ANNUAL REPORT
AND
ACCOUNTS

ISLE OF WIGHT COUNCIL
PENSION FUND
2011-12

Registration number with the Registrar of Occupational and Personal Pensions Schemes
49/22

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Foreword

I am pleased as the new Chairman of the Pension Fund Committee to present the annual report of the Pension Fund for 2011-12.

The overall value of the Fund's investments at 31 March 2012 was £334.8 million, up from £326.5 million as at 31 March 2011.

Performance in 2011-12 has been mixed against a backdrop of continued volatility and uncertainty in the Eurozone. The overall fund performance was a return of 2.3%. The WM League Tables for some 100 Local Authority Pension Funds puts us in overall 72nd place, compared to 8th in the previous year; for UK Equities we were 32nd, UK Bonds 60th and Property 7th. The overall performance was particularly disappointing in Global Equities where we were 96th, and this dragged down the overall performance.

As always, with performance, we need to take a longer term view. In August 2012 we will have had our current investment structure and fund managers for three years, and we will be undertaking a review of overall performance and asset allocation later in 2012-13.

During 2011-12 we tendered our actuarial services and investment advisory services. From 1 April 2012 Hymans Robertson LLP have been reappointed to deliver actuarial services to the Fund and Mercer Limited have been appointed to deliver our investment advisory services. .

Councillor Peter Bingham
Chairman of the Isle of Wight Pension Fund Committee
13 July 2012

Management Structure

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

Councillor R Mazillius	Chair	Resigned from committee 16 May 2012
Councillor P Bingham		Appointed as Chair 16 May 2012
Councillor R Abraham		
Councillor R Barry		
Councillor V Churchman		
Councillor T Hunter-Henderson		Resigned from committee 16 May 2012
Councillor I Ward		Appointed to committee 16 May 2012
Councillor W Whittle		
Vacancy		Effective 16 May 2012

The Committee is advised by:

Strategic Director of Resources, Mr D Burbage
Mr J Hastings, Investment Consultant – Hymans Robertson (until 31 March 2012)
Ms J Holden, Investment Consultant – Mercer Limited (from 1 April 2012)

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

Investment Managers

Schroder Investment Management Limited
31 Gresham Street
London EC2V 7QA

Majedie Asset Management Ltd
5th 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

Actuarial Services

Hymans Robertson LLP
20 Waterloo Street
Glasgow G2 6DB

Investment Consultants

To 31 March 2012:
Hymans Robertson LLP
20 Waterloo Street
Glasgow G2 6DB
From 1 April 2012:
Mercer Limited
Belvedere
12 Booth Street
Manchester M2 4AW

AVC Provider

Prudential
AVC Customer Services
Stirling FK9 4UE

Custodian

JP Morgan Chase Bank NA
Chaseside
Bournemouth BH7 7DA

Auditors

The Audit Commission
Collins House
Bishopstoke Road
Eastleigh
Hampshire SO50 6AD

Bankers

National Westminster
Nat West House
Riverway
Newport
Isle of Wight PO30 5UX

Scheme Administrator

Isle of Wight Council
County Hall
Newport
Isle of Wight PO30 1UD

Fund Account

2010-11 (restated) £000		Notes	2011-12 £000
	Dealings with members, employers and others directly involved in the fund		
18,567	Contributions	7	17,766
2,926	Transfers in from other pension funds	8	1,751
7	Other income	9	12
21,500			19,529
(14,114)	Benefits	10	(18,894)
(1,482)	Payments to and on account of leavers:	11	(1,418)
(446)	Administrative expenses	12	(352)
(16,042)			(20,664)
5,458	Net additions/(withdrawals) from dealings with members		**(1,135)**
	Returns on investments		
7,226	Investment income	13	9,717
(364)	Taxes on income	14	(578)
21,473	Profit and losses on disposal of investments and changes in the market value of investments	17	(1,703)
(984)	Investment management expenses	15	(1,002)
-	Interest payable	16	(4)
27,351	Net returns on investments		6,430
32,809	**Net increase in the net assets available for benefits during the year**		**5,295**

Net Assets Statement

31 March 2011 £000		Notes	31 March 2012 £000
322,500	Investment assets	17	330,646
4,671	Cash deposits	17	4,335
327,171			334,981
(477)	Investment liabilities	17	(66)
-	Borrowings	18	(1,285)
119	Long term assets	22	-
2,319	Current assets	23	1,022
(337)	Current liabilities	24	(562)
328,795	**Net assets of the fund available to fund benefits at the period end**		**334,090**

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 21.

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 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 2011-12 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined benefit pension scheme administered by Isle of Wight Council to provide pensions and other benefits for the majority of local government employees throughout the Isle of Wight, and a range of other scheduled and admitted bodies on the Isle of Wight. Teachers 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, which is a committee of Isle of Wight Council.

b) Membership

Membership of the LGPS 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 an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

The scheduled bodies of the fund at 31 March 2012 are:

Chale Parish Council	Ryde Academy (NEW)
Cowes Town Council (NEW)	Ryde Town Council
Isle of Wight College	Sandown Bay Academy (NEW)
Newport Parish Council	Wootton Bridge Parish Council
Northwood Parish Council	Yarmouth Town Council

The admitted bodies of the fund at 31 March 2012 are:

The Childrens Society	South Wight Housing Association Ltd (Southern Housing)
Cowes Harbour Commissioners	Southern Vectis (NEW)
Isle of Wight Society for the Blind	Spurgeons
Medina Housing Association Ltd (Spectrum Housing)	St Catherine's School Ltd
Osel Enterprises Ltd	Trustees of Carisbrooke Castle Museum
Planet Ice (IOW) Ltd	Yarmouth (IW) Harbour Commissioners
Riverside Centre Ltd	

The membership of the scheme is shown below:
Year ended 31 March 2012

	Administering Authority	Scheduled Bodies	Admitted Bodies	Total
Number of employers with active members	1	10	13	**24**
Number of contributors (Active members)	3,470	385	122	**3,977**
Number of frozen refunds [1]	623	-	-	**623**
Number of deferred pensioners [2]	4,190	204	80	**4,474**
Number of pensioners	2,734	106	120	**2,960**
Number of widows/dependant pensioners	455	6	10	**471**
	11,472	701	332	**12,505**

Year ended 31 March 2011

	Administering Authority	Scheduled Bodies	Admitted Bodies	Total
Number of employers with active members	1	7	12	20
Number of contributors (Active members)	4,196	201	105	4,502
Number of frozen refunds [1]	627	-	-	627
Number of deferred pensioners [2]	3,596	202	74	3,872
Number of pensioners	2,478	106	82	2,666
Number of widows/dependant pensioners	444	6	10	460
	11,341	515	271	12,127

[1] Frozen refunds are former employees who do not have any pension entitlement apart from a return of the contributions paid into the Scheme during their employment but have not yet claimed the refund

[2] A deferred pensioner is a former employee who has accrued pension rights within the Scheme but has not yet reached retirement age to enable them to access their benefits or transferred their accrued rights to another Scheme/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 (Benefits, Membership and Contributions) Regulations 2007. The pay bands and rates applicable for the year ended 31 March 2012 are detailed below.

Range (Annual full-time equivalent pay)	Contribution rate
Up to £12,900	5.5%
£12,901 – £15,100	5.8%
£15,101 – £19,400	5.9%
£19,401 – £32,400	6.5%
£32,401 – £43,300	6.8%
£43,301 – £81,100	7.2%
More than £81,100	7.5%

Employee contributions are matched by employers' contributions which are set based on triennial actuarial valuations. The last such valuation was at 31 March 2010. The current and future employer contribution rates as determined by that valuation are detailed in note 20.

d) Benefits

Pension benefits under the LGPS are based on pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump Sum	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.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Pensions Office website: www.iwight.com/council/departments/pensions

Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1 April 2011.

2. Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2011-12 financial year and its position at year-end as at 31 March 2012. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2011/12* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts 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 21 of these accounts.

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 at the percentage rate recommended by the actuary in the payroll period to which they relate.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. 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 LGPS Regulations (see notes 8 and 11).

Individual transfers in/out are accounted for when paid/received, which us 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. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

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) Movements in the net market value of investments

Movements in the net market 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.

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) Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

g) Investment management expenses

All investment management expenses are accounted for on an accruals basis.

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:

- Newton Investment Management
- Majedie Asset Management

Performance-related fees were nil in 2011-12 (2010-11: £39 thousand)

Where an investment manager's fee note has not been received by the balance sheet 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. There were no such estimates used in the accounts to 31 March 2012.

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

The costs of the council's in-house fund management team are charged direct to the fund and a proportion of the council's costs representing management time spent by officers on investment management is also charged to the fund.

Net assets statement

h) Financial assets

Financial assets are included in the net assets statement 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 by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

i) Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price, if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

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, market values of 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.

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

The fund recognises financial liabilities at fair values at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

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 IAS 26, 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 21).

m) Additional Voluntary Contributions

Isle of Wight Council Pension Fund provides an additional voluntary contribution (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(2)(b) of the Local Government Pension Scheme (Management and Investment Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 25).

n) Prior period adjustments, changes in accounting policies and estimates and errors.
Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change, and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or when the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. There are no prior period adjustments made in these accounts.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. There were no material errors discovered and disclosed in these accounts.

o) Events After the Balance Sheet Date
Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

p) Provisions, Contingent Liabilities and Contingent Assets
i) Provisions
Provisions are made where an event has taken place that gives the fund a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and where a reliable estimate can be made of the amount of the obligation. For instance, the fund may be involved in a court case that could result eventually in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the fund account in the year that the fund becomes aware of the obligation, and are measured at the best estimate, at the balance sheet date, of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made they are charged to the provision carried in the net assets statement. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

ii) Contingent Liabilities

A contingent liability arises where an event has taken place that gives the fund a possible obligation, whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the fund. Contingent liabilities also arise in circumstances where a provision would otherwise be made, but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the net assets statement but disclosed in note 27 to the accounts.

iii) Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset, whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the fund.

Contingent assets are not recognised in the net assets statement but disclosed in note 27 to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

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 and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and summarised in note 20. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. Assumptions made about the future and other major sources of estimation uncertainty

The statement of accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net assets statement at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be provided.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: A 0.5% increase in the discount rate assumption would result in a decrease in the pension fund deficit of £34m. A 0.5% increase in assumed earnings inflation would increase the deficit by approximately £9m. A one-year increase in assumed life expectancy would increase the deficit by approximately £9m

6. Events after the balance sheet date

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:

2010-11 £000		2011-12 £000
	Employers	
13,816	Normal	12,197
570	Special (Capitalisation)	1,775
112	Additional (deficit funding and cessations)	249
14,498		14,221
	Members	
4,014	Normal	3,514
55	Additional	31
4,069		3,545
18,567		**17,766**

By authority:

2010-11 £000		2011-12 £000
16,918	Administering authority	15,560
799	Scheduled bodies	1,221
850	Admitted bodies	985
18,567		**17,766**

8. Transfers in from other pension funds

2010-11 £000		2011-12 £000
-	Group transfers	-
2,926	Individual transfers	1,751
2,926		**1,751**

9. Other income

2010-11 £000		2011-12 £000
7	Miscellaneous income	12
-	Contribution Equivalent Premiums	-
7		**12**

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 27).

10. Benefits payable

By category:

2010-11 £000		2011-12 £000
12,431	Pensions	13,482
1,663	Commutation of pension and lump sum retirement benefits	5,109
20	Lump sum death benefits	303
14,114		**18,894**

By authority:

2010-11 £000		2011-12 £000
12,993	Administering authority	17,377
348	Scheduled bodies	519
773	Admitted bodies	998
14,114		**18,894**

11. Payments to and on account of leavers

2010-11 £000		2011-12 £000
2	Refund of contributions	1
-	Group transfers	-
1,480	Individual transfers	1,417
1,482		**1,418**

12. Administrative expenses

2010-11 (restated) £000		2011-12 £000
321	Administering authority	254
48	IT costs	52
75	Actuarial fees	43
2	Other expenses	3
446		**352**

The 2010-11 figures for administrative expenses have been restated to allow for the reclassification of Actuarial fees from Investment management expenses into Administrative expenses; and Performance management fees from Administrative expenses to Investment management expenses. See also note 15.

