AGENDA ITEM 3

DRAFT

FALKIRK COUNCIL

MINUTE of JOINT MEETING of the PENSIONS COMMITTEE/PANEL held in the MUNICIPAL BUILDINGS, FALKIRK on THURSDAY 12 MARCH 2015 at 9.30 A.M.

PRESENT:

Councillors:
Jim Blackwood
Tom Coleman
Depute Provost John Patrick (Convener)
Dr Craig R Martin

Councillor Colin Campbell, Stirling Council
Councillor Archie Drummond, Clackmannanshire Council
Jim Boyle, Stirling Council
Gordon Laidlaw, Scottish Autism
Ian McLean, Pensioner Representative
Alistair Redpath, Pensioner Representative
Jennifer Welsh, SEPA

ATTENDING:

Alastair McGirr; Pensions Manager
Bryan Smail, Chief Finance Officer
Antonia Sobieraj, Committee Services Officer

ALSO IN ATTENDANCE:

Bruce Miller, Investment Manager, Lothian Pension Fund
Catherine McFadyen and Linda Selman, Hymans Robertson
Jim Rundell and Louise Dodds, Audit Scotland
Patrick Edwardson and Chris Murphy, Baillie Gifford

PE40. APOLOGIES

Apologies were intimated on behalf of Councillors Carleschi and C Martin, Falkirk Council.

PE41. DECLARATIONS OF INTEREST

No declarations were made.

PE42. MINUTE

Decision

The minute of the joint meeting of the Pensions Committee and Panel on 11 December 2014 was approved.

PE43. PENSION FUND ANNUAL AUDIT PLAN

The Committee considered a report by the Chief Finance Officer presenting Audit Scotland's Annual Audit Plan for 2014/2015.

A verbal update was provided by Audit Scotland representatives highlighting areas which were likely to be significant during the audit. These included Investment Management Expenses, preparations for the new CARE Scheme and the vacant Pensions Accountant post. The Committee and Panel members considered that these issues were important areas of oversight.

Decision

The Committee and Panel noted the issuing of Audit Scotland's Annual Audit Plan for 2014/15 consistent with the audit of the Falkirk Pension Fund Annual Report and Accounts for that year.

PE44. PENSION FUND - FUNDING STRATEGY STATEMENT

The Committee considered a report by the Chief Finance Officer on the Pension Fund's Funding Strategy Statement.

The report detailed that the Funding Strategy Statement had been updated to take account of the 2014 Actuarial Valuation process and included information on the governance arrangements.

Decision

The Committee and Panel noted the report.

The Committee approved the revised Funding Strategy Statement of the Falkirk Pension Fund.

PE45. PENSION FUND - ACTUARIAL VALUATION AS AT 31 MARCH 2014

The Committee considered a report by the Chief Finance Officer providing information on the detail of the valuation of the Pension Fund as at 31 March 2014 produced by the Fund Actuary, Hymans Robertson in accordance with Regulation 32 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.

The report indicated:-

- The purpose of the valuation to establish the financial position of the Fund and set an appropriate rate of employers' contribution for the next three years (i.e. from April 2015 to March 2018); and
- The signed valuation report on the whole Fund position and the contribution rates by each of the Fund's participating employers.

The Committee also heard from Catherine McFadyen and Linda Selman, Hyman's Robertson in clarification.

The Convener thanked Ms McFadyen and Ms Selman for the comprehensive information presented.

Decision

The Committee and Panel noted the report and associated presentations.

PE46. PENSION FUND - REVIEW OF INVESTMENT STRATEGY

The Committee considered a report by the Chief Finance Officer providing an update on the progress of the Pension Fund's Investment Strategy.

The report confirmed:-

- The level of risk associated with various investment strategies, the options for reducing that risk and how the chosen investment strategy can be put into practice;
- The attached an explanatory Appendix from the Fund Actuary Hymans Robertson;
- That the Committee on 11 December 2014 agreed that the Strategy review should proceed to determine:-
  - the level of risk that the Committee was prepared to tolerate;
  - the mix of growth and defensive assets that the Fund should target;
  - the mix of assets the Fund should hold to meet its objectives; and
  - the asset management arrangements; and.
- The required input from the in house Investment Team;
- The Strategy and associated Risk Management;
- The objective for a 100% fully funded Fund by 2035;
- The details of the Hymans Robertson Actuarial modelling;
- The market influences;
- The balance between active and passive management; and
- The implementation of the Strategy.

Decision

The Committee and Panel noted the report including the range of Strategies set out in paragraph 3. 5 of the report and the risks associated with these Strategies.

The Committee agreed:-

(1) that a de-risking plan be put in place to allow risk to be further reduced as the funding level improved;

(2) to establish a sub-group of the Committee to make recommendations regarding the implementation of the Strategy and the range of asset classes, asset allocations and managers to be deployed by the Fund; and

(3) that the Chief Finance Officer submit a report on progress to the aforementioned meeting in June.

PE47. GENERAL GOVERNANCE MATTERS

The Committee considered a report by the Chief Finance Officer presenting an update on various matters associated with the governance of the Falkirk Council Pension Fund.

The areas covered within the report comprised:-

- Pension Fund Governance Arrangements including:-
    - that the Pensions Panel be discontinued from 1 April 2015;
    - the establishment of the Pension Board,
    - the terms of the final Regulations;
    - the preparation of a Board constitution based on the model constitution agreed by the Scottish Local Government Pensions Advisory Group;
    - the employers and Trades Unions being invited to make nominations to the Pension Board;
    - the first meeting of the Joint Pensions Committee and Pension Board on 26 June 2015; and
    - the proposals for initial training for new Board members in late May/early June followed by ongoing training as appropriate; and
- The risk register;
- The progress of the social and affordable housing investment with Hearthstone plc;
- The local infrastructure in relation to collaboration with Lothian Pension Fund;
- The data matching exercise known as the National Fraud Initiative;
- The abolition of contacting out;
- The staff transfer in relation to the Advice Service Partnership;
- The work of the Local Authority Pension Fund Forum (LAPFF) and its Conference in Bournemouth from 2 to 4 December 2015; and

- The Pension Fund's Annual Conference on Thursday 16 April 2015 at Callendar House, Falkirk.

Decision

The Committee and Panel noted the report.

The Committee agreed that should members of the Committee be interested in attending the LAPFF Conference in Bournemouth in December 2015 contact be made with Pensions Manager for appropriate representation.

PE48. PENSION FUND – BUDGET 2015/16

The Committee considered a report by the Chief Finance Officer the Pension Fund Budget for 2015/16.

Decision

The Committee and Panel noted the report.

PE49. CLASS AND GROUP ACTIONS

The Committee considered a report by the Chief Finance Officer providing information on two litigations in which the Pension Fund may be eligible to participate in terms of Class and Group Actions.

The report indicated:-

- The circumstances where Pension Funds considered it necessary to progress legal action against companies in which they had invested;
- The companies if considered in this instance being Petroleo Brasiliero (Petrobras) and Tesco plc;
- The Class or Group Actions undertaken in conjunction with other investors;
- The Fund's litigation adviser indicating the contemplated legal action in these cases; and possibly within coming weeks;
- The issues associated with the Fund agreeing to join one or other of the actions and an assessment of risk and return;
- The benefits of investors working collectively to obtain a better settlement than actions on an individual basis and in maintaining good standards of corporate governance.
- That the respective Fund Managers, Schroder and Aberdeen, should be consulted to determine their intentions regarding legal action;
- The legal complexities of constructing an action and the short notice for a final decision for participation; and
- The details of the companies concerned and the associated issues relating to the complaint allegations against each company.

Decision

The Committee and Panel noted the report.

The Committee agreed to delegate the final decision on participating to the Chief Finance Officer.

PE50. ORDER OF BUSINESS

In terms of Standing Order 14.2(i), Depute Provost Patrick advised of a variation to the order of business from that detailed on the agenda for the meeting. The following items have been recorded in the order that they were taken.

PE51. FUND MANAGER REVIEW

The Committee received a presentation by Patrick Edwardson and Chris Murphy, Baillie Gifford.

The presentation covered the UK Equity and Property mandates and included information as undernoted:-

- Performance and Valuation;
- Government Bonds;
- Infrastructure;
- Commodities;
- Listed Equities; and
- High Yield Credit;

The Convener thanked Mr Edwardson and Mr Murphy for their comprehensive presentation.

Decision

The Committee and Panel noted the presentation.

PE52. FUND MANAGER PERFORMANCE REVIEW

The Committee considered a report by the Chief Finance Officer reviewing the overall performance of the Fund and of the undernoted Fund Managers:-

- Aberdeen Asset Management;
- Baillie Gifford Bonds;
- Baillie Gifford Diversified Growth;
- Legal and General;
- Newton Investment Management;
- Schroder Investment Management UK Equities; and
- Schroder Investment Management Property.

Decision

The Committee and Panel noted the Fund Managers' performance and the action taken by them during the quarter to 31 December 2014, in accordance with their investment policies.

PE53. PRIVATE EQUITY AND ALTERNATIVES UPDATE

The Committee considered a report by the Chief Finance Officer on the progress of the Pension Fund's private equity and alternatives programme arising from the Investments Programme of SL Capital (Standard Life), Wilshire Associates, Grosvenor Capital, M&G and Hearthstone for the quarter ending 31 December 2014.

Decision

The Committee and Panel noted the progress of the Pension Fund's private equity, infrastructure and credit markets programme for the quarter ending 31 December 2014.

AGENDA ITEM 4

FALKIRK COUNCIL

Subject: **PENSION BOARD CONSTITUTION**
Meeting: **JOINT MEETING OF THE PENSIONS COMMITTEE AND PENSION BOARD**
Date: **26 JUNE 2015**
Author: **CHIEF GOVERNANCE OFFICER**

1. PURPOSE

1.1 The purpose of this report is to present a draft constitution for the Pension Board.

2. BACKGROUND

2.1 The Pensions Committee agreed, in 2014, revised governance arrangements for the Falkirk Council Pension Fund in order to comply with the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 which give effect to the Public Service Pensions Act 2013. The new arrangements include the establishment of a Pension Board from 1 April 2015 with responsibility for assisting the Scheme Manager (the Council) to comply with the Pension Scheme Regulations and the requirements of the Pensions Regulator.

3. CONSTITUTION

3.1 A draft constitution, which will assist in the administration of the Pension Board and establish Terms of Reference for its operation, is attached. The draft constitution is based upon the Governance Heads of Agreement and Model Constitution authorised by the Scottish Local Government Pensions Advisory Group (SLOGPAG).

4. RECOMMENDATIONS

4.1 That the Pensions Committee and Pension Board note the report and draft constitution; and

4.2 That the Pensions Committee consider and approve the draft constitution of the Pension Board.

.....
Chief Governance Officer
Date: 12 June 2015

Contact Officer: Antonia Sobieraj, Committee Services Officer (01324 501277)

LIST OF BACKGROUND PAPERS

nil

DRAFT

APPENDIX

FALKIRK PENSION FUND

PENSION BOARD CONSTITUTION

1. Introduction

1.1 Falkirk Council is required by law to operate and maintain a pension fund under the terms of the Local Government Pension Scheme. The Council, which is the legally constituted decision making body for pension fund business, has chosen to delegate this role to a Pensions Committee.

1.2 Under the terms of the Public Service Pensions Act 2013 and associated legislation, the Council is designated as a "Scheme Manager".

1.3 Each Local Government Pension Scheme Manager in Scotland is required to establish a Pension Board separate from any Pensions Committee.

1.4 The Falkirk Council Pension Fund Pension Board is established under the provisions of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015.

1.5 The statutory role of the Pension Board is to assist the Scheme Manager in:-

- Securing compliance with the rules relating to scheme governance and administration;
- Securing compliance with requirements imposed by the Pensions Regulator; and
- Such other matters as may be specified in legislation.

1.6 Full details of the Fund's Governance arrangements can be found in its Governance Policy document dated May, 2015.

2. Objectives

2.1 The Pension Board is the body responsible for assisting the Scheme Manager in relation to compliance with Pension Scheme Regulations and the requirements of the Pensions Regulator.

2.2 The Pension Board may consider any matters concerning pensions it deems relevant to Fund activities including, inter alia:

- Reports produced for the Pensions Committee;
- Reports from the scheme manager on any aspect of the Fund;
- Monitoring investments and investment principles, strategy and guidance;
- The Fund Annual Report and Accounts;
- External voting and engagement provisions;
- Fund administrative performance;
- Actuarial reports and valuations;
- Funding policy; and
- Any other matters that the Pension Board deems appropriate.

3. Membership

3.1 Membership of the Pension Board will consist of equal numbers of Trades Union representatives and employer representatives, drawn from Clackmannanshire, Falkirk and Stirling Councils and the other scheduled and admission bodies in the Fund. Pension Board representatives must not participate in or act as members of the Pensions Committee. Local Authority employer representatives will normally be Elected Members serving as part of their respective Councils.

3.2 There will be 4 member representatives appointed by the Trades Unions as follows:-

- GMB
- UCATT
- UNISON
- Unite

3.3 There will be 4 employer representatives appointed by the respective employer organisations as follows:-

- Clackmannanshire Council / Stirling Council
- Scottish Environment Protection Agency
- Scottish Childrens' Reporter Administration
- Scheduled or Admission Body

3.4 The 8 Pension Board representatives will serve for a period of 4 years and may be reappointed to serve further terms in accordance with agreed timescales. Employer bodies and organisations retain the right to withdraw representatives and identify replacements on occasion.

3.5 Advisors may attend meetings of the Pension Board in a non-voting capacity.

3.6 No person may be appointed to the Pension Board who has a conflict of interest. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Pension Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the scheme or any connected scheme for which the board is established. The Pension Board will adopt policies and protocols for handling any conflicts that are unanticipated and might arise during membership.

4. Meetings

4.1 The Chair of the Pension Board will be rotated on an annual basis between the Trades Unions and employers.

4.2 The Pension Board will meet at least on a quarterly basis. A majority of either side may requisition a special meeting of the Pension Board in exceptional circumstances.

4.3 While the statutory roles and functions of the Pension Committee and Pensions Board are separate, the normal practice will be that both bodies will meet at the same time to consider the same agenda. The Convener of the Pensions Committee will chair the joint meeting. The aim is to engender a positive and proactive partnership culture where in practice the two bodies act as one.

4.4 Pension Board meetings will be administered by Falkirk Council. All reasonable administration costs shall be met by the Fund.

4.5 The Pension Board may establish Sub Committees as required.

5. Dispute resolution

5.1 If the Pensions Committee and Pension Board cannot reach joint agreement in any matter the process for resolving any differences between the two bodies will be as outlined below. Whilst this process is undertaken the decision of the Pensions Committee is still competent.

5.2 In the first instance, if at least half of the members agree, then the Pension Board can refer back a decision of the Pensions Committee for further consideration if any of the following grounds are met:-

- That there is evidence or information which it considers needs re-evaluating or new evidence or data which the Pensions Committee did not access or was not aware of at the point of decision making and which is considered material to the decision taken;

- That the decision of the Pensions Committee could be considered illegal or contrary to Local Government Pension Scheme regulations;
- That the decision of the Pensions Committee is contrary to a relevant Code of Practice published by the Pensions Regulator; or
- That the decision is not in the interest of the continued financial viability of the Scheme or is against the principles of proper and responsible administration of the Scheme.

5.3 If there is no agreement after the matter has been referred back to the Pensions Committee, then the difference in view between the Pension Board and the Pensions Committee will be published in the form of a joint secretarial report on the fund website and included in the Fund Annual report.

5.4 The national Scheme Advisory Board may also consider and take a view on the matter and, if considered appropriate, provide advice to the Scheme Manager or the Pension Board in relation to the matter.

6. Training

6.1 All members of the Pension Board must undertake a training programme in accordance with the best practice training requirements of the Pensions Committee.

6.2 The Pension Board shall agree policies and arrangements for the acquisition and retention of knowledge and understanding for Pension Board members.

6.3 The Scheme Manager will keep an updated list of the documents with which it considers Pension Board members need to be conversant to effectively carry out their role and make sure that both the list and the documents are accessible.

7. Access to Information

7.1 The Scheme Manager and the Pensions Board will together ensure that information is published about the activities of the board including:-

- The constitution of the Pension Board;
- The name and organisation of Board members; and
- Any specific roles and responsibilities of individual Pension Board members.

7.2 The minutes of the Pension Board (whether this is a minute of a joint meeting with the Pensions Committee or the minute of a separate Board meeting) will be published on the Falkirk Council website www.falkirk.gov.uk.

7.3 The Pension Board may undertake such communications and stakeholder engagement as it deems appropriate to perform its functions.

Falkirk Council
10th June, 2015

AGENDA ITEM 5

FALKIRK COUNCIL

Subject: **GOVERNANCE ARRANGEMENTS**
Meeting: **JOINT MEETING OF PENSIONS COMMITTEE AND PENSION BOARD**
Date: **26 JUNE 2015**
Author: **CHIEF GOVERNANCE OFFICER AND CHIEF FINANCE OFFICER**

1. INTRODUCTION

1.1 This report advises of changes to the Fund's governance arrangements and seeks approval for a revised Governance Policy document.

2. GOVERNANCE CHANGES

2.1 The Pensions Committee, following consultation with the Pensions Panel and other key stakeholders, agreed to introduce revised governance arrangements for the Falkirk Council Pension Fund from 1 April 2015.

2.2. The changes were agreed by the Committee on 11 December 2014 and ratified by Falkirk Council on 17 December 2014 and are designed to ensure compliance with the requirements of the Local Government Pension Scheme (Governance)(Scotland) Regulations 2015 which give effect to the Public Service Pensions Act 2013.

2.3 The main changes were as follows:

- to dissolve the Pensions Panel from 1 April 2015
- to establish a Pension Board from 1 April 2015
- to maintain the existing structure of the Pensions Committee (i.e. 6 Falkirk Council members plus 3 co-opted members with one each drawn from Unions, Employers and Pensioners);
- to have a Pension Board of 4 employer members and 4 trade union members;
- to appoint trade union members from each of Unison, GMB, Unite and UCATT; and
- to appoint employer members from each of Clackmannanshire Council, SEPA, SCRA and one other Scheduled or Admission Body (n.b. the Clackmannanshire Council place to be shared with Stirling Council depending on which Council is already represented on the Pensions Committee).

3. APPOINTMENTS TO THE PENSION BOARD

3.1 Following a nomination exercise, the undernoted members have been appointed to serve on the Pension Board:-

4 Employer representatives:-

- Jennifer Welsh, Scottish Environmental Protection Agency (SEPA)
- Councillor Archie Drummond**,** Clackmannanshire Council
- Ed Morrison, Scottish Children's Reporter Administration (SCRA)
- Gordon Laidlaw, Scottish Autism

4 Member representatives (Trades Unions):-

- Margaret Cook, Unison
- Tommy Murphy, GMB
- Herbie Schroder, Unite
- Sandy Harrower, UCATT

4. ELECTION OF PENSION BOARD CONVENER

4.1 Both the Employer and the Union members are requested to nominate one of their number to be Chair the Pension Board.

4.2 The role of Chair of the Board requires to be rotated annually between the Union and Employer sides. The persons nominated from each side will be appointed as Chair for alternate years. The Board requires to determine which of the nominees will be the first Chair.

4.3 Normally, Board and Committee will meet jointly with the Convener of the Pensions Committee chairing the combined meeting.

5. PENSIONS COMMITTEE CHANGE

5.1 Mr A.Redpath has resigned as pensioner representative from the Pensions Committee and Mr I. McLean who was the pensioner representative on the Pensions Panel has taken up the role.

6. GOVERNANCE POLICY DOCUMENT

6.1 The Fund Governance Policy document which includes the statutory Governance Compliance Statement has been updated to reflect the recent governance changes. An updated policy document is attached for consideration as an appendix to this report.

7. RECOMMENDATIONS

7.1 The Pension Board is invited to appoint a Chair.

7.2 The Pensions Committee and Pension Board are invited to note this report and the associated draft Governance Policy document.

7.3 The Pensions Committee is asked:

(i) to consider and approve the draft Governance Policy document; and

(ii) to request the officers to bring forward policy documents dealing with conflicts of interest and training arrangements.

.....	**……**
Chief Finance Officer	**Chief Governance Officer**
Date: 17 June 2015	**Date: 17 June 2015**

Contact Officers: Alastair McGirr, Pensions Manager (01324 506304)
Antonia Sobieraj, Committee Services Officer (01324 501277)

LIST OF BACKGROUND PAPERS

Nil

Falkirk Council

Chief Executive Office

(Finance Services)

Falkirk Council Pension Fund

Local Government Pension Scheme

Governance Policy and Compliance Statement

May 2015

Part 1 – Governance Policy

1. Introduction

1.1 This Statement sets out the governance arrangements that apply to Falkirk Council Pension Fund ("the Fund") with effect from 1st April, 2015. The arrangements were agreed by the Pensions Committee on 11th December, 2014 and ratified by Falkirk Council on 17th December, 2014.

2. Administering Authority and Regulatory Framework

2.1 Falkirk Council is the Administering Authority of the Falkirk Council Pension Fund covering local government employees and elected members in the geographical area comprising Clackmannanshire, Falkirk and Stirling Councils. In addition, employees of certain other scheduled and admission bodies that provide public services or charitable functions have been admitted to membership of the Pension Fund.

2.2 The Council administers the pension scheme in accordance with statutory regulations. From 1st April, 2015, the main regulatory instruments are as follows:

- The Public Service Pensions Act 2013 ("the 2013 Act")
- The Local Government Pension Scheme (Scotland) Regulations 2014
- The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014
- The Local Government Pension Scheme (Governance)(Scotland) Regulations 2015
- The Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 2010

2.3 The above pieces of legislation make significant changes to the governance arrangements applicable to local authority pension funds. These include the introduction of a national Scheme Advisory Board and a local Pension Board.

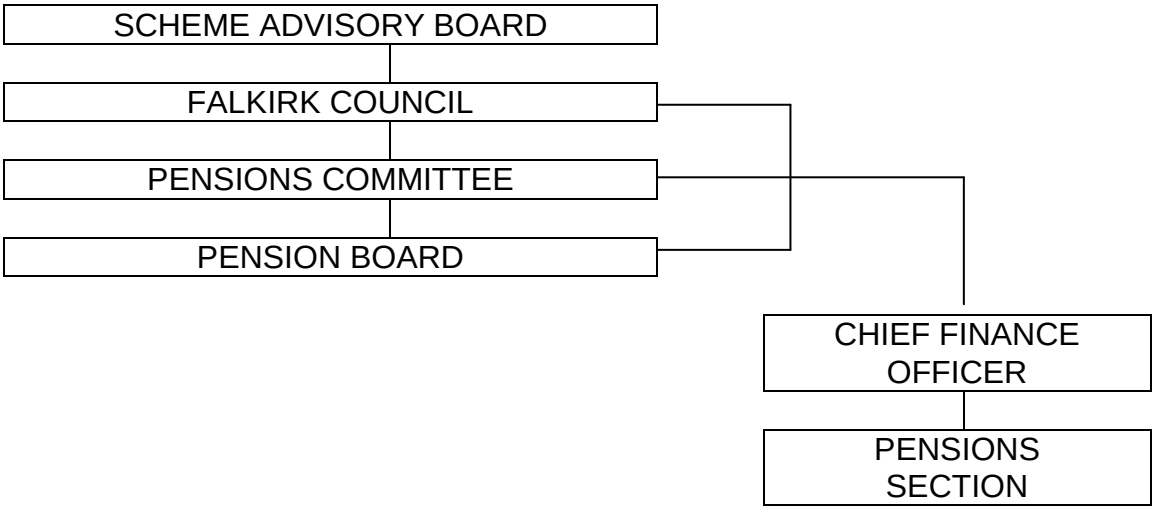
2.4 In addition, the powers of the Pensions Regulator have been extended to cover standards of governance and administration in the Local Government Pension Scheme.

2.5 The Scottish Public Pensions Agency (SPPA) is responsible for maintaining the rules of the Local Government Pension Scheme in Scotland on behalf of the Scottish Ministers and are deemed a "Responsible Authority" under the terms of the 2013 Act.

2.6 Falkirk Council is responsible for administering and maintaining a pension fund and is designated as a "Scheme Manager" under the 2013 Act

2.7 The governance arrangements from 1st April, 2015 are set out in this policy document which also includes the Governance Compliance Statement as required under Scheme rules.

2.8 The governance structure can be illustrated as follows:



3. Scheme Advisory Board

3.1. The role of the Scheme Advisory Board is

- to provide advice to the Scottish Ministers, where this has been requested, on the desirability of changes to the Scheme
- to provide advice to the Scheme Managers or the Scheme's Pension Boards in relation to the effective and efficient administration and management of the Scheme and any Funds within the Scheme

3.2 The Board consists of 7 representatives appointed by scheme employers and 7 representatives appointed by trade unions. The Chair of the Board will be rotated annually between the two groupings. The Chair requires to be approved by the Scottish Ministers. Administration costs are met by the local authority funds.

3.3 The Scottish Ministers must be satisfied that Board members do not have a conflict of interest.

4. Pension Board

4.1 The Public Service Pensions Act 2013 requires the establishing of a local Pension Board with effect from 1st April, 2015. The role of the Board is to assist the Scheme Manager (i.e. Falkirk Council) in:

- securing compliance with the rules relating to scheme governance and administration; and
- securing compliance with requirements imposed by the Pensions Regulator

4.2 Falkirk Council has established a Pension Board, details of which are set out in the Board constitution.

4.3 The structure of the Board is as follows:

- it will consist of 4 employer representatives and 4 trade union representatives;
- the Trade Union members will be drawn from Unison, GMB, Unite and UCATT; and
- the Employer members will be drawn from Clackmannanshire Council/Stirling Council, SEPA, SCRA and one other Scheduled or Admitted Body (currently Scottish Autism);

4.4 The Chair of the Board will be rotated on an annual basis between employer and trade union representatives.

4.5 Whilst the Board may convene its own meetings, it will normally meet jointly with the Pensions Committee in which case the Chair of the Pensions Committee will chair the meetings.

4.6 Board members will be expected to undertake their roles in accordance with the Councillors Code of Conduct and the principles of Standing Orders relating to meetings.

4.7 There will be a standing agenda item at each Pensions Committee or Board meeting for Members to declare any conflicts of interest. Any such declarations or absence of declarations will be minuted.

4.8. A conflict of interest occurs where there is the existence of a financial or other interest which is likely to prejudice the way a person exercises their functions as a member of the Committee or Board but does not include a financial or other interest arising merely by virtue of being a member of the scheme

4.9 The Council will take steps from time to time to satisfy itself that Board members do not have any conflicts of interest and a member of the Board, or a person proposed to be a member of the Board, must provide such information as the scheme manager reasonably requests for this purpose.

4.10 Where a conflict is declared, the Chair of the meeting will determine whether the member should remain in the room and if so whether they will be permitted to speak on the matter in question.

4.11 Where a conflict emerges but has not been declared, the member will not be permitted to be present when any related matter is discussed. The undeclared conflict may lead to the member being required to vacate membership of the Board.

4.12 A policy document dealing with conflicts of Interest will be maintained.

5. Pensions Committee

5.1. Falkirk Council has delegated the business of maintaining and administering its pension fund to the Pensions Committee. This includes all aspects of fund business including governance, administration, investment, accounting and funding matters.

5.2 The Pensions Committee comprises 6 Councillors from Falkirk Council and 3 co-opted members. All members have equal voting rights and access to papers. The co-opted members are drawn the Union, Employer and Pensioner groupings within the Fund.

5.3 The Committee will meet at least four times per year. Additional meetings may be called as necessary.

5.4 The Committee's terms of reference are laid out in full in the Council's Scheme of Delegation. The Committee's responsibilities include:-

- Overseeing the Council's role as an Administering Authority in terms of the relevant primary legislation (i.e. the Local Government etc (Scotland) Act 1994 and the Public Service Pensions Act 2013)
- Supervising the administration of the Fund in accordance with relevant legislation and codes of practice;
- Formulating and monitoring policies in respect of the administration of the Fund;
- Managing the investments of the Fund in accordance with relevant legislation and codes of practice;
- Formulating and monitoring an investment policy and strategy for the Fund, including an asset allocation strategy;
- Formulating and monitoring a funding policy for the Fund;
- Ensuring that a Statement of Investment Principles, Funding Strategy Statement, Administration Strategy and Governance Compliance Statement are maintained in accordance with strategy and policy;
- Ensuring that the Fund is subject to actuarial valuations as required;
- Approving the Pension Fund Annual Report and Accounts;
- Agreeing the training arrangements for Committee and Board members;
- Appointing investment managers as required; and
- Ensuring appropriate communication and consultation with Fund stakeholders.

5.5 Committee papers, with the exception of sensitive items, are publicly available on the Council's website, www.falkirk.gov.uk.

6. ANNUAL CONFERENCE

6.1 The Fund convenes a Pensions and Investment Conference in the spring of each year to which representatives from all participating scheduled and admission bodies are invited, together with Trade Union representatives.

6.2 The Conference provides a means of communicating pension fund business to the wider Pension Fund audience, including those employers not directly represented through the Pensions Committee or Board. A range of issues are discussed including benefits updates, regulatory changes, investment performance and investment manager/adviser presentations.

7. CHIEF FINANCE OFFICER AND PENSION SECTION

7.1 Under delegated powers, the Chief Finance Officer has responsibility for implementing the decisions of the Pensions Committee.

7.2 The day-to-day management of the Pension Fund is carried out by the Pensions Section reporting to the Chief Finance Officer. The Section deals with all aspects of pension and investment management and Fund accounting.

7.3 The Fund has entered into a Resourcing Agreement with the City of Edinburgh Council to enable additional investment and accounting expertise to be made available.

8. PROFESSIONAL ADVISORS / EXTERNAL PROVIDERS

8.1 Hymans Robertson has been appointed to act as Actuary to the Fund. The services provided include advice on funding, the provision of actuarial valuations and administrative matters.

8.2 Hymans Robertson has also been appointed to act as Investment adviser to the Fund on a project by project basis. The services provided include advice on investment strategy and manager appointments. Further support on investment matters, including the monitoring of manager performance, is provided through a Resourcing Agreement with City of Edinburgh Council.

8.3 A number of investment managers have been appointed to manage specific mandates granted by the Pensions Committee. Details of the manager appointments are contained in the Fund's Statement of Investment Principles and in the Fund Annual Report. Managers have responsibility for the selection, retention and realisation of individual investments held within their portfolios and the performance of their respective mandates.

8.4 The Fund has appointed Northern Trust as global custodian. Northern Trust are responsible for ensuring safe custody of the Fund's assets managed by the appointed investment managers and for providing consolidated accounting and performance reporting services to the Fund.

8.5 The Fund has appointed Pensions & Investment Research Consultants Ltd (PIRC) to provide the following services:

- Global Corporate Governance Research
- Global Proxy Voting Service

8.6 The Fund is a member of the Local Authority Pension Funds Forum (LAPFF). The LAPFF acts on behalf of over 60 local authority UK pension funds and seeks to promote the highest standards of corporate responsibility amongst the companies in which member funds invest.

9. RISK MANAGEMENT

9.1 Pension fund management is not immune from risk. These may be the risks faced by the Fund as an investor or it may be related to the Fund's administrative functions in which case the risks may relate to systems failures or regulatory breaches. Whilst it is not possible to eliminate risk completely from day to day activity, the nature of risk has been evaluated and strategies put in place to minimise the adverse effects. These are set out in the following documents:

- the Pension Fund Risk Register
- the Operational Risk Management Action Plan
- the Finance Business Continuity Plan

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

10. TRAINING

10.1 Training for Members of the Pensions Committee and Pension Board is in accordance with the Fund's Training Policy and may include:

- Addressing specific topics at Committee or Board meetings
- Investment Manager presentations
- Attendance at relevant industry conferences/seminars

10.2 Committee and Board members will be required to undertake and participate in training (a record of which will be maintained) sufficient for them to be capable of discharging their roles. Attendance at training sessions will generally be obligatory. Because of these requirements, substitute members are not allowed to sit on the Pension Board.

11. EXTERNAL AND INTERNAL SCRUTINY

11.1. There is a statutory requirement to prepare an Annual Report & Accounts for the Falkirk Council Pension Fund which is subject to external audit and which is separate from the accounts of Falkirk Council. The Fund's auditors are appointed by Audit Scotland and this helps ensure that public funds are being properly safeguarded and accounted for in accordance with statutory and regulatory requirements.

11.2. Falkirk Council provides an internal audit service to the Pension Fund and a regular audit program is agreed between the Chief Finance Officer and the Audit Manager.

12. STAKEHOLDER COMMUNICATION

12.1 All papers and minutes for the Pensions Committee and Pension Board (and previously the Pensions Panel) are available on the Council's website, www.falkirk.gov.uk, (except for exempt items).

12.2 A Pension Fund Annual Report and Accounts is prepared annually in accordance with regulatory and recognised Accounting Code of Practice requirements. Copies are emailed to all fund employers and to the Scottish Ministers. A summary of the Report and Accounts is made available to all pension fund members.

12.3 All policy documents, including the Annual Report and Accounts, Valuation Reports and various policy documents are published on the Fund's website www.falkirkpensionfund.org

12.4 Communication with scheme members is undertaken through the annual distribution of a newsletter and, in the case of active and deferred members, a personal benefit statement. Pensioners receive a monthly pension advice slip which includes a messaging facility.

Chief Finance Officer
Falkirk Council

20th May, 2015

Falkirk Council
Pension Fund

Local Government Pension Scheme

Governance Compliance Statement

May, 2015

Part 2 – Governance Compliance Statement

Regulation 53 of the Local Government Pension Scheme (Scotland) Regulations 2014 (SSI 2014/164) requires administering authorities to prepare and publish a written statement setting out the terms of their current governance arrangements. The undernoted Statement tests the Falkirk Fund's compliance with the best practice principles as set out in the SPPA Best Practice Guidelines of April, 2011.

Principle A – Structure

	Requirement	Level of Compliance	Arrangements in Place
(a)	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council	**Full Compliance**	Falkirk Council, as administering authority of the Falkirk Council Pension Fund, has established a Pensions Committee to which it has delegated the administration of benefits and strategic management of fund assets.
(b)	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	**Full Compliance**	The Pensions Committee includes three co-opted members reflecting the Fund's composition of members, pensioners and employers.
(c)	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	**Full Compliance**	The main channel of communication between the Pensions Committee and Board lies in the fact that quarterly Committee meetings are actually joint meetings with the Board with a shared agenda and with both parties having full access to papers.
(d)	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	**Not Compliant** (as no longer relevant)	The statutory role of the Pension Board with oversight of Committee activity means it is not tenable for a Board member to also sit on the Committee.

