

Annual Report and Accounts

2019/20



Tayside
Pension Fund

| | |
|---|----|
| Introduction | |
| About the fund | 2 |
| Forewords | 3 |
| Management Commentary | 6 |
| Membership and Transactional Trends | 16 |
| Governance | |
| The Management of Tayside Pension Fund | 17 |
| Annual Governance Statement | 19 |
| Governance Compliance Statement | 26 |
| Risk Policy & Strategy | 27 |
| Financial Statements | |
| Statement of Responsibilities for the Statement of Accounts | 31 |
| Independent Auditor's Report | 33 |
| Tayside Pension Fund Accounts – 31 March 2020 | 36 |
| Notes to the Financial Statements | 38 |
| Funding | |
| Funding Strategy Statement | 56 |
| Actuarial Statement | 66 |
| Investment | |
| Statement of Investment Beliefs | 69 |
| Statement of Investment Principles | 71 |
| Investment Strategy | 75 |
| Investment Performance | 77 |
| Environmental, Corporate and Social Governance | 83 |
| Pension Administration | |
| Scheme Membership and Benefits | 85 |
| Administration Strategy and Performance | 86 |
| Communications Policy | 93 |
| Scheduled and Admitted Bodies | 94 |
| Contact Information | 95 |

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 2020, Tayside Pension Fund had investment assets of £3.703 billion, and a membership of 51,004 across 46 participating employers. These participating employers include 3 local authorities, as well as their subsidiary companies and contractors; a number of universities and colleges; and a range of organisations with funding or service links to local government.

There are approximately 100 LGPS funds in the UK, with 11 of these in Scotland. Tayside is the 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

On behalf of Tayside Pension Fund, I am pleased to present the 2019/20 Annual Report and Financial Statements of Tayside Pension Fund. It is my hope that this report will provide members, employers and other interested stakeholders with key information on the activities of the Fund during the financial year, as well as its investment performance and financial statements.

Global events that occurred this year have presented the most challenging backdrop for investments in recent history. With most of our financial year largely dominated by the threat of US / China trade wars and this resultant market volatility, by February global economic indicators suggested a pick-up in industrial activity and the fund value rose to its highest level. Within weeks the initial detrimental effect of the global impact of COVID-19 was felt, and the fund, whilst outperforming benchmark, ended the financial year suffering negative returns.

The date of the fund's actuarial triennial valuation is 31 March 2020, and in light of the future economic outlook, potential reductions in future asset returns are expected. In spite of this, as long term investors, the Sub-Committee, Officers and their advisors have been prudent decision makers and I hope that their continued approach will assist in mitigating any potential impact on employer contribution rates following this actuarial valuation.

COVID-19 has not only affected financial markets, the impact has been felt in businesses and individuals and I have been pleased by the fund's proactive response in providing support to employers and in prioritising payment of benefits, whilst having to adapt processes immediately to support a fully remote service delivery model. I'd like to take this opportunity to express my thanks to staff for their hard work, commitment and dedication in such challenging times, and also for the care and compassion they provide to members and employers.

As you will note from the Annual Report, the rest of the year has been extremely busy and not without event. Challenges have been met and successfully overcome through improvements to working practices, processes and customer care. Improvements which have been made to the administration duties carried out by the Fund over the year have required the time, commitment and dedication of the staff. I am pleased with the improvements in performance, governance, and the commitment to continue to address and adapt to any new challenges within our operating model and funding strategy.

Although the future will present the fund further challenges, I look forward to continuing my work with the Sub-Committee, Board, Officers and Staff of the Fund in addressing and overcoming these unknowns in order to continue sustainable delivery of efficient, effective, and quality services for the members and employers of the Fund.

Gregory Colgan
Executive Director of Corporate Services



Report by the Chair of the Pension Sub-Committee

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

As today's stewards of Tayside Pension Fund, my colleagues on the Pensions Sub-Committee, the members of our Pension Board and the Fund Officers are always mindful of our responsibilities to all stakeholders, ensuring that the scheme is locally administered effectively and efficiently on their behalf.

In the first half of the year, the fund encountered a number of administrative challenges that required to be addressed. The Sub-Committee provided support ensuring that suitable solutions were implemented. Improvements which were made to operational procedures have been instrumental in the successful response to the challenges posed by COVID-19. I am grateful to the officers and staff for ensuring continued and prioritised service provision during COVID-19, and for their sympathetic treatment of those members and dependants affected.

The Sub-Committee is conscious of our responsibilities as investors and is committed to demonstrating good governance and responsibility via our investment strategy, which underpins our investment beliefs and the decisions we make. In this turbulent and unprecedented environment, this strong platform will assist us to ensure stability and sustainability of the fund.

The fund has committed to a more active stewardship role, and in-keeping with fiduciary roles, is working with others to increase engagement in relation to climate change, and is actively seeking membership of Climate Action 100. Despite the fund value reducing at year end, the fund still outperformed the investment benchmark. Whilst mindful of current market conditions, as long term investors, we concentrate on performance over longer time periods, all of which remain in excess of requirements at this time.

Fund employers are facing uncertain times, and being able to maintain their low contribution rate in a lower return environment will be extremely challenging. I am pleased to inform that the fund took a proactive engagement stance with employers at the beginning of lockdown, and will continue to do so.

This challenging environment as a result of COVID-19 is likely to remain for some time, however Tayside Pension Fund will endure and overcome these, and I look forward to working with officers, staff, and advisors, as well as the Sub-Committee and Pension Board in the year ahead and acknowledge their continued commitment to Tayside Pension Fund.

Baillie Willie Sawers
Chair of Pension Sub-Committee



Report by the Chair of the Pension Board

The role of the Pensions Board is to ensure compliance with the various legislative requirements of Local Government Pension Schemes, and also the requirements of the Pensions Regulator. Representing both employers and members, the Board undertakes a vital role in helping to ensure the correct governance and functioning of Tayside Pension Fund.

Having been a member of the Board since its creation, representing the employers of the fund, I have been on a learning journey with my Board colleagues, and have witnessed how the increased knowledge and experience gained has benefited our abilities to provide a stronger oversight and challenge, as well as support to the fund. This will be essential in light of the challenges the fund will encounter in the future as the effects of COVID-19 become apparent, not just in respect of investment returns, but to the employers and members of the fund, and as a Board The Pension Board will continue to challenge the Fund's officers, investment managers, and advisors to ensure that the levels of responsible stewardship are maintained and that clear perspective remains in relation to legal fiduciary duties.

This year has presented challenges across all areas of the fund, at the quarterly meetings the Board has actively engaged in challenging a full range of reports presented by the fund's officers and decisions taken by the Sub-Committee. Over the year, the Board has been involved in the decision to terminate an investment manager as well as supporting the fund in enhancing its stewardship role without jeopardising fiduciary responsibilities.

In relation to scrutinising the fund's governance and risk management, the Board has taken the opportunity to gain further insight as to the covenant profile of employers within the fund and the proportionate risk management strategies the fund will deploy to protect all employers. The Board has also challenged key points in relation to the fund's administration and its ability to meet its statutory requirements following the report to regulators on the failure to provide deferred membership documentation within the required timescales. The Board was clear in requesting assurance that appropriate actions were taken to make improvements to overcome and prevent further issues in the future.

In addition to what was an extremely productive period for the fund, the year ended with a number of contingent measures being put in place to support members and employers of the fund through this extremely difficult environment, whilst I know that, as required by the constitution, the Chair of the Pension Board rotates between employer and member representatives, and my tenure will come to an end on 31 March 2020, I look forward to continuing with the Board to ensure that the interests of the members and employers are met effectively.

Lastly, I would like to express my gratitude to my Pension Board colleagues for their ongoing commitment to supporting the fund over the last year.

Kenny Dick
Employer 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 2019/20 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector, and the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003. It is intended to keep members, employers and other interested stakeholders informed about the administration and performance of the Local Government Pension Scheme (LGPS) Fund that Dundee City Council is responsible for administering. 30th June 2017 saw the repatriation of Tayside Transport Fund back to the main fund, and since that date, the funds have been managed as one entity.

Purpose and Aims

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

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

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

Policies, Strategies & Objectives

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

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

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

Further information can be found at our website

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

2019/2020 Events and Activities

Procurement Exercises:

- Appointment of PwC to undertake a scheme employer covenant review

PwC were appointed in June 2019 following a procurement exercise undertaken using the National LGPS Framework to review the extent of the Fund's employer's legal obligation and financial ability to support the scheme now and in the future in line with regulatory guidance from the Pensions Regulator.

PwC demonstrated a detailed knowledge and in-depth understanding based on their experience of undertaking reviews of this type. They provided clear and transparent methods of assessment and communications tailored to suit the needs of the Fund and its employers.

- Appointment of Mercer (formerly JLT) to undertake Address Tracing Services

Under the National LGPS Framework for Member Data Services, the Fund made a direct award to Mercer to undertake an address tracing service for members for whom the Fund have been unable to communicate with. The decision to appoint in this manner was made as a result of the knowledge and experience that Mercer has of the Fund in providing pension administration support services to the fund, and their ability to meet the Fund's operational requirements.

- Appointment of PwC to provide Internal Audit Services

In order to provide independent assurance on the overall risk management, internal control and corporate governance processes relating to the Fund made a direct award to PwC under the Crown Commercial Service Framework to provide a full internal audit service. This will fulfil the service requirement of annual internal audits for both 2019/20 and 2020/21. The decision to appoint in this manner was made to enable the Fund to meet immediate requirements. A full procurement exercise for a longer term contract will be undertaken, with award being made to accommodate the audit planning of 2021/22.

Changes to Regulation / Legislation

The following provides a summary of the key regulations that came into force during the financial year 2019/20:

SSI 2019/161 The Local Government Pension Scheme (Miscellaneous Amendments) (Scotland) Regulations 2019
- These regulations came into force on 28th June 2019, with amendments addressing the following key areas:

- Deferred members who have attained age 55 can now elect to have their benefits paid providing they are no longer in the employment (subject to early payment reductions). Ill health retirement cases will no longer be affected by any drop in salary prior to retirement. This provision has been backdated to 1st April 2015.
- The 2 year requirement for surviving partners has been amended. The changes made to the regulations mean that only at time of death do both member and partner need to have been free to marry/form a civil partnership. Other conditions however continue to apply (e.g. the member and partner must have been living together as a married couple/civil partners for at least 2 years and have been financially interdependent or the partner dependent on the member).
- Active members on reduced or unpaid (authorised) leave for a continuous period of less than 31 days (other than through illness or injury) must pay their member contributions based on the pay they would have received but for the absence on their return to work.
- Member contributions cannot be made on or after the day prior to a member's 75th birthday.

Further information can be found by following this link:

<http://lgpslibrary.org/assets/si/scot/SSI2019-161.pdf>

SSI 2019/438 The Local Government Pension Scheme (Increased Pension Entitlement) (Miscellaneous Amendments) (Scotland) Regulations 2019 - These regulations came into force on 1st March 2020 with amendments addressing Guaranteed Minimum Pension (GMP) overpayments identified as part of the GMP reconciliation and rectification exercise. Any LGPS pension in payment should not be reduced.

Further information can be found by following this link:

<http://lgpslibrary.org/assets/si/scot/SSI2019-438.pdf>

SI 2019/383 The Financial Guidance and Claims Act 2018 (Naming and Consequential Amendments) Regulations 2019 - These regulations amended wording referring to The Pensions Advisory Service and the Money Advice Service, as they are now functions of the Money and Pension Service.

Further information can be found by following this link:

<http://lgpslibrary.org/assets/si/uk/SI2019-383.pdf>

Other related legislation published in 2019/20:

- SI2019/262 The Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Fund Payments) Regulations 2019
- SI2019/373 The Guaranteed Minimum Pensions Increase Order 2019
- SI2019/374 The Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2019
- SI2019/376 The Social Security Revaluation of Earnings Factors Order 2019
- SI2019/455 The Public Service Pensions Revaluation Order 2019
- SI2019/546 The Pensions Increase (Review) Order 2019

Strategic Investment Changes

- Termination of Investment Mandates

Following a period of continued poor investment performance, and after consulting with KPMG (the Fund's Investment Advisor), on 24th June 2019 the Pensions Sub-Committee agreed to terminate Alliance Bernstein equity mandate.

As recommended, a full transfer of the portfolio to Legal & General Investment Management (LGIM), who currently manage the Fund's passive equity investments. The transition was undertaken "in-species" and further rebalance to the Fund's global market benchmark undertaken. Transaction fees were kept to a minimum as they utilised their other passive benchmarks to match off where possible. The exercise was fully completed by 8th August 2019. The process was fully managed and monitored, and was also subject to a post transition review by KPMG. This is considered to be a temporary move to provide an interim and efficient investment solution.

The M&G Financing Fund mandate also matured in February 2020.

- Active Stewardship

In-keeping with the Fund's Environmental, Social & Corporate Governance Policy in seeking to enhance effectiveness in implementing the United Nations Principles of Responsible Investment (UNPRI) of responsible stewardship, on 23rd September, the Pensions Sub-Committee authorised officers to join with other institutional investors in Climate Action 100+ (an investor initiative launched in 2017 to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change), and also join with other Scottish LGPS in collaborative engagements on Plastics.

The Fund provided support along with other Scottish funds to use collective influence as active owners to encourage company engagement with the purpose of learning about plastics-related risk profiles, and how this issue is currently managed, and where appropriate, provide constructive feedback with regard to circular economy principles.

The Fund's officers are working towards membership of Climate Action 100+ by joining other Scottish LGPS and institutional investors in setting up a Scottish Responsible Investment Group. The group is meeting on a quarterly basis, with the UNPRI providing secretariat support.

Employer Covenant Review

PwC undertook an assessment of the strength of 18 of the fund's employers in order to gain a fuller understanding the extent to which the employer can afford to support their pension liabilities now and in the future, including the risks to their abilities and what support would available if required. The assessment focussed on the ability of the employer to make the cash contributions to the fund to achieve and maintain full funding over an appropriate period, including addressing reasonable downside risks.

PwC engaged with the employers, and following confirmation of respective conclusions, they provided a report which provided the fund with rating in line with the Pensions Regulator definitions and recommendations for relevant actions in relation to specific employers and outlined available options to strengthen the covenant. In coming months, the fund will be reviewing this report in response to COVID-19 and commencing engagement with employers.

Address Tracing Service

During the year the fund instructed an exercise to identify contact details for members who the fund had been unable to communicate with. Out of 1,653 cases, only 18% remain untraced, however despite contacting the individuals or

dependants at the addresses identified by the exercise, 72% of those now traced have chosen not to communicate further with the fund. The fund will re-issue further communications to these individuals in coming months.

Consultations

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

The outcome to the consultation instructed by the Scottish Scheme Advisory Board launched in June 2018, was published on 4th November 2019.

