

# Avon Pension Fund Committee Investment Panel

**Date: Friday, 26th February, 2021**

**Time: 2.00 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**

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## 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, 26th February, 2021

at 2.00 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 - 20TH NOVEMBER 2020 (PUBLIC) AND 20TH NOVEMBER 2020 (EXEMPT) (Pages 7 - 22)
8. PRIVATE MARKET PORTFOLIOS (Pages 23 - 32)
9. BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING (Pages 33 - 46)
10. REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 DECEMBER 2020 (Pages 47 - 176)

11. FORWARD AGENDA (Pages 177 - 180)

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

**BATH AND NORTH EAST SOMERSET**

**AVON PENSION FUND COMMITTEE INVESTMENT PANEL**

Friday, 20th November, 2020

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

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

**23 WELCOME & INTRODUCTIONS**

The Chair welcomed everyone to the meeting.

**24 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

There were none.

**25 DECLARATIONS OF INTEREST**

There were none.

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

There was none.

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

There were none.

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

There were none.

**29 MINUTES - 11TH SEPTEMBER 2020**

The minutes of the meeting on 11<sup>th</sup> September 2020 were confirmed as a correct record.

## 30 DYNAMIC EQUITY PROTECTION: STRATEGY DESIGN

The Investments Manager introduced this report to the Panel, a summary is set out below.

The main differences of a dynamic approach versus the existing static structure is that it trades 'little and often', seeking to limit timing risk, reduce volatility and improve overall risk-adjusted returns.

One of the significant challenges of implementing a dynamic structure is measuring its success. Benchmarking a static structure is relatively simple given that it has a finite life and its value is determined on a single expiry date. With a dynamic strategy the most intuitive way of presenting performance is to show the extent to which it has either added or detracted from equity market returns and how it has served to reduce volatility over a given period of time.

Mercer have run a number of back-tests across different timeframes and using various dynamic implementation approaches to arrive at a recommendation that optimises risk-adjusted returns.

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 RESOLVED to:**

- i) Agree to implement the bank-led dynamic equity protection strategy by using a "Put Spread Calendar Collar" structure and agrees the design parameters as set out in Exempt Appendix 1.**
- ii) Delegate the implementation of the strategy, including the appointment of a bank counterparty, to Officers and Mercer.**

## 31 BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING

The Group Manager for Funding, Investment & Risk introduced this report to the Panel, a summary is set out below.

Assets that have transitioned now total £3.19bn (at 31/09/20). In addition, Brunel invests £109.3m in secured Income and £40.2m in Renewable Infrastructure on behalf of the Fund. The investments in private Debt have yet to commence.

To fund the allocation to Sustainable Global Equities in line with the strategic allocation the Brunel UK Equity fund was sold as were the two mandates with Jupiter. The balance was funded by the partial sale of the Brunel Global Equity portfolio.

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 **RESOLVED** to:

- i) Note the progress made on pooling of assets.
- ii) Note the project plan for the transition of assets.

## **32 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 SEPTEMBER 2020**

The Investments Manager introduced this report to the Panel, a summary is set out below.

Green Sovereign Bonds – The UK government has announced it will issue its first green bonds to fund investment in tackling the climate crisis and aid the recovery from the pandemic.

Brunel has joined the Workforce Disclosure Initiative. The initiative calls for greater transparency on workforce policies and practices in companies' direct operations and supply chains. They have also joined the Good Work Coalition, which engages with companies on the importance of a real living wage and living hours.

The Department for Work & Pensions launched a consultation in August, proposing mandatory Taskforce on Climate-related Financial Disclosures (TCFD) to be embedded within pensions Law. The public consultation, launched by the Pensions Climate Risk Industry Group, sought views on policy proposals to require trustees of larger occupational pension schemes and authorised schemes to address climate change risks and opportunities through effective governance and risk management measures.

The Fund pledged its support for an engagement initiative targeting marine microplastic pollution; a priority theme for the Fund as outlined in the Fund's recently published Responsible Investing Annual Report.

Referring to Appendix 2, Steve Turner, Mercer addressed the Panel.

He said that by taking a three year view on Equities (Developed, Emerging and Small Cap) this could be fairly constructive. He explained that the key reason for this was the expectation that interest rates will remain low. He added that in 2021 they were expecting to see a lot of pro-growth policies and spending from Central Banks and Governments.

He stated that Property remains the most challenging asset class that the Fund has exposure to, in particular those affected by Covid-19 within the hospitality and leisure industries. He added that the level of rate collection within most property funds is

between 60% - 80%. He said that in the long term there was an ongoing question mark over future use of office space which Brunel were keeping under review.

He said in terms of Manager Performance there was still a period of transition to Brunel to be considered. He informed the Panel that a number of managers had outperformed against their benchmark.

He explained that a discussion had already begun with officers regarding the redesign of their performance report as a lot of elements within it should be addressed by Brunel. He added that the Mercer version would look to focus more on monitoring strategic asset allocation.

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

### **33 TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES**

The Group Manager for Funding, Investments & Risk introduced this report to the Panel, a summary is set out below.

It is expected that “large” pension funds will be required to provide climate-related financial disclosures in the future. For funds with assets of £5bn or more, it is expected that the reporting period would start from 1 October 2021, with the report required by late 2022. Assuming this is to become law, MHCLG would be expected to make provision for the LGPS broadly in line with DWP regulations.

The Task Force for Climate-related Financial Disclosures (TCFD) framework is considered best practice and is widely adoptable and applicable to organisations across all sectors and countries. Use of this framework to improve the Fund’s disclosure was discussed as part of the Fund’s strategic review in 2019/20; it was agreed the Fund would consider adopting the TCFD’s recommendations as soon as it was practical.

As long-term investors with a focus on responsible investing and transparency, it is imperative that we support, where possible, initiatives that will improve the information available for markets to effectively price climate-related risk in order to improve investment decision making and for policy makers to address market and policy failures.

Early adoption demonstrates the commitment the Fund has to addressing climate risk and capturing opportunities as well as encouraging better disclosure across the industry.

The Panel **RESOLVED** to note the intention to adopt the TCFD recommendations for the year ending 31 March 2021.



## 34 FORWARD AGENDA

The Group Manager for Funding, Investments & Risk introduced this report to the Panel.

She informed them that in addition to the provisional agenda within the report that workshops on the Equity Portfolio Review were due to be planned for next year.

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

The meeting ended at 4.00 pm

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**

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of the Local Government Act 1972.

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	26 February 2021	AGENDA ITEM NUMBER 8
TITLE:	Private Market Portfolios	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Exempt Appendix 1 – Mercer advice		

## 1 THE ISSUE

- 1.1 The investment cycles for the Brunel private markets are every two years. Where a client allocates to a cycle in year 1, they have the option to 'top-up' their committed amount in year 2.
- 1.2 For Cycle 2 which began in April 2020, Avon allocated to the Secure Income, Renewable Infrastructure and Private Debt portfolios but did not commit the full allocation at that point; in March 2021 the Fund has an opportunity to increase the amount committed.
- 1.3 Mercer has provided advice regarding the top up options (see Exempt App.1).

## 2 RECOMMENDATION

- 2.1 The Panel agrees to top up the commitments to the private market portfolios as outlined in Exempt Appendix 1.

### 3 FINANCIAL IMPLICATIONS

- 3.1 The fees that Avon will pay to its investment managers including Brunel are provided for in the Fund's annual budget. The fees on private market portfolios are higher than that for listed market portfolios.

### 4 CYCLE 2 PRIVATE MARKET COMMITMENT TOP-UPS

- 4.1 Following the strategic review in 2019/20, the Fund increased its allocation to private markets as follows:

Portfolio	Pre review allocation	Post review allocation	Cycle 2 commitment April 2020	Max. Top-up March 2021
Secure Income	7.5%	10%	+1.25%	1.25%
Renewable Infrastructure	2.5%	5.0%	+1.25%	1.25%
Private Debt	0%	5.0%	+1.0%	4.0%

- 4.2 Given market uncertainty due to the pandemic in April 2020, the Fund scaled back its commitment to Cycle 2 with the intention to review whether to top up in March 2021 in line with strategic allocations (see above).
- 4.3 Due to the nature of private market investing, any commitment made will take time to be drawn-down; therefore it will take time to achieve the strategic allocation and this must be considered when deciding how much to top up for this cycle.
- 4.4 Mercer advice and recommendations are set out in Exempt Appendix 1.
- 4.5 Any top-up must be confirmed by the Fund to Brunel by 31 March 2021.
- 4.6 The Panel has delegated powers (see extract from Terms of Reference below) to agree the commitments to the private market portfolios at each cycle to maintain strategic allocations. Should the Fund not increase in line with the current strategic allocations, the next opportunity to allocate will be March 2022.
- 4.7 Extracted from the Committee's Terms of Reference:

*"The Investment Panel ... have delegated authority for:*

*...*

*7. Approve commitments to Brunel's private market portfolios at each commitment cycle to maintain strategic allocations."*

### 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.

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

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## **Access to Information Arrangements**

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

Information Compliance Ref: LGA 199/21

Meeting / Decision: Avon Pension Fund Investment Panel

Date: 26 February 2021

Author: Liz Woodyard

Report Title: Private Market Portfolios

List of attachments to this report:

**Exempt Appendix 1 – Mercer advice**

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.

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	26 February 2021	AGENDA ITEM NUMBER 9
TITLE:	Brunel Pension Partnership – Update on pooling	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Exempt Appendix 1 – Global Sustainable Equities Transition outcome 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 – Update on Brunel portfolio development		

## 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 Fund's annual budget. They have been calculated in line with the pool's pricing policy. During the transition, the fees are based on a mixture of equal 1/10ths 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 total £3.3bn (at 31/12/20). In addition, Brunel invests £134m in secured Income and £48m in Renewable Infrastructure on behalf of the Fund. The investments in Private Debt has yet to commence.

<b>Brunel portfolio</b>	<b>Value at 31/12/20</b>	<b>Transitioning Mandates / Managers</b>	<b>Date of transition</b>
Passive Low Carbon Equities	£666m	Low Carbon Global Equities - Blackrock	July 2018
UK Equities	£0m	UK Equities - TT Int'l	Nov 2018
Emerging Market Equities (EM)	£281m	EM Equities – Genesis, Unigestion	Oct 2019
Global High Alpha Equities	£391m	Global Equities - Schroder	Nov 2019
Risk Management Strategies	£878m	Blackrock LDI and EPS	Oct 2019
Diversified Return Funds	£508m	Diversified Growth Funds – Pyrford, Ruffer (partial)	July 2020
Sustainable Equities	£539m	Jupiter UK Equities & Global Sustainable Fund, Brunel UK Equities & Global High Alpha (partial)	Sept 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 of the transition outcome for the Global Sustainable Equities Portfolio.
- 4.4 Exempt Appendix 4 summarises the ongoing work developing the Brunel portfolios with particular reference to how it aligns with the Fund's investment objectives and equity review to be completed during 2021.
- 4.5 Exempt Appendix 2 shows the transition plan for Avon's assets. There are no changes since 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.
- 4.6 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. There is an ongoing project by Brunel and client group to revise the client reporting from Brunel. This will develop through the year.

4.7 Avon's project plan includes a Risk Register (see Exempt Appendix 3) of risks specific to the transition for Avon. There are no changes.

