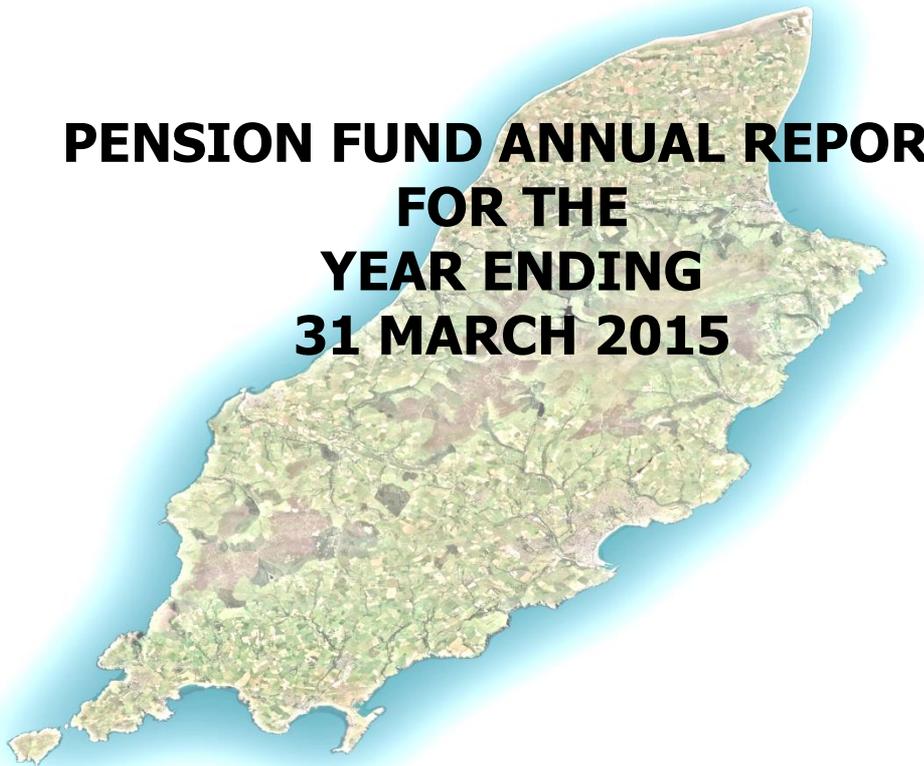


ISLE OF MAN LOCAL GOVERNMENT SUPERANNUATION SCHEME

PENSION FUND ANNUAL REPORT FOR THE YEAR ENDING 31 MARCH 2015



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CAPITA
Contract Administrators

BLACKROCK

Fund Manager

 **Capital**
International Group

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.

Table of Contents

	Page No.
The Administering Authority and their Advisers	1
Report by Douglas Borough Council	
Introduction	2
Management	2
Administration	3
Membership and Beneficiaries	5
Actuarial Valuation	7
Registration under the Data Protection Act 2002	8
Certificate by the Responsible Financial Officer	8
Investments	
Limits	9
Strategy and Management	9
Performance Benchmarks	9
BlackRock Investment Fund Manager's Report	10
Capital International Investment Fund Manager's Report	14
Summary of Investment Performance of the Scheme in Aggregate	17
Custodial Arrangements	18
Investment Accounting and Banking Arrangements	18
Remuneration Basis of the Investment Fund Managers	19
Actuarial Statement	21
Independent Auditor's Report	23
Independent Auditor's Statement about Contributions	25
Summary of Contributions	27
Foreword to the Financial Statements	28
Financial Statements for the year ended 31 March 2015	
Fund Account	29
Net Assets Statement	30
Notes to the Financial Statements	31
The following pages do not form part of the audited financial statements:	
Summary of Scheme Rules and Benefits	40
Enquiries	43

ISLE OF MAN LOCAL GOVERNMENT SUPERANNUATION SCHEME

Administering Authority

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

Chief Executive

Miss K J Rice, BA (Hons) Solicitor

Borough Treasurer

Mr G M Bolt, CPFA

Auditor

Grant Thornton Limited
PO Box 307
Exchange House
54/62 Athol Street
Douglas
Isle of Man IM99 2BE

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

Scheme Administrator

Capita Employee Benefits 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

Canaccord Genuity Wealth (International) Limited

Anglo International House
Bank Hill
Douglas
Isle of Man IM1 4LN

Custodians of Securities

BNP Paribas Securities Services S.C.A.
Jersey Branch
Liberte House
19-23 La Motte Street
St Helier
Jersey
Channel Islands JE4 5RL

Capital International Nominees Limited

Capital House
Circular Road
Douglas
Isle of Man IM1 1AG

Forest Nominees Limited

PO Box 238
St Peter Port
Guernsey
GY1 3TY

AVC Provider

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

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 (“the 1984 Act”), an Act of Tynwald) and following the repeal of the 1984 Act on the 17th day of January 2012 continues to apply to the Scheme pursuant to Schedule 1 of the Public Sector Pensions Act 2011. The Scheme operates under the Isle of Man Local Government Superannuation Scheme Regulations and 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; and
- 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 2013 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; and
- 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 three fund managers. BlackRock (Isle of Man) Limited managed 90% of the Scheme's investments and Capital International Limited managed 10%. No funds were invested with Canaccord Genuity Wealth (International) Limited at 31 March 2015.

