The Highland Council Pension Fund

Unaudited Annual Report and Annual Accounts
Aithris Chunntasan

2024 - 2025

Pensions Regulator Scheme Number: 10276691

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Contact Us
Cuir Fios Thugainn

To request this information in an alternative format, e.g. large print, Braille, computer disc, audio tape, or suitable language, please contact the pensions team on 01463 702441.

How to Contact Us

The Pension Section is available to help with all aspects of scheme membership, including benefits for active, deferred and pensioner members. General enquiries regarding Pension Fund Investments should be directed to the following address.

Pensions Section
Highland Council Pension Fund
The Highland Council
The Highland Council Headquarters
Glenurquhart Road
Inverness
IV3 5NX

mypension@highland.gov.uk

Information on how the scheme operates and key documents can be found on the following website. If you are unable to access any of these documents or would like a paper copy, contact us using the details above.

www.highlandpensionfund.org

Members of the Fund can access My Pension using the link below to update personal information, make or change nomination details, view an annual benefits statement and access retirement planning tools to perform benefit calculations. The link also has a video on how to register.

https://highlandpensionfund.mypensiondetails.co.uk/login

Introduction
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About the Fund

The Highland Council Pension Fund ("the Fund") is part of the national Local Government Pension Scheme (LGPS) and is a contributory defined benefit pension scheme. The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees and those employed in similar or related bodies across the whole of the UK.

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

- the Local Government Pension Scheme (Scotland) Regulations 2018
- the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2016
- the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014
- the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015

The Administering Authority (The Highland Council) runs The Highland Council Pension Fund, and makes sure the Fund achieves the following objectives:

- **Receives the proper amounts of contributions from employees and employers and any transfer payments.**

  The Fund is built up by contributions from both employees and employers, together with interest and dividends from investments, out of which defined pensions and other benefits are paid.

  Employees' contributions to the Fund are fixed by statute and information on current rates is available on the Fund's website.

  https://www.highlandpensionfund.org/your-pension/paying-in/membership-and-contributions/

  Contributions payable by employers are fixed every three years following a report by an independent actuary who determines the level of contribution necessary to ensure that the Fund will be able to meet future benefits.

  The primary contribution rate (future service contributions) for the whole Fund is 17.8% of pay for payroll contributions which was set by the Actuary for the period 1 April 2024 to 31 March 2025 in the Triennial Actuarial Valuation report 2023. In addition to this, the secondary rate amount (past service contributions) for 2024/25 is £814,000. Individual primary and secondary rates are set for individual employers.

- **Invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth.**

  The Fund's assets are managed by appointed Investment Fund Managers. Once the cost of current benefits is met, all surplus cash income is invested to meet future liabilities to employees within the Fund and deferred pension benefits.

- **Uses the assets to pay Fund benefits to its members (as and when they retire, for the rest of their lives) and to their dependants (when members die),** as defined in the LGPS Regulations. Before 1 April 2015 pensions benefits payable were based on final pensionable pay and length of pensionable service. After 1 April 2015, the scheme became a career average scheme whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th which is updated annually in line with the Consumer Price Index. Assets are also used to pay transfer values out of the Fund and administration costs.

Annual Report and Accounts

This is the Annual Report and Accounts for the Highland Council Pension Fund 2024/25.

The Annual Report has been prepared in accordance with Regulation 55 of the Local Government Pension Scheme (Scotland) Regulations 2018 and the CIPFA Guidance for Local Government Pension Scheme Funds (2019 Edition) entitled "Preparing the Annual Report". The Management commentary is required to be prepared in accordance with the statutory guidance issued under the Local Government Scotland Act 2003. The Annual Governance statement is prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016), and the Governance Compliance Statement is prepared in accordance with the Local Government Pension Scheme (Scotland) Regulations 2018.

There are new reporting requirements set out in "Preparing the Pension Fund Annual Report Guidance for Local Government Pension Scheme Funds April 2024", guidance jointly produced by the English and Welsh Scheme Advisory Board (SAB), the Chartered Institute of Public Finance and Accountancy (CIPFA) and, Department for Levelling Up, Housing and Communities (DLUHC) in consultation with funds, industry experts and other interested stakeholders. The guidance sets out the following requirements:

- Revised administration Key Performance Indictors which are reported for the Fund on page 48.
- Further information required on pension committee and board training.
- Fund policies can be referred to rather than included in the main body of report.

- A paragraph clarifying the arrangements on publishing when the audit opinion on the fund accounts is delayed.

The Annual Accounts have been prepared in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 (the Accounting Code).

On page 7 the organisations involved in the management of the fund are listed. On page 9 there is an overview of performance data for 2024/25 compared to 2023/24 and key points to note are:

- membership of the scheme has reduced slightly with a reduction in active and deferred members, and there has been decrease in contributions receivable (excluding transfers in) which has also decreased due to the reduction in the contribution rate following the 2023 triennial actuarial valuation. There has also been an increase in the number of pensioners which has meant higher levels of pensions payable.
- decrease in investment returns compared to the previous financial year. The investment return continues to be positive but the performance of financial markets is not as strong as the previous financial year. It should be noted that the Fund is a long-term investor with a diversified portfolio and market risks and volatility are considered when setting the strategic asset allocation.
- decrease in management costs is due to a decrease in the market value of assets held as fees correlate to asset market values and performance.
- decrease in the number of employers from 25 to 23, following the transfer of Scottish and Fire Rescue service (SFRS) members to Strathclyde Pension Fund in early 2025, and liquidation of Sight Action in 2023/24.

Management of the Fund

Administering Authority	The Highland Council, The Highland Council Headquarters, Glenurquhart Road, Inverness, IV3 5NX
Scheme Administrators	The Highland Council, The Highland Council Headquarters, Glenurquhart Road, Inverness, IV3 5NX
Fund Actuary	Hymans Robertson LLP
Fund Custodian	Northern Trust
Performance Management	Northern Trust
Investment Advisors	Aon
Legal Advisor	Brodies LLP
Additional Voluntary Contribution Provider (AVC)	Prudential Assurance
Bankers	Virgin Money
External Auditor	Audit Scotland
Internal Auditor	Highland Council Internal Audit team
Senior Officers	Brian Porter, Chief Officer, Corporate Finance Catriona Stachan, Pension Fund Manager Lara Harrison, Principal Accountant Annabel Scott, Data Systems and Compliance Manager Lindsay Junor, Governance and Communications Manager Natasha Oram, Operations and Benefits Manager

Investment Managers

abrdn

Legal & General Investment Management

Baillie Gifford

Schroders

Fidelity International

Man

Partners Group

BentallGreenOak

KKR

Robeco

Mirova – Investing in sustainability

CVC

HSBC Asset Management

2023/24	Performance	2024/25
£77.9m	Contributions receivable	£75.9m
£82.0m	Pension benefits payable	£115.7m
£15.5m	Management expenses	£14.2m
£427.34	Cost per member	£392.38
36,243	Total Membership	36,162
25	Number of employers	23
£273m	Return on investment	£55m
£2.659bn	Net assets of the Fund	£2.715bn

Management Commentary
Aithris Stiùiridh

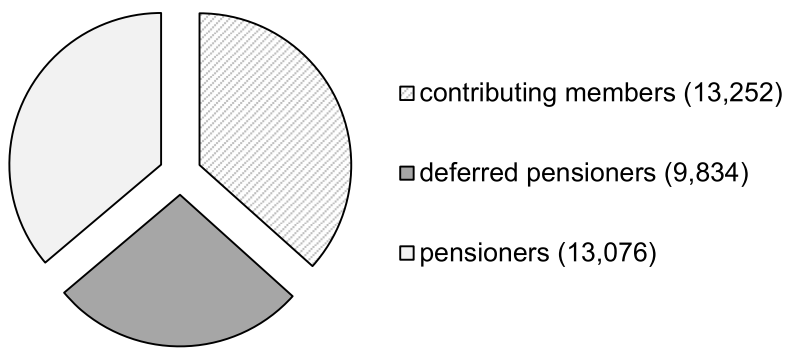
Background

Under the Local Government Pension Scheme (LGPS), The Highland Council is designated as an “Administering Authority” and is required to operate and maintain a pension fund - the Highland Council Pension Fund (HCPF). The Fund is established to provide retirement and death benefits to employees and dependants within the scheme.

The closing net assets of the Fund at 31 March 2025 are £2,715m (31 March 2024 £2,659m).

The Fund provides benefits for those employees of The Highland Council, Comhairle nan Eilean Siar and 21 other scheduled and admitted bodies that are active members of the Fund. The current scheme membership is as follows.

Current Scheme Membership



Governance

The main legislation directing the governance requirements for the Fund is The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015. The main impact of these regulations was the creation of The Scheme Advisory Board and Pension Boards.

The Scheme Advisory Board (“SAB”) is a Scottish-wide Board which provides advice to the Scottish Ministers on the desirability of changes to the LGPS. It also provides guidance to the scheme managers or pension boards on the effective and efficient administration and management of the LGPS and the Fund.

Each scheme has its own Pension Board to ensure the regulations and legislation relating to the governance and administration of the LGPS are complied with.

For this Fund, governance is undertaken by the Pensions Committee and Pensions Board which meet simultaneously to consider the same agenda and to whom Fund business has been delegated by The Highland Council. This includes the appointment and monitoring of investment managers, which is further delegated to the Pensions Investment Sub Committee.

More information on the governance process can be found in the Governance section on page 25, Annual Governance Statement on page 59 and the Governance Compliance Statement on page 65.

Business Model and Risk

The Fund is managed and administered from The Highland Council Headquarters in Inverness.

Many of the Fund's activities are managed in-house and Council officers are accountable to the Pensions Committee and Board, Fund employers, and scheme members. The in-house support teams aim to provide a quality service to meet the needs of the Fund's stakeholders.

The in-house Fund support functions cover the following areas:

- Membership and Benefits Administration
- Investment Management
- Funding and Accounting

Membership and Benefits Administration

For the benefit of all Fund stakeholders the website below includes a broad range of information relating to the Fund.

https://www.highlandpensionfund.org

a) General

In the financial year 2024/25 there were significant changes made to administration processes and investment was made in technology with the aim of streamlining processes and improving customer service.

The team successfully implemented Engage (My Pensions) and the Altair Pensioner Payroll system (February 2025). Active and deferred members can access their annual benefit statement information, update their personal details, make or change beneficiary nominations, access retirement planning tools to perform estimate calculations and submit paperwork to the team. Pensioners can update details and access their payslips and P60s online.

As a result of these projects, the time taken to process the payroll has reduced considerably. With the Altair payroll being implemented in February 2025 the full benefits of efficiencies will be realised in financial year 2025/26.

Alongside these projects, other changes have been made to improve processes and efficiency for example the bulk upload processes for new starts. The team continue to identify ways to improve processes and operate more efficiently with projects for 2025/26 including the implementation of integrated payments from the Pensions Administration system.

As Pension Regulations at a national level are now increasingly subject to change the Administration team makes sure to review and interpret these changes and their impact on processes and policies. Often the required Government actuarial guidance to support the implementation of these changes is delayed which contributes to the increased volume of outstanding cases.

Team training is therefore essential to the delivery of the Pension service to comply with the regulatory framework. Induction training for new staff is provided to familiarise them with operational procedures and policies. As well as in-house and external training, the Fund uses Heywood Pension Technologies Training and Education Centre (TEC) which provides a library of e-learning modules covering pension legislation and benefit calculations with progress being logged and fed back to managers.

In addition to the challenges of the core business of delivering pension administration, senior officers in the team were also involved in several other projects/changes including:

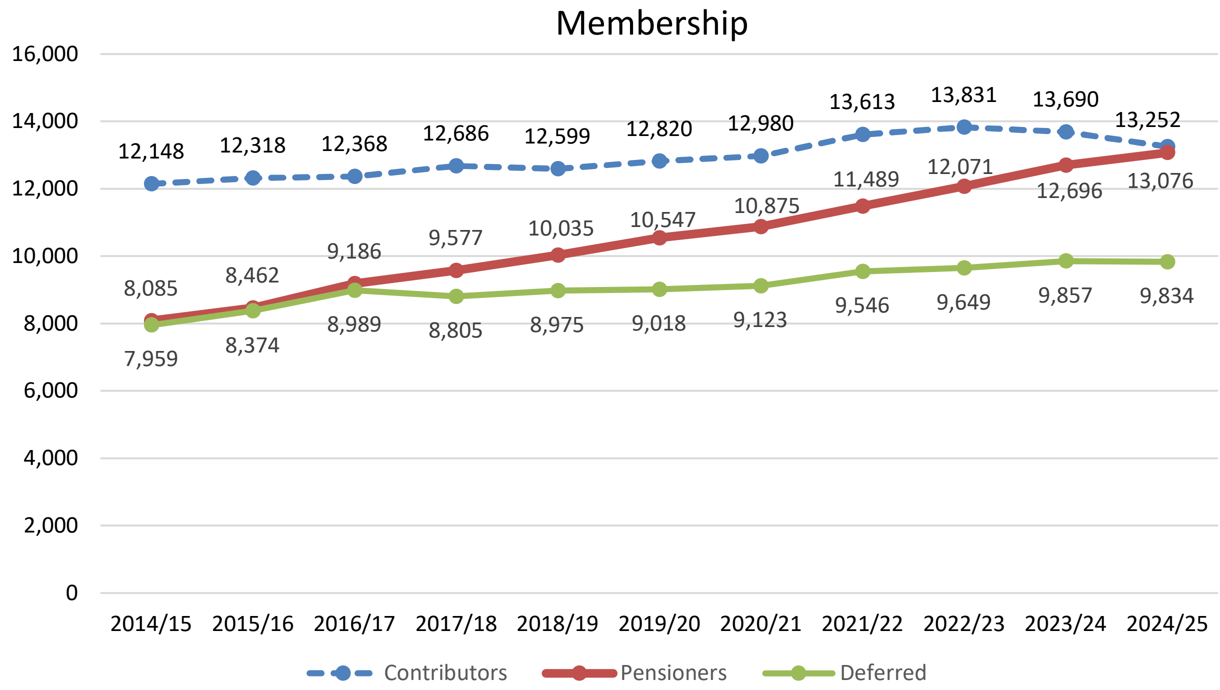
- Organising training sessions for scheme employers provided by the Fund Actuary – these sessions were designed to help employers understand the definitions of final pay and how these relate to the calculation of pension benefits and their responsibilities to the Fund. Excellent feedback was received following the training sessions with 100% of attendees likely or very likely to attend future sessions.
- Recruitment for pensions administration staff was ongoing and alongside this senior staff have been providing and organising training and supervision for newly recruited staff. Within the team, staff have changed roles, and training is being provided as required.

- Ongoing responsibility on funds to raise awareness of pension scams and signpost members to appropriate guidance when a request for transfer is made (Occupational and Personal Pension Schemes (Conditions for Transfers) Regulation 2021). Funds are required to carry out due diligence checks by assessing the request against two conditions set out in the regulations and where necessary, pause or stop a transfer and refer a member to guidance from MoneyHelper https://www.moneyhelper.org.uk/en/pensions-and-retirement.
- Considering the potential implications of the McCloud and Goodwin remedies and changes that will need to be made to processes following on from receipt of guidance.
- Lifetime Allowance was abolished from April 2024 and two new limits on pension savings have been introduced. A review of internal processes was completed and information provided to members upon retirement has been updated to reflect these changes.
- Ongoing involvement in the Pensions Dashboard initiative which will enable individuals to access their pensions information online, securely and all in one place, thereby supporting better planning for retirement. All Local Government Pension Funds (LGPS) must connect to the Pensions Dashboard by October 2025 as part of the Government initiative to “allow people to see all their pensions information together in one, online and secure place”. https://www.pensionsdashboardsprogramme.org.uk/about
- Procurement activity to support operational activities.
- Updating the Highland Council Pension Fund website on an ongoing basis and publishing information on the website to raise awareness about pension scams and news items.
- Project to transfer members of the Scottish Fire and Rescue Service to the Strathclyde Pension Fund in January 2025.

Overall, there are increasing demands and complexities around pensions as well as the increased expectations of all stakeholders and statutory national requirements creating additional pressures on the Pension Administration team. Alongside this, there is the Pensions Dashboard UK Government initiative which will be implemented in October 2025. The level of resources to deliver these requirements is assessed on an ongoing basis. Staff were recruited during 2024/25, and further recruitment is underway in financial year 2025/26 to help resource the team to deliver all regulatory requirements.

Membership statistics (31 March 2025)

The graph below illustrates the increasing number of pensioners in 2024/25 compared to previous years, with the difference between numbers of contributors and pensioners narrowing as the Fund matures.



The table below sets out details of new pensioners analysed by ill health, early and normal retirement as at 31 March 2025.

Retirements during 2024/25

	2023/24 Number of Retirements	**2024/25 Number of Retirements**
Early retirement	49	44
Ill-health retirement	31	30
Early payment of deferred benefits	102	81
Sub-total	**182**	**155**
Normal retirements	642	573
Totals	**824**	**728**

Looking ahead to 2025/26, the focus will be clearing outstanding cases and continuous improvement to reduce the time taken to process current cases and improve customer service alongside preparing to connect to the Pensions Dashboard.

b) Communication

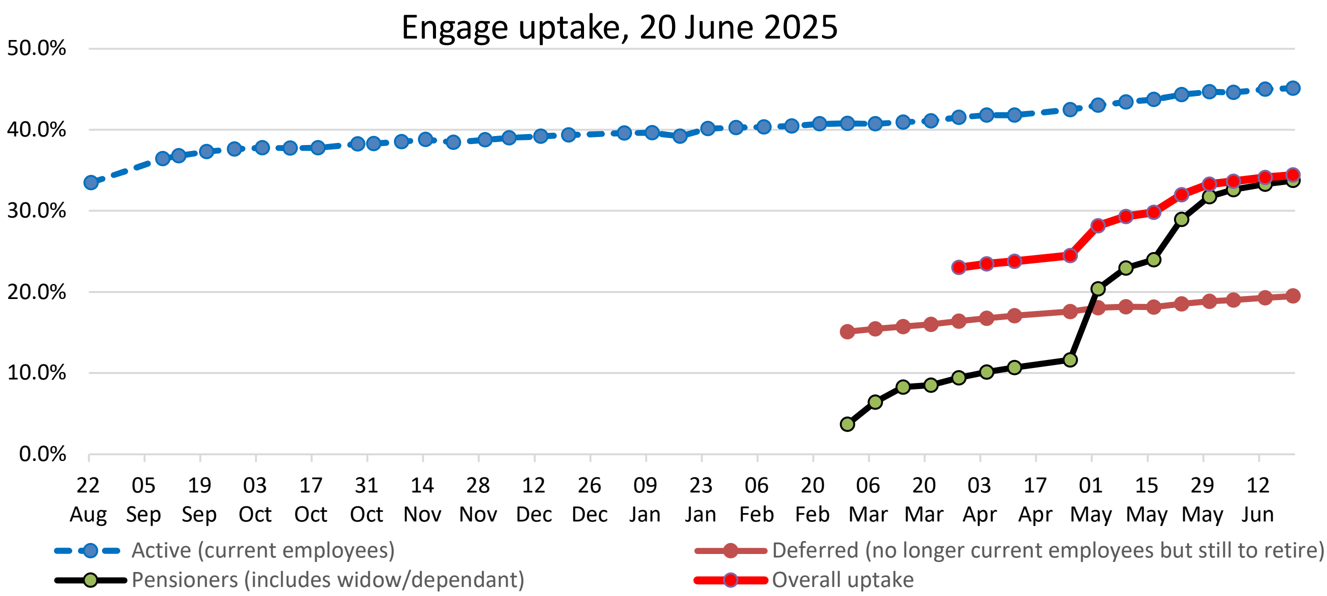
The Fund regularly communicates with Fund employers as part of the valuation exercise and annual accounting exercises and also receives requests from employers to provide information on the Fund, regulations and governance and/or for guidance and advice on processes. Officers are currently working on a communications policy for the Fund.

Senior officers in the Pensions Administration team share invitations to training with Employers such as the Pensions Ombudsman training session on ill health and early retirement and facilitate training for employers e.g. 3 sessions provided by the Fund Actuary for employers in April 2024.

In 2024/25, investment was made in technology to improve processes by continuing the roll out of My Pensions (Engage) to all members which allows them to make nominations and generate benefit estimates online. Over 35% of active members have registered so far and this is expected to increase once the annual benefit statements for 2025 are made available at the end of August 2025. Members are being encouraged to use member self-service to update their nominations and perform estimate calculations.

In February 2025, following the implementation of the Altair payroll system, pensioners were able to access their monthly payslips online with a communication issued in November 2024 notifying pensioners of the upcoming change and explaining how to register for My Pension.

As set out in the graph below, members registering for My Pensions have increased during the year and the team continue to raise awareness of the portal and encourage uptake.



My Pensions is accessed using a secure portal whereby members must verify their identity before accessing their pension information. Members of the Fund can access My Pensions using the link below.

https://highlandpensionfund.mypensiondetails.co.uk/login

The current method of communication with members is to publish information on Engage and notify them by email that there is a publication available online. While the focus is for scheme members to access information online where pensioners have requested, correspondence is sent by mail, with there being 742 currently opting for this method of communication

The Fund's website features a news page which the Pensions Administration team use to upload articles of interest for scheme members to view.

https://www.highlandpensionfund.org/news/

The website also has a dedicated resources section which contains member guides and forms:

https://www.highlandpensionfund.org/resources/

c) Performance

All employers apart from one use the i-connect system which has improved the efficiency of the processes for employers submitting data as employer bodies can now upload forms and submit these electronically. Fund officers are working with the remaining employer and an i-connect session is scheduled for June 2025. From March 2025, Fund officers scheduled regular meetings with the largest employer Highland Council in order to improve data quality.

