APPENDIX 2

Isle of Wight Council Pension Fund

Review of Investment Managers' Performance for the Second Quarter of 2018

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For and on behalf of Hymans Robertson LLP
August 2018

APPENDIX 2

Contents

	Page
Markets	
Historic Returns for World Markets to 30 June 2018	3
Capital Market Outlook	4
Fund Overview	
Portfolio Summary	5
Manager Overview	
Manager Summary	6
Performance Summary	7
Managers	
Majedie UK Equity	8
Newton Global Equity	9
Baillie Gifford Diversified Growth	10
Schroders Property	11
Schroders Bond	12
Appendices	
Performance Calculation	13

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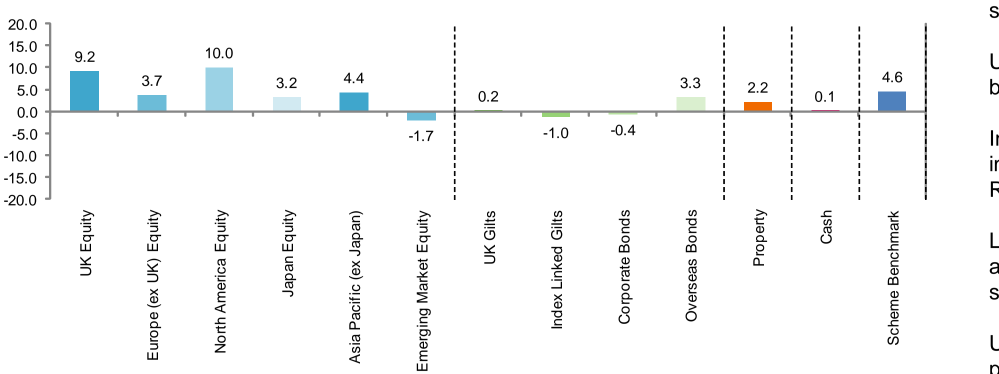
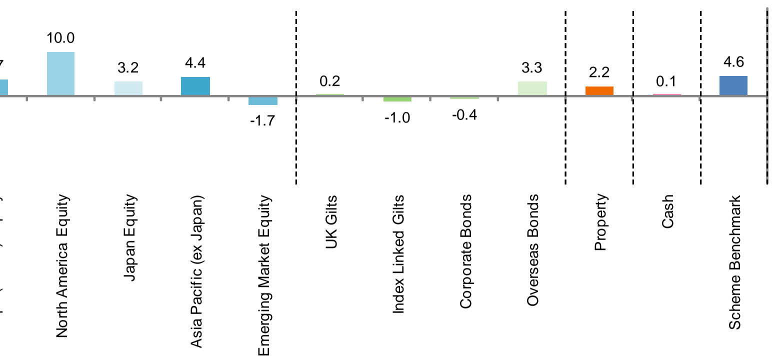
C 5

Historic Returns for World Markets to 30 June 2018

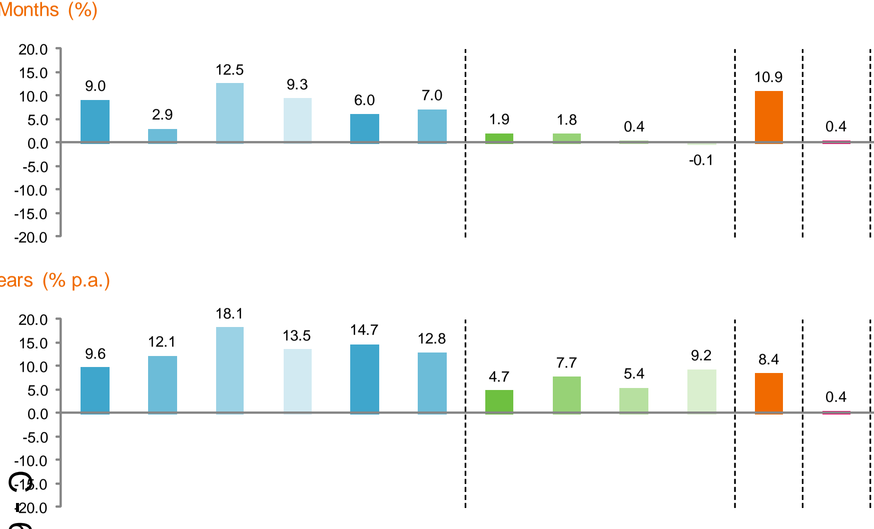
Historic Returns

3 Months (%)





12 Months (%)



Market Comment

GDP numbers confirmed that the pace of global growth had slowed in Q1. Subsequent data and survey evidence suggest that expansion remains intact, with the US recovering momentum but the slowdown persisting elsewhere.

UK CPI inflation fell further, to 2.4% in May. The Bank of England pulled back from a rate rise in May, but a split vote in June has increased speculation about a rise in August.

