

Highland Pension Fund

**Unaudited Annual Report and Annual
Accounts**

Aithris Chunntasan

2025 - 2026

Pensions Regulator Scheme Number: 10276691

The Highland Pension Fund

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Chair's Report

As Chair of the Pensions Committee and Investment Sub Committee for the Highland Pension Fund (HPF/the Fund), I am pleased to introduce the 2025/26 Annual Report and Accounts.

2025/26 has been another busy and productive year during which overall performance improved after investing in systems developments and process changes. I am also pleased to welcome new staff to the team following successful recruitment exercises. As new staff undergo training in tasks across the team, it has been pleasing to see the positive impact on performance and a key focus going forward will be supporting ongoing staff development. Alongside delivering the key objective of administering pensions to 36,773 members, HPF has achieved several notable milestones during this year.

Despite higher inflation than the Bank of England target during 2025/26 and increased volatility in the last quarter due to the Iran conflict, HPF's Net Asset Value increased to £2.876bn with positive absolute annual investment return of 6.78%. HPF performed just under the benchmark returns, but outperformed similar comparators such as the Consumer Price Index and Average Earnings over the longer term. HPF has a well-diversified portfolio and regularly reviews the asset allocation alongside an analysis by the actuary of the future pension benefits that are to be paid out.

This year, building on the systems implementation last financial year, further developments and improvements were made to the secure online My Pension portal for members, including document upload and communication through the portal. The team continue to look at ways to improve My Pension functionality for our members and the overall customer experience. The number of members registered to use My Pension has increased significantly in the last year with 64% of active members and just over 50% of all members registered, which is a considerable achievement considering the portal was only implemented in the last couple of years. We would like to thank our members for embracing this new way of working which provides increased opportunities for us to engage with our members.

In December 2025, as part of The Highland Council Corporate Cluster, HPF was awarded the Standard Investors in People (IIP) accreditation after a comprehensive review completed by an external evaluation team. This was a great achievement, and actions will be implemented in the year ahead to support ongoing staff training and development.

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Looking ahead to 2026/27, the actuarial valuation is currently underway (pension regulations require that this is completed every 3 years). The valuation is completed by our actuary and assesses the HPF funding position as at 31 March 2026, using assumptions to forecast future pension liabilities and investment returns. The valuation provides the opportunity to analyse our funding position and make any necessary changes to ensure HPF is on track to pay future pensioners. As part of the process, key documents will be reviewed and updated, which include the Funding Strategy Statement and Statement of Investment Principles. Consultation will be completed with employers, following which revised employer contribution rates will be effective from 1 April 2027.

In 2026/27, the administration team will focus on improving performance so that we are continuing to deliver a high-quality service to all our members. There will be increased engagement with employers to improve the flow of data and increase the efficiency of processing benefits. HPF also recruited additional staff resource to build resilience in the team and action workloads in preparation for the launch of the Pensions Dashboard, a UK government initiative to enable individuals to access all their pensions information online, securely and in one place, thereby supporting retirement planning.

To conclude, I would like to extend my thanks to my colleagues on the Pensions Committee and Pension Board, our advisors and HPF staff for their commitment and efforts this year.

Councillor Paul Oldham
Pensions Committee Chair
Investment Sub Committee Chair

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Introduction

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About the Fund

The Highland Pension Fund (HPF/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 (as amended) and secondary legislation

The Administering Authority (The Highland Council) is responsible for HPF, and ensuring it achieves the following objectives:

- Receives the proper amounts of contributions from employees and employers and any transfer payments.
- Invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth.
- 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)

Annual Report and Accounts

This Annual Report and Accounts 2025/26 has been prepared in accordance with Regulation 55 of the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended) 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 (as amended).

Reporting requirements are 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:

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- Revised administration Key Performance Indicators which are reported for the Fund on pages 44-48.
- 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 2025/26 (the Accounting Code).

On page 7 the organisations involved in the management of the Fund are listed. On page 8 there is an overview of performance data for 2025/26 compared to 2024/25 and key points to note are:









- membership of the scheme has increased slightly with an increase in active members and pensioners and decrease in deferred members
- increase in contributions receivable (excluding transfers in) due to the pay award and increasing number of members.
- higher levels of pensions payable (excluding leavers and transfers out) due to increased number of pensioners and pensions increase.
- increase in investment returns compared to the previous financial year which is mostly attributable to realised gains on equities sales following changes to global equities portfolios.
- decrease in management costs which is due to a decrease in the market value of assets held as fees correlate to asset market values and performance.
- The performance of financial markets was generally strong until the final quarter when geopolitical events increased volatility in markets. 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 the number of employers from 23 to 22 as WIPRO ceased to be an employer.

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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	Hymans Robertson from November 2025 (previous investment advisor was Aon)	
Legal Advisor	Brodiess LLP	
Additional Voluntary Contribution Provider (AVC)	Prudential Assurance	
Investment Managers	Aberdeen	KKR
	Baillie Gifford (BG)	Legal and General (LGIM)
	BentallGreenOak (BGO)	Man Group
	CVC	Mirova
	Dodge & Cox	Partners
	Fidelity	Robeco
	HSBC	Schroders
Bankers	Virgin Money	
External Auditor	Audit Scotland	
Internal Auditor	Highland Council Internal Audit team	
Senior Officers	Brian Porter, Chief Officer, Corporate Finance Catriona Stachan, Pensions Manager Lara Harrison, Principal Accountant Annabel Scott, Data and Systems Manager Lindsay Junor, Policy and Engagement Manager Natasha Oram, Benefits and Administration Manager	

2024/25	Performance	2025/26
£75.9m	Contributions receivable 	£82.3m
£115.7m	Pension benefits payable 	£100.1m
£14.2m	Management expenses 	£13.3m
£392.38	Cost per member 	£361.42
36,162	Total Membership 	36,773
23	Number of employers 	22
£110m	Return on investment 	£192m
£2.715bn	Net assets of the Fund 	£2.876bn

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Management Commentary

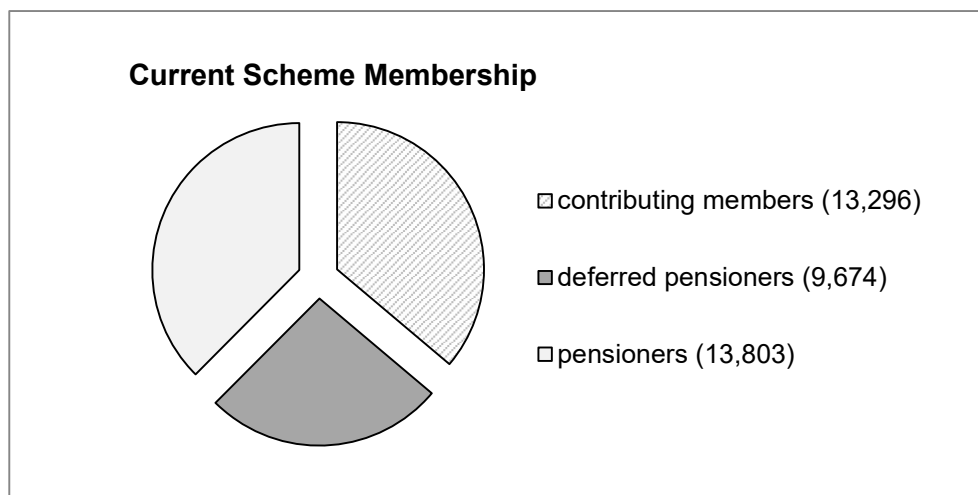
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Background

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

The closing net assets of HPF at 31 March 2026 are £2,876m (31 March 2025 £2,715m).

HPF provides benefits for those employees of The Highland Council, Comhairle nan Eilean Siar and 20 other scheduled and admitted bodies that are active members of the Fund. The current scheme membership is as follows.



Governance

The main legislation directing the governance requirements for HPF 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 HPF.

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.

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In HPF, governance is the responsibility of the Pensions Committee and Pensions Board which meet simultaneously to consider the same agenda and to whom HPF business has been delegated to by The 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 22, Annual Governance Statement on page 53 and the Governance Compliance Statement on page 60.

Business Model and Risk

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

Many of the HPF'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.

HPF support functions cover the following:

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

Membership and Benefits Administration

During 2025/26 new processes implemented during the previous financial year (Altair Pensions Payroll system and My Pensions) were further embedded alongside ongoing work to identify and implement changes to improve customer service and performance. A key focus during the financial year was on recruiting and training new staff, which has increased resilience, particularly in the benefits processing area during periods of increased volumes. As a result of the system and process changes implemented and the increased staff resource, performance has improved noticeably, which can be seen in the administrative performance statistics.

As pension regulations at a national level are subject to change, the Fund officers make 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 can contribute to increased volumes of outstanding cases.

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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 provide 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:

- the successful recruitment and induction of new pensions administration staff to the team. Senior staff have been providing and organising training and supervision for newly recruited staff. Within the team, staff have progressed to new roles, and training is being provided to support them as well as develop knowledge and skills across the team.
- developing functionality on the My Pension portal to streamline processes.
- a key responsibility is to raise awareness amongst staff and members 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(as amended)). 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>.
- incorporating the McCloud and Goodwin remedies into operational processes, with projects set up to identify cases where these remedies must be considered and calculations reviewed. Ongoing testing of software updates developed to incorporate McCloud into benefit calculations (these updates will continue to be implemented until March 2027).
- ongoing involvement in the Pensions Dashboard initiative with HPF having successfully connected in October 2025. This is a UK Government initiative to “allow people to see all their pensions information together in one, online and secure place” <https://www.pensionsdashboardsprogramme.org.uk/about>. HPF will receive 6 months’ notice for when the Dashboard is to be launched to the public.
- procurement activity to support operations. This included appointing the investment advisor Hymans Robertson in December 2025 and the investment cost benchmarking provider CEM in January 2026.

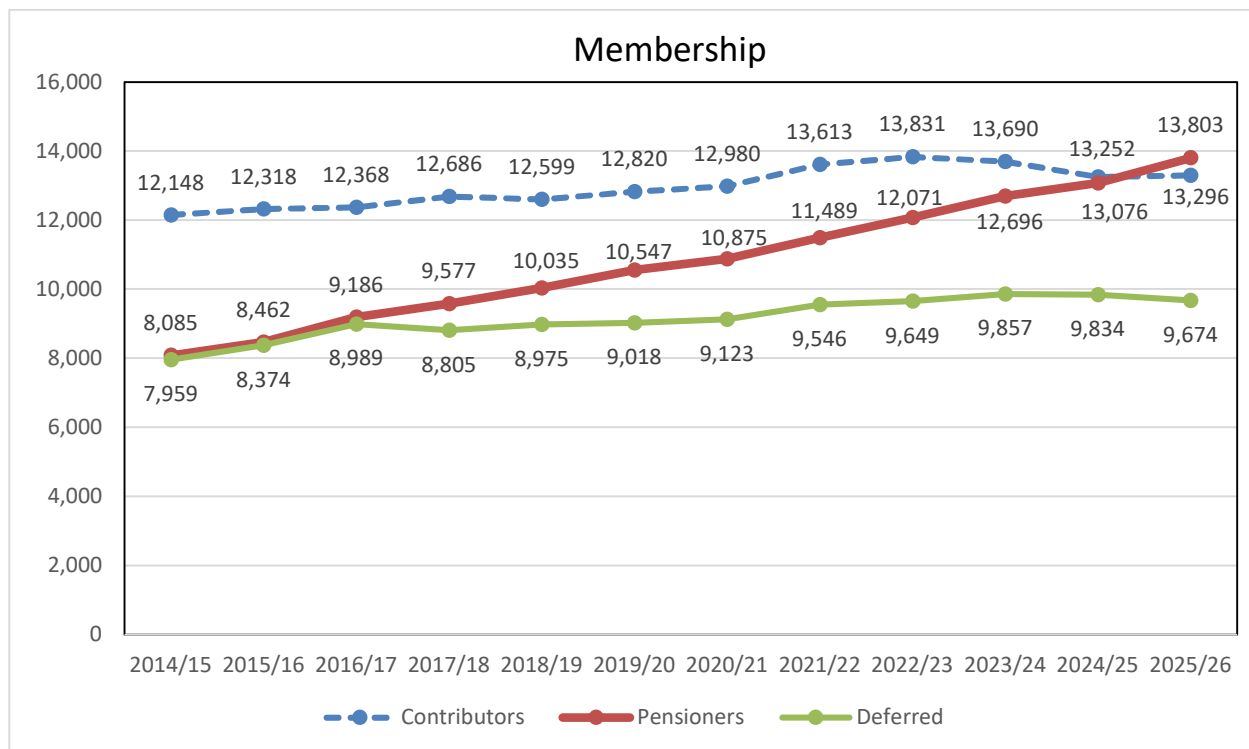
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- updating the HPF website (<https://www.highlandpensionfund.org/>) on an ongoing basis and publishing information on the website to raise awareness about pension scams and news items.

