

REPORT  
AND  
ACCOUNTS

ISLE OF WIGHT COUNCIL  
PENSION FUND  
2009-10

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## Foreword

I am pleased to present to you this annual report of the accounts for 2009/10 as Chairman of the Pension Fund Committee, for the second time.

The previous report for 2008/09 highlighted the exceptional circumstances in terms of the world economy, with financial markets suffering the most significant setbacks for several decades. With a recession in the real economy following on from a crisis in the banking sector, the decline in the share indices was epitomised by a fall of 29% in the FTSE All Share Index. The Fund's value therefore dropped from £258m at the beginning of 2008/09 to £210m at the end.

During 2009/10, however, there was a sharp recovery with the average fund returning 35% the best return in at least thirty years. The fund therefore grew from the low point of £210m at 31<sup>st</sup> March 2009 to a high of £295m at 31<sup>st</sup> March 2010.

The transition from the previous Fund Management arrangements with Schroders as the single balanced fund manager to the new arrangements with specific mandates and the introduction of Majedie and Newton was completed in September 2009.

In overall terms the benchmark return for the Isle of Wight funds was +39.4% whereas the actual return was +37.3%. The WM Local Authority league tables for 2009/10 shows the Isle of Wight Fund performance at 35<sup>th</sup> out of 99 Funds with the average fund performance at 35% compared to our +37.3%

The first quarter of 2010/11 has seen a significant volatility with Equity markets taking another downturn and economic prospects remaining fragile.

When the last actuarial valuation took place at 31<sup>st</sup> March 2007, the ratio of the Fund's assets to its liabilities, as estimated by our actuaries, stood at 80.2%. At the end of 2008/09 however, that ratio or 'funding level' had dropped to an estimated 55.4% which reflected a drop in investment performance but also increased liabilities of the Fund from in particular life expectancy of the Fund's pensioners. At the 31<sup>st</sup> March 2010 this had improved to 67.9%

The Funds actuaries are currently undertaking the work on the next actuarial valuation which is effective from 1<sup>st</sup> April 2011.

Apart from the investment performance and Funding position, we have completed the review of a number of our arrangements and I would like to thank the Committee and especially our advisors for the work they have done.

Councillor Roger Mazillius  
Chairman of the Isle of Wight Pension Fund Committee

## Management Structure

Members of the Isle of Wight Council Pension Fund Investment Committee are appointed at the annual meeting of the Full Council. The current members are:

Councillor P Bingham (Chair)  
Councillor P Joyce  
Councillor W Whittle  
Councillor R Barry  
Councillor B Abraham  
Councillor R Mazillius  
Councillor I Bulwer,  
Director of Resources, Mr D Burbage

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

### Investment Managers

Schroder Investment Management Limited  
31 Gresham Street  
London EC2V 7QA

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

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

### Actuarial Services

Hymans Robertson LLP  
20 Waterloo Street  
Glasgow G2 6DB

### AVC Provider

Prudential  
AVC Customer Services  
Stirling FK9 4UE

### 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

### Custodian

JP Morgan Chase Bank NA  
Chaseside  
Bournemouth BH7 7DA

### Scheme Administrator

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

## Fund Account

	Note	2009-10 £000	2008-09 £000
<b>Contributions and benefits</b>			
Contributions receivable	2	18,369	17,212
Transfers in – Individual transfers	3	3,927	1,990
Other income	4	12	16
		22,308	19,218
Benefits payable	5	15,431	14,568
Leavers	6	1,439	1,973
Administrative expenses	7	384	420
		17,254	16,961
<b>Net additions from dealings with members</b>		5,054	2,257
<b>Return on investments</b>			
Investment income	8	6,347	8,354
Change in market value of investments	9	75,504	(57,451)
Irrecoverable withholding tax	10	(409)	(508)
Investment management expenses	11	(859)	(597)
Costs of transition to new fund managers	9	(677)	-
Net returns on investments		79,706	(50,202)
Net increase/(decrease) in the fund during the year		84,960	(47,945)
Net assets of the scheme			
At 1 April 2009		209,917	257,862
At 31 March 2010		294,877	209,917

## Net Assets Statement

Investments	12	294,651	209,564
Current assets	13	468	648
Current liabilities	14	(242)	(295)
Net assets of the scheme at end of year		294,877	209,917

## Notes to the Financial Statements

### 1. Accounting Policies and Basis of Preparation

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and with the guidelines set out in the Statement of Recommended Practice (SORP): 'Financial Reports of Pension Schemes' (revised May 2007). The financial statements summarise the transactions of the scheme and the net assets of the Fund and do not take account of liabilities to pay pensions and other benefits in the future. The actuarial position of the Scheme which takes account of such liabilities is dealt with in Note 24.

Benefits and Withholding tax are accounted for on a payments basis. Contributions and investment income are accounted for on an accruals basis. Income from UK equities is accounted for on the date when stocks are quoted ex dividend.

As required by the SORP for financial years commencing on or after 6 April 2007 investments held by all fund managers have been valued on the bid market quotation on the relevant Stock Exchange on 31 March 2010.

Investments held in foreign currencies are shown at market value translated into the equivalent sterling rate ruling at 31 March 2010.

Additional Voluntary Contributions (AVCs) are separately invested for the benefit of individual members. To comply with the Pension SORP and Regulation 5 (2) (b) of the Local Government Pension Scheme (Management and Investment Funds) Regulations 1998, AVCs are accounted for and disclosed separately from the net assets statement and fund account of the pension fund (see note 19 for details) AVC assets and returns on these assets are based on figures supplied by both the Prudential Life and Pensions Office. Deductions are made from members salaries during the year and invested on an accruals basis.

The Isle of Wight Council administration expenses represent the operating costs of the Pensions Office plus recharges made by other departments for services provided to the pension fund.

The fees of the Fund's investment managers have been accounted for on the basis contained within their respective management agreements

Monthly custody fees are payable to JP Morgan Chase

Transfer values to and from other pension funds have been included in the accounts on the basis of the actual amounts received and paid out in the year.

Assets and liabilities in foreign currency are translated into sterling at exchange rates ruling at the financial year end. Any gains or losses arising are treated as part of the change in market value of the fund's assets.

2. <u>Contributions receivable</u>	2009-10	2008-09
<b>Employers</b>	<b>£000</b>	<b>£000</b>
Normal	13,329	12,531
Special (Capitalisations)	840	530
Additional (deficit funding and cessations)	107	102
<b>Members</b>		
Normal	4,087	4,042
Additional	6	7
	<hr/>	<hr/>
	<b>18,369</b>	<b>17,212</b>

The special (capitalisation) contributions are payable to the pension fund over a maximum 5 year period to augment benefits for specific pension fund members on retirement.

Deficit funding was payable as required by the actuarial valuation dated 31 March 2007 by the South Wight Housing Association 2009-10 £0.107million (2008-09: £0.102million)

3 <u>Transfers in</u>	2009-10	2008-09
	<b>£000</b>	<b>£000</b>
Payments in relation to individual fund members	3,927	1,990
	<hr/>	<hr/>

4. <u>Other income</u>	<b>2009-10</b>	<b>2008-09</b>
	<b>£000</b>	<b>£000</b>
Miscellaneous income	12	9
CEPs	0	7
	<b>12</b>	<b>16</b>

Contribution Equivalent Premiums (CEPs) are sums relating to national insurance contributions payable when an employee leaves the pension fund without entitlement to benefits. Sums are held as a contingent asset or liability to the pension fund 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.

5. <u>Benefits payable</u>	<b>2009-10</b>	<b>2008-09</b>
	<b>£000</b>	<b>£000</b>
Annual retirement pension	8,490	7,946
Pension increase on annual pension	3,605	3,240
Commutation of pension	1	0
Retirement allowance lump sum	2,990	3,050
Death Grants	214	135
Pension increase on lump sum	131	197
	<b>15,431</b>	<b>14,568</b>

6. <u>Leavers</u>	<b>2009-10</b>	<b>2008-09</b>
	<b>£000</b>	<b>£000</b>
Refunds of contributions	1	15
Transfers out	1,438	1,958
	<b>1,439</b>	<b>1,973</b>

7. <u>Administrative expenses</u>	<b>2009-10</b>	<b>2008-09</b>
	<b>£000</b>	<b>£000</b>
Administering authority	319	347
IT Costs	48	53
Other expenses	17	20
	<b>384</b>	<b>420</b>

8. <u>Investment income</u>	<b>2009-10</b>	<b>2008-09</b>
	<b>£000</b>	<b>£000</b>
Fixed interest	35	655
Equities	5,762	5,964
Unit trusts – property	460	474
Unit trust – other	58	1,002
Interest	10	157
Currency trade net	-	(227)
Derivatives	22	329
	<b>6,347</b>	<b>8,354</b>

The Newton Overseas Unit Trust which represents 34% of the market value of the fund does not go ex-dividend until June 2010, hence resulting in a reduction in income for the current year.

