PAPER A

Minutes

Name of meeting	**ISLE OF WIGHT COUNCIL PENSION FUND COMMITTEE**
Date and time	**22 JULY 2011 AT 10.00 AM**
Venue	**COMMITTEE ROOM 1, COUNTY HALL, NEWPORT, ISLE OF WIGHT**
Present	Councillors: Roger Mazillius (Chair), Peter Bingham, Barry Abraham, Reg Barry, and Vanessa Churchman Admitted Bodies: Mr Siegal, Isle of Wight Society for the Blind, Stephen Lamdin, Isle of Wight College and Captain S McIntosh, Cowes Harbour Commission Representatives: Chris Lisher, Admitted Bodies Representative Steve Milford, Unison Representative Officers: Dave Burbage, Strategic Director of Resources, Jo Thistlewood, Technical Manager and Carol Harrison – Minutes.
Apologies	Councillor: Wayne Whittle and Tim Hunter-Henderson Admitted Bodies: Alene Wilton, Southern Housing Group and Gillian Burnett, Carisbrooke Castle Museum

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1. **Minutes of the meeting held on 20th May 2011 (Paper A)**

RESOLVED :

The minutes of the meeting held on the 20th May 2011 were agreed as a correct record.

2. **Declarations of Interest**

Cllr Reg Barry declared interest as a member of the Isle of Wight Pension scheme and also declared as being in receipt of an Isle of Wight Council Pension.

3. **Welcome by Chairman of the Committee**

Welcomed everyone to the Isle of Wight Pension Fund Committee, particularly the admitted body representatives. It is at this annual meeting that we look back over the previous year.

He was therefore pleased as Chairman of the Pension Fund Committee for the third year to present to you this annual report of the Pension Fund Committee for 2010/11.

2010/11 has been a busy year for the Investment Committee, we have reviewed our banking arrangements in line with the new regulations and a separate bank account for the Pension Fund was implemented from 1st April 2011. We have also received the results of the triennial revaluation, based on data at 31st March 2010, and the new employer contribution rates have been implemented from 1st April 2011.

The Hutton review final report was issued on 10th March 2011. This made 27 recommendations which the Government accepted as the basis for consultation it being generally agreed that changes to the cost of public service pension schemes must be made. Final recommendations are expected from the Government in the autumn. We will continue to review what and how the final proposals will affect the Fund.

The previous revaluation as at 31st March 2007 gave an overall funding level of 80.2%. The comparable figure for 31st March 2010 was 75% (71.5% excluding the change from RPI to CPI indexation of benefits).

This was a far better result than originally projected with the notional funding level at 31st March 2008 being 69.1% and 31st March 2009 a low of 55.4%

The overall Fund value has recovered from a low of £210m at 31st March 2009 to £326.5m at 31st March 2011.

During 2010/11 the overall return of the fund was 9.6% compared to the combined benchmark of 7.9%. This placed us as the 8th best return out of 100 Local Authority Funds.

Majedie Asset Management, Newton Investment Management Ltd and Schroder Investment Management all outperformed their relative benchmarks. They will each be outlining their 2010/11 performance and their future key strategies later in the meeting. The importance of these is made the more imperative by the fragile state of many of the world's economies.

4. **Reports of the Strategic Director of Resources**

(a) **Funding Strategy Statement (Paper B)**

The report was taken to the Pension Fund Committee meeting held on 20th May 2011 and it was agreed that the Funding Strategy Statement be brought to this meeting to give the opportunity for the admitted body representatives to give any views.

It is something that is reviewed every three years alongside the triennial valuations. Following the completion of the 2010 valuation which was implemented on 1st April 2011 a review is now required. We are advised by our Actuary's (Hymans) around its form and content and sets out the overall regulatory framework etc. solvency issues and the basis on which the fund is operated.

RESOLVED :

(i) To obtain copies of the individual Fund Managers policy on Statement for Social, Environment and Ethical Considerations (JT)

(ii) Following a lengthy discussion the Funding Strategy Statement was agreed and that the recommendations proposed be approved.

(b) **LGPS Annual Governance Compliance Statement – (Paper C)**

The purpose of the report is to present changes to the Governance Policy Statement and to seek approval for the Governance Compliance Statement to be published with the Annual Report and Accounts.

This is something that is done each year and is a statutory requirement. The compliance statement is set out at appendix B and it sets out what the best practice principles are and comments on whether we are compliant or not and the reason that we think that we are. The report indicates we are fully compliant with best practice and the governance statement is recommended to be accepted.

It was pointed out to the trade union and admitted body colleagues that on page C-2 paragraph 8 they could give any views on the document at this particular meeting. No comments were put forward.

Cllr Bingham commented that last year we were not fully compliant with everything with this, has our compliance improved this year? The Strategic Director of Resources confirmed there was one issue where we were not fully compliant but that has been dealt with.

RESOLVED :

THAT both the Governance Policy Statement and Governance Compliance Statement be approved and included in the Annual Report and Accounts.

