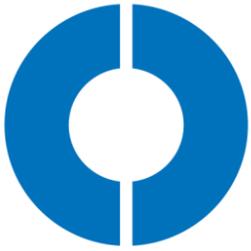


Schroders



**Isle of Wight Council Pension
Fund
Schroder Sterling Broad
Market Fund**

Isle of Wight Council Pension Fund – Fixed Income Portfolio

Review

Performance review & Portfolio Activity to September 2020

On a year to date basis, to 30 September 2020, the fund has posted positive returns of 7.64%, outperforming its benchmark which posted returns of 6.46%. The portfolio's rates strategy was the primary contributor to outperformance driven by our off-benchmark allocation to US duration which benefitted both from significant monetary stimulus and safe-haven flows. Our credit strategy has also contributed to performance, initially suffering during the Covid-19 induced market shock in March but has since recovered strongly.

We started the year expecting a near-term cyclical pick-up in growth, particularly across Europe, with our credit strategy primarily expressing this view. On the political front too, we had begun to see some of the headwinds on global growth reversing somewhat, namely with some progress on Brexit. However, the emergence of the coronavirus and with its implications for global growth saw some of these more pro-cyclical (growth sensitive) positions detract from performance. The portfolio was exposed to a sharp widening of credit spreads and this was most apparent from our overweight positioning in sterling-denominated investment grade corporates. However, this was offset somewhat by our rates strategy where we benefitted from an overweight duration stance (sensitivity to interest rates) and an off-benchmark allocation to US duration, which was a notable outperformer.

Following the period of extreme volatility, we have since seen some semblance of stabilisation in financial markets. The fund continued to hold a pro-cyclical bias through our credit strategy, which performed well in the second quarter as markets discounted a more optimistic outlook relative to the severe level of pessimism reached previously, with central banks' increased provision of liquidity helping to normalise market conditions. As the rate of new Covid-19 infections continued to fall and various economies started to reopen, economic data had shown signs of a sharp rebound.

As we moved through the summer period, fixed income markets were relatively muted as monetary policy support kept government bond yields pinned at low levels. As such, in our rates strategy we preferred to express our thematic views through cross-market opportunities which had been created as a result of differing policy responses to the crisis. We initiated a relative value position in various markets (initially Canada, then Germany, and finally Australia) versus UK gilts (underweight gilts) to express our concerns that significant government bond issuance in the UK would likely place upward pressure on yields (yields move inversely to prices) at a time when the Bank of England was considering scaling back its quantitative easing programme. These positions broadly performed well and contributed to the positive outperformance of the fund.

Isle of Wight Council Pension Fund Fixed Income performance to 30 September 2020 (% pa)

	YTD	12 months	3 years	Inception*
Fixed Income Portfolio	7.64	5.66	6.21	6.84
Benchmark	6.46	3.84	5.31	5.92

Discrete Annual Performance

	2019	2018	2017	2016	2015
Fixed Income Portfolio	10.32	-1.62	4.97	11.24	1.08
Benchmark	8.18	-0.51	3.11	10.64	0.47

Schroder Sterling Broad Market Gross Attribution: Year to date 2020

	Alpha	FX	Rates	Credit	Residual
Total	118	-21	116	32	-4

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested.

Performance and attribution results are calculated relative to the benchmark using gross performance based on end of day pricing. Returns are calculated internally by Schroders and may differ from the NAV returns. If fees and expenses were reflected, performance figures would be lower. Performance calculations are not adjusted for the effect of taxation and assume reinvestment of dividends and capital gains. Index returns do not incur management fees, transaction costs, or other expenses.

*Isle of Wight inception date 31 August 2009. Rates (duration, yield curve, inflation, sovereign, carry and roll sovereign), Credit (Carry & Roll Credit, Credit Sector Allocation, Credit Selection, Credit ABS/MBS), Residual (Volatility, Valuation, Trading)

Outlook

More recently, given rising risks surrounding Brexit and considering UK interest rates were continuing to price prospects of a negative Bank of England policy rate, we rotated our underweight position in UK gilts to overweight. This was again positioned on a cross-market basis versus US Treasuries (overweight gilts, short US Treasuries).

Elsewhere, throughout the summer and beyond we have held a positive structural outlook for Europe and expressed this through an allocation to government bonds in the European periphery, held versus Germany. This paid dividends as the EU collectively came together to signal greater integration with the agreement of a Europe-wide recovery fund to assist weaker members of the EU.

Important Information

Marketing material for professional clients only.

Risk Considerations:

Counterparty risk: The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole.

Issuer risk: The fund is permitted to invest more than 35% of its scheme property in transferable securities and money market instruments issued or guaranteed by an EEA State / governments of the following countries: United Kingdom

Performance risk: Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macro economic environment, investment objectives may become more difficult to achieve.

IBOR: The transition of the financial markets away from the use of interbank offered rates (IBORs) to alternative reference rates may impact the valuation of certain holdings and disrupt liquidity in certain instruments. This may impact the investment performance of the fund.

Credit risk: A decline in the financial health of an issuer could cause the value of its bonds to fall or become worthless.

Liquidity risk: In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares.

Operational risk: Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.

Currency risk: The fund may lose value as a result of movements in foreign exchange rates.

High yield bond risk: High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk.

Derivatives risk – Efficient Portfolio Management and Investment Purposes: Derivatives may be used to manage the portfolio efficiently. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the fund. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. When the value of an asset changes, the value of a derivative based on that asset may change to a much greater extent. This may result in greater losses than investing in the underlying asset.

Interest rate risk: The fund may lose value as a direct result of interest rate changes.

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