

**Democratic Services**

Lewis House, Manvers Street, Bath, BA1 1JG

Telephone: (01225) 477000 *main switchboard*

Direct Lines - Tel: 01225 395090

Web-site - <http://www.bathnes.gov.uk>

Date: 16 May 2017

E-mail: [Democratic\\_Services@bathnes.gov.uk](mailto:Democratic_Services@bathnes.gov.uk)

**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: Wednesday, 24th May, 2017**

You are invited to attend a meeting of the **Avon Pension Fund Committee - Investment Panel**, to be held on **Wednesday, 24th May, 2017 at 2.00 pm** in the **Conference Room 1.1 West, Civic Centre, Keynsham - Civic Centre, Keynsham**.

The agenda is set out overleaf.

**NOTE:** Members of the Investment Panel will meet with two of the Funds investment managers at informal and non-public meeting after the formal meeting has concluded.

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](http://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 - Wednesday, 24th May, 2017**

**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 22ND FEBRUARY 2017 (Pages 7 - 8)**

**8. REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 MARCH 2017 (Pages 9 - 82)**

## 9. WORKPLAN (Pages 83 - 86)

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.

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**AVON PENSION FUND COMMITTEE - INVESTMENT PANEL**

**Minutes of the Meeting held**

Wednesday, 22nd February, 2017, 2.00 pm

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

**Advisors:** Tony Earnshaw (Independent Advisor), Steve Turner (Mercer) and Kate Brett (Mercer)

**Also in attendance:** Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager), Nathan Rollinson (Assistant Investments Manager) and Helen Price (Investments Officer)

**30 EMERGENCY EVACUATION PROCEDURE**

The Democratic Service Officer advised the meeting of the procedure.

**31 DECLARATIONS OF INTEREST**

There were none.

**32 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

There were none.

**33 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

There was none.

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

There were none.

**35 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS**

There were none.

**36 MINUTES: 14 NOVEMBER 2016**

The public and exempt minutes of the meeting of the 14 November 2016 were approved as a correct record and signed by the Chair.

**37 RESPONSIBLE INVESTING - LOW CARBON INDICES**

The Assistant Investments Manager introduced this item.

The Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED**, in accordance with the provisions of

the Section 100(A)(4) of the Local Government Act 1972 that the public should be excluded from the meeting for this item of business, because of the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act as amended.

After discussion the Panel **RESOLVED** to recommend to the Committee that if it should decide to introduce a low-carbon index in the Investment Strategy Review to be undertaken in 2017, then a broad market optimised approach as recommended in section 5 is the most appropriate.

### **38 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 DECEMBER 2016**

The Panel returned to open session.

The Assistant Investments Manager introduced this item and summarised the key facts as set out in sections 4 and 5 of the report. He also noted the selection decision for the Liability Risk Management Framework mandate, which was summarised in Exempt Appendix 4.

The Chair asked whether in the interests of prudence it was time to think of changing any of the Fund's managers. The Investment Manager said that she did not think this was the right time to dispense with any managers, because that would require money to be placed somewhere temporarily during the tendering process, and before tendering it would be desirable to have a top-level review by Mercer. In addition, the Investments Team did not have sufficient resources to undertake a major tendering exercise. It would be possible to take some decisions about managers as part of the Investment Strategy review.

Mr Turner commented on the Mercer investment performance report including the performance of individual investment managers. Members discussed the report with Mr Turner and officers.

**RESOLVED** to note the information as set out in the reports and the appendices.

The meeting ended at 4.09 pm

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**



Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	24 MAY 2017	AGENDA ITEM NUMBER
TITLE:	Review Of Investment Performance For Periods Ending 31 March 2017	
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		

## **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 31 March 2017.
- 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 June 2017.
- 1.3 This is the fourth 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 £158m (c. 3.8%) in the quarter ending 31 March 2017 giving a value for the investment Fund of £4,356m. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.
- 4.2 Upward momentum in developed market equities initially continued into Q1 2017 but started to correct as the market questioned Trump's ability to implement healthcare, taxation and regulatory reforms. Equity market valuations appear to remain stretched and the prospect of unified interest rate increases from developed economies could lead to a more material downward move in the medium-term. Despite waning risk appetite among investors the FTSE 100 posted all-time highs in March and UK business activity growth hit a three-month high in the same month. Inflation rose both in the UK and Europe as a result of high oil prices and 'imported inflation' as a result of weak domestic currency. This kept real wage growth under pressure. It is worth noting that oil prices did decline through the quarter as the oversupply in this market persisted despite commitment from OPEC countries to further production cuts. This could act to curb any significant spikes in inflation in the short- to medium-term. The US Federal Reserve sought to head off rising inflation with the second interest rate rise in three months, taking the base rate from 0.75% to 1%. A tightening in US monetary policy tends to increase the cost of borrowing for many emerging market economies but this did not seem to impair returns this quarter as emerging markets performed well on a perceived mellowing of Trump's protectionist rhetoric and a number of upside surprises in China's economic data. There is increasing speculation that the ECB may follow the Fed by reducing their quantitative easing program and tightening monetary policy through rate hikes in 2017. Benchmark 10-year bond yields rose marginally in most European countries in the quarter as a result of increasing inflation. Conversely, UK 10-year yields fell by c.0.20%, consistent with the scaling-back in equity market performance toward the end of the quarter. In the currency markets, the USD broadly weakened. While sterling posted gains against the US dollar, it depreciated against the Yen and Euro.
- 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 24 June 2017.

#### **B – Investment Manager Performance**

- 4.4 A detailed report on the performance of each investment manager has been produced by Mercer – see pages 25 to 45 of Appendix 2.
- 4.5 All but one manager posted positive absolute returns over the quarter, reflective of wider market returns. The exception was Standard Life GARS who achieved -0.3% following a return of +1.8% last quarter.
- 4.6 Relative returns were disappointing with the majority of managers underperforming their targets, both on a quarterly and a 3 year rolling basis. This

quarter Jupiter, Schroder (Global Equities), TT, Unigestion and Pyrford remain on an 'Amber' rating and are joined by Genesis. On a 3 year basis RLAM and Invesco underperformed but remain above the threshold as outlined in the RAG framework and therefore retain their 'Green' rating. Schroder Property retain their 'Green' rating based on the fact their performance is assessed on a rolling 5 year basis and is within tolerance of their performance target. Partners retain their 'Green' rating as their performance is based on net IRRs since inception, which continue to meet expectation. Precise detail of amber rated managers can be found at Exempt Appendix 3. Only the enhanced indexation manager (SSgA) and the passive manager (BlackRock) met their performance targets over 3 years

- 4.7 Among the managers that are yet to reach the 3 year mark SLI were not able to continue their improved performance from Q416 and recorded a negative absolute return of -0.3% over the three-months to 31 March 2017. JP Morgan achieved a quarterly absolute return of +1.3% in USD terms and IFM posted 6.7% net IRR since inception, again in local currency terms.
- 4.8 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), Jupiter, TT Unigestion and Pyrford have retained amber ratings this quarter, Genesis have been added to the report as they are now sufficiently below the threshold and also receive an amber rating.

## 5 INVESTMENT STRATEGY AND PORTFOLIO REBALANCING

- 5.1 **Asset Class Returns versus Strategic Assumptions:** All asset classes with the exception of hedge funds met their assumed strategic returns on a 3 year basis. Index returns from developed and emerging equities, index-linked gilts, property and infrastructure are significantly ahead of their assumed strategic returns on a 3 year basis. Hedge funds remain below long-term averages due in part to exceptionally low cash rates.
- 5.2 **Risk Management Framework:** In November the Panel delegated the setting of the trigger levels to Officers in consultation with the Investment Consultant, Actuary and Manager, at the time of implementation and once implemented that Panel members should be notified when triggers were changed or activated. Officers are in the process of finalising the trigger framework and investment management agreement and there is a Panel Workshop with the manager and Mercer on 24<sup>th</sup> May following the formal Panel meeting which will update the Panel.
- 5.3 **Infrastructure:** Following drawdown of \$105m in Q117 all commitments have now been drawn-down and the infrastructure allocation is fully invested.
- 5.4 **MIFID II:** The FCA will release details of the opt-up criteria LGPS will need to satisfy in order to be re-classified as a 'professional counterparty' from the default position of 'retail counterparty'. Once the FCA has made its position clear the Fund will work towards satisfying the revised tests to meet an 'elective professional status'. The deadline for implementation of MIFID II is 3 January 2018.

- 5.5 **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). This trend reversed slightly in Q1 versus the dollar with the pound appreciating against the dollar by c1.2% although sterling continued to weaken against the euro and yen over the quarter. Given the majority of hedging activity is versus the dollar, the currency hedge on the non-sterling assets has added value to local currency returns on infrastructure, hedge funds, and to a lesser extent, overseas equities and property. The Consultant and Officers reaffirmed their position on currency hedging at September 2016 Panel and will further review the efficacy of the hedge at the strategic review in June 2017.
- 5.6 **Cash Management:** A total of £105m GBP equivalent was sold from BlackRock overseas equity funds in the quarter to fund the final drawdown in infrastructure and to meet currency hedging cash requirements necessary to maintain a 50% passive hedge level. After quarter end the Fund received c£84m in up front deficit payments from employers. On advice from Mercer this has been placed in cash liquidity funds in the short-term, pending the outcome of the ongoing investment strategy review. This relatively high cash balance will be reviewed on a monthly basis.
- 5.7 **Rebalancing:** As at 10<sup>th</sup> May asset allocations remain within the acceptable range requiring no rebalancing action. Officers did not undertake any rebalancing activity during the quarter.
- 5.8 **Manager Meetings:** The Panel are meeting BlackRock and Unigestion in a Workshop on 24<sup>th</sup> May following the formal Panel meeting.

## **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.

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

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## AVON PENSION FUND VALUATION - 31 MARCH 2017

	Passive Multi-Asset	Active Equities					Enhanced Indexation		Active Bonds	Funds of Hedge Funds		DGFs		Property		Infra- structure	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		
<b>EQUITIES</b>																				
UK	196.8	229.4	190.7			19.5													636.5	14.61%
North America	98.0					197.9													295.8	6.8%
Europe	99.6					46.6		55.5											201.8	4.6%
Japan	14.8					24.3		60.5											99.5	2.3%
Pacific Rim	54.2					12.6		44.4											111.3	2.6%
Emerging Markets				196.6	223.2	34.4												0.0	454.2	10.4%
Global ex-UK							388.1												388.1	8.9%
Global inc-UK																	5.7		5.7	0.1%
<b>Total Overseas</b>	<b>266.6</b>	<b>0.0</b>	<b>0.0</b>	<b>196.6</b>	<b>223.2</b>	<b>315.7</b>	<b>388.1</b>	<b>160.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>5.7</b>	<b>0.0</b>	<b>1556.3</b>	<b>35.7%</b>
<b>Total Equities</b>	<b>463.4</b>	<b>229.4</b>	<b>190.7</b>	<b>196.6</b>	<b>223.2</b>	<b>335.3</b>	<b>388.1</b>	<b>160.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>5.7</b>	<b>0.0</b>	<b>2192.8</b>	<b>50.3%</b>
<b>DGFs</b>												138.5	236.9						375.4	8.6%
<b>Hedge Funds</b>										226.1	2.5								228.7	5.2%
<b>Property</b>														188.0	192.4				380.3	8.7%
<b>Infrastructure</b>																256.0			256.0	5.9%
<b>BONDS</b>																				
Index Linked Gilts	511.3																		511.3	11.7%
Conventional Gilts																			0.0	0.0%
Corporate Bonds	80.5								260.8										341.3	7.8%
Overseas Bonds																			0.0	0.0%
<b>Total Bonds</b>	<b>591.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>260.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>852.6</b>	<b>19.6%</b>
<b>Cash</b>	5.8	7.2	9.1			2.0								13.7				28.1	65.9	1.5%
<b>FX Hedging</b>																	4.7		4.7	0.1%
<b>TOTAL</b>	<b>1061.0</b>	<b>236.6</b>	<b>199.8</b>	<b>196.6</b>	<b>223.2</b>	<b>337.3</b>	<b>388.1</b>	<b>160.5</b>	<b>260.8</b>	<b>226.1</b>	<b>2.5</b>	<b>138.5</b>	<b>236.9</b>	<b>201.6</b>	<b>192.4</b>	<b>256.0</b>	<b>10.3</b>	<b>28.1</b>	<b>4356.3</b>	<b>100.0%</b>

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# AVON PENSION FUND

## PANEL INVESTMENT PERFORMANCE REPORT QUARTER TO 31 MARCH 2017

MAY 2017

Page 17

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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

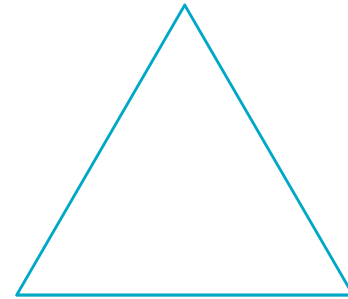
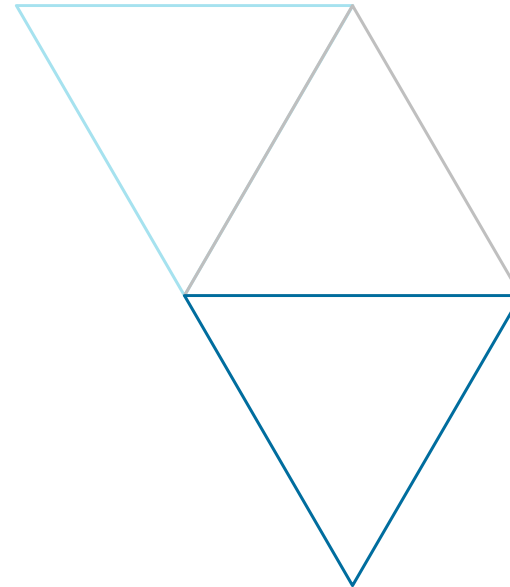
• Executive Summary	3
• Market Background	8
• Strategic Assumptions	12
• Fund Valuations	16
• Performance Summary	20
• Manager Performance	24
• Appendices	45

Page 19

# SECTION 1

## EXECUTIVE SUMMARY

Page 20



# 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 £158m (3.8%) over the quarter, to £4,356m at 31 March 2017. This increase has come primarily from growth assets, with strong returns in particular from emerging market equities.

## Strategy

- Global (developed) equity returns over the last three years were 16.8% p.a., materially ahead of the assumed strategic return of 8.25% p.a. from the review in March 2013. We remain broadly neutral in our medium-term outlook for developed market equities (over the next one to three years). Accommodative monetary policy remains generally supportive of equity markets but uninspiring earnings growth and downward revisions to earnings estimates persist.
- The three-year return from emerging market equities has increased to 12.9% p.a. from 9.4% p.a. last quarter. It is therefore above the assumed strategic return (of 8.75% p.a.) as returns have been strong over the last year and fundamentals have improved. 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-year period remain significantly above the long-term assumed strategic returns as investor demand for gilts remains high – fixed interest gilts returned 14.0% p.a. versus an assumed return of 4.5% p.a. and index-linked gilts returned 14.6% p.a. versus an assumed return of 4.25% p.a. Gilt yields fell slightly over the quarter leading to positive returns.
- UK corporate bonds returned 7.5% p.a. over the three-year period against an assumed strategic return of 5.5% p.a. The three-year UK property return of 11.2% p.a. remains substantially above the assumed return of 7% p.a.
- Hedge fund returns remain below long-term averages and the strategic return of 6% p.a., having been affected by low cash rates. Active managers in general have struggled to generate meaningful returns in recent times.

# EXECUTIVE SUMMARY

## Managers

- Absolute returns of the managers over the quarter were largely positive. The exception was Standard Life GARS, who delivered a return of -0.3%. Emerging market equities produced the highest returns over the quarter, with Unigestion returning nearly 10%.
- Absolute returns over the year to 31 March 2017 were strong. All mandates delivered positive absolute returns, with all overseas equities mandates returning over 20%, partly due to the significant weakening of sterling over 2016. However, a number of the active equity managers have underperformed their benchmarks over the year. This is partly due to value outperforming the wider market over the one-year period, which the Fund does not have a bias towards in its equity mandates. As such, relative performance should improve over periods where value suffers.
- Over the three-year period all mandates with a three-year track record produced positive absolute returns. A number of active funds underperformed their benchmarks over the period: Jupiter, Schroder global equities, Schroder property (over five years), Genesis, Unigestion, Pyrford and Partners (see comments on the measurement of Partners' performance later). TT, Invesco and Royal London failed to achieve their performance objectives but did outperform their respective benchmarks, net of fees. The SSgA mandates achieved their three-year performance objectives.

Page 22

## Key Points for Consideration

- Implementation of a liability risk management framework is in progress with BlackRock, which will include market-based triggers for increasing the level of hedging.
- An in-depth review of the Fund's broader investment strategy is also underway. The scope of this review includes the overall asset allocation, structure of the equity portfolio, possible approaches to equity risk management, future collateral management and currency hedging.

# 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	26
Jupiter	UK Equities	-	×	×	2	27
TT International	UK Equities	-	×	-	3	28
Schroder	Global Equities	✓	×	×	2	29
Genesis	Emerging Market Equities	✓	×	×	3	30
Unigestion	Emerging Market Equities	-	×	×	N	31
Invesco	Global ex-UK Equities	✓	✓	-	4	32
SSgA	Europe ex-UK Equities	-	✓	✓	N	33
SSgA	Pacific inc. Japan Equities	-	✓	✓	N	34
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

- § Schroder have announced that Chris Costanza, the Global Sector analyst on Financials, will leave the firm. See page 30 for details.
- § A number of the active equity managers have underperformed their benchmarks over the year. This is partly due to value outperforming the wider market over the one-year period, which the Fund does not have a bias towards in its equity mandates. As such, relative performance should improve over periods where value suffers.

# EXECUTIVE SUMMARY

## MANAGER INFORMATION CONTINUED

Manager	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	ESG	Page
Pyrford	DGF	-	✓	×	N	35
Standard Life	DGF	-	×	N/A	4	36
JP Morgan	Fund of Hedge Funds	✓	✓	N/A	4	38
Schroder	UK Property	-	×	×	3	41
Partners	Global Property	✓	×	-	4	42
IFM	Infrastructure	✓	N/A	N/A	2	43
RLAM	Bonds	✓	✓	-	3	44
Record Currency Management	Currency Hedging	-	N/A	N/A	N	45
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

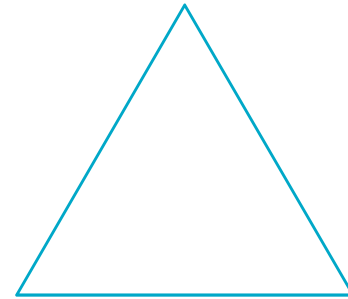
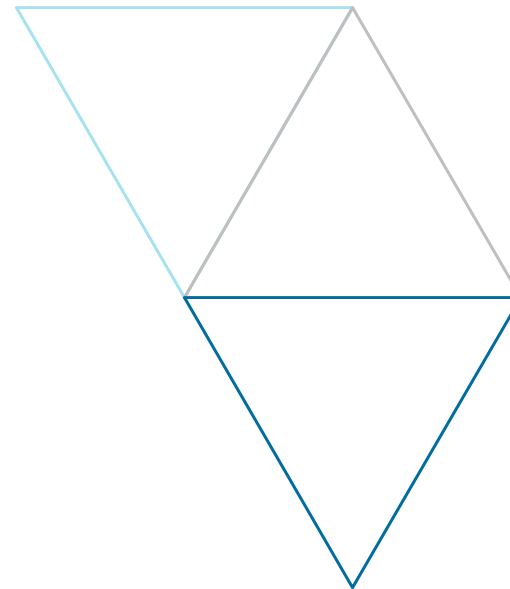
- § Standard Life and Aberdeen Asset Management have announced a proposed merger. Additionally, Devan Kaloo (currently Head of Equities at Aberdeen) will become Head of Equities for the combined entity post the merger. See page 36 for details.
- § Partners' performance target is 10% p.a. and benchmark taken as 8% p.a. (estimated net IRR, in local currency terms).



