



# Minutes

Name of meeting	<b>THE ISLE OF WIGHT PENSION FUND COMMITTEE</b>
Date and time	<b>FRIDAY, 22 JULY 2016 COMMENCING AT 10.00 AM</b>
Venue	<b>COUNCIL CHAMBER, COUNTY HALL, NEWPORT, ISLE OF WIGHT</b>
Committee Members	Cllrs Ivor Warlow (Chairman), Reg Barry, Bob Blezzard, David Eccles, Stuart Hutchinson, Gordon Kendall
Representatives	Steve Milford – Unison Representative Christine Shaw (Island Roads) – Employer Representative
Board Members	Anne Wildeman and Paul Wilkinson
Employers	Theresa Dunford – (Cowes Harbour Commission), Penny McCoy – (Yarmouth Harbour Commission), Estelle Thomas – (Isle of Wight Society for the Blind) and Kevin West – (Isle of Wight College)
Independent Advisor	Elaine Packer – (State Street) and Jo Holden – (Mercer)
Actuary	Craig Alexander and Peter Summers – (Hymans Robertson)
Fund Managers	Simon Hazlitt and James de Uphaugh – (Majedie - UK Equities) David Moylett and Jeff Munroe – (Newton – Global Equities) Geoff Day and Olivia Pember (Schroders – Bonds and Property),
Officers	Jon Baker - Democratic Services Officer Matthew Collier - Pension and Payroll Lead Officer Jo Cooke - Pension Fund and Treasury Management Accountant Jo Thistlewood - Technical Finance Manager
Apologies	None

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**5. Chairman’s Introduction.**

The Chairman welcomed everyone to the meeting and presented the committee’s Annual Report ([Link Here to Written Report](#))

**6. [Declarations of Interest](#)**

Cllr Blezzard declared a personal interest as he was a recipient of a pension from the Isle of Wight Pension Fund as a former employee.

Cllr Kendall declared a personal interest as he was a recipient of a pension from the Isle of Wight Pension Fund as a former employee as well as a contributing member of the Isle of Wight Pension Fund.

Cllr Barry declared a personal interest as he was a member of the Isle of Wight Pension Fund scheme.

Cllr Warlow declared a personal interest as he was a contributing member of the Isle of Wight Pension Fund scheme.

7. **Public Question Time**

There were no public questions received.

8. **Global Investment Performance Review**

Elaine Packer from State Street Performance Services presented to the committee the Pension Fund 2015/16 Investment Performance Review.

The report took into account the Market Environment, Total Fund Performance versus Strategic Benchmark, Manager Performance and Total Fund Performance versus Peer Group.

The Local Authority Pension Fund Universe contained 88 funds with an aggregate fund value of £207bn. The average fund size was £2.4bn, although the Isle of Wight fund was only £481m. On average an LA fund had 11 investment portfolios whereas the Isle of Wight had five. The Isle of Wight fund was managed actively, while the average fund had an average of 25% managed passively, and the Isle of Wight fund was close to the average equity investment of 60%.

Out of the five portfolios, three had recorded gains, with global equities gaining the most at £4m. However, UK Equities had recorded a loss of £10.1m, meaning the total fund recorded a loss of £3.3m.

Overall, it had been difficult year for markets and a disappointing year for the fund with negative absolute and relative returns and below benchmark performance in UK Equities (Majedie) and Pooled Multi Asset (Baillie Gifford).

the total Fund outperformed its benchmark over all medium and longer term periods shown with impressive peer group rankings and long term absolute returns all well ahead of inflation. The average fund had underperformed its benchmark by 0.1% per year over the last decade with the Isle of Wight by 1% per year.

9. **Annual Investment Report**

Jo Holden, the Head of Local Authority Investment Business for Mercer Limited provided a presentation on the performance of the Pension Managers.

The Fund's strategic asset allocation was 22.5% UK Equities, managed by Majedie; 32.5% Global Equities, managed by Newton; 22% UK Bonds and 8%

UK Property, both managed by Schroder; and 15% Diversified Growth, managed by Baillie Gifford.

It was noted that over the last five years the Fund had produced a total return of 8.6% per year, compared to the benchmark return of 7.2%.

With regard to fees, it was noted that owing to Newton's very good performance over the last three years a performance fee had been paid in addition to an asset management fee.

With regard to the impact of the UK leaving the European Union following the 2016 referendum (Brexit), the committee was advised that whilst there were no certainties, there was some worry about inflation, currency hedging, gilt yields and return expectations.

#### 10. [Annual Report and Accounts 2015-16](#)

The Technical Finance Manager presented the draft annual report and accounts for the Isle of Wight Pension Fund for the year ended 31 March 2016, which was still subject to external audit. The accounts contained within the annual report formed part of the statement of accounts of the Isle of Wight Council, as administering authority for the fund, and would be approved by the Audit Committee on 26 September 2016. Once the audit of the pension fund accounts had been completed, the annual report would be published on the council's website.

As well as being requested to approve the draft annual report and accounts, the committee was also asked to confirm the Knowledge and Skills Framework Compliance Statements, contained on page 52 within Appendix 1 of the report, confirming their agreement to the statements around committee attendance and training events.

The committee noted the grateful thanks to Miss Jo Cooke, the Pension Fund and Treasury Management Accountant for her work in preparing the report and dealing with the auditor. No significant comments had been received and an unqualified audit opinion was anticipated.

