Democratic Services
Guildhall, High Street, Bath BA1 5AW
Telephone: (01225) 477000 *main switchboard*
Direct Lines - Tel: 01225 395090
Web-site - http://www.bathnes.gov.uk

15 March 2019
Democratic_Services@bathnes.gov.uk

To: All Members of the Avon Pension Fund Committee

Avon Pension Fund Committee: Friday, 22nd March, 2019

Please find attached a **SUPPLEMENTARY AGENDA DESPATCH** of late papers which were not available at the time the agenda was published. Please treat these papers as part of the agenda.

Papers have been included for the following items:

16. **REPORT ON INVESTMENT PANEL ACTIVITY - TO FOLLOW (Pages 3 - 6)**

17. **REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER - TO FOLLOW (Pages 7 - 60)**

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**22 MARCH 2019**	**AGENDA ITEM NUMBER**
TITLE:	**INVESTMENT PANEL ACTIVITY**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Minutes from Investment Panel meeting held 27 February 2019 [TO FOLLOW] EXEMPT Appendix 2 – Exempt Minutes from Investment Panel meeting held 27 February 2019 [TO FOLLOW]		

1 THE ISSUE

1.1 The Investment Panel is responsible for addressing investment issues including the investment management arrangements and the performance of the investment managers. The Panel has delegated responsibilities from the Committee and may also make recommendations to Committee. This report informs Committee of decisions made by the Panel and any recommendations.

1.2 The Panel has held one formal meeting since the December 2018 Committee meeting, on 27 February 2019. The draft minutes of this meeting provides a record of the Panel's debate before reaching any decisions or recommendations. Due to timing issues these will be tabled at the meeting.

1.3 There were no recommendations or decisions arising from this meeting.

2 RECOMMENDATION

2.1 Notes the minutes of the Investment Panel meeting on 27 February at Appendix 1 and Exempt Appendix 2.

3 FINANCIAL IMPLICATIONS

3.1 In general the financial impact of decisions made by the Panel will have been provided for in the budget or separately approved by the Committee when authorising the Panel to make the decision.

3.2 There are transactional costs involved in appointing and terminating managers. Where these arise from a strategic review allowance will be made in the budget. Unplanned changes in the investment manager structure may give rise to transition costs which will not be allowed for in the budget.

4 RECOMMENDATIONS AND DECISIONS

4.1 Private Debt – Asset Class Update

The Panel considered a background paper about Private Debt which was one of the long term allocation recommendations from the 2017 strategic review and it is envisioned that this asset class will be included in the 2019 review. The Panel noted the key risks associated with private debt as well as the return profile and extent of diversification it offers in the context of the Fund's wider investments portfolio. The discussion addressed features of private debt such as the 'illiquidity premium' that investors should expect over and above publically traded bonds and the importance of selecting an appropriate private debt strategy (given that different fund managers target different levels of credit risk). Members also discussed Brunel's ability and timeline for building out its private debt portfolio.

4.2 Strategy Updates for Periods Ending 31 December 2018

Officers provided an update on the cash management strategy that was agreed by Panel in the December 2018 meeting. The new strategy was expected to be fully implemented before the end of March 2019.

Members were informed that the bespoke corporate bond portfolio that was approved at the December meeting and delegated to Officers and Mercer to implement had been scheduled to complete before March 2019. Officers and Mercer have since delayed the implementation of this strategy until April 2019 to avoid transitioning over the year end and the Brexit period (potential risk of higher than normal volatility in corporate bond prices).

4.3 There were no recommendations or decisions made by the Panel at the Investment Panel meeting on 27 February 2019.

5 INVESTMENT PANEL DELEGATION

5.1 The activity was undertaken under in line with the delegation set out in the Fund's Terms of Reference approved in May 2015:

The Investment Panel will:

1. *Review strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.*
2. *Review the Statement of Investment Principles and submit to Committee for approval.*
3. *Report regularly to Committee on the performance of investments and matters of strategic importance*

and have delegated authority to:

4. *Approve and monitor tactical positions within strategic allocation ranges.*
5. *Approve investments in emerging opportunities within strategic allocations.*
6. *Implement investment management arrangements in line with strategic policy, including the setting of mandate parameters and the appointment of managers.*
7. *Approve amendments to investment mandates within existing return and risk parameters.*
8. *Monitor investment managers' investment performance and make decision to terminate mandates on performance grounds.*
9. *Delegate specific decisions to Officers as appropriate.*

6 RISK MANAGEMENT

6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. An Investment Panel has been established to consider in greater detail investment performance and related matters, and to carry out responsibilities delegated by the Committee.

6.2 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund.

7 EQUALITIES

7.1 An equalities impact assessment is not necessary as the report is primarily for information only.

8 CONSULTATION

8.1 This report is primarily for information and therefore consultation is not necessary.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The issues to consider are contained in the report.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	Nathan Rollinson, Assistant Investments Manager (Tel: 01225 395357)
Background papers	none
Please contact the report author if you need to access this report in an alternative format	

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**22 MARCH 2019**
TITLE:	**INVESTMENT PERFORMANCE AND STRATEGY MONITORING (for periods ending 31 December 2018)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – Mercer Quarterly Investment Review Appendix 3 – LAPFF Quarterly Engagement Monitoring Report	

1 THE ISSUE

1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level; and policy and operational aspects of the Fund.

1.2 This report contains performance statistics for periods ending 31 December 2018.

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to:

2.1 **Note the information set out in the report**

2.2 **Note LAPFF Quarterly Engagement Report at Appendix 3**

3 FINANCIAL IMPLICATIONS

3.1 The returns achieved by the Fund from 1 April 2016 will affect the next triennial valuation in 2019. Section 4 of this report discusses the trends in the Fund's liabilities and the funding level.

4 FUNDING LEVEL

4.1 Using information provided by the Actuary, Mercer has analysed the funding position as part of the report at Appendix 2 (section 2). This analysis shows the impact of both the assets and liabilities on the (estimated) funding level. **It should be noted that this is just a snapshot of the funding level at a particular point in time.**

4.2 Key points from the analysis are:

(1) The funding level has decreased by c. 3% over the quarter to c.94% (based on 2016 valuation assumptions).

(2) The decrease in the funding level was driven by negative returns on assets (particularly from developed market equities) combined with an increase in the present value of the liabilities.

5 INVESTMENT PERFORMANCE

A – Fund Performance

5.1 The Fund's assets decreased by £134m (c.2.8%) over the quarter ending 31 December 2018 giving a value for the investment Fund of £4,648m. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers. Manager performance is monitored in detail by the Investment Panel. The Fund's investment return and performance relative to benchmark is summarised below. The Fund's currency hedge detracted -0.6%, while the LDI mandate contributed +0.4% to returns over the quarter.

Table 1: Fund Investment Returns (Periods to 31 December 2018)

	3 Months	12 Months	3 Years (p.a.)*
❶ Total Fund (inc. FX/LDI)	-2.7%	0.4%	7.8%
❷ Total Fund (ex. FX/LDI)	-2.5%	0.9%	9.2%
❸ Strategic Benchmark (ex. FX/LDI)	-3.7%	0.5%	9.0%
Relative Return (❶ vs.❸)	1.0%	-0.1%	-1.2%
Relative Return (❷ vs.❸)	1.2%	0.4%	0.2%
Combined FX/LDI Impact	-0.2%	-0.5%	-1.4%

* 3 year returns do not include LDI attribution analysis as mandate went live in July 2017

5.2 **Fund Investment Return:** Global equity markets declined over the quarter by 12.4%. Developed markets fell by 13.0% while emerging markets were down over 7%. US equities were heavily impacted on continued political uncertainty and trade tensions. The yield on the US 10-year government bond ended December at 2.69%, 0.37% lower than the previous quarter. In the UK, 10-year gilt yields fell 0.31% over the quarter and ended December at 1.27%. The Fed's fourth rate hike in the year came in December against the unusual backdrop of the S&P500 having dropped nearly 10.0% since the previous meeting in

November. In the UK, despite a strong labour market the Bank of England left policy unchanged as it pointed to a softening outlook for global growth and intensified Brexit uncertainties. The Fund's currency hedge detracted from Fund performance as sterling depreciated against the US Dollar, Euro and the Yen.

5.3 **Fund Performance, exclusive of LDI and currency hedging, was -2.5% over the quarter versus a Benchmark return of -3.7% The relative +1.2% over the quarter is attributed to;**

(1) **Asset Allocation:** Asset allocation detracted **-0.3%** over the quarter, driven by an overweight in developed overseas equities versus the strategic benchmark.

(2) **Manager Performance:** In relative terms, the aggregate contribution of manager performance was **+1.5%** over the quarter. Stock selection in developed overseas equities was the biggest contributor (+2.6%) due to the large positive swing in the value of the equity protection strategy. Excluding the impact of equity protection, the stock selection attribution was -0.4% reflective of active developed overseas equity managers underperforming their respective benchmarks.

5.4 **Currency Hedging:** The hedging programme is in place to manage the volatility arising from overseas currency exposure, in particular to protect the Fund as sterling strengthens and returns from foreign denominated assets reduce in sterling terms. The hedging programme detracted 0.6% from the total Fund return over the quarter and 1.4% over the year.

5.5 **Liability Risk Management Strategy Performance:** The liability risk management strategy seeks to 'lock in' to attractive levels of real interest rates to achieve increased long-term certainty of real returns. Any increase in the present value of the Fund's liabilities should be met with a subsequent increase in the value of the liability hedging component of the BlackRock QIF. Over the quarter inflation expectations increased. Given the liability hedging portfolio currently has more exposure to inflation than interest rates; the net result was a positive return for the hedging assets. No triggers were breached over the quarter.

5.6 **Equity Protection Strategy Performance (EPS):** The EPS is structured to protect the Fund from a sharp draw down in equity valuations over the 2019 triennial valuation as equities, although c. 40% of assets, contribute c. 75% of risk. The EPS will pay out a cash amount to compensate for any significant falls in the equity market and simultaneously allow the Fund to participate in upside gains to a predetermined level or 'cap'. Over the quarter the underlying markets returned c.-11.5% in GBP terms as equity markets declined across the four hedged regions. As a result the corresponding market value of the EPS rose 7.5% relative to the hedged exposure at the start of the quarter. The market value of the EPS was £67.4m at the end of the quarter, which equates to a £127m positive swing versus 3Q18. For reference, the extent to which the strategy adds or detracts value is driven by the likelihood of equity markets being above the upside 'cap' at maturity of the strategy. As market levels moved away from the 'cap' and toward the protection levels the strategy increased in value, as expected.

5.7 **Collateral Management -** Collateral held in the Qualified Investor Fund (QIF) that is used to capitalise the risk management strategies remained within its prescribed parameters and was sufficient to absorb the stress tests that are

routinely carried out to ensure operational efficiency. To allow additional collateral to be raised when required and in order to keep leverage within the QIF guidelines, the investment manager has discretion to sell down a passive equity fund and replace any lost equity exposure synthetically.

B – Investment Manager Performance

5.8 Under the Red Amber Green (RAG) framework for monitoring manager performance, the Panel consider updates on all managers not currently achieving Green status including progress on action points. Any change in the RAG status of any manager is reported to Committee with an explanation of the change. **There were no changes to manager ratings this quarter.**

5.9 Manager absolute returns over the quarter were largely negative, particularly the overseas developed market equity mandates. The Fund's Diversified Growth Fund strategies, although posting negative absolute returns, did provide significant downside protection and were able to offset the sharp falls from equity markets. The Fund's Property and Infrastructure mandates generated positive absolute returns, the latter benefitting from the depreciation of GBP against the US Dollar over the quarter. Over the year returns were mixed with underperformance noted in the UK SRI mandate, significant outperformance posted by one of the Fund's defensive Emerging Market managers and demonstrable diversification benefits from the Fund's DGF and Multi-Asset Credit mandates. On a rolling 3 year basis, all investment mandates delivered positive absolute returns. On a relative basis a number of active funds underperformed their benchmarks over the period.

6 INVESTMENT STRATEGY

6.1 **Asset Class Returns:** Developed market equity returns over the last 3 years were 12.3% p.a., materially ahead of the assumed strategic return of 8.1% p.a. on the same basis. The 3 year return from emerging market equities was 14.8% in 4Q18; again well ahead of the assumed 3 year return of 8.7%. Index-Linked Gilts remain considerably above the assumed strategic return as yields remain low relative to historic averages. Over the three-year period index-linked gilts returned 9.2% p.a. versus an assumed return of 2.2%. Similarly, property and infrastructure are ahead of their assumed strategic returns on a 3 year basis. Hedge funds remain below the strategic return of 5.1% due in part to exceptionally low cash rates.

7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

7.1 As at 31 December 2018 all asset allocations were within the control ranges for rebalancing based on the strategic benchmark. Officers did not undertake any rebalancing activity during the quarter.

Private market commitments to Brunel portfolios

7.2 In 2017, the Fund allocated 2.5% to Renewable Energy and 7.5% to Secured Income assets, with both allocations to be managed within Brunel's private market portfolios. In 4Q18, the first drawdowns of the Fund's committed capital occurred. Of the capital committed to Renewables, EUR13m was drawn down in December and deployed across two pan-European funds. One fund invests solely in renewable energy; the other includes sustainable and social infrastructure such as mass transport (metros) which are typically electric, and social infrastructure such as hospitals and government accommodation as well

as renewable energy projects such as renewable energy powered district network heating assets. Shortly after the quarter closed, £16.5m was drawn down in the Secured Income portfolio by one of the selected funds.

