stock-specific basis, Commerzbank was caught in the broad sell-off of European financials, as markets took a progressively negative view of non-US growth prospects. Concerns regarding cost pressures and the weak outlook for its corporate clients' segment also weighed on sentiment. Nonetheless, the bank has been successful at growing its fee lines.

On a positive note, favourable security selection in the utilities sector boosted performance; and health care holdings were buoyed by improving earnings boosted by the federal tax reform and the mid-term election results in the US.

**Legal & General Investment Management (Passive Equity)** - was slightly behind benchmark with a return of 10.72% versus 10.73% for the benchmark. As this is a passive mandate, the objective is to achieve market return.

During the year, the performance of the fixed income managers was as follows:

**Fidelity** - was ahead of benchmark with a return of 5.10% versus 4.33% for the benchmark.

Within the credit portfolio an overweight in GE Capital was the largest detractor at the issuer level as the company was downgraded. Also, an underweight in utility names also held back gains at the sector level. Specifically, the underweight in EDF and E.On and overweight in Engie. Favourable selection in banks such as Westpac Banking, Sumitomo Mitsui and UniCredit added value. The fund also benefitted from favourable term structure positioning. Specifically, a small underweight position at the short end of US treasury yield curve enhanced returns. A small long sterling duration stance (specifically at the short end of the curve) also helped returns.

With regards to the Inflation Linked exposure, the fund outperformed the index over a one year period with real interest rate strategy contributing positively to performance. An overweight real duration (price sensitivity to interest rate changes) position in sterling for most part of the period contributed to returns, as yields on inflation linked bonds edged lower in line with nominal counterparts. A small exposure to the utilities sector, through holdings in nominal bonds of Thames Water and Northumbrian Water weighed on returns as credit spreads widened. However, this was partially offset by the exposure to index-linked bonds of High-Speed Rail and Northumbrian water, which contributed to returns.

**Goldman Sachs** was slightly behind benchmark with a return of 3.42% versus 3.79% for the benchmark, however met target yield of 3% for this buy and maintain mandate.

The portfolio's exposure to US duration was the largest contributor to performance as US Treasury yields strengthened over the period. The portfolio has a duration of roughly 4 years. US 5 Year Treasuries tightened by 52bps to end at 2.28% whilst US 10y Treasury spreads tightened by 45bps to end at 2.50% over the period.

The portfolio's exposure to investment grade and high yield corporates also contributed as these asset classes saw positive total returns over the period, particularly in high yield industrials such as CK Hutchison and Charter Communications.

During the year, the performance of the commercial property manager and alternatives manager was as follows:

**Schroders** - were ahead of their benchmark with a return of 6.15% versus 4.78% for the benchmark.

Sector structure and stock selection have contributed positively to returns. The portfolio is overweight relative to benchmark in industrials, regional offices and alternatives (including student accommodation, healthcare and leisure) and underweight to the traditional retail sector and central London offices. The selection of funds with a high industrial concentration and low retail exposure have been the strongest drivers of performance.

Given the uncertain political and economic background, it is difficult to accurately forecast future returns. Schroders expect returns to moderate compared to recent years, but would expect the optimal sector structure and individual holdings of the Tayside real estate portfolio to deliver relative outperformance. Income is anticipated to be the strongest driver of returns in the coming years, with performance more driven by macro trends, such as demographic change, and less so by economic growth.

**M&G Investment Management** - was ahead of benchmark with a return of 4.85% versus 0.80% for the benchmark. This fund is in the final stages of maturity.

