Bath & North East Somerset Council

Avon Pension Fund Committee Investment Panel

Date: **Wednesday, 20th November, 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, Councillor Bruce Shearn, John Finch, Pauline Gordon and Shirley Marsh-Hughes

Chief Executive and other appropriate officers
Press and Public

Sean O'Neill
Democratic Services
Lewis House, Manvers Street, Bath, BA1 1JG
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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.

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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 - Wednesday, 20th November, 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: 2ND SEPTEMBER 2019 (Pages 5 - 12)

8. BRUNEL UPDATE (Pages 13 - 32)

9. EQUITY RISK MANAGEMENT STRATEGY (Pages 33 - 62)

10. INVESTMENT PERFORMANCE (Pages 63 - 156)

11. WORKPLAN (Pages 157 - 160)

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

Monday, 2nd September, 2019, 2.00 pm

Members: Councillor Shaun Stephenson-McGall (Chair), Councillor Chris Dando, Pauline Gordon, Shirley Marsh and Councillor Bruce Shearn
Advisors: Steve Turner (Mercer) and Ross Palmer (Mercer)
Also in attendance: Donna Parham (Interim Director - Finance), Liz Woodyard (Investments Manager), Nathan Rollinson (Assistant Investments Manager) and Carolyn Morgan (Governance and Risk Advisor)

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

2 DECLARATIONS OF INTEREST

There were none.

3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES: 27 FEBRUARY 2019

The public and exempt minutes of the meeting of 27 February 2019 were approved as a correct record and signed by the Chair.

8 BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING

The Investment Manager presented the report.

She said that transition was on track. The Emerging Markets transition was now under way. The manager selection for the Global High Alpha Equity was nearing its conclusion, and it was expected that information would be received next week about what that portfolio would look like. Work on the passive Global Sustainable Equities portfolio had begun. Avon is very interested in this portfolio, because the existing mandate with Jupiter should map into it very well. It is hoped that the scoping paper for it will be received within the next few weeks, and that by the time of the Strategic Review it will be sufficiently developed for a judgement to be made as to whether it is a potential solution for Avon. Brunel continues to draw down for Secured Income and Renewable Infrastructure.

A Member noted that paragraph 6.1 of the covering report stated that the Fund's strategic allocation to Low Carbon Equities and renewable energy addressed the financial risk to the Fund's assets from climate change rather than a strategy to address the risk itself. Officers agreed to amend the wording.

Before discussing the exempt appendices to this report, 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 remainder 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.

After the discussion had been completed, the Panel returned to open session and **RESOLVED:**

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

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

9 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 3O JUNE 2019

The Assistant Investments Manager presented the covering report.

Mr Turner presented the Mercer Performance Monitoring Report. He said that one area where Brexit was having an impact was the sterling exchange rate. He suggested that there was no reason for the Fund to change its currency hedging policy at the moment, as this would be equivalent to taking a bet on the outcome of Brexit and guessing whether it will be hard or soft, which is impossible to know.

The Chair asked whether it was normal for bond and equity markets to move in opposite directions. Mr Turner replied that the signals from the equity and bond markets had been completely different over the past ten years. There is a strange situation at the moment where the more bond yields fall, the more attractive equities appear. However, if bond yields were to fall sharply and quickly, this would impact on sentiment in the equity market, so there was still a rationale for the Fund to maintain equity protection.

RESOLVED:

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

2. that there were no issues to be notified to the Committee.

10 ANNUAL REVIEW OF RISK MANAGEMENT STRATEGIES

The Assistant Investments Manager introduced this item. He reminded Members that while the Committee had delegated monitoring of the operation of the Risk Management Framework to the Panel, it is the Committee which determines risk management strategies.

Before discussing the Mercer Risk Management Framework Overview 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 remainder 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.

Mr Ross and Mr Turner presented the Mercer Risk Management Framework Overview.

After discussion the Panel **RESOLVED:**

1. to note Mercer's report reviewing the strategies and collateral position;

2. to recommend to the Committee that the existing trigger framework for the LDI strategy should be maintained;

3. to 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 is asked to consider these recommendations following the second Investment Strategy Review on 7 November 2019 and, if in agreement, delegate implementation of the new static EPS to the Investment Panel and Officers.

11 WORKPLAN

The Investment Manager presented the report. She said the workplan included Panel meeting dates for 2020 and 2021 and invited Members to let her know if any of these caused problems; the Panel had only five members and it was important that meetings were well attended. Dates had been chosen to allow Mercer time to prepare reports and to fit in with Committee meetings.

RESOLVED to note the Panel workplan for inclusion in Committee papers.

The meeting ended at 3.57 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:	**20 November 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 – Global High Alpha Portfolio Exempt Appendix 2 – Property Portfolio Exempt Appendix 3 – Mapping of Avon mandates to Brunel portfolios Exempt Appendix 4 – Plan for transition of Avon's assets to Brunel portfolios Exempt Appendix 5 – 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 (30/09/19)	Transitioning Mandates / Managers	Date transitioned
Passive Equities	£581m	Low Carbon Global Equities / Blackrock	July 2019
UK Equities	£194m	UK Equities / TT International	Nov 2019

4.2 There will be a verbal update at the meeting regarding the portfolios that are in transition.

4.3 Exempt Appendix 1 provides an update on the Global High Alpha Equities Portfolio (for information only).

4.4 Exempt Appendix 2 explores pooling opportunities for the property portfolio.

4.5 Exempt Appendix 3 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.

4.6 Exempt Appendix 4 shows the transition plan for Avon's assets. There is a slight change from the last meeting. 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 overall to complete on time as set out in Brunel's 2019/20 Business Plan.

4.7 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. An operational infrastructure fund, managed by Greencoat, has been selected for the Secured Income Portfolio and has already drawn down on the committed capital.

4.8 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 Brunel provides 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. The next update will be following the Emerging Market Equities transition.

4.11 Avon’s project plan includes a Risk Register (see Exempt Appendix 5) 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 is in the process of addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

7 OTHER OPTIONS CONSIDERED

7.1 None.

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 1700/19

Meeting / Decision: Avon Pension Fund Investment Panel
Date: 20 November 2019

Author: Liz Woodyard
Report Title: Brunel Pension Partnership – Update on pooling Exempt Appendix 1 – Global High Alpha Portfolio Exempt Appendix 2 – Property Portfolio Exempt Appendix 3 – Mapping of Avon mandates to Brunel portfolios Exempt Appendix 4 – Plan for transition of Avon's assets to Brunel portfolios Exempt Appendix 5 – 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 e1700xempt 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 include 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:	**20 NOVEMBER 2019**
TITLE:	**EQUITY RISK MANAGEMENT STRATEGY EVOLUTION**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Exempt Appendix 1 – Mercer Report: Equity Protection Evolution	

1 THE ISSUE

1.1 The case for protecting the Fund from a sharp draw down in equity markets remains compelling. Significant gains in equity markets since inception of the original strategy highlight the need to protect the Fund's current funding level and ensure the affordability of employer contributions.

1.2 Following the September 2019 Committee meeting and the November 2019 Investment Strategy Workshop, Panel have delegated authority to put in place an interim equity protection strategy on expiry of the current strategy. The purpose of this interim solution will be to protect the value of the Fund's equity assets while the Panel considers alternative protection solutions.

1.3 Exempt Appendix 1 provides an update of the current funding position, the proposed objectives for the protection strategy, implementation options and an introduction to alternative protection solutions.

2 RECOMMENDATION

That the Investment Panel:

2.1 **Agrees which of the options set out on Page 13 of Exempt Appendix 1 best achieves the Fund's objective.**

2.2 **Delegates the implementation of the equity risk strategy to Officers in consultation with the Investment Consultant.**

3 FINANCIAL IMPLICATIONS

3.1 The equity protection strategy has been implemented to provide greater certainty that contribution levels will be stable and minimised. Any changes to the framework can affect the level of employer contributions in the future.

3.2 The cost of the strategy will depend on the final structure and option pricing in the market at inception. The aim will be to minimise the costs given the preferred structure.

3.3 Investment management costs will be consistent with what the Fund pays under its existing structure.

4 EVOLUTION OF EQUITY PROTECTION STRATEGY

4.1 **Case for hedging** Global macro risks and multi-year highs in equity markets have given rise to concerns that a large downward correction may materialise in the short term, especially in the US. The case for having protection in place ahead of a possible correction in market values remains strong. Equity exposure remains the biggest contributor to risk in the Fund's portfolio however reducing physical equity holdings is not an option as it would immediately reduce the Fund's return potential and drive contributions up. De-risking using an overlay strategy allows the Fund to simultaneously guard against a market correction while ensuring affordability of contributions.

4.2 **Implementation options – assets hedged**. The current strategy protects the funds developed market equity exposure. The structure can be refined to include or exclude certain regional markets. Any changes made to the hedge will have a direct impact on the potential value of the protection in differing market scenarios. These impacts are discussed further at Exempt Appendix 1.

4.3 **Duration of the hedge -** It is recommended that the duration of the interim strategy should allow sufficient time for the Panel to consider the alternative solutions and make a recommendation to the Committee.

5 RISK MANAGEMENT

5.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. An Investment Panel has been established to consider in greater detail investment performance and related matters and report back to the committee on a regular basis.

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 is in the process of addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

7 OTHER OPTIONS CONSIDERED

7.1 None.

8 CONSULTATION

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

Contact person	Nathan Rollinson, Assistant Investments Manager (Tel: 01225 395357)
Background papers	Committee Papers and Mercer 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: 1701/19

Meeting / Decision: Avon Pension Fund Investment Panel
Date: 20 November 2019

Author: Nathan Rollinson
Report Title: Equity Risk Management Strategy Evolution **List of attachments to this report:** Exempt Appendix 1 – Mercer Report: Equity Protection Evolution

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 apendix 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 Panel 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 Panel 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:	**20 NOVEMBER 2019**	**AGENDA ITEM NUMBER**
TITLE:	**Review of Investment Performance for Periods Ending 30 September 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

Exempt Appendix 4 - Risk Management Framework Quarterly Monitoring Report **(TO FOLLOW)**

Appendix 5 – Brunel Quarterly Performance Report

Appendix 6 – 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 September 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 6 December 2019.

1.3 The report also includes the Risk Monitoring report (exempt Appendix 4) produced by Mercer which includes details of the Fund's liability driven investment strategy and equity protection strategy. Due to the timing of publication of data in respect of these strategies the risk monitoring paper is marked to follow.

1.4 Appendix 5 is the quarterly performance report published by Brunel which focuses on the performance of the Brunel portfolios and responsible investment activity undertaken on the Fund's behalf over the quarter. Each Brunel portfolio review includes a dedicated ESG report which includes carbon foot-printing data, an 'insight' score which indicates current sentiment toward a company based on publically available information and a 'momentum' score which indicates the direction of travel of the company's 'insight' score over a 12 month period, designed to help investors assess whether a company is improving or deteriorating with respect to ESG factors. These metrics are used to derive a weighted average ESG score for each portfolio the Fund is invested in.

1.5 Appendix 6 is for reference only; it shows the implementation of strategic decisions following the 2017 Strategic Review and will be updated to reflect any strategic changes as they are made.

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 £46m in the quarter ending 30 September 2019 giving a value for the investment Fund of £4,992m. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.

4.2 Global equity markets ended the quarter in positive territory. Developed markets increased c.1.7% over the quarter while emerging markets declined. US and UK equities were up by 1.6% and 0.7% respectively. UK 10-year gilt yields fell 0.35% over the quarter and ended the quarter at 0.49%. The Fund's strongest performance came from the corporate bond and global equity managers. The Fund's infrastructure and multi-asset credit mandates posted positive returns as did the DGF's and property funds. Sterling weakened against the US Dollar and the Yen by 3.2% and 2.9% respectively and strengthened against the Euro by 1.1%. The net effect meant the currency hedge detracted c.0.5% 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 6 December 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 5. 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, corporate bonds, real assets, credit and DGFs posting positive absolute returns. On a relative basis, active manager returns were mixed. One emerging market mandate significantly outperformed its benchmark while the Fund's global active equity mandate lagged. Over the 12 months to 30 September the majority of 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 benchmark with the exception of infrastructure which exceeded its cash benchmark by c.9%.

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 including details of how the Fund's collateral position changed over the quarter is presented in Exempt Appendix 4. The full report is unavailable at time of publishing and will follow in due course.

5 INVESTMENT STRATEGY AND PORTFOLIO REBALANCING

5.1 **Asset Class Returns versus Strategic Assumptions**: Developed market equity returns over the last 3 years were 12.6% 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 8.4%; below the assumed 3 year return of 8.7%. Over the three-year period index-linked gilts returned 5.3% 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 **Private Markets Investments:** The Fund has an allocation of 7.5% to Secured Income which is managed by Brunel. The drawdown of the committed capital started in Jan 2019. During 3Q19 a further commitment was made to a UK operating infrastructure equity fund which focuses on renewable energy assets. Investment into UK operating infrastructure is considered complimentary to traditional long-lease assets and serves to reduce the time taken to deploy capital (long investor queues remain in traditional long-lease funds) and also dampens sensitivity to the UK property market while not fundamentally altering the return profile of these predominantly inflationary-linked, income based investments. Separately, capital calls totalling £8.6m were issued by Brunel's underlying renewable infrastructure managers over the quarter. The Fund has now invested c.17% (£19.5m) of its total 2.5% (£115m) commitment to renewable infrastructure.

5.4 **Responsible Investment (RI) Activity:** The Fund signed the Global Investor Statement to Governments on Climate Change. The statement is a call from investors to policy makers for the urgent implementation of the Paris Agreement, a quicker transition to a low carbon economy and greater climate-related financial reporting. It has been signed by 515 investors managing over $35 trillion in assets, including Brunel. Over the quarter, Brunel signed the investor statement on deforestation and forest fires in the Amazon, which has to date been endorsed by 244 investors representing approximately $17.2 trillion in assets. The statement urgently requests companies to redouble their efforts and demonstrate clear commitment to eliminating deforestation within their operations and supply chains. Hermes - Brunel's appointed voting and engagement provider – also supported the investor statement. Appendix 5 includes details of the work being undertaken by Brunel as an active member of the PRI Plastic Working Group and presents the key findings of the most recent Transition Pathway Initiative Report on the Energy sector.

5.5 **Voting and Engagement Activity:** Hermes engaged with 25 companies held by Avon in the Brunel segregated portfolios on a range of 68 ESG issues. Environmental topics featured in 36.8% of engagements, 40% of which related directly to climate change. Social topics featured in 14.7% of engagements, where human capital management and corporate conduct and culture featured prominently. Of the 33.8% of Governance related engagements the majority of discussions revolved around executive remuneration. Aggregate voting data across all of the Fund's investment managers will be reported to Committee at their next meeting. Post quarter end, Brunel supported a shareholder resolution calling on BHP Group to withdraw from industry groups with positions contrary to the Paris Agreement. Avon holds BHP Group in the Brunel UK active equity portfolio. The resolution won 27.1% support and despite not being carried has led to further engagement between company management and shareholders, which will inform BHP's 2019 Industry Association Review.

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 is in the process of addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8 OTHER OPTIONS CONSIDERED

8.1 None.

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 SEPT 2019

	Brunel Portfolios	**Cash Management Strategy**	**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	193.7			189.8													383.5	7.7%
Emerging Markets					125.7	112.0											237.7	4.8%
Global Developed Markets			487.1	12.1			418.2										917.3	18.4%
Global Low Carbon	580.8																580.8	11.6%
Equity Derivatives[1]			-54.0												5.3		-48.7	-1.0%
Total Overseas	***580.8***		***433.0***	***12.1***	***125.7***	***112.0***	***418.2***										***1681.8***	**33.8%**
Total Equities	**774.5**		**433.0**	**201.9**	**125.7**	**112.0**	**418.2**								**5.3**		***2070.5***	**41.5%**
Exchange-Traded Funds		**32.5**															***32.5***	**0.7%**
DGFs									**223.0**	**395.0**							***618.1***	**12.4%**
Hedge Funds								**250.9**									***250.9***	**5.0%**
MAC											**429.8**						***429.8***	**8.6%**
Property												**221.8**	**215.9**				***437.7***	**8.8%**
Infrastructure														**365.4**			***365.4***	**7.3%**
Renewable Infrastructure	**19.3**																***19.3***	**0.4%**
Secured Income	**17.1**																***17.1***	**0.3%**
LDI Assets & Bonds																		
LDI Assets			537.9														537.9	10.8%
Corporate Bonds			125.3														125.3	2.5%
Total Bonds			**663.1**														***663.1***	**13.3%**
Cash			0.9	13.5			8.1					7.6				85.1	***115.2***	**2.3%**
FX Hedging															-28.4		***-28.4***	**-0.6%**
TOTAL	**810.9**	**32.5**	**1097.0**	**215.4**	**125.7**	**112.0**	**426.3**	**250.9**	**223.0**	**395.0**	**429.8**	**229.4**	**215.9**	**365.4**	**-23.1**	**85.1**	**4992.3**	**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 SEPTEMBER 2019

NOVEMBER 2019

Page 69

Steve Turner

MAKE TOMORROW, TODAY MERCER

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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

Page 71

SECTION 1

EXECUTIVE SUMMARY

Page 72

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 £46m over the third quarter of 2019, to £4,992m as at 30 September 2019. This increase was driven primarily by positive returns from overseas equities.

Strategy

- Global (developed) equity returns over the last three years were 12.6% 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 positive performing quarter. Favourable market behaviour and easier monetary policy is offset by elevated valuations and a macro environment which is subject to headline risk and fairly fragile to unpredictable geopolitical disruptions.
- Emerging market equities have returned 8.4% p.a. over the three-year period, below the assumed return of 8.70% p.a. Despite our view that attractive valuations, a better earnings outlook and more favourable market sentiment exist in emerging markets, these factors continue to be obscured by the uncertain macro environment and uncertainty surrounding the trade dispute. As a resolution to the trade dispute does not appear imminent, we recommend a neutral weight in recognition that the potential for downside is likely to persist longer than originally anticipated.
- 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 5.3% p.a. versus an assumed return of 1.90% p.a. and index-linked gilts also returned 5.3% 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 3.2% p.a. over the three-year period, marginally below the assumed strategic return of 3.25% p.a.
- The three-year UK property return of 7.7% p.a. remains higher than the assumed return of 5.75% p.a.
- Hedge fund returns were negative over the quarter in local currency terms, 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 mainly positive, with the strongest performance coming from the corporate bond and global equity managers. The Fund's infrastructure and multi-asset credit mandates were other strong performers over the period and the two Diversified Growth Fund ("DGF") and two property mandates also generated positive returns. The Fund's fund of hedge funds and the defensive, high quality emerging market equity manager generated negative total returns over the quarter.
- Absolute returns over the year to 30 September 2019 were broadly positive across the Fund's investment managers with all of the managers (aside from the defensive, high quality emerging market equity manager) delivering positive returns over the period.
- Relative performance for the Fund's active equity managers was mixed over the quarter, with the one of the emerging market equity mangers and UK equity funds outperforming their benchmarks.
- Relative performance has also been mixed over the year to 30 September 2019. The infrastructure, global sustainable equity and one of the emerging market 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, UK property and one of the emerging market equity mandates generating positive relative returns.

