



Committee report

Committee	ISLE OF WIGHT PENSION FUND COMMITTEE
Date	20 MAY 2016
Title	DRAFT YEAR END RESULTS 2015-16
Report of/to	TECHNICAL FINANCE MANAGER

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 2016, including the decrease in net assets of the fund, the investment performance of the four fund managers for the year ended 31 March 2016, the change in membership numbers for the year, and the indicative interim funding level at 31 March 2016.
2. The committee is asked to note the above elements of the results for the year, in advance of receiving the draft annual report and accounts for the year ended 31 March 2016 at the annual general meeting of the fund in July 2016.

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 2015 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 for the financial years 2015-16 and 2016-17, and by 31 July for all financial years thereafter.
4. While 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. Under the Local Government Pension Scheme (Administration) Regulations 2008, 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 2015-16 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 2016 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 2016. This shows a decrease in the net assets of the fund from £479.5 million at 31 March 2015 to £474.0 million at 31 March 2016, a reduction of £5.5 million (1.1 per cent), compared to a £53.5 million increase the previous year. This is directly attributable to the significantly lower performance of the UK and global investment markets during the year compared to the previous year.
11. Contributions received have increased by £606,000 (3.5 per cent) compared to the previous year. Total regular employee and employer contributions increased by £696,000 (4.4 per cent) during the year. However this was offset by a reduction in additional employer contributions for early retirements of £93,000.
12. Benefits payable have decreased by £288,000 (1.5 per cent) in comparison to the previous year; inflationary pension increases have been offset by reductions in lump sums payable on both retirement and death grants this year.
13. Investment income has remained stable during the year, increasing by just £4,000 compared to last year. Included within this figure, dividend income has increased by £190,000 (4.7 per cent), offset by a reduction in income from the bond portfolio of £199,000 (5.5 per cent) reflecting lower market yields as investors seek "safer" investments.
14. Total management expenses have increased by £896,000 (38.0 per cent) during 2015-16, of which investment manager performance fees have increased by £858,000 (61.1 per cent). Information about this increase is provided in paragraphs 19-21 below.

