Isle of Wight Pension Fund

Q4 2023 - Investment Monitoring Report

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HYMANS ROBERTSON

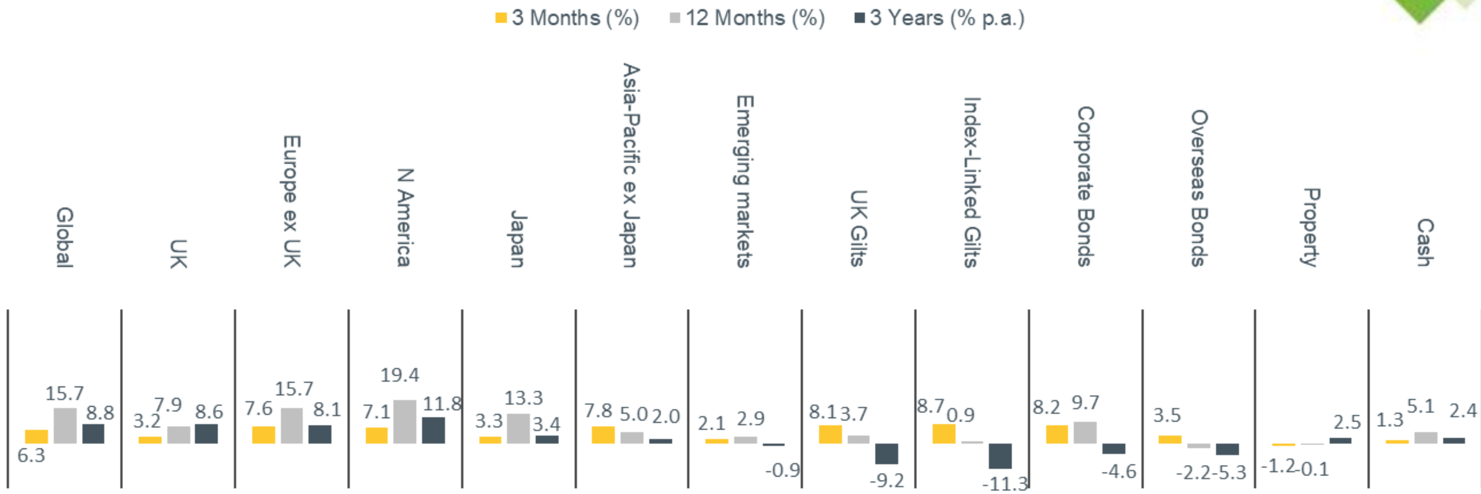
US GDP forecasts for 2023 and 2024 were again revised higher in Q4, given unexpectedly strong growth driven by consumer spending. Despite this, global growth is expected to ease to its slowest pace since the Global Financial Crisis (excluding 2020). However, it isn't expected to collapse.

Year-on-year CPI inflation in the major advanced economies fell more than expected over Q4, easing to 3.9%, 3.1%, and 2.4% in the UK, US, and eurozone in November, respectively. The main drivers were a decline in energy prices and a moderation in food prices. However, core inflation, which excludes both, also fell more than expected. The respective core measures are 5.1%, 4.0%, and 3.6% in the UK, US and eurozone.

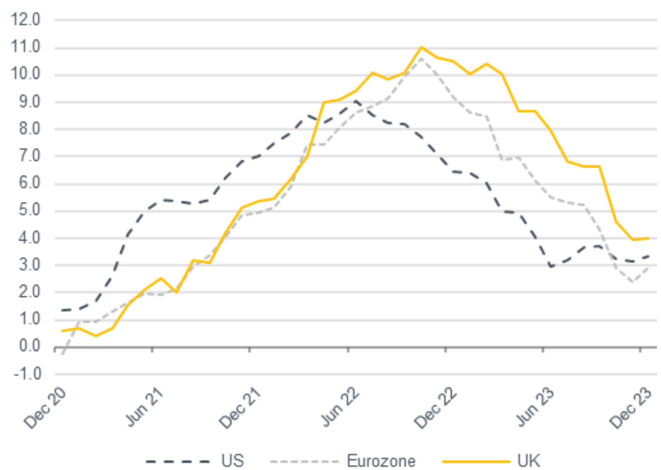
As expected, the major central banks left interest rates unchanged in Q4. Larger-than-expected falls in inflation prompted markets to price in earlier and larger rate cuts in 2024, reinforced by the Federal Reserve's mid-December revised policy projections. Despite the ECB and Bank of England reiterating a more cautious approach, markets expect a similar scale and timing of rate cuts in Europe and the UK.

Rate cut expectations and lower real yields contributed to a 3.1% fall in the trade-weighted US dollar. Equivalent sterling and euro measures rose 1.3% and 1.0%, respectively, while the equivalent yen measure strengthened 2.6% as expected interest-rate differentials with major economies narrowed.

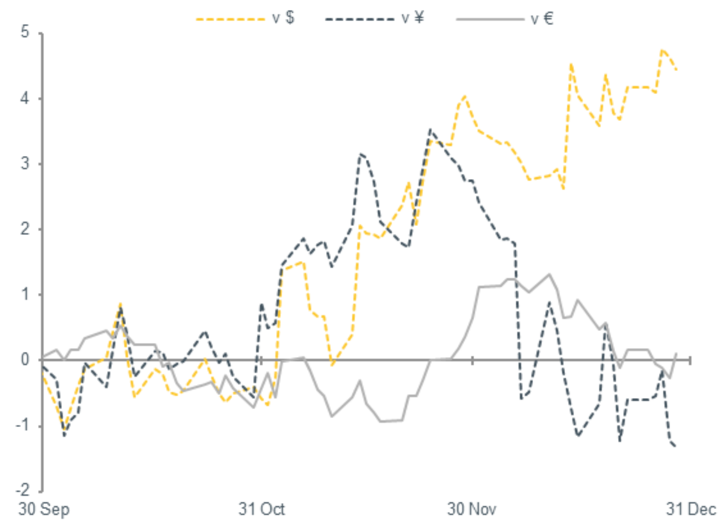
Historic returns for world markets [1]



Annual CPI Inflation (% year on year)



Sterling trend chart (% change)



Source: DataStream. [1] Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All World, FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, ICE BofA Global Government Index, MSCI UK Monthly Property; UK Interbank 7 Day

Market Background

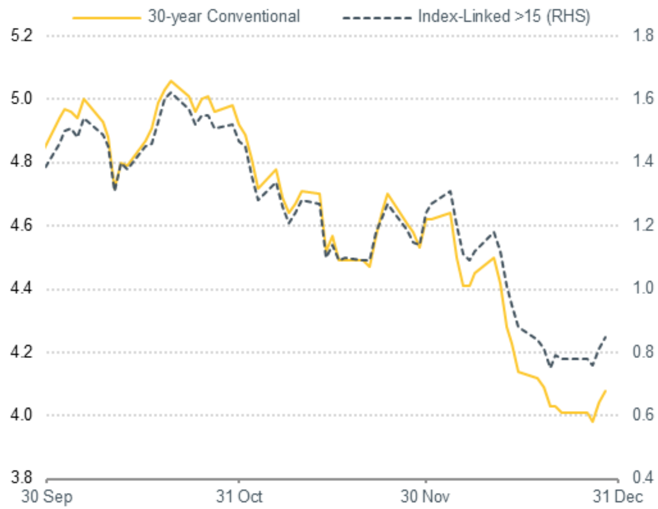
Amid expectations of larger – and sooner – rate cuts in 2024, bond prices rose and yields fell sharply. US 10-year treasury yields declined 0.7% pa over Q4 to 3.9% pa, while equivalent UK gilt yields fell 0.9% pa, to 3.5% pa. German bund yields fell 0.8% pa, to 2.0% pa. Japanese government bond yields fell less, by 0.2% pa to 0.6% pa, given potential divergence in monetary policy between Japan and the other major advanced economies.

