

REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD - 4 JUNE 2018

REPORT ON: TAYSIDE PENSION FUND UNAUDITED 2017/2018 ACCOUNTS

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 197-2018

1 PURPOSE OF REPORT

To provide some additional commentary on the unaudited Annual Accounts 2017/18 which are being submitted to the Committee along with this report.

2 RECOMMENDATIONS

It is recommended that the Committee:

- notes the contents of this covering report
- notes the unaudited Annual Accounts which have been submitted along with this report
- instructs the Executive Director of Corporate Services to arrange for the unaudited Accounts to be signed as necessary
- instructs the Executive Director of Corporate Services to submit the Annual Accounts to the Fund's external auditor

3 FINANCIAL IMPLICATIONS

None.

4 MAIN TEXT

4.1 The relevant statutory provisions regarding the preparation of the Fund's Accounts are contained in the Local Authority Accounts (Scotland) Amendment Regulations 2014. Section 8 of these regulations requires that "... all the accounts of the local authority are made up and balanced as soon as practicable after the year end of each financial year and that sufficient copies of an abstract of the said accounts for each financial year are prepared ... and submitted to the authority and submitted to the appointed Auditor not later than 30 June in the next financial year...".

4.2 As in previous years the Annual Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting (the Code). There are no significant changes included within the 2017/2018 Code, that impact upon the Fund's Accounts.

4.3 Tayside Pension Fund value as at 31 March 2018 was £3.704bn, this reflected an increase of £259m or 8% on the equivalent value at 31 March 2017. Repatriation of Tayside Transport Pension Fund took place on 30 June 2017, the value of the fund was £70.4m.

4.4 Copies of the enclosed Annual Accounts will now be sent to the Fund's appointed external auditor (Fiona Mitchell-Knight, Assistant Director, Audit Scotland) to commence her audit of the Accounts. The outcome of the audit will be reported back to the Pension Sub-committee and Pension Board on 3 September 2018.

5 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

6 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services has been consulted on the content of this report and are in agreement with the contents.

7 BACKGROUND PAPERS

None

**GREGORY COLGAN
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

04 JUNE 2018

Unaudited

Annual Report and Accounts

2017/18



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 1st 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 31st March 2018, Tayside Pension Fund had investment assets of £3.704 billion, and a membership of 48,002 across 45 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 4th largest of the 11 Scottish LGPS funds in asset size. The LGPS is a multi-employer defined benefit scheme, whose benefits up until 31st 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

Welcome to the 2017/18 Annual Report and Financial Statements of Tayside Pension Fund. I hope that this report keeps members, employers and other interested stakeholders informed about the activities and performance of the Fund, as well as its investments and financial statements.

Having taken on my role following the retirement of Marjory Stewart in June 2017, I am pleased to introduce an annual report which shows the Tayside Pension Fund continuing to grow and outperform its benchmark indicators.

Throughout the year the fund was affected by market volatility and global uncertainty, along with challenges faced by the team in assisting employers in a number of voluntary and early retirement exercise; and of members transfer enquiries in relation to Freedom and Choice.

These challenges reflect the ongoing changes to the public sector landscape which we expect to continue, and with these exercises; the growing membership and the ever-increasing complexity of Local Government Pension Schemes legislation, the Fund relies heavily on the Pensions Team's experience and expertise to provide support to employers and ensure that members receive meaningful information and accurate benefits at the appropriate time. The Pensions Team continue to develop improvements to services and communications to benefit both employers and members of the Fund, and I would like to thank the staff for their continuing dedication and hard work with the Fund's stakeholders.

The ability to maintain employer's contributions at a stable 17% proved testament to the sound investment management of the Fund, and I would like to take this opportunity to thank both the Sub-Committee and Board for their work with Officers and their advisors in the prudent decision making and scrutiny to achieve this desired outcome.

During the past year the Fund welcomed new members to its Governance Structure as the Local Government Elections in May saw new entrants on to both the Pensions Sub-Committee and Board. To the outgoing members of both, I would like to express my thanks for their service whilst in tenure; and I would also like to express my gratitude to the commitment that the new members have shown in undertaking the rigorous training that their new roles require of them.

This coming year will be challenging in a number of areas across the Pensions field, both in investment and administration, and I look forward to working with the Sub-Committee, Board, Officers and Staff of the Fund in addressing and overcoming these in order to continue to deliver an efficient and effective service.

Gregory Colgan

Executive Director of Corporate Services



Report by the Chair of the Pension Sub-Committee

As the administering authority of Tayside Pension Fund, Dundee City 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 to ensure that the Fund meets its primary objective of providing members' pension benefits on their retirement. The Pension Sub-Committee consists of 6 elected members from the Council, of which I have been the Chair for a number of years. Our role is also to ensure that the Fund complies with Local Government Pension Scheme Regulations and all other relevant legislation.

This year, I am pleased to report that the fund continued to grow in terms of value, and also of membership. Membership of the fund grew by almost 2,000, bringing the membership now just over 48,000; and in spite of the sharp correction in global markets in the last quarter to March 2018, the overall value of investment assets increased from £3.5bn to over £3.68bn.

This year saw the repatriation of the former Transport Fund back into the main fund, and I am happy to report that this is achieving the desired objectives in terms of efficiencies. A number of other investment strategies were reviewed over the year, and this resulted in changes to investment mandates to better navigate the ever challenging and volatile global environment. The year also saw new commitment in alternatives, with the introduction of a real estate credit portfolio, and the Committee look forward to further investment opportunities in the future.

There were also changes to administration policies through the course of the year, and we hope that the amendments made will better suit the changing environment that Fund employers are trying to navigate through, and ultimately benefit the members of the Fund.

The results of the latest triennial valuation (carried out as at 31st March 2017) were approved in March 2018. These results found a surplus equating to a funding level of 107%, and as a result of this, the Committee were delighted to announce that utilising this surplus would enable the Fund employers contributions to remain stable at 17% through the following 3 years to the next valuation. This funding level, in addition to the performance review undertaken by Audit Scotland of all Scottish LGPS Funds, further demonstrated the efficient and effective management of the Fund's assets over the period.

I expect 2018 will bring further challenges to the fore in terms of both investment and administration, due to increasing global economic and geopolitical uncertainty as well as changing legislation. On behalf of myself and the Committee, I'd like to thank the officers, staff and advisors for their dedication and focus, and the Committee for their continuing commitment to the Fund.

Bailie Willie Sawers

Chair of Pension Sub-Committee



Report by the Chair of the Pension Board

Each Local Government Pension Fund is required to establish a Board to assist with the effective and efficient governance and administration of the scheme. The Board is also tasked with ensuring compliance with the various legislative requirements and those of the Pensions Regulator, complementing the already well developed governance structure which underpins the pension scheme.

The Pension Board comprises of both employer and member representatives, and undertakes a vital role in helping to ensure the correct governance and functioning of Tayside Pension Fund.

I commenced my tenure in May 2017, when I took on the role of Chairperson from Councillor Rob Murray who retired from Local Government; and as the first member representative in this post I am able to provide the following information relating to the Board and its work during the financial year to 31st March 2018.

During the year, the Board has undergone some changes in membership, and Board members have undertaken the extensive training required to ensure their understanding of their role, various pensions topics and insights into the day to day operations of the Fund itself, and as a result, even the Board Members who joined us following the local elections have in the main undertaken the essential public service training required by the Pensions Regulator as well as having attended a number of training sessions held both locally and nationally. I will continue to encourage the Board to continue to develop and broaden their pensions knowledge during my remaining time as Chairperson.

The Board has attended all of the quarterly Pension Sub-Committee meetings held over the year, and have demonstrated their positive involvement in relation to the fund's governance at these meetings. As a Board, we have been keen and actively interested in all funding and investment matters that have been brought before the Pensions Sub-Committee for consideration during the year, including environmental, social and corporate governance matters, where we have ensured that the Fund and its investment managers continue to consider these important issues whilst maintaining a clear perspective in relation to legal fiduciary duties.

The Board have also had active involvement in discussions relating to operational pension administration and the challenges faced by the changing public sector and legislation. Having the opportunity to challenge practices and question decision making evidences the compliance and scrutiny role undertaken by the board, and over my time on the Board, I have seen the level of challenge increase as the knowledge and experience of the Board develops and grows.

As required by the constitution, the Chair of the Pension Board rotates annually between employer and member representatives, and my tenure will end in September 2018. I therefore take this opportunity thank my predecessor, Councillor Murray for his services as the first Chairperson of Tayside Pension Board, and to wish the incoming Chairperson well in their role for the proportion of the coming year that they will be in that role.

I'd also like to 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 2017/18 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 two Local Government Pension Scheme (LGPS) Funds that Dundee City Council is responsible for administering. These funds are: Tayside Pension Fund (Main Fund) and until its repatriation back to the main fund on 30th June 2017, Tayside Transport Pension Fund (Transport Fund).

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;
- employers 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.

A number of the scheme's investment policies and strategies underwent reviews over the year, with the following providing a summary of these:

- Treasury Management Strategy & Policy - following an Internal Audit Review recommendation from PWC, a separate Treasury policy and Strategy for Tayside Pension Fund was introduced.
- Statement of Investment Principles – amendments were made in line with the Fund's Investment Advisor recommendation of changes to investment criteria and benchmarks which has to be in line with the investment returns required to maintain a targeted return on investment that is required to ensure the liabilities of the fund are met, and also maintain a stable employer contribution level, as calculated by the Fund's Actuaries.
- Environmental, Social and Corporate Governance Policy - this was amended to incorporate the guidance on Fiduciary Duty provided by the Scheme Advisory Board, following their receipt of legal opinion.
- Administering Authority Discretions (Abatement of Pension Benefits) – this review resulted in a change to the policy of abatement of pensions of re-employed Tayside Pension Fund members working for LGPS employers following recommendation that this discretion no longer be applied.
- Administering Authority Discretions (Amendment to Inbound Transfer Policy) - this review extended the policy to include members who have been subject to TUPE/Fair Deal the same rights of transferring in benefits as members eligible for Public Sector Transfer Club rights where their benefits may be transferred into the Tayside Pension Fund.
- Funding Strategy Statement – this was amended in line with updated CIPFA guidance, with purpose of establishing a clear fund specific strategy identifying how employer's liabilities will be met to ensure fund solvency whilst wishing to maintain constant contribution levels.

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/>

2017/18 Events and Activities

Repatriation of the Transport Fund

The planned repatriation of the Transport Fund to the Main Fund was undertaken on 30th June 2017, when their asset values were £70.9m and £3.49bn respectively. This exercise followed on from the receipt of expert legal, actuarial and investment guidance, and also full employer consultation, which had received no objections.

The Transport Fund had been previously administered as a separate single employer fund which had been closed to new members for a number of years. Although the Transport Fund had a separate investment strategy due to the differing member liability profile, the Fund had the same managers as the Main Fund, albeit in different allocated weightings across asset classes. The objective of the repatriation was to provide Xplore Dundee with a guaranteed actuarially calculated future contribution rate, and also to provide efficiencies across the fund and value for money in terms of administration as there would be cost reductions in terms of custodial and actuarial fees, investment strategy and management. Further information can be found in the following reports:

<https://www.dundee.gov.uk/reports/reports/402-2016.pdf>

<https://www.dundee.gov.uk/reports/reports/200-2017.pdf>

Triennial Actuarial Valuation & Funding

In accordance with Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014, an actuarial valuation is required every three years for the purpose of ensuring 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 most recent valuation was undertaken as at 31st March 2017 and found surplus of assets over liabilities of £212.75m. This is translated into a funding level of 107% (including a 10% volatility reserve to allow for adverse short term financial experience in the period to the next valuation).

Based on the above results the actuary recommended that the Fund's employer's contribution rate remain at the 17%p.a. of pensionable pay for the 3 year period from 1st April 2017 to 31st March 2020, utilising the surplus to maintain a stable contribution rate via a negative secondary rate adjustment from the primary rate of 21.5%, and in accordance with the Funding Strategy Statement. Further information on this can be found at our website:

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

Procurement Exercises

Over the course of 2017, the following key exercises were undertaken:

- Appointment of Global Custodian – Following an evaluation of the Fund's changed service requirements, the Fund utilised the National LGPS Procurement Framework for Global Custody Services. The contract was awarded to the incumbent, Northern Trust, however, this exercise enabled the introduction of Investment Accounting Services, as well as delivering future efficiencies in cost of service provision of an estimated £120,000 per annum, dependent on usage, which can vary in line with the strategic and operational needs of the Fund. Further information can be found in the following report:
<https://www.dundee.gov.uk/reports/reports/194-2017.pdf>

- Appointment of 3rd Party Administration Service for Guaranteed Minimum Pension Reconciliation with HMRC Records

Guaranteed Minimum Pension (GMP) is the minimum pension which a United Kingdom occupational pension scheme has to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997. In 2008 it was discovered that a small minority of pensioners who worked in the public sector were getting a larger than expected increase in their pensions year on year. This is because increases on the GMP element of their pension were erroneously being paid twice – once by the pension scheme administrator and once by the Department for Work and Pensions (DWP). In Scotland, this was corrected via the introduction of the Local Government Pension Scheme Amendment (Increased Pension Entitlement) (Scotland) Regulations 2009, and as a

result most Scottish LGPS Funds (including Tayside) investigated and reconciled the GMPs held on their system at that time. This exercise however only considered limited criteria and caseload, and as a result of this, HMRC now require all pension funds to undertake a full reconciliation for all membership categories, and for appropriate settlement to be made following the outcome by 31st December 2018.

In June, Tayside Pension Fund appointed Equiniti (through the use of the National LGPS Procurement Framework for Pension Administration Services) to carry out the reconciliation to HMRC records for all affected individuals within the Fund and also to ensure that HMRC records incorrectly associated with Tayside Pension Fund are updated to remove this incorrect association, resulting in an accurate reflection of the Fund's contracted out liability. Further information can be found in the following report:

<https://www.dundee.gov.uk/reports/reports/197-2017.pdf>

Administration Service

I.T. Developments

- Scanning of incoming mail

From October 2017 the scanning of all incoming mail commenced utilising the imaging software of the Altair pension system.

Following the scanning process, indexing into individual member records along with the allocation of the task to be carried out is actioned by members of the pension's team.

Whilst all staff can see the benefits of this system, the volume of mail received has proved this to be a time consuming task. As such during 2018/19 the process/staffing will be reviewed to ensure that the most effective procedure is in place moving forward.

