

Avon Pension Fund Committee Investment Panel

Date: Friday, 11th September, 2020

Time: 1.30 pm

**Venue: Virtual Meeting - Zoom - Public Access via
YouTube**

<https://www.youtube.com/bathnescouncil>

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



Mark Durnford

Democratic Services

Lewis House, Manvers Street, Bath, BA1 1JG

Telephone: 01225 394458

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>

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. Broadcasting of Meetings

The Council will broadcast the images and sounds live via the internet

<https://www.youtube.com/bathnescouncil>

The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

4. Public Speaking at Meetings

The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group.

Advance notice is required not less than two working days before the meeting.

Further details of the scheme can be found at:

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

5. 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 - Friday, 11th September, 2020

at 1.30 pm in the Virtual Meeting - Zoom - Public Access via YouTube
<https://www.youtube.com/bathnescouncil>

A G E N D A

1. WELCOME & INTRODUCTIONS
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 - 5TH AUGUST 2020 (Pages 5 - 8)
8. UK PROPERTY PORTFOLIO (Pages 9 - 28)
9. RISK MANAGEMENT ANNUAL REVIEW (Pages 29 - 74)

The Investment Panel reviews the strategies annually to assess whether there has been a material change in market conditions which requires an adjustment to any of the strategies to ensure they meet the strategic objectives.

10. BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING (Pages 75 - 88)

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

11. EQUITY PORTFOLIO REVIEW (Pages 89 - 92)

One of the actions from the Strategic review which concluded in April 2020 was to assess the viability for all the equity assets to be invested in low carbon and sustainable solutions.

12. REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 JUNE 2020 (Pages 93 - 198)

This paper reports on the performance of the Fund's investment managers and seeks to update the Panel on routine aspects of the Fund's investments. The report contains performance statistics for period ending 30 June 2020.

13. FORWARD AGENDA (Pages 199 - 202)

This report sets out the forward agenda for the Panel to end 1Q21. It is provisional as the Panel will respond to issues as they arise and as work is delegated from the Committee.

The Committee Administrator for this meeting is Mark Durnford who can be contacted on 01225 394458.

AVON PENSION FUND COMMITTEE INVESTMENT PANEL

Minutes of the Meeting held

Wednesday, 5th August, 2020, 2.00 pm

Members: Councillor Shaun Stephenson-McGall (Chair), Councillor Chris Dando, Councillor Bruce Shearn, John Finch, Pauline Gordon and Shirley Marsh-Hughes

Advisors: Steve Turner (Mercer), Nick Page (Mercer) and Ross Palmer (Mercer)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk) and Nathan Rollinson (Investments Manager)

1 WELCOME & INTRODUCTIONS

The Chair welcomed everyone to the meeting.

2 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

3 DECLARATIONS OF INTEREST

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 - 6TH MARCH 2020

The minutes of the meeting on 6th March 2020 were confirmed as a correct record.

8 EQUITY PROTECTION STRATEGY - TRANCHE 3 ROLLOVER & DYNAMIC HEDGING IMPLEMENTATION

The Investments Manager introduced this report to the Panel. He explained that the Fund's current static strategy was extended in 1Q20 as an interim solution to allow the Panel time to consider the technical details and implementation options of a dynamic strategy.

He stated that two tranches of the current strategy were rolled before March 2020; the third tranche was rolled for a shorter period of time as a result of the extreme market volatility experienced during March. He said that the Panel are asked to agree whether to roll tranche 3, aligning expiry with the prior two tranches, or to let it expire and accept that c.1/3rd of the Fund's equity holdings will remain unhedged while further work on dynamic hedging is undertaken.

He added that in light of the significant equity market rebound since the final tranche was extended in March 2020 and uncertainty as a result of COVID-19, the recommendation is to roll tranche 3 for a period that would bring it into alignment with the overall protection strategy.

He explained that in addition the Panel has also been tasked with assessing the suitability of dynamic hedging as a long-term alternative to static hedging - this involves an assessment of the governance, cost and risk implications of switching to such a strategy.

Pauline Gordon asked what text was missing from 6.1 of the cover report.

The Investment Manager apologised and replied that the detail relating to that section of the report could be found on page 38.

The Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED**, in accordance with the provisions of the Section 100(A)(4) of the Local Government Act 1972 that the public should be excluded from the meeting for this item of business, because of the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act as amended.

The Panel returned to open session at 4.20pm.

The Chair announced that Councillor Chris Dando had left the meeting at 3.30pm.

The Avon Pension Fund Investment Panel **RESOLVED** to agree:

- (i) To rollover tranche 3 of the equity protection strategy for a further 10 months to align with the prior two tranches, and to delegate the implementation to Officers and Mercer.
- (ii) To implement a Dynamic Equity Protection Strategy using a Total Return Swap on a Customised Index when the current static structure expires in 2021.

He thanked the members, officers present and advisors from Mercer for their contributions to the discussion on this item.

9 FORWARD AGENDA

The Group Manager for Funding, Investment & Risk introduced this item to the Panel. She explained that items were in place for the meetings scheduled until February 2021 and that there currently was a Strategic / Monitoring split to each of the agendas.

She said that the item 'Scope of equity portfolio review' would be moved to the September agenda and that it was likely that further discussion regarding Equity Protection / Dynamic Hedging would be required in November following the report on the agenda today.

Shirley Marsh-Hughes asked whether the Panel should do some work, possibly in November, to reassure themselves regarding the asset allocation approach given the current volatility of the markets.

The Group Manager for Funding, Investment & Risk replied that this could be covered under the Review Performance item listed for November. She added that our focus will be on our less liquid assets, especially property.

Pauline Gordon asked if any further preparation work was required in terms of Brexit as that deadline approaches.

The Group Manager for Funding, Investment & Risk replied that the biggest impact Brexit will have will be on our currency. She added that by the time Brexit happens we will have transitioned to sustainable equities and we would not have a dedicated allocation to UK equities. She said that there would be a slight exposure to UK Bonds through the LDI portfolio and also to Sterling / Corporate Bonds.

John Finch commented that it would be good to have a discussion in September on how quickly we may need to transition to the longer-term strategy, given the shorter-term market volatility.

The Chair asked when it would be appropriate to discuss the Supreme Court rulings regarding investment strategies, ESG issues and ethical investments.

The Group Manager for Funding, Investment & Risk replied that these matters could be picked up on in discussions concerning the Equity Portfolio Review. She added that she did not feel that the rulings would change what we can do or have been doing and that the focus will be on explaining what we do. She said that moving to global sustainable will have a wide-ranging effect on the regional markets that we invest in.

The Panel **RESOLVED** to note the forward agenda within the report.

The meeting ended at 4.30 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

Access to Information Arrangements

Exclusion of access by the public to Council meetings

| |
|--|
| Information Compliance Ref: LGA 982/20 |
|--|

| |
|--|
| Meeting / Decision: Avon Pension Fund Investment Panel |
|--|

| |
|---------------------------------------|
| Date: 11 th September 2020 |
|---------------------------------------|

| |
|----------------------|
| Author: Liz Woodyard |
|----------------------|

| |
|---|
| Exempt Report Title: UK Property Portfolio |
|---|

| |
|--|
| Exempt Appendix 1 – Proposal for UK Property portfolio |
|--|

The report and the appendices 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: |
|------------------------|

- | |
|---|
| <p>3. <i>Information relating to the financial or business affairs of any particular person (including the authority holding that information).</i></p> |
|---|

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 report and exempt appendices be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

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

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The

officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

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

The exempt report and 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 is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

| Bath & North East Somerset Council | |
|---|---|
| MEETING: | AVON PENSION FUND INVESTMENT PANEL |
| MEETING DATE: | 11 September 2020 |
| TITLE: | Risk Management Annual Review |
| WARD: | ALL |
| AN OPEN PUBLIC ITEM | |
| <p>List of attachments to this report:</p> <p>Exempt Appendix 1 – Mercer Report: Risk Management Framework Review & Report on the Quarter to 30 June 2020</p> | |

1. THE ISSUE

- 1.1. The Risk Management Framework encompasses three dedicated risk management strategies and a passive equity fund for collateral management purposes. The Liability Driven Investment (LDI) Strategy and the Buy-and-Maintain Corporate Bond (CB) Portfolio are designed to hedge interest rate and inflation risks arising from the Fund's liabilities, whereas the Equity Protection Strategy (EPS) is designed to shield the Fund from a large drawdown in the value of its underlying equity holdings. These strategies are linked to the funding strategy and de-risk the Fund by placing less reliance on growth assets to fund future pension benefits and to simultaneously protect the Fund's current funding position.
- 1.2. The Investment Panel reviews the strategies annually to assess whether there has been a material change in market conditions which requires an adjustment to any of the strategies to ensure they meet the strategic objectives. The annual review also considers any financial implications on the portfolio, specifically an increase in the collateral requirements. Any recommendation from the Panel to change a strategy requires approval by the Committee.
- 1.3. The Committee has delegated monitoring to the Investment Panel. The Panel monitors the collateral adequacy, the performance of the strategies and the performance of the manager, Blackrock.
- 1.4. Mercer will present their report at the meeting.

2. RECOMMENDATION

The Avon Pension Fund Investment Panel is asked to:

- 2.1. **Note Mercer's report reviewing the strategies and collateral position**
- 2.2. **Recommend to the Committee that the existing trigger framework for the LDI strategy should be maintained**
- 2.3. **Recommend to Committee that the inflation hedge be reinstated outside of the trigger framework to the level it was prior to the restructure that took place in March, and to further increase the inflation hedge to the maximum**

allowable under the mandate guidelines following the conclusion of the RPI reform consultation in late 2020.

3. FINANCIAL IMPLICATIONS

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

4. ANNUAL REVIEW OF LDI STRATEGY

- 4.1. The LDI strategy seeks to hedge real interest rates, in order to increase the certainty that the real returns assumed in the funding plan will be achieved.
- 4.2. The aim is to lock in attractive real yields ('trigger points'). As the real yield is determined by nominal interest rates and inflation expectations – which move independently of one another – It is important to keep these under review for appropriateness as each can be hedged independently. The current objective is to hedge up to 70% of the assets as market conditions allow and there is a trigger framework in place, reflecting the market conditions when set, to achieve this hedge ratio.
- 4.3. The strategy utilises unfunded hedging instruments meaning there is limited or no initial outlay of capital to put the hedging in place. However, these instruments fluctuate in (mark-to-market) value through their life to maturity and must be supported by collateral, in the form of assets that can be sold to meet mark-to-market requirements. The collateral held by the Fund must be monitored to ensure there is enough to support the strategy.
- 4.4. During the year Panel agreed to switch the index-linked gilts with maturities post 2030 into conventional gilts in order to mitigate the risk of falling inflation following an announcement around the RPI reform consultation. Further, Panel agreed to downwardly revise the trigger framework to account for this potential change. The changes to the trigger framework took place in June and remain appropriate.
- 4.5. The Liability Benchmark Portfolio (LBP), which is used by BlackRock to hedge against movements in the value of the Fund's liabilities arising from changes in interest rates and inflation, has been updated based on the assumptions and member data underlying the 2019 actuarial valuation. Further information on the construction of the LBP can be found at Exempt Appendix 1.
- 4.6. Due to significant event risk the future path of inflation is uncertain. However, the market expectation is for inflation to rise in the short to medium term which presents an opportunity for the Fund to increase its inflation hedge outside of the existing trigger framework in anticipation of a rise in inflation. In order to mitigate timing risk the recommendation is to reinstate the hedge ratio to the level it was at prior to the restructure in March with immediate effect and then once the outcome of RPI reform is known to further increase the hedge ratio to the maximum allowable under the mandate guidelines. This would involve capturing inflation at less attractive levels than what is currently built into the trigger framework. There is also an opportunity cost if inflation falls following RPI reform as the Fund would have already locked in higher inflation levels. On balance the risks point to inflation increasing and the phasing in of the inflation hedge acts to reduce this opportunity cost. Further, if the existing triggers were hit in the interim these would be actioned as normal.

5. ANNUAL REVIEW OF EQUITY PROTECTION STRATEGY

- 5.1. The Fund currently employs a static equity protection strategy (EPS), encompassing both developed and emerging market exposure. The level of the upside cap is set to allow the Fund to participate in equity gains sufficient to support the actuarial valuation assumptions. Further, the parameters of the structure are set so as to incur little or no upfront cost, otherwise known as a 'nil-premium structure'.
- 5.2. During the 1Q20 the EPS expired and was rolled over in three tranches for an interim period allowing the Panel time to consider dynamic equity protection in further detail. The third tranche expired in March and due the unprecedented volatility the decision was made to roll this portion of the hedge for a shorter duration to limit the risk of not being able to participate in equity gains in a sustained market recovery. Post period-end, Panel resolved to further extend tranche 3 to align with tranches 1 and 2, delegating implementation to Officers and Mercer. The underlying regional exposures to rollover are currently under discussion in line with the upcoming restructure of the equity portfolio with the allocation to global sustainable equities.
- 5.3. Over the year the EPS performed as expected, adding significant value as equity markets fell in March. During 2Q20 as markets recovered from the lows seen in the previous quarter the positive value attached to the EPS decreased as equity markets approached the upside cap(s). Tranche 3 exhibited negative market value at quarter end as all underlying equity markets, except for the UK, had recovered to a point beyond the upside cap struck when the tranche was rolled over in March. Since inception (November 2017) the overall return of the proxy equity portfolio, net of the protection, was c. 8.8% for developed market equities. If the protection had not been in place the return would have been c. ~11.5%. The net return, since inception (January 2020), for the emerging market portion was -4.1%. If the protection had not been in place the Fund would have incurred losses of c. -7.0%
- 5.4. At its last meeting in August, Panel assessed the governance, cost and risk implications of switching to a dynamic strategy. Having looked at two implementation options Panel resolved to implement a dynamic EPS using a total return swap on a custom index when the current static strategy expires next year. A formal proposal detailing the design and structure of the new dynamic EPS will be presented to Panel at its November meeting.

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

- 6.1. The primary objective of this strategy is to reduce the funding risk in respect of the 'low risk' bucket of liabilities, which are valued on a corporate bond discount basis. The low-risk bucket includes orphan employers and those employers looking to terminate. The strategy was structured so that the liabilities are fully funded at outset and residual interest rate and inflation risk is covered by the broader LDI mandate.
- 6.2. Over the year the average credit rating of securities held in the portfolio has not changed, despite an increase in downgrades in 2Q20 as a result of the pandemic. Turnover within the portfolio has remained below 1% and there has been minimal change to the level of cashflow matching within the portfolio since inception.

6.3. The expectation is for the strategy to grow over time as either more employers can afford to move to a lower risk strategy or if more employers look to exist the fund. There are no recommendations to rebalance this portfolio at present.

7. RISK MANAGEMENT

7.1. The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

8. EQUALITIES

8.1. A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

9. CLIMATE CHANGE

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

10. OTHER OPTIONS CONSIDERED

10.1. NONE

11. CONSULTATION

11.1. 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, Investments Manager (Tel. 01225 395357) |
| Background papers | None |
| Please contact the report author if you need to access this report in an alternative format | |

Access to Information Arrangements

Exclusion of access by the public to Council meetings

| |
|------------------------------------|
| Information Compliance Ref: 983/20 |
|------------------------------------|

| |
|--|
| Meeting / Decision: AVON PENSION FUND INVESTMENT PANEL |
|--|

| |
|---------------------------------------|
| Date: 11 th September 2020 |
|---------------------------------------|

| |
|--------------------------|
| Author: Nathan Rollinson |
|--------------------------|

| |
|---|
| Report Title: Annual Review of Risk Management Strategies |
|---|

| |
|-----------------------------------|
| Exempt Appendix 1 – Mercer Report |
|-----------------------------------|

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

| |
|------------------------|
| Stating the exemption: |
|------------------------|

- | |
|---|
| <p>3. <i>Information relating to the financial or business affairs of any particular person (including the authority holding that information).</i></p> |
|---|

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

PUBLIC INTEREST TEST

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

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The

officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

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

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

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

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

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

Document is Restricted

This page is intentionally left blank

| Bath & North East Somerset Council | | |
|---|--|--------------------|
| MEETING: | AVON PENSION FUND INVESTMENT PANEL | |
| MEETING DATE: | 11 September 2020 | 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 – Sustainable Equities Portfolio Exempt Appendix 2 – Plan for transition of Avon’s assets to Brunel portfolios Exempt Appendix 3 – Risk Register for transition of Avon’s assets to Brunel portfolios Exempt Appendix 4 - Private Debt Portfolio update | | |

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 2020/21. 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.

4 INVESTMENTS UPDATE

- 4.1 Assets that have transitioned now total £2.96bn (at 31/06/20). In addition, Brunel invests £110m in secured Income and ££40m in Renewable Infrastructure on behalf of the Fund. The investments in private Debt has yet to commence.

| Brunel portfolio | Value at 30/06/20 | Transitioning Mandates / Managers | Date transitioned |
|----------------------------------|-------------------|--|-------------------|
| Passive Equities | £596m | Low Carbon Global Equities - Blackrock | July 2018 |
| UK Equities | £167m | UK Equities - TT International | Nov 2018 |
| Emerging Market Equities (EM) | £233m | EM Equities – Genesis, Unigestion | Oct 2019 |
| Global High Alpha Equities (GHA) | £468m | Global Equities - Schroders | Nov 2019 |
| Risk Management Strategies | £1,000m | Blackrock LDI and EPS | Oct 2019 |
| Diversified Return Funds | £495m | Diversified Growth Funds – Pyrford, Ruffer (partial) | July 2020 |

- 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 construction of the Sustainable Equities Portfolio (for information only).
- 4.4 Exempt Appendix 2 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 2020/21 Business Plan.
- 4.5 The strategic allocation to DGFs has reduced from 15% to 10%; therefore, not all the legacy assets have transitioned to Brunel to avoid unnecessary transition costs. The residual holding will be sold down to fund private market commitments in line with the strategic policy.
- 4.6 The private Debt Portfolio is in process of being created and an update is provided in Exempt Appendix 4.
- 4.7 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.

4.8 Avon's project plan includes a Risk Register (see Exempt Appendix 3) of risks specific to the transition for Avon. There is no change in the risks.

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 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 EQUALITIES

7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

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 | Liz Woodyard, Group Manager, Funding, Investments & Risk; 01225 395306 |
| Background papers | Brunel Client Group papers |
| Please contact the report author if you need to access this report in an alternative format | |

This page is intentionally left blank

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 981/20

Meeting / Decision: Avon Pension Fund Investment Panel

Date: 11th September 2020

Author: Liz Woodyard

Report Title: Brunel Pension Partnership – Update on pooling

Exempt Appendix 1 – Sustainable Equities Portfolio

Exempt Appendix 2 – Plan for transition of Avon's assets to Brunel portfolios

Exempt Appendix 3 – Risk Register for transition of Avon's assets to Brunel portfolios

Exempt Appendix 4 - Private Debt Portfolio update

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

Stating the exemption:

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

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

PUBLIC INTEREST TEST

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

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local

Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

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

The exempt appendices contain information on potential future trades by the fund, and 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.

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

| Bath & North East Somerset Council | | |
|---|------------------------------------|--------------------|
| MEETING: | AVON PENSION FUND INVESTMENT PANEL | |
| MEETING DATE: | 11 September 2020 | AGENDA ITEM NUMBER |
| TITLE: | Equity Portfolio Review | |
| WARD: | ALL | |
| AN OPEN PUBLIC ITEM | | |
| List of attachments to this report: Appendix 1 – Equity Review Brief | | |

1 THE ISSUE

1.1 One of the actions from the Strategic review which concluded in April 2020 was to assess the viability for all the equity assets to be invested in low carbon and sustainable solutions.

1.2 This analysis was delegated to the Investment Panel. The Panel are asked to agree the brief for the review.

2 RECOMMENDATION

2.1 **That the Panel agrees the brief for the Equity portfolio review.**

3 EQUITY REVIEW BRIEF

3.1 The Strategic review concluded that the direction of travel for the total allocation to equities is for it to be invested in assets that are sustainable and are aligned to the transition to the low carbon economy.

3.2 The current strategic allocation to equities is 37.5%, split as follows:

- a) Low Carbon 10%
- b) Sustainable equities 10%
- c) Global Equity 12%
- d) Emerging Markets 5.5%

3.3 The review will need to assess the following:

- a) The impact on overall risk and return to ensure there is no unforeseen bias or increase in risk
- b) Whether the Emerging Market Equity premium can be adequately captured under sustainable or low carbon strategies
- c) Likewise for the potential allocation to Global Small Cap equities which was recommended as part of the strategic review to reduce overall risk

3.4 This review is planned for 2021 so that it can incorporate a number of timing issues. Brunel's Sustainable Equity Portfolio is still in process of being launched and better understanding of how this will deliver for the transition to a low carbon

economy is needed before an increased allocation can be considered. In addition, the IIGCC led project to create a framework for analysing what <2°C aligned asset portfolios should look like is underway and will progress into 2021. As a result of this project, the Fund will have a more informed view as to whether the equity portfolios offered by Brunel are aligned with the <2°C objective or whether it needs to invest in more narrowly defined portfolios.

3.5 Lastly any changes to the equity portfolio may cause a rebalancing of the equity protection strategy if the underlying market exposures vary significantly from the current exposure.

3.6 The proposed scope of the review is set out in Appendix 1.

4 FINANCIAL IMPLICATIONS

4.1 The 2020/21 budget provides for advisory costs following the strategic review.

5 RISK MANAGEMENT

5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

6 CLIMATE CHANGE

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

7 EQUALITIES

7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

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 | Liz Woodyard, Group Manager, Funding, Investments & Risk; 01225 395306 |
| Background papers | |
| Please contact the report author if you need to access this report in an alternative format | |

Outline of Equity Portfolio Review

Session 1 - Q1 2021 Panel

- 1) Recap of current portfolio objectives, with focus on climate change/RI goals
- 2) Summary of current portfolio on look through basis, including regional/sector split, carbon exposure.
- 3) Discussion on whether current objectives are sufficient, or where the Committee might want to go further (e.g. broader focus on sustainability)
- 4) Analysis of approaches that can be considered including:
 - a. Developments in RI indexation and Brunel's portfolios/plans
 - b. Whether the current low carbon passive solution satisfies our aims or whether there are more progressive indices out there that are investable and factor in things such as scope 3 emissions
 - c. Whether our climate change objectives could be achieved through investing in sustainable equities alone and how a shift out of a passive approach in favour of going fully sustainable might impact risk.
 - d. Implications of an increase to low carbon and sustainable equities ahead of the formation of a Paris aligned portfolio (and any offering Brunel put forward here) – is it still viable as an interim solution?
 - e. The impact of Brunel's engagement on active portfolios to date to reduce carbon and increase sustainability.
- 5) Other areas to consider, such as small cap and EM allocation, including RI implications.
- 6) Agreement on future portfolio objectives and potential allocation changes to consider.

Session 2 - Q2 2021 Panel

- 1) Reaffirm on equity portfolio objectives.
- 2) Analysis of 2-3 alternative equity portfolios that meet these objectives with comparison versus current portfolio in terms of risk/return, look through split, carbon exposure, etc.
- 3) Implementation/cost considerations, including Brunel equity portfolios, QIF allocation options and equity protection strategy.
- 4) Agreement on direction of travel and implementation plan to recommend to Committee.

This plan is subject to timing change if work done by Brunel on Paris aligned portfolios or changes to the Brunel portfolios offered may affect our conclusions or provide alternative options.

This page is intentionally left blank

| Bath & North East Somerset Council | |
|---|---|
| MEETING: | AVON PENSION FUND INVESTMENT PANEL |
| MEETING DATE: | 11 September 2020 |
| TITLE: | Review of Investment Performance for Periods Ending 30 June 2020 |
| WARD: | ALL |
| AN OPEN PUBLIC ITEM | |
| List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – Mercer Performance Monitoring Report Appendix 3 – Brunel Quarterly Performance Report | |

1. THE ISSUE

- 1.1. This paper reports on the performance of the Fund's investment managers and seeks to update the Panel on routine aspects of the Fund's investments. The report contains performance statistics for period ending 30 June 2020.
- 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 25 September 2020.
- 1.3. This quarter the Mercer risk monitoring report that usually forms Exempt Appendix 4 to this report (and covers the performance of the Liability Driven Investing and Equity Protection Strategies) is included in Item 9 – Annual Review of Risk Management Strategies.

2. RECOMMENDATION

- 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 £489m (c.10.9%) in the quarter ending 30 June 2019 giving a value for the investment Fund of £4,955m. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.
- 4.2. The second quarter of this year saw a strong rebound in markets. Risk assets, with the exception of property, performed strongly as a whole and defensive assets delivered low single digit returns, Sterling weakened marginally over the quarter against the US Dollar, Yen and Euro. Further information on asset class performance can be found on page 9 of Appendix 2.
- 4.3. The Fund's overall performance relative to benchmarks is unavailable at the time of publishing. Full performance data will be reported to the Pensions Committee on 25 September 2020.

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 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 3. Mercer continue to provide quarterly commentary and analysis of all the Fund's mandates and at the strategic total fund level.
- 4.6. Manager total returns over the quarter were positive for all assets, with the exception of the property mandates. Equities in particular performed strongly due to co-ordinated central bank action. The Fund's DGF, Multi-Asset Credit and Fund of Hedge Funds strategies also performed well. Over the year, returns were mixed as some managers were not able to recover all of the losses incurred earlier in the year. Of the mandates with a 3-year track record most outperformed their respective benchmarks and performance targets with property mandates again the exception.

C – Risk Management Framework Quarterly Monitoring Report

- 4.7. A detailed report of the performance of the Fund's risk management strategies is presented in Exempt Appendix 1 to Item 9: Annual Review of Risk Management Strategies.

5. INVESTMENT STRATEGY AND PORTFOLIO REBALANCING

- 5.1. **Asset Class Returns versus Strategic Assumptions:** Developed market equity returns over the last 3 years were 8.8% 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 4.6%; below the assumed 3-year return of 8.7%. Over the 3-year period index-linked gilts returned 7.6% p.a. versus an assumed return of 2.2%. The 3-year UK property return of 3.9% p.a. lags its assumed return of 5.75%, due to continued recent uncertainty.
- 5.2. **Rebalancing:** There was no rebalancing activity during the quarter.
- 5.3. **Private Markets Investments:** At 30 June 2020 34% of the Fund's cycle 1 £115m commitment to Brunel's renewable infrastructure portfolio had been deployed and 32% of the Fund's £345m commitment to the secured income portfolio had been deployed. The pace of capital deployment across both asset

classes has slowed due to managers deferring acquisitions as a result of the pandemic. The current best estimate suggests further capital will not be called until late 2020 for the long-lease property funds. Capital calls are expected to resume sooner for the infrastructure portfolio. The operational infrastructure element of the secured income portfolio has not been affected to the same extent as the long-lease property assets and the Fund's entire commitment of £94m to the underlying manager has been called following the acquisition of a renewable energy plant.

- 5.4. **Responsible Investment (RI) Activity:** During the quarter Brunel published their first Responsible Investment and Stewardship Outcomes Report, which evidences policy commitments on ESG risk integration, engagement and stewardship activities. The report seeks to meet the requirements of the new Financial Reporting Standards – Stewardship Code 2020 as well as the EU Shareholder Rights Directive and has been critical in forming the framework for our own Responsible Investment Annual Report, which will be reported to Committee at their next meeting.
- 5.5. Elsewhere, the shareholder resolution that Brunel co-filed with ShareAction requesting that Barclays publish a plan to phase out the provision of financial services to non-Paris aligned oil and gas companies led to the company publicly stating an ambition to become net zero by 2050. The shareholder resolution itself won significant minority support.
- 5.6. Human capital, a priority theme for the Fund, was the subject of two new engagement initiatives targeting workplace mental health and modern-day slavery. Specifically, Brunel joined investors representing \$2.2tn in co-signing letters to FTSE100 companies asking that formal mental health workplans are established during the period of disruption brought about by the pandemic. Secondly, the Find it, Fix it, Prevent it campaign backed by the Principles for Responsible Investment, undertakes engagement with an aim to push for better public policy to facilitate effective corporate action on modern day slavery, to promote better processes for addressing slavery across supply chains and to develop better data for investors to act on modern day slavery. The initiative has so far received the backing of investors representing £3.5tn.
- 5.7. Finally, Brunel released their annual Carbon Metrics report which revealed that Brunel listed equity portfolios in aggregate are 15.4% more efficient in terms of carbon intensity than the broader market; Brunel's work on climate change has been recognised as they were named 'Pension Fund of the Year' at the recent Environmental Finance Sustainable Investments Awards.
- 5.8. **Voting and Engagement Activity:** Hermes engaged with 425 companies held by Avon in the Brunel segregated portfolios on a range of 1,135 ESG issues. Environmental topics featured in 16.7% of engagements, 80% of which related directly to climate change. Social topics featured in 14.7% of engagements, where human capital, human rights and diversity featured prominently. Of the 51.1% of Governance related engagements most focussed on executive remuneration and board diversity. Over the last quarter Hermes made voting recommendations at 394 meetings (5,622 resolutions). At 232 meetings they recommended opposing one or more resolutions. Over 60% of the issues Hermes voted against management on comprised board structure and remuneration. Aggregate voting data across all the Fund's investment managers will be reported to Committee at their next meeting.

