

Tayside Pension Fund



Audited

**Annual Report and Accounts
2015/16**

Administered by Dundee City Council

September 2016

CONTENTS

	Page
Foreword by the Executive Director of Corporate Services	2
Review of the Year	
Fund Update	3
Members, Advisors and Officers	5
Investment Commentary	7
Valuation and Distribution of Assets	10
Governance Arrangements	12
Statement of Responsibilities for the Statement of Accounts	15
Independent Auditor's Report	16
Tayside Pension Fund Statement of Accounts 2015/16	
Fund Account	18
Net Asset Statement	19
Notes to the Financial Statements	20
Actuarial Statement	31
Tayside Transport Pension Fund Statement of Accounts 2015/16	
Fund Account	33
Net Asset Statement	34
Notes to the Financial Statements	35
Actuarial Statement	42
Scheduled and Admitted Bodies	44
Contact Information	45

FOREWORD BY EXECUTIVE DIRECTOR OF CORPORATE SERVICES

Welcome to the Tayside Pension Funds Annual Report and Accounts produced by Dundee City Council for the year ended 31 March 2016.

The Annual Report has been produced to keep members, employers and other interested stakeholders informed about the administration and performance of the two Local Government Pension Scheme (LGPS) Funds that Dundee City Council is responsible for administering. The funds are : Tayside Pension Fund (Main Fund) and Tayside Transport Pension Fund (Transport Fund). The Annual Report includes a review of activities relevant to the funds in general and also provides sections dedicated to each of the funds, covering their investments, financial accounts and actuarial position.

The Main Fund value at 31 March 2016 of £2,839.6m reflected a decrease of £3.5m or 0.1% on the equivalent value at 31 March 2015. As investment returns have been flat, this reflects that benefits payable and administration expenses have been greater than contributions received. The Transport Fund value at 31 March 2016 of £60.7m reflected a decrease of £1.4m or 2.3% on the equivalent figure at 31 March 2015. The small investment gain has been outweighed by benefits payable being £2m greater than the contributions received.

	2015	2016	+ / -
Main Fund value	£2,843.1m	£2,839.6m	-£3.5m
Transport Fund value	£62.1m	£60.7m	-£1.4m
Total Contributing Members	17,681	18,391	+710
Total Pensioners	14,070	14,596	+526
Scheduled Bodies	14	14	-
Admitted Bodies	30	31	+1

I would wish to acknowledge the efforts of Dundee City Council's Pension Section for their patience and diligence in ensuring the continuing smooth operation of the scheme and for the courteous and efficient manner in which they look after the pension needs of contributors, pensioners and deferred pensioners. Further, I would like to thank all the Trustees of the Pensions Committee and officers of the City Council Corporate Services Department for their effort and assistance in managing the Tayside Pension Funds and, in particular, the Chair, Willie Sawers for his leadership of the Committee.



Marjory Stewart, FCCA, CPFA
Executive Director of Corporate Services
Dundee City Council
28 September 2016

REVIEW OF THE YEAR

FUND UPDATE

Membership

The Local Government Pension Scheme is voluntary and is open to all employees of the Scheduled and Admitted Bodies (see Appendix 1). Membership of the Tayside Funds at 31 March 2016 was:

	<u>Main Fund</u>	<u>Transport Fund</u>	<u>Total Fund</u>
Contributing Members	18,343	48	18,391
Pensioners	14,171	425	14,596
Deferred Pensioners	8,266	73	8,339
Undecided or Frozen	3,498	6	3,504
	<hr/> 44,278	<hr/> 552	<hr/> 44,830

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 contribution rates as a percentage of basic pay from 2012/2013 to 2014/2015 were as follows :-

	<u>Employees</u>	<u>Main Fund Employers</u>	<u>Transport Fund Employer</u>
2012/13	5.5% - 12%	18.0%	£800,000
2013/14	5.5% - 12%	18.0%	£820,000
2014/15	5.5% - 12%	18.0%	£840,000

The employees' contribution levels are now tiered based on a percentage of pensionable pay, whereas the employers' contribution levels are reviewed every three years by the Funds' actuaries as part of their actuarial valuation of the Funds. If the actuaries believe that a surplus is likely to materialise they will recommend a reduction in the employers' contribution rate and if they believe a deficit is likely to materialise they will recommend an increase in the employers' contribution rate.

Barnett Waddingham carried out an actuarial valuation as at 31 March 2014. Following discussions with the Transport Fund's employer, administering authority and actuary, the actuary concluded that a change from fixed sum contributions to a percentage of pensionable payroll would be the best way forward. The result of the valuation for the two Funds were as follows :-

	<u>Main Fund</u>	<u>Transport Fund</u>
Actuarial Value of Assets	£2,396.5m	£54.2m
Actuarial Value as a percentage of Accrued Liabilities	99.8%	99.9%

Recommended Employers' Contributions as a Percentage of Pensionable Payroll for the Main Fund and Transport Fund were as follows :-

2015/2016	17.0%	33.8%
2016/2017	17.0%	33.8%
2017/2018	17.0%	33.8%

The common rate of contribution is the rate which, in addition to the accumulated assets and contributions paid by members, is sufficient to meet 100% of the liabilities of the Fund. This rate takes into account the deficit at 31 March 2014. The deficit is spread over the average remaining working lifetime of the existing members.

The Main Fund contribution rates following the 31 March 2014 valuation were calculated using the projected unit actuarial method.

The Transport Fund contribution rates following the 31 March 2014 valuation were calculated using the attained age actuarial method.

Additional Voluntary Contributions (AVCs)

Under Inland Revenue rules, scheme members are permitted to make contributions towards retirement and death in service benefits, in addition to those which they are required to make as members of the Local Government Pension Scheme. These contributions are known as AVCs and are treated separately from the scheme's assets under arrangement with the Standard Life Assurance Company and Prudential Assurance Company. They are not recorded in the accounts of the Tayside Funds since the AVC scheme works on a defined contribution basis (ie benefit eventually derived will depend upon the amount of the contributions made, the performance of the investments made with these monies and the annuity rates at the point of retiral).

Pension Increases

Pensions and deferred pensions are increased every year under the Pension (Increase) Act 1971 in line with movements in the Consumer Price Index. Recent pension increases are as follows :-

2012	5.2%
2013	2.2%
2014	2.7%
2015	1.2%
2016	0.0%

REVIEW OF THE YEAR

MEMBERS, ADVISORS AND OFFICERS

Pension Sub-Committee

Dundee City Council is the administering authority for the Funds. The majority of this responsibility is delegated through the Council's Policy and Resources Committee to the Pension Sub-Committee. Membership of the Sub-Committee as at 31 March 2016 is as noted below:

Committee Members	Bailie Willie Sawers (Chair) Cllr Jimmy Black Cllr Kevin Keenan Bailie Ian Borthwick Cllr Gregor Murray Cllr Brian Gordon
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All committee members are members of Tayside Pension Funds.

Local Pension Board

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

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

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

The current membership is:

Board Members

Employer Representatives

Cllr Rob Murray – Angus Council (Chair)
Cllr Mac Roberts – Perth & Kinross Council
Mr Kenny Dick – Social Care & Social Work Improvement Scotland
Vacancy

Substitutes Representatives

Cllr Brian Boyd – Angus Council
Mr Gordon Weir – Social Care & Social Work Improvement Scotland

Member Representatives

Mr Drew Duffy - GMB Scotland
Mr Arthur Nicoll - UNISON
Ms Claire Shepherd - UNITE
Mr George Ramsay – UCATT

Substitute Representative

Ms Margaret McGuire - UNISON

All board members are members of Tayside Pension Funds.

MEMBERS, ADVISORS AND OFFICERS (continued)

Fund Managers

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

Investment Advisor

Aon Hewitt

Actuary

Barnett Waddingham

Custodian

Northern Trust

Banker

Royal Bank of Scotland

Auditor

KPMG LLP

Corporate Governance Advisor

Pension & Investment Research Consultants Ltd (PIRC)

Performance Measurement

Northern Trust

Officers

Marjory Stewart - 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

REVIEW OF THE YEAR

INVESTMENT COMMENTARY

This year saw the installation of the local Pension Board to meet the requirements of the new governance regulations which came into force 1st April 2015. The first joint meeting of the Pension Sub-Committee and Pension Board was held on 3rd June 2015. The Board have received a number of training sessions, and now attend these quarterly meetings in accordance with regulatory requirements.

Following the extension of the Pension-Sub Committee to include Pension administration, the organisational structure of the fund was reviewed which resulted in both investment and benefit administration being brought under the same management to compliment the new governance structure of the fund and the remit of the Pension Sub-Committee and Board.

This restructure also coincided with the successful implementation of a "self service" pension administration system for the 44 employers of the fund, enabling faster pension benefit processing with increased accuracy. Planning for the second phase of the project (the roll out to the fund membership) is already underway. This new way of working as well as the new simplified operating model will assist in improving the effectiveness and efficiency of service delivery.

