Agenda Item

5

Updated Statement of Investment Principles

Agenda Item 5

Falkirk Council

Title:	**Updated Statement of Investment Principles**
Meeting:	**Joint Meeting of Pensions Committee and Pension Board**
Date:	**8 December 2016**
Submitted By:	**Director of Corporate and Housing Services**

1. Purpose of Report

1.1 The report brings forward an updated Statement of Investment Principles, reflecting recent changes to the Fund's investment arrangements as agreed by the Pensions Committee.

2. Recommendations

(i) The Pensions Committee and Pension Board are asked to note the updating of the Statement of Investment Principles.

(ii) The Pensions Committee is asked to approve the updated version of the Fund's Statement of Investment Principles.

3. Background

3.1 The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 require that administering authorities maintain a Statement of Investment Principles (SIP).

3.2 The SIP is the formal document which sets out the strategies, policies and principles that the authority intends to apply in managing the investments of the Pension Fund. A copy of the revised SIP is attached for consideration at Appendix 1.

4. Considerations

4.1 The SIP requires to be updated whenever there are any material changes to the Fund's approach to investing.

4.2 The updated SIP incorporates the decisions taken by the Pensions Committee earlier this year following the work of the Investment Strategy Sub Group. This includes:

- the inclusion of investment beliefs
- the updating of the strategic asset allocation
- the establishment of a longer term strategic asset allocation
- the making of an allocation to a factor based index strategy (i.e. smart beta)

- the increasing in allocation to infrastructure, and
- the decision against making any new allocations to private equity

4.3 Should the Committee propose making more fundamental changes to the SIP (e.g. in the area of ESG), they may also wish to consider circulating the proposals for consultation to Employers and Trades Unions before adopting within the SIP.

5. Consultation

5.1 The Fund's Investment Adviser, Hymans Robertson, has been consulted on the content of the revised SIP and is supportive of the changes.

6. Implications

Financial

6.1 There are no financial implications arising from the report recommendations.

Resources

6.2 There is a minor additional administrative overhead associated with the report recommendation.

Legal

6.3 The proposal is deemed necessary to improve the Fund's governance arrangements and to ensure continued compliance with the terms of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010.

Risk

6.4 Failure to implement the proposal could lead to the Fund's investing approach not matching its stated principles.

Equalities

6.5 There are no equality issues arising from the proposals.

Sustainability/Environmental Impact

6.6 There are no sustainability/environmental issues arising from the proposals.

7. Conclusions

7.1 Consistent with regulatory requirements and in the interests of transparency and good governance, the Fund's Statement of Investment Principles has been updated to take account of recent decisions made by the Pensions Committee regarding its approach to investing Fund monies.

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pp Director of Corporate and Housing Services

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Date: 14th November 2016

Appendices

Appendix 1 – Draft Revised Statement of Investment Principles

List of Background Papers:

The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:

- None

Falkirk Council Pension Fund

Statement of Investment Principles

1. INTRODUCTION

1.1 This is the Statement of Investment Principles approved by Falkirk Council as the body responsible for the management of the Falkirk Council Pension Fund ("the Fund"). The Statement has been written to comply with the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 as amended.

1.2 The Statement describes the objectives, policies and principles adopted by Falkirk Council in undertaking the investment of Fund monies.

1.3 Falkirk Council is an administering authority under the terms of the Local Government Pension Scheme and is required to maintain a pension fund out of which retirement and death benefits are payable to scheme members.

1.4 Fund's monies arise from contributions made by scheme members and employers and from the investments held by the Fund. Member contributions are set according to the level of each individual's pay. Employer contributions are set every three years by an independent actuary, whilst the benefits of the scheme are prescribed nationally by Regulations made by the Scottish Government under the terms of the Public Service Pensions Act 2013.

1.5 Falkirk Council has delegated executive responsibility for the Fund to a Pensions Committee comprising six elected members from Falkirk Council plus three co-opted members representing employer, employee and pensioner interests. The Committee is supported by a statutory Pension Board consisting of four Trades Union and four employer representatives.

1.6 The Pensions Committee determines investment policy based on advice from the Chief Finance Officer and the Fund's professional advisers. The Committee has delegated the day to day management of its assets to external investment managers whose activities are governed by Investment Management Agreements and limits set out in Scheme regulations.

1.7 The Fund's Statement of Investment Principles is reviewed from time to time and within six months of any material change in the investment policy of the Fund. In accordance with accounting requirements, the Statement discloses the extent to which the Fund complies with the six "Myners" principles of investment practice.