Administering authority expenses above include external audit fees of £32.2 thousand (2010-11: £36.6 thousand).

13. Investment income

2010-11 £000		2011-12 £000
3,924	Equity dividends	5,629
	Income from pooled investment vehicles:	
765	- Property	785
2,511	- Bonds	3,247
17	- Unit Trusts	42
8	Interest on cash deposits	10
1	Other	-
7,226		**9,717**

14. Taxation

2010-11 £000		2011-12 £000
364	Withholding tax - equities	578
364		**578**

15. Investment management

2010-11 (restated) £000		2011-12 £000
971	Management fees	972
(7)	Custodian fees	16
9	Performance monitoring fees	9
11	Actuarial fees – investment consultancy	5
984		**1,002**

The 2010-11 figures for investment management expenses have been restated to allow for the reclassification of Actuarial fees from Investment management expenses into Administrative expenses; and Performance management fees from Administrative expenses to Investment management expenses. See also note 12.

16. Interest payable

2010-11 £000		2011-12 £000
-	Interest on short term borrowing	4
-		**4**

17. Investments

Market 31 March 2011 £000		Market value 31 March 2012 £000
	Investment assets	
225,563	Equities	224,897
95,662	Pooled Investment Vehicles	105,094
4,671	Cash deposits	4,335
469	Investment income due	512
630	Amounts receivable for sales	42
176	Recoverable withholding tax	101
327,171	**Total investment assets**	**334,981**
	Investment liabilities	
(477)	Amounts payable for purchases	(66)
(477)	**Total investment liabilities**	**(66)**
326,694	**Net investment assets**	**334,915**

An analysis of the market value at 31 March 2012 by industrial sector can be found at Appendix B.

17a) Reconciliation of movements in investments

	Market value 1 April 2011	Purchases during the year	Sales during the year	Change in market value during the year	**Market value 31 March 2012**
	£000	£000	£000	£000	**£000**
Equities					
UK Equities	113,753	42,240	(36,263)	(1,795)	**117,935**
Global Equities	111,810	-	-	(4,848)	**106,962**
Pooled Investment Vehicles					
Property	17,818	704	-	366	**18,888**
Bonds	68,491	4,046	-	4,566	**77,103**
Unit Trusts	9,353	168	(426)	8	**9,103**
	321,225	47,158	(36,689)	(1,703)	**329,991**
Cash with custodian	4,671			-	**4,335**
Amounts receivable for sales of investments	630				**42**
Investment income due	469				**512**
Recoverable withholding tax	176				**101**
Amounts payable for purchases of investments	(477)				**(66)**
Net investment assets	326,694			(1,703)	**334,915**

	Market value 1 April 2010	Purchases during the year	Sales during the year	Change in market value during the year	**Market value 31 March 2011**
	£000	£000	£000	£000	**£000**
Equities					
UK Equities	104,100	40,644	(36,962)	5,971	**113,753**
Global Equities	100,647	444	-	10,719	**111,810**
Pooled Investment Vehicles					
Property	15,127	1,591	-	1,100	**17,818**
Bonds	63,852	3,218	-	1,421	**68,491**
Unit Trusts	7,008	219	(138)	2,264	**9,353**
	290,734	46,116	(37,100)	21,475	**321,225**
Cash with custodian	3,909			(2)	**4,671**
Amounts receivable for sales of investments	8				**630**
Investment income due	322				**469**
Recoverable withholding tax	21				**176**
Amounts payable for purchases of investments	(322)				**(477)**
Net investment assets	294,672			21,473	**326,694**

17b) Analysis of investments

31 March 2011 £000		31 March 2012 £000
	EQUITIES	
	UK	
113,753	Quoted	117,935
	Overseas	
111,810	Quoted	106,962
225,563		**224,897**
	POOLED FUNDS – ADDITIONAL ANALYSIS	
	UK	
95,662	Quoted	105,094
95,662		**105,094**
321,225		**329,991**

Investments analysed by Fund manager

Market value 31 March 2011			Market value 31 March 2012	
£000	%		£000	%
68,491	21.0	Schroder Investment Management – Bonds	77,103	23.0
52,901	16.2	Schroder Investment Management – UK Equities	51,564	15.4
18,001	5.5	Schroder Investment Management – Property	19,215	5.7
111,810	34.2	Newton Investment Management – Overseas Equities	106,962	32.0
75,315	23.1	Majedie Asset Management – UK Equities	79,970	23.9
326,518			**334,814**	
176	0.0	Recoverable withholding tax	101	0.0
326,694			**334,915**	

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

Market value 31 March 2011			Market value 31 March 2012	
£000	% of total fund		£000	% of total fund
111,810	34.00	Newton International Growth X Account	106,962	32.02

68,491	20.82	Schroder Institutional Sterling Broad Market X Account	77,103	23.08
17,818	5.41	Schroder Exempt Property Unit Trust	18,888	5.65

The following investments represent more than 5% of their asset class

Market value 31 March 2011			Market value 31 March 2012	
£000	% of asset class		£000	% of asset class
		UK Equities		
8,592	7.55	Vodafone Group	8,328	7.07
7,457	6.56	GlaxoSmithKline plc	8,004	6.80
7,205	6.33	BP plc	7,211	6.12
9,086	7.99	Royal Dutch Shell	6,829	5.80
5,684	5.00	HSBC Holdings plc	4,555	3.87

Market value 31 March 2011			Market value 31 March 2012	
£000	% of asset class		£000	% of asset class
		Unit Trusts		
7,256	77.58	Majedie Asset Management Special Situations Investment Fund	7,495	82.33
963	10.30	Schroder Institutional UK Smaller Companies Fund	1,121	12.31
1,134	12.13	Schroder Recovery Fund A Inc	487	5.36

18. Financial instruments

18a) Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets heading. No financial assets were reclassified during the period.

31 March 2011				31 March 2012		
Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial assets			
225,563			Equities	224,897		
95,662			Pooled investment vehicles	105,094		
	5,864		Cash		4,335	
1,275			Other investment balances	655		
			Debtors:			
	1		Due within one year		2	
322,500	**5,865**	**-**		**330,646**	**4,337**	**-**
			Financial liabilities			
(477)			Other investment balances	(66)		
		-	Bank overdraft			(138)
			Creditors:			
		(337)	Due within one year			(266)
		-	Borrowings			(1,285)
(477)	**-**	**(337)**		**(66)**	**-**	**(1,689)**
322,023	**5,865**	**(337)**		**330,580**	**4,337**	**(1,689**

18b) Net gains and losses on financial instruments

31 March 2011 £000		31 March 2012 £000
	Financial assets	
21,745	Fair value through profit and loss	(1,703)
(2)	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
	Financial liabilities	

-	Fair value through profit and loss	-
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
21,743	**Total**	**(1,703)**

18c) Fair value of financial instruments and liabilities

The following table summarised the carrying values of the financial assets and financial liabilities by class of instrument compared to their fair values.

31 March 2011			31 March 2012	
Carrying value	Fair value		Carrying value	Fair value
£000	£000		£000	£000
		Financial assets		
322,500	332,500	Fair value through profit and loss	330,646	330,646
5,865	5,865	Loans and receivables	4,337	4,337
328,365	**328,365**	**Total financial assets**	**334,983**	**334,983**
		Financial liabilities		
(477)	(477)	Fair value through profit and loss	(66)	(66)
(377)	(377)	Financial liabilities measured at amortised cost	(1,689)	(1,689)
(854)	**(854)**	**Total financial liabilities**	**(1,755)**	**(1,755)**

The carrying value of financial instruments and liabilities is the market value prevailing at the balance sheet dates.

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

18d) Valuation of financial instruments carried at fair value

IFRS7 – Financial Instruments: Disclosure requires the Fund to classify its investments using a fair value hierarchy that reflects the subjectivity of the inputs used in making an assessment of fair value. Fair value is the value at which the investments could be realised within a reasonable timeframe. This hierarchy is not a measure of investment risk but a reflection of the ability to value the investments at fair value. The fair value hierarchy has the following levels:

- Level 1 – easy to price securities; there is a liquid market for these securities.
- Level 2 – moderately difficult to price; limited visible market parameters to use in the valuation e.g. use inputs derived from observable market data.
- Level 3 – difficult to price; difficult to verify the parameters used in valuation e.g. use information not available in the market.

The level in the fair value hierarchy will be determined by the lowest level of input that is appropriate for the investment. This is particularly relevant for pooled funds where, for this exercise, the fund is classed as a single investment.

The classification of financial instruments in the fair value hierarchy is subjective but the Fund has applied the same criteria consistently across its investments. The financial instruments reported at fair value are classified in accordance with the following levels:

Level 1 inputs – Quoted prices (unadjusted) in active, liquid markets for an identical instrument. These include active listed equities, exchange traded derivatives, government bonds. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, pricing service or regulatory agency and those prices represent regularly occurring market transactions.

Therefore in the analysis below, Level 1 includes quoted equities and government bonds, which are liquid and readily realisable investments but excludes pooled funds that invest in these securities.

Level 2 inputs – Valuation techniques used to price securities are based on observable inputs. This includes instruments valued using quoted market prices for similar instruments, quoted prices for similar instruments in markets that are less active, or other valuation techniques where all significant inputs are observable from market data.

Therefore in the analysis below, Level 2 includes pooled funds where the net asset value of the pooled fund is derived from observable prices of underlying securities. The Fund's holding in these pooled funds can be realised at net asset value.

Level 3 inputs – Valuation techniques using significant unobservable inputs for the valuation of financial instruments and where there is little market activity. These inputs require management judgement of estimation and include financial instruments that are valued based on unobservable adjustments or assumptions to reflect differences between instruments for which there is no active market.

At 31 March 2012, the fund does not have any investments which should be classified as Level 3.

The following table provides an analysis of the fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy:

At 31 March 2012			
Type of Asset	Level 1	Level 2	Level 3
	£000	£000	£000
UK Equities	117,935	-	-
Global Equities	106,962	-	-
Pooled Investment Vehicles:			
Property	-	18,888	-
Bonds	77,103	-	-
Unit Trusts	9,103	-	-
Cash and Cash Equivalents	4,335	-	-
TOTAL	**315,438**	**18,888**	**-**

At 31 March 2011			
Type of Asset	Level 1	Level 2	Level 3
	£000	£000	£000
UK Equities	113,753	-	-
Global Equities	111,810	-	-
Pooled Investment Vehicles:			
Property	-	17,818	-
Bonds	68,491	-	-
Unit Trusts	9,353	-	-
Cash and Cash Equivalents	4,671	-	-
TOTAL	**308,078**	**17,818**	**-**

19. Nature and extent of risks arising from financial instruments

The fund's objective is to generate positive investment returns for a given level of risk. Therefore the Fund holds financial instruments such as securities (equities, bonds), collective investment schemes (or pooled funds) and cash and cash equivalents. In addition debtors and creditors arise as a result of its operations. The value of these financial instruments in the financial statements approximates to their fair value.

The main risks from the fund's holding of financial instruments are market risk, credit risk and liquidity risk. Market risk includes price risk, interest rate risk and foreign currency risk.

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 Isle of Wight Pension Fund Committee ("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.

The Fund's investments are held by J P Morgan Chase Bank NA, who act as custodian on behalf of the Fund.

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 represents the risk that the fair value of a financial instrument will fluctuate because of changes in market prices, interest rates or currencies. The fund is exposed through its investments in equities, bonds and investment funds, to all these market risks. The aim of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio.

In general, market risk is managed through the diversification of the investments held by asset class, investment mandate guidelines and investment managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the committee.

Market Price Risk

Market price risk represents the risk that the value of a financial instrument will fluctuate caused by factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general.

Market price risk arises from uncertainty about the future value of the financial instruments that the fund holds. 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 risk through diversification in line with their own investment strategies and mandate guidelines.

Market Price Risk - Sensitivity Analysis

The sensitivity of the fund's investments to changes in market prices has been analysed using the volatility of return experienced by each investment portfolio during the reporting period. The volatility data is broadly consistent with a one-standard deviation movement in the value of the assets. The analysis assumes that all other variables remain constant.

Movements in market prices would have increased or decreased the net assets, as held by the fund's custodian, by the amounts shown below.

