

Scottish Borders Council  
Pension Fund

# annual report and annual statements

for the year to 31 March 2018



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## REPORT BY CHAIRMAN OF PENSION FUND COMMITTEE

### Introduction

Welcome to the Annual Report and Accounts for the Scottish Borders Council Pension Fund for the year ended 31 March 2018. This Annual Report has been produced to provide Elected Members, Scheme Members and Employers and other interested parties with information concerning the administration and performance of the Fund in financial year 2017/18.

### Highlights for the Year

#### Pension Fund Committee/Pension Board

The Pension Fund Committee has worked hard during the year in response to the continually growing governance agenda and increasingly complex pension administration environment that the Fund operates within.

The Committee members have engaged with training events both locally and nationally to expand their knowledge and understanding. The local elections in May 2017 resulted in change of Membership for the Committee. The revised training policy required all Members of the Committee and Board to complete the Pension Regulator Trustee Toolkit, 80% of the members have completed this.

The Joint meetings of the Committee and Board continued during 2017/18 to be productive and informative due to the positive engagement of all members.

The Investment and Performance Sub-Committee, has met all investment managers twice during the year, which has allowed the committee full scrutiny of funds managed.

#### Investment Assets

The value of the fund has continued to increase with strong returns coming from global equities. The fund has progressed well with the ongoing implementation of the

Strategic Asset Allocation approved in December 2016.

The overall performance of the Fund was 5.6% for 2017/18, outperforming the benchmark by 2.2% and increasing the value of the fund by £30.2m.

#### Rebalancing of assets

Following appointment of new asset managers in 2016/17 the transition of funding to the new portfolios has progressed with Long Lease Property Index Linked Gilts being fully invested and Private Credit 50% invested. Good progress has also been achieved in collaboration with Lothian Pension Fund for Infrastructure.

#### 2017 Triennial Revaluation

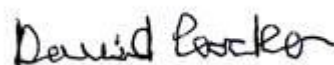
The three yearly valuation of the pension fund undertaken by the fund Actuary Barnet Waddingham at 31 March 2017 showed the fund was 114% funded. This was an increase on the 101% funding level returned at 31 March 2014.

#### Pensions Administration

A new website was launched providing information and guidance to Members of the fund and key stake holders.

### Acknowledgement

I would like to thank the Members of the Pension Fund Committee, Pension Fund Board, officers within the Council, our investment managers, KPMG and Barnett Waddingham for their hard work during the year and their ongoing commitment to ensuring the Fund's continued success.



**Chairman, Pension Fund Committee  
Scottish Borders Council**

## MANAGEMENT COMMENTARY

### Management and Financial Performance

#### Scottish Borders Council Pension Fund

#### 2017/18 Key Highlights

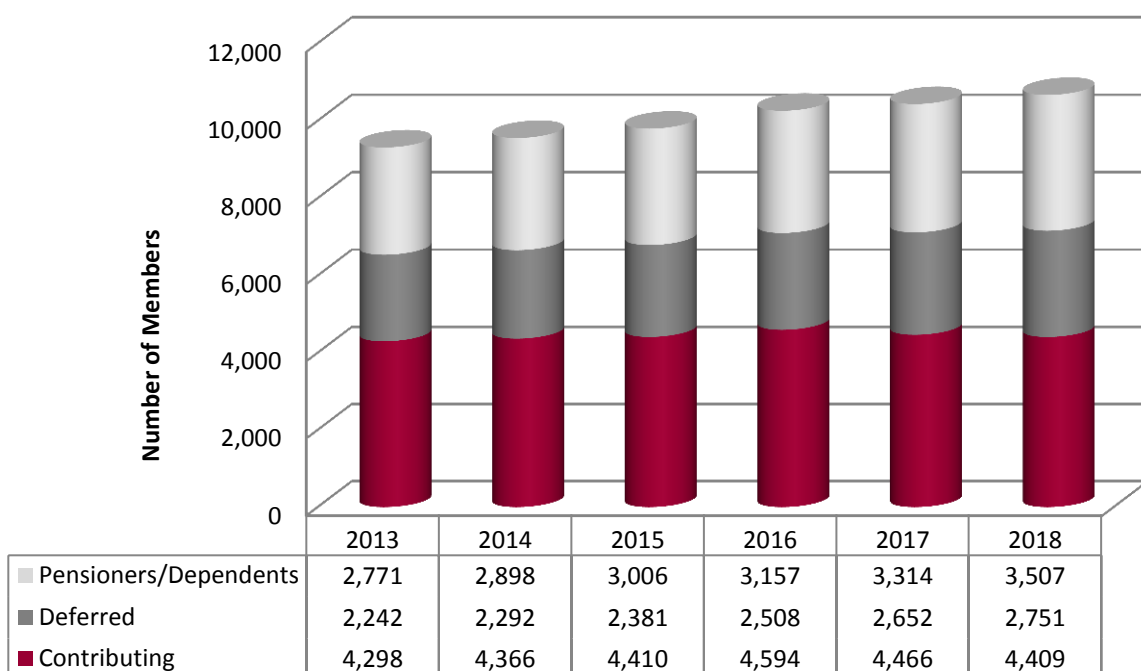
- £684.6m Net Assets, an increase of £30.2m on 2016/17
- Strong performance return of 5.6% for 2017/18 and 8.6% for the rolling 3 year period
- Fund continues to meet its strategic investment return benchmark.
- Continued sound governance of the Fund and good engagement of Members in the training programme
- 10,667 Members, an increase of 235 on previous year

The Scottish Borders Council Pension Fund (the Fund) as part of the Local Government Pension Scheme (LGPS) is administered by Scottish Borders Council (the Administering Authority). Note 1 to the Annual Accounts, page 28 provides a description of the Fund.

The Note sets out information in relation to the Fund's regulatory environment, funding, benefits and membership.

#### Overview of Fund Membership

Current membership of the Fund is 10,667 of which 4,409 are actively contributing and 3,507 are in receipt of pension benefits. The following chart summarises the trends in membership:



The chart on the previous page demonstrates that although there has been a relatively static position in relation to active contributing membership, there has been a continuing rise in the number of pensioners. Since 2013 the total membership has increased by 1,356 members (a 15% increase overall). During this period the number of pensioners and their dependants has increased by 23%, and the number of active contributing members has increased by 3%. This presents a challenge to the Fund to ensure that it manages its future cash flows effectively as the fund matures. This was included as part of the considerations when undertaking the full investment review.

## **Financial Performance**

The Financial Statements for the Fund are set out from page 26.

Key Figures from these are set out below:

	<b>2016/17 £'000</b>	<b>2017/18 £'000</b>
Net (Withdrawals) from Dealings with Members	<b>(2,229)</b>	<b>(2,579)</b>
Net Return on Investments	<b>118,277</b>	<b>41,486</b>
Net Increase/(decrease) in the Fund during the Year	<b>112,493</b>	<b>30,190</b>
Closing Net Assets of the Scheme	<b>654,393</b>	<b>684,583</b>

These highlight two key messages in relation to the Financial Position of the Fund:

- ***Strong financial returns from Fund Managers have resulted in an increase of £30.2 in Net Assets***
- ***A Net Withdrawal position of £2.6m in relation to dealing with Fund Members***

The strong asset position, along with the 2017 Triennial Valuation of funding levels, demonstrates that the Fund is well placed to meet its future pension and other benefit liabilities.

The slightly increasing net withdrawal position supports the trend that is seen in the membership chart as outlined on page 3.

Recent changes in the legislation around what pensioners are able to do with their pension benefit entitlements have increased individual freedom to withdraw from the Fund potentially triggering significant transfer movements. The fund has not however seen any significant withdrawals from the fund as a result of this legislation and continues to monitor this position.

## Governance and Decision Making

Following the significant changes required in the governance arrangements which came into force on 1 April 2015 the Pension Fund Board was established. Joint meetings of the Pension Fund Committee and Pension Fund Board have been held regularly during 2017/18.

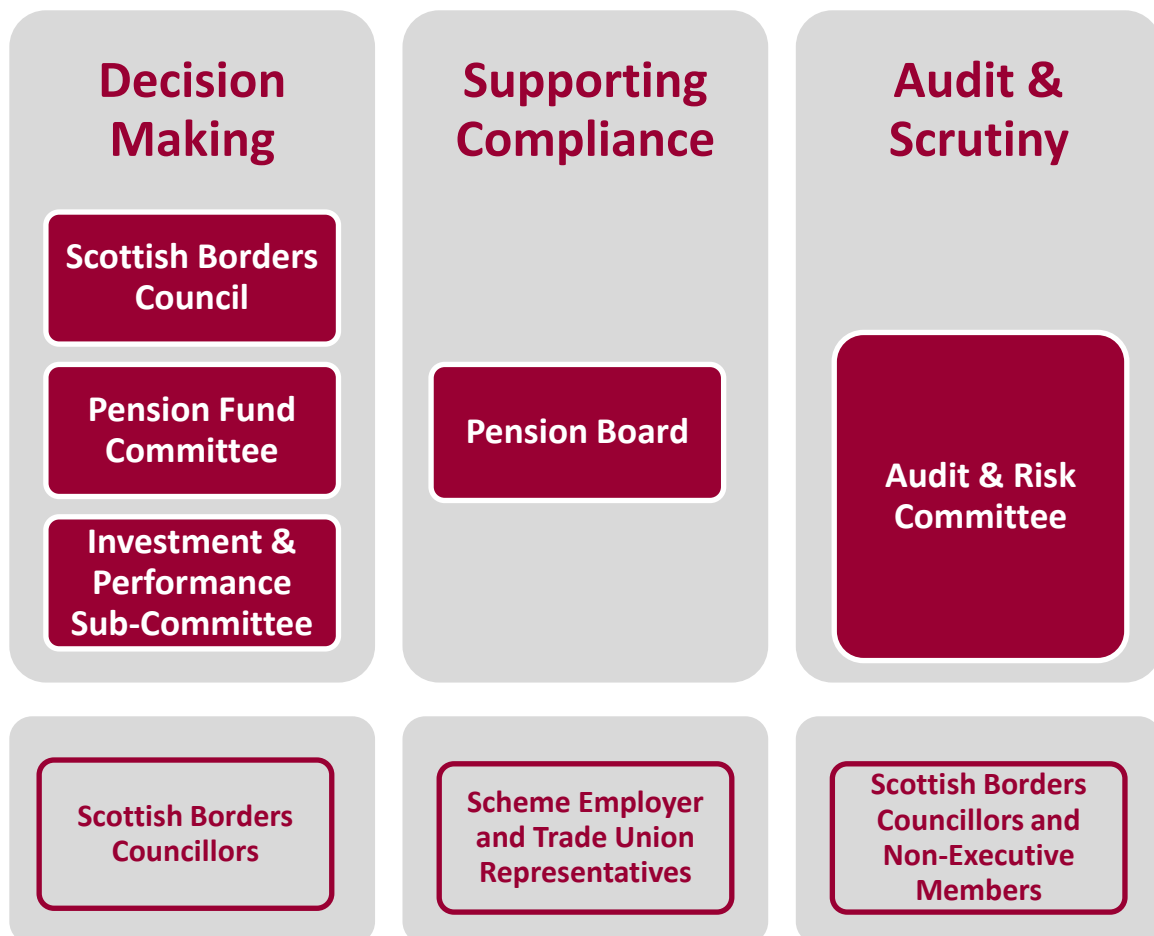
The remit of the Pension Fund Board is to assist the Council (as administering authority) in relation to:

- a) securing compliance with the regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
- b) securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator; and
- c) such other matters as the regulations may specify.

This body is made up of four scheme employer representatives and four trade union representatives.

The membership of the Pension Fund Committee comprises elected members from the administering authority, Scottish Borders Council.

The governance of the Fund is as follows:



The Annual Governance Statement and Governance Compliance Statement 2018 can be found on pages 17 to 23.

## Knowledge and Skills

The Training Policy for the Fund was updated and agreed on 22 June 2017 reflecting the governance arrangements set out on page 5.

Following the annual training needs assessment, the 2017/18 training programme was developed. Training was delivered to all members of both the Pension Fund Committee and the Pension Fund Board and covered the following areas:

- Financial Markets and Investment Products
- Role of Custodian
- General Pension Fund regulatory environment
- LGPS regulatory environment

The Training Policy sets out a target for all members of the Pension Fund Committee and Pension Fund Board in relation to attendance at Committee meetings and training events. The 2017/18 performance is set out below.

<i><b>Pension Fund Committee</b></i>	<b>Number of Members Attending</b>	
<b>% Attendance</b>	<b>Committee (Target – 2 meetings)</b>	<b>Training (Target – 2 sessions)</b>
100% (4 sessions or more)	4	4
75% (3 sessions)	3	3
50% (2 sessions)	-	-
≤ 25% (1 or no sessions)	-	-

<i><b>Pension Fund Board</b></i>	<b>Number of Members Attending</b>	
<b>% Attendance</b>	<b>Committee (Target – 2 meetings)</b>	<b>Training (Target – 2 sessions)</b>
100% (4 sessions or more)	1	-
75% (3 sessions)	4	2
50% (2 sessions)	1	4
≤ 25% (1 or no sessions)	2	2

The Policy requires members of the Pension Fund Board and Committee to attend at least two meetings per year and two training events. All Members of the Pension Fund Committee fully met the training and attendance targets set in the Training Policy. 75% of the Pension Fund Board met the attendance target and 75% met the training target. The Training policy also for 2017/18 required all members of the Committee and Board to undertake the Pension Regulator Trustee Toolkit within 6 months of becoming a member. The toolkit has been completed by 71% of the Committee and 87.5% of the Board.

The Fund is able to demonstrate full compliance with the relevant best practice standards and this is set out in the Governance Compliance Statement from page 19.

## Fund's Aims and Objectives

### Primary Aim of the Fund

- To provide for members' pension and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefits basis.

### Funding Objectives

- Set levels of employer contribution that will **build up a fund of assets that will be sufficient to meet all future benefit payments** from the Fund.
- Build up the required assets in such a way that ensure levels of **employer contribution that are stable**

### Pensions Administration

- Deliver a **High Quality Pension Service to Members.**

### Governance

- Ensure that Scottish Borders Pension Fund is **managed effectively, transparently and remains compliant.**

The Fund approved a Business Plan for the period covering 2017/18 – 2019/20 on 22 June 2017 and this presented the action plan associated with supporting the delivery of these aims and objectives. The key following actions were completed during 2017/18.

- ***2016/17 Annual Report and Financial Statements produced within prescribed timescales with no audit qualifications.***
- ***Completion of Communication Strategy and launch of Pension Fund website***
- ***Completion of 2017 Triennial Valuation***
- ***Full funding of Index Linked and Long Lease Property asset categories per revised Investment Strategy***
- ***Strong progress made in Private Credit and Infrastructure asset categories per revised Investment Strategy***

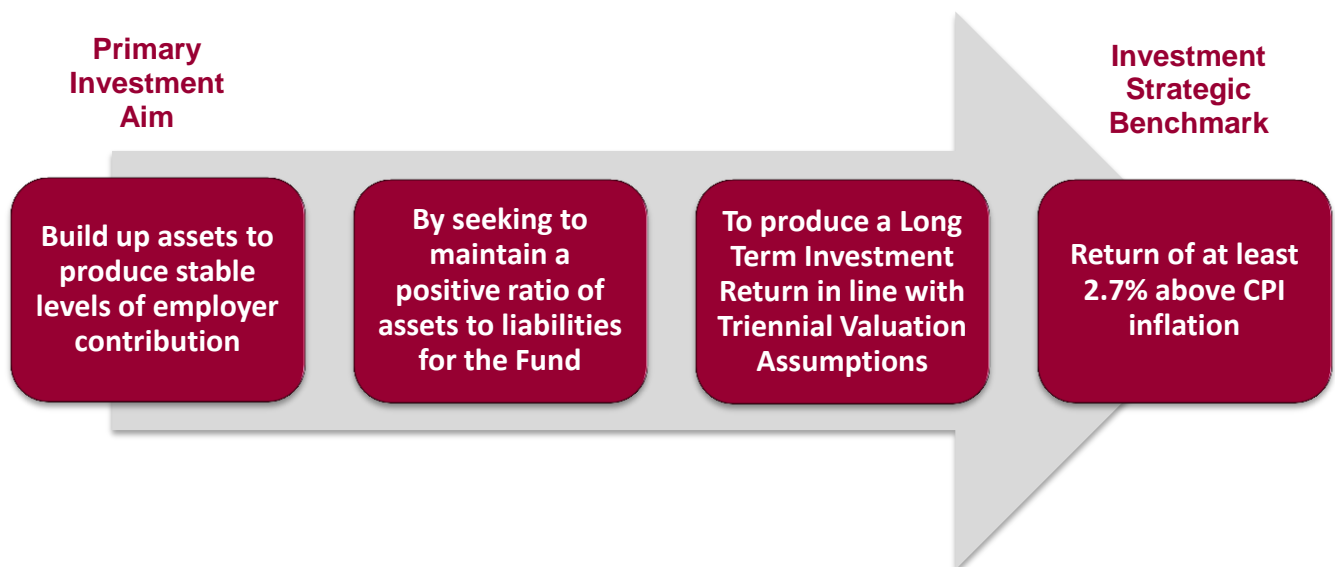
A full copy of the Business Plan can be found at [www.scotborders.gov.uk/pensions](http://www.scotborders.gov.uk/pensions).



