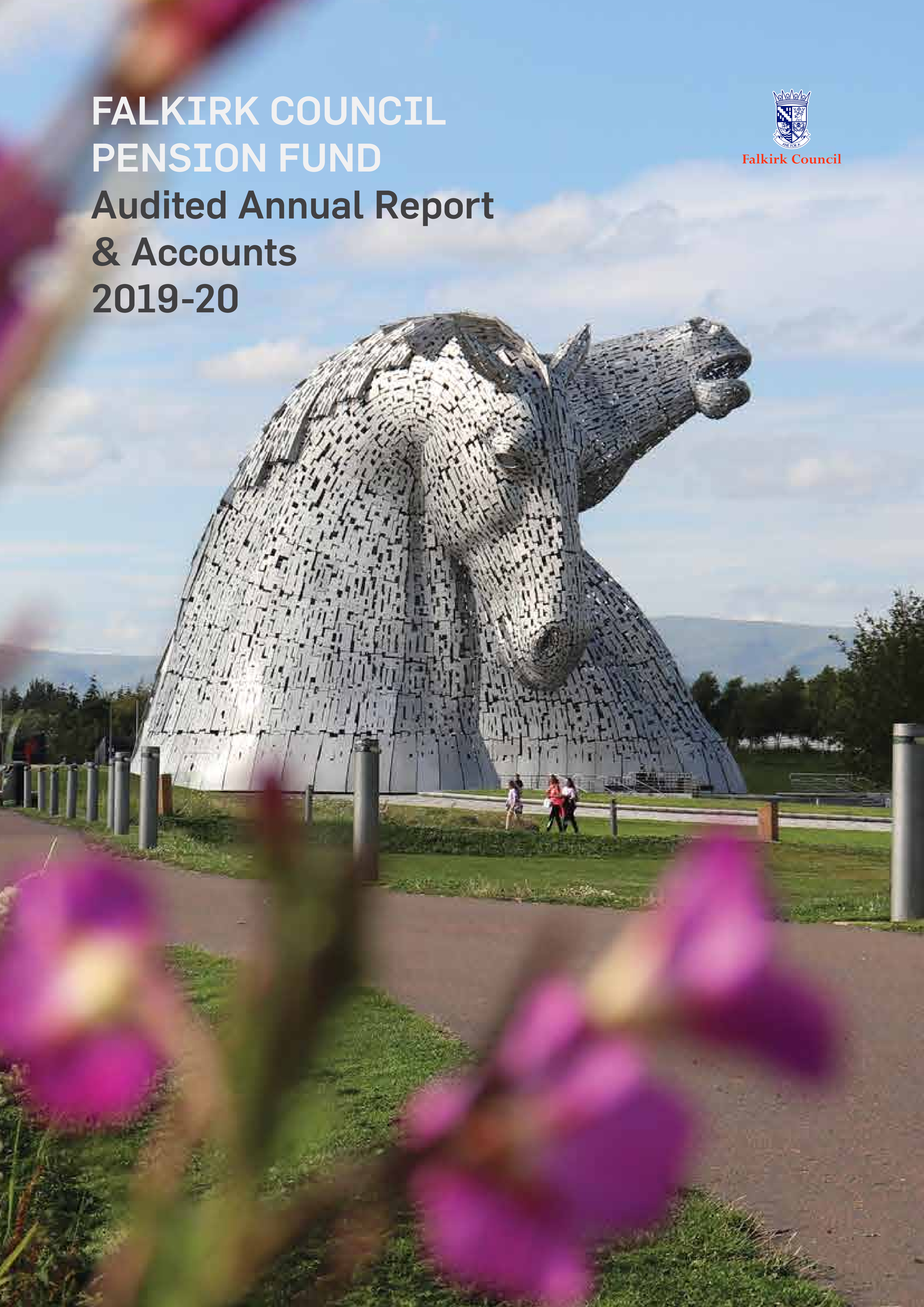
FALKIRK COUNCIL PENSION FUND

Audited Annual Report & Accounts 2019-20

Falkirk Council



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Foreword from the Chair of the Pensions Committee

As Chair of the Pensions Committee with responsibility for overseeing the investment management and administration of the Falkirk Council Pension Fund ("the Fund"), I am pleased to introduce the 2019/20 Annual Report and Statement of Accounts.

Can I begin by offering my best wishes to all readers of the Accounts; to Committee and Board members; the Pensions Section; scheme members; and all those associated with the business of the Fund. In what continues to be a difficult and troubled time, I hope you and your families have stayed well and managed to avoid the worst excesses of the COVID-19 pandemic.

Unfortunately, due to illness, I was not able attend the Committee and Board meetings during 2019/20, however, I have been made aware of and kept well informed of developments by the Pensions Manager. At this point, I would like to thank Councillors Blackwood and Patrick for chairing the meetings that I was unable to attend.

Clearly, the shockwaves of COVID-19 are going to be felt for a long time to come and it will be important for institutions such as the Fund to provide much needed stability and financial security in what will be an uncertain financial world.

As lockdown measures have taken hold, I know that COVID-19 has posed a stern examination for the Pensions Team, requiring them to work from home with all the technical and logistical challenges which that brings as well as also attending their normal workplace from time to time to undertake essential duties whilst observing safe distancing protocols.

Fund employers have had their own service delivery challenges and I am appreciative of their efforts in continuing to collect and remit pension contributions to the Fund as normal. Three of the smaller Fund employers who depend on footfall for their income have been granted short term contribution deferrals and we as a Fund will continue to be as supportive to them as possible in these extraordinary times.

As an investor, the landscape today looks very different as compared to the Elysian days of early March. All the major asset classes in which the Fund invests have been affected by the pandemic. Both equities and bonds fell dramatically in mid-March as a flight to safety gripped investors. Dividends for some companies were cancelled at the insistence of the Bank of England and trading in a number of property funds suspended as tenants sought rent breaks or deferrals.

Although equities and bonds have rallied in response to huge Government lifelines, markets remain fragile. As well as facing potentially the worst global recession in living memory, investors of 2020 will have to contend with a US Presidential election; strained relations between China and the US; and the unfinished business of Brexit. Investing is never easy! The Fund's strategy of holding a well-diversified range of quality assets including equities, property, infrastructure and bonds is likely to be the best defence in this environment of social and economic upheaval. Clearly when so many assets types have been impacted, the Fund's funding level can be expected to have dropped and that has been the case with assets now estimated to be 82% of the liabilities. In a sense, this estimate should be a "worst case scenario" as it was made at the year end and coincided with the low point of the market's reaction to COVID-19. Notwithstanding this disappointing turn of events, the important message to convey is that the Fund remains in a healthy state and very capable of meeting its ongoing obligations.

Although my comments thus far have focussed on COVID-19, this should not detract from the fact that some very good and important work was undertaken by the Pensions Team during the accounting year. Several mandates, including the £150m property mandate, were taken in house in order to reduce costs and to allow greater visibility over the underlying assets. Other initiatives to improve the efficiency of operations included more electronic data submission by employers; tracing lost members; and joining the DWP's Tell Us Once service to facilitate the reporting of pensioner deaths.

The publication of a new UK Stewardship Code, along with concerns about climate change and the sustainability of the planet have made responsible investment a key theme for today's pensions industry. During 2019/20, the Fund became a member of both the Institutional Investors Group on Climate Change (IIGCC) and the Climate Action 100+ group. These bodies exist to promote "just solutions" in response to the challenges of climate change. As a Fund, we augment this by requiring our own investment managers to engage robustly with investee companies and by being members of the Local Authority Pensions Funds Forum – a great example of Funds working together.

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I take particular pride in the fact that the Fund was one of only eleven institutional investors to co-file a resolution at the recent Annual General Meeting of banking giants Barclays. The aim was to get a commitment from Barclays to phase out financial support for energy companies not aligned with the 2016 Paris Climate Change agreement. Although the resolution was defeated, it gained over 20% support and was I believe instrumental in bringing Barclays to the table to unveil its own “ambition” to be a net-zero lender by 2050.

Casting my eye forward to 2020 and 2021, I see that important work lies ahead for the Fund in the shape of the triennial Valuation, complicated on this occasion by the McCloud legal judgement and the stalled Cost Cap process. I am also conscious that at a national level questions remain outstanding regarding the structure of the Scheme in Scotland in terms of the number of Funds – currently eleven - and the appropriate governance model. These are matters still being addressed in the Scheme Advisory Board’s structural review launched in 2018.

Irrespective of the eventual outcome of the structural review, I am pleased to note that Falkirk continues to collaborate closely with the Lothian and Fife Pension Funds for our mutual benefit and to improve resilience, generate efficiencies and deliver better outcomes for stakeholders. With a common set of investment principles and similar investment strategies, further exciting opportunities lie ahead.

The length of this foreword once again signifies just what a busy space is occupied by local authority pension funds. I wish to thank the Pensions Team for their efforts during the past year and particularly in the light of the COVID-19 episode. Now more than ever, when conventional society has been so badly disrupted, I am grateful that the Pensions Team have been able to continue paying pensions and lump sums as normal and generally continuing to guide members through the complexities and sometime bewildering challenges that is the Local Government Pension Scheme.

The Fund is responsible for making monthly payments to over 10,000 pensioners as well as being a secure savings vehicle for 15,000 paying members. Taken together, the numbers underline the continuing relevance of the Fund to its many stakeholders who live both locally and further afield.

Finally, can I take this opportunity to thank my colleagues on the Committee and Board and our advisors for their dedication and efforts during the past year.

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Councillor Adanna McCue
Chair of the Pensions Committee

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Statement from the Chair of the Pension Board

I am writing this on my kitchen table, having now spent three months unexpectedly juggling busy work and professional commitments, keeping two boys entertained and vaguely on top of their school work, trying to stay on top of and comply with each new change of rules and guidelines, and maintaining some kind of health and wellbeing. I don't think it's unfair to say that the COVID-19 pandemic has taken us all by surprise. If the impact of a global health pandemic was not one of the highest scoring risks on the scheme's risk register – and I played my part in that, having participated in the regular reviews of the register – that is something shared by the vast majority of businesses, organisations and institutions worldwide.

Yet there is hardly a single aspect of the governance and running of the scheme that has not been touched by COVID-19 and our responses to it, even though its presence and impact only began to be felt towards the end of the 2019/20 financial year. The impacts of the pandemic will be profound and wide-ranging, throwing a new light on all the core concerns and responsibilities of those charged in their different ways with the governance and management of the scheme. 31 March 2020 is the date of the triennial valuation, an event of great magnitude for those of us who have to manage the impact of employer contribution rates on our organisations' finances. This time round the work of the actuaries to guide us through the process, that we hope will lead us to an ongoing sustainable balance of scheme funding between contributions and investment returns, seems beset by additional challenges and levels of uncertainty. How will the global, UK and Scottish economies come out of the crisis, and what will that imply for investment returns, scheme participation, inflation, and salary and pension increases? And will COVID-19 have a discernible impact on short- and longer-term longevity trends? It feels like there is a much broader range of possible future scenarios than has recently been the case, and a harder set of decisions coming when the Committee agrees the valuation assumptions later in the summer.

Despite the interruptions to the regular governance cycle – the cancellation of the March Committee and Board meeting followed the earlier delay to the December meeting due to the UK General Election – the scheme has continued to function well. It is of particular credit to the team and their Business Continuity Planning process that, at short notice, they have managed to initiate home working, whilst keeping all priority activities going, dealing with a whole raft of new queries arising from the changes to employers' and scheme members' circumstances brought about by the pandemic, and maintaining their own health and wellbeing.

Looking over the scheme year as a whole, the Pension Board has continued to exercise its responsibilities in respect of assisting the Scheme manager with regulatory and legislative compliance in respect of the scheme's governance and administration. Board members have consistently attended all meetings of the Pension Committee, and have been given full opportunity to question the Scheme managers and their advisors on all important matters. Among the highlights have been the future shape of the LGPS in Scotland; related to that, the ongoing development of the collaboration with the Lothian Pension Fund; and the Environmental, Social and Governance agenda, particularly the extent to the which the scheme can influence sustainable environmental practices through its investing and voting decisions. There continues to be a good level of continuity of Board members, although we have had to say farewell to Susan Crook who had given many years' dedicated service to supporting the running of the scheme. The Board has not had to ask the Committee to review any of its decisions, which is further indication that the scheme's governance and administration is generally running well. We look forward to the resumption of routine high level governance and scrutiny activities at the forthcoming August meeting.

Simon Hunt
Chair of the Pension Board

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Post:	Pensions Section PO Box 14882 Falkirk Council Municipal Buildings Falkirk FK1 5ZF

The Pension Section is available to help with all aspects of scheme membership including benefits for active, deferred and pensioner members.

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Strategic and Policy matters:	01324 506333
Accounting and Investment matters:	01324 506338
Projects and Systems:	01324 506337
Opening hours:	Monday to Friday, 9.00am – 5.00pm
Websites:	www.falkirkpensionfund.org www.scotlgps2015.org
Email:	pensions@falkirk.gov.uk investments@falkirk.gov.uk

Reference is made in this report to a number of key documents with a link to the on-line version available (these are displayed with underlining). If you are unable to access any of these, or would like a hard copy, please don't hesitate to contact us using the above General Enquiries telephone number.

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Management of the Fund

Administering Authority	Falkirk Council, Municipal Buildings West Bridge Street, Falkirk, FK1 5RS
Scheme Administrators	Falkirk Council In House Pensions Team
Fund Officers	Bryan Smail, Chief Finance Officer Alastair McGirr, Pensions Manager
Legal Advisors	Falkirk Council Legal Services Lothian Pension Fund (Secondment Arrangement)
Fund Actuary	Hymans Robertson LLP
Fund Custodian	The Northern Trust Company
Performance Measurement	Portfolio Evaluation
Investment Advisors	<u>Joint Investment Strategy Panel</u> Scott Jamieson Gordon Bagot
Bankers	The Royal Bank of Scotland The Northern Trust Company
AVC Providers	Prudential Standard Life
External Auditor	Ernst and Young LLP 2 St Peter's Square Manchester, M2 3DF

Investment Managers

Aberdeen Standard Investments	AberdeenStandard Investments
Barings	BARINGS
Baillie Gifford	BAILLIE GIFFORD
FIM Services Ltd	FIM Services Limited
Harbert Management Corporation	HMC Harbert Management Corporation
M&G Investments	M&G INVESTMENTS
KKR	KKR Kohlberg Kravis Roberts
Ancala Partners	ANCALA
Blackrock	BLACKROCK
Dalmore Capital	DALMORE CAPITAL
UBS/Greensands	Greensands
Hearthstone Investments	Hearthstone Investments

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Newton Investment Management	NEWTON Investment Management
Wilshire Associates	Wilshire
Alcentra	Alcentra
Brookfield	Brookfield
Equitix Investment Management Ltd	equitix
GCM Grosvenor	GCM GROSVENOR
InfraRed Capital Partners	InfraRed Capital Partners
Legal & General Investment Management	Legal & General INVESTMENT MANAGEMENT
Schroders Investment Management	Schroders
Greensphere Capital Partners	greensphere
Alinda Capital Partners LLC	ALINDA
Global Infrastructure Partners	GLOBAL INFRASTRUCTURE PARTNERS
Macquarie	MACQUARIE
Oaktree Capital Management	OAKTREE
Resonance Wind GP LTD	Resonance
Madison Capital Funding	MADISON CAPITAL FUNDING A NEW YORK LIFE INVESTMENTS COMPANY
Federated Hermes	Federated Hermes
Nuveen Property Managemnet	nuveen REAL ESTATE
Crestbridge	CRESTBRIDGE

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Annual Report and Accounts

This is the Annual Report and Accounts for the Falkirk Council Pension Fund for 2019/20.

The Annual Report has been prepared in accordance with Regulation 55 of the Local Government Pension Scheme (Scotland) Regulations 2018 and the CIPFA Guidance for Local Government Pension Scheme Funds (2019 Edition) entitled "Preparing the Annual Report".

Schedule 6 of The Coronavirus (Scotland) Act 2020 gives local authorities scope to vary the timetable for producing and publishing their 2019/20 Annual Report and Accounts. Notwithstanding this easement, the Annual Report and Accounts for the Fund is being publicised in accordance with the standard timetable for accounts production.

Performance Headlines

	2016/17	2017/18	2018/19	2019/20
Funding Level	92%	91%	92%	82%
Admin Cost per member	£18.11	£22.32	£22.41	£25.96
Investment Return	20%	3.1%	8.5%	-6.6%
Performance v Benchmark	+1.6%	+0.6%	+1.7%	-6.9%
External Audit Outcome	Unqualified	Unqualified	Unqualified	Awaited

Further information on Investment Performance and Returns can be found on pages 39-41.

About the Falkirk Council Pension Fund

Falkirk Council is designated as an "Administering Authority" and is required to operate and maintain a pension fund - the Falkirk Council Pension Fund ("the Fund").

The Fund is used to pay pensions, lump sum benefits and other entitlements to scheme members and their dependants. Contributions are made by employee members and by participating employers. The Fund also receives income from its various investments.

The Fund operates under the terms of the Local Government Pension Scheme which is a public sector pension arrangement governed by the Public Service Pensions Act 2013. Scheme membership is made up of active, deferred and pensioner members. To join the scheme as an active member, a person must be employed by a local authority or by a designated body and not be entitled to join another public sector scheme.

Employers in the Fund are either Scheduled Bodies – in which case they are legally required to offer the Scheme to their employees, or Admission Bodies – in which case the body has applied to participate in the Fund and their application has been accepted.

The larger Fund employers are Clackmannanshire, Falkirk and Stirling Councils, the Scottish Environment Protection Agency (SEPA), the Scottish Children's Reporter Administration (SCRA) and Scottish Autism. Other employers include several non-profit making charitable bodies located in Central Scotland, as well as two contractors (Amey and Forth & Oban Ltd) to whom school facilities maintenance has been transferred. A full list of Fund employers is given in Appendix 2 on page 99.

In addition to Fund employers, key partners include local authorities, actuaries, banks, government agencies, fund managers, legal advisers, corporate governance and litigation specialists, and various other financial institutions.

About the Local Government Pension Scheme (LGPS)

- The LGPS is a nationwide pension arrangement for persons working in local government and is one of the largest schemes in the UK with over 4 million members.

- Local Authorities and certain other public bodies are required by law to operate the Scheme. Other organisations such as charities, non-profit making entities and contractors may apply to join the Scheme.

- The LGPS (Scotland) is the version of the Scheme which applies to local authorities in Scotland. Other versions apply in England and Wales and in Northern Ireland.

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- The Scheme consists of around 100 regional pension funds across the UK – one of which is the Falkirk Council Pension Fund.
- The LGPS is a funded scheme, which means monies are being set aside to pay for benefits as they fall due, thus helping to reduce the costs falling on future generations.
- The LGPS is a defined benefit scheme providing a range of high quality inflation linked benefits based on members' salaries and their years' of scheme membership. Unlike other forms of pension provision, benefits do not depend on investment performance.
- For more information about LGPS (Scotland), please visit www.falkirkpensionfund.org or www.scotlgps2015.org.

Management Commentary

Introduction

Several years of Brexit inspired political turbulence and strategic manoeuvring have given way to the economic turbulence and societal anxiety arising from the COVID-19 pandemic. In the face of market euphoria at the decisive outcome of the UK General Election in December 2019, the value of the Fund reached £2.6 billion. However, with the shockwaves of COVID-19 starting to reverberate, the value of the Fund dropped to £2.3 billion by the end of March 2020.

Despite the value of the Fund returning to a level seen in March 2017, the Fund remains in a healthy state, still capable of paying benefits as they fall due and under no immediate pressure to sell assets which due to current market conditions may have reduced in value.

The Fund now has more active, deferred and pensioner members (35,396) than ever, with the Fund playing an important role in supporting the economic wellbeing of our members – particularly at this difficult and uncertain time - who live mainly in Central Scotland but in some cases are located across the length and breadth of Scotland and beyond.

The remainder of this commentary looks at the key themes colouring the work of the Fund during 2019/20 and contains management's observations on the overall performance of and outlook for the Fund.

Business Model

The Fund is managed and administered from the Municipal Buildings in Falkirk.

The day to day running of the Fund is carried out by the in house Pensions Section whose key objectives are:

- to provide an efficient and cost effective service that meets members' needs
- to safeguard and undertake the prudent investment of Fund assets, and
- to ensure good governance of the Fund in compliance with statutory requirements.

The Section is managed by a Pensions Manager who reports to the Chief Finance Officer. Accountability is to the Pensions Committee, the Pension Board, Fund Employers and Scheme Members.

The work of the Section covers the following areas of activity:

- Membership and Benefits Administration
- Investment Management
- Governance and Risk Management
- Funding
- Accounting
- Communications

Membership and Benefits Administration is undertaken internally by the Pensions Section. For more detailed information on this activity, turn to the Scheme Administration Section on page 25.

Investment Management of the Fund's assets is undertaken by a range of managers who have been appointed by the Pensions Committee on the basis of external advice. The Committee sets the investment strategy but delegates its implementation to the Chief Finance Officer who in turn receives advice from a Joint Investment Strategy Panel (JISP). More Information about the Fund's investment management arrangements is given on page 34.

Governance and Risk Management is the responsibility of the Pensions Committee to whom Fund business has been delegated by Falkirk Council. The Committee is supported by the Pension Board to ensure that decisions are made in line with the rules of the Scheme and in accordance with good practice. More information on Fund Governance can be found on page 15. Information on Risk Management can be found on page 51.

Funding strategy is set by the Pensions Committee with the help of Hymans Robertson, the Fund Actuary.

Accounting and financial control is undertaken in house by the Pensions Section and by the Fund's Custodian – Northern Trust.

Communication is delivered via the Pension Fund website www.falkirkpensionfund.org through members newsletter sent with benefits statements; and by messaging pensioners via their monthly pension advice slips.

COVID-19

The COVID-19 pandemic which erupted at the closing end of the financial period has had a major effect on the Fund, impacting a range of financial, governance and operational activities. Given the breadth of impact and continuing Covid-19 uncertainties, a Covid-19 specific risk item has been added to the Fund's risk register.

Looking back to March 2020, when the COVID-19 outbreak manifested itself, home working abruptly became the order of the day as the Fund's business contingency arrangements were activated. We are pleased to report that during the crisis, the Pensions Team and families remained safe and well. They supported the new way of working and continued to provide a good level of service to stakeholders with key tasks, including the payment of pensions, retirement lump sums and death grants being undertaken. After three months of substantial home working, the transition has been reasonably smooth with hardware and software solutions providing good connectivity across the team and beyond. Steps have been taken by the Council's Governance team to facilitate remote Committee meetings and provide the necessary forum for Committee and Board oversight. Connectivity will be further facilitated during 2020 by a corporate roll out of MS Office 365 which is due to commence shortly.

The Council's "Anytime, Anywhere" strategy strongly encourages teams to increase their levels of home working and the COVID-19 experience will inevitably give further impetus to this. In the coming months, we will be looking at the steps needed (e.g. more digitisation of data) to further capitalise on these opportunities.

COVID-19 has seen a decidedly sharp downturn in asset valuations and heightened volatility across financial markets. Whilst this is by no means catastrophic for the Fund, it is significant as the nadir of the market collapse occurred at the end of March 2020, coinciding exactly with the date of the next Fund Valuation and pushing the funding level down to 82%. The Actuary is obliged to base valuation results on a snapshot of the Fund at 31 March, including the more depressed asset picture. However, in setting employer contribution rates, the actuary will also have regard to other elements of the Funding Strategy such as maintaining stability of rates; the strength of employer covenants; and taking a long term view to match the long term nature of the fund.

Arguably of more significance than the funding level - which post year end has actually shown signs of recovery – is the impact which COVID-19 may have on consumer confidence and by extension the longer term health of global economies. The full consequences of all of this will only become apparent when the fiscal life support mechanisms turned on by Government in Spring 2020 are switched off.

Further comment on the risks and responses triggered by COVID-19 is contained in the Risk section of the Management Commentary on Page 12 and in the Annual Governance Statement on Page 88
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Governance

The composition of the Pension Board and Pensions Committee changed materially during 2019/20 with a number of members leaving and being replaced.

The Pension Board entered the year with one of its Trade Union places being vacant, whilst during the year two further Union members left along with one of the employer representatives. All vacancies except for one Trade Union place have now been filled and induction sessions held with the new members. It should be noted that none of the reasons for members leaving the Board were related to Fund business.

Also in relation to the Board, the allocation of places to respective Trade Unions was adjusted to recognise the merger of Unite and Ucatt. The merger resulted in a Trade Union place being released and re-allocated to Unison on the basis of their superior membership numbers. Cognisance was also taken of a number of Board members completing their four-year term of office which meant that they had to be replaced or have their appointment for a further term re-confirmed.

The Pensions Committee entered 2019/20 with a vacancy for a Pensioner Representative. A selection process was run amongst pensioners and an appointment duly made.

The final Joint Committee and Board meeting of the year which had been scheduled for March 2020 did not take place due to the Coronavirus outbreak. The meeting papers were however made available to members. To help keep Committee and Board members informed of developments in the light of the pandemic, an update paper was circulated in May, 2020 with investment managers' reports continuing to be posted to the shared portal used by Committee and Board members. A virtual Committee and Board meeting was held successfully on 13 August 2020. Governance meetings in the immediate future are expected to follow this format.

Full details of the Fund's Governance arrangements can be found on Pages 15 to 18 and in the Governance Compliance Statement on Page 93.

Risk

Although the challenges posed at the height of the pandemic –health and safety risks and social restrictions - have gradually receded, many uncertainties remain. These are largely outwith the control of the Fund but include inability to contain the virus; failure or delay in development of a vaccine; adverse changes in consumer behaviour; and unsustainable global growth.

In view of the pervasive nature of these risks, the Pensions Committee has added a COVID-19 specific risk to the risk register. This will sit beside the "Loss of staff from a pandemic" risk that already existed on the register.

Whilst COVID-19 remains a significant risk, this is being managed through various mitigations including: building up remote working capacity; maintaining close dialogue with the Fund's advisers; maintaining channels of communication with Committee and Board members; and by reporting to senior management through the Council's Business Impact monitoring arrangements.

Prior to the Covid-19 outbreak, the Risk Register was formally reviewed in November by Senior Fund officers with input from the Chair and former Chair of the Pension Board. Most prominent at that time were the risks from inadequate succession planning and from the effects of climate change.

A number of new staff have been recruited to the Pensions Team during the year in order to reduce succession planning risk. The issue is particularly relevant given the pending retirement of the Pensions Manager in 2020, and the overall age profile of the Pensions Team (n.b. 60% of longer serving staff members are over age 50).

The risks from climate change have led the Fund to join two climate focussed initiatives during 2019/20 – Climate Action 100+ and the Institutional Investors Group on Climate Change. Allied to this, the Fund is in the process of appointing an engagement specialist to improve the challenge to investee companies on the durability of their climate change mitigation plans. Recognition of climate change risk has seen the Fund – uniquely among Scottish LGPS Funds - co-sponsor a resolution at the Barclays plc Annual General Meeting calling on the bank to phase out the financing of fossil fuel energy producers. The resolution, although not passed, is seen as having stirred Barclays into committing to be a net-zero bank by 2050.

Investment Policy

Following the Fund's review of investment strategy in 2018/19, initial steps were taken during 2019/20 to re-position the portfolio. The main changes were:

- terminating the Global Equity Mandate with Aberdeen Standard
- re-investing the proceeds in a Global Low Volatility vehicle (GLOVE) managed by Legal and General Investment Management
- terminating the Funds of Funds property mandate with Schroders and bringing the underlying portfolio of 15 funds under in-house control
- taking into in-house control, a sub-fund of the Fixed Income portfolio managed by Baillie Gifford after the manager announced its closure

The termination of the Aberdeen Standard and Schroders mandates has allowed the assets to be moved to arrangements with lower fee bases.

More information on the Investment Policy and Investment Performance can be found on pages 34 and 38.

McCloud

In mid-2019, the Court of Appeal decided in their McCloud judgment that certain provisions introduced in 2015 to protect older members of public sector pension schemes amounted to age discrimination. Since the hearing, Government and associated agencies have been considering how to remedy the situation.

At time of writing, it is likely that the method of redress will be to "level up" protections and extend the "underpin" – the offending provision - to a broader range of members in order to remove the discrimination. This in turn is likely to mean the rule being applied retrospectively back to April 2015 with cost and administrative ramifications.

A high level calculation of the additional Fund liabilities generated by the McCloud judgment was undertaken last year by Hymans Robertson following initial work by the Government Actuary and estimated the impact to be 0.4% of the Fund (or approximately £13m). The potential impact of McCloud has been factored into the IAS26 assessment of Fund liabilities. The Actuary has also confirmed that work to incorporate the impact of McCloud in the 2020 Valuation has commenced. In view of the complexities, the actuarial approach will balance accuracy with pragmatism.