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

- The majority of the 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.

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	2	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					

Page 76

Focus Points

- Partners' performance target is 10% p.a. and benchmark taken as 8% p.a. (estimated net IRR, in local currency terms).
- Ruffer's ESG rating has been upgraded from ESG3 to ESG2

SECTION 2

MARKET BACKGROUND

MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

The global economy has continued to slow with the latest current economic activity indicators showing below trend growth for both developed and emerging markets. Manufacturing remains in a downturn, capital expenditure is soft while service indicators remain stable, albeit weaker than in the recent past. Growth remains thus reliant on consumption spending which has been strong, driven by healthy labour markets but employment growth has started to show signs of flattening out.

In the UK, GDP contracted by 0.2% over the quarter to June 2019 and is expected to be flat in Q3 at best. CPI inflation fell to 1.7% at the end of August from 2.0% at the end of June. The Bank of England kept monetary policy unchanged with short-dated interest rates at 0.75%.

Within global equity markets, the US economy grew by an annualised 2.0% over the quarter to June 2019 but this is expected to have slowed a bit in Q3. The Federal Reserve made good on its promise to ease and cut the benchmark rate twice (in July and September) from 2.25% - 2.5% to 1.75% - 2.0%. The US manufacturing PMI for September fell by the most in a decade. Consumer spending on the other hand has been holding up. Economic growth remains largely subdued in the Eurozone and Japan.

While emerging countries have more favourable growth prospects for the coming year along with reasonably stable inflation and improving current account balances in most cases, trade uncertainty remains an issue.

Bond Market Review

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

The Over 15 Year Gilt Index generated a return of 11.0%, outperforming 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 8.7% as a result.

Credit spreads were mostly flat over the quarter, as investors left risk allocations largely unchanged given the ongoing slowdown fears. The sterling Non-Gilts All Stocks Index credit spread ended the quarter at c.1.3% p.a., and UK credit assets delivered a return of 3.7% over the quarter.

Currency Market Review

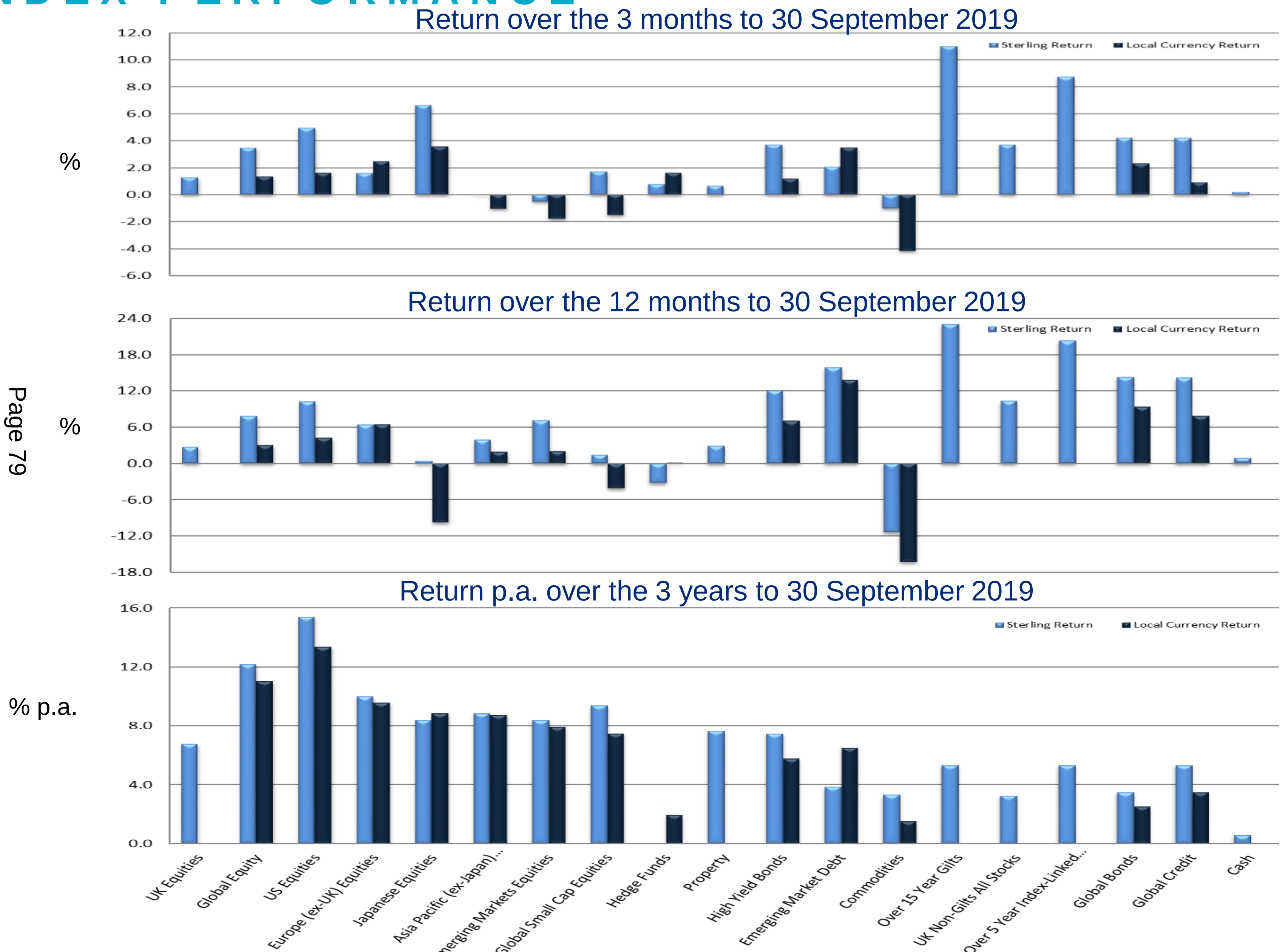
Over the quarter, Sterling weakened against the US Dollar and Yen (-3.2% and -2.9% respectively) and strengthened against the Euro by 1.1%.

Commodity Market Review

Commodity performance was negative as a whole, which was driven by economic slowdown fears. Precious metals, driven by gold, did well due to their safe haven characteristics. The pick-up in US inflation as well as lower opportunity costs of holding gold amid falling yields added to its momentum. In spite of the alleged attack by Iran on Saudi Arabian oil facilities that led to a spike in oil prices the following day, slowdown fears and rising inventories led to negative performance for the energy sector. The ongoing epidemic of African Swine fever in China boosted meat prices across the world, leading to positive returns for the livestock sector.

Source: Thomson Reuters Datastream, Consensus Economics, ONS

MARKET BACKGROUND
INDEX PERFORMANCE



Page 79

Source: Thomson Reuters Datastream.

SECTION 3

STRATEGIC ASSUMPTIONS

Page 80

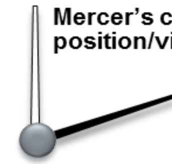
MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.05	12.6	*Remains ahead of the assumed strategic return. This fell slightly from 14.2% p.a. last quarter, as the latest quarter's return of 3.9% was slightly lower than the return of Q3 2016, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.70	8.4	*The three year return from emerging market equities fell below the assumed strategic return this quarter, having decreased from 12.5% p.a. last quarter. The return over Q3 2019 was negative at -0.5%, and materially lower than the return for the quarter that fell out of the period (11.2%).*
Diversified Growth	6.95 (Libor + 4% / RPI + 5%)	6.0 (4.6 / 8.2)	*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	5.3	*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 continued to fall.* *Corporate bond returns, however, fell below the assumed strategic returns, as the return over the quarter of 3.7% was lower than the return in Q3 2016, which fell out of the period.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	2.15	5.3	
UK Corporate Bonds (BofAML Sterling Non Gilts)	3.25	3.2	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	5.10	-0.4	*Hedge fund returns turned negative 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	7.7	*Actual property returns continue to be ahead of the expected returns. The asset class returned 0.6% over the third quarter of 2019, and saw the three year return grow. This has defied concerns to some extent over slowing rental growth post-Brexit and weak fundamentals, though a cautious outlook may still be required.*
Infrastructure (S&P Global Infrastructure)	6.95	9.9	*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 – Q4 2019

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

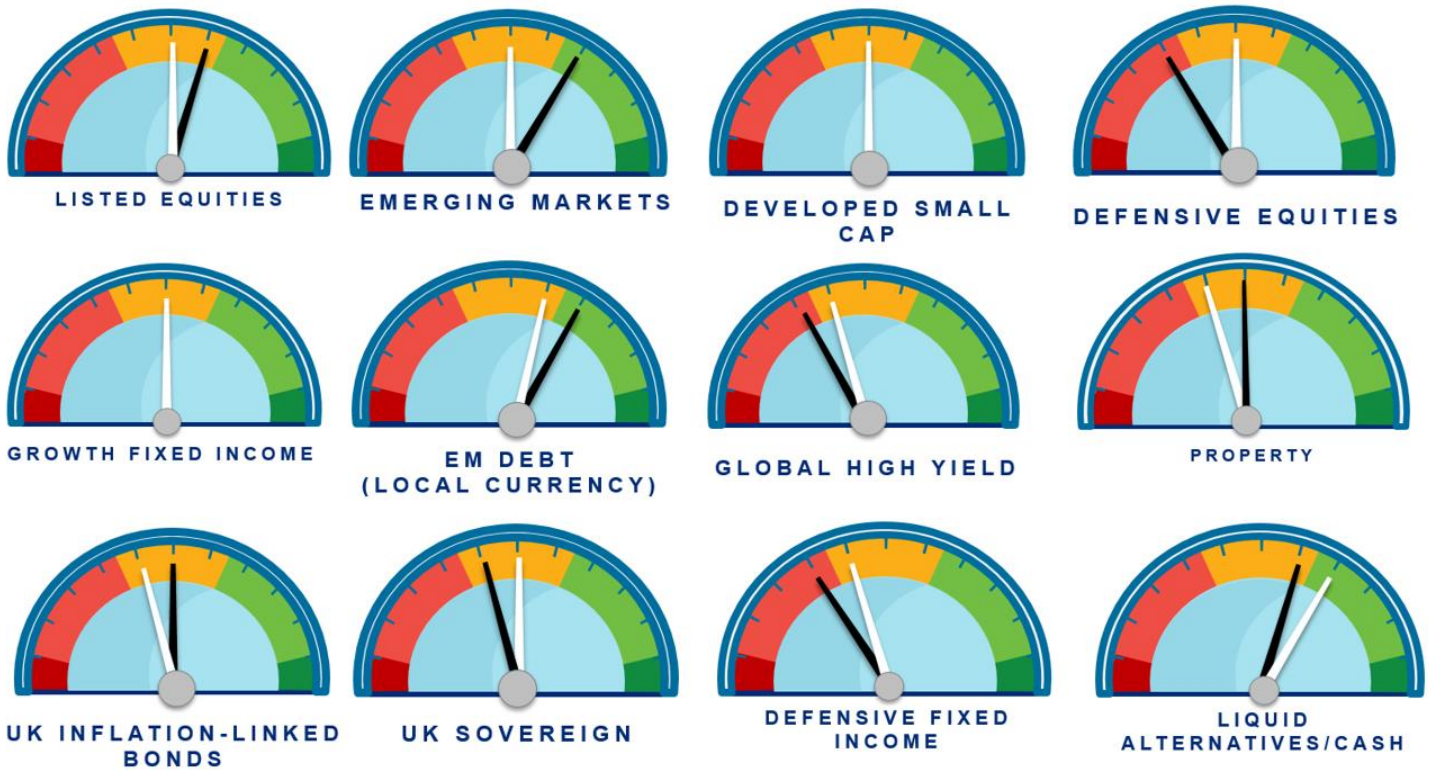


Equities

Growth Fixed Income & Property (Core)

Page 82

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

Page 83

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	1,847,732	1,903,608	37.4	38.1	34.0	29 - 39	+4.1
Emerging Market Equities	237,109	237,739	4.8	4.8	6.0	3 - 9	-1.2
Diversified Growth Funds	608,926	618,077	12.3	12.4	15.0	10 - 20	-2.6
Fund of Hedge Funds	239,766	250,926	4.8	5.0	5.0	0 - 7.5	0.0
Property	474,133	462,454	9.6	9.3	10.0	5 - 15	-0.7
Infrastructure	362,675	384,700	7.3	7.7	5.0	0 - 7.5	+2.7
Multi-Asset Credit	424,019	429,778	8.6	8.6	11.0	6 - 16	-2.4
Corporate Bonds	119,134	125,865	2.4	2.5	2.0	No set range	+0.5
LDI*	511,798	484,721	10.3	9.7	12.0	No set range	-2.3
Cash (including currency instruments)	121,101	94,488	2.4	1.9	-	0 - 5	+1.9
Total	**4,946,392**	**4,992,355**	**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 £46m due to positive returns from overseas equities in particular. Infrastructure has drifted to marginally above its tolerance range, although all other asset classes remain within their 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	469,102		487,210	9.5	9.8
BlackRock	Corporate Bonds	119,134		125,865	2.4	2.5
BlackRock	LDI*	511,798		484,721	10.3	9.7
BlackRock	Cash	75,328	-45,000	32,544	1.5	0.7
Brunel	Global Low Carbon Equities	556,894		580,755	11.3	11.6
Brunel	UK Equities	193,138		193,703	3.9	3.9
Jupiter	UK Equities	200,068		203,303	4.0	4.1
Jupiter	Global Sustainable Equities	11,679		12,064	0.2	0.2
Schroder	Global Equities	416,537		426,266	8.4	8.5
Genesis	Emerging Market Equities	123,271		125,730	2.5	2.5
Unigestion	Emerging Market Equities	113,837		112,010	2.3	2.2

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

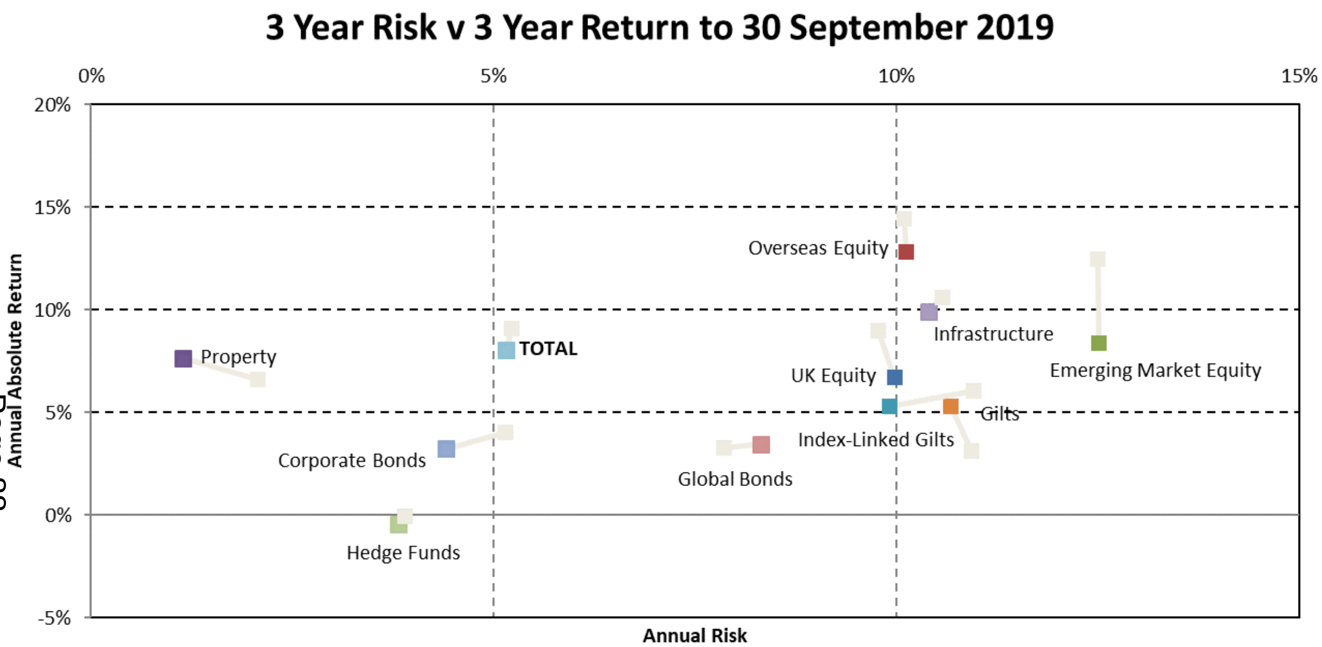
Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Pyrford	DGF	221,023		223,048	4.5	4.5
Ruffer	DGF	387,902		395,029	7.8	7.9
JP Morgan	Fund of Hedge Funds	239,766		250,926	4.8	5.0
Schroder	UK Property	242,250	-14,025	229,400	4.9	4.6
Partners	Property	214,950	-2,458	215,926	4.3	4.3
Brunel	Secured Income	16,933		17,128	0.3	0.3
IFM	Infrastructure	352,075		365,379	7.1	7.3
Brunel	Infrastructure	10,600	+8,607	19,321	0.2	0.4
Loomis Sayles	Multi-Asset Credit	424,019		429,778	8.6	8.6
Record Currency Management	Currency Hedging	-6,405		-23,146	-0.1	-0.5
Internal Cash	Cash	52,178		85,090	1.1	1.7
Total		**4,946,392**		**4,992,355**	**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



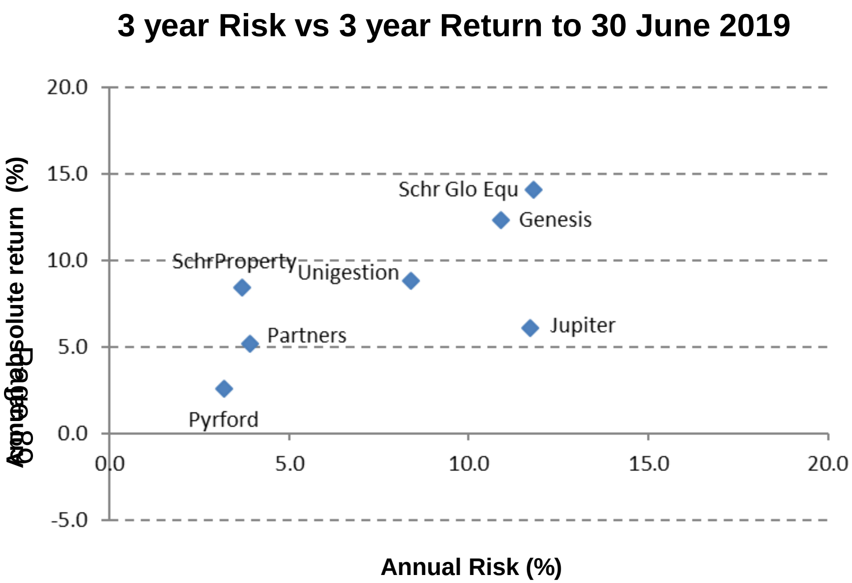
Page 88

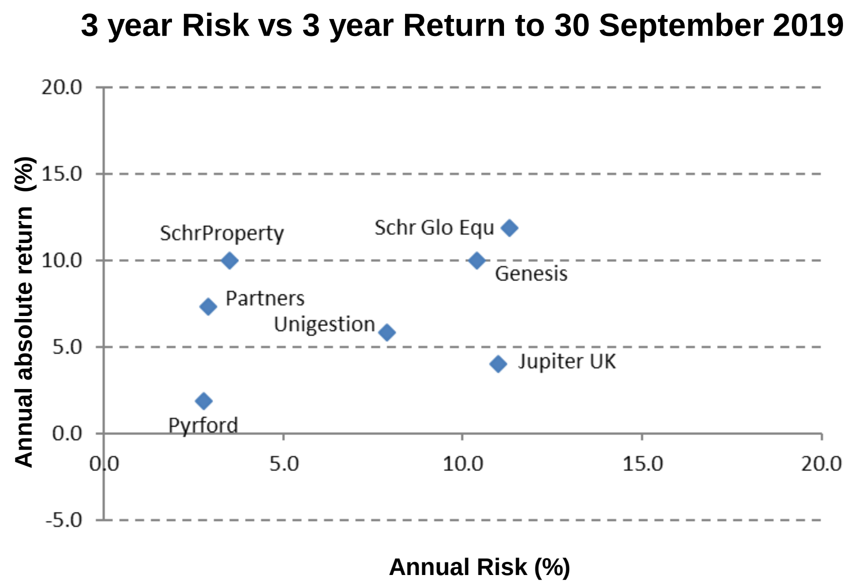
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of September 2019, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark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

Comments

- Most asset classes saw decreases in observed returns over the three-year period, with notable falls coming from Overseas and Emerging Market Equity.
- Associated volatilities also fell across most asset classes. These changes were less pronounced, although some declines of note came from Property and Index-Linked Gilts.