## MANAGEMENT COMMENTARY

### Investment Strategy

The Statement of Investment Principles (SIP) approved on the 22 June 2017 sets out the Fund's current Investment Strategy and a copy of this document can be found at: [www.scotborders.gov.uk/pensions](http://www.scotborders.gov.uk/pensions). An extract of the key elements of the SIP are included in Annex 1 and the Investment Strategy is summarised below:



The following table indicates the actual position at 31 March 2018 in relation to asset allocation versus the revised benchmark which was agreed as part of the Investment Strategy:

Asset Class	Asset Allocation at 31/3/17 %	Asset Allocation at 31/3/18 %	Strategic Benchmark %
UK Equity	18.2	15.2	14.0
Global Equity	49.8	43.0	33.5
Bonds	9.7	15.2	15.0
Alternatives	16.9	11.9	17.5
Property	5.1	14.0	15.0
Infrastructure	-	0.6	5.0
Cash	0.3	0.1	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

As can be seen from the table above there has a reduction in the allocation to equities during the year. Despite this the Fund continues to run overweight in equities due to the continued growth of equities and the ongoing work to transfer funds into Infrastructure and Private Credit. It is anticipated the Private Credit allocation will be fully drawn in 2018/19 and work continues in collaboration with Lothian Pension Fund to identify Infrastructure opportunities.

The strategic benchmark represents the asset allocation split as approved in December 2016 and contained with the 2017 Statement of Investment Principles.

## MANAGEMENT COMMENTARY

### Review of Investment Performance

#### 2017/18 in Numbers

- Strong 3 year annualised investment performance of 8.6%, 1.4% above benchmark

- Strong 1 year performance to March 2018 with investment returns of 5.6% in the year compared to a benchmark of 3.4%

#### Key Successes 2017/18

### Investment Markets

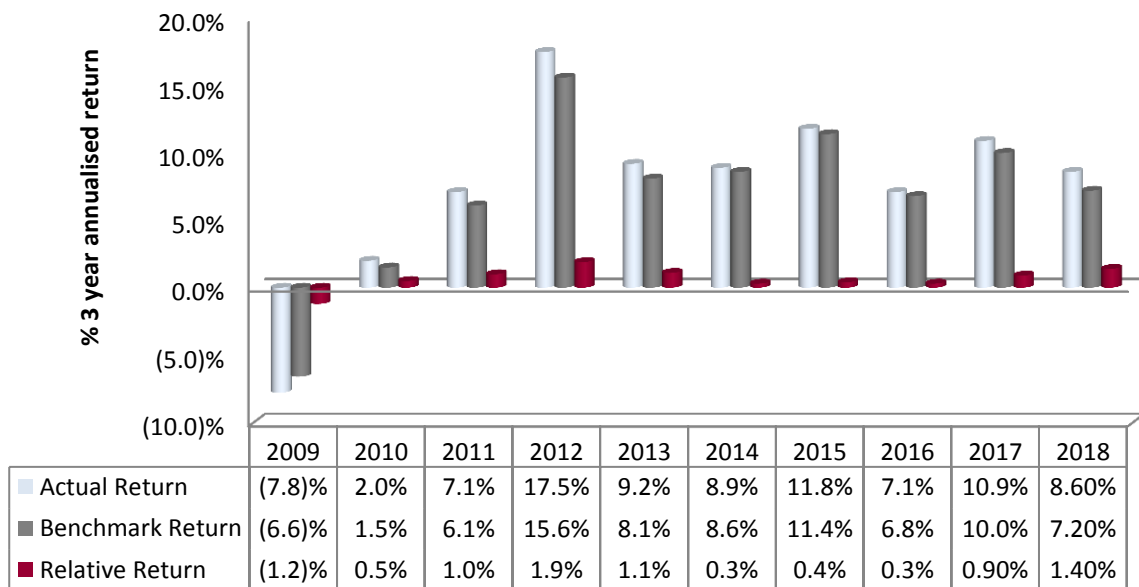
During 2017/18 equities continued to experience strong levels of growth despite the global political events. Over the 1 year rolling period a positive return was experienced in Equities both UK and Global. The 3 year rolling period also provided positive growth. The factors affecting the markets were:

- Positive impact of tax reforms in US
- Uncertainty around impact of rising US inflation and increased protectionism.
- Uncertainty around BREXIT remains, markets have however remained positive over the period.
- Corporate bonds performed positively amidst a backdrop of improving global economic growth.
- Strength of sterling increased against most major currencies

## Investment Performance

The Fund's performance against benchmark over the past 10 years is highlighted in the chart below. This chart demonstrates that the rolling 3 year annualised relative return (i.e. Fund's return achieved compared with the benchmark) since 2010 has been positive, and that over the 10 year period there has only been one year of negative returns overall for the Fund and that was during the financial crisis. On average the fund has returned relative out performance against bench mark of 0.66% per annum over the last 10 years.

### 3 Year Annualised Returns ending 31 March



The Fund achieved these favourable returns in 2017/18, with all Fund Managers producing a positive return. Global equities provided the highest out performance against benchmark, despite a dip in values in the final quarter of the year. Relative out performance of 1.4% was achieved for the year against the benchmark of 7.2%

Each quarter the Investment Consultants, KPMG, reported on the Fund's quarterly performance by individual investment manager and mandate to the Joint Pension Fund Committee, and Pension Board. The Investment and Performance Sub Committee also met each Manager twice during the year giving members an opportunity to gain a deeper understanding of the investments, their decision making processes and their performance.

The following table provides an analysis of how the Fund's investments performed against the Funds Benchmark.

Return on Investment as at 31/3/2018	1 year rolling return		3 year rolling return	
	Fund %	Bench <sup>1</sup> %	Fund %	Bench <sup>1</sup> %
<b>Total Fund excluding Currency Hedging</b>	<b>5.6</b>	<b>3.4</b>	<b>8.6</b>	<b>7.2</b>
Global Equities including UK	5.5	2.1	11.8	9.4
UK Equities	3.3	1.2	6.6	5.9
UK Government Bonds	3.0	2.6	4.3	4.1
UK Corporate Bonds	1.2	0.6	4.2	3.4
Pooled Bonds	3.4	3.6	3.8	3.8
Property	9.7	8.7	7.3	7.6
Alternatives	2.3	4.3	2.7	4.5
Cash	-	-	-	-

**Key:**

<sup>1</sup> **Bench:** Benchmark Return which reflects the overall performance of the individual markets available to the manager within the mandate given to them.

UK Government Bonds allow for transition between UK Fixed Government Bonds and UK Index-Linked Government Bonds in September 2017

UK Corporate Bonds allows for disinvestment in September 2017 and represent a part-period return

The performance of the Fund overall has exceeded the rolling 1 year and 3 year benchmark. The rolling 1 year performance was aided by strong performance from Baillie Gifford in global equities, off-setting an under performance from Harris in global equities and LGT in Alternatives.

**Top 20 Direct Equity Holdings at 31 March 2018**

Company	Market Value of Holding £ m	Company	Market Value of Holding £ m
Amazon	6.9	Alphabet Inc	2.8
Prudential	6.6	Richemont	2.8
Naspers	6.2	Mastercard Inc	2.7
Taiwan Semiconductor Manufact	4.6	Royal Caribbean Cruises	2.6
Moody's	4.2	BNP Paribas	2.5
Alibaba	3.6	Baidu	2.5
Anthem	3.4	Allianz	2.5
SAP	3.4	VISA Ince	2.4
AIA Group	3.1	CRH PLC	2.4
Daimler	2.8	Diageo	2.4

## MANAGEMENT COMMENTARY

### Funding Position

#### 2017 Valuation

- **114 % Funding Level for the Fund**
- **Stable Common Employer Contribution Rates at 18%**

#### Triennial Valuation 2017

The Triennial Funding Valuation as at the March 2017 was undertaken during 2017 and the final certified report was presented to the joint meeting of the Pension Fund Committee and Pension Board on 14 June 2018. A copy of the report is available via the Council's committee papers website <http://scottishborders.moderngov.co.uk/>.

The outcome of the 2017 Valuation was a funding level of 114% an improvement in the position assessed at 2014 of 101%. The funding position equates to a surplus of over £80m and the advice of the actuary is that this surplus be used over time to offset increases in the primary employer's contribution rate of 20.6%. As a result there was no change in the overall Fund common pool employer contribution rate which remained at 18%, although some individual employer rates did change for specific circumstances.

Valuation Date as at 31 March	Past Service Funding Position – Scottish Borders Council Pension Fund		
	2011 £m	2014 £m	2017 £m
Value of the Scheme Liabilities	(402.2)	(487.6)	<b>573.3</b>
Smoothed Asset Value	384.8	490.5	<b>(653.9)</b>
<b>Surplus/ (Deficit)</b>	<b>(17.4)</b>	<b>2.9</b>	<b>80.6</b>
<b>Funding Level</b>	<b>96%</b>	<b>101%</b>	<b>114%</b>

Note 26 to the Statement of Accounts on page 48, contains details of the outcome and assumptions used in the 2017 Valuation and the impact that it had on employer contribution rates.

A major contributing factor to the improvement in the funding level has been the strong investment performance that the Fund has achieved over the past 3 years.

#### Valuation for Statutory Accounts at 31 March 2018

Note 27 to the Statement of Accounts on page 50, contains the actuarial present value valuation for the Fund as required by the International Accounting Standard (IAS) 26. This shows a net liability for the Fund of £158.7m. However the liabilities for this figure are calculated on an IAS 19 basis and therefore will differ from the results of the 2017 Triennial Funding Valuation because IAS 19 stipulates a specific discount rate to enable comparability rather than a rate that reflects the market rate for investment returns on the Fund's assets. It is therefore not appropriate to use this as a measure for setting employer contribution rates or assessing the overall long term funding health of the fund. The full version of the actuary report and the current Funding Strategy is available via the Pension Funds website: <http://scottishborderscouncilpensionfund.org/>

## MANAGEMENT COMMENTARY

### Pensions Administration Update

#### 2017/18 in Numbers

- 18 Scheme Employers
- £21.5m of Pension and Other Benefits paid during year
- £19.4m of Contributions Received from 4,409 Active Members and their Employers
- 6,575 Benefits Statements issued

- Launch of Scottish Borders Council Pension Fund Website
- Processing of Pension payments from Business World implemented from 1st April 2017
- Successful training and development of new staff following staff retirements with the team
- All contributions received from all Employer Bodies on time

#### Key Successes 2017/18

### Scheme Employer Liaison

The Scheme Employer Liaison meeting was held during 2017/18 and covered the requirements for the year end returns, for results of the triennial valuation and an overview of investments. The opportunity was also taken to reinforce the scheme changes and the impact of these for the Fund and employers.

The good relationship with the main Scheme Employers also has resulted in the continued involvement of 4 employers as representatives in the Pension Fund Board.

### Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Teachers are not included as they are enrolled as members of the national Teachers' pension schemes.

There are 18 employer organisations within the Fund including the Council itself and membership by employer is analysed over the page.

Membership Details as at 31 March 2018	Number of Contributors	Pensioners	Deferred Pensioners	Total
<b>Scheduled Bodies:</b>				
Scottish Borders Council	3,240	3,180	2,377	8,797
Borders College	165	62	83	310
Visit Scotland (Scottish Borders)	1	7	8	16
	<b>3,406</b>	<b>3,249</b>	<b>2,468</b>	<b>9,123</b>
<b>Active Admitted Bodies:</b>				
Scottish Borders Housing Association	88	90	71	249
LIVE Borders	166	41	45	252
SBCares	700	77	129	906
Jedburgh Leisure Facilities Trust	2	-	2	4
L&B Community Justice Authority	-	2	7	9
Amey Community Limited	4	6	4	14
CGI	43	1	1	45
	<b>1,003</b>	<b>217</b>	<b>259</b>	<b>1,479</b>
<b>Admitted Bodies with No Active Contributing Members:</b>				
Gala Youth Project	-	1	1	2
Scottish Borders Careers	-	1	3	4
BC Consultants	-	15	16	31
Others	-	24	4	28
	-			
<b>Total</b>	<b>4,409</b>	<b>3,507</b>	<b>2,751</b>	<b>10,667</b>

## Member Engagement

This has been identified as an area for development within the Pension Fund Business Plan 2016/17 – 2018/19. The development of a Communication Policy and associated action plan is included as an action for delivery within the next three year period. This will include exploiting the use of a new website to provide enhanced information and to engage with members via self-service interaction with the new pension administration system and improved information being available on the website.

Trade Unions as member representatives have also shown good engagement through their attendance at the Pension Fund Committee and also by securing 4 representatives for the Pension Board and identifying several substitutes.

## Pensions Administration Strategy

The Fund's Pensions Administration Strategy was approved in September 2015. This sets out scheme employer and administering authority roles and responsibilities and defines the service performance standards.

### How have we done?

A comprehensive report on Pensions Administration performance for 2017/18 was presented to the joint meeting of the Pension Fund Committee and Pension Board on 14 June 2018 and a copy

of the report is available via the Council's committee papers website  
<http://scottishborders.moderngov.co.uk/>.

### Administering Authority Performance Measures

Many of the performance standards have been met in 2017/18 and are comparable with the positive performance in the previous year. The target performance days for responding to general queries was 5 days and almost 100% of queries were replied to within this new target.

#### Service Standard - Estimates

Standard	Volume of Requests	Target Response	2017/18 % on Target
Estimates – Transfer In	39	20 Days	15.38%
Estimates – Transfer Out	98	20 Days	29.59%
Estimate – All Other	825	10 Days	89.82%
<b>Total Estimates</b>	<b>962</b>		

#### Service Standard – Query Response Turnaround

Standard	2016/17		2017/18	
	Volume of Queries	% on Target	Volume of Queries	% on Target
Query responses – within 5 working days	972	100%	1999	99.75%
Benefit Statement queries – within 20 working days	78	46%	67	100%
<b>Total</b>	<b>1,050</b>		<b>2,066</b>	

#### Service Standard - Other

Area	Measure	Completed
Employer Liaison Meetings	1 per annum	Yes
Benefit Statements	by end of August	Yes

There was an improvement with all queries meeting the 20 day target for responding to the Annual Benefit Statement queries with 100% of queries answered with the required timescales.



## Employer Performance Measures

### Service Standard – Employer Notifications

Standard	Volume of Notifications	Target %	% Achieved
New starts notification - within 20 working days	573	90%	6.8%
Retirement info – at least 20 working days before	237	90%	100%
Early leaver notification – within 20 working days	465	90%	9.9%
Death in service notification – within 10 working days	9	90%	100%

Scottish Borders Council implemented a new payroll system in April 2017 with a fully developed reporting solution for New Starters and Leavers not being fully developed until later in the year. As a result there has been a significant reduction in the percentage levels met for reporting these groups within the 20 working day deadline. The reporting of Retirements and Deaths in Service were not affected due to manual work around that was put in place. The Pensions Administration Team are assured that Scottish Borders Council now has a robust reporting mechanism in place for ensuring that all New Starters and Leavers will be reported within the timescales.