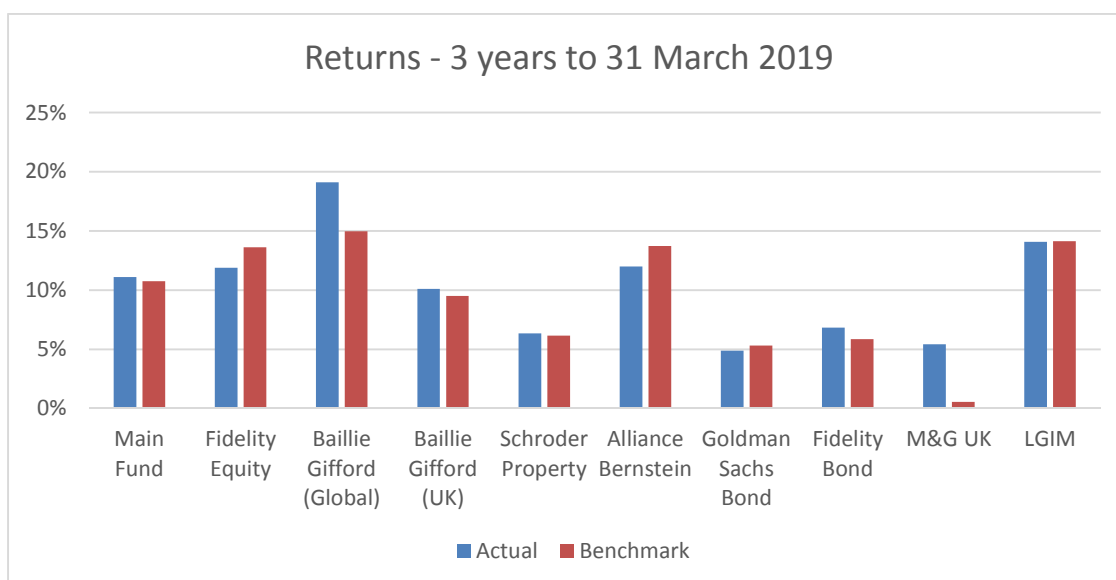
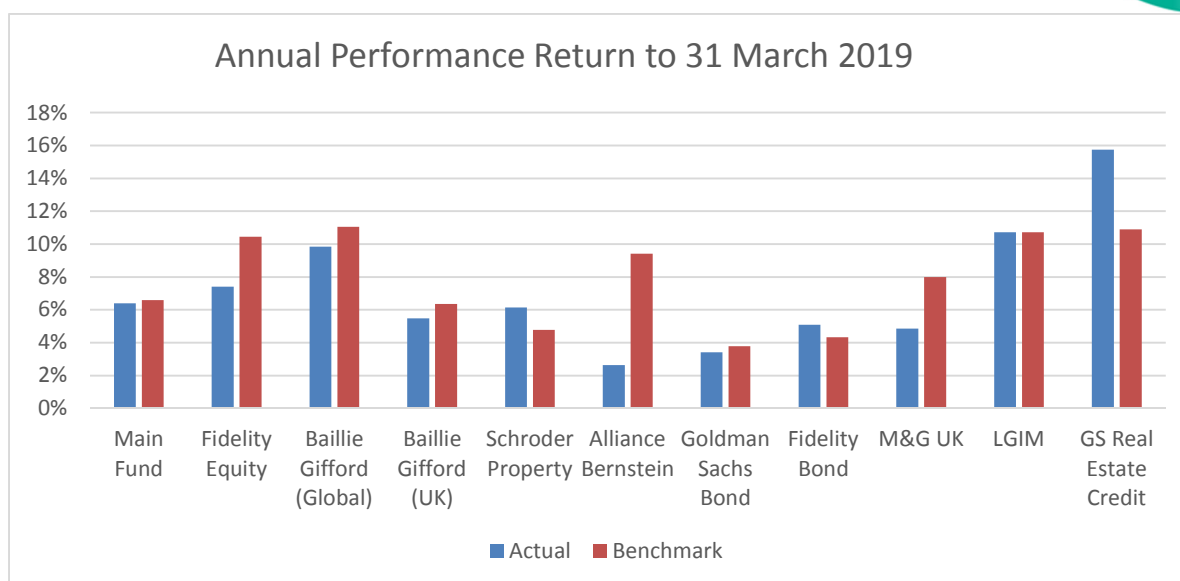
**GSAM – Broad Street Real Estate Credit Partners III** – was ahead benchmark with a return of 5.10% versus 4.33 for the benchmark.

