

PENSION FUND Investment Report 2007/2008



Falkirk Council

Welcome to this year's annual report.

PENSION SCHEME

The Falkirk Council Pension Fund is part of the Local Government Pension Scheme. This is a defined benefit scheme and the regulations that govern it guarantee that your Scheme benefits will be paid.

GOVERNANCE

The executive responsibility for controlling the Fund belongs to the Investment Committee which meets quarterly and comprises six elected members. As part of our revised policy for communicating with stakeholders, we held a Forum in September 2007 and in March 2008 successfully launched our first Pensions and Investment Conference. These events were open to representatives from each of the employing bodies and trade unions. The issues discussed at these meetings included benefits, regulatory changes, investment performance and investment manager/adviser presentations.

In accordance with pension regulations, the Fund has published a Statement of Investment Principles governing its policy on investments. Among its requirements, the Statement outlines the extent to which social, environmental and ethical issues are considered in the selection, retention and realisation of investments and how this Fund exercises voting rights attaching to its investments. The document also sets out a full assessment of the Fund's compliance with the Government's "best practice" Code of Investment Principles.

You can access the latest Statement on the Council's website at:

www.falkirk.gov.uk/services/finance/treasury_investment/treasury_pension_fund_investments

MEMBERSHIP

As at 31st March 2008, there were 40 employing bodies and 24,295 members participating in the Fund. The membership is made up as follows:

Current Members	13,869	(2007 – 13,580)
Deferred Members	3,842	(2007 – 3,429)
Pensioners	6,584	(2007 – 6,378)

The number of retired members continues to increase as life expectancy rises.

ACTUARIAL VALUATION

Hymans Robertson, Consulting Actuaries, provide the Pension Fund's actuarial services. This includes a formal valuation of the Fund every three years. It is the Actuary's job to advise whether there is enough money in the Fund to meet all promised benefits, both now and in the future.

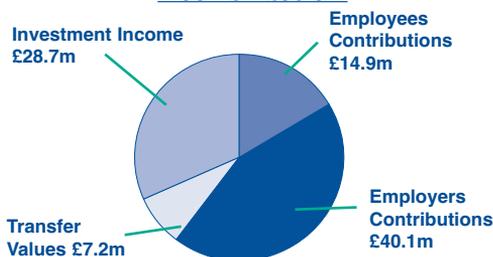
The results of the latest actuarial valuation (March 2005) established that the Fund assets represented 86% of its pension liabilities. This figure is known as the funding level. The reduction in the funding level from 2002 was largely attributed to lower than anticipated investment growth, a fall in bond yields which is used to calculate liabilities and an increase in the average age of scheme members. A stepped increase in employer contribution rates has been implemented with the objective of improving the funding level in the future.

The Fund is currently undergoing its next valuation, as at March 2008, from which the Actuary will reassess the financial status of the Fund. The outcome of the valuation will be supplied in next year's report.

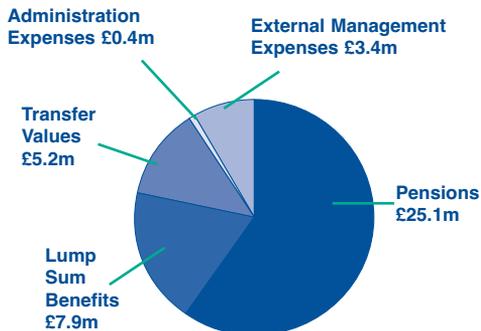
SUMMARY OF ACCOUNTS 2007/08

Income and Expenditure for the year.

Income - £90.9m

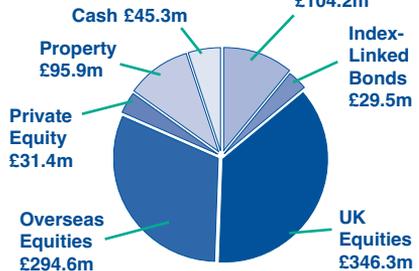


Expenditure - £42.0m



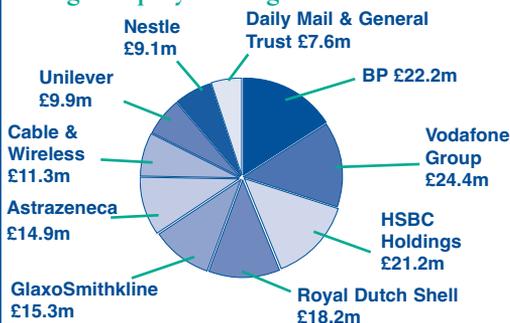
Asset Mix at 31/03/08.

