

Public Document Pack



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Agenda

Name of meeting	ISLE OF WIGHT PENSION FUND COMMITTEE
Date	WEDNESDAY 2 JUNE 2021
Time	10.00 AM
Venue	COUNCIL CHAMBER, COUNTY HALL, NEWPORT, ISLE OF WIGHT
Members of the committee	All Members Steve Milford (Employee Representative) (Non-Voting) Vacancy (Employer Representative) (Non-Voting) Democratic Services Officer: Megan Tuckwell democratic.services@iow.gov.uk

1. **Minutes** (Pages 7 - 10)

To confirm as a true record the Minutes of the meeting held on 28 April 2021.

2. **Declarations of Interest**

To invite Members to declare any interest they might have in the matters on the agenda.

3. **Public Question Time - 15 Minutes Maximum**

Questions may be asked without notice but to guarantee a full reply at the meeting, a question must be put including the name and address of the questioner by delivery in writing or by electronic mail to Democratic Services at democratic.services@iow.gov.uk, no later than two clear working days before the start of the meeting. Therefore the deadline for written questions will be Thursday 27 May 2021.



Details of this and other Council committee meetings can be viewed on the Isle of Wight Council's Committee [website](#). This information may be available in alternative formats on request. Please note the meeting will be audio recorded and the recording will be placed on the website (except any part of the meeting from which the press and public are excluded). Young people are welcome to attend Council meetings however parents/carers should be aware that the public gallery is not a supervised area.

4. **Introduction**

Members of the Committee to receive introductory information on the Local Government Pension Scheme (LGPS) and the Isle of Wight Council Pension Fund (IWCPF), including an overview on governance, administration, investment, funding (including preparation for the 2022 valuation) and the future workplan.

- (a) A Brief Guide to the LGPS (April 2021) (Pages 11 - 22)
- (b) IWCPF Objectives 2018-19 (Pages 23 - 26)

5. **Investment Position** (Pages 27 - 40)

To note the fund's investment performance for the period ending 31 March 2021.

6. **Indicative Funding Level as at 31 March 2021** (Pages 41 - 46)

To note the fund's indicative funding level as at 31 March 2021.

7. **Draft Financial Results 2020-21** (Pages 47 - 48)

To receive and approve the draft financial results 2020-21.

8. **Items circulated for Members Attention**

To note that in between committee meetings, information will be circulated by the Technical Finance Manager for members' information. Such items will be listed on each formal committee agenda as a reminder, with key topics included on the agenda for more in-depth discussion. As this is the first meeting with newly selected members, no items are reported below.

9. **Members' Question Time**

To guarantee a reply to a question, a question must be submitted in writing or by electronic mail to democratic.services@iow.gov.uk no later than 10.00am on Friday 28 May 2021. A question may be asked at the meeting without prior notice but in these circumstances there is no guarantee that a full reply will be given at the meeting.

CHRISTOPHER POTTER
Monitoring Officer
Monday, 24 May 2021

Interests

If there is a matter on this agenda which may relate to an interest you or your partner or spouse has or one you have disclosed in your register of interests, you must declare your interest before the matter is discussed or when your interest becomes apparent. If the matter relates to an interest in your register of pecuniary interests then you must take no part in its consideration and you must leave the room for that item. Should you wish to participate as a member of the public to express your views where public speaking is allowed under the Council's normal procedures, then you will need to seek a dispensation to do so. Dispensations are considered by the Monitoring Officer following the submission of a written request. Dispensations may take up to 2 weeks to be granted.

Members are reminded that it is a requirement of the Code of Conduct that they should also keep their written Register of Interests up to date. Any changes to the interests recorded on that form should be made as soon as reasonably practicable, and within 28 days of the change. A change would be necessary if, for example, your employment changes, you move house or acquire any new property or land.

If you require more guidance on the Code of Conduct or are unsure whether you need to record an interest on the written register you should take advice from the Monitoring Officer – Christopher Potter on (01983) 821000, email christopher.potter@iow.gov.uk, or Deputy Monitoring Officer - Justin Thorne on (01983) 821000, email justin.thorne@iow.gov.uk.

Notice of recording

Please note that all meetings that are open to the public and press may be filmed or recorded and/or commented on online by the council or any member of the public or press. However, this activity must not disrupt the meeting, and if it does you will be asked to stop and possibly to leave the meeting. This meeting may also be filmed for live and subsequent broadcast (except any part of the meeting from which the press and public are excluded).

If you wish to record, film or photograph the council meeting or if you believe that being filmed or recorded would pose a risk to the safety of you or others then please speak with the democratic services officer prior to that start of the meeting. Their contact details are on the agenda papers.

If the press and public are excluded for part of a meeting because confidential or exempt information is likely to be disclosed, there is no right to record that part of the meeting. All recording and filming equipment must be removed from the meeting room when the public and press are excluded.

If you require further information please see the council guide to reporting on council meetings which can be found at <http://www.iwight.com/documentlibrary/view/recording-of-proceedings-guidance-note>

All information that is recorded by the council is held in accordance with the Data Protection Act 2018. For further information please contact Democratic Services at democratic.services@iow.gov.uk

Arrangements for Submitting Oral Questions at Meetings of Council and Cabinet:

The front desk “opens” for public wishing to attend the meeting half an hour before the meeting.

In the circumstances that a member of the public wishes to ask an oral question, they should approach the front desk and notify them of their intention. They will be given a form to complete which details their name, town/village of residence, email address and the topic of the question (not the question in full, unless they wish to provide this).

These forms will be numbered in the order they are handed back.

The time for registering questions will be for a 20 minute period (up to 10 minutes prior to the start of the meeting). After that time expires the forms will be collected and given to the Chairman of the meeting.

If time allows after dealing with any written questions, the Chairman will then ask those who have submitted a form to put their question. These will be in the order they were received. As the subject matter is known, the Chairman should be able to indicate which member will reply. If time permits the Chairman may accept further questions.

The option to ask a supplementary question will be at the Chairman’s discretion.

Once the defined period of time allowed for questions has passed (and assuming the Chairman has not extended this) then all remaining oral questions are left unanswered.

No oral question will receive a guaranteed written response, unless the member responding indicates as such.



Minutes

Name of meeting	ISLE OF WIGHT PENSION FUND COMMITTEE
Date and Time	WEDNESDAY 28 APRIL 2021 COMMENCING AT 10.30 AM
Venue	VIRTUAL (MS TEAMS)
Present	Cllrs V Churchman (Vice chairman in the chair), B Abraham, D Andre, A Garratt, and G Perks S Milford (Scheme Member Representative) (Non-Voting)
Also Present	Barbara Milton (Board Member)
Officers Present	Marie Bartlett, Jo Cooke, Jo Thistlewood
Apologies	Cllr P Brading

72. **Minutes**

RESOLVED:

THAT the minutes of the meeting held on 3 March 2021 be confirmed.

73. **Declarations of Interest**

Cllr Debbie Andre declared an interest in respect of Minute Item 81 as she was a governor of the Cornerstone Federation.

74. **Public Question Time**

No public questions were received.

75. **Report from the Local Pension Board**

The Technical Finance Manager advised the Committee that the Local Pension Board minutes circulated were still in draft form as they had not been signed off by the board although the board agreed they could be circulated.

It was highlighted that the Hymans Robertson carbon footprint report had been commissioned to plan for future environmental social and governance policy. The list of policies identified for review over the next 12 months has been agreed by the Board. It was noted that the fund's Administration Strategy was overdue for review, but this had been agreed to be deferred pending the confirmation of potential changes arising from the good governance.

The job profile for a governance support officer to support the Technical Finance Manager has been sent to the fund's governance advisors, along with role profiles for board members, with a view to expanding the size of the board, and an independent Chairman for the board.

It was confirmed that the Governance support officer role would be funded through the Pension Fund, and that the current terms of reference for the Local Pension Board allowed for either six or eight members on the board.

RESOLVED:

THAT the board minutes be noted.

76. Legislation/ Regulation Update

The Technical Finance Manager advised that previously bulletins from the Local Government Association had been circulated to members between meeting, however in future a report will be presented at each meeting highlighting the key issues.

RESOLVED:

THAT the LGA and Legislation update be noted.

77. 2020-21 Year-End Planning

The Technical Finance Manager advised that the timetable set out in the report provided dates for specific items to be signed off by the Committee in 2021.

RESOLVED:

THAT the timetable for the preparation, approval and publication of the pension funds annual report and accounts for the year ended 31 March 2021 be noted.

78. Members' Question Time

No questions were received.

79. Items circulated for Members Attention

Various items had been circulated to the Committee linking to the activity as reported in the legislation update, a number of webinars had been undertaken with slides and recordings being shared.

RESOLVED:

THAT the items circulated for members attention be noted.

80. Exclusion of the Public and Press

RESOLVED:

THAT the public and press be excluded.

At the conclusion of the discussion, members adjourned for a 5-minutes comfort break.

81. **Employer Update**

The Technical Finance Manager advised the Committee on discussions with employers regarding future contributions, these conversations were ongoing and the Section 151 Officer was kept informed.

RESOLVED:

THAT the report be noted.

82. **ACCESS Update**

The Technical Finance Manager provided the Committee with an update following the ACCESS joint committee meeting in March 2021. The Chairman advised that the additional resource to increase the size of the ACCESS Support Unit was justified and stated her belief that ACCESS was one of the more successful pools set up under the legislation.

RESOLVED:

THAT the report and appendices be noted.

The Committee expressed thanks to the Technical Finance Manager for the work that had been undertaken in relation to the Pension Fund. The Technical Finance Manager reciprocated with her thanks to the committee members for their support and commitment to the pension committee over their period of office.

CHAIRMAN

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A Brief Guide to the

Local Government Pension Scheme

Introduction from Catherine McFadyen

The Local Government Pension Scheme (LGPS) plays a crucial role in our local communities, delivering high quality pensions and ensuring good living standards in retirement for local government workers and their dependants. The LGPS is funded and administered locally and Hymans Robertson is proud to have been advising and supporting local authorities in running the Scheme for 100 years.

As with other areas of local government, the LGPS has been subject to a period of rapid change. Since 2014, the Scheme has seen the introduction of a new style of benefits, a rapid expansion of the number of employers, the introduction of investment pools for funds in England and Wales (E&W), as well as being impacted by legal rulings and changes in Government policy. Local funds have been resilient in adapting to that change and have taken on new responsibilities despite the backdrop of COVID-19, leading to financial pressure and squeezed resource.

The eight LGPS investment pools are now well established. Most assets have now transitioned from local Funds into the Pools and governance structures are now in place.