Principle B – Representation

	Requirement	Level of Compliance	Arrangements in Place
(a)	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:		
	(i) Employing authorities (including e.g. admission bodies);	**Full Compliance**	Representatives of major fund employers, including one admission body, sit on the Pension Board. An employer representative also sits on the Pensions Committee.
	(ii) Scheme members (including deferred and pensioner scheme members);	**Full Compliance**	Active, deferred and pensioner members are represented by Trade Union Board members who sit on the Pension Board. A Trade Union member also sits on the Pensions Committee. Pensioner members are further represented by a pensioner member who sits on the Committee.

Requirements		Level of Compliance	Arrangements in Place
	(iii) Where appropriate, independent professional observers; and	**Not Compliant**	There are no independent professional observers of Committee or Board business. It is considered that: ▪ the diversity of representation; (employers, pensioner and Unions) ▪ the training arrangements; ▪ the annual audit process; and ▪ attendance of professional advisors provide robust and adequate scrutiny of pension fund business.
	(iv) Expert advisors (on an ad-hoc basis).	**Full Compliance**	Support for the Pensions Committee and Pension Board is provided by the undernoted advisors: • actuary and investments, Hymans Robertson • corporate governance, PIRC Ltd • investment managers and custodian, as required.
(b)	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.	**Full Compliance**	The three co-opted members who sit on the Pensions Committee and the Pension Board members all have equality of access to papers, meetings and training. The co-opted members also have full opportunity to contribute to the decision making process, including the right to vote.

Principle C – Selection and role of lay members

	Requirement	Level of Compliance	Arrangements in Place
(a)	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee	**Full Compliance**	Members of the Pensions Committee will be subject to the Falkirk Council Councillors Code of Conduct. Members of the Pension Board will be appointed on the understanding that they will be subject to the Falkirk Council Councillors Code of Conduct. Appropriate training will be delivered to Committee and Board members.
(b)	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.	**Full Compliance**	Declaration of interests is a standard procedure at the start of all Committee/ Board meetings. Declarations are noted in the minutes.

Principle D – Voting

	Requirement	Level of Compliance	Arrangements in Place
(a)	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.	**Full Compliance**	All members of the Pensions Committee including co-opted members will have voting rights on the basis that they have executive responsibility for pension fund decision making.

Principle E – Training / FacilityTime / Expenses

	Requirement	Level of Compliance	Arrangements in Place
(a)	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.	**Full Compliance**	The administering authority's approach to training is set out in its training policy for the Pensions Committee and Pension Board members. Training is delivered in large part by addressing specific items at Committee and Board meetings and complemented by visits to Fund Managers, bespoke training events and attendance at industry seminars and conferences. Expenses incurred by Committee and Board members are met either by the Fund or the Falkirk Council scheme for payment of members expenses.
(b)	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.	**Full Compliance**	The Training Policy for the Pensions Committee and Pension Board applies uniformly to all members.
(c)	That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	**Full Compliance**	The Training Policy for the Pensions Committee and Pensions Board includes the requirement for members to undergo training needs analysis and the development of commensurate training plans. A register of training undertaken will be maintained.

Principle F – Meetings (Frequency/Quorum)

	Requirement	Level of Compliance	Arrangements in Place
(a)	That an administering authority's main committee or committees meet at least quarterly.	**Full Compliance**	The Pensions Committee hold quarterly meetings. Additional meetings are called as required.
(b)	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	**Full Compliance**	Pension Board meetings are held concurrently with Pensions Committee meetings which will result in a minimum of 4 meetings per year. Additional meetings are called as required.
(c)	That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	**Full Compliance**	The Council *does* include lay members on its Pensions Committee. However, in order to ensure that the interests of wider fund stakeholders can be represented, the Fund holds a Pensions & Investment Conference each year.

Principle G – Access

	Requirement	Level of Compliance	Arrangements in Place
(a)	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.	**Full Compliance**	Members of Pensions Committee and Pension Board have equal access to any committee papers, documents and advice that falls to be considered at meetings of the Pensions Committee.

Principle H – Scope

	Requirement	Level of Compliance	Arrangements in Place
(a)	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	**Full Compliance**	The agendas for Pensions Committee / Board meetings include reports pertaining to both administration and investment matters such as regulatory changes, actuarial valuation and funding level updates, admission agreements, investment strategy and Fund/ Investment Manager performance.

Principle I – Publicity

	Requirement	Level of Compliance	Arrangements in Place
(a)	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	**Full Compliance**	Employers, Unions and Pensioners have been consulted regarding the governance arrangements and invited to participate. Full details of the Governance arrangements are published on the Fund's website.

Chief Finance Officer
Falkirk Council
28th May, 2015

AGENDA ITEM 6

FALKIRK COUNCIL

Subject: **FALKIRK COUNCIL PENSION FUND - UNAUDITED ANNUAL REPORT AND ACCOUNTS 2014/15**
Meeting: **JOINT MEETING OF PENSIONS COMMITTEE AND PENSION BOARD**
Date: **26 JUNE 2015**
Author: **CHIEF FINANCE OFFICER**

1. INTRODUCTION

1.1 This report presents the Unaudited Pension Fund Annual Report and Accounts for 2014/15 to the Pensions Committee and Pension Board.

1.2 The report also seeks approval for the Annual Governance Statement contained in the accounts.

1.3 The accounts process for 2014/15 takes account of various additional requirements as set out in the Local Authority Accounts (Scotland) Regulations 2014.

2. BACKGROUND

2.1 The Local Government Pension Scheme (Administration)(Scotland) Regulations 2008 requires administering authorities to publish a pension fund annual report and accounts that are separate from the accounts of the administering authority.

2.2 The Local Authority Accounts (Scotland) Regulations 2014 require the accounts:

- to be submitted to the auditor no later than 30th June immediately following the financial year to which the Annual Accounts relate;
- to be considered at a meeting no later than 31st August by a local authority or a committee whose remit includes audit or governance; and
- to include an annual governance statement in respect of the systems of internal control in operation.

3. ANNUAL ACCOUNTS

3.1 A copy of the Unaudited Annual Report and Accounts for 2014/15 is now attached for members' consideration as Appendix 1 to this report.

3.2 The Annual Governance Statement is included within the Annual Report and Accounts at Pages 92 to 94.

3.3 It is intended that the audited annual report and accounts will be presented for approval to the joint meeting of Committee and Board on 24 September 2015.

4. CONCLUSION

4.1 Consistent with the timetable for publication of accounts, the unaudited pension fund annual report and accounts are presented to Committee and Board for consideration and noting.

5. RECOMMENDATION

5.1 The Pensions Committee is asked to approve the Annual Governance Statement.

5.2 The Pensions Committee and Pension Board are asked to note the publication of the Unaudited Falkirk Council Pension Fund Annual Report and Accounts 2014/15.

Chief Finance Officer

Date: 22 June 2015

Contact Officer: Alastair McGirr

LIST OF BACKGROUND PAPERS

NIL

Falkirk Council Pension Fund

Unaudited Annual Report and Accounts 2014/15

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Foreword from the Chair of the Pensions Committee Councillor John Patrick

As Chair of the Pensions Committee with responsibility for overseeing the investment management and administration of the Falkirk Council Pension Fund, I am pleased to introduce the 2014/15 Annual Report and Statement of Accounts.

The world of Pensions continues to evolve and face major challenges in the shape of key initiatives such as Auto Enrolment, Freedom and Choice and the introduction of a Single State Pension. These far reaching reforms, bringing pensions to a wider audience than ever before and providing greater flexibility over the way that pension savings can be realised, are likely to impact on generations to come.

In common with most other public sector pension schemes, the Local Government Pension Scheme (LGPS) is moving from a 'Final Salary' basis to a 'Career Average' basis from 1 April 2015. Much work has taken place during 2014/15 preparing the way for what will be a momentous change to the nature of the Local Government Pension Scheme. Those involved including Unions, Employers, the SPPA and Fund staff are all to be commended for their hard work in bringing this new version of the Scheme to fruition.

It is pleasing to note that, despite the changes, the Scheme remains one of significant quality with guaranteed, inflation linked benefits offering security and stability of income for present and future generations of members.

Of course, it is important that the overall balance of cost between member, employer and tax payer remains appropriate, and a national valuation of the Local Government Pension Scheme in Scotland is currently being co-ordinated by the Government Actuary on behalf of Scottish Ministers and should be a barometer of fairness to all parties.

I realise that pensions are a highly complicated subject. It is, however, crucially important that members take time to try and understand the scale of benefits that they will receive when they retire - whether this is from the Local Government Pension Scheme itself or through other pension arrangements, such as the State Pension. The Pension Section sends out around 12,000 statements every year showing the scheme benefits that members have built up, whilst an indication of State Pension can be found at www.gov.uk/calculate-state-pension. If you think that your benefits will be insufficient to meet your needs, then there are options to allow benefits to be topped up.

Lastly, may I take this opportunity to thank my colleagues on both the Pensions Committee and Pensions Panel, the staff and our advisors for their commitment and support over the past year.

John Patrick
Convener of Falkirk Council Pensions Committee

Introduction from the Chief Finance Officer Bryan Smail

Councillor John Patrick in his Foreword has already, and properly so, highlighted the major changes in the world of pensions, and both the benefits and complexity of pensions.

This year has been a particularly busy year for the Pensions Committee and Panel and for the staff and advisors who support them. From the genesis of the Hutton review, the long-standing final salary scheme has now been changed to one based on career-average. The Council has needed to procure a new system, fit for purpose, to cope with this much more complex operating environment. This has also been a triennial Valuation year with all the attendant work which that entails, not least extensive engagement with the many employers in our Pension Fund. The latter, I believe has been a mutually beneficial exercise.

Looking forward, there is much to be done. New corporate governance arrangements apply to the management of the Pension Fund from 1 April 2015. The Valuation provides an opportunity and a sound platform to undertake a review of the Pension Fund's investment strategy and take stock of how we are balancing risk and return.

In the longer term, it remains to be seen whether the changes made so far appropriately address and balance the interests of the different stakeholders and provide sustainable pensions.

Bryan Smail, CPFA MBA
Chief Finance Officer
26 June 2015

Contact Us

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The Pension Section Administration Team is available to help with all aspects of scheme membership including benefits for active, deferred and pensioner members.

General Enquiries:	01324 506329
Retirement/Death Enquiries:	01324 506325
Strategic and Policy matters:	01324 506304
Accounting and Investment matters:	01324 506338
Opening hours:	Monday to Friday, 9.00am – 5.00pm
Websites:	www.falkirkpensionfund.org www.scotlgps2015.org
Email:	pensions@falkirk.gov.uk investments@falkirk.gov.uk

Reference is made in this report to a number of online documents. If you are unable to access any of these, or would like a hard copy, please don't hesitate to contact us using the above General Enquiries telephone number.

Management Structure

Administering Authority:	Falkirk Council Municipal Buildings West Bridge Street Falkirk FK1 5RS
Fund Officers:	Bryan Smail, Chief Finance Officer Alastair McGirr, Pensions Manager
Legal Advisors:	Falkirk Council – Legal Services McLay, Murray and Spens
Fund Custodian:	The Northern Trust Company
Performance Measurement:	The Northern Trust Company
Actuary:	Hymans Robertson LLP
Investment Advisor:	Hymans Robertson LLP
Fund Managers:	Schroder Investment Managers Newton Investment Managers Aberdeen Asset Management Baillie Gifford Legal and General SL Capital Partners Wilshire Associates Grosvenor Capital Hearthstone Investments
Bankers:	Clydesdale Bank
AVC Providers:	Prudential and Standard Life

Independent Auditor:

The Auditor appointed by the Accounts Commission for Scotland for the purpose of auditing the annual report and accounts is Audit Scotland, 4th Floor, South Suite, The Athenaeum Building, 8 Nelson Mandela Place, Glasgow, G2 1BT.

Management Commentary

Introduction

The Local Authority Accounting (Scotland) Regulations 2014 and accompanying guidance require the Annual Report and Accounts to contain a Management Commentary including:

- an overview of Fund business
- a description of the Fund business model and Fund risks
- a review of financial performance and key strategies
- an analysis of trends
- a review of policies affecting Social, Community and Human Rights issues
- an analysis of staffing resources by gender

Overview of Fund Business

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

The Fund is used to pay pensions, lump sum benefits and other entitlements to scheme members and their dependants. Contributions to the Fund are made by employee members and by participating employers. The Fund also receives income from its investments, which include equities, property and bonds.

The Fund operates under the terms of the Local Government Pension Scheme, which is a public sector pension arrangement. Scheme membership is made up of active, deferred and pensioner members. To be able to join the scheme, a person must be employed by a relevant employer and not be eligible to join another public sector pension scheme.

Employers who participate in the Fund are either Scheduled Bodies – in which case they are required to offer the Scheme to their employees, or Admission Bodies – in which case the body has applied to participate in the Fund and their application has been accepted.

The larger Fund employers are Clackmannanshire, Falkirk and Stirling Councils, the Scottish Environment Protection Agency (SEPA), the Scottish Children's Reporter Administration (SCRA) and Scottish Autism. Other employers include several non-profit making charitable bodies located in Central Scotland as well as two contractors (Amey and Forth and Oban Ltd) to whom school facilities maintenance has been transferred.

In addition to Fund employers, key partners include local authorities, actuaries, banks, government agencies, fund managers, legal advisers, communications specialists, corporate governance and litigation specialists, and various other financial institutions.

Business Model and Risk

Falkirk Council Pension Fund is managed and administered from the Municipal Buildings in Falkirk.

The majority of the Fund's activities are managed in-house by the Council's Pensions Section, which is accountable to the Pensions Committee, to Fund employers and to scheme members.

The in-house team is committed to providing a quality service to meet the needs of the Fund's diverse stakeholders and to delivering high standards of customer care.

Pension Fund activity can be split into the following categories:

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

Membership and Benefits Administration is undertaken internally by the Council's Pensions Section. For more detailed information on this activity, turn to the Administration Section on Page 23.

Investment Management of the Fund's assets is undertaken by external fund managers and overseen by the Pensions Section with the support of Hymans Robertson, the Fund's Investment Adviser. A review of Investment activity is provided on Page 31.

Additional support is provided via a Shared Service resourcing agreement with the Lothian Pension Fund.

Governance is undertaken by the Pensions Committee to whom Fund business has been delegated by Falkirk Council. This includes the appointment and monitoring of investment managers. More information on the Governance process can be found in the Governance Section on Page 18.

Funding and Accounting matters are undertaken internally by the Pensions Section with the assistance of Hymans Robertson, the Fund Actuary.

Awareness of risk and risk mitigation is a key facet 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 strategies in place to minimise its adverse effects.

A risk register is maintained and can be viewed at www.falkirkpensionfund.org in the Forms and Publications section. An update on risk is a standing item at quarterly Pensions Committee meetings. More information on Risk can be found at Page 29 of this report.

Financial Performance

Over the last year, the Falkirk Fund has continued to deliver positive performance, with a return across all assets of over 13%. This was substantially greater than the returns available on cash and ahead of the Fund's long term strategic funding requirement.

Fund assets are now close to £1.8 billion, an increase of over £220 million over the year, reflecting the favourable market conditions for investors during the year.

Fund liabilities have also increased and are estimated to have risen from £1.8bn at 31 March 2014 to £2.2bn at 31 March 2015 as a result of the continued fall in gilt yields. Regular funding reviews are undertaken to ensure that the Fund's deficit remains manageable.

On the benefits side, contributions increased by £2.4m due to the fact that most employers were scheduled to pay a higher contribution rate in 2014/15. Transfers in and contribution refunds were down from 2013/14 reflecting a slowdown in member turnover, attributable to the restraints on recruitment within the public sector.

A significant change from last year's accounts has been the inclusion of direct expenses from Private Equity and Infrastructure investments. Whilst this has increased the management expenses, this has been compensated through the profit and loss on disposal of investment so the overall effect on the accounts has been neutral. More information on management expenses is contained in Notes 2, 12 and 15 of the Accounts.

Actuarial Valuation as at 31 March 2014

An actuarial valuation of the Fund takes place every three years and acts as an independent financial health check to determine how much money needs to be paid into the Fund by employers so that it can continue to pay benefits both now and in the future.

A valuation of the Fund as at 31 March 2014 was completed during 2014/15 in accordance with regulatory requirements. The valuation showed that the Fund was 85% funded, meaning that it had 85% of the monies needed to pay the benefits of scheme members based on the rights they had accumulated to that date.

The valuation disclosed that whilst asset performance between 2011 and 2014 had been significantly better than the return targeted by the Actuary (28% return against a target of 19%), this had been outstripped by an increase in fund liabilities. This increase was due a sharp decline in the yield on government bonds – the yardstick used to measure fund liabilities. The key results from the 2011 and 2014 valuations are summarised below:

	Valuation at 31/03/2011	Valuation at 31/03/2014
Past Service Liabilities	£1,392m	£1,860m
Assets	£1,199m	£1,577m
Funding Deficit	£193m	£283m
Funding Level	86.1%	84.8%
Future Service Cost	16.2% of pay	17.9% of pay
Past Service Cost	4.3% of pay	5.5% of pay
Total Employer Contribution	20.5% of pay	23.4% of pay

The positive asset performance has kept the funding level relatively stable which is pleasing considering the upward pressure on liabilities due to the falling yields – a factor itself beyond the Fund's control. On the negative side, the cost of providing future benefits has risen, due again in large measure due to the fall in yields. Together with the increased deficit, this means that employers are continuing to face challenging contribution levels. In view of this, the Pensions Manager and Fund Actuary have met individually with most of the Fund employers to ensure they are aware of their individual funding circumstances.

The 2014 valuation is the first occasion in which the actuary has based longevity assumptions on "Club Vita" evidence. Club Vita is compiled by Hymans Robertson, the Fund Actuary, and is an extensive database of mortality information, based on factors such as postcode and pay on retirement. More information on the Club Vita process is contained in the 2014 valuation report which can be viewed at www.falkirkpensionfund.org in the Forms and Publications section.

A statement by the Actuary on the Fund's actuarial position is also set out at Appendix 1.

Funding Strategy Statement

The **Funding Strategy Statement** is the formal record of how the Fund intends to meet its obligations to pay benefits.

The Fund's funding policy is to achieve a fully funded status over a 20 year period whilst keeping contribution rates as constant as possible. A stability mechanism within the strategy helps employers budget for their short term contributions and smooth out volatility from what could be significant changes in the employer contribution rate.

The Funding Strategy Statement was revised during 2014/15, the main changes being to provide greater clarity around the setting of employer contribution rates and options available should admission bodies be seeking to withdraw from the Fund.

The Pensions Committee considers that the valuation assumptions agreed in early 2015 with the Actuary, including an assumed investment return of gilts plus 1.6%, result in the Fund having a realistic and credible funding plan.

The Funding Strategy Statement can also be found at www.falkirkpensionfund.org in the Forms and Publications section.

Investment Strategy

The Investment Strategy of the Fund is to invest monies in a prudent and diversified manner, in accordance with the Scheme regulations and in recognition of the risks that accompany investment in various asset classes. The strategy is set out in the **Statement of Investment Principles** and can be viewed at www.falkirkpensionfund.org under Forms and Publications.

Although the Fund is seeking to gradually reduce its exposure to riskier asset classes, the bulk of its assets are still held in growth-seeking rather than defensive assets. This is consistent with the Fund seeking to repair the funding deficit which was assessed at £283m at the 2014 valuation. As a result of its exposure to equities, the relative performance of the Fund against its benchmark can be volatile over the short term However, as the majority of Fund employers have very strong covenants, the Fund can afford to take a long term view across successive investment cycles.

More information on the Fund's investment strategy can be found in this report on Pages 31 to 36.

Performance Standards

The Fund measures its performance against a number of pre-determined standards with performance information being supplied to both CIPFA and the Scottish Government as part of an annual review across all Councils.

The performance of the Pensions Section against key standards in 2014/15 was as follows:

Membership and Benefits Administration Cost to be less than £25 pa per member	
Achieved in Full	Per member cost was £23.51

Meet deadlines for accounts, benefit payments, statistical returns and remittances	
Achieved in Full	All of the above were made within statutory time limits

Respond to 70% of Ad hoc enquiries within 14 days	
Not Achieved	The response rate achieved was 65%

Fund to achieve its benchmark return	
Achieved in Full	Fund returned 13.4% against a benchmark of 12.1%

Fund Managers to achieve their individual benchmark returns	
Achieved in Part	Benchmark was exceeded in 5 out of 8 mandates – but all managers delivered positive absolute returns

- Member costs, which for a number of years have been amongst the lowest of Scottish local authority funds, rose in 2014/15 as a result of the procurement of the new pension administration system.
- The installation of the new system, preparations for LGPS 2015, freedom of information requests and the strong flow of severance estimates has meant that non statutory transactions have taken longer to process than normal.
- The Fund has now outperformed its benchmark in each of the past 5 years.

Fund Manager performance is reviewed on a quarterly basis by the Pensions Committee and by the in-house team. Whilst Manager scrutiny is a key aspect of fund stewardship, it is the strategic asset allocation that will have a greater impact on Fund returns than the ability of individual managers to deliver performance ahead of their benchmarks.

The Pensions Section prepares an Annual Budget which is reviewed and approved by the Pensions Committee. Details of the budget for 2015/16 and costs for 2014/15 are provided on Page 25 of the Annual Report and on Page 61 in Note 12 in the Accounts Section of this report.

More information on administration performance can be found on Page 23.

More information on investment performance can be found on Page 31.

Trends and Influences - Administration

- The introduction of the Career Average version of the Local Government Pension Scheme from April, 2015 is the single most significant factor affecting the activities of the administration team.

- To ensure compliance with the new arrangements, the 20 year old in-house pensions administration system has been replaced with *Altair.* The system was procured using a national framework agreement and is supported and maintained by Pension Consultants, Heywood. It is the system used by the majority of UK local authority funds.

- Further strands of the Altair project are scheduled to be rolled out over the next 18 months, including the transfer of the pensioner payroll to Altair and the introduction of Self Service facilities.

- Member communication and employer support are expected to be common themes of 2015/16 as members and employers seek to understand the rules of the new scheme.

- The UK Government's pension initiatives - freedom and choice, auto enrolment and the abolition of contracting out – mean that the tempo of pensions reform remains brisk with challenges on a variety of fronts.

- The pressures on public spending mean that a high volume of member and employer retirement estimates can be expected. These same pressures may prompt some employers to leave the scheme. The Fund will seek to ensure that any exits are carefully managed and that the position of remaining employers is protected.

Trends and Influences - Investment

- The continuing environment of low interest rates and relaxed monetary policy has led to high equity valuations and low yields on fixed interest securities. Against this high water mark, investment managers may struggle to post positive returns in 2015/16.

- The improving economic data from the US and UK has brought forward the prospect of interest rate rises in the second half of 2015. Whilst falling yields will reduce the value of the Fund's fixed income portfolio, the overall impact will be beneficial as Fund liabilities will fall as a result of being benchmarked to gilt yields.

- Analysis by Hymans Robertson in its dual role of Actuary and Investment Adviser indicates that the Fund could look to reduce its equity exposure without this impacting on prospects of returning to fully funded status. The Pensions Committee has agreed to adopt a strategy of gradual de-risking (i.e. reducing growth assets and increasing defensive assets). A review of investment strategy will be conducted in 2015/16 to

determine how the strategy can best be implemented. Agreed changes will be formalised in a revised **Statement of Investment Principles**.

- 2015/16 is expected to see the further deployment of capital in relation to the Fund's Social and Affordable Housing mandate and the UK Infrastructure mandate, the latter being undertaken in collaboration with the Lothian Pension Fund.

- In May, 2014, the Department of Communities and Local Government issued a consultation paper "Opportunities for Collaboration, Cost Savings and Efficiencies". The consultation focused on ways in which Funds could invest more efficiently and sought to gauge opinion on funds using collective investment vehicles and/or making greater use of passive managers. A Government response following the consultation is awaited.

- At a macro level, geo-political concerns are being fuelled by tensions in the Middle East and Ukraine. In the Eurozone, weakness persists in the economies of Southern Europe accompanied by concerns on the possibility of a Greek debt default or exit from the Euro. In the UK, with the 2015 General Election decided, the stage is set for a referendum on the UK's future membership of the EU. These are issues that all have the potential to create nervousness in the markets and a negative impact on asset valuations

- A more detailed review of global market conditions in 2014/15 can be found on Page 37.

Trends and Influences - Governance

- Under revised Governance arrangements, a new local Pension Board will meet for the first time in June, 2015. Arrangements are being made for Board members to be provided with training and for Board terms of reference to be finalised.

- The new governance regime entails the Pensions Regulator (TPR) having oversight of administration standards in the LGPS and a new national Scheme Advisory Board being established to make recommendations to Ministers regarding scheme rule changes. Inevitably, Funds will be impacted by the workplans of these bodies.

Social, Community and Corporate Governance Responsibilities

Statement of Investment Principles

The Fund's approach to Environmental, Social and Corporate Governance (ESG) matters is set out in its **Statement of Investment Principles** (SIP) which can be found at www.falkirkpensionfund.org in the Forms and Publications Section. This emphasizes the Fund's commitment to key issues such as human rights and the environment.

The Fund generally does not impose any ethical restrictions on Fund Managers' capacity to invest. However, managers must take cognisance of the **Statement of Investment Principles** when constructing portfolios and are required to account for their actions and report on the extent of their corporate engagement. All managers have confirmed their commitment to advancing the principles of the UK Stewardship Code.

Pensions and Research Consultants Ltd

To support its ESG commitments, the Fund has engaged the Pensions and Investment Research Consultants (PIRC) to provide advice and research information on all matters pertaining to corporate governance and to act as voting agents for the Fund. Motions where PIRC have consistently lodged "oppose" votes in 2014/15 include those involving executive remuneration and governance arrangements.

Local Authority Pension Funds Forum

The Fund considers that an effective way to exert influence on ESG matters is through membership of the Local Authority Pension Funds Forum (LAPFF). LAPFF acts for over 60 UK pension funds and seeks to promote high corporate standards amongst investee companies. Recent LAPFF campaigns to change corporate behaviour have included Executive Remuneration, Gender Equality in Boardrooms and Fossil Fuel emissions.

More information about the work of the LAPFF can be found at www.lapfforum.org. More information about Corporate Governance matters can be found on Page 39 of this report.

Impact Investment

In recognition of the lack of affordable housing in the UK, the Pensions Committee has investigated the possibility of making an investment in social and affordable property. Following a tendering process and consultation with the Investment Adviser, Hearthstone Investments were appointed to manage a £30m commitment.

The initiative, which has the support of the Scottish Government, is aiming to deliver a return of 7% p.a. over a 10 year period and will result in the construction of around 190 social housing units in the Clackmannanshire, Falkirk and Stirling areas and additional units of affordable housing in Scotland.

The Fund is also investing in the UK economy through a £30m commitment to UK infrastructure. An initial investment in a renewables hydro project has already been made.

Staffing Resources

The Pension Section's staffing compliment at 31/03/15 was as follows:-

Senior Officers

	No. of Males	No. of Females
Pensions Manager	1	0

Administration Officers

	No. of Males	No. of Females
Pension Officers	1	1
Pension Project Officer	1	0
Pension Support Officer	0	1
Trainee Pension Officer	0	1
Pension Assistants	0	4
Clerical Assistant	0	0.5

Investment and Accounting Officers

	No. of Males	No. of Females
Accountant	0	1
Accounting Assistant	0	0.5

The above resource is supplemented by a shared service Resourcing Agreement between the Fund and the City of Edinburgh Council/Lothian Pension Fund to provide additional investment and accounting expertise.

Director's Report

In respect of the Fund's senior officers, no personal data incidents or sickness absences were recorded during 2014/15.

Details of the remuneration of senior management can be found at Note 26 of the Accounts.

.....	.....
Convener of Pensions Committee	**Date**
.....	.....
Chief Executive	**Date**
.....	.....
Chief Finance Officer	**Date**

The Local Government Pension Scheme

The Local Government Pension Scheme (Scotland) is a statutory pension scheme. This means that it is very secure as its benefits are defined and set out in law. Under regulation 31A of The Local Government Pension Scheme (Scotland)(Administration) Regulations 2008, all LGPS Funds are required to publish an Annual Report.

This document is the Annual Report of the Falkirk Council Pension Fund for 2014/15.

The Local Government Pension Scheme (LGPS)

- The Local Government Pension Scheme is a nationwide pension arrangement for persons working in local government and is one the largest public sector pension schemes in the UK with over 4 million members.

- Local Authorities and certain other public bodies are required by law to operate the Scheme. Other organisations such as charities, non-profit making entities and contractors may apply to join the Scheme.

- The Local Government Pension Scheme (Scotland) is the version of the Scheme which applies to local authorities in Scotland. Similar but separate versions of the Scheme apply in England and Wales and Northern Ireland.

- The Scheme consists of around 100 regional pension funds across the UK – one of which is the Falkirk Council Pension Fund.

- Unlike other public sector schemes, the LGPS is a funded scheme, which means that monies have been set aside to pay for future benefits as they fall due. This helps to reduce the potential costs falling on future generations of tax payers.

- The Scheme provides a range of high quality inflation linked benefits based on members' salaries and their years' of scheme membership. Unlike other forms of pension provision, benefits do not depend on investment performance.

- Prior to 1st April, 2015, benefits in LGPS (Scotland) were calculated on a "Final Salary" basis. From 1st April, 2015, scheme benefits are being calculated on a "Career Average" basis with pre-April 2015 rights being fully protected on the final salary basis. For more information about LGPS 2015, please visit www.falkirkpensionfund.org or www.scotlgps2015.org.

lgps look forward with confidence

LGPS2015

Governance

Overview

Falkirk Council is the **Administering Authority** of the Falkirk Council Pension Fund and is responsible for ensuring that pension fund business is conducted in accordance with the law and proper standards, and that monies originating from scheme members and from the public purse are safeguarded and properly accounted for.

Falkirk Council has delegated its pensions function to the Pensions Committee, with various operational activities being delegated to the Chief Finance Officer. During 2014/15, the work of the Pensions Committee has been supported by an advisory Pensions Panel. These arrangements were approved by Falkirk Council on 14 March 2012.

In discharging this overall responsibility the Pension Fund is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions including arrangements for the management of risk.

The Fund has its own Governance Policy Statement which is consistent with the relevant regulations concerning the governance of funds within the LGPS.

Governance arrangements are underpinned by the **Annual Governance Statement** and the **Governance Compliance Statement**. Details of the Fund's approach to Governance can be found in the Fund's Governance Policy document at www.falkirkpensionfund.org in the Forms and Publications section. Governance arrangements are reviewed on a regular basis and are subject to consultation with stakeholders to ensure they remain relevant and effective.

Annual Governance Statement

The Local Authority Accounting (Scotland) Regulations 2014 require that all Councils conduct a review, at least once in each financial year, of the effectiveness of the system of internal control1 and that an Annual Governance Statement is included in the Annual Accounts. Falkirk Council has complied with both of these requirements voluntarily for some years now, underlining a commitment to openness and transparency.

The Annual Governance Statement in respect of 2014/15 is set out in full at Appendix 2.

Governance Compliance Statement

Regulation 27 of the Local Government Pension Scheme (Scotland)(Administration) Regulations 2008 requires the Fund to publish and maintain a Governance Compliance Statement, setting out how Fund business is conducted and how stakeholders are represented in the decision making process.

The Fund's Governance Compliance Statement is set out in full at Appendix 3.

Pensions Committee

The **Pensions Committee** is responsible for the strategic management of the Fund's assets the administration of members' benefits.

The Committee consists of nine members – six elected members from Falkirk Council and three members drawn from the Pensions Panel. The Committee meets on a quarterly basis with meetings being held mainly in public session. Members of the Committee are as follows:

Councillor John Patrick (Convener)	-	Elected Member (Falkirk Council)
Councillor Jim Blackwood	-	Elected Member (Falkirk Council)
Councillor Thomas Coleman	-	Elected Member (Falkirk Council)
Councillor Steve Carleschi	-	Elected Member (Falkirk Council)
Councillor Craig Martin	-	Elected Member (Falkirk Council)
Councillor Dr Craig R Martin	-	Elected Member (Falkirk Council)
Councillor Callum Campbell	-	Employer Representative (Stirling Council)
Mr Alastair Redpath	-	Pensioner Representative
Miss Mary Keggan	-	Union Representative

The Committee's key responsibilities are:-

- to oversee the administration of the Fund
- to manage the investments of the Fund
- to establish and review investment strategy
- to ensure the suitability and adequate diversification of investments
- to take proper advice in relation to investment matters
- to set the strategic asset allocation and individual manager benchmarks and targets
- to review the performance of investment managers on a regular basis
- to select and appoint investment managers and custodians as required
- to formulate and monitor a funding policy for the Fund
- to ensure the Fund is subject to actuarial valuations as required
- to approve the Annual Report and Accounts

(Councillors Blackwood and Carleschi and Miss Keggan were active members of the Scheme during 2014/15. Councillor Patrick and Mr Redpath are pensioner members of the Scheme).

The Committee is supported at its meetings by officers and professional advisers. External Auditors were also in regular attendance at the 2014/15 meetings.

Pensions Panel

The Panel's main responsibility is to provide advice and guidance to the Pensions Committee on all matters relating to the business of the Falkirk Council Pension Fund. The Panel is also supported by officers and professional advisers.

The Panel comprises 15 members and includes Trade Union, Employer and Pensioner representatives. One member from each of these representative groups has been co-opted to sit on the Pensions Committee where they have full access to papers and voting rights. The Panel meets on a quarterly basis approximately two weeks prior to the corresponding Committee meeting. Members of the Panel are as follows:

Councillor Callum Campbell (Convener)	-	Employer Rep. (Stirling Council)
Mr Willie Watson	-	Employer Rep. (Stirling Council)
Mr Gordon Laidlaw	-	Employer Rep. (Scottish Autism)
Mr Ed Morrison	-	Employer Rep. (SCRA)
Mrs Jennifer Welsh	-	Employer Rep. (SEPA)
Mrs Alison Stewart	-	Employer Rep. (Forth Valley College)
Mrs Susan Mackay	-	Employer Rep. (Clackmannanshire Council)
Councillor Archie Drummond	-	Employer Rep. (Clackmannanshire Council)
Mrs Jackie McAuley	-	Employer Rep. (Falkirk Council)
Vacant	-	Employer Rep. (Falkirk Council)
Mr Alastair Redpath	-	Pensioner Representative
Mr Ian McLean	-	Pensioner Representative
Miss Mary Keggan	-	Union Representative
Mr Sandy Harrower	-	Union Representative
Mr Andy Douglas	-	Union Representative

Mr Watson and Mrs Mackay have stood down during 2014/15

Future Governance Arrangements

The Public Service Pensions Act 2013 requires that a local Pension Board is established from 1 April 2015 to assist the Scheme Manager (i.e. in this case Falkirk Council) in securing compliance with the scheme rules and with the Pension Regulator's Codes of Practice. In view of the new governance requirements, and after consultation with stakeholders, the decision has been taken to wind up the Pensions Panel. Full details of the revised governance arrangements can be found on the Fund website at www.falkirkpensionfund.org in the Governance Policy Document in the Forms and Publications section.

