

TAYSIDE PENSION FUNDS

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2014

DRAFT AUDITED

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FOREWORD BY 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 2014.

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 and Tayside Transport Pension 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 2014 of £2,463.1m reflected an increase of £200.8m or 8.9% on the equivalent value at 31 March 2013. The Transport Fund value at 31 March 2014 of £56.3m reflected an increase of £2.1m or 3.9% on the equivalent figure at 31 March 2013.

	2013	2014	+ / -
Main Fund value	£2,262.3m	£2,463.1m	£200.8m
Transport Fund value	£54.2m	£56.3m	£2.1m
Total Contributing Members	17,500	17,623	123
Total Pensioners	13,125	13,537	412
Scheduled Bodies	15	14	(1)
Admitted Bodies	30	30	-

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 Superannuation Sub-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 Investment Sub-Committee.

Marjory Stewart, FCCA, CPFA
Director of Corporate Services
Dundee City Council
24 September 2014

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 2014 was:

	<u>Main Fund</u>	<u>Transport Fund</u>	<u>Total Fund</u>
Contributing Members	17,558	65	17,623
Pensioners	13,109	428	13,537
Deferred Pensioners	8,134	80	8,214
Undecided or Frozen	2,199	6	2,205
	<u>41,000</u>	<u>579</u>	<u>41,579</u>

Membership Funding

The Funds are financed by the contributions made by members and their employers as well as income earned from the investment of the Funds' monies. The contribution rates as a percentage of basic pay for 2012/2013 and 2013/2014 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

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 2011. The result of the valuation for the two Funds were as follows :-

	<u>Main Fund</u>	<u>Transport Fund</u>
Actuarial Value of Assets	£1,922.2m	£45.5m
Actuarial Value as a percentage of Accrued Liabilities	98.2%	96.6%

Recommended Employers' Contributions as a Percentage of Pensionable Payroll for the Main Fund and as a lump sum for the Transport Fund

2012/2013	18.0%	£800,000
2013/2014	18.0%	£820,000
2014/2015	18.0%	£840,000

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 2011. The deficit is spread over the average remaining working lifetime of the existing members.

The Main Fund contribution rates following the 31 March 2011 valuation were calculated using the projected unit actuarial method.

The Transport Fund contribution rates following the 31 March 2011 valuation were calculated using the attained age actuarial method

The main actuarial assumptions were as follows:

Investment return	- Equities	6.9% per annum
	- Gilts	4.3% per annum
	- Bonds & Property	5.5% per annum
	- Discount rate (post-retirement)	4.3% per annum
	- Discount rate (pre-retirement)	6.9% per annum
Rate of general pay increases		5.0% per annum
Rate of increases to pension in payment		3.5% per annum
Valuation of assets		6 monthly smoothed market related

Market Value of Funds

The market value of investments can go down, as well as up. The total market value of the investments that are under external management was £2,502.4m Main Fund and £56.8m Transport Fund as at 31 May 2014.

Additional Contributions

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 retirement).

Pension Increases

Pensions and deferred pensions are increased every year under the Pension (Increase) Act 1971 in line with movements in the Retail Price Index. From April 2011, this will be linked to Consumer Price Index rather than Retail Price Index. Recent pension increases are as follows :-

2010	0.0%
2011	3.1%
2012	5.2%
2013	2.2%
2014	2.7%

REVIEW OF THE YEAR

Investment Commentary

In June 2013, the funds within Tayside Pension Scheme changed their names to Tayside Pension Fund and Tayside Transport Pension Fund respectively.

Following a procurement exercise utilising the new LGPS procurement framework introduced by Norfolk Pension Fund, the Fund appointed AON Hewitt as the Fund Independent Investment Consultant in October 2013.

The key change to the investments throughout the year was the allocation in November 2013 of 10% of the main fund (£230m) to LGIM passive management from the actively managed Alliance Bernstein global equities mandate.

The 2014 valuation process is now underway, which may lead to revised contribution rates being set from 1 April 2015. This valuation will include the impact of the new scheme. The contributions paid by employers in 2013/14 continued at 18% for the Main Fund and £800K for the Transport Fund based on the 2011 funding levels of 98% for the Main Fund and 97% for the Transport Fund respectively. .

Although progress is being made for the new career average scheme which will start in April 2015, full regulations are not available in final form. In addition to this, a consultation is being run on the future governance arrangements for the new scheme to reflect the requirements of the Public Services Pensions Act 2013.

With regard to the Fund's investment strategy and structure, the strategy in place in 2013/14 was based upon an asset allocation review conducted by the Fund's former investment advisor Hymans Robertson using liability data from the 2011 valuation. The strategy for the Main Fund has continued at 70% equities, 18% bonds and 12% real estate; and for the Transport Fund continued at 50% equities, 40% bonds and 10% real estate

Reviews of investment management fees have been ongoing throughout the year supported by advice from AON Hewitt where considered appropriate and reduced fee agreements have been achieved for one active manager and negotiations are ongoing with another.

Investment Performance

Economic & Market Background - Financial Year to 31 March 2014

Most markets delivered strong returns during this year due to improving economic conditions and the continuing loose monetary policy in many of the developed countries which increased investor confidence. This positive sentiment continued into the Eurozone, where even the countries which had suffered the heaviest impact during the financial crisis showed positive signs. Economic measures introduced in Japan had a positive domestic impact, however this negatively impacted on the yen internationally. These losses on currency extended into Emerging Markets.

US equities reached record highs during the period and gained 10% in sterling terms over the year. The UK followed with a gain of 9%, and due to improved conditions in Europe, market gains of 17% were achieved. Developed Asia (including Japan) recorded gains of 13% and Emerging markets a gain of 4% which on currency translation resulted in losses of 4% and 11% respectively.

