Superannuation Fund and Pensions Committee and Fife Pension Board

Due to Scottish Government Guidance relating to Covid-19, the meeting will be held remotely.

Tuesday, 29th June, 2021 - 2.00 p.m.

AGENDA

UNAUDITED ACCOUNTS FOR CONSIDERATION BY COMMITTEE MEMBERS

ITEM LIKELY TO BE CONSIDERED IN PRIVATE

The Committee is asked to resolve, under Section 50(a)(4) of the Local Government (Scotland) Act 1973, as amended, to exclude the public and press from the meeting for the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 6 of part 1 of schedule 7a of the Act.

Members are reminded that should they have queries on the detail of a report they should, where possible, contact the report authors in advance of the meeting to seek clarification.

Eileen Rowand
Executive Director (Finance and Corporate Services)
Fife House
North Street
Glenrothes
Fife, KY7 5LT

22nd June, 2021

Please contact:
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www.fife.gov.uk/committees

29th June, 2021

Agenda Item No. 3

Annual Report on the Local Government Pension Scheme

Report by: Eileen Rowand, Executive Director (Finance and Corporate Services)

Wards Affected: N/A

Purpose

To provide the Committee with an annual update of the administration of the Fife Pension Fund.

Recommendation(s)

The Committee is requested to note the contents of this report.

Resource Implications

A valuation of the pension fund is carried out every 3 years and this along with the development of a funding strategy is used to ensure that contribution rates are set at a level which ensures that the fund is financially viable in the long term. A valuation was carried out as at 31 March 2020 and the assumptions made within this are monitored against actual events such as the scale of early retirals to ensure that the Pension Fund resources are managed effectively.

Legal & Risk Implications

There are a number of risks that are monitored in order that there are sufficient funds to meet future obligations. A mid-term valuation would be required to re-assess employer contribution rates if it was judged that there was a significant event that increased the level of risk to an unacceptable level. Navigator Reports which are provided by the Actuary in non-valuation years allow this risk to be monitored.

Impact Assessment

An EqIA is not required because the report does not propose a change or revision to existing policies and practices.

Consultation

The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.

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1.0 Background

1.1 Membership of the Local Government Pension Scheme (LGPS) is available to employees of Fife Council and employers permitted to participate in the scheme. Membership is also available to Councillors. The scheme provides benefits for members retiring from age 55 (from age 50 if a member on 5 April 2006 and retiring on redundancy/efficiency grounds, and there has been no break in membership since that date) and on the grounds of permanent ill health at any age. The scheme also provides benefits on death.

1.2 The LGPS regulations allow applications for admission to the scheme from employers who provide a public service other than for financial gain or employers who receive funding from Fife Council. The scheme also allows admission for private contractors carrying out a function of the Council and other scheduled employers.

1.3 This report provides an update on Administration of the Pension Fund throughout the last year, which following the outbreak of the COVID-19 pandemic was challenging given the government restrictions and uncertain circumstances. The report focusses on the major areas of work for the team which despite the pandemic have been progressed successfully.

2.0 Annual Review of Pension Fund Activity 2020-21

2.1 Scheme Administration during COVID-19

2.1.1 The team has continued to provide a full service to members and employers during the pandemic. IT arrangements were quickly put in place at the start of the pandemic so team members could work from home. In line with The Pensions Regulator's guidance, priority is given to the payment of pensions and death benefits and processing new retirements, but the team has the capacity and resources to carry out a range of administrative functions

2.1.2. Details of the team's adapted working arrangements are on the Fund's website. Members and employers are advised the easiest way to initially contact the team is by using the generic email pensions.section@fife.gov.uk. This account is monitored daily. Team members have been issued with mobile phones, allowing direct contact with members and employers, to assist with queries. Microsoft Teams meetings are held whenever possible. Members are also encouraged to upload and download documents on the secure Member Self Service facility.

2.1.3 The LGA COVID-19 FAQs factsheet for members is on the Fund's website as are news events highlighting The Pensions Regulator's warning about the increased number of pension scams related to the COVID-19 outbreak and reassurance that LGPS pensions are not impacted by stock market conditions.

2.1.4 The team issued an Employer COVID-19 bulletin and provided updates at the Employers' Forums held on 6 July 2020 and 3 February 2021.

2.2 2020 Triennial Valuation

2.2.1 The triennial valuation was a major piece of work for the team during the year. 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. The Fund Actuary explained the approach to the valuation at the July 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.

2.3 Member Communications

2.3.1 The team has continued to ensure the website is kept up to date and that scheme literature and forms are readily available.

2.3.2 The principal communications to active and deferred members are the annual benefit statements and newsletters. These can be viewed on Member Self Service although paper copies are available on request.

2.3.3 The pandemic has 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.

2.4 Annual Benefit Statements

2.4.1 All annual benefit statements were issued by 31 August 2020 in line with the Public Service Pensions Act 2013.

2.5 Scheme Employers

2.5.1 Currently 21 employers participate in the Fife Pension Fund. Participating employers are either scheduled employers or admission bodies. Scheduled employers have a statutory right to join the Fund. Other employers may join provided they meet certain conditions, and these are known as admission bodies. Appendix A lists the participating employers and the number of their active members as at 31st March 2021.

2.5.2 Fife Women's Aid, Fife Historic Building Trust and St Andrews Botanic Garden Trust exited the Fund in 2020-21 under the terms of the Small Employers' Proposal approved by Committee.

It was agreed that FAAS and Fife Gingerbread, who had exited the Fund prior to 2020-21, could also exit under the terms of the Small Employers' Proposal.

2.5.3 Due to concerns over the potential costs of cessations, Visit Scotland consolidated all its LGPS obligations in the Lothian Pension Fund in 2020-21. 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.

2.5.4 Police Scotland outsourced its cleaning services to Churchill Cleaning Services in July 2020. The transfer was under TUPE arrangements with continued access to the LGPS for affected employees. The majority of employees impacted by the transfer were members of the Strathclyde Pension Fund. Following discussions with Strathclyde Pension Fund, Police Scotland and the SPPA. it was decided that there would be one LGPS admission agreement between Strathclyde Pension Fund and Churchill Cleaning Services rather than separate admission agreements with individual Scottish Funds. The team worked closely with HR colleagues to ensure the 5 Fife Pension Fund members impacted by the transfer were kept up to date with developments, highlighting their continuing membership of the scheme.

2.5.5 To ensure accurate date submission, following the "go live" of the new Payroll system in December 2020, the team continues to work closely with the Council's Oracle project team. Fife Council uses i-Connect, a software tool that allows integration of payroll information to the Altair Pensions database. At the end of each pay period, reports from the Payroll system are run and extracted in the form of excel spreadsheets and these are uploaded through i-Connect. However, there have been teething problems with the content of the Payroll reports and these are being worked on by the Oracle project team, in liaison with pensions. Priority is being given to developing the reports to improve the quality and accuracy of the data submission. The team is working on clearing the backlog and bringing the Altair Pensions database up to date. The calculation and payment of member's benefits are not impacted by this.

2.6 Retirements in 2020-21

2.6.1 There were 442 retirements in the year. This was decrease of 14.67% on 2019-20. Appendix B reports the number and types of retirements during the year. It gives a comparison of the numbers and types of retirements which occurred during 2019/20. The appendix also provides membership statistics.

2.7 Equitable Life

2.7.1 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.

2.7.2 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 member communication exercise was carried out giving background about the transfer, information on how their funds had been invested with Prudential, and alternative options available.

3.0 Pension Fund Activity 2020-21 – Regulatory

3.1 McCloud Ruling – Impact on Benefits and Administration

3.1.1 In July 2020, the Scottish Public Pensions Agency (SPPA) launched a consultation on proposed changes (the remedy) to the current LGPS statutory 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.

3.1.2 The SPPA subsequently advised in March that the intent is for legislation to come into force in 2023, which will 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 later this year to ensure that the underpin is applied correctly for retirals and leavers going forward and also for comparison calculations to be carried out for those members who have retired since 2015.

3.1.3 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.

3.2 GMP Reconciliation Exercise

3.2.1 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.

4.0 Conclusions

4.1 This report has updated members on scheme administration of the pension fund during 2020-21. Details of the number of retirals and an update on scheme employers have also been outlined.

List of Appendices

Appendix A, Local Government Pension Scheme employers & membership

Appendix B, Local Government Pension Scheme retirements & scheme statistics

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LOCAL GOVERNMENT PENSION SCHEME APPENDIX A
FIFE PENSION FUND

Number of Contributors at 31 March 2021

Scheduled Bodies	**Number of Contributors**	
Fife Council	13200	Note 1
Councillors	65	
Fife College	541	
Scottish Police Authority	326	
Scottish Fire & Rescue Service	20	
Admitted Bodies		
St Andrews Links Trust	90	
Fife Housing Association Ltd	53	
Citizens Advice & Rights Fife	69	
Home-Start Levenmouth	3	
Business Gateway Fife	2	
Drug & Alcohol Project	20	
FIRST	4	
The Clued-Up Project	2	
Forth & Oban	12	
Fife Sport & Leisure Trust	294	
Fife Coast & Countryside Trust	26	
Fife Golf Trust	26	
Fife Cultural Trust	275	
SRUC	30	
Fife Resource Solutions	209	
Poppyview	6	
Sodexo	5	
	15278	

Notes:
1. No new starts have been included for Fife Council since November 2020 due to delays in data transfer from Oracle Cloud

Local Government Pension Scheme Retirements & Scheme Statistics APPENDIX B

Fife Pension Fund
Local Government Retirals

	2020/21	**2019/20**
Retiring at/after Normal Pension Age	88	91
Voluntary retirement from age 55 (Note 1)	181	223
Flexible	68	92
Redundancy	63	51
Efficiency	0	0
Ill Health	42	61
Totals	**442**	**518**
First tier ill health retirals (Note 2)	31 (74%)	48 (79%)

Local Government Pension Scheme membership statistics

Member type	**2020/21**	**2019/20**
Active contributors (Note 3)	15,278	15,679
Deferred	7,351	7,194
Pensioners/ Dependants	14,130	13,735
Totals	**36,759**	**36,608**

Notes:

1. From 01.06.2018 members aged 55 and over no longer need employer consent to retire with reduced benefits

2. There are graded levels of ill health benefits depending on how likely a member is to be capable of gainful employment after they leave

First tier applies if the member is considered to be unlikely to be capable of gainful employment before normal pension age. Ill health benefits are based on the pension already built up at retirement date plus the pension that would have been built up to normal pension age

Second tier applies if the member is considered likely to be capable of gainful employment before normal pension age. Ill health benefits are based on the pension built up at the retirement date plus 25% of the pension that would have been built up to normal pension age

3. No new starts have been included for Fife Council since November 2020 due to delays in data transfer from Oracle Cloud

29th June, 2021

Agenda Item No. 4

Fife Pension Fund – Annual Report & Accounts 2020-21

Report by: Eileen Rowand, Executive Director of Finance and Corporate Services

Wards Affected: All

Purpose

This report contains the unaudited Annual Report & Accounts for Fife Pension Fund for the financial year 2020-21.

Recommendation

It is recommended that Members consider the unaudited Annual Report and Accounts.

Resource Implications

None.

Legal & Risk Implications

None.

Policy & Impact Assessment

None.

Consultation

None.

1.0 Background

1.1. The Local Authority Accounts (Scotland) Regulations 2014 require the unaudited Annual Report and Accounts for the Fife Pension Fund to be submitted to the appointed auditor no later than 30 June. The regulations also require elected members to consider these at a meeting held no later than 31 August.

1.2 Best practice is for the Committee whose remit includes audit or governance functions, to have formally considered the unaudited Annual Report and Accounts prior to submitting them to the appointed auditor, and making them available for public inspection

1.3 Formal consideration of the unaudited Annual Report and Accounts by the Committee is required to address, and to mitigate, the risk of the Committee not agreeing to approve audited Annual Report and Accounts for signature.

2.0 Issues

2.1 The unaudited Annual Report and Accounts have been completed within the statutory timeframes and will be submitted to External Audit following this meeting.

2.2 The Annual report and Accounts contains full details of the Governance Compliance statement as previously approved by this Committee

2.3 The Annual Report and Accounts will be made available for public inspection from Thursday 01st July to Wednesday, 21st July (inclusive). Details of the public inspection process were publicised on Thursday 17th June.

2.4 Consideration of the unaudited Annual Report and Accounts at this meeting complies with the regulations.

3.0 Conclusions

3.1 The unaudited Annual Report and Accounts have been completed and submitted to External Audit in line with the previously agreed timescales.

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Fife Pension Fund

Administered by Fife Council

Fife Pension Fund

Annual Report & Accounts 2020-21

SUBMITTED FOR AUDIT 30 JUNE 2021

Fife Pension Fund Annual Report & Accounts 2020-21

Contents	Page

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 and 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	• £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 • 36,759 members an increase of 151 • Funding level 97% at Valuation 2020

Table 1 Financial Highlights

Financial Highlights	2020-21	2019-20	Change
Value of Fund	£3,303.551m	£2,535.287m	£767.964m
Operational (Surplus)/Deficit	(£767.964)m	£75.924m	(£843.888)m
Employers Contributed	£85.323m	£80.922m	£4.401m
Employees Contributed	£20.440m	£19.418m	£1.022m
Pensions and Other Benefits Paid out	£86.331m	£87.700m	(£1.369m)
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 £768m 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 did, however, experience a net withdrawal of £3.158m (2019-20 withdrawal £3.668m) as management expenses were greater that the net surplus generated from member contributions receivable over pension payments.

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 December 2018 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 %	Minimum %	Maximum %	Long Term Expected Return
Equities	50	40	65	Gilts +3.5%pa
Real Assets	20	10	30	Gilts+2.5%pa
Non-Gilt Debt	15	5	25	Gilts +1.0%pa
Gilts	15	0	20	Gilts +0.0%pa
Cash	0	0	10	n/a
Total	**100**			**Gilts +2.4%pa**

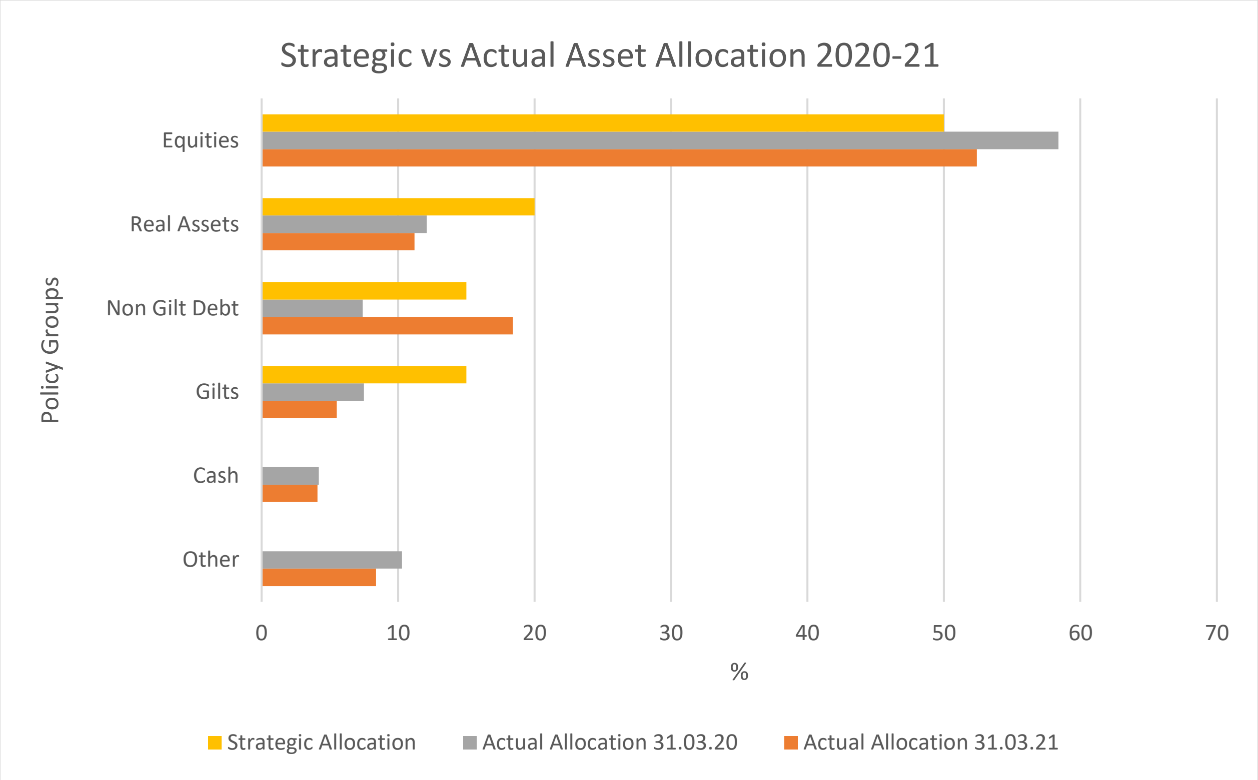
Officers at Fife and Lothian Pension Fund monitor the performance of managers with performance reports presented to each quarterly meeting of the JISP and the Pension Fund Commitee.

Following the latest actuarial valuation in 2020, the Investment Strategy is being revised and an updated to reflect the results. This work will be concluded and presented to committee for approval at the end of June, therefore the Annual Report and Accounts reflect the strategy in place during 2020-21.

Implementation of Investment Strategy and Investment Performance

The value of the Fund's net assets increased to £3.304bn 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-glit 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 £136m (4% of Fund assets). Committed amounts not to Partners Group and other private managers not yet funded were £50m. This leaves an uncommitted cash balance of £86m (3.0% 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		**279**	**8.4%**	**0%**	**8.4%**
	Baillie Gifford				
Cash		**136**	**4%**	**0%**	**4%**
Total Fund		**3,304**	**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	7.6
Excess Return	10.4	4.3	4.0	0.9

Source: Northern Trust

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

Invesment 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 4.

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
- Actuarail 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 3 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 retirals 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 our 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	15,278
Pensioners	13,735	14,130
Deferred role	7,194	7,351
Total	**36,608**	**36,759**

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.

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 administrating 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 Councils 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 inducation training by officers. Internal training events are designed to cover a range of pension administation and investment matters are offered to Committee. Seminars and training events are offered by the Fund's external professional advisers, Fund Mangers 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.	A training policy was developed and approved by Committee to incorporate full training requirements for a member to ensure they have the approporiate 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 ..... A Training Needs Assessement (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.	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	

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/Annual Accounts

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 26 November.

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
30 June 2021

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	86.331
2.675	Payments to and on Account of Leavers	8	7.572
90.375			93.903
(12.419)	**Net (additions)/withdrawals from dealings with members**		**(14.195)**
16.087	Management Expenses	9	17.353
3.668	**Net (additions)/withdrawals including fund management expenses**		**3.158**
	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**		**(767.964)**
2,611.511	Opening net assets of the scheme at 1 April		2,535.587
(75.924)			767.964
2,535.587	**Closing net assets of the scheme at 31 March**		**3,303.551**

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		(3.302)
(3.955)	Other Current Liabilities		(4.447)
(7.947)			(7.750)
(3.452)	Net Current Assets & Liabilities		**(2.876)**
2,535.587	**Net Assets of the fund available to fund benefits at the end of the year**		**3,303.552**

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.

Eileen Rowand
Executive Director Finance and Corporate Services
30 June 2021

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 administerd 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 chose 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	26	21
Number of employee in scheme		
Fife Council	13,367	13,200
Other employers	2,312	2,078
Total	**15,679**	**15,278**
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**	**36,759**

1 Description of Fund (continued)

Changes in Membership

in 2020, Fife Pension Fund offered Communtiy Admitted Bodies the opportunity to cease participation n 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.

3 Statement of Accounting Policies (continued)

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.

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	14.028
2.363	Lump sum death benefits	2.804
87.700		**86.331**

By authority

2019-20		2020-21
£m		£m
78.709	Fife Council	78.321
3.835	Scheduled bodies	3.457
5.155	Admitted bodies	4.553
87.700		**86.331**

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	7.376
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 £0.037m (£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 arsing 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 mangement 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 mangement 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
1,110.992	Pooled Investments	1,820.022
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 mangers.