In contrast, higher energy prices drove headline inflation higher in both the US and Eurozone. The rise in underlying inflation was more modest, but no barrier to a further rate rise from the US Federal Reserve or confirmation that the ECB would end its QE programme at the end of 2018.

Long-dated gilt yields, both conventional and index-linked, were little changed over the quarter. A rise at the start of the period, when a possible rate rise and US economic acceleration dictated investor sentiment, was reversed later, as trade tension raised concern about the outlook for growth.

UK credit spreads widened a little over the quarter from historically low levels. This was in line with the pattern in global credit markets.

Oil prices were again strong. Brent crude rose more than 10%, peaking just above $80 a barrel in May, the highest level since late 2014. A production increase agreed by OPEC in June had little short term effect on prices.

US dollar strength was the main feature of foreign exchange markets. Sterling was the weakest of the major currencies, falling 2% in trade-weighted terms.

Dollar strength drove foreign investors to reduce exposure to emerging markets (EM). Local currency debt was particularly hard hit – broad EM debt indices were down around 5% in sterling terms over Q2. EM equities did only a little better. In contrast, developed market equities bounced back from the downturn in Q1. Global indices (including EM) had returned over 5% by mid-June, before falling back a little as trade conflict intensified. Sterling weakness considerably increased returns to UK investors.

Currency was also a factor in the very strong recovery of UK equities, which saw a reversal of the relatively severe setback in Q1. The market generates a substantial proportion of revenue overseas. The strongest sector over Q2 was Oil & Gas as the oil price strengthened. Financials performed worst, as the changing shape of the US yield curve (short rates rising more than long rates) is typically unfavourable for global banks.

The steady advance of UK commercial property continued to conceal significant sector divergence. Capital values are still rising strongly in the Industrial sector, but drifting lower in Retail.

APPENDIX 2

Capital Market Outlook

Summary of Medium-term Capital Market Views [1]

	March 2018	June 2018	Comment
Index-linked gilts	Cautious to Negative	Cautious to Negative	Real yields on long-dated index-linked gilts remain in the tight trading range of the last year. The pressures that keep yields low may well be sustained, but current valuations imply poor returns for long-term investors.
Conventional gilts	Cautious to Negative	Cautious to Negative	Valuations remain unattractive. There appears to be some relative advantage at medium maturities, but hedging remains expensive at longer maturities. Spreads over LIBOR swaps have continued to reduce as investors seek to exit these positions in favour of gilts/SONIA swaps.
Sterling non-government bonds	Cautious	Cautious	Credit spreads are c25bps above the expensive levels of late 2017 but still look stretched relative to history. ABS spread tightening has diminished the relative advantage over corporate bonds.
Equities	Neutral to Cautious	Neutral to Cautious	Synchronised global economic growth has supported equity markets over the past 18 months, but there is growing regional diversification and questions over its sustainability as monetary policy tightens and global trade disputes continue. Following the Q1 market falls, global equity valuations on an unadjusted P/E basis are now only slightly above historic averages.
Cash Strategies	Neutral	Neutral	With many assets looking stretched on valuations, managers continue to look to benefit from a market correction by holding cash.

APPENDIX 2

C - 7

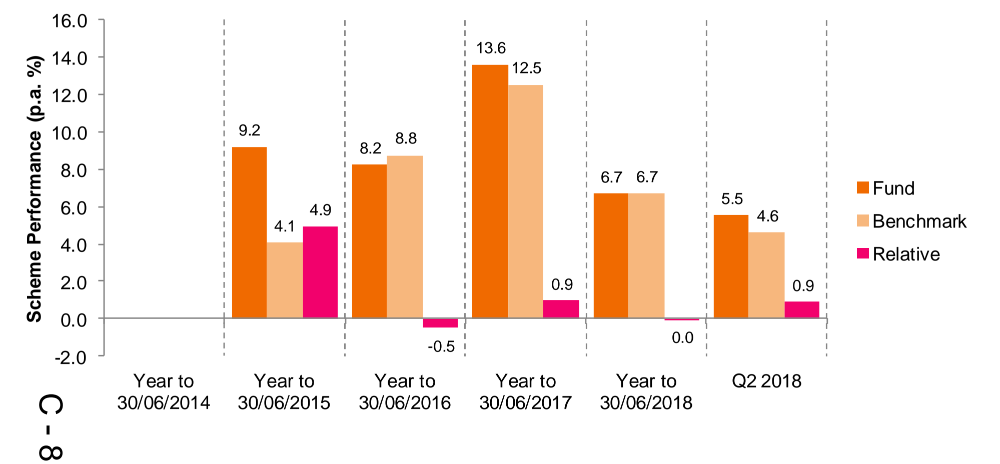
[1] The table summarises our broad views on the outlook for various markets. The ratings used are Positive, Attractive, Neutral, Cautious and Negative. The ratings are intended to give a guide to our views on the prospects for markets over a period of around three years; although they are updated quarterly, they are not intended as tactical calls. The ratings reflect our expectations of absolute returns and assume no constraints on investment discretion. In practice, they need to be interpreted in the context of the strategic framework within which individual schemes are managed.

