Bath & North East Somerset Council

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Date: 26 August 2016
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To: All Members of the Avon Pension Fund Committee - Investment Panel

Councillor Christopher Pearce (Chair), Councillor David Veale, Councillor Cherry Beath, Ann Berresford, Councillor Mary Blatchford and Shirley Marsh

Chief Executive and other appropriate officers
Press and Public

Dear Member

Avon Pension Fund Committee - Investment Panel: Monday, 5th September, 2016

You are invited to attend a meeting of the **Avon Pension Fund Committee - Investment Panel**, to be held on **Monday, 5th September, 2016** at **2.00 pm** in the **Conference Room 1.1 West, Civic Centre, Keynsham - Civic Centre, Keynsham.**

The agenda is set out overleaf.

Yours sincerely

Sean O'Neill
for Chief Executive

If you need to access this agenda or any of the supporting reports in an alternative accessible format please contact Democratic Services or the relevant report author whose details are listed at the end of each report.

This Agenda and all accompanying reports are printed on recycled paper

NOTES:

1. **Inspection of Papers:** Any person wishing to inspect minutes, reports, or a list of the background papers relating to any item on this Agenda should contact Sean O'Neill who is available by telephoning Bath 01225 395090 or by calling at the Guildhall Bath (during normal office hours).

2. **Public Speaking at Meetings:** The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group. Advance notice is required not less than two full working days before the meeting (this means that for meetings held on Wednesdays notice must be received in Democratic Services by 4.30pm the previous Friday)

   The public may also ask a question to which a written answer will be given. Questions must be submitted in writing to Democratic Services at least two full working days in advance of the meeting (this means that for meetings held on Wednesdays, notice must be received in Democratic Services by 4.30pm the previous Friday). If an answer cannot be prepared in time for the meeting it will be sent out within five days afterwards. Further details of the scheme can be obtained by contacting Sean O'Neill as above.

3. **Recording at Meetings**:-

   The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control.

   Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators.

   To comply with the Data Protection Act 1998, we require the consent of parents or guardians before filming children or young people. For more information, please speak to the camera operator

   The Council will broadcast the images and sound live via the internet www.bathnes.gov.uk/webcast An archived recording of the proceedings will also be available for viewing after the meeting. The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

4. **Details of Decisions taken at this meeting** can be found in the minutes which will be published as soon as possible after the meeting, and also circulated with the agenda for the next meeting. In the meantime details can be obtained by contacting Sean O'Neill as above.

   Appendices to reports are available for inspection as follows:-

   Public Access points - Reception: Civic Centre - Keynsham, Guildhall - Bath, Hollies - Midsomer Norton, and Bath Central, Keynsham and Midsomer Norton public libraries.

   For Councillors and Officers papers may be inspected via Political Group Research Assistants and Group Rooms/Members' Rooms.

5. **Attendance Register:** Members should sign the Register which will be circulated at the meeting.

6. THE APPENDED SUPPORTING DOCUMENTS ARE IDENTIFIED BY AGENDA ITEM NUMBER.

7. **Emergency Evacuation Procedure**

When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are sign-posted.

Arrangements are in place for the safe evacuation of disabled people.

Avon Pension Fund Committee - Investment Panel - Monday, 5th September, 2016

at 2.00 pm in the Conference Room 1.1 West, Civic Centre, Keynsham - Civic Centre, Keynsham

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

   The Chair will draw attention to the emergency evacuation procedure as set out under Note 9.

2. DECLARATIONS OF INTEREST

   At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to complete the green interest forms circulated to groups in their pre-meetings (which will be announced at the Council Meeting) to indicate:

   (a) The agenda item number in which they have an interest to declare.

   (b) The nature of their interest.

   (c) Whether their interest is a **disclosable pecuniary interest** or an **other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

   Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer or a member of his staff before the meeting to expedite dealing with the item during the meeting.

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

   To receive any declarations from Members of the Committee and Officers of personal/prejudicial interests in respect of matters for consideration at this meeting, together with their statements on the nature of any such interest declared.

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

5. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

6. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

   To deal with any petitions or questions from Councillors and, where appropriate, co-opted and added members.

7. MINUTES: 25 MAY 2016 (Pages 7 - 16)

8. REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 JUNE 2016 (Pages 17 - 110)

If the Panel wishes to discuss the contents of Exempt Appendix 3, it should consider passing the following resolution:

> The Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVES** that the public shall be excluded from the meeting while Exempt Appendix 3 to this item is discussed, in accordance with the provisions of Section 100 (A) (4) of the Local Government Act 1972, because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

9. WORKPLAN (Pages 111 - 114)

The Committee Administrator for this meeting is Sean O'Neill who can be contacted on 01225 395090.

Protocol for Decision-making

Guidance for Members when making decisions

When making decisions, the Cabinet/Committee must ensure it has regard only to relevant considerations and disregards those that are not material.

The Cabinet/Committee must ensure that it bears in mind the following legal duties when making its decisions:

- Equalities considerations
- Risk Management considerations
- Crime and Disorder considerations
- Sustainability considerations
- Natural Environment considerations
- Planning Act 2008 considerations
- Human Rights Act 1998 considerations
- Children Act 2004 considerations
- Public Health & Inequalities considerations

Whilst it is the responsibility of the report author and the Council's Monitoring Officer and Chief Financial Officer to assess the applicability of the legal requirements, decision makers should ensure they are satisfied that the information presented to them is consistent with and takes due regard of them.

Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Wednesday, 25th May, 2016, 2.00 pm

Members: Councillor Christopher Pearce (Chair), Councillor David Veale, Councillor Cherry Beath, Ann Berresford, Councillor Mary Blatchford and Shirley Marsh
Advisors: Steve Turner (Mercer), James Giles (Mercer) and Tony Earnshaw (Independent Advisor)
Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager) and Helen Price (Investments Officer)

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

2 DECLARATIONS OF INTEREST

There were none.

3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

5 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES: 24TH FEBRUARY 2016

A Member raised a query about the third bullet point in the third paragraph of page 9:

> “there was no manager so bad that Members would want to disinvest from them in the next three to six months”

It was agreed that this was true only on the basis of the information available to the Panel at that time, and was not a restriction on the ability of the Panel to disinvest from any manager if it appeared appropriate to do so at a future date.

The Minutes were approved as a correct record and signed by the Chair.

8 LIABILITY RISK MANAGEMENT FRAMEWORK

The Assistant Investments Manager introduced this item.

He said this was the next step in the process of developing a liability risk framework, which the Panel had already considered at two previous meetings. The representatives from Mercer would comment in detail on the proposal. The key issues were the target levels for hedging and the trigger levels and their implementation. The Panel would be invited to recommend to the Committee that it approve the proposed framework and delegate its implementation to officers in consultation with the Panel.

RESOLVED that, the Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, the public shall be excluded from the meeting while Exempt Appendix 1 to this item is discussed, in accordance with the provisions of Section 100 (A) (4) of the Local Government Act 1972 because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

Mr Turner and Mr Giles commented on the proposal set out in Appendix 1.

After discussion, the Panel **RESOLVED** to recommend to the Committee

1. The liability risk management framework summarised on pages 24 and 25 of Exempt Appendix 1.

2. that the implementation of the framework be delegated to officers in consultation with the Panel.

9 REVIEW OF INVESTMENT PERFORMANCE

[Shirley Marsh left the meeting.]

The Assistant Investments Manager introduced this item.

He asked Members to note two changes to the reports. In Appendix 1 an extra column had been added for currency hedging to make it more transparent and in Exempt Appendix 3 three years of performance data had been added to facilitate the monitoring of changes over time.

He said that it had been quite a challenging quarter for managers in terms of absolute returns and relative performance. Schroders global equity and Standard Life are underperforming their three-year targets. IFM had drawn down $195m of the Fund’s $300m commitment. All active managers were underweight in oil and gas. This will be picked up in the next SRI review.

A Member said that she had asked Unigestion a question at their last meeting with the Panel about their investments in oil and gas. At a conference last week they said that they had reviewed their framework and were disinvesting from two stocks to reduce their carbon risk, and that the review had been prompted by her question.

The Assistant Investments Manager said that managers value feedback on how they are addressing issues – another example being the questions the Fund raised with managers recently about the funding of terrorism.

Mr Turner commented on the Mercer performance report.

RESOLVED

1. That there were no issues to be notified to the Committee.

2. To note the information as set out in the reports.

10 WORKPLAN

The Investment Manager presented the report.

RESOLVED to note the workplan to be included in the Committee papers.

The meeting ended at 4.53 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**	
MEETING DATE:	**5 SEPTEMBER 2016**	**AGENDA ITEM NUMBER**
TITLE:	**Review Of Investment Performance For Periods Ending 30 June 2016**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – Mercer performance monitoring report (Panel version) Exempt Appendix 3 – RAG Monitoring Summary Report Appendix 4 – Mercer: Rationale for Currency Hedging Policy Appendix 5 – Mercer: Brexit Implications Discussion		

1 THE ISSUE

1.1 This paper reports on the performance of the Fund's investment managers and seeks to update the Panel on routine aspects of the Fund's investments. The report contains performance statistics for period ending 30 June 2016.

1.2 The report focuses on the performance of the individual investment managers. The full performance report with aggregate investment and funding analysis will be reported to the Committee meeting on 23 September 2016.

1.3 This is the first quarter that performance measurement has been provided by BNY Mellon, the Fund's custodian. The former provider, SSGA (WM Performance Services) withdrew from providing this service to non-custody clients at the end of 1Q16.

2 RECOMMENDATION

That the Investment Panel:

2.1 **Notes the information as set out in the reports.**

2.2 **Identifies any issues to be notified to the Committee.**

3 FINANCIAL IMPLICATIONS

3.1 The returns achieved by the Fund for the three years commencing 1 April 2016 will impact the next triennial valuation which will be calculated as at 31 March 2019. The returns quoted are net of investment management fees.

4 INVESTMENT PERFORMANCE

A – Fund Performance

4.1 The Fund's assets increased by £160m (c. 4.2%) in the quarter ending 30 June 2016 giving a value for the investment Fund of £3,898m. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.

4.2 Developed market equities delivered modest positive returns over the quarter on a local currency basis. Japanese equities were the main exception to this trend, falling by more than 7%. European equities (ex-UK) posted small negative returns and in the UK there was a marked difference between domestically focused small- and mid-cap stocks and global large cap stocks, with the FTSE100 returning 6.5% over the quarter. Emerging markets performed well through the quarter where Latin America in particular benefited from positive political developments in Brazil and Peru. Bond yields fell across all maturities over the quarter leading to positive returns from Gilts. There was an exceptional level of volatility in financial markets as a result of the EU referendum. On the day of the referendum, 10 year UK gilt yields fell by 0.30%, the largest one day move since the financial crisis. Corporate bonds benefitted from the decline in government bond yields and contributed a positive performance over the quarter (+4.2%).

4.3 The Fund's overall performance relative to benchmarks is unavailable at the time of publishing. Full performance data will be reported to the Pensions Committee on 23 September 2016.

B – Investment Manager Performance

4.4 A detailed report on the performance of each investment manager has been produced by Mercer – see pages 26 to 46 of Appendix 2.

4.5 BlackRock, Genesis and SSgA (Europe and Pacific) are all outperforming their three year performance targets. Schroder global equity, Partners Group, Jupiter, Invesco and TT are underperforming their respective 3 year targets. This underperformance is due in part to the volatility experienced around the EU referendum date and strong performance from Q2 2013 dropping out of the reporting period – see Appendix 3. Schroder property and RLAM, although slightly under, are broadly in line with their performance target (note that Schroder Property have a 5 year performance target).

4.6 Exempt Appendix 3 summarises the latest Performance Monitoring Report used internally to monitor manager performance. The summary report highlights the managers that are rated Amber or Red, detailing the performance and/or organisational issue(s), how they are being monitored and any actions taken by officers and/or the Panel. Schroder (global equity mandate), Partners Group, Jupiter, Invesco and TT have received amber ratings this quarter. There is an update on these managers in Exempt Appendix 3. Schroder (property mandate) has underperformed its target on a 3 year basis but is within accepted tolerance levels on a 5 year basis (which is the performance period set out in the management agreement) so receives a green rating. Equally, RLAM's marginal underperformance allows it to retain its green rating.

5 INVESTMENT STRATEGY AND PORTFOLIO REBALANCING

5.1 **Asset Class Returns**: Returns from developed equities, index linked gilts, gilts and property outperformed the strategic assumptions over three years, the latter two were significantly ahead of the assumed return. Corporate bond returns are now also ahead of the strategic assumed return, following a strong Q2. Emerging market equities improved on last quarter due to strong performance throughout Q2 but continue to underperform the 3 year strategic assumption. Hedge funds underperformed significantly.

5.2 **Infrastructure**: \$195m of the Fund's \$300m commitment to infrastructure was drawdown in the fund managed by IFM on 1st April.

5.3 **Currency Hedging**: Since the result of the EU referendum, Sterling has fallen significantly against other major currencies (increasing the local market value of non-sterling assets). However, the currency hedge on the non-sterling assets has detracted from local currency returns on the four mandates that are hedged. Mercer expects currency volatility to continue and have reaffirmed their position on the appropriateness of a passive currency hedging strategy - see Appendix 4.

5.4 **Cash Management**: £60m of holdings in the corporate bond portfolio were sold down in July to fund currency hedging cash requirements necessary to maintain a 50% passive hedge level. Surplus proceeds from this sale will be held at Custody level in anticipation of further drawdowns from IFM (infrastructure mandate).

5.5 **Rebalancing:** No additional rebalancing activity was undertaken during the quarter. As at 18 August there are no allocations outside the rebalancing ranges.

5.6 **Brexit Implications**: The impact of the EU referendum outcome on the Fund is considered in Appendix 5. The Fund's discount basis, liability management framework and currency hedging program are set against the backdrop of continued uncertainty in financial markets and where material risks to asset growth may not have been fully weighed.

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. 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 the performance of the investment managers. The 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.

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 Section 151 Officer (Divisional Director – Business Support) has had the opportunity to input to this report and has cleared it for publication.

Contact person	Matt Betts, Assistant Investments Manager (Tel: 01225 395420)
Background papers	Data supplied by BNY Mellon Performance Measurement
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1

AVON PENSION FUND VALUATION - 30 JUNE 2016

	Passive Multi-Asset	Active Equities					Enhanced Indexation		Active Bonds	Funds of Hedge Funds		DGFs		Property		Infra-stucture	Currency Hedging	In House Cash	TOTAL	Avon Asset Mix %
All figures in £m	BlackRock	TT Int'l	Jupiter (SRI)	Genesis	Unigestion	Schroder Global	Invesco	SSgA	Royal London	JP Morgan	Terminating Mandates	Pyrford	Standard Life	Schroder - UK	Partners - Overseas	IFM	Record	General Cash		
EQUITIES																				
UK	173.7	203.1	161.5			30.8													569.1	14.60%
North America	168.6					162.5													331.0	8.5%
Europe	116.3					30.2		44.4											190.9	4.9%
Japan	26.2					20.6		49.0											95.7	2.5%
Pacific Rim	43.7					5.6		34.2											83.4	2.1%
Emerging Markets				166.9	191.4	25.2												0.0	383.4	9.8%
Global ex-UK							307.6												307.6	7.9%
Global inc-UK																	5.1		5.1	0.1%
Total Overseas	***354.8***	***0.0***	***0.0***	***166.9***	***191.4***	***244.0***	***307.6***	***127.6***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***5.1***	***0.0***	***1397.3***	**35.8%**
Total Equities	**528.5**	**203.1**	**161.5**	**166.9**	**191.4**	**274.8**	**307.6**	**127.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**5.1**	**0.0**	***1966.5***	**50.5%**
DGFs												**131.3**	**231.9**						**363.2**	**9.3%**
Hedge Funds										**204.4**	**4.3**								**208.7**	**5.4%**
Property														**192.5**	**188.1**				**380.6**	**9.8%**
Infrastructure																**149.2**			**149.2**	**3.8%**
BONDS																				
Index Linked Gilts	474.3																		474.3	12.2%
Conventional Gilts																			0.0	0.0%
Corporate Bonds	72.4								301.0										373.4	9.6%
Overseas Bonds																			0.0	0.0%
Total Bonds	**546.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**301.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**847.7**	**21.7%**
Cash	5.9	5.7	12.7			2.3								2.1				31.1	**59.7**	**1.5%**
FX Hedging																	-77.7		**-77.7**	**-2.0%**
TOTAL	**1081.1**	**208.7**	**174.2**	**166.9**	**191.4**	**277.1**	**307.6**	**127.6**	**301.0**	**204.4**	**4.3**	**131.3**	**231.9**	**194.6**	**188.1**	**149.2**	**-72.6**	**31.1**	**3897.9**	**96.2%**

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HEALTH WEALTH CAREER

AVON PENSION FUND

PANEL INVESTMENT PERFORMANCE REPORT QUARTER TO 30 JUNE 2016

AUGUST 2016

MAKE TOMORROW, TODAY

MERCER

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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

This report has been prepared for the Investment Panel of the Avon Pension Fund (“the Fund”), to assess the performance and risks of the investment managers of the Fund.

Fund performance

- The value of the Fund’s assets increased by £160m over the quarter, to £3,898m at 30 June 2016.

Strategy

- Global (developed) equity returns over the last three years at 12.0% p.a. have been ahead of the assumed strategic return of 8.25% p.a. from the strategic review in March 2013. We remain broadly neutral in our medium term outlook for developed market equities (over the next one to three years), despite growing uncertainty amidst geopolitical pressures, although we have reduced our conviction as a result of uncertainty following the EU Referendum.

- The three year return from emerging market equities has increased to 3.8% p.a. from -1.8 % p.a. last quarter. The three year return remains well below the assumed strategic return (of 8.75% p.a.) as returns have been affected by the general emerging markets weakness in recent years, although performance in the last couple of quarters was good. As with developed markets, we are neutral in our medium term outlook for emerging market equities over the next one to three years.

- UK government bond returns over the three years to 30 June 2016 remain significantly above the long term strategic assumed returns (with fixed interest gilts returning 15.0% p.a. against an assumed return of 4.5% p.a., and index-linked gilts returning 12.2% p.a. versus an assumed return of 4.25% p.a.) as investor demand for gilts remains high.

Strategy (continued)

- UK corporate bonds returned 7.4% p.a. over the three year period, being above their assumed return of 5.5% p.a., while property returns of 14.1% continue to be substantially above the assumed strategic return of 7% p.a., despite signs of slowing in Q2.
- Hedge fund returns remain below long term averages and the strategic return of 6% p.a., as they are affected by low cash rates, and as active managers in general have struggled to generate meaningful returns.
- With most listed assets looking close to fully valued, if not fully valued, we would continue to expect 'alpha' driven investments such as hedge funds and dynamic multi-asset strategies to play an increasingly important role in return generation over the coming three years, particularly if 'beta' (i.e. market-driven) returns are lower looking forward. In light of reduced market liquidity, we also see opportunities for more dynamic and active strategies to add value, and continue to believe that there are likely to be opportunities arising in distressed debt given the maturing credit cycle. Asset classes that can provide a reliable source of income such as Long Lease Property, Private Debt and Infrastructure also offer relatively attractive sources of return, in our view, given the current market outlook.

Managers

- Absolute returns of the managers over the quarter were mixed. UK equities struggled in light of concerns over the EU referendum and the slowing of economic growth at the start of the quarter, and Jupiter and TT delivered negative relative returns. Genesis had the highest returns benefitting from a positive quarter for emerging markets equities, while Standard Life GARS' performance over the quarter was disappointing (-1.1% relative to a benchmark of +1.4%).
- The EU Referendum result led to a significant depreciation of the pound; as a result, the currency hedging mandates in place detracted value. In the event of a strengthening pound they will be expected to add value.
- Returns over the year to 30 June 2016 were generally strong. The equity mandates (with the exception of Jupiter) delivered positive absolute returns. Emerging market returns for the year were positive on the back of a strong Q2, with Genesis and Unigestion returning 8.9% and 5.5% respectively.
- Over three years, all mandates with a three year track record produced positive absolute returns, with only Schroder global equity, Invesco and Partners failing to beat their benchmarks (although see comments on the measurement of Partners' performance later). In addition, Jupiter, TT, Schroder property and RLAM (marginally) failed to achieve their three-year performance objectives (however Schroder property has met it's target over five years), despite beating their benchmarks. The remainder of the active managers achieved their objectives.

EXECUTIVE SUMMARY

Key points for consideration

- The result from the EU Referendum led to UK gilt yields falling to historical all-time lows and sterling to depreciate significantly against other major currencies, falling to its lowest against the US dollar since 1985. Markets remain fragile due to heightened uncertainty and reduced liquidity and the short-term impact on UK economy is generally expected to be negative.

- Brexit and the dramatic falls in gilt yields are expected to have had limited direct impact on the liabilities on the 2016 "CPI plus" basis (as gilt yields do not directly affect the valuation of the liabilities in the way they did on the 2013 "gilts plus" basis), although if the Referendum results mean a reduction in long-term return expectations for assets relative to CPI this could increase liabilities.

- Uncertainty, volatility and reduced liquidity may create opportunities for investors that are able to respond dynamically to changing conditions.

- In addition, the impact of Brexit on the banking sector may create some interesting opportunities in private markets.

- Before the EU Referendum, UK property values were highly valued, and transaction market activity has since tailed off. Purchasers are more risk averse and unwilling to proceed with deals where projected returns were dependent on rental growth. Vendors who are not forced to sell are unwilling to accept a price reduction that may only be temporary.

- Secured income strategies (semi-liquid credit) offer a yield premium as compensation for reduced liquidity and greater complexity.

- Flexible manager strategies should also benefit from greater volatility and may make use of cash as an asset allocation tool (e.g. variable beta equity managers, multi-asset credit managers, some hedge funds, idiosyncratic multi-asset).

