

# FALKIRK PENSIONS

# news

THE NEWSLETTER FOR **FALKIRK PENSION FUND MEMBERS**

## Fund value approaches £3bn

Bounce back in markets delivers strong recovery

### *The Pension Fund and Covid-19*

The last eighteen months has been extraordinarily challenging, and we start this newsletter by offering condolences to any Pension Fund members, colleagues, family and friends who have lost loved ones or been severely affected by the pandemic.

As we start to see the lifting of many Covid-related restrictions, it is interesting to reflect on just how wide ranging the impact of the pandemic has been for the Fund, whether this be companies suspending payment of their dividends; financial markets being volatile; staff working from home; or sadly, at certain times, sharp increases in the number of pensioner deaths.

Fund assets are invested globally to help meet the cost of future benefit payments. A sustained downturn in markets reduces the value of the Fund and can require employers (but not employees) to pay more into the Fund to meet the shortfall.

The FTSE 100 graph opposite is indicative of how markets reacted to the extraordinary events of 2020/21 – from values that plummeted in March 2020, when the full enormity of Covid was grasped, to October 2020 when markets responded with euphoria as the first vaccines were shown to be effective. Since then, the continuing market resurgence has allowed the Fund to reach a valuation of c.£2.9 billion.



Whilst the signs for the Fund are generally positive - based on the re-opening of global economies and a strong season of corporate earnings - potential pitfalls lie ahead in the form of inflation risk, the removal of government stimulus, climate change, geo-political tension, and a general stalling of economic growth. To help meet the challenge, the Fund is diversified across a broad range of assets worldwide from companies like Apple, Alphabet, Microsoft and Sony to UK Wind and Solar Farms to Residential and Commercial Property in the UK.

Remember, as part of the LGPS, **your rights are guaranteed and unaffected by market mood swings**. What you build up in the Scheme depends on how much you earn and how long you contribute.

### *Key Fund Achievements in 2020/21*

- Refreshed the Funding Strategy Statement
- Completed 2020 Fund Valuation to set new Employer Contribution Rates
- Adopted a Statement of Responsible Investment Principles
- Committed £150m to Environmentally Themed Fund
- Undertook Research into Potential Fund Merger

# Pension Fund News

## 2020/21 - A Year Like No Other

It is no surprise that the defining event of 2020/21 for the Fund has been the Covid-19 pandemic.

Operationally, the Pensions team has continued to deliver a full range of services to stakeholders through a combination of home and office working and by making use of technology such as Office 365 and MS Teams. Similarly, in terms of governance oversight, the Pensions Committee and Board have been meeting on a virtual basis since last summer.

Investment wise, the Fund delivered a return of 22.3%, marginally ahead of its benchmark return of 21.7%. As at 30 June 2021, the Fund has assets of £2.9 billion and a funding level in excess of 100%.

The pandemic has resulted in the acceleration of various structural trends such as automation, digitisation and decarbonisation. The Fund has been undertaking a review of its investment strategy with its advisers to ensure that it remains relevant. The outcome is that the Fund will continue to allocate around 60% of its assets to equities, with smaller allocations being made to infrastructure, property and debt (e.g. gilts and corporate bonds).

## Fund Valuation at 31 March 2020

A valuation of the Fund is carried out every three years by an independent actuary. This is to ensure that employers pay an appropriate level of contribution and that solvency of the Fund is maintained. The most recent valuation was as 31 March 2020 with results being finalised during 2020/21. Significant points of interest were as follows:

- *Improvement in Funding Level to 94% (from 92% at 31 March 2017)*
- *Liabilities of £2.48m compared to assets of £2.33m*
- *Deficit reduced to £152m (£184m at 31 March 2017)*
- *Contributions for most employers set in the range 22% to 24% of pay*

## Did you know the LGPS provides valuable FINANCIAL PROTECTION for you and your family in the event of your death?

### Lump Sum Death Grant

A lump sum of 3 years' pay if you die in service. If you die whilst you are a deferred member, a lump sum of 5 times your deferred pension (or, for pre April 2009 leavers, a lump sum equal to your deferred lump sum).

Tell us who you would like to receive your death grant by completing a Nomination Form. You can alter this at any time if your circumstances change.