Since commencing operations in March 2017, RECP III has invested or committed to invest \$1.6 billion across 15 investments. Eleven of the Fund's 15 investments are supporting development projects, which will draw capital over time. RECP III's current portfolio and focus on the direct origination of loans combined with the ability to hold larger loan positions (\$155 million average loan size to date) continues to differentiate RECP III's strategy. Currently the performance of the underlying investments is in line with our return expectations, with weighted average gross underwritten investment-level (unlevered) returns in the 8-11% range. As expected, we have been able to invest in credit with consistent yields across the debt capital structure while maintaining focus on downside protection.

As of 31<sup>st</sup> March 2019, RECP III has distributed aggregate proceeds to Tayside (after management fees) representing approximately 5% of capital called, providing initial liquidity to investors. They continue to review an attractive pipeline of potential investment opportunities both in the US and Europe.

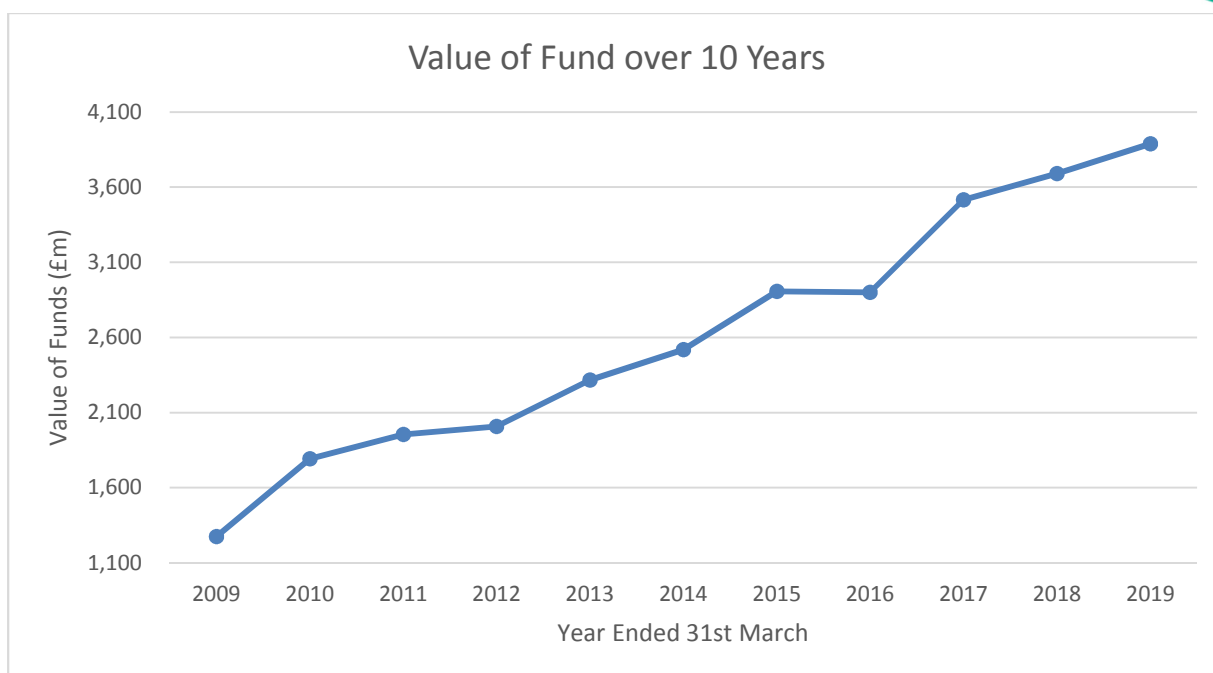
### **Performance Measurement**

This outperformance is attributable to the individual investment managers for both 1 year and 3 year timescales is as follows:



## Valuation of Assets of the Pension Fund

	<u>2018</u> £m	<u>2019</u> £m
Opening Value	3,515.3	3,690.6
New Cash Inflow/(Outflow)	64.6	64.6
Appreciation during the year	110.7	137.9
Value as at 31 March	3,690.6	3,893.1



### Asset Allocation

The following provides information on planned asset allocation versus the actual asset allocation in the financial year:

Asset Class	Actual Asset Allocation		Strategic Benchmark
	31/03/2018	31/03/2019	
Equities	69.0%	69.2%	65.0%
Bonds	16.9%	16.8%	13.0%
Property	11.8%	12.1%	12.0%
Alternatives	0.0%	0.0%	10.0%
Cash	2.3%	1.9%	0.0%
Total	100.0%	100.0%	100.0%

The key deviation from the planned strategic benchmark is the underweight position in alternative assets. This allocation is one which will progress over time, when market conditions are appropriate and opportunities arise.

## ENVIRONMENTAL, CORPORATE AND SOCIAL GOVERNANCE

### RESPONSIBLE INVESTING

Corporate Governance and Corporate Social Responsibility have developed significantly in recent years in response to both legislative and stakeholder demands. Tayside Pension Fund remains committed to supporting good environmental, social and corporate governance within the companies in which it invests.

The Fund has a fiduciary duty to incorporate Environmental, Social and Corporate Governance (ESG) factors as an active and embedded principle of risk and return assessment in managing and determining its investment portfolio and ensuring that any managers appointed by the Funds are doing likewise. The United Nations Principles for Responsible Investing Initiative is intrinsic within the global investment community, and the Fund requires all assets managers be signatories to the principles. These principles widen socially responsible investing to cover ESG, setting out guidance on how this can be met.

The Fund also use an independent voting advisory service to provide global voting recommendations and disclosures on a quarterly basis for companies within the main financial indices in order to exercise responsible stewardship across their entire global portfolio, requiring investment managers to vote in accordance with these recommendations.

The Fund is required to take a responsible approach to exercise their fiduciary duty to guard against extremes or selective interpretation of the legal principles which might unduly restrict the consideration of ESG and other wider factors which may influence the choice of investments so long as that does not risk material financial detriment to the Fund.

### POLICY ON ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

The fund believes that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios through time. So, where it is consistent with its fiduciary duty, the Fund would follow the principles below:

1. Incorporate ESG issues into investment analysis and decision-making processes - this would require to be done by the investment managers and monitored by the Fund.\*
2. Be an active owner and incorporate ESG issues into ownership policies and practices - this will be mainly achieved by exercising voting rights globally in accordance with independent corporate governance and shareholder advisors and further engagement activity of investment managers.
3. Seek appropriate disclosure of ESG issues by entities in which the Fund is invested - this will be achieved through investment manager engagement.
4. Promote acceptance and implementation of the Principles within the investment industry - this can be met by seeking the quarterly reports from investment managers.
5. Work to enhance effectiveness in implementing the Principles - this will be both by working with its investment managers and other Pension Funds (particularly other Scottish Local Authorities).
6. Report on activities and progress towards implementing the Principles - a six monthly Report will continue to be prepared for the Sub-Committee.
7. Exercise their fiduciary duty to guard against extremes or selective interpretation of the legal principles which might unduly restrict the consideration of ESG and other wider factors which may influence the choice of investments so long as that does not risk material financial detriment to the Fund.

\* In the case of tobacco companies, the Fund requests that investment managers provide quarterly review of investments in tobacco with a view to identifying investments which would provide satisfactory returns without materially affecting the volatility of risk and return or impacting on current investment benchmarks.

As it is the Fund's aim (where circumstances permit) to disinvest from tobacco stocks, the Fund require investment managers to provide the Fund with an investment case prior to undertaking new investments within this industry. These businesses cases must demonstrate that there are no suitable alternatives at that time that better meet the criteria to meet their investment objectives.