(c) **Statement of Investment Principles (SIP) (Paper D)**

This statement sets out the principles by which the Fund's assets and investments are to be managed. The SIP was fully revised in May 2010 following new guidance issued by CIPFA and the fund was advised at that time by the Funds adviser (Hymans Robertson) on the content and philosophy of the revised SIP.

The SIP has been revised to ensure that the principles remain relevant to the Fund's current activities and the required statement of compliance with the six Myners principles and the current strategic asset allocation reflecting the balance of investments for the investment managers.

Principles which are partially compliant:

Page 9 Principle 4 – in respect of the performance assessment, we are very good at monitoring the performance of the fund managers and investment advisors but we do not necessarily monitor the performance of the Committee itself, and is just a case of developing a performance measurement framework for the Committee which we can look at over the next 12 months.

Page 9 Principle 5 – in respect of responsible investment, just to confirm that all of the fund managers are compliant with the ISC Statement of Principles a formal review.

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John Hastings (Hymans) – general recommendation is that the principles are quite a stiff challenge and require managers generally to be more involved in corporate governance than actually the investment management community is included to do. Generally our recommendation is just to soften the tone on compliance in the statement, as there are very few funds which we feel are any better at this than the Isle of Wight as being compliant, but it is a problem with the industry.

The Chairman advised that the Committee receive a clear statement to that effect recorded into the minutes either as a result of John Hastings comments or preferably a written statement to that effect either from John Hastings or from the Fund Managers themselves. Agreed.

The Chairman also highlighted the need to report to scheme members periodically on the discharge of responsibilities. As part of the regular review that we will be carrying out of the Statement of Investment Principles, we should also be making a statement to scheme members at least once a year.

Referring to principle 4 – there is not yet a formal process in place to measure our own effectiveness. It is becoming increasingly important that we do have this in place during the course of this year. Agreed.
A draft to be brought back to the Committee within the next six months.

It is recommended that the Committee approve the Statement of Investment Principles and agree to it's inclusion in the Annual Report and Accounts.

RESOLVED :

(i) Performance framework for the Pension Fund Committee within the next 12 months and a draft report within six months. (JT)

(ii) Written statement with regards to ISC Statement of Investment Principles to be inserted into the minutes. (JH/JT/Fund Managers)

(iii) Report regarding discharge of responsibilities on a yearly basis.

(iv) That the Statement of Investment Principles be approved and included in the Annual Report and Accounts

5. **Annual Report of Accounts (Paper E)**

The accounts are presented subject to audit as stated. The audit has been progressing and very few major adjustments or comments from the auditors towards these accounts this year. There is one adjustment to the figures shown in the draft that is presented to the Committee and that adjustment is in respect of the treatment of capitalised pension costs at the year end for those staff that were given redundancy notices but had not left the Council at the 31st March 2011, we previously approved those pension contributions and the auditors opinion is that they should not have been accrued, so effectively the impact of that is to reduce the surplus for the year by £341,000 but increase it for next. That still leaves a surplus of over £32m for the financial year. The amendment will be reflected in note 4 to the accounts, page E-10 and the special capitalisation contribution of £911,000 will be reduced by £341,000 and this will have an impact on the fund account at page E-5. Other than that the auditors have not come up with any other findings or recommendations so far apart from a few disclosure notes in respect of the International Finance Reporting Standards (IFRS).

The Chairman – E-16 paragraph 23 Amendment to be made – in respect of the improvement since the last valuation.

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

In respect of paragraph 26 the position on financial circumstances in relation to pay accruals needed and explanatory note included.

RESOLVED:

To approve the annual report and subject to the amendments agreed and following the audit process the final document will be circulated to all Members of the Pension Fund Committee and formally reported to the Audit Committee.

6. **Isle of Wight Pension Fund Overview (Paper F)**

The overall fund position at 30th June 2011 was considered.

<u>RESOLVED:</u>

Following a discussion on the benchmark of the fund managers it was agreed to note the report.

7. **Overview of Performance 2010/11 – John Hastings, Hymans Robertson**.

John Hastings made a presentation to the Committee on the Fund Managers performance over the last five years.

The following items were discussed:

- The Isle of Wight Structure introducing three Fund Managers and the diversification and specialisation of each manager and their benchmark since inception.

- Asset class returns to March 2011 and first year returns in all categories except cash and after strong equity rebound in 2009 following a sharp equity fall in 2008.

8. **Performance Review 2010/11 – Fund Managers**

Newtown – Global Equities (David Moylett and Jon Bell)

David Moylett and Jon Bell reported on their mandate. The assets are invested in the Newton International Growth Fund. The portfolio benchmark to 30 June 2011 is FTSE World Index. The value of the Isle of Wight Pension Fund assets was £115,160,093 as at 8th July 2011.