In March 2021, The Pensions Regulator (TPR) signaled an intention to create a single code of practice for all the pension schemes it regulates, including the LGPS. The new code is subject to consultation but is expected to begin implementation in late 2021 and will replace the code that currently applies to the LGPS. The single code will introduce new areas of focus for the LGPS, including protecting members from scams, which, when considered alongside cyber security, shows TPR will expect all schemes to have robust processes in place to protect members.

Local stakeholders are also demanding more. LGPS members have expectations of a modern, streamlined and supportive service, LGPS employers require more fund officer time, while external groups seek to place environmental, social and governance issues at the heart of investment decisions.

We were delighted to assist the England and Wales Local Government Pension Scheme Advisory Board (SAB) carry out an important piece of work known as the Good Governance Project, which sought the views of LGPS practitioners, committee and pension board members and advisers on ways in which the governance structures and practices of the LGPS might be improved to respond to many of these challenges.

At the time of this guide being published, the E&W SAB's Good Governance recommendations have been submitted to government for them to take forward. Over the next year, LGPS funds will be working to put new arrangements in place so they are ready for when the guidance is formally issued.

This guide is aimed at elected members, Scheme member and employer representatives, who sit on pension committees or panels and exercise a decision-making function in respect of LGPS funds, and members of local pension boards whose role is one of assisting and oversight. It will be particularly useful to committee and board members who are new to the role of dealing with an LGPS pension fund. It is also useful for those who are already involved in pension committees or boards and are looking for a summary of the important role that they play in the 'stewardship' of their funds. This guide can help by familiarising you with some key areas and providing background on -

- Understanding of the Local Government Pension Scheme (LGPS) and how it is set up.
- The main areas of risk involved in running your fund and the management of these risks.
- The types of decisions that you may be asked to make or how you might provide assistance to the administering authority.

With 100 years' experience of local government pension funds, Hymans Robertson has a long history of working with local authorities. We currently provide advice to over half of the LGPS funds in the UK. We use this extensive experience to help make life easier for those, like you, who are responsible for the successful running of your funds.

I hope you find this brief guide helpful.

Catherine McFadyen

Catherine McFadyen

Head of LGPS Consulting

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Basics of the Local Government Pension Scheme (LGPS)

The LGPS is a **defined benefit, funded** occupational pension scheme, set up under regulations set by Parliament (Scottish Ministers in Scotland and the Northern Ireland Assembly in Northern Ireland). The pension scheme provides pension benefits for those who work in the local authority arena and is open to employees of local government as well as a wide range of other public service employers e.g. charities, private sector contractors. The pension benefits under the LGPS are set nationally and are very secure as they are written in statute.

Separate Regulations for administration, governance and investments apply in England & Wales, Scotland and Northern Ireland, but the scheme is broadly similar in each country or province.

Although the LGPS is a nationwide scheme it is administered locally and is made up of many standalone funds – normally administered by local authorities. It is the management and governance of these standalone funds that we consider in this booklet.

Key LGPS Facts England and Wales

- Made up of 88 regional funds
- Around 6.1 million members
- Total fund assets are £272.4 billion
- Total expenditure on benefits is over £12.7 billion p.a.

(Source: MHCLG LGPS Funds: England and Wales statistical release 2019/20)

Key LGPS Facts Scotland

- Made up of 11 regional funds
- Over 0.55 million members
- Total fund assets of more than £48 billion
- Total expenditure on benefits is around £1.4 billion p.a.

(Source: Scottish Scheme Advisory Report 2018/19)

Definitions

CARE

From 1 April 2014, the LGPS in England and Wales (2015 for the other regions) became a Career Average Revalued Earnings based scheme with pension accruing each year based on scheme members' earnings over their career. Previously the benefits under the scheme were based on a formula linked to length of service and pensionable pay on leaving.

Funded

This means that a fund is built up from employee and employer contributions, investment income and growth in order to meet future benefit payments as they fall due as opposed to being an unfunded or pay-as-you-go scheme, like most other public service schemes.

Admission bodies

Employers that have applied to participate in the scheme under an admission agreement – usually employers such as charities or contractors. Admission bodies usually provide a public service which is closely linked to the functions of a local authority.

Who's who in the LGPS

The main parties involved in the management and administration of the LGPS are:

The administering authority

Usually a council – it has the responsibility of managing all aspects of the fund.

Ministry of Housing, Communities and Local Government (MHCLG)

The central government department, which has overall responsibility for the strategic management and policy making in relation to the LGPS in England and Wales. The Scottish equivalent is the Scottish Public Pensions Agency, whilst the Northern Irish version is the Department of the Environment.

Officers

Employees of the administering authority whose role it is to carry out the day-to-day administration and management of the fund on behalf of the elected members. The actual day-to-day administration may be carried out by an in-house team, an external contractor or a local authority shared service.

The pension committee (or equivalent)

Primarily made up of elected members from the Council. Most Committees have some delegated authority from the administering authority, although some are advisory only. The committee usually has overall responsibility for the fund and provides a similar function to that of trustees in private sector pension schemes.

The local pension board

Made up of member and employer representatives whose aim is primarily to assist the administering authority in the governance of the scheme. Unlike the pension committee, local pension boards have no direct delegated decision-making responsibilities.

Advisers

There are many experts whose assistance you may need to rely upon. The list includes auditors, lawyers, investment managers, actuaries, investment, governance and benefit consultants and custodians.

The Pool (England and Wales only)

There are eight LGPS pools. Each LGPS fund in England and Wales is a member of one of these Pools. Going forward the Fund's pool will be its primary route to implementing its investment strategies.

Other bodies

Other groups that you will come across include LGA (Local Government Association), who provide guidance on the technical aspects of the LGPS, and CIPFA (Chartered Institute of Public Finance and Accountancy) who provide support on reporting and accountancy aspects.

The Pensions Regulator

The Regulator is responsible for regulating the governance and administration of pension schemes and has published a code of practice for public service schemes to adhere to.

Scheme Advisory Board (SAB)

A national body representing employers and scheme members, which works with Government and other stakeholders to encourage best practice, increase transparency and coordinate technical and standards issues. Separate SABs exist for the schemes in England & Wales, Scotland and Northern Ireland.

Scheme Employers

Local authorities, public service organisations and private contractors providing an outsourced service.

Scheme Manager

The body responsible for running a public-sector pension scheme. In the LGPS, each administering authority is a scheme manager.

Scheme Members

Active, deferred or pensioner members within the LGPS.

Your own officers will be able to provide you with details of the people involved in your fund, and your governance arrangements.

What does the role of the committee entail?

The main decisions that members of a pension committee are likely to have to make are as follows.

Agreeing the fund's objectives and investment beliefs

- Monitoring progress of the fund's progress towards its objectives
- Using the beliefs to form the fund's investment strategy

Deciding upon an appropriate investment strategy and structure for your fund

- Considering advice from your investment advisers and the fund's Actuary
- Identifying and managing the fund's key risks
- Setting policy on environmental, social and governance ("ESG") related matters, including climate change

In relation to the management of your fund's assets

- Liaising with your pool on investment options (England and Wales only)
- Potentially selecting new investment managers (Northern Ireland and Scotland)
- Monitoring performance over time of decisions delegated to other parties (All)

Pooling LGPS Investments

Every fund in England and Wales invests a proportion of its assets through one of eight investment pools and the intention is that over time, the majority of assets will be invested in this way.

It is the role of each Administering Authority (usually through the Pension Committee) to set its own objectives, beliefs and strategic asset allocation, as well as setting the fund's policy on Environmental, Social and Governance matters. The responsibility for which investment managers the money is invested with sits largely with the Pool.

The Pension Committee must monitor its own fund's arrangements and ensure the Pool is performing as required.

Your officers will be able to tell you more about the pool in which your fund participates and the current status and timetable of your pooling arrangements.

At the time of writing, there are not formal requirements for pooling in Scotland.

Dealing with your fund actuary

- Ensuring that you have an appropriate funding strategy for setting contributions
- Agreeing contribution rates at the triennial valuation
- Monitoring the progress of the funding level between valuations

Ensuring that all relevant documentation is in order

- Reviewing and updating the mandatory documents
- Reviewing administering authority policies as appropriate
- Approving your pension fund accounts in time

Being responsible for the risk management of the fund

- Maintaining an up-to-date risk register
- Ensuring that appropriate policies are in place to deal with the admission of employers into the fund, and the departure of employers from the fund
- Ensuring the smooth administration of the fund for members and employers
- Keeping an eye out for possible long-term risks e.g. how your longevity experience is changing over time

Mandatory Documents



- Pension fund annual report
- Funding Strategy Statement
- Investment Strategy Statement (or Statement of Investment Principles for funds outside England and Wales)
- Governance compliance statement
- Communications Strategy
- Pension Administration Strategy

Investment Decisions

One of the pension committee’s main tasks include setting the fund’s objectives and investment beliefs, as set out within the requirements of the Investment Regulations.

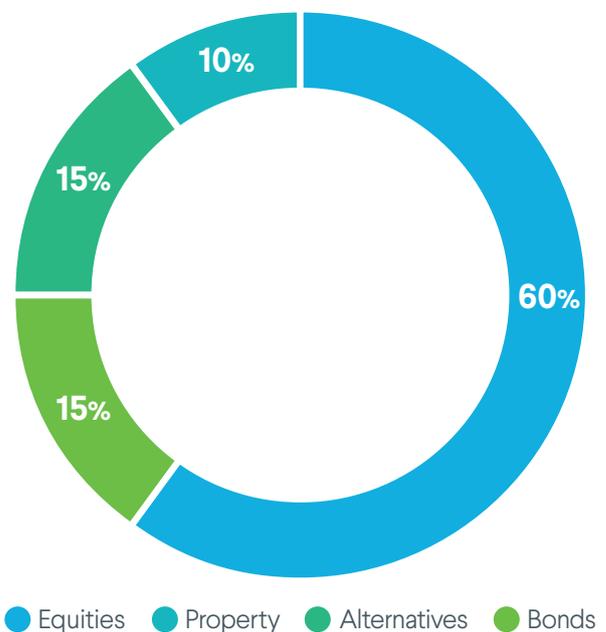
These give a sense of what success looks like for the fund and the framework that you will work within to achieve this success.

- Environmental, social and governance related aspects (including climate change) must be considered when making investment decisions.

