HYMANS ROBERTSON

Isle of Wight Council Pension Fund

Review of Investment Managers' Performance for the Third Quarter of 2019

Prepared By:

David Walker - Partner
Emma Garrett - Associate Investment Consultant
Eoin Spence - Investment Analyst

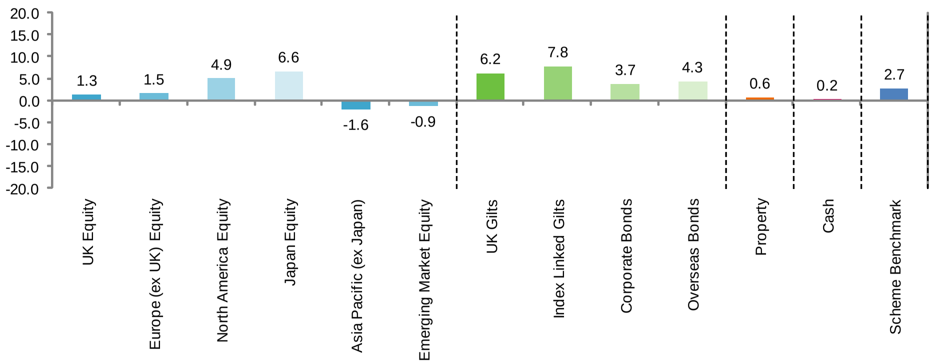
For and on behalf of Hymans Robertson LLP
November 2019

Contents

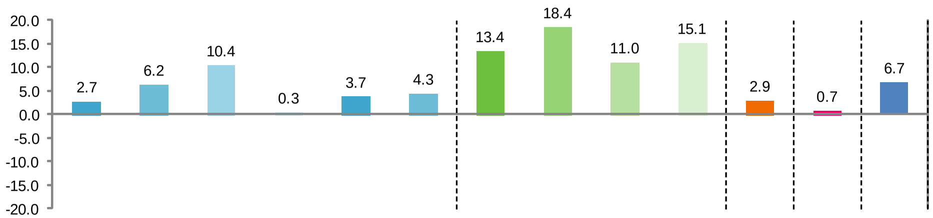
Historic Returns for World Markets to 30 September 2019

Historic Returns [1] [i]

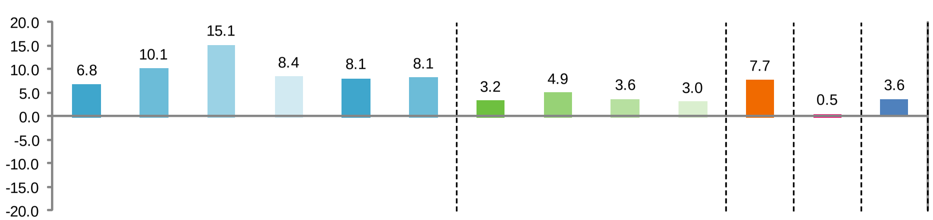
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Market Comment

The ongoing trade war between the US and China, and its disruption to external demand and global supply chains, particularly in the manufacturing sector, continued to impact global growth. Consensus forecasts still suggest most major economies will avoid technical recession next year but GDP growth for many countries has slowed.

UK GDP growth is expected to achieve a modest recovery in Q3, however forecasts have slumped, with increasing downside risk posed by acute Brexit uncertainty and its negative impact on business investment. The US economy has continued to outperform its developed market peers but its manufacturing PMI fell to its lowest level since June 2009 in September.

Inflation pressures remain elusive despite real wage growth on the back of low unemployment. In-line with the weaker economic backdrop and subdued inflationary environment, sovereign bond yields continued to drift lower over the quarter. UK Implied inflation fell at longer maturities but rose at shorter terms reflecting fears of a near-term spike in inflation on the back of a potential post-Brexit sterling depreciation. Despite prices spiking significantly, following an attack on Saudi production facilities, oil prices ended the quarter around 9% lower.

Investment-grade credit spreads continued to move in lock-step over the period across the US, Europe and Sterling markets and finished the period broadly unchanged. Global high yield spreads were also little changed over the quarter, though leveraged loan spreads have moved wider as interest rate cuts have made floating-rate assets less attractive to prospective investors.

Global equities ended the period in marginally positive territory as the impact of global trade relations and softening economic data was ultimately outweighed by central bank policy and supportive corporate earnings. Sterling-denominated returns were enhanced by the currency's continued depreciation amid the ongoing Brexit saga. Trade-weighted dollar was up c.3.1% over the quarter and Yen strength appears to remain a feature in-line with a bid for safe assets.