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	Assets carried at Amortised Cost	Financial liabilities at amortised cost		Fair value through profit and loss	Assets carried at Amortised Cost	Financial liabilities at amortised cost
£m	£m	£m		£m	£m	£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-Infraastructure	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. currencey, 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	Asset Value on increase of 1%	Asset Value on decrease of 1%
		£m	£m	£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	Asset Value on increase of 1%	Asset Value on decrease of 1%
		£m	£m	£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	Value on increase	Value on decrease
			£m	£m	£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	Value on increase	Value on decrease
			£m	£m	£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.

The Fund Asset Value at 31 March 2021 was £3.305bn. The 1 year weighted average volatility was 9.4% at 31 March 2021, meaning the 'value on increase' would be £3.615bn and the 'value on decrease' would be £2.994bn.

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	20.5	23.0
Future Pensioners	21.6	24.6

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	10%	287
0.5% increase in the Salary Increase Rate	2%	49
0.5% increase in the Pension Increase Rate	8%	234

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		
0.000	0.091	Clerical Medical	0.000	0.064
0.008	0.092	Utmost	0.000	0.000
1.168	**5.128**		**0.109**	**1.128**

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 2020 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 IFRS7.
- 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 Sub-Committee (**Committee**) of Fife Council (**FC**) on 27 November 2019. 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.

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 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.

4.4 To ensure that these issues are addressed appropriately, the Fund uses a specialist third party, Hermes EOS, to assist with voting and engagement activities for the shares that it holds.

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 Funds' investment strategy is measured against strategy-specific benchmarks by an independent performance measurement specialist, and these are reported to Committee 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 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.

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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 2.

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 (27 November 2019)

FIFE PENSION FUND: INVESTMENT STRATEGY

Investment Objectives: to achieve a return of at least gilts +2.4% per annum and generate sufficient cash to pay pensions as they fall due.

Policy Group	Current Target 1 Dec 2018	Target Weight 2019-24	Permitted Range	Long Term Expected Return
Equities	60%	50%	40% - 65%	Gilts + 3.5% pa
Real Assets	10%	20%	10% - 30%	Gilts + 2.5% pa
Non-Gilt Debt	15%	15%	5% - 25%	Gilts + 1.0% pa
Gilts	15%	15%	0% - 20%	Gilts + 0.0% pa
Cash	0%	0%	0% - 10%	n/a
Total	**100%**	**100%**		**Gilts +2.4% pa**

Appendix B – Mandates and Managers (27 November 2019)

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 Thematic	Lazard
	Global Growth	Ballie Gifford
	Global Fundamental Index	State Street
Real Assets		
	Property	CBRE
	Global Infrastructure	Partners Group
Non Gilt Debt		
	Corporate Bonds	Western
	Corporate Bonds	Janus Henderson
	Private Debt	Various
Gilts		
	Government Bonds	Western
	Government Bonds	Janus Henderson
Cash		
	Cash	Various
Other		
	Diversified Growth	Ballie Gifford

FIFE PENSION FUND AND THE MYNERS PRINCIPLES

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 up-held.
- The Superannuation Fund and 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 Fund's 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 Executive Director of Finance and Corporate Services 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 Superannuation Fund and Pension 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 reviewed on a regular basis.

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 Superannuation Fund and 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 has recently been developed and progress is being made in expanding the content.

APPENDIX 3

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

APPENDIX 4

INVESTMENT COMMENTARY

LOTHIAN PENSION FUND INVESTMENT (LPFI)

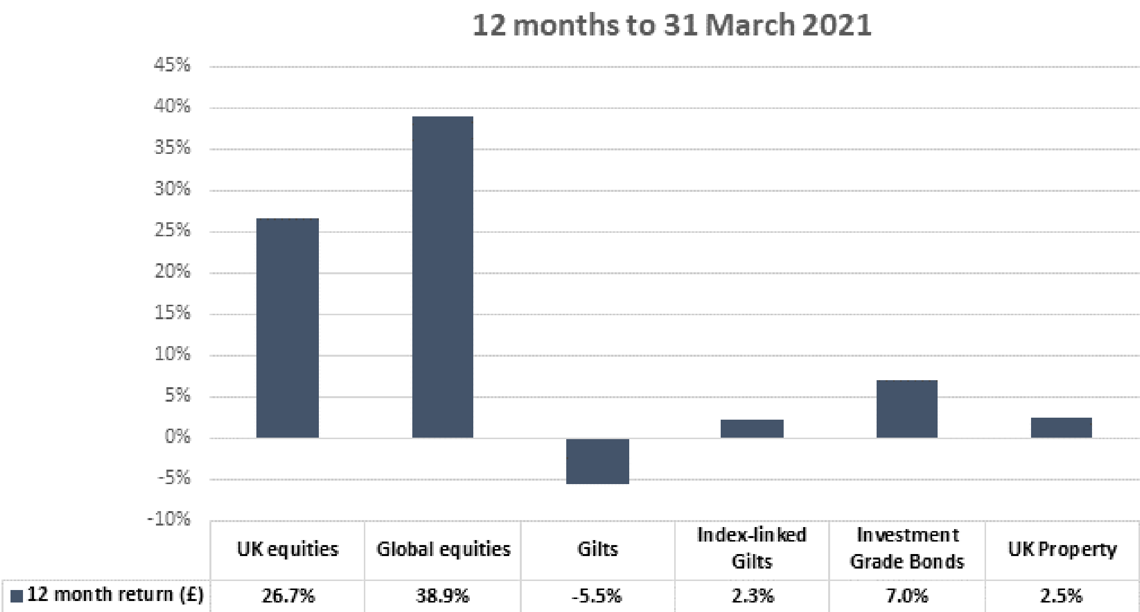
Investment markets

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.

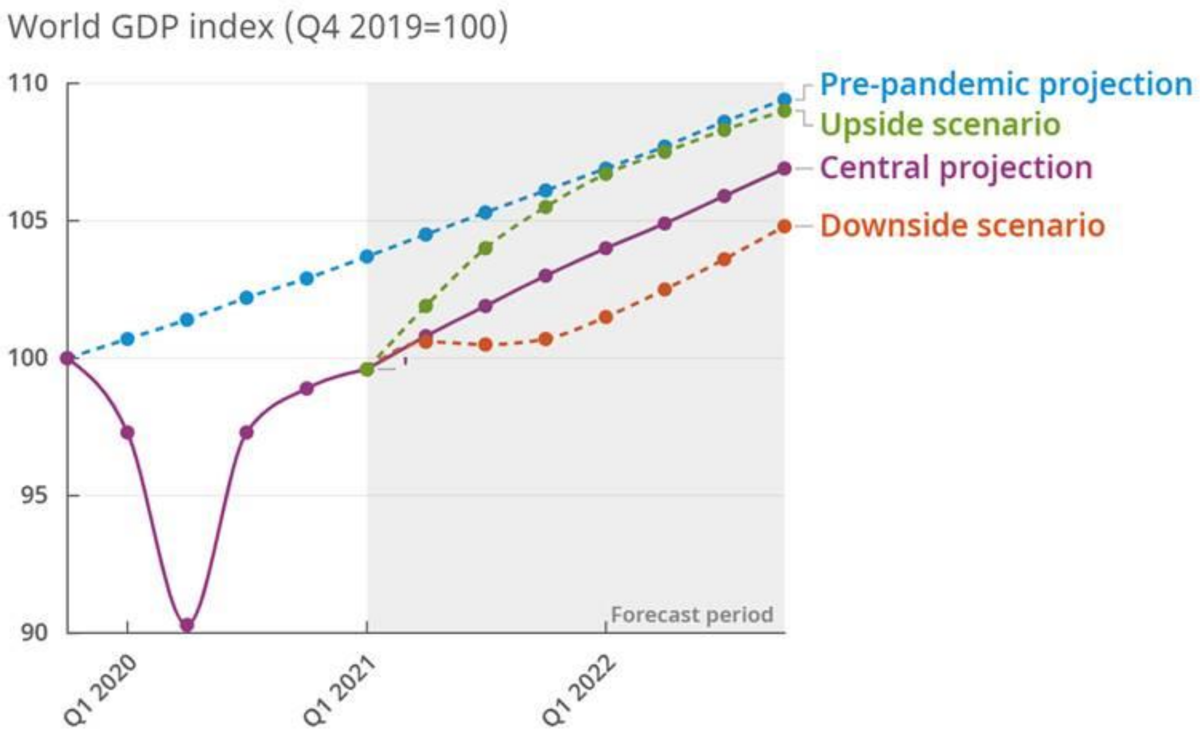
As vaccine roll-outs gained momentum, with the UK to the fore, rising economic optimism supported risk assets, such as equities. Commodity prices also rose as manufacturing activity continued to recover and investor attention, in the latter part of the period, turned increasingly towards recovery sectors 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.



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

29th June, 2021

Agenda Item No. 5

Fife Pension Fund Investment Strategy

Report by: Elaine Muir, Head of Finance

Wards Affected: All

Purpose

The purpose of this report is to provide the output and conclusions of the review of investment strategy of the Fife Pension Fund. It also details the recommended strategy following review by the Fund's investment advisers and is similar to the Fund's current asset allocation but with slight amendments compared with the existing strategy. If the funding position continues to improve, it will be possible that Equities could be reduced further, thereby reducing risk further.

Recommendation(s)

It is recommended that the Committee:

1. Agree amendments to the investment strategy as outlined in paragraphs 2.31 to 2.34

Resource Implications

The investment strategy will have a significant impact on the investment returns of the pension fund and hence impacts on the funding levels and employers' contribution rates. The financial implications of the investment strategy are outlined in the asset liability modelling results shown in Appendix 1.

Legal & Risk Implications

Investment strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The proposed strategy for the Fife Fund maintains the level of investment risk with a view to further reduction in risk if the position continues to improve.

Impact Assessment

An EqIA is not required because the report does not propose a change or revision to existing policies and practices.

Consultation

The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.

1.0 Background

1.1 The Fund undertakes an in-depth review of its investment strategy following the completion of its triennial actuarial valuations. This enables consideration of the actuary's updated assumptions. The Committee reviewed the recently completed actuarial valuation for 2020 at its meeting on 09 March 2021. The investment strategy review described in this report was able to consider developments in the funding level and financial market developments to end March 2021.

1.2 The investment strategy of a pension fund has a significant impact on its investment performance, as well as the funding level and employer contribution rates. Setting strategy is therefore an important decision in the context of the overall pension fund.

1.3 The Fund commissioned Hymans Robertson in collaboration with Lothian and Falkirk Pension Funds to concurrently review the investment strategies of all three funds. The Joint Investment Strategy Panel (JISP) have also had the opportunity to work with Hymans Robertson and have reviewed their findings. A Fife-specific training event was held on 24th May 2021. The session outlined what to expect from the modelling and was provided to help prepare the Committee and Board members on the investment strategy modelling approach being taken as well as providing some key points for consideration. A further joint preparatory session was held for the Committees and Boards of the three funds on 11th June 2021. This session provided more in-depth information, and to provided the opportunity for questions and discussion about the investment strategy review.

1.4 The Pensions Committee of each fund is responsible for determining its own investment strategy and monitoring implementation of that strategy and its success. Given that the funding position and cash flow outlook of each fund is different, the recommendations relating to the investment strategy of each fund are specific to each individual fund.

1.5 Implementation of the investment strategy is delegated to the Executive of Director Finance and Corporate Services who delegates this to the Head of Finance taking proper advice from the JISP and other advisers. Fife's officers implement and monitor strategy in collaboration with Lothian Pension Fund and report performance to Committee on a quarterly basis. Officers meet with all three external, independent JISP advisers at least quarterly.

1.6 The Fund constituted the JISP to provide investment advice. Its three external independent advisers, Scott Jamieson, Kirstie MacGillivray and Stan Pearson, have been supported by Lothian's internal investment team and Hymans Robertson in this investment strategy review. Hymans Robertson undertook asset liability modelling (ALM), which tests potential investment strategies, and quantifies the probabilities of achieving objectives.

1.7 In considering alternative strategies, it should be noted that strategies which target higher returns could potentially lead to lower employer contributions. However, such strategies will be accompanied by a more volatile funding pattern with a higher risk of poor funding outcomes and the resulting need for increased employer contributions if the investments do not perform as expected. Employers generally express a desire for stable employer contributions.

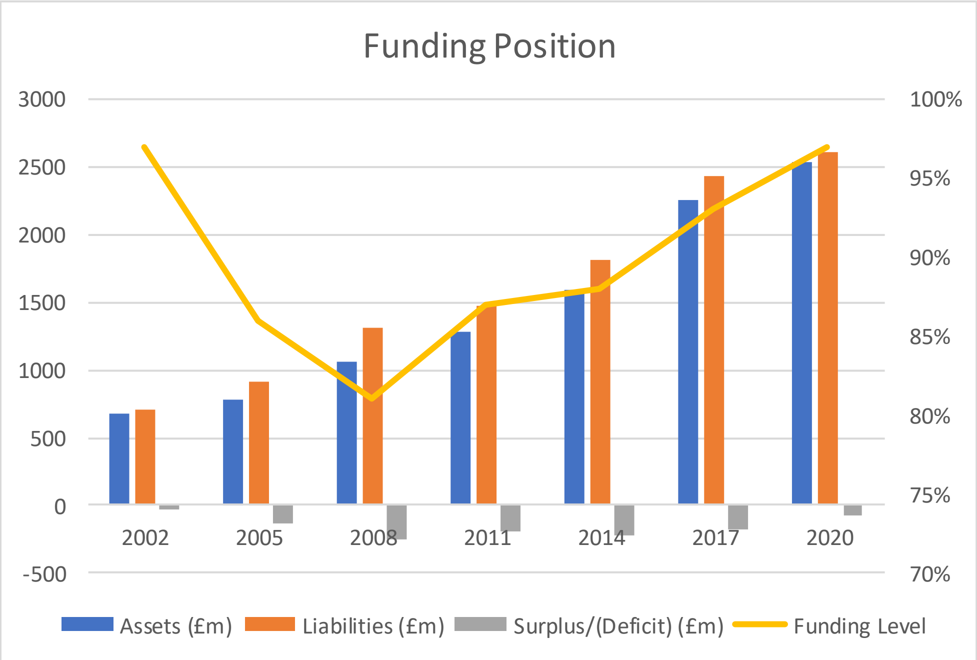
2.0 Investment Strategy Review

Funding Position

2.1 The investment strategy of a pension fund has a significant impact on its investment performance, funding level and employer contribution rates. Setting strategy is therefore a major decision in the context of the overall pension fund.

2.2 The chart below shows the actuary's assessment of the funding position over the last several actuarial valuations. It is worth noting that when funding levels in Fife fell, employers contribution rose as a result.

Graph 1



2.3 This investment strategy review is based on the results of the 2020 actuarial valuation adjusted for estimated market movements over the year to 31 March 2021. At 31 March 2020, the actuary estimated that the funding level was 97% on an ongoing basis. As noted in Appendix 1 (slide 49) the actuarial valuation uses the *reporting basis* however, for the investment review the investment consultant has used the *long-term funding basis* which produces a funding level of 89%.

2.4 Committee will recall that, as a financially secure employer, a Contribution Stability Mechanism has continued to be applicable to Fife Council's contributions at the last actuarial valuation. Under this mechanism, the contribution rate is essentially capped and floored in order that contributions move at a stable rate. There is no guarantee that such a mechanism will be appropriate in the future.

2.5 Table 1 shows the cashflows into and out of the Fund. It illustrates that, net cashflow from dealing with members is marginally falling over time.

Table 1

Cashflow Table (Net (withdrawals)/additions from dealing with members)						
Cashflow table	**2008/09**	**2011/12**	**2013/14**	**2017/18**	**2020/21***	**Trend**
Income (£m)	65	86	93	100	108	Increasing
Expenditure (£m)	45	69	79	84	94	Increasing
Net Cash flow (£m)	20	16	14	16	14	Falling

*Includes a one-off transfer out for Visit Scotland of £4.722m

Policy Groups

2.6 To support effective strategy determination, the JISP continues to recommend that the Committee defines the Fund's high-level investment strategy in terms of five Policy Groups. These classify assets into categories with similar risk and return characteristics, which are not completely correlated with one another. The weighting of these groups in a portfolio is the key determinant of risk and return. Appendix 1 contains asset return and volatility assumptions used in the modelling and the strategy. Table 2 below shows the Policy Groups in descending order of return and risk. (Note that the real returns on both gilts and cash are negative, and which is lower broadly depends on how much they each lag inflation).

2.7 The JISP has recommended minor amendments to the existing five Policy Groups which classify the vast array of investment choices into a manageable number of investment groups. The proposed Policy Groups are shown in the table below. The name of the Gilts Policy Group has been changed to LDI (liability driven investment) to reflect the fact that the main reasons for investing in gilts is to reduce the variability of the funding level because they are a good match for liabilities. It should be noted that Gilts are currently expensive, with a guaranteed negative real return to maturity.

Table 2

Policy Group	Objective	Permitted Assets
Equities	The principal driver of the Fund's growth and. In the long term, expected to outperform liabilities, albeit with periods of volatility	Listed equity; private equity; forward currency contracts; equity futures
Real Assets	Positive real returns with an income stream, in some way, linked to inflation. Likely to deliver some diversification from equity returns.	Property; infrastructure; timberlands; agriculture; commodites
Non-Gilt Debt	Assets offering strategic funding level protection and / or delivering a superior yield to that available from gilts (and where returns may have a positive correlation with bonds).	Investment grade bonds; high yield bonds; loans; private credit; emerging market debt; overseas sovereign bonds
LDI (formerly Gilts)	Assets offering strategic funding level protection by virtue of being the asset that most closely matches the liabilities and so reduces funding level variability. This currently comes at a cost because gilts guarantee a negative real return if held to maturity.	Index-linked gilts; nominal gilts; gilt futures
Cash	Liquidity function avoiding (mostly) credit and duration risk premia.	UK Treasury assets; overseas Treasury assets; local authority loans; bank/building society deposits (all short term)

2.8 Under the governance structure of the Fund, the implementation of the investment strategy within these Policy Groups is delegated by the Pensions Committee to nominated officers with advice from the JISP. The proposed changes to the Policy Groups are the same for Falkirk, Fife and Lothian funds to continue facilitation of joint working from using consistent terminology, controls and constraints to continue to deliver efficiencies.

2.9 The modelling results below and in Appendix 1 indicate that the level of equities is by far the key determinant of investment risk and return. Variation in the types of investment managers within each Policy Group is typically less significant to the overall risk and return than strategic Policy Group allocations over the long term.

Asset Liability Modelling

2.10 An Asset Liability Modelling (ALM) is a tool which projects how the Fund's assets and liabilities might perform in the long-term. The primary aim is to indicate the degree of uncertainty associated with a particular strategy; the ALM is not a forecasting tool. It describes how likely different investment strategies are to deliver returns that achieve the Fund's objectives – paying pensions as they fall due. Investment strategies with higher expected returns are likely to require lower employer contributions. However, such strategies will be accompanied by more variability in funding level and the risk that employers will be required to make larger contributions if the investments do not perform as expected.

2.11 Asset Liability Models include many assumptions about how the economy and investment markets might change in the future, highlighting the uncertainty in projecting future outcomes. The assumptions in such models should be considered as well as the results. Hymans Robertson has tested the current investment strategy and potential investment strategies, which are expected to deliver sufficient returns with a high probability of success over a 20-year timeframe. There are, however, a wide range of possible outcomes, which reflects the need to generate returns in excess of the return generated by gilts, the matching asset for a pension fund. There is less certainty associated with the future returns from other financial assets.

2.12 The assumption for future gilt yields is one of the most critical inputs to the model. The level of gilt yields does not impact the actual pensions which will fall due. But it greatly affects the current value of these liabilities calculated by the actuary – as discounted by this rate. The higher the assumed discount rate (level of gilt yields), the lower the current value of liabilities, as calculated by the actuary's model.