5.9. Revised Strategic Benchmark: Following the conclusion of the 2019/20 investment strategy and the resultant asset allocation changes, Officers have been working with Mercer and the Fund's Custodian to revise the strategic benchmark that the Fund uses to benchmark total performance and identify where its managers are either adding or detracting value. To date the Fund's Custodian has not been able to factor the Fund's currency overlay programme into the strategic benchmark, which means aggregate level reporting is presented both including and excluding currency hedging in order to highlight the impact of the currency hedge and show performance relative to a like-for-like benchmark. Separately, the return from the LDI mandate, up until this point, has been manually added back into the strategic benchmark by Mercer. Due to the highly customised nature of the LDI mandate the Custodian has historically been unable to source an accurate proxy for the strategy and going forwards will use the change in the NAV as we seek to simplify the performance reporting process and ensure the greatest degree of consistency between the Fund's asset allocation and the strategic benchmark. These changes have been agreed and will be adopted from 3Q20. Officers and Mercer continue to work with the Custodian to explore options for integrating the Fund's FX overlay programme into the strategic benchmark in a cost-efficient manner. The revised composite benchmark can be seen in the below table:

| Asset Class | Benchmark used | Weight |
|---------------------------|--|---------------|
| Global Equity | MSCI World | 12.00% |
| Global sustainable equity | MSCI ACWI | 10.00% |
| Low carbon passive equity | MSCI World LC Target | 10.00% |
| EM Equities | MSCI Emerging Markets TR GD | 5.50% |
| Diversified Returns | GBPSONIA+4% | 10.00% |
| MAC | GBP3MLIBOR +4% | 6.00% |
| UK Property | MSCI/AREF UK Quarterly Property Fund Index | 3.75% |
| Overseas Property | MSCI Global Quarterly Property Fund Index | 3.75% |
| Secured Income | CPI+2% | 10.00% |
| Core Infrastructure | GBP3MLIBOR+5% | 5.00% |
| Renewable Infrastructure | CPI+4% | 5.00% |
| Private Debt | GBP3MLIBOR +4% | 5.00% |
| Corp Bonds | Custom | 2.00% |
| LDI | Custom | 12.00% |
| FX Hedge | TBC | -- |
| Total | -- | 100.00% |

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. EQUALITIES

7.1. A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8. CLIMATE CHANGE

8.1. The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. 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.

9. OTHER OPTIONS CONSIDERED

9.1. None

10. CONSULTATION

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

| | |
|--|--|
| Contact person | Nathan Rollinson, 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 | |

This page is intentionally left blank

AVON PENSION FUND VALUATION - 30 JUNE 2020

| | Brunel Portfolios | Cash Management Strategy | QIF | Active Equities | | Funds of Hedge Funds | DGFs | | MAC | Property | | Infra- structure | Currency Hedging | In House Cash | TOTAL | Avon Asset Mix % |
|---------------------------------|----------------------|--------------------------------|---------------|-----------------|--------------------|----------------------------|--------------|--------------|--------------|------------------|------------------------|---------------------|---------------------|------------------|---------------|---------------------|
| All figures in £m | Multi | BlackRock | BlackRock | Jupiter (SRI) | Schroder Global | JP Morgan | Pyrford | Ruffer | Loomis | Schroder (UK) | Partners (Overseas) | IFM | Record | General Cash | | |
| Equities | | | | | | | | | | | | | | | | |
| UK | 167.4 | | | 164.6 | | | | | | | | | | | 332.0 | 6.7% |
| Emerging Markets | 233.1 | | | | | | | | | | | | | | 233.1 | 4.7% |
| Global Developed Markets | 468.5 | | 497.3 | 13.2 | | | | | | | | | | | 979.0 | 19.8% |
| Global Low Carbon | 596.4 | | | | | | | | | | | | | | 596.4 | 12.0% |
| Equity Derivatives ¹ | | | 13.1 | | | | | | | | | | 15.5 | | 28.6 | 0.6% |
| Total Overseas | 1298.0 | | 510.4 | 13.2 | | | | | | | | | | | 1821.6 | 37.1% |
| Total Equities | 1465.4 | | 510.4 | 177.8 | | | | | | | | | 15.5 | | 2169.1 | 43.8% |
| Exchange-Traded Funds | | 45.8 | | | | | | | | | | | | | 45.8 | 0.9% |
| DGFs | | | | | | | 226.9 | 419.5 | | | | | | | 646.4 | 13.0% |
| Hedge Funds | | | | | | 260.0 | | | | | | | | | 260.0 | 5.2% |
| MAC | | | | | | | | | 294.0 | | | | | | 294.0 | 5.9% |
| Property | | | | | | | | | | 209.7 | 212.2 | | | | 421.9 | 8.5% |
| Infrastructure | | | | | | | | | | | | 338.9 | | | 338.9 | 6.8% |
| Renewable Infrastructure | 39.9 | | | | | | | | | | | | | | 39.9 | 0.8% |
| Secured Income | 110.4 | | | | | | | | | | | | | | 110.4 | 2.2% |
| LDI Assets & Bonds | | | | | | | | | | | | | | | | |
| LDI Assets | | | 357.9 | | | | | | | | | | | | 357.9 | 7.2% |
| Corporate Bonds | | | 131.6 | | | | | | | | | | | | 131.6 | 2.7% |
| Total Bonds | | | 489.5 | | | | | | | | | | | | 489.5 | 9.9% |
| Cash | | | 0.9 | 11.8 | 7.5 | | | | | 14.6 | | | | 136.9 | 171.7 | 3.5% |
| FX Hedging | | | | | | | | | | | | | -32.1 | | -32.1 | -0.6% |
| TOTAL | 1615.7 | 45.8 | 1000.8 | 189.6 | 7.5 | 260.0 | 226.9 | 419.5 | 294.0 | 224.3 | 212.2 | 338.9 | -16.6 | 136.9 | 4955.1 | 100.0% |

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

This page is intentionally left blank

Avon Pension Fund

Page 101

Panel Investment Performance Report Quarter to 30 June 2020

September 2020

Steve Turner
Ross Palmer

IMPORTANT NOTICES

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

© 2020 Mercer LLC. All rights reserved.

This contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's prior written permission.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results. Mercer's ratings do not constitute individualised investment advice.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

This does not contain regulated investment advice in respect of actions you should take. No investment decision should be made based on this information without obtaining prior specific, professional advice relating to your own circumstances.

This does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products or constitute a solicitation on behalf of any of the investment managers, their affiliates, products or strategies that Mercer may evaluate or recommend.

For the most recent approved ratings of an investment strategy, and a fuller explanation of their meanings, contact your Mercer representative.

For Mercer's conflict of interest disclosures, contact your Mercer representative or see www.mercer.com/conflictsofinterest.

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

Please also note:

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

Contents

| | | |
|----------|-----------------------|----|
| | Executive Summary | 3 |
| | Market Background | 8 |
| Page 103 | Strategic Assumptions | 11 |
| | Fund Valuations | 14 |
| | Performance Summary | 18 |
| | Manager Performance | 21 |
| | Appendices | 42 |

Section 1

Executive Summary

Page 104

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

- Invested assets increased by £489m over the quarter to 30 June 2020, to £4,955m. Positive performance was seen across most assets, particularly in overseas equity, as markets were buoyed by central bank liquidity and hopes of a rebound in economic activity. UK equity, multi-asset credit and the diversified growth mandates also fared well. The only negative performers in the portfolio were the property mandates, for which uncertainty remains.

Strategy

- Global (developed) equity returns over the last three years were 8.8% 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).

Emerging market equities have returned 4.6% p.a. over the three-year period, behind the assumed return of 8.70% p.a. Emerging markets are still more attractively priced than other developed market regions. The macro environment remains mixed for emerging markets but the modest recovery over the last quarter could bring back some momentum.

UK government bond returns over the three-year period remain materially higher than the long-term assumed strategic returns as investor demand for gilts remains high, and gilt yields saw a further shift downwards over the quarter. Fixed interest gilts returned 10.2% p.a. over three years versus an assumed return of 1.90% p.a., whilst index-linked gilts also returned 7.6% p.a. versus an assumed return of 2.15% p.a.

- UK corporate bonds returned 4.3% p.a. over the three-year period, slightly ahead of the assumed strategic return of 3.25% p.a.
- Hedge fund returns remained in negative territory in local currency terms at -1.9%; below the strategic return of 5.10% p.a. In recent years hedge funds have been impacted by low cash rates and the generally more challenging environment for active managers.
- The three-year UK property return of 3.9% p.a. means it fell further behind the assumed return of 5.75% p.a., due to continued recent uncertainty.
- The Fund’s currency hedging policy was slightly negative overall for Fund performance over the quarter, since Sterling depreciated against major foreign currencies, with concerns over another hard Brexit deadline looming.

EXECUTIVE SUMMARY

Managers

- Manager total returns over the quarter were positive for all assets, with the exception of the property mandates for which uncertainty remains. Performance was particularly strong within overseas equity, as markets were buoyed by central bank liquidity and hopes of a rebound in economic activity. UK equity, multi-asset credit and the diversified growth mandate also performed well, as did the Fund of Hedge Funds manager. The Brunel infrastructure mandate was a modest performer, and has done well since its recent inception despite still being in the process of being drawn down. This is also applicable to the Secured Income mandate, though returns have been more mixed so far.
- The value of the Fund's LDI portfolio increased modestly due to the fall in gilt yields and recovery in implied inflation from a low base.
- Absolute returns over the year to 30 June 2020 were slightly mixed across the Fund's investment managers, with some not able to regain as much ground that was lost earlier in the year. Relative performance has also been mixed over the year, though stand out contributors include the sustainable equity mandate with Jupiter.

Page 106

Over the three-year period, most mandates with a three-year track record produced positive absolute returns, and the only active mandate not to do so was Jupiter UK Equity. The majority of mandates also outperformed their benchmarks over the period, though JP Morgan and IFM were the only managers to exceed their performance objectives.

Key Points for Consideration

- There was a disinvestment of £30.0m from the Multi-Asset Credit mandate over the quarter, which went towards drawdowns called by Partners Property and Brunel Infrastructure.
- At quarter end, the allocation to all asset classes were within their control ranges.
- The application of a new strategic benchmark for the Fund is currently being reviewed. This follows the agreements made by the Committee in April 2020, including tilting more of the equity portfolio to sustainable investments, increased allocations to Secured Income and Renewable Infrastructure, and a new allocation to Private Debt.

EXECUTIVE SUMMARY

MANAGER INFORMATION

Page 107

| Manager | Type | Mandate | Research Rating | Short Term Performance (1 year) | Long Term Performance (3 year) | ESG | Page |
|--------------------------|---------|--|-----------------|---------------------------------|--------------------------------|-----|------|
| BlackRock | Passive | Global Equities | A | ✓ | ✓ | P2 | 22 |
| BlackRock | Passive | Corporate Bond | A | ✓ | ✓ | N | 22 |
| BlackRock | Passive | LDI | A | ✓ | ✓ | N | 22 |
| BlackRock | Passive | ETF | N/A | N/A | N/A | - | 22 |
| Brunel | Passive | Global Low Carbon Equities | N/A | ✓ | N/A | P1 | 23 |
| Brunel | Active | UK Equities | N/A | ✗ | N/A | - | 24 |
| Brunel | Active | Global High Alpha Equities | N/A | N/A | N/A | - | 25 |
| Brunel | Active | Emerging Market Equities | N/A | N/A | N/A | - | 26 |
| Jupiter | Active | UK Equities | R | - | ✗ | N | 27 |
| Jupiter | Active | Global Sustainable Equities | N | ✓ | N/A | N | 28 |
| Loomis Sayles | Active | Multi-Asset Credit | A | ✗ | N/A | 3 | 29 |
| 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 | | | | | |

EXECUTIVE SUMMARY

MANAGER INFORMATION

Page 108

| Manager | Type | Mandate | Research Rating | Short Term Performance (1 year) | Long Term Performance (3 year) | ESG | Page |
|----------------------------|--------|--|-----------------|---------------------------------|--------------------------------|-----|------|
| Pyrford | Active | DGF | R | × | × | N | 30 |
| Ruffer | Active | DGF | A | ✓ | N/A | 2 | 31 |
| JP Morgan | Active | Fund of Hedge Funds | R | ✓ | ✓ | N | 33 |
| Schroder | Active | UK Property | B | - | - | 3 | 36 |
| Partners | Active | Global Property | B+ | × | × | 4 | 37 |
| IFM | Active | Infrastructure | B+ | × | ✓ | 2 | 38 |
| Brunel | Active | Infrastructure | N/A | ✓ | N/A | - | 39 |
| Brunel | Active | Secured Income | N/A | × | N/A | - | 40 |
| Record Currency Management | Active | Currency Hedging | N | N/A | N/A | N | 42 |
| 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 mandates which have been in place for at least three years have outperformed their benchmark, of met their performance objective, though these metrics are more mixed over the one year period to 30 June 2020.

Section 2

Page 109

Market Background

MARKET BACKGROUND

INDEX PERFORMANCE

Equity Market Review

After the first quarter of 2020 saw an unprecedented collapse in economic activity that caused an extraordinary sell-off in risk assets, the second quarter of this year saw a strong rebound in markets. Risk assets, with the exception of property, performed strongly as a whole and defensive assets delivered low single digit returns. Sterling weakened marginally over the quarter against major currencies, which enhanced returns slightly for unhedged sterling investors.

In the UK, quarter-on-quarter annualised GDP was down by -7.8% to the end of March. Headline CPI inflation fell to 0.5% at the end of May from 1.5% at the end of March. The Bank of England increased its quantitative easing programme by £100bn for the rest of the year. Reopenings also led to a sharp rebound in economic activity indicators towards the end of the quarter.

The US economy shrunk by an annualised 5.1% quarter-on-quarter to the end of March 2020 while early estimates for the second quarter of 2020 indicate an even worse contraction. Monetary policy remained very loose with the Federal Reserve expanding their bond-buying program to individual investment grade bond issues. Quarter-on-quarter GDP also collapsed for the Eurozone and Japan over the first quarter by an annualized 13.6% and 3.6% but both regions have also seen signs of a strong recovery as lockdown measures were lifted somewhat.

After seasonally adjusted quarter-on-quarter GDP collapsed by an annualized 33.8% over the first quarter, China is now furthest ahead in terms of recovery and economic indicators there are pointing towards a strong rebound. Brazil, Russia and India remain in the middle of nationwide outbreaks.

Bond Market Review

UK real yields shifted down over the quarter, as nominal yields fell slightly while inflation expectations rose.

The yields on the FTSE Over 15 Year Gilts Index fell and the FTSE Over 5 Year Index-Linked Gilts Index fell to 0.58% and -2.38% respectively, representing decreases of 0.17% and 0.46%.

Their respective indices returned 3.9% and 11.5% respectively as a result.

Credit spreads narrowed over the quarter as risk-on sentiment returned and investors took advantage of attractive spreads. The sterling Non-Gilts All Stocks Index credit spread ended the quarter at c.1.5% p.a., and UK credit assets delivered a return of 6.8% over the quarter.

Currency Market Review

Sterling fell marginally over the quarter against the USD and Yen and more sharply against the Euro. Even though the UK economy has also started to rebound, there are concerns over another hard Brexit deadline looming.

Commodity Market Review

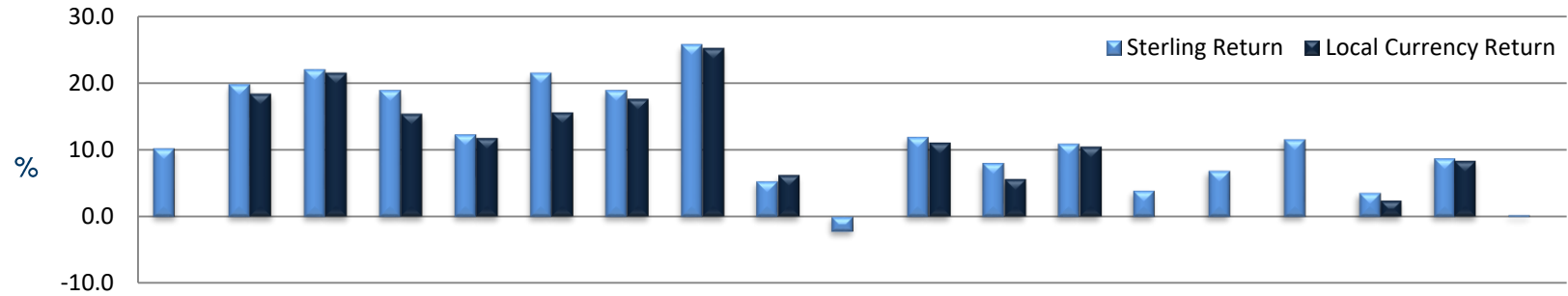
Commodity markets rebounded in anticipation of rising demand as economies reopened. Energy led the recovery with the spot value of oil almost doubling over the quarter. Increasing road mobility driving up demand and the extension of production cuts by OPEC were both supportive for energy prices. Industrial metals also saw strong returns as economic activity began to pick up. The gold price reached an eight-year high in June, with gold remaining popular as a tail risk and inflation hedge in the current environment.

Source: Thomson Reuters Datastream, Consensus Economics, ONS

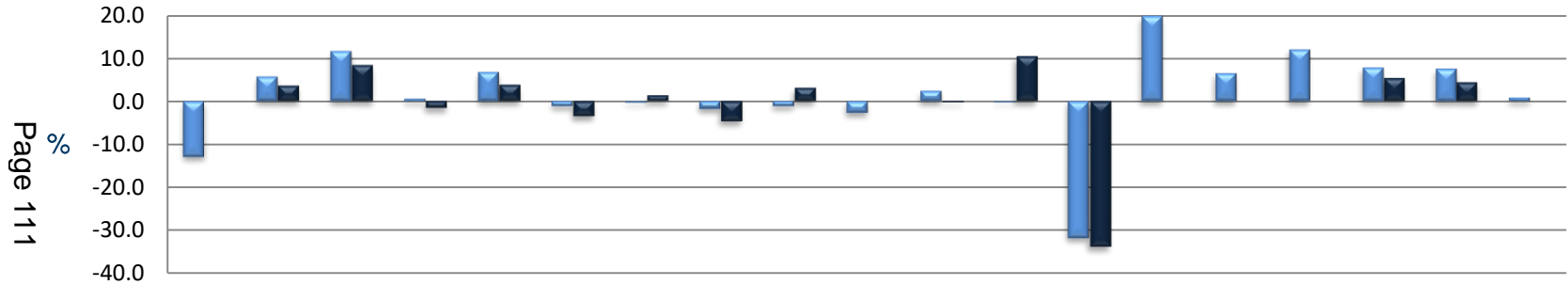
MARKET BACKGROUND

INDEX PERFORMANCE

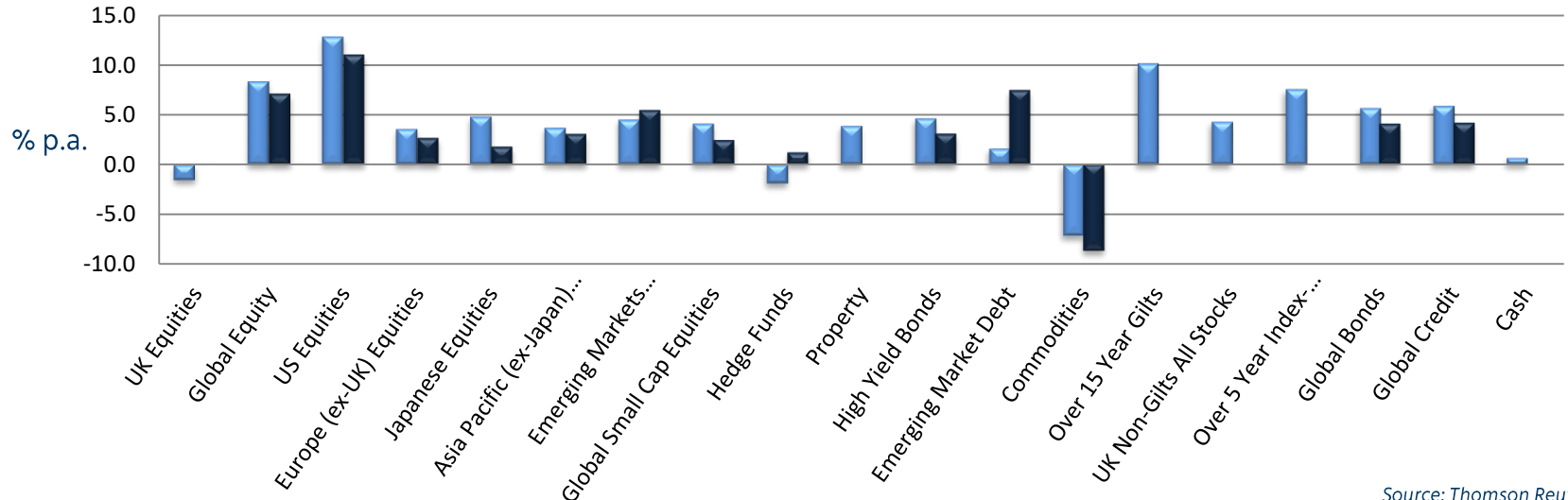
Return over the 3 months to 30 June 2020



Return over the 12 months to 30 June 2020



Return p.a. over the 3 years to 30 June 2020



Section 3

Strategic Assumptions

MARKET BACKGROUND

INDEX PERFORMANCE VERSUS STRATEGY

| Asset Class | Strategy Assumed Return % p.a. | 3 year Index Return % p.a. | Comment |
|---|-----------------------------------|-------------------------------|--|
| Developed Equities (Global) (FTSE All-World Developed) | 8.05 | 8.8 | Remains ahead of the assumed strategic return. This increased modestly from 2.6% p.a. last quarter, driven by the return over the latest quarter's return of 19.9%. |
| Emerging Market Equities (FTSE AW Emerging) | 8.70 | 4.6 | The three year return from emerging market equities was behind the assumed strategic return this quarter, despite also increasing modestly from negative territory last quarter, due to the latest quarter return of 18.9%. |
| Diversified Growth | 6.95 (Libor + 4% / RPI + 5%) | (4.7 / 7.4) | 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 | 10.2 | UK gilt returns remain well above the long term strategic assumed return as yields remain low relative to historic averages. Nominal and index-linked gilts rose strongly over the latest quarter, as nominal yields fell and inflation expectations recovered. Corporate bond returns also grew strongly, by 6.8%, to bring the three year return ahead of the assumed strategic return. |
| Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts) | 2.15 | 7.6 | |
| UK Corporate Bonds (BofAML Sterling Non Gilts) | 3.25 | 4.3 | |
| Fund of Hedge Funds (HFRX Global Hedge Fund Index) | 5.10 | -1.9 | Hedge fund returns remained in negative territory at the end of Q2, 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 | 3.9 | Actual property returns fell further behind expected returns, as the index contracted by 2.3% in Q2. Uncertainty remains around the valuation of assets, and the extent of the impact from the coronavirus pandemic and lockdowns. |
| Infrastructure (S&P Global Infrastructure) | 6.95 | 0.8 | The infrastructure three year return remains below the strategic return after the large contraction earlier in the year, despite a recovery over the second quarter. It should be noted that the returns of this index can largely driven by currency moves, however 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. |

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD Q3 2020

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

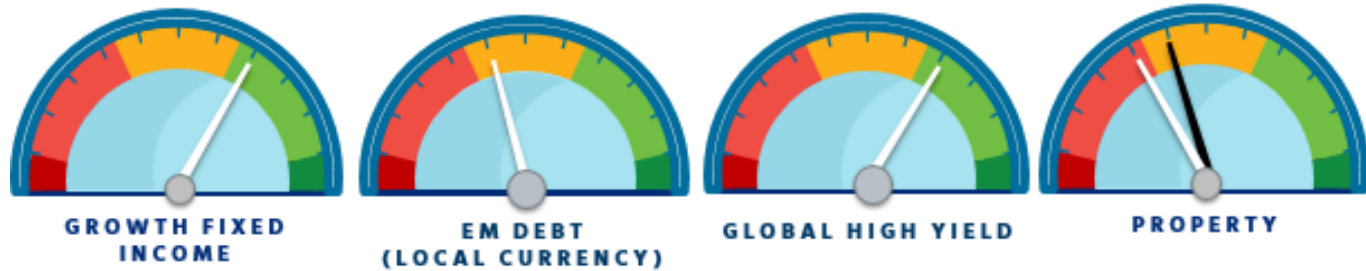
Mercer's current DAA position/view

Position/view last time (if changed)

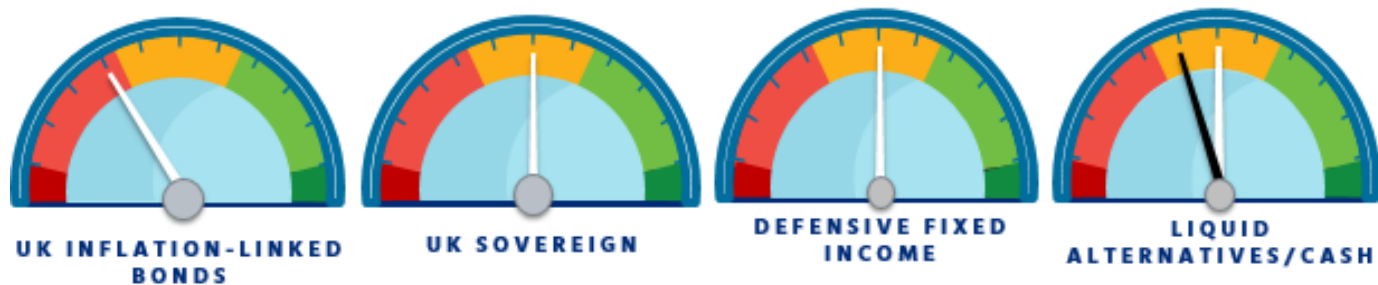
Equities



Growth Fixed Income & Property (Core)



Protective Assets



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

Section 4

Page 115

Funding Valuations

FUND VALUATIONS

VALUATION BY ASSET CLASS

| Asset Allocation | | | | | | | | | |
|---------------------------------------|--------------------------|------------------------|----------------------|--------------------|--------------------------------|--------------|---|-----|----------------|
| Asset Class | Start of Quarter (£'000) | End of Quarter (£'000) | Start of Quarter (%) | End of Quarter (%) | Target Strategic Benchmark (%) | Ranges (%) | | | Difference (%) |
| Developed Market Equities | 1,621,513 | 1,927,051 | 36.3% | 38.9% | 34.0 | 29 | - | 39 | 4.9 |
| Emerging Market Equities | 196,232 | 233,065 | 4.4% | 4.7% | 6.0 | 3 | - | 9 | -1.3% |
| Diversified Growth Funds | 605,666 | 646,324 | 13.6% | 13.0% | 15.0 | 10 | - | 20 | -2.0% |
| Fund of Hedge Funds | 257,967 | 260,004 | 5.8% | 5.2% | 5.0 | 0 | - | 7.5 | 0.2% |
| Property* | 521,877 | 547,079 | 11.5% | 11.0% | 10.0 | 5 | - | 15 | 1.0% |
| Infrastructure | 358,444 | 378,784 | 8.0% | 7.6% | 5.0 | 0 | - | 7.5 | 2.6% |
| Multi-Asset Credit | 291,661 | 293,992 | 6.5% | 5.9% | 11.0 | 6 | - | 16 | -5.1% |
| Corporate Bonds | 115,842 | 131,554 | 2.6% | 2.7% | 2.0 | No set range | | | 0.7% |
| LDI** | 406,427 | 370,981 | 9.1% | 7.5% | 12.0 | No set range | | | -4.5% |
| Cash (including currency instruments) | 90,925 | 166,130 | 2.0% | 3.4% | - | 0 | - | 5 | 3.4% |
| Total | 4,466,553 | 4,955,110 | 100.0% | 100.0% | 100.0 | | | | |

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 the Brunel Secured Income mandate.

** Valuation includes mark-to-market value of equity protection strategy.

- Invested assets increased over the quarter by c.£489m.
- All asset classes were within their ranges.
- It should be noted that this does not reflect the new strategic benchmark for the Fund, for which the application is currently being reviewed.