Portfolio Summary

Manager Valuations

Manager	Value (£m) Q1 2018	Q2 2018	Actual Proportion %	Target Proportion %	Difference %
Majedie UK Equity	123.3	135.3	22.4	22.5	-0.1
Newton Global Equity	220.4	241.1	40.0	32.5	7.5
Baillie Gifford Diversified Growth	81.8	80.8	13.4	15.0	-1.6
Schroders Property	34.6	35.3	5.9	8.0	-2.1
Schroders Fixed Income Fund	110.7	110.6	18.3	22.0	-3.7
Total	**570.8**	**603.1**	**100.0**	**100.0**	0.0

Performance Summary (Gross of Fees) [1]



Executive Summary

The Scheme's assets increased by £32.3m over the quarter, totalling £603.1m as at 30 June 2018. Total returns were positive over Q2, with the Fund returning 5.5% in absolute terms, 0.9% ahead of benchmark.

The main contributor to the Scheme's relative performance was the allocation to both UK and Global equities, with both equity mandates outperforming benchmark and performance target over the quarter. Gains were partially offset by negative returns from the Baillie Gifford diversified growth fund which was adversely impacted by emerging market bond spreads widening (and prices falling).

There were no rating changes to the Fund's managers and all mandates are rated between "Positive" and "Preferred" - although Newton's rating is currently on watch whilst we monitor any impact of the new Chief Investment Officer ("CIO") appointment. More detail on our manager ratings can be found on each individual manager page and at the back of this report.

APPENDIX 2

C - 8

[1] Whole fund performance data is from incpetion of most recently implemented Baillie Gifford mandate in October 2010, 5 yearly whole fund performance will therefore be reported from October 2018.

Manager Summary

Manager Valuations [i]

Manager	Value (£m) Q1 2018	Q2 2018	Actual Proportion %	Target Proportion %	Difference %
Majedie UK Equity	123.3	135.3	22.4	22.5	-0.1
Newton Global Equity	220.4	241.1	40.0	32.5	7.5
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Schroders Fixed Income Fund	110.7	110.6	18.3	22.0	-3.7
Total	**570.8**	**603.1**	**100.0**	**100.0**	0.0

Manager Summary [ii]

Manager	Investment Style	Date Appointed	Benchmark Description	Performance Target (% p.a.)	Rating *
Majedie UK Equity	Active	31 Aug 2009	FTSE All Share	+2% p.a. (net of fees) over rolling 3 years	● (Preferred)
Newton Global Equity	Growth	25 Aug 2009	MSCI AC World	+2% p.a. over rolling 5 years	● (Positive)
Baillie Gifford Diversified Growth	Diversified Growth	30 Oct 2013	UK Base Rate +3.5% p.a.	UK Base Rate +3.5% p.a. (net of fees) over 5 year rolling period	● (Preferred)
Schroders Property	Active	31 Aug 2009	AREF/IPD UK Quarterly Property Fund Index All Balanced Funds Median	Outperform benchmark by 0.5% p.a. (net of fees) over 3 year rolling period	● (Positive)
Schroders Fixed Income Fund	Active	31 Aug 2009	50% iBoxx Gilts and 50% iBoxx Non-Gilts Indices	Outperform benchmark by 1% p.a. (net of fees) over a market cycle before fees	● (Positive)

* For information on our manager ratings, see individual manager pages

Key:- No Rating - Negative - Suitable - Positive - Preferred

APPENDIX 2

C - 9

Source: [i] Fund Manager, [ii] Fund Manager, Hymans Robertson

Performance Summary

Performance Summary [1]

Period	Measure	Majedie UK Equity	Newton Global Equity	Baillie Gifford Diversified Growth	Schroders Property	Schroders Fixed Income Fund	Total Fund
3 Months (%)	Absolute	11.2	8.2	-1.1	2.3	-0.1	5.5
	Benchmark	9.2	6.8	1.0	2.1	-0.0	4.6
	Relative	1.8	1.3	-2.1	0.2	-0.1	0.9
12 Months (%)	Absolute	9.4	8.3	2.4	10.9	2.1	6.7
	Benchmark	9.0	8.9	4.0	10.1	1.3	6.7
	Relative	0.4	-0.6	-1.5	0.7	0.8	0.0
3 Years (% p.a.)	Absolute	9.1	13.6	4.8	9.0	5.8	9.5
	Benchmark	9.6	14.7	4.0	8.4	4.8	9.3
	Relative	-0.4	-0.9	0.8	0.6	0.9	0.1
Since Inception (% p.a.)	Absolute	12.2	13.2	5.0	11.0	6.7	N/A
	Benchmark	9.7	12.6	3.9	10.0	5.8	N/A
	Relative	2.3	0.5	1.0	0.9	0.9	N/A

C - 10

APPENDIX 2

[1] Whole fund performance data is from inception of the most recently implemented Baillie Gifford mandate in October 2010, 5 year whole fund performance will therefore be reported from October 2018.

