APPENDIX B

Isle of Wight Pension Fund - Overview Year ended 31 March 2018

Manager	Asset class	Asset Allocation Proportion of Total Fund %	Market Value Previous Year 01/04/2017	Market Value Latest Year 31/03/2018	Current Proportion of Total Fund %	Actual Annual Performance %	Benchmark Performance	Actual relative to benchmark	Benchmark to Outperform by %
Majedie	**UK Equities**	**22.5**	**129,600,895**	**123,487,232**	**21.7**	***-1.8***	***1.2***	**-3.0**	**2.0**
Schroder	Bonds	22.0	108,739,124	110,707,741	19.4	*1.8*	*0.8*	**1.0**	1.0
	Property	8.0	30,404,105	33,661,986	5.9	*11.1*	*10.6*	**0.5**	0.5
Schroder sub total		**30.0**	**139,143,230**	**144,369,727**	**25.3**	**4.3**	**3.4**	**0.9**	
Newton	**Global Equities**	**32.5**	**219,561,040**	**220,394,120**	**38.7**	***1.6***	**2.4**	**-0.8**	**2.0**
Baillie Gifford	**Diversified Growth Fund**	**15.0**	**78,020,480**	**81,834,170**	**14.4**	**4.7**	**3.9**	**0.8**	
	TOTAL FUND	**100.0**	**566,325,645**	**570,085,249**	**100.0**	***1.9***	**2.7**	**-0.8**	
	Of which the following are equities:								
	UK Equities	22.5	129,600,895	123,487,232	21.7	-1.8	1.2	-3.0	2.0
	Global Equities	32.5	219,561,040	220,394,120	38.7	1.6	2.4	-0.8	2.0
	Total Equities	55.0	349,161,935	343,881,352	60.3	0.2	1.9	-1.7	2.0
	Proportion of total fund		61.65%	60.32%					

NOTE: Schroder quarterly performance report based on MID price. Monthly reports from November 2010 are based on BID price. BID price is reported above.
BID price on Schroder's property portfolio is £918,465 lower than MID price

TOTAL FUND 571,003,714 MID value

ISLE OF WIGHT COUNCIL PENSION FUND
Report and Accounts for the period ending 31 March 2018

Introduction
The Fund's investments have been managed during the year under review by Majedie, Newton, Baillie Gifford and Schroder. The strategic benchmark allocation as at 31 March 2018 was:

Manager	Mandate	Allocation	Control ranges	Benchmarks
Majedie	UK Equities	22.5%	19.5 – 25.5%	FTSE All-Share index
Newton	Global Equities	32.5%	29.5 – 35.5%	MSCI AC (All Countries) World index (net dividends re-invested)
Baillie Gifford	Diversified Growth	15.0%	11.0 – 19.0%	UK Base Rate + 3.5%
Schroder	UK Bonds	22.0%	18.0% – 26.0%	50% iBoxx GBP Gilts TR + 50% iBoxx GBP Non-Gilts
Schroder	UK Property	8.0%	4.0% – 12.0%	IPD Pooled Property Fund indices All Balanced Funds Median
Total		**100.0%**	**-**	

Source: Statement of Investment Principles

Summary of strategic changes

There have been no strategic benchmark changes over the year. The asset allocation at the start and end of the year is shown in the table below.

Asset Allocation

Manager/Asset Class	Actual Asset Allocation				Benchmark Allocation (%)
	Start of Year (£'000)	End of Year (£'000)	Start of Year (%)	End of Year (%)	
Majedie – UK Equity	129,587	123,308	22.8	21.6	22.5
Newton – Global Equity	219,561	220,394	38.7	38.6	32.5
Baillie Gifford – Diversified Growth	78,020	81,834	13.8	14.3	15.0
Schroder – UK Bonds	108,739	110,708	19.2	19.4	22.0
Schroder – UK Property	31,332	34,580	5.5	6.1	8.0
Total	**567,239**	**570,825**	**100.0**	**100**	**100.0**

Source: Investment Managers
Figures may not sum to total due to rounding.

Reasons for variance from Benchmark

All portfolios except for Newton Global Equity were within their control ranges over the year to 31 March 2018. Given the considerations around pooling, rebalancing has been suspended until assets are transferred to the pool in 2018/19.

The Fund began the year with an overweight to global equities and underweight to UK equities, bonds, diversified growth and property. The Fund has remained overweight to global equities and underweight UK equity, property, diversified growth and bonds over the year.