MANAGER MONITORING
RISK RETURN ANALYSIS





Comments

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

MANAGER MONITORING
MANAGER PERFORMANCE TO 30 SEPTEMBER 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	1.6	1.4	+0.1	6.7	6.1	+0.6	12.6	12.3	+0.3	-	N/A
BlackRock Corporate Bonds	5.7	5.7	0.0	15.9	15.9	0.0	3.8	3.9	0.0	-	N/A
BlackRock LDI	3.3	3.3	0.0	8.4	8.4	0.0	4.9	4.9	0.0	-	N/A
Brunel UK Equity	0.3	1.3	-1.0	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Brunel Passive Low Carbon Equity	4.3	4.3	0.0	9.0	9.0	0.0	N/A	N/A	N/A	-	N/A
Jupiter UK Equity	1.6	1.3	+0.3	1.0	2.7	-1.7	3.9	6.8	-2.7	+2	Target not met
Jupiter Global Sustainable Equity	3.3	3.4	-0.1	13.0	7.9	+4.7	N/A	N/A	N/A	+2-4	N/A
Schroder Equity	2.3	3.4	-1.1	6.5	7.9	-1.3	11.9	12.3	-0.4	+4	Target not met
Genesis	2.0	-1.0	+3.0	14.0	4.1	+9.5	10.1	8.3	+1.7	-	Target met
Unigestion	-1.6	-1.1	-0.5	-2.4	3.7	-5.9	5.6	7.9	-2.1	+2-4	Target not met
Pyrford	0.9	1.8	-0.9	2.9	7.6	-4.4	1.9	8.3	-5.9	-	Target not met
Ruffer	1.8	1.5	+0.3	1.5	6.0	-4.2	N/A	N/A	N/A	-	N/A
JP Morgan	-0.4	1.4	-1.8	2.0	5.6	-3.4	4.5	4.8	-0.3	-	Target not met
Schroder Property	0.4	0.4	0.0	2.3	2.2	+0.1	6.8	6.7	+0.1	+1	Target not met
Partners Property*	1.7	2.5	-0.8	5.3	10.0	-4.3	4.6	10.0	-4.9	-	Target not met
Brunel Secured Income	1.2	0.6	+0.6	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
IFM	0.5	1.2	-0.8	8.2	5.4	+2.7	13.9	4.3	+9.2	-	N/A
Brunel Infrastructure	1.6	0.6	+1.0	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Loomis Sayles	1.4	1.2	+0.2	6.5	4.9	+1.5	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.

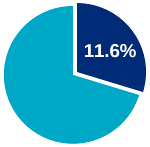
* Performance to 30 June 2019 as this is the latest date that this is available to.

SECTION 6

MANAGER PERFORMANCE

Page 91

BRUNEL – PASSIVE GLOBAL LOW CARBON EQUITIES
£580.8M END VALUE *(£556.9M START VALUE)*



Item Monitored		Outcome
Mercer Rating	●	N/A
Performance Objective *In line with the benchmark*	●	Has performed in line with its benchmark over the year

Manager Research and Developments

- Mandate was initiated in July 2018. LGIM is the underlying manager.
- The fund returned 4.3% over Q3 2019, in line with its benchmark and it has also performed in line with its benchmark over the year to 30 September 2019.
- The fund outperformed the wider market capitalisation index, the MSCI World, which generated a return of 3.8% over the quarter.

Page 92

Reason for investment

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

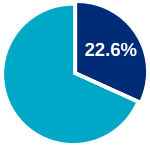
Reason for manager

- Investment made via the Brunel pool

Sector Allocation

Financials	16.6
Information Technology	16.5
Industrials	12.5
Health Care	12.4
Consumer Discretionary	10.7
Consumer Staples	8.9
Communication Services	8.5
Energy	3.8
Materials	3.7
Other	6.5

As at 30 September 2019



BLACKROCK – PASSIVE MULTI-ASSET & LDI (POOLED EQUITIES & QIF)
£1,130.3M END VALUE (£1,175.4M 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 1.6% over Q3, 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 3.3%, and the Fund's Corporate Bond allocation returned 5.7% over the quarter. The benchmark returns for these have been assumed to be equal to the fund over the quarter.

Page 93

Reason for investment

To provide asset growth as part of a diversified portfolio

Reason for manager

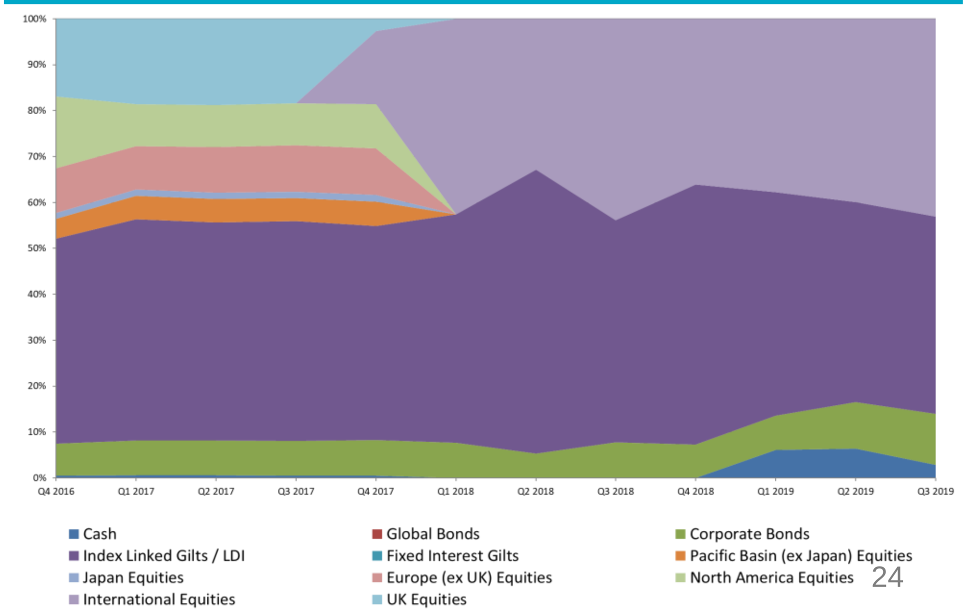
- To provide low cost market exposure across multi asset classes
- Provide efficient way for rebalancing between bonds and equities within a single portfolio

Performance

	Quarter (%)		1-Year (%)		3-Year (% p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Equities	1.6	1.4	6.7	6.1	12.6	12.3
Corporate Bonds*	5.7	5.7	15.9	15.9	3.8	3.9
LDI**	3.3	3.3	8.4	8.4	4.9	4.9
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 Credit holdings thereafter.
** LDI performance reflects legacy index-linked gilt holdings prior to 30 June 2017 and QIF holdings thereafter. Equity protection strategy performance is not reflected.

Asset Allocation



BRUNEL – ACTIVE UK EQUITIES
£193.7M END VALUE *(£193.1M START VALUE)*

3.9%

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.
- The mandate returned 0.3% over the quarter, underperforming its benchmark which generated a return of 1.3%.

Page 94

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)
£203.3M END VALUE *(£200.1M START VALUE)*

4.1%

Item Monitored		Outcome
Mercer Rating	🟠	B (no change over period under review). ESG2
Performance Objective *Benchmark +2% p.a.*	🔴	Underperformed benchmark by 2.7% p.a. over three years
Tracking error was 3.8% p.a. – *source: Jupiter*		Number of stocks: 54

Manager Research and Developments

- Jupiter outperformed its benchmark over the quarter by 0.3%.
- Domestic news caused the UK stock market to lag other developed markets. While defensive stocks delivered solid gains, economically-sensitive companies, such as oil firms and miners, retreated given the concerns over the global economic outlook.
- On the positive side, Cranswick and FirstGroup were notably strong, with the latter buoyed by a series of announcements including the appointment of a new Chair, and winning the UK's Westcoast mainline rail tender.
- Jupiter underperformed the benchmark by 1.7% over the year and by 2.7% p.a. over the three years to 30 September 2019.

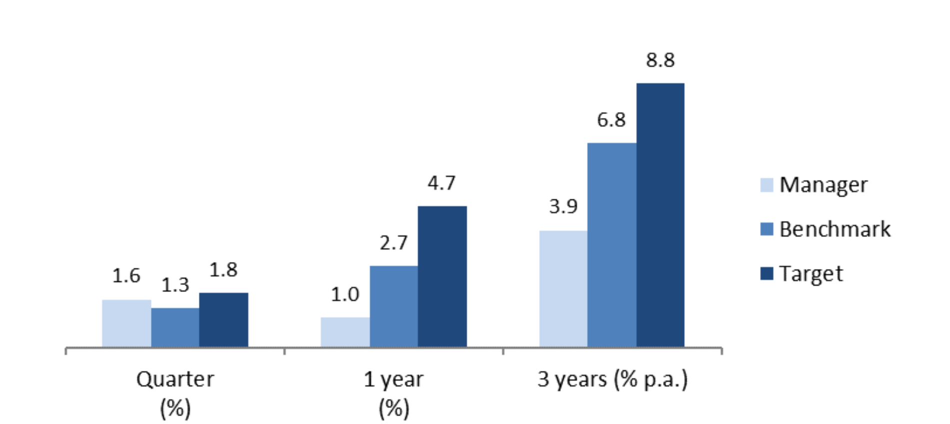
Reason for investment

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

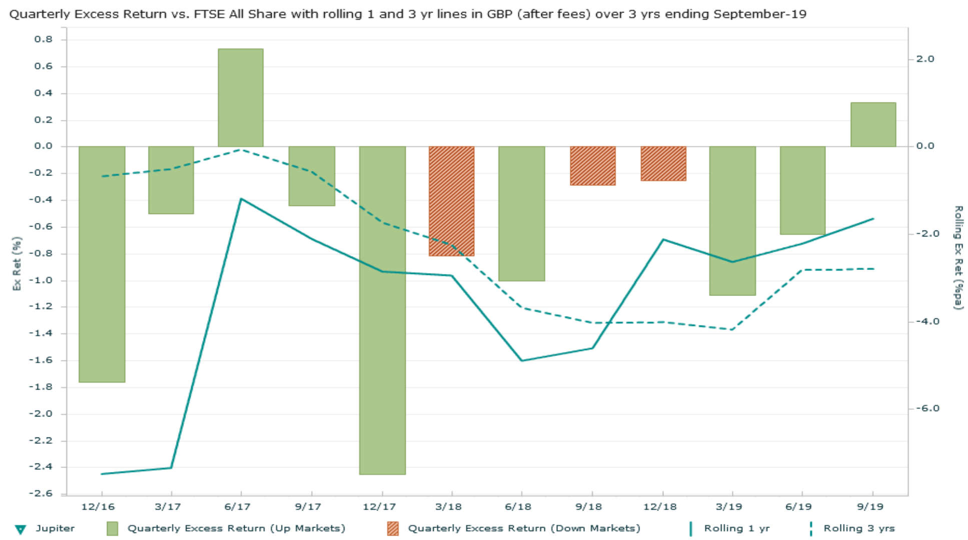
Reason for manager

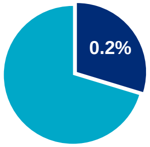
- Clear and robust approach to evaluating SRI factors within the investment process
- Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities
- Corporate commitment to SRI investment approach within a more mainstream investment team

Performance



Rolling relative returns

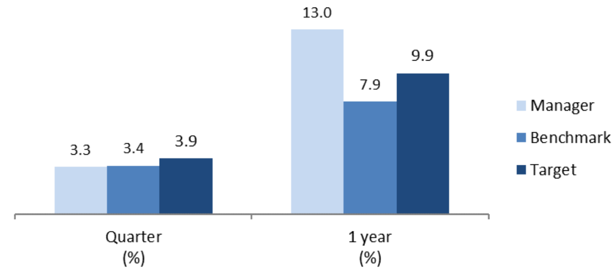




JUPITER ASSET MANAGEMENT – GLOBAL SUSTAINABLE EQUITIES (POOLED)
£12.1M END VALUE *(£11.7M START VALUE)*

Item Monitored	Outcome
Mercer Rating	N (no change over period under review)
Performance Objective *Benchmark +2-4% p.a.*	Has achieved its objective over the year to 30 September 2019

Performance



Manager Research and Developments

- Mandate was initiated in June 2018.
- The fund returned 3.3% over Q3 2019, marginally underperforming its benchmark.
- It did however outperform its benchmark by 4.7% over the year to 30 September 2019.

Page 96

Sector Allocation

Sector Allocation

Industrials[1]	33.6%
Financials	21.1%
Consumer Goods	10.5%
Health Care	9.3%
Technology	7.8%
Basic Materials	5.9%
Utilities	3.9%
Consumer Services	3.0%
Telecommunications	1.2%
	96.0%
Cash	**4.0%**
Total	**100.0%**

[1]Includes general electronic equipment, medical equipment and consumer financial stocks (15.35%).

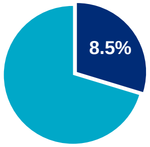
Source: Jupiter.
As at 30 September 2019.

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



SCHRODER – GLOBAL EQUITY PORTFOLIO (SEGREGATED)
£426.3M END VALUE *(£416.5M START VALUE)*

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

Three year tracking error was 2.2% p.a. – *source: Mercer*

Manager Research and Developments

- The fund underperformed the benchmark by 1.1% over the quarter, and by 1.3% over the year. It also slightly underperformed the benchmark over the three years to 30 September 2019.
- Positions in financials, industrial and technology sectors detracted the most over the quarter, while an underweight position in the utilities sector also dragged on performance.
- Performance was also weak across major regions in aggregate, particularly North America, although an underweight position in emerging markets was supportive.
- Proctor & Gamble, Alphabet and Comcast were the largest stock specific contributors over the quarter, with the largest detractors were Anthem, AIA Group and Apple.

Page 97

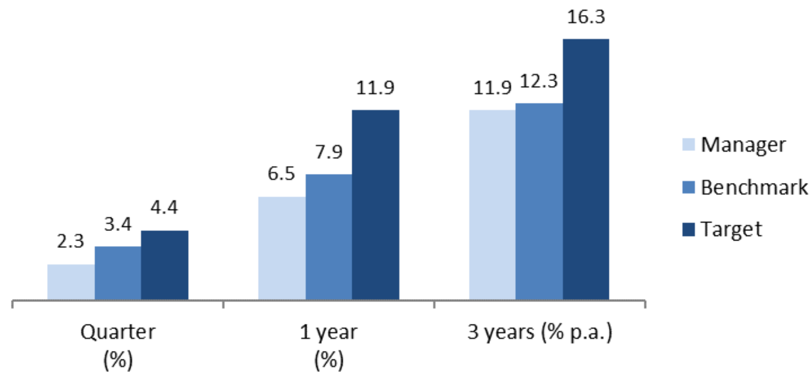
Reason for investment

To provide asset growth as part of a diversified equity portfolio

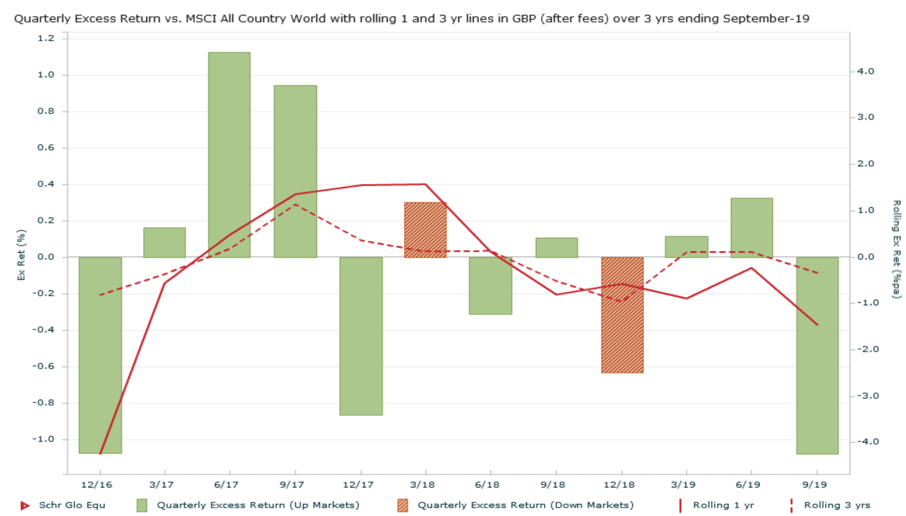
Reason for manager

- 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

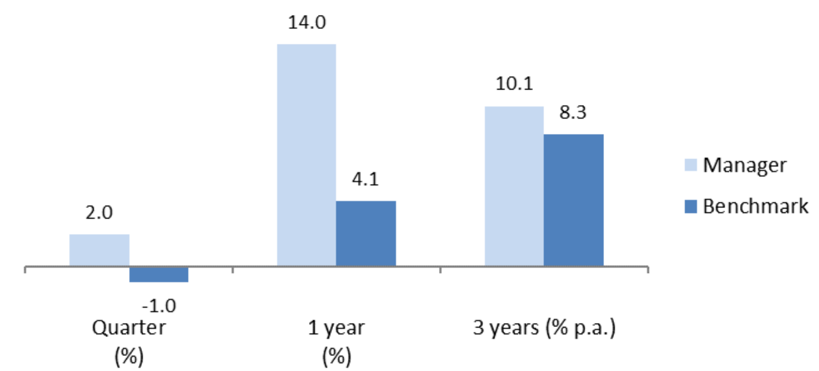


GENESIS ASSET MANAGERS – EMERGING MARKET EQUITIES (POOLED)
£125.7M END VALUE *(£123.3M START VALUE)*

2.5%

Item Monitored	Outcome
Mercer Rating	A (no change over period under review). ESG3
Performance Objective *Benchmark*	Outperformed benchmark by 1.7% p.a. over three years
Three year tracking error was 3.8% p.a. – *source: Genesis*	Number of stocks: 110