1.8 The Statement of Investment Principles was approved by the Committee on September, 2010 and has been updated on several occasions since then – mostly recently December 2016 - to reflect operational and strategic developments.

1.9 The Statement of Investment Principles can be viewed in the Forms and Publications Section of www.falkirkpensionfund.org.

2. INVESTMENT RESPONSIBILITIES OF FALKIRK COUNCIL

2.1 The Pensions Committee is responsible for:

- determining the Fund's investment beliefs
- setting investment policy
- approving the Statement of Investment Principles
- monitoring compliance with the Statement of Investment Principles
- appointing external advisers, investment managers and custodians, as required
- reviewing investment manager performance against pre-determined benchmarks
- satisfying itself as to managers' expertise and the quality of their internal controls
- taking proper advice, and
- ensuring the suitability and adequate diversification of investments.

2.2 The Pension Board acts in a support and advisory capacity to the Pensions Committee and can comment and request information upon matters being brought before the Pensions Committee or on other relevant matters.

2.3 The Chief Finance Officer is responsible for:

- assisting the Pensions Committee and Board in compiling and reviewing the Statement of Investment Principles
- bringing breaches thereof to the attention of the Pension Board and Pensions Committee
- ensuring Investment Manager compliance with the Scheme Regulations, Investment Management Agreements
- assisting the Committee and Board with the regular review of investment managers' performance, and
- ensuring that a training programme is delivered to members of the Pensions Committee and Pension Board.

2.4 A Resourcing Agreement is in place with the Lothian Pension Fund whereby a number of designated officers provide support to Falkirk Council across a range of investment related activities including manager monitoring and performance.

2.5 In relation to the collaborative investments in infrastructure made with the Lothian Pension Fund, the Pensions Committee has delegated decision making powers to Chief Finance Officer.

3. FUND OBJECTIVES

3.1 Primary Objective

The primary objective of the Fund is:

- to ensure that there are sufficient funds available to meet all pension and lump sum liabilities as they fall due for payment

3.2 Funding Objectives

The funding objectives of the Fund are:

- to return the Fund to a fully funded state over a period of 20 years
- to ensure the long-term solvency of the Fund, using a prudent long term view
- to keep employer contributions as low and as stable as possible through effective management of its assets
- to reflect the different characteristics of individual fund employers in determining contribution rates
- to use reasonable measures to reduce the risk to employers from another employer defaulting on its pension obligations

The funding objectives are set out fully in the Funding Strategy Statement. The funding objectives, together with the rate of return being targeted and the level of risk to be tolerated, are all central to the Fund's investment strategy and to the manner in which monies are allocated {i.e. the strategic asset allocation) across various asset classes such as equities, bonds and property.

The funding objectives and funding strategy are reviewed on a triennial basis to take account of the actuarial valuation of the Fund. Factors which may impact on the future strategy of the Fund are demographics, interest rates and inflation. The funding strategy was formally reviewed in 2015 to take account of the results of the 2014 valuation, details of which can be found at Appendix 1.

3.3 Investment Objective

The investment objective of the Fund is:

- to achieve a return on Fund assets which is sufficient over the long term to meet the funding objectives as outlined in the Funding Strategy Statement

4. INVESTMENT BELIEFS

4.1 At the June 2016 meeting of the Pensions Committee it was agreed to adopt the following core investment beliefs. These beliefs can be used as a basis on which to explain existing investment decisions and can be a reference point against which to measure prospective investments:

- **Clear and well defined objectives are essential to achieve future success -** the Committee is aware that there is a need to generate a sufficient level of return from the Fund's assets, while at the same time having a clear understanding of the potential risks and ensuring there is sufficient liquidity available to pay members' benefits as they fall due.

- **Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection -** the Committee understands that having the appropriate strategy in place is a key driver of the Fund's future success. As a result, priority is given to more strategic investment matters.

- **Long term investing provides opportunities for enhancing returns -** the Committee believes that investors with long term time horizons are typically less constrained by liquidity requirements and able to better withstand periods of price volatility. As a long term investor, the Fund may choose to gain additional compensation by investing in assets that are illiquid (e.g. property, infrastructure and private equity) or may be subject to higher levels of volatility (a premium return is required for any such investments). Having this long-term focus also helps the Fund tolerate periods of active manager underperformance when the manager's investment style is out of favour with the market.

- **Equities are expected to generate superior long term returns -** the Committee believes that, over the longer term, equities are expected to outperform other liquid assets, in particular government bonds. The Committee is therefore comfortable that the Fund maintains a significant allocation to equities, with a view to reducing this allocation as the funding position improves.