### Service Standard – Pension Contribution Payments

The following tables compare the date contribution payments are received against the target date for each of the Scheduled and Active Admitted Bodies.

Employer Body	Number of Monthly Payments Received		
	By Target Date (19 <sup>th</sup> of Month)	Late	% On Time
Scottish Borders Council	12	-	100%
Visit Scotland	12	-	100%
Borders College	12	-	100%
Scottish Borders Housing Association	12	-	100%
Jedburgh Leisure Facilities Trust	12	-	100%
LIVE Borders	12	-	100%
AMEY Community Limited	12	-	100%
SBCares	12	-	100%
CGI	12	-	100%

All contribution payments were received on time during 2017/18. These continue to be monitored on a monthly basis to ensure all bodies continue to comply with the deadlines for payments.

**Councillor David Parker**  
Chairman  
Pension Fund Committee

**Tracey Logan**  
Chief Executive  
Scottish Borders Council

**David Robertson**  
Chief Financial Officer  
Scottish Borders Council

25 September 2018

## GOVERNANCE

### Annual Governance Statement 2017/18

#### Introduction

The Local Government Pension Scheme (Scotland) Regulations 2014 require Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via a number of best practice principles.

The key document summarising the governance arrangements for the Pension Fund is the Governance Policy and Compliance Statement (as amended on 18 June 2015) which is available on the website [www.scotborders.gov.uk/pensions](http://www.scotborders.gov.uk/pensions).

#### The Governance Framework

The key elements of the Pension Fund's governance arrangements include:

- a) Scottish Borders Council is the Administering Authority for the Local Government Pension Scheme set up for the Scottish Borders geographic area.
- b) The Council has delegated its responsibilities as Scheme Manager to the Pension Fund Committee. The members of the Committee act as quasi-trustees and oversee the management of the Scottish Borders Council Pension Fund.
- c) The introduction of the Pensions Board, which meets jointly with the Committee, formalises the involvement of the employers and trade unions representing the membership. All members of the Committee and Board are covered equally by the Training Policy to give them full opportunity to contribute effectively.
- d) The approval of the Pension Fund Business Plan covering the period 2016/17 – 2018/19 to improve planning and monitoring of the performance of the Fund and to demonstrate the "Myners Principle" relating to effective decision making. The business plan supports the delivery of the objectives of the Fund which are to deliver a high quality pension service to members that was managed effectively, transparently and was compliant.
- e) The Pension Fund appoints professional advisers and external service providers, covering investment advisory, custodian and actuarial services.
- f) The system of internal financial control operates within a financial strategy and is based on a framework of delegation and accountability for officers and elected members embodied in procedural standing orders, financial regulations, scheme of delegation, scheme of administration, supported by a framework of administrative procedures including the segregation of duties, and regular financial management information. In particular, the system includes comprehensive accounting systems that record income and expenditure for both member and investment activities, regular reviews of investment reports that measure investment returns against agreed benchmarks, regular reviews of investment manager reports that measure performance against agreed targets, and independent performance reviews of the Fund by the Fund's investment consultant and performance monitoring services provider.
- g) The Pension Fund follows the Council's approach to risk management and assesses risk using a scoring methodology and subjects the risk register to regular review.
- h) The Chief Financial Officer (Section 95 officer) for the Council is responsible for ensuring the proper administration of the financial affairs of the Pension Fund. This includes ensuring appropriate professional advice is sought and is given to the Pension Fund on all financial matters, keeping proper financial records and accounts, and maintaining an effective system of internal financial control.
- i) The Chief Officer HR for the Council is responsible for the pension benefit policy oversight and day-to-day administration of member benefits in accordance with statutory legislation and the approved pensions' administration strategy.

- j) The Chief Officer Audit & Risk (Head of Internal Audit) provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance based on the delivery of an approved plan of systematic and continuous internal audit review in conformance with the Public Sector Internal Audit Standards.
- k) The Pension Fund responds to findings and recommendations of external audit and internal audit, as appropriate. The Audit and Risk Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

### **Review of Framework**

The Council as Administering Authority of the Pension Fund conducts an annual review of the effectiveness of its overall governance framework which is presented to the Audit and Risk Committee whose role includes high level oversight of the Pension Fund's governance, risk management, and internal control arrangements.

The review is informed by the work of an officer assessment of the Fund's compliance with the best practice principles and the detail of this is set out in the Governance Compliance Statement 2017/18, Annex 1 (pages 19 – 23).

The review of the effectiveness of the system of internal financial control is informed by the work of professional accountancy staff within the Council, the assurances from the Chief Officer Audit & Risk's annual internal audit opinion and report on the work of internal audit, and by the external auditors' reports.

The review cycle for the risk register is undertaken in line with agreed practice and the current status is summarised in the Risk Management Statement.

The conclusion from the review activity outlined above is that in 2017/18 the Pension Fund continued to demonstrate that the governance arrangements and framework within which it operates are sound and effective.

### **Improvement Areas of Governance**

The review has identified some areas where further improvements can be made to enhance the existing governance arrangements:

- a) Review and update Environmental, Social and Governance section of Statement of Investment Principles.
- b) Develop and implement an annual assessment cycle of Investment Adviser and Officer support to the Pension Fund Committee and Pension Fund Board

### **Certification**

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Scottish Borders Council Pension Fund's systems of internal control, governance and risk management. The annual review demonstrates sufficient evidence that the Pension Fund's Governance Policy is operating effectively and that the Pension Fund fully complies with the best practice principles as demonstrated in the Governance Policy and Compliance Statement (pages 19 – 23).

**Councillor David Parker**  
**Chairman**  
**Pension Fund Committee**  
**25 September 2018**

**Tracey Logan**  
**Chief Executive**  
**Scottish Borders Council**

## GOVERNANCE

### Governance Compliance Statement 2017/18

The Local Government Pension Scheme (Scotland) Regulations 2014 require Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via number of best practice principles. The following table contains an assessment of the Fund's compliance with these principles and reflects the changes following the introduction of the Pension Board.

Principle		Full Compliance	Comments
<b>Structure</b>			
A	The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing council.	Yes	<p>Scottish Borders Council acts as administering authority for the Pension Fund and delegates its responsibilities as Scheme Manager to the <b>Pension Fund Committee</b> (the Committee).</p> <p>The Committee comprises of 7 elected members.</p> <p>The Council's Scheme of Administration sets out the Committee's remit.</p>
B	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	Yes	<p>The <b>Pensions Board</b> (the Board) formalises the involvement of the employers and trade unions representing the membership.</p> <p>The Fund's Board has 8 members, 4 employer representatives and 4 trade union representatives covering all pension fund members.</p> <p>The Board constitution is in line with the regulations, a copy of which is included in the Fund's Governance Policy and Compliance Statement.</p> <p>The Board meets jointly with the Committee and the Board Constitution and the Scheme of Administration set out how disputes between the two bodies should be resolved.</p> <p>The <b>Investment and Performance Sub-Committee</b> (the Sub-Committee) established under the Committee and has remit set out in the Scheme of Administration. This Sub-Committee</p> <p>Membership of the Sub-Committee is comprised of the 7 elected members from the Committee and 2 (non-voting) members from the Board.</p>

Principle		Full Compliance	Comments
C	Where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Yes	Minutes of the Sub-Committee and any other Sub-Groups are submitted to Committee for approval.  2 members from the Board and all members of the Committee are part of the Sub-Committee which has a remit to monitor investment performance.
D	Where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel.	Yes	The Scheme of Administration states that any Sub-Group established will have member(s) of the Committee as part of its membership.
<b>Committee Membership and Representation</b>			
A	All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: (i) employing authorities (including non-scheme employers, e.g. admitted bodies) (ii) scheme members (including deferred and pensioner scheme members), (iii) where appropriate, independent professional observers, and (iv) expert advisors (on an ad-hoc basis)	Yes	The Board and Committee meets jointly ensuring employer and member (trade union) representation at meetings.  The Investment Sub-Committee has two non-voting members from the Board.  The Independent Investment Consultant and key Finance and HR Officers also attend in an advisory capacity.
B	Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Yes	All members of the Committee and Board are covered equally by the Training Policy (as amended annually in June ).  The Board was established by Council on 2 April 2015. Scheme of Administration for the Committee and Board Constitution provide for the joint meetings with equal rights to receive papers and access meetings in the same way.

Principle		Full Compliance	Comments
<b>Selection and role of lay members</b>			
A	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.	Yes	For elected members this is part of Council's Code of Governance along with Member induction programme.  In addition the Fund's Training Policy provides for an annual training needs assessment, and an annual programme of training to be made available to all members of the Committee and Board. All new members of the Committee and Board are also required, within 6 months of joining, to complete the Pension Regulator Trustee Toolkit.
B	At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Yes	Part of Council's Code of Governance requires the declaration of members' interests as a standard agenda item on all committees.
<b>Voting</b>			
A	The policy of individual administrating authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	This is set out in the Council's Scheme of Administration and the Board's Constitution
<b>Training/Facility time/Expenses</b>			
A	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.	Yes	The Members Expenses are managed under the Council's policies. The Training Policy also covers the reimbursement of Training Related Expenses.
B	Where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	Training policy for all members of Pension Fund Board and Committee approved by Board and Committee annually in June.

Principle		Full Compliance	Comments
C	The Administering Authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Yes	Annual Training Plan produced and logs of training are being maintained.
<b>Meetings (frequency/quorum)</b>			
A	An administering authority's main committee or committees meet at least quarterly	Yes	The joint meeting of the Committee and Board are quarterly.
B	An administering authority's secondary committee or panel meet at least twice a year and is synchronised with dates when the main committee sits	Yes	Investment Sub-Committee meets every four months in between main joint Committee/Board meetings.
C	An administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not applicable	Pension Board formally provides for the stakeholders engagement.
<b>Access</b>			
A	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	Yes	Papers sent to all Committee/Board members detailed in Scheme of Administration.

<b>Principle</b>		<b>Full Compliance</b>	<b>Comments</b>
<b>Scope</b>			
A	Administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Yes	The Scheme of Administration sets out that the Committee as having a remit which covers all matters relating the Council's role as the Administering Authority for the Scottish Borders Council Pension Fund, within the terms of all relevant Local Government Pension Scheme legislation and the requirements of the Pension Regulator.
<b>Publicity</b>			
A	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.	Yes	Scottish Borders Council Pension Fund has a standalone website with all governance documents and fund information. A link is provided to Minutes and Public papers available via Council website.



## GOVERNANCE

### Risk Management Statement

The Fund is committed to a strong control environment to ensure that risks are identified, understood, managed and monitored appropriately.

The Risk Register for the Pension Fund has been developed in line with the Council's approach to risk management and assesses risk using a scoring methodology based on likelihood and impact.

A full risk review was undertaken in June 2017 and subsequent reviews have followed the Council's cycle, as shown below:

Level of risk (Inherent risk score)	Reporting and Review Cycle
<b>RED -Very High (15-25)</b>	3 monthly reviews of action progress throughout the year
<b>AMBER – High (6-12)</b>	6 monthly review
<b>GREEN – Low (1-5)</b>	Annual review

The headings under which the Council consider risk are set out below and the analysis of the level and number of risks are set out below:

Risk Category	Risk Assessment					
	Before Controls			After Controls		
	Red	Amber	Green	Red	Amber	Green
Asset & Investment	4	6	-	-	7	3
Employer	-	4	-	-	1	3
Resource & Skill	-	5	-	-	2	3
Liquidity	2	4	-	-	3	3
Administrative	-	8	-	-	2	6
Regulatory & Compliance	3	2	-	1	2	2
Reputation	1	4	-	-	2	3
<b>Total Number of Risks</b>	<b>10</b>	<b>33</b>	<b>0</b>	<b>1</b>	<b>19</b>	<b>23</b>

The one risk that remains at red assessment i.e. high risk as at 31 March 2018 are:

- Legislation and other regulatory framework changes impacting on the Fund***

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of the financial affairs of the Scottish Borders Council Pension Fund (the Fund) and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Chief Financial Officer.
- Manage the affairs of the Fund to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the Statement of Accounts of the Fund (in Scotland, the audited accounts must be laid before a meeting of the Authority within two months of receipt of the audit certificate)

### The Chief Financial Officer's responsibilities

The Chief Financial Officer is responsible for the preparation of the Statement of Accounts in accordance with the Local Government Pension Scheme (Administration) (Scotland) Regulations 2014, as updated by Scottish Ministers, the Local Government Pension Scheme Amendment (Scotland) Regulations 2010 (SSI 2010/234) and supporting guidance issued by the Scottish Government.

In preparing this Statement of Accounts, the Chief Financial Officer 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 on Local Authority Accounting

The Chief Financial Officer 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 Scottish Borders Council Pension Fund as at 31 March 2018, and of its income and expenditure for the year ended 31 March 2018.

**Councillor David Parker**  
**Chairman**  
**Pension Fund Committee**

**David Robertson (CPFA)**  
**Chief Financial Officer**  
**Scottish Borders Council**

**25 September 2018**

## STATEMENT OF ACCOUNTS 2017/18 FUND ACCOUNT

2016/17 £'000		2017/18 £'000	Notes
	<b>Dealings with members, employers and others directly involved in the scheme:</b>		
18,373	Contributions	19,365	8
1,074	Transfers in from other pension funds	245	9
<b>19,447</b>		<b>19,610</b>	
(19,986)	Benefits	(21,548)	10,11
(1,690)	Payments To And On Account Of Leavers	(641)	12
<b>(21,676)</b>		<b>(22,189)</b>	
<b>(2,229)</b>	<b>Net Additions/(Withdrawals) from Dealings with Members</b>	<b>(2,579)</b>	
<b>(3,555)</b>	<b>Management expenses</b>	<b>(8,717)</b>	13
	<b>Return on Investments:</b>		
8,292	Investment Income	8,195	14
110,098	Profits and (Losses) on Disposal of Investments and Changes in the Market Value of Investments	33,717	15
(113)	Taxes on Income	(426)	
<b>118,277</b>	<b>Net Return on Investments</b>	<b>41,486</b>	
<b>112,493</b>	<b>Net Increase/(Decrease) in the Fund during the Year</b>	<b>30,190</b>	
541,900	Opening Net Assets of the Scheme	654,393	
<b>654,393</b>	<b>Closing Net Assets of the Scheme</b>	<b>684,583</b>	

## NET ASSETS STATEMENT as at 31 March

2017 £'000		2018 £'000	Notes
	<b>Investment Assets</b>		
257,512	Equities	236,164	17
	<b>Managed Funds:</b>		
32,169	Property	95,449	
105,284	Global Equities	86,029	
74,744	UK Equities- Passive	63,852	
20,379	Bonds	34,622	
42,814	Diversified Fixed Income	64,570	
110,322	Alternatives	81,494	
1,825	Open Ended Investment Contracts	1,650	
	Infrastructure	2,313	
9,665	Cash Deposits	17,805	
<b>654,714</b>	<b>Total Investment Assets</b>	<b>683,948</b>	
1,355	Other Investment Balances	991	
	<b>Current Assets &amp; Liabilities</b>		
251	Contributions due from Employers	204	
172	Other Current Assets	1,373	22
(2,099)	Other Current Liabilities	(1,933)	23
<b>1,186</b>		<b>(356)</b>	
<b>654,393</b>	<b>Net Assets</b>	<b>684,583</b>	

The Fund Account and Net Assets Statement do not show any liability to pay pensions or other benefits in the future. The liability to pay pensions is detailed in the Actuarial Statement in Note 26.

The unaudited accounts were issued on 30 June 2018 and the audited accounts were authorised for issue on 25 September 2018.

**David Robertson CPFA**  
**Chief Financial Officer**  
**25 September 2018**

## NOTES TO THE STATEMENT OF ACCOUNTS

### 1 DESCRIPTION OF THE FUND

#### A) GENERAL

The Scottish Borders Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Scottish Borders Council.