Cost Cap

The Cost Cap is the mechanism through which risks around the cost of the Scheme are shared between employer and member. It acts as a safety valve so that, in the event of the Scheme becoming significantly more (or less) expensive than expected, member contributions or benefits will be flexed. Recent actuarial analysis suggests that the Scheme is less expensive than expected which ordinarily should lead to a lower member contribution rate or improved benefits. Progress in taking this forward awaits completion of the Scottish Cost Cap Valuation by the Government Actuary's Department. This has been delayed by the implications flowing from the McCloud judgement, as additional costs from "levelling up" benefits will require to be factored into the Cost Cap deliberations. Notwithstanding McCloud, it is probable that cost cap adjustments will still require to be made, thereby adding to Scheme liabilities. In order to manage this risk, the Fund will remain in discussion with the Actuary and monitor proposals brought forward by the Scottish Public Pensions Agency and Scheme Advisory Board.

Review of Scheme Structure

The Scottish Scheme Advisory Board (SAB) with the support of the Scottish Government launched a review into the structure of the LGPS in Scotland during 2018.

A consultation exercise involving LGPS Funds, Fund Employers and Trade Unions was undertaken with respondents asked to consider four models - the status quo of 11 Funds; merger; pooling or increased collaboration. The Fund responded in support of a merged solution, suggesting the creation of three larger Funds. This was predicated on the potential for fee savings and the prospect of a more resilient model for the contributors and pensioners of the future.

Consultation responses were considered by the Scheme Advisory Board during 2019 and a proposal to undertake further analytical work agreed with the Scottish Ministers. A sub group of the SAB is taking this forward but clearly efforts have been hampered by the onset of COVID-19.

We remain of the view that a merged structure with three larger Funds is a viable option which should be explored. Separate from the national review, management continue to have discussions with the Lothian Pension Fund to consider how our working relationship can be placed on a more integrated and mutually beneficial footing.

More information about the SAB Review can be found on the website of the SAB.

Scheme Changes

The sole change made to the Scheme during the year was the passing of the Local Government Pension Scheme (Increased Pension Entitlement) (Scotland) Regulations 2019 (for details see section below on GMP Reconciliation). The Scottish Public Pensions Agency also issued guidance on the processing of Ill Health Retirements and Ill Health Related Appeals. The guidance has been passed on to all Fund employers.

GMP Reconciliation

The exercise to reconcile HM Revenue's Guaranteed Minimum Pension data with that of the Fund has continued during 2019/20 with data matching being undertaken by Heywood and their associates ITM. The Local Government Pension Scheme (Increased Pension Entitlement) (Scotland) Regulations 2019 means that any GMP-related pension overpayments identified should not be recovered but instead ring fenced and frozen going forward. A project plan to identify and calculate over and underpayments has been agreed with providers and will be progressed during 2020/21. More information on this topic can be found in Note 25 on Page 86.

Data Quality Standards

The Regulator requires that Funds take a pro-active approach to improving data quality. The Fund undertakes an annual data scoring exercise the most recent of which took place in Autumn 2019. This disclosed that the Fund had a data score of 98% for Common data and 85.6% for Scheme Specific Data. The scores reflect some gaps in the way data has been collected historically but does not impact materially on member benefits. We will continue to seek improvements to these scores in the coming year.

In recent months, the Pensions Team has been working with a third party provider to trace the addresses of around 800 "Gone Away" deferred members. At time of writing around half of those members have been successfully re-connected with their records with work continuing in relation to the remaining 50%.

During 2019/20, the Pensions Team was able to join the LGPS National Database of members which is a facility designed to prevent duplication of benefit payments. This has also enabled the Fund to begin participating in the DWP's Tell Us Once initiative in turn designed to simplify the process of notifying pensioner deaths to relevant agencies.

Remuneration Report

There is no need for the Fund to produce a remuneration report, as the Fund does not directly employ any staff. All staff are employed by Falkirk Council, and their costs are charged directly to the Fund. Details of the remuneration of key management personnel can be found at Note 24a on page 86.

Outlook for 2020/21

The immediate outlook for the Fund, its members and employers is largely dependent on COVID-19 outcomes. Without a medical breakthrough, subdued economic activity may persist in the face of efforts to contain the virus. The rapidity with which the outbreak took hold is exemplified by the International Monetary Fund's prediction in January, 2020 for global annual growth of 3.3% and this giving way by mid-March to a forecast of the worst global recession since the Great Depression in the 1930s.

Notwithstanding the fact that all other economic risks are dwarfed by COVID-19, the US Presidential Election; US relations with China; and the UK's exit from the EU are still all issues hovering in the background. These and other issues will be discussed with external investment managers and at the quarterly meetings of the Joint Investment Strategy Panel where the ongoing relevance of the current investment strategy will be considered.

Against this backdrop Fund Actuary Hymans Robertson will be conducting the 2020 Valuation. It may be that on this occasion the valuation will require to deliver a "steady as you go" outcome, as it is unlikely within the timescales for the valuation to be completed (i.e. by 31 March 2021) that detailed conclusions about the impact of COVID-19 on long term asset returns will be available. Hymans Robertson themselves have commented that *"given the lack of evidence, and the ability of the LGPS to take a long term view, we are not advising any administering authority to review, change or rip up their long term funding and investment plans…"*

As lockdown restrictions are eased, the Fund will look to adapt to a new norm of more flexible working. The focus will be on meeting service delivery obligations whilst having regard to staff welfare and safe working protocols. Management will continue to explore the opportunities for closer co-operation with the Lothian Pension Fund, noting that in the coming year, the Pensions Manager at Falkirk will be retiring from his position.

Amongst projects earmarked for progression in the coming year are:

- Fund Valuation
- Further roll out of i-Connect (Electronic data transmission)
- Conversion of paper records to digital
- E-payslip solution for Pensioners
- GMP Reconciliation

Clearly a number of challenges lie ahead for the Fund and the Pensions Team whether this be adapting to new modes of working or supporting scheme members and employers to achieve their goals in uncertain times. Despite the changed environment in which we are all functioning, the Fund remains in a comparatively healthy state and with an experienced team in place to take forward a challenging and purposeful agenda for improvement.

Chair of the Pensions Committee **Date: 05/11/2020**

Chief Executive of Falkirk Council **Date: 05/11/2020**

Chief Finance Officer of Falkirk Council **Date: 05/11/2020**

Fund Governance

Overview

Falkirk Council is the Administering Authority of the Falkirk Council Pension Fund and is responsible for ensuring that pension fund business is conducted in accordance with the law and proper standards and that contributions from scheme members and employers are invested prudently and properly accounted for.

Falkirk Council has delegated its pensions function to the Pensions Committee, with certain operational and investment activities being delegated to the Chief Finance Officer. Pension Fund business is overseen by a Pension Board that has been set up to comply with the requirements of the Public Service Pensions Act 2013.

The governance arrangements for the Fund are explained in the Governance Policy which contains the statutory Governance Compliance Statement. An Annual Governance Statement makes reference to the governance mechanisms and internal controls in place during the accounting year. Governance arrangements are reviewed periodically to ensure they remain relevant and effective.

Annual Governance Statement

The Local Authority Accounts (Scotland) Regulations 2014 require that:

- Councils conduct an annual review into the effectiveness of the systems of internal control; and that
- An Annual Governance Statement is included in the Annual Accounts.

The Annual Governance Statement in respect of 2019/20 is set out on page 88.

Governance Compliance Statement

Regulation 55 of the Local Government Pension Scheme (Scotland) Regulations 2018 requires the Fund to publish and maintain a Governance Compliance Statement, setting out how Fund business is conducted and how stakeholders are represented in the decision making process.

The Fund's Governance Compliance Statement is set out on page 93.

Pensions Committee

The Pensions Committee is responsible for the strategic management of the Fund's assets and the administration of members' benefits.

The Committee consists of nine members – six elected members from Falkirk Council and three members representing employer, employee and pensioner interests. The three co-opted members have full voting rights and full access to papers. The Committee normally meets on a quarterly basis with meetings being held mostly in public session. During 2019/20, the Committee held three meetings, all of which were joint meetings with the Pension Board.

Members of the Committee are as follows:

Councillor Adanna McCue (Chair of Pensions Committee)	Elected Member (Falkirk Council)
Councillor Jim Blackwood	Elected Member (Falkirk Council)
Councillor William Buchanan	Elected Member (Falkirk Council)
Councillor Niall Coleman	Elected Member (Falkirk Council)
Councillor John Patrick	Elected Member (Falkirk Council)
Councillor Pat Reid	Elected Member (Falkirk Council)
Councillor Donald Balsillie	Employer Representative (Clackmannanshire Council)
Mr Andy Douglas	Trade Union Representative (Unison)
Mr Douglas Macnaughtan	Pensioner Representative

The pensioner representative, Mr Macnaughtan, was appointed on 2 September 2019 following a selection process in which all Fund pensioners were invited to apply for the role.

The Committee's key responsibilities are:

- to agree Fund governance arrangements
- to oversee Fund administration
- to establish and review Fund investment policy
- to agree the Fund's strategic asset allocation
- to monitor the implementation of Fund investment strategy

- to take proper advice in relation to investment matters
- to formulate and monitor a funding policy for the Fund
- to approve the Pension Fund Budget and monitor performance against outturn
- to approve the Annual Report and Accounts
- to approve the Fund's Audit programme
- to approve the Fund's training arrangements

The Committee is supported at its meetings by officers and professional advisers. External Auditors are invariably in attendance at Committee meetings. Attendance is recorded in the meeting Minutes.

Pension Board

In accordance with the Public Service Pensions Act 2013 a local Pension Board has been established since 1 April 2015 to assist the Scheme Manager (i.e. Falkirk Council) in securing compliance with the scheme rules and with the Pension Regulator's Codes of Practice.

The Pension Board comprises eight members - four Trades Union and four Employer Representatives. This meets the requirements of both the Public Service Pensions Act 2013 and the Local Government Pension Scheme (Scotland)(Governance) Regulations 2015. The Board generally meets in conjunction with the Pensions Committee but can choose to meet on its own.

The Trade Union members are drawn from the three main Unions representing Scheme members, namely Unison, Unite and GMB. The four employer representatives are drawn from the largest Fund employers not already represented on the Pensions Committee. Board members are appointed for a four-year term but may be reappointed to serve a further term in accordance with agreed timescales.

The Board Members in place at 31 March 2020 were as follows:

Mr Simon Hunt (Chair)	Employer Rep. (Scottish Autism)
Mr Ed Morrison	Employer Rep. (SCRA)
Mr George Murphy	Employer Rep. (Stirling Council)
Ms Jennifer Welsh	Employer Rep. (SEPA)
Mr Tony Caleary	Union Representative (Unison)
Mr Sandy Harrower	Union Representative (Unite)
Mr David Wilson	Union Representative (Unison)
Vacant	Union Representative (GMB)

A number of personnel changes took place on the Board during 2019/20, as follows:

Appointments in 2019/20
Mr George Murphy – appointed 5 March 2020
Mr Tony Caleary – appointed 17 February 2020
Mr David Wilson -- appointed 17 February 2020

Resignations 2019/20
Mr Tommy Murphy (Union Rep – GMB) – resigned 18 February 2020
Ms Susan Crook (Union Rep – Unison) – resigned 13 January 2020
Councillor Margaret Brisley (Employer Rep – Stirling Council) – resigned 4 March 2020

Details of the Committee and Board members who are also members of the Scheme are given in Note 24.

Attendance at Committee and Board meetings

The good governance of the Fund relies on the Joint meetings of the Committee and Board being adequately attended. Members are expected to attend the majority of scheduled meetings. During 2019/20, all meetings were quorate and able to be undertaken as intended. It should be noted that the Convener was unable to attend any of the meetings due to being on extended sick leave.

There was a meeting scheduled originally for 12 December, 2019 but this was postponed to 13 January, 2020 due to the UK Parliamentary Election being held on the December date. The scheduled meeting on 19 March 2020 was cancelled due to the Coronavirus outbreak, hence only three rather than four meetings takings place during 2019/20.

Fund Governance

The table below gives the individual attendance details of Committee and Board members during the year:

		Meetings during 2019/20		
Pensions Committee	**Date of Appointment**	**27/06/2019**	**26/09/2019**	**13/01/2020**
Adanna McCue (Chair)	04/05/2017			
Donald Balsillie	04/05/2017		✓	✓
James Blackwood	03/05/2012	✓	✓	
William Buchanan	04/05/2017			✓
Niall Coleman	15/02/2018	✓	✓	✓
Andy Douglas	05/09/2013	✓	✓	✓
Douglas Macnaughtan	02/09/2020	Not Applicable	✓	✓
John Patrick	08/08/2000	✓		✓
Pat Reid	04/05/2017	✓	✓	✓
Pension Board				
Simon Hunt (Chair) (E)	14/09/2016	✓	✓	✓
Margaret Brisley (E)	04/05/2017			
Ed Morrison (E)	26/06/2015			✓
Jennifer Welsh (E)	26/06/2015	✓	✓	✓
Susan Crook (U)	26/06/2015	✓		✓
Sandy Harrower (U)	26/06/2015	✓		✓
Tommy Murphy (U)	26/06/2016	✓	✓	

U - Trade Union nominee   E - Employer nominee   = non attendance

Training for those with Governance Responsibilities

The Fund's training policy recognises that those involved in the governance of the Fund should have the necessary level of skills and knowledge to allow them to carry out their duties effectively.

Training is provided through a variety of means, including:

- seminars and conferences offered by industry-wide bodies
- training as part of formal meetings provided by Fund officers and/or external advisers
- circulation of investment manager reports
- access to the Fund website and secure portal for up to date information
- knowledge assessment questionnaires

During 2019/20, training events have included:

Date	Event	Location
11/04/2019	Annual Employer Conference – Town Hall	Falkirk
23/08/2019	Hymans Robertson – Cyber Security / Financial Crime	Glasgow
03/09/2019	IGG/SPLG LGPS Seminar - COSLA Offices	Edinburgh
26/09/2019	PIRC Shareholder Voting Guidelines	Falkirk
09/10/2019	Baillie Gifford – Investment and Training Seminar	Edinburgh

Further insight on Fund matters was provided during the year through the attendance of Pensions Specialists at the Committee and Board meetings.

In the light of restrictions placed by the Coronavirus outbreak, training arrangements for 2020/21 will focus on online events and other training material that can be accessed via the internet.

Conflict of interests
A conflict of interest occurs where a financial or other interest exists which is likely to prejudice the way a person exercises their functions as a member of the Committee or Board. This does not include a financial or other interest arising merely by virtue of being a member of the scheme.

The standards expected of Committee and Board members are set out in the Fund's Conflict of Interest Policy.

There is a standing agenda item at each Pensions Committee and Board meeting for Members to declare such interests. Any declarations are minuted.

Freedom of Information, Accountability and Transparency
Pensions Committee agendas, reports and minutes are published on the Falkirk Council website.

Pensions Committee meetings are open to members of the public (with the exception of commercially sensitive items which are taken as private business).

During 2019/20, the Fund responded to 24 Freedom of Information requests (25 in 18/19), the majority of which related to the composition of the Fund's assets.

Documentation
The Minutes of Pensions Committee and Board meetings can be found on the Falkirk Council website www.falkirk.gov.uk by accessing the Meetings Schedule for the Pensions Committee

Other documents pertinent to Fund Governance can be viewed or downloaded from the Pension Fund website www.falkirkpensionfund.org, including:

- Annual Report and Accounts
- Funding Strategy Statement
- Governance Framework Document
- Statement of Investment Principles
- Valuation Reports

More Information
Paper copies of the Statement of Investment Principles, the Funding Strategy Statement and the Governance Policy document can be requested from the Pensions Section, Falkirk Council, Municipal Buildings, West Bridge Street, Falkirk, FK1 5RS.

Funding Strategy Update

Overview

The Funding Strategy Statement is the formal record of how the Fund will meet its obligations to pay benefits. It contains details of the Fund's funding objectives, including its approach to balancing the conflicting aims of prudence and contribution rate affordability. The Funding Strategy Statement is intended to give stakeholders, and employers in particular, reassurance that individual funding positions are being determined in a fair and consistent way. The last review of the Funding Strategy Statement took place prior to the completion of the 2017 Valuation exercise in March 2018. The next review will be carried out during 2020/21 ahead of the 2020 Valuation being finalised.

The key objectives of the current strategy are:

- for the Fund to have sufficient cash to pay member benefits as they fall due
- for the Fund to be fully funded (i.e. assets held are 100% of liabilities)
- for any deficit to be repaired over a maximum period of 20 years
- for employer contributions to be stable and affordable

The investment return that the Fund is targeting in order to meet its funding objective is a return on gilts plus 2.8% p.a. The Fund's investment strategy is positioned so as to deliver this level of return. Performance towards meeting the return target is monitored on a quarterly basis by the Fund's investment advisers and by the Pensions Committee.

The Funding Strategy Statement is the framework the actuary uses to carry out the three yearly Fund valuation in order to assess Fund solvency and set employer contribution rates.

Under the strategy, the actuary has set employer rates using a risk based approach, having regard to the following:

- the money each employer will need to hold in order to pay benefits ("funding target")
- the time period over which full funding will be targeted for employers ("time horizon")
- the probability of the funding target being met by the end of the time horizon taking account of the nature of the organisation

The strategy requires that there should be a 75% or more chance of an employer being fully funded at the end of the time horizon.

For employers with strong covenants (i.e. they have an ability and willingness to make contributions) the Fund allows contribution increases (or decreases) to be implemented in a graduated manner to enable stability of rate and to minimise the budgeting issues that can arise with sharp changes in employer contribution rates.

More information on the actuarial position of the Fund can be found in the Actuarial Update on the next page.

Actuarial Update

Overview

An actuarial valuation of the Fund takes place every three years to determine how much money needs to be paid into the Fund by employers to maintain its solvency (and allow benefits to continue to be paid both now and in the future).

The most recent formal valuation of the Fund took place at 31 March 2017 and set the contribution rates to be paid by Fund employers for the 3 years between 1 April 2018 and 31 March 2021. A valuation as at 31 March 2020 is currently underway and the results are expected to be available towards the end of 2020.

Funding Position at 31 March 2017 and 31 March 2020

The 2017 valuation showed that the Fund was 92% funded, meaning that it had 92% of the monies needed to pay the benefits members had accumulated as at 31 March 2017. As detailed below, this compares with an estimated funding level as at 31 March 2020 of 82%:

	2017 Valuation	2020 Estimate
Assets	**£2,219m**	**£2,366m**
Liabilities	**£2,403m**	**£2,876m**
Funding Surplus / (Deficit)	**(£184m)**	**(£510m)**
Funding Level	**92%**	**82%**

Between April 2017 and March 2020, Fund value has increased by 6.6% in total. Set against this, however, liabilities have increased by 19.7%.

The chart below shows the funding level over the three-year inter-valuation period. This illustrates the extent to which the funding level has been impacted by the market reaction to the COVID-19 outbreak with both asset valuations and bond yields falling sharply just at the end of the accounting period. It also illustrates that the even in times of economic stability, the funding level is a relatively volatile metric and that what remains important is the Fund's ability to meet its benefit commitments as they fall due. The Fund's positive cashflow position of c.£14m per month (see Page 24) evidences that it is capable of meeting this commitment.

Funding Level between April 2017 and March 2020 (estimated)

Source: Hymans Robertson Falkirk Council Pension Fund Funding and risk report as at 31 March 2020

In estimating the Funding position, the actuary has made judgements about both assets and liabilities.

For assets, the actuary has taken account of cash flows and investment returns from the last valuation date.

For liabilities (i.e. the money the Fund needs to hold so as to meet its benefit commitments) the sum assessed by the actuary is somewhat less than the total of all future benefit payments owing to the fact that the actuary assumes – prudently - that the Fund will achieve a given return on its investments in the future.

The return (or "discount rate") assumption is derived using a "gilts plus" model whereby an asset outperformance element is added to the risk free return that could be achieved from gilts. The discount rates used for the 2017 valuation and for the 2020 funding estimate are set out below:

	2017 Valuation	At 31 March 2020
Return on Long Dated Gilts	**1.65%**	**0.75%**
Asset Outperformance Value	**1.80%**	**1.80%**
Discount Rate	**3.50%**	**2.55%**

The lower discount rate of 2.55% in the 2020 estimate triggered by the COVID-19 environment means that the Fund is expected to have lower future investment returns. Consequently, that has led to a higher estimated value being placed on estimated Fund liabilities at 31 March 2020.

For avoidance of doubt, the Fund liability of £2.8bn does not appear in the financial statements. This is because the number includes an estimate of future payments to be made from the Fund, whereas the financial statements only take account of the Fund's obligations to pay pensions as at 31 March 2020.

Funding Level Sensitivity

The extent to which the Funding Level is sensitive to changes in the asset values and bond yields is demonstrated by the chart below. Using the FTSE 100 as a proxy for investment returns, this shows that a 10% increase in asset valuations (e.g. the rise in the FTSE between year-end and May 2020) would increase the funding level to around 88%. However, if this was coupled with a further fall in bond yields of 0.2% - as also experienced in May - the level would be pegged back to 85% (i.e. an estimated deficit of £434m).

Sensitivity Matrix as at 31 March 2020 for Ongoing funding basis (£m)

Shift in equity level (using FTSE 100 levels as proxy)

Shift in bond yields (% p.a.)	3,970 -30%	4,538 -20%	5,105 - 10%	5,672	6,239 + 10%	6,806 + 20%	7,374 + 30%
+0.6	(769)	(597)	(426)	(254)	(83)	89	260
+0.4	(849)	(677)	(506)	(334)	(163)	9	180
+0.2	(934)	(762)	(591)	(419)	(248)	(76)	95
0.0	(1,024)	(853)	(681)	(510)	(338)	(167)	5
-0.2	(1,120)	(949)	(777)	(606)	(434)	(263)	(92)
-0.4	(1,223)	(1,052)	(880)	(709)	(537)	(366)	(194)
-0.6	(1,333)	(1,161)	(990)	(818)	(647)	(475)	(304)

less than 50% | 50% - 85% | 85% - 95% | 95% - 100% | 100% - 105% | 105% - 115% | greater than 115%

Source: Hymans Robertson Falkirk Council Pension Fund Funding and risk report as at 31 March 2020

Other Assumptions

Other important metrics in the assessment of Fund solvency are mortality rates and price and salary inflation.

Mortality rates are reassessed at each three yearly valuation drawing on the analysis of Fund longevity experience built up through participation in Club Vita. Price inflation remains relevant as benefits in payment are increased in line with the Consumer Price Index, whilst salary inflation continues to impact the final salary benefits of active members with pre 2015 rights.

Details of contribution rates paid by employers and the actuarial assumptions adopted for the 2017 Valuation are contained in the Valuation Report. These are summarised in the actuarial statement for 2019/20 which is set out in Appendix 1 on page 97.

Financial Performance

This section reports primarily on the Fund's income, expenditure and cash flows during 2019/20.

Annual Budget

The Pensions Team prepare a Fund Budget for review and approval by the Pensions Committee.

The budget focuses on controllable expenditures and therefore excludes benefit payments and transfers of pensions out of the Fund. Similarly, on the income side, contributions receivable and pension transfers in to the Fund are also excluded. Investment costs do not take account of fees deducted directly from capital. As a result, the actual investment management costs in the table below won't reconcile to note 11.

A summary of the actual and budgeted expenditure for 2019/20, together with the budget for 2020/21, is set out below. More information about Fund costs are given in Notes 11 and 11a on page 70 and 71.

	Budget 19/20	Actuals 19/20	Variance 19/20	Budget 20/21
Benefits Administration				
Employee expenses	571,990	438,526	(133,464)	580,920
IT Costs	224,290	275,178	50,888	224,290
GMP Reconciliation	50,000	80,292	30,292	50,000
Other	119,720	124,539	4,819	122,690
Benefits Administration Total	**966,000**	**918,535**	**(47,465)**	**977,900**
Oversight and Governance Costs				
Employee expenses	146,010	124,126	(21,884)	151,410
Investment Advice (inc. external)	290,000	214,476	(75,524)	307,000
Infrastructure Deals & Property Advice	283,600	279,337	(4,263)	344,000
Actuarial Fees	100,000	88,831	(11,169)	120,000
Engagement Services	0	0	0	80,000
Tax Advice and Legal Fees	75,410	71,698	(3,712)	76,470
Performance Measurement	85,000	79,452	(5,548)	75,000
Other	97,980	80,665	(17,315)	114,330
Oversight & Governance Total	**1,078,000**	**938,585**	**(139,415)**	**1,268,210**
Investment Management Costs				
Managers Fees	5,680,500	4,811,936	(868,564)	5,080,500
Custodian Costs	125,000	84,664	(40,336)	125,000
Aborted Deal Costs	100,000	0	(100,000)	75,000
Other	5,000	7,864	2,864	5,000
Investment Management Total	**5,910,500**	**4,904,464**	**(1,006,036)**	**5,285,500**
Pension Fund Total	**7,954,500**	**6,761,584**	**(1,192,916)**	**7,531,610**

The main variances between the budgeted and actual amounts for 2019/20 related to:

Cost category	Underspend or Overspend	Comments
Benefits administration	Underspend	Savings from staffing changes were offset by additional costs arising from the renewal of the Heywood's Administration System and extra work needed around GMP Reconciliation
Oversight and Governance	Underspend	Costs of investment advisory service with Lothian Pension Fund (LPFI Ltd) were lower than budgeted
Investment Management	Underspend	Cost reduction due to the transition of two mandates: Aberdeen Standard Global Equity mandate and Schroder Property to more cost effective alternatives

Financial Performance

The Fund budget for 2020/21 is set £423k less than in 2019/20. The main changes are:

Cost category	Increase or Decrease	Comments
Benefits administration	Increase	Increase in staff costs arising from inflation
Oversight and Governance	Increase	Provision for Engagement Services (£80k), Infrastructure Deals and Property Advice (£60k), Actuarial Valuation (£20k), Inflation and other charges (£30k)
Investment Management	Decrease	Reduction in invoiced costs due to switch of certain mandates to more cost effective alternatives in 2019/20

Contributions made to the Fund in 2019/20

During 2019/20, employees and employers paid the following contributions:

Employer Name	Employees ('000s)	Employers ('000s)
Central Scotland Joint Valuation Board	90	304
Clackmannanshire Council	2,282	9,207
Falkirk Council	6,469	25,297
Forth Valley College	489	1,751
Police Scotland (ex Central)	203	755
Scot Fire & Rescue	51	185
Scottish Childrens' Reporter Administration	870	2,793
Police Scotland (ex SPSA)	164	641
SEPA	2,921	8,879
Stirling Council	4,049	14,927
Visit Scotland	9	166
Total Scheduled Bodies	**17,597**	**64,905**
Active Stirling Trust	184	484
Alsorts	0	10
Amey	6	37
Ballikinrain School	38	143
Colleges Scotland	27	145
Cowane's Hospital	4	19
Cromwell European Mgmt Services Ltd	3	0
Dollar Academy Trust	130	425
Falkirk Community Trust	478	1,829
Forth & Oban Ltd (Falkirk)	3	10
Forth & Oban Ltd (Stirling)	23	83
Haven Products Limited	5	116
Mclaren Leisure Centre	1	5
Scottish Autism	587	2,475
Smith Art Gallery	9	40
Snowdon School Ltd	23	101
Stirling District Tourism Ltd	5	22
Strathcarron Hospice	320	1,151
thinkWhere	24	84
Water Industry Commission	100	337
Total Admitted Bodies	**1,970**	**7,516**
Fund total	**19,567**	**72,421**

The total pensionable pay of members on which contributions were levied was £318m (£305m for 2018-19). This means that average member contributions were 6.1% of pay (6.1% in 2018-19) and average employer contributions (exc. deficit repayment) were 21.9% (21.5% for 2018-19). The reasons behind the rise in employee and employer contributions is covered in the cashflow section which follows.

During the year, there were 7 instances of employers failing to remit contributions by the due date (3 in 2018-19). None of these circumstances were deemed material and no interest for late payment was charged due to the nature of sums involved.

Cashflow

This represents the net inflows and outflows to the Fund in respect of dealings with members. It does not take account of income derived from the Fund's assets, such as dividends, recoverable taxes, etc.

Cash Flow Table (Net withdrawals / additions from dealing with members)					
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**
	in'000s	**in'000s**	**in'000s**	**in'000s**	**in'000s**
Inflows **Contributions and transfers from other pension funds**	81,893	87,401	83,880	92,754	98,405
Outflows **Benefits and payments to and on account of leavers**	65,372	68,991	74,918	78,461	84,381
Net cash flow	**16,521**	**18,410**	**8,962**	**14,293**	**14,024**

The analysis of flows in and out of the Fund shows that it remains in positive cash flow territory. For 2019/20, the gap between what the Fund took in and paid out from its dealings with members stayed broadly in line with 2018/19, although both inflows and outflows increased.

Contributions into the Fund increased due to higher salary increases coming into effect after the restricted increase of recent years and higher employer rates being levied in 19/20 as part of the phased increase in rates certified at the 2017 valuation. The increase in benefit payments reflected the higher aggregate number of pensioners receiving benefits. Despite the healthy cash flow position at present, the long term trend is likely to see this decline as the ratio of deferred and pensioner members to active members' increases.

Pension Payments and the National Fraud Initiative

The primary outlay of the Fund are the regular payments made to pensioner members. To help ensure that pensions are only paid to members with an ongoing entitlement, the Fund participates in the National Fraud Initiative (NFI). This is a data matching exercise conducted every two years by the Audit Commission to detect fraud and irregularities in various areas of public finance.

