

ISLE OF MAN LOCAL GOVERNMENT SUPERANNUATION SCHEME

PENSION FUND ANNUAL REPORT FOR THE YEAR ENDING 31 MARCH 2013



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CAPITA

Contract Administrators

BLACKROCK

Fund Manager



Capital
International

Fund Manager

HYMANS  ROBERTSON

Actuarial and Investment Support

Being a public service pension scheme as defined by the Superannuation Act 1984 (an Act of Tynwald), the Isle of Man Local Government Superannuation Scheme is statutorily exempt from the overriding provisions relating to the issue and content of a pension scheme's annual report; nevertheless, every effort has been made to ensure that this Report meets the major requirements imposed on other schemes, allowing for the differences between statutory schemes and those operating under trust. Furthermore, the Pension Fund Annual Report has been prepared in accordance with the guidelines set out in the Statement of Recommended Practice, "Financial Reports of Pension Schemes" (Revised May 2007), ("the pensions SORP") as far as is practicable.

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ISLE OF MAN LOCAL GOVERNMENT SUPERANNUATION SCHEME

Administering Authority

Douglas Borough Council
Town Hall
PO Box 2
Douglas
Isle of Man IM99 1AD

Chief Executive

Miss K J Rice, BA (Hons) Solicitor

Borough Treasurer

Mr G M Bolt, CPFA

Auditor

BDO (Isle of Man) LLC
(formerly PKF (Isle of Man) LLC)
PO Box 16
Analyst House
20 – 26 Peel Road
Douglas
Isle of Man IM99 1AP

Bankers

Isle of Man Bank
Athol Street
Douglas
Isle of Man IM99 1AN

Consulting Actuary and Investment Consultant

Hymans Robertson LLP
Central Exchange
20 Waterloo Street
Glasgow
United Kingdom G2 6DB

AVC Provider

Aviva Life & Pension UK Limited
Rose Lane Business Centre
Norwich
United Kingdom NR1 1BB

Scheme Administrator

Capita Employee Benefits Limited
(formerly Capita Hartshead Limited)
Hartshead House
2 Cutlers Gate
Sheffield
United Kingdom S4 7TL

Investment Fund Managers

BlackRock (Isle of Man) Limited
3rd Floor Atlantic House
4-8 Circular Road
Douglas
Isle of Man IM1 1AG

Capital International Limited

Capital House
Circular Road
Douglas
Isle of Man IM1 1AG

Custodians of Securities

BNP Paribas Securities Services S.C.A.
Isle of Man Branch
PO Box 57
Merchant's House
24 North Quay
Douglas
Isle of Man IM99 2P6

Capital International Nominees Limited

Capital House
Circular Road
Douglas
Isle of Man IM1 1AG

Report by Douglas Borough Council

INTRODUCTION

The Isle of Man Local Government Superannuation Scheme (“the Scheme”) is a statutory public service pension scheme (as defined by the Superannuation Act 1984, an Act of Tynwald) under the Isle of Man Local Government Superannuation Scheme Regulations which provides retirement and dependants’ benefits for employees of local government employers (including resolution bodies) and other admitted bodies on the Isle of Man.

The Scheme is contracted-out of the State Second Pension Scheme (“S2P”) and is exempt approved for the purposes of the Income Tax (Retirement Benefit Schemes) Act 1978 and Part I of the Income Tax Act 1989 (Acts of Tynwald). Full tax relief is granted on members’ and the employers’ contributions paid to the Scheme and on all investment income.

MANAGEMENT

The Administering Authority’s Responsibilities

Douglas Borough Council as Administering Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Responsible Financial Officer (i.e. the Borough Treasurer);
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Pension Fund Annual Report of the Isle of Man Local Government Superannuation Scheme.

The Pensions Committee delegates day to day monitoring responsibilities to the officers of Douglas Borough Council. This Committee, which comprises Members of the Council and one Independent Member, meets regularly to consider administrative and investment matters as informed by its officers. All minutes and resolutions of the Pensions Committee are subject to approval at the Borough’s full Council meetings.

The Responsible Financial Officer’s Responsibilities

Under the Accounts and Audit Regulations 2007 made under the Audit Act 2006, the Responsible Financial Officer is responsible for the preparation of the Pension Fund Annual Report of the Isle of Man Local Government Superannuation Scheme in accordance with proper practices as set out in the Isle of Man Statement of Recommended Practice 2007 on accounting for entities subject to the Audit Act 2006 (“the SORP”), as far as is practicable.

In preparing the Pension Fund Annual Report, the Responsible Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the pension SORP: Financial Reports of Pension Schemes (Revised May 2007) as far as practicable.

Report by Douglas Borough Council – continued

MANAGEMENT (continued)

The Responsible Financial Officer has also:

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

General

Responsibility for managing the Scheme's Fund investments has been delegated to BlackRock (Isle of Man) Limited. During 2012/13 the Council has, in addition, appointed Capital International Limited to manage 10% of the Scheme's investments.

As well as providing actuarial services to the Scheme's Fund, Hymans Robertson LLP also provide investment consulting advice to the Pensions Committee.

The Administering Authority has a contractual arrangement with Capita Employee Benefits Limited (formerly Capita Hartshead Limited), a trading division of Capita Group plc, to undertake the day to day administration of the Scheme.

The Administering Authority has appointed Aviva Life & Pension UK Limited to provide an AVC arrangement for members. AVC's are not reflected within these financial statements.

ADMINISTRATION

The Regulations Affecting the Scheme

The Isle of Man Local Government Superannuation Scheme Regulations apply to individuals who were contributing members of the Scheme on 1 April 2012 or who have since joined the Scheme. The Scheme is based on the regulations that applied to England and Wales with effect from 1 April 2008, and some provisions are effective from that date.

The Scheme rules and benefits are summarised at the back of this document. Full details of the rules and benefits are available to members on the Douglas Borough Council website (www.douglas.gov.im).

Pensions Increase

Pensions in payment and preserved benefits are subject to annual review under the Pensions (Increase) Act 1974 (an Act of Tynwald). There was an increase of 5.2% from 9 April 2012 (2011: 3.1%) reduced proportionately for pensions in payment for less than 12 months. This corresponds to the increase applied to state retirement pensions and pensions paid by other public service pension schemes on the Isle of Man, being the rise in the UK's Consumer Prices Index during the 12 months ended 30 September 2011 (2011: 30 September 2010).

Report by Douglas Borough Council – continued

ADMINISTRATION (continued)

Code of Best Practice

The *Governance Statement including Adherence to Best Practice* document sets out the governance of the administration of the Scheme and investment of funds therein.

The Scheme's investment practices are considered against the following Best Practice principles:-

- Effective decision making
- Investment objective
- Risk and liabilities
- Performance assessment
- Responsible ownership
- Transparency and reporting

Separate documents entitled *Statement of Investment Principles* and *Governance Statement including Adherence to Best Practice* are in force. They are available to members on the Douglas Borough Council website (www.douglas.gov.im). The Pensions Committee, working together with the Investment Consultant and Officers of the Borough Treasurer's Department, monitors and reviews these procedures, and updates the documents as required.