2.13 Hymans Robertson's asset liability model assumes, on average, that nominal gilts return c. 1.5% p.a. over the next 20 years, with nominal yields increasing to +3.5% pa. This is a major assumption because nominal 20-year gilt yields are 1.3% pa currently (27/5/2021), and they are currently expected by the market to fall. Nominal 40-year gilt yields are currently 1.2% pa, which is consistent with 20-year gilt yields in 20 years' time falling to 1.1% pa.

Table 3

UK Gilts

Maturity	Years to Maturity	Yield
2071	50	1.122%
2061	40	1.216%
2055	30	1.316%
2035	15	1.163%
2030	10	0.808%
2028	7	0.582%
2026	5	0.344%
2024	3	0.153%
2023	2	0.043%

Source: Bloomberg

2.14 The ALM helps to demonstrate, on its assumptions, whether the investment strategy is likely to deliver the funding objectives, the associated risks and the impact of changing investment strategy. However, model assumptions need to be considered when interpreting the results, particularly the gilt yield and equity assumptions.

The Results

2.15 The results of the Asset Liability Modelling are attached as Appendix 1.

2.16 The modelling shows that:

- future funding levels are significantly reliant on the assumption of future gilt yields; and
- the risk associated with the investment strategy is largely determined by the amount invested in equities, typically the most volatile asset class over shorter term time periods.

2.17 The modelling has generated estimated probabilities of the Fund being at least 100% funded by 2040 (20 years after the 2020 actuarial valuation) based on several different investment strategies.

2.18 Slide 49 in Appendix 1 shows 'Current' investment allocation at the time of the modelling was 60% invested in equities. The ALM calculates that:

- The probability of reaching 100% funding by 2040 (20 years after the 2020 actuarial valuation) is 83% (slide 50); and
- There is a 4% probability that the funding level will be below 65% in 2023, which would be a deficit of approximately £1.4billion or more (slide 53). In comparison, the total payroll for members of the Fund as at March 2020 was £328million. Hence recovering such a deficit from employers over 20 years would equate to approximately 21% of payroll per annum)

2.19 As noted earlier, the anticipated increases in gilt yields are a critical assumption in the ALM model. As mentioned above the financial markets expect yields to fall slightly. Slide 54 illustrates the potential impact on the Fund if yields do not increase to the full extent assumed by the model. This has a meaningful impact, reducing the probability of achieving the target funding level by 2040 by 13 percentage points. Based on the 'current' strategy allocation, the probability of exceeding 100% funding by 2040 is 83% assuming the nominal gilt yield reverts to 3.5%, but only 70% with the low yield model assumption of 1.5%, slide 54. This yield level looks more prudent when compared with current financial market pricing.

2.20 The ALM indicates that there is scope for the Fund to reduce equities (the most volatile assets) to lower the probability of its funding level calculation falling below 65% to 2-3% against 4% currently. However, this implies buying (matching LDI gilt) assets with a guaranteed negative real return. This would reduce probabilities of achieving funding targets. So, following the model would be acceptable if the assumptions are deemed acceptable. But the estimated 83% probability of success is significantly reliant on gilt yields increasing, when financial markets expect them to fall. On the "low yield reversion" assumption, slide 55, also tested by the ALM, the probability of success would be 70% on current strategy, dropping to 66%-69% on "de-risking" (selling equities and buying gilts or debt assets).

2.21 The ALM does not incorporate climate scenario analysis, but Hymans Robertson and the JISP advisers believe that the existential threat of climate change should be taken seriously by pension funds with long duration liabilities. Hymans Robertson is actively developing a climate scenario model to integrate with its ALM. Currently, it provides standalone analysis, which was used for the purposes of this strategy review.

2.22 Three possible scenarios, which differ according to governments' policy responses to climate issues, were considered. The scenarios capture the high-level impact of government policies over 20 years and an impact on longevity. As bad outcomes are already incorporated into Hymans' ALM, the serious implications of climate change do not necessarily alter the ALM conclusions.

Adviser Commentary

2.23 The JISP Advisers have discussed the inputs and outputs of the ALM with Hymans Robertson to understand its strengths and its limitations. They note that it:

- quantifies and frames the uncertainty inherent in assessing 20-year risk and returns;
- quantifies the shorter term, downside risks that could impact employer contributions at the next actuarial valuation in 2023;
- highlights the critical role that gilt yields have in the funding level output and the probability of success.

2.24 The quantitative model cannot produce a right 'answer' for the Committee. It produces a range of possible outcomes and the central outcome is not more certain than any others. However, the central outcome of the model does rely on gilt yields rising. (Note that the model does incorporate potential, worse outcomes where yields do not rise.) The reality is that yields have continued to trend down over the last four decades along with a downshift in nominal economic growth. Obvious reasons for this include high and rising debt levels, demographic trends, globalisation and the substitution of capital for labour. It is not clear that these trends will reverse putting upward pressure on interest rates and inflation anytime soon. To sustain higher gilt yields, short term policy rates, such as the UK Base Rate, would need to rise to levels not seen for more than a decade. The Bank of England has cautioned against expecting such a move any year soon.

2.25 Perhaps the most insidious of these issues is the increasing global debt burden, which has been further exacerbated by the global pandemic. It was already very high by historical standards and yet fiscal policies have taken on a more expansionary flavour, financed by increased debt. Although the immediate future looks brighter as the world economy emerges from the COVID-19 trauma - interest rates and inflation expectations have already anticipated this to some degree - it is far from clear that the path of gilt yields is on the trajectory of the yield reversion in the model. Certainly, the model is at odds with the market's current expectations, which show yields falling to 1.1% per annum in 20 years, not 3.5% in the model.

2.26 The long-term implications of the current and expected economic policies - expansionary, debt-financed fiscal policy combined with easy, average inflation-targeting central bank monetary policy - will be a challenge for pension funds. There seems to be only one politically acceptable way to reduce debt levels and that is to inflate them away gradually. That would be to the detriment of savers and to the benefit of debtors; to the detriment of financial assets and the benefit of real assets. Levels of debt to GDP have continued to rise, not fall. It seems almost certain that major central banks around the world will be distorting price signals by buying government bonds to keep yields low and below inflation in order to deflate the real value of the debt. The existing policies have provided a tailwind to riskier assets, where valuations have expanded. Prospective policies may do the same, but real returns from financial assets are likely to be much lower in future than in the recent past given that starting valuations are higher.

2.27 The balance between minimising the probability that the ALM calculation of funding level will fall below 65% in 3 years, against maximising the probability that the fund will be able to pay (100% of) pensions as they fall due is the key strategic decision for the Committee.

2.28 Based on statistical modelling, our investment consultant from Hymans Robertson judges that there is scope to reduce financial market risk within the pension fund without a material reduction in the probability of a successful outcome. This conclusion is informed by insight into thousands of possible economic and financial scenarios. An alternative to de-risking would be to plan for lower contribution rates.

2.29 Given that there is uncertainty about future outcomes, there are a range of views expressed by advisers, but the consensus view is that the most likely scenarios are those shaped by a continuation of expansive monetary and fiscal policies across the globe. Policymakers are explicitly targeting higher nominal economic growth and, by association, strong asset markets. To reduce risk would be to decide that these policy objectives will be missed. The advisers believe it is premature to come to that conclusion.

2.30 Accordingly, having reviewed the ALM results and considered the strengths and limitations of the model the JISP advisers believe it is appropriate to wait for increased yields to arise, rather than to reduce the Fund’s investment risk and return ahead of such time.

2.31 Climate modelling is unavoidably fraught with uncertainty. Work done by the investment consultant highlights that, on balance, climate change would, in the longer term, weaken the financial position of the pension fund. This affects the probability of success and means that risk appetite should be maintained.

2.32 The JISP advisers conclude that the Fund should maintain exposure to Equities with an allocation of 55% and reduce the target allocation to Real Assets to 15% over this investment strategy cycle. This recognises the practicalities of increasing actual allocations to private market assets in the Real Asset policy group and the advice to maintain exposure to assets that are expected to produce better real returns in the long run. They agree with Hymans Robertson that the Fund should consider further reductions of Equities should the funding position continue to improve, but that it is not prudent to anticipate a rise in gilt yields and funding level.

2.33 The JISP advisers agree with Hymans conclusion that if the funding levels continue to improve it may also be a realistic ambition for the Committee to reduce contribution rates very modestly in the future on the assumption that funding levels continue to improve. However, this would need to be tested by the Scheme Actuary at the next valuation and must be approached with caution.

Recommended Strategy

2.34 The proposed investment strategy is presented in Table 4 below as recommended by the JISP advisers taking the ALM into consideration. It is based on long term expectations (20+ years) that the asset mix will generate returns comfortably in excess of liabilities. The permitted ranges are the constraints within which the nominated officers can implement strategy under delegated authority without referral to the Committee. They are wide enough to avoid unnecessary and potentially costly rebalancing under normal financial conditions, but to enable prompt action in fast moving markets.

2.35 The strategy sets a target for Equities which is broadly similar to the current allocation but slightly higher than the previous strategy, with real assets being slightly less. This is in recognition of the time taken to source appropriate opportunities and for necessary due diligence to carried out. Further reductions in Equities may be recommended in the future if either the funding level increases, or gilt yields rise. It is also proposed to make fairly minor amendments to the permitted ranges for the policy groups. These are more symmetrical around the proposed strategies while the Cash range is increased slightly to permit a more defensive position under extreme circumstances, but there is no change to the proposed strategic weight of 0%.

Table 4

Policy Group	Current Strategy	Proposed Strategy	Current Permitted Range	Proposed 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%**		

2.36 The strategy modifies the ALM output to reflect adviser consensus that the yield reversion is far from certain, given the policy backdrop that is likely to persist for a substantial portion of the 20-year period modelled. Climate change considerations too impact the outlook with the cost of transitioning being a potential drag on economic growth.

2.37 Officers will continue to monitor the funding level with advice and input from the JISP advisers and adjust exposures of the Policy Groups within the constraints of the permitted ranges. They will continue to provide regular reporting on strategy implementation and refer to Committee for direction should there be a recommendation to operate out with the permitted ranges or to adjust the strategic weights.

2.38 To provide some context, Table 5 details the actual asset allocation of the Fund investments as at 31 March 2021, the current target allocation and the percentage change relevant to the proposed strategy in Table 4 above.

Table 5

Policy Group	Current Actual	Current Target	Proposed - Current
Equities	55%	50%	5.0%
Real Assets	14%	20%	-5.0%
Non-Gilt Debt	20%	15%	0.0%
LDI (aka Gilts)	6%	15%	0.0%
Cash	5%	0%	0.0%
Total		**100%**	

3.0 Conclusions

3.1 A review of the Fund's investment strategy has been undertaken, taking advice from the Joint Investment Strategy Panel (JISP) and investment consultancy from Hymans Robertson. Two training sessions have been held. The first on 24th May detailing the review process and what to expect from the work done by Hymans Robertson. The second was held on 24th May and 11 June and was attended by various members of the Committee and Board.

3.2 This report provides the recommendations following the output of the investment strategy review with the proposed strategy being similar to the Fund's current asset allocation but with slight amendments compared with the existing strategy. If the funding position continues to improve, it could be possible that Equities could be reduced further, thereby reducing risk further.

3.3 For the Fife Fund, following the completion of the exercise, it is recommended that the current strategy be amended slightly from 50% equities, 20% Real Assets, 15% Non-Gilt Debt and 15% LDI be slightly altered to 55% equities, 15% Real Assets, 10% Non-Gilt Debt and 10% LDI. The permitted ranges have also changed slightly as noted in Table 4.

List of Appendices

Appendix 1 Asset Liability Modelling results

(Note- the original slide pack contained the results for all 3 funds including Lothian and Falkirk. These slides have been removed, the pack now includes background information and slides relevant to Fife. As a result, the slide numbering is not sequential)

Background Papers

None

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Investment Strategy Review

Falkirk, Fife and Lothian Pension Funds

John Dickson, Senior Partner
Jordan Irvine, Senior Investment Consultant
Mark Tighe, Investment Analyst

June 2021

Introduction

- This paper is addressed to the Pension Committees (“the Committees) of the Lothian Pension Fund, Falkirk Council Pension Fund and Fife Council Pension Fund (“the Funds”).
- The purpose of this paper is to present the results of the asset liability modelling (ALM) exercise and the potential implications for each Fund.
- We accept that the paper can be part of the Committees’ public papers. However, the results and conclusions are not addressed to any party other than the respective Pension Committees and no other party should rely on any of the content or advice contained in this paper. We accept no liability to any other party unless we have accepted such liability in writing.
- This paper has been prepared in accordance with the relevant professional standards (specifically the Technical Actuarial Standard, TAS 100: Principles for Technical Actuarial Work).
- Details of the Reliances & Limitations associated with this work and the assumptions made are set out as an Appendix.

Areas we'll explore today

- How likely is it that the current combination of funding and investment strategy delivers 100% funding over an acceptable period?
- Consider alternative investment strategies and their impact on achieving full funding – consider the suitability of the current strategic ranges.
- Assess whether a lower risk investment approach can be adopted given the current strong funding positions?
- Assess whether a lower level of contributions can be achieved in the future?
- Consider the impact of a downside risk event over the next couple of years, how big the deficit could become and any action that should be taken?
- Assess the strategies against different economic scenarios e.g. varying yield and inflation environments.

High level overview

- All three Funds have seen an improvement in funding position since the 2020 actuarial valuation as a result of strong market returns over this period. Throughout this presentation we have focussed on the long-term funding position as this is most relevant when thinking about contributions and investment strategy.
- Under our central yield assumption, there is significant scope to reduce investment risk across the three Funds. Falkirk's starting funding position is lower than Lothian and Fife, which offers less scope to reduce investment risk. That said, the equity exposure can be reduced by 15% across all three Funds and still retain at least a 75% probability of being fully funded in 2040. In doing so, the downside risk measures reduce materially (c.10% for each Fund).
- There is also some scope to reduce contributions in the future under the central yield assumption; however, Falkirk is limited in its ability to reduce both investment risk and contributions. Any potential reductions in contributions would need to be tested by the Scheme Actuary at next actuarial valuation.
- Under a lower central assumption for long term yields, there is less scope to reduce investment risk. However, based on the current position, both Fife and Lothian could reduce the level of equity exposure by a modest amount.
- If the Funds continue to see an improvement in the funding position, then there will be significant scope to reduce the level of equity exposure whichever of the central yield assumptions are adopted. A sensible next step would be to consider potential de-risking triggers to capture future improvements in the funding position. At the same time, the Committee may need to consider amending the current strategic targets and tolerances.
- As part of this review, we also considered climate scenario analysis. Climate scenario analysis is in its infancy and will continue to improve. However, overall, the proposals to reduce investment risk are well aligned to the green revolution and should therefore encourage positive action to help address climate issues.

Summary of conclusions

Overall, the results on the central yield assumptions show significant scope for all Funds to be able to reduce equity exposure. However, it is prudent not to allow for the potential improvements to the funding position coming from increasing gilt yields, certainly in the near term. Focussing on the results from the lower yield model retains this element of prudence. Overall, this reduces the scope to reduce equity exposure at least until we see further improvements in the funding positions. On this basis, our conclusions from the modelling for each fund are as follows:

Lothian

- Although limited, there is scope to reduce equity exposure by 5-10% which would move it towards the centre of the current range. However, as the funding level improves, there will be scope for further reductions in equity exposure. This indicates that it would be useful to set funding level triggers at which the JISP could consider what, if any, action could be taken to reduce risk further.

Falkirk

- Due to a lower current funding level, there is less scope to reduce equity exposure immediately. However, the current position has an equity allocation above the strategic target of 60%. The results continue to support moving to the strategic target. As with Lothian, future funding improvements will give more scope to reduce equity exposure further; again, indicating that funding level triggers to consider what action to take would make sense.

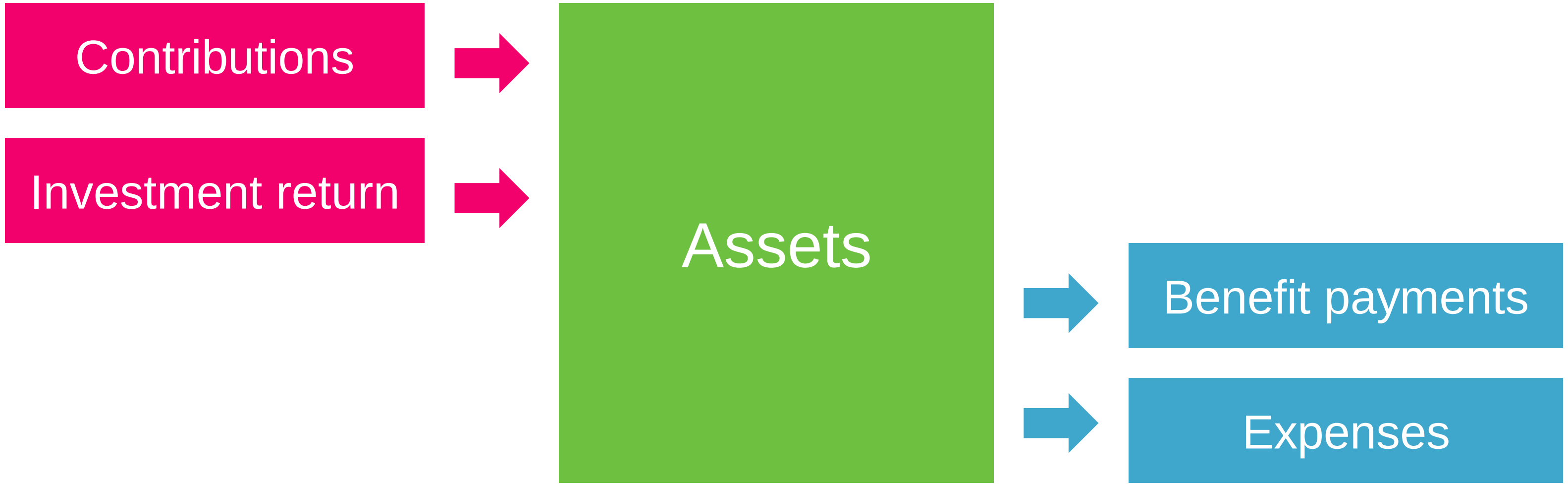
Fife

- Like Lothian, even under a lower yield assumption there is scope to reduce equity exposure immediately. We understand the Committee has been reducing the equity exposure recently from 60% to 55%, but our analysis would support reducing this by a further 5%. Funding level improvements will give scope to move even further and, as above, setting funding level triggers to consider future actions makes sense.

We note that the focus is on reducing equity exposure, particularly as improving funding levels afford it. There are many ways of achieving this. We have considered two – switching into the debt or LDI policy groups. Both are broadly equally affordable. There are other approaches, including buying equity protection in the market. We would expect that when the opportunity to reduce equity exposure is triggered, the JISP would consider both whether and how that should be achieved.

Strategic objectives

Funding pension benefits



- Only two sources of funding benefits
- Investing with a long-term investment horizon
- Requirement for “affordable and stable” contributions
- Want attractive **real** rate of return over the long term

Strategic priorities

Principal objectives

Pay benefits
Low, stable contributions

Requirement 1

Reduce risk of deficits emerging to protect against increase in secondary rates

- Minimise risk for particular target return
- Build buffer against risks

Requirement 2

Generate sufficient returns to keep the cost of new benefits accruing reasonable

- Affordable and stable contributions
- Returns beyond discount rate

Requirement 3

Identify sources of income in order to generate cash as the Fund requires

- Not immediate concern
- Strategic move to higher yielding assets supports this

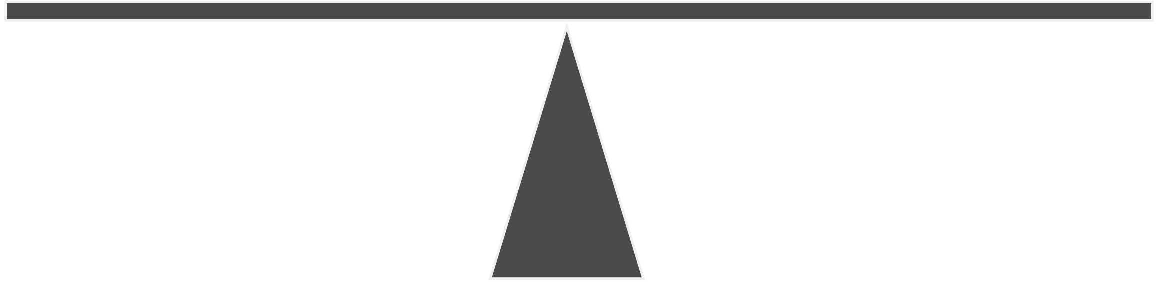
Seeking long-term affordability and stability

Building towards a "steady state"

Principal objectives:

- Provide pensions for current and future generations
- Get funding to **a steady state**
  - affordable and stable contributions
  - an appropriate level of investment risk - "target returns"

Requirement 1	**Requirement 2**
Reduce risk of deficits emerging to protect against increase in secondary rates	Generate sufficient returns to keep the cost of new benefits accruing reasonable



Getting the balance right for now and the future

Approach to modelling

- Aim is to determine the optimum investment strategy by testing the current position against a range of alternatives.
- The key is finding a balance between having enough expected return (to ensure contributions remain affordable) and minimising the risk taken to generate this return (to maintain stability of contributions).
- To test different strategies, we use long-term projection models, projecting forward both liabilities and assets, and use a range of metrics to test the effectiveness of each strategy.
- The model is often referred to as an Asset Liability Model.