The LGPS scheme is governed by the Public Service Pensions Act 2013. The fund is administered by the Council in accordance with the following secondary legislation:

- The Local Government Pension Scheme (Scotland) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014
- The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010
- The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015

It is a contributory defined benefit pension scheme administered by Scottish Borders Council to provide pensions and other benefits for pensionable employees of Scottish Borders Council and a range of other scheduled and admitted bodies within the Scottish Borders area.

Organisations participating in the Fund include:

- Scheduled Bodies – which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund
- Admitted Bodies – which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation.

#### B) FUNDING

Pensions and other benefits are funded by contributions from employees, employers and investment earnings.

The Pension Fund is subject to a triennial valuation by an independent, qualified Actuary, whose report indicates the required future employer's contributions, which for 2017/18 were based on the valuation undertaken as at the 31 March 2017 as amended by specific changes agreed by the Committee relating to an individual employer. The overall contribution rate was 18% for the Fund as a whole; however employer contribution rates during 2017/18 ranged from 15.5% to 19.8%.

Contributions from active members of the Fund are paid on a tiered basis, the contribution rate being determined by the amount of salary falling into each earnings tier. These rates are made in accordance with the 2008 Regulations and ranged from 5.5% to 12.0% of pensionable pay for the financial year ending 31 March 2018. From 1 April 2015 these contributions will be based on the LGPS Regulations 2014 in line with the updated LGPS Scheme.

## **C) BENEFITS**

Prior to 1 April 2015, pension benefits under the LGPS have been based on final pensionable pay and length of pensionable service as summarised below:

	Service before 1 April 2009	Service after 31 March 2009 until 31 March 2016
<b>Pension</b>	Each year worked is worth 1/80 <sup>th</sup> x final pensionable salary	Each year worked is worth 1/60 <sup>th</sup> x final pensionable salary
<b>Lump Sum</b>	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A one off payment of £12 is paid for each £1 of pension given up.

From the 1 April 2015, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49<sup>th</sup>. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

## **2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

The financial statements summarise the Fund's transactions for the 2017/18 financial year and its position as at the 31 March 2018. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18* (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. In addition, consideration has been given to the *Local Government Pension Scheme Fund Accounts 2016/17 - example accounts and disclosure checklist* published by the Chartered Institute of Public Finance Accountants (CIPFA).

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

## **3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### ***Fund Account***

#### **Accruals Basis**

In accordance with the Code, the Fund's Financial Statements are generally prepared on an accruals basis. The Net Assets Statement does not include liabilities to pay pensions and benefits after the end of the Fund year and the accruals concept is applied accordingly. Receipts and payments in respect of the transfer of benefits from and to other schemes are treated on a cash basis.

### **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 the LGPS Regulations. Individual transfers in/out are accounted for when the member liability is accepted or discharged.

### **Investment Income**

#### **i) Interest income**

Interest is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

#### **ii) Dividend income**

Dividend income is recognised on the date the shares are quoted ex-dividend. Any income not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

#### **iii) Distributions from pooled funds**

Distributions from pooled funds are recognised at the date of issue.

#### **iv) Movement in the net market value of investments**

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

### **Benefits Payable**

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

### **Taxation**

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

### **Administration Expenses**

All administration expenses are accounted for on an accruals basis. Central Support Costs from Scottish Borders Council have been recharged to the Fund on the basis of time spent by staff on the service. The recharge includes overheads apportioned to this activity.

### **Investment Management Expenses**

Fees of the external investment managers and custodian are agreed in the respective mandates or subscription agreements governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

## ***Net Assets Statement***

### **Valuation of Investments**

The values of investments as shown in the net assets statement have been determined as follows:

- Market-quoted investments – Investments listed on recognised Stock Exchanges are valued at the bid price on the closing business day.
- Unquoted investments – Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The

valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement

- Pooled investment vehicles – are valued at bid price on the closing business day.

The processes of the fund managers, who are listed in Note 15, page 38 are subject to external audit and verification and this is reported in their respective assurance reports on internal controls (in accordance with Technical Release AAF 01/06).

### **Foreign Currency Transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments.

### **Derivatives**

The Fund uses derivative financial instruments to manage its exposure to specific risks (in particular currency) arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of the derivative contracts are included in the change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

### **Cash and Cash Equivalents**

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of change in value.

### **Actuarial Present Value of Promised Retirement Benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 26, calculated in line with IAS 19 and relevant actuarial standards.

The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the year. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 27, page 50).

### **Additional Voluntary Contributions (AVCs)**

Additional Voluntary Contributions are invested separately from the main Fund, securing additional benefits on a money purchase basis for those members that have elected to contribute. All AVCs are managed by Standard Life and the value at 31 March 2018 was £1.104m (2016/17 £1.037m). During the year contributions in totalled £0.179m, while payments out of the AVC fund totalled £0.108m. In accordance with regulation 4(2) (b) of the Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 2009 (SI 2009/3093), AVCs are not included in the Pension Fund accounts.

### **Accounting Standards that were issued but not yet adopted.**

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. Four standards have been issued but not yet adopted:

- IFRS 9 (Financial Instruments).
- IFRS 15 (Revenue from Contracts with Customers) (Amendment) (Clarification).



- IAS 12 (Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses) (Amendment).
  - IAS 7 (Statement of Cash Flows; Disclosure Initiative) (Amendment).
- We do not expect any of these to impact on the Pension Fund.

## 4 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICES

### Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2018 was £12.9m.

### Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary (currently Barnett Waddingham), with annual updates in the intervening years. The methodology used is in line with the accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 27 page 50. This estimate is subject to significant variances based on changes to the underlying assumptions.

## 5 PRIOR YEAR ADJUSTMENTS

No prior year adjustments have been made to the accounts.

## 6 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION OF UNCERTAINTY

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

The items in the financial statements at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial Present Value of Promised Retirement Benefits (Note 21)	Estimation of the net liability to pay pensions in the future depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Barnett Waddingham is engaged to provide the Fund with expert advice about the assumptions to be applied.	<p>The effects on the net pension liability of changes in individual assumptions can be measured.</p> <ul style="list-style-type: none"> <li>- A 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £9.2m</li> <li>- A 0.1% increase in the Consumer Price Index assumption for inflation would increase the value of the liabilities by £8.1m</li> <li>- A 0.1% increase in the long-term rate of salary increase would increase value of the liabilities by £1.7m, and</li> </ul>

		- A 0.25% increase in assumed life expectancy would increase the deficit by £3.9m <i>Source – Triennial Valuation 2017</i>
Portfolio of Level 3 assets held	Level 3 assets are those which do not have a observable market data. The valuations are provided by administrators of the funds and are validated by independent administrators. There is however a degree of estimation involved in the valuations.	The total assets held in level 3 £148.7m and include Private Credit, Property, Infrastructure and Alternatives. There is a risk that this investment may be under- or overstated in the accounts.

## 7 EVENTS AFTER THE REPORTING DATE

There are no known events since the 31 March 2018.

## 8 CONTRIBUTIONS RECEIVABLE

2016/17				2017/18		
Employers £'000	Members £'000	Total £'000		Employers £'000	Members £'000	Total £'000
13,627	4,514	18,141	Normal	13,631	4,493	18,124
202	-	202	Special/Pension Fund Strain	1,209	-	1,209
-	30	30	Additional Voluntary	-	32	32
<b>13,829</b>	<b>4,544</b>	<b>18,373</b>	<b>Total</b>	<b>14,840</b>	<b>4,525</b>	<b>19,365</b>

## 9 TRANSFERS IN

There were no group transfers in to the scheme during 2017/18 or 2016/17 and the total of £0.245m (2016/17: 1.074m) represents the total of transfer values in respect of individual members joining the scheme.

## 10 BENEFITS PAYABLE

2016/17 £'000		2017/18 £'000
15,910	Pension Payments	16,794
4,076	Lump Sums/Death Benefits	4,754
<b>19,986</b>		<b>21,548</b>

## 11 ANALYSIS OF CONTRIBUTIONS AND BENEFITS

2016/17			2017/18	
Benefits Payable	Contributions Receivable		Benefits Payable	Contributions Receivable
£'000	£'000		£'000	£'000
18,868	13,684	Scottish Borders Council	20,105	13,317
275	657	Scheduled Bodies	295	746
843	4,032	Admitted Bodies	1,148	5,302
<b>19,986</b>	<b>18,373</b>	<b>Total</b>	<b>21,548</b>	<b>19,365</b>

## 12 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2016/17 £'000		2017/18 £'000
88	Contributions Returned	64
1,602	Individual Transfers to Other schemes	577
<b>1,690</b>		<b>641</b>

## 13 MANAGEMENT EXPENSES

2016/17 £'000		2017/18 £'000
263	Administrative costs	292
3,051	Investment management expenses	8,192
241	Oversight and governance costs	233
<b>3,555</b>	<b>Total</b>	<b>8,717</b>

## 13(a) INVESTMENT MANAGEMENT EXPENSES

2016/17 £'000		2017/18					Total £'000
		Equities £'000	Pooled Invest- ments £'000	Pooled Property £'000	Private Equity £'000	Diversifies Alternatives £'000	
2,878	Management Fees	999	1,459	203	49	1,077	3,787
-	Performance Related Fees	-	75	-	-	-	75
59	Custody Costs	51	5	-	-	9	65
102	Transaction Costs	383	201	3607	-	5	4,196
12	Other Fees	-	-	-	1	68	69
<b>3,051</b>	<b>Total</b>	<b>1,433</b>	<b>1,740</b>	<b>3,810</b>	<b>50</b>	<b>1,159</b>	<b>8,192</b>

The transactions cost include one-off costs of £3.4m incurred during the implementation of the long lease property portfolio.

## 14 INVESTMENT INCOME

2016/17 £'000		2017/18 £'000
7,142	Dividends from equities	4,459
1,133	Income from Pooled Investment Vehicles	3,709
17	Interest on Cash Deposits	27
<b>8,292</b>		<b>8,195</b>

## 15 PROFITS AND (LOSSES) ON DISPOSAL OF INVESTMENTS AND REALISED CURRENCY PROFITS AND LOSSES

2016/17 £'000		2017/18 £'000	
17,514	Realised	79,179	
92,584	Unrealised	(45,462)	
<b>110,098</b>		<b>33,717</b>	

## 16 AUDITOR'S REMUNERATION

In 2017/18 the agreed audit fee for the year was £19,990. There were no other fees during 2017/18 paid to Audit Scotland, the Pension Fund's auditor.

## 17 ANALYSIS OF NET INVESTMENT ASSETS

Market Value at 31 March 2017			Market Value at 31 March 2018			
UK £'000	Overseas £'000	Total £'000		UK £'000	Overseas £'000	Total £'000
			<b>Investment Assets</b>			
53,293	204,219	<b>257,512</b>	Equities	36,673	199,491	<b>236,164</b>
			<b>Managed Funds:</b>			
32,169	-	<b>32,169</b>	Property	95,449	-	<b>95,449</b>
76,569	105,284	<b>181,853</b>	Equities	63,852	86,029	<b>149,881</b>
20,379	-	<b>20,379</b>	Bonds	34,622	-	<b>34,622</b>
-	42,814	<b>42,814</b>	Diversified Fixed Income	-	64,570	<b>64,570</b>
-	110,322	<b>110,322</b>	Alternatives	-	81,494	<b>81,494</b>
-	-	-	Open Ended Investment	1,650	-	<b>1,650</b>
-	-	-	Infrastructure	1,478	835	<b>2,313</b>
-	-	-	Derivative Contracts	-	6	<b>6</b>
8,333	1,332	<b>9,665</b>	Cash Deposits	13,441	4,364	<b>17,805</b>
-	-	-	Investment Income Due	318	928	<b>1,246</b>
-	-	-	Amounts receivable for sales	-	481	<b>481</b>
<b>190,743</b>	<b>463,971</b>	<b>654,714</b>	<b>Total Investment Assets</b>	<b>247,483</b>	<b>438,198</b>	<b>685,681</b>
			<b>Investment Liabilities</b>			
-	-	-	Derivative	-	-	-
			Amounts payable for purchases		(742)	<b>(742)</b>
<b>190,743</b>	<b>463,971</b>	<b>654,714</b>	<b>Net Investment Assets</b>	<b>247,483</b>	<b>437,456</b>	<b>684,939</b>

### Alternative asset portfolio at 31 March 2018

The investment in the alternative asset portfolio, managed by LGT Capital Partners and valued at £49.6m at 31 March 2018, is allocated to the following asset classes: Convertible Bonds, Emerging Markets Debt, High Yield (Bonds), Commodities, Insurance-Linked Securities, Property, GTAA/Global Macro, Event Oriented, Market Neutral, Thematic Opportunities, Infrastructure and Private Equity. £31.8m is also invested in Private Credit with Permira and Partners group.

### Investment Movement Reconciliation

The table below follows the guidance of the standard presentation for the movement in investments.

	Opening Market Value £'000	Purchases & Derivative Payments £'000	Sales & Derivative Receipts £'000	Change to Market value during year £'000	Closing Market Value £'000
Equities	257,512	70,295	(113,166)	21,522	236,163
Pooled Investments	256,634	76,934	(56,422)	5,386	282,532
Pooled Property Investments	32,169	65,318	(1,500)	(538)	95,449
Private Equity	-	2,395	(42)	(40)	2,313
Diversified Alternatives	98,734	-	(50,000)	951	49,685
Derivative Contracts	-	72	(48)	(18)	6
	<b>645,049</b>	215,014	(221,178)	27,263	<b>666,148</b>
<b>Other Investment Balances</b>					
Cash Deposits	9,665			(408)	17,805
Amount receivable for sales	-			2	481
Investment Income due	1355			-	1,246
Spot FX Contract	-			94	-
Amount Payable on Purchase	-			(4)	(743)
<b>Net Investments</b>	<b>656,069</b>			26,947	<b>684,939</b>

### Significant Transactions during the year:

Further implementation of the revised asset allocation approved in December 2016 has resulted in significant movements across the Fund, with the largest single change being the 50% reduction in Diversified Alternatives and the £57m investment in Long Lease property and £31.8 in Private Credit.

### Investments representing more than 5% of Net Assets

The value of the following investments exceeds 5% of the total value of the net assets of the Pension Fund at 31 March 2018. Each of the investments comprises units in a managed fund.

Value as at 31 March 2018	£'000
M&G Alpha Opportunities Fund	69,570
Morgan Stanley Global Brands Fund	86,029
Blackrock – Long Lease property	59,761
LGT Crown SBC Segregated Portfolio	49,685
UBS UK Passive Equities	63,853

## Investments Analysed by Fund Manager

Investment Management was undertaken on behalf of the Fund during the financial year by seven firms of investment managers: UBS Global Asset Management, Baillie Gifford & Co, Morgan Stanley, Harris Associates and M&G, Partners Group, Permira, Blackrock and LGT Capital Partners. The fund has also during 2017/18 made two investments in infrastructure via collaborative working with Lothian Pension Fund. As at 31 March 2018 the market value of the assets under management, broken down by manager and mandate (including cash held within each mandate) was:

31-Mar-17				31-Mar-18	
£'000	%			£'000	%
74,745	11.44	UBS	UK Equities - Passive	63,853	9.3
44,112	6.75	Baillie Gifford	UK Equities	39,975	5.8
151,003	23.12	Baillie Gifford	Global Equities	157,511	23.0
69,221	10.60	Harris	Global Equities	50,877	7.4
105,284	16.12	Morgan Stanley	Managed Fund - Global Equities	86,029	12.6
42,814	6.55	M&G	Managed Fund - Diversified Income	69,570	10.1
20,379	3.12	M&G	Managed Fund - Bonds	34,621	5.1
33,257	5.09	UBS	Property	36,617	5.4
		Blackrock	Managed Fund – Long Lease property	59,761	8.7
98,734	15.12	LGT	Managed Fund - Alternatives	49,685	7.3
11,588	1.77	Partners Group	Managed Fund – Private Credit	15,969	2.3
		Permira	Managed Fund – Private Credit	15,840	2.3
		KKR & Infared	Managed Fund – Infrastructure	3,811	0.6
2,070	0.32	Internal	Internally Managed Cash & Investments	820	0.1
<b>653,207</b>	<b>100.00</b>			<b>684,939</b>	<b>100.0</b>

The benchmarks and performance targets for each manager as at the 31 March 2018 are contained in Annex 1, Section 4.3, page 65 for information.