- Pensionsweb

During the later stages of 2017/18 meetings were held with the last of the scheme employers to commence the issue of information via the secure online portal.

As a result of this a guidance document and amended leaver/retirement notification document was created and this is currently with a group of numbers to ensure that this a workable document for both the employer and the pensions team.

Once issued this guidance will instruct all employers that the submission of new starters, leavers, changes of address etc. will only be accepted via the online portal and any paper based submission will not be accepted and will be duly returned.

Related Legislation published during 2017/18

SI2017-242	The Public Service Pensions Revaluation Order 2017.
SI2017-287	The Social Security Revaluation of Earnings Factors Order 2017.
SI2017-220	The Guaranteed Minimum Pensions Increase Order 2017.
SI2017-394	The Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2017.
SI2017-417	The Pensions Increase (Review) Order 2017.

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

Overseas Tax Charge

In the Spring Budget 2017 an overseas transfer charge was announced. This charge effected any transfer to a Qualifying Registered Overseas Pension Scheme (QROPS) requested on or after 9th March 2017 will be subject to a 25% charge unless from the point of transfer, both the individual and the pension savings are in the same country, both are within the European Economic Area EEA) or the QROPS is provided by the individual's employer. If this is not the case and/or the individual does not provide the necessary information, the transfer charge will apply. This has resulted in a fall of overseas transfers requests following the budget.

Scottish Rate of Income Tax

In February 2018 the Scottish Parliament set the following income tax rates and bands for 2018/19, to be applied from April 2018.

Bands	Band Name	Rate (%)
Over £11850* - £13850	Starter Rate	19
Over £13850 - £24000	Basic Rate	20
Over £24000 - £43430	Intermediate Rate	21
Over £43430 - £150000**	Higher Rate	41
Above £150000 **	Top Rate	46

* - Assumes member is in receipt of the Standard UK Personal Allowance

** - Personal Allowance reduces by £1 for every £2 earned over £100000

Scottish income tax is only payable by Scottish taxpayers. Scottish taxpayers are those who have their main place of residence in Scotland, and our payroll systems have been amended as appropriate.

Consultations

In November 2017 the Scottish Public Pensions Agency (SPPA) issued the consolidated draft Local Government Pension Scheme (Scotland) Regulations 2018.

The intention of the draft regulations is to consolidate all previous amendments and to take account the day to day experience of applying the 2014 Regulations since 1 April 2015 where areas for clarification have been sought or a change in approach has been requested.

The consultation requested comments on such areas as

- Assumed Pensionable Pay (used in the calculation of benefits for ill health pensions or the amount of death grant)
- Retirement Benefits – Regulation 29. Amendment to allow members who reach age 55 to take early payment of their pensions, with an actuarial reduction, without requiring their employer's consent.

Strategic Investment Changes

- Amendment to Bond Mandate – Goldman Sachs Asset Management (GSAM)

Strategy recommendations by the fund's investment consultant AON Hewitt in their 2016 Investment Strategy Review were made in relation to existing bond mandates in order to remove the constraints of the existing mandates to enable managers to invest in a wider product mix in terms of characteristics and quality which they believe will provide protection against interest rate rises.

In June 2017, following consultation with the investment manager and advisors to ascertain how the existing mandate could be adapted to achieve a less constrained investment approach which would enable greater flexibility to respond to market changes and how best to attempt to meet the desired returns on investment determined by actuaries to meet pension liabilities, the Pensions Sub-Committee approved the proposal for the existing GSAM bond mandate to change to a buy and maintain strategy.

Consistent with actuarial requirements, this strategy is better suited to a rising interest rate environment and should be expected to be less volatile in nature than the previous mandate, supporting the fund's broader investment objectives, including; no forced selling as a result of the benchmark selected and thus reduced transactional costs, and an ability for the bond portfolio manager to take a longer term view in periods of elevated economic and investment market uncertainty. Also, as expected portfolio turnover from this type of

strategy reduces from 125% p.a. to 10% p.a. the benefits in reduced costs essentially mean that more of the investment return that is earned will be retained by the fund.

- Amendment to Equity Mandate – Fidelity Investment Management

AON Hewitt recommended in their 2016 Investment Strategy Review that global, unconstrained equity mandates were preferable as they believed existing regional benchmarks to be limiting flexibility and risk management.

In light of this desired strategy, Fidelity proposed a global equity mandate solution which would see the move of the UK segregated portfolio and the regional pooled fund portfolios into one segregated portfolio. The asset allocation would see the simplification of the benchmark to MSCI AC which enables more effective tactical investment management with the required risk and return profile, and in terms of change of investment strategy, the change achieves an overall equity benchmark of 80% MSCI and 20% FTSE All Share, providing better expected risk-adjusted performance.

- Local and Alternative Opportunities Portfolio

Following a review of asset allocation and the approval of Sub-Committee for 10% allocation to an alternative opportunities portfolio in December 2015, the Fund has been keen to identify suitable investment opportunities which would provide appropriate returns in keeping with actuarial requirements and provide further diversification in terms of asset class.

Two investment opportunities were approved by the Sub-Committee during the year. However one of these was subject to changes made to the terms of the investment proposal structure (stipulated by other investors), and following advice, the fund withdrew from this investment proposition.

In May 2017, the Fund was approached by existing managers with an alternative investment proposal in commercial real estate credit. The investment case is built on current market conditions and the scarcity of credit available relative to market need, creating opportunities to capitalise on the US and European debt funding gap. The investment opportunity was assessed by the fund's advisors as meeting the investment risk and return requirements. This investment opportunity is in its infancy with the first drawdown in August 2017.

Collaborative investment opportunities are currently being explored, and the fund has been working with other Scottish LGPS with a view to entering a shared cost model which would provide access to broader intelligence on the infrastructure market and a specialist investment monitoring services. The fund are keen to embark on collaborative alternative investment opportunities with funds who have the resource and the experience in this area, however are mindful that costs need to be proportionate and without duplication.

Training, Development and Communication

- Pension Sub-Committee and Board

Following the local elections of 4th May 2017, the Fund retained much of their members of Pension Sub-Committee and Pension Board, therefore maintaining a breadth of knowledge and experience to assist officers of the Fund. 4 new members were however introduced (2 from each of the Pension Sub-Committee and Pension Board), and the focus this year has been to ensure that our new members have received adequate training in their first months to enable them to undertake their duties in relation to Tayside Pension Fund.

The new members initially underwent induction training which provided them with background and framework of the LGPS and in particular their own fund in relation to its membership and how it is managed. Over the following months these members attended 2 national sessions arranged by the LGPS Scotland Investment & Governance Group which covered a plethora of topics such as Pension Regulations and Administration; Triennial Valuations; Investment Strategy & Objective Setting; and Responsible Stewardship.

Having a stable foundation from which to develop further, 3 of the new members have also now completed the Essential Public Sector Modules within The Pensions Regulator Trustee Toolkit. Their training for the coming year will be to address the specific areas within the toolkit as well as attending various national and

local sessions with their other Sub-Committee and Board members, which will coincide with their refresher training.

- Employers

The Annual Employers Forum was held on 5th February and attracted over 40 attendees from 23 employers. The forum covered the following specialist sessions:

- Pension Administration – key topics affecting employers (e.g. GDPR; assumed pensionable pay; year-end processes; employer self-service.
- Actuarial Valuation – providing overview of the 2017 valuation results and assumptions from both the fund and employer perspectives.
- Investment & Governance – summarising activities since previous forum and providing an overview of key objectives and challenges of the year ahead (e.g. investment outlook and strategy; and Employer Covenant Review and the subsequent expectations of the Pensions Regulator.
- Additional Voluntary Contributions in LGPS – an overview of purpose of these vehicles.

- Employer / Members Sessions

The following sessions were held over the financial year:

Employer	Topic
All 3 Local Authorities	Overview of LGPS Scheme for Councillors with an emphasis on retirement benefits
Dundee City Council	Overview of LGPS Scheme for staff and surgery
Dundee & Angus College	Provide scheme information to new and existing HR Team members
Police Scotland	New employees induction session
All 3 Local Authorities	Overview of LGPS Scheme for New Councillors
Perth & Kinross Council & Tayside Contracts	Overview of LGPS Scheme for staff and surgery

Fund Update

Membership

The Local Government Pension Scheme is voluntary and is open to all employees of the Scheduled and Admitted Bodies. Appendix 1 provides detail as to the employers within Tayside Pension Fund. The change to membership of the Tayside Fund between 31 March 2017 and 31 March 2018 can be noted below:

	<u>31st March 2017</u>	<u>31st March 2018</u>
Contributing Members	18,230	18,815
Pensioners	15,136	15,524
Deferred Pensioners	8,558	8,533
Undecided or Frozen	4,120	5,130
	<u>46,044</u>	<u>48,002</u>

Changes in Membership

In December 2017, the Pension Sub-Committee approved the admission of idverde Ltd into the Fund. This membership is for the period of the contract they have with Dundee City Council (up to 3 years), and idverde agreed to provide an appropriate guarantee or pension bond to cover the recommended amount as advised by the funds actuary. Furthermore, all costs of the actuarial calculations associated were covered by idverde Ltd.

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 31st 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 Sub-Committee on a quarterly basis.

The strategic asset allocation of both funds is as follows (following an Investment Review in February 2016):

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

In the year to 31 March 2018, the Fund return of 5.61% outperformed the benchmark return of 3.9%. The Fund also outperformed in all other time periods (3 years, 5 years, and from inception). The Fund value increased to £3.686bn 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 2016/17 Annual Report analysis undertaken by Audit Scotland, they reported the following in regards to Tayside Pension Fund performance against peers within Scottish LGPS:

- 3rd highest return on investments
- 2nd lowest administration costs as a proportion of new assets
- Lowest investment management expenses as a proportion of net assets
- Lowest management costs as a proportion of net assets

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

2017/18 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 £96.6m increased by £3.5m during the year to 31 March 2017 and the benefits payable were £103.7m which increased by £5.8m. Contributions have increased as there were more active members participating in the scheme during 2017/18 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 £3,445.1m from £2,839.6m in 2017.

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

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

Executive Director of Corporate
Services
Dundee City Council

3 September 2018

David Martin

Chief Executive
Dundee City Council

3 September 2018

Bailie Willie Sawers

Chair of Pension Sub-
Committee
Tayside Pension Funds

3 September 2018

FUND STATISTICS

MEMBERSHIP, MEMBER TRANSACTIONS AND RETURN ON INVESTMENTS

	2013/14	2014/15	2015/16	2016/17	2017/18
Employers	44	44	45	45	
Employee Members	17,623	17,681	18,391	18,230	18,815
Deferred Members	10,419	10,990	11,843	12,678	13,663
Pensioners	13,537	14,070	14,596	15,136	15,524
Total Members	41,579	42,741	44,830	46,044	48,002

MEMBER TRANSACTIONS

	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Employer Contributions	68,519	69,616	67,980	69,963	
Employee Contributions	22,453	22,712	23,118	23,589	
Transfers In	3,762	3,324	2,547	2,310	
Lump Sums Paid	(20,554)	(21,619)	(20,773)	(22,689)	
Pensions Paid	(66,241)	(70,581)	(74,367)	(77,341)	
Transfers Out	(4,741)	(5,216)	(2,596)	(8,355)	
Administration	(1,250)	(1,268)	(1,353)	(1,425)	
Net	1,948	(3,032)	(5,444)	(13,948)	000

RETURNS ON INVESTMENTS

	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Opening Value	2,316,445	2,519,354	2,905,269	2,900,303	
Investment Income	59,866	57,384	59,789	62,838	
Costs	(8,543)	(12,120)	(7,796)	(8,733)	
Member Transactions	1,948	(3,032)	(5,444)	(13,948)	
Change in Value	149,638	343,783	(51,515)	574,909	
Closing Value	2,519,354	2,905,369	2,900,303	3,515,369	0

Tayside Pension Fund
Five Year Membership Profile



Tayside Pension Fund
5 Year Transactional Profile



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 Committee to 31st March 2017 and the current membership following the Local Government elections held on 4th May 2017:

Pension Sub-Committee to 3 rd May 2017	Pension Sub-Committee as at 31 st March 2018
Bailie Willie Sawers (Chairperson)	Bailie Willie Sawers (Chairperson)
Bailie Kevin Keenan	Bailie Kevin Keenan
Bailie Iain Borthwick	Councillor Philip Scott
Councillor Brian Gordon	Councillor Brian Gordon
Councillor Gregor Murray	Councillor Gregor Murray
Councillor Jimmy Black	Councillor Anne Rendall

All committee members are members of Tayside Pension Funds.

Local Pension Board

As a result of 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 1st April 2015 and is separate from the 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 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 that you, as a scheme member, 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 Committee to 31st March 2017 and the current membership following the Local Government elections held on 4th May 2017:

Pension Board to 3 rd May 2017			Pension Board as at 31 st March 2018		
Name	Representing	Organisation	Name	Representing	Organisation
Cllr Rob Murray (Chairperson)	Employer	Angus Council	Mr Arthur Nicoll (Chairperson)	Member	UNISON
Cllr Mac Roberts	Employer	Perth & Kinross Council	Mr Kenny Dick	Employer	Social Care & Social Work Improvement Scotland
Mr Kenny Dick	Employer	Social Care & Social Work Improvement Scotland	Mr Gordon Murray*	Employer	Carnoustie Golf Links

Mr Gordon Murray*	Employer	Carnoustie Golf Links	Cllr Bob Brawn	Employer	Perth & Kinross Council
Ms Helen Meldrum*	Member	GMB Scotland	Cllr Angus MacMillan-Douglas	Employer	Angus Council
Mr Arthur Nicoll	Member	UNISON	Ms Claire Shepherd	Member	UNITE
Ms Claire Shepherd	Member	UNITE	Mr George Ramsay	Member	UNITE
Mr George Ramsay	Member	UCATT	Mr Stephen Massey	Member	GMB Scotland
Cllr Brian Boyd	Employer (substitute)	Angus Council	Mr Gordon Weir	Employer (substitute)	Social Care & Social Work Improvement Scotland
Mr Gordon Weir	Employer (substitute)	Social Care & Social Work Improvement Scotland	Ms Margaret McGuire	Member (substitute)	UNISON
Ms Margaret McGuire	Member (substitute)	UNISON	Mr Gordon Weir	Employer (substitute)	Social Care & Social Work Improvement Scotland
Mr Stephen Massey	Member (substitute)	GMB Scotland	Ms Helen Meldrum*	Member (substitute)	GMB Scotland

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

The Sub-Committee and 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 Sub-Committee and Board hold joint meetings on a quarterly basis, and each member of the Sub-Committee and Pensions 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.