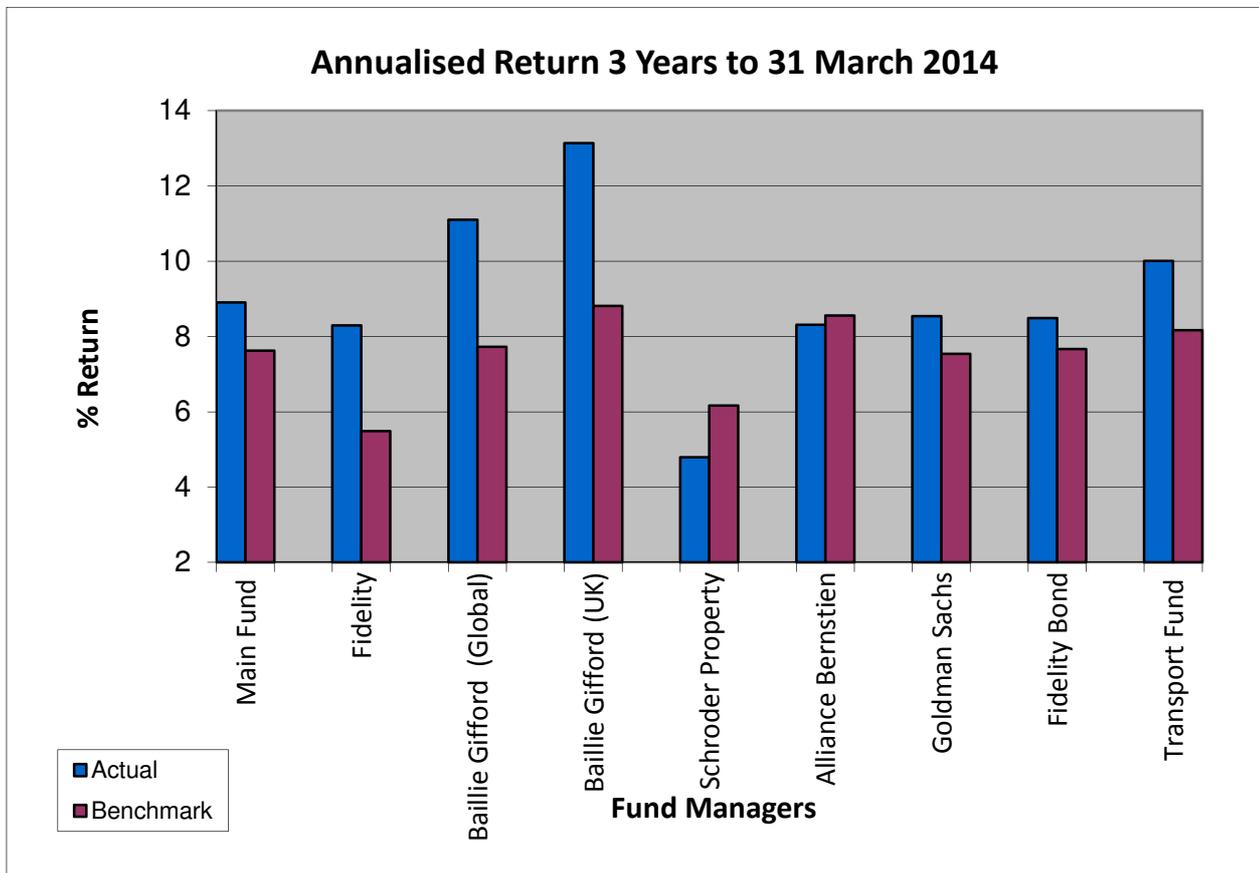
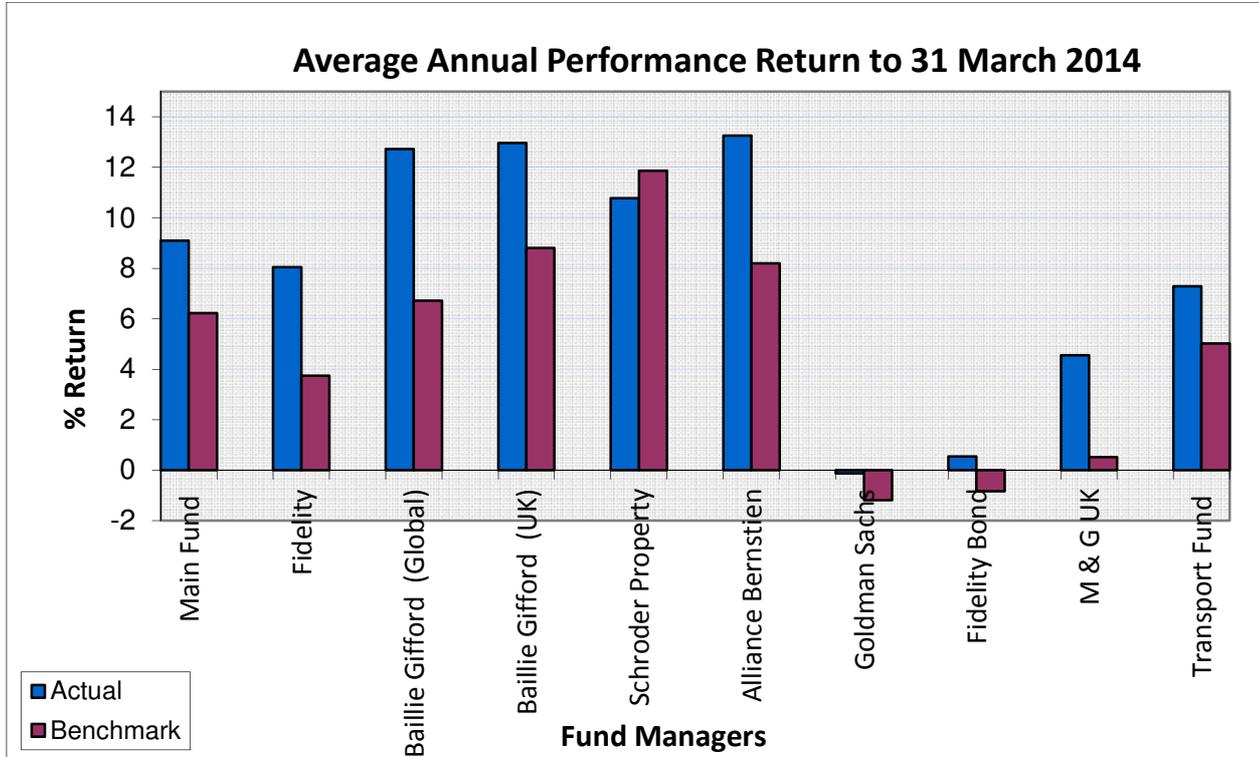
Gathering signs of momentum in US economic recovery resulted in reduced levels of support from the US Government. This coupled with improved economic data from the UK suggested that the worst had passed and then introduced the possibility of an interest rate rise.

Both political and economic challenges are expected in the coming year and although the global investment environment continues to improve there may be significant market volatility as a result.

REVIEW OF THE YEAR

Performance Measurement

The collective performance of the Fund's investment managers throughout the financial year to 31 March 2014 was exceptional, returning 9.1% which was 2.94% 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 2014

<u>Investment</u>	<u>Value</u> <u>(£000)</u>	<u>% of Total</u> <u>Equity Holding</u>	<u>Activities</u>
Prudential	27,740	1.575	Life Insurance
Glaxo Smithkline PLC	19,865	1.128	Pharmaceuticals
HSBC	19,725	1.120	Banks
Roche	16,287	0.925	Pharmaceuticals
Lloyds	15,957	0.906	Banks
Top Five Total	99,574	5.654	
Total Value of Equities	1,761,035		
Total Value of Funds	2,459,350		

Asset Allocation and Value

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

Tayside Pension Fund

Sector	Valuation (£m) and Distribution (%)			
	31/03/2013		31/03/2014	
	£m	%	£m	%
UK Equities	613.7	27.1	666.0	27.0
UK Bonds	409.1	18.1	409.0	16.6
Overseas Bonds	13.7	0.6	13.4	0.6
Overseas Equities	976.1	43.2	1,094.1	44.4
Property Unit Trusts	203.4	9.0	232.6	9.5
M&G Fund	16.2	0.7	14.5	0.6
Derivatives	(0.1)	-	0.3	-
Cash Balance Held By Managers	18.6	0.8	25.2	1.0
Net Financial Assets	5.6	0.2	4.6	0.2
Net Current Assets	6.0	0.3	3.4	0.1
	2,262.3	100.0	2,463.1	100.0

