APPENDIX 2

HYMANS ROBERTSON

Isle of Wight Council Pension Fund

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

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For and on behalf of Hymans Robertson LLP
November 2018

Hymans Robertson LLP

Contents

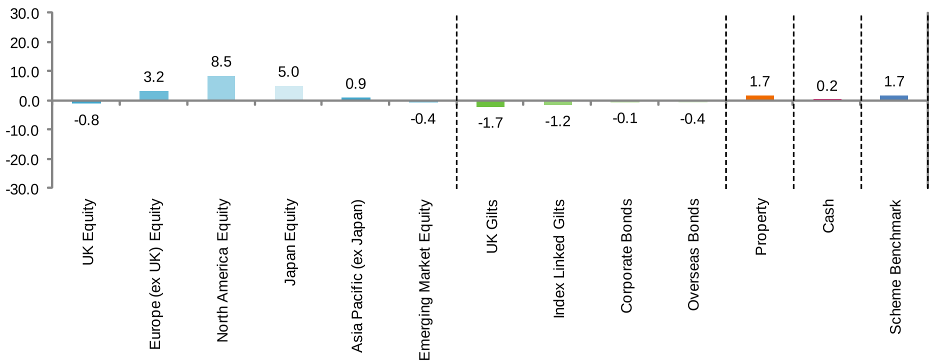
Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.

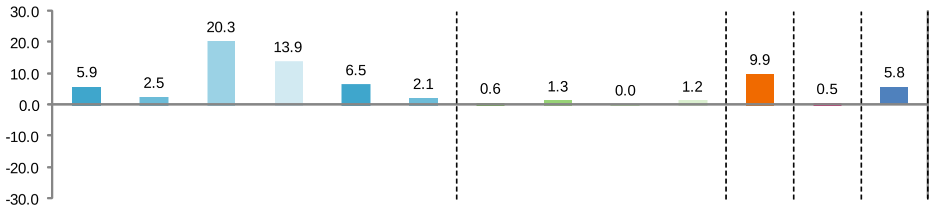
Historic Returns for World Markets to 30 September 2018

Historic Returns

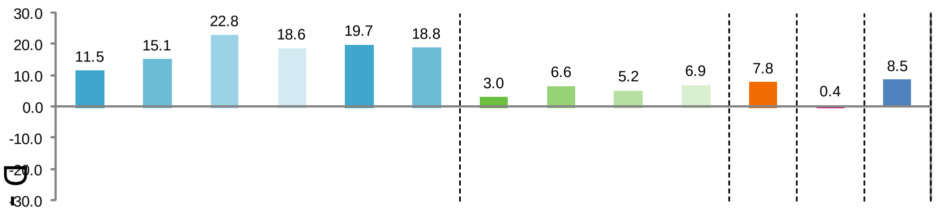
3 Months (%)



12 Months (%)



3 Years (% p.a.)



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Market Comment

Data releases confirmed a pick-up in global growth in Q2. The US, boosted by recent tax cuts, led the way, recording its highest quarterly growth for almost four years. Japan and the UK bounced back after a poor Q1. In the Eurozone, growth was at the same level as in Q1.

The downward trend in UK CPI inflation was interrupted by an unexpected jump in August. Before that had been released, the Bank of England had, as expected, raised interest rates from 0.5% p.a. to 0.75% p.a., citing a limited degree of ‘slack’ in the UK economy.

The Fed’s preferred measure of inflation rose above its 2% target. US interest rates were raised again in September, the third time this year and the eighth since 2015.

Long-dated gilt yields rose over the quarter, matching similar moves in the US. The rise in index-linked gilt yields was a little less, perhaps reflecting August’s inflation surprise and rising concerns about Brexit.

Speculative grade credit markets outperformed investment grade over the quarter. Total returns were less impacted by rising underlying government yields, given the lower duration of the high yield market.

Oil prices rose again, as the US re-imposed sanctions on Iran, the Venezuelan economy imploded, and OPEC and Russia ignored US requests to increase output. Brent crude reached a 4-year high of $82 a barrel in September.