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, senior 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

* appointed from 19 June 2017 (following retirement of Marjory Stewart)

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.

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

Aon Hewitt
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.
- 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.

In addition, the powers of the Pensions Regulator were also extended to cover standards of governance and administration in the Local Government Pension Scheme.

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 control environment. Dundee City Council's 2017/18 Annual Internal Audit Report, presented to the Council's Scrutiny Committee, concluded 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 2018.

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, an allocation of time is provided in the internal audit plan for the review of internal controls surrounding the Tayside Pension Fund. During the 2017/18 financial year, one internal audit review was delivered specifically for the Tayside Pension Fund relating to the implementation of the self-service (Pensionsweb) assessing the levels of utilisation amongst scheme employers. A report on the pension fund, will be finalised within the first half of the 2018/19 financial year and will be submitted to the Pension Sub-Committee in due course.

In addition, assurances surrounding the implementation status of previously agreed recommendations, including those relating to the Tayside Pension Fund, are sought from management and reported as part of the annual progress review exercise to the Council's Scrutiny Committee every September.

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.

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

Scope of Responsibility

Dundee City Council have 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).
- 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 94% (2016/2017: 85%) 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 54-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 87% (2016/2017: 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.

The Executive Director of Corporate Services complied fully with the five principles of the role of the Chief Financial Officer, as set out in CIPFA guidance.

Continuous Improvement Agenda

The following are service improvements specific to Tayside Pension Fund achieved during 2017/18:

- Review of a number of policies as follows:
 - Treasury Management Strategy & Policy
 - Statement of Investment Principles
 - Environmental, Social and Corporate Governance Policy
 - Administering Authority Discretions (Abatement of Pension Benefits)
 - Administering Authority Discretions (Amendment to Inbound Transfer Policy)
 - Funding Strategy Statement
- Significant changes to investments following review of strategic asset allocation and benchmarks.
- Introduction of auto-scanning of incoming documents.
- Procurement exercises for fund custodian and for 3rd party administration specified exercises which will achieve efficiencies, but also enable the fund to meet organisational objectives more effectively.
- Repatriation of the Transport Fund to the main fund in order to deliver efficiencies.
- Training program for new Pension Board and Sub-Committee members, with ongoing CPD for experienced members.

The following are service improvements specific to Tayside Pension Fund planned for 2018/19:

- Implementation of member self-service to improve effectiveness and efficiencies.
- Procurement exercises for investment advisors; fund actuaries; and for specialist services to undertake review of employer covenant.
- Full implementation of task management within pension administration.

- Full utilisation of Pensionsweb by employers to improve performance and service.
- Review of investment allocation (following advisor appointment) in light of 2017 triennial valuation results and implementation of further recommendations.

Information on the Fund is available from the following links:

Minutes of Joint Pension Sub-Committee and Board meetings –

http://www.dundee.gov.uk/minutes/meetings?in_cc=35&in_dat=1

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

- 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 Register
- The Governance Policy Statement 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.

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:

<http://www.taysidepensionfund.org/about-us/forms-and-publications.aspx>

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 9th 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:

<http://www.dundee.gov.uk/reports/reports/399-2016.pdf>

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 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:

GOVERNANCE COMPLIANCE STATEMENT

Compliance Principle	Arrangements in Place/Action Taken	Compliance with Principle? Yes/No/Partial	Comments
Structure			
<p>The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</p>	<p>Principal responsibility for the administration of benefits and strategic management of fund assets rests with the Pension Sub-Committee of the Policy & Resources Committee of Dundee City Council as the scheme manager for Tayside Pension fund. Report 447-2014 Review of Governance Arrangements – Tayside Pension Fund states:</p> <p><i>Tayside Pension Fund is administered by Dundee City Council as the administering authority with responsibility for the management of pension investment delegated to the Tayside Pension Sub-Committee with day to day operational matters further delegated in the main to the Director of Corporate Services.</i></p> <p>The responsibilities to be discharged by the Committee include:</p> <ul style="list-style-type: none"> • Preparing, maintaining and publishing the Governance Compliance Statement. • Ensuring that the Scheme Manager complies with the Local Government Pension Scheme (Scotland) Regulations and all other legislation governing the administration of the Fund. • Preparing, maintaining and publishing the Funding Strategy Statement. • Preparing, maintaining and publishing the Pensions Administration Strategy. • Ensuring the Fund is valued as required and receiving and considering reports on each valuation. • Ensuring appropriate arrangements for the administration of benefits are in place. • Setting the admissions policy. • Preparing, maintaining and publishing the Communication Policy Statement. • Ensuring appropriate AVC arrangements are in place. • Preparing, maintaining and publishing the Statement of Investment Principles. - Setting the investment objectives and policy and the strategic asset allocation in the light of the Fund's liabilities. • Appointing, dismissing and assessing the performance of investment managers and custodians. • Preparing, maintaining and publishing the Corporate Governance Policy • Ensuring appropriate arrangements for the Local Pension Board are in place and maintaining and publishing information about the Pensions Board. • Approving the Business Plan. • Ensuring that an effective system of internal financial control is maintained. • Receiving and agreeing the Annual Report and Accounts. • Ensuring that contributions received are in accordance with the Schedule of Rates and Adjustments. 	<p>Yes</p>	

Compliance Principle	Arrangements in Place/Action Taken	Compliance with Principle? Yes/No/Partial	Comments
	<p>The Committee reviews the role and responsibilities of service providers to the Fund. The actions of the Committee are reviewed and scrutinised by the Local Pension Board.</p>		
	<p>Dundee City Council, as Scheme Manager, has established a Local Pension Board. Report 447-2014 Review of Governance Arrangements – Tayside Pension Fund states:</p> <p><i>Dundee City Council as Scheme Manager is required to establish a Pension Board separate from the Tayside Pension Fund Investment Sub-Committee that acts as the Scheme Manager.</i></p> <p><i>The Pension Board is the body responsible for assisting the Scheme Manager in relation to securing compliance with the 2014 Regulations and other legislation relating to the governance and administration of the Scheme and the requirements of the Pensions Regulator. The Pension Board may consider any matter concerning pensions it deems relevant to the activities of a Pensions Committee including the following (in relation to their remit and role defined in the 2014 regulations):</i></p> <ul style="list-style-type: none"> • <i>Reports produced for the Pensions Sub-Committee</i> • <i>Requisition reports from the scheme managers on any aspect of the fund</i> • <i>Monitor investments and the investment principles/strategy/guidance</i> • <i>The fund annual report</i> • <i>External voting and engagement provisions</i> • <i>Fund administrative performance</i> • <i>Actuarial reports and valuations</i> • <i>Funding policy</i> • <i>Any other matters that the Pension Board deem appropriate</i> 	Yes	
<p>That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.</p>	<p>Membership of the Pension Sub-Committee comprises of six councillors from Dundee City Council with voting rights.</p> <p>Membership of the Pension Board will consist of equal numbers of trade union representatives and employer representatives, drawn from councils and scheduled or admitted bodies in membership of the fund. Pension Board representatives must not also participate in or act as members of the Pensions Sub-Committee. Local Authority employer representatives will normally be Elected Members serving as part of the Council.</p> <p>There are 4 employer representatives appointed by the respective employer organisations as follows:</p>	Yes	

Compliance Principle	Arrangements in Place/Action Taken	Compliance with Principle? Yes/No/Partial	Comments
	<p>Councils 2 (1 x Angus Council, 1 x Perth & Kinross Council) Scheduled & Admitted bodies 2</p> <p>There are 4 trade union representatives appointed from the following trade unions: GMB 1 Unite /UCATT 2 UNISON 1</p> <p>Advisors to the Pension Board may attend meetings of the Pension Board in a non-voting capacity.</p>		
<p>That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p>	<p>Meetings of the Pension Sub-Committee and Pension Board are joint and concurrent with administered by Dundee City Council as the administering authority. Report 447-2014 Review of Governance Arrangements – Tayside Pension Fund states:</p> <p><i>While the statutory roles and function of the Pensions Sub-Committee and Pension Board are separate, the normal practice will be that both bodies will meet at the same time to consider the same agenda, with the Chair of the Pensions Sub-Committee chairing the concurrent meeting. The aim is to engender a positive and proactive partnership culture where in practice the two bodies act as one.</i></p>	Yes	
<p>That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</p>	<p>All members of the Pension Sub-Committee are members of the Dundee City Council Policy & Resources Committee.</p>	Yes	
	<p>The membership of the Committee and Local Pension Board is independent of one another, as provided for in the Regulations, as it is believed that separate membership is preferable for the discharge of their statutory duties.</p>	Yes	
	<p style="text-align: center;">The Scheme of Delegations to the Fund's Officers</p> <p>The Council's Scheme of Delegations authorises the Chief Executive, Corporate Directors and Officers authorised by them to exercise the powers and carry out the duties arising from the functions for which they are responsible.</p> <p>The authorised Officers are the Executive Director of Corporate Services, The Head of Corporate Finance and the Senior Financial Services Manager.</p>		

Compliance Principle	Arrangements in Place/Action Taken	Compliance with Principle? Yes/No/Partial	Comments
	<p style="text-align: center;">Procurement Procedures</p> <p>Procurement of works, goods or services on behalf of the Fund is required to comply with guidelines provided by Dundee City Council as scheme manager and in line with national frameworks.</p> <p style="text-align: center;">The Fund's Officers</p> <p>The main duties of the Officers are set out below. The Officers will:</p> <ul style="list-style-type: none"> • Advise the Committee and Local Pension Board on all matters which they need to be aware of in order to discharge their responsibilities in relation to the administration and investment of the Fund. • Prepare the Budget and Service Plan. • Maintain the system of internal financial control. • Prepare the Annual Report and Accounts. • Manage the triennial and interim actuarial valuations. • Manage the preparation of the Funding Strategy Statement. • Manage the preparation of the Governance Compliance Statement. • Manage the preparation of the Communication Policy Statement. • Manage the preparation of the Pensions Administration Strategy. • Ensure that the Pensions Service adheres to best practice. <p>In relation to the investment of the Fund, the Officers will:</p> <ul style="list-style-type: none"> • Review the content of the Statement of Investment Principles. • Review the content of the Environmental, Social and Corporate Governance Policy. • Monitor developments that may affect the approach to the investment of the Fund. • Monitor the investment management structure and arrangements in order to verify that the investment policy of the Committee is being implemented. • Monitor the investment managers in order to maintain an awareness of their investment views and strategies and to verify that the strategies being implemented are in accordance with investment mandates. • Maintain records that monitor the investment performance of investment managers and the Fund. • Maintain a record of the Fund's assets. • Monitor the security and efficiency of the custodians in order to verify that the assets are secure, the custodians' records of the Fund's assets agree with in house records and managers' records and the custodians' actions are in accordance with the agreements. • Manage cash flow, allocate money between investment managers in order to ensure that the Fund 		

Compliance Principle	Arrangements in Place/Action Taken	Compliance with Principle? Yes/No/Partial	Comments
	<p>does not become over or under invested and invest the residual cash balances.</p> <p>In relation to the administration of benefits, the Officers will:</p> <ul style="list-style-type: none"> • Monitor developments that may affect the administration of benefits. • Promote membership of the Fund. • Manage the admissions policy. • Collect and reconcile the employer and employee contributions. • Pay pension benefits. • Maintain records in relation to the entire membership. • Devise and implement training, consultation and communication strategies for the employers. • Devise and implement consultation and communication strategies for the members. • Manage the AVC arrangements. 		
Representation			
<p>That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <p>i) employing authorities (including non-scheme employers, e.g. admitted bodies);</p> <p>ii) scheme members (including deferred and pensioner scheme members);</p> <p>iii) where appropriate, independent professional observers; and</p> <p>iv) expert advisors (on an ad-hoc basis).</p>	<p>The Pension Sub-Committee includes 6 councillors from Dundee Council. The Pension Board has 2 employer representatives of employing authorities and 2 of admitted employers.</p> <p>The Pensions Board has 4 Trade Union representatives who represent all scheme members (including deferred and pensioner scheme members) as required by regulation.</p> <p>The External Investment Advisor, AON Hewitt, attend annual Committee meetings. The Actuary, Barnett Waddingham, attends Committee meetings as required.</p>	<p>Yes</p> <p>Yes</p> <p>Partial</p>	<p>There has been no request to appoint further</p>

Compliance Principle	Arrangements in Place/Action Taken	Compliance with Principle? Yes/No/Partial	Comments
		Partial	independent observers or advisors
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights	<p>All members of the Committee are treated equally in terms of access to papers, meetings and training. They are given full opportunity to participate and contribute to the decision making process as appropriate and required.</p> <p>All members of the Local Pension Board are treated equally in terms of access to papers and meetings, training and are given full opportunity to participate in their decision making process.</p>	Yes	
Selection and Role of Lay Members			
That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	<p>Members are made aware of the full details of status, role and function prior to selection and appointment. This area is also covered in their training program.</p> <p>Local authority members are subject to the code of conduct of their respective council. The trade union and employer representatives are required to agree to accept the same code of conduct applicable to their role and duties to Tayside Pension Fund.</p>	Yes	
That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda related to specific matters on the agenda	Declaration of interests is a standard procedure at the start of all Sub-Committee and Local Pension Board meetings. This is stated at the start of each agenda, and any declarations are noted in the minutes.	Yes	
Voting			
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or	<p>All Sub-Committee members have voting rights. This is detailed in the Tayside Pension Funds Statement of Investment Principles.</p> <p>Each member of the Pension Board will have an individual voting right but it is expected the Pension Board will as far as possible reach a consensus. The Chair of the Pension Board will have the final casting vote which will be reported to the Scheme Manager.</p>	Yes	