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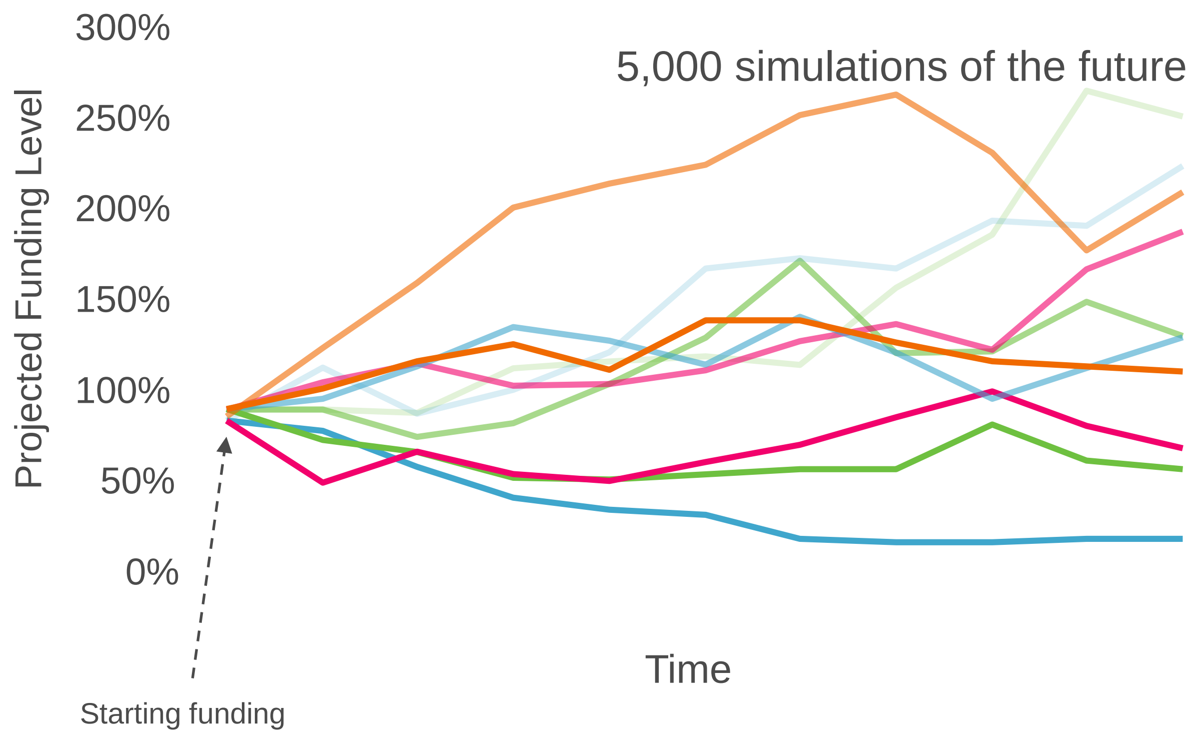
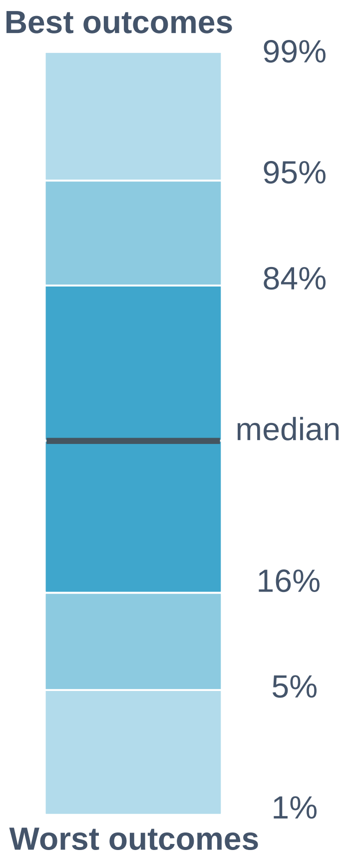
What we have modelled

Modelling process



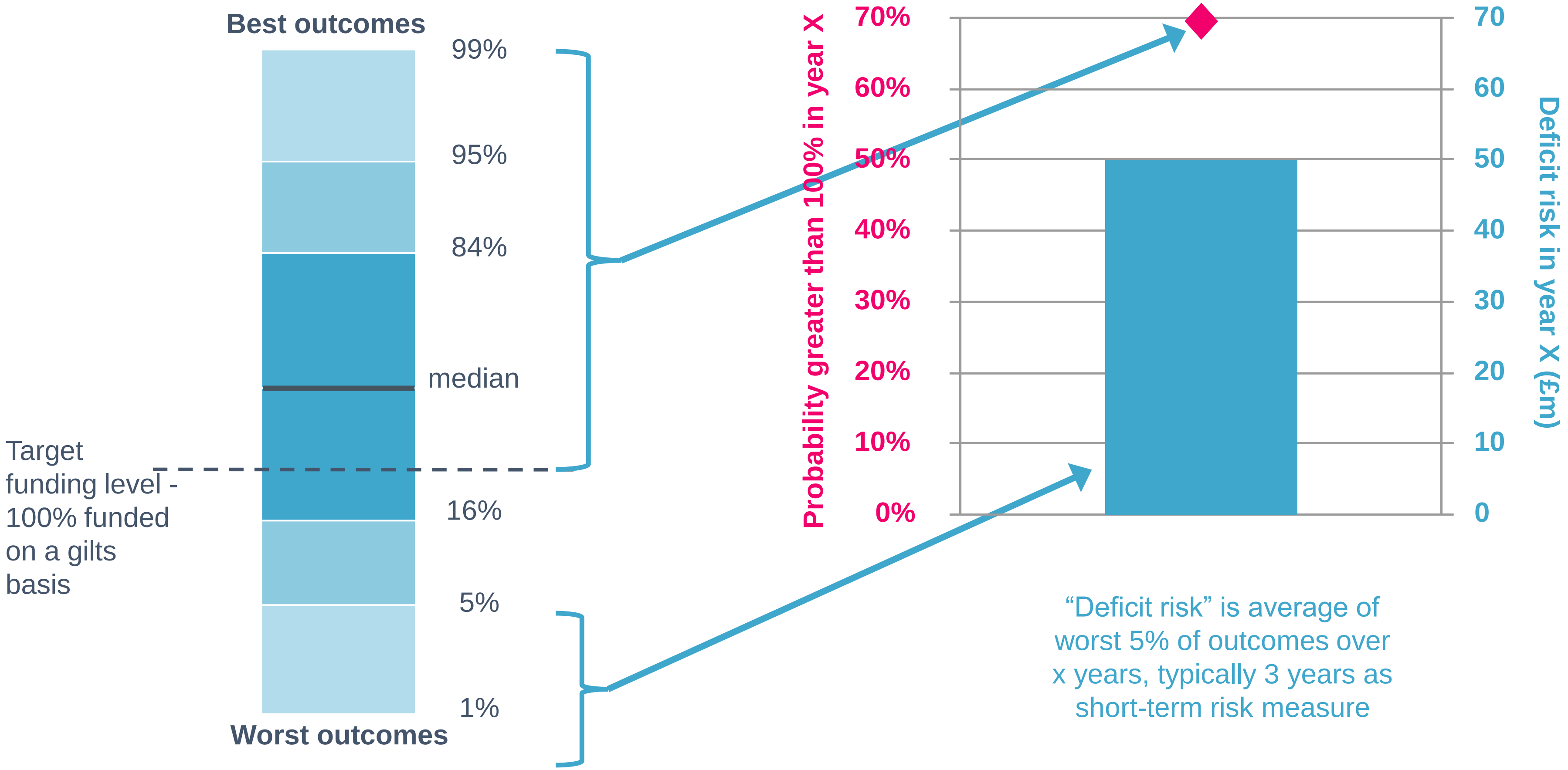


- We run 5,000 simulations of the future for each strategy.
- The modelling uses market-consistent rates of return and volatilities and long-term characteristics of major asset classes.
- Current conditions are viewed as “unusual”, particularly the low level of (real) interest rates. Our central assumption assumes higher long-term yields, but we have also tested the impact of lower levels of long-term yield.
- We rank the 5,000 simulations from best to worst to give a range of potential outcomes and focus on:
  - Probability of success – of achieving funding level of 100%
  - Downside risk – how bad could it get by next valuation. We consider the worst outcomes over 3 years.

Understanding the output

Translating the output from the simulations into probabilities and a measure of risk.

"Probability of success", given 3,500 out of 5,000 simulations are above target funding level, is 70%



Current strategy and ranges

	Lothian (Main) Allowable Range			Falkirk Allowable Range			Fife Allowable Range		
	Low	Target	High	Low	Target	High	Low	Target	High
Equities	50%	**65%**	70%	50%	**60%**	70%	45%	**50%**	65%
Real Assets	10%	**18%**	30%	10%	**20%**	30%	10%	**20%**	25%
Debt	0%	**10%**	20%	0%	**15%**	20%	5%	**15%**	25%
LDI	0%	**7%**	25%	0%	**5%**	20%	5%	**15%**	25%

- We have shown the proposed permitted ranges above, but understand that these are still being considered by the Committee.
- Reflecting the strong positions, we have focussed on lower risk investment strategies in this paper. If interested, we can follow up with results from the re-risked investment strategies.
- We have considered the current contribution schedule for each Fund and the impact of reducing the level of contributions.

Policy groups modelled

Policy group	Allocation
Equities (beta of 90% for Lothian)	**100%**
Overseas Equity	83%
UK Equity	8%
Emerging Markets Equity	6%
Private Equity	3%
Real Assets	**100%**
Infrastructure	55%
Property	40%
Timberland	5%
Debt	**100%**
Investment Grade Credit	60%
Private lending	20%
Cash	20%
LDI	**100%**
Index-linked	85%
Nominal	15%

- Note that this is not intended to exactly replicate the structure of the Funds, but gives a broad representation of the risk and return profile
- This provides a framework for comparing varying levels of risk and return
- The framework can be used to analyse the impact on the overall level of risk and return of changes to the strategies
- Structure modelling allows varying asset classes and proportions within each policy group to be investigated in more detail.

Risk and return assumptions (31 March 2021)

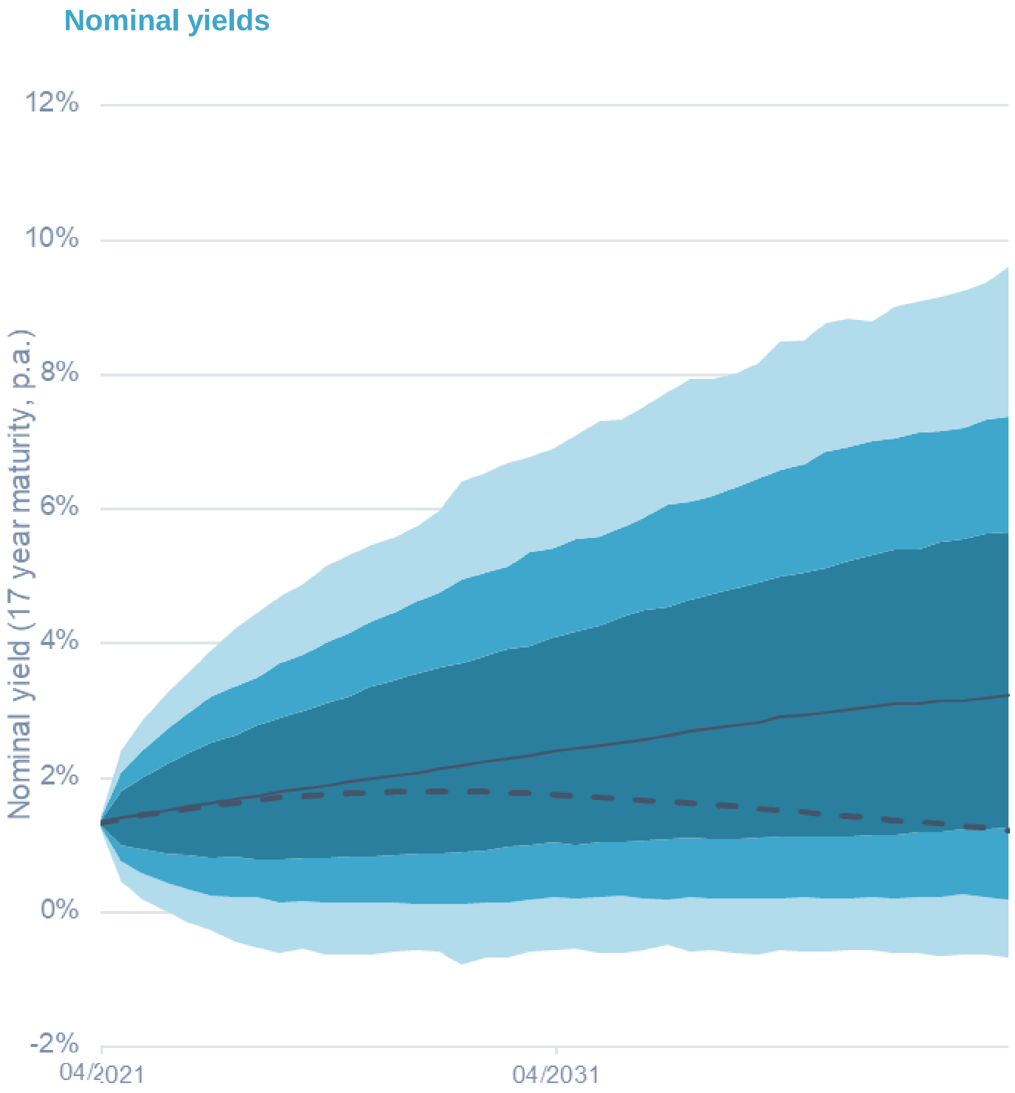
Asset class	Median return (%p.a. 20 year horizon)		1 year volatility (%)
	Nominal	Real (above RPI)	
Global equity (beta = 1)	5.8	3.0	17.4
Global equity (beta = 0.9)	5.8	3.0	15.7
Diversified growth	4.5	1.7	11.9
Property	4.2	1.4	14.2
Private equity	6.8	4.0	28.5
Infrastructure	5.9	3.1	21.0
Private debt	4.9	2.1	4.6
High yield bonds	3.8	1.0	5.9
Corporate bonds (A rated average)	1.6	-1.2	8.0
Cash	2.0	-0.8	0.3
Medium term gilts	1.0	-1.8	7.3
Medium term index-linked gilts	-0.3	-3.1	7.5

Difference in funding levels from valuation

	Lothian	Falkirk	Fife
31 March 2020 actuarial valuation (reporting basis)	106% (gilts + 2.23%)	94% (gilts + 2.4%)	97% (gilts + 2.3%)
31 March 2021 (long-term basis)	89% (gilts + 1.8%)	78% (gilts + 1.8%)	89% (gilts + 1.8%)

- Two separate funding level bases:
  - **Reporting basis** – shown historically and reported in the 2020 actuarial valuation.
  - **Long-term basis** – used by the actuary when considering funding position and contribution schedule.
- We have used the long-term basis in our modelling as this is most relevant to today's discussion when thinking about contributions and investment strategy.
- The initial funding levels used in the modelling are shown in the second row
- For illustration purposes, we have shown the funding levels on the reporting basis as at the 2020 actuarial valuation in the first row

Yield assumptions



- Due to the uncertainty around the appropriate level of yield normalisation, we assume short and long maturity nominal rates tend towards one of three distinct levels or regimes (on average), set at: the long-term historical average (4.5% p.a.); broadly in line with current levels (1.5% p.a.); and an intermediate level (3.0% p.a.).
- Our central assumption is a blend of the three regimes 60/20/20 and gives us a central long-term yield assumption of c3.5% p.a.
- Our yield assumption impacts the probability metrics as we assume that some of the improvements comes from liabilities being valued at a higher discount rate.
- However, we also show the analysis on the low yield regime, so that the impact of the assumption can be understood by the Committee.

Key metrics in the output

Probability of success:

- Probability of reaching funding level of 100% over 20 years (i.e. reflecting the Fund's long-term objective approach)
- We focus on strategies which deliver at least a 2/3rds probability of success.

Downside risk:

- We have measured the downside risk over a 3-year period (i.e. at the next valuation). This is calculated as the median deficit in 2023 less the average of the worst 5% of deficit outcomes in 2023.
- We have considered the probability that the funding level falls below 65% by 2023. Very broadly, this could be viewed as a level at which the Fund's would start questioning whether further contributions are needed.

Climate scenarios

- Our three scenarios differ by the level of governments' policy responses, rather than CO_2 emissions or temperature rises
- We focus on the high-level economic impact of these policies over next twenty years
- We also make a simple allowance for the impact on longevity based on Club Vita analysis

Green revolution

- Concerted policy action before 2025
- Businesses forced to adjust quickly to greater regulation and higher standards
- Negative short-term impact on growth, inflation and equity returns
- Return to 'normality' in the long run
- 5% increase to liabilities after 20 years due to mortality impact

Delayed transition

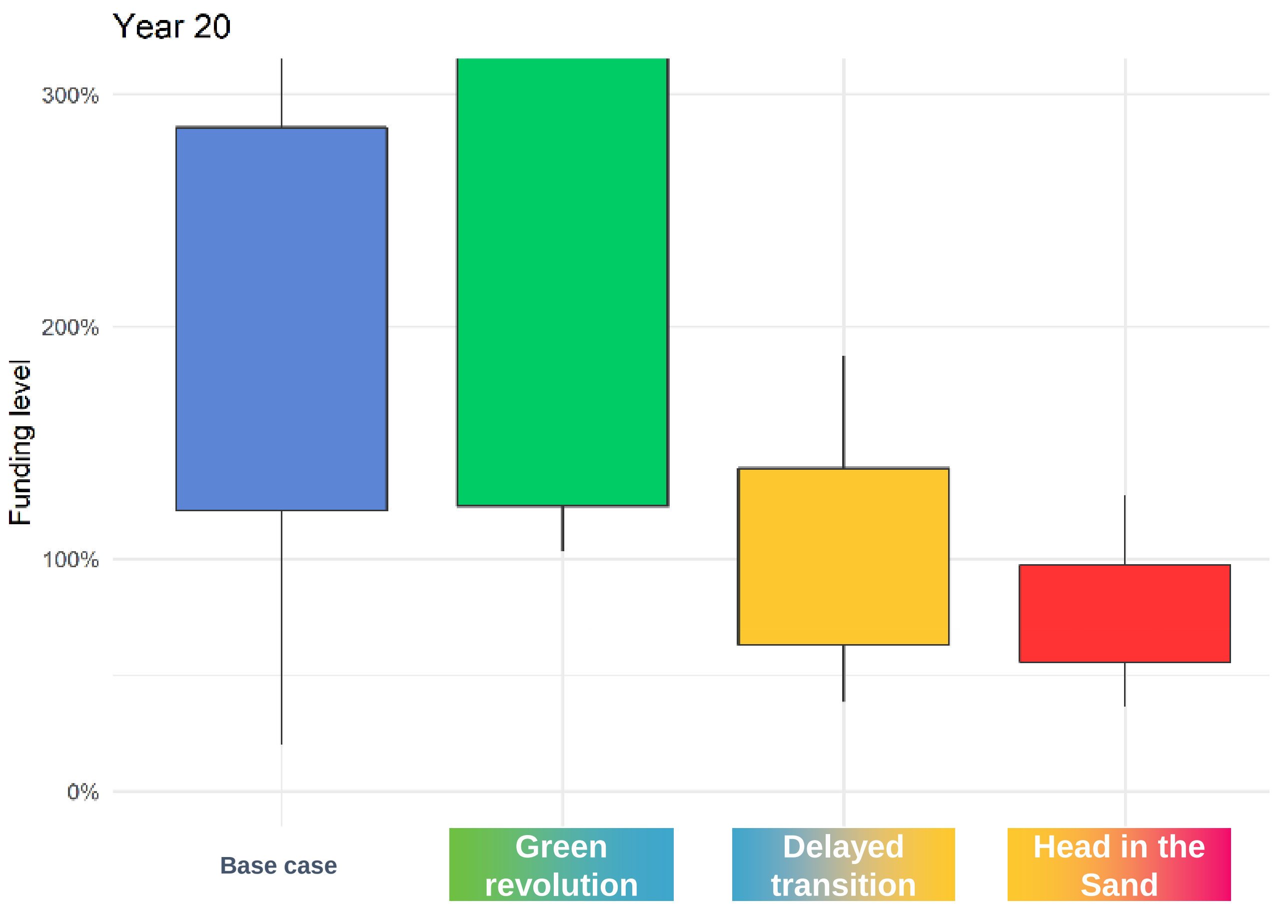
- No policy action for around 10 years
- Action is weaker and negative impact lasts longer as physical risks more damaging
- Greater impact on economies and businesses
- Return to 'normality' in the long run
- 4% decrease to liabilities after 20 years due to mortality impact

Head in the Sand

- No or minimal policy action
- Short term boost to returns and growth due to lower spending on investment
- Physical risks begin to take a toll in the medium term
- Sustained period of weaker performance in the medium-long term
- 12% decrease to liabilities after 20 years due to mortality impact

Club Vita Analysis: Hot and Bothered?