The Fund participated in the exercise during 2018/19 with the results showing that all pensions except one were being paid validly. The exercise is expected to be undertaken again in 2020/21.

Conclusion

Other than the increase in aggregate employer contributions, there were no material movements in items of income and expenditure between 2018/19 and 2019/20.

Scheme Administration

Overview

This Section reports on the administrative activities carried out by the Pensions Section during 2019/20. The Section includes:

- Key Performance Indicators 2019/20
- How the Administration Service is organised and delivered
- Value for Money Statement
- Membership Information
- Administration Activity and Performance
- Communications
- Outlook for 2020/21

Key Performance Indicators 2019/20

The aim of the Pension Section is to provide an efficient and cost effective administration service that meets stakeholders' needs. Performance is measured through a series of indicators:

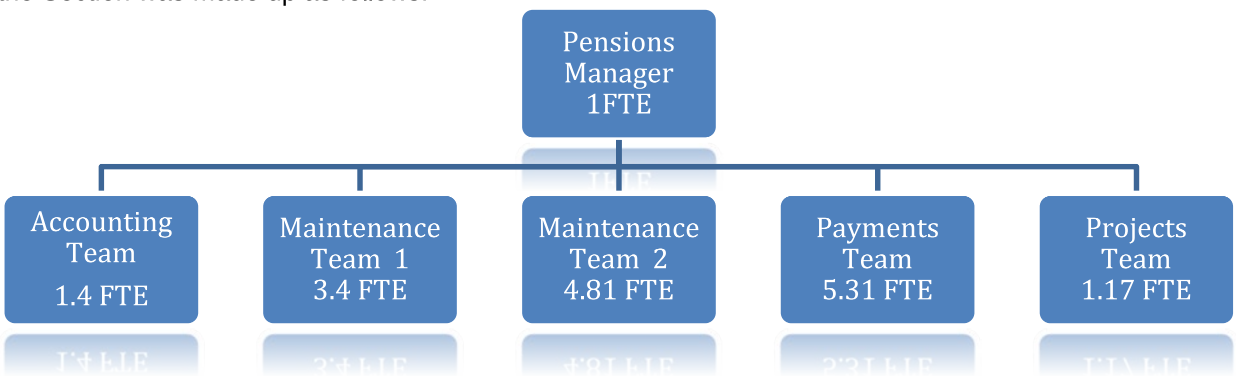
2019/20	Target	Actual
Audit of Annual Report and Accounts 2018-19	Unqualified	Unqualified
Benefit Statements issued by 31st August, 2019	100%	99%
Contributions received within 19 days of month end	100%	98%
Retirement lump sums paid within 15 days	90%	93%
Monthly Pensioner Payroll Paid on time	100%	100%
Pensions Increase processed with April Pension	Meet Target	Met Target
P60 documents issued by end May	Meet Target	Met Target

How the Administration Service is organised and delivered?

Fund administration is undertaken by the Council's in-house Pensions Section, which is managed by the Pensions Manager who, in turn, reports to the Chief Finance Officer.

Staffing

The Section has 19.09 budgeted full-time equivalent posts (including vacancies) and is headed by the Pensions Manager, who reports directly to the Chief Finance Officer. In addition to benefits administration, staff members undertake governance, accounting and investment related activities. As at 31 March 2020, the Section was made up as follows:



Two Pensions Assistants left the team during 2019/20 and were replaced. This had a slight impact on Maintenance Team 1 in the latter part of 2019. Two replacements were appointed along with two additional Pensions Assistants and a Pension Support Assistant (with a payroll background) as part of the team's wider succession planning.

Record Maintenance

Scheme records are administered by an experienced team using an industry standard computerised pensions administration system (Altair) which is used by all LGPS Funds in Scotland. The system is reviewed regularly by Aquila Heywood, the software vendor, and upgrades are provided frequently to ensure system compliance.

All staff are required to complete online Data Protection training annually as part of the Fund's commitment to ensuring that member data is held securely and that confidentiality is respected. No data security incidents took place during 2019/20.

Scheme Administration

Systems

The Pensions Team use the IT platforms and infrastructure provided by the ICT Section of the Council.

All Pensions Section staff have access to up to date computer hardware and operating systems with standard data security features. New PCs were issued across the team to accommodate upgrades to Windows 10 and Office 2016. Team members have mostly been equipped with laptops as part of contingency arrangements and to facilitate more flexible working arrangements. This has been essential to maintain service delivery during the COVID-19 lockdown restrictions.

In addition to normal desktop software, the key systems used by the Section are:

System	Purpose
Altair	Pensions Administration
Altair	Pensioner Payroll
Integra	Financial Information System
Bankline (RBS)	Fund Banking Information

The Fund has been working with a number of constituent employers to enable them to make monthly electronic data submissions using a middleware application known as i-Connect. By the end of the accounting period, all small and medium sized employers in the Fund had been made live on i-Connect. The next phase of the project involves the on-boarding of larger Fund employers and is expected to be completed during 2020/21.

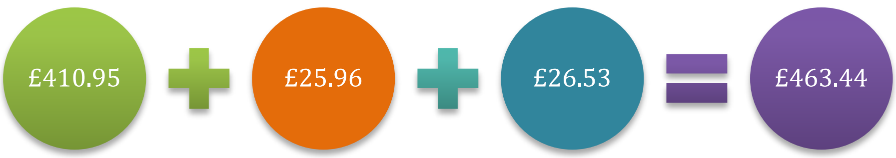
Value for Money Statement

Value for Money describes whether an organisation has been efficient, effective and economically competent in delivering a particular service or function. This helps better identify areas where improvements can be made.

The Fund strives to deliver value for money by monitoring:

- costs against budget (see page 22)
- year on year total and unit costs (see table below)
- performance statistics (see page 31)
- success in completing key activities (see page 25)

The Fund's total unit costs per member in 2019/20, split across the cost categories of investment management, administration and oversight and governance were as follows:



The breakdown of unit costs over the past five years is given below:

	2015-16	2016-17	2017-18	2018-19	2019-20
Investment management expenses					
Total cost in (£000)	9,394	9,791	10,053	11,290	14,546*
Total membership nos	31,198	32,138	33,560	34,635	35,396
Sub cost per member £	**301.11**	**304.65**	**299.55**	**325.97**	**410.95**
Administration costs					
Total cost in (£000)	855	582	749	776	919
Total membership nos.	31,198	32,138	33,560	34,635	35,396
Sub cost per member £	**27.41**	**18.11**	**22.32**	**22.41**	**25.96**
Oversight and governance costs					
Total cost in (£000)	524	558	503	641	939
Total membership nos.	31,198	32,138	33,560	34,635	35,396
Sub cost per member £	**16.80**	**17.36**	**14.99**	**18.51**	**26.53**
Total cost per member £	**345.31**	**340.12**	**336.86**	**366.89**	**463.44**

*2019-20 investment management costs include costing information available from CTI templates and individual property funds not previously available

Comment on Costs

Administration costs were within budget but increased from 18/19 levels due to the 2019 pay settlement, spend on GMP Reconciliation work and a section wide IT refurbishment – the Pensions Administration system requiring hardware with a minimum standard of Windows 10 and Office 2016.

Oversight and governance costs were within budget but increased from 18/19 levels due to the collaborative arrangements with Lothian Pension Fund expanding to include deal sourcing for Private Debt and advice in running the Property mandate.

Investment management costs have risen substantially. This, however, masks a more complicated story. The Fund is in the process of moving certain mandates to in-house management so as to have greater control over underlying assets and to be able to manage these assets more cost effectively. At present, the transitioning has the effect of increasing the Oversight and Governance Costs and reducing, to a greater extent, the Investment Management Costs. These savings, estimated to be £757k in 2019/20, have however been obscured by the additional investment costs now separately identified through the additional cost transparency work undertaken by the Fund.

In the short term, as more investment costs are identified and reported, the overall level of costs is likely to increase. These so-called "hidden" costs are not new. They have existed in the past but have just not been reported by managers – instead being netted off against capital. Better transparency of costs should allow more soundly based value for money judgements to be made. More information regarding investment management costs can be found in Note 11a on page 71 and in the sections below on the LGPS Code of (Cost) Transparency and Cost Benchmarking.

LGPS Code of Transparency

The LGPS Code of Transparency is the culmination of work that has been in development for the past three years to provide Funds with comprehensive data on investment costs and charges which have been both invoiced and deducted from capital. It builds on work started in 2017 by the Investment Association, the PLSA (Pensions and Lifetime Savings Association) and the England and Wales LGPS Scheme Advisory Board. Under the Code, managers are able to upload cost information in a standardised format (using - for the first time - templates established under the Cost Transparency Initiative (CTI)) and uploading these to a secure portal managed by Byhiras, specialists in investment data solutions.

Participation in the Code is voluntary, however the expectation is that managers will participate and upload their data annually in time for inclusion in the accounts process. Participation is expected to be a condition of any new manager appointments. For 2019/20, the Fund has used CTI templates to collect cost data about its pooled investments (e.g. Baillie Gifford's Diversified Growth Fund and Legal and General's Passive Equity Funds).

Investment Cost Benchmarking

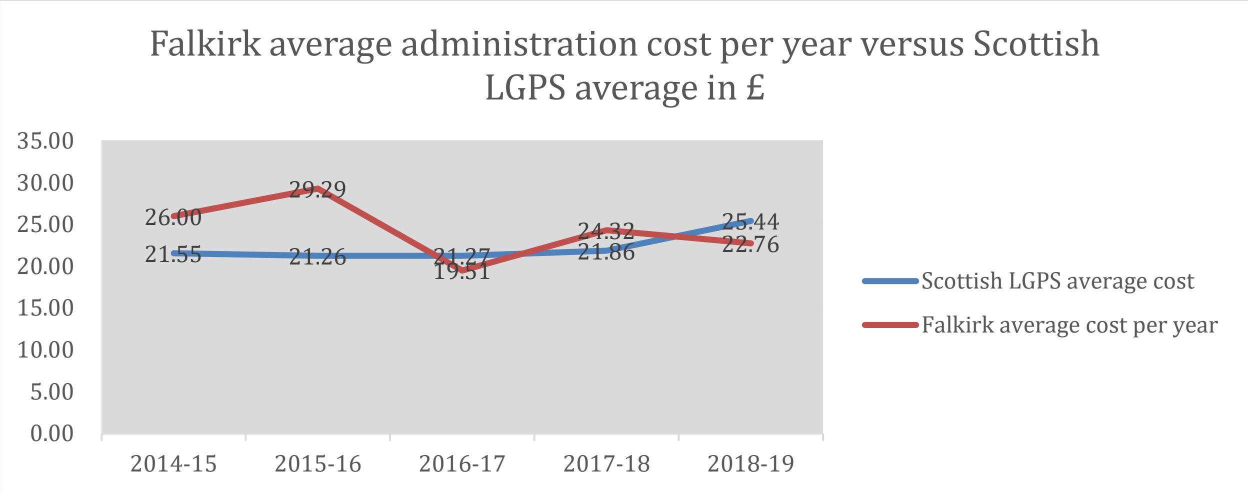
In 2019/20, the Fund again participated in a cost benchmarking exercise undertaken by specialist firm CEM. CEM is an independent global benchmarking expert with a data base of 370 global pension funds, representing $7.3 trillion in assets. This allows Fund investment costs to be compared with a range of LGPS and non-LGPS peer comparators. The work is done one year in arrears so the information reported below relates to the Fund's investment cost data for 2018/19. The benchmarking is undertaken against a population set of 332 funds with combined global assets of £7.2 trillion. In terms of the LGPS, 38 Funds with combined assets of almost £200 billion participated in the exercise.

The results showed Fund's costs as 63.9 basis points of invested assets, which was slightly above the average benchmark cost of 60.3 basis points for similarly sized funds. However, the 5-year net total return of 8.8% was above the CEM LGPS median of 8.6% and global median of 6.7%, implying that the Fund's additional investment costs had delivered added value. The higher investment costs equated to £851k whereas the 2.1% of additional investment return (based on Fund value at 31 March 2019) provided the Fund with an additional £52m.

Analysis of investment costs remain a complex subject matter where specialist expertise is essential to understand data and reach informed conclusions.

Administration Cost Benchmarking

The CIPFA Scottish Directors of Finance Performance Indicators Report 2018/19 reveals that similarly sized Scottish LGPS Funds have an administration cost on average of around £30 per member. The Fund's costs of £25.96 during 2019/20 are therefore not untypical.



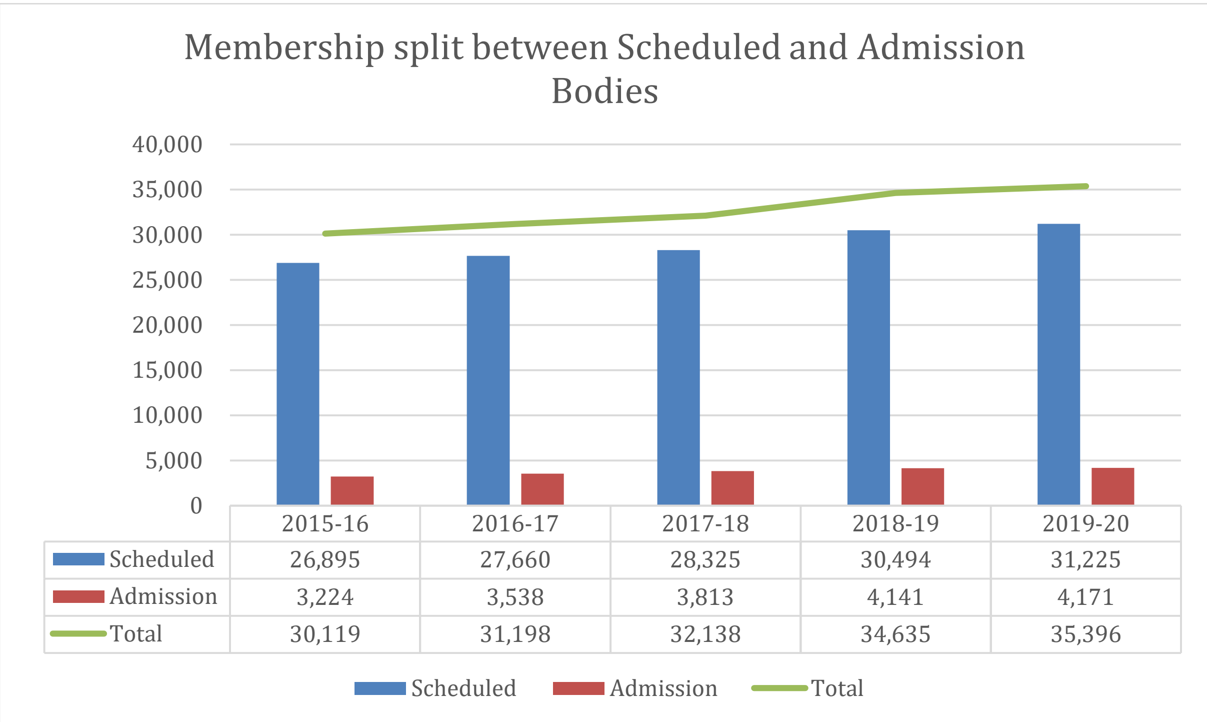
Source: CIPFA Scottish Directors of Finance benchmarking

The chart above shows the Fund's average administration costs per year in comparison with Scottish LGPS average. This is calculated on a different basis than costs shown on page 26. The Fund recorded higher costs during 2014-15 and 2015-16 due to the implementation of its new IT systems. From 2016-17 onwards the cost has remained more in line with the average.

Membership Information

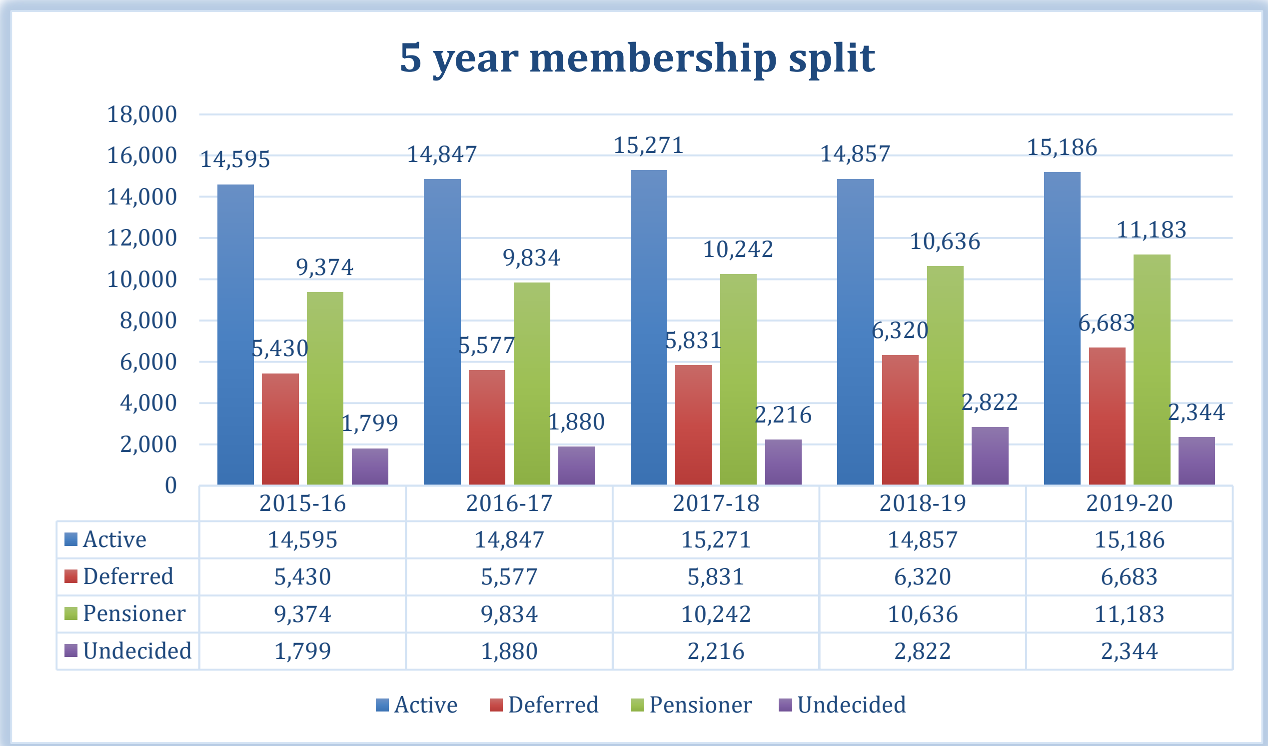
Fund membership numbers are most commonly impacted by persons joining or leaving the Scheme as part of normal staff turnover. From time to time, however, there can be more significant membership movements resulting from factors such as recruitment freezes, workforce reshaping, staff transfers, and Government initiatives (e.g. auto enrolment).

The first chart in this Section shows how total Fund membership (active, deferred, pensioner and undecided members) has changed over the past 5 years split between Scheduled and Admission Bodies. This shows that membership over the past 4 years has increased at an average of around 4.1% p.a. It also indicates that 88% of scheme members in the Fund work for Scheduled Bodies.



	2015-16	2016-17	2017-18	2018-19	2019-20
Scheduled	26,895	27,660	28,325	30,494	31,225
Admission	3,224	3,538	3,813	4,141	4,171
Total	30,119	31,198	32,138	34,635	35,396

The next chart breaks down total membership into its constituent parts, namely active, deferred, pensioners and undecided members.



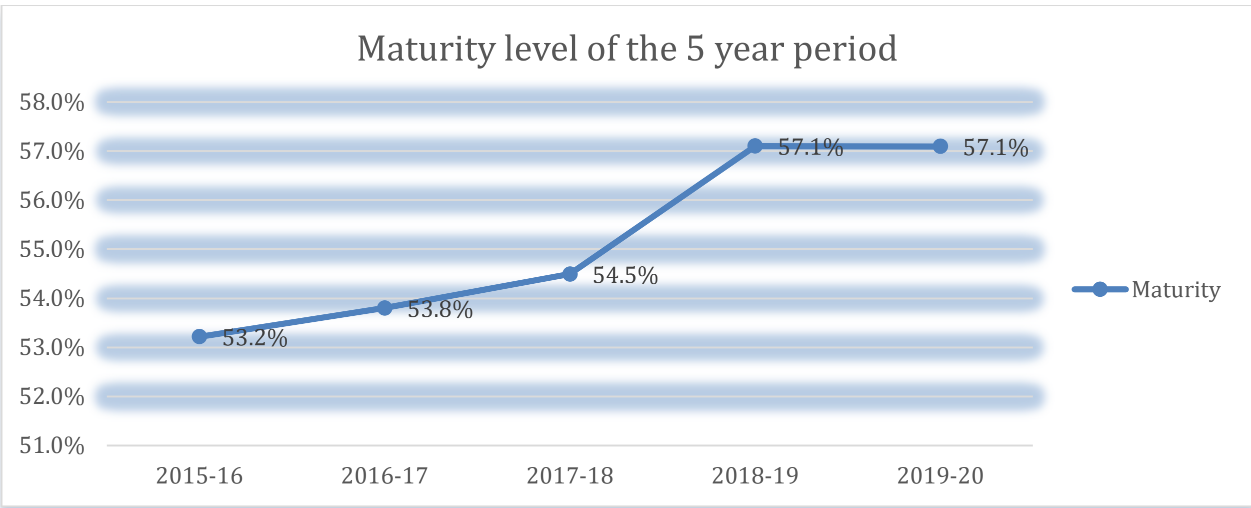
	2015-16	2016-17	2017-18	2018-19	2019-20
Active	14,595	14,847	15,271	14,857	15,186
Deferred	5,430	5,577	5,831	6,320	6,683
Pensioner	9,374	9,834	10,242	10,636	11,183
Undecided	1,799	1,880	2,216	2,822	2,344

The chart shows that at 31 March 2020 active, deferred and pensioner membership has increased whilst the number of undecided members has reduced. The increase in staffing level within the Pensions Team has allowed greater resource to be directed to the area of undecided leavers.

The number of pensioner and deferred members has been increasing steadily over the past 5 years in line with the maturing life cycle of the Fund. The increase in active membership is helpful in allowing the Fund to maintain its positive cashflow position as described on page 24.

Another indicator of Fund maturity is the ratio of non-pensioners to deferred and pensioner members. The measurement shows the balance of Fund membership and could signal whether a change in investment strategy is needed.

The chart below shows that the maturity level has stayed flat in 2019/20 having been on a rising trajectory in previous years. These statistics will form part of the actuarial considerations taken into account at the next valuation which is scheduled for 31 March 2020.



Analysis of Scheduled and Admission Bodies

The number of employers with a continuing interest in the Fund at 31 March 2020 is as follows:

Type of Employer	Open	Closed	Total
Scheduled Bodies	9	1	10
Admitted Bodies	12	6	18
Totals	**21**	**7**	**28**

The number of employers with an ongoing interest in the Fund has reduced due to an ongoing initiative to enable smaller Fund employers to exit the Fund without requiring a gilts based cessation payment. In these cases, Clackmannanshire, Falkirk and Stirling Councils have agreed to act as guarantors of the employer liabilities.

A full list of Fund employers can be found at Appendix 2 on Page 99.

Analysis of New Pensioners during 2019/20

Retirement Type	Total
Normal Retirement	66
Flexible Retirement	65
Efficiency/Redundancy	39
Other Early Retirements	463
Ill Health Retirements	47
Total	680

"Other Early" includes voluntary retirements from age 55 from active or deferred status

Administration Activity and Performance

The overriding objective of the administration team is to operate the provisions of the Local Government Pension Scheme in an efficient and cost effective manner. This encompasses a broad range of activities, including:

- new member enrolment
- transfers in
- contributions
- scheme membership and pensionable earnings
- added contribution and AVC requests
- estimates
- early leaver refunds, transfers out and deferred benefits
- retirement benefits
- pension payments and HM Revenue compliance
- death grants
- survivor benefits
- information, guidance and employer liaison
- communications materials
- benefit statements production
- pensioner payroll
- cessation valuations
- disputes resolution

Project work undertaken in 2019/20 included the roll out of i-Connect, data cleansing, address tracing, GMP reconciliation work and the smaller employers' initiative.

The introduction of career average arrangements from April 2015 to run in conjunction with pre 2015 final salary rules continue to make scheme administration complex and involved for both the Pensions Team and Fund employers. The provisions around aggregation of member rights, assumed pensionable pay and certificates of protection, and Lifetime and Annual Allowance continue to be the most resource intensive areas.

Performance Information

Performance Indicator – Volume and Completion Rate

	Cases in Scope		Cases Completed by Y/E		Cases Due at YE		Completion Rate	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
New member Enrolment	787	1378	720	1361	67	17	91%	99%
Estimate Requests	649	618	598	578	51	40	92%	93%
Retirements from Active Status	428	364	382	312	46	52	89%	86%
Other Transactions	13,406	14,007	11,898	12,788	1,508	1,219	89%	91%

Performance Indicator – Timescales

		Cases in Scope		Cases Meeting Target		Completion Rate	
	KPI	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
New member Enrolment	21 days of being advised	720	1361	448	721	62%	52%
Estimate Requests	1 month	598	578	326	380	55%	66%
Retirements	15 days from all information	382	312	358	295	94%	95%
Other Transactions	1 month	11,898	12,788	8,590	9,806	72%	77%

The administration team is continuing to build up the range of performance statistics available with a view to improving transparency and member outcomes.

Internal Disputes Resolution Procedure

Where members have a concern that cannot be resolved through liaison with the Pensions Section, the Fund operates a two stage Internal Disputes Resolution Procedure (IDRP) which allows complaints to be considered by an independent third party and subsequently by Scottish Ministers. Dispute application forms can be obtained from the Pensions Section.

The Fund has a reciprocal arrangement with the Strathclyde Pension Fund whereby Falkirk appeals are adjudicated upon by their Chief Pensions Officer and Strathclyde's appeals are adjudicated upon by the Pensions Manager at Falkirk. Appeals can also be heard by a person appointed by Fund employers to hear such appeals.

Members whose complaints are not satisfied through IDRP may ultimately appeal to the Pensions Ombudsman. The Pensions Advisory Service may be contacted by the member for guidance at any point in the appeal process. Contact information for the Ombudsman and the Advisory Service are as follows

Pensions Advisory Service	0800 011 3797	The PENSIONS Advisory Service
Pensions Ombudsman	0800 917 4487	The Pensions Ombudsman

Scheme Administration

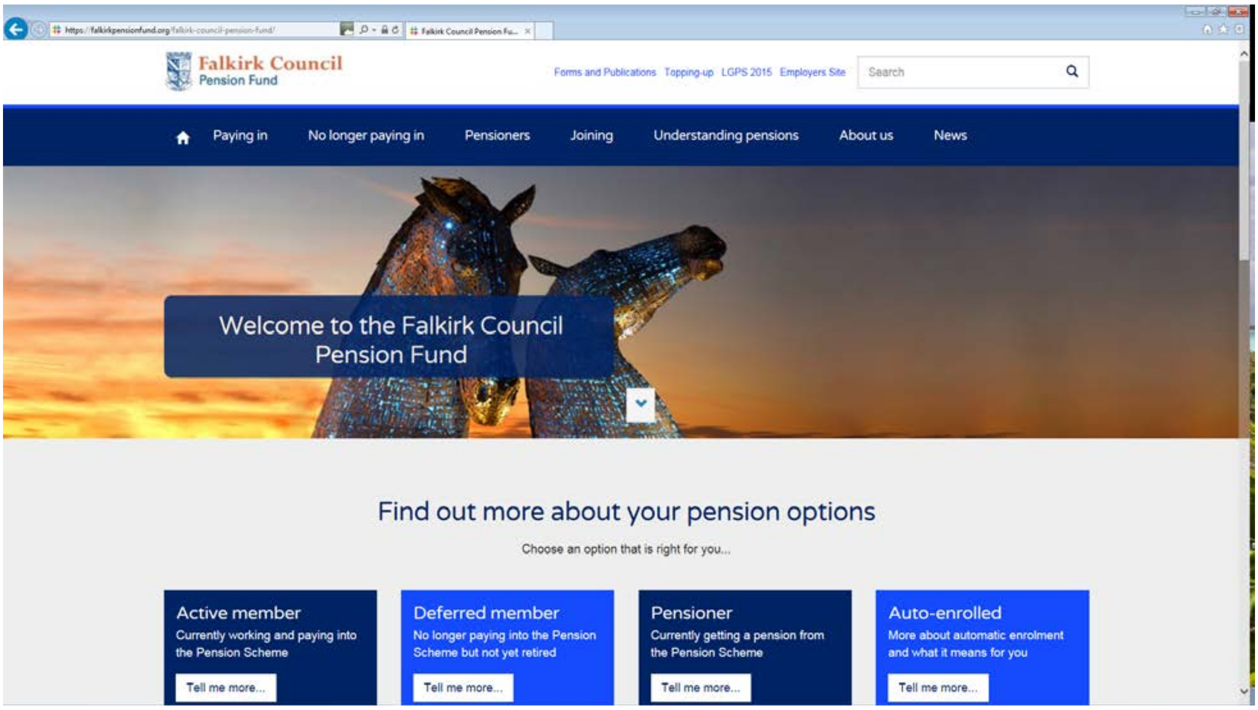
The following table lists the disputes settled under the IDRP process in 2019/20:

	Subject Matter	Stage 1 Outcome	Stage 2 Outcome / Comment
1	Member was denied ill health retirement by employer	Appeal Upheld	Not Required
2	Member was refused release of deferred benefit by former employer and also complained about slow progress in processing case	Appeal Dismissed	Member lost appeal at Stage 1 but due to protracted medical process a further medical opinion was obtained and benefits released. A distress payment was made following the intervention of the Pensions Ombudsman in view of the time by all parties - Fund, employer and occupational health - to progress matters.