Global investment-grade credit spreads declined 0.2% pa to 1.2% pa over Q4, while global speculative credit spreads declined by 0.6% pa to 3.8% pa. Despite a larger decline in speculative-grade credit spreads, the longer-duration investment grade market outperformed.

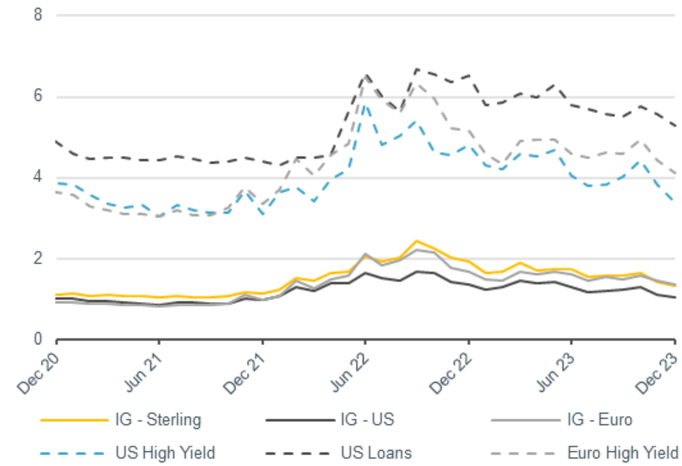
The FTSE All World Total Return Index returned 9.3% over Q4 in local-currency terms, as markets anticipated the positive impact on economic activity of rate cuts. Meanwhile, lower yields lent support to valuations. North American equity markets outperformed, given their exposure to the technology sector. All other regions underperformed, while still producing positive returns. Japan and the UK notably underperformed, given yen and sterling strength, which weighed on the high proportion of overseas earnings in both markets. UK stocks were also impacted by above-average exposure to the energy sector.

The MSCI UK Monthly Property Index fell 1.2% as income was offset by capital value declines. Values fell most sharply in the office and retail sectors, which are down 16.6% and 5.6%, respectively, over 12 months. Industrial values also declined 0.7% in Q4 following seven months of capital growth, resulting in flat growth over 12 months.

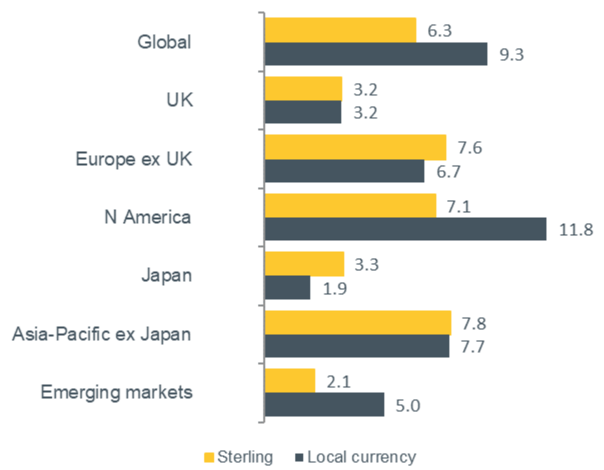
Gilt yields chart (% p.a.)



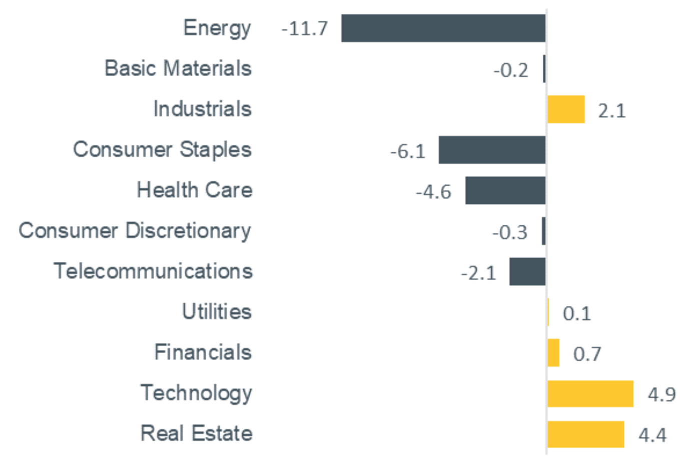
Investment and speculative grade credit spreads (% p.a.)



Regional equity returns [1]



Global equity sector returns (%) [2]



Source: DataStream, Barings, ICE [1] FTSE All World Indices. Commentary compares regional equity returns in local currency. [2] Returns shown in Sterling terms and relative to FTSE All World.

The page 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.

Summary of Medium-term Capital Market Views

	September 2023	December 2023	Comment
Index-linked gilts	Attractive	Neutral to Attractive	Subsiding fears about long-term inflation to a certain extent reduce the fundamental support for index-linked gilts, but real yields remain at reasonable levels at a time when real growth is expected to be barely positive in the near-term. Furthermore, the technical picture is arguably better for index-linked gilts: they were not included in the Bank of England's asset purchase program, and so are not being sold as part of Quantitative Tightening (QT), and benefit from a captive institutional buyer base in the UK.
Conventional gilts	Attractive	Neutral to Attractive	Declining inflation, alongside lacklustre real growth forecasts, improves the fundamental support for nominal gilts. Despite the recent rally, longer-term forward nominal yields look very elevated versus our long-term fair value. Longer-term forward real yields also still offer some value. BoE's gilt sales and increased new supply provide for a fragile technical backdrop, particularly for nominal gilts. However, an easing of inflation concerns, and weak growth should improve sentiment towards the asset class in 2024.
Sterling non-government bonds	Neutral	Cautious	Effective interest rates continue to move higher as debt matures and is refinanced, which will continue to place downwards pressure on debt affordability metrics. However, corporate balance sheets are in a healthy position and weaker inflation, easing financial conditions, and a slightly better global growth outlook, should help limit the potential deterioration in fundamentals. Sterling credit spreads look increasingly tight given recent spread tightening, leading to a slightly more cautious overall stance.
Private Debt	Neutral	Neutral to Cautious	Leverage is higher and interest coverage is lower in the traded loan market and current high interest rates may make it harder for lower-rated loan issuers to refinance debt. However, interest rate cuts would provide relief and some issuers may be able to refinance with private debt funds. Loan spreads, broadly in-line with long-term medians, look far less compressed than speculative-grade bond spreads.
Equities	Neutral to Cautious	Neutral to Cautious	Following flat, full-year earnings growth in 2023, analysts' earnings forecasts for global equities for 2024 and 2025 are healthier, at 10% and 12%, respectively. However, there remain risks to the earnings outlook as growth and demand slows: the expectation that global profit margins rebound towards their post-pandemic high may be challenged by higher effective interest rates and employment costs, and waning corporate pricing power. Market performance in the final couple of months of 2023 has driven cyclically adjusted valuations above long-term averages – something that has historically augured periods of more subdued subsequent returns.
Cash Strategies	Neutral	Neutral	Higher base rates means investors can now generate positive real returns through cash holdings. However, the outlook for interest rate cuts means prospective returns should fall over the year.