	Value as at 31 March 2012	Volatility of return	Increase	Decrease
	£'000	%	£'000	£'000
Schroder – Bonds	77,103	3.4%	2,619	(2,619)
Schroder – UK Equities	50,887	4.7%	2,403	(2,403)
Schroder – Property	18,888	2.0%	378	(378)
Newton – Global Equities	106,962	5.8%	6,152	(6,152)
Majedie – UK Equities	76,151	3.5%	2,628	(2,628)
Cash with custodian	4,335	17.6%	762	(762)
Total for Isle of Wight Fund *	334,326	3.2%	10,582	(10,582)

* Please note that this is a separate calculation for the Fund as a whole and not a sum of the above.

	Value as at 31 March 2011	Volatility of return	Increase	Decrease
	£'000	%	£'000	£'000
Schroder – Bonds	68,491	2.4%	1,650	(1,650)
Schroder – UK Equities	51,193	7.6%	3,875	(3,875)
Schroder – Property	17,818	3.4%	602	(602)
Newton – Global Equities	111,810	5.9%	6,611	(6,611)
Majedie – UK Equities	71,913	7.0%	5,038	(5,038)
Cash with custodian	4,671	8.9%	417	(417)

Total for Isle of Wight Fund *	325,896	5.1%	16,627	(16,627)

* Please note that this is a separate calculation for the Fund as a whole and not a sum of the above.

b) Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates which will affect the value of fixed interest and index linked securities. The amount of income receivable from cash balances will be affected by fluctuations in interest rates.

Interest Rate Risk - Sensitivity Analysis

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) Foreign Currency Risk

Foreign currency risk represents the risk that the fair value of financial instruments when expressed in sterling, the fund's base currency, will fluctuate because of changes in foreign exchange rates. The fund would be exposed to currency risk on investments denominated in a currency other than 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 fund does not have any investments denominated in foreign currencies.

d) Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the fund to incur a financial loss. This is often referred to as counterparty risk.

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 counterparties including brokers, custodian and investment managers minimises credit risk that may occur though the failure to settle transactions in a timely manner. The fund's contractual exposure to 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. 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 fund's Treasury Management Policy 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.

e) Liquidity Risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due.

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. The fund maintains a cash balance to meet working requirements. Note 26 includes details of borrowing from the Isle of Wight Council for this purpose.

20. Funding arrangements

In line with the Local Government Pension Scheme (Administration) Regulations 2008, 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 fund's most recent triennial actuarial valuation was undertaken as at 31 March 2010. The next valuation will take place as at 31 March 2013.

The position at March 2010 showed a decline in the funding position relative to the previous valuation, at March 2007. This latest valuation shows that the assets of the Fund equated to 75.3% compared to the previous valuation of 80.2%.

20a) Actuarial Valuation 31 March 2010

This valuation was carried out to calculate employer's contribution rates for the years 2011-12, 2012-13 and 2013-14.

Statement provided by the actuary

This statement has been prepared in accordance with Regulation 34(1) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2010/11.

Description of Funding Policy

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

- To ensure the long term solvency of the Pension fund and of the share of the Pension Funds attributable to individual employers;
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- 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 help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate;
- To minimize the degree of short term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- To use reasonable measures to reduce the risk to other employers and ultimately to the Council taxpayer from and employer defaulting on its pension obligations;
- To address the different characteristics of the disparate employers to the extent that this is practical and cost-effective; and
- To minimise the cost of the Scheme to employers.

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 below the theoretical rate required to return their portion of the Fund to full funding over 21 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 modelling, there is still as sufficiently high likelihood that the Fund will return to full funding over 21 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation was carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £296 million, were sufficient to meet 75.3% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £97 million.

Individual employer's contributions for the period 1 April 2011 to 31 March 2014 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		
	2012	2013	2014
	% of pay	% of pay	% of pay
Isle of Wight Council	22.0	22.0	22.0
Isle of Wight College (from 1 August)	20.2	21.7	22.8
Spectrum Housing Group (Medina HA)	24.6	26.6	28.6
Southern Housing Group (South Wight HA)	20.8	20.8	20.8
Yarmouth Harbour Commissioners	21.6	21.6	21.6
Cowes Harbour Commissioners	24.3	24.3	24.3
St Catherine's School Ltd	40.0	45.0	50.6
IOW Society for the Blind	45.1	45.1	45.1
Riverside Centre Ltd	15.9	15.9	15.9
Trustees of Carisbrooke Castle Museum	25.0	25.0	25.0
Planet Ice (IOW) Ltd	15.1	15.1	15.1
Osel Enterprises Ltd	22.0	22.0	22.0

In addition, certain employers make a lump sum contribution:

Employer Name	Minimum Contributions for the Year Ending 31 March		
	2012	2013	2014
	Lump sum £000	Lump sum £000	Lump sum £000
Southern Housing Group (South Wight HA)	132	132	132
Yarmouth Harbour Commissioners	42	44	47

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions are described in the actuary's valuation report dated 18 March 2011.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the calculation 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 at the 2010 valuation are set out in the table below.

Assumption	Derivation	Rate at 31 March 2010	
		Nominal	Real
Price Inflation (CPI)	Market expectation of long term future inflation as measured by the difference between yields on fixed and index linked Government bonds as at the valuation date, less 0.5% p.a.	3.3%	-
Pay Increases*	CPI plus 2.0% p.a.	5.3%	2.0%
Gilt Based Discount Rate	The yield on fixed interest (nominal) and index linked (real) Government bonds	4.5%	1.2%
Funding basis discount rate	"Gilt based" discount rate plus an asset out-performance assumption of 1.6% p.a.	6.1%	2.8%

* 1% p.a. for 2010-11 and 2011-12, reverting to 5.3% thereafter. Plus an allowance for promotional pay increases.

(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 baseline longevity assumptions adopted at this valuation were in line with standards SAPS mortality tables, and included improvements based on medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.9 years	25.7 years
Future Pensioners	24.9 years	27.7 years

* based on members aged 45 at the valuation date.

Copies of the 2010 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.

21. Actuarial present value of promised retirement benefits

The fund has engaged the actuaries, Hymans Robertson, to assess the present value of future retirement benefits. Their report for 2011-12 is presented below.

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2011/12 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the Isle of Wight Council Pension Fund, which is in the remainder of this note.

Balance sheet

Year ended	31 Mar 2012 £m	31 Mar 2011 £m
Present value of Promised Retirement Benefits	480	433

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2012 comprises £208m in respect of employee members, £76m in respect of deferred pensioners and £196m in respect of pensioners. 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, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

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 as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2012 is to increase the actuarial present value by £12m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2012 % p.a.	31 Mar 2011 % p.a.
Inflation/Pensions Increase Rate	2.5%	2.8%
Salary Increase Rate	4.8%*	5.1%**
Discount Rate	4.8%	5.5%

*Salary increases are assumed to be 1% p.a. nominal for the 3 years to 31 March 2015, reverting to the long term rate shown thereafter.

**Salary increases were assumed to be 1% p.a. nominal for the period to 31 March 2012, reverting to the long term rate shown thereafter.

Longevity assumption

As discussed in the IAS19 generic main report, the life expectancy assumption is based on the SAPS year of birth tables with improvements from 2007 in line with the Medium Cohort and a 1% p.a. underpin. Mortality loadings were applied to the SAPS tables based on membership class. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.9 years	25.7 years
Future Pensioners*	24.9 years	27.7 years

*Future pensioners were assumed to be aged 45 as at the last formal valuation date.

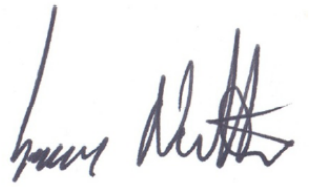
This assumption is the same as at 31 March 2011.

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 2008 service.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2012 for IAS19 purposes' dated April 2012. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.



Geoffrey Nathan FFA

16 May 2012

For and on behalf of Hymans Robertson LLP

22. Long term assets

31 March 2011 £000		31 March 2012 £000
	Debtors	
119	• Contributions due - employers	-
119		**-**

Analysis of debtors

31 March 2 0 1 1 £000		31 March 2012 £000
	Debtors	
119	Local authorities	-

119		-

23. Current assets

31 March 2011 £000		31 March 2012 £000
	Debtors	
32	• Contributions due - employees	38
1,092	• Contributions due - employers	945
1	• Taxation	37
1	• Sundry debtors	2
1,193	Cash balances	-
2,319		**1,022**

Analysis of debtors

31 March 2011 £000		31 March 2012 £000
1	Central government bodies	37
982	Local authorities	781
143	Other entities and individuals	204
1,126		**1,022**

Cash balances

Until 31 March 2011, surplus cash balances of the pension fund were held by the Isle of Wight Council under a co-mingling arrangement. Combined surplus funds were invested according to the Council's treasury management strategy, and interest earned on the pension fund's share was transferred at the year end.

Since 1 April 2011, the pension fund has operated a separate bank account.

24. Current liabilities

31 £000		31 March 2012 £000
-	Bank overdraft	138
	Creditors	
-	• Taxation	158
304	• Accruals	259
33	• Sundry creditors	7
337		**562**

Analysis of creditors

31 £000		31 March 2012 £000
-	Central government bodies	158
337	Other entities and individuals	266
337		**424**

25. Additional voluntary contributions (AVCS)
These are separately invested for the benefit of individual members.

Money purchase assets are allocated to provide benefits to individuals on whose behalf the contributions were paid, and in total £1.09 million were invested on this basis at 31 March 2012 (2011: £1.37 million); these do not form a common pool of assets available for members generally. AVCs are excluded from the Fund Accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment Funds) Regulations 2009 (SI 2009/3093). Members receive an annual statement confirming the contributions paid on their behalf and the value of their money purchase rights.

The Contributions can be made via the Isle of Wight Council to Prudential Life and Pensions to purchase enhanced pension benefits and term life cover.

During 2011-12 AVCs of £118 thousand were separately invested with Prudential Life and Pensions (2010-11: £179 thousand). Of this amount, £1.4 thousand (2010-11: £2.7 thousand) was for the purchase of death in service cover, no value accrues on death cover; this sum is not included in the statement below.

	Prudential Deposit	Prudential with Profits	Prudential Discretionary	**Total**
	£000	£000	£000	**£000**
Opening Value 1 April 2011	208	977	183	**1,368**
Purchase of Investments	53	57	6	**116**
Returns on Investments	1	85	16	**102**
Change in Market Value (Realised and Unrealised)	(84)	(376)	(40)	**(500)**
Closing Value 31 March 2012	**178**	**743**	**165**	**1,086**

	Prudential Deposit	Prudential with Profits	Prudential Discretionary	**Total**
	£000	£000	£000	**£000**
Opening Value 1 April 2010	163	912	164	**1,239**
Purchase of Investments	81	89	6	**176**
Returns on Investments	1	34	13	**48**
Change in Market Value (Realised and Unrealised)	(37)	(58)	-	**(95)**

Closing Value 31 March 2011	**208**	**977**	**183**	**1,368**

26. 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.

The council incurred costs of £254 thousand (2010-11: £321 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 £12.5 million (2010-11: £13.2 million) to the fund in 2011-12. All monies owing to the fund, with the exception of deferred balances in respect of pension strain costs totalling £780 thousand (2011: £1.1 million), were paid during the year.

During 2010-11, the pension fund had an average balance of £373 thousand of excess cash invested with the Isle of Wight Council and the pension fund received £1.2 thousand as interest on this investment (see note 13). Throughout 2011-12 the fund has operated its own bank account, and has had no funds invested with the council.

During 2011-12, 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 2011-12 was £2.0 million. The balance due to the council at 31 March 2012 is £1.285 million, repayable within 2 months. Interest of £4.3 thousand was paid on these borrowings (see note 16).

Governance
There is one member of the pension fund committee who is in receipt of pension benefits from the Isle of Wight Council Pension Fund (committee member Cllr Barry). In addition committee members Cllrs Barry and Whittle are active members of the pension fund.

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.