Cash Management

7.3 Cash is held by the managers at their discretion within their investment guidelines, and internally to meet working requirements. The officers closely monitor the management of the Fund's cash held by the managers and custodian with a particular emphasis on the security of the cash.

7.4 Management of the cash held internally by the Fund to meet working requirements is delegated to the Council's Treasury Management Team. The monies are invested separately from the Council's monies.

8 CORPORATE GOVERNANCE UPDATE

8.1 During the quarter, the Fund's external managers undertook the following voting activity on behalf of the Fund:

Companies Meetings Voted:	208
Resolutions voted:	1859
Votes For:	1580
Votes Against:	237
Abstained:	8
Withheld* vote:	34

** A withheld vote is essentially the same as a vote to abstain, it reflects a view to vote neither for or against a resolution. Although the use of 'abstain' or 'withheld' reflects the different terms used in different jurisdictions, a 'withheld' vote can often be interpreted as a more explicit vote against management. Both votes may be counted as votes against management, where a minimum threshold of support is required.*

8.2 The Fund is a member of LAPFF, a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the funds have as shareholders through co-ordinating shareholder activism amongst the pension funds. LAPFF's activity in the quarter is summarised in their quarterly engagement report at Appendix 3.

9 RISK MANAGEMENT

9.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. This report monitors (i) the strategic policy and funding level in terms of whether the strategy is on course to fund the pension liabilities as required by the funding plan and (ii) the performance of the investment managers. An Investment Panel has been established to consider in greater detail investment performance and related matters and report back to the committee on a regular basis.

10 EQUALITIES

10.1 An Equality Impact Assessment has not been completed as this report is for information only.

11 CONSULTATION

11.1 This report is for information and therefore consultation is not necessary.

12 ISSUES TO CONSIDER IN REACHING THE DECISION

12.1 The issues to consider are contained in the report.

13 ADVICE SOUGHT

13.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	Nathan Rollinson, Assistant Investments Manager (Tel: 01225 395357)
Background papers	Data supplied by Mercer & SSBT Performance Services
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1

AVON PENSION FUND VALUATION - 31 DECEMBER 2018

	Brunel Portfolios	Passive Multi-Asset	QIF	Active Equities				Funds of Hedge Funds	DGFs		MAC	Property		Infra-stucture	Currency Hedging	In House Cash	TOTAL	Avon Asset Mix %
All figures in £m	Multi	BlackRock	BlackRock	Jupiter (SRI)	Genesis	Unigestion	Schroder Global	JP Morgan	Pyrford	Ruffer	Loomis	Schroder (UK)	Partners (Overseas)	IFM	Record	General Cash		
Equities																		
UK	170.8			167.7													338.5	7.3%
Emerging Markets					104.0	110.1											214.1	4.6%
Global Developed Markets			399.3	9.4			346.2										754.9	16.2%
Global Low Carbon	473.0																473.0	10.2%
Equity Derivatives[1]			67.4												20.0		87.4	1.9%
Total Overseas	***473.0***		***466.7***	***9.4***	***104.0***	***110.1***	***346.2***								***20.0***		***1529.4***	**32.9%**
Total Equities	**643.8**		**466.7**	**177.1**	**104.0**	**110.1**	**346.2**								**20.0**		***1867.9***	**40.2%**
DGFs									**212.7**	**370.0**							***582.7***	**12.5%**
Hedge Funds								**231.5**									***231.5***	**5.0%**
MAC											**466.2**						***466.2***	**10.0%**
Property												**233.7**	**211.8**				***445.5***	**9.6%**
Infrastructure														**330.0**			***330.0***	**7.1%**
Renewable Infrastructure	**11.7**																***11.7***	**0.3%**
Secured Income	**16.5**																***16.5***	**0.4%**
LDI Assets & Bonds																		
LDI Assets			561.1														561.1	12.1%
Corporate Bonds		80.3															80.3	1.7%
Total Bonds		**80.3**	**561.1**														***641.4***	**13.8%**
Cash				12.1			7.6					5.4				51.4	***76.5***	**1.6%**
FX Hedging															-22.1		***-22.1***	**-0.5%**
TOTAL	**672.0**	**80.3**	**1027.8**	**189.2**	**104.0**	**110.1**	**353.8**	**231.5**	**212.7**	**370.0**	**466.2**	**239.1**	**211.8**	**330.0**	**-2.1**	**51.4**	**4647.8**	**92.6%**

[1] Negative equity values mean the equity protection strategy in the BlackRock QIF has detracted from overall performance

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HEALTH WEALTH CAREER

AVON PENSION FUND

COMMITTEE INVESTMENT PERFORMANCE REPORT QUARTER TO 31 DECEMBER 2018

MARCH 2019

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Mercer's universes are intended to provide collective samples of strategies that best allow for robust peer group comparisons over a chosen timeframe. Mercer does not assert that the peer groups are wholly representative of and applicable to all strategies available to investors.

Please also note:

- The value of investments can go down as well as up and you may not get back the amount you have invested. In addition investments denominated in a foreign currency will fluctuate with the value of the currency.
- The valuation of investments in property based portfolios, including forestry, is generally a matter of a valuer's opinion, rather than fact.
- When there is no (or limited) recognised or secondary market, for example, but not limited to property, hedge funds, private equity, infrastructure, forestry, swap and other derivative based funds or portfolios it may be difficult for you to obtain reliable information about the value of the investments or deal in the investments.
- Where the investment is via a fund of funds the investment manager typically has to rely on the underlying managers for valuations of the interests in their funds.
- Care should be taken when comparing private equity / infrastructure performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance). Direct comparisons are not always possible.

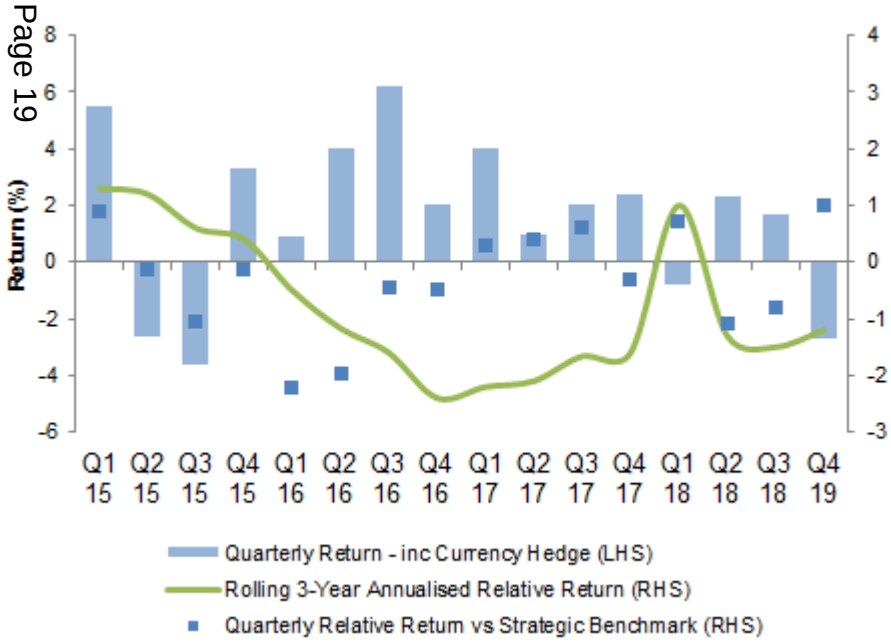
CONTENTS

SECTION 1
EXECUTIVE SUMMARY

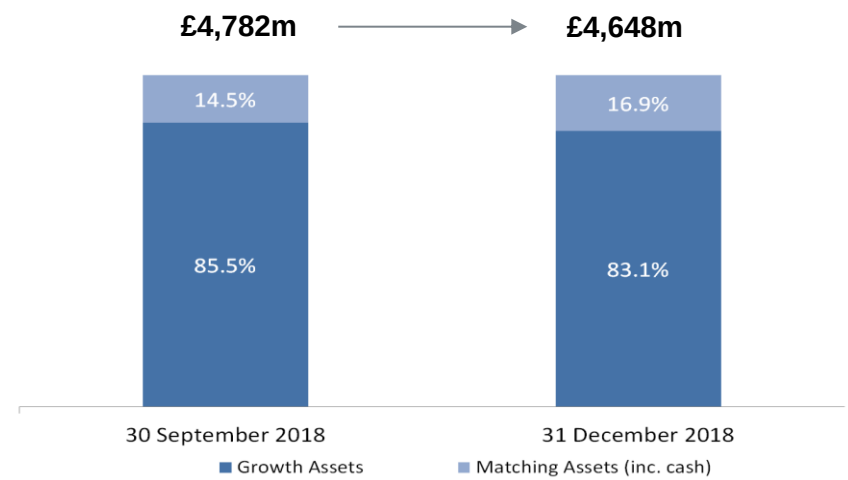
EXECUTIVE SUMMARY

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (inc currency hedge)	-2.7	0.4	7.8
Total Fund (ex currency hedge)	-2.1	1.8	9.2
Total Fund (ex LDI)	-3.1	-0.7	-
Total Fund (ex LDI, ex currency hedge)	-2.5	0.9	
Strategic Benchmark (no currency hedge)	-3.7	0.5	9.0
Relative (inc currency hedge)	**+1.0**	**-0.1**	**-1.2**

Excess Return Chart



Asset Allocation



Commentary

Over the quarter, total Fund assets decreased from £4,782m to £4,648m. This decrease was driven primarily by negative returns from both domestic and overseas equities.

At the end of the quarter, all asset classes were within the agreed tolerance ranges.

When the currency hedge with Record is excluded, the Fund outperformed the Strategic Benchmark over the quarter, one year and three year periods to 31 December 2018.

Allowing for the currency hedge, the Fund outperformed the Strategic Benchmark by 1.0% over the quarter. Currency hedging also detracted over the one year and three year periods. The Fund outperformed the Strategic Benchmark by 1.2% on a like-for-like basis (i.e. excluding LDI and currency hedging).

LDI has been additive to performance over the last quarter and one year.

EXECUTIVE SUMMARY

This report has been prepared for the Avon Pension Fund ("the Fund"), to assess the performance and risks of the Fund's investments.

Funding Level

- The estimated funding level decreased by c.3% over the fourth quarter of 2018 to c.94%, as the assets fell in value while the value of the liabilities rose.

Fund Performance

- The value of the Fund's assets decreased by £134m over the fourth quarter of 2018, to £4,648m as at 31 December 2018. This decrease was driven primarily by negative returns from both domestic and overseas equities.

Strategy

- Global (developed) equity returns over the last three years were 12.3% p.a., above the assumed strategic return of 8.05% p.a. from the review in April 2017. We remain broadly neutral in our medium-term outlook for developed market equities (over the next one to three years) but have become slightly more positive. Following the sell-off in Q4 18, valuations are more attractive now, the macro environment does not seems to be as bad as previously perceived by the market and the risk of Fed tightening triggering a recession this year is materially lower.
- Emerging market equities have returned 14.8% p.a. over the three-year period. It is above the assumed return of 8.70% p.a. as returns have been reasonably strong and fundamentals have improved. Compared to developed market equities, we continue to be slightly more positive in our medium-term outlook for emerging market equities over the next one to three years. Despite ongoing challenges, long-term economic fundamentals remain solid for emerging markets. Emerging market equities have also become even more attractively valued over the quarter due to the broad sell-off in risk assets and are now below their long-term historical averages.
- UK government bond returns over the three-year period remain materially higher than the long-term assumed strategic returns as investor demand for gilts remains high. Fixed interest gilts returned 7.1% p.a. versus an assumed return of 1.90% p.a. and index-linked gilts returned 9.2% p.a. versus an assumed return of 2.15% p.a. Gilt yields decreased over the quarter, and as a result gilt returns were positive over the period.
- UK corporate bonds returned 4.2% p.a. over the three-year period against an assumed strategic return of 3.25% p.a.
- The three-year UK property return of 7.0% p.a. remains higher than the assumed return of 5.75% p.a.
- Hedge fund returns were negative in Q4 18 and remain below long-term averages and the strategic return of 5.10% p.a., having been affected by low cash rates. Active managers in general have struggled to generate meaningful returns in recent years.

Strategy (continued)

- The Fund's currency hedging policy was negative overall for Fund performance, since Sterling depreciated against the US Dollar, the Euro and the Japanese Yen over the quarter.
- The Fund's equity protection strategy was positive over the quarter, rising by £127m amidst weak equity market performance.

Managers

- Manager total returns over the quarter were on the whole negative, with the weakest performance coming from the overseas Developed Market Equity managers. The Fund's three Diversified Growth Fund ("DGF") strategies also posted negative returns, but provided protection during the equity market downturn and fulfilled their role within the Fund's overall investment strategy. Over Q4 18, the Fund's overall equity portfolio fell by c.10.6% whereas the overall DGF portfolio decreased in value by c.3.8% (based on changes in asset values over the quarter), illustrating the protection offered by the DGF managers during the volatile market environment. The Fund's Property and Infrastructure mandates generated positive absolute returns over the quarter.
- Absolute returns over the year to 31 December 2018 were mixed across the Fund's investment managers. The majority of mandates posted negative absolute returns, with the UK Socially Responsible Investing ("SRI") strategy and one of the emerging market equity mandates delivering the largest negative returns over the period.