9 Change in Market value of assets

	Value at 1.4.09	Purchases at Cost	Sales Proceeds	Transition	MID to BID in year adjustment	Change in Market Value	Value at 31.3.10
	£000	£000	£000	£000	£000	£000	£000
Fixed Interest	5,291	-	-	(5,360)	4	65	-
Treasury Bonds							
Equities	112,566	36,681	(28,996)	(59,164)	1	43,012	<b>104,100</b>
Unit Trusts - Property	10,933	4,103	-	-	365	(274)	<b>15,127</b>
Unit Trust - Other	76,551	2,411	(3,649)	2,202	29	30,111	<b>107,655</b>
Unit trust- Bonds	-	1,598	(4,000)	63,518	-	2,736	<b>63,852</b>
Futures Cash Backing	531	672	(1,282)	-	-	79	-
Offset							
Futures	(544)	2,065	(1,296)	-	-	(225)	-
Futures Margin Account	81	224	(305)	-	-	-	-
	205,409	47,754	(39,528)	1,196	399	75,504	<b>290,734</b>
Cash – JP Morgan	3,325	5,545	(3,088)	(1,873)	-	-	<b>3,909</b>
Totals	208,734	53,299	(42,616)	(677)	399	75,504	<b>294,643</b>

The cost of transition of the fund assets to three new fund managers during August 2009 amounted to £675,730, as reported by the Transition Managers, Nomura.

10. The Isle of Wight Council Pension Scheme is an Exempt Approved Scheme under Chapter 1 Part XIV of the Income and Corporation Taxes Act 1988.

Income arising from deposits or investments held for the purpose of the scheme is exempt from tax. This exemption no longer entitles the pension fund to repayment of tax paid on UK dividends. The sum of UK withholding tax, which was irrecoverable in the year 2009-10, amounted to £409k

11	<u>Investment management</u>	2009-10 £000	2008-09 £000
	Investment management expenses	753	432
	Fees to appoint new investment managers	52	91
	Actuarial fees	54	74
		<b>859</b>	<b>597</b>
12.	<u>Investments</u>	2009-10 £000	2008-09 £000
	Fixed Interest – Treasury Bonds	0	5,291
	Equities	104,100	112,566
	Unit Trusts - Property	15,127	10,933
	Unit Trusts - Other	107,655	76,551
	Unit Trusts – Bonds	63,852	-
	Cash instruments	-	612
	Futures	-	(544)
	Cash deposits	3,909	3,325
		<b>294,643</b>	<b>208,734</b>
	Outstanding interest	-	67
	Outstanding Security sales	8	509
	Outstanding dividends	322	512

Outstanding security purchases	(322)	(258)
	<b>294,651</b>	<b>209,564</b>

13.	<u>Current assets</u>	<b>2009-10</b>	<b>2008-09</b>
		<b>£000</b>	<b>£000</b>
	Outstanding Recoverable withholding tax	21	80
	Contributions due from employer in respect of:		
	Employers	104	118
	Members	32	37
	Cash invested with the Isle of Wight Council	311	413
		<b>468</b>	<b>648</b>
14.	<u>Current liabilities</u>	<b>2009-10</b>	<b>2008-09</b>
		<b>£000</b>	<b>£000</b>
	Investment management fees	(242)	(295)
		<b>(242)</b>	<b>(295)</b>

15. Capital Commitments

There were no capital commitments as at 31 March 2010.

16. Contingencies

At 31 March 2010 there were contingencies relating to Contribution Equivalent Premiums (CEPs) amounting to a net sum of £0.142million due to the Pension Fund. Assets amounted to £0.046million and liabilities totalled £0.188million. 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 £0.880million has been estimated as the possible Benefit to the pension fund. This case is ongoing. The sums do not form part of the net assets of the fund.

17. Post Balance Sheet Events

There are no post balance sheet events

18. Related Party Transactions

No Members or Chief Officers have disclosed any Related Party Transactions with the Pension Fund, other than by virtue of normal membership.

During the financial year, the Pension Fund had an average balance of £0.3m of excess cash invested with the Isle of Wight Council. The Pension Fund received £0.001m as interest on this investment.

The Isle of Wight Council provided an administration service to the Pension Fund in the year for which the fund paid a sum of £0.401 million. This sum is analysed at note 7. Council members named in the management structure on page 4 form the pension fund committee as trustees

19. 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 £1.2million were invested on this basis at 31 March 2010; these do not form a common pool of assets available for members generally. AVCs are excluded from the Fund

Accounts in accordance with Regulation 5(2)(c) of the Pension Scheme (Management and Investments of Funds) Regulations 1998. 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 in the case of the Prudential, term life cover.

During 2009-10 AVCs of £0.2million were separately invested with Prudential Life and Pensions. Of this amount, £0.0005 million 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	<b>Total</b>
	£000	£000	£000	<b>£000</b>
Opening Value 1.4.09	111	856	110	1,077
Purchase of Investments	67	93	7	167
Returns on Investments	1	35	48	84
Change in Market Value Realised and Unrealised	(16)	(72)	(1)	(89)
<b>Closing Value 31.3.10</b>	<b>163</b>	<b>912</b>	<b>164</b>	<b>1,239</b>

20. Operation and Membership

The Fund is administered by the Council to provide retirement benefits for the majority of local government employees throughout the Isle of Wight, with the exception of Teachers and Fire-fighters. Membership of the Local Government Scheme is available to most employees between the ages of 16 and 65.

Employees have a right to 'opt out' of the Scheme and rely on alternative schemes such as the State Earnings Related Scheme (SERPS) or a Personal Pension Scheme.

In addition to the employees and councillors of the Isle of Wight Council, some of the employees of other bodies participate in the Fund.

- Cowes Harbour Commissioners
- Yarmouth (IW) Harbour Commissioners
- St Catherine's School Ltd
- Trustees of Carisbrooke Castle Museum
- IW Society for the Blind
- Isle of Wight Rural Community Council
- South Wight Housing Association Ltd
- Medina Housing Association Ltd
- Isle of Wight College
- Riverside Centre Ltd
- Osel Enterprises Ltd
- Planet Ice (IOW) Ltd
- Island 2000 Trust Ltd
- Wootton Bridge Parish Council
- Yarmouth Town Council
- Northwood Parish Council
- Newport Parish Council
- Chale Parish Council
- Ryde Town Council

## Member Analysis

Analysis of contributors, pensioners as at 31 March 2010 was as follows

	<b>Administering Authority</b>	<b>Scheduled Bodies</b>	<b>Admitted Bodies</b>	<b>Total</b>
Number of Contributors	4,425	195	93	<b>4,713</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Employees Contributions	3,762	184	140	<b>4,086</b>
Pensions paid	13,687	439	1,303	<b>15,429</b>
Employers Contributions	12,290	559	587	<b>13,436</b>

A deficit-funding sum of £0.107 million was paid by South Wight Housing Association, as required by the actuarial valuation 31.3.2007 and is included in the above admitted bodies employers contributions.

### Membership Analysis

<b>Status</b>	<b>Numbers at 31 March</b>	
	<b>2010</b>	<b>2009</b>
Actives <sup>2</sup>	4,713	4,835
Frozen Refunds	632	637
Deferred <sup>1</sup>	3,646	3,327
Pensioners	2,564	2,407
Widows/Dependants	445	436
<b>Total Membership</b>	<b>12,000</b>	<b>11,642</b>

<sup>1</sup>Deferred pensioners are former employees who have chosen not to transfer their pension rights

<sup>2</sup>The number of employees in the scheme reduced by 122 to 4,713, as follows:

New Starters	650
Leavers	(648)
	<u>2</u>
Records Deleted Through Amalgamation	(124)
Total reduced	<u>(122)</u>

The number of pensioners being paid increased by 166 to 3,009 during the year.