Despite some Brexit-induced fluctuations, sterling ended the quarter only marginally lower on a trade-weighted basis. Moves among the major currencies were fairly subdued, while many emerging market currencies regained their composure towards the end of the period.

Global equities continued their rise into Q3, setting new record levels. Returns to UK investors were again boosted by currency weakness, but the effect was more muted than in Q2. North America was again the best regional performer. The UK was the worst, underperforming global averages across most sectors, which may indicate that Brexit concerns were to blame. Emerging markets also underperformed but indices did stabilise, following the 5% fall in Q2.

Global sector returns showed no consistent pattern. The best performance was from the defensive Healthcare sector, perhaps a surprise during a period of overall market strength.

The UK commercial property market carried on with its steady advance. Sector divergence has, if anything, increased: retail values have fallen over the last year, while industrial values are 16% higher.

Capital Market Outlook

Summary of Medium-term Capital Market Views [1]

	June 2018	September 2018	Comment
Index-linked gilts	Cautious to Negative	Cautious to Negative	The pressures that keep yields low may well be sustained, but current valuations imply poor returns for long-term investors. Real yields on long-dated index-linked gilts remain unattractively low.
Conventional gilts	Cautious to Negative	Cautious	Valuations remain unattractive, although with higher implied inflation over the quarter, conventional gilts now look more attractive relative to index-linked gilts. The market is susceptible to volatility depending on Brexit news flow, but it is far from clear how gilts will react to changing assessments of the type of deal that seems likely.
Sterling non-government bonds	Cautious	Cautious	Following a period of widening, Investment Grade credit spreads narrowed slightly over the quarter, and are below long term medians. Coupled with low underlying interest rates, yields are unattractive. Corporate fundamentals remain positive, albeit earnings growth is unsustainable. Central policy and trade tensions may provide a potential headwind to global investor sentiment.
Equities	Neutral to Cautious	Neutral to Cautious	Equity fundamentals look strong over the short term, although current earnings growth rates are unlikely to prove sustainable over the medium-term. Strong equity fundamentals are fully reflected in end September valuation multiples for US and global equities, which are above historical averages on most metrics. Investor sentiment could be vulnerable to the impact of the withdrawal of liquidity and any escalation in the global trade disputes.
Cash Strategies	Neutral	Neutral	This feels like a sensible time to hold more cash as ‘dry powder’ to exploit better buying opportunities in the future.

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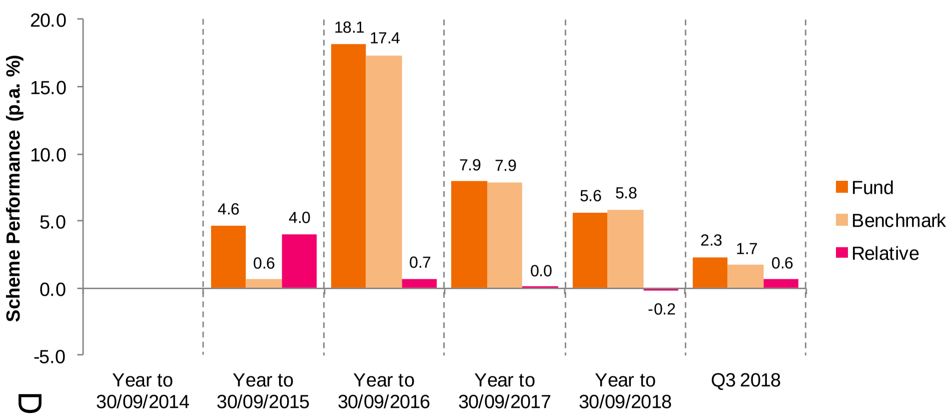
[1] The table summarises our broad views on the outlook for various markets. The ratings used are Positive, Attractive, Neutral, Cautious and Negative. The ratings are intended to give a guide to our views on the prospects for markets over a period of around three years; although they are updated quarterly, 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) Q2 2018	Value (£m) Q3 2018	Actual Proportion %	Target Proportion %	Difference %
Majedie UK Equity	135.3	130.7	21.3	22.5	-1.2
Newton Global Equity	241.1	257.8	41.9	32.5	9.4
Baillie Gifford Diversified Growth	80.8	80.8	13.2	15.0	-1.8
Schroders Property	35.3	36.0	5.9	8.0	-2.1
Schroders Fixed Income Fund	110.6	109.4	17.8	22.0	-4.2
Total	**603.1**	**614.6**	**100.0**	**100.0**	0.0

