Bath & North East Somerset Council

Avon Pension Fund Committee Investment Panel

Date: Monday, 2nd September, 2019
Time: 2.00 pm
Venue: Kaposvar Room - Guildhall, Bath

To: All Members of the Avon Pension Fund Committee Investment Panel

Councillor Shaun Stephenson-McGall (Chair), Councillor Chris Dando, Pauline Gordon, Shirley Marsh and Councillor Bruce Shearn

Chief Executive and other appropriate officers
Press and Public

Sean O'Neill
Democratic Services
Lewis House, Manvers Street, Bath, BA1 1JG
Telephone: 01225 395090
Web-site - http://www.bathnes.gov.uk
E-mail: Democratic_Services@bathnes.gov.uk

NOTES:

1. **Inspection of Papers:** Papers are available for inspection as follows:

Council's website: https://democracy.bathnes.gov.uk/ieDocHome.aspx?bcr=1

Paper copies are available for inspection at the **Public Access points:-** Reception: Civic Centre - Keynsham, Guildhall - Bath, The Hollies - Midsomer Norton. Bath Central and Midsomer Norton public libraries.

2. **Details of decisions taken at this meeting** can be found in the minutes which will be circulated with the agenda for the next meeting. In the meantime, details can be obtained by contacting 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. We request that those filming/recording meetings avoid filming public seating areas, children, vulnerable people etc; however, the Council cannot guarantee this will happen.

The Council will broadcast the images and sounds live via the internet www.bathnes.gov.uk/webcast. The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

4. **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. They may also ask a question to which a written answer will be given. **Advance notice is required not less than two full working days before the meeting. This means that for meetings held on Thursdays notice must be received in Democratic Services by 5.00pm the previous Monday.** Further details of the scheme:

https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=12942

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

6. Supplementary information for meetings

Additional information and Protocols and procedures relating to meetings

https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=13505

Avon Pension Fund Committee Investment Panel - Monday, 2nd September, 2019

at 2.00 pm in the Kaposvar Room - Guildhall, Bath

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: 27 FEBRUARY 2019 (Pages 7 - 14)

8. BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING (Pages 15 - 32)

9. REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 3O JUNE 2019 (Pages 33 - 120)

10. ANNUAL REVIEW OF RISK MANAGEMENT STRATEGIES (Pages 121 - 126)

11. WORKPLAN (Pages 127 - 130)

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

Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE INVESTMENT PANEL

Minutes of the Meeting held

Wednesday, 27th February, 2019, 2.00 pm

Members: Councillor Patrick Anketell-Jones (Chair), Councillor David Veale, Pauline Gordon and Shirley Marsh
Advisors: Steve Turner (Mercer)
Also in attendance: Liz Woodyard (Investments Manager), Nathan Rollinson (Assistant Investments Manager) and Ileana Constantinescu (Investments Officer)

36 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

37 DECLARATIONS OF INTEREST

Councillor Anketell-Jones declared that he was a member of Greenpeace.

38 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Rob Appleyard and Cllr Mary Blatchford.

39 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

41 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

42 MINUTES: 12TH NOVEMBER 2018

The public minutes of the 12th November 2018 were approved as a correct record and signed by the Chair.

Due to an oversight the exempt minutes had not been circulated with the agenda; Members agreed to raise any concerns pertaining to the exempt minutes directly with the Investments Manager after the meeting and by email and to defer approval of them to the next meeting of the Panel.

43 BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING

The Investments Manager tabled a covering report for this item, which summarised developments since the previous meeting of the Panel in November 2018.

She said that the transition to Brunel was still progressing according to plan.

The transition of UK Equities had been completed; the final outcome report would be shared with the Client Group shortly, and would come to the Panel and the Committee.

The tender to select managers for the Emerging Markets Equities portfolio was under way; the scoping paper for this was attached as exempt appendix 1.

The Global High Alpha Equities portfolio had been launched; the launch paper was attached as exempt appendix 2.

Exempt appendix 3 detailed the Liability Driven Investment Offering agreed between Brunel and the Client Group.

The drawdown of commitments to the Secured Income and Renewable Infrastructure portfolios has begun. Since the commitments made in 2018 met the Fund's strategic allocation, no new commitments will be made to these portfolios in 2019.

Before discussing the exempt appendices to this item, the Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED** that the public should be excluded for the discussion of exempt appendices 1-4b of this item and that the reporting of this part of the meeting should be prevented, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, because of the likely disclosure of exempt information as defined in paragraph 3 of Schedule 12A of the Act as amended.

RESOLVED:

1. to note the progress made on the pooling of assets;

2. to note the project plan for the future transition of assets.

44 DRAFT PLAN 2019 STRATEGIC REVIEW

The Investments Manager presented the report. The Panel discussed the draft plan for the Strategic Review. The final plan will be presented to Committee at its March meeting.

Having been satisfied that the public interest would be better served by not disclosing relevant information, the Panel **RESOLVED** that the public should be excluded during the discussion of exempt appendix 1 and that the reporting of this part of the meeting should be prevented, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, because of the likely disclosure of exempt information as defined in paragraph 3 of Schedule 12A of the Act as amended.

RESOLVED to note the draft plan.

45 PRIVATE DEBT - ASSET CLASS UPDATE

The Assistant Investments Manager presented the report, to refresh Panel members about the characteristics of Private Debt.

Mr Turner presented the Mercer *Private Asset Class Update* paper (Appendix 1).

[Councillor David Veale left the meeting.]

Having been satisfied that the public interest would be better served by not disclosing relevant information, the Panel **RESOLVED** that the public should be excluded for the discussion of exempt appendix 2 and that the reporting of this part of the meeting should be prevented, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, because of the likely disclosure of exempt information as defined in paragraph 3 of Schedule 12A of the Act as amended.

The Investments Manager presented the Brunel Private Debt Portfolio Specification.

RESOLVED to note the information contained in the report and appendices.

46 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 DECEMBER 2018

The Assistant Investments Manager presented the report.

Mr Turner presented the Mercer Performance Monitoring Report (appendix 2).

Having been satisfied that the public interest would be better served by not disclosing relevant information, the Panel **RESOLVED** that the public should be excluded for the discussion of exempt appendix 4 and that the reporting of this part of the meeting should be prevented, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, because of the likely disclosure of exempt information as defined in paragraph 3 of Schedule 12A of the Act as amended.

Mr Page presented the Mercer Risk Management Framework Quarterly Monitoring Report (exempt appendix 4).

The Panel returned to open session and the Assistant Investments Manager drew attention to the sample Brunel Quarterly Performance Report (appendix 6).

RESOLVED:

1. to note the information as set out in the reports.

2. that there were no issues to report to the Committee.

47 WORKPLAN

RESOLVED to note the workplan.

The meeting ended at 4.15 pm

Chair(person) .....

Date Confirmed and Signed .....

Prepared by Democratic Services

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

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**	
MEETING DATE:	**2 September 2019**	**AGENDA ITEM NUMBER**
TITLE:	**Brunel Pension Partnership – Update on pooling**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Exempt Appendix 1 - UK Equity Portfolio Transition Exempt Appendix 2 – Emerging Markets Portfolio Exempt Appendix 3 – LDI portfolio update Exempt Appendix 4 – Mapping of Avon mandates to Brunel portfolios Exempt Appendix 5 – Plan for transition of Avon's assets to Brunel portfolios Exempt Appendix 6 – Risk Register for transition of Avon's assets to Brunel portfolios		

1 THE ISSUE

1.1 This report outlines the progress on pooling of assets with specific reference to the **investment activities**.

1.2 Brunel's transition plan is monitored by the Client Group Investment sub-group on a regular basis.

1.3 The Avon Risk Register for the transition of its assets to Brunel is included as an appendix.

1.4 A verbal update will be provided at the meeting.

2 RECOMMENDATION

That the Panel:

2.1 **Notes the progress made on pooling of assets.**

2.2 **Notes the project plan for the transition of assets.**

3 FINANCIAL IMPLICATIONS

3.1 The fees that Avon will pay to Brunel are included in the budget for 2019/20. They have been calculated in line with the pool's pricing policy. During the transition, the fees are based on a mixture of equal1/10ths and AUM. In later years a greater element of costs will be paid via portfolio fees.

3.2 The fees for 2019/20 were discussed at the March Committee meeting.

4 INVESTMENTS UPDATE

4.1 Assets that have transitioned:

Brunel portfolio	Value (30/6/19)	Transitioning Mandates / Managers	Date transitioned
Passive Equities	£557m	Low Carbon Global Equities / Blackrock	July 2019
UK Equities	£193m	UK Equities / TT International	Nov 2019

4.2 A summary of the UK Equity transition outcome is in Exempt Appendix 1 (for information only).

4.3 The construction of the Emerging Market Equities portfolio is nearing completion. An update is in Exempt Appendix 2 (for information only).

4.4 The tenders for the Global High Alpha Equities and Diversified Growth portfolios are underway. The launch of the Sustainable Global Equity and the Smaller Companies portfolios has been announced.

4.5 Exempt Appendix 3 provides an update on the LDI portfolio.

4.6 Exempt Appendix 4 maps the Fund's current investment mandates to the Brunel portfolios. The mapping of mandates to portfolios was agreed by Panel in September 2017. This will be subject to change following the Strategic Review later this year.

4.7 Exempt Appendix 5 shows the transition plan for Avon's assets. The transition plan is continuously reviewed by Brunel and the Client Group to ensure Client priorities are considered. Actual timing will depend on a number of considerations including the complexity of each transition and market conditions. Please note that this plan only includes the portfolios relating to Avon mandates; additional portfolios will be established along the same timelines. The plan is still on track to complete on time as set out in Brunel's 2019/20 Business Plan.

4.8 Brunel is managing the Fund's allocation to Secured Income and Renewable Infrastructure. The drawdowns of commitments have begun; see Quarterly Investment Monitoring report for details. In 2020, a new 2 year investment cycle will commence for all private market portfolios, and if required, new commitments will be made following the outcome of the 2019 strategic review.

4.9 The process for client side monitoring the portfolios once into Business as Usual is being finalised. Brunel is already providing quarterly investment reports client group and pension committees. The report for Avon is included as an appendix to the Quarterly Investment Monitoring report on this agenda.

4.10 There has been no new savings from pooling since the update provided at the June committee meeting.

4.11 Avon's project plan includes a Risk Register (see Exempt Appendix 6) of risks specific to the transition for Avon.

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 CLIMATE CHANGE

6.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

7 ISSUES TO CONSIDER IN REACHING THE DECISION

7.1 Report is for noting only.

8 CONSULTATION

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

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

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 1221/19

Meeting / Decision: **AVON PENSION FUND INVESTMENT PANEL**
Date: 2 September 2019

Author: Liz Woodyard
Report Title: Brunel Pension Partnership – Update on pooling **Exempt Appendix 1** - UK Equity Portfolio Transition **Exempt Appendix 2** – Emerging Markets Portfolio **Exempt Appendix 3** – LDI portfolio update **Exempt Appendix 4** – Mapping of Avon mandates to Brunel portfolios **Exempt Appendix 5** – Plan for transition of Avon's assets to Brunel portfolios **Exempt Appendix 6** – Risk Register for transition of Avon's assets to Brunel portfolios

The Appendices to the Report contain 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 Exempt appendices 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 appendices contain 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 would 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.

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**	
MEETING DATE:	**2 September 2019**	**AGENDA ITEM NUMBER**
TITLE:	**Review of Investment Performance for Periods Ending 30 June 2019**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – Mercer Performance Monitoring Report Exempt Appendix 3 – RAG Monitoring Summary Report Appendix 4 – Brunel Quarterly Performance Report Appendix 5 – Audit Log of Strategic Investment Decisions		

1 THE ISSUE

1.1 This paper reports on the performance of the Fund's investment managers and seeks to update the Panel on routine aspects of the Fund's investments. The report contains performance statistics for period ending 30 June 2019.

1.2 The report focuses on the performance of the individual investment managers and the implementation of the investment strategy. The full performance report with aggregate investment and funding analysis will be reported to the Committee meeting on 27 September 2019.

1.3 This quarter the Mercer risk monitoring report that usually forms Exempt Appendix 4 to this report (and covers the performance of the Liability Driven Investing and Equity Protection Strategies) is included in Item 10 – Annual review of Risk Management Strategies.

1.4 Appendix 5 is for reference only; it shows the implementation of strategic decisions following the 2017 Strategic Review.

2 RECOMMENDATION

That the Panel:

2.1 **Notes 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 2019 will impact the next triennial valuation which will be calculated as at 31 March 2022. The returns quoted are net of investment management fees.

4 INVESTMENTS UPDATE

A – Fund Performance

4.1 The Fund's assets increased by £127m (c.2.6%) in the quarter ending 30 June 2019 giving a value for the investment Fund of £4,946m. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.

4.2 Global equity markets rebounded from sharp falls in May to end the second quarter of the year on a positive note, largely on the back of strong gains in June. To this end, overseas equites were the largest contributor to Fund performance over the quarter. US interest rate policy and US-China political rhetoric continues to drive market sentiment. Emerging Markets also recovered from a sharp sell-off during May to end the quarter in positive territory. Developed market government bond yields fell over the quarter which supported credit markets. The premium offered by corporate bonds over government bonds, which reflects the higher level of risk of these assets, narrowed which translated into positive returns for the Fund's Multi Asset Credit mandate. Among the Fund's holdings in alternative asset classes Infrastructure was the standout performer with several of the underlying assets receiving valuation uplifts. Amongst currencies, Sterling weakened against the US Dollar, the Euro and the Yen by 2.3%, 3.7% and 4.9%, respectively – this meant the currency hedge detracted c.0.8% from total Fund returns.

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 27 September 2019.

B – Investment Manager Performance

4.4 A detailed report on the performance of each investment manager has been produced by Mercer – see pages 22 to 41 of Appendix 2.

4.5 Brunel now reports on the performance of the assets they manage on behalf of the Fund. The report for each Brunel portfolio can be found in Appendix 4. However, Mercer will continue to provide quarterly commentary and analysis of all the Fund's mandates and at the strategic total fund level.

4.6 Manager absolute returns over the quarter were largely positive, with global equities, hedge funds, infrastructure, credit and DGFs posting positive absolute returns. On a relative basis, active managers generally matched and/or exceeded benchmark returns. Over the 12 months to 30 June the majority of our managers posted positive absolute returns but struggled to outperform on a relative basis. This was also true of 3 year returns, where the majority of managers posted positive absolute returns but failed to keep pace with their respective benchmarks.

4.7 Exempt Appendix 3 summarises the latest internal report used by officers 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.

C – Risk Management Framework Quarterly Monitoring Report

4.8 A detailed report of the performance of the Fund's risk management strategies is presented in Exempt Appendix 1 to Item 10: Annual Review of Risk Management Strategies.

5 INVESTMENT STRATEGY AND PORTFOLIO REBALANCING

5.1 **Asset Class Returns versus Strategic Assumptions**: Developed market equity returns over the last 3 years were 14.2% p.a., ahead of the assumed strategic return of 8.1% p.a. on the same basis. The 3 year return from emerging market equities was 12.5%; well ahead of the assumed 3 year return of 8.7%. Over the three-year period index-linked gilts returned 6.0% p.a. versus an assumed return of 2.2%. Similarly, property and infrastructure are ahead of their assumed strategic returns on a 3 year basis. Hedge fund returns remain below long-term averages and the strategic return of 5.1% p.a.

5.2 **Rebalancing**: There was no rebalancing activity during the quarter.

5.3 **Corporate Bond Portfolio**: During April/May 2019 the Fund's LDI manager was instructed to implement a buy-and-maintain corporate bond portfolio as part of a bespoke cash flow matching strategy. This strategy was created to cash flow match the 'low-risk' bucket of liabilities that are valued on a corporate bond basis, in order to reduce funding risk in respect of these liabilities and will be inflation hedged asset value). Performance will be monitored as part of the routine risk report Mercer presents to Panel each quarter.

5.4 **Private Markets Investments:** The Fund has an allocation of 2.5% to Renewable Energy (on a look through basis) which is managed by Brunel. The drawdown of the committed capital started in Dec 2018 and further investments were made to two funds in 2Q19, both of which have a primary focus on proven renewable energy technology, encompassing: onshore wind, solar PV, hydro and electricity storage assets. The additional funds are seen as largely complementary to the existing funds (which focus on sustainable and social infrastructure such as mass transport and hospitals as well as renewable energy) in terms of regional diversification and projected fund lifespans.

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. 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.

7 CLIMATE CHANGE

7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 The issues to consider are contained in the report.

9 CONSULTATION

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

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

APPENDIX 1

AVON PENSION FUND VALUATION - 30 JUNE 2019

	Brunel Portfolios	Passive Multi-Asset	QIF	Active Equities				Funds of Hedge Funds	DGFs		MAC	Property		Infra-stucture	Currency Hedging	In House Cash	TOTAL	Avon Asset Mix %
All figures in £m	Multi	BlackRock	BlackRock	Jupiter (SRI)	Genesis	Unigestion	Schroder Global	JP Morgan	Pyrford	Ruffer	Loomis	Schroder (UK)	Partners (Overseas)	IFM	Record	General Cash		
Equities																		
UK	193.1			186.0													379.2	7.7%
Emerging Markets					123.3	113.8											237.1	4.8%
Global Developed Markets			469.1	11.7			409.1										889.9	18.0%
Global Low Carbon	556.9																556.9	11.3%
Equity Derivatives[1]			-41.4												22.5		-18.9	-0.4%
Total Overseas	***556.9***		***427.7***	***11.7***	***123.3***	***113.8***	***409.1***										***1642.5***	**33.7%**
Total Equities	**750.0**		**427.7**	**197.7**	**123.3**	**113.8**	**409.1**								**22.5**		***2044.2***	**41.3%**
Exchange-Traded Funds		**75.3**															***75.3***	**1.5%**
DGFs									**221.0**	**387.9**							***608.9***	**12.3%**
Hedge Funds								**239.8**									***239.8***	**4.8%**
MAC											**424.0**						***424.0***	**8.6%**
Property												**223.7**	**214.9**				***438.6***	**8.9%**
Infrastructure														**352.1**			***352.1***	**7.1%**
Renewable Infrastructure	**10.6**																***10.6***	**0.2%**
Secured Income	**16.9**																***16.9***	**0.3%**
LDI Assets & Bonds																		
LDI Assets			553.2														553.2	11.2%
Corporate Bonds			119.1														119.1	2.4%
Total Bonds			**672.3**														***672.3***	**13.6%**
Cash				14.0			6.3					18.5				52.2	***91.0***	**1.8%**
FX Hedging															-29.0		***-29.0***	**-0.6%**
TOTAL	**777.6**	**75.3**	**1100.0**	**211.7**	**123.3**	**113.8**	**415.4**	**239.8**	**221.0**	**387.9**	**424.0**	**242.1**	**214.9**	**352.1**	**-6.4**	**52.2**	**4946.3**	**100.0%**

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

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HEALTH WEALTH CAREER

AVON PENSION FUND

PANEL INVESTMENT PERFORMANCE REPORT QUARTER TO 30 JUNE 2019

AUGUST 2019

Steve Turner

IMPORTANT NOTICES

References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

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

CONTENTS

SECTION 1
EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

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

Fund Performance

- The value of the Fund's assets increased by £127m over the second quarter of 2019, to £4,946m as at 30 June 2019. This increase was driven primarily by positive returns from overseas equities and infrastructure.