The consultation sought to establish the views of the administering authorities and employers of the scheme on whether outcomes for the members and sponsors of the Scottish Local Government Pension Scheme (SLGPS) could be improved by altering the structure of the scheme. The following summarises the responses received:

| Future Structure Preference | | | |
|-----------------------------|--|-----------|----------|
| Respondent Group | Retain existing structure / Increase Cooperation | Merger | Pooling |
| Administering Authorities | 9 | 2 | - |
| Admitted Bodies | 27 | 8 | - |
| Multi-Scheme Employers | - | 5 | - |
| Unions | - | 1 | 1 |
| Total | 36 | 16 | 1 |

Summary of respondent views:

- Those in favour of retaining the existing structure and increasing cooperation cited the funding and contribution rates as the key measure of the LGPS Scotland success, and felt that there was insufficient evidence of flaws to justify the risks of structural change, and that this case had not been made for the other options.
- Those in favour of merger or pooling stated that they found the existing system to be sub-optimal and significantly flawed. A response from a fund in favour of merger stated that the regional structure was disadvantaged and estimated cumulative gains of £1bn over a 10 year period from economies of scale.
- There were differing opinions between the merger and pooling respondents with the 2 administering authorities having a preference for 2 to 3 funds, and the multi-scheme employers and unions preferring full merger to one fund.
- Those who favoured merging suggested abandoning the administering authority model and local servicing in favour of internal investment management as they believe that this would yield the most benefits in terms of cost. This would involve the merging of assets and not liabilities.

Summary of the views of The Pensions Institute:

- That the case for merger be further evaluated.
- That they believe there to be a role for the Scottish Government in boosting the supply of Scottish infrastructure that would meet investment criteria, but further investigation should be undertaken to how this could be done in line with the scheme's asset allocation requirements and also considering fiduciary responsibilities against internal management of infrastructure assets.
- That immediate steps be taken to improve reporting on investment management costs.
- That large multi-fund employers could address some operational issues by shifting to an individual fund.

Tayside Pension Fund's preferred option is to promote cooperation in investing and administration between the 11 funds.

Following the publication of the report, the Scheme Advisory Board wrote to the then-Cabinet Secretary, Derek Mackay, stating that it intended to commission further work on the merger model, including a fuller comparison of the status quo/collaboration and merger options, investigating how costs of change compare with the potential organisational, operational and investment benefits and what different governance arrangements would be required under the merger scenario.

The Cabinet Secretary has encouraged the continuing work to look at the structure of the SLGPS and monitor the impact of pooling in England and Wales. The SAB is in the process of undertaking scoping work to expedite this.

- The Local Government Pension Scheme (Scotland)

The Scottish Public Pensions Association (SPPA) undertook a consultation in January 2020, with responses due by 9th March 2020. The purpose of the consultation was to seek the views of stakeholders about possible changes to the local fund valuation cycle. In 2019, the UK Government directed that the LGPS schemes' statutory valuations should move to a quadrennial (four yearly) cycle. The consultation asked whether scheme and local valuations should be aligned.

The consultation also sought to assess the impact of changes introduced in 2018 to the provisions in Regulation 61, which provide administering authorities with the option of suspending an employer's liability to pay an exit payment when managing the process of an employer exiting the scheme.

Tayside Pension Fund provided an Officers response to this consultation stating that they did not believe that valuation cycles should change to 4 years citing that they considered the biggest risk of moving to a 4 year cycle being the longer time period between reviews of employers' contributions and level of funding. The response stated that the period between valuations experience could differ significantly from that which was assumed for the purpose of setting employer contributions; the longer the period until the next review, the further from the funding target an employer could diverge, and as the fund has a duty to protect the employers in the fund, they believed this increased valuation time period to be contradictory to good governance.

The response also confirmed that the option to suspend liability for exit payment fund had never been exercised as the fund works with actuaries to provide affordable exit strategies; and also uses independent review of covenant quality and plans to work with employers to strengthen covenants where possible and in so doing, providing duty of care to all employers.

I.T. Developments

- Increased system utilisation for bulk processing

Throughout the year new processes were introduced to enable bulk processing. These new operations have enabled better resource utilisation and also enabled improved response times. Processes benefitting from this enhanced functionality include:

- New starts
- Transfers to other funds
- Data interrogation and analysis

- Pensionsweb

This year has seen increased utilisation of this secure communication system by the scheme employers. The system is now being fully utilised with all but a few of the smaller employers providing all communications and documentation via this system. Additional documents have been added to the original suite which allows employers easier access to required documents and their returns in suitable format for easier processing.

- Increased security for e mail communications

All members who have access to e mails are now receiving all required pension documentation electronically due to the introduction of Sharefile, which is a secure file sharing solution. This has enabled the fund to respond effectively to the challenges presented by COVID-19 and the need to implement remote working at immediate notice.

- Task Management

The pension system's task management functionality has been phased in throughout the year to accommodate all key tasks.

This increase in system functionality has assisted the following:

- Resource utilisation and workload management

- Improved transparency through increased controls and audit trails
- Improved management reporting in terms of performance

Training, Development and Communication

- Pension Sub-Committee and Board Training

A number of national events were attended over 2019 with programmes covering a wide range of topics which would not generally be covered as in depth through in-house training. The following details the areas these events covered:

- Actuarial valuation, cost cap and GAD Section 13
- ESG investment considerations
- LGPS structure review
- Stakeholder engagement – improving customer journey
- Pension administration
- Cost transparency
- Infrastructure and housing investment
- Investment strategies
- Investing in renewable energy

In addition to the quarterly fund manager presentations, further in-house training sessions were held covering the following topics:

- Investment refresher / consolidation
- Employer covenant
- Fixed income investment
- ESG strategy

A full training plan for the financial year was presented in March 2020.

- Staff Training

A training needs analysis was undertaken in order to address the skills and knowledge gap caused by the large staff turnover over the recent period. An in-house training regime was introduced along with updated process notes to ensure that staff received the appropriate training to enable them to undertake their roles. The fund also received support from another Scottish LGPS fund who have provided on-the-job training for both system functionality and more complex pension administration tasks.

Bespoke training was received from Dundee City Council's Customer Services to provide improved call handling and customer care skills. In addition to this, pensions staff have also undertaken additional GDPR training and have received a tailored session with Dundee City Council's Information Governance Manager.

A formalised staff training and development programme has been introduced to ensure that skills and knowledge gaps are identified and addressed in the future, and this will form a key control for review by the Fund's senior management. The fund is assessing ways in which training can be delivered in the current environment.

In relation to investment and governance training, staff attend CIPFA Pensions Network events hosted bi-annually.

- Employers

The Annual Employers Forum had been planned for 20th March 2020, however this was unable to be held due to COVID-19.

- Employer / Members Sessions

The following sessions were held over the financial year:

| Employer | Topic |
|---|--|
| Perth & Kinross Countryside Trust | General overview of scheme and employers responsibilities |
| Highlands and Islands Airport (November 2019) | Annual Benefit Statement and membership queries (one to one sessions) |
| Highlands and Islands Airport (December 2019) | Employers responsibilities and Pensionsweb input |
| Care Inspectorate (January 2020) | Membership and retirement benefits held (staff development and awareness programme). |
| Tayside Contracts (January 2020) | Pensionsweb Training |

COVID-19 Contingency Measures

Following the UK Government imposed lockdown on 23rd March, the following measures have been undertaken to ensure continued service and support to pension fund members and employers, as well as pensions staff:

- Secure home IT access and file sharing functionality provided to all staff
- Processes adapted to accommodate reduced surface mail and provide online download and return of required documentation
- Service prioritisation of pension and death benefit processing and payment per the Pensions Regulator guidance
- Communications issued to all employers in relation to contribution responsibilities and offer of support provided in line with Pensions Regulator guidance
- Communications advised by the Financial Conduct Authority, Pensions Regulator and Money Advice Service issued to members requesting transfers out of the fund, warning of potential risks.

Fund Update

Membership

The Local Government Pension Scheme is voluntary and is open to all employees of the Scheduled and Admitted Bodies. A full list of employing bodies within Tayside Pension Fund can be found on page 94. The change to membership of the Tayside Fund between 31 March 2019 and 31 March 2020 can be noted below:

| | <u>31 March 2019</u> | <u>31 March 2020</u> |
|----------------------|----------------------|----------------------|
| Contributing Members | 19,091 | 19,117 |
| Pensioners | 16,102 | 16,635 |
| Deferred Pensioners | 8,838 | 10,410 |
| Undecided or Frozen | 4,904 | 4,842 |
| | <u>48,935</u> | <u>51,004</u> |

During 2019/20 financial year there were 563 new pensioners within the Fund, they are analysed as follows –

| | |
|------------------|------------|
| Normal | 265 |
| Early Retirement | 105 |
| Late Retirement | 88 |
| Redundancy | 48 |
| Ill Health | 45 |
| Deferred | 12 |
| Total | <u>563</u> |

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 the Pension Sub-Committee on a quarterly basis.

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

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

In the year to 31 March 2020, the Fund ended 0.29% ahead of benchmark, however due to the global market environment conditions detailed further within the Investment Section of the report, the net fund value had decreased to £3.67bn by 31 March as reported by the funds custodians. The net fund value has recovered significantly since this date (circa £4.1bn), but periods of extreme volatility are expected to continue. Although returns for the year were negative, the fund outperformed in all longer time periods (3 years, 5 years, and from inception), all with positive returns.

- Peer Comparison

Appointed by Scottish Ministers to report under section 13 of the Public Service Pensions Act 2013, in December 2019, The Government Actuary published their report on compliance, consistency, solvency and long-term cost efficiency in respect of the 2017 actuarial valuations of the funds in the Local Government Pension Scheme (Scotland). The following provides key summary of how the fund compares to peers:

Compliance – Tayside Pension Fund reports met all regulatory compliance requirements

Consistency – On a standardised basis, Tayside Pension Fund had the 3rd highest funding level

Solvency – Tayside Pension Fund remained in surplus following asset shock test

Long Term Cost Efficiency - On a standardised basis, Tayside Pension Fund had the lowest employer contribution level.

Further information can be found in the following report:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/852463/191113Section13ReportMain.pdf

- Administration

Against an ever changing and complex background, administration performance was varied over the year with turnaround times for certain processes falling behind statutory targets. Significant improvements to systems and

processes have since been made, as well as additional staff and employer training undertaken to address operational needs. Further details are included in the Administration section of this annual report.

The Pensions Regulator's presence has been increasingly evident since oversight of the administration and governance of public sector schemes was added to its remit in 2015. In order to comply with the Regulator's Code of Practice procedures and documentation are in place for logging and reporting breaches. Breaches are logged internally and if assessed to be material, as was the case of processing delays in respect of deferred benefits information, are required to be reported to the Regulator.

Risk Management

- Risk Management Policy & Strategy

Tayside Pension Fund's Risk Policy and Strategy largely reflects existing practices, and also draws on guidance from the Cipfa publication Managing Risk in the Local Government Pension Scheme and from the Pensions Regulator's code of practice for public service pension schemes.

Further information can be found at our website

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

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

- Failure to process pension payments and lump sums on time
- Failure to collect and account for contributions from employers and employees on time
- Insufficient funds to meet liabilities as they fall due
- Inability to keep service going due to loss of main office, computer system or staff
- Loss of funds through fraud or misappropriation
- Unable to participate in scheme in event of faster than anticipated maturity of the fund
- Significant rises in employer contributions due to poor/negative investment returns
- Failure of global custodian resulting in potential financial loss or loss of information
- Failure of Investment Manager resulting in potential financial loss
- Equity Risk resulting in potential financial loss
- Active Manager Risk resulting in potential financial loss
- Failure to comply with LGPS and other regulations
- Failure to hold personal data securely (incorporating Cyber Crime)
- Failure to keep pension records up-to-date and accurate
- Lack of expertise on Pension Committee, Pension Board or amongst officers
- Over reliance on key officers
- Failure to communicate properly with stakeholders
- Employer Covenant Risk

Quarterly risk review and reporting has been in place for a number of years, and in light of the current environment, these assessments will be critical in identifying areas requiring actions to be taken.

Future Outlook

The recent global market volatility due to COVID-19 and geopolitical uncertainties present unprecedented investment challenges. Whilst the threat of increasing interest rates remains low, the knowledge that there is no plans to delay the UK departure from the EU raises additional risks, though whether any potential future effects will be able to be identified separately as caused by this event as opposed to the fallout from the effects of the current pandemic is unknown at this point.

The potential challenges posed by these financial consequences, as well as changes to legislation and new technologies also remain for the fund's operations, employers and members. The fund will work with its professional advisors to try to sustain its strong position as a long term investor in order to overcome these challenges, and to ensure effective and efficient management is maintained and that member's interests are protected, and employers are supported.

2019/20 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 contributions received of £99.626m which has increased by £2.885m during the year to 31 March 2020. Benefits payable were £116.008m, which increased by £4.756m since the previous year. Contributions have increased slightly as there were more active members participating in the scheme during 2019/20 and benefits payable also increased due to increased pensioner membership.

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 reduced to £3,666.5m from £3,893.1m in 2019.

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

Gregory Colgan
Executive Director of Corporate
Services
Dundee City Council

21 September 2020

David Martin
Chief Executive
Dundee City Council

21 September 2020

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

21 September 2020

TAYSIDE PENSION FUND STATISTICS

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

| Membership | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|-------------------------|----------------|----------------|----------------|----------------|----------------|
| Number of Employers | 45 | 45 | 46 | 46 | 46 |
| Active Members | 18,343 | 18,184 | 18,815 | 19,091 | 19,117 |
| Deferred Members | 11,764 | 12,602 | 13,663 | 13,742 | 15,252 |
| Pensioners | 14,171 | 14,714 | 15,524 | 16,102 | 16,635 |
| Total Membership | 44,278 | 45,500 | 48,002 | 48,935 | 51,004 |

| Member Transactions | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|----------------------------|----------------|-----------------|----------------|-----------------|-----------------|
| | £000 | £000 | £000 | £000 | £000 |
| Employer Contributions | 67,576 | 69,594 | 72,684 | 72,110 | 73,736 |
| Employee Contributions | 23,036 | 23,518 | 23,931 | 24,631 | 25,890 |
| Transfers In | 2,547 | 2,310 | 2,414 | 1,919 | 4,551 |
| Lump Sums Paid | (20,337) | (22,564) | (23,244) | (24,538) | (24,369) |
| Pension Paid | (72,335) | (75,312) | (80,427) | (86,714) | (91,639) |
| Transfer Out | (2,596) | (8,355) | (3,816) | (6,314) | (5,825) |
| Administration costs | (1,323) | (1,378) | (1,500) | (1,932) | (1,884) |
| Net withdrawals | (3,432) | (12,187) | (9,958) | (20,838) | (19,540) |

| Net Asset Movements | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Opening Net Assets | 2,843,135 | 2,839,602 | 3,445,123 | 3,690,623 | 3,893,121 |
| Investment Income | 58,956 | 62,227 | 83,182 | 94,450 | 86,738 |
| Management Costs | (7,589) | (8,516) | (9,248) | (9,028) | (9,605) |
| Member Transactions | (3,432) | (12,187) | (9,958) | (20,838) | (19,540) |
| Repatriation of Transport Fund | - | - | 70,774 | - | - |
| Change in Market Value | (51,468) | 563,997 | 110,750 | 137,914 | (278,393) |
| Closing Net Assets | 2,839,602 | 3,445,123 | 3,690,623 | 3,893,121 | 3,672,321 |

THE MANAGEMENT OF TAYSIDE PENSION FUND

Pension Sub-Committee

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

The table below show the membership of the Pension Sub-Committee to 31st March 2020:

| |
|------------------------------------|
| Bailie Willie Sawers (Chairperson) |
| Bailie Kevin Keenan |
| Councillor Philip Scott |
| Councillor Anne Rendall |
| Councillor George McIrvine |
| Councillor Steven Rome |

All committee members are members of Tayside Pension Funds.

Local Pension Board

As a result of legislative changes to the governance arrangements in relation to pension schemes in 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 Pension Sub-Committee. The Pension Board are responsible for assisting in securing compliance with the regulation and other legislation relating to the governance and administration of the Scheme and also the requirements of the Pensions Regulator.

