

*EXTRACTS FROM*  
ANNUAL REPORT  
AND  
ACCOUNTS

ISLE OF WIGHT COUNCIL  
PENSION FUND  
2019-20

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## Foreword

As the Chairman of the Pension Fund Committee, I am pleased to introduce the annual report and accounts of the Isle of Wight Council Pension Fund for the year ended 31 March 2020, setting out the overall financial activity of the fund.

The coronavirus pandemic had a significant impact on the fund's investment values at the end of the year. From a high of £655.4 million at the end of December 2019, the value fell dramatically to £568.4 million at 31 March 2020 – a reduction of £38.0 million since the previous year end.

Since the end of the financial year, markets have recovered such that the fund's assets at 30 June 2020 were valued at £639.0 million.

The fund's continuing activities to improve its governance framework and overall management of the fund were recognised in September 2019 when it was shortlisted for and won the award for LGPS Fund of the year (assets under £2.5 billion) at the LAPF Investment Awards 2019. The award was presented by Alexander Armstrong to the Technical Finance Manager and the vice-chairman of the committee.

The committee met nine times during the 2019-20 financial year, with alternate meetings covering funding and investment, and governance and administration issues wherever possible. During the year the committee:

- Completed the procurement of a new global custodian and transitioned its assets to the new supplier.
- Adopted a risk management policy specific to the pension fund.
- Continued its engagement with the ACCESS pool, with officers and elected members attending meetings throughout the year. During the year, the fund transitioned its global equity and diversified growth holdings into pooled ownership, so that at year end 52 per cent of the fund's investments were under pool management.
- Received the results of the 2019 valuation of the fund, agreed the employer contribution rates for the forthcoming three years, and adopted the updated Funding Strategy Statement.
- Agreed to amend its strategic asset allocation as a result of the outcome of the 2019 valuation and began increasing committee members' understanding of the new proposed alternative asset classes.
- Received regular updates on the developments in administration of the fund, including the data improvement plan, the results of the council's automatic re-enrolment exercise, and the progress in implementing the i-connect portal for electronic upload of monthly employer data returns.

The pension board continues to provide additional insight and assurance to the committee in terms of governance and administration standards. The board met four times during the year, and their annual report for 2019-20 is presented separately in the fund's annual report and accounts.

2020-21 has begun in a new world, with the lockdown from the pandemic crisis meaning officers and members are engaging with their fund duties in a different way. One committee meeting was cancelled in May 2020, but all meetings are now being delivered virtually through Microsoft Teams.

The key areas of focus for the year will be:

- Implementation of the new investment strategy, including the procurement, selection and appointment of fund managers to support allocations to private debt and infrastructure.
- Continued engagement with the ACCESS pool, including the transition of the fund's remaining investment assets into the pool.
- Monitoring the fund's responses to government consultations, and the implementation of solutions for the McCloud remedy, the Goodwin case, restricted exit payments and cost cap mechanisms.
- Continued review and improvements in the operation of both pension board and committee, linking into the outcomes of the Scheme Advisory Board's Good Governance Review.

Councillor Adrian Axford – Chairman – Isle of Wight Pension Fund Committee



## Scheme management and advisers

Members of the Isle of Wight Council Pension Fund Committee are appointed following the annual meeting of the Full Council. The members during the period were:

			Joined	Resigned
Councillor A Axford	Con	Chair		
Councillor B Abraham	Con			
Councillor D Andre	Ind		29 May 2020	
Councillor P Brading	Con			
Councillor V Churchman	Con			
Councillor P Fuller	Ind		29 May 2019	11 November 2019
Councillor A Garratt	Lib			
Councillor C Mosdell	Con		13 November 2019	15 July 2020
Councillor G Perks	Ungrouped		15 July 2020	
Councillor I Stephens	Ind			29 May 2019

The Committee is advised by:

Mr C Ward, Director of Finance and section 151 officer

Mr D Walker, Investment Consultant – Hymans Robertson LLP

Mrs J Thistlewood, Technical Finance Manager

In addition, a non-voting representative of both the admitted/scheduled bodies and staff union attend the Pension Fund Committee meetings

### Investment Managers

Baillie Gifford & Co  
Calton Square  
1 Greenside Row  
Edinburgh EH1 3AN

Majedie Asset Management Ltd  
5<sup>th</sup> Floor  
10 Old Bailey  
London EC4M 7NG

Newton Investment Management Ltd  
The Bank of New York Mellon Centre  
160 Queen Victoria Street  
London EC4V 4LA

Schroder Investment Management Limited  
31 Gresham Street  
London EC2V 7QA

### Actuarial Services

Hymans Robertson LLP  
20 Waterloo Street  
Glasgow G2 6DB

### Investment Consultants

Hymans Robertson LLP  
20 Waterloo Street  
Glasgow G2 6DB

### AVC Provider

Prudential  
AVC Customer Services  
Stirling FK9 4UE

### Custodian

Northern Trust  
50 Bank Street  
London E14 5NT

### ACCESS Pool Operator

Link Asset Services,  
Arlington Business Centre,  
Millshaw Park Lane,  
Leeds LS11 0PA

### Bankers

Lloyds Bank  
3 Town Quay  
Southampton  
SO14 2AQ

Auditors

Ernst & Young LLP  
Wessex House  
19 Threefield Lane  
Southampton SO14 3QB

Scheme Administrator

Isle of Wight Council  
County Hall  
Newport  
Isle of Wight PO30 1UD  
[pensions@iow.gov.uk](mailto:pensions@iow.gov.uk)  
<http://www.isleofwightpensionfund.org/>  
Direct Tel No 01983 823626

In addition, the Isle of Wight Pension Fund is a member of the Pensions and Lifetime Savings Association (PLSA).

## Investment Policy and Performance Report for 2019-20

Hymans Robertson LLP 18 May 2020

### Report and Accounts for the period ending 31 March 2020

#### Introduction

The Fund's investments have been managed during the year under review by Majedie Asset Management, Newton Investment Management, Baillie Gifford and Schroders. The Newton and Baillie Gifford funds are accessed through the ACCESS pool. The strategic benchmark allocation as at 31 March 2020 was:

Manager	Mandate	Allocation	Control ranges	Benchmark
Majedie	UK Equities	22.5%	19.5 – 25.5%	FTSE All-Share index
Newton	Global Equities	32.5%	29.5 – 35.5%	MSCI AC (All Countries) World index (net dividends re-invested)
Baillie Gifford	Diversified Growth	15.0%	11.0 – 19.0%	UK Base Rate + 3.5%
Schroder	UK Bonds	22.0%	18.0% – 26.0%	50% iBoxx GBP Gilts TR + 50% iBoxx GBP Non-Gilts
Schroder	UK Property	8.0%	4.0% – 12.0%	IPD Pooled Property Fund indices All Balanced Funds Median
<b>Total</b>		<b>100.0%</b>	-	

Source: Investment Strategy Statement

#### Summary of strategic changes

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

#### Asset Allocation

Manager/Asset Class	Actual Asset Allocation				Benchmark Allocation (%)
	Start of Year (£'000)	End of Year (£'000)	Start of Year (%)	End of Year (%)	
<b>Majedie – UK Equity</b>	<b>123,564</b>	<b>117,179</b>	20.3	20.6	22.5
<b>Newton – Global Equity</b>	<b>251,386</b>	<b>196,478</b>	41.4	34.5	32.5
<b>Baillie Gifford – Diversified Growth</b>	<b>82,201</b>	<b>97,203</b>	13.5	17.1	15.0
<b>Schroder – UK Bonds</b>	<b>113,636</b>	<b>121,737</b>	18.7	21.4	22.0
<b>Schroder – UK Property</b>	<b>36,430</b>	<b>36,953</b>	6.0	6.5	8.0
<b>Total</b>	<b>602,217</b>	<b>569,550</b>	<b>100</b>	<b>100.0</b>	<b>100.0</b>

Source: Investment Managers

Figures may not sum to total due to rounding.

#### Reasons for variance from Benchmark

The Fund is slightly overweight to Global Equities and Diversified Growth, relative to strategic benchmark and correspondingly underweight to UK equities, Corporate Bonds and Property.

All portfolios were within their target ranges as at 31 March 2020. A rebalancing exercise was undertaken over Q4 2019, reducing the material overweight position to Global equities and increasing the positions to UK equities and Diversified Growth to bring the Fund's overall strategic allocation to within the target ranges.

## Market Background

### Investment Markets

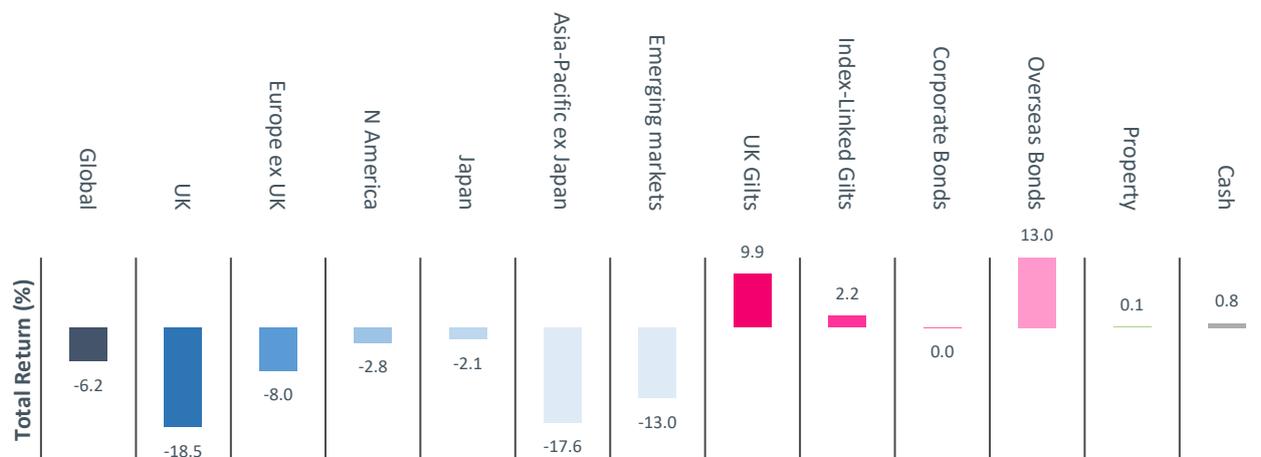
Q4 GDP numbers were broadly in-line with trend for the last 12 months - a modest slowdown year-on-year. Given the global spread of Coronavirus, and the impact of containment measures, latest consensus forecasts suggest the global economy will contract by over 2% in 2020. GDP in the major advanced economies is expected to fall more than during the global financial crisis.