In terms of relative performance, out of the active equity managers, only the defensive active emerging market equity manger outperformed.

- The Fund's DGF and Multi-Asset Credit ("MAC") mandates underperformed versus their respective total return targets over the one year period. The DGF allocation overall did, however, perform its strategic role by protecting the portfolio versus the falls in equity markets.
- Over the three-year period all mandates with a three-year track record (except Aberdeen Standard Investments) produced positive absolute returns. The majority of active funds underperformed their benchmarks over the period, with only the UK Property and Infrastructure mandates generating positive relative returns. The Fund of Hedge Funds and UK Property mandates achieved their performance objectives, net of fees.

Key Points for Consideration

- In November 2018, the unconstrained active UK equity mandate was terminated over the quarter with the proceeds allocated to the Brunel active UK Equity strategy.
- In November 2018, the Aberdeen Standard Investments mandate was terminated over the quarter with the proceeds allocated to the Fund's two other DGF mandates.

SECTION 2
MARKET BACKGROUND

MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

Against the backdrop of a perceived global slowdown, trade tensions and concerns over tighter monetary policy, risk assets saw their worst quarter since the end of 2008. The continued weakness of sterling slightly reduced the losses for sterling investors.

UK and overseas equities experienced a tough quarter with domestically focused companies in particular being hurt. Political uncertainty, including an unsuccessful attempt to oust Prime Minister May by her own party, added to the weakness, as chances of a no-deal Brexit have increased. GDP expanded by 1.5% annualised over the third quarter driven by household consumption while business investment dropped. CPI inflation fell to 2.3% at the end of November and the Bank of England kept interest rates at 0.75%.

Within global equity markets, the US economy grew by 3.0% on a quarterly basis over the third quarter and is set to have grown at the same rate in the fourth quarter. While the near-term outlook remains upbeat, expectations of a slowdown in late 2019 are rising, as the US reaches the later stage of the business cycle. The Federal Reserve continued to raise rates in December pushing them to 2.25-2.50%. Growth expectations for the Eurozone continue to weaken amid a slowdown in Germany and France as well as persistent weakness in Italy. Japanese growth expectations have slowed. Trade tensions between the US and China remained unresolved during the quarter even though it now seems more likely that a deal will be struck in 2019. Some emerging markets have been slowing, mostly due to reduced demand from China which has started to feel the impact of tariffs.

Bond Market Review

Nominal yields were down at the shorter end of the curve over the quarter.

The Over 15 Year Gilt Index underperformed the broader global bond market over the quarter, generating a return of 2.6%.

Real yields also fell across the curve over the quarter. This led to the Over 5 Year Index-Linked Gilts Index returning 2.0%.

Credit spreads increased sharply over the quarter, with the sterling Non-Gilts All Stocks Index credit spread ending the quarter at c.1.6% p.a. UK credit assets delivered a nil return over the quarter.

Currency Market Review

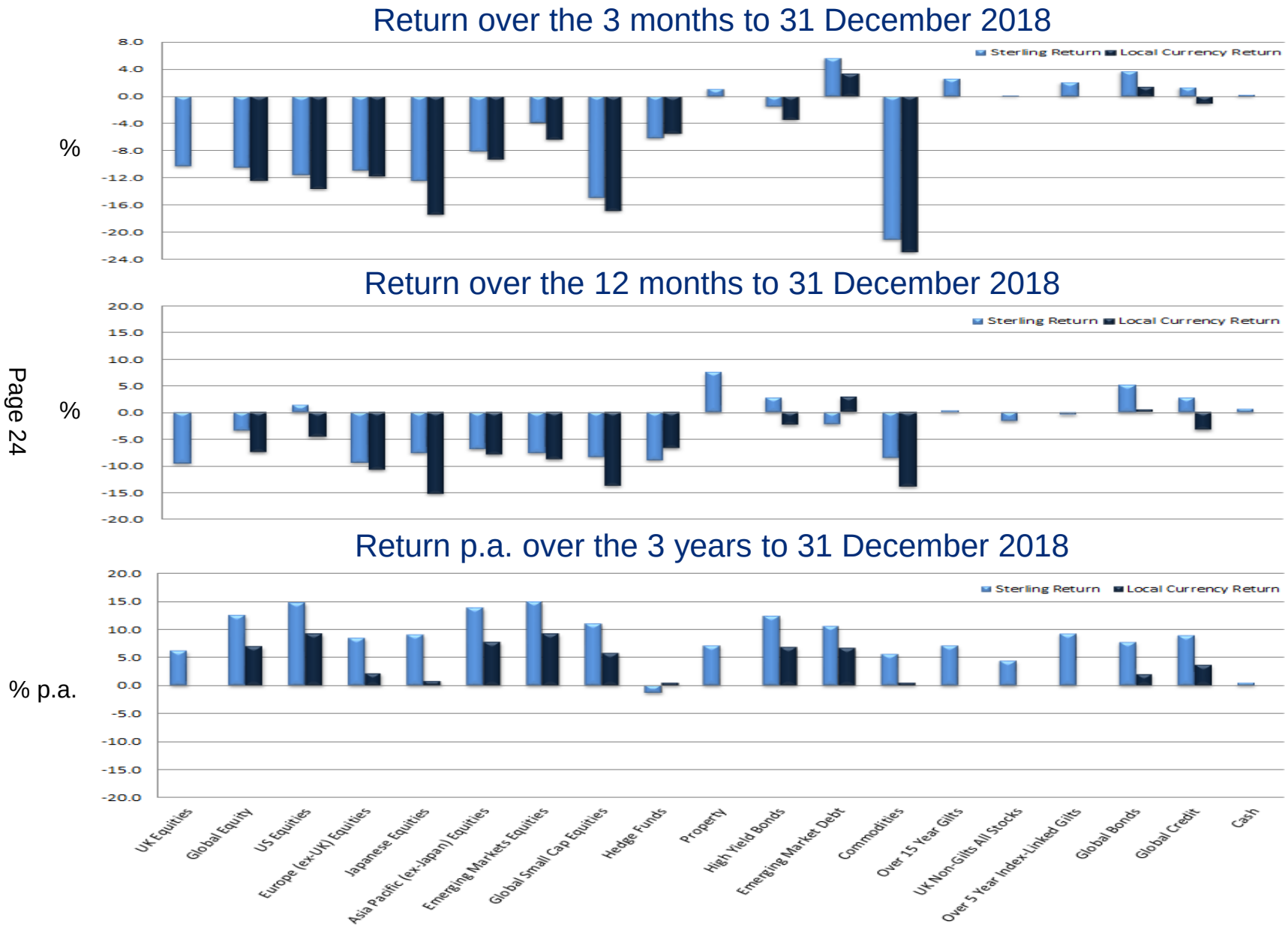
Over the quarter, sterling depreciated against the dollar by 2.3%, against the euro by 0.8% and against the Japanese yen by 5.7%.

Commodity Market Review

Commodity performance was poor over the quarter with losses in all sectors, except precious metals due to its safe haven characteristics. Energy led the losses, declining by almost 34% while industrial metals fell by 7%. The softer economic outlook is leading to concerns that global consumption might come out lower than expected next year and this has hit energy and industrial metals especially hard. For oil, unexpected waivers on sanctions on Iran eased the fears of imminent supply constraints.

Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE



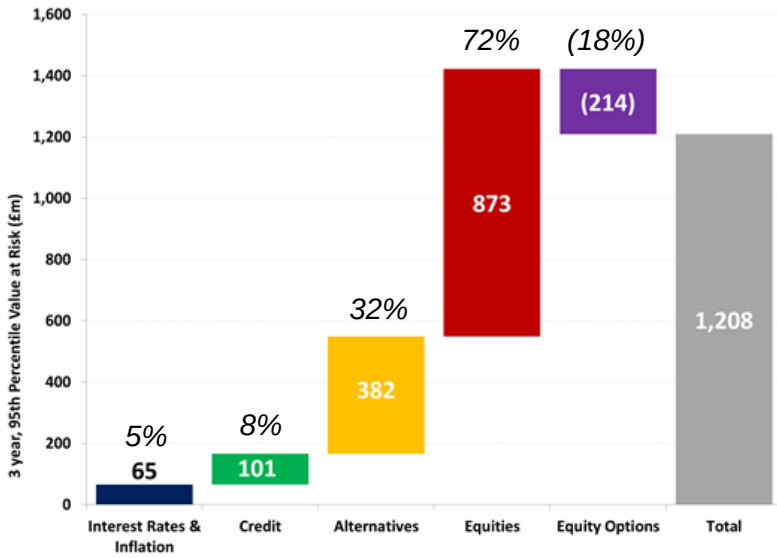
Source: Thomson Reuters Datastream.

SECTION 3

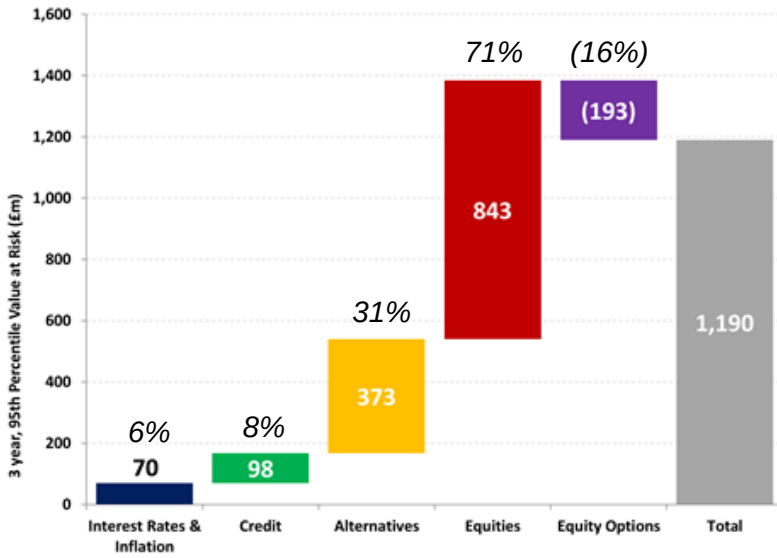
STRATEGIC CONSIDERATIONS

STRATEGIC CONSIDERATIONS
RISK DECOMPOSITION

30 September 2018



31 December 2018



- The two charts to the left illustrate the main risks that the Fund is exposed to on the 2016 funding basis and the size of these risks in the context of the change in the deficit position.
- The purpose of showing these charts is to ensure there is an awareness of the risks faced and how they change over time and to initiate debate on an ongoing basis, around how to best manage these risks, so as not to lose sight of the 'big picture'.
- The grey column on the right hand side of each chart shows the estimated 95th percentile Value-at-Risk (VaR) over a one-year period. In other words, if we consider a downside scenario which has a 1-in-20 chance of occurring, what would be the impact on the deficit relative to our 'best estimate' of what the deficit would be in three years' time.
- If we focus on the chart at 31 December 2018, it shows that if a 1-in-20 'downside event' occurred over the next three years, the deficit would increase by at least an additional **£1.2bn** on top of the current deficit of **£0.3bn**, creating a deficit of at least **c.£1.5bn**.
- Each bar to the left of the grey bar represents the contribution to this total risk from the primary underlying risk exposures (interest rates and inflation, changes in credit spreads volatility of alternative assets and equity markets, and the benefit from equity options).
- The two charts show that the three-year **VaR has decreased by c.£18m over the quarter**. This is largely attributable to a slight reduction in Mercer's asset volatility assumptions for some of the alternative asset classes.

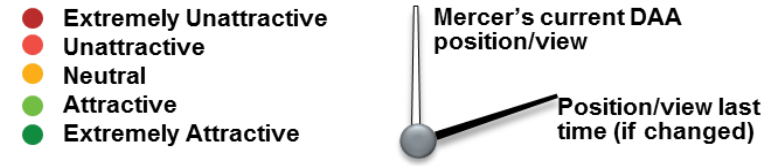
The VaR figures shown are based on approximate liability data rather than actual Fund cashflows, and are based on the strategic asset allocation at the time. They are therefore illustrative only and should not be used as a basis for taking any strategic decisions.

MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.05	12.3	*Remains ahead of the assumed strategic return. This has decreased from 20.1% p.a. last quarter as the latest quarter's return of -11.2% was materially lower than the 8.6% return of Q4 2015, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.70	14.8	*The three year return from emerging market equities has decreased from 17.5% p.a. last quarter, as the return of -3.9% over Q4 2018 was lower than the return for the quarter that fell out of the period (3.1%). The three year return is above the assumed strategic return.*
Diversified Growth	6.95 (Libor + 4% / RPI + 5%)	6.0 (4.5 / 8.1)	*DGFs are expected to produce an attractive return over the long term but with lower volatility than equities – this is the basis for the Libor and RPI based benchmarks. Low cash rates means benchmark has underperformed the long term expected return from equity, but recent higher inflation means RPI benchmark has outperformed. An absolute strategic return of 6.95% p.a. has been used, along with the specific manager targets for comparison. During periods of strong equity returns we would expect DGFs to underperform equities.*
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	1.90	7.1	*UK gilt returns remain considerably above the long term strategic assumed return as yields remain low relative to historic averages. Over the last quarter, returns were positive for nominal gilts and index linked gilts as yields fell. Corporate bond returns are broadly in line with the strategic assumed return.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	2.15	9.2	
UK Corporate Bonds (BofAML Sterling Non Gilts)	3.25	4.2	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	5.10	-1.2	*Hedge fund returns were negative this quarter and remain below long term averages and the strategic return, as they are affected by low cash rates. It should be noted that the index includes a wide variety of strategies that may have had very divergent returns.*
Property (IPD UK Monthly)	5.75	7.0	*Actual property returns continue to be ahead of the expected returns. Slowing rental growth post-Brexit has meant fundamentals have weakened and a more cautious outlook may be required. Nevertheless, property returned 1.1% over the fourth quarter of 2018.*
Infrastructure (S&P Global Infrastructure)	6.95	12.3	*The infrastructure three year return is above the strategic return. This performance was in part driven by currency as sterling depreciated against the US dollar and euro over the last three years. Returns of this index have been largely driven by currency moves. The 100% hedge in place for the infrastructure mandate removes the currency effect from the actual returns earned. This is also true for the global property mandate with Partners.*

Source: Thomson Reuters Datastream. Returns are in sterling terms.