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

The Pension Board members work in conjunction with Dundee City Council in its role as the administering authority and with officers of the Tayside Pension Fund to ensure that your pension scheme is being run properly and 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 Board as at 31st March 2020:

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

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

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

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 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 |

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 (mandate terminated Jun 2019)
Baillie Gifford & Co
Fidelity Pension Management
Goldman Sachs Asset Management
Legal & General Investment Management
M&G Investment Management (mandate matured Feb 2020)
Schroder Property Investment Management

Investment Advisor

ISIO Services Ltd (previously KPMG LLP)

Actuary

Barnett Waddingham

Custodian

Northern Trust

Banker

Royal Bank of Scotland

Auditors

Audit Scotland (external), PwC (internal)

Corporate Governance Advisor

Pension & Investment Research Consultants Ltd (PIRC)

Performance Measurement

Northern Trust

Legal

Pinsent Mason LLP

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 function of the Council

The Council has set up the Pension Sub-Committee with 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.
 - Ensuring appropriate additional voluntary contributions arrangements are in place.
 - Providing scrutiny for the Fund, reviewing the Annual governance Statement, Annual Accounts and all audit reports and arrangements.
- Prepare, maintain and publish the following:
 - Governance Compliance Statement.
 - Funding Strategy Statement.
 - Statement of Investment Principles.
 - Environmental, Social and Corporate Governance Policy.
 - Administration Strategy
 - Communications Policy
 - Treasury Policy and Strategy

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

During the Coronavirus Lockdown Period items have been circulated to and agreed by all members of the Pension Sub Committee and the Pension Board by email. These will be submitted for information and record purposes at the next meeting on 21st September 2020 which will be held remotely.

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 its remit and role defined in the 2014 regulations.

The Pensions Board consists of an equal number of trade union representatives and employer representatives, drawn from councils and scheduled or admitted bodies within 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.

Internal Audit and other governance measures

Internal audit services for the Tayside Pension Fund have been provided by PricewaterhouseCoopers (PwC) under the Crown Commercial Service Framework for the provision of a full internal audit service to fulfil the service requirements of annual audits for both 2019/20 and 2020/21. PwC's services are delivered in accordance with the Internal Audit Charter, with methodology aligned to the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing, and in conformance with Public Sector Internal Audit Standards (PSIAS).

In order to provide independent assurance on the overall risk management, internal control and corporate governance processes relating to the Fund (Article V of the Minute of Meeting of the Pension Sub-Committee of the Policy and Resources Committee and Pension Board of 23rd September 2019, Report No 306-2019 refers), PwC undertook a risk assessment. This informed an audit approach focussing on the key issues and risks, and a plan was prepared driven by the Fund's strategic goals and associated risks. Considerations were given to the most significant risks and the control environment, as well as the areas where review would be most beneficial to the fund. Tayside Pension Fund's Risk Assessment and 2019/2020 & 2020/2021 Internal Audit Plans were approved by the Pension Sub-Committee (Report No.151-2019 refers).

PwC, taking cognisance that Internal Audit is one of a number of sources of assurance, and in developing the risk assessment and internal audit plan considered the following sources of assurance and reliance:

- Audit Scotland, as external auditors
- Dundee City Council Internal Audit (annual progress review)
- National Fraud Initiative

In order to conform with PSIAS which apply to all internal audit service providers within the public sector, and the Local Authority Accounts (Scotland) Regulations 2014, The Head of Internal Audit is required to provide an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control framework based upon, and limited to the audit work undertaken with the aim of providing reasonable assurance.

To enable opinion to be provided, the following internal audit reviews were undertaken:

- Record keeping and amendments to standing data
- Pension benefits and payments

From these reviews undertaken, there were 4 medium and 2 low risks identified, and recommendations were made to improve controls and operational effectiveness. There were no high or critical rated findings raised or reported, and no weaknesses found that PwC considered to require reporting within the Annual Governance Statement.

Being satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and controls, PwC have given the assurance that no major weaknesses in internal control systems, and that in relation to business critical areas, these are generally satisfactory, but that there are some areas of weakness which could potentially put achievement of objectives at risk. The Internal Audit Annual Report was presented to the Pensions Sub-Committee in accordance with emergency measures (Report No. 164-2020 refers).

The Fund 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. Occasionally incorrect payments may be made because of genuine error and this could result in payments to pensioners being increased. This exercise therefore help promote the best use of public funds. No significant fraud or errors were identified during this process.

The Fund also holds annual investment forums for employers and the trade unions. The agenda for these meetings include presentations by the Fund's Investment and Administration specialists and from the Fund's Actuary, when appropriate. The topics covered include the actuarial and funding position, the benefits structure and investment performance, changes to legislation or regulations, and review of effectiveness. Although this event was scheduled, the event was unable to take place due to the current COVID-19 crisis.

Scope of Responsibility

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

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

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

The Governance Framework

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

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

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

The overall control arrangements include:

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

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

Review of Effectiveness

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

The effectiveness of the governance framework is reviewed annually by a working group of senior officers. The 2019/2020 review of governance arrangements against the Local Code of Corporate Governance has identified the Council as being 96% (2018/2019: 96%) compliant with the principles of the CIPFA/SOLACE (Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives) framework Delivering Good Governance in Local Government. This review incorporates the role of Dundee City Council as Administering Authority for Tayside Pension Fund.

In addition to the above, Executive Directors across the Council undertake an annual self-assessment, in conjunction with their senior management teams, of their own governance, risk management and internal control arrangements. This involved the completion of a 55-point checklist covering seven key governance areas of Service Planning and Performance Management; Internal Control Environment; Fraud Prevention and Detection; Budgeting, Accounting and Financial Control; Risk Management and Business Continuity; Asset Management; and Partnerships. As a service component of Corporate Services, Tayside Pension Fund is incorporated into that service assessment. The outcome is reported at an organisational level, and this indicates that a high level of compliance for Dundee City Council has been maintained, with an overall score above 89% for 2019/2020 (2018/2019: 89%).

In addition to the Internal Audit Service delivered by PwC, the Council's Internal Audit Service also 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, 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 overall audit opinion is 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 2020.

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.

Impact of Coronavirus Pandemic on Corporate Governance

The Covid-19 emergency has impacted on all areas of society and on all aspects of normal daily life, particularly since the implementation of the national lock-down on the 23rd March 2020. These impacts have been severe and are likely to continue through-out the period of the current lock-down and beyond. All levels of government have taken action to support and protect the most vulnerable citizens, local businesses, key suppliers and the third sector during this challenging and unprecedented time.

Tayside Pension Fund are following the guidance issued by the Pensions Regulator in order to provide the most appropriate response to employers and members who have been impacted. These actions seek to maintain resilience and to ensure that the Fund's members and employers are well supported in order to emerge from this crisis.

The governance arrangements of Dundee City Council has also been affected by the restrictions put in place since lock-down. Changes to decision making arrangements and the conduct of meetings were introduced following a meeting with Senior Elected Members on 19th March whereby alternative procedures were implemented for all Council Committee business (including Tayside Pension Fund). The following procedures were implemented with immediate effect, and these arrangements will remain until further notice:

- All non-essential Committee business has been deferred to ensure that all Elected Members and all Officers can concentrate the maximum possible time and effort on supporting the City through the Coronavirus period;

- Referring to the Council's existing Scheme of Delegation of Powers to Officers Standing Orders (pages 153-199) in order to ensure that Services act in accordance with the powers which the Council has already delegated; and
- All essential Committee business which is not covered by the Scheme of Delegation of Powers to Officers will be dealt with as Urgent Matters Arising Between Meetings (i.e. by the Chief Executive / relevant Executive Director, in consultation with the nominated Member of the Administration Group, nominated Members of the Labour Group, Conservative Group and Liberal Democrat Group, the Independent Member and the Lord Provost.

Continuous Improvement Agenda

The following are service improvements specific to Tayside Pension Fund achieved during 2019/20:

- Review of a number of policies as follows:
 - Treasury Management Policy & Strategy
 - Statement of Investment Principles
 - Environmental, Social and Corporate Governance Policy
 - Funding Strategy Statement
 - Risk Management Policy & Strategy
- Employer covenant review
- Address tracing exercise
- Training & CPD program for Pension Board and Pension Sub-Committee members
- Staff training needs analysis and training program
- Increased system utilisation, enabling bulk processing and task management
- Full remote working capabilities with appropriate system and communication security

The following are service improvements specific to Tayside Pension Fund planned for 2020/21:

| Business Area | Item | Description | Status / Information |
|----------------------|----------------------|--|---|
| Finance & Governance | Employer Support | Providing assistance to employers by undertaking assessment of requests for amendments to contributions in line with tPR guidance | Application process opened in March 2020 for contributions of 2020/21. |
| | Employer Covenant | Employer engagement following outcome of review undertaken 2019/20 with aim of implementing recommendations | Exercise will be undertaken by PwC following return end of contingency measures |
| | Admission Agreements | Standardisation of admission agreements | Exercise will coincide with covenant exercise |
| Investment | Actuarial Valuation | Finalisation of 2020 valuation exercise and implementation of any changes to employer contribution rates which may be required following outcome | Valuation report expected to be reported to Pension Sub-Committee in December 2020 |
| | Investment Strategy | Review of strategy as the result of outcome of valuation | Following report in December 2020, review to be undertaken and reported to Pension Sub-Committee in March 2021 |
| | Active Stewardship | Membership of Climate Action 100 | Initial stage requires membership of the Institutional Investors Group on Climate Change (IIGCC) - September 2020 |

| | | | |
|----------------|----------------------|---|---|
| | Actuarial Service | Procurement exercise | Will be undertaken following outcome of 2020 valuation |
| Administration | Pension System | Procurement exercise | Will be undertaken following issue of Annual Benefit Statements |
| | Policy & processes | Annual review of strategy and implementation of formalised version control for processes | To be undertaken in-keeping with internal audit recommendations |
| | Management Reporting | Review of system reporting provision following implementation of task management for all administration key tasks | Will be undertaken following issue of Annual Benefit Statements |

Information on the Fund is available from the following links:

Minutes of Joint Pension Sub-Committee and Pension Board meetings – http://www.dundeeccity.gov.uk/minutes/meetings?in_cc=35&in_dat=1

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

- The Statement of Investment Principles, concerning the approach to the investment of the fund.
- The Business Plan, communicating the aims and objectives of the Fund for the forthcoming year.
- The Treasury Management Policy and Strategy for the forthcoming year.
- The Actuary's report on the 2017 valuation.
- The Funding Strategy Statement, concerning the management of the identification and management of the Fund's liabilities.
- The Risk Policy & Register
- The 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. The Fund is committed to monitoring the implementation of improvement actions noted in the Annual Governance Statement at next year's annual review.

David Martin

Bailie Willie Sawers

Chief Executive
Dundee City Council
21 September 2020

Chair of Pension Sub-Committee
Tayside Pension Funds
21 September 2020

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 43 other large and small employers.

The main functions are:

- management and investment of scheme funds; and
- administration of scheme benefits

These functions are carried out in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972.

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

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

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

2. Delegation

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

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

3. Terms of Delegation

The terms, structure and operational procedures of delegation are set out in the report to Dundee City Council's Policy & Resources Committee on 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:

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

5. Representation

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

6. Compliance

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

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

David Martin
Chief Executive
Dundee City Council
21 September 2020

Bailie Willie Sawers
Chair of Pension sub-committee
Tayside Pension Funds
21 September 2020

RISK POLICY & STRATEGY

1. Introduction

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

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

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

2. Background

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

3. Risk Types

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

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

A more detailed description of each of the above risks is included on page 29.

4. Risk Policy

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

5. Risk Management Objectives

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

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

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

6. Risk Management Strategy

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



6.1. Identifying Risks

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

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

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

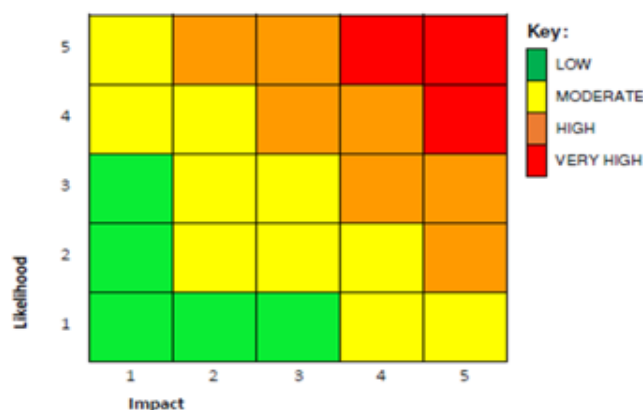
6.2. Risk Assessment

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

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

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

Risk Assessment Matrix



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

6.3. Controlling Risk (Treat or Avoid)

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

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

6.4. Monitoring & Reviewing Risk

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

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

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

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

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

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

7. Risk Appetite

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

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

SUMMARY OF RISK TYPES

Funding/Liability Risk

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

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

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

Investment Risk

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

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

Administrative Risk

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

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

Employer Risk

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

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

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

Resource and Skill Risk

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

Regulatory and Compliance Risk

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

Reputational Risk

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

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Administering Authority's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of the financial affairs of the Pension Funds in its charge and to secure that one of its officers has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this authority, that officer is the Executive Director of Corporate Services.
- Manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets.
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- Approve the Annual Accounts for signature.

Bailie Willie Sawers
Chair of Pension sub-committee
Tayside Pension Funds
21 September 2020

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 2020).

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 2020, and their income and expenditure for the year ending 31 March 2020.

Gregory Colgan BAcc (Hons), ACMA, CGMA
Executive Director of Corporate Services
Dundee City Council
21 September 2020

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of Dundee City Council as administering authority for Tayside Pension Fund and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report and accounts of Tayside Pension Fund for the year ended 31 March 2020 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the financial transactions of the Tayside Pension Fund during the year ended 31 March 2020 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)) as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed under arrangements approved by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is 4 years. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Corporate Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

I have reported in a separate Annual Audit Report, available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Executive Director of Corporate Services and the Pension Sub-Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Executive Director of Corporate Services is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial

reporting framework, and for such internal control as the Executive Director of Corporate Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director of Corporate Services is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Pension Sub-Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual report

The Executive Director of Corporate Services is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

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

22 September 2020

TAYSIDE PENSION FUND - FUND ACCOUNT

| 2018/2019 £000 | | Note | 2019/2020 £000 |
|-------------------|---|------|-------------------|
| | Dealings with Members, Employers and other directly involved in the fund | | |
| 72,110 | Employers' contributions | 5 | 73,736 |
| 24,631 | Employees' contributions | 5 | 25,890 |
| 1,919 | Transfers in from other pension funds | 7 | 4,551 |
| 98,660 | | | 104,177 |
| (111,252) | Benefits | 6 | (116,008) |
| (6,314) | Payments to and on account of leavers | 8 | (5,825) |
| (117,566) | | | (121,833) |
| (18,906) | Net Withdrawals from dealings with members | | (17,656) |
| (1,932) | Administration Expenses | 21 | (1,884) |
| (20,838) | Net Withdrawals from dealings with Members including Administration Expenses | | (19,540) |
| | Returns on Investments | | |
| 94,450 | Investment Income | 9 | 86,738 |
| 137,914 | Change in Market Value of Investments | 10a | (278,393) |
| (9,028) | Investment Management Expenses | 22 | (9,605) |
| 223,336 | Net Returns on Investments | | (201,260) |
| 202,498 | Net increase/(decrease) in Fund during the year | | (220,800) |
| 3,690,623 | Opening Net Assets of the scheme | | 3,893,121 |
| 3,893,121 | Closing Net Assets of the scheme | | 3,672,321 |

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

TAYSIDE PENSION FUND NET ASSETS STATEMENT

| 2018/19 £000 | | Note | 2019/20 £000 |
|------------------|---|-----------|------------------|
| 3,902,965 | Investment Assets | 10 | 3,702,723 |
| (21,653) | Investment Liabilities | 10 | (36,249) |
| 3,881,312 | Total Net Investments | 10 | 3,666,474 |
| 17,025 | Current Assets | 18 | 9,997 |
| <u>3,898,337</u> | | | <u>3,676,471</u> |
| (5,216) | Current Liabilities | 19 | (4,150) |
| 3,893,121 | Net assets of the fund available to fund benefits at the end of the reporting period | | 3,672,321 |

Gregory Colgan BAcc (Hons), ACMA, CGMA
Executive Director of Corporate Services
Dundee City Council
21 September 2020

The Net Asset Statement represents the value and liabilities as at 31 March 2020 (excluding liability to pay pensions).