27. Contingent assets and liabilities
At 31 March 2012 there were contingencies relating to Contribution Equivalent Premiums (CEPs) amounting to a net sum of £142 thousand (2011: £142 thousand) due to the Pension Fund. Assets amounted to £186 thousand and liabilities totalled £44 thousand (2011: £188 thousand and £46 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 2006 a decision was taken by the Investment Panel to join in a Class Action against the HMRC to recover tax credits on overseas dividends. A sum of £880 thousand has been estimated as the possible benefit to the pension fund. This case is on-going. The sums do not form part of the net assets of the fund.

28. Capital commitments
There were no capital commitments as at 31 March 2012 (2011: nil)

29. Trustees report 2011-12
The trustees of the pension fund are the members for the time being of the Pension Fund Committee, who at 31 March 2012 were Councillors Abraham, Barry, Bingham, Churchman, Hunter-Henderson, Mazillius and Whittle. The committee is advised by the Strategic Director of Resources and Hymans Robertson, the fund's actuaries. In addition, non-voting representatives from the admitted bodies and the staff union attend the committee.

<u>Investment Performance</u>
The net assets of the fund at 31 March 2012 were £334.1 million, a rise of 1.6% on the 31 March 2011 valuation of £328.8 million. This reflects the recovery of the world's stock markets after a very difficult third quarter.

Funding Level

The Fund's last triennial actuarial valuation was undertaken at 31 March 2010, showing a funding level of 75.3%, compared to 80.2% at the previous valuation at 31 March 2007. The results of this latest valuation, in terms of revised contribution rates, were implemented with effect from April 2011.

The actuary's funding projection report at 31 March 2012 showed that the notional funding level had declined to 67.3%, principally due to reductions in bond yields throughout the year

Governance

The Committee continues to keep its governance arrangements under review. The Committee considered the framework it should adopt for ensuring its effectiveness. It agreed to adopt the CIPFA Knowledge and Skills Framework Code of Practice and the associated policy statements. It also agreed its overall performance management framework and, following a training needs analysis for Committee members, agreed a training plan for delivery during the next financial year.

In 2011-12 the Committee reviewed the contractual arrangements for its Actuarial and Investment Consultancy Services, resulting in new contracts for both services being effective from 1 April 2012. It also received reports on, and agreed, the Statement of Investment Principles, Funding Strategy Statement and Governance Compliance Statement; and considered the on-going implications of the Hutton review on Public Sector Pensions.

In addition, the Committee continues to receive presentations from its Investment Managers on the pension fund performance as well as performance benchmarking and advice from its independent adviser, Hymans Robertson.

30. Statement of investment principles of the Isle of Wight Council Pension Fund

This statement can be found at Appendix C.

31. Funding strategy statement of the Isle of Wight Council Pension Fund

This statement can be found at Appendix D.

32. Governance compliance statement of the Isle of Wight Council Pension Fund

This statement can be found at Appendix E.

33. Investment manager reviews

These reports can be found at Appendices F to H.

Knowledge and Skills Framework Compliance Statements

Policy statements

1. This organisation adopts the key recommendations of the Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

2. This organisation recognises that effective financial administration and decision-making can only be achieved where those involved have the requisite knowledge and skills.

3. Accordingly this organisation will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.

4. These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

5. This organisation will report on an annual basis how these policies have been put into practice throughout the financial year.

6. This organisation has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Strategic Director of Resources, who will act in accordance with the organisation's policy statement, and, where he is a CIPFA member, with CIPFA Standards of Professional Practice (where relevant).

Member training report

During the year the committee carried out a training needs analysis and, based on the outcome, has formulated a training plan for delivery in 2012-13.

Members have agreed that they will undertake training before the start of each of the scheduled committee meetings in future. These training sessions will be delivered by a combination of officers, external advisers and fund managers. Separate agendas will be issued for these sessions and a record of member and officer attendance will be maintained.

During 2011-12 the committee received presentations from each of the fund managers in respect of the performance of their particular portfolios, briefings from the actuaries in respect of the triennial valuation and from the investment consultants and officers in respect of the latest developments affecting the LGPS.

In addition, members of the committee attended external conferences for further development, including:

- Councillor Churchman attended the National Association of Pension Funds conference
- Councillor Mazillius and Mr Burbage attended the annual LGC summit

Reports from these conferences were provided to the committee at subsequent meetings.

The committee members' attendance at the scheduled committee meetings during 2011-12 is set out in the table below:

	20 May 2011	22 Jul 2011 (AGM)	18 Nov 2011	Special: 14 Dec 2011	17 Feb 2012	%
Councillor R Mazillius (Chair)	√	√	√	√	√	100%
Councillor B Abraham	apols	√	√	√	√	80%
Councillor R Barry	√	√	apols	√	√	80%
Councillor P Bingham	√	√	√	√	√	100%
Councillor V Churchman	√	√	apols	√	√	80%
Councillor T Hunter-Henderson	√	apols	√	√	√	80%
Councillor W Whittle	√	apols	apols	apols	apols	20%
	85%	71%	57%	85%	85%	77%

Communications Policy Statement

This statement outlines how we communicate with our stakeholders and can be found on the Isle of Wight Council Pensions website at:
http://www.iwight.com/council/departments/pensions/Strategies_and_Policies/communic.asp

Governance Policy Statement

Isle of Wight Council, as the administering authority to the Fund, has delegated its functions with regard to the Fund to its Pension Fund Committee.

The Pension Fund Committee oversees the proper administration and management of the Pension Fund. It is responsible for:

- appointing external fund managers and advisers
- making suitable custody arrangements for the Fund's investments
- considering and approving actuarial valuations every three years and determining the level of employers' contributions
- considering changes in pension fund regulations and determining actions required
- considering and approving strategic advice on investment policy
- considering and approving the external managers' asset allocation and investment strategies
- monitoring the investment performance of the managers against the scheme specific benchmarks
- the periodic review of this Statement, the Statement of Investment Principles, the Funding Strategy Statement and the Communications Policy

The Pension Fund Committee normally meets with its Fund Managers and Investment Advisor four times each year, in February, May, July and November. Each meeting considers the strategy and performance of the Managers, together with any business matters that require attention. These include, at least once per annum, consideration of fund management and investment advice arrangements, and the investment strategy of the Fund.

The July meeting also forms the annual meeting to which all employers and employee representatives are invited to discuss fund performance and developments in the statutory framework.

As well as these formal meetings, ad hoc sessions are arranged as required, principally in order to explore available investment strategy options in some depth.

The Investment Committee is constituted to reflect the views of the Council as administering authority and the largest member employer with 87% of the contributing membership.

The Investment Committee consists of

- seven councillors with voting rights plus the Leader of the Council in an ex-officio capacity
- two representatives of the admission bodies/scheduled bodies in an observer capacity
- one representative of the trade unions in an observer capacity

Terms of Reference of Pension Fund Committee

The Constitution of Isle of Wight Council, approved on 28 October 2009, includes the following Terms of Reference for the Pension Fund Committee

Membership

7 elected members
1 non-voting employee representative nominated by Unison
1 non-voting representative nominated by Admitted Bodies
Committee to be quorate when 3 elected members are in attendance

In Attendance

Strategic Director of Resources (or his nominated representative)
Leader of the Council can attend as necessary
2 Representatives as required from Pension Fund Investment Managers (currently Schroder Investment Management, Majedie Asset Management and Newton Investment Management)
1 representative from Investment Advisors (currently Mercer Ltd)
1 administrative support
1 representative from Actuaries (currently Hymans Robertson) will be invited to attend as required e.g. to consider annual report and after triennial fund valuations

Terms of Reference

- Annually, to elect a chairman (when full Council has decided not to so appoint)
- To hold an annual meeting of employer representatives
- To periodically review the Funding Strategy Statement and Statement of Investment Principles of the Fund
- To determine strategic investment policy
- To appoint, and regularly monitor performance of fund managers, investment advisors and actuaries
- To periodically review the structure of Investment Management for the Fund and implement new arrangements as appropriate
- To periodically review and set limits for the overall Asset Allocation of the Fund
- To periodically review issues which have an impact on the Fund's long term solvency including those issues over which the administering body has discretion.
- To tender and/or re-tender contracts for the provision of all actuarial and investment management services required by the Fund in accordance with the Council's standing order.
- To undertake member training on investment issues
- To consider applications for admitted body status

Annual Report

The Committee will produce an annual report on the performance of the Investment Fund and this will be circulated to all members and will be formally reported to the Audit Committee.

APPENDIX A – Glossary of Terms

Accrued income
The amount of income due on a bond since the last coupon payment and the date it is sold. Accrued income is paid by the buyer

Actuarial assumptions
The assumptions an actuary makes when making a valuation. They include life expectancy, inflation rates, expected earnings and income from pension scheme investments.

Actuary
A person who puts together and analyses statistics to work out insurance risks and premiums.

Additional Voluntary Contributions (AVC)
An option available to individuals to secure additional pension benefits by making regular additional payments

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.

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 yardstick against which investment policy or performance by the investment manager can be compared

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.

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

Coupon
The interest payments on bonds.

Currency hedge
Assets owned for the purpose of countering effects on the Fund of foreign exchange movements.

Custody services
Safe keeping of securities by a financial institution including related services such as income collection and processing tax claims.

Deferred pension
The pension benefit payable from normal retirement age to a member of the Fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before the state retirement age.

Defined benefit scheme.
A pension plan that provides a specific benefit for retired employees.

Defined contribution scheme
A pension plan where the final amount available at retirement is not set.

Dividend
When a company shares out its profits to its shareholders. The dividend may be ‘passed’ or ‘cut’ if profits fall.

Equity
The general term for shares in companies.

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.

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 -100 Index
The main UK index used to represent the price movements of the top 100 shares

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

Gilts
Bonds issued by the UK Government

Hedge
To protect a fund from a fall in prices. This is usually accomplished by selling futures.

Index linked
Some bonds are linked to inflation for paying the coupon and for redeeming the bonds. For example, in the UK index linked gilts are linked to the retail prices index.

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

Mandate
The agreement between a client and investment manager laying down how the fund is to be managed. May include performance targets by reference to a benchmark.

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

Mid price
Halfway between the bid price and the offer price

Property unit trust
Pooled investment that enables an investor to hold a stake in a diversified portfolio of properties.

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

Return
The total gain from holding an investment over a given period, including income and increase (decrease) in market value

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.

Scrip issue
An offer of free shares to existing shareholders in proportion to existing holdings. It is sometimes used as an alternative to paying a cash dividend (called a scrip dividend)

Specific benchmark
A target for each sector or type of investment held by a fund manager. Specific benchmarks are agreed between the manager and the Council and included in the investment management agreement.

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

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

APPENDIX B – Analysis of market value by Industrial Sector

	Schroder UK Equities	Majedie UK Equities	Newton Overseas Equities	Schroder Property	Schroder Bonds	TOTAL
	£000	£000	£000	£000	£000	£000
Oil & Gas						
Oil & Gas Producers	7,321	10,613	-	-	-	17,934
Oil Equipment, Services & Distribution	509	-	-	-	-	509
Basic Materials						
Mining	5,382	-	-	-	-	5,382
Industrials						
Construction & Materials	-	109	-	-	-	109
Aerospace & Defence	2,008	3,047	-	-	-	5,055
General Industrials	581	430	-	-	-	1,011
Industrial Engineering	1,062	-	-	-	-	1,062
Industrial Transportation	-	-	-	-	-	-
Support Services	2,291	4,624	-	-	-	6,915
Consumer Goods						
Food Producers	2,267	767	-	-	-	3,034
Household Goods & Home Construction	192	242	-	-	-	434
Personal Goods	924	-	-	-	-	924
Tobacco	1,397	-	-	-	-	1,397
Healthcare						
Healthcare Equipment & Services	-	1,763	-	-	-	1,763
Pharmaceuticals & Biotechnology	4,628	7,897	-	-	-	12,525
Consumer Services						
Food & Drug Retailers	1,137	1,446	-	-	-	2,583
General Retailers	656	3,128	-	-	-	3,785
Media	1,848	4,082	-	-	-	5,930
Travel & Leisure	2,815	4,506	-	-	-	7,321
Telecommunications						
Fixed Line Telecommunications	316	2,758	-	-	-	3,074
Mobile Telecommunications	3,093	5,234	-	-	-	8,328
Utilities						
Electricity	-	2,029	-	-	-	2,029
Gas, Water & Multi Utilities	903	3,070	-	-	-	3,973
Financials						
Banks	3,858	7,397	-	-	-	11,255
Life Insurance	3,802	2,529	-	-	-	6,331
Non-Life Insurance	-	1,337	-	-	-	1,337
Financial Services	1,452	858	-	-	-	2,310
Technology						
Software & Computer Services	838	322	-	-	-	1,160
Technology Hardware & Equipment	-	467	-	-	-	467
Real Estate						
Real Estate	-	-	-	-	-	-
Pooled Funds						
Bonds Managed Fund	-	-	-	-	77,103	77,103
Managed Funds	1,608	7,495	-	-	-	9,103
Overseas Equities Managed Fund	-	-	106,962	-	-	106,962
Property Managed Fund	-	-	-	18,888	-	18,888
Total Market Value, excluding cash	50,888	76,150	106,962	18,888	77,103	329,993

APPENDIX C – Statement of Investment Principles

Dated: 1 May 2012

This is the Statement of Investment Principles (the "Statement") required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the "2009 Regulations").