Source: DataStream

As at 31 December 2023, the Fund's assets totalled £728.1m, increasing by £34.5m over the quarter.

Global growth confounded expectations in 2023: Forecast to slow to 1.5% at the beginning of the year as higher interest rates and energy prices, and a cost-of-living squeeze weighed on consumers and business. Full-year real global GDP growth looks to have been closer to 2.6% in 2023 – a large margin of error, even by the standards of economic forecasts.

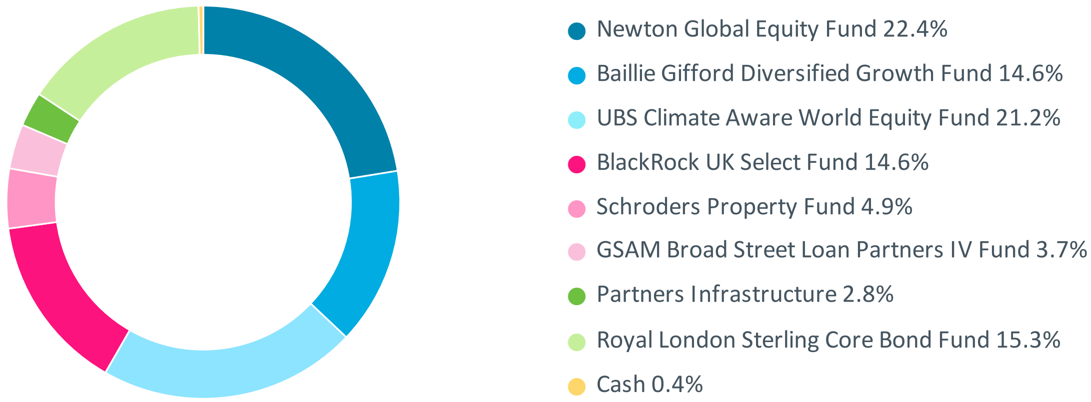
Headline CPI inflation fell more than expected across the major economies in Q4. Consequently, the major central banks left interest rates unchanged over the quarter.

The considerable falls in inflation determined markets to price in earlier and larger interest-rate cuts in 2024, with the Fed reinforcing these expectations in mid-December as its revised policy projections suggested it will indeed reduce rates over 2024. Therefore, both equities and bonds rallied over the 3 months to the end of 2023.

Asset Allocation

Manager	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q3 2023	Q4 2023			
Newton Global Equity Fund	153.5	163.4	22.4%	18.8%	3.7%
Baillie Gifford Diversified Growth Fund	99.5	106.4	14.6%	10.0%	4.6%
UBS Climate Aware World Equity Fund	144.7	154.6	21.2%	18.8%	2.5%
BlackRock UK Select Fund	101.3	106.0	14.6%	12.5%	2.1%
Total Growth	**499.0**	**530.4**	**72.8%**	**60.0%**	**12.8%**
Schroders Property Fund	36.6	35.7	4.9%	8.0%	-3.1%
GSAM Broad Street Loan Partners IV Fund	27.8	26.8	3.7%	5.0%	-1.3%
Partners Infrastructure	18.9	20.8	2.9%	5.0%	-2.1%
Total Income	**83.3**	**83.3**	**11.4%**	**18.0%**	**-6.6%**
Schroders Fixed Income Fund	106.5	0.0	0.0%	0.0%	0.0%
Royal London Sterling Core Bond Fund	0.0	111.6	15.3%	22.0%	-6.7%
Total Protection	**106.5**	**111.6**	**15.3%**	**22.0%**	**-6.7%**
Cash	4.8	2.8	0.4%	0.0%	0.4%
Total Scheme	**693.6**	**728.1**	**100.0%**	**100.0%**	

Asset class exposures



Fund performance

Over Q4, the Fund returned 3.6% against its benchmark of 2.5%, a relative overperformance of 1%.

Over the medium term, the Fund beat its 12-month benchmark by 0.5%. Over the 3-year period the fund underperformed its benchmark by 0.4% p.a., delivering a 2.5% return per year.

The Fund benefited from the decreased inflation updates and upward GDP revisions over the last three months of 2023 with all public equity and bond exposures returning positively.

Lower sovereign bond yields lent particular support to more rate-sensitive growth stocks, with technology outperforming the index and rising 15.7%. This is reflected in the significant performance of the Baillie Gifford DGF mandate. Despite the positive relative performance of the BlackRock allocation, UK equities underperformed global growth due to the large exposure to the underperforming energy sector.

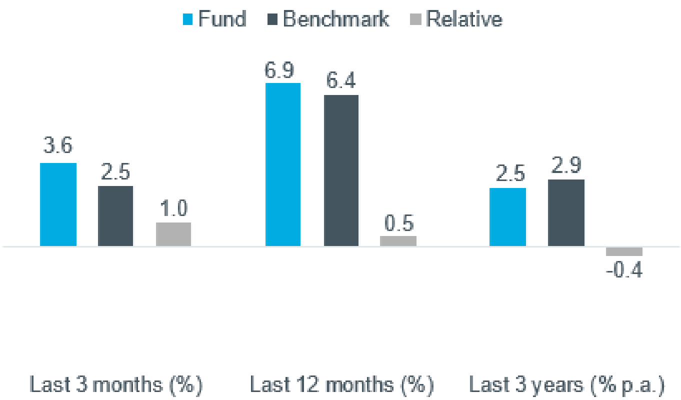
Investors' enthusiasm over the prospect of lower interest rates saw bond prices rally and yields fall sharply. As a result, the transitioning bond allocation overperformed throughout the quarter.

Income was once again offset by capital value declines in the retail and office sectors, leading to the Schroders property mandate being the only laggard within the Fund's strategy over the quarter.