The Unaudited Accounts were issued on 22 June 2020 and the Audited Accounts were authorised for issue on 21 September 2020.

NOTES TO TAYSIDE PENSION FUND FINANCIAL STATEMENTS

1 - The Local Government Pension Scheme

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

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

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

Tayside Pension Fund is maintained for the benefit of its membership (including existing and deferred pensioners). This comprises the majority of Local Government employees within Dundee City Council, Perth and Kinross Council and Angus Council as well as 43 other bodies (page 90). Teachers are not included in the Scheme as they have a separate, nationally established, statutory arrangement.

2 - Basis of Preparation of the Financial Statements

The financial statements summarise the Fund's transactions for the 2019/20 financial year and its position as at the 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. In addition, consideration has been given to the Local Government Pension Scheme Fund Accounts 2019/20 - example accounts and disclosure checklist published by the Chartered Institute of Public Finance Accountants (CIPFA).

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

3 - Statement of Accounting Policies

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

Investments

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

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

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

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

Income and Expenditure

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

Investment Income

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

Cash and Cash Equivalents

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

Contributions

Contributions represent the amounts received from organisations participating in the Fund, these may be from the administering authority, and other scheduled bodies or admitted bodies. Such amounts relate both to their own employer contributions and to those of their pensionable employees. Employee and employer's contributions due as at 31 March 2020 have been accrued.

Foreign Currency

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

Investment Management Expenses

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

Administrative Overheads and Expenses

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

Acquisition Cost

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

Additional Voluntary Contributions

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

Transfers to and from other Schemes

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

Taxation

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

VAT

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

Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. Derivatives are valued at fair value on the following bases: assets at bid price, and liabilities at offer price. Changes in the fair value are included in the change in market value in the Fund Account. The value of open futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin. The value of forward foreign exchange contracts is based on market forward exchange rates at the year-end and determined as the gain or loss that would arise if the contract were matched at the year-end with an equal and opposite contract.

Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised on the date the fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the fund.

Financial Liabilities

Financial liabilities are included in the net assets statement on a fair value basis as at the reporting date. A financial liability is recognised on the date the fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

Fair Value Measurement

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

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

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

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

Actuarial present value of promised retirement benefits

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

4 - Related Party Transactions

Dundee City Council

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

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

| | 2019 £000 | 2020 £000 |
|---|--------------|--------------|
| <u>Transactions</u> | | |
| Administration Costs | 1,192 | 1,280 |
| <u>Balances</u> | | |
| Due from Dundee City Council as at 31 March | 4,029 | 3,051 |

Key Management Personnel

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

| | 2019 £000 | 2020 £000 |
|--------------------------|--------------|--------------|
| Short-term benefits | 8 | 8 |
| Post-employment benefits | 1 | 1 |

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

5 – Contributions Receivable

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

| | Administering Authority £000 | Other Scheduled Bodies £000 | Admitted Bodies £000 | Total £000 |
|------------------------|------------------------------------|--------------------------------------|----------------------------|---------------|
| 2019/20 | | | | |
| Member contributions | 7,638 | 13,631 | 4,621 | 25,890 |
| Employer contributions | 21,329 | 38,136 | 12,568 | 72,033 |
| Strain on Fund | 212 | 918 | 573 | 1,703 |
| Total | 29,179 | 52,685 | 17,762 | 99,626 |

| | Administering Authority £000 | Other Scheduled Bodies £000 | Admitted Bodies £000 | Total £000 |
|------------------------|------------------------------------|--------------------------------------|----------------------------|---------------|
| 2018/19 | | | | |
| Member contributions | 7,368 | 12,716 | 4,547 | 24,631 |
| Employer contributions | 20,763 | 35,930 | 12,380 | 69,073 |
| Strain on Fund | 132 | 2,803 | 100 | 3,035 |
| Deficit recovery | - | - | 2 | 2 |
| Total | 28,263 | 51,449 | 17,029 | 96,741 |

6 – Benefits Payable

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

| | Total Benefits Payable (incl. Lump Sums) | | Lump sums (Retirement and Death Benefits) | |
|-------------------------|---|-----------------|--|-----------------|
| | 2018/19 £000 | 2019/20 £000 | 2018/19 £000 | 2019/20 £000 |
| Administering Authority | 38,709 | 41,930 | 7,646 | 9,240 |
| Other Scheduled Bodies | 56,794 | 57,348 | 12,822 | 10,940 |
| Admitted Bodies | 15,749 | 16,730 | 4,070 | 4,189 |
| | 111,252 | 116,008 | 24,538 | 24,369 |

7 – Transfers In From Other Pension Funds

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

| | Transfer Values Received | |
|-------------------------|--------------------------|-----------------|
| | 2018/19 £000 | 2019/20 £000 |
| Administering Authority | 155 | 1,286 |
| Other Scheduled Bodies | 888 | 1,369 |
| Admitted Bodies | 876 | 1,896 |
| | 1,919 | 4,551 |

8 – Payments To And on Account Of Leavers

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

| | Transfer Values Paid | | Refunds | |
|-------------------------|----------------------|-----------------|-----------------|-----------------|
| | 2018/19 £000 | 2019/20 £000 | 2018/19 £000 | 2019/20 £000 |
| Administering Authority | 3,144 | 1,540 | 52 | 26 |
| Other Scheduled Bodies | 1,870 | 2,994 | 99 | 59 |
| Admitted Bodies | 1,116 | 1,188 | 33 | 18 |
| | 6,130 | 5,722 | 184 | 103 |

9 - Investment Income

| | 2018/19 £000 | 2019/20 £000 |
|--|-----------------|-----------------|
| Fixed Interest Securities | 21,636 | 23,869 |
| Dividends from Equities | 56,315 | 43,764 |
| Income from Pooled Investment Vehicles | 17,819 | 19,212 |

| | | |
|---------------------------|----------------------|----------------------|
| Interest on Cash Deposits | 268 | 421 |
| Securities Lending | 51 | 381 |
| Other Income | 397 | 42 |
| | <u>96,486</u> | <u>87,689</u> |
| Withholding Tax | (2,036) | (951) |
| | <u>94,450</u> | <u>86,738</u> |

10 – Investments

| Market Value as at | 31 March 2019 | 31 March 2020 |
|--|--------------------------------|--------------------------------|
| Investment Assets | £000 | £000 |
| Fixed Interest Securities | 559,080 | 596,663 |
| Equities | 2,238,215 | 1,580,652 |
| Pooled Investments | 548,565 | 946,608 |
| Pooled Property Investments | 472,896 | 449,773 |
| Private Equity / Infrastructure | 830 | - |
| Derivative contracts | 4,339 | 2,700 |
| Cash deposits | 56,160 | 90,523 |
| Investment Income due | 15,967 | 14,187 |
| Amounts receivable for sales | 5,604 | 5,218 |
| Amounts receivable for pending spot FX | 11 | 3 |
| Other Investment assets | 1,298 | 16,396 |
| Total Investment Assets | <u>3,902,965</u> | <u>3,702,723</u> |
| Investment Liabilities | | |
| Derivative contracts | (2,211) | (20,847) |
| Amounts payable for purchases | (15,449) | (15,322) |
| Amounts payable for pending spot FX | - | (3) |
| Other Investment liabilities | (3,993) | (77) |
| Total Investment Liabilities | <u>(21,653)</u> | <u>(36,249)</u> |
| Net Investment Assets | <u><u>3,881,312</u></u> | <u><u>3,666,474</u></u> |

10a Reconciliation of Movements in Investments and Derivatives

| Market value at 31/03/19 | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Change in Market Value during the year | Market value at 31/03/20 |
|--------------------------|---|---|--|--------------------------|
|--------------------------|---|---|--|--------------------------|

| | £000 | £000 | £000 | £000 | £000 |
|---------------------------------|------------------|---------|-----------|------------------|------------------|
| Fixed Interest Securities | 559,080 | 290,344 | (245,287) | (7,474) | 596,663 |
| Equities | 2,238,215 | 523,945 | (558,032) | (623,476) | 1,580,652 |
| Pooled Investments | 548,565 | 64,960 | (61,162) | 394,246 | 946,609 |
| Pooled property Investments | 472,896 | 14,610 | (18,562) | (19,171) | 449,773 |
| Private equity / Infrastructure | 830 | - | (862) | 32 | - |
| | 3,819,586 | 893,859 | (883,905) | (255,843) | 3,573,697 |
| Derivative contracts | 2,128 | 90,813 | (81,916) | (29,172) | (18,147) |
| | 3,821,714 | 984,672 | (965,821) | (285,015) | 3,555,550 |
| Other investment balances | (2,696) | | | 5,517 | 16,319 |
| Cash deposits | 56,160 | | | 805 | 90,523 |
| Amounts receivable for sales | 5,604 | | | (27) | 5,217 |
| Investment income due | 15,967 | | | - | 14,187 |
| Spot FX contracts | 11 | | | 50 | - |
| Amounts payable for purchases | (15,448) | | | 277 | (15,322) |
| Net Financial Assets | 3,881,312 | | | (278,393) | 3,666,474 |

10b Analysis of Investments

| Market Value as at | 31 March 2019 | 31 March 2020 |
|---|---------------|---------------|
| | £000 | £000 |
| Fixed Interest Securities | | |
| UK Public sector quoted | 26,723 | 34,707 |
| UK Corporate quoted | 166,741 | 177,107 |
| Overseas Public sector quoted | 14,594 | 16,173 |
| Overseas Corporate quoted | 351,022 | 368,676 |
| | 559,080 | 596,663 |
| Equities | | |
| UK quoted | 663,661 | 415,664 |
| Overseas quoted | 1,574,554 | 1,164,988 |
| | 2,238,215 | 1,580,652 |
| Pooled Investments | | |
| UK Fixed income unit trust | 91,727 | 102,309 |
| UK Equity unit trust | 18,214 | 15,088 |
| Overseas Equity unit trust | 438,624 | 829,211 |
| | 548,565 | 946,608 |
| UK Pooled Property Investments | 472,896 | 449,773 |
| Private Equity / Infrastructure – UK venture capital | 830 | - |
| Investment assets | | |
| Derivative contracts | 4,339 | 2,700 |
| Cash deposits | 56,160 | 90,523 |
| Investment Income due | 15,967 | 14,187 |
| Amounts receivable for sales | 5,604 | 5,218 |
| Amounts receivable for pending spot FX | 11 | 3 |

| | | |
|-------------------------------------|------------------|------------------|
| Other Investment assets | 1,298 | 16,396 |
| | 83,379 | 129,027 |
| Total Investment Assets | 3,902,965 | 3,702,723 |
| | | |
| Investment Liabilities | | |
| Derivative contacts | (2,211) | (20,847) |
| Amounts payable for purchases | (15,449) | (15,322) |
| Amounts payable for pending spot FX | - | (3) |
| Other Investment liabilities | (3,993) | (77) |
| Total Investment Liabilities | (21,653) | (36,249) |
| | | |
| Net Investment Assets | 3,881,312 | 3,666,474 |

10c Investments Analysed by Fund Manager

The Fund's investment assets are under the management of seven external fund managers. At 31 March 2020 the market value of these investment assets was £3,666.5m (2019 £3,881.3m), managed as follows:

| | | 2019 | | 2020 | |
|------------------------------|--------------------|------------------|--------------|------------------|--------------|
| | | £000 | % | £000 | % |
| Schroders Property | Property | 474,658 | 12.2 | 465,873 | 12.7 |
| Fidelity | Equity | 814,853 | 21.0 | 776,682 | 21.2 |
| Baillie Gifford | Equity | 488,997 | 12.6 | 473,394 | 12.9 |
| Alliance Bernstein | Equity | 558,656 | 14.4 | - | - |
| Goldman Sachs | Bond | 339,011 | 8.7 | 356,917 | 9.8 |
| Fidelity | Bond | 331,437 | 8.6 | 371,609 | 10.1 |
| Baillie Gifford | Equity (UK) | 478,865 | 12.4 | 389,397 | 10.6 |
| M & G | Infrastructure | 830 | - | - | - |
| Legal & General | Equity | 392,644 | 10.1 | 829,212 | 22.6 |
| GSAM Broad Street | Infrastructure | 1,327 | - | 3,377 | 0.1 |
| Northern Trust | Securities Lending | - | - | 13 | - |
| Net Investment Assets | | 3,881,278 | 100.0 | 3,666,474 | 100.0 |

The following investments represent more than 5% of the net assets of the scheme as at 31 March 2020:

| | Market value as at 31/03/2019 £000 | % of total fund | Market value as at 31/03/2020 £000 | % of total fund |
|--|---------------------------------------|-----------------|---------------------------------------|-----------------|
| Legal & General All World Equity Index (OFC) | 392,644 | 10.1 | 829,212 | 22.6 |
| | <u>392,644</u> | | <u>829,212</u> | |

11 - Analysis of Derivatives

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

Futures

| Type | Expires | Economic exposure £000 | Market Value as at 31/03/2019 £000 | Economic exposure £000 | Market Value as at 31/03/2020 £000 |
|-------------------------------|--------------------|---------------------------|---|---------------------------|---|
| Assets | | | | | |
| UK Fixed Income Futures | Less than one year | - | - | 36,365 | 331 |
| UK Cash Futures | Less than one year | - | - | - | - |
| Overseas Fixed Income Futures | Less than one year | 40,262 | 526 | 13,577 | 481 |
| Overseas Cash Futures | Less than one year | - | - | - | - |
| Total assets | | | 526 | | 812 |
| Liabilities | | | | | |
| UK Fixed Income Futures | Less than one year | - | - | (37,180) | (519) |
| Overseas Fixed Income Futures | Less than one year | (113,256) | (1,824) | (71,637) | (1,992) |
| Total liabilities | | | (1,824) | | (2,511) |
| Net futures | | | (1,298) | | (1,699) |