Membership statistics (31 March 2026)

The graph below illustrates the increasing number of pensioners in 2025/26 compared to previous years, with this being the first year that the number of pensioners exceeds the number of contributors as the Fund matures.



The table below sets out details of new pensioners analysed by ill health, early and normal retirement during the year ended 31 March 2026.

Number of Retirements

	2024/25	2025/26
Early retirement	44	26
Ill-health retirement	30	43
Early payment of deferred benefits	81	109
Sub-total	155	178
Normal retirements	573	578
Totals	728	756

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Looking ahead to 2026/27, the focus will be on clearing outstanding cases and continuous improvement to reduce the time taken to process benefits, aggregations and improve customer service. This will also help the team to prepare for the launch of the Pensions Dashboard.

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 as required.

In the previous financial year, investment was made in technology to improve processes by continuing the roll out of My Pension (Engage) to all members which allows them to make nominations and generate benefit estimates online. Members are encouraged to use member self-service to update their nominations and perform estimate calculations.

My Pension is accessed using a secure portal whereby members must verify their identity before accessing their pension information. Members of the Fund can access My Pension 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 760 currently opting for this method of communication.

Members are reminded regularly of the importance of keeping their My Pension account secure in newsletters and correspondence issued using Engage and notified of fraud risks and scams. In 2026/27 the team will be implementing further security measures in Engage.

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At the end of March 2026, the proportion of our members using My Pension was as follows:

Percentage of members registered for My Pensions	
Actives (current employee members)	64%
Deferred (ex-employees who have not yet retired)	44%
Pensioners (ex-employees who have now retired)	42%

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/>

Performance

All employers apart from one use the i-connect system, where employer bodies can now upload forms and submit them electronically, which has improved the efficiency of the processes for employers submitting data. Regular meetings are held with the largest employer, The Highland Council, to resolve any issues as these arise.

HPF must report on Key Performance Indicators (KPIs) 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 42.

Performance across all tasks has improved considerably compared to the previous year. This is the result of investing in technology, streamlining processes and successfully recruiting staff to the team. The focus in financial year 2026/27 is to build on these improvements, continue to train and develop the team in order to deliver benefits quickly and provide excellent customer service. Staff will continue to review processes, making changes and improvements to reduce delays and increase efficiency.

In terms of financial performance, overall, the Fund returned a surplus of £161.1m and comparators for previous years are provided in the table on the next page, alongside the total costs per member.

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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 2025/26 compared to 2024/25.

Pension Fund Account	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m
Contributions received and transfers in	66.237	81.804	77.946	75.948	82.310
Pensions paid and transfers out	(70.454)	(76.079)	(82.017)	(115.746)	(100.138)
Management expenses	(16.063)	(14.092)	(15.488)	(14.217)	(13.290)
Returns on investment	100.272	(60.259)	272.859	109.703	192.278
Overall surplus/(deficit)	79.992	(68.626)	253.300	55.688	161.160
Total cost per member (£) *	463.59	396.40	427.34	392.38	361.42

* the total cost per member for 2025/26 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 2026 of 36,773. For all other years the same approach was used and the year-end membership at March of the respective year was used to calculate the cost per member.

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 2025/26 the Fund continues to be in surplus, i.e. the income is more than the expenditure. This is mostly attributable to the realised gains from asset transition activity during the year.

Investment Management of the Fund's assets is undertaken by external fund managers and overseen by the Pensions Accounting team with the support of Hymans Robertson, the Fund's Investment Adviser (Hymans Robertson was appointed to advise the Fund from 1 November 2025).

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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/>

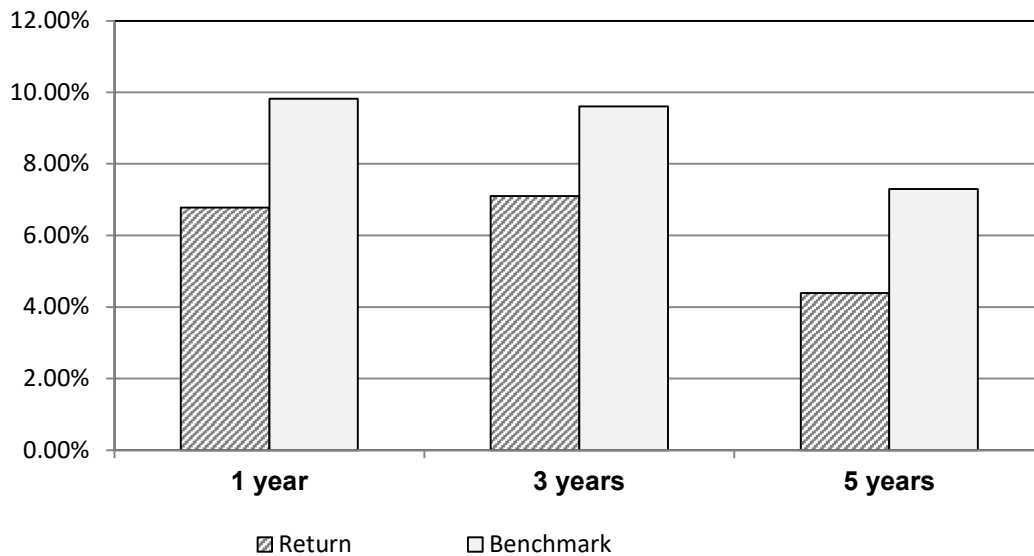
During 2025/26, officers continued to fund the alternative investments in private debt and infrastructure and there was a new investment made with equity manager, Dodge and Cox which was funded by transferring funds from the other equity fund managers.

The equity protection previously in place until December 2025 has now expired and in December 2025 the Investment Sub Committee approved the approach to stop using equity protection going forward in view of the long-term investment horizon and diversified portfolio of the Fund. This decision was made following professional advice from the investment advisor, Hymans who were appointed in November 2025.

For the year to 31 March 2026 the Fund returned an absolute annual return of 6.78%, underperforming the benchmark of 9.82% (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 2026 is provided at page 34.

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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 2025/26 the total Fund's investments increased in value to £2,867m from £2,710m at the end of 2024/25. A review of Investment performance is provided on page 34 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 Pension Fund website.

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

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Work is ongoing to complete the triennial actuarial valuation at 31 March 2026 to assess the financial position of the fund and set employer contribution rates to be effective from 1 April 2027.

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 8).

<https://www.highland.gov.uk/download/meetings/id/86565/Item%25208%2520-%2520Risk%2520Management%2520Update%2520202526>

The thirteen risks identified as the most significant and the mitigating controls in place to manage them were reported to the Pensions Committee in March 2026.

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 The Pension Regulator requirements.
3. **Government policy** – there is the potential for future regulatory and policy changes e.g. Pensions Bill for England and Wales which proposes changes for Local Government Pension Scheme (England and Wales). Scottish Public Pensions Agency is responsible for maintaining and updating the scheme's regulations in line with policies determined by the Scottish and UK Governments.
4. **Scheme administration** –if workloads and volumes increase, there is the risk of delays completing tasks and an increase in complaints.
5. **Pensions Dashboard** – Fund administration records are not complete and accurate when the Dashboard is launched to the public, with the potential that The Pensions Regulator issues a compliance action or there are financial penalties and reputation damage.

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6. **Highland Council support services** – Services are provided by the Council to the Highland Pension Fund for central support services e.g. ICT support service, payroll for staff who administer the Fund, creditor payments, property, senior management (section 95 officer) and Human Resources. Due to the need for cost savings to be made by the Council, there are the following potential risks:
 - potential adverse impact on central support services provided by the Council with lack of service or reduced quality.
 - increase in the central support costs charged by the 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 is currently 3.0% above the Bank of England target of 2.0%. High levels of inflation would increase pension liabilities as these are inflation linked, with 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. **McCloud case** - Uncertainty on certain aspects of implementing the remedy is creating delays in reviewing historic cases.

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Looking Ahead

- Ongoing volatility and uncertainty in the global economy and investment markets can potentially have significant financial implications for the Fund and Fund employers.
- In preparation for the launch of the Pensions Dashboard, the team will continue to work on clearing cases.
- Officers will continue to engage with Pensions Committee and Board Members to identify training needs and provide appropriate training opportunities, particularly for new members. Officers will keep Committee and Board members updated on ongoing developments across the LGPS.
- The administration team will continue to provide training and support to employer organisations and sessions will be scheduled as required for 2026/27.
- Staff will continue to be provided with comprehensive training which will include sessions for fraud awareness scheduled for later in 2026.
- 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 connected to the Pensions Dashboard in October 2025. The Fund's benefits administration provider Heywood provides the connection to the Dashboard. The Fund will receive 6 months' notice before the Dashboard is launched.
- Methods of engagement will be reviewed to assess the best way to collect and analyse customer feedback in order to improve performance, and customer service.
- Work will continue to implement and review policies to improve the governance framework.
- With the Fund being cash flow negative, daily monitoring of the 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 52.

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- 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 being applied when calculating benefits with systems updates being implemented by the provider over the period until March 2027.

In Conclusion

Our thanks and appreciation is extended to all Members of the Pensions Board, Pensions Committee and Investment Sub-committee, and to officers for their continued input to the strong governance and management of HPF.

Derek Brown
Chief Executive

Brian Porter
Chief Officer, Corporate
Finance

Paul Oldham
Chair
Pensions Committee

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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 2026 is outlined below.

Committee and Board Membership

Pensions Committee

Cllr A Christie (from Dec 25)
Cllr S Coghill
Cllr J Hendry
Cllr B Lobban
Cllr P Logue (from Dec 25)
Cllr A MacKintosh
Cllr R MacKintosh
Cllr T MacLennan
Cllr P Oldham (Chair)
Cllr M Paterson
Cllr T Robertson

Investment Sub Committee

Cllr B Lobban
Cllr P Logue
Cllr A MacKintosh
Cllr R MacKintosh
Cllr P Oldham (Chair)
Cllr M Paterson
Cllr T Robertson

Non-Voting Members

Ms E Johnston, GMB (observer)
Cllr N Macdonald, Comhairle nan Eilean Siar
Cllr S Kennedy, The Highland Council (observer)
Cllr C Birt, The Highland Council (substitute)

Pensions Board

Mr R Fea, Cromarty Firth Port Authority, Representative for Other Employers'
Cllr N MacDonald, Comhairle nan Eilean Siar
Cllr C Birt, The Highland Council
Cllr K Macleod, Comhairle nan Eilean Siar (substitute)
Cllr S Kennedy, The Highland Council
Ms E Johnston, GMB
Mr R Boyle, UNITE
Mr D MacDonald, Unison
Mr W Munro, Unison

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Attendance at Committee and Board meetings

The good governance of the Fund depends on the Committee and Board meetings being adequately attended. During 2025/26, the Pensions Committee and Investment Sub Committee meetings were quorate. The table below provides detail of individual attendance during the year.

During 2025/26 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. In 2026/27 the Pensions Committee and Pensions Board meet quarterly to align with the ISC.

Pensions Committee	04/09/25	05/12/25	16/03/26
Cllr A Christie (from Mar 25)	N/A		✓
Cllr S Coghill (from Dec 25)	N/A	✓	✓
Cllr J Hendry	✓	✓	✓
Cllr B Lobban	✓		✓
Cllr P Logue (from Dec 25)	N/A	✓	✓
Cllr A MacKintosh	✓		
Cllr R MacKintosh	✓	✓	✓
Cllr T MacLennan	✓	✓	✓
Cllr P Oldham (Chair)	✓	✓	✓
Cllr M Paterson		✓	✓
Cllr T Robertson	✓	✓	✓
Cllr R Gale (until Dec 25)	✓	✓	N/A
Cllr L Kraft (until Dec 25)	✓	N/A	N/A
Pensions Board	04/09/25	05/12/25	16/03/26
Dr C Birt (Highland Council) (from Dec 25)	N/A	✓	✓
Cllr B Boyd (substitute)	✓	N/A	✓
Mr R Fea (Cromarty Firth Port Authority)	✓	✓	
Cllr S Kennedy (Highland Council)	✓	✓	
Cllr N Macdonald (Comhairle nan Eilean Siar)	✓		
Cllr G Mackenzie (Highland Council)(until Dec 25)		N/A	N/A
Ms E Johnston (GMB)(Chair until Mar 26)	✓	✓	✓
Mr D MacDonald (Unison)	✓		✓
Mr R Boyle (Unite) (from Mar 25)	N/A	N/A	✓
Mr D Main (Unite) (until Mar 25)			N/A
Mr W Munro (Unison)	✓	✓	✓

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

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Investment Sub Committee	07/05/25	26/09/25	17/12/25	16/03/26
Cllr R Gale (until Dec 25)	✓	✓		N/A
Cllr B Lobban	✓		✓	✓
Cllr P Logue (from Mar 25)	N/A	N/A	N/A	✓
Cllr A MacKintosh				
Cllr R MacKintosh	✓	✓		✓
Cllr P Oldham (Chair)	✓	✓	✓	✓
Cllr M Paterson	✓			✓
Cllr T Robertson	✓	✓	✓	✓
Pensions Board				
Ms E Johnston (non voting)	✓		✓	✓
Cllr S Kennedy (from 16 Mar 26) (non voting)	N/A	✓	✓	

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 4 September 2025, 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/85599/Item%25205.%2520Training%2520Policy%2520and%2520Training%2520Plan%2520202526>

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 2025/26 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.

