



Minutes

Name of meeting	ISLE OF WIGHT PENSION FUND COMMITTEE
Date and time	FRIDAY, 24 JULY 2015 COMMENCING AT 9.30 AM
Venue	COUNCIL CHAMBER, COUNTY HALL, NEWPORT, ISLE OF WIGHT
Present	Cllrs Ivor Warlow (Chairman), Reg Barry, Bob Blezzard, David Eccles, Stuart Hutchinson, Gordon Kendall, Daryll Pitcher
Representatives	Steve Milford, Unison Representative
Employer Representative	Christine Shaw, Island Roads
Independent Advisor	Jo Holden – Mercer Limited
Performance Management Analyst	Elaine Packer - State Street Global Services – Performance Services
Actuary	Craig Alexander - Hymans Robertson LLP
Other Employer Representatives	Ryan Baker - Spectrum Housing Theresa Dunford - Cowes Harbour Richard Marinelli - Cowes Enterprise College Kevin West – Isle of Wight College
Officers	Jo Thistlewood, Technical Finance Officer Jennifer Beresford, Democratic Services Officer

6. [Minutes](#)

RESOLVED :

THAT the Minutes of the meeting held on [29 May 2015](#) be confirmed.

7. [Declarations of Interest](#)

Councillors Reg Barry, Bob Blezzard, Gordon Kendall and Ivor Warlow declared an interest as they were contributing members of the Isle of Wight Pension Fund or in receipt of a pension from the fund.

8. Investment Performance

(a) [Global Investment Performance Overview 2014-15](#)

The committee received a presentation from State Street Global Services – Performance Services. Details of the fund's performance relative to other local authority pension funds for the year ending 31 March 2015 were provided.

The fund's assets had delivered a return of 13.7% which represented an increase in fund value, from £425.9m last year to £479.5m, and was 1% above the benchmark.

Performance data of the market environment was provided as context for the pension fund's performance against the benchmark. The information included returns by locality and type as well as long term (20 year) returns. Each fund manager's performance was also considered and the fund's performance against its peer group reviewed.

Clarification was provided that the returns were net of fees from the 1 April 2014. Gross figures would have been included historically.

The ranking of the fund's performance in the league tables was noted as 38th compared to 3rd last year. The change in position was expected as historically the fund had benefited from Majedie out performing their bench mark significantly.

The committee questioned the contrast between the positive returns reported for 2014/15 and the negative outlook presented in the annual accounts. It was noted that the figures quoted from the accounts related to the funding level, rather than the investment performance. Factors influencing the funding level were noted as increased liabilities, which continued to grow while the number of contributors fell and index linked gilts which were generating a lower than anticipated yield, which increased liabilities.

Discussion took place around the move from a single fund manager to four fund managers in 2009. It was noted that the data showed a stronger performance following the diversification of fund managers and it was generally considered a positive move. Good stock selection in Global Equity and Diversified Growth had driven overall growth.

Members noted that employer contributions were stable, increasing by only half a percent 2016/2017. The actuarial valuation in 2016 meant the fund's investment strategy and asset allocation would be reviewed over the next 12 months. Reassurance was provided that contributions would be kept as stable as possible. Cashing-in growth and a move into index linked or inflation protected investments would be explored as part of the review.

RESOLVED

THAT the presentation on the Global Investment Performance Overview 2014-15 be noted.

(b) [Investment Performance Annual Review 2014-15](#)

Members considered a presentation from the council's investment consultants. The fund was noted as one of the top performers in terms of returns despite being one of the smallest when compared to its peers. Details, presented for the year ending 31 March 2015, included:

- Fund manager's allocations (at the start and end of the year)
- Fund manager benchmarks and fees
- Market performance for the 12-months ending 31 March 2015.
- Fund managers performance last year and over 3 years
- Fund managers performance in increments from three months to five years

Discussion took place surrounding management fees. The recent budget announcements aimed to reduce local authority scheme fees. Those paid by the Isle of Wight fund were considered low relative to the top returns achieved. Any further reductions would need to be looked at carefully to ensure service levels did not decrease. However, there was still a need to review the strategy to show reductions were being investigated.

If the instruction from central government indicated that fees would need to be reduced quickly, passive management would be the only option. It was hoped this would not be necessary and that the use of non-passive managers like Majedie and Newton could be continued.

The fund's compliance with the Myners Principles, the best practice for the governance of pension schemes, was considered. There were two principles the fund was not fully compliant with: performance assessment and responsible ownership.

The fund was partially compliant with performance assessment. In order to become fully compliant, it was expected that the committee should develop a self-assessment process which would be validated by the Pension Board. More robust assessments of advisors were also required as no formal measurement was in place.

Responsible Ownership needed to be considered in terms of the new requirements outlined by the Stewardship code. Ethical investments had been added to the committee's work stream.

The individual fund managers' performances were reviewed.

Majedie had not produced exceptional returns in 2014/15, as generated historically. However, they had still exceeded their benchmark and performed well long term. They had also communicated that a

defensive stance would be taken and it was expected to impact performance.

Newton, though under review, had had a good year. The main issue appeared to be communication and understanding their actions rather than performance.

Schroder Property portfolio had performed well but there were concerns regarding the Bond portfolio which required review. The bonds selected were fixed interest and therefore not matching the fund's liabilities.

