

Fife Pension Fund Annual Report & Accounts 2020-21



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MANAGEMENT COMMENTARY

Introduction

Welcome to the Annual Report and Accounts for the 2020-21 Local Government Pension Scheme (LGPS) administered by Fife Council. The report is intended to keep members, employers, pensioners and other interested stakeholders informed about the management and performance of the Pension Fund.

The report has been produced in accordance with Regulation 55 of the Local Government Pension Scheme (Scotland) Regulation 2018 and supporting guidance issued by Scottish Ministers. The accounts have been prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Schedule 6 of The Coronavirus (Scotland) Act 2020 gives local authorities scope to vary the timetable for producing their 2020-21 Annual Report and Accounts. Notwithstanding this easement, the draft Annual Report and Accounts for the Fund is being published in accordance with the standard timescale for accounts production.

Coronavirus (COVID19)

The first few months of 2020 saw the outbreak of a global pandemic, coronavirus (COVID19) which resulted in both the UK and Scottish Governments imposing restrictions through guidance and law on the movement of people with full effect from 23 March 2020. In response to the Government restrictions, the Council closed all offices to the public schools and other facilities were closed meaning that all staff involved in Pension Fund business have been working from home throughout the whole of the financial year 2020-21.

Throughout the year, there was continued review of government restrictions and subsequent lockdown arrangements in place but the broader impact of the pandemic will continue to be felt in the coming years. From the spring of 2021, with the initial roll out of the vaccination programmed, there is planned easing of restrictions into Summer 2021 but uncertainty continues.

The vaccine roll out has had a positive impact on the market and rising economic optimism.

Strategy and Business Model

As explained in the Funding Strategy Statement that can be accessed at: www.fifepensionfund.org, the fund has a long term strategy of investing member contributions so as to have sufficient investments to meet future pension liabilities as they fall due. Fund health is monitored every three years by means of review by an independent actuary (see Triennial Review, page 26).

Principal Risks and Uncertainty

There are two main sources of uncertainty that affect whether the fund holds sufficient funds to pay future pension; the cost of future pensions and the value of investments, this risk is of increased significance given the recent market fluctuations experienced during the COVID19 pandemic. The risk of failing to make adequate provision for the future is managed by having an independent actuary value the liabilities of the fund every three years and set contribution rates (see Actuarial Statement on page 26). The risk of losing money on investments is managed by having an independent investment adviser review the Fund's investment strategy periodically and by dividing assets between a number of separate investment management firms, chosen to offer diversity and a range of investment styles as set out in the Investment Management Arrangements section of this report. The principal risks facing the fund are described in more detail in the Statement of Investment Principles (Appendix 1).

Overview of Fund Business

Under the statutory provisions of the Local Government Pension Scheme, Fife Council is designated as an "Administering Authority" and is required to operate and maintain a pension fund – the Fife Pension Fund (the Fund).

The Fund is used to pay pensions, lump sum benefits and other entitlements to scheme members and their dependants. The Fund also receives income from employee contributions and its investments, which include equities, bonds, property, private debt and infrastructure.

The fund operates under the terms of the Local Government Pension Scheme (LGPS), which is a public sector pension arrangement. Scheme membership is made up of active, deferred and pensioner members. To be able to join the scheme, a person must be employed by a relevant employer and not eligible to join another public sector pension scheme. Teachers cannot be members of the LGPS as they have a separate national pension scheme.

A list of employers who contribute to the Fund as either scheduled or admitted bodies, can be found in the 'Membership of the Fund' section of this report. The number of employers has reduced in 2020-21 reflecting the implementation of the Small Employers Exit proposal and transfer of Visit Scotland.

Review of the Year

Key Facts and Figures

2020-21 Key Highlights	<ul style="list-style-type: none"> £3,304m net assets an increase of £768m on 2019-20 Strong performance return of 29.7% for 2020-21 and 10.4% for the rolling 3 year period Fund continues to exceed its strategic investment return over the rolling 3 year period 36,489 members a decrease of 119 Funding level 97% at Valuation 2020
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Table 1 Financial Highlights

Financial Highlights	2020-21	2019-20	Change
Value of Fund	£3,303.159m	£2,535.587m	£767.572m
Operational (Surplus)/Deficit	(£767.572)m	£75.924m	(£843.496)m
Employers Contributed	£85.323m	£80.922m	£4.401m
Employees Contributed	£20.440m	£19.418m	£1.022m
Pensions and Other Benefits Paid out	£86.723m	£87.700m	(£0.977)m
Transfer values paid in	£2.335m	£2.454m	(£0.119)m
Transfer values paid out	£7.376m	£2.442m	£4.934m

Table 2 Investment Highlights

Investment Highlights	2020-21	2019-20
Investment Return	+29.73%	-3.32%
Performance v Benchmark	+10.44%	+2.71%

The fund has experienced a significant change in value of £767.572m represented by a significant gain in capital value of investments of £747.065m (2019-20 loss £102.175m) coupled with income from dividends and interest was £24.222m (2019-20 £30.070m). The fund experienced a net surplus of £13.803m (2019-20 £12.419m) from dealings with members. .

Fife Pension Fund complies with CIPFA guidance in terms of accounting for and disclosing investment management expenses. Details are disclosed in Notes 9 and 9a of the accounts. This guidance has been updated for 2020-21 and now discloses the transactions costs by different investment category.

The Transaction costs for 2020-21 are reported as £2.584m (2019-20 £3.539m), these reflect the cost of the day to day management of the fund to achieve its objectives.

Fife Pension Fund is committed to and continuing participation in the Cost Transparency Initiative and completion of templates has highlighted costs that were not previously disclosed or reported.

To demonstrate its continued commitment the fund also took part in CEM Benchmarking exercise for 2019-20 and the results were reported to Committee in March 2021. The results demonstrated that the fund

continues to perform well in terms of both transaction costs and returns in comparison with our peers. Benchmarking and Cost Transparency continues to be a priority with participation in these is set to continue.

Investment Management Arrangements

The fund's assets are invested in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010. The regulations cover the appointment of fund managers and the use and investment of fund money. The fund is required to take proper advice about its investments.

The Statement of Investment Principles (SIP) (Appendix 1) and the Fund's Funding Strategy Statement give more information on the fund's investment framework at the start of the year.

The investment of Funds is undertaken by a range of third party investment managers. Safeguarding of the Fund assets is undertaken by the Custodian, Northern Trust.

Under the Fund's governance arrangements, the Pension Committee is responsible for setting the high level investment strategy and delegates the implementation of that strategy to the Executive Director Finance and Corporate Services, who delegates this to the Head of Finance.

Both the Committee and Head of Finance receive advice from the Joint Investment Strategy Panel (JISP) which consists of FCA qualified investment professionals from the Lothian Pension Fund as well as three independent advisers. This arrangement is key to the collaborative relationship between Fife, Falkirk and Lothian Pension Funds which entails the Lothian Fund, through its investment vehicle LPFI Limited, providing investment support. The Head of Finance reviews any advice, assesses the risk and reward and manages the implementation.

The current Investment Strategy of the fund was approved by the then Superannuation Fund & Pensions Sub Committee in June 2021 and is set out in the Statement of Investment Principles. (Appendix 1)

Ranges to limit asset allocations under normal financial conditions are in place per Table 3. The ranges provide controls within which the nominated officer, the Head of Finance, will implement the strategy and aim to avoid unnecessary and potentially costly rebalancing.

Table 3 Investment Strategy

Policy Group	Strategy 2019-24 %	Revised Strategy %	Current Permitted Range	Revised Permitted Range
Equities	50	55	40%-65%	45%-65%
Real Assets	20	15	10%-30%	10%-25%
Non-Gilt Debt	15	15	5%-25%	5%-25%
LDI (formerly Gilts)	15	15	0-20%	5%-25%
Cash	0	0	0-10%	0%-15%
Total	100	100		

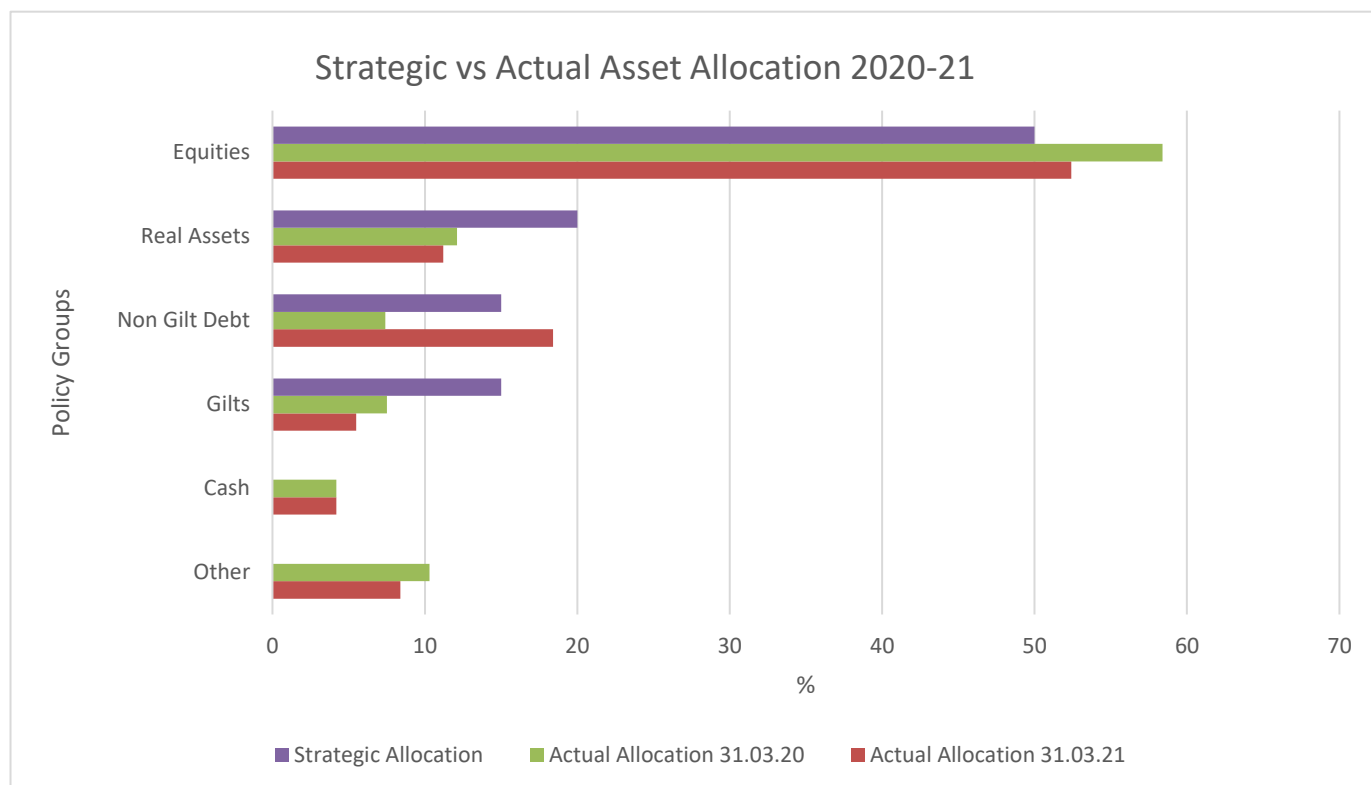
Officers at Fife and Lothian Pension Fund monitor the performance of managers with performance reports presented to each quarterly meeting of the JISP and the Pension Fund Committee.

Following the latest actuarial valuation in 2020, the Investment Strategy was revised and an updated to reflect the results. This work was presented to committee for approval at the end of June 2021, however, the performance of the fund and annual accounts reflect the strategy in place during 2021-21.

Implementation of Investment Strategy and Investment Performance

The value of the Fund's net assets increased to £3.303bn at 31 March 2021.

The allocation for the year to 31 March 2021 summarised in the following graph where it is demonstrated that relative to asset allocation, the Fund was overweight in equity, non-gilt debt and cash and underweight the other policy groups.



Throughout 2020-21, the Fund undertook some changes to the investment allocation as it continued the implementation of the agreed strategy. Over the course of the financial year the fund disinvested £495m from Equities with the proceeds being invested into Non-Gilt Debt (£395m) and retained as cash (£100m).

In addition, by working with the collaborative partners, the fund was able to participate in some Infrastructure Investment opportunities that would not have been afforded to it previously. Although modest these infrastructure investments reflect the strategy implementation.

The cash balance at 31 March 2021 was £139m (4.2% of Fund Assets). Committed amounts to Partners Group and other private managers not yet funded were £50m. This leaves an uncommitted cash balance of £86m (2.6% of Fund Assets).

The asset allocation per fund manager is detailed in the following table

Table 4 Asset Allocation per Fund Manager

Policy Group	Manager	Current Allocation (£m)	Current Allocation (%)	Target Allocation (%)	Difference (%)
Equities		1,731	52.4%	50%	2.4%
	Blackrock	478			
	Baillie Gifford	463			
	Blackrock (GLOVE mirror)	212			
	State Street	578			
Other Real Assets		369	11.2%	20%	-8.8%
	CBRE Property	228			
	Infrastructure (Partners, various)	141			
Non-Gilt Debt		608	18.4%	15%	3.4%
	Janus Henderson Corporates	97			
	Western Asset Corporates	98			
	LGIM 6A Corporate Bonds	102			
	LGIM 5YR+ US Index-linked	280			
	Private Debt	31			
Gilts		181	5.5%	15%	-9.1%
	Janus Henderson Gilts	91			
	Western Asset Gilts	90			
Balanced/Diversified		278	8.4%	0%	8.4%
	Baillie Gifford				
Cash		139	4.2%	0%	4%
Total Fund		3,306	100%	100%	

Source: Northern Trust

Performance of the fund for 2020-21 resulted in a net gain in asset value of £747.065m with the fund outperforming its benchmark of 19.3% by 10.4% over a rolling 12 month period.

Longer term returns over 3,5 years and from inception demonstrate that the fund has outperformed its benchmark over longer time periods. Detailed returns are set out in the table below:

Table 5 Fund Performance

Returns	1 Year (2020-21) %	3 years % per annum	5 Years % per annum	Inception % per annum*
Fund Return	29.7	10.4	11.6	8.7
Benchmark Return	19.3	6.1	7.6	7.8
Excess Return	10.4	4.3	4.0	0.9

Source: Northern Trust

*Inception records performance from 2003 when the custodian was appointed.

Investment Trends and Influences

The fund invests in a diversified portfolio of global assets and is therefore exposed to worldwide economic factors. Commentary was provided by advisers from Lothian Pension Fund Investment (LPFI) and can be found at Appendix 3.

Structure of Administration

The Pensions Team

The Pensions Team's core purpose is to ensure that benefits are paid accurately and on time and to provide clear information on the benefit options available to help members plan for retirement.

The team is accountable to the Pensions Committee, Pension Board, scheme employers and members. The team is committed to providing a quality service to all its stakeholders.

The administration function covers a range of activities including:-

- processing and payment of member benefits
- maintenance of our administration system, website and online Member Self Service facility
- implementation and communication of regulatory updates
- providing guidance to scheme employers
- engaging with our members
-

The team is constantly evolving to comply with regulatory requirements and to provide an effective service to our members and employers.

Administration during the COVID-19 pandemic

IT arrangements were quickly put in place at the beginning of the pandemic allowing team members to work from home, thereby ensuring a service was maintained to employers and members.

In line with The Pensions Regulator's COVID-19 guidance for trustees and public service, priority is given to :-

- paying members' benefits
- retirement processing
- bereavement services, as well as any administrative functions required to support these

The Fund has robust processes and contingency measures in place to ensure that these critical processes are carried out. The team has demonstrated its resilience as it continues to carry out, not only the TPR guidance requirements, but the entire range of administrative activities whilst homeworking.

Training and Development

The Fund provides a comprehensive training programme for the team. Development and training needs are identified to ensure that the relevant pension and systems knowledge is acquired, maintained and developed. Team members are encouraged to obtain a Certificate in Pensions Administration through the Chartered Institute of Payroll Professionals. This means that the team has a solid LGPS knowledge base.

Training is delivered in-house, at LGPS Secretariat workshops and training events organised by our software supplier, Aquila Heywood. In-house training and Aquila Heywood training sessions were delivered during the pandemic using Microsoft Office Teams.

Training sessions were also provided for the Committee and Board including

- Annual report and accounts
- McCloud and Cost Cap
- Actuarial Valuation
- Scottish LGPS Training – Administration, Governance and Investment

Administration Performance

Pension Administration Strategy

The Fund's Pension Administration Strategy Statement effectively consolidates all roles, responsibilities and expected performance targets for the team and scheme employers in one document. The primary objective of the strategy is to ensure that the team continues to provide a high quality and cost-effective pension service. The statement can be accessed at: www.fifepensionfund.org

Performance Standards

A suite of key performance indicators (KPIs) is prepared quarterly for the Committee and Pension Board. Results of performance against KPI targets in 2020-21 are shown below:-

Table 6 Performance Indicators 2020-21

Membership Transactions	Target Days	Target	Within Target
Correspondence	10	100%	97%
Refunds	5	98%	85%
New Members	20	80%	97%
Provide Ill Health Estimates	13	97%	88%
Provide Redundancy Estimates	13	97%	92%
Retirals	5	95%	98%
Transfer in	10	92%	86%

The challenges resulting from the forced transformation of working practices impacted on areas of service delivery in the year. Some delays were experienced while the team prioritised the processing and payment of retirement and death benefits in accordance with guidance from The Pensions Regulator. Some other delays were caused by difficulties receiving information from stakeholders who were experiencing the same problems as everyone during the initial stages on the pandemic.