The committee noted that the Pension Board would be reviewing the Communications Policy Statement and Governance Policy Statement over the next twelve months and would make recommendations for changes to those statements to the Pension Fund Committee.

A question was asked whether the fund should form its own social, environmental and ethical investment policy which could then be adhered to by the fund managers, rather than relying on the fund managers to operate within their own policies.

The committee was advised that this would be looked at as part of the forthcoming review of the fund's investment strategy. However members were reminded that fund performance should not be compromised through restricted investment strategies, as the main priority was to ensure future benefit payments were affordable.

A proposal was made and seconded that a small amendment be made to recommendation two of the report where the word “satisfactory” was added before the words “external audit”.

Following a named vote, the following was:

**RESOLVED:**

- I. THAT the committee’s continuing commitment to the Knowledge and Skills Framework policy statements be confirmed.
- II. THAT the content of the member and officer training report be agreed.
- III. THAT the draft annual report and accounts, subject to the completion of the satisfactory external audit be approved ((a) The accounts for inclusion in the council’s accounts and (b) The annual report and accounts for publication)

**Named Vote**

For (6) - Cllrs Reg Barry, Bob Blezzard, David Eccles, Stuart Hutchinson, Gordon Kendall and Ivor Warlow

Against (0)

Abstain (0)

11. **Actuarial Valuation Update**

Craig Alexander and Peter Summers from Hymans Robertson presented a report on current status, progress and planning approach with regard to the 2016 valuation.

With regard to Brexit and the implications for the pension fund, members were advised that expected investment returns were totally unknown as the result of the EU Referendum had only been a few weeks beforehand.

The committee was advised that there was always a degree of uncertainty with pension investments and the Brexit outcome had not made predicting future investment outcomes any easier. Over the course of time should more clarity emerge then assumptions and models may be revised and refined.

Until the impact of Brexit does become apparent, the valuation would carry on as planned, although any significant event on a national or global scale would always be taken into consideration.

12. **Pooling of Investments Update**

The Technical Finance Manager reminded members of the history of the pooling agenda, following the summer 2015 Budget when the Chancellor stated that he would be working with Local Government Pension Scheme

funds to look at potential for saving investment manager fees without compromising the fund's performance.

As a result, groups of funds around the country had been working together to make proposals. A national working group known as Project Pool, collected data to recommend the best way forward was for multi asset pools of regional or likeminded funds to work together with a reasonable scale of at least £25 billion worth of assets to benefit all of the funds.

The Isle of Wight Pension fund joined the ACCESS group (A Collaboration of Central Eastern and Southern Shires) – a group of 11 funds, with combined assets of £35.5bn; of which the Isle of Wight fund contributed £0.5bn.

The comprehensive final submission of the ACCESS joint pooling proposal was submitted to Government on 15 July 2016 in accordance with the submission deadline and would be made public on the council's website in due course.

The structure of the pooling arrangements would be known as a collective investment vehicle and each of the 11 funds would retain their investment strategy and liabilities, therefore the Isle of Wight Pension Fund Committee would retain the final decision on what the investment strategy would be. The pool however would decide which fund managers to use, although the Isle of Wight Pension Fund Committee Chair would form part of the 11 person joint elected members committee, therefore providing the island with an equal voice in making decisions based on officer and pool advisors' recommendations.

From the fund's point of view, pooling would give the benefits of reduced fees, access to a broader range of assets within its investment strategy, hopefully increasing returns and reduce risks in the long term.

It was noted that all pools should be operational by 1 April 2018. The committee would continue to receive reports on the progress of setting up the pools and officers would be ready at all times to respond to any queries.

### 13. **Fund Managers' Review of Performance 2015-16**

#### (a) [Schroders – UK Bonds and Property](#)

Geoff Day and Olivia Pember from Schroders presented the performance update for 2015/16 in two parts, which focused on the UK Bond and Property portfolios which were valued at £98.856 million and £29.580 million respectively at the end of March 2016.

In summary, the outlook for the coming year with regard to UK Bonds was positive.

With regard to Property, for the 12 month period to 30 June 2016, distribution yield was 3.3% and was expected to rise to 4.5% within two years as current non income producing projects completed.

Regarding the impact of Brexit, an increase in uncertainty for the UK economic outlook was expected.

**14. 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.

**15. Fund Managers' Review of Performance 2015-16**

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

Members received an overview of the Global Equity portfolio annual performance from David Moylett and Jeff Munroe from Newton which was valued at approximately £199 million at 21 July 2016.

The value of the fund had far exceeded expectations, generating a return of 12.8% per year since inception (August 2008), although it was unlikely that such very high levels would be maintained moving forward.

Highlighting volatility, over the last 12 months, emerging markets had been the worst performers to December 2015, but the best since January 2016.

Positive performing areas included IT, Financials and Consumer Staples, whereas those areas not performing so well included Utilities, Telecommunications and Health Care.

With regard to Brexit currency volatility was likely to continue whilst sterling remained weak.

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

Simon Hazlitt and James de Uphaugh of Majedie provided a summary of the fund's UK equities performance for the year and members were advised that the portfolio was valued at £108.844 million at the end of June 2016.

The committee was advised that over the last 12 months, results had been disappointing, although performance was expected to improve throughout the 2016 – 2017 financial year.

Investment in Oil and Miners as well as in the banks had not performed well for the first six months. However over a long term period there were good indications that these investments would recover and provide dividends.

16. **Members Question Time**

There were no written questions received by members.

CHAIRMAN