Strategy

- Global (developed) equity returns over the last three years were 14.2% p.a., above the assumed strategic return of 8.05% p.a. from the review in April 2017. We remain broadly neutral in our medium-term outlook for developed market equities (over the next one to three years). Developed market equities had another strong performing quarter. The overall macro environment remains supportive of moderate but solid global growth and low inflation in the medium term. The recent dovish turn in monetary policy, including expected rate cuts in the US and potential easing measures in the Eurozone was deemed a positive development for equity investors.
- Emerging market equities have returned 12.5% p.a. over the three-year period. It is above the assumed return of 8.70% p.a. as returns have been reasonably strong and fundamentals have improved. Valuations remain attractive relative to broad market equities and close to or only marginally above their respective long-term averages, although valuation metrics deteriorated moderately by most measures. Even though the macro outlook for emerging markets has softened a bit, it remains fairly benign and could improve considerably should the trade dispute ultimately be settled.
- UK government bond returns over the three-year period remain higher than the long-term assumed strategic returns as investor demand for gilts remains high. Fixed interest gilts returned 3.1% p.a. versus an assumed return of 1.90% p.a. and index-linked gilts returned 6.0% p.a. versus an assumed return of 2.15% p.a. Gilt yields decreased over the quarter, and as a result gilt returns were positive over the period.
- UK corporate bonds returned 4.0% p.a. over the three-year period, above the assumed strategic return of 3.25% p.a.
- The three-year UK property return of 6.6% p.a. remains higher than the assumed return of 5.75% p.a.
- Hedge fund returns were flat over the quarter, and remain below long-term averages and the strategic return of 5.10% p.a., having been affected by low cash rates. Active managers in general have struggled to generate meaningful returns in recent years.
- The Fund's currency hedging policy was negative overall for Fund performance, since Sterling depreciated against major foreign currencies over the quarter.

EXECUTIVE SUMMARY

Managers

- Manager total returns over the quarter were on the whole positive, with the strongest performance coming from the global equity managers. The Fund's fund of hedge funds, infrastructure and multi-asset credit mandates were strong performers over the period and the two Diversified Growth Fund ("DGF") also generated positive returns.
- Absolute returns over the year to 30 June 2019 were broadly positive across the Fund's investment managers with all of the managers (aside from one of the DGF managers and the UK equity manager) delivering positive returns over the period.
- In terms of relative performance, the majority of the active equity managers outperformed their benchmarks over the quarter, although the defensive active emerging market equity manger and UK equity manager underperformed their benchmarks.
- The majority of the Fund's active managers have underperformed on a relative basis over the year to 30 June 2019. However, the infrastructure and global sustainable equity mandates have generated strong relative returns over the one-year period.
- Over the three-year period, all mandates with a three-year track record produced positive absolute returns. The majority of active funds underperformed their benchmarks over the period, with only the infrastructure and UK property mandates generating positive relative returns.

Key Points for Consideration

- In April/May 2019, the bespoke buy-and-maintain corporate bond strategy was implemented with BlackRock, replacing the legacy passive corporate bond holding, in order to better match the Fund's low-risk liability bucket. The strategy is now held within the Fund's QIF, alongside the other risk management mandates (LDI and equity protection). As part of the implementation process, £30m was switched from the LDI mandate to increase the allocation to corporate bonds, given the increase in scope of the low-risk liability bucket previously agreed by the Committee.

EXECUTIVE SUMMARY
MANAGER INFORMATION

Manager	Type	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	ESG	Page
Brunel	Passive	Global Low Carbon Equities	N/A	N/A	N/A	P1	*23*
BlackRock	Passive	Global Equities	A	✓	✓	P2	*24*
BlackRock	Passive	Corporate Bond	A	✓	✓	N	*24*
BlackRock	Passive	LDI	A	✓	✓	N	*24*
BlackRock	Passive	ETF	N/A	N/A	N/A	-	*24*
Brunel	Active	UK Equities	N/A	N/A	N/A	-	*25*
Jupiter	Active	UK Equities	B	✕	✕	2	*26*
Jupiter	Active	Global Sustainable Equities	N	✓	N/A	N	*27*
Schroder	Active	Global Equities	B+	✕	-	2	*28*
Genesis	Active	Emerging Market Equities	A	✓	✕	3	*29*
Unigestion	Active	Emerging Market Equities	R	✕	✕	N	*30*

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

- All active equity managers have underperformed their benchmarks over the longer-term. In some cases this can be explained by the managers' style biases underperforming the wider marker, for example Unigestion has a low-volatility bias, which will be expected to underperform in the rising market that we have seen over the longer period
- A general lack of exposure to value stocks has benefitted the Fund over the one-year period.

EXECUTIVE SUMMARY
MANAGER INFORMATION CONTINUED

Manager	Type	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	ESG	Page
Pyrford	Active	DGF	R	✕	✕	N	*31*
Ruffer	Active	DGF	A	✕	N/A	3	*32*
JP Morgan	Active	Fund of Hedge Funds	B+	✕	✓	4	*34*
Schroder	Active	UK Property	B	✓	-	3	*37*
Partners	Active	Global Property	B+	✕	✕	4	*38*
Brunel	Active	Secured Income	N/A	N/A	N/A	-	*39*
IFM	Active	Infrastructure	B+	✓	✓	2	*40*
Brunel	Active	Infrastructure	N/A	N/A	N/A	-	*41*
Loomis Sayles	Active	Multi-Asset Credit	A	✓	N/A	3	*42*
Record Currency Management	Active	Currency Hedging	N	N/A	N/A	N	*43*

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

- 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

MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

The global economy continued to slow down even though a recession is still deemed unlikely for this year. Capital expenditure and manufacturing are weak while services are holding up and labour markets remain strong. Trade tensions between the US and China resurfaced over the quarter as the expected trade settlement did not materialize and further tariffs were levied on China instead. This had a negative impact on business confidence.

In the UK, GDP expanded by 1.8% over the year to Q1, the strongest pace of expansion since mid-2017 probably due to stockpiling ahead of the original Brexit date. CPI inflation fell to 2.0% at the end of May, and the Bank of England kept short-dated interest rates at 0.75% and offered a more dovish outlook.

Within global equity markets, the US economy grew by 3.2% over the year to Q1 but this is expected to have slowed to 2.5% over the year to Q2. The Federal Reserve's more dovish stance has calmed markets to an extent. A strong labour market and rising real wages have boosted consumption leading to an overall stable albeit slightly softer economic environment. Eurozone growth expectations have weakened with manufacturing PMIs indicating a contraction, and Japanese growth expectations have also slowed.

Emerging markets started to see a slightly more favourable environment as US monetary policy started to turn more dovish. However, GDP growth in larger countries such as Brazil, China and India continued to slow and current account balances deteriorated. The uncertainty over trade is taking a toll on the region and especially China.

Bond Market Review

Nominal yields were again down across the curve over the quarter.

The Over 15 Year Gilt Index generated a return of 2.0%, though this underperformed the broader global bond market over the quarter.

Real yields also fell across the curve over the quarter. The Over 5 Year Index-Linked Gilts Index also returned 2.0% as a result.

Credit spreads fell over the quarter as investors maintained allocations to risky assets. The sterling Non-Gilts All Stocks Index credit spread ended the quarter at c.1.2% p.a., and UK credit assets delivered a return of 2.0% over the quarter.

Currency Market Review

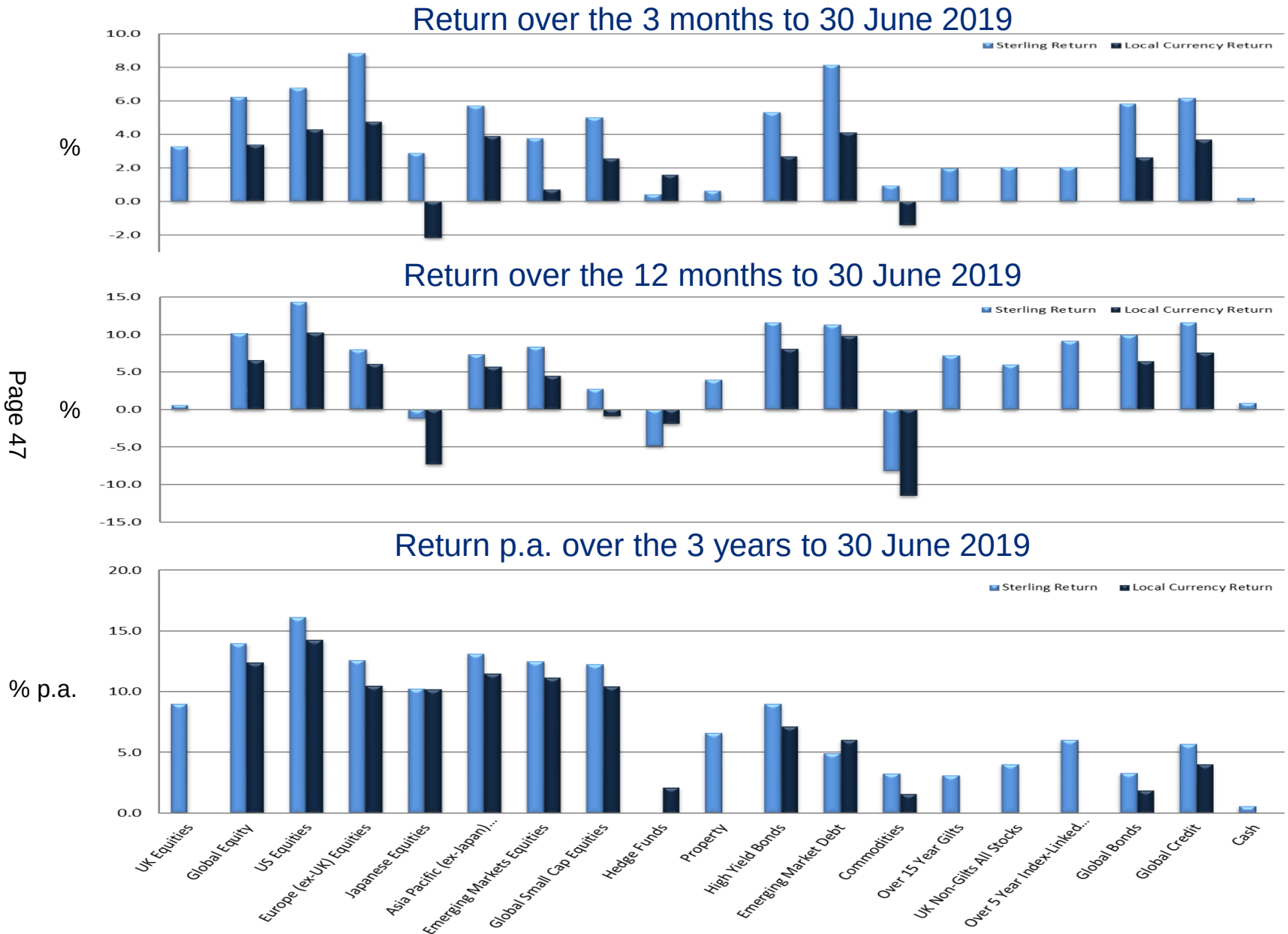
Over the second quarter of 2019, Sterling weakened against the US Dollar, the Euro and the Yen (by 2.3%, 3.7% and 4.9%, respectively).

Commodity Market Review

Commodity performance was overall negative over the quarter. Precious metals returned 8.3% as gold rallied amid inflation concerns after central banks turned dovish again. Energy was down as America's role as marginal energy producer offset renewed instability in the Middle East following attacks on oil tankers believed to have been instigated by Iran and subsequent tightening of sanctions. Industrials metals fell amid global growth fears while agricultural commodities were up.

Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE



Source: Thomson Reuters Datastream.

SECTION 3

STRATEGIC ASSUMPTIONS

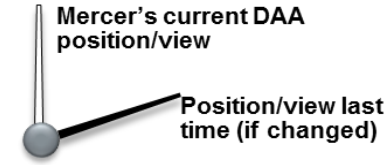
MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.05	14.2	*Remains ahead of the assumed strategic return. This fell slightly from 15.0% p.a. last quarter, as the latest quarter's return of 6.5% was slightly lower than the return of Q2 2016, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.70	12.5	*The three year return from emerging market equities has decreased from 14.5% p.a. last quarter, as the return of 3.8% over Q2 2019 was materially lower than the return for the quarter that fell out of the period (9.5%). The three year return is above the assumed strategic return.*
Diversified Growth	6.95 (Libor + 4% / RPI + 5%)	6.0 (4.5 / 8.1)	*DGFs are expected to produce an attractive return over the long term but with lower volatility than equities – this is the basis for the Libor and RPI based benchmarks. Low cash rates means benchmark has underperformed the long term expected return from equity, but recent higher inflation means RPI benchmark has outperformed. An absolute strategic return of 6.95% p.a. has been used, along with the specific manager targets for comparison. During periods of strong equity returns we would expect DGFs to underperform equities.*
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	1.90	3.1	*UK gilt returns remain above the long term strategic assumed return as yields remain low relative to historic averages. Over the last quarter, returns were positive for nominal gilts and index linked gilts as yields fell. Corporate bond returns are above the assumed strategic returns.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	2.15	6.0	
UK Corporate Bonds (BofAML Sterling Non Gilts)	3.25	4.0	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	5.10	0.0	*Hedge fund returns were flat again over the quarter and remain below long term averages and the strategic return, as they are affected by low cash rates. It should be noted that the index includes a wide variety of strategies that may have had very divergent returns.*
Property (IPD UK Monthly)	5.75	6.6	*Actual property returns continue to be ahead of the expected returns. Slowing rental growth post-Brexit has meant fundamentals have weakened and a more cautious outlook may be required. Nevertheless, property returned 0.6% over the second quarter of 2019.*
Infrastructure (S&P Global Infrastructure)	6.95	10.6	*The infrastructure three year return is above the strategic return. This performance was in part driven by currency as sterling depreciated against the US dollar and euro over the last three years. Returns of this index have been largely driven by currency moves. The 100% hedge in place for the infrastructure mandate removes the currency effect from the actual returns earned. This is also true for the global property mandate with Partners.*

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

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2019

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



Equities

Growth Fixed Income & Property (Core)

Protective Assets

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

SECTION 4

FUND VALUATIONS

FUND VALUATIONS
VALUATION BY ASSET CLASS

Asset Allocation							
Asset Class	**Start of Quarter (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**	**Target Strategic Benchmark (%)**	**Ranges (%)**	**Difference (%)**
Developed Market Equities	1,744,532	1,847,732	36.2	37.4	34.0	29 - 39	+3.4
Emerging Market Equities	228,531	237,109	4.7	4.8	6.0	3 - 9	-1.2
Diversified Growth Funds	597,717	608,926	12.4	12.3	15.0	10 - 20	-2.7
Fund of Hedge Funds	232,127	239,766	4.8	4.8	5.0	0 - 7.5	-0.2
Property	458,157	474,133	9.5	9.6	10.0	5 - 15	-0.4
Infrastructure	342,723	362,675	7.1	7.3	5.0	0 - 7.5	+2.3
Multi-Asset Credit	410,444	424,019	8.5	8.6	11.0	6 - 16	-2.4
Corporate Bonds	86,168	119,134	1.8	2.4	2.0	No set range	+0.4
LDI*	568,083	511,798	11.8	10.3	12.0	No set range	-1.7
Cash (including currency instruments)	150,553	121,101	3.1	2.4	-	0 - 5	+2.4
Total	**4,819,035**	**4,946,392**	**100.0**	**100.0**	**100.0**		**0.0**

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

- Invested assets increased over the quarter by £127m due to positive returns from overseas equities and infrastructure in particular. All of the asset classes remain within their tolerance ranges.

FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
BlackRock	Global Equities	440,339		469,102	9.1	9.5
BlackRock	Corporate Bonds	86,168	+30,000	119,134	1.8	2.4
BlackRock	LDI*	568,083	-30,000	511,798	11.8	10.3
BlackRock	Cash	71,639		75,328	1.5	1.5
Brunel	Global Low Carbon Equities	520,926		556,894	10.8	11.3
Brunel	UK Equities	187,270		193,138	3.9	3.9
Jupiter	UK Equities	194,848		200,068	4.0	4.0
Jupiter	Global Sustainable Equities	10,740		11,679	0.2	0.2
Schroder	Global Equities	390,103		416,537	8.1	8.4
Genesis	Emerging Market Equities	117,600		123,271	2.4	2.5
Unigestion	Emerging Market Equities	110,931		113,837	2.3	2.3

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

FUND VALUATIONS
VALUATION BY MANAGER CONTINUED

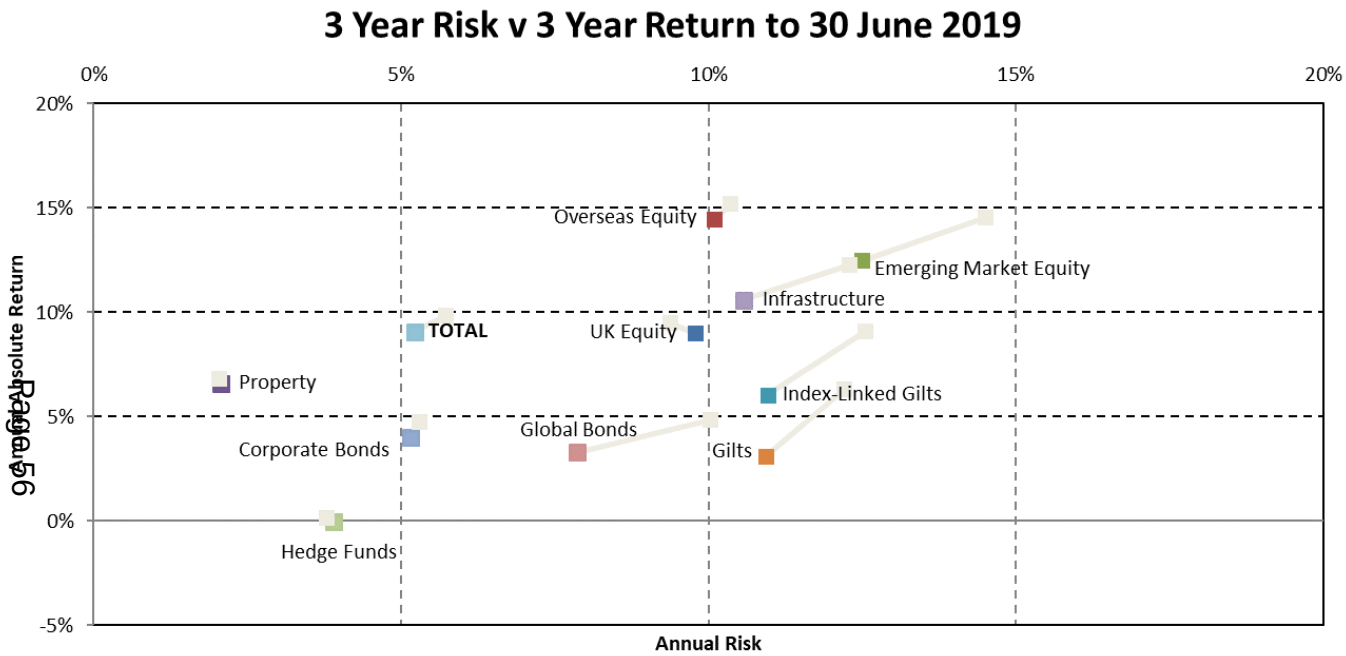
Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
Pyrford	DGF	218,582		221,023	4.5	4.5
Ruffer	DGF	379,136		387,902	7.9	7.8
JP Morgan	Fund of Hedge Funds	232,127		239,766	4.8	4.8
Schroder	UK Property	240,276		242,250	5.0	4.9
Partners	Property	201,187		214,950	4.2	4.3
Brunel	Secured Income	16,695		16,933	0.3	0.3
IFM	Infrastructure	331,571		352,075	6.9	7.1
Brunel	Infrastructure	11,152		10,600	0.2	0.2
Loomis Sayles	Multi-Asset Credit	410,444		424,019	8.5	8.6
Record Currency Management	Currency Hedging	29,631		-6,405	0.6	-0.1
Internal Cash	Cash	49,283		52,178	1.0	1.1
Total		**4,819,035**		**4,946,392**	**100.0**	**100.0**

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

SECTION 5

PERFORMANCE SUMMARY

MANAGER MONITORING
RISK RETURN ANALYSIS



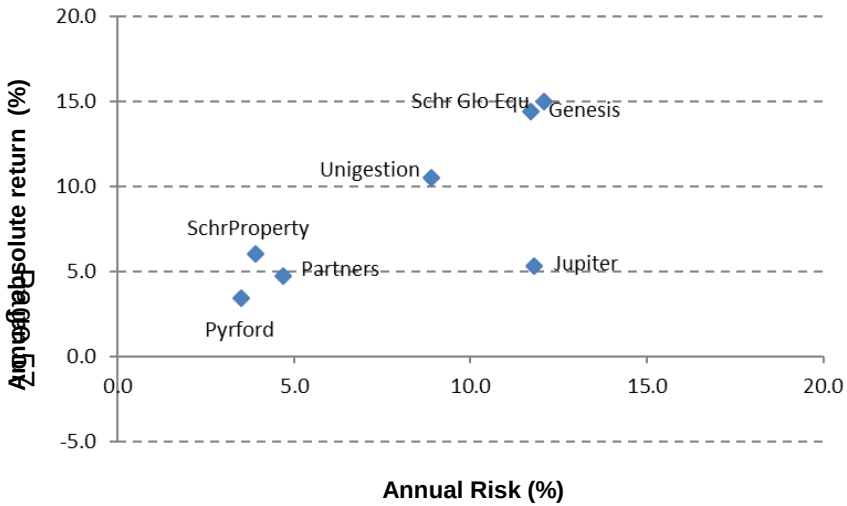
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of June 2019, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark indices and allocations from BNY Mellon). We also show the positions as at last quarter, in grey.