There are new Key Performance Indicators (KPIs) that the Fund must report on as set out in Preparing the Pension Fund Annual Report, Guidance for Local government Pension Scheme Funds (April 2024). Performance against these KPIs is reported in the Administration Strategy and Performance report on page 48. The administering authority performance improved in respect of the communication issued with acknowledgement of the death of active, deferred, pensioner and dependant members but for all other indicators performance was either similar to the previous year or reduced.

Where there has been a reduction in performance this is for a number of reasons including staff vacancies which has resulted in a legacy of outstanding cases to action and the complexities of implementing the McCloud remedy. A key focus of 2024/25 was the implementation of the Altair payroll system implementation and staff resources were committing to achieving this deliverable.

The reason for delays, particularly in relation to transfer processing is the impact of the McCloud remedy and system updates to support this. There is a requirement to collect additional information from scheme members and public service pension schemes in order to determine if any public service membership exists during the remedy period to decide whether a member qualifies for underpin protection under the McCloud remedy.

Seven new staff were recruited in 2024/25, and training is going well with an additional five new staff due to start with the team in 2025/26. Alongside additional staff resource, investment was made in technology to improve efficiency with the successful implementation of the Altair payroll in February 2025. Staff are continuously reviewing processes and making changes and improvements to processes to reduce delays and increase efficiency. The benefits of all these actions should be realised in financial year 2025/26.

In terms of financial performance, overall, the Fund returned a surplus of £55.7m and comparators for previous years are provided in the table below, alongside the total costs per member.

The decrease in the total cost per member is mainly attributable to a decrease in investment management fees. This fee correlates to the market value of the funds under management and performance management fees, with fees lower in 2024/25 compared to 2023/24.

Pension Fund Account	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Contributions received and transfers in	61.343	63.111	66.237	81.804	77.946	75.948
Pensions paid and transfers out	(65.107)	(74.394)	(70.454)	(76.079)	(82.017)	(115.746)
Management expenses	(8.532)	(12.471)	(16.063)	(14.092)	(15.488)	(14.217)
Returns on investment	(94.379)	525.907	100.272	(60.259)	272.859	109.703
Overall surplus/(deficit)	**(106.675)**	**502.153**	**79.992**	**(68.626)**	**253.300**	**55.688**
Total cost per member*	263.46	378.17	463.59	396.40	427.34	392.38

* the total cost per member cost was calculated using the year-end financial information on management expenses (includes administrative, oversight and governance and investment management expenses) and the year-end membership at 31 March 2025 of 36,162.

Investment Management

The sources of the Fund's income are member contributions, employer contributions and interest and returns on Fund investments. Fund expenditure relates to paying of member benefits and the administration costs of looking after the Fund. Overall, taking into account returns on investment, for 2024/25 the Fund is in surplus, i.e. the income is more than the expenditure. This is attributable to the realised gains from asset transition activity during the year and unrealised gains as the investment assets have higher market values due to the good performance of the investment markets.

Investment Management of the Fund's assets is undertaken by external fund managers and overseen by the Pensions Accounting team with the support of Aon, the Fund's Investment Adviser.

The investment strategy of the Fund is set out in the Statement of Investment Principles (SIP) which is reviewed regularly and agreed by the Pension Committee, and performance of the fund managers is reviewed by the Investment Sub Committee.

https://www.highlandpensionfund.org/resources/statement-of-investment-principles/

Some of the main considerations in the SIP are:

- the types of investment to be held
- the balance between different types of investment
- risk, including the ways in which risks are to be measured and managed
- the expected return on investments

A list of the Fund's investments is published quarterly on the Fund's website.

https://www.highlandpensionfund.org/resources/

During 2024/25, officers continued to fund the alternative investments in private debt and infrastructure.

Equity protection remains in place with the objective of protecting £367m of global equities for a three-year period until December 2025. As long as returns are not below -25% over the next 3 years, this amount will be fully protected against negative returns and also retain up to 36% of any cumulative positive market returns. If total returns are below -25% over 3 years e.g. -40% then the Fund is protected against the first 25% so would be expected to incur total return losses of 15%. This equity protection is regularly reviewed.

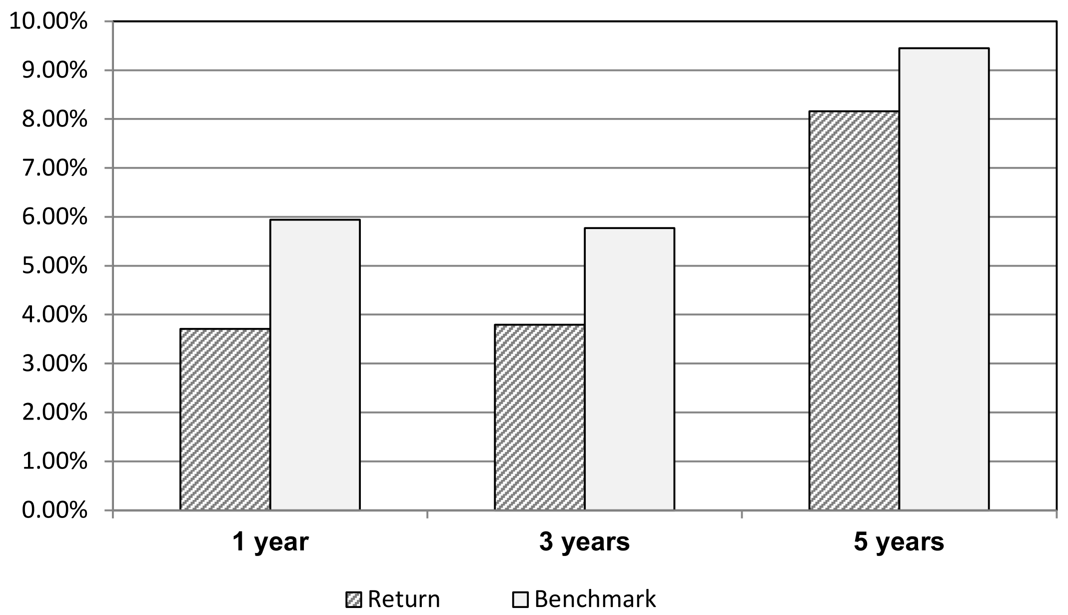
In May 2024, the Investment Strategy review was completed by the Fund's Investment Advisor and presented to Investment Sub Committee for review. The SIP containing these changes was then approved by Pensions Committee in June 2024. The strategic asset allocation has been amended with the investment objective of preserving the surplus from the 2023 actuarial valuation and managing equity and inflation risks.

https://www.highland.gov.uk/download/meetings/id/83531/item_3_-_statement_of_investment_principles

Following the approval of the revised SIP, officers worked with Fund Managers and the Fund's Investment Advisor to transition assets as follows:

- to disinvest £300m of equities and invest in gilts and a buy and maintain fund (LGIM) which was completed over the period 16 October to 19 November 2024 in three tranches.
- In December 2024, the next phase of the transition was completed which was to invest £164m in asset backed securities (ABS) with a new manager, HSBC. The investment was completed in eight separate tranches in order to manage the risk of additional transaction costs due to market swing.

For the year to 31 March 2025 the Fund returned 3.71%, underperforming the benchmark of 5.94% (combined fund benchmark, different benchmarks are set for each Fund Manager depending on the asset class) and underperformed against the 3 and 5 year benchmarks. The economic context which impacted on the Fund's investments during the financial year to 31 March 2025 is provided at page 36.



Investment decisions for the Fund are considered over the longer term. Short term performance is reviewed closely but alone it is unlikely to lead to investment

change. In 2024/25 the total Fund's investments increased in value to £2,710m from £2,650m at the end of 2023/24.
A review of Investment performance is provided on page 36 of this report.

Funding and Accounting

Funding and accounting matters are undertaken internally by the Pensions Accounting team with assistance from the Fund Actuary, Hymans Robertson LLP.

Every three years the actuary carries out a valuation of the Fund. The main purpose of the valuation is to review the financial position of the Fund and determine the rate at which the employer bodies participating in the Fund should contribute in the future to ensure that the existing assets and future contributions will be sufficient to meet future benefit payments from the Fund.

The triennial valuation as at 31 March 2023 applies to the financial years from 2024/25 until 2026/27. In the 2023 actuarial valuation, the Fund was assessed as 136% funded (2020 valuation: 100%) with a surplus of £633m (2020 surplus £6m). Broadly, contribution rates have reduced at this valuation due to both an improvement in the past service funding position and higher assumed future investment returns at 2023 compared to 2020.

Alongside the completion of the Actuarial Valuation, the Funding Strategy Statement, which explains the setting of the employer contribution rates, was updated and also approved at Pensions Committee in February 2024.
The Funding Strategy Statement is available on the Highland Council Pension Fund website.

https://www.highlandpensionfund.org/resources/statement-of-investment-principles/

Risk

Awareness of risk and risk mitigation is a key aspect of the Fund's strategic and operational activities. Whilst it is not possible to eliminate risk entirely, the Fund has taken steps to evaluate risk and put mitigating controls in place to minimise its adverse effects.

A risk register is maintained and reported to the Pensions Committee and is in the link below (Item 7).

https://www.highland.gov.uk/meetings/meeting/5122/pensions_committee_and_board

The fourteen risks identified as the most significant and the mitigating controls in place to manage them were reported to the Pensions Committee in February 2025.

1. **Staffing** - potential staff turnover in this specialist area has associated risks. Increasing demands and complexity around pensions, the increased expectations of all stakeholders and statutory national requirements has created additional pressures on the Pension Administration team. Without adequate resourcing, there is a risk of non-compliance with regulations.

2. **Knowledge** - ongoing risk of members and officers being unaware of changes to LGPS governance, administration and investment matters with the risk of non-compliance with Pension Fund Regulator requirements.

3. **Government policy** – there is the potential for future regulatory and policy changes e.g. “Fit for Purpose” Pensions review (England and Wales) and Pensions Bill (laid before Parliament 5 June 2025), HMRC Inheritance Tax changes to be effective from April 2027.

4. **Scheme administration** – with the increase in workloads and volumes, there is the risk of delays completing tasks and a potential increase in complaints.

5. **Pensions Dashboard** – not connecting to the Pensions Dashboard within the mandatory deadlines (due to lack of resource in Highland Pension Fund or Heywood (pension benefits administration system provider), systems issues) set by the UK Government could lead to TPR action.

6. **Highland Council support services** - Services are provided by the Highland Council to the Highland Council Pension Fund for central support services e.g. ICT support service, payroll for staff who administer the Fund and pensioners payroll, creditor payments, property, senior management (section 95 officer) and Human Resources. Due to the need for cost savings to be made by Highland Council, there are the following potential risks:
   - potential adverse impact on central support services provided by the Highland Council with lack of service or reduced quality.
   - increase in the central support charge charged by the Highland Council for these services.

7. **Systems failure/loss of IT/data breach** - organisations are being increasingly targeted by cybercrime with the risk of an attack which could potentially result in the loss or disruption to IT services and potential data breaches.

8. **Funding risk (contribution rates)** - if the investment strategy is inconsistent with funding plans it can lead to setting inaccurate employer contribution rates.

9. **Funding risk (investment returns)** – if the investment return is below that assumed by the actuary in funding the plan then this could lead to an increasing deficit and additional contribution requirements. The larger the level of mismatch between assets and liabilities the bigger this risk. This risk could be increased by volatile markets created by global uncertainty.

10. **Funding risk (rising inflation)** - inflation has risen further and faster than most expected in the last few years. Rising inflation will increase pension liabilities which are inflation linked, which could mean a potential increase to employer contributions.

11. **Climate risk** - as long-term investors, climate risk (the potential negative effects of climate change on various aspects of the environment, businesses and society) may affect the value of the Fund's investments.

12. **Responsible investment risks** - the risks associated with Responsible Investment are not managed which could potentially impact the long-term value of the Fund's investments. There is also the risk that the Fund does not comply with statutory reporting requirements on Climate Change Related Disclosures.

13. **Altair Pensioner Payroll system implementation** - *this risk is now closed as the system was implemented successful.*

14. **McCloud case** - the outcome of the recent McCloud judgement will impact future liabilities of the Fund and potentially increase pressure on contributions as well as placing extra demands on the Pensions Administration team as additional benefit calculations will need to be completed.

    When the Government reformed public service pension schemes in 2014 and 2015, transitional protections were introduced for older members. In December 2018, the Court of Appeal ruled that younger members of the judicial and firefghters' pension schemes had been unlawfully discriminated against because the protections did not apply to them.1 This ruling is called the McCloud judgment, after a member of the Judicial Pension Scheme involved in the case. Because of the ruling, there will be changes to all public service pension schemes that provided transitional protection, including the LGPS. The changes are called the McCloud remedy and are intended to remove the age discrimination found in the McCloud court case.

Looking Ahead

- Ongoing volatility and uncertainty in the global economy and investment markets can have significant financial implications for the Fund and Fund employers. In May 2024, an Investment Strategy review was completed to review the strategic asset allocation in the context of the Actuarial Valuation at 31/03/2023.

The updated Statement of Investment Principles (including a revised asset allocation) was approved by Pensions Committee on 24 June 2024 containing amendments to the strategic asset allocation to preserve the surplus and manage both inflation and equity risk in the portfolio.

The majority of changes were implemented during 2024/25 with the support of the Fund's Investment Advisor and investment risks are reviewed and managed on an ongoing basis.

- In preparation for connecting to the Pensions Dashboard, implementation and testing of the connection is scheduled for June 2025.

- Officers will continue to engage with Committee and Board Members to identify training needs and provide appropriate training opportunities, particularly for new Pensions Committee and Board Members. Officers will keep Committee and Board members updated on ongoing developments across the LGPS landscape such as the Pensions Bill (England and Wales, laid before Parliament 5 June 2025)

- The Administration team will continue to provide training and support to employer organisations and sessions will be scheduled as required for 2025/26.

- Staff recruited in April 2025 will join the team over the next few months and be provided with comprehensive training.

- The Administration team continue to use technology to increase efficiency and improve customer service with a workshop scheduled for July 2025 to review processes. Further developments are planned for My Pensions which include introducing functionality for members to complete and submit member declaration forms online.

- The Heywood Altair payroll system was implemented in February 2025 and the team plan to implement immediate payment functionality in 2025/26 to streamline processes and improve efficiency.

- The Pensions Dashboard initiative will enable individuals to access their pensions information online, securely and all in one place, thereby supporting better planning for retirement. The Fund must be connected to the Pensions

Dashboard by October 2025. The Fund's Benefits Administration provider Heywood is to provide the connection to the Dashboard.

- Processes will be developed to collate and analyse customer feedback in order to improve performance, and customer service.

- With the Fund being cash flow negative, daily monitoring of the Pension Fund cash flows is required. The current position is that existing cash balances held by the fund managers are where necessary used to meet cash requirements without the need to disinvest. Even if investment income yields fall below current levels, the time when assets need to be sold to meet benefit payments still looks sometime in the future. We will continue to monitor this on an ongoing basis. Detail on the cashflow position can be found at page 58.

- The remedy for the legal case (McCloud) regarding an age discrimination challenge to the transitional protections put in place when the LGPS benefit structure was reformed in 2015 is in the process of being implemented.

In Conclusion

Our thanks and appreciation is extended to all Councillors and Officers for their continued input to the strong governance and management of the Fund.

Derek Brown Chief Executive	Brian Porter Chief Officer, Corporate Finance	Derek Louden Chairman Pensions Committee

Governance

All Councillors on the Pensions Committee have been appointed by The Highland Council. The membership of the Pensions Committee, Pensions Board and Investment Sub Committee as at 31 March 2025 is outlined below.

Committee and Board Membership

Pensions Committee

Cllr S Coghill (from Mar 25)
Cllr R Gale
Cllr L Kraft
Cllr B Lobban
Cllr D Louden (Chair from Oct 24)
Cllr A MacKintosh (from Dec 24)
Cllr R MacKintosh (from Mar 25)
Cllr T MacLennan (Chair until Oct 24)
Cllr P Oldham (Vice Chair from Dec 24)
Cllr M Paterson
Cllr T Robertson

Investment Sub Committee

Cllr R Gale
Cllr B Lobban
Cllr D Louden (Chair to July 24)
Cllr R MacKintosh (from Mar 25)
Cllr L Kraft
Cllr P Oldham (Chair from Oct 24)
Cllr M Paterson
Cllr T Robertson

Non-Voting Members

Ms E Johnston, GMB
Cllr N Macdonald, Comhairle nan Eilean Siar
Cllr C Munro, Highland Council (observer)

Pensions Board

Mr R Fea, Cromarty Firth Port Authority, Representative for Other Employers’
Cllr N MacDonald, Comhairle nan Eilean Siar
Cllr G MacKenzie, The Highland Council
Cllr K Macleod, Comhairle nan Eilean Siar (substitute)
Cllr C Munro, The Highland Council
Ms E Johnston, GMB (Chair)
Mr D MacSween, Unison
Mr D MacDonald, Unison (substitute)
Mr D Main, UNITE/UCATT

Attendance at Committee and Board meetings

The good governance of the Fund depends on the Committee and Board meetings being adequately attended. During 2024/25, the Pensions Committee and Investment Sub Committee meetings were quorate. The table below provides detail of individual attendance during the year.

During 2024/25 meetings of the Pensions Committee and Board and Investment Sub Committee were held in a hybrid format with Committee and Board members attending in person or remotely.

Pensions Committee	24/06/24	09/10/24	06/12/24	12/02/25
Cllr S Coghill (from Mar 25)	N/A	N/A	N/A	N/A
Cllr R Gale	✓	✓	✓	✓
Cllr L Kraft	x	✓	✓	✓
Cllr B Lobban	✓	✓	x	✓
Cllr D Louden	✓	✓	✓	✓
Cllr A MacKintosh (from Dec 24)	N/A	N/A	✓	x
Cllr R MacKintosh (from Mar 25)	N/A	N/A	N/A	N/A
Cllr T MacLennan	✓	x	✓	✓
Cllr P Oldham	x	✓	✓	✓
Cllr M Paterson	x	✓	✓	✓
Cllr T Robertson	x	x	x	✓
Cllr C Balance (until Mar 25)	✓	✓	x	✓
Cllr J Bruce (until Dec 24)	x	x	N/A	N/A
Cllr J Hendry (Dec 24 to Mar 25)	N/A	N/A	✓	✓
Cllr R Stewart (until Dec 2024)	x	✓	N/A	N/A

N/A - Not Applicable as individual was not on Committee

Pensions Board	24/06/24	09/10/24	06/12/24	12/02/25
Mr R Fea	✓	✓	✓	x
Cllr B Boyd (substitute)	N/A	✓	N/A	N/A
Cllr N Macdonald	✓	x	x	x
Cllr K Macleod (substitute)	N/A	✓	N/A	N/A
Cllr G Mackenzie	✓	x	✓	✓
Cllr C Munro	✓	x	x	x
Mr Willam Munro (from Feb 25)	N/A	N/A	N/A	N/A
Mr D MacDonald (substitute)	✓	N/A	N/A	N/A
Ms E Johnston	✓	✓	✓	✓
Mr D Main	x	x	x	x
Ms L MacKay (until June 24)	x	x	x	x
Mr D MacSween (until Feb 25)	x	x	x	x

N/A - Not Applicable as individual was not on Committee

Investment Sub Committee	28/05/24	06/09/24	29/11/24
Cllr R Gale	✓	✓	X
Cllr L Kraft	X	X	X
Cllr B Lobban	✓	✓	✓
Cllr D Louden (Chair until July 24)	✓	N/A	N/A
Cllr R MacKintosh (from Mar 25)	N/A	N/A	N/A
Cllr P Oldham (Chair from Oct 24)	✓	✓	✓
Cllr M Paterson	✓	X	✓
Cllr T Robertson	✓	✓	X
Cllr C Balance (until Mar 25)	✓	✓	X
Pensions Board			
Ms E Johnston (non voting)	✓	✓	✓
Cllr N Macdonald (non voting)	X	X	X
Cllr C Munro (PB observer)	✓	X	✓

N/A - Not Applicable as individual was not on Committee

Pension Board observers are entitled but not required to attend Investment Sub Committee meetings. Greyed out represents non-attendance.

Training, Knowledge and Skills - Policy Statement

The Fund's training policy, which was approved by Highland Council Pensions Committee on 9 October 2024, recognises that those involved in the governance of the Fund should have the necessary level of skills and knowledge to allow them to complete their duties effectively.

https://www.highland.gov.uk/download/meetings/id/83963/item_5_-_training_policy_and_training_plan_202425

The training policy sets out the following:

- the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills, and CIPFA's supporting Framework and guidance documentation.
- the legal requirements for individual Pension Board members to have the correct level of knowledge and understanding to undertake their role.

The Policy sets out a plan for training during 2024/25 and advises Committee and Board Members to complete an assessment of their skills and knowledge against the CIPFA Framework and to complete the Pensions Regulator online training modules. Correspondence is issued annually requesting that Committee and Board members submit details of training attended and notify officers of any further training requirements.

The specific training events set out below are supplemented by additional knowledge and skills acquired through other 'on the job' activities including participation in working groups, attendance at meetings, general reading and research e.g. agenda reports and presentations, investment manager reports and briefings, magazines and other periodicals and online reading etc.