Training for those with Governance Responsibilities

The Fund's training policy recognises that those persons involved in the governance of the Fund should have the necessary level of skills and knowledge to allow them to carry out their duties effectively.

Various seminars, conferences and in-house training events have been made available for Committee and Panel members to attend, During 2014/15, these have included:

16/04/2014 – Falkirk Council Pension Fund - Annual Conference, Falkirk
12/10/2014 – Local Government Pension and Investment Forum, London
02/02/2015 – In house event - Investment Strategy Workshop, Falkirk

Further educational insight has been provided during the year through the visits of Fund Managers and Pensions Specialists to attend Committee and Panel meetings.

Training arrangements for 2015/16 will continue to be broad based in order to support member decision making. Particular attention will be given to the training needs of the new Pension Board.

Conflict of interests

A conflict of interest occurs where there is the existence of a financial or other interest which is likely to prejudice the way a person exercises their functions as a member of the Committee or Panel but does not include a financial or other interest arising merely by virtue of being a member of the scheme.

There is a standing agenda item at each Pensions Committee or Panel meeting for Members to declare any such interests. Any declarations are minuted.

Accountability and Transparency

Pensions Committee agendas, reports and minutes are published on the Falkirk Council website at https://www.falkirk.gov.uk/coins/default.asp.

Pensions Committee meetings are open to members of the public (with the exception of occasional private items).

Data Security

Falkirk Council Pension Fund is responsible for a lot of personal data and sensitive information. We aim to comply with the Information Security Policy adopted by Falkirk Council and in doing so, have the following arrangements in place to safeguard this data:

- All staff are regularly reminded of their obligations in respect of Confidentiality, Data Protection and Information Security
- New staff have these responsibilities and policies explained to them as part of their induction and their understanding is checked
- Where paper records are being converted to electronic images, paper records are securely destroyed
- Encrypted laptops are provided to staff who work away from the office, as part of their regular role or as part of our business continuity plan
- Where data has to be transferred off site we use either secure FTP, VPN, or password protection

- Our administration system complies with the standards contained in ISO/IEC 27001 information security management
- We have Data Processing Agreements in place with our third party processors
- We aim to have Data Sharing Agreements in place with our constituent employers within the next two years

Communications

Communication with stakeholder groups is achieved through emails, publication of committee minutes, newsletters, payslip messaging and pension fund website. The range of topics covered includes actuarial matters, benefits and regulatory changes, investment performance and investment manager/adviser presentations.

The following documents can be viewed or downloaded from the Falkirk Council Pension Fund website at www.falkirkpensionfund.org:

- Annual Report and Accounts
- Member Newsletters
- Funding Strategy Statement
- Governance Framework Document
- Statement of Investment Principles
- Valuation Reports

More Information

Copies of the **Statement of Investment Principles**, the **Funding Strategy Statement** and the **Governance Policy** document are available from the Chief Finance Officer, Falkirk Council, Municipal Buildings, West Bridge Street, Falkirk FK1 5RS or at www.falkirkpensionfund.org.

Scheme Administration

Outline

The aim of the Pensions Section is to provide an efficient and cost effective administration service that meets stakeholders' needs.

The Section consists of 12 full-time equivalent staff and is headed by the Pensions Manager, who reports directly to the Chief Finance Officer. In addition to benefits administration, some staff members undertake governance, accounting, and investment related activities.

The Section is made up as follows:

Role	Nos.	Average Years of Pensions Service	Pensions Qualification
Pensions Manager	1	32 years	Yes
Pensions Project Officer	1	44 years	Yes
Fund Accountant	1	0 years	Yes
Pensions Officers	2	29 years	Yes (1)
Pensions Support Officer	1	24 years	No
Accountancy Assistant	0.5	11 years	No
Trainee Pensions Officer	1	1 year	No
Pensions Assistants	4	14 years	No
Clerical Assistant	0.5	1 year	No
Total	12		

The principal activities of the Pensions Section are:

- to set the strategic direction for all aspects of the service
- to support the Pensions Committee and Pensions Panel
- to implement the Fund's investment strategy
- to manage and oversee the investment of Fund monies
- to implement the Fund's funding strategy
- to prepare and maintain Pension Fund Accounts
- to undertake all Fund administration obligations, including the collection of contributions and the payment of benefits
- to provide information, guidance and communications material to Fund stakeholders

Service Planning

The Section operates within a three-year Service Development Plan which is linked to the Council's overall Service Plan.

Professional Development

The members of staff who work for us are the Fund's greatest assets and are valued accordingly.

We invest in the continuing professional development of staff, for the benefit of our stakeholders and the Fund overall.

The Council holds Investors in People accreditation.

Equality and Diversity

It is the policy of Falkirk Council to ensure that all its employees are selected, trained and promoted on the basis of their ability, the requirements of the job and other similar non-discriminatory criteria. All employment decisions are based purely on relevant and objective criteria.

We aim to deliver accessible, high-quality and value for money services to all our customers, without discrimination on grounds of group memberships; for example sex, race, disability, sexual orientation, religion, belief or age.

Systems

All Pensions Section staff have access to up to date computer hardware and operating systems. In addition to normal desktop software, the range of services provided by the Section requires it to have access to the following systems:

System	Database	Purpose
In-House Pensions Administration System	Ingres	Pensions Administration
External Pensions Administration System (Heywood)	Web Based	Pensions Administration
Resourcelink (Northgate)	Oracle	Pensioner Payroll
Integra	Oracle	Financial Information System
Passport (Northern Trust)	Web Based	Custodian Information
Clydesdale Bank	Web Based	Fund Banking Information

During 2014/15, records have been migrated from the in-house administration system to an externally hosted system. This process has been undertaken in consultation with the Council's Internal Audit team.

Asset valuations are available to the Pensions Section via the Passport application of Fund Custodian, Northern Trust. This is complemented by the web based applications of the Fund's investment managers allowing up to date valuations and reports to be obtained.

Performance Indicators

The main indicators used by the Pensions Section in relation to membership and benefits administration are as follows:

	Target	2010/11	2011/12	2012/13	2013/14	2014/15
Annual Admin. Cost per member	Under £25 per member	£16.12	£16.45	£14.50	£15.77	£23.51
Staff/Member ratio	Between 1:2500 and 1:3200	1:2893	1:2932	1:2972	1:3237	1:3307
Key Statutory deadlines met	All achieved	Yes	Yes	Yes	Yes	Yes
No. of Complaints	0	4	1	1	3	4
* Answer ad hoc queries in 14 days	70%	71%	72%	73%	73%	65%
Lump Sums payments	Pay within 7 days	92%	99%	99%	99%	99%

*The enquiries completion rate has been impacted by the absence of a pensions assistant, the installation of the new pensions system, the preparations for the new scheme and the heightened level of engagement required to support severance arrangements.

Pension Section Budget

A summary of the Pension Section's administrative expenditure for 2014/15, together with the approved budget for 2015/16 is shown in the table below.

The budget focuses on controllable expenditures and thus excludes benefit payments and transfers of pensions from the Fund. Similarly, income does not include contributions receivable and pension transfers to the Fund.

	2014/15 Budget	Outturn for 2014/15	2014/15 Variance	2015/16 Budget
Employee Costs	£409,800	£353,573	(£56,227)	£417,480
Supplies & Services - Indirect	£93,860	£86,924	(£6,936)	£94,050
Central Support Charges	£88,120	£91,322	£3,202	£95,820
Income	(£2,000)	(£3,619)	(£1,619)	(£2,000)
Benefits Administration Costs – Direct	£340,000	£340,681	£681	£450,000
Oversight and Governance Cost – Direct	£270,000	£272,952	£2,952	£270,000
Investment Management Costs – Direct	£4,916,000	£4,916,186	£186	£5,088,070
Pension Fund Total	£6,115,780	£6,058,019	(£57,761)	£6,413,420

The main variance between budgeted and actual amounts related to:

- an underspend in employee costs relating to the Pension Accountant vacancy and maternity leave of Pensions Support Assistant

The budget for Investment Management Expenses in 2015/16 has been set at £5,088,070. Allowances have been made in the 2015/16 budget for:-

- New Pensions System
- Review of Investment Strategy
- Temporary staffing appointments

Review of 2014/15 Administration

LGPS 2015

2014/15 has been dominated by scheme reform, with centre stage being taken by preparations for the Career Average version of the Scheme starting on 1 April 2015.

Various statutory instruments have been laid during the year to define the precise terms of the new arrangements.

To ensure compliance with LGPS2015, a new pension administration system was procured in autumn 2014. The remainder of the year focused on migrating data from the old in-house system to the new system with staff receiving training to ensure a "business as usual" transition.

A major communications exercise publicising the new scheme has taken place with members and employers during 2014/15. This has included the development of a national LGPS2015 website in collaboration with other Funds, training workshops for employers, news items on www.falkirkpensionfund.org, the mailing of a newsletter with annual statements and e-literature issued to members via employer portals.

Governance has also been impacted by the new scheme and work has been successfully undertaken to establish the Fund's new Pension Board by the deadline of April, 2015.

Valuation and Funding Strategy

The 2014 Valuation was completed successfully in March, 2015, following a review of Funding Strategy, in accordance with the statutory deadline.

Miscellaneous

- Prudential were appointed as a new Additional Voluntary Contribution (AVC) provider during the summer of 2014. This has improved the AVC take up rate with around 90 new members electing to make contributions.

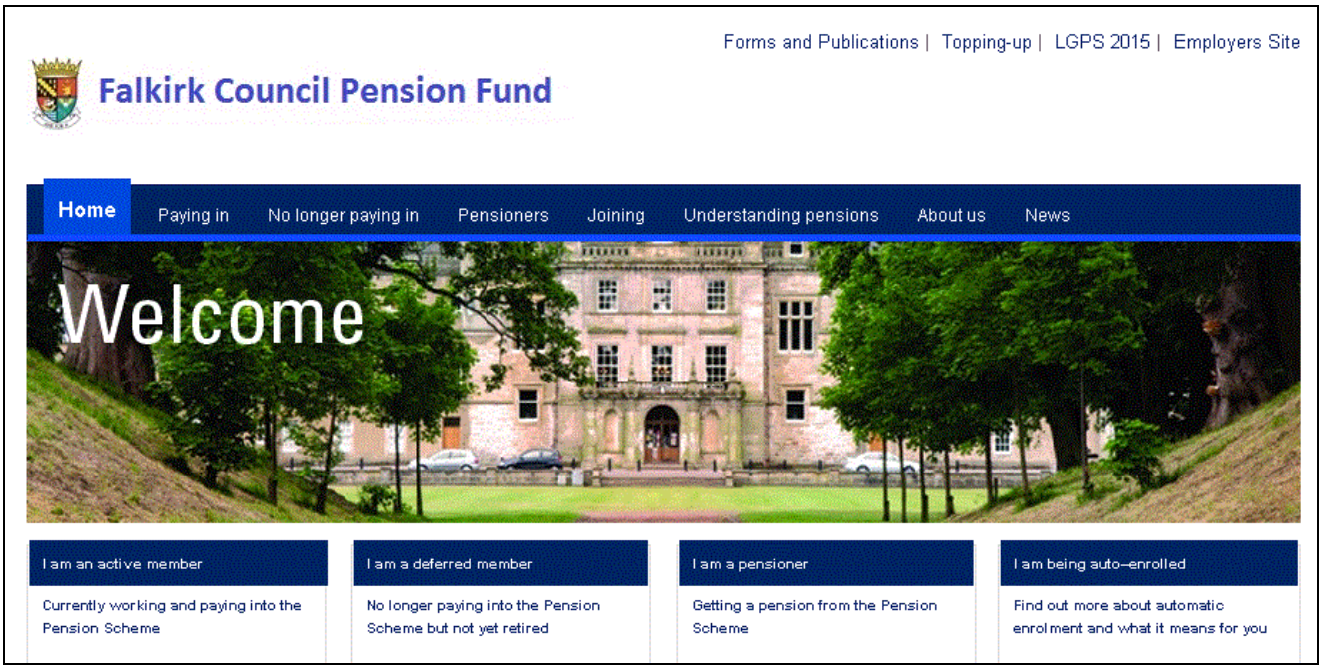
- In February, 2015, the Scottish Public Pensions Agency (SPPA) assumed responsibility from Falkirk Council for administration of the local Police and Firefighter Pension Schemes. The Pensions Section was heavily involved in the data cleansing and data migration process and assisted with the smooth transition of this responsibility.

- The Fund operates an Internal Dispute Resolution Procedure (IDRP) which is defined by statute. This is used where a member disagrees with the benefits awarded or a decision made by their employer which affected their benefits. The majority of IDRP appeals during 2014/15 related to potential ill-health retirement claims. Details of the IDRP process can be found in the forms and publications area of our website at www.falkirkpensionfund.org.

Online services

We have our own website at www.falkirkpensionfund.org.

The website is split into areas for active, deferred and retired scheme members, as well as containing forms, scheme guides and information about a range of scheme features.



Analysis of Membership

Membership numbers are most commonly affected by persons joining or leaving the Scheme as part of normal staff turnover. From time to time, however, there can be more significant membership movements resulting from factors such as economic circumstances, staff transfers, and Government initiatives.

The balance of membership between non-pensioners and pensioners is an important indicator of the maturity of the Fund in terms of whether the Fund can continue to pay benefits from its regular contribution inflow or whether it may be forced to sell assets in order to pay ongoing benefits.

Recent membership movements show that:

- Active membership has remained broadly stable during 2014/15, whilst deferred and pensioner numbers have risen in line with the challenging financial environment and persistence of early retirement initiatives across fund employers.

- The influx of new active members has halted the maturing of the Fund which appeared to be occurring prior to 2013/14.

Split of Membership between Actives, Deferreds and Pensioners

	2010/11	2011/12	2012/13	2013/14	2014/15
Active	**12,939**	**12,668**	**12,880**	**14,690**	**14,589**
Deferred	**4,869**	**5,085**	**5,204**	**5,320**	**5,405**
Pensioner	**7,600**	**8,119**	**8,372**	**8,693**	**8,995**
Total	**25,408**	**25,872**	**26,456**	**28,703**	**28,989**

Maturity Level (% of Deferred & Pensioner Members to Total Members)	**51.04%**	**51.32%**	**48.82%**	**49.7%**

Split of Membership between Scheduled and Admission Bodies

	2010/11	2011/12	2012/13	2013/14	2014/15
Scheduled	**23,607**	**23,583**	**24,045**	**26,055**	**26,160**
Admission	**1,801**	**2,289**	**2,411**	**2,648**	**2,829**
Total	**25,408**	**25,872**	**24,456**	**28,703**	**28,989**

Risk Management

Overview

Pension fund management is not immune from risk. These may be the risks faced by the Fund as an investor through Fund Manager ineptitude or corporate malpractice, or it may be related to the Fund's administrative functions in which case the risks may relate to systems failures or regulatory breaches. Whilst it is not possible to eliminate risk completely from day to day activity, the nature of risk has been evaluated and strategies put in place to minimise the adverse effects. These are set out in the following documents:

- the Pension Fund Risk Register
- the Fund's Statement of Investment Principles
- the Operational Risk Management Action Plan
- the Finance Business Continuity Plan

Risk Register

The Pension Fund Risk Register focuses mainly on the risks related to the Fund's administrative functions, whereas investment risk is addressed in the **Statement of Investment Principles**. Other Risk Plans describe the more detailed actions that would be taken in the event of an emergency situation taking place.

The Pension Fund Risk Register is a standing item at the quarterly meetings of both the Pensions Committee and Pensions Panel. Individual risks and proposed mitigations are identified by the Chief Finance Officer and Pensions Manager with the support of fund advisers. Key risks, including some of those identified during 2014/15 are set out below:

- Investment Managers may not have appropriate control framework in place
- Custody arrangements may not be sufficient to safeguard Fund's assets
- Data Security may be compromised
- Funding position may be affected by falling asset values or falling bonds yields
- Staff unable to perform duties due to systems failure

The current risk register, including mitigations, can be viewed on the Fund website at www.falkirkpensionfund.org in the Forms and Publications section.

Investment Risk

The various types of investment risk to which the Fund is exposed together with any mitigation are set out in the **Statement of Investment Principles**. These risks include price risk, currency risk, counterparty risk, interest rate risk and inflation risk. **The Statement of Investment Principles** is updated whenever there is a material change in investment strategy. This tends to take place following the completion of the triennial valuation process.

Investment risk is considered in further detail in the Notes to the Financial Statements and as a consequence, Committee and Panel are alerted to these matters at least twice annually when considering the unaudited and audited accounts. More information on investment risk is contained in Note 18 on Page 73.

The Fund's **Statement of Investment Principles** can be viewed on the Fund website at www.falkirkpensionfund.org.

Investment Policy and Performance

Investment Overview

The Administering Authority invests the Fund in compliance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010. The Fund's investment advisor is Hymans Robertson LLP.

The Fund's investment policy is set out in its **Statement of Investment Principles**, which can be found on the Fund website under Forms and Publications at www.falkirkpensionfund.org.

During 2014-15, ten external investment managers managed the Fund's assets:

Manager	Mandate
Aberdeen Asset Management	Global Equities – Active
Baillie Gifford	Fixed Interest and Diversified Growth
Grosvenor Capital	Global Infrastructure
Hearthstone Investments	UK Social and Affordable Housing
Legal & General (L&G)	Global Equities - Passive
M&G	UK Credit Market
Newton Investment Management	Global Equities – Active
Schroder Investment Management	UK Equities and UK focused Property
SL Capital Partners	European focused Private Equity
Wilshire Associates	Global Private Equity

Manager returns are measured against various benchmarks, the main ones being:

Manager	Mandate
Aberdeen Asset Management	MSCI All Countries World Index
Baillie Gifford Bonds	Customised UK Fixed Interest Benchmark
Baillie Gifford Diversified Growth	UK Bank of England Base Rate
Legal & General (L&G)	Customised Global Equities Benchmark
Newton Investment Management	FTSE All World Index
Schroder UK Equities	FTSE All Share Index
Schroder Property	AREF/IPD UK Quarterly Property

The Fund also complies with the six revised Myners' principles. A summary of the level of compliance is included in the **Statement of Investment Principles.**

Changes since 31/3/2015

Since the year end, the Fund has made the first of what is expected to be a series of investments in UK Infrastructure sourced by the in-house team in collaboration with Lothian Pension Fund. The commitment to UK Infrastructure through this mandate is £30m.

Investment Strategy

The Fund's investment objective is to hold a broad range of assets, balancing risk and reward, and managing the assets prudently and effectively in order to minimise the burden of costs falling on employers and tax payers.

The current investment strategy began in 2012 when it was agreed that the Fund should begin to reduce its strategic allocation to traditional investments such as Equities and Bonds and increase its exposure to Alternative Assets, including Diversified Growth and Infrastructure.

This restructuring led to the appointment of Baillie Gifford to manage a Diversified Growth mandate and Credit Suisse (now Grosvenor Capital) to manage a Global Infrastructure mandate.

Throughout 2014/15 the Fund has continued to build upon this strategy of alternatives diversification, making a £30m commitment to a Social and Affordable Housing mandate with Hearthstone Investments and a further £30m commitment to be invested in UK Infrastructure.

In spite of the significant allocation to alternatives, the Fund's actual equity allocation has continued to exceed its strategic allocation due to the very strong performance of global equity markets over the past three years. The Fund's strategic allocation to all asset classes is being re-appraised in the ongoing review of investment strategy.

A comparison of the strategic allocation of Fund Assets with the actual allocation at 31 March 2015 is set out below:

Asset Class	Strategic Allocation	Actual Allocation at 31/3/2015
Equities	60%	63%
Bonds	10%	9%
Property	10%	7%
Diversified Growth	10%	12%
Social/Affordable Housing	2%	1%
Other Alternatives	8%	8%
Totals	**100%**	**100%**

Within "Other Alternatives", the Fund is holding a 2% allocation to cash in anticipation of making imminent investments in Social and Affordable Housing and UK Infrastructure.

The current investment review will focus on ways to reduce exposure to riskier assets without compromising the Fund's prospects of returning to fully funded status in the medium to long term.

Investment Monitoring

Regulation 10 of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) 2010 (SSI 2010/233) requires the regular monitoring and review of investment managers performance.

The Pensions Committee meets on a quarterly basis to review manager actions and performance. Two managers invariably present at the quarterly meeting with Committee members and advisers having the opportunity to hold managers to account for their activities.

The in-house team also has regular meetings with fund managers to discuss performance, process and strategy. This helps to ensure that appropriate oversight and control is being exercised by the Fund. A Resourcing Agreement is in place with the Lothian Pension Fund to provide additional support in the areas of manager monitoring and performance.

Investment Performance

The Fund's total returns over the short, medium and long term are set out below.

	2014/15 %	3 years % per annum	5 years % per Annum	Inception % per annum
Fund Return	13.4%	12.0%	9.7%	7.6%
Benchmark Return	12.1%	9.8%	7.9%	7.2%
Excess	1.3%	2.2%	1.8%	0.4%

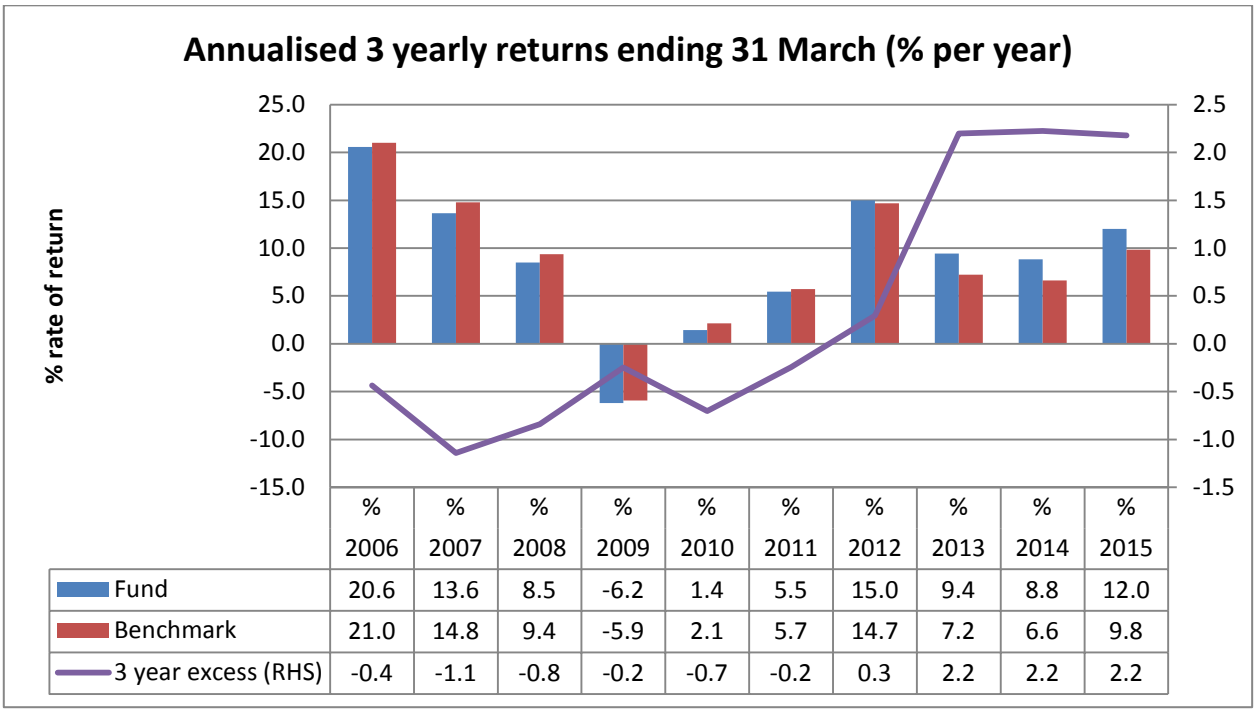
* "Inception" records performance from 2001 when the current custodian appointment was made.

The Fund's performance remains ahead of benchmark across all time periods. The table below compares Fund returns with an indicator of inflation.

	2014/15 %	3 years % per annum	5 years % per annum	Inception % per annum
Fund Return	13.4%	12.0%	9.7%	7.6%
Retail Price Index	0.9%	2.3%	3.2%	2.9%
Consumer Price Index	0.0%	1.5%	2.4%	2.2%
National Average Earnings	3.3%	1.5%	1.7%	2.8%

* Inception date 30/09/2001

The Fund's historic performance is further illustrated by the following graphic which sets out the 3 year rolling average returns over the past 10 years. The chart shows that there has been significant volatility of returns over the past decade covering in particular the global financial crisis of 2008/09 and subsequent resurgence in asset values.



Annualised 3 yearly returns ending 31 March (% per year)

	Mar-06 %	Mar-07 %	Mar-08 %	Mar-09 %	Mar-10 %	Mar-11 %	Mar-12 %	Mar-13 %	Mar-14 %	Mar-15 %
Fund	20.6	13.7	8.5	-6.2	1.4	5.5	15.0	9.4	8.8	12.0
Benchmark	21.0	14.8	9.4	-5.9	2.1	5.7	14.7	7.2	6.6	9.8
Relative	-0.4	-1.1	-0.8	-0.3	-0.7	-0.3	0.3	2.2	2.2	2.2

Manager Returns

The Fund's investment managers had the following performance against benchmark over 2014/15:

Fund Manager	Mandate	1 Year %	Benchmark %	Excess %
Aberdeen Asset Management	Global Equities – Active	10.5	19.0	-8.5
Baillie Gifford	Fixed Interest	14.9	15.0	-0.1
Baillie Gifford	Diversified Growth	8.7	0.5	+8.2
Legal & General	Global Equities – Passive	15.0	14.9	+0.1
Newton Inv. Management Ltd	Global Equities – Active	21.0	19.2	+1.8
Schroder Inv. Management Ltd	UK Equities – Active	7.7	6.6	+1.1
Schroder Inv. Management Ltd	Property	15.6	16.6	-1.0
Alternatives	Private Equity/Infrastructure	14.7	0.4	+13.3

n.b. The Hearthstone Social / Affordable Housing mandate has been running less than one year and is therefore not listed above

Comments on 2014/15 Manager Performance

- In a strong year for equities and bonds, all managers posted positive absolute returns.

- Returns from Legal and General were in line with their benchmark as one would expect from a passive manager.

- Aberdeen's performance disappointed and they are now behind their benchmark across all relevant time periods. Despite these setbacks, Aberdeen remains committed to its philosophy of using local teams to source investments in strong cash generative companies undervalued by markets.

- Newton's performance in global equities was a strong one returning over 20% against a benchmark of 19.2%. Outperformance has been driven by Newton's overweight positions in North America and Europe. The manager continues to have concerns about the levels of global debt and holds a significant level of cash as a defensive measure.

- The Schroder UK Equities mandate remains ahead of benchmark across all time periods. The returns in 2014/15 fell short of the stellar returns (18%) in 2013/14, however, this is not surprising given the manager's value approach where investment is made in companies perceived to be undervalued and unloved by markets.

- The Schroder property mandate has benefited from an improving UK economy and a rising tide of commercial property values. The failure to achieve the benchmark was attributable to the mandate's exposure to a continental European property fund where values have been declining for several years due to depressed Eurozone economies. The strength of Sterling against the Euro and the absence of the continental European fund from the benchmark also played against achieving the benchmark.

- Baillie Gifford had a strong year in both absolute and relative terms with its fixed interest mandate benefitting from the low interest rate environment and an insatiable demand for bonds by financial institutions generally. The Fund also invests in Baillie Gifford's Diversified Growth Fund in order to achieve equity like returns but with lower levels of volatility. Both return and volatility targets were adequately satisfied during 2014/15.

- The Fund's alternatives programme continued to mature as an increasing number of underlying private equity funds reached the "harvesting" stage of their evolution and delivered a strong flow of cash returns from investments made earlier in the programme. Returns from the Grosvenor Capital mandate have been noteworthy with total value to paid-in capital showing a multiple of 1.3 after only 3 years of capital deployment.

Key Investment Holdings

The Fund's 10 largest equity holdings at 31/03/2015 are as listed below:

Name of Stock	Market Value as at 31/03/2015
Vodafone	£18,347,513
Roche	£14,887,143
GlaxoSmithKline	£14,434,306
Royal Dutch Shell	£14,017,562
Novartis	£13,445,911
Friends Life	£12,745,873
British American Tobacco	£12,709,896
HSBC	£11,687,443
BP	£11,663,663
AstraZeneca	£11,450,263

The scheme rules specify that the maximum holding a fund may have in a single asset is 5% of the total fund value. The Falkirk Fund's largest single holding - in Vodafone - is approximately 1% of fund value, which is well within the statutory ceiling.

Cash Holdings

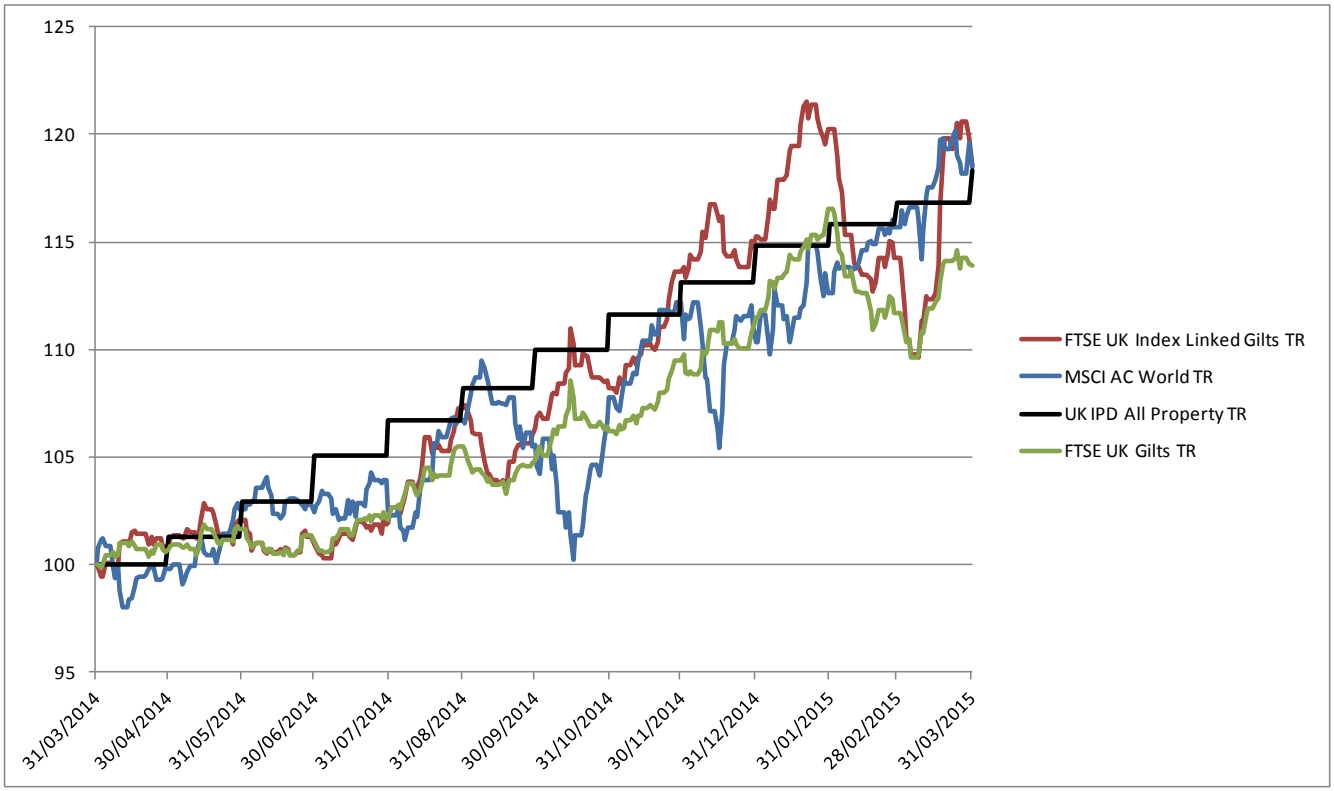
The Fund's cash holdings with custodian Northern Trust are held in a triple A rated money market account with residual cash being swept into the account on a monthly basis. The Fund retains cash for operational purposes and opportunistic investments in blocks of approximately £5m with each of Santander, Ignis, Bank of Scotland and the Clydesdale Bank.

Investment Market Review

The UK economy has made a solid recovery since the dark days of the global financial crisis in 2008/09. Unemployment has shrunk to 6% from a peak of 8% in 2009, and the employment rate of 73.3% is the highest since records began. The public sector deficit has halved since 2010. In 2014, the UK economy expanded by 2.8%, although it slowed in the first quarter of 2015. US economic growth has been robust for the last few years, and even regions such as Japan and Europe are now displaying some springtime shoots of recovery.

Asset markets continue to respond positively to low interest rates and unconventional monetary policies (bond buying by central banks) aimed at stimulating economic growth. Perhaps unsurprisingly, government and corporate bond markets made handsome gains as investors anticipated strong central bank buying support for these assets. Equity markets benefited too. The US equity market is now comfortably in excess of its two previous peaks, Japanese equities continued to perform well and the UK stock market is once again hovering around its historical high point. Even the continental European stock markets have shown signs of reviving, but after a long period in the doldrums, the outstanding equity market performer over 2014/15 was the Shanghai Stock Exchange in China, which soared 56%. Other asset classes, such as property also made attractive returns. The key feature in currency markets was US dollar strength. The only real disappointment was commodities, where oil and iron ore prices in particular fell sharply.

