

PENSION FUND Investment Report 2008/2009



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. Communicating with a number of stakeholder groups was achieved by way of a Forum held in September 2008 and, in March 2009, our annual 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. A revised "best practice" Code of Investment Principles has recently been issued by the Government and compliance with these Principles will be assessed as part of an overall review of our Statement during the current year.

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 2009, there were 40 employing bodies and 24,971 members participating in the Fund. The membership is made up as follows:

| | | |
|------------------|--------|-----------------|
| Current Members | 14,071 | (2008 – 13,869) |
| Deferred Members | 4,130 | (2008 – 3,842) |
| Pensioners | 6,770 | (2008 – 6,584) |

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

ACTUARIAL VALUATION

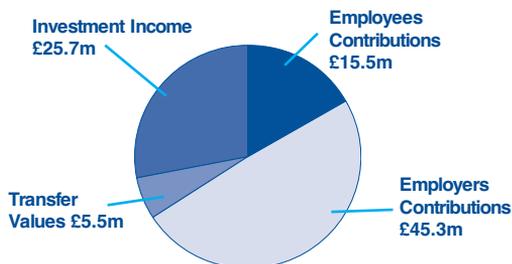
Hymans Robertson, Consulting Actuaries, provide the Pension Fund's actuarial services. This includes a formal valuation of the Fund every three years. It is the Actuary's job to advise whether there is enough money in the Fund to meet all promised benefits, both now and in the future.

The results of the latest actuarial valuation (March 2008) established that the Fund assets represented 79% of its pension liabilities. This figure is known as the funding level. The Fund benefited from better than expected investment returns but a reduction in the funding level from 2005 was largely attributed to a fall in bond yields which is used to calculate liabilities. A stepped increase in employer contribution rates has been implemented with the objective of improving the funding level in the future.

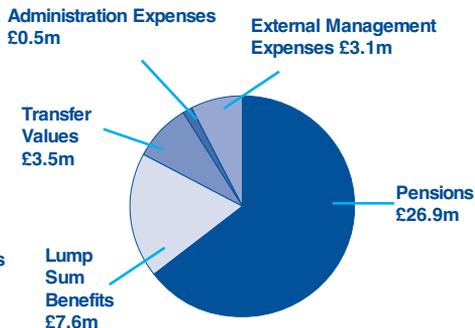
SUMMARY OF ACCOUNTS 2008/09

Income and Expenditure for the year.

Income - £92.0m

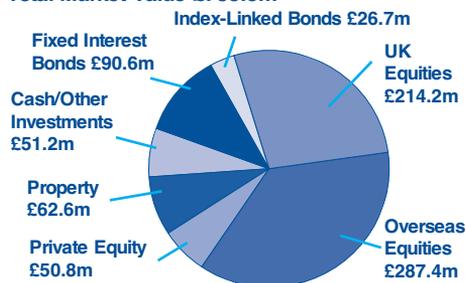


Expenditure - £41.6m



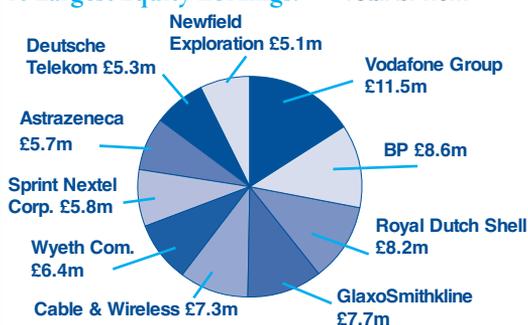
Asset Mix at 31/03/09.

Total Market Value £783.5m



10 Largest Equity holdings.

Total £71.6m



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. The Fund is a member of the Local Authority Pension Fund Forum, a grouping 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.

During the year, the Investment Committee terminated the mandate managed by Capital International and slightly reduced the UK Equities exposure to incumbent Manager, Schroder Investment Management. In turn, Legal & General Investment Management was awarded a passive UK/Global Equities mandate (investing funds in line with company market weightings). The changes were effective from February 2009. It is worth noting that towards the end of the financial year, the Investment Committee initiated a strategic review of the Fund, the outcome of which will be advised in next year's report.

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

Manager

Baillie Gifford (15%)
 Legal & General Inv. Management (30%)
 Newton Investment Management (20%)
 Schroder Investment Management (20%)
 Schroder Investment Management (10%)
 S.L.Capital / Wilshire Associates (5%)

Mandate

Bonds
 UK/Global Equities
 Global Equities
 UK Equities
 Property
 Private Equity

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

Investment performance is assessed against a Fund specific benchmark comprising Equities, Bonds and Property. Given the significant decline in markets, the return for the year on the total assets of the Fund fell by -19.7%, broadly similar to the Fund benchmark of -19.5%.

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 2.1%pa, in line with the average local authority pension fund return for the same period. The more recent market downturn has caused the Fund return to dip below price(2.6%) and wage(3.7%) inflation to which the pension fund liabilities are linked.

MARKET REVIEW

Financial markets endured one of their most volatile periods on record as problems in the financial sector spread to the wider economy and contributed to an unprecedented collapse in world trade. By September 2008, this had culminated in the collapse of US bank, Lehman Brothers, a move which effectively froze the availability of credit to the corporate and household sectors. In response, Governments acted swiftly to support their respective banking systems by way of a series of nationalisations, capital injections and issuance of state guarantees. The Bank of England Monetary Policy Committee cut interest rates aggressively to 0.5% in an attempt to offset the economic slowdown. Also, with interest rates unlikely to be lowered further, the Bank of England introduced a programme known as quantitative easing which is effectively a mechanism to boost the quantity of money in the economy. The best performing equity sectors in a global context were Technology and Basic Materials whereas the worst performing were, not surprisingly, Financials and also Utilities.

Global equity markets fell sharply registering declines of between 20% and 30%. Only in the US and Japan were the falls less severe as sterling weakness against the dollar and the yen translated into negative returns of 14% and 10.6% to a UK investor. UK Government Bond markets benefited from their perceived safe haven status, recording positive returns of around 10% whereas Index Linked Bonds registered a decline of circa 1%. In contrast, Corporate Bonds fell sharply by around 13.5% reflecting, in part, the increased risk of defaults by the corporate sector. The Property sector also registered a sharp decline of around 25% in the period under review.

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**