## SCHEME MEMBERSHIP AND BENEFITS

The Local Government Pension Scheme is a defined Benefit Scheme. From 1st April 2015, benefits are accrued at 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, and all benefits are paid in accordance with the Local Government Pension Scheme Regulations. The following table gives a summary of scheme benefits:

Membership up to 31 <sup>st</sup> March 2009	Membership from 1 <sup>st</sup> April 2009 to 31 <sup>st</sup> March 2015	Membership from 1 <sup>st</sup> April 2015
Annual Pension = (Service years / days x Final Pay) / 80	Annual Pension = (Service years / days x Final Pay) / 60	Annual Pension = Annual Pensionable Pay / 49
Automatic tax-free cash lump sum = 3 x Annual Pension	No automatic tax-free cash lump sum, but pension conversion available	No automatic tax-free cash lump sum, but pension conversion available
<ul style="list-style-type: none"> <li>• Annual revaluation and pensions increase in line with CPI inflation</li> <li>• Partners' and dependents' pensions</li> <li>• Ill health protection</li> <li>• Death in service protection</li> </ul>		

Dundee City Council administers the Local Government Pension Scheme (LGPS) on behalf of employers participating in the Scheme through the Tayside Pension Fund (the Fund). The scheme is governed by statutory regulations.

### Scheme Membership

The following table summarises the movement in scheme membership over 2018/19:

Status	Total at 1/4/2018	Total at 31/3/2019
Active	18,815	19,091
Deferred / Undecided/ Frozen	13,663	13,742
Pensioners (inc. dependents)	15,524	16,102
Total	48,002	48,935

## Administration Strategy and Performance

Tayside Pension Fund is committed to providing a high quality pension service to both members and employers and particularly to ensure members receive their correct pension benefit entitlement. These aims are best achieved where the Fund and employers work in partnership and are clear about their respective roles and responsibilities. The quality of service provided to members is therefore dependent on both parties meeting high standards of accuracy and timeliness of information supplied.

Tayside Pension Fund introduced its Pension Administration Strategy in August 2015 in preparation of the introduction of the employer self-service pensions system (Pensionsweb) in order to set out the standards required of the participating employers and the Fund to ensure that the Fund meet their statutory obligations and demonstrate ability to deliver services efficiently. In respect of this, the Fund is committed to carrying out their role in line with the following principles:

- achieving a high quality pension service to employees
- continually developing and improving efficient working arrangements
- striving to exceed the Fund's service standards
- an annual report of performance
- keeping the pension administration strategy under review.

A review was undertaken in March 2018 of how the fund have been able to meet the strategic performance measures against which the Fund and participating employers are assessed. The project had encountered a number of obstacles, including transfer of system ownership to an alternative supplier, which resulted in changed migration mid project. Baseline information available from 1<sup>st</sup> April will enable full comparison when implementation is complete.

### Administration Operations

The Pensions Administration Team is accountable to the Pensions Sub-committee, scheme employers and scheme members and remains committed to providing a quality service to all its stakeholders.

The team's duties include -

- Administration of the scheme
- Calculation and payment of retirement pensions, lump sums and transfer values
- Provide guidance and information to scheme members and employers

### Performance

2018/19 was a challenging year due to a variety of reasons including –

- Employers continued efficiency exercises maintain an increase in workload (Voluntary Severance, Voluntary Early Retirement Schemes and Flexible Retirement requests).
- The continued increase in request for Cash Equivalent Transfer Values (CETV) resulting from the Freedom & Choice Legislation of April 2015 which generates a significant number of queries from members and the appointed advisers, but there has not been a matching increase in the number of cases where the benefits are actually transferred out.
- The introduction of the online pension system (PensionWEB) for pension members has been a positive move forward, but did generate queries (approx. 3000 telephone calls and 1000 emails).
- Policy and procedures have been reviewed to ensure compliance with the implementation of GDPR on 25<sup>th</sup> May 2018.
- On 1<sup>st</sup> June 2018 the Local Government Pensions Scheme (Scotland) Regulations 2018 were implemented. This allows members age 55 and over with active membership from this date the option to elect for immediate payment of their pension benefits on leaving employment.