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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 training sessions on the Pension Fund and Investments. This training was delivered by officers and targeted to new Committee and Board members though offered as refresher training for all Committee and Board members. These were delivered as follows:

- 19 August 2025 Pension Fund Induction training
- 23 September 2025 Pension Fund Investment training.

As new members join the Pension Committee or Pension Board, contact is made by officers to provide background info, sources of online learning and offer support and assistance. Individual sessions are set up with new Pension Committee or Pension Board members to discuss their role and provide information on the LGPS and HPF.

At every Investment Sub Committee meeting, a briefing is provided by the Investment Advisor and various Fund Managers explaining assets classes with the areas covered during 2025/26 being as follows:

- Global equities (Dodge and Cox)
- Common Good and Trust fund investments (Canaccord)
- Equity portfolio review (Hymans)
- Equity protection and upcoming expiry (Hymans)
- Global equities (Baillie Gifford)
- Property (Schroders)

Members of the Investment Sub Committee also attended various online webinars during the year such as the Baillie Gifford webinars 10 to 13 November 2025.

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	19/08/25 PC and PB Induction Training	23/09/25 PC and PB Investment Induction Training
Pensions Committee		
Cllr A Christie (from Dec 25)	N/A	N/A
Cllr S Coghill (from Dec 25)	N/A	N/A
Cllr J Hendry	✓	✓
Cllr B Lobban	OPT	OPT
Cllr P Logue (from Dec 25)	N/A	N/A
Cllr A MacKintosh	✓	✓
Cllr R MacKintosh	✓	✓
Cllr T MacLennan	OPT	✓
Cllr P Oldham	✓	OPT
Cllr M Paterson	OPT	OPT
Cllr T Robertson	✓	✓
Cllr R Gale (until Dec 25)	✓	OPT
Cllr L Kraft (until Dec 25)	✓	OPT
Pensions Board		
Cllr Birt (Highland Council) (from Dec 25)	N/A	N/A
Mr R Fea (Cromarty Firth Port Authority)	✓	✓
Cllr S Kennedy (Highland Council) (from Dec 25)	N/A	✓
Cllr N MacDonald (Comhairle nan Eilean Siar)	OPT	N/A
Mr R Boyle (Unison) (from Mar 25)	N/A	N/A
Mr D MacDonald (Unison)	OPT	✓
Mr W Munro (Unison)	✓	N/A
Ms E Johnston (GMB)	OPT	OPT

OPT -Training was optional as this was induction training for new members. However, several long-standing members opted to attend training as a refresher.
N/A is Not Applicable as individual was not on Committee on that date

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Investment Sub Committee	07/05/25 Equity protection (Aon)	26/09/25 Global equities (Dodge & Cox, Canaccord)	17/12/25 Equity protection (Hymans)	16/03/26 Global equities (Baillie Gifford) Property (Schroders)
Cllr R Gale (until Dec 25)	✓	✓		N/A
Cllr B Lobban	✓		✓	✓
Cllr P Logue (from Mar 25)	N/A	N/A	N/A	✓
Cllr A MacKintosh				
Cllr R MacKintosh	✓	✓		✓
Cllr P Oldham (Chair)	✓	✓	✓	✓
Cllr M Paterson	✓			✓
Cllr T Robertson	✓	✓	✓	✓
Pensions Board				
Ms E Johnston (non voting)	✓		✓	✓
Cllr S Kennedy (from 16 Mar 26) (non voting)	N/A	✓	✓	

N/A is Not Applicable as individual was not on Committee on that date

Greyed out represents non-attendance.

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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 Pension Fund and is published on the Fund's website.

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

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/actuarial-valuation-report-2023/>

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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 in June 2024 and the transition to the updated asset allocation has been implemented.

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

The Council has delegated authority to the Pensions Committee to take decisions on behalf of the Highland 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 14 investment managers.

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

Statement of Investment Principles – Summary

Background

The Council is the administering authority of the 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 managing 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.

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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 Fund.

Investment Policy

The long-term investment objective of the Fund is to achieve a real rate return of 5-6% 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 have now been 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 75% 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 14 different Managers is employed (13 active and one passive) to minimise the effects of risk and enhance overall performance of the Fund for its Members.

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

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Strategic Asset Allocation

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

Target %	Asset Class	Fund Actual 31/03/25 %	Fund Actual 31/03/26 %
29.4	Global equities – active (BG, Mirova, Dodge & Cox)	24.9*	30.0
12.6	Global equities – passive (LGIM)	17.3	14.0
3.7	Private equity (PG)	6.6	5.9
3.7	Absolute return strategies (Man)	3.6	3.9
49.4	Total Growth	52.4	53.8
2.2	UK gilts (LGIM)	1.2	1.0
8.4	Corporate bonds (Fidelity, LGIM)	6.9	6.7
6.3	Asset backed securities (HSBC)	6.3	6.1
4.5	Multi asset credit (Robeco)	3.8	3.9
2.7	Private credit – property debt (BGO & Aberdeen)	2.6	2.8
2.7	Private credit – corporate debt (CVC)	2.9	3.3
26.8	Total income	23.7	23.8
12.5	UK Index-Linked gilts (LGIM)	8.5	8.5
5.3	Infrastructure equity (KKR)	6.4	6.5
6.0	UK property (Schroders)	9.0	7.4
23.8	Total inflation protection	23.9	22.4
100.0	Total assets	100.0	100.0

*Note that investment was made with Dodge & Cox in early 2026 so there are no actual amounts for Dodge & Cox included in the 2024/25 year end comparative figure.

Changes were made within the overall target asset allocation for equities of 42% following approval at the Investment Sub Committee of 17 December 2025.

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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 75% of the investments held by the Fund at 31 March 2026 were readily tradeable on major stock markets and may be realised quickly if required. Property investment is via pooled funds which are relatively illiquid. These made up 7.4% of the total Fund (target asset allocation 6.0%). There are also private equity 5.9% (target asset allocation 3.7%) and private credit property debt and direct lending investments 6.1% (target asset allocation 5.4%) and infrastructure 6.5% (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 37.

The Fund has been a member of the Institutional Investors' Group on Climate Change (IIGCC) since September 2020.

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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) responsible for 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 2026 the Fund held collateral (via the custodian) of 102% 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 Officers confirming that they have adhered to the investment principles contained in this document so far as is reasonably practicable.

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'.

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Investment Performance Report Aithisg Coileanadh Tasgaidh

Economic and Market Background

- In the quarter to 30 June 2025, global equity markets rose, despite facing a significant correction in the early weeks of the quarter. However, the last few weeks of the quarter remained dominated by rising geopolitical tensions in the Middle East. UK equities increased by 2.4% over the quarter. UK property capital values rose over the quarter leading to a total return of 1.7%. Capital values rose by 0.3%, and the income return was 1.4%. Vacancy rates increased from 12.1% to 12.2%. The Office sector was the worst performer, returning 1.0%, while the Industrial sector was the best performer, returning 2.1%. The Retail sector rose 1.8%.
- In the quarter to 30 September 2025, the US economy grew at an upwardly revised annualised 3.8%, driven by consumer spending, AI investment and waning import headwinds; purchasing managers' indices (PMI) indicated continued, albeit slower, expansion in the quarter. Most other economies experienced modest slowdowns.
- In the quarter to 31 December 2025, global growth signalled resilience as earlier tariff impacts faded. The US grew at a strong pace while China increased its goods trade surplus to record levels. The Eurozone's growth improved but remained uneven. UK growth slowed, staying below its potential, and Japan marked its first quarterly contraction.
- In the quarter to March 2026, Global growth lost momentum, but fared well in 2025 (expanding 2.8%), amid higher US tariffs and policy uncertainty. AI-related investment, fiscal support and monetary easing reinforce a reasonable global growth backdrop in 2026. However, supply-side risks from the US-Iran conflict add uncertainty.

Impact on the Fund

- In the quarter to 30 June 2025, underperformance relative to the benchmark over 3 years was largely attributed to Partners Group which underperformed the benchmark by -12.4 p.a. over the period. However, it should be noted that in the short term there can be deviation relative to public market comparators due to several reasons, including 'J curve' effects for later fund 'vintages' of the Partners strategy until they deploy and invest capital and fully realise value from exiting investments.

Underperformance over the 5 year period was largely attributed to the Baillie Gifford Global Equities strategy which underperformed its benchmark by 6.1% 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. However, Baillie Gifford had strong relative performance in the June 2025 quarter as growth stocks rallied.

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- In the quarter to 30 September 2025, the Fund delivered positive returns of 3.8%, slightly underperforming the benchmark return of 4.2%. Positive performance was mainly driven by the global equity allocation, which despite ongoing geopolitical uncertainty, staged a broad-based rally. This was supported by robust artificial intelligence (AI) and technology demand, solid corporate earnings, and a well-anticipated Federal Reserve (Fed) rate cut. A key contributor to the underperformance over the quarter was the Partners Group Private Equity mandate.
- In the quarter to 31 December 2025, the Fund delivered positive returns of 1.1%, underperforming the benchmark return of 2.4%. Positive performance was mainly driven by the L&G and Mirova global equity allocations, with value stocks outperforming tech stocks after key US tech giants underperformed due to fears of lofty valuations. A key contributor to the underperformance over the quarter was the Baille Gifford global equity growth fund, which underperformed its benchmark by 4.9%.
- Over the quarter to 31 March 2026, total Fund assets decreased by c.£55m. The Fund delivered a negative return of -1.7%, underperforming the benchmark return of -0.4%. Negative performance was mainly driven by the global equity allocations, which suffered due to a combination of geopolitical shock, including escalation of the conflict in the middle-east, inflation concerns, and repricing of interest rates. A key contributor to the Fund's relative underperformance over the quarter was the Baille Gifford Global Alpha Growth fund, which underperformed its benchmark by 6.0%. Growth stocks underperformed value over the quarter due to a rotation towards cheaper, cash-generative sectors such as energy amid the market volatility.

Pension Fund Investment Performance

For the year to 31 March 2026 the Fund returned 6.78%, underperforming the benchmark of 9.82%. This was an increase in the one-year absolute return compared to the previous financial year which was 3.71%.

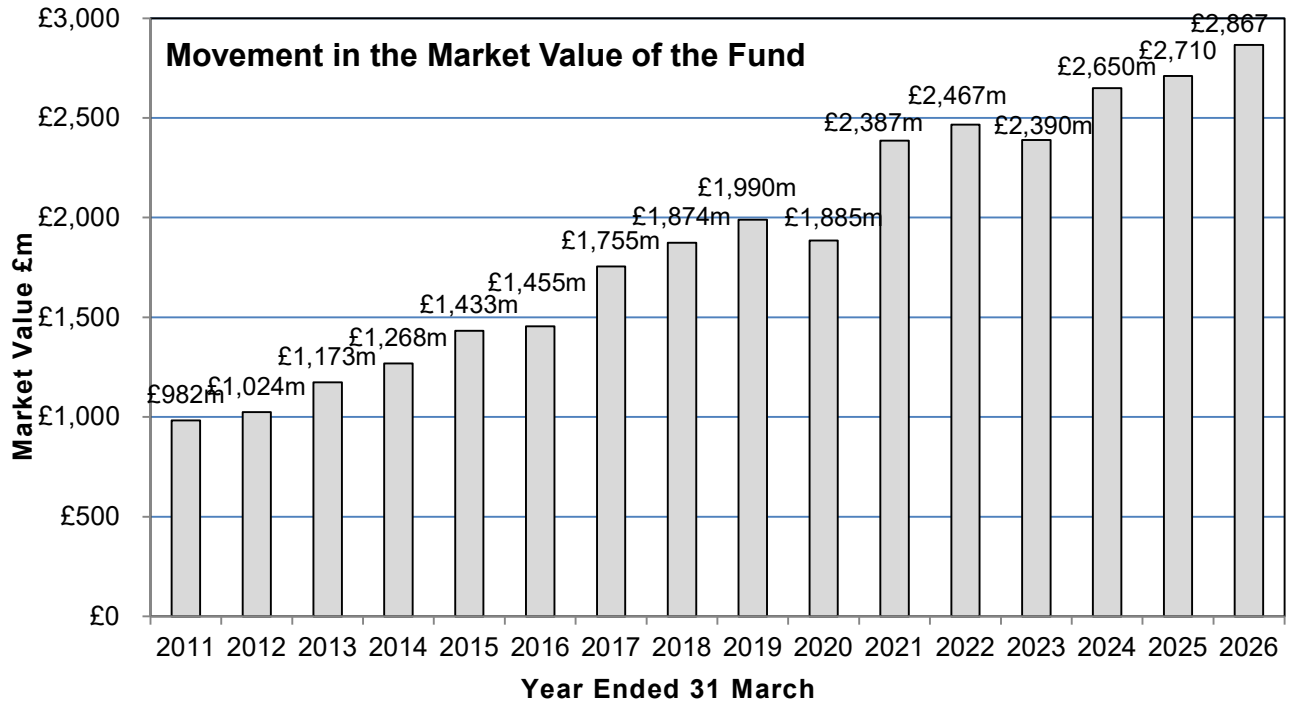
In terms of the longer-term performance, the Fund returns underperformed the benchmark across a 5-year period (return is 4.39% compared to the benchmark of 7.30%) and performed just under benchmark since inception (7.90% compared to 8.01%).