The number of early retirements through redundancy or for reason of efficiency or employers discretion was 41 (41 in the previous year).

The number of ill health retirements was 5 (7 in the previous year)

### Contributions to the Fund

New Regulations came into force on 1 April 2008 and one of the major changes was in respect of employee contributions which are banded. From 1 April 2009 the bandings and contribution rates are set out in the following table.

<b>Band</b>	<b>Range (Annual full-time equivalent pay)</b>	<b>Contribution rate</b>
1	£0 - £12,600	5.5%
2	More than £12,601 up to £14,700	5.8%
3	More than £14,701 up to £18,900	5.9%
4	More than £18,901 up to £31,500	6.5%
5	More than £31,501 up to £42,000	6.8%
6	More than £42,001 up to £78,700	7.2%
7	More than £78,700	7.5%

The contribution rate for each employee is based on their annual full-time equivalent pay as at 1 April, or commencement of employment if later, and that contribution rate is applicable throughout the year. The salary bandings are to be increased each April in line with rises in the Retail Prices Index.

If an employee has more than one employment, each employment will be assessed and treated separately.

Those employees paying the protected rate of 5% will be increased as follows

<b>Year commencing</b>	<b>Contribution rate</b>
1 April 2008	5.25%
1 April 2009	5.5%
1 April 2010	6.5%
1 April 2011 onwards	See general table above

If the protected contribution rate is higher than it would have been but for the protection, the lower rate from the general table will apply.

The rate at which the employers contribute to the Fund is determined by the actuarial valuations of the Fund (See Note 24).

The decision was taken at a meeting of the pension fund committee on 22 May 2009 to appoint two new managers, Majedie Asset Management and Newton Investment Management, with the existing manager, Schroder Investment Management, being retained to manage some of the portfolio.

The Custody of the investments (including cash) was undertaken by JP Morgan Chase

During 2009-10, 1,096 purchases and 907 sales of investments took place following broad guidelines accepted by the Pension Fund Committee

The cost of purchases amounted to £53.3 million and the net proceeds received from the sales totalled £42.6 million.

At 31 March 2010 the number of individual holdings was as follows:

UK Equities	114
Overseas Equities - Unit Trust	1
Unit Trust - Bonds	1
Unit Trusts	3
Unit Trust - Property	1
	120

Net new money coming into the Fund in 2009-10, that is to say the excess of contributions and investment income over benefit payments and expenses, amounted to £8.3 million compared to £9.5 million in 2008-09.

The net assets of the fund at 31 March 2010 totalled £294.8 million, an increase of 40.4% on the 2008-09 valuation of £209.9 million.

The 10 largest investments at 31 March 2010 including the percentage of the total market value were:

<b>Stock</b>	<b>Market Value £000</b>	<b>Market Value as % of total</b>
Newton International Growth 'X' Account	100,648	34.61
Schroder Institutional Sterling Broad Market X Account	63,852	21.96
Schroder Exempt Property Unit Trust	15,127	5.20
BG Group PLC Ord USD0.25	5,739	1.97
Majedie Special Situations Investment Fund	5,133	1.76
Royal Dutch Shell PLC B Shares EUR0.07 (UK Listing)	5,086	1.74
GlaxoSmithkline Ord 25p	4,999	1.72
Vodafone Group PLC Ordinary USD0.11428571	4,739	1.63
HSBC Holdings Ord USD0.50	4,239	1.46
Anglo American Ord USD0.54	3,078	1.06

Analysis of the market value of investments, excluding cash, at 31 March 2010:

	<b>UK £000</b>	<b>Foreign £000</b>	<b>Total £000</b>
Quoted	189,444	101,290	290,734
Unquoted	0	0	0
<b>Total</b>	<b>189,444</b>	<b>101,290</b>	<b>290,734</b>

	<b>31 March 2010</b>	<b>31 March 2009</b>	<b>% Change</b>
FT Actuaries – All Share Index UK	2910.19	1984.20	46.66

For an analysis of the Market Value by industrial sector see Appendix A

## 21. Trustees Report

The Trustees of the Pension Fund are the members for the time being of the Pension Fund Committee, who at 31 March 2010 were Councillors Abraham, Barry, Bingham, Bulwer, Joyce, Mazillius, Whittle and the Strategic Director of Resources. In addition, a non voting representative of both the admitted bodies and staff union attend the Committee.

### 21.1 Investment Performance

The net assets of the fund at 31 March 2010 were £294.8 million, a rise of 40.4% on the 31<sup>st</sup> March 2009 valuation of £209.9 million. This reflects the recovery of the world's stock markets, from a very low base.

During the year, the Fund appointed two additional managers (Newton and Majedie) to join the existing manager, Schroders, in managing the Fund's assets. It has therefore been a year of transition, and it is too early to judge the relative performance of each manager. Each manager has been appointed on the basis that they are best placed to manage a particular part of the investment portfolio, and each has a specific benchmark against which to perform.

## 21.2 Funding Level

The Fund's last triennial actuarial valuation was undertaken in 2007. The latest assessment undertaken by the actuarial advisors shows that the ratio of assets to the liabilities of the Fund equated to 68% at 31 March 2010 compared to the assessment at 31 March 2008 of 55%. The actuarial valuation of the Fund is currently underway and its results, in terms of revised contribution rates, will be implemented with effect from April 2011.

## 21.3 Governance

The Committee continues to keep its governance arrangements under review. It has agreed that the Committee needs to ensure that it considers all aspects of the Fund's performance, not just its asset performance. This acknowledgement has been formalised by a change to the Committee's terms of reference and including a wider remit in the Committee's forward plan.

## 22. Actuary's Report (Produced by Hymans Robertson LLP)

After sharp falls in the previous 12 months, equity markets recovered very strongly during the year to end March 2010. In the early months, evidence that government stimulus packages were being effectively supported markets. Expectations that the worst of the economic crisis would soon be over gathered strength.

Hope turned to reality in the final months of 2009, as major developed economies recovered from recession. The US and Japan were first to report a return to economic growth, followed by the Eurozone (which has since ground to a standstill).

In January 2010, and after six consecutive quarters of economic contraction, the UK also returned to economic growth. Both manufacturing and service sectors contributed to the recovery. During the recession, the UK economy contracted by close to 6% in aggregate. This loss will take some time to make good, particularly if some capacity was permanently lost during the recession.

In contrast to the developed economies, China weathered the economic storm relatively well. The economy expanded by a little under 8.7% during 2009, despite the global downturn. China is now close to overtaking Japan's position as the world's second largest economy.

UK equities, as measured by the FTSE All Share Index, returned 52.3% over the twelve months to end March 2010. In local currencies, European (ex UK) equities returned 51.4% and those of North America 49.1%. Japanese equities returned 29.7%. When translated into Sterling, returns from North America and Europe (ex UK) were lower, reflecting the appreciation of Sterling against the US\$ and the Euro. Against the Yen, Sterling changed little over the period.

The best performing global sectors (relative to the FTSE 'All World' Index) over the twelve months were Basic Materials (+18.6%) and Financials (+13.8%). The poorest performing sectors were Utilities (-18.5%) and Telecoms (-17.8%).

Yields on government fixed interest bonds rose (prices fell) modestly during the twelve months; the 'All Stocks' Index returned just 0.8%. In contrast, index linked issues returned 10.3%, reflecting concerns over inflationary pressures as the economy moves out of recession. The strongest returns in bond markets came from corporate issues, +31.2% over the year, as credit spreads narrowed from historically high levels.

The global economic recovery remains uneven and is tentative at best. Fears of a 'double dip' recession cannot be dismissed and for this reason central banks are treading a wary path. The expectation is that short-term interest rates will remain low for some time. In the UK, the Bank of England held short-term interest rates at a record low of 0.5% throughout the twelve months and, commencing in March 2009, provided £200bn of additional economic stimulus, through its programme of quantitative easing.

The Greek debt crisis which erupted towards the end of the period illustrates the perils of running a high level of public debt. Loss of investor confidence is the major threat. In the UK, the immediate and most pressing economic challenge for the new Government will be the management of public finances. A robust approach is required to retain the confidence of the international community and to avoid a serious decline in Sterling against its major trading partners. The next budget will be very different from that delivered in March.