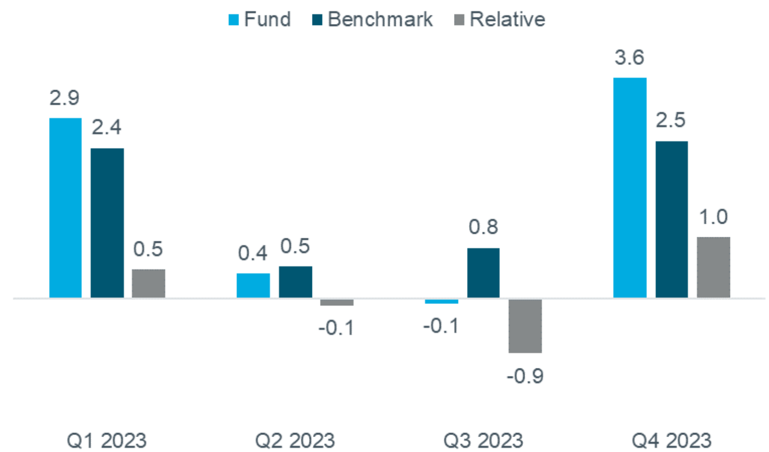
Manager performance (gross of fees)

	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
Growth									
BlackRock UK Select Fund	4.7	3.2	**1.4**	7.3	1.5	**5.7**	-	-	**-**
Newton Global Equity Fund	6.6	6.3	**0.2**	18.9	15.3	**3.1**	9.2	8.2	**0.9**
Baillie Gifford Diversified Growth Fund	7.0	2.2	**4.8**	5.1	8.3	**-3.0**	-0.9	5.6	**-6.2**
UBS Climate Aware World Equity Fund	6.8	6.8	**0.0**	17.5	17.1	**0.3**	-	-	**-**
Income									
Schroders Property Fund	-2.3	-1.2	**-1.1**	-7.0	-1.4	**-5.6**	-1.2	2.1	**-3.2**
Protection									
Schroders Fixed Income Fund	3.4	2.8	**0.6**	1.6	1.0	**0.6**	-9.3	-8.7	**-0.7**
Royal London Sterling Core Bond Fund	0.0	-2.0	**2.1**	-	-	**-**	-	-	**-**
Total	3.6	2.5	**1.0**	6.9	6.4	**0.5**	2.5	2.9	**-0.4**

Fund performance vs benchmark/target



Historical quarterly performance summary



Source: Fund performance and valuation data provided by Investment Managers and is gross of fees. Benchmark performance provided by Investment Managers and DataStream. 12-month BlackRock UK Select Fund's performance is since inception (23.02.2023). Total Performance excludes the impact of private market allocations and any cash held.

This page includes details of the current investment manager ratings together with any relevant manager business updates.

This page also shows RI ratings for the current investment managers.

Manager ratings

Mandate	Hymans Rating	RI
Newton Global Equity Fund	Suitable	Good
BlackRock UK Select Fund	Preferred	Adequate
Royal London Sterling Core Bond Fund	Positive	Good
Schroders Property Fund	Positive	Good
Baillie Gifford Diversified Growth Fund	Negative	Good
GSAM Broad Street Loan Partners IV Fund	Positive	Adequate
Partners Infrastructure	Preferred	Good
UBS Climate Aware World Equity Fund	Preferred	Good

Baillie Gifford DGF Downgrade - from 'Positive' to 'Negative'

The multi-asset business now represents approximately 2% of firmwide AUM, raising doubts regarding the extent to which Baillie Gifford may see multi-asset as strategic for the business going forward. The multi-asset business has seen significant outflows from the Diversified Growth Fund, which represents the lion's share of team assets. We had a more favourable view of the DGF historically, viewing it as playing on Baillie Gifford's key strengths as a firm, most notably long-term active investing with risk reduction driven by greater diversification than many other managers in the space. In recent years, there has been a degree of drift from that structure of fund, with the team taking more esoteric positions such as exchange-traded notes and greater use of absolute return strategies, which we do not believe play to Baillie Gifford's strengths as an investment house. We believe that the team's ability to assess these opportunities is weaker relative to peers and the results from the absolute return strategies in particular have disappointed when they were needed most. The continued increase in the use of structured finance positions, an area which is also not core to Baillie Gifford as a firm, is also a concern and we question how much the team is reliant on its external relationships to source ideas in this area.

The strategy has offered a similar broad risk profile in terms of equity beta and volatility to the median of our directional multi-asset peer group, while delivering significantly lower returns than peers over the long-term. While there have been efforts to rectify elements of the process, we do not view these as sufficient to take confidence that the funds will be able to deliver outperformance of the broader DGF market going forward. Our forward-looking assessment views the risks regarding the direction of assets under management and Baillie Gifford's commitment to the multi-asset business as significantly skewed to the downside and believe there to be stronger, more stable options in the multi-asset space.

Source: Investment Managers

Blackrock UK Equity

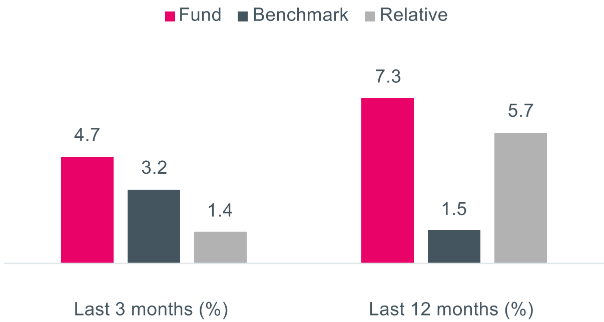
The Liontrust UK Equity fund was replaced by the BlackRock UK Select fund as of the 23rd February 2023.

Over Q4 2023 the BlackRock UK Select Fund delivered a total return of 4.7%, outperforming its FTSE All Share benchmark of 3.2%. The fund managed to perform better than its benchmark since the Fund's investment in the first quarter of 2023, with a relative outperformance of 5.7%.

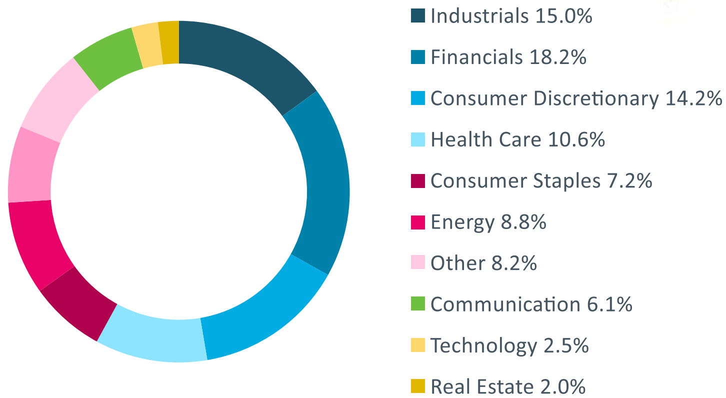
The BlackRock Institutional Equity Fund ('BIEF') – UK Select takes active positions, with significantly overweight allocations to Communication and Industrials. On the other hand, the fund is materially underweighting the UK's Financial, Consumer Staples, Energy and Health Care sectors. This allocation is consistent with the fund's moderate quality/growth bias.

Underweighting the lagging energy sector paid off over the fourth quarter. However, while the mandate's positive relative performance is promising, sterling strength's adverse impact is evident when compared to the global equity returns posted by UBS and Newton.