The training events attended during the year focussed on Investments with a briefing provided to members of the Investment Sub Committee by the Fund's Advisor (Aon) before the review and approval of the Statement of Investment Principles. At every Investment Sub Committee meeting a briefing is provided by the Investment Advisor and various Fund Managers explaining assets classes and the areas covered during 2024/25 were as follows:

- Equity protection (LGIM)
- Asset backed securities (Aon)
- Alternative risk premia (Man Group)
- Private equity (Partners Group)
- Private credit -corporate debt (CVC)

Members were also offered the following training opportunities:

- Good Governance training for Pension Board members but open to the Pensions Committee (provided by the Scheme Advisory Board), on 26 February attended by the following:
  - E Johnston (Pension Board Chair)
  - W Munro (Pensions Board)
  - D MacDonald (Pensions Board)
  - Cllr P Oldham (Pensions Committee and Investment Sub Committee Chair)
  - Cllr T MacLennan (Pensions Committee)

Members of the Investment Sub-Committee also attended various online webinars during the year such as the Baillie Gifford webinars 18 to 26 November 2024 (Cllr R Gale and Cllr P Oldham)

Greyed out represents non-attendance. N/A is Not Applicable as individual was not on Committee on that date.

Investment Sub Committee	**28/05/24** Equity protection and ESG (Legal and General Investment Management)	**28/05/24** Session on Investment Strategy review (Aon)	**06/09/24** Asset backed securities - training on asset class (Aon)	**06/09/24** Alternative risk premia (Man Group)	**29/11/24** Private equity (Partners Group)	**29/11/24** Direct lending (CVC)
Cllr R Gale	✓	✓	✓	✓	X	X
Cllr L Kraft	X	X	X	X	X	X
Cllr B Lobban	✓	✓	✓	✓	✓	✓
Cllr D Louden	✓	✓	N/A	N/A	N/A	N/A
Cllr R MacKintosh (from Mar 25)						
Cllr P Oldham (Chair)	✓	✓	✓	✓	✓	✓
Cllr M Paterson	✓	✓	X	X	✓	✓
Cllr T Robertson	✓	✓	✓	✓	X	X
Cllr C Balance (until Mar 25)	✓	✓	✓	✓	X	X
Pensions Board						
Ms E Johnston (non voting)	✓	✓	✓	✓	✓	✓
Cllr N Macdonald (non voting)	X	X	X	X	X	X
Mr D MacDonald	N/A	N/A	N/A	N/A	N/A	N/A
Mr W Munro	N/A	N/A	N/A	N/A	N/A	N/A
Cllr C Munro (PB observer)	✓	✓	X	X	✓	✓

N/A - Not Applicable as individual was not on Committee

Funding Strategy Statement

Implementing a Funding Strategy Statement is a regulatory requirement which summarises the Fund's approach to funding liabilities. The Funding Strategy Statement describes the strategy of The Highland Council acting in its capacity as Administering Authority for the funding of the Highland Council Pension Fund and is published on the Fund's website.

https://www.highlandpensionfund.org/resources/statement-of-investment-principles/

Employees' benefits are guaranteed by LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but with no guarantee as to the level of funding. Employees' contributions are fixed in the Regulations at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The Funding Strategy Statement focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

The Funding Strategy Statement provides details of the key elements of the funding strategy, the regulatory framework, responsibilities of key parties, links to the Statement of Investment Principles (SIP), key risks (financial, demographic, regulatory and governance), calculation of employer contributions and actuarial assumptions.

The Funding Strategy Statement was updated alongside the Actuarial Valuation as at 31 March 2023 and was approved by Pensions Committee in February 2024. The contribution rates in the Rates and Adjustments schedule apply to the three financial years from 1 April 2024 until 31 March 2027.

https://www.highlandpensionfund.org/resources/funding-strategy-statement-2024/

Investment Policy
Poileasaidh Tasgaidh

Statement of Investment Principles

A Statement of Investment Principles (SIP) details the policy governing the Fund's investments. A summary of the SIP is set out below.

The detailed version of the SIP expanding on the paragraphs below was approved by Committee and Board on in June 2024 and the transition to the updated asset allocation is being implemented.

https://www.highlandpensionfund.org/resources/statement-of-investment-principles/

On 24 June 2024, an updated SIP was approved by Pensions Committee which officers have been implementing during financial year 2024/25.

The Highland Council has delegated authority to the Pensions Committee to take decisions on behalf of the Pension Fund. The Pensions Board was set up to comply with the LGPS (Governance) (Scotland) 2015 Regulations and is responsible for assisting the Committee in securing compliance with pension governance and administration legislation and regulations and requirements of the Pensions Regulator. The Investment Sub Committee is responsible for overseeing the management of the investments of the Fund and scrutinises the performance of the Fund's twelve investment managers.

The Highland Council Pension Fund qualifies as an HMRC 'exempt approved scheme'.

Statement of Investment Principles – Summary

Background

The Highland Council is the administering authority of the Highland Council Pension Fund. Elected members recognise that they have fiduciary duties and responsibilities towards beneficiaries, employers and local taxpayers that are similar to those of Trustees in the private sector.

Advisors

Independent Investment Managers, Investment Consultants, Actuaries and Performance Measurement Consultants are employed to give ongoing expert advice and assistance in the managing of the Fund.

Funding Policy

The Fund is a defined benefit pension scheme which provides members with pensions and lump sums related to their salaries. The fundamental objective is to meet these benefits on retirement, or the dependant's benefits on death before or after retirement.

The funding policy is directed to ensuring that in normal market conditions, all accrued benefits are fully covered by the actuarial value of the Fund's assets and that the appropriate level of contributions is agreed by the administering authority to meet the cost of future benefits accruing.

A Funding Strategy Statement for the Pension Fund has been prepared in accordance with Regulation 75A (1) of the Local Government Pension Scheme (Scotland) Regulations 1998 as amended by the Local Government Pension Scheme (Scotland) Amendment Regulations 2005. The Statement describes the strategy of The Highland Council acting in its capacity as Administering Authority for the funding of the Highland Council Pension Fund.

Investment Policy

The long-term investment objective of the Fund is to achieve a real rate return of 3-4% per annum on average. The Fund has a strategic benchmark for each Manager. In broadly defining the assets to be held and setting the asset allocation, this benchmark provides an efficient balance between risk and return in light of the liability profile and funding level of the Fund. There were changes proposed to the asset allocation in order to reduce the overall risk in the Fund which were approved at Pensions Committee in June 2024 and which are in the process of being implemented.

The strategic benchmark is expected to produce a return over the long term in excess of the investment return assumed in the Actuarial Valuation. The Fund's assets are currently managed approximately 80% on an active basis and these are expected to outperform their respective benchmarks over the long term. The remainder is managed on an index tracking (passive) basis.

Asset Mix of Investments

The overall investment portfolio for the Fund is weighted to the equity market. However, the portfolio also has investments in index-linked gilts, property, UK bonds, overseas bonds, private equity, property debt, direct lending, alternative risk premia and cash and infrastructure. This diverse range of investments over 13 different Managers (12 active and one passive) is employed to minimise the effects of risk and enhance overall performance of the Fund for its Members.

Each Manager, with the exception of the index tracking Manager, has full discretion within the parameters of their mandate in the asset mix and stock selection, subject to the investment principles.

Strategic Asset Allocation

The Fund’s strategic asset allocation targets are as follows.

Target set June 2024 %	Asset Class	Fund Actual 31/03/24 %	Fund Actual 31/03/25 %
29.2	Global equities – active (BG)	39.3	24.9
12.8	Global equities – passive (LGIM)	16.3	17.3
3.7	Private equity (PG)	7.1	6.6
3.7	Absolute return strategies (Man)	5.9	3.6
49.4	**Total Growth**	**68.6**	**52.4**
2.2	UK gilts (LGIM)	1.0	1.2
8.4	Corporate bonds (Fidelity, LGIM)	4.8	6.9
6.3	Asset backed securities (HSBC)	-	6.3
4.5	Multi asset credit (Robeco)	3.7	3.8
2.7	Private credit – property debt (BGO & abrdn)	2.7	2.6
2.7	Private credit – corporate debt (CVC)	3.4	2.9
26.8	**Total income**	**15.6**	**23.7**
12.5	UK Index-Linked gilts (LGIM)	0.5	8.5
5.3	Infrastructure equity (KKR)	6.1	6.4
6.0	UK property (Schroders)	9.2	9.0
23.8	**Total inflation protection**	**15.8**	**23.9**
100.0	**Total assets**	**100.0**	**100.0**

Monitoring

The Fund’s officers and, when required, advisers meet with each of its Investment Managers on a rotational basis and monitor performance quarterly relative to performance targets.

Adoption of the strategic benchmark and the performance monitoring constrains the Investment Managers from deviating significantly from the intended approach. It also permits flexibility to manage the Fund in such a way as to enhance returns.

Risk

The Fund pursues a policy of lowering risk through diversification of both investments and investment managers. A management agreement is in place for each Investment Manager, which sets out the relevant benchmark performance target, asset allocation ranges, and any restrictions, as determined by the Fund.

Realisation of Investments

Approximately 72% of the investments held by the Fund at 31 March 2025 were quoted on major stock markets and may be realised quickly if required. Property investment is via pooled funds which are relatively illiquid. These made up 9.0% of the total Fund (target asset allocation 6.0%). There are also private equity 6.6% (target asset allocation 3.7%) and private credit property debt and direct lending investments 5.5% (target asset allocation 5.4%) and infrastructure 6.4% (target asset allocation 5.3%) which are also very illiquid.

Underwriting

The Fund's Investment Managers are permitted to underwrite and sub-underwrite stock issues only on the basis that the subject stock is already held in the portfolio or that the Manager wishes to acquire a long-term holding.

Responsible Investing

The Fund acknowledges its responsibilities as an institutional asset owner with long term liabilities and takes the approach that there should be effective stewardship of all the Fund's assets which focuses on good corporate governance to deliver sustainable investor value.

The Fund has a Responsible Investment policy which was approved by Pensions Committee in February 2022 and details of this are on page 43.

The Fund has been a member of the Institutional Investors' Group on Climate Change (IIGCC) since September 2020. This allows the Fund to be aligned with and contribute to one of the leading organisations challenging corporate entities over their climate change policies such as Climate 100+ which was an investor initiative to lobby the world's largest corporate organisations to reduce carbon emissions.

Corporate Governance

The Fund ensures that the votes attached to its holdings in all UK quoted companies are exercised whenever practical. The Fund's votes are exercised by its Investment Managers in accordance with their own policies and practices and taking account of the Combined Code on Corporate Governance.

Custody

The Fund has a Global Custodian (Northern Trust) that ensures the safekeeping of all assets separate from each Investment Manager and other officials. The Global Custodian also provides all the reporting data to the Council for performance monitoring and independent reconciliation purposes for each Investment Manager.

Stock Lending

The Fund has had a stock-lending agreement with Northern Trust since 2015. Adequate collateral is held which consists of acceptable securities and government debt and as at 31 March 2025 the Fund held collateral (via the custodian) of 106% of stock lent.

The amount of lendable securities is limited to a maximum of 25% of the value of the Fund in line with legislation. This arrangement will be regularly reviewed to take account of changing market circumstances.

Compliance

Investment Managers and the Custodian provide an annual statement to The Highland Council confirming that they have adhered to the investment principles contained in this document so far as is reasonably practicable. All 13 Fund Managers provided annual compliance statements as part of the 2024/25 year-end accounts process.

Adhering to guidance given by Scottish Ministers, the Fund is compliant with the six revised principles on investment decision making for occupational pension schemes, as set out in guidance published by the Chartered Institute of Public Finance and Accountancy in December 2009 called ‘Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles’.

Investment Performance Report
Aithisg Coileanadh Tasgaidh

Economic and Market Background

Equities

Overall, equities had a positive year with global equity markets rising overall though there was ongoing volatility in the markets.

In the quarter to 30 June 2024 (Q2 2024), global equity markets (measured by MSCI ACWI) rose by 3.5% over the quarter. However, sterling appreciation against the euro and yen pushed down returns in sterling terms to 2.9%. UK equities rose over the quarter supported by strong corporate earnings in the Financial and Healthcare sectors. The Financial sector, the largest sector in the MSCI UK Index, outperformed with a return of 8.1% over the quarter. US equities were the second best-performing market both in local and sterling terms over the quarter. Large sectors such as Information Technology and Communication Services outperformed over the quarter.

In the quarter to September (Q3 2024), Global equity markets (measured by MSCI ACWI) rose by 5.0% over the quarter. However, volatility rose during the quarter with the CBOE Volatility Index (VIX) rising to 16.7 in Q3. UK equities delivered the highest returns in sterling terms among developed markets in Q3 2024. Among heavyweight sectors, Consumer Staples (18.4% of the index weight) outperformed with a return of 11.5%. The Financial sector, the largest sector in the MSCI UK Index (20.1% of the index weight), rose by 4.4%. The Industrial sector rose by 1.4%. US equities were the second worst-performing market in sterling terms. However, among developed markets, they were the best performer in local terms in Q3 2024. Except for Energy, all the other sectors posted positive returns.

In the quarter to 31 December (Q4 2024), Global equity markets (measured by MSCI ACWI) rose by 1.4% over the quarter. However, volatility rose during the quarter with the CBOE Volatility Index (VIX) rising to 27.6 before reverting back to 17.4 and staying below its 20-year average of 19.1. UK equities fell 0.2% in Q4 2024. The Financial sector, the largest sector in the MSCI UK Index (22.2% of the index weight), rose by 11.1%. Among heavyweight sectors, Consumer Staples (18.8% of the index weight) slightly rose by 0.2% whilst the Industrials and Health Care sectors fell by 1.5% and 9.8%, respectively.
US equities were the best performing market in sterling terms in Q4 2024. US equities were supported by lower interest rates from the Fed, range-bound inflation, better than expected economic growth, and a post-election “relief rally”. The strength of the US dollar against sterling boosted returns in sterling terms.

In the final quarter to 31 March 2025 (Q1 2025), equities fell by 2.0% over the quarter. However, volatility rose during the quarter with the CBOE Volatility Index (VIX) rising to 22.3, above its 20-year average of 19.2. UK equities rose by 6.4% in Q1 2025. The energy sector outperformed with a return of 14.5%. Meanwhile, the financial sector, the largest sector in the MSCI UK Index (23.4% of the index weight) rose by 12.8%. Among other heavyweight sectors, Industrials (14.2% of the index weight) rose by 10.7%. Materials and Consumer Discretionary sectors underperformed with -7.5% and -5.5% returns over the quarter. US equities were the worst-performing market in both sterling and local terms over Q1 2025. The relative over-valuation of US equities when compared to other global markets, along with the uncertainty surrounding Trump's tariff policies, led to the MSCI US Index underperforming its peers. The weakness of the US dollar against the sterling further decreased returns in sterling terms.

Bonds

In the quarter to 30 June 2024, UK investment grade credit spreads rose by 0.01% to 1.09%, based on the IBoxx Sterling Non-Gilts Index. Higher-quality bond credit spreads narrowed whilst, lower-quality counterparts widened. UK Corporate Bonds (measured by the IBoxx Sterling Non-Gilts Index) posted a return of -0.1%.

During the quarter to 30 September 2024, UK investment grade credit spreads remained unchanged at 109bps, based on the IBoxx Sterling Non-Gilts index. Higher-quality bond credit spreads widened whilst, lower-quality counterparts narrowed. UK Corporate Bonds (measured by the IBoxx Sterling Non-Gilts Index) posted a return of 2.3%.

In the quarter to 31 December 2024, UK investment grade credit spreads narrowed by 16bps to 93bps over the quarter, based on the IBoxx Sterling Non-Gilts index. Both higher-quality and lower-quality bond credit spreads generally narrowed. UK Corporate Bonds (measured by the IBoxx Sterling Non-Gilts Index) posted a return of -0.5%.

In the last quarter to 31 March 2025, UK investment grade credit spreads widened by 9bps to 102bps over the quarter, based on the IBoxx Sterling Non-Gilts index. The highest-quality bond credit spread narrowed whilst other counterparts widened. UK Corporate Bonds (measured by the iBoxx Sterling Non-Gilts Index) posted a return of 0.7%.

Gilts

In the quarter to June 2024, the UK nominal gilt curve and index-linked gilt yield curve shifted upwards over the quarter as yields rose across maturities. The spread between 2-year and 10-year gilt yield fell to 18bps from 29bps over the quarter. The 10-year nominal bond yield rose by 27bps to 4.24%.

During the quarter to 30 September 2024, the UK nominal gilt curve and index-linked gilt yield curve shifted downwards over the quarter as yields fell across maturities. The 10-year UK gilt yield minus 2-year yield ceased being “inverted”, as the spread between 2-year and 10-year gilt yield fell to -15bps from 18bps over the quarter. The 10-year nominal bond yield fell by 17bps to 4.07%.

In the quarter to 31 December 2024, the UK nominal gilt curve shifted upwards over the quarter as yields rose across maturities. The 10-year nominal bond yield rose by 60bps to 4.68% and the 30-year nominal bond yield rose by 54bps to 5.28%.

During the quarter to 31 March 2025, The UK nominal gilt curve shifted downwards towards the shorter end but rose towards the longer end of the curve. The 10-year nominal bond yield rose by 10bps to 4.77%, and the 30-year nominal bond yield rose by 20bps to 5.48%.

Property

In the quarter to June 2024, UK property capital values continued to rise over the second quarter leading to a total return of 1.7%. Capital values rose by 0.2% and the income return was 1.5%. Vacancy rates remained unchanged at 10.4. The Office sector was the worst performer, returning -0.2%, while the Retail sector was the best performer, returning 2.8%. The Industrial sector rose 1.9%.

During the quarter to 30 September 2024, UK property capital values continued to rise over the third quarter leading to a total return of 1.8%. Capital values rose by 0.3% and the income return was 1.4%. Vacancy rates increased from 10.4% to 10.6%. The Office sector was the worst performer, returning 0.4%, while the Industrial sector was the best performer, returning 2.3%. The Retail sector rose 2.2%.

In the quarter to 31 December 2024, UK property capital values continued to rise over the fourth quarter leading to a total return of 2.8%. Capital values rose by 1.3% and the income return was 1.4%. Vacancy rates increased from 10.6% to 11.9%. The Office sector was the worst performer, returning 1.0%, while the Industrial sector was the best performer, returning 3.6%. The Retail sector rose 3.5%.

In the last quarter to 31 March 2025, UK property capital values rose over the first quarter leading to a total return of 2.0%. Capital values rose by 0.6%, and the income return was 1.4%. Vacancy rates increased from 11.9% to 12.1%. The Office sector was the worst performer, returning 1.1%, while the Retail sector was the best performer, returning 2.4%. The Industrial sector rose 2.2%.

Impact on the Fund

In the quarter to June 2024, the Fund delivered absolute performance of 1.4% (net of fees), underperforming the benchmark on this basis by 0.9%. The largest driver of negative relative performance in Q2 2024 was the Baillie Gifford Global Equity strategy (-0.5%). From a longer-term perspective, over the 10-year period to 31 March 2024 the Fund broadly performed in line with benchmark. Since the last valuation date (31 March 2023), the Fund return was higher (11.6%, net) than the actuarial valuation discount rate (5.2% p.a. or 6.5% cumulative over this 15-month period to 30 June 2024). Underperformance relative to the benchmark over 3 years is largely attributed to the Baillie Gifford Global Equities strategy which underperformed its benchmark by 11.2% p.a. (net of fees) over this period; this was primarily due to the adverse impact from tightening monetary policy (higher interest rates) during 2022 and 2023 amidst high inflation and the impact this environment has had on long term “growth” stocks, which are the focus of Baillie Gifford. For longer term, since inception performance we note that Baillie Gifford are still ahead of benchmark (c0.5% p.a.).

Overweight positions in alternative assets and a small overweight to global equities drove a small positive contribution to returns from the asset allocation. On a relative basis the Fund was behind the benchmark by 0.8% (gross) over the quarter. Man Group were the largest driver of relative performance as the strategy outperformed the representative benchmark of Alternative Risk Premia Strategies by 3.1% (net). Equity market neutral strategies (i.e. those that rely on skill/models rather than overall equity market directionality) added the most. Schroders also added to relative performance as they outperformed their benchmark by 0.5% (net). The Industrial Property Investment Fund (IPIF) was the most accretive holding in the portfolio, driven predominantly by positive rental growth across the industrial sector, though ‘alternative’ funds were additive too. As noted earlier, the largest detractor from relative performance during the quarter was Baillie Gifford Global Equity strategy which underperformed its benchmark by 1.6% (net).

During the quarter to 30 September 2024 the Fund delivered absolute performance of 1.2% (net of fees), underperforming the benchmark on this basis by 0.4%, with the largest driver of negative relative performance in Q3 2024 being KKR (-0.3%). From a longer-term perspective, over the 10-year period to 30 September 2024 the Fund broadly performed in line with benchmark. Since the last valuation date (31 March 2023), the Fund return was higher (12.8%, net) than the actuarial valuation discount rate (5.2% p.a. or 7.9% cumulative over the 18-month period to 30 September 2024).

Underperformance relative to the benchmark over 3 years is largely attributed to the Baillie Gifford Global Equities strategy which underperformed its benchmark by 10.3% p.a. (net of fees) over this period; this was primarily due to the adverse impact from tightening monetary policy (higher interest rates) during 2022 and 2023 amidst high inflation and the impact this environment has had on long term “growth” stocks, which are the focus of Baillie Gifford. The impact of performance in 2022 and 2023 weighs on longer term performance for Baillie Gifford, with relative performance of -3.0% and -0.3% over the 5-year and 10-year periods respectively. However, Baillie Gifford performance over the quarter was ahead of the benchmark, displaying signs that performance may be recovering.