Compliance Principle	Arrangements in Place/Action Taken	Compliance with Principle? Yes/No/Partial	Comments
group represented on main LGPS committees.			
Training / Facility Time / Expenses			
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	<p>All new members of the Pension Sub-Committee are offered training by officers. Further training is offered periodically, generally from investment consultants, investment managers of the fund and actuaries. In addition, if other training opportunities are identified, including attendance at conferences and seminars, these are offered to members, as appropriate.</p> <p>Costs and expenses incurred are met by the Pension Fund.</p> <p>The Scheme Manager recognises that effective financial administration and decision-making can only be achieved where those involved have the requisite knowledge and skills.</p> <p>The Scheme Manager is using the following to promote :</p> <ul style="list-style-type: none"> • CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills • CIPFA Pensions Panel Framework for Elected Members and Non Executives in the Public Sector to use as the basis of the Training Policies and Programmes. • CIPFA Pensions Panel Technical Knowledge and Skills Framework for Local Pension Boards <p>Training programmes are undertaken that reflect specific needs, and which include the appropriate requirements of the Pensions Regulator's Codes of Practice.</p> <p>Costs and expenses incurred are met by the Pension Fund.</p>	Yes	Continuous training programme in line with needs. New Committee & board members will undergo training accordingly
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Training requirement is applicable to all members of the Pension Sub-Committee and Board.	Yes	
That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training	Training programmes are undertaken to reflect specific needs, and which include the appropriate requirements of the Pensions Regulator's Codes of Practice. The training programme is reviewed regularly and members of the Sub-Committee and Pension Board assess their individual requirements.	Yes	

Compliance Principle	Arrangements in Place/Action Taken	Compliance with Principle? Yes/No/Partial	Comments
undertaken.			
Meetings (Frequency/Quorum)			
That an administering authority's main committee or committees meet at least quarterly.	<p>The Sub-Committee and Pension Board have a regular quarterly joint meeting at which it considers investment and administration matters. Additional meetings are called should any aspect of the Fund require.</p> <p>Both the Sub-Committee and Pension board require 3 members apiece to be quorate. If the Pension Board fail to achieve required membership, the Sub-Committee meeting will continue.</p>	Yes	
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	The Sub-Committee and Board meet jointly on a quarterly basis.	Yes	
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Employer Forum for scheduled and admitted bodies is held annually, including presentations on topical subjects.	Yes	
Access			
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at	Subject to the management of any conflict of interest, all members are treated equally in terms of access to committee papers, documents and advice.	Yes	

Compliance Principle	Arrangements in Place/Action Taken	Compliance with Principle? Yes/No/Partial	Comments
meetings of the main committee.			
Scope			
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The agendas include reports on training, admission agreements, policies on discretions, pensions administration, regulatory changes, budget monitoring, local performance indicators, the service plan, internal and external audit, valuation issues, the funding level, the asset value and asset allocation, proposals to develop the investment management structure, investment performance at Fund and manager level.	Yes	
Publicity			
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Governance Policy Statement was approved in May 2009, following consultation with all employers. The governance arrangements may be viewed on the Fund's website at: http://www.taysidepensionfund.org/about-us/forms-and-publications.aspx	Yes	Governance Policy Statement and Governance Compliance Statement are available on the Council website.

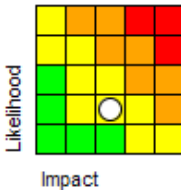
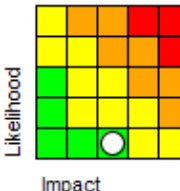
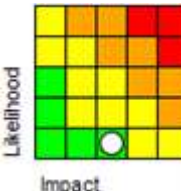
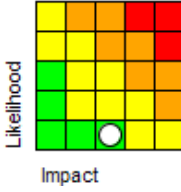
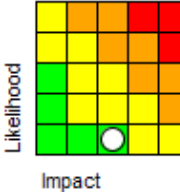
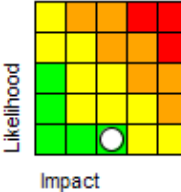
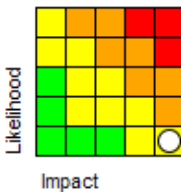
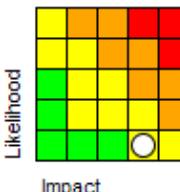
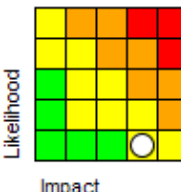
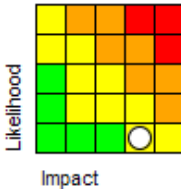
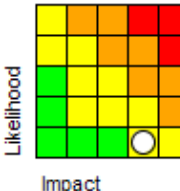
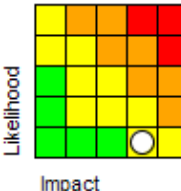
RISK REGISTER

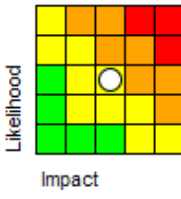
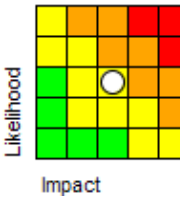
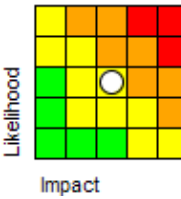
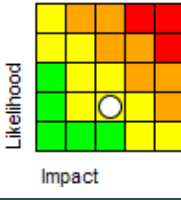
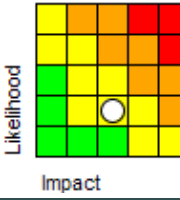
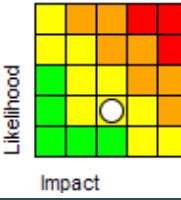
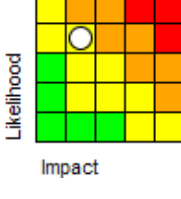
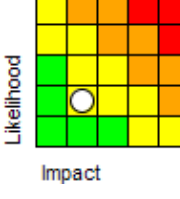
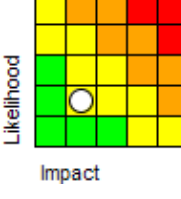
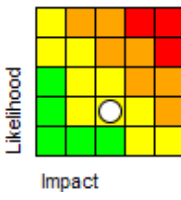
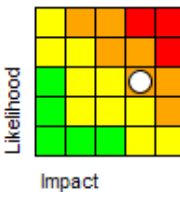
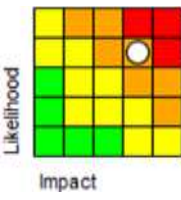
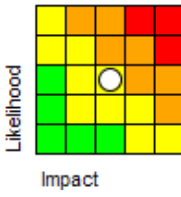
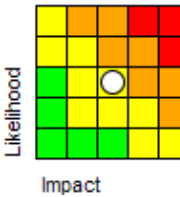
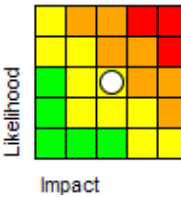
The Local Government Pension Scheme Management and Investment of Funds (Scotland) Regulations 2010 requires funds to state the extent to which they comply with guidance given by the Scottish Ministers. The Scottish Ministers guidance refers to the third principle on investment decision making contained 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) which requires the annual report to contain an overall risk in relation to each of the funds activities and factors expected to have an impact on the financial and reputational health of each fund.

Tayside Pension Fund maintains a detailed Risk Register. This is monitored on an ongoing basis by officers and reviewed and approved by the Pension Sub-Committee on a quarterly basis. The following provides summary of the risks as at March 2018 and changes since the end of the previous financial year.

Risk Title	Impact of Risk	Cause of Risk	Risk Control Measures	Inherent Risk	Risk at 31/3/17	Cause of Change Profile	Risk at 31/3/18
1 Failure to process pension payments and lump sums on time	Retiring staff will be paid late which may have implications for their own finances. Reputational risk for the Fund Financial cost to the fund if interest has to be paid to members.	Non-availability of Altair pension system ResourceLink payroll system key staff or error omission, etc.	Robust maintenance and update of Altair and ResourceLink Sufficient staff cover arrangements Staff training and checking of work			Risk has been heightened due to recent system downtime outages in respect of the Council's Payroll system and also issues with completeness of information received from the system.	
2 Failure to collect and account for contributions from employers and employees on time	Adverse audit opinion for failure to collect contributions by 19th of month Potential delays to employers' FRS17 year-end accounting reports	No availability of Authority Financials system, key staff, error, omission, failure of employers' financial systems, failure to communicate with employers effectively. Failure of employer to provide required information.	Robust maintenance and update of ResourceLink and Authority Financials systems, sufficient staff cover arrangements, staff training and checking of work. Ongoing communication with employers to ensure they understand their responsibilities to pay by the 19th of the month.				

Risk Title	Impact of Risk	Cause of Risk	Risk Control Measures	Inherent Risk	Risk at 31/3/17	Cause of Change Profile	Risk at 31/3/18
3 Insufficient funds to meet liabilities as they fall due	Immediate cash injections would be required from employers.	Contributions from employees/employers too low Failure of investment strategy to deliver adequate returns Significant increases in longevity, etc.	Funding Strategy Statement Investment Strategy Triennial Valuations Ongoing advice from investment consultants, etc.				
4 Inability to keep service going due to loss of main office, computer system or staff	Temporary loss of ability to provide service.	Fire, bomb, flood, etc.	Dundee City Council Business Continuity plan in place.				
5 Loss of funds through fraud or misappropriation	Financial loss to the fund	Fraud or misappropriation of funds by an employer, agent or contractor	Internal and external audit regularly test that appropriate controls are in place and working effectively. Regulatory control reports from investment managers, custodian, etc are also reviewed by audit. Due diligence is carried out when a new manager is appointed. Reliance is also placed on Financial Conduct Authority registration.				

Risk Title	Impact of Risk	Cause of Risk	Risk Control Measures	Inherent Risk	Risk at 31/3/17	Cause of Change Profile	Risk at 31/3/18
6 Unable to participate in scheme	Fund matures more quickly	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, changing retirement patterns, etc	Full Actuarial Valuation undertaken every 3 years. Funding Strategy Statement identifies how employer's liabilities are best met going forward.				
7 Significant rises in employer contributions due to poor/negative investment returns	Poor/negative investment returns leading to increased employer contribution rates.	Poor economic conditions, incorrect investment strategy Poor selection of investment managers	Performance monitored on an ongoing quarterly basis Diversified range of investment managers over different asset classes				
8 Failure of global custodian	Financial loss to the fund. Loss of information.	Financial collapse of global custodian or failure to safeguard assets or records.	Legal agreement with custodian. Credit rating monitored on an ongoing basis. Regulated by Financial Services Authority. Assets not on custodian balance sheet.				
9 Failure of Investment Manager	Financial loss to the fund	Market sector falls substantially	Performance monitored on an ongoing quarterly basis. Diversified range of asset classes. Advice provided by Investment Consultant.				

Risk Title	Impact of Risk	Cause of Risk	Risk Control Measures	Inherent Risk	Risk at 31/3/17	Cause of Change Profile	Risk at 31/3/18
10 Equity Risk	Financial loss to the fund	Market sector falls substantially	Performance monitored on an ongoing quarterly basis. Diversified range of asset classes Advice provided by Investment Consultant.				
11 Active Manager Risk	Financial loss to the fund.	Investment manager underperforms.	Performance monitored on an ongoing quarterly basis Targets and tolerance levels set.				
12 Failure to comply with LGPS and other regulations	Wrong pension payments made or estimates given. New scheme and regulations not fully known therefore staff will be unfamiliar	Lack of technical expertise/staff resources to research regulations IT systems not updated to reflect current legislation, etc	Verification process in place within Pensions section, ongoing staff training undertaken.				
13 Failure to hold personal data securely (incorporating Cyber Crime)	Data lost or compromised Reputational risk. Financial Loss	Insufficient security of data (including cybercrime prevention measures) Inadequate data retention policy, backup and recovery procedures.	Data Protection Act adhered to Secure communication channels in place and system access is controlled			Risk has been heightened due to risk of incoming data protection legislation (GDPR) in May 2018 which places additional legal requirements on funds.	
14 Failure to keep pension records up-to-date and accurate	Incorrect records leading to incorrect estimates being issued and potentially incorrect pensions being paid	Poor or non-existent notification of by employers of new starts, amendments, leavers, etc.	Verification process in place within Pensions section Ongoing communication with employers.				

Risk Title	Impact of Risk	Cause of Risk	Risk Control Measures	Inherent Risk	Risk at 31/3/17	Cause of Change Profile	Risk at 31/3/18
15 Lack of expertise on Pension Committee, Pension Board or amongst officers	Detrimental decisions made in relation to investments.	Lack of training and continuous professional development.	Provision of training External investment advice Consultation with peer groups.			This risk has increased following the recent local elections and appointment of new Sub-Committee and Board members who will require training. Sufficient knowledge and expertise remains on both Sub-Committee and Board as well as that of Officers to mitigate significant increase in risk.	
16 Over reliance on key officers	If an officer leaves or falls ill knowledge gap may be difficult to fill.	Specialist nature of work means there are relatively few experts in investments and the LGPS regulations.	Key officers transfer specialist knowledge to colleagues In the short-term advice can be sought.				
17 Failure to communicate properly with stakeholders	Scheme members not aware of their rights resulting in bad decisions Employers not aware of regulations, procedures, etc.	Lack of clear communication of policy and actions particularly with employers and scheme members	Pensions website, quarterly update for employers, newsletter for pension scheme members, annual employer forum.				
18 Employer Covenant Risk	Negative impact on overall funding level with remaining employers required to accommodate the shortfall.	Employers being unable to provide for actuarially calculated cessation liability in event of being required to exit the fund.	Government or local authority guarantees, bonds or securities over assets			Following exercises undertaken by the Government Actuaries Department in this area, this has been identified as a risk to funding levels of LGPS for employers who are	

<u>Risk Title</u>	<u>Impact of Risk</u>	<u>Cause of Risk</u>	<u>Risk Control Measures</u>	<u>Inherent Risk</u>	<u>Risk at 31/3/17</u>	<u>Cause of Change Profile</u>	<u>Risk at 31/3/18</u>
						without guarantee if circumstances occur whereby employers have to make an unplanned exit from the fund.	

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.

Baillie Willie Sawers
Chair of Pension sub-committee
Tayside Pension Funds
3 September 2018

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 2018).

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 2018, and their income and expenditure for the year ending 31 March 2018.

**Gregory Colgan BAcc (Hons), ACMA,
CGMA**
Executive Director of Corporate Services
Dundee City Council
4 June 2018

INDEPENDENT AUDITOR'S REPORT

The statement of Accounts is subject to audit in accordance with the requirements of Part VII of the Local Government (Scotland) Act 1973.