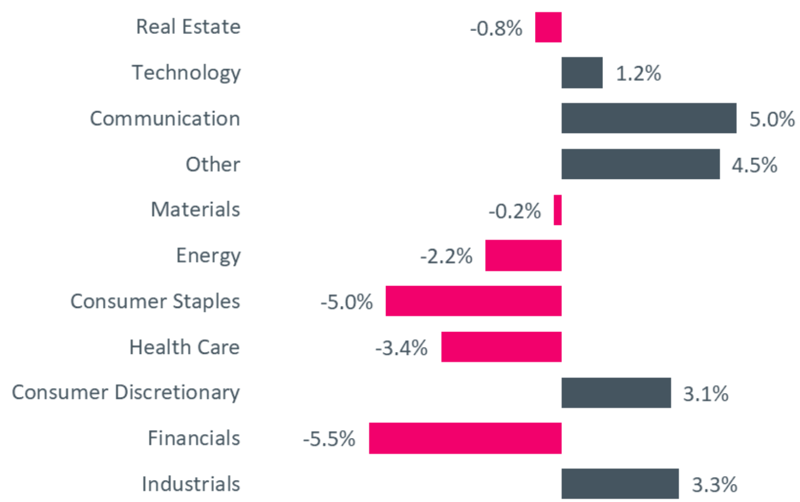
Performance summary*



Sector allocation



Allocation relative to benchmark



Source: Data and fund performance provided by Waystone Group and is gross of fees.
**12m performance represents the SI figure provided by manager. SI date is 23/02/2023*

Newton Global Equity

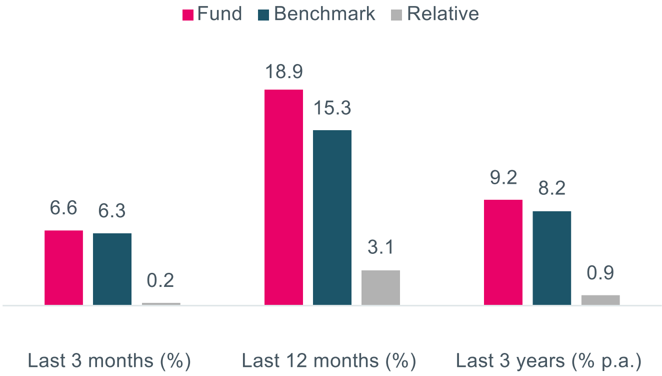
The Newton Global Equity Fund outperformed its MSCI ACWI benchmark over Q4 2023, returning 6.6% in absolute terms. The fund outperformed its 12-month and 3-year benchmarks by 3.1% and 0.9% respectively p.a.

Due to their high exposure to the technology sector which is heavily influenced by long duration cashflow valuations, North American equity markets outperformed. European equities were the second best-performing region, leading to the Newton mandate's holdings performing admirably over the fourth quarter.

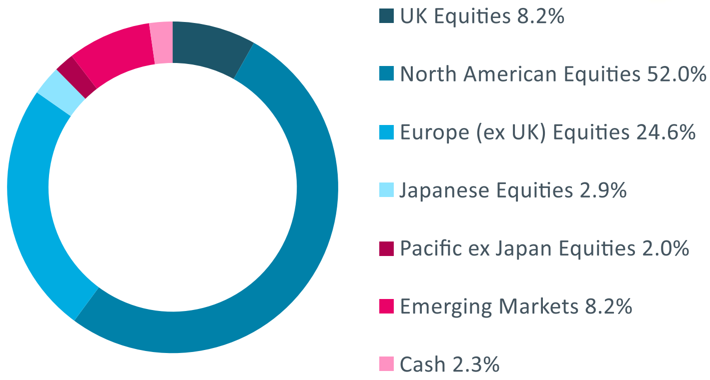
The mild outperformance was mainly driven by stock selection in industrials and an underweight allocation to the poorly performing energy sector. As indicated in the regional performance paragraph above, the fund's overweight allocation to the IT sector also contributed positively, however stock selection within this sector partly offset returns.

The fundamental bottom-up approach taken by the manager proved effective over 2023, materialising a performance of over 18% for the year and playing its expected role within the Fund's strategy. It will be interesting to see how the manager evolves their strategy as market conditions change.

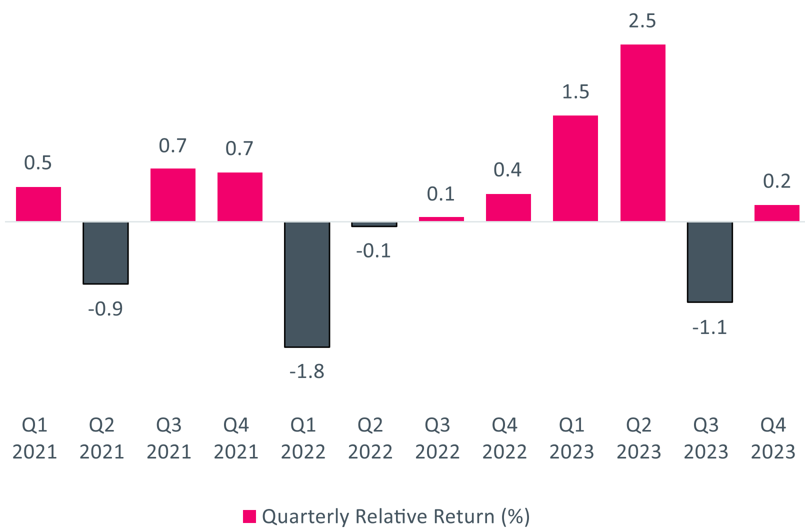
Performance summary



Asset allocation



Quarterly relative performance



Source: Data and fund performance provided by Newton and Waystone Group and is gross of fees.

UBS Climate Aware World Equity Fund

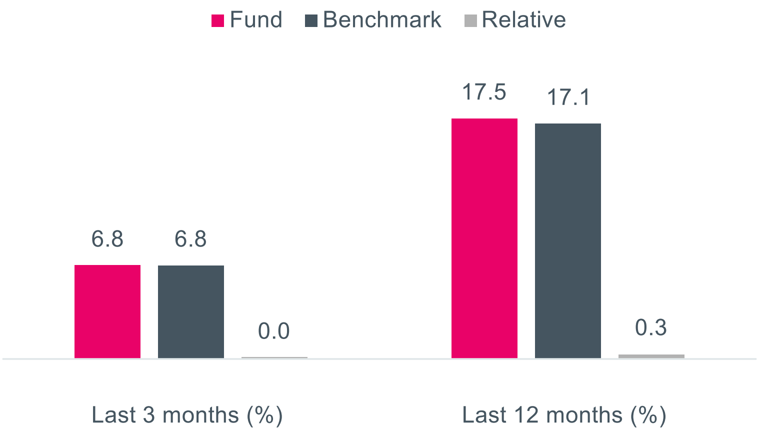
Following the equity review in November 2020, the Committee agreed to introduce a passively managed global mandate to provide a more balanced equity investment approach. In December 2021, the allocation of £145m was invested in the UBS Global Climate Aware mandate.

The aim of the mandate is to perform broadly in line with the FTSE AW Developed Index, delivering similar performance to standard global equity indices but with less carbon intensive investments.

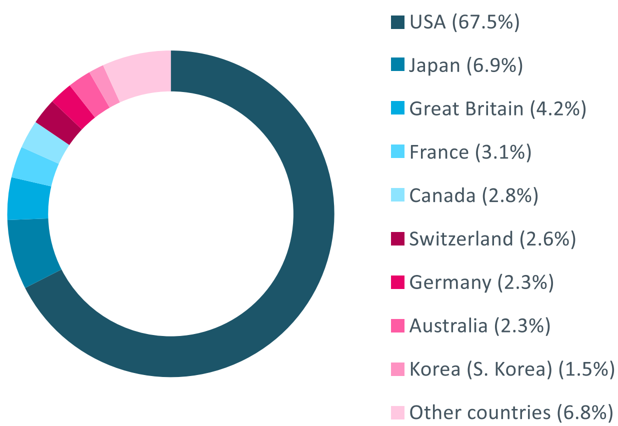
The positive return over the last quarter of 2023 and the year overall can be attributed to the 93% exposure to large cap stocks expected of an index-tracking mandate. Inflation surprising to the downside boosted the valuations of North American technology stocks, which represent a high proportion of the allocation taken by UBS in this fund.