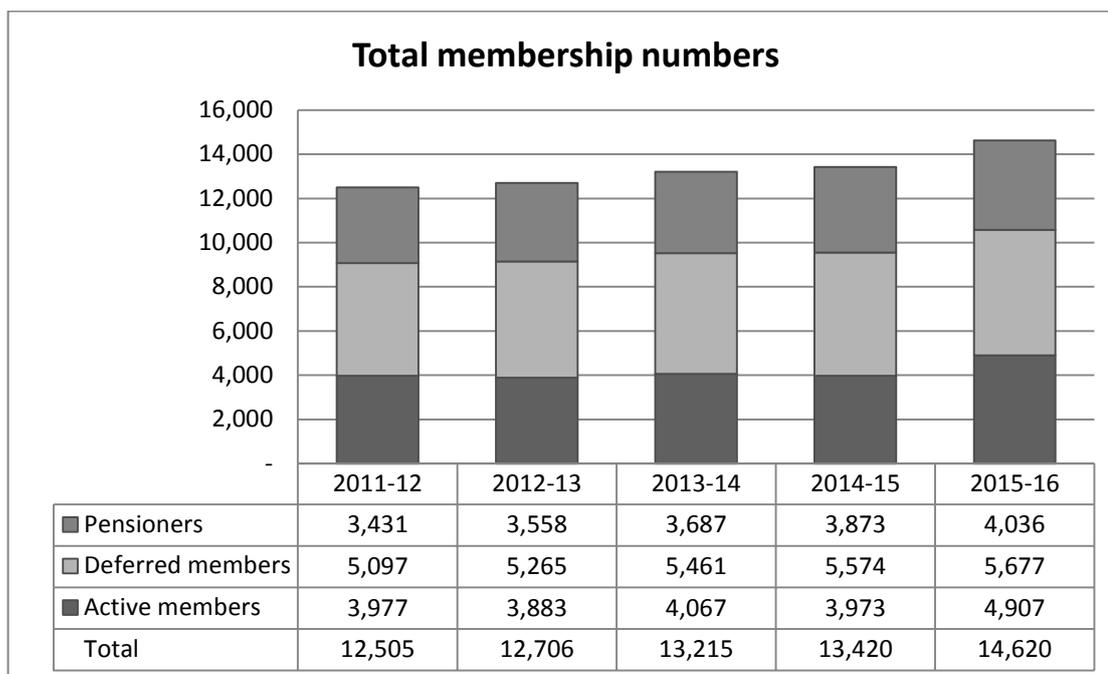
ANNUAL INVESTMENT PERFORMANCE

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 2016. No information is yet available about the ranking of the fund's performance for the year to 31 March 2016 – this is expected from State Street in the first week of June 2016.
16. The market value of the fund's investments as a whole decreased by £2.36 million (0.3 per cent) in the year to 31 March 2016, compared to a combined benchmark increase of 0.6 per cent.
17. In absolute terms, the best fund manager performance came from Schroder, who returned 4.3 per cent for the year for the combined Bonds and Property portfolio (an increase in market value of £5.12 million). Majedie generated the lowest absolute return, negative 7.1 per cent for the year (a decrease of £10.15 million).
18. The global equity portfolio performed comparatively well during 2015-16 and generated a return of 1.5 per cent, which exceeded the benchmark return by 2.5 percent. The UK equity holdings reduced in value by 7.1 per cent which was 3.2 percent worse than the benchmark performance.
19. As reported in paragraph 14 above, investment management fees have increased by £858,000 (61.1 per cent) in the year to 31 March 2016. 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 2015 and 31 December 2015 respectively.
20. 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 ending on 30 June each year.
Over the three years to 30 June 2015, the Majedie portfolio out-performed the benchmark by 6.6 per cent per annum (year to June 2013 - 10.3 per cent, to June 2014 - 6.8 per cent, to June 2015 - 3.3 per cent). As a result performance management fees of £1.21 million were paid to Majedie in the year to 31 March 2016 (£1.04 million in 2014-15).
In the nine month period to 31 March 2016, the portfolio underperformed the benchmark by 2.2% - this will be reflected in the performance fee payable in 2016-17.
21. Performance fees payable to Newton in respect of the global equity portfolio are calculated on a rolling four year period ending on 31 December each year. Over the four year period to 31 December 2015, the Newton portfolio out-performed the benchmark by 3.7 per cent per annum. As a result performance management fees of £1.06 million were paid to Newton in the year to 31 March 2016 (£0.36 million in 2014-15).

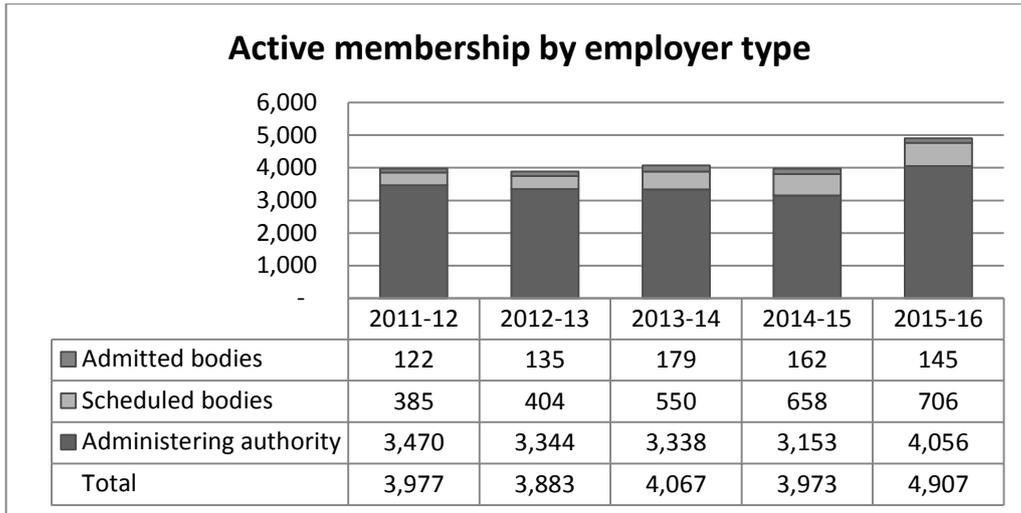
22. Despite generating an increase in market value of £2.21 million (2.1 per cent) for the year, the Schroder bond portfolio under-performed against the benchmark return by 0.3 per cent.
23. The Schroder property portfolio out-performed by 0.4 per cent relative to the benchmark, generating an increase in market value of £2.91 million (12.1 per cent) in the year.
24. Baillie Gifford diversified growth portfolio decreased in value by £1.4 million (1.7 per cent) and failed to achieve the benchmark target by 5.7 per cent.