The instruction on the nomination form will usually be followed. However, nominations can occasionally become out of date and the Pension Fund retains absolute discretion as to who receives the payment.

It is **really important** to check your personal statement that your nomination details are up to date (especially if you've remarried or have a new partner but children from a previous relationship).

### Spouse / Civil Partner's Pension

A pension is provided **automatically** if you are survived by a spouse or civil partner. It's payable for the rest of your partner's life and is increased in line with inflation.

### Co-habiting Partner's Pension

Your partner will be entitled to a pension provided that, for a continuous period of at least two years, you and your partner have been:

- free to marry / form a civil partnership;
- living together with each other and no one else
- financially dependent or interdependent

### Nomination Forms

Death Grant and Partner Nomination Forms are available at [www.falkirkpensionfund.org](http://www.falkirkpensionfund.org).

Failure to complete a partner nomination form will not prevent a partner's pension being paid, if all eligibility conditions have been met. We do however still encourage partner forms to be completed.



# Pension Fund News

## New Fund Investment

We are very excited to have made a commitment of **£150m** to the Pictet Global Environmental Opportunities Fund.

**Pictet** are Swiss-based asset managers with considerable experience in the sustainable investment space. Their investment thesis is to allocate capital to companies with an attractive risk-return profile which have the ability to deliver a positive environmental impact.

Their investment approach is to focus on megatrends such as renewable energy, sustainable agriculture and forestry, pollution control, water supply and waste management, and to seek out the companies with innovative business models likely to benefit from these themes.



On the theme of responsible investment, the Fund is in the process of appointing specialist advisers to assist it in engaging with investee companies on corporate governance matters.

## LGPS and McCloud

In 2019, the Court of Appeal in “*McCloud*” decided that certain provisions of public sector schemes (including the LGPS), which had been introduced in 2014/2015 to protect older members, amounted to age discrimination. Since the judgement, Governments at both UK and Scottish levels have been considering how to correct matters.

Responses to a 2020 consultation on McCloud are currently being considered by the Scottish Public Pensions Agency (SPPA). It is likely that the method of redress will be to “level up” and extend the protections to a broader range of members.

If you qualify for McCloud protection, you will get this automatically – you’ll not need to make a separate claim for it.

## Tax

The Lifetime Allowance (LTA) has been frozen at £1,073,100 for tax years 2021/22 to 2025/26. The Annual Allowance (AA) for 2021/22 remains at £40,000.

Lifetime Pensions Savings that exceed the LTA and Annual Pensions Savings that exceed the AA both attract a tax charge. You can find out more information about these charges on the Fund website.

## Money Advice – Changes

The Money and Pensions Service has recently launched MoneyHelper (tel. 0800 138 7777).

This replaces the Money Advice Service, the Pensions Advisory Service and Pension Wise. (n.b. Pension Wise will continue as a separately named service under the MoneyHelper umbrella).

## Structural Review of Scheme

In 2018, a nationwide consultation was undertaken to seek views regarding the future structure of the Local Government Pension Scheme in Scotland. Four possible options were put forward for comment:

- *Retain the Status Quo of 11 Funds*
- *Increase Collaboration between the 11 Funds*
- *Pool Assets between Funds*
- *Merge Funds (e.g. one single Fund or three or four Funds)*

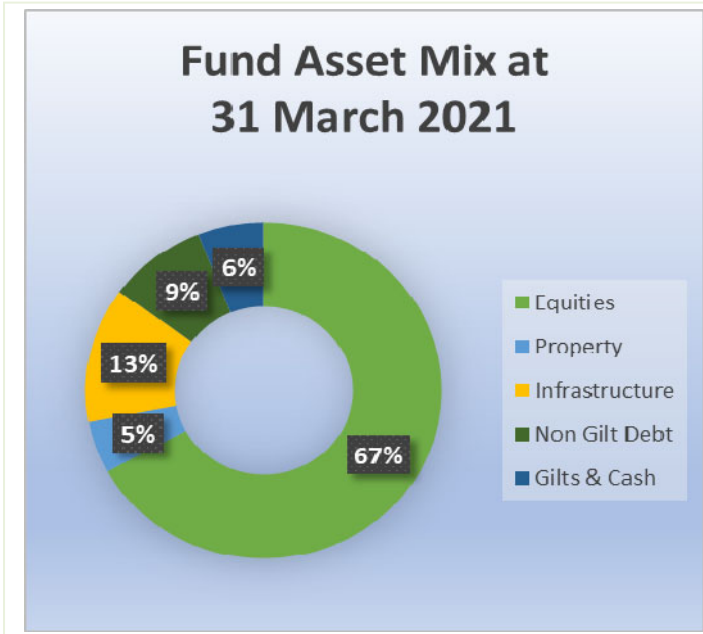
The review process has been somewhat hampered by Covid, however, following an initial consultant's report, further analysis has now been commissioned by the Scottish Scheme Advisory Board (SAB). It is expected the further review will report back in early 2022. The SAB is the body responsible for making policy recommendations to the Scottish Ministers. More information about the SAB Structure Review can be found at [SAB-Bulletin-May-2021.pdf](#) ([lgpsab.scot](#)).