## **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.

<b>Contact person</b>	Liz Woodyard, Group Manager, Funding, Investments & Risk; 01225 395306
<b>Background papers</b>	Brunel Client Group papers
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## **Access to Information Arrangements**

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

Information Compliance Ref: LGA 164/21

Meeting / Decision: Avon Pension Fund Investment Panel

Date: 26 February 2021

Author: Liz Woodyard

Report Title: Brunel Pension Partnership – Update on pooling

List of Exempt attachments to this report:

**Exempt Appendix 1** – Global Sustainable Equities Transition outcome

**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** – Update on Brunel portfolio development

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)

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<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>AVON PENSION FUND INVESTMENT PANEL</b>
MEETING DATE:	<b>26 FEBRUARY 2021</b>
TITLE:	<b>Review of Investment Performance for Periods Ending 31 December 2020</b>
WARD:	ALL
<b>AN OPEN PUBLIC ITEM</b>	
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – Mercer Performance Monitoring Report EXEMPT Appendix 3 – Risk Management Framework Quarterly Monitoring Report Appendix 4 – 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 31 December 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 26 March 2021.
- 1.3. The report also includes the Risk Monitoring report (exempt appendix 3) produced by Mercer which includes details of the Fund's liability driven investment strategy and equity protection strategy.
- 1.4. Appendix 4 is the quarterly performance report published by Brunel which focuses on the performance of the Brunel portfolios and responsible investment activity undertaken on the Fund's behalf over the quarter.

## **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 £138m in the quarter (3.2% net investment return) ending 31 December 2020 giving a value for the Fund of £5,169m. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.
- 4.2. The prospect of vaccine rollouts and supportive geopolitical events drove growth assets higher across the board. Global equities returned 8.5% in sterling terms. The US lagged other developed regions returning just over 6%, while UK equities rallied over 12%. Over the year US equities generated the strongest returns into the high double digits benefitting from rapid growth in technology stocks, while the UK lagged due to its oil & gas and financials sectoral bias. Yields remained suppressed due to COVID-related central bank stimulus and credit spreads narrowed, indicative of the risk-on sentiment. Sterling appreciated against the US Dollar by 5.7%, by 1.3% against the Euro and 3.4% against the Japanese Yen. Further information on 4Q asset class performance can be found on page 9 of Appendix 2 and pages 5 – 9 of Appendix 4.
- 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 26 March 2021.

#### **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 4. Mercer continue to provide quarterly commentary and analysis of all the Fund's mandates and at the strategic total fund level. We are reviewing the quarterly reporting given that most of the assets are now managed by Brunel; Mercer's will continue to provide assurance but focus will be more strategic.
- 4.6. Manager total returns over the quarter were positive for all assets except for the overseas property mandate, noting that performance for this mandate is lagged by one quarter. The Fund's active equity portfolios marginally outperformed their respective benchmarks. The Hedge Fund mandate performed well in local currency terms as did the Multi-Asset Credit and Diversified Return strategies. Over the year, the Global High Alpha portfolio delivered significant outperformance, largely as a result of one underlying manager with a significant growth stock bias. The Emerging Market portfolio fared less well, underperforming the benchmark by 1%. There have been significant downward revisions to the values of some underlying overseas property assets over the year, however it is worth noting that the manager has delivered significant value on a since inception basis. Further, a number of the underlying funds have several years to maturity and remain in the 'value creation' phase of their respective lifecycles. Both the core infrastructure and overseas property mandates are affected by static benchmarks, which can magnify underperformance. Over a 3-

year period core infrastructure and hedge funds delivered significant value, outperforming their respective benchmarks. The MAC manager underperformed its cash benchmark but posted over 4% in absolute terms.

## **C – Risk Management Framework Quarterly Monitoring Report**

- 4.7. A detailed report of the performance of the Fund's risk management strategies including details of how the Fund's collateral position has changed over the quarter is presented in Exempt Appendix 3.
- 4.8. The Fund's equity protection strategy declined in value over the quarter, as markets rose further from the protection levels in place. Officers, acting on advice from Mercer, considered a tactical opportunity to restrike the protection levels given the significant increase in the underlying equity markets, which would allow further upside participation. Due to unattractive pricing and the potential losses incurred under a downside scenario, Officers agreed to take no action but to keep the prospect of closing out the structure ahead of time - and moving to a dynamic approach sooner - under review.
- 4.9. Post period-end Officers and Mercer reviewed counterparty banks shortlisted for the implementation of the dynamic equity protection strategy. Having assessed the banks across a broad set of criteria including cost, operational capability and client servicing, Officers and Mercer, under delegated authority, agreed to appoint three banks to minimise concentration risk. The final appointment of each bank will be subject to an independent legal review of key trade terms and documentation. Details of the counterparty banks selected can be found on p.13 of Exempt Appendix 3.
- 4.10. Over the quarter the Fund's LDI portfolio provided a marginally positive return due to changes in inflation expectations. Post period-end the Fund's inflation hedge ratio was increased to c.45% of assets, following the outcome of the RPI reform consultation. This means that no further inflation hedging will be implemented even if inflation triggers are hit as the hedge ratio is now at the maximum allowable under mandate guidelines. The suitability of the current mandate guidelines will be factored into the annual review of the risk management framework, which is reported to Panel and Committee in September.

## **5. INVESTMENT STRATEGY AND PORTFOLIO REBALANCING**

- 5.1. **Asset Class Returns versus Strategic Assumptions:** Developed market equity returns over the last 3 years were 10.5% p.a., ahead of the assumed strategic return of 6.8% p.a. used during the 2019/20 investment strategy review. The 3-year return from emerging market equities was 6.2%; below the assumed 3-year return of 8.3%. Over the 3-year period index-linked gilts returned 6.1% p.a. versus an assumed return of 1.6%. The 3-year UK property return of 2.8% p.a. lags its assumed return of 5.2%, due to continued uncertainty in the sector.
- 5.2. **Rebalancing:** The residual holding in the Ruffer DGF (c. £160m) was sold in December in anticipation of private markets drawdowns and to align the portfolio with the 10% strategic allocation. Cash proceeds of the sale were subsequently invested in the Fund's liquidity strategy, managed by BlackRock.
- 5.3. **Private Markets Investments:** At 31 December 2020 37% of the Fund's Cycle 1 (2018-2020) £115m commitment to Brunel's renewable infrastructure portfolio had been deployed and 37% of the Fund's £345m commitment to the secured income portfolio had been deployed. The pace of capital deployment across both

portfolios is expected to increase in the coming quarters as the pipeline for new build and operational renewable energy assets remains strong and acquisition activity is starting to pick-up in the long lease sector. Current best estimates suggest a significant amount of capital will be called by the end of 1Q 2021 as underlying managers near completion on two sizeable assets. Over the quarter Cycle 2 (2020-2022) commitments also began drawing down capital. Of the scaled back commitments made to Cycle 2 in March 2020, 12% of the renewable infrastructure and 7% of the secured income commitments have been deployed. The Brunel private debt portfolio for Cycle 2 is launching in 1Q 2021 and is expected to start drawing down on the Fund's £45m commitment early in 2Q 2021. The Fund has the option to top-up Cycle 2 commitments in March. This is discussed further in Appendix 1 to Item 8.

The re-registration of the Fund's UK property assets (to be managed by Brunel) commenced in January. As part of the transition the Fund committed £10m to an affordable housing fund, which works with regional house builders to develop new-build housing for the underserved affordable rental sector. Redemptions in non-transferable funds held by the legacy UK property manager continued to progress as the Fund seeks to rebalance its allocation to the 3.75% strategic allocation. Post period-end c.£15m was redeemed from one of the legacy funds. A further c.£32m is expected to be redeemed in 2Q21, leaving c.£60m of holdings to wind down.

- 5.4. **Responsible Investment (RI) Activity:** A summary of RI activity undertaken by Brunel is included on pages 10 – 12 of Appendix 4. As part of the ongoing work around climate governance and fossil fuel financing in the banking sector, Brunel co-filed a shareholder resolution at HSBC, calling for the bank to publish a strategy and targets in order to reduce its exposure to fossil fuel assets. Engagement with the bank is ongoing in the lead up to its April AGM.
- 5.5. Separately, the Fund will sign an IIGCC initiative which calls on asset owners to make a series of commitments to help deliver the goals of the Paris Agreement. Details will follow on the specifics of this initiative once released publicly by IIGCC. Further, the Fund is currently undertaking an analysis of its current disclosures to better understand what is required under the new FRC Stewardship Code and the TCFD reporting requirements in order to meet compliance for the 2020/21 financial year.
- 5.6. **Voting and Engagement Activity:** Hermes engaged with 297 companies held by Avon in the Brunel segregated portfolios on a range of 878 ESG issues. Environmental topics featured in 26% of engagements, 77% of which related directly to climate change. Social topics featured in 22% of engagements, where business conduct, human rights and diversity featured prominently. Of the 31% of Governance related engagements most focussed on executive remuneration and board diversity. Over the last quarter Hermes made voting recommendations at 108 meetings (749 resolutions). At 43 meetings they recommended opposing one or more resolutions. 65% 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.

## 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 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 Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

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

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## AVON PENSION FUND VALUATION - 31 DECEMBER 2020

	Brunel Portfolios	Cash Management Strategy	QIF	Funds of Hedge Funds	MAC	Property		Infra-structure	Currency Hedging	In House Cash	TOTAL	Avon Asset Mix %
All figures in £m	Multi	BlackRock	BlackRock	JP Morgan	Loomis	Schroder (UK)	Partners (Overseas)	IFM	Record	General Cash		
<b>Equities</b>												
UK											0.0	0.0%
Emerging Markets	280.8										280.8	5.4%
Global Developed Markets	390.9		240.9								631.8	12.2%
Global Sustainable Equities	538.8										538.8	10.4%
Global Low Carbon	665.9										665.9	12.9%
Equity Derivatives <sup>1</sup>			-121.3						18.0		-103.3	-2.0%
<b>Total Overseas</b>	<b>1876.4</b>		<b>119.6</b>								<b>1996.0</b>	<b>39.0%</b>
<b>Total Equities</b>	<b>1876.4</b>		<b>119.6</b>						<b>18.0</b>		<b>2014.0</b>	<b>39.0%</b>
<b>Exchange-Traded Funds</b>		<b>48.6</b>									<b>48.6</b>	<b>0.9%</b>
<b>DGFs</b>	<b>508.0</b>										<b>508.0</b>	<b>9.8%</b>
<b>Hedge Funds</b>				<b>265.1</b>							<b>265.1</b>	<b>5.1%</b>
<b>MAC</b>					<b>321.6</b>						<b>321.6</b>	<b>6.2%</b>
<b>Property</b>						<b>226.0</b>	<b>189.3</b>				<b>415.3</b>	<b>8.0%</b>
<b>Infrastructure</b>								<b>359.7</b>			<b>359.7</b>	<b>7.0%</b>
<b>Renewable Infrastructure</b>	<b>48.1</b>										<b>48.1</b>	<b>0.9%</b>
<b>Secured Income</b>	<b>133.9</b>										<b>133.9</b>	<b>2.6%</b>
<b>LDI Assets &amp; Bonds</b>												
LDI Assets			618.0								618.0	12.0%
Corporate Bonds			140.4								140.4	2.7%
<b>Total Bonds</b>			<b>758.4</b>								<b>758.4</b>	<b>14.7%</b>
<b>Cash</b>										234.9	<b>242.2</b>	<b>4.7%</b>
<b>FX Hedging</b>									53.9		<b>53.9</b>	<b>1.0%</b>
<b>TOTAL</b>	<b>2566.4</b>	<b>48.6</b>	<b>878.0</b>	<b>265.1</b>	<b>321.6</b>	<b>226.0</b>	<b>189.3</b>	<b>359.7</b>	<b>71.9</b>	<b>234.9</b>	<b>5169.3</b>	<b>100.0%</b>

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

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# Avon Pension Fund

## Panel Investment Performance Report Quarter to 31 December 2020

February 2021

**Steve Turner**  
**Joshua Caughey**

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

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## Section 1

# Executive Summary

# EXECUTIVE SUMMARY

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

## Fund Performance

- Invested assets increased by £138m over the quarter to 31 December 2020, to £5,169m. Strong performance was seen amongst the equity mandates, as markets were buoyed by positive vaccine developments, and most of the other growth assets within the portfolio also managed to capture a meaningful degree of this upside.

