Dear Ms Menzies-Smith,

Budget Strategy Phase 2016-17 - Local Government Pension Funds

I refer to your letter of 15th May 2015.

You requested a copy of the Pension Fund Statement of Investment Principles and I have sent this as an attachment to this letter. It can also be found on the Fund website www.falkirkpensionfund.org in the Forms and Publications section.

Responses to your other questions are as follows:

1. When your Statement is next due for review;
   The Statement of Investment Principles will be updated following a review of Fund investment strategy that is currently being undertaken. This is expected to be Autumn, 2015.

2. Details of your social, environmental or ethical policy, and how it is implemented having regard to fiduciary duties
   This information is contained in the Fund’s Statement of Investment Principles. Although fiduciary duty remains the Fund’s primary focus, the Fund is aware of its responsibilities as an asset owner and gives serious recognition to environmental, social and governance (ESG) issues. ESG considerations are therefore embedded within the investment processes of the Fund and its investment managers. As evidence of this, the Fund has engaged the Pensions and Investment Research Consultants (PIRC) to provide advice on corporate governance matters. The Fund is also a member of the Local Authority Pension Funds Forum (LAPFF) which acts for over 60 UK local authority pension funds and seeks to promote high corporate standards. Recent LAPFF campaigns have targeted Executive Remuneration, Phone Hacking, Gender Equality in Boardrooms and Fossil Fuel emissions.

3. If you have no such policy, details of how your fund deals with social, environmental or ethical considerations.
   See Response to Question 2 overleaf

In/

Claire Menzies-Smith
Senior Assistant Clerk
Local Government and Regeneration Committee
Room T3.40
The Scottish parliament
Edinburgh
EH99 1SP
In relation to the questions on infrastructure,

1. **Details of any investment you have made in Scottish or UK infrastructure projects;**
   - The Fund has made a £30m commitment to invest in Social and Affordable Housing. This is expected to result in 190 additional housing units being constructed in Forth Valley.
   - The Fund has made a £30m commitment to invest in UK Infrastructure projects with a preference for projects in Scotland. An initial £2.75m commitment has been made in support of a Scottish hydro project.
   - The Fund has made an $80m commitment to Global infrastructure with Grosvenor Capital. This investment is in a mixture of infrastructure projects and infrastructure funds some of which are invested across geographies including the UK.

2. **Whether your Fund has considered investing in the Pensions Infrastructure Platform when it opens to non-founder members**
The Fund is aware of the PIP but has not formally considered investing in it. The Fund will continue to monitor the PIP’s progress, however, in view of the length of time taken for the PIP to establish itself and uncertainty as to when it may be rolled out to non-founder members, the Pension Committee’s preference has been to pursue infrastructure investments through its Global and UK mandates.

3. **Whether your Fund has worked in partnership with other Scottish Local Government Pension Funds to invest in Scottish or UK infrastructure projects**
Yes. Falkirk is formally collaborating with the Lothian Pension Fund in a shared service arrangement whereby the Falkirk Fund relies on the in house expertise of the Lothian team to source investments of mutual interest. The Lothian team undertake due diligence and legal oversight of each investment opportunity, although ultimately Falkirk can elect not to participate in a particular deal.

4. **Details of the current barriers to investing in infrastructure projects.**
Perceived barriers to greater investment in infrastructure projects are as follows:

   - Breadth of specialist expertise (and “presence” in the market) that is needed to be able to source and evaluate deals, to negotiate terms, to conclude legal formalities and to record and monitor performance.

   - Pension funds have a fiduciary duty to invest fund monies for the benefit of fund stakeholders. This means that any investment with spin off social or economic benefits must be at least as favourable in terms of risk/return characteristics as an investment without these collateral benefits. Many infrastructure projects do not meet this test, having, for example, too much construction risk, regulatory uncertainty, inadequate returns, etc. In essence, funds will generally be looking for low risk opportunities that yield a minimum of RPI plus 3%.

   - The Local Government Pension Scheme (Management and Investment of Funds) regulations contain restrictions on the level of investment that can be made in partnerships (the investment vehicle normally adopted for infrastructure investments), albeit that this has not proved to be a barrier to date for this Fund.
I hope you find these comments helpful.

Yours sincerely

[Signature]

Chief Finance Officer