The fund is performing broadly in line with the FTSE AW Developed Index over both the shorter and the longer term, some tracking error of +/- 0.5% is expected from this mandate.

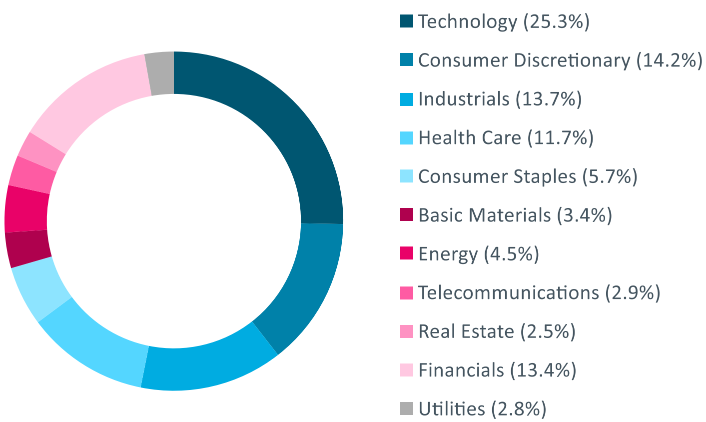
Performance summary



Geographical allocation



Sector allocation*



Source: Data and fund performance data provided by UBS and is gross of fees.
**Due to rounding the allocation total sums to over 100%*

Baillie Gifford Diversified Growth

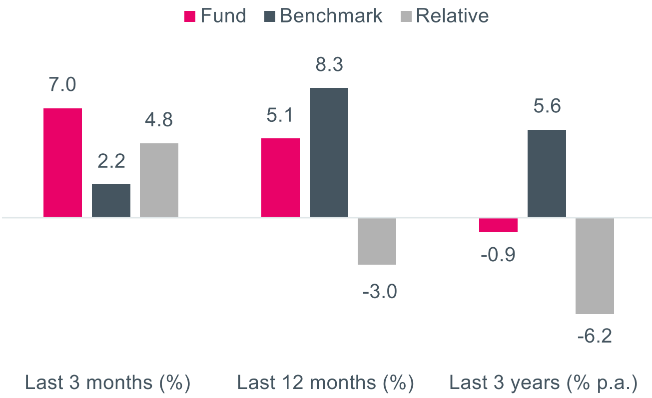
Over Q4 2023, the Diversified Growth Fund returned 7.0%, outperforming its benchmark by 4.8%. The fund fell short of its longer-term benchmarks, with the 3-year relative performance the greatest laggard against its cash plus 3.5% benchmark by 6.2%.

Over the last quarter of 2023, particularly during the last two months of the year, the market narrative switched from one of anxiousness over the direction interest rates and inflation to an optimistic expectation of a ‘soft landing’. This turn of events led to positive performance figures being posted across the DGF’s holdings.

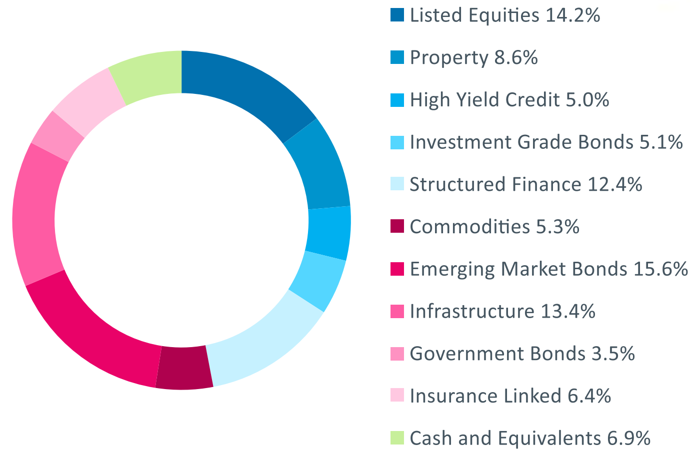
Over 2023 the manager increased its exposure to property and bonds at the expense of their equity allocation, with a firm view that in the wake of the yield surge of 2022 undervalued yield-sensitive assets would stand to benefit once yields trend back downwards. While this strategy adjustment contributed to the drastic underperformance observed over the longer term, with yields now decreasing significantly the positive contributions from these asset classes provided a much-needed uplift.

In terms of positioning, Baillie Gifford continue to avoid listed equity and aim to add more yield-sensitive assets to their portfolio. Another asset the manager aims to increase the allocation to is infrastructure.

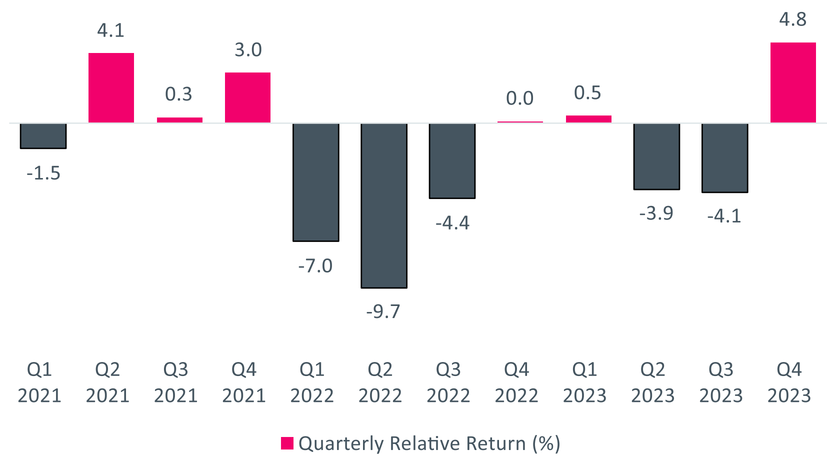
Performance summary



Asset allocation*



Quarterly relative performance



Source: Data and fund performance provided by Baillie Gifford and Waystone Group and is gross of fees.
**Due to rounding the allocation total sums to over 100%*

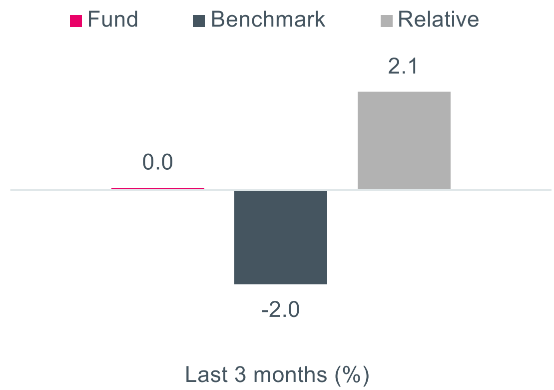
Royal London Sterling Core Bond Fund

In order to take advantage of the full benefits of pooling, the Committee agreed to switch the Fund’s fixed income allocation from Schroders (outside of ACCESS) to Royal London Asset Management (within the ACCESS pool). This transition was effective as at 18 December 2023, when all the proceeds from the sale of the Schroders mandate were invested in the Sterling Core Bond Fund.