## Strategy

- Global (developed) equity returns over the last three years were 10.5% p.a., above the assumed strategic return of 6.8% p.a. from the strategy reviews over 2019. We are positive in our medium-term outlook for developed market equities (over the next one to three years), driven by the backdrop of low bond yields, low expected inflation and pro-growth policies creating a favourable environment.
- Emerging market equities have returned 6.2% p.a. over the three-year period, behind the assumed return of 8.3% p.a. Emerging markets are still more attractively priced than other developed market regions, in our view. The emerging Asia region has been less badly affected by the pandemic and benefited from foreign goods demand, which is expected to continue. A more predictable approach by the US to trade under the Biden administration is also a positive.
- High yield bonds returned 5.5% p.a. over the three-year period, ahead of the assumed strategic return of 4.4%, whilst UK corporate bonds were also ahead of their 2.6% target with returns of 5.2% p.a..
- The three-year UK property return of 2.8% p.a. is behind the assumed return of 5.2% p.a., suppressed by ongoing uncertainty regarding the market outlook in light of the last year’s events.
- 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 strong, and gilt yields fell back further over the quarter. Fixed interest gilts returned 8.6% p.a. over three years versus an assumed return of 1.5% p.a., whilst index-linked gilts also returned 6.1% p.a. versus an assumed return of 1.6% p.a.
- The Fund’s currency hedging policy was positive overall for Fund performance over the quarter, since Sterling appreciated against the Dollar.

# EXECUTIVE SUMMARY

## Managers

- Emerging Market Equity was the strongest performer within the portfolio, whilst the other (global) equity mandates also performed strongly in line with the general market. The credit assets (corporate bonds and MAC) stood out among the other growth assets, delivering strong performance as spreads continued to narrow. The Hedge Fund mandate also performed well, and the DGFs also captured some of the upside in markets.
- The Core Infrastructure mandate stood out among the real asset mandates. UK Property and the Secured Income mandate also contributed to performance, whilst the Renewable Infrastructure mandate was broadly flat. The Overseas Property mandate was the only negative performer within the portfolio, although this reflected Q3 performance as the latest available at the time of writing.
- The value of the Fund's LDI portfolio increased over the quarter, mainly due to a slight uptick in implied inflation and the fall in gilt yields. It remained down over the year however, due to the overall fall in inflation over this period.
- The Global High Alpha Equity mandate has delivered outsized returns over the year – materially ahead of the benchmark, and the other equity mandates in place over this period were also up by double digits. The Hedge Fund and Renewable Infrastructure mandates also stood out, and the credit assets, and Ruffer DGF (until termination), also fared well. All of these mandates achieved their performance objective over this period, except for the Emerging Market mandate.
- Over the three-year period, three of the active mandates in place for this time –JP Morgan, Schroder Property and IFM – outperformed their benchmarks, though JP Morgan and IFM were the only ones to exceed their performance objectives. The Ruffer DGF underperformed over this period (to the termination date), as did the Loomis Sayles MAC and Partners Overseas Property mandates.

## Key Points to Note

- The Fund's new strategic benchmark is reflected in this report, having become effective as at 1 April 2020.
- At the start of the quarter, the Fund finalised the increase to its inflation hedge ratio to c.35% of assets.
- The final DGF holdings with Ruffer were redeemed towards the end of the quarter, with the 10% strategic allocation to this asset class now being managed by Brunel through the Diversified Returns mandate.
- At quarter end all asset classes were within their ranges, except for the Secured Income, Renewable Infrastructure and Private Debt mandates which are in the process of being drawn down.



# EXECUTIVE SUMMARY

## MANAGER INFORMATION

Manager	Type	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	ESG	Page
BlackRock	Passive	Global Equity	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	Active	Global High Alpha Equity	N/A	✓	N/A	-	23
Brunel	Active	Global Sustainable Equity	N/A	N/A	N/A	-	24
Brunel	Passive	Global Low Carbon Equity	A	✓	N/A	P1	25
Brunel	Active	Emerging Market Equity	N/A	✗	N/A	-	26
Ruffer	Active	DGF	A	✓	✗	2	27
Brunel	Active	Diversified Returns	N/A	N/A	N/A	-	28
JP Morgan	Active	Fund of Hedge Funds	R	✓	✓	N	29
Loomis Sayles	Active	Multi-Asset Credit	A	✓	✗	3	32
Schroder	Active	UK Property	B	-	-	3	33
Partners	Active	Global Property	B+	✗	✗	4	34
Brunel	Active	Secured Income	N/A	✗	N/A	-	35
IFM	Active	Core Infrastructure	B+	✗	✓	2	36
Brunel	Active	Renewable Infrastructure	N/A	✓	N/A	-	37
Record Currency Management	Active	Currency Hedging	N	N/A	N/A	N	38
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					

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## Section 2

# Market Background

# MARKET BACKGROUND

## COMMENTARY

### Equity Market Review

Following the strong economic rebound during summer, the global economy started to slow again during the fourth quarter as restrictions gradually returned to all major regions. Nevertheless, the economic impact was not nearly as bad as in early 2020 as businesses were much better prepared this time. Good news regarding vaccine roll-out and positive developments on several political fronts led investors to look beyond the shorter term, and expectations were set towards a major recovery in 2021. This drove a risk-on rally, leading to another quarter of strong returns for risk assets and weaker performance for defensive assets.

Global equity markets rallied over the quarter, returning 8.5% in sterling terms – the third positive quarter in a row. Many major indices, including the S&P 500, showed mid to high double digit returns for the year. Volatility was higher as markets reacted to a return of pandemic-related restrictions and to major political events including the US election and the final Brexit negotiations. US equities returned 6.8% in sterling terms, as markets focused on the prospect for vaccine roll-outs. European (ex UK) equities returned 9.2% driven by similar dynamics as well as a cyclical recovery in value stocks that are expected to benefit most from a full reopening and have a heavier weight in many European indices. Emerging markets equities returned 11.2%, driven by China's advanced recovery as well as a rebound in some other EM countries, especially commodity producers, that had been lagging for much of the year.

### Bond Market Review

The UK yield curve shifted down marginally over the quarter as additional fiscal stimulus as well as monetary accommodation was announced in the UK.

UK real yields shifted down marginally, in line with the small decrease in nominal yields – inflation expectations changed little. The UK Treasury announced the outcome of the RPI consultation confirming that RPI is expected to increase in line with CPIH from 2030.

UK investment grade credit spreads narrowed over the quarter as risk-on sentiment continued.

### Currency Market Review

Sterling strengthened against all major developed currencies over the quarter. Against the Dollar, Euro and Yen, this amounted to 5.7%, 1.3% and 3.4% respectively. The Brexit agreement in late December boosted sentiment for sterling at year end as the feared disruptions in trade did not generally materialise.

### Commodity Market Review

Commodity markets continued their rebound over the quarter. Expectations of a strong economic recovery gaining pace in the coming year drove demand for cyclical commodities across the board as markets looked beyond the return of COVID-19 restrictions in many countries. Gold was flat as markets were driven by risk-on sentiment that favoured cyclical commodities and energy.

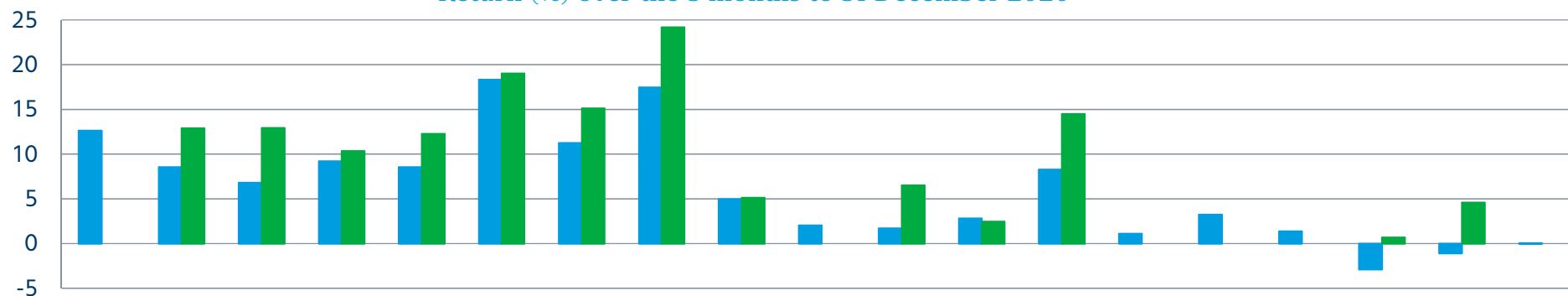
Source: Thomson Reuters Datastream

# MARKET BACKGROUND

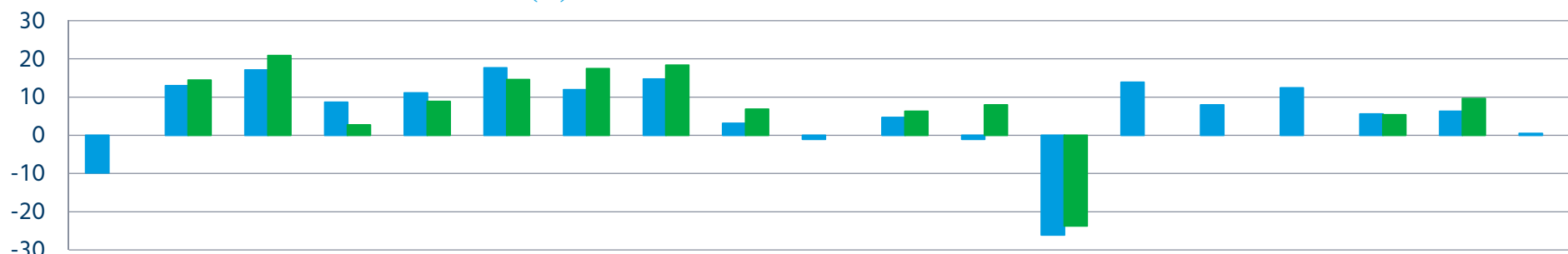
## INDEX PERFORMANCE

■ Sterling Return ■ Local Currency Return

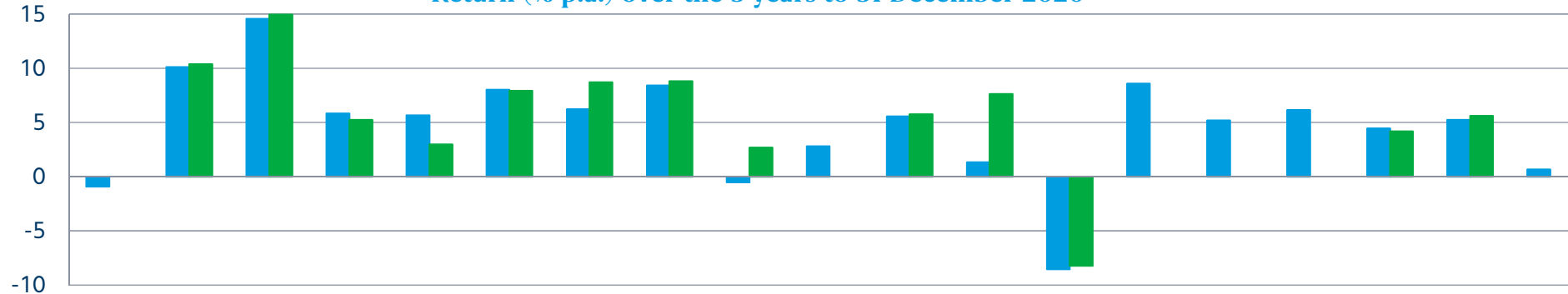
Return (%) over the 3 months to 31 December 2020