# SECTION 2

## MARKET BACKGROUND

Page 25



# MARKET BACKGROUND

## INDEX PERFORMANCE

### Equity Market Review

Equity markets strengthened over the quarter, both in sterling and local currency terms. All regions performed positively, with particularly strong returns in the Asia Pacific (ex-Japan) and emerging market regions.

Within UK equities, small capitalisation stocks outperformed larger capitalization stocks over the quarter, returning 6.1% against a return of 4.0% for the broader market. The UK economy has continued to grow, and increased a further 0.7% in the fourth quarter of 2016. Indeed, the Bank of England upgraded its GDP growth estimate for 2017 from 1.4% to 2.0%, despite continuing uncertainty surrounding the nature of the UK's exit from the EU.

Within global equity markets, US equities continued to rally to historic highs following Donald Trump's inauguration in January, on the prospect of supportive policies of fiscal spending and tax cuts. In Europe, economic sentiment continued to strengthen, as equities performed strongly, despite a disappointing January. Japanese equities lagged behind both developed and emerging market equities over the quarter, in part caused by the appreciation of the yen. Emerging Markets were one of the strongest performing regions over the quarter. China was the largest contributor to performance on the back of positive data surprises, more controlled and transparent economic policy decisions and as a result of a somewhat softer rhetoric from the US with regard to trade protectionism. Russia was the outlier as it suffered from weaker energy prices. Broadly speaking, securities within emerging market exporting countries strengthened due to reduced fears surrounding Trump's proposed protectionist trade policies.

Page 26

### Bond Market Review

Bond yields in the UK and the US fell slightly over the quarter, despite the Federal Reserve raising its interest rate by 0.25% at the March meeting, a move that had been predicted by markets.

In the UK, there was a slight downward shift in the yield curve over the quarter for terms over five years. The Over 15 Year Gilt Index outperformed the broader global bond market over the quarter, generating a return of 2.6%.

Real yields were slightly down over the quarter. This led to the Over 5 Year Index-Linked Gilts Index returning 2.0%.

Credit spreads remained largely unchanged over the quarter, with the sterling Non-Gilts All Stocks index ending the quarter at c.1.2% and the Sterling Non-Gilts All Stocks over 10 years index ending the quarter at c.1.3%. UK credit assets returned 1.8% over the quarter. This broadly matched the return of global credit in local currency terms.

### Currency Market Review

Over the quarter, sterling appreciated slightly against the dollar (by c.1.2%) but fell in value against the euro and more so the yen (by c.0.2% and c.3.3% respectively). Sterling remains significantly weaker against these currencies than one year ago after the sharp depreciation following the UK referendum result in June 2016.

### Commodity Market Review

Commodities produced mixed returns over the quarter, with the overall index falling by 5.1%. This was predominantly due to a large fall in energy prices, which is the largest constituent of the index. Despite this, industrial metals and precious metals returned 9.2% and 8.9% respectively.

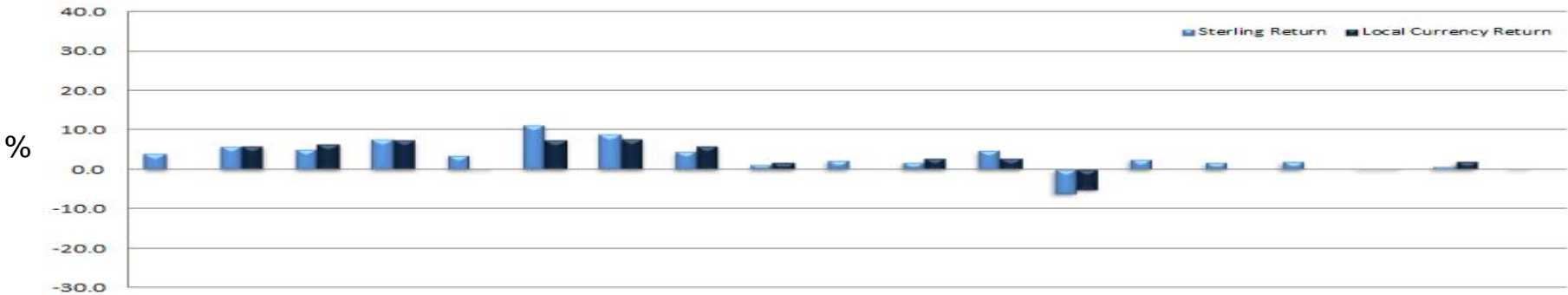
Brent Crude Oil prices fell from US\$56.71/barrel to US\$52.62/barrel. Meanwhile, gold prices rose from c.\$1,157/oz to c.\$1,247/oz, rebounding from the sharp sell-off seen in the fourth quarter of 2016.

Source: Thomson Reuters Datastream.

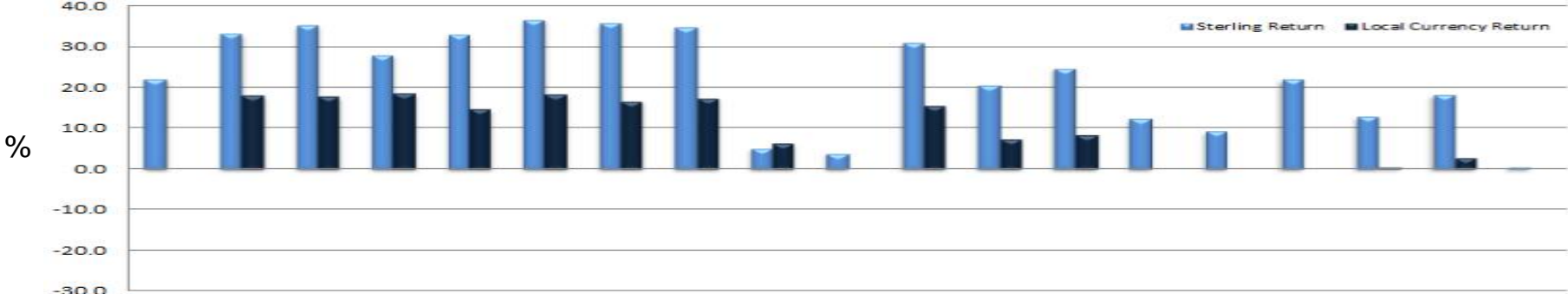
# MARKET BACKGROUND

## INDEX PERFORMANCE

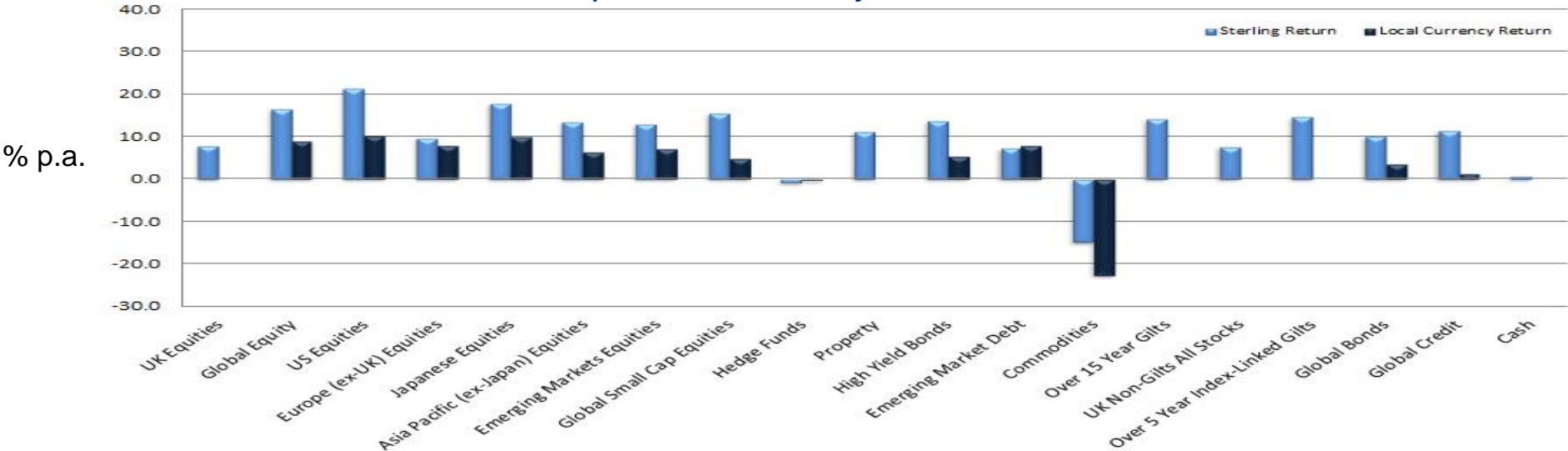
Return over the 3 months to 31 March 2017



Return over the 12 months to 31 March 2017



Return p.a. over the 3 years to 31 March 2017

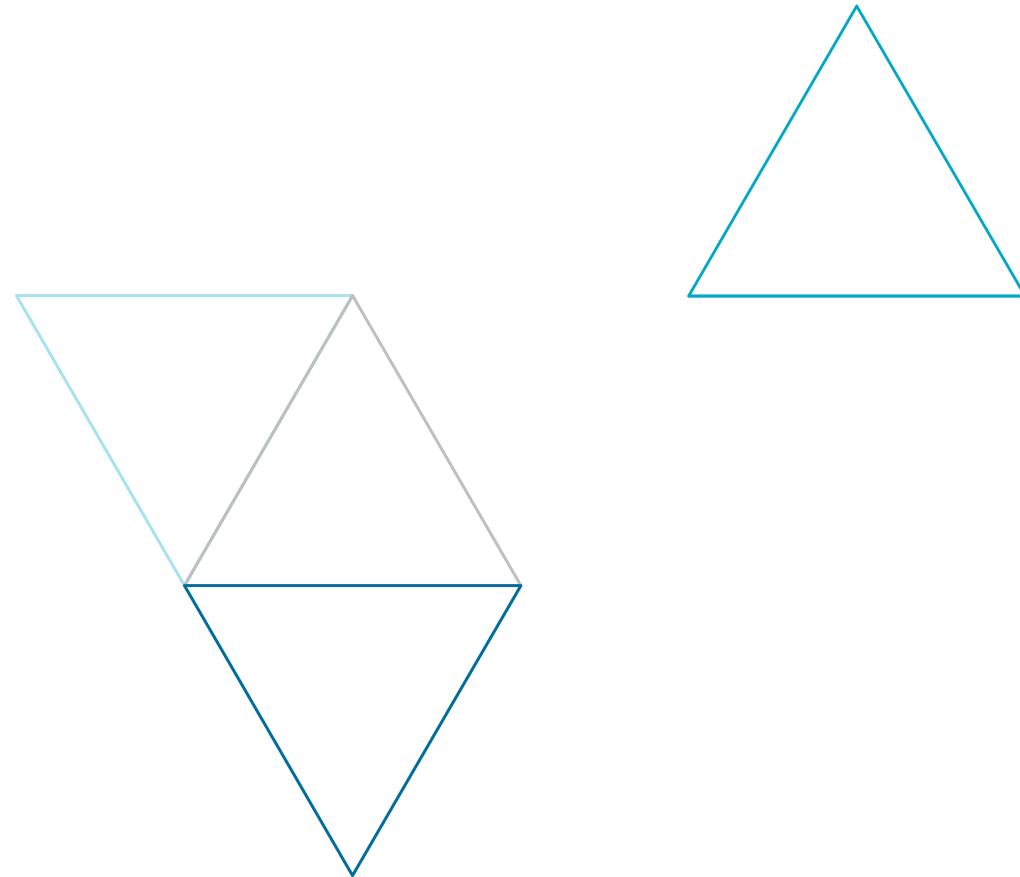


Source: Thomson Reuters Datastream.

# SECTION 3

## STRATEGIC ASSUMPTIONS

Page 28



# MARKET BACKGROUND

## INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
<b>Developed Equities (Global)</b> (FTSE All-World Developed)	8.25	16.8	Remains significantly ahead of the assumed strategic return. This has increased from 15.0% p.a. last quarter as the latest quarter's return of 5.5% was higher than the 0.7% return of Q1 2014, which fell out of the 3 year return.
<b>Emerging Market Equities</b> (FTSE AW Emerging)	8.75	12.9	The three year return from emerging market equities has increased from 9.4% p.a. last quarter, as the return of 8.9% experienced last quarter was higher than the quarter that fell out of the period (-0.7%), in large part due to the weakening of sterling. The three year return is above the assumed strategic return.
<b>Diversified Growth</b>	Libor + 4% / RPI + 5%	4.5 / 6.9	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.
<b>UK Gilts</b> (FTSE Actuaries Over 15 Year Gilts)	4.5	14.0	UK gilt returns remain considerably above the long term strategic assumed return as yields remain low relative to historic averages. Over Q1 returns were positive as yields decreased marginally, but the long-term returns have decreased slightly as the returns experienced last quarter were higher than the quarter that fell out of the period. Corporate bond returns are also ahead of the strategic assumed return.
<b>Index Linked Gilts</b> (FTSE Actuaries Over 5 Year Index-Linked Gilts)	4.25	14.6	
<b>UK Corporate Bonds</b> (BofAML Sterling Non Gilts)	5.5	7.5	
<b>Fund of Hedge Funds</b> (HFRX Global Hedge Fund Index)	6.0	-0.9	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.
<b>Property</b> (IPD UK Monthly)	7.0	11.2	Property returns continue to be ahead of the expected returns. Slowing rental growth post-Brexit has meant fundamentals have weakened and a more cautious outlook may be required. Nevertheless, property returned 2.3% over the first quarter of 2017.
<b>Infrastructure</b> (S&P Global Infrastructure)	7.0	14.8	Infrastructure returns are well above the expected returns, driven by a strong return in the first half of 2016. This return was in part driven by currency as sterling has been depreciating over the last few quarters. Returns of this index have been largely driven by currency moves. The 100% hedge in place for the infrastructure mandate removes the currency effect from the actual returns earned. This is also true of the global property mandate with Partners.

# DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q2 2017

- Extremely Unattractive
- Unattractive
- Neutral
- Attractive
- Extremely Attractive

Mercer's current DAA position/view

Position/view last time (if changed)



## DEVELOPED MARKET EQUITIES

- ✓ Relatively loose monetary policy remains generally supportive of equity markets
- ✓ Stronger global growth coupled with supportive fiscal policy should translate into improved corporate earnings
- ⚠ Valuations have continued to trend upwards and a number of downside risks remain as a result of political uncertainty



## EMERGING MARKET EQUITIES

- ✓ Valuations remain around or slightly below long-term averages, though have risen over the year
- ✓ Positive earnings surprises, diminishing headwinds from key economies (e.g. China), improving fundamentals and increasing resilience to developed market shocks
- ⚠ The potential for protectionist policies in the US, stronger dollar and geopolitical events could hurt the asset class

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 – Q2 2017

Page 31



## FIXED INTEREST GILTS (ALL STOCK)



Loose monetary policy in some economies coupled with geopolitical uncertainties may limit further upward yield movement



Valuations remain expensive, with nominal yields well below long-term average levels. US Fed expected to continue its rate hiking cycle throughout the rest of 2017



## INDEX-LINKED GILTS



Improving growth expectations and more inflationary economic trends (rise in labour costs and proposed inflationary trade policies etc)



Valuations increasingly expensive, with real yields well below long-term averages

# DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q2 2017

Page 32



## NON-GOVERNMENT BONDS (£ ALL-STOCK)

- ✓ Credit spreads remained largely unchanged and provide adequate coverage given expectations that the downgrade environment should remain benign
- ! Yields remain historically low and prospective total returns appear to be relatively limited
- ! Ongoing risk of increased volatility as a result of trading illiquidity and heightened geopolitical downside risk



## UK PROPERTY

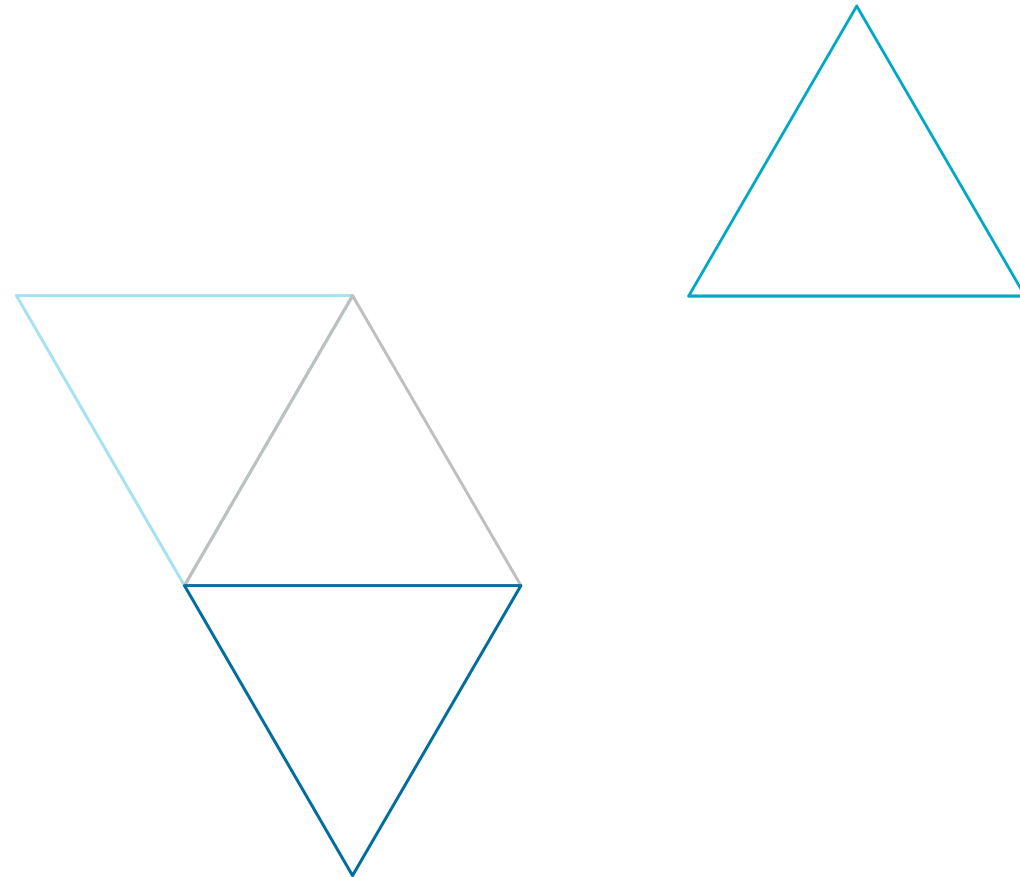
- ✓ Relative to other asset classes, some parts of the market still present attractive opportunities (e.g. HLV property)
- ! Absolute valuations look expensive and 'Brexit' uncertainty warrants caution
- ! Slowing rental growth and lower investment turnover have caused fundamentals to weaken slightly



# SECTION 4

## FUND VALUATIONS

Page 33



# FUND VALUATIONS

## VALUATION BY ASSET CLASS

Asset Allocation									
Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Target Strategic Benchmark (%)	Ranges (%)			Difference (%)
Developed Market Equities	1,790,409	1,776,192	42.6	40.8	40.0	35	-	45	+0.8
Emerging Market Equities	385,005	419,761	9.2	9.6	10.0	5	-	15	-0.4
Diversified Growth Funds	373,249	375,391	8.9	8.6	10.0	5	-	15	-1.4
Fund of Hedge Funds	228,329	228,648	5.4	5.2	5.0	0	-	7.5	+0.2
Property	364,773	380,488	8.7	8.7	10.0	5	-	15	-1.3
Infrastructure	161,546	256,003	3.8	5.9	5.0	0	-	7.5	+0.9
Bonds	836,387	852,657	19.9	19.6	20.0	15	-	35	-0.4
Cash (including currency instruments)	58,805	67,170	1.4	1.5	-	0	-	5	+1.5
Total	4,198,502	4,356,309	100.0	100.0	100.0				0.0

Source: BNY Mellon, Mercer. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges. End of quarter asset split for Jupiter UK Equities assumed to be the same as start of quarter due to unavailability of data.