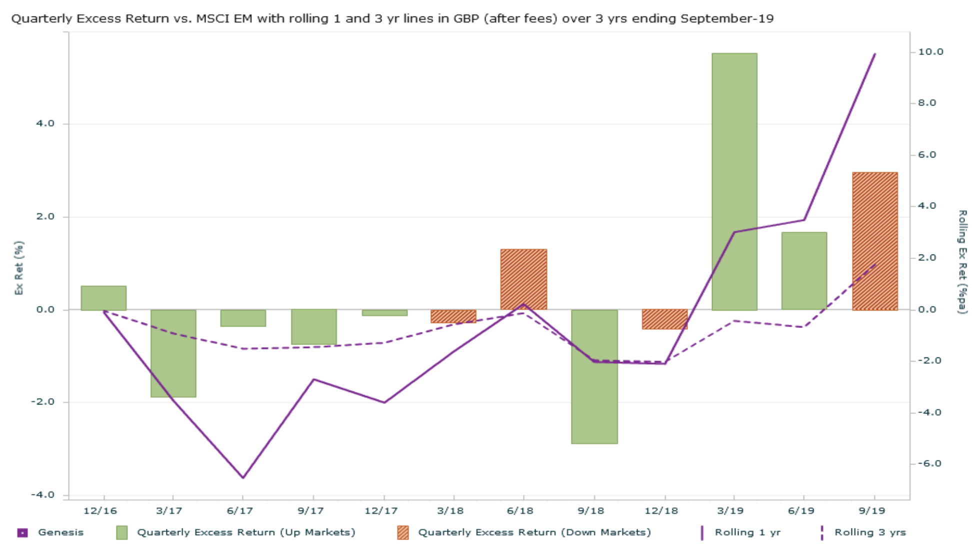
Performance



Manager Research and Developments

- The fund has outperformed its benchmark by 3.0% over the quarter, by 9.5% over the year, and by 1.7% p.a. over the three years to 30 September 2019.
- Regionally, South Korea was the largest contributor to returns over the quarter, whilst Taiwan was the largest detractor. The largest stock specific contributors were Naver and New Oriental Education from South Korea and China respectively, whilst the largest detractor was 58.com from China. In terms of sectors, Financials were the largest contributor, whilst IT was the largest detractor.

Rolling relative returns

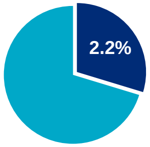


Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

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



UNIGESTION – EMERGING MARKET EQUITIES (POOLED – SUB-FUND)
£112.0M END VALUE (£113.8M START VALUE)

Item Monitored		Outcome
Mercer Rating	🟠	R (no change over period under review)
Performance Objective *Benchmark +2-4% p.a.*	🔴	Underperformed benchmark by 2.3% p.a. over three years
Three year tracking error was 6.2% p.a. – *source: Unigestion*		Number of stocks: 84

Manager Research and Developments

- The fund underperformed its benchmark by 0.5% over the quarter and by 5.9% and 2.1% over the one and three year periods respectively.
- This was largely due to poor performance in August as global equities had a significant pull back, with defensive sectors outperforming cyclicals. This was enough to outweigh modest gains in July and September.
- Relative underperformance was most notable in July however, with underweight positions in Semiconductors, Retailing and Media detracting in terms of industry group attributions. By country, the fund was also held back by overweight positions in Thailand and India.
- Volatility since inception is 12.8%, lower than the index (16.0%) 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.

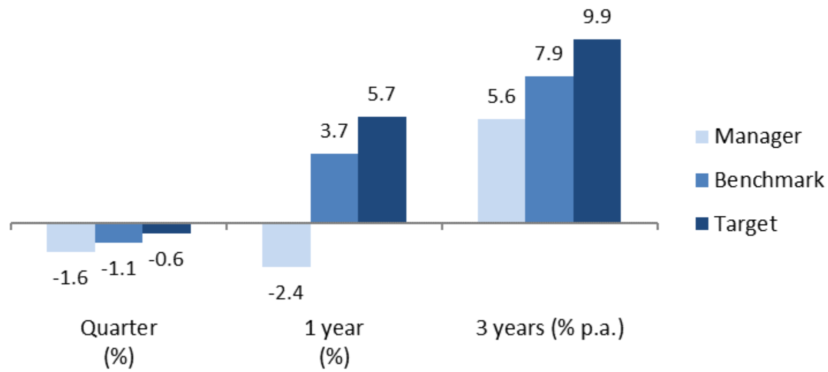
Reason for investment

To provide asset growth as part of a diversified equity portfolio

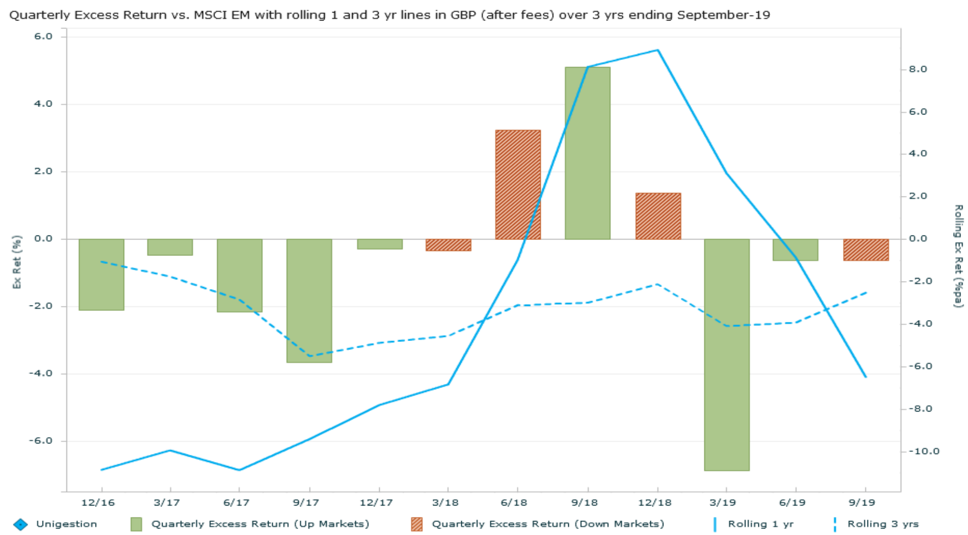
Reason for manager

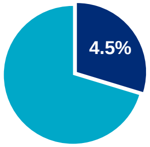
- Risk-based active management approach
- Aim for lower volatility than the MSCI Emerging Markets Index
- Combine fundamental and quantitative analysis

Performance



Rolling relative returns





PYRFORD – DGF (POOLED)
£223.0M END VALUE *(£221.0M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	●	R (no change over period under review)
Performance Objective *RPI +5% p.a.*	●	Underperformed target by 5.9% p.a. over three years

Manager Research and Developments

- The fund underperformed its objective (RPI + 5% p.a.) over the quarter by 0.9%, and has also underperformed by 4.4% over the year and by 5.9% p.a. over three years.
- They driver of positive absolute returns over the quarter came from the portfolio's exposure to domestic equities, in particular Vodafone, GlaxoSmithKline and SSE.
- 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.

Page 100

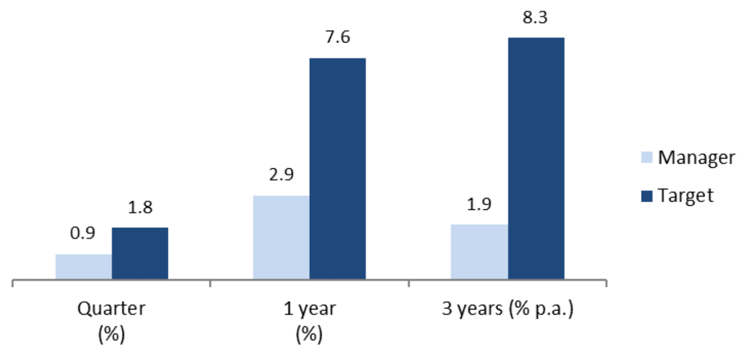
Reason for investment

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

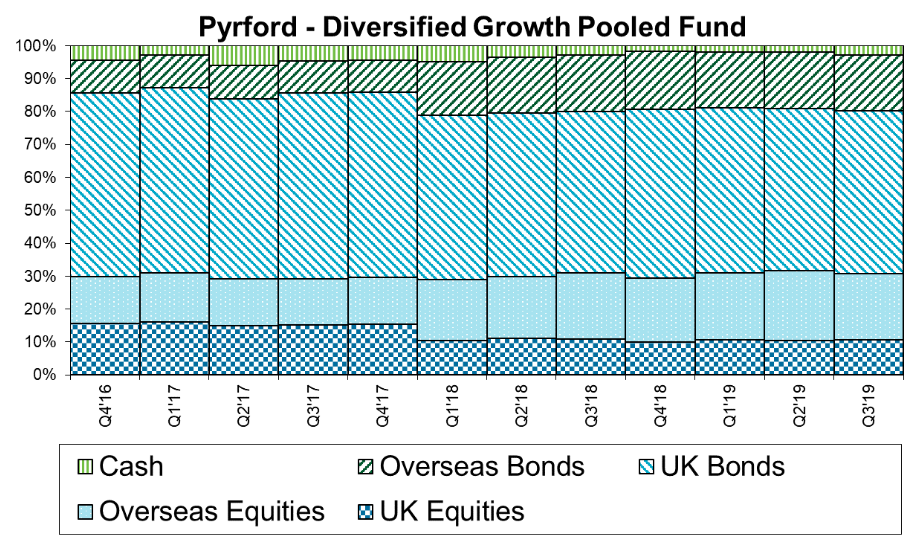
Reason for manager

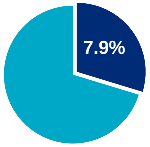
- Asset allocation skill between equities, bonds and cash
- Fundamental approach to stock selection

Performance



Asset Allocation





RUFFER – DGF (POOLED)
£395.0M END VALUE *(£387.9M START VALUE)*

Item Monitored		Outcome
Mercer Rating	🟢	A (no change over period under review). ESG2
Performance Objective *Cash +5% p.a.*	🔴	Underperformed target by 4.2% p.a. over the year

Manager Research and Developments

- Ruffer delivered a performance of 1.8% over the quarter against an objective of 1.5%, and a performance of 1.5% over the year against an objective of 6.0%.
- Strong stock selection in Japanese equities boosted returns with this exposure returning 10% on average.
- The collapse in government bond yields meant that UK index-linked prices rose strongly, and gold equities similarly continued their strong performance with its status as a 'safe haven' in the context of negative-yielding global bonds.
- Ruffer's primary focus remains capital preservation and to not lose money in any twelve-month period.
- To this end the strategy was successful over the year to 30 September 2019. However, part of the underperformance can be attributed to the negative contribution from protection strategies. Ruffer's UK equity positioning has also hurt performance on the back of the decline in domestic confidence amidst ongoing Brexit uncertainty.
- Ruffer saw it's Mercer ESG rating upgraded over the quarter to ESG2. Mercer takes the view that they systematically integrate ESG considerations into their investment process, starting at the idea-generation stage and continuing through to the stock-review process.

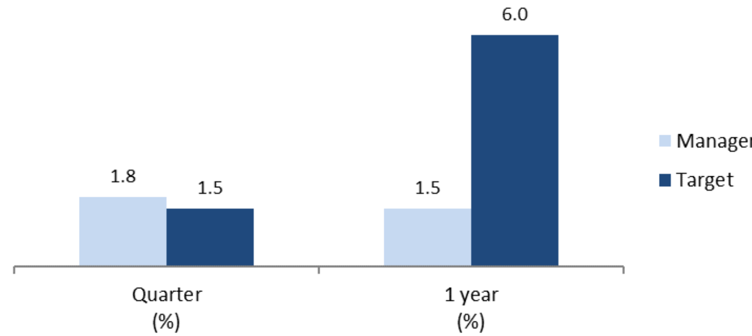
Reason for investment

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

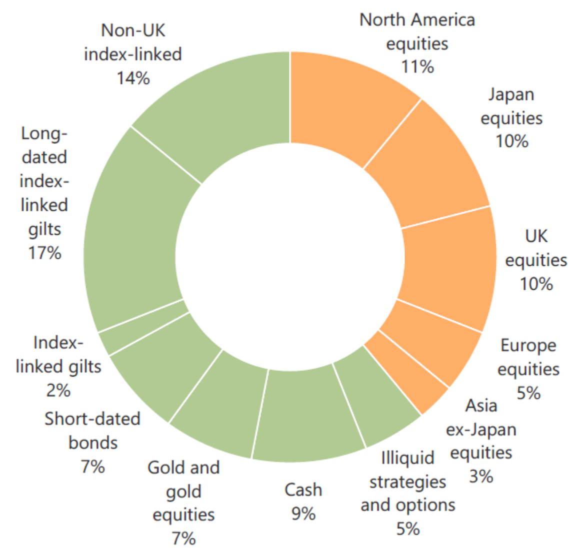
Reason for manager

- 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

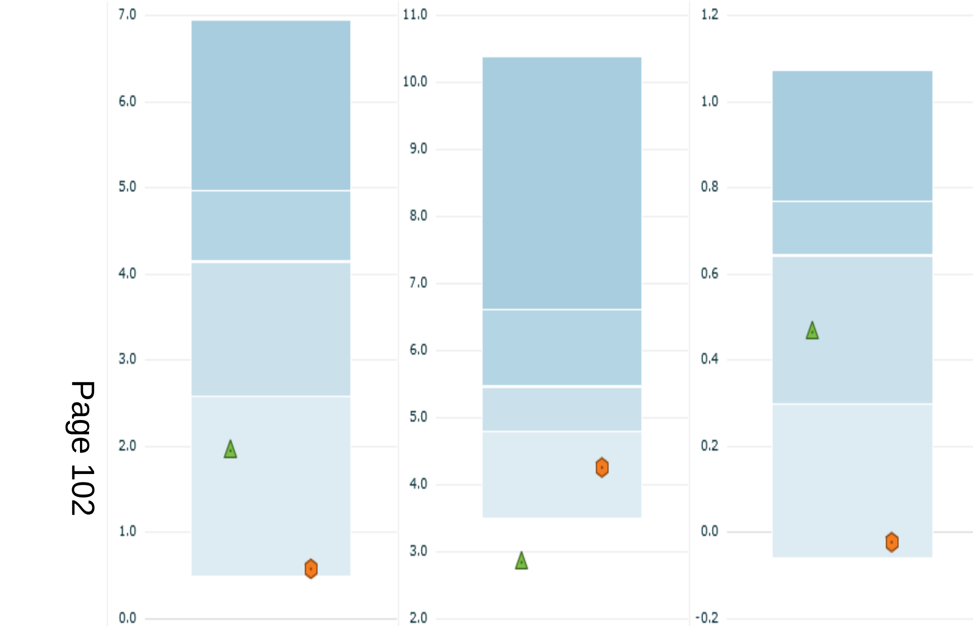


Source: Ruffer.
As at 30 September 2019.

DGF MANDATES

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

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

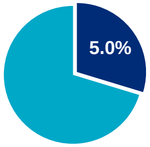


Page 102

	Ret (%pa)	Std Dev (%pa)	IR
Pyrford	1.9 *(35)*	2.8 *(42)*	0.5 *(29)*
Ruffer	0.6 *(39)*	4.3 *(39)*	0.0 *(39)*
95th Percentile	7.0	10.4	1.1
Upper Quartile	5.0	6.6	0.8
Median	4.1	5.5	0.6
Lower Quartile	2.6	4.8	0.3
5th Percentile	0.5	3.5	-0.1
Number	43	43	43

Commentary

- Over the three years to 30 September 2019, Pyrford outperformed the Ruffer pooled fund by 1.3% 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 2.8% p.a. by Pyrford, while Ruffer had a volatility of 4.3% 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
£250.9M END VALUE *(£239.8M START VALUE)*

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

Item	
Number of funds	29 (as at 30 September 2019)

Strategy	Contribution to Performance over the Quarter in USD (%)
Relative Value	0.14
Opportunistic/Macro	0.32
Long/Short Equities	-0.89
Merger Arbitrage/Event Driven	-0.01
Credit	0.03
Total	**-0.4 (including cash and fees)**

In USD terms, the fund return was 2.8% over Q3 (above benchmark).