Once there is clarity on objectives and beliefs, attention turns to how the fund’s assets should be invested. This is called “setting strategy” (i.e. the mix of asset types). Key things to keep in mind are:

The asset allocation for a typical LGPS fund could look like this:

- Of the asset classes equities, property and alternative assets are essentially “return seeking”. By contrast bonds are usually held for funding stability and security;
- A high allocation to return seeking assets helps to keep pensions affordable. However, return seeking assets increase downside funding risk;
- Diversification (i.e. not putting all of your eggs in one basket) should help to reduce the downside risk;
- A long-term approach, seeking return, is generally considered appropriate – hence the higher allocation to equities and alternatives seen in the LGPS world relative to most private sector pension schemes; and



Definitions

Equities

“Shares” in companies give an entitlement to dividends and the prospect of capital gains. Equities are expected to deliver a higher return than bonds over the long term.

Property

Investments are usually in commercial property. Due to the size of individual properties and the need for diversification, investment is often through pooled funds.

Bonds

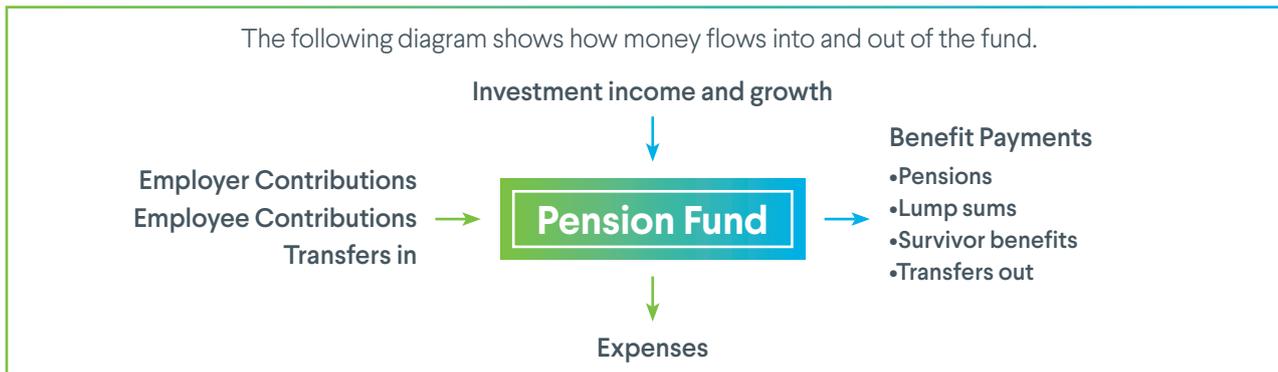
Bonds provide a regular income and are repaid in full at maturity. Gilts are issued by the UK Government and Corporates are issued by companies. Corporate bonds are perceived as being higher risk than gilts and therefore pay a higher interest rate. Index-linked gilts provide income and maturity payments which increase (or decrease) in line with inflation.

Alternatives

Asset classes that add diversification by delivering returns in a pattern that differs from equities. Includes Hedge Funds, Infrastructure and Diversified Growth Funds (this latter group are funds which invest in a range of different assets).

The Role of the Actuary

Your main objective when running a pension fund is to ensure that there are sufficient funds to pay for the benefits as they fall due and contributions are paid at an appropriate level.



Your fund actuary will carry out regular actuarial valuations of the fund with the following objectives:

- To comply with legislation (it is mandatory to have an actuarial valuation every three years);
- To monitor the ongoing health of the fund (i.e. do you have enough money to pay the pensions?);
- To recommend appropriate contribution rates for employers; and
- To monitor the actual experience of the fund against the assumptions made.

In order to carry out the valuation, assumptions need to be made about future experience. The most important decisions will be around the discount rate to use and the longevity assumptions. These feed into financial modelling to help inform decisions around funding strategies. At valuation time, your actuary will provide assistance in determining these assumptions and setting funding strategies.

Definitions

Discount rate

This is chosen to reflect the investment return that is expected on the fund. It is applied to each future benefit payment to determine the (discounted) value of the fund's liabilities. For example, if the fund is due to pay a benefit of £100 in one year's time, and the discount rate is 5% pa, the associated liability value is £95.

Longevity assumptions

One of the greatest unknowns for a pension fund is how long benefits will be paid for. People are currently living longer than they did in the past. The extent to which improvements are occurring needs to be actively monitored. At Hymans Robertson we have created Club Vita to carry out this vital function.

Funding strategies

These aim to target full funding for each employer over an appropriate time horizon by striking a balance between future employer contributions and future investment returns. The financial strength and risk profile of employers are key factors for a fund to consider when setting the strategies.

LGPS boards

All LGPS funds are required to have a local pension board. The board's role is to assist in ensuring that funds are governed efficiently and effectively and that regulatory and best practice requirements are met.

The role of the local pension board is to assist the scheme manager (the administering authority) in securing compliance with:

- The scheme regulations
- Other governance and administration legislation
- Any requirements of the Pensions Regulator
- Additional matters, if specified by scheme regulations

The boards are required to have an equal number of representatives from employers and scheme members. They may also have other types of members, such as independent experts, but such members will not have a vote.

The law requires local pension board members to have knowledge and understanding of relevant pensions laws, and to have a working knowledge of the LGPS and its documentation.

Knowledge and skills

Finance officers will be well aware when finalising LGPS fund accounts that the CIPFA code of practice requires a statement that those responsible for the governance of the fund have the necessary skills. The CIPFA code of practice embeds the requirement to ensure those charged with pension scheme governance have access to the skills and knowledge to carry out their role effectively.

Members of local pension boards also have a statutory requirement to have knowledge and understanding of the law relating to pensions and any other matters specified in regulations.

Whereas the role of the pension committee usually involves carrying out a decision-making function, members of pension boards should focus on the processes involved in running the fund. For example, are policies and procedures up to date, are the requirements of the Pensions Regulator being met and is the fund following recognised best practice?

At a national level there is also a **Scheme Advisory Board**. This consists of representatives from across a broad spectrum of LGPS stakeholders. Its purpose is to encourage best practice, increase transparency and coordinate technical and standards issues by being reactive and proactive. Separate SABs exist for the schemes in England & Wales, Scotland and Northern Ireland.

Unlike local board members, there is no statutory requirement for decision makers on a Pension Committee or panel to have a particular level of knowledge on pensions law or LGPS matters. In order to comply with MIFID II¹, however, there is a requirement for fund committees to provide evidence of their knowledge and understanding, to be classed as a "professional client". It would be impossible, therefore, for a pension committee to carry out its role effectively without such knowledge and understanding.

¹ Markets in Financial Instruments Directive II

For this reason, CIPFA published technical guidance for Representatives and Practitioners in the public sector within a Knowledge & Skills framework (KSF). The framework outlines the required skills set for those responsible for pension financial management and decision making.

The SAB Good Governance Review has also recommended that members of Pension Committees should have a requirement to obtain the knowledge and understanding necessary to carry out their role effectively. This is not the same as being a pensions subject matter expert, it is more about having the skills to ask questions, seek advice and weigh up options.

With so much going on in the world of the LGPS, Pension Committee and Board member training has never been more important.

The eight areas of the framework

- Pensions Legislation
- Public Sector Pensions Governance
- Pensions Administration
- Pensions Accounting and Auditing Standards
- Pensions Services Procurement and Relationship Management
- Investment Performance and Risk Management
- Financial markets and product knowledge
- Actuarial methods, standards and practices

The framework is in the process of being updated and to help assist Pension Committees and Boards gain the right level of knowledge in these areas, Hymans Robertson has created an online learning tool – the [LGPS Online Learning Academy \(LOLA\)](#). This consists of a series of training videos and material covering the eight key areas above, as well as other topical areas. You may want to check that your Fund has a training plan in place and how the relevant skills and knowledge for yourself will be monitored and measured.

Contact Us



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Isle of Wight Council Pension Fund Agreed objectives 2018-19

Investment beliefs:

Governance

1. A clear set of investment beliefs can help achieve good governance by providing a framework for all investment decisions.
2. Effective governance not only ensures appropriate levels of control over the fund but can add value through correct resourcing and improved decision making.
3. The Committee supports medium to long term investing as a means of enhancing returns, and believe investment decisions should be assessed over an appropriate time scale.
4. The Committee view long-term as typically being greater than 15 years, medium-term typically being between 3-15 years and short-term being less than 3 years.
5. Pooling presents an opportunity to access best in class investments at a lower cost. Such opportunities should always be assessed alongside the strategic asset allocation of the fund for suitability.
6. Committee members and staff at the ACCESS pool must have the correct level of skills and investment knowledge to understand the level of risk in the investment portfolio.
7. Manager selection should be delegated to the ACCESS pool and the Committee aim to have a good working relationship with the ACCESS pool.
8. External advice from parties such as an investment consultant helps planning, risk management and decision making.

Strategy

1. The strategic benchmark should be consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.
2. Strategic asset allocation is the most important component of decision making and it is here that the optimum risk and return profile should be designed and monitored regularly, ensuring managers and mandates remain appropriate for the Fund.
3. The Fund's high-level investment strategy and asset allocation should be set by using asset liability modelling in conjunction with each triennial actuarial valuation.

4. Fees and costs incurred within investment manager mandates are important though the focus is on achieving the best returns net of fees.
5. Investors are rewarded for illiquidity in private markets. Future liquidity needs must be assessed at each review of asset allocation combined with cash flow projections from the fund actuary.
6. High conviction active management can improve value over the long-term net of fees, but it is not guaranteed.
7. Global markets are likely to outperform domestic markets in the long term.

Risk management

1. Adopt a strategy to generate sufficient returns to keep the cost of new benefits accruing reasonable and maintain a balance of stable employer contributions and investment risk.
2. Risk should be employed efficiently with a view to generating a required level of risk adjusted return. While risk should be rewarded in the long-term current market conditions should also be a consideration.
3. Appropriate diversification reduces the overall level of dependence on any particular market or asset class and helps manage volatility, particularly in respect of equity markets.
4. The Committee believes that it is appropriate to be aware of potential downside risks and consider the role of low risk matching assets within the strategy.
5. Foreign currency exposure is part of managing a global portfolio of investments. There is no strategic hedging of currency exposure from volatile asset classes such as equities as the Fund believes this to be of limited benefit to long term investment returns.
6. Pooling represents significant risk to the Fund and decisions made should aim to minimise this risk where possible.
7. Transitions between managers and asset classes can result in considerable transaction costs and market risks. It is important such transitions are carefully managed the Fund aims to have this managed by the ACCESS pool.

Responsible Investment

1. The Pension Fund is a long-term investor and the investments should be able to generate sustainable returns to pay pensions for scheme members. Environmental, Social and Governance (“ESG”) issues can have a material impact on the long-term performance of its investments.
2. The Committee should focus on meeting its financial obligations to pay benefits to members. Financial considerations carry the same weight as non-financial considerations.