Communications

Members and employers can obtain information about the scheme by contacting the Pensions Section in writing, by telephone or by e-mail. Contact details can found on page 5.

The Fund has its own website -www.falkirkpensionfund.org, split into areas for active, deferred and retired scheme members and containing guides and information about various aspects of the LGPS and the Fund. Topical items of significance are uploaded to the News Section.



As well as the website, wider communication is achieved through emails, publication of committee minutes, newsletters and a payslip messaging facility. The range of topics covered includes actuarial matters, benefits and regulatory changes, investment performance and investment manager/adviser presentations.

Outlook for 2020/21

Regulatory Matters

Regulatory changes relating to McCloud and the Cost Cap may emerge in 2020/21. Clarification can also be expected as to whether Fund valuations move to a four yearly cycle from their existing three yearly cycle.

Scheme Administration

Staffing Developments

The Pensions Manager is expected to retire from his role on 30th November, 2020 and preparations are in hand to carry out a recruitment exercise.

Relationship with Lothian and Fife Pension Funds

The Fund enjoys a collaborative working arrangement with the Lothian and Fife Pension Funds with the objective of delivering improved outcomes for Fund stakeholders. This is being achieved through the efficiencies of scale investment and using savings to facilitate internal management and provide greater mutual resilience.

Specifically, the Fund has entered into a shared service agreement with LPFI Limited, the regulated vehicle of Lothian Pension Fund. This provides the Fund with investment arrangement and advisory services and is key to allowing the Fund to access investments in private markets. It is expected that this will be extended to an investment management service in view of LPFI being accredited by the Financial Conduct Authority to deliver such services.

The Fund has also entered into a shared service agreement with LPFE Limited, the employment vehicle of Lothian Pension Fund. Under this agreement, the Fund accesses specialist legal advice from the internal Lothian team on a range of investment and other pensions related matters.

Whilst the current arrangements relate solely to investment matters, the Fund continues to explore the possibilities of collaboration in other areas, such as scheme administration. It is recognised that progress on extending collaboration will need to take account of any developments arising from the review into the structure of the LGPS currently being conducted by the Scottish Scheme Advisory Board.

Overview

Investment policy covers a wide range of areas including the Fund's investment management arrangements; its investment strategy, principles and beliefs; and its approach to environmental, social and corporate governance issues (i.e. ESG).

This Section of the Annual Report looks at:

- Statement of Investment Principles
- Investment Management Arrangements
- Investment Strategy
- Policy Groups
- Comparison of Actual versus Strategic Asset Allocation
- Investment Mandates and Managers

The Fund's approach to Responsible Investment and ESG is set out in the Section starting on page 46.

Statement of Investment Principles

The Statement of Investment Principles (SIP) describes the objectives, policies and principles adopted by the Pensions Committee in undertaking the investment of the Fund monies.

The SIP outlines the governance arrangements and high level principles which determine and guide investment policy. The SIP reaffirms that 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. It also states that the investment objective 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

The SIP documents the Fund's investment strategy, which in turn describes how the Fund, by investing in a broad range of asset classes and by balancing risk and return, intends to achieve the necessary return on its assets. Both Fund and Manager Performance are measured by an independent performance specialist against agreed benchmarks. The SIP also covers the Fund's approach to more general investment issues such as stock lending, use of derivatives and currency risk.

The extent to which the Fund complies with the CIPFA Principles for Investment Decision Making is also contained in the SIP. The most recent version of the SIP was approved by the Pensions Committee in March, 2019 and broadly aligned the Falkirk SIP with those adopted by Lothian and Fife Pension Funds.

Investment Management Arrangements

The investment of Fund monies is undertaken by a range of third party investment managers with the exception of the UK Index Linked Gilts mandates which is managed in house with oversight from the Lothian Fund's internal investment team. Safeguarding of Fund assets is undertaken by the Custodian, Northern Trust. Performance Measurement is undertaken by Portfolio Evaluation.

Under the Fund's governance arrangements, the Pensions Committee is responsible for setting high level investment strategy and the Chief Finance Officer is responsible for implementing the strategy (i.e. deciding the investment managers to be used and the allocation of capital to them).

Both the Committee and Chief Finance Officer receive advice from the Joint Investment Strategy Panel (JISP) which consists of FCA qualified investment professionals from the Lothian Pension Fund as well as two independent external investment advisers. The arrangement is a key part of the collaborative relationship between Falkirk, Fife and Lothian Pension Funds which entails the Lothian Fund, through its investment vehicle LPFI Limited, providing investment support.

All investments with third party managers are underpinned by Investment Management Agreements or similar legal instruments to ensure that Fund monies are being invested in compliance with the terms of Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010.

The in-house team at Falkirk is responsible for co-ordinating the investment management arrangements including quarterly reconciliations between manager, custodian and performance specialists. The in-house team is also responsible for co-ordinating the management of the Fund's alternatives programme which comprises the Infrastructure and Private Debt portfolios.

Asset valuations are available to the Pensions Team via an on-line facility provided by Northern Trust.

Investment Strategy

A revised investment strategy was approved by the Pensions Committee in December 2018 based on advice from Fund advisers and the Chief Finance Officer. As previously outlined, the revised strategy has been incorporated within the Statement of Investment Principles.

The strategic review was carried out by Hymans Robertson with input from the Falkirk, Fife and Lothian Funds. Essentially, the three Funds now have:

- a common set of investment beliefs, and
- a common set of high level asset categories (e.g. Equities, Real Assets, etc)

The main objective of the Investment Strategy for Falkirk is to achieve a return on Fund assets that meets the Fund's funding objective - currently a return target of gilts plus 2.8% p.a.

Under the strategy, assets are categorised into one of five Policy Groups, with each group having its own return target. The blended return is intended to allow the funding objective to be met. The Policy Groups are considered to be the key determinants of risk and return for the Fund and are the main focus of attention for the Committee. The Committee receives advice and guidance from the Chief Finance Officer and the Joint Investment Strategy Panel in relation to any strategic changes that are required.

Policy Groups

The Pensions Committee is responsible for setting the allocation to the five Policy Groups (Equities, Other Real Assets, Non-Gilt Debt, Gilts and Cash). The Chief Finance Officer is responsible for deciding the allocation of capital to subordinate asset classes within the Policy Groups and ultimately to the investment managers.

The agreed target allocation to the Policy Groups is as follows:

Policy Group	Strategic Allocation	Long Term Expected Return
Equities	60%	Gilts + 3.5%
Other Real Assets	20%	Gilts + 2.5%
Non Gilt Debt	15%	Gilts + 1.0%
Gilts	5%	Gilts + 0.0%
Cash	0%	0.0%
Totals	**100%**	**Gilts + 2.8%**

Equities include public and private equity in the UK and global markets. Investment in equities is designed to capitalise on the returns that come from investing in successful businesses. The return target for equities is Gilts plus 3.5%. This means that the Fund will tend to target strategies that match the returns from equity benchmarks but with less than benchmark risk. The strategies will also seek to capture returns and deliver diversification through characteristics such as manager style, market cap, geographic and sectoral stock selection.

Other Real Assets includes Infrastructure and Property. These assets are designed to deliver stable, lower risk returns throughout the high and lows of the economic cycle, and preferably with some inflation linkage.

Non Gilt Debt includes Corporate Bonds and Private Debt. These assets are held for their defensive qualities, including their lower volatility and stable income generation. Private Debt investments are with managers who invest in senior debt with strong covenants and minimal default risk.

Gilts are debt instruments issued by the UK Government. They are held by the Fund for their liability matching qualities (i.e. long dated index linked gilts can be purchased to closely match the future expected cash flows of the Fund). If the Fund was invested solely in Gilts, the expected return would be significantly less than the Fund's target return of Gilts plus 2.8% and employer contribution rates would be correspondingly higher than at present.

Cash is held pending the availability of suitable investments in the other policy groups or in times of low interest rates and unstable market conditions as a proxy for short dated bonds.

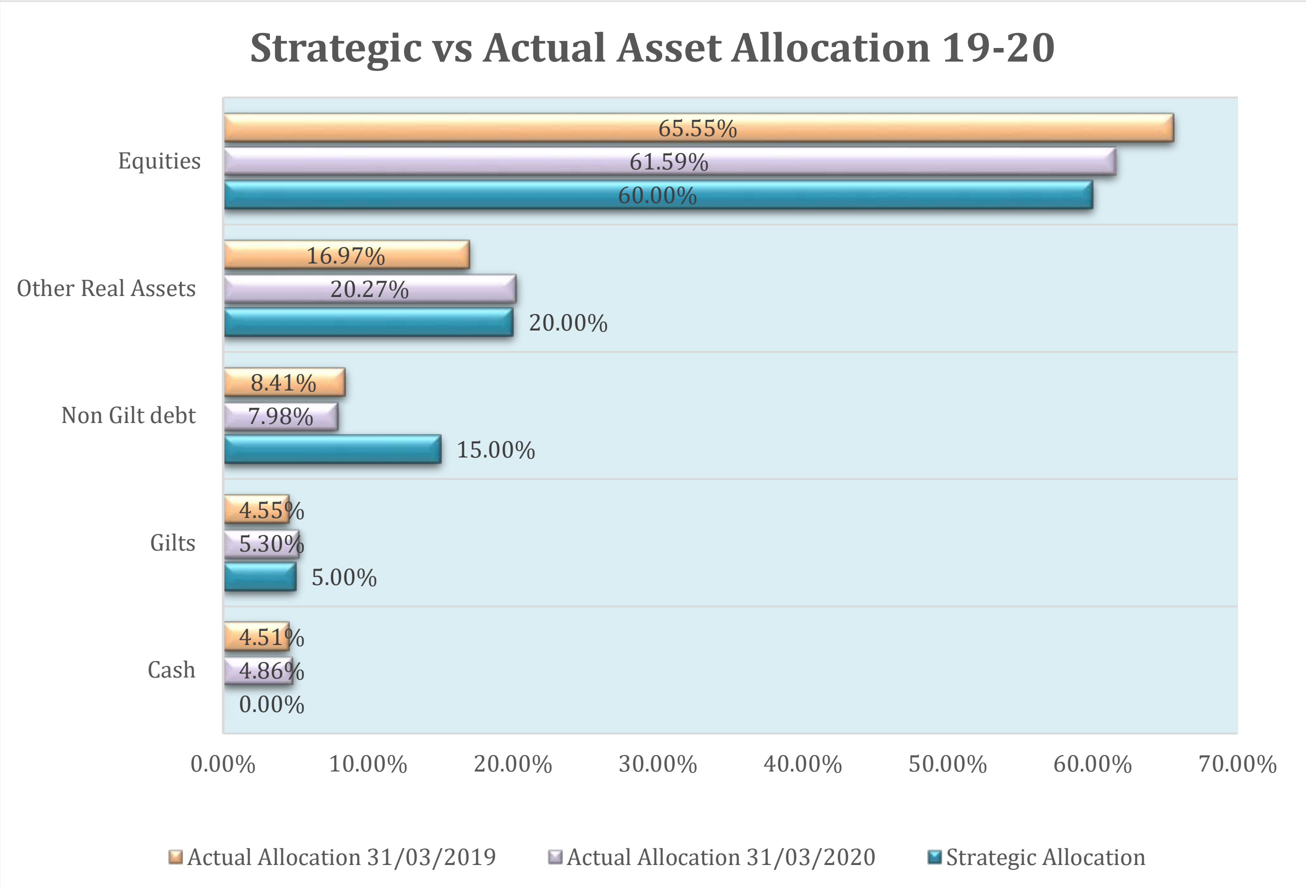
To avoid unnecessary and costly re-balancing, the Committee has agreed that the level of assets held in each policy group may sit within a prescribed range, as follows:

Tolerances around Strategic Allocation

Policy Group	Minimum Allocation	Strategic Allocation	Maximum Allocation
Equities	45%	60%	65%
Other Real Assets	10%	20%	25%
Non Gilt Debt	0%	15%	25%
Gilts	0%	5%	20%
Cash	0%	0%	10%

Comparison of Actual and Strategic Asset Allocation

As can be seen from the table below, the investment strategy is weighted strongly towards equities and other return seeking assets. The Fund will look continue to look for opportunities to de-risk should bond yields and funding levels improve, although prospects for this may have receded in the short term due to the reaction of markets to the COVID-19 crisis. Since the return objective for the Fund is Gilts plus 2.8%, the focus will increasingly be on assets with income generative and low volatility characteristics which allow for capital preservation and sustainable growth.



The Fund's actual Policy Group holdings against the strategic weightings are reviewed by the Joint Investment Strategy Panel every quarter and then reported to the Pensions Committee and Pension Board.

The chart above shows that the actual allocation at 31/03/2020 is at variance with the strategic allocation but still within the limits of the approved strategy. In particular, the Fund is overweight to Equities and underweight to Non Gilt Debt.

In relation to equities, the overweight position has declined during the year mainly due to the COVID-19 factor. By contrast, an increase in the allocation to Non Gilt Debt (i.e. Corporate Bonds and Private Debt) has to await suitable lower risk market opportunities becoming available.

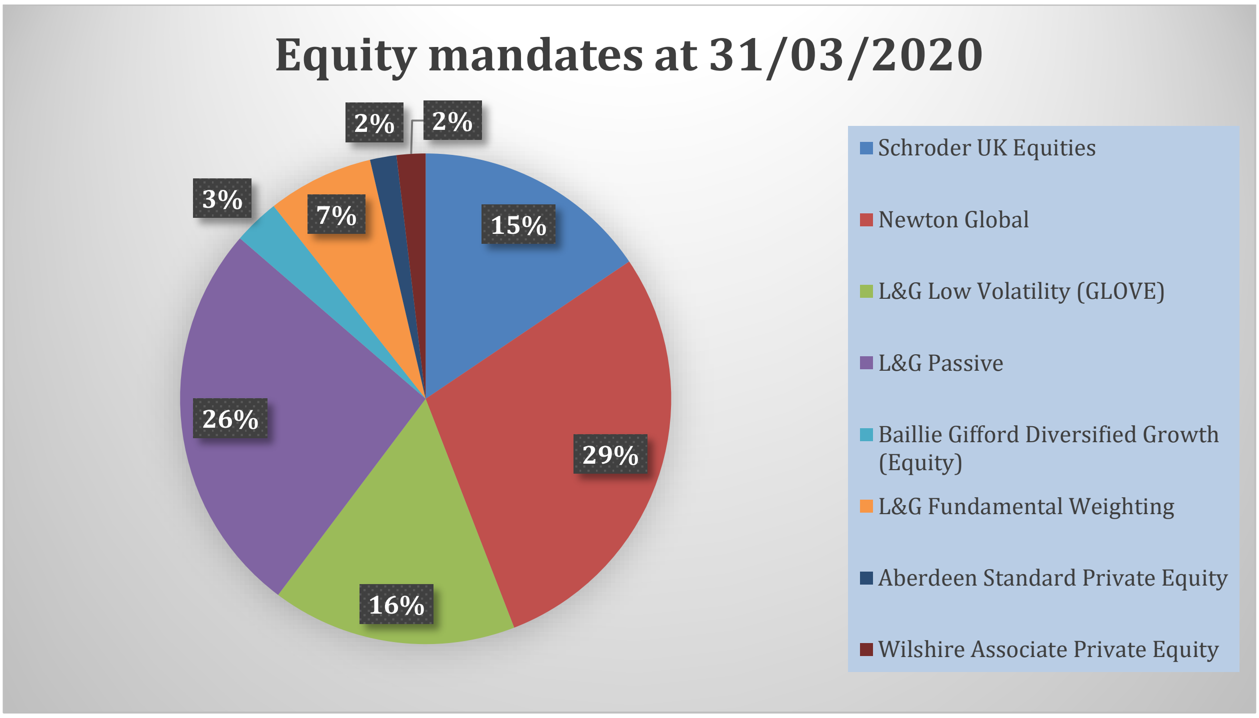
Cash levels have remained relatively constant during 2019/20 but are expected to reduce in the first half of 2020/21 as new allocations are made. The Joint Investment Strategy Panel and the Pensions Committee are content with the positioning of the Fund, recognising that steps are being taken to better align the actual allocation with the strategic allocation.

Investment Mandates and Managers

As at 31 March 2020, the Fund's allocation of assets to Policy Groups and investment mandates was as shown in the undernoted pie charts:

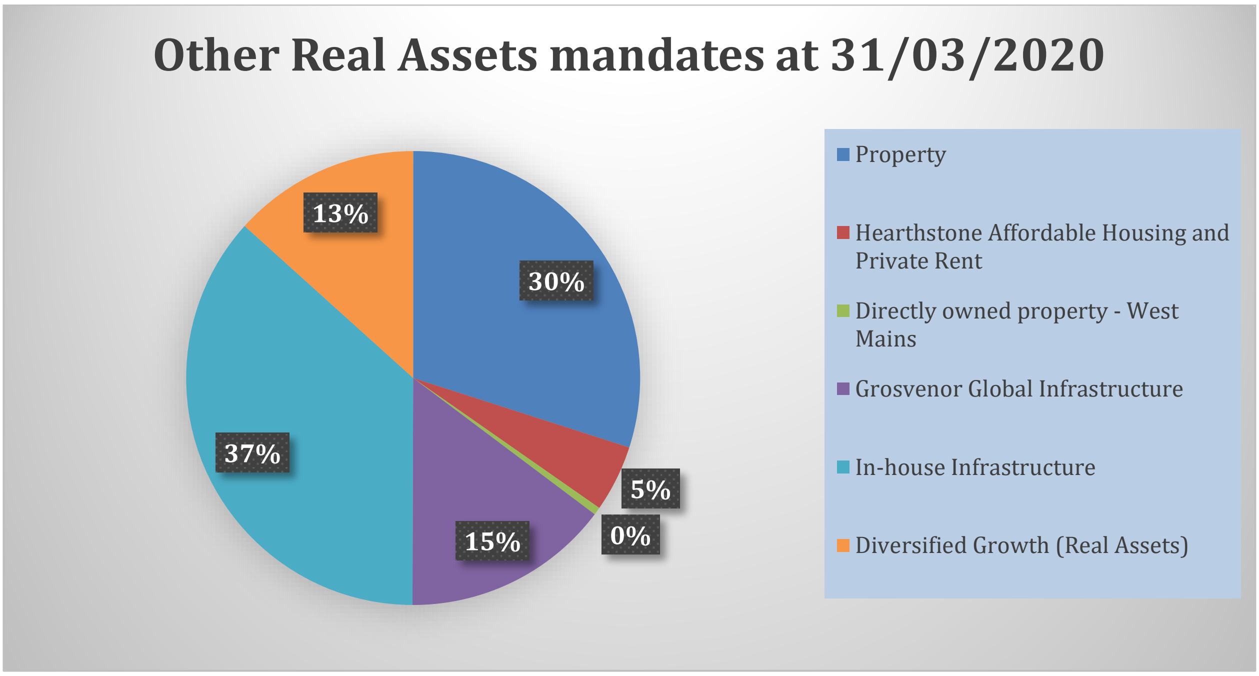
Equities

At 31 March 2020, the Fund invested 61.6% of its assets in Equities, allocated to the following portfolios:



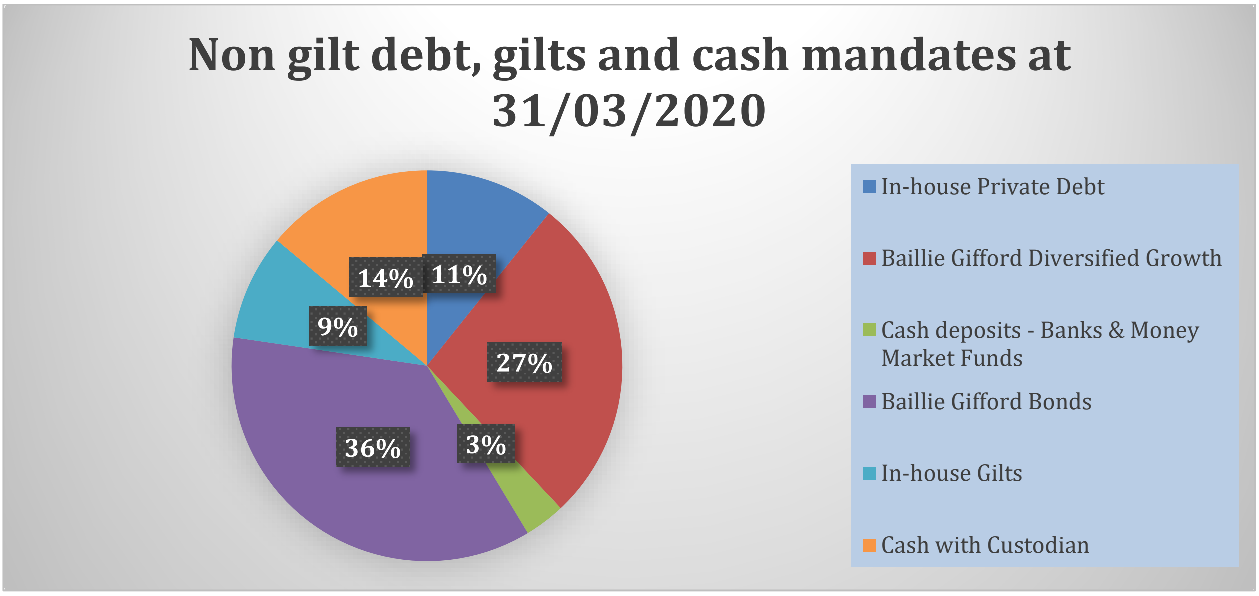
Other Real Assets

Other Real Assets formed 20.3% of the fund and were split between following fund managers:



Non Gilt Debt, Gilts and Cash

The remaining fund assets were allocated between non-gilt debt (7.9%), gilts (5.3%) and cash (4.9%), managed as follows:



Investment Performance

This section of the Annual Report deals with the Investment Performance of the Fund during 2019/20 and over longer time periods. The initial part deals with the returns at a whole Fund level and the latter part looks at how returns have been delivered by individual elements of the portfolio.

Fund Performance

Performance in 2019/20 was heavily influenced by the large COVID-19 related market movements at year end. Global equities had their most rapid decline ever and even low risk UK government bonds were adversely affected by the stampede for "safe haven" US dollars and gold. Post year end, markets have recovered to a degree. This may or may not be premature as the virus remains to be fully contained and the true impact on businesses and economies fully assessed.

Against this backcloth the Fund declined by 6.6% underperforming its benchmark of 0.3% by 6.9%.

Longer term returns over 3, 5 and 10 years and from inception (2001) show that the Fund has beaten its benchmark over longer time periods but fallen short of benchmark more recently – with the COVID-19 effect again being a contributory factor. Detailed returns are as set out in the table below:

Returns	1 year (2019/20) %	3 years % per Annum	5 years % per Annum	10 years % per annum	Inception % per annum*
Fund Return	-6.6	+1.5	+5.0	+7.3	+6.9
Benchmark Return	+0.3	+3.1	+5.4	+6.7	+6.7
Excess Return	-6.9	-1.6	-0.4	+0.6	+0.2

*Inception records performance from 2001 when the current custodian appointment was made.

The main detractors from benchmark over the past 5 years have been the Schroder UK Equity mandate where the mandate's "Value style" has been out of favour with markets and the Global Equity mandate managed by Aberdeen Standard which was terminated in mid-2019.

The following table analyses the 2019/20 performance of the five Policy Groups

Policy Group	Value £m (mid)	Weight %	Fund Return %	Benchmark Return %	Excess Return %
Equities	1,428	61.6%	-11.6	-6.7	-4.8
Other Real Assets	470	20.3%	+7.4	+20.1	-12.7
Non Gilt Debt	185	7.9%	+4.1	+1.6	2.4
Gilts	123	5.3%	+5.7	+2.0	3.7
Cash	113	4.9%	-1.2	+0.5	-1.7
Total Fund	**2,320***	**100%**	**-6.6**	**+0.3**	**-6.9**

*Fund valuation in the table is expressed at mid pricing, whereas net assets as stated in the Accounts are prepared on bid pricing

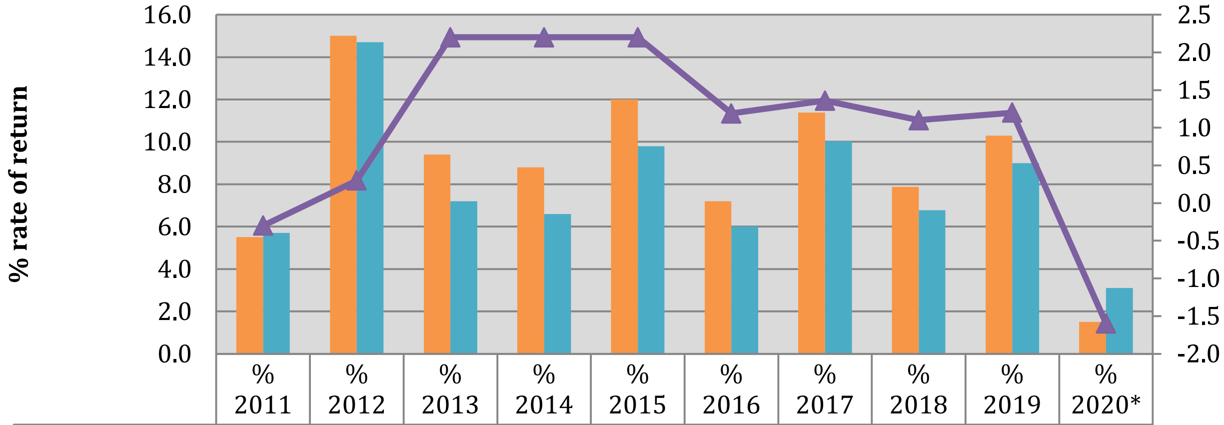
The Chief Finance Officer and the Joint Investment Strategy Panel assess returns in the context of risk taken, mandate constraints and objectives. The total Fund return and the return from the underlying policy groups are measured against specific benchmarks which reflect the return expectations for the asset class. Performance is reported at the quarterly Committee and Board meetings. Benchmarks are as follows:

Policy Group	Benchmark / Performance Objective
Equities	MSCI All Countries World Index Net
Other Real Assets	FTSE Actuaries Gilts Over 15 years +2.5% p.a.
Non Gilt Debt	iBoxx Sterling Non-Gilts +0.2% p.a.
Gilts	FTSE Actuaries Index Linked Gilts Over 15 Years
Cash	7 Day London Interbank Bid Rate (LIBID)
Total Fund	Composite of above benchmarks (excl. Cash)

One year is a very short period over which to measure performance. The Fund has liabilities stretching far into the future and so performance should be considered in a context that allows short term market "noise" to be averaged out. When reviewing mandates, the Joint Investment Strategy Panel will tend to look at performance over a complete economic cycle.

The following chart gives the 3 yearly rolling average returns for the Fund over the past 10 years. From the chart, one can see the resurgence (and maintenance) of returns in the aftermath of the global financial crisis of 2008/09 and then the sharp tailing off in 2020 as a result of the COVID-19 outbreak. The chart shows that the Fund has beaten its benchmark in 8 out of the past 10 years of rolling averages and that the two "years" in which below benchmark returns were achieved were occasioned by extreme global events – a banking crisis and a pandemic.