Open Forward Currency Contracts

| Settlements | Currency bought | Local Value 000 | Currency sold | Local Value 000 | Asset value 000 | Liability value 000 |
|---|-----------------|--------------------|---------------|--------------------|--------------------|------------------------|
| Up to one month | GBP | 21,579 | EUR | (23,855) | 460 | - |
| Up to one month | USD | 71,577 | GBP | (59,504) | 349 | (2,159) |
| Up to one month | GBP | 227,454 | USD | (294,013) | 139 | (9,666) |
| One to six months | GBP | 83,828 | EUR | (99,612) | 170 | (4,558) |
| One to six months | EUR | 18,118 | GBP | (16,261) | 160 | (376) |
| One to six months | GBP | 42,190 | USD | (53,458) | 514 | (1,402) |
| One to six months | USD | 7,969 | GBP | (6,454) | 96 | (128) |
| Up to one month | EUR | 3,283 | GBP | (2,952) | - | (47) |
| Open forward currency contracts at 31 March 2020 | | | | | 1,888 | (18,336) |
| Net forward currency contracts at 31 March 2020 | | | | | | (16,448) |

Prior year comparative:

Open forward currency contracts at 31 March 2019

Asset value

3,813

Liability value

(387)

Net forward currency contracts at 31 March 2019

3,426

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

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

12 - Fair Value

Fair Value Hierarchy

| Market Value as at 31/03/2020 | 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 | 1,596,619 | 1,976,619 | 54,923 | 3,628,161 |
| Loans and receivables | 61,177 | 13,385 | - | 74,562 |
| Financial liabilities at a fair value through profit and loss | (2,588) | (33,661) | - | (36,249) |
| Net financial assets | 1,655,208 | 1,956,343 | 54,923 | 3,666,474 |

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

12a Reconciliation of Fair Value Measurements within Level 3

| | Market Value as at 31/03/2019 £000 | Purchases £000 | Sales £000 | Unrealise d gains (losses) £000 | Realised gains (losses) £000 | Market Value as at 31/03/2020 £000 |
|-----------------------|---|-------------------|---------------|--|---------------------------------------|---|
| Overseas Equities | 5,339 | - | (2,409) | (980) | (709) | 1,241 |
| UK property Funds | 41,511 | 14,605 | (1,196) | (1,443) | 205 | 53,682 |
| UK Venture Capital | 830 | - | (863) | (830) | 863 | - |

| | | | | | | |
|--------------|---------------|---------------|----------------|----------------|------------|---------------|
| Total | 47,680 | 14,605 | (4,468) | (3,253) | 359 | 54,923 |
|--------------|---------------|---------------|----------------|----------------|------------|---------------|

12b Sensitivity of Assets Valued at Level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors (ISIO), Tayside Pension Fund has determined that the valuation methods are likely to be accurate to within the following ranges, and has set out the below consequent potential impact on the closing value of the investments held at 31 March 2020.

| | Assessed valuation range (+/-) | Value as at 31/03/2020 £000 | Value on Increase £000 | Value on Decrease £000 |
|--------------------|--------------------------------|--------------------------------|---------------------------|---------------------------|
| Overseas Equities | 5% | 1,241 | 1,303 | 1,179 |
| UK property Funds | 10% | 53,682 | 59,050 | 48,314 |
| UK Venture Capital | 15% | - | - | - |
| Total | | 54,923 | 60,353 | 49,493 |

13 - Financial Instruments

13a Classification of Financial Instruments

| Market Value as at 31/03/2019 | | | Market Value as at 31/03/2020 | | |
|--|-----------------------|---|--|-----------------------|---|
| Designated as fair value through profit and loss | Loans and receivables | Financial liabilities at amortised cost | Designated as fair value through profit and loss | Loans and receivables | Financial liabilities at amortised cost |
| £000 | £000 | £000 | £000 | £000 | £000 |
| Financial assets | | | | | |
| 559,080 | - | - | Fixed Interest securities | 596,663 | - |
| 2,238,215 | - | - | Equities | 1,580,652 | - |
| 548,565 | - | - | Pooled investments | 946,608 | - |
| 472,896 | - | - | Pooled property investments | 449,773 | - |
| 830 | - | - | Private equity / infrastructure | - | - |
| 4,339 | - | - | Derivative contracts | 2,700 | - |
| 22,333 | 33,827 | - | Cash | 35,366 | 55,157 |
| 1,309 | 15,967 | - | Other investment balances | 16,399 | 14,187 |
| - | 5,604 | - | Debtors | - | 5,218 |
| 3,847,567 | 55,398 | - | 3,628,161 | 74,562 | - |
| Financial liabilities | | | | | |
| - | - | (2,211) | Derivative contracts | - | (20,847) |
| - | - | (3,993) | Other Investment balances | - | (80) |
| - | - | (15,449) | Creditors | - | (15,322) |
| - | - | (21,653) | - | - | (36,249) |
| 3,847,567 | 55,398 | (21,653) | Total | 3,628,161 | 74,562 |
| 3,881,312 | | | Grand Total | 3,666,474 | |

13b Net Gains and Losses on Financial Instruments

| Market Value as at 31/03/2019 | | Market Value as at 31/03/2020 | |
|-------------------------------|------------------------------------|-------------------------------|--|
| £000 | | £000 | |
| | Financial Assets | | |
| 158,551 | Fair value through profit and loss | (255,843) | |
| 2,948 | Loans and receivables | 6,649 | |
| | Financial Liabilities | | |
| (22,339) | Fair value through profit and loss | (29,172) | |
| (1,246) | Loans and receivables | (27) | |
| 137,914 | | (278,393) | |

14 - Transaction Costs

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the fund such as fees, commissions, stamp duty and other fees. The total for the year was £0.831m (2019 £0.902m).

15 - Stock Lending

The total amount of stock released to third parties under a stock lending arrangement at 31 March 2020 was £155.8m (2019 £191.9m). These assets continue to be recognised in the Fund's financial statements. No liabilities are associated with the loaned assets. Stock lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower.

16 - Additional Voluntary Contributions (AVCs)

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

| Net Asset Value | 31 March 2019 | | 31 March 2020 | |
|------------------------|---------------|---------|---------------|---------|
| | | £000 | | £000 |
| Prudential | | 5,764 | | 6,209 |
| Standard Life | | 4,240 | | 3,853 |
| Contributions Received | | 2018/19 | | 2019/20 |
| | | £000 | | £000 |
| Prudential | | 1,940 | | 1,986 |
| Standard Life | | 217 | | 191 |

17 - Actuarial Present Value of Promised Retirement Benefits

The actuarial value of the promised retirement benefits as at 31 March 2020, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £4,309.0m (2019 £4,515.0m) of which £4,205.8m (2019 £4,365.7m) is a vested obligation and £103.2m (2019 £149.3m) 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 a result of a ruling in The Court of Appeal (the McCloud judgement) in December 2018, which relates to age discrimination arising from public sector pension scheme transition arrangements, there is the potential for an impact on employer pension liabilities for Tayside Pension Fund. Based on the Government Actuary's Department's estimations and the remedies proposed in the currently ongoing consultation, an explicit allowance for the estimated impact of the McCloud judgement has been included in the Fund's liabilities.

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

| IAS19 Assumptions Used | 2018/19 | 2019/20 |
|-----------------------------------|---------|---------|
| | % | % |
| Inflation / pension increase rate | 2.40 | 1.90 |
| Salary increase rate | 3.40 | 2.90 |
| Discount rate | 2.40 | 2.35 |

18 – Current Assets

| | 2018/19 | 2019/20 |
|--------------------------------------|---------|---------|
| | £000 | £000 |
| Contributions Due from Employers | 9,638 | 7,684 |
| Cash and Bank | 6,000 | 1,260 |
| Pending sales ledger income | 522 | 463 |
| Management fees rebate from Fidelity | 273 | - |
| Employer cessation valuation | 589 | 589 |
| Miscellaneous debtors | 3 | 1 |
| | 17,025 | 9,997 |

19 – Current Liabilities

| | 2018/19 | 2019/20 |
|----------------------------------|---------|---------|
| | £000 | £000 |
| Unpaid benefits | 2,353 | 2,203 |
| Custodian fees | 32 | 25 |
| Investment Manager Fees | 1,978 | 1,736 |
| Consultancy fees | 27 | - |
| Pending purchase ledger payments | 763 | 35 |
| Outsourcing contract | 4 | - |
| HMRC | 9 | 34 |
| Audit Services | 17 | 53 |
| Miscellaneous creditors | 33 | 64 |
| | 5,216 | 4,150 |

20 - Audit Fee & Other Services

The Fund have been subject to separate external and internal audits to that of the Council. The Fund incurred an external audit fee of £25,670 for the financial year (2019 £25,119). During 2019/20 financial year the Fund received no other services from Audit Scotland. The Fund also incurred an internal audit fee of £36,320 from PwC (2019 DCC Internal Audit £5,440)

21 – Management Expenses

| | 2018/19 | 2019/20 |
|--------------------------------|---------|---------|
| | £000 | £000 |
| Administrative costs* | 1,828 | 1,779 |
| Investment management expenses | 9,028 | 9,605 |
| Oversight and governance costs | 104 | 105 |
| | 10,960 | 11,489 |

* Administration costs include outsourcing costs of £29k (2019 £263k) for one-off exercise on Guaranteed Minimum Pension equalisation which started in 2018/19 financial year.

22 – Investment Expenses

| | 2018/19 | 2019/20 |
|--------------------------------|---------|---------|
| | £000 | £000 |
| Management fees | 7,949 | 8,634 |
| Custody fees | 100 | 89 |
| Performance monitoring service | 28 | 26 |
| Investment consultancy | 51 | 27 |
| Commission recapture | (2) | (2) |

| | | |
|--|--------------|--------------|
| Transaction costs | 902 | 831 |
| | <u>9,028</u> | <u>9,605</u> |
| Investment Management fees as a %age of Net Financial Assets | 0.23% | 0.26% |

23 – Nature and Extent of Risks arising from Financial Instruments

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure market risk (other price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

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

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

Market Risk

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

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

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk, arising from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

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

Other price risk – sensitivity analysis

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

| | Potential Market Movement |
|-----------------|---------------------------|
| | +/- per annum |
| Equities | |
| UK | 21.0% |

| | |
|-----------------------|-------|
| Emerging Markets | 30.0% |
| Global | 21.0% |
| Bonds | |
| UK Index-Linked Gilts | 11.0% |
| UK Gilts | 6.0% |
| UK Corporate | 9.5% |
| Other | 7.5% |
| Property | 13.0% |
| Alternatives | 22.0% |
| Cash | 1.0% |

Source: KPMG

Potential price changes are determined based on the historical volatility of asset class returns and expected future returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets and are based on the investment adviser's 10 year capital market assumptions for asset class volatilities as at 31 March 2020. If the market price of the Fund's investments increases/decreases in line with the above, the change in the net assets available to pay benefits in the market price could be as follows:

| | Value £ | % Change | Potential change in year in the net assets available to pay benefits | |
|-----------------------|---------------|----------|--|--------------------------------|
| | | | Favourable Market Movement £ | Unfavourable Market Movement £ |
| Equities | | | | |
| UK | 430,751,953 | 21.0% | 521,209,863 | 340,294,043 |
| Emerging Markets | - | 30.0% | - | - |
| Global | 1,994,200,085 | 21.0% | 2,412,982,102 | 1,575,418,067 |
| Bonds | | | | |
| UK Index-Linked Gilts | 102,308,844 | 11.0% | 113,562,817 | 91,054,871 |
| UK Gilts | 34,707,209 | 6.0% | 36,789,641 | 32,624,776 |
| UK Corporate | 177,106,831 | 9.5% | 193,931,980 | 160,281,682 |
| Other | 383,149,956 | 7.5% | 412,652,503 | 353,647,410 |
| Property | 449,773,009 | 13.0% | 508,243,500 | 391,302,518 |
| Alternatives | - | 22.0% | - | - |
| Cash | 94,476,426 | 1.0% | 95,421,190 | 93,531,662 |

Source: KPMG/Northern Trust

Interest rate sensitivity analysis

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

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

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

The Fund's direct exposure to interest rate movement as at 31 March 2020 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 2020 (£) | Potential change in year in the net assets available to pay benefits £ | |
|---|---|--|-------------------|
| | | 100bps | -100bps |
| Fixed Interest Securities | 596,662,834 | (38,362,600) | 38,362,600 |
| Cash | 90,522,832 | - | - |
| Total change in assets available | 687,185,666 | (38,362,600) | 38,362,600 |

Source: Northern Trust

A 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value and vice versa. A 1% increase in interest rates may potentially increase the interest rate income received on cash and cash equivalents by £905,228 and vice versa.

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund does not have a currency hedging programme but individual investment managers may hedge some currencies from time to time on a tactical basis. As any hedging could be temporary, the analysis below does not allow for any currencies that are hedged at 31 March 2020. 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 2020:

| Currency exposure – asset type | Asset value (£) |
|---------------------------------------|----------------------|
| | 31 March 2020 |
| Overseas quoted securities | 1,164,988,494 |
| Overseas unit trusts | 829,211,591 |
| Overseas public sector bonds (quoted) | 16,172,969 |
| Overseas corporate bonds (quoted) | 368,675,825 |
| Total Overseas assets | 2,379,048,879 |

Source: Northern Trust

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the financial assets and liabilities. The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Fund has an Annual Treasury Strategy which sets out the approach to credit risk for internally managed funds. Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. The Fund believes it has managed its exposure to credit risk, and the Fund has had no

experience of default or uncollectable deposits over the past five financial years. The cash holding under its treasury management arrangements at 31 March 2020, including current account cash, was £1.3m (2019: £6.0m). This was held with the following institutions :-

| | Credit Rating | Balance as at 31 March 2019 £'000 | Balance as at 31 March 2020 £'000 |
|------------------------|---------------|--------------------------------------|--------------------------------------|
| Money Market Funds - | | | |
| Aberdeen Standard | AAAmf | 1,090 | 1,260 |
| Invesco | AAAmf | 4,910 | - |
| Current account - | | | |
| Royal Bank of Scotland | F1 | 17 | 39 |

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 into cash.

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

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

The items in the net assets statement as at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Actuarial present value of promised retirement benefits (note 17)

Uncertainties

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

| Effect if actual results differ from assumptions | £000 | £000 |
|--|----------------|----------------|
| Present value of total obligation | 4,308,994 | |
| Sensitivity to | +0.1% | -0.1% |
| Discount rate | 4,226,328 | 4,393,360 |
| Long term salary increase | 4,319,779 | 4,298,296 |
| Pension increases and deferred revaluation | 4,382,868 | 4,236,584 |
| Sensitivity to | +1 year | -1 year |
| Life expectancy assumptions | 4,499,250 | 4,127,335 |

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 publicly listed there is a degree of estimation involved in the valuation.

25 – Critical Judgements in Applying Accounting Policies

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in the Actuarial Position (Note 17). This estimate is subject to significant variances based on changes to the underlying assumptions.

26 – Contingent Liabilities

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

27 – Post Balance Sheet Event

The unaudited Statement of Accounts was issued by the Executive Director of Corporate Services on 22 June 2020. Events taking place after this date are not reflected in the financial statements or disclosure notes. There have been no material events since the date of the Net Asset Statement which have required any adjustments to these accounts.

FUNDING

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

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

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

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

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

The 2020 actuarial valuation is being undertaken as at 31st March 2020 and the outcome of this valuation will set the employer's rate of contributions for the 3 years from 1st April 2021.

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.

Prepayment option

Employers have the opportunity to advance pay contributions on an annual basis and can receive a reduction in amount on prepayment. This option is predicated upon the principle of receiving contributions sooner than would have otherwise been the case, and all other things being equal, the Fund investing and earning additional investment returns on contributions paid, resulting in a lower contribution requirement over the three years.

In the case that prepayment is chosen, the advance payment is due by 30 April each year with reductions applied in line with the financial assumptions set by the Fund Actuary.