In 2020-21, the team began an exercise to review, and where necessary update, its suite of KPIs to ensure that they effectively monitor team performance. This review will continue in 2021-22.

Triennial valuation as at 31 March 2020

A key project in the year was the 2020 triennial valuation. The team worked closely with the Fund's Actuary, Hymans Robertson, to identify any data gaps that would have an impact on the robustness of the final valuation extract. A data cleansing exercise was carried out in March 2020 based on individual membership details as at 31 March 2019 and employee contributions and pensions paid in 2018-19 and 2017-18.

Again, despite the challenges brought about by the pandemic, the data extract was provided to Hymans Robertson within the scheduled deadline. Hymans Robertson reported that the data was of good quality.

The team ensured that employers were fully engaged throughout the valuation process. As referenced later in the report, the Fund Actuary explained the approach to the 2020 valuation at the 2020 Employer Forum and the results of the valuation were discussed at the February 2021 Forum. Discussions were held with scheme employers following the publication of the draft valuation to reach agreement on affordable three-year contribution plans.

The results of the valuation are available on the funds website. This can be accessed at: www.fifepensionfund.org

Statutory Annual Benefit Statements

Despite the move to homeworking, the team met the statutory deadline of 31 August for issuing annual benefit statements. Thanks to our employers for the timeliness and quality of data provided.

Use of Information Technology

Most of our employers are now using i-connect, which electronically integrates payroll systems with the pension administration software. This has resulted in further efficiencies in the creation and updating of member records and improved data quality. Member records are updated after each payroll run meaning that the year-end process is much less onerous than in previous years.

Unfortunately the restrictions imposed by the pandemic meant that the team was unable to progress with rolling out i-connect to our other employers. However, the team will resume this project when conditions permit.

Fife Council, the Fund's largest employer, moved to a new payroll system in 2020-21. The team is continuing to work closely with the Council's payroll implementation team on the data submission from the new payroll platform.

The pandemic has also impacted on the team's proposed roll out of the Member Self Service facility to all our pensioner members. The team plans to resume this project in 2021-22.

Communications

Effective communication is vital to ensure both members and employers are aware of the benefits of the LGPS and are also kept up to date with scheme changes. The Fund's website continues to be updated regularly to ensure scheme information and literature are readily available. News articles, ranging from Fund specific information to bulletins highlighting general pension issues, are available on the website.

The focus of the team's engagement with our members at the introduction of lockdown measures was, and continues to be, one of assurance. The website details the team's revised working arrangements and how members and employers can contact the team during lockdown. Specific bulletins also highlight the increase in pension scams during COVID-19, and reassurance that LGPS pensions are not impacted by stock market conditions.

The move to homeworking has impacted on how the team communicates with its members and employers as the team cannot provide the normal face to face engagement. Initial contact with the team is by email or through the Member Self Service facility. However, the team has been provided with mobile phones so that queries and requests can be followed up more efficiently and effectively and Microsoft Teams meetings are also carried out whenever possible. Telephone calls and Microsoft Office Teams provide direct contact with members and employers giving reassurance that the Team continues to provide a full pension service.

The team continues to promote the secure on-line Member Self Service facility which is accessed through the website.

The principal communications to active and deferred members are the annual benefit statement and newsletter. These communications are available on-line through the Member Self Service facility although paper copies are available on request. The team has carried out extensive communication exercises promoting the benefits of Member Self Service and highlighting annual benefits could be viewed on-line. The team continues to work with employers in promoting Member Self Service to further encourage active members to register.

The Fund is required to have a formal written communications statement which can be viewed at Appendix 2 and also at www.fifepensionfund.org

Working with Scheme Employers

The team liaised closely throughout the year with employers on technical, procedural and policy matters. This ranged from helping with individual member cases to liaising with employers undergoing workforce change exercises or transferring employees to outside contractors.

Following consideration by the Committee and Policy and Co-ordination Committee of the Council, an offer was made to eligible small employers to take advantage of revised exit arrangements. The proposal allowed employers to exit the fund on a revised cessation basis given that the Council accepted the employer's liabilities and assets as its own. Communications were issued to eligible employers as well as a virtual event held outlining the proposal. A number of employers have chosen to exit on this basis, whilst others declined the offer and remain in the fund.

A major exercise in the year involved the consolidation of all Visit Scotland LGPS obligations in the Lothian Pension Fund. A project team involving Lothian Pension Fund, the ceding Funds, Visit Scotland and actuaries for Visit Scotland and the Scottish Funds, was set up to manage the transfer of membership data and assets. Fife membership data was transferred to Lothian Pension Fund on 30 September 2020.

The 2020 Employers' Forum was held virtually on Microsoft Teams on 6 July 2020. The team reassured employers that despite its revised working arrangements, the Fund has robust measures in place to ensure monthly pensions are paid and that the team will continue to provide a pension service to employers and members. Presentations from the team covered the 2019 Scheme legislative changes and the impact of the McCloud ruling on pension benefits and administration. The Fund Actuary gave presentations on the 2020 valuation and the actuarial impact of the McCloud ruling and the COVID-19 pandemic.

The 2021 Employers' Forum was held on 3 February 2021 on Microsoft Office Teams. The Forum focused on the results of the 2020 valuation.

Collaborative Working

The team works closely with other Scottish Funds through the Scottish Pensions Liaison Group. This offers the opportunity to discuss topical pension issues and share best practice and knowledge.

Key Legislative Changes

Amendments to the 2018 Regulations

The Local Government Pension Scheme (Scotland) Regulations 2018 were amended on 6 April 2020 to include provision for entitlements to bereavement leave and pay for parents following the death of a child in accordance with The Parental Bereavement Leave and Pay (Consequential Amendments to Subordinate Legislation) Regulations 2020.

McCloud Ruling – Impact on Benefits and Administration

In July 2020, the SPPA launched a consultation exercise proposing changes to the LGPS statutory underpin protection to remove unlawful discrimination found by the Courts in relation to public service pension scheme 'transitional protection'. The proposed changes (the 'remedy') included removing the condition that a member had to be within ten years of their normal pension age to be eligible for transitional protection plus supplementary changes to the underpin.

Fife Pension Fund participated in a technical working group of Scottish Fund pension administrators set up to examine the proposals. A collective response was submitted by the group.

The SPPA advised in March that the intent is for legislation to come into force in 2023 to provide the qualifying underpin to all members. However, the SPPA recognises that members who have retired since 2015 may not be receiving the correct level of benefits. Therefore, it intends to introduce amending legislation in 2021 to ensure that the underpin is applied correctly for retirees and leavers going forward and also for comparison calculations to be carried out for those members who have retired since 2015.

In recognition of the administrative challenges faced by the Team to implement the remedy, the Fund engaged Hymans Robertson to carry out an initial assessment on the number of members who could be impacted by the ruling and an indication of the administration resources required. Project planning is at an initial stage, but a member of the Team has been appointed to lead the project and employers have been advised of the supplementary data required.

Other Key Regulatory and Legislative Issues

Public Service Pensions Indexation

The UK Government approved the rate of increase for all public sector pension schemes and state scheme benefits at 1.7% effective from 6 April 2020. The increase was set by reference to the annual change in the Consumer Price Index measured as at September 2019.

CARE Scheme Revaluation

The Local Government Pension Scheme (Scotland) Regulations require that pension accounts built up from 1 April 2015 are revalued at the end of each scheme year.

In accordance with The Public Service Pensions Revaluation (Prices) Order 2020, the in-service revaluation of 1.7% in respect of the scheme year was applied at one second after midnight on 31 March 2020.

Ending of contracting out – GMP scheme reconciliation exercise

The introduction of the new flat rate state pension scheme from 6 April 2016 brought to an end the option to contract out of the additional state pension scheme. Whilst protections are in place for existing contracting out rights, HMRC's contracting out support services have been withdrawn. HMRC issued a closure schedule so that we could compare the contracted-out details with the information held on our pension records. This is known as scheme GMP reconciliation.

The team worked with ITM Ltd to ensure the data we hold is accurate. The rectification of pensioner records was completed in March. In total 131 members were identified as being underpaid. In respect of overpayments, the Local Government Pension Scheme (Increased Pension Entitlement) (Miscellaneous Amendments) (Scotland) Regulations 2019, provide that pensions currently in payment will remain unadjusted going forward. In total 261 members were identified as being overpaid.

2021 UK Budget

The Chancellor announced at the 2021 Budget a five-year freeze on the Lifetime Allowance. This means that the Lifetime Allowance will remain at £1,073,100.00 until April 2026.

National Fraud Initiative

The Council participates in the National Fraud Initiative. This is a counter-fraud initiative led by Audit Scotland involving mortality screening exercises.

Tell Us Once (TUO)

The Fund participates in the 'Tell Us Once' service offered by registrars when deaths are registered. The quicker notification of deaths via TUO reduces the incidences of overpayment of pensions and unnecessary bureaucracy for bereaved relatives.

Internal Dispute Resolution Cases

Any queries from members are directed, in the first instance, to the Team to resolve. If a member is still unhappy with the decision, the member can invoke the Internal Dispute Resolution Procedure (IDRP). The Fund's IDRP guide is available on the website.

A Panel has been appointed to consider appeals. To provide a mix of expertise and experience, the Panel is made up of: -

- Head of Legal & Democratic Services (Chair)
- Head of Human Resources
- Head of Revenue & Commercial Services
- Executive Director, Finance & Corporate Service for cases where a panel member had an earlier involvement in a dispute

All cases are processed through the Head of Legal & Democratic Services who determines the most appropriate person from the panel to deal with the case, having regard to the issues.

During the year to 31 March 2021, there were 13 cases.

Reason for Dispute	Number	Decision
Appealing employer's refusal to grant ill health retirement	8	1 appeal successful 7 appeals pending
Appealing against level of ill health award	5	1 appeal successful 3 appeals unsuccessful 1 appeal pending

Equitable Life

The Fund had an historic AVC arrangement with Equitable Life. On 1st January 2020, Equitable Life policies transferred to Utmost Life and Pensions. The Fund engaged Hymans Robertson to provide recommendations on the options available to the Fund.

Hymans Robertson recommended that members' AVC funds be moved to Prudential, one of the Fund's AVC providers. The transfer of members' AVC funds from Utmost to Prudential was completed on 29 July 2020 with members' AVC monies invested in Prudential funds on 3 August 2020. A communication exercise for members was carried out giving background about the transfer, information on how their funds had been invested with Prudential and alternative options available.

Fund Update

Membership details are shown below:-

Member Status	2019-20	2020-21
Active roles	15,679	15,008
Pensioners	13,735	14,130
Deferred role	7,194	7,351
Total	36,608	36,489

The fund invested and administered pensions on behalf of 21 current and former employers during 2020-21. These include scheduled bodies, brought into the Fund by legislation, and admitted bodies which chose to join the fund. The detailed listing of employers is contained on page 57 of the Annual Report and Accounts for the Funds.

Future Years

The Pension Fund will continue to face challenges including potential volatility in the investment markets, potential movements in interest rates, legislation changes and advancements in technologies. We are in a strong position to deal with challenges and ensure that the pension fund is managed effectively and we continue to protect members' interests.

Acknowledgements

We would like to thank elected members and officers of the Council for all of their work during 2020-21. The production of the accounts is very much a team effort and again the unaudited accounts were completed before the 30 June deadline, this is of particular significance this year given that all of the team were working remotely as the Council continues to adapt following the pandemic.

Steven Grimmond
Chief Executive

Eileen Rowand MBA CPFA
Executive Director Finance and Corporate Services

Councillor Dave Dempsey
Convener of the Superannuation Fund and Pensions Committee

FIFE PENSION FUND ANNUAL GOVERNANCE STATEMENT

Roles and Responsibilities

Fife Council has statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in Fife.

The main functions of the Administering Authority are the management and investment of the assets of the Fund and administration of scheme benefits. These functions are carried out in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972 and Public Service Pensions Act 2013.

Fife Council carries out its role as Administering Authority via

- The Superannuation Fund & Pensions Committee
- Fife Pension Board
- Joint Investment Strategy Panel
- Finance & Corporate Services Directorate

Scope of Responsibility

As the administration authority of the Fund, the Council is responsible for ensuring its business is conducted in accordance with the law and appropriate standards, and that monies are safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a statutory duty to make arrangements which secure best value under the Local Government in Scotland Act 2003.

In discharging this overall responsibility, the Superannuation Fund & Pensions Committee, elected members, senior officers and external representatives are responsible for implementing proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved and adopted a Code of Corporate Governance (the Code) which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE (Chartered Institute of Public Finance & Accountancy/Society of Local Authority Chief Executives and Senior Managers) Framework “Delivering Good Governance in Local Government”. The work of the Fife Council Pension Fund is governed by this Code and by regulations specific to administration of pension funds.

The Pension Governance Group is an officer’s group, chaired by the Head of Finance, which meets quarterly, and its purpose is to provide assurance to the Committee and the Board through the monitoring of the requirements measured by the Pensions Regulator’s Code of Practice No.14.

This statement explains how Fife Council (LGPS) has complied with the Local Code of Corporate Governance and how it meets the CIPFA code of practise

Governance Framework

The governance framework comprises the systems and processes, culture, and values by which the Pension Fund is directed and controlled and the activities through which it engages with and informs employers and members. It enables the Fund to monitor its achievements to its strategic objectives and to consider whether these objectives have led to the delivery of appropriate outcomes.

The Pension Fund compliance with its governance statement and regulatory obligation is monitored through the Pension Governance Group, the Superannuation Fund and Pensions Committee, and the Pension Board.

The administration authority places reliance on its internal controls and the monitoring of these controls is significant along with the management of the risks associated with the Fund. It cannot eliminate elements of risk; neither can it eliminate the potential risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The level of internal controls is significant in managing the level of risk and the prioritisation of risks to the achievement of the Fund’s objectives, to evaluate the likelihood of the risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically. In terms of the investments, the Pension Fund has appropriately qualified professional advisers to minimise its exposure.

The key elements of the governance framework within the administration authority

- The Fund is governed by the Local Government Pension Scheme (Scotland) Regulations. These include requirements for the preparation of key documents including a Statement of Investment Principles and a Funding Strategy Statement, which can be viewed at www.fifepensionfund.org/Statement of Investment Principles and www.fifepensionfund.org/Funding Strategy Statement. In addition to setting out the Fund's objectives, these documents also detail the controls in place to mitigate the risks facing the Fund.
- Since April 2015, The Pension Regulator has been responsible for setting standards of governance and administration for the Local Administration Pensions Scheme, Fife Council has taken steps to fully integrate compliance with these standards through the framework
- A structured programme to ensure the Pension Board and the Superannuation Fund and Pensions Committee have the required standard of knowledge and understanding of LGPS matters
- A systematic approach to monitoring service performance by the Pensions Committee, Pensions Board and Senior Officers
- Operate within clearly established investment guidelines defined by LGPS Investment Regulations and the Funds Statement of Funds Principles (links above)
- Compliance with the CIPFA Principles for Investment Decision making and Disclosure in LGPS
- Operate within the relevant governance policies and procedures to ensure compliance with the Financial Conduct Authority's rules, regulations, and guidance
- Investments held under custody by a global custodian with the fund benefitting from the custodian's extensive internal control framework
- Benchmarking of standards and costs against other pension funds using established industry processes

The key responsibilities of the systems and processes that comprise the Fund's governance arrangements sit with:

Superannuation Fund and Pensions Committee

Delegation

The function of maintaining the Fife Council Pension Fund is delegated by the Council to the Superannuation Fund and Pensions Committee. The Committee is made up of nine elected members. The Corporate Code of Governance clearly defines the roles and responsibilities for the Committee.

Terms of Reference

The Committee ensures that there is an effective governance framework relating to the management and administration of the Pension Fund. The Committee considers the policies developed to meet the objectives of the Fund and monitors progress on the delivery of the strategic objectives as defined in the Code. All reports considered by the Committee identify key risks involved in any proposed decision and the nature of mitigation, together with any legal or other issues which may arise.

Members of the Committee and the Pension Board are required to undergo specific training to meet the needs of the role and responsibility of the management of the Fund with clear delegation arrangements and protocols for communication.

The Superannuation Fund & Pensions Committee has received training covering investments, governance and an introduction to the LGPS. A training policy was agreed by the Committee which formalises the training arrangements for Committee and Pension Board members. The policy sets out the training required to ensure members have the appropriate skills to adequately carry out their roles. Induction training is provided to new Committee and Board members.