EXECUTIVE SUMMARY
MANAGER INFORMATION

Manager	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	ESG	Page
BlackRock	**Passive Multi-Asset**	✓	✓	✓	P2	*27*
Jupiter	**UK Equities**	-	✕	-	2	*28*
TT International	**UK Equities**	-	-	-	3	*29*
Schroder	**Global Equities**	✓	✕	✕	2	*30*
Genesis	**Emerging Market Equities**	✓	✓	✓	3	*31*
Unigestion	**Emerging Market Equities**	-	-	N/A	N	*32*
Invesco	**Global ex-UK Equities**	✓	✕	✕	4	*33*
SSgA	**Europe ex-UK Equities**	-	✓	✓	N	*34*
SSgA	**Pacific inc. Japan Equities**	-	✕	✓	N	*35*

Meets criteria	✓	**A or B+ rating; achieved performance target**
Partially meets criteria	-	**B, N or R rating; achieved benchmark return but not performance target**
Does not meet criteria	✕	**C rating; did not achieve benchmark**

Focus Points

- BlackRock have announced that Lorenzo Garcia replaced Nimish Patel, head of institutional and retail portfolio management (EMEA), effective May 2016. See page 27 for details.
- Genesis have informed us that Karen Yerburgh, Portfolio Manager and Managing Partner, has decided to retire. See page 31 for details.
- Unigestion have informed us that Bruno Taillardat, Investment Manager in the portfolio management team and a member of the Investment and Research Committee, will be leaving the firm. See page 32 for details.

MANAGER INFORMATION CONTINUED

Manager	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	ESG	Page
Pyrford	**DGF**	-	✓	N/A	N	*36*
Standard Life	**DGF**	-	✕	N/A	4	*37*
JP Morgan	**Fund of Hedge Funds**	✓	N/A	N/A	N	*39*
Schroder	**UK Property**	-	✕	-	3	*42*
Partners	**Global Property**	✓	✓	✕	4	*43*
IFM	**Infrastructure**	✓	N/A	N/A	2	*44*
RLAM	**Bonds**	✓	✕	-	3	*45*
Record Currency Management	**Currency Hedging**	-	N/A	N/A	N	*46*

Meets criteria	✓	**A or B+ rating; achieved performance target**
Partially meets criteria	-	**B, N or R rating; achieved benchmark return but not performance target**
Does not meet criteria	✕	**C rating; did not achieve benchmark**

Focus Points

- In July 2016, we assigned a Watch (W) status to Standard Life's GARS fund following a recent review. The size of the strategy is seen as a concern. See page 37 for details.
- Partners' performance relative to benchmark is explained in more detail on page 43.
- IFM Infrastructure rating was downgraded from A to B+ in June 2016. See page 44 for details.

SECTION 2

MARKET BACKGROUND

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MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

Most equity markets posted low positive returns in local currency terms over the quarter. Japanese equities were the main exception to this trend, falling by 7.7% in local currency terms, as the sharp appreciation of the Yen over the quarter led to concerns over future earnings growth. European (ex-UK) equities also fell by 0.6% in light of the uncertainty in the aftermath of the Brexit vote. Nonetheless, all major equity markets delivered strong positive returns in sterling terms due to the sharp depreciation of sterling against most other major currencies.

Within UK equities, there was a marked divergence in the performance of large capitalisation stocks and more domestically focused small and mid-caps. Large capitalisation stocks, as measured by the FTSE 100 index, returned 6.5% over the quarter as the fall in sterling and higher commodity prices benefited multi-nationals. Small and mid-sized companies, as measured by the FTSE Small Cap index and FTSE 250 Index, fell by 0.6% and 2.9% respectively over the quarter due to domestic economic uncertainty.

Within global equity markets, US equities were the strongest performer, delivering returns of 2.6% in local and 10.3% in sterling terms, as markets benefitted from the growing expectation that interest rate rises would be delayed further. In emerging markets, Latin American equities in particular enjoyed a strong quarter as Brazil and Peru rallied on positive political developments whereas emerging Europe such as Hungary and Poland generally underperformed amid uncertainty over the impact of Brexit. Small capitalisation stocks, as measured by the FTSE World Small Cap Index, also outperformed the broader equity market, returning 1.9% in local currency and 9.6% in sterling terms.

Bond Market Review

Bond yields fell across all maturities over the quarter, resulting in positive absolute returns for investors.

In the UK, nominal government bond yields decreased by c.20-55 bps across the curve over the quarter with the Over 15 Gilts Index returning 11.8%. On the day of the result of the EU Referendum, 10 year UK gilt yields fell by c.30 bps to 1.0%, the largest one day move since the financial crisis.

Real yields also decreased over the quarter, by c.40-50 bps. The Over 5 Year Index-Linked Gilts Index posted a positive return of 11.1% over the quarter.

Credit spreads widened slightly over the quarter, with the Sterling Non-Gilts All Stocks and Sterling Non-Gilts All Stocks indices both ending the quarter with spreads of 1.6% p.a. Overall, UK credit assets posted a positive return of 4.2% over the quarter, largely due to the benefits from a decrease in government bond yields.

Currency Market Review

In the days following the Brexit vote, sterling depreciated significantly against the US dollar and Japanese yen, ending the quarter weaker by c.7% and c.15% respectively. The yen also rose on the back of Bank of Japan's decision in late April to leave policy rates unchanged, despite market expectations for further rate cuts. Sterling also depreciated against the euro by c.5% over the quarter.

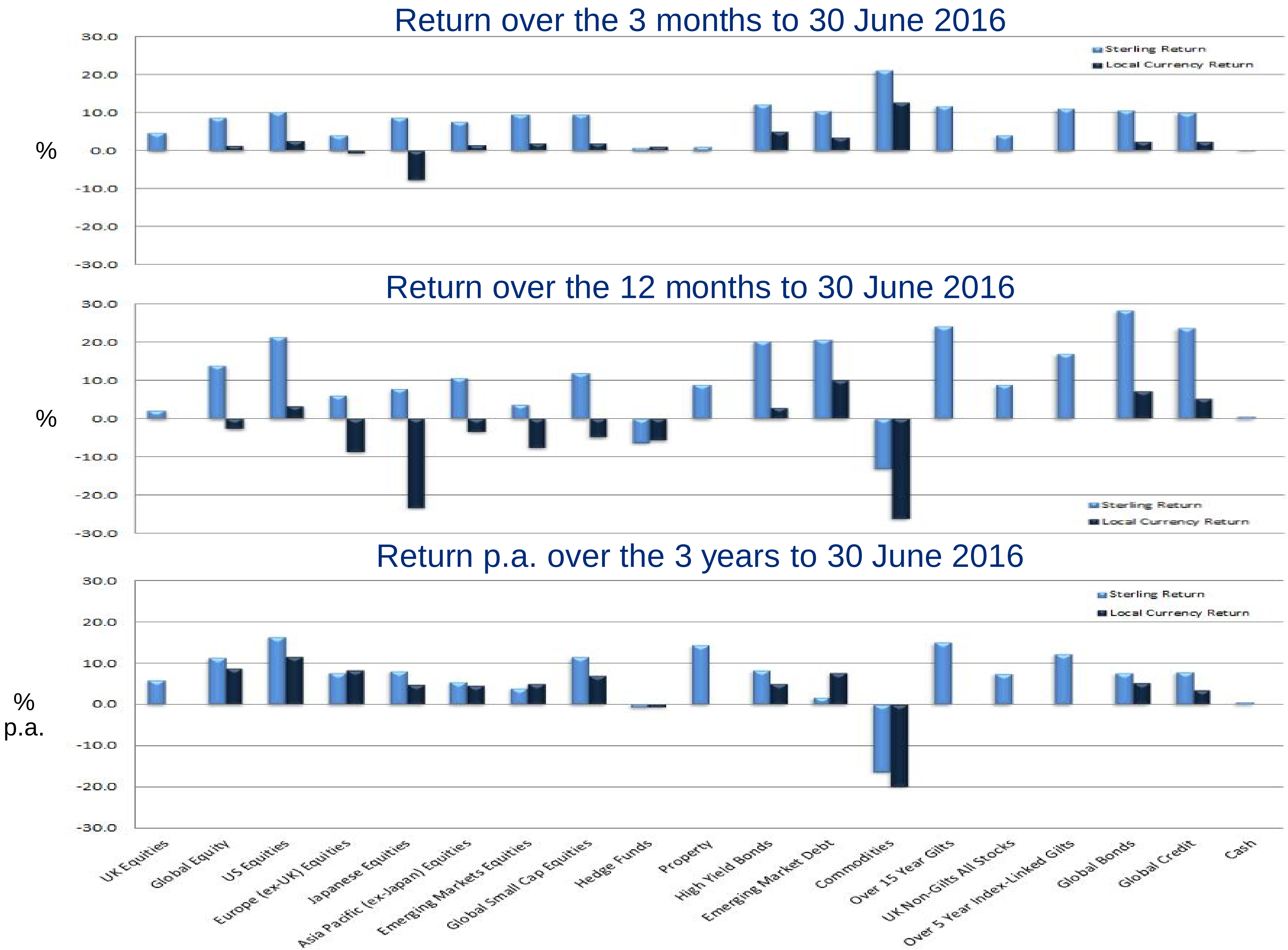
Commodity Market Review

There was a broad rally in global commodities over the quarter. Energy and precious metals led the gains with positive returns of 19.0% and 8.1% respectively in US dollar terms.

Brent Crude Oil price rallied in the second quarter, to increase from US$40.0/barrel to US$49.6/barrel, a rise of c. 24%. Gold rose by 7.0% over the quarter to reach a price of c. $1,321/oz, a level not seen since June 2014, on the back of safe haven demand.

Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE



Source: Thomson Reuters Datastream.

SECTION 3

STRATEGIC ASSUMPTIONS

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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)	8.25	12.0	*Remains ahead of the assumed strategic return.* *This has increased from 9.3% p.a. last quarter as the latest quarter's return of 8.7% was considerably higher than the 0.8% return of Q2 2013, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.75	3.8	*The three year return from emerging market equities has increased from -1.8% p.a. last quarter, as the return of 9.5% experienced last quarter was significantly higher than the quarter that fell out of the period (-7.5%). The three year return remains considerably below the assumed strategic return.*
Diversified Growth	Libor + 4% / RPI + 5%	4.6 / 6.8	*DGFs are expected to produce an equity like return over the long term but with lower volatility – this is the basis for the Libor and RPI based benchmarks. Low cash rates and low inflation means that both benchmarks have significantly underperformed the long term expected return from equity. During periods of strong equity returns we would expect DGF to underperform equities.*
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	4.5	15.0	*UK gilt returns remain above the long term strategic assumed return as yields remain low relative to historic averages, and returns have increased compared to the previous quarter as yields fell significantly over Q2. Gilt returns are now considerably above the assumed strategic return. Corporate bond returns are now also ahead of the strategic assumed return, following a strong Q2.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	4.25	12.2	
UK Corporate Bonds (BofAML Sterling Non Gilts)	5.5	7.4	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	6.0	-0.7	*Hedge fund returns 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)	7.0	14.5	*Property returns continue to be above the expected returns, driven by the encouraging economic data in the US and the UK over the last three years. Returns slowed in June in light of the result of the EU Referendum and the investor uncertainty this created.*
Infrastructure (S&P Global Infrastructure)	7.0	13.3	*Infrastructure returns are well ahead of the expected returns, driven by a strong Q2 return of 12.9%. This return was in part driven by currency as sterling depreciated over the quarter.*

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

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2016

Extremely Unattractive
Unattractive
Neutral
Attractive
Extremely Attractive

Mercer's current DAA position/view

Position/view last time (if changed)

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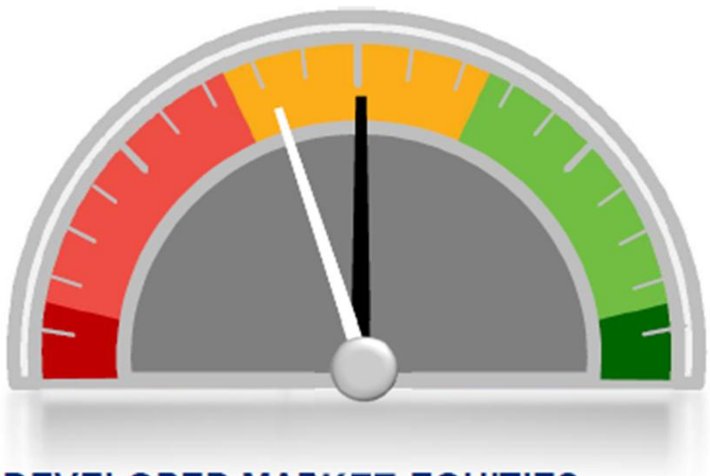
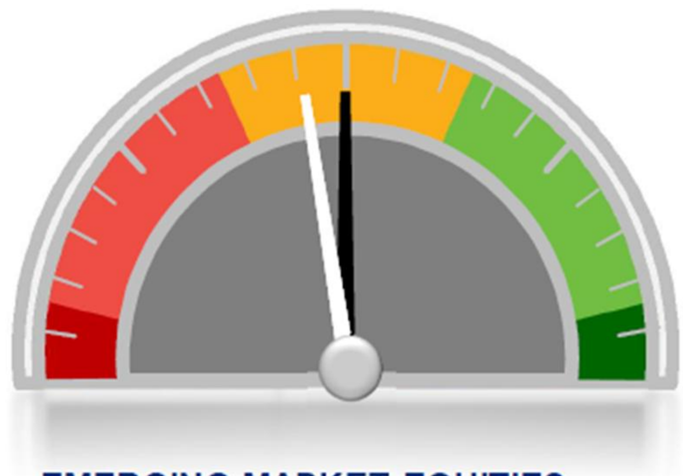


DEVELOPED MARKET EQUITIES

- Monetary policy remains generally supportive of equity markets
- Macro environment more uncertain amidst geopolitical pressures. Risks appear to have shifted to the downside
- Uninspiring earnings growth and downwards revisions to earnings estimates persist



EMERGING MARKET EQUITIES

- Valuations remain below long-term averages, though have risen over the year
- Rebound in commodity prices and more dovish outlook from the Fed should prove favourable
- A period of dollar strength and an earlier than expected rate rise by the Fed would pose potential risks for emerging markets

These charts summarise Mercer's views on the medium term outlook for returns from the key asset classes; by medium term we mean one to three years. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect investors to make frequent tactical changes to their asset allocation based upon these views. These are also based from the view of an absolute return investor, and so do not take into account pension scheme liabilities.

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2016

FIXED INTEREST GILTS (ALL STOCK)

- ✔ Ongoing extraordinary monetary policy and uncertainty following the Brexit vote will restrain upward yield moves in medium term
- ⚠ Valuations remain expensive, with nominal yields well below long-term average levels

INDEX-LINKED GILTS

- ✔ Breakeven inflation levels largely unchanged over the quarter and remain at cyclical lows
- ✔ Expect UK inflation to increase at least temporarily as a result of a Brexit
- ⚠ Valuations remain expensive, with real yields well below long-term averages

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2016

NON-GOVERNMENT BONDS (£ ALL-STOCK)

- Credit spreads remain in fair value territory relative to current default rates
- Yields remain historically low and prospective total returns are relatively limited
- A reduction in trading liquidity and an uncertain macro environment have led to the risk of increased volatility

UK PROPERTY

- Relative to gilts, yields look reasonable and the referendum result may present opportunities in parts of the market in the longer term (e.g. HLV)
- Period of uncertainty for UK property market; activity in both transaction and rental markets likely to be subdued
- Whilst true impact on valuations is still unknown, values are expected to have been pushed down in light of Brexit

SECTION 4
FUND VALUATIONS

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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	1,544,963	1,611,123	41.3	41.3	40.0	35 - 45	+1.3
Emerging Market Equities	327,975	358,238	8.8	9.2	10.0	5 - 15	-0.8
Diversified Growth Funds	360,928	363,166	9.7	9.3	10.0	5 - 15	-0.7
Fund of Hedge Funds	192,394	208,736	5.1	5.4	5.0	0 - 7.5	+0.4
Property	362,097	380,524	9.7	9.8	10.0	5 - 15	-0.2
Infrastructure	-	149,161	-	3.8	5.0	0 - 7.5	-1.2
Bonds	792,149	847,704	21.2	21.7	20.0	15 - 35	+1.7
Cash (including currency instruments)	157,710	-20,793	4.2	-0.5	-	0 - 5	-0.5
Total	**3,738,216**	**3,897,860**	**100.0**	**100.0**	**100.0**		**0.0**

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Source: BNY Mellon, Mercer. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges.

Invested assets increased over the quarter by £160m due to positive returns from most asset classes (in particular overseas equities). At the end of the quarter, all asset classes were within the agreed tolerance ranges, except cash (including currency instruments) as it takes into account the negative balance from Record currency hedging.

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 (%)**
BlackRock	Passive Multi-Asset	1,025,565	-21,660	1,081,129	27.4	27.7
Jupiter	UK Equities	173,896	-	174,182	4.7	4.5
TT International	UK Equities	201,799	-	208,744	5.4	5.4
Schroder	Global Equities	253,892	-	277,115	6.8	7.1
Genesis	Emerging Market Equities	149,857	-	166,886	4.0	4.3
Unigestion	Emerging Market Equities	178,118	-	191,352	4.8	4.9
Invesco	Global ex-UK Equities	289,696	-	307,650	7.7	7.9
SSgA	Europe ex-UK & Pacific inc. Japan Equities	119,803	-	127,575	3.2	3.3
Pyrford	DGF	126,947	-	131,310	3.4	3.4
Standard Life	DGF	233,981	-	231,856	6.3	5.9

Source: BNY Mellon, Avon. Totals may not sum due to rounding.

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 (%)
MAN	Fund of Hedge Funds	422	-	446	0.0	0.0
Signet	Fund of Hedge Funds	1,056	-	913	0.0	0.0
Gottex	Fund of Hedge Funds	3,547	-596	2,933	0.1	0.1
JP Morgan	Fund of Hedge Funds	187,695	-	204,444	5.0	5.2
Schroder	UK Property	195,868	-	194,598	5.2	5.0
Partners	Property	171,992	8,060	188,066	4.6	4.8
IFM	Infrastructure	-	136,698	149,161	-	3.8
RLAM	Bonds	289,662	-	300,968	7.7	7.7
Record Currency Management	Currency Hedging	-29,293	20,300	-72,552	-0.8	-1.9
Internal Cash	Cash	167,927	-142,801	31,083	4.5	0.8
Total		**3,738,639**	**0**	**3,897,860**	**100.0**	**100.0**

Source: BNY Mellon, Avon. Totals may not sum due to rounding.

SECTION 5
PERFORMANCE SUMMARY

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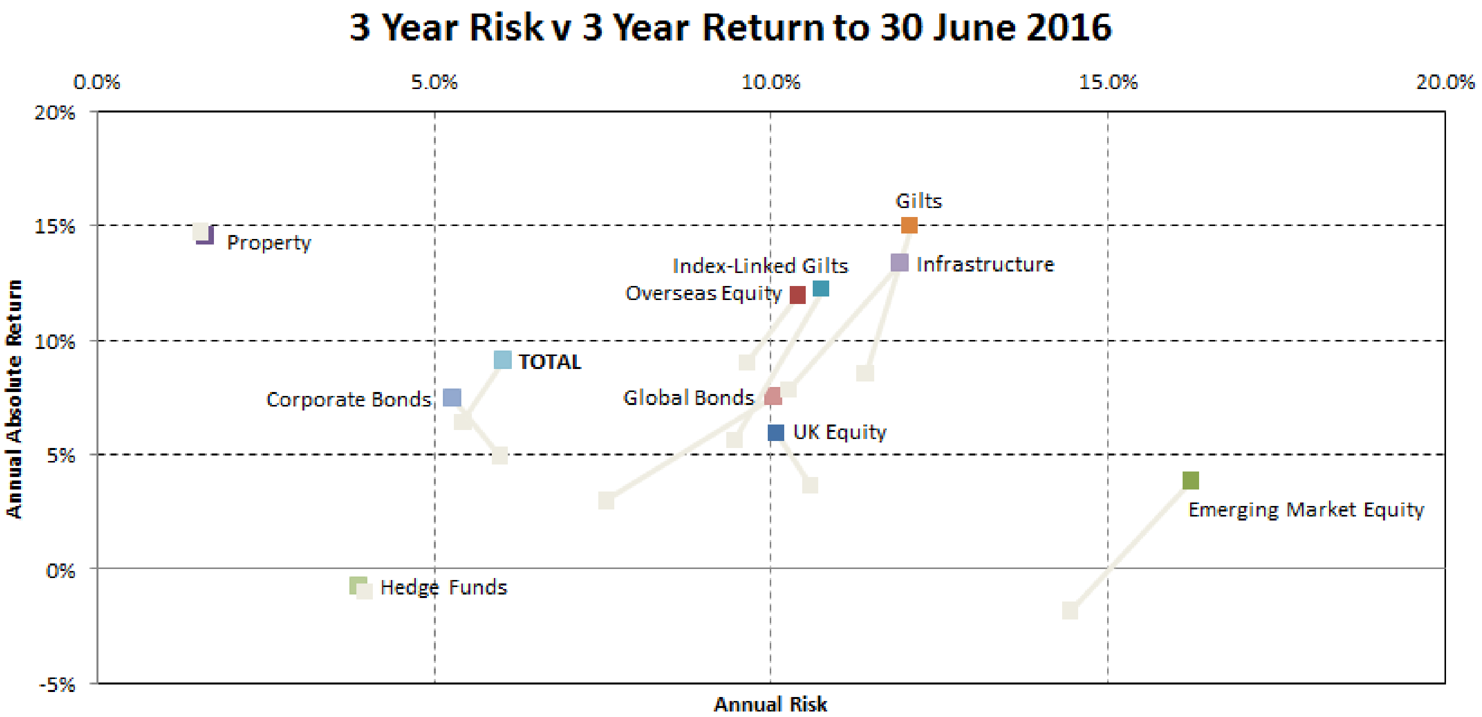
MANAGER MONITORING
RISK RETURN ANALYSIS



This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of June 2016, 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.