Performance Summary (Gross of Fees) [1]



Executive Summary

The Scheme's assets increased by £11.5m over the quarter, totalling £614.6m as at 30 September 2018. Total returns were positive over Q3, with the Fund returning 2.3% in absolute terms, 0.6% ahead of benchmark. The main contributor to the Scheme's relative performance was the allocation to global equities, with the Newton global equity mandate outperforming benchmark by 1.6%, with the significant overweight to this fund further contributing. Gains were partially offset by negative returns from the Baillie Gifford diversified growth fund and Majedie UK equity fund.

There were no rating changes to the Fund's managers and all mandates are rated between "Positive" and "Preferred". We had placed Newton's rating on watch whilst we monitored the impact of the new Chief Investment Officer ("CIO") appointment. However, following recent meetings with the fund management team and the new CIO, we are satisfied with the new team structure and believe that Newton are making any necessary changes to their investment process. Whilst we recognise that these changes will take some time to take effect, we believe that sufficient action is being taken to remove the 'On Watch' marker. More detail on our manager ratings can be found on each individual manager page and at the back of this report.

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[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) Q2 2018	Value (£m) Q3 2018	Actual Proportion %	Target Proportion %	Difference %
Majedie UK Equity	135.3	130.7	21.3	22.5	-1.2
Newton Global Equity	241.1	257.8	41.9	32.5	9.4
Baillie Gifford Diversified Growth	80.8	80.8	13.2	15.0	-1.8
Schroders Property	35.3	36.0	5.9	8.0	-2.1
Schroders Fixed Income Fund	110.6	109.4	17.8	22.0	-4.2
Total	**603.1**	**614.6**	**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

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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	-2.4	7.3	0.2	2.0	-1.1	2.3
	Benchmark	-0.8	5.6	1.0	1.7	-1.1	1.7
	Relative	-1.6	1.6	-0.9	0.3	0.0	0.6
12 Months (%)	Absolute	3.7	15.6	1.2	10.5	0.9	5.6
	Benchmark	5.9	13.0	4.1	9.3	0.3	5.8
	Relative	-2.1	2.4	-2.8	1.1	0.6	-0.2
3 Years (% p.a.)	Absolute	10.8	17.6	5.6	8.9	4.7	8.4
	Benchmark	11.5	19.2	4.0	8.0	3.7	8.5
	Relative	-0.6	-1.3	1.5	0.8	1.0	-0.1
5 Years (% p.a.)	Absolute	8.1	13.7	4.8	12.0	6.2	7.7
	Benchmark	7.5	13.5	4.0	10.8	5.3	6.7
	Relative	0.6	0.2	0.8	1.1	0.9	0.9

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[1] 5 Year whole fund performance data is from inception of the most recently implemented Baillie Gifford mandate in October 2013, 5 year whole fund performance will therefore be reported from Q4 onwards.

Majedie UK Equity

HR View Comment & Rating

Rating				
				●
No Rating	Negative	Suitable	Positive	Preferred

In terms of the wider UK Equity Team, earlier this year Majedie announced that Chris Reid was leaving to return to academia. At the same time, Majedie announced that Imran Sattar and Mark Wharrier would be joining to replace Reid on the UK Focus and UK Income Funds respectively. Whilst Chris Reid has been on the team for a decade, the other UK equity managers have a longer tenure at Majedie. These two new recruits represent something of a coup for Majedie, both being reasonably high profile names that Majedie have attracted from firms with a good name in UK equities. Overall, we have no concerns about the changes and will not be changing the fund rating or placing it on watch. However, we will be meeting with Majedie in the next quarter, so will provide further views on the team changes after that.