Report by Douglas Borough Council – continued

MEMBERSHIP AND BENEFICIARIES

	2013	2012
	No.	No.
Active Membership		
As at the beginning of the year (1 April)	432	441
Late adjustments (new starters)	3	5
Late adjustments (leavers)	(8)	(4)
<i>Add:</i>		
Entrants - new starters	22	23
	-----	-----
	449	465
	-----	-----
<i>Less:</i>		
Exits - new retirement pensions	(13)	(10)
- deaths in service	(2)	(2)
- preserved benefits	(21)	(15)
- refunds of contributions	-	(6)
	-----	-----
	(36)	(33)
	-----	-----
As at the end of the year (31 March)	413	432
	-----	-----

Report by Douglas Borough Council – continued

MEMBERSHIP AND BENEFICIARIES - continued

Membership as at 31 March 2013 by employer

	Active	Deferred	Pensioners	2013 Total	2012 Total
Local Authorities					
Douglas Borough Council	225	120	130	475	466
Castletown Town Commissioners	12	5	9	26	25
Laxey Village Commissioners	2	0	0	2	2
Michael Village Commissioners	1	1	0	2	2
Onchan District Commissioners	38	23	36	97	93
Peel Town Commissioners	19	6	9	34	34
Port Erin Village Commissioners	13	9	4	26	26
Port St Mary Village Commissioners	5	11	10	26	26
Ramsey Town Commissioners	43	13	18	74	74
Resolution Bodies					
(a) Parish Districts					
Braddan Parish Commissioners	6	0	0	6	6
Bride Parish Commissioners	1	0	0	1	1
Malew Parish Commissioners	6	3	2	11	11
Marown Parish Commissioners	1	0	0	1	1
(b) Joint Boards					
Castletown & Malew Elderly Persons Housing Board	1	0	0	1	1
Marashen Crescent Housing Committee	5	0	1	6	5
Northern Local Authorities Swimming Pool Board	6	4	1	11	11
Peel & Western District Housing Committee	0	0	1	1	1
Ramsey & Northern District Housing Committee	5	0	5	10	10
Southern Civic Amenity Site Board	4	2	1	7	6
Southern Local Authorities Swimming Pool Board	9	9	7	25	26
Admitted Bodies					
Crossroads Caring for Carers Former Department of Tourism & Leisure – Villa Marina	0	2	2	4	4
Leonard Cheshire Foundation	1	1	2	4	4
Manx Blind Welfare	0	0	1	1	1
Manx Churches Adoption & Welfare Society	7	4	6	17	16
Manx Foundation for Physically Disabled	0	2	1	3	3
Vicar and Wardens of Kirk Braddan	2	1	0	3	3
Vicar and Wardens of St Peter Church Onchan	1	0	0	1	1
	413	216	248	877	861

Report by Douglas Borough Council – continued

Membership as at 31 March 2013 (continued)

Bodies with no Members

The following bodies had no members during the year:

Designate Bodies:

(a) Parish Districts

Andreas Parish Commissioners
Arbory Parish Commissioners
Ballaugh Parish Commissioners
German Parish Commissioners
Jurby Village Parish Commissioners
Lezayre Parish Commissioners
Lonan Parish Commissioners
Maughold Parish Commissioners
Patrick Parish Commissioners
Rushen Parish Commissioners
Santon Parish Commissioners

(b) Joint Boards and Committees

Cooil Roi Housing Authority
Northern Parishes Refuse Collection Board
Western Civic Amenity Site Committee
Western Swimming Pool Board

ACTUARIAL VALUATION

The Scheme regulations require an actuarial valuation of the Scheme to be carried out every three years. The purpose of a valuation is to review the funding position and determine an appropriate level of employers' contributions.

A valuation of the Scheme was made as at 31 March 2010 which showed that it continued to be in deficit.

The Actuarial Statement from the 2010 valuation is reproduced on pages 20 and 21 of the Annual Report.

Report by Douglas Borough Council – continued

REGISTRATION UNDER THE DATA PROTECTION ACT 2002 (An Act of Tynwald)

The data provided by members on their starter's forms is processed using information communications systems, with records held in both electronic and paper format. The use of the data is registered under the Data Protection Act 2002 for the purposes of pensions administration by the Borough and of personnel/employee administration by the employers.

CERTIFICATE BY THE RESPONSIBLE FINANCIAL OFFICER

Under the Accounts and Audit Regulations 2007 these accounts are to be prepared by the 31 July and must be approved by the Responsible Financial Officer prior to approval by Douglas Borough Council (as delegated to the Pensions Committee).

I certify that the financial statements present fairly the Fund Account and Net Assets Statement position of the Isle of Man Local Government Superannuation Scheme for the year ended 31 March 2013.

G M BOLT, CPFA

Borough Treasurer as Responsible Financial Officer
Douglas Borough Council as Administering Authority

24 July 2013

A set of accounts were passed to BDO (Isle of Man) LLC for audit. The Pension Fund Annual Report was approved by the Pensions Committee on 24 July 2013.

Investments

INVESTMENT LIMITS

The Isle of Man Local Government Superannuation Scheme Regulations require the Administering Authority to immediately invest any monies not needed to make payments from the Scheme. In doing so, it prescribes the limits on the type and extent of investments which the Administering Authority may pursue.

Although they may vary, the types of investment adopted are in accordance with the Scheme's investment policy which must be formulated with a view to:

- the advisability of investing Scheme money in a wide variety of investments; and
- the suitability of particular types of investments.

However, of the total value of the Scheme's investments, no more than the percentages shown below can be invested in the form of investment described:

- **1%** - a single sub-underwriting contract, i.e. a contract with a person who is underwriting a share issue to acquire the shares from him if that is what he requires, but with the total value of all sub-underwriting contracts not exceeding 15%;
- **2%** - as a limited partner in any single partnership (but not exceeding more than a total of 5% in such partnerships);
- **10%** - loans made other than to the Government of the Isle of Man, or Her Majesty's Government;
 - total investments in unlisted securities, i.e. securities not quoted on a recognised stock exchange;
 - total deposits with any single bank, or similar institution except the National Savings Bank; and
 - any single holding unless the investment is made by an external investment manager in a unit trust scheme;
- **35%** - all investments in unit trust schemes managed by any one body;
 - all investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body;
 - all investments in unit trust schemes and open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body;
 - the total value of all insurance contracts; and
 - all securities (shares, stocks, debentures, etc) which the Administering Authority transfers or agrees to transfer under stock lending arrangements.