Overweight positions in alternative assets and a small overweight to global equities drove a small positive contribution to returns from the asset allocation. On a relative basis the Fund was behind the benchmark by 0.3% (gross) over the quarter. Robeco were the largest driver of relative performance as the strategy outperformed the benchmark by 5.5% (net).

The fund benefitted from its duration exposure over the quarter as Treasury yields fell significantly. Baillie Gifford Global equity also added to relative performance as they outperformed their benchmark by 0.1% (net), despite a loss of momentum in the AI (artificial intelligence) and Information Technology sector, which saw negative contributions from Amazon, Tesla, and Apple. The largest detractor from relative performance during the quarter was KKR which underperformed its benchmark by 5.5% (net).

In the quarter to 31 December, the Fund delivered absolute performance of 1.6% (net of fees), underperforming the benchmark on this basis by 0.9%, note that the largest driver of negative relative performance in Q4 2024 was Baillie Gifford Global equity (-0.7%).

- From a longer-term perspective, over the 10-year period to 31 December 2024, the Fund broadly performed in line with benchmark.
- Since the last valuation date (31 March 2023), the Fund return was higher (15.5%, net) than the actuarial valuation discount rate (5.2% p.a. or 9.3% cumulative over the 21 month period to 31 December 2024).

Underperformance relative to the benchmark over 3 years is largely attributed to the Baillie Gifford Global Equities strategy which underperformed its benchmark by 8.8% p.a. (net of fees) over this period; this was primarily due to the adverse impact from tightening monetary policy (higher interest rates) during 2022 and 2023 amidst high inflation and the impact this environment has had on long term “growth” stocks, which are the focus of Baillie Gifford. The impact of performance in 2022 and 2023 weighs on longer term performance for Baillie Gifford, with relative performance of -4.3% and -0.8% over the 5-year and 10-year periods respectively. Over the quarter, Baillie Gifford underperformed the benchmark by -2.5%.

On a relative basis the Fund was behind the benchmark by 0.8% (gross) over the quarter. However, overweight positions in alternative assets and a small overweight to global equities drove a positive contribution to returns from asset allocation, as global equities ended the year with another positive quarter, following Sterling weakness, which provided additional return for UK investors with unhedged overseas equity exposure.
KKR, CVC and BGO all had strong quarters outperforming their benchmarks by 11.8% (net), 0.3% (net) and 0.6% (net) respectively and positively contributing to relative performance. Global Equity managers Baillie Gifford and Mirova were the largest detractors from relative performance during the quarter underperforming their benchmarks by 2.5% (net) and 6.2% (net). The market environment continues to be challenging for Baillie Gifford’s investment style, which focuses on longer term growth.

In the final quarter of the year to 31 March 2025, the Fund delivered absolute performance of -0.8% (net of fees), underperforming the benchmark on this basis by 0.3%. Note that the largest driver of negative relative performance in Q1 2025 was Baillie Gifford Global Equity (-0.6%).

- From a longer-term perspective, over the 10-year period to 31 March 2025, the Fund broadly performed in line with benchmark.
- Since the last valuation date (31 March 2023), the Fund return was higher (14.7%, net) than the actuarial valuation discount rate (5.2% p.a. or 10.7% cumulative over the 24 month period to 31 March 2025).

Underperformance relative to the benchmark over 3 years is largely attributed to the Baillie Gifford Global Equities strategy which underperformed its benchmark by 5.6% p.a. (net of fees) over this period; this was primarily due to the adverse impact from tightening monetary policy (higher interest rates) during 2022 and 2023 amidst high inflation and the impact this environment has had on long term "growth" stocks, which are the focus of Baillie Gifford. The impact of performance in 2022 and 2023 weighs on longer term performance for Baillie Gifford, with relative performance of -5.8% and -1.2% over the 5-year and 10-year periods respectively. Over the quarter, Baillie Gifford underperformed the benchmark by -2.8%.

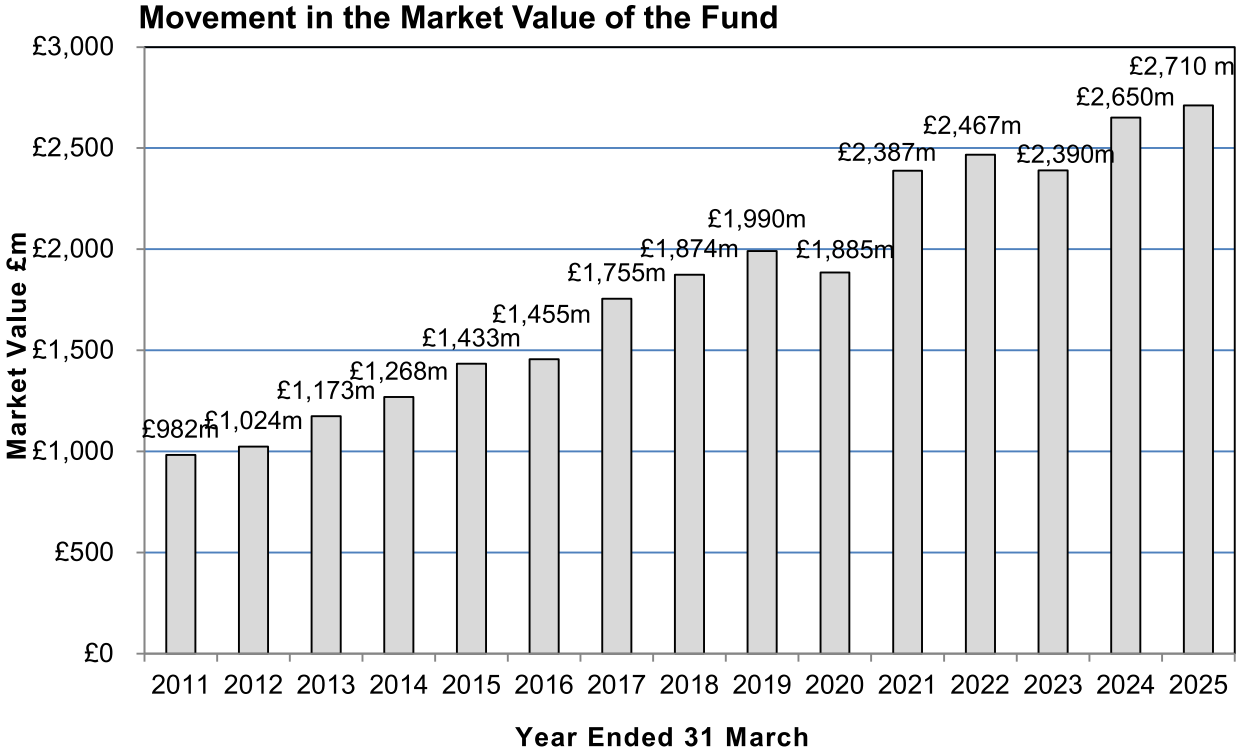
Pension Fund Investment Performance

For the year to 31 March 2025 the Fund returned 3.71%, underperforming the benchmark of 5.94%. The increase in absolute returns was due the improved performance of investment markets, with equity market values increasing significantly in the last quarter of the financial year.

In terms of the longer-term performance, the Fund returns underperformed the benchmark across a 5-year period (return is 8.16% compared to the benchmark of 9.45%) and there is positive performance when reviewing the performance since inception (7.96% compared to 7.93%)

	1 year per annum%	3 years % per annum	5 years % per annum	Inception % per annum
Fund return (2024/25)	3.71	3.79	8.16	7.96
Benchmark return (2024/25)	5.94	5.77	9.45	7.93

The market value of the Fund's net investment assets as at 31 March 2025 was £2,710m (£2,650m at 31 March 2024), with an increase in market value due to the increase in investment values. The movement in the market value of the Fund's net investment assets is set out below.



Across the longer term, the main contributors to overall absolute returns have been global equities and private equity. Details of the Fund's investments analysed by investment category are shown in the financial statements (Note 14).

Responsible Investing and Climate Change
Tasgadh Cunntasach agus Atharrachadh na Gnàth-shìde

The Pensions Committee has a fiduciary duty to act in the best financial interest of the members of the Fund and ensure that the objectives of the Fund are met. Alongside this fiduciary duty, The Highland Council Pension Fund is a long-term investor, and the Pensions Committee members recognise that they should incorporate Environmental, Social and Governance (ESG) risks into the investment decision making process.

If ESG risks are not understood, evaluated and managed properly these could negatively impact the long-term value of investments. In this context, the Committee considered it important to clearly document the Fund's approach to Responsible Investment in its Responsible Investment (RI) policy.

The Fund's RI policy was approved by Pensions Committee on 14 February 2022.

https://www.highlandpensionfund.org/resources/responsible-investment-policy/

The Fund's RI policy sets out the following:

- The Fund's beliefs and principles and approach to Responsible Investing. These are that the Pensions Committee consider ESG in all aspects of the investment decision-making supported by officers and the Investment Advisor and undertake periodic training on RI; and Committee members do not apply personal, ethical or moral judgements when making investment decisions, and will remain focused on the primary objective of acting in the best financial interests of the Fund's members.
- The Framework for ESG risk monitoring and assessment which will be implemented going forward.
- Expectations and monitoring of the Fund's investment managers which include the following:
    - we expect the Fund's investment managers to take account of financially material ESG considerations (including climate change) in the selection, retention and realisation of investments. Whilst we do not expect all our investment managers to explicitly take into account non-financial ESG considerations, we do expect transparency on these matters in order to facilitate a full understanding of the Fund's investments.
    - The Fund will complete a periodic review of the ESG profile of the investments. The use of third-party data from MSCI, manager data from the Principles for Responsible Investment ("PRI") alongside commentary from the advisor, can support the Committee in identifying areas of potential ESG risk and engagement opportunities.

- investment managers align with the UK Stewardship Code Principles and PRI objectives. Where managers are not signatories to these codified principles, we will assess with our advisor how the manager is implicitly aligned as part of our monitoring.

- Implementation of the policy will require the following work to be undertaken on an ongoing basis:
  - Periodic review of assets to check these meet a certain minimum threshold ESG rating/requirement; with the threshold being reviewed on a regular basis to ensure that it meets the Fund's evolving requirements.
  - Consideration of new investment solutions (across all asset classes) and assessment of the suitability of such investments within the context of the wider Fund in discussion with its investment advisor.

    For example, during 2022 the Baillie Gifford UK investments were transferred to the Baillie Gifford Global Alpha Paris Aligned fund, which aims to address climate and societal challenges through the net-zero transition by 2050. In addition to this, the Fund moved LGIM passive equities to track a World Futures index (July 2022) and funded an investment in the Mirova Global Sustainable equity fund (December 2022).
  - We expect the Fund's appointed fund managers to be transparent in their approach, including their approach to stewardship, how they integrate ESG into their investment decision making process and consideration of social and environmental impact matters.
  - We expect the Fund's investment managers to provide their RI policy to us and our advisors periodically, including details of their approach to stewardship, how they integrate ESG into their investment decision making process and their approach to non-financial factors. When we look to appoint a new investment manager, we request and consider this information as part of the selection process. We review responses with support and input from the Fund's investment advisor.
- Evolving the Fund's approach as this will need to continually evolve due to both the changing landscape with respect to ESG issues and broader industry developments.

The Fund's Responsible Investment policy has been circulated to all Fund Managers. The Fund is committed to making ongoing improvements to our approach and the processes that underpin the delivery of this policy and is focused on making sure that it remains relevant and appropriate for our members.

The Fund is a member of the Institutional Investors Group on Climate Change (IIGCC). IIGCC is the European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low carbon future.

The Highland Council Pension Fund is one of the signatories to the Global Investors Statement to Governments on the Climate Crisis which was co-ordinated by the IIGCC. The Statement was backed by 651 investors representing over $34 trillion in assets and urged all governments to raise their climate ambition and implement robust policies before Climate Week New York City held in September 2024.

The Statement called on governments to undertake the following five priority actions:

1. Enact economy-wide public policies
2. Implement sectoral transition strategies, especially in high-emitting sectors.
3. Address nature, water and biodiversity-related challenges contributing to and stemming from the climate crisis.
4. Mandate climate-related disclosures across the financial system:.
5. Mobilise further private investment into climate mitigation, resilience and adaptation activities in emerging markets and developing economies.

https://theinvestoragenda.org/press-releases/17-september-2024/
https://theinvestoragenda.org/wp-content/uploads/2024/08/2024-Global-Investor-Statement-to-Governments-on-the-Climate-Crisis.pdf

IIGCC
The Institutional Investors Group on Climate Change

Actuarial Position
Suidheachadh Achdaireach

Employer contributions are assessed every three years by an independent actuary and expressed as a percentage of pensionable pay.

The actuarial valuation as at 31 March 2023 applies to the three financial years from 2024/25 to 2026/27. Full details of the contribution rates payable can be found in the 2023 actuarial valuation report and the funding strategy statement on the Pension Fund website.

https://www.highlandpensionfund.org/resources/actuarial-valuation-report-2023/

In the 2023 actuarial valuation, the Fund was assessed as 136% funded (2020 valuation: 100%) with a surplus of £633m (2020 surplus £6m).

The Funding Strategy Statement effective from 1 April 2024 is available on the Pension Fund website.

https://www.highland.gov.uk/download/meetings/id/82935/item_8__funding_strategy_statement

In the 31 March 2023 Valuation, the primary rate was 17.8% (2020, 21.2%). The overall contribution rate, expressed as a percentage of pay, has reduced due to both an improvement in the past service funding position and higher assumed future investment returns at 2023 compared to 2020.

More information on the actuarial valuation can be found in the Actuarial statement (page 121).

For the purposes of the contribution rates set for the financial year 2024/25, the following assumptions from the triennial Valuation completed in 2023 were used.

Financial assumptions

Financial assumptions are used to estimate the amount of benefits and contributions payable and to place a current value on these benefits and contributions. The key financial assumptions are:

Financial Assumptions	March 2020	March 2023
Discount Rate	3.2%	5.2%
Salary Increase (excludes promotional increases)	2.5%	3.1%
Price Inflation/Pension Increases	1.7%	2.3%

The actuarial projection of the Market Value of the Fund's assets as at 31 March 2023 was £2,406m (2020 Valuation £1,892m). The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates.

Longevity assumptions

The key longevity assumptions are that all members will follow the mortality experience based on the latest industry standard and using information from longevity experts.

Future life expectancy based on the Actuary's Fund-specific mortality review is in the table below.

	31 March 2020		31 March 2023	
	Male	**Female**	**Male**	**Female**
Current pensioners	21.0	23.5	20.7	23.5
Future pensioners*	22.4	25.5	21.6	25.1

* assumed current age 45 at date of valuation

Commutation assumption

Half the members will commute their commutable pension for cash at retirement. Active members will retire one year later than they are first able to do so without reduction.

Administration Strategy and Performance

In April 2024, Preparing the Pension Fund Annual Report, Guidance for Local Government Pension Scheme Funds was published. This guidance set out a set of Key Performance Indicators (KPIs) that must be reported on in LGPS annual reports.

The Fund reviewed the guidance when it was issued but for some data sets, such as recording calls and email/online volume queries, it took a period of time to identify how the required data could be collated and set up processes to record this, and for this reason there is not a prior year comparator for all KPIs. For example, with regard to Table C, communications and engagement the member portal Engage was rolled out to pensioners in February 2025 and to active and deferred members during 2023/24 so there are not previous year's comparators available.

In view of the volume of outstanding cases, the team has had to prioritise workloads with a focus on recording and acknowledging deaths of active, deferred pensions and dependant members, which is an area where there has been in improvement in the statistics.

For the other datasets, although the team has worked hard, which can be seen by the volumes of cases completed, overall performance has remained the same or reduced. A key focus of 2024/25 was the implementation of the Altair payroll system implementation and staff resources were committing to achieving this deliverable alongside business as usual which also impacted overall KPI performance.

At the beginning of the 2024/25 year, volumes of outstanding cases were high caused by complexity of the scheme and staff vacancies in previous financial years (2023/24 vacancy rate and ratio of staff to member were higher than 2024/25). In 2024/25, the team successfully recruited 7 new members of staff and more experienced members of the team have focused on training the new recruits which has reduced the staff resource available to complete cases. Another 5 members of staff are scheduled to join the team in 2025, and the benefits of extra staff resource will be realised in 2025/26. This staff resource will be focused on actioning outstanding cases in preparation for the Pensions Dashboard.

On a weekly basis the administration team managers monitor outstanding tasks, cases completed weekly and how long it takes to process cases so they can identify and address inefficiencies and barriers/obstacles to performance. From our data, retirements are currently taking on average 31 days to process which is due to McCloud complexities and previous staff shortages.

Transfers in and out of the Fund have also been delayed, which is reflected in the KPIs, as the team put processing these on hold until guidance was received and software implemented for the McCloud remedy. The testing of the McCloud software is ongoing and further software releases are planned by the provider to fully implement the remedy, until which the team will continue to use manual calculations.

Looking ahead, the Fund has invested in technology in 2024/25 with the Altair Payroll system successfully implemented in February 2025. Several processes have been changed to improve efficiency, with staff identifying areas for continuous improvement on an ongoing basis and a process workshop planned for July 2025. Additional staff resource has been recruited and training is ongoing. The benefits of all these actions should be realised in financial year 2025/26.

Table A – Volume of casework

KPI Indicator		Total number of cases completed 2023/24	Total % of cases completed 2023/24	Total number of cases open (start) 31 Mar 24	Total number of new cases in year 2024/25	Total number of cases completed 2024/25	Total % of cases completed 2024/25
A1	Deaths recorded of active, deferred, pensioner and dependant members	386	93.9%	25	337	360	99.4%
A2	New dependant member benefits	129	Process not recorded separately until 24-25	0	158	112	70.9%
A3	Deferred member retirements Included in active retirements below (deferred & active retirements under same process name currently)	See A4	See A4	See A4	See A4	See A4	See A4
A4	Active member retirements (includes deferred member retirements)	779	89%	96	835	730	78.4%
A5	Deferred benefits	352	33.1%	711	871	400	25.3%
A6	Transfers in (including interfunds in, club transfers)	61	84.7%	11	67	62	79.5%
A7	Transfers out (including interfunds out, club transfers)	69	94.5%	4	93	80	82.5%
A8	Refunds	554	84.8%	99	578	589	87%
A9	Divorce quotations issued	25	86.2%	4	18	21	95.5%
A10	Actual divorce cases	5	71.4%	2	11	13	100%
A11	Member estimates requested either by scheme member and employer	1,696	93.2%	124	1,146	1,148	90.4%
A12	New joiner notifications	2,411	62.3%	1,456	3,544	2,078	41.6%
A13	Aggregation cases	257	10.3%	2248	799	437	14.3%
A14	Optants out received after 3 months membership (also included in deferred category above)			3	4	1	14.3%

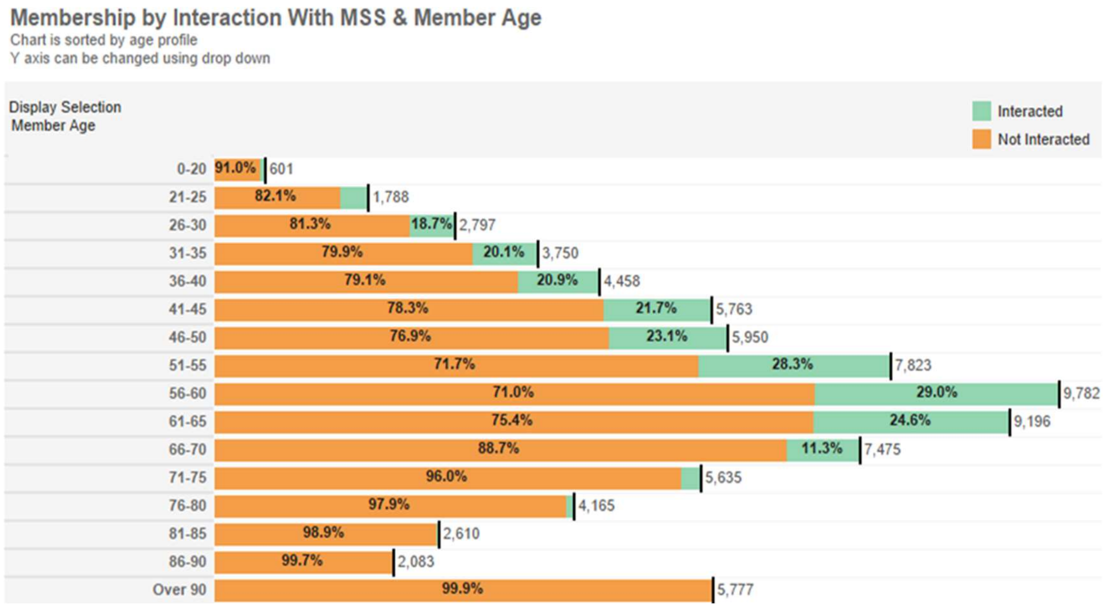
Table B - Time taken to process casework

* Days in this column are a suggested fund target for completion and not the statutory

KPI indicator		Suggested fund target*	% completed in previous year 2023/24	% completed within fund target in year 2024/25
B1	Communication issued with acknowledgement of death of active, deferred, pensioner and dependant member	5 days	67.1%	76.9%
B2	Communication issued confirming the amount of dependants pension	10 days	Process not recorded separately	27.7%
B3	Communication issued to deferred member with pension and lump sum options (quotation)	15 days	Process currently same for active & deferred	N/A see active box below includes deferred
B4	Communication issued to active member with pension and lump sum options (quotation)	15 days	72.9%	36.7%
B5	Communication issued to deferred member with confirmation of pension and lump sum options (actual)	15 days	Process currently same for active & deferred	N/A see active box below includes deferred
B6	Communication issued to active member with confirmation of pension and lump sum options (actual)	15 days	62.3%	34.9%
B7	Payment of lump sum (both actives and deferreds)	15 days	62.3%	34.9%
B8	Communication issued with deferred benefit options	30 days	31%	25.5%
B9	Communication issued to scheme member with completion of transfer in	15 days	47.5%	8.1%
B10	Communication issued to scheme member with completion of transfer out	15 days	47.8%	15%
B11	Payment of refund	10 days	92.5%	76.9%
B12	Divorce quotation	45 days	64%	95.2%
B13	Communication issued following actual divorce proceedings i.e application of a Pension Sharing Order	15 days	100%	53.8%
B14	Communication issued to new starters	40 days	59.5%	42.7%
B15	Member estimates requested by scheme member and employer	15 days	72.9%	36.7%

Table C - Communications and engagement – there are no comparators for 2023/24 as the Engage Customer portal was only rolled out to all members including pensioners in February 2025

KPI Indicator		**31/03/2025**
C1	% of active members registered	41.8%
C2	% of deferred member registered	16.7%
C3	% of pensioner and survivor members	10.1%
C4	% total of all scheme members registered for self-service	23.5%
C5	Number of registered users by age – see below	



C6	% of all registered users that have logged onto the service in the last 12 months	23.5%
C7	Total number of telephone calls received in year	7,265 (from June 2024)
C8	Total number of email and online channel queries received	4,647 received in generic team mailbox (excludes and direct individual team member contact)
C9	Number of scheme member events held in year (total of in-person and online)	None in 24-25
C10	Number of employer engagement events held in year (in-person and online)	3 Employer training events with Hymans
C11	Number of active members who received a one-to-one (in-person and online)	Developing process to report on this for 2025/26.