3. Long-term sustainable investment returns are an important consideration, even to the extent that the sustainability of returns extends beyond the expected investment horizon of the Committee.
4. Responsible ownership of companies benefits long term asset owners. Companies with a clear responsible investment policy are expected to outperform companies without a responsible investment policy, over the longer term.
5. Once pooled the Fund will work closely with ACCESS on stewardship and engagement issues including ESG issues and voting rights.

Administration and governance objectives

Governance:

1. Ensure compliance with the LGPS Regulations, other relevant legislation and the Pensions Regulator's Codes of Practice.
2. Ensure Fund is managed, and its services provided, by people with the appropriate knowledge and understanding.
3. Communicate in a friendly, expert and direct way to our stakeholders, treating each equally according to their needs.
4. Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and evidence based.
5. Understand and monitor risk and compliance.
6. Continually measure and monitor success against objectives.

Administration

1. Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and scheme employers at the point of need.
2. Provide pension and lump sum benefits for all members, in accordance with LGPS Regulations.
3. Clearly establish levels of performance and measure the performance of both the Fund and scheme employers against them.
4. Develop successful partnership working between the Fund and its employers.
5. Data is protected to ensure security and authorised use only.

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Isle of Wight Council Pension Scheme

Page 27

Q1 2021 Investment Monitoring Report

David Walker - Partner

Emma Garrett - Investment Consultant

Eoin Spence - Investment Analyst

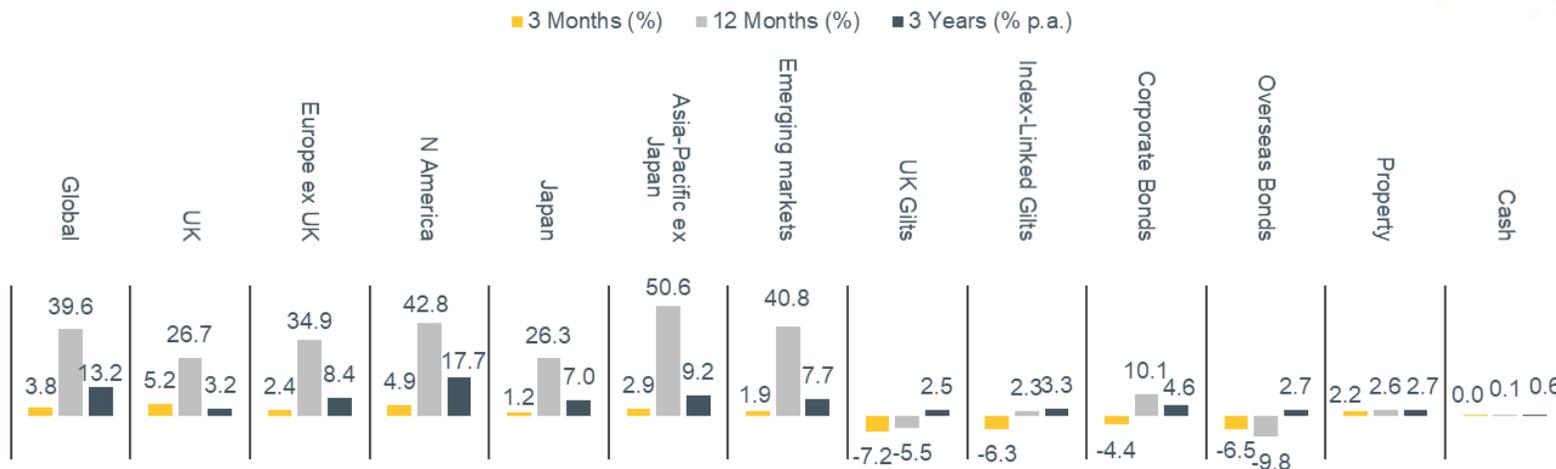
Annabel Preston – Investment Analyst

Consensus forecasts for global GDP growth have continued to improve, to 5.6% in 2021, following a 3.6% contraction in 2020. Recent data confirms that although the quarterly pace of global growth slowed in Q1 after a robust H2 2020, the hit to activity from tighter restrictions has been less than initially feared. Expectations of a re-acceleration of growth beyond Q2 seem well-founded amid significant progress in vaccine rollouts and massive fiscal support in the US. Indeed, March's global composite PMI rose to its highest level in over 6 years.

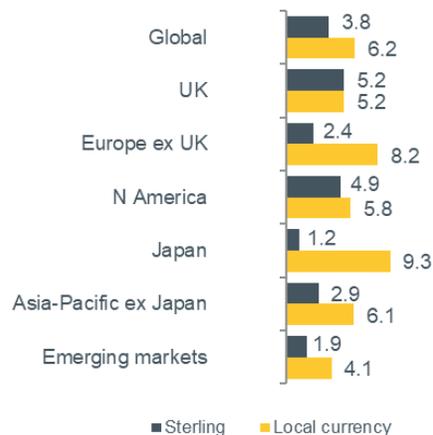
Global equity markets gained 6.2% during the quarter. The improving economic outlook was supportive for more cyclical sectors with energy, financials, basic materials, and industrials the top performing sectors year-to-date, in that order.

Sectoral performance helps explain regional equity performance: Japan and Europe ex-UK, with their above average exposures to industrials, lead the regional performance rankings year-to-date. Emerging markets underperformed markedly, weighed on by a stronger dollar and a Chinese equity market sell-off in February. Despite a higher than average exposure to oil & gas and financials, the UK market underperformed, perhaps weighed down by sterling strength given the high proportion of overseas earnings in the index.

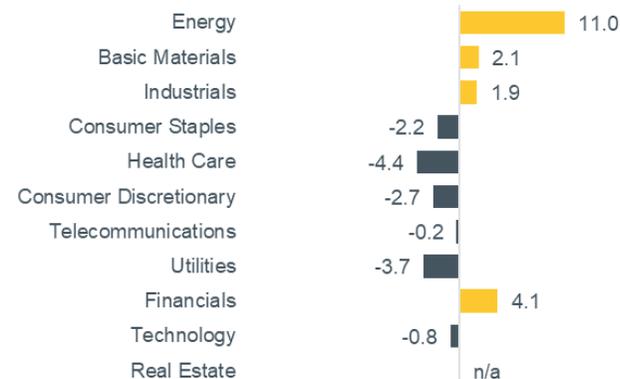
Historic returns for world markets ^[1]



Regional equity returns ^[2]



Global equity sector returns (%) ^[3]



Source: DataStream. ^[1]Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All World, FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds, MSCI UK Monthly Property; UK Interbank 7 Day. ^[2]FTSE All World Indices. Commentary compares regional equity returns in local currency. ^[3]Returns shown relative to FTSE All World. FTSE indices migrated to a new ICB structure in Q1 2021 – returns for Real Estate will be included when there is a sufficient track record.

While realised inflation has remained subdued, UK headline CPI inflation rose to 0.7% year-on-year in March, a resumption of activity and deferred consumption alongside rising oil prices are expected to lead to higher inflation in the short-term.

Reflecting the improvement in economic outlook, government bond yields rose significantly: UK 10-year government bond yields rose 0.7% p.a. to 0.8% p.a. Real yields rose less, with 10-year implied inflation, based on the difference in yield on conventional and index-linked gilts, rising 0.4% p.a. to 3.7% p.a.

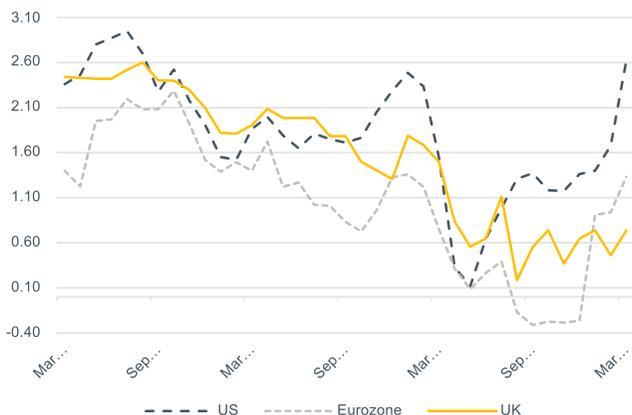
Rising sovereign bond yields weighed on total returns in fixed interest credit markets, which are negative year-to-date for investment-grade markets. Global investment-grade spreads fell 0.1% p.a. to 1.0% p.a. and speculative-grade spreads fell 0.4% p.a. to 3.7% p.a.

Sterling continued to move higher, rising 4.1% in trade-weighted terms. Relative improvement in the economic outlook and increased market-implied odds of rate rises saw the US dollar rise 2.5%, in trade-weighted terms, while the Euro and Japanese Yen fell 1.7% and 4.4%, respectively.

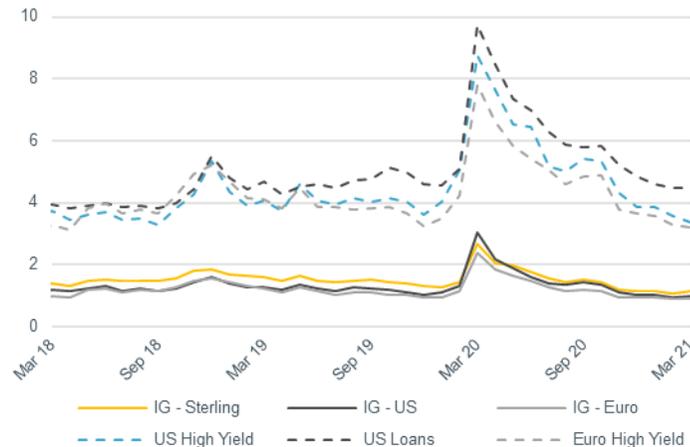
Despite slipping towards the end of the period, oil prices rose 22.4% in the first quarter to \$64 per barrel, while the dollar spot price of gold slipped 10.2% as bond yields rose.

The rolling 12-month total return on the MSCI UK Monthly Property Index was 2.6% to the end of March. Capital values, in aggregate, fell 2.9% over the period (driven by a 12.4% decline in retail sector), however aggregate monthly capital value growth has been positive since November.

Annual CPI Inflation (% p.a.)



Investment and speculative grade credit spreads (% p.a.)



Gilt yields chart (% p.a.)