	1 year per annum%	3 years % per annum	5 years % per annum	Inception % per annum
Fund return (2025/26)	6.78	7.10	4.39	7.90
Benchmark return (2025/26)	9.82	9.61	7.30	8.01

The market value of the Fund's net investment assets as at 31 March 2026 was £2,867m (£2,710m at 31 March 2025). The movement in the market value of the Fund's net investment assets is set out below.

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

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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 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.

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- 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.
 - 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.

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The Highland 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. There has been no statement for 2025.

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>



The Highland Pension Fund

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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 117).

For the purposes of the contribution rates set for the financial year 2025/26, 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%

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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

65% of 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.

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Administration Strategy and Performance

The Preparing the Pension Fund Annual Report, Guidance for Local Government Pension Scheme Funds was published in April 2024. This guidance set out a set of Key Performance Indicators (KPIs) that must be reported on in LGPS annual reports. HPF is reporting on the majority of these KPIs, with previous year comparators provided.

It is positive to report that following investment in technology and the successful recruitment and training of additional staff resource, the KPI statistics have improved considerably compared to 2024/25.

At the beginning of 2025/26, opening volumes of outstanding cases continued to be high due to brought forward cases from the previous year caused by complexity of the scheme and staff vacancies in previous financial years. However, the changes implemented in 2024/25, and the current financial year, have resulted in significant performance improvement.

The volume of new retirement benefits to be processed in year was slightly higher than the previous year and, despite this, the team increased the percentage of cases completed in the year from 78.4% of cases to 90.7%. Across all KPI categories in Table A performance has improved. In some of the KPI categories the team achieved a percentage rate of 100% of cases completed in year (A1, A9, A10) and in other categories the percentage of completed cases increased significantly. For example, after implementing automated processes, the new joiner notification KPI (A12) cases completed in year KPI was 80.6% for 2025/26 compared to 41.6% in the previous year. The payment of refunds to members opting out of the scheme has also improved with 94.1% of cases being completed in 2025/26 compared to 14.3% in 2024/25 (A14).

There has been an improvement in the percentage of aggregation cases from 14.3% in 2024/25 to 21.2% (A13). which in previous years was as low as 10.3% (2023/24). Aggregation cases are where a member's separate LGPS records need to be combined into a single active or deferred record. This happens because many LGPS members move between employers or leave and re-join the scheme or have several posts which creates multiple pension records. Aggregation rules ensure these are brought together (or kept separate, where appropriate) in line with scheme regulations. Before a member retires, records must be aggregated and the approach to aggregations has been to prioritise members aged over 55, those transferring or members who have requested this data.

During 2026/27 there will be a particular focus on clearing aggregation cases in preparation for the Pensions Dashboard.

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In Table B, the statistics again show that the percentage of cases being delivered within target has improved considerably. The team prioritises dealing with cases where there has been the death of an active, deferred, pensioner or dependant member. The first communication following notification of the death of an active, deferred, pensioner or dependant member should be delivered within 5 days, and this was achieved in 99.6% of cases (previous year this was 76.9%) (B1). The excellent progress that the team has made in the last year is demonstrated by the improvement across all the KPI indicators in Table B with noticeable increases.

The number of scheme members signing up to use the My Pension portal has increased overall from 23.5% to 50.4% (C4), with the number of active members signed up for the portal increasing to 64.0% from 41.8% (C1). This has provided more opportunities for HPF to engage with our members and for members to access information quicker.

Overall, progress in 2025/26 has been very positive with significant improvements in KPIs and the team having a clear focus on priorities for the year ahead to continue delivering benefits on time and to clear aggregations.

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Table A – Volume of casework

KPI Indicator		Total number of cases completed	Total % of cases completed	Total number of cases open (start)	Total number of new cases in year	Total number of cases completed	Total % of cases completed
		2024/25	2024/25	31 Mar 25	2025/26	2025/26	2025/26
A1	Deaths recorded of active, deferred, pensioner and dependant members	360	99.4%	2	270	272	100%
A2	New dependant member benefits	112	70.9%	46	191	221	93.2%
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)	730	78.4%	145	867	918	90.7%
A5	Deferred benefits	400	25.3%	1,011	767	732	41.2%
A6	Transfers in (including interfunds in, club transfers)	62	79.5%	5	35	39	97.5%
A7	Transfers out (including interfunds out, club transfers)	80	82.5%	3	42	43	95.6%
A8	Refunds	589	87.0%	3	349	342	97.2%
A9	Divorce quotations issued	21	95.5%	2	21	23	100.0%
A10	Actual divorce cases	13	100%	0	5	5	100.0%
A11	Member estimates requested either by scheme member and employer	1,148	90.4%	119	1,027	1,039	90.7%
A12	New joiner notifications	2,078	41.6%	320	800	903	80.6%
A13	Aggregation cases	437	14.3%	2,280	967	688	21.2%
A14	Optants out received after 3 months membership (also included in deferred category above)	1	14.3%	3	31	32	94.1%

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Table B - Time taken to process casework

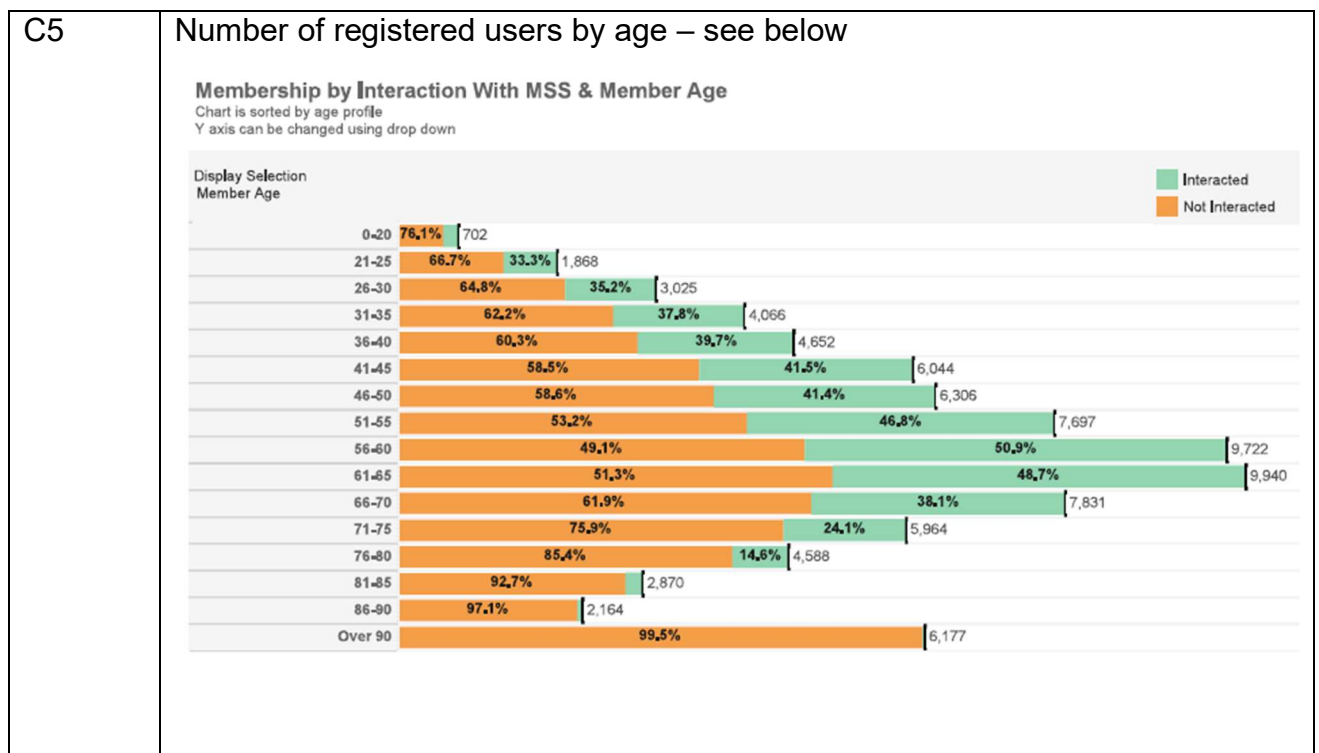
KPI indicator		Fund target	% completed in previous year 2024/25	% completed within fund target in year 2025/26
B1	Communication issued with acknowledgement of death of active, deferred, pensioner and dependant member	5 days	76.9%	99.6%
B2	Communication issued confirming the amount of dependant's pension	10 days	27.7%	82.8%
B3	Communication issued to deferred member with pension and lump sum options (quotation)	15 days	N/A see active box below includes deferred	N/A see active box below includes deferred
B4	Communication issued to active member with pension and lump sum options (quotation)	15 days	36.7%	94.6%
B5	Communication issued to deferred member with confirmation of pension and lump sum options (actual)	15 days	N/A see active box below includes 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	34.9%	85.5%
B7	Payment of lump sum (both actives and deferreds)	15 days	34.9%	61.0%
B8	Communication issued with deferred benefit options	30 days	25.5%	25.5%
B9	Communication issued to scheme member with completion of transfer in	15 days	8.1%	97.7%
B10	Communication issued to scheme member with completion of transfer out	15 days	15%	100.0%
B11	Payment of refund	10 days	76.9%	99.4%
B12	Divorce quotation	45 days	95.2%	100.0%
B13	Communication issued following actual divorce proceedings i.e application of a Pension Sharing Order	15 days	53.8%	100.0%
B14	Communication issued to new starters	40 days	42.7%	90.6%
B15	Member estimates requested by scheme member and employer	15 days	36.7%	30.0%

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Table C - Communications and engagement

KPI Indicator		31/03/2025	31/03/2026
C1	% of active members registered	41.8%	64.0%
C2	% of deferred member registered	16.7%	44.0%
C3	% of pensioner and survivor members	10.1%	42.0%
C4	% total of all scheme members registered for self-service	23.5%	50.4%



KPI Indicator		31/03/2025	31/03/2026
C6	% of all registered users that have logged onto the service in the last 12 months	23.5%	34.9%
C7	Total number of telephone calls received in year	7,265 (from June 2024)	7,382
C8	Total number of email and online channel queries received (received in generic team mailbox (excludes and direct individual team member contact))	4,647	TBC
C9	Number of scheme member events held in year (total of in-person and online)	None	None

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KPI Indicator		31/03/2025	31/03/2026
C10	Number of employer engagement events held in year (in-person and online)	None	None
C11	Number of active members who received a one-to-one (in-person and online)	Developing process to record data for 2026/27	

KPI Indicator		31/03/2026
C12	In 2025/26, number of times a communication (i.e. newsletter) issued to:	
	a) Active members	One - Annual Benefit Statement (August 2025)
	b) Deferred members	One - Annual Benefit Statement (August 2025)
	c) Pensioners	One - Pension Increase newsletter published March 2026

Table D - Administration KPI– Resources

KPI Indicator		31/03/25	31/03/26
D1	Total number of all administration staff (FTE)	24.93 FTE	30.6 FTE
D2	Average service length of all administration staff	8.4 years	7.9 years
D3	Staff vacancy rate as %	13.8%	2.0%
D4	Ratio of all administration staff to total number of scheme members (all staff including management)	1:1,451	1:1,226
D5	Ratio of administration staff (excluding management) to total number of scheme members	1:1,649	1:1,362

Table E - Data Quality

KPI Indicator		31/03/25	31/03/26
E1	Annual Benefit Statements Percentage of annual benefit statements issued as at 31 August	100%	100%
Data category			
E2	Common data score	99.8%	99.8%
E3	Scheme specific data score	98.8%	99.3%

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KPI Indicator		31/03/25	31/03/26
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	0.19%	0.27%
E5	Percentage of active, deferred and pensioner members with an email address held on file	75%	TBC
Employer performance		31/03/25	31/03/26
E6	Percentage of employers set up to make monthly data submissions (1 out of 22 not updating monthly)	96%	96%
E7	Percentage of employers who submitted monthly data on time during the reporting year (of those submitting monthly)	100%	100%

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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 2025/26 is as follows.