Comments

- *There were some significant shifts in observed returns and volatilities over the quarter. The asset classes with the most relevant shifts were global bonds, index-linked and fixed interest gilts, infrastructure and emerging markets equities. In all of them, both return and volatility increased. For overseas assets, a significant proportion of the increase in return and observed volatility was due to the fall in sterling over the quarter.*

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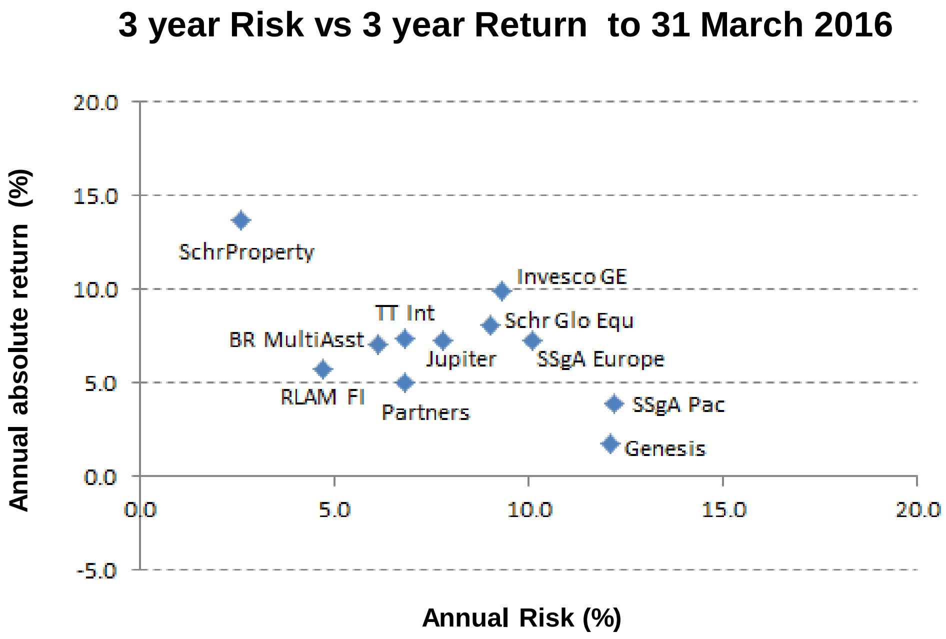

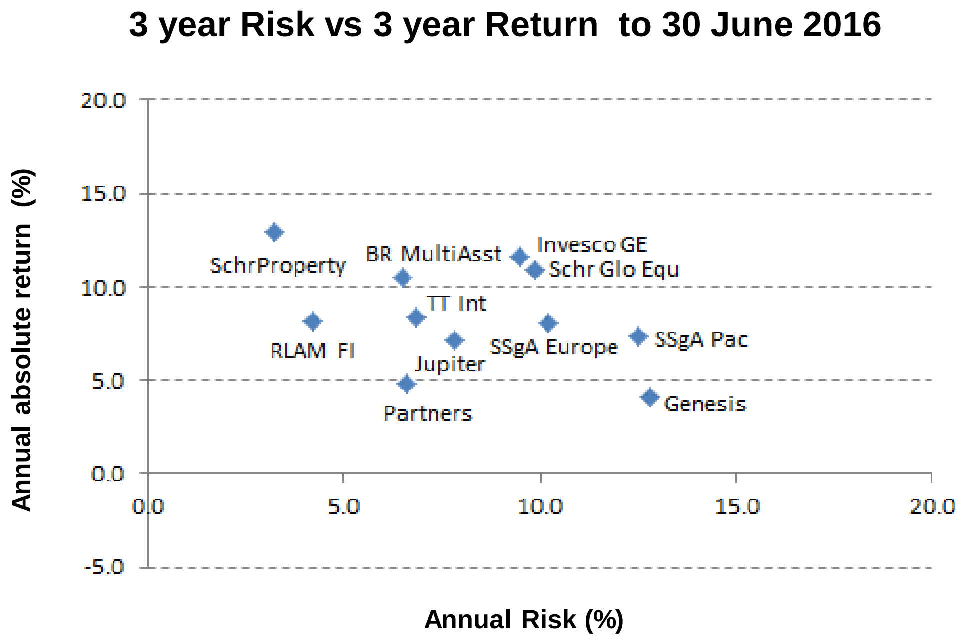

Comments

- *Absolute returns for equities and fixed income mandates increased over the quarter (consistent with the picture seen on page 23).*

MANAGER MONITORING
MANAGER PERFORMANCE TO 30 JUNE 2016

Manager / fund	3 months (%)			1 year (%)			3 year (% p.a.)			3 year outperformance target (% p.a.)	3 year performance versus target
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative		
BlackRock Multi-Asset	7.7	7.7	0.0	13.7	13.7	0.0	10.4	10.4	0.0	-	Target met
Jupiter	0.1	4.7	-4.4	-2.6	2.2	-4.7	7.0	5.9	+1.1	+2	Target not met
TT International	3.3	4.7	-1.3	4.8	2.2	+2.5	8.3	5.9	+2.3	+3-4	Target not met
Schroder Equity	9.1	8.8	+0.3	13.7	14.0	-0.3	10.7	11.2	-0.4	+4	Target not met
Genesis	10.9	8.4	+2.3	8.9	3.9	+4.8	4.1	3.0	+1.0	-	Target met
Unigestion	7.4	8.2	-0.7	5.5	3.5	+1.9	N/A	N/A	N/A	+2-4	N/A
Invesco	6.2	8.8	-2.3	12.3	15.3	-2.6	11.6	12.1	-0.4	+0.5	Target not met
SSgA Europe	4.1	3.8	+0.3	6.7	5.5	+1.1	8.1	7.6	+0.5	+0.5	Target met
SSgA Pacific	7.7	7.7	0.0	8.4	8.5	-0.1	7.3	6.8	+0.5	+0.5	Target met
Pyrford	3.4	2.0	+1.4	8.1	6.6	+1.3	N/A	N/A	N/A	-	N/A
Standard Life	-1.1	1.4	-2.4	-4.4	5.7	-9.6	N/A	N/A	N/A	-	N/A
JP Morgan	7.9	0.9	+7.0	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Schroder Property	-0.3	0.1	-0.4	6.6	7.2	-0.5	12.8	12.5	+0.3	+1	Target not met*
Partners Property	6.6	1.1	+5.4	10.4	6.9	+3.3	6.3	11.7	-4.9	+2	Target not met
IFM	9.0	0.8	+8.2	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
RLAM	4.0	4.3	-0.3	8.0	9.0	-0.9	8.1	7.4	+0.7	+0.8	Target not met
Internal Cash	0.1	0.1	0.0	0.3	0.4	0.0	0.4	0.4	0.0	-	N/A

Source: BNY Mellon, Avon, Mercer estimates.
BlackRock were unable to provide the benchmark returns in time and so we have assumed this is in line with fund performance.
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).
A summary of the benchmarks for each of the mandates is given in Appendix 1.
* Target was met over a five year time period.

SECTION 6

MANAGER PERFORMANCE

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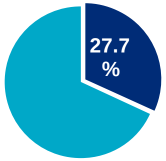

BLACKROCK – PASSIVE MULTI-ASSET (POOLED EQUITIES, SEGREGATED BONDS)
£1,081.1M END VALUE *(£1,025.6M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	●	A (no change over period under review). ESGp2 for equities
Performance Objective *In line with the benchmark*	●	Performed in line with the benchmark over three years

Manager Research and Developments

- BlackRock have been unable to provide benchmark returns at the time of writing and as such we have assumed a benchmark return in line with the fund return.
- BlackRock have announced that Lorenzo Garcia replaced Nimish Patel, head of institutional and retail portfolio management (EMEA), effective May 2016. Patel had earlier announced his intention to leave the EMEA Beta strategies team to take a break from the asset management industry. Garcia is joining from BlackRock's Risk & Quantitative Analysis group where he was head of multi-asset investment risk for EMEA and APAC. Subject to regulatory approval, he will also replace Patel as 'named' portfolio manager on index equity pooled fund ranges. This announcement does not come as a surprise as BlackRock had previously stated they would be looking to replace Patel's expertise, but wanted to take their time on this, which seemed reasonable. We are not proposing any rating change as a result of this news.

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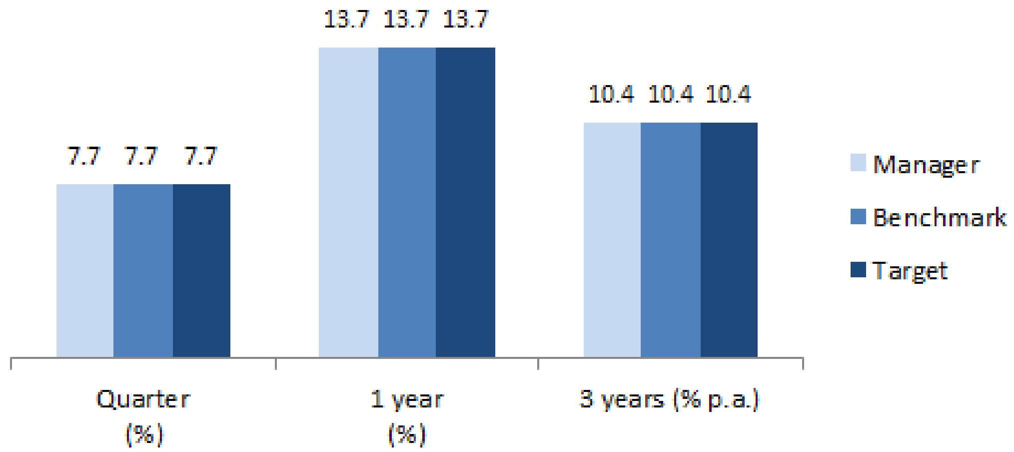
Reason for investment

To provide asset growth as part of a diversified portfolio

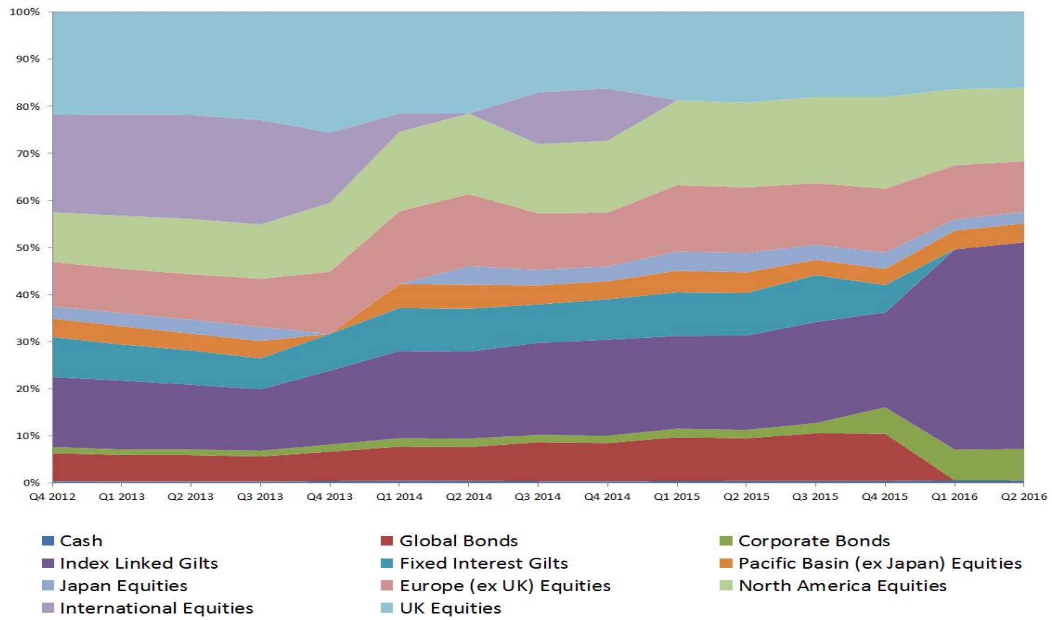
Reason for manager

- To provide low cost market exposure across multi asset classes
- Provide efficient way for rebalancing between bonds and equities within a single portfolio

Performance



Asset Allocation



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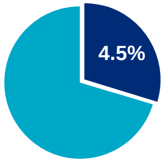


JUPITER ASSET MANAGEMENT – UK EQUITIES (SRI) (SEGREGATED)
£174.2M END VALUE *(£173.9M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B (no change over period under review). ESG2
Performance Objective *Benchmark +2% p.a.*	Outperformed benchmark by 1.1% p.a. over three years
Tracking error was 4.5% p.a. (Q1: 3.6%) – *source: Jupiter*	Number of stocks: 57

Manager Research and Developments

- The fund has significantly underperformed its benchmark over the quarter and year to 30 June 2016. The fund outperformed the benchmark over the three year period though it did not meet the target.
- The underperformance over the quarter can largely be attributed to the fund's underweight position in oil & gas and mining stocks and exposure to consumer staples stocks such as tobacco.
- The fund's overweight exposure to UK domestic-focused companies also detracted from relative performance as the result of the EU Referendum led to concerns of economic growth in the UK.

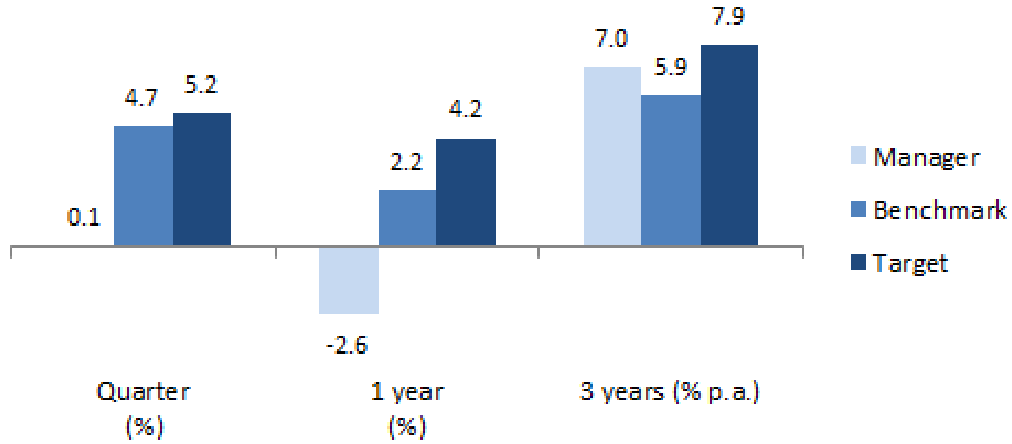
Reason for investment

To provide asset growth as part of a diversified equity portfolio and to provide a specific SRI allocation

Reason for manager

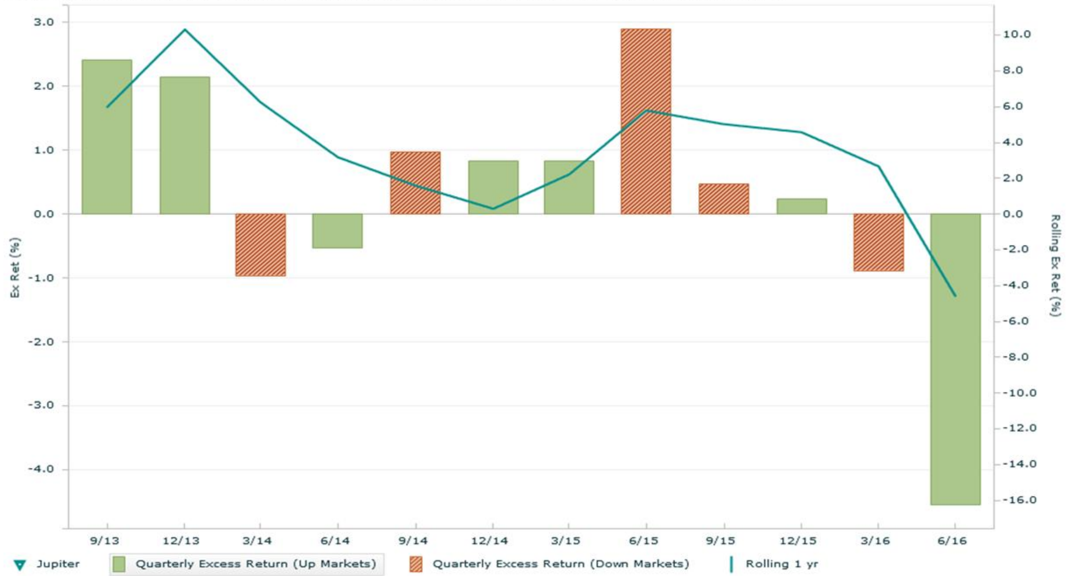
- Clear and robust approach to evaluating SRI factors within the investment process
- Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities
- Corporate commitment to SRI investment approach within a more mainstream investment team

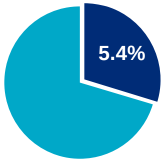
Performance



Rolling relative returns

Quarterly Excess Return vs. FTSE All Share with rolling 1 yr line in GBP (after fees) over 3 yrs ending June-16





TT INTERNATIONAL – UK EQUITIES (UNCONSTRAINED) (SEGREGATED)
£208.7M END VALUE *(£201.8M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	●	B (no change over period under review). ESG3
Performance Objective *Benchmark +3-4% p.a.*	●	Outperformed benchmark by 2.4% p.a. over three years
Three year tracking error was 4.5% p.a. – *source: Mercer*		Number of stocks: 42

Manager Research and Developments

- TT have underperformed their benchmark by 1.3% over the quarter, but outperformed by 2.8% over the year to 30 June 2016.
- This underperformance over the quarter was largely due to stock selection in the financials sector which detracted 1.1%. Lloyds Bank was a major detractor as shares in UK banks sold off sharply following the Brexit vote on fears that they may lose their access to the EU single market.
- The fund underperformed due to the underweight in oil & gas and utilities stocks and was also impacted by negative stock selection in industrial stocks.
- Turnover decreased from 30.5% in Q1 to 18.4% in Q2 2016 while the three year tracking error (a proxy for risk relative to benchmark) rose from 4.4% to 4.5%.
- Three-year information ratios have decreased over the quarter.
- Assets under management in TT's UK equity strategies increased over the quarter to c. £533m in light of positive returns; this consists of the assets of TT's pooled fund, and three segregated accounts (one of which being the Fund's holdings). This compares to £516m in March 2016, £506m in June 2015 and £560m in June 2013). A significant portion (c.40%) of the firm's UK equity assets are managed on behalf of the Fund.

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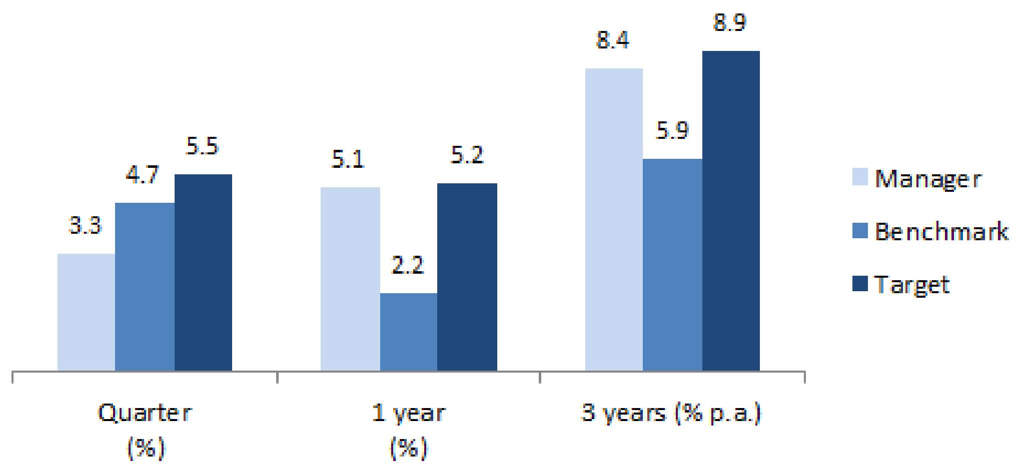
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

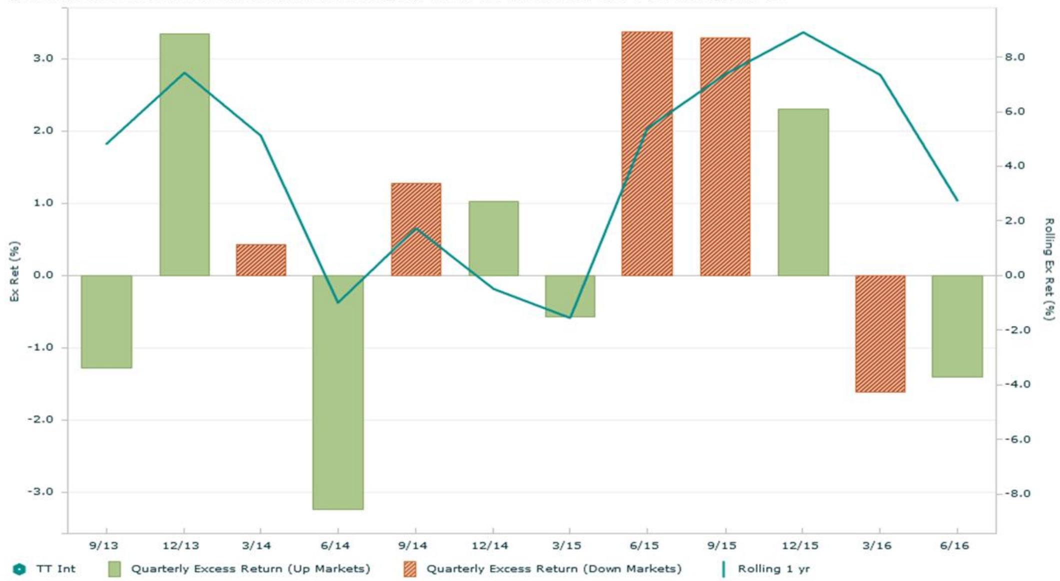
- Favoured the partnership structure that aligns manager's and Fund's interests
- Focussed investment activity and manages its capacity
- Clear, robust stock selection and portfolio construction

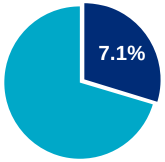
Performance



Rolling relative returns

Quarterly Excess Return vs. FTSE All Share with rolling 1 yr line in GBP (after fees) over 3 yrs ending June-16





SCHRODER – GLOBAL EQUITY PORTFOLIO (SEGREGATED)
£277.1M END VALUE *(£253.8M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review). ESG2
Performance Objective *Benchmark +4% p.a.*	Underperformed benchmark by 0.4% p.a. over three years

Three year tracking error was 2.6% p.a. – *source: Mercer*

Manager Research and Developments

- The fund has outperformed the benchmark over the quarter, largely through stock selection in consumer discretionary (which contributed 0.6%) and health care (+0.4%).
- By region, gains came from holdings in emerging markets and North America. Offsetting this to some extent was the negative impact of stock selection in the UK and the financials sector amid Brexit uncertainty.
- The top contributor in the quarter was US-based pharmaceutical giant Pfizer. The shares gained strongly in May when the firm reported earnings that significantly exceeded consensus expectations.
- The fund outperformed the benchmark by 0.3% over the year, but underperformed by 0.4% p.a. over the three year period.
- The tracking error decreased from 2.7% to 2.6% p.a. over the quarter.