Comments

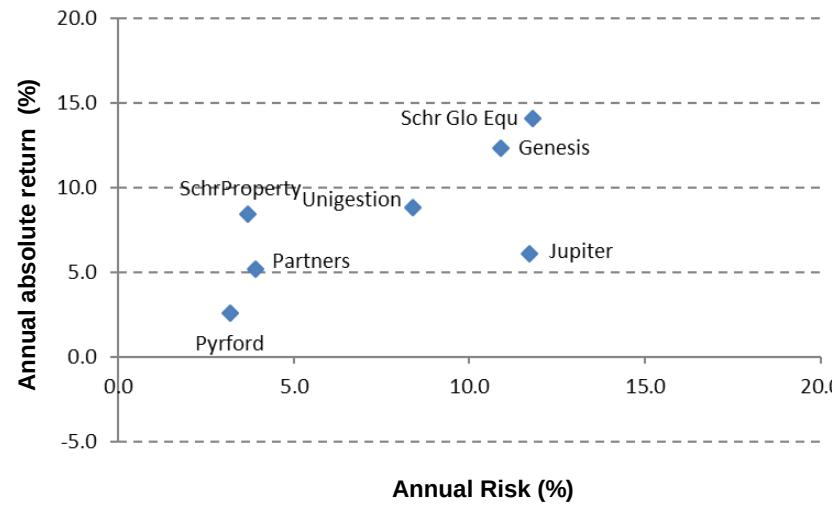
- All asset classes saw decreases in observed returns over the three-year period, with notable falls coming from emerging market equity, infrastructure and gilts.
- Associated volatilities also fell across most asset classes, with notable declines coming from the same asset classes

MANAGER MONITORING
RISK RETURN ANALYSIS

3 year Risk vs 3 year Return to 31 March 2019



3 year Risk vs 3 year Return to 30 June 2019



Comments

- The property mandates saw their three-year return increasing modestly over the quarter, while most of the equity and DGF mandates saw their three-year return fall slightly (with the exception of Jupiter).

MANAGER MONITORING
MANAGER PERFORMANCE TO 30 JUNE 2019

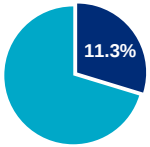
Manager/ Asset Class	3 Months			1 Year			3 Year			3 Year Performance Target (% p.a.)	3 Year Performance vs Target
	Fund (%)	B'mark (%)	Relative (%)	Fund (%)	B'mark (%)	Relative (%)	Fund (% p.a.)	B'mark (% p.a.)	Relative (% p.a.)		
BlackRock Equities	6.8	6.6	+0.1	14.4	13.7	+0.6	15.2	14.9	+0.2	-	N/A
BlackRock Corporate Bonds	2.1	2.1	0.0	8.6	8.7	-0.1	5.3	5.3	0.0	-	N/A
BlackRock LDI	0.7	0.7	0.0	8.7	8.7	0.0	6.8	6.8	0.0	-	N/A
BlackRock Cash ETF	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Brunel UK Equity	3.1	3.3	-0.2	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Brunel Passive Low Carbon Equity	6.9	6.9	0.0	9.1	9.3	-0.2	N/A	N/A	N/A	-	N/A
Jupiter UK Equity	2.6	3.3	-0.7	-1.7	0.6	-2.3	6.1	9.0	-2.7	+2	Target not met
Jupiter Global Sustainable Equity	8.6	6.3	+2.2	16.6	10.3	+5.7	N/A	N/A	N/A	+2-4	N/A
Schroder Equity	6.6	6.3	+0.3	10.2	10.3	-0.1	14.1	14.1	0.0	+4	Target not met
Genesis	4.8	3.1	+1.6	8.8	5.4	+3.2	12.3	12.9	-0.5	-	Target not met
Unigestion	2.5	3.0	-0.5	4.5	5.0	-0.5	8.8	12.5	-3.3	+2-4	Target not met
Pyrford	1.0	2.8	-1.8	2.7	8.1	-5.0	2.6	8.4	-5.4	-	Target not met
Ruffer	2.1	1.4	+0.7	-1.5	5.9	-7.0	N/A	N/A	N/A	-	N/A
JP Morgan	2.0	1.5	+0.5	3.7	5.6	-1.7	5.0	4.7	+0.4	-	Target met
Schroder Property	0.7	0.6	+0.1	3.4	3.4	0.0	6.4	6.3	+0.1	+1	Target not met
Partners Property*	1.6	2.5	-0.9	4.2	10.0	-5.3	5.2	10.0	-4.4	-	Target not met
Brunel Secured Income	1.4	0.8	+0.6	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
IFM	3.7	1.5	+2.1	15.1	5.3	+9.3	14.1	4.3	+9.4	-	N/A
Brunel Infrastructure	6.5	0.8	+5.7	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Loomis Sayles	3.2	1.2	+2.0	5.8	4.9	+0.9	N/A	N/A	N/A	-	N/A

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

* Performance to 31 March 2019 as this is the latest date that this is available to.

SECTION 6

MANAGER PERFORMANCE



BRUNEL – PASSIVE GLOBAL LOW CARBON EQUITIES
£556.9M END VALUE *(£520.9M START VALUE)*

Item Monitored	Outcome
Mercer Rating	N/A
Performance Objective *In line with the benchmark*	Too early to determine

Manager Research and Developments

- Mandate was initiated in July 2018. LGIM is the underlying manager.
- The fund returned 6.9% over Q2 2019, broadly in line with its benchmark.
- The fund marginally outperformed the wider market capitalisation index, the MSCI World, which generated a return of 6.7% over Q2 2019.

Reason for investment

To provide asset growth as part of a diversified equity portfolio and to provide a decarbonised equity portfolio.

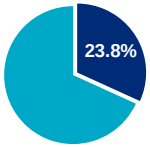
Reason for manager

- Investment made via the Brunel pool

Sector Allocation

Financials	16.6
Information Technology	16.3
Health Care	12.6
Industrials	12.6
Consumer Discretionary	10.7
Consumer Staples	8.7
Communication Services	8.5
Energy	4.1
Materials	3.7
Other	6.1

As at 30 June 2019



BLACKROCK – PASSIVE MULTI-ASSET & LDI (POOLED EQUITIES & QIF)

£1,175.4M END VALUE *(£1,166.2M START VALUE)* *(INC. EQUITY PROTECTION STRATEGY)*

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

Manager Research and Developments

- Equities returned 6.8% over Q2, performing broadly in line with their benchmarks as expected, whilst returns over one and three year periods were within the tracking error ranges. The LDI portfolio returned 0.7%. The LDI benchmark return has been assumed to be equal to the LDI fund return.
- The corporate bond index fund allocation was switched to a bespoke Buy and Maintain Credit strategy within the QIF during the quarter (and topped up by £30m of assets already in the QIF). The Fund's Corporate Bond allocation delivered a return of 2.1% over Q2. The benchmark return has been assumed to be equal to the fund return over the quarter.

Reason for investment

To provide asset growth as part of a diversified portfolio

Reason for manager

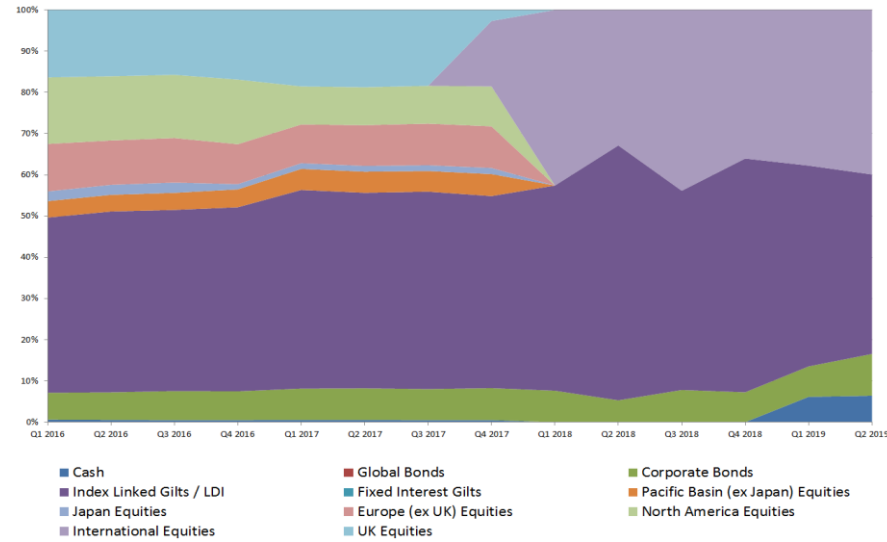
- To provide low cost market exposure across multi asset classes
- Provide efficient way for rebalancing between bonds and equities within a single portfolio

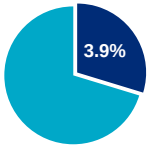
Performance

	Quarter (%)		1-Year (%)		3-Year (% p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Equities	6.8	6.6	14.4	13.7	15.2	14.9
Corporate Bonds*	2.1	2.1	8.6	8.7	5.3	5.3
LDI**	0.7	0.7	8.7	8.7	6.8	6.8
Cash	N/A	N/A	N/A	N/A	N/A	N/A

*Corporate Bond fund and benchmark reflects legacy holdings prior to 31 March 2019 and Buy and Maitain Credut holdings thereafter.
** LDI performance reflects legacy index-linked gilt holidings prior to 30 June 2017 and QIF holdings thereafter. Equity protection strategy performance is not reflected.

Asset Allocation





BRUNEL – ACTIVE UK EQUITIES
£193.1M END VALUE *(£187.3M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	N/A	Baillie Gifford Invesco Aberdeen Standard
Performance Objective *In line with the benchmark*		Too early to determine

Manager Research and Developments

- Mandate was initiated in November 2018. Aberdeen Standard, Baillie Gifford and Invesco are the underlying managers.

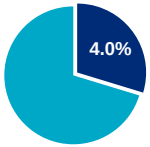
Page 62

Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

- Investment made via the Brunel pool



JUPITER ASSET MANAGEMENT – UK EQUITIES (SRI) (SEGREGATED)
£200.1M END VALUE *(£194.8M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B (no change over period under review). ESG2
Performance Objective *Benchmark +2% p.a.*	Underperformed benchmark by 2.9% p.a. over three years
Tracking error was 3.9% p.a. – *source: Jupiter*	Number of stocks: 54

Manager Research and Developments

- Jupiter underperformed its benchmark over the quarter by 0.7%.
- RELX, Sage and Informa impressed the market with outlooks, while RPS and Bunzl disappointed with lower growth grates. The strategy benefited from not holding Imperial, though missed out from not holding Shell.
- Jupiter underperformed the benchmark by 2.3% over the year and by 2.7% p.a. over the three years to 30 June 2019.
- Stock selection continues to be a key factor to underperformance, which raises questions about Jupiter's capabilities in this respect.
- Lack of exposure to oil and gas companies have impacted returns at different stages over the year, however this has been less pronounced than in previous periods given that the oil price fell overall over the year

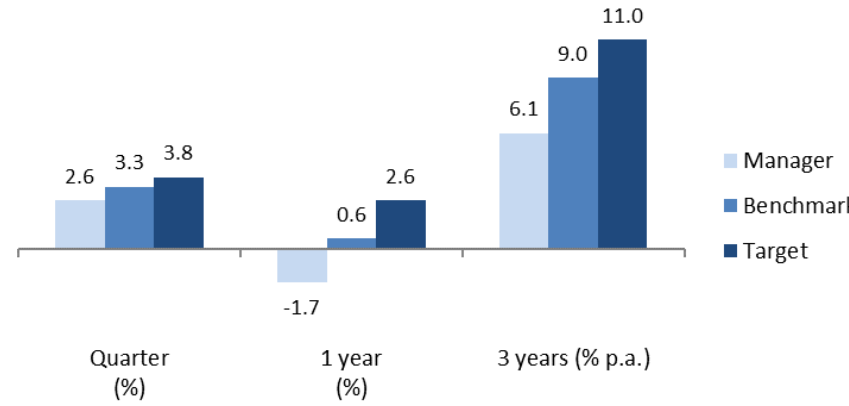
Reason for investment

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

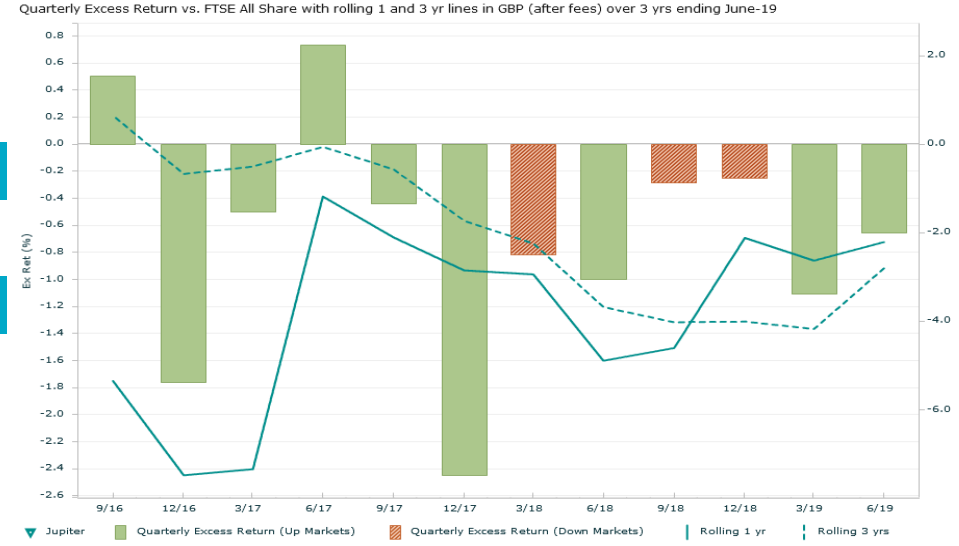
Reason for manager

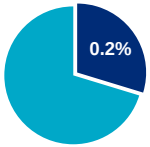
- Clear and robust approach to evaluating SRI factors within the investment process
- Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities
- Corporate commitment to SRI investment approach within a more mainstream investment team

Performance



Rolling relative returns





JUPITER ASSET MANAGEMENT – GLOBAL SUSTAINABLE EQUITIES (POOLED)
£11.7M END VALUE *(£10.7M START VALUE)*

Item Monitored	Outcome
Mercer Rating	N (no change over period under review)
Performance Objective *Benchmark +2-4% p.a.*	Too early to determine

Manager Research and Developments

- Mandate was initiated in June 2018.
- The fund returned 8.6% over Q2 2019, outperforming the benchmark return of 6.3%.

Reason for investment

Modest initial allocation to provide an indication of the typical performance of sustainable equities.

Reason for manager

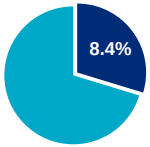
- Preference for global sustainability approach rather than negative screen approach due to integration of ESG factors into investment process
- Global approach provides access to a large universe of stocks to select from
- Clear investment philosophy and portfolio construction reflects team's highest conviction ideas

Sector Allocation

Industrials[1]	34.6%
Financials	21.1%
Consumer Goods	10.2%
Health Care	9.1%
Technology	6.4%
Basic Materials	5.3%
Utilities	3.5%
Consumer Services	3.2%
Telecommunications	1.2%
	94.5%
Cash	5.5%
Total	100.0%

[1]*Includes general electronic equipment, medical equipment and consumer financial stocks (16.22%).*

Source: Jupiter.
As at 30 June 2019.



SCHRODER – GLOBAL EQUITY PORTFOLIO (SEGREGATED)
£416.5M END VALUE *(£390.1M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review). ESG2
Performance Objective *Benchmark +4% p.a.*	Performed in line with the benchmark over three years.

Three year tracking error was 1.3% p.a. – *source: Mercer*

Manager Research and Developments

- The fund outperformed the benchmark by 0.3% over the quarter, but underperformed by 0.1% over the year. It has performed in line with the benchmark over the three years to 30 June 2019.
- Positions in consumer discretionary and healthcare were primary contributors over the quarter, while industrial stocks detracted. By region, performance of North American names lagged the most, while European and Emerging Markets holdings were stronger.
- Schneider Electric and Adidas were the largest stock specific contributors over the quarter, with the largest detractors being Phillip Morris and Bunzl.

