PAPER D

Statement of Investment Principles

Dated: 16 May 2014

This is the Statement of Investment Principles ("the statement") required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the "2009 Regulations"). The statement has been adopted by the Isle of Wight Pension Fund Committee ("the committee"), which acts on the delegated authority of Isle of Wight Council ("the council"), the administering authority for the Isle of Wight Council Pension Fund ("the fund"). The statement is subject to review from time to time and certainly within six months of any material change in investment policy or other matters as required by law. In preparing this statement the committee has consulted with the administrating authority and has taken and considered written advice from the actuaries.

In Annex 1, the committee has set out details of the extent to which the fund complies with the six principles set out in the Chartered Institute of Public Finance and Accountancy ("CIPFA") publication, 'Investment Decision Making and Disclosure in the Local Government Pension Scheme 2012 – a guide to the application of the 2008 Myners Principles to the management of LGPS funds'.

Fund Objective

The primary objective of the fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, in accordance with the Local Government Pension Scheme ("LGPS") regulations and statutory provisions.

The committee aims to fund the fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

Investment Strategy

The committee has translated its objectives into a suitable strategic asset allocation benchmark for the fund (Annex II). The strategic benchmark is reflected in the investment structure adopted by the committee; this comprises a mix of segregated and pooled manager mandates. The fund benchmark is consistent with the committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the fund's liabilities.

The committee monitors investment strategy relative to the agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the fund.

Schedule 1 of the 2009 Regulations: Limit on Investments

At their meeting on 24 July 2009, the committee agreed to an increase in the limit on investments in units subject to the trusts of unit trust schemes managed by any single entity, from 25% to 35% (the upper limit specified in Schedule 1). Before taking this decision, the committee took proper advice from its then investment adviser, Hymans Robertson LLP, in relation to the impact of the increase on overall risk within the fund and how the committee monitors and manages that risk. The decision was taken because making use of the pooled funds concerned was considered to be effective both in terms of cost and in terms of broader portfolio diversification within the pooled funds concerned.
The committee reviewed the strategic asset allocation of the fund at its meeting on 30 November 2012, following advice from its current investment advisers, Mercer Ltd. No change was made to the limits on investments above.

Types of investment to be held

The fund may invest in quoted and unquoted securities of UK and overseas markets, including equities, fixed interest and index linked bonds, cash, property and commodities, either directly or through pooled funds.

The fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products, for the purpose of efficient portfolio management or to hedge specific risks. The committee considers all of these classes of investment to be suitable in the circumstances of the fund.

The strategic asset allocation of the fund includes a mix of asset types across a range of geographies in order to provide diversification of returns.

Balance between different kinds of investments
The committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the fund. The fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles.

Risk
In order to achieve its investment objective the fund takes investment risk including equity risk and active management risk. It is understood and acknowledged that this leads to significant volatility of returns and an ultimate risk that its objectives will not be met. The fund pursues a policy of lowering risk through diversification of investments by asset class, manager and geography. Risk is also controlled by setting appropriate benchmarks and investment guidelines and maintaining a robust investment monitoring regime.

The fund's risk register is appended to this statement at Annex III.

Expected return on investments
Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the actuary in funding the fund.

Realisation of investments
The majority of assets held within the fund may be realised quickly if required.

Social, Environmental and Ethical Considerations
The committee recognises that social, environmental and ethical considerations are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention or sale. Each of the managers has produced a statement setting out its policy in this regard. The managers have been delegated by the committee to act accordingly.

Exercise of Voting Rights
The committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the managers have produced written guidelines of their process and practice in this regard. Copies of the fund managers' latest corporate governance reports are available from the Technical Finance Officer. The managers are encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Stock Lending
Within segregated mandates, the committee has absolute discretion over whether stock lending is permitted. The committee has considered its approach to stock lending, taking advice from its investment adviser. After consideration of that advice, the committee has decided not to permit stock lending within any of its segregated investment mandates.

The committee has no direct control over stock lending in pooled funds as it is for the managers of those pooled funds to determine whether to undertake a certain amount of stock lending on behalf of unit holders. If a pooled fund engages in this activity, the extent to which it does so is disclosed by the manager. None of the managers of the pooled funds in which the fund invests engages in stock lending.

Additional Voluntary Contributions (AVCs)
The committee gives members the opportunity to invest in a range of vehicles at the members' discretion.

Annex I: Myners Principles

Principle	Response on Adherence
Principle 1 Effective Decision Making: Administering authorities should ensure: • That decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	**Compliant** Decisions are taken by the committee which is responsible for the management of the fund. The committee has support from council officers with sufficient experience to assist them. The committee also seeks advice from professional actuarial and investment advisers to ensure it can be familiar with the issues concerned when making decisions. . Following the appointment of a new committee in May 2013, the training needs analysis has been refreshed to inform a new training delivery plan for 2013-14 and beyond. This training plan was approved in principle at the committee meeting in February 2014. The committee hold a one hour training session before every committee meeting. The committee is able to make robust challenges to advice and is aware of where potential conflicts of interest may reside within the committee and in relation to service providers.
Principle 2 Clear objectives: An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.	**Compliant** The committee has established objectives for the fund which takes account of the nature of fund liabilities and the contribution strategy. This involved discussions with the actuary to enable the committee to set the overall risk budget for the fund. This is reflected in the investment mandates awarded to the asset managers. There is dialogue with admitted bodies within the fund in relation to the contributions they pay, their capacity to pay these contributions and the level of guarantees they can provide.
Principle 3 Risk and liabilities: • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	**Compliant** The investment strategy is considered in the light of the nature of the fund liabilities, the timescale over which benefits will be paid, and financial and demographic factors affecting the liabilities, such as inflation and improving longevity. The committee and council officers have discussed the contribution strategy with the actuary taking account of the strength of covenant of the council and its long term horizon. Discussions have also taken place with admitted bodies in relation to the affordability of contributions and the strengths of their covenants.