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, 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 2.7% from 7 April 2014 (2013/14: 2.2% from 8 April 2013) 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 2013 (2013/14: 30 September 2012).

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

	2014/15	2013/14
	No.	No.
Active Membership		
As at 1 April	388	413
Late adjustments (new starters)	(1)	1
Late adjustments (leavers)	-	(7)
<i>Add:</i>		
Entrants - new starters	31	24
	-----	-----
	418	431
	-----	-----
<i>Less:</i>		
Exits - new retirement pensions	(11)	(19)
- deferred benefits	(21)	(23)
- deaths in service	(1)	-
- refunds of contributions	(1)	(1)
	-----	-----
	(34)	(43)
	-----	-----
As at 31 March	384	388
	-----	-----

Report by Douglas Borough Council – continued

MEMBERSHIP AND BENEFICIARIES - continued

Membership as at 31 March 2015 by employer

	2015 Active	2015 Deferred	2015 Pensioners	2015 Total	2014 Total
Local Authorities					
Douglas Borough Council	216	151	139	506	489
Castletown Town Commissioners	9	5	12	26	26
Laxey Village Commissioners	2	-	-	2	2
Michael District Commissioners	1	1	-	2	2
Onchan District Commissioners	37	23	39	99	97
Peel Town Commissioners	17	4	12	33	33
Port Erin Village Commissioners	11	11	4	26	26
Port St Mary Village Commissioners	7	11	12	30	28
Ramsey Town Commissioners	38	14	26	78	77
Resolution Bodies					
(a) Parish Districts					
Braddan Parish Commissioners	6	-	-	6	6
Bride Parish Commissioners	1	-	-	1	1
Malew Parish Commissioners	6	3	3	12	12
Marown Parish Commissioners	1	-	-	1	1
(b) Joint Boards					
Castletown & Malew Elderly Persons Housing Board	2	-	-	2	1
Marashen Crescent Housing Committee	5	-	1	6	6
Northern Local Authorities Swimming Pool Board	9	4	1	14	13
Peel & Western District Housing Committee	-	-	1	1	1
Ramsey & Northern District Housing Committee	3	-	6	9	10
Southern Civic Amenity Site Board	3	3	1	7	7
Southern Local Authorities Swimming Pool Board	8	10	8	26	25
Admitted Bodies					
Crossroads Caring for Carers – includes Manx Foundation for Physically Disabled Former Department of Tourism & Leisure – Villa Marina	-	3	4	7	7
Leonard Cheshire Foundation	-	1	3	4	4
Manx Blind Welfare	-	-	1	1	1
Manx Churches Adoption & Welfare Society	-	4	13	17	17
Vicar and Wardens of Kirk Braddan	2	1	-	3	3
Vicar and Wardens of St Peter's Church Onchan	-	1	-	1	1
	384	250	288	922	898

Report by Douglas Borough Council – continued

Membership as at 31 March 2015 (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 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 Board
Western Local Authorities 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 2013 which showed that it continued to be in deficit.

The Actuarial Statement from the 2013 valuation is reproduced on pages 21 and 22 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 2013 these accounts are to be prepared by the 31 July and must be approved by the Responsible Financial Officer prior to submission to the auditor.

I certify that the financial statements give a true and fair view of the income and expenditure of the Isle of Man Local Government Superannuation Scheme for the year ended 31 March 2015 and of its financial position at 31 March 2015.

G M BOLT CPFA

Borough Treasurer as Responsible Financial Officer
Douglas Borough Council as Administering Authority
30 June 2015

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.

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 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), a multi-asset Absolute Return Portfolio, and property. The Absolute Return Portfolio and property are "real" assets, with a different performance cycle from equities.

The Administering Authority utilised BlackRock (Isle of Man) Limited as Investment Fund Manager for 90% of the Scheme's investments and Capital International Limited for the Absolute Return Portfolio, which makes up 10% of the Scheme's investments. No funds were invested with Canaccord Genuity Wealth (International) Limited at 31 March 2015 an investment manager appointed by the scheme during the current year.

INVESTMENT PERFORMANCE BENCHMARKS

Benchmarks are used as reference points to compare the performance of the portfolios.

The benchmark for BlackRock allows 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 £6,616,499 over the year. This equates to a rise of 14.5% over the period which outperformed the benchmark return of 12.9%.