IDENTIFICATION OF RISKS AND COUNTER MEASURES

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

Demographic (including mortality risk)

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

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

Regulatory & Legislative

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

Governance

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

Statistical/Financial (investment & inflation risk)

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

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

Solvency Measure

The Administering Authority recognises that allowing for future investment returns in excess of those available on government bonds introduces an element of risk, in that those additional returns may not materialise. The

Administering Authority's policy will be to monitor the underlying position assuming no such excess returns are achieved to ensure that the funding target remains realistic relative to the risk position.

Smoothing

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

Recovery Period

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

Stepping

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

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

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

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

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

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

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

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

FUTURE MONITORING

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

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



Tayside Pension Fund

Actuary's Statement as at 31 March 2020

Barnett Waddingham LLP

Introduction

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

Asset value and funding level

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

Contribution rates

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

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

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

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

Assumptions

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

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

Updated position

Returns were strong for the first three quarters of 2020, however, recent market movements have seen significant falls in equity values. As at 31 March 2020, in market value terms, the Fund assets were less than expected at the start of the year based on projections using the assumptions of the previous valuation.

The projected liabilities will have increased due to the accrual of new benefits net of benefits paid, but offset by lower expected levels of projected future inflation. However the potential reduction in the value of the liabilities will be offset by lower expected future investment returns reflected in the discount rate underlying the valuation model.

On balance, we estimate that at 31 March 2020 there is sufficient volatility reserve to maintain the funding level at the previous valuation level of 107% using assumptions consistent with those adopted at the 2017 valuation.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equities due to actual and potential reductions and suspensions of dividends. There are also the other uncertainties around future benefits, relating to the McCloud and Sargeant cases and the ongoing cost cap management process.

The next formal valuation is currently being carried out as at 31 March 2020 with new employer contribution rates set from 1 April 2021. As part of this valuation process, the assumptions to be adopted will be reviewed, both financial and demographic. Consideration will also be given to the uncertainties mentioned above when deriving these assumptions. The results of the valuation will be reported in the actuarial valuation report due to be published in March 2021.



Graeme Muir FFA

Partner, Barnett Waddingham LLP

STATEMENT OF INVESTMENT BELIEFS

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

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

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

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

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

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

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

Clearly defined investment objectives are important for success:

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

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

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

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

Strategic Asset allocation is the primary investment decision:

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

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

Tayside Pension Fund believes that diversification across differing classes of assets reduces the volatility of returns and results in a better long-term risk adjusted return, which is to the benefit of all of the stakeholders in the Fund. As a result, the Fund invests across a broad range of asset classes (including, but not limited to equities, bonds, property,

as well as less liquid opportunistic investments, as appropriate) and appoints a number of asset managers to reduce manager specific risks.

Risks should be appropriate, and be managed:

Tayside Pension Fund acknowledges that in order to achieve the required level of returns required to support the affordability and sustainability of the fund that a certain level of investment risk is unavoidable, however this risk must but be appropriate and in-line with long term investment objectives.

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

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

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

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

Fees and costs should be minimised wherever possible:

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

It is important to invest responsibly:

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

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

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

- Employee Care
- Human Rights
- Sustainability and the Environment

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

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

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

STATEMENT OF INVESTMENT PRINCIPLES

The Statement of Investment Principles (SIP) is the Fund's main investment policy document. The SIP is reviewed regularly and updated to reflect any changes approved by the Pension Sub-Committee.

INTRODUCTION

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

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

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

ADMINISTRATION AND GOVERNANCE

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

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

INVESTMENT ROLES AND RESPONSIBILITIES

The full remit of the Sub-Committee is shown on page 74.

OBJECTIVE OF THE FUND

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

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

INVESTMENT STRUCTURE, STRATEGY & OBJECTIVES

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

Equities, Managed Funds, Unit Trusts, Partnerships, Investment Trusts, Open Ended Investment Companies, Bonds, Underwriting, Property, Stock Lending, Direct Lending, Cash, Commission Recapture and Currency. Derivatives may be used, but only for efficient portfolio management or the reduction of risk. All investments and investment limits will comply with the Local Government Pension Scheme (Scotland) (Management and Investment of Funds) Regulations 2010.

INVESTMENT MANAGERS

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

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

BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENTS

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

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

RISK

In order to achieve its investment objective the Fund takes investment risk including equity risk and active management risk. It is understood and acknowledged that this leads to significant volatility of returns and an ultimate risk that objectives will not be met.

The Fund will seek to control risk through proper diversification of investments and Investment Managers.

The 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) set 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 targets 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 them.

ADVISORS

Investment Consultant
Corporate Governance
Actuarial

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

PERFORMANCE MEASUREMENT

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

CUSTODIAN

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

AUDITORS

External - Audit Scotland
Internal - PricewaterhouseCoopers (PWC)

SOCIALLY RESPONSIBLE INVESTMENT (SRI)

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

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

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

CORPORATE GOVERNANCE

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

CLASS ACTIONS

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

COMPLIANCE

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

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

SCOTTISH MINISTERS' GUIDANCE

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

INVESTMENT ROLES AND RESPONSIBILITIES

Introduction

The Fund pursues a policy of seeking enhanced returns whilst lowering risk through diversification of both investments and investment managers. In order to achieve this it has delegated day to day investment decisions to a number of external investment managers. A management agreement is in place for each Investment Manager,

which sets out the relevant benchmark, performance target, asset allocation ranges, and any restrictions, as determined by the Fund.

Tayside Pension Fund Sub-Committee is responsible for:

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

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

Tayside Pension Fund Pension Board is responsible for:

- securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS
- securing compliance with requirements imposed in relation to the LGPS by the Pensions Regulator in such other matters as the LGPS regulations may specify
- securing 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
- Sub-committee and Board training

The Investment Consultant is responsible for:

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

The Investment Managers are responsible for:

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

The Global Custodian is responsible for:

- safekeeping of assets
- servicing of assets including income collection
- execution of transactions, corporate actions and proxy voting
- record keeping and primary accounting

- securities lending (if authorised)
- cash management
- performance measurement

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

INVESTMENT STRATEGY

The Fund's investment objective is to support the funding strategy by adopting a suitable investment strategy and structure, incorporating the appropriate balance of returns for the accepted level of risk. The current funding strategy requires the Fund to hold the following diversified portfolio and achieve the required returns, however, this is subject to review following the outcome of the 2020 actuarial valuation. The 2017 valuation stipulates a required return of 6.3% p.a. from the 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. |

Asset Allocation as at 31 March 2020 was as follows –

| Asset Class | Asset Distribution 31 March 2019 | | Asset Distribution 31 March 2020 | |
|--------------|----------------------------------|---------------------|----------------------------------|---------------------|
| | Fund Actual % | Target Allocation % | Fund Actual % | Target Allocation % |
| Equities | 70.5 | 65.0 | 67.3 | 65.0 |
| Bonds, Gilts | 17.3 | 13.0 | 19.9 | 13.0 |
| Property | 12.2 | 12.0 | 12.7 | 12.0 |
| Alternatives | - | 10.0 | 0.1 | 10.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

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

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

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

| Main Fund Benchmark | | Proposed Main Fund Benchmark | |
|----------------------------------|-------|---|-------|
| FTSE All Share | 28.0% | FTSE All Share | 15.7% |
| FTSE AW Developed North America | 17.0% | FTSE AW Developed North America | 6.1% |
| FTSE AW Developed Europe (ex UK) | 9.0% | FTSE AW Developed Europe (ex UK) | 2.4% |
| FTSE Japan | 7.0% | FTSE Japan | 1.2% |
| MSCI AC APAC Ex Japan | 2.5% | FTSE All World | 10.0% |
| MSCI Emerging Market Index | 6.5% | MSCI AC World GD | 12.0% |
| ML Sterling UK Gilts | 3.0% | MSCI AC World ND | 21.0% |
| FTSE Index-Linked Over 5 Years | 5.0% | FTSE AW Developed Asia Pacific Ex Japan | 0.5% |
| IPD All Balanced Property Funds | 12.0% | FTSE AW Emerging Markets Index | 1.1% |
| ML Sterling Non-Gilts | 10.0% | ML Sterling UK Gilts | 6.5% |
| Total | 100% | FTSE Index-Linked Over 5 Years | 2.5% |
| | | | 12.0% |
| | | IPD All Balanced Property Funds | % |
| | | 3 month LIBOR + 3% | 9.0% |
| | | Total | 100% |

INVESTMENT PERFORMANCE

Market Commentary

Economic overview

Global stock markets performed well for most of the reporting period. However, this ended in late February as the extent of the COVID-19 pandemic impact began to unfold, with the vast majority of assets classes, including equities, experiencing a sharp downturn. Prior to February, global economic indicators had highlighted worldwide industrial activity regaining some momentum from prior setbacks earlier in the year as a result of the US-China trade dispute. However, the most recent economic indicators have highlighted the progressively more damaging impact from containment measures implemented to check the spread of Covid-19. Within the space of two months, the global manufacturing Purchasing Managers Index (PMI) composite index plummeted from a nine-month high in January to its weakest reported since 2009. The weakening of the PMI index was most marked in service industries, which comprise the bulk of activity in all the major economies. This is a complete contrast to previous global recessions which have been led by the manufacturing and construction sectors. Oil prices slumped to an 18-year low in March, after being hit by a sharp drop in demand as global lockdowns cut consumption. This was further exacerbated by the failure of Organisation of the Petroleum Exporting Countries (OPEC) and Russia to agree production cuts.

In the US, over 2019 the economy grew at 2.3%. This is the slowest annual rate of growth since 2016, and lower than the 3% target for the second year. The Federal Reserve (Fed) had lowered US interest rates to 1.75% by the end of 2019, but in order to support the economy, these were lowered to zero in March. This is only the second time in history that such measures have been taken. This was also accompanied by announcement of further \$700bn quantitative easing, and by the end of March, in response to record high unemployment claims (3m applications), a \$2.2 trillion fiscal stimulus package was passed into law.

Over the year there was a sharp loss of momentum in the Eurozone. The European Central Bank (ECB) recommenced quantitative easing (QE) from November, at €20 billion a month and that this would be maintained until inflation returns to its 2% target. During the fourth quarter, the Eurozone overall grew at its slowest rate of expansion since the debt crisis seven years ago, and in March the ECB launched a new €750billion asset purchase programme, stepping up its policy initiatives to counter the serious economic threats posed by COVID-19.

Political uncertainty weighed on UK economic activity for much of the year, with business investors uncertain of the outcome of Brexit negotiations and the implications for future trade with the EU. A revised extended withdrawal date was agreed with the EU in October, and a General Election ensued in December. As the UK moved into lockdown in March, the Bank of England cut interest rates to 0.1% and relaunched its QE programme. In addition to this, in order to protect businesses, employees and the self-employed against an economic slump, the UK government announced at least £60bn of extra public spending.

In Asian economies, the impact of COVID-19 threatens to compound already shrinking economies and weak output data. Amongst other major emerging economies, central banks in Brazil, India and Russia have also cut interest rates to boost slowing economic growth.

Global Equities Summary:

Global equity indices posted negative returns, largely attributable to the coronavirus spread worldwide that brought lockdown measures that closed industries and businesses, and also imposed restrictions on movement. Markets fell sharply in late February and early March as fears grew of global economic recession, although equities steadied by the end of March, following central banks and governments around the world announcing various monetary and fiscal stimulus packages to underpin the global economy.

UK equity returns were disappointing throughout much of 2019. Uncertainty over Brexit negotiations had overshadowed the market before the December 2019 General Election. The UK suffered the worst quarter since 1987 during the opening months of 2020, with smaller companies particularly hard hit by the sell-off. The impact of COVID-19 was severe on sectors such as retail, financials, industrials and real estate, as a range of companies moved to suspend dividend payments in effort to preserve cash, to ensure they had sufficient liquidity to see themselves through the crisis.

US equities outperformed global indices in sterling terms, with the dollar benefitting from its status as a reserve currency during periods of market stress and turbulence. However, investors have scaled back earnings expectations significantly in response to the impact of COVID-19. Energy stocks fell heavily over the year, as the weakness of the oil price prompted US producers to cut the number of operating drilling rigs and lower capital expenditure plans.

European markets also fell heavily during the opening months of 2020, with Italy and Spain worst affected by COVID-19.

There was a sell off of equities from mid-February as investors factored in the impact of COVID-19's rapid spread on global economic activity. IT equities produced positive returns over the 12-month period, outperforming wider global markets; and having underperformed early in the period amid growing US political scrutiny of healthcare costs, global health & pharmaceutical equities subsequently delivered more resilient returns, thereby outperforming wider global markets.

Global Fixed Income Summary:

Bond markets gained ground, outperforming equities most notably during February and March when widespread risk aversion amongst investors fuelled demand for 'safe-haven' assets. Yields on government bonds fell as investors anticipated further policy action from the major central banks to cushion the global economy against the impact of the coronavirus. Returns from sterling-denominated corporate bonds were relatively modest, as credit spreads have widened in recent months. A sharp downturn in inflation expectations, with the Bank of England forecasting the benchmark consumer price index would decline to below 1% in the coming months, meant that index-linked gilts underperformed their conventional counterparts.

Emerging markets underperformed major government bond markets. Although lower interest rates and a decline in bond yields in the major markets boosted demand for higher yielding sovereign debt, markets experienced a sharp sell-off during the first quarter, exacerbated by the weakness of local currencies against the US dollar. Nevertheless, issuance levels have been high as both sovereign and corporate borrowers have looked to attract international investors. However, several emerging economies with relatively high debt levels and current account deficits came under increased scrutiny.

UK Property Summary:

In the UK commercial property sector, the resilience of industrial and office sectors have mitigated the challenges facing the retail sector. The latter has been weak with a decline in capital values on the high street and in shopping centres. Data released in recent months has begun to highlight the impact of COVID-19 on real estate valuations, particularly in the retail sector. Overall, the investment market has continued to attract capital from yield-driven international investors, particularly Asian investors focusing on London.

Global Equities - Market Outlook:

With increased economic uncertainty and market volatility, the COVID-19 pandemic is likely to adversely impact the global economy and corporate earnings growth in the near term. Meanwhile, fiscal and monetary policy stimulus measures could provide support to the global economy in the latter half of 2020 and into 2021, should the pandemic be contained.

The speed of resumption of work in China is also a key consideration for a potential rebound. At a regional level, the outlook for the US, European and Japanese markets is challenging as these regions continue to impose restrictions to curtail the contagion. The scale and duration of the economic disruption and the ultimate hit to corporate cashflows remain highly uncertain at this stage, although China has seen a stabilisation of cases and a recovery of supply chains giving some guidance on future developments globally. The recent oil shock however has heightened market uncertainty further.

As Europe's economy is particularly exposed to global trade, any prolonged disruption to global supply chains will pose a downside risk to growth. Encouragingly, the stimulus package announced by the European Central Bank (ECB) is expected to reduce bankruptcy risk and enable a much better recovery in Europe over time. Monetary stimulus will be supplemented by fiscal measures to stimulate growth. The ECB does however expects very weak growth in the Eurozone during the first half of 2020, followed by normalisation of growth in the second half of the year.

Meanwhile, the outlook for emerging markets is positive relative to developed markets, as the virus' spread appears to be under control, valuations are attractive and weak oil prices are likely to support oil importing countries.