Annual Budget	Annual budget £000	Year-end actual £000	Year-end variance £000
Staff costs (Pensions)	1,320	1,294	(26)
Computer and ICT	460	543	83
Postages, printing stationery	5	6	1
Pensions admin other	51	42	(9)
Other central support recharges	162	235	73
Administrative expenses	1,998	2,120	122
Actuarial fees	100	23	(77)
Audit fees	45	46	1
Pensions Investment and Accounting staff costs	271	227	(44)
Central support	22	243	221
Training	10	2	(8)
Subsistence and travel	1	-	(1)
Investment Consultant fees	100	98	(2)
Performance management fees	50	28	(22)
Tax & legal expenses	10	17	7
Oversight and governance	609	684	75
Investment expenses	350	465	115
Custodian fees	100	70	(30)
Transaction costs	350	738	388
Fund Manager fees	10,556	9,213	(1,343)
Management fees	11,356	10,486	(870)
Overall total	13,963	13,290	(673)

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

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Administrative expenses – overspend due to higher than anticipated ICT costs (due to development work by systems provider incorporate the McCloud remedy into calculations) and central support charges.

Oversight and governance – the underspend on actuarial fees was due to less actuarial work being required and implementing improved processes to recharge employers. The underspend on staff costs was due to a Principal Accounting Technician staff vacancy.

Overspend on central support charges - a budget is set for central support charges, but these are not finalised until the year end central support calculation is completed by Highland Council Finance. A process of review is in place with the Council's Finance team for any implications for subsequent years.

Management fees – the level of transaction costs was due to private equity underlying transaction costs and equity portfolio reallocations in the year.

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Contributions made to the Fund in 2025/26

During 2025/26, members and employers paid the following contributions.

	25/26 Employees contributions	25/26 Employers contributions	Total contributions
Scheduled Bodies	£000	£000	£000
The Highland Council	11,803	35,136	46,939
Comhairle nan Eilean Siar	3,052	9,044	12,096
Highland & Western Isles Valuation Joint Board	126	346	472
HITRANS	58	148	206
Inverness College	442	1,233	1,675
Scottish Police Authority	652	1,668	2,320
UHI North, West and Hebrides	426	1,248	1,674
Total Scheduled Bodies	16,559	48,823	65,382
Admitted Bodies			
An Comunn Gàidhealach	12	38	50
Bòrd na Gàidhlig	57	146	203
Cromarty Firth Port Authority	164	367	531
Eden Court Theatre	10	(38)	(28)
Forth & Oban Limited	6	-	6
Hebridean Housing Partnership Limited	136	368	504
Highland Blindcraft	16	72	88
Highland & Islands Enterprise (HIE)	76	245	321
High Life Highland	1,192	3,492	4,684
Inverness Harbour Trust	5	54	59
Morrison FM	12	-	12
NHS Highland	803	2,282	3,085
Skills Development Scotland	37	218	255
Stornoway Port Authority	96	231	327
University of the Highlands & Islands	297	1,333	1,630
WIPRO Holdings (UK) Limited (exit 1/3/26)	3	-	3
Total Admitted Bodies	2,921	8,808	11,729
Total	19,480	57,631	77,111

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Cashflow

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

Pension Fund Account	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	£000	£000	£000	£000	£000	£000
Contributions received and transfers in	63,111	66,237	81,804	77,946	75,948	82,310
Pensions paid and transfers out	(74,394)	(70,454)	(76,079)	(82,017)	(115,746)	(100,138)
Net cash flow	(11,283)	(4,217)	5,725	(4,071)	(39,798)	(17,828)

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 cashflow negative. This reflects the increasing maturity of the Fund with increased numbers 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.

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Annual Governance Statement Aithris Riaghlachais Bhliadhna

Scope of responsibility

The Highland Council (the Council) acts as Administering Authority for the Highland Pension Fund (the Pension Fund/the 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 (as amended).

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.

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The governance framework has been in place for the year ended 31 March 2026 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 2025/26 was approved by Pensions Committee in September 2025.

<https://www.highland.gov.uk/download/meetings/id/85598/Item%25204.%2520Governance%2520Policy%2520202526>

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.

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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 Global Internal Audit Standards (GIAS) in the UK Public Sector. This requires the Chief Audit Executive (Strategic Lead (Audit & Risk) to:

"... prepare an overall conclusion at least annually in support of wider governance reporting, mindful of any specific sector obligations or processes. This overall conclusion must encompass governance, risk management and control."

"... report annually on the results of the quality assurance including progress against action plans to address instances of non-conformance."

These requirements were met by the Internal Audit Annual Report 2025/26 being presented to the Audit Committee on 27/05/26. An annual report for the Pension Fund is also prepared and was provided to the Pensions Committee on 18/06/26. The following information has been extracted from the 2025/26 annual report:

Assurances from Fund Managers and Global Custodian

The Fund Managers and the Global Custodian normally each provide an annual assurance report (AAF 01/20/ ISAE 3402 or Sarbanes-Oxley based reporting for US-based organisations) which sets out the control procedures in place during the year, and includes an assessment, by an independent auditor, 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 to provide assurance that controls remained unchanged. Reports and bridging letters for 14 of the 15 Fund Managers, and the Global Custodian were provided.

One Fund Manager had not yet provided a report for the period 01/04/25 to 31/03/26 as this is not due until June 2026. The Fund Manager confirmed that they do not provide bridging letters in relation to the Report on Internal Controls. Instead, the Fund Manager provided a statement '*We confirm that since 31 March 2025 the controls in operation continue to be designed effectively in order to meet the control objectives as outlined in the report for the year to 31 March 2025. In addition, since that date, we are not aware of any significant weaknesses identified within our internal control environment which would result in a qualified opinion within the report for the year to 31 March 2026*'.

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Review of the assurance reports provided showed that:

- 12 AAF 01/20/ISAE 3402 reports were received covering 11 Fund Managers and the Global Custodian. These provided an unqualified opinion of reasonable assurance.
- 2 Fund Managers (US-based organisations) provided alternative assurance in the form of Sarbanes-Oxley reporting. These organisations were subject to different legislative requirements and provided assurance through Form 10-K and 10-Q reporting. While this provides assurance in respect of the internal controls over financial reporting, it is not directly equivalent to ISAE 3402 assurance, particularly in relation to service organisation control.

In considering these assurances it was noted that:

- None of the reports reviewed fully aligned with the Pension Fund financial year (01/04/25 to 31/03/26). As a result, reliance was placed on bridging letters and confirmations to provide assurance for the remaining periods. These confirmations are not independently audited and therefore may reduce the level of assurance available.
- Fund Managers and the Global Custodian outsourced some of their services/ systems to third parties (sub-service organisations). The normal approach is for the auditors to use the “carve out” method by excluding the sub-service’s control procedures from the scope of their work. Consequently, the controls operated by third-party providers were not subject to independent audit testing, and their control environments were not fully evaluated.
- Reports identified that certain control objectives could only be achieved where complementary controls operated by the Complimentary User Entity are suitably designed and operating effectively. These controls were not evaluated by the service auditors, and therefore reliance is placed on the effectiveness of the User Entity’s own internal controls.

2025/26 Internal Audit Plan

In accordance with the GIAS requirements, a risk based tactical audit plan is produced each year and submitted for approval to the Pensions Committee. The 2025/26 Internal Audit plan was agreed by the Pensions Committee on 12/02/25 (<https://www.highland.gov.uk/meetings/meeting/5122/pensions-committee-and-board>). This was comprised of the following:

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- Review of the systems of internal control to inform the Fund's Annual Governance Statement and the Internal Audit Annual Report 2024/25. This was completed and considered by the Committee on 04/09/25
<https://www.highland.gov.uk/meetings/meeting/5225/pensions-committee-and-board>
- Pension Fund – review of new software system and payment arrangements. This report was considered by the Committee on 16/03/26 (<https://www.highland.gov.uk/meetings/meeting/5320/pensions-committee-and-board>). It had the opinion of “Substantial Assurance” and concluded that there were good controls in place to ensure that pensioner payees were set up, paid, amended and cancelled correctly. The report contained 3 audit recommendations comprising of 1 medium and 2 low grades. The first recommendation identified that the existing controls to mitigate against fraud could be further strengthened. A number of different actions to address this recommendation were agreed and are now complete. The low grade recommendations related to procedural matters, the first being the need for a documented procedure covering the bank to ledger reconciliation process and more detailed written procedures setting out practice which could then be shared across the Pensions Team. These actions are complete with the exception of one action (see (3) below).

Action Tracking

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.

Audit Name	Report Date	Medium		Low		Open actions Total
		No. Recs	Open actions	No. Recs	Open actions	
Pensions Fund Investments	08/09/21	0	0	1	1	1
Pension Fund Contributions	06/02/23	2	1	1	0	1
Pension Fund Payroll Payments	27/02/26	1	0	2	1	1
Total		3	1	4	2	3

Note: More than one action may have been agreed in response to a recommendation.

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(1) Pension Fund Investments (1 Low priority Action)

The Investment Advisor tender was completed with the new advisor in post from November 2025. It took 8 months for this process to be completed, and this was procured using the LGPS framework.

The Custodian tender remains outstanding. The LGPS framework for custodian contract is to be used and work is underway with Procurement to move this forward. The Procurement Approval Group approved this submission on 06/05/26. In view of how long it takes to run a procurement exercise, a revised date of December 2026 is considered appropriate. (Original target date 31/12/22, revised target date 31/12/26).

(2) Pension Fund Contributions (1 Medium priority action)

The backlog of leavers/ retirements/ deaths and re-employment/ aggregation cases should be addressed, and a full year-end reconciliation carried out as soon as possible.

The next couple of years are shaping up to be busiest ever experienced with increased statutory requirements and it is key that the team address the backlogs that have increased since the Career Average Revalued Earnings scheme commenced on 01/04/15. The Service Plan 2023/24 included a proposal for a team specifically focused on addressing backlogs. During 2025/26 the performance of processing leavers/ retirements/ deaths had improved, but there continues to be high volumes of aggregation cases. The 2026/27 budget approved by the Pensions Committee includes additional staff resource to support reducing outstanding cases, with a focus on aggregations. 5 pension technicians are now in post; it will take a period of 6-12 months for these staff to be fully trained and to see the impact on workloads. (Original action date 31/10/24, Revised action date 31/03/27).

(3) Pension Fund Payroll Payments (1 Low priority action)

There should be a detailed procedure for reconciling the bank to ledger including explanations of all sections of the spreadsheet. The procedure should ensure that by year end all transactions have been reconciled or a decision made to write off and journal appropriately. Procedure note will be included in the spreadsheet use to complete the bank to ledger reconciliation. The note will document that by year end decision will be taken on write offs for current financial year where appropriate. (Original action date 30/04/26, Revised action date 31/07/26).

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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 2026.

Derek Brown
Chief Executive

Paul Oldham
Chair
Pensions Committee

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

The Highland Pension Fund

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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 2025/26 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. The minutes of the Investment Sub Committee also go to full Council.

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Principle	Fully Compliant and Comments	
<p>That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> • 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	<p>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.</p> <p>In addition, Fund Managers attend the Investment Sub Committee on a rotational basis.</p>
Representation		
<p>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.</p>	Yes	<p>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.</p> <p>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.</p>
Selection and Role of Lay Members		
<p>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.</p>	Yes	<p>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.</p>
<p>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.</p>	Yes	<p>The declaration of Members' interests is a standard item on the agenda of the Pension Fund Committee, Pension Board and Investment Sub Committee.</p>
Voting		
<p>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.</p>	Yes	<p>The policy on voting rights is clearly stated in the remits of the Pension Committee, Board and Investment Sub Committee.</p>

The Highland Pension Fund

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Principle	Fully Compliant and Comments	
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	<p>There is a training, knowledge and skills policy in place which was approved by Pensions Committee in September 2025 and 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 2025/26.</p> <p>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.</p>
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.
Meeting Frequency		
That an administering authority's main committee or committees meet at least quarterly.	No	<p>The Pensions Committee and Board meet twice a year with the option to hold special meetings as necessary. In 2025/26 a total of 3 meetings was held due to requirements to approve the Annual Accounts in December 2025.</p> <p>For financial year 2026/27, 4 meetings of the Pension Committee and Board are scheduled with Investment Sub Committee meeting on the same day.</p>
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 meet.	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.