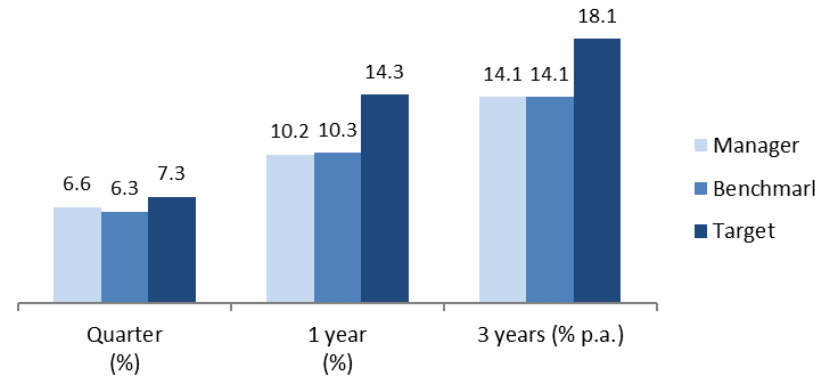
Reason for investment

To provide asset growth as part of a diversified equity portfolio

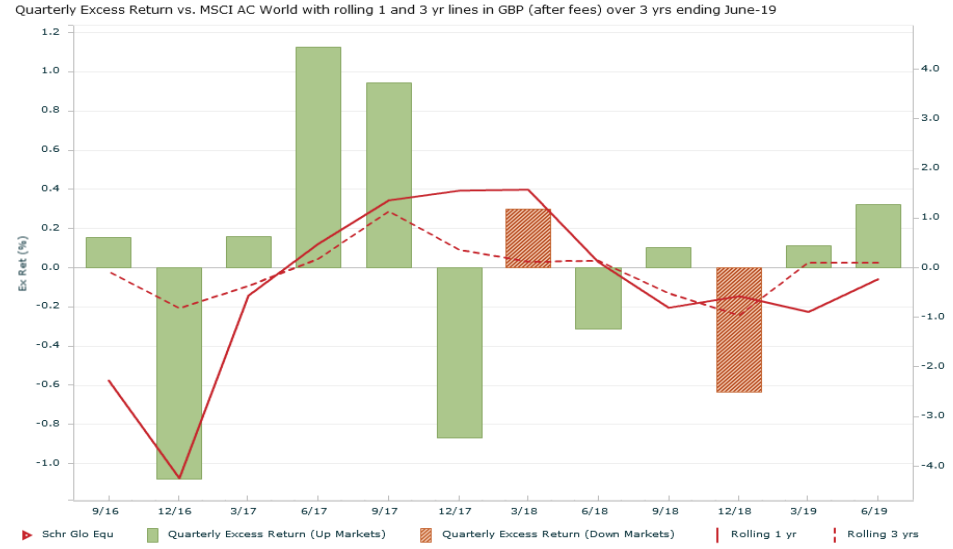
Reason for manager

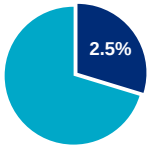
- Clear philosophy and approach
- Long term philosophy aligned with Fund's goals, commitment to incorporating ESG principles throughout the investment process
- Evidence of ability to achieve the Fund's performance target

Performance



Rolling relative returns





GENESIS ASSET MANAGERS – EMERGING MARKET EQUITIES (POOLED)
£123.3M END VALUE *(£117.6M START VALUE)*

Item Monitored	Outcome
Mercer Rating	A (no change over period under review). ESG3
Performance Objective *Benchmark*	Underperformed benchmark by 0.5% p.a. over three years
Three year tracking error was 4.1% p.a. – *source: Genesis*	Number of stocks: 109

Manager Research and Developments

- The fund has outperformed by 1.6% over the quarter and by 3.2% over the year, but underperformed by 0.5% p.a. over the three years to 30 June 2019.
- Regionally, China was the largest contributor to returns over the quarter, whilst South Korea was the largest detractor. The largest stock specific contributors were Sberbank and Wuliangye Yibin, from Russia and China respectively, whilst the largest detractor was the Russian company Gazprom. In terms of sectors, financials were the largest contributor, whilst Communication Services were the largest detractor.

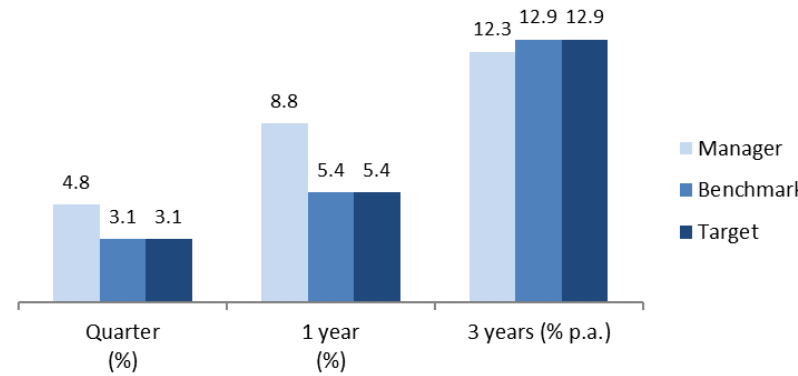
Reason for investment

To provide asset growth as part of a diversified equity portfolio

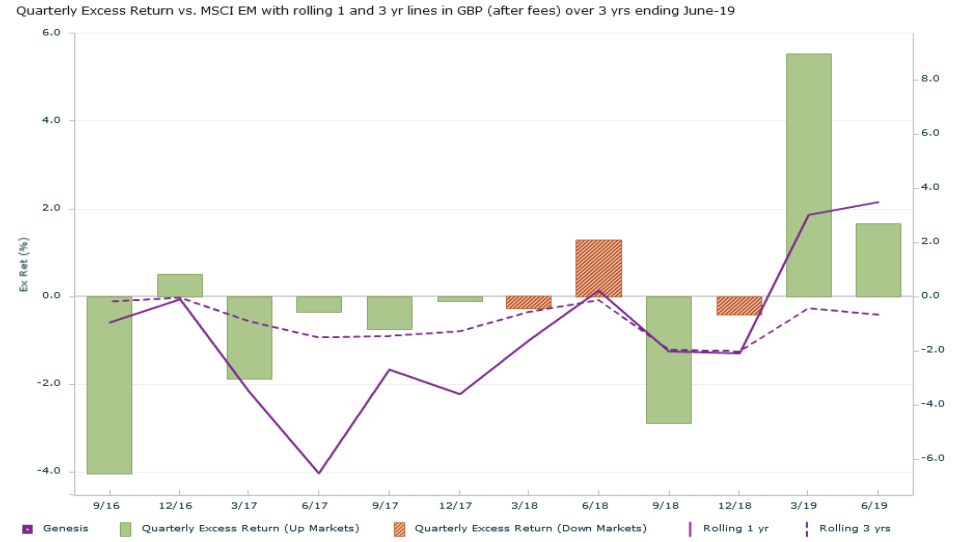
Reason for manager

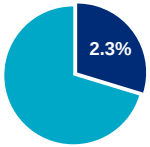
- Long term investment approach which takes advantage of evolving growth opportunities
- Niche and focussed expertise in emerging markets
- Partnership structure aligned to delivering performance rather than growing assets under management

Performance



Rolling relative returns





UNIGESTION – EMERGING MARKET EQUITIES (POOLED – SUB-FUND)
£113.8M END VALUE *(£110.9M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *Benchmark +2-4% p.a.*	Underperformed benchmark by 3.3% p.a. over three years
Three year tracking error was 7.0% p.a. – *source: Unigestion*	Number of stocks: 86

Manager Research and Developments

- The fund underperformed by 0.5% over the quarter, and by the same amount over the year. It has underperformed over the three years to 30 June 2019 by 3.3%.
- The fund outperformed in May, but this was outweighed by underperformance in April and June in particular. Relative performance in June primarily stemmed from underweight allocations to Technology and Retailing industries, and an overweight position in Software. By country, the fund could have also benefitted from a greater weight to China, and less exposure to India.
- Volatility since inception is 13.0%, lower than the index (16.2%) and consistent with the strategy's objectives (and bias to quality and large- or mega-cap stocks).
- The fund uses a defensive, high quality, low volatility approach, which should outperform in times of market volatility, but underperform in upward markets. In this respect, performance was consistent with its objectives, as it was last quarter.

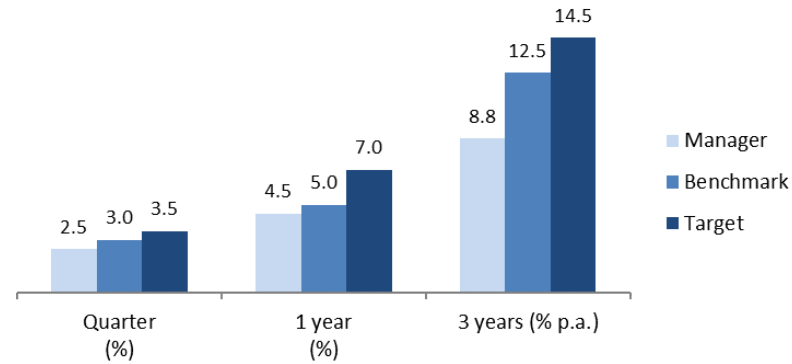
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

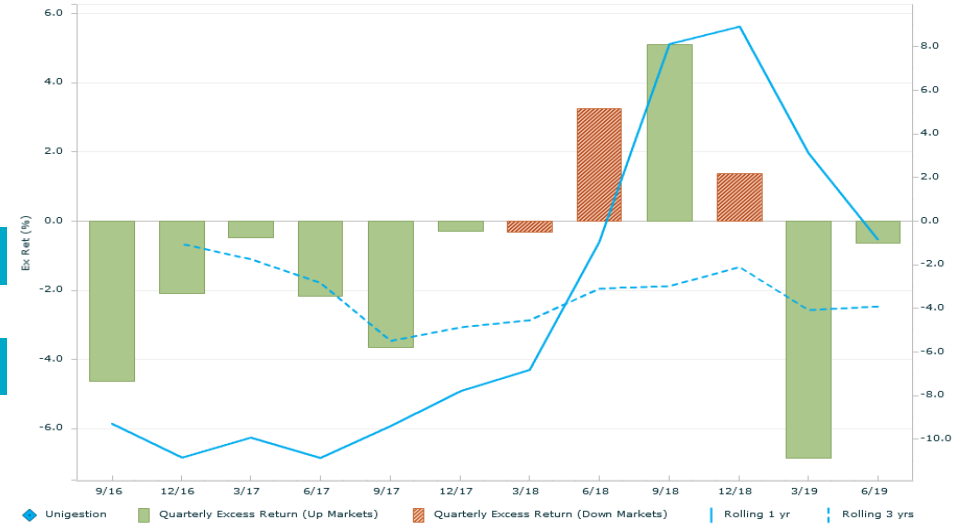
- Risk-based active management approach
- Aim for lower volatility than the MSCI Emerging Markets Index
- Combine fundamental and quantitative analysis

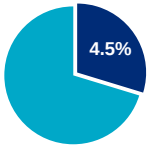
Performance



Rolling relative returns

Quarterly Excess Return vs. MSCI EM with rolling 1 and 3 yr lines in GBP (after fees) over 3 yrs ending June-19





PYRFORD – DGF (POOLED)
£221.0M END VALUE *(£218.6M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *RPI +5% p.a.*	Underperformed objective by 5.4% p.a. over three years

Manager Research and Developments

- The fund underperformed its objective (RPI + 5% p.a.) over the quarter by 1.8%, and has also underperformed by 5.0% over the year and by 5.4% p.a. over three years.
- They key driver of positive absolute returns over the quarter came from the portfolio's exposure to overseas equities, with the allocation posting a return of 7.6% over the quarter.
- The bond portfolio posted marginally positive returns over the period and the overall effect of currency hedging was negative, as sterling fell against all currencies hedged within the portfolio , cancelling out gains from the overseas bonds allocation.
- Strategic allocation of the portfolio remained unchanged over the quarter.
- 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.

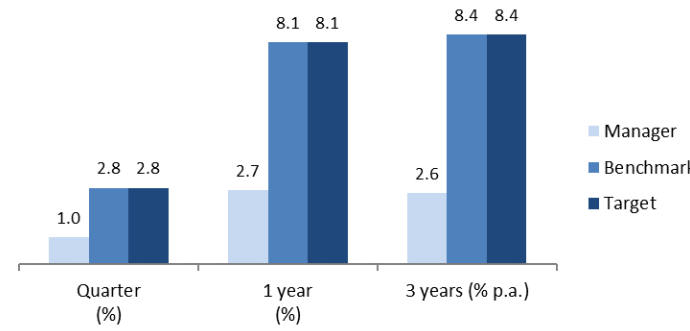
Reason for investment

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

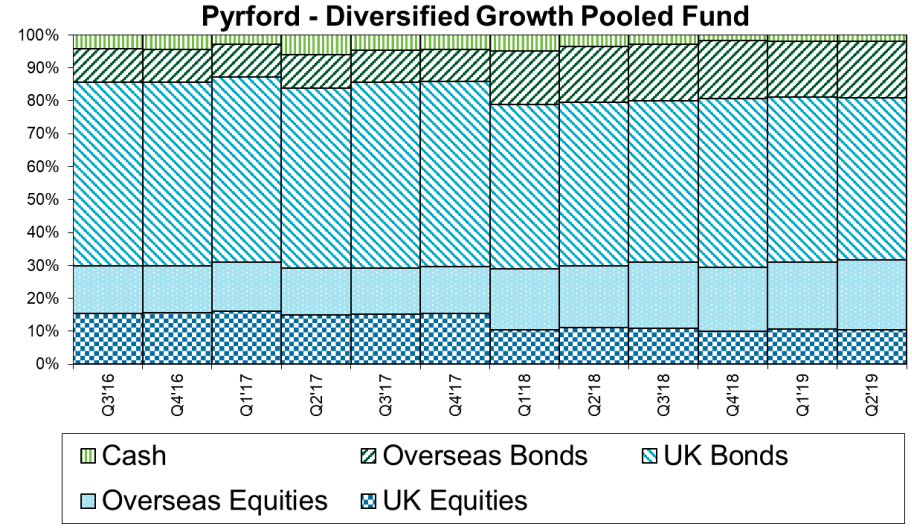
Reason for manager

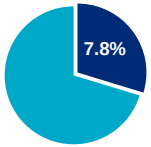
- Asset allocation skill between equities, bonds and cash
- Fundamental approach to stock selection

Performance



Asset Allocation





RUFFER – DGF (POOLED)
£387.9M END VALUE *(£379.1M START VALUE)*

Item Monitored	Outcome
Mercer Rating	A (no change over period under review). ESG3
Performance Objective *Cash +5% p.a.*	Underperformed objective by 7.4% p.a. over the year

Manager Research and Developments

- Ruffer delivered a performance of 2.1% over the quarter against a benchmark of 1.4%, and a performance of -1.5% over the year against an objective of 5.9%.
- One factor that helped performance was the exposure to gold equities, with bullion regaining its 'safe haven' status. At a stock-level, the specific equity holdings of Walt Disney also saw a surge in response to plans for a direct streaming service.
- Ruffer continues to be defensively positioned with 61% of the portfolio allocated to defensive assets (index-linked gilts, gold and gold equities, cash and illiquid strategies and options).
- Ruffer's primary focus remains capital preservation and to not lose money in any twelve-month period.
- Despite this objective, the strategy generated a negative return over the one year period, which can be partly attributed to the negative contribution from protection strategies. Ruffer's UK equity positioning also hurt performance on the back of the decline in domestic confidence amidst ongoing Brexit uncertainty.

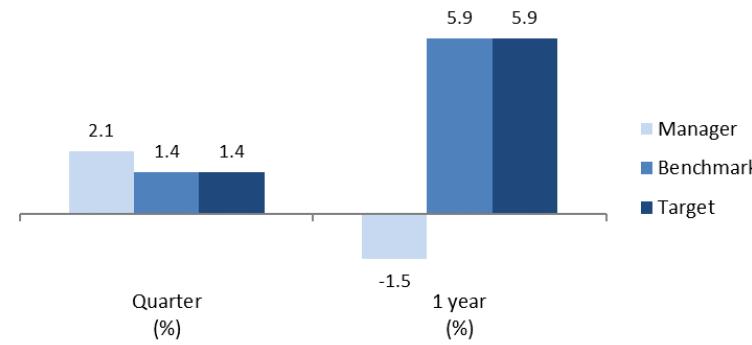
Reason for investment

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

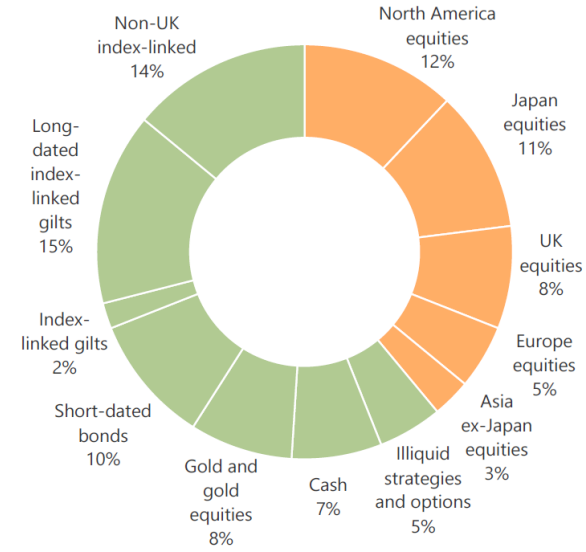
Reason for manager

- Experience and insights of the investment team
- Focus on capital preservation
- Dynamic allocation between risk and defensive assets depending on market conditions

Performance



Sector Allocation

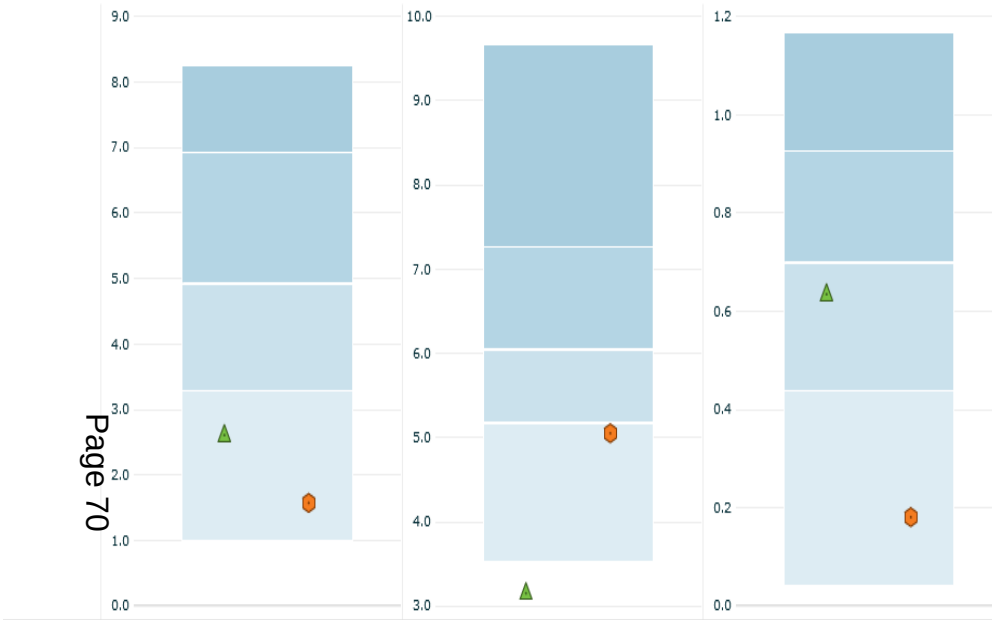


Source: Ruffer.
As at 30 June 2019.