Baillie Gifford was not considered a concern. While returns had been below the benchmark over the last three months, the historical data supported targets being met long term. The 2015 half year analysis showed required returns.

RESOLVED

THAT the presentation on Investment Performance Annual Review 2014-15 be noted.

9. [Annual Report and Accounts 2014-15](#)

The Technical Finance Officer presented a draft annual report 2014-15. Much of the content had been reviewed by the committee throughout the year. Included in the report were the draft accounts for the Isle of Wight Pension Fund which would be submitted to the audit committee for approval, as part of the council's accounts, in September 2015. The fund's investment assets had generated a good return of 13.7% following a year of strong economic growth in the UK and US.

Members noted that the audit of the accounts was almost complete and the draft report detailed no errors or recommendations.

The committee was asked to note governance arrangements remained unchanged and to confirm its continued commitment to the Knowledge and Skills Framework Compliance Statements. The fund's governance and communications policies would be subject to review during the next year as a result of new regulations.

Approval of the member and officer training report, included for the first time, was requested. Development of the training plan would continue and it was expected there would be an overlap with the training linked to the Pensions Board.

Discussion took place surrounding ethical investments. A review of responsible investments would be added to the work plan following the suggestion that the committee should set a social, ethical and environmental investment policy.

A named vote was taken the result of which was as follows:

For (7)

Cllrs Reg Barry, Bob Blezzard, David Eccles, Stuart Hutchinson, Gordon Kendall, Daryll Pitcher, Ivor Warlow.

RESOLVED

- (i) THAT the committee's continued commitment to the Knowledge and Skills Framework Compliance policy statements be confirmed
- (ii) THAT the content of the member and officer training report be approved.
- (iii) THAT subject to the completion of the external audit, the accounts for inclusion in the council's accounts and the annual report and accounts for publication be approved.

10. **Performance Review 2014/15**

(a) [Baillie Gifford - Diversified Growth](#)

The committee was provided with an overview of the performance of the Diversified Growth Portfolio, managed by Baillie Gifford. The portfolio was valued at £71,487,556 at the end of June 2015 and had increased by 4.9% during 2014/15.

The economic factors and themes affecting the market were highlighted and the performance by asset class, active currency, absolute return, property and commodities were outlined. Members noted that the majority of asset classes had contributed positively.

Discussion took place surrounding commodities which had not performed positively. The price of platinum and palladium had been affected by a fall in automotive demand; there was less end user demand for car parts due to falls in new car sales in the EU and China.

(b) [Majedie - UK Equities](#)

A summary of the fund's UK equities performance for the year was considered. The portfolio was valued at £114,755,597 at the end of June 2015.

The committee was reminded of Majedie's approach to fund management and that they had voluntarily applied a revenue cap to ensure they only managed an amount of money which could be managed efficiently and actively.

Members were asked to note that whilst performance in recent months showed less favourable returns and a loss of 0.3%, these were relative to the index which had lost far more. A long term strategy was in effect and results were positive when looked at over a three year rolling period. Majedie was confident it could exceed the benchmark long term; however, it was unlikely the exceptional out performance of previous years could be repeated.

Discussion took place regarding the factors which had impacted the market and performance. Among the influences discussed, the changes to oil resulting from an increase in supply and European economic recovery were noted as areas of interest.

11. **[Procedure Rule 22](#)**

A proposal to extend the meeting by up to one hour was proposed and seconded.

RESOLVED:

THAT the meeting be extended by up to one hour.

12. **Performance Review 2014/15**

(a) **[Schroders - UK Bonds and Property](#)**

A performance update for 2014/15 was presented in two parts, focusing on the UK Bond and Property portfolios which were valued at £96.647 million and £26.561 million respectively at the end of March 2015.

Historical market influences and the themes expected to impact the market moving forward were presented. In particular members were asked to note that cross hedging had not performed as expected, due to anomalies in the market. Members were reassured it was very unusual for normal market relationships to breakdown in this way.

Members also sought reassurance that the property portfolio's good performance was sustainable and were advised quantitative easing had impacted performance. Steady growth was expected to continue and the portfolio had been weighted accordingly.

(b) **[Newton - Global Equities](#)**

Members received an overview of the Global Equity fund's annual performance which was valued at £164,311,846 at the end of June 2015.

Short term, quarter by quarter, the fund was not outperforming the benchmark by the required 2%. However, when this was examined long term, an improvement had been shown over the past 3 years and

during the first half of 2015. It was acknowledged there was ground to make up from 2009.

An analysis of performance by industry was reviewed. Clarification was provided that the drop in the market in quarter two was due to Europe, particularly Greece and China negatively affecting the broader market, and debt burden was an issue. While some set-backs were expected it was hoped overall the portfolio had a strong defensive stance.

Ethical constraints were discussed and members were advised that the fund manager would typically be guided by clients rather than imposing its own ethos.

Following the review of Newton's market view and themes influencing the stock selections, members sought reassurance regarding the risk associated with technology. Technology was considered a very volatile area and was being approached carefully. Sustainable businesses that provided good value and had proven performances were key.

Reassurance was provided that the loss of Newton's chief investment officer was not expected to impact the fund performance negatively.

RESOLVED:

THAT the fund manager presentations be noted.

13. [Work Plan](#)

The Technical Finance Officer introduced the work plan and the training programme was discussed.

RESOLVED:

THAT the work plan be noted.

CHAIRMAN