We continue to rate Majedie's UK Equity Strategy at 'Preferred'.

Performance Summary

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-2.4	3.7	10.8	11.6
Benchmark	-0.8	5.9	11.5	9.4
Relative	-1.6	-2.1	-0.6	2.0

* Inception date 31 Aug 2009.

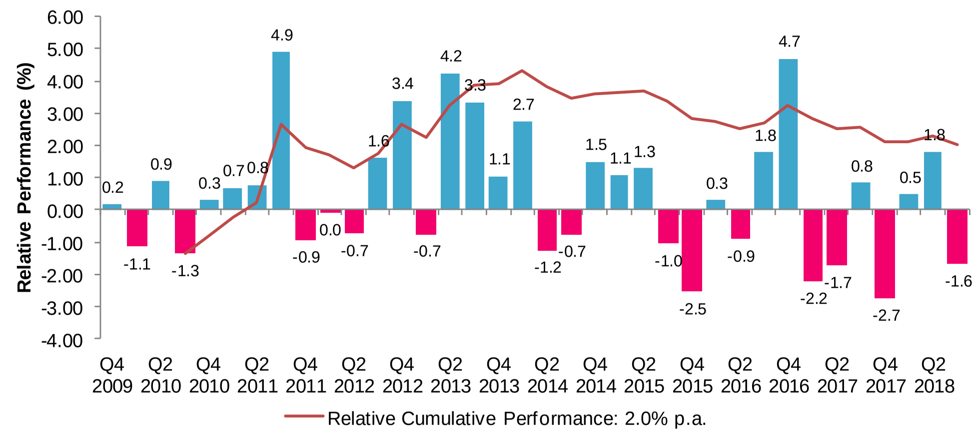
Performance Comment

The actively managed UK equity mandate returned -2.4% over the quarter, underperforming both the FTSE All-share benchmark and performance target (benchmark +2% p.a.). The fund continues to lag the performance target over 12 months and 3 years but is ahead since inception.

An underweight allocation to AstraZeneca was a key detractor from performance as its cancer treatment drug, Imfinzi, emerged well from a study – the company released data which claimed that the drug reduced risk of death in patients at more advanced stages of the disease by up to 32%. Shares in the company rose c14% during Q3 alone. A considerable overweight to Tesco was also detrimental to the portfolio's performance over the quarter as shares drifted lower, wiping out a portion of the strong gains made over the British summer. Ryanair declined for a second quarter as the company was affected by strike action and the hike in oil prices substantially increasing costs for the airline.

For a second consecutive quarter, an underweight allocation to British American tobacco was a contributor to the performance of the fund, as stock price fell c.6% during Q3 and c.27% since the start of the year amidst fears of unsustainable long term growth. Holdings in WM Morrison continued to provide an uplift to the portfolio, investor sentiment was positive - responding to a special dividend payment and improved customer satisfaction results. An overweight allocation to BP was also a contributing factor over the third quarter of the year, as oil prices continued their ascent to over $80 per barrel, buoyed by geopolitical uncertainty and tightening supply.

Relative Quarterly and Relative Cumulative Performance



Hymans Robertson LLP

Newton Global Equity

HR View Comment & Rating

Rating				
No Rating	Negative	Suitable	Positive ●	Preferred

We rate Newton's Global Equity strategy as 'Positive.'