Principle	Response on Adherence
Principle 4 Performance assessment: • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. • Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.	**Partially Compliant** The performance of the fund and its individual managers are monitored on a regular basis. The quality of advisers is assessed on a qualitative basis but is not formally measured. A template for assessing the performance of the fund's advisers is currently being developed. Advisers are subject to periodic re-tender. The committee is developing formal processes to measure its own effectiveness, as part of its review of the impact of changes to the governance of the LGPS on the fund.
Principle 5 Responsible Ownership: Administering authorities should • Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. • Include a statement of their policy on responsible ownership in the Statement of Investment Principles. • Report periodically to scheme members on the discharge of such responsibilities.	**Partially Compliant** The committee encourages its investment managers to adopt the ISC Statement of Principles on the responsibilities of shareholders and agents on the fund's behalf This Statement of Investment Principles includes a statement on the fund's policy on responsible ownership. The committee will be working with its investment advisers to consider the implications of the UK Stewardship Code (issued in September 2012) to ensure it is fully compliant with the new requirements.
Principle 6 Transparency and Reporting: Administering authorities should • Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. • Should provide regular communication to scheme members in the form they consider most appropriate.	**Compliant** The committee maintains minutes of meetings which are available on the council website. The committee holds a formal annual meeting for members and also meets periodically with sponsoring employer bodies. An Admitted Bodies representative and a Member representative attend committee meetings. The Statement of Investment Principles is published on the council website and is available to members on request. Other information on the scheme is available to members on the council website.

Annex II: Strategic Asset Allocation

During November 2013 the committee transferred the fund's holding in the UK equity portfolio with Schroders (c15% of the fund's assets) to a new Diversified Growth mandate managed by Baillie Gifford. Following this change, the strategic asset allocation of the fund, together with control ranges and the benchmark index for each asset class is as follows:

Asset Class	Strategic Allocation %	Control Range %	Benchmark Index
UK Equities	22.5	+/-3%	FTSE All-Share index
Global equities (ex UK)	32.5	+/-3%	MSCI AC (All Countries) World index (net dividends re-invested)
TOTAL EQUITIES	**55.0**	+/- 5%	
Diversified Growth Fund	15.0	+/- 4%	UK Base Rate
Property	8.0	+/- 4%	IPD Pooled Property Fund indices All Balanced Funds Median
Bonds	22.0	+/- 4%	Merrill Lynch Sterling Broad Market
Cash	-		
TOTAL ASSETS	**100.0**		

For the purpose of measuring performance, an appropriate benchmark index is used.
Where this is not possible or appropriate, for example, where an asset is illiquid or is not reflected in a measurable index, the committee will consider an appropriate performance benchmark.

Fund Managers
As at 17 March 2014, the following fund managers are appointed within each of the above asset classes

Asset Class	Fund Managers	Note
UK Equities	Majedie Asset Management Limited	1
Global equities (ex UK)	Newton Investment Management Limited	
Diversified Growth Fund	Baillie Gifford & Company	2
Property	Schroder Investment Management Limited	
Bonds	Schroder Investment Management Limited	
Cash	All	

Note 1: Although the Majedie Asset Management portfolio remains a UK Equity portfolio, it has been agreed that a maximum of 20% of the portfolio may be invested in non-UK equities.

Note 2: Baillie Gifford's Diversified Growth Fund invests across a number of different asset classes. The fund's aim is to generate positive absolute returns, which are similar to returns achieved from equity markets over the long term but with a lower volatility. The fund looks to achieve this objective by holding a diverse portfolio of assets.

<u>Annex III: Pension Fund Risk Register</u>

Risks identified by the committee as at 17 March 2014

Risk Ref	Details	Initial risk score	Target risk score	Target date	Risk Owner
PF0008	Inadequate preparation for changes to governance arising from new regulatory requirements under Public Sector Pensions Act 2013	15	3	1 April 2015	David Burbage
PF0009	Custodian arrangements are unfit for purpose	16	2	1 Oct 2014	David Burbage
PF0010	Managing admitted bodies to the fund	9	2	Ongoing	David Burbage
PF0011	Inability to manage increasing workloads through changing membership and increasing employer numbers, as well as changes to regulatory requirements	12	5	1 April 2015	Jo Thistlewood
PF0012	New pension fund committee may not have necessary knowledge and skills to undertake their role, particularly in light of new regulatory changes	9	2	1 April 2015	David Burbage
PF0013	Impact of triennial valuation 2013 results on liabilities/deficit/contribution levels	9	2	1 April 2014	David Burbage

Risk scoring matrix

Likelihood/Probability	*4 V likely*	7 Medium	11 Medium	14 High	16 VERY HIGH
	3 Likely	4 Low	8 Medium	12 High	15 VERY HIGH
	2 Unlikely	2 Low	5 Low	9 Medium	13 High
	1 Remote	1 Low	3 Low	6 Low	10 Medium
	Scale	*1 Low*	*2 Medium*	*3 High*	*4 Major*
	Impact/Severity				