Japan was the top performing region in both local currency and Sterling terms. This was in part a reversal of some the poor performance from the first half of the year, as well as the improved performance of the value style. Asia Pacific (ex-Japan) and Emerging Market equities continued to lag global equities as the ongoing trade tensions weighed on investor sentiment.

In the two months and one year to the end of August, UK property produced total returns of 0.5% and 1.6%, respectively. Marginal positive rental growth and return from income compensated for capital declines.

[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: Equities – FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite; Bonds – FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds; Property – MSCI UK Monthly Property Index; Cash – UK Interbank 7 Day.

B4

Source: [i] DataStream, Fund Manager, Morgan Stanley Capital International

Capital Market Outlook

Summary of Medium-term Capital Market Views [1]

	June 2019	September 2019	Comment
Index-linked gilts	Cautious to Negative	Cautious to Negative	Index-linked gilt yields remain well below equivalent US yields and the BoE's long-term assessment. Implied inflation is lower for longer dated index-linked gilts, but uncertainty over changes to RPI may lead to further weakness.
Conventional gilts	Cautious to Negative	Cautious to Negative	Continued falls in gilt yields over the quarter keeps valuations well below our assessment of neutral levels at all maturities. However, downbeat economic news, hedging demand and uncertainty, both domestic and global, may prevent a rise in UK yields in the short-term.
Sterling non-government bonds	Cautious	Cautious	Global corporate spreads remain near long-term median levels but our overall rating is driven by our view on underlying risk-free yields. The continued search for yield is a positive technical in the short-term. We continue to prefer floating-rate credit assets, such as Asset Backed Securities as we think underlying risk-free returns will be better for floating-rate assets than fixed rate.
Equities	Neutral	Neutral to Cautious	A sharp slowdown in the manufacturing sector and some signs of weakening in services suggests a less supportive backdrop for equity markets as we move towards 2020. Valuations remain at the lower end of neutral, however there remains a significant disparity in regional views. Equity sentiment would be vulnerable if central bank policy turned to be less accommodating than markets are expecting.
Cash Strategies	Neutral	Neutral	This feels like a sensible time to hold more cash than usual to try and exploit better buying opportunities in the future.

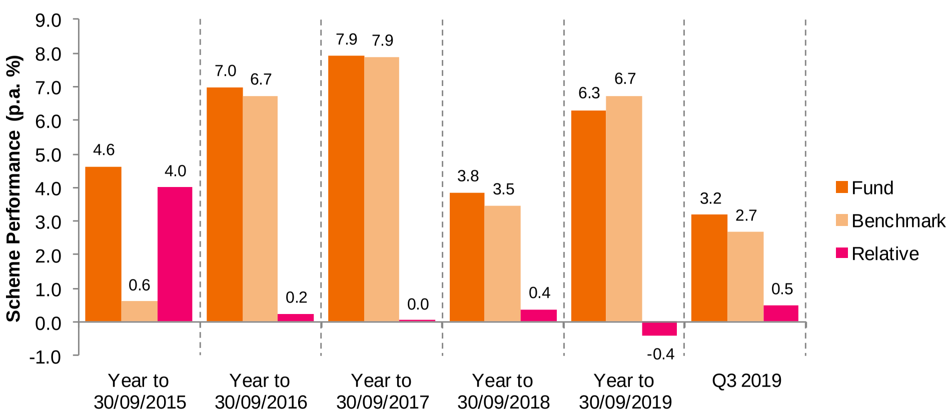
[1] The table summarises our broad views on the outlook for various markets. The ratings used are Positive, Attractive, Neutral, Cautious and Negative. The ratings are intended to give a guide to our views on the prospects for markets over a period of around three years; although they are updated quarterly, 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 2019	Value (£m) Q3 2019	Actual Proportion %	Target Proportion %	Difference %
Majedie UK Equity	122.2	123.2	19.0	22.5	-3.5
Newton Global Equity	270.3	279.0	43.1	32.5	10.6
Baillie Gifford Diversified Growth	83.3	85.1	13.1	15.0	-1.9
Schroders Property	36.7	36.9	5.7	8.0	-2.3
Schroders Fixed Income	116.7	122.9	19.0	22.0	-3.0
Total	**629.2**	**647.1**	**100.0**	**100.0**	0.0

Performance Summary (Gross of Fees)



Executive Summary

The Fund's total assets increased by £17.9m over Q3, totalling at £647.1m as at 30 September 2019.