UK Equities

UK equities rose over the 12 month period, yet displayed volatility during the year. The headline market return of 6.6% masked a sharp reversal in share price momentum during the second quarter of 2014, whereby many of the previously best performing shares in the market became the worst performers, before later recovering. A change in interest rate expectations in the US and UK coupled with the increase in geopolitical uncertainty in Iraq and Ukraine appear to have been contributory factors.

The lack of economic recovery in Europe was a particular test for the market, allied to growing concerns about the ability of the European Central Bank (ECB) to influence the path of growth. However, the ECB's quantitative easing bond purchase programme, announced in January 2015, improved investor confidence, with markets rising following the news.

Large capitalisation mergers and acquisitions surfaced within the pharmaceutical sector, which appeared to have cross border tax savings between the USA and the UK as a significant motivator, although these failed to complete. Continued low bond yields led investors to favour "bond proxy" companies, i.e. large companies with consistent earnings delivery, whilst companies whose earnings are generated in dollars benefited from US dollar strength and positive US economic growth.

The banks sector suffered from further provisioning for Payment Protection Insurance (PPI) claims and fines for past rule breaches and the food retail sector underperformed, where competition from the discount retailers is impacting profitability. Companies within the mining and oil & gas sectors suffered as commodity prices fell, with the oil price falling sharply following OPEC's (Oil Producing & Exporting Countries) decision not to cut production as the US shales deliver ever more barrels.

Overseas Equities

The 12 month period to the end of March 2015 can be characterised by increased uncertainty as the VIX index (a measure of equity market volatility) spiked to levels last seen back in 2011. The period also saw a sharp fall in oil prices, the ECB began its quantitative easing (QE) programme, and the US dollar continued to strengthen against its major trading counterparts.

Investments - continued

BLACKROCK FUND MANAGER'S REPORT (continued)

Overseas Equities (continued)

In the US, equities had a mixed start to the period as volatility resurged and global growth concerns came to the fore. After five years, the Federal Reserve reached a historic milestone when it officially ended quantitative easing purchases, amidst a strengthening labour market. The US midterm elections concluded with the Republicans gaining control of the Senate. Nevertheless, with January's consumer confidence index reaching its highest point since 2007 and ongoing improvements in the US labour markets, equities increased strongly throughout February, buoyed by dovish remarks from Federal Reserve in regards to future rate hikes.

In Europe, the ECB expanded its use of unconventional monetary policy, by announcing a QE program which aims to purchase €60bn of investment grade government, agency and institutional debt each month to at least September 2016. As a result, equities rallied significantly over the first 3 months of 2015. In February 2015, negotiations between the Euro group and Greece appeared to progress and Greece received a four month extension to its bailout agreement. The European Commission also upgraded growth projections for the Eurozone which further supported equity markets.

In China, a number of consecutive monthly house price declines increased concerns over the domestic property market. Nevertheless, equities increased as the Chinese central bank indicated there was scope to ease monetary conditions and, Chinese retail brokerage account openings surged. Lower inflationary pressures in India alongside multiple interest rate cuts by the Indian Central Bank propelled Indian equities higher over the period.

Bonds

Bonds continued to provide strong returns as yields fell during the summer on mounting geopolitical concerns (principally in the Middle East and Ukraine) and renewed fears over global growth. By August, the 10-year German bund yield had broken below 1% for the first time while other European bond yields hit multi-century lows. Later in the year markets reacted calmly to the Federal Reserve (Fed) withdrawing QE as anticipated in October 2014.

A sharp fall in oil prices from mid-2014 stoked fears of deflation. In response, 24 central banks eased monetary policy in the first quarter of 2015, the most keenly anticipated of which was the European Central Bank's launch of an ambitious programme of sovereign QE. Not even the Fed – which has long been expected to be the first major central bank to tighten policy – was immune from this global wave of easing as US policymakers reined back their expectations of interest rate rises.

Investments - continued

BLACKROCK FUND MANAGER'S REPORT (continued)

Bonds (continued)

The yield on the 10-year gilt fell over the year from 2.74% to 1.58%, despite a strengthening UK economy. The Bank of England held its policy rate at 0.5% throughout the year. Two members started voting for a rate hike from August 2014, although unanimity was restored in January 2015 as inflation fell sharply and touched zero in February 2015 and March 2015. In light of the low inflation environment, the Governor of the Bank of England reiterated that when UK rates start to rise they are “expected to do so only gradually and to remain below average historical levels for some time to come”.

The rally in gilts provided a boost to UK corporate bonds, with the Bank of America Merrill Lynch Sterling Non-Gilt index delivering a total return over the year of 13.3%.

Property

UK commercial property continues to be highly sought by both overseas and domestic investors due to the relatively high level of current income it generates, the emerging growth in rental levels and continued increase in capital values. The UK economic recovery remains on track and the property market is benefitting from increasing occupational demand which had led to the re-emergence of rental growth, which is now not just limited to Central London.

The BlackRock UK Property Fund delivered a gross return to investors of 15.8% over the 12 months ending March 2015; the IPD UK Pooled Property Fund Index returned 16.6%.