Falling domestic demand globally and steep oil price declines, due to collapsing demand and over supply, are disinflationary. Inflation, which was already below target in the major advanced economies, is forecast to slow in 2020.

The US Federal Reserve (Fed) and the Bank of England (BoE) have cut rates to record lows. The Bank of Japan and the European Central Bank have joined the Fed and BoE in restarting and expanding their quantitative easing programs. The Fed's now unlimited purchase program will, for the first time, include corporate debt. At the same time, governments are making available unprecedented levels of fiscal support with the aim of limiting bankruptcies and unemployment.

Sovereign bond yields followed deteriorating macroeconomic data lower in 2019, before plunging to record lows in March. In the UK, 10-year nominal gilt yields fell from 1.0% p.a. to 0.36% p.a. Implied inflation fell as index-linked gilts fell less than their nominal counterparts.

12 Month performance to 31 March 2020



### Equities

Global equity markets fell 9.6% in local currency terms and 6.2% in sterling terms, as sterling weakness benefited unhedged investors. Global equities reached record highs in early February, before slumping in March. The UK equity market was the worst performer over the year and saw the largest falls in Q1 given its exposure to the oil & gas sector while the US market outperformed.

### Bonds

Following a relatively benign period in which spreads drifted lower, anticipation of economic disruption, saw credit spreads widen significantly in March. Falling underlying yields cushioned the absolute fall in price terms. Unsurprisingly, speculative grade credit spreads underperformed their investment grade counterparts with US and European high yield spreads rising 4.8% p.a. and 3.7% p.a., respectively. Leveraged loans underperformed within speculative-grade markets as a collapse in interest rate expectations weighed on floating-rate loans.

## Property

UK commercial property market returns slowed, returning 0.1% over the period, with income return insufficient to offset declining capital values. UK property funds have begun to suspend dealing as property valuers have been unable to accurately value the underlying assets with any certainty.

## Currencies

Sterling ended the period 2.1% lower in trade-weighted terms, larger falls were recorded against perceived havens of the dollar and yen.

## Investment Performance

Manager/Asset Class	Last Year		Last 3 Years	
	Fund (%)	Benchmark (%)	Fund (% p.a.)	Benchmark (% p.a.)
Majedie – UK Equity	-20.8	-18.5	-6.8	-4.2
Newton – Global Equity (ACCESS)	-2.0	-6.7	4.4	1.8
Baillie Gifford – Diversified Growth (ACCESS)	-8.6	4.3	-.9	4.1
Schroder – UK Bonds	7.2	6.1	2.3	2.1
Schroder – UK Property	-0.0	.3	3.9	3.6
<b>Total</b>	<b>-5.5</b>	<b>-4.0</b>	<b>0.7</b>	<b>1.1</b>

*Figures shown are based on performance provided by the investment managers. Performance figures are gross of fees*

The Fund underperformed its strategic benchmark over 12 months by 1.5% due mainly to the Fund's overweight position to growth assets which suffered significant losses following the COVID-19 outbreak in Q1 2020 and the resulting economic impact. The Fund is marginally behind its benchmark over 3 years returning 0.7% against a benchmark of 1.1% due in part to the significant losses suffered in Q1 2020 and consistent underperformance of the Majedie UK Equity mandate over the short and medium term.

## Linking the Investment Strategy with the Funding Strategy

The Committee regularly reviews the investment strategy to ensure that it remains appropriate for the Fund's liability profile. Although the investment strategy is set from a long-term perspective, it is formally reviewed every 3 years or after every actuarial valuation. The Committee are currently reviewing the Fund's investment strategy following the results of the 2019 Actuarial Valuation.

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

## Custodial Arrangements

Manager	Custodian
Majedie	Northern Trust
Newton (ACCESS)	Northern Trust
Baillie Gifford (ACCESS)	Northern Trust
Schroder	Northern Trust

*Source: Investment Managers*

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

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

The Fund successfully completed a procurement exercise to change its own custodian during Q1 of 2019 with the transition of custody arrangements from BNP Paribas to Northern Trust taking place during Q2 of 2019.

### **Environmental, Social and Governance considerations**

The Committee have developed a defined set of investment beliefs that include their views on Environmental, Social and Governance ("ESG") issues. The Committee believes that long-term sustainable investment returns are an important consideration, and ESG issues can have a material impact on the long-term performance of its investments.

The Committee recognises that ESG considerations are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention or sale. Each of the investment managers has produced a statement setting out its policy in this regard. The investment managers have been delegated by the Committee to act accordingly.

The Committee are in the process of developing their ESG and Responsible Investment policy further as part of the ongoing investment strategy review process. Once pooled the Fund will work closely with ACCESS on stewardship and engagement issues including ESG issues and voting rights.

### **The Myners Review and Code of Best Practice**

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

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

The Committee monitors their investment policies against Myners to ensure that their implementation is in keeping with the revised principles for the Fund. The following table is an extract taken from the Fund's latest Investment Strategy Statement and provides an update on the Fund's compliance with each of the 6 Myners Principles. The Fund's Investment Strategy Statement will be updated over 2020/21 following the outcome of the ongoing investment strategy review.

Prepared by:-

Emma Garrett, Investment Consultant

David Walker, Partner

For and on behalf of Hymans Robertson LLP

## Actuarial Statement for 2019-20

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

### Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2020. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- not to restrain unnecessarily the Investment Strategy of the Pension Fund so that the Administering Authority can seek to maximise investment returns (and hence meet the costs of benefits) for an appropriate level of risk;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least an 80% likelihood that the Fund will achieve the funding target over 20 years.

### Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £596 million, were sufficient to meet 95% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £32 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

### Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

### Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date; and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

## Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	3.4%
Salary increase assumption	3.1%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.7 years	23.8 years
Future Pensioners*	22.4 years	25.2 years

\*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

### Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

Craig Alexander FFA

30 April 2020

For and on behalf of Hymans Robertson LLP

## Pension Scheme Administration for 2019-20

### Key Performance Indicators

	Detail	2018/19 achieved	Target	April 2019	May 2019	June 2019	July 2019	August 2019	September 2019	October 2019	November 2019	December 2019	January 2020	February 2020	March 2020
Payment of Benefits	Set up of new pension and lump sum within 10 working days of receipt of all documents	98.23%	100	100%	90.63%	100%	100%	100%	100%	93.93%	96.55%	90.48%	88.24%	89.47%	81.25%
Benefits Estimates Members	Estimates of benefits to Members within 20 working days.	96.9%	100	100%	100%	100%	100%	100%	100%	93.33%	100%	100%	86.66%	85.71%	100%
Benefits Estimates Employers	Estimate of benefits to Employers within 5 working days.	96.9%	100	100%	100%	Nil	100%	100%	100%	81.81%	100%	Nil	100%	100%	100%
Annual Benefits Statements	Produce the required standard to statutory timescale by 31 <sup>st</sup> August each year	84.7%	100	LGPS Deferred 99.86%	Nil	Nil	LGPS Deferred Councillo rs 100%	LGPS Deferred 100% Active 100%	NIL	NIL	NIL	Nil	Nil	Nil	Nil
Transfers In Payments	Payment made within 5 working days of receipt of all documentation	100%	100	Nil	100%	100%	100%	100%	100%	100%	100%	66.67%	100%	100%	100%
Transfers in Quotes	Issued within 20 working days of notification and all information required to produce a quote.	100%	100	100%	100%	100%	100%	100%	80%	100%	100%	0%	Nil	Nil	100%

	Detail	2018/19 achieved	Target	April 2019	May 2019	June 2019	July 2019	August 2019	September 2019	October 2019	November 2019	December 2019	January 2020	February 2020	March 2020
Transfers Out Payments	Payment made within 5 working days of receipt of all documentation.	94.4%	100	100%	100%	100%	100%	100%	87.5%	100%	50%	100%	Nil	100%	
Transfers Out Quotes	Issued within 20 working days of notification and all information required produce a quote.	92.9%	100	100%	100%	100%	100%	100%	100%	100%	100%	100%	Nil	Nil	Nil
Deaths	Payment of Death Grant and set up Widow pension within 10 working days	97.9%	100	100%	100%	100%	100%	100%	100%	92.31%	100%	100%	100%	100%	100%
Pensioner Payroll	Payment of pension benefits to member by last working day of month.	100%	100	100% 33 Starters 44 Variations	100% 39 Starters 37 Variations	100% 25 Starters 34 Variations	100% 48 Starters 51 Variations	100% 26 starters 31 variations	100% 33 starters 24 variations	100% 23 Starters 29 variations	100% 35 starters 35 variations	100% 24 Starters 32 Variations	100% 5,540	100% 5646	100%
Pension Team PDRs	Annual PDRs for staff to take place May/June each year	100	100	Nil	Nil	Nil	2 PDRs completed	5 PDRs Completed	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Statutory Reports	Statutory reports, Fire Annual Valuation data, finance reports etc.	100	95	ABS Deferred	Nil	Nil	2019 Valuation 18/07/2019 ABS Deferred Councillo rs 23/07/2019 Annual Allowance 26/07/2019	LGPS Active ABS 13/08/2019	Member Annual Allowance (PSS)		Nil	HMRC PSS Report 23/12/2019	Nil	Nil	

These Key Performance Indicators are presented to the Pension Board at each meeting and any deviation from the target is fully explained

### Breakdown of New Pensioners in 2019/20

The new pensioners that arose during 2019/20 can be broken down as follows:

Redundancy	20
Ill-Health	5
Early Retirement	2
Flexible Retirees	6
Normal Retirement	56
<b>Total New Pensioners</b>	<b>89</b>

### Net operating expenses of Pension Administration

The majority of the costs of operating the pensions administration team are initially incurred by the Isle of Wight Council, as the administering authority, and are then recharged to the Pension Fund. There are also costs that are incurred directly by the pension fund.