Comparison vs baseline at year 20 (Fife)



Comments

- Similar results to Lothian and Falkirk
- Wide range of outcomes under all climate scenarios – still very uncertain
- Delayed Transition and Head in the Sand results are materially worse. This is largely driven by the expected impact on equity returns. We therefore expect a strategy with lower investment risk (lower equity exposure) to fare marginally better in each of these scenarios. Based on tis modelling, reducing the equity exposure would mitigate the more pessimistic climate scenarios.

Results use current investment strategy and current contributions (23.9% of pay)

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Modelling results: Fife

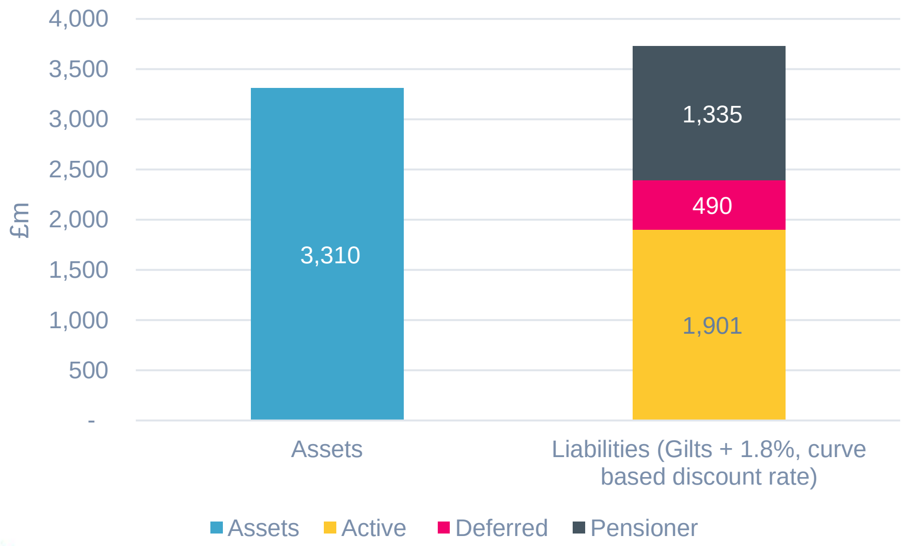
Current position

Key inputs to ALM

	31 March 2021
Assets	£3,310m
Liabilities (Gilts +1.8%)	£3,726m
Funding level	89%
Surplus / (Deficit)	(£416m)
Required investment income*	Nil – income > outgo

Note that throughout the analysis liabilities have been derived using gilt curves.
*Based on 3-year forecast benefit outgo and contribution income as at 2020 actuarial valuation

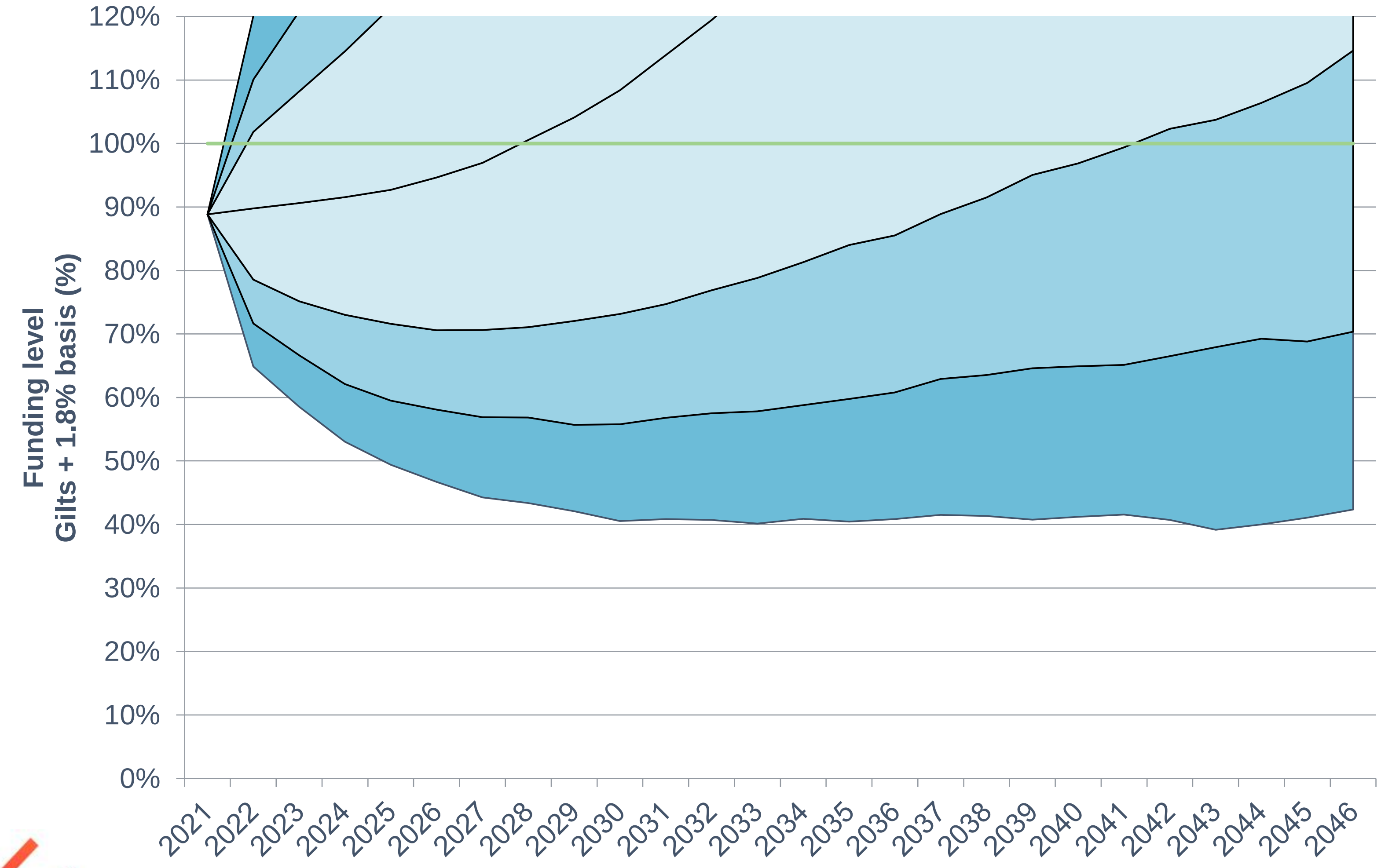
Funding position at 31 March 2021



	Current allocation	Current target
Equities	60%	50%
Real Assets	12%	20%
Debt	20%	15%
LDI	8%	15%

- We understand the Fund has been reducing its allocation to equities and is now closer to 55% equities which is the new proposed target.
- Real assets portfolio is a combination of Property and Infrastructure.
- Debt portfolio is a combination of investment grade credit, private lending and cash.
- LDI portfolio is index-linked gilts with a small allocation to nominal gilts.
- We've considered the Baillie Gifford DGF on a look-through to the underlying assets.

Funding level projection



Comments

- Assumes:
  - Discount rate of gilts + 1.8% p.a.
  - Current allocation
  - Current contribution schedule
- Full funding expected 2028.
- 2/3rd probability of full funding in 2033
- 83% probability of being at least 100% funded in 2040
- 4% probability of funding falling below 65% in 2023

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Alternative strategies

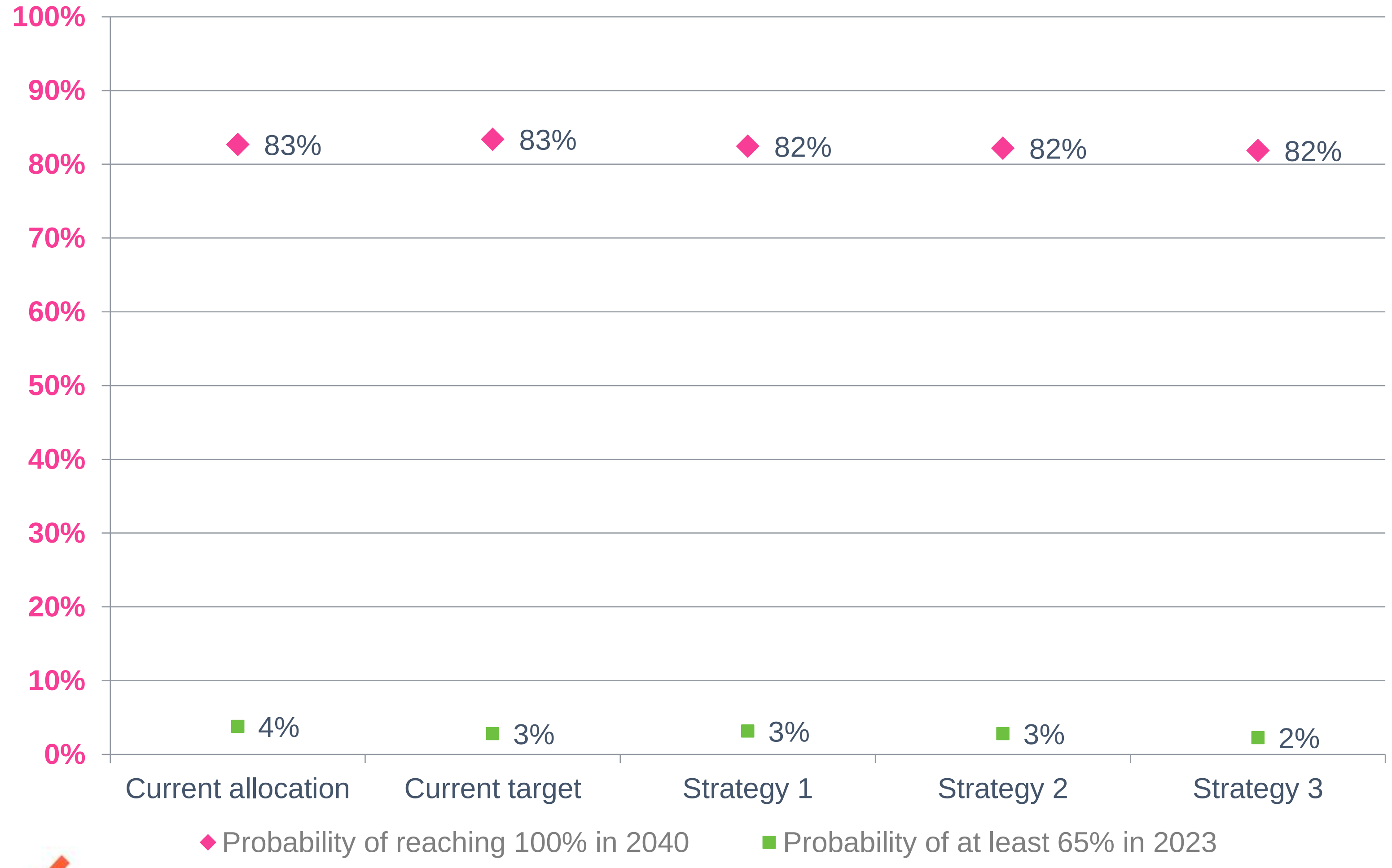
We modelled a number of alternative investment strategies with lower exposure to equities. When reducing the equity exposure, we have largely reallocated the proceeds towards LDI.

The investment strategies we would like to focus on are illustrated in the table below.

- **Strategy 1 –** reduce equity exposure by 6% and allocate to LDI (4.5%), debt (1%) and real assets (0.5%)
- **Strategy 2 –** reduce equity exposure by 10% and allocate to LDI (7%), debt (2%) and real assets (1%)
- **Strategy 3 –** reduce equity exposure by 15% and allocate to LDI (11%), debt (2.5%) and real assets (1.5%)

	Current allocation	Current target	Strategy 1	Strategy 2	Strategy 3
Equities	60%	50%	54%	50%	45%
Real Assets	12%	20%	12.5%	13%	13.5%
Debt	20%	15%	21%	22%	22.5%
LDI	8%	15%	12.5%	15%	19%

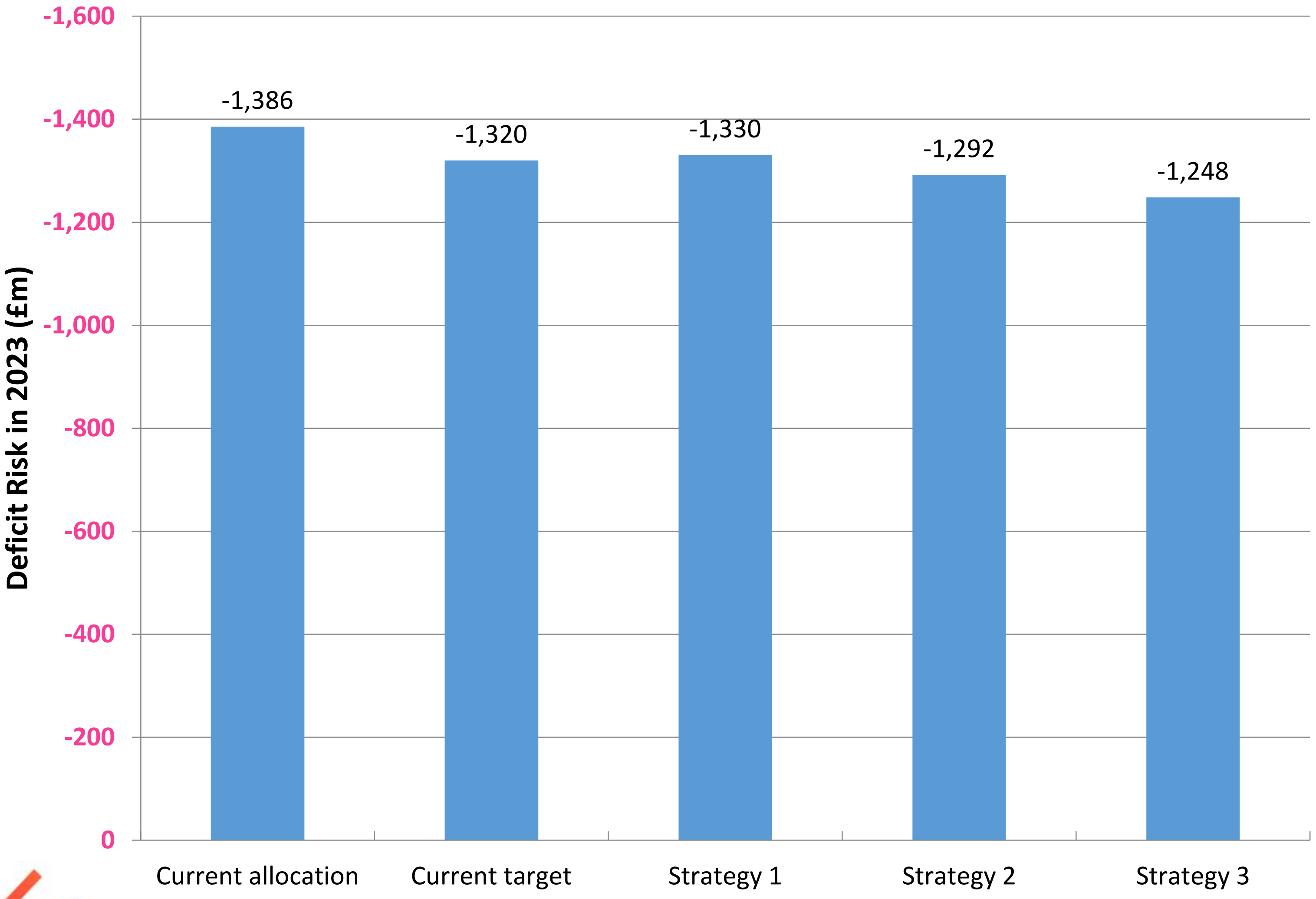
Probability of success / "failure"



Comments

- Assumes:
  - Discount rate of gilts + 1.8% p.a.
  - Current contribution schedule
  - Central yield assumptions
- Strong likelihood of reaching full funding in 2040 under the central yield assumption.
- Under all strategies the probability of success is greater than the 2/3rds target and suggests there is scope to reduce investment risk.
- There is a very low probability that Fund's funding position will fall to below 65% (a 24% fall from current position) by 2023.