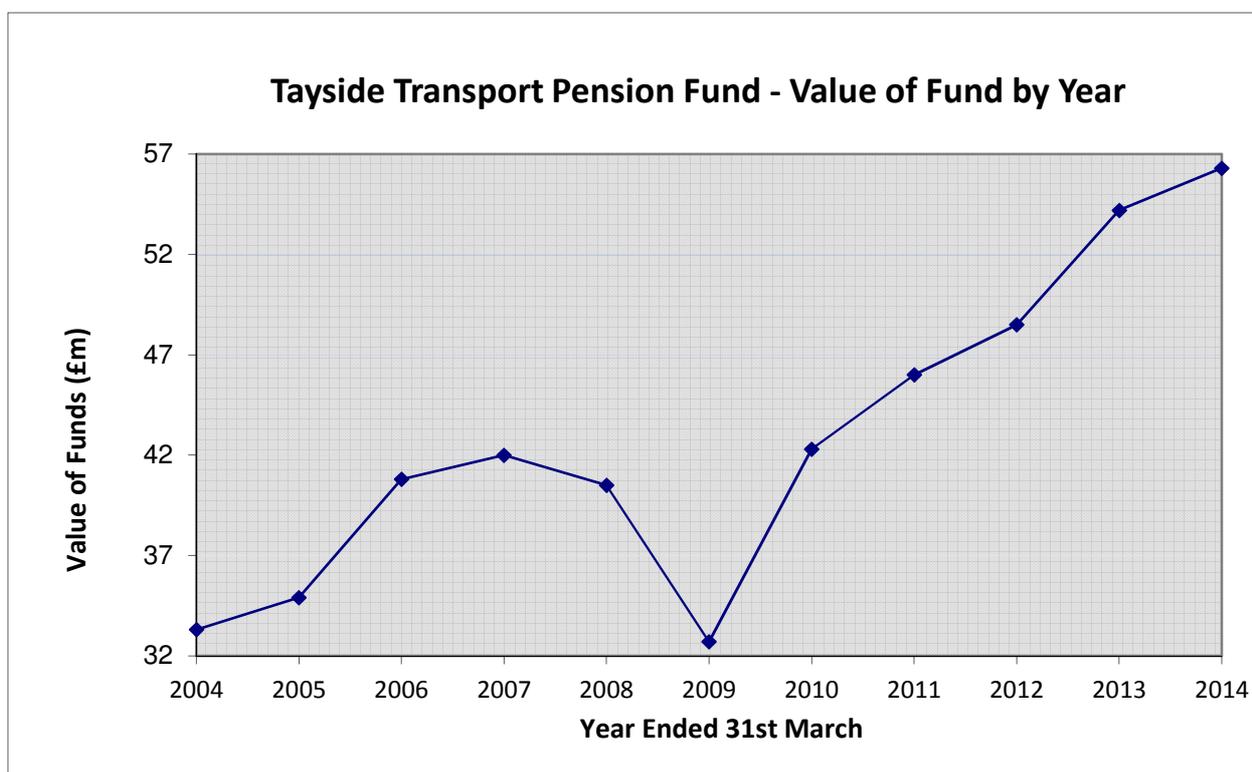
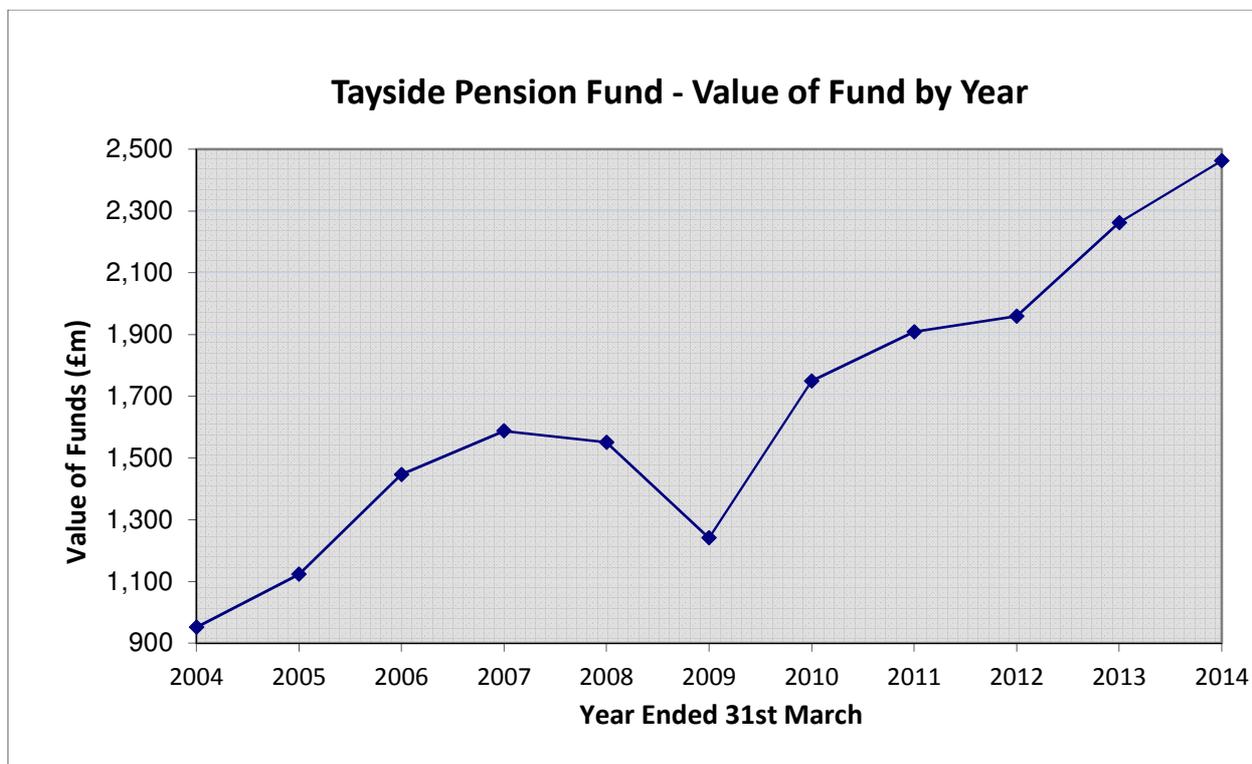
Tayside Transport Pension Fund

Sector	Valuation (£m) and Distribution (%)			
	31/03/2013		31/03/2014	
	£m	%	£m	%
UK Equities	13.3	24.5	14.2	25.3
UK Bonds	21.2	39.1	20.7	36.8
Overseas Bonds	1.5	2.8	1.1	2.0
Overseas Equities	13.8	25.5	15.1	26.8
Property Unit Trusts	3.7	6.8	4.0	7.1
Derivatives	-	-	-	-
Cash Balance Held By Managers	0.5	0.9	0.9	1.5
Net Financial Assets	0.1	0.2	0.1	0.1
Net Current Assets	0.1	0.2	0.2	0.4
	54.2	100.0	56.3	100.0

REVIEW OF THE YEAR

Valuation of Assets of the Pension Funds

	<u>Main Fund</u>		<u>Transport Fund</u>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Opening Value	1,959.0	2,262.3	48.5	54.2
New Cash Inflow/(Outflow)	54.5	54.3	(0.5)	(1.1)
Appreciation/(Depreciation) during the year	248.8	146.5	6.2	3.2
Value as at 31 March	<u>2,262.3</u>	<u>2,463.1</u>	<u>54.2</u>	<u>56.3</u>



REVIEW OF THE YEAR

MEMBERS AND ADVISORS

Pension Investment 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 Investment Sub-Committee. Membership of the Sub-Committee as at 31 March 2014 is as noted below:

Councillors:

Bailie Willie Sawers (Chair)
Cllr Jimmy Black
Cllr Kevin Keenan
Bailie Ian Borthwick
Cllr Gregor Murray
Cllr Brian Gordon

Representatives (non voting)

Mrs C Shepherd (Tayside Trade Union Council)
Vacant (Unison)
Vacant (TGWU representing Travel Dundee Ltd)

Fund Managers

Baillie Gifford & Co	(Appointed November 1992)
Fidelity Pension Management	(Appointed November 1997)
Schroder Property Investment Management	(Appointed July 1997)
Goldman Sachs Asset Management	(Appointed July 2003)
Alliance Bernstein	(Appointed July 2003)
M&G Investment Management	(Appointed May 2010)
Legal & General Investment Management	(Appointed November 2013)

Investment Advisers

Hymans Robertson (Terminated September 2013)
Aon Hewitt (Appointed October 2013)

Actuaries

Barnett Waddingham (Appointed July 2004)

Custodian

Northern Trust (Appointed April 2002)

Bankers

Royal Bank of Scotland

Auditors

KPMG LLP

Corporate Governance Advisors

Pension & Investment Research Consultants Ltd (PIRC)

Performance Measurement

Northern Trust

GOVERNANCE ARRANGEMENTS

Dundee City Council is the administering authority and scheme manager of Tayside Pension Scheme (incorporating Tayside Pension Fund and Tayside Transport Pension Fund), a local government pension scheme covering the Tayside area. The Council is responsible for ensuring that the business of both funds is conducted in accordance with the law and appropriate standards.

Scope of Responsibility

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

- Ensure that the Funds are:
 - Compliant with the Local Government Pension Scheme Regulations and all other legislation that governs the administration of the funds.
 - 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 Funds liabilities.
 - Appointing, reviewing, and assessing the performance of investment managers, investment consultants, custodians and actuaries.
 - Ensuring appropriate arrangements are in place for the administration of benefits.
 - Ensure appropriate additional voluntary contributions arrangements are in place.
- Prepare, maintain and publish the following:
 - Governance Compliance Statement.
 - Funding Strategy Statement.
 - The Authority Policy Statement.
 - Statement of Investment Principles.
 - Corporate Governance Policy.

The Governance Framework

The overall governance structure, including the wider responsibilities of the Committee, is set out in the Governance Compliance Statement. Regulation 27 of the Local Government Pension Scheme (Administration)(Scotland) Regulations 2008 requires administering authorities to prepare 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 2011 and demonstrates that the Funds are compliant with guidance provided.