The Statement has been adopted by the Pension Fund Committee (the "Committee"), which acts on the delegated authority of Isle of Wight Council, the administering authority for the Isle of Wight Council Pension Fund ("the Fund"). The Statement is subject to review from time to time and certainly within six months of any material change in investment policy or other matters as required by law. In preparing this Statement the Committee has consulted with the administrating authority and has taken and considered written advice from the Actuaries.

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In Annexe 1, the Committee has set out details of the extent to which the Fund complies with the six principles set out in the Chartered Institute of Public Finance and Accountancy's publication, 'Investment Decision Making and Disclosure in the Local Government Pension Scheme 2009 – a guide to the application of the 2008 Myners Principles to the management of LGPS funds'.

Fund Objective

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, in accordance with the Local Government Pension Scheme regulations and statutory provisions.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

Investment Strategy

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund (Annex II). The strategic benchmark is reflected in the investment structure adopted by the Committee; this comprises a mix of segregated and pooled manager mandates. The Fund benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

The Committee monitors investment strategy relative to the agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

Schedule 1 of the 2009 Regulations: Limit on Investments

At their meeting on 24 July 2009, the Committee agreed to an increase in the limit on investments in units subject to the trusts of unit trust schemes managed by any single entity, from 25% to 35% (the upper limit specified in Schedule 1). Before taking this decision, the Committee took proper advice from its investment adviser, Hymans Robertson LLP, in relation to the impact of the increase on overall risk within the Fund and how the Committee monitors and manages that risk. The decision was taken because making use of the pooled funds concerned was considered to be effective both in terms of cost and in terms of broader portfolio diversification within the pooled funds concerned. The decision will be re-considered as part of the Committee's review of the Fund's Asset Allocation Strategy during 2012-13.

Types of investment to be held

The Fund may invest in quoted and unquoted securities of UK and overseas markets, including equities, fixed interest and index linked bonds, cash, property and commodities, either directly or through pooled funds.

The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products, for the purpose of efficient portfolio management or to hedge specific risks. The Committee considers all of these classes of investment to be suitable in the circumstances of the Fund.

The strategic asset allocation of the Fund includes a mix of asset types across a range of geographies in order to provide diversification of returns.

Balance between different kinds of investments
The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles.

Risk
In order to achieve its investment objective the Fund takes investment risk including equity risk and active management risk. It is understood and acknowledged that this leads to significant volatility of returns and an ultimate risk that its objectives will not be met. The Fund pursues a policy of lowering risk through diversification of investments by asset class, manager and geography. Risk is also controlled by setting appropriate benchmarks and investment guidelines and maintaining a robust investment monitoring regime.

The Fund's risk register is appended to this statement at Annex III.

Expected return on investments
Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the actuary in funding the Fund.

Realisation of investments
The majority of assets held within the Fund may be realised quickly if required.

Social, Environmental and Ethical Considerations
The Committee recognises that social, environmental and ethical considerations are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention or sale. The managers have produced statements setting out its policy in this regard. The managers have been delegated by the Committee to act accordingly.

Exercise of Voting Rights
The Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the managers have produced written guidelines of their process and practice in this regard. The managers are encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Stock Lending
Within segregated mandates, the Committee has absolute discretion over whether stock lending is permitted. The Committee has considered its approach to stock lending, taking advice from its investment adviser. After consideration of that advice, the Committee has decided not to permit stock lending within any of its segregated investment mandates.

The Committee has no direct control over stock lending in pooled funds as it is for the managers of those pooled funds to determine whether to undertake a certain amount of stock lending on behalf of unit holders. If a pooled fund engages in this activity, the extent to which it does so is disclosed by the manager. None of the managers of the pooled funds in which the Fund invests engages in stock lending.

Additional Voluntary Contributions (AVCs)

The Committee gives members the opportunity to invest in a range of vehicles at the members' discretion.

Annex I: Myners Principles

Principle	Response on Adherence
Principle 1 Effective Decision Making: Administering authorities should ensure: • That decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	**Compliant** Decisions are taken by the Pension Fund Committee which is responsible for the management of the Council Pension Fund. The Committee has support from Council officers with sufficient experience to assist them. The Committee also seeks advice from professional actuarial and investment advisers to ensure it can be familiar with the issues concerned when making decisions. A training needs analysis was undertaken by the Committee in January 2012, resulting in a training plan being developed for the financial year 2012-2013. The Committee is able to make robust challenges to advice and is aware of where potential conflicts of interest may reside within the Committee and in relation to service providers.
Principle 2 Clear objectives: An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.	**Compliant** The Committee has established objectives for the Fund which takes account of the nature of Fund liabilities and the contribution strategy. This involved discussions with the Actuary to enable the Committee to set the overall risk budget for the Fund. This is reflected in the investment mandates awarded to the asset managers. There is dialogue with admitted bodies within the Fund in relation to the contributions they pay, their capacity to pay these contributions and the level of guarantees they can provide.
Principle 3 Risk and liabilities: • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	**Compliant** The investment strategy is considered in the light of the nature of the Fund liabilities, the timescale over which benefits will be paid, and financial and demographic factors affecting the liabilities, such as inflation and improving longevity. The Committee and Council officers have discussed the contribution strategy with the Actuary taking account of the strength of covenant of the Council and its long term horizon. Discussions have also taken place with admitted bodies in relation to the affordability of contributions and the strengths of their covenants.
Principle 4 Performance assessment: • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. • Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.	**Partially Compliant** The performance of the Fund and its individual managers are monitored on a regular basis. The quality of advisers is assessed on a qualitative basis but is not formally measured. Advisers are subject to periodic re-tender. The Committee is developing formal processes to measure its own effectiveness.

Principle	Response on Adherence
Principle 5 Responsible Ownership: Administering authorities should • Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. • Include a statement of their policy on responsible ownership in the Statement of Investment Principles. • Report periodically to scheme members on the discharge of such responsibilities.	**Compliant** The Committee encourages its investment managers to adopt the ISC Statement of Principles on the responsibilities of shareholders and agents on the Fund's behalf This Statement of Investment Principles includes a statement on the Fund's policy on responsible ownership.
Principle 6 Transparency and Reporting: Administering authorities should • Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. • Should provide regular communication to scheme members in the form they consider most appropriate.	**Compliant** The Committee maintains minutes of meetings which are available on the Council website. The Council holds a formal annual meeting for members and also meets periodically with sponsoring employer bodies. An Admitted Bodies representative and a Member representative attend Committee meetings. The Statement of Investment Principles is published on the Council website and is available to members on request. Other information on the Scheme is available to members on the Council website.

Annex II: Strategic Asset Allocation

The strategic asset allocation of the Fund, together with control ranges and the benchmark index for each asset class is as follows;

Asset Class	Strategic Allocation %	Control Range %	Benchmark Index
UK Equities	37.5	+/-3%	FTSE All-Share index
Global equities (ex UK)	32.5	+/-3%	MSCI AC (All Countries) World index (net dividends re-invested)
TOTAL EQUITIES	**70.0**	+/- 5%	
TOTAL BONDS	**22.0**	+/- 4%	Merrill Lynch Sterling Broad Market
Property	8.0	+/- 4%	IPD Pooled Property Fund indices All Balanced Funds Median
Cash	-		
TOTAL ASSETS	**100.0**		

For the purpose of measuring performance, an appropriate benchmark index is used.
Where this is not possible or appropriate, for example, where an asset is illiquid or is not reflected in a measurable index, the Committee will consider an appropriate performance benchmark. At present, all investments are made in assets where appropriate benchmarks exist.

Fund Managers

As at 18 May 2012, the following fund managers are appointed within each of the above asset classes

Asset Class	Fund Managers	Note
UK Equities	Schroder Investment Management Limited Majedie Asset Management Limited	1
Global equities (ex UK)	Newton Investment Management Limited	
Bonds	Schroder Investment Management Limited	
Property	Schroder Investment Management Limited	
Cash	All	

Note 1: Although the Majedie Asset Management portfolio remains a UK Equity portfolio, it has been agreed that a maximum of 20% of the portfolio may be invested in non-UK equities.

Annex III: Pension Fund Risk Register

Risks identified by the Committee as at 18 May 2012

Risk Ref	Details	Initial risk score	Target risk score	Target date	Risk Owner
PF0001	Investment Managers Performance Poor performance by Fund Managers resulting in Pension Fund assets failure to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	9	5	28 Feb 2013	David Burbage
PF0002	Cash Flow/Opt Outs/Maturity of Fund/Liabilities. Failure to plan effectively for variances in cash flow.	9	5	31 Dec 2013	David Burbage
PF0003	Valuation vs. contributions: Failure to provide accurate and timely data to enable correct actuarial valuations	5	3	31 Dec 2012	David Burbage
PF0004	Financial failure of Admitted Bodies.	1	1		David Burbage
PF0005	Effectiveness of Decision-making and Governance by the Pension Fund Committee	6	3	31 May 2013	Jo Thistlewood
PF0006	Pension Fund accounting and reporting processes need to be reviewed and updated.	5	3	31 Mar 2013	David Burbage
PF0007	External Advisors to the Pension Fund Failure of external advisors to provide adequate service	5	5		David Burbage

Risk scoring matrix

Likelihood/Probability	*4* *V likely*	7 Medium	11 Medium	14 High	16 VERY HIGH
	3 *Likely*	4 Low	8 Medium	12 High	15 VERY HIGH
	2 *Unlikely*	2 Low	5 Low	9 Medium	13 High
	1 *Remote*	1 Low	3 Low	6 Low	10 Medium
	Scale	*1* *Low*	*2* *Medium*	*3* *High*	*4* *Major*
	Impact/Severity				

APPENDIX D – Funding Strategy Statement

Dated: 1 May 2012

1 Introduction

This is the Funding Strategy Statement (FSS) of the Isle of Wight Council Pension Fund ("the Fund"), which is administered by Isle of Wight Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment advisers will be effective from 22nd July 2011.

1.1 Regulatory Framework

Local Government Pension Scheme ("Scheme") members' accrued benefits are guaranteed by statute. Scheme members' contributions are fixed in the Scheme regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to Scheme members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The FSS forms part of a framework which includes:

- the Local Government Pension Scheme Regulations 1997 (regulations 76A and 77 are particularly relevant); replaced from 1st April 2008 with the Local Government Pension Scheme (Administration) Regulations 2008, regulations 35 and 36;
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary's triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles, this is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions, and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

The key requirements relating to the FSS are that:

- After consultation with all admitted bodies involved with the Fund, the Administering Authority will agree and publish their funding strategy.
  - In preparing the FSS, the Administering Authority must have regard to:
    - FSS guidance produced by Chartered Institute of Public Finance & Accountancy (CIPFA); and
    - Its Statement of Investment Principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

The Fund's actuary must have regard to the FSS as part of the Fund valuation process.

1.2 Reviews of FSS

The 2010 revaluation results and report have now been finalised with implementation from 1st April 2011. This review takes into account the latest position on that review and the updated position on 'pools' and admitted bodies.

2 Purpose

2.1 Purpose of FSS

The Department for Communities and Local Government (CLG) has stated that the purpose of the FSS is:

- "to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and
- to take a **prudent longer-term view** of funding those liabilities."