The new "Career Average Revalued Earnings" CARE scheme has now been a full year in operation after coming into effect on 1st April 2015. This has added to the complexity of pension benefit administration, now having 3 separate pension schemes in operation for a large proportion of the scheme's active membership. The pensions system is now configured to accommodate and Pensions staff are now fully confident of the detail of the new scheme benefits.

In terms of the scheme's assets, the fund underwent a Strategic Asset Review which has resulted in a new allocation of 10% of the main fund to Local and Alternatives to be drawn down as opportunities arise. The agreed long term asset allocation of the Main Fund now comprising of 65% equities, 13% bonds, 12% property, and 10% alternatives. Although there has been no change to the asset allocation of the Transport Fund at this time, the current strategy is under review with alternatives being evaluated and discussed with the employer.

INVESTMENT PERFORMANCE

Economic & Market Background - Financial Year to 31 March 2016

The first quarter of the financial year started with weak performance in the equity markets and a sharp decline as the Greek government announced its intention to hold a referendum on the bailout programme. Grexit fear caused volatility within the markets which continued through the next quarter, only to be replaced with further periods of volatility, particularly following the Paris terrorist attacks and the continuing geopolitical tensions in the Middle East.

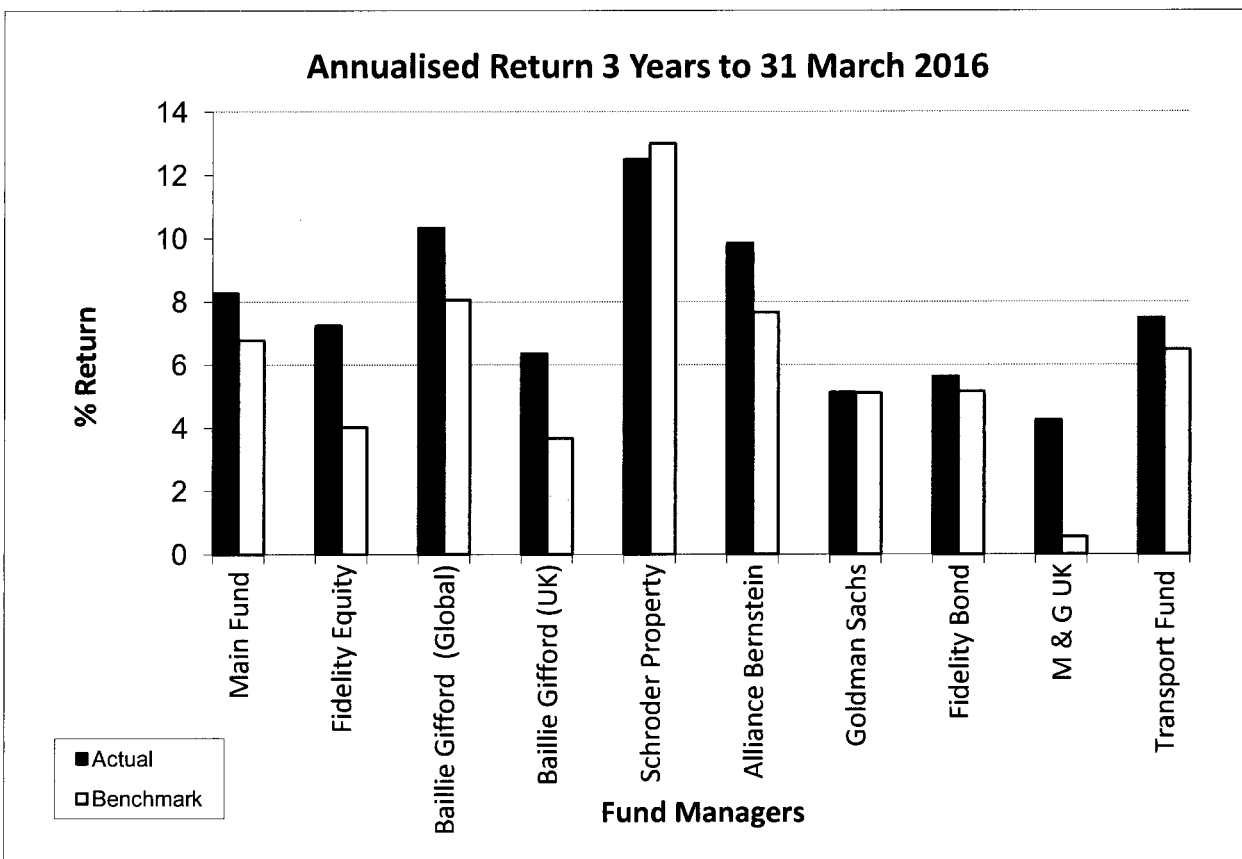
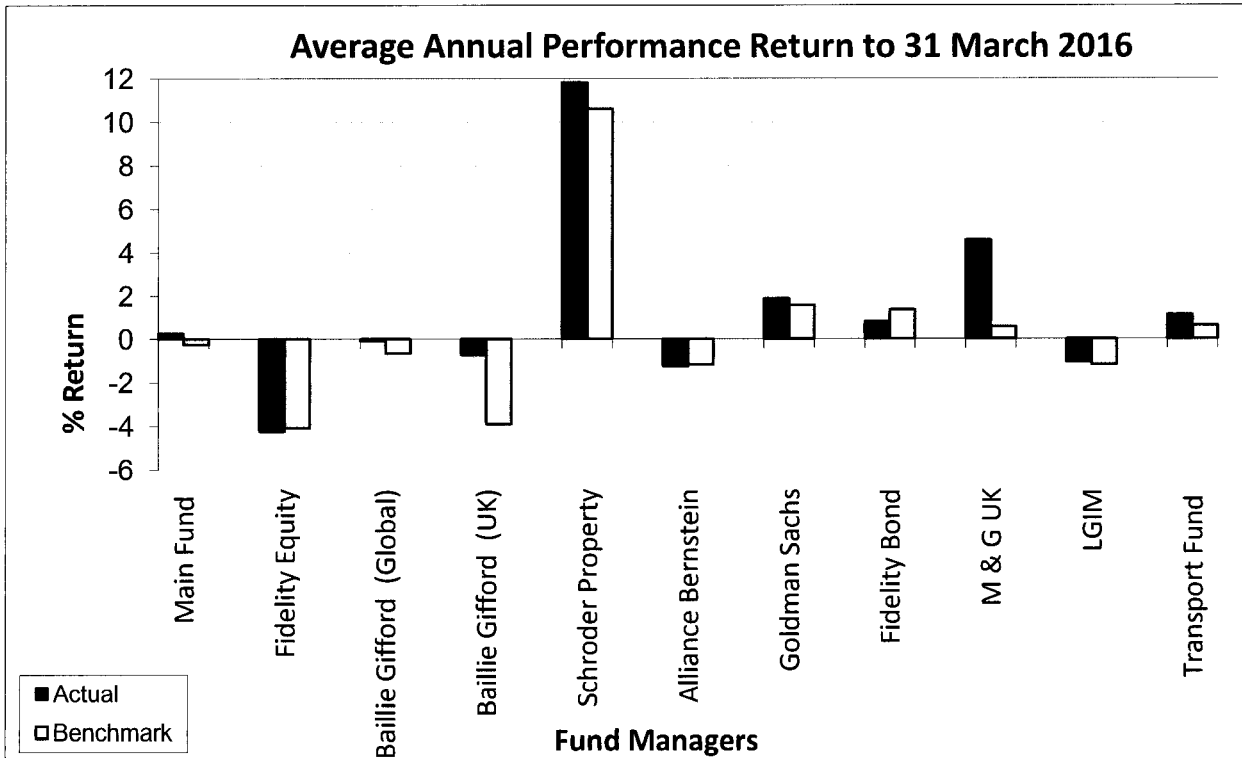
The third quarter of the financial year saw the long expected first interest rate rise in the US in nearly a decade, but also their first economic contraction since 2012. Volatility continued to the end of the financial year driven by the continuing and ever growing fears of Chinese slowdown, continuing low oil and commodity prices and fears of impact of a potential UK Brexit and continuing fears of European bank stability.

All major regional equity indices fell in sterling terms over the first 2 quarters within this financial year, and the JPMorgan Global Manufacturing Purchasing Managers' Index (PMI) dropped from 51.8 at the start of the financial year to 50.5 in March 2016. In spite of continuing economic stimulus by the European Central Bank and the Bank of Japan, and a rebound in oil and commodity prices in the fourth quarter, the global equity markets failed to deliver positive returns.

A post balance sheet event disclosure note regarding Brexit has been included for Main Fund and Transport Fund accounts, see page 30 and 41 respectively.