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

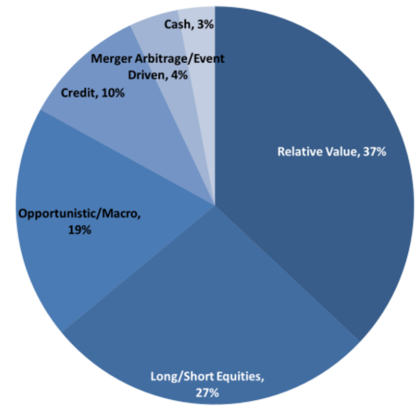
Reason for manager

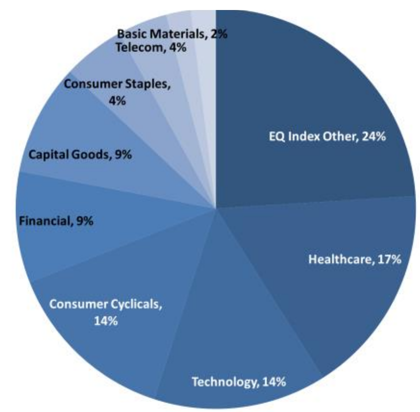
- Niche market neutral investment strategy
- Established team with strong track record
- Complemented other funds in the portfolio

Performance (GBP, JP Morgan return converted from USD)

Last Quarter	2.8%	Target	1.0%
Last Year	4.9%	Target	3.9%
Last 3 Years (p.a.)	5.3%	Target	3.6%

Portfolio Composition and Equity Sector Allocation

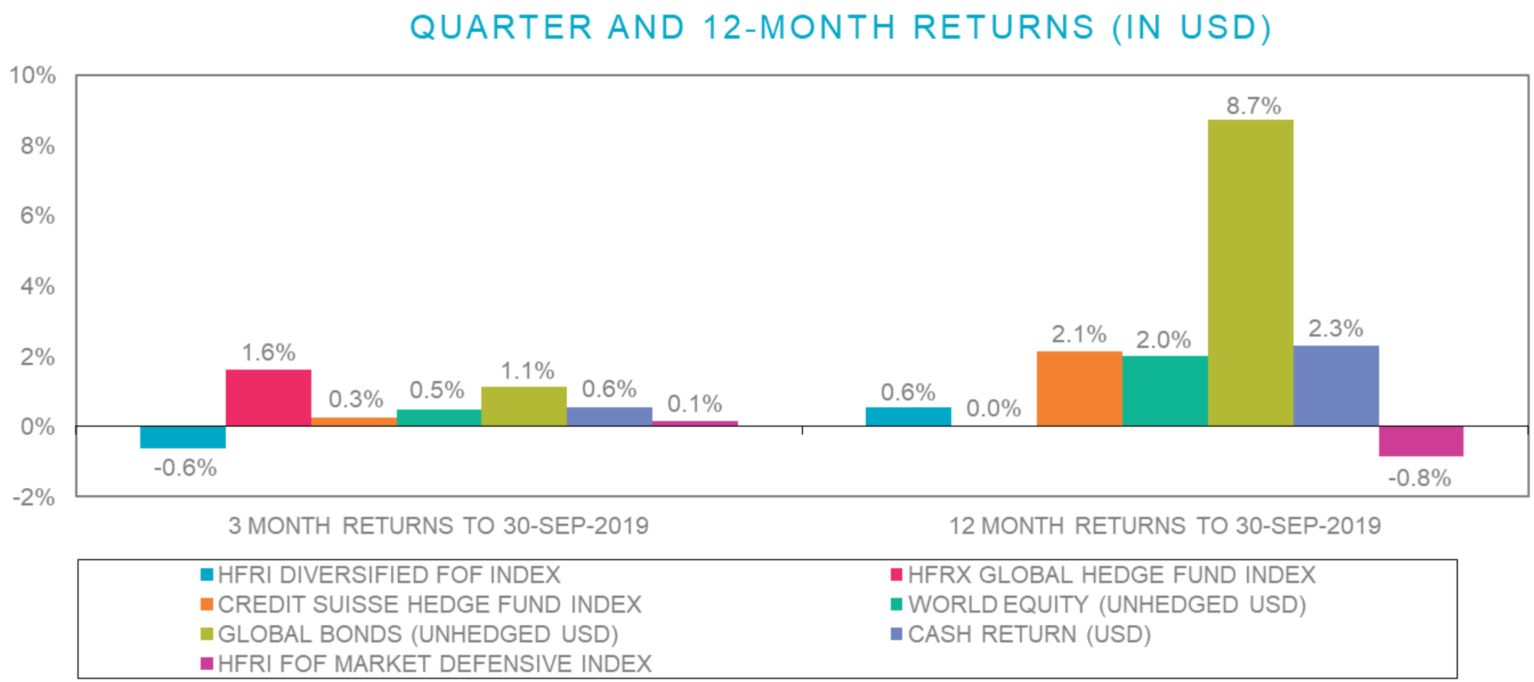




Source: JP Morgan.
As at 30 September 2019.

HEDGE FUND COMMENTARY – Q3 2019

- Following a solid start to the year and further positive and uncorrelated returns through Q2, hedge funds underperformed both equities and bonds during Q3. While most strategies protected capital during the August market selloff, the 3rd quarter overall was challenging for hedge fund performance, particularly within equity strategies.
- 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 – Q3 2019

Relative Value (37%)

- HFRI Relative Value returned +0.2% in Q3 2019.
- Gains in relative value strategies were mixed across sub-strategies types, as gains in convertible arbitrage, credit relative, and interest-rate relative value strategies were coupled with losses from volatility strategies and other diversified relative value strategies.
- A confluence of factors, including idiosyncratic geopolitical events, policy uncertainty, and macroeconomic divergences were headwinds to performance during the quarter but highlighted an improved environment for trading opportunities among managers.
- The investment grade and high yield cash-synthetic basis have moved less negative but is lower than its historical average, improving the return profile for credit relative quarter while highlighting a continued strong structural opportunity set. Convertible arbitrage strategies also posted gains during the quarter.

Long/Short Equities (27%)

- HFRI Equity Hedge and Equity Market Neutral (“EMN”) strategies earned -1.1% and +0.6%, respectively, in Q3 2019.
- Equity strategies posted losses during the quarter in a reversal of the previously strong year-to-date alpha generation. A technical unwind which saw a large decline in momentum names fuelled one of the largest negative alpha months for equities in recent history, particularly for US-based funds that reduced long positions in crowded names. Other regions were less susceptible to this crowding dynamic and had better performance.
- The aforementioned deleveraging of long positions disproportionately affected longer-biased and US-focused managers. That said, performance varied across managers with exposures to different geographies and sectors. Stock correlations spiked overall in Q3, but dispersion among sectors had a disparate impact on managers’ portfolios.

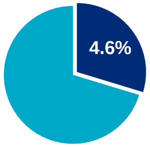
Opportunistic / Macro (19%)

- HFRI Macro: Systematic and Discretionary returned 3.0% and 0.4% respectively in Q3 2019.
- Macro strategies on average performed the best during the quarter across all major hedge fund sub-strategies, posting gains when equities stumbled in August. While there was dispersion across macro managers, systematic strategies fared the best. Broad CTA indices made money overall and were boosted by long bond and equity positioning, and discretionary managers that were not overly exposed to Argentina posted gains amid global 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. Divergent central bank policies, concerns about global economic headwinds, geopolitical tensions, and trade policies will continue to fuel the opportunity set for macro managers.

Merger Arbitrage / Event Driven (4%)

- HFRI Distressed and Merger Arbitrage returned -2.6% and +1.0% respectively in Q3 2019.
- Event-driven strategies were mixed during the quarter. Longer-biased strategies, including special situations equities, were whipsawed by similar dynamics that affected long/short equity managers.
- Distressed strategies were hurt by a collapse in prices of many lower-quality credits, particularly within energy, and due to idiosyncratic events. An impending jury decision of liability for PG&E caused a selloff, and losses in Argentine bonds followed President Macri’s primary loss to Peronist Alberto Fernandez.
- Merger arbitrage strategies posted modest gains while other strategies struggled. Continued strong deal volume and size and a shift towards strategic deals drove a healthy opportunity set. Spreads remained attractive, and the closing of Anadarko/Occidental buoyed results

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



SCHRODER – UK PROPERTY FUND OF FUNDS
£229.4M END VALUE *(£242.3M 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

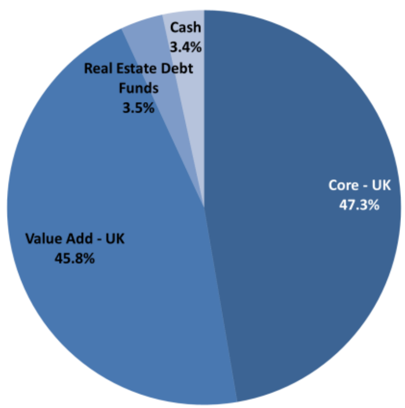
Manager Research and Developments

- 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.
- Disinvestments were made from the Schroder Real Estate Investment Fund (c.£1.3m).

Page 106

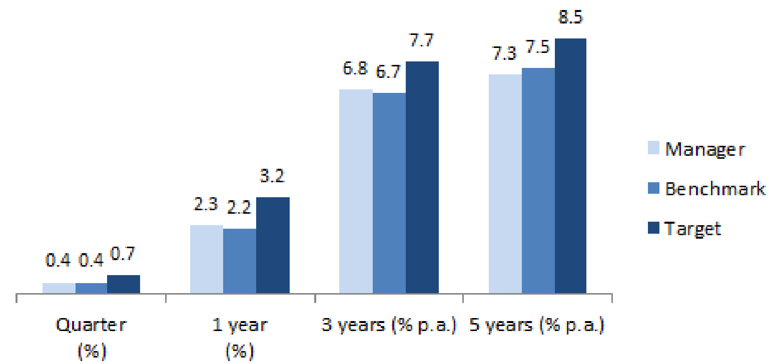
Manager and Investment type splits

Top 5 Holdings	Proportion of Total Fund (%)
Industrial Property Investment Fund	16.9
Metro Property Unit Trust	10.3
Hermes Property Unit Trust	10.0
BlackRock UK Property Fund	9.4
Schroder Real Estate Income Fund	8.8

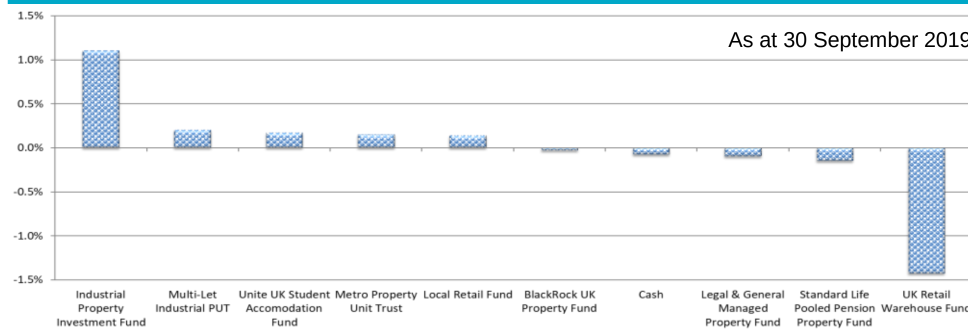


As at 30 September 2019

Performance



Top 5 Contributing and Detracting Funds over 12 Months

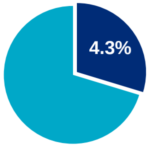


Reason for investment

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
£215.9M END VALUE *(£215.0M START VALUE)*

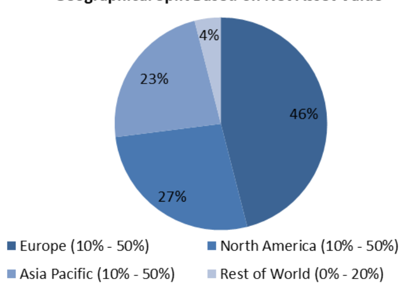
Item Monitored	Outcome	
Mercer Rating	Green	B+ (no change over period under review). ESG4
Performance Objective *IRR of 10% p.a.*	Red	IRR since inception to 30 June 2019 at 7.0% p.a. (in local currency) is below target of 10% p.a.

Manager Research and Developments (Q2 2019)

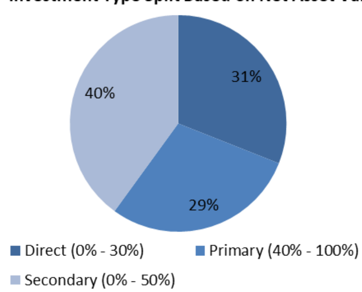
- The portfolio delivered a net return of 4.1% over Q2 2019 for USD programmes in local currency, and 1.4% for EUR programmes, versus the target of c. 2.5%.
- Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, such as the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 30 June 2019 at 7.0% p.a. (in local currency) is below their target of 10% p.a.; over the three years to 30 June 2019 IRR was 4.6% p.a. (in local currency terms).
- Over Q2, the allocation to Asia Pacific increased slightly (from 21% to 23%), while Europe holdings also decreased by 2%. 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 June 2019

Geographical Split Based on Net Asset Value



Investment Type Split Based on Net Asset Value



Portfolio update to 30 June 2019

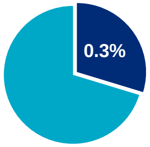
Partners Fund	Total Drawn Down (£m)	Total Distributions (£m)	Net Asset Value (£m)	Since Inception Net IRR (local currency)
Global Real Estate 2008	30.98	31.68	7.01	4.6
Real Estate Secondary 2009	19.62	19.26	11.34	8.6
Asia Pacific and Emerging Market Real Estate 2009	17.68	15.69	6.07	2.1
Distressed US Real Estate 2009	14.08	19.04	2.70	8.1
Global Real Estate 2011	25.09	25.33	12.22	8.4
Direct Real Estate 2011	11.43	11.15	5.98	6.0
Real Estate Secondary 2013	11.71	8.22	11.60	15.8
Global Real Estate 2013	100.2	8.25	127.41	8.1
Real Estate Income 2014	21.79	6.09	21.13	3.9
Asia Pacific Real Estate 2016	11.66	5.07	10.85	18.6
Total	**264.24**	**149.77**	**216.32**	**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
£17.1M END VALUE *(£16.9M 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 1.2% over Q3 2019, outperforming the benchmark return of 0.6%.

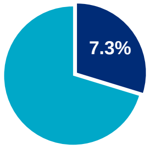
Page 108

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)
£365.3M END VALUE (£352.1M 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 2.7% over the year (in USD)

Item	
Number of holdings	16

Manager Research and Developments

- Over the quarter the fund returned 0.5% in US Dollar terms, against Avon's performance objective of 1.2% (cash + 2.5% p.a.).
- IFM outperformed returning 8.2% against the objective of 5.4% over the year. They also outperformed the objective over three years, returning 13.9% p.a. versus 4.3%.
- During the quarter, a total of $1,213m was accepted in new commitments. There were no notable acquisitions during this time.
- The pooled fund also received income of $370.2m of distributions from three assets.
- It was recently announced that IFM Investors' Chief Executive Brett Himbury will be stepping down from his role in December 2020. His intention to continue in the role for more than 12 months provides substantial opportunity for IFM Investors to undertake an appropriate search for a replacement and to manage the transition of responsibilities. At this stage, Mercer has no significant concerns regarding this.
- regarding this announcement.

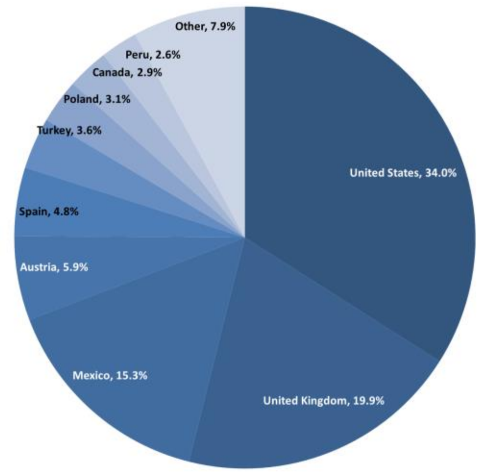
Reason for investment

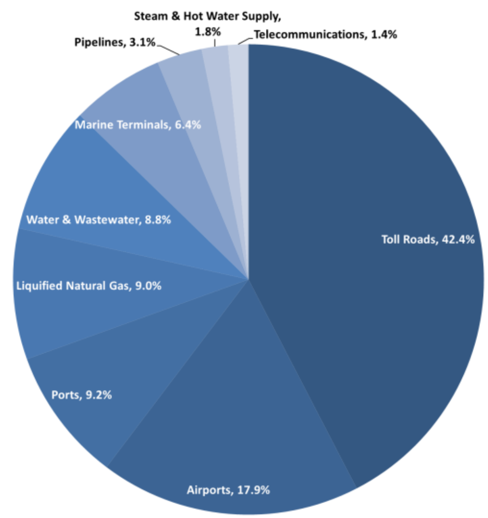
To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

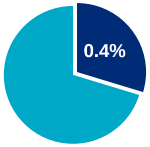
- Invests in core infrastructure assets in countries with established regulatory environments and strong rule-of-law
- Seeks to invest in assets with strong market positions, predictable regulatory environments, high barriers to entry, limited demand elasticity and long lives

Geographical and Sub-Sector Allocation





Source: IFM.
As at 30 September 2019.



BRUNEL – INFRASTRUCTURE

£19.3M END VALUE *(£10.6M START VALUE)*

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

Manager Research and Developments

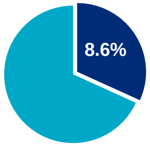
- Mandate was initiated in January 2019. NTR and Mirova are the underlying managers.
- The fund had another quarter of positive performance delivering a return of 1.6%, above the benchmark return of 0.6%.

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)
£429.8M END VALUE (£424.0M START VALUE)

Item Monitored	Outcome
Mercer Rating	A (no change over period under review). ESG3
Performance Objective *Cash +4% p.a.*	Outperformed by 1.5% over the year

Manager Research and Developments

- Loomis delivered a performance of 1.4% over the quarter, against a benchmark return of 1.2%. Over the year, the fund returned 6.5%, outperforming its benchmark.
- Investment grade corporate selections aided performance, with financials, communications, and technology issues having the largest positive impacts.
- Global high-yield corporate bonds also benefited from stability in equity markets and a continuation of accommodative Federal Reserve policy.
- Emerging markets holdings also performed well, despite the asset class coming under pressure from a stronger US dollar, and remaining concerns around a protracted US/China trade conflict.
- The overall duration of the portfolio remained at 5.2 years.

Page 111

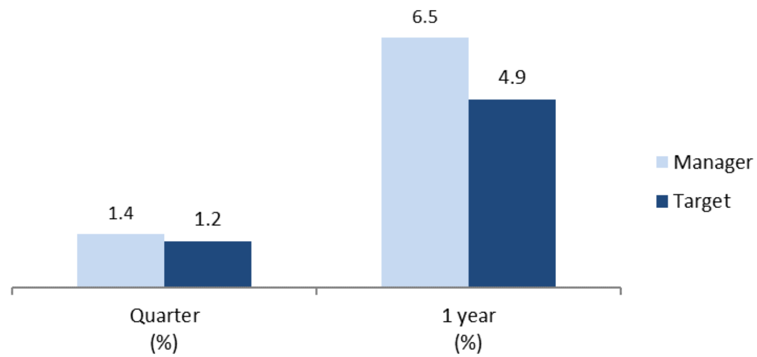
Reason for investment

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

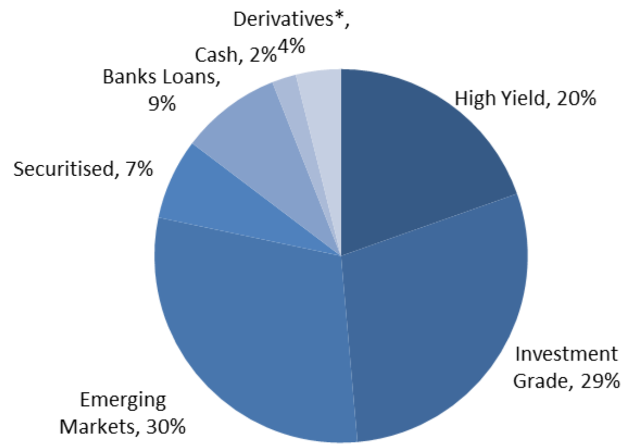
Reason for manager

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

Performance

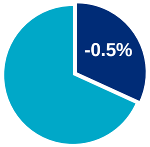


Sector Allocation



Source: Loomis Sayles.
As at 30 September 2019.