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. Over recent years, a number of issues have arisen (senior management changes, questions over the functioning of the thematic process and some stock selection issues). As a result of these, we downgraded the rating and placed the strategy 'On Watch.' However, following recent meetings with the fund management team and the new CIO, we are satisfied with the new team structure and believe that Newton are making the necessary changes to their investment process. Whilst we recognise that these changes will take some time to take effect, we believe that sufficient action is being taken to remove the 'On Watch' marker. However, we will continue to monitor developments in the investment process and look for improvements in the team's stock selections. During the quarter, Newton Investment Management announced Andrew MacKirdy has joined the Global Income team to work alongside Nick Clay. He will become a fund manager on the strategy subject to regulatory and board approvals and brings 20 years of investment experience. In addition, Sustainable Global Equity portfolio manager Terry Coles left the Global Equity team to return to the wealth management industry while Rebecca White has joined as a Responsible Investment Analyst to bolster the team.

Performance Comment

The Global Equity fund returned 7.3% over the quarter, outperforming its comparative benchmark by 1.6%. Over the longer 12 month period, the fund outperformed its benchmark by 2.4% delivering a strong absolute performance of 15.6%.

Global equities continued their rise in to Q3, setting new record levels. US equities were the strongest performing region throughout this period with benefits arising from tax cuts outweighing concerns surrounding the US China trade wars. The UK was the worst performing region, underperforming global averages across most sectors, which may indicate rising concerns surrounding Brexit. Despite the fund's underweight position to North American equities relative to the MSCI All Countries World Index, strong stock selection within this region generated significant returns in Q3. The fund continues to hold an overweight position to the technological sector which again assisted performance however this position would have acted as a headwind to performance in October following the equity market sell off.

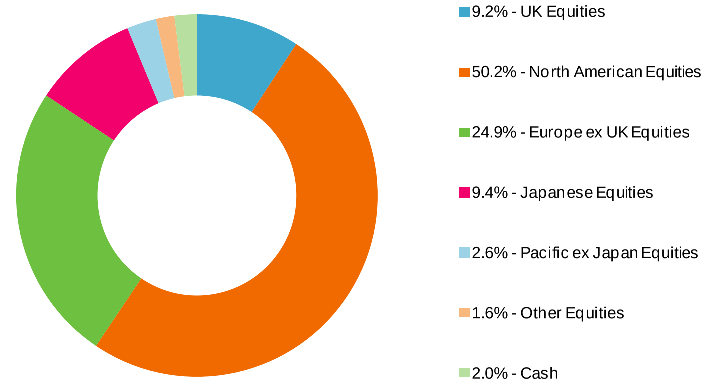
The fund's overweight allocation to consumer staples hindered performance as both stock and sector selection delivered negative performance in Q3. The overweight position to the consumer staples sector relative to benchmark reflects the manager's more defensive market outlook. The fund's market outlook remains cautious, with continuing tightening of monetary policies expected to occur in developed markets. The fund believes stock selection will be of increasing importance, as asset markets will have to deal with the tightening of liquidity and returns are expected to suffer consequently. Newton remain focused on the underlying characteristics of each business they invest in and avoid companies that rely on balance-sheet leverage to drive growth.

Performance Summary

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	7.3	15.6	17.6	13.7
Benchmark	5.6	13.0	19.2	12.9
Relative	1.6	2.4	-1.3	0.7

* Inception date 25 Aug 2009.

Asset Allocation



Hymans Robertson LLP

Baillie Gifford Diversified Growth

HR View Comment & Rating

Rating				
No Rating	Negative	Suitable	Positive	Preferred ●

We rate Baillie Giffords Diversified Growth fund at 'Preferred'.

Baillie Gifford have announced the opening of an office in Dublin. The office will not be staffed by any investment professionals but will help mitigate operational risk amid the ongoing uncertainty surrounding Brexit. There were no other significant developments over the quarter.

Performance Summary

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.2	1.2	5.6	4.8
Benchmark	1.0	4.1	4.0	4.0
Relative	-0.9	-2.8	1.5	0.8

* Inception date 30 Oct 2013.