- Invested assets increased over the quarter by £158m due to positive returns from most asset classes. At the end of the quarter, all asset classes were within the agreed tolerance ranges.

# FUND VALUATIONS

## VALUATION BY MANAGER

Manager Allocation						
Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
BlackRock	Passive Multi-Asset	1,128,514	-104,504	1,061,034	26.9	24.4
Jupiter	UK Equities	192,988	-	199,776	4.6	4.6
TT International	UK Equities	227,933	-	236,627	5.4	5.4
Schroder	Global Equities	317,853	-	337,292	7.6	7.7
Genesis	Emerging Market Equities	181,570	-	196,601	4.3	4.5
Unigestion	Emerging Market Equities	203,435	-	223,160	4.8	5.1
Invesco	Global ex-UK Equities	370,926	-	388,073	8.8	8.9
SSgA	Europe ex-UK & Pacific inc. Japan Equities	149,560	-	160,461	3.6	3.7
Pyrford	DGF	136,061	-	138,487	3.2	3.2
Standard Life	DGF	237,188	-	236,903	5.6	5.4

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

- The main movement in the asset allocation over the period, as shown overleaf, was a drawdown within the IFM infrastructure mandate, which was funded from BlackRock passive developed market equities. £84m was disinvested from US equities and £17m from European equities to fund the drawdown.

# 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	408	-	393	0.0	0.0
Signet	Fund of Hedge Funds	1,069	-387	1,162	0.0	0.0
Gottex	Fund of Hedge Funds	983	-	971	0.0	0.0
JP Morgan	Fund of Hedge Funds	225,869	-	226,123	5.4	5.2
Schroder	UK Property	197,435	-	201,636	4.7	4.6
Partners	Property	186,687	5,917	192,361	4.4	4.4
IFM	Infrastructure	161,546	84,320	256,003	3.8	5.9
RLAM	Bonds	253,848	-	260,812	6.0	6.0
Record Currency Management	Currency Hedging	-21,287	27,000	10,323	-0.5	0.2
Internal Cash	Cash	45,918	-12,346	28,112	1.1	0.6
<b>Total</b>		<b>4,198,502</b>	<b>-</b>	<b>4,356,309</b>	<b>100.0</b>	<b>100.0</b>

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

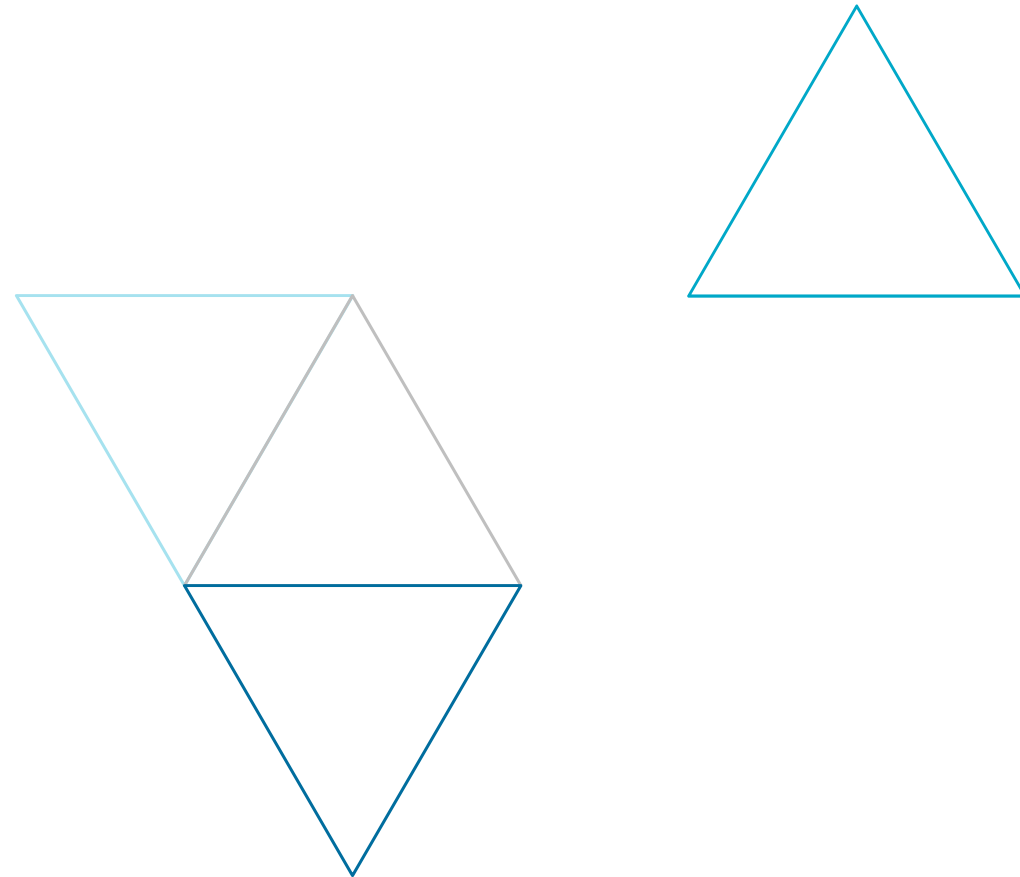
The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included in the 'Internal Cash' start and end balance to reflect the asset value position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

# SECTION 5

## PERFORMANCE

### SUMMARY

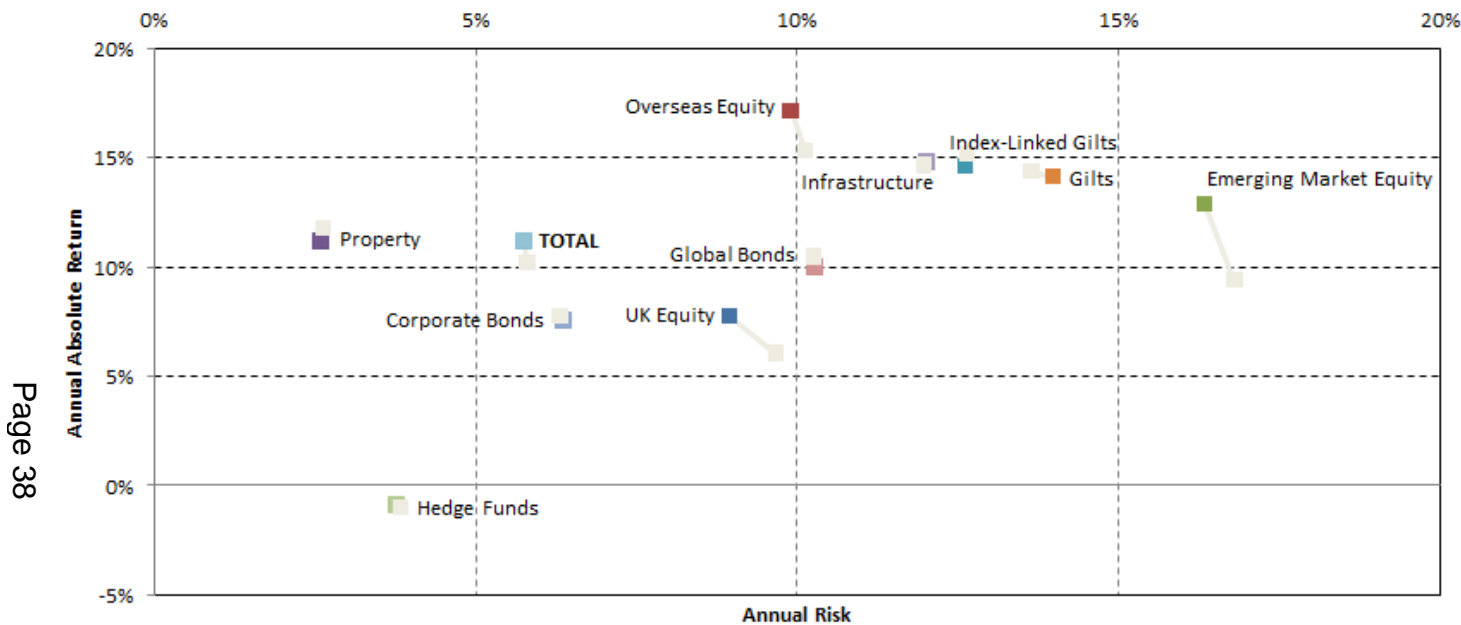
Page 37



# MANAGER MONITORING

## RISK RETURN ANALYSIS

3 Year Risk v 3 Year Return to 31 March 2017



This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of March 2017, 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

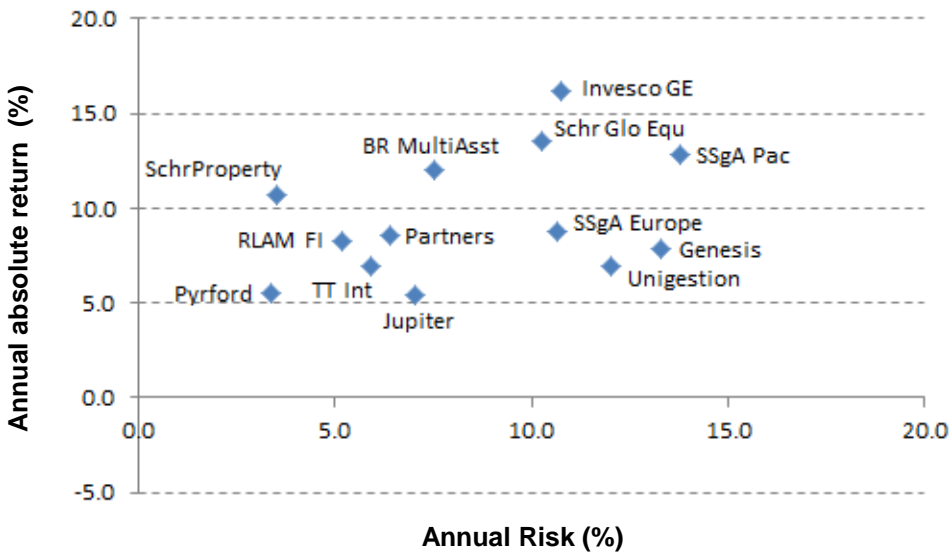
- Changes in observed returns and volatilities over the quarter in bonds and alternatives were very limited. Equities saw their 3-year returns increasing, with lower volatility.

# MANAGER MONITORING

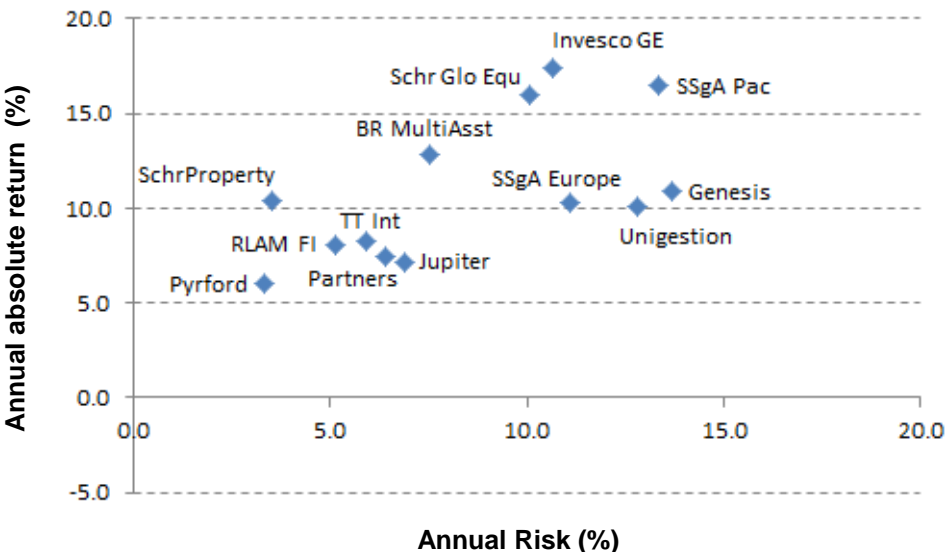
## RISK RETURN ANALYSIS

Page 39

3 year Risk vs 3 year Return to 31 December 2016



3 year Risk vs 3 year Return to 31 March 2017



### Comments

- All equity mandates saw their returns increasing over the quarter, whilst Partners' since inception return decreased, but remains positive. Volatility increased for Unigestion and SSgA Europe ex-UK equities.

# MANAGER MONITORING

## MANAGER PERFORMANCE TO 31 MARCH 2017

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	3.8	3.5	+0.3	23.4	23.0	+0.4	13.0	12.7	+0.2	-	Target met
Jupiter	3.5	4.0	-0.5	14.9	22.0	-5.8	7.5	7.7	-0.2	+2	Target not met
TT International	3.8	4.0	-0.2	16.9	22.0	-4.1	8.3	7.7	+0.5	+3-4	Target not met
Schroder Equity	5.9	5.8	+0.2	32.2	33.0	-0.6	15.7	16.3	-0.5	+4	Target not met
Genesis	8.3	10.2	-1.7	31.7	35.2	-2.6	10.8	11.8	-0.9	-	Target not met
Unigestion	9.7	10.1	-0.4	25.3	34.7	-7.0	10.2	11.4	-1.0	+2-4	Target not met
Invesco	4.6	5.2	-0.6	34.0	32.6	+1.1	17.4	16.9	+0.4	+0.5	Target not met
SSgA Europe	7.6	7.4	+0.2	29.9	28.0	+1.5	10.3	9.6	+0.6	+0.5	Target met
SSgA Pacific	7.1	6.9	+0.2	35.7	34.7	+0.7	16.4	15.6	+0.7	+0.5	Target met
Pyford	1.8	2.0	-0.2	9.1	8.1	+0.9	6.0	6.9	-0.8	-	Target not met
Standard Life	-0.3	1.5	-1.8	0.6	5.6	-4.7	N/A	N/A	N/A	-	N/A
JP Morgan*	1.3	0.8	+0.5	4.8	3.5	+1.2	N/A	N/A	N/A	-	N/A
Schroder Property	2.3	2.0	+0.3	2.6	3.7	-1.1	10.0	10.2	-0.2	+1	Target not met
Partners Property**	N/A	N/A	N/A	N/A	N/A	N/A	8.2***	10.0***	-1.6***	-	Target not met
IFM*	6.2	0.7	+5.4	N/A	N/A	N/A	6.7***	2.1***	+4.5***	-	N/A
RLAM	2.7	1.8	+0.8	10.8	9.2	+1.5	8.0	7.5	+0.5	+0.8	Target not met
Internal Cash	-1.6	0.0	-1.6	-1.4	0.2	-1.6	-0.2	0.3	-0.5	-	N/A

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

\* Returns are in US dollar terms.

\*\* Performance to 31 December 2016 as this is the latest date that this is available to.

\*\*\* Performance is shown since inception.

