



Committee report

Committee	ISLE OF WIGHT PENSION FUND COMMITTEE
Date	29 MAY 2015
Title	DRAFT YEAR END RESULTS 2014-15
Report of	TECHNICAL FINANCE OFFICER

EXECUTIVE SUMMARY

1. This report presents the committee with the draft financial results for the Isle of Wight Council Pension Fund (“the fund”) for the year ended 31 March 2015, including the increase in net assets of the fund, the investment performance of the four fund managers for the year ended 31 March 2015, the change in membership numbers for the year, and the indicative interim funding level at 31 March 2015.
2. The committee is asked to note the above elements of the results for the year, in advance of receiving the annual report and accounts for the year ended 31 March 2015 at the annual general meeting of the fund in July 2015.

BACKGROUND

3. The accounts for the Isle of Wight Council Pension Fund will form part of the council’s annual accounts, which are required by the Accounts and Audit (England) Regulations 2011 to be approved by the council sitting as a whole, or by a committee with delegated powers to make such a decision, no later than 30 September each year.
4. Whilst there is no specific regulatory requirement for the pension fund accounts to be separately approved, it is considered good practice to provide the pension fund committee with the draft results figures as part of the overall approval process.
5. The fund is also required to publish an annual report containing the accounts and other statutory information by 31 December each year.
6. In accordance with best practice adopted by the council for the approval of its accounts, this report is presented to provide members of the committee with early notification of the financial results for the previous financial year. This allows members to consider the fund’s draft results and financial position at the end of the 2014-15 financial year and to seek clarification of any significant issues arising as a result.

7. The report sets out the fund's draft financial position at 31 March 2015 and supporting information. The financial accounts are still subject to audit.

STRATEGIC CONTEXT

8. 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 operate 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.
9. Approval of the fund's draft results statements, and the overall stewardship of public funds, form an integral part of the fund's corporate governance framework

DRAFT FINANCIAL RESULTS

10. Appendix 1 to this report sets out the draft financial results for the year ended 31 March 2015. This shows an increase in the net assets of the fund of £53.5 million (12.6 per cent), compared to £38.1 million increase the previous year.
11. Contributions received have increased by £160,000 (0.9 per cent) compared to the previous year. Total regular employee and employer contributions both increased by £422,000 (2.8 per cent) during the year and additional lump sum deficit contributions from admitted bodies, as a result of the 2013 valuation, increased by £78,000. However this was offset by a reduction in the pension strain contributions for early retirements of £340,000.
12. Benefits payable have increased by £972,000 (5.3 per cent) in comparison to the previous year, primarily as a result of inflationary pensions increases. There has been a reduction in lump sums payable on retirement, but the fund has paid out higher death grants this year.
13. Investment income has fallen again this year, by £1.02 million (10.6 per cent) compared to last year. Included within this figure, dividend income has fallen by £1.24 million (23.6 per cent) as a result of general economic conditions. However capital values have increased by 13.7 per cent during the year, as detailed below.
14. Investment management fees have increased by £319,000 (16.1 per cent). This is due to significant performance related fees payable to both Majedie and Newton in respect of their investment performance in the years to 30 June 2014 and 31 December 2014 respectively (see below).

ANNUAL INVESTMENT PERFORMANCE

15. Appendix 2 to this report shows the performance of the fund's investments by asset category, and by fund manager. This information is extracted from the fund managers' reports and the State Street (formerly WM Company)