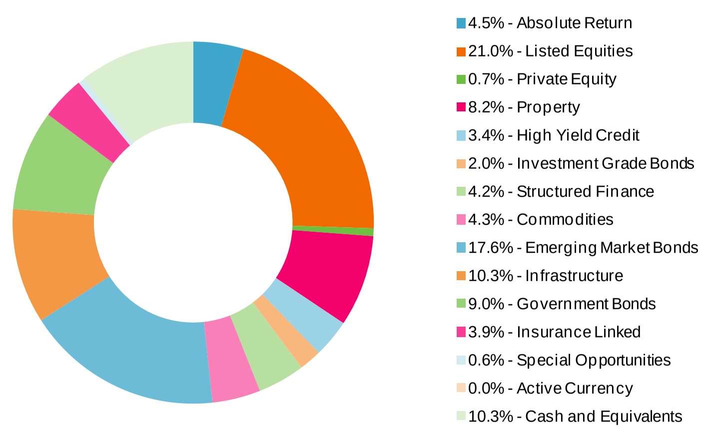
Performance Comment

The Baillie Gifford diversified growth fund (“DGF”) returned 0.2% over the third quarter of 2018, in line with UK base rate but underperforming the fund's target of UK base rate + 3.5% p.a. The Fund has not achieved its target over the past 12 months but longer term performance remains considerably ahead of benchmark and target.

The biggest detractors to performance over the quarter were commodities, emerging market bonds and active currency. Within commodities, the position in nickel detracted as the price fell on the back of trade-related news flow. Over the longer term, however, nickel has performed well. The manager remains confident in its ability to perform and added to the position. In emerging markets, the fund suffered from its positions in countries such as Indonesia and Argentina who have been particularly hard hit due to concerns over the level of their current account deficit and their reliance on foreign investment and financing which has been made all the more challenging by a rising US dollar. Baillie Gifford have been increasing the defensive positioning of the portfolio, modestly reducing the exposure to economically sensitive assets such as listed equities, property and emerging market bonds and increasing commitment to assets that will protect the fund in times of volatility (cash, commodities and volatility futures).

Infrastructure and listed equity were the two main contributors to performance over Q3. Infrastructure performance was spearheaded by the allocation to UK PFI funds where the takeover of the John Laing Infrastructure Fund (JLIF) seems to have dampened concerns of re-nationalisation. Improved sentiment as a result provided a tailwind for the rest of the sector over the quarter.

Asset Allocation [i]



Source: [i] Fund Manager

Hymans Robertson LLP

Schroders Property

HR View Comment & Rating

Rating				
No Rating	Negative	Suitable	Positive ●	Preferred

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.

We continue to rate this fund as 'Positive'.

Performance Summary

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.0	10.5	8.9	10.9
Benchmark	1.7	9.3	8.0	9.9
Relative	0.3	1.1	0.8	1.0

* Inception date 31 Aug 2009.

Performance Comment

Over the quarter, the fund delivered a return of 2.0%, marginally outperforming its benchmark by 0.3%. The fund has outperformed its benchmark over all longer time periods by approximately 1.0% p.a.

The third quarter of the year offered no evidence that the secular shift of the UK property market had slowed. London offices and retail are struggling while regional offices and industrial assets continue to see value appreciation. Bar the market for office space in the City of London, most office and industrial property markets are in supply and demand equilibrium. The manager believes this to be a sign that these markets are prepared to withstand any economic weakness.

Over the quarter, the industrial portfolio performed well adding strongly to the fund's overall return. The fund's industrial assets benefited from high demand and supply constraints so as to see value uplifts. The manager continued to retain a structural underweight to retail which again boosted performance. Like last quarter, the only notable transaction during Q3 was the sale of another car showroom, Motor Rail LP, for £1.1m. A number of long-term leases were signed across the fund's portfolio of office and retail assets. 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.