Investments - continued

INVESTMENT STRATEGY AND MANAGEMENT

The investment strategy developed by the Administering Authority aims to maximise the return of the Scheme consistent with the risk that is appropriate. It seeks to reduce risk by diversifying its investments over a mix of asset classes. The benchmark is heavily weighted towards equities (the asset class expected to provide the highest return over the medium to long term). Within equities, diversification is achieved by investing in global markets with exposure to many different sectors and stocks. There is also significant exposure to bonds (which are lower risk relative to the Scheme's liabilities) and to property (a "real" asset with a different performance cycle to equities).

The Administering Authority employed BlackRock (Isle of Man) Limited as its sole Investment Fund Manager during the previous year and, in addition, during 2012/13 appointed Capital International Limited to manage 10% of the Scheme's investments on an Absolute Return basis.

INVESTMENT PERFORMANCE BENCHMARKS

The benchmark is used as a reference point to compare the performance of the portfolios.

The benchmarks for BlackRock allow their overall performance to be compared with the overall performance of various indices. Any divergence between the benchmark and the Fund's return is due to the preferences of the Investment Fund Manager for particular markets or for individual stocks.

In the case of Capital International the performance objective is to exceed returns on cash deposits by 3% per annum measured on a rolling three year basis and so this is the benchmark against which they are measured.

Investments - continued

BLACKROCK FUND MANAGER'S REPORT

Summary

The portfolio increased in value by £1,652,597 over the year (with net outflows of £2,900,000). This equates to a rise of 11.8% over the period which underperformed the benchmark return of 12.2%.

UK Equities

UK equities began the period poorly displaying significant weakness in the second quarter of 2012; however a strong rally in the latter half of the year and into 2013 led the FTSE All Share index to return 16.8% over the period.

The twelve month reporting period was generally characterised by slow but positive growth. Data remained generally positive although somewhat inconsistent due to a series of one off events such as the Diamond Jubilee, Paralympic Games and London 2012 Olympics. Domestic household and Government consumptions provided a positive boost to market confidence. However, a broad weakness within the UK's key trading partners and in Europe more generally, saw economic performance paired back. Employment data remained resilient throughout the year, reaching its highest ever level in August, however labour productivity fell slightly. UK equities also shrugged off the UK sovereign rating downgrade in the fourth quarter, likely because this downgrade was widely expected even if the timing was somewhat unexpected.

Overseas Equities

Overseas equities were more or less in line with UK equities when calculated in sterling terms, with the MSCI All Countries ex UK returning 17.1%. From the close of the second quarter 2012, risk asset returns gained positive momentum, picking up further pace into 2013. Investors took comfort from concerted action by Central Banks to ease the credit squeeze, notably in the Eurozone. Improving data, particularly in the US also supported markets. Going into the close of 2012, further improvements in US data and reduced concerns over a Chinese slowdown outweighed investor concerns surrounding the US election and fiscal cliff. Emerging markets significantly underperformed developed returning 2% and 13% respectively (MSCI EM Vs MSCI World).

The standout performer in overseas equities over the 12 months was Japan. Japanese equities rallied 24% over the period as markets were driven higher by both the expectation and eventual delivery of more aggressive monetary policy from the new Liberal Democratic Party government. Brazilian and Russian equities dragged down emerging markets more broadly returning -3% and -2% respectively. Chinese equities returned 7% over the 12 month reporting period, with concerns over a hard landing abating somewhat in the fourth quarter of 2012 only to be replaced at the turn of the year by renewed concerns regarding a potentially overheated property market surfacing.

Investments - continued

BLACKROCK FUND MANAGER'S REPORT (continued)

Bonds

Over the course of the reporting period, despite strong performance, and inflows into risk assets, safe-haven government bonds remained resilient, with prices coming off a little from the peaks achieved at the end of July 2012. UK 10 Year gilts ended up gaining 5% over the year, despite yields already being at extremely depressed levels. Yields in peripheral Europe remained low despite uncertain Italian election results and a bank bailout in Cyprus, underpinning the ECB's effectiveness in dampening market volatility. Investment grade and high yield bonds continued to benefit from the global "search for yield" theme and had a slight positive return over the period; although not anywhere near the extent of those made in equity markets with the Barclays Global Aggregate index returning 0.1%.

Property

The IPD/AREF Property Index rose by 0.3% over the twelve month period. Demand for property remained reasonably firm as investors continued to focus on prime, well located assets with secure income. The fund remains underweight relative to benchmark, as prospects are expected to remain challenged for some time yet.

Inflation during the year

Inflation in the UK has been above the Bank of England's target but relatively stable for some time now and remains largely unchanged in the face of weak economic growth. Inflation expectations have faded somewhat in recent months as the global growth and inflation picture has softened. Given the lack of pressure from wage growth and the sclerotic growth outlook, we would expect inflation in the UK to creep down.

Investment Performance

Portfolio	11.8%
Benchmark	12.2%
Value of Portfolio as at 31 st March 2012	£43,420,688
Value of Portfolio as at 31 st March 2013	£45,073,285

During the year £4,400,000 was transferred from Blackrock to Capital International upon their appointment as Investment Manager.

Investments - continued

BLACKROCK FUND MANAGER'S REPORT (continued)

Performance of Fund

	Year %	3 Years % p.a.	5 Years % p.a.	Since Inception % p.a.	Closing Value £
UK Equities	15.3	7.4	6.4	5.9	11,222,828
Overseas Equities	15.1	7.1	7.7	6.9	18,232,173
Fixed Income	7.0	-	-	-	10,101,133
Property	2.8	5.9	-5.9	0.4	4,891,187
TOTAL FUND	11.8	7.6	6.8	6.2	44,447,321

Performance of Benchmark

	Year %	3 Years % p.a.	5 Years % p.a.	Since Inception % p.a.
UK Equities	16.8	8.8	6.7	5.0
Overseas Equities	17.1	8.3	8.5	6.0
Fixed Income	6.2	-	-	-
Property	0.3	4.8	-1.4	3.3
TOTAL FUND	12.2	8.3	7.1	5.9

Note: Due to the exclusion of cash balances, cash instruments and accrued income, the totals above may not agree to the valuations stated in note 9 to the accounts on pages 33 to 35.

Investments - continued

CAPITAL INTERNATIONAL FUND MANAGER'S REPORT

Summary

The portfolio commenced in October 2012 with £4,400,000 being transferred to Capital International to invest. The fund increased in value by £320,887 over the period. This equates to a rise of 7.29% over the period which outperformed the benchmark return of 1.53% (adjusted for short period).

UK Equities

On a total return basis the FTSE All Share produced a positive return of 13.27% for the period. Investors have continued to search for yield on their investments, as interest rates look set to remain unchanged for a number of years. UK equities have offered attractive income characteristics at reasonable valuation levels, combined with exposure to faster growing overseas markets. The fall of Sterling has also boosted the competitiveness of UK industry and could increase the number of foreign takeovers. As liquidity conditions improved, the Banks have been some of the best performing stocks, along with domestic sectors such as construction and house building. Despite some optimism on global growth, oil prices have struggled to rise and this has held back performance on the oil majors. The fund is overweight in this asset class.