Inflation during the year

UK inflation has been trending down over the last year. The Governor of The Bank of England wrote the first open letter to explain why inflation is below the 2% target after the Consumer Price Index (CPI) inflation fell to 0.5% in December 2014. Inflation then dropped to 0.3% in January 2015 and zero in February 2015, in line with the BoE's February 2015 Inflation Report, which reiterated that inflation may dip below zero in the first half 2015.

Investment performance

Portfolio	14.5%
Benchmark	12.9%
Value of Portfolio as at 31st March 2014	£48,515,913
Value of Portfolio as at 31st March 2015	£55,132,412

Investments - continued

BLACKROCK FUND MANAGER'S REPORT (continued)

Performance of Fund

	Year %	3 Years % p.a.	5 Years % p.a.	Closing Value £
UK Equities	+12.4	+12.8	+9.0	12,942,113
Overseas Equities	+18.6	+13.0	+9.0	23,452,165
Fixed Income ¹	+8.8	+5.0	-	10,153,912
Property	+15.8	+10.1	+9.1	6,989,408
Cash	-	-	-	1,594,814
Total Portfolio	+14.5	+11.0	+8.8	55,132,412

Performance of Benchmark

	Year %	3 Years % p.a.	5 Years % p.a.
UK Equities	+6.6	+10.6	+8.3
Overseas Equities	+20.1	+14.5	+10.2
Fixed Income ¹	+8.3	+4.5	-
Property	+16.6	+9.4	+8.5
Total Portfolio	+12.9	+10.5	+8.8

¹ since revised benchmark implemented

Investments - continued

CAPITAL INTERNATIONAL FUND MANAGER'S REPORT

Summary

The value of the portfolio managed by Capital International was £5,473,448 as at 31st March 2014. The fund increased to £6,829,405 as at 31st March 2015 including £850,000 cash additions, a rise in value of £1,355,958. This equates to a rise of 8.4% excluding cash additions over the period which outperformed the benchmark return of 3.5%. This takes into account any new monies received over the year.

UK Equities

On a total return basis the FTSE All Share produced a positive return of 6.6% for the period. It was a tough calendar year in 2014 for UK equities as the strength of Sterling in the first quarter held back corporate earnings progression. In the last six months of the year there was then a dramatic decline in the global price of crude oil, the Energy sector is a major constituent of the FTSE 100 index. The Banking sector also struggled for positive momentum and the largest company had a very poor year. It has only been as 2015 began that UK equities enjoyed a better performance, with a bounce in oversold stocks. Pharmaceuticals have remained a decent sector to invest in and merger activity remains very much in focus. Commodities have been one of the poorest performing asset classes, with oversupply and fears over levels of China GDP growth and the Mining sector has reflected this. Dividend levels across the market continue to be attractive and takeovers provide valuation support. Capital International remain overweight the asset class.

Overseas Equities

On a total return basis the MSCI World ex UK produced a positive return of 14.3% for the period. US equities continued their excellent performance for much of the year, although on a stand-alone valuation basis, equities are now expensive. In recent months the earnings growth outlook has also meaningfully deteriorated, primarily due to the negative impact of the strength in the US Dollar. Globally there is also a concern that the capital expenditure cycle has stalled, this is vital for long term economic growth. The introduction of extensive Quantitative Easing (QE) in Europe has led to a sharp rally, combined with an upturn in consumer sentiment and the benefits of cheap oil. The debt issues of Greece continue to impact sentiment at the margin. Emerging Markets have struggled with currency issues and domestic economic problems. Japan has continued to be buoyed by QE measures and the weak Yen has further helped equities. Relative to bonds, global equities in composite remain fair value. Capital International are overweight in the asset class.

Investments - continued

CAPITAL INTERNATIONAL FUND MANAGER'S REPORT (continued)

Bonds

On a total return basis the FT-A UK Government All-Stocks Index increased by 13.9% whilst the Sterling Broad Market Index gained in value by 21.0%. Interest rates have still not been increased in either the UK or the US, something the market had expected by now. Deflation has continued to be the dominant fear, rather than inflation, and bond yields have reacted accordingly. Longer dated issues in particular had a very strong performance in 2014. It is staggering that the 10 year German Bund yield is only 0.05% and the equivalent Spanish yield of 1.40% is lower than the UK Gilt of 1.55%. Corporate bonds have continued to perform well, given the improving economic conditions. Liquidity has been strong, although there are early signs in high yield that the positive momentum is beginning to wane. Fundamentally bonds are now looking both over-owned and over-bought, a potentially dangerous combination. Capital International are neutral on the asset class.

Commercial Property

The IPD UK Property Index gained an impressive 18.3% over the twelve months on a total return basis. The asset class is benefiting from rising rents, a buoyant UK economy and a scarcity of product in certain areas. Indeed the strongest growth in values was seen in the UK regions, rather than in London. Capital International have a neutral weighting in the asset class.