Majedie UK Equity

HR View Comment & Rating

Rating				
				●
No Rating	Negative	Suitable	Positive	Preferred

We rate Majedie's Equity Strategy at 'Preferred''.

Each of the four portfolio managers run separate portfolios which are combined into a single portfolio for clients; Majedie has a strict discipline of limiting capacity and the strategy is only open for 'replacement business'. Majedie's investment style is flexible but they typically favour contrarian views and portfolios currently have a stronger value bias than normal.

Majedie recently announced that Chris Reid will leave at the end of June to take a postgraduate degree in finance. Imran Sattar will join Majedie in June, along with Mark Wharrier in the autumn. Whilst Chris Reid was not directly involved with this strategy, he was on the wider UK equity team, so played a role in the broader debate and research process and has been on the team for a decade. Majedie have moved quickly and made some high profile recruits to strengthen the team. Overall, we have no immediate concerns about the changes to what has been a stable team over the years.

Performance Summary

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	11.2	9.4	9.1	12.2
Benchmark	9.2	9.0	9.6	9.7
Relative	1.8	0.4	-0.4	2.3

* Inception date 31 Aug 2009.

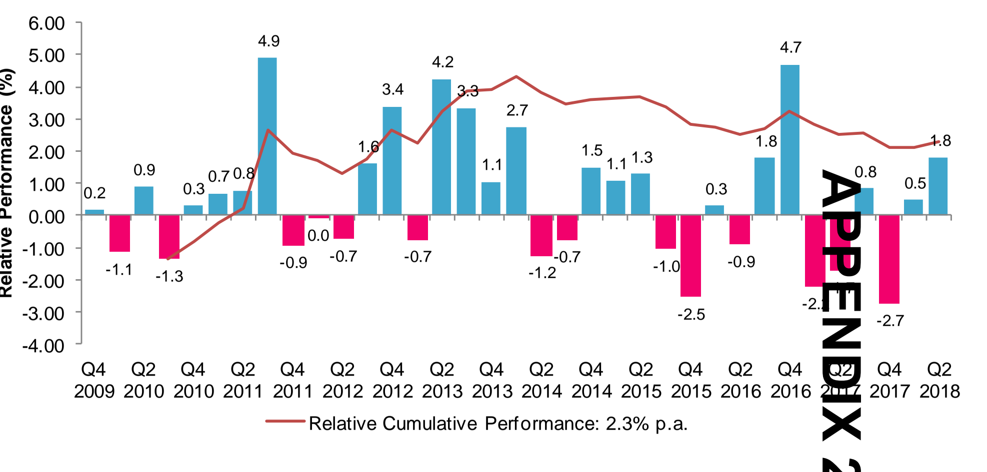
Performance Comment

The actively managed UK equity mandate returned 11.2% over the quarter, outperforming both the FTSE All-share benchmark and performance target (benchmark +2% p.a.). The fund lags the performance target over 12 months and 3 years but is ahead since inception.

Positive performance was driven by holdings in UK Supermarkets (Tesco, J Sainsbury and WM Morrison) which performed well over the quarter, coupled with an announcement of the proposed acquisition of ASDA by J Sainsbury. An underweight position in British American Tobacco also contributed, as the share price dropped owing to a decrease in overall sales of cigarettes over recent years and concerns over the ever-tightening regulation in the sector. The resurgent Oil & Gas sector was also a contributor to positive performance, BP in particular reported strong results which exceeded the expectations of the market.

However, the political situation in Italy continued to detract from performance – the fund's holding in Telecom Italia led the portfolio's underperforming stocks. The dismissal of the CEO and several legacy issues at BT Group continued to weigh on the company's performance. Ryanair also fell back during the quarter on investor concerns surrounding an announcement to invest in the business. However, Majedie believes this to be a positive in the long-term and will consolidate Ryanair's position, retaining the edge on its rivals with regard to cost. The fund continued to reduce exposure to domestic banks Barclays and RBS, along with Asian competitors Standard Chartered and HSBC.

Relative Quarterly and Relative Cumulative Performance



APPENDIX 2

Newton Global Equity

APPENDIX 2

HR View Comment & Rating

Rating				
No Rating	Negative	Suitable	Positive ●	Preferred

We rate Newton's Global Equity mandate at 'Positive - On Watch.'