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 | 415,059 | | 497,323 | 9.3 | 10.0 |
| BlackRock | Corporate Bonds | 115,842 | | 131,554 | 2.6 | 2.7 |
| BlackRock | LDI* | 406,427 | | 370,981 | 9.1 | 7.5 |
| BlackRock | Cash | 40,301 | | 45,817 | 0.9 | 0.9 |
| Brunel | Global Low Carbon Equities | 497,508 | | 596,432 | 11.2 | 12.0 |
| Brunel | UK Equities | 149,873 | | 167,370 | 3.4 | 3.4 |
| Jupiter | UK Equities | 162,604 | | 176,404 | 3.6 | 3.6 |
| Jupiter | Global Sustainable Equities | 11,137 | | 13,193 | 0.2 | 0.3 |
| Schroder | Global Equities | 7,316 | | 7,508 | 0.2 | 0.2 |
| Brunel | Global High Alpha Equity | 377,707 | | 468,505 | 8.5 | 9.5 |
| Brunel | Emerging Market Equities | 196,232 | | 233,065 | 4.4 | 4.7 |

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

| Manager Allocation | | | | | | |
|----------------------------|---------------------|--------------------------|-------------------|------------------------|----------------------|--------------------|
| Manager | Asset Class | Start of Quarter (£'000) | Cashflows (£'000) | End of Quarter (£'000) | Start of Quarter (%) | End of Quarter (%) |
| Loomis Sayles | Multi-Asset Credit | 291,661 | -30,000 | 293,992 | 6.5 | 5.9 |
| Pyrford | DGF | 213,642 | | 226,872 | 4.8 | 4.6 |
| Ruffer | DGF | 392,024 | | 419,452 | 8.8 | 8.5 |
| JP Morgan | Fund of Hedge Funds | 257,967 | | 260,004 | 5.8 | 5.2 |
| Schroder | UK Property | 230,936 | | 224,450 | 5.2 | 4.5 |
| Partners | Property | 210,737 | 8,569 | 212,225 | 4.7 | 4.3 |
| IFM | Infrastructure | 334,132 | | 338,859 | 7.5 | 6.8 |
| Brunel | Infrastructure | 24,312 | 13,372 | 39,925 | 0.5 | 0.8 |
| Brunel | Secured Income | 69,107 | | 110,404 | 1.6 | 2.2 |
| Record Currency Management | Currency Hedging | -8,174 | | 15,527 | -0.2 | -0.3 |
| Internal Cash | Cash | 58,798 | | 136,878 | 1.3 | 2.8 |
| Total | | 4,466,553 | -16,822 | 4,955,110 | 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

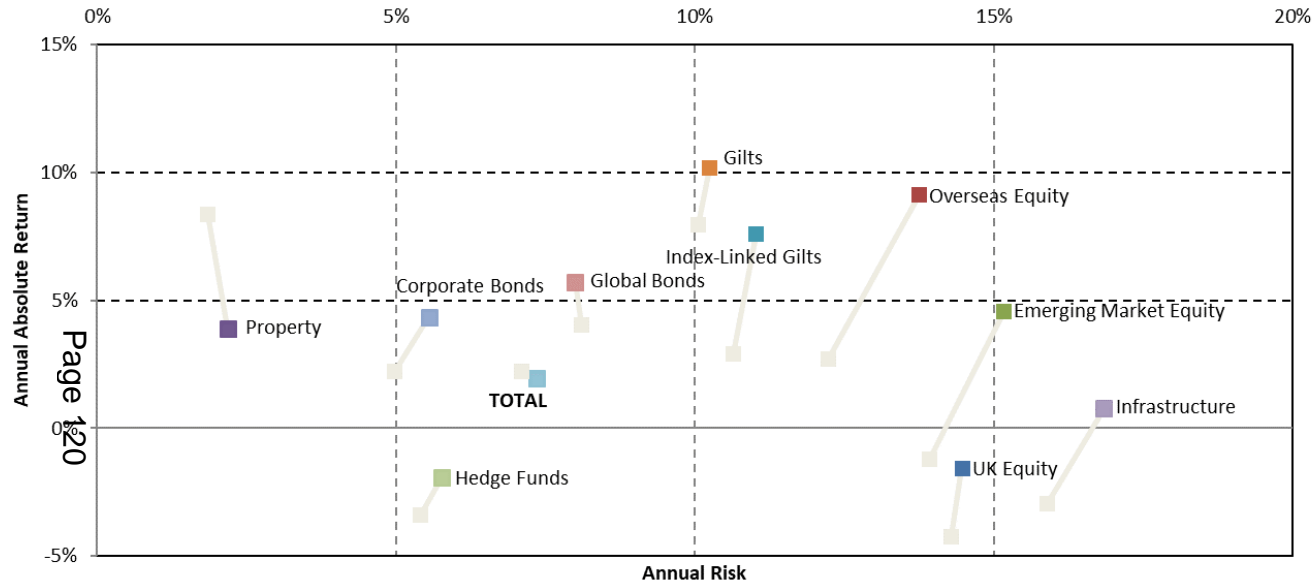
Page 119

Performance Summary

MANAGER MONITORING

RISK RETURN ANALYSIS

3 Year Risk v 3 Year Return to 30 June 2020



This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of June 2020, 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 State Street). We also show the positions as at last quarter, in grey.

Comments

- All asset classes saw increases in observed returns over the three-year period, with the exception of Property.
- Associated volatilities also rose across most asset classes, particularly in Overseas and Emerging Market Equity, as well as Infrastructure.

MANAGER MONITORING

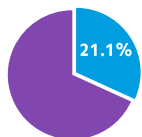
MANAGER PERFORMANCE TO 30 JUNE 2020

| 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 Equity | 19.8 | 19.8 | 0.0 | 3.4 | 3.8 | -0.4 | 8.6 | 8.6 | 0.0 | - | Target met |
| BlackRock Corporate Bonds | 13.6 | 13.6 | 0.0 | 10.5 | 10.5 | 0.0 | 7.3 | 6.4 | +0.9 | - | Target met |
| BlackRock LDI | 20.8 | 20.8 | 0.0 | -21.4 | -21.4 | 0.0 | -3.4 | -3.4 | 0.0 | - | Target met |
| Brunel UK Equity | 11.7 | 10.2 | +1.4 | -13.3 | -13.0 | -0.3 | N/A | N/A | N/A | +2 | N/A |
| Jupiter UK Equity | 8.5 | 10.2 | -1.5 | -11.8 | -13.0 | +1.4 | -3.4 | -1.6 | -1.8 | +2 | Target not met |
| Brunel Passive Low Carbon Equity | 19.9 | 19.9 | 0.0 | 7.1 | 7.2 | -0.1 | N/A | N/A | N/A | - | N/A |
| Jupiter Global Sustainable Equity | 18.5 | 19.8 | -1.1 | 13.0 | 5.7 | +6.9 | N/A | N/A | N/A | +2-4 | N/A |
| Brunel Global High Alpha Equity | 24.0 | 20.0 | +3.3 | N/A | N/A | N/A | N/A | N/A | N/A | +2-3 | N/A |
| Brunel Emerging Market Equity | 18.8 | 18.6 | +0.2 | N/A | N/A | N/A | N/A | N/A | N/A | +2-3 | N/A |
| Loomis Sayles | 12.4 | 1.1 | +11.2 | 0.6 | 4.7 | -3.9 | N/A | N/A | N/A | - | N/A |
| Pyrford | 6.2 | 1.2 | +4.9 | 2.6 | 6.2 | -3.4 | 1.6 | 7.6 | -5.6 | - | Target not met |
| Ruffer | 7.0 | 1.3 | +5.6 | 8.1 | 5.8 | +2.2 | N/A | N/A | N/A | - | N/A |
| JP Morgan | 7.2 | 1.2 | +5.9 | 7.6 | 5.1 | +2.4 | 5.5 | 5.1 | +0.4 | - | Target met |
| Schroder UK Property | -1.5 | -2.0 | +0.5 | -2.5 | -2.6 | +0.1 | 3.7 | 3.4 | +0.3 | +1 | Target not met |
| Partners Property * | -7.5 | 2.5 | -9.8 | -2.2 | 10.0 | -11.1 | 2.7 | 10.0 | -6.7 | - | Target not met |
| IFM ** | 1.4 | 1.2 | +0.2 | -1.5 | 5.0 | -6.2 | 11.3 | 4.8 | +6.3 | - | Target met |
| Brunel Infrastructure | 7.9 | 0.0 | +7.9 | 12.1 | 0.6 | +11.4 | N/A | N/A | N/A | +4 | N/A |
| Brunel Secured Income | 1.0 | 0.0 | +1.0 | -0.3 | 0.6 | -0.9 | N/A | N/A | N/A | +2 | 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 in local currency terms.**
- **IFM returns are now in GBP terms after the manager switched to GBP reporting in January. Historical USD performance has been converted to GBP.
- **Returns are net of fees.**
- In the relative performance columns, returns in blue text exceeded their respective benchmarks, those in red underperformed, and black text shows performance in line with benchmark.
- In the table above, and throughout this report, relative returns have been calculated geometrically (i.e. the portfolio return is divided by the benchmark return) rather than arithmetically (where the benchmark return is subtracted from the portfolio return).
- In the table above, Partners performance is measured against an IRR target of 10% p.a.
- A summary of the benchmarks for each of the mandates is given in Appendix 1.
- *Performance to 31 March 2020 as this is the latest date that this is available.

Section 5

Manager Performance



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

£1,045.7M END VALUE (£977.6M START VALUE) (Inc. Equity protection strategy)

| Item Monitored | Outcome |
|--|---|
| Mercer Rating | <ul style="list-style-type: none"> A for Passive Equities (no change); ESGp2 A for Buy-and-Maintain Credit (no change) A for LDI (no change) |
| Performance Objective <i>In line with the benchmark</i> | <ul style="list-style-type: none"> Portfolios performed broadly in line with their benchmarks over three years |

Manager Research and Developments

- Equities returned 19.8% over the second quarter given the strong rebound in markets.
- The corporate bond portfolio also rebounded by 13.6%, as credit spreads narrowed from their significant highs earlier in the year.
- The LDI portfolio grew by 20.8%, due to the fall in gilt yields and modest recovery in inflation expectations from a low base, which will have protected the Fund against subsequent increases in its liabilities.
- The benchmark returns for the latter two mandates have been assumed to be equal to the fund over the quarter.
- Mercer have been informed of changes in BlackRock's organisational structure; including the formation of a 'Portfolio Management Group' ("PMG") entity.
- We understand this to be a high-level reorganisation, and we place emphasis on a lack of changes to portfolio manager or CIO responsibilities. Given the large number of strategies at the firm, we will be keen to see how these changes play out over time at an individual strategy level.

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

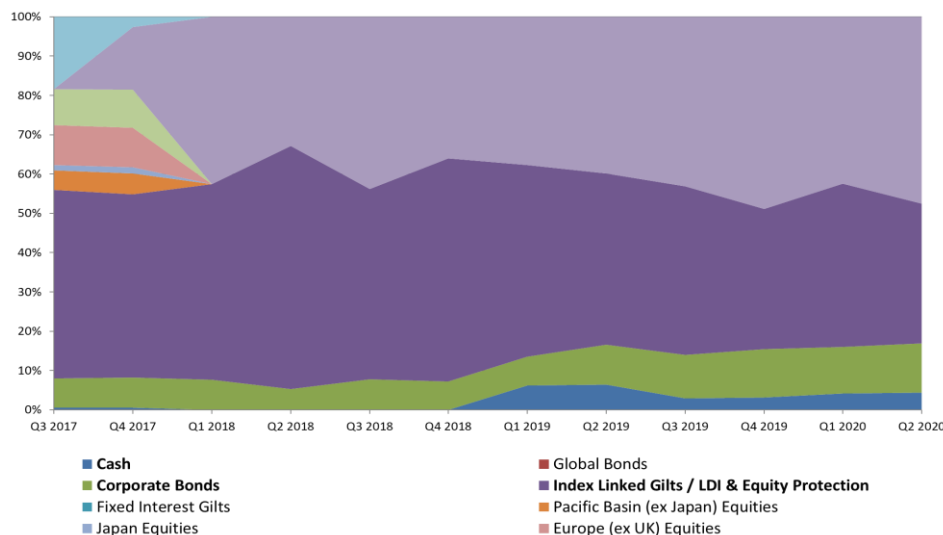


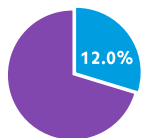
| | Quarter (%) | | 1-Year (%) | | 3-Year (% p.a.) | |
|------------------|-------------|-----------|------------|-----------|-----------------|-----------|
| | Fund | Benchmark | Fund | Benchmark | Fund | Benchmark |
| Equities | 19.8 | 19.8 | 3.4 | 3.8 | 8.6 | 8.6 |
| Corporate Bonds* | 13.6 | 13.6 | 10.5 | 10.5 | 7.3 | 6.4 |
| LDI** | 20.8 | 20.8 | 21.4 | 21.3 | -3.4 | -3.4 |

*Corporate Bond fund and benchmark reflects legacy holdings prior to 31 March 2019 and Buy and Maintain 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 – PASSIVE GLOBAL LOW CARBON EQUITIES

£596.4M END VALUE (£497.5M START VALUE)

Item Monitored

Outcome

Mercer Rating



N/A

Performance Objective

In line with the benchmark



Broadly 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 19.9% over Q2 2020.
- This was in line with its MSCI World Low Carbon Index benchmark, as would be expected, though it slightly underperformed over the year to 30 June 2020.

Page 124

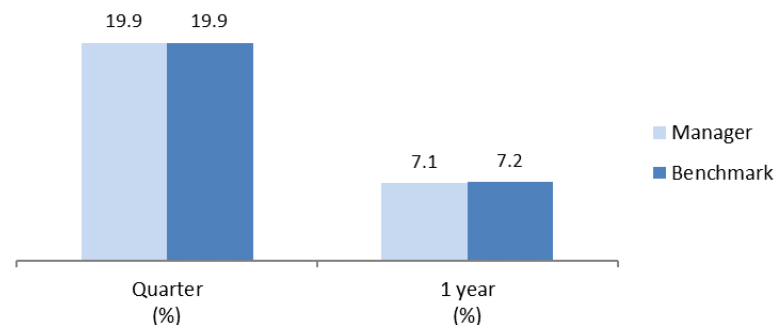
Reason for investment

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

Reason for manager

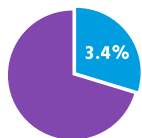
- Investment made via the Brunel pool

Performance



Sector Allocation

| | |
|------------------------|------|
| Information Technology | 21.2 |
| Health Care | 14.2 |
| Financials | 13.4 |
| Consumer Discretionary | 11.0 |
| Industrials | 10.8 |
| Communication Services | 8.8 |
| Consumer Staples | 8.6 |
| Materials | 3.6 |
| Real Estate | 3.2 |
| Other | 5.3 |



BRUNEL – ACTIVE UK EQUITIES

£167.4M END VALUE (£149.9M START VALUE)

Item Monitored

Outcome

Mercer Rating



N/A

Performance Objective

Benchmark +2% p.a.



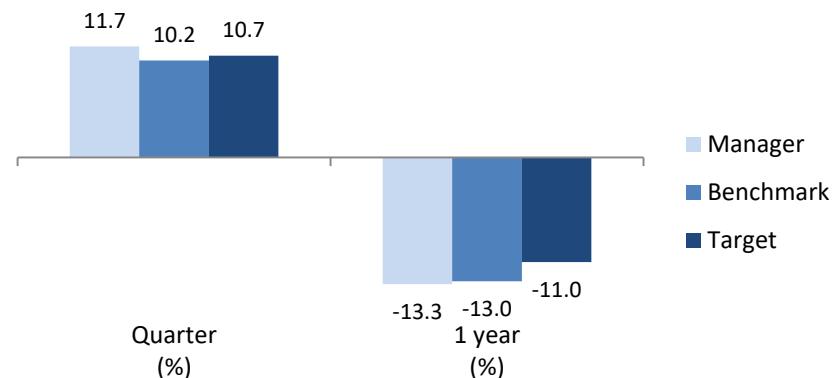
Has underperformed its target over the year.

Manager Research and Developments

- Mandate was initiated in November 2018. Aberdeen Standard, Baillie Gifford and Invesco are the underlying managers.
- The mandate returned 11.7% over the quarter, outperforming its benchmark which generated a return of 10.2%.
- The mandate was still modestly down over the year at -13.3%, which was slightly below its FTSE All-Share Index benchmark which returned -13.0%.

Page 125

Performance

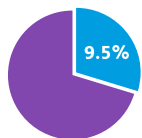


Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

- Investment made via the Brunel pool



BRUNEL – GLOBAL HIGH ALPHA EQUITY

£468.5M END VALUE (£377.7M START VALUE)

| Item Monitored | Outcome | Performance |
|----------------|---------|-------------|
|----------------|---------|-------------|

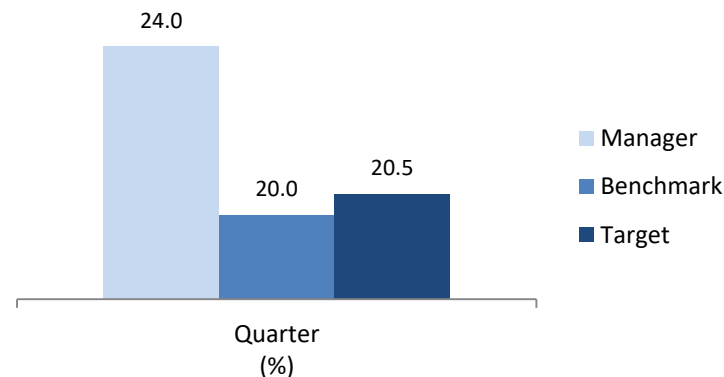
Mercer Rating ● N/A

Performance Objective ● Too early to determine
Benchmark +2-3% p.a.

Manager Research and Developments

- Mandate was initiated in November 2019.
- Its benchmark is the MSCI World Index, with an outperformance target of 2-3% over a rolling 3-5 year period.
- Over the quarter, the mandate outperformed its benchmark by 4.0%.
- This was modestly ahead of its target, and whilst it is too early to confirm its relative performance over a one year period, it has also outperformed its benchmark by 8.4% since inception.

Page 126

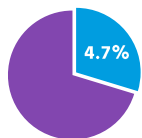


Reason for investment

To provide global equity market exposure together with excess returns from accessing leading managers.

Reason for manager

- Investment made via the Brunel pool



BRUNEL – EMERGING MARKET EQUITIES

£233.1M END VALUE (£196.2M START VALUE)

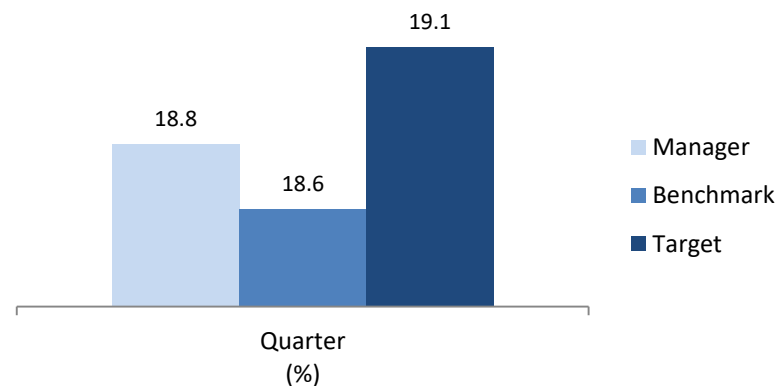
| Item Monitored | Outcome | Performance |
|----------------|---------|-------------|
|----------------|---------|-------------|

Mercer Rating ● N/A

Performance Objective
Benchmark +2-3% p.a. ● Too early to determine

Manager Research and Developments

- Mandate was initiated in October 2019.
- Over the quarter it outperformed its benchmark; the MSCI Emerging Markets Index, by 0.2%, however this was below its target by 0.3%.



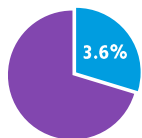
Page 127

Reason for investment

To provide exposure to emerging market equities, together with excess returns and enhanced risk control from accessing leading managers.

Reason for manager

- Investment made via the Brunel pool



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

£176.4M END VALUE (£162.6M START VALUE)

Item Monitored

Outcome

Mercer Rating



B (no change over period under review); ESG2

Performance Objective
Benchmark +2% p.a.



Underperformed benchmark by 1.8% p.a. over three years

Tracking error was 4.0% p.a. –
source: Jupiter

Number of stocks: 53

Manager Research and Developments

- Jupiter returned 8.5% over the quarter, though this underperformed its benchmark by 1.8%.
- Large cap generally outperformed small and mid-cap in UK markets, which worked against the portfolio's positioning, and the portfolio also had no holdings in the mining sector which performed strongly.
- The mandate did benefit however from zero-exposure to oil and gas.
- The mandate outperformed its benchmark over the year to 30 June, though this fell below its performance objective.
- It has also underperformed its benchmark over the three year period.

Reason for investment

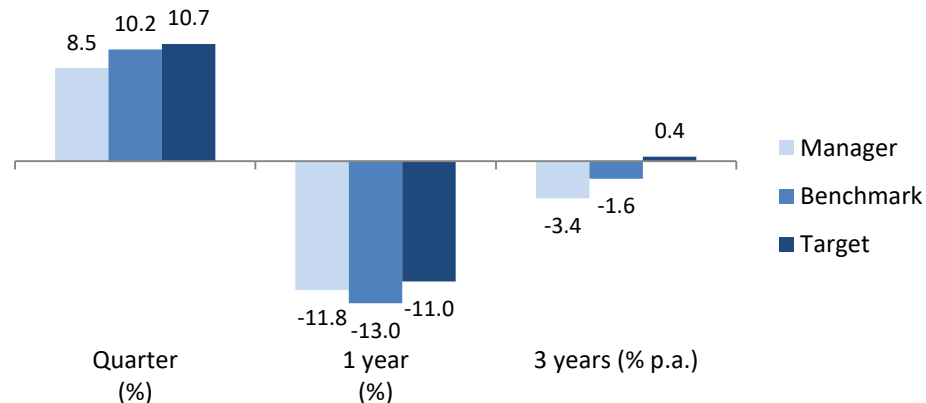
To provide asset growth as part of a diversified equity portfolio and to provide a specific SRI allocation

Reason for manager

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

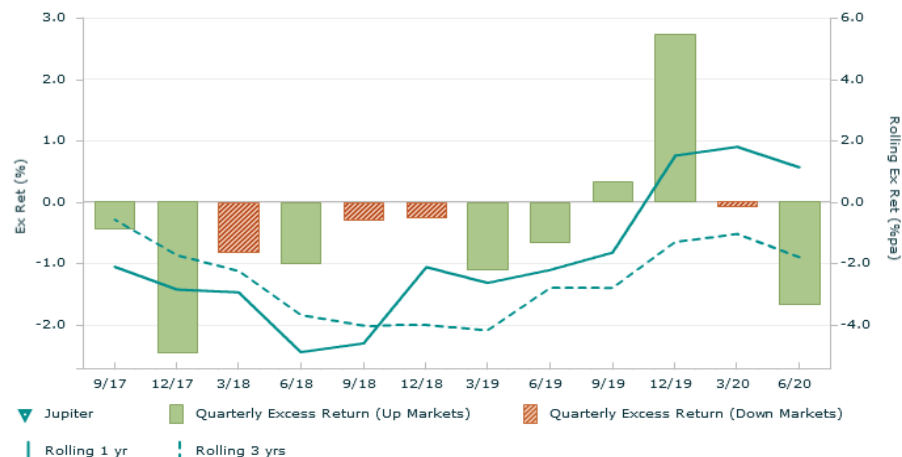


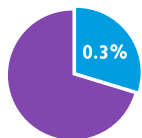
Performance



Rolling relative returns

Quarterly Excess Return vs. FTSE All Share with rolling 1 and 3 yr lines in GBP (after fees) over 3 yrs ending June-20





JUPITER ASSET MANAGEMENT – GLOBAL SUSTAINABLE EQUITIES (POOLED)

£13.2M END VALUE (£11.1M 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 June 2020

Manager Research and Developments

- Mandate was initiated in June 2018.
- The fund returned 18.5% over Q2 2020, underperforming its benchmark by 1.3%.
- It has modestly outperformed its benchmark over the one year period though, by 7.3%, which is also comfortably ahead of its performance objective.

Page 129

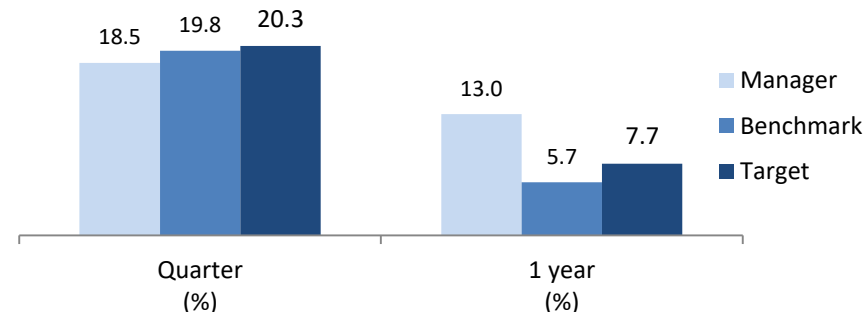
Reason for investment

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

Performance



Sector Allocation

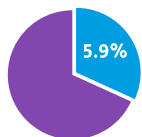
Sector Allocation

| | |
|--------------------------|---------------|
| Industrials ¹ | 35.8% |
| Financials | 15.7% |
| Health Care | 10.6% |
| Consumer Goods | 9.9% |
| Technology | 9.6% |
| Basic Materials | 5.8% |
| Utilities | 3.0% |
| Consumer Services | 2.6% |
| Telecommunications | 0.9% |
| | 93.9% |
| Cash | 6.1% |
| Total | 100.0% |

¹Includes general electronic equipment, medical equipment and consumer financial stocks (17.12%).

Source: Jupiter.
As at 30 June 2020.

Copyright © 2020 Mercer (US) Inc. All rights reserved.



LOOMIS SAYLES – MULTI-ASSET CREDIT (POOLED)

£294.0M END VALUE (£291.7M START VALUE)

Item Monitored

Outcome

Mercer Rating



A (no change over period under review); ESG3

Performance Objective

Cash +4% p.a.



Underperformed by 3.9% over the year

Manager Research and Developments

- Loomis delivered a performance of 12.4% over the quarter, comfortable ahead of its above cash objective of 1.1% as credit spreads narrowed.
- This was not enough to prevent underperformance relative to its target over the one year period by 3.9%.
- Coordinated monetary policy easing provided supported across the portfolio, and emerging market assets experienced a particularly strong rebound thanks also to much improved risk sentiment, large fiscal stimulus packages in developed economies and an agreement between major oil exporting countries to implement production cuts.
- Within the global investment grade element of the portfolio, names in finance, consumer cyclical and communications contributed noticeably to performance.
- The stand-out sectors in the global high yield element were consumer, energy and communications.
- The overall duration of the portfolio increased over the quarter to 6.7 years.
- £30.0m was disinvested from the mandate during the quarter.

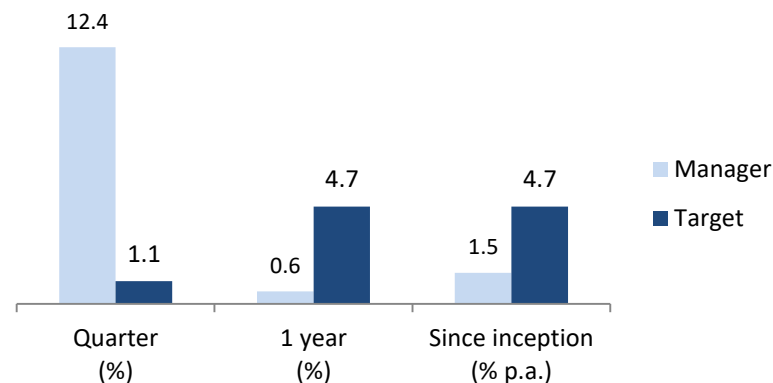
Reason for investment

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

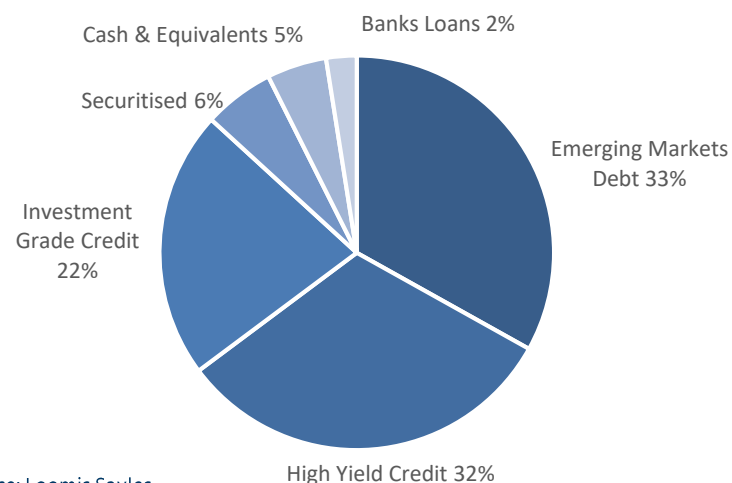
Reason for manager

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

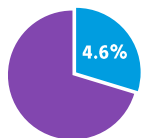
Performance



Sector Allocation



Source: Loomis Sayles.
As at 30 June 2020.



PYRFORD – DGF (POOLED)

£226.9M END VALUE (£213.6M START VALUE)

Item Monitored

Outcome

Mercer Rating ● R (no change over period under review)

Performance Objective ● Underperformed target by 5.6% p.a. over three years
RPI +5% p.a.

