

## ISLE OF WIGHT COUNCIL PENSION FUND

### Report and Accounts for the period ending 31 March 2015

#### Introduction

The Fund's investments have been managed during the year under review by Majedie, Newton, Baillie Gifford and Schroder. The strategic benchmark allocation as at 31 March 2015 was:

Manager	Mandate	Allocation	Control ranges	Benchmarks
Majedie	UK Equities	22.5%	19.5 – 25.5%	FTSE All-Share index
Newton	Global Equities	32.5%	29.5 – 35.5%	MSCI AC (All Countries) World index (net dividends re-invested)
Baillie Gifford	Diversified Growth	15.0%	11.0 – 19.0%	UK Base Rate + 3.5%
Schroder	UK Bonds	22.0%	18.0 – 26.0%	Merrill Lynch Sterling Broad Market
Schroder	UK Property	8.0%	4.0 – 12.0%	IPD Pooled Property Fund indices All Balanced Funds Median
<b>Total</b>		<b>100.0%</b>	-	

Source: Statement of Investment Principles

#### Summary of strategic changes

There have been no strategic benchmark changes over the year. The asset allocation at the start and end of the year is shown in the table below.

#### Asset Allocation

Manager/Asset Class	Actual Asset Allocation				Benchmark Allocation (%)
	Start of Year (£'000)	End of Year (£'000)	Start of Year (%)	End of Year (%)	
Majedie – UK Equity	111,803	116,264	26.1	24.1	22.5
Newton – Global Equity	141,792	171,943	33.1	35.6	32.5
Baillie Gifford – Diversified Growth	66,655	72,004	15.6	14.9	15.0
Schroder – UK Bonds	84,984	96,647	19.9	20.0	22.0
Schroder – UK Property	22,727	26,561	5.3	5.5	8.0
<b>Total</b>	<b>427,960</b>	<b>483,419</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: State Street

Figures may not sum to total due to rounding.

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## Reasons for variance from Benchmark

Despite significant market movements over the period, the Fund’s actual asset allocation was maintained within the control ranges set relative to the strategy benchmark.

The Fund began the year with an overweight to equities and underweight to bonds and property. The Fund has remained overweight to equities and underweight property and bonds over the year. Performance of the diversified growth fund has been below equities, bonds and property and as such has moved from being overweight at the start of the year to being underweight at the end.