Sterling trend chart (% change)



Source: DataStream, Barings and ICE

Summary of Medium-term Capital Market Views

	December 2020	March 2021	Comment
Index-linked gilts	Neutral to Cautious	Cautious	A sharp acceleration in growth and inflation is expected amid a more substantial easing of COVID restrictions in Q2 on the back of a rapid vaccine roll-out and falling case rates, following Q1 weakness. Yields have risen in the first quarter but may face further upwards pressure as economic recovery and reflation continue. Front-end nominal yields are more beginning to look more fairly valued but longer-term nominal yields are far less attractive. Implied inflation looks very expensive at terms up to around 25 years and only slightly less so thereafter.
Conventional gilts	Neutral to Cautious	Neutral to Cautious	
Sterling non-government bonds	Cautious	Cautious	Spreads remain well below long-term median levels, providing little cushion to guard against potential further rises in yields. While leverage remains elevated and interest coverage is low relative to even shorter-term averages, the earnings recovery forecast should be supportive of debt fundamentals going forward.
Private Debt	Neutral to Cautious	Neutral to Cautious	The fundamental backdrop deteriorated in 2020 due to the pandemic and direct lender's hospitality, retail and travel exposures have been particularly impacted. Transaction levels have returned to pre-COVID levels. Pricing has improved slightly although with higher leverage and loan documentation is now back to pre-COVID. The illiquidity premium to the loan market is positive. More affected outstanding debt in public and private markets may create opportunities for new stressed/distressed and special situations financing strategies.
Infrastructure	Neutral to Attractive	Neutral to Attractive	The economic impact of the pandemic is having a greater effect on the more GDP-sensitive sectors (airports, shipping, toll roads) of the infrastructure market. Less economically sensitive sectors such as utilities and social infrastructure remain in high demand as they provide essential services. The pandemic has led to significant write-downs of some GDP-sensitive assets which has created some value opportunities, although overall transaction levels are suppressed so far this year.
Equities	Neutral to Cautious	Neutral	Modest gains in equity markets year-to-date leave long-term valuation measures similarly stretched as last quarter. However, valuations look less expensive in the context of very low real yields and there remains significant disparity in valuations by region. Earnings momentum is moderately positive and the bounce in earnings now forecast in 2021 would leave full-year earnings in 2021 approximately 7% above end-2019 levels. Given high valuations and near-term economic uncertainty, we hold a neutral position, despite the fundamental improvement expected in 2021.
Cash Strategies	Neutral	Neutral	While interest rates may be as close to zero as they can get, when focused on risk adjusted returns, this feels like a sensible time to hold more cash than usual, that can be deployed into buying opportunities.

Source: Reuters

The page summarises our broad views on the outlook for various markets. The ratings used are Positive, Attractive, Neutral, Cautious and Negative.

The ratings are intended to give a guide to our views on the prospects for markets over a period of around three years; although they are updated quarterly, they are not intended as tactical calls. The ratings reflect our expectations of absolute returns and assume no constraints on investment discretion. In practice, they need to be interpreted in the context of the strategic framework within which individual schemes are managed.

Over the quarter the Fund's total assets increased marginally by c.£9.3m, valuing £694.7m at the end of Q1 2021.

Global equities performed well over the quarter, led by outperformance in cyclical value in sectors such as industrials and infrastructure.

The positive growth performance was partially offset by holdings in Schroders Fixed Income fund as the mandate was impacted by rising yields.

Equity holdings remain slightly overweight within the Fund, as the new income allocations start to draw down capital over time. The strategic target now allows for the new private debt allocation with infrastructure to be added later this year.

Key Actions

In Q1 two capital calls were paid to GSAM Broad Street Loan Partners IV fund on 25 January and 16 February, funded from the Majedie UK Equity mandate.

Post quarter end further capital calls were made on 5 April and 24 May.

Asset Allocation

Manager	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q4 2020	Q1 2021			
Majedie UK Equity Fund	145.6	144.1	20.7%	17.5%	3.2%
Newton Global Equity Fund	240.9	249.2	35.9%	32.5%	3.4%
Baillie Gifford Diversified Growth Fund	115.4	114.5	16.5%	15.0%	1.5%
Total Growth	501.8	507.8	73.1%	65.0%	8.1%
Schroders Property Fund	36.8	37.9	5.5%	8.0%	-2.5%
GSAM Broad Street Loan Partners IV Fund	0.0	9.1	1.3%	5.0%	-3.7%
Total Income	36.8	47.0	6.8%	13.0%	-6.2%
Schroders Fixed Income Fund	146.7	139.9	20.1%	22.0%	-1.9%
Total Protection	146.7	139.9	20.1%	22.0%	-1.9%
Total Scheme	685.4	694.7	100.0%	100.0%	

Asset class exposures



Over Q1 2021, the Fund returned 1.6% against its benchmark of 1.4%, providing a positive relative return of 0.2%. That said, returns were more muted following the surge experienced at the end of 2020.

Over the long term, the Fund remains ahead of benchmark for the 12 month, 3 year and 5 year periods with 3.8%, 0.8% p.a. and 0.5% p.a. relative returns, respectively.

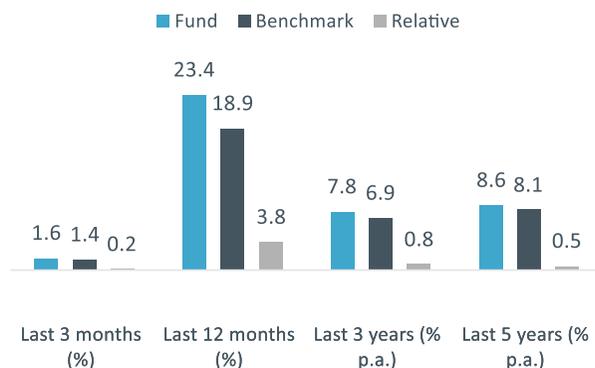
The Fund's equity holdings provided the strongest absolute returns over the quarter, also the Schroders Fixed income mandate, despite giving negative returns, had the strongest relative returns.

Conversely, Baillie Gifford's Diversified Growth Fund experienced a more challenging time as a result of renewed inflationary concerns.

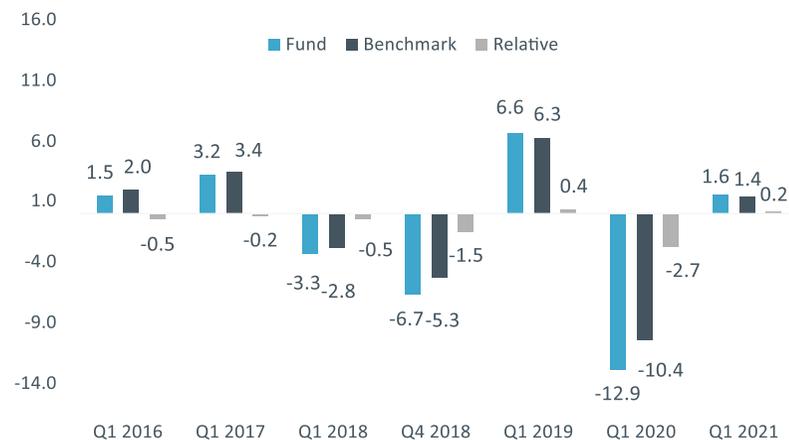
Manager performance (gross of fees)

	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)			Last 5 years (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
Growth												
Newton Global Equity Fund	4.1	3.6	0.5	36.6	38.9	-1.7	15.2	12.7	2.2	14.0	14.1	-0.1
Majedie UK Equity Fund	5.1	5.2	-0.1	33.0	26.8	4.9	3.1	3.2	-0.1	6.3	6.3	-0.0
Baillie Gifford Diversified Growth Fund	-0.6	0.9	-1.5	18.3	3.6	14.2	2.9	4.0	-1.1	5.0	4.0	1.0
Income												
Schroders Property Fund	2.9	2.2	0.7	5.3	2.3	2.9	3.7	2.6	1.1	5.8	4.4	1.3
Protection												
Schroders Fixed Income Fund	-4.7	-5.7	1.1	4.4	0.6	3.8	4.7	3.5	1.2	5.2	3.8	1.3
Total	1.6	1.4	0.2	23.4	18.9	3.8	7.8	6.9	0.8	8.6	8.1	0.5

Fund performance vs benchmark/target



Historical quarterly performance Summary



Source: Fund performance and valuation data provided by Investment Managers and is gross of fees. Benchmark performance provided by Investment Managers and DataStream.

Manager ratings

Mandate	Hymans Rating	RI
Newton Global Equity Fund	Positive	Good
Majedie UK Equity Fund	Preferred	Adequate
Schroders Fixed Income Fund	Positive	Good
Schroders Property Fund	Positive	Good
Baillie Gifford Diversified Growth Fund	Preferred	Good

Schroders business update

- Schroders have created a new role of Head of Sustainability for Europe as they look to further embed sustainability into client relationships with Nathaële Rebondy appointed to the role.
- We continue to rate Schroders as “Positive”.

Newton business update

- Newton announced that Euan Munro will be joining as their new CEO on 23 June 2021. Euan is an experienced leader who has been CEO at Aviva Investors for the past seven years.
- Andrew Downs will continue as interim CEO with the full support of Newton’s board and executive team.
- We continue to rate Newton as ‘Positive – On Watch’ as we monitor developments.

Baillie Gifford business update

- We rate Baillie Gifford as ‘Preferred – On Watch’. There were no significant developments over the quarter.

This page includes details of the current investment manager ratings together with any relevant manager business updates.

This page also shows RI ratings for the current investment managers.

All of the Fund’s investment managers have now been rated on both a manager and RI perspective. There have been no changes to the Fund’s ratings over the period.

Both of these ratings are further explained in the Appendix on page 13.

Majedie UK Equity

Over the quarter, the Majedie UK Equity mandate returned 5.1% in absolute terms, marginally underperforming its FTSE All Share benchmark of 5.2%. The fund met its benchmark over the longer term, with exception of the 3 year period.

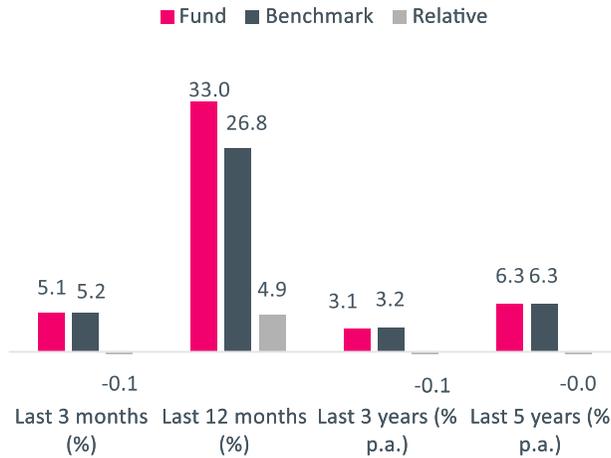
The UK equity market displayed muted returns over the quarter, as ongoing macroeconomic uncertainties surrounding Covid-19 counteracted the positive developments in vaccine rollouts.

Holdings in industrials, utilities and financials provided strong returns for the fund. From a stock perspective, Electrocomponents performed particularly well as value stocks rose.