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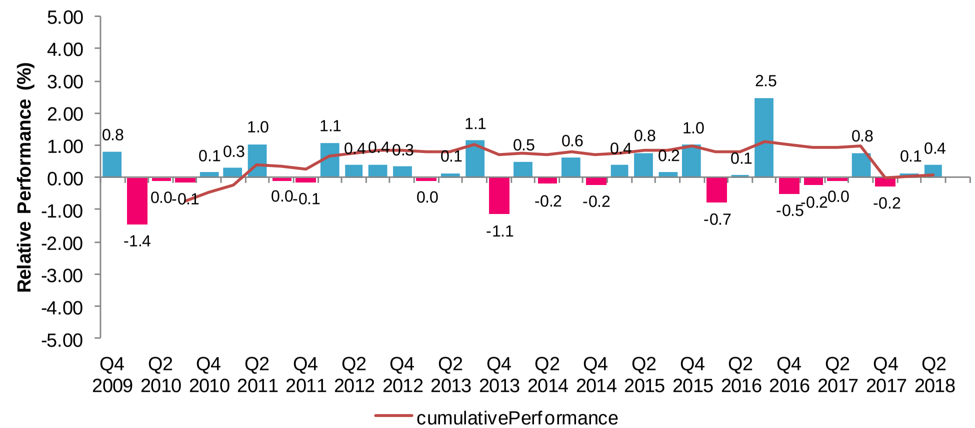
Relative Quarterly and Relative Cumulative Performance



Schroders Bond

HR View Comment & Rating

Rating				
No Rating	Negative	Suitable	Positive ●	Preferred

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	-1.1	0.9	4.7	6.4
Benchmark	-1.1	0.3	3.7	5.5
Relative	0.0	0.6	1.0	0.8

* Inception date 31 Aug 2009.

Performance Comment

The Schroders fixed income portfolio returned -1.1% during Q3, broadly in line with the benchmark return but behind the performance target of benchmark +0.75% p.a. Over the longer time periods considered the fund is ahead of both benchmark and performance target, with relative returns of +1.0% p.a. over 3 years and +0.8% p.a. over 5 years.

The fund's underweight to emerging market debt proved beneficial for returns after a broad sell-off in emerging markets midway through Q3, fuelled by concerns over the ability of emerging market economies to service their deficit in the wake of a strengthening US dollar. The fund's underweight allocation to US interest rates also contributed as the Federal reserve raised US rates with an expectation of further future rate rises. An overweight allocation to sterling high yield and investment grade corporate bonds also added to positive performance during the quarter, as spreads narrowed.

The manager decided to close out the fund’s exposure to Italian bonds during the quarter after the new coalition government’s budget proposals (to increase their budget deficit from 1.6% to 2.4% of GDP) were not looked upon favourably by the European Union, which continued to add pressure on Italy to progressively lower its high level of debt. Broadly speaking, European growth has stabilised but has failed to meet expectations of the manager in terms of progress.

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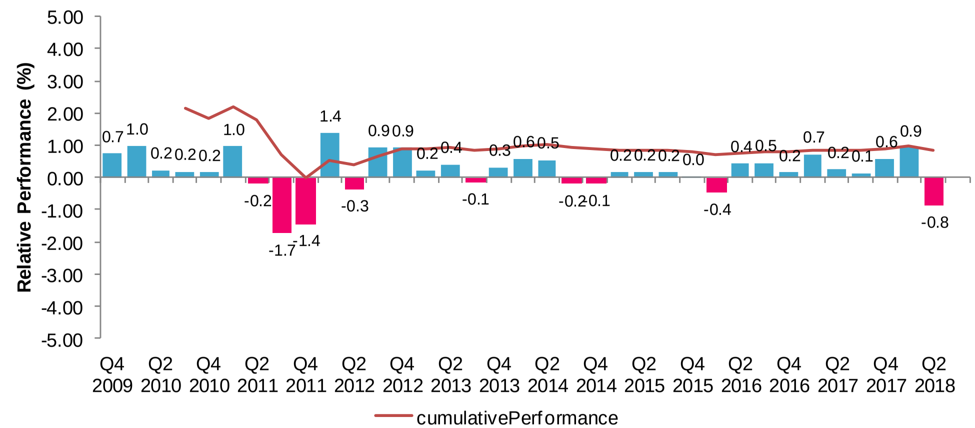
Relative Quarterly and Relative Cumulative Performance



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.

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