Annualised 3 yearly returns ending 31 March (% per year)



	% 2011	% 2012	% 2013	% 2014	% 2015	% 2016	% 2017	% 2018	% 2019	% 2020*
Fund	5.5	15.0	9.4	8.8	12.0	7.2	11.4	7.9	10.3	1.5
Benchmark	5.7	14.7	7.2	6.6	9.8	6.0	10.0	6.8	9.0	3.1
Relative	-0.3	0.3	2.2	2.2	2.2	1.2	1.4	1.1	1.2	-1.6

* Fund benchmark changed from 1st of April 2019

Investment Performance

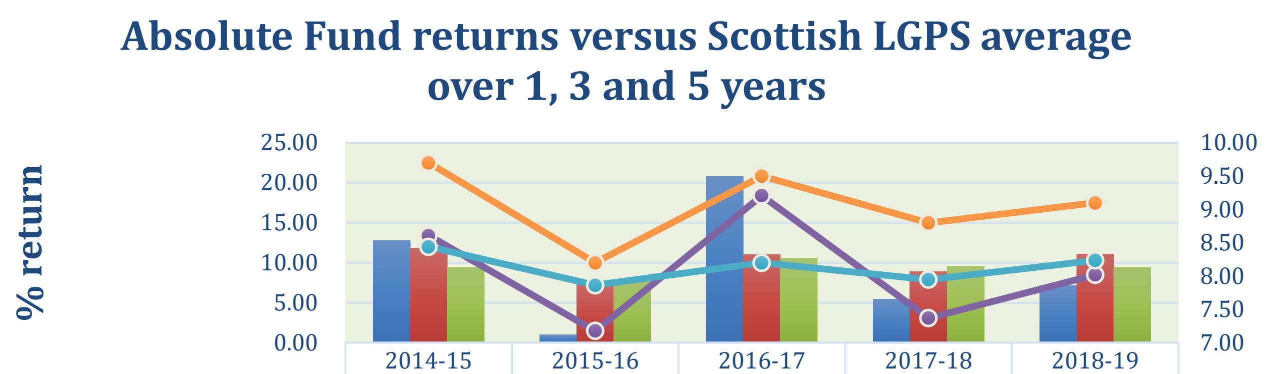
Comparative Performance

To give an indication of how the Fund has performed in comparison with other Scottish Funds, the undernoted table shows the one, three and five year returns for the Fund against the average for Scottish LGPS Funds over the same time periods. Both sets of returns are as at 31 March 2019, since the average results at 31 March 2020 will not be available until later this year:

	1 year (2018/19) %	3 years % per Annum	5 years % per Annum
Fund Return	8.5	10.3	9.1
LGPS Scottish Average	7.1	11.1	9.4

n.b. The LGPS Scottish Average is based on the CIPFA Scottish Directors of Finance Performance Indicators 2018-19

The chart below illustrates fund performance over the past five years against Scottish LGPS average looking at 1, 3 and 5-year annualised returns. The Fund returns over the 1-year period show a larger variance between the Fund and the Scottish average. However, the variance reduces over the longer horizon of 3 and 5 years.



	2014-15	2015-16	2016-17	2017-18	2018-19
1 year (Scottish average)	12.79	0.98	20.76	5.42	7.13
3 year (Scottish average)	11.85	7.31	11.01	8.91	11.10
5 year (Scottish average)	9.43	7.70	10.61	9.61	9.43
1 year (Fund)	13.40	1.50	18.40	3.10	8.50
3 year (Fund)	12.00	7.20	10.00	7.90	10.30
5 year (Fund)	9.70	8.20	9.50	8.80	9.10

Source: CIPFA Scottish Directors of Finance benchmarking

Returns below the Scottish average in the past three years are likely to be the result of the Fund having a lower risk, lower return strategy than comparators and not investing in certain strongly performing growth funds.

Manager Monitoring

The Chief Finance Officer appoints the Fund's investment managers under powers delegated by the Pensions Committee. Appointments are made having regard to advice from the Joint Investment Strategy Panel.

Regulation 10 of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) 2010 (SSI 2010/233) requires the monitoring of investment managers' performance each quarter. Compliance is achieved by the internal teams at Falkirk and Lothian:

- analysing the quarterly manager reports
- conducting meetings or conference calls with managers
- reporting outcomes to the Joint Investment Strategy Panel

The Joint Investment Strategy Panel uses a traffic lights system to assess overall manager effectiveness including portfolio construction, risk and return, and any wider business activities deemed to be of relevance. The Panel has regard to the fact that changing managers unnecessarily will incur extra costs for the Fund since assets may have to be transacted before a mandate is entrusted to a new manager.

Investment Performance

Finally, each quarter, the Pensions Committee and Board are provided with reports on Fund and Manager performance and on any Manager issues.

Manager Performance

The table below shows the annualised return achieved by managers of the larger Fund mandates over the one, three and five year periods to 31 March 2020:

	Absolute Return			Benchmark			Relative to Benchmark		
	1 Year	3 Year	5 Year	1 Year	3 Year	5 Year	1 Year	3 Year	5 Year
Mandate	%pa	%pa	%pa	%pa	%pa	%pa	%pa	%pa	%pa
Equities									
Newton	-3.9	3.5	8.1	-6.7	1.8	6.7	2.9	1.7	1.4
Schroder	-27.8	-7.8	-1.5	-18.5	-4.2	0.6	-9.4	-3.5	-2.0
Legal and General (LGIM) Passive	-9.9	0.2	5.1	-10.7	-0.2	4.8	0.8	0.4	0.3
Legal and General Fundamental Weighting	-15.3	-3.0	n/a	-15.6	-3.0	n/a	0.2	0.0	n/a
Global Low Volatility (LGIM)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Private Equity	4.9	n/a	n/a	-6.2	n/a	n/a	11.1	n/a	n/a
Real Assets									
Infrastructure	13.0	n/a	n/a	20.1	n/a	n/a	-7.1	n/a	n/a
Affordable Housing	5.3	1.6	0.7	4.6	4.8	4.6	0.6	-3.2	-4.0
Non-Gilt Debt									
Baillie Gifford Corporate Bond Fund	3.4	n/a	n/a	1.7	n/a	n/a	1.8	n/a	n/a
Baillie Gifford Investment Grade Fund	1.3	n/a	n/a	2.4	n/a	n/a	-1.1	n/a	n/a
Private Debt	6.3	n/a	n/a	4.8	n/a	n/a	1.5	n/a	n/a
Gilts									
Baillie Gifford Index Linked	6.7	4.4	6.8	7.9	4.3	5.1	-1.2	0.1	1.8
Baillie Gifford Investment Grade Fund	1.3	n/a	n/a	2.4	n/a	n/a	-1.1	n/a	n/a
Baillie Gifford Diversified Growth	-8.4	-0.9	1.4	4.2	1.7	1.2	-12.6	-2.6	0.2

n/a -Investment not held for required period of time or data not available due to performance reporting changes

Comment on Manager Performance

The Fund return of -6.6% in 2019/20 was driven largely by the negative absolute returns from Equities and Diversified Growth which in turn were a consequence of the COVID-19 pandemic. The Schroder UK Equity portfolio was particularly badly affected as markets punished cyclical sectors such as energy, retail and financials recognising the impact that COVID-19 would have on demand. Similarly, the index-led passive mandates managed by Legal and General followed the market trend downwards. By contrast, Newton's global thematic equity mandate was better placed to withstand the COVID-19 onslaught helped by its tilts towards technology and healthcare and its underweighting to energy. The underperformance of the Schroder "Value" style (as opposed to" Growth") now extends to five years.

The Fund's Private Equity managers (Aberdeen Standard and Wilshire Associates) delivered positive absolute returns. The Fund has not made any new allocations to Private Equity for a number of years and so the programme is in a mature stage with cash being returned to the Fund.

During the year, the global equity mandate with Aberdeen Standard was terminated following a sustained period of below benchmark performance and replaced with a global low volatility mandate (GLOVE). In order to construct the GLOVE portfolio, the in-house team pre-selected c. 200 stocks on the basis of their low volatility characteristics. These are being managed by Legal and General and periodic rebalancing will be undertaken to ensure adherence to the low volatility style.

The performance of the Baillie Gifford Diversified Growth mandate disappointed during 2019/20 being adversely impacted by the listed equity and property elements within the multi asset portfolio, despite the strategy seeking to establish a more defensive position.

During 2019/20, the in-house team removed management of the property portfolio from its Fund of Funds vehicle managed by Schroder. The underlying holding consists of 15 property funds being a mixture of balanced and specialist funds. The main managers are Blackrock, Schroders, Aberdeen Standard, Legal and General and Hermes. Since taking the mandate in house mid-year, returns have been moderately ahead of benchmark.

A separate mandate is invested in Affordable Housing and is managed by property specialists Hearthstone. Properties are all located in Scotland in Perth, Aberdeen, Haddington, Rutherglen, Dalkeith, South Queensferry, Denny and Bo'ness. Returns are improving and, consistent with the plan now being fully invested, the mandate outperformed its benchmark in 2019/20.

The infrastructure portfolio consists of a Fund of Funds vehicles managed by Grosvenor Capital and a series of direct investments with specialist infrastructure managers such as Ancala, Dalmore, Equitix, KKR and Macquarie. Commitments are made through collaborative arrangements with Lothian, Fife and other LGPS Funds. Although the benchmark was not achieved (owing to the enormous strength of gilts), infrastructure returned 13% in absolute terms and was the strongest performing asset class over the twelve months.

Baillie Gifford manages a variety of debt assets for the Fund, mainly Gilts and Investment Grade Corporate Bonds. Gilts finished the year strongly as bond prices increased and investors sold off risk assets. By contrast, corporate bonds fell as investors became nervous of companies' ability to meet commitments. These macro events were reflected in the Bailie Gifford performance. In the face of the economic turmoil at year end, Baillie Gifford has increased their cash holdings in the funds it manages for Falkirk.

The Non Gilt Debt assets also include investments in Private Debt funds managed by Madison, Alcentra, Barings and BlackRock. The asset class is relatively new for the Fund and returned 4.1% during 2019/20 outperforming its benchmark by 2.4%.

Investment Holdings

The Fund's 10 largest direct equity holdings at 31/03/2020 are as listed below:

Name of Stock	Market Value as at 31/03/2020	Sector
MICROSOFT CORP COM	£24,509,430	Information Technology
ALPHABET INC	£18,329,404	Media & Entertainment
APPLE INC COM STK	£17,100,460	Information Technology
ROYAL DUTCH SHELL	£13,680,239	Energy
MEDTRONIC PLC	£12,688,242	Health Care
MASTERCARD INC	£12,613,769	Information Technology
AIA GROUP LTD NPV	£12,545,752	Insurance
CISCO SYSTEMS INC	£12,572,038	Information Technology
BP	£12,351,455	Energy
RELX	£11,877,890	Commercial & Professional Services

The scheme rules specify that the maximum amount an LGPS Fund may have in a single holding is 10% of the total fund value unless it is held in a pooled vehicle.

The Fund's single largest holding (excluding pooled funds) is in Microsoft and is approximately 1% of the Fund value, and therefore comfortably within the statutory ceiling.

A full list of Fund holdings can be found on the Fund website.

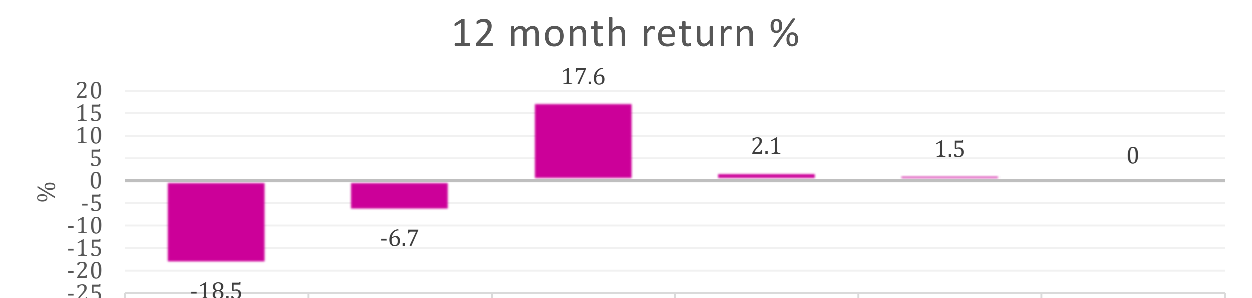
Overview

For the 12 months to 31 March 2020, UK equities (FTSE All Share) returned -18.5%, while global equities (MSCI ACWI, in GBP) returned -6.7%. The fall in global equities for sterling based investors was mitigated by a weaker pound (global equities returned -10% in local currency terms). Sterling had strengthened over 2019 as UK political uncertainty cleared with the election of a majority Conservative government in December 2019. However, it then sold off sharply in March 2020 (along with risk assets) in response to the widening COVID-19 pandemic. 12-month equity returns were dominated by the outsized moves in the first quarter of 2020 when UK and global equities (in sterling) returned -25.1% and -16.0%, respectively.

Government bond yields reached record lows in August 2019 as investors sought relative safety in the face of mounting recession fears, in the process pushing the amount of negative yielding sovereign debt to an all-time high. However, the prospect of an initial trade agreement between the US and China buoyed risk assets and bond yields rose during the fourth quarter of 2019. Markets continued to perform strongly into early 2020, seemingly discounting any major economic impact from the January coronavirus outbreak in China. However, as international outbreaks emerged in mid-February, volatility rose.

At the beginning of March, Russia and Saudi Arabia started an oil price war as negotiations on production cuts to offset declining demand broke down. Combined with the increasing spread of the coronavirus pandemic, risk assets sold off sharply through to mid-March as equity market volatility rose to its highest level in the last 30 years. The Bank of England, the US Federal Reserve and other central banks reduced their benchmark interest rates close to zero to support their economies through the ongoing crisis. UK and US government bond yields ended the year to 31 March 2020 near their all-time lows.

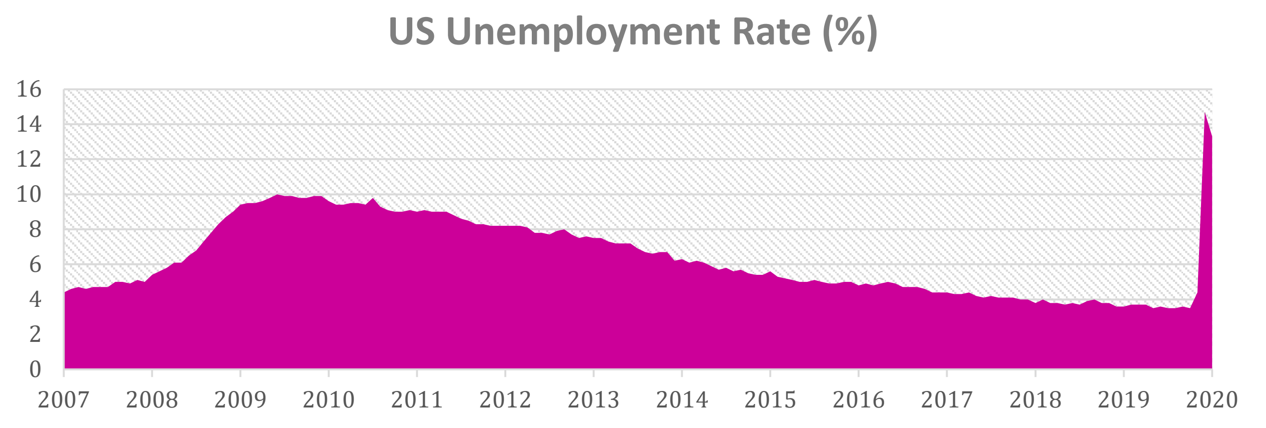
The table below shows index returns over 12 months to 31 March 2020 for a range of asset classes.



	UK Equties	Global Equties	Nominal Gilts	Index-Linked Gilts	Investment Grade Bonds	UK Property
▪	-18.5	-6.7	17.6	2.1	1.5	0

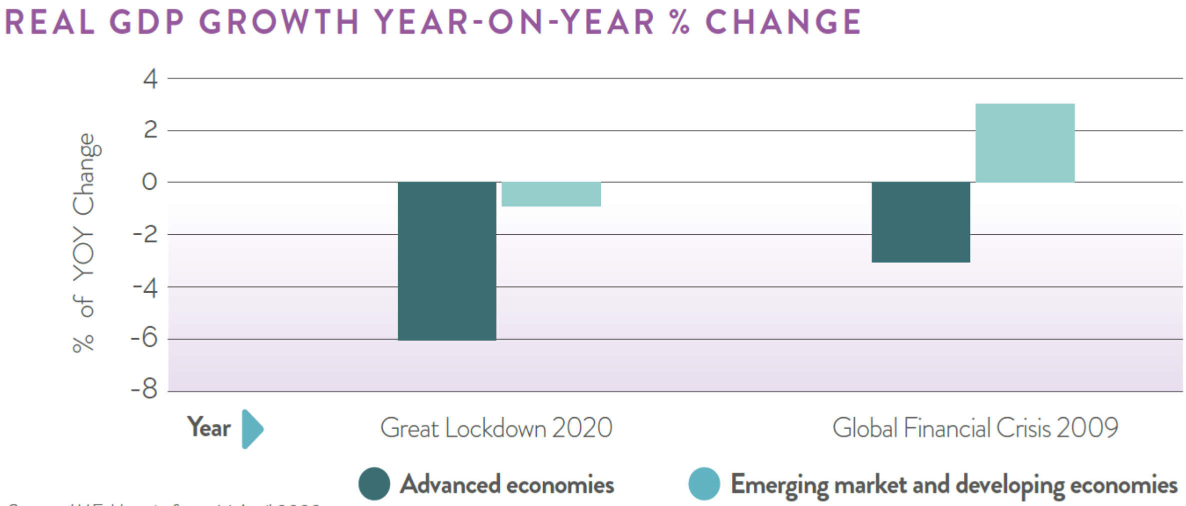
Source: Bloomberg & MSCI

The speed and severity with which lockdowns have impacted economies is illustrated in the chart below, which shows the surge in the unemployment rate in the US from 3.5% in February to 14.7% in April, vastly exceeding the peak of 10% during the global financial crisis just over a decade ago.



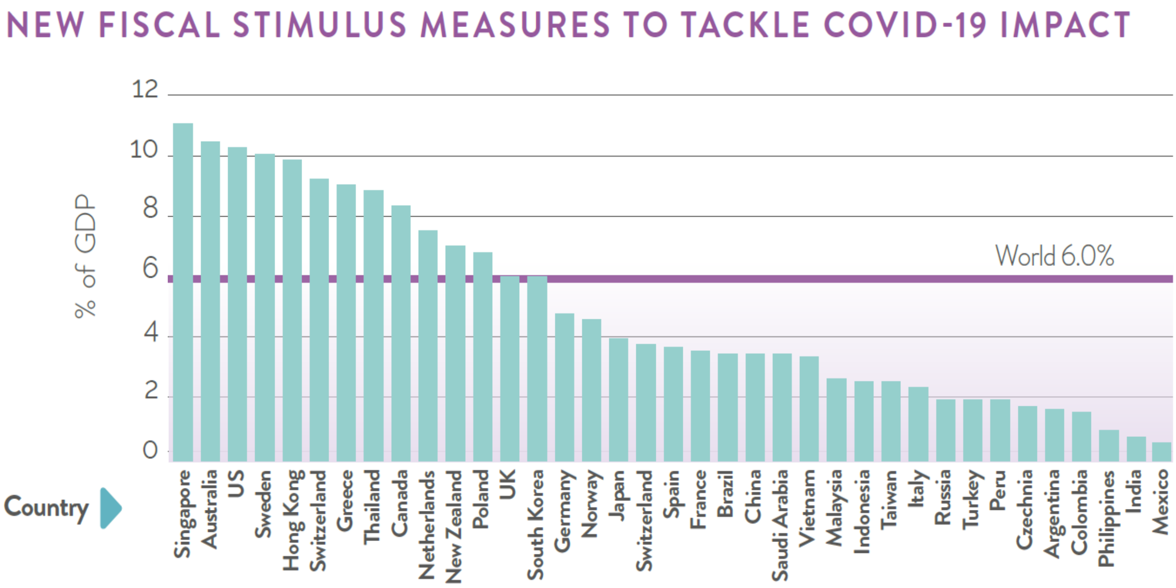
Source: US Bureau of Labor Statistics, Bloomberg

The most recent April 2020 forecasts by the IMF (in the chart below) also indicate that the damage to global growth will be worse than the downturn of 2008/2009.



Source: IMF, blogs.imf.org, 14 April 2020

As the coronavirus crisis has unfolded, the scale of monetary and fiscal stimulus and support announced by central banks and governments worldwide has been unprecedented; fiscal stimulus measures alone have been estimated at c6% of global GDP (see chart below). Markets have responded positively with equities bouncing (at end April 2020) almost +30% off their mid-March lows. The market reaction suggests that many believe that the support may be enough to offset the deeply negative economic and business impacts, enabling a quicker return to normalised economic activity than more cautious observers are projecting.



Source: Macrobond, LGIM estimates, 24 April 2020

Overview

The Fund considers itself to be a responsible investor and has set out its approach to Environmental, Social and Governance (ESG) matters in its Statement of Investment Principles (SIP). The approach is formed from the investment beliefs of the Pensions Committee, including:

- a belief that their decisions, and those of officers, must give precedence to the fiduciary duty owed to members and employers
- a belief that responsible investment should reduce risk and may improve returns
- a belief that the Fund should exercise its ownership rights in a responsible way, constructively engaging with companies to reduce risk, rather than divesting.

The Fund requires its managers to have regard to the SIP in stock selection and to report regularly on their ESG engagement. A number of the Fund's managers produce quarterly reports which focus solely on their sustainability and engagement work.

In recognising its obligations as a responsible investor, the Fund is mindful of the fact that its legal purpose is to invest the monies given to it by its stakeholders in order to meet future pension payments. Failure to deliver the necessary returns will result in increased contributions from employers and reduce the money that can spent on public services. Whilst the Fund may legally take non-financial factors into account when setting its investment policy, this cannot be done if it results in the material reduction of the Fund's financial returns.

Engagement versus Divestment

Rather than making its own decision as to the specific companies in which to invest in or not invest in, the Fund relies on the judgement of specialist investment managers. They are investment professionals who are paid to assess all prospective risks (including ESG risks) before making their buy, hold or sell investment decisions.

Stock holdings in certain sectors can give rise to concerns being voiced by lobbying groups. This could be in relation to fossil fuel, tobacco, defence companies or holdings in politically sensitive countries.

Whilst the Fund could choose not to invest in these sectors – which could damage returns and the risk profile of the Fund - it leaves those investment decisions to its investment managers. Where a stock holding is controversial, the Fund's officers will engage with the investment manager to challenge the rationale behind the stock continuing to be held in the portfolio. In general, engagement is seen as a more effective tool than blanket divestment since this would result in the Fund ceasing to have any influence over these types of company and the shares potentially falling into the hands of less responsible owners.

One recent example of engagement triggering a change in company direction was the resolution co-sponsored by Falkirk to request Barclays to phase out financing of energy companies not aligned with the Paris Agreement. In 2018/19, a similar resolution sponsored by one of the Fund's managers – Legal and General (LGIM) – prompted BP to adopt a more climate friendly business model. Further reference to the Barclays piece of work is made in the Chair's foreword to the Annual Report and in the Management Commentary on Page 10.

Climate Change

Although the immediacy of the COVID-19 pandemic has pushed all other news stories into the hinterland, climate change and issues surrounding the wellbeing of the planet have not gone away.

The risks posed by climate change and global warming generally have been identified by the Fund as a particular risk to asset valuations. This is consistent with the findings of the Task Force on Climate Related Financial Disclosures – a working group established by G20 Ministers and Central Bankers – which in a 2017 report stated that:

"*The reduction in greenhouse gas emissions implies movement away from fossil fuel energy and related physical assets. This coupled with rapidly declining costs and increased deployment of clean and energy-efficient technologies could have significant, near-term financial implications for organizations dependent on extracting, producing, and using coal, oil, and natural gas. While such organizations may face significant climate-related risks, they are not alone. In fact, climate-related risks and the expected transition to a lower-carbon economy affect most economic sectors and industries.*"

The Task Force noted that in the light of the risks from climate change:

"Both investors and the organizations in which they invest, therefore, should consider their longer-term strategies and most efficient allocation of capital. Compounding the effect on longer-term returns is the risk that present valuations do not adequately factor in climate-related risks because of insufficient information. As such, long-term investors need adequate information on how organizations are preparing for a lower-carbon economy."

The Task Force has made four specific recommendations intended to improve the financial disclosures around climate-related risks and opportunities. These focus on governance, strategy, risk management, and metrics and targets. Together, they form a basis against which investors can hold companies to account in relation to their business future proofing and assess whether sufficient scenario analysis is being undertaken.

Core Elements of Recommended Climate-Related Financial Disclosures

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Source: Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017)

The Fund manages its climate change risk firstly by engaging with its investment managers to ensure they are challenging investee companies in terms of the Task Force recommendations and secondly by being part of the Local Authority Pension Funds Forum where the collective voting strength of over 75 funds can be used to influence corporate policy.

The Fund is also a member of both the Institutional Investors Group on Climate Change (IIGCC) and the Climate Action 100+.

The (IIGCC) is a European entity with more than 230 members, mainly pension funds and asset managers, across 15 countries, with over €30 trillion in assets under management. Its mission is to influence governmental policies on an international scale and to mobilise capital for the low carbon transition that is required.

The Climate Action 100+ initiative exists to engage directly with the world's largest corporate greenhouse gas emitters to challenge them to take action on climate change. More than 320 global investors are supporting engagement efforts to improve governance, curb emissions and strengthen climate-related disclosures. The companies targeted are 100 'systemically important emitters', who account for two-thirds of annual global industrial emissions, and more than 60 others who have the potential to drive the clean energy transition.

The Fund also participates in the Scottish Responsible Investors Group. The group consists primarily of Scottish based investors from local government and beyond and looks for opportunities to work collaboratively in the responsible investment space.

On a more general environmental front, the Fund is participating in a legal action ("a Class Action") against BHP Billiton in relation to the collapse of the Samarco dam in Brazil in 2015 which killed 19 people and caused environmental upheaval. It is contended that from 2013, BHP knew that there was a material risk the dam would collapse. As a result, it is alleged that they breached disclosure obligations and misled the market. The case is being heard in Australia and is ongoing.

Impact Investment

The Fund does not set out specifically to invest in assets with a wider social or environmental benefit as this could be at variance with its fiduciary responsibilities. Nonetheless, the Fund does invest in a number of infrastructure assets many of which are located in the UK and which help the UK economy to function. These include investments in transport, renewable energy (wind and solar assets), as well as elements of social infrastructure such as affordable housing, student accommodation, schools and hospitals.

UK Stewardship Code

The UK Stewardship Code sets out the best practice principles that asset managers are expected to follow when managing "other people's money" including the extent to which they should play an active and positive role in engaging on corporate governance matters for the benefit of their clients.

With effect from 1st January, 2020, the 2012 version of the Code has been replaced with a 2020 version. Amongst a number of requirements, the new Code requires that there should be:

- a focus on actual stewardship achievements and outcomes; and
- an annual stewardship report

The new Code “raises the bar” in terms of the standards that signatories are required to meet and is consistent with the greater attention being given to ESG matters by investors, markets and society in general. Both asset owners and asset managers are encouraged to sign up.

The Code is the responsibility of the Financial Reporting Council (FRC) - the UK’s independent regulator responsible for promoting transparency and integrity in business. The FRC is itself undergoing a transformation programme which will see it replaced by the Audit, Reporting and Governance Authority (ARGA). This follows a review of the regulatory environment by the Legal and General Chair, Sir John Kingman.

Falkirk will consider the resource implications of signing up to the Code but in the short term will look to comply with spirit of the Code by:

- continuing to publicly disclose how we are discharging our stewardship responsibilities.
- having a robust policy on managing conflicts of interest
- monitoring investee companies
- acting collectively with other investors where appropriate.
- having a clear policy on voting and disclosure of voting activity
- report periodically on their stewardship and voting activities

More details on alignment with the principles of the Code are contained in Appendix C of the Statement of Investment Principles.

Corporate Governance

The Fund seeks to promote corporate responsibility and good practice amongst the companies in which it invests. In line with the monitoring principle of the Stewardship Code, the Fund has put arrangements in place to review the ESG standards being applied by its investee companies. This includes:

- discussing holdings with the investment managers, including debt and infrastructure propositions
- voting
- participating selectively in class actions
- being members of the Local Authority Pension Fund Forum (LAPFF) and other collaborative bodies
- appointing the Pensions and Investment Research Consultants (PIRC) to undertake proxy voting and provide advice and research information on environmental, social and governance matters

An update on corporate governance and voting is given at the quarterly Committee and Board meetings.

Local Authority Pension Funds Forum (LAPFF)

LAPFF is an umbrella body of around 75 UK local government pension funds with combined assets of over £250 billion - which exists to promote good standards of corporate governance.

The Fund considers membership of LAPFF is an effective way to exert influence on ESG matters. Recent LAPFF campaigns to change corporate behaviour have included executive pay, gender equality in boardrooms and fossil fuel emissions.

During 2019/20, LAPFF engaged with major companies on a range of issues, including Board diversity, plastics pollution, social media content, carbon and environmental risk, executive pay, and other workforce issues. Engagement is invariably at a personal level between LAPFF office bearers and company chairs or senior executives.

LAPFF business meetings are held on a quarterly basis allowing LAPFF members to be fully briefed on developments. In addition, its engagement work, LAPFF also issues “Voting Alerts “where a vote in a particular direction is recommended. Recent instances of this include:

Company	AGM Date	Vote Decision	Subject Matter of Resolution
Barclays	07/05/2020	For	Resolutions to phase out financing of energy companies not aligned with Paris Agreement and to support Barclays ambition to be a net zero bank by 2050
BHP Billiton	17/10/2019	For	Company to withdraw from groups lobbying against climate change mitigation
Ryanair	19/09/2019	Oppose	Re-election of Board members – on basis of perceived poor relationship between management and unions and staff
Alphabet	19/06/2019	For	Provision of a content governance report in relation to Google and YouTube – on basis that platforms have hosted extremist and supremacist content
Facebook	30/05/2019	For	Provision of a content governance report – in light of Cambridge Analytics misappropriation of Facebook users’ data
Exxon	29/05/2019	Oppose	Re-election of Board members – on basis of continued lobbying against climate change mitigation and insufficient disclosure
Chevron	29/05/2019	For	Request for an independent chair and better reporting on reducing carbon footprint
BP	21/05/2020	For	Climate Action 100+ resolution on climate change disclosures
Ford Motor Company	09/05/2020	For	Disclosure of the company’s lobbying activities and expenditures

As the COVID-19 pandemic has unfolded, LAPFF has been vocal in seeking to ensure that shareowners voices have continued to be heard, despite AGMs being more choreographed and delivered online.