Overseas Equities

On a total return basis the MSCI World ex UK produced a positive return of 13.99% for the period. Despite some concerns over the US Budget and potential spending cuts and tax rises, investors have become more optimistic on the outlook for the US economy. The abundance of shale gas and a skilled labour force could see the country regain a new competitiveness against some Emerging markets. An important turning point has also been seen in the housing market, which is vital to consumer confidence. Consumer Staples and Healthcare were some of the best performing sectors. Overall the S&P 500 Index rose 11.05%. Europe was relatively 'quiet' during the period and the ECB appear to have created ample liquidity, although there was little momentum in any one particular sector. Japanese equities experienced a very strong rally, as a result of the expansionary monetary policy changes. The currency devalued sharply, aiding the export sector. Chinese equities remained poor performers as investors questioned the robustness of the current recovery. The fund is overweight in this asset class.

Bonds

Corporate bonds continued to outperform Sovereign bonds over the period, with credit spreads narrowing further. The FT-A UK Government All-Stocks Index gained 1.20% on a total return basis, whilst the Sterling Broad Market Index delivered a 1.73% return. Despite the optimism in the equity markets yields remained very well supported. In fact, even after the downgrade of the UK's AAA credit rating, Gilt yields actually moved lower. This suggests that Quantitative Easing is here for much longer than investors had initially expected. High yield and junk bonds were the best performing sub sector, with the scope for further capital gains looking to be relatively limited. The fund is underweight in this asset class.

Investments - continued

CAPITAL INTERNATIONAL FUND MANAGER'S REPORT (continued)

Commercial Property

The sector has almost become a 'bond proxy' with investors attracted by reasonable yields and with economic recovery emerging, there is scope for capital growth and potential rental increases. The IPD UK Property Index gained 1.35% over the period on a total return basis. The fund has a neutral weighting in this asset class.

Economic/Inflation Update

Interest rates in the UK remained unchanged for the period and economic activity actually fell in the fourth quarter of 2012, with GDP declining by 1%. Some recovery was seen in the first quarter of 2013 with a 0.8% rise in GDP. Inflation has remained stable but relatively stubborn, with consumer price inflation running at 2.75% for the period under review. The Bank of England stated that with a new Governor starting in 2013 that there could be increased flexibility regarding the core 2% inflation rate target.

Investment Performance

Portfolio	7.3%
Benchmark (adjusted for short period)	1.5%
Value of Portfolio as at 31 st March 2012	£Nil
Value of Portfolio as at 23 rd October 2012	£4,400,000
Value of Portfolio as at 31 st March 2013	£4,720,887

Performance of Fund

	Year %	3 Years % p.a.	5 Years % p.a.	Since Inception % p.a.	Closing Value £
UK Equities	n/a	n/a	n/a	3.3%	1,277,661
Overseas Equities	n/a	n/a	n/a	1.9%	1,544,130
Fixed Income	n/a	n/a	n/a	1.3%	1,079,178
Property	n/a	n/a	n/a	0.9%	629,587
TOTAL FUND	n/a	n/a	n/a	7.3%	4,530,556

Performance of Benchmark

TOTAL FUND	n/a	n/a	n/a	1.5%
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Note: Due to the exclusion of cash balances, cash instruments and accrued income, the totals above may not agree to the valuations stated in note 9 to the accounts on pages 33 to 35.

Investments - continued

SUMMARY OF INVESTMENT PERFORMANCE OF THE SCHEME IN AGGREGATE

The tables below show the total performance of the fund by totalling together the funds managed by both BlackRock and Capital International.

Performance of Fund

	Year %	3 Years % p.a.	5 Years % p.a.	Since Inception % p.a.
TOTAL FUND	11.8	7.5	6.8	6.2

Performance of Benchmark

	Year %	3 Years % p.a.	5 Years % p.a.	Since Inception % p.a.
TOTAL FUND	11.5	8.2	7.0	5.9

Investments - continued

CUSTODIAL ARRANGEMENTS

The Administering Authority has appointed BNP Paribas Securities Services S.C.A. and Capital International Nominees Limited as its custodians.

The custodians will arrange for the Fund's UK securities (other than bearer securities for which the custodian shall arrange safekeeping) to be registered in the name of a nominee company directly or indirectly as bare Trustee for the customer. The nominee will normally be either Securities Services Nominees Limited, a wholly owned subsidiary of BNP Paribas Securities Services S.C.A., or Capital International Nominees Limited.

Any non-UK securities of the Fund will be held by the custodian, or to the order of the custodian, by subcustodians chosen by it. Securities relating to investments of the Fund in BlackRock In-House Funds will normally be registered in the name of BNP Paribas Securities Nominees Limited, a Jersey-based Affiliated Company of the main custodian. Any securities registered in the name of a nominee company are designated. The custodian cannot pool such securities with its own property except when settling transactions.

Where the Scheme investments are held collectively in an omnibus account, its entitlements may not be identifiable by separate certificates or other physical documents of title and, should the custodian default, any shortfall in investments belonging to the Scheme and other customers of the custodian may be shared pro-rata among all customers whose investments are so held.

INVESTMENT ACCOUNTING AND BANKING ARRANGEMENTS

The Administering Authority has authorised monies to be held on the Scheme's behalf on the following basis:

- In investment and income accounts with the custodians in the Administering Authority's or the Scheme's name. The Administering Authority has authorised BlackRock (Isle of Man) Limited to give BNP Paribas Securities Services S.C.A. instructions regarding such accounts on the Scheme's behalf and has authorised Capital International Limited to give Capital International Nominees Limited instructions regarding such accounts on its behalf.
- In BlackRock (IOM) Limited and Capital International Limited Specified Client Bank Accounts (as defined in Part 3 of the Financial Services Rule Book 2011) (the "Rule Book") with those institutions being Recognised Banks (as defined by the Rule Book) which meet the minimum short-term credit rating of A1/P1 and which may include the custodian or any of its associates.

Monies held awaiting delayed settlement are held by the custodian in a pooled settlement account.

Investments - continued

INVESTMENT ACCOUNTING AND BANKING ARRANGEMENTS (continued)

Interest is paid on the investment and income accounts, and balances on the income accounts are dealt with on the basis set out below;

Interest period: Quarterly on all accounts

Interest Rate: A rate appropriate to the balances standing to the credit of the above accounts. The custodian benefits from the provision of banking services for clients.

Accounts are maintained in the currency of account and in such other currencies as may be required from time to time.

REMUNERATION BASIS OF THE INVESTMENT FUND MANAGERS

BLACKROCK

Ordinary Portfolio

BlackRock's remuneration for managing and administering the portfolio is calculated and paid in arrears on its market value (including uninvested cash) as shown in its valuations. The fees are calculated on the basis of all portfolio assets (other than excluded funds). Any charges already paid within in-house funds and connected investment trust (other than excluded funds) are then deducted from this amount.