Tayside Pension Fund is administered by Dundee City Council in accordance with Section 24 of its Financial Regulations. Investment policy and decisions are delegated to the Pension Investment Sub-Committee of the Policy and Resources Committee. The Pension Investment Sub-Committee provides focus on, and scrutiny over, the investment strategy and the performance of managers and the safe custody of its assets. The Sub-Committee consists of 6 elected members from the administering authority, supported by officers of the administering authority (including the Director of Corporate Services), and 3 trade union representatives who have observer status.

The Committee meets quarterly to consider pension matters relating to investment and governance. Additional meetings are called should any matter require an in-depth review.

GOVERNANCE ARRANGEMENTS

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.

Information on the Fund is available from the following links:

Minutes of Committee meetings – www.dundee.gov.uk/minutes/meetings?in_cc=35

Publications - www.dundee.gov.uk/project-publications/pensions

- 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 2011 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

Marjory Stewart, FCCA, CPFA
Director of Corporate Services
Dundee City Council
24 September 2014

Willie Sawers
Chair of Pension Investment Sub-
Committee, Tayside Pension Fund
24 September 2014

GOVERNANCE COMPLIANCE STATEMENT

Compliance Principle	Arrangements in Place/Action Taken	Compliance with Principle? Yes/No/Partial	Comments
Structure			
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Principal responsibility for the administration of benefits and strategic management of fund assets rests with the Policy & Resources Committee.	Yes	The Pension Investment Sub-Committee of the Policy & Resources Committee has a remit to supervise and control the operations and investments.
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Membership of the Pension Investment Sub-Committee includes 3 observer members who represent scheme members.	Partial	In addition representatives of participating LGPS employers, admitted bodies and scheme members are consulted and included in all communications relating to the Pension Investment Sub-Committee.
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Minutes of the Pension Investment Sub-Committee are reported to the Policy & Resources Committee.	Yes	
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	All members of the Pension Investment Sub-Committee are members of the Policy & Resources Committee.	Yes	

GOVERNANCE COMPLIANCE STATEMENT

Compliance Principle	Arrangements in Place/Action Taken	Compliance with Principle? Yes/No/Partial	Comments
Representation			
<p>That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-</p> <p>i) employing authorities (including non-scheme employers, e.g. admitted bodies);</p> <p>ii) scheme members (including deferred and pensioner scheme members);</p> <p>iii) where appropriate independent professional observers; and</p> <p>iv) expert advisors (on an ad-hoc basis)</p>	<p>Membership of the Pension Investment Sub-Committee includes 3 observer members who represent scheme members.</p> <p>Investment Consultant</p>	<p>No</p> <p>Yes</p> <p>No</p> <p>Yes</p>	<p>Regular communication is undertaken with key stakeholders. Employer Forum held annually for scheduled and admitted bodies.</p> <p>No requirement for this has been identified.</p>
<p>That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p>	<p>All members receive the same access to all papers and training opportunities and are given the opportunity to contribute to the decision making process.</p>	<p>Yes</p>	

GOVERNANCE COMPLIANCE STATEMENT

Compliance Principle	Arrangements in Place/Action Taken	Compliance with Principle? Yes/No/Partial	Comments
Selection and Role of Lay Members			
That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Induction and Refresher Training is provided to all members.	Yes	
That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Members are bound by a Code of Conduct which requires them to declare any interest related to specific matters on the agenda. This is stated at the start of each agenda.	Yes	
Voting			
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Voting rights are detailed in the Tayside Pension Funds Statement of Investment Principles.	Yes	Statement of Investment Principles is accessible via the Council website.
Training/Facility Time/Expenses			
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	All new members of the Pension Investment Sub-Committee are offered training by officers. Further training is offered periodically, generally from investment consultants, investment managers of the fund and actuaries. In addition, if other training opportunities are identified, including attendance at conferences and seminars, these are offered to members, as appropriate. Costs and expenses incurred are met by the Pension Fund.	Yes	

GOVERNANCE COMPLIANCE STATEMENT

Compliance Principle	Arrangements in Place/Action Taken	Compliance with Principle? Yes/No/Partial	Comments
Training/Facility Time/Expenses continued			
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Training policy applies to all members of the Pension Investment Sub-Committee.	Yes	
That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Training is provided as needs are identified. A log of all training undertaken is maintained.	Yes	
Meetings (Frequency/Quorum)			
That an administering authority's main committee or committees meet at least quarterly.	Policy & Resources Committee meets monthly. Additional meetings are held when necessary.	Yes	
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Pension Investment Sub-Committee meets quarterly. Additional meetings are held when necessary.	Yes	
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Employer Forum for scheduled and admitted bodies is held annually, including presentations on topical subjects.	Yes	

GOVERNANCE COMPLIANCE STATEMENT

Compliance Principle	Arrangements in Place/Action Taken	Compliance with Principle? Yes/No/Partial	Comments
Access			
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members are treated equally in terms of access to committee papers and advice.	Yes	
Scope			
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The Pension Investment Sub-Committee has a remit to supervise and control operations and investments.	Yes	
Publicity			
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Governance Policy Statement was approved in May 2009, following consultation with all employers.	Yes	Governance Policy Statement and Governance Compliance Statement is available on the Council website following committee approval.

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 Director of Corporate Services.
- Manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets.

The Director of Corporate Service's Responsibilities

The 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 2013).

In preparing these statements of accounts, the 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 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 2014, and their income and expenditure for the year ending 31 March 2014.

Marjory Stewart, FCCA, CPFA
Director of Corporate Services
Dundee City Council
24 September 2014

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 have audited the financial statements of Tayside Pension Fund and of Tayside Transport Pension Fund for the year ended 31 March 2014 on pages 20 to 21 and 34 to 35 respectively. 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 2013-14 ("the 2013-14 Code").

This report is made solely to the members of Dundee City Council and the Accounts Commission for Scotland, in accordance with Part VII of the Local Government (Scotland) Act 1973. Our audit work has been undertaken so that we might state to those two parties those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Dundee City Council and the Accounts Commission for Scotland, for this report, or the opinions we have formed.

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

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 17, the Director of Corporate Services of Dundee City Council 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 Funds' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Corporate Services of Dundee City Council; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report 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 of the financial transactions of the Funds during the year ended 31 March 2014, and of the amount and disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other matter prescribed by the Local Government (Scotland) Act 1973

In our opinion the information given in the Foreword by the Director of Corporate Services of Dundee City Council the financial year for which the financial statements are prepared is consistent with the financial statements.

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 (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Local Government (Scotland) Act 1973 requires us 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 Governance Compliance Statement does not comply with guidance from the Scottish Ministers.

David Watt
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

TAYSIDE PENSION FUND ACCOUNTS

2012/2013 £000	FUND ACCOUNT	Note	2013/2014 £000 £000	
	CONTRIBUTIONS AND BENEFITS			
	<u>Contributions receivable :-</u>			
66,961	From employers	5	67,620	
<u>22,029</u>	From members	5	<u>22,364</u>	
88,990				89,984
4,216	Transfers in	7		3,762
	<u>Benefits payable :-</u>			
(60,522)	Pensions		(64,283)	
<u>(19,651)</u>	Lump Sums	6	<u>(19,865)</u>	
(80,173)		6		(84,148)
	<u>Payments to and on account of Leavers :-</u>			
(139)	Refund of Contributions to Members		(179)	
(58)	Refund of Contributions to State Scheme		(79)	
<u>(3,213)</u>	Transfers Out	7	<u>(4,483)</u>	
(3,410)				(4,741)
<u>(1,198)</u>	Administration Expenses	4,14		<u>(1,220)</u>
8,425	Net Deposits from dealings with Members			3,637
	RETURNS ON INVESTMENTS			
52,578	Investment Income	8	59,067	
248,757	Change in Market Value of Investments	9	146,447	
<u>(6,543)</u>	Investment Management Expenses		<u>(8,363)</u>	
<u>294,792</u>	Net Returns on Investments			<u>197,151</u>
303,217	Net increase in Fund during the year			200,788
<u>1,959,058</u>	OPENING NET ASSETS OF THE SCHEME			<u>2,262,275</u>
<u>2,262,275</u>	CLOSING NET ASSETS OF THE SCHEME			<u>2,463,063</u>

Notes on pages 22 to 31 form part of the financial statements.