Newton uses a thematic framework to focus the efforts of its London based global research team. The investment team, led by Jeff Munroe, work closely with the research analysts and construct a portfolio, which typically has a quality bias. In recent years performance has suffered, owing to the fund's too cautious positioning and some stock selection issues. New CIO Curt Custard has come in and is expected to oversee changes to the investment process, which we welcome. Whilst the fund is currently rated a 'Positive', it is 'On Watch' whilst we monitor developments in both the investment process and look for improvements in the team's stock selections.

There have been no significant changes over the quarter. However we continue to assess the impact that new CIO Curt Custard and CEO Hanneke Smits are having.

Performance Summary

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	8.2	8.3	13.6	13.2
Benchmark	6.8	8.9	14.7	12.6
Relative	1.3	-0.6	-0.9	0.5

* Inception date 25 Aug 2009.

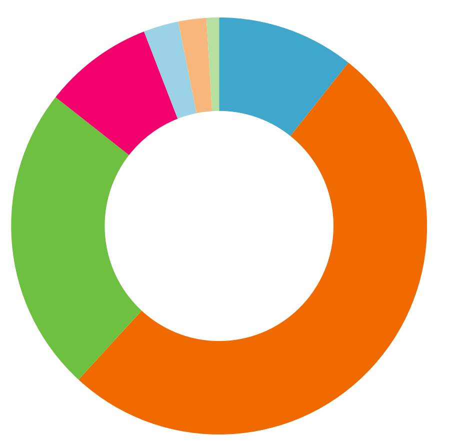
Performance Comment

The Newton global equity portfolio delivered a return of 8.2% over the quarter, 1.3% ahead of the MSCI All Countries World Index benchmark. The fund is ahead of benchmark over 12 months but lags over 3 years.

An underweight allocation to financials was beneficial to the overall performance of the fund, as stock selection in this sector proved fruitful. Stock choices in Information Technology and Consumer Staples also made positive contributions over Q2, despite an overweight allocation to the latter being a detractor from performance overall. A strong quarter for the Oil & Gas sector drew more focus upon the fund's underweight in this sector as it detracted from the portfolio performance. This was exemplified by ConocoPhillips, which has become one of the fund's best performing investments during 2018, benefitting from a rising oil price and investor belief in the shrewdness of their management team.

Stock selection within the healthcare sector was negative over the period. Holdings in the Indian online bank Vakrangee detracted from performance as share priced fell in response to allegations of share price manipulation. The market valuation of the company also continued to drop after the news that PwC had resigned as auditor. The fund has continued to retain the shares but the manager notes that any impact arising from further developments will be limited.

Asset Allocation



APPENDIX 2

Baillie Gifford Diversified Growth

HR View Comment & Rating

Rating				
No Rating	Negative	Suitable	Positive	Preferred ●

The Diversified Growth Fund ("DGF") was launched in December 2008 and is a multi-asset strategy that seeks to deliver a return of cash + 3.5% p.a. (net of fees) over rolling 5 year periods. The fund allocates to a broad range of asset classes and will dynamically alter its asset allocations to take advantage of market conditions.

The team believes that a portfolio can achieve superior risk-adjusted returns by investing across a diversified range of asset classes. A long-term view is taken on the return expectations from each asset class and this is combined with the belief that the team can add value from shorter-term asset allocation decisions and active management. The team takes an absolute return mind-set and in aiming to achieve its performance and risk objectives it believes that the focus should be on protecting investors' assets from capital loss rather than managing risk against any specific benchmark.

The team has articulated its investment philosophy well and backed it up with an investment process that has a real focus on risk, which we view as positive. The performance of DGF has been good since its inception but we note that the level of volatility in markets has been quite low and it has not been significantly tested by difficult markets since its launch in late 2008 (when markets were bottoming out). We have high conviction in the fund's forward looking capabilities however and rate this amongst our preferred multi-asset funds..

Performance Comment

The Baillie Gifford Diversified Growth Fund ('DGF') delivered a return of -1.1% (gross) over the second quarter of 2018, underperforming the UK base rate and the fund's target of UK base rate +3.5% p.a. Longer term performance remains ahead of benchmark.

The main detractor from performance was the allocation to emerging market bonds (which makes up just under 20% of the portfolio), in particular the large exposure to Argentina. Pressures from a stronger US dollar, withdrawal of global liquidity, and the potential for trade wars to ensue contributed to a period of underperformance for emerging markets, with bond yields rising and local currencies falling. The holding in this asset class was slightly trimmed and new positions were implemented in Brazilian and South African debt where Baillie Gifford see an improving economic backdrop. An overweight position to the Argentine peso has also been exited.

Along with listed equities, property was a strong contributor to performance, especially German residential, European commercial, and UK and European logistics. Holdings in renewables funds performed well and exposure to Private Finance Initiative funds ('PFIs') recovered from a weaker first quarter.