- **Alternative asset class investments provide diversification -** the Committee believes that diversification across asset classes can help reduce the volatility of the Fund's overall asset value and improve its risk-return characteristics. The Committee believes that investing across a range of asset classes (including, but not restricted to, equities, bonds, infrastructure and property) will provide the Fund with diversification benefits.

- **Fees and costs matter -** the Committee recognises that fees and costs reduce the Fund's investment returns. The Committee considers the fees and costs of its investment arrangements to ensure the Fund is getting value for money and to minimise, as far as possible, any cost leakages from its investment process.

- **Active management can add value but is not guaranteed -** the Committee recognises that certain asset classes can only be accessed via active management. The Committee also recognises that active managers may be able to generate higher returns for the Fund (net of fees), or similar returns but at lower volatility, than equivalent passive exposure. The Committee will aim to minimise excessive turnover in its active managers. By carefully selecting and monitoring active managers and recognising that periods of underperformance will arise, the Committee seeks to minimise the additional risk from active management, and continue to monitor active managers to ensure their mandates remain appropriate for the Fund.

- **Passive management has a role to play in the Fund's structure –** the Committee recognises that passive management allows the Fund to access certain asset classes (e.g. equities) on a low cost basis and when combined with active management can help reduce the relative volatility of the Fund's performance.

- **Choice of benchmark index matters -** the Committee recognises that, for each asset class, there is a range of benchmark indices that they could use. As a result, the Committee focus on the benchmark's underlying characteristics and consider how they may be appropriate for the Fund.

- **Environmental, social and corporate governance ('ESG') issues can have a material impact on the long term performance of its investments -** the Committee recognises that ESG issues can impact the Fund's returns and the Committee aims to be aware of, and monitor, financially material ESG-related risks and issues through the Fund's investment managers. The Committee commits to an ongoing development of its ESG policy to ensure it reflects latest industry developments and regulations.

5. INVESTMENT STRATEGY

5.1 The Fund is required to invest any monies that are not immediately needed to pay benefits. In making its investment decisions, the administering authority must take proper advice and have regard to the advisability of investing in a wide range of investments and to the suitability of particular types of investments.

5.2 "Proper advice" means the advice of a person (including the Chief Finance Officer) whom the authority reasonably believes to be qualified by that person's ability in and practical experience of financial matters.

5.3 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. In determining the suitability of an investment or asset class, the Committee will consider a number of factors including:

- the legality of an investment
- the expected level of return
- the expected variability of return (volatility)
- the extent to which the asset class is correlated with other assets classes
- the mix of investment styles and managers
- liquidity
- credit and currency risk
- the use of active as opposed to passive management

5.4 The investment strategy, including the choice of assets and their risk/return characteristics, has been formulated to deliver returns that are consistent with returning the Fund to a fully funded status over 20 years. The strategy adopted gives the Fund a reasonable chance of achieving its funding aim but also minimise the chance of a poor funding outcome.

5.5 The Fund's longer term strategy is to reduce its exposure to more volatile asset classes (i.e. to de-risk) potentially to a point where there is close to parity between the growth-seeking and defensive assets. The reduction in growth seeking assets will however only take place when market conditions are conducive and the Fund is ahead of schedule in terms of repairing its funding deficit. If the funding level reduces substantially then the strategy permits the exposure to growth assets to be increased (i.e. to re-risk).

5.6 In pursuing its funding and investment objectives, the Pensions Committee has agreed that ideally the following guideline parameters should be adopted:

- the probability of the funding level being below 70% at the next valuation should be less than 20%.
- the probability of the funding level being under 60% in 20 years' time should be less than 20%
- the probability of being fully funded by 2035 (measuring liabilities on a gilts plus 1.6% basis) should be more than 75%.

6. STRATEGIC ASSET ALLOCATION AND EXPECTED RETURN

6.1 The Fund's objectives are reflected in the strategic asset allocation and benchmark adopted for the Fund by the Pensions Committee.