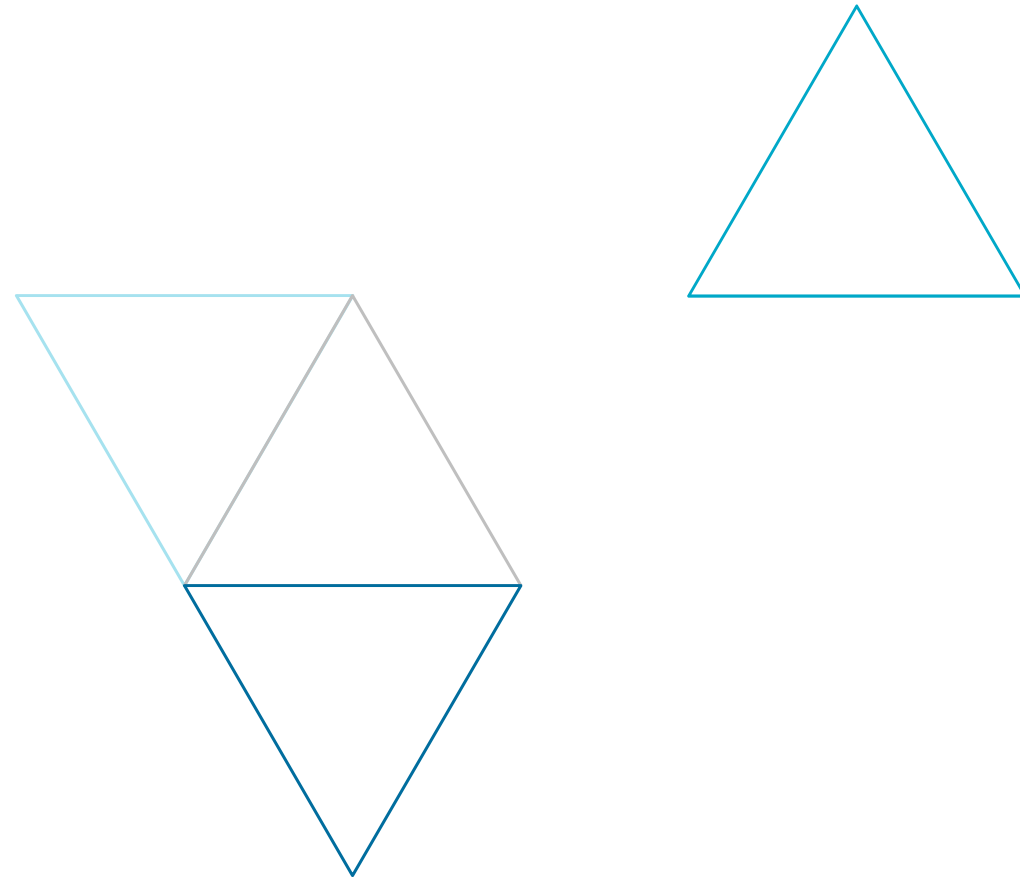


# SECTION 6

## MANAGER

## PERFORMANCE

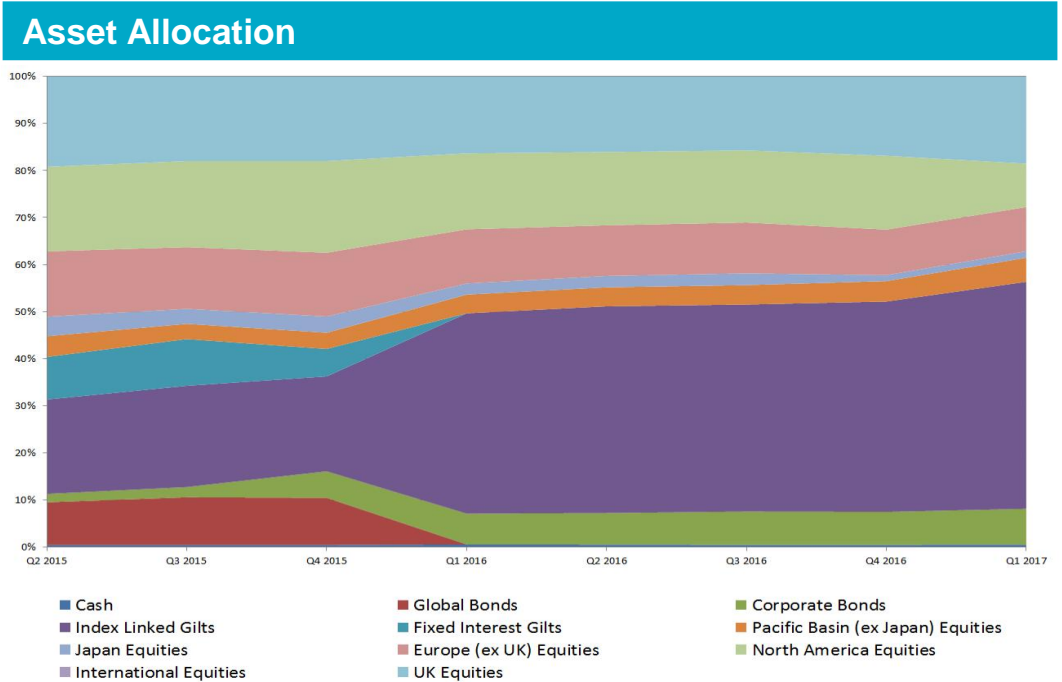
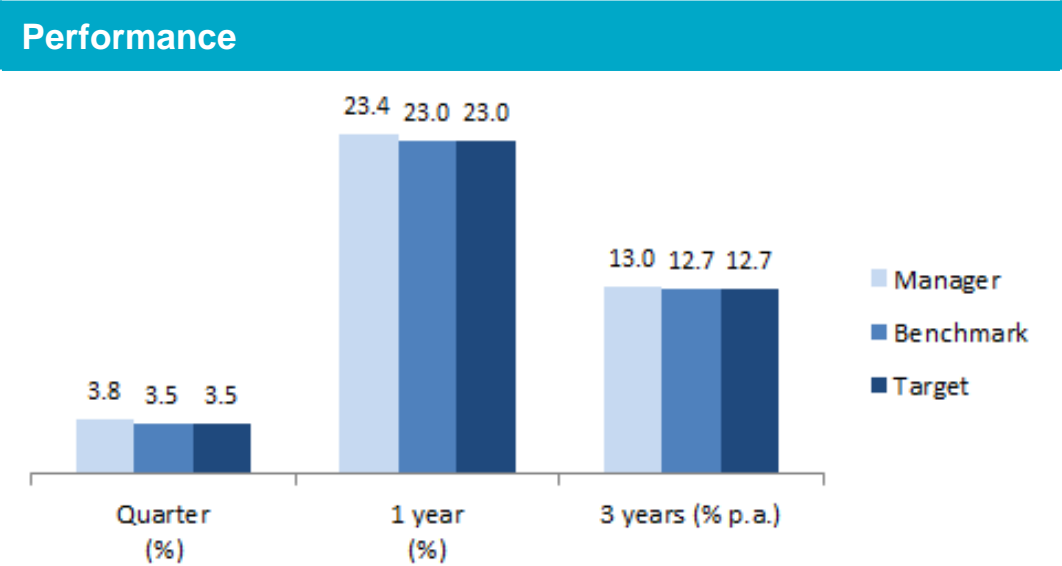
Page 41



Item Monitored	Outcome
Mercer Rating	<div></div> A (no change over period under review). ESGp2 for equities
Performance Objective <i>In line with the benchmark</i>	<div></div> Performed broadly in line with the benchmark over three years

### Manager Research and Developments

- BlackRock returned 1.3% over the quarter, performing broadly in line with the benchmark as expected. Returns over one year and three year periods were within the tracking error ranges.

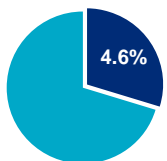


### Reason for investment

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



# JUPITER ASSET MANAGEMENT – UK EQUITIES (SRI) (SEGREGATED)

## £199.8M END VALUE (£193.0M START VALUE)

Item Monitored	Outcome
Mercer Rating	<span style="color: orange;">●</span> B (no change over period under review). ESG2
Performance Objective <i>Benchmark +2% p.a.</i>	<span style="color: red;">●</span> Underperformed benchmark by 0.2% p.a. over three years
Tracking error was 4.5% p.a. – <i>source: Jupiter</i>	Number of stocks: 58

### Manager Research and Developments

- Jupiter underperformed its benchmark over the quarter by 0.5%. Jupiter's performance was also below TT's - the other UK equity fund invested in by the Fund.
- Not holding Unilever, a company which Jupiter do not deem to be suitable for the portfolio, detracted from relative returns in the period. However a similar decision not to hold Royal Dutch Shell was positive as oil prices fell on news of record-high inventories in the US. The portfolio's holding in Tesco also detracted from performance in the quarter.
- Over the year, Jupiter underperformed the benchmark by 5.8%. This largely came in Q2 2016 due to the fund's overweight exposure to UK domestic-focused companies, as the result of the EU Referendum led to concerns of economic growth in the UK, and an underweight position in oil & gas and mining stocks and exposure to consumer staples stocks such as tobacco.
- The underperformance over the year can partly be explained by the strong rise in the oil price, which increased by 32%. The mandate's SRI nature means that it does not hold oil stocks, and so it did not benefit from the price appreciation.

### Reason for investment

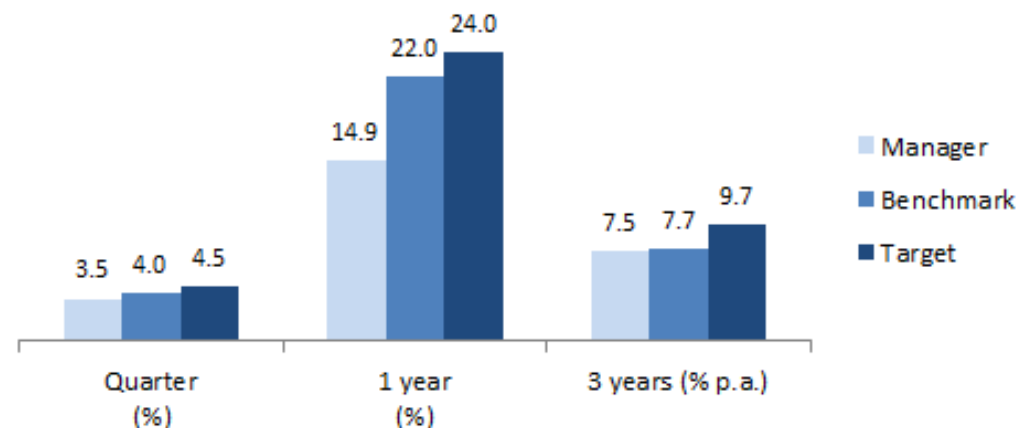
To provide asset growth as part of a diversified equity portfolio and to provide a specific SRI allocation

### 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

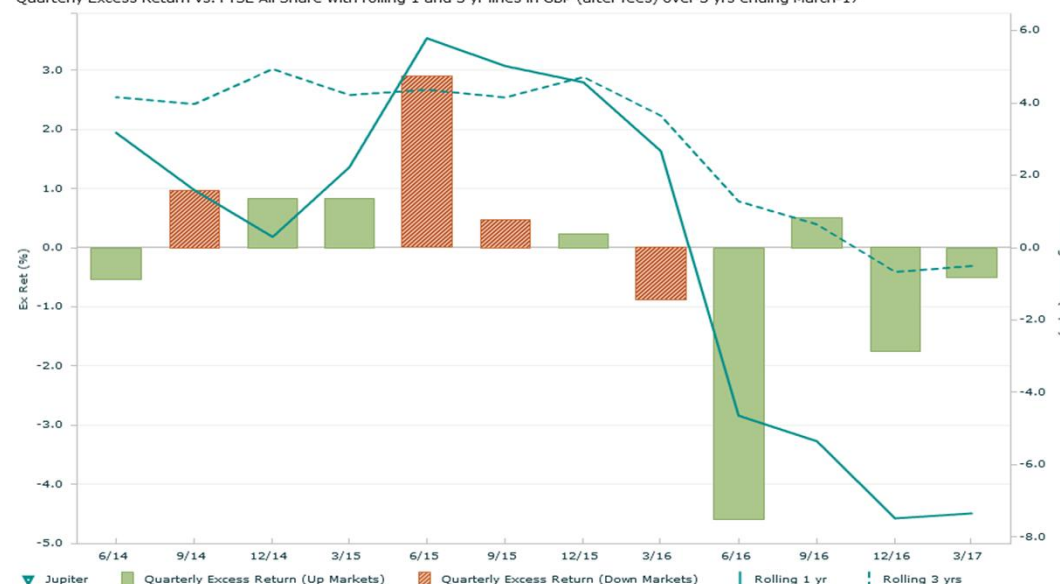
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### Performance



### Rolling relative returns

Quarterly Excess Return vs. FTSE All Share with rolling 1 and 3 yr lines in GBP (after fees) over 3 yrs ending March-17



## Item Monitored

## Outcome

## Performance

Mercer Rating



B (no change over period under review). ESG3

Performance Objective  
Benchmark +3-4% p.a.



Outperformed benchmark by 0.5% p.a. over three years

Three year tracking error was 4.2%  
p.a. – source: Mercer

Number of stocks: 46

## Manager Research and Developments

- TT underperformed their benchmark by 0.2% over the quarter and by 4.1% over the year, but outperformed by 0.5% over the three year period to 31 March 2017. This is now the fifth straight quarter of underperformance.
- This slight underperformance over the quarter was due to both sector allocation and security selection, where outperformance in the Consumer Services and Goods sectors was outweighed by underperformance in Health Care, Industrials, Basic Materials and Telecoms. Plastic packaging company RPC struggled over the quarter as it raised more equity than was needed to fund its latest acquisition, which served to dilute current equity holdings.
- Turnover decreased from 32.3% in Q4 2016 to 20.7% in Q1 2017 while the three year tracking error (a proxy for risk relative to benchmark) remained at 4.2% p.a.
- Assets under management in TT's UK equity strategies increased over the quarter to £641m 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 £582m in December 2016, £516m in March 2016 and £491m in March 2014. A significant portion (c.37%) of the firm's UK equity assets are managed on behalf of the Fund.
- Performance over the year has been well below benchmark. This can be partly explained by the strong performance of value over the period, to which the fund does not have a bias.

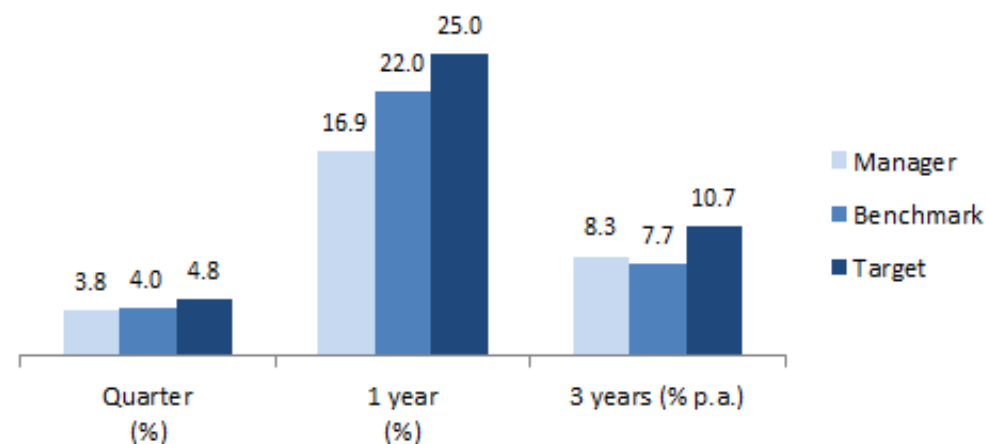
## Reason for investment

To provide asset growth as part of a diversified equity portfolio

## Reason for manager

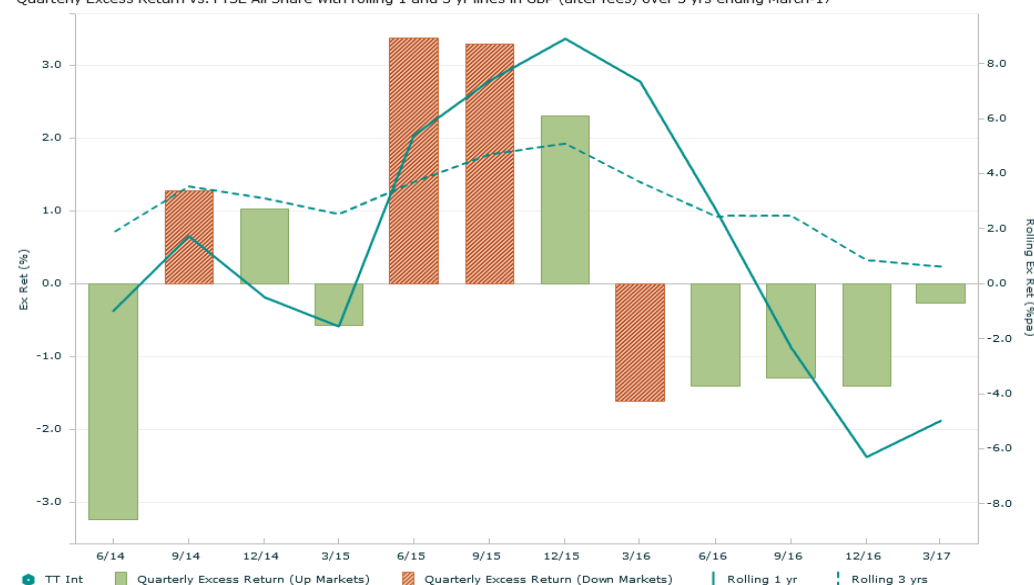
- Favoured the partnership structure that aligns manager's and Fund's interests
- Focussed investment activity and manages its capacity
- Clear, robust stock selection and portfolio construction

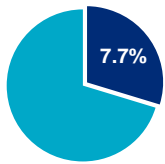
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## Rolling relative returns

Quarterly Excess Return vs. FTSE All Share with rolling 1 and 3 yr lines in GBP (after fees) over 3 yrs ending March-17





# SCHRODER – GLOBAL EQUITY PORTFOLIO (SEGREGATED)

£337.3M END VALUE (£317.9M START VALUE)

Item Monitored	Outcome
Mercer Rating	<span style="color: green;">●</span> B+ (no change over period under review). ESG2
Performance Objective <i>Benchmark +4% p.a.</i>	<span style="color: red;">●</span> Underperformed benchmark by 0.5% p.a. over three years
Three year tracking error was 2.5% p.a. – <i>source: Mercer</i>	

## Manager Research and Developments

- The fund marginally outperformed the benchmark over the quarter, largely through positive stock selection in industrial, IT and telecoms. Regionally, North America, Japan and emerging markets positions were the main contributors.
- Top contributors over the quarter were Jardine Strategic, HDFC Bank and Check Point Software. Cimarex Energy, Occidental Petroleum and Statoil were the most significant detractors to returns.
- The fund was behind benchmark performance over the one year and three year periods.
- Schroder have notified us that Chris Costanza, the Global Sector analyst on Financials, is to leave the firm. His responsibilities will be taken on by Andre Reichel who currently covers Real Estate & Utilities. Reichel joined Schroder six years ago having worked for a management consultancy for a couple of years. He has experience of covering banks having trained first in that sector and more recently doing some macro research on banks. Apparently a lot of the stock models Costanza used were built by Reichel. We do not propose any change to the rating.

## Reason for investment

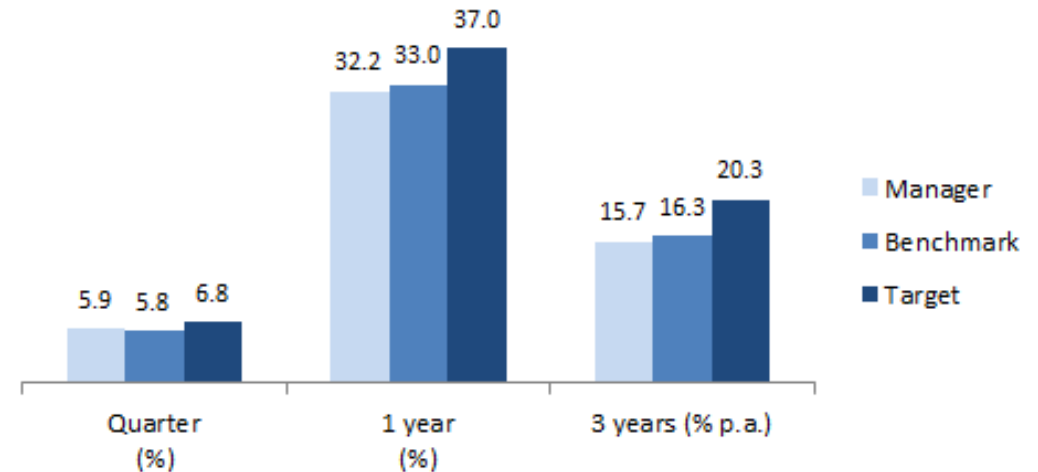
To provide asset growth as part of a diversified equity portfolio

## 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

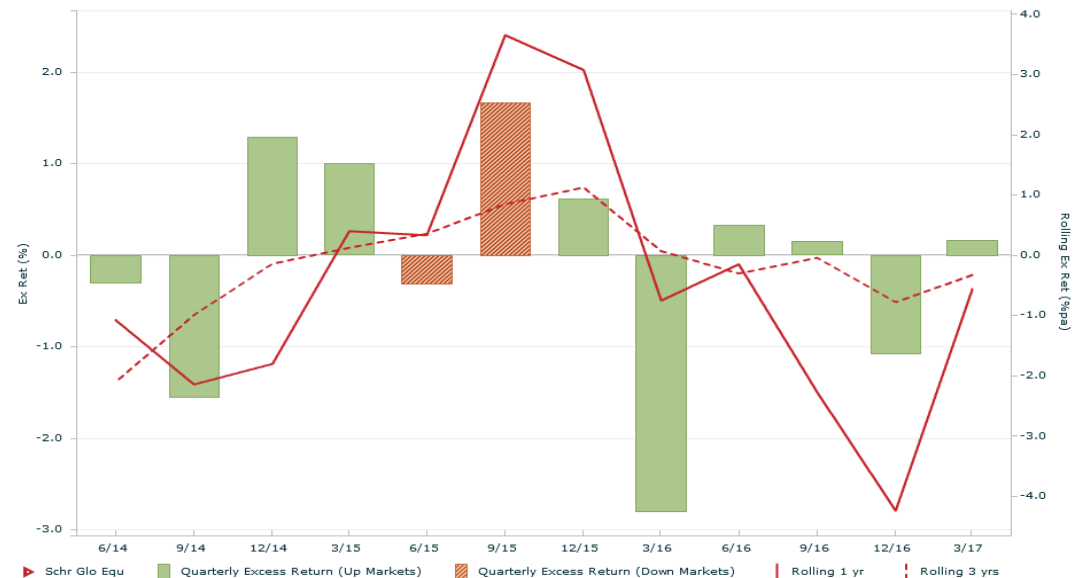
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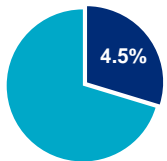
## Performance



## Rolling relative returns

Quarterly Excess Return vs. MSCI AC World with rolling 1 and 3 yr lines in GBP (after fees) over 3 yrs ending March-17





# GENESIS ASSET MANAGERS – EMERGING MARKET EQUITIES (POOLED)

£196.6M END VALUE (£181.6M START VALUE)

Item Monitored	Outcome
Mercer Rating	<span style="color: green;">●</span> A (no change over period under review). ESG3
Performance Objective <i>Benchmark</i>	<span style="color: red;">●</span> Underperformed benchmark by 0.9% p.a. over three years
Three year tracking error was 4.0% p.a. – <i>source: Genesis</i>	Number of stocks: 123

## Manager Research and Developments

- The fund has underperformed by 1.7% over the quarter, by 2.6% over the year and by 0.9% p.a. over the three years to 31 March 2017.
- On a regional basis, Brazil was the biggest contributor to returns over the quarter, whilst Russia, Thailand and India were significant detractors.
- The biggest detractors at a stock level were Tullow Oil, which announced a rights issue to raise \$750m at a deep discount to market price, and Russian companies Novatek and Magnit.
- Turnover over the quarter was 28%.
- Given the types of quality growth companies Genesis favors, we would normally expect them to do better in more flat/down markets and struggle in environments where markets rapidly rise. In this respect, whilst the underperformance in Q1 and over the last 12 months was disappointing, it is in keeping with this view.
- More specifically in Q1 2017, relative performance was held back primarily due to some stock positions in Russia (which had performed strongly in 2016) and an underweight position in China.