23. Status of the Scheme

The Local Government Pension Scheme is 'contracted out' of SERPS.

The Scheme is a 'final salary scheme'. This means that benefits do not depend on investment performance, but generally on the level of salary during the last 12 months before retirement and the length of total Local Government service during which contributions have been paid in to the Fund.

The Isle of Wight Council Pension Scheme is exempt from UK income tax on interest and from capital gains tax on the profits resulting from the sale of investments. As administering body the Isle of Wight Council are able to recover VAT input tax on fund activities

24. Actuarial Statement provided by Hymans Robertson.  
Date of Valuation 31 March 2007

24.1 Statement provided by the actuary

As required by regulation 77 of the Local Government Pension Scheme Regulations 1997, the last actuarial valuation of the Isle of Wight Council Pension Fund's assets and liabilities was carried out as at 31 March 2007

24.2 Security of Prospective Rights

In the actuary's opinion, the resources of the Fund are likely in the normal course of events to meet the liabilities of the Fund as required by the Regulations. In giving this opinion it has been assumed that the following amounts will be paid to the Fund:

Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997 until 31 March 2008, then in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007;

Contributions by employers in accordance with the Rates and Adjustments certificate dated 23 March 2005 for the year ending 31 March 2008. Thereafter for the three years commencing 1 April 2008 as specified in the Rates and Adjustments certificate dated 25 March 2008 (see below)

24.3 Summary of Methods and Assumptions Used

Full details of the method and assumptions are described in the actuary's valuation report dated 25 March 2008 and the Rates and Adjustments certificate contained therein.

Copies of these documents are available on request from the Finance Department of the Isle of Wight Council. The actuary's opinion on the security of the prospective rights is based on:

- the projected unit valuation method where there is an expectation that new employees will be allowed to an employer; or
- the attained age valuation method for employers who are closed to new entrants.

These methods assess the cost of benefits accruing to existing members during

- the year following the valuation; or
- the remaining working lifetime, respectively

allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the assessed value of assets.

#### 24.4 Valuation of Assets

A “market related” valuation method has been used. This is consistent with the methodology adopted at the 2004 valuation.

#### 24.5 Valuation assumptions

The key financial assumptions adopted at the 2007 valuation are set out in the table below

Assumption	Derivation	Rate at 31 March 2007	
		Nominal	Real
Price Inflation (RPI)	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	3.2%	-
Pay Increases ‘Gilt Based’	Assumed to be 1.5% p.a. in excess of price inflation	4.7%	1.5%
Discount Rate Funding Basis	The yield on fixed interest (nominal) and index linked (real) Government bonds	4.5%	1.3%
Discount Rate	Assumed to be 1.6% p.a. above the yield on fixed interest Government bonds	6.1%	2.9%

24.6 The next valuation of the Fund will be carried out as at 31 March 2010 and the results known later that year. This valuation will allow for the experience of the Fund from 31 March 2007 and up-to-date financial assumptions at that time.

The actuary is aware that some employers may pay contributions in excess of the minimum amounts shown in the Rates and Adjustments certificate. These extra payments will be taken into account in the 2010 valuation and will act to reduce the contributions that would otherwise have been payable.

Minimum Total contribution Rates expressed as a percentage of pensionable pay are as set out below

Future Employer Contributions	Minimum Contribution for the year ending		
	31 March		
	2009	2010	2011
Isle of Wight Council	20.0%	21.0%	22.0%
Isle of Wight College	18.7%	18.7%	18.7%
Yarmouth Harbour Commissioners	23.0%	25.0%	27.0%
Cowes Harbour Commissioners	23.0%	25.0%	27.0%
St Catherine’s School Ltd	23.0%	25.0%	27.0%
Trustees of Carisbrooke Castle Museum	23.0%	25.0%	27.0%
IW Society for the Blind	23.0%	25.0%	27.0%
Isle of Wight Rural Community Council	23.0%	25.0%	27.0%
South Wight Housing Association Ltd	18.7%	18.7%	18.7%
Additional lump sum deficit contribution	£102,000	£106,794	£111,813
Medina Housing Association Ltd	20.9%	22.1%	23.3%
Riverside Centre Ltd	17.4%	18.0%	18.5%
Osel Enterprises Ltd	17.4%	18.0%	18.5%
Planet Ice (IOW) Ltd	12.2%	12.2%	12.2%
Island 2000 Trust Ltd	12.2%	12.2%	12.2%
Isle of Wight Council Councillors	20.0%	21.0%	22.0%

During 2008-09, three of the admitted bodies requested that they should no longer be considered with others in a pool, but should be considered as separate employers for the purposes of contribution rates.

As a result a revised schedule of employers contributions were calculated for the following employers

<b>Future Employer Contributions</b>	<b>Minimum Contribution for the year ending</b>		
	<b>31 March</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Yarmouth Harbour Commissioners	23.5%	26.0%	28.5%
Cowes Harbour Commissioners	21.3%	21.6%	21.9%
St Catherine's School Ltd	25.1%	29.2%	33.3%
Trustees of Carisbrooke Castle Museum	21.7%	22.4%	23.1%
IW Society for the Blind	25.1%	29.2%	33.3%
Isle of Wight Rural Community Council	25.1%	29.2%	33.3%

25. The Statement of Investment Principles of the Isle of Wight Council Pension Fund can be found at Appendix B.
26. The Funding Strategy Statement of the Isle of Wight Council Pension Fund can be found at Appendix C.
27. The Governance Compliance Statement of the Isle of Wight Council Pension Fund can be found at Appendix D.
28. Investment Reviews produced by the Pension Fund investment managers can be found at Appendices E to G.
29. Communication Policy Statement  
This statement outlines how we communicate with our stakeholders and can be found on the Isle of Wight Council Pensions website at [www.iwight.com/council/pensions/](http://www.iwight.com/council/pensions/)
30. 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 Investment Panel.

The Investment Panel 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 manager's asset allocation and investment strategies
- monitoring the investment performance of the manager against the scheme specific benchmark
- the periodic review of this Statement, the Statement of Investment Principles, the Funding Strategy Statement and the Communications Policy

The Investment Panel normally meets with its Fund Manager and Investment Advisor four times each year, in February, May, July and November. Each meeting considers the strategy and performance of the Manager, 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.

There is also an annual meeting in October 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 Panel is constituted to reflect the views of the Council as administering authority and the largest member employer with 94% of the contributing membership.

The Investment Panel consists of

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

### **Terms of Reference (included in the Council's Constitution)**

The Constitution of Isle of Wight Council approved on 16 June 2010 includes the following Terms of Reference for the Investment Panel

#### Membership

7 elected members

1 non-voting employee representative nominated by Unison

1 non-voting representative nominated by Admitted Bodies

Panel to be quorate when 3 elected members are in attendance

#### In Attendance

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 Hymans Robertson)

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 Panel 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.

## **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.

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

<b>APPENDIX A</b>							
<b>ANALYSIS OF MARKET VALUE (EXCLUDING CASH) AT 31 MARCH 2010 BY INDUSTRIAL SECTOR</b>							
	Schroder	Majedie	Newton	Schroder	Schroder	Majedie	TOTAL
	UK	UK	Overseas	Property	Bonds	Overseas	
	£000`s	£000`s	£000`s	£000`s	£000`s	£000`s	£000`s
Aerospace & Defence	1,764	1,796	0	0	0	0	3,560
Automobiles & Parts	0	853	0	0	0	0	853
Banks	5,423	5,873	0	0	0	0	11,296
Bonds Managed Fund	0	0	0	0	63,852	0	63,852
Chemicals	614	0	0	0	0	0	614
Construction & Materials	0	241	0	0	0	0	241
Electricity	0	56	0	0	0	0	56
Equity Investment Instruments	183	0	0	0	0	0	183
Financial Services	904	2,081	0	0	0	0	2,985
Food & Drug Retailers	0	2,088	0	0	0	0	2,088
Food Producers	2,161	2,536	0	0	0	413	5,110
Forestry & Paper	0	215	0	0	0	0	215
Gas, Water & Multi Utilities	1,011	1,192	0	0	0	0	2,203
General Industrials	866	249	0	0	0	0	1,115
General Retailers	334	511	0	0	0	0	845
Healthcare Equipment & Services	0	216	0	0	0	0	216
Household Goods & Home Construction	435	444	0	0	0	0	879
Industrial Engineering	967	1,738	0	0	0	0	2,705
Industrial Transportation	428	0	0	0	0	0	428
Life Insurance	2,437	1,515	0	0	0	0	3,952
Managed Funds	1,875	5,133	0	0	0	0	7,008
Media	2,505	2,208	0	0	0	0	4,713
Mining	4,286	3,332	0	0	0	0	7,618
Mobile Telecommunications	2,356	4,739	0	0	0	0	7,095
Non Life Insurance	37	1,346	0	0	0	229	1,612
Oil & Gas Producers	6,922	12,628	0	0	0	0	19,550
Oil Equipment, Services & Distribution	288	0	0	0	0	0	288
Overseas Equities Managed Fund	0	0	100,648	0	0	0	100,648
Personal Goods	569	0	0	0	0	0	569
Pharmaceuticals & Biotechnology	3,979	6,986	0	0	0	0	10,965
Property Managed Fund	0	0	0	15,127	0	0	15,127
Real Estate	0	827	0	0	0	0	827
Software & Computer Services	0	1,549	0	0	0	0	1,549
Support Services	1,963	2,631	0	0	0	0	4,594
Technology Hardware & Equipment	0	1,136	0	0	0	0	1,136
Travel & Leisure	3,013	1,026	0	0	0	0	4,039
	<b>45,320</b>	<b>65,145</b>	<b>100,648</b>	<b>15,127</b>	<b>63,852</b>	<b>642</b>	<b>290,734</b>