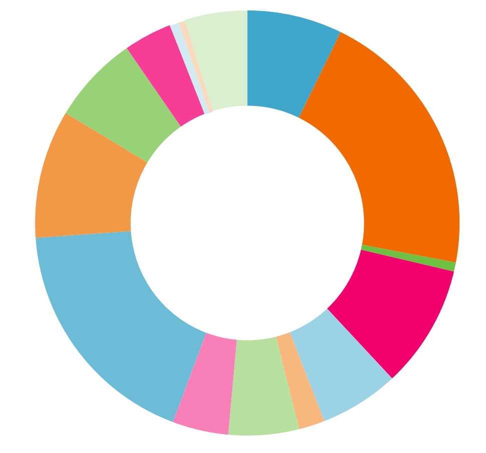
The quarter saw an increase in the allocation to insurance-linked securities which have attractive diversifying properties along with a new position which Baillie Gifford hopes will benefit from anticipated movements in oil prices over the next 12-18 months. Allocations to listed equities and various credit holdings have been reduced following periods of strong performance.

Performance Summary

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-1.1	2.4	4.8	5.0
Benchmark	1.0	4.0	4.0	3.9
Relative	-2.1	-1.5	0.8	1.0

* Inception date 30 Oct 2013.

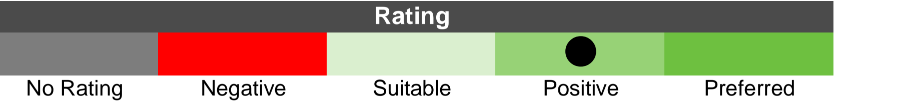
Asset Allocation [i]



Source: [i] Fund Manager

Schroders Property

HR View Comment & Rating



Schroders has announced that Jessica Berney will take over from James Lass as the Lead Fund Manager of the fund on 1 September 2018. Berney, who was Deputy Fund Manager, currently oversees the fund's retail investments and has 13 years' experience. Lass, who has been Lead Fund Manager since 2013, will move to a new role within Schroder's property division, specifically focussing on value-add property investments. Our research team will continue to monitor developments closely, but expect no material impact to the running of the fund.

We continue to rate the Schroders Real Estate Fund at "Positive".

Performance Summary

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.3	10.9	9.0	11.0
Benchmark	2.1	10.1	8.4	10.0
Relative	0.2	0.7	0.6	0.9

* Inception date 31 Aug 2009.

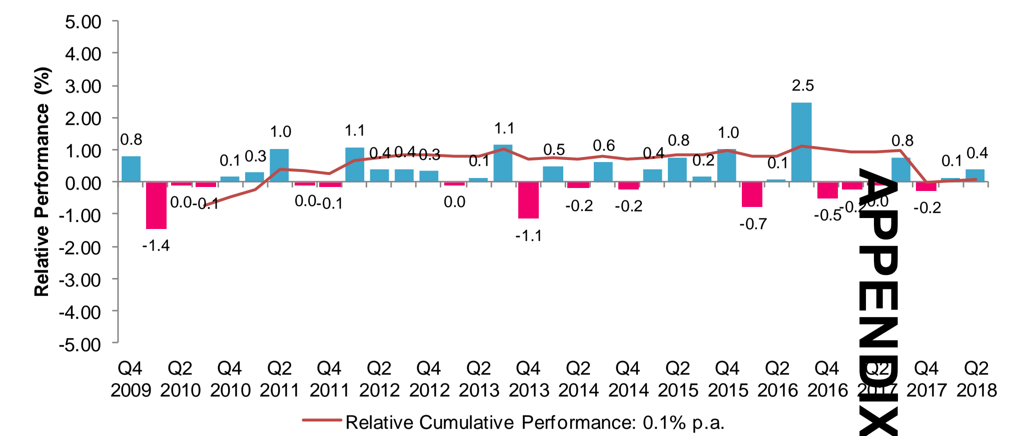
Performance Comment

Over the quarter, the fund delivered a return of 2.3%, marginally outperforming its benchmark by 0.2%. The fund has outperformed its benchmark over all longer time periods.

The UK property market is becoming increasingly polarised as London offices and retail struggle while regional offices and industrials assets continue to see value appreciation. Retail property fell in value over the second quarter, as several high street retailers and restaurant chains found themselves in financial difficulty. Some went into insolvency whereas others entered into Company Voluntary Arrangements (CVAs), which allow them to renegotiate their rent. Over the quarter, the industrial portfolio performed well adding strongly to the overall return as the sector continued to be buoyed by the high occupier demand for the fund's office and industrial properties.