Pensions and Investment Research Consultants Ltd (PIRC)

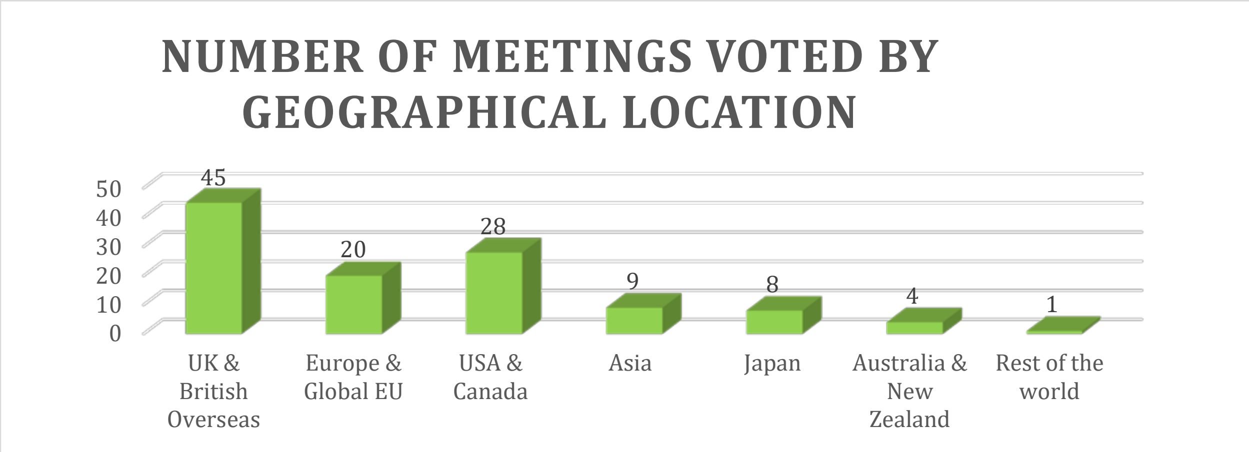
To support its ESG commitments, the Fund has engaged PIRC to provide advice and research information on matters pertaining to corporate governance. PIRC also act as voting agents for the Fund.

Voting

The Fund could allow its managers to exercise votes on its behalf at company meetings. However, in order to ensure a consistent, streamlined approach to voting, it has engaged PIRC to undertake this service through its Proxy Voting facility.

The PIRC shareholder voting guidelines were presented to the Committee and Board at the joint meeting of 26 September and confirmed to be consistent with the Committee’s own expectations of corporate behaviour.

During 2019/20, PIRC voted at 115 company meetings on 1,906 resolutions with 1,227 votes being cast in favour of resolutions, 512 opposed, 167 being mainly abstentions or withheld votes. The breakdown of votes by geography and category is set out overleaf:



Analysis of resolutions

For	Oppose	Abstain	Non-Voting	Withhold	US Frequency Vote on Pay
1,227	512	115	28	23	1

Voting Themes

The votes cover areas such as the election of directors and remuneration policy, annual reports, dividends, share issue/re-purchase. Areas where “oppose” votes were regularly cast included remuneration policies, executive pay, share buybacks, corporate governance matters and auditor independence.

Overview

Risk is an inherent feature of pension fund management. This may be risk in entrusting fund monies to an investment manager, a systems failures or, indeed, a global pandemic.

The Fund integrates risk management into its governance process by having a Risk Management policy which explains the risk management strategy for the Fund, including:

- risk philosophy
- implementation process
- roles and responsibilities
- key internal controls

The policy seeks to ensure that the Fund:

- integrates risk management into its culture and day-to-day activities
- has a robust framework for the identification, analysis, assessment and management of risk
- minimises the probability of negative outcomes for the Fund and its stakeholders

Risk Identification, Management and Review

The Fund has adopted the following “virtuous circle” for identifying, managing and reviewing risk

Risks are identified through a variety of means, including:

- performance measurement against agreed objectives
- feedback from employers and other stakeholders
- liaison with other organisations, national associations, professional groups, etc.
- soundings from the Pensions Committee, Pension Board and Fund Advisors
- knowledge, observations and experiences of Officers
- findings of internal and external audit

Risks are allocated a risk score depending on their impact and likelihood of occurrence. Depending on the score, risks are classified as being:

Level of Risk	Consequences
Low	Fund considers this level of risk tolerable
Medium	Fund expects this level of risk to be contained with minimal intervention
High	**Fund is concerned about this type of risk and looks to manage it through mitigation and action plans**
Very High	**Fund is very concerned with this type of risk and looks to eliminate or contain it through a combination of contingencies, mitigations and short term action plans**

Risk Management

Risks are documented in the Fund's risk register, together with the actions put in place to mitigate the risk. Management of each risk is allocated to a senior Fund officer or officers.

In relation to any heightened areas of risk or newly identified risks, the Pensions Committee and Pension Board are provided with regular updates (e.g. COVID-19 risk added August 2020). Additionally, the register is reviewed by senior officers twice yearly at meetings attended by the Board Chairs. Once reviewed, the register is taken to the Pensions Committee for formal approval. Changes to the current risk register were formally approved at the meeting on the 13th of August 2020.

During 2019/20, the Pensions Committee approved the introduction of an Assurance Map (as endorsed by the Chartered Institute of Internal Auditors) to systematically categorise risk controls and to provide reassurance that key risk mitigations were being visited appropriately through the audit programme. More information on this can be found in the Annual Governance Statement on Page 88.

The risk management process is supported by the following strategic documents:

- the Fund Business Continuity Document
- the Council (Finance) - Business Continuity Recovery Plan
- the Council Corporate Risk Management Policy and Framework

Collectively, the documents deal with the Fund's planned responses to any unexpected interruption to service delivery and the wider risk environment in which the Fund operates as part of Falkirk Council.

The risk management process is intended to be consistent with the Managing Risk recommendations outlined in the Pension Regulator's Code of Practice 14.

Key Risks and Mitigations

The areas of greatest risk and the main mitigations put in place by the Fund are as follows (n.b. per risk register as at 31 March 2020):

Identified Risk (classified as Very High)	Responsible Officers	Mitigating Actions	Risk Rating Post Mitigation
Funding position affected by falling asset values or fall in bonds yields impacting on liabilities	Chief Finance Officer Pensions Manager	• Diverse range of assets held • Strategy overseen by Joint Investment Strategy Panel (JISP) • Long term time horizon • Periodic reviews of strategy	Medium
Managers under-perform or performance monitoring is ineffective	Chief Finance Officer Pensions Manager	• Reviews performed by Lothian's investment team including FCA accredited professionals • Spread of different managers used • Performance assessed by JISP • Quarterly calls held with managers • Manager reports provided to Board/Committee • Option to terminate managers	Medium
Climate change	Pensions Manager	• Engagement with investee companies by Fund managers • Lobbying by LAPFF / PIRC • Members of IIGCC and Climate Action 100+ • Support for Climate Change Resolutions	High
Lack of knowledge, skills and leadership	Chief Finance Officer Pensions Manager	• Training Policy in place • Attendance at conferences • Access to wide variety of advice	Medium
Succession Planning inadequate	Chief Finance Officer Pensions Manager	• Staff training and development policies • Reduce key man risk through rotation of duties • Staff access to group and web based forums • Collaborations with Lothian and Fife	Very High

		• Recruitment process in progress	
Failure to issue all Benefit Statements by due date	Pensions Manager and Pensions Officers	• Fund has regular contact with employers • Employer training sessions held as required • Employer reminders sent before/after year end • i-Connect project ongoing	High
Failure of IT systems including Altair (key admin/payroll system)	Pensions Manager and Pensions Officers	• Altair is a hosted, industry standard system • Altair contingency arrangements tested annually • Data backed-up daily • Senior pensions staff equipped with laptops	Medium
Cyber security attack	Chief Finance Officer Pensions Manager	• Heywood have provided certificates for compliance with – ▪ Cyber Essentials Scheme (expire 2/8/20) ▪ ISO 27001:2013 (expires 19/12/20) ▪ ISO 9001:2015 (expires 19/12/20) • Heywood moved to Cloud hosting • Falkirk Council has attained Cyber Essentials certification and PSN Certification	Medium
Loss of Staff (e.g. pandemic, adverse weather)	Pensions Manager	• Hosted Web Based Admin and Payroll System • Fund/Council Business Continuity Plans • Council's adverse weather policy • Remote working for key staff	Medium
Inaccurate member data on Altair or incomplete member data due to employer omissions	Pensions Manager	• Roll out of monthly online data submission • Employer training sessions • Data quality audit undertaken • Employer forms revised to improve clarity • Trained staff review of records • Address tracing initiative	High
Staff error or backlogs in Service delivery	Pensions Manager and Pensions Officers	• Experienced core workforce • Recruitment in progress • Processes involve checking mechanism • Robust staff selection procedures • Online procedures manual • Annual online training mandatory • Outstanding cases monitored and where necessary staff dedicated to work on particular backlog	High
Adverse impact from Covid-19 pandemic	Pensions Manager	• Investment strategy and implementation reviewed regularly by JISP • Diversified asset mix • Fund is in cashflow positive position • Strong engagement with employers and monitoring of covenants • Inter valuation funding updates • Online governance meetings and training • Home working capabilities • National Guidance on Safe Working • Workplace Risk Assessments	High

Data Security and Cyber Risk

The Fund is responsible for a large volume of personal highly sensitive data. The Fund operates within the context of Falkirk Council's wider information security arrangements. These are set out in the Council's Information Security Policy which has a general objective of complying with the BS7799-2 Code of Practice for Information Systems Security. In particular, the Council is compliant with the Public Services Network and Cyber Security Essentials accreditation regimes.

At the Pensions Section level, the following arrangements are in place to safeguard data:

- Staff are trained regularly on their obligations in respect of confidentiality, data protection and information security

- New staff have these responsibilities and policies explained to them as part of their induction and their understanding is checked
- Where data has to be transferred off site we use either secure FTP, VPN, or Sharefile - a secure file exchange application
- Data classed as sensitive personal data transferred on site is password protected
- Paper records are securely destroyed on site by the in-house Pensions Sections
- Password protected laptops are provided to staff who work away from the office, as part of their regular role or as part of the business continuity plan
- The Pensions Administration System complies with the standards contained in ISO/IEC 27001 information security management
- Data Processing Agreements are in place with third party processors (e.g. the Fund Actuary and the vendor of the administration software)

The requirements of the General Data Protection Regulations which came into force on 25 May 2018 mean that the Fund has published a comprehensive Privacy Notice to explain, inter alia, why the Pensions Section collects personal data, with whom they share data and the length of time for which that data is retained.

The Fund has entered into a Memorandum of Understanding with each of the Fund's constituent employers to ensure that they are aware of the data security standards that is expected of them and that they are aware of the standards they can expect from the Fund.

During 2019/20, the Fund commenced participation in the UK wide LGPS National Insurance database. This involves member data being uploaded regularly to a database maintained by the South Yorkshire Pensions Authority. A data sharing agreement has been put in place and participation only started after a data impact assessment had been completed to the satisfaction of the Information Governance Manager, the ICT Manager and the Chief Finance Officer.

Investment Risk

Investment risks include price volatility risk, currency risk, counterparty risk, interest rate risk and inflation risk. A more detailed explanation of these risks can be found in the Fund's Statement of Investment Principles.

The Fund's overall investment policy is to seek to reduce its exposure to more volatile riskier asset classes as market opportunities arise (e.g. bond yields rise and liabilities fall). This is consistent with Fund commitments to allocate capital to asset classes such as Infrastructure and senior Private Debt.

Clearly, giving third party investment managers the right to transact on behalf of the Fund carries a major risk. To gain assurance that managers are exercising responsible stewardship of the assets under management, the Fund and its advisers have regular calls and meetings with the managers; discuss manager performance with Fund advisers and seek from managers' their audited compliance and control reports. Further assurance comes from the individual manager assurance reports, details of which (for 2019/20) are as follows:

Fund manager/administrator	Type of assurance	Control Framework	Compliance with controls	Service Auditors
Aberdeen Standard Investments	AAF 01/06/ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Alcentra/Sanne	ISAE 3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Ancala/Augentius Group Ltd	SOC 1	Reasonable assurance	Reasonable assurance	BDO LLP
Baillie Gifford	ISAE 3402/AAF 01/06	Reasonable assurance	Reasonable assurance	PWC LLP
Barings/Brown Brothers Harriman & Co	SOC 1	Reasonable assurance	Reasonable assurance	PWC LLP
Blackrock/M&G/State Street	SOC 1	Reasonable assurance	Reasonable assurance	EY LLP
Brookfield/SS&C GlobeOp	SOC 1	Reasonable assurance	Reasonable assurance	PWC LLP
Crestbridge Ltd	ISAE3402	Reasonable assurance	Reasonable assurance	PWC LLP
Dalmore Capital	ISAE 3402	Reasonable assurance	Reasonable assurance	PWC LLP
GCM/SEI Investments	SOC 1	Reasonable assurance	Reasonable assurance	EY LLP

Hermes	AAF 01/06	Reasonable assurance	Reasonable assurance	EY LLP
L&G/JTC (Jersey) Ltd	ISAE3402	Reasonable assurance	Reasonable assurance	PWC LLP
Legal & General	AAF 01/06/ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Madison Capital/ J.P. Morgan	SOC1	Reasonable assurance	Reasonable assurance	PWC LLP
Newton Investment Management	ISAE3402/SSAE18	Reasonable assurance	Reasonable assurance	KPMG LLP
Oaktree Capital Management LP	attestation standards established by the American Institute of Certified Public Accountants	Reasonable assurance	Reasonable assurance	EY LLP
Schroder Investment Management	ISAE 3402/AAF 01/06	Reasonable assurance	Reasonable assurance	EY LLP
Schroder Property/ Aztec Group	ISAE3402	Reasonable assurance	Reasonable assurance	PWC LLP
UBS (Greensands)	ISAE 3402	Reasonable assurance	Reasonable assurance	EY LLP

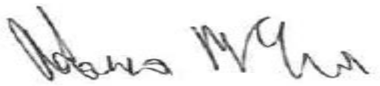
Statement of Responsibilities

Administering Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of the financial affairs of the Falkirk Council Pension Fund and to secure that one of its officers has responsibility for the administration of those affairs. In Falkirk Council, that officer is the Chief Finance Officer
- ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003)
- manage the Fund's affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the Annual Accounts for signature

I confirm that these Annual Accounts were approved for signature by the Falkirk Council Pension Fund Committee at its meeting on 22 October 2020.



Councillor Adanna McCue
Chair of the Pensions Committee

Statement of Responsibilities

Chief Finance Officer Responsibilities

The Chief Finance Officer is responsible for the:

- preparation of the Fund's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code)

In preparing the Annual Accounts, the Chief Finance Officer has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with legislation and the Local Authority Accounting Code (in so far as it is compatible with legislation)

The Chief Finance Officer has also:

- kept adequate accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities

Certificate by the Chief Finance Officer

I certify that the financial statements give a true and fair view of the financial position of the Pension Fund as at 31 March 2020 and the transactions of the Pension Fund for year ended 31 March 2020.

Bryan Smail, CPFA MBA
Chief Finance Officer (Falkirk Council)
5 November 2020

Independent auditor's report to the members of Falkirk Council as administering authority for Falkirk Council Pension Fund and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual report of Falkirk Council Pension Fund (the fund) for the year ended 31 March 2020 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Pension Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the financial transactions of the fund during the year ended 31 March 2020 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 31 May 2016. The period of total uninterrupted appointment is four years. We are independent of the fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the Fund. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

We have reported in a separate Annual Audit Report, which is available from the Audit Scotland website, the most significant assessed risks of material misstatement that we identified and our conclusions thereon.

Responsibilities of the Chief Finance Officer and Falkirk Council for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Falkirk Council is responsible for overseeing the financial reporting process.

Independent auditor's report to the members of Falkirk Council as administering authority for Falkirk Council Pension Fund and the Accounts Commission (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other information in the annual report

The Chief Finance Officer is responsible for the other information in the annual report. The other information comprises the information other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

Independent auditor’s report to the members of Falkirk Council as administering authority for Falkirk Council Pension Fund and the Accounts Commission (continued)

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Hassan Rohimun,

for and on behalf of Ernst & Young LLP, Appointed Auditor

2 St Peter’s Square, Manchester M2 3DF

Date: 9 NOVEMBER 2020

Pension Fund Account

This statement shows the summary of income and expenditure of the Pension Fund and separates those transactions which are related to dealings with members from those transactions which are a consequence of investment.

2018/19 £'000		2019/20 £'000	Note
	Dealings with members, employers and others directly involved in the fund		
(86,877)	Contributions	(91,987)	7
(5,877)	Transfers in from other pension funds	(6,418)	8
(92,754)		**(98,405)**	
72,858	Benefits	78,189	9
5,603	Payments to and on account of leavers	6,192	10
78,461		**84,381**	
(14,293)	**Net (additions)/withdrawals from dealings with members**	**(14,024)**	
12,707	Management expenses	16,404	11
(1,586)	**Net (additions)/withdrawals including fund management expenses**	**2,380**	
	Returns on investments		
(42,270)	Investment income	(43,724)	12
1,165	Taxes on income	1,044	
(158,598)	Profit and losses on disposal of investments and changes in market value of investments	201,568	14a
(199,703)	**Net return on investments**	**158,888**	
(201,289)	**Net (increase)/decrease in the net assets available for benefits during the year**	**161,268**	
2,288,890	**Opening net assets of the scheme**	**2,490,179**	
2,490,179	**Closing net assets of the scheme**	**2,328,911**	

Pension Fund Net Assets Statement

This statement discloses the size and type of the net assets of the Fund at the end of the financial year.

2018/19 £'000		2019/20 £'000	Note
2,503,123	Investment assets	2,317,994	14
(22,470)	Investment liabilities	(1,200)	14
2,480,653	**Total net investments**	**2,316,794**	
12,871	Current assets	15,573	21
(3,345)	Current liabilities	(3,456)	22
2,490,179	**Net Assets of the fund available to fund benefits at the period end**	**2,328,911**	

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 20.

The unaudited accounts were issued on 29 June 2020 and the audited accounts were authorised for issue on 22 October 2020. The Statements of Accounts present a true and fair view of the financial position of the Pension Fund as at 31 March 2020 and its income and expenditure for the year ended 31 March 2020.

Bryan Smail

Bryan Smail, CPFA MBA
Chief Finance Officer (Falkirk Council)
5 November 2020

Notes to the Accounts

1. Fund and Scheme Overview

As part of its statutory obligations, Falkirk Council is required to operate the terms of the Local Government Pension Scheme (LGPS), including the maintenance and administration of a pension fund.

The LGPS is a public sector statutory scheme which provides defined benefits on a career average basis (n.b. benefits accrued prior to April, 2015 are provided on a final salary basis). The Scheme falls under the regulatory framework of the Public Service Pensions Act 2013. The Scheme is also registered with HM Revenue and Customs as a UK pension scheme and was formerly contracted-out of the State Second Pension.

The scheme rules are made by the Scottish Ministers through the office of the Scottish Public Pensions Agency and are set out primarily in the following statutory instruments:

- the Local Government Pension Scheme (Scotland) Regulations 2018
- the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014
- the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015
- the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010

The regulations are supplemented by guidance from the Scottish Ministers and the Government Actuary's Department. Best practice guidance is provided by the Pensions Regulator.

Administration of the Falkirk Council Pension Fund is undertaken by an in-house team who oversee the Fund's investments and the benefits of its scheme members. This includes the contributors, deferred and pensioner members of Clackmannanshire, Falkirk and Stirling Councils, as well as around 30 other employers. Teachers (also local authority employees), do not come within the scope of the LGPS as they have their own national pension arrangement. A full list of employers who participate in the Falkirk Council Pension Fund is included in this report in Appendix 2.

Membership

Membership of the LGPS is voluntary. However, employees are enrolled in the scheme automatically (either as a result of auto enrolment legislation or by virtue of the Scheme's own contractual enrolment provisions). Employees are free to choose whether to remain in the scheme or, having opted out, join it at a later date.

Organisations participating in the Scheme fall into two categories:

Scheduled Bodies - organisations such as local authorities that are statutorily required to offer the Scheme to their employees

Admission Bodies - mainly charitable, non-profit making bodies that have reached an agreement with an Administering Authority to participate in the Scheme

Full details of membership numbers are contained on page 28 of the Annual Report.

Benefits

Benefits under the LGPS are based on final pensionable pay and length of pensionable service, and are summarised below:

	Service pre 1 April 2009	Service post 31 March 2009	Service post 31 March 2015
Pension	Each year worked is worth 1/80th x final pensionable salary	Each year worked is worth 1/60th x final pensionable salary	Each year worked is worth 1/49 of pensionable earnings
Lump Sum	Automatic lump sum of 3 x annual pension In addition, part of the pension may be exchanged for a lump sum. The conversion rate is £12 of lump sum for each £1 surrendered.	No automatic lump sum Part of the pension may be exchanged for a lump sum. The conversion rate is £12 of lump sum for each £1 surrendered.	No automatic lump sum Part of the pension may be exchanged for a lump sum. The conversion rate is £12 of lump sum for each £1 surrendered.
	Where the lump sum is greater than 25% of the capital value of the pre 2009 and post 2009 pension rights, a tax charge will apply.		

Benefits from 1 April, 2015 which build up on a career average basis are revalued annually in line with rises in the Consumer Price Index (CPI). Pensions in payment and deferred benefits are also increased annually in line with CPI.

Additionally, the Scheme provides a range of guaranteed inflation linked benefits including early payment of pension, lump sum on ill health or redundancy grounds and death and survivor benefits.

More information about scheme benefits can be found in the Members' Guide located on the Fund website at www.falkirkpensionfund.org.

Funding

Benefits are funded by contributions and returns on investments. Contributions are made by active members of the Fund in accordance with the Local Government Pensions Scheme (Scotland) Regulations 2018. The rate of employee contribution varies depending on a member's annual pensionable pay with designated pay bands attracting rates of between 5.5% and 12%.

Employer contributions are based on the results of a three yearly actuarial funding valuation. The last completed valuation was as at 31 March 2017, which set the rates for the 3 years from 2018/19 to 2020/21. For the majority of employers, contribution rates were in a range of 19% – 35% of pensionable pay. A copy of 2017 Valuation Report can be found at www.falkirkpensionfund.org. In keeping with the 3 yearly cycle, a valuation as at 31 March 2020 is presently underway.

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2019/20 financial year and its position at year-end as at 31 March 2020.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The code requires the disclosure of information relating to the impact of an accounting change that will be required by new standards that have been issued but not yet adopted. No such accounting standards have been identified for 2019/20.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligation to pay pensions and benefits which fall due after the end of financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement or in the notes to the accounts by appending an actuarial report for this purpose. The Fund has opted to disclose this information in Note 20.

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The accounts are prepared on a going concern basis; that is, on the assumption that the functions of the Fund will continue in operational existence for the foreseeable future from the date that the accounts are authorised for issue; this being at least 12 months from the approval of these financial statements.

The financial statements are prepared in line with the requirements of the CIPFA Code of Practice on Local Authority Accounting, which outlines that as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. The Fund is established under secondary legislation made under the terms of the Public Service Pensions Act 2013 and is therefore expected to be a going concern until notification is given that the body will be dissolved and its functions transferred. At the date of approval of the financial statements there is no indication that this will be the case.

The Fund has carried out an assessment of the likely impact of Covid-19 on its financial position and performance during 2019/20, 2020/21 and beyond as part of its going concern assessment. This included consideration of the following:

- Financial performance and position at 31 March 2020
- Update on asset position post year end (move in valuation of Fund)
- Expected Impact on costs this year and total expenditure through management costs and benefits payable at least 12 months from the financial statements' approval
- Readily available funds at 31 March 2020 and post year-end – cash/investments

At 31 March 2020, the Fund was holding £82m in in-house managed cash (£74m in deposits and £8m in its current account) whereas its average monthly outgoings are £8.5 - £9m. The Fund forecasts throughout the going concern assessment period to receive contributions in excess of outgoing benefits payments being due of approximately £14 million per year. Even with a significant reduction in income received in this period, these costs would be adequately covered by the Fund's positive cashflow profile and cash holdings. In the unlikely event that the Fund needed to raise cash, it holds £1.6 billion in what are considered to be liquid investments in the form of listed equities. These are generally realisable within 3-4 days of trade execution.

Therefore, despite the ongoing uncertainties created by Covid-19, the Fund remains in a strong position with a healthy funding position, liquid assets that are readily convertible to cash, cash in the bank and net positive cash inflows. The Fund has considered its financial position in the context of the pandemic and other factors and has concluded that the Fund is well placed to continue to manage its business and financial risks successfully. As a result, it has concluded that the financial statements are appropriately prepared on a Going Concern basis.

3. Summary of Significant Accounting Policies

Fund Account - revenue recognition

a) Contribution income

Normal contributions are accounted for on an accrual basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using a common percentage rate for all schemes which rise according to pensionable pay
- Employer contributions are set at the percentage rate recommended by the Fund actuary for the period to which they relate

Employer deficit funding contributions are accounted for on the basis advised by the Fund actuary in the rates and adjustment certificate included in the actuarial valuation report. Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset.

b) Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the Fund and are calculated in accordance with the Local Government Pension Scheme regulations and guidance from the Government Actuary. Individual transfers in/out are accounted for when member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on receipts basis and are included in Transfers In <u>Note</u> 8.

c) Investment income

- Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.
- Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
- Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
- Rental income from operating leases on properties owned by the Fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.
- Changes in the value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account - expense items

d) Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities, providing that payment has been approved.

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

f) Management Expenses

The Fund discloses fund management expenses in accordance with the CIPFA guidance "Accounting for Local Government Pension Scheme Management Expenses (2016)", as shown on the next page. All items of expenditure are charged to the Fund on accrual basis as follows:

- Administrative Expenses
  All staff costs of the Pensions Administration Section are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

- Oversight and Governance Costs
  All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

- Investment Management Expenses
  Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11a and grossed up to increase the change in value of investments.

  Fees of external investment managers and the Custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Net assets statement

g) Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the Fund Account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13. For the purpose of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in "Practical Guidance on Investment Disclosures" (PRAG/Investments Association, 2016) (see Note 16).

h) Freehold and leasehold properties

The Fund's directly owned property was valued at 31 March 2020 by independent external valuers on the fair value basis and in accordance with the requirements of the RICS Valuation – Global Standards 2017 and the UK National Supplement and IFRS, see Note 16 for more details.

i) Foreign currency transactions and balances

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Derivatives

Some of the Fund's external managers use derivative financial instruments to manage the Fund's exposure to specific risks arising from their investment activities. None of the derivatives are held for speculative purposes (see Note 15).

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

l) Financial liabilities

A financial liability is recognised in the Net Assets statement on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as the reporting date, and any gains and losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the Fund Account as part of change in value of investments.

m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund Actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statements (see Note 20).

n) Additional voluntary contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. AVCs are not included in the accounts in accordance with Regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2010 but are disclosed for information in Note 23.

o) Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes (see Note 25 and Note 26).

4. Critical Judgement in Applying Accounting Policies

Pension Fund Liability

The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted industry guidelines.

The estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 20.

Actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short term return.

5. Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported as revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- **Actuarial present value of promised retirement benefits (Note 20)**
  Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in inflation, retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.

  The table below highlights the approximate impact that a small change in the assumptions used would have on the liabilities of the Fund.

Change in assumptions at 31 March 2020	Approximate % increase in liabilities	Approximate monetary amount (£m)
0.5% decrease in Real Discount Rate	11%	336
0.5% increase in the Salary Increase Rate	2%	67
0.5% increase in the Pension Increase Rate	9%	264

- **Private equity/infrastructure investments/private debt (Note 16)**
  Private equity and infrastructure investments are valued at fair value in accordance with "International Private Equity and Venture Capital Valuation Guidelines (2012)". These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

  Private equity, infrastructure and private debt investments are valued in the financial statements at £334m. There is a risk that these investments may be under or overstated in the accounts by £47.7m.

  The Fund has received updated Private Equity/Infrastructure statements for 31 March 2020. The variance between the valuation included in the accounts and the updated statements amounts to £6.8m (£4.7m at 31 March 2019). The amount is not material and therefore no adjustment has been made in the Net Asset Statement.

- **Freehold and leasehold property, managed property funds (Note 16)**
  Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or discount rate could affect the fair value of property.

  The effect of variations in the factors supporting the valuation would be an increase or decrease in the value of directly held property by £0.2m on a fair value of £2.6m.