Economic/Inflation Update

The British economy grew at its fastest pace for nine years in 2014 as GDP figures showed the economy expanded by a stronger than expected 2.8% last year. Inflation, as measured by the consumer prices index, plunged to 0% in February 2015 and in March 2015, pushed down by plunging oil prices, meaning living standards are rising after a long period of earnings falling in real terms. The Office for National Statistics said Britain's unemployment rate fell to 5.6%, its lowest level since July 2008 and down from 7.9% at the time of the last election.

Investment Performance

Portfolio	8.4%
Benchmark	3.5%
Value of portfolio as at 31 st March 2014	£5,473,448
Value of portfolio as at 31 st March 2015	£6,829,405

Investments - continued

CAPITAL INTERNATIONAL FUND MANAGER'S REPORT (continued)

Performance of Fund

	Year %	3 Years % p.a.	5 Years % p.a.	Closing Value £
UK Equities	+1.0	n/a	n/a	1,413,866
Overseas Equities	+15.0	n/a	n/a	1,490,987
Fixed Income	+9.7	n/a	n/a	1,846,964
Property	+15.5	n/a	n/a	949,402
Other / Cash	+2.0	n/a	n/a	1,128,456
Weighted Average	+8.4	n/a	n/a	
Total Portfolio				6,829,405

Performance of Benchmark

	Year %	3 Years % p.a.	5 Years % p.a.
Weighted Average	+3.5	n/a	n/a

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.
TOTAL FUND	+13.8	+10.7	+8.6

Performance of Benchmark

	Year %	3 Years % p.a.	5 Years % p.a.
TOTAL FUND	+11.9	+9.7	+8.5

Investments - continued

CUSTODIAL ARRANGEMENTS

The Administering Authority has appointed BNP Paribas Securities Services S.C.A., Capital International Nominees Limited and Forest Nominees Limited as its custodians. No assets were in the custody of Forest Nominees Limited at 31 March 2015.

The custodians will arrange for the Fund's UK equities and cash to be registered in the name of a nominee company directly. 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 (Isle Of Man) 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 2014 to 31 March 2015:

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 2012 (Statutory Document No. 0104/12) and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15.

Descriptions of Funding Policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), dated February 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Scheme, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Scheme, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Rate payers); and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Rate payer from an employer defaulting on its pension obligations.

The FSS sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Scheme and keeping employer contributions stable. The Scheme adopts a pooled approach for setting contributions, and contributions for all employers have been stabilised below the market-derived rate required to return their portion of the Scheme to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 65% chance that the Scheme will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out was as at 31 March 2013. This valuation revealed that the Scheme's assets, which at 31 March 2013 were valued at £50.3 million, were sufficient to meet 71.8% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £19.7 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2018 were set in accordance with the Scheme'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 27 March 2014.

Actuarial Statement – continued

Method

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

Assumptions

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

The key financial assumptions adopted for the 2013 valuation were as follows:

Financial Assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.60%	2.10%
Pay increases	3.80%	1.30%
Price inflation/pension increase	2.50%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Scheme's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25%p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.9 years	23.8 years
Future Pensioners*	24.4 years	27.3 years

*Figures assume members aged 45 as at the last formal valuation date.

Copies of the 2013, valuation report and the Funding Strategy Statement are available on the website for Douglas Borough Council (the administering authority to the Scheme).

Experience over the period since April 2013

Real bond yields have fallen dramatically (leading to a higher liability). The effect of this has been only partially offset by the strong asset returns. Overall funding levels are likely to have remained approximately the same but the monetary amount of deficits will have increased over this period as both asset and liability values have increased in size.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Douglas Green FFA

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

23 June 2015

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 2015 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 auditor

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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2015, 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 2013 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.

Grant Thornton Limited
Chartered Accountants
Douglas
Isle of Man

Date: 28 October 2015

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 2015 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 auditor

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.

Independent Auditor's Statement about Contributions – continued

Statement about contributions

In our opinion contributions for the Scheme year ended 31 March 2015 as reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions comprising the Schedule certified by the Scheme Actuary on 27 March 2014.

Grant Thornton Limited
Chartered Accountants
Douglas
Isle of Man

Date: 28 October 2015

Summary of Contributions

Summary of Contributions payable in the year to 31 March 2015

Contributions payable under the Schedule of Contributions/ Payment Schedule:

Employer normal contributions	2,295,495
Employee normal contributions	647,982
	<hr/>
Total contributions payable under the Schedule	2,943,477

Other contributions:

Employee additional Scheme contributions	19,906
Employer other contributions	<hr/> -
Total contributions payable to the Scheme:	<u>2,963,383</u>