The tasks reported to Pension Sub-Committee during 2018/19 is detailed below:

<b>Actual Pensions Brought into Payment in Quarter</b>	April - June	July - Sept	Oct - Dec	Jan - Mar
Efficiency/Redundancy	91	22	31	7
Ill Health	19	19	12	14
Flexible	12	17	11	16
Preserved into Payment	49	75	72	68
Voluntary (inc Employers consent)	54	66	65	68
Voluntary Age 65	20	28	32	15
<b>Total Pensions Brought into Payment</b>	<b>245</b>	<b>227</b>	<b>223</b>	<b>188</b>

<b>Estimates - VER Exercises &amp; Operational since last report</b>	April - June	July - Sept	Oct - Dec	Jan - Mar
VER DCC	1	1	0	14
VER Other	13	5	49	14
<b>Total Estimates received in this quarter</b>	<b>87</b>	<b>97</b>	<b>108</b>	<b>131</b>
<b>Total Estimates outstanding at the end of the quarter</b>	<b>46</b>	<b>4</b>	<b>7</b>	<b>27</b>

<b>Other Pension Events</b>	April - June	July - Sept	Oct - Dec	Jan - Mar
Deaths	127	129	124	157
Survivors Pensions	87	62	82	83

Tasks being measured	Description	April - June		July - September		October - December		January - March	
		Cases Completed	Average days - process start to end	Cases Completed	Average days - process start to end	Cases Completed	Average days - process start to end	Cases Completed	Average days - process start to end
Clerical Tasks	Various amendment and creation tasks carried out by Clerical Assistants/Modern Apprentices	884	12.05	405	34.5	363	25	466	19.7
Death Grant	Process of collating information and issuing documentation to Trustees/and making payment to beneficiaries	29	32.71	12	102.08	16	44	26	36.25
Divorce	Issue of CETV (Quote) to member/solicitor/implementation of Pension Sharing Order (including setting up of pension credit records or payment of transfer out and letters to all interested parties.	13	57.08	13	57.08	10	31.2	52	32.63
Estimates	Estimate requests processed from employers and employees.	122	40	181	51.76	287	54.8	204	41.82
Miscellaneous Payroll	Various processes including payment of balances of pension, responding to queries, age reviews eg annual education review, age 75 checks),	147	31.81	88	39.9	116	75.65	139	74.36
Refund of Contributions	Processes including issue of letter to member and payment of refund to member	64	45.3	84	26.62	72	18	75	50.81
Retirements	Processes including the issue of initial calculation to the member along with the essential forms for completion and may also include queries raised with the employer regarding informatio supplied. Process also includes the further calculation of member's benefits, the creation and authorisation of the payment of the lump sum via the Sundry Payments Sytem and the creation of the payroll entry onto the ResourceLink Payroll System	245	44.22	227	38.91	223	43.45	188	50.68

## 2018/19 Events

- Payment of contributions by scheme employers

The Pensions Act 1995 requires employers to make payment of the employee and employer contributions by the 22nd of the month following deduction from the employee's wage/salary and as such this is recorded and monitored monthly.

Of the 46 scheme employers 8 late payments were identified and investigated with the scheme employer during 2018/19.

- Annual Benefit Statements

Issued to the active and deferred membership of Tayside Pension Fund, with the deferred membership benefit statements being issued in July 2018 and active membership benefit statements issued in August 2018.

- Pension Saving Statements (Annual Allowance)

Issued prior to 6th October 2018 approx. 65 members who had breached the annual allowance for 2017/18 of £40,000 were notified by letter.

- Lifetime Allowance

The allowance for 2018/19 was set at £1.03 million. Individual case by case notifications apply.

- GMP Reconciliation

Following the end of contracting out in April 2016 all pension schemes are required to reconcile the Guaranteed Minimum Pensions (GMP) held with those on record with HMRC.

Equiniti have been reconciling records and provide a monthly update of their progress. At the 31<sup>st</sup> March 2019 the scheme is now 94% reconciled. The amount paid to Equiniti as at 31<sup>st</sup> March 2019 is £329,170.00. No new project risks were identified during this period and no milestones are overdue.