Fiona Mitchell-Knight
Assistant Director, Audit Services
Audit Scotland
4th Floor South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

TAYSIDE PENSION FUND ACCOUNTS

2016/2017 £000	FUND ACCOUNT	Note	2017/2018	
			£000	£000
	CONTRIBUTIONS AND BENEFITS			
	<u>Contributions receivable :-</u>			
69,594	From employers	5	72,684	
<u>23,518</u>	From members	5	<u>23,931</u>	
93,112				96,615
2,310	Transfers in	7		2,414
	<u>Benefits payable :-</u>			
(75,312)	Pensions	6	(80,427)	
<u>(22,564)</u>	Lump Sums	6	<u>(23,244)</u>	
(97,876)				(103,671)
	<u>Payments to and on account of Leavers :-</u>			
(214)	Refund of Contributions to Members		(211)	
(94)	Refund of Contributions to State Scheme		(17)	
<u>(8,047)</u>	Transfers Out	7	<u>(3,588)</u>	
(8,355)				(3,816)
<u>(1,378)</u>	Administration Expenses	4,17,1		<u>(1,500)</u>
(12,187)	Net Withdrawals from dealings with Members			(9,958)
	RETURNS ON INVESTMENTS			
43,225	Investment Income	8	83,390	
563,997	Change in Market Value of Investments	9	110,750	
<u>(8,516)</u>	Investment Management Expenses	18	<u>(9,248)</u>	
598,706	Net Returns on Investments			184,892
19,002	Net Contribution and Withdrawals			(208)
-	Repatriation of Transport Fund assets			<u>70,774</u>
605,521	Net increase in Fund during the year			245,500
<u>2,839,602</u>	OPENING NET ASSETS OF THE SCHEME			<u>3,445,123</u>
<u>3,445,123</u>	CLOSING NET ASSETS OF THE SCHEME			<u>3,690,623</u>

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 ACCOUNTS

2017	NET ASSETS STATEMENT (AS AT 31 MARCH)		2018
£000	<u>Listed Investments</u>	Note	£000 £000
770,788	UK Equities		638,409
21,095	UK Pooled Funds		-
65,024	UK Fixed Interest - Public Sector		46,124
93,909	UK Fixed Interest - Other		148,084
83,863	UK Index Linked - Public Sector		-
817,367	Overseas Equities		1,485,532
323,590	Overseas Pooled Funds		354,622
408,478	Overseas Open Ended Investment Companies		-
131,290	Overseas Fixed Interest – Other		337,176
910	Derivatives (Futures)		4,082
	<u>Unlisted Investments</u>		
249,666	UK Open Ended Investment Companies		109,029
4,097	M&G Fund		1,088
80,750	Overseas Open Ended Investment Companies		47,523
346,275	Property Unit Trusts		434,085
-	- Alternatives		457
30,965	Cash Balances held by Fund Managers		64,335
<u>22,458</u>	Financial Debtors	15	<u>33,164</u>
3,450,525			3,703,710
	INVESTMENT LIABILITIES		
(309)	Derivatives (Futures)		(910)
<u>(16,045)</u>	Other Financial Liabilities	15	<u>(22,123)</u>
<u>(16,354)</u>	Total Financial Liabilities		<u>(23,033)</u>
3,434,171	Net Financial Assets	9,19	3,680,677
	CURRENT ASSETS		
7,705	Contributions Due from Employers		8,712
2,133	Sundry Debtors	14	2,472
<u>4,396</u>	Cash and Bank		<u>4,782</u>
<u>14,234</u>			<u>15,966</u>
	LESS CURRENT LIABILITIES		
(3,282)	Sundry Creditors	14	<u>(6,020)</u>
<u>10,952</u>	NET CURRENT ASSETS		<u>9,946</u>
<u>3,445,123</u>	NET ASSETS		<u>3,690,623</u>

Gregory Colgan BAcc (Hons), ACMA, CGMA
Executive Director of Corporate Services
Dundee City Council
4 June 2018

The Net Asset Statement represents the value and liabilities as at 31 March 2018 (excluding liability to pay pensions)

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 (SSI's).

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 "scheduled bodies" and "admitted bodies". Teachers are not included in the Scheme as they have a separate, nationally established, statutory arrangement.

2 - Basis of Preparation of the Financial Statements

Local authorities responsible for administering a pension fund that forms part of the local government pension scheme ("LGPS") are required by an amendment to The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 to publish a pension fund annual report, which is required to include financial statements. Local authorities have a duty under section 12 of the Local Government in Scotland Act 2003 to observe proper accounting practices. The Scottish Government issued accounting Guidance for the LGPS financial statements in Finance Circular 1/2011, which clarified that pension fund financial statements within the annual report should be prepared in accordance with proper accounting practices set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ("the Code").

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 employers contributions due as at 31 March 2018 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 two Pension Funds. The above sections receive an allocation of the overheads of the Council, this is based on the amount of central services consumed. In turn, these sections allocate this charge to the two Pension Funds. Costs which can be directly charged to each fund during the financial year will be, costs which are shared by both Funds are allocated in proportion to the market value or membership of the Funds as at 30 June 2017.

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 12).

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 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 13).

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 -

	2017 £000	2018 £000
<u>Transactions</u>		
Administration Costs	1,089	1,135
<u>Balances</u>		
Due from Dundee City Council as at 31 March	3,410	3,103

Key Management Personnel

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

	2017 £000	2018 £000
Short-term benefits	8	8
Post-employment benefits	1	1

5 - Contributions

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

	2016/2017			Total £000
	Administering Authority £000	Other Scheduled Bodies £000	Admitted Bodies £000	
Member contributions	7,034	12,217	4,267	23,518
Employer contributions	19,559	34,204	11,339	65,102
Strain on Fund	2,135	978	682	3,795
Deficit recovery	-	-	697	697
Total	28,728	47,399	16,985	93,112

	2017/2018			Total £000
	Administering Authority £000	Other 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
Total	27,411	52,274	16,930	96,615

6 - Benefits

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)	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Administering Authority	37,738	35,714	8,947	6,054
Other Scheduled Bodies	49,307	53,855	10,960	13,482

Admitted Bodies	10,831	14,102	2,657	3,708
TOTAL	97,876	103,671	22,564	23,244

7 - Transfer Values

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

	Transfer Values Received		Transfer Values Paid	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Administering Authority	371	522	1,072	986
Other Scheduled Bodies	1,127	993	5,010	2,359
Admitted Bodies	812	899	1,964	243
TOTAL	2,310	2,414	8,046	3,588

8 - Investment Income

	2016/17 £000	2017/18 £000
Interest from Fixed Interest Securities	8,812	16,782
Dividends from Equities	31,935	41,458
Income from Index Linked Securities	483	175
Income from Pooled Investment Vehicles	17,465	25,921
Interest on Cash Deposits	94	145
Other Income	3,890	172
	<u>62,679</u>	<u>84,653</u>
Withholding Tax	(452)	(1,263)
	<u>62,227</u>	<u>83,390</u>

9 - Investments

Market Value of Investments Managed Externally

The Fund's investment assets are under the management of seven external fund managers. At 31 March 2018 the market value of these investment assets was £3,680.7m (2017 £3,434.2m), managed as follows:

	2017		2018	
	£m	%	£m	%
Schroder Properties Limited	352.6	10.3	436.7	11.9
Baillie Gifford & Co	860.3	25.0	933.3	25.4
Fidelity Pensions Management Equity	1,036.2	30.1	1,077.3	29.3
Alliance Bernstein	529.5	15.4	549.3	14.9
Goldman Sachs	305.0	9.0	327.9	8.9
M & G Investment Management	5.9	0.2	1.1	-
Legal & General	344.7	10.0	354.7	9.6
GSAM Broad Street	-	-	0.4	-
Net Financial Assets	3,434.2	100.0	3,680.7	100.0

The following investments represent more than 5% of the net assets of the scheme.

	Market value as at 31/03/2017 £000	% of total fund	Market value as at 31/03/2018 £000	% of total fund
GCPF – All World Equity Index	344,685	10.04%	354,622	9.63%

(OFC)

344,685

354,622

Analysis of Derivatives

Futures

Type	Expires	Economic exposure £000	Market Value as at 31/03/2017 £000	Economic exposure £000	Market Value as at 31/03/2018 £000
Assets					
UK Fixed Income Futures	Less than one year	35,978	581	4,913	74
UK Cash Futures	Less than one year	17,925	10	0	0
Overseas Fixed Income Futures	Less than one year	27,534	190	34,100	411
Overseas Cash Futures	Less than one year	25,934	12	0	0
Total assets			793		485
Liabilities					
Overseas Fixed Income Futures	Less than one year	(93,286)	(223)	(35,299)	(506)
Total liabilities			(223)		(506)
Net futures			570		(21)

Open Forward Currency Contracts

Settlements	Currency bought	Local Value	Currency sold	Local Value	Asset value	Liability value
		000		000	000	000
Up to one month	GBP	3,065	USD	(4,336)	0	(26)
Up to one month	IDR	10,712,520	GBP	(552)	2	0
Up to one month	JPY	325,232	USD	(3,051)	5	0
Up to one month	USD	14,046	JPY	(1,483,946)	66	0
Up to one month	THB	22,106	GBP	(505)	0	(1)
Up to one month	GBP	20,250	JPY	(3,034,224)	32	(126)
One to six months	GBP	8,817	JPY	(1,308,673)	21	0
Up to one month	JPY	2,294,795	GBP	(15,404)	6	(23)
One to six months	GBP	4,554	NOK	(49,710)	45	0
One to six months	GBP	234,072	USD	(324,353)	3,329	0
One to six months	USD	9,018	GBP	(6,475)	2	(61)
One to six months	GBP	49,633	EUR	(56,567)	89	(144)
One to six months	EUR	2,500	GBP	(2,217)	0	(23)
Open forward currency contracts at 31 March 2018					3,597	(404)

Net forward currency contracts at 31 March 2018

3,193

Prior year comparative:

Open forward currency contracts at 31 March 2017

590 (1,042)

Net forward currency contracts at 31 March 2017

(452)

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.

Investment Movement Summary

	Value at 01/04/17 £m	Purchases at Cost £m	Sales Proceeds £m	Repatriated Assets £m	Change in Market Value £m	Value at 31/03/18 £m
Schroder Property	352.6	97.7	(37.0)	7.1	16.3	436.7
Baillie Gifford Global	447.1	87.9	(132.1)	16.4	55.5	474.8
Fidelity Equity	725.6	703.0	(698.2)		28.6	759.0
Alliance Bernstein	529.5	195.0	(182.0)		6.8	549.3
Goldman Sachs	305.0	568.7	(546.8)	27.9	(26.9)	327.9
Fidelity Bond	310.6	139.2	(131.0)		(0.5)	318.3
Baillie Gifford UK	413.2	27.9	(24.3)	19.2	22.5	458.5
M&G Fund	5.9	-	(3.0)		(1.8)	1.1
Legal & General GSAM	344.7	0.4			10.0	354.7
Broadstreet Net Financial Assets	3,434.2	1,819.8	(1,754.4)	70.6	110.5	3,680.7

Reconciliation of Movements in Investments and Derivatives

	Market Value as at 31/03/2017 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the year £000	Market Value as at 31/03/2018 £000
Fixed Interest Securities	374,086	600,050	(413,740)	(29,011)	531,384
Equities	1,588,155	1,375,252	(875,256)	35,789	2,123,940
Pooled Investments	1,083,579	39,180	(693,027)	81,442	511,174
Pooled property Investments	346,275	98,784	(33,061)	22,545	434,543
Private equity/Infrastructure	4,097	0	(3,098)	89	1,088
	3,396,192	2,113,266	(2,018,182)	110,854	3,602,129
Derivative contracts:					
Futures	570	32,634	(45,560)	12,334	(21)
Forward currency contracts	(452)	12,093	(27,708)	19,260	3,193
	3,396,310	2,157,993	(2,091,450)	142,448	3,605,301

Other investment balances:	(570)	(12,958)	(4,071)
Cash deposits	30,965	(216)	64,335
Amount receivable for sales of investments	12,460	71	18,128
Investment income due	10,260	0	14,918
Spot FX contracts	11	(3,034)	(77)
Amounts payable for purchases of investments	(15,867)	(112)	(17,857)
	<u>3,433,569</u>	<u>126,199</u>	<u>3,680,677</u>

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 £1.697m (2017 £2.197m).

Securities Lending

The total amount of stock released to third parties under a stock lending arrangement at 31 March 2018 was nil (2017 nil).

10 - Fair Value

Fair Value Hierarchy

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)
Net financial assets	2,176,209	1,457,621	46,847	3,680,677

Reconciliation of Fair Value Measurements within Level 3

	Market Value as at 31/03/2017 £000	Transfers in/out £000	Purchases £000	Sales £000	Unrealised gains (losses) £000	Realised gains (losses) £000	Market Value as at 31/03/2018 £000
Overseas Equities	21,445	(11,674)	5,668	(279)	(8,619)	(66)	6,476
Overseas Public Sector	196	-	-	(189)	(44)	37	-
UK property Funds	23,673	-	14,101	-	1,510	-	39,283
UK Venture Capital	4,097	-	-	(3,098)	(2,347)	2,436	1,088
Total	49,411	(11,674)	19,769	(3,566)	9,500	2,407	46,847

11 - Financial Instruments

Classification of Financial Instruments

Market Value as at 31/03/2017	Loans and receivables	Financial liabilities at amortised cost		Designated as fair value through profit and loss	Loans and receivables	Market Value as at 31/03/2018	Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000	£000
			Financial assets				
374,086	-	-	Fixed Interest securities	531,384	-	-	-
1,588,155	-	-	Equities	2,123,940	-	-	-
1,083,579	-	-	Pooled investments	511,174	-	-	-
346,275	-	-	Pooled property investments	434,543	-	-	-
4,097	-	-	Private equity/infrastructure	1,088	-	-	-
-	-	-	Diversified Alternatives	0	-	-	-
-	-	-	Property	0	-	-	-
1,383	-	-	Derivative contracts	4,082	-	-	-
-	30,965	-	Cash	-	64,335	-	-
10,271	-	-	Other investment balances	15,036	-	-	-
12,460	-	-	Debtors	18,128	-	-	-
3,420,306	30,965	-		3,639,375	64,335	-	-
			Financial liabilities				
(1,264)	-	-	Derivative contracts	(910)	-	-	-
(570)	-	-	Other Investment balances	(4,266)	-	-	-
-	-	(15,867)	Creditors	-	-	(17,857)	(17,857)
(1,834)	-	(15,867)		(5,176)	0	(17,857)	(17,857)
3,418,471	30,965	(15,867)	Total	3,634,199	64,335	(17,857)	(17,857)
	3,433,569		Grand Total		3,680,677		

12 - 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 2017 (£000)	31 March 2018 (£000)
Prudential	4,025	4,746
Standard Life	4,946	4,318

	2016/17 (£000)	2017/18 (£000)
Contributions Received		
Prudential	1,369	1,635
Standard Life	342	269

13 - Actuarial Present Value of Promised Retirement Benefits

The actuarial value of the promised retirement benefits as at 31 March 2018, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £4,255.6m (2017 £4,400.7m) of which £4,124.6m (2017 £4,278.8) is a vested obligation and £131.0m (2017 £121.9m) 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 2014 triennial funding valuation because IAS19 stipulates a discount rate rather than a rate which reflects market rates.

