

ANNUAL REPORT OF
THE ISLE OF WIGHT PENSION FUND COMMITTEE
22 JULY 2016

Welcome everyone to the Annual General Meeting of the Isle of Wight Pension Fund Committee, particularly to our employer representatives. It is at this annual meeting that we look back over the previous year's performance.

I am therefore pleased as the Chairman of the Pension Fund Committee to present the annual report of the pension fund committee for the year ended 31 March 2016.

The overall fund value at 31 March 2016 was £474.0 million, reduced from £479.5 million at 31 March 2015.

Investment performance in 2015-16 has not been as good as in previous years, following significant market volatility throughout the year.

The fund's investment assets generated a negative return (a loss) of 0.3% for the year to 31 March 2016, reducing the overall valuation by £7.1 million. The State Street Global Services league tables for 86 local authority pension funds ranks us at the 53rd percentile, compared to the 38th percentile last year. The weighted average return for the 86 LGPS funds was a positive 0.2%. Although we have fallen in the rankings for the current year, we remain in the top 10 performing funds for three- year annualised returns, and the top 15 for five- year annualised returns.

Elaine Packer, from our performance analysts State Street Global Services, and Jo Holden, from our investment consultants Mercer Limited, will be making presentations to the meeting on the overall performance of the fund's investment assets for the year to 31 March 2016. This will provide the context for presentations from three of our fund managers later in the meeting, where they will give an overview of the specific performance of their portfolios, and the key issues impacting on that performance. All advisers and fund managers have been asked to consider the implications for the fund of the results of the recent EU referendum and any future "BREXIT".

During the last financial year, the committee received a number of presentations from officers in respect of the pooling of LGPS investments, following the Chancellor's summer budget 2015. The fund joined the ACCESS group (A Collaboration of Central, Eastern and Southern Shires) and has been working with the other 10 funds in the group, at officer and elected member levels, to comply with the requirement for a submission made on 15 July 2016. The Technical Finance Manager will be delivering a short presentation later in the meeting to provide an overview of this topic to date, and the next steps to be taken.

The committee has also commissioned work from the investment consultants and the fund's actuaries, Hymans Robertson LLP, to assess the potential impacts of a change in strategic investment asset allocation on the results of the triennial valuation of the fund, and conversely the implications of the potential results of the valuation on any future investment strategy. This work is underway, and will be reported back to the committee as the valuation progresses. Peter Summers and Craig Alexander from Hymans Robertson will present a short overview of the valuation timetable later on in the meeting.

During the year ended 31 March 2016, the local Pension Board (as required by the Public Service Pensions Act 2013) met three times. At each meeting the board reviews decisions made by the pension fund committee at its previous meeting, to ensure they have been made in accordance with the fund's internal policies, and wider legislation and regulations. There have been no issues arising from these reviews. The Board has commenced a programme of reviews of the strategic documents and policies required by the fund to ensure proper governance, which will continue in the next twelve months.

The key focuses for the committee and the board for the next twelve months will be the results of the valuation and the impacts on contribution rates for employers and the overall investment strategy; the continuing collaborative development of the pooled investment solution – including planning for the transition of the fund's assets into suitable pooled vehicles; and the continued review of the fund's governance arrangements through the review of strategic documents and policies.

The annual report and accounts for the year to 31 March 2016 will be presented to the meeting, which sets out the overall financial activity of the fund. It also includes the latest Funding Strategy Statement, the Statement of Investment Principles and the Governance Compliance Statement, which have all been reviewed and approved by the committee.