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Principle	Fully Compliant and Comments	
		For financial year 2026/27, 4 meetings of the Pension Committee and Board are scheduled with Investment Sub Committee meeting on the same day.
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 are Scheme Members' representatives from the Pensions Board that attend the Pensions Committee. The Pensions Board has an equal number of representatives from 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.
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	<p>The Highland Council publishes governance documents and communicates regularly with employers and scheme members.</p> <p>https://www.highlandpensionfund.org/resources/</p> <p>Internal Audit complete a review of the internal controls for the Pension Fund which is included in the Annual Governance Statement in the accounts.</p>

Derek Brown
Chief Executive

Paul Oldham
Chair
Pensions Committee

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

The Highland Pension Fund

Unaudited Annual Report and Annual Accounts 2025/26

Statement of Responsibilities

Aithris Dhleastanasan airson nan Cunntasan Bliadhna

The Authority's Responsibilities

The Highland Council, as the administering authority for the Highland 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

Paul Oldham
Chair
Pensions Committee

The Highland Pension Fund

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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 2026.

Brian Porter CPFA
Chief Officer, Corporate Finance

The Highland Pension Fund

Unaudited Annual Report and Annual Accounts 2025/26

Independent Auditor's Report

Aithisg Neach-sgrùdaidh Neo-eisimeilich

The Highland Pension Fund

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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.

2024/25		Notes	2025/26
£000	Dealings with members, employers and others directly involved in the scheme		£000
72,998	Contributions receivable	8	77,111
2,950	Transfers in from other pension funds	9	5,199
<u>75,948</u>			<u>82,310</u>
(87,592)	Benefits payable	10	(95,265)
(28,154)	Payments to and on account of leavers	11	(4,873)
<u>(115,746)</u>			<u>(100,138)</u>
(39,798)	Net additions/(reductions) from dealings with members		(17,828)
(14,217)	Management expenses	12	(13,290)
(54,015)	Net additions/(withdrawals) including fund management expenses		(31,118)
	Returns on Investments		
45,513	Investment income	13	41,186
(282)	Taxes on income from equities		(370)
64,472	Profit and (losses) on disposal of investments and changes in values of investments	14.1	151,462
<u>109,703</u>	Net Return on Investments		<u>192,278</u>
55,688	Net increase/(decrease) in the net assets available for benefits during the year		161,160
2,659,106	Opening net assets as at the start of the year		2,714,794
2,714,794	Closing net assets as at the end of the year		2,875,954

The notes on pages 69 to 116 form part of these financial statements.

The Highland Pension Fund

Unaudited Annual Report and Annual Accounts 2025/26

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 31/03/25 £000		Notes	As at 31/03/26 £000
2,748,352	Investment assets		2,827,835
(55,601)	Investment liabilities		-
<hr/>			<hr/>
2,692,751		14.1	2,827,835
17,148	Cash deposits		36,954
2,217	Investment income due		2,349
1,583	Amounts receivable for sales		-
(3,486)	Amounts payable for purchases		-
<hr/>			<hr/>
2,710,213	Total net investment assets		2,867,138
482	Long term debtors	24	554
	Current assets		
7,212	Short term debtors		8,078
4,918	Bank accounts		7,244
<hr/>			<hr/>
12,130		23	15,322
	Less current liabilities		
(8,031)	Short term creditors	25	(7,060)
<hr/>			<hr/>
4,099	Net current assets		8,262
<hr/>			<hr/>
2,714,794	Closing net assets as at the end of the year available to fund benefits at the period end¹		2,875,954

The notes on pages 69 to 116 form part of these financial statements.

The unaudited accounts were issued on 25 June 2026.

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.

The Highland Pension Fund

Unaudited Annual Report and Annual Accounts 2025/26

Notes to Accounts

Notaichean air Cunntasan

Accounting Policies

1. Description of Fund

The Highland Council is the administering authority of the Highland 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 and Investment of Funds) Regulations 2010 (as amended), 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 (as amended).

The Administering Authority (The Highland Council) runs the Highland 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 2025 to 31 March 2026 in the Triennial Actuarial Valuation report 2023. In addition to this, the secondary rate (past service contributions) for 2025/26 was £820,000.

The Highland Pension Fund

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- **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 2025/26 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.

The Highland Pension Fund

Unaudited Annual Report and Annual Accounts 2025/26

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 (as amended).

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.

The Highland Pension Fund

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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.

The Highland Pension Fund

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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 2026 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 2026 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.

The Highland Pension Fund

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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 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(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (as amended) but are disclosed as a note only (Note 19).

The Highland Pension Fund

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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 accounting standards will be adopted within the 2026/27 Code effective from 1 April 2026. There is therefore no impact on the 2025/26 financial statements. None of these standards below are expected to have a significant impact on the 2026/27 financial statements.

- Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (Amendments to Heritage assets).
- Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7) issued in May 2024.
- Annual improvements to IFRS accounting standards – Volume 11 issued in July 2024.

The Highland Pension Fund

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- Contracts Referencing Nature-dependent Electricity (Amendments to IFRS 9 and IFRS 7) issued in December 2024.

5. Critical Judgements in Applying Accounting Policies

There were no critical judgements used in applying accounting policies for 2025/26. 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 2026 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	<p>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.</p> <p>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.</p> <p>The estimate is subject to significant variances based on changes to the underlying assumptions which are</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured.</p> <ul style="list-style-type: none">• 0.1% p.a. decrease in the discount rate assumption would result in an increase of approximately 2% to liabilities (£33m).• 1-year increase in member life expectancy would result in an increase in the liabilities of 4% (£80m).• 0.1% p.a. increase in salary increase rate would result in an increase of approximately to liabilities of £2m.• 0.1% p.a. increase in the pension increase rate would result in an increase of approximately 2% to liabilities (£31m).

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Item	Uncertainties	Effect if actual results differ from assumptions
	<p>agreed with the actuary and have been summarised in Note 18.</p> <p>These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.</p>	
<p>Private equity and infrastructure</p>	<p>Private equity and infrastructure investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines (as at 31 March 2026).</p> <p>These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p>	<p>The total private equity investments in the financial statements are £163.4m. While the Pension Fund is satisfied the assets are appropriately valued as at 31 March 2026, there is a risk the valuation could move over the next 12 months. For example, a potential market movement of 27.0% up or down could result in an increase in value to £207.5m or decrease to £119.3m.</p> <p>The total infrastructure investments in the financial statements are £187.7m. A potential market movement of 14.6% up or down could result in an increase in value to £215.1m or decrease to £160.3m.</p>

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Item	Uncertainties	Effect if actual results differ from assumptions
Property debt, private lending and pooled investments (Property)	<p>Investments are valued by the Fund Manager using critical accounting estimates and judgements from the fund's financial statements.</p> <p>These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p>	<p>The total property debt investments in the financial statements are £68.0m. While the Pension Fund is satisfied the assets are appropriately valued as at 31 March 2026, there is a risk the valuation could move over the next 12 months. For example, a potential market movement of 9.1% up or down could result in an increase in value to £74.2m or decrease to £61.8m.</p> <p>The total direct lending investments in the financial statements are £82.8m. A potential market movement of 9.1% up or down could result in an increase in value to £90.4m or decrease to £75.3m.</p> <p>The total property investments in the financial statements are £211.1m. A potential market movement of 15.9% up or down could result in an increase in value to £244.6m or decrease to £177.5m.</p>

7. Events after the Reporting Date

The unaudited statement of accounts was issued on 25 June 2026. Events taking place after this date are not reflected in the accounts or notes.

There have been no other events since 31 March 2026 and up to the date these accounts were authorised that require any adjustment to these accounts.

8. Contributions Receivable

By category	2024/25	2025/26
	£000	£000
Employees' pension contributions	18,325	19,480
Employers' pension contributions	54,673	57,631
Total contributions	72,998	77,111

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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 2025/26 is £0.820m (page 4 of 2023 Actuarial Valuation).

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

Analysis of Contributions by Authority

	2025/26			
	Highland Council	Scheduled Bodies	Admitted Bodies	Totals
	£000	£000	£000	£000
Normal contribution	34,934	13,685	8,287	56,906
Deficit funding	-	-	65	65
	34,934	13,685	8,352	56,971
Strain on Fund	202	2	456	660
Employer's contributions	35,136	13,687	8,808	57,631
Members' pension contributions	11,803	4,756	2,921	19,480
Total contributions	46,939	18,443	11,729	77,111

	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	-	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

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Number of Contributors and Pensioners

2025/26	Contributors	Pensioners	Deferred Pensioners	Total
Highland Council	8,477	9,245	5,870	23,592
Scheduled Bodies	3,048	2,820	2,405	8,273
Admitted Bodies	1,771	1,738	1,399	4,908
Total	13,296	13,803	9,674	36,773

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

9. Transfers in from other Pension Funds

	2024/25	2025/26
	£000	£000
Individual transfers	2,950	5,199
	2,950	5,199

10. Benefits Payable

By category	2024/25	2025/26
	£000	£000
Pensions	(68,715)	(72,233)
Lump sum retirement benefits	(16,185)	(19,251)
Lump sum death benefits	(2,692)	(3,781)
	(87,592)	(95,265)

By authority

Highland Council	(53,926)	(58,825)
Scheduled Bodies	(19,695)	(20,697)
Admitted Bodies	(13,971)	(15,743)
	(87,592)	(95,265)

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11. Payments to and on Account of Leavers

	2024/25	2025/26
	£000	£000
Refunds to members leaving service	(296)	(239)
Exit payment	-	(155)
Group transfers	(25,331)	-
Individual transfers	(2,527)	(4,479)
	(28,154)	(4,873)

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 in 2024/25 was in respect of the members in the Scottish Fire and Rescue Service who were transferred to the Strathclyde Pension Fund in January 2025. The exit payment relates to the exit of Sight Action following liquidation.

The last remaining pension scheme member who was an employee of WIPRO has TUPE transferred to the Highland Council effective from 1 March 2026. The Actuary is working on calculating a cessation value to manage the exit of WIPRO from the Fund which will be included in the accounts for 2026/27.

12. Management Expenses

	2024/25	2025/26
	£000	£000
Administrative costs	(1,808)	(2,120)
Investment Management expenses	(11,839)	(10,486)
Oversight and Governance costs	(570)	(684)
	(14,217)	(13,290)

Analysis of Management Expenses

Administrative Costs	2024/25	2025/26
	£000	£000
Administrative costs	(767)	(826)
Employee costs	(1,041)	(1,294)
Total administrative costs	(1,808)	(2,120)

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Investment Management Expenses

2025/26	Management fees £000	Performance fees £000	Transaction costs £000	Other costs £000	Total £000
External management fees invoiced					
Unitised insurance policies	(576)	-	-	-	(576)
Equities	(2,128)	-	(368)	-	(2,496)
Fixed income	(610)	-	-	-	(610)
Property	(447)	-	-	-	(447)
External management fees deducted from capital					
Asset backed securities	(258)	-	-	-	(258)
Equities	(750)	-	-	-	(750)
Private equity	(1,829)	580*	(370)	-	(1,619)
Private debt	(1,012)	-	-	-	(1,012)
Direct lending	(772)	-	-	-	(772)
Hedge fund	(627)	-	-	-	(627)
Infrastructure	(784)	-	-	-	(784)
Custodian fees	-	-	-	(70)	(70)
Investment expenses	-	-	-	(465)	(465)
Total	(9,793)	580	(738)	(535)	(10,486)

*Due to lower valuations for the Partners Group Direct Equity 2011, Partners Group Direct Equity 2014 and Partners Group Secondary VIII funds, performance was below the hurdle, meaning the accrued fees are returned to the fund, resulting in a positive expense.