The manager retained an intentional 6.7% underweight allocation to the retail sector over Q2 of 2018, which served the fund well over the period. The only notable transaction for the quarter was the sale of car showroom, Motor Rail LP, for £1.1m. There were no purchases over Q2. The void rate continued to decline which was positive for the fund, falling from 7.1% in Q1 to 6.7% in the second quarter of 2018. In outlook terms, the manager believes there is now no longer one single UK real estate cycle and that its strategy of targeting a diversified portfolio of industrial and office holdings in large population centres will continue to deliver attractive performance.

Relative Quarterly and Relative Cumulative Performance



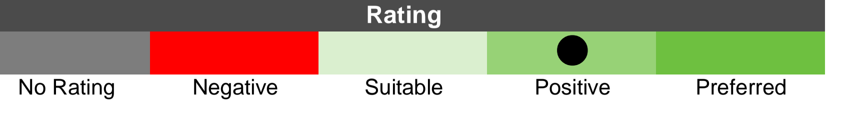
APPENDIX 2

C - 14

Hymans Robertson LLP

Schroders Bond

HR View Comment & Rating



We rate Schroders Fixed Income at 'Positive'.

There were no significant developments over the quarter.

Performance Summary

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.1	2.1	5.8	6.7
Benchmark	-0.0	1.3	4.8	5.8
Relative	-0.1	0.8	0.9	0.9

* Inception date 31 Aug 2009.

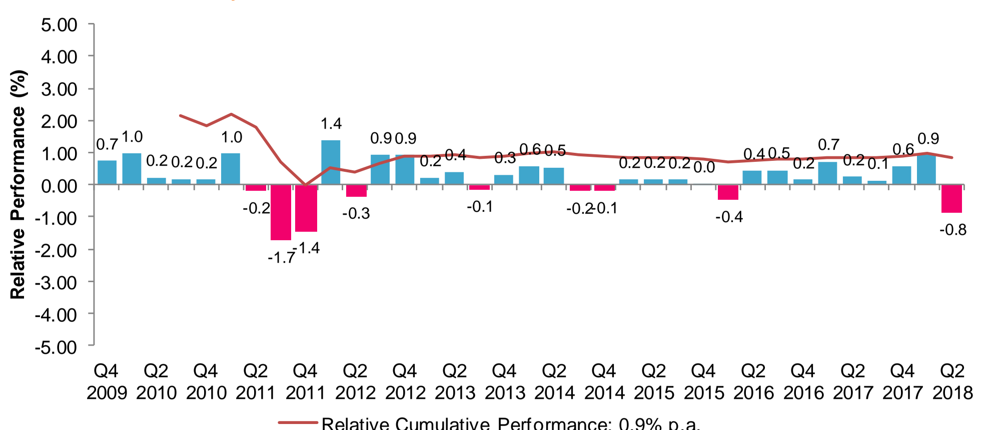
Performance Comment

The Schroders fixed income portfolio returned -0.1% during Q2 2018, broadly in line with the benchmark return but behind the performance target of +0.75% p.a. Over the longer time periods considered the Fund is ahead of both benchmark and performance target, with relative returns of +0.9% p.a. over 3 years and +0.9% over 5 years.

Spreads widened over Q2 as concerns grew over tighter monetary policy, rising trade tension and Eurozone political risk. Investment grade credit underperformed government bonds as risk-off sentiment prompted a flight to quality and fall in government yields. Performance was further hampered by rising rates and a resurgent US dollar which confirmed Q2 2018 as the worst performing market quarter and 2018 as the worst year to date for emerging market debt.

Local currency yields and hard currency spreads are now as high as they were amid market turmoil in early 2016. The manager did take the opportunity to add to an overweight position to the property sector along with exposure to favoured UK banks, citing stronger balance sheets as the main draw and believe that the recent slowdown across Europe has presented attractive opportunities across the Euro- and Sterling-denominated space. They expect an increased level of volatility to create more security selection opportunities.

Relative Quarterly and Relative Cumulative Performance



Performance Calculation

Geometric vs Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

((1 + Fund Performance) / (1 + Benchmark Performance)) - 1

Some industry practitioners use the simpler arithmetic method as follows:

Fund Performance - Benchmark Performance

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture:

	Arithmetic Method			Geometric Method			Difference
Period	Fund Performance	Benchmark Performance	Relative Performance	Fund Performance	Benchmark Performance	Relative Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%	**0.10%**
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%	**-1.24%**
Linked 6 months			-0.25%			0.96%	**-1.21%**
6 Month Performance	36.96%	35.66%	1.30%	36.96%	35.66%	0.96%	**0.34%**

Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.
If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.
If fund performance is measured half yearly, an identical result is produced.

The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.

Hymans Robertson LLP

Summary of Manager Rating System

We are making changes to the system we use for rating investment managers and their strategies. This note provides an overview of these changes, including the motivation for making them and the implications for clients.