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q1 2019

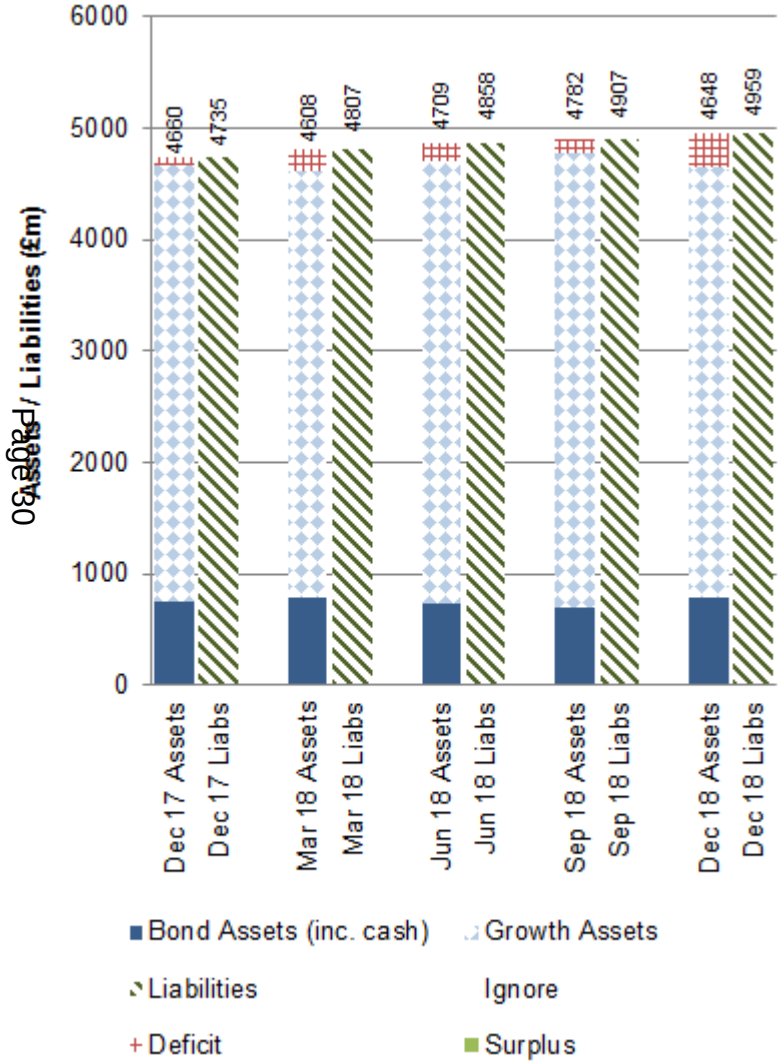


The charts above summarise Mercer's views on the medium term (1-3 years) outlook for returns from the key asset classes. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect the Scheme to make frequent tactical changes to their asset allocation based upon these views.

SECTION 4

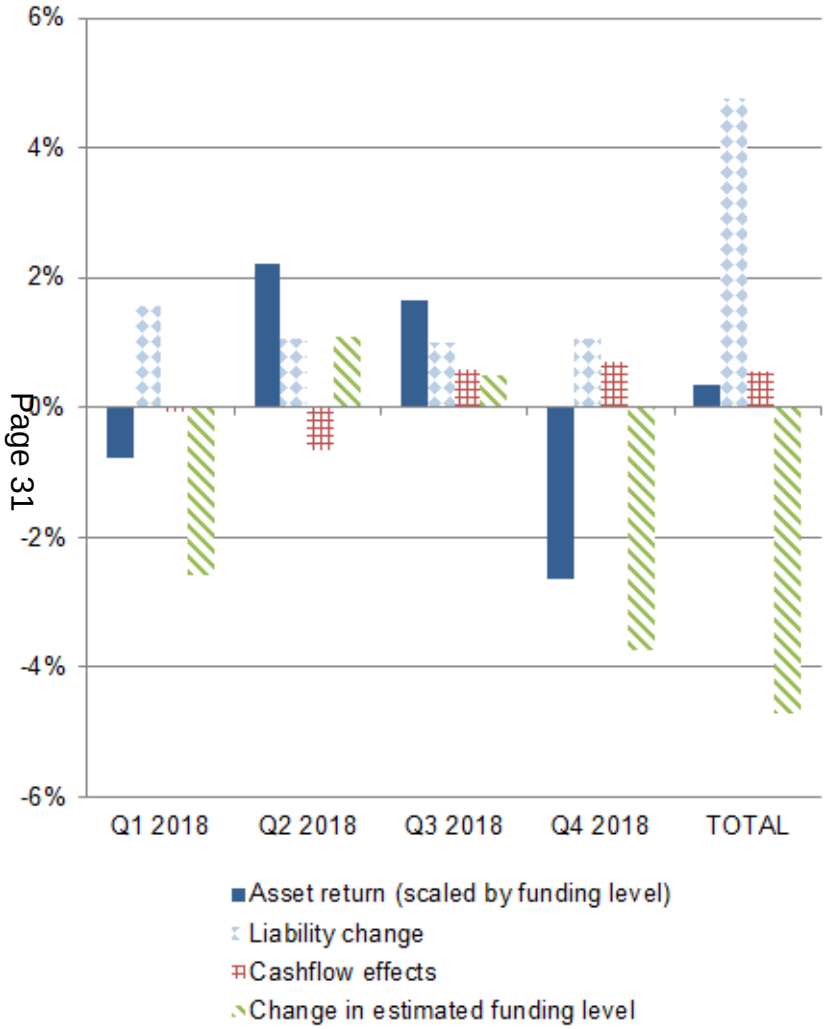
CONSIDERATION OF FUNDING LEVEL

CONSIDERATION OF FUNDING LEVEL
ASSET ALLOCATION AND FUNDING LEVEL



- Based on financial markets, investment returns and net cashflows into the Fund, the estimated funding level decreased by c.3% over the fourth quarter of 2018 from 97% to 94%, all else being equal.
- This decrease in funding level resulted from the negative return on the Fund's assets coupled with the increase in the present value of the liabilities over the quarter.
- This is calculated using the actuarial valuation assumptions as at 31 March 2016 and the 'CPI plus' discount basis.

CONSIDERATION OF FUNDING LEVEL FUND PERFORMANCE RELATIVE TO ESTIMATED LIABILITIES



- The Fund's assets returned -2.7% over the quarter which, when allowing for the funding position, decreased the funding level by 2.6%.
- The Fund's estimated liabilities increased by 1.1% over the quarter.
- Over this quarter, the 'cashflow effect' from contributions was positive but small.
- Overall, the combined effect has decreased the estimated funding level, from 97% to 94%.
- Over the one-year period, the estimated funding level has also decreased by c.5%.

SECTION 5
FUND VALUATIONS

FUND VALUATIONS
VALUATION BY ASSET CLASS

Asset Allocation							
Asset Class	**Start of Quarter (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**	**Target Strategic Benchmark (%)**	**Ranges (%)**	**Difference (%)**
Developed Market Equities	1,790,290	1,587,452	37.4	34.2	34.0	29 - 39	+0.2
Emerging Market Equities	224,816	214,209	4.7	4.6	6.0	3 - 9	-1.4
Diversified Growth Funds	605,788	582,786	12.7	12.5	15.0	10 - 20	-2.5
Fund of Hedge Funds	231,734	231,533	4.8	5.0	5.0	0 - 7.5	0.0
Property	440,154	450,262	9.2	9.7	10.0	5 - 15	-0.3
Infrastructure	318,714	328,989	6.7	7.1	5.0	0 - 7.5	+2.1
Multi-Asset Credit	477,807	466,241	10.0	10.0	11.0	6 - 16	-1.0
Corporate Bonds	80,258	80,345	1.7	1.7	2.0	No set range	-0.3
LDI*	497,558	628,409	10.4	13.5	12.0	No set range	+1.5
Cash (including currency instruments)	114,646	77,488	2.4	1.7	-	0 - 5	+1.7
Total	**4,781,764**	**4,647,715**	**100.0**	**100.0**	**100.0**		**0.0**

Source: Investment Managers, Mercer. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges.
* Valuation includes mark-to-market value of equity protection strategy.

- Invested assets decreased over the quarter by £134m due to negative returns domestic and overseas equities in particular. All of the asset classes remain within their tolerance ranges.

FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
Brunel	Global Low Carbon Equities	532,884		472,992	11.1	10.2
BlackRock	Global Equities	451,513		399,349	9.4	8.6
BlackRock	Corporate Bonds	80,258		80,345	1.7	1.7
BlackRock	LDI*	497,558		628,409	10.4	13.5
Brunel	UK Equities	-	176,737	170,763	0.0	3.7
TT International	UK Equities	195,422	-176,737	655	4.1	0.0
Jupiter	UK Equities	200,748		179,756	4.2	3.9
Jupiter	Global Sustainable Equities	10,652		9,434	0.2	0.2
Schroder	Global Equities	399,071		354,505	8.3	7.6
Genesis	Emerging Market Equities	110,373		104,077	2.3	2.2
Unigestion	Emerging Market Equities	114,443		110,133	2.4	2.4

Source: Investment Managers, Mercer. Totals may not sum due to rounding.
* Valuation includes mark-to-market value of equity protection strategy.

FUND VALUATIONS
VALUATION BY MANAGER CONTINUED

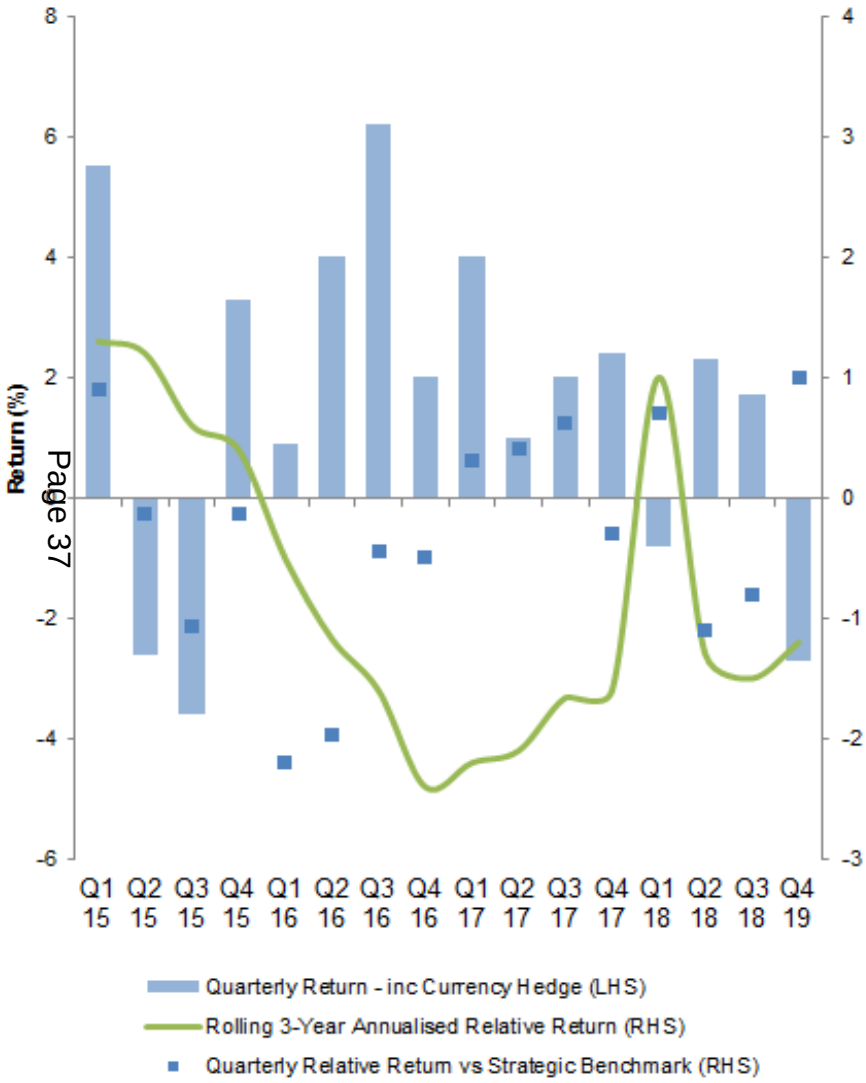
Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
Pyrford	DGF	139,091	77,000	212,778	2.9	4.6
Aberdeen Standard	DGF	236,975	-230,000	-	5.0	0.0
Ruffer	DGF	229,721	153,000	370,008	4.8	8.0
JP Morgan	Fund of Hedge Funds	231,734		231,533	4.8	5.0
Schroder	UK Property	234,696		238,437	4.9	5.1
Partners	Property	205,458		211,826	4.3	4.6
IFM	Infrastructure	318,714		328,989	6.7	7.1
Loomis Sayles	Multi-Asset Credit	477,807		466,241	10.0	10.0
Record Currency Management	Currency Hedging	29,380	-28,650	-2,101	0.6	0.0
Internal Cash	Cash	85,266		79,589	1.8	1.7
Total		**4,781,764**		**4,647,715**	**100.0**	**100.0**

Source: Investment Managers, Mercer. Totals may not sum due to rounding.
The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included in the 'Internal Cash' start and end balance to reflect the asset value position of the total Fund.