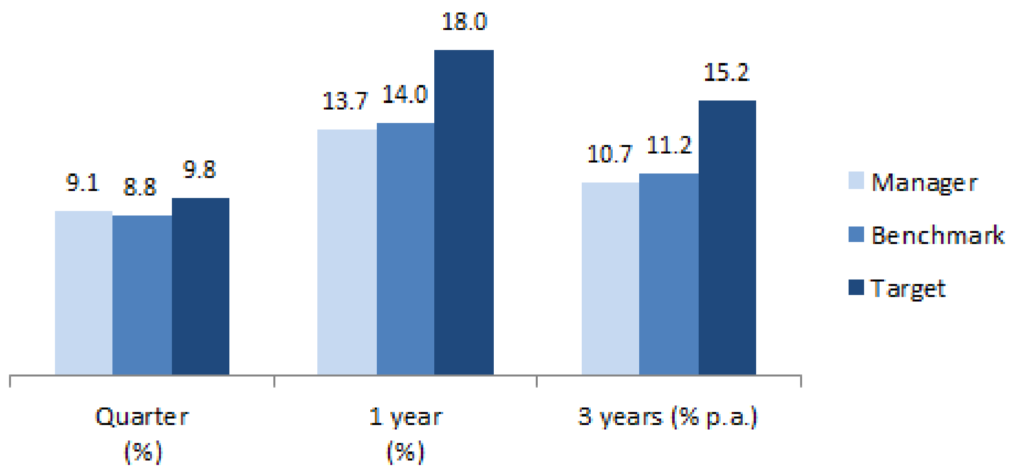
Reason for investment

To provide asset growth as part of a diversified equity portfolio

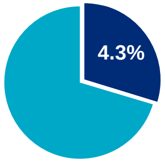
Reason for manager

- Clear philosophy and approach
- Long term philosophy aligned with Fund's goals, commitment to incorporating ESG principles throughout the investment process
- Evidence of ability to achieve the Fund's performance target

Performance



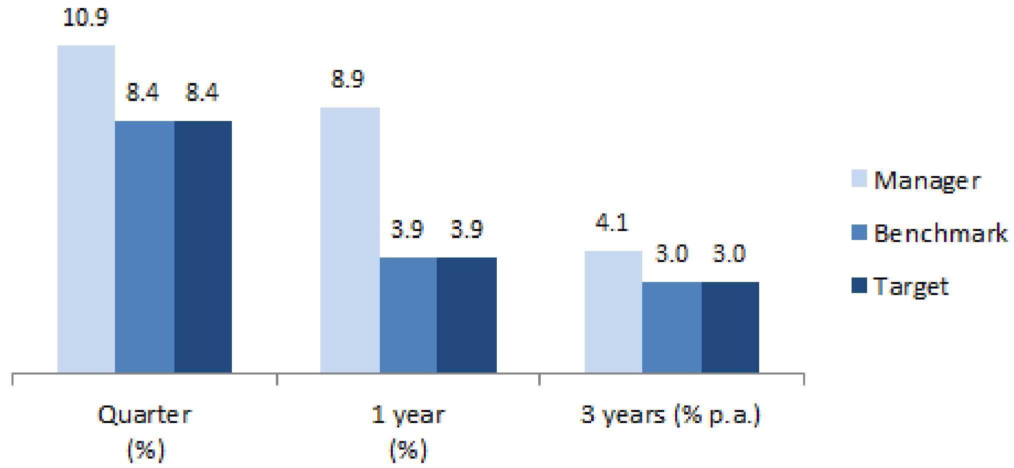
Rolling relative returns



GENESIS ASSET MANAGERS – EMERGING MARKET EQUITIES (POOLED)
£166.9M END VALUE *(£149.2M START VALUE)*

Item Monitored	Outcome
Mercer Rating	A (no change over period under review). ESG3
Performance Objective *Benchmark*	Outperformed benchmark by 1.0% p.a. over three years
Three year tracking error was 3.7% p.a. (Q1: 3.5%) – *source: Genesis*	Number of stocks: 139

Performance

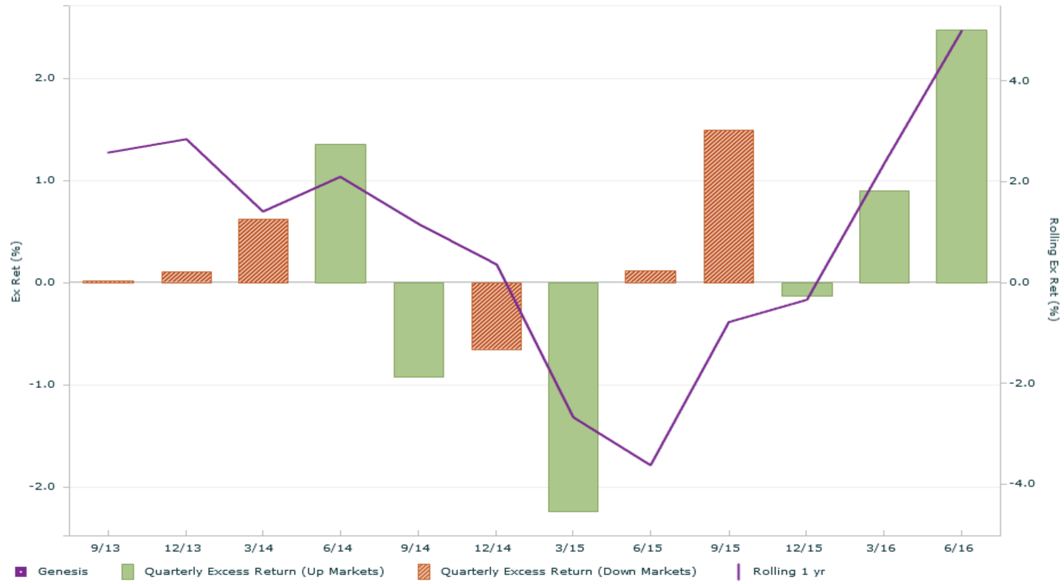


Manager Research and Developments

- The fund has significantly outperformed its benchmark over the quarter. The outperformance can largely be attributed to Thailand, South Africa, Russia and China. Financials was the stand-out sector for outperformance.
- The biggest contributor was Thai Beverage whilst the biggest detractor was Samsung Fire & Marine from South Korea. Turnover over the quarter was 22%.
- The portfolio one-year returns are 4.8% above benchmark, and three year returns are 1.0% p.a. above.
- Genesis have informed us that Karen Yerburgh, PM and Managing Partner, has decided to retire after being with the business for 26 years (though will remain Managing Partner until June 2017). Her replacement, Andrew Elder, PM and Partner, became Deputy Managing Partner in July 2016. We are not surprised Elder was chosen given he is one of the longer standing Partners within the organisation. We are broadly comfortable with this news and do not recommend rating changes.

Rolling relative returns

Quarterly Excess Return vs. MSCI EM with rolling 1 yr line in GBP (after fees) over 3 yrs ending June-16

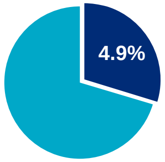


Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

- Long term investment approach which takes advantage of evolving growth opportunities
- Niche and focussed expertise in emerging markets
- Partnership structure aligned to delivering performance rather than growing assets under management



UNIGESTION – EMERGING MARKET EQUITIES (POOLED – SUB-FUND)
£191.4M END VALUE *(£178.1M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *Benchmark +2-4% p.a.*	Outperformed benchmark by 1.9% over the year
Tracking error since inception was 5.8% p.a. – *source: Unigestion*	Number of stocks: 100

Manager Research and Developments

- The fund has underperformed by 0.7% over the quarter but outperformed by 1.8% over the year to 30 June 2016 (though remaining below the performance target).
- This underperformance over the quarter occurred in June, where the fund returned 10.7% against a benchmark return of 13.2%. Over the month, relative performance was negatively affected by some stocks amid its active bets which did not perform well, in particular Indian IT stocks.
- Volatility since inception is 14.4%, lower than the index (at 17.4%) and consistent with the strategy's objectives (and bias to quality and large- or mega-cap stocks).
- Unigestion have informed us that Bruno Taillardat will be leaving the firm to take up a role at another investment firm. He is an Investment Manager in the portfolio management team and a member of the Investment and Research Committee. At the end of June Gael Combes, Member of the Research team, took over and became the leader of the Fundamental research team. Taillardat's departure is both material and disappointing given his tenure at the firm, understanding of the process and ability to articulate the approach. We suspect Unigestion will miss the continuity and knowledge Taillardat brought to the interaction with clients. However, we are not recommending any rating changes as a result of this news.

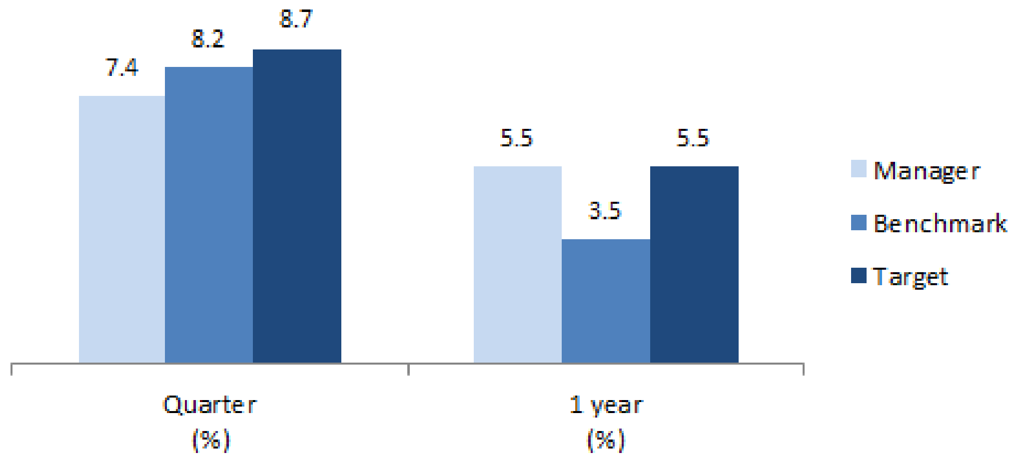
Reason for investment

To provide asset growth as part of a diversified equity portfolio

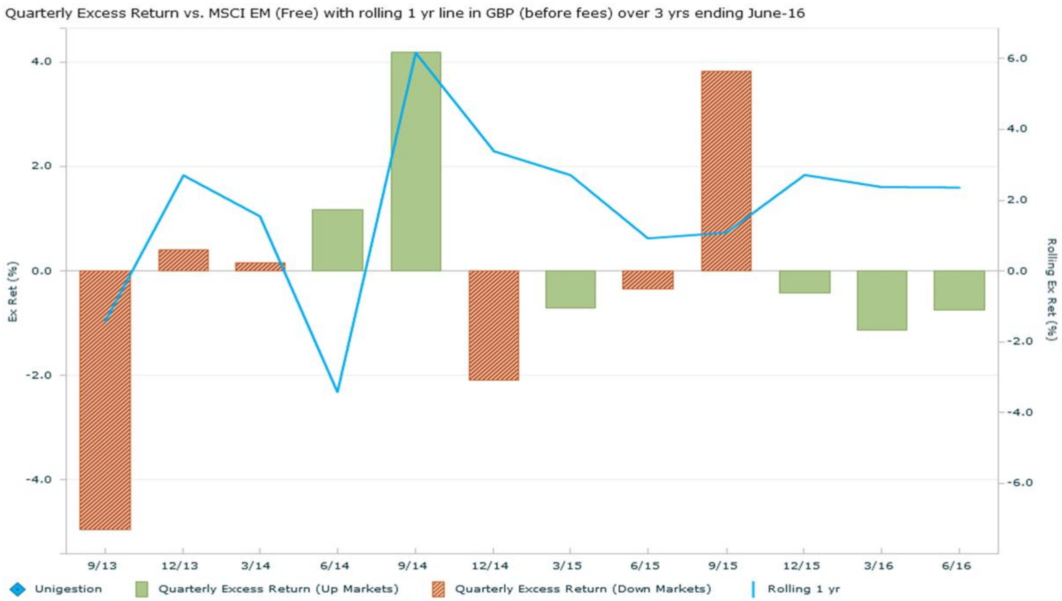
Reason for manager

- Risk-based active management approach
- Aim for lower volatility than the MSCI Emerging Markets Index
- Combine fundamental and quantitative analysis

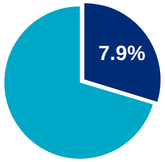
Performance



Rolling relative returns



Note: Chart is pooled fund performance, gross of fees



INVESCO – GLOBAL EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)
£307.6M END VALUE *(£289.7M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review). ESG4
Performance Objective *Benchmark +0.5% p.a.*	Underperformed benchmark by 0.4% p.a. over three years
Tracking error since inception was 1.5% p.a. – *source: Invesco*	Number of stocks: 453 (down from 454)

Manager Research and Developments

- The fund has underperformed its benchmark by 2.3% over the last quarter (with stock selection the largest negative impact on relative performance); 2.6% over the year and 0.4% p.a. over the three year period.
- Underperformance over the quarter was largely due to stock selection in April and June. In April, stocks with attractive scores in the Market Sentiment and Value concepts performed poorly, whilst in June overweights in stocks with attractive valuation levels weighed on performance, as did an underweight in energy.
- All sector and country allocations were broadly within +/- 1.0% of benchmark weightings, in line with general expectations for an enhanced indexation product.
- Note: there are discrepancies between the performance and asset values quoted in this report and by Invesco. This is due to Invesco using end of day pricing, whilst this report uses midday.

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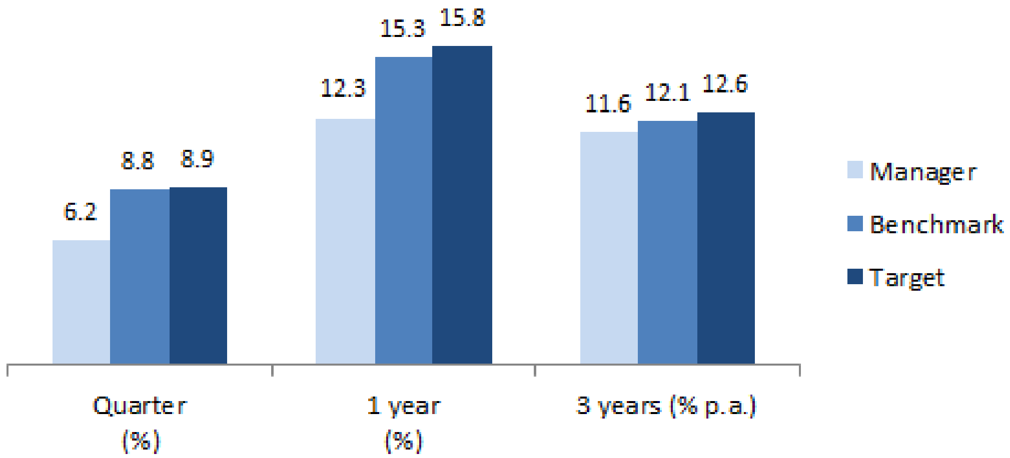
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

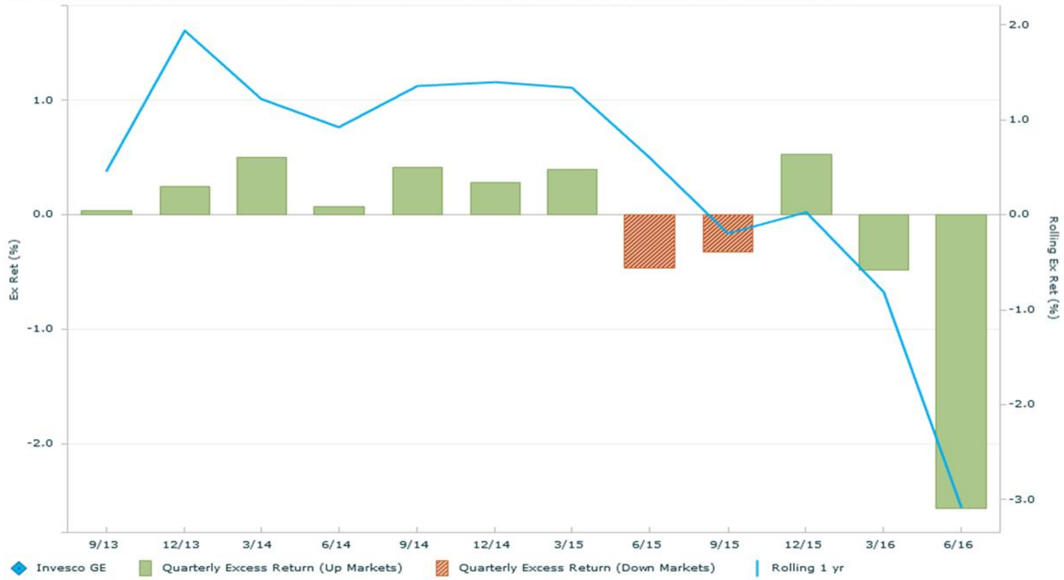
- Robust investment process supported by historical performance record, providing a high level of assurance that the process could generate the outperformance target on a consistent basis
- One of few to offer a Global ex UK pooled fund

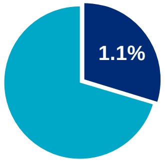
Performance



Rolling relative returns

Quarterly Excess Return vs. MSCI World ex UK NDR with rolling 1 yr line in GBP (after fees) over 3 yrs ending June-16





SSGA – EUROPE EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)
£44.4M END VALUE *(£42.6M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	R (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	●	Outperformed benchmark by 0.5% p.a. over three years
Three year tracking error was 0.7% p.a. – *source: Mercer*		Number of stocks: 230

Manager Research and Developments

- The fund marginally failed to achieve its outperformance target over the three year period, despite beating the benchmark
- The total pooled fund size on 30 June 2016 was £44.5m. This means that the Fund is practically the only investor, although the Panel has previously concluded that the Fund could be sustained even if the Avon Pension Fund was the only investor.
- The fund holds 230 out of 392 stocks in the index, around 59%, within the expected range of 35-65%. Beta over three years is as expected at around 1.

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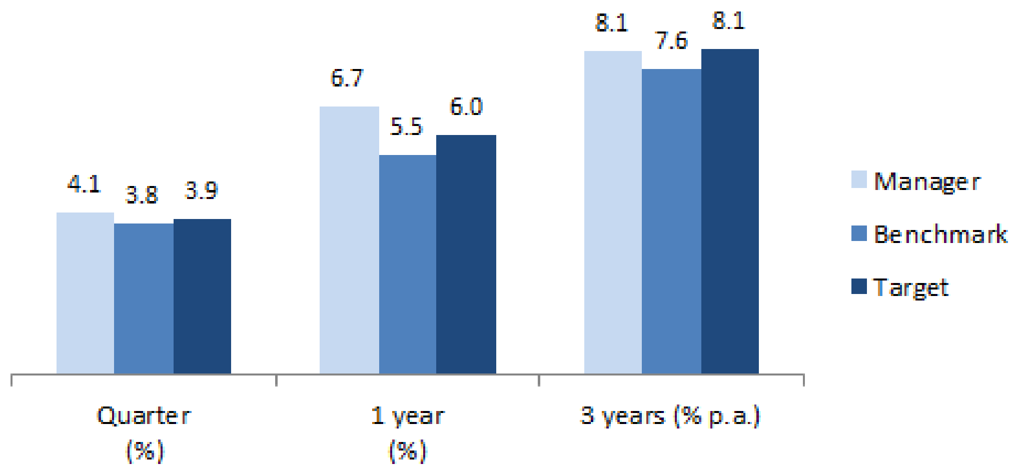
Reason for investment

To provide asset growth as part of a diversified equity portfolio

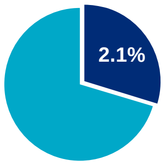
Reason for manager

- Strength of their quantitative model and process, and ongoing research to develop the model
- Historic performance met the risk return parameters the Fund was seeking
- Two Funds (European and Pacific) to achieve the Fund's customised asset allocation within overseas equities

Performance



Rolling relative returns



SSGA – PACIFIC INC. JAPAN EQUITIES (ENHANCED INDEXATION) (POOLED)
£83.2M END VALUE *(£77.2M START VALUE)*

Item Monitored		Outcome
Mercer Rating	(orange)	N (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	(green)	Outperformed benchmark by 0.5% p.a. over three years
Three year tracking error was 0.8% p.a. – *source: Mercer*		Number of stocks: 396

Manager Research and Developments

- The fund met its performance target over the three year period.
- The total pooled fund size on 30 June 2016 was £83.3m. As with the European fund, the conclusion has been that the Fund could be sustained even with the Avon Pension Fund as the only investor.
- As with the European fund, Beta is around 1 (i.e. broadly in line with a market cap approach).