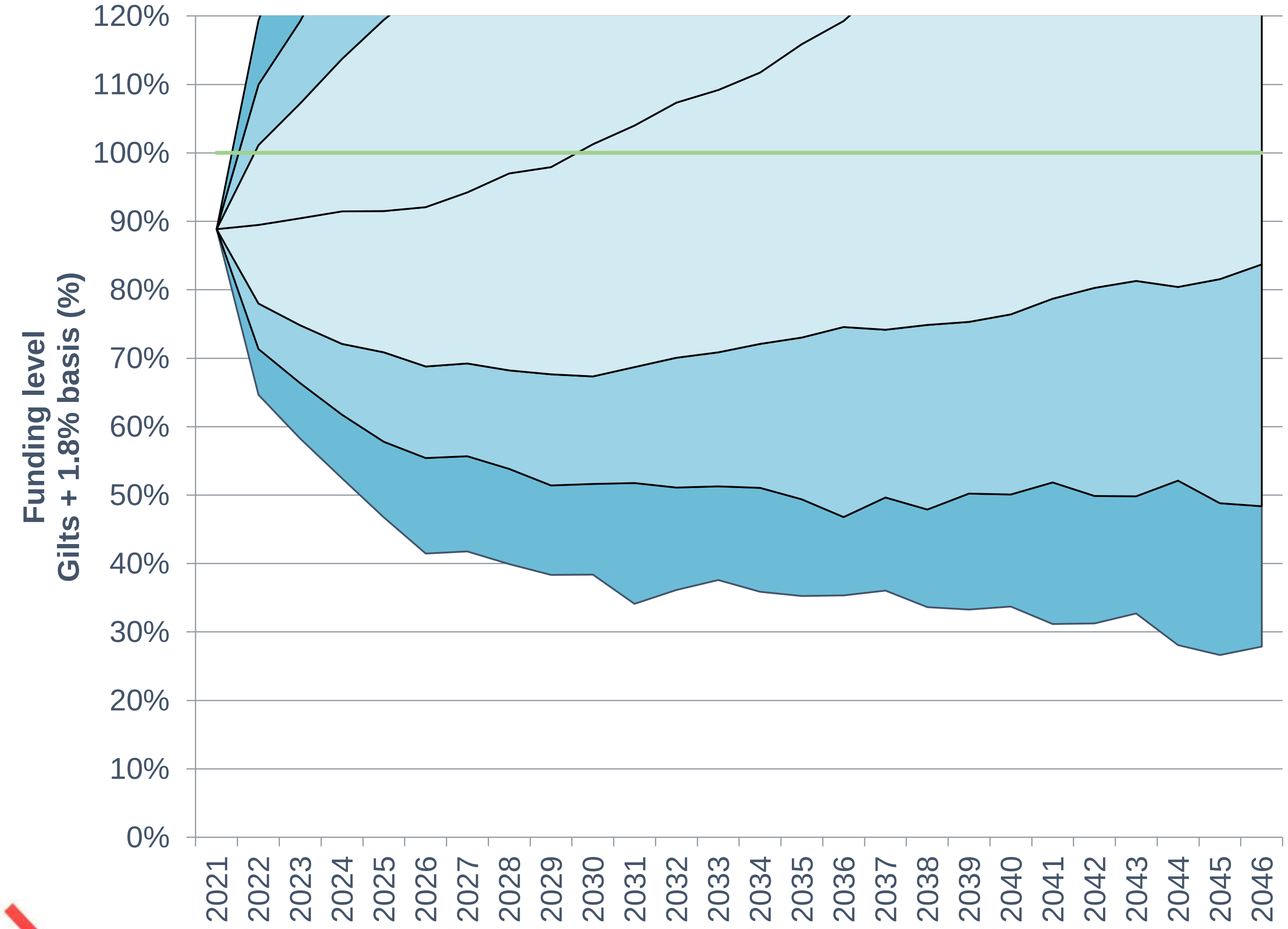
Downside risk



Comments

- Assumes:
  - Discount rate of gilts + 1.8% p.a.
  - Current contribution schedule
  - Central yield assumptions
- 15% reduction in equities would reduce the downside deficit risk by c.£140m (c.10%) whilst still maintaining 80% probability of being 100% funded in 20 years.

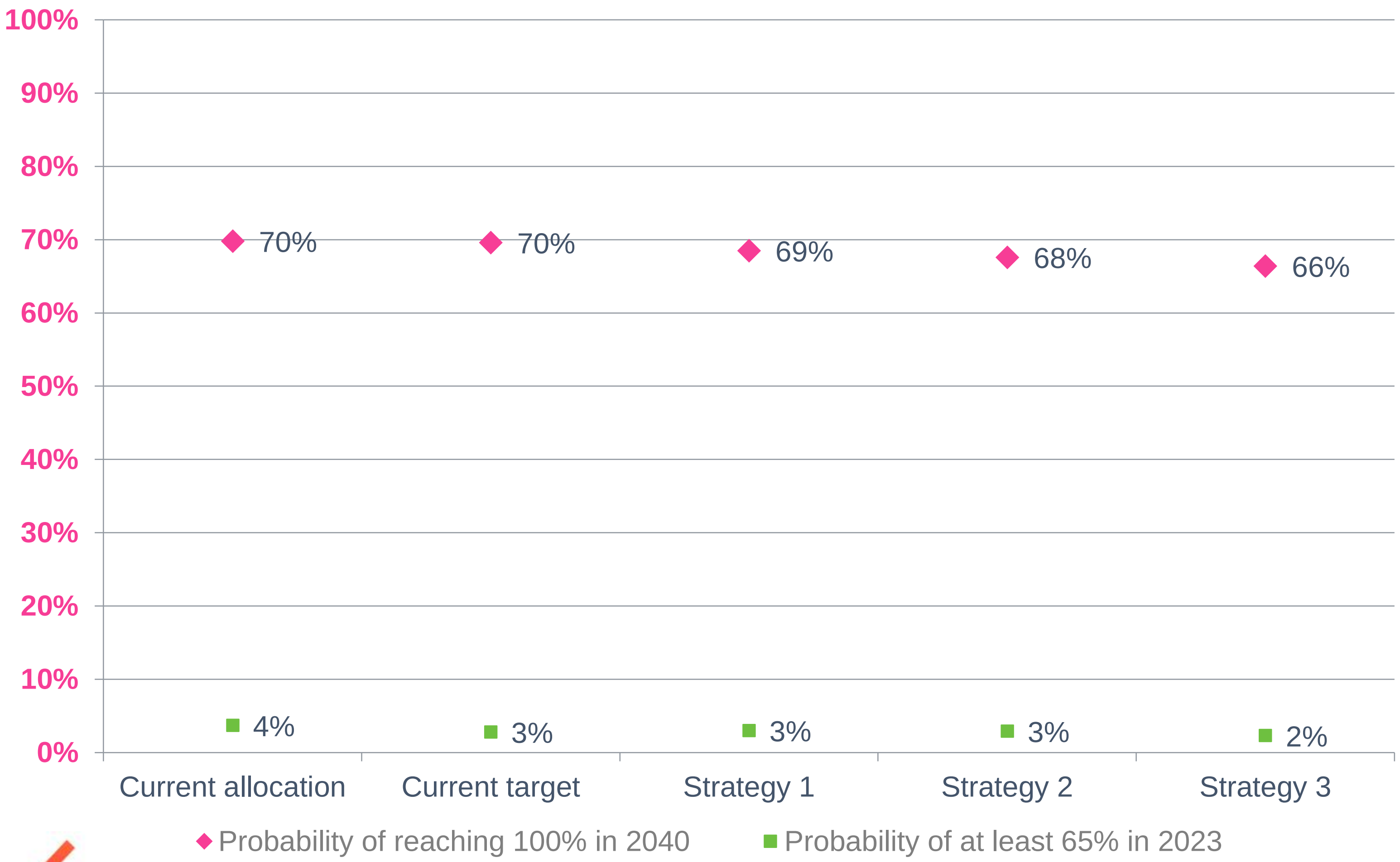
Low yield: Funding level projection



Comments

- Assumes:
  - Discount rate of gilts + 1.8% p.a.
  - Current allocation
  - Current contribution schedule
  - Low yield assumptions
- Full funding expected in 2030
- 2/3rd probability of full funding in 16 years (2037)
- 70% probability of being at least 100% funded in 2040
- 4% probability of funding falling below 65% in 2023

Low yield: Probability of success / "failure"



Comments

- Assumes:
  - Discount rate of gilts + 1.8% p.a.
  - Current contribution schedule
  - Low yield assumptions
- Strong likelihood of reaching long-term objectives across a range of strategies.
- Under all strategies the probability of success is greater than the 2/3rds target.
- There is a very low probability that Fund's funding position will fall to below 65% (a 24% fall from current position) by 2023.

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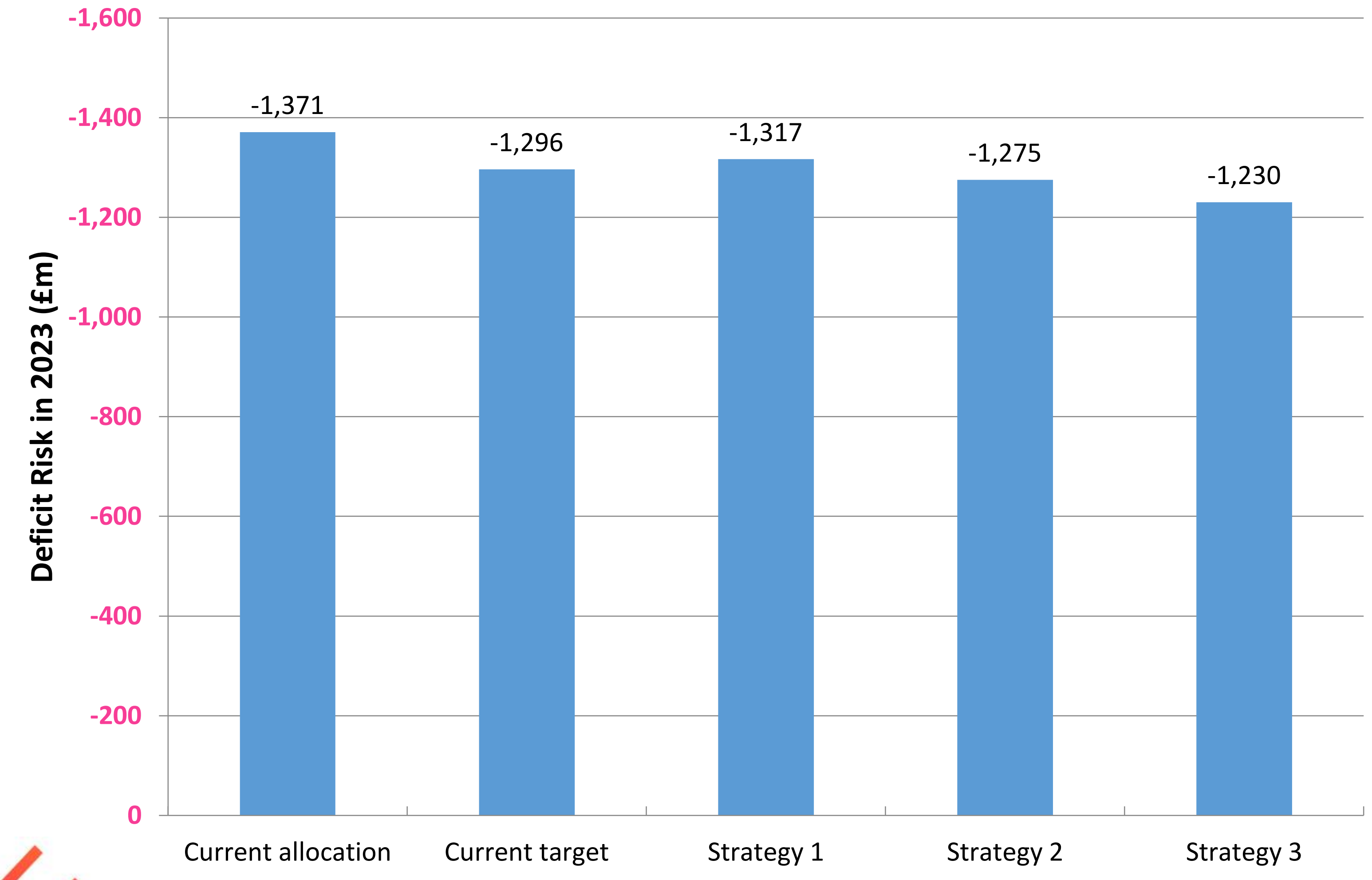
Low yield: Downside risk



Comments

- Assumes:
  - Discount rate of gilts + 1.8% p.a.
  - Current contribution schedule
  - Low yield assumptions
- 15% reduction in equities would reduce the downside deficit risk by over £140m (c.10% reduction in the risk)

Impact of varying contributions

Probability of reaching 100% in 2040	Current allocation		Strategy 2	
	Central yield	Low yield	Central yield	Low yield
Current contributions (23.9% of pay)	83%	70%	82%	68%
20% of pay	76%	61%	75%	58%

Comments

- Assumes:
  - Current allocation
  - Discount rate of gilts + 1.8% p.a.
- Under the central yield assumption there is scope to reduce both investment risk and contributions.
- However, under the low yield assumption there is little scope to reduce contributions from the current level.
- Any potential reductions in contributions would need to be tested by the Scheme Actuary at next actuarial valuation.

Central yield: impact of equity market shock

Comments

- Impact of 20% fall in equities
- Assumes:
  - Discount rate of gilts + 1.8% p.a.
  - Current contribution schedule
- Under our central yield assumption there is scope to materially reduce investment risk.
- However, on this slide we've tested the probability of success following a 20% fall in equity markets.
- In the lower risk strategies, the initial hit to the funding level is lessened due to the lower equity exposure.
- As a result, the overall chance of reaching full funding (after a 20% fall in equity markets) is broadly similar across the strategies. Note that in lower risk strategies, the ability to re-risk could further improve the probability of success.
- Whilst probability of successes are not materially impacted, the level of downside risk (tail events) will reduce as a result of reducing the level of investment risk.

Low yield: impact of funding level increase

Comments

- Assumes:
  - Discount rate of gilts + 1.8% p.a.
  - Current contribution schedule
  - Current allocation
- This chart shows the probability of reaching full funding if we see a 10% improvement in the funding position from here.
- Under the low yield assumption there is potentially scope to reduce equity exposure by 10-15% based on the current funding position.
- However, if we continue to see an improvement in the funding position then there will become even more scope to reduce the investment risk.

Conclusions

- Fife has material scope to reduce investment risk and potentially, in the future, contributions **under the central yield assumption**. Reducing the equity risk exposure to 45% reduces the downside deficit risk by around £140m whilst still maintaining a probability greater than 80% of being fully funded by 2040.
- **Stripping out the impact of yield reversion** lessens the scope to reduce investment risk; however, there is still some scope to reduce the level of equity exposure below the proposed target allocation to 50%.
- The Committee could reduce equity exposure to 50% and still retain a 68% probability of reaching full funding by 2040 under the low yield assumption.
- If we continue to see an improvement in the funding position, then the equity exposure could be reduced further towards the bottom of the proposed range (45%). In addition, a reduction in contributions may also be a realistic ambition for the Committee. This would need to be tested by the Scheme Actuary at the next valuation.
- We believe the results show that the Committee could move beyond the new proposed equity exposure and target an equity allocation of 50%. In addition, the Committee should consider funding level triggers at which to consider further reductions in the exposure to equities towards the lower end of the current range.
- Looking ahead to the next valuation, there is a very low probability of the funding level falling below 65% (the point at which further contributions would be likely).

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Appendix 1: sensitivity analysis

Sensitivity analysis - Fife

Impact of different inflation scenarios

	Central inflation assumption	Deflation (3% of scenarios)	0-2% inflation (25% of scenarios)	2-4% inflation (47% of scenarios)	4%+ inflation (25% of scenarios)
Probability of reaching 100% in 2040	83%	82%	82%	83%	84%
Average worst 5% deficit outcomes at 31 March 2023	-£1,355m	-£1,281m	-£1,428m	-£1,362m	-£1,377m

Impact of different hedging levels

	Current	0% rates / 25% inflation	25% rates / 25% inflation	0% rates / 50% inflation	50% rates / 50% inflation
Probability of reaching 100% in 2040	83%	80%	78%	77%	69%
Average worst 5% deficit outcomes at 31 March 2023	-£1,355m	-£1,447m	-£1,144m	-£1,577m	-£1,010m

Comments

- Assumes:
  - Discount rate of gilts + 1.8% p.a.
  - Current contribution schedule
- The probability of success and downside risk metrics remain broadly unchanged under different inflation regimes.
- Inflation and interest rate hedging reduces probability of success.
- Increasing both to 50% reduces downside risk, but significantly reduces probability of success.

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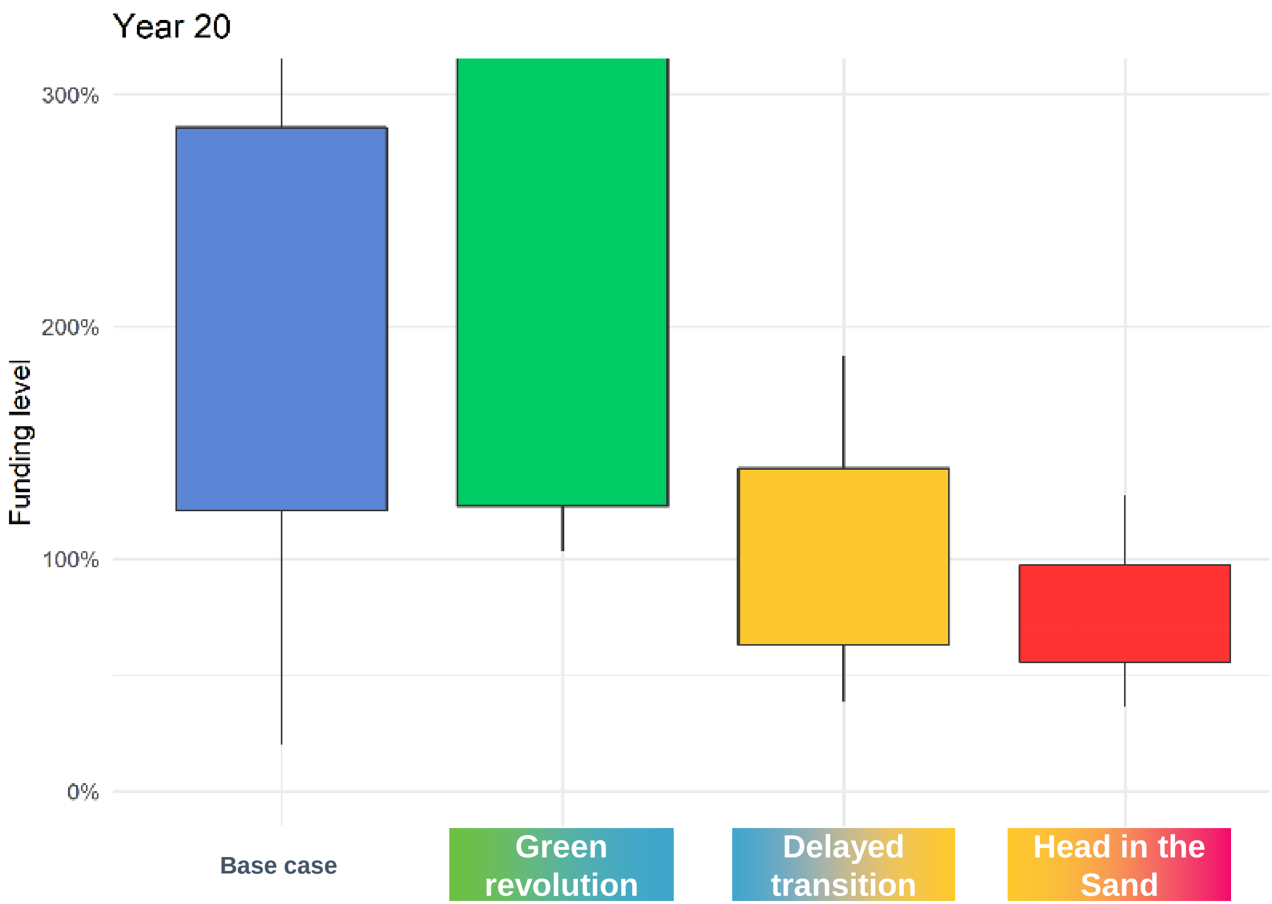
Appendix 2: sensitivity analysis

Comparison vs baseline at year 20 (Fife)



Comments

- Similar results to Lothian and Falkirk
- Wide range of outcomes under all climate scenarios – still very uncertain
- Delayed Transition and Head in the Sand results are materially worse. This is largely driven by the expected impact on equity returns. We therefore expect a strategy with lower investment risk (lower equity exposure) to fare marginally better in each of these scenarios. Based on tis modelling, reducing the equity exposure would mitigate the more pessimistic climate scenarios.