The actual costs incurred are:

	Year ended 31 March 2020			Year ended 31 March 2019		
	Recharged by IWC	Incurred directly	Total	Recharged by IWC	Incurred directly	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Staff Costs	250	-	250	254	-	254
IT expenses	27	173	200	25	160	185
Professional Subscriptions	9	14	23	10	59	69
Professional Fees	-	-	-	-	-	-
Premises Expenses	57	-	57	32	-	32
Sundry Office Expenses	-	1	1	-	3	3
<b>Total</b>	<b>343</b>	<b>188</b>	<b>531</b>	<b>321</b>	<b>222</b>	<b>543</b>

### Complaints and disputes

The Internal dispute and complaints procedure is detailed on the Isle of Wight Pension Fund website, which can be found here: <https://www.isleofwightpensionfund.org>

## **Risk Management**

(Updated September 2020)

### **Approach**

The fund continues to develop its risk management processes, following workshops in 2018-19 to reassess the fund's objectives and beliefs in respect of funding, investment, governance and administration outputs.

The funds agreed objectives and beliefs can be found at the link below:

<https://www.iow.gov.uk/Meetings/committees/IW%20Pension%20Fund/5-4-19/PAPER%20B%20-%20Appendix%201.pdf>

The revised investment beliefs have been incorporated into the fund's Investment Strategy Statement, which is published on the fund's website.

<https://isleofwightpensionfund.org/media/4414/investment-strategy-statement-2019-v23-final.pdf>

The fund received the results of the March 2019 actuarial valuation during 2019-20, and adopted a new funding strategy statement, which reviews the measures that the fund has in place to control key financial, demographic, regulatory and governance risks. The funding strategy statement is published on the fund's website:

<https://isleofwightpensionfund.org/media/5277/iwfpf-funding-strategy-statement-2020.pdf>

As part of the valuation, the fund has carried out a review of its investment strategy to assess the effectiveness of the current investment strategy in meeting the fund's long term objectives and to test potential variations in strategy that might improve the likelihood of achieving these objectives. This work continues during 2020-21, and it is expected that a new investment strategy statement will be presented to the committee for adoption in March 2021.

In December 2019 the fund launched a specific pension fund risk management policy, which is published on the funds website.

<https://isleofwightpensionfund.org/media/5188/iwcpf-risk-management-policy-2019-final.pdf>

All reports presented to the pension fund committee continue to include consideration of the risks relevant to the decision or topic being presented. A key area for development is the establishment of a pension fund risk register, and the procedures for reviewing and reporting risks and associated mitigation actions, in accordance with the above policy.

The fund's administration strategy, which is published on the fund's website, sets out the respective duties of the fund and its employers, including the timely submission of accurate monthly data and contribution submissions.

<https://isleofwightpensionfund.org/media/4314/pension-fund-igps-administration-strategy-2018.pdf>

Each pension board meeting receives a report on employer compliance with data and contribution submission deadlines set out in the strategy statement, as well as a report from the Pensions Team on performance against key service standards contained in the strategy statement.

Reporting of key performance indicators is an area for continued development.

### **Internal Audit**

Consideration of the fund's internal control processes is included within the council's internal audit programme. The fundamental accounting controls, which mirror those adopted for the council, are tested annually as part of the Key Financial Systems review.

Pension administration systems and controls are audited every three years, with the most recent completed during 2019-20. This review provided reasonable assurance that the pension administration processes and procedures are of low risk to the authority. A follow up audit, reviewing the progress against the four medium risk findings, is planned for 2020-21.

The fund continues to monitor the actions recommended from the review of the fund's governance framework undertaken by Hymans Robertson LLP in 2018 and has made significant improvements in its governance framework over the last year.

The fund has considered the Phase 2 report from the Scheme Advisory Board's Good Governance Review and is committed to implementing the recommendations once formally published to further

enhance its governance controls.

### Controls assurance reports

The fund receives copies of the ISAE 3402 reports for each of its fund managers and its custodian as part of its year end audit preparation.

<b>Fund Manager</b>	<b>Type of report</b>	<b>Assurance obtained</b>	<b>Reporting accountant</b>
Link Group**	ISAE 3402	Reasonable	KPMG LLP
Majedie	ISAE 3402*	Reasonable	KPMG LLP
Schroders	ISAE 3402	Reasonable	Ernst & Young LLP
<b>Custodian</b>			
Northern Trust	SOC 1	Reasonable	KPMG LLP

\* These reports are based on the control issues Link Group, who acts as custodian for the fund manager.

\*\* Link Group acts as the fund manager for the ACCESS pooled funds

# Statement of Responsibilities for the Statement of Accounts

Extracted from Isle of Wight Council Statement of Accounts 2019-20

## THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The authority's responsibilities

The authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Section 151 officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the statement of accounts.

### The Director of Finance and Section 151 officer's responsibilities

The Director of Finance and Section 151 officer is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this statement of accounts, the Director of Finance and Section 151 officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- complied with the local authority code.

The Director of Finance and Section 151 officer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the statement of accounts for the year ended 31 March 2020 required by the Accounts and Audit Regulations 2015 is set out on pages 6 to 128.

I further certify that the statement of accounts gives a true and fair view of the financial position of the Isle of Wight Council at the 31 March 2020 and its income and expenditure for the year then ended.

*Chris Ward*

**Director of Finance and Section 151 officer**  
(original signed)

**Date: 12<sup>th</sup> June 2020**

**Financial Statements year ended 31 March 2020**

**Fund Account 2019/20**

2018-19 £000	FUND ACCOUNT	Notes	2019-20 £000
	<b>Dealings with members, employers and others directly involved in the fund</b>		
18,612	Contributions	7	20,088
204	Transfers in from other pension funds	8	1,528
2	Other income	9	16
<b>18,818</b>			<b>21,632</b>
(22,008)	Benefits	10	(22,814)
(2,168)	Payments to and on account of leavers	11	(894)
(24,176)			(23,708)
<b>(5,358)</b>			<b>(2,076)</b>
<b>(4,314)</b>	Management expenses	12	<b>(2,945)</b>
	<b>Returns on investments</b>		
15,661	Investment income	13	10,435
(58)	Taxes on income	14	(68)
27,534	Profit and losses on disposal of investments and changes in the value of investments	17	(39,690)
(72)	Interest payable	16	(99)
<b>43,065</b>	Net returns on investments		<b>(29,422)</b>
<b>33,393</b>	<b>Net increase/(decrease) in the net assets available for benefits during the year</b>		<b>(34,443)</b>
562,755	Opening Net Assets of the Scheme		596,148
<b>596,148</b>	Closing Net Assets of the Scheme		<b>561,705</b>

2019 £000	NET ASSETS STATEMENT AS AT 31 MARCH	Notes	2020 £000
603,022	Investment assets	17	563,560
4,053	Cash deposits	17	5,275
<b>607,075</b>			<b>568,835</b>
(650)	Investment liabilities	17	(403)
(10,400)	Short-term borrowings	19A	(8,000)
117	Long-term assets	23	86
869	Current assets	24	2,107
(863)	Current liabilities	25	(920)
<b>596,148</b>	<b>Net assets of the fund available to fund benefits at the period end</b>		<b>561,705</b>

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 22.

# ISLE OF WIGHT COUNCIL PENSION FUND

## NOTES TO THE ACCOUNTS

### 1. DESCRIPTION OF THE FUND

The Isle of Wight Council Pension Fund (“the fund”) is part of the Local Government Pension Scheme (LGPS) and is administered by Isle of Wight Council (“the council”). The council is the reporting entity for this pension fund.

The following description of the fund is a summary. For more detail, reference should be made to the Isle of Wight Council Pension Fund Annual Report 2019-20 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme Regulations.

#### a) General

The fund is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by Isle of Wight Council to provide pensions and other benefits for pensionable employees of Isle of Wight Council, and a range of other scheduled and admitted bodies on the Isle of Wight. Teachers, police officers and fire-fighters are not included as they come within other national pension schemes.

The fund is overseen by the Isle of Wight Pension Fund Committee (“the committee”), which is a committee of Isle of Wight Council.

#### b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Isle of Wight Council Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under the terms of an admission agreement between the fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations or private contractors undertaking a local authority function following outsourcing to the private sector.

The scheduled bodies of the fund with active members at 31 March 2020 are:

Cowes Town Council	Northwood Primary Academy
Cowes Enterprise College, an Ormiston Academy	Ryde Academy
Gurnard Parish Council	Ryde Town Council
Isle of Wight College	Sandown Town Council
Isle of Wight Free School	Shanklin Town Council
Lanesend Primary Academy	St Blasius Primary Academy
Newport Parish Council	St Francis Academy
Northwood Parish Council	Wootton Bridge Parish Council

The admitted bodies of the fund with active members at 31 March 2020 are:

Accomplish Group Ltd	Southern Housing Limited
Barnados	Southern Vectis
Caterlink	Sovereign Housing Limited
Cowes Harbour Commissioners	Top Mops Ltd
Island Roads Limited	Trustees of Carisbrooke Castle Museum
Nviro	Ventnor Botanic Gardens
RM Ltd	Yarmouth (IW) Harbour Commissioners

The membership of the scheme is shown below:

Year ended 31 March 2020

	Administering Authority	Scheduled Bodies	Admitted Bodies	Total
Number of employers with active members	1	16	14	31
Number of contributors (Active members)	3,702	552	116	4,370
Number of frozen refunds <sup>1</sup>	492	8	4	504
Number of deferred pensioners <sup>2</sup>	5,770	663	126	6,559
Number of pensioners/ widows/dependant pensioners	4,354	296	196	4,846
	<b>14,318</b>	<b>1,519</b>	<b>442</b>	<b>16,279</b>

Year ended 31 March 2019

	Administering Authority	Scheduled Bodies	Admitted Bodies	Total
Number of employers with active members	1	17	13	31
Number of contributors (Active members)	3,734	541	106	4,381
Number of frozen refunds <sup>1</sup>	581	11	5	597
Number of deferred pensioners <sup>2</sup>	5,565	615	122	6,302
Number of pensioners/ widows/dependant pensioners	4,177	266	188	4,631
	<b>14,057</b>	<b>1,433</b>	<b>421</b>	<b>15,911</b>

<sup>1</sup> Frozen refunds are former employees who do not have any pension entitlement apart from a return of the contributions paid into the Fund during their employment but have not yet claimed the refund.