## Fund Performance

The total Fund return for the year was 5.65% with a relative return over benchmark of 2.2%.

Over three years the Fund has generated an annualised return of 10.9% per annum, including the currency hedging, with a relative return over benchmark of 1.4% per annum. Further information on this is contained in the Management Commentary – Review of Investment Performance, page 9.

## 18 STOCK LENDING

As at 31 March 2018 no stock had been released to a third party under a stock lending arrangement.

## 19a FAIR VALUE HIERARCHY

Assets and liability valuations are classified into three levels according to quality and reliability of information used to determine fair values.

1. Level 1 are those where fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Products classified as level 1 comprise quoted equities and unit trusts. Prices are quoted at bid prices.
2. Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.
3. Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

Values as at 31 March 2018	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	level 1 £'000	level 2 £000's	level 3 £000's	£000's
Designated as fair value through fund account	481,572	35,852	148,725	666,149
Loans & receivables	9,543	9,975	16	19,534
Financial liabilities at fair value through fund account	-	(744)	-	(744)
<b>Net Investment Assets</b>	<b>491,115</b>	<b>45,083</b>	<b>148,741</b>	<b>684,939</b>

Values as at 31 March 2017	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	level 1 £'000	level 2 £000's	level 3 £000's	£000's
Designated as fair value through fund account	494,027	34,427	116,547	645,001
Loans & receivables	6,099	5,015	38	11,152
Financial liabilities at fair value through fund account	-	(1,490)	-	(1,490)
<b>Net Investment Assets</b>	<b>500,126</b>	<b>37,952</b>	<b>116,585</b>	<b>654,663</b>

## 19b FAIR VALUE TRANSFERS & RECONCILIATIONS

	Market Value 1 April 2017 £'000	Transfers into level 3 £'000	Purchases during year & derivative payments £'000	Sales during the year and derivative receipts £'000	Unrealised gains/ (losses) £'000	Realised gains/ (losses) £'000	Market Value 31 March 2018 £'000
Private Credit	11,588	-	22,397	(3,239)	1,064	-	31,810
Alternatives	98,734	-	-	(50,000)	(8,898)	9,848	49,684
Property	3,171		63,894	-	(2,147)		64,918
Private Equity	3,054	(1,882)	-	-	(1,171)	-	1
Infrastructure			2,394	(42)	(39)	(1)	2,312
<b>Total</b>	<b>116,547</b>	<b>(1,882)</b>	<b>88,685</b>	<b>(53,281)</b>	<b>(11,191)</b>	<b>9,847</b>	<b>148,725</b>

Transfers to level 3 reflect the investment into Private Credit following the implementation of the revised Investment Strategy.

Sales during the year reflect the implementation of the revised Investment Strategy.

### SENSITIVITY OF ASSETS VALUED AT LEVEL 3

Having considered historical data and current market trends, and consulted with independent advisors, the fund has determined that the valuation methods described above are likely to be accurate within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2018.

	Assessed valuation range (+/-)	Value at 31 March 2018 £'000	Value on increase £'000	Value on decrease £'000
Private Credit	4.6%	31,810	34,991	28,629
Alternatives	22.0%	49,684	60,616	38,754
Property	8.0%	64,918	70,111	59,725
Private Equity	12.0%	1	1	1
Infrastructure	12.0%	2,312	2,589	2,035
<b>Total</b>		<b>148,725</b>	<b>168,308</b>	<b>129,144</b>



## 20 CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amount of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the account period.

31 March 2017				31 March 2018		
Fair value through profit & loss	Loans & Receivables	Financial Liabilities at amortised cost		Fair value through profit & loss	Loans & Receivables	Financial Liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
			<b>Financial assets</b>			
257,512			Equities	236,163		
256,635			Pooled Investments	282,532		
32,169			Pooled Property Investments	95,449		
			Infrastructure	2,313		
98,733			Diversified Alternatives	49,685		
			Derivative Contract	8		
	9,665		Cash		17,807	
170			Other Investment balances	1,246		
104			Debtors	481		
<b>645,323</b>	<b>9,665</b>	<b>-</b>		<b>667,877</b>	<b>17,807</b>	
			<b>Financial Liabilities</b>			
			Derivative Contract	(2)		
			Other investment balances			
		(325)	Creditors			(743)
-	-	<b>(325)</b>		<b>(2)</b>	<b>-</b>	<b>(743)</b>
<b>645,323</b>	<b>9,665</b>	<b>(325)</b>	<b>Total</b>	<b>667,875</b>	<b>17,807</b>	<b>(743)</b>
	<b>654,663</b>				<b>684,939</b>	

### NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2017 £000		31 March 2018 £000
	<b>Financial assets</b>	
91,905	Designated at fair value through profit & loss	28,341
2,443	Loans & receivables	96
	<b>Financial Liabilities</b>	
-	Fair value through profit & Loss	(11)
-	Financial liabilities at amortised costs	(411)
<b>94,348</b>	<b>Total</b>	<b>28,015</b>

The Pension Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

## **21 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 Fund Committee. A risk register for the Fund has been established to identify and analyse the risks that the Fund faces and the key messages from this process are covered in the Risk Management Statement on page 24. The Market Risk and Credit Risk aspects below come under the risk category of Assets and Investment in the Risk Register, whilst Liquidity Risk is a separate category of risk.

In addition, the Funding Strategy Statement and Statement of Investment Principles address risk management considerations as they apply to the particular objectives of each document.

### **A) 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 Consultants undertake appropriate monitoring of market conditions and benchmark analysis.

#### **(i) Other Price Risk**

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

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

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

## Other Price Risk – Sensitivity Analysis

In consultation with the Fund's independent provider of performance and analytical data it has been determined that the following movements in market price risk are reasonably possible for this reporting period.

Asset Type	Potential Market Movement +/- (% p.a.)
UK Equities	20.2
Global Pooled Equities	20.5
UK Bonds	11.0
Property	9.9
Alternatives	14.5
Cash	1.0

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price could have been as follows:

Asset Type	Value as at 31 Mar 18 £'000	+/- % Change*	Value on Increase £'000	Value on Decrease £'000
UK Equities	103,878	20.2	124,844	82,913
Global Equities	294,417	20.5	354,773	234,062
UK Bonds	34,621	11.0	38,413	30,830
Property	96,378	9.9	105,919	86,837
Alternatives	154,876	14.5	177,097	132,654
Cash	768	1.0	776	761
<b>Total Assets Exc. Currency Hedge</b>	<b>684,939</b>		<b>801,822</b>	<b>568,057</b>

\*The percentage change for total assets includes the impact of correlation across asset classes.

## (ii) Interest Rate Risk

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 Consultants, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2018 is set out below and includes investment and operational cash balances. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	At 31 March 2017 £'000	At 31 March 2018 £'000
Cash and Cash Equivalents	9,665	17,807
Fixed Interest Securities	63,193	-
	<b>72,858</b>	<b>17,807</b>

### Interest rate risk sensitivity analysis

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 analysis that follows 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	Value as at 31 Mar 18 £'000	Effect on Asset Values	
		Favourable Rate Move + 100 BPS £'000	Unfavourable Rate Move -100 BPS £'000
Cash and Cash Equivalents	17,807	178	(178)

### (iii) 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 is invested in equities overseas that are denominated in currencies other than £UK.

The following table summarises the Fund's currency exposure at 31 March 2018:

Currency exposure by asset type	As 31 March 2017 £'000	As 31 March 2018 £'000
Overseas Equities	309,504	285,519
Diversified Bonds	42,814	64,570
Alternatives	110,322	49,685
Cash - Foreign Currency	1,332	4,363
<b>Total</b>	<b>463,972</b>	<b>404,137</b>

## Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with KPMG the likely volatility associated with foreign exchange movements on an individual currency basis is shown on the table on the following page. 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’.

Currency	Value as at 31 Mar 18 £'000	+/- % Change	Value on Increase £'000	Value on Decrease £'000
Australian Dollar	752	11.92	842	663
Brazilian Real	2,794	17.46	3,282	2,306
Canadian Dollar	1,657	10.18	1,826	1,489
Chinese Yuan	835	10.35	922	749
Danish Krone	1,939	9.27	2,119	1,760
EURO *	42,363	9.30	46,302	38,423
Hong Kong Dollar	4,239	10.34	4,677	3,800
Japanese Yen *	13,066	14.89	15,011	11,121
Mexican Peso	1,171	13.75	1,332	1,010
Norwegian Krone	1,282	11.62	1,430	1,133
South African Rand	6,799	17.13	7,964	5,635
South Korean Won	42	14.18	48	36
Swedish Krona	2,867	11.48	3,196	2,538
Swiss Franc	13,364	12.17	14,990	11,737
Taiwan Dollar	434	10.04	478	391
US Dollar	153,533	10.62	169,840	137,226
<b>Total Currency *</b>	<b>247,137</b>		<b>274,259</b>	<b>220,017</b>

\* The % change for Total Currency includes the impact of correlation across the underlying currencies.

## B) 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 Fund’s 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 is separately mentioned within the Council’s Annual Treasury Strategy and this document sets out the Fund’s 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 Council’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 Fund’s cash holding under its internal treasury management arrangements at 31 March 2018, including current account cash, was £0.64m (31 March 2017: £3.53m). This was held with the following institutions:

	Rating	Balance at 31 March 2017 £'000	Balance at 31 March 2018 £'000
<b>Money Market Accounts</b>			
Aberdeen	AAA	505	5
Standard Life	AAA	505	5
Blackrock	AAA	505	5
Federated	AAA	505	5
<b>Bank Current Accounts</b>			
Bank of Scotland	A	1,507	620
<b>Total</b>		<b>3,527</b>	<b>640</b>

### C) LIQUIDITY RISK

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

The Council has immediate access to its internally managed Pension Fund cash holdings through use of instant access accounts or money market funds.

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. As at 31 March 2018, the Fund's only illiquid assets under this definition are some of the Property fund of funds holdings which are only tradable in the secondary market.

## 22 CURRENT ASSETS

Current Assets	As 31 March 2017 £'000	As 31 March 2018 £'000
Transfer value receivable (joiners)	68	53
Sundry Debtors	104	1,320
Prepayments	-	-
<b>Total</b>	<b>172</b>	<b>1,373</b>

Analysis of Debtors	As 31 March 2017 £'000	As 31 March 2018 £'000
Central government bodies	17	21
Other local authorities	132	1,086
NHS bodies	-	-
Public corporation & trading funds	-	-
Other entities & individuals	23	266
<b>Total</b>	<b>172</b>	<b>1,373</b>

## 23 CURRENT LIABILITIES

Current Liabilities	As 31 March 2017 £'000	As 31 March 2018 £'000
Transfer value payable (joiners)	497	93
Sundry Creditors	1,138	1,500
Benefits payable	464	340
<b>Total</b>	<b>2,099</b>	<b>1,933</b>

Analysis of Creditors	As 31 March 2017 £'000	As 31 March 2018 £'000
Central government bodies	-	-
Other local authorities	211	
NHS bodies	12	75
Public corporation & trading funds	-	-
Other entities & individuals	1,876	1,858
<b>Total</b>	<b>2,099</b>	<b>1,933</b>

## 24 RELATED PARTY TRANSACTIONS

During the year, the Pension Fund had an average balance of £1.98m (2017: £2.86m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.004m (2017: £0.006m). The Council charged the Pension Fund £0.359m in respect of expenses incurred in administering the Fund. There are no additional related party transactions that require to be disclosed. The Pension Fund balance due from Scottish Borders Council to the Pension Fund at the balance sheet date and disclosed in the net assets statement was as follows:

As at 31 March	2017 £'000	2018 £'000
Due (to)/from Scottish Borders Council	104	1,037

### Governance

All members of the Pension Fund Committee were active member of the pension fund during 2017/18. None of the Pension Fund Committee were in receipt of pension benefits from the Fund.

## 25 KEY MANAGEMENT PERSONNEL

The key management personnel of the fund is Scottish Borders Council Chief Financial Officer. Total remuneration payable is set out below

31 March 2017 £000's		31 March 2018 £000's
86	Short-term benefits	87
-	Post-employment benefits	-
2	Other long-term benefits	2
-	Termination benefits	-
-	Share-base payments	-
<b>88</b>	<b>Total</b>	<b>89</b>

The figures above reflect the full remuneration as reported in Scottish Borders Council Accounts. The Pension Fund is recharged 10% of the above post.

## 26 FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2014, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period.

The Actuarial Valuation assesses the health of the fund and provides a check that the funding strategy and assumptions used are appropriate.

### The Funding Strategy Statement

The latest Funding Strategy Statement (FSS) (see Annex 1) was approved by the Pension Fund Committee on 14 June 2018 and a copy of this document can be found at:

[www.scotborders.gov.uk/pensions](http://www.scotborders.gov.uk/pensions). Key elements of the FSS are the Funding Objectives and Funding Strategy for the Pension Fund and these have been extracted and included below:

#### Funding Objectives (Section 1, page 2 of FSS)

To:

- set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund
- build up the required assets in such a way that produces levels of employer contribution that are as stable as possible, with consideration of the long-term cost efficiency objective;
- ensure effective and efficient management of employers' liabilities; and
- allow the return from investments to be maximized within reasonable risk parameters

#### Funding Strategy (Section 5, page 5 of FSS)

The funding strategy seeks to achieve (via employee and employer contributions and investment income) two key objectives:

- A funding level of 100%, as assessed by the Fund's appointed actuary, triennially, in accordance with the Regulations;



- Ensuring the solvency of the Fund and the long-term cost efficiency of the Scheme; and
- As stable an employer contribution rate as is practical.

### **2017 Actuarial Valuation**

The 2017 Actuarial Valuation was undertaken for the Fund as at 31 March 2017 (the Executive report can be seen in Annex 2 with the full report available on the Scottish Borders Council Pension Fund website) and was completed during the financial year 2017/18 by the Fund's actuaries, Barnett Waddingham. It has been undertaken in accordance with Regulation 60 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2014.

The funding level of the Fund as at the 31 March 2017 was 114%, compared to the 31 March 2014 valuation of 101% and this corresponded to a surplus of £80.64m. The following table summarises the funding position.

<b>Past Service Funding Position – Scottish Borders Council Pension Fund</b>		
<b>Valuation Date as at 31 March</b>	<b>2014 £m</b>	<b>2017 £m</b>
Value of the Scheme Liabilities	(487.6)	(653.9)
Smoothed Asset Value	490.5	573.3
<b>Surplus/ (Deficit)</b>	<b>2.9</b>	<b>80.6</b>
<b>Funding Level</b>	<b>101%</b>	<b>114%</b>

The value of the scheme liabilities is an estimate of the assets required to pay pensions over the coming years. The smoothed asset value is the contributions received from employers and members as well as investment returns. The surplus or deficit on the Fund is the difference between the two.

The next detailed actuarial valuation will be carried out for the Fund as at 31<sup>st</sup> March 2020.

### **Valuation Assumptions**

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service.

## Financial Assumptions

The principal assumptions used in the last triennial valuation (to March 2017) were:

	2014 Valuation		2017 Valuation	
	% p.a.	Real % p.a.	% p.a.	Real % p.a.
Investment Return				
Equities	5.9	2.6	7.5	4.7
Absolute return funds	5.9	2.6	5.5	2.7
Gilts	3.6	-	1.9	-0.9
Bonds	4.1	0.5	2.6	-0.2
Property	5.5	1.9	6.3	3.5
Multi Asset Fund/Infrastructure	5.9	2.3	7.2	4.4
Retail Price Inflation (RPI)	3.6	-	3.7	-
Pay Increases – Long Term	4.6	2.0	3.8	1.0
Pension Increases	2.8	(0.8)	2.8	0.0
Discount Rate	5.5	1.9	5.0	2.2

## Mortality assumptions

The mortality assumptions used and applied to all members are those underlying the S2PA mortality tables allowing for Continuous Mortality Investigation (CMI) 2016 projections, with a long term rate of improvement 1.5%.