Training is delivered through several means including external seminars and events, training provided at committee meetings by external advisers and Council Officers and briefing papers.

During 2020 an assessment of training needs was carried out with members of the Committee and the Board asked to assess their current knowledge and understanding of all relevant topics. The results of the assessment are being used as a basis for arranging future training and development sessions.

Throughout 2020-21 training sessions have been provided to the Committee and the Board covering:

- Annual Report and Accounts
- McCloud and Cost Cap

- Actuarial Valuation process
- Scottish LGPS Training

In September 2020, officers from the Pension Governance Group provided induction training to new members of the Committee and Pension Board. The training covered governance arrangements, investments, LGPS regulations and administration of the scheme.

The officers' Pension Governance Group is responsible for ensuring that roles and responsibilities are allocated and documented in line with the Fund's governance Code of Practice No.14 checklist and to review the risks associated with the fund to ensure all are controlled appropriately.

As a result of the revised Committee arrangements Audit and Risk Management now report matters relating to the Pension Fund to Committee, including providing independent assurance on risk management framework, controls and annual governance processes. A full risk register is maintained by the Pension Governance Group and allows detailed risk monitoring and review.

The Committee's Terms of Reference are detailed in Fife Council's List of Committee Powers which can be viewed at: www.fifedirect.org.uk/List of Committee Powers

Frequency of Committee Meetings

Meetings of the Committee are quarterly. Occasional ad-hoc meetings are also held as required. Committee meeting dates are listed on the Council diary which is available at www.fifedirect.org.uk/Committees.

The Fife Pension Board

The Pension Board has been established to assist Fife Council:

- In securing compliance with LGPS Regulations and other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator; and
- In ensuring the efficient and effective governance and administration of the scheme

The Board comprises 4 employee representatives appointed by Trade Unions and 4 employer representatives. It meets concurrently with the Pension Committee and considers the same agenda. In addition, the Board may meet separately both before and after the Committee meeting to consider Committee decisions giving an additional level of assurance.

The Board's Constitution, which sets out the terms, structure and operational procedures of the Board, and information on each of the representatives, can be found at www.fifepensionfund.org/Fife Pension Board Constitution

Executive Director of Finance and Corporate Services

The Council's Executive Director Finance and Corporate Services is the Officer with responsibility to ensure proper administration of the Council's financial matters in terms of Section 95 of the Local Government (Scotland) Act 1973. The Executive Director is responsible both for the Council's role as employer and administering authority and has responsibility to ensure appropriate controls are in place to:

- Safeguard the contributions made by employees and employers to provide funds to meet the future liabilities of the Fund's members.
- Ensure control over the investment managers charged with growing the value of the fund to meet the future liabilities; and
- Secure payment to the retired members of the Fund on time and in full.
- Provide annual benefits statements by 31 August in line with the statutory deadline
- Ensure triennial valuations are obtained

In addition, the responsibilities also include the following: -

- Financial accounting of the Fund.
- Preparation of the Pension Fund Annual Report.
- Implement the decisions of the Committee and for the day to management of the affairs of the Fund.

The Internal Audit Service Manager provides the required assurance over the adequacy of internal controls and the corporate governance arrangements operated by the Fund.

External Advisers

Hymans Robertson is the Actuary to the Fund and provides advice on Funding and actuarial valuations. From time to time Hymans Robertson are also commissioned to provide advice on investment matters, such as review of the investment strategy. Although these functions are carried out by same company, they are dealt with in different divisions in the company with clear segregation of functions.

Fife Pension Fund works in collaboration with City of Edinburgh Council for the provision of investment advice from its arms-length organisation known as Lothian Pension Fund Investment (LPFI). This is the third year of collaboration and officers have continued to participate in the Joint Investment Strategy Panel (JISP).

Investment advice and services are provided by Lothian Pension Fund Investment and three independent Investment Advisers both directly and through the JISP. The JISP meets on a quarterly basis and there is regular dialogue with officers of LPFI out with these meetings. The Investment Strategy for the Fund is approved by the Superannuation and Pension Fund Committee. Implementation of the strategy is delegated to the Head of Finance, who takes advice from the JISP and the independent advisers before assessing the risk and return and managing the implementation process.

The Fund has appointed a number of investment managers who are employed to invest in assets for the Fund.

Northern Trust is the global custodian for the Fund and is responsible for the safekeeping of assets including transaction processing and making tax claims.

Fife Council continues to support responsible ownership, and this is recognised in the Statement of Investment Principles. The Committee agreed to appoint Federated Hermes Equity Ownership Services. Federated Hermes EOS helps institutional owners around the world to meet their fiduciary responsibilities and become active owners of public companies. Federated Hermes EOS undertakes engagement with businesses on areas of concern and are actively involved in lobbying for improved governance in companies around the world. The contract for stewardship and engagement services was awarded in 2017 and is due for renewal in July 2021. The Council is currently participating in a joint procurement process with partners, Lothian Pension Fund and Falkirk Pension Fund.

Review of effectiveness

Internal Control

The Council and the Pension Fund have robust systems of internal controls in place to manage administrative, management and investment risks. The system of internal control is an ongoing process designed to identify and prioritise risks to the achievement of the Fund's policies, aims and objectives to evaluate the likelihood of those risks being realised and the likely impact.

The Fund also uses the Pensions Regulator's Public Service toolkit in addition to its own governance checklist ensuring compliance with the Pension Regulations. The Pensions Governance Group have responsibility for ensuring compliance with the Pension regulations and meet quarterly in addition to managing an annual review.

The Fund is also subject to internal audit which offers a measure of reliance on the effectiveness of controls and measurement of risk and how well this has been embedded across the organisation. It also offers a route for robust governance and improvement by continuing to implement and embed controls and risk management which will ensure full compliance with the Code's requirements.

The Council reviewed its risk management policy which is specific to the Fife Pension Fund. This is supported by the pension fund risk register. The fund specific risk register is reviewed by the Pension Governance Group and is subject to regular update. The current risk register will be shared with the Committee and the Board on an annual basis and any significant changes will be reported immediately.

Risk awareness is embedded into the investment strategy and performance management processes.

The Fund also produces a breakdown of key administration performance indicators which are included in the Pension Fund Annual Report. Administration performance reports are presented to the Committee on a quarterly basis.

Update on Significant Governance issues Previously Reported

There were no significant governance issues in 2020/21 specific to the Fife Council Pension Fund. Nor were there any significant governance issues within the Council's governance statement of relevance to the Fife Council Pension Fund.

Internal Audit Opinion

During 2020/21 the following assurance reviews were undertaken

- Follow up audit of Altair System review
- Governance with Regulations and Guidance
- Training and Resources - Pensions

Based on the audit work undertaken, it is the opinion of Internal Audit that reasonable assurance can be placed on the adequacy and effectiveness of the governance and control environment which operated in 2020/21.

Fife Council pension administration team are regularly subjected to both internal and external audit. The external auditors appointed are Audit Scotland. An audit opinion is provided separately in the Fund's Annual Report and Accounts.

Significant Governance Issues

Fife Council Audit Services has confirmed there are no significant governance issues that require to be reported as a result of work undertaken by Internal Audit in 2020/21. In addition, no breaches have been identified in 2020/21. The Fund's Breaches of the Law policy statement can be viewed at www.fifepensionfund.org

Coronavirus (COVID19) Pandemic

The governance arrangements were amended to take account of the impact of the global Coronavirus pandemic which led to changes in responsibilities, decision making structures and working arrangements from March 2020.

Focus was on business as usual activity to support citizens, communities, and businesses across Fife. Flexible and different working arrangements were developed adopting new digital technology. Security remained a priority especially with regards to the pension administration records. Processes were adapted for home working with risks assessed to ensure there was no impact on internal controls.

All Committee meetings including Superannuation and Pension Fund Committee, were cancelled following the initial lockdown in March 2020, with decisions being taken by senior officers, as set out in the Council's governance documents. All decisions taken in this manner were recorded and circulated to Group Leaders on a timely basis and posted on the Council's website. Relevant decisions taken also required to be reported to the next relevant meeting of the Committee. Since the summer recess of 2020, the Superannuation and Pension Fund Committee has taken place on a remote basis.

The impact of the pandemic is not expected to be short term, it will continue to dominate the landscape for Services. It is unlikely that the pension administration team will return to office working in the same format as before the pandemic and will continue to work from home for the immediate term.

Governance Compliance

The Local Government Pension Scheme (Scotland) Regulations 2018 require each Administering Authority to publish a Governance Compliance Statement, detailing how their governance arrangements comply with best practice guidance issued by Scottish Ministers. Details of how the Fund complies are included in the Governance Compliance Statement (page x).

Access to Information

- The Committee agenda papers and minutes can be viewed at www.fifedirect.org.uk/Committees; and
- The Fund's Annual Reports, Governance Statement and all principal documents relating to governance and risk management are available on: www.fifepensionfund.org

The above-mentioned documents are also available in hard copy on request.

Governance Arrangements – Future Developments and Improvements

There are some areas of improvement which have been identified and will be implemented over the coming year. These are:

- A series of training events complimenting committee business is being developed for the Committee and Board members
- The Fife Council List of Committee Powers will be updated to include the full Terms of Reference for the Pension Board. This will highlight the differences in roles and responsibilities between the Committee and the Board.
- The pensions governance group will look to consider greater prominence for the Committee of compliance with Code of Practice 14.
- An Independent Professional Observer is being appointed to provide support to the Committee and Pensions Board (this has been delayed due to Covid-19)
- CEM benchmarking and Cost Transparency was undertaken and reported to Committee in March 2021. This will become an annual report.

Certification

It is our opinion, considering the foregoing, that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance. We consider the governance and internal control environment operating during the financial year from 1 April 2020 to 31 March 2021 to provide reasonable and objective assurance. Any significant risks impacting on the council as administering authority and its ability to achieve its objectives in properly administering the Fund have and will continue to be identified, and actions have and will be taken to avoid or mitigate the impact of any such risks.

Where areas for improvement have been identified and action plans agreed, we will ensure that they are treated as priority and progress towards implementation is reviewed through the governance structures and processes established for the council as administering authority and summarised herein. We will continue to review and enhance, as necessary, our governance arrangements.

Governance Compliance Statement

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
Structure				
1.1	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Responsibility rests with the Superannuation Fund and Pensions Committee, a Committee of Fife Council. The Council's List of Committee Powers sets out the Committee's remit.	Yes	
1.2	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	The Committee is made up of 9 councillors from Fife Council. The establishment of the Pension Board has formalised the involvement of employers and trade unions representing the membership.	Yes	
1.3	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Not applicable – there is no secondary committee or panel.		
1.4	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Not applicable – there is no secondary committee or panel.		

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
Representation				
2.1	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure.	All Committee meetings are held jointly with the Pension Board.		
	These include:-			
	i) employing authorities (including non-scheme employers, e.g. admitted bodies);	Fife Council is represented. The Board has 4 employer representatives.	Yes	
	ii) scheme members (including deferred and pensioner scheme members);	The Board has 4 employee representatives appointed by the Trade Unions.	Yes	
	iii) where appropriate independent professional observers;	Appointment of an Independent Professional Observer was agreed at Committee in 2019. The appointment process and procurement is ongoing following delay due to COVID19 pandemic	Yes	
	and			
	iv) expert advisors (on an ad-hoc basis)	Attend routinely as required.	Yes	
2.2	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	All Committee members and Board representatives receive the same access to all papers and training and are given the opportunity to contribute, challenge and debate fully in the decision making process.	Yes	
Selection and Role of Lay Members				
3.1	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.	All new members of the Committee are required to attend induction training, which also provides them with guidance from the Council's Democratic Services Division about their role and responsibilities.	Yes	

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
3.2	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Noted on every Committee agenda paper.	Yes	
Voting				
4.1	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	The 9 councillors have voting rights.	Yes	
Training/Facility Time/Expenses				
5.1	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility, time and reimbursement of expenses in respect of members involved in the decision-making process.	A training policy has been developed which requires that all new members of the Committee are offered induction training by officers. Internal training events are designed to cover a range of pension administration and investment matters are offered to Committee. Seminars and training events are offered by the Fund's external professional advisers, Fund Managers and other providers.	Yes	
		Training costs and expenses incurred are met by the Pension Fund.		
5.2	That where such a policy exists, it applies equally to all members of committees, Committees, advisory panels or any other form of secondary forum.	Applies to all members of Committee and the Board.	Yes	

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
5.3	That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	<p>A training policy was developed and approved by Committee to incorporate full training requirements for a member to ensure they have the appropriate skills to fulfil their role. Training is offered on an ad hoc basis as needs are identified and also as appropriate, the policy now recommends a minimum of 2 days per annum. Training is identified from a variety of sources. Members are required to advise of training attended. Monitoring of activities will be undertaken by the Committee</p> <p>..... A</p> <p>Training Needs Assessment (TNA) has been developed and issued during the year to allow members of the Committee and Board to assess their individual training needs. A series of training events is being developed to be scheduled in advance of Committee meetings and will provide training relevant to current or future issues for the Pension Fund.</p>	Partial	

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
Meetings (frequency/quorum)				
6.1	That an administering authority's main committee or committees meet at least quarterly.	Meetings are held quarterly and additional meetings are held when necessary.	Yes	
6.2	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Not applicable – there is no secondary committee or panel.		
6.3	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Employer Forum held annually. The Pension Board formally provides for stakeholder involvement.	Yes.	
Access				
7.1	That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members, Board representatives and observers are treated equally in terms of access to papers, documents and advice.	Yes	
Scope				
8.1	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The terms of reference of the committee includes all pension related matters within the terms of Local Government Pension Scheme legislation and the Pensions Regulator requirements.	Yes	

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
Publicity				
9.1	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	The Annual Governance Statement and Governance Compliance statement are available on the Council's Pensions website at www.fifepensionfund.org and are included in the Pension Fund Annual Report. Council governance documents are available on the Council website.	Yes	

Steven Grimmond
Chief Executive

Councillor Dave Dempsey
Convener of the Superannuation Fund and Pensions Committee

ACTUARIAL STATEMENT

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2018. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy (FSS), dated March 2021. In summary, the key funding principles are as follows:-

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 18 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 66% chance that the Fund will return to full funding over 18 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018 was as at 31 March 2020. This valuation revealed that the Fund's assets, which at 31 March 2020 were valued at £2,536 million, were sufficient to meet 97% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2020 valuation was £72 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2021 to 31 March 2024 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2020 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth and inflation to retirement or expected earlier date of leaving pensionable membership.

Assumptions

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

The key financial assumptions adopted for the 2020 valuation were as follows:-

Financial Assumptions	31 March 2020
Discount rate	3.1%
Salary increase assumption	2.2%
Benefit increase assumption (CPI)	1.7%

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2019 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:-

	Males	Females
Current Pensioners	20.3 years	23.1 years
Future Pensioners*	21.6 years	25.1 years

* Currently aged 45.

Copies of the 2020 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2020

Markets were severely disrupted by COVID-19 at the 31 March 2020 funding valuation date, resulting in depressed asset values but have recovered strongly in 2020/21. Although the value placed of the obligations will also have increased due to changes in underlying market conditions, the funding level of the Fund as at 31 March 2021 is likely to be significantly improved compared to that reported as at 31 March 2020.

The next actuarial valuation will be carried out as at 31 March 2023. The Funding Strategy Statement will also be reviewed at that time.

Robert Bilton FFA

For and on behalf of Hymans Robertson LLP
27 May 2021

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

REMUNERATION REPORT

The Fife Pension Fund does not directly employ any staff. We have therefore not included a remuneration report within the Annual Report.

All staff are employed by Fife Council, and their costs reimbursed by the Fife Pension Fund.

The members of the Superannuation Fund and Pensions Committee and Pension Board are also remunerated by Fife Council or Admitted or Scheduled Bodies.

Details of Councillor and Senior Employee remuneration can be found in the accounts of Fife Council on the Council's website www.fife.gov.uk/AnnualAccounts

STATEMENT OF RESPONSIBILITIES FOR THE PENSION FUND ACCOUNTS

The Administering Authority's Responsibilities

The Authority is required: -

- to make arrangements for the proper administration of the financial affairs of the Fife Pension Fund and to secure that the proper officer has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this Authority, that officer is the Executive Director Finance and Corporate Services;
- to manage the affairs of the Pension Fund to secure economic, efficient and effective use of resources and safeguard its assets;
- to ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003) as amended by the Coronavirus (Scotland) Act 2020 ; and
- to consider the unaudited accounts no later than 31 August and to approve the audited accounts for signing by 7 December 2021.

I certify that these Annual Accounts were approved for signature by, or on behalf of, the authority.

Signed on behalf of Fife Council

Councillor Dave Dempsey
Convener of the Superannuation Fund and Pensions Committee

Responsibilities of Executive Director Finance and Corporate Services

The Executive Director Finance and Corporate Services is responsible for the preparation of the Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

In preparing the statement of accounts, the Executive Director Finance and Corporate Services has:-

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with legislation; and
- complied with the local authority Accounting Code (in so far as it is compatible with legislation).