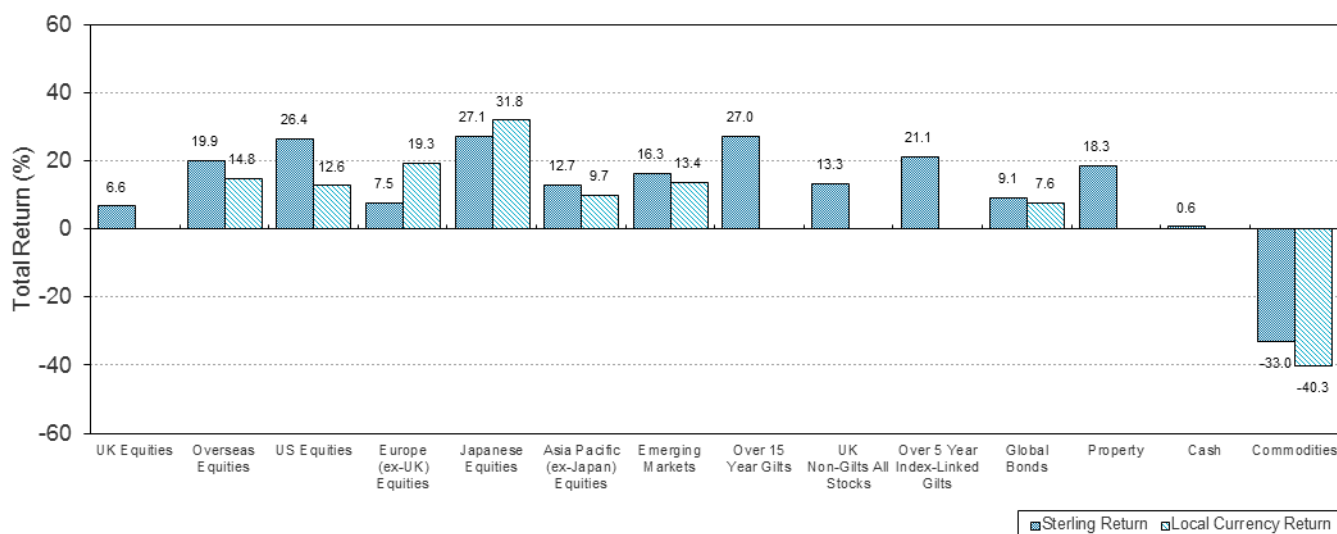
## Market Background

### Investment Markets<sup>1</sup>

Performance was positive both for growth and defensive assets, with long dated government bonds outperforming the equity market. In the UK, economic growth remained strong throughout the year, as the Office for National Statistics revised the real GDP growth rate for 2014 from 2.6% to 2.8%, the fastest calendar year growth rate since 2006. The annual inflation rate fell to zero in February 2015.

Whilst economic growth in the UK has been strong, growth was strongest in the US which led to a US Dollar rally against Sterling and most other currencies. Sterling, however, appreciated against the Euro and the Japanese Yen. Emerging market assets underperformed their developed counterparts as falling commodity prices and the rising US dollar affected a number of countries in this region significantly.

Twelve Month Performance to 31 March 2015



## Equities

At a global level, developed markets as measured by the FTSE World index, returned 18.8% meanwhile, a return of 16.3% was recorded by the FTSE AW Emerging Markets index. European markets returned 7.5% as indicated by the FTSE World Europe ex UK index. UK stocks as measured by the FTSE All Share index returned 6.6%. The FTSE USA index returned 26.4%, while the FTSE Japan index rose to 27.1%.

## Bonds

Returns on UK Government Bonds as measured by the FTSE Gilts All Stocks Index, recorded growth of 13.9%, while long dated issues as measured by the corresponding Over 15 Year Index recorded growth of 27.0%. The yield for the FTSE Gilts All Stocks index fell over the year from 3.0% to 2.0%. The FTSE All Stocks Index Linked Gilts index returned 18.6% with the corresponding 15 year index also exhibiting a positive return of 28.1%.

Corporate debt as measured by the BofA Merrill Lynch Sterling Non-Gilts index returned 13.3%.

<sup>1</sup> Statistics sourced from Thomson Reuters Datastream unless otherwise specified for the 12 month period to 31 March 2015.

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### Property

UK property investors continued to benefit from the improving property market. Over the 12 month period to 31 March 2015, the IPD UK All Property Index returned 18.3% in Sterling terms. The three main sectors of the UK Property market each recorded strong positive returns over the period (retail: 13.4%; office: 22.9%; and; industrial 22.7%).

### Currencies

Over the 12 month period to 31st March 2015, Sterling fell 11.0% against the US Dollar from \$1.667 to \$1.485. Sterling appreciated 3.7% against the Yen from ¥171.69 to ¥178.03, and also appreciated against the Euro by 14.3% from €1.21 to €1.38 over the same period.

### Investment Performance

Manager/Asset Class	Last Year		Last 3 Years	
	Fund (%)	Benchmark (%)	Fund (% p.a.)	Benchmark (% p.a.)
Majedie – UK Equity	7.1	6.6	16.3	10.6
Newton – Global Equity	21.0	18.5	17.0	13.6
Baillie Gifford – Diversified Growth	8.0	4.0	6.2*	4.0*
Schroder – UK Bonds	13.5	14.2	7.7	6.6
Schroder – UK Property	17.7	18.3	10.9	11.4
<b>Total</b>	<b>13.7</b>	<b>12.5</b>	<b>14.0</b>	<b>10.6</b>

Figures shown are based on performance provided by State Street.

\*Since inception (31 October 2013) and sourced from Baillie Gifford

In addition to outperforming the benchmark over the last one and three years, the Fund has also outperformed the benchmark over the longer term. Over the last five years the Fund has produced a total return of 10.7% p.a. compared to the benchmark return of 8.8% p.a.

### Linking the Investment Strategy with the Funding Strategy

Although the investment strategy is set from a long-term perspective, it is formally reviewed every 3 years or so after every actuarial valuation. The Committee reviews the investment strategy to ensure that it remains appropriate for the Fund's liability profile.