SECTION 6

PERFORMANCE SUMMARY

PERFORMANCE SUMMARY
TOTAL FUND PERFORMANCE

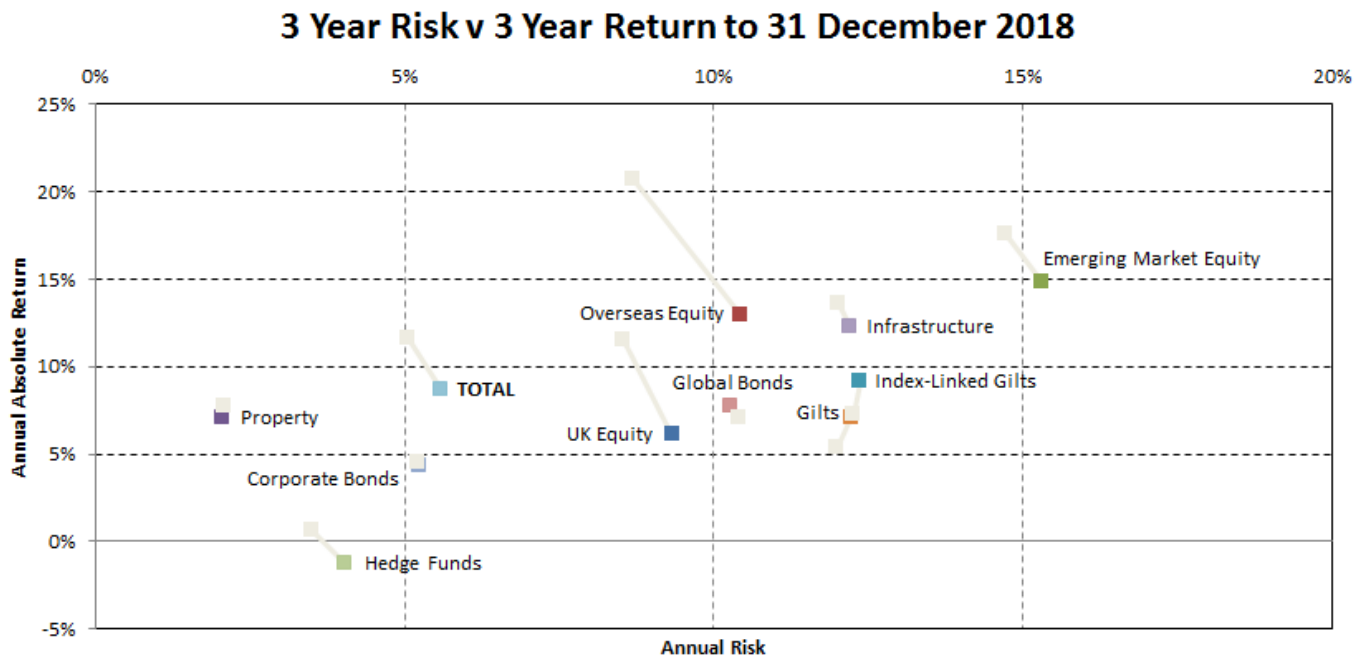


	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (inc currency hedge)	-2.7	0.4	7.8
Total Fund (ex currency hedge)	-2.1	1.8	9.2
Total Fund (ex LDI)	-3.1	-0.7	-
Total Fund (ex LDI, ex currency hedge)	-2.5	0.9	-
Strategic Benchmark (no currency hedge)	-3.7	0.5	9.0
Relative (inc currency hedge)	**+1.0**	**-0.1**	**-1.2**

Comments

- Over Q4 2018, the Fund outperformed the Strategic Benchmark by 1.6% when excluding currency hedging and by 1.0% when including currency hedging (as sterling depreciated). The Fund outperformed the Strategic Benchmark by 1.2% on a like-for-like basis (i.e. excluding LDI and currency hedging).
- The Fund outperformed the Strategic Benchmark over the year by 1.3%, when excluding currency hedging but marginally underperformed by 0.1% when including currency hedging.
- The Fund underperformed the Strategic Benchmark over the three year period by 1.2% p.a., albeit this was largely down to the impact of the currency hedge. Excluding the currency hedge, the Fund outperformed by 0.2% p.a.

MANAGER MONITORING
RISK RETURN ANALYSIS



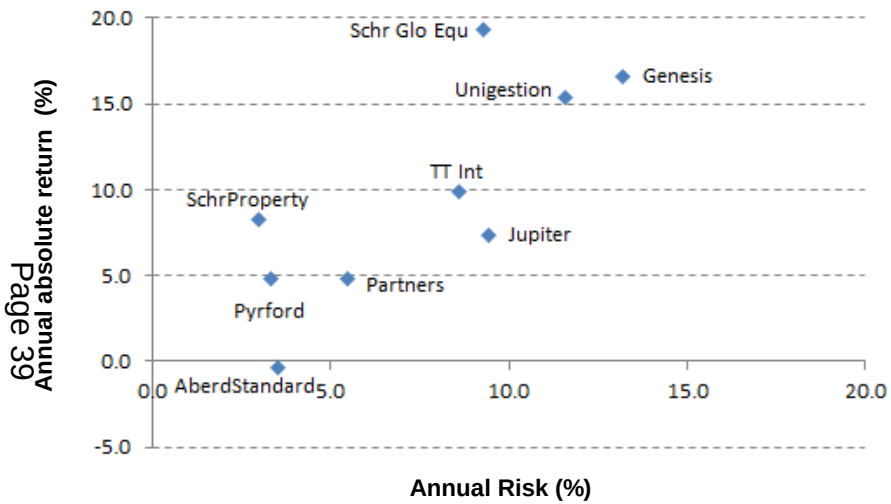
Comments

- This chart shows the 3-year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of December 2018, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark indices and allocations from BNY Mellon). We also show the positions as at last quarter, in grey.

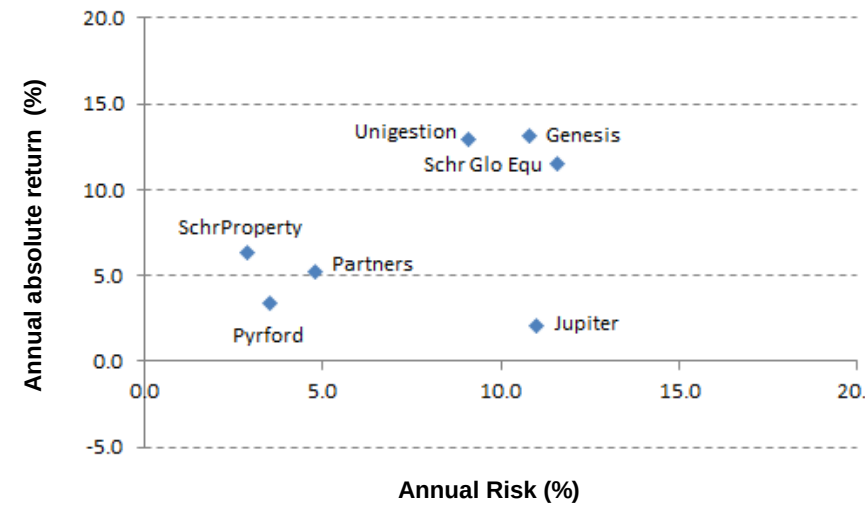
- Changes in observed returns and volatilities over the quarter were limited to some asset classes. Equities saw notable decreases in the three-year returns and increases in the associated volatility.

MANAGER MONITORING
RISK RETURN ANALYSIS

3 year Risk vs 3 year Return to 30 September 2018



3 year Risk vs 3 year Return to 31 December 2018



Comments

- The equity mandates saw their three-year return decreasing more significantly over the quarter.

MANAGER MONITORING
MANAGER PERFORMANCE TO 31 DECEMBER 2018

Manager/ Asset Class	3 Months			1 Year			3 Year			3 Year Performance Target (% p.a.)	3 Year Performance vs Target
	Fund (%)	B'mark (%)	Relative (%)	Fund (%)	B'mark (%)	Relative (%)	Fund (% p.a.)	B'mark (% p.a.)	Relative (% p.a.)		
Brunel Passive Low Carbon Equity	-11.2	-11.2	0.0	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
BlackRock Equities	-11.6	-11.8	+0.2	-2.1	-2.1	0.0	11.3	11.1	+0.2	-	N/A
BlackRock Corp Bonds	-0.4	-0.5	+0.1	-4.0	-4.1	+0.1	6.5	6.4	+0.1	-	N/A
BlackRock LDI	1.5	1.5	0.0	9.8	9.8	0.0	9.9	10.0	-0.1	-	N/A
TT International ***	-6.1	-5.2	-0.9	-3.8	-1.5	-2.3	6.2	7.8	-1.5	+3-4	Target not met
Jupiter UK Equity	-10.5	-10.2	-0.3	-11.5	-9.5	-2.2	2.1	6.1	-3.8	+2	Target not met
Jupiter Glb Sust Equity	-11.4	-10.6	-0.9	N/A	N/A	N/A	N/A	N/A	N/A	+2-4	N/A
Schroder Equity	-11.2	-10.6	-0.7	-3.9	-3.3	-0.6	11.5	12.5	-0.9	+4	Target not met
Genesis	-5.6	-5.2	-0.4	-11.0	-8.9	-2.3	13.1	15.1	-1.7	-	Target not met
Unigestion	-3.8	-5.3	+1.6	-0.5	-9.3	+9.7	12.9	14.7	-1.6	+2-4	Target not met
Pyrford	-1.7	1.8	-3.4	-0.9	7.9	-8.2	3.4	8.2	-4.4	-	Target not met
Aberdeen Standard ***	-2.4	1.3	-3.6	-5.3	5.8	-10.5	-2.0	5.6	-7.2	-	Target not met
Ruffer	-4.6	1.5	-6.0	-6.0	5.8	-11.2	N/A	N/A	N/A	-	N/A
JP Morgan	-3.0	1.3	-4.2	1.4	5.1	-3.5	2.6	4.3	-1.6	-	Target not met
Schroder Property	0.7	0.9	-0.2	6.6	6.5	+0.1	6.3	6.4	-0.1	+1	Target not met
Partners Property *	1.0	2.5	-1.5	6.8	10.0	-2.9	5.2	10.0	-4.4	-	Target not met
IFM	0.8	1.2	-0.4	15.1	4.5	+10.1	14.8 **	3.9 **	+10.4 **	-	N/A
Loomis Sayles	-2.4	1.2	-3.6	-4.4	4.8	-8.8	N/A	N/A	N/A	-	N/A

- Source: Investment Managers, Mercer estimates.
- **Returns are in GBP terms**, consistent with overall fund return calculations before currency hedging is applied, **except for JP Morgan, Partners and IFM, whose performance is shown as IRR in local currency terms**.
- In the relative performance columns, returns in blue text exceeded their respective benchmarks, those in red underperformed, and black text shows performance in line with benchmark.
- In the table above, and throughout this report, relative returns have been calculated geometrically (i.e. the portfolio return is divided by the benchmark return) rather than arithmetically (where the benchmark return is subtracted from the portfolio return).
- In the table above, Partners performance is measured against an IRR target of 10% p.a.
- A summary of the benchmarks for each of the mandates is given in Appendix 1.

* Performance to 30 September 2018 as this is the latest date that this is available to.
** Performance is shown since inception.
*** Performance for TT and Aberdeen Standard shown to 31 October 2018 as that is the closest month end to termination. 3 months performance represents performance over October 2018.