One Year Asset Class Returns – Major Markets (rebased to 100)



Looking ahead, investors are wondering how long the current positive environment for asset markets can last. Given that the low interest rates and unconventional monetary policy (so-called quantitative easing) are inextricably linked with prices in asset markets, the fear is that this element of support will be withdrawn and interest rates will rise. This is front and centre of mind in one of the two largest economies in the world, the USA, where wage inflationary pressure could cause the economy to overheat. This is not the case across the globe. The European Central Bank has only recently resorted to stimulating the economy with quantitative easing and the other giant economy in the world, China, seems quite out of sync with the USA, having recently embarked on a policy of cutting interest rates in the face of a slowing economy and low inflationary pressure.

So, the timing of less supportive central bank policies is far from clear (further market gains are quite possible), but that tightening monetary policy will cause increased volatility and declines in bond and equity markets with high valuations is crystal clear. It appears unlikely that the high returns of 2014/15 will be sustained over the long term.

Other than monetary policy, there are a number of issues that will affect asset market returns in an unpredictable way going forward. These include Greek debt, Chinese expansion, the Ukraine conflict, war in Syria and fallout from the lower oil price in producing countries such as Norway, Russia, Venezuela and Saudi Arabia. These geopolitical risks are manageable to the extent that it is in nobody's interests to let them get out of control. Uncertainty is a constant in the investment backdrop and it is the uncertainty which creates the opportunities for investors to earn returns higher than those available from risk-free assets. With the benefit of economic growth and advancement over the coming years and decades, a diversified portfolio of assets should provide that risk premium over the long term.

Corporate Governance

Overview

Consistent with the objectives set out in its **Statement of Investment Principles** and as a responsible investor, the Fund seeks to promote corporate responsibility and good practice amongst all companies in which it invests. To this end, the Fund monitors investee companies to ensure they are meeting standards of acceptable practice. During the year, this monitoring role was achieved by engaging with companies through:

- the Fund's Investment Managers (see note 16b to the financial statements, page 67);
- the Fund's membership of the Local Authority Pension Fund Forum (LAPFF) which comprises over 60 UK local government pension funds and exists to promote and maximise the corporate governance aims of Funds
- the Fund's corporate governance and proxy voting agents, Pensions and Investment Research Consultants (PIRC), who provide advice and research services on environmental, social and governance matters.

An update on corporate governance matters is given to members at the quarterly Panel and Committee meetings.

Local Authority Pension Funds Forum

During 2014/15, LAPFF engaged with major companies on a diverse range of issues, including phone hacking, carbon emissions and climate change, executive pay, bankers bonuses, gender balance, tax avoidance and working conditions in emerging markets. Engagement is invariably at a personal level between LAPFF office bearers and company chairs and senior executives.

LAPFF is also a leading participant in the "Aiming for A" campaign" – a coalition of asset owners with shared concerns over the risks of climate change. The campaign has prompted resolutions dealing with heightened disclosure around operational emissions management, asset portfolio resilience, low carbon energy R&D and investment, executive performance indicators and public policy positions relating to climate change to be approved by shareholders of BP, Royal Dutch Shell and Statoil.

Voting

The Fund could potentially allow its managers to exercise votes on its behalf at company meetings. However, in order to ensure a consistent approach to voting, it has for the past few years engaged PIRC to undertake this service through its Proxy Voting facility.

During 2014/15, PIRC voted at 135 company meetings with 1,458 votes being cast in favour of resolutions, 390 being opposed and 139 being cases of abstentions. Areas where "oppose" votes were cast included remuneration policies, gender balance on boards, governance, and auditor independence.

PIRC attend one Panel and one Committee meeting each year in order to brief members about the latest developments in corporate governance, including any environmental and human rights matters.

Stewardship Code

The Fund's corporate governance responsibilities should also be considered within the context of the UK Stewardship Code. The Code comprises of seven principles which seek to improve the quality of engagement between institutional investors and investee companies. Under the seven principles, companies are required to:

1. publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.
3. monitor their investee companies.
4. establish clear guidelines on when and how they will escalate their stewardship activities.
5. be willing to act collectively with other investors where appropriate.
6. have a clear policy on voting and disclosure of voting activity.
7. report periodically on their stewardship and voting activities.

Consistent with Code requirements, asset managers must produce a statement of their commitment or explain their alternative approach to company engagement. It is pleasing to note that each of the Fund's investment managers has expressed their commitment to the Code.

Falkirk Council Pension Fund

Unaudited Statement of Accounts

2014/15

Statement of Responsibilities

Administering Authority's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of the financial affairs of the Falkirk Council Pension Fund and to secure that one of its officers has responsibility for the administration of those affairs. In Falkirk Council, that officer is the Chief Finance Officer;
- Manage the Fund's affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the Annual Accounts for signature.

Chief Finance Officer Responsibilities

The Chief Finance Officer is responsible for the:

- preparation of the Fund's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

In preparing the Annual Accounts, the Chief Finance Officer has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent; and
- Complied with legislation and the Local Authority Accounting Code (in so far as it is compatible with legislation).

The Chief Finance Officer has also:-

- Kept adequate accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate by the Chief Finance Officer

I certify that the financial statements give a true and fair view of the financial position of the Pension Fund as at 31 March 2015 and the transactions of the Pension Fund for year ended 31 March 2015.

Bryan Smail, CPFA MBA
Chief Finance Officer
26 June 2015

Independent Auditor’s Opinion

PENSION FUND ACCOUNT

This statement shows the revenue account of the Pension Fund and separates those transactions which are related to dealings with members from those transactions which are a consequence of investment.

Restated 2013/14 £'000	Dealings with members, employers and others directly involved in the fund	2014/15 £'000	Note
(76,433)	Contributions	(78,905)	8
(3,316)	Transfers from other pension funds	(2,520)	9
(79,749)		(81,425)	
56,485	Benefits	58,546	10
4,655	Payments to and on account of leavers	3,531	11
61,140		62,077	
(18,609)	**Net (additions)/withdrawals from dealing with members**	**(19,348)**	
10,575	**Management expenses**	**11,744**	**12**
	Returns on investments		
(26,484)	Investment income	(27,094)	13
268	Taxes on income	269	
(79,356)	Profit and losses on disposal of investments and changes in market value of investments	(188,736)	16a
(105,572)	**Net return on investments**	**(215,561)**	
(113,606)	**Net (increase)/decrease in the net assets available for benefits during the year**	**(223,165)**	

PENSION FUND NET ASSETS STATEMENT

This statement discloses the size and type of the net assets of the Fund at the end of the financial year.

2013/14 £'000		2014/15 £'000	Note
1,575,496	**Investment assets**	1,794,089	16
(7,601)	**Investment liabilities**	(3,088)	16
1,567,895		1,791,001	
	Non-current assets		
816	Long term debtors	171	21
	Current assets		
4,228	Cash balances	3,729	22
6,735	Debtors	7,572	23
	Current Liabilities		
(2,993)	Creditors	(2,627)	24
1,576,681	**Net Assets of the fund available to fund benefits at the period end**	1,799,846	

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 in Note 20.

The unaudited accounts were issued on 26 June 2015 and the audited accounts were authorised for issue by Bryan Smail, Chief Finance Officer on xx September 2015. The Statement of Accounts presents a true and fair view of the financial position of the Pension Fund as at 31 March 2015 and their income and expenditure for the year ended 31 March 2015.

Bryan Smail, CPFA MBA
Chief Finance Officer
26 June 2015

1. Fund and Scheme Overview

Introduction

As part of its statutory obligations, Falkirk Council is required to operate the terms of the Local Government Pension Scheme (LGPS), including the maintenance and administration of a pension fund.

The LGPS is a public sector statutory scheme which provides defined benefits on a final salary basis (n.b. from April, 2015, it is changing to a career average basis). The Scheme is established under the Superannuation Act 1972 and from April, 2015 will fall under the regulatory framework of the Public Service Pensions Act 2013. The Scheme is contracted-out of the State Second Pension and is registered with HM Revenue and Customs as a UK pension scheme.

The scheme rules are made by the Scottish Ministers through the office of the Scottish Public Pensions Agency and in relation to 2014/15 were set out in the following statutory instruments:

- the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008;
- the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008; and
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010.

Administration of the Falkirk Council Pension Fund is undertaken by an in-house team who oversee the benefits of contributors, deferred members and pensioners on behalf of Clackmannanshire, Falkirk and Stirling Councils, as well as around 35 other employers. Teachers, Police and Firefighters do not come within the scope of the LGPS as they have their own national pension arrangements. A full list of employers who participate in the Falkirk Council Pension Fund is included in this report in Appendix 4.

Membership

Membership of the LGPS is voluntary and, although employees may have been enrolled in the scheme automatically (either as a result of auto enrolment legislation or the Scheme's own contractual enrolment provisions), employees are free to choose whether to remain in the scheme or, having opted out, join it at a later date.

Organisations participating in the Scheme fall into two categories, namely:

Scheduled Bodies - organisations such as local authorities that are statutorily required to offer the Scheme to their employees; and

Admission Bodies - mainly charitable, non-profit making bodies that have reached an agreement with an Administering Authority to participate in the Scheme.

Full details of membership numbers are contained on Page 19 of the Annual Report.

Funding

Benefits are funded by contributions and returns on investments. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) (Scotland) Regulations 2008. The rate of employee contribution varies depending on a member's full time equivalent pensionable pay with designated pay bands attracting rates of between 5.5% and 12%.

Employee Contributions are matched by employer contributions which are based on the results of the three yearly actuarial funding valuation. The last valuation was at 31 March, 2014. However, for 2014/15, employer contribution rates were determined by the valuation at 31 March, 2011. For the majority of fund employers, contribution rates are in the range 17% – 22% of pensionable pay. Copies of the 2011 and 2014 Valuation Reports can be found at www.falkirkpensionfund.org in the Forms and Publications Section.

Benefits

Benefits under the LGPS are based on final pensionable pay and length of pensionable service, and are summarised below:

	Service pre 1 April 2009	**Service post 31 March 2009**
Pension	Each year worked is worth 1/80th x final pensionable salary	Each year worked is worth 1/60th x final pensionable salary
Lump Sum	Automatic lump sum of 3 x annual pension In addition, part of the pension may be exchanged for a lump sum. The conversion rate is £12 of lump sum for each £1 surrendered.	No automatic lump sum Part of the pension may be exchanged for a lump sum. The conversion rate is £12 of lump sum for each £1 surrendered.
	The lump sum cannot be greater than 25% of the capital value of the pre 2009 and post 2009 pension rights.	

Going forward, benefits from 1 April, 2015 will build up on a career average basis at the rate of 1/49th of annual pensionable earnings.

The measure of inflation currently used by the Scheme in determining annual increases is the Consumer Price Index. Prior to April, 2010, the measure used was the Retail Price Index.

Additionally, the Scheme provides a range of inflation proofed benefits including early payment of pension and lump sum on ill health or redundancy grounds, as well as death and survivor benefits.

More information about scheme benefits can be found in the Members' Guide which is accessible at www.falkirkpensionfund.org.

LGPS 2015

A number of important changes are being made to the Local Government pension Scheme from 1 April, 2015. The changes, which have been agreed between Trade Unions, COSLA and the Scottish Government, ensure that the Scheme complies with the terms of the Public Service Pensions Act 2013.

The main changes are as follows:

- Scheme will operate on a Career Average Re-valued Earnings (CARE) basis;
- Normal Pension Age will be aligned with each member's own State Pension Age;
- Membership rights up to 31 March 2015 will be protected on a Final Salary basis;
- Transitional protection will exist for those closest to retirement; and
- Scheme will have a national Advisory Board and local Pension Boards.

New regulations setting out the detail of the new Scheme have been laid during 2014/15. These are as follows:

- The Local Government Pension Scheme (Scotland) Regulations 2014 (SSI 2014-164)
- The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 (SSI 2014-233)
- The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 (SSI 2015-60)

2. Prior Year Adjustment

During the year, the Fund has changed its accounting policy in relation to the treatment of expenses deducted from investment capital. As such a restatement of the 2013/14 results is required.

Last year attempts were made to increase the transparency of management fees arising from the Fund's private equity and infrastructure investments. These expenses were disclosed as a note under Investment Management Expenses in the 2013/14 accounts. This year, the range of expenses captured has been expanded to include broker fees and indirect expenses arising from fund of fund structures. In addition, the accounting treatment of investment expenses has been revised to include them on the face of the Accounts within Investment Management Expenses. This has increased the Fund's Profit and Loss on disposal as well as its Management Expenses and led to the following restatement.

	2013/14 Restated Balance	Adjustment
	£'000	£'000
Profit and losses on disposal of investments and changes in market value of investments	(79,356)	(4,055)
Management expenses	10,575	4,055

3. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2014/15 financial year and its position at year-end as at 31 March 2015.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits.

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

4. Summary of Significant Accounting Policies

Fund account - revenue recognition

a) Contribution income

Normal contributions, both from the members and from employers, are accounted for on an accruals basis. Employer contributions are made at the percentage rate recommended by the Fund Actuary in the payroll period to which they relate. Employee contributions are made in accordance with the rates specified in the Scheme rules.

Employer deficit contributions are not separately identified on the schedule of contributions set by the fund actuary and are therefore accounted for as part of the normal employer contributions.

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 financial asset. Amounts not due to be paid until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund and are calculated in accordance with the Local Government Pension Scheme regulations and guidance from the Government Actuary. 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 to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In.

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, transaction 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 a current financial asset.

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 a current financial asset.

iv) *Property related income*
Property-related income consists primarily of rental income.

Rental income from operating leases on properties owned by the fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

v) *Movement in the net market value of investments*
Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

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.

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 as it arises.

f) Management Expenses
The Code does not require any breakdown of pension fund administration expenses. However, in the interests of greater transparency, the Council discloses its pension fund management expenses in accordance with the CIPFA Guidance *Accounting for Local Government Pension Scheme Management Costs.*

Administration Expenses

All administration expenses are accounted for on an accruals basis.

Costs are apportioned between the Fund and the sponsors of the other pension arrangements administered by the pensions administration team. The apportionment is carried out on the basis of share of aggregate membership numbers.

The Fund's share of administration expenses, which include staff costs, associated management costs, accommodation and other overheads are apportioned to this activity and charged to the Fund as expenses.

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All costs associated with governance and oversight are apportioned to this activity charged to the Fund as expenses.

Investment Management Expenses

All Investment Management Expenses are accounted for on an accruals basis

Fees of the external investment managers and 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 the investments change

All investment manager fee notes for 2014/15 have been received by the balance sheet date and therefore there has been no need to estimate outstanding fees.

Expenses charged directly by managers against the capital value of investments have been included within the investment management expenses shown in the Accounts.

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 asset are recognised in the Fund account.

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

i) *Market quoted investments*

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) *Fixed Interest Securities*

Fixed interest securities are recorded at net market value based on their current yields

iii) *Unquoted investments*

The fair value of investments for which market quotations are not readily available is determined as follows:

- valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Council expects to receive on wind-up, less estimated realisation costs;
- securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs;
- directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement;
- investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager; and
- the values of the investments in private equity funds and unquoted listed partnerships are based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association. The valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

iv) *Limited partnerships*

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership

v) *Pooled investment vehicles*

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

vi) *Freehold and leasehold properties*

The Fund's direct property holding was valued at 31 March 2014 by DM Hall LLP, Chartered Surveyors, in accordance with the requirements of the RICS Valuation Standards 6th edition. This valuation is completed every 3 years, with the next due 31 March 2017. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arms-length terms at the time of the valuation.

h) Foreign currency transactions and balances

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 a) cash balances held in foreign currency bank accounts, b) market values of overseas investments and c) purchases and sales outstanding at the end of the reporting period.

i) Derivatives

Some of the Fund's external managers use derivative financial instruments to manage the Fund's exposure to specific risks arising from their investment activities. None of the derivatives are held for speculative purposes.

Derivative contract assets are fair valued at bid prices. Derivative contract liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are reflected within the change in market value in the net assets statements.

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

The value of exchange traded funds is determined using the exchange price for closing out the option at the reporting date. The value of over the counter contract options is based on quotations from an independent broker. Where this is not available the value is provided by the investment manager using generally accepted option pricing models with independent market data.

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

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 assets 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 of the Fund is assessed on an annual basis by the Fund 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 promised retirement benefits by way of a note to the net assets statements (Note 20).

m) Additional voluntary contributions

The 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 Standard Life and Prudential to act as joint AVC providers. 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. (n.b. Prudential were appointed as additional providers I June 2014).

In accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, AVCs are not included in the pension fund financial statements. Details of contributions paid and the total value of funds invested are disclosed in Note 25 on page 86.

5. Critical Judgement in Applying Accounting Policies

In applying its accounting policies, the Fund has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the statement of accounts are:

i) **Unquoted Investments**

It should be recognised that determining the fair value of private equity and infrastructure investments is highly subjective. Inherently, valuations are based on forward-looking estimates and judgements made on a variety of factors. These valuations are valued by the investment managers in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of IFRS.

At 31 March 2015, the Fund had a value of £116m (2014 £117.1m) invested in unquoted private equity and infrastructure funds.

(ii) **Pension Fund Liability**

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

6. Assumptions made about the future and other major sources of estimation uncertainty

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

The items in the net assets statement at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

(i) Investments

The Fund's asset allocation to Private Equity and Infrastructure exposes it to investments that are not publicly listed and as such there is a degree of estimation involved in their valuation.

These investments are valued by the respective managers in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association.

(ii) Actuarial present value of promised retirement benefits

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in inflation, retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.

The table below highlights the approximate impact that a small change in the assumptions used would have on the liability of the Fund.

Change in assumptions at 31 March 2015	Approximate % increase in liabilities	Approximate monetary amount (£m)
0.5% decrease in Real Discount Rate	11%	302
1 year increase in member life expectancy	3%	82
0.5% increase in the Salary Increase Rate	4%	110
0.5% increase in the Pension Increase Rate	6%	165

7. Events after the Balance Sheet Date

The unaudited Statement of Accounts were issued by the Chief Finance Officer on 26 June 2015 and the audited Statement of Accounts were authorised for issue on xx September 2015. Events taking place after this date are not reflected in the financial statements or notes. There have been no material events since the date of the Net Asset Statement which have required the figures in the financial statements and notes to be adjusted.

8. Contributions Receivable

By Category

2013/14 £'000		2014/15 £'000
17,449	Members contributions	17,910
54,432	Employers – normal contributions (incl. deficit)	57,113
4,552	Employers – strain contributions	3,882
76,433	Total	78,905

By Authority

2013/14			2014/15	
Members £'000	Employers £'000		Members £'000	Employers £'000
5,978	19,690	Administering authority	6,094	21,006
9,721	33,194	Other scheduled bodies	9,928	33,743
1,713	5,968	Admission bodies	1,849	6,107
37	132	Transferee admission body	39	139
17,449	58,984	Total	17,910	60,995

By Type

2013/14 £'000		2014/15 £'000
17,449	Members contributions	17,910
57,236	Employers' normal contributions (incl. strain)	58,876
1,748	Employers' deficit recovery contributions	2,119
76,433	Total	78,905

9. Transfers from Other Pension Funds

All transfers during the year related to individual transfer payments and not to bulk transfer payments.

2013/14 £'000		2014/15 £'000
3,316	Individual transfers	2,520

10. Benefits Payable

By Category

2013/14 £'000		2014/15 £'000
42,038	Pensions	44,883
12,919	Commutation and lump sum retirement benefits	12,470
1,528	Lump sum death benefits	1,193
56,485	Total	58,546

By Authority

2013/14			2014/15	
Pensions £'000	Lump Sum* £'000		Pensions £'000	Lump Sum* £'000
15,452	4,343	Administering authority	16,269	4,837
23,272	9,359	Other scheduled bodies	25,121	7,461
3,304	745	Admission bodies	3,481	1,356
10	-	Transferee admission body	12	9
42,038	14,447	Total	44,883	13,663

* Lump Sum includes death benefits

11. Payments to and on account of leavers

2013/14 £'000		2014/15 £'000
151	Refunds to members leaving service	169
4,504	Individual transfers	3,362
4,655	Total	3,531

12. Management Expenses

2013/14 £'000		2014/15 £'000
379	Administrative costs	750
9,855	Investment management expenses	10,602
341	Oversight and governance costs	392
10,575	Total	11,744

13. Investment Income

2013/14 £'000		2014/15 £'000
11,293	UK Equities	11,034
180	UK Pooled Equities	172
3,357	UK Managed Funds – Property	3,609
8,206	Overseas Equities	8,643
372	Overseas Managed Funds – Property	1,929
1,551	UK Private Equity	-
1,215	Overseas Private Equity	1,311
21	Overseas Infrastructure	4
183	UK Property	204
106	Cash & Other Income	188
26,484	Total	27,094

UK Property income relates to West Mains Industrial Estate, Falkirk, fully owned by Pension Fund.

14. Taxes on Income

All tax withheld on income for the Fund relates to equity investments.

15. Investment Expenses

2013/14 £'000		2014/15 £'000
4,249	Management fees	4,802
4,879	Fees deducted from capital	5,200
630	Transaction costs	486
97	Custody fees	114
9,855	Total	10,602

16. Investments

Market Value 31/03/14 £'000	Investment Assets	Market Value 31/03/15 £'000
	Investment Assets	
613,587	Equities	686,664
665,055	Pooled Investments	768,796
109,735	Managed Property Funds	124,536
117,095	Private Equity/Infrastructure	127,202
2,300	Property (West Mains)	2,300
33	Derivatives - Futures Contract	-
	Cash Deposits	
16,164	Other Balances	18,860
41,576	Deposits	62,133
	Other Investment Balances	
2,962	Debtors – Investment Income Due	2,806
6,989	– Due from Broker	792
1,575,496	**Total Investment Assets**	**1,794,089**
	Investment Liabilities	
(44)	Derivatives – Forward Foreign Exchange	(1)
(7,557)	Creditor – Due to Broker	(3,087)
(7,601)	**Total Investment Liabilities**	(3,088)
1,567,895	**Net Investment Assets**	**1,791,001**

16a. Reconciliation of movements in investments and derivatives From 01/04/2014 to 31/03/2015

Investment Assets	Market Value 01/04/14 £'000	Purchases at Cost £'000	Sale Proceeds £'000	Change in Market Value £'000	Market Value 31/03/15 £'000
Equities	613,587	182,060	(175,425)	66,442	686,664
Pooled Investments	665,055	8,779	(9,255)	104,217	768,796
Managed Property Funds	109,735	3,962	(3,994)	14,833	124,536
Private Equity/Infrastructure	117,095	33,543	(25,266)	1,830	127,202
Property (West Mains)	2,300	-	-	-	2,300
Derivatives					
- Exchange Traded Futures	33	645	(345)	(333)	-
- Forward Foreign Exchange	(44)	305	(338)	76	(1)
	1,507,761	229,294	(214,623)	187,065	1,709,497
Other Balances	16,164	-	-	1,940	18,860
Deposits	41,576	-	-	(269)	62,133
Broker Balance	(568)	-	-	-	(2,295)
Investment Income Due	2,962	-	-	-	2,806
Net Investment Assets	**1,567,895**	**229,294**	**(214,623)**	**188,736**	**1,791,001**

Reconciliation of movements in investments and derivatives
From 01/04/2013 to 31/03/2014

Investment Assets	Market Value 01/04/13 £'000	Purchases at Cost £'000	Sale Proceeds £'000	Change in Market Value £'000	Market Value 31/03/14 £'000
Equities	599,593	172,697	(200,876)	42,173	613,587
Pooled Investments	578,486	67,500	(15,737)	34,806	665,055
Managed Property Funds	92,734	12,267	(1,984)	6,718	109,735
Private Equity/Infrastructure	113,762	18,132	(18,266)	3,467	117,095
Property (West Mains)	2,300	-	-	-	2,300
Derivatives					
- Exchange Traded Futures	-	639	-	(606)	33
– Forward Foreign Exchange	185	429	(299)	(359)	(44)
	1,387,060	271,664	(237,162)	86,199	1,507,761
Other Balances	8,376	65,825	(56,783)	(1,505)	16,164
Deposits	46,536	-	-	(5,338)	41,576
Broker Balance	(224)	-	-	-	(568)
Investment Income Due	3,296	-	-	-	2,962
Net Investment Assets	**1,445,044**	**337,489**	**(293,945)**	**79,356**	**1,567,895**

Transaction costs incurred during 2014/15 total £486,000 (2013/14 : £630,000). In addition to these costs, indirect costs are incurred through the bid-offer spread on investment purchases and sales.

16b. Analysis of Investments (excluding derivative contracts)

31/03/14 £'000		31/03/15 £'000
	Equities	
270,001	UK	266,870
343,586	Overseas	419,794
613,587		**686,664**
	Pooled funds	
131,425	Equities – UK	146,320
209,037	- Overseas	244,019
124,154	Bonds – UK	140,680
10,943	- Overseas	14,682
189,496	Diversified growth	206,045
-	Social & affordable housing	17,050
665,055		**768,796**
	Property	
102,554	Managed fund – UK	119,940
7,181	- Overseas	4,596
2,300	Direct UK (West Mains)	2,300
112,035		**126,836**
	Private Equity	
56,558	UK	51,148
26,729	Overseas	29,148
83,287		**80,296**
	Infrastructure	
33,808	Overseas	46,906
1,507,772		**1,709,498**

Analysis of derivatives

The Fund's approach to derivatives is to allow individual managers to decide to participate in derivative contracts subject to any limits set out in their investment management agreements. At present, only Newton chooses to do so, with derivatives making up 0.0005% of their portfolio's value.

Summary of Contracts held at 31 March 2015

Derivatives – Forward Foreign Exchange

Contract	Settlement Date	Value of Currency Bought £'000	Asset £'000	Liability £'000	Net £'000
Various Currency Forwards	Within 1 month	138		(1)	(1)

Summary of Contracts held at 31 March 2014

Derivatives – Exchange Traded Futures Contracts

Contract	Settlement Date	Value of Currency Bought £'000	Market Value £'000
Overseas Equity	Within 1 month	110	33

Derivatives – Forward Foreign Exchange

Contract	Settlement Date	Value of Currency Bought £'000	Asset £'000	Liability £'000	Net £'000
Various Currency Forwards	Within 1 month	4,826		(44)	(44)

The above contracts are used as hedges reducing the extent to which Newton's portfolio is exposed to currency movement.

Investments analysed by fund manager

MARKET VALUE 31 March 2014 £ million	(%)		MARKET VALUE 31 March 2015 £ million	(%)
212.0	13.5	Aberdeen Asset Management	234.3	13.1
135.1	8.6	Baillie Gifford Life Ltd – Bonds	155.4	8.7
189.5	12.1	Baillie Gifford Life Ltd – Diversified Growth	206.0	11.5
327.5	20.9	Legal and General Investment Management Ltd.	376.9	21.1
227.5	14.5	Newton Investment Management Ltd.	275.3	15.4
223.8	14.3	Schroder Investment Management Ltd.	241.0	13.5
110.5	7.1	Schroder Investment Management Ltd. (Property)	127.5	7.1
43.1	2.8	SL Capital Partners LLP	38.9	2.2
26.7	1.7	Wilshire Private Markets Group	29.1	1.6
13.4	0.9	M&G UK Companies	12.3	0.7
33.8	2.2	Grosvenor Capital	46.9	2.6
-	-	Hearthstone	17.1	1.0
22.7	1.4	In House Cash	28.0	1.5
1,565.6	100.0	Total	1,788.7	100.0

The Fund holds the following investments in pooled funds, which are in excess of 5% of the value of the Fund.

	31 March 2014		31 March 2015	
	£'000	%	£'000	%
Baillie Gifford Diversified Growth	189,496	12.2	206,045	11.6
L&G – UK Equity Index	118,426	7.6	132,844	7.5
L&G – North American Equity Index	112,624	7.3	130,818	7.4
Baillie Gifford Sterling Aggregate Bonds	82,263	5.3	93,825	5.3

Regulation 14 of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) 2010 (SSI 2010/233) stipulates the limits on Fund investments. Although the Fund does hold a stock over 10% of the Fund value, this is allowed as the investment is in a pooled vehicle.

16c. Securities Lending

The Fund did not participate in any stock lending programmes.

16d. Property Holdings

The Fund's investment in its property portfolio comprises investments in pooled property funds and a number of directly owned properties at West Mains Industrial Estate, Falkirk, which are leased commercially to various tenants.

The future minimum lease payments receivable by the fund are as follows:-

2013/14 £'000		2014/15 £'000
165	Within one year	173
238	Between one and five years	258
198	Later than five years	142
601		573

17. Financial Instruments

17a. 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 amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

All financial instruments are marked to market (at fair value) in the Fund's accounting records, hence there is no difference between the carrying value and fair value.

Classification of Financial Instruments

31 March 2014				31 March 2015		
Fair value through net asset statement £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Financial Assets	Fair value through net asset statement £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000
			Investment assets			
613,587	-	-	Equities	686,664	-	-
665,055	-	-	Pooled investments	768,796	-	-
109,735	-	-	Property	124,536	-	-
117,095	-	-	Private Equity/Infrastructure	127,202	-	-
33	-	-	Derivative contracts	-	-	-
-	57,740	-	Cash	-	80,993	-
-	9,951	-	Other investment balances		3,598	
1,505,505	67,691	-		1,707,198	84,591	-
			Other assets			
-	4,228	-	Cash Balances	-	3,729	-
-	7,551	-	Debtors	-	7,743	-
-	11,779	-		-	11,472	-
1,505,505	79,470	-	**Assets Total**	1,707,198	96,063	-
			Financial Liabilities			
			Investment liabilities			
(44)	-	-	Derivative contracts	(1)	-	-
(7,557)	-	-	Other Investment balances	(3,087)	-	-
			Other liabilities			
-	-	(2,993)	Creditors	-	-	(2,627)
(7,601)	-	(2,993)	**Liabilities Total**	(3,088)	-	(2,627)
1,497,904	79,470	(2,993)		1,704,110	96,063	(2,627)
		1,574,381	**Total net financial instruments**			1,797,546
		2,300	Amounts not classified as financial instruments			2,300
		1,576,681	**Total net assets**			1,799,846

17b. Net Gains and Losses on Financial Instruments

31 March 2014 £'000		31 March 2015 £'000
86,199	Fair value through net asset statement	187,065
(6,843)	Loans and receivables	1,671
-	Financial liabilities at amortised cost	-
79,356	Net gains and losses on financial instruments	188,736
-	Gains and losses on directly held freehold property	-
79,356	Change in market value of investments per fund account	188,736

17c. Valuation of Financial Instruments Carried at Fair Value

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

Level 1
Financial instruments 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 and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2
Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3
Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investments in private equity are based on valuations provided by the general partners to the private equity funds in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of IFRS. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

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

Valuation of Financial Instruments Carried at Fair Value

As at 31 March 2015

Financial assets	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total at 31 March 2015 £'000
Financial Assets at fair value through net asset statement	1,283,049	279,900	144,249	1,707,198
Loans and receivables	96,063	-	-	96,063
Total financial assets	1,379,112	279,900	144,249	1,803,261
Financial Liabilities				
Financial liabilities at fair value through net asset statement	(3,088)	-	-	(3,088)
Financial liabilities at amortised cost	(2,627)	-	-	(2,627)
Total financial liabilities	(5,715)	-	-	(5,715)
Net financial assets	1,373,397	279,900	144,249	1,797,546

Valuation of Financial Instruments Carried at Fair Value

As at 31 March 2014

Financial assets	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total at 31 March 2014 £'000
Financial assets at fair value through net asset statement	1,143,578	244,835	117,092	1,505,505
Loans and receivables	79,470	-	-	79,470
Total financial assets	1,223,048	244,835	117,092	1,584,975
Financial liabilities				
Financial liabilities at fair value through net asset statement	(7,601)	-	-	(7,601)
Financial liabilities at amortised cost	(2,993)	-	-	(2,993)
Total financial liabilities	(10,594)	-	-	(10,594)
Net financial assets	1,212,454	244,835	117,092	1,574,381

18. Nature and Extent of Risks Arising from Financial Instruments

Risk and Risk Management

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. the promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole portfolio. The Fund achieves this through asset diversification to reduce market risk and credit risk to an acceptable level. In addition the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet future cashflows. Responsibility for the Fund's risk management strategy rests with the Pensions Committee. Risk management policies are reviewed on a consistent basis to reflect changes in activity and in market condition.

Types of Investment Risk

Fluctuations in overall price can arise from a variety of sources including market risk, foreign exchange risk, interest rate risk and credit risk. Each of these vary in importance and will not by themselves account for the overall pricing risk faced. To some extent they may offset each other. The Fund's analysis combines these factors when looking at the total market price risk.

(i) **Market Risk**

Market risk is the risk of loss from fluctuations in equity and other asset 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 as it relates to investments is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on assets. Investment risk is considered further in the Fund's **Statement of Investment Principles**.

In general, excessive volatility in market risk is managed by engaging a range of Fund Managers with differing approaches and philosophies and also through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Administering Authority and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund's approach to managing risk can be described in two fundamental ways:

- by maintaining asset class exposures such that risk remains within tolerable levels; and
- by applying maximum exposures to individual investments.

(ii) **Interest Rate Risk**

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

The Fund's interest rate risk is recognised by the Administering Authority and its investment advisors. The Fund monitors the interest rate risk faced and will adjust its strategy in accordance with its **Statement of Investment Principles**. The Fund's direct exposure to interest rate movement as at the 31 March 2015 is estimated to be around £383.1m.

(iii) **Currency Risk**

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The Fund's currency rate risk is recognised by the Administering Authority and its investment advisors. In respect of cash deposits managed internally under the terms of the Cash Management Strategy, it is the Fund's policy to convert all non GBP monies to Sterling at the end of a month to reduce the currency risk faced. In respect of cash held with external Fund Managers, it is left to their discretion as to whether they wish to hedge their currency position or not.

The Fund's currency exposure as at the 31 March 2015 is estimated to be around £940m.

(iv) **Credit Risk**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's assets and liabilities (as outlined in Market Risk above).

In essence, the Fund's entire investment portfolio is exposed to some sort of credit risk. 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. The Fund has had no experience of default or uncollected deposits over the past five financial years.

The main area where risk is not reflected in a market price is cash deposits which at 31 March 2015 accounted for 3.6% of fund assets.