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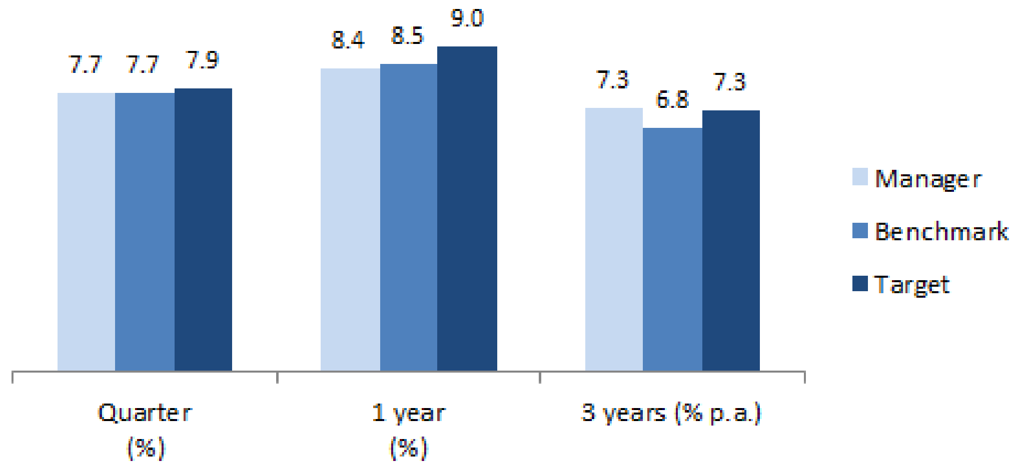
Reason for investment

To provide asset growth as part of a diversified equity portfolio

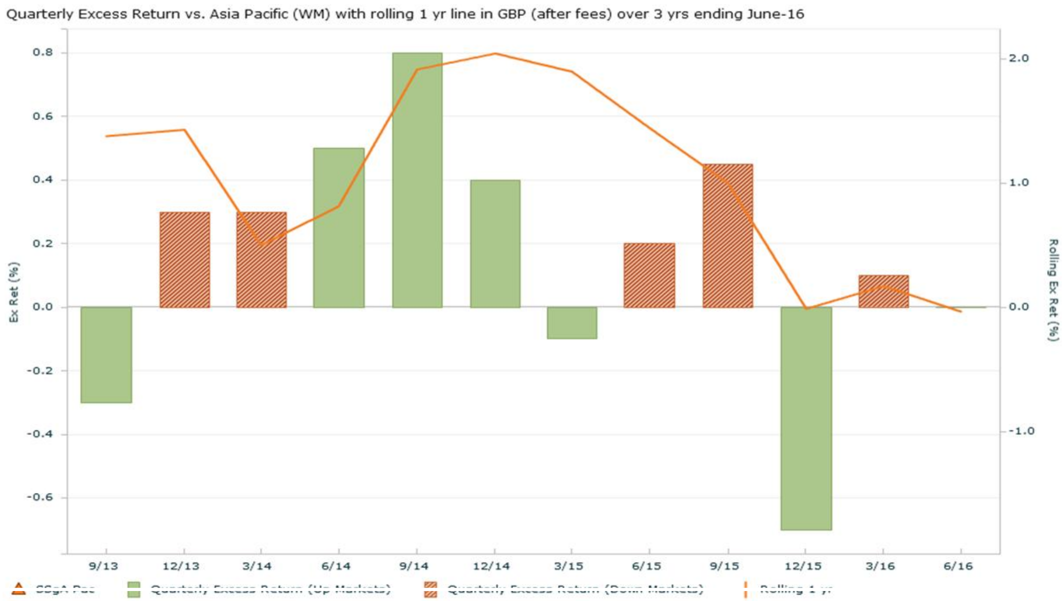
Reason for manager

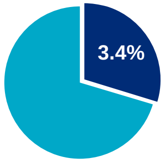
- Strength of their quantitative model and process, and ongoing research to develop the model
- Historic performance met the risk return parameters the Fund was seeking
- Two Funds (European and Pacific) to achieve the Fund's customised asset allocation within overseas equities

Performance



Rolling relative returns





PYRFORD – DGF (POOLED)
£131.3M END VALUE *(£126.9M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *RPI +5% p.a.*	Outperformed benchmark by 1.3% p.a. over one year

Manager Research and Developments

- The fund has outperformed its performance objective (RPI + 5% p.a.) over the quarter by 1.4% and by 1.3% over the year.
- Currency Management was the key driver of returns over the quarter as the portfolio's unhedged overseas bond and equity exposure, which makes up c.35% of the fund, benefitted from sterling weakness. Stock selection also contributed over the quarter as the portfolio's bias to quality and value was rewarded in the volatile markets which followed the referendum.
- The portfolio's equities provided a significant source of return over the second quarter. Overseas equities added 7.5%, including the positive currency return.
- Pyrford continues to adopt a defensive stance by owning short duration securities in order to protect the capital value of the portfolio from expected rises in yields. At the end of the quarter the modified duration of the fixed income portfolio stood at a record low of 1.25 years.

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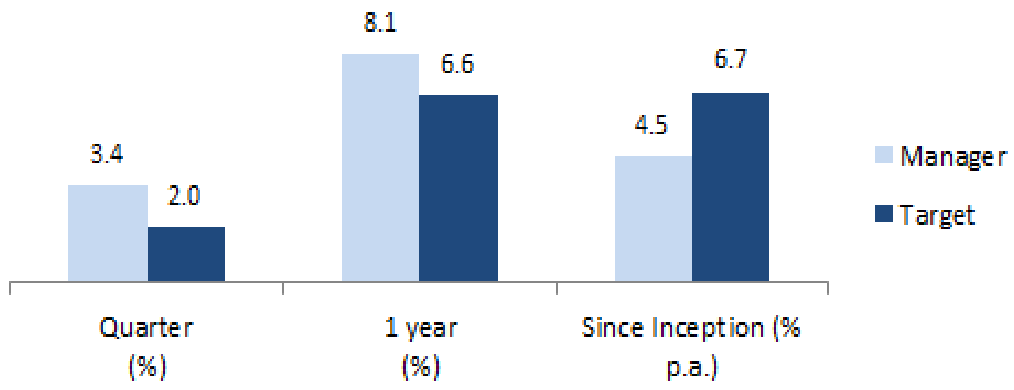
Reason for investment

To provide equity like return over the long term but with a lower level of volatility

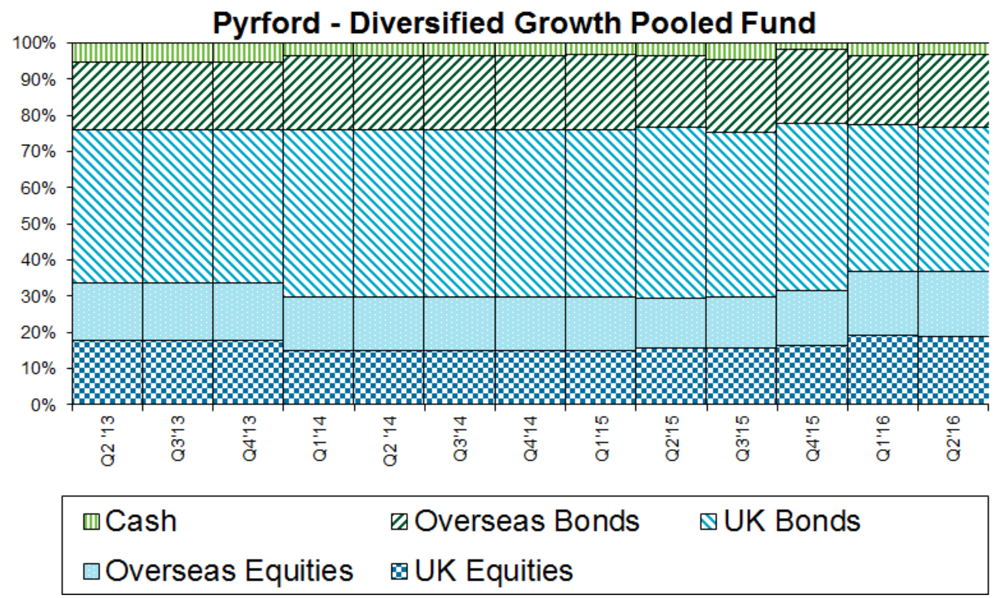
Reason for manager

- Asset allocation skill between equities, bonds and cash
- Fundamental approach to stock selection

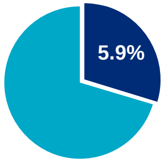
Performance



Asset Allocation



Annual data prior to Q1 2015.



STANDARD LIFE – DGF (POOLED)
£231.9M END VALUE *(£234.0M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (W) (Watch status applied in July 2016). ESG4
Performance Objective *Cash +5% p.a.*	Underperformed benchmark by 9.6% p.a. over the year

Manager Research and Developments

- Over the quarter the fund returned -1.1% against a benchmark of 1.4%, and returned -4.4% against a benchmark of 5.7% over the year.
- Investors' worries on the future of the EU and its economy resulted in losses for the European equity strategy. US equity technology versus small-cap and US equity large-cap versus small-cap strategies were also loss-making over the quarter.
- Both the short US duration and US real yield versus nominal yield strategies dragged on performance as a consequence of increasing demand for longer-dated, positive-yielding, safe-haven assets.
- We continue to have high regard for the investment process behind GARS and are also comfortable with the team management, which has seen a period of low turnover and good additions to the team. However, we have growing concerns about the sheer size of GARS and continued inflows into the strategy. We note that Standard Life's analysis shows less of the portfolio can now be liquidated quickly, that it is taking longer to implement trades and that the size and capacity of GARS is regarded as commercially sensitive to Standard Life. While Standard Life's shown the unwillingness to provide an indication on capacity levels for GARS, we believe that capacity management is a key issue for Standard Life's considering that the strategy has grown from £41bn at the end of 2014 to £53bn at the end of March 2016. As a result, in July 2016, we assigned a Watch (W) status to the strategy. See appendix for details on what Mercer ratings mean.

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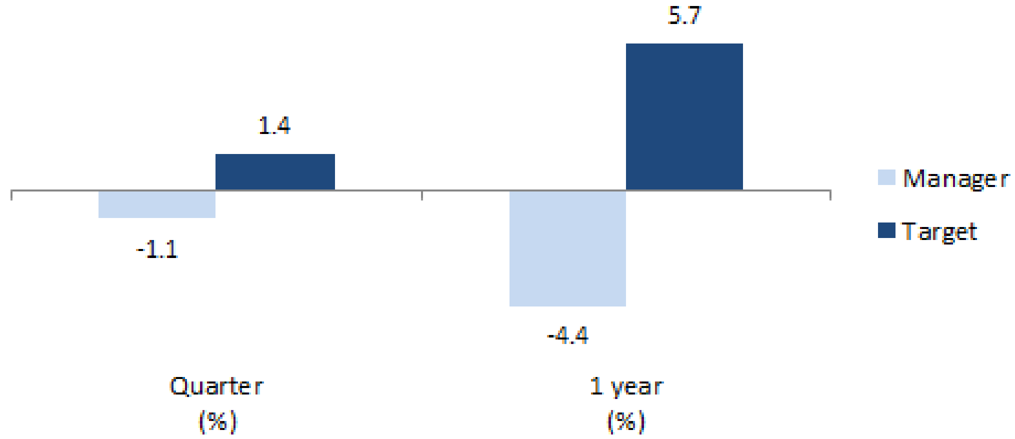
Reason for investment

To provide equity like return over the long term but with a lower level of volatility

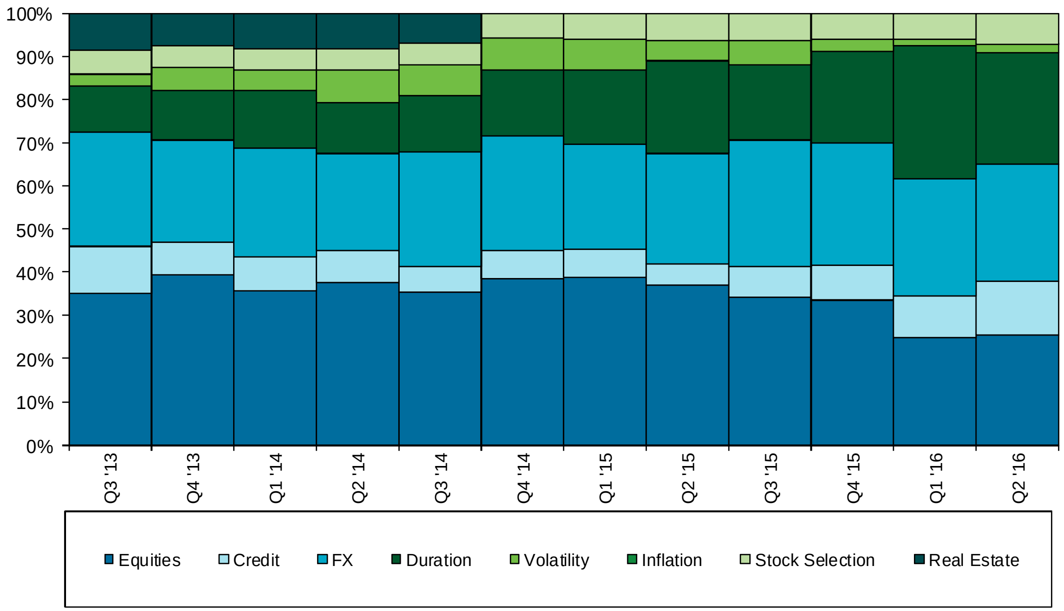
Reason for manager

- Diversification from equities
- Exposure to relative value strategies and different approach to Pyrford's largely static asset allocation investment strategy

Performance



Asset Allocation/Risk Exposure



DGF MANDATES

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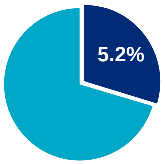
Performance characteristics vs. BofAML LIBOR 6 month average UK in GBP (after fees) over 2 yrs ending June-16

Comparison with the International Multi-Asset GBP (Net) universe (Actual Ranking) (quarterly calculations)

	Ret (%pa)	Std Dev (%pa)	IR
Pyrford DGF	5.7 *(9)*	3.9 *(42)*	1.3 *(4)*
SLI GARS	1.2 *(37)*	5.2 *(35)*	0.1 *(37)*
95th Percentile	8.0	9.1	1.4
Upper Quartile	5.1	7.5	0.8
Median	3.4	6.0	0.5
Lower Quartile	1.1	4.6	0.1
5th Percentile	-1.7	2.9	-0.4
Number	49	49	49

Commentary

- Over the two years to 30 June 2016, the Standard Life GARS pooled fund significantly underperformed Pyrford by 4.5% p.a.
- This placed Pyrford in the upper quartile of the DGF universe for performance. On the other hand, Standard Life was below the median of the universe. It should be noted that this universe is very diverse in styles.
- This with relatively similar levels of volatility, with Pyrford's volatility standing at 3.9% p.a. against Standard Life's 5.2% p.a.
- Both managers were below the median for volatility, meaning they were less volatile than most managers in the universe.
- As a result, the information ratio (a measure of risk adjusted returns) for Pyrford was the fourth highest of the universe and for Standard Life was below the median.
- The information ratio (IR) measures the amount of 'information' that the manager can extract from the market. Expressed in another way this is the amount of excess return generated per unit of risk or tracking error added. The IR is therefore a measure of the skill of the manager. If the IR is large and it is measured over a reasonable period of time, then this is an indication that the manager has some skill in managing money. Mercer defines the IR as the annualised excess return divided by the annualised tracking error.



JP MORGAN – FUND OF HEDGE FUNDS
£204.4M END VALUE *(£187.7M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review)
Performance Objective *Cash +3% p.a.*	Outperformed benchmark by 7.0% p.a. over the quarter (**due to sterling depreciation – underperformed in USD by 0.5%**)

Item	
Number of funds	32

Strategy	Contribution to Performance over the Quarter in USD (%)
Relative Value	0.12
Opportunistic/Macro	0.05
Long/Short Equities	0.22
Merger Arbitrage/Event Driven	-0.02
Credit	0.17
Total	**0.39 (including cash and fees)**

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

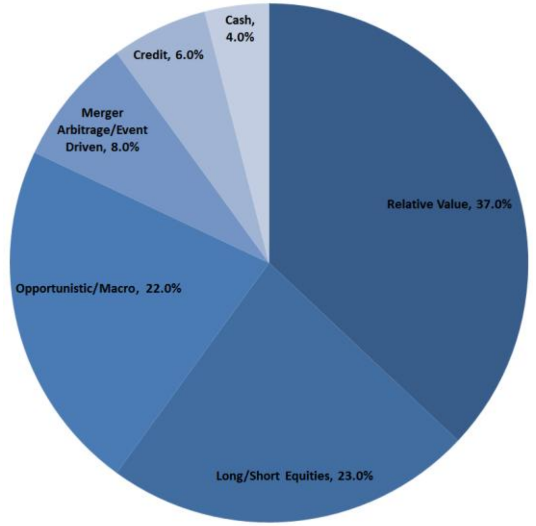
Reason for manager

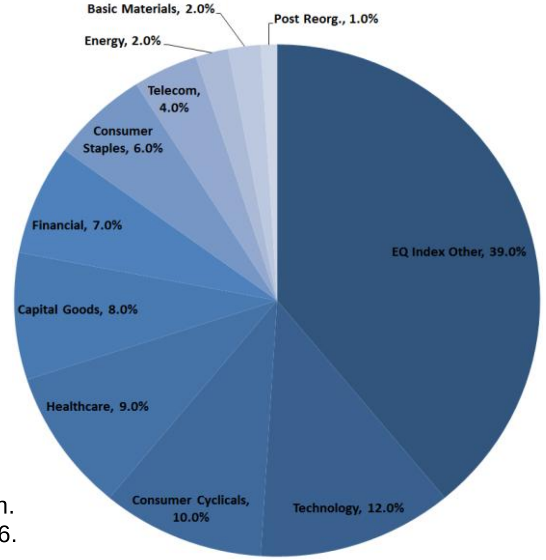
- Niche market neutral investment strategy
- Established team with strong track record
- Complemented other funds in the portfolio

Performance (GBP, JP Morgan return converted from USD)

Last Quarter	7.9%	Benchmark	0.9%

Portfolio Composition and Equity Sector Allocation





Source: JP Morgan.
As at 30 June 2016.

HEDGE FUND COMMENTARY – Q2 2016

- Hedge funds produced slight gains for the second quarter of 2016. The HFRI Index gained 0.5%, the HFRX Index returned 1.1%, and the Dow Jones Credit Suisse Hedge Fund Index earned 0.6% (USD returns).
- While performance for hedge fund strategies was broadly positive, there were meaningful increases in volatility across asset classes at quarter-end (surrounding the EU Referendum in the UK).
- Following a meaningful flight to quality initially following the Brexit news, markets sharply reversed, erasing much of the decline. Given the generally modest positioning of many hedge fund portfolios, participation in both moves was limited.
- As hedge funds broadly produced positive results in the second quarter of 2016, the size of the overall industry grew, ending June at $2.9 trillion in assets. However, net flows were negative for the quarter, as investors pulled $8.2 billion from hedge funds, marking year-to-date redemptions of roughly $23.3 billion (though still less than 1% of total industry assets).
- As we have mentioned previously, we ultimately view a culling of the industry to be healthy and a net benefit to the opportunity set for hedge fund investing.

Returns are in USD. Source: Source: Credit Suisse Hedge Index LLC.

HEDGE FUND COMMENTARY – Q2 2016

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Relative Value (37%)

- Fixed Income and Convertible Arbitrage strategies gained 1.0% and 2.6%, respectively, during the second quarter of 2016.
- Relative Value strategies broadly gained over the quarter, as bouts of volatility created trading opportunities for many.
- Returns in convertibles were driven by a general tightening in spreads and stronger valuations amidst relatively modest new issuance, while fixed income strategies were able to take advantage of volatility in global yield curves.

Long/Short Equities (23%)

- Long/Short Equity declined 1.2% in Q2, while Equity Market Neutral ("EMN") strategies finished the quarter down 3.2%.
- Long/short equity strategies performed poorly in Q2, as measured by the CS Index, largely due to security selection fundamentals. The dramatic moves at the end of the quarter following the result of the Brexit vote were most impactful to equity strategies; hedged portfolios served to protect capital better. However, we note a significant dispersion of manager returns in the space and observe that other peer groups, such as the HFRI Indices, posted more favorable results.

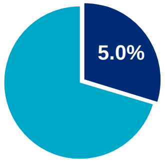
Opportunistic / Macro (22%)

- The broad Global Macro universe gained 0.7% during the quarter, while Managed Futures declined 2.2%. Macro strategies overall posted positive results in Q2.
- Despite the headline number, many systematic strategies performed well in the quarter, demonstrating particular strength during the Brexit sell-off, largely driven by favorable positioning and a general continuation of currency and interest rate trends.
- Discretionary strategies broadly provided positive, but muted performance for the quarter. Discretionary traders as a whole pulled back on risk heading into the referendum vote and were cautious in deploying capital immediately following, in light of the uncertainties.

Merger Arbitrage / Event Driven (8%)

- The Multi-Strategy / Event space posted mixed results for Q2.
- Merger Arbitrage ended the quarter slightly negative. Spreads widened in April as the proposed Allergan/Pfizer transaction broke down and again in June as Brexit concerns were reflected in strategic deals. However, a number successful deal completions during the quarter helped to offset losses. Outside of M&A, Event-Driven strategies had a good quarter overall. In a near reversal of recent trends, positive results from many catalyst-oriented situations added to results.
- Stressed and distressed assets also generated solid returns, as deal progress in legacy situations and energy-related exposure aided results. Sovereign-related exposure also continued to positively impact returns for many in the space.

Returns are in USD. Source: Source: Credit Suisse Hedge Index LLC.



SCHRODER – UK PROPERTY FUND OF FUNDS
£194.6M END VALUE *(£201.0M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	B (no change over period under review). ESG3
Performance Objective *Benchmark +1% p.a.*	●	Outperformed benchmark by 0.5% p.a. over three years (but met the performance target over five years)

Manager Research and Developments

- The fund has underperformed the benchmark over the quarter by 0.4%, due to downward adjustments by some of the underlying fund holdings, in response to investor activity after the EU Referendum result.
- Performance in the short term was negatively impacted by fair value adjustments to the L&G Managed Property fund and Standard Life Pooled Pension Property fund. Spread adjustments were made to the BlackRock UK Property Fund and Schroder Real Estate Real Income Fund. These changes were made in response to more uncertainty on property values after the EU Referendum, and retail investor activity which saw net outflows from property funds
- Over the five year period, the fund has outperformed its benchmark by 1.0% p.a., largely due to performance from Value Add strategies.
- The only purchase over the quarter was within the Regional Office Property Unit Trust (c. £0.1m).