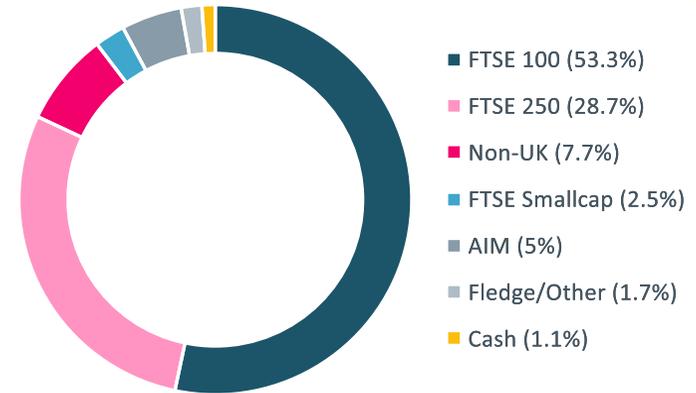
Underweight holdings in oil and gas detracted from relative performance. In particular, an underweight position to BP detracted from performance as the company rallied as a result of sharp price increases. Barrick Gold was also a detractor as rising yields reduced the appeal of gold.

The manager has added to holdings in the housing industry, in particular Taylor Wimpey and Bellway.

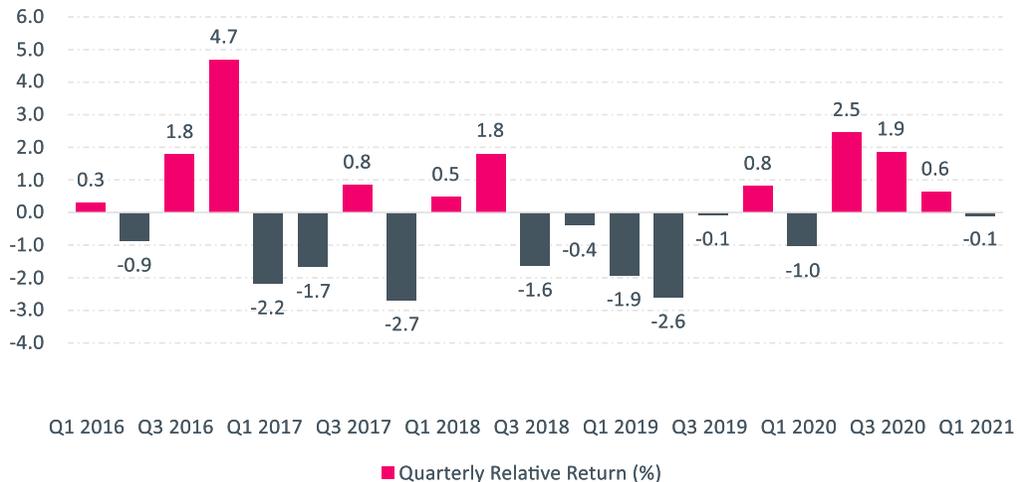
Performance Summary (Gross of Fees)



Asset Allocation



Relative Quarterly Performance



Newton Global Equity

The Newton Global Equity Fund outperformed its MSCI ACWI benchmark of 3.6% and returned 4.1% over Q1 2021, a relative outperformance of 0.5%.

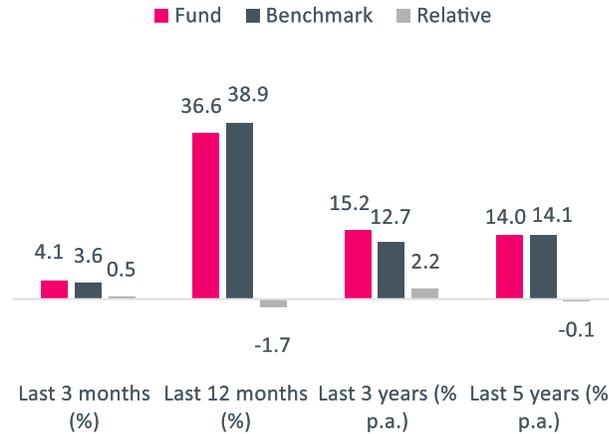
Long term performance remains varied, with 12 month and 5 year periods falling short of target.

Accelerated vaccine rollout and optimistic global recovery drove positive performance over Q1. From a regional perspective, Japanese and North American equities provided strong performance, whilst holdings in European equities slightly detracted from performance.

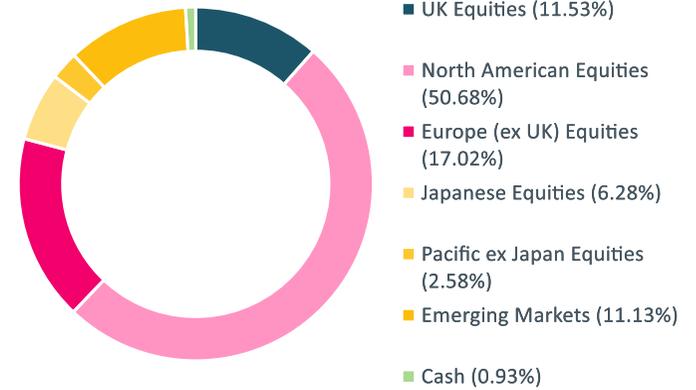
Value stocks benefitted from both rising yields and commodity price recovery, as well as support within cyclical sectors. Holdings in Citigroup and Goldman Sachs were strong contributors to performance as a result. Applied Materials had the most positive impact as demand grew for semiconductors, with further growth expected for 2021.

The mandate's underweight positions to the energy and materials sectors, as well as negative performance from consumer discretionary and healthcare holdings as investors moved into cyclical assets, both detracted from performance over the quarter.

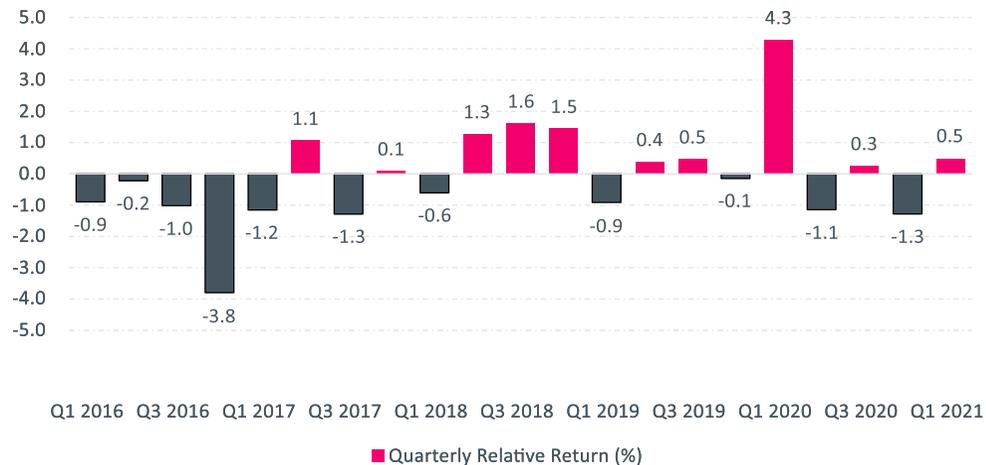
Performance Summary (Gross of Fees)



Asset Allocation



Relative Quarterly Performance



Source: Investment Manager

**Baillie Gifford
Diversified Growth**

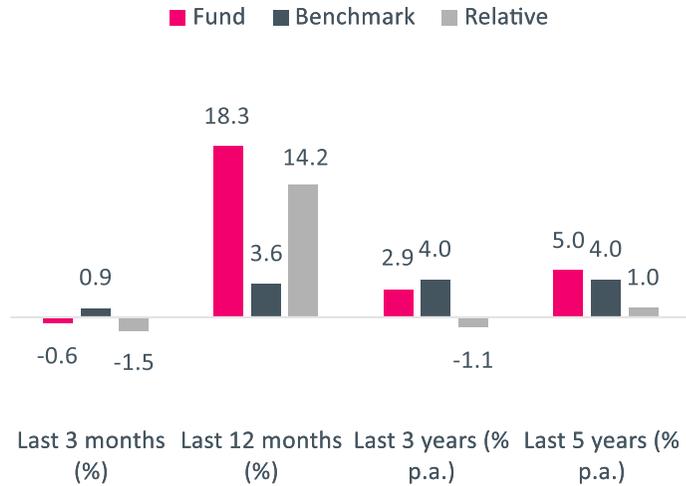
Over Q1 2021, the diversified growth fund underperformed its target of 0.9%, returning -0.6% gross of fees. Performance over the long term remains positive, with the fund outperforming its 12 month and 5 year benchmarks.

Inflation concerns resulted in infrastructure holdings detracting, however, this remains the best performing asset class in the portfolio over the longer term. Commodities were key detractors as higher yields reduced the appeal of gold and nickel was hit by news of wrongful production.

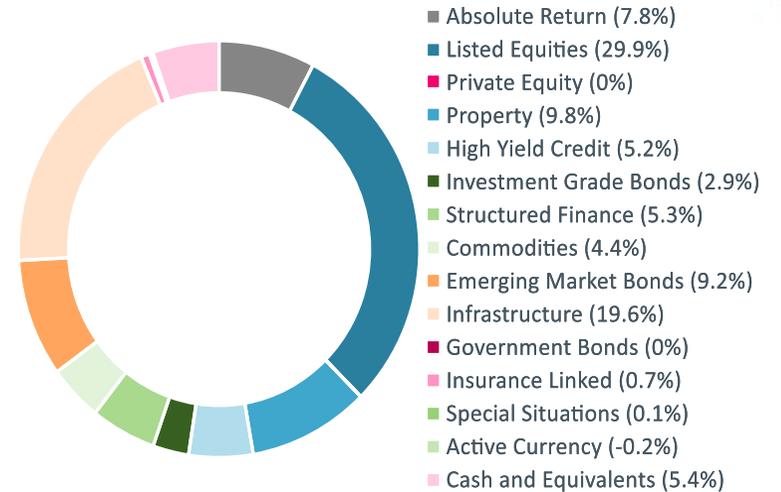
With the focus on cyclical recovery in the portfolio and the reopening of economies, listed equities were the key contributors to performance. The fund's exposure to structured finance and high yield credit also positively contributed.

The manager continued to implement hedging strategies due to further inflation concerns. This aims to minimise downside risk in the event of future volatility within bond markets.