The Falkirk Fund remains of the view that some form of merger should be actively explored. To better understand what this might mean in practical terms, the Fund has been working with a consultant to look at issues such as the governance model that could be deployed and the implications of merger on administration, funding and investment strategies.

# Fund Summary 2020/21

**Fund Value at 31/03/2021 = £2.84 billion**

## How the Fund was invested at 31 March 2021



## How the Fund changed during 2020/21

	£millions
Fund Value at 31 March 2020	£2,329
<b>Plus:</b>	
Contributions and Transfers	98
Investment Returns	526
<b>Less:</b>	
Benefits Payable	(92)
Management Expenses	(19)
Fund Value at 31 March 2021	£2,842

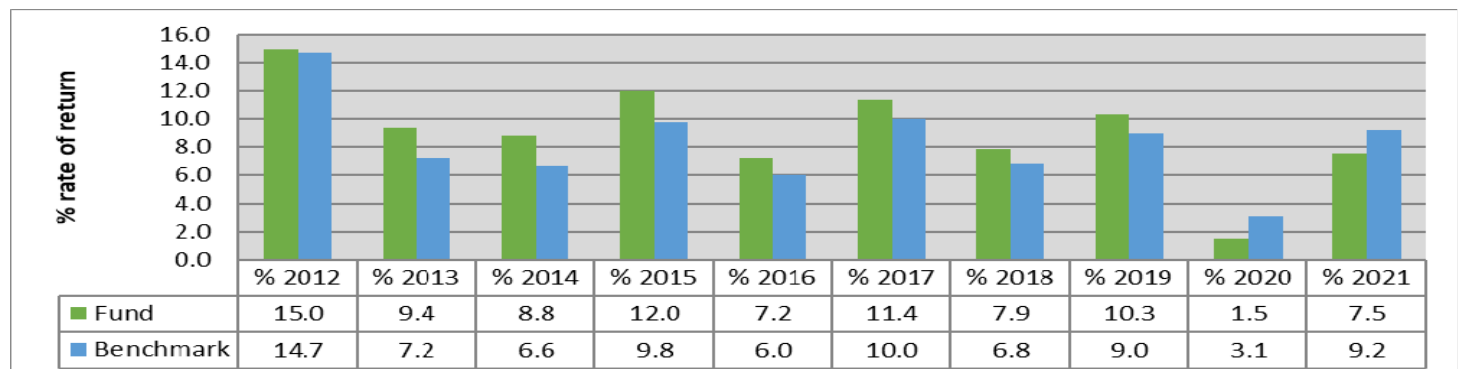
## Asset Returns in 2020/21

ASSET CLASS	RETURN
Equities	+32.9%
Real Assets (e.g. Property/Infrastructure)	+5.4%
Non Gilt Debt (e.g. Corporate Bonds)	+6.1%
Gilts (e.g. UK Govt Bonds)	+7.6%
Total Fund Return	+22.3%

## 2020/21 Investment Highlights

- **Investment returns of 22%**
- **New Global Environmentally Themed Mandate**
- **1 year and 10 year returns ahead of benchmark**
- **Statement of Responsible Investment Adopted**
- **BP/Shell no longer in Top Ten Holdings**
- **Voted on over 1,500 company resolutions**

## Past Fund Performance - 3 Yearly Annualised Percentage Returns Over Last 10 Years



For more details, see the unaudited Annual Report and Accounts 2020/21 on the Fund website.

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