Return (%) over the 12 months to 31 December 2020



Return (% p.a.) over the 3 years to 31 December 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
Global Developed Equity (FTSE AW Developed)	6.8	10.5	The three year return of global developed equities has been ahead of the assumed strategic return. This increased against last quarter after a Q4 return of 8.2%.
Emerging Market Equity (FTSE AW Emerging)	8.3	6.2	The three year return from emerging market equities remained behind the assumed strategic return, despite a strong Q4 return of 11.2%.
Diversified Growth (SONIA + 4%)	5.7	4.5	DGFs are expected to produce an attractive return over the long term but with lower volatility than equities – this is the basis for the SONIA based benchmark. Low cash rates means benchmark has underperformed the long term expected return from equity. An absolute strategic return of 5.7% p.a. has been used, along with the specific manager target for comparison. During periods of strong equity returns we would expect DGFs to underperform equities.
High Yield Bonds (BofAML Global High Yield)	4.4	5.5	The three year return of high yield bonds has been ahead of the assumed strategic return.
UK Corporate Bonds (BofAML Sterling Non Gilts)	2.6	5.2	The three year return of corporate bonds has been ahead of the assumed strategic return. This increased against last quarter after a Q4 return of 3.2%, as spreads continued to narrow.
Property (IPD UK Monthly)	5.2	2.8	Actual property returns fell further behind expected returns. Despite growth in the index of 2.0% over Q4, this was lower than the quarter that fell out of the period. Uncertainty remains around the extent of the impact on property assets from the coronavirus pandemic and lockdowns.
Infrastructure (S&P Global Infrastructure)	6.4	2.3	The infrastructure three year return returned to positive territory over Q4 as the index returned 8.8%. 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.
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	1.5	8.6	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 had positive returns over Q4 (though to a lesser extend than the quarter that fell out of the period).
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	1.6	6.1	

# DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD Q1 2021

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

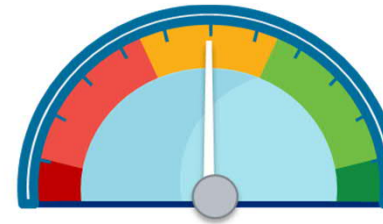
Mercer's current DAA position/view

Position/view last time (if changed)

## Equities



## Growth Fixed Income



## Protective Assets



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

# Section 4

# Fund Valuations



# FUND VALUATIONS

## VALUATION BY ASSET CLASS

Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Benchmark (%)	Ranges (%)			Difference (%)
Global Equity	602,209	657,218	12.0	12.7%	12.0	7	-	17	+0.7%
Global Sustainable Equity	494,014	538,779	9.8	10.4%	10.0	5	-	15	+0.4%
Global Low Carbon Equity	616,893	665,924	12.3	12.9%	10.0	5	-	15	+2.9%
Emerging Market Equity	246,602	280,823	4.9	5.4%	5.5	3	-	9	-0.1%
Diversified Growth Funds	643,596	508,027	12.8	9.8%	10.0	5	-	15	-0.2%
Fund of Hedge Funds*	268,702	265,097	5.3	5.1%	-	No set range			+0.1%
Multi-Asset Credit	302,521	321,648	6.0	6.2%	6.0	3	-	9	+0.2%
Property	431,097	415,310	8.6	8.0%	7.5	5	-	10	+0.5%
Secured Income	109,304	133,870	2.2	2.6%	10.0	5	-	15	-7.4%
Core Infrastructure	345,475	359,670	6.9	7.0%	5.0	2.5	-	7.5	+2.0%
Renewable Infrastructure	40,186	48,089	0.8	0.9%	5.0	2.5	-	7.5	-4.1%
Private Debt	-	-	-	-	5.0	0	-	7.5	-
Corporate Bonds	133,229	140,422	2.6	2.7%	2.0	No set range			+0.7%
LDI & Equity Protection	625,883	496,882	12.4	9.6%	12.0	No set range			-2.4%
Cash**	171,951	337,490	3.4	6.5%	-	0	-	5	+6.5%
<b>Total</b>	<b>5,031,696</b>	<b>5,169,488</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>				

Source: Custodian, Investment Managers, Mercer. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges.

Totals may not sum due to rounding.

\*Mandate due to be terminated.

\*\*Valuation includes the ETF and currency instruments

- Secured Income, Renewable Infrastructure and Private Debt mandates are still being drawn down so allocations are below target ranges.
- The above reflects the strategic benchmark for the Fund which became effective on 1 April 2020.

# FUND VALUATIONS

## VALUATION BY MANAGER

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
BlackRock	Global Equity	222,761		240,876	4.4	4.7
BlackRock	Corporate Bonds	133,229		140,422	2.6	2.7
BlackRock	LDI & Equity Protection	625,883		496,882	12.4	9.6
BlackRock	ETF	45,975		48,603	0.9	0.9
Brunel	Global Sustainable Equity	494,014		538,779	9.8	10.4
Brunel	Global High Alpha Equity	358,018		390,871	7.1	7.6
Brunel	Global Low Carbon Equity	616,893		665,924	12.3	12.9
Schroder	Global Equities	7,321		7,135	0.1	0.1
Brunel	Emerging Market Equity	246,602		280,823	4.9	5.4
Brunel	Diversified Returns Fund	493,104	-829	508,027	9.8	9.8
Ruffer	DGF	150,492	-156,054	0	3.0	0.0
JP Morgan	Fund of Hedge Funds	268,702		265,097	5.3	5.1
Loomis Sayles	Multi-Asset Credit	302,521		321,648	6.0	6.2

Source: Investment Managers, Mercer. Totals may not sum due to rounding.

# FUND VALUATIONS

## VALUATION BY MANAGER

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Schroder	UK Property	223,742		225,963	4.4	4.4
Partners	Property	207,355	-12,618	189,346	4.1	3.7
Brunel	Secured Income	109,304	22,410	133,870	2.2	2.6
IFM	Infrastructure	345,475		359,670	6.9	7.0
Brunel	Infrastructure	40,186	7,710	48,089	0.8	0.9
Record Currency Management*	Currency Hedging	19,069		71,968	0.4	1.4
Internal Cash	Cash	120,701	285,909	234,945	2.4	4.5
<b>Total</b>		<b>5,031,696</b>	<b>-24,273</b>	<b>5,169,250</b>	<b>100.0</b>	<b>100.0</b>

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.

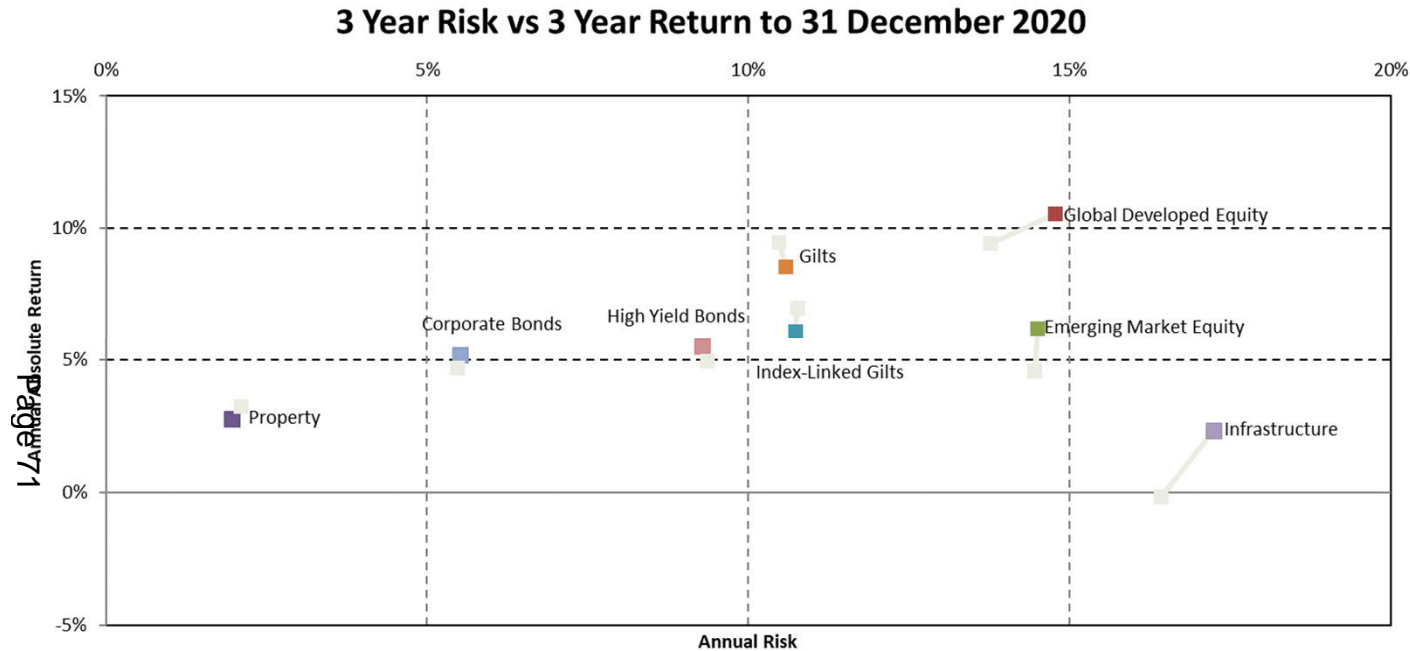
\*Valuation includes the collateral holdings for the currency overlay.

## Section 5

# Performance Summary

# MANAGER MONITORING

## RISK RETURN ANALYSIS



This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of December 2020, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix). We also show the positions as at last quarter, in grey.

### Comments

- Equity, Bonds and Infrastructure saw increases in observed returns over the three-year period, whilst Property and Gilts fell back slightly.
- Changes in associated volatilities were minimal for most asset classes, except for Global Developed Equity and Infrastructure which saw more notable increases.