Rating	Comment
Preferred	One of our highest rated strategies in the asset class.
Positive	We have a positive opinion on the strategy and believe it has a high possibility of reaching its objectives. But we believe there are superior strategies available.
Suitable	We believe the strategy is suitable for pension scheme investors from a regulatory perspective, but we have no strong view on its forward-looking prospects.
Negative	We have a negative outlook for the strategy relative to peers.

The old ratings system is summarised in the following table:

Rating	Recommendation	Comment
5	Preferred	Currently preferred high conviction strategy for the chosen asset class.
4	Retain	Minor concerns but remains a favoured strategy with a high probability of success.
3	On Watch	Retain but concerns are serious; meaningful risk of downgrade in coming months.
2	Sell – Review Options	Operationally sound but we have lost long-term confidence. Options and exit costs should be evaluated.
1	Sell – Immediate	Deterioration sufficiently serious for immediate, high priority exit.

Summary of key changes

The key changes under the new system are described below, along with the rationale for each change.

a) Greater granularity on our degree of conviction

The new ratings system has three favourable ratings ('Preferred', 'Positive' and 'Suitable') compared to the two afforded under the old system ('5 – Preferred' and '4 – Retain'). This allows the Research Team greater granularity to express their views on a given strategy. The highest rating will still be referred to as 'Preferred' but we expect that the proportion of strategies with such a rating will fall as we move to a higher conviction approach where the bar will be set higher for a strategy to be assigned a 'Preferred' rating. A 'Positive' rating will be assigned where we have high conviction in the strategy's prospects but there are some minor issues that is preventing a 'Preferred' rating when compared to the wider peer group. The 'Suitable' rating is described below.

b) Introduction of a 'Suitable' rating

One of the most significant developments under this new ratings system is the introduction of a 'Suitable' rating. Strategies that have been assigned this rating are those regarded as being suitable for client investment from a regulatory perspective, but where we do not have a strong view, either positively or negatively, on its forward-looking prospects. In such an instance, we will have higher rated strategies that we believe are stronger but do not have any reason to assign a lower rating. In addition, the development of defined contribution ("DC") platforms over recent years has significantly increased the number of funds that self-select members can invest in. The inclusion of a 'Suitable' rating will allow a lighter touch due diligence process to be carried out on a fund more quickly and at a lower cost to clients than the full due diligence process.

C - 17

c) Use of 'On Watch'

The old ratings system had a distinct '3 – On Watch' rating. The new system does not; instead, 'On Watch' will be deployed as an additional flag rather than a distinct rating. In practice, this means that were a significant event to happen to a 'Preferred' manager, we would highlight that the rating is 'On Watch' through our regular communication rather than downgrading the manager. This should prevent excessive (and unnecessary) changes in ratings relating to one-off events.

d) Removal of 'Sell' ratings

The two different sell ratings in the old ratings system are being condensed into one single rating, a 'Negative' rating', which indicates a negative outlook for the strategy's prospects. This change places greater emphasis on specific client circumstances. Under some circumstances it may still be appropriate for the client to remain invested in the strategy. The removal of the word 'sell' also affords greater flexibility to clients who are perhaps using the manager tactically and are willing to tolerate the risks of being invested in a strategy the Research Team has a negative outlook on.

e) 'Not Rated' strategies

Funds that we do not actively research will be explicitly described as 'Not Rated'. Such funds will usually be those that we have either screened out of our investment process or have carried out insufficient due diligence to form any opinion. This rating will be more applicable to funds that are available as self-select options, where the range of funds is quite wide. For not-rated strategies, we can undertake a bespoke lighter touch assessment where a client would like us to.

Migration from old ratings system

Preferred: Essentially equivalent to the old 5 rating. Most 5 rated strategies (but not necessarily all) have migrated to Preferred, but we expect the proportion of strategies with such a rating to decline in time as we focus our research resource on a concentrated list of Preferred managers.

Positive: Essentially equivalent to the old 4 rating. Most 4 rated strategies have migrated to Positive, but many will migrate to Suitable (see below) in time.

Suitable: These strategies that we consider appropriate for client investment, but where we have a neutral view or no strong view on the capabilities of the manager to outperform. We will have typically carried out a lighter touch assessment and have identified no reason to assign a lower rating. We expect to use this rating frequently in DC schemes and for strategies used only by very small number of clients. We may also use the Suitable rating for bespoke strategies that are offered by few asset managers where our goal is to identify managers capable of delivering the strategy rather than ranking managers from a wide universe.

Negative: This replaces both of the old Sell ratings, which will migrate to this new rating. Consistent with the old ratings, this reflects particular concerns about the manager or the process. In contrast to the old ratings system, we recognise explicitly that any decision to sell has to be made in the context of a client's overall investment arrangements.

Summary

Overall we believe the changes to the ratings system will allow us to apply higher conviction to our ratings, using a more granular approach. No action is required by clients, however should you have any questions regarding these changes then please do not hesitate to contact your client consultant.