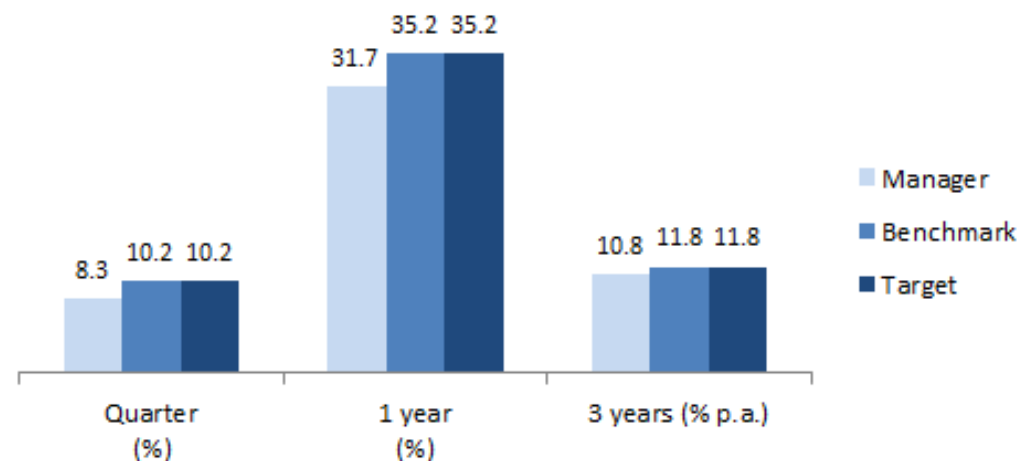
## Reason for investment

To provide asset growth as part of a diversified equity portfolio

## Reason for manager

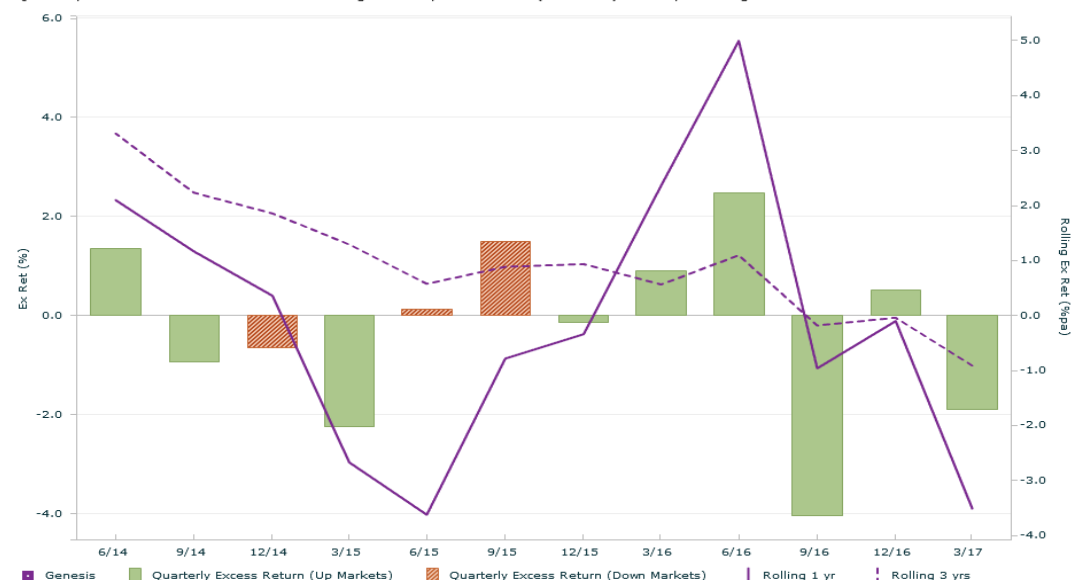
- Long term investment approach which takes advantage of evolving growth opportunities
- Niche and focussed expertise in emerging markets
- Partnership structure aligned to delivering performance rather than growing assets under management

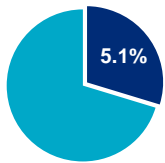
## Performance



## Rolling relative returns

Quarterly Excess Return vs. MSCI EM with rolling 1 and 3 yr lines in GBP (after fees) over 3 yrs ending March-17





# UNIGESTION – EMERGING MARKET EQUITIES (POOLED – SUB-FUND)

£223.2M END VALUE (£203.4M START VALUE)

Item Monitored	Outcome
Mercer Rating	<span style="color: orange;">●</span> R (no change over period under review)
Performance Objective <i>Benchmark +2-4% p.a.</i>	<span style="color: red;">●</span> Underperformed benchmark by 1.0% p.a. over three years
Tracking error since inception was 5.8% p.a. – source: Unigestion	Number of stocks: 97

## Manager Research and Developments

- The fund has underperformed by 0.4% over the quarter, by 7.0% over the year and by 1.0% p.a. over the three years to 31 March 2017. This is now the sixth straight quarter of underperformance.
- The underperformance over the quarter was due to significant underperformance in January. Over that month, emerging markets produced a strong return and the portfolio's defensive positioning meant it lagged the market - the overweight in Consumer Durables, Telecommunication and Food, as well as the underweight in Software, Technology and Materials, detracted from relative performance. Stock selection in South Korea, India and Brazil was detrimental to the strategy.
- Volatility since inception is 14.7%, lower than the index (at 17.6%) and consistent with the strategy's objectives (and bias to quality and large- or mega-cap stocks).
- Performance over the year has been well below benchmark. This has come at a time when emerging markets have produced a very strong return, which is expected. The fund uses a defensive, high quality, low volatility approach, which should outperform in times of market volatility, but underperform in strongly performing markets.

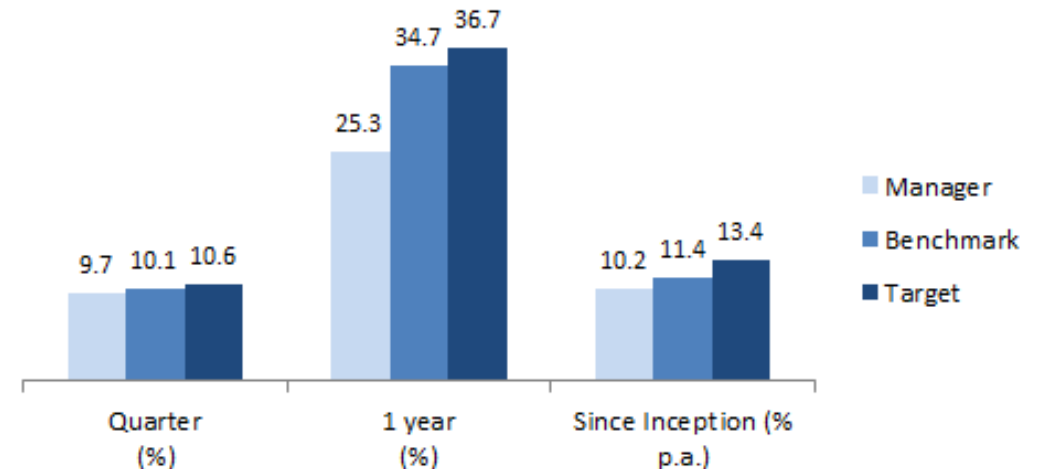
## Reason for investment

To provide asset growth as part of a diversified equity portfolio

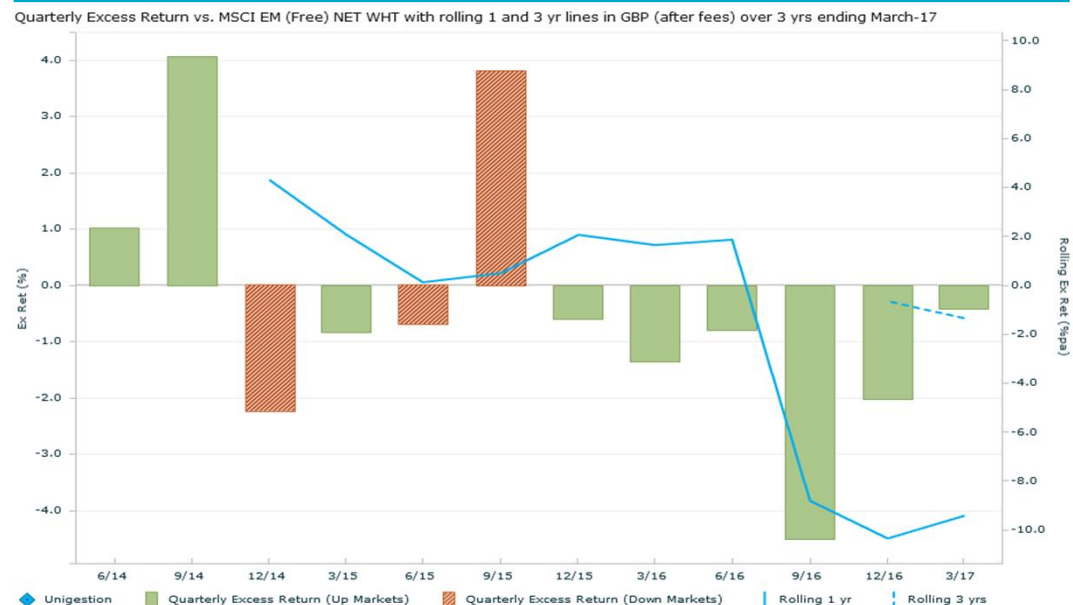
## Reason for manager

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

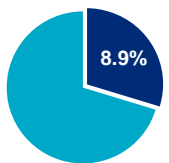
## Performance



## Rolling relative returns







# INVESCO – GLOBAL EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)

£388.1M END VALUE (£370.9M START VALUE)

Item Monitored	Outcome
Mercer Rating	<span style="color: green;">●</span> B+ (no change over period under review). ESG4
Performance Objective <i>Benchmark +0.5% p.a.</i>	<span style="color: orange;">●</span> Outperformed benchmark by 0.4% p.a. over three years
Tracking error since inception was 1.2% p.a. – <i>source: Invesco</i>	Number of stocks: 449 (down from 474)

## Manager Research and Developments

- The fund has underperformed its benchmark by 0.6% over the last quarter, but outperformed by 1.1% over the year and by 0.4% p.a. over the three year period. As such, the fund nearly met its performance target over the three years.
- Underperformance over the quarter was largely due to stock selection in February. Over that month, the overweight in stocks with attractive Management & Quality and Market Sentiment scores detracted most from relative performance.
- All sector and country allocations were broadly within +/- 1.0% of benchmark weightings, in line with general expectations for an enhanced indexation product.

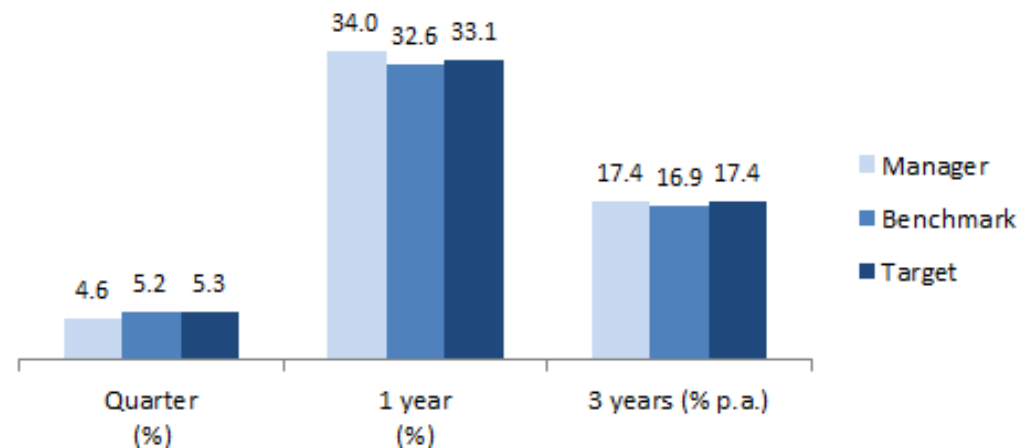
## Reason for investment

To provide asset growth as part of a diversified equity portfolio

## Reason for manager

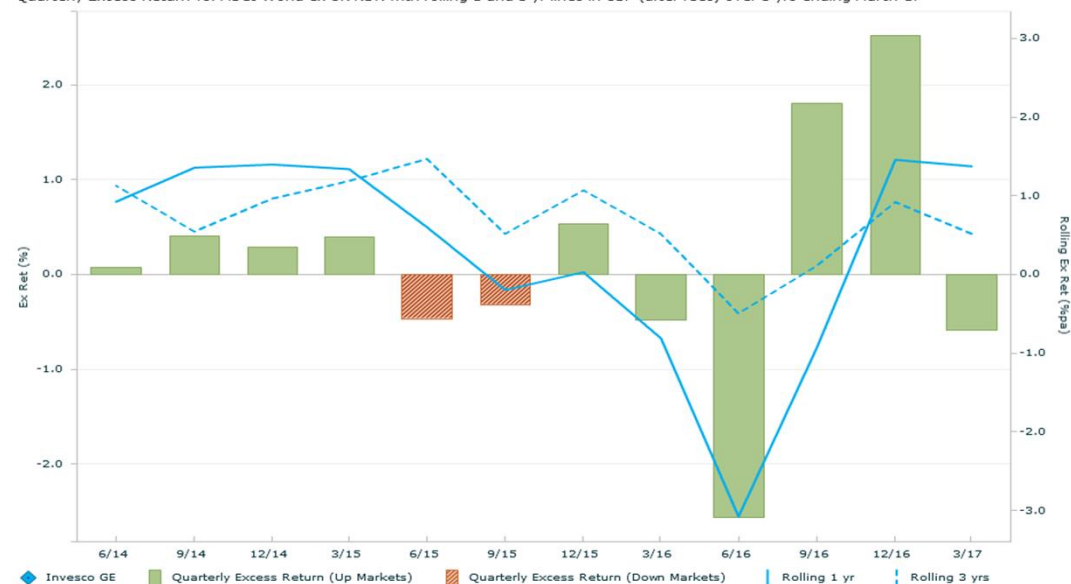
- Robust investment process supported by historical performance record, providing a high level of assurance that the process could generate the outperformance target on a consistent basis
- One of few to offer a Global ex UK pooled fund

## Performance



## Rolling relative returns

Quarterly Excess Return vs. MSCI World ex UK NDR with rolling 1 and 3 yr lines in GBP (after fees) over 3 yrs ending March-17





# SSGA – EUROPE EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)

## £55.5M END VALUE (£51.6M START VALUE)

Item Monitored	Outcome
Mercer Rating	<span></span> R (no change over period under review)
Performance Objective <i>Benchmark +0.5% p.a.</i>	<span></span> Outperformed benchmark by 0.6% p.a. over three years
Three year tracking error was 0.8% p.a. – <i>source: Mercer</i>	Number of stocks: 237

### Manager Research and Developments

- The fund achieved its performance target over the three year period.
- The total pooled fund size on 31 March 2017 was £55.6m. 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 237 out of 405 stocks in the index, around 60%, within the expected range of 35-65%. Beta over three years is as expected at 1.

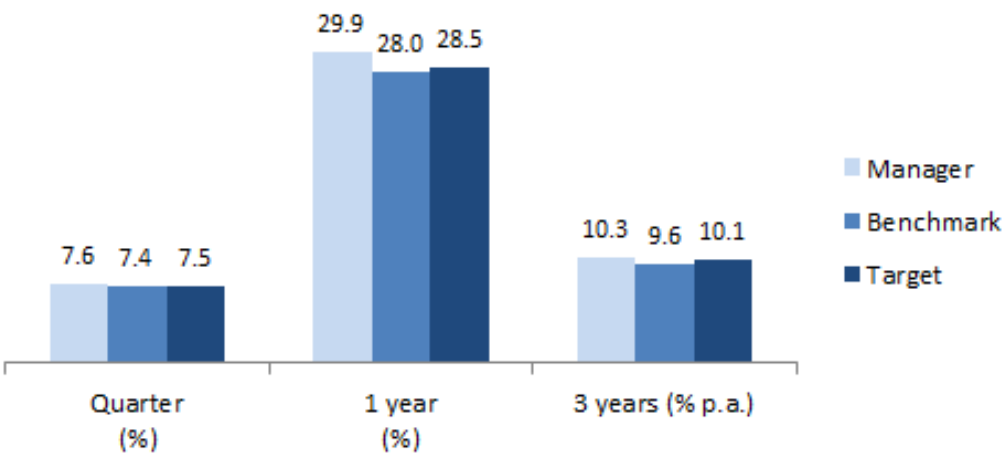
### Reason for investment

To provide asset growth as part of a diversified equity portfolio

### Reason for manager

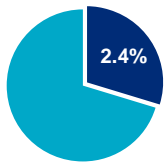
- Strength of their quantitative model and process, and ongoing research to develop the model
- Historic performance met the risk return parameters the Fund was seeking
- Two Funds (European and Pacific) to achieve the Fund’s customised asset allocation within overseas equities

### Performance



### Rolling relative returns





# SSGA – PACIFIC INC. JAPAN EQUITIES (ENHANCED INDEXATION) (POOLED)

£104.9M END VALUE (£97.9M START VALUE)

Item Monitored	Outcome
Mercer Rating	● N (no change over period under review)
Performance Objective <i>Benchmark +0.5% p.a.</i>	● Outperformed benchmark by 0.7% p.a. over three years
Three year tracking error was 1.0% p.a. – source: Mercer	Number of stocks: 387

## Manager Research and Developments

- The fund achieved its performance target over the three year period.
- The total pooled fund size on 31 March 2017 was £105.1m. 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).