Manager Research and Developments

- The fund returned 6.2% over the quarter, and outperformed its objective (RPI + 5% p.a.) by 5.0%.
- This was driven by the recovery in equity markets, and the mandate benefited from increasing its exposure to these in March as value started to emerge.
- A stand out performer in UK equity markets was Bunzl, driven by expected revenue increases from the provision of cleaning and safety equipment to its business customers.
- Within overseas equity, notable performers included Australian companies Computershare and Woodside Petroleum, both of which benefited from a recovery in the Aussie dollar against Sterling.
- Towards the end of the quarter, the portfolio reduced its exposure to equities due to significant reductions in dividend yields, and as a prudent measure given the strong recent rallies.
- With respect to bonds, 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.
- Pyrford has underperformed relative to its performance objective over the one and three year period to 30 June 2020.

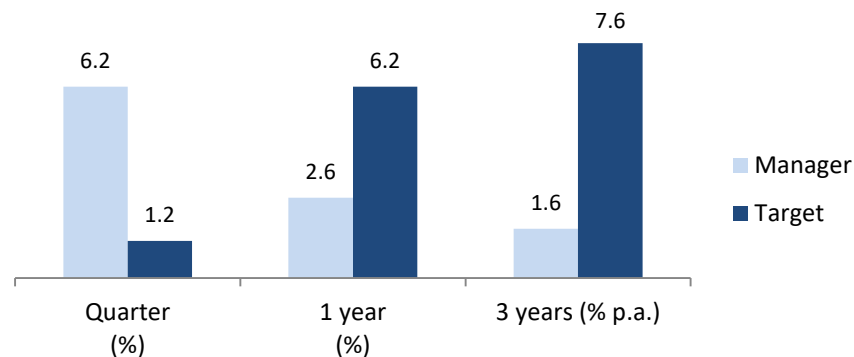
Reason for investment

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

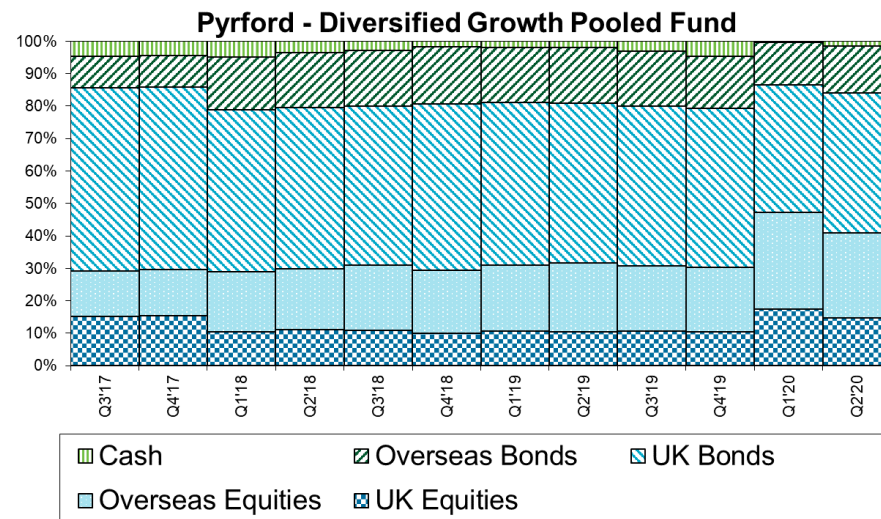
Reason for manager

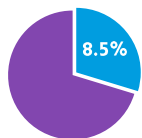
- Asset allocation skill between equities, bonds and cash
- Fundamental approach to stock selection

Performance



Asset Allocation





RUFFER – DGF (POOLED)

£419.5M END VALUE (£392.0M START VALUE)

Item Monitored

Outcome

Mercer Rating ● A (no change over period under review); ESG2

Performance Objective ● Outperformed target by 2.2% p.a. over the Cash +5% p.a. year

Manager Research and Developments

- Ruffer delivered a performance of 7.0% over the quarter against an objective of 1.3%.
- The portfolio benefited from its additions to gold and inflation-linked bonds in March. Underpinning this was a very large rise in the value of the portfolio's gold (and gold equity) holdings of 62%, and a rise in inflation expectations from a very low base.
- The portfolio also benefitted from its broader equity holdings given the stock market rally, and a bias to cyclical and value stocks.
- Ruffer also outperformed its objective over the one year period to 30 June by 2.2%.
- Its primary focus remains capital preservation and to not lose money in any twelve-month period.

Reason for investment

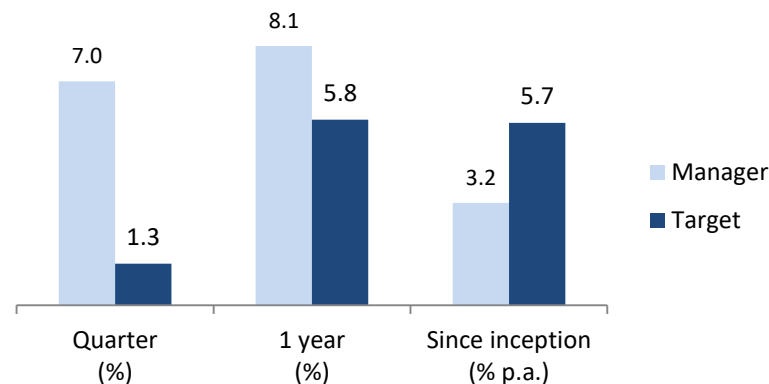
To provide equity like return over the long term but with a lower level of volatility

Reason for manager

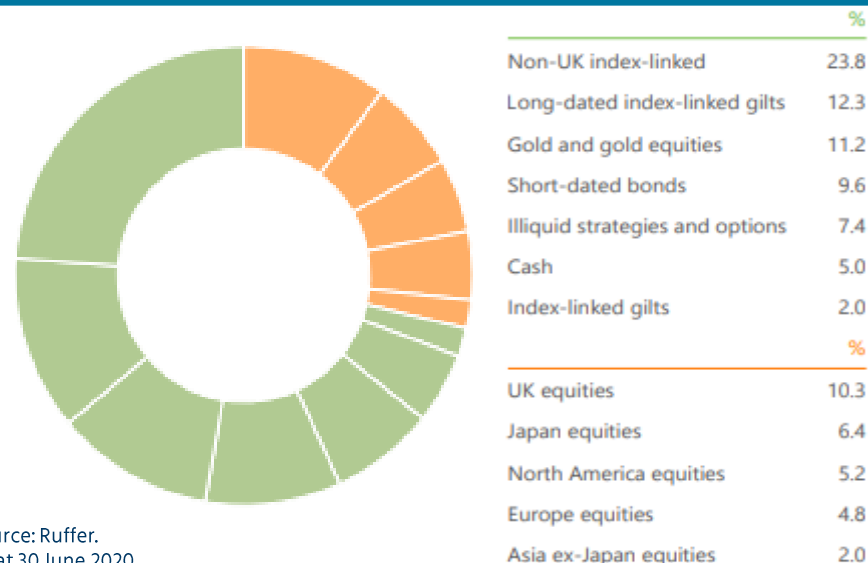
- Experience and insights of the investment team
- Focus on capital preservation
- Dynamic allocation between risk and defensive assets depending on market conditions



Performance



Sector Allocation

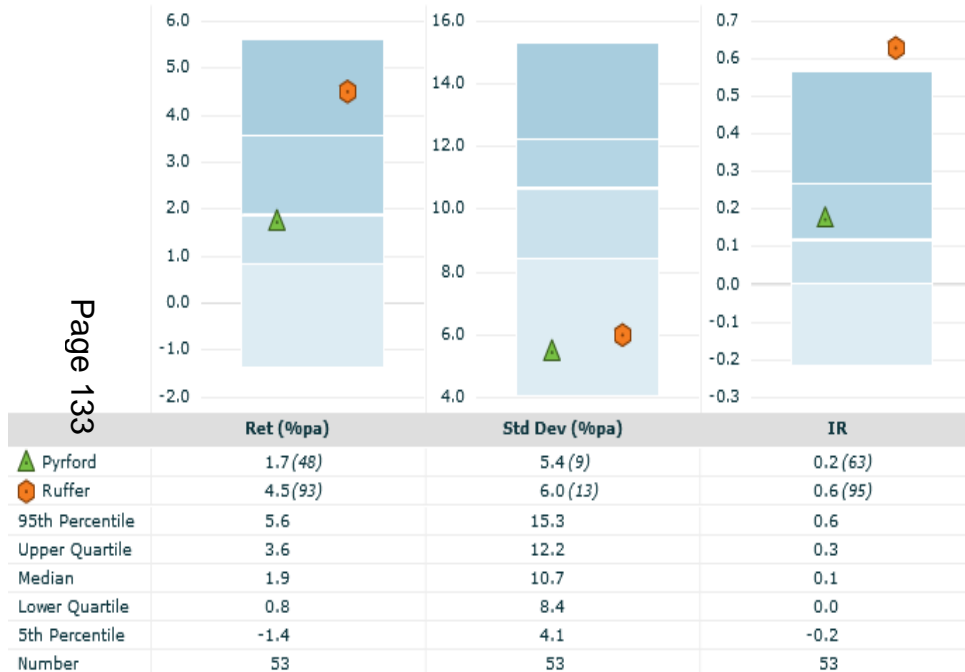


Source: Ruffer.
As at 30 June 2020.

Copyright © 2020 Mercer (US) Inc. All rights reserved.

DGF MANDATES

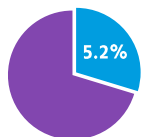
Performance characteristics vs. BofAML LIBOR 6 month average UK in GBP over 3 yrs ending June-20
Comparison with the International Multi-asset GBP (Net) universe (Percentile Ranking) (quarterly calculations)



For comparison purposes, though it should be noted that this universe of managers can vary in style.

Commentary

- Over the three years to 30 June 2020, **Ruffer** outperformed **Pyrford** by 2.8% p.a.
- **Ruffer** were in the upper quartile of the DGF universe for performance, whilst **Pyrford** was around the median.
- **Ruffer** achieved this with a volatility of 5.4% p.a., whilst this figure was slightly higher at 6.0% for **Pyrford**.
- Both of these were comfortably in the lower quartile of the universe with other comparable managers.
- The information ratio (a measure of risk adjusted returns) for **Ruffer** was subsequently in the top 5th percentile of the universe, whilst **Pyrford** was above the median level.
- 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

£260.0M END VALUE (£258.0M START VALUE)

| Item Monitored | Outcome |
|--|--|
| Mercer Rating | ● R (change from previous quarter in light of AUM decline and poor recent performance); ESG4 |
| Performance Objective Cash +3% p.a. | ● In line with target over three years in USD. |

| Item | |
|-------------------------------|---|
| Number of funds | 29 (as at 30 June 2020) |
| Strategy | Contribution to Performance over the Quarter in USD (%) |
| Relative Value | 2.38 |
| Opportunistic/Macro | 0.58 |
| Long/Short Equities | 3.84 |
| Merger Arbitrage/Event Driven | 0.40 |
| Credit | 0.55 |
| Total | 7.18 (including cash and fees) |

In GBP terms, the mandate return was 7.6% over Q2 versus a benchmark return of 1.0%

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

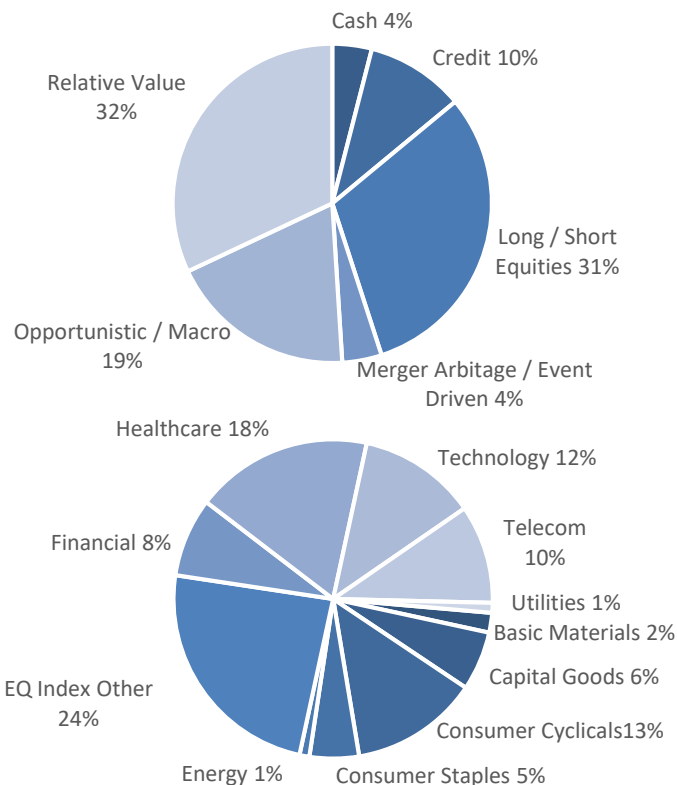
- Niche market neutral investment strategy
- Established team with strong track record
- Complemented other funds in the portfolio



Performance (USD)

| | | | |
|---------------------|------|--------|------|
| Last Quarter | 7.2% | Target | 1.2% |
| Last Year | 7.6% | Target | 5.1% |
| Last 3 Years (p.a.) | 5.1% | Target | 5.1% |

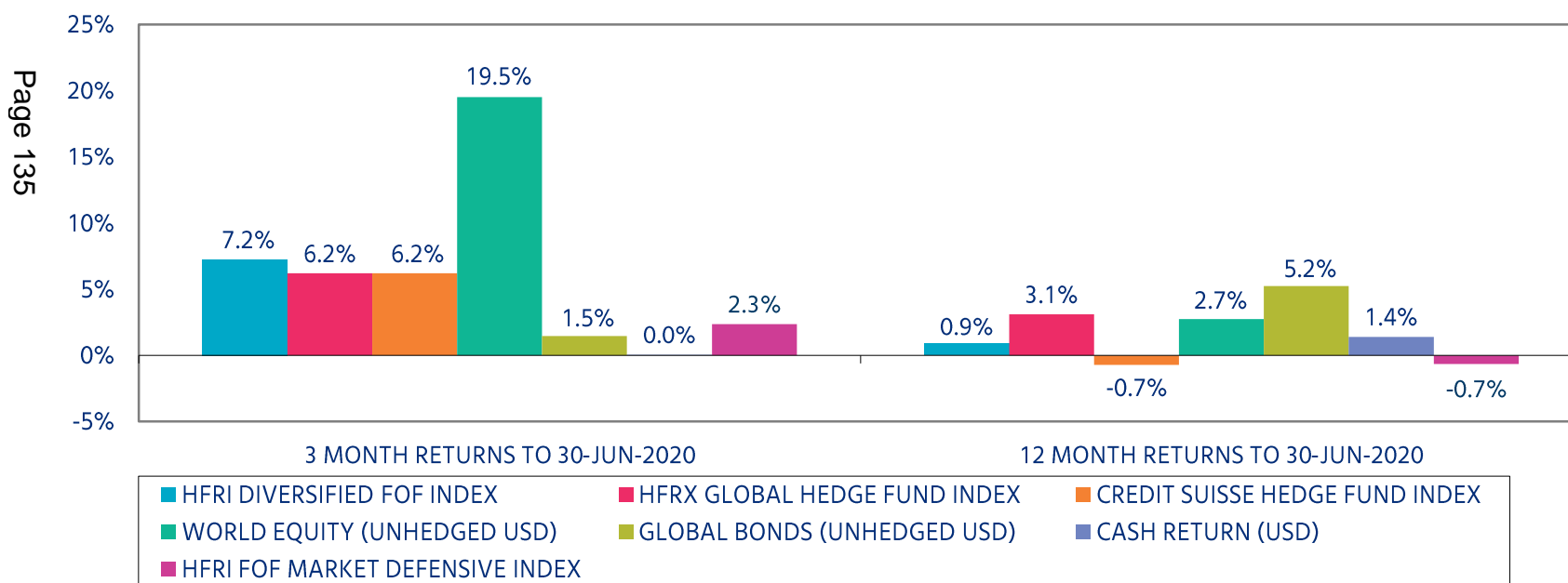
Portfolio Composition and Equity Sector Allocation



HEDGE FUND COMMENTARY – Q2 2020

- After limiting the damage in the Q1 COVID-driven sell-off, hedge funds recovered a greater portion of their losses in Q2 than the global equity markets. However, dispersion of hedge fund returns was quite elevated. Lower leveraged, security selection-oriented strategies fared better in the rebound than the more leveraged, arbitrage strategies.
- Anecdotally, we have not witnessed a material wave of redemptions across the industry, but the risk of such remains elevated given the material dispersion of manager returns year-to-date.
- As noted last quarter, the nature of the economic damage that has occurred as a result of the COVID lockdowns carries the potential to create distinct winners and losers for which hedge funds are uniquely well-positioned to take advantage. Further, the range in potential outcomes across the economic, geopolitical, liquidity, sector, and company-specific landscape will continue to position bi-directional active managers well to capitalize on opportunities.

QUARTER AND 12-MONTH RETURNS (IN USD)



Source: Hedge Fund Research Inc., Credit Suisse Hedge Index LLC, Thomas Reuters Datastream and Federal Reserve.
Includes the following indices: FTSE World, JP Morgan Global Bonds All Maturities.

HEDGE FUND COMMENTARY – Q2 2020

Relative Value (32%)

- Relative value strategies performed reasonably well, posting gains across all sub segments.
- While there seem to be more attractive opportunities in relative value credit and convertible arbitrage, one should be mindful of the potential for further stress, as weakened hands remain.

Long/Short Equities (31%)

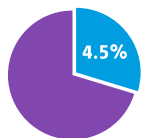
- Long/short equity generated material security selection alpha in Q2, which was largely marked by a strong equity rebound following the unprecedented selloff in Q1
- While stock correlations remained elevated, dispersion of absolute returns was quite high, representing a great opportunity for security selection as evidenced by the Goldman Sachs VIP Long and Short portfolios generating a spread of 13.7% during Q2.
- Similar to that of the Q1 selloff, growth/momentum stocks outperformed value/quality stocks. But in a reversal from the first quarter, mid-cap/high-volatility stocks outperformed large-cap/low-volatility stocks. Across the industry, gross leverage came down during the sell-off but steadily climbed throughout the quarter, ending higher despite a late-quarter pullback. In contrast, net exposures climbed steadily throughout the quarter.

Opportunistic / Macro (19%)

- Macro strategies as a whole posted modestly negative results for the quarter, but there was dispersion across strategy types and managers.
- Systematic macro and trend-following strategies had challenging performance given the large reversals in markets.
- Discretionary macro managers posted gains as they were better able to adapt and take advantage of the changing economic conditions.
- Long developed market rate positioning, long equity positioning, and long EM currencies and euro were strong performers for discretionary macro managers.
- Market volatility contracted broadly; however as rate volatility collapsed to levels consistent with the period prior to COVID, equity volatility remains elevated. This should present continued opportunity.

Merger Arbitrage / Event Driven (4%)

- Event-driven strategies, on average, enjoyed a rebound in Q2; albeit they remain the laggard hedge fund strategy year-to-date. Merger arbitrage strategies benefitted as several strategic deals closed (including AbbVie/Allergan), helping lead to spread tightening.
- Q2 deal volumes were down over 50% from this time last year as economic uncertainty remained elevated. Distressed strategies posted gains in Q2 but have lagged other strategies on a year-to-date basis. Generally, legacy positions lagged as capital flows focused on ‘front running’ the Fed.
- Consequently, managers that were less burdened by legacy holdings and were more nimble fared substantially better. The number of bond issues that traded at distressed levels, as measured by TRACE, fell by nearly 50% quarter-over-quarter but remains elevated relative to history.



SCHRODER – UK PROPERTY FUND OF FUNDS

£224.5M END VALUE (£230.9M START VALUE)

Item Monitored

Outcome

Mercer Rating



B (no change over period under review); ESG3

Performance Objective
Benchmark +1% p.a.



In line with benchmark over five years, but below performance objective

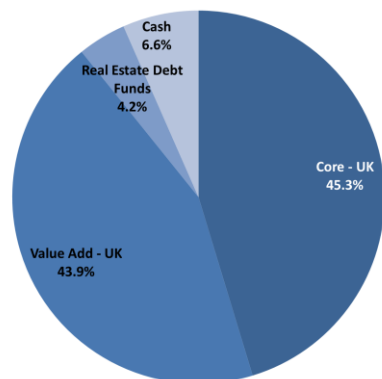
Manager Research and Developments

- The fund contracted by 1.5% over the quarter, though did outperform its performance objective.
- Low weighting to the retail sector and high exposure to the industrial sector contributed to outperformance.
- The Industrial Property Investment Fund (IPIF) continued to be the strongest specific contributor to performance.
- The value add strategy was the largest contributing component, though was the only detractor over the one year period.
- There were no transactions over the reporting period.
- The fund has performed above or in line with its benchmark over all other time horizons, but did not achieve its performance objective in any.
- In July, it was announced that Sophie van Oosterom; from CBRE Investors, has been appointed as Global Head of Real Estate with effect from January 2021. The timings should enable a smooth handover, and we therefore do not anticipate significant immediate impacts. We will meet Sophie in due course to discuss her vision and strategy for the business.

Top 5 Holdings

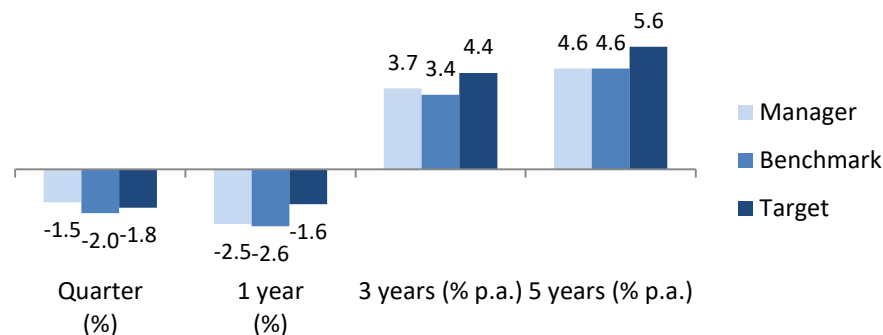
Proportion of Total Fund (%)

| | |
|-------------------------------------|------|
| Industrial Property Investment Fund | 17.5 |
| Metro Property Unit Trust | 10.2 |
| Hermes Property Unit Trust | 9.9 |
| BlackRock UK Property Fund | 9.1 |
| Schroder Real Estate Income Fund | 8.1 |

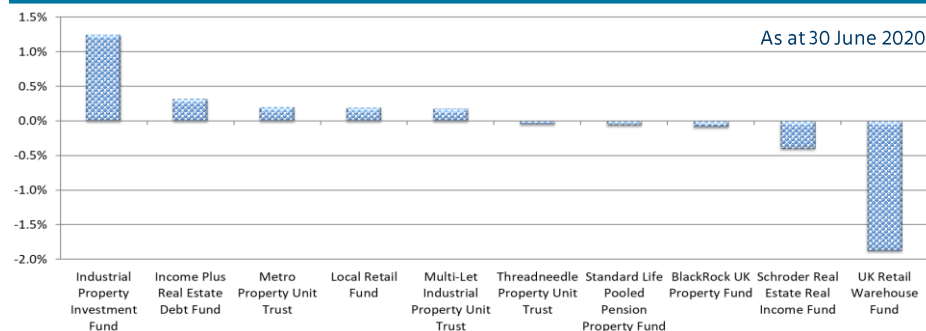


As at 30 June 2020

Performance



Top 5 Contributing and Detracting Funds over 12 Months

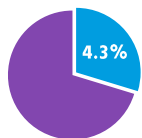


Reason for investment

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

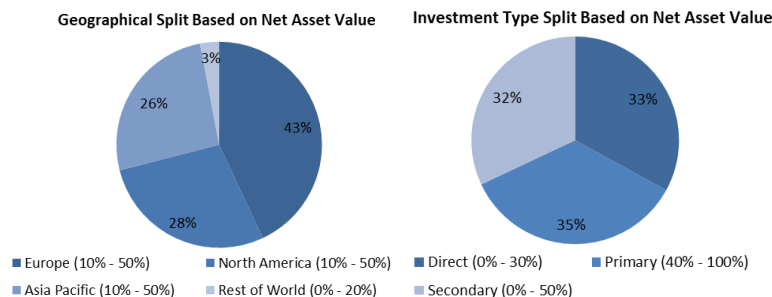
£212.2M END VALUE (£210.7M START VALUE)

| Item Monitored | Outcome |
|---|---|
| Mercer Rating | ● B+ (no change over period under review); ESG4 |
| Performance Objective <i>IRR of 10% p.a.</i> | ● IRR since inception to 31 March 2020 at 5.9% p.a. (in local currency) is below target of 10% p.a. |

Manager Research and Developments (Q1 2020)

- The portfolio delivered a net return of -9.1% over Q1 2020 for USD programmes in local currency, and -7.3% for EUR programmes, versus the target of c. 2.5%.
- Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, such as the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 31 March 2020 at 5.9% p.a. (in local currency) is below their target of 10% p.a.; over the three years to 31 March 2020, their IRR was 2.7% p.a. (in local currency terms).
- Over Q1, the allocation to Asia Pacific increased slightly (from 25% to 26%), while European holdings 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 31 March 2020



Portfolio update to 31 March 2020

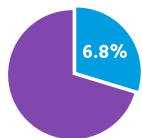
| Partners Fund | Total Drawn Down (£m) | Total Distributed (£m) | Net Asset Value (£m) | Since Inception Net IRR (local currency) |
|---|-----------------------|------------------------|----------------------|--|
| Global Real Estate 2008 | 35.92 | 40.83 | 4.76 | 4.5 |
| Real Estate Secondary 2009 | 23.45 | 25.69 | 9.57 | 8.2 |
| Asia Pacific and Emerging Market Real Estate 2009 | 27.62 | 24.63 | 6.08 | 2.3 |
| Distressed US Real Estate 2009 | 22.58 | 28.55 | 3.06 | 7.8 |
| Global Real Estate 2011 | 30.31 | 32.45 | 10.21 | 7.6 |
| Direct Real Estate 2011 | 18.02 | 17.50 | 5.62 | 5.4 |
| Real Estate Secondary 2013 | 14.45 | 10.23 | 11.43 | 13.0 |
| Global Real Estate 2013 | 126.87 | 9.75 | 142.54 | 5.4 |
| Real Estate Income 2014 | 27.09 | 16.54 | 14.61 | 4.0 |
| Asia Pacific Real Estate 2016 | 18.72 | 6.48 | 15.03 | 8.9 |
| Total | 271.60 | 168.76 | 194.85 | 5.9 |

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

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



IFM – INFRASTRUCTURE (POOLED)

£338.9M END VALUE (£334.1M 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 6.3% p.a. over the three year period (in GBP)

Item

Number of holdings

17

Manager Research and Developments

- Over the quarter the fund returned 1.4%, against Avon's performance objective of 1.2% (cash + 2.5% p.a.).
- It underperformed over the one year period, but outperformed over the three year period by 6.3% p.a.
- During the quarter, the fund issues a capital call of \$2.4bn as a prudent measure to support liquidity.
- Transaction activity in this period included one of the holdings acquiring a significant interest in a toll road in the Lombardy region of Italy.
- One of the holdings also completed a portfolio disinvestment from mobile telecommunications towers of \$2.0bn, with proceeds used to reduce leverage and enhance the capital structure of the remaining business.
- The pooled fund also received income of \$68.0m of distributions from two assets.

Reason for investment

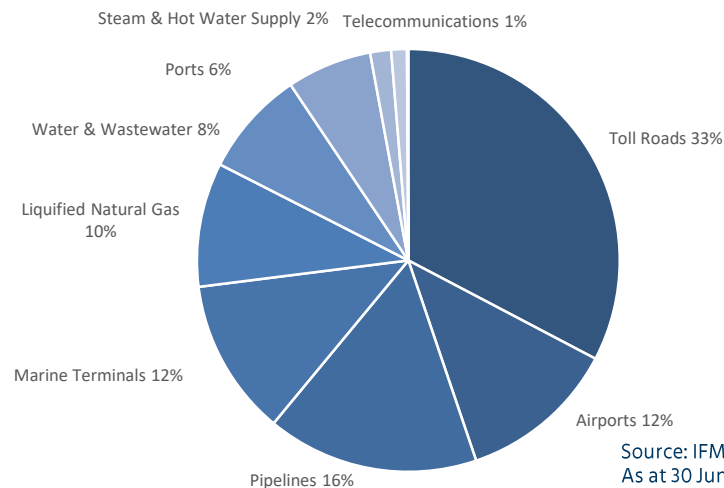
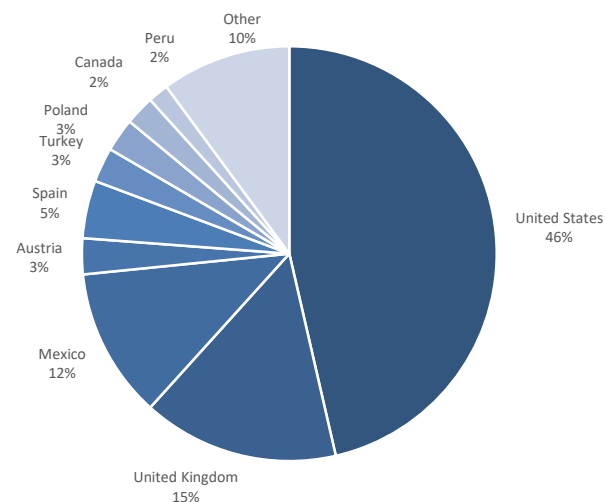
To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

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

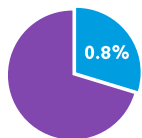


Geographical and Sub-Sector Allocation



Source: IFM.
As at 30 June 2020.