DGF MANDATES

Performance characteristics vs. BofAML LIBOR 6 month average UK in GBP (after fees) over 3 yrs ending June-19

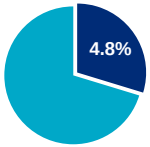
Comparison with the International Multi-asset GBP (Net) universe (Actual Ranking) (quarterly calculations)



	Ret (%pa)	Std Dev (%pa)	IR
PyrfordD...	2.6 *(44)*	3.2 *(53)*	0.6 *(32)*
RufferDGF	1.6 *(47)*	5.1 *(43)*	0.2 *(49)*
95th Percentile	8.3	9.7	1.2
Upper Quartile	6.9	7.3	0.9
Median	4.9	6.1	0.7
Lower Quartile	3.3	5.2	0.4
5th Percentile	1.0	3.5	0.0
Number	54	54	54

Commentary

- Over the three years to 30 June 2019, Pyrford outperformed the Ruffer pooled fund by 1.0% p.a.
- Both Pyrford and Ruffer were in the lower quartile of the DGF universe for performance, though it should be noted that this universe is very diverse in styles.
- This performance was achieved with a volatility of 3.2% p.a. by Pyrford, while Ruffer had a volatility of 5.1% p.a.
- Pyrford was in the bottom 5th percentile with this level of volatility, while Ruffer was less volatile than most managers in the universe.
- The information ratio (a measure of risk adjusted returns) for Pyrford was just below the medium of the universe, whereas for Ruffer was in the lower quartile.
- 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
£239.8M END VALUE *(£232.1M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review). ESG4
Performance Objective *Cash +3% p.a.*	Below target over three years (in USD)

Item	
Number of funds	27 (as at 30 June 2019)

Strategy	Contribution to Performance over the Quarter in USD (%)
Relative Value	0.73
Opportunistic/Macro	0.76
Long/Short Equities	0.53
Merger Arbitrage/Event Driven	0.18
Credit	0.02
Total	**2.0 (including cash and fees)**

In USD terms, the fund return was 2.0% over Q2 (above benchmark).

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

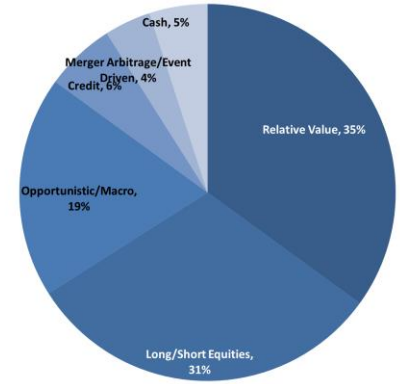
Reason for manager

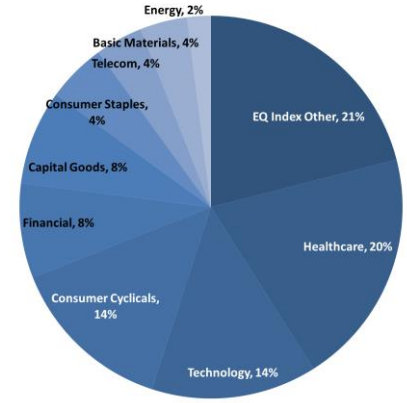
- Niche market neutral investment strategy
- Established team with strong track record
- Complemented other funds in the portfolio

Performance (GBP, JP Morgan return converted from USD)

Last Quarter	4.4%	Target	1.0%
Last Year	7.6%	Target	3.8%
Last 3 Years (p.a.)	6.7%	Target	6.7%

Portfolio Composition and Equity Sector Allocation

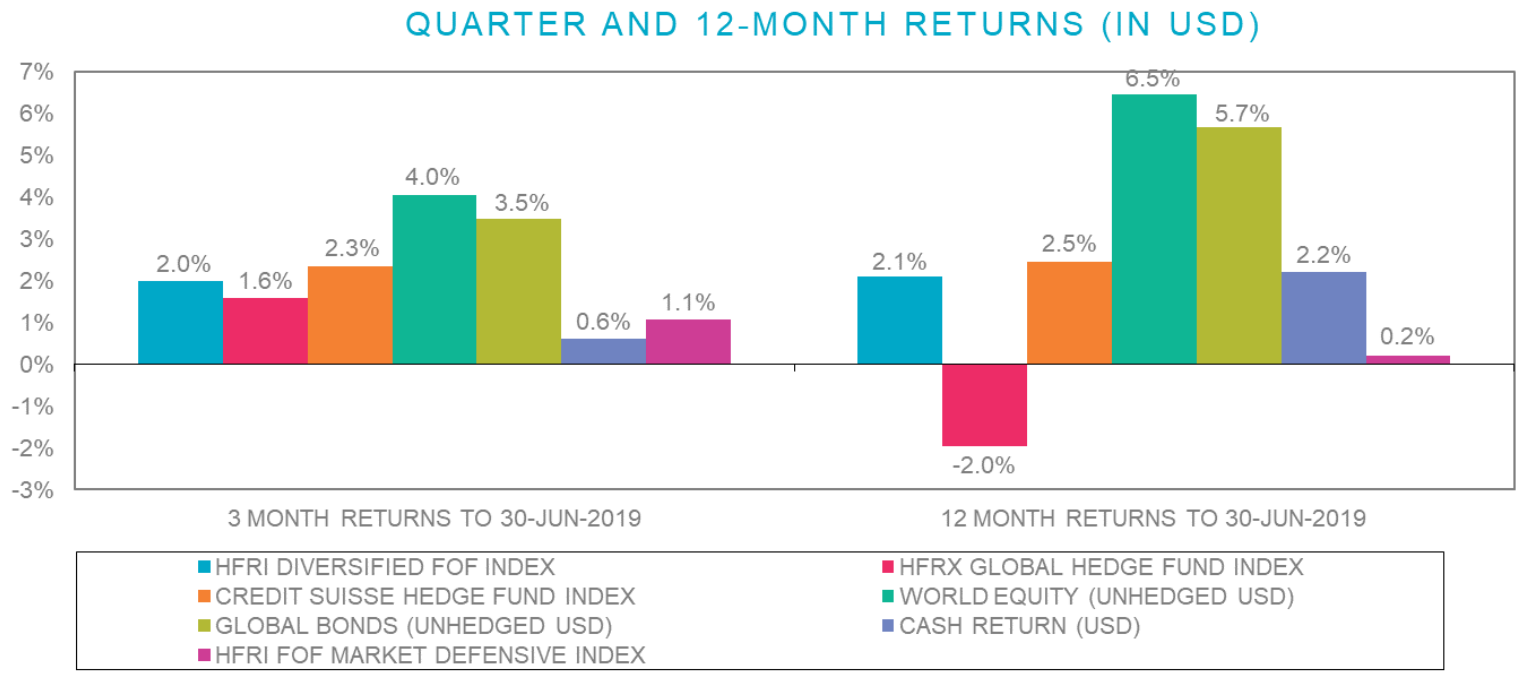




Source: JP Morgan.
As at 30 June 2019.

HEDGE FUND COMMENTARY – Q2 2019

- Hedge funds added to Q1 performance and generated alpha during the Q2 amid a backdrop of rallying risk assets and a more dovish monetary environment that led to a decline in global yields. Nearly all strategies posted positive returns with limited market sensitivity. While hedge funds trailed market indices on an absolute basis, they generated strong results on a risk-adjusted basis across all major strategy types.
- The market environment continues to face a backdrop of slowing global economic growth, historically low bond yields, and a flattening/inverting yield curve environment in which government bond term premia are near 60-year lows. Alternative diversifiers to fixed income such as hedge funds continue to remain attractive, and the opportunity set for hedge fund alpha generation remains robust.



Returns are in USD. Source: Source: Credit Suisse Hedge Index LLC, Thomas Reuters Datastream and Federal Reserve.

HEDGE FUND COMMENTARY – Q2 2019

Relative Value (35%)

- HFRI Relative Value returned +1.5% in Q2 2019.
- Gains in relative value were seen across nearly all sub-strategies, including interest-rate, volatility, credit, and convertible arbitrage strategies.
- The tension of strong employment data in the U.S., low inflation, and slowing global economic growth have created increased interest rate uncertainty—this has led to higher implied volatilities and improved trading opportunities for managers.
- Investment Grade and High Yield cash instruments have cheapened versus derivatives, increasing the opportunity set for credit relative value and convertible arbitrage.

Long/Short Equities (31%)

- HFRI Equity Hedge and Equity Market Neutral ("EMN") strategies earned +1.8% and -0.3%, respectively, in Q2 2019.
- Equity strategies saw positive performance in Q2, benefitting from a continued improved alpha-generating environment. Market dispersion was favourable from both a sub-strategy and single stock perspective, creating opportunities to add value on both long and short positions. Higher-net strategies unsurprisingly outperformed. Funds with long exposures to energy/healthcare sectors as well as international and emerging markets tended to fare worse, while those with long large cap, US-biased, growth-oriented, and low-volatility exposures tended to fare best.
- The robust rebound year-to-date has been similar to the rebound that proceeded a de-leveraging event in early 2016—in the case of 2016, first-half losses were moderated in the second half, followed by a very strong 2017.

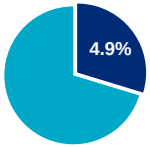
Opportunistic / Macro (19%)

- HFRI Macro: Systematic and Discretionary returned +3.7% and +2.1% respectively in Q2 2019.
- Both discretionary and systematic macro strategies posted some of the strongest gains across hedge funds during the quarter, benefitting from trending equities and rate/currency positioning, while commodity-oriented macro strategies were hurt by the collapse in global commodity prices. While broad CTA indices made money during the quarter, there continued to be wide strategy dispersion.
- Recent spikes in equity (VIX) and interest rate (MOVE) volatility have created opportunities for macro strategies. Volatility has picked up modestly but remains low relative to history. Further concerns about global economic headwinds or geopolitical tensions will continue to fuel the opportunity set for macro managers.

Merger Arbitrage / Event Driven (4%)

- HFRI Distressed and Merger Arbitrage returned +1.3% and +0.7% respectively in Q2 2019.
- Event-driven strategies posted good results in Q2. Directional and equity-oriented strategies enjoyed strong performance from positive market returns.
- Merger arbitrage strategies posted only modest gains, as continued strong deal volume was met with spread widening in volatile sectors (such as healthcare and technology) amid trade tension jitters.
- Stressed and distressed strategies benefitted from modestly tightening spreads yet added significant alpha over the quarter—these were driven by gains in large, idiosyncratic debt positions (PG&E, Puerto Rico) and post-reorg equity (Caesars), while funds with concentrated exposures to energy credits tended to suppress returns.

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



SCHRODER – UK PROPERTY FUND OF FUNDS
£242.3M END VALUE *(£240.3M START VALUE)*

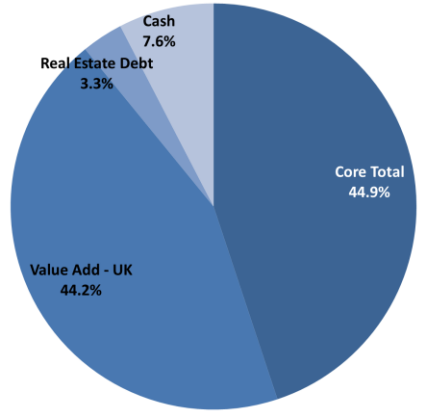
Item Monitored	Outcome
Mercer Rating	B (no change over period under review). ESG3
Performance Objective *Benchmark +1% p.a.*	Underperformed benchmark over five years

Manager Research and Developments

- The fund outperformed the benchmark over the quarter, with the Industrial Property Investment Fund (IPIF) being the strongest contributor to performance.
- Over the five year period, the fund underperformed its benchmark by 0.2%. Value add strategies continue to be the largest contributor to returns, whilst core funds and cash have diluted returns.
- There were no transactions over the quarter, in light of the expected transition of the management of the mandate to Brunel.

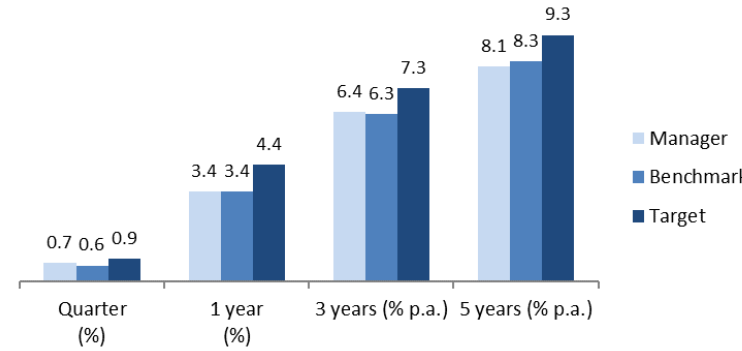
Manager and Investment type splits

Top 5 Holdings	Proportion of Total Fund (%)
Industrial Property Investment Fund	15.9
Metro Property Unit Trust	9.7
Hermes Property Unit Trust	9.5
Schroder Real Estate Income Fund	8.9
BlackRock UK Property Fund	8.9

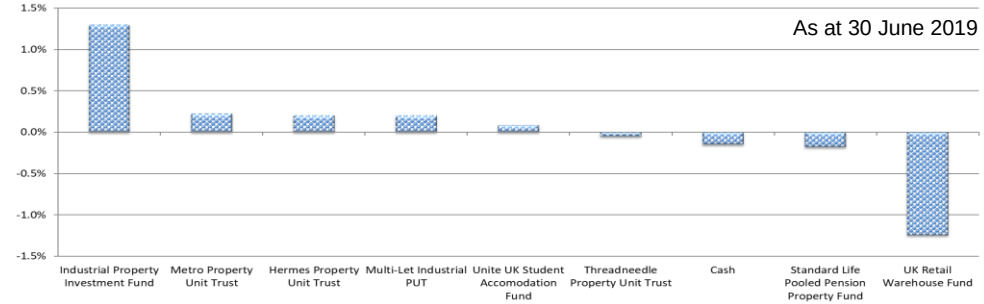


As at 30 June 2019

Performance



Top 5 Contributing and Detracting Funds over 12 Months

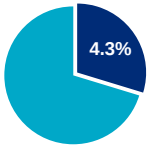


Reason for investment

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



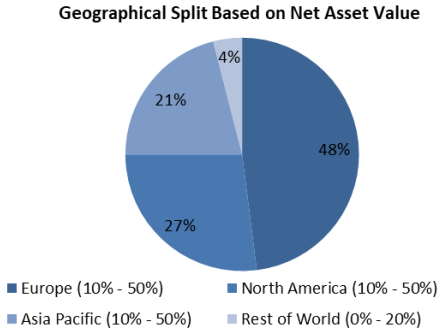
PARTNERS – OVERSEAS PROPERTY
£215.0M END VALUE *(£201.2M START VALUE)*

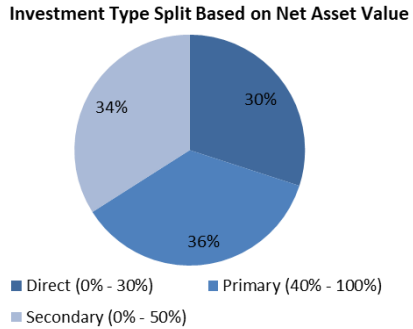
Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review). ESG4
Performance Objective *IRR of 10% p.a.*	IRR since inception to 31 March 2019 at 7.0% p.a. (in local currency) is below target of 10% p.a.

Manager Research and Developments (Q1 2019)

- The portfolio delivered a net return of 1.7% over Q1 2019 for USD programmes in local currency, and 1.6% 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, such as the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 31 March 2019 at 7.0% p.a. (in local currency) is below their target of 10% p.a.; over the three years to 31 March 2019 IRR was 5.2% p.a. (in local currency terms).
- Over Q4, the allocation to Asia Pacific increased slightly (from 20% to 21%), while Europe and North American holdings both decreased by 1%. 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 30 March 2019





Portfolio update to 31 March 2019

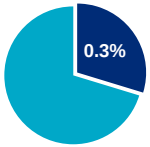
Partners Fund	Total Drawn Down (£m)	Total Distributions (£m)	Net Asset Value (£m)	Since Inception Net IRR (local currency)
Global Real Estate 2008	30.98	31.31	7.37	4.8
Real Estate Secondary 2009	19.62	19.26	11.37	9.0
Asia Pacific and Emerging Market Real Estate 2009	17.68	15.69	5.96	2.1
Distressed US Real Estate 2009	14.08	18.95	2.90	8.3
Global Real Estate 2011	25.09	24.79	12.82	8.8
Direct Real Estate 2011	11.43	11.05	6.16	6.3
Real Estate Secondary 2013	11.71	8.22	11.34	16.9
Global Real Estate 2013	97.65	8.24	116.59	7.7
Real Estate Income 2014	21.79	5.42	20.61	3.7
Asia Pacific Real Estate 2016	8.96	2.70	8.86	13.4
Total	**258.99**	**145.65**	**204.00**	**7.0**

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



BRUNEL – SECURED INCOME
£16.9M END VALUE *(£16.7M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	N/A	Aberdeen Standard
Performance Objective *In line with the benchmark*		Too early to determine

Manager Research and Developments

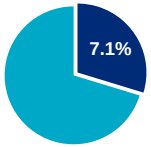
- Mandate was initiated in January 2019. Aberdeen Standard is the underlying manager, although more managers will be added over time.
- The strategy generated a return of 1.4% over Q2 2019, outperforming the benchmark return of 0.8%.

Reason for investment

To provide long-term income as part of a diversified portfolio

Reason for manager

- Investment made via the Brunel pool



IFM – INFRASTRUCTURE (POOLED)
£352.1M END VALUE *(£331.6M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	●	B+ (no change over period under review). ESG2
Performance Objective *Cash +2.5% p.a.*	●	Outperformed objective by 9.2% over the year (in USD)

Item

Number of holdings	16

Manager Research and Developments

- Over the quarter the fund returned 3.7% in US Dollar terms, against Avon's performance objective of 1.5% (cash + 2.5% p.a.).
- The mandate has now been in place for over three years since inception on 1 June 2016. Accordingly, the three-years performance has been 14.1% p.a.
- During the quarter, the IFM completed the acquisition of a 30% equity interest in Deepwater Container Terminal Gdańsk ("DCT).
- The pooled fund also received income of $82.9m of distributions from five assets.

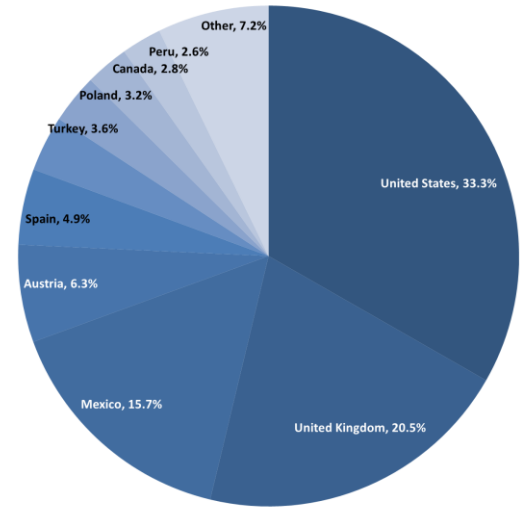
Reason for investment

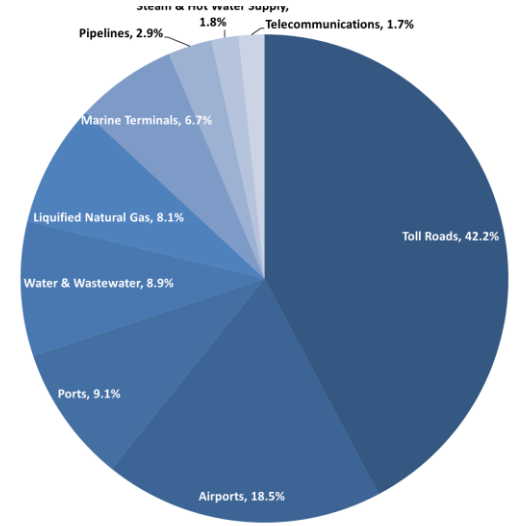
To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

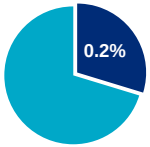
- Invests in core infrastructure assets in countries with established regulatory environments and strong rule-of-law
- Seeks to invest in assets with strong market positions, predictable regulatory environments, high barriers to entry, limited demand elasticity and long lives

Geographical and Sub-Sector Allocation





Source: IFM.
As at 30 June 2019.