BlackRock's fees in respect of managing the portfolio are at the following rates between 1 April 2012 to 31 March 2013:

Market Value	Rate per annum
On the first £5,000,000	0.75%
Thereafter	0.51%

They include those of the custodian and are settled by transfers from the portfolio on the due dates and no interest is charged if such transfers are effected after the due date.

Property Fund

Charges are 1% of the underlying net asset value per annum.

Charges Within In-House Funds and Connected Investment Trusts and Commissions

Initial (and in some cases conversion) charges are waived for investments made for the Isle of Man Local Government Superannuation Scheme. The price of each share or unit of certain In-House Funds and Connected Investment Trusts normally includes, on both subscriptions and redemptions, a 'rounding' of a maximum of one currency unit which is retained by the relevant manager or the relevant In-House Fund and Connected Investment Trusts.

Investments - continued

REMUNERATION BASIS OF THE INVESTMENT FUND MANAGERS (continued)

CAPITAL INTERNATIONAL

Capital International's remuneration for managing and administering the portfolio is calculated and paid in arrears on its market value (including uninvested cash) as shown in its valuations. The fees are calculated on the basis of all portfolio assets. An annual management fee of 0.5% per annum of portfolio value is applied. A brokerage commission of 0.25% on all trades is also charged.

Actuarial Statement

This statement has been prepared in accordance with The Isle of Man Local Government Pension Scheme Regulations 2003 (Statutory Document No. 61/03), and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2010/11.

Descriptions of Funding Policy

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

- to ensure the long-term solvency of the Fund;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to minimise the degree of short-term change in the level of employer's contributions where the Administering Authority considers it reasonable to do so, and;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Ratepayers from an employer defaulting on its pension obligations.

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

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under The Isle of Man Local Government Pension Scheme Regulations was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £36.6 million, were sufficient to meet 74% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £12.8 million. Employer contributions have been approved to attempt to address the deficit over 20 years.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 28 March 2011.

Actuarial Statement – continued

METHOD

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

ASSUMPTIONS

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

The key financial assumptions adopted for the 2010 valuation were as follows:

Financial Assumptions	31 March 2010	
	% p.a. Nominal	% p.a. Real
Discount rate	6.1	2.8
Pay increases*	5.3	2.0
Price inflation/pension increase	3.3	-

* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter.

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

	Males	Females
Current Pensioners	20.1 years	22.9 years
Future Pensioners	22.0 years	24.8 years

Copies of the 2010, 2007 and 2004 valuation reports and the Funding Strategy Statement can be found on the Council's website.

The next actuarial valuation will be carried out as at 31 March 2013, but results will not be available until early 2014. The Funding Strategy Statement will also be reviewed at that time.

Julie Morrison FFA

Fellow of the Institute of Faculty and Actuaries
For and on behalf of Hymans Robertson LLP

3 July 2013

Independent Auditor's Report

To Douglas Borough Council as the Administering Authority of the Isle of Man Local Government Superannuation Scheme

We have audited the financial statements of Isle of Man Local Government Superannuation Scheme for the year ended 31 March 2013 which comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Scheme's Administering Authority, as a body, in accordance with Section 6 of the Audit Act 2006. Our audit work has been undertaken so that we might state to the Administering Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Administering Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of administering authority and auditors

As explained more fully in the Administering Authority's responsibilities statement, the Administering Authority is responsible for the preparation of financial statements which show a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Independent Auditor's Report - continued

Opinion on financial statements

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2013, and of the amount and disposition at that date of its assets and liabilities; other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Accounts and Audit Regulations 2007 made under the Audit Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the section 4 of the Audit Act 2006 requires us to report to you if, in our opinion:

- the financial statements do not comply with the regulations made under section 12 of the Act and any directions under section 13; or
- expenditure or income or any other transaction effected by or on account of the scheme is or will be contrary to law; or
- the internal organisation of the scheme and the internal controls maintained by it are not such as to secure proper management of the finances of the scheme and economy and efficiency in the use of its resources.

BDO (Isle of Man) LLC
Chartered Accountants
Douglas Isle of Man

24 October 2013

Independent Auditor's Statement about Contributions

To Douglas Borough Council as the Administering Authority of the Isle of Man Local Government Superannuation Scheme

We have examined the summary of contributions to Isle of Man Local Government Superannuation Scheme for the Scheme year ended 31 March 2013 to which this statement is attached.

This statement is made solely to the Scheme's Administering Authority, as a body, in accordance with the Superannuation Act 1984. Our work has been undertaken so that we might state to the Administering Authority those matters we are required to state to them in an auditor's statement about contributions under the Scheme and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Administering Authority, for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of trustees and auditors

As described in the responsibilities statement the Administering Authority are responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Administering Authority are also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions and to report our opinion to you.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the schedule of contributions.

Statement about contributions

In our opinion contributions for the Scheme year ended 31 March 2013 as reported in the summary of contributions have been paid at least in accordance with the Schedule of Contributions comprising the Schedule certified by the Scheme Actuary on 28 March 2011 (employer contributions) and the Local Government Superannuation Scheme Regulations (employee contributions).

BDO (Isle of Man) LLC
Chartered Accountants
Douglas Isle of Man
24 October 2013

Summary of Contributions

Summary of Contributions payable in the year to 31 March 2013

Contributions payable under the Schedule of Contributions/ Payment Schedule:

Employer normal contributions	2,452,966
Employee normal contributions	682,695
	<hr/>
Total contributions payable under the Schedule	3,135,661

Other contributions:

Employee additional Scheme contributions	19,618
Employer other contributions	<hr/> -
Total contributions payable to the Scheme:	<u>3,155,279</u>

This Summary of Contributions was approved and authorised for issue by the Pensions Committee on behalf of the Administering Authority.

C L H CAIN
Chairman
Pensions Committee
Douglas Borough Council

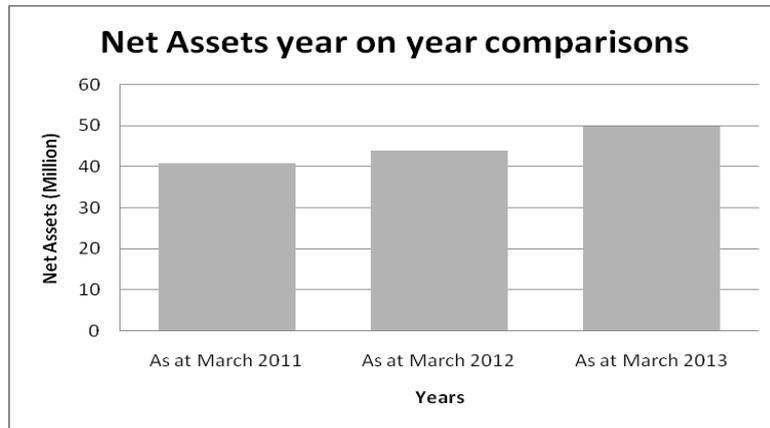
23 October 2013

E P PIERCE FCCA
(Acting) Borough Treasurer
Douglas Borough Council

23 October 2013

Foreword to the Financial Statements

As at the 31 March 2013 the accumulated Fund Net assets stood as £50,283,448 (2012: £43,771,812). The Fund has increased in value by £6,511,636 and has outperformed the benchmark. An explanation can be found in the Investment Fund Managers Reports on pages 11 to 19.