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



RECORD – CURRENCY HEDGING (SEGREGATED)
-£23.1M END VALUE *(£ -£6.4M 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 and Yen (-3.2% and -2.9% respectively) and strengthened against the Euro by 1.1%. (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 Q3 2019 Performance (£ terms)

Passive Developed Equity Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	843,146,173	885,046,070	3.28%	(1.89%)	(1.82%)	1.48%
EUR	180,150,587	185,574,608	(1.13%)	0.68%	0.71%	(0.39%)
JPY	91,603,487	90,482,902	2.96%	(1.43%)	(1.47%)	1.58%
Total	**1,114,900,247**	**1,161,103,579**	**2.54%**	**(1.44%)**	**(1.39%)**	**1.19%**

Passive Hedge Fund Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	242,253,253	253,976,270	3.28%	(3.78%)	(3.67%)	(0.38%)
Total	**242,253,253**	**253,976,270**	**3.28%**	**(3.78%)**	**(3.67%)**	**(0.38%)**

Passive Property Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	24,421,801	25,719,059	3.28%	(3.78%)	(3.67%)	(0.37%)
EUR	188,142,309	189,817,859	(1.13%)	1.31%	1.36%	0.31%
Total	**212,564,110**	**215,536,918**	**(0.63%)**	**0.71%**	**0.77%**	**0.23%**

Passive Infrastructure Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	150,926,711	161,771,750	3.28%	(3.78%)	(3.67%)	(0.37%)
EUR	49,083,693	53,698,525	(1.13%)	1.31%	1.37%	0.31%
Total	**200,010,404**	**215,470,275**	**2.17%**	**(2.53%)**	**(2.43%)**	**(0.20%)**

APPENDIX 1

SUMMARY OF MANDATES

Page 113

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	-
Unigestion	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

Page 117

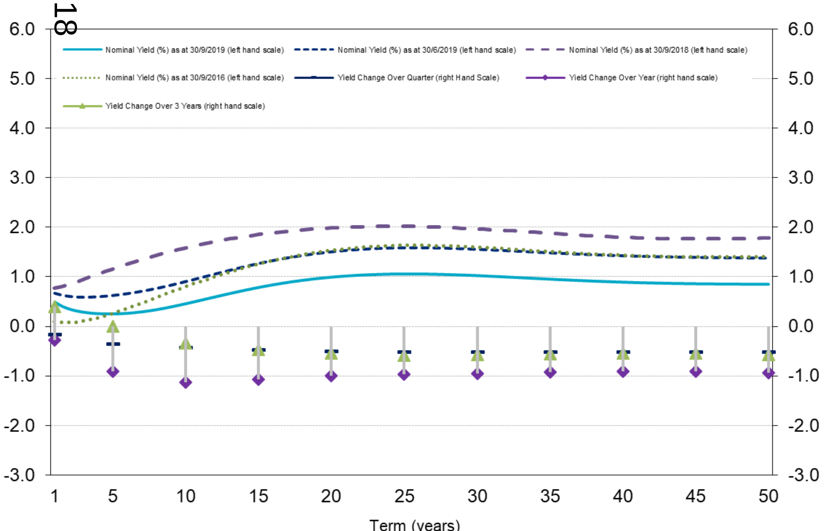
CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 Sep 2019	30 Jun 2019	30 Sep 2018	30 Sep 2017
UK Equities	4.21	4.13	3.80	3.68
Over 15 Year Gilts	0.91	1.40	1.86	1.84
Over 5 Year Index-Linked Gilts	-2.20	-1.89	-1.49	-1.51
Sterling Non Gilts	1.84	2.16	2.63	2.30

- Nominal yields were again down across the curve over the quarter.
- The Over 15 Year Gilt Index generated a return of 11.0%, outperforming 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 8.7% as a result.
- Credit spreads were mostly flat over the quarter, as investors left risk allocations largely unchanged given the ongoing slowdown fears. The sterling Non-Gilts All Stocks Index credit spread ended the quarter at c.1.3% p.a., and UK credit assets delivered a return of 3.7% over the quarter.

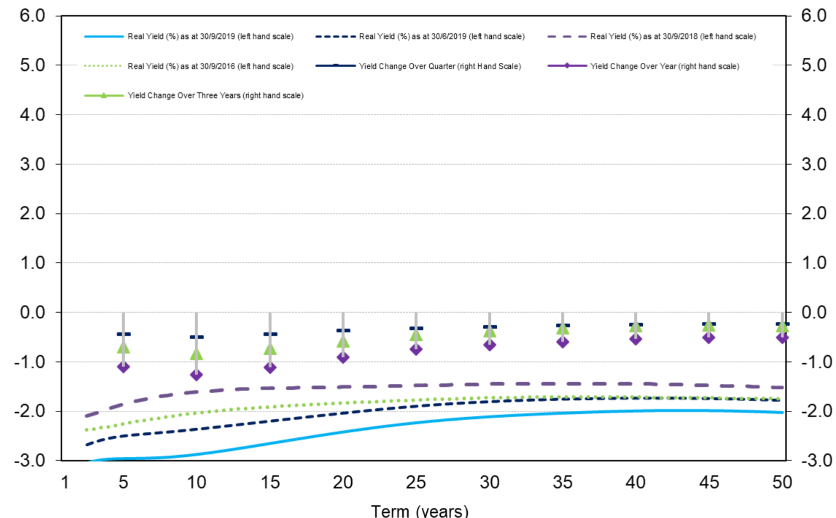
Page 118

Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

APPENDIX 4

GUIDE TO MERCER RATINGS

Page 119

GUIDE TO MERCER RATINGS

INTRODUCTION

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

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

WHAT DO MERCER'S RATINGS SIGNIFY?

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

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

WHAT DO MERCER'S RATINGS NOT SIGNIFY?

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

Past Performance

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

Creditworthiness

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

Vehicle-Specific Considerations

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

Management Fees

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

Operational Assessment

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

FACTORS CONSIDERED IN FORMING A RATING

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

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

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

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

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

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

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

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

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

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

MERCER RATING SCALE

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

Page 122

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.

Page 126

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: 1702/19

Meeting / Decision: Avon Pension Fund Investment Panel
Date: 20 November 2019

Author: Nathan Rollinson
Report Title: Review Of Investment Performance For Periods Ending 30 September 2019 **List of attachments to this report:** Appendix 1 – Fund Valuation Appendix 2 – Mercer Performance Monitoring Report **Exempt Appendix 3** – RAG Monitoring Summary Report **Exempt Appendix 4** – Risk Management Framework Quarterly Monitoring Report Appendix 5 – Brunel Quarterly Performance Report Appendix 6 – 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 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 Panel 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 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 Panel 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 September 2019

Market Summary – Chief Investment Officer

BRUNEL
Pension Partnership

Fixed Income

Q3 2019 was characterised by strong returns across all areas of fixed income, which was in line with observations from the previous two quarters. Positive returns have been fuelled by stagnant inflation expectations, slowing global growth and an increasing shift towards looser monetary policy in major economies.

The best performing asset class in fixed income over the quarter was UK Inflation Linked Bonds, which returned an impressive +8.2% in local terms. The lowest performing asset class in fixed income was European High Yield, which returned +0.9% in local terms over the quarter. UK Gilts also posted impressive returns during Q3, appreciating by +6.6%. UK Inflation Linked Bonds were also the highest performing sub-asset class on a year-to-date basis; total returns have been +16.8% in local terms following a further reduction in real yields.

- UK Consumer Price Inflation (CPI) shifted downwards over the last quarter. The headline UK CPI was 1.7% in September, down roughly 0.3% from the previous quarter. This modest downward trend also occurred across the major economies in the Eurozone. CPI expectations remain fairly stable in the UK, despite concerns over Brexit. Market-based median CPI estimates are now 1.8%, 2.0% and 2.0% for 2019, 2020 and 2021 respectively. This is broadly in line with the Bank of England's long-term CPI target of 2%

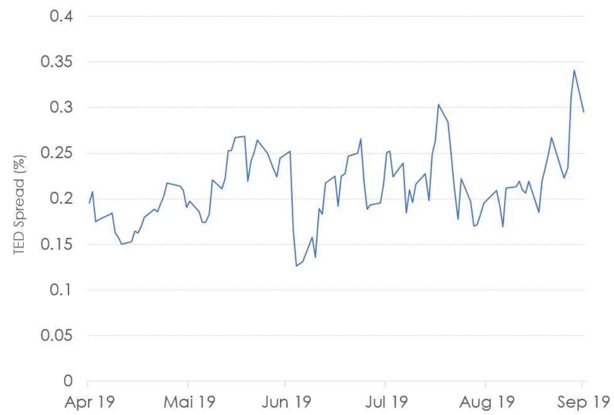
- The trend in flattening yield curves continued over the last quarter. This was most prominent in the UK and US, where the 10-2yr yield spreads turned negative during Q3. 10-2yr spreads rebounded by the end of September but still remain at almost flat levels. The UK and US 10-year yields have fallen considerably in absolute terms over the quarter; yields fell by 49 & 32bps respectively. UK 10-year yields touched an all-time low during the quarter following concerns over Brexit and slowing global growth; yields went as low as +0.37% in August

- The UK government announced changes to the way UK inflation is calculated. UK chancellor Sajid Javid outlined plans to reform the retail price index (RPI) by 2030 to correct well publicised calculation flaws. RPI-linked government bonds subsequently experienced volatility, with the price of some issues falling as much as 10%. Despite this, real yields on longer dated issues (>25 year) continued to fall over the quarter; yields were as low as -2.1% at quarter end

- The 'TED Spread' in the US has been increasing over the last two quarters. It is now +30bps. TED spreads show the difference between 3-month LIBOR and 3-Month US T-Bill rates. The spread number represents

10-2yr Yield Spreads

TED Spread



Source: FactSet

the level of credit risk in an economy. Spreads typically rise during periods of economic crisis

UK Index Linked Tickers - FactSet
G4527HBM Government of United Kingdom 0.125% 10-AUG-2048
G4527HDE Government of United Kingdom 0.125% 22-MAR-2046
G4527HDB Government of United Kingdom 0.125% 22-MAR-2058
G4527HCW Government of United Kingdom 0.125% 22-MAR-2068
G92445ER Government of United Kingdom 0.125% 22-NOV-2056
G92445CR Government of United Kingdom 0.125% 22-NOV-2065
G4527HCL Government of United Kingdom 0.25% 22-MAR-2052
G92451HG Government of United Kingdom 0.375% 22-MAR-2062
G9245027 Government of United Kingdom 0.5% 22-MAR-2050
G92444AP Government of United Kingdom 0.75% 22-NOV-2047
G92450WC Government of United Kingdom 1.25% 22-NOV-2055

Yield Tickers - FactSet
- TRYGB2Y-FDS – UK 2yr Generic Yield
- TRYGB10Y-FDS – UK 10yr Generic Yield
- TRYUS2Y-FDS – US 2yr Generic Yield
- TRYUS10Y-FDS – US 10yr Generic Yield
- TRYDE2Y-FDS – Germany 2yr Generic Yield
- TRYDE10Y-FDS – Germany 10yr Generic Yield
- TRYFR2Y-FDS – France 2yr Generic Yield
- TRYFR10Y-FDS – France 10yr Generic Yield

Page 135

Real Yields – Long Dated
UK Index Linked

Source: Factset

Market Summary – Chief Investment Officer

Equities

The MSCI AC World returned 3.4% over the quarter, adding to positive returns from the previous quarters, leaving global equity markets with a return of 20.6% year to date (YTD). This positive return comes despite slowing global growth as global trade declined and European manufacturing suffered its steepest downturn in seven years.

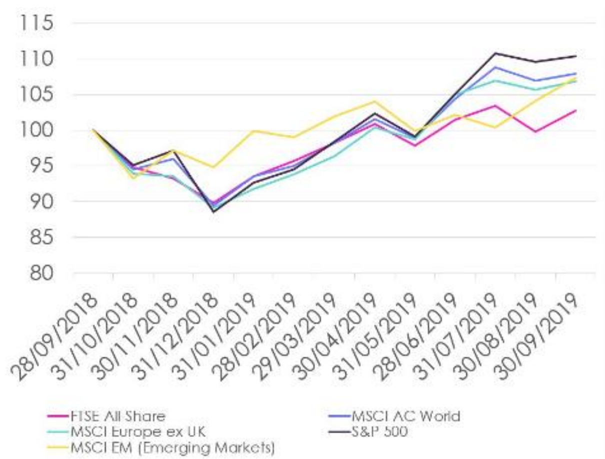
In US equities, the S&P 500 returned 1.7% over the quarter, returning 20.5% YTD in dollar terms. The Federal reserve cut its policy rate over the quarter to 2% in an attempt to stimulate growth and counter the effects of the continuing trade war.

• Rising stock prices pushed US equity valuations higher than their historical averages over the quarter. This has been largely underpinned by low bond yields and decreasing interest rates
• The trade war continues to fuel risk in the US. New tariffs were imposed on more than $112 billion in September and a further increase scheduled for October has left business owners with a high degree of uncertainty. This has led to a slowdown in investment in factories and other businesses as they are uncertain if they can sell their products with a notable decline in US exports
• US earning growth continued to decelerate over the quarter as estimates for 2019 EPS growth in the US now stands at 1.5%, down from the 3% estimate at the end of Q2.

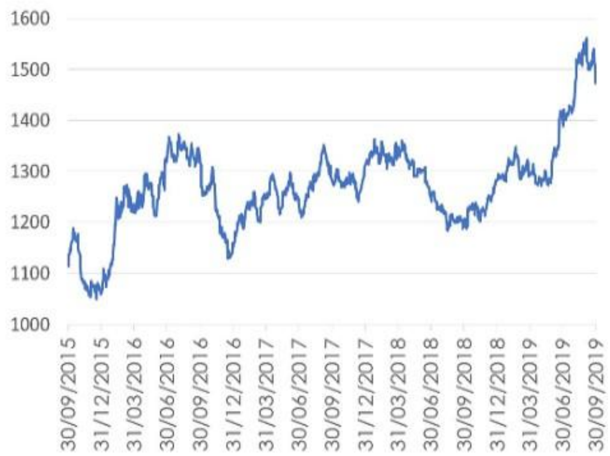
Emerging Markets declined over the quarter by -1%, returning 10% YTD.
• Emerging markets were down over the quarter as the previously mentioned US-China trade tensions escalated
• China is a major swing factor in Emerging markets. With a weighting of 32%, it returned -1.54% over the quarter and contributed 0.5% to the decline
• Those countries within emerging markets that have a high sensitivity to the USD also underperformed over the quarter as the dollar strengthened. Notably, South Africa returned -8.2%
• Argentina was the largest underperforming country. A primary election led to a sell-off of Argentine assets, and returned -45% for the quarter
• In contrast, Taiwan returned 9.3% over the quarter, largely due to their large tech sector, which makes up over 50% of their market

European markets ex UK returned 1.7% over Q3, 19.9% YTD.
• As mentioned above, Europe's manufacturing activity has shrunk to its lowest levels since October 2012. This was led largely by Germany, which slumped to its lowest levels since 2009. These stem partly from the fact that Chinese companies facing tariffs on exports to the US are decreasing their purchases

Global indices 1 Year Returns



5 Year price of Gold (NYM $/ozt)



of German-made machinery
• Shares, however, provided a positive return this quarter, largely due to the defensive sectors of Utilities, Consumer Staples and Healthcare

FTSE All share returned 1.3% over the quarter, providing a YTD return of 14.41%.
• A new prime minister and further uncertainty about the UK's ability to leave the EU on 31 October with a deal led investors once again to favour more defensive sectors such as Healthcare and Utilities, leading the FTSE All share positive gain
• Economically sensitive sectors such as Financials and Materials underperformed
• Growth indicators in the UK point towards a loss of momentum as Q2 GDP was confirmed at -0.2%
• Business investment in the UK grew at a rate of 1.1% per quarter during the year before June 2016. Between Q2 2018 and Q2 2019, business investment is estimated to have fallen by 1.49%

Gold returned 4.19% Q3, 14.95% YTD.
• The continued drop in bond yields and the slowdown in global growth has led investors to favour less risky assets such as Gold, which saw its price climb to highs of $1560/ozt, its highest since 2013
• Oil prices fell over the quarter, with Brent Crude returning -8.5%. However, a drone attack on a Saudi Arabia Oil processing facility in September knocked 5% off global oil production immediately, leading to the biggest intra day rise since 1988. This was subsequently corrected by quarter end

Sterling returns for indices:
- FTSE All-Share: 1.3% (3m) 2.7% (12m)
- MSCI Europe: 1.5% (3m) 5.7% (12m)
- MSCI Europe ex UK: 1.7% (3m) 6.8% (12m)
- MSCI ACWI: 3.4% (3m) 7.9% (12m)
- MSCI ACWI ex USA: 1.5% (3m) 5.1% (12m)
- MSCI Emerging: -1% (3m) 4.1% (12m)
- MSCI China: -1.6% (3m) 1.8% (12m)
- S&P 500: 5.0% (3m) 10.3% (12m)
- GBP Vs USD: -3.2% (3M) -5.5% (12M)

Market Summary – Head of Private Markets

Overview

As we move into the final quarter of 2019, the challenges faced throughout the year are persistent. US-China trade tensions and the uncertainty of the Brexit outcome are, for many, foreshadowing a global recession. With these macroeconomic factors impacting a range of investment markets, successfully navigating the market is getting harder.

Early indications of Client commitments for Cycle 2 suggest more money across all the Private Market portfolios, especially to secured income and to private debt where in excess of £300m has already been communicated. There is a minimum efficient scale to operating the PM Portfolios and for the team to realistically be able to negotiate better terms with managers on your behalf. Client cohesion, compromise and buy-in to the Brunel Portfolio offerings is fundamental to the success of our Pool and we have appreciated the very constructive discussions during the Cycle 2 Portfolio Scoping stages as Clients see what the team has already delivered during Cycle 1.

Infrastructure

Page 138

Fundraising activity has significantly slowed down from 2018. Between Q1 and Q3 2019, unlisted infrastructure funds have secured just 40% of the capital raised in the same time period in 2018. However, managers' ability to deploy has not been affected, as during Q3 2019, 593 infrastructure transactions were completed for an aggregate value of $88bn. Investment levels are almost identical to Q3 2018, when 592 deals were completed for a total of $93bn.

The geographic focus for managers has shifted slightly, moving from traditional developed to emerging economies. The number of infrastructure transactions in Asia increased from 69 in Q3 2018 to 104 in Q3 2019, whereas North American deals declined by 23% over the same period, falling from 198 to 158.

Investors continue to view the renewable sector as offering lower political risk, and a higher income yield, although this reflects the greater revenue variability from power price exposure. It remains the largest sector in the market, accounting for 51% of all completed deals in Q3 2019. Nevertheless, other industries are on the rise. The total number of transport deals surpassed energy deals for the first time since Q2 2016 (84 versus 74 respectively), while the number of telecoms deals nearly doubled from 22 to 40 between Q3 2018 and Q3 2019.

The Capital Dynamics Clean Energy funds remain on track with their fundraising and deployment of capital. The UK and Europe fund is just under 50% funded and has an extensive investment pipeline of exclusive wind and solar projects. A first deal was signed in August: Project Keane – a portfolio of

Vauban investment VSFP (Mestre Hospital)

Market Summary – Head of Private Markets

operational wind farms in Northern Ireland. The US fund has committed 49% of the $1.4bn total and has c$600m of high probability transactions in the next 6-12 months (taking it to fully committed).