<sup>2</sup> A deferred pensioner is a former employee who has accrued pension rights within the Fund but has not yet reached retirement age to enable them to access their benefits or transferred their accrued rights to another Fund/provider.

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013.

The pay bands and rates applicable for the year ended 31 March 2020 are detailed below.

Range (Actual pensionable pay)	Contribution rate
Up to £14,400	5.50%
More than £14,401 and up to £22,500	5.80%
More than £22,501 and up to £36,500	6.50%
More than £36,501 and up to £46,200	6.80%
More than £46,201 and up to £64,600	8.50%
More than £64,601 and up to £91,500	9.90%
More than £91,501 and up to £107,700	10.50%
More than £107,701 and up to £161,500	11.40%
More than £161,500	12.50%

Employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. The current and future employer contribution rates as determined by that valuation are detailed in note 21.

#### d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below.

	Service pre 1 April 2008	Service post 31 March 2008
<b>Pension</b>	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
<b>Lump Sum</b>	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is increased annually in line with the Consumer Prices Index.

A range of other benefits are also provided including early retirement, disability pensions and death benefits. For more details, please refer to the Pensions Office website:

<http://www.isleofwightpensionfund.org/>

## 1. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2019-20 financial year and its position at year-end as at 31 March 2020. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at note 22 of these accounts.

Isle of Wight Council remains satisfied the LGPS that it administers continues to be a going concern. The Pension Fund's latest actuarial valuation, as at 31 March 2019, showed it to be 95% funded – an increase from the position 3 years prior of 92%. The impact of the Coronavirus pandemic on investment markets has affected the value of the Fund to 31 March 2020, however the Fund still has the remaining 3 years of the actuarial period to achieve the target return, and beyond this has agreed a 20 year recovery period in its Funding Strategy Statement should this be necessary to make good an increase in the funding deficit at the next actuarial valuation.

The vast majority of employers in the pension scheme (92% of the Fund by active membership, are scheduled bodies excluding Further and Higher Education employers) have secure public sector funding, and therefore there should be no doubt in their ability to continue to make their pension contributions. Following the latest actuarial valuation and schedule of employer contribution payments, the Pension Fund

has reviewed its cashflow forecast and is confident in its ability to meet its ongoing obligations to pay pensions from its cash balance. In the unlikely event that investments need to be sold 93.7% of the Fund's investments can be converted into cash within 3 months.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Fund account – revenue recognition

##### a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis as follows:

- Employees contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant employing body.

Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

##### b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations 2013 (see notes 8 and 11).

Individual transfers in/out are accounted for when paid or received, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

##### c) Investment income

###### i) Interest income

Interest income is recognised in the fund accounts as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

###### ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

###### iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

###### iv) Movement in the value of investments

Changes in the value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

#### Fund account – expense items

##### d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities, providing that payment has been approved.

##### e) Taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers from withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

**f) Management expenses**

The fund discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs (2016)*, as shown below. All items of expenditure are charged to the fund on an accruals basis as follows:

*Administrative expenses*

All staff costs of the pension's administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund in accordance with council policy.

*Oversight and governance costs*

All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund in accordance with council policy.

*Investment management expenses*

Investment management expenses are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off of valuations by investment managers, these expenses are shown separately in note 12A and grossed up to increase the change in value of investments. The investment managers provided information on management fees using the LGPS cost templates, for the first time in 2018-19.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly these are based on the market values of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition, the fund has negotiated with the following managers that an element of their fee be performance related:

- Majedie Asset Management Limited – UK Equities
- Newton Investment Management Limited – Global Equities up to the date that these assets were transferred to the ACCESS pool (8 May 2019)

Where an investment manager's fee note has not been received by the year end date, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2019-20 no fees are based on such estimates (2018-19: nil)

The cost of obtaining investment advice from external consultants is included in investment management charges.

A proportion of the council's costs representing management time spent by officers on investment management is also charged to the fund.

**g) VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

**Net assets statement**

**h) Financial assets**

All investment assets are included in the financial statements on a fair value basis at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 18). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

**i) Foreign currency transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period.

**j) Cash and cash equivalents**

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

**k) Financial liabilities**

A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. The fund recognises financial liabilities relating to investment trading at fair value at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised cost are carried at amortised cost i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

**l) Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 22).

**m) Additional Voluntary Contributions**

Isle of Wight Council Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Prudential Life and Pensions as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their accounts and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(1)(b) of the Local Government Pension Scheme (Management and Investment Funds) Regulations 2016 but are disclosed as a note only (note 26).

**n) Accruals of expenditure and income**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the council.
- Revenue from the provision of services is recognised when the council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

**o) Provisions, Contingent Liabilities and Contingent Assets**

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset, whose existence will only be confirmed by the occurrence future events.

Contingent assets and liabilities are not recognised in the net assets statement but disclosed by way of a narrative in the notes (see note 28).

#### 4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

##### Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in note 22.

These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/growth.

#### 5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could differ from the assumption and estimates made.

The items in the net assets statement at 31 March 2020 for which there is a significant risk of material adjustment within the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits</b> (Note 22)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	For instance: A 0.5% increase in the discount rate assumption would result in a decrease in the pension fund deficit of £63m. A 0.5% increase in assumed earnings inflation would increase the deficit by approximately £6m. A 0.5% increase in assumed price inflation/pension increases would increase the deficit by approximately £69m. A one-year increase in assumed life expectancy would increase the deficit by approximately £29m
<b>Pooled Property Funds</b> (Note 18)	Valuation techniques are used to determine the carrying amount of pooled property funds. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data.	Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property-based investments.

#### 6. EVENTS AFTER THE BALANCE SHEET DATE

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide additional information about conditions that existed at the end of the reporting period (adjusting events) and

- those that relate to events occurring after the reporting period (non-adjusting events)

Events taking place after the date of authorisation for issue are not reflected in the financial statements.

On 1 October 2020, the independent valuers of the Schroder Real Estate Fund (SREF) removed the remaining material uncertainty clauses with respect to the 1 October 2020 valuation of SREF's property portfolio. Following this, the Authorised Corporate Director ('ACD') and the Depositary confirmed that the suspension in dealing has been lifted, with immediate effect.

Other than as disclosed above, there are no post balance sheet events recorded prior to the authorised for issue date and any events that occurred after this date have not been recognised in the statement of accounts.

## 7. CONTRIBUTIONS RECEIVABLE

### By category:

2018-19 £000		2019-20 £000
3,728	Employees' normal contributions	3,932
9	Employees' additional contributions	8
<b>3,737</b>		<b>3,940</b>
14,116	Employers' normal contributions	14,932
286	Employers' deficit recovery contributions	370
473	Employers' augmentation contributions	846
<b>14,875</b>		<b>16,148</b>
<b>18,612</b>		<b>20,088</b>

### By type of employer:

2018-19 £000		2019-20 £000
14,874	Administering authority	16,190
1,516	Scheduled bodies	1,496
2,222	Admitted bodies	2,402
<b>18,612</b>		<b>20,088</b>

## 8. TRANSFERS IN FROM OTHER PENSION FUNDS

2018-19 £000		2019-20 £000
-	Group transfers	-
204	Individual transfers	1,528
<b>204</b>		<b>1,528</b>

## 9. OTHER INCOME

2018-19 £000		2019-20 £000
10	Miscellaneous income	13
(8)	Contribution Equivalent Premiums	3
<b>2</b>		<b>16</b>

Contribution Equivalent Premiums (CEPs) are sums relating to National Insurance Contributions payable when an employee leaves the pension fund without entitlement to benefits. Sums are held as a contingent asset and/or liability and these amounts remain so until the relevant employee requests a refund of contributions payable, a transfer is made to another pension fund or the employee returns to the employ of the Isle of Wight Council (see note 28).

## 10. BENEFITS PAYABLE

**By category:**

2018-19 £000		2019-20 £000
18,367	Pensions	19,328
3,262	Commutation and lump sum retirement benefits	3,233
379	Lump sum death benefits	253
<b>22,008</b>		<b>22,814</b>

**By type of employer:**

2018-19 £000		2019-20 £000
19,748	Administering authority	20,294
1,375	Scheduled bodies	1,472
885	Admitted bodies	1,048
<b>22,008</b>		<b>22,814</b>

**11. PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

2018-19 £000		2019-20 £000
53	Refund to members leaving service	91
-	- Group transfers	-
2,115	Individual transfers	803
<b>2,168</b>		<b>894</b>

**12. MANAGEMENT EXPENSES**

2018-19 £000		2019-20 £000
543	Administrative costs	530
3,202	Investment management expenses	1,881
569	Oversight and governance costs	534
<b>4,314</b>		<b>2,945</b>

**12A. INVESTMENT MANAGEMENT EXPENSES**

2018-19 £000		2019-20 £000
1,230	Management Fees	1,728
-	- Performance Related Fees	-
38	Custody Fees	33
1,934	Transaction Costs	120
<b>3,202</b>		<b>1,881</b>

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see note 17a).