The performance of the fixed income allocation benefited from the significant yield decreases observed on the markets. Most of the performance boost materialised under Schroders management before the mandate was liquidated on the 4 December 2023. Despite this the relative performance of the Royal London fund since its inception on the 18 December 2023 is promising, however inconclusive given the short period concerned.

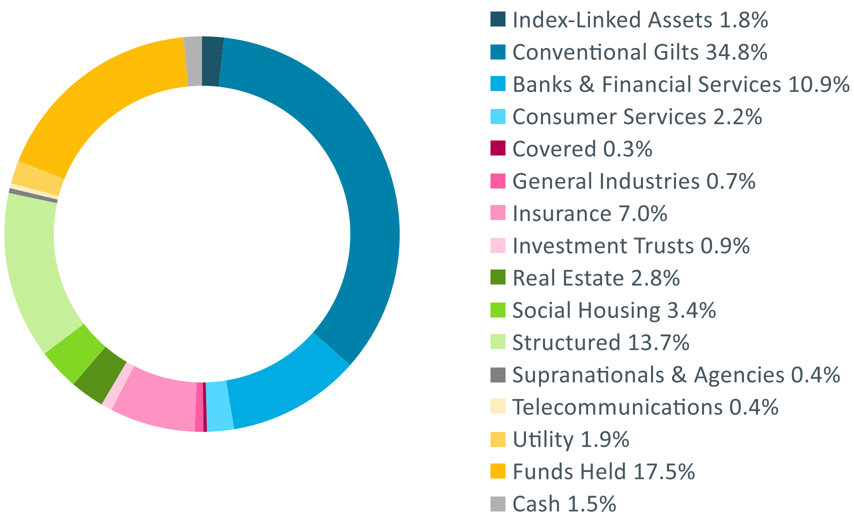
Similarly to the closed Schroders fund, the RLAM allocation aims to invest in a diverse bundle of fixed income assets, spanning across both government debt and investment grade corporate bonds.

Performance summary



Performance displayed as 0.0 due to rounding

Asset allocation*



Source: Data and fund performance provided by Royal London and Waystone Group and is gross of fees.
**Performance represents the SI figure provided by manager. SI date is 18/12/2023.*
**Due to rounding the allocation total sums to over 100%*

Schroders Property

The Schroders UK Real Estate mandate returned -2.3% over Q4 2023, 1.1% below the benchmark return.

Weighed down by recent performance, the fund has delivered negative absolute and relative returns over all longer periods considered.

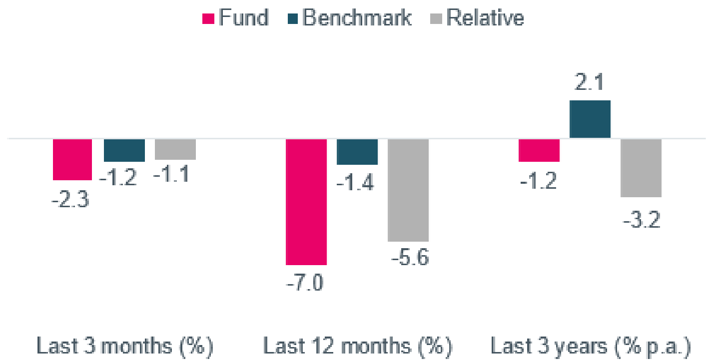
The office and retail sectors continue to see the largest month-on-month capital value declines. Capital values also fell marginally in the industrial sector over the month, following six consecutive months of growth before stalling in October.

The Schroders fund is overweight to offices (c17%), especially outside of central London, an allocation decision which is primarily responsible for the underperformance over all the periods reported.

On a 12-month basis, capital values are down around 18%, 7%, and 4% in the office, retail, and industrial sectors, respectively.

The fund's income return is above the benchmark at 4.6% p.a. which aids absolute and relative performance.

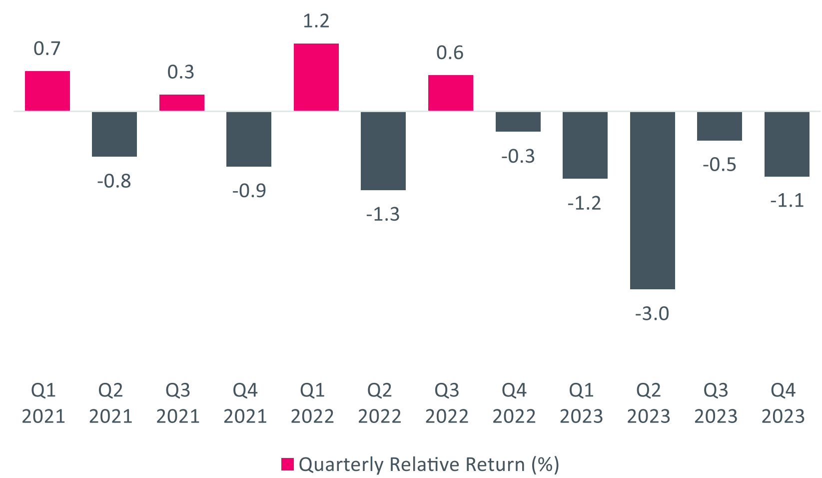
Performance summary



Key statistics

Fund size (gross)	£1,812.5m
Number of holdings	49
Number of tenants	654
Debt (% of NAV)	3.5%
Top 10 holdings as % of portfolio	42.5%

Quarterly relative performance



Source: Data and fund performance provided by Schroders and is gross of fees.

GSAM Broad Street Loan Partners IV Fund

In July 2020, a new 5% allocation to private debt was agreed by the Committee which will be drawn down over time.

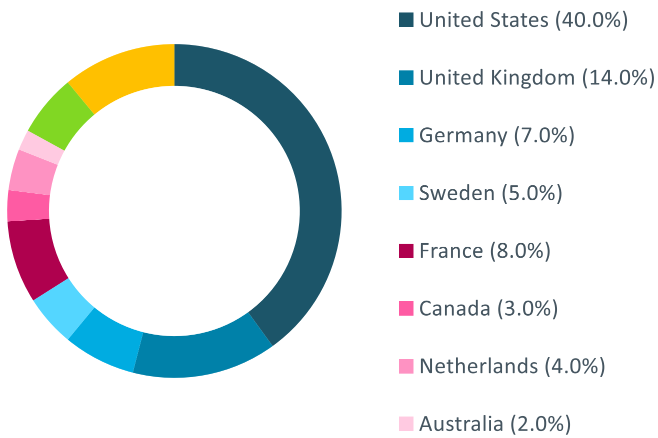
The table to the right reflects the key statistics since inception based on the estimated end of June figures from GSAM.

The estimated capital balance by GSAM as at 31 December 2023 was c.£26.8m and capital contributions were c.£30.7m (out of which £6.6m were distributed back).