TAYSIDE PENSION FUND ACCOUNTS

2013 £000	NET ASSETS STATEMENT (AS AT 31 MARCH) INVESTMENT ASSETS AT MARKET VALUE	Note	2014 £000	£000
	<u>Listed Investments</u>			
597,595	UK Equities		593,619	
-	UK Pooled Funds		57,927	
40,584	UK Fixed Interest - Public Sector		39,579	
10,512	UK Fixed Interest – Other		11,131	
80,332	UK Index Linked - Public Sector		77,281	
625,041	Overseas Equities		564,960	
-	Overseas Pooled Funds		175,409	
273,797	Overseas Open Ended Investment Companies		290,860	
13,696	Overseas Fixed Interest – Other		12,841	
597	Derivatives (Futures)		418	
	<u>Unlisted Investments</u>			
293,822	UK Open Ended Investment Companies		296,038	
16,213	M&G Fund		14,529	
77,236	Overseas Open Ended Investment Companies		62,821	
203,370	Property Unit Trusts		232,546	
18,647	Cash Balances held by Fund Managers		25,209	
<u>8,348</u>	Financial Debtors	13	<u>11,598</u>	
2,259,790				2,466,766
	FINANCIAL LIABILITIES			
(727)	Derivatives (Futures)		(89)	
<u>(2,772)</u>	Other Financial Liabilities	13	<u>(6,998)</u>	
<u>(3,499)</u>	Total Financial Liabilities			<u>(7,087)</u>
2,256,291	Net Financial Assets	9		2,459,679
	CURRENT ASSETS			
6,510	Contributions Due from Employers		5,614	
1,125	Sundry Debtors	12	1,768	
<u>4,412</u>	Cash and Bank		<u>2,318</u>	
<u>12,047</u>			<u>9,700</u>	
	LESS CURRENT LIABILITIES			
(6,063)	Sundry Creditors	12	<u>(6,316)</u>	
<u>5,984</u>	NET CURRENT ASSETS			<u>3,384</u>
<u>2,262,275</u>	NET ASSETS			<u>2,463,063</u>

Marjory Stewart, FCCA, CPFA
Director of Corporate Services
Dundee City Council
24 September 2014

Notes on pages 22 to 31 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 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 2013-14 ("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 2014 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 2014.

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 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 receipt 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

The transactions and balances with Dundee City Council disclosed in the net asset statement, details are provided below :-

	2013 £000	2014 £000
<u>Transactions</u>		
Administration Costs	1,108	1,107
<u>Balances</u>		
Due from Dundee City Council as at 31 March	1,686	1,151

5 - Contributions

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

	2012/2013			Total £000
	Administering Authority £000	Other		
		Scheduled Bodies £000	Admitted Bodies £000	
Member contributions	6,684	12,204	3,141	22,029
Employer contributions	19,414	35,398	8,655	63,467
Strain on Fund	1,601	1,555	338	3,494
Total	27,699	49,157	12,134	88,990

	2013/14			Total £000
	Administering Authority £000	Other		
		Scheduled Bodies £000	Admitted Bodies £000	
Member contributions	6,720	12,159	3,311	22,190
Employer contributions	19,712	35,964	9,212	64,888
Strain on Fund	666	2,067	173	2,906
Total	27,098	50,190	12,696	89,984

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)	
	2012/2013 £000	2013/2014 £000	2012/2013 £000	2013/2014 £000
Administering Authority	31,060	31,745	6,657	6,141
Other Scheduled Bodies	40,807	44,393	10,909	12,261
Admitted Bodies	8,306	8,010	2,085	1,463
TOTAL	80,173	84,148	19,651	19,865

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	
	2012/2013	2013/14	2012/2013	2013/14
	£000	£000	£000	£000
Administering Authority	938	626	1,218	770
Other Scheduled Bodies	2,130	1,718	1,511	2,884
Admitted Bodies	1,148	1,418	484	829
TOTAL	4,216	3,762	3,213	4,483

8 - Investment Income

	2012/13	2013/14
	£000	£000
Interest from Fixed Interest Securities	6,423	6,490
Dividends from Equities	34,909	34,796
Income from Index Linked Securities	1,050	741
Income Pooled Investment Vehicles	7,867	11,868
Interest on Cash Deposits	104	72
Other Income	2,650	5,620
	53,003	59,587
Irrecoverable Withholding Tax	(425)	(520)
	52,578	59,067

9 - Investments

Market Value of Investments Managed Externally

The Fund's investment assets are under the management of six external fund managers. At 31 March 2014 the market value of these investment assets was £2,459.7m (2013 £2,256.3m), managed as follows:

	2013		2014	
	£m	%	£m	%
Schroder Properties Limited	207.2	9.2	235.8	9.6
Baillie Gifford & Co	580.9	25.7	656.6	26.7
Fidelity Pensions Management Equity	493.3	21.8	531.2	21.6
Alliance Bernstein	527.2	23.4	357.1	14.5
Goldman Sachs	276.5*	12.3	276.2*	11.2
Fidelity Bond	149.5	6.6	150.3	6.1
M & G Investment Management	16.2	0.7	14.5	0.6
Legal & General	-	-	233.4	9.5
Financial Debtors	8.3	0.4	11.6	0.5
Financial Liabilities	(2.8)	(0.1)	(7.0)	(0.3)
Net Financial Assets	2,256.3	100.0	2,459.7	100.0

* Within the Goldman Sachs investment total above there is an investment of £131.3m (2013 £128.2m) 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 2014

	Settlement Date	Economic Exposure			Net £000
		£000	Asset £000	Liability £000	
FTSE100	3 months	(785)	-	7	(7)
10 yr Cdn Bund	3 months	1,130	14	-	14
Eurx E-Schatz	3 months	3,012	-	-	-
Eurx Bobl	3 months	6,426	26	-	26
Eurx Bund	3 months	3,319	-	16	(16)
Eux BTP	3 months	3,421	46	-	46
TSE 10 yr JGB	3 months	(16,004)	-	44	(44)
LIF Long Gilt	3 months	8,762	47	-	47
10 yr Treasury Note	3 months	(15,112)	94	-	94
5 yr Treasury Note	3 months	(55,939)	189	-	189
CBT Treasury Bonds	3 months	693	1	-	1
US Treasury Bonds	3 months	(8,710)	-	22	(22)
Currency Forwards	Various	1,054	1	-	1
		<u>(68,733)</u>	<u>418</u>	<u>89</u>	<u>329</u>

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 01/04/2013 £m	Purchases at Cost £m	Sales Proceeds £m	Change in Market Value £m	Value at 31/03/2014 £m
Schroder Property	203.4	20.8	(5.6)	14.0	232.6
Baillie Gifford Global	286.3	60.5	(59.0)	32.2	320.0
Fidelity Equity	493.2	90.8	(82.2)	29.3	531.1
Alliance Bernstein	520.6	234.9	(449.2)	47.9	354.2
Goldman Sachs	274.5	110.3	(106.9)	(4.7)	273.2
Fidelity Bond	149.5	4.7	-	(3.9)	150.3
Baillie Gifford UK	288.5	17.8	(14.8)	29.2	320.7
M&G Fund	16.2	-	(2.4)	0.7	14.5
Legal & General	-	234.4	-	(1.1)	233.3
	<u>2,232.2</u>	<u>774.2</u>	<u>(720.1)</u>	<u>143.6</u>	<u>2,429.9</u>
Financial Liabilities	(2.8)				(7.0)
Cash Deposits	18.6			2.8	25.2
Financial Debtors	8.3				11.6
Net Financial Assets	<u>2,256.3</u>			<u>146.4</u>	<u>2,459.7</u>

Transaction Costs

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the fund such as fees, commissions, stamp duty and other fees. The total for the year was £1.242.0m (2013 £1.458m).

Purchases & Sales

Purchases and Sales in 2012/2013 and 2013/2014 amounted to:-

	2012/2013 £m	2013/2014 £m
Purchases	693.1	774.2
Sales	630.5	720.1

Securities Lending

The total amount of stock released to third parties under a stock lending arrangement at 31 March 2014 was nil (2013 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 £376,192 during 2013/2014 (2013 £346,601) and value at 5 April 2014 was £4,714,910 (2013 £4,367,539). AVCs managed by Prudential had contributions of £1,231,577 during 2013/2014 (2013 £1,181,741) and a value at 31 March 2014 was £1,956,589 (2013 £1,217,995).