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)

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2024/25	Management fees £000	Performance fees £000	Transaction costs £000	Other costs £000	Total £000
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)

Oversight and Governance costs	2024/25	2025/26
	£000	£000
Actuarial fees	(51)	(23)
External Audit fees	(38)	(46)
Internal Audit fees	(13)	(23)
Investment advisor fees	(177)	(98)
Performance management	(24)	(28)
Employee costs	(198)	(227)
Central support costs	(65)	(220)
Sundry costs (training etc)	-	(2)
Tax and legal costs	(4)	(17)
Total oversight and governance costs	(570)	(684)
Total Management Expenses	(14,217)	(13,290)

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13. Analysis of Investment Income

	2024/25	2025/26
	£000	£000
Income from equities	6,961	4,814
Income from pooled investments (unit trusts and other managed funds including multi asset credit/fixed income)	4,680	4,668
Pooled property investments	8,353	8,197
Private equity, private debt (property debt and direct lending)	14,572	13,228
Infrastructure	8,181	7,950
Interest on cash deposits	1,561	1,384
Stock lending and other income	1,205	945
	45,513	41,186

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14. Investment Assets

14.1. Reconciliation of Movements in Investments and Derivatives

2025/26	Market	Purchases	Sales	Change	Market
Classifications	value	at cost	proceeds	in	value
	1 Apr 25	derivative	derivative	market	31 Mar 26
	£000	payments	receipts	value	£000
		£000	£000	£000	
Investment assets					
Equities	666,867	618,842	(500,815)	68,174	853,068
<u>Pooled investments</u>					
Unitised ins policies (equities, bonds, cash)	555,578	-	(108,000)	(18,309)	429,269
Fixed income/multi asset credit	690,082	4,926	(3,675)	30,186	721,519
Unit trusts (property)	236,505	1,352	(23,626)	(3,159)	211,072
Hedge fund	96,852	-	(627)	14,736	110,961
<u>Venture capital and partnerships</u>					
Private equity	173,266	12,635	(22,355)	(143)	163,403
Property debt	72,203	30,394	(34,890)	311	68,018
Direct lending	78,620	28,800	(25,620)	1,016	82,816
Infrastructure	175,363	7,950	(784)	5,180	187,709
Equity options	3,016			(3,016)	-
Total Investment assets	2,748,352	704,899	(720,392)	94,976	2,827,835
Investment liabilities					
Currency forwards	(3)			3	-
Equity options	(55,598)	-	-	55,598	-
Total investment liabilities	(55,601)	-	-	55,601	-
Net investment assets	2,692,751	704,899	(720,392)	150,577	2,827,835
Other investment balances					
Cash deposits	17,148			879	36,954
Investment income due	2,217			-	2,349
Amounts receivable for sales	1,583			(4)	-
Amounts payable for purchases	(3,486)			10	-
Total net investment assets	2,710,213			151,462	2,867,138

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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
<u>Pooled investments</u>					
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
<u>Venture capital and partnerships</u>					
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
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

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.

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2024/25			2025/26	
Market Value £000	% of Fund	Manager Analysis	Market Value £000	% of Fund
557,177	20.6	Baillie Gifford (UK and global equity)	306,979	10.7
118,347	4.4	Mirova (global equity)	242,843	8.5
-	-	Dodge & Cox (global equity)	308,643	10.8
118,570	4.4	Fidelity (bonds and gilts)	122,270	4.3
104,781	3.8	Robeco (corporate bonds)	110,907	3.9
167,294	6.2	HSBC (asset backed securities)	175,957	6.1
802,769	29.6	Legal and General (unitised insurance - equity, bonds and cash Index Linked gilts and buy and maintain)	743,562	25.9
243,033	8.9	Schroders (property fund)	212,971	7.4
96,852	3.6	Man Group (alternative risk premia hedge fund)	110,961	3.9
174,811	6.4	Partners Group (private equity)	170,296	5.9
16,400	0.6	Aberdeen Standard Life (private debt)	2,626	0.1
56,182	2.1	BentallGreenOak (property debt)	77,424	2.7
78,626	2.9	CVC (direct lending)	93,982	3.3
175,371	6.5	KKR (Infrastructure)	187,717	6.5
2,710,213	100.0	Combined Fund	2,867,138	100.0

14.3. Top 10 Equity Holdings by Market Value

Holding at 31 March 2026	Market Value £000	% of Total Equity	Classification
Nvidia corp	17,350	1.35	Semi-conductors
Taiwan Semiconductors	15,572	1.21	Semi-conductors
Alphabet	10,839	0.84	Software
Microsoft	10,506	0.82	Software
Amazon	10,167	0.79	Broadline retail
Meta Platforms Inc	8,820	0.69	Software
Tencent Holdings	7,972	0.62	Technology and entertainment
Samsung Electronics	7,251	0.57	Electronics
Royalty Pharma PLC	7,227	0.56	Specialist finance

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Holding at 31 March 2026	Market Value £000	% of Total Equity	Classification
Service Corp International	7,212	0.56	Diversified consumer services
Total	102,916	8.01	

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 some of these are pooled investments, where two or more parties “pool” or combine their investments. These pooled investments benefit from lower transaction costs due to economies of scale and portfolio diversification reduces risk.

Fund Manager & Category	Market Value at 31 March 2025 £000	% of total net assets %	Market Value at 31 March 2026 £000	% of total net assets %
Legal and General (unitised insurance policy – equities, bonds, cash)	502,996	18.5	429,269	14.9
Dodge & Cox (equities)	-	-	308,614	10.7
Mirova (equities)	118,336	4.4	242,840	8.4
KKR Diversified Core Infrastructure	175,363	6.5	187,709	6.5
Legal and General (index linked gilts)	176,263	6.5	185,927	6.5
HSBC (asset backed securities)	167,243	6.2	175,957	6.1
Total net assets available for benefits	2,714,794		2,875,954	

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 £18.181m (31 March 2025 - £28.005m). 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 £18.550m (31 March 2025 - £29.692m) representing 102% of stock lent. Collateral consists of acceptable securities and government debt.

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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 2025/26 was £0.046m (2024/25 £0.048m) 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 £0.945m (2024/25 £1.205m).

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 was fully protected against negative returns, and HPF would 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%.

This protection was allowed to expire, and no further equity protection was put in place. This approach was approved by Investment Sub Committee in December 2025, following professional advice from the Investment Advisor.

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 may hold short term currency forwards for the Fund, though none were held at year end 2025/26.

The use of these forward foreign currency contracts is in line with the investment management agreement between the Fund and the Fund Managers.

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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

There are no equity options at 31 March 2026 following Investment Sub Committee approval in December 2025 that, in view of the long term horizon for the Pension Fund, equity protection was no longer required.

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 Merton model. Black-Scholes Merton 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.

There were no outstanding over-the-counter options at 31 March 2026 following the Investment Committee decision that the equity protection options should expire.

Investment underlying option contract	Expires	Put/ call	Notional holding	Market value 31 Mar 25 £000	Notional holding	Market value 31 Mar 26 £000
Assets						
UK equities	Dec 2025	Put	190	93	-	-
Overseas equities	Dec 2025	Put	3,493	2,923	-	-
				3,016		-
Liabilities						
UK equities	Dec 2025	Put	(190)	(26)	-	-
	Dec 2025	Call	(190)	(248)	-	-
Overseas equities	Dec 2025	Put	(3,493)	(1,050)	-	-
	Dec 2025	Call	(3,493)	(54,273)	-	-
				(55,597)		-
Net purchased/written options at 31 March				(50,500)		-

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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 data.

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

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Description of Asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
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
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

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Description of Asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
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
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 2026.

Asset type	Value as at 31 Mar 2026	Assessed valuation range	Value on increase	Value on decrease
	£000	%	£000	£000
<u>Pooled investment vehicles</u>				
Units trust (property)	211,072	15.90%	244,632	177,512
<u>Venture capital and partnerships</u>				
Private equity	163,403	27.00%	207,522	119,284

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Asset type	Value as at 31 Mar 2026	Assessed valuation range	Value on increase	Value on decrease
	£000	%	£000	£000
Property debt	68,018	9.10%	74,208	61,828
Direct lending	82,816	9.10%	90,352	75,280
Infrastructure	187,709	14.60%	215,115	160,303

Asset type	Value as at 31 Mar 2025	Assessed valuation range	Value on increase	Value on decrease
	£000	%	£000	£000
<u>Pooled investment vehicles</u>				
Units trust (property)	236,505	12.5%	266,068	206,942
<u>Venture capital and partnerships</u>				
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

15.3. Fair Value Hierarchy

Values at 31 March 2026	Quoted market price	Using observable input	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets				
Equities	853,068			853,068
<u>Pooled investments</u>				
Unitised insurance policies (equities, bonds, cash)		429,269		429,269
Fixed income/multi asset credit	286,677	434,842		721,519
Unit trust (property)			211,072	211,072
Hedge fund	60,585	50,376		110,961
<u>Venture capital and partnerships</u>				
Private equity			163,403	163,403

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Values at 31 March 2026	Quoted market price	Using observable input	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets				
Property debt			68,018	68,018
Direct lending			82,816	82,816
Infrastructure			187,709	187,709
Cash deposits	36,954			36,954
Investment income due	2,349			2,349
Total investment assets	1,239,633	914,487	713,018	2,867,138
Total investment liabilities	-	-	-	-
Net investments total	1,239,633	914,487	713,018	2,867,138

Values at 31 March 2025	Quoted market price	Using observable input	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets				
Equities	666,867	-	-	666,867
<u>Pooled investments</u>				
Unitised insurance policies (equities, bonds, cash)	-	555,578	-	555,578
Fixed income/multi asset credit	271,985	418,097	-	690,082
Unit trust (property)	-	-	236,505	236,505
Hedge fund	53,327	43,525	-	96,852
<u>Venture capital and partnerships</u>				
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

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Values at 31 March 2025	Quoted market price	Using observable input	With significant unobservable inputs	Total
	Level 1 £000	Level 2 £000	Level 3 £000	
Financial assets				£000
Amounts receivable for sales	1,583	-	-	1,583
Equity options	-	3,016	-	3,016
Currency forwards	-	-	-	-
Total investment assets	1,013,127	1,020,216	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	1,009,638	964,618	735,957	2,710,213

15.4. Reconciliation of Fair value Measurements within Level 3

2025/26	Pooled investment vehicles	Venture capital and partnerships				
		Units trust (property)	Private equity	Property debt	Direct lending	Infra- structure
		£000	£000	£000	£000	£000
Market value 1 Apr 2025	236,505	173,266	72,203	78,620	175,363	
Purchases during the year and derivative payments	1,352	12,635	30,394	28,800	7,950	
Sales during the year and derivative receipts	(23,626)	(22,355)	(34,890)	(25,620)	(784)	
Unrealised gains/(losses)	(5,278)	(12,603)	(6,101)	244	4,396	
Realised gain	2,119	12,460	6,412	772	784	
Market value 31 March 2026	211,072	163,403	68,018	82,816	187,709	

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

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 2026	Fair value through profit & loss £000	Financial assets at amortised cost £000	Financial liabilities at amortised cost £000	Total £000
Financial assets				
Equities	853,068			853,068
<u>Pooled investments</u>				
Unitised ins policies (equities, bonds, cash)	429,269	-	-	429,269
Fixed income/multi asset credit	721,519	-	-	721,519
Unit trusts (property)	211,072	-	-	211,072
Hedge funds	110,961	-	-	110,961
<u>Venture capital and partnerships</u>				
Private equity	163,403	-	-	163,403
Property debt	68,018	-	-	68,018

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31 March 2026	Fair value through profit & loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
	£000	£000	£000	£000
Direct lending	82,816	-	-	82,816
Infrastructure	187,709	-	-	187,709
Cash deposits	36,090	864	-	36,954
Investment income due	-	2,349	-	2,349
Long term debtors	-	554	-	554
Short term debtors	-	8,078	-	8,078
Bank	-	7,244	-	7,244
Total financial assets	2,863,925	19,089	-	2,883,014

Financial liabilities

Creditors	-	-	(7,060)	(7,060)
Total financial liabilities	-	-	(7,060)	(7,060)
Closing net financial assets	2,863,925	19,089	(7,060)	2,875,954

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
<u>Pooled investments</u>				
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
<u>Venture capital and partnerships</u>				
Private equity	173,266	-	-	173,266
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

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31 March 2025	Fair value through profit & loss £000	Financial assets at amortised cost £000	Financial liabilities at amortised cost £000	Total £000
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

16.2. Net Gains and Losses on Financial Instruments

	2024/25 £000	2025/26 £000
Financial assets		
Fair value through profit and loss	62,951	94,976
Amortised cost – unrealised gains	(596)	885
Financial liabilities		
Fair value through profit and loss	2,117	55,601
Total	64,472	151,462

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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.

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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 2025/26 reporting period.