Total returns were positive across the quarter, with a total return of 3.2% in absolute terms, 0.5% ahead of the benchmark. The main contributor to the Fund's positive performance was the allocation Newton Global Equity Fund, Baillie Gifford Diversified Growth Fund, and the Schroders Fixed Income Fund which all outperformed their performance targets.

The Fund remains overweight to the Newton Global Equity Fund, however we are currently working closely with the pension's team to re-balance the Fund's assets back toward the strategic target. This re-balancing activity is due to be completed on 4 November 2019.

There were no changes to the manager ratings over the period, with all mandates remaining either "Positive" or "Preferred". The Baillie Gifford Diversified Growth Fund remains "On Watch", as we assess the impact of the upcoming retirement of Patrick Edwardson, Head of Multi Asset, in April 2020. The Newton Global Equity Fund also remains "On Watch" as we continue to assess the impact of new portfolio manager changes. More details on our manager ratings can be found on the respective manager page.

B - 6

Hymans Robertson LLP

Manager Summary

Manager Valuations [i]

Manager	Value (£m) Q2 2019	Value (£m) Q3 2019	Actual Proportion %	Target Proportion %	Difference %
Majedie UK Equity	122.2	123.2	19.0	22.5	-3.5
Newton Global Equity	270.3	279.0	43.1	32.5	10.6
Baillie Gifford Diversified Growth	83.3	85.1	13.1	15.0	-1.9
Schroders Property	36.7	36.9	5.7	8.0	-2.3
Schroders Fixed Income	116.7	122.9	19.0	22.0	-3.0
Total	**629.2**	**647.1**	**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/MSCI 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	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

B - 7

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

Performance Summary

Performance Summary

Period	Measure	Majedie UK Equity	Newton Global Equity	Baillie Gifford Diversified Growth	Schroders Property	Schroders Fixed Income	Total Fund
3 Months (%)	Absolute	1.2	3.8	2.2	0.7	5.4	3.2
	Benchmark	1.3	3.3	1.1	0.6	5.1	2.7
	Relative	-0.1	0.5	1.1	0.1	0.3	0.5
12 Months (%)	Absolute	-2.4	8.7	5.7	3.2	12.4	6.3
	Benchmark	2.7	7.2	4.3	2.9	12.1	6.7
	Relative	-4.9	1.4	1.3	0.3	0.3	-0.4
3 Years (% p.a.)	Absolute	4.8	11.1	5.0	8.0	4.0	3.6
	Benchmark	6.8	11.6	4.1	7.1	3.3	3.6
	Relative	-1.9	-0.5	0.9	0.8	0.7	0.0
5 Years (% p.a.)	Absolute	5.9	13.4	4.8	4.0	2.7	4.1
	Benchmark	6.8	12.7	4.1	3.5	2.4	3.7
	Relative	-0.8	0.6	0.7	0.5	0.3	0.4

Hymans Robertson LLP

Majedie UK Equity

HR View Comment & Rating

Rating				
No Rating	Negative	Suitable	Positive	Preferred ●

We rate Majedie's UK Equity mandate at 'Preferred.'

Each of the three portfolio managers run separate portfolios which are combined into a single portfolio for clients; Majedie has been careful over the years in limiting capacity and the strategy has been limited to 'replacement business'. Majedie's investment style is flexible but they typically favour contrarian views and portfolios currently have a stronger value bias than normal.

Over the quarter and as previously announced, Imran Sattar assumed responsibilities for Matthew Smith's sub-portfolio in the UK Equity Strategy. In addition, Majedie announced that John King will join the business in December 2019 to manage the Majedie UK Smaller Companies sub fund.