# MANAGER MONITORING

## MANAGER PERFORMANCE TO 31 DECEMBER 2020

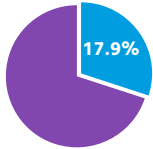
Manager / Asset Class	3 Months			1 Year			3 Year			3 Year Performance Target (% p.a.)	3 Year Performance vs Target
	Fund (%)	B'mark (%)	Relative (%)	Fund (%)	B'mark (%)	Relative (%)	Fund (% p.a.)	B'mark (% p.a.)	Relative (% p.a.)		
BlackRock Global Equity	8.1	7.8	+0.3	11.8	12.3	-0.4	10.8	10.2	+0.5	-	Target met
BlackRock Corporate Bonds	5.4	5.4	0.0	12.5	12.5	0.0	7.6	7.6	0.0	-	Target met
BlackRock LDI	2.4	2.4	0.0	-13.5	-13.5	0.0	-2.6	-2.6	0.0	-	Target met
Brunel Global High Alpha Equity	9.2	7.9	+1.2	28.2	12.9	+13.6	N/A	N/A	N/A	+2-3	N/A
Brunel Global Sustainable Equities	9.1	8.6	+0.5	N/A	N/A	N/A	N/A	N/A	N/A	+2	N/A
Brunel Passive Low Carbon Equity	7.9	8.0	-0.1	13.3	13.5	-0.2	N/A	N/A	N/A	-	N/A
Brunel Emerging Market Equity	13.9	13.3	+0.5	13.9	15.0	-1.0	N/A	N/A	N/A	+2-3	N/A
Brunel Diversified Returns Fund	3.0	0.0	+3.0	N/A	N/A	N/A	N/A	N/A	N/A	+4-5	N/A
Ruffer DGF	3.7	1.3	+2.4	8.9	5.4	+3.3	3.6	5.7	-2.0	-	Target not met
JP Morgan FoHF	6.8	0.8	+6.0	17.0	4.1	+12.4	8.7	4.9	+3.6	-	Target met
Loomis Sayles MAC	6.3	1.0	+5.2	7.1	4.3	+2.7	4.2	4.6	-0.4	-	Target not met
Schroder UK Property	2.4	2.1	+0.3	-0.9	-1.0	+0.1	2.6	2.3	+0.3	+1	Target not met
Partners Overseas Property*	-2.6	2.5	-4.9	-6.3	10.0	-14.8	2.7	10.0	-6.7	-	Target not met
Brunel Secured Income	2.0	0.1	+1.9	0.5	0.6	-0.1	N/A	N/A	N/A	+2	N/A
IFM Core Infrastructure**	4.0	0.7	+3.3	0.4	4.0	-3.5	12.0	4.6	+7.0	-	Target met
Brunel Renewable Infrastructure	0.1	0.1	0.0	14.8	0.6	+14.1	N/A	N/A	N/A	+4	N/A

Since inception performance for Partners, which was the largest underperformer over the three year period, has been more favourable at 5.7% p.a.\*

- Source: Investment Managers, Custodian, 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.**
- 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.
- \*Partners performance is to 30 September 2020 as this is the latest date that this is available. The mandate's inception was in 2009.
- \*\*IFM returns are in GBP terms after the manager switched to GBP reporting in January. Historical USD performance has been converted to GBP.

## Section 5

# Manager Performance



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

## £926,8M END VALUE (£1,027.8M START VALUE) (Inc. Equity protection strategy)

Item Monitored	Outcome
Mercer Rating	<p>A for Passive Equity (no change); ESGp2</p> <p>A for Buy-and-Maintain Credit (no change)</p> <p>A for LDI (no change)</p>
Performance Objective <i>In line with the benchmark</i>	<p>Portfolios performed broadly in line with their benchmarks over three years</p>

	Quarter (%)		1-Year (%)		3-Year (% p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Equity	8.1	7.8	11.8	12.3	10.8	10.2
Corporate Bonds*	5.4	5.4	12.5	12.5	7.6	7.6
LDI**	2.4	2.4	-13.5	-13.5	-2.6	-2.6

\*Corporate Bond fund and benchmark reflects legacy holdings prior to 31 March 2019 and Buy and Maintain Credit holdings thereafter. Benchmark return assumed equal to mandate.

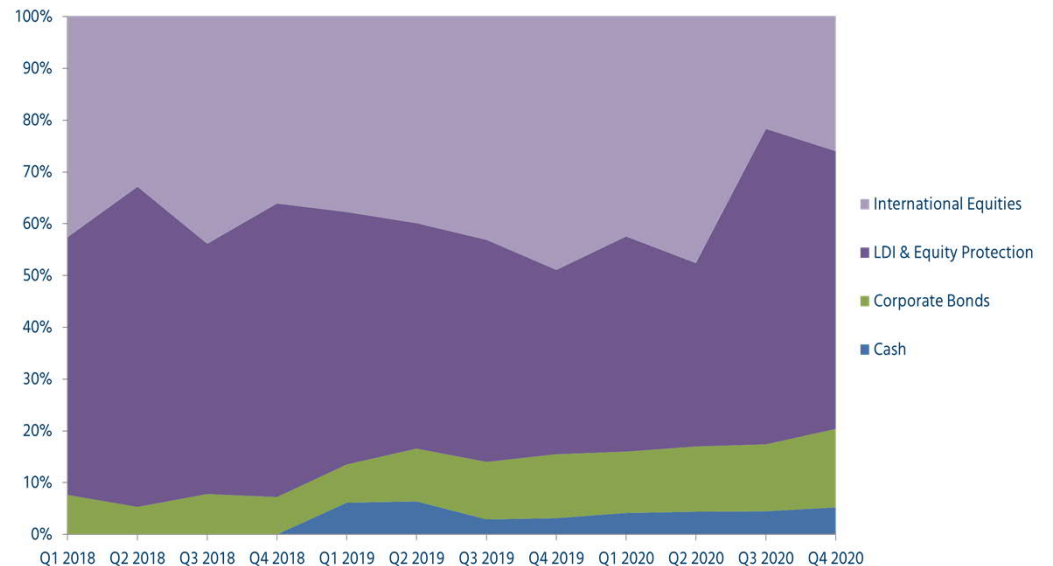
\*\* Benchmark return for LDI performance assumed equal to mandate. Equity protection strategy performance is not reflected.

### Manager Research and Developments

- Equities returned 8.1% over the fourth quarter and the corporate bond portfolio returned 5.4%.
- The LDI holdings grew by 2.4% as implied inflation increased slightly, and gilt yields also fell back. The increase in the inflation hedge ratio to c. 35% was finalised at the start of the quarter, following the rebalancing of holdings which took place at the end of Q3.

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### Asset Allocation



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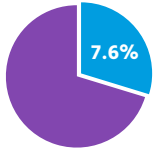
### Reason for investment

To provide asset growth as part of a diversified portfolio

### Reason for manager

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





## BRUNEL – GLOBAL HIGH ALPHA EQUITY

### £390.9M END VALUE (£358.0M START VALUE)

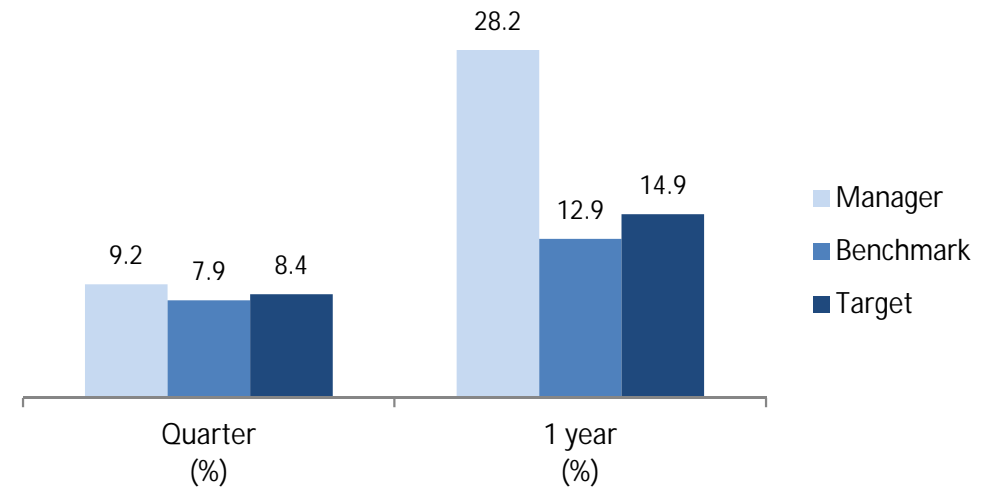
Item Monitored	Outcome	Performance
----------------	---------	-------------

Mercer Rating ● N/A

Performance Objective ● Above objective by 13.3% over the year  
*Benchmark +2-3% p.a.*

#### Manager Research and Developments

- Mandate was initiated in November 2019.
- The mandate returned 9.2% over the quarter, which was ahead of its benchmark and performance objective.
- This continued strong performance saw it outperform its target significantly over its first full year in place.

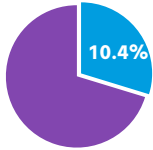


#### Reason for investment

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

#### Reason for manager

- Investment made via the Brunel pool



## BRUNEL – GLOBAL SUSTAINABLE EQUITIES

### £538.8M END VALUE (£494.0M START VALUE)

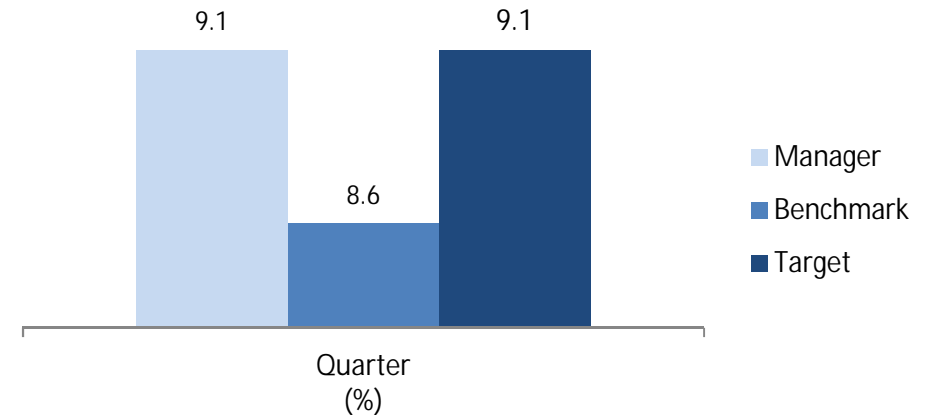
Item Monitored	Outcome	Performance
----------------	---------	-------------

Mercer Rating ● N/A

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

#### Manager Research and Developments

- Mandate was initiated in September 2020.
- The mandate returned 9.1% over the quarter, which was ahead of its MSCI AC World benchmark, and in line with its performance objective.



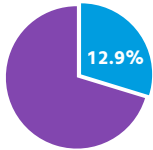
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#### Reason for investment

To provide exposure to global sustainable equities markets, including excess returns from manager skill and ESG considerations.

#### Reason for manager

- Investment made via the Brunel pool



## BRUNEL – PASSIVE GLOBAL LOW CARBON EQUITY £665.9M END VALUE (£616.9M START VALUE)

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

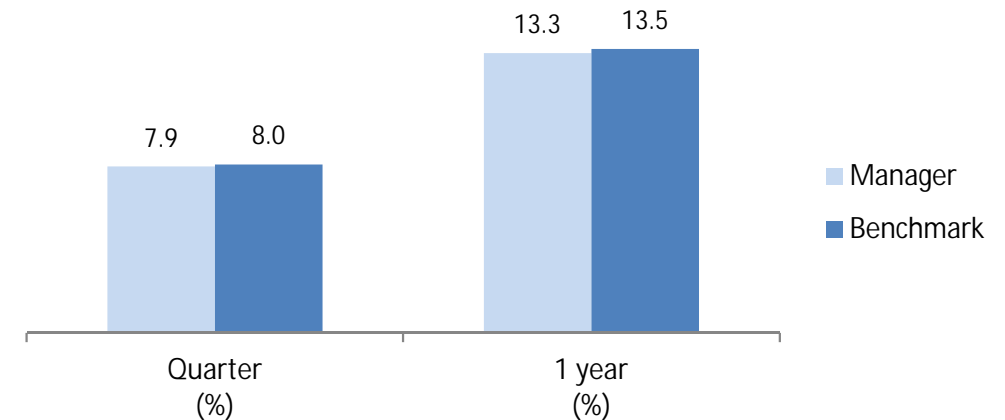
Mercer Rating	● A rated; ESG1 (Parent Fund)
---------------	-------------------------------

Performance Objective <i>In line with benchmark</i>	● 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 7.9% over Q4 2020 and 13.3% over the one year period.
- These were broadly in line with its MSCI World Low Carbon Index benchmark as expected.