6.2 The strategic asset allocation, which comprises a mix of growth and defensive assets, has been set reflecting the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility, risk and the nature of the Fund's liabilities

6.3 The current and projected long term asset allocations are as follows:

Asset Class	Current Strategic Allocation	Projected Long Term Strategic Allocation
Growth Assets	**80%**	**50%**
Listed Equities	55%	25%
Private Equity	5%	0%
Multi Asset	10%	10%
Property	10%	15%
Defensive Assets	**20%**	**50%**
Bonds	10%	20%
Infrastructure	9%	9%
Social/Affordable Housing	1%	1%
Other Real Income assets	0%	20%

6.4 The current strategic allocation was agreed by the Pensions Committee in 2016 following work undertaken by an Investment Strategy Sub-Group which consisted of Committee and Board members as well as Officers and Advisers. This would normally be reviewed as part of the three yearly valuation cycle.

6.5 The key changes arising from the review of investment strategy were:

- a 5% reduction in equities – analysis, supported by modelling, had indicated that this could be done without impacting on the Fund's chances of achieving its funding objectives
- a 5% increase in infrastructure – recognising the lower risk, inflation linked, income generative characteristics of this asset class
- to make no further investments in private equity – recognising the mixed returns experienced by the Fund in this asset class and its hidden costs
- to review the delivery of the property mandate
- to invest c11% of the Fund's assets equally between low volatility and fundamental weighting factor based equity strategies

6.6 In determining the strategic asset allocation, the Pensions Committee has considered the expected return on various asset classes and the respective volatilities.

6.7 The expected long term returns from the main asset classes in which the Fund invests, together with the expected volatility of those returns, are provided in the following table as at 30 September 2016.

Expected Return on Assets and Expected Volatility

Asset Class	20 Year Expected Rate of Return as at 30 September 2016	Volatility of return in Year 1 as at 30 September 2016
UK Equities	5.6%	16.9%
Overseas Equities	5.1%	19.4%
Private Equity	6.5%	28.4%
Multi Asset	4.1%	12.5%
Property	3.2%	14.3%
Gilts (Medium Dated)	1.1%	9.6%
Index Linked (Long Dated)	-0.8%	9.0%
Investment Grade Corporate (Medium Dated)	1.7%	11.3%
Infrastructure/Social & Affordable Housing (1)	4.4%	20.2%
Other Real Income (1)	4.4%	20.2%

[1] Social and affordable housing and Real income assumed to have similar risk and return characteristics as Infrastructure equity.

Source – Hymans Robertson

7. TYPES OF INVESTMENT

7.1 Investment returns are a combination of income, i.e. dividends/coupon payments/rental payments/interest and capital gains/losses. The major types of investment and their characteristics are:

- UK Equities provide an equitable share in the assets and profits of listed UK companies. Income is provided through share dividends which, although variable in amount from year to year, have historically over the longer term risen above inflation. Equities produce capital gains/losses as share prices reflect investors' expectations of the prospects of a specific company, sector or market.

- International Equities are similar to UK Equities but with exposure to the currency of the market where the share is listed. The investment returns can be enhanced, or reduced, by the appreciation or depreciation respectively of the market currency against sterling.

- Private Equity entails investment in unlisted companies. There is an expectation that returns will be in excess of the returns provided by listed equities, although the risk profile is different and the investment period inherently longer. The investments are also less liquid.

- Property is investment in land and/or buildings such as offices, retail and industrial. The income comes from the rents payable. Property prices primarily reflect the rents they are able to produce and investor demand. Investors can invest either directly in individual properties or alternatively through a stake in collective investment vehicles set up to invest in a portfolio of property assets.

- Diversified Growth investment is undertaken with the aim of providing the Fund with equity like returns but with less risk than one would associate with an equity type investment. This is achieved through the manager investing in a diversified range of asset classes. This could include equities, bonds, cash, currency and interest rate plays. In times of strongly rising markets, diversified growth returns are likely to lag market returns. However, in times of falling markets, the low correlation of the portfolio components should enable losses to be lower than those sustained in the market.

- Infrastructure involves investment in public utility projects, such as toll roads, airports, car parking, renewable energy, water utility etc. The investment will generally be in assets that are deemed essential to the orderly functioning of daily life. The assets – which may be public or private – will be in public demand and should deliver a regular income on a risk adjusted basis. To gain exposure to this asset class, whilst maintaining a degree of diversification and liquidity, the Fund is invested in a pooled infrastructure arrangement and number of partnerships in collaboration with the Lothian Pension Fund.

- Fixed rate bonds are debt instruments issued by Governments and other borrowers. Bonds provide a fixed rate coupon payment and are generally redeemed at par by the issuer at a pre-determined future date. The price primarily reflects the fixed level of interest, the term to redemption and the overall return (the yield) demanded by investors. Prices of bonds tend to fluctuate less than the prices of equities.