- Payment of Pensions

Tayside Pension Fund provides 2 monthly payrolls to retiring members. One making payment on the 20th of each month and the other on the last working day of each month. During 2018/19 all monthly pension payroll payments were made by their due date.

- CARE Scheme Revaluation

The Local Government Pension Scheme (Scotland) Regulations 2015 require that pension accounts built up from 1st April 2015 are revalued at the end of each scheme year.

The Order published provided for a 3% revaluation.

- Pension Increase

Pensions in payment and those in deferment are indexed annually based on the annual change in the Consumer Price Index (CPI) measured as at the previous September.

The Order provided for a 3% increase.

- Tiered Contributions Rate Guidance

Under the Local Government Pension Scheme (Scotland) Regulations 2014 the earnings ranges used to determine annual contributions rates are to be increased each year by any increase applied to pension under the Pensions (Increase) Act 1971.

In March 2019 the SPPA amended the guidance to reflect the above and a copy of this guidance was forwarded to all scheme employers for use with effect from 1 April 2019.

- National Fraud Initiative

Tayside Pension Fund continues to participate in the counter-fraud initiative led by Audit Scotland. The biennial exercise that concluded in 2017/18 identified pension related overpayments of £23,553. Recovery of these funds is now in progress.

- Meetings, User Groups and Forums

Representatives attended quarterly meetings of the Joint Scottish Liaison Group and Investment Governance Groups, along with representation from the Local Government Association and the Scottish Public Pensions Agency. The SPLG also arranged a technical meeting (held at Strathclyde Pension Fund) in February 2019 to discuss the draft pension scheme regulations and a group response was formulated and issued to the SPPA.

Representatives attended meetings and also participated in webinars as members of the Computerised Local Authority Superannuation System (CLASS) Group whose membership is made up of all 11 Scottish Funds and 80 English and Welsh Funds.

- Staffing

- The 2 Modern Apprentices completed their SVQ level 2.
- 3 replacement Pension Assistants and a replacement Clerical Assistant were employed in November 2018.
- An Assistant Pension Manager and Pensions Team Leader (Operations) were appointed in December 2018.
- A Pensions Assistant and a Clerical Assistant retired in March 2019.
- Current recruitment is in process in respect of 3 Pension Assistants and 2 Clerical Assistants.
- Recruitment will be undertaken for an IT Systems/Process Analyst post.

## COMMUNICATIONS POLICY

The Fund adopted the following revised Communications policy in August 2015, effective in conjunction with the successful implementation of Pensionsweb self-service system.

### Vision

Our vision is that anyone with an interest in the pension fund should have ready access to all the information they require, and in this, we aim to make pensions issues understandable to all and to promote the membership of the Tayside Pension Fund.

### Objectives

- To improve understanding of the pension fund, ensuring that pension regulations and policies are communicated in a clear and informative way.
- To promote the benefits of the scheme, to ensure recognition as an integral part of employee remuneration.
- To provide clear information in the most appropriate manner to allow members to make more informed decisions relating to their pensions.
- To ensure that our communications methods and manners are continually evaluated, assessed and redesigned to ensure continuing effectiveness.

### Delivery

- Fund Website:
  - All scheme policies
  - Latest news
  - Pensions Committee and Local Pension Board agendas and minutes
  - Scheme booklets
  - Contact details
  - Links to other useful sites
- General Communications – The fund uses surface and e mail to send and receive general correspondence.
- E mail - enquiries should be addressed directly to [pensions@dundeecity.gov.uk](mailto:pensions@dundeecity.gov.uk)
- Telephone Communications – telephone enquiries are directed from the Dundee City Council main switchboard during our business hours of 8.30 – 5.00pm Monday – Friday. Upon first contact, queries are allocated to the appropriate staff member.
- Information as to direct contact numbers for specific queries is available on the website and are contained in all outgoing correspondence.