Performance Measurement

In the financial year to 31 March 2016 the Main Fund returned 0.25% which was 0.51% in excess of the overall benchmark for the year. The Transport Fund returned 1.14% which was 0.49% in excess of the overall benchmark for the year. This outperformance is attributable to the individual investment managers and for Tayside Transport Fund for both 1 year and 3 year timescales is as follows:



REVIEW OF THE YEAR

Principal Equity Holdings (Top Five by Value) as at 31 March 2016

<u>Investment</u>	<u>Value (£000)</u>	<u>% of Total Equity Holding</u>	<u>Activities</u>
Royal Dutch Shell	29,528	1.504	Oil
Prudential	28,114	1.432	Life Insurance
Glaxo Smithkline Plc	22,660	1.154	Pharmaceuticals
Vodafone	20,606	1.050	Telecommunications
CRH Plc	18,761	0.956	Building Materials
Top Five Total	119,669	6.096	

Total Value of Equities 1,962,842

Asset Allocation and Value

These performance returns in relation to the assets invested had the following impact on the value of the funds:

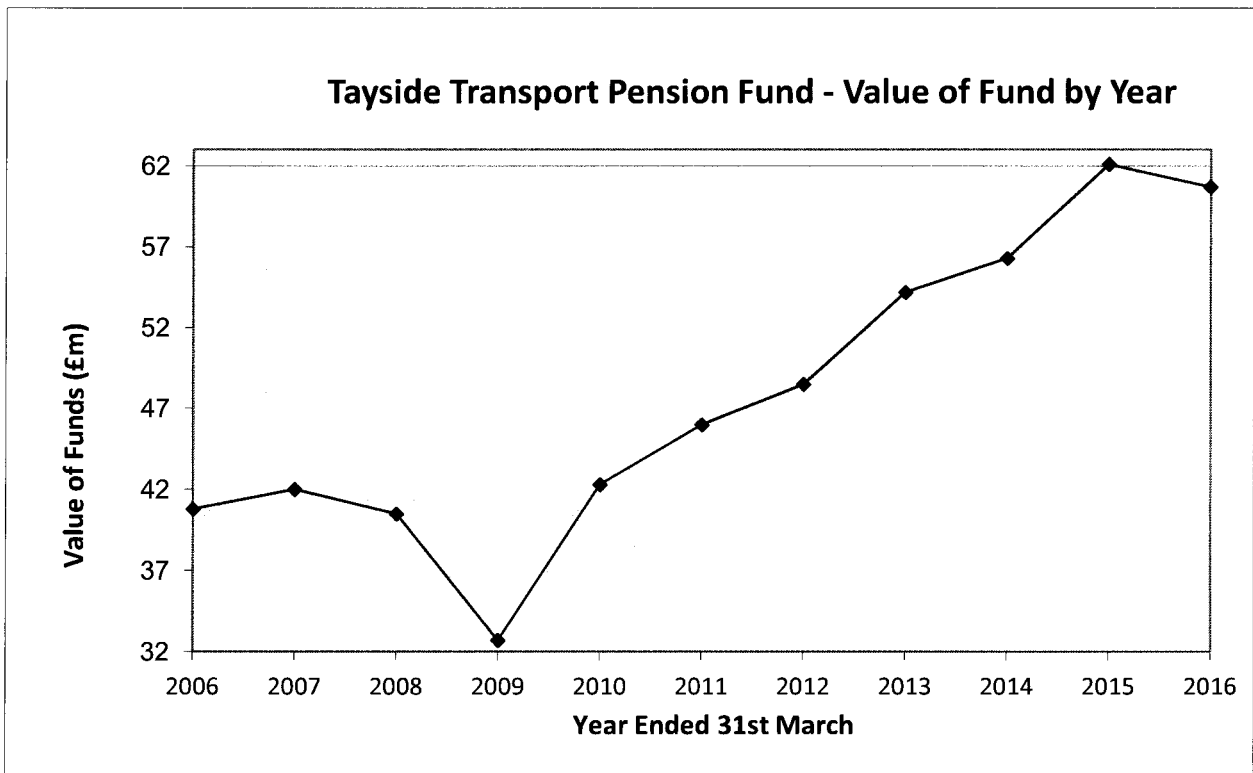
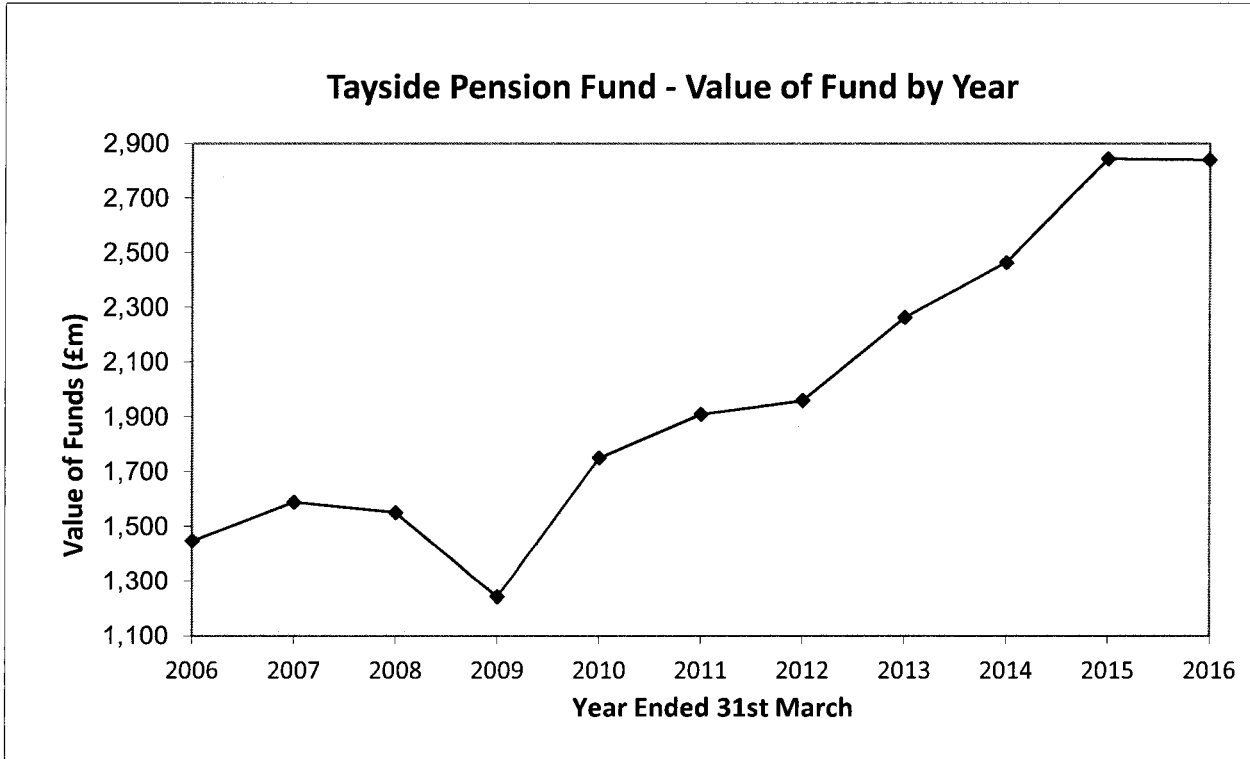
Main Fund	Valuation (£m) and Distribution (%)			
	31/03/2015		31/03/2016	
Sector	£m	%	£m	%
UK Equities	736.0	25.9	717.2	25.3
UK Bonds	469.0	16.5	459.7	16.2
Overseas Bonds	20.7	0.7	35.9	1.3
Overseas Equities	1,282.1	45.1	1,242.1	43.9
Property Unit Trusts	304.4	10.7	335.2	11.8
M&G Fund	11.8	0.4	9.5	0.3
Derivatives	0.2	-	1.0	-
Cash Balance Held By Managers	16.1	0.6	22.7	0.8
Net Financial Assets	3.9	0.1	6.8	0.3
Net Current Assets / (Liabilities)	(1.1)	-	9.5	0.1
	2,843.1	100.0	2,839.6	100.0

Transport Fund	Valuation (£m) and Distribution (%)			
	31/03/2015		31/03/2016	
Sector	£m	%	£m	%
UK Equities	15.5	24.9	14.6	24.0
UK Bonds	22.3	36.0	21.9	36.2
Overseas Bonds	1.7	2.7	2.5	4.1
Overseas Equities	15.8	25.5	15.6	25.7
Property Unit Trusts	4.5	7.2	4.9	8.0
Derivatives	-	-	0.1	0.1
Cash Balance Held By Managers	0.7	1.1	0.9	1.5
Net Financial Assets	0.3	0.5	0.1	0.2
Net Current Assets	1.3	2.1	0.1	0.2
	62.1	100.0	60.7	100.0

REVIEW OF THE YEAR

Valuation of Assets of the Pension Funds

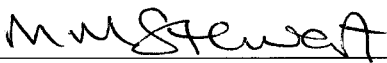
	<u>Main Fund</u>		<u>Transport Fund</u>	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Opening Value	2,463.1	2,843.1	56.3	62.1
New Cash Inflow/(Outflow)	43.2	(55.0)	(1.2)	(1.4)
Appreciation during the year	336.8	51.5	7.0	0.0
Value as at 31 March	2,843.1	2,839.6	62.1	60.7



REVIEW OF THE YEAR

Acknowledgement

The production of the Annual Report and Accounts is a team effort involving Corporate Finance staff as well as information provided by our external advisors. I would like to take this opportunity to acknowledge the efforts of staff in the production of the 2015/16 Annual Report and Accounts.