The Executive Director Finance and Corporate Services has also: -

- kept adequate accounting records which are up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the financial statements give a true and fair view of the financial position of the Fife Pension Fund at the reporting date and the transactions of the Pension Fund for the year ended 31 March 2021.

Eileen Rowand
Executive Director Finance and Corporate Services

Fife Pension Fund Accounts

Fund Account

The Fund Account sets out all income and expenditure of the Pension Fund.

2019-20			2020-21
£m		Notes	£m
	Dealings with members, employers and others directly involved in the fund		
(100.340)	Contributions Receivable	6	(105.763)
(2.454)	Transfers in from other pension funds		(2.335)
(102.794)			(108.099)
87.700	Benefits Payable	7	86.723
2.675	Payments to and on Account of Leavers	8	7.572
90.375			94.295
(12.419)	Net (additions)/withdrawals from dealings with members		(13.803)
16.087	Management Expenses	9	17.353
3.668	Net (additions)/withdrawals including fund management expenses		3.550
	Returns on investments		
(30.070)	Investment Income	10	(24.222)
0.151	Taxes on income		0.165
102.175	(Profit) and losses on disposal of investments and changes in the market value of investments	11a	(747.065)
72.255	Net return on investments		(771.122)
75.924	Net (increase)/decrease in the net assets available for benefits during the year		(767.572)
2,611.511	Opening net assets of the scheme at 1 April		2,535.587
(75.924)			767.572
2,535.587	Closing net assets of the scheme at 31 March		3,303.159

Fife Pension Fund Accounts

Net Asset Statement

The Net Asset Statement sets out the value, as at the statement date, of all assets and current liabilities of the Fund. The net assets of the Fund (assets less current liabilities) represents the funds available to provide for pension benefits as at 31 March 2021.

2019-20			2020-21
£m		Notes	£m
	Investments		
2,541.470	Investment Assets	11b	3,306.884
(2.431)	Investment Liabilities	11b	(0.456)
2,539.039	Total net investments		3,306.428
	Current Assets		
1.774	Contributions due from Employers		3.793
1.893	Cash Balances		0.758
0.828	Debtors	17	0.323
4.495			4.873
	Current Liabilities		
(3.992)	Unpaid Benefits		(3.694)
(3.955)	Other Current Liabilities		(4.447)
(7.947)			(8.142)
(3.452)	Net Current Assets & Liabilities		(3.269)
2,535.587	Net Assets of the fund available to fund benefits at the end of the year		3,303.160

Note: The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the year end. The actuarial present value of promised retirement benefits is disclosed at Note 16.

The unaudited financial statements were issued on 30 June 2021 and the audited accounts were authorised for issue on 7 December 2021.

Eileen Rowand
Executive Director Finance and Corporate Services

Notes to the Fife Pension Fund Accounts for the year ended 31 March 2021

1 Description of Fund

The Fife Pension Fund ('the fund') is part of the Local Government Pension Scheme (LGPS) and is administered by Fife Council. The council is the reporting entity for this fund.

The following description of the fund is a summary only. For more detail, reference should be made to the Fife Pension Fund Annual Report 2020-21 and the underlying statutory powers underpinning the scheme.

General

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

- the local Government Pension Scheme (Scotland) Regulations 2018 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) (Scotland) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015
- the Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 2010 (amended by SSI 2016/74)

It is a contributory defined benefit pension scheme administered by Fife Council to provide pensions and other benefits for pensionable employees of Fife Council and a range of other scheduled and admitted bodies within the Fife area. Teachers are not included as they come within other national pension schemes.

The fund is overseen by the Superannuation Fund and Pensions Committee which is a committee of Fife Council.

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. The fund is also open to elected members of the Council.

Organisations participating in the fund include the following:

- 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. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

Fife Council Pension Fund	31 March 2020	31 March 2021
Number of employers	25	21
Number of employee in scheme		
Fife Council	13,367	13,045
Other employers	2,312	1,963
Total	15,679	15,008
Number of pensioners		
Fife Council	12,560	12,884
Other employers	1,175	1,246
Total	13,735	14,130
Deferred Members	7,194	7,351
Total number of members	36,608	36,489

1 Description of Fund (continued)

Changes in Membership

in 2020, Fife Pension Fund offered Community Admitted Bodies the opportunity to cease participation in the pension fund with the exit payment being assessed on an ongoing basis as opposed to a gilts cessation basis. The offer was on the basis that Fife Council accepts the small employers liabilities and assets as its own.

Three employers exited the fund on this basis:

- Fife Women's Aid on 30 September 2020
- St Andrew's Botanic Gardens Trust on 31 October 2020
- Fife Historic Buildings Trust on 10 December 2020

Visit Scotland membership was transferred to Lothian Pension Fund on 30 September 2020.

Funding

Benefits are funded by contributions and investment earning. Contributions are made by active members of the fund in accordance with the Local Government Scheme Regulations (Scotland) 2018. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations.

Benefits

Prior to 1 April 2015, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below.

	Service pre 1 April 2009	Service to 31 March 2015	Service post 1 April 2015
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary	Each year worked is worth 1/49 x career average salary
Lump Sum	Automatic lump sum of 3 x pension. 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 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 lump sum of £12 is paid for each £1 of pension given up,

2 Basis of Preparation

The statement of the accounts summarises the fund's transactions for the 2020-21 financial year and its position at the year end as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on International Accounting Standard (IAS) 19 basis, is disclosed at Note 16 of these accounts.

3 Statement of Accounting Policies

a) General

These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21, (the Code) which incorporates the International Financial Reporting Standards, in particular International Accounting Standard (IAS) 26 Retirement Benefit Plans, the accounting standard applicable for Pension Funds. The Code also adopts parts of the Financial Reports of Pension Schemes - Statement of Recommended Practice 2015, such as the format of the accounting statements.

b) Accruals

In accordance with the Code, the Accounts and related Statements have been compiled on an accruals basis. Accruals are made for all material debtors and creditors within the accounts. An exception to the accrual principle is in relation to pension transfer values received and or paid out, where these are accounted for on a cash basis as required by the Statement of Recommended Practice on Pension Fund Accounts.

c) Valuation of Investments

Quoted investments are generally valued at closing prices; these prices may be the last trade prices or bid prices, depending on the convention of the stock exchange or other market on which they are quoted. Overseas investments and cash are stated in sterling using exchange rates at close of business.

d) Foreign Currency Transactions

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date.

e) Contributions and Benefits

Contributions and benefits are accounted for in the period in which they fall due. Normal contributions received during the year have been in accordance with Scheme rules and Actuary recommendations.

f) Transfer Values

Transfers of pension benefits between the Local Government Scheme and other schemes for new employees and former employees, is on a cash basis, the amount of transfer having been agreed between both parties

g) Investment Income

Dividends and interest are accounted for when the securities are quoted ex-dividend. Interest on bank deposits is accounted for as it accrues.

h) Administrative and Investment Management Expenses

Administrative expenses and investment management expenses are met by the Fund directly on a negotiated basis and accrued in full each year.

i) Cash and Cash Equivalents

Cash is defined as cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

j) VAT

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

k) 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.

l) Financial Assets

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

3 Statement of Accounting Policies (continued)

m) Financial Liabilities

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

n) 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 IAS19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of note to the net asset statement (Note 16).

o) Additional Voluntary Contributions (AVC)

All local government Pension Funds have an arrangement where members can invest money, deducted directly from pay, through an AVC provider to increase pension benefits.

Fife Council's current AVC providers are Standard Life and Prudential. Former provider Clerical Medical no longer accepts new admissions.

Another historic provider, Equitable Life, transferred its business to Utmost on 1 January 2020. Having taken professional advice from Hymans Robertson, Fife Pension Fund decided to transfer AVC funds with Utmost to Prudential. The transfer of members' AVC funds from Utmost to Prudential was completed on 29 July 2020 with members' AVC monies invested in Prudential funds on 3 August 2020.

AVC's are not included in the accounts in accordance with Regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 but are disclosed as a note only (Note 18)

p) Derivatives

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

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

The value of future contracts is determined using exchange prices at the reporting date. Amounts due from, or owed, to the broker are the amounts outstanding in respect of the initial margin and variation margin.

q) Fair value measurement

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

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

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

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date;

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – unobservable inputs for the asset or liability.

r) Prior Year Adjustments

Prior year adjustments arise as a result of a change in accounting policy, where a material error was made or it is agreed between auditors and the Fife Pension Fund to change accounting estimation techniques.

Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts.

4 Critical Judgements in Applying Accounting Policies

The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 16.

These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return

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

The statement of accounts contains estimated figures that are based on assumptions made by the fund about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of judgements, for example in relation to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and the expected returns on pension fund assets. The fund engages an Actuary to provide expert advice on these assumptions.	The impact on net liabilities of changes to the principal assumptions is shown in Note 16
Financial Assets and Liabilities measured at fair value	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using recognised valuation techniques but as these investments are not publically listed there is a degree of estimation involved in the valuation.	There is significant level of assumption in the valuation for Level 3 assets. This is explained in Note 13
Investment expenses deducted from capital	Quantification of investment management expenses deducted from the capital value of investments involves asking the relevant managers for information and only some of this information can be independently verified. Where the charges relate to an investment as a whole, an estimate is made of the costs applicable to the holding owned by Fife Council Pension Fund.	There is a risk that the cost of investment management expenses deducted from capital may be under or overstated. However, as the costs are included in the fund account by adjusting the change in market value of investments, any inaccuracy in the cost estimate will not change the reported net change in the fund for the year.

6 Contributions Receivable

By Category

2019-20		2020-21
£m		£m
(19.418)	Employees' Contributions	(20.440)
	Employers' Contributions	
(78.790)	Normal contributions	(82.480)
(2.132)	Augmentation contributions	(2.843)
(80.922)	Total employers' contributions	(85.323)
(100.340)		(105.763)

By authority

2019-20		2020-21
£m		£m
(85.599)	Fife Council	(90.405)
(6.450)	Scheduled bodies	(7.060)
(8.291)	Admitted bodies	(8.298)
(100.340)		(105.763)

7 Benefits Payable

By Category

2019-20		2020-21
£m		£m
66.265	Pensions	69.499
19.072	Lump sum retirement benefits	14.341
2.363	Lump sum death benefits	2.883
87.700		86.723

By authority

2019-20		2020-21
£m		£m
78.709	Fife Council	78.579
3.835	Scheduled bodies	3.457
5.155	Admitted bodies	4.687
87.700		86.723

8 Payments to and on Account of Leavers

2019-20		2020-21
£m		£m
0.230	Refunds to members leaving service	0.195
0.003	State Scheme Premiums	0.001
	Transfers to other Schemes	
2.442	Individuals	3.535
0.000	Visit Scotland	3.841
2.675		7.572

9 Management Expenses

2019-20		2020-21
£m		£m
1.926	Administrative costs	1.872
13.512	Investment management expenses	14.594
0.649	Oversight and governance costs	0.887
16.087		17.353

Included in the oversight and governance costs is the external audit fee of £0.038m (£0.036m 2019-20)

9a Investment Management Expenses

2020-21	Management Fees	Performance Related Fees	Transaction Costs	Total
	£m	£m	£m	£m
Pooled Investments	2.511	0.000	1.875	4.386
Equities	2.829	0.000	0.030	2.859
Bonds	0.440	0.479	0.153	1.072
Pooled Property Investments	1.765	0.000	0.339	2.104
Private Equity/Infrastructure	1.883	1.920	0.187	3.989
Cash	0.000	0.000	0.000	0.000
	9.427	2.399	2.584	14.410
Custody Fees				0.184
				14.594

2019-20	Management Fees	Performance Related Fees	Transaction Costs	Total
	£m	£m	£m	£m
Pooled Investments	2.150	0.000	2.247	4.397
Equities	2.106	0.000	0.127	2.233
Bonds	0.619	1.387	0.045	2.051
Pooled Property Investments	1.848	0.000	0.859	2.707
Private Equity/Infrastructure	1.245	0.000	0.261	1.505
Cash	0.135	0.000	0.000	0.135
	8.102	1.387	3.539	13.028
Custody Fees				0.484
				13.512

Disclosed transaction costs are directly attributable to the acquisition, issue or disposal of financial assets or liabilities. They include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, transfer taxes and duties.

Fife Pension Fund complies with CIPFA guidance in terms of accounting for and disclosing transaction costs. Details are disclosed in Notes 9 and 9a of the accounts. Transaction costs for 2020-21 are reported as £2.584m (2019-20 £3.539m). Continued participation in the Cost Transparency Initiative and completion of templates has enhanced disclosure of costs.

10 Investment Income

2019-20		2020-21
£m		£m
(5.919)	Fixed interest securities	(5.692)
(5.962)	Equity dividends	(6.916)
(12.388)	Pooled property investments	(7.137)
(2.194)	Pooled investments-unit trusts and other managed funds	(1.719)
(1.490)	Private equity	(2.437)
(0.837)	Interest on cash deposits	(0.111)
(1.282)	Securities Lending	(0.210)
0.000	Broker commissions recaptured	0.000
(30.070)		(24.222)

11a Reconciliation of Movements in Investments and Derivatives

Purchases and sales of derivatives are recognised as follows:

Futures - on close out or expiry of the futures contract the variation margin balances held in respect of unrealised gains or losses are recognised as cash receipts or payments, depending on whether there is a gain or loss.

Options - premiums paid and received are reported as payments or receipts together with any close out costs or proceeds arising from early termination.

Forward currency contracts - forward foreign currency exchange contracts settled during the period are reported on a net contract basis as either a purchase or a sale.

2020-21	Value at 1 April 2020	Purchases (at cost) and Derivative Payments	Sales Proceeds and Derivative Receipts	Change in Value	Value at 31 March 2021
	£m	£m	£m	£m	£m
Fixed interest securities	270.064	47.668	(42.940)	(2.145)	272.647
Equities	725.091	197.012	(687.564)	435.751	670.289
Pooled Investments	1,110.992	396.729	(1.914)	314.215	1,820.022
Pooled Property Investments	217.098	8.204	(6.122)	(13.686)	205.494
Private Equity/Infrastructure	104.249	68.154	(16.469)	4.880	160.813
	2,427.493	717.767	(755.009)	739.014	3,129.266
Derivative contracts:					
Futures	(0.165)	4.675	(5.663)	1.148	(0.006)
Purchased/written options	0.000	0.000	0.000	0.000	0.000
Forward currency contracts	(0.374)	0.717	(0.826)	0.565	0.083
	2,426.954	723.159	(761.498)	740.727	3,129.342
Other investment balances	0.166			(0.569)	0.006
Cash deposits	110.668			(2.927)	174.697
Amount receivable for sales of investments	0.244			0.000	0.000
Investment income due	2.695			0.000	2.740
Amount receivable for pending spot FX	(0.002)			1.002	0.000
Amount payable for purchases of investments	(1.685)			(0.024)	(0.356)
Total Investment Assets	2,539.039			738.209	3,306.428

Trading gains and market value movements accounted for £747.065m per the Fund Account. This is different to the £738.209m reported above. The reason for this difference is £8.856m of indirect management expenses which have been included within note 9 to the accounts

11a Reconciliation of Movements in Investments and Derivatives (continued)

2019-20	Value at 1 April 2019	Purchases (at cost) and Derivative Payments	Sales Proceeds and Derivative Receipts	Change in Value	Value at 31 March 2020
	£m	£m	£m	£m	£m
Fixed interest securities	260.380	40.703	(39.300)	8.281	270.064
Equities	644.113	248.532	(238.393)	70.839	725.091
Pooled Investments	1,286.292	42.150	(37.408)	(180.041)	1,110.992
Pooled Property Investments	229.789	12.492	(9.188)	(15.995)	217.098
Private Equity/Infrastructure	50.451	48.298	(3.575)	9.074	104.249
	2,471.024	392.174	(327.864)	(107.841)	2,427.493
Derivative contracts:					
Futures	(0.155)	9.366	(7.786)	(1.590)	(0.165)
Purchased/written options	0.000	0.000	0.000	0.000	0.000
Forward currency contracts	0.057	1.867	(1.948)	(0.351)	(0.374)
	2,470.927	403.407	(337.598)	(109.783)	2,426.954
Other investment balances	0.155			0.801	0.166
Cash deposits	139.572			0.169	110.668
Amount receivable for sales of investments	0.000			0.000	0.244
Investment income due	2.400			0.000	2.695
Amount receivable for pending spot FX	(0.000)			(0.022)	(0.002)
Amount payable for purchases of investments	(0.601)			0.031	(1.685)
Total Investment Assets	2,612.452			(108.804)	2,539.039

Trading gains and market value movements accounted for £102.175m per the Fund Account. This is different to the £108.804m reported above. The reason for this difference is £6.630m of indirect management expenses which have been included within note 9 to the accounts

11b Analysis of Investments

2019-20		2020-21
£m		£m
	Investment assets	
270.064	Bonds	272.647
725.091	Equities	670.289
	Pooled Investments	
91.234	Fixed income unit trust	479.009
1,019.758	Equity unit trust	1,341.013
217.098	Pooled property investments	205.494
104.249	Private equity/Infrastructure	160.813
0.000	Property	0.000
0.000	Diversified Alternatives	0.000
	Derivative contracts:	
0.187	Futures	0.094
0.000	Purchased/written options	0.000
0.016	Forward currency contracts	0.083
0.000	Swaps	0.000
110.668	Cash deposits	174.697
2.695	Investment Income due	2.740
0.244	Amounts receivable for sales	0.000
0.000	Amounts receivable for pending spot FX	0.000
0.166	Other Investment assets	0.006
2,541.470		3,306.884
	Investment liabilities	
	Derivative contracts:	
(0.352)	Futures	(0.100)
0.000	Purchased/written options	0.000
(0.391)	Forward currency contracts	0.000
0.000	Swaps	0.000
(1.685)	Amounts payable for purchases	(0.356)
(0.002)	Amounts payable for pending spot FX	0.000
0.000	Other Investment liabilities	0.000
(2.431)		(0.456)
2,539.039	Total	3,306.428

11c Investments Analysed by Fund Manager

Market Value 31 March 2020			Market Value 31 March 2021	
£m	%		£m	%
		Fund Mangers		
785.697	30.94	Baillie Gifford	741.212	22.42
183.114	7.21	Henderson Global Investors	187.923	5.68
181.882	7.16	Western Asset Management	188.462	5.70
557.255	21.95	Blackrock Investment Management (UK) Ltd	690.378	20.88
401.347	15.81	State Street Global Advisors	577.410	17.46
60.152	2.37	Partners Group	54.269	1.64
23.314	0.92	Other Infrastructure Managers	86.544	2.62
234.359	9.23	CBRE Global Investors	227.403	6.88
0.000	0.00	LGIM 6A Corporate Bond Fund	101.841	3.08
0.000	0.00	LGIM Over 5 Year US Index-Link	280.087	8.47
21.987	0.87	Private Debt	31.369	0.95
2,449.105	96.46		3,166.899	95.78
		Money Market Funds		
89.93	3.54	Northern Trust Money Market Fund	139.529	4.22
2,539.039	100.00		3,306.428	100.00

The following investments represent more than 5% of the net assets of the scheme.