- Index Linked Bonds are bonds issued by the UK Government. They provide coupon payments and redemption value directly linked to price inflation as measured by the Retail Price Index (RPI). Similar index linked securities are issued by a number of overseas governments but they have additional exposure to fluctuations in the exchange rate.

- Credit Market investment involves providing finance for UK quoted companies which might otherwise face difficulty in sourcing finance through normal banking arrangements. To gain exposure to this asset class, whilst maintaining a degree of diversification and liquidity, the Fund is invested in a pooled arrangement.

7.2 The Fund's investments also include cash.

- Cash is held in the Pension Fund bank account to meet the day to day operational needs of the Fund. Further cash deposits are held with several institutions in order to both minimise risk and provide instant or short term liquidity.

- Cash is also held in the Custodian's bank account. This is part of the holdings account for each investment manager and is available for their day to day liquidity needs. The accounts are in both sterling and foreign currency. Cash balances held with custodian participate in Custodian cash sweeping arrangements, attracting an appropriate interest rate.

- Guidelines on how the Fund manages its cash holdings are set out in the Cash Management Policy approved by the Pensions Committee on 24th May 2013. The policy addresses the risks associated with cash management; lists approved counterparties; and outlines the limits placed on levels of cash.

8. OTHER INVESTMENT CONSIDERATIONS

8.1 Diversification of Investments

The strategic asset allocation of the Fund includes a mix of asset types across a range of geographies and sectors in order to provide diversification of returns. In addition, the Fund pursues a policy of lowering risk through the appointment of a number of Investment Managers, all of whom are authorised under the Financial Services and Markets Act 2000, each of whom is expected to maintain a diversified portfolio. Each Manager has an element of discretion in its asset mix and individual stock selection subject, at all times, to any constraints outlined within this document, their respective Management Agreements and any prevailing legislation. They have a remit to outperform prescribed benchmarks while operating within broad ranges for individual asset categories. Details of the arrangements are attached at Appendix 2.

8.2 Realisation of Investments

The vast majority of the Fund's assets are readily marketable, normally within a few days but certainly no longer than a few weeks. However, it is recognised that the realisation of some investments, in particular Property, Infrastructure and Private Equity, may take longer. The Investment Managers are instructed not to hold any investment which is inappropriate in terms of marketability.

8.3 Securities lending

Securities lending involves the lending of a proportion of the Fund's portfolio of assets to an investment counterparty (subject to strict credit rating controls) for a period of time in return for a payment of commission and agreed collateral. This practice is used to increase the level of liquidity in stock markets.

Within segregated mandates, the Committee has absolute discretion over whether stock lending is permitted. The Investment Committee – being the relevant Committee at the time in 2008 – re-considered its approach to securities lending and decided not to permit the practice within any of its segregated investment mandates.

The manager(s) of pooled funds may undertake an element of securities lending on behalf of unit holders in the fund(s). Where a pooled fund engages in this activity, the extent to which it does is disclosed by the manager(s). The Pension Board/Committee has no direct control over securities lending in pooled funds but it is comfortable that the extent and nature of this activity is appropriate to the circumstances of the Fund.

8.4 Underwriting

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

8.5 Investment in Derivatives

The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products, for the purpose of efficient portfolio management or to hedge specific risks. The Committee considers all of these classes of investment to be suitable in the circumstances of the Fund, subject to prevailing legislation and control levels as outlined in individual Manager Agreements.

8.6 Safekeeping of Assets

The services of a global custodian are employed to ensure the safekeeping of investment assets. The Northern Trust Company has been appointed as Global Custodian of the Fund's assets.

9. CONTROL OF RISKS

9.1 The Fund is exposed to a number of risks which pose a threat to it meeting its objectives. The principal risks affecting the Fund are:

Funding Risks

Financial mismatch

- The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities
- The risk that unexpected inflation increases scheme benefits at a faster rate than growth in assets

Changing Demographics

- The risk that longevity improves, increasing the cost of Fund benefits

Systemic Risk

- The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

9.2 The Committee measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. This analysis will be revisited as part of the 2017 valuation process. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

9.3 The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views.

9.4 The Committee keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

9.5 The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset Risks

Concentration

- The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

Illiquidity

- The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

Manager Underperformance

- The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

Currency risk

- The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).

Environmental, social and governance ("ESG")

- The risk that ESG related factors reduce the Fund's ability to generate the long-term returns.