Results use current investment strategy and current contributions (23.9% of pay)

Appendix 3: Reliances & Limitations

Reliances & Limitations (1)

Cashflows

- In projecting forward the evolution of the Fund, we have used estimated cashflows generated using our actuarial valuation system, based on information provided as part of the 2020 actuarial valuation of the Fund including the LGPS regulations.
- Except where stated, we do not allow for any variation in actual experience away from the demographic assumptions underlying the cashflows. Variations in demographic assumptions (and experience relative to those assumptions) can result in significant changes to the funding level and contribution rates. We allow for variations in inflation (RPI or CPI as appropriate), inflation expectations (RPI or CPI as appropriate), interest rates and asset class returns. Cashflows into and out of the Fund are projected forward in annual increments, are assumed to occur in the middle of each year and do not allow for inflation lags. Investment strategies are assumed to be rebalanced annually.
- There are a number of different types of increases applied before and after retirement to benefits payable from the Fund. We have made some simplifying assumptions when modelling the various types of increases.
- We have estimated future service benefit cashflows and projected salary roll for new entrants after the valuation date such that payroll remains constant in real terms (i.e. full replacement). There is a distribution of new entrants introduced at ages between 25 and 65, and the average age of the new entrants is assumed to be 40 years. All new entrants are assumed to join and then leave service at SPA, which is a much simplified set of assumptions compared with the modelling of existing members. The base mortality table used for the new entrants is an average of mortality across the LGPS and is not client specific, which is another simplification compared to the modelling of existing members. Nonetheless, we believe that these assumptions are reasonable for the purposes of the modelling given the highly significant uncertainty associated with the level of new entrants.
- In modelling some of the LGPS benefits, we have assumed;
- *Salary growth is assumed to have a floor of 0% and to be modelled in line with inflation plus (or minus) any additions applied.*
- *S148 salaries / national average earnings is assumed NOT have a floor and is projected in line with our projections of national average earnings and valued in line with inflation plus any additions applied.*
- *Non-accruing and accruing CARE benefits increase in line with CPI (no floor).*

Reliances & Limitations (2)

Economic Scenario Service

- The distributions of outcomes depend significantly on the Economic Scenario Service (ESS), our (proprietary) stochastic asset model. This type of model is known as an economic scenario generator and uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. Some of the parameters of the model are dependent on the current state of financial markets and are updated each month (for example, the current level of equity market volatility) while other more subjective parameters do not change with different calibrations of the model.
- Key assumptions include:
    - The average excess equity return over the risk free asset and its volatility which affects growth asset returns
    - The level and volatility of yields, credit spreads, inflation and expected (breakeven) inflation, which affect the projected value placed on the liabilities and bond returns.
    - The gap between CPI and RPI. Target rates for CPI (inflation and inflation expectations) are RPI – 1% p.a. pre 2030, and RPI – 0% p.a. post 2030, which trends towards a long term CPI assumption of 2% p.a.
    - The output of the model is also affected by other more subtle effects, such as the correlations between economic and financial variables.
    - We expect that long-term real interest rates will gradually rise from their current low levels. This is based on a selection of yield normalisation levels (which can be interpreted as representing low, medium and high economic growth scenarios) reflecting the fundamental uncertainty around long term average yield levels. Higher long-term yields would mean a lower value placed on liabilities and hence an improvement in the current funding position unless the Fund is fully hedged.
- While the model allows for the possibility of scenarios that would be extreme by historical standards, including very significant downturns in equity markets, large systemic and structural dislocations are not captured by the model. Such events are unknowable in effect, magnitude and nature, meaning that the most extreme possibilities are not necessarily captured within the distributions of results.
- A summary of economic simulations used is included further on in this document. We would be happy to provide fuller information about the scenario generator, and the sensitivities of the results to some of the parameters, on request.

Reliances & Limitations (3)

Investment strategy and contributions

- The investment strategies and contributions modelled have been agreed as part of the scoping process and documented above.
- The most important assumption for the assets is which asset class to use for each of the assets. We have therefore agreed this during the scoping stage and further details are in the 'What we have modelled' section.
- We have modelled the impact of hedging by considering hypothetical portfolio that matches the changes in the value and cashflows of the liabilities on a gilts basis – for the following stochastic factors: interest rates and inflation. Where we have modelled the Fund's "LDI" hedge of interest rates and inflation, we have assumed the Fund uses a "delta" hedge approach. In practice and in our modelling, this means that a 100% hedge of interest rates and inflation leaves a residual risk arising from holding an imperfect (delta) hedge versus the gilts liabilities. It also allows for a potential reserve "unwinding" effect (positive or negative depending on the form of pension increases) due to any present valuation placed on caps and floors, vs the future paths taken in the modelling. The modelling of a "delta" hedge is therefore not equivalent to assuming "perfect" hedging where the overall risks would collapse to zero in the aforementioned scenario.
- Investment strategy is likely to change with significant changes in funding level, but unless stated otherwise we have not considered the impact of this in order to focus on the high-level investment strategy decision.
- The returns that could be achieved by investing in any of the asset classes will depend the exact timing of any investment/disinvestment, the costs associated with buying or selling these assets and liquidity of the asset classes. The model implicitly assumes that all returns are net of fees and ignores these other factors.
- Unless stated otherwise, we have assumed that all contributions are made and not varied throughout the period of projection irrespective of the funding position. In practice the contributions are likely to vary especially if the funding level changes significantly.
- In the modelling we have assumed that the Fund will update their contributions as in the data request form. Where stabilised contributions are applicable, our modelling assumes these will be updated annually and will come into force one year later. For stabilised contributions, the rate at which the contribution changes is capped and floored. There is no guarantee that such capping or flooring will be appropriate in future; this assumption has been made so as to illustrate the likely impact of practical steps that may be taken to limit changes in contribution rates over time. The contributions would be based on the theoretical rate of accrual and the deficit contributions spread over a fixed period. We have assumed that the Actuary to the Fund will make his or her calculations using broadly the same methodology as that currently used but note that this is a source of uncertainty that we have not attempted to measure in the model other than where noted specifically.

Reliances & Limitations (4)

Climate change scenarios – purpose

The purpose behind the modelling is to show the impact of three preconceived climate change scenarios and to promote engagement and discussion around the possible outcomes and impacts for the Fund around these scenarios. The modelling does not provide a framework for testing different courses of action by the Fund (via its funding and investment strategy) to mitigate against the risks discussed in this paper, due to the way in which the analysis has been constructed.

Climate change scenarios – method

We have used the Fund's ALM results (see the May 2021 Investment Review) to explore the impact on the Funds' solvency in the event that three pre-specified climate change scenarios occur. The Reliances and Limitations that apply to the Fund's ComPASS modelling also apply here.

The climate change scenario modelling assumes that economic and financial relationships are not broken and that climate outcomes exist within the extremes of the 5000 scenarios modelled for the ALM (as generated by our Economic Scenario Service (ESS)). Although the ESS captures a wide range of future financial conditions, it has not been calibrated to allow for climate change explicitly. **Importantly, this modelling does not place a likelihood of each of these scenarios occurring and the number of simulations captured under each scenario shouldn't be used as such.**

The longevity impact has been included approximately by scaling the liabilities linearly such that by time 20 the full impact is realised. In each year of the projection, this means that the liabilities are being adjusted to reflect updated beliefs about future longevity but the projected cashflows being paid out are not being modified away from the base ALM scenario. The longevity impacts are assumed to be the same in 20 years' time as they are today.

Reliances & Limitations (5)

The modelling uses an existing ALM, where the Fund's assets and liabilities have been projected forward under 5000 future financial conditions (including the ESS, our economic scenario generator), and highlights any simulations that satisfy the constraints which define each climate change scenario. The conditions are shown in the tables below:

Head in the Sand:

Economic Factor	Annualised returns (years 1 to 10)	Annualised returns (years 1 to 20)
Global equity	< median + 2%	< median – 3%
Inflation	> median	> median + 0.5%
Credit Spreads	> median – 0.5%	> median + 0.5%
Real yields	< median – 0.25%	< median – 0.5%

Delayed transition:

Economic Factor	Annualised returns (years 11 to 13)	Annualised returns (years 1 to 20)
Global equity	< median – 5%	< median – 3%
Inflation	> Median +1%	unconstrained
Credit Spreads	> median + 1%	unconstrained
Real yields	< median – 1%	unconstrained

Green Revolution:

Economic Factor	Annualised returns (years 1 to 3)	Annualised returns (years 1 to 20)
Global equity	< median - 2%	> median – 1%
Inflation	> median + 0.5%	< median + 1%
Credit Spreads	> median + 1%	unconstrained
Real yields	< median	< median + 1%

Expected Rate of Returns and Volatilities

The following figures have been calculated using 5,000 simulations of the Hymans Robertson Economic Scenario Service, calibrated using market data as at 31 March 2021. All returns are shown net of fees. Percentiles refer to percentiles of the 5,000 simulations and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the (simulated) yields in force at that time horizon.

		Annualised total returns														
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Private Equity	Property	Emerging Markets Equity	Infrastructure Equity	Multi Asset Credit (sub inv grade)	Senior Loans (sub inv grade)	High Yield Debt	Inflation (CPI)	17 year real yield (CPI)	17 year yield
5 years	16th %'ile	-0.3%	-3.2%	-2.5%	-3.9%	-3.6%	-7.1%	-3.5%	-7.0%	-5.0%	0.5%	1.2%	-0.4%	1.0%	-2.2%	0.8%
	50th %'ile	0.4%	-0.3%	0.1%	4.3%	4.4%	5.1%	2.5%	4.6%	4.1%	3.3%	3.7%	2.3%	2.6%	-1.4%	1.9%
	84th %'ile	1.2%	2.6%	2.6%	12.3%	12.4%	18.9%	8.8%	16.5%	14.1%	5.2%	5.2%	4.2%	4.1%	-0.4%	3.1%
10 years	16th %'ile	0.1%	-2.5%	-1.1%	-0.9%	-1.0%	-3.1%	-1.3%	-3.2%	-1.8%	1.8%	2.0%	0.8%	1.0%	-1.7%	1.0%
	50th %'ile	1.1%	-0.5%	0.3%	4.8%	5.0%	5.8%	3.2%	5.3%	4.9%	3.7%	3.9%	2.8%	2.6%	-0.5%	2.4%
	84th %'ile	2.3%	1.6%	1.6%	10.7%	10.9%	15.6%	8.0%	13.7%	12.0%	5.3%	5.7%	4.3%	4.3%	0.7%	4.1%
20 years	16th %'ile	0.6%	-2.0%	0.2%	1.4%	1.3%	0.4%	0.8%	0.0%	0.9%	3.0%	3.2%	2.2%	0.8%	-0.7%	1.3%
	50th %'ile	2.0%	-0.3%	1.0%	5.8%	5.8%	6.8%	4.2%	6.0%	5.9%	4.6%	4.9%	3.8%	2.3%	1.0%	3.2%
	84th %'ile	3.6%	1.5%	1.7%	10.4%	10.3%	13.6%	8.1%	12.5%	11.0%	6.3%	6.8%	5.4%	3.9%	2.7%	5.7%

The current calibration of the model indicates that a period of outward yield movement is expected. For example, over the next 20 years our model expects the 17 year maturity annualised real (nominal) interest rate to rise from -2.3% (1.3%) to 1.0% (3.2%)

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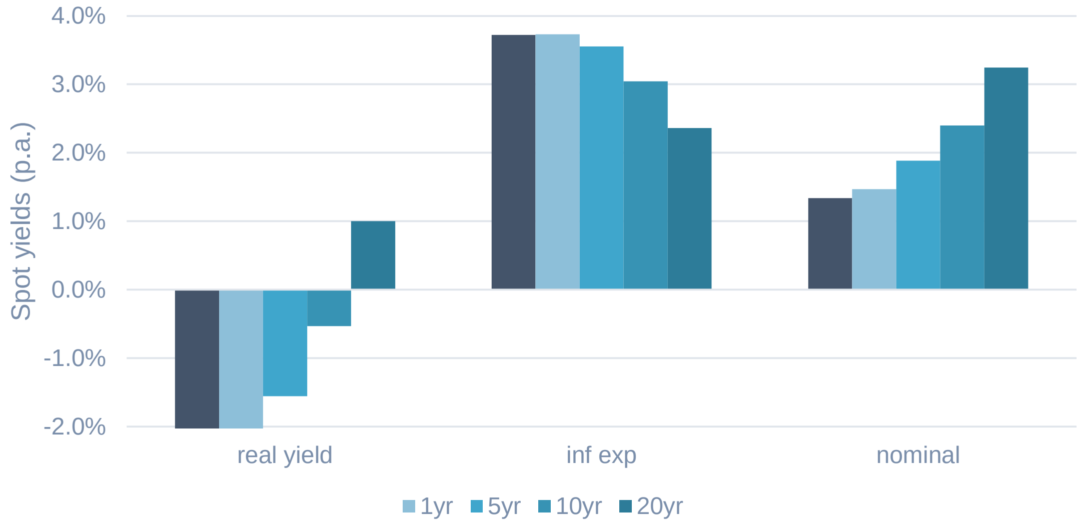
Risk and return assumptions (31 March 2017)

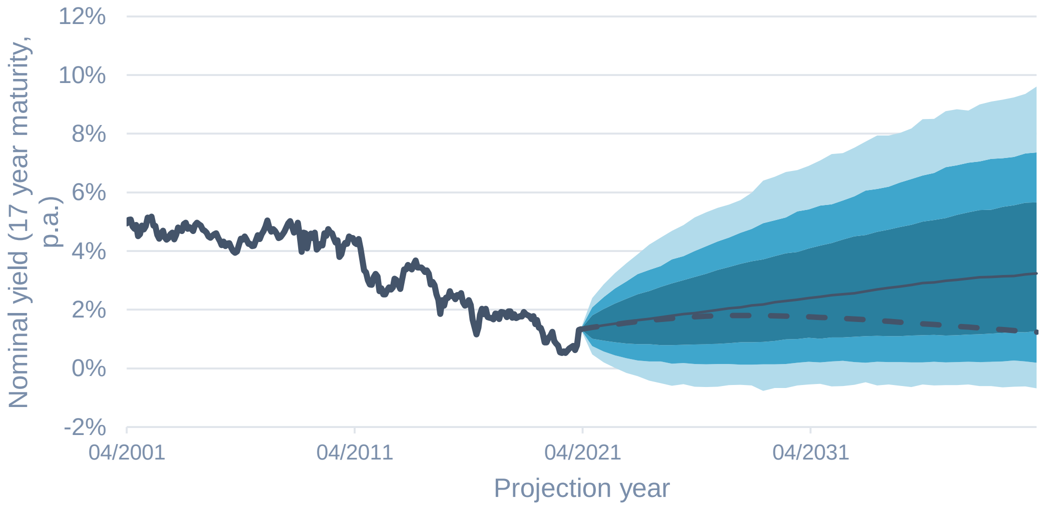
Asset class	Median return (%p.a. 20 year horizon)		1 year volatility (%)
	Nominal	Real (above RPI)	
Global equity (beta = 1)	5.5	2.4	18.3
Global equity (beta = 0.9)	5.5	2.4	16.5
Diversified growth	4.1	1.0	14.1
Property	3.7	0.6	14.2
Private equity	6.8	3.7	29.3
Infrastructure	4.6	1.5	20.1
Private debt	6.2	3.1	7.2
High yield bonds	5.1	2.0	7.8
Corporate bonds (A rated average)	2.1	-1.0	10.1
Cash	2.5	-0.6	0.5
Med gilts	1.3	-1.8	9.5
Med ILGs	0.5	-2.6	7.1

ESS vs. market implied yields - 31.03.21

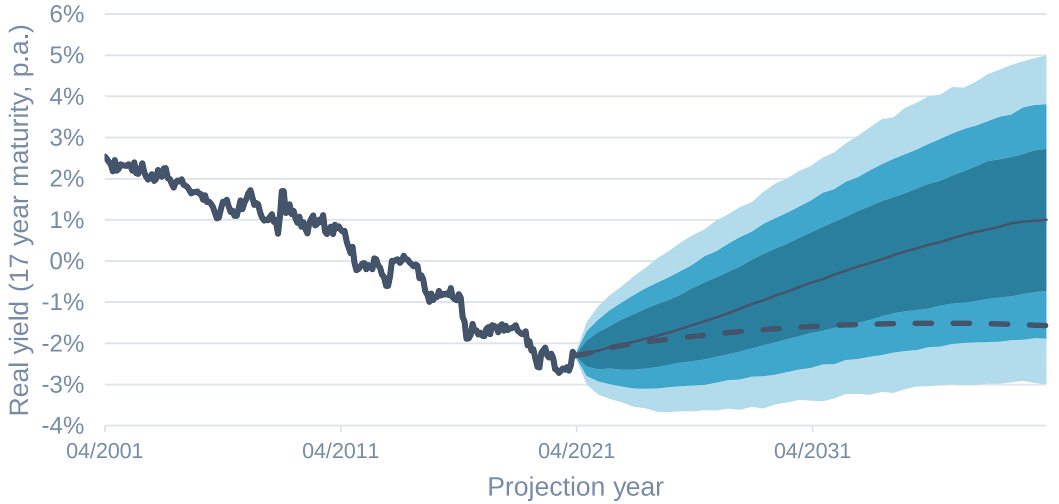
Evolution of (17yr maturity) gilt yields



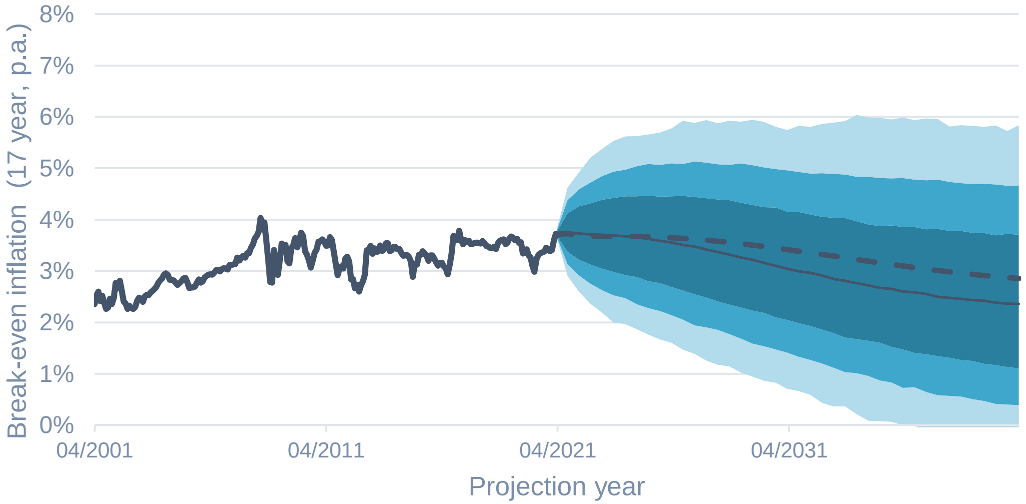
Nominal yields



Real yields



Break-even inflation



Risk warnings

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

This paper should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation or without our prior written consent. We accept no liability where the paper is used by, or released or otherwise disclosed to, a third party unless we have expressly accepted such liability in writing. Where this is permitted, the paper may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

29th June, 2021

Agenda Item No. 6

Statement of Investment Principles

Report by: Elaine Muir, Head of Finance

Wards Affected: All

Purpose

This report introduces the annual review of the Statement of Investment Principles (SIP) for Fife Pension Fund. The document replaces the SIP agreed by the Committee in November 2019. The report also outlines governance arrangements for the implementation of investment strategy and the assurance provided and considers the format and frequency of reporting to the Committee.

Recommendation(s)

It is recommended that the Committee adopt the revised Statement of Investment Principles.

Resource Implications

There are no direct resource implications identified at this stage.

Legal & Risk Implications

There are no known legal implications at this stage. The SIP details how the risks, compliance and governance aspects of the Fund are managed. Such a statement is a requirement of the Local Government Pension Scheme regulations.

The SIP is an important part of the Fund's governance arrangements and provides the framework within which the Executive Director Finance & Corporate Services implements the investment strategy of the fund.

Impact Assessment

An EqIA is not required because the report does not propose a change or revision to existing policies and practices.

Consultation

The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.

1.0 Background

1.1 The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 require administering authorities to prepare, maintain and publish a written Statement of Investment Principles.

1.2 The Statement of Investment Principles (SIP) must be reviewed, and if necessary revised from time to time and in the case of material change in policy on investment matters within 6 months of the date of that change.

2.0 Statement of Investment Principles

2.1 The Statement of Investment Principles (SIP) is traditionally reviewed by Committee on an annual basis, and this was due to take place in December 2020. A review by Officers determined that there were no changes at that time and in recognition that the SIP would require to be reviewed following the triennial valuation, and the review of the investment strategy, the report was deferred until this Committee.

2.2 When formally reviewing the SIP the Committee takes advice from officers and advisers of the Joint Investment Strategy Panel (JISP). At its meeting in early June 2021, the JISP confirmed its belief that the SIP satisfies Committee's statutory duty and is an accurate reflection of current advice, which includes reorganisation of long-term investment strategy following the triennial actuarial valuation.