Copyright © 2020 Mercer (US) Inc. All rights reserved.



BRUNEL – INFRASTRUCTURE

£39.9M END VALUE (£24.3M START VALUE)

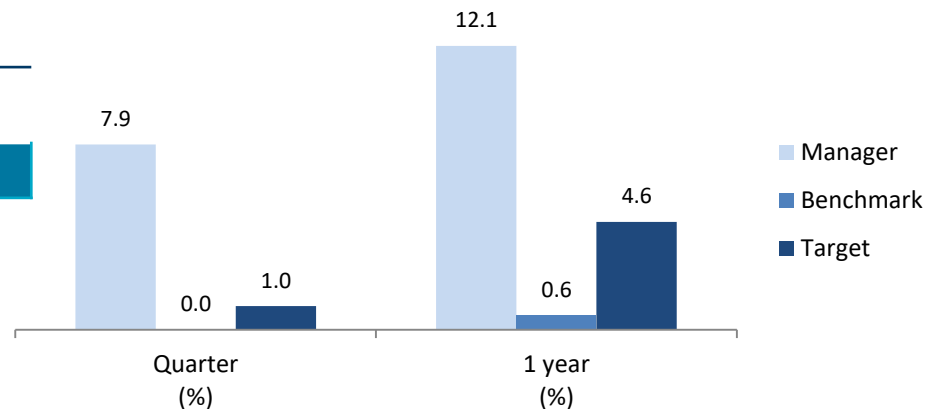
| Item Monitored | Outcome | Performance |
|----------------|---------|-------------|
|----------------|---------|-------------|

Mercer Rating ● N/A

Performance Objective ● Outperformed objective by 7.5% p.a. over the year
CPI +4.0% p.a.

Manager Research and Developments

- Mandate was initiated on 2 January 2019. NTR and Mirova are the underlying managers.
- The fund outperformed its objective over the quarter by 6.9%, as well as by 7.5% over the one year period.
- Mandate holdings were topped up by £13.4m during the quarter.

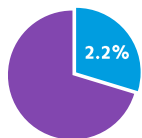


Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Investment made via the Brunel pool



BRUNEL – SECURED INCOME

£110.4M END VALUE (£69.1M START VALUE)

| Item Monitored | Outcome |
|----------------|---------|
|----------------|---------|

| | |
|---------------|-------|
| Mercer Rating | ● N/A |
|---------------|-------|

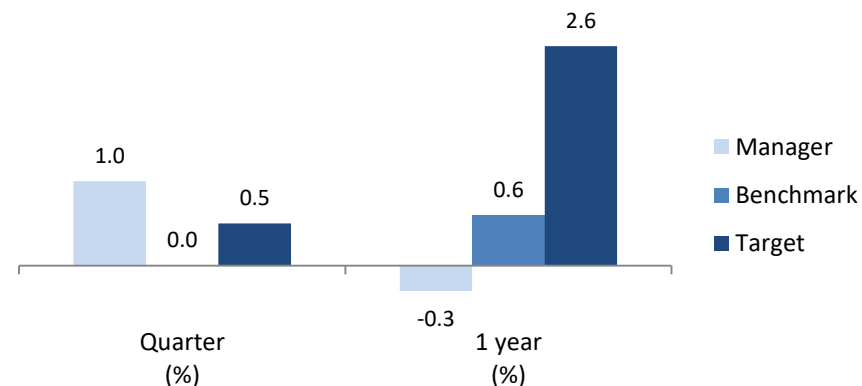
| | |
|---|--|
| Performance Objective CPI +2.0% p.a. | ● Underperformed target by 1.2% p.a. over the year to date |
|---|--|

Manager Research and Developments

- Mandate was initiated on 15 January 2019. Aberdeen Standard and Greencoat are the underlying managers, although more will be added over time.
- The strategy generated a return of 1.0% over Q2 2020, which was 0.5% ahead of its performance objective.
- It underperformed this objective over the one year period, however, by 2.9%.

Page 141

Performance

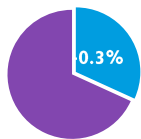


Reason for investment

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

Reason for manager

- Investment made via the Brunel pool



RECORD – CURRENCY HEDGING (SEGREGATED) -£16.6M END VALUE (-£8.2M 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

Sterling fell marginally over the quarter against the USD and Yen and more sharply against the Euro. Even though the UK economy has also started to rebound, there are concerns over another hard Brexit deadline looming after the transition period was not extended in June. By the end of the year, a trade agreement with the EU needs to be in place.

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

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

Reason for investment

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

Reason for manager

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



Currency Hedging Q2 2020 Performance (£ terms)

| Passive Developed Equity Hedge | | | | | | |
|--------------------------------|--------------------|------------------|---------------------|--------------------------|-------------------------|----------------|
| Currency | Start Exposure (£) | End Exposure (£) | Currency Return (%) | 50% Benchmark Return (%) | Record Hedge Return (%) | Net Return (%) |
| USD | 872,614,470 | 1,000,702,661 | 0.35% | (0.26%) | (0.26%) | 0.12% |
| EUR | 144,091,390 | 158,243,278 | 2.72% | (1.34%) | (1.20%) | 1.58% |
| JPY | 117,703,189 | 119,212,146 | 0.42% | (0.16%) | (0.01%) | 0.41% |
| Total | 1,134,409,048 | 1,278,158,085 | 0.66% | (0.38%) | (0.35%) | 0.34% |

| Passive Hedge Fund Hedge | | | | | | |
|--------------------------|--------------------|------------------|---------------------|---------------------------|-------------------------|----------------|
| Currency | Start Exposure (£) | End Exposure (£) | Currency Return (%) | 100% Benchmark Return (%) | Record Hedge Return (%) | Net Return (%) |
| USD | 250,443,905 | 264,274,852 | 0.35% | (0.51%) | (0.50%) | 0.11% |

| Passive Property Hedge | | | | | | |
|------------------------|--------------------|------------------|---------------------|---------------------------|-------------------------|----------------|
| Currency | Start Exposure (£) | End Exposure (£) | Currency Return (%) | 100% Benchmark Return (%) | Record Hedge Return (%) | Net Return (%) |
| USD | 25,715,449 | 27,390,442 | 0.35% | (0.51%) | (0.50%) | 0.10% |
| EUR | 179,374,319 | 182,442,002 | 2.72% | (2.58%) | (2.45%) | 0.34% |
| Total | 205,089,767 | 209,832,444 | 2.40% | (2.28%) | (2.17%) | 0.31% |

Appendix 1

Summary of Mandates

Page 143

SUMMARY OF MANDATES

| Manager | Mandate | Benchmark | Outperformance Target (p.a.) |
|--------------------------|---------------------------------------|--------------------------------------|------------------------------|
| BlackRock | Passive Global Equities | 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% |
| Brunel | Global High Alpha Equity | MSCI World | +2 -3% |
| Brunel | Passive Global Low Carbon Equities | MSCI World Low Carbon | - |
| Brunel | Emerging Market Equities | MSCI Emerging Markets | +2 -3% |
| Jupiter Asset Management | UK Equities (SRI) | FTSE All Share | +2% |
| Jupiter Asset Management | Global Sustainable Equities (SRI) | MSCI AC World | +2-4% |
| Loomis Sayles | Multi-Asset Credit | 3 Month LIBOR +4% p.a. | - |
| Pynford | Diversified Growth Fund | RPI +5% p.a. | - |
| Ruffer | Diversified Growth Fund | 3 Month LIBOR +5% p.a. | - |
| JP Morgan | Fund of Hedge Funds | 3 Month LIBOR +3% p.a. | - |
| Schroder | UK Property | IPD UK Pooled | +1% |
| Partners | Overseas Property | Net IRR of 10% p.a. (local currency) | - |
| IFM | Infrastructure | 6 Month LIBOR +2.5% p.a. | - |
| Brunel | Infrastructure | CPI | +4% |
| Brunel | Secured Income | CPI | +2% |
| 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 |
| 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

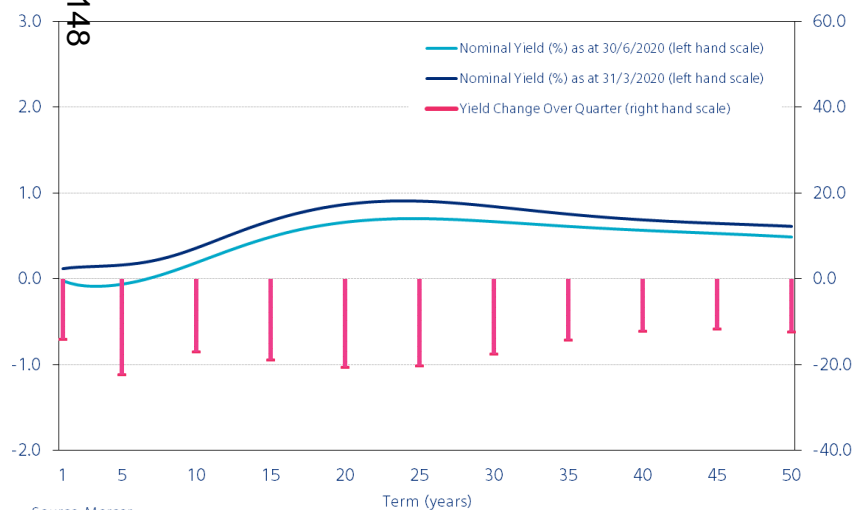
Page 147

CHANGES IN YIELDS

| Asset Class Yields (% p.a.) | 30 June 2020 | 31 Mar 2020 | 30 June 2019 | 30 June 2018 |
|--------------------------------|--------------|-------------|--------------|--------------|
| UK Equities | 4.66 | 5.53 | 4.13 | 3.64 |
| Over 15 Year Gilts | 0.58 | 0.75 | 1.40 | 1.67 |
| Over 5 Year Index-Linked Gilts | -2.38 | -1.92 | -1.89 | -1.58 |
| Sterling Non Gilts | 1.68 | 2.50 | 2.16 | 2.50 |

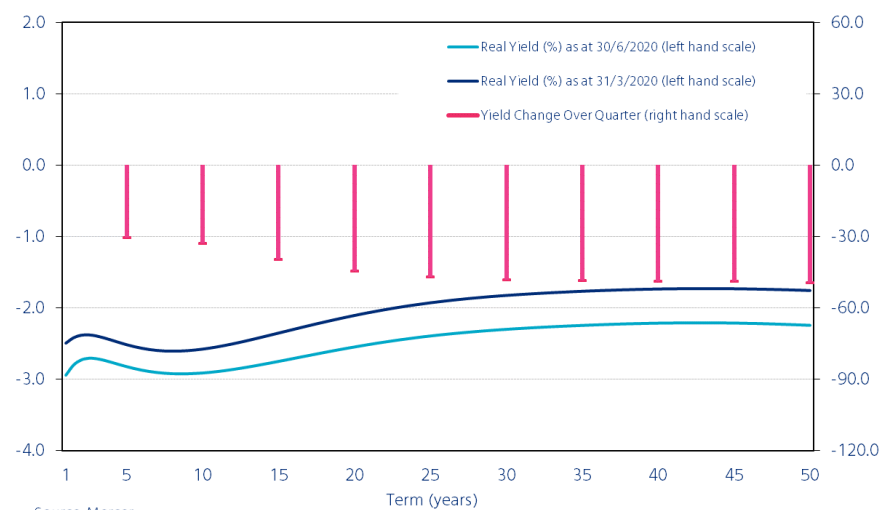
- UK real yields shifted down over the quarter, as nominal yields fell slightly while inflation expectations rose.
- The yields on the FTSE Over 15 Year Gilts Index fell and the FTSE Over 5 Year Index-Linked Gilts Index fell to 0.58% and -2.38% respectively, representing decreases of 0.17% and 0.46%.
- Their respective indices returned 3.9% and 11.5% respectively as a result.
- Credit spreads narrowed over the quarter as risk-on sentiment returned and investors took advantage of attractive spreads. The sterling Non-Gilts All Stocks Index credit spread ended the quarter at c.1.5% p.a., and UK credit assets delivered a return of 6.8% over the quarter.

Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

Appendix 4

Guide to Mercer Ratings

GUIDE TO MERCER RATINGS

INTRODUCTION

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

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

WHAT DO MERCER'S RATINGS SIGNIFY?

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

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

WHAT DO MERCER'S RATINGS NOT SIGNIFY?

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

Past Performance

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

Creditworthiness

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

Vehicle-Specific Considerations

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

Management Fees

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

GUIDE TO MERCER RATINGS

Operational Assessment

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

FACTORS CONSIDERED IN FORMING A RATING

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

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

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

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

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

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

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

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

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

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

GUIDE TO MERCER RATINGS

MERCER RATING SCALE

| Ratings | Rationale |
|-----------|--|
| A | Strategies assessed as having “above average” prospects of outperformance |
| B+ | Strategies assessed as having “above average” prospects of outperformance, but which are qualified by at least one of the following: <ul style="list-style-type: none">▪ 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 |
| B- | Strategies assessed as having “below average” prospects of outperformance |
| no rating | Strategies not currently rated by Mercer |
| R | The R rating is applied in three situations: <ul style="list-style-type: none">▪ Where Mercer has carried out some research, but has not completed its full investment strategy research process▪ In product categories where Mercer does not maintain formal ratings but where there are other strategies in which we have a higher degree of confidence▪ Mercer has in the past carried out its full investment-strategy research process on the strategy, but we are no longer maintaining full research coverage |

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

GUIDE TO MERCER RATINGS

SUPPLEMENTAL INDICATORS

Provisional (P)

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

Watch (W)

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

Specifically Assigning (P) and (W) Supplemental Indicators

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

High Tracking Error (T)

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

NICHE STRATEGIES

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

GUIDE TO MERCER RATINGS

RESEARCH INDICATIONS – INDICATIVE VIEW

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

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

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

OPERATIONAL RISK ASSESSMENTS

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

ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE RATINGS

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

GUIDE TO MERCER RATINGS

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

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

RATINGS REVIEW COMMITTEES

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

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

CONFIDENTIALITY OF MERCER'S RATINGS

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





Brunel Portfolios Performance Report for Quarter Ending 30 June 2020

Contents

| | |
|---------|---|
| Page 3 | - About Brunel and News |
| Page 4 | - Executive Summary |
| Page 5 | - Market Summary - Listed Markets Equities |
| Page 7 | - Market Summary – Head of Private Markets |
| Page 9 | - Responsible Investment & Stewardship Review |
| Page 12 | - High Level Performance of Pension Fund |
| Page 13 | - Asset Allocation of Pension Fund |
| Page 15 | - High Level Performance of Pension Fund - Risk Summary |
| Page 16 | - Brunel Portfolios Overview |
| Page 32 | - Glossary of Terms |
| Page 38 | - Brunel Committees and Groups |

We are delighted to confirm that Brunel Pension Partnership has been awarded **Environmental Finance's Pension Fund of the Year** award. This is in recognition of the successful efforts of the partnership to take strong and effective leadership on responsible investment. The award caps off a year of responsible investment milestones for the partnership, during which it has put into practice the policies and ambitions of more than 300 client stakeholders on a range of sustainability themes. Drawing on their guidance, Brunel has engaged with over 130 asset manager, and reviewed over 530 investment strategies, ensuring that the pension funds are allocated in accordance with partnership priorities.

The policies that were laid out in detail in the partnership's climate policy, published in January 2020, received widespread recognition for the level of ambition shown by you, our clients, in addressing climate risk. This policy is already delivering real-world impact, as Brunel uses it to challenge the asset management industry "to build a financial system which is fit for a carbon-zero future".

Implementing those ambitions is key. On this front, the Responsible Investment and Stewardship Outcomes report showed that all of Brunel's active portfolios now have a carbon intensity at least 7% lower than their respective benchmarks, and that we are meeting our portfolio targets for gender diversity.

Laura Chappell, CEO of Brunel, said: "Our clients have high ambitions for strong returns by investing in a world worth living in, and the Brunel Pension Partnership is proving it can help deliver those goals. This outcomes report reflects on a critical year that has seen successful outcomes in a wide range of sustainability themes from climate change to cost transparency. Partnership remains key to our success, and many of the achievements disclosed in our first report came from working with our clients and asset managers on environmental, social and governance issues. As the COVID-19 crisis has shown, managing these risks is crucial to protect the future interests of our Clients and their beneficiaries."

In other activities:

- The passing of Barclays' climate resolution commits it to align all of its financing activities with the Paris Agreement. Almost 100% voted in favour, demonstrating clear shareholder backing for its ambition to become a net zero bank by 2050. This resolution came about as a direct result of intensive shareholder engagement over the past year, including the first ever shareholder climate resolution at a major European bank, which Brunel Pension Partnership co-filed in December.
- We have partnered with StepStone to develop a discretionary infrastructure vehicle dedicated to our clients and to your strategies and values. We look forward to now launching the Cycle 2 Brunel Infrastructure Portfolio and to a long and productive relationship with StepStone.

Finally, the 18th to 24th May was Mental Health Awareness Week, which has never felt more important. As the world continues to grapple with the new challenges around COVID-19 and lockdown, we must also continue to invest in the people around us by promoting mental wellbeing. Advocating for mental health awareness is something we are proudly passionate about at Brunel. We firmly believe in the importance of investing in our staff, and that means taking care of their overall wellbeing – both professionally and personally.

Looking to the future, we will be faced with continuing challenges to adapt to a post-pandemic world, recognising that one size won't fit all and working flexibly to support our staff and our clients during this transition. Now, more than ever, mental health is something we all must work together to remain vigilant on.

Executive Summary

Performance of Pension Fund

The Fund delivered a small under performance against its strategic benchmark in the quarter. The 3 month GBP performance was 8.56%, which was -0.19% behind the strategic benchmark. Over 1 year, the Fund has returned -0.95%, -4.44% behind the strategic benchmark.

Key Points:

- 8.56% Absolute Net Performance Q2
- -0.19% Relative Performance vs Strategic benchmark Q2
- -0.95% Absolute Net Performance 1Y
- -4.44% Relative Performance vs Strategic benchmark 1Y

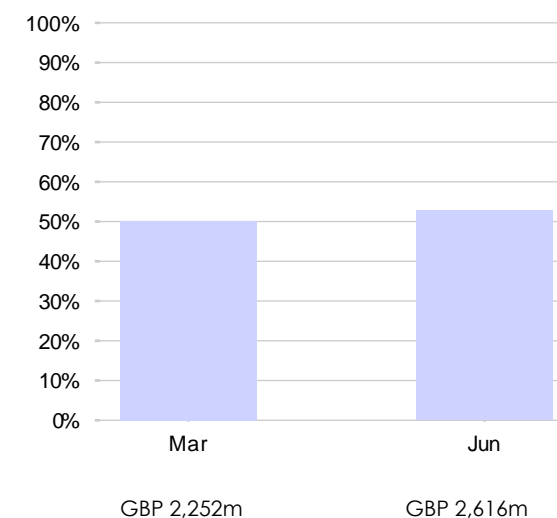
Fund Specific Events

- Blackrock Risk Management Framework completely transitioned into the Brunel reporting framework.

Total Fund Valuation

| | Total (GBPm) |
|---------------------------|--------------|
| 31 Mar 2020 | 4,492 |
| 30 Jun 2020 | 4,955 |
| Net cash inflow (outflow) | 73 |

Assets Transitioned to Brunel



Market Summary – Listed Markets

Equity markets recuperated following the most significant sell off witnessed since the global financial crisis of 2007/8. Equity markets across the globe posted double-digit returns, taking investors by surprise given the ongoing economic stagnation caused from COVID-19. Many market participants continue to remain sceptical of the decoupling between company earnings and prices, as evidenced by the S&P500 increasing in GBP terms by +2.9% YTD despite 12-month forward earnings collapsing by almost -20% over the same period.

Oil prices showed increased turbulence during April, with West Texas Intermediate (WTI) – a proxy for both US and international prices – falling to -\$40 a barrel for some near-expiry contracts in the futures market. The evaporation of demand caused by the coronavirus led to a global lack of availability in storage capacity. Prices recovered by the end of the quarter, with WTI pricing at +\$39 a barrel by quarter end, a return of over +90% since the end of Q1 2020.

S&P500 – Price and Earnings Decouple

Source: FactSet



UK Equities

- UK Equities had a strong quarter. The FTSE All share – a proxy for the UK equity market - returned roughly 10% in GBP. This was the best quarter observed since 2013 yet it still significantly lagged its global peers, like the United States, by over 10%.
- Basic Materials was the stand-out performing sector over the quarter, appreciating by 27%. Large benchmark names such as Glencore rose by 38%, clearly benefitting from the strong recovery in commodity prices. Industrials also had a strong quarter, rising by 19%.
- Oil & Gas continued to struggle as a sector, falling by -7.7% over the quarter. Significant gains from smaller companies in this sector were offset by losses at oil giants like BP. The company slashed \$17.5bn off the value of its oil and gas assets after taking a pessimistic view on longer term oil prices in mid-June. BP's share price fell approximately 8% over the quarter.

Market Summary – Listed Markets

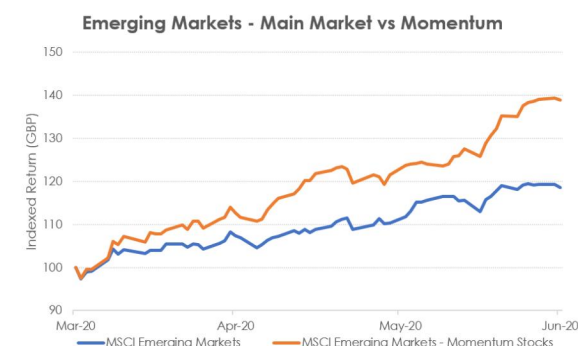
Global Developed Equities

- Global Developed equities, proxied by MSCI World, increased by 20% in GBP terms over the quarter, which is the strongest quarterly performance seen since the aftermath of the global financial crisis in 2009. The United States was one of the standout performers over this period, appreciating by 22%.
- Hong Kong equities continued to struggle following Beijing's sweeping new security law, which continues to threaten the autonomy of the territory. The quarterly return from Hong Kong equities within MSCI World was 9.6%, the second lowest out of all countries in the index.
- Technology stocks continued to impress on the quarter, with the sector appreciating by 32% in GBP terms. Large constituents such as Apple and Microsoft were up 44% & 30% respectively. Defensive sectors such as Utilities and Consumer Discretionary significantly lagged the broader benchmark return, increasing approximately by 7% and 9% respectively.

Emerging Markets

- Emerging markets enjoyed a strong rebound in Q2 2020, the MSCI Emerging markets index rose by almost 19% in GBP terms. Performance dispersion at country level lingered on from last quarter, with country returns ranging from +44% to +7%. Argentina was the strongest performer, rising +44%. South Africa also rebounded by approximately 28% following a 36% fall last quarter. China - the largest country constituent – managed to keep pace with most countries in the index, returning almost 16% over the quarter. China remains the standout performer on a year to date basis, ending the quarter around 11% up for the year.
- Health Care was the strongest sector over the last quarter, rising approximately 38% in GBP terms, making it by far the best performing sector year to date. Financials continued to struggle relative to other sectors following a 26% decline in Q1 2020; total return in Q2 2020 was approximately 8% in GBP terms, significantly behind the broader benchmark return of almost 19%.
- High momentum stocks in emerging markets were well rewarded in Q2 2020. The rebound in prices observed in Q2 2020 was most significant in the stocks that performed best in Q1 2020. The top 20% of performers in Q1 2020 outperformed the benchmark by over 8% in Q2 2020. The bottom 20% of performers also outperformed the benchmark, but by a much lower margin of approximately 4.5%.

Emerging Markets – Main Market vs Momentum Source: FactSet



Market Summary – Head of Private Markets

Overview

During the second quarter of 2020, the global recession deepened, countries were locked down, but also many parts of the world re-emerged from lockdown. Barring a potential second wave of Covid19, the worst economic impact has taken place, but property, infrastructure and private equity portfolios will continue to reflect the consequences of the first half of the year in their performance for Q3, year-end and even into 2021.

Infrastructure

Following a pandemic-driven hit to many infrastructure sectors, namely transport and energy, the true effect of Covid19 is now starting to be reflected in funds' performance across managers globally. Virtually no company globally anticipated the extent to which Covid19 would disrupt markets and societal behaviour, as many assets that proved resilient in previous troughs have behaved differently in the face of government-enforced social distancing measures. Managers who were thinking more strategically, with a long-term sustainable focus in their funds, will be the ones that survive.

Page 163
Much can be learnt about the robustness of supply chains bearing in mind climate change risks and a potential future virus outbreak. Brunel's strategy of focusing on the sustainability of its selected funds has proven more valuable than ever. Considering ESG in a portfolio is not only about protecting clients from environmentally harmful assets or encouraging better social and governance practices, but it is the key to stable, robust and long-term strong performance. The Brunel portfolio is heavily invested in renewable energy funds with long-term contracted revenues. It has no exposure to fossil fuels and has a small exposure to transport assets. The Cycle 1 StepStone vehicle deployment has been carefully managed, to avoid exposure to pre-Covid19 pricing assets which are anticipated to underperform and we are monitoring the activity of managers closely across sectors, sharing the lessons learnt from this market turmoil and the mitigating actions they are putting in place to ensure the future resilience of their portfolios.

Photo by Dina Lydia on Unsplash



Market Summary – Head of Private Markets

Private Equity

The private equity market continued to be affected by Covid-19. The public market had a remarkable quick recovery but the economic was sluggish with different countries experiencing varying degrees of success in reopening the economy while keeping the virus under control.

The disparity caused mixed views among GPs. Some GPs were cautious while others were active, seeing this as a window of opportunity to acquire good assets. It was reported that top 10 GPs by deal activities had deployed \$40bn between March and June this year. The deal value from these GPs represented more than 1/3 of the total deal value made by all PE firms in the last quarter of 2019. Hence, the large GPs such as KKR, Bain, Hellman & Friedman, etc had been very active since Covid-19, compared to others. It pointed to a shift in sentiment from the large GPs, which focused on portfolio management during the early part of the pandemic but starting to invest in deals again.

Property

The lockdown measures in March led to a sharp decline in UK commercial property investment. 2Q 2020 was the weakest quarterly investment figure ever recorded, at around £3bn (1Q's transaction value: £15.4bn). Physical inspections have now resumed and £2.5bn worth of transactions are in the pipeline, though overseas investors represent a smaller proportion of investment activity (35%) in the UK market this year. Most UK balanced funds still carry a Material Uncertainty Clause for their 2Q valuation until there is more transactional evidence. With UK total returns over the next four years forecast to be around 3% - 3.8% (annualised) the sector retains its attractions (vs a 0.2% 10-year gilt yield). Investors, driven by minimal global bond yields, continue to search for low-risk, asset-backed long-income streams within commercial and residential property.

Photo by Mihály Köles on Unsplash



Responsible Investment & Stewardship Review

Walking the talk

We were delighted to publish our [2020 Responsible Investment and Stewardship Outcomes Report](#) at the beginning of June. The report, which evidences of policy commitments on ESG risk integration, engagement and stewardship activities, is one of the first reports to explicitly seek to meet the requirements of the new Financial Reporting Standards – Stewardship Code 2020 as well as the EU Shareholder Rights Directive. Policy makers globally are ramping up the expectations on disclosure but we are well placed to not only meet them but deliver best practice.

Climate Governance - Barclays Shareholder Resolution

In December Brunel co-filed a shareholder resolution at Barclays, the first climate change resolution to ever be filed at a European bank. Since filing Brunel, alongside ShareAction the lead filer, engaged with Barclays and other shareholders. The positive pressure of shareholders led to a significant step by the bank, who in April, put forward a proposed "ambition to become net zero by 2050". While Barclays' own resolution set out an overarching 2050-ambition encompassing all financing across all sectors, the shareholder resolution ensures a greater focus on short- and medium-term actions needed in order to achieve that long-term goal. Both proposals were put to vote at the May annual general meeting, Barclays proposal passed, but we were pleased to see that votes for the shareholder resolution (23.95%) exceeded the 20% threshold that requires the bank to consult with shareholders and explain the views received and actions taken publicly within six months. We will continue to engage constructively to ensure that Barclays delivers on its commitments and takes real action to align its financing with the needs of the low carbon transition.

#TALKABOUTBLACK

In May the world witnessed an outpouring of emotions in response to the death of George Floyd in America and the subsequent protests globally. This shone a spotlight on the racial inequality which persists today. #TALKABOUTBLACK, a workstream of the Diversity project looks to address the under-representation of black talent by developing a sustainable pipeline of black leaders in the asset management industry. The workstream launched the #IAM campaign to get the industry talking about this important topic. Stewardship Manager, Helen Price, shared her personal thoughts in a blog: [#IAM](#) [#TALKABOUTBLACK](#). Brunel will continue to engage on this throughout the year. Within the investment industry representation and engagement is woefully lacking and engagement has not been to the same ferocity as other aspects of diversity. Although Brunel includes ethnic diversity in its Stewardship policy, we will be reviewing what further steps we can take and continuing to engage on this issue.