Balances at 31 March 2014 £'000		Moody's Credit Rating	Balances at 31 March 2015 £'000
	Held for investment purposes		
12,400	Northern Trust Global Investment Limited – Liquidity Funds	Aaa-mf	24,565
4,953	Ignis Asset Management Sterling Liquidity Fund	AAAmmf (Fitch)	4,976
14,223	Northern Trust Company – Cash Deposits	A1	26,590
5,000	Santander UK PLC	A2	2,002
5,000	Bank of Scotland PLC	A1	4,000
41,576	Total investment cash		62,133
	Held for other purposes		
3,927	Clydesdale Bank	Baa2	3,777
45,503	Total cash		65,910

As part of its approach to managing credit risk, the Fund formalised its Treasury operations during 2014/15 through the implementation of a Cash Management Strategy. This details:

- the counterparties with whom the Fund may have dealings;
- the credit ratings that are deemed acceptable; and
- specific limits and conditions attaching to certain types of deposit.

The credit rating used above is Moody's Long Term Outlook.

Despite its credit rating, the Fund (along with Falkirk Council) continues to use the Clydesdale Bank for its day to day transactional banking operations. Balances, are however, closely monitored and minimised to a level of £3m to £4m.

(v) **Liquidity Risk**

Liquidity risk reflects the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council in its capacity as Administering Authority therefore ensures that the Pension Fund has adequate cash and liquid resources to meet its commitments. The Fund currently does not have access to an overdraft facility for short term cash needs. As part of the ongoing monitoring of the Fund's banking arrangements this position may be reviewed and amended accordingly.

A majority of the Fund's investment assets (estimated to be over 85%) could be converted into cash within three months in normal market conditions.

(vi) **Refinancing Risk**

Refinancing risk is the risk 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 is not bound by any obligation to replenish its investments. In any event, the Fund does not have any financial instruments that have a refinancing risk as part of its Pension Fund management and investment strategies.

Sensitivity Analysis

The Fund's valuation is sensitive to fluctuations in its Asset prices. The level of these fluctuations is known as "volatility" and will differ between asset classes. By analysing historical data, it is possible to gain an indication of the likely volatility of certain asset classes. In consultation with KPMG and Lothian Pension Fund, the following analysis predicts the likely annual volatility of the Fund's assets.

Asset Type	Potential price movement (+ or -)
Equities – Developed Markets	20.0%
Equities – Emerging Markets	30.0%
Private Equity	30.0%
Commodities	30.0%
Property – Balanced	13.0%
Property – Infrastructure	8.0%
Diversified Credit	10.0%
Fixed Interest Gilts	10.5%
Index-Linked Gilts	8.5%
Cash	1.5%

Volatility is measured as the standard deviation of annual returns. Broadly speaking, in two years out of three, the asset's change in value (which could be a gain or a loss) is expected to be lower than the volatility figure, but in one year out of three, the change in value is expected to be higher than the volatility figure.

Asset classes don't always move in line with each other. The extent to which assets move together is known as their "correlation". A lower correlation means that there is less risk of assets losing value at the same time. Overall, the Fund benefits from "diversification" because it invests in numerous different asset classes, which don't all move in line with each other. Consequently, the aggregate risk at the Fund level is less than the total risk from all the individual assets in which the Fund invests. The following table shows the risks at the asset class level and the overall Fund level.

Position as at 31 March 2015

Asset Type	Value at 31 March 2015 £'m	Asset Weight	Volatility	Potential Change =/- £'m	Value on increase £'m	Value on decrease £'m
Equities - Developed Markets	1,086.8	60.7%	20.0%	217.5	1,304.3	869.3
Equities - Emerging Markets	33.8	1.9%	30.0%	10.1	43.9	23.7
Private Equity	71.3	4.0%	30.0%	21.4	92.7	49.9
Commodities	10.1	0.6%	30.0%	3.0	13.1	7.1
Property	150.1	8.4%	13.0%	19.5	169.6	130.6
Infrastructure	55.8	3.1%	8.0%	4.5	60.3	51.3
Diversified Credit	52.7	2.8%	10.5%	5.5	58.2	47.2
Fixed Interest Gilts	179.1	10.0%	10.0%	17.9	197.0	161.2
Index-Linked Gilts	35.3	2.0%	8.5%	3.0	38.3	32.3
Cash	116.0	6.5%	1.5%	1.7	117.7	114.3
Total Assets (without correlations)	**1,791.0**	**100.0%**	**17.0%**	**304.1**	**2,095.1**	**1,486.9**
Total Assets (including correlations)	**1,791.0**	**100.0%**	**14.6%**	**262.0**	**2,053.0**	**1,529.0**
Assets Relative to Liabilities (including correlation)	**1,791.0**	**n/a**	**14.0%**	**250.4**	**n/a**	**n/a**

The “Potential change” column shows the monetary effect of the expected volatility relative to each asset class. The actual annual change in value is expected to be lower than this in two years out of three, but higher in one year out of three. It can also be seen that the risk to the overall Fund assets is lower than the total of the risks to the individual assets.

However, because the purpose of a pension scheme is to make payments to scheme beneficiaries, the true risk of a pension scheme is not measured in absolute terms, but relative to its liabilities. This risk is shown in the bottom row of the table. The risk is lower than the absolute asset risk, due to the impact of correlation with the discount rate used to value the liabilities.

It should be noted that the asset allocation used for this analysis will differ to that shown in the financial statements earlier. This is due to the Fund reporting its asset allocation in the financial statements according to each Manager's mandate, whilst for this section the most appropriate means is to analyse the mandate according to the underlying elements.

The corresponding details as at 31 March 2014 are set out in the table overleaf.

Falkirk Pension Fund sensitivity analysis

Position as at 31 March 2014

Asset Type	Value at 31 March 2014 £'m	Asset Weight	Volatility	Potential Change =/- £'m	Value on increase £'m	Value on decrease £'m
Equities - Developed Markets	951.3	60.7%	20.0%	190.3	1,141.6	761.0
Equities - Emerging Markets	31.1	2.0%	30.0%	9.3	40.4	21.8
Private Equity	75.2	4.8%	30.0%	22.6	97.8	52.6
Commodities	13.1	0.8%	30.0%	3.9	17.0	9.2
Property	116.0	7.4%	13.0%	15.1	131.1	100.9
Infrastructure	41.4	2.6%	8.0%	3.3	44.7	38.1
Diversified Credit	162.7	10.4%	10.0%	16.3	179.0	146.4
Fixed Interest Gilts	63.5	4%	10.5%	6.7	70.2	56.8
Index-Linked Gilts	32.6	2.1%	8.5%	2.8	35.4	29.8
Cash	81.0	5.2%	1.5%	1.2	82.2	79.8
Total Assets (without correlations)	**1,567.9**	**100.0%**	**17.3%**	**271.5**	**1,839.4**	**1,296.4**
Total Assets (including correlations)	**1,567.9**		**14.9%**	**233.0**	**1,800.9**	**1,334.9**
Assets Relative to Liabilities (including correlation)	**1,567.9**		**14.1%**	**221.1**	**n/a**	**n/a**

19. Funding arrangements

In line with the Regulation 32 of the Local Government Pension Scheme (Administration)(Scotland) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The most recent funding took place as at 31 March 2014. The next valuation will take place on 31 March 2017.

In determining the employer contribution rates, the actuary took into account the funding policy as set out in the **Funding Strategy Statement**. The key elements of the funding policy are:

- To ensure the long term solvency of the fund (i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- To ensure that employer contribution rates are as stable as possible;
- To minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- To reflect the different characteristics of employing bodies in determining contributions rates where the Fund considers it reasonable to do so; and
- To use reasonable measure to reduce the risk to other employers and ultimately to the tax payer from an employer defaulting on its pension obligations

The aim is to achieve a funding level of 100% over a period of 20 years and to provide stability in employer contributions by spreading any increase in rates over a period of time, normally three years. Employers have been made aware of their respective funding positions and a deficit recovery plan has been built into the contribution rates set by the actuary.

At the 2014 valuation, the Fund was assessed as 85% funded implying a deficit of £283m. At the 2011 valuation, the funding level was 86% and the deficit £194m.

Contribution increases are being phased in over the three year period ending 31 March 2017 for both scheduled and admission bodies. At the 2014 valuation, the common contribution rate (i.e. the rate applicable to the Fund as a whole) was assessed as 23.4% of pay (20.5% at 31 March 2011). The increase is primarily due to the decrease in the real gilt yields, the basis on which liabilities are valued.

The common contribution rate is a theoretical figure. In practice, individual employers' rates will vary from the common rate depending on the demographic and actuarial factors peculiar to each employer. Full details of the contribution rates payable and the methods and assumptions used in the 2014 valuation are set out in the actuary's valuation report dated 31 March 2015.

The valuation of the Fund has been undertaken using the projection unit method under which the salary increase for each member is assumed to increase until they leave active service through death, retirement or withdrawal from service. The main assumptions applied were as follows:

Financial Assumptions

Assumption	Return	Comment
Investment Return (discount rate)	5.1%	Return on Government Bonds plus 1.6%
Inflation (RPI)	3.5%	
Salary Increases	4.0%	RPI + 0.5%
Pension Increases (CPI)	2.7%	RPI – 0.8%

Mortality Assumptions

Future life expectancy based on the actuary's fund specific mortality review was as follows:

Assumed Life Expectancy at Age 65	Male	Female
Current pensioners	22.1 years	23.8 years
Active and Deferred members	24.3 years	26.3 years

Commutation Assumption

An allowance is made for future retirees to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

Historic Mortality

Life expectancies for the year ended 31 March 2014 are based on the SAPS tables. The allowance for future improvements are shown below:-

Period Ended	Prospective Pensioners	Pensioners
31 March 2014	Year of birth, medium cohort and 1% p.a. minimum improvements from 2008	Year of birth, medium cohort and 1% p.a. minimum improvements from 2008

More Information

The Actuary has provided a statement describing the funding arrangements of the Fund during 2014/15. This can be found at Appendix 1 of this report.

Copies of the Valuation report and the **Funding Strategy Statement** can be found at www.falkirkpensionfund.org in the Forms and Publications section.

20. Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS19 (International Accounting Standard) basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contributions rates and the fund accounts do not take account of obligations to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used to for funding purposes (see Note 19). The actuary has also valued ill health and death benefits in line with IAS19.

Calculated on an IAS19 basis, the actuarial value of promised retirement benefits at 31 March 2015, based on a roll forward of the 31 March 2014 valuation and assumptions consistent with IAS19, has been estimated by the Fund Actuary as £2,748m (£2,281m at 31 March 2014). The net assets available to pay benefits as at 31 March 2015 were £1,800m (£1,577 at 31 March 2014). The implied fund deficit as at 31 March 2015 was therefore £948m (£704m at 31 March 2014).

As noted above, the liabilities are calculated on an IAS 19 basis and will therefore differ from the results of the 2014 triennial funding valuation (see Note 19) because IAS 19 requires liabilities to be valued according to a discount rate derived from a specific type of corporate bond rather than a rate which reflects the Fund's long term expectation of investment returns.

The key assumptions relied upon by the actuary in deriving the actuarial present value of promised retirement benefits are as follows:

Financial Assumptions	**31 March 2014 % p.a.**	**31 March 2015 %p.a.**
Discount rate	4.3	3.2
Pay increase *	5.1	3.8
Price inflation/Pensions increases	2.8	2.4

* Pay increases are 1% p.a. nominal until 31 March 2015 reverting to long term rate thereafter.

Longevity Assumptions

The life expectancy assumption is based on the Fund's Club Vita analysis with improvements in line with the CMI_2012 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.1 years	23.8 years
Future pensioners (assumed to be currently 45)	24.3 years	26.3 years

Please note that the longevity assumptions have changed since the IAS 26 disclosure in the 2014 accounts.

Commutation Assumptions

An allowance is made for future retirees to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

21. Non Current Assets

Long Term Debtors

31 March 2014 £'000		31 March 2015 £'000
816	Strain on Fund Contributions (Due in over 1 year)	171

Analysis of Long Term Debtors

31 March 2014 £'000		31 March 2015 £'000
-	Central government bodies	-
702	Other local authorities	114
-	NHS bodies	-
-	Public corporations and trading funds	-
114	Other entities and individuals	57
816	Total	171

22. Cash Balances

31 March 2014 £'000		31 March 2015 £'000
3,927	Bank Account	3,777
301	Balance held by Falkirk Council	(48)
4,228	Total	3,729

As stipulated by the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (SSI 2010 No. 233), all Local Authority Pension Funds have been required to operate their own bank account from 1 April 2011. From 1 April 2011 all payments made to the Fund are paid directly into the Fund's separate bank account.

Due to the Fund using Falkirk Council's financial management systems, there was a working balance at year end.

23. Current Assets

Debtors

31 March 2014 £'000		31 March 2015 £'000
3,917	Contributions due – employers	4,701
1,228	Contributions due – members	1,451
1,508	Strain on fund contribution (due within 1 year)	1,288
12	Benefits paid in advance	3
70	Sundry debtors	129
6,735	Total	7,572

Analysis of Debtors

31 March 2014 £'000		31 March 2015 £'000
430	Central government bodies	1,199
5,486	Other local authorities	4,837
2	NHS bodies	2
4	Public corporations and trading funds	22
813	Other entities and individuals	1,512
6,735	Total	7,572

24. Current Liabilities

31 March 2014 £'000		31 March 2015 £'000
(1,740)	Benefits payable	(1,246)
(1,253)	Miscellaneous creditors and accrued expenses	(1,381)
(2,993)	Total	(2,627)

Analysis of Creditors

31 March 2014 £'000		31 March 2015 £'000
(15)	Central government bodies	(127)
(14)	Other local authorities	(574)
(1,126)	Public corporations and trading funds	(1,321)
(1,838)	Other entities and individuals	(605)
(2,993)	Total	(2,627)

25. Additional Voluntary Contributions

Market Value 31 March 2014 £'000		Market Value 31 March 2015 £'000
2,541	Standard Life	2,847
-	Prudential	149
2,541	Total	2,996

AVC contributions of £388k were paid directly to Standard Life (£268k in 2013/14) and £141k to Prudential during the year.

These amounts are not included in the Pension Fund Accounts in accordance with regulation 4 of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (SSI 2010 No. 233).

26. Related Party Transactions

Falkirk Council

Falkirk Council Pension Fund is administered by Falkirk Council. Consequently, there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £528k (2013/14: £505k) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £21.6m to the fund in 2014/15 (2013/14: £19.7m). All monies owing to and due from the fund were paid in year.

Transactions between the Council and the Fund are monitored by the Creditors section within Corporate Finance with the aim of any balances being settled as soon as reasonably practicable. The balance at 31 March 2015 was £48k (£301k 2014).

Governance

There are two members of the Pensions Committee who are in receipt of pension benefits from the Falkirk Council Pension Fund (Convener J Patrick and Committee Member A Redpath). In addition, Committee Members S Carleschi, J Blackwood, CRL Martin and M Keggan are active members of the pension fund.

Key Management Personnel

The following senior officers at Falkirk Council held key positions in the financial management of the Fund during the year:-

Accrued CETV 31 March 2014 (£'000)	Role	Salary (£'000)	Service	Accrued CETV 31 March 2015 (£'000)
767	Chief Finance Officer	88	30 years	800
368	Pensions Manager	50	32 years	398

"CETV" means Cash Equivalent Transfer Value.

27. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2015 totalled £58m (31 March 2014 : £63m).

These commitments relate to outstanding call payments due to unquoted limited partnership funds held in the private equity and infrastructure segments of the portfolio. The amounts "called" by these funds are irregular in both size and timing over the life of the investment.

28. Contingent Assets

Two admission body employers in the Falkirk Council Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.

APPENDIX 1

ACTUARIAL STATEMENT FOR 2014/15

Falkirk Council Pension Fund ("the Fund")
Actuarial Statement for 2014/15

This statement has been prepared in accordance with Regulation 31A(1)(d) of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15. 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 March 2015. In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 32 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008 was as at 31 March 2014. This valuation revealed that the Fund's assets, which at 31 March 2014 were valued at £1,577 million, were sufficient to meet 85% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2014 valuation was £283 million.

Individual employers' contributions for the period 1 April 2015 to 31 March 2018 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 valuation report dated 31 March 2015.

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 2014 valuation were as follows:

Financial assumptions	31 March 2014	
	% p.a. Nominal	% p.a. Real
Discount rate	5.10%	2.40%
Pay increases	4.00%	1.30%
Price inflation/Pension increases	2.70%	-

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_2012 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	23.8 years
Future Pensioners*	24.3 years	26.3 years

*Future pensioners are assumed to be aged 45 at the 2014 valuation.

Copies of the 2014 valuation report and Funding Strategy Statement are available on request from Falkirk Council, the Administering Authority to the Fund.

Experience over the period since April 2014

Experience has been worse than expected over the year to 31 March 2015 (excluding the effect of any membership movements). Real bond yields have fallen dramatically and the effect of this has been only partially offset by the effect of strong asset returns, meaning that funding levels are likely to have worsened and deficits increased over this period.

The next actuarial valuation will be carried out as at 31 March 2017. The Funding Strategy Statement will also be reviewed at that time.

Steven Scott FFA

Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
23 June 2015

APPENDIX 2

Falkirk Council Pension Fund
Annual Governance Statement – 2014/2015

Introduction

Falkirk Council Pension Fund is a funded pension scheme operating within terms of the Local Government Pension Scheme (LGPS)

Whilst the Fund is not a separate legal entity from Falkirk Council, it does have its own specific governance arrangements which sit within the Council's own governance responsibilities. Collectively, these arrangements are consistent with the principles of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government".

The Local Authority Accounting (Scotland) Regulations 2014 require that all Councils conduct a review, at least once in each financial year, of the effectiveness of the system of internal controls and that an Annual Governance Statement is included in the Annual Accounts. Falkirk Council has complied with both of these requirements voluntarily for some years now, underlining its commitment to openness and transparency.

Preparation of this Statement also meets the requirements of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Pension Fund Governance Framework

The LGPS regulations require Funds to publicise their governance arrangements in a Governance Compliance Statement. These are set out in full at Page 18 of the Fund's Annual Report and Accounts for 2014/15.

The past year has been one of major change for the Fund with preparations taking place for new Governance arrangements and the new Career Average Scheme. In addition, a new Administration System has been installed, involving the migration of data from the former administration system – a process in which Internal Audit have been engaged.

All significant decisions and changes do, however, have to take account of relevant risks. The Fund's approach to risk management has continued to develop and mature, with internal and external risks being considered as part of the cyclical business of the Fund. A Risk Register is maintained and new risks reported to the Pensions Committee on a quarterly basis. Where the risk is sufficiently material, the risk register is updated.

To help provide a framework of control, the Council has a Code of Conduct for Members and Officers, and all Members are expected to apply the Standards Commission Scotland's Councillors' Code of Conduct. Contract Standing Orders and Financial Regulations regulate financial and transactional activity, and the latter will be subject to a full review and refresh during 2015/16 to take account of evolving systems and emerging risks.

The Fund participates in the National Fraud Initiative and actively investigates all data matches found as a result of this process. The results of this work are reported to the Pension Fund Committee. More generally, the Council's procedures for investigating allegations of fraud and corruption apply equally to the Fund.

A large volume of personal data is entrusted to the Fund. As part of this, the Fund requires to be alive to the risks of cyber crime, and the potential impact on the security, availability, and integrity of its data. Information management is one of the key risk categories embedded within the Risk Register, reflecting the value of information as an asset to organised crime groups and others. While we have robust arrangements and controls in place to access, secure, and manage our data and information (including Public Services Network re-accreditation in January 2015), the way in which we go about applying that control is being reviewed as part of the wider business transformation agenda.

Monitoring and Review of Governance Arrangements
The Fund's governance arrangements are formally monitored via:

- the Pensions Committee and Pensions Panel framework, and ultimately by Falkirk Council;
- Corporate and Departmental Management Teams;
- Corporate Risk Management Group and other Corporate Working Groups;
- Internal and External Audit work; and
- Pensions Regulator.

Monitoring is undertaken within the context of the Fund's requirements to operate within a strict statutory framework and also deliver best value.

System of Internal Financial Control
This section deals with the systems of internal financial control of Falkirk Council as they relate to the pension fund for the year to 31 March 2015. The Chief Finance Officer is responsible for ensuring the operation and maintenance of an effective system of internal financial control that provides reasonable (not absolute) assurance that: assets are safeguarded; transactions are authorised and properly recorded; and material errors or irregularities are either prevented or detected.

The system of internal financial control is based on a framework of risk management; Contract Standing Orders, Financial Regulations, and associated guidance; delegation and accountability; budgeting systems; and robust management information.

The Council's Internal Audit Section provides assurance on arrangements for risk management, governance, and control, and undertakes a regular, risk based, programme of work approved by the Chief Executive, Chief Finance Officer, and Council's Audit Committee.

The Internal Audit Manager has established a Quality Assurance and Improvement Programme for the Section, including annual self assessment and periodic external assessment of compliance with the Public Sector Internal Audit Standards. The initial self assessment confirmed broad compliance with the Standards, and an independent External Quality Assessment is scheduled for 2015/16. In addition, the Council's appointed External Auditors, Audit Scotland, have undertaken an assessment of the adequacy of the Internal Audit function, concluding that they are able to place reliance on Internal Audit work and that documentation standards and reporting procedures are sound.

All Internal Audit reports are issued to the relevant managers, and include recommendations and agreed action plans. It is then management's responsibility to ensure that appropriate action is taken to address these recommendations. Significant matters arising, and recommendations which remain outstanding beyond their agreed implementation date, are brought to the attention of the Pensions Committee.

The Pensions Committee considers Annual Audit Assurance Reports on the adequacy and effectiveness of the Council's arrangements for risk management, governance, and control. In his 2014/15 Report the Internal Audit Manager concluded that he was able to provide substantial assurance on the Council's overall framework of control for the year to 31 March 2015.
The Local Authority Accounting (Scotland) Regulations 2014 require that a review is undertaken, at least once in each financial year, of the effectiveness of the system of internal control. In practice, the Chief Finance Officer considers the work of managers, Internal Audit, and External Audit. Based on his considerations, the Chief Finance Officer has concluded that substantial assurance can be placed on the adequacy and effectiveness of the Council's internal control systems for the year to 31 March 2015.

Based on consideration of the above, the Chief Finance Officer has concluded that, on the whole, substantial assurance can be placed on the internal financial control systems operating in relation to the Pension Fund.

In undertaking his duties, and in forming the above opinions, the Chief Finance Officer worked in conformance with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

Governance Arrangements – Areas for Improvement
Falkirk Council is committed to ensuring robust and proportionate governance. That said, the ever changing environment within which the Council operates means that there will always be scope for
improvement. Areas that will be addressed over the coming year include:

- training arrangements for Board members;
- a conflicts of interest policy
- review of risk management

Conclusion
This Annual Governance Statement summarises, openly and transparently, arrangements established by Falkirk Council for 2014/15 and the period to date. It highlights areas for improvement, and is consistent with the Council's established improvement agenda.

……..	……
Councillor John Patrick	**Mary Pitcaithly**
Convener of the Pensions Committee	**Chief Executive**
September 2015	**September 2015**

Falkirk Council
Pension Fund

Local Government Pension Scheme

Governance Compliance Statement

Part 2 – Governance Compliance Statement

Regulation 27 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (SSI 2008/228) requires administering authorities to prepare and publish a written statement setting out the terms of their current governance arrangements. The undernoted Statement tests the Falkirk Fund's compliance with the best practice principles as set out in the SPPA Best Practice Guidelines of April, 2011.

Principle A – Structure

Requirement		Level of Compliance	Arrangements in Place
(a)	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council	**Full Compliance**	Falkirk Council, as administering authority of the Falkirk Council Pension Fund, has established a Pensions Committee to which it has delegated the administration of benefits and strategic management of fund assets.
(b)	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	**Full Compliance**	The Pensions Committee includes three members co-opted from the Pensions Panel representing the interests of members, pensioners and employers.

(c)	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	**Full Compliance**	The main channel of communication between the Pensions Committee and the Pensions Panel lies with the three Committee members who are also Panel members. Communication is also assisted by the synchronising Panel meetings with the corresponding Committee meeting.
(d)	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	**Full Compliance**	Three places on the Pensions Committee are reserved for members of the Pensions Panel.

Principle B – Representation

	Requirement	Level of Compliance	Arrangements in Place
(a)	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:		
	(i) Employing authorities (including e.g. admission bodies);	**Full Compliance**	Representatives of major fund employers, including one admission body, sit on the Pensions Panel. A nominee from the Panel's employer representatives sits on the Pensions Committee.
	(ii) Scheme members (including deferred and pensioner scheme members);	**Full Compliance**	Non-pensioners are represented by the Trade Union Panel members and by the Union representative who sits on the Pensions Committee. Pensioners are represented by the pensioner members who sit on the Panel and the member who sits on the Committee.

Requirements		Level of Compliance	Arrangements in Place
	(iii) Where appropriate, independent professional observers; and	**Not Compliant**	There are no independent professional observers of Committee or Panel business. It is considered that: ▪ the diversity of representation; (employers, pensioner and Unions) ▪ the training arrangements; ▪ the annual audit process; and ▪ access to existing professional advisors provide robust and adequate scrutiny of pension fund business.
	(iv) Expert advisors (on an ad-hoc basis).	**Full Compliance**	Support for the Pensions Committee and Pensions Panel is provided by the undernoted advisors: • actuary and investments, Hymans Robertson • corporate governance, PIRC Ltd • investment managers and custodian, as required.

(b)	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.	**Full Compliance**	Panel members who are co-opted onto the Pensions Committee have equality of access to papers, meetings and training and have full opportunity to contribute to the decision making process, including the right to vote.

Principle C – Selection and role of lay members

Requirement		Level of Compliance	Arrangements in Place
(a)	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee	**Full Compliance**	Members of the Pensions Committee will be subject to the Falkirk Council Councillors Code of Conduct. Members of the Pensions Panel will be appointed on the understanding that they will be subject to the Falkirk Council Councillors Code of Conduct. Induction training will be delivered to Committee and Panel members.
(b)	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.	**Full Compliance**	Declaration of interests is a standard procedure at the start of all Committee and Panel meetings. Declarations are noted in the minutes.

Principle D – Voting

Requirement		Level of Compliance	Arrangements in Place
(a)	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.	**Full Compliance**	All members of the Pensions Committee including co-opted members will have voting rights on the basis that they have executive responsibility for pension fund decision making.

Principle E – Training / FacilityTime / Expenses

	Requirement	Level of Compliance	Arrangements in Place
(a)	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.	**Full Compliance**	The administering authority's approach to training is set out in its training policy for the Pensions Committee and Pensions Panel members. Training is delivered in large part by addressing specific items at Committee and Panel meetings and complemented by visits to Fund Managers, bespoke training events and attendance at industry seminars and conferences. Expenses incurred by Committee and Panel members are met either by the Fund or the Falkirk Council scheme for payment of members expenses.
(b)	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.	**Full Compliance**	The Training Policy for the Pensions Committee and Pensions Panel applies uniformly to all members.

(c)	That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	**Full Compliance**	The Training Policy for the Pensions Committee and Pensions Panel includes the requirement for members to undergo training needs analysis and the development of commensurate training plans. A register of training undertaken will be maintained.

Principle F – Meetings (Frequency/Quorum)

Requirement		Level of Compliance	Arrangements in Place
(a)	That an administering authority's main committee or committees meet at least quarterly.	**Full Compliance**	The Pensions Committee hold quarterly meetings. Additional meetings are called as required.
(b)	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	**Full Compliance**	The Pensions Panel hold quarterly meetings and meets roughly two weeks in advance of the Pension Committee. Additional meetings are called as required.
(c)	That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	**Full Compliance**	The Council *does* include lay members on its Pensions Committee. However, in order ensure that the interests of wider fund stakeholders can be represented, the Fund holds a Pensions & Investment Conference each year.

Principle G – Access

Requirement		Level of Compliance	Arrangements in Place
(a)	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.	**Full Compliance**	Members of Pensions Committee and Pensions Panel have equal access to any committee papers, documents and advice that falls to be considered at meetings of the Pensions Committee.

Principle H – Scope

Requirement		Level of Compliance	Arrangements in Place
(a)	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	**Full Compliance**	The Pensions Committee and Panel agendas include reports pertaining to both administration and investment matters such as regulatory changes, actuarial valuation and funding level updates, admission agreements, investment strategy and Fund/ Investment Manager performance.

Principle I – Publicity

	Requirement	Level of Compliance	Arrangements in Place
(a)	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	**Full Compliance**	Employers, Unions and Pensioners have been consulted regarding the governance arrangements and invited to participate. Full details of the Governance arrangements are published on the Fund's website.

Chief Finance Officer
Falkirk Council

28th May, 2015

APPENDIX 4

SCHEDULED AND ADMISSION BODIES AS AT 31 MARCH 2015

Scheduled Bodies

Central Scotland Joint Valuation Board
Clackmannanshire Council
Falkirk Council
Forth Valley College
Scottish Children's Reporter Administration (SCRA)
Scottish Environment Protection Agency (SEPA)
Scottish Fire and Rescue Service (ex Central Scotland Fire & Rescue Service)
Scottish Police Authority (ex Central Scotland Police)
Stirling Council
Visit Scotland (Ex-Argyll, The Isles, Stirling, Loch Lomond and Trossachs Tourist Board)

Admission Bodies with Active Members

Active Stirling
Alsorts
Amey (Clackmannanshire Schools Project) *
Association of Scottish Colleges
Ballikinrain School
Central Scotland Council for Regional Equality *
Central Carers Association
Ceteris
Cowane's Hospital
Dollar Academy Trust
Falkirk Community Trust Ltd
Forth and Oban Ltd
McLaren Community Leisure Centre *
Open Secret *
Plus *
Scottish Autism
Seamab School
Smith Art Gallery
Snowdon School Ltd
Stirling District Tourism Ltd
Stirling Enterprise Park Limited (STEP)
Strathcarron Hospice
Thinkwhere Ltd. (formerly Forth Valley GIS Ltd) *
Valad Management (UK) Ltd *
Water Industry Commission for Scotland

* Closed to new members

Other Admission Bodies with Continuing Interest in Fund

Stirling University
Waterwatch Scotland

AGENDA ITEM 7

FALKIRK COUNCIL

Subject: **FUNDING UPDATE**
Meeting: **JOINT MEETING OF THE PENSIONS COMMITTEE AND PENSION BOARD**
Date: **26 JUNE 2015**
Author: **CHIEF FINANCE OFFICER**

1. INTRODUCTION

1.1 This report updates the Pensions Committee and Pension Board on the latest funding position of the Falkirk Council Pension Fund.

2. BACKGROUND

2.1 The funding position is established every three years as part of the statutory valuation process. However, in the interests of good governance, the funding position is also reviewed annually.

2.2 The funding position shows the extent to which the Fund's liabilities are matched by its assets. Fund assets are the investments held by the Fund, whilst liabilities are the benefits promised to members in the future.

2.3 A funding level of less than 100% means that assets are less than liabilities and there is a funding deficit. A funding level of over 100% means there is a surplus and a funding level of exactly 100% means that assets are equivalent to liabilities.

2.4 In assessing the funding position, assets are calculated at their market value and liabilities on the return on government bonds (i.e. the lower the return on bonds, the higher the value placed on liabilities).

2.5 An estimate of the funding position at 31 March 2015 has been calculated by Hymans Robertson, the Fund's Actuary. This has been based on based on cash flows and investment returns arising since the triennial valuation at 31 March 2014.

2.6 A copy of the funding report is attached as an Appendix to this report.

3. FUNDING UPDATE

3.1 The policy of the Fund is to achieve a funding level of 100% so that the Fund's liabilities are matched exactly by the assets.

3.2 The funding position at 31 March 2014 and the current funding position are set out below:

	As at 31/03/2014	As at 31/03/2015
Fund Assets	£1,577m	£1,820
Fund Liabilities	£1,860m	£2,297
Funding Deficit	£283m	£477m

Funding Level	**84.8%**	**79.3%**

3.3 The decline in the funding level is attributable to an increase in liabilities which has been triggered by a fall in gilt yields from 5.1% at March 2014 to 3.8% at March 2015.

3.4 Whilst the funding level is a useful measure of financial standing, it is volatile and can change by several percentage points in just a few months. For example, the funding level in late 2011 was 67% but recovered to 86% by March 2014. The strength of employer covenants within the Fund mean that it can afford to take a long term approach to funding liabilities and not feel obliged to react to every change in the funding level.

3.5 The funding level is also an important factor in setting investment strategy. The Committee has agreed to de-risk and reduce the Fund's exposure to market volatility. However, whilst it is sensible to have a de-risking plan in place, implementation will have to await better financial conditions (i.e. an improving funding level and more attractive pricing of bonds).

4. CONCLUSION

4.1 The funding position has deteriorated to 79% since the 2014 valuation. Despite asset returns being ahead of actuarial assumptions, falling gilt yields have triggered a rise in fund liabilities.

5. RECOMMENDATION

5.1 The Committee and Board are asked to note the funding position as at 31 March 2015 and are invited to comment as appropriate.

……

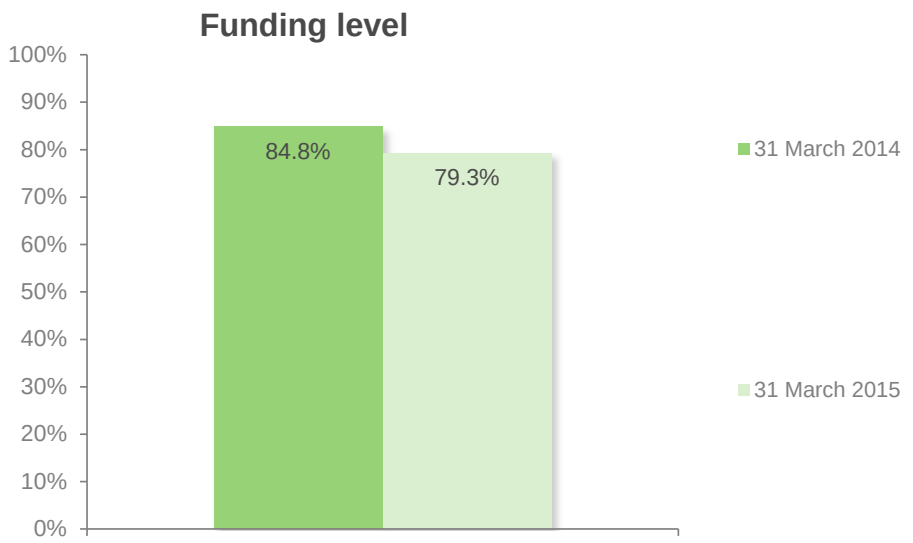
Chief Finance Officer

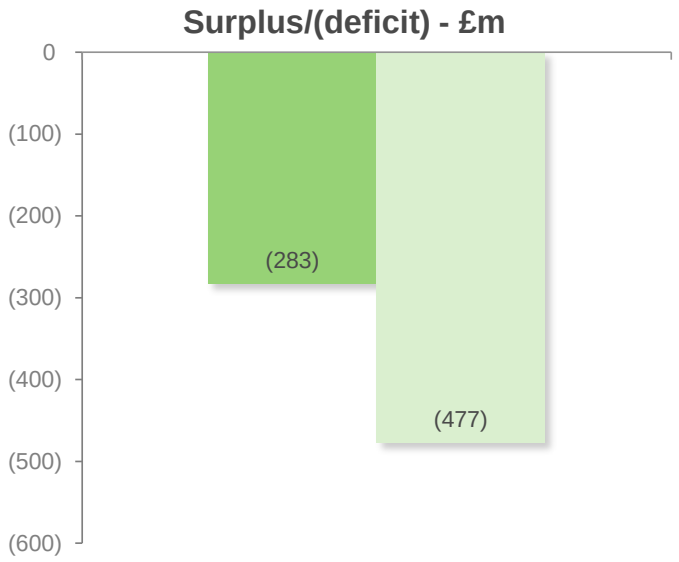
Date: 10 June, 2015

BACKGROUND PAPERS

NIL

Funding update as at 31 March 2015
Falkirk Council Pension Fund





HYMANS ROBERTSON

Summary

This funding update is provided to illustrate the estimated development of the funding position from 31 March 2013 to 31 March 2015, for the Falkirk Council Pension Fund ("the Fund"). It is addressed to Falkirk Council in its capacity as the Administering Authority of the Falkirk Council Pension Fund and has been prepared in my capacity as your actuarial adviser.