**13. INVESTMENT INCOME**

2018-19 £000		2019-20 £000
11,448	Income from equities	8,116
	Income from pooled investment vehicles:	
1,050	- Property	1,062
2,776	- Bonds	3,289
261	- Unit Trusts	174
16	Interest on cash deposits	8
110	Other	(2,214)
<b>15,661</b>		<b>10,435</b>

#### 14. TAXATION

2018-19 £000		2019-20 £000
58	Withholding tax - equities	68
<b>58</b>		<b>68</b>

#### 15. EXTERNAL AUDIT COSTS

2018-19 £000		2019-20 £000
16	Payable in respect of external audit	14
<b>16</b>		<b>14</b>

#### 16. INTEREST PAYABLE

2018-19 £000		2019-20 £000
72	Interest on short term borrowing	99
<b>72</b>		<b>99</b>

#### 17. INVESTMENTS

Market value 31 March 2019 £000		Market value 31 March 2020 £000
	<b>Investment assets</b>	
111,300	Equities	104,665
490,844	Pooled Investment Vehicles	457,803
4,053	Cash deposits	5,275
433	Investment income due	223
423	Amounts receivable for sales	834
22	Recoverable withholding tax	35
<b>607,075</b>	<b>Total investment assets</b>	<b>568,835</b>
	<b>Investment liabilities</b>	
(650)	Amounts payable for purchases	(403)
<b>(650)</b>	<b>Total investment liabilities</b>	<b>(403)</b>
<b>606,425</b>	<b>Net investment assets</b>	<b>568,432</b>

#### 17A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS

	Market value 1 April 2019	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2020
	£000	£000	£000	£000	£000
Equities	111,300	82,044	(54,151)	(34,528)	104,665
Pooled Investment Vehicles					
Global Equities	251,386	256,254	(312,654)	1,492	196,478
Property	35,335	90	(291)	(81)	35,053
Bonds	113,636	3,289	(229)	5,041	121,737
Diversified Growth Fund	82,201	136,237	(111,383)	(9,851)	97,204
Unit Trusts	8,286	1,934	(1,333)	(1,556)	7,331
	602,144	479,848	(480,041)	(39,483)	562,468
Cash deposits	4,053			(217)	5,275
Amounts receivable for sales of investments	423			-	834
Investment income due	433			7	223
Recoverable withholding tax	22			-	35
Amounts payable for purchases of investments	(650)			3	(403)
<b>Net investment assets</b>	<b>606,425</b>			<b>(39,690)</b>	<b>568,432</b>

	Market value 1 April 2018	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2019
	£000	£000	£000	£000	£000
Equities	108,032	19,198	(17,400)	1,470	111,300
Pooled Investment Vehicles					
Global Equities	220,394	3,886	-	27,106	251,386
Property	33,562	-	447	1,326	35,335
Bonds	110,708	2,579	-	349	113,636
Diversified Growth Fund	81,834	1,579	-	(1,212)	82,201
Unit Trusts	11,210	261	(1,670)	(1,515)	8,286
	565,740	27,503	(18,623)	27,524	602,144
Cash deposits	3,980			(3)	4,053
Amounts receivable for sales of investments	126			-	423
Investment income due	331			13	433
Recoverable withholding tax	8			-	22
Amounts payable for purchases of investments	(92)			-	(650)
<b>Net investment assets</b>	<b>570,093</b>			<b>27,534</b>	<b>606,425</b>

The level of purchases and sales in the current year is higher than prior year because the Global Equities and the Diversified Growth mandate were transitioned into the ACCESS pool. In addition, there was a rebalancing of the mandates between Global Equities, UK Equities and Diversified Growth. The Schroder UK Real Estate Fund (SREF) temporarily suspended trading on 18 March 2020 until 1 October 2020. This was in line with the majority of other core balanced UK property funds. The trading

suspension aimed to protect long term investors from material uncertainty arising from COVID-19 lockdown measures. The halt on market activity during the pandemic resulted in property valuers being unable to accurately value property portfolios and valuers being forced to insert material uncertainty clauses into their valuations, thus triggering suspension (in accordance with Royal Institute of Chartered Surveyors' guidelines). The Fund continued to monitor this position and remains a long-term investor in the fund with no short-term property transactions planned.

#### 17B. ANALYSIS OF INVESTMENTS

31 March 2019 £000		31 March 2020 £000
	<b>Equities</b>	
	<b>UK</b>	
93,071	Quoted	92,427
	<b>Overseas</b>	
18,229	Quoted	12,238
<b>111,300</b>		<b>104,665</b>
	<b>Pooled funds – additional analysis</b>	
	<b>UK</b>	
113,636	Fixed income unit trusts	121,737
341,873	Unit Trusts	301,013
<b>455,509</b>		<b>422,750</b>
35,335	Pooled property investments	35,053
<b>35,335</b>		<b>35,053</b>
4,053	Cash Deposits	5,275
433	Investment income due	223
423	Amounts receivable from sales	834
22	Withholding Tax	35
<b>4,931</b>		<b>6,367</b>
<b>607,075</b>	<b>Total investment assets</b>	<b>568,835</b>
	<b>Investment Liabilities</b>	
(650)	Amounts payable for purchases	(403)
<b>(650)</b>	<b>Total Investment Liabilities</b>	<b>(403)</b>
<b>606,425</b>	<b>Net investment assets</b>	<b>568,432</b>

#### 17C. INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31 March 2019 £000			Market value 31 March 2020 £000	
	%		£000	%
113,636	18.7%	Schroder Investment Management – Bonds	121,737	21.4%
35,436	5.8%	Schroder Investment Management – Property	35,795	6.3%
		ACCESS Overseas Equities - Newton	196,478	34.6%
		ACCESS Diversified Growth Fund - Ballie Gifford	97,204	17.1%
123,743	20.4%	Majedie Asset Management – UK Equities	117,183	20.6%
82,201	13.6%	Baillie Gifford – Diversified Growth Fund	-	0.0%
251,387	41.5%	Newton Investment Management – Overseas Equities	-	0.0%
<b>606,403</b>			<b>568,397</b>	
22	0.0%	Recoverable withholding tax	35	0.0%
<b>606,425</b>			<b>568,432</b>	

All the above companies are registered in the United Kingdom.

**The following investments represent more than 5% of the total net assets of the fund**

Market value 31 March 2019			Market value 31 March 2020	
£000	%		£000	%
-	0.00%	ACCESS - Global Equities - Newton	196,478	34.98%
113,636	19.07%	Schroder Institutional Sterling Broad Market X Account	121,737	21.67%
-	0.00%	ACCESS - Diversified Growth - Baillie Gifford	97,204	17.30%
35,436	5.95%	Schroder UK Property Fund	35,795	6.37%
251,387	42.19%	Newton International Growth X Account	-	0.00%
82,201	13.80%	Baillie Gifford Diversified Growth Pension Fund	-	0.00%

## 18. FAIR VALUE – BASIS OF VALUATION

All investments are held at fair value in accordance with the requirements of the Code and IFRS13. The valuation bases are set out below. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. There has been no change in the valuation techniques used during the year.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
<b>Market quoted investments</b>	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not Required
<b>Exchange traded pooled investments</b>	Level 1	Closing bid value on published exchanges	Not required	Not Required
<b>Pooled investments – overseas unit trusts and property funds</b>	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV- based pricing set on a forward pricing basis	Not Required

### 18A. FAIR VALUE HEIRARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

#### Level 1

Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted bonds and unit trusts.

#### Level 2

Assets and liabilities at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value based on observable data.

#### Level 3

Assets and liabilities at Level 3 are those where at least one input that could have a significant impact on the instrument's valuation is not based on observable market data.

At 31 March 2020, the fund does not have any investments which should be classified as Level 3.

The following table provides an analysis of the assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable:

31 March 2019				31 March 2020		
Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	Total £000		Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	Total £000
567,687	35,335	603,022	Financial assets at fair value through profit and loss	528,507	35,053	563,560
-	(650)	(650)	Financial liabilities at fair value through profit and loss	-	(403)	(403)
<b>567,687</b>	<b>34,685</b>	<b>602,372</b>	<b>Net investment assets</b>	<b>528,507</b>	<b>34,650</b>	<b>563,157</b>

## 19. FINANCIAL INSTRUMENTS

### 19A. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and the net assets statement heading. No financial instruments were reclassified during the accounting period.

31 March 2019				31 March 2020		
Fair value through profit and loss £000	Assets at amortised costs £000	Liabilities at amortised cost £000		Fair value through profit and loss £000	Assets at amortised costs £000	Liabilities at amortised cost £000
			<b>Financial assets</b>			
111,300			Equities	104,665		
490,845			Pooled investment vehicles	457,803		
	4,056		Cash		6,573	
877			Other investment balances	1,092		
	57		Debtors		193	
<b>603,022</b>	<b>4,113</b>	<b>-</b>		<b>563,560</b>	<b>6,766</b>	<b>-</b>
			<b>Financial liabilities</b>			
(650)			Other investment balances	(403)		
		(984)	Creditors			(712)
			Bank Balance			
		(10,400)	Borrowings			(8,000)
<b>(650)</b>	<b>-</b>	<b>(11,384)</b>		<b>(403)</b>	<b>-</b>	<b>(8,712)</b>
<b>602,372</b>	<b>4,113</b>	<b>(11,384)</b>		<b>563,157</b>	<b>6,766</b>	<b>(8,712)</b>

### 19B. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2019 £000		31 March 2020 £000
	<b>Financial assets</b>	
27,536	Fair value through profit and loss	(39,476)
(2)	Loans and receivables	(217)
	<b>Financial liabilities</b>	
-	Fair value through profit and loss	3
-	Financial liabilities at amortised cost	
<b>27,534</b>	<b>Total</b>	<b>(39,690)</b>

The pension fund has not entered into any financial guarantees that are required to be accounted for as financial instruments

## 20. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### Risk and risk management

The fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk, and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the pension fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions. Because the fund adopts a long-term investment strategy, the high-level risks described below will not alter significantly during the year unless there are significant strategic or tactical changes in the portfolio.

#### **a) Market risk**

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, while optimising investment return.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the pension fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The fund's investments are managed on behalf of the fund by the appointed investment managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus. The committee has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The committee regularly monitors each investment manager and considers and takes advice on the nature of the investments made and associated risks.

#### **Other price risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored to ensure it is within limits specified in the fund investment strategy.

#### **Other price risk - sensitivity analysis**

In consultation with its investment advisors, the fund has determined that the following movements in market price risk are reasonably possible for 2019/20 assuming that all other variables, in particular foreign exchange rates and interest rates, remain the same:

Had the market price of the fund investments increase/decreased in line with the percentages below, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below).