Market Value 31 March 2020			Market Value 31 March 2021	
£m	%		£m	%
376.094	14.81	Aquila Life UK Equity Index Fund, managed by Blackrock Investment Management (UK) Ltd	478.154	14.46
235.493	9.27	Baillie Gifford Diversified Growth Fund, managed by Baillie Gifford	278.468	8.42
401.347	15.81	MPF Fundamental Index Global Equity Fund, managed by State Street Global Advisors	577.410	17.46
		CG - > 5Yr US Inflation-Linked Index	280.087	8.47

11d Stock Lending

The fund's investment strategy sets the parameters for the fund's stock-lending programme. At the year-end, the value on loan was £100.628m (31 March 2020 £80.243m). This stock-lending programme continues to be recognised in the fund's financial statements. Counterparty risk is managed through holding collateral at the fund's custodian bank. At the year-end the fund held collateral (via the custodian) at a market value of £104.328m (31 March 2020 £85.906m) representing 103.7% of stock lent. Collateral consists of acceptable securities and government debt.

2019-20		2020-21
£m		£m
49.226	Bonds	63.135
31.017	Equities	37.493
80.243		100.628

12 Analysis of Derivatives

Objectives and policies for holding derivatives

A derivative is a financial instrument that derives its value from another, underlying financial instrument or asset, which could be an equity, bond, an index, another derivative or a real asset.

Fund managers may use derivatives to gain exposure to an asset more efficiently than holding the underlying asset. They are used to manage risk; either to assume risk, to hedge risk or to reduce risk. The use of derivatives is managed in line with the investment management agreements in place between the fund and the various investment managers.

Western Asset Management used futures as part of their fixed interest trading strategy to lower costs and improve efficiency, particularly during periods of higher uncertainty, such as around elections and referenda.

Futures

Outstanding exchange traded futures contracts are as follows:

2020-21	Expires	Economic Exposure	Assets	Liabilities
			£m	£m
Fixed Income Futures				
Overseas fixed interest	one year	(1.824)	0.094	
UK fixed interest	one year	1.914		(0.020)
Overseas fixed interest	one year	1.686		(0.079)
		1.776	0.094	(0.100)

2019-20	Expires	Economic Exposure	Assets	Liabilities
			£m	£m
Fixed Income Futures				
Overseas fixed interest	one year	2.152	0.178	
UK fixed interest	one year	(0.409)	0.009	
Overseas fixed interest	one year	(3.847)		(0.352)
		(2.104)	0.187	(0.352)

The economic exposure represents the notional value of bonds purchased under the futures contract on an absolute basis, and is therefore subject to market movements

Open forward currency contracts

Settlements	Currency Bought	Local Value	Currency Sold	Local Value	Assets	Liabilities
		£m		£m	£m	£m
One to six months	GBP	4.858	EUR	(6.660)	0.031	0.000
One to six months	GBP	1.645	USD	(1.871)	0.049	0.000
One to six months	USD	0.643	GBP	(0.464)	0.002	0.000
Open forward currency contracts at 31 March 2021					0.083	0.000
Net forward currency contracts at 31 March 2021						0.083
Prior Year Comparative						
Open forward currency contracts at 31 March 2020					0.016	(0.391)
Net forward currency contracts at 31 March 2020						(0.374)

13 Fair Value - Basis of Valuation

The basis of the valuation of each class of Investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and options in UK bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled investments-overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Pooled investments - hedge funds	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuation could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows, and by any differences between audited and unaudited accounts
Freehold and leasehold properties	Level 3	Valued at fair-value at the year-end using the investment method of valuation	Existing lease terms and rentals; Independent market research; nature of tenancies; covenant strength for existing tenants; assumed vacancy levels; estimated rental growth; discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices

13 Fair Value - Basis of Valuation (continued)

13a Fair Value Hierarchy

The valuation of investment assets and liabilities has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Investment assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Investment assets and liabilities at 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.

Level 3

Investment assets and liabilities at 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 include unquoted investments, investments in property funds and inflation index linked notes, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

For 2019-20 the outbreak of the Coronavirus pandemic impacted on market activity across many sectors. At the valuation date less weight could be attached to previous market evidence for comparison purposes, therefore valuers were faced with unprecedented circumstances on which to base judgements. Valuations were reported based on "material valuation uncertainty" as per the VP3 And VPGA 10 of the RICS Red Book Global, indicating less certainty and a higher degree of caution were attached to the valuation of the Funds' investment property assets than normal.

During 2020-21 the "material valuation uncertainty" clauses were lifted by RICS in recognition of recovery of the markets and evidence on which to base judgements.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Fife Council Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuation dates of these investments may not have taken place at the Council's balance sheet date, however, widely recognised valuation methods are used to establish the 31 March valuations as appropriate.

13a Fair Value Hierarchy (continued)

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable. There were no transfers between level 3 and level 1 in the year.

Values at 31 March 2021	Quoted Market Price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Investment assets at fair value	1,909.423	1,085.017	311.988	3,306.428
	1,909.423	1,085.017	311.988	3,306.428

Values at 31 March 2020	Quoted Market Price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Investment assets at fair value	1,623.024	646.374	269.642	2,539.039
	1,623.024	646.374	269.642	2,539.039

13b Reconciliation of Fair Value Measurements within Level 3

	Market value 1 April 2020	Transfers into Level 3	Transfers out of Level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/ (losses)	Realised gains/ (losses)	Market value 31 March 2021
	£m	£m	£m	£m	£m	£m	£m	£m
Overseas Property Funds	2.848					(2.840)		0.007
Overseas Venture Capital	88.654			21.939	(14.674)	(2.028)	1.425	95.315
UK Fixed Income								0.000
UK Property Funds	155.068			5.173	(5.561)	(9.746)	(2.530)	142.404
Overseas Equities	0.653		(0.181)	0.920		0.390		1.782
UK Equities	6.824					0.157		6.981
UK Venture Capital	15.595			46.215	(1.796)	5.483		65.498
	269.642	0.000	(0.181)	74.246	(22.030)	(8.584)	(1.105)	311.988

14 Classification of Financial Instruments

31 March 2020				31 March 2021		
Fair value through profit and loss £m	Assets carried at Amortised Cost £m	Financial liabilities at amortised cost £m		Fair value through profit and loss £m	Assets carried at Amortised Cost £m	Financial liabilities at amortised cost £m
			Financial assets			
270.064			Fixed Interest Securities	272.647		
725.091			Equities	670.289		
1,110.992			Pooled Investments	1,820.022		
217.098			Pooled Property Investments	205.494		
104.249			Private Equity-Infrastructure	160.813		
0.203			Derivative contracts	0.176		
	110.668		Cash		174.697	
0.166	2.695		Other Investment balances	0.006	2.740	
	0.244		Debtors		0.000	
2,427.862	113.608	0.000		3,129.448	177.436	0.000
			Financial Liabilities			
		(0.743)	Derivative contracts			(0.100)
		(0.002)	Other Investment balances			0.000
		(1.685)	Creditors			(0.356)
0.000	0.000	(2.431)		0.000	0.000	(0.456)
2,427.862	113.608	(2.431)	Total	3,129.448	177.436	(0.456)
2,539.039			Grand Total	3,306.428		

15 Nature and Extent of Risks Arising from Financial Instruments

The fund holds various classes of assets ranging from cash held in bank accounts, through equities to various less liquid assets like property and infrastructure fund investments. This allows current liabilities i.e. current pension commitments to be paid in full, with ease and certainty.

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities. In other words that there will not be sufficient funds realised from any future sale of assets to meet future pension payments. The aim of risk management is therefore to minimise the risk of a fall in the value of the fund and to maximise the opportunity for gains. This is achieved by asset diversification. This note looks at the nature and extent of risks arising from, in particular, investment in financial instruments.

The following are the key risks identified as relating to financial instruments:-

Liquidity risk

Credit risk

Market risk - currency risk, interest rate risk, other price risk

Liquidity Risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. Officers ensure the fund has adequate cash resources to meet ongoing pensioner payroll costs and investment commitments. A substantial portion of the Fund's investments consist of readily realisable securities in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. However, the main liability of the Fund are benefits payable, which fall due over a long period and the investment strategy reflects the long term nature of these liabilities. Therefore the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property which are subject to longer redemption periods and cannot be considered as liquid as the other investments. The Fund maintains a cash balance to meet working requirements and has immediate access to its cash holdings.

All financial Liabilities are due within one year.

15 Nature and Extent of Risks Arising from Financial Instruments (continued)

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 value of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is provided for in the fund's financial assets and liabilities.

In essence, the fund's entire investment portfolio is exposed to some form of credit risk, but the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through failure to settle a transaction in a timely manner. Deposits are not made with banks and financial institutions unless they are rated independently and meet the Pension Fund's credit criteria. The Fund invests in the money markets to provide diversification.

The Fund believes it has managed its exposure to credit risk and has had no experience of default or uncollectible deposits over the past year.

Market Risk

Market risk is the risk of loss from fluctuations in 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 advisors undertake appropriate monitoring of market conditions and benchmark analysis. The diversification of the portfolio is reflected in the fund's investment strategy; the current strategy, as agreed by the Superannuation Fund and Pensions committee, is detailed in the Statement of Investment Principles at Appendix A of this Report.

The subdivisions of market risk can be measured and the following tables provide an estimate of the potential volatility the fund is exposed to through the three components of market risk i.e. currency, interest rate and other.

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 denominated in any currency other than £UK. The fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

Currency risk is monitored for the fund by its investment managers.

Following analysis of historical data, in consultation with the fund's investment advisors, the fund considers the likely volatility associated with foreign exchange rate movements to be 10%.

A 10% fluctuation in currency is considered reasonable, based on the fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling thirty six month period. The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

The tables below summarise the fund's currency exposure as at 31 March 2021 and 31 March 2020 and the impact of a 10% increase/decrease in the value of the pound on the fund's asset classes.

15 Nature and Extent of Risks Arising from Financial Instruments (continued)

Market Risk - currency risk 31 March 2021	Asset Value	Asset Value on increase of 10%	Asset Value on decrease of 10%
	£m	£m	£m
Currency Exposure-asset type			
Overseas Equities	660.057	726.063	594.051
Overseas Unit Trusts	278.468	306.315	250.621
Overseas public sector bonds (quoted)	2.024	2.226	1.821
Overseas corporate bonds (quoted)	43.606	47.966	39.245
	984.154	1,082.570	885.739

Market Risk - currency risk 31 March 2020	Asset Value	Asset Value on increase of 10%	Asset Value on decrease of 10%
	£m	£m	£m
Currency Exposure-asset type			
Overseas Equities	715.874	787.461	644.286
Overseas Unit Trusts	235.493	259.043	211.944
Overseas public sector bonds (quoted)	1.822	2.004	1.640
Overseas corporate bonds (quoted)	42.228	46.451	38.005
	995.417	1,094.959	895.876

Interest Rate Risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. Investments are subject to interest rate risks, which represent the risk that the 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 monitored for the fund by its investment managers. The Council recognises that interest rates vary and can affect both income to the fund and the value of the net assets available to pay benefits. A 1.0% movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment advisor has advised that long-term average rates are expected to move less than 1.0% from one year to the next.

The fund's exposure to interest rate movements is set out in the tables below. The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

15 Nature and Extent of Risks Arising from Financial Instruments (continued)

Market Risk - interest rate risk 31 March 2021	Duration (years)	Asset Values assumed £m	Asset Value on increase of 1% £m	Asset Value on decrease of 1% £m
Asset Type				
Fixed Interest Securities				
UK public sector (quoted)	13.57	93.113	80.473	105.752
UK corporate (quoted)	8.04	42.335	38.931	45.738
Overseas public sector (quoted)	11.90	2.024	1.783	2.264
Overseas corporate (quoted)	6.91	43.606	40.593	46.618
UK public sector index linked	22.18	91.570	71.261	111.880
Cash & cash equivalents				
Cash		174.697	176.443	172.950
Total		447.345	409.484	485.202

Market Risk - interest rate risk 31 March 2020	Duration (years)	Asset Values assumed £m	Asset Value on increase of 1% £m	Asset Value on decrease of 1% £m
Asset Type				
Fixed Interest Securities				
UK public sector (quoted)	14.86	98.496	83.859	113.134
UK corporate (quoted)	7.91	40.101	36.930	43.272
Overseas public sector (quoted)	15.02	1.822	1.548	2.096
Overseas corporate (quoted)	7.48	42.228	39.071	45.385
UK public sector index linked	22.97	87.417	67.337	107.496
Cash & cash equivalents				
Cash		110.668	111.775	109.561
Total		380.732	340.520	420.944

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 and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The fund's investment managers mitigate other price risk through diversification. The selection of investments is monitored by the Council to ensure it is within limits specified in the fund's investment strategy.

Hymans Robertson, investment consultants, provided an assessment of risks relating to currency, interest rate and other price risks. Their assessment has been applied to the appropriate assets of the fund and the potential volatility in asset values calculated.

15 Nature and Extent of Risks Arising from Financial Instruments (continued)

Market Risk - other price risk 31 March 2021	1 year expected volatility (%)	% of Fund	Asset Values assumed £m	Value on increase £m	Value on decrease £m
Asset Class					
UK Equities	16.70	14.47	478.300	558.176	398.424
Global Equities	17.40	37.91	1,252.700	1,470.670	1,034.730
Infrastructure	21.00	4.26	140.800	170.368	111.232
Property	14.20	6.89	227.800	260.148	195.452
Corporate Bonds (short term)	3.20	0.68	22.400	23.117	21.683
Corporate Bonds (medium term)	8.00	5.00	165.200	178.416	151.984
Corporate Bonds (long term)	9.90	2.00	66.200	72.754	59.646
fixed gilts (short term)	2.20	0.72	23.900	24.426	23.374
fixed gilts (medium term)	7.30	1.36	44.800	48.070	41.530
fixed gilts (long term)	9.90	1.68	55.500	60.995	50.006
UK index linked gilts (short term)	4.10	0.16	5.300	5.517	5.083
UK index linked gilts (medium term)	7.50	6.58	217.500	233.813	201.188
UK index linked gilts (long term)	9.50	4.45	147.000	160.965	133.035
Cash	0.30	4.46	147.500	147.943	147.058
Absolute Return/Diversified Growth	11.90	8.43	278.500	311.642	245.359
Commodities	0.00	0.00	0.000	0.000	0.000
Private Debt	4.60	0.95	31.400	32.844	29.956
		100.00	3,304.800	3,759.862	2,849.738

Market Risk - other price risk 31 March 2020	1 year expected volatility (%)	% of Fund	Asset Values assumed £m	Value on increase £m	Value on decrease £m
Asset Class					
UK Equities	27.50	15.44	392.100	499.928	284.273
Global Equities	28.00	44.00	1,117.200	1,430.016	804.384
Infrastructure	20.10	3.25	82.600	99.203	65.997
Property	14.20	8.55	217.100	247.928	186.272
Corporate Bonds (short term)	5.00	1.01	25.600	26.880	24.320
Corporate Bonds (medium term)	9.80	3.66	93.000	102.114	83.886
Corporate Bonds (long term)	11.60	1.75	44.500	49.662	39.338
fixed gilts (short term)	2.30	0.65	16.400	16.777	16.023
fixed gilts (medium term)	7.60	1.24	31.500	33.894	29.106
fixed gilts (long term)	10.50	2.43	61.800	68.289	55.311
UK index linked gilts (short term)	4.10	0.17	4.400	4.580	4.220
UK index linked gilts (medium term)	7.40	0.88	22.300	23.950	20.650
UK index linked gilts (long term)	9.30	2.40	60.900	66.564	55.236
Cash	0.30	4.43	112.600	112.938	112.262
Absolute Return/Diversified Growth	13.80	9.27	235.500	267.999	203.001
Commodities	0.00	0.00	0.000	0.000	0.000
Private Debt	7.20	0.85	21.600	23.155	20.045
		100.00	2,539.100	3,073.877	2,004.323

The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

When estimating the volatility the Fund Asset Value at 31 March 2021 was assumed to be £3.305bn. The 1 year weighted average volatility was 13.8% at 31 March 2021, meaning the 'value on increase' would be £3.760bn and the 'value on decrease' would be £2.850bn.