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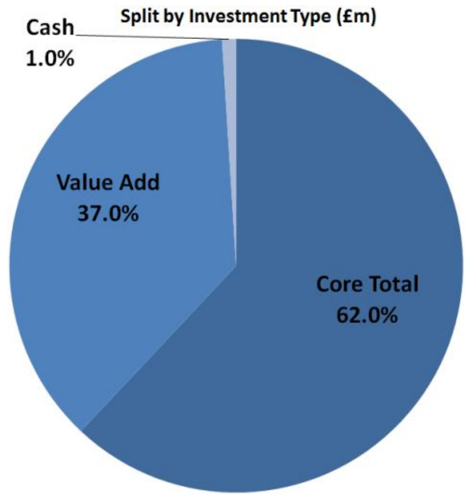
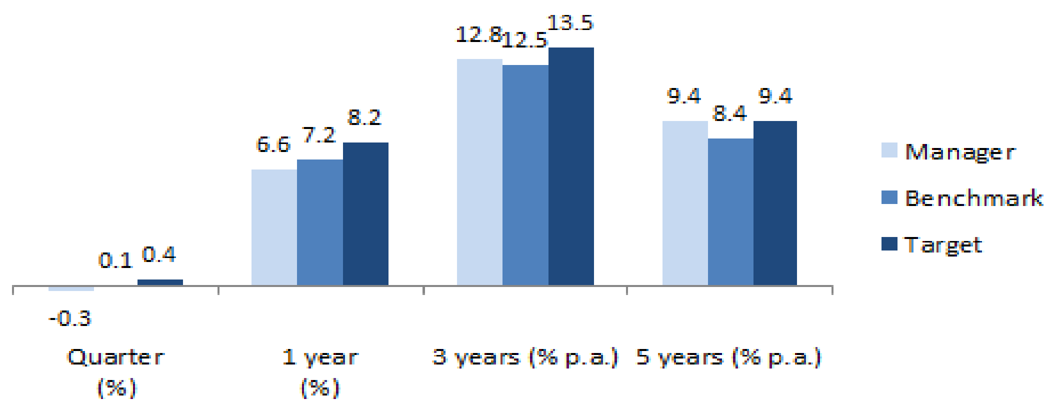
Top 5 Holdings	Proportion of Total Fund (%)
BlackRock UK Property Fund	12.7
L&G Managed Property Fund	12.5
Industrial Property Investment Fund	11.7
Standard Life Pooled Pension Property Fund	9.6
Aviva Investors Pensions	9.5

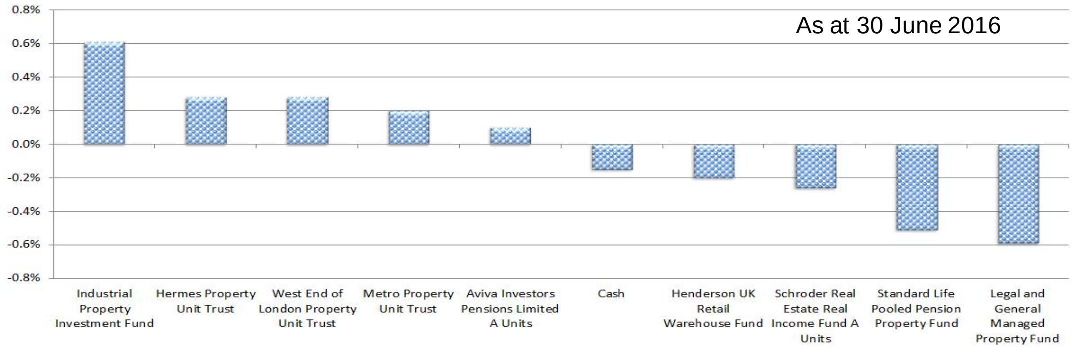


As at 30 June 2016

Performance



Top 5 Contributing and Detracting Funds over 12 Months

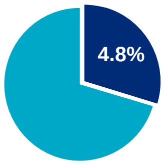


Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Demonstrable track record of delivering consistent above average performance
- Team though small is exclusively dedicated to UK multi-manager property management but can draw on extensive resources of Schroder's direct property team
- Well structured and research orientated investment process



PARTNERS – OVERSEAS PROPERTY
£188.1M END VALUE *(£172.0M START VALUE)*

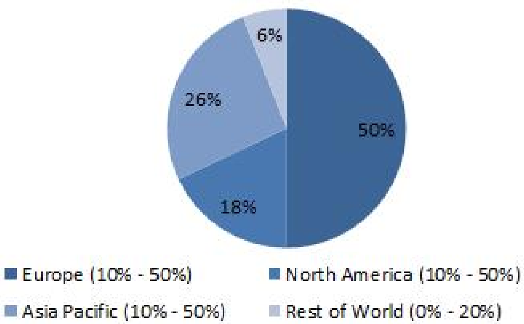
Item Monitored	Outcome
Mercer Rating	(green) B+ (no change over period under review). ESG4
Performance Objective *IRR of 10% p.a.*	(red) IRR since inception to 31 March 2016 at 8.2% p.a. (in sterling terms) is below target of 10% p.a.

Manager Research and Developments

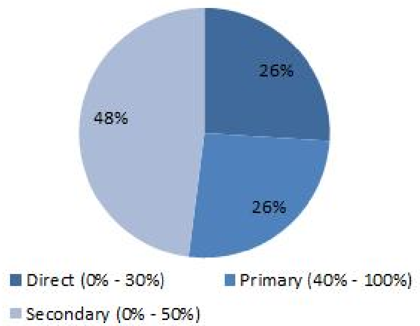
- The portfolio delivered a net return of -0.1% over Q1 2016 for USD programmes in local currency, and 0.4% for EUR programmes, versus the target of c. 2.5%.
- Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, for example the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 31 March 2016 at 8.4% p.a. (in local currency) is below their target of 10% p.a.; over the year to date to 31 March 2016 IRR was 0.3% (in local currency terms).
- Over Q1, the allocation to Europe increased (from 48% to 50%), with North America remaining at 18% and Asia Pacific decreasing (from 28% to 26%). These remain within the guidelines.
- Exposure to Secondary opportunities rose during the first quarter (from 47% to 48%), with Direct investments falling (from 27% to 26%) and Primary remaining at 26%. Primary exposure continues to be below the guidelines. Short-term deviation from the guidelines is expected whilst the amount drawn-down is below target.
- Note that Partners are rated B+ for global real estate, but A for secondary global real estate (as a result of their private equity skill set).

Geographical and Investment type splits as at 31 March 2016

Geographical Split Based on Net Asset Value



Investment Type Split Based on Net Asset Value



Portfolio update as at 31 March 2016

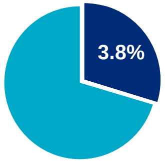
Partners Fund	Total Drawn Down (£m)	Total Distributions (£m)	Net Asset Value (£m)	Since Inception Net IRR (local currency)
Global Real Estate 2008	31.65	17.45	21.99	7.1
Real Estate Secondary 2009	19.65	5.58	21.96	12.3
Asia Pacific and Emerging Market Real Estate 2009	17.71	8.71	12.74	4.2
Distressed US Real Estate 2009	14.74	14.60	6.98	9.2
Global Real Estate 2011	25.13	7.73	24.75	11.1
Direct Real Estate 2011	11.21	5.28	10.92	9.8
Real Estate Secondary 2013	7.44	0.53	10.30	29.2
Global Real Estate 2013	44.40	1.23	44.21	1.1
Real Estate Income 2014	13.26	0.46	13.61	1.6
Asia Pacific Real Estate 2016	2.76	0.00	4.49	n/a
Total	**187.94**	**61.58**	**171.94**	**8.4**

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Depth of experience in global property investment and the resources they committed globally to the asset class
- The preferred structure for the portfolio was via a bespoke fund of funds (or private account) so the investment could be more tailored to the Fund's requirements



IFM – INFRASTRUCTURE (POOLED)
£149.2M END VALUE *(£0.0M START VALUE)*

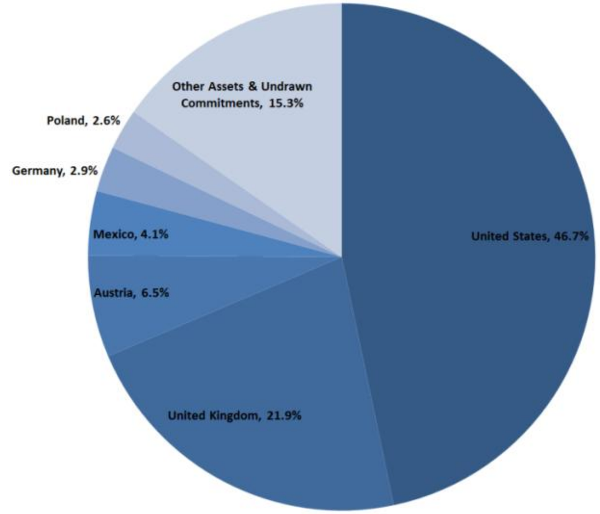
Item Monitored	Outcome	
Mercer Rating		B+ (downgraded from A in June 2016). ESG2
Performance Objective *6 month LIBOR + 2.5% p.a.*		Outperformed benchmark by 8.2% over the quarter

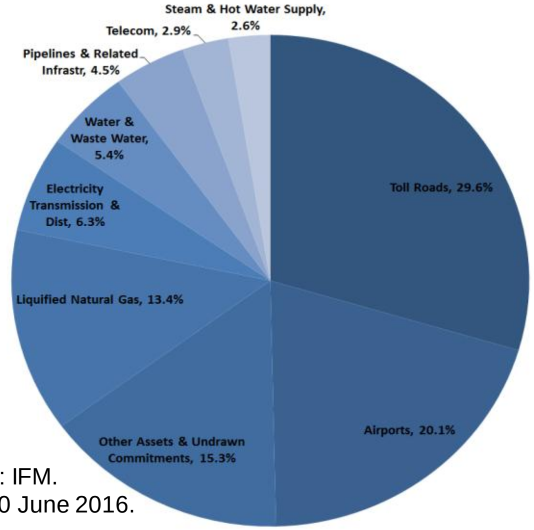
Item	
Number of holdings	13

Manager Research and Developments

- £136m of capital was drawn down by IFM on 1 April 2016.
- Over the quarter the fund returned 9.0% in sterling terms, against a benchmark of 0.8%. **However, the fund returned -1.4% in US dollars (the currency the fund is denominated in).**
- The fund underperformed in US dollar terms due negative contributions from Arquiva Limited and Manchester Airports Group (MAG). Arquiva Limited underperformed due to a disadvantageous change in the tax treatment of its cashflows. MAG underperformed due to a change in long-term inflation assumptions and a small change to the terminal value of the asset.
- Over the quarter, the fund increased its holding in Vienna Airport, in line with the focus of the fund on midstream energy and transportation in US and Europe.
- The currency exposure to US dollars and euros is hedged through Record.
- Our researchers met with IFM over the quarter as part of our regular research. While we note that the fund has a relatively large and established global team we have not been able to identify any significant differentiators that stand the team and fund apart from its competitors. In addition, we consider there to be a number of ongoing risk elements including governance (i.e. the fact that IFM's owners, IFS Private Capital and IFMNL, are also large investors), asset management (with historic difficulty in managing 100% owned assets), asset and risk concentrations that persist in relation to the fund, for example a relatively high exposure to road assets and to "core plus" assets that will increase the risk profile of the fund. As result, we downgraded the rating of the strategy to B+.

Geographical and Sub-Sector Allocation





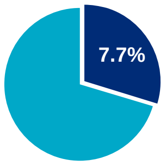
Source: IFM.
As at 30 June 2016.

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Invests in core infrastructure assets in countries with established regulatory environments and strong rule-of-law.
- Seeks to invest in assets with strong market positions, predictable regulatory environments, high barriers to entry, limited demand elasticity and long lives



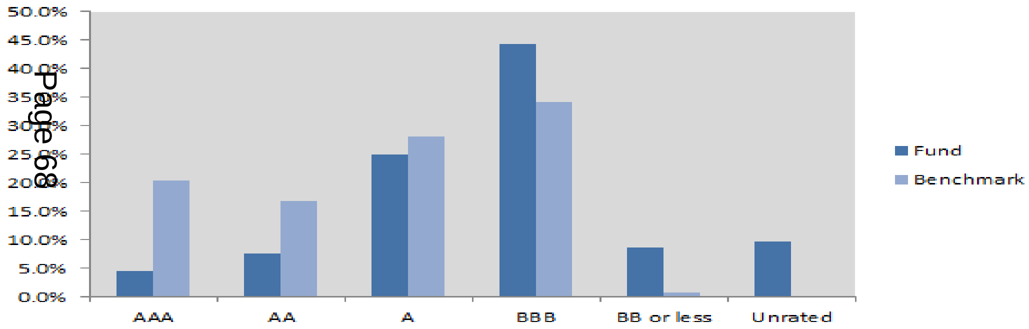
ROYAL LONDON ASSET MANAGEMENT – FIXED INTEREST (POOLED)
£301.0M END VALUE *(£289.6M START VALUE)*

Item Monitored		Outcome
Mercer Rating	(green)	A (no change over period under review). ESG3
Performance Objective *Benchmark +0.8% p.a.*	(amber)	Outperformed benchmark by 0.7% p.a. over three years

Manager Research and Developments

- Royal London remain underweight AAA-A bonds, and overweight BBB-unrated, a strategy which has performed strongly over the three year period.

Credit Rating Allocation



Weighted Duration	Start of Quarter	End of Quarter
Fund	*7.5*	*7.5*
Benchmark	*7.8*	*8.1*

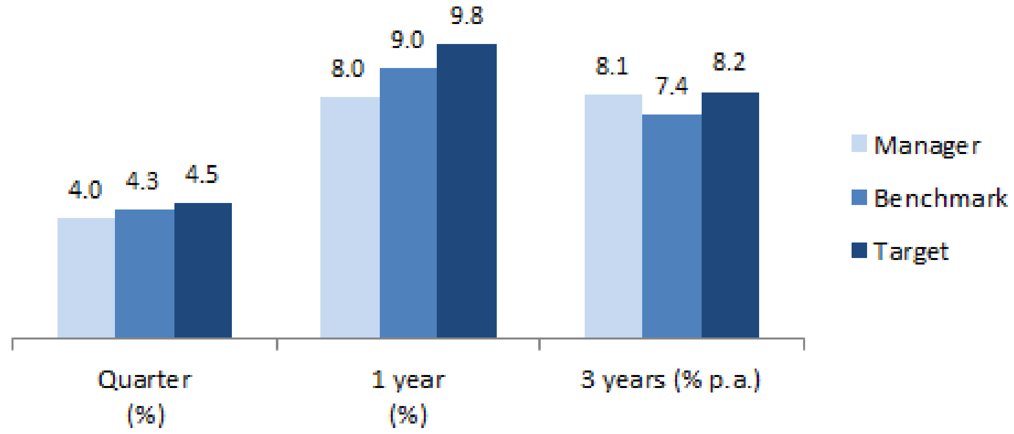
Reason for investment

To maintain stability in the Fund as part of a diversified fixed income portfolio

Reason for manager

- Focussed research strategy to generate added value
- Focus on unrated bonds provided a "niche" where price inefficiencies are more prevalent. Product size means can be flexible within market

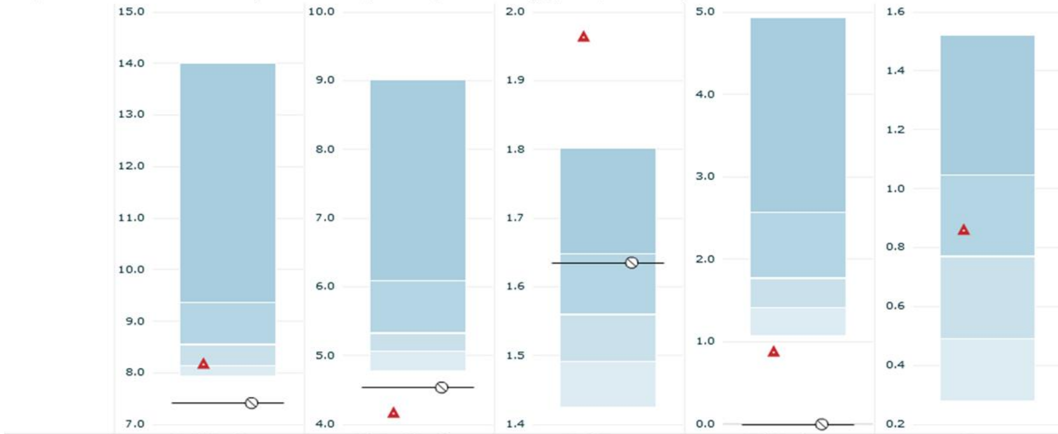
Performance



Risk and Return relative to benchmark

Performance characteristics vs. Markit iBoxx Non Gilts Overall in GBP over 3 yrs ending June-16

Comparison with the UK Fixed Income (Govt & Non-Govt) universe (Actual Ranking) (quarterly calculations)



	Ret (%pa)	Std Dev (%pa)	Ret/SD	TE (%pa)	IR
RLAM FI	8.2 *(19)*	4.2 *(26)*	2.0 *(1)*	0.9 *(26)*	0.9 *(11)*
IBNGO	7.4 *(26)*	4.5 *(26)*	1.6 *(9)*	0.0 *(27)*	-
95th Percentile	14.0	9.0	1.8	4.9	1.5
Upper Quartile	9.4	6.1	1.6	2.6	1.0
Median	8.5	5.3	1.6	1.8	0.8
Lower Quartile	8.1	5.1	1.5	1.4	0.5
5th Percentile	7.9	4.8	1.4	1.1	0.3
Number	26	26	26	26	26

RECORD – CURRENCY HEDGING (SEGREGATED)
-£72.6M END VALUE *(-£29.3M START VALUE)*

Item Monitored	Outcome
Mercer Rating	N (no change over period under review)
Performance Objective *N/A*	In line with the 50% hedging position

Manager Research and Developments

In the days following the Brexit vote, sterling depreciated significantly against the US dollar and Japanese yen, ending the quarter weaker by c.7% and c.15% respectively. The yen also rose on the back of Bank of Japan's decision in late April to leave policy rates unchanged, despite market expectations for further rate cuts. Sterling also depreciated against the euro by c.5% over the quarter.

The Fund's policy is to passively hedge 50% of currency exposure on developed global equities (dollar, euro and yen), and 100% on the hedge fund, global property and infrastructure mandates.

Performance for each of these separate accounts is shown to the right; as expected, performance for the passive mandate has been broadly in line with the (informal) 50% benchmark; where this differs from the movement in currency rates this relates to the timing of the implementation trades (2pm) and the currency rates quoted (4pm fix).

Reason for investment

To manage the volatility arising from overseas currency exposure, whilst attempting to minimise negative cashflows that can arise from currency hedging

Reason for manager

- Straightforward technical (i.e. based on price information) process
- Does not rely on human intervention
- Strong IT infrastructure and currency specialists

Currency Hedging Q2 2016 Performance (£ terms)

Passive Developed Equity Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	572,761,642	548,740,916	7.52%	(3.87%)	(3.83%)	3.82%
EUR	188,644,012	160,475,476	4.82%	(2.50%)	(2.50%)	2.65%
JPY	130,089,526	125,406,018	17.79%	(8.87%)	(8.84%)	9.11%
Total	**891,495,180**	**834,622,411**	**8.45%**	**(4.31%)**	**(4.28%)**	**4.34%**

Passive Hedge Fund Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	194,312,572	187,295,246	7.52%	(7.66%)	(7.64%)	(0.04%)
Total	**194,312,572**	**187,295,246**	**7.52%**	**(7.66%)**	**(7.64%)**	**(0.04%)**

Passive Property Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	36,421,737	33,418,344	7.52%	(7.75%)	(7.64%)	(0.05%)
EUR	134,164,968	136,191,661	4.82%	(4.89%)	(4.96%)	0.14%
Total	**170,586,705**	**169,610,005**	**5.36%**	**(5.46%)**	**(5.49%)**	**0.11%**

Passive Infrastructure Hedge – inception on 17 May 2016

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	69,295,032	78,259,428	8.07%	(8.10%)	(8.07%)	(0.13%)
EUR	15,114,049	14,698,035	5.87%	(5.88%)	(6.00%)	(0.05%)
Total	**84,409,081**	**92,957,464**	**7.72%**	**(7.74%)**	**(7.73%)**	**(0.12%)**

APPENDIX 1
SUMMARY OF MANDATES

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SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance target (p.a.)
BlackRock	Passive Multi-Asset	In line with customised benchmarks using monthly mean fund weights	-
Jupiter Asset Management	UK Equities (Socially Responsible Investing)	FTSE All Share	+2%
TT International	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Schroder	Global Equities (Unconstrained)	MSCI AC World Index Free	+4%
Genesis	Emerging Market Equities	MSCI EM IMI TR	-
Unigestion	Emerging Market Equities	MSCI EM NET TR	+2-4%
Invesco	Global ex-UK Equities (Enhanced Indexation)	MSCI World ex UK NDR	+0.5%
SSgA	Europe ex-UK Equities (Enhanced Indexation)	FTSE AW Europe ex UK	+0.5%
SSgA	Pacific inc. Japan Equities (Enhanced Indexation)	FTSE AW Dev Asia Pacific	+0.5%
Pyrford	Diversified Growth Fund	RPI +5% p.a.	-
Standard Life	Diversified Growth Fund	6 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	3 Month LIBOR +4% p.a.	-
IFM	Infrastructure	6 Month LIBOR +2.5% p.a.	-
Royal London Asset Management	UK Corporate Bonds	iBoxx £ Non-Gilts All Maturities	+0.8%
Record	Passive Currency Hedging	N/A	-
Cash	Internally Managed	7 Day LIBID	-

APPENDIX 2

MARKET STATISTICS INDICES

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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

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CHANGES IN YIELDS

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 June 2016	31 March 2016	30 June 2015	30 June 2014
UK Equities	3.66	3.77	3.46	3.27
Over 15 Year Gilts	1.61	2.17	2.63	3.34
Over 5 Year Index-Linked Gilts	-1.38	-0.97	-0.75	-0.10
Sterling Non Gilts	2.55	2.90	3.15	3.59

- Bond yields fell across all maturities over the quarter, resulting in positive absolute returns for investors.
- In the UK, nominal government bond yields decreased by c.20-55 bps across the curve over the quarter with the Over 15 Year Gilts Index returning 11.8%. On the day of the result of the EU Referendum, 10 year UK gilt yields fell by c.30 bps to 1.0%, the largest one day move since the financial crisis.
- Real yields also decreased over the quarter, by c.40-50 bps. The Over 5 Year Index-Linked Gilts Index posted a positive return of 11.1% over the quarter.
- Credit spreads widened slightly over the quarter, with the Sterling Non-Gilts All Stocks and Sterling Non-Gilts All Stocks indices both ending the quarter with spreads of 1.6% p.a. Overall, UK credit assets posted a positive return of 4.2% over the quarter, largely due to the benefits from a decrease in government bond yields.