## SCHEDULED AND ADMITTED BODIES

Scheduled Bodies are those detailed in Schedule 2 Part 1 of the Regulations, with the most current being in the Local Government Pension Scheme (Scotland) Regulations 2014. For example, the bodies are Local Authorities, Colleges, Transport Authorities.

Admitted Bodies are those described in Schedule 2 Part 2 of the same Regulations and detail the type of bodies along with the requirements to be considered prior to admission (and the signing of the formal admission agreement).

The employers with active members as at 31 March 2019 were as follows :-

### Scheduled Bodies (14)

Angus Council	Scottish Police Services Authority
Dundee City Council	TACTRAN
Dundee and Angus College	Tayplan
Perth & Kinross Council	Tay Road Bridge Joint Board
Perth College	Tayside Contracts
Scottish Fire & Rescue Service (Civilians)	Tayside Valuation Joint Board
Scottish Police Authority (Civilians)	Visit Scotland

### Admitted Bodies (32)

Abertay Housing Association	Leisure and Culture Dundee
Angus Alive	Live Active Ltd
Balnacraig School	Mitie PFI Ltd
Carnoustie Golf Links	Montrose Links Trust
Carolina House Trust	Montrose Port Authority
Culture Perth & Kinross	Perth & Kinross Countryside Trust
Dorward House	Perth & Kinross Society for the Blind
Dovetail Enterprises	Perth Citizens' Advice Bureau
Duncan of Jordanstone College of Art	Perth Theatre Co Ltd
Dundee Citizens' Advice Bureau	Robertsons Facilities Management
Dundee Contemporary Arts Ltd	Rossie Secure Accommodation Services
Dundee Science Centre	Scottish Social Services Council
Dundee Voluntary Action	Social Care and Social Work Improvement Scotland
Forfar Day Care Committee	Sodexo
Highlands & Islands Airports Ltd	University of Abertay, Dundee
idverde	Xplore Dundee

## CONTACT INFORMATION

### Key Documents Online

The following documents are on the website's publications section: <https://www.taysidepensionfund.org/tayside-pension-fund/about-us/forms-and-publications/>

- Actuarial Valuation Reports
- Funding Strategy Statement
- Statement of Investment Principles
- Treasury Management Strategy
- Risk Register
- Annual Report and Accounts

### Contact Details

Enquiries regarding investments, individual benefits, contributions or pensions in payment or requests for further information should be addressed to:-

Tracey Russell, Senior Financial Services Manager  
Dundee City Council, Floor 4, 50 North Lindsay Street, Dundee DD1 1NZ

### Other Contacts

#### **The Pensions Ombudsman**

10 South Colonnade

Canary Wharf

E14 4PU

<https://www.pensions-ombudsman.org.uk/>

The Pensions Ombudsman is an independent organisation set up by law to investigate complaints about pension administration and has the remit to consider complaints about personal and occupational pension schemes.

#### **The Pensions Advisory Service**

11 Belgrave Road

London

SW1V 1RB

<https://www.pensionsadvisoryservice.org.uk/>

The Pensions Advisory Service (TPAS) provide independent and impartial information and guidance about pension, free of charge to members of the public. They deal with all pension matters covering workplace, personal and stakeholders' scheme and also the State Scheme.

#### **The Pension Tracing Service**

The Pension Service 9

Mail Handling Site A

Wolverhampton

WV98 1LU

<https://www.gov.uk/find-pension-contact-details>

This is a register of all workplace pension schemes and provides assistance to individuals searching for the contact details of any previous pension rights.



## **The Pensions Regulator**

Napier House

Trafalgar Place

Brighton

BN1 4DW

<http://www.thepensionsregulator.gov.uk/>

The Pensions Regulator is the public body that protects workplace pensions in the UK. They work with employers and scheme administrators so that people can save safely for their retirement. They ensure that employers meet their ongoing automatic enrolment duties and provide effective regulation for defined benefit schemes and looks to promote good trusteeship through improving governance and administration.