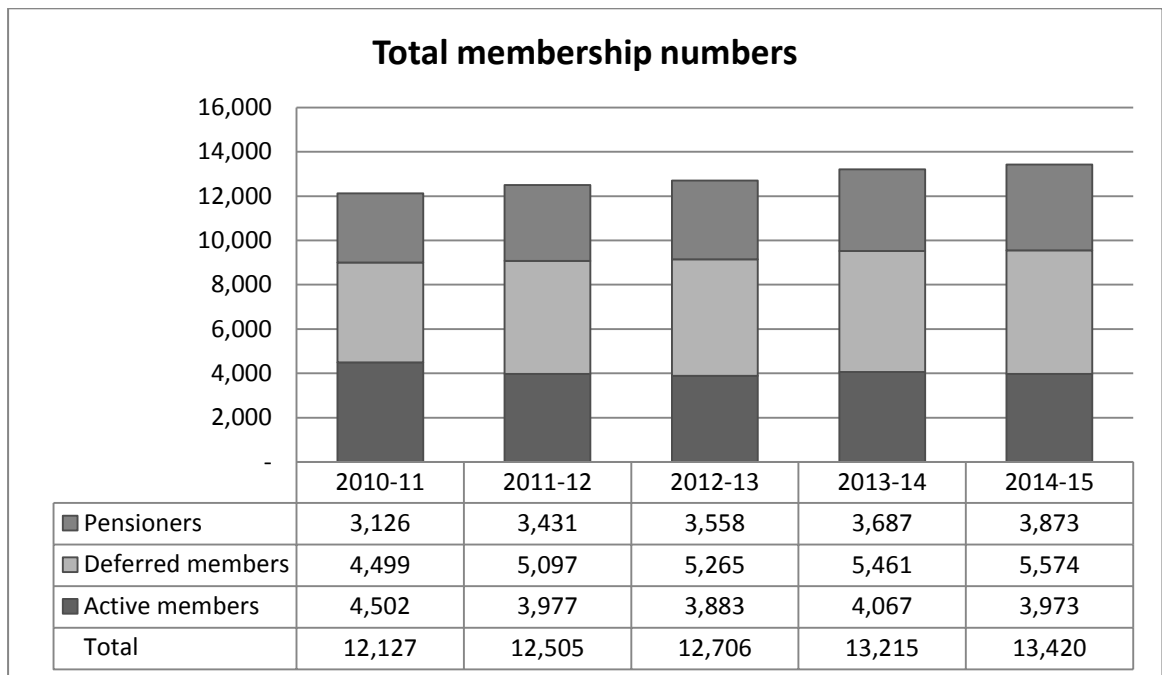
quarterly performance review for the period to the end of March 2015. No information is yet available about the ranking of the fund's performance for the year to 31 March 2015 – this is expected from State Street in the first week of June 2015.

16. The market value of the fund's investments as a whole increased by 13.7 per cent in the year to 31 March 2015, compared to a combined benchmark increase of 12.5 per cent.
17. In absolute terms, the best fund manager performance came from Newton, who returned 21.0 per cent for the year (an increase in market value of £30.15 million). In a reversal of fortunes, Majedie generated the lowest absolute return, 7.1 per cent for the year (an increase of £4.46 million).
18. In context, however, the global equity market performed very well during 2014-15, with the benchmark return being 18.5 per cent; so Newton generated a return of 2.5 per cent ahead of benchmark. The UK equity market, after several buoyant years, generated a benchmark return of 6.6 per cent; Majedie outperformed the benchmark by 0.5 per cent.
19. Performance fees payable to Majedie in respect of the UK equity portfolio are calculated based on performance in excess of benchmark on a rolling three year period. Over the three years to 30 June 2014, Majedie out-performed the benchmark by 5.5 per cent per annum, with no additional investment during the period. As a result performance management fees of £1.04 million were paid to Majedie in the year to 31 March 2015.
20. Performance fees payable to Newton in respect of the global equity portfolio are calculated on a rolling four year period. Over the four year period to 31 December 2014, Newton out-performed the benchmark by 1.4 per cent per annum, with no additional investment during the period. As a result performance management fees of £0.36 million were paid to Newton in the year to 31 March 2015.
21. Despite generating an increase in market value of £11.66 million (13.5 per cent) for the year, the Schroder bond portfolio under-performed against the benchmark return by 0.7 per cent.
22. Despite generating an increase in market value of £3.61 million (17.7 per cent) in the year, the Schroder property portfolio under-performed by 0.6 per cent relative to the benchmark.
23. In the first full year of investment, Baillie Gifford diversified growth portfolio generated an increase in market value of £5.35 million (8.0 per cent), outperforming its target by 4.0 per cent.