	Value as at 31 March 2020 £000	Volatility of return %	Value on increase £000	Value on decrease £000
<b>Cash &amp; cash equivalents</b>	5,275	0.00%	5,275	5,275
<b>Investment portfolio assets</b>				
Equities – UK	92,427	15.20%	106,476	78,378
Equities – overseas	12,238	22.00%	14,930	9,546
Pooled investment vehicles:				
Global equities	196,478	15.10%	226,146	166,810
Property	35,053	1.20%	35,474	34,633
Bonds	121,737	3.30%	125,755	117,720
Diversified Growth Fund	97,204	14.00%	110,811	83,594
Unit Trusts	7,331	15.40%	8,460	6,202
Amounts receivable for sales	834	0.00%	834	834
Investment income due	223	0.00%	223	223
Recoverable withholding tax	35	0.00%	35	35
Amounts payable for purchases	(403)	0.00%	(403)	(403)
<b>Total</b>	<b>568,432</b>		<b>634,016</b>	<b>502,847</b>

	Value as at 31 March 2019 £000	Volatility of return %	Value on increase £000	Value on decrease £000
<b>Cash &amp; cash equivalents</b>	4,053	0.00%	4,053	4,053
<b>Investment portfolio assets</b>				
Equities – UK	93,071	5.30%	98,004	88,138
Equities – overseas	18,229	4.30%	19,012	17,445
Pooled investment vehicles:				
Global equities	251,386	3.50%	260,185	242,588
Property	35,335	2.00%	36,042	34,629
Bonds	113,636	1.20%	115,000	112,272
Diversified Growth Fund	82,201	1.80%	83,680	80,721
Unit Trusts	8,286	17.20%	9,711	6,861
Amounts receivable for sales	423	0.00%	423	423
Investment income due	433	0.00%	433	433
Recoverable withholding tax	22	0.00%	22	22
Amounts payable for purchases	(650)	0.00%	(650)	(650)
<b>Total</b>	<b>606,425</b>		<b>625,915</b>	<b>586,935</b>

#### b) Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

#### Interest rate risk - sensitivity analysis

The fund recognises that interest rates can vary and can affect both income to the fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits.

The fund does not directly hold any fixed interest securities; hence a change in interest rates will not impact on the fair value of assets.

Changes in interest rates do not impact on the fair value of cash balances, but they will impact on the interest income earned.

#### c) Currency risk

Currency risk represents the risk that the fair value of future cash flows will fluctuate because of changes

in foreign exchange rates. The fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling. For a sterling-based investor, when sterling weakens, the sterling value of foreign currency denominated investments rises. As sterling strengthens, the sterling value of foreign currency denominated investment falls.

The following table summarises the fund's currency exposure as at 31 March 2020, and as at the previous period end:

	Asset value as at 31 March 2020 £000	Asset value as at 31 March 2019 £000
Overseas Quoted Securities	26,826	13,683
Investment income due	92	153
	<b>26,918</b>	<b>13,836</b>

#### Currency risk – sensitivity analysis

Following analysis of historical data, the fund considers the likely volatility associated with foreign exchange movements to be 3.18% (2018-19: 3.74%). This analysis assumes that all other variables, in particular interest rates, remain constant.

A 3.18% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

	Value as at 31 March 2020 £000	Value on increase +3.18% £000	Value on decrease -3.18% £000
Overseas Quoted Securities	26,826	27,680	25,972
Investment income due	92	95	89
	<b>26,918</b>	<b>27,775</b>	<b>26,061</b>

	Value as at 31 March 2019 £000	Value on increase +3.74% £000	Value on decrease -3.74% £000
Overseas Quoted Securities	13,683	14,194	13,172
Investment income due	153	159	147
	<b>13,836</b>	<b>14,353</b>	<b>13,319</b>

#### d) Credit Risk

Credit risk represents the risk that the counterparty to a financial transaction will fail to discharge an obligation and cause the fund to incur a financial loss. This is often referred to as counterparty risk. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

The fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection and monitoring of high quality counterparties, brokers, custodian and investment managers minimises credit risk that may occur through the failure of third parties to settle transactions in a timely manner.

Contractual credit risk is represented by the net payment, or receipt that remains outstanding, and the cost of replacing the position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties. Bankruptcy or insolvency of the custodian may affect the fund's access to its assets. However, all assets held by the custodian are ring-fenced as "client assets" and therefore cannot be claimed by creditors of the custodian. The fund manages its risk by monitoring the credit quality and financial position of the custodian.

The fund does not hold any fixed interest securities directly, hence has limited credit risk through its underlying investments in bonds.

Another source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion. Internally held cash is managed on the fund's behalf by the council's treasury management team in line with the council's Treasury Management Strategy which sets out the permitted counterparties and limits. The fund invests surplus cash held with the custodian in diversified money market funds.

The fund does not engage in securities lending activities, hence is not exposed to the counterparty risk of the collateral provided by borrowers against the securities lent.

The fund does not have any foreign exchange contracts, hence is not subject to credit risk in relation to the counterparties of the contracts.

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations. The pension fund has not experienced any actual defaults in recent years. All contributions due at 31 March 2020 and 31 March 2019 (£548k and £706k respectively) were received in the first month of the financial year.

#### **e) Liquidity Risk**

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The pension fund therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. The fund maintains a cash balance to meet working requirements, which is supported by an available credit line from the Isle of Wight Council. Note 27 includes details of borrowing from the council for this purpose. Management prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund's investment strategy.

A substantial portion of the fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. However, the main liability of the fund is the benefits payable, which fall due over a long period and the investment strategy reflects the long-term nature of these liabilities. Therefore, the fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property which are subject to longer redemption periods and cannot be considered as liquid as the other investments.

All financial liabilities at 31 March 2020 are due within one year.

#### **f) Refinancing risk**

The key risk is that the pension fund will need to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The pension fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

### **21. FUNDING ARRANGEMENTS**

In accordance with the Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019 and the next valuation will take place as at 31 March 2022.

#### **Description of Funding Policy**

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated 13 March 2020. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- not to restrain unnecessarily the Investment Strategy of the Pension Fund so that the Administering Authority can seek to maximise investment returns (and hence meet the costs of benefits) for an appropriate level of risk;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return.
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to determine how each employer can best meet its own liabilities over future years; and

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Taxpayer from an employer defaulting on its pension obligations.

The aim is to have 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Normally this is three years, but in some cases a maximum period of 20 years can be granted. Solvency is achieved when the funds held, plus future expected investment returns, and future contributions are sufficient to meet expected future pension benefits payable. When an employer's funding level is less than 10% of the 100% funding target, then a deficit recovery plan will be put in place requiring additional employer contributions.

**Funding Position as at the last formal funding valuation**

At the 2019 actuarial valuation, the fund was assessed as 95% funded (92% at the March 2016 valuation). This corresponded to a deficit of £32 million (2016 valuation £44 million) at that time. Contribution increases were in effect from 1 April 2020 for both scheme employers and admitted bodies.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 75% chance that the Fund will return to full funding over 20 years.

Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below: -

Employer Name	Minimum Contributions for the Year Ending 31 March		
	2021 % of pay	2022 % of pay	2023 % of pay
Isle of Wight Council	23.5	23.5	23.5
Barnardos	Nil	Nil	Nil
Caterlink	23.5	23.5	23.5
Cowes Enterprise College, an Ormiston Academy *	23.5	23.5	23.5
Cowes Harbour Commissioners	21.5	21.5	21.5
The Island Free School	19.6	19.6	19.6
Island Roads	Nil	Nil	Nil
Isle of Wight College (from 1 August)	23.8	23.8	23.8
Lanesend Academy *	21.1	21.1	21.1
Northwood Academy *	23.5	23.5	23.5
Nviro	23.5	23.5	23.5
Ryde Academy, Academies Enterprise Trust *	23.5	23.5	23.5
Sandown Bay Academy *	23.5	23.5	23.5
Southern Vectis (Wightbus)	10.3	10.3	10.3
Southern Housing Group	31.6	31.6	31.6
Sovereign Housing Group	29.7	29.7	29.7
St Blasius Academy *	23.5	23.5	23.5
St Catherine's School Ltd	26.6	26.6	26.6
St Francis Academy *	23.5	23.5	23.5
Top Mops	21.5	21.5	21.5
Trustees of Carisbrooke Castle Museum	35.4	35.4	35.4
Ventnor Botanical Gardens	Nil	Nil	Nil
Yarmouth Harbour Commissioners	24.8	24.8	24.8

in addition, certain employers make a lump sum contribution

Employer Name	Minimum Contributions for the Year		
	2021 Lump Sum £000	2022 Lump Sum £000	2023 Lump Sum £000
St Catherine's School Ltd	32	33	34
Yarmouth Harbour Commissioners	57	57	57
Cowes Harbour Commissioners	19	19	19
Southern Housing Group	274	274	274
Sovereign Housing Group	198	198	198

\* During 2019-20, academies within the fund were asked whether they wished to pool with the administering authority for contribution rate purposes only. Seven of the academies in operation at the time of the 2019 valuation opted to pool, and the pooled rates are shown above.

Employers that have joined the fund since the last valuation have opted to pay the administering authority's contribution rate. This will be reviewed at the next valuation, 31 March 2022.

### Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 13 March 2020.

#### Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable

membership up to the valuation date and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

### Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

<b>Financial Assumptions</b>	<b>31 March 2019</b> % p.a. Nominal
Discount rate (Investment returns)	3.40%
Salary Increases	3.10%
Price inflation/Pension Increases	2.30%

(Explanatory note: The pay increases shown above are for the purposes of the actuarial valuation only and not a reflection of what actual pay rises will be in the short-term. The assumptions are consistent with other assumptions used in the actuarial valuation and reflect longer term trends.)

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's bespoke set of VitaCurves in line with the CMI 2018 model, with an allowance for smoothing of recent mortality experience and a long-term rate of 1.25% p.a. for both women and men.

Based on these assumptions, the average future life expectancies are as follows:

	<b>Males</b>	<b>Females</b>
Current Pensioners	21.7 years	23.8 years
Future Pensioners *	22.4 years	25.2 years

\* based on members aged 45 at the valuation date.

### **Experience over the period since 31 March 2019**

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced in comparison to that reported in the previous formal valuation.

Copies of the 2019 valuation report and the Funding Strategy Statement are available on request from the Finance Department of the Isle of Wight Council, administering authority to the fund.

## **22. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS**

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year but taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 21). The actuary has also used valued ill health and death benefits in line with IAS 19.