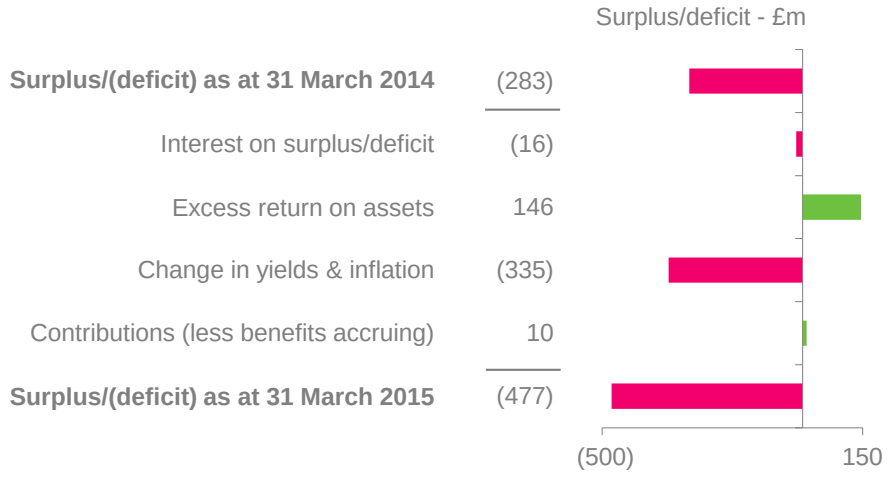
The funding level at the latest formal valuation was 84.8%. As at 31 March 2015 the funding level has decreased to 79.3%. This is largely as a result of a decrease in bond yields, and subsequent discount rate, which places a higher value on the Fund's liabilities. This has been offset by a decrease in expectations of inflation.

This report has been produced exclusively for the Administering Authority. This report must not be copied to any third party without our prior written consent.

This report looks at the whole fund position and does not allow for the circumstances of individual employers. The results for individual employers can be quite different to the Fund as a whole depending on their own experience and the profile of their liabilities. Differences in the relationship between the ratio of accrued liabilities and the payroll can have a large influence on changes in contributions.

Steven Scott
Fund Actuary

What's happened since the last update – ongoing funding basis



Differences between this funding update and a full actuarial valuation

The accuracy of this type of funding update calculation is expected to decline over time as the period since the last valuation increases. This is because this funding update does not allow for changes in individual members' data since the last valuation.

Details of the approach used in this funding update are given in the appendix.

The figures in tables throughout this document may not add up due to rounding.

HYMANS ROBERTSON LLP

Estimated financial position at 31 March 2015

Ongoing funding basis

£m	31 Mar 2014	31 Mar 2015
Assets	1,577	1,820
Liabilities	1,860	2,297
Surplus/(deficit)	**(283)**	**(477)**
Funding level	84.8%	79.3%

Gilts funding basis

£m	31 Mar 2014	31 Mar 2015
Assets	1,577	1,820
Liabilities	2,572	3,209
Surplus/(deficit)	**(996)**	**(1,389)**
Funding level	61.3%	56.7%

Investment Return

Quarter Ending	%
30/06/2014	2.3%
30/09/2014	2.4%
31/12/2014	3.1%
31/03/2015	5.7%

The estimated returns (to 31 March 2015) are based on the most recent asset allocation shown on page 6 and the indices set out on

Basis summary

	31 Mar 2014	31 Mar 2015
Pre retirement discount rate		
Nominal	5.1%	3.8%
Real	1.6%	0.6%
Post retirement discount rate		
Nominal	5.1%	3.8%
Real	1.6%	0.6%
Salary increase rate	4.0%	3.7%

The assumptions underlying the funding bases are set out in the Funding Strategy Statement. They are those set for the 2013 valuation of the Fund updated for market conditions as at the calculation date.

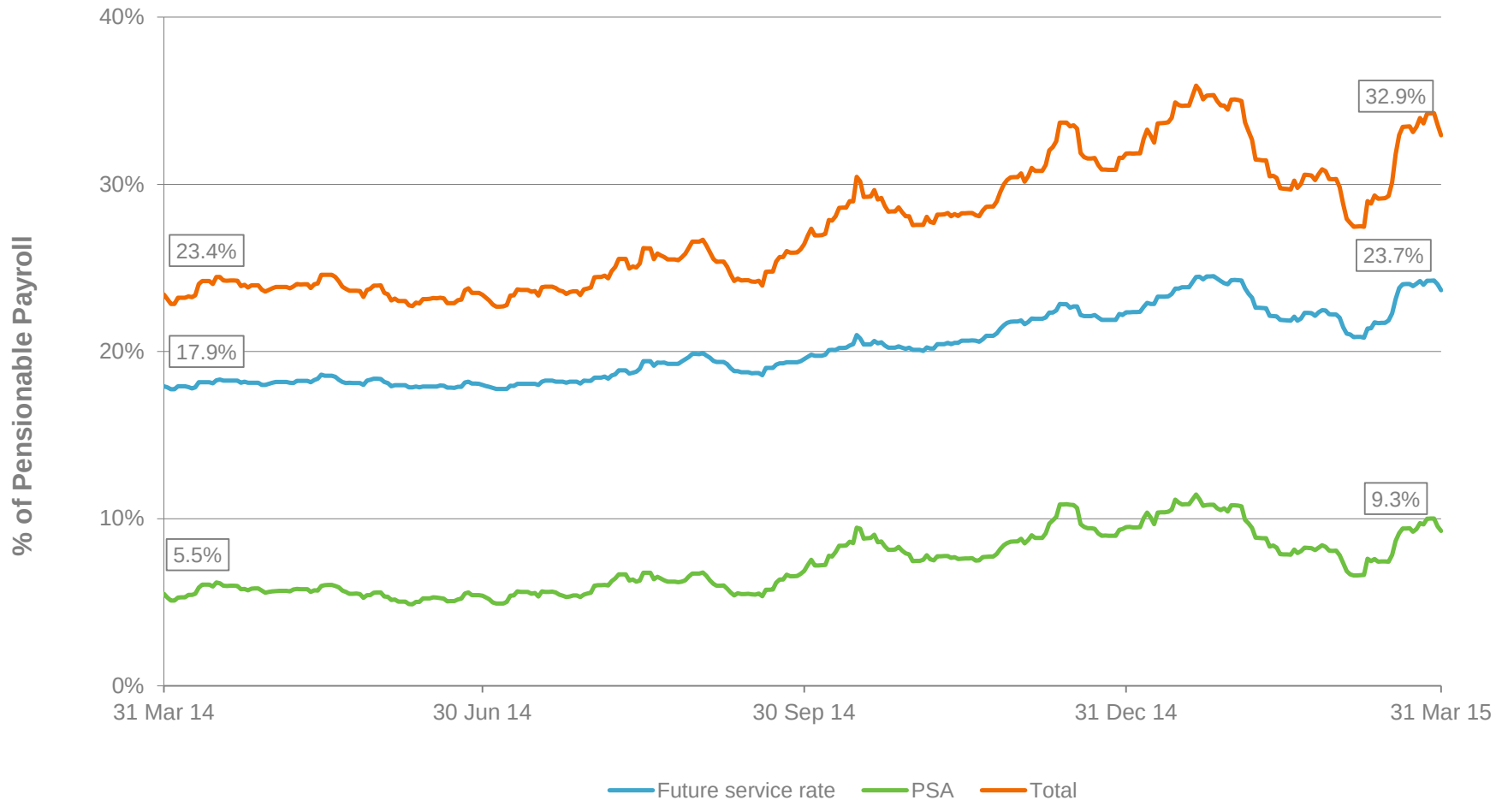
Market indicators

	31 Mar 2014	31 Mar 2015
Market yields (p.a.)		
Fixed interest gilts	3.46%	2.24%
Index linked gilts	-0.04%	-0.90%
Implied inflation (RPI)	3.50%	3.20%
Implied inflation (CPI)	2.70%	2.40%
AA corporate bonds	4.30%	3.10%
AOA	1.60%	1.60%
Price indices		
FTSE All Share	3,556	3,664
FTSE 100	6,598	6,773

HYMANS ROBERTSON LLP

Change in funding level since last valuation

Change in contribution rate



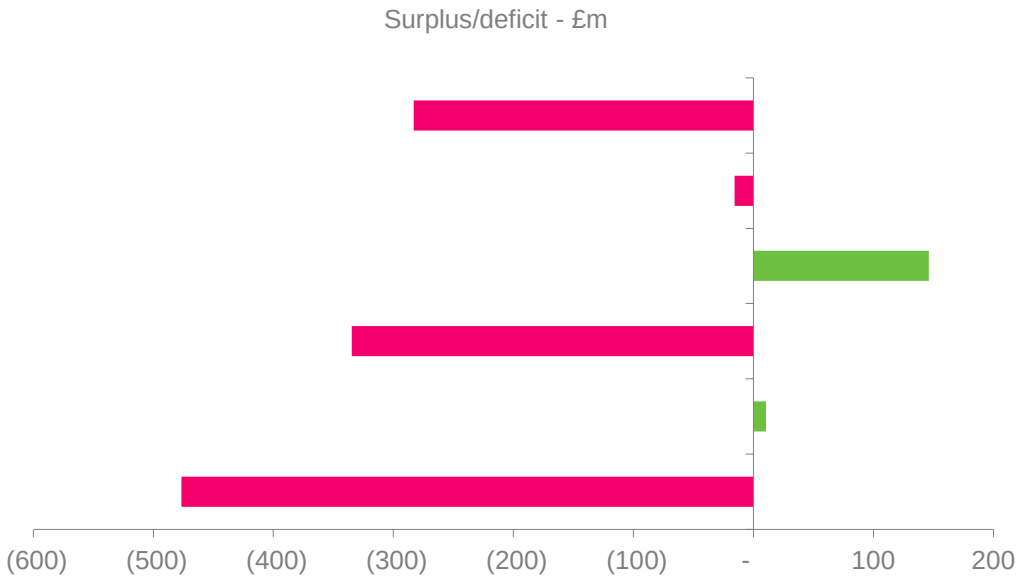
What's happened since last valuation? – ongoing funding basis

Assets		£m
Asset value as at 31 March 2014	**1,577**	
Contributions paid in:		76
Benefit payments:		(60)
Expected return on assets:		81
Excess return on assets:		146
Asset value as at 31 March 2015	**1,820**	

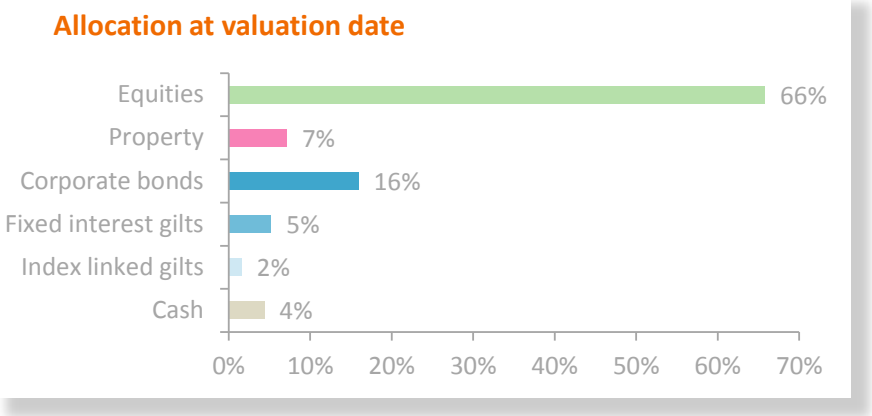
Liabilities		£m
Liability value as at 31 March 2014	**1,860**	
Cost of benefits accruing:		66
Interest on liabilities:		97
Change in yields & inflation:		335
Benefit payments:		(60)
Liability value as at 31 March 2015	**2,297**	

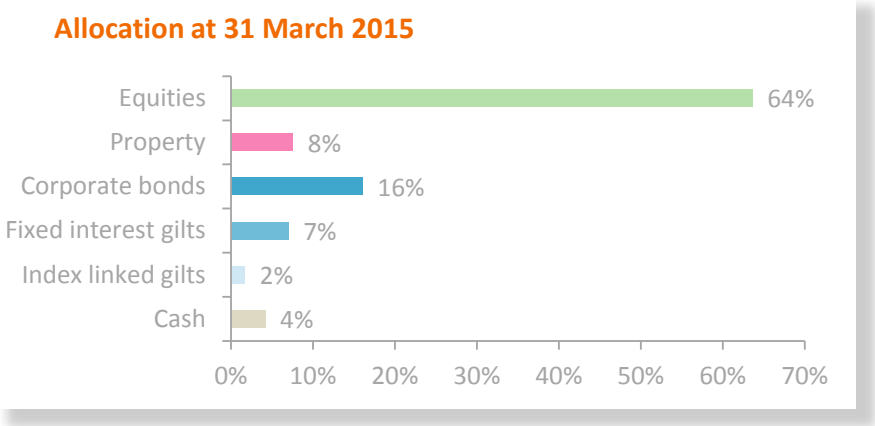
Overall effect

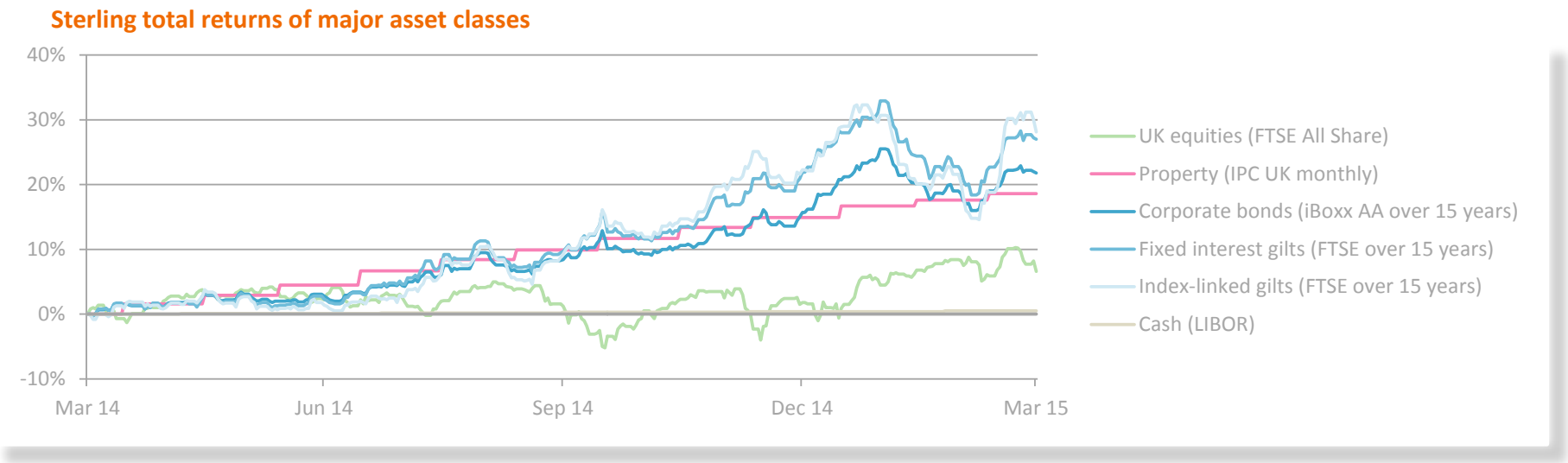
Surplus/(deficit) as at 31 March 2014	(283)
Interest on surplus/deficit	(16)
Excess return on assets	146
Change in yields & inflation	(335)
Contributions (less benefits accruing)	10
Surplus/(deficit) as at 31 March 2015	(477)



What caused your assets to change?







HYMANS ROBERTSON LLP

Sensitivity matrix – ongoing funding basis

Better outcomes

Bond yields (% p.a.)							
2.85	68.7%	75.1%	81.4%	87.8%	94.2%	100.6%	106.9%
	(636)	(507)	(377)	(248)	(118)	11	141
2.65	66.6%	72.7%	78.8%	84.9%	91.0%	97.2%	103.3%
	(707)	(578)	(448)	(319)	(189)	(60)	70
2.44	64.4%	70.3%	76.2%	82.1%	87.9%	93.8%	99.7%
	(784)	(654)	(525)	(395)	(266)	(136)	(7)
2.24	62.3%	68.0%	73.6%	79.3%	84.9%	90.5%	96.2%
	(865)	(736)	(606)	(477)	(347)	(218)	(88)
2.04	60.3%	65.7%	71.1%	76.5%	81.9%	87.3%	92.7%
	(952)	(823)	(693)	(564)	(434)	(305)	(175)
1.84	58.2%	63.4%	68.6%	73.7%	78.9%	84.1%	89.3%
	(1,046)	(916)	(787)	(657)	(528)	(398)	(269)
1.64	56.2%	61.2%	66.1%	71.1%	76.0%	81.0%	85.9%
	(1,146)	(1,016)	(887)	(757)	(628)	(498)	(369)
	4,741	5,418	6,096	6,773	7,450	8,128	8,805

Equity level (using FTSE 100 Price Index as a proxy)

Better outcomes

79.3%	Funding level
(477)	Surplus/(deficit) – £m

Appendix: Scope, methodology, reliances, limitations and market data

Scope

This funding update is provided to Falkirk Council as the Administering Authority of the Falkirk Council Pension Fund to illustrate the funding position as at 31 March 2015. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except with Hymans Robertson LLP's prior written consent, in which case it is to be released in its entirety. Hymans Robertson LLP accepts no liability to any third party unless we have expressly accepted such liability in writing.

Compliance with professional standards

The method and assumptions used to calculate the updated funding position are consistent with those used in the latest formal actuarial valuation, although the financial assumptions have been updated to reflect known changes in market conditions. As such, the advice in this report is consistent with that provided for the last valuation, as set out in the:

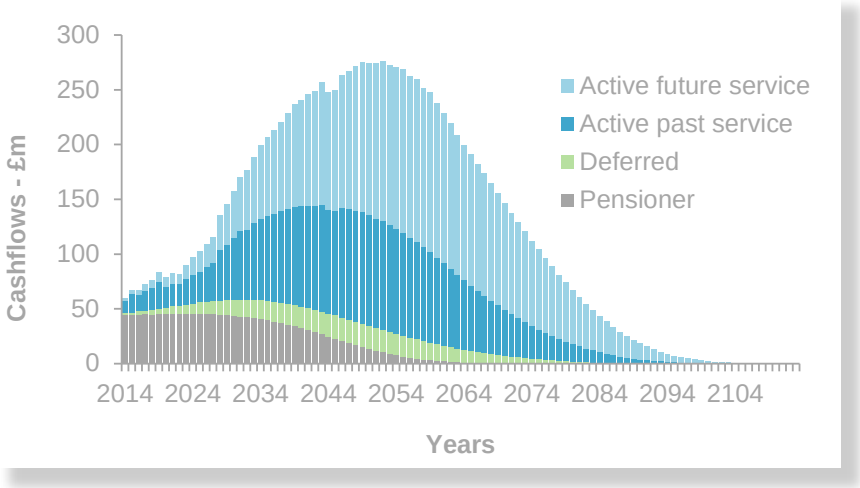
- Valuation Assumptions Briefing Note
- Funding Strategy Statement
- Valuation Report
- Rates and Adjustments Certificate

This update therefore complies with the following Technical Actuarial Standards (TASs):

- Reporting ("TAS R")
- Data ("TAS D")
- Modelling ("TAS M")
- Pensions TAS

How liabilities are calculated

- The future benefits that are payable from the Fund ("cash-flows") were calculated on a specific set of assumptions at the last valuation date.
- These cash-flows (on the ongoing funding basis) are shown below.
- These cash-flows were adjusted using available financial and Fund information to produce estimated cash-flows at post valuation dates.
- The specific information used for this update is set out on the next page.
- Market information is used to produce discount rates at these dates.
- The estimated cash-flows are discounted to produce the estimated liability value at a specific date.



How assets are calculated

Assets are projected from the valuation date allowing for actual or estimated Fund cash-flows, actual quarterly returns (where available) and daily benchmark indices.

The update allows for:

1 Movements in the value of the assets as measured by index returns and data from the administering authority where available.
2 Movements in liabilities as a result of changes in yields and hence inflation and discount rate assumptions.
3 Estimated cash-flows (contributions and benefit payments).
4 Expected accrual of benefits for employee members accrued since the last valuation (based on projected salary roll).
5 Demographic experience in line with assumptions.
6 Variations in liabilities arising from the changes in RPI since the valuation date differing relative to assumptions.
7 Benefit accrual in line with the 2015 scheme.

The update does not allow for:

1 Asset allocations differing from those assumed (other than when asset data is recalibrated based on available information).
2 The asset values as at the date of this report have not been based on audited Fund accounts.
3 Variations in liabilities arising from salary rises differing relative to assumptions.
4 Differences between estimated and actual salary roll of employees.
5 Variation between actual and expected demographic experience (e.g. early retirement or mortality).

Membership data

My calculations are based on the membership data provided for the most recent actuarial valuation. Details on the quality of this data and a data summary can be found in the last formal actuarial valuation report.

Limitations of this model

In the short term, the typical main contributors to funding position volatility are movements in the value of assets held, liability changes due to yield movements, benefit changes and deficit contributions to the Fund.

The accuracy of this type of funding update calculation is expected to decline over time. Differences between the position shown in this report and the position which a valuation would show can be significant; particularly if there have been volatile financial markets or material membership changes (these are more likely to occur in smaller Funds). It is not possible to fully assess the accuracy of this update without carrying out a full actuarial valuation.

Liability calculations are performed on the valuation date, the funding update date, anniversaries of the valuation date and each month-end in between. Interpolation is used for other dates shown in graphs. Some asset classes are not easily tracked by the benchmark indices used in this model which can lead to significant differences between actual and projected asset values.

Indices used to update projected asset values

Some of the following indices have been used to update projected asset values in this funding update.

- FTSE 100
- FTSE 250
- FTSE Small Cap
- FTSE All Share
- FTSE All World Series North America (£)
- FTSE All World Series Japan (£)
- FTSE All World Series Developed Europe (£)
- FTSE All World Series Developed Asia Pacific (£)
- FTSE All World Series All World Developed Ex UK (£)
- FTSE All World Series All World Ex UK (£)
- FTSE All World Series All Emerging (£)
- UK Government Fixed Interest Gilts (Over 15 Years)
- UK Government Index-Linked Gilts (Over 5 Years)
- UK Government Index-Linked Gilts (Over 15 Years)
- iBoxx A rated UK Corporate Bonds (Over 15 Years)
- iBoxx AA rated UK Corporate Bonds (Over 15 Years)
- iBoxx AAA rated UK Corporate Bonds (Over 15 Years)
- iBoxx All Investment Grades rated UK Corporate Bonds (Over 15 Years)
- IPD Property
- Cash Indices LIBOR 1 Month

The indices are a standard list and are not necessarily the same indices that managers have been asked to track or beat. All indices used to estimate projected asset values are total return indices. However, the market indicators quoted in this report are price indices, as these are more widely recognised.

Market information used to update liability values

Some of the following market information has been used to update liabilities values in this funding update.

- FTSE Actuaries UK Fixed Interest Gilts Yields (Over 15 Years)
- FTSE Actuaries Index-Linked Gilts (3% Inflation) Yields (Over 15 Years)
- iBoxx AA rated UK Corporate Bond Yields (Over 15 Years)

Note: Market yields displayed in the market indicators table are on an annual basis.

AGENDA ITEM 8

FALKIRK COUNCIL

Subject: **GENERAL GOVERNANCE MATTERS**
Meeting: **JOINT MEETING OF THE PENSION BOARD AND PENSIONS COMMITTEE**
Date: **26 JUNE 2015**
Author: **CHIEF FINANCE OFFICER**

1. INTRODUCTION

1.1 This report updates the Board and Committee on miscellaneous matters associated with the business of Falkirk Council Pension Fund.

2. LGPS 2015

2.1 The new version of the Local Government Pension Scheme came into effect on 1st April, 2015.

2.2 Key changes are as follows:

- Career average accrual
- Final salary rights protected
- Scheme normal retirement age now equivalent to each member's own State Pension Age
- Accrual rate of 49ths rather than 60ths
- Member contribution rate for part time members based on actual rather than full time pay
- Overtime hours pensionable for part time members
- 50/50 option
- No detriment underpin for older members
- Employer discretions policy due by 30th June, 2015
- New governance arrangements

2.3 The new pensions administration system which went live in March, 2015 has allowed the Fund to continue operating an administration system that is compliant with scheme rules. The system is maintained by external software providers and therefore reduces reliance on a key individual for systems development. Since the go live date, although it has been "business as usual" for the Pensions Section in calculating and paying benefits, some further development work requires to be undertaken, in particular, the migration of the pensioner payroll to the Altair platform.

3. RISK REGISTER

3.1 The Committee has asked officers to provide a regular update on any areas of heightened risk.

Identified Risk per Risk Register	Reason for Change in Risk Rating
Funding Position affected by falling asset values	The outcome of the UK General Election guarantees that a referendum on EU membership will take place by 2017. Financial markets may be unnerved by the surrounding uncertainty. This may have an adverse effect on asset values. *Mitigation – The Fund is a long term investor that can afford to withstand the volatility that may be triggered by political uncertainties. In addition, the Fund's assets are also invested in a wide range of asset classes, not all of which are likely to be impacted (e.g. infrastructure, overseas equities, etc).*

4. SOCIAL HOUSING

4.1 The Committee has agreed to make a £30m commitment to Hearthstone Investments to fund Social and Affordable Housing via their Housing Fund for Scotland. The Fund objective is to deliver returns of RPI + 2%. In order to deliver the new units in Scotland, Hearthstone is working in partnership with Castle Rock Edinvar, the Edinburgh based Housing Association.

4.2 An initial drawdown of £15m has been invested in a short term debt instrument to support the Social Housing element. A further £1.8 million has been drawn down to support the first phase of investment in Affordable Housing.

4.3 The Social Housing element involves the construction of 191 units across the pension fund area as follows:

Area	Site	Number of Units
Clackmannanshire	Sauchie	35
Falkirk	Bellsdyke Overton	62 34
Stirling	Durieshill	60
TOTAL		191

4.4 Due to its innovative nature, the Social and Affordable Housing project is being supported financially by the Scottish Government. A visit to the Bellsdyke site has been made by the Scottish Government's Housing Minister on 8th June.

4.5 The project was also part of a general discussion on pension fund investment in local infrastructure at the Scottish Parliament's Local Government and Regeneration Committee at which the Chief Finance Officer was invited to give evidence. The Committee has subsequently written to all Scottish Local Authority Pension Funds to obtain information about each Fund's Environmental, Social and Governance policy and approach to infrastructure investment. A copy of the Committee request letter and the Falkirk Council reply is attached as an Appendix to this report.

4.6 With regards to the affordable housing part of the Hearthstone mandate, the £1.8m drawdown has been used to buy 17 units in Bo'ness which will operate as affordable lets via Castle Rock Edinvar. Hearthstone is also holding discussions with several builders to assess whether any recently constructed stock can be used to meet the remainder of the mandate.

4.7 Hearthstone will give a formal update on progress to a future meeting of the Committee.

5. UK INFRASTRUCTURE

5.1 The Pensions Committee at its meeting of 5 June 2014 agreed to invest £30m in UK infrastructure projects in collaboration with the Lothian Pension Fund.

5.2 An initial investment has been made with Ancala Partners to support the purchase of Green Highland Renewables, the owner and developer of various small scale hydro projects in the UK, including the Scottish Highlands. Other investors include the Lothian Pension Fund and Towers Watson. Ancala specialise in infrastructure deals and have identified the vendor as having both a strong asset platform and pipeline of new projects.

5.3 The Fund's commitment is £2.75m (12.5%) towards a total purchase price of £22m. A draw down of £1.5m has already been made. The expected return is an average of 9% p.a. over 10 years, although it is possible that the asset could be held for up to 25 years.

5.4 Other investment opportunities for the UK Infrastructure commitment are currently being evaluated.

6. SCHEME ADVISORY BOARD

6.1 Under the new governance arrangements, a national Scheme Advisory Board has been established to provide advice to the Scottish Ministers on the desirability of changes to the LGPS. The Board is also empowered to provide advice to scheme managers or pension boards in relation to the effective and efficient administration and management of the Scheme.

6.2 An initial meeting of the Board has taken place and a proposed workplan includes the following:

- Funding the Scheme Advisory Board
- Collection of consistent Fund data
- Structural review of Funds
- Review the results of the 2015 national valuation
- Improve transparency of investment decisions

6.3 The Chair of the Scheme Advisory Board for 2015/16 is Councillor Stewart Cree with Harry Frew of UCATT as Vice-Chair. The Chief Finance Officer is one of a range of professional advisers to the new Board.

7. THE PENSIONS REGULATOR

7.1 The Public Sector Pensions Act 2013 gives the Pensions Regulator oversight over administration and governance standards in the Local Government Pension Scheme.

7.2 The Regulator has published Code of Practice No. 14 – Governance and Administration in Public Service Pension Schemes. Amongst the topics covered are:

- Knowledge and Understanding Required by Pension Board Members
- Managing Risks and Internal Controls
- Scheme Record Keeping
- Contribution Monitoring and Reporting of Breaches

7.3 A fuller consideration of the Code of Practice will be provided at the next Committee/ Board meeting.

8. LOCAL AUTHORITY PENSION FUND FORUM (LAPFF)

8.1 The LAPFF represents the interests of over 60 local authority pension funds with combined assets of around £120 billion. Its mission is to promote the highest standards of corporate responsibility amongst the companies in which member funds invest.

8.2 The LAPFF is supported by PIRC Ltd, who are the Forum's company research and engagement partner. PIRC are also the Falkirk Fund's proxy voting agents and advisers on ESG matters.

8.3 As part of its lobbying activities, LAPFF is a leading participant in the "Aiming for A" campaign – a coalition of asset owners with shared concerns over the environmental dangers of climate change and the long term profitability of carbon intensive energy companies.

8.4 The campaign has prompted successful votes at recent AGMs by the shareholders of BP, Shell and Statoil for more disclosure around the management of carbon emissions and the level of research and development into lower carbon energy solutions. The campaign recognises that many long term institutional investors want energy producers to demonstrate that climate based risks are being accounted for in business strategies.

8.5 Other LAPFF activity during the last quarter included:

- Raising the lack of investor rights at the **Roche** AGM
- Writing to **Tesco** regarding linkage between executive remuneration and good governance
- Meeting with **Centrica'**s chair to discuss executive pay, succession planning and carbon management
- Meeting with **Astra Zeneca** regarding remuneration policy, mergers and governance

8.6 Councillor Kieran Quinn, chairman of LAPFF, has agreed to attend the September meeting of the Pensions Committee / Board to talk about the work of LAPFF.

8.7 Following discussions at the last Committee meeting, Councillors Blackwood and Coleman have agreed to attend the LAPFF Annual Conference in Bournemouth on 2nd – 4th December, 2015.

9. RECOMMENDATION

9.1 The Pensions Committee and Pension Board are asked to note the contents of this report and invited to comment as appropriate.

Chief Finance Officer

Date: 8 June 2015

Contact Officer: Alastair McGirr

LIST OF BACKGROUND PAPERS

NIL

Enquiries to: Bryan Smail
Telephone: (01324) 506301 Fax: (01324) 506303
Your Ref:
My Ref: Supn/AM
Date: 12 June, 2015
E-mail: bryan.smail@falkirk.gov.uk

Claire Menzies-Smith
Senior Assistant Clerk
Local Government and Regeneration Committee
Room T3.40
The Scottish parliament
Edinburgh
EH99 1SP

Sent by email only

Dear Ms Menzies-Smith,

Budget Strategy Phase 2016-17 - Local Government Pension Funds

I refer to your letter of 15th May 2015.

You requested a copy of the Pension Fund Statement of Investment Principles and I have sent this as an attachment to this letter. It can also be found on the Fund website www.falkirkpensionfund.org in the Forms and Publications section.

Responses to your other questions are as follows:

1. *When your Statement is next due for review;*

   The Statement of Investment Principles will be updated following a review of Fund investment strategy that is currently being undertaken. This is expected to be Autumn, 2015.

2. *Details of your social, environmental or ethical policy, and how it is implemented having regard to fiduciary duties*

   This information is contained in the Fund's Statement of Investment Principles. Although fiduciary duty remains the Fund's primary focus, the Fund is aware of its responsibilities as an asset owner and gives serious recognition to environmental, social and governance (ESG) issues. ESG considerations are therefore embedded within the investment processes of the Fund and its investment managers. As evidence of this, the Fund has engaged the Pensions and Investment Research Consultants (PIRC) to provide advice on corporate governance matters. The Fund is also a member of the Local Authority Pension Funds Forum (LAPFF) which acts for over 60 UK local authority pension funds and seeks to promote high corporate standards. Recent LAPFF campaigns have targeted Executive Remuneration, Phone Hacking, Gender Equality in Boardrooms and Fossil Fuel emissions.