These objectives are desirable individually, but may be mutually conflicting. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

2.2 Purpose of the Fund

The Fund is a vehicle by which Scheme benefits are delivered. The Fund:

- receives contributions, transfer payments and investment income;
- pays Scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Annex B.

2.3 Aims of the Funding Policy

The objectives of the Fund's funding policy include the following:

- to ensure the long-term solvency of the Fund and of the share of the Fund attributable to individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the Investment Strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence meet the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- 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;
- to address the different characteristics of the disparate employers to the extent that this is practical and cost-effective; and
- to minimise the cost of the Scheme to employers.

3 Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the **"future service rate"**; plus
b) an adjustment for the funding position (or "solvency") of accrued benefits relative to the Pension Fund's solvency target, **"past service adjustment"**. Where there is a funding surplus then there may be a contribution reduction and, conversely, if there is a funding deficit then contributions may increase. The surplus or deficit is spread over an appropriate period.

The Fund's actuary is required by the regulations to report the Common Contribution Rate, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the deficit under (b) is currently spread over a period of 20 years.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in section 3.5.

In effect, the Common Contribution Rate is a notional quantity. Separate future service rates are calculated for each employer, together with individual past service adjustments according to employer-specific spreading and phasing periods.

The circumstances in which it is agreed to pool contributions for some employers are set out in sections 3.7.8 and 3.7.9.

Annex A contains a breakdown of each employer's contributions following the 2010 valuation for the financial years 2011/12, 2012/13 and 2013/14. It includes a reconciliation of each employer's rate with the Common Contribution Rate. It also identifies which employers' contributions have been pooled with others.

Any costs of non-ill-health early retirements must be paid as lump sum payments in addition to the contributions described above, either at the time of the employer's decision or by instalments shortly thereafter.

Employers' contributions are expressed in the Rates and Adjustments Certificate as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss the impact of making one-off capital payments with the Administering Authority before making such payments.

3.2 Solvency and Target Funding Levels

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

'Solvency" for on-going employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund actuary's on-going funding basis. This ratio is known as a funding level.

The on-going funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority. The **on-going funding basis** assumes employers in the Fund are an on-going concern and is described in section 3.3.

The on-going funding basis has traditionally been used for each triennial valuation for all employers in the Fund. However, the Fund reserves the right to adopt the following approach for Admission Bodies (other than Transferee Admission Bodies) where:

- the Admission Body's admission agreement has no guarantor;
- the admission agreement is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe;
- the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

Contribution rates will be set by reference to liabilities valued on a gilts basis (i.e. using a discount rate that has no allowance for potential investment out-performance relative to gilts). The target in setting contributions for any employer in these circumstances is to achieve full funding on a gilts basis by the time the admission agreement terminates or the last active member leaves in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

The Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority.

The Fund operates the same target funding level for all on-going employers or pools of employers of 100% of accrued liabilities valued on the on-going funding basis. Please refer to section 3.8 for the treatment of departing employers.

3.3 On-going Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experiences of Scheme funds advised by the Fund actuary. It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is uncertain. Employers are aware that their contributions are likely to increase in future if longevity exceeds the funding assumptions.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed statutory guarantee underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different profiles of employers.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from the Fund's assets in excess of gilts. There is, however, no guarantee that assets will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

In light of the statutory requirement for the actuary to consider the stability of employer contributions it is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the 2010 valuation, it is assumed that the Fund's investments will deliver an average real additional return of 1.6% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation. Based on the asset allocation of the Fund as at 31 March 2010, this is equivalent to taking credit for excess returns on equities of 2.0% p.a. over and above the gross redemptions yield on index-linked gilts on the valuation date and for excess returns of 0.4% p.a. on the other non-equity assets.

The same financial assumptions are adopted for all on-going employers. All employers have the same asset allocation.

Details of other significant financial assumptions and their derivation are given in the Fund actuary's formal valuation report.

3.4 Future Service Contribution Rates

The future service element of the employer contribution rate is calculated on the on-going valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The future service rate has been calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole.

Where it is considered appropriate to do so then the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a gilts basis (most usually for Admission Bodies that are not a Transferee Admission Body and that have no guarantor in place).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that Admission Bodies must specify in their admission agreement and employment contracts, the conditions for admission to the Pension Fund for all eligible new staff.

3.4.1 Employers which admit new entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically these rates will be derived using the **Projected Unit Method** with a one year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

3.4.2 Employers which do not admit new entrants

Certain Admission Bodies have closed the Scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.

To give more long term stability to such employers' contributions, the **Attained Age** funding method is adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.

Both funding methods are described in the actuary's report on the valuation.

Both future service rates will include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement. They also make allowance for members who are expected to leave before retirement with a deferred pension.

3.5 Adjustments for Individual Employers

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position.

The combined effect of these adjustments for individual employers applied by the Fund actuary relate to:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual, part-time and full-time);
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed leavers;
- the difference between actual and assumed amounts of pension ceasing on death; and
- the additional costs of any non-ill-health retirements relative to any extra payments made; over the period between the 2007 and 2010 valuations and subsequent triennial valuation period.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process. Unless the actuary is advised otherwise, it is assumed that a sum broadly equivalent to the reserve required on the on-going basis is exchanged between the two employers (where the transfer is on a "fully funded" basis).

The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation (and see also section 3.6 below), including, but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of refunds of contributions or individual transfers to other pension funds;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

3.6 Asset Share Calculations for Individual Employers

The Administering Authority does not account for each employer's assets separately. The Fund's actuary is required to apportion the assets of the whole fund between the employers or pools of employers at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer or pool of employers. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset apportionment is capable of verification but not to audit standard.

The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.7 Stability of Employer Contributions

3.7.1 Solvency issues and target funding levels

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of prudential strategies that the Administering Authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible. These include:

- capping of employer contribution rate increases / decreases within a pre-determined range ("Stabilisation");
- the use of extended deficit recovery periods;
- the phasing in of contribution increases / decreases.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. The administering authority may, at its sole discretion, agree alternative funding approaches on a case by case basis but will at all times taking into account its responsibilities in regard to the security of the Fund.

3.7.2 Stabilisation

There can be occasions when, despite the deployment of contribution stabilising mechanisms such as pooling, phasing and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.

In view of this possibility, the Administering Authority has commissioned the Fund actuary to carry out extensive modelling to explore the long term effect on the Fund of capping future contribution increases. The results of this modelling indicate that it is justifiable to limit employer contribution rate changes, subject to the following conditions being met:

- the Administering Authority is satisfied that the status of the employer merits adoption of a stabilised approach; and
- there were no material events occurring before 1 April 2011 which rendered the stabilisation unjustifiable.

In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund actuary, believes that the results of the modelling demonstrate that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" and are currently paying less than their theoretical contribution rate should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

The Scheme regulations require the longer term funding objectives to be to achieve and maintain assets to meet the projected accrued liabilities within reasonably stable employer contribution rates. The role of the Fund actuary, in performing the necessary calculations and determining the key assumptions used is an important feature in determining the funding requirements, the approach to the actuarial valuation and key assumptions used at each triennial valuation form part of the consultation undertaken with the FSS.

3.7.3 Deficit Recovery Periods

The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. However, these are subject to the maximum lengths set out in the table below.

Type of Employer	Maximum Length of Deficit Recovery
Statutory bodies with tax raising powers or government funded	a period to be agreed with each employer not exceeding 20 years
Community Admission Bodies with funding guarantees	a period to be agreed with each employer not exceeding 20 years
Transferee Admission Bodies	the period from the start of the revised contributions to the end of the employer's contract

Type of Employer	Maximum Length of Deficit Recovery
Community Admission Bodies which are closed to new entrants but whose admission agreements continue after last active member retires	a period equivalent to the expected future working lifetime of the remaining Scheme members allowing for expected leavers
All other types of employer	a period equivalent to the expected future working lifetime of the remaining Scheme members allowing for expected leavers

This **maximum** period is used in calculating each employer's **minimum** contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate, which for the 2010 valuation is April 2011; contribution rates for 2010/11 having already been set at the level advised by the 2007 valuation (and which may include contributions towards the deficit where employers are contributing at more than the future service rate). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

3.7.4 Surplus Spreading Periods

Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their minimum contributions.

However, to help meet the stability requirement, employers may prefer not to take such reductions but this will be at the discretion of the Administering Authority.

3.7.5 Phasing in of Contribution Rises

Requests from employers to phase in contribution rises will be considered by the Administering Authority if stability of contributions is an issue.

3.7.6 Phasing in of Contribution Reductions

Any contribution reductions may be phased in over a period agreed with the Administering Authority for all employers except:

- Transferee Admission Bodies; and
- employers where the contribution reduction is due to significant additional contributions having been paid to the Fund since the last valuation for the purpose of reducing the deficit; who for the 2010 valuation, may elect to reduce their contribution rate with effect from 1 April 2012 or from 1 April 2011 with the agreement of the Administering Authority and the actuary.

3.7.7 The Effect of Opting for Longer Spreading or Phasing-In

Employers which are permitted and elect to use a longer deficit spreading period or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term.

However any adjustment is expressed, for different employers the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

3.7.8 Pooled Contributions

There are no pooled arrangements within the Fund other than the Administering Authority.
Any new admission bodies will be admitted on the basis of being an individual employer.

3.8 Admission Bodies Ceasing

Admission agreements for Transferee Admission Bodies are assumed to expire at the end of the contract.

Admission agreements for other employers are generally assumed to be open-ended and to continue until the last active member leaves. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These admission agreements can however be terminated at any point.

The Fund, however, considers any of the following as triggers for the termination of an admission agreement:

- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the admission agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity or to confirm appropriate alternative guarantor as required by the Fund.

In addition either party can voluntarily terminate the admission agreement by giving the appropriate period of notice as set out in the admission agreement to the other party (or parties in the case of a Transferee Admission Body).

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation, as required under Regulation 78 of the 1997 Regulations (38 of the 2008 Regulations), to determine whether there is any deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

(a) For Transferee Admission Bodies at the end of the contract, the assumptions would be those used for an on-going valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.
(b) For Community Admission Bodies which elect to voluntarily terminate their participation, the Administering Authority must look to protect the interests of other on-going employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. This could give rise to significant payments being required.
(c) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Body's members and assets to the guarantor, without needing to crystallise any deficit.
(d) Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment. Spreading of any payment will only be permitted in special circumstances and with the agreement of the Administering Authority and the actuary.

In the event that the Fund is not able to recover the required payment in full directly from the Admission Body or from any bond or indemnity or guarantor, then:

(a) In the case of Transferee Admission Bodies the awarding authority will be liable;
(b) In the case of Admission Bodies that are not Transferee Admission Bodies and have no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the Fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date.

As an alternative to (b) above where the ceasing Admission Body is continuing in business the Fund, at its absolute discretion, reserves the right to enter into an agreement with the ceasing Admission Body to accept an appropriate alternative security to be held against any funding deficit and to carry out the cessation valuation on an on-going valuation basis. This approach would be monitored as part of each triennial valuation and the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified.

3.9 Early Retirement Costs

3.9.1 Non Ill-Health retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members' benefits on retirement are payable from the earliest age that the employee could retire without incurring a reduction to any part of their benefit and without requiring their employer's consent to retire. Members receiving their pension unreduced before this age other than on ill-health grounds are deemed to have retired "early".

The additional costs of premature retirement are calculated by reference to these ages.

Employers must make these additional contributions to the Fund. These contributions may, at the absolute discretion of the Administering Authority, be spread over an appropriate period of time to be advised by the Administering Authority. In any event the spread period cannot exceed the period to the **member's normal retirement date.**

3.9.2 Ill-health monitoring

The Fund will monitor each employer's, or pool of employer's, ill health experience on an on-going basis. If the cumulative number of ill health retirements in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non-ill-health cases.

3.9.3 Ill health insurance

Employers have the ability to insure ill health early retirement strains through an appropriate policy. Where this insurance is effected:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged;
- there is no need for monitoring of allowances.

3.10 Admitted Bodies with new Admission Agreements

The Fund requires the following from Admission Bodies wishing to join the Fund or Admission Bodies entering into further admission agreements.

Transferee Admission Bodies will be required to have a guarantee from the transferring Scheduled Body

The Administering Authority will only consider requests from Community Admission Bodies to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities, and also provide a bond if requested.