MEMBERSHIP NUMBERS

25. Total members of the fund at 31 March 2016 were 14,620, an increase of 1,200 since 31 March 2015.
26. 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.

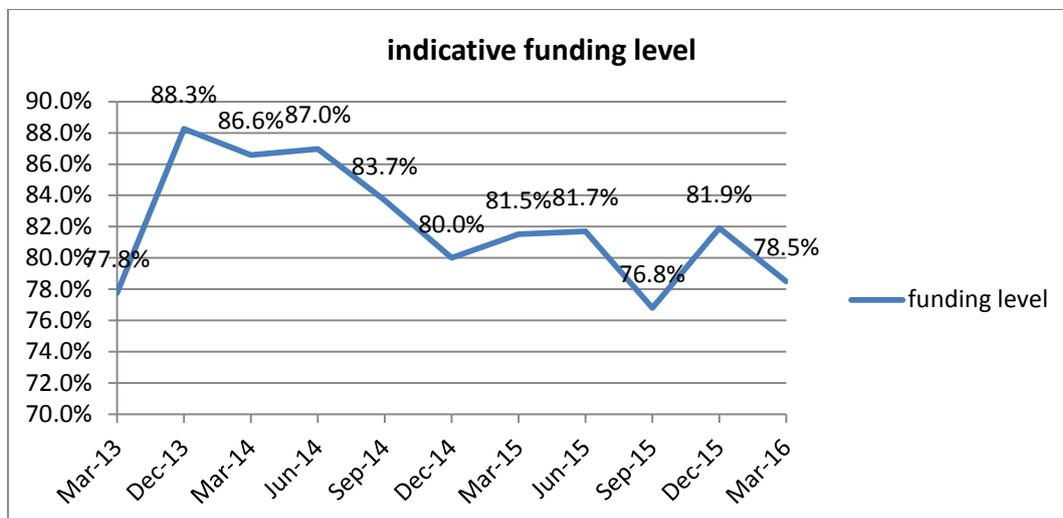


27. Active membership has increased this year, as a result of auto-enrolment within the council and scheduled bodies. The council's proportion of active members has increased this year to 82.7 per cent, compared to 79.4 per cent at 31 March 2015 which can be attributed to auto-enrolment, and the falling membership in admitted bodies (which are not open to new members).
28. 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

29. 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.
30. 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.
31. Appendix 3 contains the Navigator report for the quarter ended 31 March 2016, which shows an indicative funding level of 78.5 per cent, compared to 81.6 per cent at 31 March 2015. Falling real bond yields have increased the value placed on the liabilities although these have been offset by strong assets returns. Although the funding level has improved slightly, the value of the deficit has increased since 31 March 2013, from £111 million to £130 million at 31 March 2016.
32. The graph below shows the movement in indicative funding level since the last formal valuation at 31 March 2013:



33. Any change in the funding level of the fund in the period between formal valuations has no actual impact on the level of contributions payable by the council or other employers, but is indicative of the potential impact of changes in market conditions and financial assumptions which will be reflected in the 2016 triennial valuation, the results of which will be available towards the end of 2016.

CONSULTATION

34. 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 is subject to audit.

FINANCIAL / BUDGET IMPLICATIONS

35. There are no direct financial implications associated with this report.
36. 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 2015.

LEGAL IMPLICATIONS

37. The pension fund annual accounts form part of the council's annual statement of accounts. The Accounts and Audit (England) Regulations 2015 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 for the financial years 2015-16 and 2016-17, and by 31 July for all financial years thereafter.
38. While 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.
39. The audit of the pension fund accounts is scheduled to commence during June 2016 and the external auditors expect to issue their report and opinion on the accounts before 30 September 2016, 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 at its September 2016 meeting, prior to issue of their final report and audit certificate to be published with the council's statement of accounts.
40. The independent report of the external auditor for the pension fund accounts will be presented to this committee in November 2016, and will be published in the pension fund annual report and accounts before the end of December 2016

EQUALITY AND DIVERSITY

41. 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.
42. Initial screening has indicated that there are no specific equality and diversity issues arising from the content of this report.

RECOMMENDATION

43. That the committee receives this report for information, notes the draft financial results for the pension fund for the year ended 31 March 2016, and requests any additional clarification as required.

APPENDICES ATTACHED

44. [Appendix 1](#) – Draft financial results for the year ended 31 March 2016.
45. [Appendix 2](#) – Fund manager investment performance for the year ended 31 March 2016.
46. [Appendix 3](#) – Hymans Robertson Navigator report at 31 March 2016

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