Marjory Stewart, FCCA, CPFA
Executive Director of Corporate Services
Dundee City Council
28 September 2016



David Martin
Chief Executive
Dundee City Council
28 September 2016



Bailie Willie Sawers
Chair of Pension sub-committee
Tayside Pension Funds
28 September 2016

GOVERNANCE ARRANGEMENTS

TAYSIDE PENSION FUNDS – ANNUAL GOVERNANCE STATEMENT 1 APRIL 2015 – 31 MARCH 2016

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 Council is responsible 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).

Scope of Responsibility

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

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

The Governance Framework

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 governance structure, including the wider responsibilities of the Pensions-Sub Committee, is set out in the Governance Compliance Statement (Report 216-2016). The Local Government Pension Scheme (Scotland) 2014 require administering authorities to prepare, maintain and publish a written statement setting out the terms of their current governance arrangements, incorporating guidance provided by Scottish Ministers. The statement was last reviewed by Committee in June 2016 and demonstrates that the Fund is compliant with guidance provided.

Tayside Pension Fund is administered by Dundee City Council in accordance with Section 24 of its Financial Regulations. The main functions are the 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. Investment policy and decisions are delegated to the Pensions Sub-Committee of the Policy and Resources Committee.

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). The Committee meets quarterly at joint meetings with the Pensions Board. Additional meetings are arranged as required should the need arise.

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

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

The Fund also holds annual investment forums for employers and the trade unions. The agenda for these meetings includes presentations by the Actuary and the Fund's Investment and Administration Managers and covers the actuarial position, the benefits structure and investment performance.

Continuous Improvement Agenda

The following are service improvements achieved during 2015/16:

- Amendment to remit of the Pensions Committee to include pension scheme administration.
- Introduction of a Pension Board to assist in securing compliance with relevant legislation and regulation.
- Review of the Environmental, Social and Corporate Governance Policy accommodating a change in policy in respect of tobacco investment.
- Introduction of Communication and Administration Policies.
- Introduction of an on line self-service application (LGPS PensionsWEB) to enable access to information for scheme employers and employees.
- Successful introduction of new Career Average Revalued Earnings (CARE) Scheme.
- Review and successful change to simplify the operating model of service delivery for pension benefit administration for the 44 scheme employers.

The following are notable planned improvements to be taken forward during 2016/17:

- Review of the Environmental, Social and Corporate Governance Policy extending voting recommendations to all major global indices.
- Introduction of quarterly administration performance review.
- Implementation of required changes following review of strategic asset allocation and benchmarks.
- Review of pension fund structure and duties to include the introduction of automated task management and auto-scanning of incoming documents.
- Review of the strategy of the Transport Fund

Information on the Fund is available from the following links:

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

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

- The Statement of Investment Principles, concerning the approach to the investment of the fund.
- The Business Plan, communication the aims and objectives of the Fund for the forthcoming year.
- The Treasury Management Strategy for the forthcoming year.
- The Actuary's report on the 2014 valuation.
- The Funding Strategy Statement, concerning the management of the identification and management of the Fund's liabilities.
- The Risk Register, concerning the application of Myners Principles.
- The Governance Policy Statement which sets out the Funds approach
- Environmental, Social and Corporate Governance Policy for investment.



Marjory Stewart, FCCA, CPFA
Executive Director of Corporate Services
Dundee City Council
28 September 2016



David Martin
Chief Executive
Dundee City Council
28 September 2016



Bailie Willie Sawers
Chair of Pension sub-committee
Tayside Pension Funds
28 September 2016

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. 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.

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 2016).

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 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:

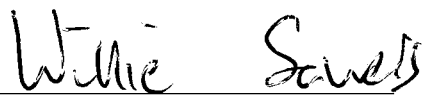
- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities

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 2016, and their income and expenditure for the year ending 31 March 2016.



Marjory Stewart, FCCA, CPFA
Executive Director of Corporate Services
Dundee City Council
28 September 2016



Bailie Willie Sawers
Chair of Pension sub-committee
Tayside Pension Funds
28 September 2016

INDEPENDENT AUDITOR'S REPORT

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

We certify that we have audited the financial statements of Tayside Pension Fund and Tayside Transport Pension Fund ("the Funds") for the year ended 31 March 2016 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the fund account, the net assets statement and the related notes. 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 2015/16 (the 2015/16 Code).

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 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Executive Director of Corporate Services of Dundee City Council and auditor

As explained more fully in the Statement of Responsibilities, the Executive Director of Corporate Services is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2015/16 Code of the financial transactions of the fund during the year ended 31 March 2016, 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 2015/16 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.

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion on other prescribed matter

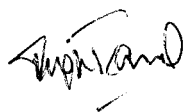
In our opinion the information given in the Review of the Year for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government; or
- the Annual Governance Statement does not comply with guidance from the Scottish Ministers.

We have nothing to report in respect of these matters.



Hugh Harvie

for and on behalf of KPMG LLP

Chartered Accountants

Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG

Date: 30.9.16

TAYSIDE PENSION FUND ACCOUNTS

2014/2015 £000	FUND ACCOUNT	Note	2015/2016 £000	£000
	CONTRIBUTIONS AND BENEFITS			
	<u>Contributions receivable :-</u>			
68,776	From employers	5	67,576	
<u>22,636</u>	From members	5	<u>23,036</u>	
91,412				90,612
3,324	Transfers in	7		2,547
	<u>Benefits payable :-</u>			
(68,545)	Pensions		(72,335)	
<u>(21,104)</u>	Lump Sums	6	<u>(20,337)</u>	
(89,649)		6		(92,672)
	<u>Payments to and on account of Leavers :-</u>			
(233)	Refund of Contributions to Members		(207)	
(115)	Refund of Contributions to State Scheme		(133)	
<u>(4,890)</u>	Transfers Out	7	<u>(2,256)</u>	
(5,238)				(2,596)
<u>(1,232)</u>	Administration Expenses	4,14,16		<u>(1,323)</u>
(1,383)	Net (Withdrawals)/Deposits from dealings with Members			(3,432)
	RETURNS ON INVESTMENTS			
56,574	Investment Income	8	58,956	
336,802	Change in Market Value of Investments	9	(51,468)	
<u>(11,921)</u>	Investment Management Expenses	17	<u>(7,589)</u>	
<u>381,455</u>	Net Returns on Investments			<u>(101)</u>
380,072	Net (decrease)/increase in Fund during the year			(3,533)
<u>2,463,063</u>	OPENING NET ASSETS OF THE SCHEME			<u>2,843,135</u>
<u>2,843,135</u>	CLOSING NET ASSETS OF THE SCHEME			<u>2,839,602</u>

Notes on pages 20 to 30 form part of the financial statements.

TAYSIDE PENSION FUND ACCOUNTS

2015 £000	NET ASSETS STATEMENT (AS AT 31 MARCH) INVESTMENT ASSETS AT MARKET VALUE	Note	2016 £000	£000
	<u>Listed Investments</u>			
656,278	UK Equities		640,093	
64,398	UK Pooled Funds		61,984	
47,561	UK Fixed Interest - Public Sector		35,949	
7,850	UK Fixed Interest – Other		7,373	
91,285	UK Index Linked - Public Sector		95,125	
654,486	Overseas Equities		642,836	
208,047	Overseas Pooled Funds		207,676	
352,658	Overseas Open Ended Investment Companies		326,858	
17,877	Overseas Fixed Interest – Other		28,980	
286	Derivatives (Futures)		1,270	
	<u>Unlisted Investments</u>			
339,194	UK Open Ended Investment Companies		340,845	
11,782	M&G Fund		9,445	
68,140	Overseas Open Ended Investment Companies		67,176	
304,428	Property Unit Trusts		335,209	
16,093	Cash Balances held by Fund Managers		22,723	
<u>19,691</u>	Financial Debtors	13	<u>7,876</u>	
2,860,054				2,831,418
	INVESTMENT LIABILITIES			
	(77) Derivatives (Futures)		(264)	
<u>(15,823)</u>	Other Financial Liabilities	13	<u>(1,100)</u>	
<u>(15,900)</u>	Total Financial Liabilities			<u>(1,364)</u>
2,844,154	Net Financial Assets	9,19		2,830,054
	CURRENT ASSETS			
7,903	Contributions Due from Employers		7,176	
1,471	Sundry Debtors	12	2,005	
<u>1,340</u>	Cash and Bank		<u>5,867</u>	
<u>10,714</u>			<u>15,048</u>	
	LESS CURRENT LIABILITIES			
(11,733)	Sundry Creditors	12	<u>(5,500)</u>	
<u>(1,019)</u>	NET CURRENT ASSETS			<u>9,548</u>
<u>2,843,135</u>	NET ASSETS			<u>2,839,602</u>

Marjory Stewart

Marjory Stewart, FCCA, CPFA
Executive Director of Corporate Services
Dundee City Council
28 September 2016

Notes on pages 20 to 30 form part of the financial statements.

NOTES TO TAYSIDE PENSION FUND FINANCIAL STATEMENTS

1 - The Local Government Pension Scheme

The Scheme is a "defined benefit scheme" which means that the benefits to which members and their spouses are entitled are determined by final pensionable pay and pensionable service.

