BRIEFING NOTE ON PERFORMANCE OF STRATHCLYDE PENSION FUND

1 INTRODUCTION

1.1 This report is to give an update on the performance of Strathclyde Pension Fund (SPF). It also comments on the national report on public sector pension funds by Audit Scotland.

2 DETAIL

2.1 The Council has received a copy of annual report for 2005-06 of SPF. A representative of the Council has also attended the annual meeting of SPF in June and the employers workshop held in November. A review has also been carried out of recent agendas of SPF committee of Glasgow City Council. The main points to note in terms of the performance of SPF are outlined in the following paragraphs.

2.1.1 The net increase in the fund per the SPF accounts during 2005-06 was £1,965m compared to £825m in 2004-05.

2.1.2 Net assets per SPF accounts comprised £8,969m at 31 March 2006 compared to £7,004 at 31 March 2005 an increase of 28%.

2.1.3 Short term investment performance for 2005-06 was 22.2% compared to the benchmark of 21.5% and the WM All Funds return of 19.9%.

2.1.4 The 5 year annualised returns are slightly ahead of the benchmark return and WM All Funds return.

	SPF	Benchmark	WM All Funds
5 Yr Annualised Return	4.6%	4.4%	4.1%

2.1.5 The 10 year annualised returns are in line with the benchmark rate and slightly ahead of the WM All Funds return.

	SPF	Benchmark	WM All Funds
10 Yr Annualised Return	8.4%	8.4%	8.0%

2.1.6 The table below outlines the experience of SPF in terms of assumptions on investment returns and pay and pension increases over 2002-05. Although pay increases were above those assumed and pension increases below those assumed the investment returns were significantly below assumptions.

	Investment Return	Pay Increases	Pension Increases
Assumption	6.2%	4.1%	2.6%
Actual	4.0%	4.9%	2.5%

2.1.7 As at 31 March 2005 the actuarial valuation revealed estimated accrued liabilities at £7,235m and assets at £7,005m. Whilst this leaves a deficit of £230m it represents a funding level of 97% which is amongst the best in the country.

2.1.8 In the period following the actuarial valuation the funding level was estimated at 104.3% at 31 March 2006.

2.1.9 In the quarter to 30 June 2006 the funds investments underperformed –3.2% against the benchmark of –2.8% and the Wm All Funds return of –2.5%. Whilst this underperformance is disappointing it needs to be considered against the longer term trend which generally indicates performance in line with or ahead of benchmarks. The table below summarises a 3, 5 and 10 year comparison of investment returns:

	SPF	Benchmark	WM All Funds
3Yr annualised returns	16.5%	16.6%	14.6%
5Yr annualised returns	6.3%	6.1%	5.7%
10Yr annualised returns	8.1%	8.1%	7.7%

2.1.10 The underperformance to 30 June can be attributed to 3 fund managers:
Capital International where below index returns were achieved on European and US equities.
Genesis where there was uncharacteristic underperformance from that fund manager.
Baillie Gifford where there was underperformance in UK equities.

2.1.11 Investment returns have been in line with benchmark following the 2005 actuarial valuation and are very favourable compared to the actuarial assumption of 6.3%.

2.1.12 The next meeting of the Glasgow City Council SPF Committee is on 13 December and the investment performance for the quarter to 30 September should be reported to that meeting. The relevant report will be accessed to assess if the June underperformance is a temporary blip.

2.2 Audit Scotland carried out a national study of public sector pension funds. The key points arising from that study are noted below:

2.2.1 Of the 6 public sector pension schemes only the local government pension schemes (LGPS) is pre funded.

2.2.2 The change in the discount rate for FRS 17 calculations (a reduction from 3.5% to 2.4%) reduced the overall level of funding for LGPS from 89% to 76%. Higher discount rates are used in the NHS, Teachers and Principal Civil Service schemes and this undervalues liabilities.

2.2.3 The FRS 17 deficit on the LGPS compares favourably to other public sector pension schemes. After adjusting the discount rate to a common rate the FRS 17 deficit for each scheme is estimated as follows:

- LGPS £5.9bn
- NHS £15.5bn
- Teachers £14.2bn
- Fire £1.6bn
- Police £6.2bn

2.2.4 The allocation of investments by SPF is around the mid range of LGPS investments. The table below summarises the allocation of investments for SPF and LGPS at the time of the Audit Scotland study.

	Equities	Bonds	Property
SPF	75%	15%	10%
LGPS Median	75%	20%	10%
LGPS Range	65%-80%	10%-30%	0%-13%

2.2.5 The actuarial funding level of SPF at 97% is at the top end of funding for LGPS. Only one council has a higher rate of funding at 99%. The lowest level of funding is 84% and median funding rate is 89%.

3 CONCLUSION

3.1 This report summarises recent information available on SPF. In general terms SPF seems to perform towards the higher end of the scale in terms of local government pension schemes in Scotland. Although June investment performance is down the longer term trend and performance against actuarial assumption is good.

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