### Performance



### Sector Allocation

Information Technology	22.0
Financials	13.6
Health Care	13.1
Consumer Discretionary	12.1
Industrials	11.0
Communication Services	9.0
Consumer Staples	8.0
Materials	3.8
Real Estate	2.8
Other	4.6

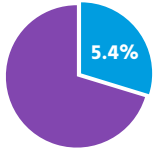
Source: LGIM. As at 31 December 2020

### 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



## BRUNEL – EMERGING MARKET EQUITY

### £280.8M END VALUE (£246.6M START VALUE)

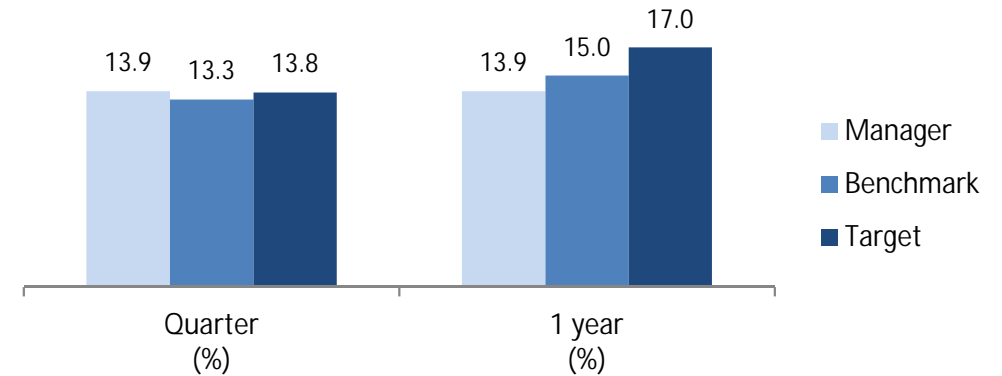
Item Monitored	Outcome	Performance
----------------	---------	-------------

Mercer Rating ● N/A

Performance Objective  
Benchmark +2-3% p.a. ● Below objective over the year

#### Manager Research and Developments

- Mandate was initiated in October 2019.
- Performance was strong over the quarter, with returns of 13.9%; ahead of its MSCI Emerging Markets Index benchmark, and also its performance objective.
- It failed to match both of these in its first full year period, however, due to underperformance in previous quarters.

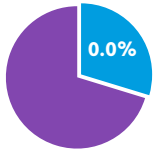


#### Reason for investment

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



## RUFFER – DGF (POOLED) £0M END VALUE (£150.5M START VALUE)

### Item Monitored

### Outcome

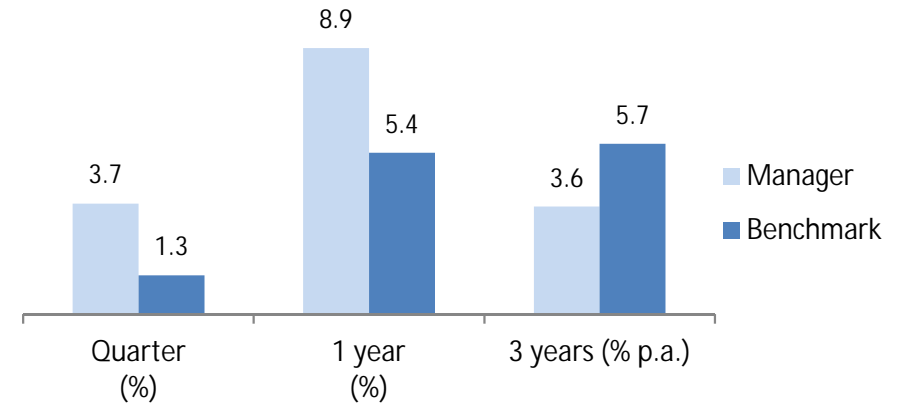
Mercer Rating ● A (no change over period under review); ESG2

Performance Objective ● Underperformed objective over three year period to termination  
Cash +5% p.a.

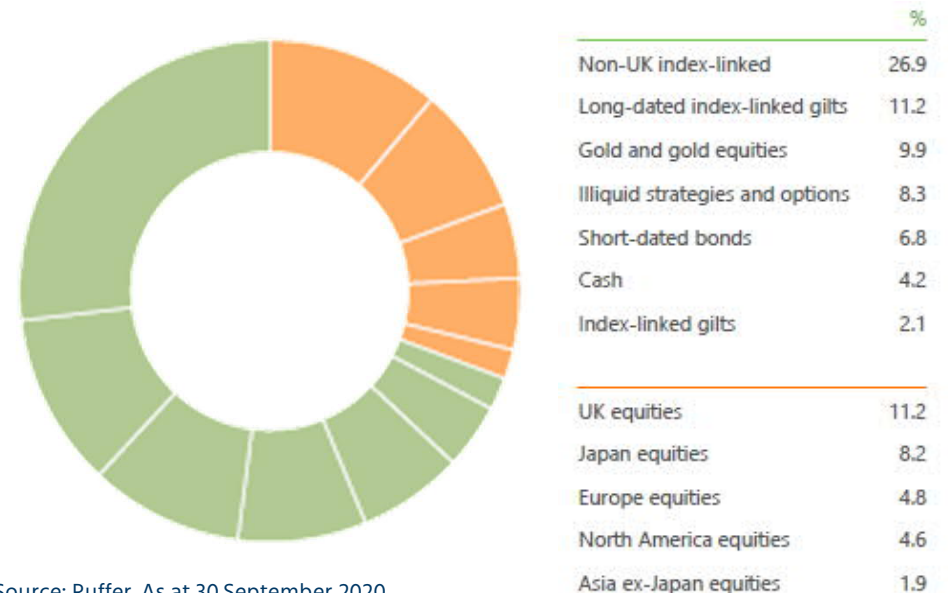
### Manager Research and Developments

- Ruffer returned 3.7% over the fourth quarter until its termination, driven largely by the wider uptick in equities.
- The mandate ended on a fairly strong year, particularly having protected capital in Q1, though it did underperform its benchmark objective over the three year period (to termination) by 2.0%.
- Ruffer made a notable allocation to Bitcoin in Q4. The allocation made a significant profit before Ruffer rebalanced.
- Performance since its inception in October 2017 has been 4.2% against its benchmark of 5.7%.
- The mandate has been replaced by the Diversified Returns Fund with Brunel to meet the Fund's 10% strategic allocation to this asset class.

### Performance



### Sector Allocation



Source: Ruffer. As at 30 September 2020.

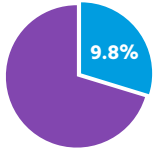
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### Reason for investment

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

### Reason for manager

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

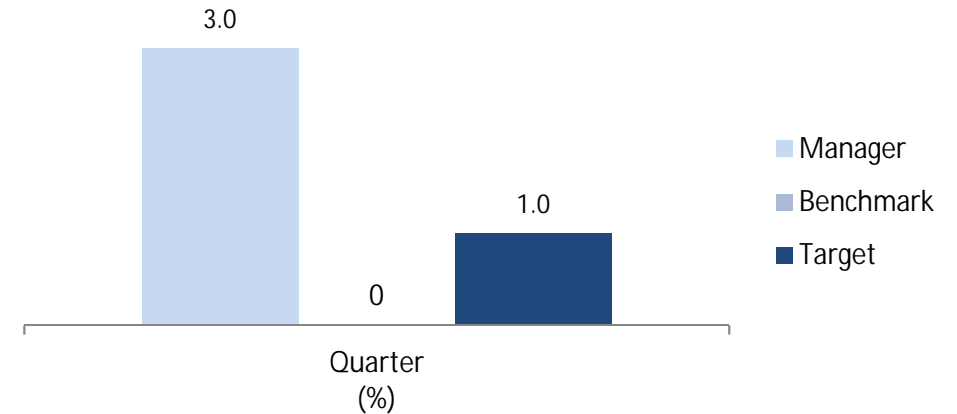


## BRUNEL – DIVERSIFIED RETURNS FUND

### £508.1M END VALUE (£493.1M START VALUE)

Item Monitored	Outcome
Mercer Rating	● N/A
Performance Objective <i>Benchmark +4-5% p.a.</i>	● Too early to determine

## Performance



## Manager Research and Developments

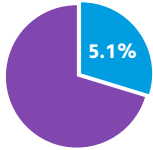
- Mandate was initiated in July 2020.
- Its benchmark is SONIA (Sterling Overnight Index Average), which it aims to outperform by 4-5% p.a.
- It returned 3.0% in its first full quarter; ahead of its benchmark and performance objective.

## Reason for investment

To provide exposure to a range of alternative return drivers. The portfolio will seek to provide a degree of downside protection from equity risk.

## Reason for manager

- Investment made via the Brunel pool



## JP MORGAN – FUND OF HEDGE FUNDS

### £265.1M END VALUE (£268.7M START VALUE)

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

Mercer Rating ● R ; ESG4

Performance Objective ● Above objective over three year period (in USD)  
Cash +3% p.a.

Item	
------	--

Number of funds 29 (as at 31 December 2020)

Strategy	Contribution to Performance over the Quarter in USD (%)
----------	---

Relative Value 2.36

Opportunistic/Macro 0.93

Long/Short Equities 3.37

Merger Arbitrage/  
Event Driven 0.10

Credit 0.59

**Total 6.80 (including cash and fees)**

In GBP terms, the mandate return was 1.0% versus a benchmark return of 0.8%

### 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



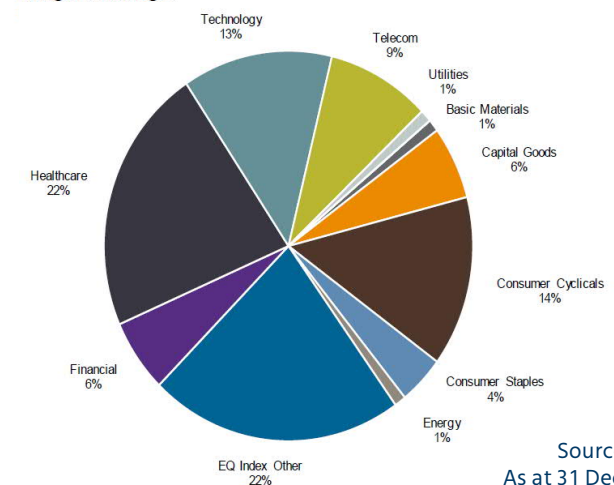
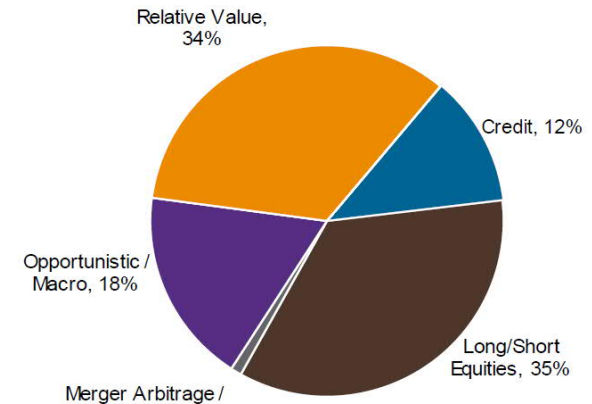
### Performance (USD)