Global Fixed Income - Market Outlook:

As major economies go into lockdown to slow the spread of COVID-19, a contraction in the first half of 2020 is likely, on a scale never seen before. To combat this COVID-19 inspired economic slump, global central banks announced a number of monetary policy actions, which has resulted in both short and long-term interest rates falling to new lows.

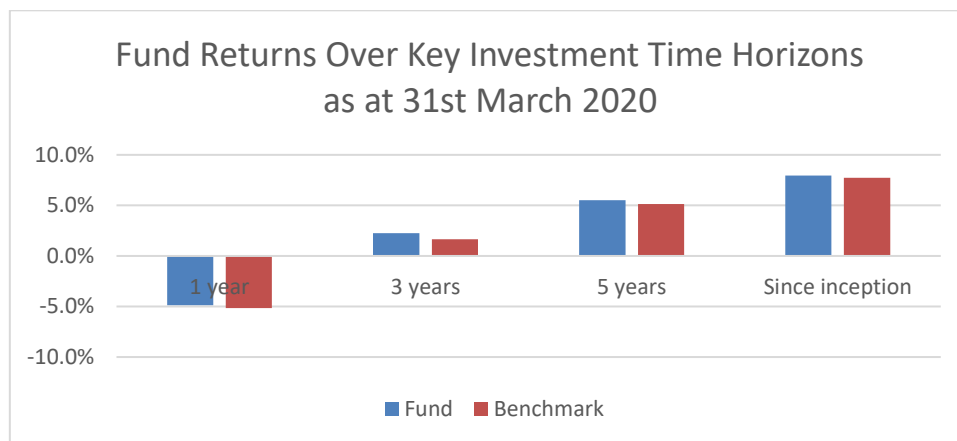
Global government bond yields are expected to remain at low levels for the foreseeable future as GDP expectations have plummeted. Despite global governments expanding their fiscal spending, there is a belief that central banks will act to limit any upward pressure on government bond yields as financial systems remain increasingly sensitive to rising yields. Emergency rate cuts tend not to coincide with good returns for equities, and the likelihood of a recession rises as this current episode continues. A lower for longer thesis remains as it is clear that global policy makers will do everything they can to stabilise markets.

In credit markets, many corporates are likely to witness a decline in their ratings given the fall-out from the virus, oil price shock and subsequent hit to growth. It is difficult to assess the downside given the lack of earnings visibility in the current environment.

FUND PERFORMANCE

Performance Commentary

In the year to 31 March 2020, the Fund had a negative return of -4.86% which outperformed the benchmark return of -5.15%. The Fund had been at an all-time high in terms of value in mid-February (exceeding £4.4bn), however as the COVID-19 impact began to be felt, as noted in the economic summary above, the Fund value fell sharply to £3.67bn. Recent global government's stimulus measures have since had positive impact, with the Fund recovering to over £4.2bn at the beginning of June. However market volatility remains, and the overall outlook is uncertain. The following graph overleaf details the performance of the fund across all periods:



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

Alliance Bernstein – Mandate terminated on 24th June 2019 following a period of continued poor investment performance. As recommended by the fund’s investment advisors, assets were transferred to LGIM, and this exercise of transfer and subsequent rebalance to strategic benchmark was completed by 8th August 2019. The process was fully managed and monitored, and was also subject to a post transition review by KPMG. This is considered to be a temporary move to provide an interim and efficient investment solution in anticipation of strategic investment review following the outcome of 2020 triennial valuation.

In the reporting period to 31st March 2019, the portfolio’s performance over all reporting time periods was below benchmark performance.

Baillie Gifford Global Equities - was ahead of benchmark with a return of -1.14% versus -6.22% for the benchmark.

Their investment strategy and thematic profiling have seen holdings in their “Stalwart” and “Rapid Growth” profiles displaying greater share price and operational resiliency in recent months. The portfolio performance is predominantly driven by stock specific factors, and the coronavirus outbreak has been a catalyst for investment in key areas. With this in mind, the turnover of your portfolio remains low (below 20% p.a.) and they maintain a thoughtful, patient approach, to stock picking. Their performance over the year has been consistent, out-performing benchmark in all but one of the quarters. They also continue to outperform in all longer term time periods.

Baillie Gifford UK Equities - was ahead of benchmark with a return of -17.79% versus -18.45% for the benchmark.

The FTSE All-Share index fell by 18.5% over the 12-months to 31 March 2020. The parts of the market under the most pressure are not only the obvious travel and tourism related companies, but also some that are highly indebted and may lack near-term cash flow to meet debt repayments. For this reason, the portfolio typically favours companies that have strong balance sheets and lower than average debt. Baillie Gifford believe that such companies should come out of the current crisis relatively strong and be well-placed to take advantage of the opportunities that always await after a severe market dislocation. Their very long-term investment philosophy focusses on long-term business fundamentals. With a turbulent year in UK equities, the portfolio has out-performed benchmark across two of the four most recent calendar quarters however it continues to deliver outperformance across every longer quoted horizon.

Fidelity Investment Management – was ahead of benchmark with a return of -4.01% versus -6.74% for the benchmark.

This portfolio has a valuations focused approach designed to deliver strong returns over the long term, with stock selection driven by potential for absolute share price appreciation. It has a stylistic balance across three differing investment methodologies to aim to deliver returns even in a low growth environment. The portfolio outperformed benchmark across all of the four most recent calendar quarters and continues to beat the benchmark over the 1 year and 3 year horizons. This mandate underwent a restructure over March 2018, replacing legacy regional funds with segregated assets. In tandem with these movements, the benchmark for this mandate was also switched to a 100% MSCI AC World Net Index.

Legal & General Investment Management (Passive Equity) - was slightly behind benchmark with a negative return of -6.28% versus -6.27% 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 4.43% versus 1.96% for the benchmark.

The portfolio was reasonably defensively positioned coming into 2020 given expensive valuations. Purposeful reduction of credit risk earlier in the period and continuing until mid-February, saw the movement to increasing the portfolio's exposure to Gilts. UK Gilts generated positive returns over the period as investors moved towards safe haven assets amid the COVID-19 crisis and its associated impact on economic growth. This portfolio outperformed its benchmark across all of the four most recent calendar quarters and remains ahead of benchmark, and continues to deliver outperformance over every longer reported performance horizon.

Goldman Sachs was behind valuation benchmark with a return of -2.50% versus 3.77% for the benchmark, however this is a buy and maintain mandate with an investment objective of meeting a target yield to maturity of 3%. As at 31 March 2020, the hedged yield to maturity was 4.3%, however for the other 3 quarters, the portfolio had underperformed this target yield.

During the year, the performance of the property and alternative asset managers was as follows:

Schroders - were ahead of their benchmark with a return of 0% versus -0.02% for the benchmark.

The portfolio is overweight relative to benchmark in industrials, regional offices and alternatives (including student accommodation, healthcare and leisure) and underweight to the traditional retail sector and central London offices. The selection of funds with a high industrial concentration and low retail exposure has in the past been the strongest drivers of performance. Whilst there is clearly a lot of uncertainty, Schroders believe that the portfolio is well positioned with more exposure towards those sectors that are expected to outperform in the longer term. There are however expected further valuation falls in the near term. The portfolio returned outperformance to benchmark in the first 3 quarters of the year, and outperformance over 3 and 5 year time horizons.

M&G Investment Management – This fund fully matured in February 2020. The investment delivered 4.76% annualised returns since inception.

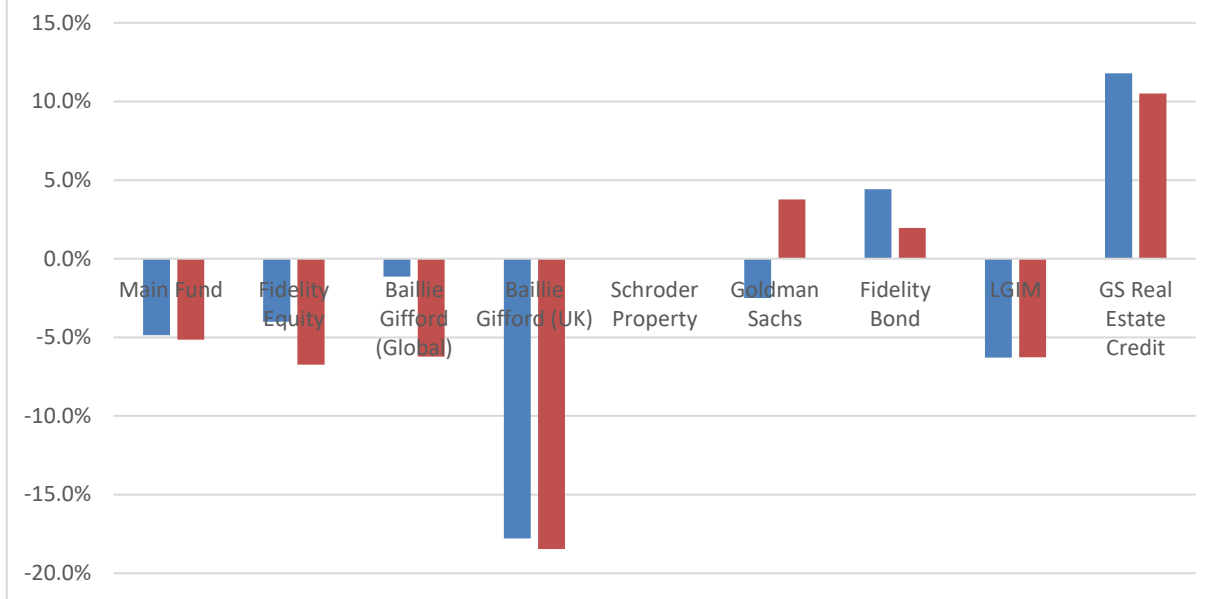
GSAM – Broad Street Real Estate Credit Partners III – was ahead benchmark with a return of 11.8% versus 10.51% for the benchmark.

As at 31st March 2020, RECP III has committed \$2.9bn (\$1.4bn invested) across 26 investments. The portfolio has limited investment exposure to retail and hospitality, with over 84% of current commitments in defensive assets, including residential, mixed-used, office, student housing, senior housing and industrials. RECP III's current portfolio has an average loan size of \$157 million, and at 31st March 2020, performance was in line with expectations with net investor returns of 10% to 13%. These return expectations have not been revised in light of current climate, and outlook. With a capital call to date of 23%, RECP III has distributed aggregate proceeds to the Fund (after management fees) of approximately 16% of capital called.

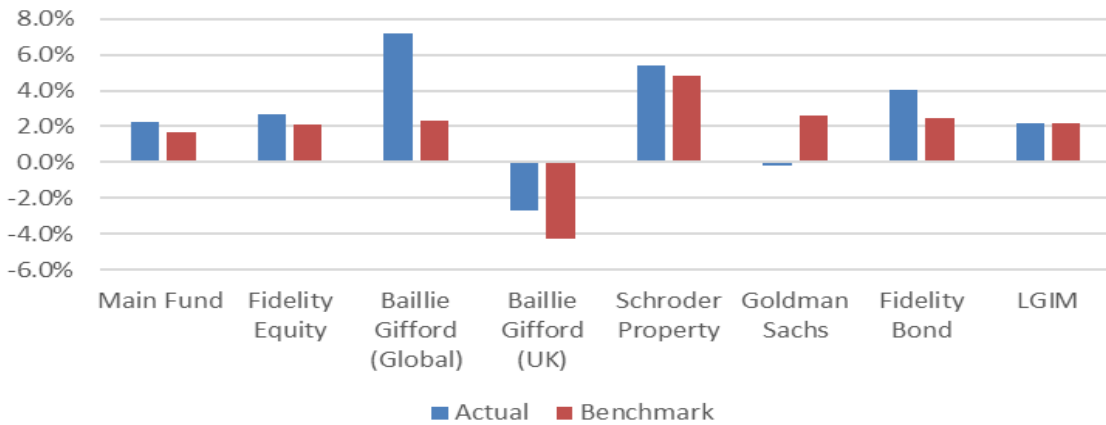
Performance Measurement

The following graphs over leaf provide detail of the Fund's performance over time in relation to the component investment portfolios, and the impact of these returns on the Fund's value over a 10 year period:

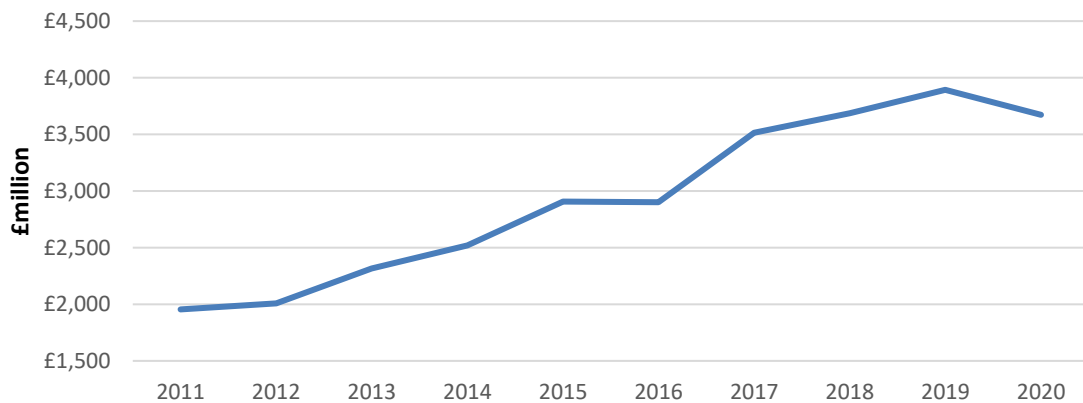
Annual Returns by Investment Manager as at 31st March 2020



3 Year Returns by Investment Manager as at 31st March 2020



Tayside Pension Fund Asset Value over 10 years as at 31st March 2020



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.

In-keeping with the Fund's Environmental, Social & Corporate Governance Policy in seeking to enhance effectiveness in implementing the United Nations Principles of Responsible Investment (UNPRI) of responsible stewardship, the fund has made a commitment to join with other institutional investors in Climate Action 100+ and also join with other Scottish LGPS in collaboratively seeking improved engagement.

The Fund also uses 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 its 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 provided this 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 requires 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 2019/20:

| Status | Total at 31/3/2019 | Total at 31/3/2020 |
|------------------------------|--------------------|--------------------|
| Active | 19,091 | 19,117 |
| Deferred / Undecided/ Frozen | 13,742 | 21,477 |
| Pensioners (Inc. dependents) | 16,102 | 10,410 |
| Total | 48,935 | 51,004 |

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 these parties meeting high standards of accuracy and the timeliness of information supplied.

Tayside Pension Fund introduced its Pension Administration Strategy in August 2015 in preparation for the introduction of the employer self-service pensions system (Pensionsweb). This set out the standards required by the participating employers and the Fund to ensure that the Fund meets its statutory obligations and demonstrates its ability to deliver services efficiently. In respect of this, the Fund is committed to carrying out its 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
- providing an annual report of performance
- keeping the Pension Administration Strategy under review.