11 - Actuarial Present Value of Promised Retirement Benefits

The actuarial value of the promised retirement benefits as at 31 March 2013, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £3,505.6m (2013 £3,001.1m) of which £2,424.2m (2013 £2,341.0) is vested obligation and £1,081.4m (2013 £660.1m) is 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 £1.768m as at 31 March 2014 (2013 £1.125m), this figure contains pending sales ledger income £0.884m, management fees rebate from Fidelity £0.808m and miscellaneous debtors £0.076m.

Sundry Creditors total £6.316m as at 31 March 2014 (2013 £6.063m), this figure contains unpaid benefits £2.513m, custodian fees £0.039m, Investment Manager fees £3.340m and pending purchase ledger payments £0.405m and miscellaneous creditors £0.019m.

13 - Other Financial Liabilities and Financial Debtors

Other Financial Liabilities total £6.998m as at 31 March 2014 (2013 £2.772m). This wholly represents pending purchase transactions.

Financial Debtors total £11.598m as at 31 March 2014 (2013 £8.348m). This is made up of pending sales transactions £6.087 and investment income £5.511m.

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 £21,038 for 2013/14 financial year.

15 - KPMG

During 2013/14 Tayside Pension Funds had one direct transaction with KPMG, this transaction (£2,000) was in respect of taxation services provided for withholding tax claims made in Spain.

16 – Nature and Extent of Risks arising from Financial Instruments

Risk and 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.

Responsibility for managing the Fund's risk rests with the Pension Investment 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	20.0%
Global	20.0%
Bonds	
UK Index-Linked Gilts	9.0%
UK Gilts	11.0%
UK Corporate	9.0%
Other	13.0%
Property	14.5%
Cash	0.0%

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 2014.

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	665,993,463	20.0%	799,192,155	532,794,770
Emerging Market	106,825,367	28.5%	137,270,597	76,380,137
Global	986,129,919	20.0%	1,183,355,903	788,903,935
Bonds				
UK Index-Linked Gilts	118,813,900	9.0%	129,507,151	108,120,649
UK Gilts	59,114,278	11.0%	65,616,849	52,611,708
UK Corporate	231,109,935	9.0%	251,909,829	210,310,041
Other	14,478,626	13.0%	16,360,847	12,596,404
Property	232,545,959	14.5%	266,265,124	198,826,795
Alternatives	14,529,333	8.0%	15,691,680	13,366,986
Cash	32,456,427	0.0%	32,456,427	32,456,427
Total	2,461,997,207	15.5%	2,843,606,774	2,080,387,640

Interest rate risk sensitivity analysis

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. 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 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value. The analysis assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 Basis Points (BPS) change in interest rates:

Asset Type	Carrying amount as at 31 March 2014 (£)	Potential change in year in the net assets available to pay benefits (£)	
		100bps	-100bps
Fixed Interest Securities	423,516,739	(42,265,203)	47,486,689
Cash	32,456,427	0	0
Total change in assets available	455,973,166	(42,265,203)	47,486,689

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 £324,564, 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 2014.

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 2014:

Currency exposure - asset type	Asset value
	31 March 2014
Overseas Index-Linked - Public Sector	£543,517
Overseas Equities	£740,368,524
Overseas OEIC (listed)	£290,860,123
Overseas OEIC (unlisted)	£62,821,238
Overseas Fixed Interest - Other	£12,840,510
Total overseas assets	£1,107,433,912

Currency risk- sensitivity analysis

Following analysis of historical data, the likely volatility associated with foreign exchange movements on an individual currency basis is shown in the following table. The weight of each currency in relation to the total currency basket is multiplied by the change in its exchange rate (relative to GBP) to create the aggregate potential currency change of the 'basket' and the % Change in Total Currency includes the impact of correlation across the underlying currencies. The likely volatility is 7.20% (as measured by one standard deviation).

Currency exposure - asset type	Asset Value as at 31 March 2014	Change to net assets available to pay benefits	
		-7.20%	7.20%
Overseas Index-Linked - Public Sector	£543,517	£504,384	£582,650
Overseas Equities	£740,368,524	£687,061,990	£793,675,058
Overseas OEIC (listed)	£290,860,123	£269,918,194	£311,802,051
Overseas OEIC (unlisted)	£62,821,238	£58,298,109	£67,344,367
Overseas Fixed Interest - Other	£12,840,510	£11,915,993	£13,765,026
Total overseas assets	£1,107,433,912	£1,027,698,670	£1,187,169,152

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 2014, including current account cash, was £2.8m (2013 : £4.8m). This was held with the following institutions :-

	Credit Rating	Balance as at 31 March 2013	Balance as at 31 March 2014
Bank deposit accounts :-			
Royal Bank of Scotland	F1	2,420	2,670
Bank of Scotland	F1	2,325	-
Santander	F1	-	-
Bank current accounts :-			
Royal Bank of Scotland	F1	128	125

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.

TAYSIDE PENSION FUND

Actuarial Statement for 2013/2014

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 2011. 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 2011. This valuation revealed that the Fund's assets, which at 31 March 2011 were valued at £1,922.2 million, were sufficient to meet 98.2% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2011 valuation was £35.8m. Individual employers' contributions for the period 1 April 2012 to 31 March 2015 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 2012, a copy of which can be found on Tayside Superannuation Funds website (www.dundee.gov.uk/pensions).

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 2011 valuation were as follows:

<u>Investment Return</u>	Nominal %p.a.	Real %p.a.
Equities	6.9%	3.4%
Gilts	4.3%	0.8%
Bonds & Property	5.5%	2.0%
Discount Rate	6.3%	2.8%
Pay increases	5.0%	1.5%
Price Inflation / Pension Increases	3.5%	

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 2011

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 2014. It showed that the funding level (excluding the effect of any membership movements) of the fund was 106.9%.

The next actuarial valuation will be carried out as at 31 March 2014. The Funding Strategy Statement will also be reviewed in March 2014.

TAYSIDE TRANSPORT PENSION FUND ACCOUNTS

2012/2013	FUND ACCOUNT		2013/2014	
£000			£000	£000
	CONTRIBUTIONS AND BENEFITS	Note		
	<u>Contributions receivable:-</u>			
800	From employers		899	
<u>102</u>	From members		<u>89</u>	
902				988
75	Transfers In			-
	<u>Benefits payable:-</u>			
(1,902)	Pensions		(1,958)	
<u>(133)</u>	Lump Sums		<u>(689)</u>	
(2,035)				(2,647)
	Payments to and on account of Leavers:			
-	Refund of Contributions		-	
-	Transfers Out		-	
-				-
<u>(34)</u>	Administration Expenses	10		<u>(30)</u>
(1,092)	Net Withdrawals from dealings with Members			(1,689)
	RETURNS ON INVESTMENTS			
653	Investment Income	5	799	
6,228	Change in Market Value of Investments	6	3,191	
<u>(164)</u>	Investment Management Expenses		<u>(180)</u>	
<u>6,717</u>	Net Returns on Investments			<u>3,810</u>
5,625	Net increase in Fund during the year			2,121
<u>48,545</u>	OPENING NET ASSETS OF THE SCHEME			<u>54,170</u>
<u>54,170</u>	CLOSING NET ASSETS OF THE SCHEME			<u>56,291</u>

Notes on pages 36 to 41 form part of the financial statements.

TAYSIDE TRANSPORT PENSION FUND ACCOUNTS

2013 £000	NET ASSETS STATEMENT (AS AT 31 MARCH)	2014 £000	2014 £000
	INVESTMENT ASSETS AT MARKET VALUE	Note	
	<u>Listed Investments</u>		
12,658	UK Equities		14,230
3,248	UK Fixed Interest - Public Sector		3,550
518	UK Fixed Interest - Other		596
6,699	UK Index Linked - Public Sector		6,085
13,711	Overseas Equities		14,397
1,481	Overseas Fixed Interest - Other		1,036
36	Derivatives (Futures)		35
	<u>Unlisted Investments</u>		
11,410	UK Open Ended Investment Companies		11,137
95	Overseas Open Ended Investment Companies		92
3,662	Property Unit Trusts		3,986
486	Cash Balances held by Fund Managers		836
<u>143</u>	Financial Debtors	9	<u>101</u>
54,147			56,081
	FINANCIAL LIABILITIES		
(66)	Derivatives (Futures)		(8)
-	Other Financial Liabilities	9	<u>(17)</u>
<u>(66)</u>	Total Financial Liabilities		<u>(25)</u>
54,081	Net Financial Assets	6	56,056
	CURRENT ASSETS		
10	Contributions Due from Employers		6
<u>144</u>	Cash and Bank		<u>311</u>
154			317
	LESS CURRENT LIABILITIES		
(65)	Sundry Creditors	8	<u>(82)</u>
<u>89</u>	NET CURRENT ASSETS		<u>235</u>
<u>54,170</u>	NET ASSETS		<u>56,291</u>

Marjory Stewart, FCCA, CPFA
Director of Corporate Services
Dundee City Council
24 September 2014

Notes on pages 36 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, 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 2013-14 ("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 22 and 23.