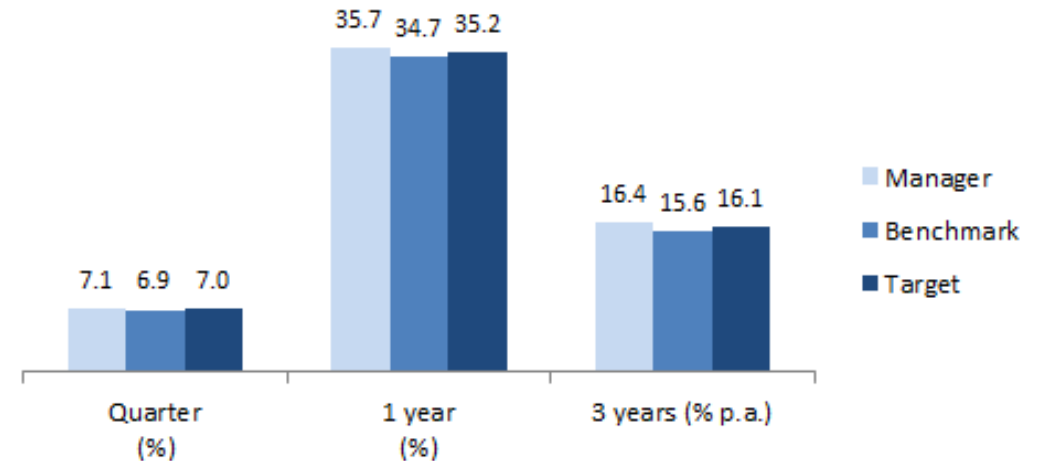
## Reason for investment

To provide asset growth as part of a diversified equity portfolio

## Reason for manager

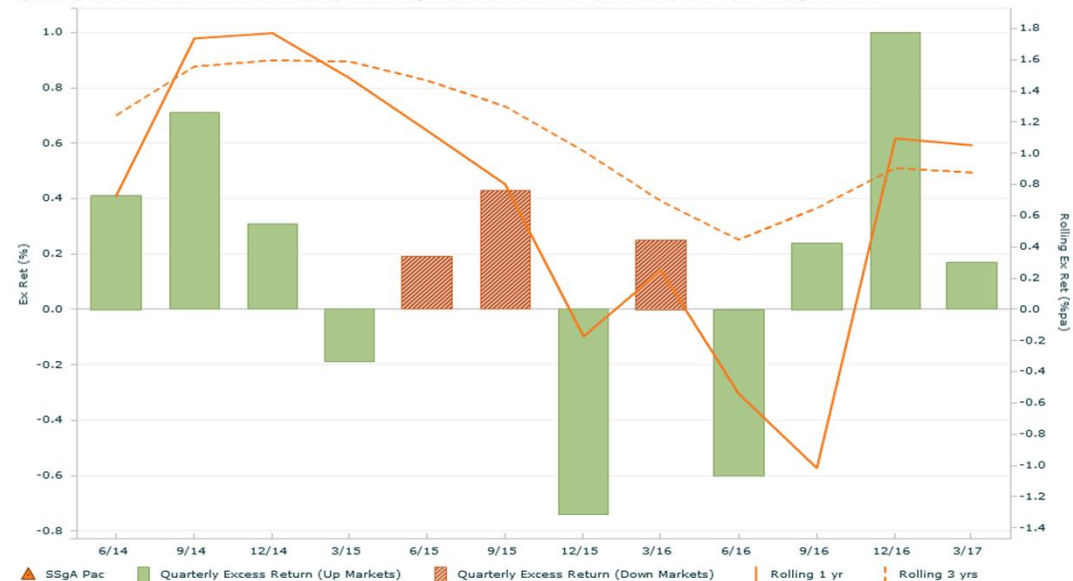
- Strength of their quantitative model and process, and ongoing research to develop the model
- Historic performance met the risk return parameters the Fund was seeking
- Two Funds (European and Pacific) to achieve the Fund's customised asset allocation within overseas equities

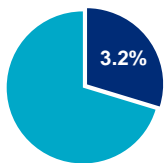
## Performance



## Rolling relative returns

Quarterly Excess Return vs. Asia Pacific (WM) with rolling 1 and 3 yr lines in GBP (after fees) over 3 yrs ending March-17





# PYRFORD – DGF (POOLED)

## £138.5M END VALUE (£136.1M START VALUE)

### Item Monitored

### Outcome

Mercer Rating



R (no change over period under review)

Performance Objective  
RPI +5% p.a.



Underperformed objective by 0.8% p.a. over three years

### Manager Research and Developments

- The fund has underperformed its objective (RPI + 5% p.a.) over the quarter by 0.2% but outperformed by 0.9% over the year. Over three years, the fund was below the performance objective.
- Both the allocation to bonds and equities contributed positively to returns in the quarter. The portfolio's equities (both UK and overseas) and overseas bonds performed well, having outperformed their indices. The portfolio's UK bonds (all positioned at the short end of the yield curve) were largely flat over the quarter and subsequently underperformed as UK government bond yields fell. Finally, cash and currency management detracted marginally over the quarter.
- The fund's allocation remained broadly the same, after Pyrford decided to decrease exposure to equities and increase bond exposure in Q3.
- 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 1.8 years.

### Reason for investment

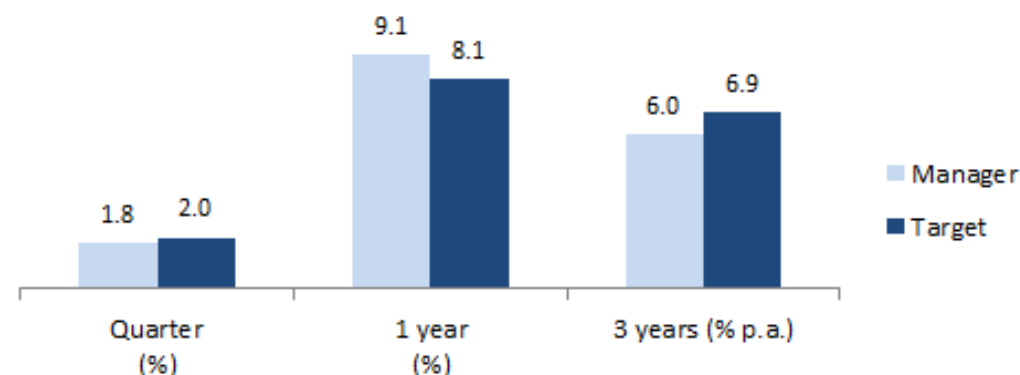
To provide equity like return over the long term but with a lower level of volatility

### Reason for manager

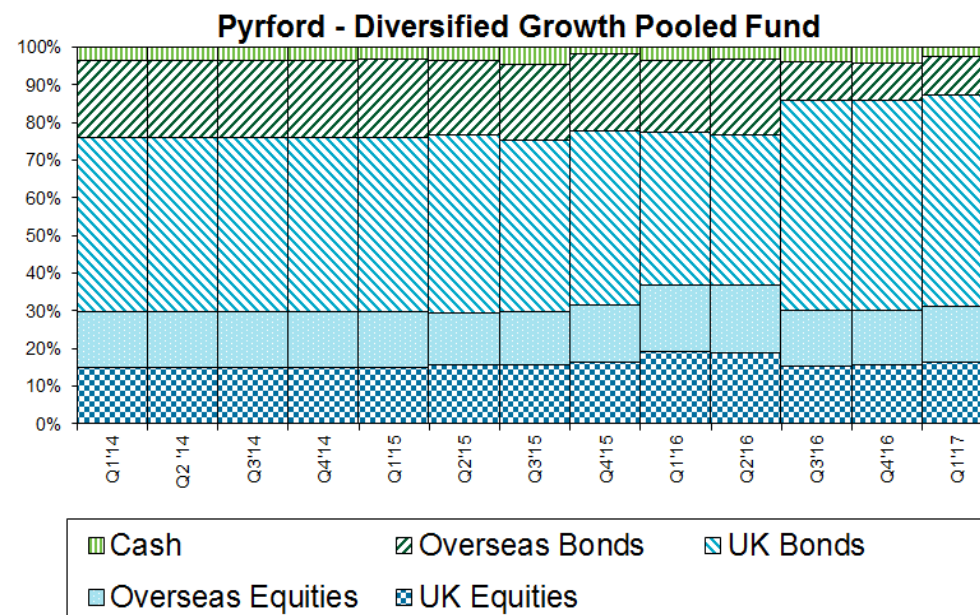
- Asset allocation skill between equities, bonds and cash
- Fundamental approach to stock selection

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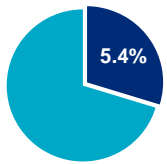
### Performance



### Asset Allocation



Annual data prior to Q1 2015.



# STANDARD LIFE – DGF (POOLED)

## £236.9M END VALUE (£237.2M START VALUE)

Item Monitored	Outcome
Mercer Rating	<span style="color: orange;">●</span> B+ (W) (no change over period under review). ESG4
Performance Objective Cash +5% p.a.	<span style="color: red;">●</span> Underperformed objective by 4.7% p.a. over the year

### Manager Research and Developments

- Over the quarter the fund returned -0.3% against a performance objective of 1.5%, and returned 0.6% against an objective of 5.6% over the year.
- The allocation to European equities contributed to performance, in a positive quarter for the broad asset class. However, the Fed's slower-than-expected path of future interest rate rises hurt the fund's position preferring US banks to US consumer staples, as banks are beneficiaries of rising rates.
- The interest rate strategies in place favouring UK government bonds to European government bonds delivered a positive return, as investors sought more defensive assets in the UK, whilst a mounting unease over political risks weighed on sentiment in Europe.
- Standard Life and Aberdeen Asset Management have announced a proposed merger. It is difficult to say what the longer term impacts of the merger will be until further details have been announced although this clearly presents some uncertainty with respect to the management of the business. We would expect limited impact on GARS but clearly this is another challenge, and is a further reason for us maintaining a Watch status on the strategy.
- Following the departure of Standard Life's Head of Equities David Cumming, Devan Kaloo (currently Head of Equities at Aberdeen) will become Head of Equities for the combined entity post the merger. Cumming was not a key contributor to the multi-asset group, so we believe his departure has little immediate impact on GARS.

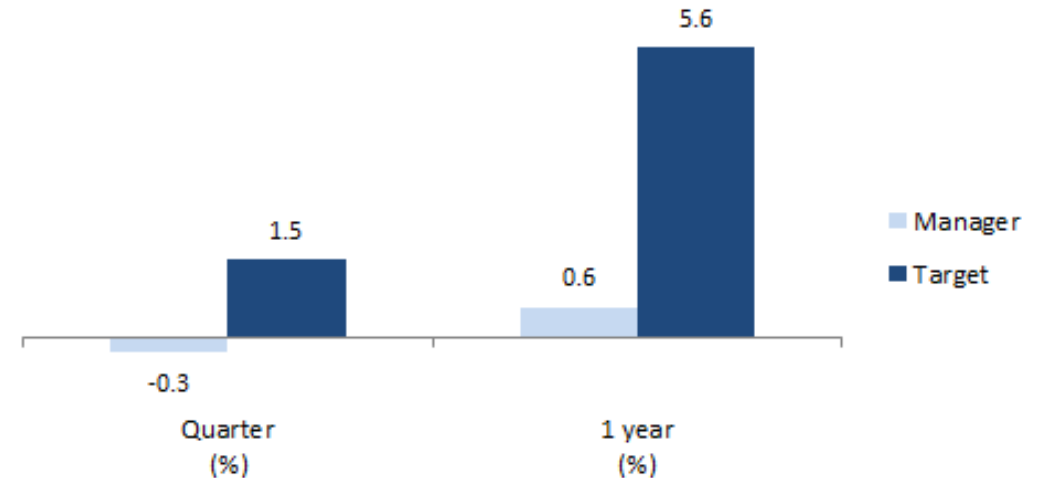
### Reason for investment

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

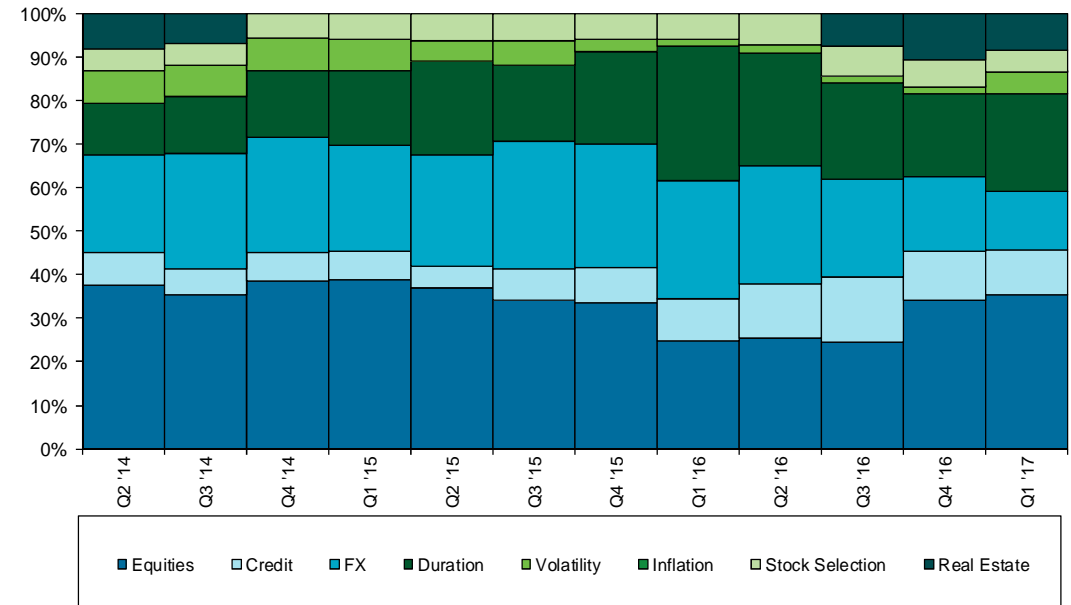
### Reason for manager

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

### Performance



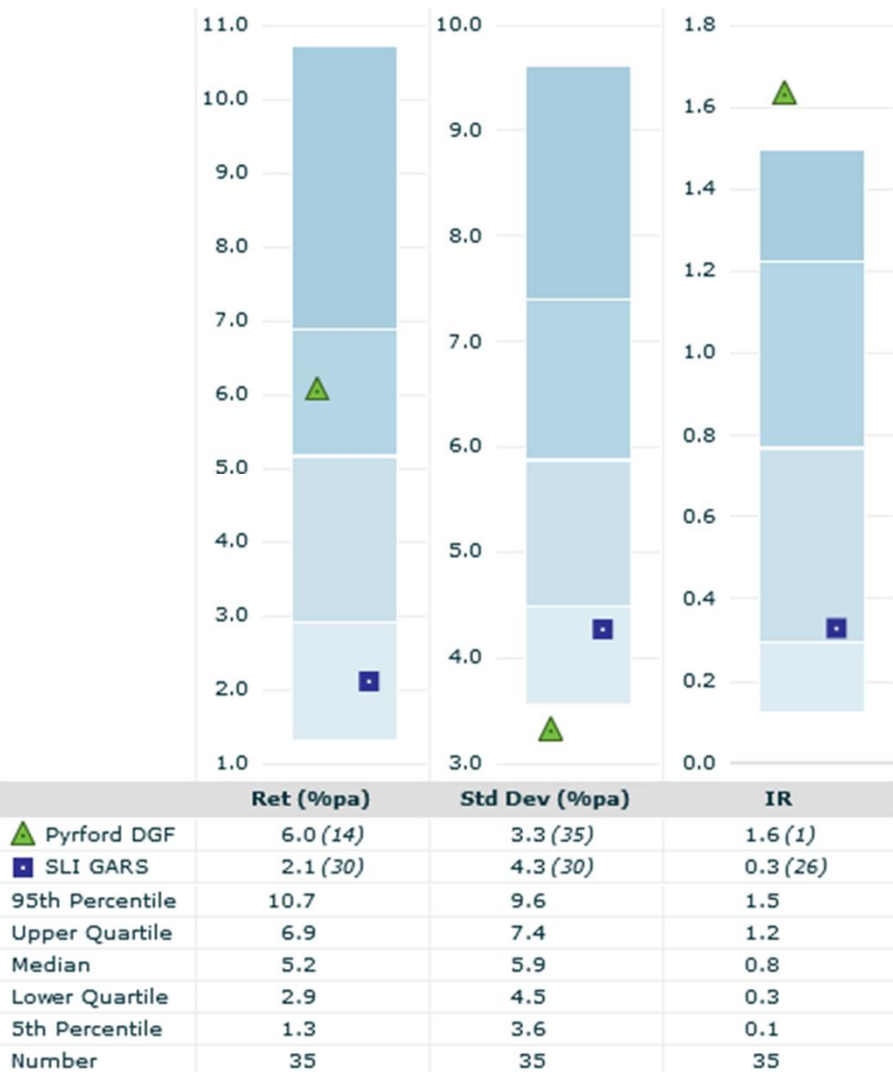
### Asset Allocation/Risk Exposure



# DGF MANDATES

Performance characteristics vs. BofAML LIBOR 6 month average UK in GBP (after fees) over 3 yrs ending March-17

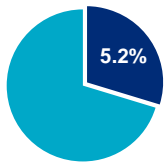
Comparison with the International Multi-asset GBP (Net) universe (Actual Ranking) (quarterly calculations)



## Commentary

- Over the three years to 31 March 2017, the Standard Life GARS pooled fund significantly underperformed Pyrford by 3.9% p.a.
- This placed Pyrford above the median of the DGF universe for performance. On the other hand, Standard Life was in the lower quartile of the universe. It should be noted that this universe is very diverse in styles.
- This performance was achieved with similar levels of volatility, with Pyrford's volatility standing at 3.3% p.a. against Standard Life's 4.3% p.a.
- Pyrford was the least volatile manager in the universe, while Standard Life (which was in the lower quartile for volatility) was less volatile than most managers in the universe.
- The information ratio (a measure of risk adjusted returns) for Pyrford was the 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

## £226.1M END VALUE (£225.9M START VALUE)

Item Monitored	Outcome
Mercer Rating	● B+ (no change over period under review). ESG4
Performance Objective Cash +3% p.a.	● Outperformed target by 0.5% over the quarter (in USD) Outperformed target by 1.2% over the year (in USD)

Item	
Number of funds	32
Strategy	Contribution to Performance over the Quarter in USD (%)
Relative Value	0.50
Opportunistic/Macro	-0.25
Long/Short Equities	1.26
Merger Arbitrage/Event Driven	0.07
Credit	-0.09
<b>Total</b>	<b>1.33 (including cash and fees)</b>

In US dollar terms, the fund returned 1.3% over the quarter. This was 0.5% ahead of benchmark, but 0.3% below target. The quarter's return was also behind the wider hedge fund indices of c. 2%, which is discussed over the next two pages.

### Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

### Reason for manager

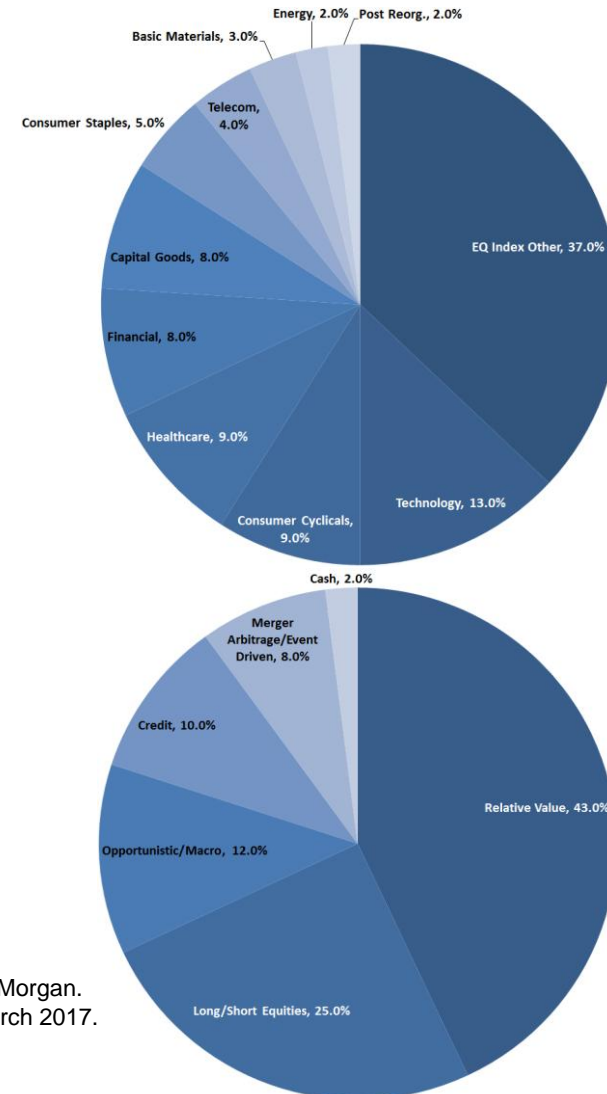
- Niche market neutral investment strategy
- Established team with strong track record
- Complemented other funds in the portfolio

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### Performance (GBP, JP Morgan return converted from USD)

Last Quarter	0.1%	Target	0.8%
Last Year	20.5%	Target	3.5%

### Portfolio Composition and Equity Sector Allocation



Source: JP Morgan.  
As at 31 March 2017.