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020 has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors and as at the valuation date in relation to property assets, valuers did not consider that they can rely upon previous comparable market evidence to fully inform opinions of value. Indeed, the current response to COVID-19 mean that they are faced with an unprecedented set of circumstances on which to base a judgement.

Valuations are therefore reported on the basis of "material valuation uncertainty" as per VPS3 and VPGA10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – is attached to the valuation than would normally be the case.

The Fund has considered the valuations provided and is comfortable that these can be relied upon on the basis that firstly, the RICS guidance indicates that material uncertainty does not invalidate valuations; secondly, valuers could have declined to value the assets but did not; thirdly, valuations have been supported by reports and comments from underlying managers; and, fourthly, in the aftermath of the balance sheet date, material uncertainty clauses have been removed from most segments of the property funds, other than office and retail sectors. Additionally, valuations are supported by the manager forecasts and by the ongoing payment of distributions which have remained steady since the balance sheet date and by the manager forecasts.

The long term impact of that COVID-19 might have on the real estate market is largely unknown. For that reason, the Fund will be keeping the valuation of its property portfolio under frequent review.

6. Events after the Balance Sheet Date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when statements of the accounts are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of reporting period – the statements of accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after reporting period – the statement of accounts is not adjusted to reflect such events, but where the category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the statement of the accounts.

The unaudited Statement of Accounts was issued by the Chief Finance Officer on 29 June 2020 and the audited Statement of Accounts were authorised for issue on 22 October 2020. Events taking place after this date are not reflected in the financial statements or notes. There have been no material events since the date of the Net Asset Statement which have required the figures in the financial statements and notes to be adjusted. Since the balance sheet date, the following non-adjusting events have occurred:

Increased Financial Market Volatility

The investment assets of the Fund change on a daily basis, however the degree of volatility in global financial markets has increased as a result of continuing social and economic uncertainties created by the Covid-19 pandemic. Despite this, the Fund remains in a strong financial position, capable of meeting all its payment obligations. Funding strategy is based on long term investment returns and, as such, the increased volatility seen at present is not considered a material concern.

7. Contributions Receivable

By Category

2018/19 £'000		2019/20 £'000
18,720	Employees' contributions	19,567
65,745	Employers' contributions	69,705
2,412	Employers' deficit recovery contributions	2,715
86,877	**Total**	**91,987**

By Authority

2018/19 £'000		2019/20 £'000
28,726	Administering authority	31,766
48,184	Other scheduled bodies	50,735
9,967	Admitted bodies	9,486
86,877	**Total**	**91,987**

8. Transfers from Other Pension Funds

All transfers during the year related to individual transfer payments and not to bulk transfer payments.

2018/19 £'000		2019/20 £'000
5,877	Individual transfers	6,418

9. Benefits Payable

By Category

2018/19 £'000		2019/20 £'000
56,127	Pensions	59,696
15,158	Commutation and lump sum retirement benefits	16,451
1,573	Lump sum death benefits	2,042
72,858	**Total**	**78,189**

By Authority

2018/19 £'000		2019/20 £'000
25,867	Administering authority	26,927
42,966	Other scheduled bodies	44,040
4,025	Admitted bodies	7,222
72,858	**Total**	**78,189**

10. Payments to and on Account of Leavers

2018/19 £'000		2019/20 £'000
232	Refunds to members leaving service	305
5,371	Individual transfers	5,661
-	Bulk transfers	226
5,603	**Total**	**6,192**

11. Management Expenses

2018/19 £'000		2019/20 £'000
776	Administrative costs	919
11,290	Investment management expenses	14,546
641	Oversight and governance costs	939
12,707	**Total**	**16,404**

11a. Investment Management Expenses

2018/19 £'000		2019/20 £'000
5,422	Management fees invoiced	4,819
4,189	Management fees deducted from capital	6,204
636	Transaction costs	2,708
929	Performance related fees	695
100	Custody fees	85
14	Other	35
11,290	**Total**	**14,546**

In addition to fees disclosed in this note, the Fund also incurred indirect management fees resulting from investments in fund of funds structures. The estimated value of these fees in 2019/20 is £4m (£3.7m in 2018/19).

Disclosed transaction costs are directly attributable to the acquisition, issue or disposal of financial assets or liabilities. They include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, transfer taxes and duties.

The increase in 2019-20 fees is a result of more detailed information available and disclosed through cost transparency templates (where available) and fund level costs for the property portfolio. The Cost Transparency Initiative developed framework and templates for standardised transparent reporting on cost and charges for investments. Further information on the framework can be found on The Local Government Pension Scheme Advisory Board website:

http://www.lgpsboard.org/index.php/the-template

12. Investment Income

2018/19 £'000		2019/20 £'000
29,511	Income from equities	28,197
1,207	Private equity income	588
-	Income from bonds	63
5,009	Pooled property investments	5,469
230	Directly owned property	238
5,268	Infrastructure	6,426
154	Private debt	1,812
891	Cash and other income	931
42,270	**Total**	**43,724**

13. Other Fund Account Disclosures

13a. External Audit Costs

2018/19 £'000		2019/20 £'000
24	Payable in respect of external audit	25

14. Investments

Market Value 31/03/19		Market Value 31/03/20
£'000	**Investment Assets**	£'000
	Investment Assets	
4,815	Bonds	42,230
942,580	Equities	595,158
980,187	Pooled investments	1,096,030
147,628	Managed property funds	138,587
2,600	Directly owned property	2,600
57,640	Private equity	51,902
179,406	Infrastructure	236,489
18,438	Private debt	45,188
	Derivative contracts:	
226	Forward currency contracts	518
140,041	Cash deposits	103,031
5,125	Investment income due	3,904
24,437	Amounts receivable for sales	2,357
2,503,123	**Total Investment Assets**	**2,317,994**
	Investment Liabilities	
(22,470)	Amounts payable for purchases	(1,200)
(22,470)	**Total Investment Liabilities**	**(1,200)**
2,480,653	**Net Investment Assets**	**2,316,794**

14a. Reconciliation of Movements in Investments and Derivatives

Change in Market Value	Market Value 31/03/20	Purchases at Cost	Sale Proceeds		
Investment Assets	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Bonds	4,815	-	-	37,415	42,230
Equities	942,580	215,427	(197,437)	(365,412)	595,158
Pooled investments	980,187	19,081	(8,590)	105,352	1,096,030
Managed property funds	147,628	483	(4,443)	(5,081)	138,587
Directly owned property	2,600	-	-	-	2,600
Private equity	57,640	1,776	(14,713)	7,199	51,902
Infrastructure	179,406	67,065	(27,231)	17,249	236,489
Private debt	18,438	30,792	(4,349)	307	45,188
Derivatives					
•Options	-	1,445	(689)	(756)	-
•Forward foreign exchange	226	843	(2,170)	1,619	518
	2,333,520	**336,912**	**(259,622)**	**(202,108)**	**2,208,702**
Cash deposits	140,041	1,664		540	103,031
Amounts receivable for sale of investments	24,437				2,357
Investment income due	5,125				3,904
Payable for purchases of investments	(22,470)				(1,200)
Net Investment Assets	**2,480,653**			**(201,568)**	**2,316,794**

Period 2018/19 Investment Assets	Market Value 01/04/18 £'000	Purchases at Cost £'000	Sale Proceeds £'000	Change in Market Value £'000	Market Value 31/03/19 £'000
Bonds	4,181	-	-	634	4,815
Equities	849,972	338,573	(307,482)	61,517	942,580
Pooled investments	931,009	-	(1,161)	50,339	980,187
Managed property funds	137,120	14,290	(6,752)	2,970	147,628
Directly owned property	2,500	-	-	100	2,600
Private equity	58,780	3,415	(15,870)	11,315	57,640
Infrastructure	145,369	35,363	(30,166)	28,840	179,406
Private debt	2,180	16,913	(751)	96	18,438
Derivatives					
•Options	95	971	(986)	(80)	-
•Forward foreign exchange	158	223	(1,459)	1,304	226
	2,131,364	**409,748**	**(364,627)**	**157,035**	**2,333,520**
Cash deposits	147,392			1,563	140,041
Amounts receivable for sale of investments	7,982				24,437
Investment income due	4,071				5,125
Payable for purchases of investments	(8,806)				(22,470)
Net Investment Assets	**2,282,003**			**158,598**	**2,480,653**

14b. Analysis of Investments

31/03/19 £'000		31/03/20 £'000
4,815	**UK Corporate Bonds**	**5,393**
-	**UK Gilts**	**36,837**
	Quoted Equities	
379,997	UK	259,739
562,583	Overseas	335,419
942,580		**595,158**
	Pooled funds	
164,886	Equities – UK	160,533
366,757	– Overseas	541,360
119,744	Bonds – UK	108,151
64,478	– Overseas	43,109
240,298	Diversified growth	220,578
24,024	Affordable housing	22,299
980,187		**1,096,030**
	Property	
127,055	Pooled property funds - UK	138,001
20,573	- Overseas	586
2,600	Directly owned property - UK	2,600
150,228		**141,187**

2019 £'000		2020 £'000
	Private Equity	
57,640	Overseas funds	51,902
57,640		**51,902**
	Private Debt	
1,599	UK funds	3
16,839	Overseas	45,185
18,438		**45,188**
	Infrastructure	
94,230	Pooled infrastructure funds – UK	124,553
85,176	– Overseas	111,936
179,406		**236,489**
	Derivatives	
226	Forward foreign exchange	518
226		**518**
140,041	**Cash deposits**	**103,031**
5,125	**Investment income due**	**3,904**
24,437	**Amounts receivable from sales**	**2,357**
2,503,123	**Total investment assets**	**2,317,994**
	Investment liabilities	
(22,470)	Amounts payable for purchases	(1,200)
(22,470)	**Total investment liabilities**	**(1,200)**
2,480,653	**Net investment assets**	**2,316,794**

14c. Investments Analysed By Fund Manager

Market Value 31/03/2019 £'000	(%)		Market Value 31/03/2020 £'000	(%)
531,644	21.4	L&G Investment Management Ltd	731,786	31.5
423,359	17.1	Newton Investment Management Ltd	407,700	17.6
424,520	17.1	Baillie Gifford & Co Ltd	371,839	16.0
466,828	18.8	Schroder Investment Management Ltd	287,361	12.4
66,654	2.7	Grosvenor Capital	69,627	3.0
37,788	1.5	Dalmore Capital	61,932	2.7
280,337	11.3	Aberdeen Standard Investment	33,824	1.5
11,213	0.5	Blackrock	28,180	1.2
30,529	1.2	Wilshire Private Markets Group	27,113	1.2
15,217	0.6	Equitix Investment Management	23,575	1.0
24,068	1.0	Hearthstone	22,299	1.0
31,377	1.2	Ancala Partners	18,395	0.8
-	-	Hermes Investment Management	15,780	0.7
-	-	Madison Capital Funding	14,680	0.6
4,134	0.2	Alcentra	9,858	0.4
-	-	Global Infrastructure Partners	9,839	0.4
8,085	0.3	Harbert Management Corporation	8,428	0.4
-	-	Greensphere	8,192	0.4
-	-	Alinda	6,921	0.3
1,492	0.1	Barings	6,549	0.3
5,525	0.2	KKR	6,255	0.3
6,672	0.3	InfraRed Capital Partners Ltd	6,042	0.3
5,562	0.2	UBS/Greensands	5,394	0.2
-	-	Oaktree	4,816	0.2

4,912	0.2	Brookfield Global Funds	4,402	0.2
3,175	0.1	FIM Harburnhead LP	3,244	0.1
-	-	Resonance Wind	3,172	0.1
-	-	Crestbridge	2,423	0.1
-	-	Nuveen	2,049	0.1
-	-	Macquarie	1,649	0.1
1,599	0.1	M&G UK Companies	3	0.0
2,600	0.1	Directly Owned Property	2,600	0.1
-	-	In-House Gilts	36,893	1.6
93,363	3.8	In-House Cash	73,974	3.2
2,480,653	**100.0**	**Total**	**2,316,794**	**100.0**

The Fund holds the following investments in pooled funds, which are in excess of 5% of the value of the Fund.

	31/03/2019		**31/03/2020**	
	£'000	**%**	**£'000**	**%**
STCB – Transition CSFU (GLOVE)	-	-	230,312	9.9
Baillie Gifford Diversified Growth	240,298	9.7	220,578	9.5
L&G UK Equity Index (OFC)	153,130	6.2	140,092	6.0
L&G N America Equity Index (OFC)	138,868	5.6	119,115	5.1

14d. Securities Lending

The Fund did not participate in any stock lending programmes.

14e. Property Holdings

The Fund's investment in its' property portfolio comprises investments in pooled property funds and a number of directly owned properties at West Mains Industrial Estate, Falkirk, which are leased commercially to various tenants.

The future minimum lease payments receivable by the Fund in respect of West Mains Industrial Estate are as follows:

2018/19 £'000		**2019/20 £'000**
232	Within one year	234
577	Between one and five years	396
56	Later than five years	10
865	**Total**	**640**

15. Analysis of Derivatives

The Fund's approach to derivatives is to allow individual managers to decide to participate in derivative contracts subject to any limits set out in their investment management agreements. At present, only Newton chooses to do so, with derivatives making up 0.13% of their portfolio's value.

Settlement	Currency bought	Local Value	Currency Sold	Local Value	Asset Value	Liability Value
		' 000		**' 000**	**£'000**	**£'000**
One to six months	USD	16,258	EUR	(15,740)	518	
Open forward currency contracts at 31 March 2020					**518**	**0**
Net forward currency contracts at 31 March 2020					**518**	

Prior year comparative

Open forward currency contracts at 31 March 2019	**226**	**0**
Net forward currency contracts at 31 March 2019	**226**	

The currency forwards contracts are used as hedges reducing the extent to which Newton's portfolio is exposed to currency movement.

16. Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities Affecting the Valuations Provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Gilts	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services.	Evaluated price feeds	Not required
Pooled investments – equities, fixed income and managed property funds*	Level 2	Closing bid price where bid and offer price are published Closing single price where single price published	NAV – based pricing set on a forward pricing basis	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year end	Exchange rate risk	Not required
Directly held property*/ Affordable Housing	Level 3	Valued at year end by external valuer DM Hall/Allsop in accordance with the RICS Valuation Standards	Existing lease terms and rentals Independent market research Covenant strength for existing tenants	Significant changes in the rental growth, vacancy levels and general changes in the market conditions
Private Equity/ Infrastructure/Private Debt	Level 3	Valuation in accordance with the International Private Equity and Venture Capital Valuation Guidelines	Discount rate Projected future cash flow Recent market transactions for similar assets in comparable markets	Changes to the cash flows, differences between audited and unaudited accounts, material events occurring between the date of financial statements provided and the Fund's own reporting date

*As highlighted in Note 5, valuations in relation to pooled property funds (and directly held property) are reported on the basis of "material valuation uncertainty" as per VPS3 and VPGA10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – is attached to the valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, the Fund is keeping the valuation of its property portfolio under frequent review.

Sensitivity of assets valued at level 3

Having considered historical data and current market trends, and consulted with independent advisors, the Fund has determined that the valuation methods described above are likely to be accurate within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

	Assessed valuation range (+/-)	Value at 31 March 2020 in £'000	Potential change +/- in £'000	Value on increase in £'000	Value on decrease in £'000
Infrastructure	15%	236,489	35,473	271,962	201,015
Private Debt	10%	45,188	4,519	49,706	40,669
Private Equity	15%	51,902	7,785	59,687	44,117
Affordable Housing	10%	22,299	2,230	24,529	20,069
Property	8%	2,600	208	2,808	2,392
		358,478	**50,215**	**408,692**	**308,262**

16a. Fair Value Hierarchy

Assets and liabilities valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities and an exchange traded derivative.

Level 2

Assets and liabilities at Level 2 are those where quoted market prices are not available, for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3

Assets and liabilities at Level 3 are those where at least one input that could have a significant effect on the instruments' valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
Values at 31 March 2020	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets at fair value through profit & loss	595,157	1,255,068	355,877	2,206,102
Non-financial assets at fair value through profit and loss			2,600	2,600
Net investment assets	**595,157**	**1,255,068**	**358,477**	**2,208,702**

16b. Reconciliation of fair value measurements within Level 3

	Market Value 1 April 2019	Purchases during the Year	Sales during the Year	Unrealised Gains/ (Losses)	Realised Gains/ (Losses)	Market Value 31 March 2020
	£'000	£'000	£'000	£'000	£'000	£'000
Infrastructure	179,406	67,065	(27,231)	5,420	11,829	236,489
Private Debt	18,438	30,792	(4,349)	(1,019)	1,326	45,188
Private Equity	57,640	1,776	(14,713)	(1,868)	9,067	51,902
Affordable Housing	24,024	-	(2,797)	1,072	-	22,299
Property	2,600	-	-	-	-	2,600
	282,108	**99,633**	**(49,090)**	**3,605**	**22,222**	**358,478**

17. Financial Instruments

17a. Classification of Financial Instruments

The following table analyses the fair value amounts of financial instruments by category and net assets statement heading. No financial assets were reclassified during the accounting period.

31 March 2019				**31 March 2020**		
Fair value through profit & loss £'000	**Assets at amortised cost £'000**	**Financial liabilities at amortised cost £'000**		**Fair value through profit & loss £'000**	**Assets at amortised cost £'000**	**Financial liabilities at amortised cost £'000**
			Financial Assets			
4,815			Bonds	42,230		
942,580			Equities	595,158		
980,187			Pooled investments	1,096,030		
147,628			Property	138,587		
57,640			Private Equity	51,902		
179,406			Infrastructure	236,489		
18,438			Private Debt	45,188		
226			Derivative contracts	518		
	143,909		Cash		110,147	
	29,562		Other investment balances		6,261	
	9,003		Debtors		7,548	
2,330,920	**182,474**	**-**	**Total**	**2,206,102**	**123,956**	**-**
			Financial Liabilities			
(22,470)			Other Investment balances	(1,200)		
		(3,345)	Creditors			(2,547)
(22,470)	**-**	**(3,345)**	**Total**	**(1,200)**	**-**	**(2,547)**
2,308,450	**182,474**	**(3,345)**		**2,204,902**	**123,956**	**(2,547)**
		2,487,579	**Total net financial instruments**			**2,326,311**
		2,600	Amounts not classified as financial instruments			2,600
		2,490,179	**Total net assets**			**2,328,911**

17b. Net Gains and Losses on Financial Instruments

31 March 2019 £'000		31 March 2020 £'000
	Financial assets	
157,018	Fair value through profit and loss	(203,340)
1,560	Amortised cost – unrealised gains	2,160
	Financial liabilities	
(80)	Fair value through profit and loss	-
158,498	**Total**	**(201,180)**

18. Nature and Extent of Risks Arising from Financial Instruments

Risk and Risk Management

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. the promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole portfolio. The Fund achieves this through asset diversification to reduce market risk and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure that it holds sufficient funds to meet future cash flows. Responsibility for the Fund's risk management strategy rests with the Pensions Committee. Risk management policies are reviewed on an on-going basis to reflect changes in activity and in market condition.

Types of Investment Risk

Fluctuations in overall price can arise from a variety of sources including market risk, foreign exchange risk, interest rate risk and credit risk. Each of these vary in importance and will not by themselves account for the overall pricing risk faced. To some extent they may offset each other. The Fund's analysis combines these factors when looking at the total market price risk.

(i) Market Risk

Market risk is the risk of loss from fluctuations in equity and other asset prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy as it relates to investments is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on assets. Investment risk is considered further in the Fund's Statement of Investment Principles.

In general, excessive volatility in market risk is managed by engaging a range of Fund Managers with differing approaches and philosophies and also through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund's approach to managing risk can be described in two fundamental ways:

- by maintaining asset class exposures such that risk remains within tolerable levels
- by applying maximum exposures to individual investments

(ii) Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is recognised by the Fund and its investment advisors. The Fund monitors the interest rate risk faced and will adjust its strategy in accordance with its Statement of Investment Principles. The Fund's direct exposure to interest rate movement as at the 31 March 2020 is estimated to be around £412.4m (31 March 2019: £471.1m).

(iii) Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£GBP). The Fund holds both monetary and non-monetary assets denominated in currencies other than £GBP.

The Fund's currency rate risk is recognised by the Fund and its investment advisors. In respect of cash deposits managed internally under the terms of the Cash Management Strategy, it is the Fund's policy to convert all non GBP monies to GBP at the end of a month to reduce the currency risk faced. In respect of cash held with external Fund Managers, it is left to their discretion as to whether they wish to hedge their currency position or not.

The Fund's currency exposure as at the 31 March 2020 is estimated to be around £633m (31 March 2019: £756m).

(iv) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's assets and liabilities (as outlined in Market Risk above).

In essence, the Fund's entire investment portfolio is exposed to some sort of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The main area where risk is not reflected in a market price is cash deposits which at 31 March 2020 accounted for 4.2% of fund assets (31 March 2019: 5%).

Balances at 31 March 2019 £'000		Moody's Credit Rating	Balances at 31 March 2020 £'000
	Held for investment purposes		
84,090	Northern Trust Global Investment Limited – Liquidity Funds	Aa2	73,152
5,000	Aberdeen Standard Liquidity Fund (Lux) Sterling	AAA-mf	5,000
23,753	Northern Trust Company – Cash Deposits	Aa2	1,444
4,031	Santander UK PLC	Aa3	4,051
5,083	Bank of Scotland PLC	Aa3	5,113
121,957	**Total investment cash**		**88,760**
	Held for other purposes		
3,878	Royal Bank of Scotland	A1	8,025
125,835	**Total cash**		**96,785**

As part of its approach to managing credit risk, the Fund has a Cash Management Policy which details:

- the counterparties with whom the Fund may have dealings
- the credit ratings that are deemed acceptable
- specific limits and conditions attaching to certain types of deposit

(v) Liquidity Risk

Liquidity risk reflects the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council in its capacity as Administering Authority therefore ensures that the Pension Fund has adequate cash and liquid resources to meet its commitments.

A majority of the Fund's investment assets (estimated to be around 75.2%) could be converted into cash within three months in normal market conditions.

(vi) Refinancing Risk

Refinancing risk is the risk that the Fund will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The Fund is not bound by any obligation to replenish its investments. In any event, the Fund does not have any financial instruments that have a refinancing risk as part of its management and investment strategies.

Sensitivity Analysis

The Fund's valuation is sensitive to fluctuations in its asset prices. The level of these fluctuations is known as "volatility" and will differ between asset classes. By analysing historical data, it is possible to gain an indication of the likely volatility of certain asset classes. The following analysis, prepared by ISIO, the Fund's external adviser on sensitivity, predicts the likely annual volatility of the Fund's assets on an aggregated basis.

Asset Type	Potential price movement (+ or -)
Equities – Developed Markets	20.5%
Equities – Emerging Markets	30.0%
Private Equity	30.0%
Private Debt	10.0%
Commodities	30.0%
Property	13.0%
Infrastructure	12.0%
Corporate Bonds	7.7%
Diversified Credit	12.0%
Fixed Interest Gilts	5.9%
Index-Linked Gilts	10.9%
Overseas bonds	10.4%
Cash	0.8%

This sensitivity analysis incorporates volatility from market, interest rate, foreign exchange, credit and all other sources of risk, and more importantly, makes allowance for how these risks may offset each other.

Volatility is measured as the standard deviation of annual returns. Broadly speaking, in two years out of three, the asset's change in value (which could be a gain or a loss) is expected to be lower than the volatility figure, but in one year out of three, the change in value is expected to be higher than the volatility figure.

Asset classes don't always move in line with each other. The extent to which assets move together is known as their "correlation". A lower correlation means that there is less risk of assets losing value at the same time. Overall, the Fund benefits from "diversification" because it invests in numerous different asset classes, which don't all move in line with each other. Consequently, the aggregate risk at the Fund level is less than the total risk from all the individual assets in which the Fund invests. The following table shows the risks at the asset class level and the overall Fund level.

Position as at 31 March 2020

Asset Type	Asset Value (£'m)	Asset Weight	Volatility	Potential Change +/- (£'m)	Value on increase (£'m)	Value on decrease (£'m)
Equities - Developed Markets	1,292.9	55.8%	20.5%	265.0	1,558.0	1,027.9
Equities - Emerging Markets	48.3	2.1%	30.0%	14.5	62.8	33.8
Private Equity	52.1	2.2%	30.0%	15.6	67.8	36.5
Private Debt	45.2	2.0%	10.0%	4.5	49.7	40.7
Commodities	21.8	0.9%	30.0%	6.6	28.4	15.3
Property – Balanced	182.9	7.9%	13.0%	23.8	206.7	159.2
Infrastructure	261.2	11.3%	12.0%	31.3	292.4	229.8
Corporate Bonds	56.5	2.4%	7.7%	4.4	60.9	52.1
Diversified Credit	41.2	1.8%	12.0%	4.9	46.2	36.3
Fixed Interest Gilts	67.1	2.9%	5.9%	4.0	71.0	63.1
Index-Linked Gilts	36.9	1.6%	10.9%	4.0	40.9	32.9
Overseas bonds	33.2	1.4%	10.4%	3.4	36.7	29.8
Cash	177.5	7.7%	0.8%	1.4	178.8	176.0
Total Assets (without correlations)	**2,316.8**	**100.0%**	**16.6%**	**383.4**	**2,700.3**	**1,933.4**
Total Assets (including correlations)	**2,316.8**		**13.4%**	**309.4**	**2,626.2**	**2,007.4**
Assets Relative to Liabilities (including correlation)	**2,316.8**		**13.6%**	**315.1**	**2,631.8**	**N/A**

The "Potential change" column shows the monetary effect of the expected volatility relative to each asset class. The actual annual change in value is expected to be lower than this in two years out of three, but higher in one year out of three. It can also be seen that the risk to the overall Fund assets is lower than the total of the risks to the individual assets.

However, because the purpose of a pension scheme is to make payments to scheme beneficiaries, the true risk of a pension scheme is not measured in absolute terms, but relative to its liabilities. This risk is shown in the bottom row of the table. The risk is lower than the absolute asset risk, due to the impact of correlation with the discount rate used to value the liabilities.

It should be noted that the asset allocation used for this analysis will differ to that shown in the financial statements earlier. This is due to the Fund reporting its asset allocation in the financial statements according to each Manager's mandate, whilst for this section the most appropriate means is to analyse the mandate according to the underlying elements.

The corresponding details as at 31 March 2019 are set out in the table below.

Position as at 31 March 2019

Asset Type	Asset Value (£'m)	Asset Weight	Volatility	Potential Change +/- (£'m)	Value on increase (£'m)	Value on decrease (£'m)
Equities - Developed Markets	1,444.9	58.2%	20.5%	296.2	1,741.1	1,148.7
Equities - Emerging Markets	78.6	3.2%	30.0%	23.6	102.1	55.0
Private Equity	58.8	2.4%	30.0%	17.7	76.5	41.2
Private Debt	18.4	0.7%	10.0%	1.8	20.3	16.6
Commodities	7.7	0.3%	30.0%	2.3	10.0	5.4
Property – Balanced	193.5	7.8%	13.0%	25.2	218.6	168.3
Infrastructure	207.3	8.4%	12.0%	24.9	232.1	182.4

Corporate Bonds	97.2	3.9%	7.5%	7.3	104.5	89.9
Diversified Credit	40.4	1.6%	11.0%	4.4	44.8	35.9
Fixed Interest Gilts	122.3	4.9%	6.7%	8.2	130.5	114.1
Index-Linked Gilts	44.0	1.8%	11.2%	4.9	49.0	39.1
Cash	167.6	6.8%	0.9%	1.6	169.1	166.0
Total Assets (without correlations)	**2,480.7**	**100.0%**	**16.9%**	**418.1**	**2,898.6**	**2062.6**
Total Assets (including correlations)	**2,480.7**		**13.9%**	**344.4**	**2,825.1**	**2,132.2**
Assets Relative to Liabilities (including correlation)	**2,480.7**		**14.2%**	**351.6**	**2,832.3**	**N/A**

19. Funding arrangements

In line with Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2017 and the next valuation is as at 31 March 2020 and is currently being undertaken.

The key elements of the funding policy are:

- to ensure the long term solvency of the Fund (i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment)
- to ensure that employer contribution rates are as stable as possible
- to minimise long term scheme costs by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contributions rates where the Fund considers it reasonable to do so and
- to use reasonable measure to reduce the risk to other employers and ultimately to the tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading increases in rates over a period of time. Normally this is three years. Solvency is achieved when the funds held plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable.

At the 2017 actuarial valuation, the Fund was assessed as 92% funded (85% at the March 2014 valuation). This corresponded to a deficit of £184m (2014 valuation: £283m) at the time. Contribution increases will be phased in over the three-year period ending 31 March 2021 for both scheme employers and admitted bodies. The Primary Rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary Rate is the total of the underlying individual employer secondary rates, calculated in accordance with the Regulations and CIPFA guidance.