KPI Indicator		31/03/2025
C12	In 2024/25, number of times a communication (i.e newsletter) issued to:	
	a) Active members	One - Annual Benefit Statement (August 2024)
	b) Deferred members	One - Annual Benefit Statement (August 2024)
	c) Pensioners	Two • PI newsletter published March 2025 • Letter about change to pensions payroll system (November 2024)

Table D - Administration KPI– Resources

KPI Indicator		31/03/24	31/03/25
D1	Total number of all administration staff (FTE)	18.96 FTE	24.93 FTE
D2	Average service length of all administration staff	10.7 years	8.4 years
D3	Staff vacancy rate as %	20.9%	13.8%
D4	Ratio of all administration staff to total number of scheme members (all staff including management)	1: 1,912	1:1,451
D5	Ratio of administration staff (excluding management) to total number of scheme members	1: 2,271	1:1,649

Table E - Data Quality

KPI Indicator		31/03/24	31/03/25
E1	**Annual Benefit Statements** Percentage of annual benefit statements issued as at 31 August *Short commentary if less than 100%*	100%	100%
Data category			
E2	Common data score	99.8%	99.8%
E3	Scheme specific data score – score at 31/03/25 will be available for final accounts. Final checks underway before bulk jobs run for year-end position.	98.3%	To follow
E4	Percentage of active, deferred and pensioner members recorded as 'gone away' with no home address held, or address is known to be out of date	77%	69%
E5	Percentage of active, deferred and pensioner members with an email address held on file	63%	75%

KPI Indicator		31/03/24	31/03/25
Employer performance		**31/03/24**	**31/03/25**
E6	Percentage of employers set up to make monthly data submissions (1 out of 23 not updating monthly, meeting scheduled for June 2027 with this employer)	96%	96%
E7	Percentage of employers who submitted monthly data on time during the reporting year (of those submitting monthly)	100%	100%

Financial Performance

Coileanadh Ionmhasail

The Pension Fund budget is set annually and approved by the Pensions Committee. The budget is set for controllable expenditure and therefore excludes benefit and transfer payments as well as contributions receivable and transfers into the fund.

The budget is monitored at each meeting of the Pensions Committee and performance against budget for 2024/25 is as follows.

Annual Budget	Annual budget £000	Year-end actual £000	Year-end variance £000
Staff costs (Pensions)	1,036	1,041	5
Computer and ICT	600	485	(115)
Postages, printing stationery	4	7	3
Pensions admin other	26	56	30
Other central support recharges	156	219	63
Administrative expenses	**1,822**	**1,808**	**(14)**
Actuarial fees	100	51	(49)
Audit fees	36	38	2
Pensions Investment and Accounting staff costs	262	198	(64)
Central support	21	78	57
Training	5	-	(5)
Subsistence and travel	1	-	(1)
Investment Consultant fees	100	177	77
Performance management fees	50	24	(26)
Tax & legal expenses	10	4	(6)
Oversight and governance	**585**	**570**	**(15)**
Investment expenses	350	484	134
Custodian fees	100	55	(45)
Transaction costs	350	1,071	721
Fund Manager fees	10,288	10,229	(59)
Management fees	**11,088**	**11,839**	**751**
Overall total	**13,495**	**14,217**	**722**

The main variances between the budgeted and actual relate to the following.

Administrative expenses – underspend due to lower than anticipated ICT costs.

Oversight and governance – underspend due to Principal Accountant staff vacancy with the post being filled in December 2024. Overspend on Investment Advisor fees – these costs are monitored and reported to Investment Sub Committee on a quarterly basis.

Management fees – the level of transaction costs was due to private equity underlying transaction costs.

Contributions made to the Fund in 2024/25

During 2024/25, members and employers paid the following contributions. Note that the Scottish Fire and Rescue Service transferred to Strathclyde Pension Fund in January 2025.

	24/25 Employees contributions	24/25 Employers contributions	Total contributions
Scheduled Bodies	**£000**	**£000**	**£000**
The Highland Council	10,687	31,841	42,528
Comhairle nan Eilean Siar	2,859	8,545	11,404
Highland & Western Isles Valuation Joint Board	119	336	455
HITRANS	52	132	184
Inverness College	448	1,277	1,725
Scottish Fire and Rescue Service	116	355	471
Scottish Police Authority	599	1,597	2,196
UHI North, West and Hebrides	442	1,598	2,040
Total Scheduled Bodies	**15,322**	**45,681**	**61,003**
Admitted Bodies			
An Comunn Gàidhealach	10	30	40
Bòrd na Gàidhlig	57	145	202
Cromarty Firth Port Authority	183	407	590
Eden Court Theatre	10	-	10
Forth & Oban Limited	6	-	6
Hebridean Housing Partnership Limited	126	349	475
Highland Blindcraft	20	63	83
Highland & Islands Enterprise (HIE)	77	245	322
High Life Highland	1,172	3,446	4,618
Inverness Harbour Trust	5	52	57
Morrison FM	14	-	14
NHS Highland	868	2,491	3,359
Skills Development Scotland	41	245	286
Stornoway Port Authority	85	216	301
University of the Highlands & Islands	326	1,303	1,629
WIPRO Holdings (UK) Limited	3	-	3
Total Admitted Bodies	**3,003**	**8,992**	**11,995**
Total	**18,325**	**54,673**	**72,998**

Cashflow

The following table sets out the new inflows and outflows to the Fund in respect of dealing with members and does not include information on investments.

Pension Fund Account	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000	£000	£000	£000
Contributions received and transfers in	60,262	61,343	63,111	66,237	81,804	77,946	75,948
Pensions paid and transfers out	(59,887)	(65,107)	(74,394)	(70,454)	(76,079)	(82,017)	(115,746)
Net cash flow	375	(3,764)	(11,283)	(4,217)	5,725	(4,071)	(39,798)

Note that during 2024/25, there was a transfer out of the Scottish Fire and Rescue Service members to Strathclyde Pension Fund, which resulted in cash transfer out of £25.3m. The above analysis of cash inflows and outflows shows that the Fund is in cashflow negative territory. This reflects the increasing maturity of the fund with increased number of deferred and pensioner members compared to active members.

All cashflow requirements are identified well in advance, with pension fund cashflows being monitored as part of daily treasury activity. There has been no requirement to disinvest any assets as cash required has been readily available from the Fund Managers, such as distributions received back from the private equity and property debt investments. The cashflow position is monitored daily and reported regularly to the Investment Sub Committee.

Annual Governance Statement
Aithris Riaghlachais Bhliadhnail

Scope of responsibility

The Highland Council acts as Administering Authority for the Highland Council Pension Fund. The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council has a statutory duty to make arrangements to secure best value under the Local Government in Scotland Act 2003.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions. This includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'. The Code is available on The Highland Council website. The authority's financial and management arrangements conform with the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in local government.

The Local Code of Corporate Governance evidences the Council's commitment to achieving good governance and demonstrates how it complies with the governance standards recommended by CIPFA. The document is regularly reviewed and updated.

The purpose of the governance framework

The governance framework comprises the systems and processes, and cultures and values, by which the Council is directed and controlled, and the activities used to engage with and lead the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to an acceptable level, and provide reasonable, but not absolute, assurance that policies, aims and objectives can be delivered. The system of internal control is based on an ongoing process designed to identify and prioritise the risks being realised, and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place for the year ended 31 March 2025 and up to the date of approval of the Annual Accounts.

The governance framework

The Local Code is based upon the following seven principles:

1. Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area.
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles.
3. Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
5. Developing the capacity and capability of members and officers to be effective.
6. Engaging with local people and other stakeholders to ensure robust public accountability.
7. Implementing good practices in transparency, reporting and audit to deliver effective accountability.

The Pension Fund has a separate Governance Policy Statement which is one of several key documents it must hold, and this was updated to reflect the changes in governance arrangements as a result of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015. The updated Statement for 2024/25 was approved by Pensions Committee in October 2024.

https://www.highland.gov.uk/download/meetings/id/83962/item_4_-_governance_policy_statement_202425

Review of effectiveness

The Highland Council has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is adequate and effective in practice. The Chief Officer, Legal and Corporate Governance has been given responsibility for:

- overseeing the implementation of the Local Code of Corporate Governance and monitoring its operation.
- reviewing the operation of the Local Code of Corporate Governance in practice.
- reporting annually to the Council on compliance with the Local Code and any changes required to maintain it and ensure its effectiveness.

In fulfilling these duties, the Chief Officer, Legal and Corporate Governance has taken into account the results of reviews of internal control that have been carried out by Internal Audit.

The Council's corporate governance arrangements are subject to annual review by Internal Audit and the work undertaken in respect of the Local Code during this year has not identified any control weaknesses in these arrangements.

The Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards ("the Standards"). Section 2450 of the Standards states that "the annual Internal Audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control". In addition, the annual report must incorporate:

- the opinion;
- the summary of work that supports that opinion; and
- a statement on conformance with the Standards and the results of the quality assurance and improvement programme.

The Strategic Lead (Corporate Audit) responsibilities in this regard were discharged through the presentation of the Internal Audit Annual Report 2024/25 to the Audit Committee meeting on 28/05/25. An annual report for the Pension Fund is also prepared and this will be provided to the Pensions Committee on 04/09/25. The following information has been extracted from the 2024/25 annual report:

<u>Independent assurance reports</u>

The Fund Managers and the Global Custodian normally each provide an annual assurance report (AAF 01/20/ ISAE 3402) which sets out the control procedures in place during the year, and includes an assessment, by an independent accountant, of the effectiveness of the systems of internal controls in operation throughout the period examined. Where the report did not cover the full financial year, a bridging letter was required. Reports and bridging letters for 11 of the 13 Fund Managers, and the Global Custodian were provided. Review of these showed that:

- 10 reports provided an unqualified opinion of reasonable assurance.
- 2 reports contained qualifications, but these were not significant matters, and the necessary assurances have been obtained.

In considering these assurances it was noted that all Fund Managers and the Global Custodian have outsourced some of their services/ systems to third parties (sub-service organisations). The normal approach is for the accountants to use the "carve out" method by excluding the sub-service's control procedures from the scope of their work. This was the case for 10 of the Fund Managers and the Global Custodian.

For the remaining 2 Fund Managers:

- 1 did not provide a report that covers the financial year 2024/25.
- 1 was a US company and is subject to different legislative reporting requirements which they must adhere to. Reports were provided by the Fund Manager to provide assurance on their system of internal controls consistent with their reporting requirements. The reports provided assurance on internal control over financial reporting and was the same position as reported last year.

The 2024/25 Internal Audit plan comprised of the following:

- Review of the systems of internal control to inform the Fund's Annual Governance Statement and the Internal Audit Annual Report 2023/24. This was completed and considered by the Committee on 09/10/24.
- Review of Pension Fund payments.

A revised audit plan was subsequently agreed by the Committee on 08/12/24 when it was agreed to substitute the Pension Payments audit with a review of the Fund's governance arrangements. The reason for this change was the planned implementation of a new pensions software system which would change the way in which the pensions payments are processed. This will now be reviewed in 2025/26.

The audit of the Fund's Governance Arrangements was completed and the final report issued on 13/05/25. This report had the opinion of "Substantial Assurance" and concluded that there was a well-established governance framework in place. There were 2 audit recommendations comprising of 1 medium and 1 low grade. The first recommendation relates to the need to ensure that the Pension Committee and Pension Board members each provide an annual self-assessment of their skills and knowledge and details of the training completed in the year. This information should then be used by the Pension Fund Manager to inform the training plan for the Committee and Board. The agreed management action is due to be completed by 30/06/25. The low-grade recommendation was in respect of the need to document the existing process for the appointment and removal of Pension Board members within the Pension Board Constitution. This action is due to be completed by 30/09/25.

As part of the audit process, all audit recommendations are action tracked to ensure that the associated management actions were implemented as agreed. Monthly tracking is undertaken whereby individual actions are then tracked once their due date has passed. The action tracking process also allows for revision of the agreed action target dates. Again, these are tracked once the revised target date has passed. There are presently two audits where there have been a number of revisions to the target dates and these still remain outstanding as detailed below.

(1) Pension Fund Investments

This audit report was issued on 08/09/21 and contained 1 low grade recommendation in respect of the need to tender for the Investment Advisor and Custodian services. This was agreed and had a target date of 31/12/22.

However, this target date has not been met and instead has been revised four times. The current position is that the Investment Advisor is currently out to tender with a planned contract award date of 01/08/25. Tendering for the Custodian has still to be undertaken and so a revised target date of 31/03/26 has been agreed.

(2) Pension Fund Contributions

This audit report was issued on 06/02/23 and included 3 audit recommendations comprising of 2 medium and 1 low grade priorities. The low priority recommendation has been completed. However, there remains 2 medium priority recommendations that have not yet been implemented as set out in the commentary below.

The first recommendation was for NHS Highland and UHI to implement i-Connect to submit monthly pensions contributions data thereby negating the need for annual returns. This had the original target date of 31/12/23 which was subsequently revised to 31/03/25 and then 30/06/25. This has been partially completed, with the action in respect of NHS Highland still outstanding. Council officers are continuing to liaise with them to facilitate implementation.

The second recommendation has 2 outstanding actions:

(i) The need to address the backlog of leavers/ retirements/ deaths and re-employment/ aggregation cases. The backlog was linked to increased statutory requirements and additional work as a result. To address this issue, a new staffing structure had been agreed with additional staff being recruited, as well as implementation of new ICT systems such as the Pensioners payroll system and “My Pension” a self-service online portal for access to pensions information. These improvements have enabled time to be allocated to reducing the backlog, and it has been confirmed that leavers are up to date. However, there are plans in place to recruit an additional six members of staff to assist with clearing the backlogs. This action had the original target date of 30/06/23 and has been revised four times with the current date of 31/03/26.

(ii) The agreed action was to change the way in which post IDs were managed to reduce the number of records requiring action before being uploaded to Altair, the pensions payroll system, going forward. This work has been ongoing, and number of changes have been made as a result of the new pensions payroll system. This action had the original target date of 31/10/24 and was revised to 30/06/25.

On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However, as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control systems for the year to 31 March 2025.

Derek Brown
Chief Executive

Derek Louden
Chairman
Pensions Committee

On behalf of the members and senior officers of the Highland Council

Governance Compliance Statement
Aithris Gèillidh Riaghlachais

The Regulations that govern the management of LGPS funds in Scotland require that a Governance Compliance Statement is published. The Governance Compliance Statement sets out the extent to which governance arrangements comply with best practice. The following arrangements were in place for financial year 2024/25 and complies with guidance from the Scottish Ministers.

Principle	Fully Compliant and Comments	
Structure		
The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing Council.	Yes	The Highland Council as administering authority has delegated all pension scheme matters to the Pensions Committee. Meeting at the same time as the Committee, the Pensions Board was set up to comply with the LGPS (Governance) (Scotland) 2015 Regulations and is responsible for assisting the Committee in securing compliance with pension governance and administration legislation and regulations and requirements of the Pensions Regulator. In addition, an Investment Sub Committee has been established to enhance the Council's management and investment of the assets of the Pension Fund in accordance with the respective objectives and strategies of the Fund.
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.	Yes	The Pensions Committee has members representing other employers and two voting members representing scheme members. The Pensions Board has four trade union members and four employer representatives. The Investment Sub Committee has two non-voting members representing other employers.
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Yes	The Pensions Committee and the Pensions Board meet concurrently. The minutes of the Investment Sub Committee are presented to the Pensions Committee and Board and there is significant commonality in the membership of the two committees.
That where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel.	Yes	The minutes of the Investment Sub Committee are presented to the Pensions Committee and Board and there is significant commonality in the membership of the two committees.

Principle	Fully Compliant and Comments	
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: • Employing authorities (including non-scheme employers, e.g. admitted bodies). • Scheme members (including deferred and pensioner scheme members). • Where appropriate, independent professional observers. • Expert advisors (on an ad-hoc basis).	Yes	As stated above there are employer and employee representatives on both Pensions Committee and the Pension Board. The Fund's investment advisers regularly attend the Investment Sub Committee and the Fund's actuaries attend the Pension Committee and Board when appropriate. In addition, Fund Managers attend the Investment Sub Committee on a rotational basis.
Representation		
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision-making process, with or without voting rights.	Yes	All Pensions Committee and Board members are provided with training, as well as access to papers in advance of Committee meetings and have the opportunity to contribute to the decision-making process. There is a Pensions Board which is a bipartite body with an equal number of representatives from local government employers and relevant trade unions. There must be a minimum of four from each side.
Selection and Role of Lay Members		
That committee or panel members are made fully aware of the status, role and function that they are required to perform on either a main or secondary committee.	Yes	A comprehensive training programme including induction is in place. Training for Pension Committee, Pensions Board and Investment Sub Committee members includes presentations from investment managers, Custodian, actuary and investment advisors. Attendance at meetings and training is monitored and reported.
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.	Yes	The declaration of Members' interests is a standard item on the agenda of the Pension Fund Committee, Pension Board and Investment Sub Committee.

Principle	Fully Compliant and Comments	
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	The policy on voting rights is clearly stated in the remits of the Pension Committee, Board and Investment Sub Committee.
Training /Facility Time /Expenses		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Yes	There is a training, knowledge and skills policy in place which was approved by Pensions Committee in October 2024 which incorporates the CIPFA Local Pensions Boards Technical Knowledge and Skills framework, including the self-assessment matrix. This Policy also highlights the assessment and training resources provided by the Pensions Regulator and set out a training programme for 2024/25. The training policy recognises the importance of ensuring that Committee has the necessary resources to discharge its pension administration responsibilities and that all staff and members charged with financial administration, governance and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.
That where such a policy exists it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	All members are treated equally under the training policy regardless of whether they have voting rights.
That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training.	Yes	Members receive training each year and this is monitored and reported.

Principle	Fully Compliant and Comments	
Meeting Frequency		
That an administering authority's main committee or committees meet at least quarterly.	No	The Pensions Committee and Board meet twice a year with the option to hold special meetings as necessary. In 2024/25 a total of 4 meetings was held due to requirements to approve the Statement of Investment Principles in June and the Annual Accounts in December 2024. Officers completed a review of business covered at Pensions Committee and benchmarked against the governance structures in place at other Funds. Following this review this it was decided that Pensions Committee business could be adequately covered in 2 meetings a year, particularly as the monitoring of investment performance is completed by the Investment Sub Committee which meets quarterly. As demonstrated in financial year 2024/25 additional meetings can be held as required.
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committees meets.	Yes	The Investment Sub Committee meets at least four times a year with the option to hold special meetings as necessary. The Investment Sub-Committee meetings will be timed so minutes can be presented to the Pensions Committee and Board.
That an administering authority which does not include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	N/A	There is a Scheme Members' representative on the Pensions Committee. The Pensions Board has an equal number of representatives from local government employers and relevant trade unions.
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.	Yes	All Members of the Pensions Committee, Board and Investment Sub Committee have full access to agendas, reports and minutes.
Scope		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Yes	The Pensions Committee has an overview of investment, funding and member benefit matters. The Pensions Board assists the Committee with securing compliance with pension legislation and regulations.

Principle	Fully Compliant and Comments	
Publicity		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express interest in wanting to be part of those arrangements.	Yes	The Highland Council publishes governance documents and communicates regularly with employers and scheme members. https://www.highlandpensionfund.org/resources/ Internal Audit complete a review of the internal controls for the Pension Fund which is included in the Annual Governance Statement in the accounts.