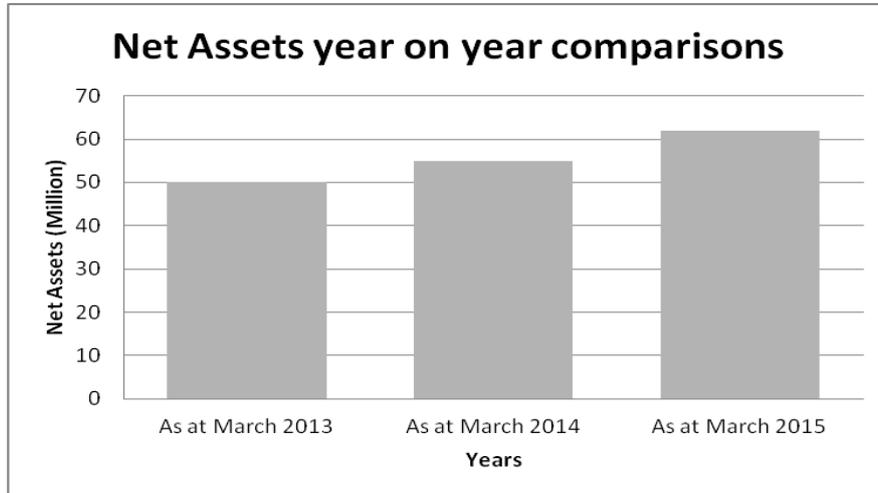
This Summary of Contributions was approved and authorised for issue by the Pensions Committee on 28 October 2015.

D J ASHFORD
Chairman of the Pensions Committee
28 October 2015

G M BOLT CPFA
Borough Treasurer
28 October 2015

Foreword to the Financial Statements

As at the 31 March 2015 the accumulated Fund Net Assets stood at £62,450,616 (2014: £54,769,224). The Fund has increased in value by £7,681,392 and has outperformed the benchmark. An explanation can be found in the Investment Fund Managers' Reports on pages 10 to 17.

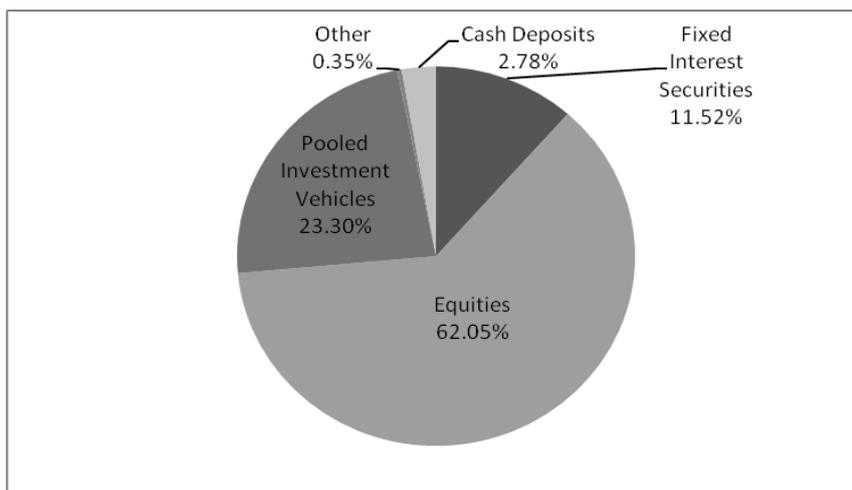


The Fund Value comparison for the last three years can be seen in the graph.

The net income from all transfer values received in has increased by £15,226 (2013/14 decreased by £477,404). Contributions after provisions for bad debts have decreased by £563,318 (2013/14 increased by £371,422). This has resulted in a decrease in income in respect of Scheme members of £548,092 (2013/14 decrease of £105,982). Retirement benefits and payments made to or in respect of Scheme members during the year have increased by £392,873 (2013/14 increased by £26,133).

In overall terms the net additions from dealings with Scheme members (before administration expenses) during the year amount to £782,409 (2013/14: £1,723,374).

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 2015

	Notes	2014/15 £	2013/14 £
FUND ACCOUNT			
Contributions and Benefits			
Contributions	3	2,963,383	4,005,616
Transfers in	4	15,226	-
		<u>2,978,609</u>	<u>4,005,616</u>
Benefits	5	(2,196,200)	(1,803,313)
Leavers	6	-	(14)
Administrative expenses	7	(252,394)	(330,229)
Bad debt provision	15	-	(478,915)
		<u>(2,448,594)</u>	<u>(2,612,471)</u>
Net additions from dealings with members		<u>530,015</u>	<u>1,393,145</u>
Returns on investments			
Investment income	8	1,458,153	1,476,807
Change in market value of investments	9a	5,910,481	1,813,038
Investment management expenditure	11	(217,257)	(197,214)
Net return on investments		<u>7,151,377</u>	<u>3,092,631</u>
Net increase in the Scheme during the year		<u>7,681,392</u>	<u>4,485,776</u>
Net assets of the Scheme			
At year beginning		<u>54,769,224</u>	<u>50,283,448</u>
At year end		<u><u>62,450,616</u></u>	<u><u>54,769,224</u></u>

Financial Statements for the year ended 31 March 2015 - continued

	Notes	As at 31 March 2015 £	As at 31 March 2014 £
NET ASSETS STATEMENT			
Investments	9b	61,961,818	53,989,363
Current Assets	12	607,351	994,118
Current Liabilities	13	(118,553)	(214,257)
Net Assets of the Scheme at year end		62,450,616	54,769,224

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 financial 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 21 and 22 and these financial statements should be read in conjunction with that Statement.