The Committee believes that the investment strategy in place provides the Fund with the necessary potential for future returns to meet future benefits while also minimising the risk being taken. The majority of the Fund's investments can be considered liquid to ensure that pensions can be paid as they fall due.

## Custodial Arrangements

Manager	Custodian
Majedie	JP Morgan
Newton	Bank Of New York Mellon
Baillie Gifford	Bank Of New York Mellon
Schroder	BNP Paribas

Source: Investment Managers

Pooled funds have no direct custody arrangements in place, the custodians shown are appointed by the investments managers.

The Committee is responsible for ensuring the Fund's assets continue to be securely held. The Committee reviews the custodian arrangements from time to time and the Fund auditor is authorised to make whatever investigations it deems are necessary as part of the annual audit procedure.

## Investment Manager Fees

Please note that the investment manager fees listed below are the managers' annual management charges. There may be other expenses charged on the Fund's assets, e.g. custodian and administration charges, which would be in addition to these fee scales.

Manager	Asset Class	Fees
Majedie	UK Equities	0.35% p.a. plus 20% of any outperformance above the benchmark return plus 1% on an annualised 3 year rolling basis
Newton	Global Equities	0.25% p.a. on the first £75m 0.20% p.a. on the remainder
Baillie Gifford	Diversified Growth	0.65% p.a.
Schroder	UK Bonds	0.20% p.a.
Schroder	UK Property	c0.5% p.a.*

\*estimated by Schroder

## 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.

## The Myners Review and Code of Best Practice

The Myners principles codify best practice in investment decision making. While they are voluntary, pension fund trustees are expected to consider their applicability to their own fund and report on a 'comply or explain' basis how they have used them.

The principles continue to emphasise the essentials of investment governance, notably the importance of effective decision making, clear investment objectives and a focus on the nature of each scheme's liabilities. The principles also require that trustees include a statement of the scheme's policy on responsible ownership in the Statement of Investment Principles and report periodically to members on the discharge of these responsibilities.

The Committee monitors their investment policies against Myners to ensure that their implementation is in keeping with the revised principles for the Fund. The following table is taken from the Fund's latest Statement of Investment Principles and provides an update on the Fund's compliance with each of the 6 Myners Principles.

Principle	Response on Adherence
<p><b>Principle 1 Effective Decision Making:</b> Administering authorities should ensure:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</li> </ul>	<p><b>Compliant</b> 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. A training needs analysis was undertaken by the Committee in January 2012, resulting in a training plan being developed and delivered for the financial year 2012-2013. Following the appointment of a new Committee in May 2013, the training needs analysis <b>was refreshed to inform a new training delivery plan for 2013-14 and beyond. The Committee hold a one hour training session before every Committee meeting.</b> <b>The Committee</b> 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.</p>
<p><b>Principle 2 Clear objectives:</b> 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.</p>	<p><b>Compliant</b> 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.</p>
<p><b>Principle 3 Risk and liabilities:</b></p> <ul style="list-style-type: none"> <li>• In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</li> <li>• These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</li> </ul>	<p><b>Compliant</b> 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.</p>
<p><b>Principle 4 Performance assessment:</b></p> <ul style="list-style-type: none"> <li>• Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.</li> </ul>	<p><b>Partially Compliant</b> 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.</p>

- 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.
- Advisers are subject to periodic re-tender. The Committee is developing formal processes to measure its own effectiveness.

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**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 needs to consider the implications of the UK Stewardship Code (issued in September 2012) to ensure it is fully compliant with the new requirements.

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**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.

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## **Important Notices**

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Please also note:

- The value of investments can go down as well as up and you may not get back the amount you have invested. In addition investments denominated in a foreign currency will fluctuate with the value of the currency.
- The valuation of investments in property based portfolios, including forestry, is generally a matter of a valuer's opinion, rather than fact.
- When there is no (or limited) recognised or secondary market, for example, but not limited to property, hedge funds, private equity, infrastructure, forestry, swap and other derivative based funds or portfolios it may be difficult for you to obtain reliable information about the value of the investments or deal in the investments.
- Where the investment is via a fund of funds the investment manager typically has to rely on the underlying managers for valuations of the interests in their funds.
- Care should be taken when comparing private equity / infrastructure performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance). Direct comparisons are not always possible.

**Jo Holden**  
**May 2015**