IAS19 Assumptions Used	2016/17	2017/18
	%	%
Inflation / pension increase rate	2.7	2.30
Salary increase rate	3.7	3.30
Discount rate	2.7	2.55

14 - Sundry Debtors and Creditors

Analysis of Sundry Debtors

	2016/17	2017/18
	£000	£000
Pending sales ledger income	415	1,175
Management fees rebate from Fidelity	975	707
Employer cessation valuation	697	587
Miscellaneous debtors	46	3
	2,133	2,472

Analysis of Sundry Creditors

	2016/17	2017/18
	£000	£000
Unpaid benefits	1,064	3,334
Custodian fees	48	34
Investment Manager Fees	2,034	2,243
Consultancy fees	9	5
Pending purchase ledger payments	77	261
Outsourcing contract	-	56
Miscellaneous creditors	50	67
HMRC		20
	3,282	6,020

15 - Other Financial Liabilities and Financial Debtors

Other Financial Liabilities total £22.123m as at 31 March 2018 (2017 £16.045m). This wholly represents pending purchase transactions.

Financial Debtors total £33.164m as at 31 March 2018 (2017 £22.458m). This is made up of pending sales transactions (£18.129m) and investment income (£15.035m).

16 - Audit Fee & Other Services

The Pension Funds have been subject to a separate external audit to that of the Council. The Main Fund incurred an audit fee of £22,387 for the financial year (2017 £18,031). During 2017/18 Tayside Pension Funds received no other services from Audit Scotland.

17 – Management Expenses

	2016/17	2017/18
	£000	£000
Administrative costs	1,281	1,403
Investment management expenses	8,516	9,248
Oversight and governance costs	97	97
	<u>9,894</u>	<u>10,748</u>

18 – Investment Expenses

	2016/17	2017/18
	£000	£000
Management fees	8,270	8,982
Custody fees	162	126
Performance monitoring service	26	28
Investment consultancy	34	44
Broker Commission	24	68
	<u>8,516</u>	<u>9,248</u>

Management fees as a %age of Net Financial Assets	0.24%	0.25%
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19 – 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 to 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 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.

A) Market Risk

Market risk is the risk of loss from fluctuations in currency risk, 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.

i) 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 expected 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
Equities	
UK	19.0%
Emerging Market	28.2%
Global	19.5%
Bonds	
UK Index-Linked Gilts	12.3%
UK Gilts	9.5%
UK Corporate	8.9%
Other	5.2%
Property	12.5%
Alternatives	13.0%
Cash	0.8%

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 2018.

If the market price of the Fund 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 £
Equities				

UK	678,976,667	19.0%	807,982,234	549,971,100
Emerging Market	184,053,173	28.2%	235,956,168	132,150,178
Global	1,682,807,180	19.5%	2,010,954,580	1,354,659,780
Bonds				
UK Index-Linked Gilts	89,277,084	12.3%	100,258,165	78,296,003
UK Gilts	46,123,590	9.5%	50,505,331	41,741,849
UK Corporate	148,157,964	8.9%	161,344,023	134,971,905
Other	337,081,015	5.2%	354,609,227	319,552,802
Property	434,542,868	12.5%	488,860,726	380,225,009
Alternatives	1,087,897	13.0%	1,229,324	946,470
Cash	78,569,998	0.8%	79,198,558	77,941,438
Total	3,680,677,436	13.8%	4,188,610,922	3,172,743,949

Source: Aon/Northern Trust

Interest rate risk 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 interest rates.

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 movements as at 31 March 2018 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 2018 (£)	Potential change in year in the net assets available to pay benefits £	
		100bps	-100 bps
Fixed Interest Securities	531,383,941	-36,899,396	36,899,396
Cash	64,335,134	0	0
Total change in assets available	595,719,075	-36,899,396	36,899,396

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 income received on cash and cash equivalents balances by £643,351 and vice versa.

ii) 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 2018. 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 2018:

Currency exposure - asset type	Asset value (£)
	31-Mar-18
Overseas quoted securities	1,485,531,101
Overseas unit trusts	402,145,589
Overseas public sector bonds (quoted)	15,095,955
Overseas corporate bonds (quoted)	322,080,403
Total overseas assets	2,224,853,048

Source: Northern Trust

Currency risk- sensitivity analysis

Following analysis of historical data, the likely volatility associated with foreign exchange movements on an individual currency basis is shown in the following table. The weight of each currency in relation to the total currency basket is multiplied by the change in its exchange rate (relative to GBP) to create the aggregate potential currency change of the 'basket' and the % Change in Total Currency includes the impact of correlation across the underlying currencies. The likely volatility is 7.15% (as measured by one standard deviation).

Currency exposure - asset type	Asset value (£)	Change to net assets available to pay benefits (£)	
	31-Mar-18	-7.15%	7.15%
Overseas quoted securities	1,485,531,101	1,379,315,627	1,591,746,575
Overseas unit trusts	402,145,589	373,392,179	430,898,999
Overseas public sector bonds (quoted)	15,095,955	14,016,594	16,175,316
Overseas corporate bonds (quoted)	322,080,403	299,051,654	345,109,152
Total overseas assets	2,224,853,048	2,065,776,054	2,383,930,042

Source: Aon/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 2018, including current account cash, was £5.0m (2017: £5.3m). This was held with the following institutions:-

	Credit Rating	Balance as at 31 March 2017 £'000	Balance as at 31 March 2018 £'000
Bank deposit accounts -			
Bank of Scotland	F1	3,060	-
Santander	F1	2,190	-
Money Market Funds -			
Aberdeen Asset	F1	-	2,610
Invesco	F1	-	2,315
Current account -			
Royal Bank of Scotland	F2	53	33

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.

20 – 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 2018 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 11)

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.

Effect if actual results differ from assumptions	£000	£000
Present value of total obligation	4,255,590	
Sensitivity to	+0.1%	-0.1%
Discount rate	4,174,106	4,338,747
Long term salary increase	4,269,282	4,242,007
Pension increases and deferred revaluation	4,325,178	4,187,412
Sensitivity to	+1 year	-1 year
Life expectancy assumptions	4,415,031	4,102,088

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.

Effect if actual results differ from assumptions

The fund has a total of £4.096m of investment assets which are not based on quoted prices in active markets and therefore there is a risk that this could be under or over stated in the accounts.

21 – 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 11). This estimate is subject to significant variances based on changes to the underlying assumptions.

TAYSIDE TRANSPORT PENSION FUND ACCOUNTS

2016/2017		2017/2018	
£000	FUND ACCOUNT TO 30 JUNE 2017	£000	£000
	CONTRIBUTIONS AND BENEFITS		
	<u>Contributions receivable:-</u>		
369	From employers	100	
<u>71</u>	From members	<u>18</u>	
440			118
	<u>Benefits payable:-</u>		
(2,029)	Pensions	(507)	
<u>(125)</u>	Lump Sums	-	
(2,154)			(507)
	<u>Payments to and on account of Leavers:-</u>		
-	Transfers Out	<u>(146)</u>	
-			(146)
<u>(47)</u>	Administration Expenses		<u>(21)</u>
(1,761)	Net Withdrawals from dealings with Members		(556)
	RETURNS ON INVESTMENTS		
611	Investment Income	6	247
10,912	Change in Market Value of Investments	7	900
<u>(217)</u>	Investment Management Expenses	12	<u>(63)</u>
<u>11,306</u>	Net Returns on Investments		<u>1,084</u>
9,545	Net (decrease)/increase in Fund during the year		428
<u>60,701</u>	OPENING NET ASSETS OF THE SCHEME		<u>70,246</u>
<u>70,246</u>	CLOSING NET ASSETS OF THE SCHEME		<u>70,774</u>

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 TRANSPORT PENSION FUND ACCOUNTS

31/3/2017 £000	NET ASSETS STATEMENT	Note	30/6/2017 £000	£000
	<u>Listed Investments</u>			
17,985	UK Equities		18,014	
4,109	UK Fixed Interest - Public Sector		4,221	
176	UK Fixed Interest - Other		171	
7,962	UK Index Linked - Public Sector		7,697	
15,719	Overseas Equities		16,401	
2,105	Overseas Fixed Interest - Other		1,971	
65	Derivatives (Futures)		50	
	<u>Unlisted Investments</u>			
14,030	UK Open Ended Investment Companies		14,143	
226	Overseas Open Ended Investment Companies		225	
4,984	Property Unit Trusts		6,330	
2,539	Cash Balances held by Fund Managers		1,227	
<u>594</u>	Financial Debtors	9	<u>175</u>	
70,494				70,625
	INVESTMENT LIABILITIES			
(31)	Derivatives (Futures)		(70)	
<u>(362)</u>	Other Financial Liabilities	9	<u>-</u>	
<u>(393)</u>	Total Financial Liabilities			<u>(70)</u>
70,101	Net Financial Assets	6, 14		70,555
	CURRENT ASSETS			
34	Contributions Due from Employers		41	
-	Sundry Debtors		-	
<u>209</u>	Cash and Bank		<u>260</u>	
243			301	
	LESS CURRENT LIABILITIES			
(98)	Sundry Creditors	8	<u>(82)</u>	
<u>145</u>	NET CURRENT ASSETS			<u>219</u>
<u>70,246</u>	NET ASSETS			<u>70,774</u>

Gregory Colgan BAcc (Hons), ACMA, CGMA
 Executive Director of Corporate Services
 Dundee City Council
 4 June 2018

NOTES TO TAYSIDE TRANSPORT PENSION FUND FINANCIAL STATEMENTS

1 - Local Government Pension Scheme

Tayside Transport Superannuation Fund began as a result of the 1985 Transport Act when the employees of the former Dundee City Bus Unit which formed part of Tayside Regional Council's Roads and Transport Department were transferred to a new company, Tayside Public Transport Company Ltd. A separate Superannuation Fund for those transferred employees was set up on 26 October 1986.

2 - Basis of Preparation

Local authorities responsible for administering a pension fund that forms part of the local government pension scheme ("LGPS") are required by an amendment to The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 to publish a pension fund annual report, which is required to include financial statements. Local authorities have a duty under section 12 of the Local Government in Scotland Act 2003 to observe proper accounting practices. The Scottish Government issued accounting Guidance for the LGPS financial statements in Finance Circular 1/2011, which clarified that pension fund financial statement within the annual report should be prepared in accordance with proper accounting practices set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ("the Code").

3 - Statement of Accounting Policies

The accounting policies of Tayside Transport Pension Fund are consistent with those adopted for Tayside Pension Fund as outlined on pages xx and xx.

4 - Repatriation of Transport Fund

In early 2016 Tayside Pension Fund and Xplore Dundee (the respective employer of Tayside Transport Fund) entered discussions regarding their proposal to transfer the assets and liabilities of the Transport Fund back to the main fund. Expert legal, actuarial and investment opinion was sought by the fund, and in October 2016, the fund consulted with the employers of the main fund, seeking their views prior to presenting the proposal to the Pension Sub-Committee and Board. The consultation received no objection, and the proposal was approved on 5th December 2016.

The repatriation of the Transport Fund (following full legal agreement) took place on 30th June 2017.

5 - Related Parties

There were no transactions with related parties during the year.

6 - Investment Income

	2016/17	2017/18
	£'000	£'000
Interest from Fixed Interest Securities	179	(5)
Dividends from Equities	219	183
Income from Index Linked Securities	44	(1)
Income Pooled Investment Vehicles	164	70
Interest on Cash Deposits	5	-
	<u>611</u>	<u>247</u>

7 - Investments

Market Value of Investments Managed Externally

The Fund's investment assets are under the management of three external fund managers. At 30 June 2017 the market value of these investment assets was £70.6m (31 March 2017 £70.1m), managed as follows:-

	31/3/2017		30/6/2017	
	£m	%	£m	%
Schroder Properties Limited	7.0	10.0	7.1	10.1
Baillie Gifford & Co	34.8*	49.7	35.6	50.4
Goldman Sachs	28.1**	40.0	27.9	39.5
Financial Debtors	0.6	0.8	0.1	0.1
Financial Liabilities	(0.4)	(0.5)	(0.1)	(0.1)
Net Financial Assets	70.1	100.0	70.6	100.0

* Within the Baillie Gifford investment total above there is an investment of £16.4m (2016 £15.7m) which exceeds 5% of net assets available for benefits. This investment is in Baillie Gifford Global Life Fund.

** Within the Goldman Sachs investment total above there is an investment of £13.3m (31/3/2017 £13.2m) which exceeds 5% of net assets available for benefits. This investment is in the GS Sterling Credit Portfolio. Although it is classed as a single investment, this is a pooled fund with over 300 holdings designed to ensure a diversified exposure to corporate bonds.

Investment Movement Summary

	Value at 01/04/2017	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 30/6/2017
	£m	£m	£m	£m	£m
Schroder Property	7.1	1.3	-	(1.3)	7.1
Baillie Gifford Global	15.7	-	-	0.7	16.4
Goldman Sachs	28.1	2.6	(2.2)	(0.6)	27.9
Baillie Gifford UK	19.2	0.4	(0.7)	0.3	19.2
	70.1	4.3	(2.9)	(0.9)	70.6

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 quarter was £5,136 (31/03/2017 £23,083).

Securities Lending

The total amount of stock released to third parties under a stock lending arrangement at 30 June 2017 was nil (31/03/2017 nil).

8 - Sundry Creditors

Analysis of Sundry Creditors.

	2016/17	2017/18
	£000	£000
Custodian fees	9	13
Investment manager fees	43	48
Benefits payable	46	-
Administration costs	-	21
	98	82

9 - Other Financial Liabilities and Financial Debtors

Other Financial Liabilities total £0m as at 30 June 2017 (31/3/2017 £0.362m), this figure is solely for pending purchase transactions.

Financial Debtors total £0.175m as at 30 June 2017 (31/3/172017 £0.594m).

10 - Audit Fee

The Pension Funds have been subject to a separate external audit to that of the Council. The Transport Fund incurred an audit fee of £6,010 for quarter ended 30 June 2017 financial year (£8,401 2016/17).