The notes on pages 31 to 39 form part of these Financial Statements.

These accounts were approved and authorised for issue by Pensions Committee on 28 October 2015.

D J ASHFORD
Chairman of the Pensions Committee
28 October 2015

G M BOLT CPFA
Borough Treasurer
28 October 2015

Notes to the Financial Statements for the year ended 31 March 2015

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 defined 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 2015 – 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. Realised gains are recorded in investment income in the Fund Account.

3. Contributions

	2014/15 £	2013/14 £
Employers		
normal	2,295,495	2,296,999
other	-	1,046,543
Members		
normal	647,982	639,797
scheme additional	19,906	22,277
	<u>2,963,383</u>	<u>4,005,616</u>

Employers' other contributions in the prior year related to the cessation of a scheme employer, and augmentations paid in respect of certain members' redundancy. See note 15 on page 39.

Notes to the Financial Statements for the year ended 31 March 2015 – continued

3. Contributions (continued)

Contributions breakdown

	2014/15 Employers Normal £	2014/15 Employees Normal £	2014/15 Employees Scheme Additional £	2014/15 Total £	2013/14 Total £
Braddan Parish Commissioners	54,692	16,380	-	71,072	69,491
Bride Parish Commissioners	897	230	-	1,127	1,127
Castletown Town Commissioners	46,543	12,912	-	59,455	65,683
Castletown & Malew Elderly Persons Housing Board	4,228	1,085	-	5,313	4,954
Douglas Borough Council	1,375,273	388,831	15,306	1,779,410	1,745,350
Laxey Village Commissioners	10,074	2,733	-	12,807	11,759
Leonard Cheshire Foundation	-	-	-	-	1,657
Malew Parish Commissioners	32,309	9,010	-	41,319	40,565
Manx Churches Adoption & Welfare Society	-	-	-	-	9,415
Marashen Crescent Housing Committee	19,412	5,460	-	24,872	24,384
Marown Parish Commissioners	2,282	469	893	3,644	3,685
Michael District Commissioners	4,226	1,168	-	5,394	6,195
Northern Local Authorities Swimming Pool Board	31,613	8,848	-	40,461	33,276
Onchan District Commissioners	211,822	60,252	-	272,074	277,022
Peel Town Commissioners	107,282	30,256	-	137,538	142,655
Port Erin Village Commissioners	57,513	16,028	242	73,783	76,884
Port St Mary Village Commissioners	37,236	10,011	-	47,247	42,292
Ramsey & Northern District Housing Committee	12,200	3,952	1,083	17,235	20,563
Ramsey Town Commissioners	221,215	61,913	2,382	285,510	292,305
Southern Local Authorities Swimming Pool Board	42,144	11,795	-	53,939	53,400
Southern Civic Amenity Site Board	14,405	3,902	-	18,307	22,246
Vicar and Wardens of Kirk Braddan	10,129	2,747	-	12,876	12,353
Vicar and Wardens of St Peters Church Onchan	-	-	-	-	1,812
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Cessation cost contributions –	2,295,495	647,982	19,906	2,963,383	2,959,073
Manx Churches Adoption & Welfare Society (note 15)	-	-	-	-	959,000
Augmentation contributions – Redundancy benefits	-	-	-	-	87,543
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	2,295,495	647,982	19,906	2,963,383	4,005,616
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements for the year ended 31 March 2015 – continued

4. Transfers In

	2014/15 £	2013/14 £
Individual transfers in from other Pension Schemes and Private Sector Institutions	15,226	-

5. Benefits

	2014/15 £	2013/14 £
Retirement and dependants' pensions	1,514,843	1,370,898
Lump sum retirement grants	681,357	432,415
	2,196,200	1,803,313

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 £12,501 (2013/14: £14,359).