BRUNEL – INFRASTRUCTURE
£10.6M END VALUE *(£11.1M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	N/A	Mirova NPR
Performance Objective *In line with the benchmark*		Too early to determine

Manager Research and Developments

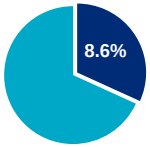
- Mandate was initiated in January 2019. NTR and Mirova are the underlying managers.
- The fund's performance rebounded from a negative one in Q1, to deliver a return of 6.5% over Q2 19.

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Investment made via the Brunel pool



LOOMIS SAYLES – MULTI-ASSET CREDIT (POOLED)
£424.0M END VALUE *(£410.4M START VALUE)*

Item Monitored	Outcome
Mercer Rating	A (no change over period under review). ESG3
Performance Objective *Cash +4% p.a.*	Too early to determine

Manager Research and Developments

- Loomis delivered a performance of 3.2% over the quarter, against an objective of 1.2%. Over the year, the fund returned 5.8%, outperforming its objective.
- Securitised assets bolstered performance over the quarter with exposure to asset-backed securities in particular having a positive impact.
- Global high-yield corporate bonds also contributed as spreads tightened during the quarter. High-yield markets in generally benefitted from the continued equity market strength through the second quarter. Global investment grade corporate bonds outperformed treasuries again during the quarter as spreads tightened.
- Within the loans allocation, returns were driven from individual industrial, consumer non-cyclical, and technology issues.
- The overall duration of the portfolio remained at 4.9 years.

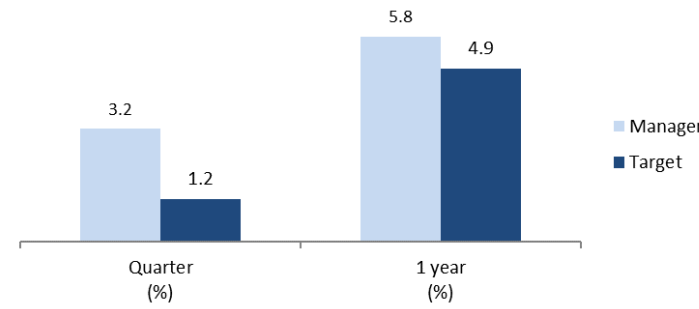
Reason for investment

To be a diversified return seeker within the Fund's fixed income portfolio

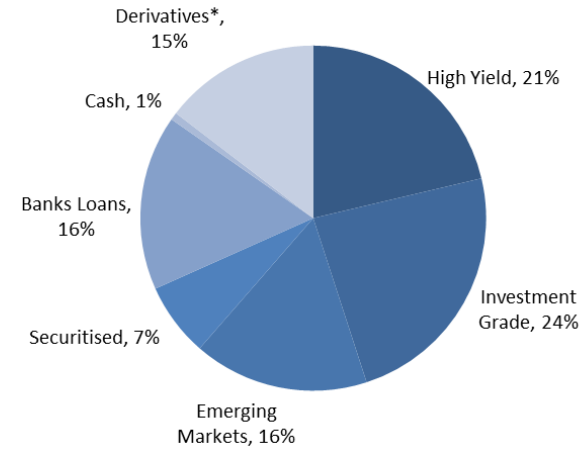
Reason for manager

- Core low to moderate risk Multi-Asset Credit option
- Depth and breadth of fundamental credit analysis

Performance

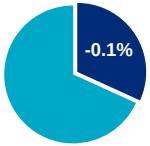


Sector Allocation



Source: Loomis Sayles.
As at 30 June 2019.

*includes holdings of currency, interest rate swaps and interest rate futures



RECORD – CURRENCY HEDGING (SEGREGATED)
-£6.4M END VALUE *(£29.6M 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 weakened against the US Dollar, the Euro and the Yen by 2.3%, 3.7% and 4.9% respectively. (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 Q2 2019 Performance (£ terms)

Passive Developed Equity Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	821,305,387	843,146,173	2.38%	(1.47%)	(1.45%)	0.96%
EUR	158,973,158	180,150,587	3.84%	(1.77%)	(1.75%)	2.07%
JPY	93,930,678	91,603,487	5.18%	(2.49%)	(2.51%)	2.73%
Total	**1,074,209,223**	**1,114,900,247**	**2.85%**	**(1.60%)**	**(1.59%)**	**1.28%**

Passive Hedge Fund Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	227,347,568	242,253,253	2.38%	(2.93%)	(2.92%)	(0.52%)
Total	**227,347,568**	**242,253,253**	**2.38%**	**(2.93%)**	**(2.92%)**	**(0.52%)**

Passive Property Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	23,879,908	24,421,801	2.38%	(2.93%)	(2.93%)	(0.53%)
EUR	176,095,090	188,142,309	3.84%	(3.53%)	(3.50%)	0.26%
Total	**199,974,998**	**212,564,110**	**3.67%**	**(3.46%)**	**(3.44%)**	**0.17%**

Passive Infrastructure Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	138,747,130	150,926,711	2.38%	(2.93%)	(2.93%)	(0.53%)
EUR	50,028,494	49,083,693	3.84%	(3.53%)	(3.50%)	0.26%
Total	**188,775,625**	**200,010,404**	**2.75%**	**(3.08%)**	**(3.07%)**	**(0.33%)**

APPENDIX 1

SUMMARY OF MANDATES

SUMMARY OF MANDATES

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

APPENDIX 2

MARKET STATISTICS INDICES

MARKET STATISTICS INDICES

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

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

APPENDIX 3

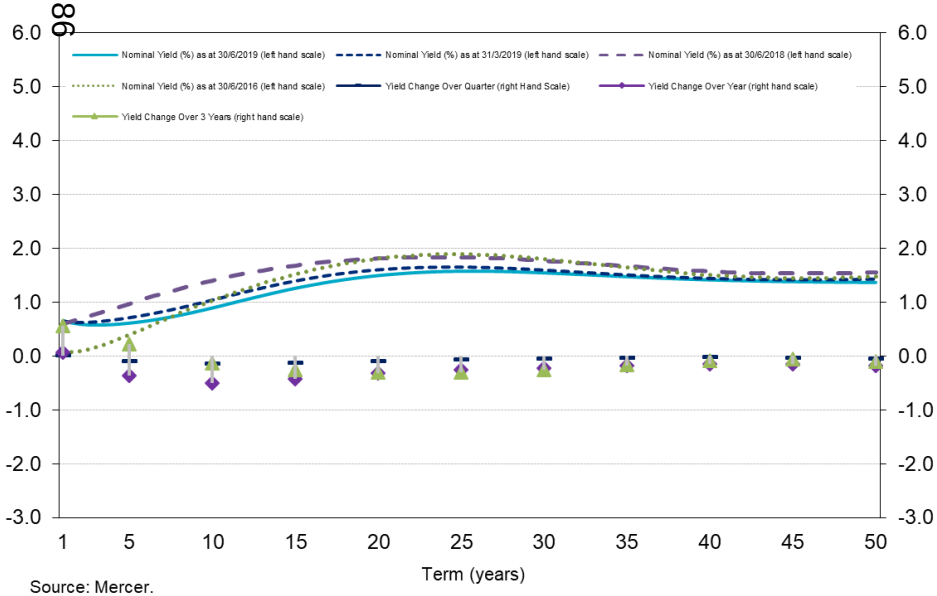
CHANGES IN YIELDS

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 Jun 2019	31 Mar 2019	30 Jun 2018	30 Jun 2017
UK Equities	4.13	4.22	3.64	3.61
Over 15 Year Gilts	1.40	1.48	1.67	1.80
Over 5 Year Index-Linked Gilts	-1.89	-1.85	-1.58	-1.57
Sterling Non Gilts	2.16	2.34	2.50	2.24

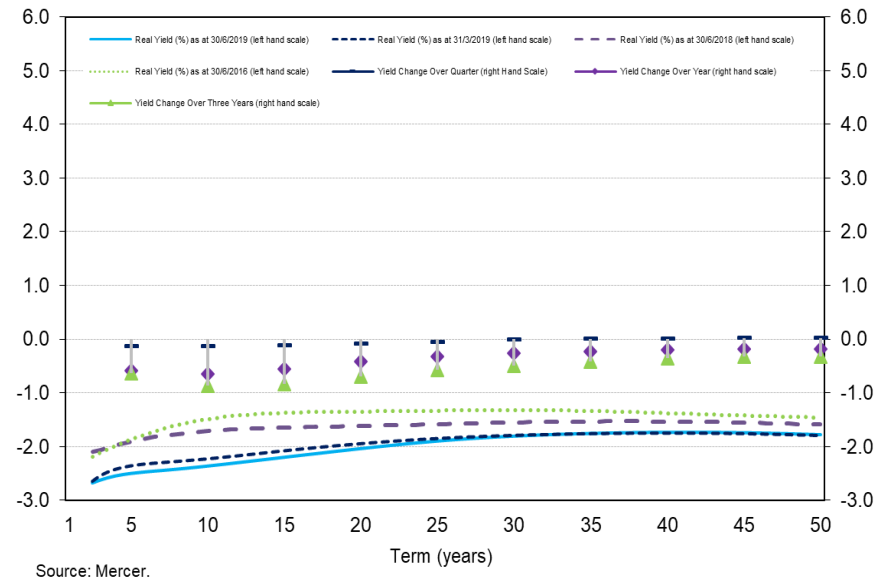
- Nominal yields were again down across the curve over the quarter.
- The Over 15 Year Gilt Index generated a return of 2.0%, though this underperformed the broader global bond market over the quarter.
- Real yields also fell across the curve over the quarter. The Over 5 Year Index-Linked Gilts Index also returned 2.0% as a result.
- Credit spreads fell over the quarter as investors maintained allocations to risky assets. The sterling Non-Gilts All Stocks Index credit spread ended the quarter at c.1.2% p.a., and UK credit assets delivered a return of 2.0% over the quarter.

Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

APPENDIX 4

GUIDE TO MERCER RATINGS

GUIDE TO MERCER RATINGS

INTRODUCTION

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

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

WHAT DO MERCER'S RATINGS SIGNIFY?

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

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

WHAT DO MERCER'S RATINGS NOT SIGNIFY?

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

Past Performance

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

Creditworthiness

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

Vehicle-Specific Considerations

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

Management Fees

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

Operational Assessment

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

FACTORS CONSIDERED IN FORMING A RATING

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

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

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

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

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

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

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

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

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

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

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
P/no rating	Strategies not currently rated by Mercer
R	The R rating is applied in three situations: ▪ Where Mercer has carried out some research, but has not completed its full investment strategy research process ▪ In product categories where Mercer does not maintain formal ratings but where there are other strategies in which we have a higher degree of confidence ▪ Mercer has in the past carried out its full investment-strategy research process on the strategy, but we are no longer maintaining full research coverage

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

SUPPLEMENTAL INDICATORS

Provisional (P)

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

Watch (W)

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

Specifically Assigning (P) and (W) Supplemental Indicators

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

High Tracking Error (T)

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

NICHE STRATEGIES

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

RESEARCH INDICATIONS – INDICATIVE VIEW

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

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

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

OPERATIONAL RISK ASSESSMENTS

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

ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE RATINGS

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

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 TOMORROW, TODAY

MERCER

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: 1222/19

Meeting / Decision: AVON PENSION FUND INVESTMENT PANEL
Date: 2nd September 2019

Author: Nathan Rollinson
Report Title**:** Review of Investment Performance for Periods Ending 30 June 2019 Appendix 1 – Fund Valuation Appendix 2 – Mercer Performance Monitoring Report **Exempt Appendix 3** – RAG Monitoring Summary Report Appendix 4 – Brunel Quarterly Performance Report Appendix 5 – Audit Log of Strategic Investment Decisions

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 exempt appendix 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.

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BRUNEL
Pension Partnership

AVON
PENSION
FUND

Brunel Portfolios Performance Report for Quarter Ending 30 June 2019

Market Summary – Chief Investment Officer

BRUNEL Pension Partnership

Fixed Income

Q2 2019 saw a repeat of Q1 with strong returns achieved across all areas of fixed income. Price increases were once again fuelled by slowing global growth expectations, which prompted further inflows into the asset class. The impact of this was most prevalent in longer dated bonds; 10-year yields tended to fall more than shorter dated yields in most countries. UK and Eurozone yield curves are now looking flatter than before. The 10-2-year yield spread on UK government bonds is now only 15bps, significantly down from 34bps at the end of last quarter.

The best performing asset class in fixed income over the quarter was US investment grade (IG) bonds, which returned +4.5% in local terms. This was partially fuelled by a 32bps fall in IG corporate spreads over the quarter; US IG spreads are roughly 175bps as at quarter end. The lowest performing asset class in fixed income was UK Gilts, which returned +1.4% in GBP terms over the quarter. This is explained by the relatively lower fall in 10yr yields vs other regions.

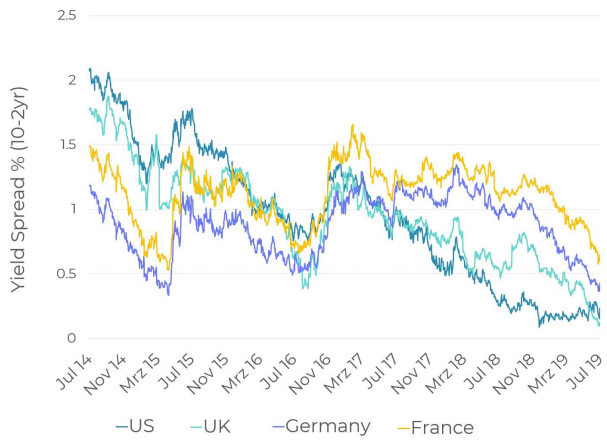
- UK Consumer Price Inflation (CPI) remained largely stable over the last quarter. The headline CPI was 2.0% in May-19, which is in line with the Bank of England's (BoE) long-term target of 2%. This is broadly in line with last quarter as well; the headline CPI reading was 1.9% as at Q1 2019. However, core CPI inflation is largely expected to undershoot the BoE's target of 2% in the coming years, with median estimates of 1.8%, 1.7% & 1.6% for 2019, 2020 & 2021 respectively

- Investment grade (IG) corporate bond spreads have continued to fall in the UK despite doubts over slowing global growth and Brexit uncertainty. IG spreads were around 140bps as at quarter end, this is down from 154bps in Q1 19. The move YTD has been more significant, with spreads down 37bps

- Yield curves have continued to flatten aggressively across Europe, with 10-2yr yield spreads remaining below +50bps in the US, UK and Germany. The US remains fairly flat with a 10-2yr spread of +26bps, although the curve has steepened by +12bps in the last quarter following the Federal Reserve's increasingly dovish stance on interest rates. The market is now pricing in 1-2 rate cuts in 2019 in the US

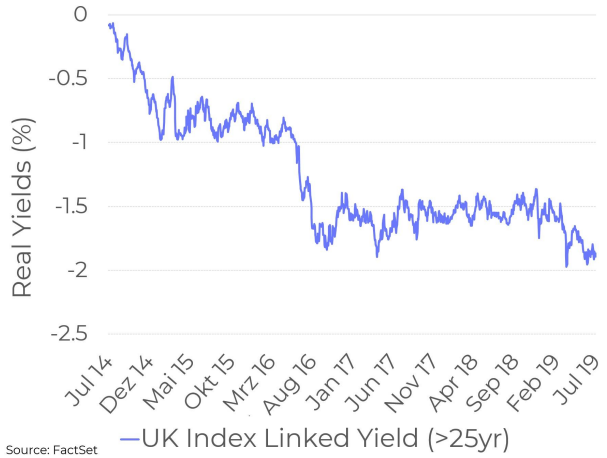
- Real yields in the UK have remained mostly range-bound in Q2 2019. The average yield on longer dated inflation linked bonds was -1.80% at the end of the quarter, which is the same as the last quarter end. Despite this, intra-quarter yields have seen fluctuation, with a range of –1.65% to -1.95%

10-2 yr Yield Spreads



Source: FactSet

Real Yields UK Index Listed



Source: FactSet

Market Summary – Chief Investment Officer

BRUNEL Pension Partnership

Equity

Following on from the positive returns in the previous quarter, Global markets continued to provide strong returns in Q2. The MSCI AC World returned 6.3% over the quarter, in-spite of a steep downturn in May, where the index fell 4.6% from peak to trough. The downturn was once again fuelled by US-China trade standoff. However, with increasingly accommodating central banks and a G20 summit that provided progress on trade talks, the index rallied throughout June to provide a positive return on the quarter.

US equities continued to set new record highs in Q2 as the S&P 500 returned 6.8% in Q2, compounding to return 18.6% YTD. Despite the May sell-off, investors were encouraged by the dovishness of the Federal Reserve, three interest rate cuts expected by the end of the year, and the optimism that surrounded the US/China trade talks from the G20 summit.

• Despite the continuing positive performance in US equity markets, the economic data points towards a cautious environment. EPS growth expectations have been revised downwards from ~8% at the start of the year to currently 3%. This has been coupled with an easing of inflation expectations, which is now expected to be 1.8% year on year. However, looking ahead to 2020, analysts expect an EPS growth of 11%, a level of optimism that may be correlated to the expected forthcoming rate cuts

Page 103

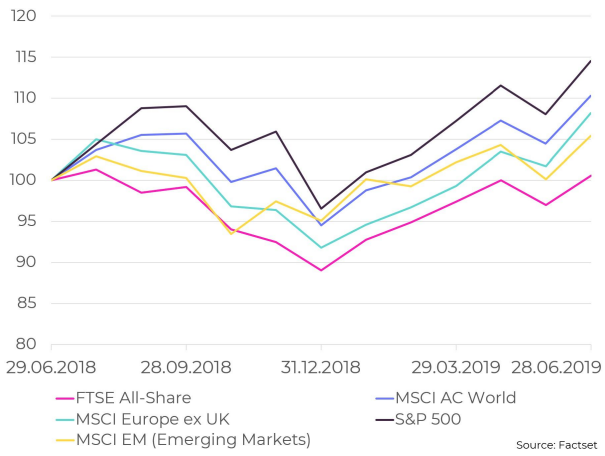
Emerging Markets provided a positive return of 3.1% over the quarter, however, underperformed global markets. This has compounded to a YTD return of 10.84%, in sterling terms.

• US-China trade tensions weighed heavily on the performance of the Emerging market index over the quarter, returning -4% in May
• China currently has a position of 32% of the emerging market index and exhibited a return of -1.5% over the quarter, which contributed to a -60bps drag on the performance of the index
• In contrast to the negative returns in China, the index benefited from strong returns in Russia, Brazil and South Africa, with the latter benefitting from the re-election of the ANC party
• Russia was the largest contributor to positive performance in Emerging markets, returning 20% in sterling terms. This was driven by a 66% increase in Gazprom, as well as the Russian central bank cutting interest rates by 25bps as a potential signal for further easing.