4 - Related Parties

There were no transactions with related parties during the year.

5 - Investment Income

	2012/13	2013/14
	£'000	£'000
Interest from Fixed Interest Securities	150	182
Dividends from Equities	342	387
Income from Index Linked Securities	21	58
Income Pooled Investment Vehicles	133	166
Interest on Cash Deposits	8	6
Other Income	2	-
	<u>656</u>	<u>799</u>
Irrecoverable Withholding Tax	(3)	-
	<u>653</u>	<u>799</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 2014 the market value of these investment assets was £56.1m (2013 £54.1m), managed as follows:-

	2013		2014	
	£m	%	£m	%
Schroder Properties Limited	3.7	6.8	4.2	7.5
Baillie Gifford & Co	27.2*	50.3	29.7*	53.0
Goldman Sachs	23.0**	42.5	22.1**	39.4
Financial Debtors	0.2	0.4	0.1	0.1
Financial Liabilities	-	-	-	-
Net Financial Assets	<u>54.1</u>	<u>100.0</u>	<u>56.1</u>	<u>100.0</u>

* Within the Baillie Gifford investment total above there is an investment of £14.4m (2013 £13.7m) which exceeds 5% of net assets available for benefits. This investment is in Baillie Gifford Global Life Fund.

** Within the Goldman Sachs investment total above there is an investment of £10.5m (2013 £10.7m) 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 2014

	Settlement Date	Economic Exposure			Net £000
		£000	Asset £000	Liability £000	
10 yr Cdn Bund	3 months	141	2		2
Eurx E-Schatz	3 months	182	1		1
Eurx Bobl	3 months	414	2		2
Eurx Bund	3 months	356		2	(2)
Eurx Euro-BTP	3 months	302	4		4
TSE 10 yr JGB	3 months	(842)		3	(3)
LIF Long Gilt	3 months	329		1	(1)
10 yr Treasury Note	3 months	(1,185)	7		7
5 yr Treasury Note	3 months	(3,425)	19		19
US Treasury Bonds	3 months	(719)		2	(2)
US 2 yr Treasury Note	3 months	132	-	-	-
		(4,315)	35	8	27

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 01/04/2013 £m	Purchases at Cost £m	Sales Proceeds £m	Change in Market Value £m	Value at 31/03/2014 £m
Schroder Property	3.7	-	-	0.3	4.0
Baillie Gifford Global	13.7	-	(1.0)	1.7	14.4
Goldman Sachs	22.7	9.6	(10.2)	(0.2)	21.9
Baillie Gifford UK	13.4	0.8	(0.7)	1.4	14.9
	53.5	10.4	(11.9)	3.2	55.2
Financial Liabilities	-				-
Cash Deposits	0.5			-	0.8
Financial Debtors	0.1				0.1
Net Financial Assets	54.1			3.2	56.1

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 £2,846 (2012/2013 £18,919).

Purchases & Sales

Purchases and Sales in 2012/2013 and 2013/2014 amounted to:-

	2012/2013 £m	2013/2014 £m
Purchases	21.8	10.4
Sales	19.7	11.9

Securities Lending

The total amount of stock released to third parties under a stock lending arrangement at 31 March 2014 was nil (2013 Nil).

7 - Actuarial Present Value of Promised Retirement Benefits

The actuarial value of the promised retirement benefits as at 31 March 2014, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £57.6m (2013 £58.1m) of which £50.6m (2013 £53.5m) is vested obligation and £7.0m (2013 £4.6m) is 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 £0.082m as at 31 March 2014 (2013 £0.065m), this figure contains custodian fees £0.006m, investment manager fees £0.036m and benefits payable of £0.040m.

9 - Other Financial Liabilities and Financial Debtors

Other Financial Liabilities total £0.017m as at 31 March 2014 (2013 nil), this figure is solely for pending purchase transactions.

Financial Debtors total £0.101m as at 31 March 2014 (2013 £0.143m), this is made up of pending sales transactions £0.003m and investment income £0.098m.

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 £7,013 for 2013/14 financial year.

11 - Nature and Extent of Risks arising from Financial Instruments

Risk and 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.

Responsibility for managing the Fund's risk rests with the Pension Investment 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	20.0%
Global	20.0%
Bonds	
UK Index-Linked Gilts	9.0%
UK Gilts	11.0%
UK Corporate	9.0%
Other	13.0%
Property	14.5%
Cash	0.0%

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 2014.

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	14,902,785	20.0%	17,883,342	11,922,228
Global	14,397,104	20.0%	17,276,525	11,517,683
Bonds				
UK Index-Linked Gilts	6,085,347	9.0%	6,633,028	5,537,666
UK Gilts	3,549,563	11.0%	3,940,015	3,159,111
UK Corporate	11,060,486	9.0%	12,055,930	10,065,042
Other	1,127,322	13.0%	1,273,873	980,770
Property	3,986,178	14.5%	4,564,174	3,408,182
Cash	1,257,633	0.0%	1,257,633	1,257,633
Total	56,366,417	11.4%	62,792,189	49,940,646

Interest rate risk sensitivity analysis

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. 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 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

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

Asset Type	Carrying amount as at 31 March 2014 (£)	Potential change in year in the net assets available to pay benefits (£)	
		100bps	-100bps
Fixed Interest Securities	22,027,749	(2,066,463)	2,304,469
Cash	1,257,633	0	0
Total change in assets available	23,285,382	(2,066,463)	2,304,469

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 £12,576, 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 2014.

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 2014:

Currency exposure - asset type	Asset value
	31 March 2014
Overseas Equities	£14,397,104
Overseas OEIC (unlisted)	£91,688
Overseas Fixed Interest - Other	£1,035,634
Total overseas assets	£15,524,426

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 2.5% (as measured by one standard deviation).

Currency exposure - asset type	Asset Value as at 31 March 2014	Change to net assets available to pay benefits	
		-2.50%	2.50%
Overseas Equities	£14,397,104	£14,037,176	£14,757,032
Overseas OEIC (unlisted)	£91,688	£89,396	£93,980
Overseas Fixed Interest - Other	£1,035,634	£1,009,743	£1,061,525
Total overseas assets	£15,524,426	£15,136,315	£15,912,537

TAYSIDE TRANSPORT PENSION FUND

Actuarial Statement for 2013/2014

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 2011. 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 2011. This valuation revealed that the Fund's assets, which at 31 March 2011 were valued at £45.5 million, were sufficient to meet 96.6% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2011 valuation was £1.6m. Employer contributions for the period 1 April 2012 to 31 March 2015 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 2012, a copy of which can be found on Tayside Superannuation Funds website (www.dundee.gov.uk/pensions).

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 2011 valuation were as follows:

	Nominal %p.a.	Real %p.a.
<u>Investment Return</u>		
Equities	6.9%	3.4%
Gilts	4.3%	0.8%
Bonds & Property	5.5%	2.0%
Discount Rate - pre retirement	6.9%	-
Discount Rate - post retirement	4.3%	0.8%
Pay increases	5.0%	1.5%
Price Inflation / Pension Increases	3.5%	-

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 2011

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 2014. It showed that the funding level (excluding the effect of any membership movements) of the fund was 110.9%.

The next actuarial valuation will be carried out as at 31 March 2014. The Funding Strategy Statement will also be reviewed in March 2014.