## **APPENDIX B**

### **ISLE OF WIGHT COUNCIL PENSION FUND**

#### **STATEMENT OF INVESTMENT PRINCIPLES Dated 21 May 2010**

##### **Statement of Investment Principles**

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 administering authority and has taken and considered written advice from the Investment Practice of Hymans Robertson LLP.

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, on a defined benefits basis.

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 Limits 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 of the 2009 Regulations). 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 apply for a period of 3 years from the date of the meeting (24 July 2009), after which, it will be re-considered. This decision complies with the 2009 Regulations.

### **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**

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks affecting the Fund are:

#### **Funding risks:**

- Financial mismatch - The risk that Fund assets significantly under-perform the developing cost of meeting Fund liabilities.
- Demographics -Improving longevity and other demographic factors which affect the cost of Fund benefits.
- Inflation – The risk that unexpected inflation increases the assessed cost of meeting liabilities.
- Systemic risk - The possibility of an interlinked failure of several assets or managers at the same time, possibly compounded by an increase in the measured cost of meeting Fund liabilities arising from adverse financial contagion.

The Committee measures and manages funding risks risk in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. They also assess risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

#### **Asset risks**

- Concentration - The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates

The Committee manages asset risks as follows. It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Committee's expected parameters. In appointing several investment managers, the Committee has considered the risk of underperformance by any single investment manager.

#### **Other provider risk**

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

#### **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 manager has produced statements setting out its policy in this regard. The manager has been delegated by the Committee to act accordingly.

#### **Exercise of Voting Rights**

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by it with the objective of preserving and enhancing long term shareholder value. Accordingly, the manager(s) has produced written guidelines of its process and practice in this regard. The manager(s) is encouraged to vote in line with its 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 stocklending.

#### **Additional Voluntary Contributions (AVCs)**

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

**Annexe I: Myners Principles**

<b>Principle</b>	<b>Response on Adherence</b>
<p><b>Principle 1 Effective Decision Making:</b></p> <p>Administering authorities should ensure:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</li> </ul>	<p><b>Compliant</b></p> <p>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.</p> <p>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.</p>
<p><b>Principle 2 Clear objectives:</b></p> <p>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.</p>	<p><b>Compliant</b></p> <p>The Committee has established objectives for the Fund which take 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.</p> <p>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.</p>
<p><b>Principle 3 Risk and liabilities:</b></p> <ul style="list-style-type: none"> <li>• In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</li> <li>• These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</li> </ul>	<p><b>Compliant</b></p> <p>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.</p> <p>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.</p>
<p><b>Principle 4 Performance assessment:</b></p> <ul style="list-style-type: none"> <li>• Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.</li> <li>• 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.</li> </ul>	<p><b>Partially compliant</b></p> <p>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.</p> <p>The Committee does not yet have a formal process in place to measure its own effectiveness.</p>

<b>Principle</b>	<b>Response on Adherence</b>
<p><b>Principle 5 Responsible Ownership:</b></p> <p>Administering authorities should</p> <ul style="list-style-type: none"> <li>• adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents.</li> <li>• include a statement of their policy on responsible ownership in the Statement of Investment Principles.</li> <li>• report periodically to scheme members on the discharge of such responsibilities.</li> </ul>	<p><b>Partially compliant</b></p> <p>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 but not all of the managers comply fully with the ISC Principles. This Statement of Investment Principles includes a statement on the Fund's policy on responsible ownership.</p>
<p><b>Principle 6 Transparency and Reporting:</b></p> <p>Administering authorities should</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• should provide regular communication to scheme members in the form they consider most appropriate.</li> </ul>	<p><b>Compliant</b></p> <p>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.</p>

## **Annexe 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

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

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.

## APPENDIX C

### ISLE OF WIGHT COUNCIL PENSION FUND FUNDING STRATEGY STATEMENT

#### 1. Introduction

- 1.1 The Local Government Pension Scheme (Administration) Regulations 2008 require the Isle of Wight Council Pension Fund to keep under review its Funding Strategy Statement (FSS). This FSS must be taken into account by the Fund's actuary when setting employers' contribution rates.
- 1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued detailed guidance on the content and format of an FSS. This guidance has been followed in preparing this FSS.

#### 2. Consultation

- 2.1 All employers in the Isle of Wight Council Pension Fund have been given the opportunity to comment and contribute to this FSS. The Fund's actuary, Hymans Robertson LLP, has also been given the opportunity to comment and contribute to this FSS.

#### 3 Purpose of the Funding Strategy Statement

- 3.1 The FSS has two main purposes:
- To set out clearly the Fund's strategy for how it intends to meet its liabilities over the long term.
  - To explain how the Fund will work towards the maintenance of stable employers' contribution rates.

#### 4 The Aims of the Fund

- 4.1 The Fund has four main aims:
- To make sure the Fund is always able to meet its liabilities.
  - To enable employers' contribution rates to be kept as stable as possible and affordable for the Fund's employers.
  - To manage the employers' liabilities effectively.
  - To maximise the income from investments within reasonable risk parameters.

These aims are explained in more detail below.

##### **To make sure the Fund is always able to meet its liabilities**

- 4.2 The Fund's long-term solvency is the primary aim. Accordingly, employers' contributions will be set to ensure liabilities can be met over the long term.
- 4.3 The Isle of Wight Council as administering authority will make sure that the Fund always has sufficient cash available to pay pensions, transfer values to other pension funds, and other costs and expenses. Such expenditure will normally be met from incoming contributions from employees and employers and investment income to avoid the cost of selling any of the Fund's investments. The Fund reviews the position on a quarterly basis to make sure that sufficient cash is available to meet its obligations.

##### **To enable employers' contribution rates to be kept as stable as possible and affordable for the Fund's employers**

- 4.4 Achieving stability in employers' contribution rates is more easily achieved if the Fund's solvency level is stable. This requires investment in assets which broadly 'match' the Fund's liabilities. In this context, 'match' means behaving in a similar manner to the liabilities as economic conditions alter. Index-linked and fixed interest investments are the best match for the Fund's liabilities.
- 4.5 Other asset classes, such as shares and property, offer the potential for higher long-term rates of return. A substantial proportion of the Fund's investments are held in these asset classes with the aim of increasing investment returns. However, these asset classes are more risky and can lead to volatile returns over short-term periods.
- 4.6 This short-term volatility in investment returns can lead to similar volatility in the Fund's solvency level in successive actuarial valuations, which in turn can mean volatility in employers' contribution rates. The impact of the volatility in solvency level on the contribution rates can be reduced by the use of appropriate smoothing adjustments when determining the contribution rates. These adjustments will be agreed with the actuary.
- 4.7 Maintaining stability in employers' contribution rates can run counter to the primary aim of ensuring solvency. There is a balance to be struck between the investment policy, the need for prudence when setting contribution rates and the use of smoothing adjustments when setting contribution rates to provide desirable stability of employers' contribution rates from one valuation period to the next.
- 4.8 The position can be even more volatile for admitted bodies with short-term contracts. Here the use of smoothing adjustments when determining contribution rates is less appropriate.

