

PENSION FUND
Investment Report
2009/2010



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 made by way of a Forum held in September 2009 and, in March 2010, 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. Compliance with a revised "best practice" Code of Investment Principles has been assessed and approved by our Investment Committee in September 2010 as part of an overall review of our Statement.

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

www.falkirk.gov.uk/services/chief_executive/finance/treasury_investment/treasury/pension_fund_investments

MEMBERSHIP

As at 31st March 2010, there were 40 employing bodies and 24,706 members participating in the Fund. The membership is made up as follows:

Current Members	13,305	(2009 – 14,071)
Deferred Members	4,311	(2009 – 4,130)
Pensioners	7,090	(2009 – 6,770)

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.

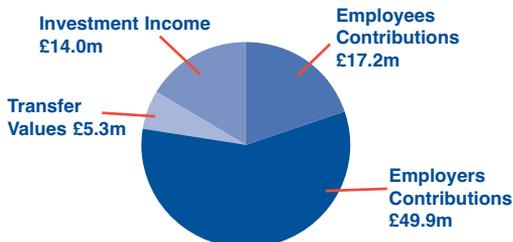
The results of the latest actuarial valuation (March 2008) established that the Fund assets represented 79% of its pension liabilities. This figure is known as the funding level. The Fund benefited from better than expected investment returns but a reduction in the funding level from 2005 was largely 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.

The Actuary will reassess the financial status of the Fund at the next valuation which will take place as at 31 March 2011.

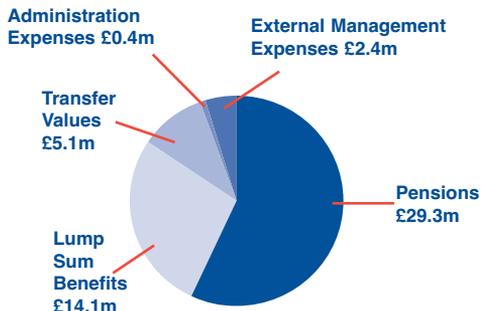
SUMMARY OF ACCOUNTS 2009/10

Income and Expenditure for the year.

Income - £86.4m

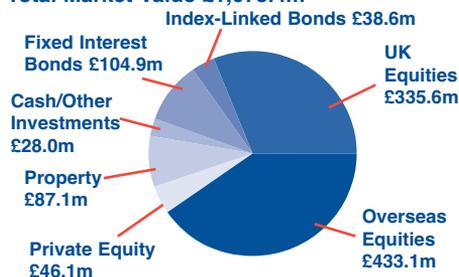


Expenditure - £51.3m



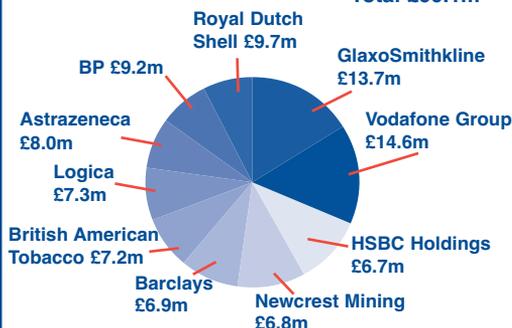
Asset Mix at 31/03/10

Total Market Value £1,073.4m



10 Largest Equity holdings

Total £90.1m



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. The Fund is a member of the Local Authority Pension Fund Forum, a grouping in excess of 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 completed its strategic review of the Fund. The review concluded that there should be further diversification of assets with an increased exposure made to "alternative" markets. To this end, officers are specifically exploring investment opportunities in areas such as Credit Markets, Infrastructure and Currency. Also, approval was given to reduce the amount of equities managed passively and replace with a new global equity manager, Aberdeen Asset Management, with effect from May 2010.

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

Manager	Mandate
Aberdeen Asset Management (15%)	Global Equities
Baillie Gifford (15%)	Bonds
Legal & General Inv. Management (20%)	UK/Global Equities
Newton Investment Management (20%)	Global Equities
Schroder Investment Management (15%)	UK Equities
Schroder Investment Management (10%)	Property
S.L. Capital / Wilshire Associates (5%)	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. During the year, there was an exceptionally strong recovery in financial markets, particularly so among equities and corporate bonds. Against this background, the Fund produced a return for the year of 34.5% albeit lagging a benchmark return of 36.6%.

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 4.0%pa in line with the average local authority pension fund return for the same period, but slightly in excess of price (2.7%) and wage (3.6%) inflation to which the pension fund liabilities are linked.

MARKET REVIEW

During the year, the global economy regained some stability benefiting from the massive economic stimulus deployed by western governments and central banks. Concerns remain, however, that any sustained recovery will be slow as a result of the significant levels of debt that have been built up. The Bank of England has maintained official interest rates at a record low of 0.5% throughout the financial year and injected liquidity of £200bn in support of the financial system. The UK economy emerged from recession as manufacturing and service sector activity gradually improved and with sterling weakness boosting the competitiveness of British exporters.

Global equity markets recovered from the previous year declines by recording exceptionally strong gains during the year. UK Equities rose by 52% while US, Europe and Asian markets delivered returns in excess of 40% to a UK based investor. The star performer, however, was Emerging Markets which returned in excess of 70%. In bond markets, Government Bonds remained largely unchanged over the year but UK Index Linked Bonds recorded a rise of over 10%. Corporate Bonds performed particularly well by posting a return of 31% as liquidity improved and fears over significant defaults in this sector receded. The Property sector returned to positive territory with a rise of over 12%.

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**