These measures reduce the risk to the Fund of potentially having to pick up any shortfall in respect of Admission Bodies.

4 Links to Investment Strategy

The Funding and Investment Strategy are inextricably linked. The Investment Strategy is set by the Administering Authority after taking investment advice from the Scheme's investment advisers.

4.1 Investment Strategy

The Investment Strategy currently being pursued is described in the Fund's Statement of Investment Principles.

The Investment Strategy is set for the long-term, but is reviewed regularly, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2012, the proportion held in equities and property was approximately 72.8% of the total Pension Fund assets.

The Investment Strategy of lowest risk – but not necessarily the most cost-effective in the long-term – would be one which provides cash flows which replicate the expected benefit cash flows (i.e. the liabilities). Equity investment would not be consistent with this.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from index-linked bonds. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund and the secure nature of most employers' covenants.

The same Investment Strategy is currently followed for all employers. The Administering Authority does not currently have the facility to operate different investment strategies for different employers.

4.2 Consistency with Funding Basis

The Fund's investment adviser's current best estimate of the long-term real return from equities is around 4% a year in excess of the return available from investing in index-linked government bonds.

The funding policy anticipates returns of around 1.6% a year above index linked yields, that is, 2.4% a year less than the best estimate return.

The anticipated future returns from equities used to place a value on employers' liabilities only relate to the part of the Fund's assets invested in equities (or equity type investments), currently around 67.1% of all the Fund's assets.

Assets invested in property holdings are assumed to deliver long-term real returns of 1% more than the prevailing redemption yield on Government bonds. Currently 5.7% of the Fund's assets are invested in property.

Non-equity assets invested in bonds and cash are assumed to deliver long-term returns of 0.4% p.a. more than the prevailing redemption yield on Government bonds.
Thus, the employer contributions anticipate returns from the Fund's assets which in the Fund actuary's opinion have a better than 50:50 chance of being delivered over the long-term (measured over periods in excess of 20 years).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.3 Balance between risk and reward

Prior to implementing its current Investment Strategy, the Administering Authority considered the balance between risk and reward. The strategy has been set to achieve a long term return on investing the assets in order to assist in controlling the level of employer contributions, with sufficient diversification across asset classes to reduce risk.

4.4 Inter-valuation Monitoring of Funding Position

The Administering Authority monitors investment performance relative to the growth in the liabilities by means of interim valuations. It reports back to employers through issuing reports and letters and by inviting the actuary to speak to the Annual Employers meeting.

5 Key Risks and Controls

The Administering Authority has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised below.

5.1 Financial Risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between formal valuations at whole fund level.
Inappropriate long-term investment strategy	Set Fund specific benchmark after taking advice from investment advisers balancing risk and reward. Review asset allocation annually. Appointment of Independent advisor to Committee.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.

Risk	Summary of Control Mechanisms
Active investment manager under-performance relative to benchmark	Short term investment monitoring analyses market performance and active managers relative to their index benchmark. This will be supplemented with an analysis of absolute returns against those underpinning the valuation. This gives an early warning of contribution rises ahead. In the short term, volatility is damped down by stability measures on contributions. However, if under-performance is sustained over periods over 5 years employer contributions would rise more. Investment managers would be changed following persistent under-performance.
Pay and price inflation significantly more than anticipated	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and Admission / Scheduled Bodies	Seek feedback from employers on their ability to absorb short-term contribution rises. Mitigate impact through stabilisation, deficit spreading and phasing in of contribution rises where security is not an issue.

5.2 Demographic Risks

Risk	Summary of Control Mechanisms
Ill-health retirements significantly more than anticipated.	Monitoring of each employer's ill-health experience on an on-going basis. The employer may be charged additional contributions if this exceeds the ill-health assumptions built into the triennial valuation.
Pensioners living longer	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund actuary monitors combined experience of around 50 pension funds to look for early warnings of lower pension amounts ceasing than assumed in funding. Administering Authority encourage any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.
Deteriorating patterns of early retirements	Employers are charged the extra capital cost of non-ill-health retirements following each individual decision. Employer ill-health retirement experience will be monitored.

5.3 Regulatory

Risk	Summary of Control Mechanisms
Changes to regulations, e.g. more favourable benefits package, potential new entrants to Scheme, e.g. part-time employees	The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. tax relief changes	It considers all consultation papers issued by the CLG and comments where appropriate. The Administering Authority will consult employers where it considers that it is appropriate. Copies of all submissions are available for employers on request. The Administering Authority may seek actuarial advice on the cost of impact of any regulatory changes.

5.4 Governance

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).	The Administering Authority will monitor membership movements on a quarterly basis, via a report from the administrator.
Administering Authority not advised of an employer closing to new entrants.	The actuary may be instructed to consider revising the Rates and Adjustments Certificate to increase an employer's contributions (under Regulation 78 of the 1997 regulations; 38 of the 2008 regulations) between triennial valuations. Deficit contributions are expressed as monetary amounts for employers whose membership profile is subject to change. (see Annex A).
Administering Authority failing to commission the Fund actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	In addition to the Administering Authority monitoring membership movements on a quarterly basis, it requires employers with contractors to inform it of forthcoming changes. Admission agreements are drafted in such a way that the financial risks of departing admission bodies are borne by the Council as Letting Authority. The contract end dates are monitored on the Administering Authority's employers' database.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. As a result, Admission Agreements are worded in such a way as to eliminate the risk to the Fund in respect of an admission body ceasing to exist. The risk is mitigated by: • Seeking a funding guarantee from another Scheme employer, or external body, wherever possible. • Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. • Vetting prospective employers before admission. • Where permitted under the regulations requiring a bond to protect the Fund from the extra cost of early retirements on redundancy if the employer failed and other factors.

Annex A: Employers' Contributions, Spreading and Phasing Periods

Following the 2010 valuation, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2010 valuation report are based on the deficit recovery periods and phasing periods shown in the table below. The table also shows the individual adjustments under Regulation 77(6) of the 1997 regulations (36(4) of the 2007 regulations) to each employer's contributions from the 'Common Contribution Rate'.

STATEMENT TO THE RATES AND ADJUSTMENTS CERTIFICATE

Employer Code	Employer Name	Minimum Contributions for the Year Ending					
		31 March 2012		31 March 2013		31 March 2014	
		% of pay	Lump sum (£000)	% of pay	Lump sum (£000)	% of pay	Lump sum (£000)
	Isle of Wight Council	22.0	0	22.0	0	22.0	0
1	Isle of Wight College (1st August)	20.2	0	21.7	0	22.8	0
2	Spectrum Housing Group	24.6	0	26.6	0	28.6	0
3	Southern Housing Group	20.8	132	20.8	132	20.8	132
4	Yarmouth Harbour Commissioners	21.6	42	21.6	44	21.6	47
5	Cowes Harbour Commissioners	24.3	0	24.3	0	24.3	0
7	St Catherine's School Ltd	40.0	0	45.0	0	50.6	0
8	IOW Society for the Blind	45.1	0	45.1	0	45.1	0
9	Riverside Centre Ltd	15.9	0	15.9	0	15.9	0
10	Trustees of Carisbrooke Castle Museum	25.0	0	25.0	0	25.0	0
11	Planet Ice (IOW) Ltd	15.1	0	15.1	0	15.1	0
13	Osel Enterprises Ltd	22.0	0	22.0	0	22.0	0

Annex B: Responsibilities of Key Parties

The Administering Authority should:

- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a Funding Strategy Statement and a Statement of Investment Principles, both after proper consultation with interested parties;
- monitor all aspects of the Fund's performance and funding and review the Funding Strategy Statement and Statement of Investment Principles; and
- advise the actuary of any new or ceasing employers

The Individual Employer should:

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Scheme benefits, early retirement strain; excess ill health early retirements if appropriate;
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding; and
- adhere to Employer obligations set out in the Administration Strategy

The Fund actuary should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement;
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters; and
- advise on the Funding Strategy Statement and comment on the Statement of Investment Principles.

APPENDIX E - Governance Compliance Statement

Dated: 1 May 2012

Principle	Detailed Best Practice Principle
A. Structure	a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council. b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels. d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.
	Fully compliant
B. Committee Membership and Representation	a) That all key stakeholders are afforded the opportunity to be represented, within the main or secondary committee structure. These include:- i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members); iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis) b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.
	Fully compliant
C. Selection and role of lay members	a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda
	Fully compliant
D. Voting	a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.
	Fully compliant
E. Training/Facility time/Expenses	a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum. c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.
	Fully compliant

Principle	Detailed Best Practice Principle
F. Meetings (frequency/quorum)	a) That an administering authority's main committee or committees meet at least quarterly. b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. c) That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented
	Fully compliant
G. Access	a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.
	Fully compliant
H. Scope	a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.
	Fully compliant
I. Publicity	a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.
	Fully compliant

APPENDIX F - Investment review – Schroder Investment Management Ltd

Schroders Investment Review
12 Months to 31 March 2012

Isle of Wight Council Pension Fund

Global Market Review

Concerns about the outlook for the global economy and the eurozone sovereign debt crisis have dominated the twelve-month period under review. Risk assets such as equities and high yield bonds fell sharply over much of 2011, while government bonds rose, with yields reaching all time lows. However, by the end of 2011 investors were starting to see more reasons to be hopeful than pessimistic. US economic data has improved, and there has been some easing in concerns about eurozone sovereign debt as the European Central Bank pumped more liquidity into the banking sector. As a result, risk assets rebounded sharply in the first three months of 2012.

Overall there was an improvement in the macro data with business surveys strengthening and the US labour market adding nearly three quarters of a million jobs over the past three months. This has boosted hopes for the global economic growth outlook.

Despite improving growth, the US Federal Reserve extended its commitment to a near-zero benchmark interest rate through late 2014 (previously stating through mid-2013), also encouraging investors to move into risk assets.

Another important factor behind the rally in risk assets has been action by policymakers. In the Eurozone, the ECB (European Central Bank) has now held two auctions of three year liquidity where the banking sector has drawn down a cumulative €1 trillion. The effect has been to head off a credit crunch and help push down peripheral bond yields. Greece also secured a second bail-out, enabling it to avoid a messy default.

Jitters about the rising oil price have surfaced at times, but have not seriously threatened the positive rally.

Over the year to end March, US equities returned +6.7% in sterling terms. Japanese equities returned +0.7% with Pacific Basin markets returning -2.4%. The UK market returned +1.4% and Europe -11.8%.

Issued by Schroder Investment Management Limited.
31 Gresham Street, London EC2V 7QA. Registered No. 1893220 England.
Authorised and regulated by the Financial Services Authority.

Schroders

APPENDIX G - Investment review – Majedie Asset Management Ltd

This report covers the period from 31st March 2011 to 31st March 2012. During the period the Fund returned 6.2% compared to a return of 1.4% from its benchmark, the FTSE All-Share index.

April 2011 saw another period of momentous newsflow in both political and economic spheres. Markets were fixed on the drama unfolding in Greece, weakening as news worsened, then rebounding strongly at the end of that quarter as the latest diplomatic patch was applied to tide things over.

For most of the spring, the problems facing Greece seemed intractable. Already behind the targets set during the first rescue, the Greek government was leant on by the international elite to adopt yet more bracing therapy. A damaging loop developed between Germany, which floated the necessity for the private sector to take some pain as a precondition to commit more taxpayers' money, the European Central Bank, for whom any whiff of default would spell danger for European banks, and the IMF, who said that they would not dispense their latest tranche without seeing the colour of the German money. Eventually it was all settled that agreement on the substantive issues would come at some later date, with Germany relenting on its insistence on private sector losses, no doubt persuaded by warnings from its own banking sector. The Greek government duly passed the set of austerity measures, but observers reckoned the important developments were taking place outside the Parliament building, not within. It was perhaps surprising how strongly markets rallied on so little of substance.

The issue of debt was also central to US political discussions over the quarter. Having long regarded themselves as being different from other debtor nations, US officials' humdrum concerns of balancing the books had always given way to the more pressing concerns of refloating the housing market and rescuing the banks. However, the Tea Party movement seized upon the deadline on the debt ceiling to lever their homespun fiscal agenda into the mainstream. More evidence also emerged during the quarter of the true levels of debt within the Chinese economy; spikes in short rates among Chinese banks smelt of some problems attracting deposits to cover their substantial property loan exposures.