Barclays UK HQ

source: https://commons.wikimedia.org/wiki/File:Barclays_CW.jpg



#TALKABOUTBLACK

Source: Diversity Project



Responsible Investment & Stewardship Review

Human Capital – tackling mental health and modern day slavery

We joined two engagement initiatives within our theme of Human Capital – workplace mental health and modern day slavery. Along with other investors, representing £2.2 trillion, we co-signed letters to the CEO's of all FTSE 100 companies asking that formal mental health workplans are established during the period of disruption brought about by the Covid crisis. Before the pandemic mental health was costing UK businesses between £33 billion and £42 billion every year^[1] as well as having devastating social consequences. The Covid crisis will undoubtedly escalate both the financial and social costs of poor mental health.

We joined a modern day slavery engagement programme called Find it, Fix it, Prevent it alongside investors representing £3.5 trillion. The programme, which is backed by the Principles for Responsible Investment and supported by NGO's and academics, undertakes engagement with an aim to:

1. Push for better public policy to facilitate effective corporate action of modern slavery;
2. Promote better policies and processes for addressing slavery across supply chains; and
3. Develop better data for investors to act on modern day slavery

^[1] Stevenson/Farmer (2017), Thriving at Work, The Stevenson / Farmer review of mental health and employers

Climate transparency – Brunel's Carbon Metrics

Our [Carbon Metrics Report](#) details a number of key carbon metrics for each Brunel Portfolios as well as a Brunel Aggregate Portfolio. The Brunel Aggregate Portfolio consists of the underlying Brunel Portfolios weighted by assets under management as of 31 December 2019. The Partnership's work on climate change was a strong contributing element of our winning **Environmental Finance Sustainable Investment Awards – Pension Fund of the Year**.

Looking at the Weighted Average Carbon Intensity (WACI), the Brunel Aggregate Portfolio is less carbon intensive than its custom benchmark, with a relative efficiency of 15.4%. All of the Brunel Active Portfolios have a lower carbon intensity than their respective benchmarks, many substantially lower. All achieved at least 7% below their respective benchmarks. The report also shows that Companies within the Brunel Aggregate Portfolio that fully disclose their carbon data is 56% as a carbon weighted measure – and 64% on an investment weighted basis. Disclosure continues to be a key focus area of our engagement programme.

See the graphs below for more portfolio by portfolio details. We will continue to develop our Carbon Metrics reporting.

Human Capital

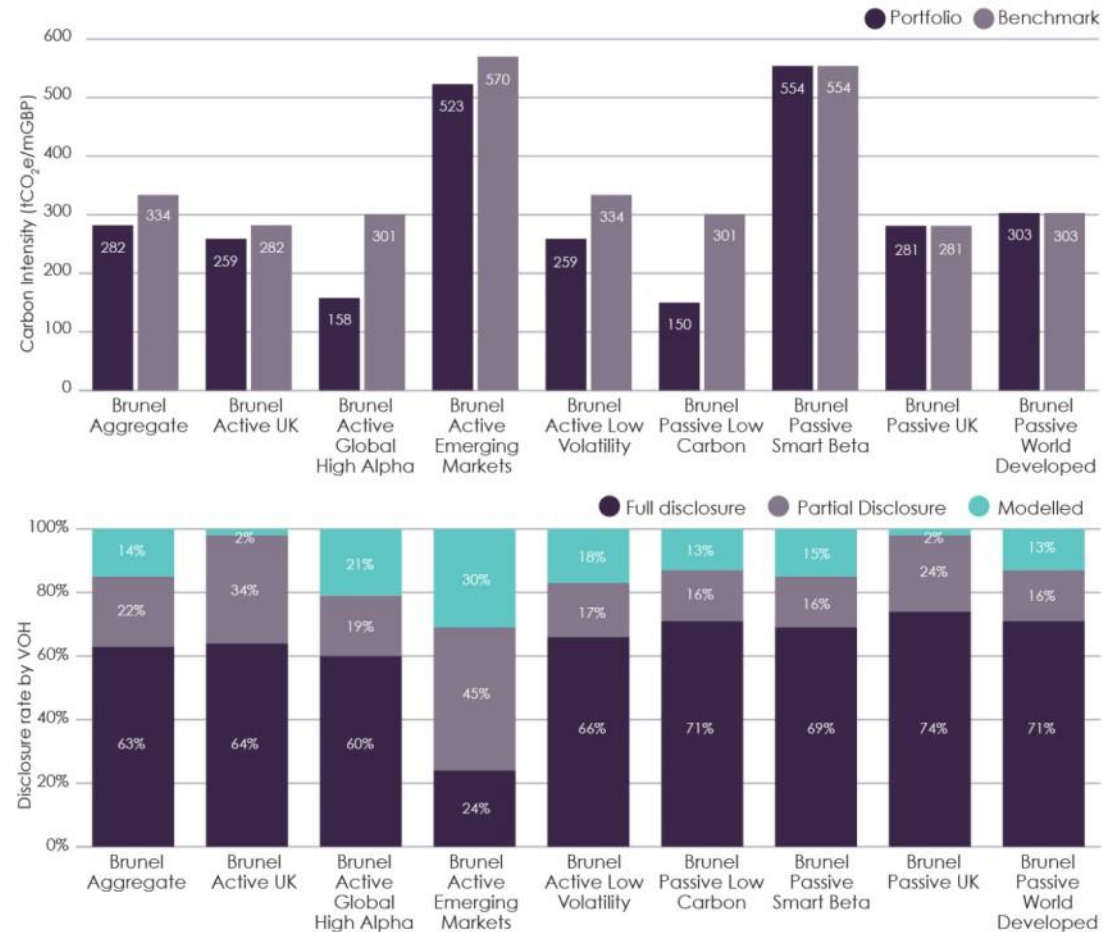


Environmental Finance Award Winner



Responsible Investment & Stewardship Review

WACI and Disclosure Rates for the Brunel Aggregate and Brunel Sub-Portfolios



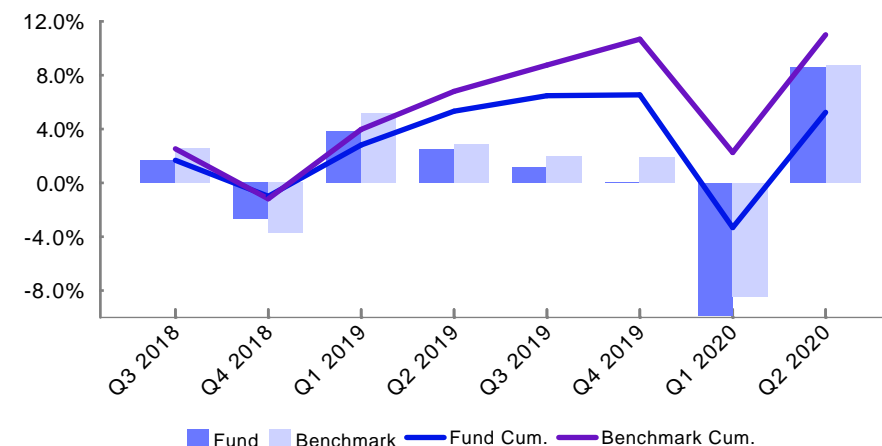
Bar totals may not sum to 100% due to rounding.

High Level Performance of Pension Fund

Performance of Fund Against Benchmark

| Ann. Performance | Fund | Strategic BM | Excess |
|------------------|--------|--------------|--------|
| 3 Month | 8.56% | 8.75% | -0.19% |
| Fiscal YTD | 8.56% | 8.75% | -0.19% |
| 1 Year | -0.95% | 3.49% | -4.44% |
| 3 Years | 3.38% | 5.54% | -2.16% |
| 5 Years | 5.61% | 7.62% | -2.01% |
| 10 Years | 7.67% | 8.68% | -1.01% |
| Since Inception | 8.18% | | |

Rolling Quarters Total Fund Net of Mgr. Fees

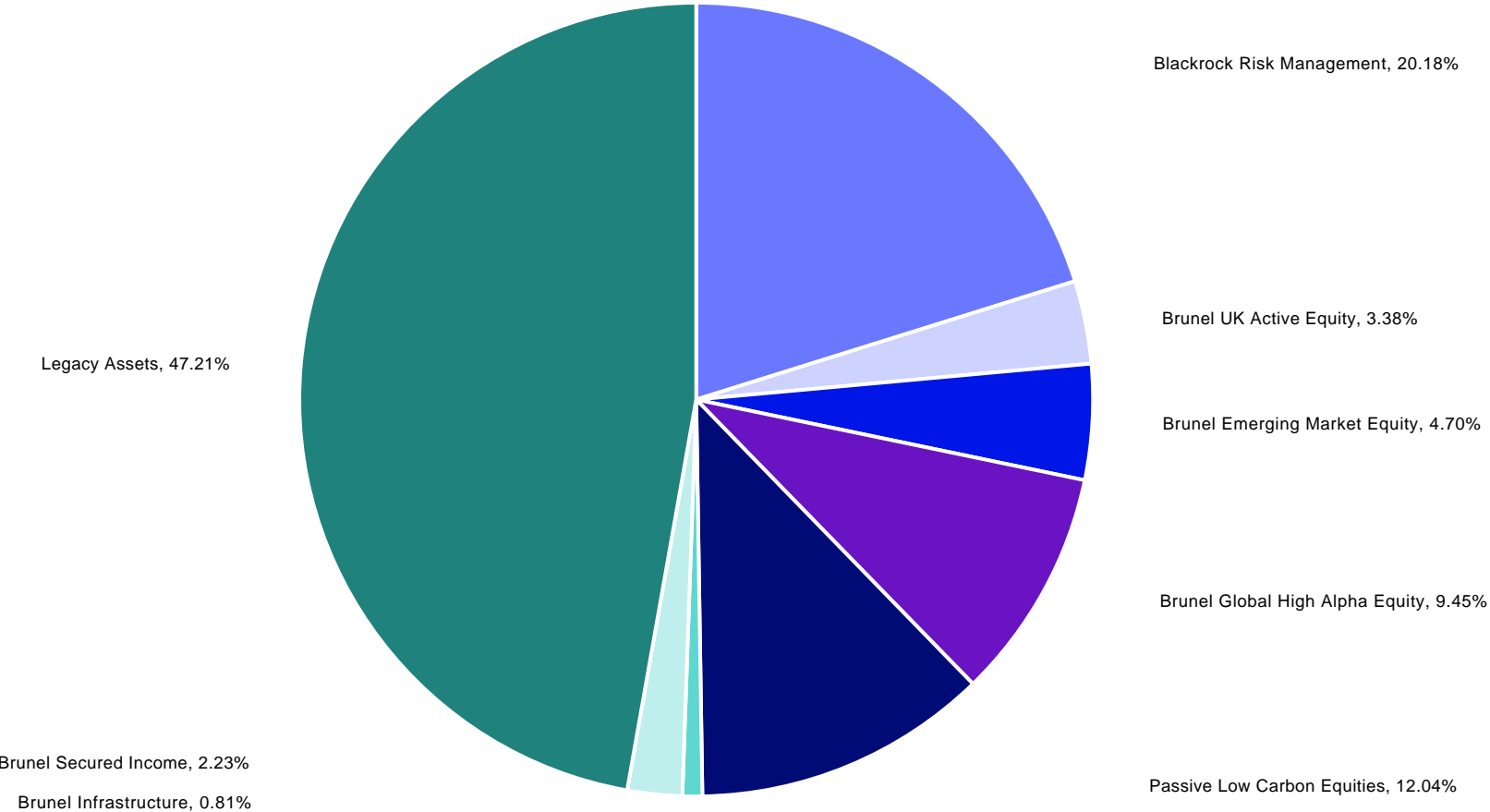


Key Drivers of Performance

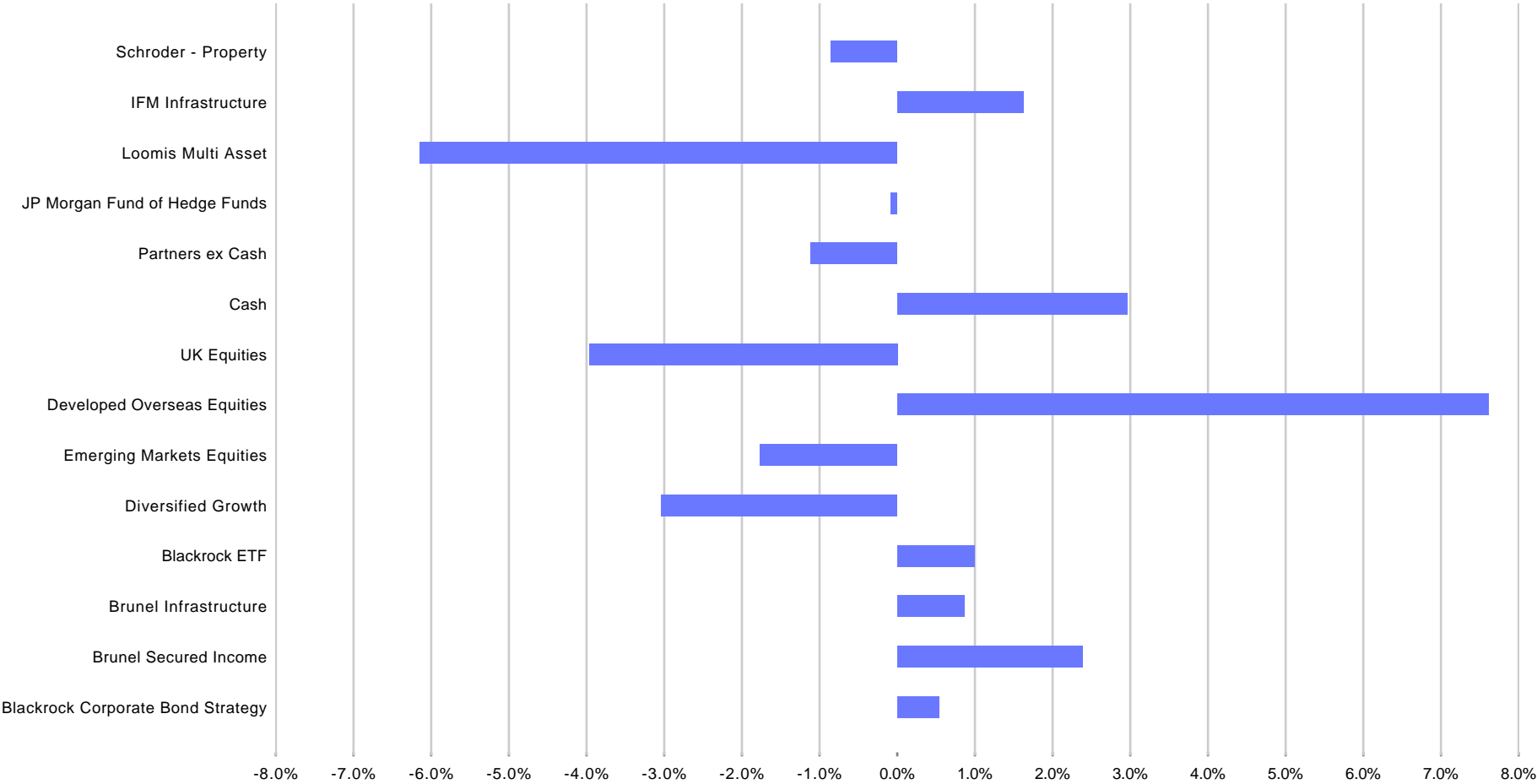
Over the second quarter of 2020, the Fund delivered a positive absolute return however slightly underperformed its strategic benchmark. Highlights during the period were:

- All three actively managed Brunel equity portfolios exceeded their benchmarks in the quarter.
- The Passive Low Carbon marginally lagged its benchmark
- The key Brunel portfolio driver of performance in the quarter was Global High Alpha which returned 24.04%, beating the benchmark by more than 4%.

Asset Allocation Split



Allocation Against Strategic Benchmark



High Level Performance of Pension Fund – Risk Summary

Manager Level Performance (Transitioned) – Since Initial Investment

| | Ann. Return | Benchm. Return |
|---------------------------------|-------------|----------------|
| Brunel Emerging Market Equity | -1.86% | 0.62% |
| Brunel Global High Alpha Equity | 11.04% | 2.63% |
| Brunel UK Active Equity | -3.33% | -3.01% |
| Passive Low Carbon Equities | 8.24% | 8.36% |

Manager Level Performance (Pre-Transition) – 3 Year

| | Ann. Return | Standard Deviation | Benchm. Return | Benchm. Std. Dev. |
|--------------------------------|-------------|--------------------|----------------|-------------------|
| Avon Total ex Curr Hedging | 3.87% | 6.52% | 5.54% | 6.34% |
| IFM Infrastructure | 9.13% | 8.68% | 5.49% | 0.31% |
| JP Morgan Fund of Hedge Funds | 5.86% | 8.90% | 3.60% | 0.17% |
| Jupiter - UK Equities | -3.36% | 14.98% | -1.56% | 14.47% |
| Partners ex Cash | 4.16% | 9.07% | 4.68% | 0.06% |
| Pyrford Diversified Growth | 1.62% | 4.04% | 7.60% | 1.45% |
| Record Equitisation | -1.71% | 14.28% | -1.72% | 14.14% |
| Schroder - Property | 5.76% | 3.68% | 3.37% | 3.18% |
| Schroder Equity | 10.29% | 10.09% | 8.49% | 13.55% |
| TT International - UK Equities | 0.07% | 8.32% | -1.56% | 14.47% |
| Avon Pension Fund | 3.38% | 6.39% | 5.54% | 6.34% |

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. SII* | Excess SII* | Initial Investment |
|---------------------------------|------------------------------|---------------|------------------|-------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|---------------|----------------|-----------------------|
| Brunel Emerging Market Equity | MSCI EM TR Gross | 233 | 18.77% | 0.17% | | | | | | | -1.86% | -2.48% | 09 Oct 2019 |
| Brunel Global High Alpha Equity | MSCI World TR Gross | 469 | 24.04% | 4.08% | | | | | | | 11.04% | 8.41% | 15 Nov 2019 |
| Brunel UK Active Equity | FTSE All Share | 167 | 11.67% | 1.50% | -13.34% | -0.35% | | | | | -3.33% | -0.33% | 21 Nov 2018 |
| Passive Low Carbon Equities | MSCI World Low Carbon Target | 596 | 19.88% | -0.06% | 7.10% | -0.07% | | | | | 8.24% | -0.12% | 11 Jul 2018 |

Page 172

*Since Initial Investment

Performance based on tradeable NAV

Where there are disparities between returns quoted above and returns provided for the same fund and period in the following pages, this is because the fund-specific pages reflect the posttransition phase, important for monitoring the performance of selected managers, while those given above reflect the Clients' actual experience from the point of initial investment, which in some cases includes the shared impact of transition costs.

Tradeable NAV performance reflects NET performance. The following product pages reflect the portfolio's NET performance

Passive Low Carbon Equities

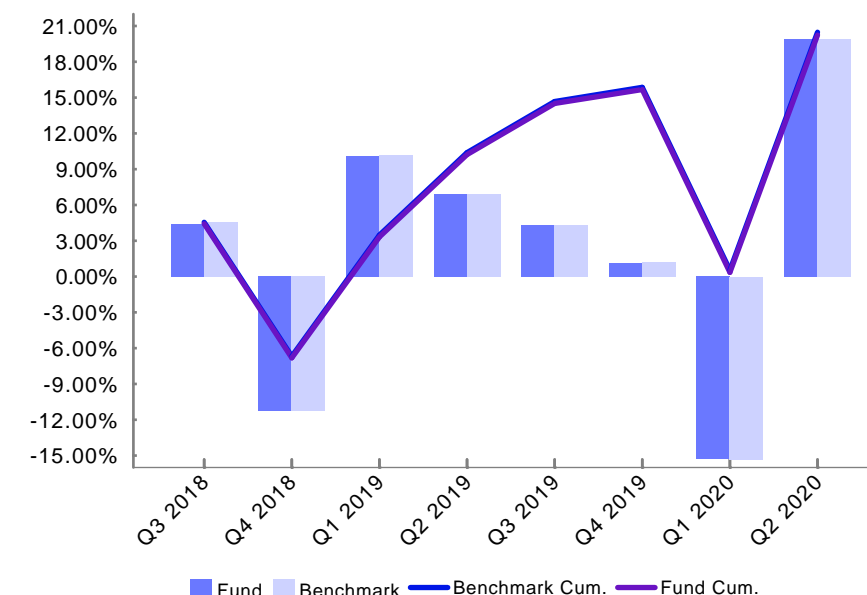
Overview

| | Description |
|------------------------------------|---|
| Portfolio Objective: | Provide exposure to equity returns and global economy with low exposure to carbon emissions and fossil fuels. |
| Investment Strategy & Key Drivers: | Portfolio is invested in global equities in accordance with Low Carbon index. |
| Liquidity: | High |
| Risk/Volatility: | High absolute risk with very low tracking error. |
| Total Fund Value: | £1,032,515,591 |

Performance to Quarter End

| Ann. Performance | Fund | BM | Excess |
|------------------|--------|--------|--------|
| 3 Month | 19.88% | 19.94% | -0.06% |
| Fiscal YTD | 19.88% | 19.94% | -0.06% |
| 1 Year | 7.10% | 7.17% | -0.07% |
| 3 Years | | | |
| 5 Years | | | |
| 10 Years | | | |
| Since Inception | 8.24% | 8.36% | -0.12% |

Rolling Performance*



* Partial returns shown in first quarter

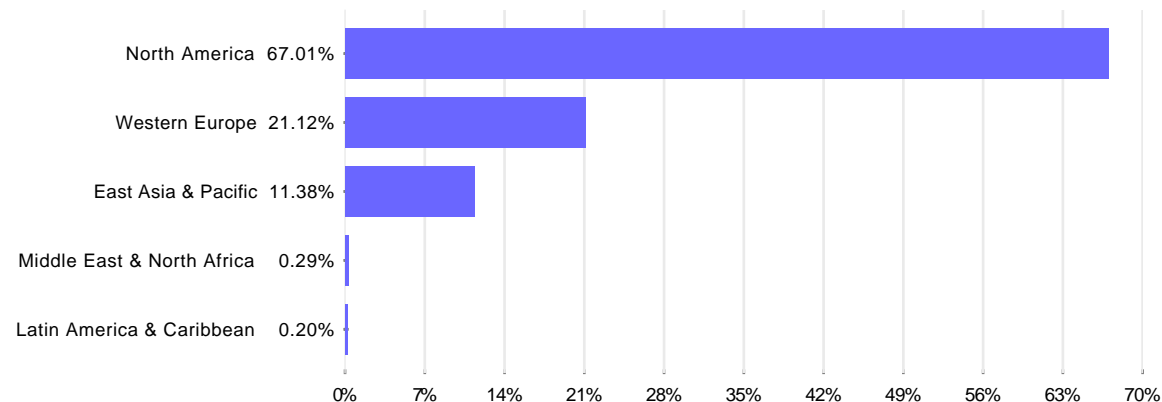
- The fund and index have both performed positively following negative performance in the first quarter of 2020 due to the impacts of the coronavirus.
- The Passive Low Carbon Equities fund has performed in line with the MSCI World Low Carbon Target Benchmark (19.88% vs 19.94%).
- All sectors have performed positively, with Information Technology, Consumer Discretionary and Healthcare the three main contributors to return. On a geographic basis, no countries have detracted significantly from performance over the period with almost all countries and regions performing strongly. The US is the largest contributor to performance, being both the largest constituent of the benchmark and returning 21.9% over the period.
- Fund performance since the start of 2020 is positive overall, and in line with benchmark (1.53% vs 1.56%).

Passive Low Carbon Equities – Region & Sector Exposure

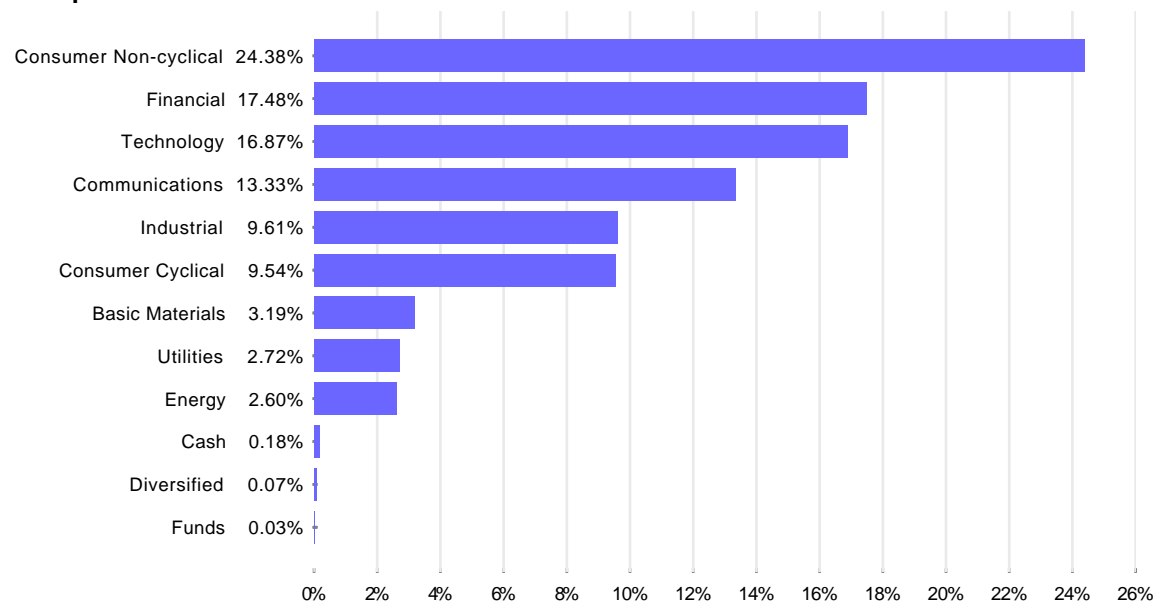
Top 20 Holdings

| | Mkt. Val.(GBP) |
|------------------------------|----------------|
| APPLE INC | 60,837,878 |
| MICROSOFT CORP | 56,168,207 |
| AMAZON.COM INC | 44,835,140 |
| FACEBOOK INC-CLASS A | 21,062,067 |
| ALPHABET INC-CL C | 17,351,386 |
| ALPHABET INC-CL A | 15,538,825 |
| JOHNSON & JOHNSON | 14,336,215 |
| VISA INC-CLASS A SHARES | 12,959,461 |
| NESTLE SA-REG | 12,726,495 |
| PROCTER & GAMBLE CO/THE | 11,639,487 |
| JPMORGAN CHASE & CO | 10,725,645 |
| UNITEDHEALTH GROUP INC | 10,514,969 |
| HOME DEPOT INC | 10,492,920 |
| MASTERCARD INC - A | 10,361,453 |
| INTEL CORP | 9,953,820 |
| ROCHE HOLDING AG-GENUSSCHEIN | 9,182,244 |
| NVIDIA CORP | 8,992,467 |
| BERKSHIRE HATHAWAY INC-CL B | 8,978,674 |
| VERIZON COMMUNICATIONS INC | 8,716,355 |
| AT&T INC | 8,575,938 |

Regional Exposure



Sector Exposure



Passive Low Carbon Equities – Responsible Investment

Top 10 ESG Contributors to Overall Score

| | Insight | Momentum |
|----------------------------|---------|----------|
| 1. MICROSOFT CORP | 59.9 | 34.9 |
| 2. SAP SE | 72.9 | 64.4 |
| 3. NVIDIA CORP | 66.7 | 68.9 |
| 4. NEXTERA ENERGY INC | 73.4 | 29.9 |
| 5. ACCENTURE PLC | 69.3 | 62.1 |
| 6. PROCTER & GAMBLE CO/THE | 63.4 | 66.1 |
| 7. NESTLE SA | 62.9 | 67.8 |
| 8. SCHNEIDER ELECTRIC SE | 78.2 | 50.0 |
| 9. SALESFORCE.COM INC | 65.6 | 59.8 |
| 10. MASTERCARD INC | 62.3 | 71.0 |

Bottom 10 ESG Detractors to Overall Score

| | Insight | Momentum |
|------------------------|---------|----------|
| 1. APPLE INC | 51.3 | 40.0 |
| 2. AMAZON.COM INC | 49.9 | 26.7 |
| 3. FACEBOOK INC | 43.9 | 30.9 |
| 4. ALPHABET INC | 49.1 | 46.0 |
| 5. JOHNSON & JOHNSON | 48.0 | 32.6 |
| 6. NETFLIX INC | 43.1 | 42.9 |
| 7. JPMORGAN CHASE & CO | 49.2 | 31.2 |
| 8. AT&T INC | 50.1 | 42.4 |
| 9. KINDER MORGAN INC | 34.5 | 26.7 |
| 10. NIKE INC | 46.0 | 65.5 |

| Weighted Average ESG Score | 2020 Q1 | 2020 Q2 |
|----------------------------|---------|---------|
| Portfolio | 58.72 | 58.29 |
| Passive Dev Equities | 58.86 | 58.38 |

* Position 1 is the top contributor/detractor.