Last Quarter 6.8 % Target 0.8%

Last Year 17.0% Target 4.1%

Last 3 Years (p.a.) 8.7% Target 4.9%

### Portfolio Composition and Equity Sector Allocation

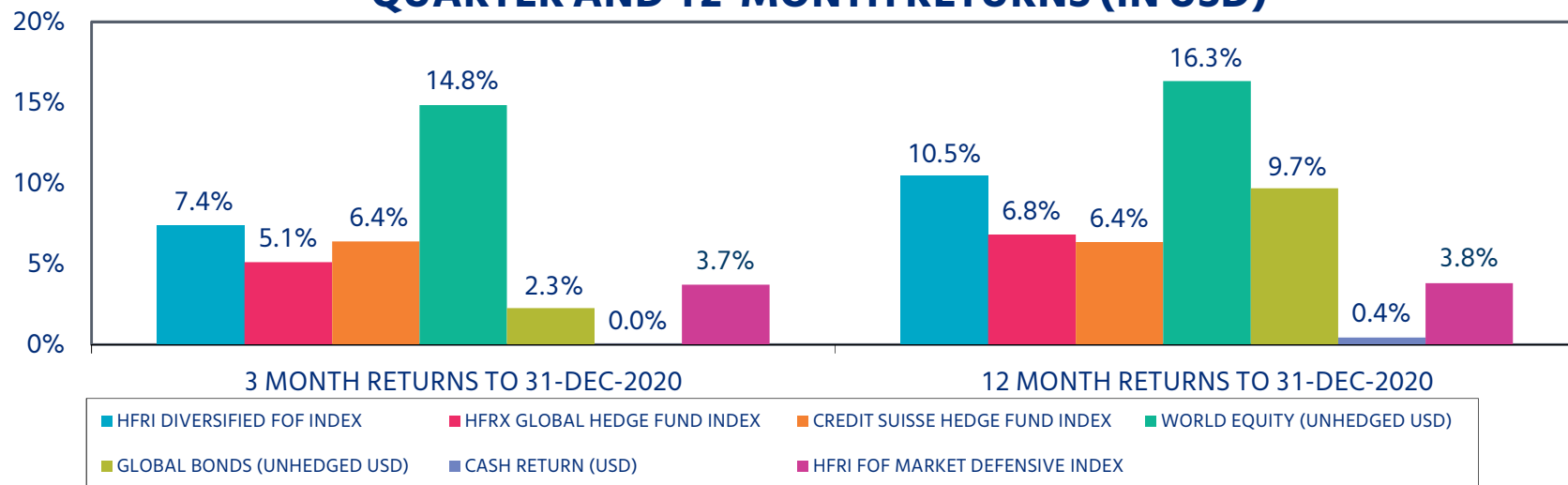


Source: JP Morgan.  
As at 31 December 2020.

# HEDGE FUND COMMENTARY – Q4 2020

- 2020 was a year that endured sharp price swings, disruptions in credit markets, rapid shifts in fundamentals, and record government and central bank policy action across the globe. This posed both challenges and opportunities for hedge funds, which by and large were able to adapt and provide double-digit returns in 2020 (+10.3%) following a strong Q4 (+7.5%).
- Equity-oriented strategies fared the strongest in Q4 and overall in 2020 in an environment of elevated stock dispersion.
- While strategies that were long risk assets tended to do well in the quarter and throughout 2020, market trends and nimble trading drove strong gains for discretionary macro strategies.
- Stressed/distressed credit strategies had a notable rebound in the quarter, and other event-driven strategies benefited from price appreciation of COVID-sensitive assets that had previously lagged the recovery
- Lower-net strategies such as relative value and market neutral equities continued to lag other strategies on an aggregate basis.

## 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 – Q4 2020

## Relative Value (34%)

- While “weakened hands” continue to weigh on the strategy, relative value funds overall posted modest returns, though there was dispersion at the sub-strategy level.
- Large dislocations in pricing across credit and volatility markets created a rich opportunity set for convertible arbitrage strategies, which generated double-digit returns in 2020. There was dispersion across credit-oriented RV managers—corporate-focused strategies benefited from the tailwind of improved liquidity and tightening spreads, while ABS-focused managers were stymied by less liquidity and malaise in the commercial real estate market.

## Long/Short Equities (35%)

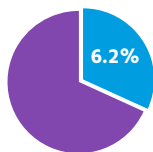
- Long/short equity generated one of the best years of security selection alpha in a decade following a strong Q4.
- Stock correlations, outside of the initial COVID shock period, remained at relative lows throughout the year, indicating a supportive environment for stock-picking. In aggregate, crowded hedge fund names performed much better than the market.
- There was continued dispersion in manager performance, especially given the large swings in underlying factor exposures throughout the year. Long positioning in technology and growth-oriented names versus old-economy and value-oriented names drove manager outperformance.
- Since March, long/short equity hedge funds have been increasing net exposure and leverage, with net exposures ending 2020 at all-time highs.

## Opportunistic / Macro (18%)

- A strong depreciation of the US dollar in Q4 was a boon to both discretionary and trend-following macro strategies, many of which were short the dollar. Strong trends in commodities and equities were helpful to systematic strategies in Q4, pushing them into positive territory on the year. While Discretionary managers have continued to prove their ability in trading around volatility to better capture opportunities than systematic strategies in 2020.
- Equity volatility (and equity “vol of vol”) remains elevated, which may drive trading opportunities. U.S. interest rate volatility ended the year at secular lows, but this benign environment may be tested in the near term if the incoming administration produces the flood of stimulus they desire.

## Merger Arbitrage / Event Driven (1%)

- Event-driven strategies benefited from a rally in risk assets and enhanced liquidity. Expectations of post-election policy stability and a vaccine-fueled recovery encouraged deal making that may otherwise have been put on hold.
- As was the case in previous quarters, more directional areas such as activism and special situations led in the rally in Q4. Merger arbitrage and distressed strategies, which were hard-hit in the first quarter, ended the year in the black.
- Merger arbitrage strategies benefited from a continued strong merger pipeline, a large increase in large deals closing in Q4, steadily increasing takeover premiums, and deal spread tightening following vaccine-fueled optimism. While the strategy experienced steep losses in the first quarter, it ended the year with positive returns.



## LOOMIS SAYLES – MULTI-ASSET CREDIT (POOLED)

### £321.6M END VALUE (£302.5M START VALUE)

#### Item Monitored

#### Outcome

Mercer Rating



A (no change over period under review); ESG3

Performance Objective

Cash +4% p.a.

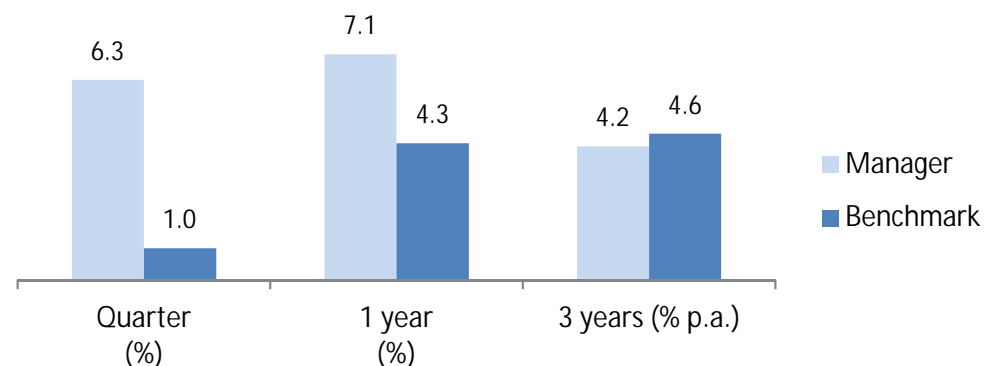


Below objective over three year period

#### Manager Research and Developments

- Loomis delivered performance of 6.3% over the quarter, above its cash plus objective of 1.0%.
- This took it above its objective over the one year period by 2.8%, though it remained slightly under over the three year period.
- Credit assets reacted well to the positive vaccine developments over the quarter, as well as the continued support from central banks and the prospect of further fiscal stimulus.
- As a result spreads continued to tighten for investment grade and high yield corporate bonds.
- Emerging market assets also performed strongly, buoyed by a softer US dollar and energy price strength.
- The loan market rallied, accompanied by increases in new issue volume and CLO issuance, and the securitized assets in the portfolio also added to performance.
- The overall duration of the portfolio decreased slightly over the quarter to 5.2 years.

#### Performance



#### Sector Allocation

Sector Allocation	Fund 30/09/2020	Fund 31/12/2020
	%	%
High Yield Credit	27.2	27.0
Investment Grade Credit	26.6	19.7
Emerging Markets Debt	37.0	39.5
Securitized	5.7	5.2
Banks Loans	0.1	0.1
FX/Dur Mgmt/Cash	3.3	8.5

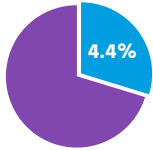
Source: Loomis Sayles.  
As at 31 December 2020.

#### 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



# SCHRODER – UK PROPERTY FUND OF FUNDS

## £226.0M END VALUE (£223.7M START VALUE)

### Item Monitored Outcome

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

Performance Objective ● Below objective over three year period  
Benchmark +1% p.a.

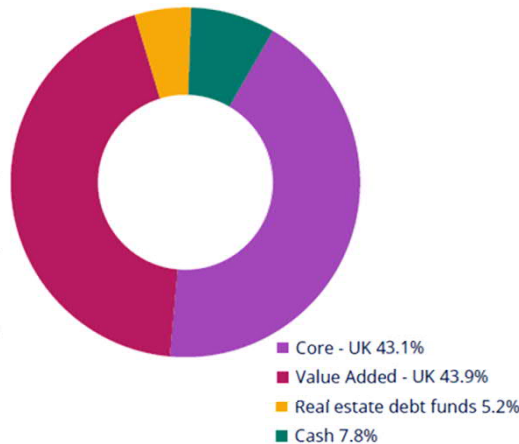
### Manager Research and Developments

- The fund returned 2.4% over Q4 and met its performance objective.
- Industrial assets continued to be the strongest performers, which benefitted from the review by manufacturers and retailers of their supply chains and the holding of extra stocks of key items.
- The main parts of the market where uncertainties remain are in shopping centres and leisure schemes.
- There was one transaction over the quarter; a c. £2.5m drawdown into the Income Plus Real Estate Debt Fund.
- The mandate has outperformed its benchmark over the one and three year periods, though underperformed its objective.