16 Actuarial Valuation

Employee contributions are fixed by statute and employers' basic contributions are assessed every three years by the actuary. The last valuation of the fund was carried out as at 31 March 2020 by Hymans Robertson and the actuarial statement, including assumptions made in the calculations, is contained in this Annual Report

Adjustments have been made to the primary rate of employers' contribution to take account of certain circumstances that are peculiar to individual employers and the minimum level of contributions for each employer is detailed in the report. For Fife Council it was recommended that the employers' contribution rate is as follows:

Financial Year	Employers' Contribution rate
2021-22	24.50%
2022-23	24.50%
2023-24	24.50%

The actuary also undertakes a valuation to present the value of promised retirement benefits, an equivalent calculation which shows employers' future liability to pay pensions earned at the balance sheet date, in accordance with IAS19. It is essentially a snapshot which captures the liability at a specific point in time only and should not be used for comparing against liability measures on a funding basis. The liabilities have been projected using a roll forward from the latest formal fund triennial valuation at 31 March 2020, with no allowance for future unfunded benefits.

	31 March 2020	31 March 2021
	£m	£m
Present Value of Promised Retirement Benefits	3,048.000	4,115.000

The valuation of the fund has been undertaken using the projected unit method under which salary increases for each member are assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were as follows:

IAS 19 Assumptions used

	31 March 2020	31 March 2021
	%	%
Inflation / pension increase rate	1.90	2.85
Salary Increase rate	2.30	3.35
Discount rate	2.30	2.00

Demographic assumptions

	Males	Females
Future life expectancies assumed in the calculation		
Current Pensioners	20.3	23.1
Future Pensioners	21.5	25.1

Sensitivity Analysis

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are:

Change in assumptions at 31 March 2021	Approximate % increase to Defined Benefit Obligation	Approximate monetary amount (£m)
0.5% decrease in Real Discount Rate	9%	361
0.5% increase in the Salary Increase Rate	1%	52
0.5% increase in the Pension Increase Rate	10%	423

17 Analysis of Debtors

2019-20		2020-21
£m		£m
0.279	Central Government	0.239
0.549	Other Debtors	0.084
0.828		0.323

18 Additional Voluntary Contributions (AVC)

2019-20 Contributions	Fund Value 31 March 2020		2020-21 Contributions	Fund Value 31 March 2021
£m	£m		£m	£m
0.112	1.001	Standard Life	0.109	1.064
1.048	3.944	Prudential	1.086	4.351
0.000	0.091	Clerical Medical	0.000	0.064
0.008	0.092	Utmost	0.000	0.000
1.168	5.128		1.195	5.479

Equitable Life, transferred its business to Utmost on 1 January 2020. Having taken professional advice from Hymans Robertson, Fife Pension Fund decided to transfer AVC funds with Utmost to Prudential. The transfer of members' AVC funds from Utmost to Prudential was completed on 29 July 2020 with members' AVC monies invested in Prudential funds on 3 August 2020.

19 Related Party Transactions

Fife Council, the administering authority of the fund, also provides support services for the fund and in 2020-21 charged £1.779m (2019-20 £1.698m) for those services.

Fife Council paid employers' contributions to the Pension Fund of £73.302m (2019-20 £69.328m) and collected and paid over employees's contributions of £17.102m (2019-20 £16.270m)

Governance

All members of both the Superannuation Fund and Pensions Committee and the Pensions Board are members of the Fife Pension Fund.

19a Key Management Personnel

The key management personnel of the fund are the Chief Executive and the Executive Director Finance and Corporate Services. Total remuneration payable to key management personnel is set out below:

2019-20		2020-21
£m		£m
0.277	Salary, fees & Allowances	0.289
0.277		0.289

The pension entitlements for the key management personnel are set out below together with the contribution made by the council during the year

2019-20		2020-21
£m		£m
0.068	In year employer's pension contributions	0.071
	Accrued Pension Benefits	
0.122	Pension	0.129
0.205	Lump Sum	0.212

20 Events after the Reporting Date

Events after the reporting date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is

There have been no events since March 2021 which require disclosure.

21 Contingent Assets and Liabilities

At 31 March 2021 there were no contingent assets or liabilities.

22 Impairment Losses

No investment assets were subject to impairment during the year.

23 Accounting Standards Issued, 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 by not yet adopted.

Accounting Standards not yet adopted are:-

- Definition of a Business: Amendments to IFRS 3 Business Combinations.
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7.
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

There is no significant impact on the pension fund accounts arising from standards not yet adopted.

MEMBERSHIP OF THE FUND

Membership of the fund comprises employees, deferred members and pensioners of Fife Council and other participating employers. The fund is also open to elected members of the Council.

Participating employers are either scheduled or admitted bodies. Scheduled bodies are listed in Schedule 1 of the Local Government Regulations and have a statutory right to join the fund. They must provide access to the LGPS in respect of their employees who are not eligible to join another public service scheme. Admission bodies are those bodies which participate in the scheme via an admission agreement. Those include bodies which carry out a public service otherwise than for purposes of gain and have a community of interest with a scheme employer or those providing a service on behalf of a scheme employer.

The list of participating employers at 31 March 2021 is as follows: -

Scheduled Bodies

Fife Council

Fife College

Scottish Police Authority (for former support staff of Fife Constabulary and new support staff based in the Fife area and includes support staff employed at the Police College)

Scottish Fire & Rescue Service (for former support staff of Fife Fire & Rescue Service and new support staff based in the Fife area)

Admitted Bodies

St Andrews Links Trust

Fife Housing Group

Citizens Advice & Rights Fife

Home-Start Levenmouth

Business Gateway Fife

Drug & Alcohol Project

Fife Intensive Rehabilitation & Substance Misuse Team (FIRST)

The Clued-Up Project

Forth & Oban

Fife Sport & Leisure Trust

Fife Coast & Countryside Trust

Fife Golf Trust

Fife Cultural Trust

Scotland's Rural College (SRUC)

Fife Resource Solutions

Poppyview Family Centre

Sodexo

Changes in Membership

The following bodies exited the fund under the terms of the Small Employers Exit Proposal: -

Fife Women's Aid on 30 September 2020.

St Andrews Botanic Garden Trust on 31 October 2020

Fife Historic Buildings Trust on 10 December 2020.

Visit Scotland membership was transferred to Lothian Pension Fund on 30 September 2020.

FIFE PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

1. Introduction

- 1.1 This Statement of Investment Principles (SIP) was agreed by the Superannuation and Pensions Committee (Committee) of Fife Council (FC) on 29 June 2021. FC is the administering authority for the Fife Pension Fund (the Fund).
- 1.2 The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 require administering authorities to prepare, maintain and publish a SIP. The SIP must be reviewed from time to time and revised within six months of any material changes in the Policy.
- 1.3 In preparing this statement, the Committee has taken professional advice from the Joint Investment Strategy Panel (**JISP**), which includes external advisers and members of the internal investment team who are FCA authorised individuals.
- 1.4 The SIP describes the objectives, policies and principles adopted by the Committee of FC in undertaking the investment of fund monies. The SIP also discloses the extent to which the Fund comply with the six “Myners Principles” of investment practice (Appendix 2).

2. Governance

- 2.1 FC has delegated responsibility for the supervision of the Funds to the Committee, which comprises nine elected members from FC. The Committee is supported by a statutory Pensions Board consisting of four Trade Union and four employer representatives, which is responsible for ensuring that the Fund operates in accordance with the applicable laws and regulations. The Committee and Board will be supported by an independent professional observer from September 2021.
- 2.2 The Committee determines investment strategy based on proper advice from FC’s Executive Director of Finance & Corporate Services. The Executive Director of Finance and Corporate Services delegates this role to the Head of Finance taking advice from the JISP and external investment advisers.
- 2.3 Responsibility for implementing the strategy is delegated to the Executive Director of Finance and Corporate Services who delegates this role to the Head of Finance, taking advice from the JISP and external investment advisers. Day to day management of the Fund’s assets is currently undertaken by external investment managers whose activities are governed by Investment Management Agreements and the limits set out in Scheme regulations.
- 2.4 The SIP forms part of a governance framework that includes Statutory Regulations, the Pensions Committee, the Pension Board, the Joint Investment Strategy Panel, the Funds’ Advisers and the Funds’ Funding Strategy Statement.

3. High Level Investment Principles

The following principles agreed by the Committee are designed to guide the Funds’ governance, strategies and alignment with their agents and to support consistency in decision-making over the long term.

Governance

- 3.1 **Principle 1: Committee believes that their decisions, and those of officers, must give precedence to the fiduciary duty owed to members and employers.** Fiduciary duty is paramount. The Pensions Committee recognises the potential conflicts of interests inherent in a local authority administering a multi-employer pension fund. The objectives of the administering authority, its officials and officers and those of the pension fund are not necessarily the same. The primary objective is to ensure sufficient funding in the long term so that retirement benefits that employers promise to members under scheme rules can be paid when they fall due. (Legal view on fiduciary duty issued by the Scheme Advisory Board is available at <https://lgpsab.scot/fiduciary-duty-guidance/>.)
- 3.2 **Principle 2: Committee believes that the Fund should mitigate risk by ensuring alignment of interests wherever possible.** Agency costs are high in the financial services industry – agents are often motivated to act in their own best interests rather than those of the principal (the Funds). Alignment of interests and partnering with similarly aligned organisations will help to reduce risk and address the principal-agency problem to the benefit of the Funds and partners. External Finance and Corporate Services should, therefore, be used where internal Finance and Corporate Services cannot be justified or obtained, or where an external perspective provides additional skills or insight into investment matters, and where suitable alignment can be established.
- 3.3 **Principle 3: Committee believes that it should work with like-minded partners to benefit from increased scale and greater resilience.** There are significant economies of scale in the business of managing investments, so working with like-minded partners with similar long-term objectives and liabilities can achieve lower costs and reduce operational risks with increased resilience.
- 3.4 **Principle 4: Committee believes that cost transparency aids decision-making.** The asymmetric structure of incentives in financial markets (upside participation in success without downside participation in failure) encourages strategies that may benefit agents (external managers and other financial intermediaries) and be detrimental to investor (Fund) returns. Agents often present fees and other charges in a way that obscures rather than illuminates. Full cost transparency should aid decision-making and so benefit Fund returns.
- 3.5 **Principle 5: Committee believes it should focus on policy setting, including high-level strategic asset allocation which defines risk and return objectives, with appropriate governance structure and oversight.** Implementation of more granular investment decisions (such as the selection/deselection of individual managers and investments) and regular monitoring should be delegated to suitably qualified and experienced individuals with sufficient time and other Finance and Corporate Services at their disposal. Appropriate delegation, constraints and reporting requirements should be in place. Reporting to Committee should focus on the long-term objectives of the Fund and how delegated decisions have contributed to these.

Funding

- 3.6 **Principle 6: Given future uncertainties, the funding strategy should be prudent and should reduce risk to employers of another employer defaulting on its pension obligations.** The Funding Strategy Statement expresses the funding objective, which informs the invested strategy options. The ultimate objective is to ensure long-term solvency so that retirement benefits that employers promise to members under scheme rules can be paid when they fall due, so full funding should be achieved in a prudent manner to ensure that liquid assets are available at the required time. This is important for members, employers and taxpayers as the scheme is ultimately state-backed.

- 3.7 **Principle 7: Committee believes that the the Fund should consider requests for different investment strategies from employers with different objectives.** Employers have conflicting desires: on the one hand, they would like to minimise the fluctuations in contributions and on the other hand, they would like to minimise the overall amount of contributions. Employers may have different objectives, so they should be given the opportunity to request a bespoke investment strategy. The Fund should consider such requests, taking account of issues such as employer covenant and implementation costs.

Investments

- 3.8 **Principle 8: Committee believes that the ability of the Fund to pay pension benefits when they fall due is more important than mark-to-market funding levels.** Committee recognises that there are various ways to measure the value of promised benefits in a defined benefit scheme. Committee believes that where employer circumstances allow, investment strategy should focus on delivering strong (real) returns that grow to cover cashflows over the longer term rather than focusing on protecting the funding level in the short term.
- 3.9 **Principle 9: Committee believes ‘return-seeking’ assets are likely to outperform ‘risk-free’ assets as the investment horizon lengthens, but this is not guaranteed.** Time horizons matter a great deal. The appropriate horizon for investment risk-taking depends on the duration of the liabilities, the profile of projected cash flows and the deficit recovery and contingency plans for the scheme (the sponsor covenant).
- 3.10 **Principle 10: Committee believes in owning a diversified portfolio of assets so that it is not overly exposed to any particular contingency.** Asset diversification can reduce risk where assets are not perfectly correlated. Committee recognises that the future is unpredictable and that real returns from investments are uncertain. Fund returns will be determined primarily by the high-level investment strategy allocation to different asset classes and the timing of material changes. Asset allocation balances diversified risks with the expected additional returns for these risks.
- 3.11 **Principle 11: Committee believes that responsible investment should reduce risk and may improve returns, but that mechanistic divestment is inconsistent with the Fund’s fiduciary duty to members and employers.** The Local Government Pension Scheme (LGPS) was designed with an important social purpose in mind – the provision of retirement income for individuals. The Fund’s fiduciary duty means that the pursuit of financial return is its paramount concern, although it may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment. Committee believes that the decisions to invest in, or divest from, a particular company should be made by an investment manager based on a holistic analysis of financially material issues, including environmental, climate change, social and governance issues.
- 3.12 **Principle 12: Committee believes it should exercise its ownership rights in a responsible way, constructively engaging with companies to reduce risk.** The Fund’s interests are better protected from adverse impacts by collaborating with like-minded investors to have greater influence in engaging with companies, government and regulators. Engagement aims to encourage responsible behaviour by companies in relation to environmental, social and governance issues.
- 3.13 **Principle 13: Committee believes that monitoring and assessment of investment success should be viewed on a long-term basis.** No asset mix provides a stream of cash flows that perfectly matches the liability payments of the Fund as they fall due, so monitoring activity is complex. The Fund is long term in nature and the success of a given investment strategy is likely to ebb and flow with changing investment environments in an unpredictable way. Investment monitoring is challenging and should be viewed through a long-term lens.

- 3.14 **Principle 14: Committee believes that peer group comparative analysis needs to be treated with care.** No two pension funds are identical, so peer group analysis should be undertaken with care as different funds can hold different investment beliefs, objectives and return and risk appetites.

4. Responsible Investment

- 4.1 With liabilities extending decades into the future, it is in the Funds' interest to take its responsibilities as institutional asset owners seriously. To this end, the Funds' approach to responsible investment centers on effective stewardship of all assets, with a particular focus on good corporate governance to deliver sustainable investor value.
- 4.2 The Fund considers a wide range of issues and what financial impact it could have on the assets that it owns. The Funds' investment managers are charged with integrating ESG analysis into their decision-making. Investment managers are selected and appointed after due consideration of their approach to integrating ESG considerations into their investment process.
- 4.3 The Fund demonstrate their open and transparent approach to Responsible Investing by publishing a Statement of Responsible Investment Principles (SRIP). This document explains how the Fund practise responsible investment asset class by asset class, and how it is committed to limiting the impact of climate change. The SRIP is published as a standalone document. It represents the Fund's position on Responsible Investment, and it forms part of the Pensions Committee's regular review of Stewardship and Engagement activities.
- 4.4 Another key strand of the Funds' approach to responsible investment is voting and engagement. For listed equities, the Fund is committed to exercising the right to vote the shares that it owns. It is also committed to engaging with and influencing companies, governments and regulators where appropriate. The Fund does not follow a policy of exclusion or automatic divestment, as such a policy has the potential to transfer ownership rights to investors without responsible investment policies.
- 4.5 The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting. As long-term investors, the Fund recognises the importance of promoting responsible stewardship and long-term decision making. The Fund seeks to adhere to the FRC'S UK Stewardship Code, and encourage it's appointed asset managers to do so too. Details of adherence to the Code are provided in Appendix 2.