Market Background

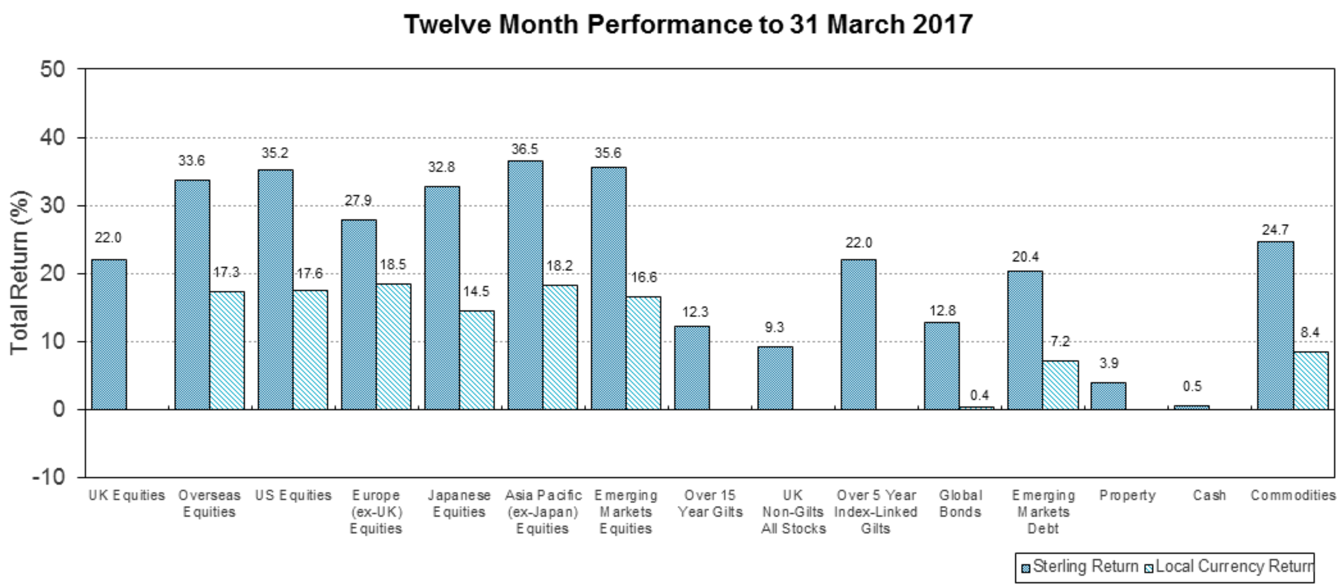
Investment Markets[1]

Over the 12 month period to 31 March 2018, growth assets generally performed well against a backdrop of broad economic expansion, while defensive assets saw lower returns. Over the first quarter of 2018, however, equity markets experienced a correction. This shift in market sentiment was largely a reaction to a combination of escalating trade and geo-political tensions along with expectations of monetary tightening, especially in the US.

Even though economic activity and business, as well as consumer, confidence improved significantly over the year, concerns have started to surface that some economies, most notably the US, might be starting to overheat which would accelerate the tightening cycle by central banks. Persistent geopolitical tensions over the year, both on the Korean peninsula and in the Middle East, as well as rising trade tensions between the US and China in the first quarter of 2018 also weighed on financial markets and fuelled a resurgence in volatility, which had been abnormally low in the prior year.

In the UK, Brexit continues to remain at the forefront of investors' minds. Since the triggering of Article 50 in March 2017 by Prime Minister Theresa May, some progress has been made but, complex negotiations with regards to a future trade deal and the Irish border lie ahead. The UK economy has held up reasonably well over 2017 with real GDP growth of 1.4% while the consensus forecast for 2018 is for 1.6% growth.

An increase in inflation over the year prompted the Bank of England to increase the base rate in November 2017 for the first time in 10 years; the Consumer Price Index reached 3.0% at the end of the year even though inflation seemed to have peaked in November 2017 at 3.1% and has fallen back to 2.5% in March 2018. Currency volatility was a feature of the 12 month period, with sterling rallying against the yen and dollar, but falling against the Euro.



[1] Statistics sourced from Thomson Reuters Datastream unless otherwise specified.

Equities

At a global level, developed markets as measured by the FTSE World index, returned 2.55%. Meanwhile, a return of 8.75% was recorded by the FTSE All World Emerging Markets index. At a regional level, European markets returned 4.26% as indicated by the FTSE World Europe ex UK index.