**To manage the employers' liabilities effectively**

- 4.9 The Council as administering authority makes sure that the Fund's liabilities are monitored regularly and that employers' obligations are managed effectively. This is achieved by commissioning actuarial valuations every three years as required by law, which determine the employers' contribution rates required to make sure their liabilities will be fully met in due course. By monitoring the liabilities and setting appropriate contribution rates the employers' liabilities are being managed effectively.

**To maximise the income from investments within reasonable risk parameters**

- 4.10 Returns which are expected to be higher over the long term than those from index-linked stocks are sought by investing in other asset classes such as shares and property. However, investment is restricted as specified in the Local Government Pension Scheme (LGPS) investment regulations.
- 4.11 Risk parameters are controlled by restricting investment to asset classes generally recognized as appropriate for UK pension funds. The potential risks of investing in the various asset classes are reviewed by the Council from time to time with the assistance of the Fund's investment consultant and its investment managers.

## **5 Purposes of the Fund**

5.1 The purposes of the Fund are:

- To pay out pensions and benefits, transfer values for fund members moving to other schemes, and other costs, charges and expenses.
- To receive contributions, transfer values for fund members moving from other schemes, and investment income.

## **6 Responsibilities of the key parties**

6.1 The key parties with obligations to the Fund are the Council as administering authority, employers in the Fund (including the Council), and the Fund's actuary.

### **The Council's obligations**

- 6.2 To collect employers' and employees' contributions and, as far as possible, make sure they are paid by the due date as specified in the LGPS regulations.
- 6.3 To invest surplus monies in accordance with the LGPS regulations relating to the investment of funds.
- 6.4 To make sure that cash is always available to meet the Fund's liabilities when they are due.
- 6.5 To manage the valuation process in consultation with the Fund's actuary, ensuring that appropriate timescales are agreed and that accurate data is provided.
- 6.6 To monitor the Fund's investment performance and funding level on a regular basis.
- 6.7 To prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement.

### **Individual employers' obligations**

- 6.8 To deduct contributions from employees' pay, and make employers' contributions at the rates specified by the actuary, paying both to the Council by the due date.
- 6.9 To exercise discretions allowed to employers within the LGPS regulations.
- 6.10 To pay for agreed added years arrangements.
- 6.11 To keep the Council fully informed of all changes to membership, or other changes which could affect the solvency position.

### **The actuary's obligations**

- 6.12 To prepare actuarial valuations every three years as required by law, setting employers' contribution rates after agreeing assumptions with the Council and having regard to this Funding Strategy Statement. The valuation will be prepared in accordance with the latest guidance issued by the Institute and Faculty of Actuaries, as far as it applies to the LGPS.
- 6.13 To prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

## **7 Solvency**

- 7.1 The Council will seek to ensure the Fund is solvent. Solvency is defined as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities, based on current actuarial methods and assumptions.
- 7.2 The 'projected unit' method of valuation will be used when assessing solvency, using assumptions appropriate for an ongoing pension fund with financially sound member employers.
- 7.3 The financial assumptions used to assess the funding level will have regard to the yields available on long-term fixed interest and index-linked gilt-edged investments.
- 7.4 The Council has agreed with the actuary that the assumptions will include allowance for the higher long-term returns that are expected on the assets actually held by the Fund, and accepts the risks of such an approach if those additional returns fail to materialize. The position will be reviewed in subsequent three-yearly actuarial valuations.
- 7.5 The Council has also agreed with the actuary that explicit smoothing adjustments can be used when setting contribution rates for employers to provide some stability in contribution rates. It is unlikely that the use of these adjustments will be extended to employers whose participation in the Fund is for a fixed period (for example non-local authority employers awarded contracts for the provision of local authority services).

## **8 Funding strategy**

- 8.1 When an actuarial valuation shows that the Fund has a past service deficit based on this solvency measure, employers' contribution rates will be adjusted to target solvency over a period of years (the recovery period). A recovery period of 20 years for determining the common contribution rate has been set by the Council in consultation with the Fund's actuary. The length of the recovery period is determined by balancing the Fund's solvency requirements against the financial strength of the main scheduled employers in the Fund.
- 8.2 The Fund's liabilities mostly take the form of benefit payments over long periods of time. The main scheduled employers in the Fund are financed through central and local taxation and can be viewed as very financially secure. As these employers ultimately underwrite the Fund's finances, the Council has agreed a recovery period of 20 years which is longer than the average future working lifetime of the Fund's contributors. This is consistent with keeping employers' contribution rates as stable as possible. Were any employer to participate in the Fund for a short period only it is unlikely that the Council and actuary would agree a recovery period longer than the remaining term of participation.
- 8.3 Employers in the Fund are split into two groups: scheduled bodies and admitted bodies.
- 8.4 Some of the Admitted Bodies are grouped together into "pools" when determining contribution rates. This is a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service. This approach is commonly used in the LGPS for small employers, and employers that have shared financial interests. As at the 2007 valuation three separate pools were operated for different groups of Admission Bodies. The Council accepts that this approach can give rise to cross-subsidies between employers.

- 8.5 All employers in the Fund are required to make up-front contributions determined by the actuary to cover the costs of early retirements.
- 8.6 At each actuarial valuation, the Council will consider whether new higher employers' contribution rates should be payable immediately, or phased in. The Council discusses with the actuary the risks of adopting such an approach. The current policy is to phase in over a maximum of three annual steps. However, such increases may be phased in over forthcoming and subsequent valuation periods, on a year by year basis, if budgetary constraints make this necessary, up to a maximum of 6 annual steps in total.

## **9 Identification of risks and counter measures**

- 9.1 The Council's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at individual risk level. Risks to the Fund will be monitored and action taken to limit them as soon as possible. The main risks are:

### **Demographic**

- 9.2 Demographic risks include changing retirement patterns and increasing life expectancy. The Council will make sure that the Fund's actuary investigates these matters at each valuation, or more frequently if necessary. The actuary will report to the Council as appropriate. The Council will then agree with the actuary any necessary changes to the assumptions used in assessing solvency.
- 9.3 If significant demographic changes become apparent between valuations, the Council will notify all participating employers of the likely impact on their contributions after the next full valuation, and will review any bonds that are in place for transferee admitted bodies.

### **Regulatory**

- 9.4 The risks relate to changes in LGPS regulations, national pensions legislation and Inland Revenue rules. The Council will keep abreast of all proposed changes and, whenever possible, comment on the Fund's behalf during consultation periods. The Council will, if thought necessary, ask the Fund's actuary to assess the impact of any changes on employers' contribution rates.
- 9.5 The Council will then notify employers of the likely effect on employers' contribution rates at the next valuation, if they are significant.

### **Governance**

- 9.6 This covers the risk of unexpected structural changes in the Fund's membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), and the related risk of an employer failing to notify the Council promptly.
- 9.7 To limit this risk, the Council requires the other participating employers to communicate regularly with it on such matters.

### **Statistical/Financial**

- 9.8 Risks to the Fund are posed by the performances of the various investment markets, the quality of the Fund's managers, variations in pay and price inflation, and the budget constraints faced by the Fund's employers.

- 9.9 The Council regularly reviews these factors in conjunction with the actuary to decide whether the assumptions used in assessing solvency are still appropriate.

### **Investment returns**

- 9.10 The assumption that investment returns will be in excess of those accruing on Government bonds introduces an element of risk, in that those returns may not materialize. The Council will monitor the underlying solvency position assuming no such excess returns to make sure the funding strategy remains realistic.

### **Recovery period**

- 9.11 Allowing surpluses or deficiencies to be eliminated over periods up to 20 years entails a risk that action to restore solvency is inadequate between successive actuarial valuations. The associated risk is reviewed in conjunction with the actuary as part of the three-yearly valuation process, to ensure as far as possible that the action taken to restore solvency is sufficient.
- 9.12 Introducing increases in employers' contribution rates in annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process. The Council's policy is to limit the number of permitted steps to three, or, in exceptional circumstances, six. In addition, it accepts that a slightly higher final rate may be necessary at the end of the stepping process to help make up the shortfall.