## Commutation Assumption

It is assumed that future retirees will commute pension to provide a lump sum of 50% of the maximum allowed under HMRC rules.

## Employer Contribution Rates

As part of the 2017 Actuarial Valuation, the actuary certified the primary rate at 20.6%, however in agreement with the Actuary a secondary rate of -2.6% has been deducted to allow the common rate of contribution as 18% of payroll for the next three years. The secondary rate will reduce the surplus of £80.6m over 53 years.

Individual and pooled employers' rates vary from the common contribution rate (18.0%) depending on the demographic and actuarial factors particular to each employer. The table below highlights the key employer contribution rates (i.e. the rate which employers in the Fund pay):

Employers Contribution Grouping	Employers Contribution Rate	
	2017/18	2018/19
Scottish Borders Council Common Pool	18.0%	18.0%
Leisure Trusts Common Pool *	15.5%	-
Scottish Borders Housing Association – Individual	19.0%	20.3%
CGI	19.8%	21.1%

\* The Leisure Trust Common Pool rate was made up with BSLT and Jedburgh Leisure Trust. The amalgamation of BSLT and the Council Culture services into LIVE Borders in 2016 however resulted in LIVE Borders revised rate of 18%. Following the 2017 valuation Jedburgh Leisure Trust also returned to the Common Pool. This leaves SBHA and CGI out with the Common Pool due to their closed status.

## 27 ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the Triennial Funding Valuation, the Fund's actuary also undertakes a valuation of pension fund liabilities (actuarial present value of promised retirement benefits) at the accounting date as required by International Accounting Standard (IAS) 26, and calculated in line with IAS 19 assumptions.

This uses the same base data as the Triennial Funding Valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund employer contribution rates and the Fund Account does not take account of liabilities to pay pensions and other benefits in the future.

The actuarial present values, calculated in line with IAS 19, are set out in the table below.

	Net Pension Asset/(Liability) as at:		
	31 March 2016 £m	31 March 2017 £m	31 March 2018 £m
Present value of the defined benefit obligations	(696.9)	<b>(906.9)</b>	<b>(843.9)</b>
Fair Value of Fund Assets* (bid value)	542.7	<b>652.7</b>	<b>685.2</b>
Net Asset/(Liability)	(154.2)	<b>(254.2)</b>	<b>(158.7)</b>

This figure is used for statutory accounting purposes by the Fund and complies with the requirements of IAS 26. The assumptions underlying the figure are detailed below:

	At 31 March 2016	At 31 March 2017	At 31 March 2018
	% p.a.	% p.a.	% p.a.
Discount Rate	3.7	2.7	<b>2.55</b>
Retail Price Inflation (RPI)	3.3	2.7	<b>3.7</b>
Pay Increases – Long Term	4.2	3.7	<b>3.3</b>
Pension Increases	2.4	2.7	<b>2.3</b>

As noted above, liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2017 Triennial Funding Valuation (see Note 20) because IAS 19 stipulates a discount rate, rather than a rate that reflects the market rate for investment returns on the Fund's assets.

## 28 CONTINGENT ASSETS

One of the admitted body employers in the Pension Fund holds an insurance bond to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

## 29 POST BALANCE SHEET EVENTS

The unaudited Statement of Accounts was issued by the Chief Financial Officer on 26 June 2018. Events taking place after this date are not reflected in the financial statements or notes. There have been no material event since the date of the Net Asset Statement which have required the figures in the financial statements and notes to be adjusted.

The Fund has received updated Private equity/Infrastructure statements for 31 March 2018. The variance between the valuation included in the accounts and the updated statements amount to £0.9m. The amount is not material and therefore no adjustment has been made in the Net Asset Statement or notes.

## INDEPENDENT AUDITOR'S REPORT

### Independent auditor's report

#### **Independent auditor's report to the members of Scottish Borders Council as administering authority for Scottish Borders Council Pension Fund and the Accounts Commission**

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

#### **Report on the audit of the annual report and accounts**

##### **Opinion on financial statements**

I certify that I have audited the annual accounts in the annual report and annual accounts of Scottish Borders Council Pension Fund for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973. The annual accounts comprise the Fund Account, the Net Assets Statement and notes to the statement of accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 2017/18 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the financial transactions of the fund during the year ended 31 March 2018 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

##### **Basis of opinion**

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Annual Accounts section of my report. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the annual accounts in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

##### **Conclusions relating to going concern basis of accounting**

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

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

### **Responsibilities of the Chief Financial Officer and the Scottish Borders Council Audit and Scrutiny Committee for the annual accounts**

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer is responsible for the preparation of annual accounts that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Chief Financial Officer is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Scottish Borders Council Audit and Scrutiny Committee is responsible for overseeing the financial reporting process.

### **Auditor's responsibilities for the audit of the annual accounts**

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

A further description of the auditor's responsibilities for the audit of the annual accounts is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

### **Other information in the annual accounts**

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

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

## Report on other requirements

### Opinion matters prescribed by the Accounts Commission

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

- the information given in the Management Commentary for the financial year for which the annual accounts are prepared is consistent with the annual accounts and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the annual accounts are prepared is consistent with the annual accounts and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the annual accounts are prepared is consistent with the annual accounts and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2014.

### Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Gillian Woolman MA FCA CPFA

Audit Scotland  
102 West Port  
Edinburgh  
EH3 9DN

29 September 2018



**SCOTTISH BORDERS COUNCIL  
PENSION FUND  
STATEMENT OF  
INVESTMENT PRINCIPLES  
2017**



## Introduction

This is the Statement of Investment Principles (the SIP) adopted by the Scottish Borders Council to govern the investment operations of its Pension Fund. It covers the matters required by regulations together with certain other aspects of investment management, which it is felt should be included for the sake of completeness.

This version of the SIP was agreed by the Pension Fund Committee (the Committee) on 22 June 2017.

### 1. The statutory requirements concerning the SIP

- 1.1 The Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 1998 as amended require administering authorities to prepare, maintain and publish a Statement of Investment Principles (SIP) that includes the policy on:
  - The types of investment to be held
  - The balance between different types of investment
  - The risk considerations, including the ways in which risks are to be measured and managed<sup>1</sup>
  - The expected return on investments
  - Realising of investments
  - Taking account of social, environmental or ethical considerations in investments
  - Exercising the rights (including voting rights) attaching to investments
  - Stock Lending<sup>1</sup>
- 1.2 The Statement must also state the extent of compliance with guidance given by the Scottish Ministers. This guidance requires reference to the 6 principles of investment practice published by CIPFA in December 2009.<sup>1</sup>

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<sup>1</sup> “Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles (2009)”

## 2. Governance

- 2.1 Scottish Borders Council (the Council) is the Administering Authority for the Local Government Pension Scheme (LGPS) set up for the Scottish Borders geographic area, the Scottish Borders Council Pension Fund (the Fund).
- 2.2 The Council has delegated its pension's functions to the **Pension Fund Committee** (the Committee) which has ultimate responsibility for making decisions in relation to the maintenance and revision of the SIP, and approving decisions in relation to changes in fund manager, investment adviser or custodian.
- 2.3 The **Pension Fund Investment and Performance Sub-Committee** (the Investment Sub-Committee) is a sub-committee established to undertake specific investment monitoring responsibilities as set out in **Appendix 1**.
- 2.4 The **Pension Board** (the Board) is established under the provisions of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 with the remit to securing the Fund's compliance with the Regulatory Framework. A constitution has been agreed for the Board with the responsibilities set out in **Appendix 2**.
- 2.5 The SIP sets out the principles governing decisions about the investments of the Fund. The Fund recognises the importance of corporate governance and responsibility in ensuring the long term financial performance of the organisations in which they invest.
- 2.6 The SIP forms part of a governance framework that includes:
  - The Statutory Regulations
  - The Pension Fund Committee
  - The Pension Fund Investment & Performance Sub-Committee
  - The Pension Board
  - The Fund's Advisers
  - The Funding Strategy Statement<sup>22</sup>and
  - The Governance Policy and Compliance Statement<sup>2</sup>.
- 2.7 Underlying the SIP and the Council's related decision making processes is the requirement that the Council must obtain and consider "proper advice" and this is provided by Council Officers and expert, professional advisers under contract to the Council.

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<sup>2</sup> Funding Strategy Statement and Governance Policy and Compliance Statement can be found at [www.scotborders.gov.uk/pensions](http://www.scotborders.gov.uk/pensions)

### 3. The Fund's Objectives

#### Primary Aim

3.1 The primary aim of the Fund is:

*“To provide for members’ pension and lump sum benefits on their retirement or for their dependants’ benefits on death before or after retirement, on a defined benefits basis.”*

In order that this primary objective can be achieved, the following funding and investment objectives have been agreed.

#### Funding Objectives

3.2 The funding objectives are set out in the Funding Strategy Statement (the FSS) and are as follows:

- i To set levels of employer contribution that will build up a Fund of assets that will be sufficient to meet all future benefit payments from the Fund.
- ii To build up the required assets in a way that produces employer contributions, which are as stable as possible.

3.3 The funding objectives must complement the Fund's investment strategy so that the appropriate amount of risk is adopted in the pursuit of investment returns.

## 4. Investment Policy

### Investment Strategy

- 4.1 The Committee sets an Investment Strategy for the Fund, taking into account the funding status and liabilities. The strategy is subject to regular review and, as appropriate, asset liability modelling techniques are used to assist in these reviews.
- 4.2 The Investment Strategy's primary aim is to deliver the funding objective in Section 3.2 ii) above which is to build up the required assets in a way that produces stable employer contributions to the Fund.
- 4.3 The Committee in pursuing this primary aim will, as far as is practicable and as an aid to long-term stability, seek to maintain a positive ratio of assets to liabilities at each actuarial valuation.
- 4.4 The Funding Strategy Statement (FSS) states that the discount rate that is adopted in the actuarial valuation of the Fund's liabilities is derived by considering the expected return from the underlying investment strategy but makes no allowance for additional returns from active management. The strategic benchmark that is established for the Fund's investment strategy is therefore expected to produce a return over the long term in excess of the investment return assumed in the triennial Actuarial Valuations.
- 4.5 The Fund presently has a marginal positive cash flow and currently has more actively contributing members compared to members receiving pensions. It however also has 2,652 deferred members which are currently neither contributing nor receiving – as a result it is not mature and therefore need not, at present, provide a high level of annual income to meet the cost of benefits. It will therefore continue to seek capital growth to meet future liabilities.
- 4.6 The Investment Strategy for the Fund has been developed with the support of external investment consultants who have supported the Committee in their decision making process. The approved investment strategy is presented as a strategic asset allocation which sets benchmark percentage allocations across the various asset classes.
- 4.7 In establishing strategic asset allocations the Committee recognises that it is not possible at reasonable cost to consistently hold investments of a type that maintains an exact match with the Fund's liabilities to pensioners and other members.
- 4.8 The Committee undertook a full review exercise in 2013, taking into account the funding status and liabilities and using asset liability modelling. A further review was again undertaken in August 2016 resulting in the revised strategy contained in this SIP. The Committee will review the strategy, if appropriate, at least once per three year period.
- 4.9 **Appendix 3** contains a summary of the strategic asset allocation benchmark for the Fund.

### Investment Management Arrangements

- 4.10 The Investment Strategy is implemented by employing external investment managers currently UBS Global Asset Management (UBS), LGT Partners (LGT), Morgan Stanley Investment Management (Morgan Stanley), M&G Investments (M&G), Harris Associates (Harris), Partners Group, Blackrock, Permira and Baillie Gifford, as appropriate.
- 4.11 The objective is to employ a combination of managers and investment mandates that will deliver, in aggregate, the target performance for the Fund.

- 4.12 The Committee sets the target for the Fund and this overall target is expressed as an out performance against the Fund's strategic benchmark which is a composite of the various benchmarks for the different managers and asset allocations.
- 4.13 The pursuit of a target implies active management of a substantial part of the Fund and the acceptance of a degree of risk in managing investments.
- 4.14 The Fund's current **total target is to generate a return of at least 2.7% above CPI inflation** assumed as the real discount rate at the actuarial valuation as at 31 March 2014.
- 4.15 The investment managers are responsible for the selection of individual holdings within each type of investment category within the parameters set out in their agreement which includes the need to achieve targets which are measured.
- 4.16 The Fund holds some temporary cash on short term deposit or in money market funds, which are managed by Finance staff.
- 4.17 The Committee determines the distribution of the Fund for investment purposes from time to time.
- 4.18 **Appendix 4** contains details of the investment arrangements that are in place at the 31 March 2015.

## **Risk Measurement and Management**

### **4.19 *Asset Allocation***

- i The key investment risks are recognised as arising from asset allocation. The investment strategy of lowest funding risk would be 100% investment in duration, matched index-linked government bonds, i.e. the most natural "matching" asset for pensions liabilities. However, this is not necessarily the most cost-effective approach.
- ii In the long-term, investment in assets of calculated risk is likely to produce higher returns and therefore reduce the overall cost of funding the pension liabilities. Following this rationale, the Fund deliberately runs an unmatched strategy which is heavily biased towards "growth" assets such as equities, property and other alternative assets.
- iii The asset allocation risks are assessed triennially, typically using asset liability modelling techniques following the actuarial valuation of the Fund, after which the Committee take advice on the continued appropriateness of the existing investment strategy.
- iv As these risks were assessed as part of the asset and liability modelling exercise undertaken in 2016 by the Fund's investment consultant, it is envisaged that this will next be done during 2018/19 following the actuarial valuation as at 31 March 2017.
- v The retrospective impact of investment risk on the Fund's funding position is monitored on a quarterly basis via investment reports prepared by the Fund's investment managers, the Fund's performance monitoring company and the investment consultants.

### **4.20 *Investment Managers***

- i To reduce the risk that the Fund significantly underperforms, performance and risk targets and controls are set for each manager relative to their benchmark. These are set out in formal Investment Management Agreements or Subscription Agreements with each of the appointed managers.

- ii The managers are required to provide data monthly and report quarterly on portfolio management issues. This information is reported to the Committee on a quarterly basis. The monitoring includes assessing their achievement of performance that meets or outperforms their individual targets.
- iii The managers must also provide data to Northern Trust, the company chosen by the Committee to provide it with independent performance comparisons.
- iv The managers are also required to attend at the Pension Fund Investment and Performance Sub-Committee at least once a year to give an account of their activities and performance.
- v The managers must comply with all lawful instructions given to them by the Committee (in accordance with the mandates agreed) and their contracts can be terminated at no more than one month's notice.
- vi All manager mandates will always impose the investment restrictions contained in the Local Government Pension Scheme Regulations.

#### 4.21 *Proper Advice*

- i The Committee is required to secure proper advice to ensure that their decision making processes are appropriately informed. The current advisers to the Fund are:

Investment Consultant	KPMG
Actuaries	Barnett Waddingham

#### 4.22 *Concentration Risk and Diversification*

- i Concentration risk arises from the failure of any investments which constituted a significant proportion of the Fund's assets. In order to reduce this risk a spread of assets is held. The diversification is both within, and across, the major asset classes and will be enhanced through investment in alternative asset classes.
- ii Diversification is used to manage the risk involved in pursuing an active management approach to a substantial part of the fund.
- iii This is achieved through diversification of investment over various types of asset, by the use of at least two managers with different styles or specialism, and by requiring a wide range of individual stocks and shares to be held.

#### 4.23 *Transition Management Arrangements*

- i A specialist transition manager, currently State Street Global Markets (State Street), will be employed to manage complex changes in investment strategy and/or manager(s).
- ii The use of these specialists is intended to reduce the cost of transition to the Fund and minimise the overall impact on the Fund value at the point of transition.

#### 4.24 *Currency Risk*

- i During 2016 the Committee approved the full removal of the Passive Currency Hedging mandate. As long term investors the overseas currency exposure will act as an offset against losses in severely stressed market environments.