MEMBERSHIP NUMBERS

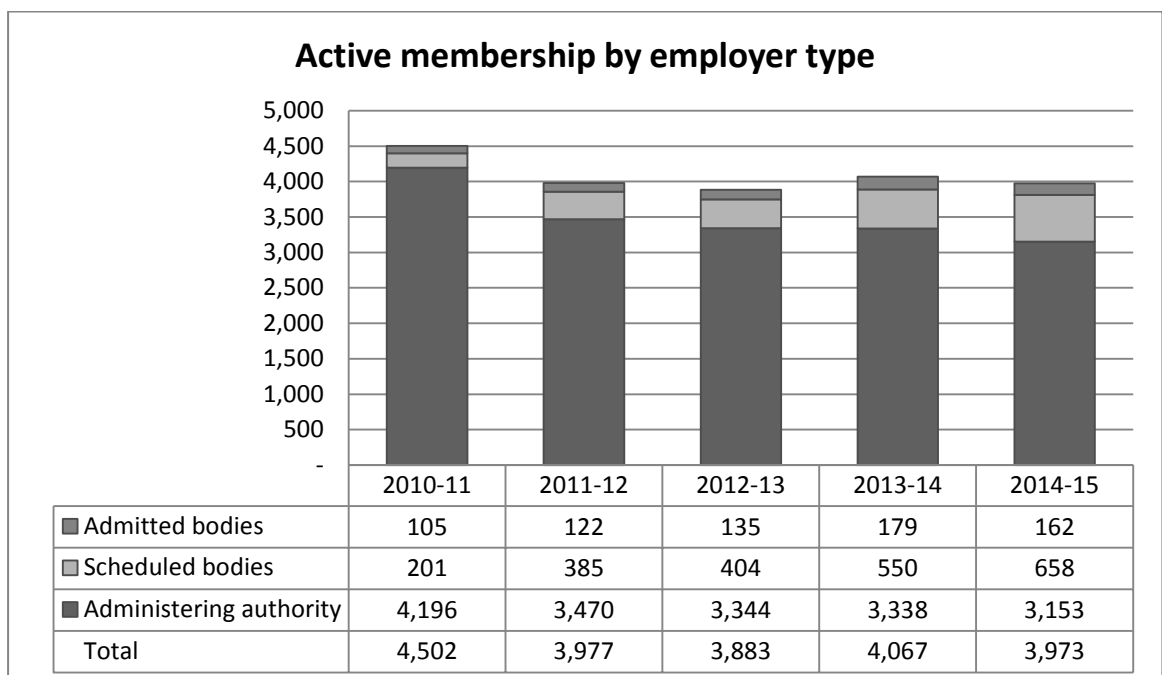
24. Total members of the fund at 31 March 2015 were 13,420, an increase of 205 since 31 March 2014.

25. The graph below shows the total change in membership, and the composition of the membership (active members, deferred members and pensioners) for the last five years.



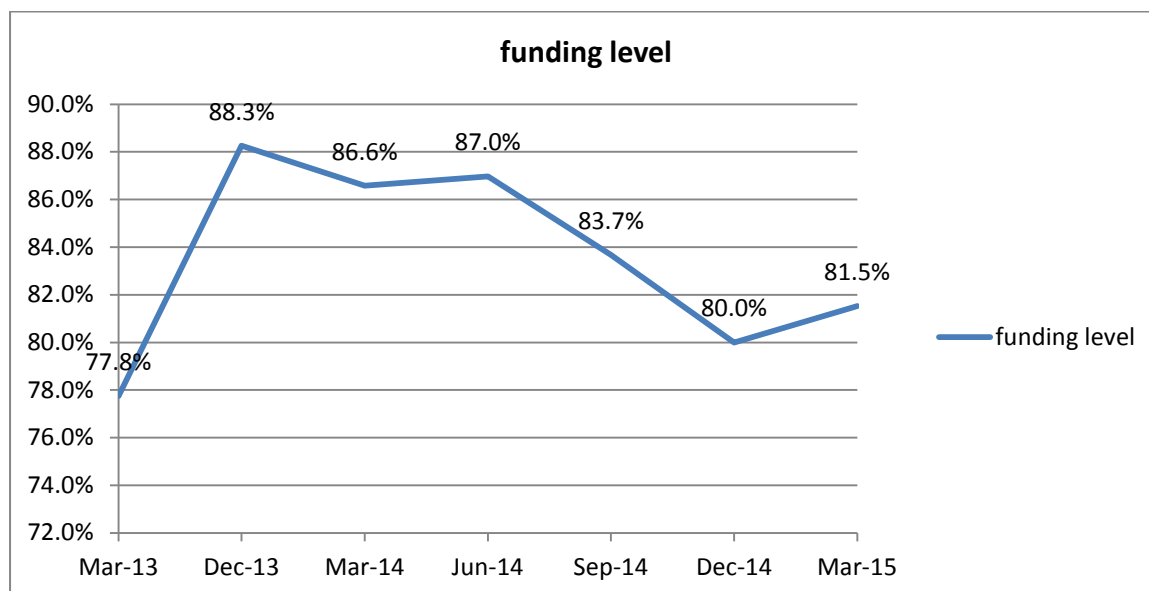
26. Active membership has reduced this year, as a result of redundancies within the council. The council's proportion of active members continues to fall (79.4 per cent at 31 March 2015, compared to 82.1 per cent at 31 March 2014) as a result of the introduction of new schools, existing schools becoming academies and services being outsourced.