At a country level, UK stocks as measured by the FTSE All Share index returned 1.25%. The FTSE USA index returned 1.76% while the FTSE Japan index returned 7.52%. Equity market total return figures are in Sterling terms over the 12 month period to 31 March 2018.

Within equity markets emerging market returns were the strongest over the period as the region has benefited from a declining US dollar and improved corporate earnings. At a regional level, considerable dispersion in the returns of emerging market economies persists.

Bonds

Returns on UK Government Bonds as measured by the FTSE Gilts All Stocks Index, returned 0.46%, while long dated issues as measured by the corresponding Over 15 Year Index had a return of 2.21% over the year. The yield for the FTSE Gilts All Stocks index rose over the year from 1.44% to 1.54%. The FTSE All Stocks Index Linked Gilts index returned 0.53% with the corresponding over 15 year index exhibiting a return of 1.15%.

UK corporate debt as measured by the Bank of America Merrill Lynch Sterling Non-Gilts index returned 1.28%.

Bond market total return figures are in Sterling terms over the 12 month period to 31 March 2018.

Property

UK property investors continued to experience strong returns. Over the 12 month period to 31 March 2018, the IPD UK All Property Index returned 11.3% in Sterling terms. The three main sectors of the UK Property market each recorded positive returns over the period (retail: 7.1%; office: 8.6%; and; industrial 21.6%).

Currencies

Over the 12 month period to 31 March 2018, Sterling rose 12.18% against the US Dollar from $1.25 to $1.40. Sterling appreciated 7.07% against the Yen from ¥139.34 to ¥149.19. Sterling depreciated against the Euro by 2.44% from €1.17 to €1.14 over the same period.

Investment Performance

Manager/Asset Class	Last Year		Last 3 Years	
	Fund (%)	Benchmark (%)	Fund (% p.a.)	Benchmark (% p.a.)
Majedie – UK Equity	-1.8	1.2	5.3	5.9
Newton – Global Equity	1.6	2.4	9.2	10.2
Baillie Gifford – Diversified Growth	5.4	3.9	5.0	3.9
Schroder – UK Bonds	1.8	0.8	4.6	3.5
Schroder – UK Property	11.1	10.0	9.9	8.1
Total	**1.9**	**2.7**	**6.4**	**6.9**

Figures shown are based on performance provided by State Street and investment managers. Performance figures are gross of fees.

The Fund has underperformed the benchmark over both the one and three year period by 0.8% and 0.5% respectively. This resulted from the underperformance of Majedie and Newton. Schroder and Baillie Gifford continue to perform strongly, compared to the benchmark.

Linking the Investment Strategy with the Funding Strategy

Although the investment strategy is set from a long-term perspective, it is formally reviewed every 3 years or so after every actuarial valuation. The Committee reviews the investment strategy to ensure that it remains appropriate for the Fund's liability profile.

The Committee believes that the investment strategy in place provides the Fund with the necessary potential for future returns to meet future benefits while also minimising the risk being taken. The majority of the Fund's investments can be considered liquid to ensure that pensions can be paid as they fall due.

Custodial Arrangements

Manager	Custodian
Majedie	BNP Paribas
Newton	Bank Of New York Mellon
Baillie Gifford	Bank Of New York Mellon
Schroder	BNP Paribas

Source: Investment Managers
Pooled funds have no direct custody arrangements in place, the custodians shown are appointed by the investments managers.

The Committee is responsible for ensuring the Fund's assets continue to be securely held. The Committee reviews the custodian arrangements from time to time and the Fund auditor is authorised to make whatever investigations it deems are necessary as part of the annual audit procedure.

Investment Manager Fees

Please note that the investment manager fees listed below are the managers' annual management charges. There may be other expenses charged on the Fund's assets, e.g. custodian and administration charges, which would be in addition to these fee scales.

Manager	Asset Class	Fees
Majedie	UK Equities	0.35% p.a. plus 20% of any outperformance above the benchmark return plus 1% on an annualised 3 year rolling basis
Newton	Global Equities	0.20% p.a. on the first £100m 0.17% p.a. for the next £200m 0.12% p.a for the next £700m 0.10% p.a. on the remainder plus 20% of any outperformance above benchmark
Baillie Gifford	Diversified Growth	0.65% p.a. on the first £30m 0.50% p.a. on the next £90m 0.45% p.a. on the remainder
Schroder	UK Bonds	0.20% p.a.
Schroder	UK Property	c0.5% p.a.*

**estimated by Schroder*

Social, Environmental and Ethical Considerations

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

The Myners Review and Code of Best Practice

The Myners principles codify best practice in investment decision making. While they are voluntary, pension fund trustees are expected to consider their applicability to their own fund and report on a 'comply or explain' basis how they have used them.