The fundraising for NTR Renewable slowed down in Q2-Q3 2019, but there is expectation a new German investor will commit €50m in Q4 2019 and there has been positive progress with other pools and LGPS investors. Deployment has progressed with an imminent transaction expected post quarter end, taking deployment to c40% of target fund size.

The Core infrastructure fund expects to be fully invested by year end. The Core infrastructure team has successfully spun-off from Mirova to become "Vauban", although it remains under the Natixis umbrella.

No new fund commitments were made in the quarter ending 30 September, but considerable work was done to progress the selection of a manager to source coinvest and secondary transactions for Brunel and to jointly select primaries with the PM team. This will be done through a bespoke vehicle, built exclusively for Brunel, and will not only be used to deploy the remaining capital for Cycle 1, but also to manage new commitments to the infrastructure portfolio for future cycles. This will be hugely beneficial for all concerned.

Brunel therefore remains on track to build a nicely diversified Cycle 1 infrastructure portfolio for Clients, consisting of eight to nine primary funds plus coinvests and secondaries through this bespoke vehicle, adding four to five further primary funds to the four fund commitments Brunel has already made (covering sustainable infrastructure across telecoms, transport, energy infrastructure and renewable power generation) as well as 10 to 15 co-investment deals across geographies and sectors, all with an emphasis on sustainability by mitigating and creating resilience to climate change and other systemically important challenges.

Private Equity

Investors continue to turn to private equity (PE), which has proven its ability to provide protection in times of market downturn. Fundraising remains robust in terms of capital secured. Private equity funds have secured $417bn in the first three quarters in 2019, up from $345bn over the same period in 2018.

Performance over the long term is strong and the private equity model has shown its worth in withstanding market cycles. While activity is not currently matching the record highs seen in recent years, investors continue to allocate to the asset class in search of long-term value creation.

The latest statistics on secondary transactions reflect how the market has evolved, with the buying and

Cycle 1 Private Equity GP Names

Page 139

selling of assets before the end of a PE fund's agreed term running at record levels. In addition to traditional fund buyers of secondary private equity stakes, pension funds and large family offices are increasingly competing for transactions, driving up prices. Investors are increasingly drawn to the very favourable characteristics of secondaries, as Brunel outlined in its Cycle 2 PE Portfolio Scoping Paper.

The Neuberger Berman (NB) Private Equity Impact Fund is making good progress investing and has now committed to three primary funds and three co-investments. They are finding good prospects in the Healthcare, financial services and education sectors which align well with the impact aspirations of the fund. They have also now put a credit line in place which will aid managing capital calls for the fund and smooth the drawdown process with clients.

The NB Strategic Co-Investment Partners Fund IV had its first close in early September at $1bn, with a further $600m in advanced due diligence with rolling closes over subsequent quarters. The fund should start to deploy in early November as Fund III finishes deploying.

The Capital Dynamics Global Secondaries Fund V has raised $401m so far and has closed 12 transactions, with a further two deals in execution, for a total amount of US$272m. The early transactions are well diversified by geography, vintage year, deal type and complexity, and consist of a portfolio of over 100 funds run by many highly sought-after managers across buyout, growth and venture.

The PM team are pleased with the way the PE Portfolio is shaping up with a likely composition of 43% Primary, 20% Secondary, 37% Coinvest by the time all capital has been committed at the end of Q1 2020.

Secured Income

The lower level of transactional activity in the UK property market over the first half of 2019, down 33% on last year's levels, has impacted the pace of investor drawdowns for both long-lease property funds held by Brunel's clients in the secured income portfolio. Both M&G and ASI have a significant pipeline of deals, and one large transaction is expected from each fund imminently.

Greencoat Renewable Income Fund (GRI) has now been selected by Brunel as the final fund for Client commitments to secured income in this cycle. This Portfolio is now fully committed. GRI will acquire primarily UK-based operational assets in the solar, bioenergy and wind sectors, and more opportunistic environmental infrastructure sectors, with the objective of generating predictable income with inflation protection over a long-term horizon. Greencoat is a specialist investor dedicated to low carbon energy investing, with assets under management of £4bn. Fund returns will be driven by contracted, inflation-linked (RPI or CPI), long-term income streams, including 15-20 year UK government renewable

Greencoat Capital

Illustrative Image of Similar Giant Greenhouse

subsidies/support mechanisms. 30% of the commitment is reserved for Solar II, a portfolio of 64 solar assets.

Property
In the UK, annual commercial property returns are forecast to deliver negative total returns of around -2% for 2019 (the first negative total return since 2008), with modest positive performance returning in 2020. The retail sector will be hardest hit, with average capital values falling by over 15% and some shopping centre assets anticipated to lose over 30% of their value in the next 12 months.

Over the next five years, annualised total returns for all UK commercial property range between +2.5% and +4% and equivalent yields (now at 5.5%) are already moving out to reflect future stagnant and falling rental returns from some sectors.

There was a mild rebound in investment activity in the third quarter, concentrated on the Alternatives sector, in particular student housing and the private rented sector (PRS). The largest deal so far this year has been Unite's purchase of the Liberty Living student housing portfolio for £1.4bn at an initial yield of 5.3%.

Internationally, similar themes of retail weakness and continued strength in logistics, where rental growth is now moderating, have led managers to focus on defensive locations in the US, Europe and Asia. Transactional activity has slowed in most regions, though from a high level in mature Asian markets. Investor attention is directed towards secondary cities in the US, major business centres in Europe and the office sector in Australia.

World on Fire – Climate change and supply chain
September saw significant deforestation and fires in the Amazon. A recent report from the Intergovernmental Panel on Climate Change (IPCC), highlights the close links between unsustainable land use and climate change. With CO2 emissions rising and biodiversity declining faster than at any other time in human history, the report underlines the urgency in promoting sustainable land management to halt biodiversity loss, enhance food security and meet the goals of the Paris Agreement.

Brunel signed the Investor statement on deforestation and forest fires in the Amazon, which has to date been endorsed by 244 investors representing approximately US $17.2 trillion in assets. The statement urgently requests companies to redouble their efforts and demonstrate clear commitment to eliminating deforestation within their operations and supply chains, including by:
1. Publicly disclosing and implementing a commodity-specific no deforestation policy with quantifiable, time-bound commitments covering the entire supply chain and sourcing geographies
2. Assessing operations and supply chains for deforestation risk, and reduce this risk to the lowest possible level, disclosing this information to the public
3. Establishing a transparent monitoring and verification system for supplier compliance with the company's no deforestation policy
4. Reporting annually on deforestation risk exposure and management, including progress towards the company's no deforestation policy

Page 142

Hermes EOS have also supported the investor statement, and recently published an EOS Insights article, Playing With Fire which looks at companies exposed to deforestation – directly or indirectly through their supply chains – and the investor response.

Plastic and the Circular Economy – Supply chain
Brunel as a member of the PRI Plastic Working Group (PWG) supported a PRI-in-person roundtable, where four companies in the plastic value chain discussed the opportunities and challenges of plastic. The PWG recently published its first two reports, Plastics: the challenges and possible solutions, and risks and opportunities along the plastics value chain. Further updates will be shared as work progresses. Brunel last year supported a letter on development of pellet-loss-free plastic supply chains and endorsed the Ellen MacArthur New plastics economy global commitment.

Responsible Investment & Stewardship Review

UK Regulation & Policy – Quality and Effectiveness of Audit

Sir Donald Brydon was appointed to conduct an independent review into the quality and effectiveness of audit. On 27 June 2019, Sir Donald Brydon and Miranda Craig visited Brunel as part of their research for the review. We discussed a range of issues and flagged concerns about quality of the audit process and the confidence, or lack thereof, it provides in financial accounts. We emphasised the importance of both quality and confidence to us as investors. We welcomed the proposals for shareholder engagement by the audit committees and more nuanced and informative audit findings. However, we also noted the role (and current competence) of auditors in assessing a company's approach to material emerging risks such as cyber and climate change. We look forward to reviewing the report, which is expected at the end of 2019.

Climate change – Energy transition

The **Transition Pathway Initiative**, co-chaired by Faith Ward, recently released its latest assessment of the world's top energy companies. Offering updated analysis of the sector and with coverage expanded to 135 of the world's highest emitting public coal mining, electricity, and oil and gas companies, it also included a comprehensive assessment of the Carbon Performance of oil and gas producers for the first time. Key findings (see charts overleaf) include:

- Just **four energy companies are on Level 0 Management Quality** (unaware of or not acknowledging climate change as a business issue)
- Close to **60% of energy companies are on Level 3** – integrating climate change into operational decision-making – or Level 4 – strategic assessment of climate change
- On average, **the sector is just over halfway between Level 2 and 3**
- **Electricity utilities perform best**, while oil and gas producers are in line with the energy-sector average
- Currently, **coal mining is the worst performing sector in the TPI database**. Within that sector we see a divergence between the leaders (clustered on Levels 3 and 4), and the laggards (stuck on Levels 0 and 1), with the leaders tending to be diversified and large-cap. companies

Brunel's use of TPI to inform its investment decisions and voting was featured in September's Funds Europe ESG Report – ***The time for climate action is now***.

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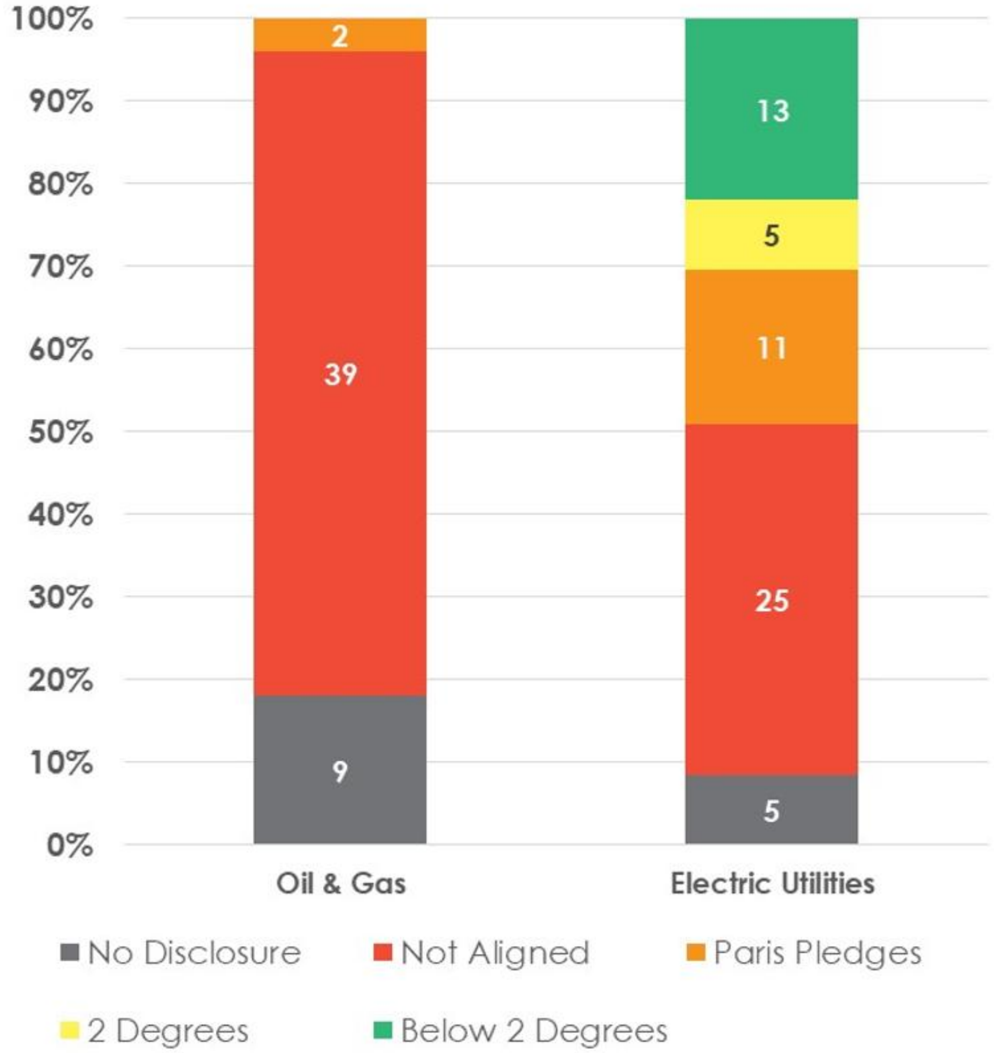
Transition Pathway Initiative

- The contrast between the Carbon Performance of electricity utilities and oil and gas producers is stark:
- The electricity sector fares better than any other sector in the TPI database on Carbon Performance. Almost half of companies are already aligned with what the Paris Agreement requires by 2030, or will be on the basis of emissions targets they have set.
- Conversely the oil and gas sector is the worst performing TPI sector on Carbon Performance. Only two companies plan to be aligned with the least ambitious benchmark (Paris Pledges) by 2050, namely Shell and Repsol.

Source: Management Quality and Carbon Performance of Energy Companies, TPI, September 2019



Brunel Portfolios Overview

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	194	0.29%	-0.98%							9.60%	-1.22%	21 Nov 2018
Passive Low Carbon Equities	MSCI World Low Carbon Target	581	4.28%	0.00%	8.98%	-0.04%					10.88%	-0.14%	11 Jul 2018
Brunel - PM Infrastructure	Consumer Price Index	19	1.56%	1.01%							-2.09%	-3.40%	02 Jan 2019
Brunel - PM Secured Income	Consumer Price Index	17	1.15%	0.60%							3.85%	2.54%	15 Jan 2019

Passive Low Carbon Equities

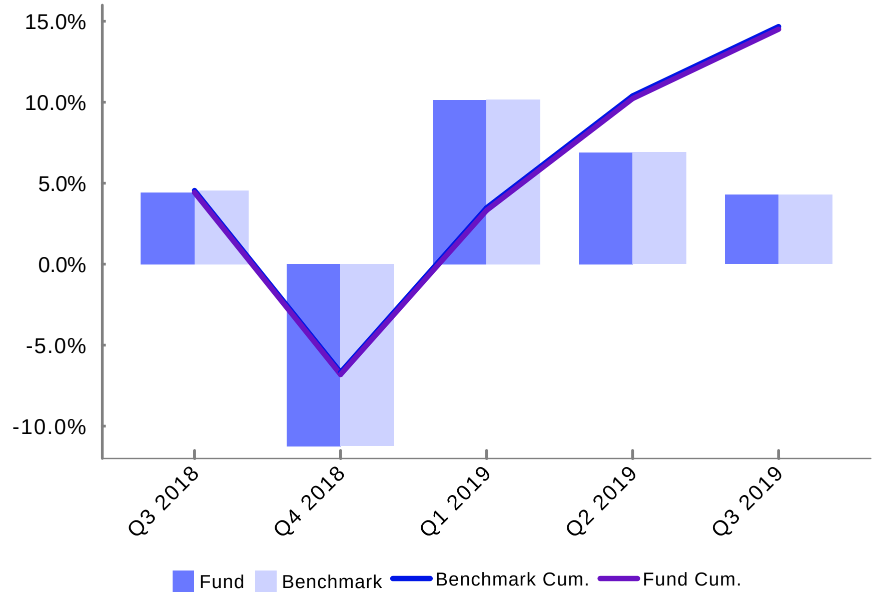
Overview

	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:	£580,754,670

Quarterly performance

All values in %	Fund	BM	Excess
3 Month	4.28	4.28	0.00
Fiscal YTD	11.49	11.49	0.00
1 Year	8.98	9.02	-0.04
3 Years			0.00
5 Years			0.00
10 Years			0.00
Since Inception	10.88	11.02	-0.14

Rolling Performance



Passive low carbon returned positive performance over the quarter. Performing in line with its MSCI Low Carbon benchmark, the portfolio returned 4.3%.

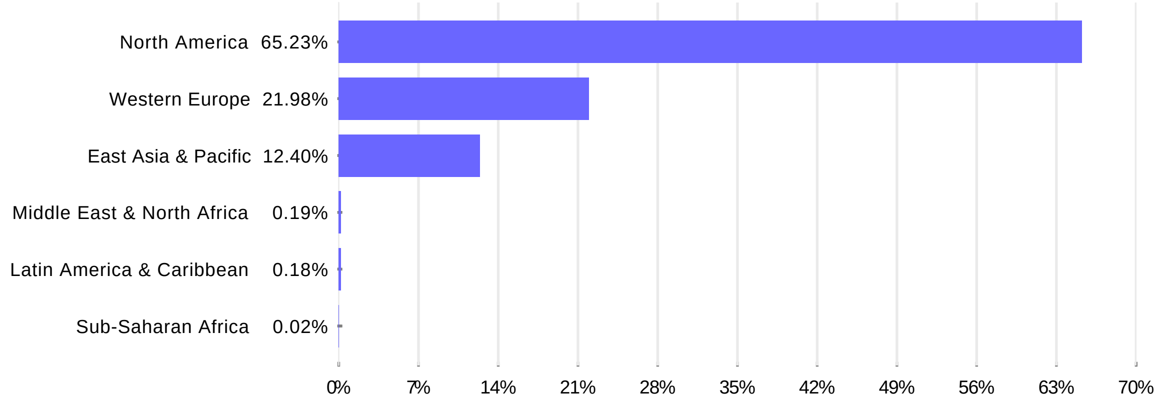
• The low carbon portfolio benefitted from positive global equity market returns during Q3. As the global equity market has such a large allocation to the US (around 55%), this region was the largest contributor to positive performance

Passive Low Carbon Equities – Region & Sector Exposure

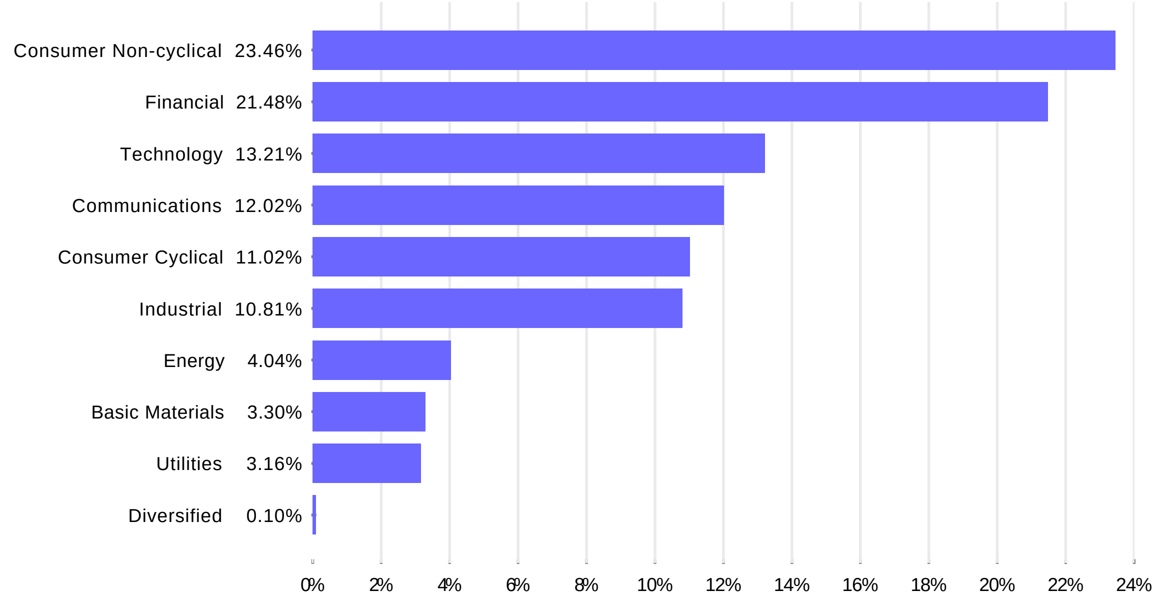
Top 20 Holdings

	Mkt. Val.(GBP)
APPLE INC	22,576,984
MICROSOFT CORP	21,770,189
AMAZON.COM INC	15,673,782
FACEBOOK INC-CLASS A	9,104,868
ALPHABET INC-CL A	8,227,054
JPMORGAN CHASE & CO	8,134,489
ALPHABET INC-CL C	7,716,721
JOHNSON & JOHNSON	7,682,524
PROCTER & GAMBLE CO/THE	7,322,237
NESTLE SA-REG	7,275,866
VISA INC-CLASS A SHARES	6,740,287
AT&T INC	6,103,172
BANK OF AMERICA CORP	5,896,193
HOME DEPOT INC	5,779,244
BERKSHIRE HATHAWAY INC-CL B	5,670,424
VERIZON COMMUNICATIONS INC	5,639,217
MASTERCARD INC - A	5,323,502
INTEL CORP	5,321,276
COCA-COLA CO/THE	5,242,835
WALT DISNEY CO/THE	5,162,203

Regional Exposure



Sector Exposure



Page 147

Passive Low Carbon Equities – Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. Microsoft Corp	61.3	65.5
2. SAP SE	74.0	68.4
3. Ecolab Inc	76.1	50.0
4. Accenture PLC	68.4	50.0
5. Toyota Motor Corp	66.6	68.5
6. Cisco Systems Inc	63.9	62.4
7. Eversource Energy	65.6	80.0
8. Schneider Electric SE	78.6	59.8
9. Texas Instruments Inc	67.3	32.7
10. Nestle SA	61.5	66.6

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. Alphabet Inc	49.1	37.5
2. Facebook Inc	45.3	28.5
3. Apple Inc	52.9	44.8
4. Johnson & Johnson	46.8	50.0
5. Amazon.com Inc	53.2	34.6
6. Wells Fargo & Co	44.0	69.9
7. JPMorgan Chase & Co	50.8	36.8
8. Boeing Co	46.8	14.0
9. Home Depot Inc	49.8	42.9
10. Nike Inc	42.2	35.9

* Position 1 is the top contributor/detractor.