27. The graph below shows the movement in active membership numbers by type of employer (council (as administering authority), admitted body and scheduled body) over the last five years.



INTERIM FUNDING LEVEL

28. Hymans Robertson, the fund's actuaries, prepares a quarterly report ("Navigator report") which illustrates the development of the funding position of the fund from the date of the last formal valuation.
29. The funding level at 31 March 2013 was 77.7 per cent - an improvement since the previous formal valuation at 31 March 2010, when the funding level was 75.3 per cent.
30. Appendix 3 contains the Navigator report for the quarter ended 31 March 2015, which shows a funding level of 81.6 per cent, compared to 86.6 per cent at 31 March 2014. Lower yields have placed a higher value on the liabilities but greater than assumed asset performance has resulted in an improved funding position.
31. The graph below shows the movement in theoretical funding level since the last formal valuation at 31 March 2013:



32. Any change in the funding level of the fund in the interim period has no actual impact on the amount of contributions payable by the council or other employers, but is indicative of the impact of changes in market conditions and financial assumptions.

CONSULTATION

33. There has been no consultation as this report is for information only. The information contained in this report will be updated and reviewed as part of the year end process and will then be subject to audit.

FINANCIAL / BUDGET IMPLICATIONS

34. There are no direct financial implications associated with this report.

35. Information on the investment performance of the fund's managers is presented to the committee on a quarterly basis, and information about membership numbers and funding levels is provided half yearly. As an annual process, it is necessary to produce financial information in this format to comply with external reporting requirements, codes of practice and the specific requirements of the Accounts and Audit (England) Regulations 2011.

LEGAL IMPLICATIONS

36. The pension fund annual accounts form part of the council's annual statement of accounts. The Accounts and Audit (England) Regulations 2011 require approval of the council's statement of accounts by the council sitting as a whole, or by a committee with delegated powers to make such a decision, no later than 30 September each year.
37. Whilst there is no specific regulatory requirement for the pension fund accounts to be separately approved, it is considered good practice to provide the pension fund committee with the draft results figures as part of the overall approval process.
38. The audit of the pension fund accounts is scheduled to commence during June 2015 and the external auditors expect to issue their report and opinion on the accounts before 30 September 2015, the statutory date for publication of the council's audited Statement of Accounts. The independent report of the external auditor on both the council's accounts and the pension fund accounts will be presented to the Audit Committee during September 2015, prior to issue of their final report and audit certificate to be published with the council's statement of accounts.
39. The independent report of the external auditor for the pension fund accounts will be presented to this committee in November 2015, and will be published in the pension fund annual report and accounts before the end of December 2015.

EQUALITY AND DIVERSITY

40. The council has a legal duty under the Equality Act 2010 to seek to eliminate discrimination, victimisation and harassment in relation to age, disability, gender re-assignment, pregnancy and maternity, race, religion, sex, sexual orientation and marriage and civil partnership.
41. Initial screening has indicated that there are no specific equality and diversity issues arising from the content of this report.

RECOMMENDATION

42. That the committee receives this report for information, and requests any additional clarification as required.

APPENDICES ATTACHED

43. [Appendix 1](#) – Draft financial results at 31 March 2015.
44. [Appendix 2](#) – Fund manager investment performance for the year ended 31 March 2015.
45. [Appendix 3](#) – Hymans Robertson Navigator report at 31 March 2015.

BACKGROUND PAPERS

46. None.

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