APPENDIX 1

SUMMARY OF MANDATES

SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance Target (p.a.)
Brunel	Passive Global Low Carbon Equity	MSCI World Low Carbon	-
BlackRock	Passive Global Equity	MSCI World	-
BlackRock	Passive Corporate Bond	iBoxx £ Non-Gilts Over 15 Years	-
BlackRock	Matching (Liability Driven Investing)	Return on liabilities being hedged	-
Brunel	Active UK Equities	FTSE All Share	+2%
Jupiter Asset Management	UK Equities (SRI)	FTSE All Share	+2%
Jupiter Asset Management	Global Sustainable Equities (SRI)	MSCI AC World	+2-4%
Schroder	Global Equities (Unconstrained)	MSCI AC World	+4%
Genesis	Emerging Market Equities	MSCI Emerging Markets IMI TR	-
Longnigestion	Emerging Market Equities	MSCI Emerging Markets NET TR	+2-4%
Pyrford	Diversified Growth Fund	RPI +5% p.a.	-
Ruffer	Diversified Growth Fund	3 Month LIBOR +5% p.a.	-
JP Morgan	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Schroder	UK Property	IPD UK Pooled	+1%
Partners	Overseas Property	Net IRR of 10% p.a. (local currency)	-
IFM	Infrastructure	6 Month LIBOR +2.5% p.a.	-
Loomis Sayles	Multi-Asset Credit	3 Month LIBOR +4% p.a.	-
Record	Passive Currency Hedging	N/A	-
Cash	Internally Managed	7 Day LIBID	-

APPENDIX 2

MARKET STATISTICS INDICES

MARKET STATISTICS INDICES

Asset Class	Index
UK Equities	FTSE All-Share
Global Equity	FTSE All-World
Overseas Equities	FTSE World ex UK
US Equities	FTSE USA
Europe (ex-UK) Equities	FTSE W Europe ex UK
Japanese Equities	FTSE Japan
Asia Pacific (ex-Japan) Equities	FTSE W Asia Pacific ex Japan
Emerging Markets Equities	FTSE AW Emerging
Global Small Cap Equities	FTSE World Small Cap
Hedge Funds	HFRX Global Hedge Fund
High Yield Bonds	BofA Merrill Lynch Global High Yield
Emerging Market Debt	JP Morgan GBI EM Diversified Composite
Property	IPD UK Monthly Total Return: All Property
Infrastructure	S&P Global Infrastructure
Commodities	S&P GSCI
Over 15 Year Gilts	FTA UK Gilts 15+ year
Sterling Non Gilts	BofA Merrill Lynch Sterling Non Gilts All Stocks
Over 5 Year Index-Linked Gilts	FTA UK Index Linked Gilts 5+ year
Global Bonds	BofA Merrill Lynch Global Broad Market
Global Credit	Barclays Capital Global Credit
Eurozone Government Bonds	BofA Merrill Lynch EMU Direct Government
Cash	BofA Merrill Lynch United Kingdom Sterling LIBOR 3 month constant maturity

These are the indices used in this report for market commentary; individual strategy returns are shown against their specific benchmarks.

APPENDIX 3

CHANGES IN YIELDS

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	31 Dec 2018	30 Sep 2018	31 Dec 2017	31 Dec 2016
UK Equities	4.46	3.80	3.59	3.47
Over 15 Year Gilts	1.76	1.86	1.68	1.76
Over 5 Year Index-Linked Gilts	-1.58	-1.49	-1.66	-1.66
Sterling Non Gilts	2.75	2.63	2.17	2.29

- Nominal yields were down at the shorter end of the curve over the quarter.
- The Over 15 Year Gilt Index underperformed the broader global bond market over the quarter, generating a return of 2.6%.
- Real yields also fell across the curve over the quarter. This led to the Over 5 Year Index-Linked Gilts Index returning 2.0%.
- Credit spreads increased sharply over the quarter, with the sterling Non-Gilts All Stocks Index credit spread ending the quarter at c.1.6% p.a. UK credit assets delivered a nil return over the quarter.

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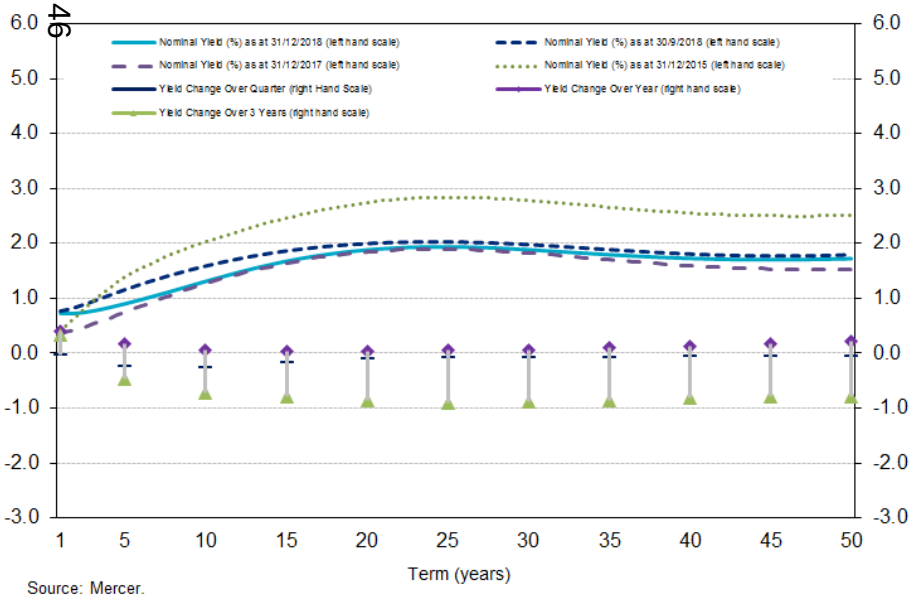
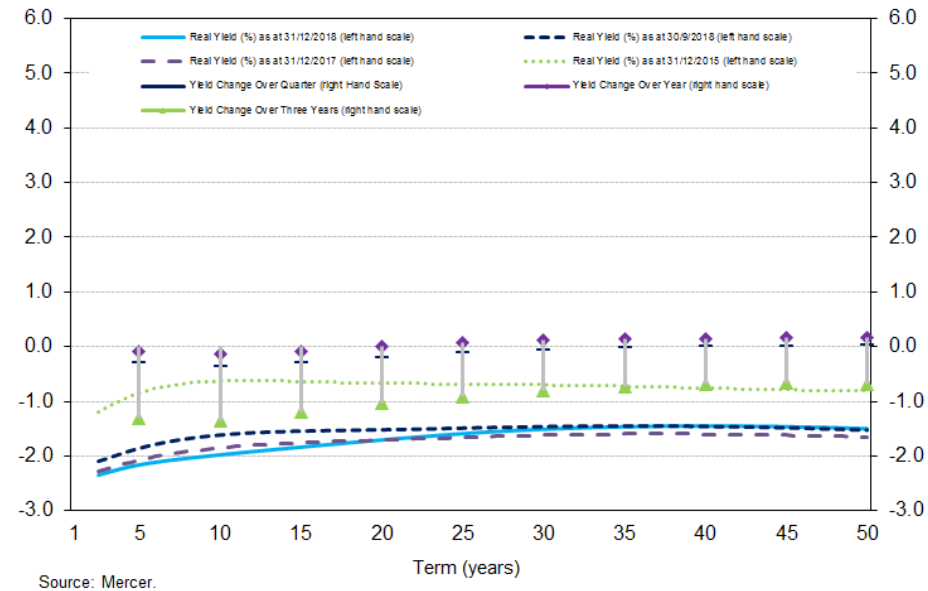
Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

MAKE TOMORROW, TODAY

MERCER

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Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum (LAPFF) exists to promote the long-term investment interests of member funds and beneficiaries, and to maximise their influence as shareholders whilst promoting the highest standards of corporate governance and corporate responsibility at investee companies. Formed in 1990, LAPFF brings together a diverse range of 79 public sector pension funds and five pools in the UK with combined assets of over £230 billion.

QUARTERLY ENGAGEMENT REPORT

OCTOBER TO DECEMBER 2018

LAPFF raises the stakes and calls for a shareholder resolution at Ryanair

AGM attendance raises operational risk of joint ventures in relation to Samarco dam

Competition and Markets Authority final report devotes an appendix to LAPFF's 'expectations gap' on audit quality

Kingman Review recommends disbanding the FRC in line with LAPFF position

Affordability and climate risk strategy explored in meetings with construction firms and housebuilders

Regulatory and other challenges of plastic waste and pollution addressed with consumer goods and packaging companies

Executive Summary

Concerned about the continuing human capital management and governance issues at Ryanair, the Forum announced a proposal to file a shareholder resolution ahead of the company's 2019 AGM, with the aim of replacing the current Chair David Bonderman, who has been on the board for 22 years, and ensuring that a coherent succession plan is in place for Chief Executive Michael O'Leary. Despite numerous efforts to meet with a Board member, Ryanair has not yet agreed to such a meeting.

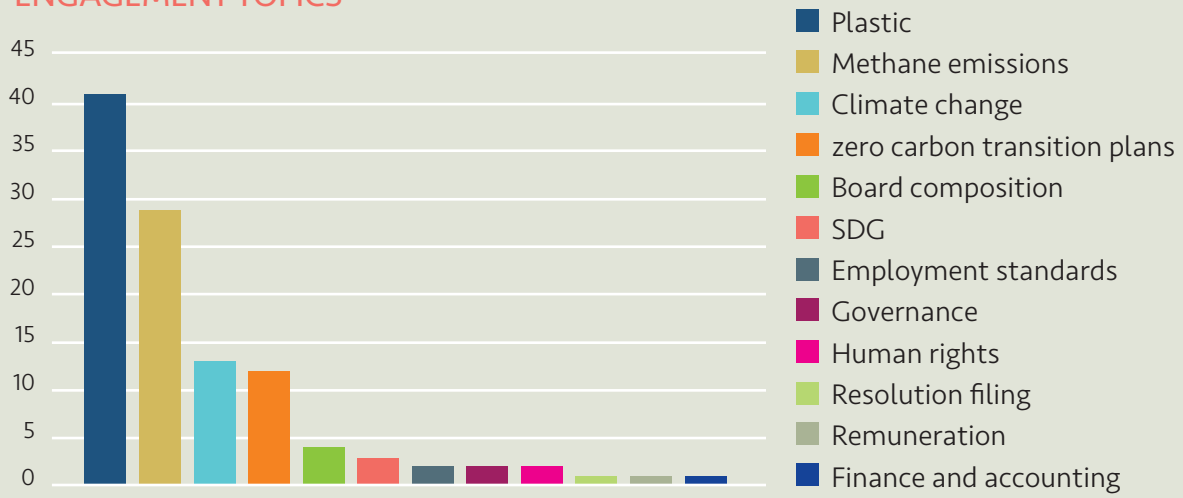
The Forum also progressed work on the topic of plastics, joining a coalition of investors engaging with companies on the overall threats posed by plastic waste and pollution. The Forum met with two companies on this, as well as discussing the use of single-use plastic specifically. Additionally, the Forum co-signed a letter to a range of companies on reducing plastic pellet loss.

The quarter saw many engagements with Board members of housebuilders and construction companies on the topic of sustainable cities and climate risk management. Part of a broader topic of Sustainable Development Goals, these meetings sought to broaden the Forum's understanding of how these companies approach issues around planning and affordability, and seek assurance that tackling climate change is integral to the business strategy.

During this quarter, LAPFF engaged with 95 companies on issues ranging from human capital management and Board composition to climate change reporting and sustainability.

Company Engagement

ENGAGEMENT TOPICS



SOCIAL RISK

Michael O'Leary

Ryanair
In continuing attempts to meet with members of the **Ryanair** Board, Acting Chair Cllr Paul Doughty attended the AGM and reiterated a request to meeting, but this was not secured. Following a failure to listen to shareholders' concerns after almost 30% of voted against Mr Bonderman's re-election at the September AGM, LAPFF announced plans to file a shareholder resolution at the 2019 AGM that would recommend the Company replace Mr Bonderman and set out succession plans for Chief Executive Michael O'Leary.

Social Risks and Poor Management at BHP and Sports Direct
During the quarter, Cllr Paul Doughty attended **BHP Billiton's** AGM, where he inquired about operational risks of joint ventures, specifically in relation to the Samarco dam. While the company noted that a different approach to joint ventures would not have prevented Samarco, BHP learned a number of lessons from the tragedy. The Forum also met with community members affected by the Samarco dam collapse to listen to their personal experiences and to assess what additional issues can be raised with the company in the future.

At **Sports Direct's** AGM in December, Cllr Doughty inquired about the current acquisition strategy which might not be appropriate to create sufficient value for shareholders. The Forum questioned the company's reasoning behind acquiring struggling high street retailers House of Fraser and Evans Cycles, in light of Michael Ashely's comments that the 'high street is dying'. Sports Direct assured the Forum that all efforts will be paid to save the high street and shareholder assets will be protected. When asked about including an independent body in the selection process of a workers representative, the company did not comment.

Following a meeting with the Vice President of investor relations representative earlier this year, LAPFF wrote to the Lead Independent Director of **Motorola Solutions**, requesting a meeting to discuss the Company's human rights policy and due diligence processes relating to operation in the Occupied Palestinian Territories.

LAPFF continued to engage with companies on gender diversity through its membership in the 30% Club Investor Group, which currently has a focus of UK companies in the energy sector. The group is also reaching out to search firms to ensure that they fully embrace the voluntary code of conduct on diversity.

'Expectations Gap is a Red Herring': LAPFF Responds to Competition and Markets Authority
The LAPFF response to the Competition and Markets Authority (CMA) consultation on the UK audit market, submitted on 29 October 2018, highlighted the deficiencies of the Financial Reporting Council and the standards and inspection regimes under that. LAPFF received a very quick response from the enquiry and a meeting was held with the acting chair of LAPFF on 13 November. The officials met were very engaged on the issues, and given similar information from the investor coalition that LAPFF has been a member of, the subject of the legal opinions of George Bompas QC for LAPFF was discussed in detail.

The matter of the auditors' claim of an 'expectation gap' between what they are supposed to do and what the public expects them to do, came up. The final CMA report devoted an appendix chapter to the subject. It states that 'LAPFF described the expectations gap as a red herring. LAPFF argued that the audit quality problem is a result of the industry's misinterpretation of the existing legal framework. In short, if the existing regime was interpreted and applied properly, the expectation gap would disappear because the current legal framework should be robust enough to produce the quality outcomes stakeholders expect.'