# HEDGE FUND COMMENTARY – Q1 2017

- Hedge funds produced positive performance in the first quarter of 2017. The HFRI Index gained 1.8%, the HFRX Index returned 1.7%, and the Credit Suisse Hedge Fund Index earned 2.1% in US dollar terms.
- Although trailing a directional global equity market, the average portfolio of hedge funds outperformed many other asset classes, with aggregate bonds posting just slightly positive returns. Overall, most underlying hedge fund strategies posted positive results, with systematic macro the lone exception.
- Following a year in which investors pulled record capital from hedge funds, overall redemptions slowed considerably. Net outflows approximated \$5.4 billion in Q1 2017, representing less than 0.2% of industry assets.
- Despite net redemptions, the hedge fund industry continued to grow, propelled by healthy gains across many strategies. As at 31 March 2017, total hedge fund industry assets were c. \$3.1 trillion, marking the fourth consecutive quarter of net growth and the third consecutive quarter of record-setting asset levels.

Page 55

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

# HEDGE FUND COMMENTARY – Q1 2017

## Relative Value (43%)

- Fixed Income and Convertible Arbitrage strategies gained 2.3% and 2.2%, respectively, during the first quarter of 2017.
- Relative value and arbitrage-oriented strategies broadly earned modest results for the quarter. While their overall balanced positioning was not rewarded given the market directionality, favorable conditions aided performance broadly as moderate dispersion created opportunities.
- Convertible and fixed income-focused strategies earned decent returns, benefitting from strong broad market performance, healthy new issuance, and profitable sovereign and yield curve trading.

## Long/Short Equities (25%)

- Long/Short Equity and Equity Market Neutral (“EMN”) strategies earned 3.5% and 2.1%, respectively, in Q1 2017.
- Long/short strategies benefitted from positive market tailwinds and improved security selection (though we note a fair degree of dispersion in manager returns for the quarter). Popular hedge fund holdings largely produced strong results, and there were alpha opportunities on both long and short sides of the portfolio. For the past year, a naïvely positioned portfolio 100% long and 50% short the most commonly-held hedge fund holdings (as represented by the Goldman Sachs VIP list) would have outperformed global equity markets, with only 50% net exposure.

## Opportunistic / Macro (12%)

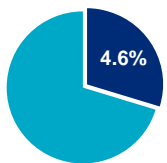
- The broad Global Macro universe gained 0.2% during the quarter, while Managed Futures declined 1.0%.
- Macro strategies on the whole posted rather benign results for the first quarter. However, performance by sub-strategies was mixed.
- Discretionary strategies earned positive, consistent results throughout the quarter; while systematic strategies struggled. Many post-US election trends from Q4 2016 reversed in the 1st quarter, with equity and rate positioning being key drivers of performance.

## Merger Arbitrage / Event Driven (8%)

- The Event space posted healthy results for the first quarter overall, returning 2.7%.
- While tightening spreads (particularly in high yield issues) provided a somewhat favorable backdrop, much of the positive performance was driven by idiosyncratic positions in stressed and distressed credit.
- Merger arbitrage strategies held on to produce gains for the quarter, despite a number of deal collapses (Aetna/Humana, Cigna/Anthem and Walgreens/Rite Aid). Overall volume remains robust.

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





# SCHRODER – UK PROPERTY FUND OF FUNDS

## £201.6M END VALUE (£197.4M START VALUE)

### Item Monitored Outcome

Mercer Rating ● B (no change over period under review). ESG3

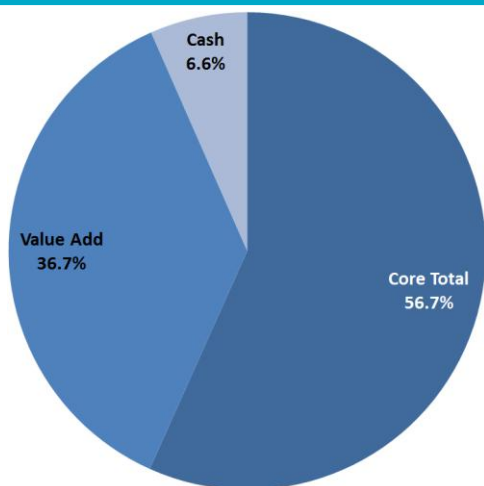
Performance Objective ● Outperformed benchmark by 0.6% p.a. over five years  
Benchmark +1% p.a.

### Manager Research and Developments

- The fund has outperformed the benchmark over the quarter by 0.3%, mainly due to positive contributions from Industrial Property Investment Fund and Multi-Let Industrial Property Unit Trust, whilst cash holdings slightly diluted returns. Value Add funds and Core funds aided performance over the quarter.
- Over the five year period, the fund has outperformed its benchmark by 0.6% p.a., largely due to performance from Value Add strategies.
- Over the quarter, there were c. £7.5m of purchases and c. £0.1m of sales. Units were acquired in Schroder Real Estate Real Income Fund (c. £2.2m), UK Retail Warehouse Fund (c. £2.0m), Regional Office Property Unit Trust (c. £1.9m) and Local Retail Fund (c. £1.4m).

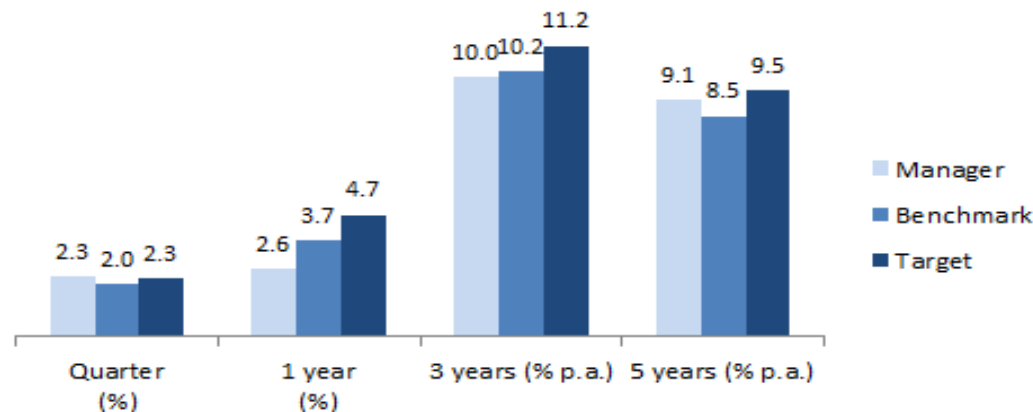
### Manager and Investment type splits

Top 5 Holdings	Proportion of Total Fund (%)
L&G Managed Property Fund	13.0
BlackRock UK Property Fund	12.5
Industrial Property Investment Fund	11.9
Schroder Real Estate Real Income Fund	9.9
Metro Property Unit Trust	8.9



As at 31 March 2017

### Performance



### Top 5 Contributing and Detracting Funds over 12 Months

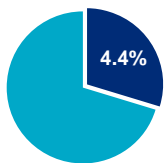


### Reason for investment

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

## £192.4M END VALUE (£186.7M START VALUE)

### Item Monitored Outcome

Mercer Rating ● B+ (no change over period under review). ESG4

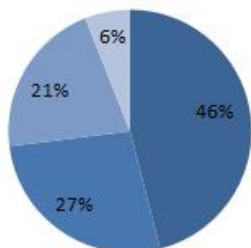
Performance Objective ● IRR since inception to 31 December 2016 at 8.2% p.a. (in local currency) is below target of 10% p.a.

### Manager Research and Developments (Q4 2016)

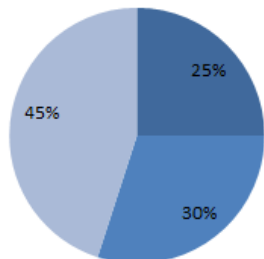
- The portfolio delivered a net return of 3.1% over Q4 2016 for USD programmes in local currency, and 2.7% for EUR programmes, versus the target of c. 2.5%.
- Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for 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 December 2016 at 8.2% p.a. (in local currency) is below their target of 10% p.a.; over the year to date to 31 December 2016 IRR was c. 5.4% (Mercer estimate, in local currency terms).
- Over Q4, the allocation to Europe remained at 46%, with North America increasing (from 24% to 27%) and Asia Pacific decreasing (from 24% to 21%). These remain within the guidelines.
- 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 December 2016

Geographical Split Based on Net Asset Value



Investment Type Split Based on Net Asset Value



■ Europe (10% - 50%) ■ North America (10% - 50%)  
■ Asia Pacific (10% - 50%) ■ Rest of World (0% - 20%)

■ Direct (0% - 30%) ■ Primary (40% - 100%)  
■ Secondary (0% - 50%)

© MERCER 2017

### Portfolio update as at 31 December 2016

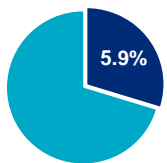
Partners Fund	Total Drawn Down (£m)	Total Distributions (£m)	Net Asset Value (£m)	Since Inception Net IRR (local currency)
Global Real Estate 2008	31.40	21.53	19.32	6.5
Real Estate Secondary 2009	19.64	9.33	19.94	10.8
Asia Pacific and Emerging Market Real Estate 2009	17.70	10.89	12.91	4.1
Distressed US Real Estate 2009	14.25	15.12	7.85	9.5
Global Real Estate 2011	25.12	10.73	24.96	10.6
Direct Real Estate 2011	11.45	7.36	10.81	8.7
Real Estate Secondary 2013	7.43	1.03	11.56	23.5
Global Real Estate 2013	52.36	4.65	57.95	5.7
Real Estate Income 2014	14.49	1.23	15.52	2.4
Asia Pacific Real Estate 2016	3.32	0.00	5.92	n/a
<b>Total</b>	<b>197.17</b>	<b>81.87</b>	<b>186.73</b>	<b>8.2</b>

### 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)

£256.0M END VALUE (£161.5M START VALUE)

### Item Monitored Outcome

Mercer Rating	● B+ (no change over period under review). ESG2
Performance Objective 6 month LIBOR + 2.5% p.a.	● Outperformed benchmark by 5.4% over the quarter in USD terms

### Item

Number of holdings	13
--------------------	----

### Manager Research and Developments

- Over the quarter the fund returned 6.2% in US Dollar terms, against Avon's performance objective of 0.8% (cash + 2.5% p.a.). As a consequence of this quarter's performance, IRR since inception on 1 June 2016 rose to 6.7%, bearing in mind that it is still early in the life of the fund.
- The remaining capital commitment of \$105m was fully drawn down over the quarter.
- The strategy has completed the acquisition of 25% of VTTI for \$575m. VTTI owns 13 marine terminals in globally strategic locations that provide import, export and storage infrastructure for oil majors, refiners and commodity marketers. The strategy also invested \$110m in Freeport Train 2, a gas processing site in Texas.
- The fund also received income of \$29m over the quarter, with dividend distributions from Anglian Water Group and the American firms, Colonial Pipeline Company and Duquesne Light Holdings.

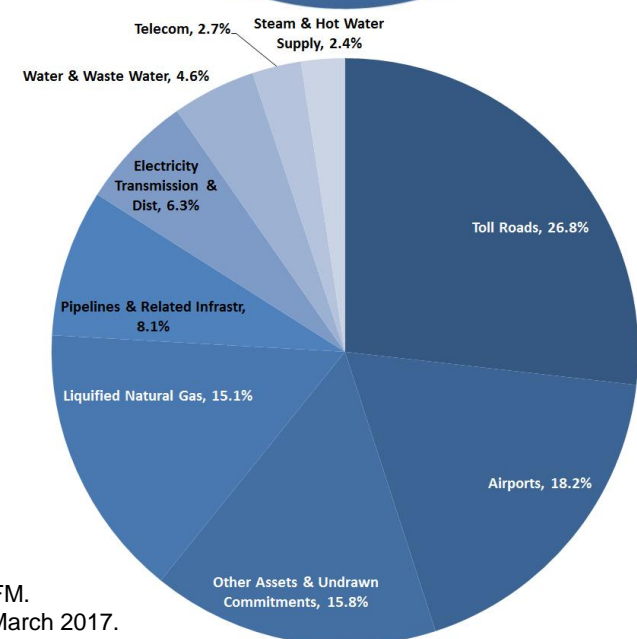
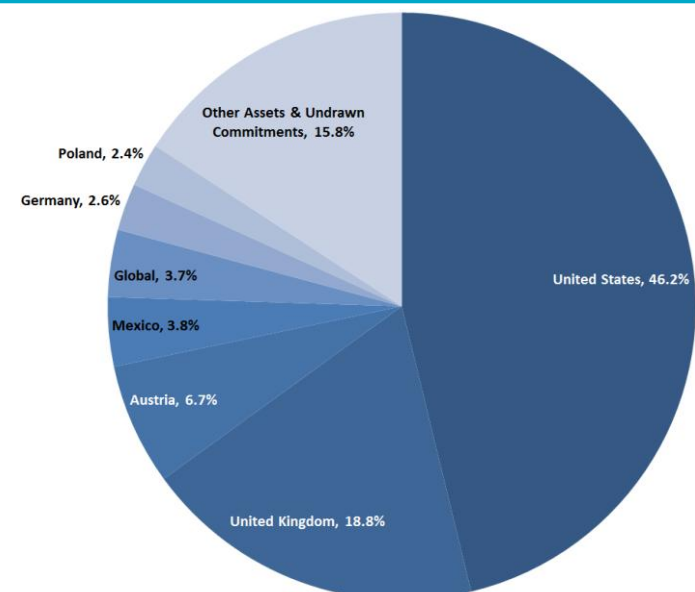
### Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

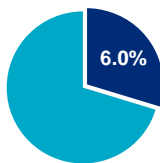
### Reason for manager

- 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

### Geographical and Sub-Sector Allocation



Source: IFM.  
As at 31 March 2017.



# ROYAL LONDON ASSET MANAGEMENT – FIXED INTEREST (POOLED)

## £260.8M END VALUE (£253.8M START VALUE)

### Item Monitored Outcome

Mercer Rating ● A (no change over period under review). ESG3

Performance Objective ● Outperformed benchmark by 0.5% p.a. over three years  
Benchmark +0.8% p.a.

### Manager Research and Developments

- Performance for the quarter was ahead of benchmark by 0.8%. The fund also outperformed over the year by 1.5% and over the three years by 0.5% p.a., although the fund has failed to meet its target over three years.
- Royal London retain their short duration position, in the expectation of a gradual increase in UK government bonds yields. That positioning had a small negative impact on performance over the quarter.
- The bias towards subordinated financials and secured and structured bonds aided performance. Underweight allocations to consumer-orientated sectors and supranationals were also advantageous.
- Royal London remain underweight AAA-AA bonds, and overweight BBB-unrated.

Weighted Duration	Start of Quarter	End of Quarter
Fund	7.8	8.0
Benchmark	8.1	8.2

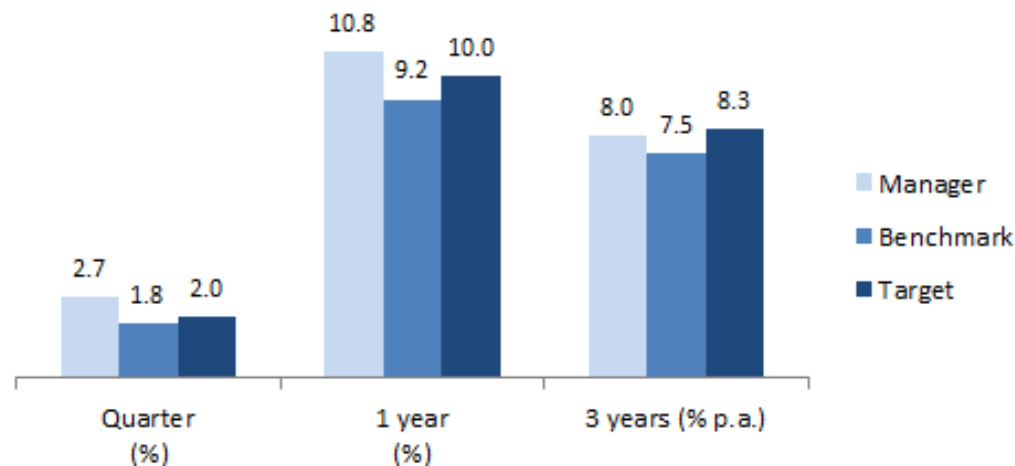
### Reason for investment

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

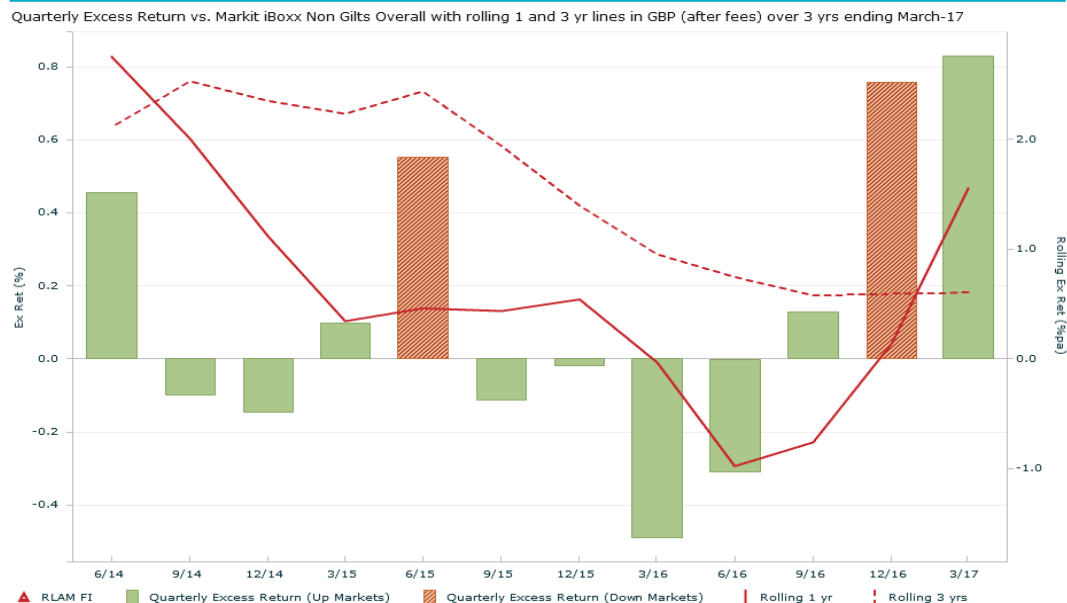
### Reason for manager

- 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




### Rolling relative returns



# RECORD – CURRENCY HEDGING (SEGREGATED)

## £10.3M END VALUE (-£21.3M 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

Over the quarter, sterling appreciated slightly against the dollar (by c.1.2%) but fell slightly in value against the euro and more so the yen (by c.0.2% and c.3.3% respectively). Sterling remains significantly weaker against these currencies than one year ago after the sharp depreciation following the UK referendum result in June 2016. (These currency exchange movements are based on end of day pricing, which may not tie in precisely with the pricing points used by Record).