Dundee City Council is the administering authority for Tayside Pension Fund (Main Fund). The scheme covering the Fund is statutory, approved by the Inland Revenue and contracted out of S2P (the State Second Pension).

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 42 other "scheduled bodies" and "admitted bodies" (see appendix 1). Teachers are not included in the Scheme as they have a separate, nationally established, statutory arrangement.

2 - Basis of Preparation of the Financial Statements

Local authorities responsible for administering a pension fund that forms part of the local government pension scheme ("LGPS") are required by an amendment to The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 to publish a pension fund annual report, which is required to include financial statements. Local authorities have a duty under section 12 of the Local Government in Scotland Act 2003 to observe proper accounting practices. The Scottish Government issued accounting Guidance for the LGPS financial statements in Finance Circular 1/2011, which clarified that pension fund financial statements within the annual report should be prepared in accordance with proper accounting practices set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 ("the Code").

3 - Statement of Accounting Policies

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

Investments

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

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

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

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

Income and Expenditure

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

Investment Income

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

Cash and Cash Equivalents

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

Contributions

Contributions represent the amounts received from organisations participating in the Fund, these may be from the administering authority, other scheduled bodies or admitted bodies. Such amounts relate both to their own employer contributions and to those of their pensionable employees. Employee and employers contributions due as at 31 March 2016 have been accrued.

Foreign Currency

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

Investment Management Expenses

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

Administrative Overheads and Expenses

The Pension Administration and Pension Investment sections of Dundee City Council are responsible for administering the two Pension Funds. The above sections receive an allocation of the overheads of the Council, this is based on the amount of central services consumed. In turn, these sections allocate this charge to the two Pension Funds. Costs which can be directly charged to each fund during the financial year will be, costs which are shared by both Funds are allocated in proportion to the market value or membership of the Funds as at 31 March 2016.

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 10).

Transfers to and from other Schemes

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

Taxation

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

4 - Related Parties

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

	2015 £000	2016 £000
<u>Transactions</u>		
Administration Costs	1,101	1,124
<u>Balances</u>		
Due from Dundee City Council as at 31 March	2,668	2,301

5 - Contributions

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

	2014/2015			Total £000
	Administering Authority £000	Other Scheduled Bodies £000	Admitted Bodies £000	
Member contributions	6,752	12,143	3,573	22,468
Employer contributions	19,887	36,091	9,936	65,914
Strain on Fund	849	1,864	317	3,030
Total	27,488	50,098	13,826	91,412

	2015/16			Total £000
	Administering Authority £000	Other Scheduled Bodies £000	Admitted Bodies £000	
Member contributions	6,828	12,261	3,788	22,877
Employer contributions	19,201	34,796	10,079	64,076
Strain on Fund	763	2,506	390	3,659
Total	26,792	49,563	14,257	90,612

6 - Benefits

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

	Total Benefits Payable (incl. Lump Sums)		Lump sums (Retirement and Death Benefits)	
	2014/2015 £000	2015/2016 £000	2014/2015 £000	2015/2016 £000
Administering Authority	33,726	34,236	7,031	6,404
Other Scheduled Bodies	45,661	47,297	11,366	10,566
Admitted Bodies	10,262	11,139	2,707	3,367
TOTAL	89,649	92,672	21,104	20,337

7 - Transfer Values

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

	Transfer Values Received		Transfer Values Paid	
	2014/15	2015/16	2014/15	2015/16
	£000	£000	£000	£000
Administering Authority	364	1,489	1,444	640
Other Scheduled Bodies	2,280	562	2,424	1,008
Admitted Bodies	680	496	1,022	608
TOTAL	3,324	2,547	4,890	2,256

8 - Investment Income

	2014/15	2015/16
	£000	£000
Interest from Fixed Interest Securities	6,600	6,906
Dividends from Equities	30,128	34,109
Income from Index Linked Securities	714	670
Income from Pooled Investment Vehicles	16,029	13,291
Interest on Cash Deposits	75	92
Other Income	3,436	4,294
	<u>56,982</u>	<u>59,362</u>
Irrecoverable Withholding Tax	(408)	(406)
	<u>56,574</u>	<u>58,956</u>

9 - Investments

Market Value of Investments Managed Externally

The Fund's investment assets are under the management of seven external fund managers. At 31 March 2016 the market value of these investment assets was £2,830.1m (2015 £2,844.2m), managed as follows:

	2015		2016	
	£m	%	£m	%
Schroder Properties Limited	310.1	10.9	340.1	12.0
Baillie Gifford & Co	708.6	24.9	701.2	24.8
Fidelity Pensions Management Equity	627.6	22.1	589.0	20.8
Alliance Bernstein	417.0	14.7	415.2	14.7
Goldman Sachs	318.2	11.2	322.9*	11.4
Fidelity Bond	174.6	6.1	175.8	6.2
M & G Investment Management	11.8	0.4	9.4	0.3
Legal & General	272.4	9.6	269.7	9.5
Financial Debtors	19.7	0.7	7.9	0.3
Financial Liabilities	(15.8)	(0.6)	(1.1)	-
Net Financial Assets	<u>2,844.2</u>	<u>100.0</u>	<u>2,830.1</u>	<u>100.0</u>

* Within the Goldman Sachs investment total above there is an investment of £149.9m (2015 £149.3m) which exceeds 5% of net assets available for benefits. This is in the GS Sterling Credit Portfolio. Although it is classed as a single investment, this is a pooled fund with over 300 holdings designed to ensure a diversified exposure to corporate bonds.

Derivatives - Futures

Summary of contracts held at 31 March 2016

	Settlement Date	Economic Exposure			Net £000
		£000	Asset £000	Liability £000	
EMINI S&P500	3 months	571	15	-	15
SFE 10 yr Treasury Bond	3 months	1,612	54	-	54
Euro Buxl	3 months	(4,009)	-	(162)	(162)
Eurx Bobl	3 months	(6,652)	-	(94)	(94)
Eurx Bund	3 months	22,401	750	-	750
LIF Long Gilt	3 months	15,031	64	-	64
10 yr Treasury Note	3 months	(4,173)	79	-	79
5 yr Treasury Note	3 months	(9,272)	157	-	157
CBT UL Treasury Bonds	3 months	240	-	(8)	(8)
CBT Treasury Bonds	3 months	(3,890)	90	-	90
US 2 yr Treasury Note	3 months	(2,587)	61	-	61
		9,272	1,270	(264)	1,006

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.

Investment Movement Summary

	Value at 01/04/2015 £m	Purchases at Cost £m	Sales Proceeds £m	Change in Market Value £m	Value at 31/03/2016 £m
Schroder Property	304.4	13.1	(1.8)	19.5	335.2
Baillie Gifford Global	357.3	48.6	(50.1)	(7.9)	347.9
Fidelity Equity	627.3	134.6	(137.2)	(38.5)	586.2
Alliance Bernstein	416.6	193.4	(174.4)	(22.1)	413.5
Goldman Sachs	315.3	137.4	(136.4)	4.5	320.8
Fidelity Bond	174.6	5.1	-	(3.9)	175.8
Baillie Gifford UK	344.5	34.9	(10.6)	(26.7)	342.1
M&G Fund	11.8	-	(2.9)	0.5	9.4
Legal & General	272.4	-	-	(2.7)	269.7
	2,824.2	567.1	(513.4)	(77.3)	2,800.6
Financial Liabilities	(15.8)				(1.1)
Cash Deposits	16.1			25.8	22.7
Financial Debtors	19.7				7.9
Net Financial Assets	2,844.2			(51.5)	2,830.1

Transaction Costs

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the fund such as fees, commissions, stamp duty and other fees. The total for the year was £1.522.1m (2015 £1.532.6m).

Securities Lending

The total amount of stock released to third parties under a stock lending arrangement at 31 March 2016 was nil (2015 nil).

10 - 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. AVCs managed by Standard Life had contributions of £299,270 during 2015/2016 (2015 £273,503) and value at 5 April 2016 was £4,739,594 (2015 £4,897,481). AVCs managed by Prudential had contributions of £1,112,279 during 2015/2016 (2015 £1,119,525) and a value at 31 March 2016 was £3,092,243 (2015 £2,581,863).

11 - Actuarial Present Value of Promised Retirement Benefits

The actuarial value of the promised retirement benefits as at 31 March 2016, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £3,379.3m (2015 £3,478.8m) of which £3,197.6m (2015 £3,264.8) is a vested obligation and £181.7m (2015 £214.0m) is a non-vested obligation. This figure is used for statutory accounting purposes by Tayside Pension Fund and complies with the requirements of IAS26. The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting of contributions payable to the Fund.

12 - Sundry Debtors and Creditors

Sundry Debtors total £1.909m as at 31 March 2016 (2015 £1.471m), this figure contains pending sales ledger income (£1.023m), management fees rebate from Fidelity (£0.879m) and miscellaneous debtors (£0.007m).

Sundry Creditors total £5.500m as at 31 March 2016 (2015 £11.733m), this figure contains unpaid benefits (£3.259m), custodian fees (£0.046m), Investment Manager fees (£1.862m), Consultancy fees (£0.008m), pending purchase ledger payments (£0.245m) and miscellaneous creditors (£0.080m).