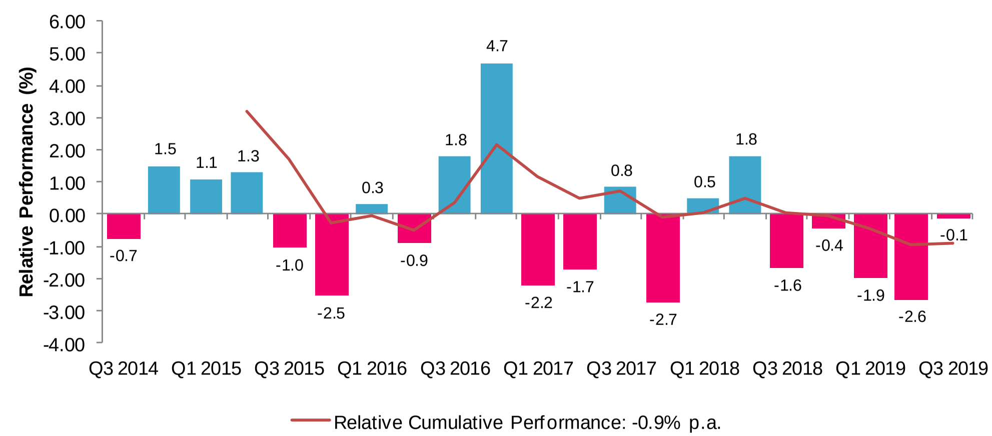
In addition, at the beginning of Q4 2019, Majedie reduced the fee on the X share class from 0.75% to 0.65%. We continue to monitor developments closely.

Performance Summary

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	1.2	-2.4	4.8	9.7
Benchmark	1.3	2.7	6.8	8.3
Relative	-0.1	-4.9	-1.9	1.3

* Inception date 31 Aug 2009.

Relative Quarterly and Relative Cumulative Performance



Performance Comment

The Majedie UK Equity fund returned 1.2% over the quarter, compared to the FTSE All Share benchmark return of 1.3%. Longer term returns remain behind benchmark and target, returning -2.4% over the 12 month period, and 4.8% p.a. over the 3 year period.

Much of the underperformance of the fund is linked to the cautious positioning of the portfolio, with the fund losing out as markets rallied. Consumer staples such as Diageo negatively impacted performance, as did non-holdings which outperformed, such as British American Tobacco.

In contrast to the concern and uncertainty surrounding global and UK markets, both UK and Global equities experienced marginally positive returns over the quarter. Positive contributions to the fund included holdings in FirstGroup as an activist shareholder prompted positive changes at board level. Holdings in Tesco also positively contributed, as the company experienced 14 consecutive quarters of like-for-like revenue growth.

During the quarter the manager increased exposure to the financial sector, with increases in their position to Legal & General, as well as domestic UK stocks, including Associated British Foods and Shaftesbury. This is part of the manager's strategy to increase exposure to stocks trading on a 'double discount' – that is stocks that are affected by the discount of the UK market to global markets, as well as the discount of domestic stocks within the UK market. They hope to gain exposure to accelerating growth stocks that are underappreciated by the market this way (such as Tesco and Serco).

Newton Global Equity

HR View Comment & Rating

Rating				
No Rating	Negative	Suitable	Positive ●	Preferred

We rate Newton's Global Equity strategy as '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. 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). However, some changes to the investment process have been implemented and the strategy's relative performance has improved since the start of 2018.

Newton have had a number of departures across Newton's UK and global equity teams in recent years and whilst to some degree turnover on the equity team was expected following the arrival of a new CEO and CIO and the subsequent changes to the investment process, the level of sustained turnover gives us cause for concern. Although Newton expect to add to resources to the Global and Sustainable Equity investment teams in the next few months, we are placing the strategy 'On Watch,' whilst we await clarification of the revised team structure.

Newton announced this quarter, that they have appointed Andrew Parry as Head of Sustainable Investment. Parry has over 30 years investment experience at an array of investment managers including Hermes, Barings and Lazard. He will report directly into CIO Curt Custard.

Performance Comment

The Newton Global Equity Fund returned 3.8% gross of fees across Q3, outperforming its MSCI ACWI benchmark of 3.3% by 0.5%.

This positive performance was led by stock selection, alongside the allocation to Financials, certain Information Technology firms and Communication Services. The fund's allocation to Apple contributed as the company delivered consistent growth across the quarter, driven by growth in their services and subscriptions businesses, including services such as iCloud and Apple Music. Holdings in Alphabet also contributed, as share price rose in response to growth in cloud computing. Energy giant Shell performed better than expected due to strong performance in their oil and natural gas business and cutting of costs to counteract the industry downturn.