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 Q1 2017 Performance (£ terms)

Passive Developed Equity Hedge						
Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	617,956,577	566,546,627	(1.18%)	0.44%	0.46%	(0.64%)
EUR	187,348,160	186,052,434	0.20%	(0.03%)	0.00%	0.26%
JPY	130,562,894	135,640,419	3.43%	(1.65%)	(1.59%)	1.94%
<b>Total</b>	<b>935,867,632</b>	<b>888,239,480</b>	<b>(0.25%)</b>	<b>0.05%</b>	<b>0.08%</b>	<b>(0.09%)</b>

Passive Hedge Fund Hedge						
Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	222,616,456	226,422,372	(1.18%)	0.70%	0.67%	(0.11%)
<b>Total</b>	<b>222,616,456</b>	<b>226,422,372</b>	<b>(1.18%)</b>	<b>0.70%</b>	<b>0.67%</b>	<b>(0.11%)</b>

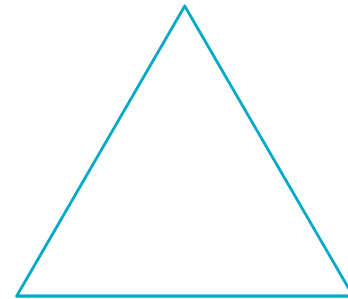
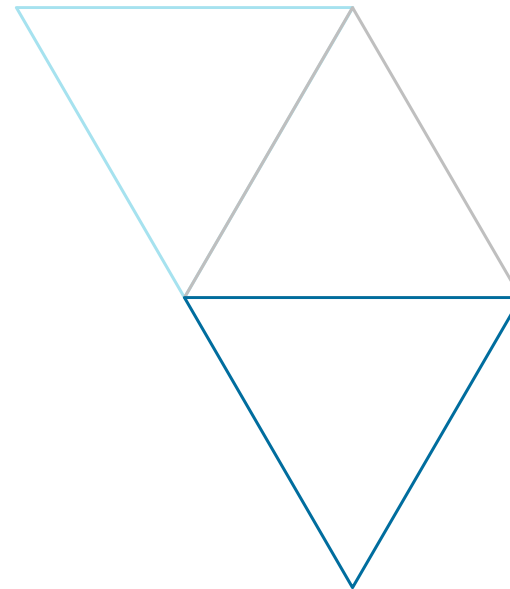
Passive Property Hedge						
Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	36,719,132	36,735,954	(1.18%)	0.71%	0.71%	(0.10%)
EUR	144,998,957	147,562,492	0.20%	(0.08%)	0.01%	0.33%
<b>Total</b>	<b>181,718,089</b>	<b>184,298,446</b>	<b>(0.06%)</b>	<b>0.09%</b>	<b>0.16%</b>	<b>0.25%</b>

Passive Infrastructure Hedge						
Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	90,879,485	145,827,716	(1.18%)	0.72%	0.64%	(0.17%)
EUR	14,927,507	28,275,512	0.20%	(0.12%)	(0.12%)	0.21%
<b>Total</b>	<b>105,806,993</b>	<b>174,103,228</b>	<b>(1.00%)</b>	<b>0.63%</b>	<b>0.57%</b>	<b>(0.12%)</b>

# APPENDIX 1

## SUMMARY OF MANDATES

Page 62



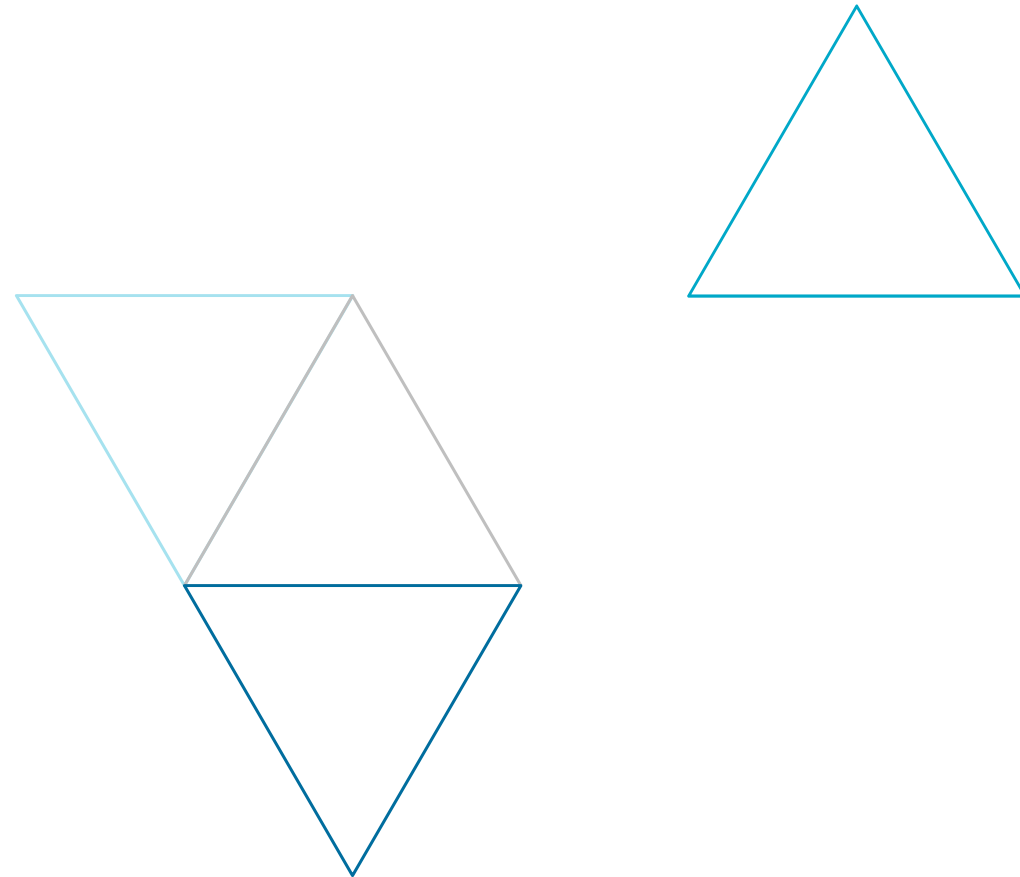
# SUMMARY OF MANDATES

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	Net IRR of 10% p.a. (local currency)	-
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

Page 64





# MARKET STATISTICS INDICES

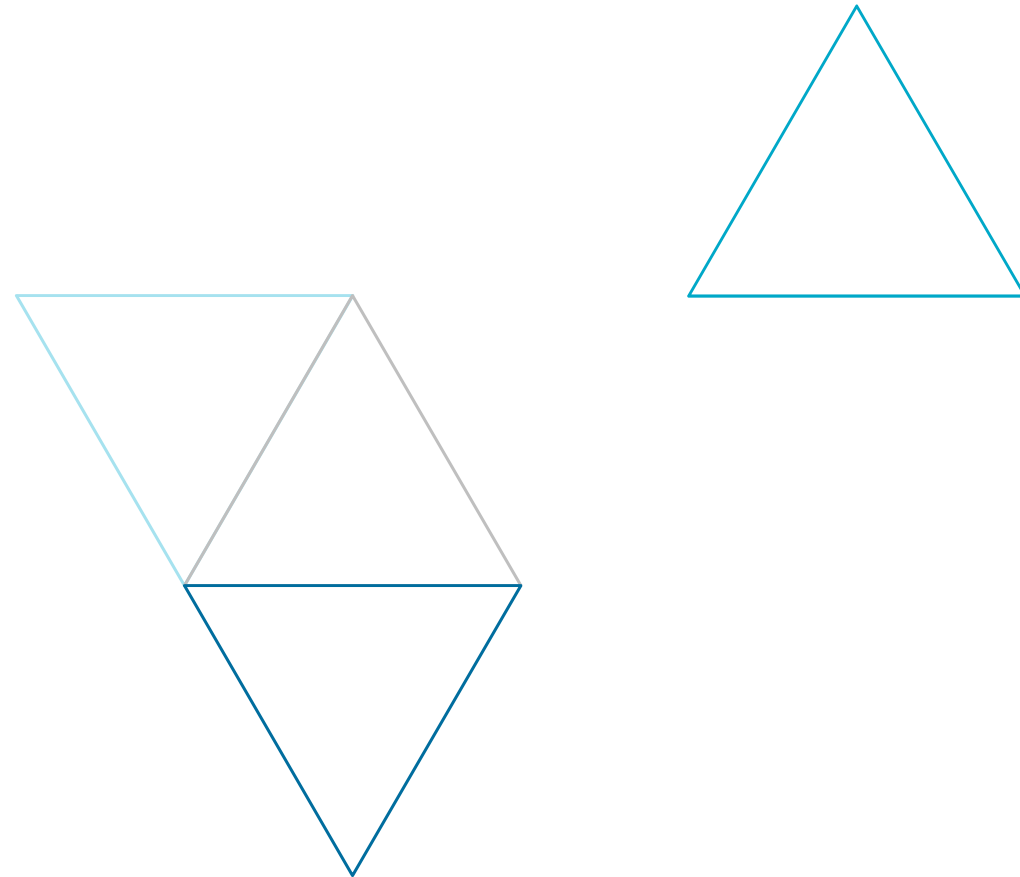
Asset Class	Index
UK Equities	FTSE All-Share
Global Equity	FTSE All-World
Overseas Equities	FTSE World ex UK
US Equities	FTSE USA
Europe (ex-UK) Equities	FTSE W Europe ex UK
Japanese Equities	FTSE Japan
Asia Pacific (ex-Japan) Equities	FTSE W Asia Pacific ex Japan
Emerging Markets Equities	FTSE AW Emerging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

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

# APPENDIX 3

## CHANGES IN YIELDS

Page 66



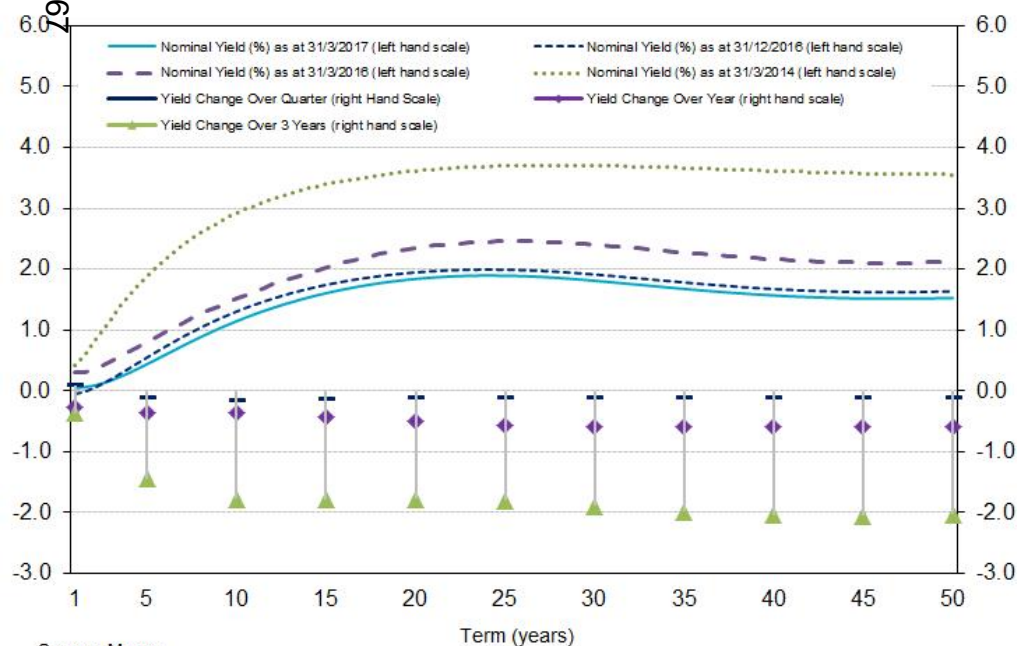
# CHANGES IN YIELDS

Asset Class Yields (% p.a.)	31 Mar 2017	31 Dec 2016	31 Mar 2016	31 Mar 2015
UK Equities	3.47	3.47	3.77	3.33
Over 15 Year Gilts	1.65	1.76	2.17	2.23
Over 5 Year Index-Linked Gilts	-1.71	-1.66	-0.97	-0.91
Sterling Non Gilts	2.20	2.29	2.90	2.65

- Bond yields in the UK and the US fell slightly over the quarter, despite the Federal Reserve raising its interest rate by 0.25% at the March meeting, a move that had been predicted by markets.
- In the UK, there was a slight downward shift in the yield curve over the quarter for terms over five years. The Over 15 Year Gilt Index outperformed the broader global bond market over the quarter, generating a return of 2.6%.
- Real yields were slightly down over the quarter. This led to the Over 5 Year Index-Linked Gilts Index returning 2.0%.
- Credit spreads remained largely unchanged over the quarter, with the sterling Non-Gilts All Stocks index ending the quarter at c.1.2% and the Sterling Non-Gilts All Stocks over 10 years index ending the quarter at c.1.3%. UK credit assets returned 1.8% over the quarter. This broadly matched the return of global credit in local currency terms.

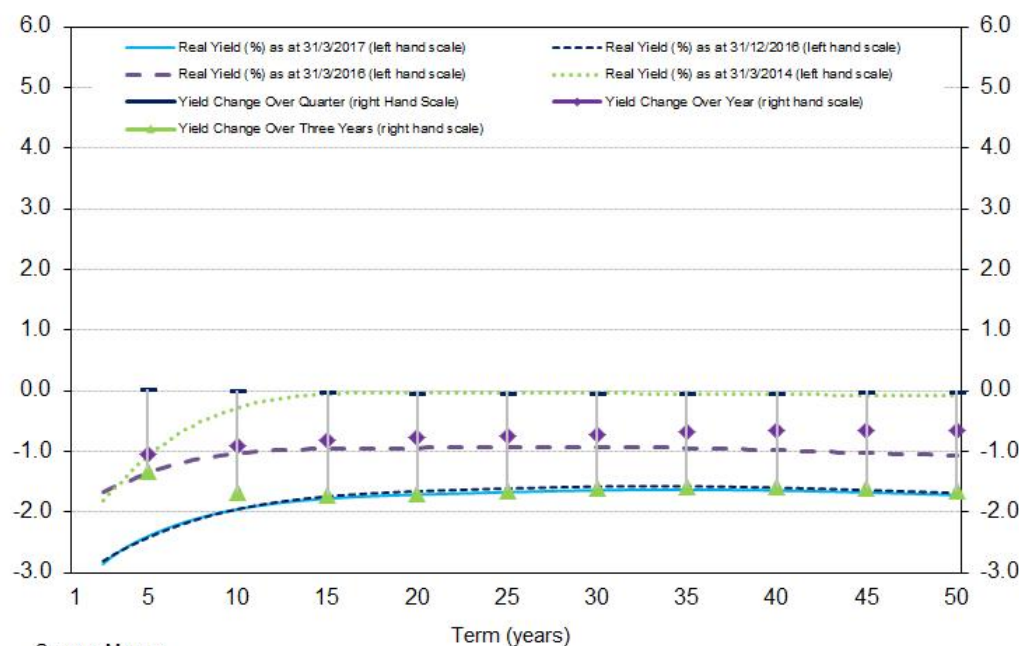
Page 62

## Nominal yield curves



Source: Mercer.

## Real yield curves

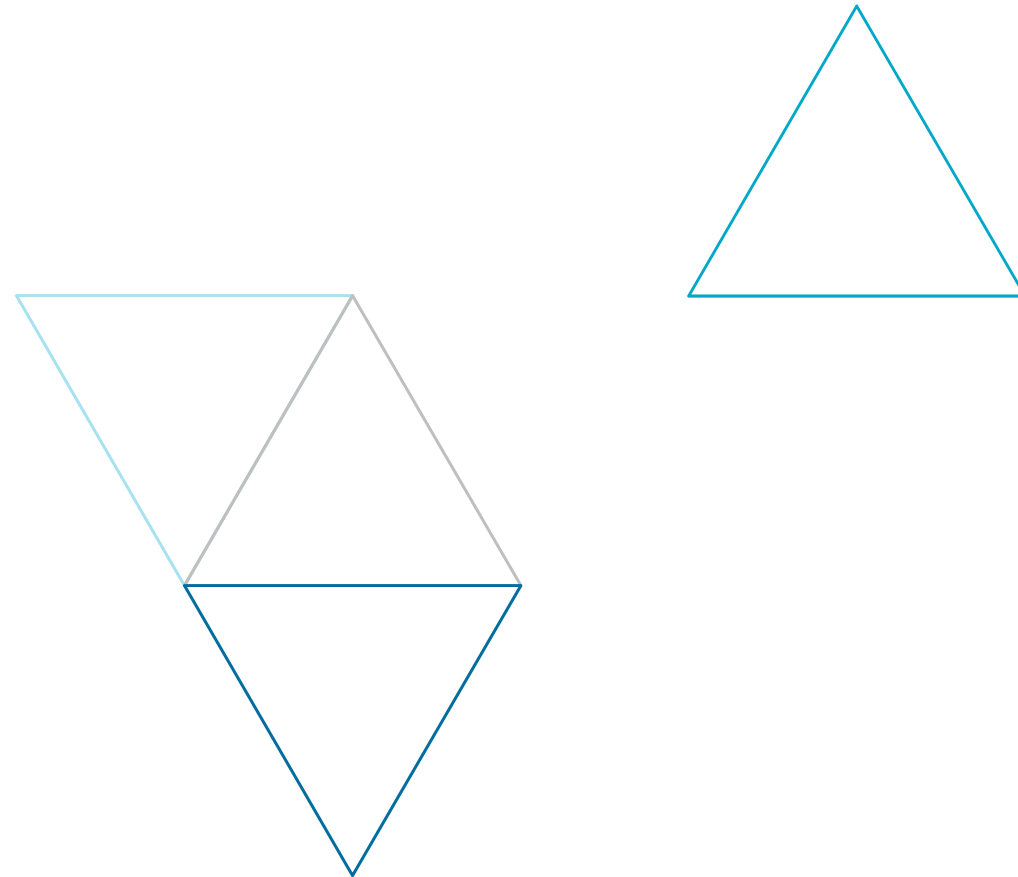


Source: Mercer.

# APPENDIX 4

## GUIDE TO MERCER RATINGS

Page 68



# 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](http://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.mercerгимd.com](http://www.mercerгимd.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.

# GUIDE TO MERCER RATINGS

## 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.

# GUIDE TO MERCER RATINGS

## 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.

# GUIDE TO MERCER RATINGS

## 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.



# GUIDE TO MERCER RATINGS

## 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.

## CONFIDENTIALITY OF MERCER'S RATINGS

Mercer's ratings, along with all other information relating to Mercer's opinions on managers and the investment strategies they offer, represent Mercer's confidential and proprietary intellectual property and are subject to change without notice. The information is intended for the exclusive use of the parties to whom it was provided by Mercer and may not be modified, sold, or otherwise provided, in whole or in part, to any other person or entity (including managers) without Mercer's prior written permission.

**MAKE**  **MERCER**  
**TOMORROW,**  
**TODAY**

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## **Access to Information Arrangements**

### **Exclusion of access by the public to Council meetings**

Information Compliance Ref: LGA 778/17

Meeting / Decision: Avon Pension Fund Investment Panel

Date: 24<sup>th</sup> May 2017

Author: Matt Betts

**Report Title: Review Of Investment Performance and Strategy  
Monitoring (For Periods Ending 31<sup>st</sup> March 2017)**

Exempt Appendix Title:

Exempt Appendix 3 - Changes in RAG status of Investment Managers

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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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	24 MAY 2017	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 April 2018. 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 24 May 2017	<ul style="list-style-type: none"><li>• Review managers performance to March 2017</li><li>• Meet the Manager BlackRock and Unigestion</li></ul>
Panel Meeting 4 Sept 2017	<ul style="list-style-type: none"><li>• Review managers performance to June 2017</li><li>• Strategy implementation TBC</li></ul>
Panel Meeting 13 Nov 2017	<ul style="list-style-type: none"><li>• Review managers performance to Sept 2017</li><li>• Strategy implementation TBC</li></ul>
TBC	

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.

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

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