13 - Other Financial Liabilities and Financial Debtors

Other Financial Liabilities total £1.100m as at 31 March 2016 (2015 £15.823m). This wholly represents pending purchase transactions.

Financial Debtors total £7.876m as at 31 March 2016 (2015 £19.691m). This is made up of pending sales transactions (£0.171m) and investment income (£7.705m).

14 - Audit Fee

The Pension Funds have been subject to a separate external audit to that of the Council. The Main Fund incurred an audit fee of £19,649 for 2015/16 financial year.

15 – Other Services Provided by KPMG LLP

During 2015/16 Tayside Pension Funds had one direct transaction with KPMG LLP, this transaction (£15,500) was in respect of taxation services provided for withholding tax claims made in Germany.

16 – Management Expenses

	2014/15	2015/16
	£000	£000
Administrative costs	1,138	1,230
Investment management expenses	11,921	7,589
Oversight and governance costs	94	94
	<u>13,153</u>	<u>8,913</u>

17 – Investment Expenses

	2014/15	2015/16
	£000	£000
Management fees	11,716	7,377
Custody fees	148	158
Performance monitoring service	25	25
Investment consultancy	32	29
	<u>11,921</u>	<u>7,589</u>

18 – Nature and Extent of Risks arising from Financial Instruments

Risk Management

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

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

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

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on 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, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council 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 expected investment return movements, in consultation with the Council's investment adviser, it has been determined that the following movements in market price risk are reasonably possible for this reporting period:

	Potential Market Movement
	+/- per annum
Equities	
UK	19.00%
Emerging Market	30.00%
Global	20.00%
Bonds	
UK Index-Linked Gilts	9.00%
UK Gilts	11.00%
UK Corporate	9.00%
Other	13.00%
Property	12.50%
Alternatives	9.00%
Cash	0.00%

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 firm's assumptions for asset class volatilities as at 31 March 2016.

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

	Value £	% Change	Potential change in year in the net assets available to pay benefits	
			Favourable Market Movement £	Unfavourable Market Movement £
Equities				
UK	722,674,417	19.00%	859,982,556	585,366,278
Emerging Market	206,329,694	30.00%	268,228,602	144,430,786
Global	1,030,294,044	20.00%	1,236,352,853	824,235,235
Bonds				
UK Index-Linked Gilts	140,479,212	9.00%	153,122,341	127,836,083
UK Gilts	35,949,181	11.00%	39,903,591	31,994,771
UK Corporate	283,297,462	9.00%	308,794,234	257,800,691
Other	35,870,053	13.00%	40,533,160	31,206,946
Property	335,208,850	12.50%	377,109,956	293,307,744
Alternatives	9,444,920	9.00%	10,294,963	8,594,877
Cash	36,287,869	0.00%	36,287,869	36,287,869
Total	2,835,835,702	14.30%	3,241,360,207	2,430,311,196

Interest rate risk sensitivity analysis

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

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2016 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 approximate net assets available to pay benefits of a +/- 100 Basis Points (BPS) change in interest rates:

Asset Type	Carrying amount as at 31 March 2016 (£)	Potential change in year in the net assets available to pay benefits £	
		100bps	-100 bps
Fixed Interest Securities	495,595,908	-59,055,674	67,763,368
Cash	22,722,653	0	0
Total change in assets available	518,318,562	-59,055,674	67,763,368

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 does not impact the value of cash balances but will increase the interest income received on those balances by £227,226, 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 2016. 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 2016:

Currency exposure - asset type	Asset value
	31-Mar-16
Overseas Index-Linked - Public Sector	£4,399,070
Overseas Equities	£642,835,455
Overseas OEIC (listed)	£326,858,449
Overseas OEIC (unlisted)	£67,175,934
Overseas Fixed Interest - Other	£28,980,143
Overseas Pooled Investments	£207,675,624
Total overseas assets	£1,277,924,675

Currency risk- sensitivity analysis

Following analysis of historical data, the likely volatility associated with foreign exchange movements on an individual currency basis is shown in the following table. The weight of each currency in relation to the total currency basket is multiplied by the change in its exchange rate (relative to GBP) to create the aggregate potential currency change of the 'basket' and the % Change in Total Currency includes the impact of correlation across the underlying currencies. The likely volatility is 4.1% (as measured by one standard deviation).

Currency exposure - asset type	Asset value	Change to net assets available to pay benefits	
	31-Mar-16	-4.1%	4.1%
Overseas Index-Linked - Public Sector	£4,399,070	£4,218,708	£4,579,431
Overseas Equities	£642,835,455	£616,479,202	£669,191,709
Overseas OEIC (listed)	£326,858,449	£313,457,252	£340,259,645
Overseas OEIC (unlisted)	£67,175,934	£64,421,721	£69,930,147
Overseas Fixed Interest - Other	£28,980,143	£27,791,957	£30,168,329
Overseas Pooled Investments	£207,675,624	£199,160,924	£216,190,325
Total overseas assets	£1,277,924,675	£1,225,529,764	£1,330,319,586

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 2016, including current account cash, was £6.1m (2015 : £3.1m). This was held with the following institutions :-

	Credit Rating	Balance as at 31 March 2015 £'000	Balance as at 31 March 2016 £'000
Bank deposit accounts :-			
Royal Bank of Scotland	F2	-	-
Bank of Scotland	F1	-	5,000
Santander	F1	3,050	1,105
Bank current accounts :-			
Royal Bank of Scotland	F1	21	19

During June 2015, Royal Bank of Scotland's credit rating was downgraded to F2, this means the Fund will no longer invest internally managed cash with this institution in line with approved Treasury Strategy.

Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments.

The Fund has immediate access to its cash holdings. The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash.

19 – Post Balance Sheet Event - Brexit

On 23 June 2016, the United Kingdom (UK) voted in a national referendum to leave the European Union (EU). This has resulted in uncertainty both for investors and for the wider financial services industry across the UK, Europe and the world. This uncertainty may result in adverse market conditions affecting portfolio volatility and overall returns on investment.

At this point the outcome of negotiations and subsequent government agreements is unknown, and the fund will be monitoring closely and seeking specialist advice and guidance as required.

As at 31 August 2016, the net financial assets of the fund had increased by £330.4m to £3,160.5m, although there have been periods of volatility there has been no detriment to the increasing value of the fund.

TAYSIDE PENSION FUND

Actuarial Statement for 2015/2016

This statement has been prepared in accordance with Regulation 76 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 1998.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), effective from 1 April 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund.
- to minimise the degree of short-term change in employer contribution rates.
- to ensure that sufficient cash is available to meet all liabilities as they fall due for payment.
- to help employers manage their pension liabilities.
- to maximise the returns from investments within reasonable and considered risk parameters, and hence minimise the cost to the employer.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 76 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 1998 was as at 31 March 2014. This valuation revealed that the Fund's assets, which at 31 March 2014 were valued at £2,463.1 million, were sufficient to meet 99.8% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2014 valuation was £4.8m. Individual employers' contributions for the period 1 April 2015 to 31 March 2018 were set in accordance with the Fund's funding policy as set out in its Funding Strategy Statement.

Principal Actuarial Assumptions and Method Used to Value the Liabilities

Full details of the methods and assumptions used are described in the valuation report dated February 2015, a copy of which can be found on Tayside Pension Funds website (<http://www.taysidepensionfund.org/>).

Method

The method adopted at this valuation is known as the "Projected Unit Method". The key feature of this method is that in assessing the future service cost the Actuary will calculate the contribution rate which meets the cost of one year benefit accrual. This is the same method adopted at the previous valuation and is an appropriate method for a Fund which is open to new members.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2014 valuation were as follows:

<u>Investment Return</u>	pa
Equities	5.9%
Gilts	3.6%
Cash	3.4%
Bonds	4.1%
Property	5.5%
<u>Financial Assumptions</u>	pa
Discount Rate	5.4%
Retail Price Index	3.6% (20 year point on BoE Inflation curve)
Consumer Price Index	2.8% (RPI less 0.8%)
Pension Increases	2.8% (RPI less 0.8%)
Short-term pay increases	In line with CPI assumption for 2 years to 31/03/16
Long-term pay increases	4.6% (RPI plus 1%)

The key demographic assumption was the allowance made for longevity. The longevity assumptions adopted at this valuation were in line with standard PA92 mortality tables.

Experience Over the Period Since April 2014

The Administering Authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced as at 31 March 2016.

	Main Fund @ 99.8%				
	Net Reserve		CARE ongoing % Value of payroll	Net Reserve required to maintain current contribution	
Date	£'000	%	%	£'000	%
31 March 2014	87,317	3.5	16.5	-	-
31 March 2015	242,956	8.5	17.3	7,806	0.3
31 March 2016	294,585	10.6	14.8	-	-

The results show the net excess / deficit from the set funding levels at actuarial valuation of 31 March 2014 and the requirements to maintain the current level of employer contribution considering changes to asset values and the ongoing liability costs of the scheme to employers.