Performance versus benchmark to 31st December 2010 as follows:

Q2 2010: Fund -8.35% versus benchmark -11.30%
Q3 2010: Fund +7.72% versus benchmark +8.67%
Q4 2010: Fund +8.99% versus benchmark +9.67%
Q1 2011: Fund +3.06% versus benchmark +2.16%
Q2 2011: Fund +0.62% versus benchmark +0.36%
6 Months to 2011: Fund +3.71% versus benchmark +2.53%
1 year: Fund +21.75% versus benchmark +22.19%
Since Inception (25/08/2009 - 30/06/2011): Fund +17.56% versus benchmark +15.70%

The last 12 months has been a particularly volatile period for world equity markets with the major trend being 'risk on/risk off'. Investors grappled with the opposing dynamics of supportive policy which were needed to counter the generally disappointing economic data, political tensions in the Middle East and North Africa, global inflation and the Eurozone debt crisis. The last two weeks of June and the first two weeks of July has been a microcosm of this theme. The final weeks of June brought another 'risk on' relief rally following better than expected US manufacturing data, the International Energy Agency releasing 60m barrels on oil onto the market to reduce prices and the Greek Govt. passing the austerity vote,. However in the first few weeks of July, much of this has been undone as data from the US was again poor and the Eurozone debt problems refused to subside as Italy came under pressure in this challenging issue for the first time, following in the wake of bailouts for Greece, Ireland and Portugal.

From a top down economic perspective, our central premise has not altered much in the last six months. Economic growth is likely to remain sluggish at best as increasing energy, food and commodity prices take their toll on the disposable income of already concerned consumers. The crux of the problem is that the significant build-up of debt that initially caused the credit crunch has not gone away. Various rescue packages have only succeeded in shifting the problem from the financial sector to the public sector. In addition, the low interest rate policies and the economic support packages (quantitative easing) aimed at boosting demand and inflating the property market have yet to come good. Instead, these policies have fuelled commodity price inflation (food, oil, metals etc) while unemployment remains stubbornly high.

Developing economies, which have been largely immune from the financial crisis, have been raising interest rates to ensure that the significant growth that they have enjoyed in recent years remains under control. This timing is unfortunate as it had been hoped that the buoyant emerging economies would help to support economic recovery in the developed regions
.
Looking at your portfolio against a fairly challenging economic background, we have identified many attractive growth opportunities, balanced with a selection of cautious positions to reflect the considerable risks that excessive leverage in the private and public fields represent to developed economies. Our relative performance has tended to lag during periods where market sentiment in developed markets has been sharply positive as investors moved up the risk spectrum but we have performed well in periods where returns have been negative or within a more reasonable range. Despite a more cautious stance, our absolute returns have been strong and our performance is well ahead of benchmark since inception.

The current portfolio mix of attractive opportunities includes selective investments in emerging markets balanced with some cautions as evidenced by our overweight positions in typically defensive sectors such as healthcare and by overweight positions in basic materials (countering inflation). Our largest underweight sector position is in financials, reflecting our reluctance to invest in developed world banks. We believe that this balance is sensible and totally appropriate for long term investors in the prevailing market environment.

Majedie – UK Equities (Simon Hazlitt)

"Simon Hazlitt from Majedie reported on their mandate. Their performance was 0.4% above the benchmark on average per year since they started running the mandate in August 2009. He reported also that performance was on an improving trend. He noted that Majedie had not made the target of outperforming the benchmark by 2% net of years every year. This was due to the fact that Majedie have been very cautious, preferring to take measures to protect capital, measures which had limited the out-performance. He went through the performance achieved since the last meeting in more detail, noting that the lack of positions in tobacco had harmed performance, as these shares had done well. On the positives he noted holdings in GlaxoSmithKline, WM Morrison and Pearson that had proved winners for the portfolio.

Speaking on the outlook he noted that Majedie was continuing to adopt a cautious stance, which meant that there was risk of underperforming a strongly rising market if that eventuality arose. The reason for the caution he noted was primarily the continued existence of too much debt and too much government spending, which means that the recovery we have seen from the lows of 2008 is likely to be slow and hesitant, as debt is paid down and public entitlements are pared back."

Schroders – UK Equities, Bond & property (Edward Chamberlayne and Jonathan Harris)

Edward Chamberlayne set out the performance of the Schroder UK Fixed Income, UK Equity and UK Property portfolios. All three had outperformed their benchmarks over the year to 31 March 2011.

Jonathan Harris provided more detail on the Fixed Income portfolio. Strong performance had been achieved through a preference for corporate bonds relative to government bonds with the former performing the more strongly over the year. Current policy still favoured credit strategies but the Fund had avoided exposure to peripheral European economies. Given the current low level of UK gilt yields, the Fund was positioned with a conservative duration to provide some protection in the event of a rise in yields.

Edward Chamberlayne summarised Schroders' views on the UK equity market. Valuations are considered attractive on a long term basis and opportunities remain to invest the Fund in good quality companies at reasonable prices. He then outlined the prospects for the UK property market. The sharp recovery in commercial property values over the past two years meant that returns were likely to be more muted over the coming quarters.

Meeting closed at 14.00 pm

CHAIRMAN