TruValue Labs & SASB

Brunel Assessment:

- Netflix (media and services) is facing lawsuits for deformation of character, there are also claims of employee poaching and trademark infringement. Disputes continue in South Korea over 'network usage fees' currently not paid by online content providers. Netflix shifted cash to banks supporting black lives and has taken a public stance against racism.
- JP Morgan Chase (Bank) saw a 40% fall in credit card expenditure due to COVID-19. The bank also came under fire due to its fossil fuel lending. 46.9% of shareholders voted 'FOR' a resolution requiring a plan to align its business with the goals of Paris Agreement. 41.7% also voted to split the role of chair and CEO.
- Amazon, along with Facebook, Alphabet and Apple CEO's will testify before a congressional panel investigating competition in the tech industry. Leaders will face questions from lawmakers about business practices, as the subcommittee seeks a case for antitrust enforcement of tech companies.

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

Some negative momentum a result of market volatility due to COVID-19.

The benchmark is 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.

Weighted Average Carbon Intensity (WACI)



Source: Trucost

Extractive Exposure

| | Total Extractive Exposure ¹ | | Extractive Industries (VOH) ² | |
|----------------|--|------|--|------|
| | Q1 | Q2 | Q1 | Q2 |
| Portfolio | 1.83 | 2.51 | 3.92 | 5.05 |
| Passive Dev EQ | 2.92 | 3.28 | 8.68 | 8.19 |

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



TruValue Labs & SASB

Brunel UK Active Equity

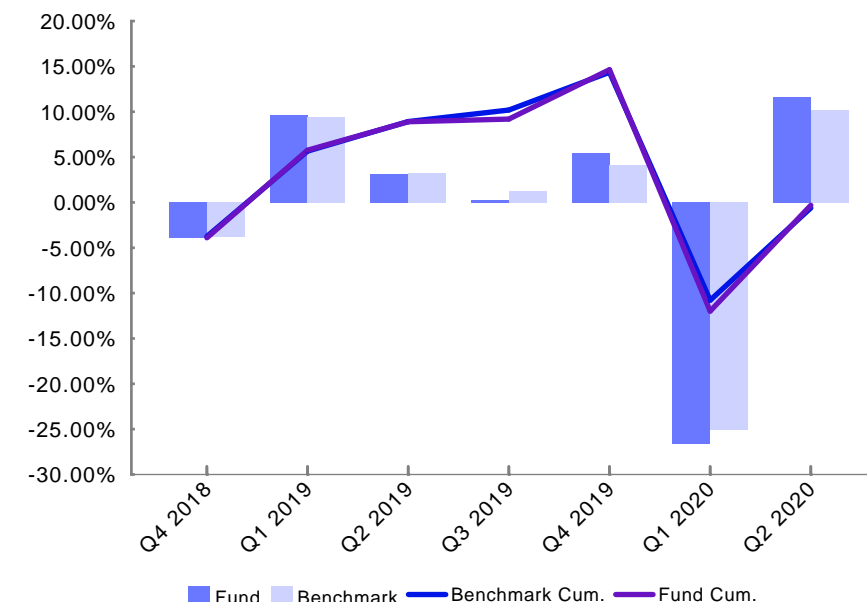
Overview

| | Description |
|------------------------------------|---|
| Portfolio Objective: | Provide exposure to UK Equities, together with enhanced returns from manager skill. |
| Investment Strategy & Key Drivers: | 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. |
| Total Fund Value: | £1,427,039,873 |

Performance to Quarter End

| Ann. Performance | Fund | BM | Excess |
|------------------|---------|---------|--------|
| 3 Month | 11.67% | 10.17% | 1.50% |
| Fiscal YTD | 11.67% | 10.17% | 1.50% |
| 1 Year | -13.34% | -12.99% | -0.35% |
| 3 Years | | | |
| 5 Years | | | |
| 10 Years | | | |
| Since Inception | -3.72% | -3.45% | -0.27% |

Rolling Performance*



* Partial returns shown in first quarter

Notwithstanding the strongest quarterly return since 2013 in absolute terms, UK equities (proxied by the FTSE All share) have still not recovered the value lost in the drawdown in late Feb and March 2020 when markets were first impacted by the Covid 19 crisis. Despite the strong absolute returns this quarter, uncertainty remains, and UK equities continue to underperform global equity markets significantly on both a quarterly and annual basis.

The Fund outperformed the FTSE All share this quarter by +1.5%, recovering the underperformance of last quarter, but remains marginally behind the benchmark since inception. Key points:

- The FTSE All-Share Index posted returns of +10.2% in the quarter, underperforming the global stock market which, as represented by the MSCI ACWI Index, returned +19.8%. This underperformance versus global markets widens when you look over the last 12 months with the FTSE All-Share Index returning -13.0% and the MSCI ACWI Index +5.7%.
- Both allocation and stock selection contributed positively to the quarterly relative outperformance of the Fund. The underweight to Oil and Gas benefitted the Fund, with stock selection particularly strong in Financials and Consumer Services.

Continued Commentary

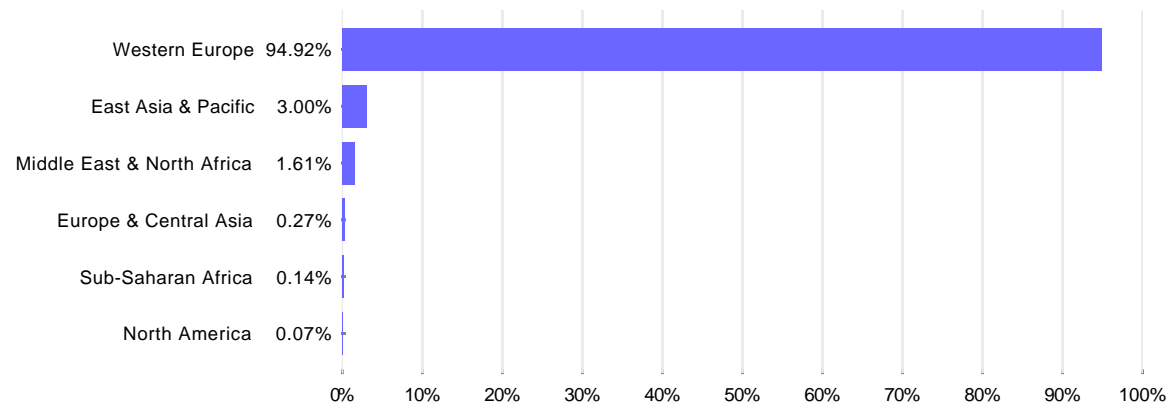
- The Fund's position in Shell was reduced materially over the quarter with Baillie Gifford selling their holding entirely and ASI materially reducing their holding. In general, trading activity has been slightly higher than average as managers move to re-position their portfolios. We have also seen managers participate selectively in a number of small equity raisings by companies since the Covid crisis.
- Fund outperformance over the quarter was driven by strong performances from Baillie Gifford and ASI, with both demonstrating positive stock selection. Invesco were marginally behind benchmark for the quarter.
- Since inception, the fund has returned -3.7% on an annualised basis, underperforming the benchmark by -0.3%.

Brunel UK Active Equity – Region & Sector Exposure

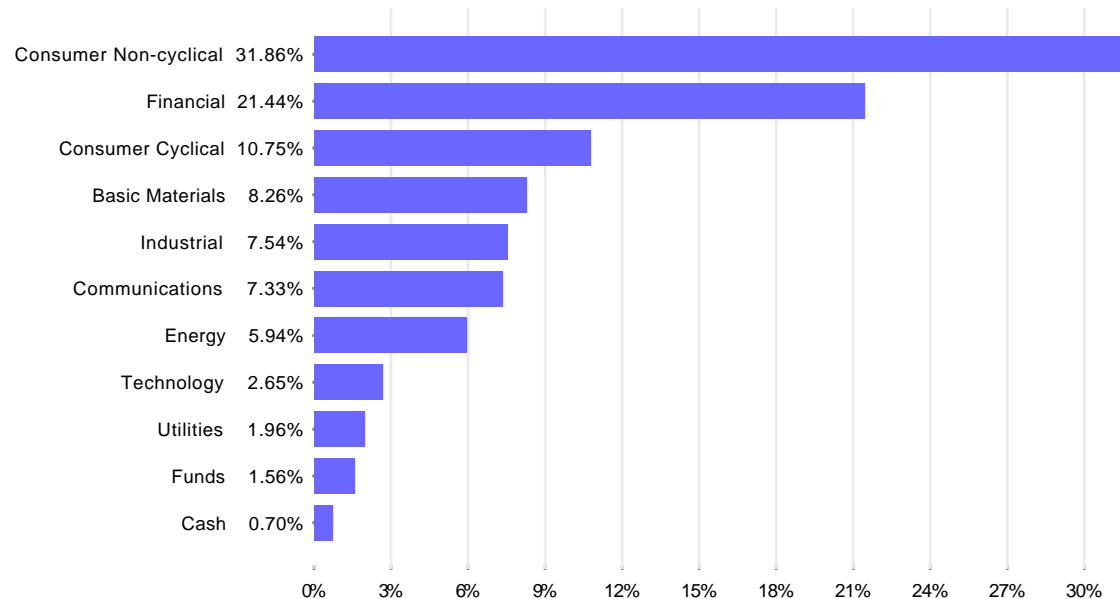
Top 20 Holdings

| | Mkt. Val.(GBP) |
|------------------------------|----------------|
| BRITISH AMERICAN TOBACCO PLC | 64,924,310 |
| GLAXOSMITHKLINE PLC | 59,506,195 |
| ASTRAZENECA PLC | 46,816,160 |
| RELX PLC | 45,884,777 |
| UNILEVER PLC | 45,214,513 |
| PRUDENTIAL PLC | 43,958,024 |
| BHP GROUP PLC | 42,861,684 |
| RIO TINTO PLC | 39,094,702 |
| DIAGEO PLC | 33,382,182 |
| HSBC HOLDINGS PLC | 27,077,040 |
| BP PLC | 25,512,908 |
| AUTO TRADER GROUP PLC | 24,334,286 |
| VODAFONE GROUP PLC | 24,159,490 |
| LEGAL & GENERAL GROUP PLC | 23,370,948 |
| ROYAL DUTCH SHELL PLC-B SHS | 23,030,419 |
| RIGHTMOVE PLC | 20,943,639 |
| ROYAL DUTCH SHELL PLC-A SHS | 20,283,496 |
| HIKMA PHARMACEUTICALS PLC | 19,025,810 |
| BAE SYSTEMS PLC | 18,757,565 |
| INTERMEDIATE CAPITAL GROUP | 17,712,783 |

Regional Exposure



Sector Exposure



Brunel UK Active Equity – Responsible Investment

Top 10 ESG Contributors to Overall Score

| | Insight | Momentum |
|------------------------------|---------|----------|
| 1. RELX PLC | 67.0 | 55.1 |
| 2. AUTO TRADER GROUP PLC | 72.1 | 15.2 |
| 3. BUNZL PLC | 77.6 | 81.4 |
| 4. BAE SYSTEMS PLC | 66.5 | 67.4 |
| 5. INCHCAPE PLC | 67.6 | 71.3 |
| 6. HIKMA PHARMACEUTICALS PLC | 65.6 | 50.0 |
| 7. DIAGEO PLC | 62.4 | 23.3 |
| 8. DUNELM GROUP PLC | 73.1 | 50.0 |
| 9. RIO TINTO PLC | 61.9 | 43.8 |
| 10. INFORMA PLC | 73.3 | 58.6 |

Bottom 10 ESG Detractors to Overall Score

| | Insight | Momentum |
|---------------------------------|---------|----------|
| 1. BRITISH AMERICAN TOBACCO PLC | 52.0 | 34.8 |
| 2. HSBC HOLDINGS PLC | 47.7 | 19.9 |
| 3. PRUDENTIAL PLC | 53.4 | 38.8 |
| 4. GLAXOSMITHKLINE PLC | 55.6 | 43.9 |
| 5. RIGHTMOVE PLC | 49.7 | 21.0 |
| 6. LLOYDS BANKING GROUP PLC | 47.4 | 53.0 |
| 7. BP PLC | 53.1 | 40.9 |
| 8. HARGREAVES LANSDOWN PLC | 44.1 | 21.2 |
| 9. RECKITT BENCKISER GROUP PLC | 48.5 | 32.6 |
| 10. ROYAL DUTCH SHELL PLC | 56.3 | 73.9 |

| Weighted Average ESG Score | 2020 Q1 | 2020 Q2 |
|----------------------------|---------|---------|
| Portfolio | 59.95 | 59.17 |
| FTSE All Share | 58.99 | 58.47 |

* Position 1 is the top contributor/detractor.



TruValue Labs & SASB

Brunel Assessment:

- **Rightmove** (Internet services) was criticised for not doing more to help estate agents impacted by the halt to the housing market. After offering a 6 month payment holiday, rightmove bowed to pressure and implemented a reduction of three quarters for four months.
- **Bunzl** (Distribution and outsourcing), turned down the UK government's £1,000 per worker bonus for retaining furloughed staff. The Office for Budget Responsibility has warned that 10-20% of workers on furlough will not keep their jobs.
- **Auto Trader** (Internet services) placed 46.5 million new shares to strengthen finance and cut board pay as used car sales slumped last quarter. Payment holiday and suspended payments were offered to retailers using the advertising platform.

90% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.

Some negative momentum a result of market volatility due to COVID-19.

A slight increase in the portfolio carbon intensity was replicated by the benchmark. Brunel has engaged extensively to improve the carbon intensity of this portfolio. There was strong commitment from the quantitative manager to encompass climate risk in the investment process. The outcome has been to deliver a portfolio significantly below benchmark. Since inception carbon intensity (reduction) from 210 to 120 tCO2e/£M.

Weighted Average Carbon Intensity (WACI)



Source: Trucost

Extractive Exposure

| | Total Extractive Exposure ¹ | | Extractive Industries (VOH) ² | |
|----------------|--|------|--|-------|
| | Q1 | Q2 | Q1 | Q2 |
| Portfolio | 4.74 | 4.89 | 17.76 | 15.32 |
| FTSE All Share | 4.40 | 5.67 | 20.62 | 19.50 |

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



Brunel Emerging Market Equity

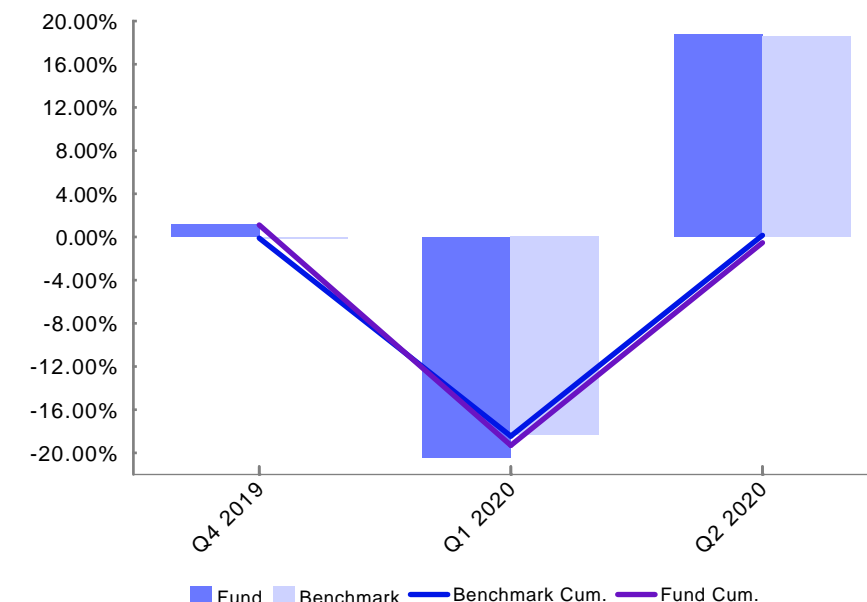
Overview

| | Description |
|------------------------------------|---|
| Portfolio Objective: | Provide exposure to emerging market equities, targeting excess returns and enhanced risk control from leading managers. |
| Investment Strategy & Key Drivers: | A geographically diverse portfolio, typically expected to achieve higher long-term growth rates than developed economies. |
| Liquidity: | Managed liquidity. Less exposure to more illiquid assets |
| Risk/Volatility: | High absolute risk with moderate to high relative risk, around 5% tracking error. |
| Total Fund Value: | £1,176,947,844 |

Performance to Quarter End

| Ann. Performance | Fund | BM | Excess |
|------------------|--------|--------|--------|
| 3 Month | 18.77% | 18.60% | 0.17% |
| Fiscal YTD | 18.77% | 18.60% | 0.17% |
| 1 Year | | | |
| 3 Years | | | |
| 5 Years | | | |
| 10 Years | | | |
| Since Inception | -4.42% | -2.32% | -2.10% |

Rolling Performance*



* Partial returns shown in first quarter

Emerging markets staged a very strong recovery following the severe market downturn observed in Q1 2020. Returns were the strongest seen since the aftermath of the Global Financial Crisis almost 11 years ago. The recovery was also broad based, with 24 out of the 26 country constituents in the MSCI Emerging Markets Index returning more than 10% in Q2 2020 in GBP terms. China continued to surprise on the upside, keeping pace with other countries and returning almost 16% despite the large outperformance observed in the first 3 months of the year. China remains by far the standout performer on a year to date basis, returning over 11% in GBP terms. The benchmark has lost -3% over the same period. Taiwan is the only other market to remain in positive territory on a year to date basis, returning 5.5%.

Key Points:

- The portfolio produced positive performance on an absolute and relative basis. The portfolio returned 18.8% over the quarter, outperforming the benchmark by 0.2% in GBP terms.
- Genesis and Wellington have both had a strong quarter vs benchmark, outperformance was 0.9% and 1.0% respectively. Ninety-One had a tougher quarter, underperforming the benchmark by -1.0%.

Continued Commentary

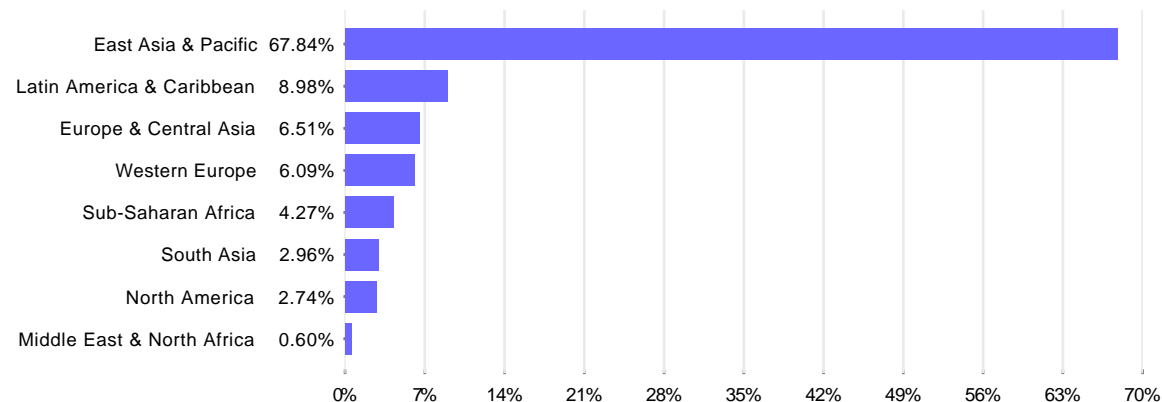
- Relative performance remains negative on a since inception basis, the portfolio is -2.1% behind benchmark as at quarter end. All three managers are lagging the benchmark over this period; Genesis, Ninety-One and Wellington underperformed the benchmark by -2.4%, -1.7% and -0.9% respectively.
- China was a strong contributor to relative performance this quarter, contributing around +100bps towards relative performance. The improvement in performance from China was driven entirely by strong stock selection, which was observed across all three managers. The significant negative allocation impacts from Q1 2020 did not reverse in Q2. The portfolio remains underweight China, currently -4% vs benchmark.

Brunel Emerging Market Equity – Region & Sector Exposure

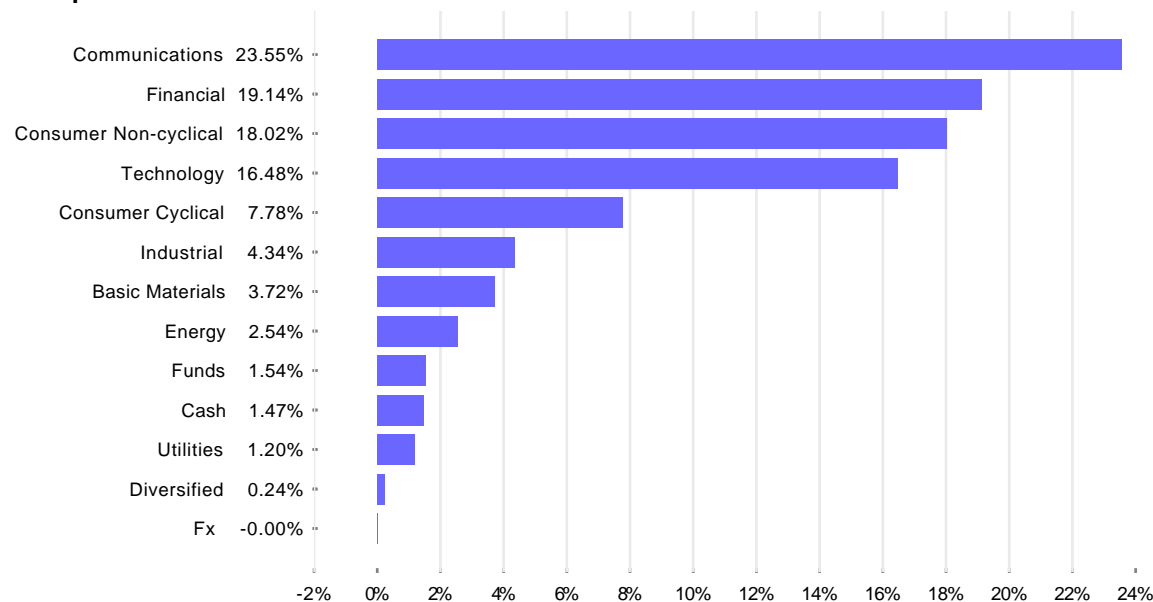
Top 20 Holdings

| | Mkt. Val.(GBP) |
|------------------------------|----------------|
| TENCENT HOLDINGS LTD | 76,053,450 |
| ALIBABA GROUP HOLDING-SP ADR | 67,775,781 |
| TAIWAN SEMICONDUCTOR MANUFAC | 56,032,200 |
| SAMSUNG ELECTRONICS CO LTD | 33,643,920 |
| AIA GROUP LTD | 20,709,941 |
| SBIBANK PJSC -SPONSORED ADR | 17,685,316 |
| WULIANGYE YIBIN CO LTD-A | 14,940,223 |
| HDFC BANK LTD-ADR | 13,552,291 |
| PING AN INSURANCE GROUP CO-H | 12,960,260 |
| CHINA CONSTRUCTION BANK-H | 12,437,045 |
| ISHARES MSCI INDIA ETF | 12,209,075 |
| NETEASE INC-ADR | 11,752,441 |
| SAMSUNG ELECTRONICS-PREF | 11,002,824 |
| NASPERS LTD-N SHS | 10,809,959 |
| BID CORP LTD | 10,678,341 |
| YANDEX NV-A | 10,409,718 |
| MEDIATEK INC | 10,404,197 |
| INFOSYS LTD-SP ADR | 10,011,846 |
| CHINA MENGNIU DAIRY CO | 9,923,356 |
| CSPC PHARMACEUTICAL GROUP LT | 9,047,865 |

Regional Exposure



Sector Exposure



Brunel Emerging Market Equity – Responsible Investment

Top 10 ESG Contributors to Overall Score

| | Insight | Momentum |
|---|---------|----------|
| 1. TAIWAN SEMICONDUCTOR MANUFACTURING | 60.0 | 22.0 |
| 2. MEDIATEK INC | 72.9 | 74.3 |
| 3. CHINA MENGNIU DAIRY CO LTD | 65.6 | 26.9 |
| 4. WEICHAI POWER CO LTD | 78.9 | 27.0 |
| 5. SAMSUNG ELECTRONICS CO LTD | 58.8 | 17.8 |
| 6. PING AN INSURANCE GROUP CO OF CHINA LT | 63.2 | 60.8 |
| 7. SBERBANK OF RUSSIA PJSC | 60.5 | 19.8 |
| 8. DELTA ELECTRONICS INC | 77.9 | 26.6 |
| 9. YANDEX NV | 62.1 | 20.8 |
| 10. XS RETAIL GROUP NV | 77.8 | 83.8 |

Bottom 10 ESG Detractors to Overall Score

| | Insight | Momentum |
|--|---------|----------|
| 1. TENCENT HOLDINGS LTD | 46.9 | 22.0 |
| 2. PETROLEO BRASILEIRO SA | 36.7 | 74.3 |
| 3. ALIBABA GROUP HOLDING LTD | 55.0 | 26.9 |
| 4. COGNIZANT TECHNOLOGY SOLUTIONS CORP | 38.1 | 27.0 |
| 5. NASPERS LTD | 48.6 | 17.8 |
| 6. NETEASE INC | 52.5 | 60.8 |
| 7. INFOSYS LTD | 52.4 | 19.8 |
| 8. FORMOSA PLASTICS CORP | 29.5 | 26.6 |
| 9. VALE SA | 40.4 | 20.8 |
| 10. GRUPO MEXICO SAB DE CV | 50.3 | 83.8 |

| Weighted Average ESG Score | 2020 Q1 | 2020 Q2 |
|----------------------------|---------|---------|
| Portfolio | 58.60 | 57.80 |
| MSCI EM | 58.33 | 56.94 |

* Position 1 is the top contributor/detractor.



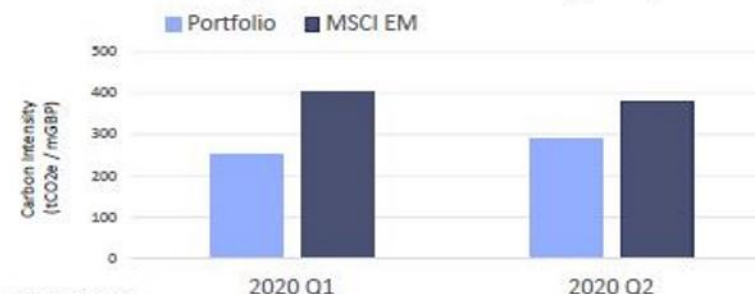
TruValue Labs & SASB

Brunel Assessment:

- China Mengniu Dairy (Dairy manufacturer) issued a COVID related profit warning. The company was also highlighted in a report by FAIRR as one of 44 food and beverage companies most at risk of being unable to prevent the emergence of new zoonotic diseases. Genesis, one of our Emerging Market managers has been engaging with the company on antimicrobial resistance (AMR) and environmental standards.
- Sberbank (Russian bank) will provide a RUB 3.5Bn loan to S3 ASK 6, under soft lending program for SMEs run by the Ministry of Economic Development of Russia in order to finance new housing developments.
- Formosa Plastics (Chemicals company) who last year paid a \$50 pollution settlement is facing fresh objections. A legal challenge has been launched to halt construction of a complex. Concerns raised include covering up of burial sites, flood risks and biodiversity loss.
- Tencent, (Chinese IT/Telecoms) impacted by broader concerns about Chinese technology companies e.g. censorship and data security. For example, India banned WeChat and TikTok as they were "prejudicial to sovereignty and integrity of India". Naspers (Media) which owns over 30% of Tencent has additional issues with Covid linked staff redundancies and blocked takeover plans.

70% of the bottom 10 ESG detractors are covered by engagement or specific voting activities. Some negative momentum a result of market volatility due to COVID-19. The decrease in carbon intensity last quarter has reversed this quarter.