European markets ex UK returned 9% over Q2, 17.85% YTD

• The Consumer discretionary, Information Technology and industrials were the strongest performing sectors over the quarter, returning 13.3%, 13% and 11.8% respectively. Real Estate was the

Global Indices 1 Year Returns



EPS Growth

EPS Growth	2018	2019 (Est.)	2020 (Est.)	% Down '19 EPS Rev.
S&P 500 (USD)	22%	3%	11%	44%
FTSE All Share (GBP)	9%	6%	9%	44%
MSCI AC World (USD)	11%	2%	11%	48%
MSCI Emerging Markets (USD)	1%	-3%	14%	47%
MSCI Europe ex UK (USD)	-2%	5%	10%	60%

Source: Factset

Market Summary – Chief Investment Officer

only negative performing sector over the quarter driven by a five-year rent freeze on residential property in the German capital.
• As mentioned last quarter, growth is a persistent problem in Europe with GDP growth confirmed at 0.4% in Q1. Inflation for June was also stable at 1.2%. There was a hint at further monetary policy easing in the form of new bond purchases to combat the low inflation outlook

FTSE All share returned 3.3% over the quarter, underperforming global markets and posting a YTD return of 13%

• The Technology sector enjoyed a strong quarter, providing a total return of 14%. In contrast, those sectors which display a domestic bias, such as Utilities, provided a negative return amidst further political and Brexit uncertainty, with Theresa May resigning as PM and a further extension of the deadline to 31 October 2019
• The economy shrank by 0.4% in April, led the GBP/USD to decline by -2.3% over the quarter. However, with US interest rate cuts expected we may see a potential weakening of the USD in future

Gold rallied in Q2, returning 8.9%
• Gold, often seen as a safe haven investment, rallied to above $1,400/ ozt at the end of the quarter. This is the highest it has been since 2013, returning 10.33% YTD
• Oil prices fell over the quarter, with Brent Crude returning -4.2%. However, the strong performance in Q1 has concluded in Brent Crude oil returning 20.3% YTD

Sterling returns for indices:
- FTSE All-Share: 3.26% (3m) 0.57% (12m)
- MSCI Europe: 7.4% (3m) 6.4% (12m)
- MSCI Europe ex UK: 9.0% (3m) 8.2% (12m)
- MSCI ACWI: 6.3% (3m) 10.3% (12m)
- MSCI ACWI ex USA: 5.7% (3m) 5.6% (12m)
- MSCI Emerging: 3.1% (3m) 5.4% (12m)
- MSCI China: -1.6% (3m) -3.0% (12m)
- S&P 500: 6.8% (3m) 14.5% (12m)
- GBP Vs USD: -2.3% (3M) -3.6% (12M)

Market Summary – Head of Private Markets

BRUNEL
Pension Partnership

Overview

Investors continue to increase allocations across broad swathes of private market asset classes, particularly to infrastructure and private equity. Undoubtedly, this is driving up asset pricing and compressing future returns. We would urge Clients to temper their expectations of lofty historical returns being replicated in the future. The next 3-4 months will be a very busy period for the Brunel PM team across multiple Portfolios as the construction process reaches a crescendo.

Infrastructure

In Q2 2019, Brunel made commitments to two geographically distinct clean energy infrastructure funds, both managed by Capital Dynamics (CEI 7 and 8). This is in line with our Infrastructure strategy to commit 35% of the Infrastructure portfolio to renewable energy generation funds.

The UK market for onshore renewables is improving, with the UK government setting a new target of zero net emissions by 2050. Fund CEI 8, which will invest >75% of its capital into UK renewables, had its first close in April 2019 at £114m (>25% of target fund size). It already has an extremely robust pipeline, with exclusivity agreed on four UK projects to close in Q3 2019, all with 12 to 20-year fixed price contracts in place with power purchasers. A second close is expected in July 2019, taking the fundraising to over 50% of fund target.

Equally pleasing is progress at CEI 7-A, the US strategy, which invests alongside the US$ 1.2bn fund CEI 7. Fund 7-A had a first close in April 2019 and the final close will be in July 2019, reaching a fund size of US$188m. The fund has a very encouraging pipeline, and capital deployment is expected to accelerate in Q3 and Q4 2019, with the potential to be fully allocated by mid-late 2020, pending the outcome of several large deals. Four projects have already been completed, comprising onshore wind and solar assets, some with battery storage.

Capital Dynamics have remained disciplined and diligent in their deal sourcing, securing full requirement PPAs before closing all deals and have remained efficient in their asset management costs through CD Arevon, their in-house technical / engineering business, a key differentiator of this manager above all others in the market.

Aside from the new fund commitments, the team had positive updates from existing managers NTR and Mirova. NTR continues to fund raise and deploy with good operational performance from existing assets. Mirova, the general infrastructure fund, is now fully committed and is expected to be >80% drawn down by the end of 2019, having transacted in numerous sectors (digital, transport,

UK Industrials Still Offer Income Growth
Photo: Stirling Park, Rochester – LGIM IPIF Asset

utility, social PPP) across France, Spain, Norway, Finland and Italy.

All Brunel's selected managers continue to find promising opportunities to invest in, which is very pleasing in such a competitive market environment. This sourcing capability is one of many aspects the Brunel team spend a lot of time researching prior to selecting any manager.

We remain on track to build a nicely diversified infrastructure portfolio of eight to ten 10 funds (60 to 100 underlying investments) for Cycle 1 Clients, with all capital committed (but not invested) before the 31 March 2020 deadline.

Private Equity

No new fund commitments were made in the quarter ending 30 June, but considerable work was done to progress a new fund opportunity towards closing post period (in July).

Over Q2, the Brunel PM team had two successful strategy days with Neuberger Berman and Capital Dynamics to aid in our primary fund search.
Existing Brunel PE Portfolio funds are progressing nicely. The Capital Dynamics Global Secondaries V (GSEC V) fund made its first call during the quarter and a first drawdown for the NB PE Impact fund was made in July to fund a co-investment. NB impact has also made two primary fund commitments, but no money has yet been called for these.

Capital Dynamics Global Secondaries Fund V had raised US$ 320m from 85 investors at by Q1 and Q2 201919 (almost 50% of target fund size). So far they have closed nine deals, with a further three deals in execution, for a total amount of US$ 240m. Even at this early stage the fund's holdings are a very diverse array of maturing assets across >100 funds and >600 companies (c66% buyout, 34% growth/late-stage venture) with vintage year diversification stretching back over a decade. Current geographic exposure is c51% US, 38% Europe and 11% Asia. The sectors with the largest exposure are IT (30%), consumer discretionary (19%) and healthcare (17%) with the remaining 34% being mainly across industrials, consumer staples and energy.

Further closings for GSEC V are expected before December with >30% of capital projected to be drawn down by year end 2019.

Secured Income

Brunel's secured income portfolio received drawdown requests from Aberdeen Standard Long Lease Property Fund, which is investing in a combination of pre-let funding projects and existing (built)

assets in the Alternatives sector. A further drawdown from clients is expected imminently. Investment progress by M&G has been slowed by the lack of suitable available transactions – Brunel will receive an update on likely opportunities from the M&G Secured Property investment team. Both funds performed strongly over the last year to March (total return +7.2% M&G; +6.7% ASI), increasing their attractiveness as returns from commercial property moderate.

Property

Though property pricing looks elevated, both in the UK and in most developed international markets, investment in the asset class continues to hold up well globally, supported by expectations of interest rates remaining lower for longer, particularly in Europe. Income growth can still be obtained from some property sectors, such as Industrials, though the pace of growth has moderated. The attractions of this resilient, growing income stream has exacerbated the contrast between valuations quoted for logistics assets (with yields now below 4%) and the accelerating devaluation of the Retail sector (with yields over 6%).

Longer-term yield compression since 2010 across all sectors has accounted for 60% of global real estate value growth and is now reversing in some areas, encouraging investors to focus either on strategies which provide downside protection against falling capital values or on higher-risk development/asset management strategies which could still provide double-digit returns.

Underwriting development projects so late in the cycle has been hampered by high construction costs but this, and the controlled levels of lending to projects, have prevented the high levels of gearing and oversupply seen in the last property cycle, limiting damage during the next downturn. The polarisation of investor interest may lead to mispricing opportunities in the less obvious areas of the market – investors should maintain a diversified portfolio to mitigate specific risks.

Improving Climate Change Disclosure

Two years on from the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), the TCFD has published its 2019 status report. In 2017 Mark Carney said, "Having information on [climate] risks would allow investors to back their convictions with their capital, whether they are climate optimists or pessimists, evangelicals or sceptics." This sentiment still resonates today. Whilst disclosure of threats to business from escalating climate risks is improving, the status report highlighted that it's not happening fast-enough given the scale of financial risks posed by extreme weather and the low carbon transition. Brunel advocates strongly for improved transparency; we co-signed letters written to the Prime Minister and Chancellor calling strongly for the recommendations of the TCFD to be made mandatory. We understand this is being considered for all large companies and pension funds by 2022. In parallel, Brunel is building capacity to fulfil TCFD reporting for clients.

Another area of backing was a public business letter to the Prime Minister in support of the Committee on Climate Change's advice to the government to set a 2050 net zero greenhouse gas emissions target. The letter was a joint initiative between Aldersgate, the B team, CBI, CDP, The Climate Group, Corporate Leaders Group, IIGCC and Renewables UK. We are pleased that on 11 June, legislation was passed which put the UK on a path to become the first major economy to set net zero emissions target in law.

Investor pressure for disclosure has stepped up. Exxon rejected the GHG targets proposal filed by CA100+ lead investors and sought no-action relief with the SEC. A letter, Brunel co-signed, did not prevent the SEC from rejecting the proposal. The New York State Common Retirement Fund issued a call for dissent, citing that an inadequate response to climate change constitutes a serious failure of corporate governance. This called for investors to:

- Withhold their support from re-election of all ExxonMobil directors
- Vote for an independent chair, for a climate change board committee, and for a report on lobbying

ExxonMobil

Brunel strongly supported this call; we utilised our voting policy to direct the vote across passive equity holdings (Exxon is not in Brunel active equities). Whilst these resolutions did not pass (click here to view Exxon AGM Results), they gained good support, sending a strong message, and one to which the company has to respond. This combined with recent announcements by LGIM's carbon pledge that Exxon is on the 2019 exclusion list will no doubt see a shift in attitudes towards positive engagement with shareholders.

Responsible Investment & Stewardship Review

Challenging Animal Welfare
May was a historic month with Beyond Meat became the first plant-based meat company to go public, becoming the biggest Initial Public Offering (IPO) since the 2008 crash, with a value of $3.8bn. Reflecting the growing interest in food production and supple rising consumer standards will lead to increased financial risks for companies who do not appropriately manage animal welfare. Brunel has joined the Business Benchmark on Farm Animal Welfare (BBFAW) investor collaboration. BBFAW, which is now in its 7th year, is a measure of farm animal welfare management, policy commitment, performance and disclosure in food companies, including the management of antibiotic use. Letters will be sent to 150 companies commending leading and improving businesses on their performance and encouraging poorer performers to improve.

Social Media's Objectionable Content
Following the shootings in Christchurch, the New Zealand Super Fund has been leading an initiative calling on Facebook, Google, and Twitter to strengthen controls on live streaming and objectionable content. Brunel joined the investor group representing NZ$5 trillion AUM. Engagement has also been led by governments. The investor group announced support for the Christchurch Call, an initiative of New Zealand Prime Minister Jacinda Ardern and French President Emmanuel Macron who met with world leaders, tech companies and civil society, in Paris to discuss the call. Company engagement thus far has been good. Facebook announced implementation of One Strike Bans for inappropriate live streaming. Letters have been sent to the social media companies and engagement is ongoing.

Diversity targets in Sight
Figures released by the Hampton-Alexander Review (launched 2016) show that for the first time, the FTSE 250 could meet the 33% target for women in senior leadership positions if current progress is maintained. 27.5% of FTSE 250 board positions are now held by women, up from 24.9%. However, many boards have only one woman and there are still four all-male boards in the FTSE 250. Brunel continues to engage on diversity, working with the 30% Club and Diversity Project, supporting engagements with laggards and applying our voting policy.

Audit Quality and Effectiveness
Brunel welcomed the opportunity to meet with Sir Donald Brydon to discuss the independent review he is leading on 'The quality and effectiveness of audit'. Further updates on discussions and work in this area will be included in next quarter's update.

Brunel Portfolios Overview

BRUNEL
Pension Partnership

Portfolio	Benchmark	AUM (GBPm)	Perf. 3 Month	Excess 3 Month	Perf. 1 Year	Excess 1 Year	Perf. 3 Year	Excess 3 Year	Perf. 5 Year	Excess 5 Year	Perf. SI	Excess SI	Inception Date
Brunel UK Active Equity	FTSE All Share	193	3.13%	-0.12%							9.28%	-0.15%	21 Nov 2018
Passive Low Carbon Equities	MSCI World Low Carbon Target	557	6.90%	-0.01%	9.13%	-0.17%					9.13%	-0.17%	11 Jul 2018
Brunel - PM Infrastructure	Consumer Price Index	11	6.55%	5.71%							-3.60%	-4.34%	02 Jan 2019
Brunel - PM Secured Income	Consumer Price Index	17	1.42%	0.58%							2.66%	1.92%	15 Jan 2019

Passive Low Carbon Equities

BRUNEL
Pension Partnership

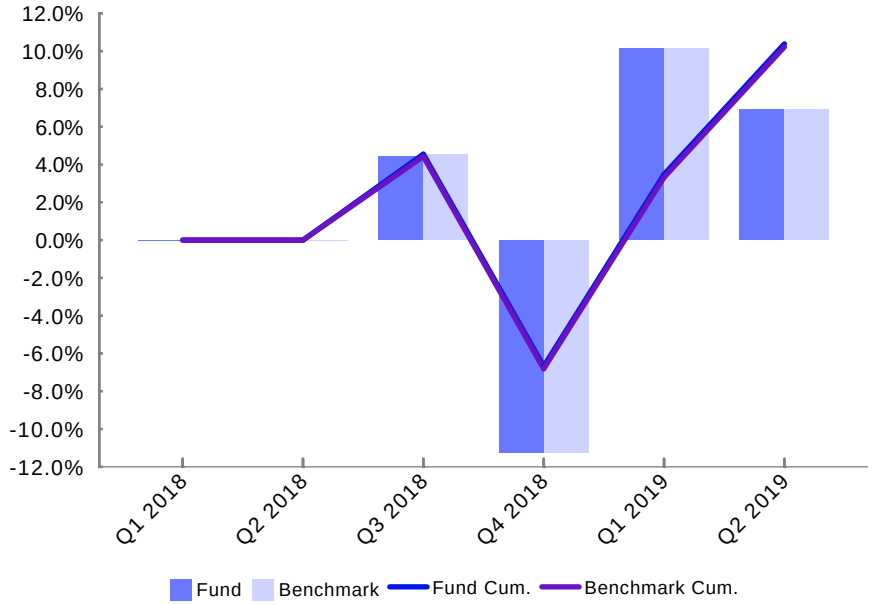
Overview

	Description
Portfolio Objective:	Provide exposure to equity returns and global economy with low exposure to carbon emissions and fossil fuels.
Investment Strategy & Key	Portfolio is invested in global equities in accordance with Low Carbon index.
Liquidity:	High
Risk/ Volatility:	Absolute: High Relative: V.Low
Holding:	£556,893,801

Quarterly performance

All values in %	Fund	BM	Excess
3 Month	6.90	6.91	-0.01
Fiscal YTD	6.90	6.91	-0.01
1 Year	9.13	9.30	-0.17
3 Years	0.00	0.00	0.00
5 Years	0.00	0.00	0.00
10 Years	0.00	0.00	0.00
Since Inception	9.13	9.30	-0.17

Rolling Performance



Passive low carbon returned positive performance over the quarter. Performing in line with its MSCI Low Carbon benchmark, the portfolio returned 6.9%

• The low carbon portfolio was positively affected by strong global equity market returns during Q2. As the US has such a large allocation to global equities (around 55%), this region was the largest contributor to positive performance

Passive Low Carbon Equities – Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. Microsoft Corp	61.6	68.9
2. SAP SE	71.2	50.0
3. Cisco Systems Inc	64.7	65.9
4. Ecolab Inc	74.8	34.1
5. UnitedHealth Group Inc	64.2	50.0
6. Schneider Electric SE	78.1	66.6
7. Eversource Energy	67.3	79.5
8. Accenture PLC	68.0	32.8
9. Consolidated Edison Inc	69.2	75.8
10. Siemens AG	69.5	74.4

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. Alphabet Inc	49.7	50.0
2. Apple Inc	52.3	34.2
3. Facebook Inc	46.5	35.1
4. Wells Fargo & Co	42.2	63.3
5. Amazon.com Inc	54.0	37.2
6. Johnson & Johnson	50.1	64.8
7. Netflix Inc	43.8	26.7
8. JPMorgan Chase & Co	51.8	47.2
9. AT&T Inc	50.9	29.1
10. Walt Disney Co	51.6	65.8

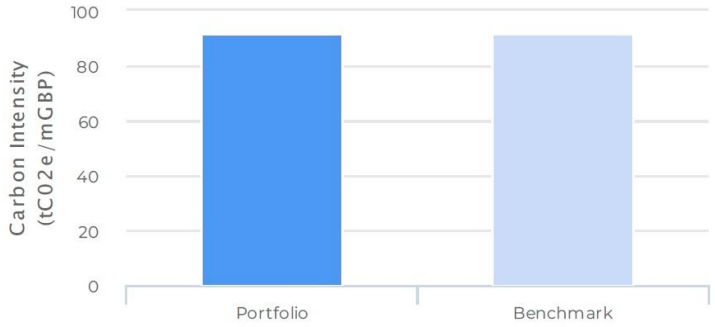
	Weighted Average ESG Score
Portfolio	58.41
Benchmark	58.41

TruValue Labs & SASB

* Position 1 is the top contributor/detractor.

0 50 100

Weighted Average Carbon Intensity (WACI) as at 28 Jun 2019



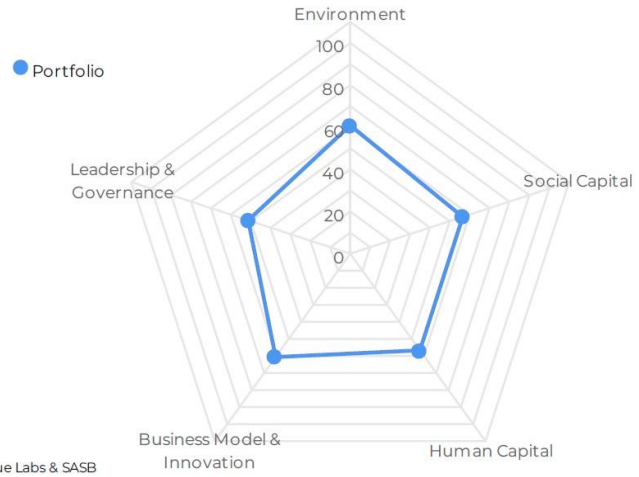
Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1]	Extravtive Industries (VOH)[2]
Portfolio	0.51	2.93
Benchmark	0.51	2.93

[1] Extractive revenue exposure as share (%) of total revenue.
[2] Value of holdings(VOH)-companies who derive revenues from extractives.
Source: Trucost

Absolute Weighted ESG Scores as at 28 Jun 2019



TruValue Labs & SASB

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Brunel Assessment

- **FANG's**, the big four tech companies have increased scrutiny over data protection. Fines are being issued to Facebook following the Cambridge Analytica scandal, Apple are facing anti-trust lawsuits for its app store and in January google was fined £44m by France, in what at the time was the biggest GDPR fine issued. An update on Netflix was covered last quarter. Data security is an area of ongoing engagement, see RI commentary for update.
- **AT&T**, a telecommunications company, momentum fell following lawsuits over fake 5G. Action against unauthorized content use by Trump has culminated in calls by Trump to boycott AT&T and block the acquisition of Time Warner, including CNN. A company with ongoing engagement.
- **JP Morgan Chase**, an investment bank was hit by a $5 million settlement for a lawsuit brought by dads for rejected parental leave requests. Brunel engages on diversity through the Diversity Project and 30% Club. An update on diversity is included in the RI commentary.

100% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.

The WACI of the portfolio reduced from 100 Q1 to 90 Q2.

Brunel UK Active Equity

BRUNEL
Pension Partnership

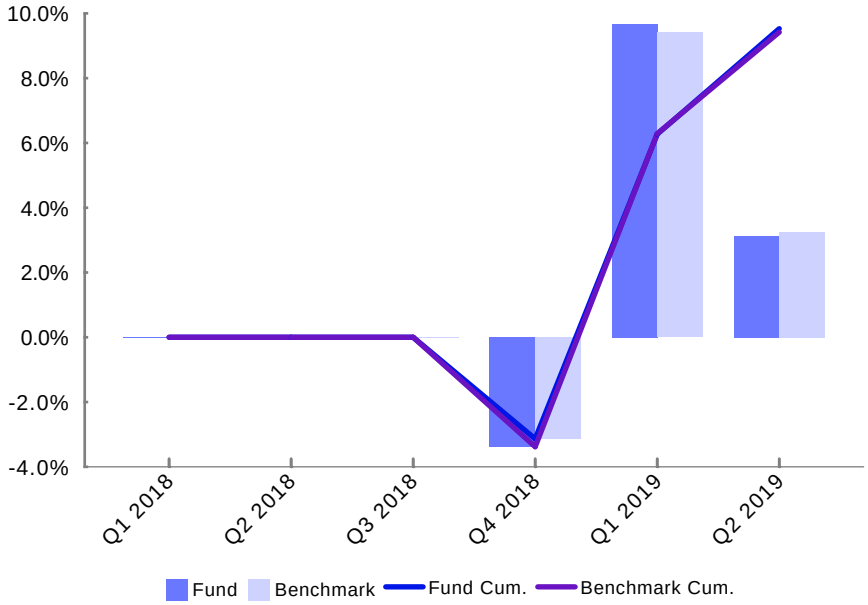
Overview

	Description
Portfolio Objective:	Provide exposure to UK Equities, together with enhanced returns from manager skill.
Investment Strategy & Key	Skilled managers will create opportunities to add long term value through stock selection and portfolio construction.
Liquidity:	Managed level of liquidity. Less exposure to more illiquid assets.
Risk/ Volatility:	High absolute risk with moderate relative risk, around 4% tracking error.
Holding:	£193,137,845

Quarterly performance

All values in %	Fund	BM	Excess
3 Month	3.13	3.26	-0.12
Fiscal YTD	3.13	3.26	-0.12
1 Year	0.00	0.00	0.00
3 Years	0.00	0.00	0.00
5 Years	0.00	0.00	0.00
10 Years	0.00	0.00	0.00
Since Inception	9.28	9.43	-0.15

Rolling Performance



The FTSE All Share index underperformed global markets during the quarter, posting a return of 3.26% over the quarter. Sectors which display a domestic bias, such as Utilities, provided a negative return amidst further political and Brexit uncertainty, with Theresa May resigning as PM and a further extension of the Brexit deadline to 31 October 2019. The UK economy shrank by 0.4% in April, reflected in the GBP/USD decline by -2.3% over the quarter. However, with US interest rate cuts expected we may see a potential weakening of the USD in future.

Over the quarter, the portfolio has marginally underperformed the FTSE All Share by -0.12%, returning 3.13% versus the FTSE All Share return of 3.26%. Manager relative performance was mixed over the quarter.

Since inception on 21 November 2018, the portfolio has returned 9.28%, an under performance of -0.15% versus the FTSE All Share over the same period. Again, relative performance by managers was mixed over the period.

Brunel UK Active Equity - Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. Relx PLC	66.4	50.0
2. Diageo PLC	68.1	67.1
3. Tate & Lyle PLC	79.5	25.7
4. Unilever PLC	63.5	61.1
5. Rio Tinto PLC	62.6	79.5
6. Mondi PLC	72.9	50.0
7. Aggreko PLC	78.0	74.0
8. Informa PLC	72.5	61.7
9. Victrex PLC	77.5	82.8
10. Carnival PLC	64.0	22.5

Bottom 10 ESG Detractors to Overall Score

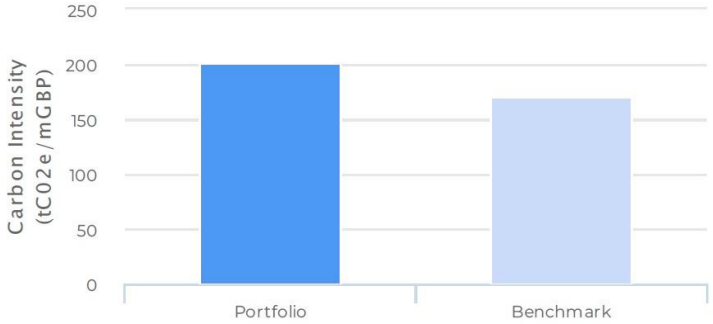
	Insight	Momentum
1. Royal Dutch Shell PLC	52.0	76.1
2. BP PLC	54.0	71.9
3. Lloyds Banking Group PLC	46.9	63.3
4. British American Tobacco PLC	53.6	65.3
5. Smith & Nephew PLC	48.1	34.8
6. Glencore PLC	41.5	63.1
7. HSBC Holdings PLC	55.9	78.9
8. Barclays PLC	46.4	29.1
9. GlaxoSmithKline PLC	56.2	74.6
10. Aviva PLC	53.1	59.4

	Weighted Average ESG Score
Portfolio	58.96
Benchmark	57.96

TruValue Labs & SASB

* Position 1 is the top contributor/detractor.

Weighted Average Carbon Intensity (WACI) as at 28 Jun 2019



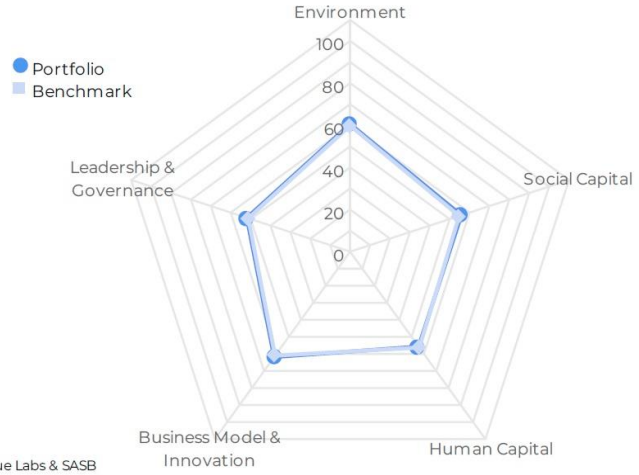
Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1]	Extravtive Industries (VOH)[2]
Portfolio	3.06	16.83
Benchmark	2.54	14.57

[1] Extractive revenue exposure as share (%) of total revenue.
[2] Value of holdings(VOH)-companies who derive revenues from extractives.
Source: Trucost

Absolute Weighted ESG Scores as at 28 Jun 2019



TruValue Labs & SASB

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Brunel Assessment

- **Tate and Lyle**, a consumable staples company, has consistent strong insight score with positive news on proactive use of the sugar alternative stevia. However, higher energy and transportation costs are likely to hit growth forecasts.
- **Royal Dutch Shell**, an oil and gas company but aspiring to diversify, who alongside BP, typically score as average due to negativity resulting from size and nature of operations. Both firms are part of the Climate Action 100+ initiative.
- **Smith & Nephew**, **Carnival** and **Barclays** were covered last quarter. There is no material change to boardroom battles or concerns to climate related lending. Barclays remain an engagement priority. We voted against the renumeration report (2 May 2019).

100% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.

The carbon intensity of the UK portfolio is driven by holdings in oil and gas and diversified miners; strong financial performers in the portfolio. We are working with all managers in the portfolio to ensure climate risk is factored into the portfolio construction but any changes in process need to be implemented with care.

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Investment Panel Audit Log ***Appendix 5***

Recommendation	***Rationale***	***Status***	***Key dates***	***Delegations***
- Liability Driven Investment	-To meet pension payments as they fall due	Complete	Resolved: June-16 Manager Appointed: Nov-16 Mandate Inception: July-17	- IP ongoing monitoring of strategy and collateral - Annual Strategic Review with Panel, recommendations taken to Committee
- Diversified Growth Fund Allocation (2017 Investment Strategy Review outcome)	Reduce Funding level risk by reducing allocation to UK equities and adding 5% to DGF allocation	Complete	Resolved: July-17 Manager Appointed: Aug-17 Mandate Inception: Sept-17	- Investment Panel monitoring
- Multi Asset Credit Allocation (2017 Investment Strategy Review outcome)	*Short-term:* Reduce Funding level risk by reducing allocation to Emerging Market equities and adding 5% to DGF allocation *Medium term:* Enhance return by switching 6% allocation in Corp Bonds to MAC	Complete	Resolved: July-17 Manager Appointed: July-17 Mandate Inception: Sept-17	- Investment Panel monitoring
- Low Carbon Index Allocation (2017 Investment Strategy Review outcome)	Reduce home bias in UK equities & de-carbonise portfolio by introducing global low carbon passive	Complete	Resolved: July-17 Mandate Inception: Dec-17	- Investment Panel monitoring
- Equity Protection Strategy (2017 Investment Strategy Review outcome)	Risk reduction technique designed to protect the Fund from large equity market draw downs	Complete	Resolved: July-17 Mandate Inception: Dec-17	- Investment Panel monitoring - Annual Strategic Review with Panel, recommendations taken to Committee
-Secure Income Allocation (2017 Investment Strategy Review medium-term outcome)	Contractually secure income with inflation-linkage	Complete (capital deployment ongoing)	Commitments made: June-2018 Capital calls commence: Jan- 2019	- Investment Panel monitoring - Brunel manager appointment and implementation
-Sustainable Equities Allocation (2017 Investment Strategy Review medium-term outcome)	- Broaden opportunity set of companies delivering positive contribution	Complete	Resolved: Feb-18 Mandate Inception: June-18	- Investment Panel monitoring
- Collateral Management	Collateral management plan to fund cash intensive equity protection and LDI strategies	Complete	Apr-18: £400m assets pledged to risk management strategies should additional collateral be required	- Investment Panel monitoring
- Renewable Infrastructure Allocation (2017 Investment Strategy Review medium-term outcome)	- 2.5% of Fund assets to Renewable Infrastructure	Complete (capital deployment ongoing)	Capital calls commence: Dec-2018	- Investment Panel monitoring - Brunel manager appointment and implementation
- Cash Management Strategy	- Reduce cash drag on performance and maintain liquidity profile to fund private markets calls over time	Complete	Resolved: Nov-18 Mandate Inception: March-19	- Investment Panel monitoring
- Bespoke Corporate Bond Portfolio	- Cash flow matching strategy for liabilities valued on a corporate bond basis	Complete	Resolved: Sept-18 Mandate Inception: May-19	- Investment Panel monitoring - Annual Strategic Review with Panel, recommendations taken to Committee

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**	
MEETING DATE:	**2 September 2019**	**AGENDA ITEM NUMBER**
TITLE:	**Annual Review of Risk Management Strategies**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Exempt Appendix 1 – Mercer Report – TO FOLLOW		

1 THE ISSUE

1.1 The Risk Management Framework encompasses three dedicated risk management strategies and a passive equity fund for collateral management purposes. The Liability Driven Investment (LDI) Strategy and the Buy-and-Maintain Corporate Bond (CB) Portfolio are designed to hedge interest rate and inflation risks arising from the Fund's liabilities, whereas the Equity Protection Strategy (EPS) is designed to shield the Fund from a large drawdown in the value of its underlying equity holdings. These strategies are linked to the funding strategy and de-risk the Fund by placing less reliance on growth assets to fund future pension benefits and to simultaneously protect the Fund's current funding position.

1.2 The Investment Panel reviews the strategies annually to assess whether there has been a material change in market conditions which requires an adjustment to any of the strategies to ensure they meet the strategic objectives. The annual review also considers any financial implications on the portfolio, specifically an increase in the collateral requirements. Any recommendation from the Panel to change a strategy requires approval by the Committee.

1.3 The Committee has delegated monitoring to the Investment Panel. The Panel monitors the collateral adequacy, the performance of the strategies and the performance of the manager, Blackrock.

1.4 Mercer will present their report at the meeting.

2 RECOMMENDATION

The Avon Pension Fund Investment Panel is asked to:

2.1 **Note Mercer's report reviewing the strategies and collateral position.**

2.2 **Recommend to the Committee that the existing trigger framework for the LDI strategy should be maintained.**

2.3 **Note Mercer's recommendation to put in place another static EPS for the short term (12-18 months) once the current strategy begins to roll off, before evolving the strategy into a longer-term dynamic approach. The Committee should be asked to consider these recommendations following the second Investment Strategy Review Workshop on 7 November 2019 and, if in**

agreement, delegate implementation of the new static EPS to the Investment Panel and Officers.

3 FINANCIAL IMPLICATIONS

3.1 The risk management strategies have been implemented to provide greater certainty that the funding plan will be achieved and therefore contribution levels will be stable and minimised. Any changes to the framework can affect the level of employer contributions in the future.

4 ANNUAL REVIEW OF LDI STRATEGY

4.1 The LDI strategy seeks to hedge real interest rates, in order to increase the certainty that the real returns assumed in the funding plan will be achieved.

4.2 The aim is to lock in attractive real yields ('trigger points'). As the real yield is determined by nominal interest rates and inflation expectations – which move independently of one another – It is important to keep these under review for appropriateness as each can be hedged independently. The current objective is to hedge up to 70% of the assets as market conditions allow and there is a trigger framework in place, reflecting the market conditions when set, to achieve this hedge ratio.

4.3 This strategy utilises unfunded hedging instruments meaning there is limited or no initial outlay of capital to put the hedging in place. However, these instruments fluctuate in (mark-to-market) value through their life to maturity and must be supported by collateral, in the form of assets that can be sold to meet mark-to-market requirements. The collateral held by the Fund must be monitored to ensure there is enough to support the strategy.

4.4 At the last review the Panel recommended no change to the trigger framework in light of the long term nature of the strategy and the view that interest rates should start to rise over time.

4.5 Exempt Appendix 1 explains how the strategy has evolved over the last 12 months.

4.6 As per last year, the possible refinements are:

a) Increase the interest rate hedge ratio to be in line with the inflation hedge ratio

b) Lower the interest rate triggers to increase the probability of implementing them

Over the last year, interest rates have fallen, whilst preliminary valuation results indicate the Fund is still in a deficit, so both of the above actions would likely have negative implications for the discount rate and funding position, compared to the current framework. Therefore, the recommendation from Mercer is that no immediate changes should be made to the framework or the level of hedging in place.

4.7 The strategy will continue to be monitored closely so that options to increase the interest rate hedge or revise the trigger levels are reviewed when the funding level reaches 100%.

5 ANNUAL REVIEW OF EQUITY PROTECTION STRATEGY

5.1 The EPS is structured to protect the Fund from a sharp drawdown in equity valuations over the 2019 triennial valuation period as equities, although comprising c.40% of assets, contribute c.60% of downside risk (measured by Value at risk or VaR). The EPS will pay out a cash amount to compensate for any significant falls in the equity market and simultaneously allow the Fund to participate in upside gains to a predetermined level or 'cap'.

5.2 The strategy sits within the pooled vehicle ('QIF' or Qualifying Investor Fund) established for the LDI strategy. To reduce the risk of the Fund having to sell assets at short notice to meet its obligations under the collateral agreements, units of a passively managed pooled equity fund are held within the QIF which will be sold and converted into eligible collateral in order to meet collateral calls as they arise. Should this situation materialise, derivatives will be used to replicate the equity assets sold in order that the strategic exposure to equities is maintained.

5.3 Exempt Appendix 1 explains how the strategy has evolved since inception.

5.4 The current strategy is due to expire in Q1 2020 so a decision is needed as to whether or not to continue with the EPS, and if so how it should be structured. The recommendation from Mercer is that the EPS should become a long-term component of the strategy and be evolved into a dynamic open-ended structure, given the Fund's exposure to equity market risk. However, given the additional complexity of a dynamic approach and time needed to do the necessary Panel training and implementation work, the proposal from Mercer is to implement another static EPS for the short term (12-18 months) once the current strategy begins to roll off, before moving to a longer-term dynamic structure.

5.5 The Committee will need to first agree if and how an EPS should be incorporated in the Fund's strategy going forward, following the second Investment Strategy Review Workshop on 7 November 2019. Subject to the Committee agreeing to continue with an EPS, implementation of the new static EPS should be delegated to the Investment Panel and Officers.

6 ANNUAL REVIEW OF CORPORATE BOND BUY-AND-MAINTAIN STRATEGY

6.1 During 2019, Blackrock were instructed to implement a buy-and-maintain corporate bond portfolio as part of a bespoke cash flow matching strategy for the Fund's low-risk liability bucket.

6.2 The strategy was implemented in May 2019 at a cost of £76k to the Fund. The strategy was funded using a combination of legacy corporate bond holdings and cash in the QIF.

6.3 An annual review along with an in-depth review will be undertaken after each valuation or when a large liability falls into scope for the low-risk bucket upon termination.

7 RISK MANAGEMENT

7.1 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.

8 CLIMATE CHANGE

8.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The issues to consider are contained in the report.

10 CONSULTATION

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

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

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: 1223/19

Meeting / Decision: AVON PENSION FUND INVESTMENT PANEL
Date: 2nd September 2019

Author: Nathan Rollinson
Report Title**:** Annual Review of Risk Management Strategies Exempt Appendix 1 – Mercer Report

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

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

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the exempt appendix 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)

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**	
MEETING DATE:	**2 September 2019**	**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 end 2020. The workplan is provisional as the Panel will respond to issues as they arise and as work is delegated from the Committee.

2 RECOMMENDATION

That the Panel:

2.1 **Notes the Panel 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	Proposed agenda
September 2019 (extended meeting)	• Review performance • Transition of assets - plan update • Introduce Brunel Client reports for assets managed by Brunel • Consider options for Equity protection and LDI strategies given 2019 valuation market levels • Implementation considerations from strategic review
20 November 2019	• Review performance • Transition of assets - plan update • Consider future strategy for equity protection and LDI as a result of strategic review workshops • Implementation considerations from strategic review
6 March 2020	• Review performance • Transition of assets - plan update • Implementation considerations from strategic review • Agree Private Market commitments to Brunel portfolios (by 31 March 2020)
5 June 2020	• Review performance • Transition of assets - plan update • Implementation considerations from strategic review
11 September 2020	• Review performance • Transition of assets - plan update
20 November 2020	• Review performance • Transition of assets - plan update

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.

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

4.4 2021 meetings:

26 February

28 may

10 September

19 November

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 CLIMATE CHANGE

6.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

7 ISSUES TO CONSIDER IN REACHING THE DECISION

7.1 This report is for information only.

8 CONSULTATION

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

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

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