3. *If you have no such policy, details of how your fund deals with social, environmental or ethical considerations.*

   See Response to Question 2 overleaf

In/

In relation to the questions on infrastructure,

1. *Details of any investment you have made in Scottish or UK infrastructure projects;*

   - The Fund has made a £30m commitment to invest in Social and Affordable Housing. This is expected to result in 190 additional housing units being constructed in Forth Valley.
   - The Fund has made a £30m commitment to invest in UK Infrastructure projects with a preference for projects in Scotland. An initial £2.75m commitment has been made in support of a Scottish hydro project.
   - The Fund has made an $80m commitment to Global infrastructure with Grosvenor Capital. This investment is in a mixture of infrastructure projects and infrastructure funds some of which are invested across geographies including the UK.

2. *Whether your Fund has considered investing in the Pensions Infrastructure Platform when it opens to non-founder members*

   The Fund is aware of the PIP but has not formally considered investing in it. The Fund will continue to monitor the PIP's progress, however, in view of the length of time taken for the PIP to establish itself and uncertainty as to when it may be rolled out to non-founder members, the Pension Committee's preference has been to pursue infrastructure investments through its Global and UK mandates.

3. *Whether your Fund has worked in partnership with other Scottish Local Government Pension Funds to invest in Scottish or UK infrastructure projects*

   Yes. Falkirk is formally collaborating with the Lothian Pension Fund in a shared service arrangement whereby the Falkirk Fund relies on the in house expertise of the Lothian team to source investments of mutual interest. The Lothian team undertake due diligence and legal oversight of each investment opportunity, although ultimately Falkirk can elect not to participate in a particular deal.

4. *Details of the current barriers to investing in infrastructure projects.*

   Perceived barriers to greater investment in infrastructure projects are as follows:

   - Breadth of specialist expertise (and "presence" in the market) that is needed to be able to source and evaluate deals, to negotiate terms, to conclude legal formalities and to record and monitor performance.
   - Pension funds have a fiduciary duty to invest fund monies for the benefit of fund stakeholders. This means that any investment with spin off social or economic benefits must be at least as favourable in terms of risk/return characteristics as an investment without these collateral benefits. Many infrastructure projects do not meet this test, having, for example, too much construction risk, regulatory uncertainty, inadequate returns, etc. In essence, funds will generally be looking for low risk opportunities that yield a minimum of RPI plus 3%.
   - The Local Government Pension Scheme (Management and Investment of Funds) regulations contain restrictions on the level of investment that can be made in partnerships (the investment vehicle normally adopted for infrastructure investments), albeit that this has not proved to be a barrier to date for this Fund.

I/

I hope you find these comments helpful.

Yours sincerely

Chief Finance Officer

The Scottish Parliament
Pàrlamaid na h-Alba

Local Government and Regeneration Committee

To the Director of—

Dumfries and Galloway Pension Fund
Falkirk Pension Fund
Fife Pension Fund
Highland Pension Fund
Lothian Pension Fund
North East Scotland Pension Fund
Orkney Pension Fund
Scottish Borders Pension Fund
Shetland Pension Fund
Strathclyde Pension Fund
Tayside Pension Fund

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lgr.committee@scottish.parliament.uk

Sent via email only

15 May 2015

Dear Sir/Madam

Budget Strategy Phase 2016-17 – Local Government Pension Funds

I am writing on behalf of the Scottish Parliament's Local Government and Regeneration Committee. Following a recommendation in the Committee's Report on Draft Budget 2015-16 (see paragraphs 61 to 66), the Committee agreed to take evidence from two panels of witnesses on the use of local authority pension funds to invest in infrastructure. The Official Report of this evidence session, which took place on 29 April 2015, is available here.

A number of points arose during the session where Members of the Committee wished to seek further background information from all Local Government Pension Funds in Scotland to inform their further consideration of the subject area. These questions are attached below.

It would be helpful if those Funds which gave oral evidence to the Committee on 29 April could also answer the questions below for ease of comparison of the information provided.

The Committee would find it helpful if you could provide **a copy of your Statement of Investment Principles**, and a note of the following:

1. When your Statement is next due for review;

Please contact the Committee clerking team in the first instance.
David Cullum (0131 348 5217): Claire Menzies-Smith (0131 348 5219): Seán Wixted (0131 348 5223)
Email: lgr.committee@scottish.parliament.uk

2. Details of your social, environmental or ethical policy, and how it is implemented having regard to fiduciary duties;

3. If you have no such policy, details of how your fund deals with social, environmental or ethical considerations.

The Committee is also interested in your **investment in infrastructure**, in particular:

1. Details of any investment you have made in Scottish or UK infrastructure projects;

2. Whether your Fund has considered investing in the Pensions Infrastructure Platform when it opens to non-founder members;

3. Whether your Fund has worked in partnership with other Scottish Local Government Pension Funds to invest in Scottish or UK infrastructure projects;

4. Details of the current barriers to investing in infrastructure projects.

In order for the Committee to progress its considerations I would be grateful if you could **respond by close of business on Friday 12 June**. Responses should be sent, via email, to lgr.committee@scottish.parliament.uk

If you have any questions or comments about the suitability of these arrangements, please do not hesitate to contact me.

Kind regards

Claire Menzies-Smith
Senior Assistant Clerk
Local Government and Regeneration Committee

For the attention of: Paul Garrett, Dumfries and Galloway Pension Fund; Bryan Smail, Falkirk Pension Fund; Brian Livingston, Fife Pension Fund; Derek Yule, Highland Pension Fund; Alastair Maclean, Lothian Pension Fund; Steven Whyte, North East Scotland Pension Fund & Shetland Pension Fund; Gareth Waterson, Orkney Pension Fund; David Robertson, Scottish Borders Pension Fund; Richard McIndoe, Strathclyde Pension Fund; Marjory Stewart, Tayside Pension Fund.

Please contact the Committee clerking team in the first instance.
David Cullum (0131 348 5217): Claire Menzies-Smith (0131 348 5219): Seán Wixted (0131 348 5223)
Email: lgr.committee@scottish.parliament.uk

AGENDA ITEM 10

FALKIRK COUNCIL

Subject: **INVESTMENT STRATEGY REVIEW**
Meeting: **JOINT MEETING OF THE PENSIONS COMMITTEE AND PENSION BOARD**
Date: **26 JUNE 2015**
Author: **CHIEF FINANCE OFFICER**

1. INTRODUCTION

1.1 This report provides the Committee and Board with an update on the progress of the Fund's review of investment strategy.

1.2 Appendix A to this report describes the current investment strategy, the opportunities for risk reduction and further areas for consideration.

1.3 Appendix B describes a draft terms of reference for the Investment Sub-Group which is expected to operate over the coming months.

2. BACKGROUND

2.1 At the joint meeting of Panel and Committee on 12 March 2015, an update on the progress of the Fund's review of investment strategy was presented, supported by a short paper from Hymans Robertson.

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2.2 The Committee agreed to appoint a sub-group to make recommendations regarding the implementation of the strategy, the range of asset classes, asset allocation and managers to be deployed by the Fund.

2.3 The Committee agreed to defer appointment of the sub-group until the first joint meeting of the Pensions Committee and Pension Board on 26 June 2015.

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3. INVESTMENT SUB-GROUP

3.1 It is suggested that the sub group consists of two/three individuals from the Committee supported by officers and advisers with two members of the Board also in attendance.

3.2 A meeting of the sub-group will be convened as soon as possible following the Committee meeting to plan the investment strategy review.

4. RECOMMENDATIONS

4.1 The Pensions Committee is asked:

i) to agree that an investment strategy sub-group be established to work with officers and advisers to make recommendations on the review of investment strategy to the Committee; and

ii) to appoint two/three Committee members to the sub-group.

4.2 The Pension Board is asked to nominate two members to attend the investment sub-group.

4.3 The Pensions Committee and Pension Board are asked:

i) to note the investment strategy of the Fund and the various considerations set out in Appendix A to the paper;

ii) to invite the sub-group to report to the Committee and Board in September on progress of the investment strategy review.

Chief Finance Officer

Date: 10 June 2015

Contact Officer: Alastair McGirr

LIST OF BACKGROUND PAPERS

Any person wishing to inspect the background papers listed above should telephone Falkirk 01324 506304 and ask for Alastair McGirr

June 2015

FALKIRK COUNCIL PENSION FUND – INVESTMENT STRATEGY

Introduction

This report provides an update on the Fund's strategy review and proposes some areas for further investigation.

Background

On 12 March 2015, the Chief Finance Officer presented a paper (item 7) to a joint meeting of the Panel and Committee providing an update on the progress of the Fund's review of investment strategy, supported by a paper (appendix to item 7) from Hymans Robertson.

The Committee agreed to appoint a sub-group of the Committee to make recommendations regarding the implementation of the strategy and the range of asset classes, asset allocations and managers to be deployed by the Fund. However, the Committee agreed to defer sub-group appointments until the first meeting of the Committee under the new governance arrangements.

This paper expands on some of the issues that will be considered in the review.

Work stream

Committee had previously agreed in December 2014 to proceed on the following basis sequentially:

a) Determine the level of risk that the Committee was prepared to tolerate;
b) Determine the mix of growth and defensive assets that the Fund should target;
c) Determine the mix of assets that the Fund should hold in order to meet its objectives;
d) Determine the managers who should manage these assets.

Level of Risk

The paper presented to the meeting of 12 March indicated that, based on the assessment of Hymans Robertson, the current investment strategy had the following risks:

- there was an 80% chance the Fund would be 100% (fully) funded after 20 years
- there was a 5% chance the funding level would be 50% or worse after 20 years

The paper also showed how these levels of risk changed with alternative investment strategies and how these compared with the Fund's existing strategy, which was assumed to consist of 10% defensive assets (i.e. bonds) and 90% growth assets.

June 2015

In essence, the modelling undertaken by Hymans showed that there would be no change to the probability of the Fund achieving fully funded status if it shifted to a strategy of 30% bonds and 70% growth assets. However, with this strategy the chances of not having a poor funding outcome were substantially reduced.

Hymans Robertson's view was that the Fund could take less risk and should not take more risk than it had to. It was therefore agreed to formulate a de-risking plan with implementation on a gradual basis to achieve a lower risk profile for the Fund.

Members will be aware that the Fund's funding level has fallen from 85% in March 2014 to 79% at March 2015. In these circumstances, whilst it is still prudent to have the de-risking plan in readiness, it is unlikely that the plan would be implemented in the short term.

The sub-group of the Committee should first consider the appropriate level of risk that the Fund should take to achieve the full funding objective.

Risk should be viewed in the context of both volatility and permanent capital impairment. The table below provides return expectations of one of the Fund's external managers as at 31 December 2014. It shows that some assets are expected to produce negative real returns over the next 10 years.

	10-year
Expected return on cash (UK base rate)	2.25%
Expected UK CPI inflation	2.00%

	Expected return over cash
UK Government Bonds (Gilts)	-0.45%
UK Index-linked Govt Bonds (Gilts)	-0.35%
Investment Grade (sterling)	0.55%
High Yield	1.65%
Senior Loans	2.50%
Equities	3.50%
UK Property	3.40%
Infrastructure	3.65%
Emerging Market Bonds	3.65%
Commodities	1.00%
Insurance-linked	2.75%

Source: Baillie Gifford, Dec 2014

June 2015

The next table shows estimated volatility for the Fund's assets.

Asset	Strategic Asset Allocation %	Volatility %
UK Equities	23	20
International Equities	37	22
Private Equity	5	30
UK Bonds	10	9
Diversified Growth	10	10
Property	10	14
Infrastructure	5	18
	100	

Asset Mix

The Fund's objective is to return to a fully funded status over a 20 year period.

The current strategic asset allocation adopted for the Fund by the Committee is contained in the Statement of Investment Principles (SIP) and is shown in the table below.

Asset	Strategic Asset Allocation	Underlying Assets
UK Equities	23	Growth
International Equities	37	Growth
Private Equity	5	Growth
UK Bonds	10	Bonds
Diversified Grwoth	10	Mix
Property	10	Mix
Infrastructure	5	Growth
	100%	

In considering the growth and defensive attributes of the various asset classes, it worth bearing in mind that the allocation to 'Diversified Growth' does contain a proportion of assets which are defensive in nature. Also, it could be argued that the property allocation is not entirely a growth asset as returns are derived in part from income rather than capital growth.

The table overleaf introduces a different view of the Fund using a 'look-through' basis where the underlying assets of each manager's portfolio are allocated to an asset class. There are various ways of categorising asset classes. Most simply, assets are either equity or debt ('owned' or 'loaned'). Equities have growth potential, while the returns on debt are fixed in nature. Financial market participants have introduced the term 'Alternatives' to describe a plethora of investments that they argue have different return/risk profiles than equities and bonds, although whether this is truly the case is perhaps less clear and is something that the sub-group of the Committee could consider when reviewing the Fund's asset allocation.

June 2015

Falkirk PENSION FUND 31 Mar 2015 **Fund size £1.785m**	**Manager**	**Permitted Ranges %**	**Actual Allocation %**	**Long Term Strategy Allocation %**
Equities				
Passive Equity (UK 36%/O'seas 64%)	L&G		21.6	
Active UK Equity	Schroder		12.7	
Active Global Equity	Newtons		14.0	
Active Global Equity	Aberdeen		12.7	
Listed Equity	Baillie Gifford DGF		2.7	
Total Listed Equities			63.7	
Global Private Equity	SLI/Wilshire		3.8	
Total Equities		?	**67.5**	?
Index-linked gilts (20% of pooled bond fund)	Baillie Gifford		1.6	
Total Index-Linked Assets		?	**1.6**	?
Property (Fund of funds)	Schroder		7.0	
Listed Property	Baillie Gifford DGF		0.2	
Total Property			7.2	?
Global Infrastructure	Grosvenor Capital		2.6	
UK Infrastructure	Internal		0.0	
Listed Infrastructure	Baillie Gifford DGF		0.5	
Total Other Real Assets			3.1	?
UK Corporate Debt	M&G		0.7	
Corporate bonds (50% of pooled fund)	Baillie Gifford		7.0	
Listed bonds	Baillie Gifford DGF		5.2	
Hearthstone Social	HEARTHSTONE		1.0	
Total Other Bonds			13.8	?
Others*			2.2	
Total Alternatives		?	**26.3**	?
Cash		?	**4.6**	?
TOTAL			**100.0**	**100**

* Commodities, Absolute Return. Insurance Linked, Special Opportunities, Active Currency, Recoverable Taxes within BG Diversified Growth Fund

The table highlights that there are a few key decisions to be made:

- The question marks in the right hand column suggest where a strategic allocation might be made – the broad asset classes of equities, index-linked gilts and alternatives are the main drivers of risk/return. Within the alternatives category, property, infrastructure and other bonds do have different risk/return profiles, so there could be an allocation for these too.
- The question marks in the middle column are there to suggest that permitted ranges would be a useful guide as asset values do fluctuate and the discipline of automatic rebalancing can add value. However the ranges would need to be determined at a manager level and should not be too tight, to avoid making too many unnecessary (and potentially costly) changes.
- There are two types of bond highlighted – index-linked bonds and other bonds. The former protect investors from unexpected inflation, while the latter's value erodes in real terms because of inflation. The allocation to each should be considered.

June 2015

- Private equity is separate from listed equities to highlight the different risk profile – part of the return from private equity comes from its use of leverage. The appropriate allocation should be considered in a de-risking fund.

Manager Mix

The strategic benchmark is reflected in the investment structure adopted by the Committee; this comprises a mix of segregated and pooled, and active and passive, manager mandates:

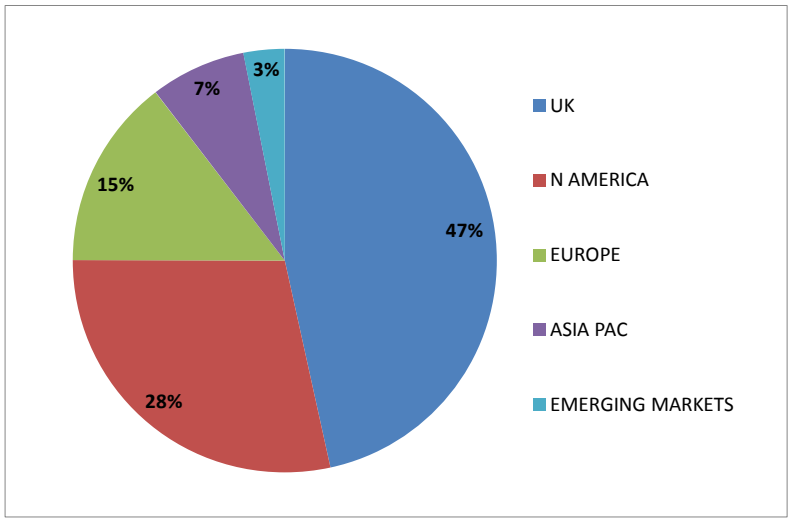
Manager	Asset	Strategic Asset Allocation %
Schroder	UK Equities	14
Legal & General	UK & International Equities	18
Aberdeen Asset Management	International Equities	14
Newton	International Equities	14
SL Capital	Private Equity	5
Wilshire	Private Equity	
Baillie Gifford	UK Bonds	10
M&G	UK Debt	
Baillie Gifford	Diversified Growth	10
Schroder	Property	10
Grosvenor Capital	Infrastructure	5
Internal	Infrastructure	
Hearthstone	Social/Affordable Housing	
		100

Geographic Mix

The nature of the Fund's strategic benchmark means that the geographic mix will vary over time dependent on the investments held on the Fund's behalf by the managers. What is clear is that the Fund invests globally to achieve good diversification, which improves the risk/return outcome. What is not clear is the precise geographic mix at any point in time because of the investments that are pooled with other investors, including Baillie Gifford's Diversified Growth Fund and the Private Equity and Infrastructure investments. This is not a concern as the Fund does not allocate by geography. Indeed, much has been written about listed equities and how irrelevant the geography of listing is compared with the geography where companies earn their profits. This tends to focus on companies that are listed in developed markets but earn substantial profits from developing markets, which have higher growth rates. Some investors prefer to invest in developed markets where governance standards are higher than in developing markets.

For interest, the chart overleaf shows a recent ***estimate*** of the Fund's geographical exposure:

June 2015



Other considerations

- Current market valuations and expected returns for different assets
- What triggers should be used to instruct changes to strategy
- Delegated authority to make changes
- The composition of the bond portfolio
- The balance between active and passive management
- The importance of benchmarks and arguments for a non-market cap passive mandate
- The review of existing managers and mandates to ensure the best alignment with the Fund's objectives. Can the Fund's overall de-risking strategy be delivered with the existing managers?
- The costs of realigning the portfolio
- The potential for further collaboration with other funds, and potentially making more internal investment, to reduce fees or to access otherwise inaccessible investments
- Scope for tactical vs strategic asset allocation

Next steps

Summer 2015	Investment Sub-Group to consider the level of risk the Fund should take and to discuss considerations highlighted above – internal team to liaise with Hymans Robertson to create an agenda
24 September	Pensions Committee and Board meeting
Autumn 2015	Sub-group meets to plan evolution of Fund to new strategy, including discussion of manager mix
10 December	Pensions Committee and Board meeting

Appendix B

Investment Strategy Sub-Group
Terms of Reference

1. Establishment

The Pensions Committee has established an Investment Sub-Group (the "Investment Advisory Group" or "IAG") to advise the Pensions Committee ("Committee") of Falkirk Council Pension Fund ("the Fund") on the 2015 investment strategy review.

2. Membership

Membership of the Investment Advisory Group will comprise:

- The Chief Finance Officer;
- The Pensions Manager;
- The Investment Manager and, if necessary, a further supporting officer of Lothian Pension Fund in their respective roles as secondees to the Fund;
- A minimum of 2 members of the Pensions Committee.

(2 members of the Pension Board may also attend the Investment Advisory Group)

The sub-group will agree a chair.

3. Meetings

Frequency: The IAG will meet on an ad hoc basis until the investment strategy review is complete and investment strategy implementation has been agreed.

Attendees: The IAG may invite any persons to attend all or part of any meeting but such invited persons shall not have a right to vote on any matter before the IAG.

Quorum: A minimum of three members is required to be present including one officer.

Decisions: The IAG should reach its decisions by consensus, however, in the event of a vote, the Chair will have a casting vote.

Papers: Papers are distributed to members at least one week in advance of any meeting (unless a shorter period is agreed by the Chair).

Minutes: Draft minutes are forwarded to members for agreement within five working days and thereafter circulated to the Convener of the Pensions Committee. These will in turn be presented at the subsequent meeting of the Pensions Committee and Board.

4. Responsibilities

The IAG is responsible for ensuring that the investment strategy review is progressed and for making recommendations to the Pensions Committee on all investment strategy issues.

This entails:

- Recommending to the Committee, the Fund's investment objectives and strategy;
- Recommending to the Committee a level of investment-related risk that is consistent with the Fund objectives;
- Identifying possible asset classes and agreeing their appropriateness for the Fund;
- Recommending to the Committee the appropriate investment management structure required to implement the Fund's investment strategy;
- Recommending to the Committee appropriate benchmarks for individual mandates/managers;
- Recommending to the Committee an implementation plan for the investment strategy;
- Recommending the parameters in which the Chief Finance Officer can implement the strategy under delegated authority.

Training

The IAG will consider the training needs of the Committee and Pension Board relating to investment strategy and recommend any training to aid discussion and decision making.

Reporting

The IAG will report to the Pensions Committee and Board quarterly until the review is complete.

5. External Investment Advice

The IAG will utilise the services of the Fund's investment adviser, Hymans Robertson as required.

Pensions Section

18th June, 2015

AGENDA ITEM 11

FALKIRK COUNCIL

Subject: **FUND MANAGER PERFORMANCE REVIEW**
Meeting: **JOINT MEETING OF THE PENSIONS COMMITTEE AND PENSION BOARD**
Date: **26 JUNE 2015**
Author: **CHIEF FINANCE OFFICER**

1. INTRODUCTION

1.1 The Local Government Pension Scheme Regulations require that Falkirk Council, as administering authority for the Pension Fund, review the investments of its managers at least once every three months, which includes an analysis of returns and risk. This paper reports on performance for the overall Fund and reviews individual manager performance and developments.

1.2 The rates of return achieved by our fund managers are measured against pre-determined benchmarks. This service is provided by the Fund's custodian, Northern Trust.

1.3 The undernoted benchmarks are in place to measure the performance of each Manager.

Fund Manager	Benchmark
Aberdeen Asset Management (AAM)	MSCI All Countries World Index
Baillie Gifford Bonds (BGB)	Customised benchmark comprising UK Fixed Interest and UK Index Linked Bonds
Baillie Gifford Diversified Growth (BGDG)	UK Bank of England Base Rate
Legal & General (L&G)	Customised benchmark comprising UK and Overseas Equities
Newton Investment Management (NIM)	FTSE All World Index
Schroder Investment Management (SIM) UK Equities	FTSE All Share Index
Schroder Investment Management (SIM) Property	AREF/IPD UK Quarterly Property Fund Indices

1.4 Full details of each Manager's portfolio activity and any engagement with companies on corporate governance issues are recorded in their individual quarterly investment reports, which are enclosed.

2. MARKET REVIEW AND OUTLOOK

2.1 A key feature of markets in the first quarter of 2015 was the strength of the US Dollar. With the dollar rising almost 5% against sterling, financial market returns in sterling terms were boosted as US assets represent a significant part of overseas holdings for most funds, including Falkirk's. A smaller part of the Fund is invested in Chinese equities, but the performance of the Shanghai Composite Index is worthy of note as it rose by 22% in Sterling terms – it has more than doubled over the last 9 months despite slowing economic growth as interest rates have been cut.

2.2 Over the course of 2015 global growth is expected to be approximately 3% in line with last year, but the momentum in forecasts continues to drift gently downwards. A weather-related weak first quarter in the USA, the world's largest economy (only 0.2% quarter on quarter growth) led to forecasts being cut from 3.5% to 2.5% for the full year.

2.3 On a positive note, equity investors were cheered by an unanticipated recovery in the Eurozone economies, and also by further monetary and fiscal easing in China, which should help to stabilise this heavyweight economy. The picture in Japan and most emerging markets is more mixed, and India is the only major developing country with a particularly positive economic outlook.

2.4 The deflationary scare that gripped asset markets during the final quarter of 2014 has somewhat dissipated as the Brent oil price rebounded from a low of around $46 per barrel in mid-January to its current level of $63. The turnaround in European economies (forecast growth of 1.5% in 2015) and the reversal of the deflationary sentiment caused an unsettling correction in European bond markets.

2.5 Consensus forecasts are for an increase in US interest rates later in 2015, although the timing continues to be pushed back. Unemployment has fallen from a peak of 10% to 5.5% since the global financial crisis. Growing wage pressure is expected to spur the Federal Reserve into action. Elsewhere in the world disinflationary pressures still predominate, so there is almost no prospect of tighter monetary policies in the immediate future except perhaps in the UK and struggling economies such as Brazil and Turkey.

2.6 US dollar strength against most world currencies peaked in April, but many investors believe that an increase in US interest rates could lead to renewed strengthening. Geopolitical risks such as the possible exit of Greece from the Eurozone, Chinese expansion in the South China Sea or a further deterioration in the Ukrainian situation would also be expected to favour the safe haven of the dollar.

2.7 Risks to the world economy and asset prices are to be found in the normalisation of US interest rate policy, poor liquidity in asset markets, and high and increasing debt levels. These uncertainties are unlikely to have an impact in the near future, and should be amenable to corrective policies if they do actually materialise.

2.8 Liquidity flows continue to dominate markets and investor sentiment, and the quest for yield continues. World stock markets are no longer cheap, but still offer superior opportunities to bond prices that have been boosted by expansionary conventional and unconventional monetary policies.

3. ANALYSIS OF PERFORMANCE RESULTS

3.1 The total fund and individual external manager returns are shown in the table in Appendix 1. The returns for the quarter ending 31 March 2015 are shown, but this is a very short period to measure performance. It simply reflects the regular reporting cycle. Each manager has been set its own individual investment objective, which depends on the type of mandate awarded. Each active manager is tasked with outperforming their benchmark over either three or five year periods. The table in Appendix 1 incorporates the relevant return and benchmark data and the excess return relative to the manager's benchmark and outperformance objective. More detail on individual manager mandates and objectives can be found in Appendix 2.

3.2 Global equity market indices returned +7.5% in sterling terms over the first quarter of 2015. The FTSE All Stock gilt index rose 2.2% and the FTSE Index Linked gilt index returned 2.9%. The Fund's UK commercial property benchmark index rose +2.8%.

3.3 The overall Fund's return of +5.0% over the quarter was ahead of the benchmark return by 0.4%. Over the 3 year period the Fund benefited from equity market strength, Newton's (NIM) outperformance in global equities, Schroder's (SIM) outperformance in UK equities and Baillie Gifford's (BG) outperformance of the cash benchmark, rising +12.0% per annum compared with the benchmark return of +9.8% per annum, an excess return of +2.2% per annum. Long term return data shows Fund appreciation of +9.7% per annum over 5 years and +7.6% per annum since September 2001. These long term returns are above the benchmark returns.

3.4 Over the first quarter of 2015, the returns of the Fund's three active equity managers ranged from +4.9% to +8.7%. SIM and NIM outperformed their respective benchmarks, while Aberdeen (AAM) underperformed. The Fund's passive equity manager, Legal and General, produced a return of +7.0%, in line with its benchmark return, and so consistent with its mandate.

The return from BG's bond mandate was +2.7%, behind its benchmark by 0.3%. BG's other mandate, the Diversified Growth portfolio, rose 3.5%, ahead of its benchmark by 3.4%.

The property portfolio managed by SIM lagged its benchmark by 0.3%, but rose 2.5% in absolute terms.

3.5 Longer term return data shows that SIM's UK equity portfolio is comfortably ahead of its objective of +1.25% per annum above the benchmark over the 3 year period and since inception.

NIM's global equity mandate stipulates an objective of +3% per annum above the benchmark over 5 year rolling periods. Returns over the past 5 years and since inception have beaten the benchmark, but they have not quite achieved the objective.

The AAM mandate objective is +3% per annum outperformance over 3 year rolling periods. Performance is lagging the benchmark and the objective by a wide margin over 3 years and since inception, albeit the manager retains the strong endorsement of the investment adviser.

The performance of BG's bond mandate is essentially in line with its benchmark since inception in 2007, but the 3 and 5 year performance have been very strong. The excess return over the benchmark of +1.2% per annum comfortably exceeds the objective of +0.9% per annum over rolling 3 year periods.

SIM's property performance has been disappointing in recent years, and this has reversed positive results in the early years of the mandate. Since inception in 2005, a period of low returns for commercial property owners, the portfolio has performed in line with its benchmark, but has fallen short of the objective by 0.7% per annum.

4. CONCLUSION

4.1 The quarter experienced two key developments which had a soothing effect on markets, namely a stabilising of oil prices and an unexpectedly ambitious bond buying initiative from the ECB. Improving levels of job creation and falling unemployment have led to a sharp strengthening in the US dollar and an increased likelihood in US interest rate rises.

4.2 The Fund achieved a return of 5% during the quarter outperforming its benchmark by 0.4%. This was led by a strong performance from Newton and solid performances from Schroder UK Equities and Baillie Gifford's Diversified Growth Fund. Schroder Property and Baillie Gifford Bonds fell just short of achieving the quarterly benchmark. However, Aberdeen's performance was again well below benchmark, albeit that, for the moment they retain the confidence and endorsement of Hymans Robertson, the Fund's investment adviser. In the circumstances, Aberdeen have been asked to present to the joint meeting of Committee and Board on 26 June.

5. RECOMMENDATIONS

5.1 The Committee is asked to note:-

(i) the Managers' performance for the period ending 31 March, 2015; and

(ii) the action taken by Managers during the quarter to 31 March, 2015 in accordance with their investment policies.

Chief Finance Officer

Date: 10 June 2015

Contact Officer: Alastair McGirr

LIST OF BACKGROUND PAPERS

1. The Northern Trust Company – Fund Analytics 31 March 2015

Any person wishing to inspect the background papers listed above should telephone Falkirk 01324 506304 and ask for Alastair McGirr

APPENDIX 1 – PERFORMANCE MEASUREMENT (RATES OF RETURN)

Rates of Return by Manager with Excess Returns - 31 March 2015

Manager	Market Value £	Weight	Returns 3 months	3 year	5 year	Since inception	Inception Date
Aberdeen Portfolio	234,460,332	13.2%	5.2%	9.8%	-	9.6%	May-10
Benchmark			7.6%	14.1%	-	10.7%	
Excess Versus Benchmark			**-2.4%**	**-4.3%**	**-**	**-1.2%**	
Excess Versus Objective			**-**	-7.3%	**-**	-4.2%	
Baillie Gifford Bond Portfolio	155,361,175	8.7%	2.7%	9.0%	9.6%	7.2%	Mar-07
Benchmark			3.0%	7.8%	8.4%	7.4%	
Excess Versus Benchmark			**-0.3%**	**1.2%**	**1.1%**	**-0.2%**	
Excess Versus Objective				**0.3%**	**0.2%**	**-1.1%**	
Baillie Gifford Diversified Growth	206,044,737	11.6%	3.5%	7.2%	-	7.5%	Feb-12
Benchmark			0.1%	0.5%	-	0.5%	
Excess Versus Benchmark			**3.4%**	**6.7%**	**-**	**7.0%**	
Excess Versus Objective *			**-**	**-**	**-**	3.5%	
Legal & General	377,582,240	21.2%	7.0%	13.4%	9.8%	14.7%	Jan-09
Benchmark			7.0%	13.3%	9.7%	14.6%	
Excess Versus Benchmark			**0.0%**	**0.1%**	**0.1%**	**0.1%**	
Excess Versus Objective			**-**	**0.1%**	**0.1%**	**0.1%**	
Newton	275,315,700	15.5%	8.7%	16.1%	11.8%	9.8%	Jun-06
Benchmark			7.7%	14.2%	10.0%	8.7%	
Excess Versus Benchmark			**1.1%**	**1.9%**	**1.8%**	**1.1%**	
Excess Versus Objective			**-**	**-**	**-1.2%**	**-1.9%**	
Schroders UK Equity	241,109,512	13.5%	4.9%	16.6%	11.5%	9.5%	Sep-01
Benchmark			4.7%	10.6%	8.3%	7.1%	
Excess Versus Benchmark			**0.3%**	**6.0%**	**3.2%**	**2.5%**	
Excess Versus Objective			**-**	**4.8%**	**1.9%**	**1.2%**	
Schroders Property	129,433,476	7.3%	2.5%	8.9%	7.3%	3.1%	Nov-05
Benchmark			2.8%	9.4%	8.5%	3.2%	
Excess Versus Benchmark			**-0.3%**	**-0.6%**	**-1.2%**	**-0.1%**	
Excess Versus Objective			**-**	**-1.3%**	**-2.0%**	**-0.8%**	
Total Fund	1,780,639,246	100.0%	5.0%	12.0%	9.7%	7.6%	Sep-01
Benchmark			4.6%	9.8%	7.9%	7.2%	
Excess Return			**0.4%**	**2.2%**	**1.8%**	**0.4%**	

*** Note that objectives are set over 3 or 5 year periods.**

There are small rounding effects in the table above.

APPENDIX 2 - INVESTMENT MANAGER COMMENTS

Aberdeen Global Equity

(13.2% of Total Fund)

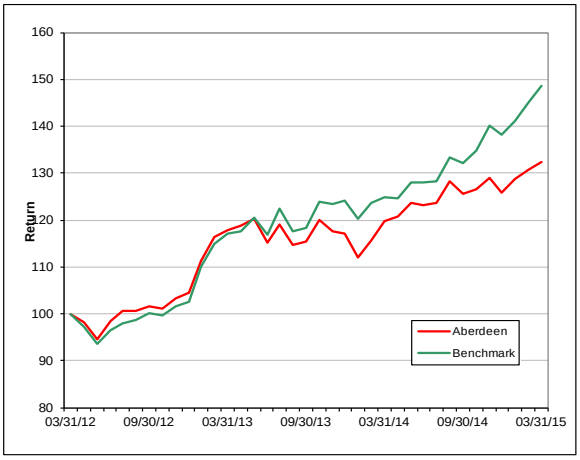
Investment Approach:

High conviction, research-driven house. Only invest in companies they have met. Regional teams produce Global buy list of 330 stocks. Global team carries out comparative analysis and produces model portfolio of 50 stocks from which team must build portfolio. Long-term horizon, trading highly price-sensitive.