#### 4.25 *Safe Keeping of Assets*

- i The services of a global custodian, currently Northern Trust, are employed to ensure the safeguarding of the Fund's assets and ensure that all associated income is collected.
- ii The Fund is provided with statements of assets, cashflow and transactions, which Finance staff reconcile to data reported by the managers.
- iii The custodian also has a responsibility for keeping the Council informed of any concerns arising in its dealings with the investment managers.
- iv Investment in pooled funds managed by UBS, Morgan Stanley, M&G, Partners Group, Blackrock, Permira and LGT gives the Fund a right to the cash value of the units rather than to the underlying assets. The managers of the pooled funds, are responsible for the appointment and monitoring of the custodian of the pooled funds' assets.

#### 4.26 *Cashflow Risk and Realisation of Investments/Liquidity*

- i The overall liquidity of the Fund is considered in the light of potential demands for cash. 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.
- ii The majority of the Fund's investments are quoted on major stock markets and may be realised relatively quickly if required.
- iii A small proportion of the Fund's investments, in particular Property and future investments in other alternative assets would take longer to be realised.

## 5. Types of Investment

5.1 The Fund has approval from the Committee to use the following different types of investment and income generating mechanisms to achieve the overall investment objectives:

- Equities (UK, Overseas and Global mandates including direct holdings, Managed Funds, Unit trusts, Investment Trusts, Open Ended Investment Companies)
- Bonds
- Property
- Currency
- Alternative assets such as commodities, hedge funds, infrastructure, emerging market debt, private equity, high yield debt, Private Credit and convertible bonds.
- Cash (including Treasury Bills and Money Market Funds)
- Derivatives and other Managed transactions
- Infrastructure

5.2 Stock Lending is not currently authorised by the Committee for the directly held investments under the custody of its custodian. For the Fund's investments in pooled funds managed by UBS, UBS participate in a stock lending programme where the revenue is reflected in the unit price. UBS AG (the parent company) acts as the principal counterparty so irrespective of the end borrower UBS' counterparty risk is only to UBS AG. Security is provided for the

stock loaned by the borrower transferring ownership of other collateral assets to UBS for the period of the loan.

## 6. Environmental, Social and Corporate Governance Issues

- 6.1 The Committee has an overriding fiduciary duty to maximise investment returns for the benefit of the Fund members. It is aware that in doing so the financial contributions required of Fund employers will be minimised.
- 6.2 The Committee believes that environmental, social and governance issues can affect the financial performance of companies and that it has a responsibility to take these issues seriously and where appropriate, to act upon them.
- 6.3 The Committee considers engagement with companies in which the Fund invests to be the most effective means of understanding and influencing the social, environmental and business policies of those companies. The investment managers for the Fund are therefore encouraged to constructively engage with companies on issues which are consistent with the Fund's fiduciary responsibilities.
- 6.4 The Committee recognises its responsibility to exercise voting rights to ensure transparency and accountability in corporate governance.
- 6.5 The Fund's investment managers maintain close contact with the management of companies in which investments are held or contemplated and subject their affairs to considerable analysis and skilled scrutiny. In recognition of this activity, the Sub-Committee delegates to its managers all voting and other rights attaching to Fund investments.
- 6.6 The investment managers have delegated powers to exercise such rights in the best financial interests of the Fund and would in particular expect them to vote appropriately at company Annual General Meetings (AGMs) and Extraordinary General Meetings (EGMs).
- 6.7 To demonstrate their commitment to ESG Fund Managers are encouraged to sign the United Nations Principles of Responsible Investment (UNPRI) Stewardship Code.
- 6.8 The Committee has, however, drawn the attention of managers to its general concern that the remuneration practices of companies should be patently fair and reasonable. It has asked that managers reflect such concern when voting shares in companies in which the Fund is directly invested. The Committee is content to allow its managers discretion on the voting of in-house pooled fund shares subject to referring any matters relating to the remuneration of Fund managers to it for direction
- 6.9 The key highlights in terms of voting actions taken by investment managers is included as part of the quarterly investment manager report to the Committee its investment consultant.

## 7. Audit responsibilities

- 7.1 The Pension Fund is subject to review by both the Council's external auditors and the Internal Audit team, and comes within the remit of the Council's Audit and Risk Committee.
- 7.2 The external auditors are responsible for reporting on whether the Council's Statement of Accounts gives a true and fair view of the financial position of the Council's Pension Fund, for the year then ended. Their audit report is formally presented to the Council each year. A detailed Annual Report of the Pension Fund is produced in addition and circulated to



employers and other interested parties. This derives information from both audited accounts and unaudited sources of background information.

- 7.3 The Internal Audit team carries out a programme of work designed to re-assure the Chief Executive and Chief Financial Officer that Pension Fund investment systems and records are properly controlled and that Pension Fund assets are safeguarded.

## 8. Compliance with the Myners principles

- 8.1 In October 2008 the Treasury report *Updating the Myners Principles: A Response to Consultation* (October 2008) created the requirement for Local Government Pension Scheme (LGPS) administering authorities to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation.
- 8.2 In December 2009, CIPFA issued *Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles*.
- 8.3 The LGPS regulations require the SIP to contain a statement of compliance with the six principles.
- 8.4 The six principles are:
- i Effective Decision Making
  - ii Clear Objectives
  - iii Risk and Liabilities
  - iv Performance Assessment
  - v Responsible Ownership
  - vi Transparency and Reporting
- 8.5 **Appendix 5** contains this statement of compliance.

## Appendix 1

### Pension Fund Investment and Performance Sub-Committee

The Scheme of Administration for the Council specifies that the following functions shall be referred to the Investment and Performance Sub-Committee:

1. Reviewing the Pension Fund's Statement of Investment Principles.
2. Where appropriate, recommending changes to the Pension Fund Committee in relation to the Statement of Investment Principles.
3. Ensuring appropriate investment management arrangements are in place for monies of the Pension Fund and to review investment manager performance.
4. Overseeing the contractual review of the fund managers and investment adviser(s) and custodian.
5. Where appropriate, making recommendations to the Pension Fund Committee in relation to the appointment or removal of a fund manager, investment adviser or custodian.
6. Overseeing the overall approach to investment risk management and where appropriate recommending changes to the Pension Fund's Risk Register.

### Pension Board

The Council approved the Constitution for the Pension Board (the Board) on 2 April 2015.

1. The Objectives of the Board are as follows:

The Board is the body responsible for assisting the Scheme Manager in relation to:

- i Securing compliance with the regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
- ii securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator; and
- iii such other matters as the regulations may specify .

2. The Board also has the remit to determine the areas they wish to consider including, amongst others:

- d) Reports produced for the Pension Fund Committee;
- e) Seek reports from the Scheme Manager on any aspect of the Fund;
- f) Monitor investments and the investment principles/strategy/guidance;
- g) The Annual Report and Accounts for the Fund;
- h) External voting and engagement provisions in relation to investments;
- i) Pension Fund Administrative Strategy and associated performance;
- j) Actuarial reports and valuations;
- k) Funding Strategy Statement and associated policy; and
- l) Any other matters that the Board deems appropriate within the responsibilities set out in 1 above.

## Appendix 3

### Strategic Asset Allocation

Asset Class	Manager	Strategic Benchmark %	Permitted Range / Tolerance %
<b>UK Equity</b>	UBS <sup>1</sup>	9.0%	
	Baillie Gifford	5.0%	
	<b>Sub Total</b>	<b>14.0%</b>	<b>12% - 16%</b>
<b>Global Equity</b>	Harries Associates	7.0%	
	Baillie Gifford	16.0%	
	Morgan Stanley	10.5%	
	<b>Sub Total</b>	<b>33.5%</b>	<b>30% - 37%</b>
<b>Total Equity</b>		<b>47.5%</b>	<b>42% - 53%</b>
<b>Bonds</b>			
Alpha Opportunities	M&G	10.0%	
Index Linked Gilts		5.0%	
	<b>Total</b>	<b>15.0%</b>	<b>12% - 17%</b>
<b>Alternatives <sup>2</sup></b>			
Multi-Asset Alternatives Fund	LGT Partners	7.5%	
Private Credit	Permira	5.0%	
	Partners Group	5.0%	
Infrastructure		5.0%	
	<b>Total</b>	<b>22.5%</b>	<b>20% - 25%</b>
<b>Property</b>			
Balanced Property	UBS	5.0%	
Long Lease Property	Blackrock	10.0%	
	<b>Total</b>	<b>15.0%</b>	<b>12% - 17%</b>
<b>Cash</b>		0.0%	
<b>Total</b>		<b>100.0%</b>	

**Note:**

<sup>1</sup> This is a passive investment mandate which requires the FTSE All Share index to be tracked.

<sup>2</sup> Alternative assets such as commodities, hedge funds, infrastructure, emerging market debt, private equity, high yield debt and convertible bonds.

## Appendix 4

### Investment Management Arrangements

Asset Class	Manager		Performance Objective (net of fees)	Benchmark Indices Used
<b>UK Equity</b>	UBS	Benchmark Return	+0.0%	FTSE All-Share Index
	Baillie Gifford	Benchmark Return	+1.0%	FTSE All-Share Index
<b>Global Equity</b>	Harries Associates	Benchmark Return	+2.5%	MSCI All Country World Index
	Baillie Gifford	Benchmark Return	+2.5%	MSCI AC World Index
	Morgan Stanley	Benchmark Return	Not Defined	MSCI World Net Index
<b>Bonds</b>				
Alpha Opportunities	M&G *	Benchmark Return	+3.5% - 5%	1 Month LIBOR
Govt Fixed Interest Bonds	M&G	Benchmark Return	+0.75%	FTSE Actuaries UK Conventional Gilts All Stock Index
Corporate Fixed Interest Bonds	M&G *	Benchmark Return	+0.8%	iBoxx Sterling Non-Gilts Index
Index Linked Gilts	TBC	TBC	TBC%	TBC
<b>Multi-Asset Alternatives Fund</b>	LGT Partners	Benchmark Return	+4.0%	LIBOR
	Permira	Benchmark Return	+4.0%	1 month LIBOR (Cash)
	Partners Group	Benchmark Return	+4.0%	1 month LIBOR (cash)
	Infrastructure		+3.5%	RPI
<b>Property</b>	UBS	Benchmark Return	+0.75%	IPD UK PPFI All Balanced Funds Index
	Blackrock	Benchmark Return	+2.5%	RPI

## Statement of Compliance with Myners Principles

This table summarises the principles, best practice guidance as provided by CIPFA and the Fund’s current status in relation to compliance .

Principle	Best Practice Guidance	Fund’s Current Status
<p><b>1. Effective Decision-Making</b></p> <p>Administering authorities should ensure that:</p> <ul style="list-style-type: none"> <li>• decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and</li> <li>• those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</li> </ul> <p><b>1. Effective Decision-Making (contd.)</b></p>	<ul style="list-style-type: none"> <li>• The administering authority should have a designated committee of members responsible for the management of the pension fund and wherever possible appointments to the committee should take account of relevant skills, experience and continuity.</li> <li>• The committee should have terms of reference, and where investment decisions are delegated the process should be recorded, with the roles of members, officers, advisers and managers specified.</li> <li>• The committee should have appropriate skills for, and is run in a way that facilitates, effective decision-making.</li> <li>• There are sufficient internal resources and access to external resources for the administering authorities and Members to make effective decisions.</li> <li>• It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making.</li> </ul>	<p><b>Full Compliance</b></p> <ul style="list-style-type: none"> <li>• The Fund has a designated committee – the Committee - with the experience and skills to take decisions.</li> <li>• The Committee’s terms of reference is contained within the Scheme of Administration for the Council.</li> <li>• The Committee receives training either during meetings or at specific training sessions, including on investment issues.</li> <li>• Induction training is provided for new Members and Officers.</li> <li>• The Committee has an appointed investment consultant to provide specific investment advice.</li> <li>• The Chief Financial Officer and other senior officers provide advice and support to the Sub-Committee</li> <li>• The Investment and Performance Sub-Committee with terms of reference contained within the Scheme of Administration for the Council to enhance the focus on performance monitoring and investment decision making.</li> <li>• The Committee carry out regular reviews of the Fund and compliance with regulations.</li> <li>• The Investment Consultant,</li> </ul>

Principle	Best Practice Guidance	Fund's Current Status
	<ul style="list-style-type: none"> <li>• The committee should obtain proper advice at reasonable intervals from suitably qualified persons.</li> <li>• The Chief Financial Officer should be given responsibility for developing a training plan for committee members.</li> <li>• A business plan should be in place which should include milestones and should review level of resources needed.</li> <li>• Members allowances should be published and reviewed regularly.</li> <li>• Meeting papers should be clear and circulated sufficiently in advance of the meetings.</li> </ul>	<p>Custodian, Actuary, Investment Managers and legal advisers all input into the provision of proper advice. The Investment Adviser attends all meetings of the Committee and Sub-Committee.</p> <ul style="list-style-type: none"> <li>• The Committee's legal advisers and any other relevant parties review any new investment contracts put in place.</li> <li>• There is an approved Training Policy for the Fund and an annual Training Needs Analysis undertaken for all Committee and Board members.</li> <li>• Members' training is the responsibility of the Clerk to the Council with input from the Chief Financial Officer</li> <li>• A business plan was agreed by the Committee on 16 June 2016</li> <li>• Members' Allowances are regularly published as required by the Local Government (Allowances and Expenses) (Scotland) Regulations 2007.</li> <li>• Meeting papers are circulated 7 days in advance of meeting and public papers are published on the Council's internet site.</li> </ul>



Principle	Best Practice Guidance	Fund's Current Status
<p><b>2. Clear Objectives</b></p> <ul style="list-style-type: none"> <li>An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.</li> </ul>	<ul style="list-style-type: none"> <li>The committee should set an overall investment objective considering the fund's liabilities in the context of net cashflow, the funding position and maturity of liabilities.</li> <li>The desirability of asset liability modelling should be considered.</li> <li>Proper advice should be taken where appropriate.</li> <li>Specialist advice should be sought as to how the objective might be expressed as an expected, or required, rate of return.</li> <li>Peer group benchmarks should be avoided.</li> </ul>	<p><b>Full compliance</b></p> <ul style="list-style-type: none"> <li>The Committee makes decisions on the strategy, structure and managers following advice from their investment consultant, and in doing so periodically considers the results of asset liability modelling and appetite for risk of the administering authority and scheme employers to inform the Investment Strategy.</li> <li>The Fund has a scheme specific benchmark. Investment objectives are stated in the Statement of Investment Principles (SIP). The assets are generally managed under individual mandates where the Committee set the investment managers individual mandate objectives and risk parameters.</li> <li>An explicit mandate is in place with the fund managers which include clear time horizons for performance measurement and evaluation.</li> <li>Both short and long-term performance is measured quarterly against scheme specific benchmarks and the fund managers are required to attend twice per year to discuss performance against those indices.</li> <li>The Committee regularly reviews the investment</li> </ul>

Principle	Best Practice Guidance	Fund's Current Status
<p><b>2. Clear Objectives (contd)</b></p>	<ul style="list-style-type: none"> <li>• Appetite for risk should be considered. Asset allocation decisions should consider all asset classes currently available.</li> <li>• Strategic asset allocation decisions, in particular the equity: bond split, diversification of the assets and why some asset classes may be excluded should be given most attention.</li> <li>• The general and strategic impact of funding levels on tax should be considered and whether sub-funds should be established.</li> <li>• Transaction and transition costs should be fully understood.</li> </ul>	<p>structure of the Fund, including different asset classes, styles of management and follows the appropriate procurement regulations for the appointment of managers which includes a review of cost, objectives and mandates (including risk).</p> <ul style="list-style-type: none"> <li>• The Fund considers the full range of asset classes and has decided to add investments in alternative assets such as private equity, infrastructure, commodities and currencies to its portfolio.</li> <li>• At the time of undertaking the Triennial Actuarial Valuation the Committee considers the impact of funding levels on the contribution levels and therefore on the impact on local taxpayers.</li> <li>• When evaluating new investment managers, the Total Expenses Ratio as well as fees are scored.</li> <li>• As part of any transition the costs are reported to Committee and compared with the target level set prior to transition.</li> </ul>