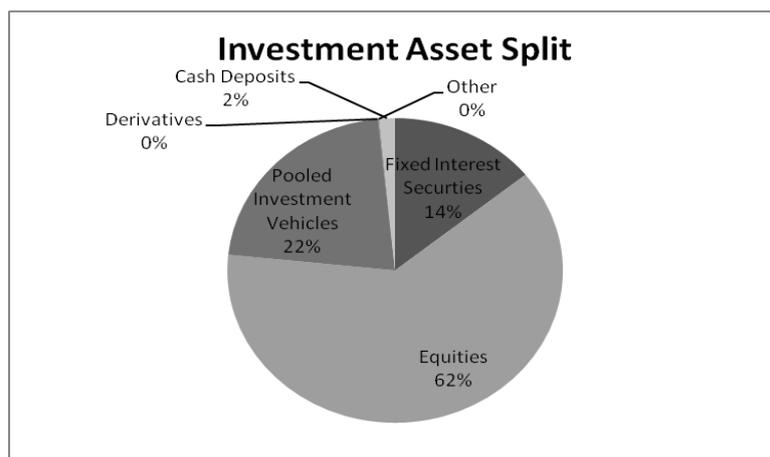


The Fund Value comparison for the last three years can be seen in the graph.

The net income from all transfer values received in has increased by £418,381 (2011/2012 decrease by £497,583). Contributions have increased by £8,129 (2011/2012 increased by £55,444). This has resulted in an increase in income in respect of Scheme members of £426,510 (2011/2012 decreased by £442,139). Retirement benefits and payments made to or in respect of Scheme members during the year have increased by £259,691 (2011/2012 increased by £144,609).

In overall terms the net additions from dealings with Scheme members (before administration expenses) during the year amount to £1,855,489 (2011/2012: £1,688,670).

The Scheme invests in a variety of different areas, as demonstrated by the chart below. The majority of the Fund's investments are made in equities with pooled investment vehicles being the next largest investment area. These include the property market and other UK and overseas investment areas.



Financial Statements for the year ended 31 March 2013

	Notes	2012/2013 £	2011/2012 £
FUND ACCOUNT			
Contributions and Benefits			
Contributions	3	3,155,279	3,147,150
Transfers in	4	477,404	59,023
		<u>3,632,683</u>	<u>3,206,173</u>
Benefits	5	(1,606,410)	(1,480,741)
Leavers	6	(170,784)	(36,762)
Administrative expenses	7	(285,184)	(327,481)
		<u>(2,062,378)</u>	<u>(1,844,984)</u>
Net additions from dealings with members		<u>1,570,305</u>	<u>1,361,189</u>
Returns on investments			
Investment income	8	1,068,616	1,049,538
Change in market value of investments	9a	4,046,434	81,902
Investment management expenditure	11	(173,719)	(150,743)
		<u>4,941,331</u>	<u>980,697</u>
Net return on investments		<u>4,941,331</u>	<u>980,697</u>
Net increase in the Scheme during the year		<u>6,511,636</u>	<u>2,341,886</u>
Net assets of the Scheme			
At year beginning		<u>43,771,812</u>	<u>41,429,926</u>
At year end		<u><u>50,283,448</u></u>	<u><u>43,771,812</u></u>

Financial Statements for the year ended 31 March 2013 - continued

	Notes	As at 31 March 2013 £	As at 31 March 2012 £
NET ASSETS STATEMENT			
Investments	9b	49,794,172	43,420,688
Current Assets	12	553,212	532,063
Current Liabilities	13	(63,936)	(180,939)
Net Assets of the Scheme at year end		50,283,448	43,771,812

The financial statements summarise the transactions and net assets of the Scheme. Liabilities to pay pensions and other benefits which are expected to become payable after the end of the Scheme year are not dealt with in the financial statements. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Actuarial Statement on pages 20 and 21 and these financial statements should be read in conjunction with that Statement.

The notes on pages 29 to 36 form part of these Financial Statements.

These accounts were approved and authorised for issue by the Pensions Committee on behalf of the Administering Authority.

C L H CAIN
Chairman
Pensions Committee
Douglas Borough Council

23 October 2013

E P PIERCE FCCA
(Acting) Borough Treasurer
Douglas Borough Council

23 October 2013

Notes to the Financial Statements for the year ended 31 March 2013

1. Basis of Preparation

The financial statements have been prepared in accordance with the Superannuation Act 1984 and with the guidelines set out in the Statement of Recommended Practice, "Financial Reports of Pension Schemes" (Revised May 2007), ("the pensions SORP") as far as is practicable. These accounts have also been prepared in accordance with the Audit Act 2006.

2. Accounting Policies

The following principal accounting policies which have been applied consistently have been adopted in the preparation of the financial statements:

Contributions

Contributions represent the total amount receivable from Local Government employers and Admitted Bodies on the Isle of Man in respect of their own contributions and from active members including additional payments made to purchase additional benefits. The employers' contributions are made at a rate determined by the Consulting Actuary necessary to ensure that the Scheme is able to meet its existing and prospective liabilities including indexation.

Benefits payable

Members can choose whether to take their benefits as a pension or a pension and lump sum. Pensions and lump sums are accounted for on an accruals basis from the date the option is exercised.

Transfers to and from other schemes

Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the scheme. They take account of transfers where the trustees of the receiving scheme have agreed to accept the liabilities in respect of transferring members before the year end, and where the amount of the transfer can be determined with reasonable certainty.

Death in Service expense

Death in Service expense is accounted for when payable.

Other expenses

Administrative expenses and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT. Investment management expenses include fees paid to the custodian.

Notes to the Financial Statements for the year ended 31 March 2013 – continued

2. Accounting Policies (continued)

Investment income

Income from equities is accounted for on the date stocks are quoted ex-dividend.

Income from fixed interest and index-linked securities, pooled investment vehicles, cash and short term deposits are accounted for on an accruals basis.

Income from overseas investments is recorded net of any withholding tax where this cannot be recovered.

Investments

Investments held by the Scheme are carried at market value. Equities traded through a Primary Exchange are valued at closing bid prices for assets. Pooled investment vehicles are valued using the official net asset value provided by the relevant fund managers, which reflects the market value of the underlying investments.

Fixed interest securities are generally valued at bid prices using clean pricing. Accrued interest is identified separately in the total market value of investments.