Total Market Value £947.2m



10 largest Equity holdings.

Total £154.1m



FUND MANAGEMENT

The Committee has appointed, as investment advisers, Hymans Robertson to advise on investment strategy and PIRC Ltd. to assist on matters relating to corporate governance and social/environmental issues. During the year, the Fund became a member of the Local Authority Pension Fund Forum. The grouping is an association of nearly 50 local authority funds which seeks to optimise their influence as shareholders in promoting high standards of corporate governance among the companies in which they invest.

The Fund currently employs the undernoted investment management companies to manage its assets:

Manager	Mandate
Baillie Gifford (15%)	Bonds
Capital International (30%)	Global Equities
Newton Investment Management (20%)	Global Equities
Schroder Investment Management (20%)	UK Equities
Schroder Investment Management (10%)	Property
S.L.Capital / Wilshire Associates (5%)	Private Equity

In the current year 2008/09, approval has been given by the Investment Committee to tender for a new passive Equity Manager (investing funds in line with company market weightings). In turn exposure to incumbent managers, Capital International and Schroders, will be reduced. The outcome of the manager search will be advised in next year's report.

Northern Trust, a major US investment bank, is the Fund's master custodian. They have responsibility for ensuring safe custody of the Fund's assets managed by all our investment managers and providing consolidated accounting and performance reporting services to the Fund.

Monitoring of custodian and investment management arrangements is undertaken by staff within the Investment Section of Finance Services.

INVESTMENT PERFORMANCE

The Fund assesses its performance against a specific benchmark comprising Equities, Bonds and Property. Given the general decline in markets the return for the year on the total assets of the Fund fell by -3.4%. In comparison the Fund benchmark was -2.7% resulting in an under performance of -0.7%.

The longer term return on the Fund is a more important benchmark than the annual return. The Fund's return over the last 10 years has been 4.9%pa, which marginally lags the average local authority pension fund return of 5.1%pa but ahead of price(2.6%) and wage(4.2%) inflation to which the pension fund liabilities are linked.

MARKET REVIEW

The last financial year was very much a year of two halves. In the earlier part, central banks in the US and UK were tightening interest rates as a counter to rising inflationary pressures. However in the second half, western economies were facing the likelihood of recession caused by the fallout from the US sub-prime mortgage crisis and the resultant liquidity "crunch" in the global banking system. This led the US, in particular, to take decisive action by reducing interest rates in an attempt to stave off recession. In the UK, the Bank of England took similar action but faces a dilemma as it attempts to balance economic growth aspirations while meeting its inflation targets. The Financial, Housing and Consumer sectors performed poorly during the year whereas companies in the Energy and Commodities sectors benefited from the significant and sustained rise in the price of raw materials.

Major equity markets produced a mixed set of results for the year. Pacific ex Japan and Emerging Markets registered strong positive returns of circa 10% and 20% respectively. This was offset by a near 10% fall in the UK market and negative returns of 5% in the US and 15% in Japan. Both Government Fixed and Index Linked Bonds, benefiting from their perceived safe haven status, recorded returns of 8% and 13% respectively but Corporate Bonds declined by around 4%. Property returns declined by around 10% over the year reversing to some extent some of the very strong gains experienced over the past few years.

CONTACT POINTS

If you have any questions or require further information relating to the Pension Fund, then please contact:

For investment matters: the Investment Section by telephoning (01324) 506338.

For individual benefit or contribution matters: the Pensions Section by telephoning (01324) 506325 or 506329.

OR

If you would rather write, letters should be addressed to:

**Director of Finance, Falkirk Council
Municipal Buildings, Falkirk FK1 5RS**