Principle	Best Practice Guidance	Fund's Current Status
<p><b>3. Risk and Liabilities</b></p> <ul style="list-style-type: none"> <li>In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</li> <li>These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</li> </ul>	<ul style="list-style-type: none"> <li>The committee should have a clear policy on willingness to accept underperformance due to market conditions.</li> <li>Acceptable tolerances from market index benchmarks returns should be stated.</li> <li>Benchmarks which are absolute in nature or relative to cash returns or RPI might result in underperformance relative to market indices.</li> <li>Overall fund objectives should be expressed in terms which relate to the liabilities.</li> <li>The committee must receive an assessment of the risks associated with their liabilities, valuation and management.</li> <li>The annual report should include an overall risk assessment.</li> </ul>	<p><b>Full compliance</b></p> <ul style="list-style-type: none"> <li>The Committee does not necessarily make changes to the Fund's asset allocation or investment managers due to underperformance, as long as the reasons for this are explained and justified. Advice is taken from the investment consultant regarding any changes to investment policy.</li> <li>Factors affecting long-term performance and advice on how these impact on the Fund are considered as part of the triennial valuation process and when making changes to investment strategy. Advice is received from the Fund's advisors.</li> <li>The overall Fund investment objective is expressed in terms which relate to the liabilities.</li> <li>The Committee carried out an investment strategy review using asset liability modelling in 2016. This involved taking account of the form and structure of the liabilities and aiming to reduce risk where appropriate through increased diversification in the strategies or managing specific risks such as currency risk. It has agreed to undertake a similar review during 2017 following the 2017 Actuarial valuation..</li> <li>The annual report includes a Risk Management Statement</li> </ul>

Principle	Best Practice Guidance	Fund's Current Status
<p><b>3. Risk and Liabilities (contd)</b></p>	<ul style="list-style-type: none"> <li>• The committee should satisfy itself on levels of internal controls. Effective internal controls are a responsibility of the Chief Financial Officer.</li> <li>• The committee should ensure the investment strategy is consistent with the scheme employers ability to pay.</li> </ul>	<ul style="list-style-type: none"> <li>• The Committee regularly review and develop where necessary their internal controls. In addition investment managers provide annual statements on their controls.</li> <li>• The Committee periodically reviews the appropriateness of the investment strategy to achieve the required objectives, taking account of employers ability to pay.</li> </ul>

Principle	Best Practice Guidance	Fund's Current Status
<p><b>4. Performance Assessment</b></p> <ul style="list-style-type: none"> <li>• Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.</li> <li>• Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.</li> </ul>	<p><b>Investments</b></p> <ul style="list-style-type: none"> <li>• The committee should consider the appropriateness of index benchmarks and whether active or passive management is more appropriate, and where active management is felt more appropriate set targets and risk controls.</li> <li>• The mandate provided to each investment manager should cover the investment objective, risk parameters, performance targets and measurement timescales.</li> <li>• Constraints on active managers should not be overly narrow or overly wide.</li> <li>• Investment activity should be monitored and returns measured quarterly in line with regulations, but also over longer time periods.</li> <li>• Variations in returns from the benchmark should be attributed to asset allocation, stock selection, sector selection and currency.</li> </ul> <p><b>Advisers</b></p> <ul style="list-style-type: none"> <li>• Assessment should take account of the extent of decisions delegated.</li> </ul>	<p><b>Full compliance</b></p> <ul style="list-style-type: none"> <li>• The Committee consider, with input from the investment consultant, the suitability of active or passive management for each mandate.</li> <li>• Investment management agreements with each investment manager cover the investment objective, risk parameters, and performance target.</li> <li>• The Strategic Asset Allocation and Investment Management Benchmarks set out the tolerances and performance is considered over 3 – 5 year periods.</li> <li>• The performance of the investment managers is measured quarterly by an independent performance monitoring company.</li> <li>• A comprehensive quarterly performance report is presented to the Committee.</li> <li>• Variations in returns from the benchmark are attributed to asset allocation, stock selection, sector selection and currency within these reports.</li> <li>• The Committee take all significant decisions relating to the management of the Fund. Delegations to officers are contained within the Council's Scheme of Administration or in specific report recommendations.</li> </ul>

Principle	Best Practice Guidance	Fund's Current Status
<p><b>4. Performance Assessment (contd)</b></p>	<ul style="list-style-type: none"> <li>A framework should be established for assessing actuaries and consultants who should be assessed on a number of factors.</li> </ul> <p><b>Decision making bodies</b></p> <ul style="list-style-type: none"> <li>The committee's self assessment against expectations should cover manager selection, asset allocation, consultant employment and set out in annual report.</li> </ul>	<ul style="list-style-type: none"> <li>Factors such as past performance and price are taken into account when re-tendering for external advisers.</li> <li>Members all participate in meetings, giving opinions and views where relevant. Each person's view is heard and asked for.</li> </ul>

Principle	Best Practice Guidance	Fund's Current Status
<p><b>5. Responsible Ownership</b></p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> <li>• adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents,</li> <li>• includes a statement of their policy on responsible ownership in the Statement of Investment Principles; and</li> <li>• report periodically to scheme members on the discharge of such responsibilities.</li> </ul>	<ul style="list-style-type: none"> <li>• Policies regarding responsible ownership should be disclosed in Statement of Investment Principles contained in the annual report.</li> <li>• The administering authority should consider its approach to environmental, social and governance issues and the potential for engagement in environmental, social and governance issues to add value when formulating investment strategy and selecting investment managers.</li> <li>• The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.</li> <li>• The committee should ensure its policies are not overridden by an investment manager's general policies.</li> <li>• The committee should ensure that investment consultants adopt the Institutional Shareholder Committee's (ISC) Statement of Practice relating to consultants.</li> <li>• The ISC's Statement of Principles on the</li> </ul>	<p><b>Full compliance</b></p> <ul style="list-style-type: none"> <li>• The Committee are aware of the Institutional Shareholders' Committee Statement of Principles on the responsibilities of Institutional shareholders and have confirmed that their investment managers adopt the Statement of Principles on the responsibilities of shareholders and agents.</li> <li>• The Committee consider environmental, social and governance issues when formulating investment strategy and selecting investment managers but do not give precedent to this factor over other factors which have greater financial implications for the Fund.</li> <li>• The Statement of Investment Principles includes a statement of the Committee's policy on responsible ownership.</li> <li>• Voting on underlying shareholdings is delegated to the fund manager.</li> <li>• Details of the investment manager's house strategy are requested from the manager.</li> <li>• Feedback on interventions to be provided during meeting with manager (minimum of once per annum).</li> <li>• The investment consultant has confirmed that it does adopt the ISC Statement of Practice relating to consultants.</li> </ul>

	responsibilities of Institutional shareholders should be noted.	
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Principle	Best Practice Guidance	Fund's Current Status
<p><b>6. Transparency and Reporting</b></p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> <li>act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and</li> <li>provide regular communication to scheme members in the form they consider most appropriate.</li> </ul>	<p>Reporting ensures that:</p> <ul style="list-style-type: none"> <li>An integrated approach to governance should be built and governance compliance statements should be maintained regularly.</li> <li>The Fund's communication statement must set out the policy on the provision of information, the format and the promotion of the scheme.</li> <li>Examples of good communication from other funds should be sought.</li> <li>Annual report content should be compared to the regulations.</li> <li>Funding strategy statement, statement of investment principles and governance compliance statement should be noted as core sources of information.</li> <li>The governance compliance statement should include information on the extent the administering authority has delegated functions to a committee, and to the extent this complies with CLG guidance.</li> <li>The committee should know its stakeholders and the interests they have.</li> </ul>	<p><b>Full compliance</b></p> <ul style="list-style-type: none"> <li>The Annual Report including the Funding Strategy Statement, Statement of Investment Principles and Governance Statement are published each year.</li> <li>Examples of good communication from other funds are sought.</li> <li>Communications are sent to members whenever important changes to the Fund take place, or to provide updates.</li> <li>The Fund operates transparently and enhances accountability to scheme members.</li> <li>The Fund's Governance Statement includes information on the extent the administering authority has delegated functions to a committee, and to the extent this complies with Scottish Ministers guidance.</li> </ul>



## VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2000 1.0	SIP – created	March 2000	A Bowman
2006 1.0	SIP – update	March 2006	A Bowman
2010 1.0	Draft SIP – updated to reflect updated FSS and new Myners Principles	March 2010	L Mirley in collaboration with Aon Consulting
2010 2.0	Final Draft of SIP to present to Pension Fund Sub-Committee	June 2010	L Mirley
2013 1.0	Final Draft of SIP to present to Pension Fund Committee	Dec 2013	K Robb
DRAFT 2015 1.0	Draft of SIP to present to Pension Fund Committee – updated to reflect new governance arrangements and introduction of Pension Board, and new fund managers	June 2015	L Mirley
DRAFT 2015 2.0	Final Draft of SIP to present to Pension Fund Committee post AON Hewitt Review	June 2015	L Mirley
Draft 2017 1.0	Final draft of SIP to present to Pension Fund Committee on 22 June 2017	June 2017	K Robb

You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Kirsty Robb can also give information on other language translations as well as providing additional copies.

Contact us at Kirsty Robb, Capital & Investments Manager, Council HQ, Newtown St Boswells  
01835 825249, [treasuryteam@scotborders.gov.uk](mailto:treasuryteam@scotborders.gov.uk)

- **Scottish Borders Council Pension Fund**

Actuary's Statement as at 31 March 2017

The last full triennial valuation of the Scottish Borders Council Pension Fund was carried out as at 31 March 2017 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 28 March 2018.

## Asset value and funding level

At 31 March 2017, the smoothed value of assets was £654m which was 114% of the liabilities valued on an ongoing basis. The corresponding funding level at the previous valuation as at 31 March 2014 was 101%.

## Contribution rates

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

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

The 2017 valuation certified a total primary rate of 20.6% p.a. of pensionable pay. Each employer body participating in the Fund has to pay a contribution rate consisting of the employer's individual primary rate and a secondary rate reflecting the employer's particular circumstances and funding position within the Fund.

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

## Assumptions

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

Assumptions as at 31 March 2017	
Discount rate	5.0%
Pay increases	3.8%
Pension increases	2.8%
Mortality	S2PA tables with a multiplier of 110% for males and 100% for females 2016 CMI Model with a long-term rate of improvement of 1.5% p.a. and smoothing parameter of 7.5
Retirement	For each tranche of benefit, the "tranche retirement age" is the earliest age a member could retire with unreduced benefits. Each member is assumed to retire at the weighted average of these for all tranches of benefit.
Commutation	Members will commute pension at retirement to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension

The next valuation is due to be carried out as at 31 March 2020.

**Barnett Waddingham LLP**

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## GLOSSARY OF TERMS

### ACTIVE MANAGEMENT

An investment management style that seeks to outperform by way of self-selected decisions on stock choice, timing of market incursions, or asset allocation. Compare this with Passive Management.

### ASSET ALLOCATION

The division of the Fund's assets between different classes of assets, for example, UK Equities, Japanese Equities, UK Bonds. In the long run the asset allocation choices should support the Fund's strategic financial objectives. In the short term tactical changes might be made to achieve short-term advantage.

### ALTERNATIVE ASSETS

This is any non-traditional asset with potential economic value that would not be found in a standard investment portfolio. Due to the unconventional nature of alternative assets, valuation of some of these assets can be difficult.

### BALANCED MANAGEMENT

An arrangement under which investments are spread over a range of asset classes at the manager's discretion. The manager controls investments over as many classes as are available under the Fund's overall strategy. Compare this with specialist management.

### BENCHMARK RETURN

This is calculated against the Fund's chosen "benchmarking" group, which comprises a composite of different market indices. The indices in use cover all the markets in which the Fund is invested.

### CONTRIBUTING MEMBER

This is someone who is currently employed by a scheduled or admitted body and is making contributions from pay to the Pension Scheme. Such a person is sometimes referred to as an "active" member.

### DEFERRED MEMBER

This is someone who was once a contributing member and who has chosen to leave his or her accumulated contributions in the Fund to benefit from a pension in due course.

### GROWTH MANAGER

An investment manager who fundamentally believes in picking stocks that he believes will achieve an above-average growth in profits. This is sometimes caricatured as buying stock irrespective of price because the price will rise. Compare this with value manager.

### INVESTMENT MANAGER/FUND MANAGER

A person or organisation that makes investments in portfolios of securities on behalf of clients, in accordance with the investment objectives and parameters defined by these clients

### MANDATE

An agreement between an investment manager and his client as to how investments are to be managed, specifying whatever targets and investment limitations are to apply.

### PASSIVE MANAGEMENT

A style of investment management that seeks performance equal to market returns or to some appropriate index. Such investment entails a more mechanical approach to asset allocation and stock selection because such decisions are largely dictated by general market shifts rather than individual manager discretion. Compare this with active management.

### **PENSIONER/DEPENDENT MEMBER**

This is someone who is receiving benefits from the Fund either as a former contributor or as a dependent of a former contributor who has deceased.

### **POOLED FUND**

A fund in which a number of investors hold units rather than owning the underlying assets. This is a useful way for smaller funds to diversify investments without exposing them to undue risks. Unit Trusts are pooled funds as are Open-ended Investment Companies. Compare this with segregated fund.

### **REALISED GAIN OR LOSS**

Only when an investment is sold does the Fund actually make a profit or loss.

Realised profits and losses are those that have actually arisen via sales throughout the year.

### **RETURN**

The value of capital enhancement and income received by a fund in a year, expressed as a percentage of the opening value of the fund. If values fall "Return" would be negative.

### **RISK**

The danger or chance that returns will vary against benchmarks or targets. If risks are high the expected return should be higher still (the risk premium).

### **SEGREGATED FUND**

The management of a particular fund's assets independently of those of other funds managed by the same investment house. Compare this with a pooled fund.

### **SPECIALIST MANAGEMENT**

The use of a number of managers, each specialising in a particular asset class. Such managers have no say in asset allocation, being only concerned with stock selection.

### **UNREALISED GAIN OR LOSS**

The Statements of Accounts are based on the market value of investments at 31 March 2016. This means that these show what profit or loss would have made if the Fund had sold all its investments on that day. The result is a notional "unrealised" profit or loss.

### **VALUE MANAGER**

A manager who selects stocks that he believes to have potential that is not reflected in the price. This is sometimes caricatured as buying stock because it is cheap. Compare this with growth manager.

### **VESTED/NON VESTED OBLIGATIONS**

Vested obligations refer to employee benefits that are not conditional on future employment. Non vested obligations refer to employee benefits that are conditional on future employment.

### **PENSION FUND STRAIN**

The cost to employers of the early release of pension benefits.

## ADDITIONAL INFORMATION

### Key Documents Online

You can find further information on our website, [www.scotborders.gov.uk/pensions](http://www.scotborders.gov.uk/pensions), including the following documents:

- Funding Strategy Statement
- Annual Report and Accounts
- Governance Policy and Compliance Statement
- Statement of Investment Principles
- Training Policy
- Business Plan 2015/16 to 2017/18
- Actuarial Valuation Statement 2017

### Fund Advisers

<b>Actuaries:</b>	Barnett Waddingham
<b>Auditors:</b>	Audit Scotland
<b>Bankers:</b>	Bank of Scotland
<b>Investment Consultancy:</b>	KPMG
<b>Investment Custodians:</b>	Northern Trust

### Investment Managers

Baillie Gifford, UBS, Morgan Stanley, LGT Partners, M&G, Partners Group, Permira, Blackrock and Harris Associates

**Additional Voluntary Contributions (AVC) Managers:** Standard Life

### Contact Details

For further information and advice on administration, benefits and scheme membership please contact

Graeme Wilson	Telephone 01835 – 824000	Ext 5341
	E-mail <a href="mailto:gwilson@scotborders.gov.uk">gwilson@scotborders.gov.uk</a>	

*Scheme members should have a copy of the “Employees’ Guide to the Local Government Pension Scheme Administered by the Scottish Borders Council”, and can obtain their own copy of an Annual Report on request.*

or visit Scottish Borders Council Pension Fund website at:  
[www.scottishborderscouncilpensionfund.org](http://www.scottishborderscouncilpensionfund.org)

For further information on the Fund’s investments, please contact

Kirsty Robb	Telephone 01835 – 825249
Pension & Investment Manager	E-mail <a href="mailto:krobb@scotborders.gov.uk">krobb@scotborders.gov.uk</a>

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