## **10 Links to investment policy set out in the Fund's Statement of Investment Principles**

- 10.1 The Council has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Statement of Investment Principles which forms an appendix to this document.
- 10.2 Both documents are subject to regular review.

## **11 Future monitoring**

- 11.1 The Council plans to review this Statement as part of the three-yearly actuarial valuation process unless circumstances arise which require earlier action.
- 11.2 The Fund's solvency position will be monitored on an approximate basis at regular intervals between valuations in conjunction with the actuary. Discussions will be held with the actuary to establish whether any changes are significant enough to require further action, such as advising employers of the need for different employers' contribution rates after the next valuation.

Approved by the Pension Fund Committee 25 July 2008

## APPENDIX D

### ISLE OF WIGHT COUNCIL PENSION FUND GOVERNANCE COMPLIANCE STATEMENT dated 26 February 2010

Principle	Detailed Best Practice Principle
A. Structure	<p>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.</p> <p>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.</p> <p>c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p> <p>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.</p>
	<b>Compliant</b>
B. Representation	<p>a) That all key stakeholders are afforded the opportunity to be represented, within the main or secondary committee structure. These include:-</p> <p>i) employing authorities (including non-scheme employers, e.g. admitted bodies);</p> <p>ii) scheme members (including deferred and pensioner scheme members);</p> <p>iii) where appropriate, independent professional observers, and</p> <p>iv) expert advisors (on an ad-hoc basis)</p> <p>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.</p>
	<b>Compliant</b>
C. Selection and role of lay members	<p>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.</p> <p>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</p>
	<b>Compliant</b>
D. Voting	<p>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.</p>
	<b>Compliant</b>
E. Training/Facility time/Expenses	<p>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.</p> <p>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.</p> <p>c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.</p>
	<b>Compliant</b>
F. Meetings (frequency/quorum)	<p>a) That an administering authority's main committee or committees meet at least quarterly.</p> <p>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</p>

<b>Principle</b>	<b>Detailed Best Practice Principle</b>
	<p>committee sits.</p> <p>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</p>
	<b>Compliant</b>
G. Access	<p>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.</p>
	<b>Compliant</b>
H. Scope	<p>a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</p>
	<b>Compliant</b>
I. Publicity	<p>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.</p>
	<b>Compliant</b>

## APPENDIX E

# Schroders Investment Review

12 Months to 31 March 2010

## Isle of Wight Council Pension Fund

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### Summary

The year to 31 March 2010 was one of significant change for the Pension Fund's investment portfolio. Previously the Fund had invested its assets in a single multi-asset portfolio with a single manager, Schroder Investment Management, responsible for the entire portfolio. Following a review of investment strategy by the Investment Panel, the Fund was split into five separate mandates covering UK equities (two), global equities, UK fixed income and UK property. The transition to the new arrangement took place in August 2009. After the transition Schroders was responsible for one of the UK equity mandates, the UK fixed income mandate and the UK property mandate.

### Asset Allocation

The asset allocation of the single multi-asset portfolio managed by Schroders at 31 March 2009 is set out below.

	Fund 31.03.09 £m	Fund 31.03.09 %	Benchmark 31.03.09 %
<b>Equities Total</b>	<b>151.4</b>	<b>72.1</b>	<b>75.0</b>
UK	91.6	43.6	45.0
North America	23.7	11.3	10.0
Europe ex UK	16.8	8.0	10.0
Japan	7.6	3.6	4.0
Pacific ex Japan	8.9	4.3	4.0
Emerging Markets	2.8	1.3	2.0
<b>Other Assets Total</b>	<b>58.6</b>	<b>27.9</b>	<b>25.0</b>
UK Gilts	5.4	2.6	4.0
UK Corporates	27.0	12.9	8.0
UK Index-Linked	4.5	2.1	2.5
Overseas Bonds	5.7	2.7	2.5
Cash	4.7	2.2	0.0
Property	11.3	5.4	8.0
<b>Total</b>	<b>210.0</b>	<b>100.0</b>	<b>100.0</b>

Following the change to the manager structure the values of the three mandates managed by Schroders at 31 March 2010 were as follows:

UK Equities	£46.7m
UK Fixed Income	£63.6m
UK Property	£16.0m

## Fund Performance

Over the period from 31 March 2009 to 31 July 2009 the multi-asset portfolio returned 14.3% compared to the benchmark return of 14.4%. Over the 3 years to 31 July 2009 the portfolio's return of -0.4% p.a. compared to the benchmark return of -1.5% p.a.

Schroders did not manage any assets during the month of August 2009 as the assets were under the control of the transition manager during this period.

Over the period from 31 August 2009 to 31 March 2010 the performance of the three new mandates was as follows. The UK Equity portfolio returned 16.2% compared to the benchmark of 17.5%, the UK Fixed Income portfolio returned 4.2% compared to the benchmark return of 2.0% and the UK Property portfolio returned 14.3% compared to the benchmark return of 16.0%.

## Market Review

Financials markets started the review period on a strong note as it became increasingly apparent that a 'Great Depression' had been averted. After reaching a trough in early March 2009, the rally in both equity and credit markets continued for most of the year amid a continuation of the improving trend in economic data as the inventory cycle improved. This was further supported by the abundant liquidity conditions facilitated by historically low interest rates and unprecedented fiscal stimulus.

With the return of risk appetite, those assets that had been hit the hardest in 2008 bounced back the strongest. Within equities, the gains in the less-economically challenged emerging markets were particularly impressive. Developed markets, including Europe, the UK and the US also generated strong returns; however, Japan continued to underperform on persistent concerns about deflation.

In the credit markets, bond performance was mixed. Global corporate bonds outperformed government bonds as investors continued to purchase high-quality corporate bonds at relatively low prices. However, government bonds generated stronger returns towards the end of the period as risk aversion came to the fore.

Both corporate and macro news was generally supportive of a recovery, with many companies beating earnings forecasts and all the major economies exiting recession. However, a number of issues weighed on investor sentiment, leading to increased volatility in the second half of the review period. In November, the Dubai government's announcement of a debt restructuring at holding company Dubai World hurt investor confidence, although concerns about possible contagion quickly subsided.

This was soon followed by doubts about the sustainability of government support for the global economy at a time when authorities around the world are preparing to exit their stimulus programmes. This was particularly the case in the eurozone amid concerns about the fiscal stability of European peripheral countries, particularly Greece.

Another key concern centred on economic overheating in China. In January, investors were caught off guard by an earlier-than-expected move to rein in credit growth after the Chinese authorities raised banks' reserve requirements. This was followed by another 50 basis point hike in February, as well as measures to curb the property market, leading many investors to concur that this is the start of significant monetary tightening.

## APPENDIX F

### MAJEDIE ASSET MANAGEMENT INVESTMENT REVIEW

#### Summary

Majedie Asset Management Ltd is a focused equities boutique based in the City of London. It was hired in 2009 as part of our move to a specialist manager structure. They manage a mandate of approximately £60m and their target is to beat the FTSE All Share Index by 2% a year. They were appointed in August 2009 and their record since then is shown below:

Performance to 31 March 2010	Since Inception*
Isle of Wight	16.6
FTSE All Share Index	17.5

#### Market Review

The FTSE All-Share index returned 22.4% between June and September 2009, its strongest quarterly performance since 1975. This extended recovery was driven by fundamental relief at the avoidance of financial Armageddon and, less profoundly, by a wall of money looking for a higher yielding home, fuelled by cheap interest rates and rising leading indicators.

The third quarter opened with the surprise news that the major Eurozone economies of France and Germany had pulled out of recession, doubtless vindicating those who saw the crisis as one of pure Anglo Saxon excess. The US economy also promised better things to come with the Chairman of the Federal Reserve, Ben Bernanke, proclaiming the recession there as “likely over”. This was a rare piece of good news for a President grappling to contain a grassroots rebellion over his healthcare plans, scepticism over his Treasury Secretary’s financial reforms and accusations of naivety levelled at his foreign policy initiatives. This was also the quarter for dodgy elections, with question marks lingering over the legitimacy of polls held in both Afghanistan and Iran, undermining hopes of an early military exit from the former and wholesale change in the latter. The quarter ended with worrying signs that the Iranian nuclear adventure was nearing some sort of end point.