Derek Brown
Chief Executive

Derek Louden
Chairman
Pensions Committee

On behalf of the members and senior officers of the Highland Council

Statement of Responsibilities
Aithris Dhleastanasan airson nan Cunntasan Bliadhnail

The Authority's Responsibilities

The Highland Council, as the administering authority for the Highland Council Pension Fund, is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that the proper officer of the authority has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this authority that officer is the Chief Officer, Corporate Finance.
- Manage its affairs, to secure economic, efficient and effective use of resources and safeguard its assets.
- Ensure that 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).
- Approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Pensions Committee

Derek Louden
Chairman
Pensions Committee

The Responsibilities of the Chief Officer, Corporate Finance

The Chief Officer, Corporate Finance is responsible for the preparation of the Pension Fund's statement of accounts in accordance with proper practices as set out in the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

In preparing this statement of accounts, the Chief Officer, Corporate Finance has:

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

The Chief Officer, Corporate Finance has also:

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

I, the Chief Officer, Corporate Finance as Chief Finance Officer certify that the financial statements give a true and fair view of the financial transactions of the Fund for the year ended 31 March 2025.

Brian Porter CPFA
Chief Officer, Corporate Finance

Independent Auditor's Report
Aithisg Neach-sgrùdaidh Neo-eisimeilich

Financial Statements
Aithrisean Ionmhasail

Pension Fund Account

This statement shows a summary of the income and expenditure that the Pension Fund has generated and incurred in delivering the Local Government Pension Scheme. Included is the income generated from employer and employees' contributions and investment income, as well as the cost of providing benefits and administration of the Fund.

2023/24		Notes	2024/25
£000	**Dealings with members, employers and others directly involved in the scheme**		**£000**
75,011	Contributions receivable	8	72,998
2,935	Transfers in from other pension funds	9	2,950
77,946			75,948
(79,440)	Benefits payable	10	(87,592)
(2,577)	Payments to and on account of leavers	11	(28,154)
(82,017)			(115,746)
(4,071)	**Net additions/(reductions) from dealings with members**		**(39,798)**
(15,488)	Management expenses	12	**(14,217)**
(19,559)	**Net additions/(withdrawals) including fund management expenses**		**(54,015)**
	Returns on Investments		
39,736	Investment income	13	45,513
(312)	Taxes on income from equities		(282)
233,435	Profit and (losses) on disposal of investments and changes in values of investments	14.1	64,472
272,859	**Net Return on Investments**		**109,703**
253,300	**Net increase/(decrease) in the net assets available for benefits during the year**		**55,688**
2,405,806	Opening net assets as at the start of the year		**2,659,106**
2,659,106	**Closing net assets as at the end of the year**		**2,714,794**

The notes on pages 75 to 123 form part of these financial statements.

Net Assets Statement
Aithris Sho-mhaoin Lom

The Net Assets Statement sets out the value, as at the statement date, of all assets and liabilities (excluding future pension liabilities) of the Fund.

As at 31/03/24 £000		Notes	**As at 31/03/25 £000**
2,671,041	Investment assets		2,748,352
(57,717)	Investment liabilities		(55,601)
2,613,324		14.1	2,692,751
32,204	Cash deposits		17,148
2,180	Investment income due		2,217
3,411	Amounts receivable for sales		1,583
(1,413)	Amounts payable for purchases		(3,486)
2,649,706	**Total net investment assets**		**2,710,213**
417	**Long term debtors**	24	**482**
	Current assets		
8,299	Short term debtors		7,212
7,888	Bank accounts		4,918
16,187		23	12,130
	Less current liabilities		
(7,204)	Short term creditors	25	(8,031)
8,983	**Net current assets**		**4,099**
2,659,106	**Closing net assets as at the end of the year available to fund benefits at the period end[1]**		**2,714,794**

The notes on pages 75 to 123 form part of these financial statements.

The unaudited accounts were issued on 26 June 2025.

Brian Porter CPFA, Chief Officer, Corporate Finance

[1] The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 18.

Notes to Accounts
Notaichean air Cunntasan

Accounting Policies

1. Description of Fund

The Highland Council is the administering authority of the Highland Council Pension Fund ("the Fund") and is the reporting entity for the Fund.

General

The Fund is part of the national Local Government Pension Scheme (LGPS) and is a contributory defined benefit pension scheme. The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK.

The Fund is constituted under legislation governing the Local Government Superannuation Scheme. The primary Act of governance is the Superannuation Act 1972. Detailed regulations for the Scheme are contained in the Local Government Pension Scheme (Scotland) Regulations 1998, the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2010, the Local Government Pension Scheme (Transitional Provisions and Saving) (Scotland) Regulations 2014, the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 and the Local Government Pension Scheme (Scotland) Regulations 2018.

The Administering Authority (The Highland Council) runs The Highland Council Pension Fund, to make sure the Fund achieves the following objectives:

- **Receives the proper amounts of contributions from employees and employers, and any transfer payments.**

  The Fund is built up by contributions from both employees and employers, together with interest and dividends from investments, out of which defined pensions and other benefits are paid.

  Employees' contributions to the Fund are fixed by statute. Contributions payable by employers are fixed every three years following a report by an independent actuary, who determines the level of contribution necessary to ensure that the Fund will be able to meet future benefits.

  The primary contribution rate (future service contributions) for the whole Fund of 17.8% of pay for payroll contributions was set by the Actuary for the period 1 April 2024 to 31 March 2025 in the Triennial Actuarial Valuation report 2023. In addition to this, the secondary rate (past service contributions) for 2024/25 was £814,000.

- **Invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth.**

  The Fund's assets are managed by appointed Investment Fund Managers. Once the cost of current benefits is met, all surplus cash income is invested to meet future liabilities to employees within the Fund and deferred pension benefits.

- **Uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives) and to their dependants (when members die)**, as defined in the LGPS Regulations. Before 1 April 2015 pensions benefits payable were based on final pensionable pay and length of pensionable service. After 1 April 2015 the scheme became a career average scheme whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th which is updated annually in line with the Consumer Price Index. Assets are also used to pay transfer values out of the Fund and administration costs.

2. Basis of Preparation

The Pension Fund Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 which is based upon International 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 the promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis is disclosed at Note 18 of these accounts.

The accounts have been prepared on a going concern basis.

3. Summary of Significant Accounting Policies

Fund account – revenue recognition

a. Contribution income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes that rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the Fund Actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current asset (sundry debtor). Amounts not due until future years are classed as long-term financial assets (long term debtors).

b. Transfer to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme (Scotland) Regulations 2018.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see paragraph m) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers in. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c. Investment income

i) Interest income

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transactions costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

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

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as investment income due.

iv) Property-related income

The Fund does not invest directly in property. All property investments are on a 'fund of funds' basis.

v) Movement in the net market value of investments

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

vi) Stock lending income

Income from stock lending is recognised when the deal has been agreed to lend stock and any amount not received by the end of the reporting period is disclosed in the net assets statement as investment income due.

Fund account – expense items

d. Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities (sundry creditors).

e. 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 at year end.

f. Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its Pension Fund management expenses in accordance with the CIPFA guidance, Accounting for Local Government Pension Scheme Management Costs (2016).

- Administrative expenses

All administrative expenses are accounted for on an accruals basis. All pension administration team costs are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

- Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

- Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Investment management fees charged by the external Fund Managers and the Fund Custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

For the private equity fees, there is a performance fee charged. Transaction costs are fees associated with completing sales and purchases which would include brokerage fees.

In advance of preparing the year end accounts, a request was made to all Fund Managers, the Fund Custodian and the Fund Advisors for their fee invoice to the end of March 2025 or an estimated fee for accrual purposes.

A proportion of the Council's costs representing management time spent by officers on investment management are also charged to the Fund.

For private equity fees, property debt, direct lending, hedge fund, infrastructure fees and pooled funds where fee invoices are not provided, the relevant Fund Managers provided information on fees to the end of March 2025 or a basis for estimating these fees.

Net Assets Statement

g. 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 in the net assets statement 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 in the Fund account. Any amounts due or payable in respect of trades entered into but not yet complete at 31 March each year are accounted for as financial instruments held at amortised costs and reflected in the reconciliation of movements in investments and derivatives note in Note 14.1. Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 15.1). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association 2016).

h. Foreign currency transactions

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

i. 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 (see Note 14.6).

j. Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

k. Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net asset statement 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.

l. Actuarial present value of promised retirement benefits

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

As permitted under the Code, the Fund has opted to disclose the actuarial present value of the promised retirement benefits by way of a note to the Net Assets Statement (Note 18). The Fund's actuary has provided an updated calculation of the Actuarial present value of promised retirement benefits which includes an allowance for the McCloud ruling i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes (Note 18).

m. Additional voluntary contributions

The Highland Council Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, but are disclosed as a note only (Note 19).

n. Contingent assets and contingent liabilities

A contingent liability arises when an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

o. Prior year adjustments

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Fund’s financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

4. Accounting Standards Issued but Not Yet Adopted

The following accounting standards and amendments to existing standards will be adopted within the 2025/26 Code effective from 1 April 2025. There is therefore no impact on the 2024/25 financial statements. None of these standards below are expected to have a significant impact on the 2025/26 financial statements.

- IAS 21 The Effects of Changes in Foreign Exchange Rate (Lack of Exchangeability) issued in August 2023. The amendments to IAS 21 clarify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking, as well as require the disclosure of information that enables users of financial statements to understand the impact of a currency not being exchangeable.
- IFRS 17 Insurance Contracts issued in May 2017. IFRS 17 replaces IFRS 4 and sets out principles for recognition, measurement, presentation and disclosure of insurance contracts.
- The changes to the measurement of non-investment assets within the 2025/26 Code include adaptations and interpretations of IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. These include setting out three revaluation processes for operational property, plant and equipment, requiring indexation for tangible non-investment assets and a requirement to value intangible assets using the historical cost approach.

5. Critical Judgements in Applying Accounting Policies

There were no critical judgements used in applying accounting policies for 2024/25. However, a number of assumptions were made about the future and other major sources of estimation uncertainty (see Note 6 below).

6. 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 about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because outcomes cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Financial Statements at 31 March 2025 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension Fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied. The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening year. The methodology used is in line with accepted guidelines. The 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 18. These actuarial revaluations are used to set future contribution rates and	The effects on the net pension liability of changes in individual assumptions can be measured. • 0.1% p.a. increase in the pension increase rate would result in an increase of approximately 2% to liabilities (£29m). • 0.1% p.a. increase in salary increase rate would result in an increase of approximately to liabilities of £2m. • 0.1% p.a. decrease in the discount rate assumption would result in an increase of approximately 2% to liabilities (£32m). • 1-year increase in member life expectancy would result in an increase in the liabilities of 4% (£78m).

Item	Uncertainties	Effect if actual results differ from assumptions
	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.	
Private equity	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines (as at 31 March 2025). These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £173.3m. While the Pension Fund is satisfied the assets are appropriately valued as at 31 March there is a risk the valuation could move over the next 12 months. For example, a potential market movement of 20.0% up or down could result in an increase in value to £207.9m or decrease to £138.6m.
Property debt and private lending	Investment is valued by the Fund Manager using critical accounting estimates and judgements from the fund's financial statement. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total property debt investments in the financial statements are £72.2m. While the Pension Fund is satisfied the assets are appropriately valued as at 31 March there is a risk the valuation could move over the next 12 months. For example, a potential market movement of 10.0% up or down could result in an increase in value to £79.4m or decrease to £64.9m. The total direct lending investments in the financial statements are £78.6m. For example, a potential market movement of 8.5% up or down could result in an increase in value to £85.3m or decrease to £71.9m.

7. Events after the Reporting Date

The unaudited statement of accounts was issued on 26 June 2025. Events taking place after this date are not reflected in the accounts or notes. There was volatility in the market following the introduction of US trade tariffs though markets had recovered at the time of the unaudited statement of accounts being issued. There have been no other events since

31 March 2025 and up to the date these accounts were authorised that require any adjustment to these accounts.

8. Contributions Receivable

By category	2023/24	2024/25
	£000	£000
Employees' pension contributions	17,556	18,325
Employers' pension contributions	57,455	54,673
Total contributions	**75,011**	**72,998**

As a result of the 2023 valuation, the primary contribution rate (future service contributions) for the whole Fund of 17.8% of pay for payroll contributions was set by the Actuary for the period 1 April 2024 to 31 March 2027 in the Triennial Actuarial Valuation report 2023. In addition to this, the secondary rate amount (past service contributions) for 2024/25 is £0.814m (page 3 of 2023 Actuarial Valuation).

https://www.highlandpensionfund.org/media/3c3l05t4/the-highland-council-pension-fund-final-2023-valuation-report.pdf

Analysis of Contributions by Authority

	2024/25			
	Highland Council	Scheduled Bodies	Admitted Bodies	Totals
	£000	£000	£000	£000
Normal contribution	31,841	13,465	8,606	53,912
Deficit funding	0	24	65	89
	31,841	13,489	8,671	54,001
Strain on Fund	0	351	321	672
Employer's contributions	**31,841**	**13,840**	**8,992**	**54,673**
Members' pension contributions	**10,687**	**4,635**	**3,003**	**18,325**
Total contributions	**42,528**	**18,475**	**11,995**	**72,998**

	2023/24			
	Highland Council	**Scheduled Bodies**	**Admitted Bodies**	**Totals**
	£000	£000	£000	£000
Normal contribution	32,577	13,758	9,987	56,322
Deficit funding	0	0	478	478
	32,577	13,758	10,465	56,800
Strain on Fund	17	70	568	655
Employer's contributions	**32,594**	**13,828**	**11,033**	**57,455**
Members' pension contributions	**10,084**	**4,354**	**3,118**	**17,556**
Total contributions	**42,678**	**18,182**	**14,151**	**75,011**

Number of Contributors and Pensioners

2024/25	**Contributors**	**Pensioners**	**Deferred Pensioners**	**Total**
Highland Council	8,432	8,811	6,028	23,271
Scheduled Bodies	3,013	2,632	2,420	8,065
Admitted Bodies	1,807	1,633	1,386	4,826
Total	**13,252**	**13,076**	**9,834**	**36,162**
2023/24				
Highland Council	8,234	8,541	6,067	22,842
Scheduled Bodies	3,383	2,636	2,449	8,468
Admitted Bodies	2,073	1,519	1,341	4,933
Total	**13,690**	**12,696**	**9,857**	**36,243**

9. Transfers in from other Pension Funds

	2023/24	**2024/25**
	£000	**£000**
Individual transfer	2,935	2,950
	2,935	**2,950**

10. Benefits Payable

By category	2023/24	**2024/25**
	£000	**£000**
Pensions	(62,683)	(68,715)
Lump sum retirement benefits	(14,193)	(16,185)
Lump sum death benefits	(2,564)	(2,692)
	(79,440)	**(87,592)**
By authority		
Highland Council	(50,192)	(53,926)
Scheduled Bodies	(16,631)	(19,695)
Admitted Bodies	(12,617)	(13,971)
	(79,440)	**(87,592)**

11. Payments to and on Account of Leavers

	2023/24	**2024/25**
	£000	**£000**
Refunds to members leaving service	(259)	(296)
Group transfers	-	(25,331)
Individual transfers	(2,318)	(2,527)
	(2,577)	**(28,154)**

At the year-end there are no potential liabilities in respect of individuals transferring out of the Fund upon whom the Fund is awaiting final decisions. The Group transfer was in respect of the members in the Scottish Fire and Rescue Service who were transferred to the Strathclyde Pension Fund in January 2025.

12. Management Expenses

	2023/24	**2024/25**
	£000	**£000**
Administrative costs	(1,550)	(1,808)
Investment Management expenses	(13,202)	(11,839)
Oversight and Governance costs	(736)	(570)
	(15,488)	**(14,217)**

Analysis of Management Expenses

Administrative Costs	2023/24 £000	**2024/25** **£000**
Administrative costs	(708)	(767)
Employee costs	(842)	(1,041)
Total administrative costs	**(1,550)**	**(1,808)**

Investment Management Expenses

2024/25	**Management fees £000**	**Performance fees £000**	**Transaction costs £000**	**Other costs £000**	**Total £000**
External management fees invoiced					
Unitised insurance policies	(527)	-	-	-	(527)
Equities	(2,545)	-	(181)	-	(2,726)
Fixed income	(553)	-	-	-	(553)
Property	(481)	-	-	-	(481)
External management fees deducted from capital					
Asset backed securities	(87)	-	-	-	(87)
Equities	(1,307)	-	-	-	(1,307)
Private equity	(1,720)	285*	(748)	-	(2,183)
Private debt	(1,426)	-	-	-	(1,426)
Hedge fund	(1,143)	-	-	-	(1,143)
Infrastructure	(725)	-	-	-	(725)
Custodian fees	-	-	(142)	(55)	(197)
Investment expenses	-	-	-	(484)	(484)
Total	**(10,514)**	**285**	**(1,071)**	**(539)**	**(11,839)**

*Due to higher valuations for the Partners Group Direct Equity 2017 fund, performance was above the hurdle, meaning the accrued fees are returned to the fund, resulting in a positive expense.

2023/24	**Management fees £000**	**Performance fees £000**	**Transaction costs £000**	**Other costs £000**	**Total £000**
External management fees invoiced					
Unitised insurance policies	(452)	-	-	-	(452)
Equities	(3,753)	-	(212)	-	(3,965)
Fixed income	(502)	-	-	-	(502)
Property	(481)	-	(206)	-	(687)
External management fees deducted from capital					
Private equity	(1,968)	(504)	(977)	-	(3,449)
Private debt	(1,870)	-	-	-	(1,870)
Hedge fund	(1,089)	-	-	-	(1,089)
Infrastructure	(676)	-	-	-	(676)
Custodian fees	-	-	-	(76)	(76)
Investment expenses	-	-	-	(436)	(436)
Total	**(10,791)**	**(504)**	**(1,395)**	**(512)**	**(13,202)**

Oversight and Governance costs	2023/24 £000	**2024/25 £000**
Actuarial fees	(228)	(51)
External Audit fees	(38)	(38)
Internal Audit fees	(32)	(13)
Investment advisor fees	(82)	(177)
Performance management	(50)	(24)
Employee costs	(132)	(198)
Central support costs	(160)	(65)
Tax and legal costs	(14)	(4)
Total oversight and governance costs	**(736)**	**(570)**
Total Management Expenses	**(15,488)**	**(14,217)**

13. Analysis of Investment Income

	2023/24 £000	**2024/25 £000**
Income from equities	6,758	6,961
Income from pooled investments (unit trusts and other managed funds including multi asset credit/fixed income)	4,523	4,680
Pooled property investments	9,054	8,353
Private equity, private debt (property debt and direct lending)	11,282	14,572
Infrastructure	5,280	8,181
Interest on cash deposits	1,741	1,561
Stock lending and other income	1,098	1,205
	39,736	**45,513**

14. Investment Assets

14.1. Reconciliation of Movements in Investments and Derivatives

2024/25 **Classifications**	**Market value 1 Apr 24 £000**	**Purchases at cost derivative payments £000**	**Sales proceeds derivative receipts £000**	**Change in market value £000**	**Market value 31 Mar 25 £000**
Investment assets					
Equities	1,022,199	204,603	(568,468)	8,533	666,867
Pooled investments					
Unitised ins policies (equities, bonds, cash)	521,325	(487)	-	34,740	555,578
Fixed income/multi asset credit	224,601	467,865	(10,022)	7,638	690,082
Unit trusts (property)	233,428	6,239	(8,502)	5,340	236,505
Hedge fund	156,633	-	(65,143)	5,362	96,852
Venture capital and partnerships					
Private equity	184,293	6,465	(18,127)	635	173,266
Property debt	72,569	30,519	(32,386)	1,501	72,203
Direct lending	86,886	7,998	(13,651)	(2,613)	78,620
Infrastructure	161,890	8,210	(755)	6,018	175,363

2024/25 **Classifications**	**Market value 1 Apr 24**	**Purchases at cost derivative payments**	**Sales proceeds derivative receipts**	**Change in market value**	**Market value 31 Mar 25**
Equity options	7,217	-	-	(4,201)	3,016
Total Investment assets	**2,671,041**	**731,412**	**(717,054)**	**62,953**	**2,748,352**
Investment liabilities					
Currency forwards	-			(3)	(3)
Equity options	(57,717)	-	-	2,119	(55,598)
Total investment liabilities	**(57,717)**	**-**	**-**	**2,116**	**(55,601)**
Net investment assets	2,613,324	**731,412**	**(717,054)**	**65,069**	**2,692,751**
Other investment balances					
Cash deposits	32,204			(597)	17,148
Investment income due	2,180			-	2,217
Amounts receivable for sales	3,411			-	1,583
Amounts payable for purchases	(1,413)			-	(3,486)
Total net investment assets	**2,649,706**			**64,472**	**2,710,213**

2023/24 **Classifications**	**Market value 1 Apr 23**	**Purchases at cost derivative payments**	**Sales proceeds derivative receipts**	**Change in market value**	**Market value 31 Mar 24**
	£000	**£000**	**£000**	**£000**	**£000**
Investment assets					
Equities	868,302	142,182	(145,920)	157,635	1,022,199
Pooled investments					
Unitised ins policies (equities, bonds, cash)	428,065	-	-	93,260	521,325
Fixed income/multi asset credit	213,052	4,778	(503)	7,274	224,601
Unit trusts (property)	234,651	24,102	(18,315)	(7,010)	233,428
Hedge fund	138,862	-	(1,090)	18,861	156,633
Venture capital and partnerships					
Private equity	186,221	8,004	(14,218)	4,286	184,293
Property debt	53,757	27,432	(10,583)	1,963	72,569
Direct lending	74,471	12,574	(2,241)	2,082	86,886
Infrastructure	152,386	5,280	(675)	4,899	161,890
Equity options	27,573	-	-	(20,356)	7,217

2023/24 **Classifications**	**Market value 1 Apr 23**	**Purchases at cost derivative payments**	**Sales proceeds derivative receipts**	**Change in market value**	**Market value 31 Mar 24**
Total Investment assets	**2,377,340**	224,352	(193,545)	262,894	**2,671,041**
Investment liabilities					
Equity options	(28,726)	-	-	(28,991)	(57,717)
Total investment liabilities	**(28,726)**	-	-	(28,991)	**(57,717)**
Net investment assets	2,348,614	224,352	(193,545)	233,903	2,613,324
Other investment balances					
Cash deposits	39,376			(468)	32,204
Investment income due	2,456			-	2,180
Amounts receivable for sales	329			-	3,411
Amounts payable for purchases	(1,137)			-	(1,413)
Total net investment assets	**2,389,638**			233,435	**2,649,706**

The change in market value of investments during the year is comprised of all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

14.2. Investments Analysed by Fund Manager

The market value of the assets which were under the management of fund managers and the proportion managed by each manager are below.