Weighted Average Carbon Intensity (WACI)



Source: Trucost

Extractive Exposure

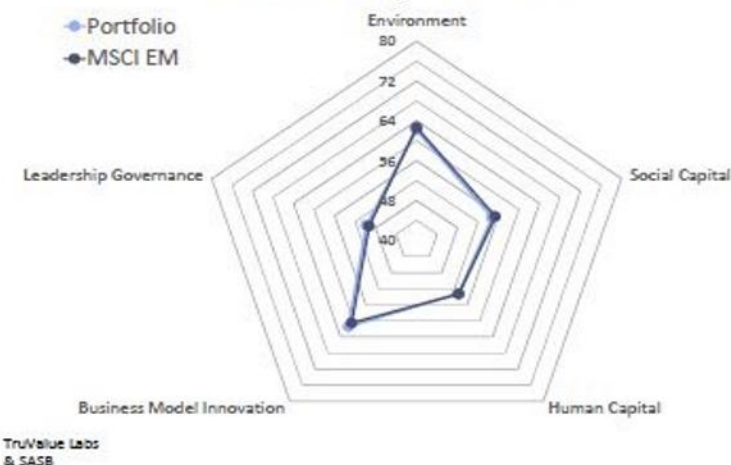
| | Total Extractive Exposure ¹ | | Extractive Industries (VOH) ² | |
|-----------|--|------|--|------|
| | Q1 | Q2 | Q1 | Q2 |
| Portfolio | 1.40 | 1.83 | 3.07 | 2.70 |
| MSCI EM | 2.88 | 2.70 | 8.81 | 7.75 |

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



TruValue Labs & SASB

Brunel Global High Alpha Equity

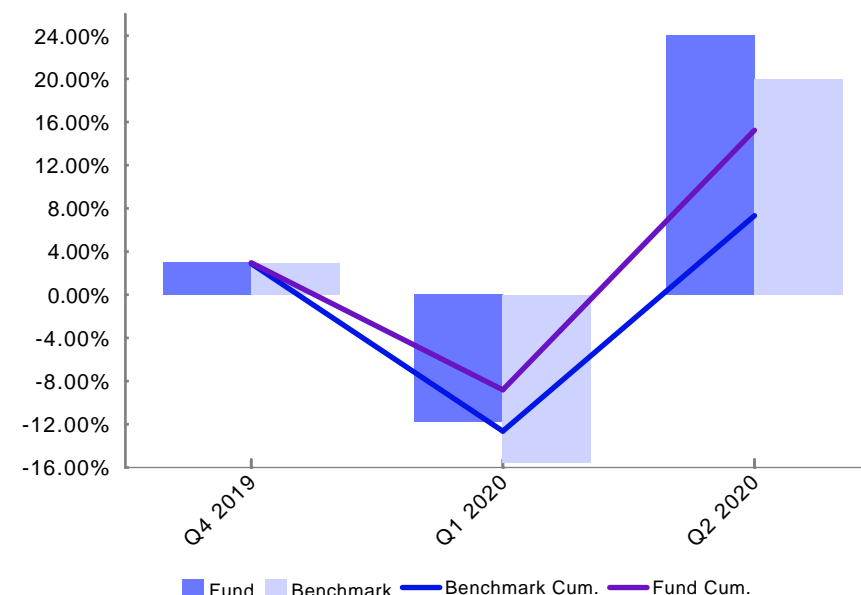
Overview

| | Description |
|------------------------------------|--|
| Portfolio Objective: | Provide global equity market exposure together with excess returns from accessing leading managers. |
| Investment Strategy & Key Drivers: | In order to achieve the best returns, Managers are likely to have high conviction, concentrated portfolios, and to |
| Liquidity: | Managed liquidity. Less exposure to more illiquid assets |
| Risk/Volatility: | High absolute risk with moderate to high relative risk, around 5-6% tracking error |
| Total Fund Value: | £3,013,755,342 |

Performance to Quarter End

| Ann. Performance | Fund | BM | Excess |
|------------------|--------|--------|--------|
| 3 Month | 24.04% | 19.96% | 4.08% |
| Fiscal YTD | 24.04% | 19.96% | 4.08% |
| 1 Year | | | |
| 3 Years | | | |
| 5 Years | | | |
| 10 Years | | | |
| Since Inception | 12.68% | 4.27% | 8.42% |

Rolling Performance*



* Partial returns shown in first quarter

In the short period since launch in Dec 2019, global equity markets have experienced the most significant sell-off since the global financial crisis of 2007/08 followed by the strongest quarterly performance this quarter since that time, reflecting the impact the Covid 19 crisis has had on global equity markets. Developed equity markets (proxied by MSCI World) returned 20% this quarter and returns continue to be driven by a small subset of very large cap growth companies.

Against this backdrop, the Fund has continued to perform well this quarter, providing a relative outperformance of +4.1% above the benchmark, delivering +8.4% outperformance since inception.

Key points:

- This quarter saw a continuation (if slightly less extreme) of the dispersion in returns at stock level and between sectors and countries experienced last quarter.
- The quarterly relative outperformance was driven by both allocation and stock selection. The largest overweight (Consumer Discretionary) and largest underweight (Utilities) both contributed materially to relative performance, with stock selection strongest in Healthcare and Communication Services

Continued Commentary

over the quarter.

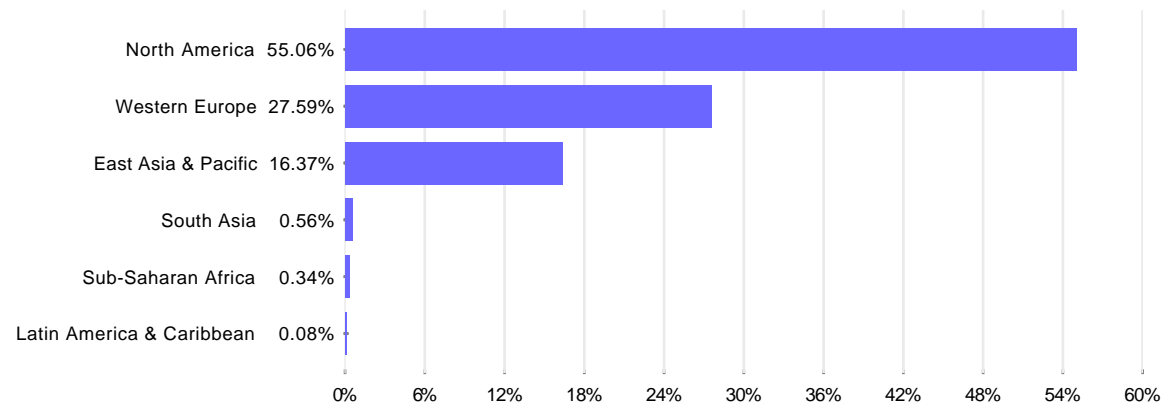
- Manager performance varied widely too over the quarter, as one would expect given the individual manager style characteristics and the level of dispersion in the market. Baillie Gifford's outperformance has been a significant contributor to Fund returns. Such outperformance reflects their strategy to identify long term growth companies.
- The Fund was rebalanced towards the end of the quarter to return manager allocations to target. This was in response to the allocation to Baillie Gifford reaching the upper rebalancing threshold as a result of their strong performance since inception. The rebalance helps maintain the style balance and risk profile within the portfolio.

Brunel Global High Alpha Equity – Region & Sector Exposure

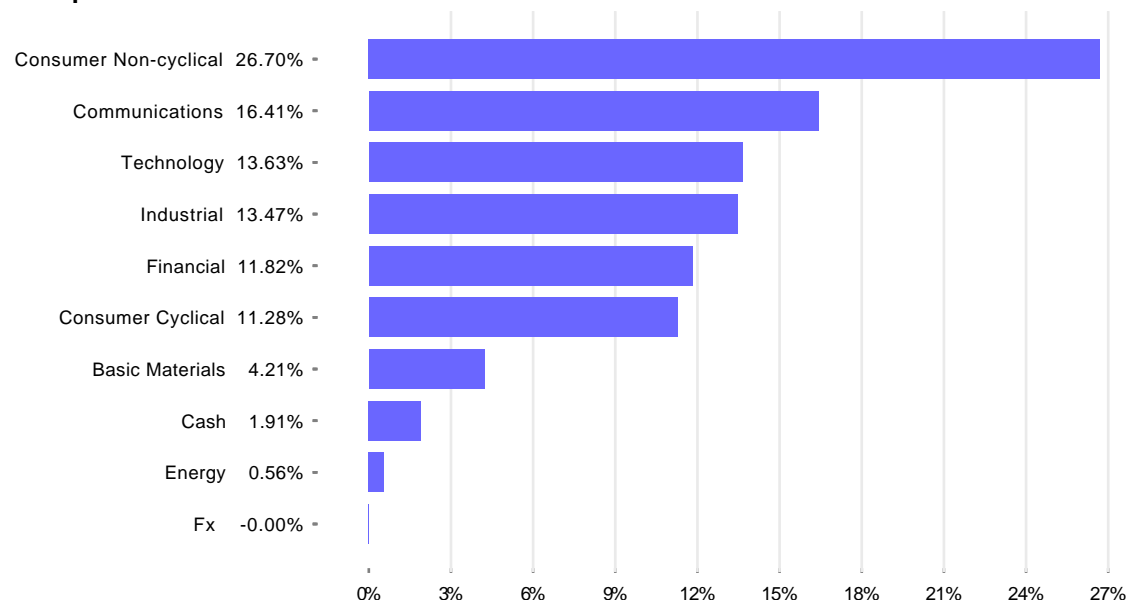
Top 20 Holdings

| | Mkt. Val.(GBP) |
|------------------------------|----------------|
| MASTERCARD INC - A | 95,288,406 |
| MICROSOFT CORP | 89,779,721 |
| KEYENCE CORP | 81,099,745 |
| MOODY'S CORP | 71,450,548 |
| ALPHABET INC-CL A | 70,465,102 |
| AMAZON.COM INC | 62,519,578 |
| NESTLE SA-REG | 61,300,925 |
| ALIBABA GROUP HOLDING-SP ADR | 56,073,801 |
| TENCENT HOLDINGS LTD | 54,918,776 |
| TJX COMPANIES INC | 53,967,018 |
| ASML HOLDING NV | 51,666,865 |
| FACEBOOK INC-CLASS A | 48,587,334 |
| JOHNSON & JOHNSON | 48,581,329 |
| TAIWAN SEMICONDUCTOR-SP ADR | 46,340,558 |
| TESLA INC | 43,893,839 |
| MSCI INC | 36,957,333 |
| VERISK ANALYTICS INC | 35,977,420 |
| ROCHE HOLDING AG-GENUSSCHEIN | 33,807,614 |
| ABBOTT LABORATORIES | 32,901,739 |
| GENMAB A/S | 32,362,480 |

Regional Exposure



Sector Exposure



Brunel Global High Alpha Equity – Responsible Investment

Top 10 ESG Contributors to Overall Score

| | Insight | Momentum |
|--------------------------------------|---------|----------|
| 1. APTIV PLC | 78.1 | 27.2 |
| 2. MASTERCARD INC | 62.3 | 71.0 |
| 3. IQVIA HOLDINGS INC | 71.9 | 26.3 |
| 4. MURATA MANUFACTURING CO LTD | 74.4 | 27.9 |
| 5. SPIRAX-SARCO ENGINEERING PLC | 77.5 | 75.3 |
| 6. NESTLE SA | 62.9 | 67.8 |
| 7. CONSTELLATION SOFTWARE INC/CANADA | 80.4 | 70.9 |
| 8. TEMENOS AG | 70.6 | 55.1 |
| 9. GEBERIT AG | 74.5 | 79.1 |
| 10. MCCORMICK & CO INC/MD | 78.5 | 70.8 |

Bottom 10 ESG Detractors to Overall Score

| | Insight | Momentum |
|-------------------------|---------|----------|
| 1. ALPHABET INC | 49.1 | 46.0 |
| 2. FACEBOOK INC | 43.9 | 30.9 |
| 3. TENCENT HOLDINGS LTD | 46.9 | 22.0 |
| 4. AMAZON.COM INC | 49.9 | 26.7 |
| 5. AUTOZONE INC | 40.3 | 19.8 |
| 6. JOHNSON & JOHNSON | 48.0 | 32.6 |
| 7. ASML HOLDING NV | 48.8 | 22.7 |
| 8. BAYER AG | 40.3 | 25.1 |
| 9. TIX COS INC/THE | 52.0 | 26.1 |
| 10. ILLUMINA INC | 47.3 | 27.1 |

| Weighted Average ESG Score | 2020 Q1 | 2020 Q2 |
|----------------------------|---------|---------|
| Portfolio | 59.69 | 58.37 |
| MSCI World | 58.75 | 58.36 |

* Position 1 is the top contributor/detractor.



TruValue Labs & SASB

Brunel Assessment:

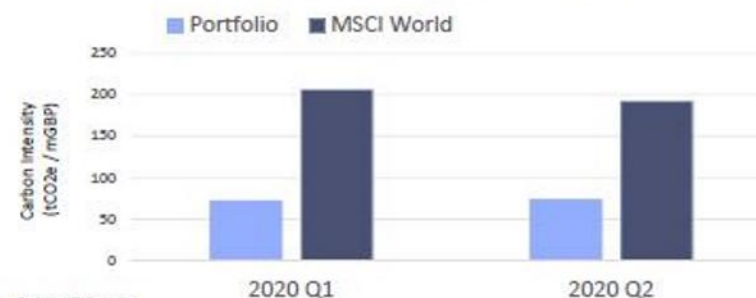
- Amazon, along with Facebook, Alphabet and Apple will see their CEO's testify before a congressional panel investigating competition issues in the technology industry. The leaders will face critical questions from lawmakers about business practices as the subcommittee seeks to build a case for tougher antitrust enforcement of tech companies.
- Aptiv (Auto parts) have developed driverless vehicle technologies as part of a joint venture with Hyundai. The vehicles have been used during the COVID crisis to deliver food to struggling families in Las Vegas in partnership with the charity 'Delivery with Dignity'
- Tencent (Chinese IT/Telecoms) impacted by broader concerns about Chinese technology companies e.g. censorship and data security. For example, India banned WeChat and TikTok as they were "prejudicial to sovereignty and integrity of India".

90% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.

Some negative momentum a result of market volatility due to COVID-19.

The benchmark carbon intensity has slightly reduced whilst the portfolio intensity remaining the same. The portfolio still remains significantly below benchmark. Current change could be as a result of market volatility and a significant fall in the oil price.

Weighted Average Carbon Intensity (WACI)



Source: Trucost

Extractive Exposure

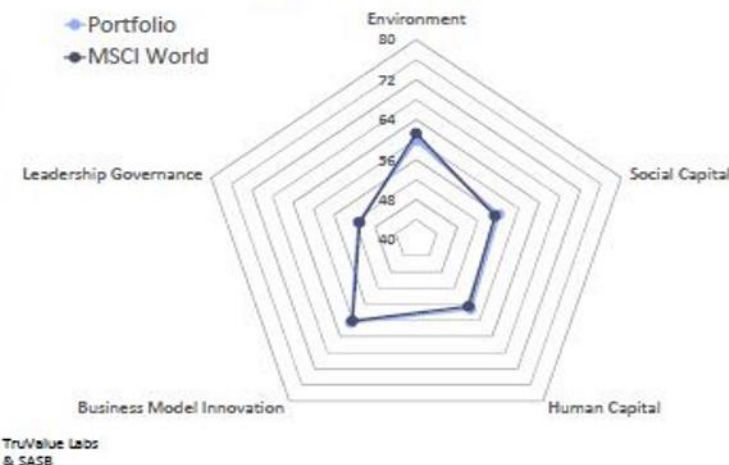
| | Total Extractive Exposure ¹ | | Extractive Industries (VOH) ² | |
|------------|--|------|--|------|
| | Q1 | Q2 | Q1 | Q2 |
| Portfolio | 1.66 | 1.91 | 2.55 | 2.47 |
| MSCI World | 3.06 | 3.33 | 8.45 | 7.96 |

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



TruValue Labs & SASB

Glossary of Terms

| Term | Previously referred as | Meaning |
|--|------------------------|--|
| Absolute return | | The actual return, as opposed to the return relative to a benchmark. |
| Allocation | | Measures the impact of decisions to allocate assets differently from the benchmark. |
| Alternative Investment Fund (AIF) | | An Alternative Investment Fund such as a hedge fund, private equity, real estate fund and other funds focused on alternative asset classes. |
| Alternative Investment Fund Managers (AIFM) | | A fund manager that is authorised (full scope AIFM) or registered (if they manage AIFs with assets under management below certain thresholds) to manage AIFs such as hedge funds, private equity, real estate funds. |
| Alternative Investment Fund Managers Directive (AIFMD) | | This is an EU law that requires each AIF managed within the scope of the Directive to have a single AIFM responsible for ensuring compliance with the Directive. |
| Annualised | | Figures expressed as applying to one year. |
| Assets Under Management (AUM) | | This measures the total market value of all the financial assets which a financial institution such as a mutual fund, venture capital firm, or brokerage house manages on behalf of its clients and themselves. |
| Attribution | | Identifies the drivers of performance relative to the fund benchmark. The relative return is decomposed into two areas; Allocation and Selection. |
| Authorised Contractual Scheme (ACS) | | An investment vehicle and fund manager, based in the UK, that allows LGPS pension funds or other organisations with money to invest alongside each other - while keeping a clear record of who owns what. |
| Benchmark Return | | Expected return based on market indices as dictated by the fund strategy. |
| Brunel Board | Brunel Manager Board | Board of executive and non-executive directors, leading the Brunel company. |
| Brunel | | Brunel Pension Partnership - The FCA-authorised investment manager entity that manages the pooled investments. |
| Brunel Executive Directors (ED) | | The Executive Directors are responsible for overseeing the delivery of the Brunel objectives. |

Glossary of Terms

| Term | Previously referred as | Meaning |
|---|------------------------|---|
| Brunel Pension Partnership Limited (Brunel) | | One of the eight LGPS Pools in England & Wales. A FCA regulated company, wholly owned by the Administering Authorities, and responsible for implementing the asset allocation strategies of the Brunel Funds by investing Fund assets within defined 'portfolios'. In particular, it will research and select the investment funds needed to meet the requirements of the detailed Strategic Asset Allocations. These investment funds will be operated by professional external investment managers. Brunel Pension Partnership [c£30bn: Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, Wiltshire] |
| Chief Finance Officer (CFO) | | A corporate officer primarily responsible for managing the financial risks of the corporation. This officer is also responsible for financial planning and record-keeping, as well as financial reporting to higher management. In the Local Authorities this is the S151 officer. |
| Chief Legal Officer (CLO) | | The chief lawyer of the legal department, usually in a company or a governmental department who minimizes its legal risks by advising the company's other officers and board members on any major legal and regulatory issues the company confronts, such as litigation risks. In the Local Authorities this is the Monitoring Officer. |
| Chief Finance Officer (CFO) | | A corporate officer primarily responsible for managing the financial risks of the corporation. This officer is also responsible for financial planning and record-keeping, as well as financial reporting to higher management. In the Local Authorities this is the S151 officer. |
| Collective Investment Scheme (CIS) | | This is an investment scheme wherein several individuals come together to pool their money for investing in a particular asset(s) and for sharing the returns arising from that investment as per the agreement reached between them prior to pooling in the money. |
| Creation, Amendment and Deletion policy (CAD) | | Brunel procedure for creation, amendment and deletion of portfolios |
| Cross Pool Collaboration Group (CPCG) | | A collaborative group across the eight UK LGPS pools |

Glossary of Terms

| Term | Previously referred as | Meaning |
|--|------------------------|--|
| Deloitte | | Auditors, appointed to provide internal audit services to Brunel |
| Duration | | The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movement in yields. |
| Environment, Social and Governance (ESG) | | A subset of non-financial performance indicators used by investors to evaluate corporate behaviour and to determine the future financial performance of companies. |
| Full Business Case (FBC) | | Strategic, financial, economic, commercial and management case. |
| Finance and Legal Assurance Group (FLAG) | | Finance and Legal Assurance Group (with membership of each AAs equivalent to Chief Finance Officer (CFO) and Chief Legal Officer (CLO)) will sponsor the changes in the Funds and the arrangements for governance of the Brunel company. |
| Financial Conduct Authority (FCA) | | This is a financial regulatory body in the United Kingdom, which operates independently of the UK government and is financed by charging fees to members of the financial services industry. |
| Freedom Of Information Request (FOI) | | The Freedom of Information Act (FOIA) gives individuals the right to request access to recorded information held by public sector organisations. |
| Fund Manager | | An organisation that provides investment products |
| FundRock | | FundRock is a leading third party UCITS Management Company, Alternative Investment Fund Manager, Authorised Corporate Director and Authorised Contractual Scheme (ACS) Operator. FundRock serves as Brunel's ACS operator. |
| Fund Return | | The total return achieved by the fund or asset class over the period. The return is obtained using the following equation on a monthly basis: $((\text{capital gain/loss} + \text{income}) / \text{average balance}) * 100$ |
| Grant Thornton | | Auditors appointed to provide external audit services to Brunel |
| INALYTICS | | An investment transition advisor procured by Brunel to initially advise on the passive equities transition |

Glossary of Terms

| Term | Previously referred as | Meaning |
|---|---|---|
| Institutional Investors Group on Climate Change (IIGCC) | | The Institutional Investors Group on Climate Change (IIGCC) is a forum for investors to collaborate on climate change. IIGCC's mission is to mobilise capital for the low carbon future by amplifying the investor voice and collaborating with business, policymakers and investors. IIGCC provides investors with a collaborative platform to encourage public policies, investment practices, and corporate behaviour that address long-term risks and opportunities associated with climate change. |
| Investment Management Agreement (IMA) | | The contract with a fund manager |
| Investment Strategy Statement (ISS) | Replaces the Statement of Investment Principles | A document that replaces the Statement of Investment Principles under the 2016 LGPS (Management and Investment of Funds) Regulations. Administering Authorities are required to prepare and maintain an ISS documenting how the investment strategy for the fund is determined and implemented, including its approach to pooling. |
| Know Your Customer (KYC) | | The process of a business identifying and verifying the identity of its clients. The term is also used to refer to the bank regulation which governs these activities. |
| Legal & General Investment Management (LGIM) | | Investment management firm |
| Local Government Association (LGA) | | This is an organisation which comprises local authorities in England and Wales. The LGA seeks to promote better local government; it maintains communication between officers in different local authorities to develop best practice. It also represents the interests of local government to national government. |
| Local Authority Pension Funds Investments (LAPF) | | A magazine for local authority pension investment specialists. |
| Local Authority Pension Fund Forum (LAPFF) | | The collaborative shareholder engagement group for local authority pension funds. The Forum provides a unique opportunity for Britain's local authority pension funds to discuss investment issues and shareholder engagement. |
| Local Government Pension Scheme (LGPS) | | This is a nationwide scheme and is a valuable part of the pay and reward package for employees working in local government or working for other employers participating in the Scheme and for some councillors. |

Glossary of Terms

| Term | Previously referred as | Meaning |
|---|--|--|
| Local Government Pension Scheme (LGPS) | | The Scheme is administered locally for participating employers through 99 regional pension funds |
| LGPS (Management and Investment of Funds) Regulations 2016 (Investment Regulations) | Draft LGPS (Management and Investment of Funds) Regulations 2016 | Regulations 2016 (Investment Regulations) that came into effect 1 November 2016. |
| LGPS Code of Transparency (Transparency Code) | | A move toward investment fee transparency and consistency, and part of the government's criteria for pooling investments. |
| Market volatility | | The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact. |
| Markets in Financial Instruments Directive II (MiFID II) | MiFID | MiFID is the European Union (EU) legislation that regulates firms who provide services to clients linked to 'financial instruments' (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded. MiFID applied in the UK from November 2007, and was revised by MiFID II, which took effect in January 2018. MiFID II is made up of MiFID (2014/65/EU) and the Markets in Financial Instruments Regulation (MiFIR - 600/2014/EU). |
| Money-weighted rate of return | | The rate of return on an investment including the amount and timing of cashflows. |
| Portfolio | Fund | The grouping of the asset types to be available for funds. For example, Global Equities Core, Hedge funds, UK Gilts, LDI. |
| Portfolio group | | The higher level category of asset types. For example, equities, alternatives, fixed interest. |
| Relative return | | The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on index or Benchmark. |
| Selection | | Measures the impact of performance at asset class or manager level in relation to the overall fund. |

Glossary of Terms

| Term | Previously referred as | Meaning |
|--------------------------------|------------------------|---|
| Time-weighted rate of return | | The rate of return on an investment removing the effect of the amount and timing of cashflows. |
| Yield (Gross Redemption Yield) | | The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows. |

Brunel Committees and Groups

| Full name | Abbreviation | Chair | Purpose |
|------------------------------------|--------------|----------------------|--|
| Audit, Risk & Compliance Committee | ARC | Patrick Newberry | To oversee key functions of the Regulated Company, including: <ul style="list-style-type: none"> - Financial and Annual reporting - Internal controls - Compliance and whistleblowing - External audit function |
| Brunel Investment Committee | BIC | Mark Mansley (CIO) | Formal meeting of the Brunel Investment Team, covering: <ul style="list-style-type: none"> - Economic and Markets update - Responsible Investment update - Stakeholder input (from CRT) - Investment proposals (private and listed mkts) - Procedures - Forward look |
| Brunel Investment Risk Committee | BIRC | Mark Mansley | To provide challenge and insight in respect of investment risks and exposures. This will include oversight of portfolio guidelines and monitoring. |
| Brunel Oversight Board | BOB | Ray Theodolou (Glos) | The senior client group that oversees Brunel on behalf of the funds. It is made up of representatives from each of the Pension Committees and an independent Chair. It is a joint committee set up by the Brunel Administering Authorities (i.e. the 9 Councils, with the Environment Agency being included on terms recognising its non-local authority status). Acting for the Administering Authorities, has ultimate responsibility for ensuring that the Brunel company delivers the services required to achieve asset pooling. This body of people represents shareholders for the purposes of any matter requiring shareholder approval, including any reserved matters. |
| Brunel Operations Committee | BOC | Joe Webster | To review the detailed elements of Brunel's operations, including: <ul style="list-style-type: none"> - Technology and infrastructure - HR policies - Regulatory change (and compliance with) |

Brunel Committees and Groups

| Full name | Abbreviation | Chair | Purpose |
|--------------------------------------|--------------|----------------|--|
| Brunel Operations Committee | BOC | Joe Webster | <ul style="list-style-type: none"> - Finance - Managing supplier relationships - ICAPP oversight |
| Brunel Risk and Compliance Committee | BRCC | Kevin Jones | Second line review overseeing the Compliance and Risk function |
| Client Group | CG | Sean Collins | Sub-committee of the Brunel Oversight Board (see above), it is responsible for the client oversight of the Brunel manager on a day to day basis. It includes people with finance and investment management expertise. |
| The Executive Committee | ExCo | Laura Chappell | <p>The core responsibility of ExCo is to oversee delivery of the Brunel objectives. The Executive Committee comprises:</p> <ul style="list-style-type: none"> Chief Executive Officer Chief Investment Officer Chief Operations Officer Client Relationship Director |
| Remuneration Committee | RemCo | Denise Le Gal | In line with the Shareholders Agreement, to set and monitor remuneration policy including that for senior management remuneration. |

Disclaimer

This material is for information only and for the sole use of the recipient, it is not to be reproduced, copied or shared. The report was prepared utilising agreed scenarios, assumptions and formats.

Brunel accepts no liability for loss arising for the use of this material and any opinions expressed are current (at time of publication) only. This report is not meant as a guide to investing or as a source of specific investment recommendations and does not constitute investment research.

Certain information included in this report may have been sourced from third parties. While Brunel believes that such third party information is reliable, Brunel does not guarantee its accuracy, timeliness or completeness and it is subject to change without notice.

Nothing in this report should be interpreted to state or imply that past performance is an indicator of future performance. References to benchmark or indices are provided for information only and do not imply that your portfolio will achieve similar results.

Brunel provides products and services to professional, institutional investors and its services are not directed at, or open to, retail clients.

Authorised and regulated by the Financial Conduct Authority No. 790168.



This page is intentionally left blank

| Bath & North East Somerset Council | | |
|---|------------------------------------|--------------------|
| MEETING: | AVON PENSION FUND INVESTMENT PANEL | |
| MEETING DATE: | 11 September 2020 | AGENDA ITEM NUMBER |
| TITLE: | Forward Agenda | |
| WARD: | ALL | |
| AN OPEN PUBLIC ITEM | | |
| List of attachments to this report: Nil | | |

1 THE ISSUE

- 1.1 This report sets out the forward agenda for the Panel to end 1Q21. It is provisional as the Panel will respond to issues as they arise and as work is delegated from the Committee.

2 RECOMMENDATION

- 2.1 That the Panel notes the Panel forward agenda.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial implications arising from this report.

4 FORWARD AGENDA

4.1 The provisional agenda is as follows:

| Date | Proposed agenda |
|-------------------|--|
| 11 September 2020 | Strategic <ul style="list-style-type: none">• Scope of equity portfolio review• Brunel presentation - UK Property Portfolio proposal to transition to Brunel Monitoring <ul style="list-style-type: none">• Update on pooling• Investment performance• Risk Management Framework |
| 20 November 2020 | Strategic <ul style="list-style-type: none">• Dynamic Hedging strategy proposal• Low risk corporate bond strategy – updated benchmark outcome• Brunel presentation - overview of Listed Market Portfolios Monitoring <ul style="list-style-type: none">• Update on pooling• Investment performance• Risk Management Framework |
| 26 February 2021 | Strategic <ul style="list-style-type: none">• Review of equity portfolio• Brunel presentation - Overview of Private Market Portfolios• Decision whether to top up allocation to Private Market portfolios in 2021 (current cycle)• Dynamic Hedging strategy counterparty proposal (if required) Monitoring <ul style="list-style-type: none">• Update on pooling• Investment performance• Risk Management Framework |
| 28 May 2021 | Strategic <ul style="list-style-type: none">• Review of equity portfolio Monitoring <ul style="list-style-type: none">• Update on pooling• Investment performance• Risk Management Framework |
| 10 September 2021 | Tbc |
| 19 November 2021 | Tbc |

5 RISK MANAGEMENT

- 5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

6 CLIMATE CHANGE

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

7 EQUALITIES

- 7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

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 | Liz Woodyard, Group Manager, Funding, investments & Risk; 01225 395306 |
| Background papers | |
| Please contact the report author if you need to access this report in an alternative format | |

This page is intentionally left blank