5. Fund's Objectives

- 5.1 The **primary objectives** of the Fund is to ensure that there are sufficient funds available to meet all pension and lump sum liabilities as they fall due for payment.
- 5.2 The **funding objectives** for the Fund are documented in the Committee's Funding Strategy Statement, which is reviewed at least triennially. The funding objectives, together with the rates of return being targeted and levels of risk to be tolerated, are central to each Fund's investment strategy, and governs the allocation across various asset classes.
- 5.3 The **investment objectives** of the Fund are to achieve a return on Fund assets which is sufficient over the long term to meet the funding objectives as outlined in the Funding Strategy Statement. Investment returns are generated by a combination of income (from dividends, interest and rents) and gains or losses on capital.

- 5.4 In effect, the Funds' objectives are to generate sufficient long term returns to pay promised pensions and to make the scheme affordable to employers now and in the future, while minimising the risk of having to increase contribution rates in the future.
- 5.5 Committee has set investment strategy with reference to the following **policy groups**, which are regarded as the key determinants of risk and return. The policy groups condense the vast array of investment choices into a manageable number of investment groups with broadly similar characteristics:
- **Equities** provide an equitable share in the assets and profits of companies. Income is provided through discretionary share dividends. Equities are listed in the UK or overseas, or are unlisted (private equity). Equities have historically produced returns above inflation.
 - **Gilts** are debt instruments issued by the UK Government. Typically, these provide interest payments on a regular basis over the life of the loan until capital is repaid at maturity. Some gilts provide interest payments and capital repayment value that is directly linked to price inflation (the Retail Price Index (RPI)). These are known as **Index Linked Gilts** and they provide the closest match to the Funds' liabilities, most of which are inflation-linked. Some other governments also issue this type of debt, but in different currencies tied to price inflation in their own countries.
 - **Non-Gilt Debt** instruments are issued by a range of borrowers to finance their activities in various sectors of the economy, which means that they carry varying degrees of credit risk. Income is provided through interest, which is typically paid to the lender on a regular basis until the loan capital is repaid, generally at par by the issuer at a pre-determined date. Bonds can pay a fixed, variable or inflation-linked rate of interest. Bonds are listed in the UK or overseas, or are unlisted (private debt).
 - **Other Real Assets** are typically investments in a share of income and capital appreciation of tangible assets, including **property** (land and/or buildings for commercial or residential use), **infrastructure** (assets deemed essential to the orderly functioning of daily life, such as renewable energy generation and transmission assets, water utilities, airports and toll roads) and **timberlands**. Income comes from dividends and rents.
 - **Cash** is also a form of investment used to provide instant or short-term liquidity, and can be held in both sterling and foreign currencies (including Treasury Bills, Money Market Funds and Secured Investments). Cash generates interest income, but typically a lower rate than bonds and other debt.
- 5.6 As the returns of the above investments are not completely correlated, the Funds expect to achieve diversification and better risk-adjusted returns by investing in assets from each policy group.

6. Fund strategy

- 6.1 The Committee's agreed investment strategy (presented in Appendix A) is expressed in terms of allocations to various policy groups (or asset classes). These reference portfolios are expected to generate the required return with a reasonable probability of success. The rate of return being targeted and the level of risk to be tolerated are central to the determination of the investment strategy (or asset mix) for Fund.
- 6.2 There may also be demand from individual employers for other investment strategies for their section of the Fund. The Fund will consider such requests, subject to practical implementation of such strategies and, if appropriate, a review of employer contribution rates. It is not practical for the Fund to offer individual employers full flexibility on asset allocation.
- 6.3 The Fund's investment strategy is measured against strategy-specific benchmarks by an independent performance measurement specialist, and these are reported to Committee at least annually with reference to asset market returns as well as liability valuations. The

Executive Director of Finance and Corporate Services is responsible for monitoring investments and investment activity, and she delegates this function to the Head of Finance taking advice from the JISP, which meets at least quarterly.

7. Strategy Implementation

- 7.1 The Committee delegates implementation of strategy to the Executive Director of Finance and Corporate Services, who delegates the role to the Head of Finance, taking advice from the Joint Investment Strategy Panel (JISP). The Head of Finance operates within the parameters agreed by the Committee, investing the Funds' assets in the policy groups within the permitted ranges.
- 7.2 The Head of Finance, advised by the JISP, identifies the combination of investment managers and mandates within the policy groups to deliver the objectives of the Fund. The investment managers and mandates are listed in Appendix B.
- 7.3 To reduce the risk that the Fund does not deliver its objective, controls are set for each manager. These are detailed in formal Investment Management Agreements; and similarly, formal investment objectives and constraints are set for internal mandates where appropriate. The investment managers are responsible for the selection of individual holdings.
- 7.4 The Funds' investment managers and mandates are measured against mandate-specific benchmarks of risk and return by an independent performance measurement specialist. Performance and mandate implementation is monitored by the JISP on a quarterly basis.
- 7.5 The Fund will look to collaborate with other investors to benefit from increased scale and cost sharing arrangements.

8. Other Investment Considerations

Realisation of investments

- 8.1 Most of the Funds' investments are in liquid markets and can be expected to be sold relatively quickly if required. A proportion of the Funds' investments (such as property, private equity, private debt and infrastructure) have less or limited liquidity and would therefore take longer to be sold. The overall liquidity of the Fund's assets is considered in the light of potential demands for cash.

Stock Lending

- 8.2 The Fund lends a proportion of its investments to maximise income from share ownership. Stock lending is conducted within parameters prescribed in the regulations. Stock lending does not prevent any investments from being sold. Safeguards are in place to reduce risk of financial loss in the event of default. These safeguards include receiving liquid collateral in excess of the value of the loan, an indemnity agreement with the lending agent and regular reviews of the credit-worthiness of potential borrowers.

Underwriting

- 8.3 Managers are permitted to underwrite and sub-underwrite stock issues subject to the security being deemed attractive on a medium-term view and subject to the application being limited to an amount the manager would wish to hold over the medium term.

Derivatives

- 8.4 The Committee has approved the use of derivatives, subject to prevailing legislation and control levels outlined in investment manager agreements. A derivative is a security or contract that derives its value from its relationship with another asset. The Fund may make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for efficient portfolio management or to hedge specific risks. For example, forward

currency contracts allow the Funds to reduce risk from currency fluctuations and equity futures allow the Funds to reduce risk during major portfolio rebalances/transitions.

Safekeeping of Assets

- 8.5 The services of a global custodian are employed to ensure the safekeeping of investments.

9. Compliance

Regulations and Investment Limits

- 9.1 The Funds are compliant with the statutory restrictions set out in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 and the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Amendment Regulations 2016.

CIPFA Principles for Investment Decision Making

- 9.2 Regulations require administering authorities to publish the extent to which they comply with guidance issued by Scottish Ministers, which in turn refer to guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Funds' compliance statement is provided in Appendix D.

Review of SIP

- 9.3 The Committee will review this statement annually or more frequently if appropriate. The Committee will consult with such persons as it considers appropriate and take proper advice when revising the statement.

Appendix A – Investment Strategy (29 June 2021)

FIFE PENSION FUND: INVESTMENT STRATEGY

Investment Objectives: to achieve a return and generate sufficient cash to pay pensions as they fall due.

Policy Group	Strategy	Permitted Range
Equities	55%	45%-65%
Real Assets	15%	10%-25%
Non-Gilt Debt	15%	5%-25%
LDI (formerly Gilts)	15%	5%-25%
Cash	0%	0%-10%
Total	100%	

Appendix B – Mandates and Managers

The investment strategy in Appendix A is implemented by investing in a range of mandates managed by external investment managers. The current mandates and managers for the Fund are presented in the table below:

Policy Group	Mandate	Manager
Equities		
	UK Passive	Blackrock
	Global Low Volatility	Blackrock
	Global Growth	Baillie Gifford
	Global Fundamental Indexation	State Street
Real Assets		
	Property	CBRE
	Global Infrastructure	Partners Group
	Infrastructure LPs	Various
Non Gilt Debt		
	Corporate Bonds	Janus Henderson
	Corporate Bonds	Western
	Over 5 Years US Index Linked	Legal and General Investment Management
	Liquid Credit	Legal and General Investment Management
	Private Debt	Various
Gilts		
	Government Bonds	Janus Henderson
	Government Bonds	Western
Cash		
	Cash	Various
Other		
	Diversified Growth	Ballie Gifford

APPENDIX C – Statement of Compliance with UK Stewardship Code

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting transparency and integrity in business. It sets the UK's Corporate Governance and Stewardship Codes. The Funds' Statement of Compliance with the UK Stewardship Code is presented below:

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

We acknowledge our role as an asset owner under the UK Stewardship Code and seek to hold to account our fund managers and service providers in respect of their commitments to the Code.

In practice, our policy is to apply the Code through a) the appointment of Federated Hermes Equity Ownership Services (EOS); b) the work of external investment managers; and c) the work of the internal investment team where appropriate.

We believe that EOS at Federated Hermes enables us to provide the highest standards of stewardship on behalf of the beneficiaries of the Funds through their monitoring of shareholdings, so that we can fulfil our fiduciary responsibilities as long-term shareholders.

- EOS at Federated Hermes has the expertise to undertake corporate engagement on an international basis, and they do this for us. Their aim is to bring about positive long-term change at companies through a focused and value-oriented approach. Engagements undertaken by EOS at Federated Hermes on our behalf are guided by [Hermes EOS Corporate Governance Principles](#).
- Through EOS at Federated Hermes, we also work to establish effective regulatory regimes in the various markets in which we invest to encourage governance structures that facilitate accountability of companies to their owners, give companies the certainty they need to plan for the future, and to level the playing field to ensure companies are not disadvantaged for prioritising long-term profitability.

External fund managers take direct responsibility for stewardship issues, including voting and engagement, in the funds which they manage on our behalf.

Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Fund's efforts to manage potential conflicts of interest can be summarised below:

- We are supported in effectively managing conflicts of interest in relation to our stewardship work by EOS at Federated Hermes. EOS at Federated Hermes explains how it manages conflicts of interest on our behalf in its Stewardship conflicts of interest policy document.
- We also encourage the asset managers employed by the Fund to have effective policies addressing potential conflicts of interest.
- In respect of conflicts of interest within the Fund, Pensions Committee members are required to make declarations of interest prior to Committee meetings.
- Our policy of constructive engagement with companies is consistent with the Funds' fiduciary responsibilities.

Principle 3: Institutional investors should monitor their investee companies.

Day-to-day responsibility for monitoring our equity holdings is delegated to EOS at Federated Hermes and External Fund Managers:

- We expect them to monitor companies, intervene where necessary, and report back regularly on activity.
- Activity will be reported on the Funds' website, including the number of company meetings at which the Fund has voted and how the Fund has voted.

In order to foster a positive working relationship with an individual company and to build trust, EOS at Federated Hermes may be willing to become an "insider". In such circumstances, the relevant information will not be passed to FC until after it is no longer inside information.

Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

As highlighted above, responsibility for day-to-day interaction with companies is delegated, including the escalation of engagement when necessary.

- We expect the approach to engagement on our behalf to be value-orientated and focused on long term sustainable profitability. We expect EOS at Federated Hermes and External Fund Managers to disclose their guidelines for such activities in their own statements of adherence to the Code.
- Consistent with our fiduciary duty to beneficiaries and to encourage improved conduct in future, we consider participating in shareholder litigation where it appears likely that the Fund will recover losses (net of costs) sustained because of inappropriate actions by company directors.

Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate.

We seek to work collaboratively with other institutional shareholders to maximise the influence that we can have on individual companies. We do this through:

- The appointment of EOS at Federated Hermes, whose engagement service pools asset ownership with the aim of protecting and enhancing shareholder value. EOS at Federated Hermes represents us and other like-minded asset owners globally using its expertise to enhance our effectiveness in communicating with companies, industry bodies, regulators and legislators.
- Our preference is for managers to vote on the Funds' behalf and for responsible stewardship to be integral to the investment decision-making process. We are comfortable with delegation of voting to External Fund Managers for the funds they manage.
- For all other mandates, EOS at Federated Hermes votes consistently across the portfolios it covers, and makes voting decisions based on a thorough analysis of publicly available information and always taking account of a company's individual circumstances. EOS at Federated Hermes informs companies where it has concerns and seeks a resolution prior to taking the decision to vote against management. In this way, it uses our votes as a lever for positive change at companies. Underpinning voting decisions are EOS at Federated Hermes Regional Corporate Governance policies, which can be found in the following link:

<https://www.hermes-investment.com/uki/about-us/policies-and-disclosures/>

- We are committed to disclosing our historic voting information on our website. This includes the total number of votes cast at which company meetings and whether the votes were cast for or against company management. We will disclose in arrears so that we are transparent and accountable but dialogue with companies in our portfolios is not compromised.

Principle 6: Institutional investors should report periodically on their stewardship and voting activities.

We are committed to report on our stewardship and voting activities:

- We are committed to reporting annually on stewardship and voting activity in the Funds' annual report and accounts and quarterly on our website.
- We are committed to also report annually on stewardship and voting activity directly to the Pensions Committee.

APPENDIX D – CIPFA Principles for Investment Decision Making and Disclosure

The Chartered Institute of Public Finance and Accountancy (CIPFA) published six Principles for Investment Decision Making and Disclosure in the Local Governance Pension Scheme in the UK in 2012. Details of the principles and the Funds' compliance are described below.

Principle 1 – Effective decision making

Administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. Those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

- The Fund's Trustee Training provision provides the knowledge to enable them to evaluate and challenge the advice they receive. Standards relating to the administration of the Committee's business are strictly upheld.
- The Pensions Committee focuses on setting the strategy for the Fund and monitoring performance. The Pension Board also attends Committee meetings and is responsible for assisting the Committee in securing compliance with relevant regulations and other legislation.
- The Committee delegates the day-to-day running of the Fund to the Executive Director of Finance and Corporate Services, who in turn delegates to the Head of Finance and Funds' officers. The Executive Director of Finance and Corporate Services is responsible for the provision of training for Committee to help them to make effective decisions to ensure that they are fully aware of their statutory and fiduciary responsibilities, and to regularly remind them of their stewardship role.
- The Joint Investment Strategy Panel advises the Head of Finance on the implementation of the agreed strategies, reviewing structure, funding monitoring, performance and risk and asset allocation. The Joint Investment Strategy Panel meets at least quarterly and is made up of experienced investment professionals, including independent advisers.
- The in-house team undertakes day-to-day monitoring of the Fund. The team includes personnel with suitable professional qualifications and experience to provide the necessary skills, knowledge, advice and resources to support the Joint Investment Strategy Panel and the Pensions Committee.
- Conflicts of interest are managed actively. At each Committee meeting, elected members of the Pensions Committee and Pensions Board are asked to highlight conflicts of interest. A Code of Conduct applies to members of the Committee and the Pension Board. The Fund ensures conflicts of interest are highlighted and managed appropriately.

Principle 2 – Clear Objectives

Overall investment objectives should be set out for the fund that take account of the scheme's liabilities, the potential impact on local council tax payers, the strength of the covenant of the participating employers, and the attitude to risk of both the administering authority and the scheme employers, and these should be clearly communicated to advisers and investment managers.

- The Statement of Investment Principles and the Funding Strategy Statement define the Fund's primary funding objectives.
- Asset-liability modelling is undertaken with the help of external advisers to aid the understanding of risks and the setting of investment strategy.
- Employers' attitude to risk is specifically considered in the setting of strategy, and employers can request a bespoke investment strategy.

- Reviews of investment strategy focus on the split between broad asset classes (equities, gilts, other debt, other real assets and cash).
- Investment Management Agreements set clear benchmarks and risk parameters and include the requirement to comply with the Fund's Statement of Investment Principles.
- Appointments of advisers are reviewed regularly. Investment and actuarial advisers are appointed under separate contract. Procurement of advisers is conducted within European Union procurement regulations.
- The setting of the Funding Strategy includes specific consideration of the desire to maintain stability in employer contribution rates.

Principle 3 – Risk and liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for council tax payers; the strength of the covenant of participating authorities; the risk of their default, and longevity risk.

- The Fund takes advice from the scheme's actuary regarding the nature of its liabilities. Asset-liability modelling is undertaken periodically to aid the setting of investment strategy, and these exercises specifically take account of covenant strength and longevity risk.
- The Fund will consider requests for such alternative strategies, subject to practical implementation of such strategies and, if appropriate, a review of employer contribution rates. It is not practical for the Fund to offer individual employers full flexibility on asset allocation.
- The Funding objectives for the Fund is expressed in relation to the solvency and employer contribution rates. The Fund regularly assess the covenants of participating employers.
- The Executive Director of Finance and Corporate Services is responsible for ensuring the appropriate controls of the Fund. Controls are subject to internal audit, and results of audits are submitted to the Standards and Audit Committee.
- The Fund maintain a risk register, which is reviewed on a regular basis.