2023/24 Market Value £000	2023/24 % of Fund	**Manager Analysis**	**2024/25 Market Value £000**	**2024/25 % of Fund**
784,399	29.6	Baillie Gifford (UK and global equity)	557,177	20.6
255,883	9.7	Mirova (global equity)	118,347	4.4
127,446	4.8	Fidelity (bonds and gilts)	118,570	4.4
97,220	3.7	Robeco (corporate bonds)	104,781	3.8
-	-	HSBC (asset backed securities)	167,294	6.2
470,826	17.8	Legal and General (unitised insurance - equity, bonds and cash Index Linked gilts and buy and maintain)	802,769	29.6

2023/24			2024/25	
Market Value £000	% of Fund	**Manager Analysis**	**Market Value £000**	**% of Fund**
244,391	9.2	Schroders (property fund)	243,033	8.9
156,633	5.9	Man Group (alternative risk premia hedge fund)	96,852	3.6
187,572	7.1	Partners Group (private equity)	174,811	6.4
24,012	0.9	Standard Life (private debt)	16,400	0.6
48,629	1.8	BentallGreenOak (property debt)	56,182	2.1
90,797	3.4	CVC (direct lending)	78,626	2.9
161,898	6.1	Infrastructure (KKR)	175,371	6.5
2,649,706	**100.0**	**Combined Fund**	**2,710,213**	**100.0**

14.3. Top 10 Equity Holdings by Market Value

Holding at 31 March 2025	Market Value £000	% of Total Equity	Classification
Meta Platforms Inc	25,267	2.41	Software
Microsoft	24,563	2.33	Software
Amazon	24,502	2.20	Broadline retail
Nvidia corp	21,644	1.84	Semi-conductors
Prosus	21,214	1.63	Broadline retail
Elevance	16,894	1.36	Health care providers & services
Doordash	16,777	1.24	Hotels Restaurants & Leisure
Taiwan Semiconductors	15,055	1.18	Semi-conductors
Mastercard	14,864	1.17	Financial services
Service Corp International	14,192	1.17	Diversified consumer services
Total	**194,972**	**16.53**	

14.4 Holdings Exceeding 5% by Total Net Assets

The Fund holds the following investments that exceed 5% of the net assets available for benefits. However, note that these are pooled investments, where two or more parties “pool” or combine their investments which allows the fund to benefit from lower transaction costs due to economies of scale and diversification which reduces risk.

Fund Manager & Category	Market Value at 31 March 2024	% of total net assets	**Market Value at 31 March 2025**	**% of total net assets**
	£000	%	£000	%
Legal and General (unitised insurance policy – equities, bonds, cash)	470,825	17.7	502,996	18.5
Legal and General (index linked gilts)	-	-	176,263	6.5
KKR Diversified Core Infrastructure	161,890	6.1	175,363	6.5
HSBC (asset backed securities)	167,243	6.3	167,243	6.2
Fidelity (Institutional UK Sustainable Aggregated Bond)	127,442	4.8	118,566	4.4
Total net assets available for benefits	2,659,106		2,714,794	

14.5 Stock Lending

The Fund's investment strategy sets parameters for the Fund's stock-lending programme.

At the year-end, the value of quoted equities on loan was £28.005m (31 March 2024 - £48.174m). These equities continue 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 fair value of £29.692m (31 March 2024 - £50.619m) representing 106% of stock lent. Collateral consists of acceptable securities and government debt.

Stock Lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower.

The income from stock lending in 2024/25 was £0.048m (2023/24 £0.049m) which is included in investment income in the Pension Fund account and is part of the "Stock lending and other income" in Note 13 Analysis of Investment Income £1.205m (2023/24 £1.098m).

There are no liabilities associated with the loaned assets.

14.6. Analysis of Derivatives

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset.

The use of derivatives is managed in line with the investment management agreements in place between the Fund and the various investment managers. The derivatives that the Fund uses are forward foreign currency (currency forwards) and options.

In December 2022, options were purchased to provide equity protection covering £367m of global equities to protect these for a three-year period until December 2025. The protection implemented was to ensure that as long as returns are not below -25% over the next 3 years, this amount will be fully protected against negative returns and the fund will also retain up to 36% of any cumulative positive market returns. If the total returns are below -25% over 3 years e.g. -40% then the Fund is protected against the first 25% so would be expected to incur total return losses of 15%.

Forward foreign currency (currency forwards)

To maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund’s quoted equity portfolio is in overseas stock. The Investment Manager Baillie Gifford hold short term currency forwards for the Fund. The use of these forward foreign currency contracts is in line with the investment management agreement between the Fund and the Fund Managers.

This currency hedging is in place to reduce the extent to which the Fund is exposed to certain currency movements. These investments are used to ensure that cash can remain invested short term in equities. The sale of currency forwards, traded over the counter (OTC), is undertaken in order to hedge foreign currency exposure risk back to the portfolio’s base currency of GBP.

Purchased/written options

As noted above, equity protection options were purchased in December 2022 to protect passive equities (pooled investment - unitised insurance equities) from losses caused by adverse equity price movements until December 2025. These options are held by Legal and General Investment Management (LGIM) within a bespoke pooled vehicle but have been shown as separate assets and liabilities in note 14.1.

When an entity buys an options contract, it grants them the right, but not the obligation to buy or sell an underlying asset at a set price on or before a certain date. A call option gives the holder the right to buy stock and a put option gives the holder the right to sell stock.

The basis of valuing the options (which are "over-the-counter" derivatives) is the Black-Scholes model. Black-Scholes is a pricing model used to determine the fair value or theoretical value for a derivative option based on six variables such as volatility, type of option, underlying stock price, time strike price, and risk-free rate.

Outstanding over-the-counter options held in the bespoke equity protection pooled fund are as follows.

Investment underlying option contract	Expires	Put/ call	Notional holding	Market value 31 Mar 24 £000	Notional holding	Market value 31 Mar 25 £000
Assets						
UK equities	Dec 2025	Put	190	333	190	93
Overseas equities	Dec 2025	Put	3,493	6,884	3,493	2,923
				7,217		**3,016**

Liabilities

Investment underlying option contract	Expires	Put/ call	Notional holding	Market value 31 Mar 24 £000	Notional holding	Market value 31 Mar 25 £000
UK equities	Dec 2025	Put	(190)	(94)	(190)	(43,821)
	Dec 2025	Call	(190)	(254)	(190)	(248)
Overseas equities	Dec 2025	Put	(3,493)	(2,131)	(3,493)	(1,050)
	Dec 2025	Call	(3,493)	(55,238)	(3,493)	(10,478)
				(57,717)		**(55,597)**
Net purchased/written options at 31 March 2025				**(50,500)**		**(52,581)**

15. Fair Value Measurement

15.1. Fair Value – Basis of Valuation

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1
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.

Level 2
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 based on observable market date.

Level 3
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.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into Levels 1 to 3 based on the level at which the fair value is observable.

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 valuations 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 quoted market value based on current yields	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required

Description of Asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled investments – overseas unit trusts, property funds and alternative risk premia, unitised insurance policies (equities and bonds)	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	Net Asset Value (NAV) based pricing set on a forward pricing basis	Not required
Pooled investments – property funds which are not listed	Level 3	Financial statements or other market indicators or information are used to calculate valuation	The following is used: Estimated rental growth Covenant strength for existing tenancies Discount rate Estimated rental growth Land/building valuation survey	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices
Unquoted equity/ private debt/ Infrastructure	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (31 March 2020)	Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements and the Fund's own reporting date, by changes to expected cash flows, and any differences between audited and unaudited accounts

Description of Asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Unquoted commercial real estate debt	Level 3	Valued by the Fund Manager using critical accounting estimates and judgements from the fund's financial statement	Observable and unobservable input are critical accounting estimates and judgements from the fund's financial statement	Valuations 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, any differences between audited and unaudited accounts

15.2. Sensitivity of assets valued at level 3

Having consulted the Fund's independent investment advisors, it was determined that the valuation methods described above for Level 3 investments are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2025.

Asset type	Value as at 31 Mar 2025	Assessed valuation range	Value on increase	Value on decrease
	£000	%	£000	£000
Pooled investment vehicles				
Units trust (property)	236,505	12.5%	266,068	206,942
Venture capital and partnerships				
Private equity	173,266	20.0%	207,919	138,613
Property debt	72,203	10.0%	79,424	64,984
Direct lending	78,620	8.5%	85,303	71,937
Infrastructure	175,363	14.5%	200,791	149,935

Asset type	Value as at 31 Mar 2024	Assessed valuation range	Value on increase	Value on decrease
	£000	%	£000	£000
Pooled investment vehicles				
Units trust (property)	233,428	12.5%	262,607	204,250
Venture capital and partnerships				
Private equity	184,293	20.0%	221,152	147,434
Property debt	72,569	8.9%	79,028	66,110
Direct lending	86,886	7.6%	93,489	80,283
Infrastructure	161,890	14.5%	185,364	138,416

15.3. Fair Value Hierarchy

Values at 31 March 2025	Quoted market price	Using observable input	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
Financial assets	£000	£000	£000	£000
Equities	666,867	-	-	666,867
Pooled investments				
Unitised insurance policies (equities, bonds, cash)	-	555,578	-	555,578
Fixed income/multi asset credit	-	690,082	-	690,082
Unit trust (property)	-	-	236,505	236,505
Hedge fund	-	96,852	-	96,852
Venture capital and partnerships				
Private equity	-	-	173,266	173,266
Property debt	-	-	72,203	72,203
Direct lending	-	-	78,620	78,620
Infrastructure	-	-	175,363	175,363
Cash deposits	17,148	-	-	17,148
Investment income due	2,217	-	-	2,217

Values at 31 March 2025	Quoted market price	Using observable input	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
Financial assets	**£000**	**£000**	**£000**	**£000**
Amounts receivable for sales	1,583	-	-	1,583
Equity options	-	3,016	-	3,016
Currency forwards	-	-	-	-
Total investment assets	**687,815**	**1,345,528**	**735,957**	**2,769,300**
Investment liabilities				
Currency forwards	(3)	-	-	(3)
Amounts payable for purchases	(3,486)	-	-	(3,486)
Equity options	-	(55,598)	-	(55,598)
Total investment liabilities	**(3,489)**	**(55,598)**	**-**	**(59,087)**
Net investments total	**684,326**	**1,289,930**	**735,957**	**2,710,213**

Values at 31 March 2024	Quoted market price	Using observable input	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
Financial assets	**£000**	**£000**	**£000**	**£000**
Equities	1,022,199	-	-	1,022,199
Pooled investments				
Unitised insurance policies (equities, bonds, cash)	-	521,325	-	521,325
Fixed income/multi asset credit	-	224,601	-	224,601
Unit trust (property)	-	-	233,428	233,428
Hedge fund	-	156,633	-	156,633
Venture capital and partnerships				
Private equity	-	-	184,293	184,293
Property debt	-	-	72,569	72,569
Direct lending	-	-	86,886	86,886
Infrastructure	-	-	161,890	161,890

Values at 31 March 2024	Quoted market price	Using observable input	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
Financial assets	**£000**	**£000**	**£000**	**£000**
Cash deposits	32,204	-	-	32,204
Investment income due	2,180	-	-	2,180
Amounts receivable for sales	3,411	-	-	3,411
Equity options	-	7,217	-	7,217
Total investment assets	**1,059,994**	**909,776**	**739,066**	**2,708,836**
Investment liabilities				
Amounts payable for purchases	(1,413)	-	-	(1,413)
Equity options	-	(57,717)	-	(57,717)
Total investment liabilities	**(1,413)**	**(57,717)**	**-**	**(59,130)**
Net investments total	**1,058,581**	**852,059**	**739,066**	**2,649,706**

15.4. Reconciliation of Fair value Measurements within Level 3

2024/25	Pooled investment vehicles	Venture capital and partnerships			
	Units trust (property)	Direct lending	Private equity	Property debt	Infra-structure
	£000	£000	£000	£000	£000
Market value 1 Apr 2024	233,428	86,886	184,293	72,569	161,890
Purchases during the year and derivative payments	6,239	7,998	6,465	30,519	8,210
Sales during the year and derivative receipts	(8,502)	(13,651)	(18,126)	(32,385)	(755)
Unrealised gains/(losses)	27,893	(3,105)	(9,836)	566	5,293
Realised gain	(22,553)	493	10,470	934	725
Market value 31 March 2025	**236,505**	**78,621**	**173,266**	**72,203**	**175,363**

2023/24	Pooled investment vehicles	Venture capital and partnerships			
	Units trust (property)	Direct lending	Private equity	Property debt	Infra-structure
	£000	£000	£000	£000	£000
Market value 1 Apr 2023	234,651	74,471	186,221	53,757	152,386
Purchases during the year and derivative payments	24,102	12,574	8,004	27,432	5,280
Sales during the year and derivative receipts	(18,315)	(2,241)	(14,218)	(10,583)	(675)
Unrealised gains/(losses)	(7,971)	1,589	(5,279)	586	4,224
Realised gain	961	493	9,565	1,377	675
Market value 31 March 2024	**233,428**	**86,886**	**184,293**	**72,569**	**161,890**

16. Financial Instruments

16.1. Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amount of financial assets and liabilities by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

31 March 2025	Fair value through profit & loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
	£000	£000	£000	£000
Financial assets				
Equities	666,867	-	-	666,867
Pooled investments				
Unitised ins policies (equities, bonds, cash)	555,578	-	-	555,578
Fixed income/multi asset credit	690,082	-	-	690,082
Unit trusts (property)	236,505	-	-	236,505
Hedge funds	96,852	-	-	96,852
Venture capital and partnerships				
Private equity	173,266	-	-	173,266

31 March 2025	Fair value through profit & loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
	£000	£000	£000	£000
Property debt	72,203	-	-	72,203
Direct lending	78,620	-	-	78,620
Infrastructure	175,363	-	-	175,363
Currency forwards	-	-	-	-
Equity options	3,016	-	-	3,016
Amounts receivable for sales	-	1,583	-	1,583
Cash deposits	16,131	1,017	-	17,148
Investment income due	-	2,217	-	2,217
Long term debtors	-	482	-	482
Short term debtors	-	7,212	-	7,212
Bank	-	4,918	-	4,918
Total financial assets	**2,764,483**	**17,429**	**-**	**2,781,912**
Financial liabilities				
Currency forwards	(3)	-	-	(3)
Equity options	(55,598)	-	-	(55,598)
Amounts payable for purchases	-	-	(3,486)	(3,486)
Creditors	-	-	(8,031)	(8,031)
Total financial liabilities	**(55,601)**	**-**	**(11,517)**	**(67,118)**
Closing net financial assets	**2,708,882**	**17,429**	**(11,517)**	**2,714,794**

31 March 2024	Fair value through profit & loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
	£000	£000	£000	£000
Financial assets				
Equities	1,022,199	-	-	1,022,199
Pooled investments				
Unitised ins policies (equities, bonds, cash)	521,325	-	-	521,325
Fixed income/multi asset credit	224,601	-	-	224,601
Unit trusts (property)	233,428	-	-	233,428
Hedge funds	156,633	-	-	156,633
Venture capital and partnerships				
Private equity	184,293	-	-	184,293
Property debt	72,569	-	-	72,569
Direct lending	86,886	-	-	86,886

31 March 2024	Fair value through profit & loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
	£000	£000	£000	£000
Infrastructure	161,890	-	-	161,890
Currency forwards	-	-	-	-
Equity options	7,217	-	-	7,217
Amounts receivable for sales	-	3,411	-	3,411
Cash deposits	26,469	5,735	-	32,204
Investment income due	-	2,180	-	2,180
Long term debtors	-	417	-	417
Short term debtors	-	8,299	-	8,299
Bank	-	7,888	-	7,888
Total financial assets	**2,697,510**	**27,930**	**-**	**2,725,440**
Financial liabilities				
Currency forwards	-	-	-	-
Equity options	(57,717)	-	-	(57,717)
Amounts payable for purchases	-	-	(1,413)	(1,413)
Creditors	-	-	(7,204)	(7,204)
Total financial liabilities	**(57,717)**	**-**	**(8,617)**	**(66,334)**
Closing net financial assets	**2,639,793**	**27,930**	**(8,617)**	**2,659,106**

16.2. Net Gains and Losses on Financial Instruments

	2023/24	**2024/25**
	£000	**£000**
Financial assets		
Fair value through profit and loss	262,894	62,951
Amortised cost – unrealised gains	(468)	(596)
Financial liabilities		
Fair value through profit and loss	(28,991)	2,117
Total	**233,435**	**64,472**

17. The Nature and Extent of Risks Arising from Financial Instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefit payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund manages these investment risks as part of its overall Pension Fund risk management programme.

The Pensions Committee is responsible for the Fund's risk management strategy. There is a risk register in place which follows the CIPFA guidance Managing risk in the LGPS. This is regularly reviewed, and significant risks are reported to the Pensions Committee.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities.
To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks by ensuring that specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments. Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

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 instruments 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 maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement and in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2024/25 reporting period.

Asset type	Potential market movement 2023/24	Potential market movement 2024/25
Global Equities	18.0%	18.0%
UK fixed income unit trusts	10.0%	10.5%
Corporate bonds (medium term)	9.0%	9.5%
Overseas corporate bonds	9.0%	9.5%
UK fixed gilts (medium term)	11.0%	11.0%
UK index linked gilts (medium term)	9.0%	9.0%
Property	12.5%	12.5%
Private Equity	20.0%	20.0%
Property Debt	8.9%	10.0%
Multi Asset Credit	10.2%	10.3%
Direct Lending	7.6%	8.5%
Alternative risk premia strategies	8.0%	8.0%
Infrastructure	14.5%	14.5%
Cash	1.4%	1.2%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisors' most recent review. The Fund's investment advisors suggest that the approach to modelling market price risk should take account of the diversification of assets in the Fund.