First Lien term loans continue to hold the majority weighting, in line with the Fund's target investment profile.

*Net income allows for impact of currency movements. Over Q4 2023 the dollar depreciated against the pound, negatively impacting returns

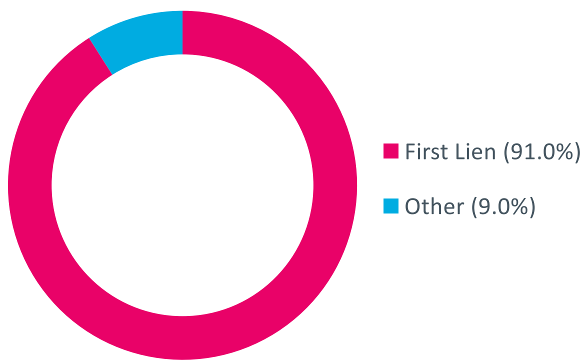
Geography split



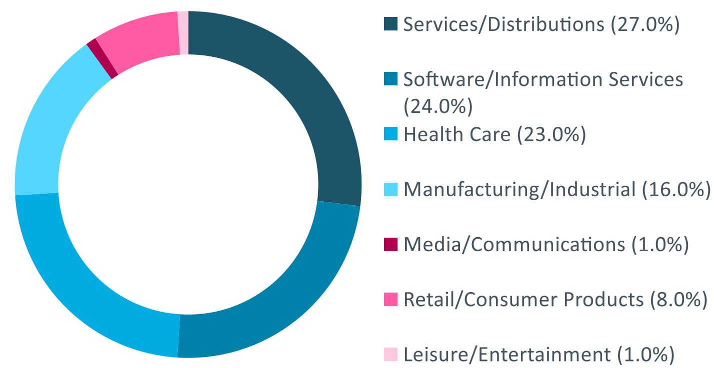
Key statistics since inception (£m)

Commitment	30.0
Capital contributed	30.7
Distributions	6.6
Estimated Capital balance	26.8
Estimated Net Income/Loss*	2.7

Security/Loan type



Industry split



Source: Fund data provided by GSAM and is gross of fees.

Partners Direct Infrastructure

In July 2020, a new 5% allocation to infrastructure was agreed by the Committee which will be drawn down over time. The first allocation to Partners Direct Infrastructure Fund was drawn on 10 July 2021.

The estimated net asset value for the fund as at 31 December 2023 was c.£20.8m (vs. c.£18.2m as at 30 September 2023). The latest valuation available (as at 30 November 2023) was adjusted for the latest capital call due on 18 December 2023.

With the December capital call the net contributions to the fund are now up to £18.8m (vs £16.7m in September 2023).

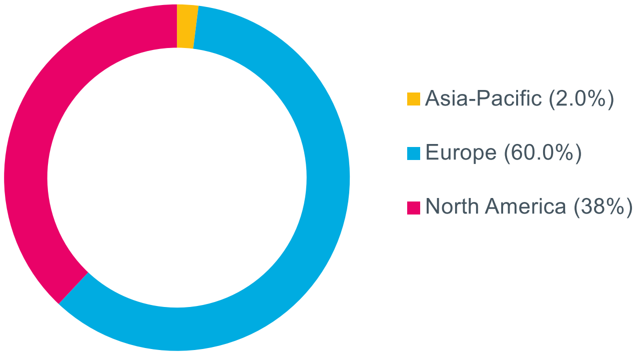
It should be noted that given this is a EUR fund, FX movements will impact the returns. During Q4 2023 the UK Sterling only mildly appreciated against the EUR and thus did not affect the reported NAV meaningfully.

Reporting for the fund will evolve over time as the fund establishes.

Key statistics (£m; 30th November 2023 statistics adjusted to 31st December 2023)

Commitment	35.3
Capital contributions	18.8
Distributions	0.4
Net contributions	18.4
Net asset value	20.8
Net multiple (as at 30th November)	1.15x

Regional allocation (as at 30th November 2023)



Source: Fund data provided by Partners.

This page sets out the benchmark, performance targets, and fees of each mandate.

It also provides descriptions of our ratings and the rationale behind our Hymans research and Responsible Investment ratings.

Benchmarks, Targets & Fees

Mandate	Date Appointed	Benchmark Description	Performance Target (% p.a.)
Newton Global Equity Fund	25/08/2009	MSCI AC World	+2% p.a. over rolling 5 years
BlackRock UK Select Fund	23/02/2023	FTSE All Share	+2% p.a. over rolling 5 years
Royal London Sterling Core Bond Fund	14/12/2023	50% iBoxx Non Gilt All Maturities Index and 50% iBoxx Sterling Gilt Index	Outperform benchmark by 1.3% p.a. (net of fees) over 5 year rolling period
Schroders Fixed Income Fund	31/08/2009	50% iBoxx Gilts and 50% iBoxx Non-Gilts Indices	Outperform benchmark by 1% p.a. (net of fees) over a market cycle before fees
Schroders Property Fund	31/08/2009	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
Baillie Gifford Diversified Growth Fund	30/10/2013	UK Base Rate +3.5% p.a.	UK Base Rate +3.5% p.a. (net of fees) over 5 year rolling period
GSAM Broad Street Loan Partners IV Fund	25/01/2021	-	8% gross IRR
Partners Infrastructure	10/07/2021	-	8-12% p.a. net of fees
UBS Climate Aware World Equity Fund	08/12/2021	FTSE AW Developed Index	-

Source: Investment Managers

Hymans Ratings

Rating	Description
Preferred	Our highest rated managers in each asset class. These should be the strategies we are willing to put forward for new searches.
Positive	We believe there is a strong chance that the strategy will achieve its objectives, but there is some element that holds us back from providing the product with the highest rating.
Suitable	We believe the strategy is suitable for pension scheme investors. We have done sufficient due diligence to assess its compliance with the requirements of pension scheme investors but do not have a strong view on the investment capability. The strategy would not be put forward for new searches based on investment merits alone.
Negative	The strategy is not suitable for continued or future investment and alternatives should be explored.
Not Rated	Insufficient knowledge or due diligence to be able to form an opinion.

Responsible Investment

Rating	Description
Strong	Strong evidence of good RI practices across all criteria and practices are consistently applied.
Good	Reasonable evidence of good RI practices across all criteria and practices are consistently applied.
Adequate	Some evidence of good RI practices but practices may not be evident across all criteria or applied inconsistently.
Weak	Little to no evidence of good RI practices.
Not Rated	Insufficient knowledge to be able to form an opinion on.

Risk Warning

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.

Hymans Robertson LLP and our group companies have a wide range of clients some of which are fund managers, who may be parties in our recommendations to you in various circumstances including but not limited to manager selection, moving money to or from a manager or supporting retention of or disinvestment from a manager. We have a research team that advises on shortlisting fund managers in manager selection exercises and forming views on managers, which is separate from our client and other relationships with fund managers and therefore we do not believe there will be a conflict that would influence the advice given.

Geometric v Arithmetic Performance

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

$$\frac{(1 + Fund\ Performance)}{(1 + Benchmark\ Performance)} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$Fund\ Performance - Benchmark\ Performance$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.