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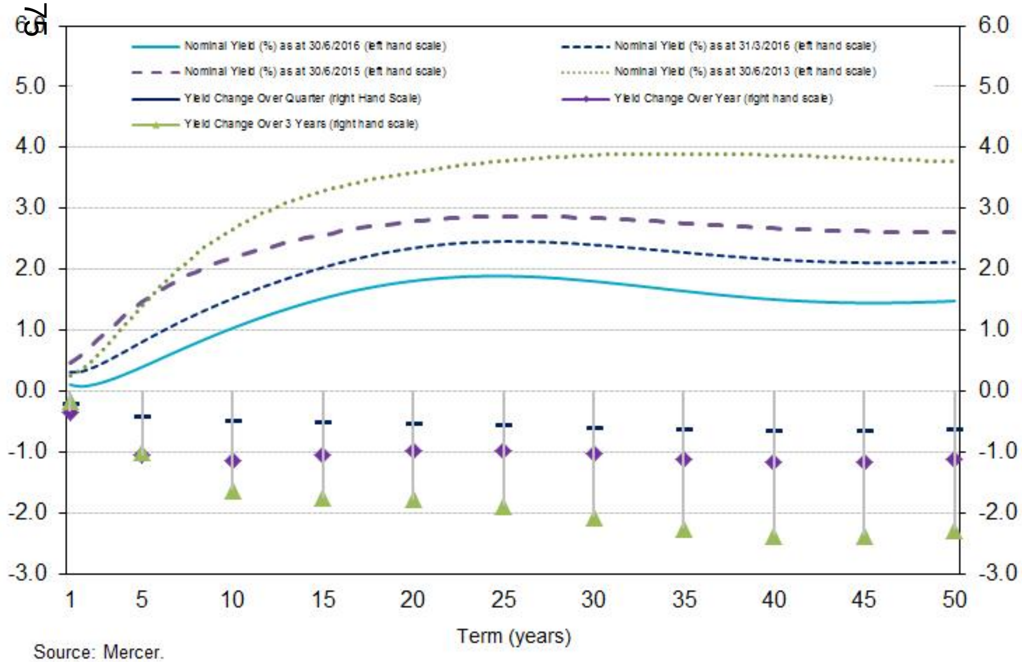
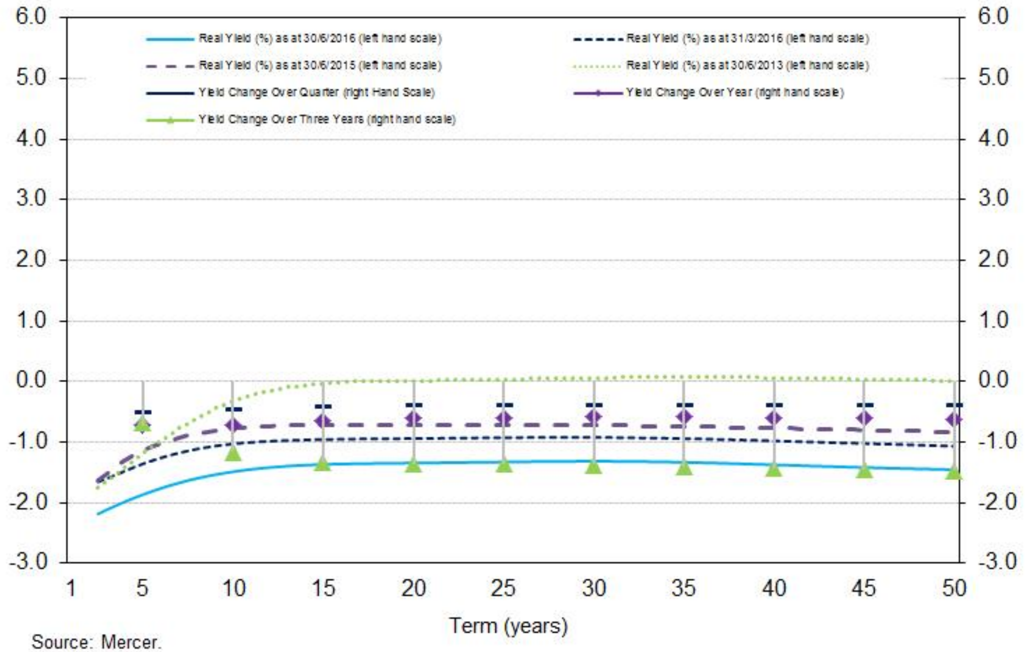
Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

APPENDIX 4

GUIDE TO MERCER RATINGS

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GUIDE TO MERCER RATINGS

INTRODUCTION

This is a guide to the investment strategy research ratings (herein referred to as rating[s]) produced by Mercer's Investments business (herein referred to as Mercer). It describes what the ratings are intended to mean and how they should and should not be interpreted.

If you have any questions or would like more information about specific topics after reading this guide, please contact your Mercer consultant or click "Contact us" on our website www.mercer.com.

WHAT DO MERCER'S RATINGS SIGNIFY?

Mercer's ratings signify Mercer's opinion of an investment strategy's prospects for outperforming a suitable benchmark over a time frame appropriate for that particular strategy (herein referred to as outperformance). The rating is recorded in the strategy's entry on Mercer's Global Investment Manager Database (GIMD™) at www.mercergimd.com.

Mercer's ratings are normally assigned to investment strategies rather than to specific funds or vehicles. In this context, the term "strategy" refers to the process that leads to the construction of a portfolio of investments, regardless of whether the strategy is offered in separate account format or through one or more investment vehicles. There are exceptions to this practice. These are primarily in real estate and private markets where the rating is normally applied to specific funds.

WHAT DO MERCER'S RATINGS NOT SIGNIFY?

This section contains important exclusions and warnings; please read it carefully.

Past Performance

The rating assigned to a strategy may or may not be consistent with its past performance. While the rating reflects Mercer's expectations on future performance relative to a suitable benchmark over a time frame appropriate for the particular strategy, Mercer does not guarantee that these expectations will be fulfilled.

Creditworthiness

Unlike those of credit rating agencies, Mercer's ratings are not intended to imply any opinions about the creditworthiness of the manager providing the strategy.

Vehicle-Specific Considerations

As Mercer's ratings are normally assigned to strategies rather than to specific investment vehicles, potential investors in specific investment vehicles should consider not only the Mercer ratings for the strategies being offered through those investment vehicles but also any investment vehicle-specific considerations. These may include, for example, frequency of dealing dates and any legal, tax, or regulatory issues relating to the type of investment vehicle and where it is domiciled. Mercer's ratings do not constitute individualized investment advice.

Management Fees

To determine ratings, Mercer does not generally take investment management fees into account. The rationale for this is that, due to differing account sizes, differing inception dates, or other factors, the fees charged for a specific strategy will vary among clients. Potential investors in a specific strategy should therefore consider not only the Mercer rating for that strategy but also the competitiveness of the fee schedule that they have been quoted. The area of Alternative Investments is an exception — Mercer follows market practice for "Alternatives" and rates strategies on a net of fees basis.

Operational Assessment

Mercer's research process and ratings do not include an evaluation of a manager's custodian, prime brokerage, or other vendor relationships, or an assessment of the manager's back office operations, including any compliance, legal, accounting, or tax analyses of the manager or the manager's investment vehicles. Research is generally limited to the overall investment decision-making process used by managers. In forming a rating, Mercer's investment researchers do not generally perform corporate-level operational infrastructure due diligence on a manager and do not perform financial or criminal background checks on investment management staff. Unless Mercer's investment researchers are aware of material information to the contrary (such as a view expressed by a manager's auditors or Mercer Sentinel®; see section 9), they assume that the manager's operational infrastructure is reasonable. Operational weaknesses that Mercer's investment researchers discover during their analysis of the four factors outlined in section 4 will be noted and, where appropriate, taken into account in determining ratings.

FACTORS CONSIDERED IN FORMING A RATING

In order to determine the rating for a particular strategy, Mercer's investment researchers review the strategy on the basis of four specific factors — idea generation, portfolio construction, implementation, and business management — each of which is assigned one of four scores: negative (-), neutral (=), positive (+), or very positive (++).

Mercer believes that idea generation, portfolio construction, and implementation are the main components of every investment process. These factors are defined as:

Idea generation encompasses everything that the investment manager (herein referred to as manager) does to determine the relative attractiveness of different investments.

Portfolio construction refers to the manner in which the manager translates investment ideas into decisions on which investments to include in a portfolio and what weightings to give to each of these investments.

Implementation refers to the capabilities surrounding activities that are required to achieve the desired portfolio structure.

Mercer believes that managers that do these activities well should have above-average prospects of outperformance. However, Mercer also believes that to remain competitive over longer periods, managers must be able to maintain and enhance their capabilities in these three areas. To do this, managers need to have significantly strong business management, which is the fourth factor Mercer assesses.

Business management refers to the overall stability of the firm, firm resources, and overall operations.

The four factors above apply to most product categories that Mercer researches. Variations on these factors are used in some product categories. Examples here include passive strategies, liability driven investment and private markets.

A strategy's overall rating is not determined as a weighted average of the four factor scores, and no prescribed calculations are made to arrive at the four-factor score or the overall rating. Instead, for each strategy, Mercer's investment researchers identify which factors Mercer believes are most relevant to a manager's investment process and place weight on the factors accordingly. Example considerations include:

- Mercer's confidence in the manager's ability to generate value-adding ideas.
- Mercer's view on any specified outperformance target.
- The opportunities available in the relevant market(s) to achieve outperformance.
- An assessment of the risks taken to try to achieve outperformance.
- An assessment of the strategy relative to peer strategies.
- An assessment of the manager's business management and its impact on particular strategies.

MERCER RATING SCALE

Ratings	Rationale
A	Strategies assessed as having “above average” prospects of outperformance
B+	Strategies assessed as having “above average” prospects of outperformance, but which are qualified by at least one of the following: ▪ There are other strategies that Mercer believes are more likely to achieve outperformance ▪ Mercer requires more evidence to support its assessment
B	Strategies assessed as having “average” prospects of outperformance
C	Strategies assessed as having “below average” prospects of outperformance
N/no rating	Strategies not currently rated by Mercer
R	The R rating is applied in three situations: ▪ Where Mercer has carried out some research, but has not completed its full investment strategy research process ▪ In product categories where Mercer does not maintain formal ratings but where there are other strategies in which we have a higher degree of confidence ▪ Mercer has in the past carried out its full investment-strategy research process on the strategy, but we are no longer maintaining full research coverage

The above definitions apply to the majority of product categories researched by Mercer. However for some product categories the rating scale reflects Mercer’s degree of confidence in a manager’s ability to achieve a strategy’s stated aims. Examples of where this applies include low volatility equities, cash, passive, liability driven strategies and DC specific solutions.

SUPPLEMENTAL INDICATORS

Provisional (P)

If the Mercer strategy rating is followed by a (P) - for example, A (P) or B+ (P) - the rating is “provisional” - that is, there is temporary uncertainty about the rating, but it is expected that this will soon be resolved. For example, should two managers announce a merger, but without further details, this uncertainty may be highlighted by modifying the rating strategies for one or both of those firms - for instance, from A to A (P). (P) indicators are intended to be temporary and should normally last for no more than two weeks. As soon as the temporary uncertainty has been resolved, or if it becomes apparent that this uncertainty is unlikely to be resolved quickly, the (P) indicator will be removed and the rating confirmed or changed, or the strategy will be assigned the indicator “watch” (W).

Watch (W)

If the Mercer strategy rating is followed by a (W) – for example, A (W) or B+ (W) - the rating is “watch” - there is some uncertainty about the rating and resolution is not expected soon, but Mercer believes there is a low probability that the resolution of this uncertainty will lead to a change in the strategy’s rating. (W) indicators are typically issued when there is an expectation of long-term uncertainty surrounding the rating - for example, a change, or potential change, in a manager’s ownership.

Specifically Assigning (P) and (W) Supplemental Indicators

(P) and (W) indicators are assigned - and removed - by the regular ratings review process described earlier; however, there are circumstances where organizational or reputational issues that affect a manager warrant the specific assignment of a (P) or (W) indicator to an existing rating. In such circumstances, the decision to apply - or remove - a (P) or (W) indicator is taken by two senior members of the leadership group of the Manager Research team. These occasions are rare, and the relevant investment researchers will contribute to any discussions before a (P) or (W) indicator is assigned or removed.

High Tracking Error (T)

If the Mercer strategy rating is followed by a (T) — for example, A (T) or B+ (T) — the strategy is considered to have the potential to generate a tracking error substantially higher than the average for the relevant product category. In this context, “tracking error” refers to the variability of performance relative to the nominated benchmark for the strategy. A strategy may be assigned the (T) indicator because the potential for high tracking error has been demonstrated by the strategy’s past performance and/or because the nature of the investment process is such that a significantly higher than average tracking error could be expected. The absence of a (T) following a rating does not guarantee that the strategy’s tracking error will not be higher than the average for the relevant product category.

NICHE STRATEGIES

Mercer categorize a limited number of strategies as Niche. The Niche categorization is applied to strategies that are perceived as highly differentiated. Mercer does not have specific rules as to what characterizes a Niche strategy but examples might include strategies where a manager is seeking to exploit anomalies not generally recognized by other market participants. It might also be applied to strategies with a short track record and/or limited assets under management.

RESEARCH INDICATIONS – INDICATIVE VIEW

For strategies where Mercer has conducted some initial research, we may apply Mercer Research Indications. Mercer's Research Indications are an indication of whether a strategy merits deeper / further due diligence. This indication is shown by an assigned indicative view, identified as a colour. A Research Indication does not necessarily result in future research. All Research Indications are assigned as R rating.

- Red – further research has "below average" prospects of resulting in an investable rating.
- Amber – further research has "average" prospects of resulting in an investable rating.
- Green – further research has "above average" prospects of resulting in an investable rating.

An investable rating is defined as an A or B+.

OPERATIONAL RISK ASSESSMENTS

Mercer Sentinel, a division within Mercer, undertakes operational risk assessments (ORAs) on managers, most often on behalf of clients. These ORAs assess managers' operations and implementation risk profiles and cover some of the areas mentioned in section 3, as well as other areas related to operational risk. ORAs are undertaken separately from the Manager Research process; however, the results are shared with the Lead Researcher for the manager. A Mercer Sentinel ORA that concludes with an unsatisfactory rating (namely, a "Review" rating) for a manager will result in an immediate (P) rating for all that manager's relevant rated strategies. Discussions will follow and any subsequent change in investment rating will be ratified by the standard Manager Research process. Contact your Mercer consultant for more information.

ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE RATINGS

Mercer also assigns ratings to strategies that represent Mercer's view on the extent to which environmental, social and corporate governance (ESG) and active ownership practices (voting and engagement) are integrated into the manager's investment process and decision-making across asset classes. ESG factors are incorporated into the investment process on the basis that these issues can impact revenue, operating costs, competitive advantage, and the cost of capital. During discussions with managers about ESG integration, Mercer assesses the use of ESG information to generate outperformance.

GUIDE TO MERCER RATINGS

ESG Rating Scale	
ESG1	The highest ESG rating is assigned to strategies that Mercer believes to be leaders in integrating ESG and active ownership into their core processes, and that provide clear evidence that ESG overall, or a particular ESG theme, is core to idea generation and portfolio construction.
ESG2	The second highest rating is assigned to strategies that, in Mercer's view, include ESG factors as part of decision making, with a strong level of commitment made at a firmwide level and some indication that data and research are being taken into account by the managers in their valuations and investment process.
ESG3	The penultimate rating is assigned to strategies for which, in Mercer's view, the manager has made some progress with respect to ESG integration and/or active ownership, but for which there is little evidence that ESG factors are taken into consideration in valuations and investment process.
ESG4	The lowest ESG rating is assigned to strategies for which, in Mercer's view, little has been done to integrate ESG and active ownership into their core process.

For passive strategies, Mercer applies an ESGp1 through to ESGp4. There are two key distinctions between ESG ratings for passive and active strategies. First, for passive, the bulk of the focus is on voting and engagement practices. Second, most of Mercer's analysis focuses on firm-wide levels of commitment rather than at the individual strategy level.

RATINGS REVIEW COMMITTEES

Mercer has a process for reviewing and ratifying the ratings proposed by individual investment researchers. For most product categories, strategy ratings are reviewed regularly by one of several RRCs that operate within Mercer. These committees are composed of professionals from Mercer's investment research and consulting groups who draw on research carried out by Mercer investment researchers and consultants. The role of the RRCs is to review this research from a quality control perspective and ensure consistency of treatment across strategies within a product category.

For certain asset classes, ratings will not have been reviewed by an RRC; however, the rating will have been reviewed by at least two suitably qualified investment researchers or consultants other than the recommending researcher. An R rating will not necessarily have been reviewed by an RRC but will have been subject to Mercer's standard peer review process.

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TODAY

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 1395/16

Meeting / Decision: AVON PENSION FUND INVESTMENT PANEL
Date: 5th September 2016

Author: Matt Betts
Report Title: Review of Investment Performance for periods ending 30 June 2016 Exempt Appendix 3 - RAG monitoring summary report.

The Report contains exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption: 3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the Report be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Committee wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

The exempt appendix contains information on potential future trades by the fund, and includes information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and could prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the Report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

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AVON PENSION FUND

Currency Hedging Considerations

The Fund's policy is to passively hedge overseas currency exposure where appropriate, to reduce the volatility of returns. Specifically, the Fund hedges 50% of the currency exposure on its overseas equities, and 100% for the global property, infrastructure and fund of hedge funds mandates.

The rationale for the higher hedge ratio on the latter mandates reflects the lower expected volatility of the underlying return drivers which the Fund wishes to benefit from over the long-term, meaning that the relatively higher variability in currency movements could easily outweigh the returns of the underlying asset classes. For example, in the case of hedge funds, the underlying return drivers that the Fund is aiming to tap into are the skills of a diversified range of unconstrained active managers that, in theory, have the potential to exploit a range of return opportunities (long only and relative value) on a dynamic basis with a relatively low correlation to equity markets. However, the base currency of the underlying hedge funds is in US$. If the US$ to Sterling currency risk was unhedged, the Fund would be exposed to the underlying hedge fund returns, plus movements in the US$ versus GBP exchange rate, with the latter being more volatile than the former. Hence, this could undermine the reason for investing in hedge funds in the first place. Similar arguments apply to global property and infrastructure.

Since the result of the European Union Referendum, Sterling has fallen significantly against other major currencies (down from $1.48 on 23 June 2016 to $1.33 on 31 July 2016), resulting in negative returns in Sterling terms for the four currency hedged mandates (see the appendix, which demonstrates negative currency returns for all major currencies over the quarter).

We expect currency volatility to continue, and as such believe that the Fund should keep the currency hedge in place to protect against this volatility. While further falls in Sterling are clearly possible, if the Fund was to remove the currency hedge it would be exposed to potentially material losses if Sterling was to rebound over a given period.

Further, we still believe that a passive currency hedging strategy remains appropriate, due to the lower fees and greater certainty of the levels of risk reduction than the dynamic approach previously used, particularly if markets "whipsaw".

Steve Turner
Partner
August 2016

Important notices

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Appendix

Currency Hedge Returns over Q2 2016

Passive Developed Equity Currency Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Hedge Return (%)	Record Hedge Return (%)
USD	572,761,642	548,740,916	7.52%	(3.87%)	(3.83%)
EUR	188,644,012	160,475,476	4.82%	(2.50%)	(2.50%)
JPY	130,089,526	125,406,018	17.79%	(8.87%)	(8.84%)
Total	**891,495,180**	**834,622,411**	**8.45%**	**(4.31%)**	**(4.28%)**

Passive Property Currency Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Hedge Return (%)	Record Hedge Return (%)
USD	36,421,737	33,418,344	7.52%	(7.75%)	(7.64%)
EUR	134,164,968	136,191,661	4.82%	(4.89%)	(4.96%)
Total	**170,586,705**	**169,610,005**	**12.18%**	**(5.46%)**	**(5.49%)**

Passive Hedge Fund Currency Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Hedge Return (%)	Record Hedge Return (%)
USD	194,312,572	187,295,246	7.52%	(7.66%)	(7.64%)
Total	**194,312,572**	**187,295,246**	**7.52%**	**(7.66%)**	**(7.64%)**

Passive Infrastructure Currency Hedge (17 May 2016 – 30 June 2016)

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Hedge Return (%)	Record Hedge Return (%)
USD	69,295,032	78,259,428	8.07%	(8.10%)	(8.07%)
EUR	15,114,049	14,698,035	5.87%	(5.88%)	(6.00%)
Total	**84,409,081**	**92,957,464**	**7.72%**	**(7.74%)**	**(7.73%)**

Source: Record.