The last three months of 2009 saw markets still registering positive returns, albeit more subdued than the pyrotechnics of the previous quarter. More modest progress was the result of a tussle between those who pointed to the end of recession but not cheap money and those who worried about the sustainability of any recovery and the longer term consequences of that cheap money. This was the quarter when the big questions of government indebtedness were first asked in earnest: some, such as the Irish, made tangible efforts to cut their budgetary cloth according to their straitened circumstances. Others still believed it was an issue for tomorrow, with today spent on propping up demand. Other forms of indebtedness were also addressed during the quarter, with Lloyds Banking Group launching a record £13.5bn rights issue to help repair the damage caused in the years of reckless lending by HBOS, which it had recently acquired. Meanwhile, this was also the quarter when regulation finally caught up with the political mood, with bankers’ bonuses clobbered in the UK, global capital regulations significantly tightened through the Basel Committee and Paul Volker, past Chairman of the US Federal Reserve, pointing out that the only truly useful form of financial innovation has been the ATM.

President Obama finally passed his healthcare bill, although the end result seemed equally vexatious to both ends of the political spectrum. The UK government’s Pre-Budget Report showed that banker bashing would not prove sufficient in tightening the accounts, revealing a hike in national insurance

for the masses and subsequently announcing large cuts to tertiary education and to the Foreign Office, surely a sign of things to come. The quarter ended with chaotic scenes in Copenhagen as the world had its first true conversation with itself, plus worrying signs of an escalation in the Iranian emergency.

In the first quarter of 2010 equity markets surged to end the quarter with a similarly strong return to the previous period, for broadly similar reasons: better news on the corporate front as the world emerged from the crisis and an abundance of near-free money with which to express that relief. The problems of excessive government debt again provided the dominant narrative for the quarter, with the Greek crisis providing the greatest test for the euro since its launch. The French, anxious for a European solution, pressed for solidarity and hinted at much needed boosts to German domestic demand, whilst the Germans initially stressed that it was a problem for the Greeks alone. The subsequent 'rescue package' agreed by the Eurozone was a classic of its kind, with all agreeing that unanimous agreement would be required in the future for any action, using early IMF money but not their name. The successful passing of the US healthcare bill wrought significant damage to President Obama's bipartisan reputation and spawned the rise of the 'Tea Party' movement, which may presage a period of US navel-gazing.

The UK offered another perspective on the debt narrative; the rating agencies were waiting to see the new government's spending plans post election, before deciding whether a downgrade to the UK's sovereign debt rating is required. The economic data was almost all bad, with short term export data refusing to respond to the slide in Sterling and a political class united thus far in its refusal to spell out the real choices facing the country as a general election loomed.

## APPENDIX G

# Newton International Growth Fund

## Investment Report for the year ending 31 March 2010

### 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 International Growth 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	31/03/09 (%)	31/03/10 (%)
UK Equities	10.4	10.8
North American Equities	38.2	37.3
Continental Europe ex. UK Equities	25.3	24.2
Japanese Equities	7.9	8.0
Pacific ex. Japan Equities	7.7	8.6
Other International Equities	8.9	10.3
Cash	1.6	0.7
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

### Annualised performance (gross of fees)

	1 year (%)	3 years (%)	5 years (%)	10 years (%)
NIGF	38.8	4.5	8.5	1.6
FTSE World Index	46.9	4.6	9.0	1.8

### Fund facts

Launched <sup>2</sup>	01 June 1987
Value as at 31 March 2010	£993.05m

### Top ten holdings

Holding	31/03/10 (%)
Roche Hldgs AG	2.3
Sprint Nextel Corp	2.0
Nestle SA	1.8
Millicom Intl Cellular	1.6
Vodafone Group PLC	1.6
Cisco Systems Inc	1.5
Total SA	1.5
Novartis AG	1.4
Newcrest Mining Ltd	1.4
Bangkok Bank PCL	1.4

### Performance notes as at 31 March 2010

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.

### (12 months to 31 March 2010)

#### Market commentary

Amid concerns about the durability of recovery, monetary authorities worldwide kept interest rates low, for the most part, in an effort to stimulate growth. In the UK, the Bank of England maintained the policy rate at an historic low of just 0.5%. The Federal Reserve kept its key interest rate at 0%-0.25%, the level introduced in December 2008. In the EU, the European Central Bank cut its main rate to 1% in May 2009, where it remained for the rest of the period. Similar stimulative policy action was undertaken in many other major economies.

Given a recognition that benign monetary policies were failing to achieve their main aim and, with little scope for further rate cutting, less orthodox measures were taken. These broadly involved increasing the amount of money in the financial system, either by buying bonds in a process known as 'quantitative easing', or by lending vast sums of money to commercial banks at very low interest rates. Increasingly, concerns surfaced regarding what might happen when fiscal stimulus is withdrawn.

Global equity markets continued to advance as improved economic data suggested that a global recovery, although still fragile, was in progress after one of the sharpest shocks for generations. The strong market rally enabled global equities to generate positive returns for the period as a whole, with the FTSE All-World Index rising 48.1%\*.

In North America, the US, which represents by weight around 42% of the global market, gained 41.8%. Canada, which is a much smaller market (around 3.7% of the global market), outperformed the US market, delivering a return of +62.5%. The FTSE All-World North America Index returned +43.2%\*. The strongest sectors in the US included financials, basic materials, industrials, technology and consumer services. The less robust sectors were oil and gas producers, utilities and fixed-line telecoms.

Continental European equity markets performed broadly in line with global markets over the 12-month period; the FTSE World Europe ex UK Index returned +48.0%\*. Hungary was the region's top performing market in sterling terms, returning +159.8%, with performance largely driven by OTP, the country's biggest lender. Of the major Eurozone markets, the Netherlands was the top performing country, returning +66.6%, compared with +46.0% in Germany, +43.2% in France and +40.3% in Italy. Basic materials, consumer services and some financials generated strong returns, while telecommunication stocks and utilities were less robust performers. Elsewhere, Greece and Portugal were, in comparison, the weakest markets, with the former affected by its emerging budget-deficit problems that have commanded global attention.

In the UK, the FTSE All-Share Index returned +52.3%\*. Small- and medium-capitalisation companies outperformed the rest of the market, with the FTSE Small Cap ex Its Index and the FTSE Mid 250 Index returning +68.7% and +64.2%, respectively. In contrast, large-capitalisation stocks were not quite able to keep up with the broader market, with the FTSE 100 Index returning +50.4%. At the sector level, the top performing area was basic materials, which saw gains of more than 100%. Solid performance also came from the technology (+80.9%) and financials sectors (+71.9%), with banks returning +82.0%. Among the less strong sectors, utilities returned 17.6%. Other less vigorous sectors were non-life insurance (+3.4%) and oil and gas (+25.2%). Healthcare generated a modest return of +21.4%.

Asia Pacific ex Japan was a top performing regional equity market over the year, with the FTSE All-World Asia Pacific ex Japan Index returning +68.8%\*. The top performing regional markets were the smaller ones of Indonesia and Thailand, which generated +146.1% and +103.9%, respectively. The good performance of the Indonesian market was boosted by the country's consumer goods, basic materials and industrials stocks; the consumers goods area also contributed to the performance of Thailand's market. Among the larger markets, Australia delivered +76.6%, with a significant contribution from industrials, financials and basic materials, and China +52.1%, with performance boosted by industrials, financials and consumer goods.

Japan's stock market underperformed the broader Asia Pacific region. The FTSE All-World Japan Index returned 29.5%\*. The market's strongest performers were industrials, technology and basic materials. In contrast, the telecommunications and utilities sector delivered less robust but still positive performance, with weakness in oil and gas.

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

## **Independent auditor's report to the Members of Isle of Wight Council on the Pension Fund Annual Report**

I have audited the pension fund accounting statements for the year ended 31 March 2010. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

### **Respective responsibilities of the Strategic Director of Resources and auditor**

The Strategic Director of Resources is responsible for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice. In preparing this pension fund accounting statements, the Strategic Director of Resources is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimates that were reasonable and prudent;
- keeping proper accounting records which were up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

My responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. I also report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounting statements. That information comprises the Foreword.

I review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the Management Structure, and Appendices to the Pension Fund Annual Report.

. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the

pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

### **Opinion**

In my opinion:

- the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounting statements.

K L Handy  
District Auditor

Collins House  
Bishopstoke Road  
Eastleigh  
Hampshire  
SO50 6AD

28 September 2010