6. Leavers

	2014/15 £	2013/14 £
Refunds of contributions	-	14

7. Administrative Expenses

	2014/15 £	2013/14 £
Administering Authority (see note 14)	54,239	43,009
Fund Administrator	70,424	70,208
Valuation	-	57,905
Other Actuarial	10,235	37,590
Investment Advice	85,250	85,885
New Regulation Implementation (Fund Administrator)	12,918	14,245
Audit Fees	15,047	12,520
Legal & Professional	4,191	8,706
Other Fees	90	161
	252,394	330,229

Notes to the Financial Statements for the year ended 31 March 2015 – continued

8. Investment Income

	2014/15 £	2013/14 £
Income from fixed interest securities	205,003	316,451
Dividends from equities and net gains on forward exchange contracts	1,182,999	1,095,794
Income from pooled investment vehicles	69,948	64,281
Interest on cash deposits	203	281
	<u>1,458,153</u>	<u>1,476,807</u>

9a. Investments

	Value at 1.04.14 £	Purchases at Cost £	Sales Proceeds £	Change in Market Value £	Value at 31.03.15 £
Fixed interest securities	6,668,758	6,061,523	(5,991,117)	396,587	7,135,751
Equities	32,639,924	13,217,417	(11,841,024)	4,432,846	38,449,163
Index-linked securities	106,144	335,393	(234,128)	5,051	212,460
Pooled investment vehicles	12,814,923	579,106	(62,580)	1,103,004	14,434,453
Derivatives	10,904	26,375,362	(26,386,648)	(27,007)	(27,389)
	<u>52,240,653</u>	<u>46,568,801</u>	<u>(44,515,497)</u>	<u>5,910,481</u>	<u>60,204,438</u>
Cash Deposits	1,713,463				1,722,329
Other – accrued fixed interest investment income	35,247				35,051
	<u>53,989,363</u>				<u>61,961,818</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 £46,288 (2013/14: £78,913). 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 2015 – continued

9b. Investments (continued)

Investments with Investment Fund Managers

	As at 31 March 2015 £	As at 31 March 2014 £
Fixed interest securities		
UK public sector quoted	5,506,851	5,068,447
UK corporate bonds	776,876	793,105
Overseas corporate bonds	852,024	807,206
	<u>7,135,751</u>	<u>6,668,758</u>
Equities		
UK quoted	13,684,631	12,601,244
Overseas quoted	24,764,532	20,038,680
	<u>38,449,163</u>	<u>32,639,924</u>
Index-linked securities		
UK quoted	212,460	106,144
	<u>212,460</u>	<u>106,144</u>
Pooled investment vehicles		
Unit trusts - UK equities	671,348	687,644
- Overseas equities	206,008	190,239
- Property	7,938,810	7,055,303
- UK fixed interest	4,617,346	4,038,631
- International equity	1,000,941	843,106
	<u>14,434,453</u>	<u>12,814,923</u>
Derivatives		
Forward foreign exchange contracts	(27,389)	10,904
	<u>(27,389)</u>	<u>10,904</u>
Cash deposits		
Sterling	1,722,329	1,713,463
	<u>1,722,329</u>	<u>1,713,463</u>
Other		
Accrued investment income	35,051	35,247
	<u>35,051</u>	<u>35,247</u>
Total Investments	<u>61,961,818</u>	<u>53,989,363</u>

The aggregate holdings of the investment managers were as follows:

Managers	As at 31 March 2015 £	As at 31 March 2014 £
Capital International	6,829,406	5,473,450
Blackrock	55,132,412	48,515,913
Total Investments	<u>61,961,818</u>	<u>53,989,363</u>

Notes to the Financial Statements for the year ended 31 March 2015 – continued

9b. Investments (continued)

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

	As at 31 March 2015	As at 31 March 2014
Blackrock UK Property Fund	11.2%	11.5%
SPDR S&P 500 ETF	6.8%	6.6%
Lyxor UCITS ETF Euro Stoxx	5.9%	5.3%
Blackrock Corporate Bond Fund	5.8%	5.9%

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 2015 Assets	As at 31 March 2015 Liabilities
3 months	GBP	766,036	EUR	(760,600)	5,436	-
3 months	GBP	1,000,000	JPY	(1,032,825)	-	(32,825)
					5,436	(32,825)

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.

Notes to the Financial Statements for the year ended 31 March 2015 – continued

15. Cessation of a Scheme Employer

The Manx Churches Adoption and Welfare Society (MCAWS) was an admitted body. MCAWS have ceased operations. The Council obtained an actuarial valuation of the future liabilities of the pension scheme in relation to former employees of MCAWS. An invoice was raised for this value of £959,000 and this amount was included in employers other contributions in the prior year. MCAWS did not have sufficient funds to pay its debts in full so a voluntary arrangement was agreed with its creditors. This resulted in the creditors receiving 50.06p per pound owed. The sum of £480,085 was received by the pension scheme in June 2014. The balance of £478,915 was provided for in 2013/14 and formally written off during 2014/15.

16. Subsequent Events

Following a review of the investment strategy Investasure Financial Services Limited were appointed as an investment manager on 23 July 2015. State Street Global Advisors were appointed as custodians with effect from the same date. Funds of £20.3 million and £14.5 Million were transferred after the year end to Canaccord Genuity Wealth (International) Limited and Investasure Financial Services Limited respectively for investment.

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 2012.

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 assessed pensionable earnings. 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 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 2012 and have continued to do so since that date, paid reduced contributions of 5.5% during the Scheme year 2014/15. Those employees' contributions are now harmonised with effect from 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 UK 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).

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

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