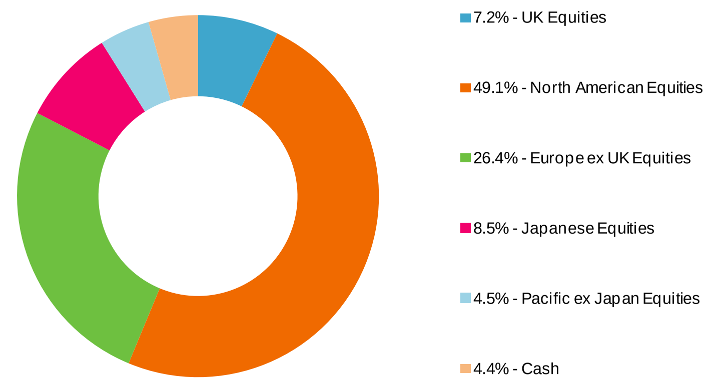
This positive performance was offset somewhat by weakness in Consumer Goods stocks including Altria and Associated British Foods, which had poor results last quarter. Altria is particularly suffering from negative industry news regarding e-cigarettes. Additionally, some Information Technology stocks detracted from performance, with Samsung still suffering from continued weakness in the memory chip market.

Performance Summary

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	3.8	8.7	11.1	12.1
Benchmark	3.3	7.2	11.6	11.2
Relative	0.5	1.4	-0.5	0.8

* 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 Gifford Diversified Growth at 'Preferred'.

Over the quarter, Baillie Gifford updated the investment and performance objectives for several of their funds. The fund's investment objective has been re-defined as: a positive return over rolling 3 year periods and a volatility of under 10% p.a., along with delivering a return of UK base rate + 3.5% p.a. over rolling 5 year periods.

In addition, the previously announced new office in Shanghai, China opened.

Performance Summary

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.2	5.7	5.0	5.0
Benchmark	1.1	4.3	4.1	4.1
Relative	1.1	1.3	0.9	0.9

* Inception date 30 Oct 2013.

Performance Comment

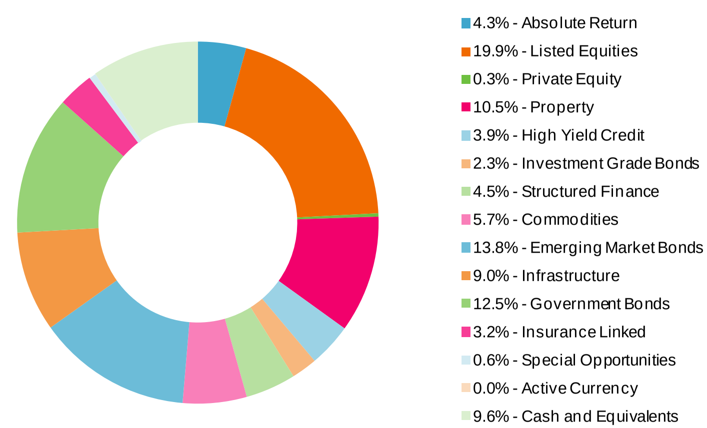
Over the third quarter of 2019, the fund returned 2.2%, outperforming its target of UK Base Rate+3.5% by 1.1%. Over 12 months the fund delivered 5.7% and over three years, 5.0% p.a. In both cases the fund outperformed its performance target.

Commodities were the best performing asset over the latest quarter, to which the portfolio is exposed by c5.7%. Emerging market government bonds and infrastructure also contributed to the fund's positive performance. Both have benefited from reasonable global growth, low interest rates and a more subdued US dollar.

There was some underperformance across the 12 month period from Insurance Linked Securities (ILS) and a slight negative contribution from government bonds. The government bond exposure in the Fund is to inflation breakevens. These positions require two sides to be effective: exposure to a 'long' inflation-linked bond, offset by a corresponding, duration-matched, 'short' nominal bond. The inflation side of these breakeven positions performed well, however, the 'short' nominal bonds have detracted to a slightly greater degree. This resulted in a small negative contribution over the year.

The manager has reduced exposure to certain economically sensitive asset classes, where near term returns look less attractive. This includes nickel within commodities in response to a significant price rise, due to Indonesia announcing its ban of exports of Nickel in December 2019. The manager still believes in retaining a reasonable degree of exposure to these asset classes due to the prospect of decent returns in a moderate growth environment. Defensive positions within the fund have increased, due to, among other things, the manager's view of inflation remaining a key risk for financial markets. Structured finance position, which gives exposure to corporate loans, was increased. The manager has cut their exposure to US treasuries by c1%, while an Australian breakeven position was added reflecting the manager's view that the market is underestimating the country's economic strength.

Asset Allocation [i]



Source: [i] Fund Manager

Hymans Robertson LLP

Schroders Property

HR View Comment & Rating

Rating				
No Rating	Negative	Suitable	Positive ●	Preferred

We rate Schroders Property Fund as 'Positive'.

There were no significant business developments to report over the quarter.