These results are calculated by projecting forward from the last valuation allowing for estimated investment returns, pay and pension increases, benefits paid and contributions made and any changes in underlying market conditions. Experience in terms of factors such as retirement or mortality are not updated.

The results are therefore only a broad indication of the current position and can only give an approximate guide to the position.

The smoothed basis is derived from an average position over a six month period.

The next actuarial valuation will be carried out as at 31 March 2017. The Funding Strategy Statement will also be reviewed in March 2017.

TAYSIDE TRANSPORT PENSION FUND ACCOUNTS

2014/2015	FUND ACCOUNT		2015/2016	
£000			£000	£000
	CONTRIBUTIONS AND BENEFITS	Note		
	<u>Contributions receivable:-</u>			
840	From employers		404	
<u>76</u>	From members		<u>82</u>	
916				486
	<u>Benefits payable:-</u>			
(2,036)	Pensions		(2,032)	
<u>(515)</u>	Lump Sums		<u>(436)</u>	
(2,551)				(2,468)
	<u>Payments to and on account of Leavers:-</u>			
<u>(78)</u>	Transfers Out		-	
(78)				-
<u>(36)</u>	Administration Expenses	10,11		<u>(30)</u>
(1,749)	Net Withdrawals from dealings with Members			(2,012)
	RETURNS ON INVESTMENTS			
810	Investment Income	5	833	
6,981	Change in Market Value of Investments	6	(47)	
<u>(199)</u>	Investment Management Expenses	12	<u>(207)</u>	
<u>7,592</u>	Net Returns on Investments			<u>579</u>
5,843	Net (decrease)/increase in Fund during the year			(1,433)
<u>56,291</u>	OPENING NET ASSETS OF THE SCHEME			<u>62,134</u>
<u>62,134</u>	CLOSING NET ASSETS OF THE SCHEME			<u>60,701</u>

Notes on pages 35 to 41 form part of the financial statements.

TAYSIDE TRANSPORT PENSION FUND ACCOUNTS

2015 £000	NET ASSETS STATEMENT (AS AT 31 MARCH)	Note	2016 £000	£000
	INVESTMENT ASSETS AT MARKET VALUE			
	<u>Listed Investments</u>			
14,811	UK Equities		13,902	
3,609	UK Fixed Interest - Public Sector		3,019	
515	UK Fixed Interest - Other		546	
6,892	UK Index Linked - Public Sector		7,208	
15,827	Overseas Equities		15,625	
1,490	Overseas Fixed Interest - Other		1,982	
18	Derivatives (Futures)		87	
	<u>Unlisted Investments</u>			
12,092	UK Open Ended Investment Companies		12,094	
105	Overseas Open Ended Investment Companies		209	
4,510	Property Unit Trusts		4,854	
700	Cash Balances held by Fund Managers		943	
<u>1,014</u>	Financial Debtors	9	<u>133</u>	
61,583				60,602
	INVESTMENT LIABILITIES			
(9)	Derivatives (Futures)		(2)	
<u>(744)</u>	Other Financial Liabilities	9	<u>(2)</u>	
<u>(753)</u>	Total Financial Liabilities			<u>(4)</u>
60,830	Net Financial Assets	6, 14		60,598
	CURRENT ASSETS			
6	Contributions Due from Employers		43	
1	Sundry Debtors		-	
<u>1,355</u>	Cash and Bank		<u>108</u>	
1,362			151	
	LESS CURRENT LIABILITIES			
(58)	Sundry Creditors	8	<u>(48)</u>	
<u>1,304</u>	NET CURRENT ASSETS			<u>103</u>
<u>62,134</u>	NET ASSETS			<u>60,701</u>

MM Stewart

Marjory Stewart, FCCA, CPFA
Executive Director of Corporate Services
Dundee City Council
28 September 2016

Notes on pages 35 to 41 form part of the financial statements.

NOTES TO TAYSIDE TRANSPORT PENSION FUND FINANCIAL STATEMENTS

1 - Local Government Pension Scheme

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

2 - Basis of Preparation

Local authorities responsible for administering a pension fund that forms part of the local government pension scheme ("LGPS") are required by an amendment to The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 to publish a pension fund annual report, which is required to include financial statements. Local authorities have a duty under section 12 of the Local Government in Scotland Act 2003 to observe proper accounting practices. The Scottish Government issued accounting Guidance for the LGPS financial statements in Finance Circular 1/2011, which clarified that pension fund financial statement within the annual report should be prepared in accordance with proper accounting practices set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 ("the Code").

3 - Statement of Accounting Policies

The accounting policies of Tayside Transport Pension Fund are consistent with those adopted for Tayside Pension Fund as outlined on pages 19 and 20.

4 - Related Parties

There were no transactions with related parties during the year.

5 - Investment Income

	2014/15	2015/16
	£'000	£'000
Interest from Fixed Interest Securities	151	157
Dividends from Equities	422	453
Income from Index Linked Securities	54	48
Income Pooled Investment Vehicles	177	168
Interest on Cash Deposits	6	7
	<u>810</u>	<u>833</u>

6 - Investments

Market Value of Investments Managed Externally

The Fund's investment assets are under the management of three external fund managers. At 31 March 2016 the market value of these investment assets was £60.6m (2015 £60.8m), managed as follows:-

	2015		2016	
	£m	%	£m	%
Schroder Properties Limited	4.9	8.1	5.4	9.0
Baillie Gifford & Co	31.5	51.8	30.4*	50.1
Goldman Sachs	24.1	39.7	24.7**	40.8
Financial Debtors	1.0	1.6	0.1	0.1
Financial Liabilities	(0.7)	(1.2)	-	-
Net Financial Assets	<u>60.8</u>	<u>100.0</u>	<u>60.6</u>	<u>100.0</u>

* Within the Baillie Gifford investment total above there is an investment of £15.6m (2015 £15.8m) which exceeds 5% of net assets available for benefits. This investment is in Baillie Gifford Global Life Fund.

** Within the Goldman Sachs investment total above there is an investment of £11.5m (2015 £11.4m) which exceeds 5% of net assets available for benefits. This investment is in the GS Sterling Credit Portfolio. Although it is classed as a single investment, this is a pooled fund with over 300 holdings designed to ensure a diversified exposure to corporate bonds.

Derivatives - Futures

Summary of contracts held at 31 March 2016

	Settlement Date	Economic Exposure			
		£000	Asset £000	Liability £000	Net £000
LIF 3M Euribor	15 months	199	18	-	18
SFE 10 yr Treasury Bond	3 months	140	5	-	5
Eurx Bund	3 months	906	30	-	30
LIF Long Gilt	3 months	849	4	-	4
10 yr Treasury Note	3 months	91	-	-	-
5 yr Treasury Note	3 months	(1.180)	22	-	22
US Treasury Bonds	3 months	(343)	8	-	8
US 2 yr Treasury Note	3 months	304	-	(2)	(2)
		966	87	(2)	85

The economic exposure represents the nominal value of security 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.

Investment Movement Summary

	Value at 01/04/2015 £m	Purchases at Cost £m	Sales Proceeds £m	Change in Market Value £m	Value at 31/03/2016 £m
Schroder Property	4.5	-	-	0.4	4.9
Baillie Gifford Global	15.8	-	-	(0.2)	15.6
Goldman Sachs	24.0	11.1	(10.9)	0.3	24.5
Baillie Gifford UK	15.5	1.5	(1.3)	(1.2)	14.5
	59.8	12.6	(12.2)	(0.7)	59.5
Financial Liabilities	(0.7)				-
Cash Deposits	0.7			0.7	1.0
Financial Debtors	1.0				0.1
Net Financial Assets	60.8			-	60.6

Transaction Costs

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the fund such as fees, commissions, stamp duty and other fees. The total for the year was £8,330 (2015 £10,344).

Securities Lending

The total amount of stock released to third parties under a stock lending arrangement at 31 March 2016 was nil (2015 Nil).

7 - Actuarial Present Value of Promised Retirement Benefits

The actuarial value of the promised retirement benefits as at 31 March 2016, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £50.5m (2015 £54.3m) of which £49.7m (2015 £53.2m) is a vested obligation and £0.8m (2015 £1.1m) 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.

8 - Sundry Creditors

Sundry Creditors total £0.048m as at 31 March 2016 (2015 £0.058m), this figure contains custodian fees (£0.008m), investment manager fees (£0.038m) and investment consultancy of (£0.012m).

9 - Other Financial Liabilities and Financial Debtors

Other Financial Liabilities total £0.002m as at 31 March 2016 (2015 £0.744m), this figure is solely for pending purchase transactions.

Financial Debtors total £0.133m as at 31 March 2016 (2015 £1.014m), this is made up of pending sales transactions (£0.132m) and investment income (£0.001m).

10 - Audit Fee

The Pension Funds have been subject to a separate external audit to that of the Council. The Transport Fund incurred an audit fee of £8,401 for 2015/16 financial year.