Primary Rate (% of pay) 1 April 2018 - 31 March 2021	Secondary Rate (£)		
	2018/19	2019/20	2020/21
18.7 %	8,506,000	10,248,000	11,729,000

The key principal assumptions used in the valuations were as follows:

Financial Assumptions

Assumption	31 March 2014	31 March 2017
Return on long-dated gilts	3.5%	1.7%
Asset outperformance assumption	1.6%	1.8%
Retail Prices Inflation (RPI)	3.5%	3.4%
Assumed RPI/CPI gap	(0.8)%	(1%)
Benefit increase assumption (CPI)	2.7%	2.4%
Pay increases	4.0%	2.9%

Demographic Assumptions
The life expectancy assumption is based on the Fund's Club Vita analysis with improvements in line with the CMI 2016 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	31 March 2014	31 March 2017
Male		
Pensioners	22.1 years	21.2 years
Non-pensioners	24.3 years	22.7 years
Female		
Pensioners	23.8 years	23.7 years
Non-pensioners	26.3 years	25.5 years

Commutation Assumption
An allowance is made for future retirees to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

50:50 Option
It is assumed that 10% of members (evenly distributed across the age, service and salary range) will take up the 50:50 option in the Scheme.

More Information
The Actuary has provided a statement describing the funding arrangements of the Fund during 2019/20. This can be found at Appendix 1 of this report.

New employer contribution rates have been set from April 2018 by virtue of the Fund Valuation as at 31 March 2017.
Copies of the 2017 Valuation Report as well as the Funding Strategy Statement can be found on www.falkirkpensionfund.org.

20. Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS19 (International Accounting Standard) basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contributions rates and the Fund Accounts do not take account of obligations to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19). The actuary has also valued ill health and death benefits in line with IAS19.

31 March 2019 £'mln		31 March 2020 £'mln
(3,363)	Present value of promised retirement benefits	(3,025)
2,490	Fair value of scheme assets (bid value)	2,329
(873)	**Net Liability**	**(696)**

The Net Liability has reduced by £177m, this being the end result of a £337m reduction in the value of Promised Retirement Benefits partially offset by a fall in asset values of £160m. The reduction reflects the lower salary and inflation assumptions adopted by the actuary for 2019/20 IAS26 assessments.

As noted on the previous page, the liabilities are calculated on an IAS19 basis and will therefore differ from the results of the 2017 triennial funding valuation (see Note 19) because IAS19 stipulates a discount rate rather than a rate which reflects market rates. Other key assumptions used are:

IAS19 Assumptions	2019/20 %	2018/19 %
Discount rate	2.3	2.4
Salary increase rate	2.3	3.0
Pension increase rate	1.9	2.5

McCloud Case

The Court of Appeal in *McCloud* ruled that certain transitional protections introduced by public sector pension schemes in 2015 were age discriminatory, In July 2019, the UK Government accepted that the ruling had implications for the LGPS and advised that the discrimination would be addressed without members having to lodge separate legal claims. Since the date of the financial statements, SPPA have issued a consultation into how they propose to remedy the discrimination, principally by removing the age qualification criteria from the protection. The most recent estimate provided by the Fund Actuary is that correcting the discrimination will add 0.2% onto Fund liabilities and 0.2% onto employer contribution rates. For avoidance of doubt, the Present Value of Promised Retirement Benefits disclosed in this note an IAS 19 accounting basis does include an allowance for *McCloud* remediation.

Walker and Goodwin Cases

In 2017, the Supreme Court ruled in *Walker* that the surviving spouse of a same sex marriage was entitled to a survivor's pension based on all of a deceased's members service. As confirmed by the employment tribunal ruling in *Goodwin*, this placed a same sex survivor in a more favourable position than an opposite sex survivor and was therefore direct discrimination on grounds of sexual orientation. The rulings relate to members whose entitlement arose with effect from 5 December 2005 and therefore retrospective calculations will be required to eliminate past discrimination. As the *Goodwin* ruling is very recent, there is no Fund specific estimate as to the remedial costs. The Government Actuary (GAD) has estimated that the cost to LGPS (Scotland) could be in the region of £50m, resulting in an estimated average 0.1% increase in employer contribution rates per Fund. The GAD estimate is based on data from 2014. As a result, actual costs based on up-to-date scheme specific data could vary significantly.

21. Current Assets

31 March 2019 £'000		31 March 2020 £'000
1,956	Contributions due – employees	1,530
6,830	Contributions due – employers	5,528
180	Strain contribution (due within 1 year)	-
37	Sundry debtors	490
3,868	Cash balances	8,025
12,871	**Total**	**15,573**

22. Current Liabilities

31 March 2019 £'000		31 March 2020 £'000
(745)	Benefits payable	(523)
(993)	Transfer values payable (leavers)	-
(1,607)	Sundry creditors	(2,024)
-	Falkirk Council	(909)
(3,345)	**Total**	**(3,456)**

23. Additional Voluntary Contributions

31 March 2019 £'000		31 March 2020 £'000
3,199	Standard Life	2,886
3,765	Prudential	4,371
6,964	**Total**	**7,257**

AVC contributions of £270k were paid directly to Standard Life (£273k in 2018/19) and £1,319k to Prudential during the year (£1,506k in 2018/19).

24. Related Party Transactions

Falkirk Council

Falkirk Council Pension Fund is administered by Falkirk Council. Consequently, there is a strong relationship between the Fund and the Council.

The Council is the single largest employer of members of the Fund and contributed £25.3m to the Fund in 2019/20 (2018/19: £22.7m).

The Fund uses Council premises and systems and these costs are charged to the Fund. Transactions between the Council and the Fund are closely monitored with the aim of any balances being settled as soon as reasonably practicable. At 31 March 2020 the Fund owed the Council £0.9m (£11k in 2018/19) in respect of invoices processed in the last week of March, but paid within first week of April 2020. The Fund transferred the balance to the Council on the 6th of April 2020.

Governance

Four members of the Pensions Committee - D Balsillie, D Macnaughtan, J Patrick and P Reid - are in receipt of LGPS benefits from the Fund. In addition, Committee members: D Balsillie, J Blackwood, N Coleman, A Douglas and A McCue are active members of the Fund.

All members of the Pension Board are active members.

Each member of the Committee and Board is required to declare their interest at each meeting.

24a. Key Management Personnel

The key management personnel of the Fund are the Section 95 Officer and Pensions Manager. The Fund's proportion of total remuneration payable to key management personnel is set out below:

31 March 2019 £'000		31 March 2020 £'000
95	Short-term benefits	101
720	Post-employment benefits	782
815	**Total**	**883**

Short-term benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which employees render related service. They may include wages, salaries, paid annual and sick leave.

Post-employment benefits are employee benefits that are payable after the completion of employment such as pensions.

25. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2020 totalled £102.8m (31 March 2019 £110.5m).

These commitments relate to outstanding call payments due to unquoted limited partnership funds held in the private equity, infrastructure and private debt segments of the portfolio. The amounts "called" by these funds are irregular in both size and timing over the life of the investment.

GMP Equalisation

Guaranteed minimum pension (GMP) rights have been acquired by LGPS members between 6 April 1978 and 5 April 1997. The GMP contains elements of gender inequality, including a higher retirement age for men and faster accrual rate for women.

As an interim solution to this, responsibility for fully inflation proofing GMPs has been passed to pension schemes for members reaching state pension age between 6 April 2016 and 5 April 2021. This new responsibility will however lead to increased costs for schemes.

The most recent estimate carried out for Falkirk by the Fund Actuary is that total liabilities could be approximately £6.26m higher. The estimate assumes that the current interim solution will extended to become the permanent solution and that the Fund will become responsible for indexing the GMPs of all members attaining State Pension Age from 6 April 2016 onwards. The estimate will be revised as part of the 2020 Valuation.

GMP Reconciliation

GMP Reconciliation is a national exercise to reconcile HM Revenue contracted out records with those of pension funds. The cost implications of the exercise are not yet fully known as matching of records between the Fund and HM Revenue is ongoing. Provisional work carried out by third party data specialists estimate that Fund pensions may have been underpaid by £39,700 (i.e. £4,400 annually) for pensioners and by £1,600 (i.e. £170 annually) for dependants.

The Scottish Ministers have legislated so that any GMP related pension overpayments (arising due to incorrect GMPs being held) should not be recovered. Instead, overpayments will be ring fenced and frozen at their current level.

26. Contingent Assets

Two admission body employers in the Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn up in favour of the Fund and payment will only be triggered in the event of employer default.

Fund Governance Framework

Falkirk Council operates the Pension Fund (“the Fund”) under the terms of the Local Government Pension Scheme (LGPS). The main functions are to manage the Fund and its investments and to administer the scheme on behalf of members and employers.

The Fund is not a separate legal entity from Falkirk Council, but it does have its own governance arrangements which sit within the Council’s overarching governance framework and are consistent with the principles of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government".

As the administering authority for the Fund, the Council is ultimately responsible for ensuring that Fund business is conducted lawfully and that the public monies flowing into the Fund are safeguarded and properly accounted for.

Falkirk Council has delegated Fund business to its Pensions Committee as part of the Scheme of Delegation contained in Council Standing Orders effective 27 June 2018. Other delegations have been made to the Chief Finance Officer as set out in the Statement of Investment Principles.

The work of the Fund is governed by the Local Government Pension Scheme (Scotland) regulations. These require various policy documents to be prepared including a Funding Strategy Statement; a Statement of Investment Principles; and a Governance Compliance Statement. Collectively, these documents set out the Fund’s key aims and objectives and approach to conducting business. Additionally, a Risk Register and Business Continuity Plan are maintained as part of the Fund’s risk management framework.

Scope of Responsibility

The Pensions Committee, with the support of the Pension Board, is responsible for Fund business including regulatory compliance and oversight of management responses to audit recommendations.

The Committee and Board have broad representation from Fund stakeholder groups and are compliant with with guidance provided by Scottish Ministers. Governance arrangements are explained in detail on pages 15-18 and the Governance Compliance Statement set out on pages 92 to 96.

The Chief Finance Officer is responsible for arranging the proper administration of the financial affairs of the Fund, including the systems of internal control and the internal audit of the Fund’s control environment so as to provide reasonable assurance on substantive matters such as Funding, Contributions and Pension Payments, Investment Management and Data Security:

Funding

Funding is assessed through a three yearly valuation undertaken by an independent actuary; inter-valuation updates are provided to the Pensions Committee and Board.

Contributions and Pension Payments

Contributions paid by employers are monitored for timeliness and accuracy of payments with breaches brought to the attention of the Pensions Manager to determine whether the matter should be reported to the Pensions Regulator.

Pension payments and other financial transactions require authorisation from at least two persons including a senior officer. The Fund participates in the National Fraud Initiative (undertaken every 2 years) to identify payments being made to deceased pensioners and actively investigates cases of irregularity. These results are reported to the Pensions Committee.

The Fund also operates a Pension Administration System maintained by an experienced specialist software vendor and can take assurance from the fact that the system is used by all Scottish LGPS Funds. To aid regulatory compliance, the Fund subscribes to a specialist technical resource maintained by the Local Government Association.

Investment Management

Fund manager records are reconciled to independently maintained Accounting and Performance Evaluation records and variances investigated. Limits are set around the amounts that can be allocated to an asset class, a single manager or holding and are checked monthly; further oversight is provided by the Joint Investment Strategy Panel – a collaborative arrangement between Falkirk, Fife and Lothian Pension Funds which comprises independent advisers and professional FCA accredited investment specialists.

Data Security

The Council's Information Governance framework exists to enable data to be securely managed. Staff undergo regular training on data security matters. Members are provided with a Privacy Notice and Data Sharing Agreements are in place with employers and key service providers. Any new data provision is subject to a Data Impact Assessment signed off by the Information Governance Manager and the Technology and Infrastructure Manager.

Control Environment

The Council is committed to the highest standards of openness, probity and accountability. In line with that commitment, the Council, through its Whistleblowing Policy, encourages employees and others who have serious concerns about any aspect of the Council's work to come forward without fear of victimisation, discrimination or disadvantage. During 2019/20, all pensions staff attended a training session on Corporate Fraud and Whistleblowing.

The Fund has a Conflict of Interest Policy which supplements the Council's own Code of Conduct for Members and Officers. In addition, all Members are required to adhere to The Standards Commission Scotland - Councillors' Code of Conduct.

Contract Standing Orders and Financial Regulations exist and operate to regulate financial and transactional activity.

The Fund maintains a risk register which was reviewed, updated and endorsed at the January, 2020 Pensions Committee. Committee has also approved a Fund Assurance Map (as endorsed by the Chartered Institute of Internal Auditors) to categorise, as follows, the various levels of risk controls:

Level 1 – First line of Defence

Operational controls put in place by management, (e.g. holding a diverse mix of assets, reconciling custodian and manager holdings, monitoring contributions and cash flow)

Level 2 – Second line of Defence

Internal governance arrangements including policies, performance metrics and control reports. (e.g. Funding Strategy Statement, Statement of Investment Principles, Committee reports, Asset manager reports)

Level 3 – Third line of Defence

These are controls designed to provide independent verification of the adequacy of the first and second lines of defence. This includes the work of Internal and External Audit, the Fund Actuary and the Joint Investment Strategy Panel.

The scale of Fund investments (c. £2.3bn) underlines the importance of a robust control environment being in place for investment managers. The main sources of assurance come from regular engagement with the managers and through annual assurance control reports from each of the managers' auditors. A similar report is also provided by the Custodian. Reference to the reports for 2019/20 are set out on Page 54 of the Annual Report.

In overseeing the Fund's control arrangements, the Chief Finance Officer has worked in conformance with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

Monitoring and Review of Governance Arrangements

The Fund's governance arrangements are formally monitored via:

- the Pensions Committee and Board framework
- the Fund's Risk Management arrangements
- the Corporate Risk Management Group and other Corporate Working Groups
- the recording and monitoring of audit recommendations via the Council's system (Pentana)
- Internal Audit work as agreed annually with the Pensions Committee

Monitoring is undertaken within the context of the Fund's requirements to operate within a strict statutory framework and to deliver value for money,

System of Internal Financial Control

The Chief Finance Officer is responsible for ensuring the operation and maintenance of an effective system of internal financial control.

The Council's Internal Audit Section provides assurance on arrangements for risk management, governance, and control, and undertakes an annual programme of work informed by the content of the Fund's risk register and, more recently, the Assurance Map. The programme is approved by the Pensions Committee with Board oversight.

The Fund uses a number of corporate systems, including the Council's Financial Information System and online HR system. Assurance can therefore be taken from the broad seam of Internal Audit work undertaken on these systems annually.

The Internal Audit Manager has established a Quality Assurance and Improvement Programme for the Internal Audit Section, including annual self-assessment and periodic (5 yearly) external assessment of compliance with the Public Sector Internal Audit Standards. A detailed self-assessment against the Standards was undertaken during February 2020. This confirmed continuing compliance with the Standards, and will be subject to independent, external validation as part of a national review process established by the Scottish Local Authorities Chief Internal Auditors' Group.

All Internal Audit reports are issued to the relevant officers, and include recommendations and agreed action plans. It is then management's responsibility to ensure that appropriate action is taken to address these recommendations. Internal Audit reports are always brought to the attention of the Pensions Committee and Pension Board, and any matters of significance highlighted and commented upon by management. During 2019/20, there were no matters of significance which required to be brought to the attention of the Committee and Board.

Audit Findings and Recommendations

During 2019/20, Internal Audit undertook a review of business continuity arrangements and sample transactional testing around key pensions administration activities. The transactional testing was to determine if:

- new member contributions were properly calculated
- new members were properly enrolled
- the correct transfer values of pension rights either into or out of the Fund had been received or paid
- the correct pension payments (including lump sum payments) were paid to retiring Fund members
- deceased pensioners were correctly processed
- deferred beneficiaries were correctly processed

Internal Audit were able to provide Substantial Assurance in relation to the adequacy and effectiveness of the areas audited. The following recommendation was made which management have accepted

	Item	Timescale	Responsible Person	Committee Approval Required	Completion Date
1	The Fund's Business Continuity Document should be updated to reflect lessons learned from the [COVID-19 related] activation of the business continuity arrangements.	March 2021	Pensions Manager	Yes	Not Completed

The findings have been reported to the Chief Finance Officer and the Director of Corporate and Housing Services and will be reported to the Pensions Committee and Pension Board in due course. Also in 2019/20, a separate, Council wide, audit on dealing with the transmission of BACS files has led to a greater separation of roles within the Pensions Section of file producers, file authorisers and file submitters.

Two recommendations made by Internal Audit following the 2018/19 audit have been adopted:

- to prepare procedural notes on the monitoring of employer contributions
- to create an Access Policy for the Pensions Administration System. This was completed during 2019/20.

No specific recommendations were made by External Audit following their 2018/19 Audit.

COVID-19

The outbreak of the COVID-19 pandemic has had a pervasive impact on the work of the Pensions Section. Although the pandemic only took hold within the UK, socially and economically, in mid-March, 2020, it has been a sufficiently significant and far-reaching event to warrant reference in the Fund's Annual Governance Statement for 2019/20.

The impact can be viewed in following terms:

- service delivery
- asset valuations and Funding
- oversight
- longer term consequences

Service Delivery

Contingency measures have been activated to protect the wellbeing of staff and to facilitate continuity of service provision with the emphasis on high priority work streams, such as pension payments and retirement and death benefits. Significant milestones of pensions increase and other year-end work streams have been successfully completed. Engagement with investment managers and other service providers has been maintained to ensure the Fund's interests are being effectively managed.

Asset Valuations and Funding

The COVID-19 crisis and the resulting social restrictions have led to a dramatic curtailing of economic activity worldwide. Most asset classes have experienced sharp falls and extreme volatility. In spite of this, the Fund remains in a strong financial position with the capacity to continue paying all benefits as they fall due. In addition, the Fund is cash flow positive, so is under no obligation to sell any of its assets. The assets themselves are well diversified and include Bonds and Infrastructure which are also income generative. Allied to this, the majority of Fund sponsors have revenue raising powers or Government backing. The Joint Investment Strategy Panel (JISP), responsible for making recommendations on the development and implementation of strategy, is holding virtual meetings to ensure the Fund's strategic positioning remains appropriate.

The fall in bond yields and in asset values (including the cancellation or reduction in dividends and distributions), means that the Fund's funding position at 31 March 2020 (i.e the date of the Fund Valuation) has deteriorated from March 2019. Funding strategy is however to target a fully funded position over a 20-year period and to maintain stable and affordable employer contributions as far as possible. The modelling undertaken by the Fund Actuary includes scenarios of extreme economic distress. As the Valuation exercise unfolds, officers and Committee will engage with the actuary to ensure a considered and balanced approach is taken to contribution rate setting.

Oversight

The Government's "lockdown" instructions meant that the March Joint Pensions Committee and Pension Board meeting was cancelled. However, meeting papers were made available through the Council Coins system and supplementary reports from investment managers have continued to be posted to the shared portal used by Committee and Board members. A briefing paper from the Chief Finance Officer and Pensions Manager has also been issued to members at the beginning of May, 2020.

With the very new and changed circumstances, the Council is pursuing virtual governance arrangements with decisions being delegated to a twelve-person Member Emergency Executive which meets fortnightly. These arrangements will be extended to enable virtual Pensions Committee / Pension Board meetings to take place.

Long Term Consequences

The consequences of the virus are likely to be felt for a number of years ahead. Even with a swift rebound of market values, the level of Government intervention and Government indebtedness will naturally weigh on financial markets and public finances. In this environment, the Fund will look to leverage the expertise of its specialist advisers, including the actuary, JISP and external investment managers.

In terms of servicing the needs of scheme members, the vulnerabilities (but also the remote working opportunities) revealed by the pandemic mean that in the "new norm", management will focus on the technology, systems and protocols that can be deployed to improve operational functionality, flexibility and resilience.

Consistent with the extant recommendation from Internal Audit, a "lessons learned" review will be undertaken in the aftermath of the virus being brought under control.

Certification

This Annual Governance Statement summarises, openly and transparently, arrangements made by Falkirk Council Pension Fund for 2019/20 and for the period to the date of publication of these Accounts.

The statement makes reference to the overall governance framework of the Fund; the areas where responsibilities lie; and the wider control environment. This is complemented by the work of Internal Audit during the year. The statement also recognises the challenges in responding to the COVID-19 outbreak and highlights measures taken.

Where areas for improvement have been identified, an action plan has been agreed and will be prioritised by management and reviewed in due course by the Pensions Committee and Pension Board. The Fund will continue to monitor and evolve its governance arrangements as necessary.

It is our view that the contents of the statement demonstrate the adequacy and effectiveness of the governance arrangements in place during 2019/20 for Falkirk Council Pension Fund.

Councillor Adanna McCue
Chair of the Pensions Committee

Kenneth Lawrie
Chief Executive Falkirk Council

Governance Compliance Statement

Regulation 53 of the Local Government Pension Scheme (Scotland) Regulations 2018 (SSI 2018/141) requires administering authorities to prepare and publish a written statement setting out the terms of their current governance arrangements. The undernoted Statement tests the Fund's compliance with the best practice principles as set out in the SPPA Best Practice Guidelines of April, 2011.

Principle A – Structure

Requirement		Level of Compliance	Arrangements in Place
(a)	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council	**Full Compliance**	Falkirk Council, as administering authority of the Fund, has established a Pensions Committee to which it has delegated the administration of benefits and strategic management of fund assets. The implementation of investment strategy has been delegated to the Chief Finance Officer subject to proper advice being provided by a Joint Investment Strategy Panel comprising specialist officers and independent advisers.
(b)	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee	**Full Compliance**	The Pensions Committee includes three co-opted members reflecting the Fund's composition of members, pensioners and employers.
c)	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	**Full Compliance**	The main channel of communication between the Pensions Committee and Board lies in the fact that quarterly Committee meetings are joint meetings with the Board, with a shared agenda and with both parties having full access to papers.
(d)	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	**Not Compliant** (as no longer relevant)	The statutory role of the Pension Board with oversight of Committee activity means it is not appropriate for a Board member to also sit on the Committee.

Principle B – Representation

Requirement		Level of Compliance	Arrangements in Place
(a)	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:		
	(i) Employing authorities (including e.g. admission bodies);	**Full Compliance**	Representatives of fund employers, including an admission body, sit on the Pension Board. An employer representative also sits on the Pensions Committee
	(ii) Scheme members (including deferred and pensioner scheme members);	**Full Compliance**	Active, deferred and pensioner members are represented by Trade Union members who sit on the Pension Board. A Trade Union member also sits on the Pensions Committee. Pensioners are represented by a pensioner member who sits on the Committee.
	(iii) Where appropriate, independent professional observers; and	**Not Compliant**	There are no independent professional observers of Committee or Board business. It is considered that: • the diversity of representation (employers, pensioner and Unions) • the Joint Investment Strategy Panel • the training arrangements; • the annual audit process; and • attendance of professional advisors provide robust and adequate scrutiny of pension fund business
	(iv) Expert advisors (on an ad-hoc basis).	**Full Compliance**	Support for the Pensions Committee and Pension Board is provided by specialists in the following areas: • actuarial and investment advisers • corporate governance advisers • investment managers and custodian
(b)	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	**Full Compliance**	The co-opted members on the Pensions Committee and the Pension Board all have equality of access to papers, meetings and training. The co-opted members also have full opportunity to contribute to the decision making process, including the right to vote.

Principle C – Selection and role of lay members

Requirement		Level of Compliance	Arrangements in Place
(a)	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee	**Full Compliance**	Members of the Pensions Committee will be subject to the agreed Code of Conduct. Members of the Pension Board will be appointed on the understanding that they will be subject to the agreed Code of Conduct. Appropriate training will be delivered to Committee and Board members.
(b)	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	**Full Compliance**	Declaration of interests is a standard procedure at the start of all Committee and Board meetings. Declarations are noted in the minutes.

Principle D – Voting

Requirement		Level of Compliance	Arrangements in Place
(a)	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	**Full Compliance**	All members of the Pensions Committee including co-opted members will have voting rights on the basis that they have executive responsibility for pension fund decision making.

Principle E – Training / Facility Time / Expenses

Requirement		Level of Compliance	Arrangements in Place
(a)	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	**Full Compliance**	The administering authority's approach to training is set out in its training policy for the Pensions Committee and Pension Board members. Training is delivered in large part by addressing specific items at Committee and Board meetings and complemented by visits to Fund Managers, bespoke training events and attendance at industry seminars and conferences. Expenses incurred by Committee and Board members are met either by the Fund or the Falkirk Council scheme for payment of members' expenses.
(b)	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	**Full Compliance**	The Training Policy for the Pensions Committee and Pension Board applies uniformly to all members.
(c)	That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	**Full Compliance**	The Training Policy for the Pensions Committee and Pensions Board includes the requirement for members to undergo training needs analysis and the development of commensurate training plans. A register of training undertaken is maintained.

Principle F – Meetings (Frequency/Quorum)

Requirement		Level of Compliance	Arrangements in Place
(a)	That an administering authority's main committee or committees meet at least quarterly.	**Full Compliance**	The Pensions Committee hold quarterly meetings. Additional meetings are called as required. *
(b)	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	**Full Compliance**	Pension Board meetings are held concurrently with Pensions Committee meetings which will result in a minimum of four meetings per year. Additional meetings are called as required.
(c)	That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	**Full Compliance**	The Council does include lay members on its Pensions Committee. However, in order to ensure that the interests of wider fund stakeholders can be represented, the Fund generally holds a Pensions & Investment Conference each year.

*Pensions Committee and Board meeting scheduled for March 2020 was cancelled due to Covid-19

Principle G – Access

Requirement		Level of Compliance	Arrangements in Place
(a)	That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	**Full Compliance**	Members of Pensions Committee and Pension Board have equal access to any committee papers, documents and advice that falls to be considered at meetings of the Pensions Committee.

Principle H – Scope

Requirement		Level of Compliance	Arrangements in Place
(a)	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	**Full Compliance**	The agendas for Pensions Committee / Board meetings include reports pertaining to both administration and investment matters such as regulatory changes, actuarial valuation and funding level updates, admission agreements, investment strategy and Fund / Investment Manager performance.

Principle I – Publicity

Requirement		Level of Compliance	Arrangements in Place
(a)	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	**Full Compliance**	Through their representation on the Committee and Board, employers, Unions and Pensioners have been involved in the development of the Fund's governance arrangements. Full details of the Governance arrangements are published on the Fund's website.

Chief Finance Officer
Falkirk Council,
Approved - 24th August 2017

APPENDIX 1

Actuarial Statement for 2019/20

Falkirk Council Pension Fund ("the Fund")

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2018. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy (FSS), dated March 2018. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers)
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations
- to meet the funding standards set by the Government Actuary's Department (GAD)

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 66% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 was as at 31 March 2017. This valuation revealed that the Fund's assets, which at 31 March 2017 were valued at £2,219 million, were sufficient to meet 92% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2017 valuation was £184 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2018 to 31 March 2021 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Details of the methods and assumptions used are described in the 2017 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth and inflation to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

Actuarial Statement

The key financial assumptions adopted for the 2017 valuation were as follows:

Financial assumptions	31 March 2017
Discount rate	3.5%
Salary increase assumption	2.9%
Benefit increase assumption (CPI)	2.4%

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2016 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.2 years	23.7 years
Future Pensioners*	22.7 years	25.5 years

*Currently aged 45

Copies of the 2017 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2017

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the 2019/20 financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported at the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2020. The Funding Strategy Statement will also be reviewed at that time.

Julie West FFA

For and on behalf of Hymans Robertson LLP
18 May 2020

Hymans Robertson
20 Waterloo Street
Glasgow G2 6DB

Scheduled and Admission Bodies at 31 March 2020

APPENDIX 2

Scheduled Bodies

Open to New Members
Central Scotland Joint Valuation Board
Clackmannanshire Council
Falkirk Council
Forth Valley College
Scottish Children's Reporter Administration (SCRA)
Scottish Environment Protection Agency (SEPA)
Scottish Fire and Rescue Service (ex Central Scotland Fire & Rescue Service)
Scottish Police Authority (ex Central Scotland Police and SPSA)
Stirling Council

Closed to New Members
Visit Scotland (Ex-Argyll, The Isles, Stirling, Loch Lomond and Trossachs Tourist Board)

Admission Bodies with Active Members

Open to New Members
Active Stirling
Ballikinrain School
Colleges Scotland (ex-Association of Scottish Colleges)
Cowane's Hospital
Dollar Academy Trust
Falkirk Community Trust Ltd
Forth and Oban Ltd
Smith Art Gallery
Snowdon School Ltd
Stirling District Tourism Ltd
Strathcarron Hospice
Water Industry Commission for Scotland

Closed to New Members
Amey (Clackmannanshire Schools Project)
Cromwell European Management Ltd (formerly Valad Management (UK) Ltd)
Haven Products Ltd
Scottish Autism
Sodexo
thinkWhere Ltd. (formerly Forth Valley GIS Ltd)

Admission Bodies with Deferred or Pensioner Members only*

Closed to New Members
Alsorts
Central Carers Association
Central Scotland Council for Regional Equality
Ceteris
McLaren Community Leisure Centre
Open Secret
Plus
Seamab School
Stirling University
Stirling Enterprise (STEP)
Waterwatch Scotland

*No Fund liability remains with the employers in this group. Either a cessation payment has been made or the three Councils in the Fund - Clackmannanshire, Falkirk, and Stirling Councils - have assumed responsibility for the Fund liabilities of these employers in return for being allocated their share of the Fund's assets.