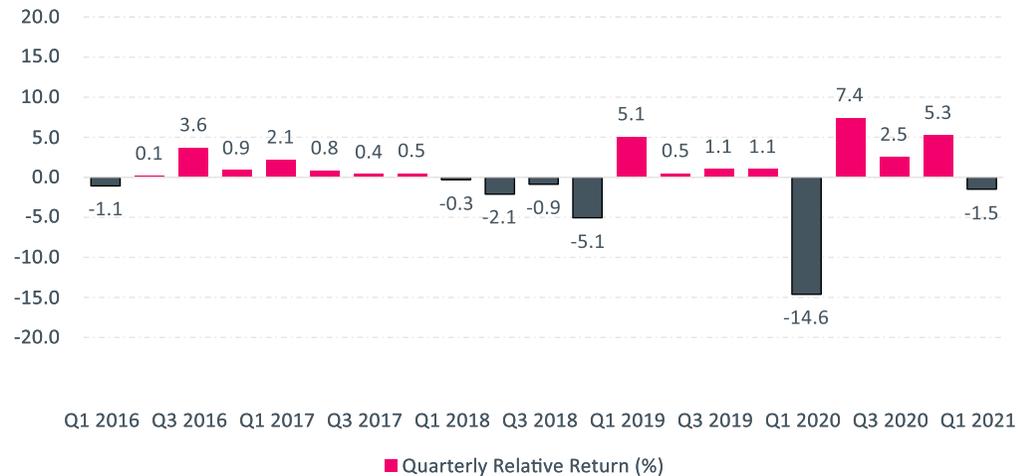
Performance Summary (Gross of Fees)



Asset Allocation



Relative Quarterly Performance



Source: Investment Manager

Schroder Property

The Schroders UK Real Estate Fund returned 2.9% over Q1 2021, remaining ahead of its benchmark of 2.2%. Long term performance remain positive, with the fund outperforming benchmarks over all periods.

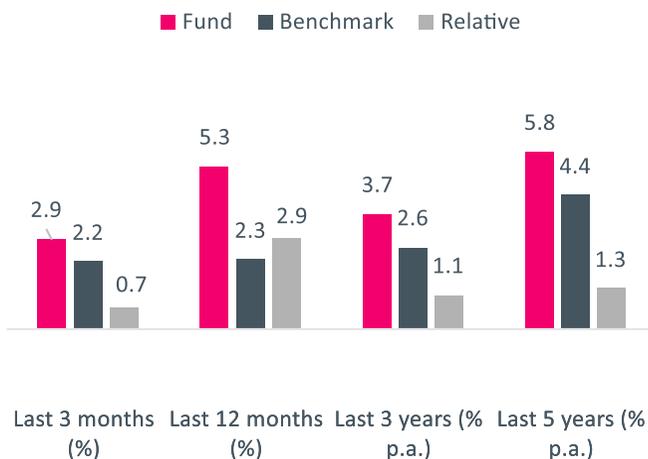
The fund's performance was driven by holdings in the industrial sector. Active management and recent leasing activity also positively contributed to maintaining stable returns and creating future rental growth opportunities.

Underweight holdings in industrial and retail warehouses detracted from performance.

With shopping centre rental values expected to drop a further 20% and the accelerated move to online shopping during the pandemic, the fund continues to hold a underweight position in retail.

The fund adjoined ownership of Hartlebury Trading Estate for £850,000, with an estimate future annual income of £200,000 for the lease of 5 industrial units. Over the quarter, 26 new lettings and lease renewals were completed.

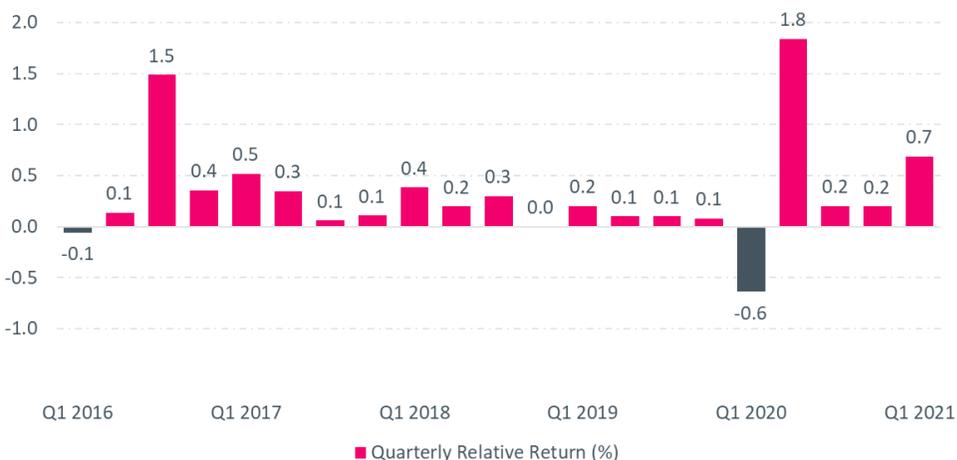
Performance Summary (Gross of Fees)



Key Statistics

Fund size	£2,262.8m
Number of holdings	53
Number of tenants	688
Debt (% of NAV)	0.4%
Top 10 holdings as % of portfolio	46.3

Relative Quarterly and Relative Cumulative Performance



Schroders Fixed Income

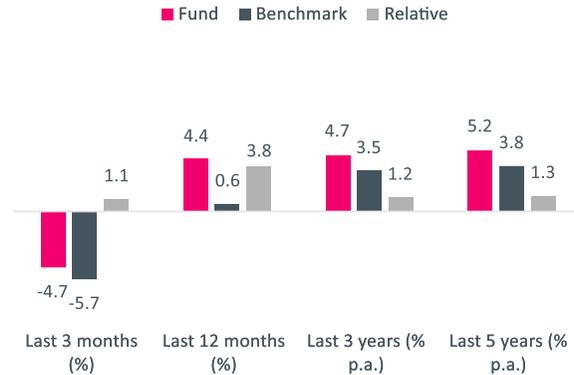
The Schroders Fixed Income portfolio returned -4.7% over the quarter, outperforming its benchmark of -5.7%. Long term performance remains positive and consistently ahead of target for all time periods.

Q1 saw an acceleration in the rise of bond yields as medium-term growth and inflation outlook was boosted by vaccine rollouts and expectations of further fiscal stimulus. Increasing inflation expectations meant that fixed income assets struggled over the quarter.

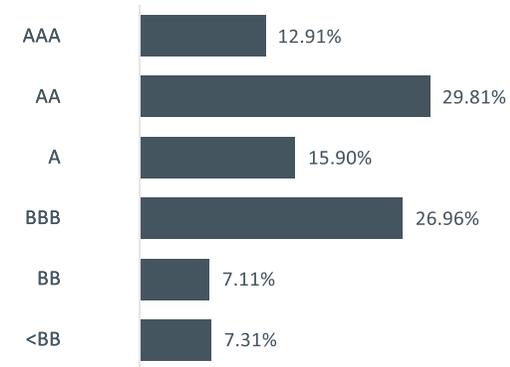
The mandate's overweight to sterling high yield contributed positively to returns. The fund's outperformance was also helped by underweight holdings in UK and US short-term durations, which were impacted by rising yields. Sectors affected by the pandemic performed particularly well, including leisure.

Positive performance was countered by its holdings in UK investment grade credit due to rising bond yields which resulted in low risk-return reward. The manager has since reduced its investment grade allocation.

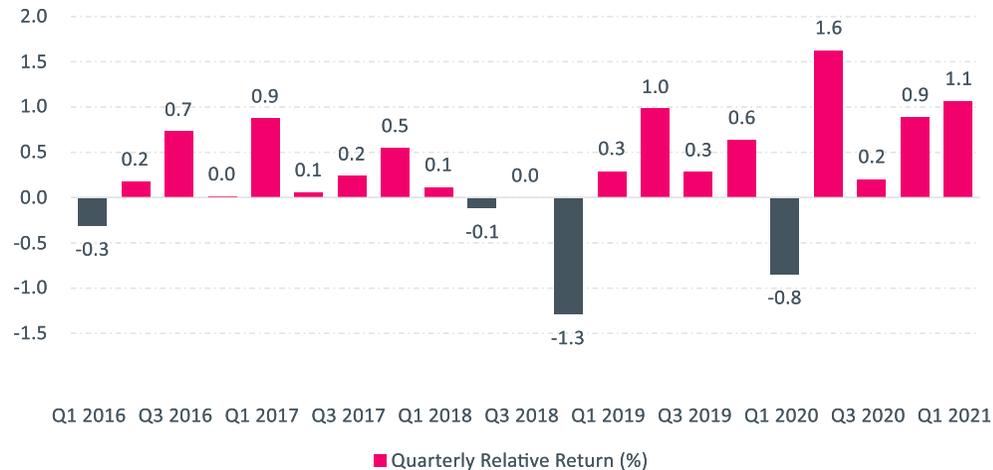
Performance Summary (Gross of Fees)



Relative Credit Allocation



Relative Quarterly and Relative Cumulative Performance



This page sets out the benchmark, performance targets, and fees of each mandate.

It also provides descriptions of our ratings and the rationale behind our Hymans research and Responsible Investment ratings.

Benchmarks, Targets & Fees

Mandate	Date Appointed	Benchmark Description	Performance Target (% p.a.)
Newton Global Equity Fund	25/08/2009	MSCI AC World	+2% p.a. over rolling 5 years
Majedie UK Equity Fund	31/08/2009	FTSE All Share	+2% p.a. over rolling 5 years
Schroders Fixed Income Fund	31/08/2009	50% iBoxx Gilts and 50% iBoxx Non-Gilts Indices	Outperform benchmark by 1% p.a. (net of fees) over a market cycle before fees
Schroders Property Fund	31/08/2009	AREF/MSCI UK Quarterly Property Fund Index All Balanced Funds Median	Outperform benchmark by 0.5% p.a. (net of fees) over 3 year rolling period
Baillie Gifford Diversified Growth Fund	30/10/2013	UK Base Rate +3.5% p.a.	UK Base Rate +3.5% p.a. (net of fees) over 5 year rolling period

Source: Investment Managers

Hymans Rating

Preferred	Our highest rated managers in each asset class. These should be the strategies we are willing to put forward for new searches.
Positive	We believe there is a strong chance that the strategy will achieve its objectives, but there is some element that holds us back from providing the product with the highest rating.
Suitable	We believe the strategy is suitable for pension scheme investors. We have done sufficient due diligence to assess its compliance with the requirements of pension scheme investors but do not have a strong view on the investment capability. The strategy would not be put forward for new searches based on investment merits alone.
Negative	The strategy is not suitable for continued or future investment and alternatives should be explored.
Not Rated	Insufficient knowledge or due diligence to be able to form an opinion.