Principle 4 – Performance assessment

Arrangements should be in place for the formal measurement of the performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

- The Fund's performance and risk analysis is produced by an independent external provider.
- The internal investment team monitors the external investment managers' performance and risk on a regular basis and reports this to the Joint Investment Strategy Panel. The Joint Investment Strategy Panel assesses the performance and risk of both internal and external investment managers on a regular basis (typically quarterly).
- The Fund's contracts with its advisers are regularly market tested.
- The Joint Investment Strategy Panel assesses its own performance on a regular basis and reports to Committee on its activities, typically annually.

- Training and attendance of members of the Pensions Committee and the Pensions Board are monitored and reported on a regular basis. The composition of the Committee and Pension Board is kept under review.

Principle 5 – Responsible ownership

Administering authorities should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. A statement of the authority's policy on responsible ownership should be included in the Statement of Investment Principles.

Administering authorities should report periodically to members on the discharge of such responsibilities.

- The Fund's approach to responsible investment is described in the Statement of Investment Principles and on the Fund's website.
- The Fund's policy on responsible ownership is included in the statement on the Financial Reporting Council's Stewardship Code (see Appendix C of the Statement of Investment Principles).
- Details of the Fund's voting and engagements will be available on the Fund's website. The Fund's annual report and accounts includes a summary of the Fund's approach to responsible investment. The full report is available on the website and is sent to members on request.

Principle 6 – Transparency and reporting

Administering authorities should 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 provide regular communication to members in the form they consider most appropriate.

- Meetings of the Pensions Committee are open to the public. Members of the public are entitled to make a deputation at Committee meetings. Committee papers are available on the Fife Council website. The Pension Board joins the Committee at all meetings.
- The Committee's remit covers wider pension scheme issues, other than the management and investment of funds.
- The Fund's policy statements, including the Communications Strategy, Statement of Investment Principles and Funding Strategy Statement are maintained regularly. Stakeholders are consulted on changes. Documents are available on the Fund's website.
- The Fund produces an Annual Report & Accounts. The full report is available on the website and is sent to members on request. The Fund also produces regular newsletters for members as well as an annual benefit statement. Regular briefings are provided to employers. The Fund's website is updated regularly.

FIFE PENSION FUND COMMUNICATION POLICY

(May 2020)

Introduction

Fife Pension Fund provides pension administration and investment services for Fife Council employees and employees of participating employers within Fife.

The Local Government Pension Scheme (Scotland) Regulations 2018 require each pension fund administering authority to prepare, publish and review its communication policy statement.

A policy statement must set out:

- The provision of information and publicity of the scheme to members, representatives of members and scheme employers.
- The format, frequency and method of distributing information and publicity.
- The promotion of the scheme to prospective members and scheme employers

This statement summarises how the Fund communicates with members, employers and other stakeholders.

Communications Objectives

The key objectives of the Fund's communication policy are:

- To improve understanding of the Scheme and the Fund.
- To promote the benefits of scheme membership as an important part of the employment package.
- Keep members, employers and other stakeholders up to date with regulation changes.
- To allow members to make informed decisions.

To achieve these objectives, our aim is to ensure communications are:

- Factual and presented in plain language.
- Designed to meet the needs of each target audience.
- Use the most efficient and effective means of delivery.

Key Audiences

The Fund has identified the following distinct groups with whom it needs to communicate with. They are:

- Scheme members.
- Scheme employers.
- Prospective scheme members and employers.
- Trade Unions.
- Superannuation and Pensions Committee and the Fife Pension Board.

Communication Tools and Strategy

The following section outlines how the Fund communicates with each group.

Active Scheme members – currently contributing to the Scheme

Member Self Service (MSS)

Member Self Service was introduced in 2016. Through a secure website this application allows members to access and edit personal information, and view financial information, held on their pension records.

Accessible from work or home PCs the site is also available on mobile devices such as smart phones, tablets and laptops.

Once registered, a member can

- Update personal information
- View scheme membership and financial details
- Run estimated benefit calculations for different types of retirement
- Access annual benefit statements
- Access publications such as scheme guides, newsletters and factsheets

By post

- A letter confirming scheme membership to every new entrant.
- On request, communications can be provided in alternative formats including Braille, translation and audio.
- Correspondence relating to members' benefits.

In person/phone

- One-to-one meetings.
- Contact telephone numbers publicised in scheme literature.

Email/Website

- Dedicated email address for queries and enquiries.
- Email used to receive and send correspondence where appropriate.
- On 31st August 2018, the Pensions Team launched the Fife Pension Fund website. The website, which can be found at www.fifepensionfund.org provides an extensive range of up to date scheme literature including scheme guides, leaflets and forms. The site also holds policy statements, governance documents, valuation and annual reports.
- Website has links to other useful websites including www.scotlgps2015.org which provides full details on the current LGPS effective from 1st April 2015.
- Newsletters updating members about scheme changes.
- Global emails promoting the scheme and highlighting specific areas e.g. pension scheme changes

Pensioner Members – those receiving a pension from the Fund

By post

- Correspondence relating to members' benefits.
- On request, communications can be provided in alternative formats including Braille, translation and audio.
- Payslip once a year detailing the annual pension increase.
- Annual newsletter.

In person/phone

- One-to-one meetings.
- Contact telephone numbers publicised in scheme literature.

Email/Website

- Dedicated email address for queries and enquiries.
- Email used to receive and send correspondence where appropriate.
- The website at www.fifepensionfund.org provides an extensive range of up to date scheme literature for pensioner members including scheme guides, leaflets and policies.

Deferred Members – no longer actively contributing to the scheme but have left their benefits in the Fund

Member Self Service (MSS)

Member Self Service has been rolled out to deferred members.

Once registered, a deferred member can

- Update personal information
- View scheme membership and financial details
- Run estimated benefit calculations for different types of benefits
- Access annual benefit statements
- Access publications such as scheme guides, newsletters and factsheets

By post

- Correspondence relating to members' benefits.
- On request, communications can be provided in alternative formats including Braille, translation and audio.

In person/phone

- One-to-one meetings.
- Contact telephone numbers publicised in scheme literature.

Email/Website

- Dedicated email address for queries and enquiries.
- Email used to receive and send correspondence where appropriate.
- Website providing an extensive range of up to date scheme literature including scheme guides, leaflets and policies.

Scheme Employers

The Fund communicates with scheme employers in the following ways:

- Annual Employers' Forum.
- Employer newsletters giving updates on legislation and policy matters.
- Wording of global emails/intranet messages provided for employers to cascade down to scheme and potential members.
- Pension Administration strategy setting out the roles, responsibilities and service standards for the Fund and employers.
- Statutory Annual report on the Fund.
- Valuation report.
- Promotion of pension website. Guides/leaflets and forms can be downloaded from the site.
- Training and support provided by Team members on technical, procedural and policy matters.

Prospective Members

The Pension Team works closely with employers to promote the benefits of the scheme to new employees and to those who have previously opted out.

Representatives of Members

We work with the relevant trade unions to ensure the scheme is understood by all interested parties and to promote the benefits of scheme membership.

The GMB, Unison and Unite are represented on the Fife Pension Board.

The Pension Team assists Trade Union representatives with member queries.

Superannuation and Pensions Committee and the Fife Pension Board

The Committee and Board members receive directly all meeting papers. The sub-Committee comprises 9 elected members. Details of the meetings and minutes are available on the Council's website.

The Fund has on-going training programmes for the Committee and Board members. Training is provided by Council officers and external experts and advisers.

Development Priorities

A key priority is to improve the digital delivery of our communications. The Pension Team works closely with Hymans Robertson to enhance the website. Hymans Robertson created, and continues to administer, the website for Fife Pension Fund.

The team is working on rolling out Member Self Service to all our pensioner members. This will allow pensioner members to view their monthly pension payments, change bank details and view P60s.

Evaluation

Comments on how the Fife Pension Fund communicates with any of our stakeholders are welcome. We are aware that for a communications strategy to be fully effective, we need feedback from all our target groups.

If you want to get in touch with us about how we communicate, please contact us using the contact details below.

Contact Details

Fiona Clark
Fife Pension Fund
Fife Council
Rothesay House
Rothesay Place
GLENROTHES
Fife KY7 5PQ

Opening Times: Monday to Friday 8.30 am to 5.00 pm
Telephone: 03451 55 55 55 Ext 440896
Email: pensions.section@fife.gov.uk
Website: www.fifepensionfund.org

INVESTMENT COMMENTARY

LOTHIAN PENSION FUND INVESTMENT (LPFI)

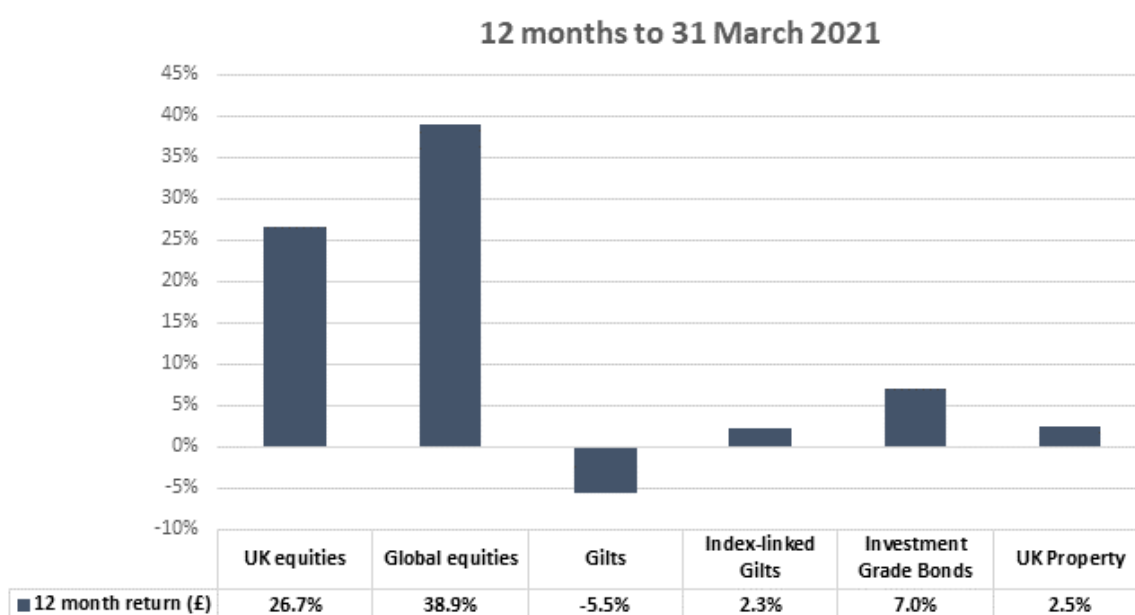
Investment markets

For the 12 months to 31 March 2021, UK equities (FTSE All Share) returned +27%, while global equities (MSCI ACWI, in GBP) returned +39%. The rise in global equities for sterling-based investors was offset by a stronger pound (global equities returned +51% in local currency terms). Sterling had weakened sharply alongside equity markets in March 2020 in response to the widening COVID-19 (coronavirus) pandemic, before stabilising and then strengthening over the period as risk assets recovered.

Credit spreads, which had spiked higher when equity markets sold off in March 2020, recovered strongly ending the period close to their pre-crisis lows. Government bond yields re-tested lows in May 2020 before rising gradually over much of the year, spiking higher on vaccine developments in November then accelerating further on fiscal stimulus expectations with the confirmation of Democratic candidate Joe Biden as US president-elect in December.

As vaccine roll-outs gained momentum, with the UK to the fore, rising economic optimism supported risk assets, such as equities. Commodity prices also rose as manufacturing activity continued to recover and investor attention, in the latter part of the period, turned increasingly towards recovery sectors such as retail, property, travel and leisure, which had been most negatively impacted by lockdowns. Inflation expectations moved sharply higher in the first quarter of 2021, which caused bond yields to rise and prices to fall.

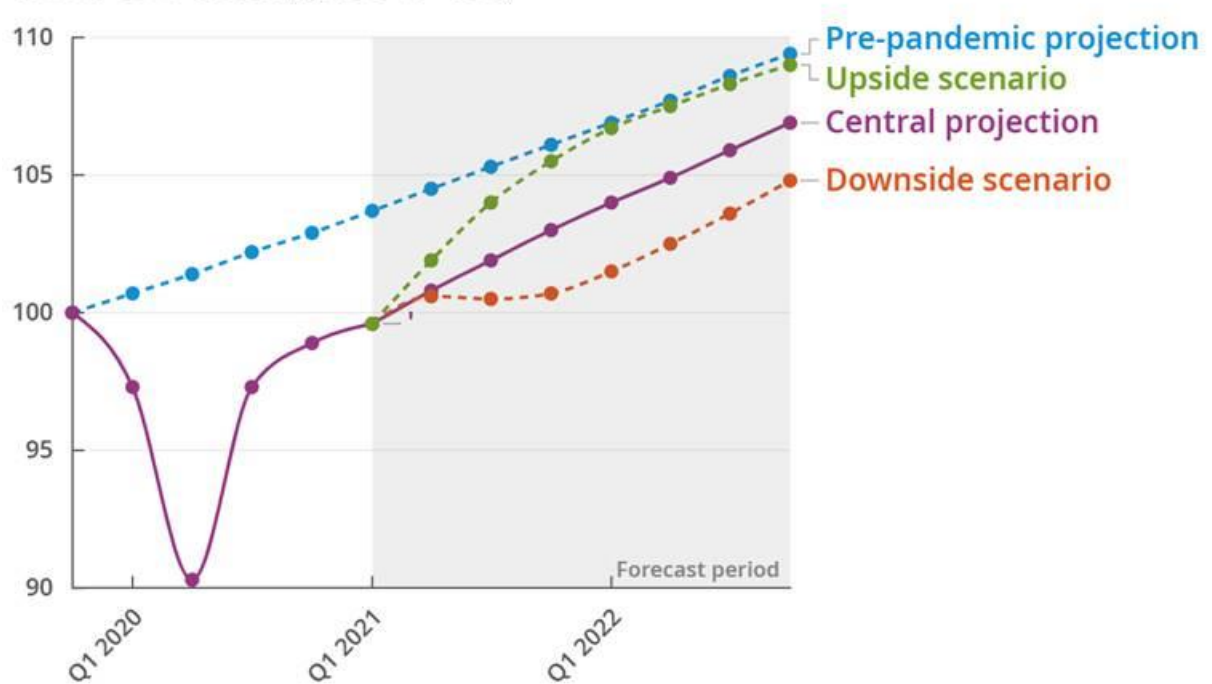
The graph below shows index returns over 12 months to 31 March 2021 for a range of asset classes.



Source: FTSE, Bloomberg, MSCI, Portfolio Evaluation

The speed with which economies have recovered from the COVID-19 downturn is shown in the World GDP index chart below, alongside the most recent March 2021 forecasts by the OECD. The latest projections provide a much more optimistic outlook than most would have envisaged 12 months ago during the depths of the downturn. The recovery was aided by unprecedented levels of monetary and fiscal support, which cannot be sustained indefinitely; market participants will need to deal, at some point, with the prospect of that support tapering off.

World GDP index (Q4 2019=100)



Source: OECD Interim Economic Outlook, March 2021

ADDITIONAL INFORMATION

Actuaries:	Hymans Robertson LLP
Auditors:	Audit Scotland
Bankers:	Royal Bank of Scotland The Northern Trust Company
Investment Advisors:	Joint Investment Strategy Panel Scott Jamieson Stan Pearson Kirsty MacGillivray Hymans Robertson Investment Consultants
Fund Custodians:	The Northern Trust Company
Legal Advisors:	CMS Cameron McKenna Nabarro Olswang LLP Fife Council – Legal Services

Comments and Suggestions

Your comments and suggestions on this report would be appreciated, as would any suggestions for items to be included in the future.

Please email your comments to: Pensions.section@fife.gov.uk

Contact Details

If you would like further information about the Fife Pension Fund, please contact:-

Fife Council, Fife House, North Street, Glenrothes, Fife, KY7 5LT.

For benefit information, address to the Pensions Team, Shared Service Centre, Finance & Corporate Services.

For investment information, address to the Banking and Investments Team.

Email: Pensions.section@fife.gov.uk

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

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of Fife Pension Fund (the fund) for the year ended 31 March 2021 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the 2020/21 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the financial transactions of the fund during the year ended 31 March 2021 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 2020/21 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

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

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

Risks of material misstatement

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

Responsibilities of the Executive Director Finance and Corporate Services and Superannuation Fund and Pensions Committee for the financial statements

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

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

The Superannuation Fund and Pensions Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the fund is complying with that framework;
- identifying which laws and regulations are significant in the context of the fund;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the fund's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

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

Reporting on other requirements

Statutory other information

The Executive Director Finance and Corporate Services is responsible for the statutory other information in the annual report. The statutory other information comprises the information other than the financial statements and my auditor's report thereon.

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

My opinion on the financial statements does not cover the statutory other information and I do not express any form of assurance conclusion thereon except to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission

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

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my report

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

Brian Howarth ACMA CGMA
Audit Director
Audit Scotland
4th Floor, The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