9.6 The Committee manages asset risks as follows:

It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Committees' expected parameters. By investing across a range of assets, including quoted equities and bonds, the Committee has recognised the need for some access to liquidity in the short term. In appointing several investment managers, the Committee has considered the risk of underperformance by any single investment manager. The Fund invests in a range of overseas markets which provides a diversified approach to currency markets. The Committee also assesses the Fund's currency risk during their risk analysis. Details of the Fund's approach to managing ESG risks is set out later in this document.

9.7 Details of individual managers' mandates and their benchmarks can be found in the Appendix 2.

Provider Risks

- **Transition risk**
  The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee takes professional advice and may consider the appointment of specialist transition managers.

- **Custody risk**
  The risk of losing economic rights to Fund assets, when held in custody or when being traded.

- **Credit default**
  The possibility of default of a counterparty in meeting its obligations.

9.8 The Committee monitors and manages risks in all these areas through a process of regular scrutiny of its providers and through the audits of internal control systems commissioned by the fund managers in respect of their operations.

9.9. A risk register is maintained for the Fund and material changes reported to the Committee and Board on a regular basis.

10 SOCIAL, ENVIRONMENTAL AND ETHICAL CONSIDERATIONS

10.1 The Committee recognises that social, environmental and ethical considerations are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention or sale. The managers have produced statements setting out their policy in this regard and have been delegated by the Committee to act accordingly.

10.2 As a responsible investor, Falkirk Council Pension Fund wishes to promote corporate social responsibility, good practice and improved company performance amongst all companies in which it invests. The Fund, therefore, monitors investee companies to ensure they meet standards of acceptable practice in relation to their key stakeholders. Such an approach is consistent with the principles of the UK Stewardship Code as published by the Financial Reporting Council. All of the Fund's managers who deal in quoted securities are signatories to the Code.

10.2 The Fund considers that the pursuit of such standards aligns the interests of Fund members and beneficiaries with those stakeholders and society as a whole over the long term. In pursuit of this policy, the Fund will support effective standards of acceptable practice on disclosure and management of corporate social responsibility issues by companies and will pursue constructive shareholder engagement with companies on these issues consistent with the Fund's fiduciary responsibilities. In accordance with this policy, the Fund will seek to use its own efforts, its Investment Managers, its adviser PIRC Ltd, and alliances with other investors (members of the Local Authority Pension Fund Forum) to pursue these goals.

10.3 Given the vast range and complexity of issues that could be considered as part of a Socially Responsible Investment (SRI) Policy, the Fund considers that a more focused policy of engagement with companies is appropriate. To this end, the Fund will focus on the key issues of:

- Corporate environmental policy
- Human Rights
- Employment Standards (incl. Executive pay)

10.4 To help it determine its response the Fund will draw on the objective assessments provided by PIRC Ltd. These assessments are based on standards set out by leading business and non-governmental organisations such as Business in the Environment and Amnesty International.

10.5 Investment Managers are required to prepare regular reports on company compliance with the Fund's ESG policy.

11. CORPORATE GOVERNANCE AND VOTING AND MYNERS PRINCIPLES

11.1 The Pensions Committee recognises its role as one of promoting best practice in corporate governance, believing this to be entirely consistent with the delivery of long term returns. As a result, the Fund requires its UK Equity managers to comply with the Financial Reporting Council's UK Stewardship Code.

11.2 As an institutional shareholder with holdings in numerous listed companies, the Fund recognises its responsibility to exercise its voting rights as part of its fiduciary duty and stewardship responsibilities. The Pensions Committee has appointed PIRC Ltd to provide advice and research services on all matters pertaining to corporate governance. This extends to casting votes on the Fund's behalf in relation to the Fund's active equity holdings.

11.3 PIRC undertakes its voting responsibilities in accordance shareholder voting guidelines it has devised to be in line with the UK Corporate Governance Code. The guidelines seek best practice in a variety of areas including Report and Accounts; Dividends; Role of Directors and Directors Remuneration; Auditors and Shareholder Accountability.

11.4 PIRC are responsible for reporting, on a quarterly basis, how votes were cast and whether there were any significant company issues during the quarter.

11.5 The Fund retains the right to direct PIRC or a manager in respect of any corporate governance issue.

11.6 The Fund is a member of Local Authority Pension Fund Forum (LAPFF). LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting social responsibility and high standards of corporate governance at the companies in which they invest. Formed in 1990, the Forum brings together a diverse range of 70 local authority pension funds with combined assets of over £175 billion.