2.3 The SIP describes the Fund's investment strategies as allocations to various asset categories, or Policy Groups. The amended SIP includes revisions to the Investment Strategy, which is subject to a separate report on this agenda. These can be found as Appendix 1.

Monitoring and Reporting to Committee

2.4 The SIP is an important part of the Fund's governance arrangements and provides the framework within which the Committee delegates the implementation of the investment strategy, as defined by the policy (asset class) groups, to officers with advice from the Joint Investment Strategy Panel.

2.5 The Committee retains responsibility for investment strategy, monitoring and scrutiny of the investments and this remains a vital part of the Fund's governance.

2.6 The monitoring and scrutiny of investments is outlined below, under the headings of Governance arrangements and Investment Outcomes.

Governance

Aspect	**Current Assurance (frequency)**
Are Joint Investment Strategy Panel meetings being held?	• Minutes of the meeting are now issued to the convener of the Committee (quarterly) • Update of Joint Investment Strategy Panel activity to Committee (annually)

Aspect	Current Assurance (frequency)
Is the Joint Investment Strategy Panel covering relevant issues?	• Visibility of agenda plan for Joint Investment Strategy Panel (annually) • Investment manager mandates (including objectives and controls) agreed at Joint Investment Strategy Panel (as required) • Traffic light monitoring of investment managers by LPF team with oversight by Panel (quarterly or more frequently as required)
Advice and scrutiny by external independent advisers	• Minutes of the meeting (with confirmation of attendees) is issued to the convener of the Committee (quarterly) • Advisers attend Committee briefings/training/meetings (at least annually) • Regular tendering of advisers (contracts are 5 years plus one 2 year extension) • Appointment of new advisers has taken place
All of the above	Internal audit scrutiny - Pensions Fund internal audits: - Superannuation Fund Audit (2020) External assessment of controls - Annual Audit – External Audit

Investment Outcomes

Aspect	Current Assurance (frequency)
Are investments invested in line with strategy?	Update on implementation of investment strategy with reporting on actual asset allocation to Committee (at least annually)
Funding update	• Actuarial valuation reported to Committee (every 3 years and annual updates from Actuary) • Monitoring by Investment Strategy Panel and internal team (quarterly or more frequent as required)
Investment managers	Traffic light monitoring of investment managers by LPF team with oversight (quarterly or more frequently as required)
Investment performance	Total fund performance indicator reported to Committee (at least annually) Detailed performance of Fund reported to Committee (annually)
All of the above	Briefings at Committee training sessions (at least annually and specific matters as time allows or as required)

2.7 Any additional reporting will be considered where it is deemed to enhance assurance on governance and/or long-term outcomes, for example additional joint training sessions for the three funds on policy groups and/or quarterly reporting on significant changes to strategy and matters considered by the Joint Investment Strategy Panel.

3.0 Measures of success

3.1 Success of the investment strategy will, among other things, be measured by the long-term achievement of the investment and funding objectives of the Fund.

4.0 Conclusion

4.1 A Statement of Investment Principles document is a requirement of the Local Government Pension Scheme regulations and is an important part of the Fund's governance arrangements.

List of Appendices

Appendix 1 – Statement of Investment Principles including:

- Appendix A – Investment Strategy
- Appendix B – Mandates and Managers
- Appendix C - Statement of Compliance with UK Stewardship Code
- Appendix D – CIPFA Principles for Investment Decision Making and Disclosure

Background Papers

None

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FIFE PENSION FUND ('THE 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 Lothian Pension Fund 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.

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. (The legal view on fiduciary duty issued by the Scottish Local Government Pension 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 Fund). 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 Fund and partners. External resources should, therefore, be used where internal resources 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 resources 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 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, climate change, 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 Fund's interest to take its responsibilities as institutional asset owners seriously. To this end, the Fund's approach to responsible investment centres 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 Fund's 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 Fund's 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 encourages its appointed asset managers to do so. Details of adherence to the Code are provided in Appendix C.

5. FUNDS' OBJECTIVES

5.1 The **primary objective** 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 the 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 Fund's 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 Fund expects 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 the 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.
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9. COMPLIANCE

Regulations and Investment Limits

9.1 The Fund is 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 C.

Review of SIP

9.3 The Committee reviews 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 the 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.

29th June, 2021

Agenda Item No. 7

Fife Pension Fund
Statement of Responsible Investment Principles

Report by: Elaine Muir, Head of Finance

Wards Affected: all

Purpose

The purpose of this report is to propose a Statement of Responsible Investment Principles (SRIP) to the Committee for approval. The report sets out the rationale for the introduction of this document and the proposed SRIP is attached at Appendix 1. The intention is that the SRIP will complement the Statement of Investment Principles which is a statutory document.

Recommendation(s)

It is recommended that the Committee:

1. Agree to adopt the Statement of Responsible Investment Principles (SRIP) and the actions and commitments contained in it.

Resource Implications

Adoption of this Statement of Responsible Investment Principles will involve resource which is likely to increase over time in order to implement some of the actions contained within it. Whilst the immediate pressure can be contained within existing resource, the volume of work involved will be kept under review as will the need for any additional resource. Costs for any future additional resource requirement will be met from the Pension Fund.

Legal & Risk Implications

The development and implementation of the Fund's own Statement of Responsible Investment Principles is likely to be an important tool in countering any legal action against the fund for failing to adequately monitor ESG risks.

Impact Assessment

An EqIA is not required because the report does not propose a change or revision to existing policies and practices.

Consultation

The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.

1.0 Background

1.1 Responsible Investment (RI) has become increasingly important to society over the last decade or so. While the Fund's Statement of Investment Principles (SIP) explains it's approach to RI in broad terms, there is good reason to expand on those overarching principles in view of the increase in public interest and the growing trend to increase disclosure requirements in this area.

1.2 The new policy document in Appendix 1 provides a more detailed framework explaining the Fund's commitment and approach to RI and how the fund will work directly and in collaboration to deliver on it's RI aspirations.

1.3 The SRIP is not currently a statutory document, but there is a possibility it will become mandatory in the future,

2.0 Statement of Responsible Investment Principles

2.1 The purpose of the SRIP is to document and agree the Fund's approach to RI, with recognition of the risks and opportunities surrounding Climate Change. It contains ambitions and aspirations that should to lead to better management of risk and so improve long term returns.

The main components of the policy statement include:

2.1.1 Whilst recognising that the Fund is not a signatory to the Principles for Responsible Investment (PRI), it supports the six PRI principles

2.1.2 The Fund's commitment to reporting the carbon intensity of it's holdings in future

2.1.3 The Fund's acknowledgement that the Paris Agreement of the United Nations Framework Convention on Climate Change is critical to halting anthropogenic climate change. This acknowledgement will drive engagement with the managements and Boards of non-Paris aligned equity holdings that are not aligned by 2025. Going forward, the clear intention is not to provide new capital to non-aligned companies.

2.2 The document is designed to clarify the Fund's approach to RI for all stakeholders. Equally important, it will guide investment decision-making by stating what is acceptable and why. It should aid elected members in responding to the many queries they receive on RI-related matters.

3.0 Conclusions

3.1 The report sets out the rationale for the introduction of the proposed SRIP which is attached at Appendix 1. The intention is that the SRIP will complement the Statement of Investment Principles which is a statutory document.

List of Appendices

Appendix 1 Fife Pension Fund – Statement of Responsible Investment Principles

Background Papers

[1]https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement

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APPENDIX 1

FIFE
PENSION FUND

Statement of Responsible Investment Principles

June 2021

Contents

Introduction

1.1 Fife Pension Fund (the Fund) believes that Responsible Investment (RI) supports the purpose of the Local Government Pension Scheme (LGPS) – the provision of retirement income for individuals. We believe that it should reduce the risk associated with the invested assets that the Fund owns to pay pensions when they are due.

1.2 This Statement of Responsible Investment Principles (SRIP) complements the Fund's broader Statement of Investment Principles (SIP), which is a statutory requirement codified in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010. The SRIP explains the Fund's approach to the oversight and monitoring of the Fund's investment activities from a Responsible Investment (RI) and Stewardship perspective.

1.3 Responsible Investment is not the same as Ethical Investment. Ethical investment is an investment approach determined by an investor's specific views, usually based on a set of personal values. These values can take precedence over financial considerations. Fife Pension Fund should not be considered as either an "Ethical" or an "Unethical" investor, but as a responsible steward of capital.

1.4 At Fife Pension Fund, Committee members in their roles as quasi-trustees, executive officers and investment managers are bound by the legal principle of fiduciary duty. Guidance on our fiduciary responsibilities has been provided by the Scottish Scheme Advisory Board (SAB), which has taken legal advice on the matter (https://lgpsab.scot/fiduciary-dutyguidance/). The SAB advises the Scottish Government and Scottish LGPS Funds on policy issues. We review this guidance on an ongoing basis to assess it against any changes to the legal or regulatory framework, and still believe it to be relevant.

1.5 The SRIP is consistent with the requirements of Regulation 12(2)(f) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 which require administering authorities to disclose how Environmental, Social and Governance ("ESG") matters are taken into account in the investment decision making process

1.6 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 Lothian internal investment team who are FCA authorised individuals.

1.7 The Fund gratefully acknowledges the assistance of officers from Lothian Pension Fund in compiling and advising on the SRIP.

2. Roles and Responsibilities

2.1 Our Pensions Committee (the Committee), comprising nine elected councillors, is responsible for fund oversight and policy setting. In carrying out its obligations, this group of quasi-trustees must take into consideration the views of its main stakeholders, members and employers.

2.2 Fife Council is the administering authority for the Fund, but the Fund is not owned by the Council. Pension fund assets, which are earmarked for pension payments over the life of the fund, are ringfenced from ‘Council Money’. There are more than 20 employers and around 36,600 members, whose pension payments will be funded by these and further employer and member contributions.

2.3 At Fife, we are committed to acting as responsible investors by managing the risks associated with ESG factors. We believe that as responsible owners we should engage with our investee companies and appointed managers, either directly or via their collaborative partners. Where material risks remain following engagement activity, fund managers ultimately retain the ability to divest.

3. Principles for Responsible Investment

3.1 The Principles for Responsible Investment (“PRI”) – previously the United Nations Principles for Responsible Investment – is an international network of asset owners and managers who are committed to the PRI’s six principles and thereby to working collaboratively towards best practice in the sphere of responsible investing.

3.2 Whilst Fife Pension Fund is not a signatory to the PRI, due to the resourcing implications for a fund the size of Fife, we will strive to act in accordance with the six principles with a view to contributing to the development of a more sustainable global financial system, as follows:

Principle 1

We will incorporate ESG issues into investment analysis and decision-making processes.

3.3 The implementation of Fife’s investment strategy is delegated by the Pensions Committee to the Executive Director of Finance and Corporate Services, who delegates this role to the Head of Finance. The Head of Finance engages various external investment managers, including LPFI (Lothian Pension Fund’s investment vehicle) to invest the Fund’s assets. It is noted that Lothian Pension Fund are signatories of the PRI and have been so since 2008.

3.4 The way ESG issues are incorporated into investment analysis and decision-making processes varies according to not only the asset category, but also the processes of the manager in question.

Other Equity managers
During the manager appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. Through our collaborative arrangement with LPFI, we monitor the managers’ implementation of the approach on a quarterly basis alongside all other investment matters, and review the PRI transparency reports of external managers, where available. Managers are encouraged to join PRI as signatories where they are not already members.

LPFI Internal Equity investment
LPFI's investment managers analyse ESG data as part of the stock selection process and, on an ongoing basis, monitor ESG developments at underlying investee companies. Data and rating changes from independent providers trigger stock reviews.

LPFI Internal Sovereign Bond investment
LPFI's investment managers analyse ESG reports and respond to government and market consultations, either directly or with our collaborative partners.

Other Corporate Debt managers
During the appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. Through our collaborative arrangement with LPFI, we monitor the managers' implementation of the approach on a quarterly basis alongside all other investment matters, and review the PRI transparency reports of external managers, where available. Our ambition is to appoint managers who will not provide new financing to companies or projects that are incompatible with the aims of the Paris Agreement.

External Property investment:
In making any new buy recommendations to Fife for consideration, LPFI will explicitly consider the ability of the manager to manage ESG risks during the manager appointment process. Management and monitoring of ESG matters by the manager will be reviewed on a quarterly basis alongside all other investment issues. Where available, LPFI will consider PRI Transparency and GRESB (Global ESG Benchmark for Real Assets) reports and, if they are not, managers are encouraged to articulate their approach to ESG and sustainability. Where appropriate, we will seek improvement to both the management and implementation of that approach.

External Real Asset management (infrastructure, timber) managers
These investments are spread across a range of limited partnership funds which are monitored by LPFI. In making any new buy recommendations to Fife, LPFI will assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. LPFI will monitor the managers' implementation of the approach on a quarterly basis alongside all other investment matters, and review PRI transparency and GRESB reports of external managers, where available.

Principle 2

We will be active owners and incorporate ESG issues into our ownership policies and practices.

3.5 *Voting*
We use a proxy voting agent to vote on all resolutions at AGMs and EGMs where holdings are with an active manager. The agent periodically presents their voting policy to the Pensions Committee to ensure there is good alignment of interests. Where holdings are with a passive manager, we monitor the manager's ESG report to ensure their voting record and policy is attuned to that of the Fund.

3.6 *Shareholder resolutions*
We are prepared to co-file shareholder resolutions where the issue at stake is important and co-filing aligns with the principles of the Fund.

3.7 *Stock lending*
The Fund participates in stock lending, which generates revenue for the Fund and contributes to making investment markets more efficient. With the ambition to vote on 100% of equity holdings at all shareholder meetings, we will begin to recall stock on a systematic basis for voting.

3.8 *Corporate engagement*
We engage with our investee companies on material ESG issues. We will use all methods at our disposal, including direct letters, open letters, company calls, company meetings, speaking at shareholder meetings, filing/co-filing of shareholder resolutions and proposing board members. We will do this primarily through working with collaborative partners or an engagement specialist.

3.9 *Government engagement*
We will engage with government officials and regulators to ensure that markets run efficiently, and that rules and regulations proportionally protect the interests of the various market participants. This will be done using all methods at our disposal, including direct letters, open letters, responding to consultations, working collaboratively with government departments and working collaboratively with regulators and quangos. We will do this either directly, through collaborative partners or through an engagement specialist / service providers or alongside them.

3.10 *Manager monitoring*
We actively and regularly monitor the approach of our investment managers to ESG issues, and what portfolio activity has occurred as a result of managing ESG risks.

Principle 3

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

3.11 *Investee companies*
We encourage the companies, whose shares the Fund owns, to report on relevant ESG metrics. These include the reporting of greenhouse gas emissions in line with the recommendations of the Taskforce for Climate-related Financial Disclosures (“TCFD”). We do this through working with collaborative partners.

3.12 *Investment Managers*
We encourage the Fund’s investment managers to provide transparency by reporting relevant and accessible ESG-related information. This includes their commitments to and alignment with the UK Stewardship Code 2020, the TCFD, the PRI and GRESB, where appropriate. We will do this either directly, or through working with collaborative partners.

Principle 4

We will promote acceptance and implementation of the Principles within the industry.

3.13 *Commitment to PRI*
We are transparent about the fact that we are not a signatory to the PRI but attempt to show - through this document - that we are strongly supportive of its aims.

3.14 *Investment Managers*
We endorse the PRI Principles to our managers and encourage them to become full signatories to PRI. Where this is not possible, we encourage our managers to use the six principles to guide their RI approach. We do this either directly, or through working with collaborative partners.

Principle 5

We will work together to enhance our effectiveness in implementing the Principles.

3.15 *Collective Approach*
We are committed to working collaboratively to increase the reach, efficiency and effectiveness of Responsible Investment. We work with a host of like-minded partner funds, service providers and related organisations striving to attain best practice in the industry and to improve industry standards. This includes working with appointed engagement specialists and groups such as the Institutional Investors Group for Climate Change, Climate Action 100+ and the Scottish Responsible Investment Group.

Principle 6

We will report on our activities and progress towards implementing the Principles.

3.16 *Annual Reporting*
We will provide details of our responsible investment activities in our Annual Report

3.17 *Pensions Reporting*
We publish voting information on a quarterly basis on our Pension Website, together with a summary of engagement activity. We will also make available to the Pensions Committee and Board, the ESG reports from our investment managers.

4. Climate Change

4.1 The Fund recognises the importance of the Paris Agreement of the United Nations Framework Convention on Climate Change. The central aim of the agreement is to strengthen the response to the global threat of climate change by:

- keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius;

- strengthening the ability of countries to deal with the impacts of climate change through appropriate financial flows, a new technology framework and an enhanced capacity building framework;

- enhancing transparency of action and support through a more robust transparency framework.

More detail on The Paris Agreement can be found at : https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement

4.2 At Fife, we understand that the Paris Agreement is creating change that represents both significant risks to - and opportunities for - the Fund. As such, we are making the following commitments to climate monitoring and action:

- To begin to measure and report on carbon-equivalent emissions throughout the equity portfolios

- To support the work of Climate Action 100+

- To continue to research and support the deployment of new impact capital into projects set to benefit from the transition to a low carbon economy (as has been the case with the Fund investing in several renewables projects)

- To assess the carbon intensity of all assets (using estimates if necessary) by the end of the 2022/23 reporting cycle, supported by external managers and General Partners

- Using data from the Transition Pathway Initiative (TPI), to engage alongside our collaborative partners to encourage companies to adopt business models and strategies that are in line with the aims of the Paris agreements. Our ambition is that all holdings covered by TPI will have achieved a level 4 assessment and have a business plan whose carbon performance is in-line with the Paris agreement or better by 2025

- Using data from the Transition Pathway Initiative (TPI), our ambition is not to subscribe to new equity and fixed income issuance from companies whose business plans are not aligned with the aims of the Paris agreements at the time of the fundraising

4.3 Financial returns from current and future investments will affect our ability to fund future pension payments, and so we have committed to implement processes that adhere to TCFD recommendations as follows:

Governance
The Pensions Committee will monitor stewardship of the Fund's assets at least annually. This includes considering reporting on RI issues and specific climate related risks and opportunities. The Head of Finance will ensure that training on climate related issues is made available to all members of the Pensions Committee and Pension Board members. The Pensions Committee:

- affirms the Fund's commitment to integrate environmental, social and governance (ESG) considerations, such as carbon efficiency trends into its decision-making;

- delegates to Fund officers with advice from the Joint Investment Strategy Panel to ensure that they take ESG issues, including climate change and carbon risk, into account in their investment decision-making;

- affirms the Fund's policy of not divesting solely on the grounds of non-financial factors;

- notes that the Fund will monitor research on the link between ESG factors (including carbon-related factors) and financial performance to inform future investment strategy, such as stock selection criteria for quantitative strategies;

- agrees that the Fund will use its shareholdings in companies that perform poorly on carbon efficiency measures to influence engagement activity.

4.4 *Strategy*
We will work individually and with our collaborative partners to drive for openness and transparency on climate related issues affecting our investments.

4.5 *Risk Management*
We will work both individually and with the internal team at LPFI to help understand and manage the climate risk within the Fund

4.6 *Monitoring*
We will use monitoring tools with the aim of mitigating risk to Fund assets from trends towards net-zero carbon and more broadly from climate change. The Joint Investment Strategy Panel reviews and scrutinises RI issues and specific climate-related risks and opportunities at least annually. The internal investment team at LPFI has access to data services and analytical tools to assist the Fund in monitoring climate risk at as granular a level as possible.

4.7 *Carbon Analysis*
We note that carbon-equivalent foot printing produces a simple metric, which can be misinterpreted. It encourages selective divestment of the shares of high emission companies as some investors 'greenwash' their portfolios. Rather than divesting, we encourage our managers to incorporate an analysis of carbon output into their risk assessment of individual companies and their stocks. In addition, we will actively engage with companies to align their business strategies with the targets of the Paris Agreement. Where analysis of carbon risk (or any other risk) points to poor financial outcomes, share divestment by fund managers is, of course, an option.