### **Balance Sheet**

<b>Year ended</b>	<b>31 March 2020</b> £m	<b>31 March 2019</b> £m
Present value of Promised Retirement Benefits	(729)	(814)
Fair value of scheme assets (bid value)	561	595
<b>Net Liability</b>	<b>(168)</b>	<b>(219)</b>

The promised retirement benefits have been projected using a roll forward approximation from the latest

formal funding valuation as at 31 March 2019. The actuary estimates this liability at 31 March 2020 comprises £244 million in respect of employee members (2019: £339 million), £167 million in respect of deferred pensioners (2019: £188 million) and £318 million in respect of pensioners (2019: £287 million). The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the actuary is satisfied that the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. The actuary has not made any allowance for unfunded benefits. The liability in respect of employee members incorporates an allowance for the McCloud ruling i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

### Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2020 and 31 March 2019. The actuaries estimate that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £64m. The actuaries estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £26m.

### Financial assumptions

Year ended	31 March 2020 % p.a.	31 March 2019 % p.a.
Inflation/Pension Increase Rate	1.9%	2.5%
Salary Increase Rate	2.7%	2.9%
Discount Rate	2.3%	2.4%

(Explanatory note: The pay increases shown above are for the purposes of the actuarial valuation only and not a reflection of what actual pay rises will be in the short-term. The assumptions are consistent with other assumptions used in the actuarial valuation and reflect longer term trends.)

### Longevity assumption

The life expectancy assumption is based on the Fund's bespoke VitaCurves in line with the CMI 2018 model, with an allowance for smoothing of recent mortality experience and a long-term rate of 1.25% p.a. for both women and men.

Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.7 years	23.8 years
Future Pensioners *	22.4 years	25.2 years

\* Future pensioners are assumed to be currently aged 45 at the most recent formal valuation as at 31 March 2016

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

### Commutation assumption

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

## **23. LONG TERM ASSETS**

31 March 2019 £000		31 March 2020 £000
	Debtors	
62	Contributions due - employers	22
55	Reimbursement of lifetime tax allowances	64
<b>117</b>		<b>86</b>

#### 24. CURRENT ASSETS

31 March 2019 £000		31 March 2020 £000
	Debtors	
119	Contributions due - employees	97
587	Contributions due - employers	451
<b>706</b>		<b>548</b>
48	Taxation	85
5	Sundry debtors	63
107	Payments in advance	113
3	Cash balances	1,298
<b>869</b>		<b>2,107</b>

#### 25. CURRENT LIABILITIES

31 March 2019 £000		31 March 2020 £000
	Creditors	
206	Taxation	208
417	Accruals	340
240	Sundry creditors	372
<b>863</b>		<b>920</b>

#### 26. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

Market value 31 March 2019 £000		Market value 31 March 2020 £000
658	Prudential life and pensions	669

AVC contributions of £101.7 thousand were paid directly to Prudential Life and Pensions during the year (2018-19: £151.7 thousand).

AVC amounts are not included in the pension fund accounts in accordance with Regulation 4(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

#### 27. RELATED PARTY TRANSACTIONS

##### Isle of Wight Council

The Isle of Wight Council Pension Fund is administered by Isle of Wight Council. Consequently, there is a strong relationship between the council and the pension fund.

During the reporting period, the council incurred costs of £538 thousand (2018-19: £475 thousand) in relation to the administration of the fund and was subsequently reimbursed by the fund for these

expenses. The council is also the single largest employer of members of the pension fund and contributed £12.9 million in 2019-20 (2018-19: £11.8 million) to the fund. All monies owing to the fund, with the exception of deferred balances in respect of pension strain costs totalling £29.2 thousand (2019: £66.3 thousand), were paid during the year.

During the year, the pension fund borrowed funds from the council to support its working cash flow requirements; interest was charged on these borrowings at the broker local authority interest rate relevant to the amount and duration of the borrowing at the time it was made. The maximum amount borrowed during 2019-20 was £12.0 million (2018-19: £13.6 million). The balance due to the council at 31 March 2020 is £8.0 million (2019: £10.4 million), Interest of £99.4 thousand (2018-19: £71.8 thousand) was paid on the borrowings in the year.

Year ended 31 March 2019 £000	Repayment profile of borrowings from Isle of Wight Council	Year ended 31 March 2020 £000
1,100	less than 1 month	1,300
-	2 - 3 months	-
1,900	3 - 6 months	1,000
2,600	6 - 9 months	700
4,800	9 - 12 months	5,000
<b>10,400</b>	<b>Total value of borrowings</b>	<b>8,000</b>

### Governance

There are no members of the pension fund committee who are in receipt of pension benefits from, or who are active members of the Isle of Wight Council Pension.

Each member of the pension fund committee is required to declare their interests at each meeting.

Council members named in note 29 form the Pension Fund Committee as trustees.

### 27A. KEY MANAGEMENT PERSONNEL

The key management personnel of the fund are members of the pension fund committee, the Director of Finance and S151 Officer and the Technical Finance Manager.

Total remuneration payable to key management personnel is set out below:

Year ended 31 March 2019 £000		Year ended 31 March 2020 £000
50	Short-term benefits	58
10	Post-employment benefits	12
-	Other long-term benefits	-
-	Termination benefits	-
-	Share-based payments	-
<b>60</b>		<b>70</b>

### 28. CONTINGENT ASSETS AND LIABILITIES

At 31 March 2020 there were contingencies relating to Contribution Equivalent Premiums (CEPs) amounting to a net sum of £135 thousand (2019: £138 thousand) due to the Pension Fund. Assets amounted to £195 thousand and liabilities totalled £60 thousand (2019: £195 thousand and £57 thousand respectively). The sums do not form part of the net assets of the fund. Refunds and payments will only be made on application by the employee.

In October 2018 a decision was made to join a Class Action against BHP Billiton which seeks to recover some of the loss in share value suffered because of BHP Billiton's alleged failure to disclose material information and its alleged misleading and deceptive conduct. It is estimated that there is a possible benefit to the Pension Fund of £5 thousand (2019: £105 thousand). The reduction in the value of the estimated benefit is due to a more accurate estimate being received. This case is currently ongoing. The sums do not form part of the net assets of the fund.

One admitted body employer in the Isle of Wight Pension Fund holds a guarantee bond to guard against the possibility of being unable to meet their pension obligations. This bond is drawn in favour of the pension fund and payment will only be triggered in the event of an employer default. No such default has occurred during 2019/20 (2018/19 Nil).

## **29. TRUSTEES REPORT 2019-20**

The trustees of the pension fund are the members for the time being of the Pension Fund Committee, who at 31 March 2020 were Councillors Abraham, Axford (chair), Brading, Churchman (vice chair), Garratt, and Mosdell. There has been one elected member vacancy within the pension fund committee throughout the year.

In addition, non-voting representatives of the scheme employers (selected by the fund's external employers) and scheme members (selected by UNISON) attend the committee.

Throughout the year the committee has been advised by the Director of Finance and Section 151 Officer, the Technical Finance Manager, and Hymans Robertson LLP (the fund's actuaries, investment consultants and governance consultants).

### Investment Performance

The net assets of the fund at 31 March 2020 were £561.7 million, a decrease of 5.8% on the 31 March 2019 valuation of £596.1 million. The fund's total investments under-performed compared to the agreed benchmarks by 1.5% during the year.

The overall performance of the fund in the year to 31 March 2020 was largely driven by the severe downturn in global investment markets in February and March 2020 due to the coronavirus pandemic.

Over the longer term, the fund underperformed annualised benchmark returns for three years (0.4% underperformance).

### Funding Level

The Fund's last triennial actuarial valuation was undertaken at 31 March 2019, showing a funding level of 95%, compared to 92% at the previous valuation at 31 March 2016. The results of this latest valuation, in terms of revised contribution rates, were implemented with effect from April 2020.

The actuary's interim funding projection report at 31 March 2020 showed that the notional funding level had fallen to 85.6% since the last triennial valuation at 31 March 2019. However, the deficit of £32 million at 31 March 2019 has increased to a deficit of £95 million at 31 March 2020.

### Governance

There were nine scheduled pension fund committee meetings during the year 2019-20, each lasting approximately two hours.

During the year the committee considered the following key items of business:

Approval of 2018-19 annual report and accounts.

Procurement for global custodian services.

Monitoring of actions arising from the 2018 governance review.

Adoption of a new risk management strategy.

Finalisation of the 2019 triennial actuarial valuation of the fund, including approval of employer contribution rates for the next three years.

Adoption of the revised Funding Strategy Statement.

Review of, and agreement to amend, strategic investment asset allocation.

Consideration of alternative investment asset classes.

Review of knowledge and understanding levels.

Review of the operation of both board and committee, including change of meeting day.

Regular updates on the ACCESS pool, including a presentation from the Interim Director of the ACCESS Support Unit .

In addition, the committee continues to receive presentations from its fund managers on the fund's investment performance as well as performance benchmarking and advice from its investment consultants, Hymans Robertson LLP

Development sessions were held after three of the committee meetings, covering:

responsible investment and environmental, social and governance considerations (RI/ESG)

Risk Management

Investment Strategy Modelling, including alternative asset classes.

A summary of committee members' attendance for the year 2019-20 is detailed in table 1 below.

**Table 1: committee attendance**

	Chairman	Vice chairman	Elected member 1	Elected member 2	Elected member 3	Elected member 4	Elected member 4	Elected member 4	Elected member 5	Scheme member rep	Employer rep	
05-Apr-19	√	√	aps	√	√	√				√	√	88%
17-May-19	√	√	aps	√	√	√				√	√	88%
14-Jun-19	√	√	aps	√	√		√			aps	√	75%
19-Jul-19	√	√	√	√	√		√			√	√	100%
06-Sep-19	√	√	aps	√	aps		√			√	√	75%
15-Nov-19	aps	√	aps	√	√			√		√	√	75%
19-Dec-19	√	√	√	√	√			√		√	√	100%
14-Feb-20	√	√	aps	√	√			aps		√	√	75%
13-Mar-20	√	√	aps	sub	aps			√		aps	aps	38%
	89%	100%	22%	89%	78%	22%	33%	33%	0%	78%	89%	79%

Please note the percentage attendance at each meeting (final column) is based on a total committee membership of eight (excluding the on-going elected member vacancy but including the scheme member and employer representatives).