Responsible Investment

Strong	Strong evidence of good RI practices across all criteria and practices are consistently applied.
Good	Reasonable evidence of good RI practices across all criteria and practices are consistently applied.
Adequate	Some evidence of good RI practices but practices may not be evident across all criteria or applied inconsistently.
Weak	Little to no evidence of good RI practices.
Not Rated	Insufficient knowledge to be able to form an opinion.

Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.

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Geometric v Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\frac{(1 + \text{Fund Performance})}{(1 + \text{Benchmark Performance})} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.

Isle of Wight Council Pension Fund

Funding and risk report as at 31 March 2021

	31 March 2021	Ongoing funding
HEADLINE	Assets	£695m
	Liabilities	£670m
	Surplus/(deficit)	£25m
	Funding level	103.7%

Summary

This funding update is provided to illustrate the estimated development of the funding position from 31 March 2019 to 31 March 2021, for the Isle of Wight Council Pension Fund (“the Fund”).

At the last formal valuation, the Fund assets were £596m and the liabilities were £628m. This represented a deficit of £32m and equated to a funding level of c95%.

Markets have been severely disrupted by COVID 19 which have resulted in volatile conditions. In the 24 months since the formal valuation, investment returns have been significantly above expectations – with asset values experiencing a strong rebound after falling in March 2020. However, the outlook for future investment returns on the Fund’s portfolio of assets is less positive (and lower than the expectations set at the 2019 valuation) which serves to increase the value placed on the liabilities. Combining these key factors, the funding level is estimated to have increased by c8.7% compared to 31 March 2019.

Should you have any queries please contact me.

Tom Hoare FFA

31 March 2021	Ongoing funding
Assets	£695m
Liabilities	£670m
Surplus/(deficit)	£25m
Funding level	103.7%

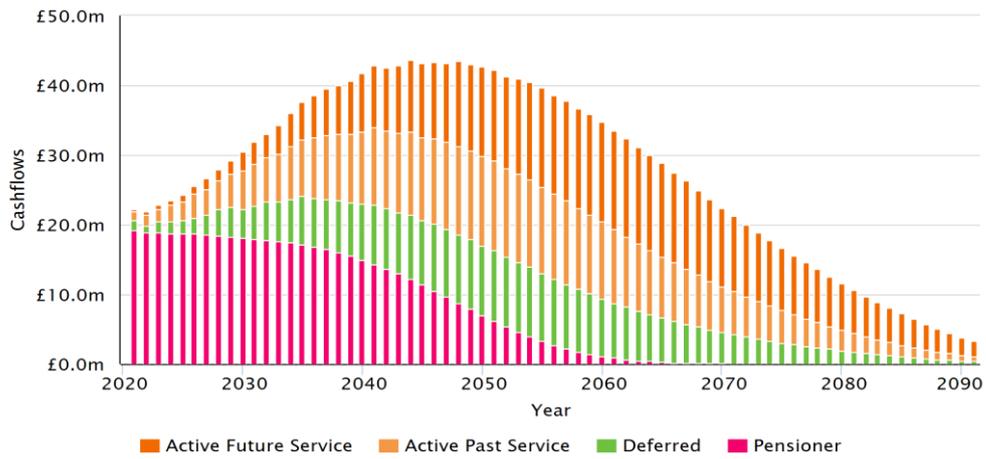
Surplus/(deficit)	£m
Surplus/(deficit) as at 31/03/2019	(32)
Contributions (less benefits accruing)	(6)
Interest on surplus/(deficit)	(3)
Excess return on assets	68
Impact of change in yields & inflation	(3)
Surplus/(deficit) as at 31/03/2021	25

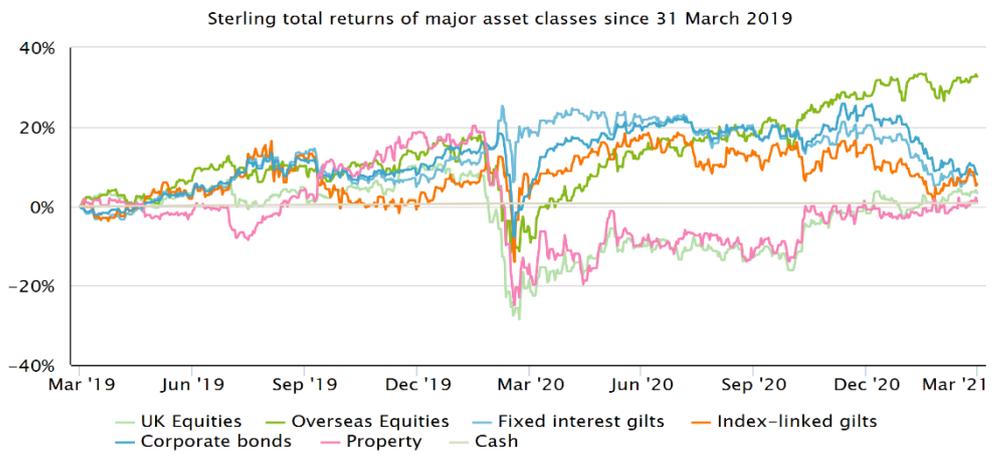
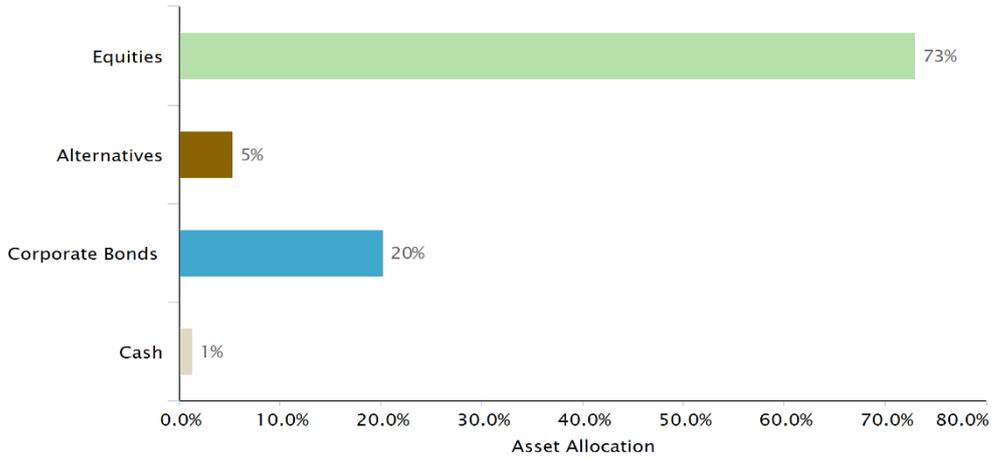
Market Indicators Table

	31 March 2019	31 March 2021
Market yields (p.a.)		
Fixed interest gilts	1.49%	1.32%
Index-linked gilts	-1.81%	-1.99%
Implied inflation	3.36%	3.38%
AA corporate bond yield	2.36%	2.03%
Price Index		
FTSE All Share	3,978	3,831
FTSE 100	7,279	6,714
Expected future investment return (p.a.)		
20yr annualised return on Fund's asset portfolio*	3.4%	3.2%

*There is at least a 75% likelihood of the Fund's investments achieving a return of at least 3.2% p.a. over the next 20 years

PROGRESS





Sensitivity Matrix as at 31 March 2021 for Ongoing funding basis (£m)

Shift in equity level (using FTSE 100 levels as proxy)

	4,700 -30%	5,371 -20%	6,042 -10%	6,714	7,385 +10%	8,056 +20%	8,728 +30%
+0.6	(82)	(28)	27	81	136	190	245
+0.4	(100)	(45)	9	64	118	173	227
+0.2	(119)	(64)	(10)	45	99	154	208
0.0	(139)	(84)	(30)	25	79	134	188
-0.2	(160)	(106)	(51)	3	58	113	167
-0.4	(183)	(128)	(74)	(19)	35	90	144
-0.6	(207)	(152)	(98)	(43)	11	66	120

Shift in expected future investment return (% p.a.)

Legend: less than 50% (dark orange), 50% - 85% (orange), 85% - 95% (light orange), 95% - 100% (pale green), 100% - 105% (light green), 105% - 115% (medium green), greater than 115% (dark green).



Reliances and limitations

This report was commissioned by and is addressed to the Isle of Wight Council in their capacity as the Administering Authority and is provided to assist in monitoring certain funding and investment metrics. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. **Decisions should not be taken based on the information herein without written advice from your consultant.** Neither I nor Hymans Robertson LLP accept any liability to any other party unless we have expressly accepted such liability in writing.

The method and assumptions used to calculate the updated funding position are consistent with those disclosed in the documents associated with the last formal actuarial valuation as at 31 March 2019 although the financial assumptions have been updated to reflect known changes in market conditions. The calculations contain approximations and the accuracy of this type of funding update declines with time from the valuation; differences between the position shown in this report and the position which a new valuation would show can be significant. It is not possible to assess its accuracy without carrying out a full actuarial valuation. This update complies with Technical Actuarial Standard 100.

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Isle of Wight Council Pension Fund

Draft Financial Results for the year ended 31 March 2021

unaudited figures as at 20 May 2021

Fund Accounts 2020-21

	2020-21 £'000	2019-20 £'000
Dealings with members, employers and others directly involved in the fund		
Contributions	20,357	20,088
Transfers in from other pension funds	585	1,528
Other income	10	16
	<u>20,952</u>	<u>21,632</u>
Benefits	(22,369)	(22,814)
Payments to and on account of leavers	(687)	(894)
	<u>(23,056)</u>	<u>(23,708)</u>
	<u>(2,104)</u>	<u>(2,076)</u>
Management expenses	(7,096)	(2,945)
Returns on investments		
Investment income	18,965	10,435
Taxes on income	-	(68)
Profit and losses on disposal of investments and changes in the market value of investments	118,942	(39,690)
Interest payable	(56)	(99)
Net returns on investments	<u>137,851</u>	<u>(29,422)</u>
	<u>128,651</u>	<u>(34,443)</u>
Net increase in the net assets available for benefits during the year		
Opening Net Assets of the Scheme	561,705	596,148
	<u>690,356</u>	<u>561,705</u>

Isle of Wight Council Pension Fund

Draft Financial Results for the year ended 31 March 2021

unaudited figures as at 20 May 2021

Net Assets Statement at 31 March

	2021 £'000	2020 £'000
Investment assets	695,044	563,560
Cash deposits	-	5,275
	<u>695,044</u>	<u>568,835</u>
Investment liabilities	-	(403)
Borrowings	(5,500)	(8,000)
Long term assets	155	86
Current assets	1,138	2,107
Current liabilities	(481)	(920)
	<u>690,356</u>	<u>561,705</u>
Net assets of the fund available to fund benefits at the period end	<u>690,356</u>	<u>561,705</u>