Early summer saw NATO's intervention to avert a massacre in Benghazi slide into something more dangerously open ended. Familiar actors played unfamiliar roles: France and the UK seeing eye to eye, the US 'leading from behind' and Germany siding with both Russia and China.

Equity markets fell over the summer on fears that the G7 debt crises will prove intractable – and that economies were once again running into possible recession. During the third quarter of 2011, the FTSE All-Share Index fell by -13.5%, its worst quarter in nine years.

It was a quarter when politicians were downgraded by the ratings agencies and given a vote of no confidence by markets. The spectacle of the US mangling a routine manoeuvre to raise the debt ceiling brought home to markets just how difficult it will be to achieve anything genuinely substantial and the degree to which the long cycle of easy, debt inflated economic growth is at an end. US indecision was matched by European leaders, who appeared incapable of effective action to solve their peripheral crisis. In truth, both sets of leaders were caught between hardening conservative debt fundamentalism and the huge, entrenched blocks of entitlement that have grown over 30 years, leading to inevitable stasis.

It was clear during the quarter that all parties facing the crisis had little appetite for anything particularly radical. For all of the Tea Party huff and puff on spending, retired welfare entitlement and defence largesse were off limits. Still-over-leveraged bankers continued to demand a super normal return and large exporting nations continued to believe that they could borrow foreign demand as extravagantly as they had in the past. The UK was something of a sideshow during the quarter (press misbehaviour and public disorder notwithstanding). The government's austerity package was already attracting brickbats from those who pointed to the economy's anaemic growth rate – but at least all the levers of fiscal and monetary policy are housed under one sovereign roof, leading to the UK being judged a relative safe haven, ironic perhaps for a country in such a fiscal mess.

2011 finished with a surprising flourish, with October's strong rally helping the FTSE All-Share Index to return 8.4% over the quarter. Economic news, which had largely disappointed on the downside during 2011, offered a reprieve towards the end of the year with data generally exceeding expectations.

The unfolding financial crisis in Europe remained centre stage, with contagion risks a significant and immediate threat to the financial stability of not only Europe but also the wider world. With new political administrations in Italy and Spain, and a leadership handover at the European Central Bank, the first breaches had been made in the bastion of entitlement that colours the politics of all developed nations. Continued squabbling at European summits and within the US Congress shows how much of that masonry still exists.

Elsewhere, widespread downward revisions to growth were seen across the globe. China was not immune; it was becoming even more apparent that the Chinese dragon is finally beginning to lose its fire as the major engine of growth – investment – slowly chokes on itself. Both Brazil and India also signalled slowdowns. While each had specific reasons for concern, it underlined the extent to which emerging market growth cannot yet decouple from developed market troubles. Whilst a Chinese slowdown may result in a welcome drop in oil prices for Western consumers, other developments threaten the opposite: popular uprisings in North Africa have not yet been mirrored in the oil-rich core of the Middle East, despite the existence of similar grievances. The two explosions in Tehran's nuclear facilities are unlikely to have been a coincidence, while the death of North Korea's Kim Jong-Il may unlock the stasis on that peninsular, with uncertain short term consequences – especially as China may have strong reasons to distract a population so disgruntled by economic weakness.

The FTSE All-Share Index returned an impressive 6.1% over the first quarter of 2012, with investors' confidence building on signs of US recovery, falling government bond yields in peripheral Europe and anaemic returns from other asset classes.

We saw a marked improvement in sentiment in financial markets over the quarter with the extension of the European Central Bank's three year long term refinancing operation (LTRO). In total over €1 trillion has been borrowed by over 800 banks in the Eurozone. The rationale for introducing this cheap financing to the market was to provide banks with liquidity to ensure that they could continue to lend to the real economy. Whether this latest attempt to support financial markets is successful remains to be seen; for now, it seems the half-decent banks (including some UK banks) have at least time to work through their problem loans.

Many investors continued to be in denial regarding the health and stewardship of the Chinese economy, despite clear signs emerging that difficulties lie ahead, not least from the leadership itself. Land auctions were cancelled, house prices in decline and iron ore demand flattened. Policy makers are now focusing on rebalancing the economy and keeping consumer price increases at bay, recognising that food inflation, with its attendant effect on political stability, is a material risk. The reduction in the required reserve ratio in February confirms that the Central Bank of China has started to loosen policy but the extent of easing is unclear.

Elsewhere, growing tensions in the Middle East continued to put upward pressure on the oil price with Brent crude, which is used as a benchmark for petrol prices in Europe, reaching its highest level since 2008; a sustained increase in the oil price could dash any hopes of a recovery in Western economies. It is no wonder that politicians were keen to talk up the possibility of releasing strategic oil reserves.

Our view that we are facing down the barrel of a decade of low growth as the world adapts to a period of deleveraging, remains unchanged. However, we believe that in the short term the market cycle will present opportunities; investors who are nimble and flexible will be well placed to weather this storm. We believe that we are in a strong position to capitalise on these opportunities and to make you money over the long term.

Newton Global Equity Fund

Investment Report for the year ending 31 March 2012

Investment aim

- The Fund aims to outperform the FTSE World Index over rolling five year periods by over 2% p.a.

Fund information

- The overall investment policy of the Newton Global Equity Fund is determined by BNY Mellon Fund Managers Limited. The Royal Bank of Scotland plc is the Depositary of the Fund and BNY Mellon Asset Servicing B.V. is the Custodian of the assets held in the Fund
- The Pension Scheme holds shares in the Fund and receives a monthly statement that shows the number of the shares the Scheme owns. The register is held by the Registrar, BNY Mellon Fund Managers Limited, as proof of ownership
- BNY Mellon Fund Managers Limited confirms the securities held by the Fund to be transferable securities

Portfolio composition

Asset class	31/03/11 (%)	31/03/12 (%)
UK Equities	9.4	7.9
North American Equities	34.8	40.4
Continental Europe ex. UK Equities	22.2	23.3
Japanese Equities	7.7	7.8
Asia Pacific (ex. Japan) Equities	11.9	9.0
Other International Equities	13.4	8.4
Forward FX	0.0	0.1
Cash	0.7	3.1
TOTAL	100.0	100.0

Top ten holdings

Holding	31/03/12 (%)
Roche Hldgs AG	2.4
Microsoft Corp	2.2
Nestle SA	2.2
Altria Group Inc	2.1
Toyota Motor Corp	2.0
Anheuser-Busch InBev NV	2.0
Bangkok Bank PCL	1.9
British American Tobacco PLC	1.9
Novartis AG	1.8
GlaxoSmithKline PLC	1.7

Annualised performance (gross of fees)

	1 year (%)	3 years (%)	5 years (%)	10 years (%)
NIGF	-4.2	13.8	3.9	5.0
MSCI AC World	-0.1	16.6	4.3	4.5

Fund facts

Launched[2]	01 June 1987
Value as at 31 March 2012	£1,144.72m

Performance notes as at 31 March 2012

In order to measure the performance of the Fund the Manager participates in the CAPS Pooled Pension Fund Survey. This service measures the performance of several similar pooled pension funds under discretionary management. Returns are calculated using close of business prices, gross of fees. All Fund performance and benchmark data is sourced from CAPS where possible, otherwise data is sourced from Datastream in GBP terms. Please note that past performance is not a guide to future performance and that the value of investments and the income derived from them can go down as well as up. Investors may not get back the full amount invested and changes in exchange rates may affect the value of the investment. Portfolio holdings are subject to change at any time without notice, are for information purposes only and should not be construed as investment recommendations.

[1] On 31 July 2004 the authorised range of Newton Exempt Unit Trusts were converted to sub-funds of Newton Investment Funds and on 2 August 2004 this became the BNY Mellon Investment Funds ICVC. Performance prior to this date is based on the Newton Exempt Global Balanced Fund.

[2] Launch date refers to Newton Exempt Global Balanced Fund.

For professional clients only
Source: BNY Mellon Analytical Solutions CAPS, as at 31 March 2012, unless otherwise stated
Portfolio holdings and asset allocation are subject to rounding differences

NEWTON
The Power of Ideas

BNY MELLON
ASSET MANAGEMENT

Market background

(12 months to 31 March 2012)

Market commentary

European sovereign debt issues emerged in May 2011 and markets deteriorated as central bank officials and governments seemed uncertain as to how to deal with the crisis. Against this backdrop, Eurozone leaders created a temporary bail-out vehicle, the European Financial Stability Facility (EFSF). There were changes of government in Greece, Italy, Ireland, Portugal and Spain. High levels of government debt were also an issue in the US. The historic downgrade of US sovereign debt by Standard and Poor's triggered further falls in global equity markets amid fears that spending reduction plans in both Europe and the US would compromise global economic growth.

Against the uncertain economic backdrop, the US Federal Open Market Committee kept interest rates on hold at between zero and 0.25% throughout the year and the Bank of England's Monetary Policy Committee held the base rate at a record low level of 0.5%. The European Central Bank (ECB), which had raised the official rate mid-year on concerns about inflation, reduced it by 0.25% in November as the crisis worsened. At the same time, the ECB and major central banks participated in coordinated actions to ease pressure on the global financial system. By the end of December, economic data proved more reassuring than anticipated, and during early 2012 markets rallied strongly.

Emerging market economies were dominated by inflationary concerns during the first half of the period, but by the second half there were signs the Eurozone sovereign debt crisis was having a negative effect on global economic growth. Brazil's central bank, which raised the benchmark interest rate (Selic) by 50 basis points early in the period, subsequently reduced it by 275 basis points from July to the end of March. Chinese manufacturing activity contracted for the first time since February 2009 during November, and the authorities subsequently cut reserve ratios for depositary institutions by 0.5%.

Investors' concerns about sovereign debt downgrades and subsequent contagion within the banking system resulted in significant market volatility during the year. Markets fell sharply in the first half but rebounded strongly during the second half of the period, and the FTSE All-World Index fell by 0.3%* for the period as a whole.

The FTSE All World North America index gained 6.9%. The strongest performing market was the US, which returned 8.8%, boosted by outperformance in the technology, consumer services and healthcare sectors. The resources-heavy Canadian market declined 12.2%, held back by negative performance in both the basic materials and oil and gas sectors.

Continental European equity markets underperformed the global average over the period, with the FTSE All World Europe (ex UK) index returning -11.7%*. The worst performing market was Greece, which lost -61.2%, and all markets with the exception of Belgium, Ireland, Switzerland and the UK posted negative returns.

In the UK, the FTSE All-Share index returned 1.4%*. Mid-capitalisation companies outperformed their small- and large-cap peers. The FTSE Mid 250 Index gained 2.5%*, against a decline in the Small Cap ex Investment Trusts Index of 0.1%* and a rise in the FTSE 100 Index of 1.2%*. Performance was hampered by the basic materials and oil and gas sectors, with a positive performance from consumer goods and industrials somewhat offsetting those losses.

The FTSE All-World Asia Pacific ex Japan index fell 6.4%*, losing ground against global markets. The top performing market was the Philippines, while the worst performer was India, which declined

18.8%. China fell 13% as economic growth expectations were downgraded. The Australian market declined 6.6% on weakness in its largest constituent sectors, financials and basic materials. The Japanese market rose 0.9%.

*Returns are based on MSCI AC World, are gross of fees, exclude withholding tax and are in sterling terms. The source is Bloomberg, Thomson Financial Datastream, Factset and Lipper Hindsight. *Figures from CAPS.*

As from the 1st July 2011 the benchmark changed from FTSE World Index to MSCI AC World NR GBP Index. As from the 30th January 2012 the Fund changed its name from Newton International Growth Fund to Newton Global Equity Fund.

NEWTON
The Power of Ideas

BNY MELLON
ASSET MANAGEMENT

Independent auditor's report to the Members of Isle of Wight Council

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Isle of Wight Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Strategic Director of Resources and auditor

As explained more fully in the Statement of the Strategic Director of Resources' Responsibilities, the Strategic Director of Resources is responsible for the preparation of the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director of Resources; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012 ; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

K.L. Handy
District Auditor
Audit Commission
Collins House
Bishopstoke Road
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Hampshire
SO50 6AD

28 September 2012