Administration Operations

The Pensions Administration Team is accountable to the Pensions Sub-committee, Pensions Board, 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

The following provides summary of task volumes over the year to 31st March 2020 in comparison to the previous year and details average processing times:

| Pensions Brought into Payment | Apr - Jun | Jul - Sep | Oct - Dec | Jan - Mar | Total | 2018/19 | % Change |
|--|------------------|------------------|------------------|------------------|--------------|----------------|-----------------|
| Efficiency / Redundancy | 16 | 8 | 35 | 10 | 69 | 151 | -54% |
| Ill Health | 20 | 11 | 21 | 8 | 60 | 64 | -6% |
| Flexible | 16 | 15 | 18 | 10 | 59 | 56 | 5% |
| Deferred into Payment | 54 | 88 | 68 | 86 | 296 | 264 | 12% |
| Voluntary (inc those with employers consent) | 89 | 69 | 80 | 69 | 307 | 253 | 21% |
| Voluntary (age 65+) | 14 | 24 | 29 | 20 | 87 | 95 | -8% |
| Total Pensions Brought into Payment in Year | 209 | 215 | 251 | 203 | 878 | 883 | -1% |

Whilst there was little change overall in volumes of pensions brought into payment, the reduction of employer driven exercises was offset by active members choosing to retire earlier than normal pension age and taking reduced pension benefits, and also deferred members opting to bring reduced pension benefits into payment.

| Estimates Received | Apr - Jun | Jul - Sep | Oct - Dec | Jan - Mar | Total | 2018/19 | % Change |
|---|------------------|------------------|------------------|------------------|--------------|----------------|-----------------|
| General | 175 | 93 | 152 | 89 | 509 | 326 | 56% |
| Voluntary Early Retirement | 27 | 14 | 32 | 3 | 76 | 97 | -22% |
| Total Estimates Received in Year | 202 | 107 | 184 | 92 | 585 | 423 | 38% |
| Total Estimates Issued in Year | 176 | 284 | 393 | 155 | 1,008 | 794 | 27% |

As noted in relation to payment of pension benefits, there was a significant reduction in employer driven exercises over the year and this was evident in relation to estimates provided. However, as a result of the changes to regulations giving deferred members aged 55 and over the ability to elect to have their benefits paid or transferred, the volume of member generated requests doubled. The Fund has seen an increase of 11% of members choosing to defer their benefits since the previous year, but no increase in members wishing to transfer benefits out of the scheme. The volume of estimates issued over the year significantly improved as a result of process improvement.

| Other Pension Events | Apr - Jun | Jul - Sep | Oct - Dec | Jan - Mar | Total | 2018/19 | % Change |
|--|------------------|------------------|------------------|------------------|--------------|----------------|-----------------|
| Deaths | 133 | 105 | 143 | 144 | 525 | 537 | -2% |
| Survivor Pensions | 85 | 67 | 115 | 78 | 345 | 314 | 10% |
| Total Death & Survivor Benefits Paid in Year | 218 | 172 | 258 | 222 | 870 | 851 | 2% |

| Tasks measured | Case volume 2018/19 | Average days to process | Case volume 2019/20 | Average days to process |
|-------------------------|----------------------------|--------------------------------|----------------------------|--------------------------------|
| Clerical Tasks | 2,118 | 20.25 | 5,630 | 23.42 |
| Death Grant | 83 | 46.02 | 98 | 35.28 |
| Divorce | 88 | 39.69 | 68 | 43.57 |
| Estimates | 794 | 48.50 | 1,008 | 45.94 |
| Miscellaneous Payroll | 490 | 55.71 | 325 | 55.49 |
| Refund of Contributions | 295 | 34.72 | 214 | 40.37 |
| Retirements | 883 | 44.04 | 878 | 69.84 |

A number of tasks have benefited from system and process improvements implemented in the year, and this is reflected in increased volumes and reduced processing times. Some tasks are relatively complex and require information and documentation from individuals, employers, and legal representatives in order to process to completion, which has detrimental impact on performance which is out with the Fund's control.

2019/2020 Events

Regulatory Changes

As detailed in the Management Commentary, the key regulatory changes of 2019/20 are summarised as follows:

| Instrument | Title | Topic | Link |
|-------------------|--|--|---|
| SSI 2019/161 | The Local Government Pension Scheme (Miscellaneous Amendments) (Scotland) Regulations 2019 | * Election rights for deferred member >55yrs * Surviving partner rights * Requirements for member contributions during leave *Age 75 restrictions | https://www.legislation.gov.uk/ssi/2019/161/contents/made |
| SSI 2019/438 | The Local Government Pension Scheme (Increased Pension Entitlement) (Miscellaneous Amendments) (Scotland) Regulations 2019 | No reduction of LGPS pensions for GMP overpayments identified | https://www.legislation.gov.uk/ssi/2019/438/contents |
| SI 2019/383 | The Financial Guidance and Claims Act 2018 (Naming and Consequential Amendments) Regulations 2019 | Amends reference to The Pensions Advisory Service and the Money Advice Service, as both now functions of the Money and Pension Service | https://www.legislation.gov.uk/si/2019/383/contents/made |

| | | | |
|-----------------|---|--|---|
| SI2019/262 | The Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Fund Payments) Regulations 2019 | For employer action – relates to national insurance thresholds | https://www.legislation.gov.uk/uk/si/2019/262/contents/made |
| SI2019/373 | The Guaranteed Minimum Pensions Increase Order 2019 | Increases value of GMPs within system 2.4% increase applied. | https://www.legislation.gov.uk/uk/si/2019/373/contents/made |
| SI2019/374 | The Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2019 | For employer action – relates to earnings levels relevant for enrolment | https://www.legislation.gov.uk/uk/si/2019/374/contents/made |
| SI2019/376 | The Social Security Revaluation of Earnings Factors Order 2019 | For employer action – relates to level of national insurance contributions being in line with earnings in relation to GMP | https://www.legislation.gov.uk/uk/si/2019/376/contents/made |
| SI2019/455 | The Public Service Pensions Revaluation Order 2019 | CARE Scheme Revaluation 2.4% increase applied. | https://www.legislation.gov.uk/uk/si/2019/455/contents/made |
| SI2019/546 | The Pensions Increase (Review) Order 2019 | Pensions in payment and deferment are indexed annually based on the annual change in Consumer Price Index (CPI) as at the previous September. 2.4% increase applied. | https://www.legislation.gov.uk/uk/si/2019/546/contents/made |
| Circular 2/2019 | Tiered Contributions Rate Guidance | For employer action – relates to employee contribution rates | https://pensions.gov.scot/sites/default/files/2019-06/LGPS%20Circular%20-%20Tiered%20Contribution%20Appendix%20Mar%202019_0.pdf |

Appointments

- Internal appointments 2019/20

As a result of reviewing the operational requirements, 2 additional staff were appointed in the year, one being a new post of IT System & Process Analyst. This addition to the team has been instrumental in delivering improved performance and processes.

- External appointments 2019/20

The following summarises the appointment of service providers over the year:

| Company | Services Provided |
|---------|-------------------|
|---------|-------------------|

| | |
|-----------------------------|--------------------------|
| PricewaterhouseCoopers(PwC) | Employer Covenant Review |
| | Internal Audit Services |
| Mercer | Address Tracing |

Annual Exercises

The following exercises are undertaken annually:

- Pension Saving Statements (Annual Allowance)

These statements are issued on an annual basis, prior to the 6th of October. The annual allowance threshold was reduced to £40,000 for the 2018/19 tax year onwards, and as a result of this, 62 members received statements.

- Lifetime Allowance

The allowance for 2019/20 was set at £1.055 million. Individual case by case notifications apply.

- Annual Benefit Statements

Annual benefits statements were issued to the deferred and active members of the fund in July and August respectively. However as a result of system upload issues a proportion of the statements for active members were not released within the required timescales. An immediate exercise was undertaken with the assistance of another Scottish LGPS, which enabled this to be rectified within a period of 2 weeks. This was followed by an exercise to undertake manual statement generation for a small number of complex cases. The breach was noted in the Breach Log, and reported to the Executive Director of Corporate Services, but as immediate recovery action had been taken, no further reporting was considered necessary.

- National Fraud Initiative

Tayside Pension Fund continues to participate in the counter-fraud initiative led by Audit Scotland. The biennial exercise that commenced in January 2019 has identified pension related overpayments of £23,910 to date. Recovery of these funds is now in progress, and work on the next exercise is due to commence in September 2020.

Compliance

- Compliance Reporting

Improved compliance reporting has been introduced with the introduction of a Breach Log, which is maintained and reported on a case by case basis to the Executive Director of Corporate Services, and discussed at regular meetings with the Fund's operational management.

In compliance with the Pensions Regulator's code of practice, a report was submitted to the Pensions Regulator informing of the failure to issue deferred benefit entitlement and options notifications in 1788 cases within the 2 month statutory timescale. The cause of this breach was the prioritisation of other tasks thus creating a backlog. This backlog was further exacerbated by events of the prior year of large scale voluntary and early retirement initiatives being undertaken by larger employers, and staff turnover.

An operational review was undertaken and an improvement plan put in place to ensure sufficient resources allocated in order to meet statutory requirements and prevent recurrence. The report to the Pensions Regulator informed that the issue would be fully resolved by 31st January 2020, and this was completed successfully. The Fund has since received confirmation from the Pensions Regulator that they are satisfied that the issue has been successfully resolved, and that no further action will be taken.

- Payment of contributions by scheme employers

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

Of the 46 scheme employers 9 late payments were identified and investigated with the scheme employer during 2019/2020.

- 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 2019/20 all monthly pension payroll payments were made by their due date.

2019/20 Exercises

- Employer Covenant Review

PwC undertook an assessment of the strength of 18 of the Fund's employers in order to gain a fuller understanding of the extent to which the employer can afford to support their pension liabilities now and in the future. This included the risks to their funding abilities and what support would be available if required. The assessment focussed on the ability of the employer to make the cash contributions to the fund to achieve and maintain full funding over an appropriate period, including addressing reasonable downside risks.

PwC engaged with the employers and following confirmation of appropriate conclusions, they provided a report to the Fund with rating in line with the Pensions Regulator definitions. It also contained recommendations for relevant actions in relation to specific employers and outlined available options to strengthen the covenant. In the coming months, the Fund will be reviewing this report and the impact of COVID-19 and commencing engagement with employers.

- Address Tracing Service

During the year, the Fund instructed an exercise to identify contact details for members who the Fund had been unable to contact. Of 1653 cases, only 18% remain untraced. Despite contacting the individuals or dependants at the addresses identified by the exercise, 72% of those now traced have chosen not to communicate further with the Fund. The Fund will re-issue further communications to these individuals.

- GMP Reconciliation

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

Equiniti have undertaken this reconciliation on behalf of the Fund, providing monthly progress updates. At the 31st March 2020, the scheme is 100% reconciled, and the project moves into its next stage which is that of rectification. This will involve analysis of the ongoing payments made to pensioners to establish any under and overpayments. The change in regulation in 2019 now stipulates that if overpayments are identified, there will be no reductions to LGPS pensions in payment.

Operational Improvements

- Increased system utilisation for bulk processing

Throughout the year new processes were introduced to enable bulk processing. These new operations have enabled better resource utilisation and also enabled improved response times. Processes benefitting from this enhanced functionality include:

- New starts
- Transfers to other funds
- Data interrogation and analysis

- Pensionsweb

This year has seen increased utilisation of this secure communication system by the scheme employers. The system is now being fully utilised with all but a few of the smaller employers providing all communications and documentation via this system. Additional documents have been added to the original suite which allows employers' easier access to required documents and their returns in a suitable format for easier processing.

- Increased security for e mail communications

All members who have access to e mails are now receiving all required pension documentation electronically due to the introduction of Sharefile, which is a secure file sharing solution. This has enabled the fund to respond effectively to the challenges presented by COVID-19 and the need to implement remote working at immediate notice.

- Task Management

The pension system’s task management functionality has been phased in throughout the year to accommodate all key tasks. This increase in system functionality has assisted the following:

- Resource utilisation and workload management
- Improved transparency through increased controls and audit trails
- Improved management reporting in terms of performance

- Reduction in administration cost per member

As a result of improvements already noted, the administration cost per member reduced by £2.17 to £34.55.

Training, Development and Communication

- Staff Training

A training needs analysis was undertaken in order to address the skills and knowledge gap caused by the large staff turnover over the recent period. An in-house training regime was introduced along with updated process notes to ensure that staff received the appropriate training to enable them to undertake their roles. The Fund also received support from another Scottish LGPS Fund who have provided on-the-job training for both system functionality and more complex pension administration tasks.

Bespoke training was received from Dundee City Council’s Customer Services to provide improved call handling and customer care skills. In addition, Pensions staff have undertaken additional GDPR training and have received a tailored session with Dundee City Council’s Information Governance Manager.

A formalised staff training and development programme has been introduced to ensure that skills and knowledge gaps are identified and addressed in the future, and this will form a key control for review by the Fund’s senior management. The Fund is assessing ways in which training can be delivered in the current environment.

- Meetings, User Groups and Forums

Representatives attended quarterly meetings of the Joint Scottish Liaison Group (SPLG) and Investment Governance Groups, along with representation from the Local Government Association and the Scottish Public Pensions Agency. The SPLG also arranged a technical meeting (held at Strathclyde Pension Fund) in August 2019 with a representative from the Government Actuary’s Department to discuss the implementation and issue of the new actuarial factor and their guidance notes. Pensions 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.

- Employers

The Annual Employers’ Forum had been planned for 20th March 2020, however this was unable to be held due to COVID-19.

- Employer / Members Sessions

The following sessions were held over the financial year:

| Employer | Topic |
|--|--|
| Perth & Kinross Countryside Trust | General overview of scheme and employers responsibilities |
| Highlands and Islands Airport (November 2019) | Annual Benefit Statement and membership queries (one to one sessions) |
| Highlands and Islands Airport (December 2019) | Employers responsibilities and Pensionsweb input |
| Care Inspectorate (January 2020) | Membership and retirement benefits held (staff development and awareness programme). |
| Tayside Contracts (January 2020) | Pensionsweb Training |

COVID-19 Contingency Measures

Following the UK Government imposed lockdown on 23 March 2020, the following measures have been undertaken to ensure continued service and support to Fund members and employers, as well as Pensions staff:

- Secure home IT access and file sharing functionality provided to all staff
- Processes adapted to accommodate reduced surface mail and provide online download and return of required documentation
- Service prioritisation of pension and death benefit processing and payment per the Pensions Regulator guidance
- Communications issued to all employers in relation to contribution responsibilities and offer of support provided in line with Pensions Regulator guidance
- Communications advised by the Financial Conduct Authority, Pensions Regulator and Money Advice Service issued to members requesting transfers out of the fund, warning of potential risks.

The Fund's officers will continue to ensure that all guidance provided by regulatory bodies is adhered to and are committed to providing support to all stakeholders of the Fund in the coming year.

COMMUNICATIONS POLICY

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

Vision

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

Objectives

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

Delivery

- Fund Website:
 - All scheme policies
 - Latest news
 - Pensions Committee and Local Pension Board agendas and minutes
 - Scheme booklets
 - Contact details
 - Links to other useful sites
- General Communications – The fund uses surface and e mail to send and receive general correspondence.
- E mail - enquiries should be addressed directly to pensions@dundeecity.gov.uk
- 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 2020 were as follows :-

Scheduled Bodies (14)

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

Admitted Bodies (32)

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

CONTACT INFORMATION

Key Documents Online

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

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

Contact Details

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

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

Other Contacts

The Pensions Ombudsman

10 South Colonnade

Canary Wharf

E14 4PU

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

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

The Pensions Advisory Service

11 Belgrave Road

London

SW1V 1RB

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

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

The Pension Tracing Service

The Pension Service 9

Mail Handling Site A

Wolverhampton

WV98 1LU

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

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

The Pensions Regulator

Napier House

Trafalgar Place

Brighton

BN1 4DW

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

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