Performance Summary [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	10 Years (% p.a.)
Fund	0.7	3.2	8.0	3.7
Benchmark	0.6	2.9	7.1	3.3
Relative	0.1	0.3	0.8	0.4

Performance Comment

The Schroders UK Real Estate Fund returned 0.7% over the quarter, marginally outperforming its benchmark of 0.6%. This was also true for the longer term, with the fund outperforming benchmark over the one, three and five year periods.

Following the trend of 2019, this positive performance was mainly driven by income. The capital value of the Fund’s assets in other sectors were broadly unchanged reflecting ongoing uncertainty in the property market.

During Q3 sales amounting to £121m were completed following the culmination of asset business plans and for liquidity management purposes. The remaining core city asset of the fund, alongside the Hythe Riverside Retail park were among the sales.

The manager forecasts for different scenarios as a result of Brexit. This includes that of a no-deal Brexit, which they believe could plunge the UK into a mini-recession in 2020. However, their central forecast assumes a delay beyond October, with a general election following where voters could reject the option of a no-deal Brexit. They predict the UK economy to grow by 1% p.a. during 2019-2020 in this scenario.

Relative Quarterly and Relative Cumulative Performance

B - 12

Source: [i] Fund Manager

Hymans Robertson LLP

Schroders Fixed Income

HR View Comment & Rating

Rating				
No Rating	Negative	Suitable	Positive ●	Preferred

We rate Schroders Fixed Income Fund as 'Positive'.

There were no significant business developments to report to 30 September 2019.

Performance Summary [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	10 Years (% p.a.)
Fund	5.4	12.4	4.0	2.5
Benchmark	5.1	12.1	3.3	2.2
Relative	0.3	0.3	0.7	0.3

Performance Comment

The Schroders UK Fixed Income Portfolio returned 5.4% in absolute terms over the quarter, outperforming the benchmark of 5.1%. Over the longer term the fund has outperformed the benchmark, with relative returns of 0.7% p.a. over the 3-year period.

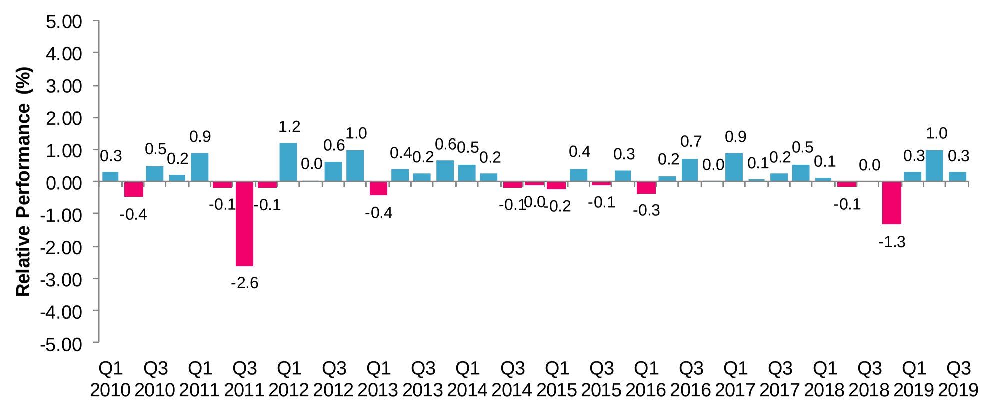
The fund's overweight duration stance was maintained over the quarter. This stance contributed positively to performance as continuing global uncertainty and increased expectations of easing monetary policy drove global bond yields lower (raising prices). Contributors during the period include the fund's off-benchmark overweight to both US and European duration. In the US, government bond yields declined significantly, driven by market sentiment and an increasingly supportive US Federal Reserve.

In Europe, yields fell and prices rose following the continued dovish stance from the ECB. Positive performance was generated from an overweight to Spain and an overweight in Italy as spreads (the difference in the yields of comparable bonds) converged on core European bonds.

The overweight to US inflation detracted from performance over the quarter as expectations for a pickup in inflation diminished given a continued slowdown in global economic data, most noticeably in manufacturing.

Changes to the fund include changes within Europe, where the fund held an overweight for the majority of the quarter before converting to a modest underweight. In the UK the manager has increased the underweight to UK government bonds, in order to account for increasing signs that the government is planning fiscal expansion, which is likely to put upward pressure on gilt yields over the medium term.

Relative Quarterly and Relative Cumulative Performance



Source: [i] Fund Manager

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.