This approach is different to that outlined in the CIPFA recommended code of practice, where the sum of all potential changes in asset class values are taken to determine the impact on the total value of the Fund. Consequently, 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. If the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows:

Asset type	Value as at 31 Mar 2025	Percentage change	Value on increase	Value on decrease
	£000	%	£000	£000
Cash deposits	17,148	1.2	17,354	16,942
Cash (pooled funds)	159,142	1.2	161,052	157,232
Pooled investments				
Global equities (includes UK)	1,038,197	18.0	1,225,074	851,322
UK Corporate bonds	108,443	9.5	118,745	98,141
Overseas Corporate bonds	186,806	9.5	204,553	169,059
Fixed income multi asset credit	99,578	10.3	109,835	89,321
UK fixed gilts	78,009	11.0	86,590	69,428
UK index linked gilts	242,351	9.0	264,163	220,539
Unit trusts property	236,505	12.5	266,068	206,942
Hedge funds	96,852	8.0	104,600	89,104
Venture capital and partnerships				
Private equity	173,266	20.0	207,919	138,613
Property debt	72,204	10.0	79,424	64,984
Direct lending	78,620	8.5	85,303	71,937
Infrastructure	175,363	14.5	200,791	149,935
Investment income due	2,217	0.0	2,217	2,217
Amounts receivable for sales	1,583	0.0	1,583	1,583
Net equity options (UK)	(182)	15.5	(210)	(154)
Net equity options (overseas)	(52,400)	18.0	(61,832)	(42,968)
Amount payable for purchases	(3,486)	0.0	(3,486)	(3,486)
Net currency forwards	(3)	0.0	(3)	(3)
Net investment assets	**2,710,213**		**3,069,740**	**2,350,688**

Asset type	Value as at 31 Mar 2024	Percentage change	Value on increase	Value on decrease
	£000	%	£000	£000
Cash deposits	32,204	1.4	32,655	31,753
Cash (pooled funds)	122,887	1.4	124,607	121,167
Pooled investments				
UK equities	22,380	16.0	25,961	18,799
Global equities (overseas)	1,372,475	18.0	1,619,521	1,125,430
UK fixed income unit trusts	64,103	10.0	70,513	57,693
UK Corporate bonds (medium term)	41,801	9.0	45,563	38,039
Overseas Corporate bonds (medium term)	12,617	9.0	13,753	11,481
Fixed income multi asset credit	92,806	10.2	102,273	83,340
UK fixed gilts (medium term)	26,735	11.0	29,676	23,794
UK index linked gilts (medium term)	12,321	9.0	13,430	11,212
Unit trusts property	233,428	12.5	262,607	204,250
Hedge funds	156,633	8.0	169,164	144,102
Venture capital and partnerships				
Private equity	184,293	20.0	221,152	147,434
Property debt	72,569	8.9	79,028	66,110
Direct lending	86,886	7.6	93,489	80,283
Infrastructure	161,890	14.5	185,364	138,416
Investment income due	2,180	0.0	2,180	2,180
Amounts receivable for sales	3,411	0.0	3,411	3,411
Net equity options (UK)	80	16.0	93	67
Net equity options (overseas)	(50,580)	18.0	(59,684)	(41,476)
Amount payable for purchases	(1,413)	0.0	(1,413)	(1,413)
Net currency forwards	-	0.0	-	-
Net investment assets	**2,649,706**		**3,033,343**	**2,266,072**

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by officers and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2025 and 31 March 2024 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset type	31 March 2024	**31 March 2025**
	£000	**£000**
Cash and cash equivalents	32,204	17,148
Bank accounts	7,888	4,918
Fixed interest gilts	26,735	78,009
Index linked gilts	12,321	242,351
Fixed income	224,601	394,827
Total	**303,749**	**737,253**

Interest rate risk sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

The Fund's investment advisors suggest that a 100-basis point (BPS) movement in interest rates is appropriate for carrying out the interest rate sensitivity analysis.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS (1%) change in interest rates:

Asset type	Carrying amount as at 31 March 2025	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£000	£000	£000
Cash and cash equivalents	17,148	171	(171)
Bank accounts	4,918	49	(49)
Fixed interest gilts	78,009	780	(780)
Index linked gilts	242,351	2,424	(2,424)
Fixed income	394,827	3,948	(3,948)
Total	**737,253**	**7,372**	**(7,372)**

Asset type	Carrying amount as at 31 March 2024	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£000	£000	£000
Cash and cash equivalents	32,204	322	(322)
Bank accounts	7,888	79	(79)
Legal & General fixed interest gilts	26,735	267	(267)
Legal & General index linked gilts	12,321	123	(123)
Fidelity and Robeco (fixed income)	224,601	2,246	(2,246)
Total	**303,749**	**3,037**	**(3,037)**

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the base currency of the Fund (£ Sterling).

The Fund’s currency rate is routinely monitored by the Council and its investment advisors in accordance with the Fund’s risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the Fund's currency exposure as at 31 March 2025 and as at the previous period end.

Currency exposure – asset type	Asset value as at 31 March 2024	**Asset value as at 31 March 2025**
	£000	**£000**
Overseas quoted securities and cash	1,005,291	674,965
Overseas unitised insurance policies	322,155	318,749
Overseas property fund	14	6,377
Overseas unquoted private equity	184,293	173,266
Overseas fixed income (bonds)	94,376	276,057
Overseas infrastructure	161,890	175,363
Total overseas assets	**1,768,019**	**1,624,777**

Currency risk - sensitivity analysis

A 13% fluctuation in the 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 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant. A 13% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows.

Currency exposure - asset type	**Asset value 31 March 2025**	**Change to net assets available to pay benefits**	
		+13%	**-13%**
	£000	**£000**	**£000**
Overseas quoted securities and cash	674,965	762,711	587,220
Overseas unitised insurance policies (quoted in GBP no other values available)	318,749	360,186	277,311
Overseas property fund (EUR)	6,377	7,206	5,548
Overseas unquoted private equity (EUR)	173,266	195,791	150,741
Overseas fixed income (bonds)	276,057	311,944	240,169
Overseas infrastructure (USD)	175,363	198,160	152,566
Total change in assets available	**1,624,777**	**1,835,998**	**1,413,555**

Currency exposure - asset type	Asset value 31 March 2024	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas quoted securities and cash	1,005,291	1,135,979	874,603
Overseas unitised insurance policies (quoted in GBP no other values available)	322,155	364,035	280,275
Overseas property fund (EUR)	14	16	12
Overseas unquoted private equity (EUR)	184,293	208,251	160,335
Overseas unit trust (bonds)	94,376	106,645	82,107
Overseas infrastructure (USD)	161,890	182,936	140,844
Total change in assets available	**1,768,019**	1,997,862	1,538,176

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 reflects an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high-quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

None of the Fund Managers have a mandate to specifically manage cash and so cash is generally held by the Custodian and invested in Money Market Funds (Sterling and Euro Funds). The Northern Trust Money Market Funds are triple A rated. In addition, the Fund's surplus cash from scheme members' contributions is managed as part of The Highland Council's treasury management function. Prior to transfer to the Fund's investment managers, cash surpluses are deposited with the Pension Fund's bank (Virgin Money) thus minimising credit risk. The Fund had the following cash holdings at the year end.

	31 March 2024 £000	**31 March 2025** **£000**
Northern Trust Global Investment liquidity funds	26,469	16,131
Northern Trust Cash deposits	5,735	1,017
	32,204	**17,148**

The following cash balances are held and managed in accordance with the Highland Council Treasury Management Strategy Statement.

	31 March 2024 £000	**31 March 2025** **£000**
Virgin Money accounts	7,888	4,918

Liquidity risk

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

On the basis that the current investment income yield is maintained, 2024/25 investment income was £45.3m (2023/24 investment income £39.7m), then this would generate sufficient income to meet benefit payments for the immediate future. Provided the investment income yield remains at current levels then the time when assets need to be sold to meet benefit payments still looks sometime in the future.

It should be noted though that the negative cash flow position could be increased by a combination of public sector cuts, member opt-outs or outsourcing which reduces the pensionable payroll.

Refinancing risk

The key risk is that the Fund will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

18. Actuarial Present Value of Promised Retirement Benefits

CIPFA’s Code of Practice on Local Authority Accounting 2024/25 requires administering authorities of LGPS Funds that prepare Pension Fund accounts to disclose what IAS 26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS 19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared as at the date of the financial statements as is the case, IAS 26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS 19 and not the Fund's funding assumptions.

Assumptions underpinning the valuations are agreed with the actuary and are summarised in the Actuarial Statement (page 121). This estimate is subject to significant variances based on changes to the underlying assumptions.

The actuarial present value of promised retirement benefits is as follows:

	31 March 2024 £m	**31 March 2025 £m**
Present Value of Promised Retirement Benefits*	2,201	1,949
Net Assets per Annual Accounts	2,659	2,714

* Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2025.

Note that the above figures at 31 March 2024 and 31 March 2025 include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes. The estimated allowance within the 31 March 2025 figure reflects the proposed changes to the McCloud eligibility criteria in SPPA's Consultation.

The Actuary estimates that the liability at 31 March 2025 is £1,949m which comprises of £852m in respect of employee members, £297m in respect of deferred pensioners and £800m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the Actuary is satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. The Actuary has not made any allowance for unfunded benefits.

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS 19 report as required by the Code of Practice. These are given below. The Actuary estimates that the impact of the change of financial assumptions to 31 March 2025 is to decrease the actuarial present value by £344m. The Actuary also estimates that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £5m.

Financial Assumptions	31 March 2024 %p.a.	31 March 2025 %p.a.
Inflation/Pension Increase Rate	2.80	2.80
Salary Increase Rate	3.60	3.60
Discount Rate	4.80	5.80

Discount rate

IAS 19 states that the discount rate used to place a value on the liabilities should be "determined by reference to market on high quality corporate bonds at the reporting date". It further states that "the currency and term of the corporate bonds used to set the discount rate should be consistent with the currency and term of the liabilities".

The Actuary's approach to setting the discount rate as at 31 March 2025 follows the same principles to those adopted at 31 March 2024 which was to use a "Hymans Robertson LLP" corporate bond yield curve constructed based on the constituents of the iBoxx AA Corporate bond index. Separate discount rates are then set (and corresponding RPI/CPI inflation assumptions – see below) for individual employers, dependent on their own weighted average duration. Each employer is allocated to a duration category, as defined below:

Weighted average duration	Discount rate category
Less than 17 years	Short
Between 17 and 23 years	Medium
More than 23 years	Long

Retail price inflation assumption

This assumption is typically derived from yields available on fixed interest and index linked government bonds and should be consistent with the derivation of the discount rate.

The Actuary uses a market implied inflation curve over a range of maturities. Cash flow weighted single RPI rates are derived from the market implied inflation curve that recognise the weighted average duration of each corresponding duration category defined above.

Pension increase assumption

The pension increase assumption is set in line with the Actuary's default Consumer Prices Index (CPI) assumption. As a market in CPI linked bonds does not exist, the Actuary estimates the long-term gap between RPI and CPI in order to derive a CPI assumption for accounting purposes. The default assumed RPI-CPI gap will be 0.50% over short duration bonds, 0.45% over medium duration bonds and 0.40% over long duration bonds (note this is a slight reduction from the 2020 accounting exercise where 0.9% was used).

Salary increase assumption

The assumption set out in the Actuarial Valuation 2023 for salary increases is 3.6% p.a.

Longevity assumptions

The life expectancy assumptions used to calculate the actuarial present value of promised retirement benefits have reduced compared to the previous year.

	2024/25		**2023/24**	
	Males	**Females**	**Males**	**Females**
Current Pensioners	20.6 years	23.4 years	20.7 years	23.5 years
Future Pensioners*	21.5 years	25.1 years	21.6 years	25.1 years

*Currently aged 45

19. Additional Voluntary Contributions (AVCs)

The AVC facility is provided by the Prudential Assurance Company Limited and is a money purchase arrangement where members have the choice to invest in a range of low, medium and high-risk investment funds. In accordance with regulation 5 (2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (S1 1998 No. 1831), these figures do not form part of the accounts of the Pension Fund and are stated for information only.

The audited value of Prudential AVCs at 31 March 2025 is £15,999,442 (2023/24 £14,367,028) and AVC contributions of £3.014m were paid directly to Prudential during the year.

20. Agency Services

Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 (Section 31) allows employers to pay additional pensions on a voluntary basis.

As is typical within the Local Government Pension Schemes (LGPS), arrangements exist whereby additional teachers' pensions and employee pensions are paid with the payment of funded pensions. In order that such are not regarded as "unauthorised payments" by HMRC these pension payments are met by the administering authority and recharged to the body or service which granted the benefits. Total added years payments in year amounts to approximately £3.7m.

As unfunded payments are discretionary benefits, they are not relevant to the sums disclosed in the Fund accounts. As such Highland Council Pension Fund provides payment and billing services to employers on a no charge agency agreement basis.

21. Related Parties

The Highland Council Pension Fund is administered by the Highland Council. As a result, there is a strong relationship between the Council and the Fund. The Council is also the largest employer in the Fund.

The Pension Fund operates its own bank account. The Council's Treasury Management team manage surplus cash balances prior to transmission of funds to the Fund Managers for investment.

The Pension Fund does not directly employ any staff. Therefore, no remuneration report is included within the Annual Report and Annual Accounts. All staff are employed by the Highland Council and their costs are reimbursed by the Pension Fund.

The Councillors, who are members of the Pensions Committee and Pension Board are also remunerated by the Highland Council.

Details of Councillor and Senior Employee remuneration can be found in the accounts of the Highland Council on the Council's website.

http://www.highland.gov.uk/downloads/download/539/annual_accounts

Each member of the Fund is required to declare their interests at each meeting. The following Senior Officer of the Highland Council held a key position in the financial management of the Pension Fund during the financial year to 31 March 2025.

Name	Responsibility	Pension contributions in year to 31/03/24	31/03/25	Accrued pension benefits as at 31/03/25		Difference in accrued pension benefits compared to Mar 2024
Brian Porter	Chief Officer, Corporate Finance Finance and Resources	£19,546	£18,741	Pension Lump sum	£47,721 £48,771	£4,645

Pension receipts and payments are transacted using the Highland Council financial systems and the Fund's banking arrangements. Throughout the year, the Fund maintains a cash balance for this purpose which is listed as Bank accounts in the net assets statement.

Contributions of £42.528m were paid by the Highland Council to the Fund during 2024/25 as set out in Note 8 (£42.678m in 2023/24) and central administration costs of £1.535m (£1.303m in 2023/24) were recharged to the Fund (these are included in Note 12 and split between Administrative costs and Oversight and Governance costs).

As at 31 March 2025, the Pension Fund had a net intercompany debtor of £4.828m (31 March 2023 £5.084m) representing sums due from the Highland Council. These balances in the main cover contributions payable by the Highland Council to the Pension Fund which were paid over in the first quarter of financial year 2025/26. The intercompany debtor is included in Note 23.

22. Contingent Assets, Liabilities and Contractual Commitments

Contingent assets

- During 2009/10, KPMG were contracted to submit "EU Fokus Bank" claims for recovery of withholding tax with an estimated value of £1.228m (€1.429m) gross of fees. An additional revised contract was agreed in April 2012 with KPMG to continue with the claim and the current outstanding claim value is £0.849m (€0.998m).

Contingent liabilities

- As at 31 March 2025 there is a contingent liability of £0.826m (£0.792m in 2023/24) for frozen refunds representing 2,463 (2,481 in 2023/24) frozen refund records. Frozen refunds are where member can delay their decision on what to do if they have been in scheme less than 2 years and they have a maximum period of 5 years after leaving to make their decision. The two options are either to claim a refund of contributions or transfer to a new pension arrangement. https://www.highlandpensionfund.org/help-support/leave-the-scheme

Contractual commitment

As at 31 March 2025 the Highland Council Pension Fund had contractual commitments in respect of fund manager investments, as follows. These commitments relate to outstanding call payments due on unquoted limited partnership fund held in private equity, direct lending, property debt and infrastructure. The amounts "called" by these funds are irregular in both amount and timing over the period and can take several years to drawdown from the date of each original commitment.

Investment	Commitment	Undrawn commitments 31/03/2024	Undrawn commitments 31/03/2025
Partners Group Global Value 2011	€50.000m	£5.972m (€6.986m)	£5.846m (€6.986m)
Partners Group Global Value 2014	€80.000m	£8.728m (€10.209m)	£8.544m (€10.209m)
Partners Group Global Value 2017	€67.000m	£15.779m (€18.456m)	£15.446m (€18.456m)
Partners Group Direct Equity IV EUR SCA SICAV RAIF (2019)	€55.000m	£6.066m (€7.095m)	£4.787m (€5.720m)
Partners Group 2020	€20.000m	£7.158m (€8.373m)	£6.338m (€7.573m)
Partners Group Direct Equity V EUR SCA SICAV RAIF (2023)	€29.000m	£21.282m (€24.893m)	£18.163m (€21.703m)
Partners Group Secondary VIII EUR SCA SICAV RAIF (2023)	€29.000m	£24.793m (€29.000m)	£22.328m (€26.680m)
CVC European Direct Lending 2021 fund	£100.000m	£18.218m	£21.651m
BentallGreenOak Secured Lending III	£100.000m	£50.785m	£43.793m

Investment	Commitment	Undrawn commitments 31/03/2024	Undrawn commitments 31/03/2025
KKR Diversified Core Infrastructure	$175.000m	Nil	Nil

23. Current Assets

2023/24 £000	Debtors	2024/25 £000
1,411	Contributions due - employees	1,235
4,708	Contributions due - employers	4,630
30	Strain on fund costs	93
2,150	Other short term debtors	1,254
8,299	**Total short term debtors**	**7,212**
7,888	Bank accounts	4,918
16,187	**Total current assets**	**12,130**

24. Long Term Debtors

2023/24 £000	Debtors	2024/25 £000
417	Reimbursement of lifetime tax allowances	482
417	**Total long term debtors**	**482**

25. Current Liabilities

2023/24 £000	Creditors	2024/25 £000
(3,447)	Sundry creditors	(4,771)
(636)	Transfer values payable (leavers)	(678)
(3,121)	Benefits payable	(2,582)
(7,204)	**Total short term creditors**	**(8,031)**

Actuarial Statement as at 31 March 2025
Aithris Achdaireach mar aig 31 Màrt 2025

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 Statement (FSS), dated April 2024. In summary, the key funding principles are as follows:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants;
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency;
- where appropriate, ensure stable employer contribution rates;
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy; and
- use reasonable measures to reduce the risk of 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 return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. 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 75% chance that the Fund will return to full funding over 20 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 2014 was as at 31 March 2023. This valuation revealed that the Fund's assets, which at 31 March 2023 were valued at £2,406 million, were sufficient to meet 136% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2023 valuation was £633 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 2024 to 31 March 2027 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 2023 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 2023 valuation were as follows:

Financial assumptions	31 March 2023
Discount rate	5.2%
Salary increase assumption	3.1%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2022 model, with a 25% weighting of 2022 data, a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	20.7 years	23.5 years
Future Pensioners*	21.6 years	25.1 years

*Currently aged 45

Copies of the 2023 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2023

Markets reflected wider volatility during 2023, impacting on investment returns achieved by the Fund's assets. However, asset performance improved in 2024 and early 2025. The recent increase in US tariffs on imports has caused significant market volatility. The peak of this market volatility was experienced immediately after 31 March 2025, however generally lower than expected asset returns were experienced in the month immediately prior to this.

Continued high levels of inflation in the UK also resulted in a higher than expected LGPS benefit increase of 6.7% in April 2024. However, inflation has reduced towards historical levels and the Bank of England's target (2% pa), with LGPS benefits increasing by 1.7% in April 2025.

Overall, the funding level of the Fund is likely to be slightly higher than reported at the previous formal valuation at 31 March 2023.

The next actuarial valuation will be carried out as at 31 March 2026. The FSS will also be reviewed at that time.

Jamie Baxter FFA C.Act

For and on behalf of Hymans Robertson LLP

15 May 2025

Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **liabilities**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's trustees.
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are **members**. There will be an Admission Agreement setting out the employer's obligations.
Common contribution rate	The Fund-wide **future service rate** plus **past service adjustment**. It should be noted that this will differ from the actual contributions payable by individual **employers**.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Currency forwards	A currency forward contract is essentially a hedging tool that does not involve any upfront payment. It locks in the exchange rate for the purchase or sale of a currency on a future date. It can be tailored to a particular amount and delivery period, unlike standardised currency futures. Currency forwards are over-the-counter (OTC) instruments, as they do not trade on a centralised exchange.
Deficit	The shortfall between the assets value and the **liabilities** value. This relates to assets and liabilities built up to date and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Deficit repair/recovery period	The target length of time over which the current **deficit** is intended to be paid off. A shorter period will give rise to a higher annual **past service adjustment** (deficit repair contribution), and vice versa.

Discount rate The annual rate at which future assumed cash flows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **liabilities** value which is consistent with the present-day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **future service rate** and the **common contribution rate**.

Employer An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **future service rate** at each **valuation**.

Employer contribution rates (Primary and Secondary) Employer contributions are made up of two elements:

1) the estimated cost of future benefits being built up each year, after deducting members' own contributions and including an allowance for the Fund's administration expenses. This is referred to as the "Primary rate", and is expressed as a percentage of members' pensionable pay; plus
2) an adjustment for the difference between the Primary rate above and the total contribution the employer needs to pay, referred to as the "Secondary rate". In broad terms, the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

When referring to the overall primary and Secondary rates for the fund:

1) The Primary rate (17.8% for financial year 2024/25 at 2023 valuation) is the payroll weighted average of the underlying individual employer primary rates.
2) The Secondary rate is the total of the underlying individual employer secondary rate (£0.814m for financial year 2024/25 at 2023 valuation).

Funding level The ratio of assets value to **liabilities** value.

Future service rate The actuarially calculated cost of each year's build-up of pension by the current active **members**, excluding members' contributions but including Fund administrative

	expenses. This is calculated using a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Gilt yield curves	The line on a graph plotting the relationship between gilt yields and their maturity dates. A yield curve can show the relation between gilts of varying maturities and their yields. Yield curves can be normal/up-sloped (indicates yield on longer term bonds may continue to rise, responding to periods of economic expansion), inverted/down-sloped (suggests yields on longer-term bonds may continue to fall, corresponding to periods of economic recession) or flat (when economy is transitioning from expansion to slower development and even recession, yields on longer maturity bonds tend to fall and yields on shorter-term securities likely to rise).
Gilt yields	The yield of a gilt is the annual return on the market price of the bond, expressed as a percentage. To calculate yield amount, the face value of the gilt is multiplied by the yield in decimal form.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority.

Liabilities	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferred (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Past service adjustment	The part of the employer's annual contribution which relates to past service **deficit** repair.
Pooling	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of **deficit**, or (if formally agreed) it may allow **deficits** to be passed from one employer to another.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or

	pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three-year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc., other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Securities Lending	Securities lending is the act of loaning a stock, derivative or other security to an investor or firm. Securities lending requires the borrower to put up collateral, whether cash, security or a letter of credit. When a security is loaned, the title and the ownership are also transferred to the borrower.
Solvency	In a funding context, this usually refers to a 100% **funding level**, i.e. where the assets value equals the **liabilities** value.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Theoretical contribution rate	The employer's contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis**, before any allowance for **stabilisation** or other agreed adjustment.
Underwriting	Securities underwriting is the process by which investment banks raise investment capital from investors on behalf of corporations and governments that are issuing securities (both equity and debt capital). The services of an

	underwriter are typically used during a public offering in a primary market.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (most recent triennial valuation is as at 31 March 2023) but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.