The principles continue to emphasise the essentials of investment governance, notably the importance of effective decision making, clear investment objectives and a focus on the nature of each scheme's liabilities. The principles also require that trustees include a statement of the scheme's policy on responsible ownership in the Statement of Investment Principles and report periodically to members on the discharge of these responsibilities.

The Committee monitors their investment policies against Myners to ensure that their implementation is in keeping with the revised principles for the Fund. The following table is taken from the Fund's latest Statement of Investment Principles and provides an update on the Fund's compliance with each of the 6 Myners Principles.

Principle	Response on Adherence
Principle 1 Effective Decision Making: Administering authorities should ensure: • That decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	**Compliant** Decisions are taken by the Committee which is responsible for the management of the fund. The Committee has support from council officers with sufficient experience to assist them. The Committee also seeks advice from professional actuarial and investment advisers to ensure it can be familiar with the issues concerned when making decisions. **The Committee have commissioned a governance review and are addressing their future training needs.** **The Committee** is able to make robust challenges to advice and is aware of where potential conflicts of interest may reside within the Committee and in relation to service providers.
Principle 2 Clear objectives: An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.	**Compliant** The Committee has established objectives for the fund which takes account of the nature of fund liabilities and the contribution strategy. This involved discussions with the actuary to enable the Committee to set the overall risk budget for the fund. This is reflected in the investment mandates awarded to the asset managers. There is dialogue with admitted bodies within the fund in relation to the contributions they pay, their capacity to pay these contributions and the level of guarantees they can provide.
Principle 3 Risk and liabilities: • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	**Compliant** The investment strategy is considered in the light of the nature of the fund liabilities, the timescale over which benefits will be paid, and financial and demographic factors affecting the liabilities, such as inflation and improving longevity. The Committee and council officers have discussed the contribution strategy with the actuary taking account of the strength of covenant of the council and its long term horizon. Discussions have also taken place with admitted bodies in relation to the affordability of contributions and the strengths of their covenants.
Principle 4 Performance assessment: • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. • Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.	**Partially Compliant** The performance of the fund and its individual managers are monitored on a regular basis. The quality of advisers is assessed on a qualitative basis but is not formally measured. Advisers are subject to periodic re-tender. The Committee is developing formal processes to measure its own effectiveness.
Principle 5 Responsible Ownership: Administering authorities should • Adopt, or ensure their investment	**Partially Compliant** The Committee encourages its investment managers to adopt the ISC Statement of

managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. • Include a statement of their policy on responsible ownership in the Statement of Investment Principles. • Report periodically to scheme members on the discharge of such responsibilities.	Principles on the responsibilities of shareholders and agents on the fund's behalf This Statement of Investment Principles includes a statement on the fund's policy on responsible ownership. The Committee needs to consider the implications of the UK Stewardship Code (issued in September 2012) to ensure it is fully compliant with the new requirements.
Principle 6 Transparency and Reporting: Administering authorities should • Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. • Should provide regular communication to scheme members in the form they consider most appropriate.	**Compliant** The Committee maintains minutes of meetings which are available on the council website. The Committee holds a formal annual meeting for members and also meets periodically with sponsoring employer bodies. An Admitted Bodies representative and a Member representative attend Committee meetings. The Statement of Investment Principles is published on the council website and is available to members on request. Other information on the scheme is available to members on the council website.

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Please also note:

- The value of investments can go down as well as up and you may not get back the amount you have invested. In addition investments denominated in a foreign currency will fluctuate with the value of the currency.
- The valuation of investments in property based portfolios, including forestry, is generally a matter of a valuer's opinion, rather than fact.
- When there is no (or limited) recognised or secondary market, for example, but not limited to property, hedge funds, private equity, infrastructure, forestry, swap and other derivative based funds or portfolios it may be difficult for you to obtain reliable information about the value of the investments or deal in the investments.
- Where the investment is via a fund of funds the investment manager typically has to rely on the underlying managers for valuations of the interests in their funds.
- Care should be taken when comparing private equity / infrastructure performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance). Direct comparisons are not always possible.

Jo Holden
May 2018