Asset type	Potential market	Potential market
	movement	movement
	2024/25	2025/26
Global Equities	18.0%	18.6%
Corporate bonds (medium term)	9.5%	6.3%
Overseas corporate bonds	9.5%	6.3%
Asset backed securities	9.5%*	3.1%
UK fixed gilts (medium term)	11.0%	5.4%
UK index linked gilts (medium term)	9.0%	6.7%
Property	12.5%	15.9%
Private Equity	20.0%	27.0%
Property Debt	10.0%	9.1%
Multi Asset Credit	10.3%	6.1%
Direct Lending	8.5%	9.1%
Alternative risk premia strategies	8.0%	4.9%
Infrastructure	14.5%	14.6%
Cash	1.2%	0.3%

* The previous investment advisor did not provide a potential market movement specifically for asset backed securities (ABS), which were a new investment for 2024/25. The ABS balance was included with overseas corporate bonds for 2024/25.

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets.

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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 2026 £000	Percentage change %	Value on increase £000	Value on decrease £000
Cash deposits	36,954	0.3	37,065	36,843
Cash (pooled funds)	61,993	0.3	62,179	61,807
<u>Pooled investments</u>				
Global equities (includes UK)	1,197,020	18.6	1,419,666	974,374
UK corporate bonds	101,704	6.3	108,111	95,297
Overseas corporate bonds	30,077	6.3	31,972	28,182
Asset backed securities	175,957	3.1	181,412	170,502
Fixed income multi asset credit	105,837	6.1	112,293	99,381
UK fixed gilts	77,124	5.4	81,289	72,959
UK index linked gilts	254,144	6.7	271,172	237,116
Unit trusts property	211,072	15.9	244,632	177,512
Hedge funds	110,961	4.9	116,398	105,524
<u>Venture capital and partnerships</u>				
Private equity	163,403	27.0	207,522	119,284
Property debt	68,018	9.1	74,208	61,828
Direct lending	82,816	9.1	90,352	75,280
Infrastructure	187,709	14.6	215,115	160,303
<u>Other investment balances</u>				
Investment income due	2,349	-	2,349	2,349
Net investment assets	2,867,138		3,255,735	2,478,541

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Asset type	Value as at 31 Mar 2025 £000	Percentage change %	Value on increase £000	Value on decrease £000
Cash deposits	17,148	1.2	17,354	16,942
Cash (pooled funds)	159,142	1.2	161,052	157,232
<u>Pooled investments</u>				
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	19,563	9.5	21,421	17,704
Asset backed securities *	167,243	9.5	183,132	151,355
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
<u>Venture capital and partnerships</u>				
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
<u>Other investment balances</u>				
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

* percentage change was that provided for overseas corporate bonds as not specifically provided for ABS by investment advisor in place at 31 March 2025. To align with 2025/26 disclosures, the ABS have been shown separately from overseas corporate bonds.

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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 2026 and 31 March 2025 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset type	31 March 2025	31 March 2026
	£000	£000
Cash and cash equivalents	17,148	36,954
Bank accounts	4,918	7,244
Fixed interest gilts	78,009	77,124
Index linked gilts	242,351	254,144
Fixed income	394,827	413,576
Total	737,253	789,042

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:

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Asset type	Carrying amount as at 31 March 2026	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£000	£000	£000
Cash and cash equivalents	36,954	370	(370)
Bank accounts	7,244	72	(72)
Fixed interest gilts	77,124	771	(771)
Index linked gilts	254,144	2,541	(2,541)
Fixed income	413,576	4,136	(4,136)
Total	789,042	7,890	(7,890)

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)

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.

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The following table summarises the Fund's currency exposure as at 31 March 2026 and as at the previous period end.

Currency exposure – asset type	Asset value as at 31 March 2025	Asset value as at 31 March 2026
	£000	£000
Overseas quoted securities and cash	674,965	856,728
Overseas unitised insurance policies	318,749	343,951
Overseas property fund	6,377	993
Overseas unquoted private equity *	173,266	163,403
Overseas fixed income (bonds)	108,814	129,483
Overseas asset backed securities	167,243	175,957
Overseas infrastructure	175,363	187,709
Total overseas assets	1,624,777	1,858,224

* To align with 2025/26 disclosures, the ABS have been shown separately from overseas fixed income (bonds).

Currency risk - sensitivity analysis

An 8.7% fluctuation in currency is considered reasonable based on the investment advisor's analysis of the one year expected standard deviation for an individual currency as at 31 March 2026. This assumes no diversification with other assets and, in particular, that interest rates remain constant. An 8.7% 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 2026	Change to net assets available to pay benefits	
		+8.7%	-8.7%
	£000	£000	£000
Overseas quoted securities and cash	856,728	931,263	782,193
Overseas unitised insurance policies (quoted in GBP no other values available)	343,951	373,875	314,027
Overseas property fund	993	1,079	907

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Currency exposure - asset type	Asset value 31 March 2026	Change to net assets available to pay benefits	
		+8.7%	-8.7%
	£000	£000	£000
Overseas unquoted private equity (EUR)	163,403	177,619	149,187
Overseas fixed income (bonds)	129,483	140,748	118,218
Overseas asset backed securities	175,957	191,265	160,649
Overseas infrastructure (USD)	187,709	204,040	171,378
Total change in assets available	1,858,224	2,019,889	1,696,559

The fluctuation rate of 13% used for 2024/25 was based on the previous investment advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumed 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) *	108,814	122,960	94,668
Overseas asset backed securities	167,243	188,984	145,501
Overseas infrastructure (USD)	175,363	198,160	152,566
Total change in assets available	1,624,777	1,835,998	1,413,555

* To align with 2025/26 disclosures, the ABS have been shown separately from overseas fixed income (bonds).

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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. The Fund had the following cash holdings at the year end.

	31 March 2025	31 March 2026
	£000	£000
Northern Trust Global Investment liquidity funds	16,131	36,090
Northern Trust Cash deposits	1,017	864
	17,148	36,954

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

	31 March 2025	31 March 2026
	£000	£000
Virgin Money accounts	4,918	7,244

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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, 2025/26 investment income (net of tax) was £40.8m (2024/25 investment income £45.3m), 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 2025/26 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.

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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 117). 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 2025	31 March 2026
	£m	£m
Present Value of Promised Retirement Benefits*	1,949	2,010
Net Assets per Annual Accounts	2,715	2,876

* Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2026.

Note that the above figures at 31 March 2025 and 31 March 2026 include an allowance for the "McCloud ruling" as this was allowed for in the calculation of the latest funding valuations results (2023) which was rolled forward.

The Actuary estimates that the liability at 31 March 2026 is £2,010m which comprises of £929m in respect of employee members, £301m in respect of deferred pensioners and £780m 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 2026 is to decrease the actuarial present value by £60m. The Actuary also estimates that the impact of the change in demographic and longevity assumptions is to increase the actuarial present value by £12m.

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Financial Assumptions	31 March 2025	31 March 2026
	%p.a.	%p.a.
Inflation/Pension Increase Rate	2.80	3.00
Salary Increase Rate	3.60	3.80
Discount Rate	5.80	6.20

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 2026 follows the same principles to those adopted at 31 March 2025 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.

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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.

Salary increase assumption

The assumption set out in the Actuarial Valuation 2026 for salary increases is 3.8% 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.

	2025/26		2024/25	
	Males	Females	Males	Females
Current Pensioners	20.7 years	23.5 years	20.6 years	23.4 years
Future Pensioners*	21.6 years	25.1 years	21.5 years	25.1 years

*Aged 45 at the 2023 Valuation

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 4 (2) (b) of the Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (SI 2010/233), 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 2026 is £18.428m (2024/25 £15.999m) and AVC contributions of £3.469m (2024/25 £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.

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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 £3.6m (2024/25 £3.7m).

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

21. Related Parties

The Highland 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 Fund also has a relationship with all the employer bodies in the Fund listed on page 51.

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.

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.

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Contributions of £46.939m were paid by the Highland Council to the Fund during 2025/26 as set out in Note 8 (£42.528m in 2024/25) and central administration costs of £2.000m (£1.535m in 2024/25) 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 2026, the Pension Fund had a net intercompany debtor of £5.121m (31 March 2025 £4.828m) 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 2026/27. 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 2026 there is a contingent liability of £0.883m (£0.826m in 2024/25) for frozen refunds representing 2,490 (2,463 in 2024/25) 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 2026 the Highland 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 funds 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.

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Investment	Commitment	Undrawn commitments 31/03/2025	Undrawn commitments 31/03/2026
Partners Group Global Value 2011	€50.000m	£5.846m (€6.986m)	£6.104m (€6.986m)
Partners Group Global Value 2014	€80.000m	£8.544m (€10.209m)	£8.920m (€10.209m)
Partners Group Global Value 2017	€67.000m	£15.446m (€18.456m)	£16.126m (€18.456m)
Partners Group Direct Equity IV EUR SCA SICAV RAIF (2019)	€55.000m	£4.787m (€5.720m)	£4.998m (€5.720m)
Partners Group 2020	€20.000m	£6.338m (€7.573m)	£6.093m (€6.973m)
Partners Group Direct Equity V EUR SCA SICAV RAIF (2023)	€29.000m	£18.163m (€21.703m)	£13.515m (€15.468m)
Partners Group Secondary VIII EUR SCA SICAV RAIF (2023)	€29.000m	£22.328m (€26.680m)	£17.167m (€19.533m)
CVC European Direct Lending 2021 fund	£100.000m	£21.651m	£21.651m
CVC European Direct Lending IV fund	£80.000m	N/A	£51.200m
BentallGreenOak Secured Lending III	£100.000m	£43.793m	£33.335m

23. Current Assets

2024/25	Debtors	2025/26
£000		£000
1,235	Contributions due - employees	1,578
4,630	Contributions due - employers	4,647
93	Strain on fund costs	201
-	- Transfer values receivable (joiners)	469
1,254	Other short term debtors	1,183
7,212	Total short term debtors	8,078
4,918	Bank accounts	7,244
12,130	Total current assets	15,322

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24. Long Term Debtors

2024/25	Debtors	2025/26
£000		£000
482	Reimbursement of lifetime tax allowances	554
482	Total long term debtors	554

25. Current Liabilities

2024/25	Creditors	2025/26
£000		£000
(4,771)	Sundry creditors	(4,280)
(678)	Transfer values payable (leavers)	(713)
(2,582)	Benefits payable	(2,067)
(8,031)	Total short term creditors	(7,060)

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Actuarial Statement as at 31 March 2026 Aithris Achdaireach mar aig 31 Màrt 2026

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended). 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:

- to ensure the long-term solvency of the overall Fund
- to ensure the solvency of each individual employers' share of the Fund based on their expected term of participation in the Fund
- to maximise the returns from investments within reasonable and considered risk parameters, and hence minimise the cost to the employer
- to minimise the degree of short-term change in employer contribution rates
- to ensure that sufficient cash is available to meet all liabilities as they fall due for payment
- to help employers manage their pension liabilities
- where practical and cost effective, to make allowance for the different characteristics of different employers and groups of employers

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 75% likelihood that the Fund will achieve the funding target 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.

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Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and likelihood 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 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

* Aged 45 at the 2023 Valuation

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

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Experience over the period since 31 March 2023

Markets were disrupted by the ongoing war in Ukraine and inflationary pressures in 2023, impacting on investment returns achieved by the Fund's assets. Asset performance improved in 2024 and early 2025; however increasing uncertainty in the geo-political environment (eg US tariffs, Middle East conflict) have caused significant short-term market volatility. Overall, the Fund's investment returns since March 2023 have been positive.

Despite ongoing higher levels of inflation in the UK (compared to recent experience) resulting in cumulative LGPS benefit increases of 12.6% since 2023 (6.7% in April 2024, 1.7% in 2025 and 3.8% in April 2026) and a slight increase in the Fund's liabilities, the funding position is likely to be stronger than at the previous formal valuation at 31 March 2023.

The next actuarial valuation will be carried out as at 31 March 2026, and will be finalised by 31 March 2027. The Funding Strategy Statement will also be reviewed during the valuation, and a revised version will come into effect from 1 April 2027.

Prepared by: Reece Notman FFA C.Act

21 May 2026

For and on behalf of Hymans Robertson LLP

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Contact Us

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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 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>

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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.

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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)	<p>Employer contributions are made up of two elements:</p> <ol style="list-style-type: none">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; plus2) 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. <p>When referring to the overall primary and Secondary rates for the fund:</p> <ol style="list-style-type: none">1) The Primary rate (17.8% for financial year 2025/26 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 (£0.820m for financial year 2025/26 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

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	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.

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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. 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

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	<p>their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.</p>
Rates and Adjustments Certificate	<p>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.</p>
Scheduled Bodies	<p>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).</p>
Securities Lending	<p>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.</p>
Solvency	<p>In a funding context, this usually refers to a 100% funding level, i.e. where the assets value equals the liabilities value.</p>
Stabilisation	<p>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.</p>
Theoretical contribution rate	<p>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.</p>
Underwriting	<p>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.</p>

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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.