The local pension board comprises two scheme member representatives and two employer representatives, membership was unchanged throughout the year.

There were five scheduled board meetings during the 2019-20 year.

The board considered the following key items of business during the year:

- Review and recommendation of the 2018-19 governance compliance statement.
- Review and recommendation of the risk management strategy.
- Development and finalisation of the board's first annual report.
- Monitoring of progress against the fund's governance action plan and data improvement plan.
- Monitoring of administration performance standards against key performance indicators.
- Monitoring employer compliance with deadlines for submission of monthly data and contributions.
- Review of outcomes of Council's automatic re-enrolment process.
- Regular review of complaints and potential breaches of the law.
- Consideration of responses to the Pension Regulator's annual return and surveys.

Board members also received a development session from CIPFA on developments since the introduction of local pension boards in 2015.

A summary of board members' attendance for the year 2019-20 is detailed in table 2 below.

**Table 2: board attendance**

	Chairman (employer)	Employer rep 2	Scheme member rep 1	Scheme member rep 2	
24-Apr-19	√	√	√	√	100%
18-Jun-19	√	√	√	√	100%
17-Sep-19	√	√	√	√	100%
19-Nov-19	√	√	√	√	100%
28-Jan-20	√	√	√	√	100%

100%	100%	100%	100%	100%
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## **APPENDIX A – Glossary of Terms**

### Accrual rate

The proportion of earnings that a defined benefit pension scheme pays as pension for each year of membership.

### Accrued liabilities

A measure of the value in today's money of all pension entitlements to be paid in the future that have been earned to date.

### Accrued income

The amount of dividend income declared on a shareholding but not paid at the accounting date.

### Active members

Current employees who are contributing to an organisations pension scheme.

### Actuarial assumptions

The assumptions that an actuary must make in order to arrive at a valuation for a pension fund. These include life expectancy, rates of inflation, expected earnings and the income that will be received from pension scheme investments.

### Actuarial liability

The value placed on the accrued benefits of the fund using actuarial methods and assumptions for outgoing, including expenses, expected to fall on the fund after the valuation date based on benefits accrued for service up to the valuation date.

### Actuarial valuation

A review of the pension fund, which takes place every three years, to ensure that employers' contributions are sufficient to maintain the solvency of the fund.

### Actuary

An independent consultant who carries out the actuarial valuation and may also advise on changes in benefit structure and on investment strategies. The actuary will perform calculations based on information about prevailing circumstances and analysis of statistics.

### Additional voluntary contributions (AVCs)

An extra pension contribution which can be made by a member of an occupational pension scheme. AVCs can be made into the occupational scheme or to a standalone product called a freestanding AVC plan.

### Administering authority

A local authority required to maintain a pension fund under the local government pension scheme regulations.

### Admitted bodies/transferee admission bodies

Bodies, including those from the voluntary and charitable sectors and contractors, whose staff can become members of an LGPS fund by virtue of an admission agreement between the administering authority and the relevant body.

### All Share Index

Properly the FTSE All Share Index which summarises the state of the UK equity market. It covers around 900 of the major UK industrial, commercial and financial companies.

### Asset allocation

The apportionment of a fund's assets between asset classes and/or markets (also see Bet). Asset allocation may be strategic, i.e. long-term, or tactical, i.e. short-term, aiming to take advantage of relative market movements.

### Asset classes

A specific category of assets or investments, such as stocks, bonds, cash, international securities and real estate. Assets within the same class generally exhibit similar characteristics, behave similarly in the marketplace and are subject to the same laws and regulations.

### Asset/liability modelling

A statistical tool designed to help establish the most appropriate asset mix for a pension fund, in the context of its liabilities.

### Automatic enrolment

A pension scheme where an individual is made a member by default and has actively to decide to leave the scheme.

### Authorised Unit trusts

A unit trust which is approved by the Financial Services Authority (FSA) to be sold to members of the public.

### Benchmark

A "notional" fund or model portfolio which is developed to provide a standard against which a manager's performance is measured.

A target return is generally expressed as some margin over the benchmark.

### Bond

A security issued by a corporate or government body borrowing in the capital markets. Bonds promise to pay interest (coupons) during the life of the bond plus the main amount borrowed. Bonds may be secured over assets of the firm or they can be unsecured.

### Bonus issue

Bonus, scrip or free issue mean the same thing. Free shares are issued to existing shareholders out of company reserves.

### Career average revaluation of earnings scheme (CARE)

A defined benefit scheme that gives individuals a pension based on a percentage of the salary earned in each year of their working life.

### Cash

Cash is defined as cash instruments (e.g. money market deposits) and cash in bank and in hand.

### Corporate governance

Governance for local authorities is defined as how they ensure that they do the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. It comprises the systems processes, culture and values, by which local government bodies are directed and controlled, and through which they account to, engage with and where appropriate lead their communities.

### Coupon

The interest payments on bonds.

### Currency hedging

An approach aimed at eliminating or reducing foreign exchange risks.

#### Custody/custodian

Safe-keeping of securities by a financial institution. The custodian keeps a register of holdings and will collect income and distribute monies according to client instructions.

#### Deferred members

Scheme members who have left employment or ceased to be an active member of the scheme while remaining in employment, but retain an entitlement to a pension from the scheme.

#### Defined benefit scheme

A scheme where the benefits are defined and paid, irrespective of contributions or investment performance.

#### Defined contribution scheme

A scheme where the benefits paid are dependent on contributions paid and investment performance. These are also called money purchase schemes.

#### Discount rate

Future benefit payments due need to be discounted to give the present value of the liabilities. A discount rate is chosen to reflect the investment return that is expected on the pension fund.

#### Diversification

The spreading of a fund's investments among different asset classes, markets and geographical areas in order to reduce risk. Diversification is a basic principle of multi-asset management.

#### Dividend

A payment distributed by a company to equity shareholders

#### Equities

The general term for ordinary shares issued in UK and overseas companies.

#### Ethical investment

Where investment is restricted to companies undertaking business in accord with an ethical definition. This could cover companies not engaging in arms manufacture.

#### Ex

Without. If a share is sold ex-dividend, the buyer does not get the last dividend that was declared.

#### Financial Services Authority (FSA)

The lead regulator. An agency which is not a government department.

#### Fund managers

Firms of investment professionals appointed by an investments or pensions committee to make day-to-day investment decisions for the fund within the terms of an investment management agreement (IMA).

#### Funding Strategy Statement (FSS)

The funding strategy statement provides a clear and transparent fund specific strategy for meeting an employer's pension liabilities in the future. It also defines a prudent longer term view of funding these liabilities while keeping within the regulatory framework to maintain a constant stable employer's contribution rate.

#### FTSE

A company that specialises in index calculation. Although not part of a stock exchange, co-owners include the London Stock Exchange and the Financial Times. They are best known for the FTSE 100, an index of the top 100 UK companies (ranked by size).

#### Futures

The right to buy a fixed quantity of a commodity on a date in the future at a price fixed earlier

#### Gilts

Fixed or index linked securities issues by the UK government (bonds).

#### Hedging

A strategy which aims to eliminate the possibility of loss in an investment transaction or to minimise a risk by offsetting the exposure to a risk by entering into an investment with the exact opposite pay off pattern. Often used in the context of overseas investments to eliminate any potential currency loss (or profit).

#### IAS 19

An international accounting standard that sets out the accounting treatment for employee benefits, including post-employment benefits such as pensions.

#### Index-linked securities

UK government issued stocks on which the interest and eventual repayment of the loan are based on movements in the retail price index.

#### Investment adviser

A professionally qualified individual or company whose main livelihood is derived from providing objective, impartial investment advice to companies, pension funds or individuals, for a stated fee.

#### Listed security

A security (a share) that is quoted on a major stock exchange.

#### Mandate

Instructions given to the manager by the client on the performance target, restrictions on stocks etc.

#### Market value

The price at which an investment can be bought or sold at a given date.

#### Maturity

The maturity of a pension scheme indicates the number of active members relative to the number receiving pensions.

#### Member

A person who has been admitted to membership of a pension scheme and is entitled to benefit under the scheme.

#### Mid price

Halfway between the bid price and the offer price

#### Mortality 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. Actuaries assess future mortality, using tables based on research and additionally can access databases which enable mortality to be analysed and modelled at a detailed level within employer's geographical areas. Club Vita is an example of such a database.

### Pooled fund

A fund managed by a fund manager in which investors hold units. Stocks, bonds, properties etc. are not held directly by each client, but as part of a "pool". This contrasts with a segregated fund.

### Realised

This is when the value of loss or profit is received when an investment is sold

### Return

This is the percentage change of the total value invested over a set period.

### Rights issue

An issue of new shares by a company, offered to existing shareholders in proportion to their holdings. The new shares are usually offered at a discount to encourage shareholders to buy. However, this can cause the existing price to fall.

### Risk

Generally taken to mean the variability of returns. Investments with a greater perceived risk must usually promise a higher return than a more stable investment before rational investors will consider buying them. Generally the higher the potential return the higher the associated risk.

### Scheduled bodies

These are the organisations listed in the Local Government Pension Scheme (Administration) Regulations 2008 (Schedule 2, Part 1) and include county councils and district councils.

### Scrip dividend

A dividend paid in the form of additional shares rather than cash.

### Securities

Investments in company shares, fixed interest or index-linked stocks.

### Socially responsible investment (SRI)

Investment where social, environmental or ethical considerations are taken into account in the selection, retention and realisation of the investment, and the responsible use of rights (such as voting rights) attached to investments.

### Stock

Commonly used as a name for ordinary shares (common stock in the US) More correctly it is the name for UK gilts.

### Strategic asset allocation

Long-term allocation between the main asset classes with the aim of meeting the investors risk and return objectives.

### Transfer value

The amount of the transfer payment which is made to another pension arrangement.

### Unit trust

An open ended trust investing in a wide spread of stocks, shares and cash (depending on FSA limits) Investors buy units directly from the fund manager.

### Unquoted security

A security which is not quoted on stock exchange

### Unrealised Gains/(Losses)

The increase/(decrease) at year end in the market value of investments held by the fund since the date of their purchase

Withholding tax

A tax deducted from overseas investment income.

Yield

A measure of the return earned on an investment.