Investment Objective:

To outperform the MSCI AC World Index in sterling by 3% per annum, gross of fees, over rolling 3 year periods (inception date 16 May 2010)

3 Year Performance to 31 March 2015



Q1 2015	:	-2.4% excess return
3 Years	:	-4.3% excess return
Since inception	:	-1.2% p.a. excess return

Summary

Poor 3 year performance continues and outflows of ~30% in last 2 years could be exacerbating the situation. Since inception performance is now deteriorating too.

Portfolio

A concentrated portfolio of 50 stocks should be able to achieve its objectives - it is largely unconstrained. No single investment more than 5% of the portfolio is allowed, but sector and country limits are wide (+/-15% for sectors and +/-35% for countries allowed). Cash currently at 3.2%.

Sector and country positioning remains defensive and stable. N. America represents 55% of the benchmark, but the portfolio is u/w by 18%. The fund is o/w the UK (+8%), Europe ex-UK (+4%, with Switzerland +8%), and LatAm (+5%). By sector, the portfolio remains o/w consumer staples (+8%), and has high relative exposure to energy (+3.5%). The exposure to cyclical earnings has increased, with materials and industrials now overweight (in contrast to 2 years ago), although exposure to consumer discretionary remains low. The underrepresentation of financials has grown. The portfolio continues to perform poorly in strong equity markets, but its defensive tilt should help protect it in the event of equity markets falling. Aberdeen's views remain ever cautious, especially on US market valuations although the US weight is the highest in several years following 2 new US buys in the quarter (TJX & Cognizant). There was also 1 new UK buy (Experian).

In Q1, the portfolio managed to return a healthy 5.2%, but this lagged the index return by a meaningful 2.4%, due to overweight position in Brazil (which fell 10%), and poor stock selection in both Brazil and the US. By sector, the underperformance was attributable to poor stock selection in materials, healthcare and consumer discretionary sectors, offset by positive selection in industrials. There was also a drag from the underweight position in consumer discretionary stocks, which performed well. Positive stock contributions came from Fanuc (which rose 39%), Atlas Copco and CVS Health, but these were overshadowed by disappointments from Brazilian stocks Vale (which fell 30%) and Banco Bradesco, as well as Royal Dutch Shell, Potash Corp and Philip Morris.

Aberdeen continue to follow their process investing in good quality companies with lower than average levels of debt and relatively stable earnings/cash flows. However, poor 3 year performance means there is a heightened risk of flows turning decisively negative, not least because consultants may well revisit Aberdeen's position on their 'buy' lists. We estimate that Aberdeen's Global strategies have already "lost" 29% of their performance-adjusted AuM over the last 2 years and arguably outflows are now driving (or at least exacerbating) the underperformance. Portfolio activity picked up, with 3 new stocks this quarter (see above), funded from sales in ENI and Centrica, and reductions in various staples.

Key considerations/developments

Ownership has not changed; the **client base** looks stable due to segregated fund client inertia yet AuM has declined ~30% over last 2 years as pooled fund assets steadily withdrawn (£2.3bn lost in Q1); the **investment process** has not changed/is standardised across equity products although relies on country/regional team picks for opportunity set. Cross-fertilisation of ideas and team-led approach key selling points. Stable, well-resourced and experienced **investment team** (6 most senior team members average >19 years in industry and >12 years at Aberdeen), backed up by extensive and experienced regional teams.

Baillie Gifford Bonds

(8.7% of Total Fund)

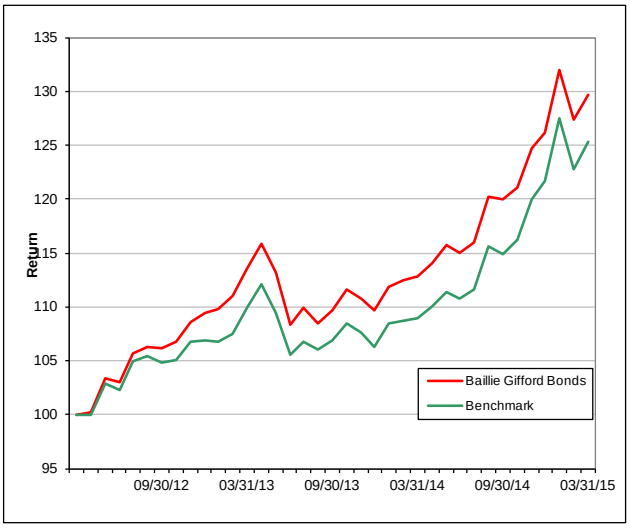
Investment Approach:

Baillie Gifford employs fundamental analysis to identify sustainable trends. It believes that there are inefficiencies that can be exploited in the areas of stock selection and interest rate and currency strategies.

Investment Objective:

To outperform a customised benchmark comprising index-linked gilts, conventional gilts and investment grade bonds by 0.9% per annum net of fees over rolling 3 year periods (inception date 30 March 2007).

3 Year Performance to 31 March 2015



Q1 2015	: - 0.2% excess return
3 Year	: + 1.2% p.a. excess return
Since inception	: - 0.2% p.a. excess return

Summary

Despite weakness in recent quarters, still a good 3 and 5 year performance, ahead of the objective by 0.3% pa and 0.2% pa respectively.

Portfolio

The portfolio has a customised benchmark (20% FT-Actuaries Over 5 Years Index Linked Gilt Index, 30% FT-Actuaries All Gilts, 50% Merrill Lynch Sterling Non-Gilt Index). Baillie Gifford (BG) invests in three BG Funds on a no-fees basis to achieve the appropriate exposure.

Although the exceptional returns of Q4 2014 could not be repeated, bonds still had yet another good quarter. With UK inflation reaching zero and the search for yield at virtually any price continuing, Corporate Bonds returned 3.3% over the quarter as the spread to Government bonds, which returned 2.2%, narrowed. Index Linked Gilts also returned 3.3%.

In relative terms, the portfolio underperformed slightly returning 2.7% compared with 3.0% for the benchmark. Currency was a marginal positive, a significant turnaround from the previous quarter's -1.1% contribution. Although the manager had expressed conviction in overweight positions in Mexico and Colombia, the latter position was closed off along with the Norwegian exposure due to the effect of the falling oil price. The portfolio's largest positions are now 5.8% long US Dollar and 2.4% long Mexican Peso offset by a 3.1% short position in the Euro and 2.0% in the Thai Baht.

Last quarter, the Rates and Currency Team were reassessing the weight it placed on political considerations. This has resulted in strengthened global macro factors in the country model, but has not resulted in any significant change to the current portfolio positioning.

The two largest Brazilian bonds, Votorantim Cimentos and Odebrecht, were the worst performers over both a 3 and 12 month period. Both have now been sold. The longer dated Brazilian Index Linked Bond holding was also reduced. The manager no longer holds any positions in Emerging Market Credit – risk in this category is not priced appropriately. More generally, Credit is considered to be about fair value.

The tracking error increased from 0.79% to 0.88%, with Stock Selection now accounting for 58% of the risk relative to the benchmark (Q4: 47%). Currency has reduced from 32% to 20% of the portfolio risk.

Key considerations/developments

Baillie Gifford is a long established, reputable partnership; the client base is stable and the investment process has not changed. Assets under management in the sterling aggregate product decreased from £732m to £684m over the quarter. The manager had previously intimated the loss of two clients (£60m) from the Fund, one a small client transitioning to an LDI approach, and the other simply reducing their Bond exposure.

Baillie Gifford Diversified Growth

(11.6% of Total Fund)

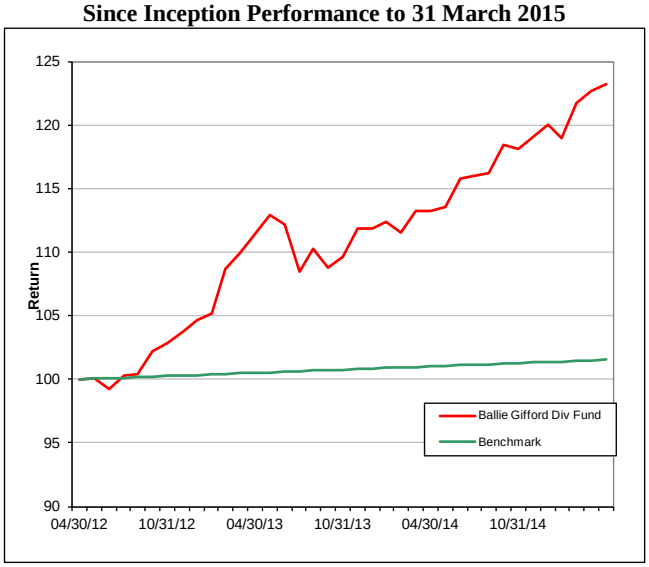
Investment Approach:

Baillie Gifford invests in a broad range of traditional and alternative asset classes, such as equities, bonds, property, private equity, infrastructure, commodities and currencies, adjusting portfolio weightings to reflect the relative attractiveness of the individual assets.

Investment Objective:

Objective: to outperform the UK base rate by at least 3.5% per annum (after fees) over rolling five year periods with an annual volatility of less than 10%. (Inception date 2 February 2012)

Since Inception Performance to 31 March 2015



Q1 2015	: +3.4% relative to base rate
1 Year	: +8.3% relative to base rate
Since inception	: +7.0% relative to base rate

Summary

Co-head of team resigned Jan 2015. As ex Head of Risk at BG, this is a concern as the target return from here may be too high and estimated risk may be too low - notably "Active Currency" at minus "-1.7% of predicted volatility".

Portfolio

"Active Currency" risk is now stated at "-0.3% of assets" and "-1.7% of predicted volatility" - very low given that it was the second biggest contributor to return in Q1, and in Q4 and Q3 it was by far the largest contributor to return. The net long and short FX positions are both around 40% of the fund, so total FX exposure is around 80% of the fund – again by far the largest asset exposure. Q1 trading was £309m equity, £561m bonds and £14,618m FX forwards. The stated risk underestimates possible FX losses/gains.

Insurance Linked bonds are 5.2% of the fund but are quoted at "0.4" of the risk. This also seems an extraordinarily low figure for what is essentially writing "catastrophe" insurance. The manager claims not to have major exposure to any one catastrophe risk.

Net performance has beaten the modest cash + 3.5% pa target since inception, but the manager forecasts "lower returns than in recent years": no asset class is forecast to achieve cash +3.5% pa net.

The stated predicted volatility is now 6.3% - with 61% of this from (listed and private) equities, which are 23% of fund. Targeted maximum volatility is 10%. (Global equities are 17.1%).

Key considerations/developments

Mike Brooks – co-head of team – resigned 21st January and left the firm in March. But there is no stated intention to change the process. There are 3 remaining members of the team and they are "having a chat" with potential replacements, but apparently in no hurry to make additions.

With 5.9% invested in the "Baillie Gifford Global Alpha" fund, the changes here might be a concern: Charlie Plowden leaves on a 3 month sabbatical just as this team integrates c£1bn of Monks' AuM.

After 0.7% charges, none of the manager's 10-year expected returns on any asset class now meet the net fund performance target of cash plus 3.5% net.

Baillie Gifford announced £5bn "capacity" in the strategy in Q4 2012, and "closure to all new clients" in June 2013. In Q1 2015 clients fell by 4 to 239. But on £40m more net inflows, assets increased to £5.96bn - £992m net inflows since this "closure".

Newton Global Thematic Equity

(15.5% of Total Fund)

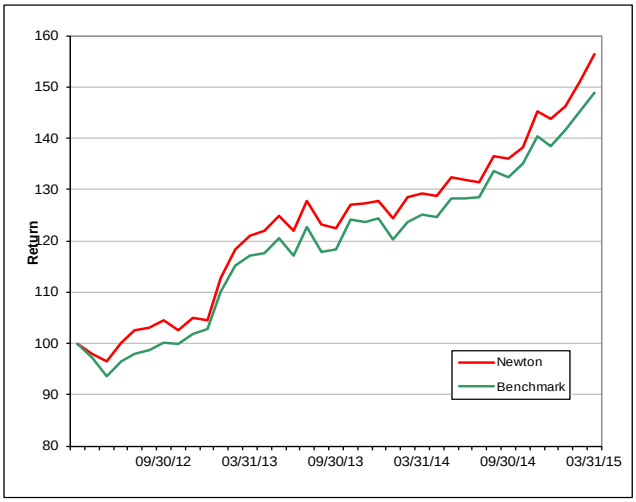
Investment Approach:

Newton identifies structural trends to gain perspective on the important risks and opportunities in investment markets. This thematic framework drives stock selection, which results in a concentrated portfolio.

Investment Objective:

To outperform FTSE All World Index by 3% per annum (net of fees) over rolling 5 year periods (inception date 30 June 2006)

3 Year Performance to 31 March 2015



Q1 2015	: +1.1% excess return
5 Years	: +1.8% p.a. excess return
Since inception	: +1.1% p.a. excess return

Summary

Portfolio is ahead of benchmark since inception, but is well short of meeting objective, especially net of fees. It is creditable that the portfolio has beaten the index return over the 5 year bull market as it has been constructed to take advantage of weak equity markets.

Portfolio

The portfolio is concentrated in just 44 stocks, indicating that it should be able to achieve its objectives. This is an equity portfolio, but the manager is able to hold up to 10% in cash. The manager continues to take a very defensive stance and cash (mostly short term US Treasuries) was 9.4% at quarter end.

Stock ideas flow from Newton's themes, which include deleveraging, financial concentration and growing Chinese influence. The portfolio is characterised by companies with stable earnings, strong cash flows, competitive advantages, inflation linkage, innovation, exposure to growth economies, good management & governance and attractive valuation.

Little change to geographic or sector positioning. The portfolio remains overweight Europe/UK (+9%) equities and cash (+9%), and underweight all other regions. It continues to have high exposure to companies in the consumer services sector, while financials and oil & gas companies are still significantly under-represented. The portfolio is 6% overweight industrials compared to a 6% underweight a year ago while the consumer goods sector exposure has been sharply cut in favour of consumer services. Oil and gas and basic materials weights have also been cut over the last year. The portfolio's high cash position should continue to protect it if equity markets fall, but there is less of a defensive tilt due to the underrepresentation of cyclical stocks in the portfolio than previously.

The portfolio beat its benchmark again in Q1, mainly due to excellent stock selection in the US. The portfolio's underweight exposure to Oil & Gas was again a key benefit, while stock selection in financials (Equifax, AIA), consumer goods (Kraft, Japan Tobacco) and consumer services (Walgreen Alliance Boots) was positive. Stock selection in industrials (Trimble Navigation) and telecoms detracted from relative performance, as did the high cash/bond position (mitigated somewhat by the FX gain from holding US Treasuries). During the quarter, TripAdvisor and Vivendi were added to the portfolio; Yamana Gold, Continental and GlaxoSmithKline were sold outright.

Key considerations/developments

Newton remains one of Bank of New York Mellon's asset management subsidiaries based in London; the investment process is unchanged since a review in 2011/12 when personnel changes were made; the client base is stable (no flows in or out).

Schroders UK Equity

(13.5% of Total Fund)

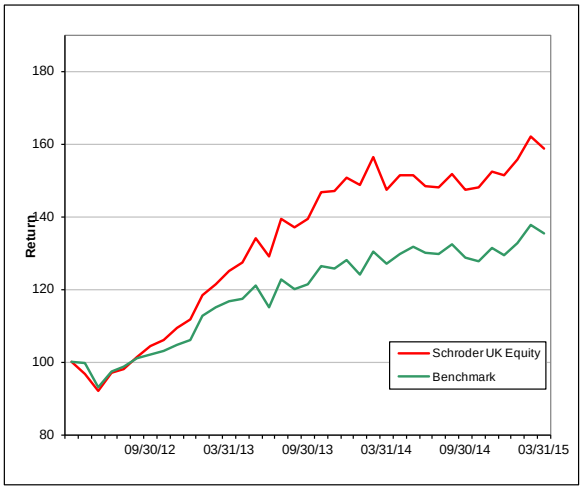
Investment Approach:

Schroder seek to identify stocks which trade at a substantial discount to their intrinsic value and where they believe that profits will surpass expectations. The investment style can be categorised as "value".

Investment Objective:

To outperform FTSE All Share Index by 1.25% per annum (net of fees) over 3 year rolling periods (inception date 30 September 2001)

3 Year Performance to 31 March 2015



Q1 2015	: +0.3% excess return
3 Year	: +6.0% p.a. excess return
Since inception	: +2.5% p.a. excess return

Summary

Modest outperformance in Q1. The manager is comfortably ahead of the objective over 3 years. Clearly articulated strategy with stable ownership, client base and investment team.

Portfolio

The portfolio of 38 stocks deviates from the benchmark meaningfully, which means that the objective should be achievable, but the return profile is likely to be highly variable. Active sector positions are very similar to last quarter. The portfolio retains an overweight position in the food & drug retailers and life insurance sectors, while mining is the biggest underweight.

Tesco, Friends Life and ICAP were the biggest positive contributors to relative returns in the quarter while positions in Royal Bank Of Scotland and Home Retail were the biggest detractors.

The message from the manager is a consistent one. With the market at an all time high, they find it difficult to find new opportunities with the appropriate risk and reward characteristics. As such, cash remains elevated at ~6.7% of the portfolio (~7% if we include cash within the Recovery Fund). The team stress the importance of sticking to the process and are confident that the value discipline will result in outperformance of the broader market.

A significant proportion of the quarterly report is dedicated to the idea that consistent long term results require a disciplined, repeatable process, while short term outcomes are driven by luck. With cyclically adjusted P/E's (CAPE) somewhat above long term averages, this suggests "reasonable" returns on a 10 year view. It would seem that a 7% cash position is a short term call on the market rather than a focus on the long term discipline.

A significant proportion of the team's time was spent looking more closely at the basic materials sector. While it screens as undervalued looking at 10 year CAPE, the team prefer to use an extended period of 20 years for this sector. Schroders added to Anglo American in the quarter but feel Rio & BHP are not currently attractive enough. A new position was initiated in Drax (UK coal-fired power generator) where a number of headwinds have pressured the share price and the team see long term value. Profits were taken in retailer Dixons Carphone which has performed very well in recent years.

Key considerations/developments

Schroders is a publicly listed asset management company, which is still controlled by the family; the client base is fairly stable and investment process has not changed. UK Value product, in which Falkirk is invested, runs approximately £5.8bn in assets split roughly 1/3rd institutional and 2/3rd retail. Stable investment team, demonstrates conviction in its investment approach. Cautious on UK valuations.

Schroders Property Multi-Manager

(7.3% of Total Fund)

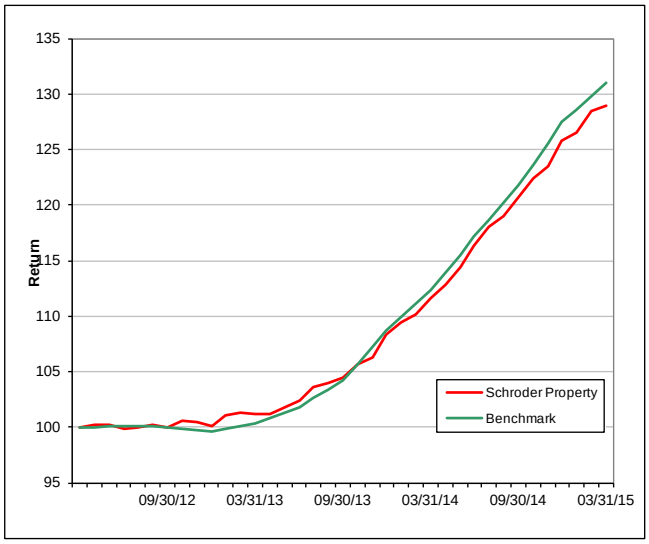
Investment Approach:

Schroders runs a segregated mandate providing a multi-manager portfolio of property funds. The manager seeks to identify attractive property markets and property funds with skilled managers, some of which are sector specialists.

Investment Objective:

To outperform IPD UK Pooled / Quarterly Property All Balanced Funds Weighted Average Index by 0.75% per annum (net of fees) over 3 year rolling periods (inception date 30 November 2005)

3 Year Performance to 31 March 2015



Q1 2015	: -0.3% excess return
3 Year	: -0.6% p.a. excess return
Since inception	: -0.1% p.a. excess return

Summary

Latest 3 year performance remains weak relative (-0.6% pa), but strong absolute (+8.9% pa). In line with the benchmark since inception, but less than the objective. Portfolio has been restructured and is now positioned for the future.

Portfolio

The portfolio is comprised of a diverse group of 15 funds investing in property assets largely in the UK (96%). The portfolio is valued at £130.5m. High transactional activities have impacted the short term performance.

The manager has re-positioned away from London offices and has made commitments for investing in industrial property (via a new partnership managed by a specialist at Jones Lang), which will utilise cash holdings.

Continental Europe now amounts to 4% of the portfolio. It finally produced a positive return due to asset disposals, but the positive return was offset by EUR/GBP depreciation. (Recap in '06-07, 10% of the portfolio was committed to Europe.) The poor three year relative performance has been dominated by this exposure, which is not in the benchmark. Schroders is expecting the recovery in Europe will continue and plans to hold the exposures till maturity (2018).

The portfolio's risk profile has been rebalanced through greater investment in low geared, core balanced property funds and those funds targeting an income focussed approach. As a result, the manager believes the portfolio is well positioned for the current investment environment, in which the income yield on property is very competitive with government bonds.

Given a constructive outlook, the manager targets to hold minimal amounts of cash, which will be 0.2% after the above commitments have been drawn (2.2% as of 31/03/2015).

Key considerations/developments

Schroders is a publicly listed asset management company, which is still controlled by the family; the **client base** is fairly stable and the **investment process** has not changed. The **investment team** appears to be stable, but the poor performance has put it on the defensive.

Schroders' real estate return forecast for the next 3 years is 15%, 7.5% and 0%.

APPENDIX 3 – GLOSSARY

Benchmark - The yardstick used to measure the success and structure of a portfolio. All managers are measured against benchmarks. Passive managers are tasked with producing returns that are the same as the benchmark. Active managers are tasked with producing returns that are higher than the benchmark.

Benchmark return - Identifies the total return of the benchmark for the identified period. Return numbers for periods of one year or less show the actual return over the period. Returns for periods of greater than one year are annualised returns - they show the return per annum (%pa).

Dividend Yield - The dividend a company pays divided by its current price.

Duration - A measure of the sensitivity to interest rates of bonds. It identifies the approximate percentage change in a bond's price for a 100 basis point change in yield

Excess Return - Is the out / underperformance of the portfolio relative to the benchmark for the identified period. Return numbers for periods of one year or less show the actual return over the period. Returns for periods of greater than one year are annualised returns - they show the return per annum (%pa).

Investment Objective – All managers (and the Fund) are set investment objectives, which are related to a specific benchmark. The investment objective for a passive manager is to match the returns of the benchmark. The investment objective for an active manager is to exceed the returns of the benchmark by a pre-determined percentage per annum over a pre-determined period.

Market value (£) - Identifies the total market value of the portfolio / Fund

Portfolio return - Identifies the total time weighted rate of return of the assets of the portfolio for the identified period. Returns for periods up to 12 months are the return over that period. Returns for periods longer than 12 months are annualised returns – they show the return per annum (%pa).

Turnover - Is the level of purchases and sales for the period. High turnover is generally regarded as bad because trading costs are incurred.

AGENDA ITEM 12

FALKIRK COUNCIL

Subject: **PRIVATE EQUITY AND ALTERNATIVES UPDATE**
Meeting: **JOINT MEETING OF THE PENSIONS COMMITTEE AND PENSION BOARD**
Date: **26 JUNE 2015**
Author: **CHIEF FINANCE OFFICER**

1. INTRODUCTION

1.1 This report updates the Committee and Board on the progress and key events arising from each Manager's investment programme for the three months to 31 March 2015.

1.2 The Fund's private equity and alternatives programme is managed as follows:

SL Capital (Standard Life)	-	European Private Equity
Wilshire Associates	-	Global Private Equity
Grosvenor Capital	-	Global Infrastructure
M&G	-	Credit Markets
Hearthstone	-	Social and Affordable Housing

1.3 The Fund's strategic allocation to private equity and alternatives (excluding the allocation to the Baillie Gifford Diversified Growth Fund) is set at 10% of total fund assets. This is split 5% to private equity and 5% to infrastructure.

1.4 The attached schedules give details of the current valuations and commitment levels in both the original currencies and summarised in Sterling.

2. SL CAPITAL PARTNERS

2.1 SL Capital is a subsidiary of Standard Life Investments, who in turn own 60% of the business. The remaining 40% is owned by 8 partners.

2.2 The Fund's overall commitment to SL Capital is €102m spread across four European Investment Funds – ESP 2004, ESP 2006, ESP 2008 and ESF 1 – all being fund of fund structures. The partnerships have been established for 14 years from the final close of each Fund.

2.3 In Q1, all funds outperformed the MSCI Europe Index of -0.1%, returning between 2% and 4.3%. Total value to paid-in capital across the SL funds is now around 1.2 and returns from the more mature funds around 4%.

2.4 During the quarter €2.4m was returned, mainly from the 2004 and 2006 Funds. Funds drawdown amounted to £1.5m of which £1m related to the ESF 1 Fund. SL have now drawn down 75% of the total commitment of €102m.

2.5 Highlights included increases in the value of co-investments Sunrise Medical, Delachaux and the Loch Lomond Whisky Group. In the ESF 1 Fund, five new fund commitments were Auctus IV, Capiton V, Energy Ventures Private Equity V, Herkules Private Equity IV, Sherpa Capital Fund II.

2.6 The Manager's perspective at the end of 2014/15 is that ESP 2004 and 2006 have delivered strong growth in the unrealised segment of these portfolios (16% and 21% respectively), however overall returns are still less than expected due to headwinds dating back to the financial crisis. ESP 2008 and ESF1 have made more positive progress and are well placed to generate strong returns.

3. WILSHIRE ASSOCIATES

3.1 The Fund has made various commitments to Wilshire Associates as follows:

European Funds	-	€10.9m
Dollar Funds		$72.0m

3.2 90% of the Euro funds and 75% of the dollar funds have been drawndown.

3.3 In their quarterly update, Wilshire note that exits from private equity investments continue to attract high valuations based on the current availability of credit and that such valuations are unsustainable.

3.4 Following on from a subdued Q4, Q1 remained quiet for Wilshire with virtually no calls or distributions from the Euro funds. The dollar funds were again more active with calls of $0.3m and distributions of $1.2m. Total value to paid-in capital remains around 1.4 for most Wilshire funds.

4. GROSVENOR CAPITAL

4.1 The Fund's global infrastructure investments are made via a commitment of $80m to the Customised Infrastructure Strategies (CIS) Fund managed by the Grosvenor Capital Customised Fund Investment Group (CFIG).

4.2 The CIS Fund seeks to generate attractive risk-adjusted returns by investing in a diversified range of infrastructure funds, co-investments and secondaries.

4.3 During the quarter, $2m was returned and $1m called. The distributions arose following transactional activity with a series of infrastructure funds including KKR, Highstar and Dalmore. Of the original commitment of $80m, 86% has now been drawn-down. Capital continues to be deployed rapidly and total value is currently close to 1.3.

4.4 As previously outlined, Grosvenor Capital is fund raising for a second global infrastructure fund.

5. M&G UK COMPANIES FINANCING FUNDS

5.1 The M&G UK Companies Financing Funds provide the Fund with exposure to UK credit markets. The Funds play a valuable role in providing debt financing to UK companies facing refinancing obstacles. The aim of the Funds is to create attractive levels of income for investors – an absolute return of LIBOR plus 3%-6% - with a low level of risk.

5.2 Falkirk's commitment to the M&G Funds is £11.8m to Fund I and £10m to Fund II. Fund I has been fully invested and Fund II is in the process of being drawn down.

5.3 For Fund 1, the portfolio consists of 8 loans with an average repayment period of 4.5 years and average credit rating of BB+. Loans have been made to companies such as Barrett, Taylor Wimpey, Wincanton and Provident Financial. The net annualised return is 4.5%.

5.4 For Fund II, the portfolio also consists of 8 loans but with an average repayment period of 6 years. This includes loans to Caffe Nero, Holidaybreak Limited and Workplace Group plc. The net annualised return is 3.5% with 60% of committed funds remaining to be drawndown.

5.5 All loans continue to be paid in accordance with their covenants.

6. HEARTHSTONE SOCIAL AND AFFORDABLE HOUSING

6.1 Details of this mandate have been provided in the General Governance Report.

7. CONCLUSION

7.1 The investment outlook of the Fund's private equity managers is neutral in terms of Europe and mildly optimistic in terms of US markets. It was noted that Q1 of 2015 had been the slowest in terms of private equity deal volume and activity for a number of years notwithstanding that the first quarter of a new year is traditionally quieter. In the US, the managers remains cautious about high valuations.

8. RECOMMENDATIONS

8.1 The Committee and Board are asked to note the progress of the Fund's Alternatives investments as at 31 March 2015 and invited to comment as appropriate.

Chief Finance Officer

Date: 10 June 2015

Contact Officer: Alastair McGirr

LIST OF BACKGROUND PAPERS

NIL

Appendix A

Falkirk Council Pension Fund
Alternative Markets Update - 31/03/15

Alternative Assets Summary - Original Currency

Manager	Fund	Commitment 000's	Unfunded 000's	(a) Cost 000's	(b) Return of Cost 000's	(c) Distrbtn Gains 000's	(d) Market Value 000's	(b + c + d) Total Value 000's	Total Value to Paid in Cap.	Inception Rate of Return	Percentage to be drawn down
Private Equity											
SL Capital Partners	European Strategic Partners 2004	€ 30,000	€ 3,362	€ 26,638	€ 12,399	€ 9,090	€ 11,899	€ 33,388	1.25	4.7%	
SL Capital Partners	European Strategic Partners 2006	30,000	3,574	26,426	9,581	4,242	19,177	33,000	1.25	2.6%	
SL Capital Partners	European Strategic Partners 2008	27,000	8,707	18,293	2,947	834	18,478	22,259	1.22	0.4%	
SL Capital Partners	European Smaller Funds I	15,000	9,129	5,871	0	0	5,329	5,329	0.91	N/A	
	SL Capital Partners Total	**€ 102,000**	**€ 24,772**	**€ 77,228**	**€ 24,927**	**€ 14,166**	**€ 54,883**	**€ 93,976**			24.3%
Wilshire Associates	Fund VI - Europe	€ 3,600	€ 223	€ 3,377	€ 2,106	€ 1,336	€ 1,470	€ 4,912	1.45	6.8%	
Wilshire Associates	Fund VII - Europe	3,600	180	3,420	1,261	645	2,403	4,309	1.26	0.5%	
Wilshire Associates	Fund VIII - Europe	3,700	622	3,078	799	657	2,639	4,095	1.33	30.4%	
	Wilshire Associates Europe Total	**€ 10,900**	**€ 1,025**	**€ 9,875**	**€ 4,166**	**€ 2,638**	**€ 6,512**	**€ 13,316**			9.4%
Wilshire Associates	Fund VI - US	$14,000	$751	$13,249	$5,448	$5,467	$8,027	$18,942	1.43	6.5%	
Wilshire Associates	Fund VII - US	11,500	683	10,817	3,464	3,498	8,721	15,683	1.45	7.4%	
Wilshire Associates	Fund VIII - US	12,700	1,299	11,401	3,613	2,491	10,431	16,535	1.45	11.5%	
Wilshire Associates	Fund VII - Asia	1,800	164	1,636	872	633	915	2,420	1.48	9.1%	
Wilshire Associates	Fund VIII - Asia	2,000	1,118	882	261	159	834	1,254	1.42	-10.3%	
Wilshire Associates	Opportunities Fund II-B	15,000	2,004	12,996	7,215	2,510	7,765	17,490	1.35	11.8%	
Wilshire Associates	Fund IX	15,000	13,234	1,766	0	0	2,020	2,020			
	Wilshire Associates US and Asia Total	**$72,000**	**$19,253**	**$52,747**	**$20,873**	**$14,758**	**$38,713**	**$74,344**			26.7%
Infrastructure											
Grosvenor Capital	Customised Infrastructure Strategies	$80,000	$11,230	$68,770	$13,553	$3,555	$70,538	$87,646	1.27	11.2%	
	Grosvenor Capital Total	**$80,000**	**$11,230**	**$68,770**	**$13,553**	**$3,555**	**$70,538**	**$87,646**			14.0%
Credit Markets											
Prudential/M&G	UK Companies Financing Fund	£11,835	£0	£11,835	£4,943	£0	£8,821	£13,764	1.16	4.5%	
Prudential/M&G	UK Companies Financing Fund II	10,000	6,405	3,595	117	89	3,565	3,771	1.05	3.6%	
	Credit Market Total	**£21,835**	**£6,405**	**£15,430**	**£5,060**	**£89**	**£12,386**	**£17,535**			29.3%
Social / Affordable Housing											
Hearthstone plc	Housing Fund for Scotland	£30,000	£12,950	£17,050	£0	£0	£17,050	£17,050			
	Social/Affordable Housing Total	**£30,000**	**£12,950**	**£17,050**	**£0**	**£0**	**£17,050**	**£17,050**			43.2%

Appendix B

Falkirk Council Pension Fund
Alternative Markets Update - 31/03/15

Exchange Rates	
$	1.5339
€	1.3617

Alternative Assets Summary - Sterling

Manager	Commitment £ 000's	Unfunded £ 000's	(a) Cost £ 000's	(b) Return of Cost £ 000's	(c) Distrbtn Gains £ 000's	(d) Market Value £ 000's	(b + c + d) Total Value £ 000's	Total Value to Paid in Cap.
SL Capital Partners	74,906	18,192	56,714	18,306	10,403	40,305	69,014	1.22
Wilshire Associates	54,944	13,304	41,639	16,667	11,559	30,021	58,246	1.40
Grosvenor Capital	52,155	7,321	44,833	8,836	2,318	45,986	57,139	1.27
M & G	21,835	6,405	15,430	5,060	89	12,386	17,535	1.14
Hearthstone plc	30,000	12,950	17,050	0	0	17,050	17,050	1.00
	£233,840	**£58,172**	**£175,666**	**£48,869**	**£24,369**	**£145,748**	**£218,984**	

Allocation to Private Equity (based on unfunded commitment plus market value)	6.0%
Allocation to Private Equity (based on market value only)	4.1%
Allocation to Infrastructure (based on unfunded commitment plus market value)	3.1%
Allocation to Infrastructure (based on market value only)	2.7%