12. MYNERS PRINCIPLES

12.1 Details of the extent to which the Pensions Committee complies with the six principles set out in the Chartered Institute of Public Finance and Accountancy's publication, 'Investment Decision Making and Disclosure in the Local Government Pension Scheme 2009 – a guide to the application of the 2008 Myners principles to the management of LGPS funds', are set out in Appendix 3.

13 COMPLIANCE

13.1 The Regulations contain limits on the percentage of the Fund that may be invested in various asset types and provide for the limits to be raised in certain cases. The Pensions Committee has resolved that the limits on the Fund's investments in partnerships be raised in order to accommodate the strategic allocation to assets such as infrastructure. The limits on the investments in partnership are as follows:-

- The limit in respect of all contributions into any single partnership 5%
- The limit in respect of all contributions into partnerships has been raised from 15% to 30%

13.2 Investment Managers are required to provide an annual statement to the Pensions Committee confirming compliance with their Investment Management Agreements and a statement that they have exercised their powers of investment with a view to giving effect to the principles contained in this Statement, so far as is reasonably practicable.

13.3 The Fund has adopted the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills. In recognising that staff and those involved in Fund governance need to be fully equipped with the knowledge and skills to enable them to discharge their duties, the Chief Finance Officer oversees an ongoing programme of training to meet this objective.

13.4 This Statement will be reviewed from time to time and, in the case of a material policy change, be subject to consultation with interested parties.

Chief Finance Officer
Falkirk Council

23 November 2016

If you have any comments regarding this Statement of Investment Principles or require more information on the subjects contained within it, please contact:Alastair McGirr (Pensions Manager)

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Appendix 1- Actuarial Valuation

1. The Actuarial Valuation as at 31 March 2014 was carried out using the assets of the Fund at their market value as indicated in the audited accounts for the period ended 31 March 2014.

2. Main Actuarial Assumptions at the 31 March 2014 valuation

Financial assumptions	Nominal	Real
Discount Rate	5.1%	2.4%
Salary increase	4.0%	1.3%
Price Inflation/Pension Increases	2.7%	-

3. Results

Valuation Date	31 March 2011	31 March 2014
Past Service Position		
Past Service Liabilities		
Employees	703	930
Deferred Pensioners	160	216
Pensioners	529	714
Total Liabilities	**1,392**	**1,860**
Market Value of Assets	**1,199**	**1,577**
Surplus/(Deficit)	**(193)**	**(283)**
Funding Level	**86.1%**	**84.8%**

The valuation showed that the Fund was 84.8% funded, meaning that it has 84.8% of the monies needed to pay the benefits of scheme members based on the rights they accumulated to that date.

Details of the actuarial valuation can be found on the Fund website at www.falkirkpensionfund.org

Appendix 2 – Manager Mandates and Benchmarks

Fund Manager	Strategic Allocation	Benchmark	Performance Objective	Fees
Listed Equities Active	**33%**			
Aberdeen Asset Management	11%	MCSI All Countries World Index	To outperform the benchmark by 3% pa net of fees over rolling 3 year period	Flat rate fees
Newton Inv Management	11%	MCSI All Countries World Index	To outperform the benchmark by 3% pa net of fees over rolling 5 year period	Flat rate fees
Schroders UK Equity	11%	FTSE All Share Index	To outperform the benchmark by 1.25% pa net of fees over rolling 3 year period	Flat rate fees
Listed Equities Passive	**22%**			
Legal and General	11%	Composite of Regional Indices	To perform in line with the benchmark over all periods	Flat rate fees
Legal and General Fundamental Weighting	5.5%	FTSE RAFI All World 3000	To perform in line with the benchmark over all periods	Flat rate fees
Low Volatility	5.5%	To be appointed	To be appointed	To be appointed
Private Equity/Debt	**5%**			
Wilshire Capital		MSCI World Index	To outperform the benchmark by 5% pa net over the life cycle of the fund	F Flat rate fee + performance element
Standard Life Capital		MSCI Europe Index	To outperform the benchmark by 5% pa net over the life cycle of the fund	Flat rate fee + performance element
M&G Investments		FT 7 day Sterling LIBID Index	To outperform the benchmark by 5% pa net over the life cycle of the fund	Flat rate fee + performance element
Property	**10%**			
Schroders		IPD UK Pooled Property Fund Indices All Balanced Funds Weighted Average	To outperform the benchmark by 0.75% pa net of fees over rolling 3 year period	Flat rate fees
Multi Assets	**10%**			
Baillie Gifford Diversified Growth		UK Base Rate	To outperform the benchmark by 3.5% pa net of fees over rolling 5 year period with annual volatility less than 10%	Flat rate fees
Bonds	**10%**			
Baillie Gifford		50% Merrill Lynch Stirling Non Gilt 30% FTSE All Stocks Gilts 20% FTSE-A-Index Linked Over 5yr Index	To outperform the benchmark by 0.9% pa net of fees over rolling 3 year period	Flat rate fees
Infrastructure	**9%**			
Grosvenor		RPI	To be confirmed	Flat rate fee + performance element
Internal		RPI	RPI Index +3.5% pa	Flat rate fee + performance element
Social/Affordable Housing	**1%**			
Hearthstone		RPI	RPI Index +2% pa	Flat rate fee + performance element