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HEALTH WEALTH CAREER

AVON PENSION FUND
BREXIT IMPLICATIONS DISCUSSION

AUGUST 2016

Steve Turner
Partner

MAKE TOMORROW, TODAY MERCER

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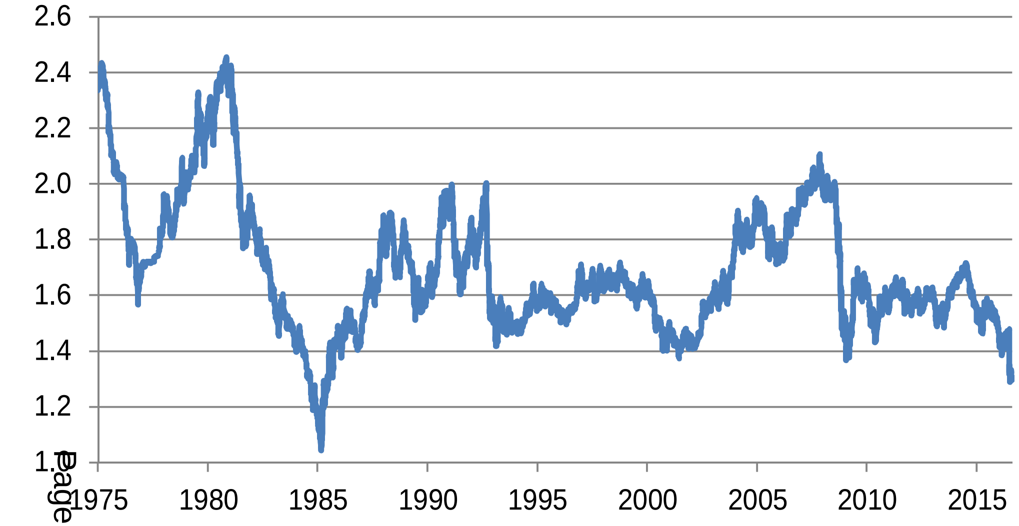
Mercer's universes are intended to provide collective samples of strategies that best allow for robust peer group comparisons over a chosen timeframe. Mercer does not assert that the peer groups are wholly representative of and applicable to all strategies available to investors.

SUMMARY

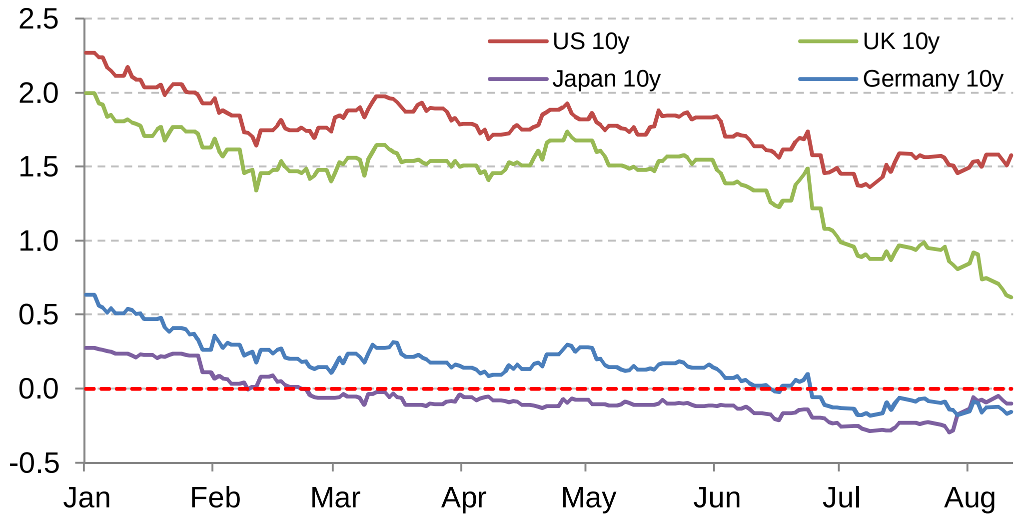
- **Move to CPI Plus discount** basis has meant that the funding position has not been negatively impacted as a result of falling gilt yields (as previously would have been the case). Lower gilt yields may, however, reduce long-term asset class return expectations, which would impact funding. We will follow up on this in due course
- Increased market uncertainty and potential for volatility further supports the strategic case for the proposed **risk management framework**, which has been agreed to be implemented. Actual yield triggers to be adopted will need to be reviewed closer to the point of implementation
- We continue to support the current approach to **currency hedging** (see separate advice paper)
- Increased uncertainty, potential for future market shocks and general "high" level of most liquid growth market, **makes it relatively more attractive to reduce exposure to market directionality** (i.e. simply hoping for market to rise over time). Potential areas to consider include: Lower Volatility Equities, Structured Equities, Private Debt, Multi-Asset Credit and Secure Income assets.
- **Having said this, we think priority should still be given to implementing the risk management framework. Reviewing sources of growth asset risk can be considered as part of the investment strategy review scheduled for next year.**

BREXIT VOTE - MARKET REACTION

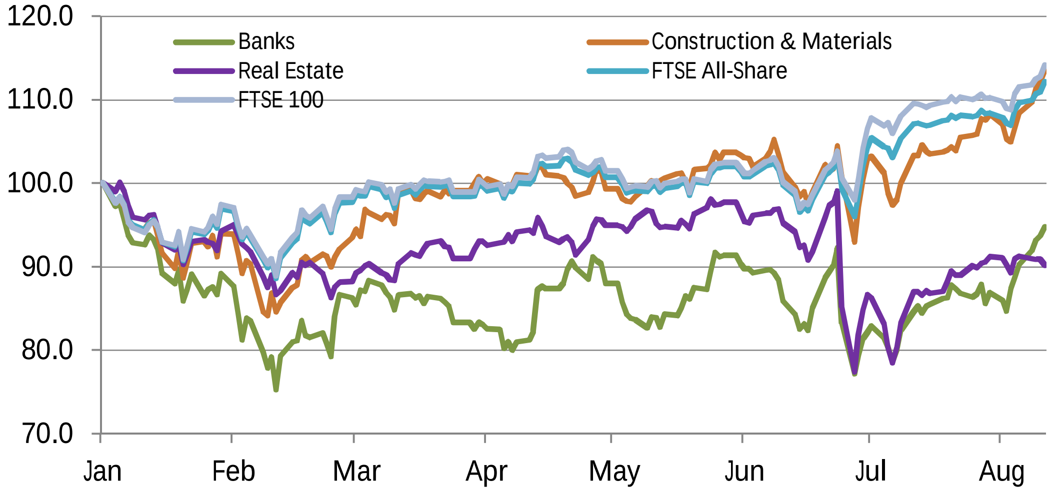
Sterling



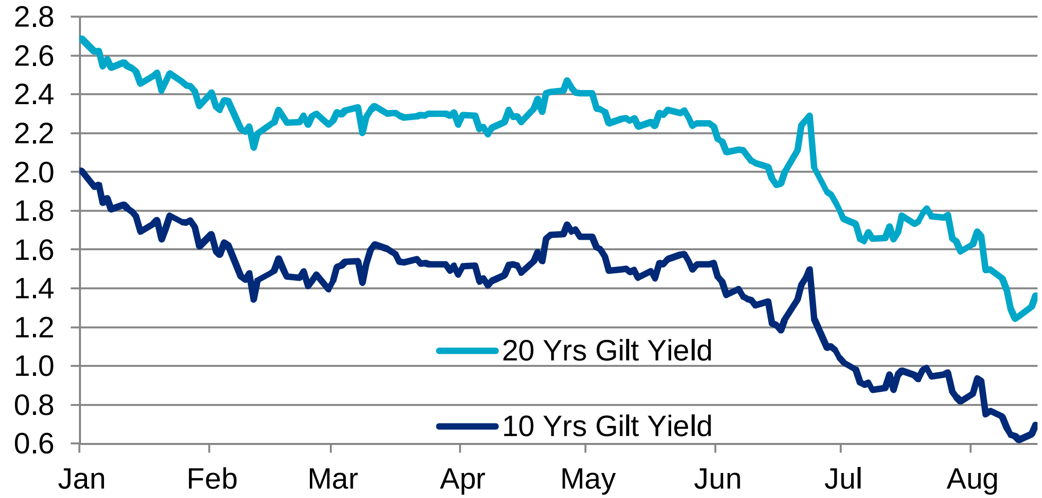
Global Bond Yields 2016 to Date



FTSE Indices (January 2016 = 100)

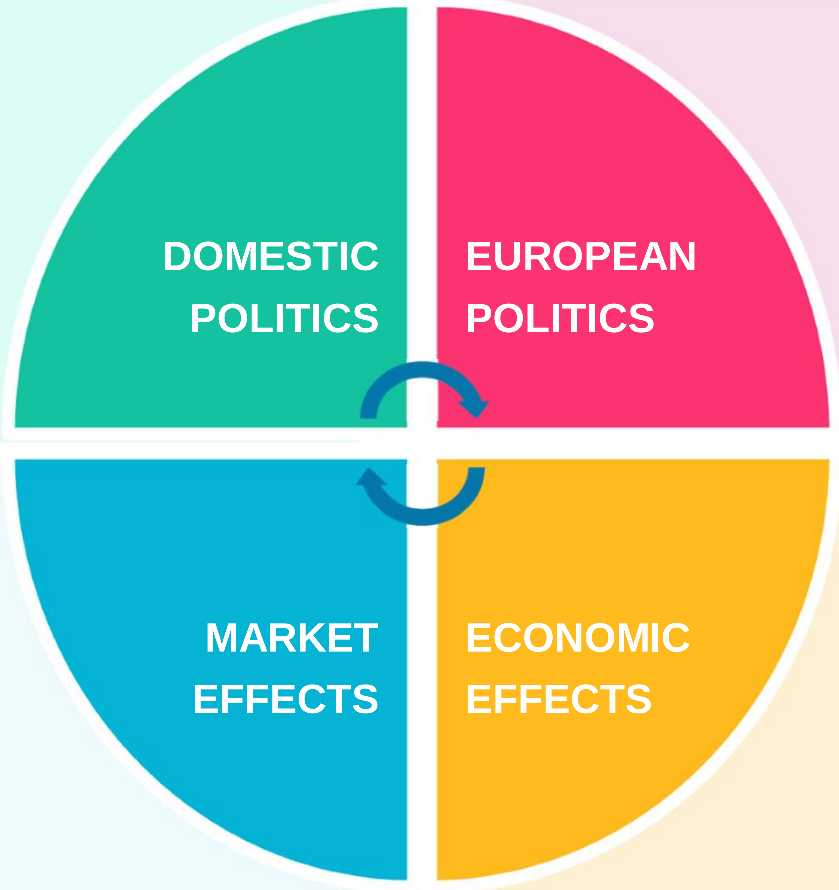


Gilt Yields 2016 to Date



Source: Bank of England, Thomson Reuters Datastream, Mercer calculations

KNOWN UNKNOWNS



- General election / another referendum?
- UK's negotiating stance?
- Scottish referendum?
- Irish referendum?

- EU negotiating stance?
- Calls for referenda in other countries?
- Elections in Germany, France and Netherlands in 2017 and a constitutional referendum in Italy (October 2016)

- Markets remain fragile due to heightened uncertainty and reduced liquidity
- Policy-maker response will also be important (i.e. monetary and fiscal policy)

- Short-term impact on UK economy expected to be negative
- Medium to longer-term effects much harder to predict.

Brexit is not taking place within a vacuum – it is just one part of a complex macro-economic picture containing many sources of uncertainty (e.g. China and the US)

BREXIT SCENARIOS

More favourable | Less favourable | Least favourable

Quick resolution - Hard Brexit	Quick resolution - Soft Brexit
• UK leaves EU, reverts to WTO rules, has conclusive trade negotiations with EU. • Brexit creates winners and losers on industry sector level. • Economic activity recovers by 2018 causing short term inflation. • GBP recovers modestly by the end of the period.	• Sharp slowdown in economic activity in 2016 HY2, GBP weakens. • Political resolution in mid-2017 (EEA type arrangement, or even a vote reversal). • Political clarity returns the markets to the pre-referendum levels. • No 'EU exit' referenda in pan-Europe and market-friendly parties win elections.
Protracted uncertainty - Inflationary	**Protracted uncertainty – Disinflationary**
• UK fails to negotiate access to the single market on good terms. • UK economy slows down sharply, in a recession through 2018. • Monetary and/or fiscal stimulus and falling GBP impose inflationary pressures. • Anti-EU parties lose popularity in Europe after 'Brexit' sets an example.	• No fruitful negotiations with EU by 2019, UK remains in the single market. • Economic growth is close to 0% in 2018, BoE cuts rates to 0%. • Continued uncertainty keeps global bond yields low and dampens equity markets. • GBP falls slightly.
Global contagion	**Loss of confidence in UK**
• Negotiations between UK & EU are acrimonious, extreme political instability. • Anti-EU parties popular in EU, sovereign debt problems re-emerge in Eurozone. • UK moves into a recession and global growth slows, no GBP impact. • Yields continue to fall and inflation remains subdued.	• Negotiations between UK & EU are acrimonious, extreme political instability • Anti-EU parties popular in EU, sovereign debt problems re-emerge in Eurozone. • Global growth slows while UK falls into a deep recession. • Further cuts in UK credit rating, GBP declines which is inflationary.

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LIABILITY RISK MANAGEMENT STRATEGY

Issues for discussion:

- Brexit (and the dramatic falls in gilt yields following the Referendum results) expected to have had limited direct impact on the liabilities on the 2016 “CPI plus” basis, although the impact on long-term return expectations may be to increase liabilities. We will provide advice if we believe this to be case in due course.
- In terms of the liability risk management strategy due to be implemented, yield trigger levels should be reviewed given the substantial fall in yields this year (as already built into the implementation plan).
- Need to ensure that collateral levels are sufficient to cover a material (e.g. 1-2%) rise in yields. If not, need to agree where additional collateral would be sourced from (e.g. passive equity portfolio).
- Need to ensure sources of financing for the liability risk management portfolio are stable, diversified and cost-effective – will form part of design and documentation.
- The above points would have been covered anyway as part of the risk management framework implementation. But, post the Brexit vote, we think it is even more important to address these issues.

GROWTH PORTFOLIO STRUCTURE

Issues for discussion:

- Does the level of equity and credit exposure remain appropriate, especially where there is a UK tilt?
- Consider tilting towards less “market-sensitive” asset exposures:
  - Low volatility equity / structured equity (making use of options to tailor the return distribution)
  - Private Debt or defensive real assets in place of equity
  - Credit based strategies that the Fund does not already have exposure to, e.g. Multi-Asset Credit
- Seek opportunities in less liquid markets:
  - Impact of Brexit on the banking sector may create some interesting opportunities in Private Markets
  - Secured income strategies (semi-liquid credit) offer a yield premium as compensation for reduced liquidity and greater complexity

APPENDIX

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POSSIBLE BREXIT MODELS

	Tariff free trade with EU	Negotiates own trading terms with countries outside the EU?	Free movement of persons	Contribution to EU budget	Eurozone membership	Require domestic legislation equivalent to EU law	Votes on EU law?
The Norway Model (EEA Model)	Yes	Yes	Yes	Yes	No	Yes except on fishing or farm policies	No
The Swiss Model	Partially – most goods, but not most services	Yes	Yes	Yes	No	Yes	No
The Turkish Model	Partially – some goods, not services	Yes, but tariffs must be aligned with EU.	No	No	No	Yes in certain areas such as consumer protection, competition and intellectual property	No
The Canadian Model	Partially – some goods, not services	Yes	No	No	No	No	No
The World Trade Organisation Model	Exports would face EU's WTO tariff rates and will continue to have to meet EU product standards	Yes	No	No	No	No	No

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Source: Based on information in the HM Government "Alternatives to membership" paper (March 2016).

LIES, DAMNED LIES AND ECONOMIC FORECASTING

- Economic forecasters do not have a good track record at predicting the future
  - One of the key problems is that large scale models used by international organisations and central banks have difficulty in accurately modelling the financial sector
- There is no counter-factual (i.e. we will not know what would have happened had the UK voted to remain part of the EU), so it will be impossible to assess the accuracy of any projections
- Critical to assessing the broader economic impact are assumptions about the policy response and the exchange rate (which are extremely difficult to forecast)
- Forecasts should therefore be approached with caution

SUMMARY OF FORECASTS

- HM Treasury projects that *anything other than EEA membership* will have a *significant impact* on trade and Foreign Direct Investment (FDI)
- Short term forecasts suggest an average impact per annum of *1 to 1 ½ percentage points reduction in GDP*
- Given current rates of GDP growth, this suggests that the UK will *be close to recession* over this period
- HM Treasury forecasts a much more pessimistic long-term impact than Oxford Economics
- A comparison between the short and long term forecasts suggests that *short term losses in output will be greater than longer term losses*, which is intuitive as trade and FDI will suffer less once the future trading relationships between the EU and other countries evolve

HM Treasury: Cumulative Effect of Leaving EU after 15 Years

	EEA	Bilateral Agreements	WTO
Trade			
Best	-9%	-14%	-17%
Worst	-9%	-19%	-24%
FDI			
Best	-10%	-15%	-18%
Worst	-10%	-20%	-26%

Forecasts of GDP Impact

	GDP Best	GDP Worst	Worst Average p.a.
PWC/CBI (5 years)	-3.1%	-5.5%	-1.1%
SocGen (5 years)	-4.0%	-8.0%	-1.6%
Citibank (3 years)	-4.0%		-1.3%
Deutsche (3 years)	-3.0%		-1.0%
HM Treasury (15 years)	-3.8%	-7.5%	-0.5%
Oxford Econ* (15 years)	-0.1%	-3.9%	-0.3%

*Details of the Oxford Economics study are copyright and confidential to subscribers. Numbers shown were obtained from publically available summary document

Source: "HM Treasury analysis: the long term economic impact of the EU and other alternatives", April 2016

WHERE DOES THIS LEAD US?

- While the likely *short-term* economic implications of Brexit are widely accepted – a *negative impact due to increased uncertainty* – the medium and longer-term implications are much harder to assess:
  - Over the *medium-term* (3-5 years) the economic impact on the UK is likely to be driven in large part by the nature any *trade deals* agreed with the EU and non-EU countries
  - The *longer-term* implications will depend on an extremely wide range of factors. However, the empirical evidence throughout history, across a multitude of time periods and countries, suggests that an *increase in barriers to trade*, and *reduced immigration*, *detract from economic growth.*

- Uncertainty over the economic impact is *compounded* by *other uncertainties:*
  - *Policy response:* Bank of England Governor Mark Carney has already announced further QE and a cut in base rates. What happens if this is ineffectual? What will be the fiscal response from the new Chancellor and the Government?
  - *Global growth* has been *weak for some time*. Disentangling global effects from Brexit effects will prove very difficult.
  - Both major *political* parties are experiencing a period of significant *turmoil* and the political implications of Brexit for Scotland and Northern Ireland are still unclear.

- Perhaps the most significant potential risk factor related to Brexit is *contagion in other EU members*. From a *global perspective*, Brexit does *not pose an existential risk*, but an *implosion of the EU* could have *catastrophic consequences.*

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BREXIT SCENARIOS

- We set out a number of plausible scenarios for the period from now until the end of 2018
- There is a great deal of uncertainty over how the situation will develop. The scenarios we outline are not exhaustive, they are simply designed to illustrate a range of outcomes that will have differing implications for financial markets.
  - We have not attempted to be specific about the institutional outcomes – e.g. the nature of the UK's future trading arrangements or whether Scotland leaves the UK
  - We have not assigned probabilities to each of the scenarios on the basis that this would be highly speculative given the political nature of the discussions to follow.
  - It is quite possible that we move through some combination of the scenarios outlined below as well as some that we have not explicitly addressed.
- Rather than trying to "optimise" portfolios to achieve the best average outcome across scenarios, we would suggest that investors seek to understand the potential funding and investment implications of different outcomes and consider actions to help mitigate the impact of the most painful outcomes.

BREXIT SCENARIOS
SUMMARY

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		1a Quick resolution - Hard Brexit	1b Quick resolution - Soft Brexit	2a Protracted uncertainty - Inflationary	2b Protracted uncertainty - deflationary	3a Global Contagion	3b Loss of Confidence
	Now	End 2018	End 2018	End 2018	End 2018	End 2018	End 2018
20 yr Gilt yield	1.50%	2.00%	2.50%	2.00%	0.75%	0.00%	2.00%
20 yr ILG yield	-1.40%	-0.75%	-0.50%	-2.25%	-1.75%	-2.50%	-1.50%
GBP/USD	$ 1.30	$ 1.30	$ 1.45	$ 1.00	$ 1.20	$ 1.15	$ 1.00
UK RPI Mid 2016 - End 2018, p.a.	1.4%	3.5%	3.0%	5.0%	1.5%	2.0%	4.0%
UK Mid Cap / Commercial Property	100	115	120	70	80	70	65
Global Equity in USD	100	115	120	110	100	60	70
Global Equity in GBP unhedged	100	115	108	143	108	68	91
Sterling Credit Spread	1.9%	1.7%	1.5%	2.2%	2.2%	3.0%	3.5%

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MERCER

MAKE TOMORROW, TODAY

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**	
MEETING DATE:	**5 SEPTEMBER 2016**	**AGENDA ITEM NUMBER**
TITLE:	**WORKPLAN**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Nil		

1 THE ISSUE

1.1 This report sets out the workplan for the Panel to June 2017. The workplan is provisional as the Panel will respond to issues as they arise and as work is delegated from the Committee. The workplan over this period includes projects arising from the revised Investment Strategy.

1.2 The workplan will be updated for each Panel meeting and reported to the Committee.

2 RECOMMENDATION

That the Panel:

2.1 **Note the workplan to be included in Committee papers.**

3 FINANCIAL IMPLICATIONS

3.1 There are no financial implications arising from this report. Costs for meeting managers are provided for in the budget.

4 PROVISIONAL WORKPLAN

4.1 The provisional workplan is as follows:

Panel meeting / workshop	Proposed agenda
Panel Meeting 5 September 2016	• Review managers performance to June 2016 • Meet the Managers Workshop (Standard Life)
Panel Meeting 14 November 2016	• Review managers performance to September 2016 • Managing liabilities – Implementation • Pooling – potential implications for investment strategy
Panel Meeting 22 February 2017	• Review managers performance to December 2016
Panel Meeting 24 May 2017	• Review managers performance to March 2017

4.2 The Panel's workplan will be included in the regular committee report setting out the committee's and pensions section workplans. This will enable the Committee to alter the planned work of the Panel.

5 RISK MANAGEMENT

5.1 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. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

6 EQUALITIES

6.1 An equalities impact assessment is not necessary as the report contains only recommendations to note.

7 CONSULTATION

7.1 N/a

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 This report is for information only.

9 ADVICE SOUGHT

9.1 The Council’s Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director – Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Investments Manager 01225 395306
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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