11 – Management Expenses

	2016/17	2017/18
	£000	£000
Administrative costs	46	21
Investment management expenses	217	63
Oversight and governance costs	1	-
	<u>264</u>	<u>84</u>

12 – Investment Expenses

	2016/17	2017/18
	£000	£000
Management fees	182	48
Custody fees	18	13
Performance monitoring service	10	
Investment consultancy	7	2
	<u>217</u>	<u>63</u>

Management fees as a %age of Net Financial Assets	0.26%	0.09%
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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, Aon Hewitt, and in reference to the nature of the liabilities as outlined in the Fund's 31 March 2014 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 2018

Barnett Waddingham LLP

8 May 2018

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 2018 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.

Graeme D Muir FFA
Partner, Barnett Waddingham LLP

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 at Appendix A.

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 investment objective is to maximise the overall return whilst maintaining a prudent and balanced investment exposure. To achieve its investment objectives, the Fund will utilise the following different types of investments:

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.

*The Stock Lending programme is currently suspended, however indirect stock lending activities occur within the fund's passive equity mandate (with exception of UK equities).

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

AON Hewitt
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:

- approving the Statement of Investment Principles
- agreeing investment objectives, strategy and structure
- appointing investment managers, global custodian and consultants
- reviewing the performance of the Fund, its investments and investment managers.
- developing investment 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 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%).

Tayside Main Fund - Target Future Asset Allocation		
Asset Class	Allocation	Required Nominal Return p.a.
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 has the following set benchmarks (which have been effective since 1st April 2017) to ensure a prudent and balanced investment exposure to an acceptable level of investment risk:

EQUITIES	FIXED INCOME	PROPERTY
80% MSCI AW Index 20% FTSE All Share	65% Libor + 5% 20% ML Sterling Non-Gilts Index	100% IPD All Balanced Property Funds Weighted Average Index

Index	15% FTSE Index-Linked Over 5yr Index
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INVESTMENT PERFORMANCE

Market Commentary

Global Equities Summary:

Global equities only rose slightly in sterling terms over the 12-month period to the end of March 2018. Markets had remained positive until January 2018, supported by synchronised and broadening global growth, however, they corrected sharply towards the end of the period as higher US wage growth data sparked fears of a rise in inflation and faster interest rate hikes by the US Federal Reserve (Fed).

Furthermore, the import tariffs imposed by the US government also sparked concerns about the possibility of trade wars which caused a spike in volatility which triggered a sell-off and led to risk aversion as investors continued to anticipate the end of the current market cycle.

Elsewhere, the European Central Bank (ECB) continued to emphasise the gradual withdrawal of policy support. Uncertainty about the UK's negotiations with the European Union (EU) over the terms of its exit continued. Against this backdrop, emerging markets and Japanese equities significantly outperformed other global regions, while the UK lagged other developed markets. Returns in sterling terms were supported by its depreciation against the euro, but undermined by its appreciation against the US dollar and the yen.

Global Fixed Income Summary:

Fixed Income markets posted positive returns, though returns in sterling terms were negative. Synchronised global growth, low volatility and a benign inflation backdrop drove markets higher. Central banks dominated headlines, as the shift towards monetary policy normalisation continued.

The US Fed raised interest rates three times and the ECB signalled that it may begin to tighten its accommodative monetary policy going forward. In the UK, the Bank of England (BoE) raised interest rates in November for the first time in a decade. However, despite monetary policy tightening by central banks, bond yields remained anchored and yield curves flattened significantly in the US and UK amid worries about economic growth. Moreover, the threat of rising protectionism and political uncertainty supported government bonds amid investors' flight to safety.

There were bouts of volatility during the period, due to geopolitical risks and lack of clarity on US tax reforms. However, these were temporary in nature and failed to cause any significant re-pricing in risk assets. Meanwhile, credit markets recorded another period of strong performance as robust demand for yield and stabilising fundamentals drove credit spreads tighter. Towards the end of the period, high yield credit spreads came under pressure as the global risk-off environment and some key upcoming political events led investors to take profits in the high yield space, thus pressuring the asset class. On the macroeconomic front, despite increased market volatility, US economic growth moderated slightly, with an acceleration in annual wage growth. In the Eurozone, the Composite Purchasing Managers' Index (PMI) fell to 55.3 in March, due to weaker production growth in the manufacturing and service sectors.

Global Equities - Market Outlook

Following strong earnings growth in 2017, momentum should continue into the rest of 2018. This should prove supportive for equities. Notably, the continuing global synchronised recovery with an uptrend in inflationary conditions with the market having factored in some of the good news in the US, valuations in Europe and Japan are looking relatively more attractive i.e. investors are being paid to invest outside the US on a relative basis.

Going forward, whilst remaining aware of risks related to geopolitics, oil shocks and/or a destabilisation of the high yield market, these remain fairly unpredictable and are not a major concern as it stands. Whilst excessive monetary policy tightening and financial sector stress appear to be limited this year, there is more concern about this moving into 2019.

Global Fixed Income - Market Outlook

The UK economy is likely to continue to display low levels of growth for the rest of this year. Recent data prints for both GDP and inflation were disappointing and forward indicators suggest a continuation along this current path. The consumer sector has suffered from negative real wage growth for some time but recently the decline in inflation data (largely as a result of currency effects falling away) and the tightness in the labour market are combining to improve the outlook for households, providing a short-term brighter spot in the outlook. Nonetheless, delayed business investment as a result of Brexit uncertainties will act as a break on economic momentum and we find it difficult to see the Bank of England altering monetary policy significantly. There is a potential interest rate hike towards the end of 2018 but if pricing pressures subside, we may well see rates kept on hold for some time to come. As a result, significant moves in bond yields are not anticipated.

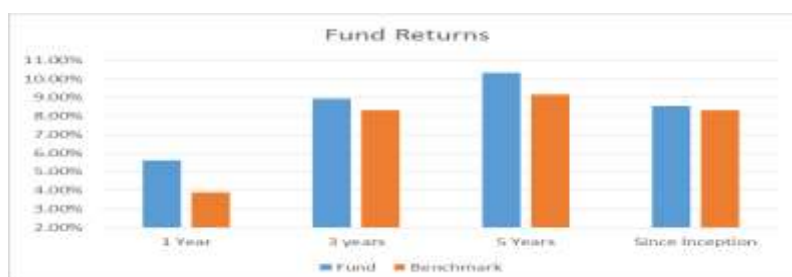
Corporate bonds performed very strongly all year until hit by the equity market-induced volatility in February. That caused a slowdown in their rally, and a continuation of corporate bond outperformance in the next few months is not anticipated. Disappointing economic performance, combined with reduced liquidity amongst market participants, could result in negative returns for credit.

Outside of the UK, the US continues to drive growth forward and several interest rates rises are expected in the next 12 months. Europe, on the other hand, will likely keep short-dated interest rates anchored at low levels for at least another year as ECB addresses the winding down of their Quantitative Easing programme.

FUND PERFORMANCE

Performance Commentary

In the year to 31 March 2018, the Main Fund return of 5.61% which outperformed the benchmark return of 3.9%. 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 ahead of benchmark with a return of 3.78% versus 2.86% for the benchmark. Strong company earnings growth and unusually consistent economic global growth have been the main drivers of positive returns for the portfolio over the last year. The main negative impact has been that the portfolio's returns were substantially reduced in sterling terms by the increase in the value of the Sterling against the US Dollar over the year.

The portfolio's positive relative performance against its benchmark was strong stock selection across a diverse range of sectors, driven by company-specific factors. A modest under-weight to the weak UK market also helped. The main drag on relative performance was the portfolio's underweight exposure to fast-growing, but expensive, internet-related names in the US and China.

In our view prospects for equity markets remain positive, especially after a sharp correction in early February, with valuations looking more reasonable, and companies continuing to deliver good earnings growth. They expect volatility likely to remain higher than in 2017, therefore, they will pay careful attention to shifting sources of risk. They will continue to limit as far as possible the portfolio's exposure to macro factors, such as rises in inflation and interest rates that could damage returns, so that individual company results will continue to be the main driver of the portfolio's performance.

Baillie Gifford Global Equities - was ahead of benchmark with a return of 13.51% versus 2.9% for the benchmark. A number of online platform businesses were among the strongest contributors to performance during the year.

Beyond internet businesses there has been a diverse range of single contributors including automobile manufacturers, financial services technology stocks.

The manager remains confident in the current positioning of the portfolio and the long-term growth potential of the companies therein, as well as other potential investment opportunities in India, Russia and Japan. They continue to believe that their bottom-up, stock picking approach will identify companies which will grow their earnings and cash flows at above average rates over the long term.

Baillie Gifford UK Equities - was ahead of benchmark with a return of 6.19% versus 1.25% for the benchmark. Performance was led by financial services companies. Not holding the large pharmaceutical companies was also beneficial. Elsewhere, the stock specific gains were made across a range of sectors.

Performance drags came from stocks which had either undergone a trickier start to the year due to either difficult trading environments, concerns around outsourcing, or changes to company structure, which led to subsequent profits warnings. Rising oil prices also had a negative impact as the fund has an underweight position in that sector. The strategy of the manager is populate the portfolio with a collection of attractive companies which they believe can deliver superior growth over the next five to 10 years. They are comfortable with the current positioning of the portfolio and the majority of the holdings are performing well operationally. By focusing on long-term business fundamentals, they believe that the portfolio will deliver a positive return over the next decade.

Fidelity Investment Management – was ahead of benchmark with a return of 4.98% versus 3.4% for the benchmark. The equity portfolio benefited from a year of strong global market performance and improving corporate earnings growth. Returns in Emerging Markets and Japan were positive for the portfolio, while UK and North America detracted from performance over the period.

The transition to the new portfolio during February and March saw changes to the regional weights in the portfolio, with an increase to the US and Europe, and a consequent reduction in UK and, to a lesser extent, the other regions.

Going forward, whilst remaining aware of risks related to geopolitics, oil shocks etc, the portfolio manager remains optimistic on global equity markets for the remainder of 2018 but has a more neutral view further out.

In the current market environment, the portfolio manager will continue to hold an overweight position to IT, Health Care and Energy sectors whilst underweight Consumer Staples and Industrials. In terms of regions, the portfolio will continue with the current overweight positions to Europe (ex UK) and Japan and underweight the US and Emerging Markets. Investment cases seek opportunities from a 'bottom up' perspective focussing on strong company fundamentals.

Legal & General Investment Management (Passive Equity) - was ahead of benchmark with a return of 2.88% versus of 2.87% 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 2.57% versus 1.2% for the benchmark. The main factor influencing portfolio returns in the 12 months to 31st March 2018 was the strong performance of corporate bonds. Like other risk assets, corporate bonds benefited from synchronised global growth, low interest rates, and high levels of central bank liquidity. The portfolio had been positioned well to benefit from this trend, and maintained a significant overweight to corporate bonds through the period.

Duration (sensitivity to interest rate movements) positioning also assisted, with the accurate forecasting of the interest rate hike by the Bank of England in November 2017, and correctly predicting the (somewhat counter-intuitive) bond market rally, as it became clear that this was not going to be the start of a sharp and rapid monetary policy tightening cycle.

Looking forward, the manager has significantly reduced risk levels in the portfolio in line with their concerns over credit pricing. This has been done by selling corporate bonds and buying Government bonds, to reduce exposure and take profits on credit positions that had done so well last year. Opportunity has also been taken to reduce exposure to off-benchmark positions such as US\$-denominated credits, and reinvest back into benchmark securities. Given their relatively lacklustre view on the economic outlook, they anticipate that corporate bond pricing could suffer and have positioned portfolios to be able to take advantage of any drop in prices to buy back into favoured credit at lower levels.

Goldman Sachs was behind benchmark with a return of -1.48% versus 0.29% for the benchmark.

In June 2017, the portfolio switched to a 'Target Yield' Buy and Maintain Credit Portfolio, targeting specific medium-to-long term yield through careful, bottom-up security selection across the global credit markets, without recourse to a benchmark. The benchmark referred to is based on market value, and as the investments are not held for sale, the spot valuation is less relevant.

The portfolio is constructed based on a 3-4% yield target and factoring in the required risk tolerance, including an average credit rating of BBB-. This has resulted in a sector allocation of ~15-18% in high yield corporates and around 5% in emerging market debt.

Given the Buy and Maintain nature of the portfolio, they seek to purchase bonds that are most likely to avoid defaults or cause losses as a result of downgrades. This is particularly the case for high yield bonds rather than investment grade. They are also conscious to choose bonds that provide a good compensation for credit risk.

The portfolio manager expects minimal turnover in the portfolio going forward, and as a result has implemented a 10% annual turnover limit. Over time they expect to reinvest coupons and maturities in bonds that provide the best compensation for credit risk in the view of their credit analysts.

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 10.27% versus 10.02% for the benchmark. Sector structure and stock selection have been the main positive drivers of performance over the last twelve months.

The portfolio is overweight relative to benchmark in the industrial sector - by far the strongest performing market segment. Underweight positions to central London offices and the retail sector have also been accretive to returns. Funds with a significant exposure to industrials have performed very strongly.

Looking ahead, the manager expects returns to moderate, after a sustained period of above average performance, with future returns more influenced by income than by capital growth.