Appendix 3

	The CIPFA/Myners Principles – Assessment of Compliance	Comment	Compliance/Action/
1.	**Effective decision making** Administering authorities should ensure that:		
1.1	▪ Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation	The Pensions Committee (the Committee) is the decision making body of the Falkirk Council Pension Fund. The Committee is supported by in-house resource and external pensions and investment advisers.	Full Compliance
1.2	▪ Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest	The Committee is overseen by a Pension Board drawn from wider stakeholder interest. The Committee focuses on setting the strategy for the Pension Fund and monitoring the performance of its Managers. The Annual Pensions Conference ensures engagement with Fund stakeholders, Employer Bodies and Trade Union representatives. Training for Members is delivered on a regular basis through specific presentations at Committee, seminars/conferences and visits to investment managers.	

	The CIPFA/Myners Principles – Assessment of Compliance	Comment	Compliance/Action/
2. 2.1	**Clear objectives** ▪ An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers	The Statement of Investment Principles and the Funding Strategy Statement define the Fund's primary funding objectives. The setting of the Funding Strategy recognises the need to maintain stability of employer contribution rates over time. The strategy and structure are monitored continuously and fully reviewed every three years using asset liability and risk modelling techniques. Reviews of strategy focus on the relative weightings attributed to Equities, Bonds and other asset classes. The Fund has a scheme specific strategic benchmark with individual targets for each investment mandate.	Full Compliance
3. 3.1 3.2	**Risk and liabilities** ▪ In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities ▪ These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk	The Fund has taken advice from the scheme's actuary and investment consultant regarding the nature of its liabilities. Asset liability modelling is undertaken periodically and these exercises specifically address the areas of covenant strength and longevity risk. The CFO has responsibility for ensuring appropriate controls are in place for the Pension Fund. Controls are subject to periodical checks from internal and external audit and any material issues are brought to the attention of the Committee.	Full Compliance

	The CIPFA/Myners Principles – Assessment of Compliance	Comment	Compliance/Action/
4.	**Performance assessment**		
4.1	▪ Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors	Fund and Manager performance is provided by an independent external provider.	Full Compliance
4.2	▪ Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members	Regular Fund/Manager performance reports for quarterly, annual and longer term periods are considered by the Committee. Performance is reported to the annual pension's conference and annually to stakeholders via the Annual Report & Accounts. External advisers subject to periodical market testing. The Committee annually monitors Fund performance relative to peer groups. Over the longer term Fund performance against benchmark is attributable to investment manager appointments made by the Committee. Triennial actuarial valuation provides opportunity for the Committee to consider funding position relative to other LGPS funds.	
5.	**Responsible ownership** Administering authorities should:		
5.1	▪ Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents	The Fund's policy on responsible ownership and company voting are included in the Statement of Investment Principles.	Full Compliance
5.2	▪ Include a statement of their policy on responsible ownership in the statement of investment principles	The Fund's managers have adopted the Institutional Shareholders Committee Statement of Principles.	
5.3	▪ Report periodically to scheme members on the discharge of such responsibilities	The Fund is a member of the Local Authority Pension Fund Forum which exists to maximise the influence of local authority pension funds on matters of corporate governance among the companies in which it invests. A summary on responsible ownership is included in annual investment report issued to scheme members.	

	The CIPFA/Myners Principles – Assessment of Compliance	Comment	Compliance/Action/
6.	**Transparency and reporting** Administering authorities should:		
6.1	▪ Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives	The Fund has established communication links with all stakeholders in respect of management and investment of funds and wider pension scheme issues.	Full Compliance
6.2	▪ Provide regular communication to scheme members in the form they consider most appropriate	The Fund's policy statements and publications are made available on the Falkirk Council Pension Fund website. The Annual Pensions Conference is open to all Fund employers and representatives of Trades Unions. A newsletter with a summary of the annual accounts is issued to scheme members.	