The CMA report also made far reaching recommendations to reform the UK audit market. Firstly, separating the consulting parts of accounting firms from audit, a form of ring fencing. Secondly, requiring that FTSE 350 companies must have joint auditors, the second auditor not being one of the Big 4.

On the same day the Kingman Review reported on the future of the Financial Reporting Council. It recommends, in line with the LAPFF position, that the FRC is disbanded and replaced with a statutory body constituted by Parliament. The Review recommends this as the Auditing, Reporting and Governance Authority.

Governance at Housebuilders and Glencore
With the aim of gaining a better understanding of companies' approach to the Sustainable Development Goals, in particular the goal on sustainable cities and communities, LAPFF met with a number of housebuilders and construction companies. At a meeting with the Chair of **Persimmon**, Roger Devlin, LAPFF Vice Chair Cllr Doug McMurdo asked about issues around planning and the Help to Buy scheme. On climate risk management, the Company expressed interest in measuring Scope 3 emissions. The Forum was also interested to hear the company's plan to repair its damaged reputation over executive payouts, following opposition from 49% of shareholders on remuneration for Chief Executive, Jeff Fairburn.

©Jim Barton

At a meeting on the same topic with Kevin Beeston, the Chair of **Taylor Wimpey**, Cllr McMurdo inquired about the sustainability of the Help to Buy scheme and the company's relationship with central government. The company then discussed climate risk management and assured LAPFF that science-based targets will be set. Diversity across the business was also a topic of discussion. The overall approach to sustainable cities and other development goals was also raised with the chief executive of **Barratt Developments**, David Thomas. The meeting discussed standards for homes, noting the board's focus on climate risk, which includes adaptation measures taken in siting for flooding as well as the need for science-based targets.

Along with other investors, including Sarasin and Church Commissioners, LAPFF met with Tony Hayward, the Chair of **Glencore** to ensure that the company has appropriate measures in place to deal with bribery and corruption. Investors present were also proposing that the company undergoes an independent review of its internal controls, to which Glencore committed to.

LAPFF also expressed its concern over **Amazon's** lack of meaningful engagement with its shareholders, despite concerns related to management of of certain environmental, social and governance matters. In a collaborative letter to the company, signatories noted their interest in filing a resolution if no response is received.

At **Rio Tinto's** ESG Forum hosted by the Chair, the Board as well as senior management, company representatives discussed the importance of incorporating ESG in business strategy and communicating about potential issues with shareholders. During a Q&A, investors engaged on a range of topics including relationship with employees and unions, fatality rate and joint ventures, as well as climate-related financial disclosure and climate change competence at Board level.

ENVIRONMENTAL AND CARBON RISK

Tackling Climate Risk at Oil and Gas Companies
One of the big stories of the quarter, was **Royal Dutch Shell** publishing a joint statement with Climate Action 100+ lead investors, setting out its corporate strategy to implement its commitment made in 2018 which was to reduce the *Net Carbon Footprint* of its energy products by around half by 2050. Specific milestones include targets linked to remuneration, annual reporting on the progress, alignment with the TCFD recommendations and review of trade association memberships. Acting Chair Cllr Paul Doughty attended Shell's 'Board Day' in December. The Chair Chad Holliday was in attendance along with the Chairs of the Audit, Remuneration and CSR Committees and described various attributes of the board members that make them effective for Shell. Cllr Doughty asked Mr Holliday how environmental, social and governance standards can be respected through non-operated joint ventures in which Shell is involved. Cllr Doughty used the example of a recent communication by IndustriALL expressing concern about working conditions for contract workers at Shell operations.

An 'eight on eight' meeting of **BP** executives and 'Climate Action 100+' investors continued long-term regular engagement with the company. Discussions aimed to tease out further details on the company's strategy for the transition to a low carbon economy, including more information on target setting over the short, medium and long-term; ensuring capex on oil and gas development is aligned with the Paris agreement and provision of information on emissions associated with the production and use of the company's products.

The focus on the oil and gas companies does not diminish, and in December, under a tight time-frame, funds were offered the opportunity to co-file a shareholder resolution to **ExxonMobil** as part of Climate Action 100+ engagement. The resolution called for the company to disclose short, medium and long-term greenhouse gas targets aligned the Paris Climate Agreement.

Along with a group of 61 investors, the Forum asked 30 companies to declare their support for continued US Environmental Protection Agency (EPA) regulation of methane emissions and to oppose the elimination of direct regulation of methane emissions. Natural gas is almost entirely methane which is 87 times more potent in global heating than carbon dioxide over a twenty year period. If emissions from gas production, storage and delivery exceed 2% of gas produced, there is no climate benefit compared to coal. The participating investors believe that

rolling back current methane regulation would be a threat to long-term viability of the oil and gas sector.

Utilities and clean energy

A meeting with **National Grid** co-ordinated by Climate Action 100+ provided encouraging news that the group will look at a 1.5 degree scenario. Cllr Robert Chapman asked about the most positive areas of 'value change' for shareholders. In the response, the decarbonisation of transport was cited, with further information provided on the timescale for the role out of charging points around the UK's motorway system. The different market forces at work in the UK and US businesses are very apparent. National Grid works closely with consumers in its US operations where Massachusetts, New York and Rode Island have each adopted targets mandating an 80% reduction in CO_2 emissions by 2050 across their entire economies. The Group is working in a number of areas to progress this including energy efficiency, micro-grids and geothermal.

During a meeting with **Southern Company**, co-ordinated by the 50 50 initiative, company representatives talked about the reasons for not having a separate Climate Committee, but instead delegating to the operations committee to address climate risks. The meeting also discussed climate-related disclosure and the use of climate-related metrics as part of executive remuneration.

LAPFF joined other Climate Action 100+ investors in writing to a number of utility companies, urging them to accelerate decarbonisation by setting out transition plans to net-zero carbon economy. Signatories also called on companies to support the development of ambitious climate policy and ensure that their trade associations are aligned with this objective.

Cross sectoral engagement

A first meeting was held with **ArcelorMittal** under the aeigis of the Climate Action 100+ Group. The meeting covered governance of climate risk at the company and plans for emission reductions through the use of low carbon technologies across operations. Scenario planning, target setting and Taskforce on Climate-related Financial Disclosure reporting were also discussed.

A collaborative conference call, was held with **General Electric Company** to follow up on an letter sent earlier in the year on the climatic impacts of the proposed Amu Power coal project in Kenya. On the call, company representatives committed only to listen to questions and provide written answers. LAPFF asked if the company had considered how prices quoted for coal versus renewables might change over a two to five year time frame, and their view on renewables. A follow-up letter to the company set out a range of issues, including on this point, by asking for the levelised cost of electricity the company used in its evaluation.

LAPFF has signed on to an Investor Statement supporting a just transition to a low-carbon economy. This statement recognises that the social impact of a low-carbon energy transition is often overlooked. However, to avoid stranded workers and stranded communities, as well as stranded physical assets, and to facilitate a smooth transition, social impacts need to be considered.

LAPFF also signed a statement from the Investor Working Group on Sustainable Palm Oil, which highlighted what investors' expect of companies regarding sustainable palm oil, and asks companies operating across the palm oil value chain to adopt and publicly disclose a 'no deforestation, no peat, no exploitation' policy. The statement serves to update an early position paper (signed by LAPFF).

FCA FINANCIAL CONDUCT AUTHORITY An exchange of correspondence with the Financial Conduct Authority (FCA) aimed to better understand how shareholder resolutions are being dealt with at dual-listed companies and to prompt the FCA to promote better practice in the regulatory framework for shareholder accountability. The Forum was specifically concerned with a resolution on climate change at Rio Tinto and reiterated to the FCA that climate risk is a pressing policy issue that affects all companies.

Plastics: 2025 Target for Biodegradable, Compostable and Recyclable Materials at PepsiCo and Nestlé

As a member of the Plastic Solutions Investor Alliance, the Forum engages with consumer goods companies on the overall threats posed by plastic waste and pollution. In November, the Forum participated in a collaborative call with **Nestlé** to discuss the company's global packaging commitment and the related challenges of moving towards a more circular plastic economy. Plastic packaging and pollution was also discussed with **PepsiCo**. The company discussed plans to solely use plastic that is biodegradable, compostable and recyclable by 2025. Both companies expressed concerns over the challenges of having global operations with different regulations. The two companies are working together to achieve the 2025 target.

The Forum has also signed an investor letter urging companies to commit to zero plastic pellet loss across their whole business and to assess and report on all progress. Plastic pellets are used to create almost all plastic products and it is estimated that over 200 thousand tonnes of pellets or other micro-plastics enter the ocean each year[1]. The letter was sent to over 40 companies in associated supply chains which included plastic manufacturers, plastic packaging manufacturers, transport and logistic companies, retailers and consumer companies.

[1]Eunomia (2016) Plastics in the Marine Environment http://www.eunomia.co.uk/reports-tools/plastics-in-the-marine-environment/

MEDIA COVERAGE

Ryanair: Pressure for a New Chair

Ryanair hits headwinds in 2018, but is still well placed to grow – Irish Times, 26 December 2018

Ryanair, O'Leary sotto l'assedio dei fondi inglesi – First Online, 9 November 2018

Investoren fordern Ablsung des Ryanair-Verwal-tungsratschefs – Ariva.de, 5 November 2018

ESG Roundup: UK public sector schemes to oppose Ryanair chairman – IPE, 30 October 2018

Pension funds heal pressure on Ryanair to ditch chairman – The Times, 29 October 2018

Pension fund revives efforts to change Ryanair leadership – LGC, 29 October 2018

Council pension fund forum calls for Ryanair chair to step down – LocalGov, 29 October 2019

Ryanair investors square up for second fight over chairman Bonderman – Independent, 29 October 2018

Ryanair investors call for chairman to go, CEO succession plan - media reports – ProactiveInvestors, 29 October 2018

Crisis en Ryanair: nueva conspiracion interna para que el presidente dimita – preferente.com, 29 October 2018

Ryanair investors call for chairman to stand down in 2019 – The Guardian, 28 October 2018

Ryanair shareholder reignites calls to replace chairman – Financial Times, 28 October 2018

Ryanair shareholder gear up for fresh call to ditch chair – The Telegraph, 28 October 2018

Ryanair shareholder calls for chairman's ouster – Reuters, 28 October 2018

Ryanair shareholders call for chairman David Bonderman to be replaced - ITV, 28 October 2018

Un actionnaire de Ryanair demande l'eviction du president – Capital, 28 October 2018

Reliable Accounts: Challenging the Auditors

Kingman review proposes replacing FRC with new, stronger regulator – IPE, 18 December 2018

Big Four warns against breaking up UK audit firms – Financial Times, 13 November 2018

Chief executive of audit watchdog to step down amid independent probe – IPE, 2 November 2018

'Total failure of a political ideology': SNP MP blasts outsourcing industry at #SNP18 fringe – Common-Space, 9 October 2018

Utilities and the Drive to Zero Carbon

Power companies must accelerate decarbonisation and support ambitious climate policy – Financial Times, 20 December 2018

Asset Managers and ESG

£230bn pensions body tells AMs to 'up your game' on ESG – Citywire Selector, 20 December 2018

Public pension funds 'underwhelmed' by managers on ESG – IPE, 20 December 2018

Pension funds criticise asset managers over lax ESG approach – LGC, 19 December 2018

Mitigating the investment risks of rising income inequality – Impact Alpha, 8 November 2018

For the LGPS, ESG is a shared priority with a split approach – LGC, 22 October 2018

COMPANY PROGRESS REPORT

95 companies engaged over the quarter

Q4 2018 ENGAGEMENT DATA

Company	Activity	Topic	Outcome
ALIBABA GROUP HOLDING LIMITED	Letter	Commit to zero plastic pellet loss	Dialogue
AMCOR LTD	Letter	Commit to zero plastic pellet loss	Dialogue
AMOREPACIFIC CORP	Letter	Commit to zero plastic pellet loss	Dialogue
ANADARKO PETROLEUM CORPORATION	Letter	Support methane emissions regulation	Dialogue
ANTERO RESOURCES	Letter	Support methane emissions regulation	Dialogue
APACHE	Letter	Support methane emissions regulation	Dialogue
ARCELORMITTAL SA	Meeting	Climate Change	Change in Process
BARRATT DEVELOPMENTS PLC	Meeting	Other (SDG)/Climate Change	Satisfactory Response
BASF SE	Letter	Commit to zero plastic pellet loss	Dialogue
BEIERSDORF AG	Letter	Commit to zero plastic pellet loss	Dialogue
BEMIS COMPANY INC	Letter	Commit to zero plastic pellet loss	Dialogue
BHP GROUP PLC (GBR)	AGM	Governance (Joint ventures)/ Human Rights	Dialogue
BP PLC	Meeting/ Letter	Climate Change/ Support methane emissions regulation	Small Improvement
C.H. ROBINSON WORLDWIDE INC.	Letter	Commit to zero plastic pellet loss	Dialogue
CABOT OIL & GAS	Letter	Support methane emissions regulation	Dialogue
CENTRICA	Letter	Set out transition plans to net-zero carbon economy	Dialogue
CEZ	Letter	Set out transition plans to net-zero carbon economy	Dialogue
CHESAPEAKE ENERGY CORPORATION	Letter	Support methane emissions regulation	Dialogue
CHEVRON	Letter	Support methane emissions regulation	Dialogue
CIMAREX ENERGY	Letter	Support methane emissions regulation	Dialogue
CONOCOPHILLIPS	Letter	Support methane emissions regulation	Dialogue
CONTINENTAL RESOURCES	Letter	Support methane emissions regulation	Dialogue
COVESTRO AG	Letter	Commit to zero plastic pellet loss	Dialogue
DAIRY FARM INTL HOLDINGS LTD	Letter	Commit to zero plastic pellet loss	Dialogue
DEVON ENERGY	Letter	Support methane emissions regulation	Dialogue
DIAMONDBACK ENERGY, INC.	Letter	Support methane emissions regulation	Dialogue
DOW DUPONT COMPANY	Letter	Commit to zero plastic pellet loss	Dialogue
DSV A/S	Letter	Commit to zero plastic pellet loss	Dialogue
E.ON SE	Letter	Set out transition plans to net-zero carbon economy	Dialogue
EASTMAN CHEMICAL COMPANY	Letter	Commit to zero plastic pellet loss	Dialogue
EDF	Letter	Set out transition plans to net-zero carbon economy	Dialogue
ENBRIDGE	Letter	Support methane emissions regulation	Dialogue
ENCANA	Letter	Support methane emissions regulation	Dialogue
ENEL SpA	Letter	Set out transition plans to net-zero carbon economy	Dialogue