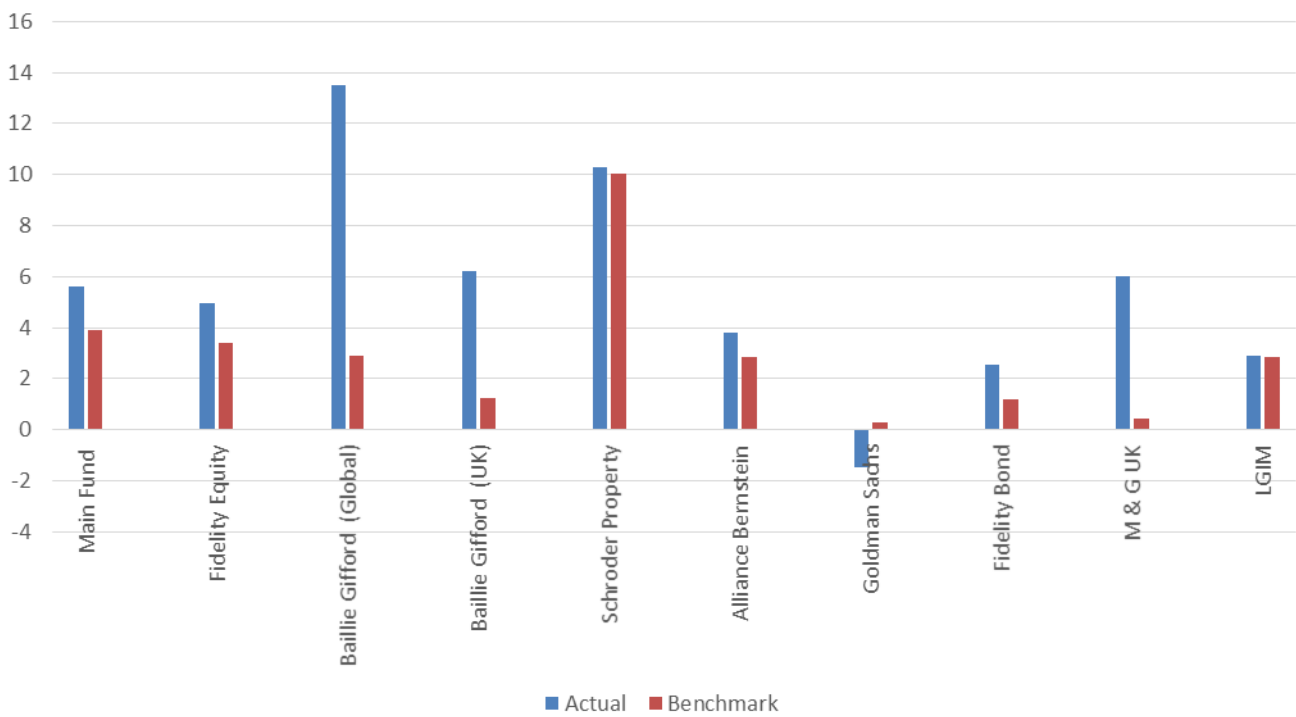
M&G Investment Management - was ahead of benchmark with a return of 6.00% versus 0.41% for the benchmark. This fund is in the latter stages of maturity, receiving final returns.

GSAM – Broad Street Real Estate Credit Partners III – was behind benchmark return of 2.38%. The fund recently completed final closing in December 2017 with \$2.54bn commitments. This fund is in its initial stages, having only committed to 5 investments, no returns were expected within this year, and the value has been based upon the valuation of these cash flow drawdowns.

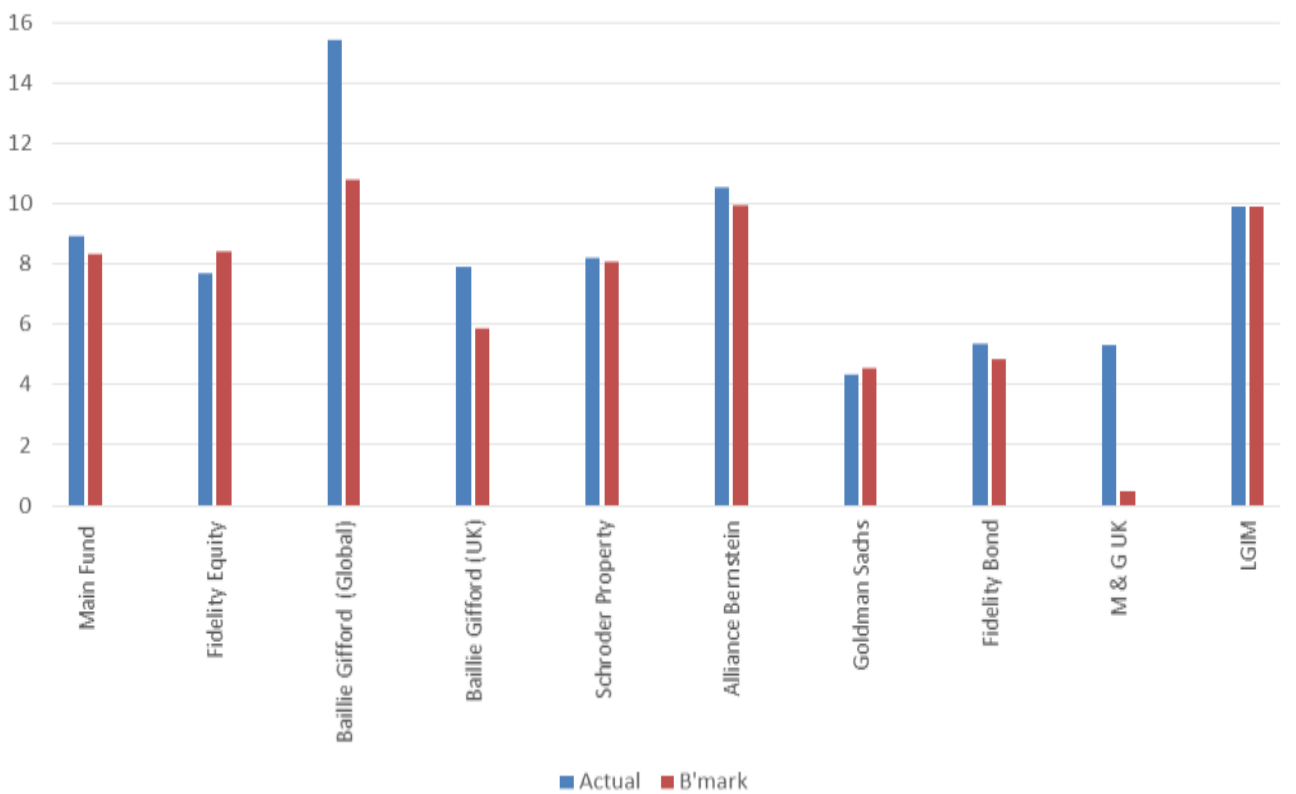
Performance Measurement

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

Annual Performance Return to 31 March 2018

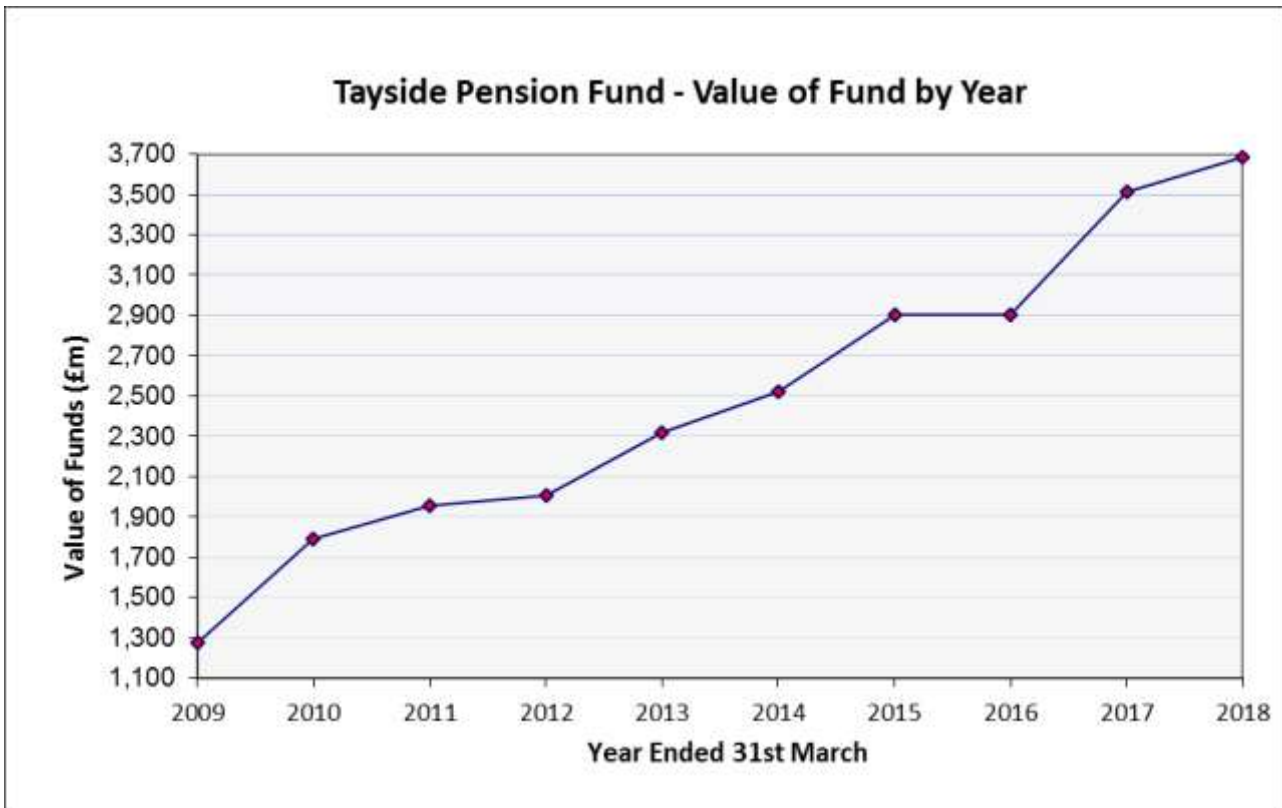


Annualised Return 3 Years to 31 March 2018



Valuation of Assets of the Pension Funds

	<u>Combined Funds</u>	
	<u>2017</u>	<u>2018</u>
	<u>£m</u>	<u>£m</u>
Opening Value	2,900.30	3,515.30
New Cash Inflow/(Outflow)	40.10	
Appreciation during the year	574.90	
Value as at 31 March	3,515.30	



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 st March 2009	Membership from 1 st April 2009 to 31 st March 2015	Membership from 1 st 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"> • Annual revaluation and pensions increase in line with CPI inflation • Partners' and dependents' pensions • Ill health protection • Death in service protection 		

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 2017/18:

Status	Total at 1/4/2017	Total at 31/3/2018
Active	18,230	18,815
Deferred / Undecided/ Frozen	12,678	13,663
Pensioners (inc. dependents)	15,136	15,524
Total	46,044	48,002

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 are 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 1st 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

2017/18 was a challenging year due to a variety of reasons including –

- A continuance of the increased workload caused by employer workforce change exercises (Voluntary Severance and Voluntary Early Retirement Schemes).
- 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.

Moving into 2017/18 performance will be continually monitored and reported to the Pensions Sub-committee and the range of tasks measures and reported will be increased over 2018/19 to include such areas as the calculation of deferred benefits and the payment of refunds to exiting scheme members.

The tasks reported to Pension Sub-Committee during 2017/18 is detailed below:

Cumulative Totals 2017/18	April - June	July - Sept	Oct - Dec	Jan - Mar	
Efficiency/Redundancy	88	31	30	56	
Ill Health	15	19	8	15	
Flexible	22	6	3	18	
Preserved into Payment	49	56	54	54	

Voluntary (inc Employers consent)	48	51	64	35	
Voluntary Age 65	31	38	23	19	
Total Pensions Brought into Payment	253	201	182	197	833
	April - June	July - Sept	Oct - Dec	Jan - Mar	
Total Estimates Received	38	186	184	75	483
Total Estimates Outstanding	15	86	58	51	210
VER being processed to payment	42	20	43	53	158
	April - June	July - Sept	Oct - Dec	Jan - Mar	
Deaths	157	124	128	169	578
Survivors Pensions	60	60	67	74	261

2017/18 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 45 scheme employers 2 late payments were identified and investigated with the scheme employer during 2017/18.

- Annual Benefit Statements

Issued to the active and deferred membership of Tayside Pension Fund, with the deferred membership benefit statements being issued in July 2017 and active membership benefit statements issued in August 2017.

- Pension Saving Statements (Annual Allowance)

Issued prior to 6th October 2017 to approx. 70 members who had breached the annual allowance for 2016/17 of £40,000 were notified by letter.

- Lifetime Allowance

The allowance for 2016/17 was set at £1.00 million. Individual case by case notifications apply.

- Supreme Court Ruling - McDonald (Respondent) v Newton or McDonald (appellant) (Scotland)

This case was in respect of a dispute between the relevant parties in relation to the period of membership to be taken into account for divorce purposes. The resultant ruling sets a precedent and indicates that a move away from current practice in respect of deferred and pensioner members.

Prior to the judgement, the amount of Cash Equivalent Transfer Value (CETV) was adjusted to reflect the period of time for which the member was married during active scheme membership, by the total period of time for which the member was an active member. The ruling agreed that the period of membership should be interpreted as the period of membership in the pension arrangement whether or not contributions are being made in that period.

The Scottish Public Pensions Agency confirmed in March 2018 that section 2.3 of the relevant LGPS guidance is to be updated to take account of the ruling. For more detail see: (<https://www.supremecourt.uk/cases/uksc-2016-0015.html>). The Fund will now provide a full CETV to legal representatives without any proportioning of membership being applied.

- 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.

Due to the size and complexity of this reconciliation Tayside Pension Fund decided to outsource this project to a third party administrator. Accordingly a procurement exercise was undertaken with the successful candidate, Equiniti, commencing work on this in autumn 2017.

The project was designed on a phased basis and at the end of phase 1 it was concluded that 62.34% of relevant member records matched those of HMRC. As such 37.66% of records require further investigation. Phases 1B (bulk reconciliation) and Phase 2 (individual reconciliation) are now being undertaken concurrently.

- 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 2017/18 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 1% 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 1% 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 February 2018 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 2018.

- National Fraud Initiative

Tayside Pension Fund continues to participate in the counter-fraud initiative led by Audit Scotland. The biennial exercise that commenced in 2016/17 identified pension related overpayments of £13,919. Recovery of these funds is now in progress.

An additional exercise was undertaken in November 2017 which focussed on records of deceased, identified overpayments of £1,810, and recovery action where possible is also underway.

- 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.

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

2 new Modern Apprentices were employed in December 2017

2 replacement Pensions Assistants were employed in February 2018

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@dundee.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 2018 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	Xplore Dundee
Dorward House	Perth & Kinross Countryside Trust
Dovetail Enterprises	Perth & Kinross Society for the Blind
Duncan of Jordanstone College of Art	Perth Citizens' Advice Bureau
Dundee Citizens' Advice Bureau	Perth Theatre Co Ltd
Dundee Contemporary Arts Ltd	Robertsons Facilities Management
Dundee Science Centre	Rossie School
Dundee Voluntary Action	Scottish Social Services Council
Forfar Day Care Committee	Social Care and Social Work Improvement Scotland
Highlands & Islands Airports Ltd	Tayside Community Justice Authority
idverde	University of Abertay, Dundee

CONTACT INFORMATION

Key Documents Online

The following documents are on the website's (<http://www.taysidepensionfund.org/about-us/forms-and-publications.aspx>) publications section :

- 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 met their ongoing automatic enrolment duties and provide effective regulation for defined benefit schemes and looks to promote good trusteeship through improving governance and administration.