0 50 100

Weighted Average ESG Score	2019 Q2	2019 Q3
Portfolio	58.41	58.30
Benchmark	58.60	58.54

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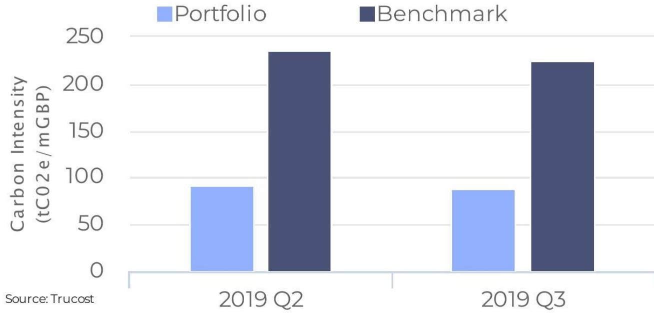
Weighted Average Carbon Intensity (WACI)



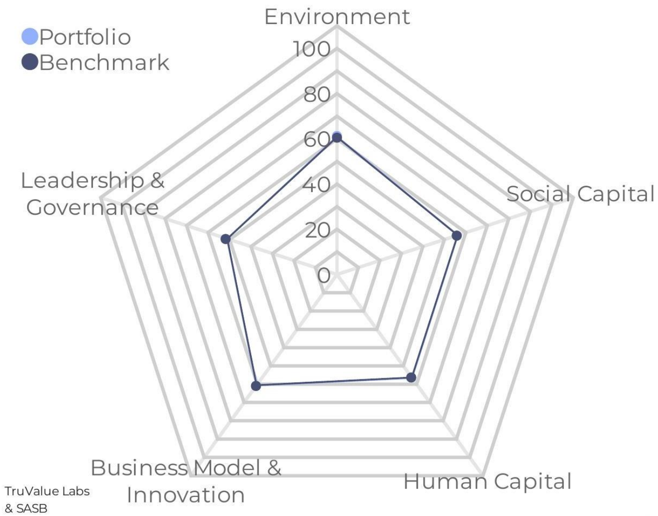
Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1] Q2	Total Extractive Exposure[1] Q3	Extractive Industries (VOH)[2] Q2	Extractive Industries (VOH)[2] Q3
Portfolio	2.00	1.78	3.95	4.16
Benchmark	3.28	3.32	9.38	9.08

[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



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Brunel Assessment

- **FANG's**, the acronym for the big four tech companies, continue to face increased scrutiny over data protection concerns and objectionable content. Anti-trust probes and strikes by staff have also impacted companies in this sector. Data security is an area of ongoing engagement.
- **Boeing**, an aerospace company, has been plagued with concerns over the safety of its planes following crashes and ongoing investigations. Positives include a split to CEO and chair roles and the appointment of a new board director with safety experience. Subject to ongoing engagement.
- **JP Morgan Chase**, an investment bank, in Q2 saw a downward score following settlement of a parental leave case. This quarter was further impacted when three metals exchange traders were charged with market manipulation and it was named as one of five banks in an FX rigging lawsuit.

100% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.
The benchmark has been updated to MSCI Developed World (source index) so that the carbon reductions achieved by the application of carbon constraints to create the MSCI Developed World Low Carbon portfolio are easier to monitor.

Brunel UK Active Equity

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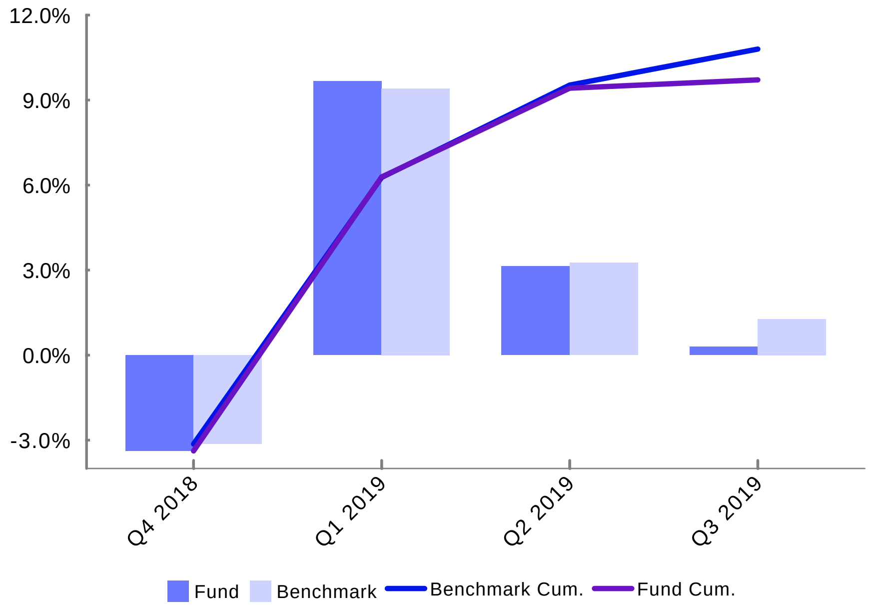
Overview

	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:	£193,703,403

Quarterly performance

All values in %	Fund	BM	Excess
3 Month	0.29	1.27	-0.98
Fiscal YTD	3.44	4.57	-1.13
1 Year			0.00
3 Years			0.00
5 Years			0.00
10 Years			0.00
Since Inception	9.60	10.82	-1.22

Rolling Performance



The FTSE All share index underperformed global developed markets during the quarter, posting a return of 1.3% over the quarter and 14.4% year to date. During the quarter, a new prime minister, Brexit uncertainty, and weak growth indicators all led investors once again to favour more defensive sectors such as Healthcare and Utilities, while economically sensitive sectors such as Financials and Materials underperformed.

Over the quarter, the portfolio has underperformed the FTSE All share by -0.98%, returning 0.29% versus the FTSE All share return of 1.27%. Manager relative performance struggled over the quarter with all three managers underperforming the benchmark in a market environment dominated by market rotations and macro factors. ASI, Baillie Gifford and Invesco underperformed by -0.34%, -1.56% and -0.86 respectively.

Since inception on 21 November 2018, the portfolio has returned 9.59%, an underperformance of -1.23% versus the FTSE All share over the same period. Underperformance was largely driven by a significant underperformance from ASI versus the FTSE All share of -4.28% and, to lesser extent, Invesco (-0.78%), which more than offset outperformance by Baillie Gifford (+1.74%).

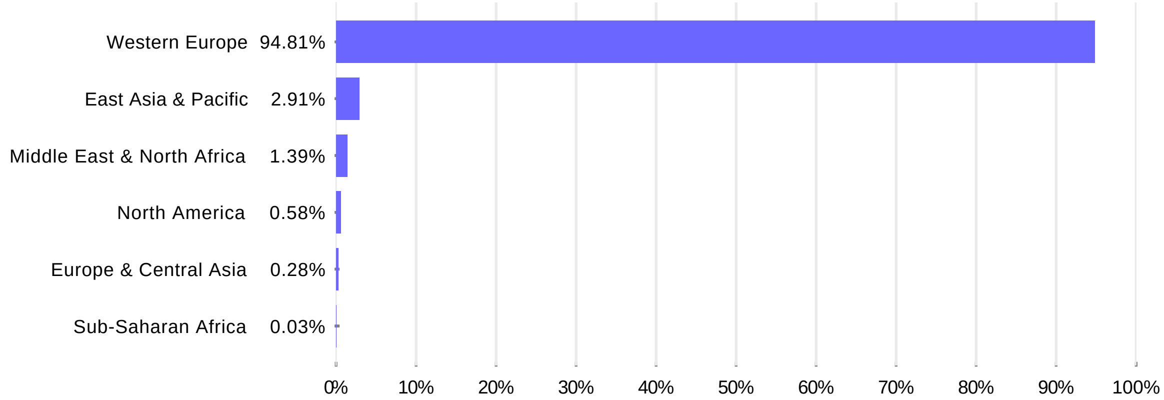
Active UK Equities – Region & Sector Exposure

Top 20 Holdings

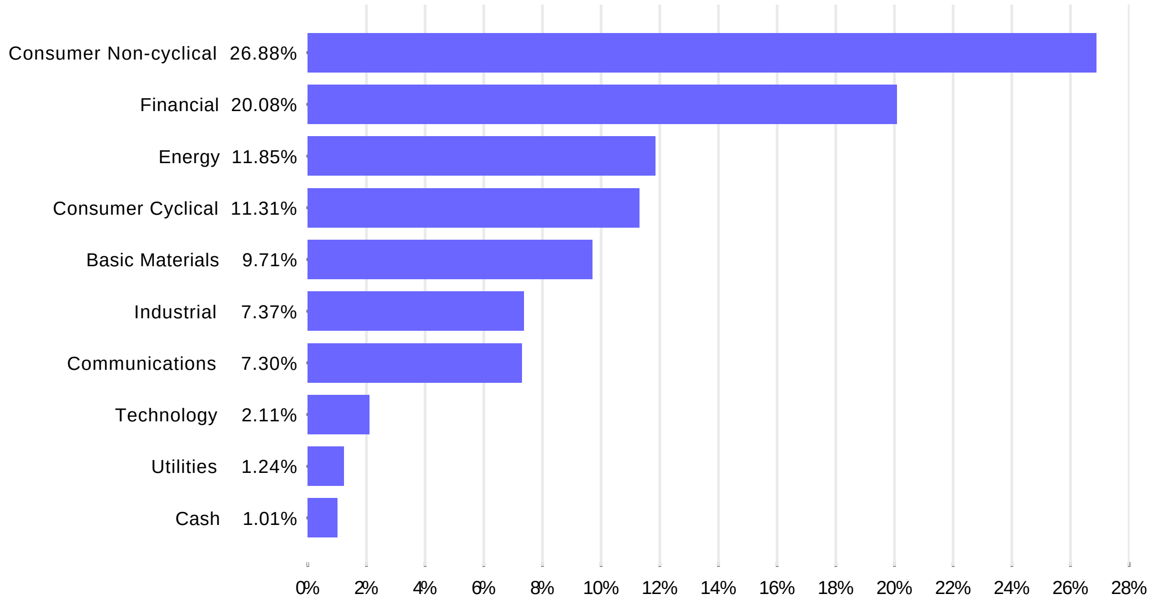
	Mkt. Val.(GBP)
ROYAL DUTCH SHELL PLC-B SHS	70,879,998
GLAXOSMITHKLINE PLC	61,808,475
BP PLC	58,774,411
HSBC HOLDINGS PLC	51,813,875
UNILEVER PLC	50,823,609
RIO TINTO PLC	49,674,353
BHP GROUP PLC	48,031,849
RELX PLC	47,469,370
BRITISH AMERICAN TOBACCO PLC	46,593,203
DIAGEO PLC	43,864,512
ROYAL DUTCH SHELL PLC-A SHS	37,612,954
PRUDENTIAL PLC	35,788,895
ASTRAZENECA PLC	32,680,315
LEGAL & GENERAL GROUP PLC	27,893,249
LLOYDS BANKING GROUP PLC	24,162,524
MEGGITT PLC	23,050,484
RIGHTMOVE PLC	22,083,950
STANDARD CHARTERED PLC	21,196,745
AUTO TRADER GROUP PLC	20,796,900
HIKMA PHARMACEUTICALS PLC	20,496,401

Page 150

Regional Exposure



Sector Exposure



Active UK Equities – Responsible Investment

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. Relx PLC	65.9	66.4
2. Diageo PLC	65.5	50.0
3. Unilever PLC	63.7	67.0
4. Tate & Lyle PLC	76.8	20.3
5. Rio Tinto PLC	62.7	77.4
6. Mondi PLC	74.1	50.0
7. Aggreko PLC	77.6	50.9
8. Legal & General Group PLC	63.1	19.6
9. London Stock Exchange Group PLC	66.4	21.6
10. Babcock International Group PLC	70.1	50.0

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. Royal Dutch Shell PLC	53.7	79.4
2. BP PLC	53.5	69.9
3. Lloyds Banking Group PLC	45.5	55.4
4. HSBC Holdings PLC	53.7	74.4
5. British American Tobacco PLC	55.2	62.1
6. Smith & Nephew PLC	50.0	69.3
7. Barclays PLC	46.8	43.7
8. Glencore PLC	40.9	69.9
9. JD Sports Fashion PLC	47.9	23.3
10. Reckitt Benckiser Group PLC	47.2	69.6

Weighted Average ESG Score	2019 Q2	2019 Q3
Portfolio	58.96	59.90
Benchmark	57.96	58.38

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* Position 1 is the top contributor/detractor.

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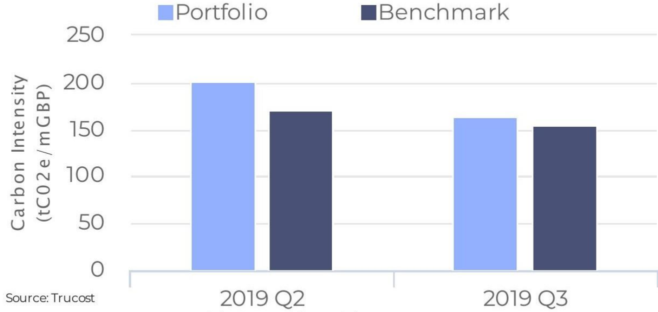
Weighted Average Carbon Intensity (WACI)



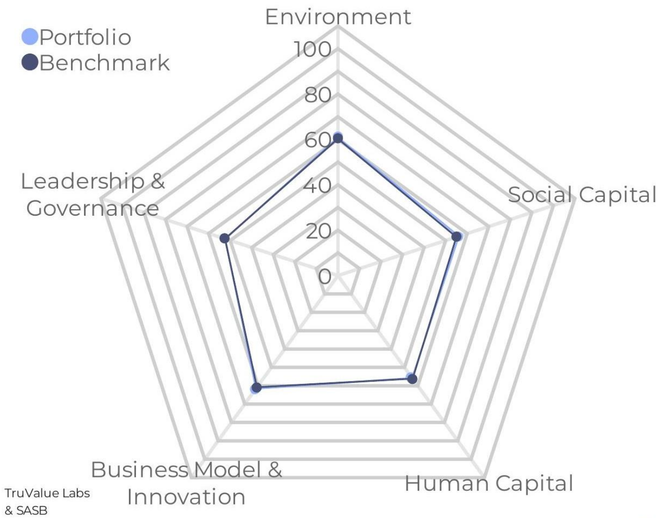
Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1] Q2	Q3	Extractive Industries (VOH)[2] Q2	Q3
Portfolio	5.41	6.76	19.87	17.60
Benchmark	5.71	6.64	19.35	17.70

[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



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Brunel Assessment

- **London Stock Exchange** , was subject to a take over bid by the Hong Kong Stock Exchange. The LSE Board rejected bids supported by a number of large investors. The bid was finally withdrawn.
- **Legal and General Group**, there is nothing material driving the negative momentum score and since the quarter end has seen a significant positive move upwards.
- **JD Sports**, the clothes retailer, has had its recent acquisition of smaller rival, Footasylum, referred by the competition watchdog. The Competition and Markets Authority (CMA) said JD Sports, Britain's biggest sportswear retailer, had failed to address its initial concerns that the takeover could be bad for shoppers.
- **Tate and Lyle**, a consumer staples company, has consistently 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.

100% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.
Both the benchmark and the portfolio saw improvements (reductions) in carbon intensity since the last quarter. The overall carbon intensity of the UK portfolio is strongly influenced by one manager whose quantitative approach does not currently include climate risk. We have had very positive engagement with the manager who is seeking a solution for both Brunel and the wider market where they see this as a growing opportunity.

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Page 153

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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:	**20 November 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 work plan 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 work plan 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 work plan is as follows:

Panel meeting	Proposed agenda
20 November 2019	• Review investment performance • Transition of assets - plan update • Consider future structure for equity protection
6 March 2020	• Review investment performance • Transition of assets - plan update • Implementation considerations from strategic review (Equity Protection) • Agree Private Market commitments to Brunel portfolios (by 31 March 2020)
5 June 2020	• Review investment performance • Transition of assets - plan update • Implementation considerations from strategic review
11 September 2020	• Review investment performance • Transition of assets - plan update
20 November 2020	• Review investment performance • Transition of assets - plan update

4.2 The Panel's work plan 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 work plan 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 is in the process of addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

7 OTHER OPTIONS CONSIDERED

7.1 None.

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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