Q4 2018 ENGAGEMENT DATA

Company	Activity	Topic	Outcome
ENGIE	Letter	Set out transition plans to net-zero carbon economy	Dialogue
EOG RESOURCES	Letter	Support methane emissions regulation	Dialogue
EQT	Letter	Support methane emissions regulation	Dialogue
EQUINOR/ SATOIL	Letter	Support methane emissions regulation	Dialogue
EXPEDITORS INTERNATIONAL OF WASHINGTON INC.	Letter	Commit to zero plastic pellet loss	Dialogue
EXXON MOBIL CORPORATION	Letter	Commit to zero plastic pellet loss/ Climate Change	Dialogue
FORTUM OYJ	Letter	Set out transition plans to net-zero carbon economy	Dialogue
GAS NATURAL SDG SA	Letter	Set out transition plans to net-zero carbon economy	Dialogue
GENERAL ELECTRIC COMPANY	Letter	Climate Change	Dialogue
GLENCORE PLC	Meeting	Governance (Corruption)	Small Improvement
GODREJ CONSUMER PRODUCT	Letter	Commit to zero plastic pellet loss	Dialogue
GREIF INC -CL A	Letter	Commit to zero plastic pellet loss	Dialogue
HESS CORPORATION	Letter	Support methane emissions regulation	Dialogue
IBERDROLA SA	Letter	Set out transition plans to net-zero carbon economy	Dialogue
JERONIMO MARTINS SGPS SA	Letter	Commit to zero plastic pellet loss	Dialogue
JOHNSON & JOHNSON	Letter	Commit to zero plastic pellet loss	Dialogue
KINDER MORGAN	Letter	Support methane emissions regulation	Dialogue
KUEHNE NAGEL INTERNATIONAL AG	Letter	Commit to zero plastic pellet loss	Dialogue
LG CHEMICAL LTD	Letter	Commit to zero plastic pellet loss	Dialogue
MARICO LTD	Letter	Commit to zero plastic pellet loss	Dialogue
MOTOROLA SOLUTIONS INC.	Letter	Human Rights	Dialogue
NATIONAL FUEL GAS	Letter	Support methane emissions regulation	Dialogue
NATIONAL GRID PLC	Meeting/Letter	Climate Change/Employment Standards/Set out transition plans to net-zero carbon economy	Moderate improvement
NATURA COSMETICOS SA	Letter	Commit to zero plastic pellet loss	Dialogue
NESTLÉ SA	Letter/Meeting	Commit to zero plastic pellet loss/ Environmental risk (plastic)	Small Improvement
NIPPON EXPRESS CO LTD	Letter	Commit to zero plastic pellet loss	Dialogue
NOBLE ENERGY	Letter	Support methane emissions regulation	Dialogue
OCCIDENTAL	Letter	Support methane emissions regulation	Dialogue
PANALPINA WELTTRANSPORT AG	Letter	Commit to zero plastic pellet loss	Dialogue
PEPSICO	Meeting	Environmental Risk (Plastic)	Change in Process
PERSIMMON PLC	Meeting	Other (SDG)/Climate Change/ Remuneration	Small Improvement
PETROCHINA CO LTD	Letter	Commit to zero plastic pellet loss	Dialogue
PIGEON CORP	Letter	Commit to zero plastic pellet loss	Dialogue
PIONEER NATURAL RESOURCES COMPANY	Letter	Support methane emissions regulation	Dialogue
QEP RESOURCES	Letter	Support methane emissions regulation	Dialogue
RANGE RESOURCES COMPANY	Letter	Support methane emissions regulation	Dialogue

Q4 2018 ENGAGEMENT DATA

Company	Activity	Topic	Outcome
RELIANCE INDUSTRIES LTD	Letter	Commit to zero plastic pellet loss	Dialogue
REPSOL	Letter	Support methane emissions regulation	Dialogue
ROYAL DUTCH SHELL PLC	Meeting/Letter	Climate Change/Support methane emissions regulation	Moderate Improvement
RWE AKTIENGESELLSCHAFT	Letter	Set out transition plans to net-zero carbon economy	Dialogue
RYANAIR HOLDINGS PLC	Letter	Board Composition	Dialogue
SHOPRITE HOLDINGS LTD	Letter	Commit to zero plastic pellet loss	Dialogue
SONOCO PRODUCTS COMPANY	Letter	Commit to zero plastic pellet loss	Dialogue
SOUTHERN COMPANY	Meeting/Letter	Climate Change/ Set out transition plans to net-zero carbon economy	Small Improvement
SOUTHWESTERN	Letter	Support methane emissions regulation	Dialogue
SPORTS DIRECT INTERNATIONAL	Meeting	Finance and Accounting/ Employment Standards	Dialogue
SSE PLC	Letter	Set out transition plans to net-zero carbon economy	Dialogue
TAYLOR WIMPEY PLC	Meeting	Other (SDG)/ Climate Change	Satisfactory Response
TESCO PLC	Letter	Commit to zero plastic pellet loss	Dialogue
THE COCA-COLA COMPANY	Letter	Commit to zero plastic pellet loss	Dialogue
THE PROCTER & GAMBLE COMPANY	Letter	Commit to zero plastic pellet loss	Dialogue
TOYO SEIKAN KAISHA LTD	Letter	Commit to zero plastic pellet loss	Dialogue
UNILEVER PLC	Letter	Commit to zero plastic pellet loss	Dialogue
UNI-PRESIDENT ENTERPRISE CO	Letter	Commit to zero plastic pellet loss	Dialogue
WALMART INC.	Letter	Commit to zero plastic pellet loss	Dialogue
WHITING PETROLEUM CORP	Letter	Support methane emissions regulation	Dialogue
XPO LOGISTICS INC	Letter	Commit to zero plastic pellet loss	Dialogue

NETWORKS AND EVENTS

The following lists some of the events and meetings attended by or on behalf of LAPFF representatives during the quarter:

Local Authority Pension Fund Forum

The Forum's 23rd annual conference focused on the financial aspects of corporate governance. Presentations from Lord Davies, Baroness Brown, James Bloodworth and many others covered a wide range of topics including problematic accounting rules, executive remuneration, the climate crisis, plastics, human capital management risks and diversity.

global witness

At a collaborative meeting with Peter Jones of Global Witness, the Forum discussed Glencore's relationship with notorious businessman Dan Gertler and related corruption allegations. Global Witness provided three examples around the time of Glencore's IPO that suggested significant financial benefit to Mr Gertler, and no apparent commercial benefit to Glencore.

PRI

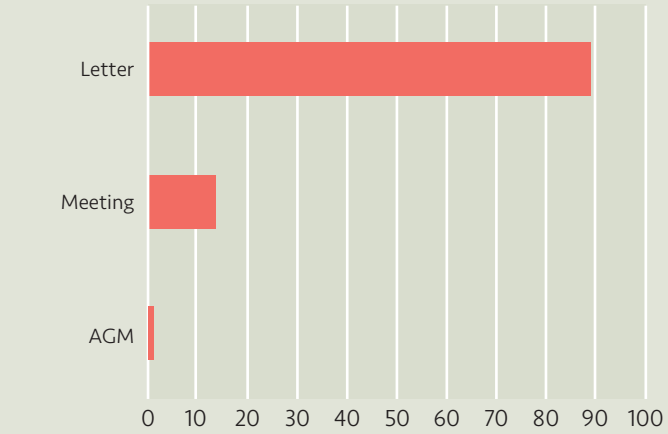
LAPFF Acting Chair, Cllr Paul Doughty, met with the Head of UK and Ireland at the Principles of Responsible Investment (PRI) in December. LAPFF has joined a number of PRI engagements in the past and the two organisations are continuing to look for ways to work together on the responsible investment agenda.
In October, the Forum attended a call with PRI to update signatories on cyber engagements and discuss next steps in escalating activities on this topic.

appg

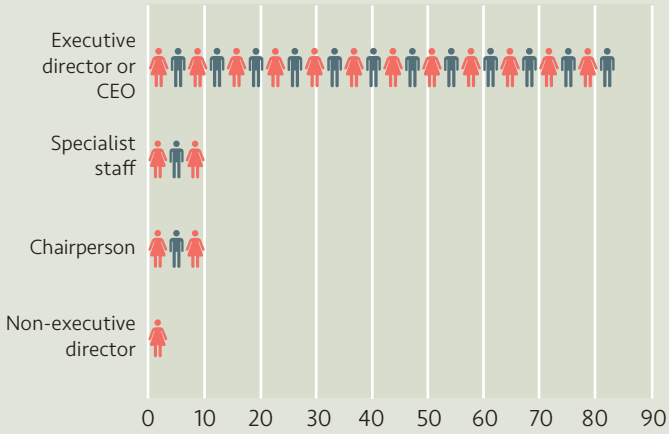
Tom Powdrill of the International Transport Workers' Federation, spoke about employment standards at Ryanair and the role of pension funds at the October meeting of the All Party-Parliamentary Group (APPG) on Local Authority Pension Funds. Chaired by Clive Betts MP, the meeting also covered the topic of localising pension fund investments, introduced by Craig Berry, a former employee of Sheffield Political Economy Research Institute. The minutes from the meeting can be accessed here.

COMPANY ENGAGEMENT ACTIVITIES

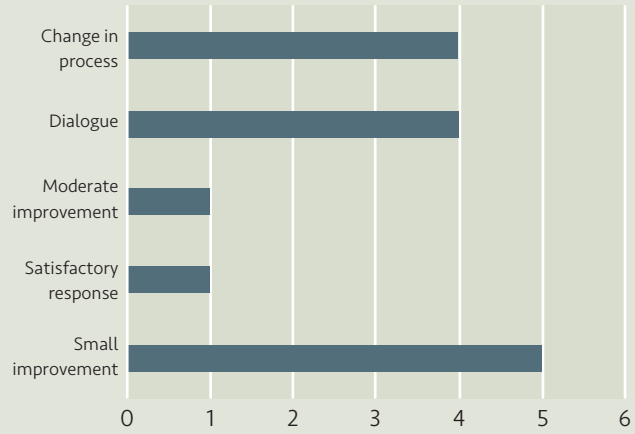
Company engagement activities



Position engaged



Outcomes



Company domiciles

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

- Avon Pension Fund
- Barking and Dagenham LB
- Barnet LB
- Bedfordshire Pension Fund
- Border to Coast Pensions Partnership
- Cambridgeshire Pension Fund
- Camden LB
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City and County of Swansea Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Cornwall Pension Fund
- Croydon LB
- Cumbria Pension Scheme
- Derbyshire CC
- Devon CC
- Dorset County Pension Fund
- Durham Pension Fund
- Dyfed Pension Fund
- Ealing LB
- East Riding Of Yorkshire Council
- East Sussex Pension Fund
- Enfield LB
- Environment Agency Pension Fund
- Falkirk Council
- Gloucestershire Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund
- Gwynedd Pension Fund
- Hackney LB
- Hammersmith and Fulham LB
- Haringey LB
- Harrow LB
- Havering LB
- Hertfordshire County Council Pension Fund
- Hounslow LB
- Islington LB
- Lambeth LB
- Lancashire County Pension Fund
- Leicestershire Pension Fund
- Lewisham LB
- Lincolnshire CC
- London CIV
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Merton LB
- Newham LB
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire CC Pension Fund
- Northamptonshire CC
- Northern Pool
- Northumberland CC
- Nottinghamshire CC
- Oxfordshire Pension Fund
- Powys CC Pension Fund
- Redbridge LB
- Rhondda Cynon Taf
- Shropshire Council
- Somerset CC
- South Yorkshire Pension Authority
- Southwark LB
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk CC Pension Fund
- Surrey CC
- Sutton LB
- Teesside Pension Fund
- Tower Hamlets LB
- Tyne and Wear Pension Fund
- Wales Pension Partnership
- Waltham Forest LB
- Wandsworth LB
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Westminster LB
- Wiltshire CC
- Worcestershire CC