11 – Management Expenses

	2014/15	2015/16
	£000	£000
Administrative costs	35	29
Investment management expenses	199	207
Oversight and governance costs	1	1
	<u>235</u>	<u>237</u>

12 – Investment Expenses

	2014/15	2015/16
	£000	£000
Management fees	161	166
Custody fees	19	26
Performance monitoring service	10	10
Investment consultancy	9	5
	<u>199</u>	<u>207</u>

13 - Nature and Extent of Risks arising from Financial Instruments

Risk Management

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

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

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

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on 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, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council 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 expected investment return movements, in consultation with the Council's investment adviser, it has been determined that the following movements in market price risk are reasonably possible for this reporting period:

	Potential Market Movement
	+/- per annum
Equities	
UK	19.00%
Emerging Market	30.00%
Global	20.00%
Bonds	
UK Index-Linked Gilts	9.00%
UK Gilts	11.00%
UK Corporate	9.00%
Other	13.00%
Property	12.50%
Alternatives	9.00%
Cash	0.00%

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 firm's assumptions for asset class volatilities as at 31 March 2016.

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

	Value £	% Change	Potential change in year in the net assets available to pay benefits	
			Favourable Market Movement £	Unfavourable Market Movement £
Equities				
UK	15,469,177	19.00%	18,408,321	12,530,033
Emerging Market	2,325,646	30.00%	3,023,340	1,627,952
Global	12,376,899	20.00%	14,852,278	9,901,519
Bonds	0			
UK Index-Linked Gilts	6,927,422	9.00%	7,550,889	6,303,954
UK Gilts	3,018,764	11.00%	3,350,829	2,686,700
UK Corporate	11,996,199	9.00%	13,075,856	10,916,541
Other	2,470,897	13.00%	2,792,113	2,149,680
Property	4,853,600	12.50%	5,460,300	4,246,900
Cash	1,352,303	0.00%	1,352,303	1,352,303
Total	60,790,906	10.50%	67,173,951	54,407,861

Interest rate risk sensitivity analysis

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

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2016 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 approximate net assets available to pay benefits of a +/- 100 Basis Points (BPS) change in interest rates:

Asset Type	Carrying amount as at 31 March 2016 (£)	Potential change in year in the net assets available to pay benefits £	
		100bps	-100 bps
Fixed Interest Securities	24,413,281	-2,925,928	3,359,963
Cash	942,997	0	0
Total change in assets available	25,356,279	-2,925,928	3,359,963

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 does not impact the value of cash balances but will increase the interest income received on those balances by £9,430 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 2016.

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 2016:

Currency exposure - asset type	Asset value
	31-Mar-16
Overseas Index-Linked - Public Sector	£280,329
Overseas OEIC (unlisted)	£208,634
Overseas Fixed Interest - Other	£1,981,934
Overseas Pooled Investments	£15,626,432
Total overseas assets	£18,097,329

Currency risk- sensitivity analysis

Following analysis of historical data, the likely volatility associated with foreign exchange movements on an individual currency basis is shown in the following table. The weight of each currency in relation to the total currency basket is multiplied by the change in its exchange rate (relative to GBP) to create the aggregate potential currency change of the 'basket' and the % Change in Total Currency includes the impact of correlation across the underlying currencies. The likely volatility is 2.9% (as measured by one standard deviation).

Currency exposure - asset type	Asset value	Change to net assets available to pay benefits	
	31-Mar-16	-2.9%	2.9%
Overseas Index-Linked - Public Sector	£280,329	£272,143	£288,515
Overseas OEIC (unlisted)	£208,634	£202,542	£214,726
Overseas Fixed Interest - Other	£1,981,934	£1,924,061	£2,039,806
Overseas Pooled Investments	£15,626,432	£15,170,140	£16,082,724
Total overseas assets	£18,097,329	£17,568,886	£18,625,771

14 – Post Balance Sheet Event - Brexit

On 23 June 2016, the United Kingdom (UK) voted in a national referendum to leave the European Union (EU). This has resulted in uncertainty both for investors and for the wider financial services industry across the UK, Europe and the world. This uncertainty may result in adverse market conditions affecting portfolio volatility and overall returns on investment.

At this point the outcome of negotiations and subsequent government agreements is unknown, and the fund will be monitoring closely and seeking specialist advice and guidance as required.

As at 31 August 2016, the net financial assets of the fund had increased by £6.5m to £67.1m, although there have been periods of volatility there has been no detriment to the increasing value of the fund.

TAYSIDE TRANSPORT PENSION FUND

Actuarial Statement for 2015/2016

This statement has been prepared in accordance with Regulation 76 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 1998.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), effective from 1 April 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund.
- to minimise the degree of short-term change in employer contribution rates.
- to ensure that sufficient cash is available to meet all liabilities as they fall due for payment.
- to help employers manage their pension liabilities.
- to maximise the returns from investments within reasonable and considered risk parameters, and hence minimise the cost to the employer.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 76 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 1998 was as at 31 March 2014. This valuation revealed that the Fund's assets, which at 31 March 2014 were valued at £56.3 million, were sufficient to meet 99.9% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2014 valuation was £0.1m. Employer contributions for the period 1 April 2015 to 31 March 2018 were set in accordance with the Fund's funding policy as set out in its Funding Strategy Statement.

Principal Actuarial Assumptions and Method Used to Value the Liabilities

Full details of the methods and assumptions used are described in the valuation report dated February 2015, a copy of which can be found on Tayside Pension Funds website (<http://www.taysidepensionfund.org/>).

Method

The method adopted at this valuation is known as the "Attained Age Method". The key feature of this method is that in assessing the future service cost the Actuary calculates the contribution rate which meets the cost of benefits accruing up to retirement age. This is the same method adopted at the previous valuation and is an appropriate method for a Fund which is closed to new members.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2014 valuation were as follows:

<u>Investment Return</u>	pa
Equities	5.9%
Gilts	3.6%
Cash	3.4%
Bonds	4.1%
Property	5.5%
<u>Financial Assumptions</u>	pa
Discount Rate	3.6%
Retail Price Index	3.6% (20 year point on BoE Inflation curve)
Consumer Price Index	2.8% (RPI less 0.8%)
Pension Increases	2.8% (RPI less 0.8%)
Short-term pay increases	In line with CPI assumption for 2 years to 31/03/16
Long-term pay increases	4.6% (RPI plus 1%)

The key demographic assumption was the allowance made for longevity. The longevity assumptions adopted at this valuation were in line with standard PA92 mortality tables.

Experience Over the Period Since April 2014

The Administering Authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced as at 31 March 2016.

Date	Transport Fund @ 99.9%				
	Net Reserve		CARE ongoing % Value of payroll	Net Reserve required to maintain current contribution	
	£'000	%	%	£'000	%
31 March 2014	2,554	4.5	33.8	-	-
31 March 2015	895	1.4	40.8	250	0.4
31 March 2016	(303)	(0.5)	40.1	365	0.6

The results show the net excess / deficit from the set funding levels at actuarial valuation of 31 March 2014 and the requirements to maintain the current level of employer contribution considering changes to asset values and the ongoing liability costs of the scheme to employers.

These results are calculated by projecting forward from the last valuation allowing for estimated investment returns, pay and pension increases, benefits paid and contributions made and any changes in underlying market conditions. Experience in terms of factors such as retirement or mortality are not updated.

The results are therefore only a broad indication of the current position and can only give an approximate guide to the position.

The smoothed basis is derived from an average position over a six month period.

The next actuarial valuation will be carried out as at 31 March 2017. The Funding Strategy Statement will also be reviewed in March 2017.

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 2016 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 (31) :-

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

CONTACT INFORMATION

Key Documents Online

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

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

Contact Details

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

Tracey Russell, Senior Financial Services Manager
Dundee City Council, Floor 4, 50 North Lindsay Street, Dundee DD1 1NZ
(01382) 431333

Other Contacts

The Occupational Pensions Advisory Service (OPAS)

In the event of a dispute, members have recourse initially to an internal dispute procedures and if still not satisfied to the Scottish Minister and in addition may contact the following bodies.

The Occupational Pensions Advisory Service (OPAS), 11 Belgrave Road, London, SW1V 1RB

This organisation is available to assist members and beneficiaries of occupational pension schemes in connection with difficulties, which they have been unable to resolve with the trustees or administrators of their scheme. For problems that cannot be settled through OPAS, a Pensions Ombudsman (based at the same address as OPAS) has been appointed. The Ombudsman has power to investigate and determine complaints or disputes of fact or law in relation to occupational pension schemes. The Ombudsman can only become involved after a dispute has been to the Scottish Ministers.

Registry of Occupational Pension Schemes

The Registry acts as a central tracing agency to help individuals keep track of any benefits they may have in previous employers' pension schemes. The Council's Scheme and the names and addresses of all current and previous participating employers have been registered with the Registrar.

Registry of Occupational Pension Schemes, PO Box 1NN, Newcastle upon Tyne, NE99 1NN

The Pensions Regulator (www.thepensionsregulator.gov.uk)

The Pensions Regulator is the UK regulator of work-based pension schemes. They work with trustees, employers, pension specialists and business advisers, giving guidance on what is expected of them. The principal aim is to prevent problems from developing. They use their powers flexibly, reasonably and appropriately, with the aim of putting things right and keeping schemes, and employers on the right track for the long term.