STATEMENT OF INVESTMENT PRINCIPLES

1 INTRODUCTION

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

- The types of investments to be held
- The balance between different types of investments
- Risk, including the ways in which risks are to be measured and managed
- The expected return on investments
- The realisation of investments
- The extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments
- The exercise of the rights (including voting rights) attaching to investments
- Stock lending
- The extent of compliance with the six principles of investment practice set out in CIPFA publication "Investment Decision Making and Disclosure in Local Government Pension Scheme: A Guide to the Application of the Myners Principles" (December 2009).

2 ADMINISTRATION

Tayside Pension Fund is administered by Dundee City Council in accordance with Section 24 of its Financial Regulations. Investment policy and decisions are delegated to the Pension Investment Sub-Committee of the Policy and Resources Committee which comprises six elected members and three observer members who represent Scheme members. Decisions are made based on advice from Council Officers and professional external advisers. The Sub-Committee meets quarterly.

3 REMIT OF SUB-COMMITTEE

The full remit of the Sub-Committee is shown at Appendix B.

4 OBJECTIVE OF THE FUND

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

The investment principles of the Fund have been set to ensure that the Fund meets its objective.

This document outlines the investment principles governing the investment policy of the Fund.

5 INVESTMENT OBJECTIVE

The Fund's investment policy will be directed to achieving and maintaining a fully funded scheme and where practical a stable employers contribution rate. The latest actuarial valuation of the Fund is shown in Appendix A.

The investment objective is to maximise the overall return whilst maintaining a prudent and balanced investment exposure.

There is also a requirement to maintain sufficient cash to meet liabilities as they fall due for payment.

6 TYPES OF INVESTMENT TO BE HELD

All investments and investment limits will comply with the Local Government Pension Scheme (Scotland) (Management and Investment of Funds) Regulations 1998.

To achieve its investment objectives, the Fund will utilise the following different types of investments:

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

Derivatives may be used for efficient portfolio management or the reduction of risk.

The Stock Lending programme is currently suspended.

7 INVESTMENT MANAGERS

The Fund will employ Investment Managers who are judged most suitable to manage the assets of the Fund.

The current Managers and their targets are as follows:

<u>Manager</u>	<u>Performance Target (on rolling 3 year basis)</u>
Fidelity Investments (Global Equity 21%)	Specific Benchmark + 1.5% pa (gross of fees)
Baillie Gifford (Global Equity 12%)	Specific Benchmark + 1.75 to 2% pa (net of fees)
Baillie Gifford (UK Equity 12%)	Specific Benchmark + 1.75 to 2% pa (net of fees)
Schroder Property Management (12%)	HSBC IPD Pooled Property Median + 0.75% pa
Goldman Sachs (Bonds 12%)	Specific Benchmark + 1.25% pa (gross of fees)
Alliance Bernstein (Global Equity 15%)	Specific Benchmark + 1.5 to 2% pa (net of fees)
LGIM (Global Equity 10%)*	Specific Benchmark (Passive Management)
Fidelity Investments (Bonds 6%)	Specific Benchmark + 1.5% pa (gross of fees)
Prudential/M&G Financing Fund	Libor + 4 to 6% (net of fees)

These have been set to ensure a prudent and balanced investment exposure, which helps control the level of investment risk.

The performance of these managers will be monitored on a quarterly basis.

* Commenced 1 November 2013

8 ADVISERS

Investment Consultant	AON Hewitt (Commenced 1 October 2013)
Corporate Governance	Pensions Investment Research Consultants Ltd (PIRC)
Actuarial	Barnett Waddingham

9 PERFORMANCE MEASUREMENT

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

10 CUSTODIAN

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

11 **AUDITORS**

KPMG.

12 **BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENTS**

A target has been agreed with each Manager which gives the Manager the balance between different types of investments. These provide an efficient balance between risk and return. These are detailed in Section 5.

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

13 **RISK**

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

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

The initial risk register setting the framework for the Fund's acknowledgement of, and appetite for, risk was agreed by the Sub-Committee on 21 February 2011 (Report No 114-2011). The risk register is updated annually. The latest version was agreed in March 2013 (Report No 121-2013).

14 **EXPECTED RETURN**

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

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

15 **REALISATION OF ASSETS**

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

16 SOCIALLY RESPONSIBLE INVESTMENT (SRI)

Whilst recognising its over-riding fiduciary duties the fund will continue to encourage its managers to engage on issues with companies in which it holds investment. The managers will be instructed to summarise this engagement activity in their quarterly Investment Reports. The key areas will continue to be Employee Care, Human Rights, Sustainability and the Environment. This is shown in the Policy on Environmental, Social and Corporate Governance (Report No 556-2008).

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

Incorporate ESG issues into investment analysis and decision-making processes - this would require to be done by the investment managers and monitored by the Fund.

Be an active owner and incorporate ESG issues into ownership policies and practices - this will be mainly achieved by exercising voting rights and the engagement activity of managers.

Seek appropriate disclosure of ESG issues by entities in which the Fund is invested - this will be achieved through investment manager engagement.

Report on activities and progress. A six-monthly report will continue to be prepared for the Sub-Committee.

17 CORPORATE GOVERNANCE

The Fund will vote through its Fund Managers on all UK security holdings in accordance with the recommendations of its voting consultants. Out with the UK and where there are no specific recommendations, the Managers will be advised to use its best endeavours to vote in accordance with its voting guidelines.

The Fund has appointed PIRC to advise it on Corporate Governance Policy.

18 CLASS ACTIONS

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

19 COMPLIANCE

The Pension Investment Sub-Committee will take advice on general investment matters from the Director of Corporate Services and external advisers as appropriate.

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

20 SCOTTISH MINISTERS' GUIDANCE

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

SUMMARY OF ACTUARIAL VALUATION AS AT 31 MARCH 2011

	<u>£m</u>	<u>£m</u>
<u>Assets</u>		1,922.2
<u>Past Service Liabilities</u>		
Active Members	1,063.4	
Deferred Pensioners	162.3	
No 2 Fund Recharges Pensioners	4.0	
	<u>728.3</u>	
Value of Scheme Liabilities		<u>1,958.0</u>
Deficit		<u>35.8</u>
Funding Level		<u>98.0%</u>
	<u>Employers Contributions</u>	
	<u>(% of Payroll)</u>	
Future Service Funding Rate	16.4	
Deficit Contribution (12 years)*	0.9	
Post-Valuation Events	0.7	
Total		<u>18.0</u>

* This is in line with Para 7.7 of the Funding Strategy Statement

REMIT OF PENSION INVESTMENT SUB-COMMITTEE

The supervision and control of the operations and investments of the Tayside Pension Fund and Tayside Transport Pension Fund and any other fund of a similar nature set up by the Council in pursuance of Statutory powers including:-

- i monitoring investment performance of Fund managers.
- ii the review of investments and managers.
- iii the review of asset allocation in light of the Funds' maturity profiles.
- iv the investment of new funds at the disposal of the Council.
- v ensuring appropriate custody arrangements are made for all Funds' assets.
- vi approving the Funds' Statement of Investment Principles at least annually and ensuring ongoing compliance with this.
- vii monitoring the managers' implementation of the Funds' Socially Responsible Investment policy.
- viii approving and reviewing the Funds' annual Business Plan.
- ix arranging the appointment of external advisers as required.
- x considering any other matters which may affect the management or value of the Funds' investment.

Tayside Transport Pension Fund has a separate Statement of Investment Principles which can be found on the Fund website (www.dundee.gov.uk/pensions)

SCHEDULED AND ADMITTED BODIES AS AT 31 MARCH 2014**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 (30) :-

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

ADDITIONAL INFORMATION

Key Documents Online

You can find further information on our website www.dundee.gov.uk/pensions The following documents are on the website's publications section :

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

Contact Details

Enquiries relating to investment matters should be addressed to:-

Sandy Flight, Head of Corporate Finance or
Tracey Russell, Financial Services and Investment Manager
Dundee City Council, Floor 4, 50 North Lindsay Street, Dundee DD1 1NZ
(01382) 433359 or 431333

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

Catherine Carruthers, Depute Pensions Manager
Dundee City Council, Floor 4, 50 North Lindsay Street, Dundee DD1 1NZ
(01382) 307925

Enquiries regarding publications, please visit www.dundee.gov.uk/pensions

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