Any foreign exchange contracts and forwards held by the Scheme at the year-end are valued using the applicable mark to market rates to calculate the unrealised gain/loss at that date.

3. Contributions

	2012/2013 £	2011/2012 £
Employers		
normal	2,452,966	2,486,374
other	-	5,323
Members		
normal	682,695	635,751
scheme additional	19,618	19,702
	<u>3,155,279</u>	<u>3,147,150</u>

Notes to the Financial Statements for the year ended 31 March 2013 – continued

3. Contributions (continued)

Contributions breakdown

	Employers	Employees	2012/2013 Employees Scheme Additional	Total	2011/2012 Total
	Normal	Normal			
	£	£	£	£	£
Braddan Parish Commissioners	53,221	15,942	-	69,163	66,903
Bride Parish Commissioners	815	210	-	1,025	1,103
Castletown Town Commissioners	57,080	15,181	-	72,261	68,319
Castletown & Malew Elderly Persons Housing Board	4,599	1,180	-	5,779	5,407
Douglas Borough Council	1,416,112	393,777	13,583	1,823,472	1,833,194
Laxey Village Commissioners	9,312	2,520	-	11,832	11,595
Leonard Cheshire Foundation	2,030	463	-	2,493	2,518
Malew Parish Commissioners	31,278	8,609	-	39,887	41,450
Manx Churches Adoption & Welfare Society	65,015	19,278	-	84,293	67,884
Manx Foundation for Physically Disabled	-	-	-	-	6,002
Marashen Crescent Housing Committee	19,332	5,180	-	24,512	23,445
Marown Parish Commissioners	2,116	543	943	3,602	3,282
Michael Village Commissioners	4,830	1,365	-	6,195	6,009
Northern Local Authorities Swimming Pool Board	26,864	7,411	-	34,275	31,376
Onchan District Commissioners	221,486	62,598	-	284,084	287,628
Peel Town Commissioners	115,530	31,716	-	147,246	145,115
Port Erin Village Commissioners	69,983	20,879	-	90,862	93,723
Port St Mary Village Commissioners	31,693	8,913	-	40,606	42,623
Ramsey & Northern District Housing Committee	16,153	3,828	1,857	21,838	23,751
Ramsey Town Commissioners	232,913	63,710	3,235	299,858	290,165
Southern Local Authorities Swimming Pool Board	41,422	11,174	-	52,596	53,611
Southern Civic Amenity Site Board	16,778	4,698	-	21,476	19,698
Vicar and Wardens of Kirk Braddan	10,753	2,584	-	13,337	11,962
Vicar and Wardens of St Peters Church Onchan	3,651	936	-	4,587	5,064
	2,452,966	682,695	19,618	3,155,279	3,141,827
Backdated contributions – Laxey Village Commissioners	-	-	-	-	5,323
	2,452,966	682,695	19,618	3,155,279	3,147,150

Notes to the Financial Statements for the year ended 31 March 2013 – continued

4. Transfers In

	2012/2013 £	2011/2012 £
Individual transfers in from other Pension Schemes and Private Sector Institutions	477,404	59,023

5. Benefits

	2012/2013 £	2011/2012 £
Retirement and dependants' pensions	1,210,021	1,097,578
Lump sum retirement grants	270,793	263,044
Lump sum death grants	125,596	120,119
	1,606,410	1,480,741

Pensions are paid including added benefits awarded by some employers. The value of pensions shown above is arrived at after netting off the added benefits, as these have been recharged to respective employers, amounting to £15,153 (2011/2012: £13,676).

6. Leavers

	2012/2013 £	2011/2012 £
Refunds of contributions	(343)	6,030
Payments to State Second Pension	-	4,569
Individual transfers to other schemes	171,127	26,163
	170,784	36,762

7. Administrative Expenses

	2012/2013 £	2011/2012 £
Administering Authority (see note 14)	41,900	40,318
Fund Administrator	69,915	71,728
Actuarial	21,935	13,801
Investment Advice	50,765	88,430
New Regulation Implementation (Fund Administrator)	75,603	99,586
Audit Fees	20,530	12,842
Legal & Professional	4,419	650
Other Fees	117	126
	285,184	327,481

Notes to the Financial Statements for the year ended 31 March 2013 – continued

8. Investment Income

	2012/2013 £	2011/2012 £
Income from fixed interest securities	246,102	193,185
Dividends from equities	649,945	654,172
Income from pooled investment vehicles	162,613	185,267
Interest on cash deposits	4,981	3,218
Income from index-linked securities	4,975	13,696
	<u>1,068,616</u>	<u>1,049,538</u>

9a. Investments

	Value at 1.04.12 £	Purchases at Cost £	Sales Proceeds £	Change in Market Value £	Value at 31.3.13 £
Fixed interest securities	7,770,734	4,758,190	(5,591,887)	89,406	7,026,443
Equities	27,558,439	15,008,331	(15,089,644)	3,453,850	30,930,976
Index-linked securities	-	444,274	(173,711)	32	270,595
Pooled investment vehicles	7,666,897	3,371,399	(744,590)	456,157	10,749,863
Derivatives	19,603	24,603,909	(24,647,754)	46,989	22,747
	<u>43,015,673</u>	<u>48,186,103</u>	<u>(46,247,586)</u>	<u>4,046,434</u>	<u>49,000,624</u>
Cash Deposits	377,071				747,552
Other - accrued investment income	27,944				45,996
	<u>43,420,688</u>				<u>49,794,172</u>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions and other expenses. Transaction costs incurred during the year amounted to £62,394 (2011/2012: £50,594). In addition to the transaction costs disclosed above, for certain funds indirect costs may be incurred due to the bid offer spread on investments within these pooled vehicles. The amount of these indirect costs is not separately provided to the Scheme.

Notes to the Financial Statements for the year ended 31 March 2013 – continued

9b. Investments (continued)

Investments with Investment Fund Managers

	As at 31 March 2013 £	As at 31 March 2012 £
Fixed interest securities		
UK public sector quoted	5,449,248	6,894,969
UK corporate bonds	636,394	304,892
Overseas corporate bonds	940,801	570,873
	<u>7,026,443</u>	<u>7,770,734</u>
Equities		
UK quoted	11,976,205	10,254,415
Overseas quoted	18,954,771	17,304,024
	<u>30,930,976</u>	<u>27,558,439</u>
Index-linked securities		
UK quoted	<u>270,595</u>	-
Pooled investment vehicles		
Unit trusts - UK equities	524,284	487,649
- Overseas equities	161,780	-
- Property	5,520,774	3,650,484
- UK fixed interest	3,555,875	3,215,463
- International fixed interest	327,398	313,301
- International equity	659,752	-
	<u>10,749,863</u>	<u>7,666,897</u>
Derivatives		
Forward foreign exchange contracts	<u>22,747</u>	19,603
Cash deposits		
Sterling	<u>747,552</u>	377,071
Other		
Accrued investment income	<u>45,996</u>	27,944
Total Investments	<u>49,794,172</u>	<u>43,420,688</u>

The aggregate holdings of the investment managers were as follows:

Managers	2013 £	2012 £
Capital International	4,720,887	-
Blackrock	45,073,285	43,420,688
Total Investments	<u>49,794,172</u>	<u>43,420,688</u>

Notes to the Financial Statements for the year ended 31 March 2013 – continued

9b. Investments (continued)

The following holdings represented over 5% of the Scheme's assets:

	As at 31 March 2013	As at 31 March 2012
SPDR S&P 500 ETF	7.4%	9.3%
BlackRock UK Property Fund	9.7%	8.4%
BlackRock Corporate Bond Fund	5.7%	7.4%
Powershares QQQ	N/A	5.6%

Forward Foreign Exchange Contracts

Forward foreign exchange contracts (derivatives) are used by the Scheme to reduce risk. At present these are used solely for the purpose of hedging the foreign currency exposure introduced when investing in overseas securities. The Scheme's exposure to overseas securities and hence currency forward contracts is restricted. Derivative receipts and payments represent the realised gains and losses on derivative contracts. All contracts have an expiry date within one year. The table below shows all such contracts as at the year end.

Settlement Date	Currency Bought	Value of Currency Bought £	Currency Sold	Value of Currency Sold £	As at 31 March 2013 Assets	As at 31 March 2013 Liabilities
3 months	GBP	46,258	USD	46,100	158	-
3 months	GBP	47,011	USD	46,117	894	-
3 months	GBP	46,134	USD	46,117	17	-
3 months	USD	46,117	GBP	46,275	-	(158)
3 months	GBP	605,166	EUR	592,443	12,723	-
3 months	GBP	558,000	JPY	548,887	9,113	-
					22,905	(158)

10. AVC (Additional Voluntary Contributions) Investments

The Administering Authority hold assets invested separately from the Fund with the AVC Provider Aviva in the form of individual building society funds securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement made up to 31 March confirming the amounts held to their account and the movements in the year. In accordance with regulation 5(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No. 1831), these amounts have not been included within the Financial Statements.

Summary of Scheme Rules and Benefits

On 1 April 2012 the scheme rules and benefits became subject to the Local Government Superannuation Scheme (LGSS) Regulations.

SCHEME MEMBERSHIP AND INCOME

- (a) All employees of Douglas Borough Council and other local authorities are eligible for membership of the scheme providing they are aged under 75 and have a contract of employment for at least 3 months (or the aggregate of several continuous contracts is for at least 3 months). In addition, employees of a Local Authority for a Parish District, Joint Board and Admitted body must be designated as eligible by their employer in order to be a member of the Scheme. Providing the previous criteria are met, full and part-time employees, whether permanent or temporary, become members automatically with the right to opt out (back-dated to the start of membership if made within three months). Employees of resolution bodies are eligible for membership if their authority passes a resolution to that effect. Those employed by admitted bodies are eligible if the admission agreement specifies them as such.

Members' contributions are deducted from pensionable pay and the rate is dependent on the value of the permanent pensionable earnings paid. The rate the member pays depends on which earnings band the member falls into, but the rate will fall between 5.5% and 7.5% of permanent pensionable earnings. If the member works part-time, the rate will be based on the full time equivalent permanent pensionable pay for the job, although the member will only pay contributions on the pensionable pay actually earned. Those employees who were carrying out manual duties immediately before 1 April 1998 and have continued to do so since that date, paid reduced contributions of 5.25% during the Scheme year 2012/13. Providing those employees remain continuously in manual work, this figure will be increased over the next 2 years until their contributions are fully harmonised on 1 April 2015.

Subject to limits set by the Treasury, members can:

- Pay additional voluntary contributions (AVCs) with AVIVA to buy a larger retirement pension, to improve other specific benefits or to provide additional pension.
 - Purchase additional pension.
- (b) Transfer payments for pension rights in almost any other scheme can be accepted by the Scheme to increase benefits, providing the transfer payment is received within 12 months of joining the Scheme (or such a longer date that the employer may allow).
- (c) The participating employers must make the balancing contribution required to keep the Scheme solvent, having regard to existing and prospective liabilities. This is usually determined as a percentage of the members' pensionable pay by the Consulting Actuary following each triennial actuarial valuation of the Scheme.

Summary of Scheme Rules and Benefits - continued

SCHEME MEMBERSHIP AND INCOME (continued)

- (d) Employers are required to fund early retirements (other than dismissal on the grounds of ill-health) and discretionary awards of additional membership by making up front payments into the Scheme.
- (e) Monies not immediately required for the payment of benefits and other outgoings have to be invested in accordance with the provisions of the Scheme.

BENEFITS AVAILABLE

Three months' membership or more (or a transfer value has been received or the member holds a deferred benefit in the Scheme):

- A. Retirement pension and tax-free lump sum (tax-free lump sum only based upon membership period accrued prior to 1 April 2012):
 - 1. Payable immediately on cessation of employment:
 - Voluntarily from age 55 onwards (with the employer's consent if under age 60); or
 - Through permanent incapacity at any age with employer's consent; or
 - As a result of dismissal on the grounds of redundancy or efficiency after age 55.
 - 2. Deferred and payable from:
 - Normal retirement age; or
 - Voluntarily from age 55 onwards (with the former employer's consent if under age 60); or
 - Through permanent incapacity at any age with the former employer's consent.
- B. Spouses', Civil Partners', Nominated Co-Habiting Partners' and Children's pensions and a lump sum death grant following death:
 - During employment; or
 - Whilst in receipt of a retirement pension (a death grant lump sum may **not** always be payable); or
 - Before deferred benefits become payable.

Summary of Scheme Rules and Benefits – continued

BENEFITS AVAILABLE (continued)

Under three months' membership (and no transfer value has been received or member does not hold deferred benefit in the Scheme):

- A. Retirement pension on retirement at age 65.
- B. Lump sum death grant payable on death in employment.
- C. Refund of contributions or Cash Equivalent Transfer Value, when no other benefit payable.
- D. Although it will take into consideration the deceased person's wishes, the Pensions Committee has absolute discretion in deciding who should receive any lump sum death grant payable.

PENSIONS INCREASE AWARDS

Retirement and dependants' pensions in payment and deferred pensions are reviewed each year in line with the increase in the Consumer Prices Index.

TRANSFERS TO OTHER SCHEMES

When benefits are not payable immediately, a transfer can usually be made to another tax-approved employer's pension scheme, or to a tax-approved personal pension or stakeholder plan or to purchase an insurance annuity bond.

Full details of the current regulations of the Pension Scheme can be found on the website (www.douglas.gov.im).

Any enquiries regarding this Report should be addressed to:

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Previous financial accounts and actuarial valuations are available
on the website (www.douglas.gov.im)

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