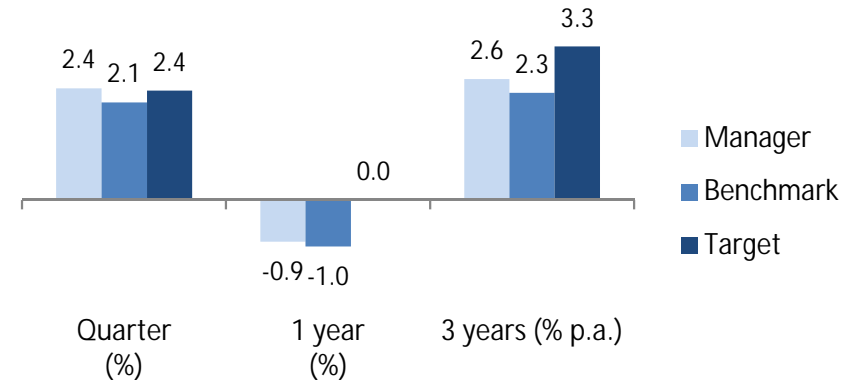
Page 85

### Manager and Investment type splits

Top 5 Holdings	Proportion of Total Fund (%)
Industrial Property Investment Fund	18.5
Metro Property Unit Trust	10.1
Hermes Property Unit Trust	9.5
BlackRock UK Property Fund	9.0
Cash	7.8

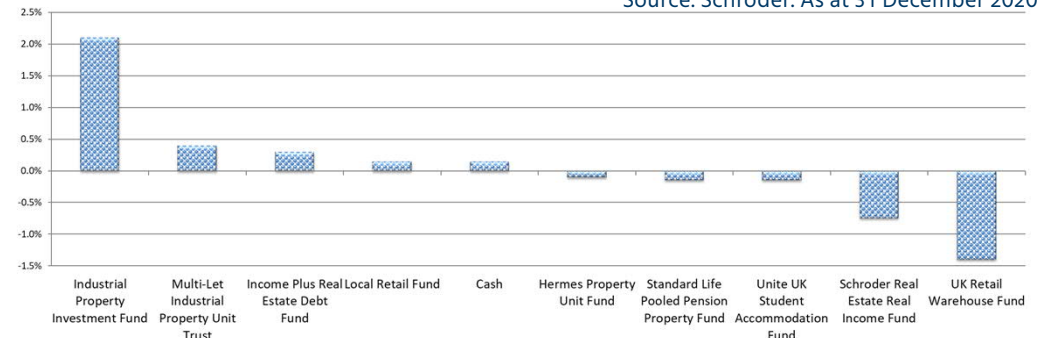


### Performance



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

Source: Schroder. As at 31 December 2020



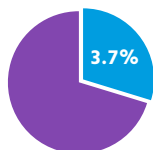
### Reason for investment

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

Source: Schroder. As at 31 December 2020



## PARTNERS – OVERSEAS PROPERTY

### £189.3M END VALUE (£207.4M START VALUE)

#### Item Monitored Outcome

Mercer Rating	● B+ (no change over period under review); ESG4
Performance Objective	● IRR since inception to 30 September 2020 at 5.7% p.a. (in local currency) is below target of 10% p.a.

#### Manager Research and Developments (Q3 2020)

- The portfolio delivered a net return of -5.6% over Q3 2020 for USD programmes in local currency, and -2.1% for EUR programmes, versus the target of c. 2.5%.
- Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, such as the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 30 September 2020 at 5.7% p.a. (in local currency) is below their target of 10% p.a..
- 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).

#### Portfolio update to 30 September 2020

Program	Current period		Since inception		Net asset value	Net return
	Net contributions	Distributions	Net contributions	Distributions		
PG Asia-Pacific & Emerging Markets Real Estate 2009, L.P.	0	0	17'467'664	17'085'048	3'692'805	1.3%
PG Asia-Pacific Real Estate 2016, L.P. Inc.	-7'137	0	17'167'880	5'066'685	15'085'258	8.0%
PG Direct Real Estate 2011, L.P. Inc.	-1'413	0	11'423'394	12'414'816	4'283'564	5.2%
PG Distressed U.S. Real Estate 2009 S.C.A., SICAR	0	54'004	14'076'841	19'094'054	2'003'385	7.5%
PG Global Real Estate 2008 S.C.A., SICAR	0	118'909	30'939'953	34'447'830	3'340'294	4.1%
PG Global Real Estate 2011 S.C.A., SICAR	-2'784	114'086	25'074'464	27'530'999	7'985'757	6.8%
PG Global Real Estate 2013 S.C.A., SICAR	-42'107	0	110'848'287	8'245'941	139'378'960	5.6%
PG Real Estate Income 2014 (EUR), L.P. Inc.	0	2'335'918	21'785'730	16'810'499	10'643'077	3.5%
PG Real Estate Secondary 2009 (Euro) S.C.A., SICAR	0	661'588	19'619'025	22'464'351	8'240'636	8.1%
PG Real Estate Secondary 2013 (EUR), S.C.A. SICAR	-1'849	335'661	11'702'888	9'224'806	10'046'022	12.2%
<b>Total</b>	<b>-55'290</b>	<b>3'620'166</b>	<b>280'106'127</b>	<b>172'385'030</b>	<b>204'699'759</b>	<b>5.7%</b>

Source: Partners. Valuation figures are in GBP; net return figures are in local currency.

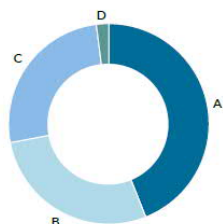
#### Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

#### Reason for manager

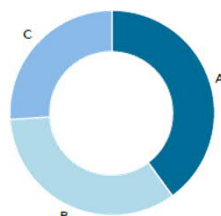
- Depth of experience in global property investment and the resources they committed globally to the asset class
- The preferred structure for the portfolio was via a bespoke fund of funds (or private account) so the investment could be more tailored to the Fund's requirements

#### Geographical and Investment type splits as at 30 September 2020



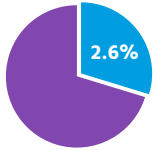
Investments by regional focus

A Europe	44%	C Asia-Pacific	26%
B North America	28%	D Rest of World	2%



Investments by transaction type

A Secondary	40%	C Direct	26%
B Primary	34%		



## BRUNEL – SECURED INCOME

### £133.9M END VALUE (£109.3M START VALUE)

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

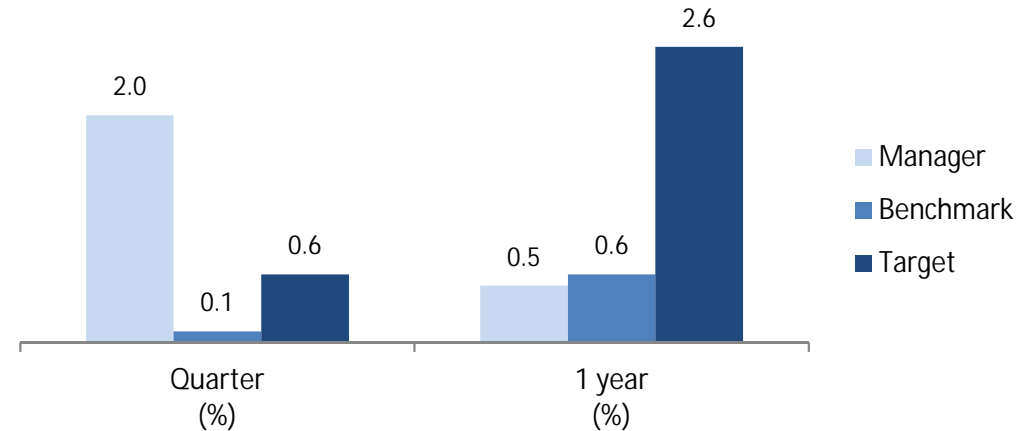
Mercer Rating ● N/A

Performance Objective ● Below objective over the year  
CPI +2.0% p.a.

#### Manager Research and Developments

- Mandate was initiated on 15 January 2019.
- The strategy returned 2.0% over Q4, which was ahead of its performance objective.
- This brought it into positive territory over the one year period, though it remained behind its performance objective by 2.1%.
- The mandate is still in its early stages of being funded.

#### Performance

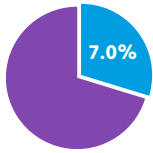


#### Reason for investment

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

#### Reason for manager

- Investment made via the Brunel pool



## IFM – CORE INFRASTRUCTURE (POOLED)

### £359.7M END VALUE (£345.5M 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 7.0% p.a. over the three year period (in GBP)

Item	
Number of holdings	17

### Manager Research and Developments

- Over the quarter the fund returned 4.0%, against Avon's performance objective of 0.7% (cash + 2.5% p.a.), reflecting early signs of economic recovery across the portfolio and the effective management at portfolio companies, particularly in regards to cost control measures.
- It underperformed over the one year period, given the difficulties at the start of 2020, but has outperformed modestly over the three year period by 7.0% p.a.
- During the quarter, one of the assets made its final \$300m payment to Indiana Finance Authority for the toll road in the state.
- Another asset completed its acquisition of a controlling stake in a regulated toll road in Italy.

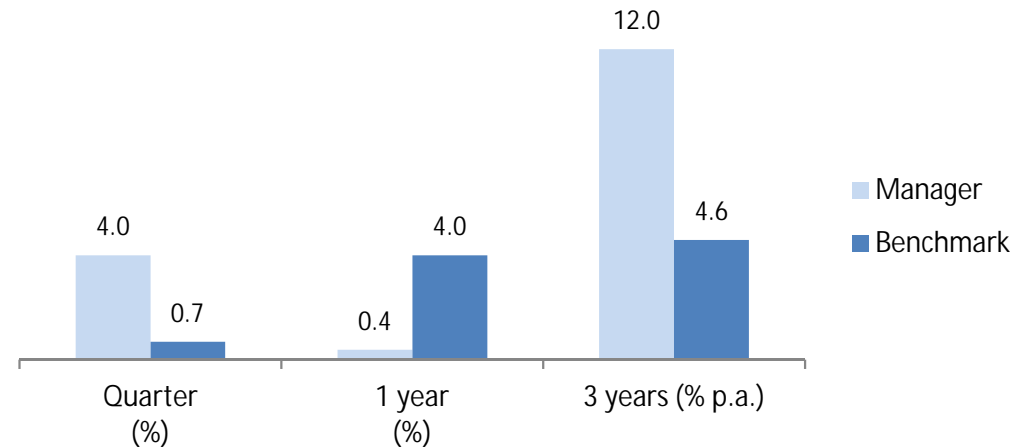
### Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

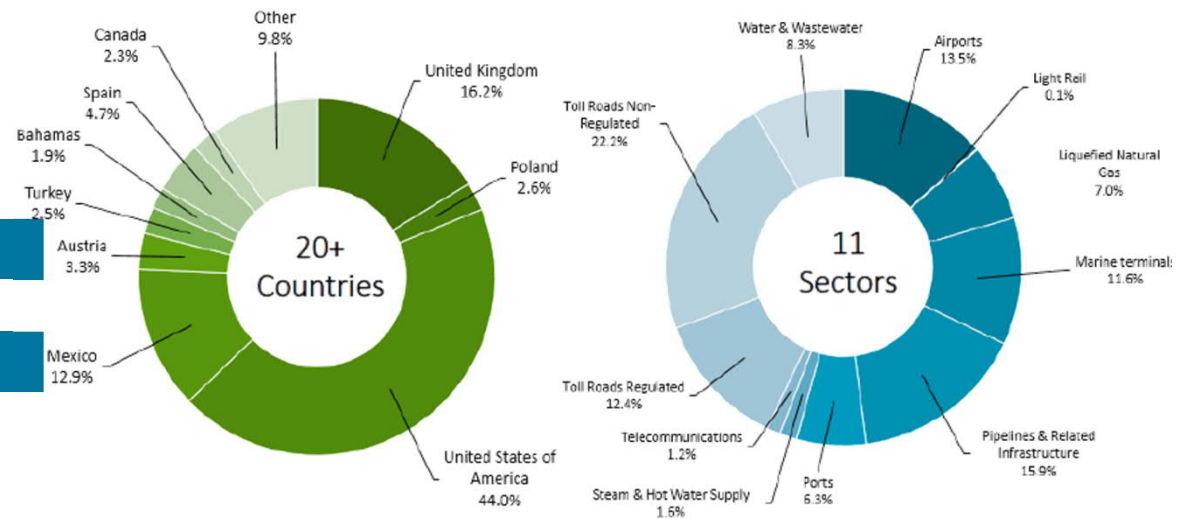
### Reason for manager

- 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

### Performance

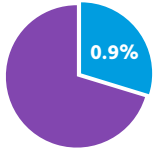


### Geographical and Sub-Sector Allocation



Source: IFM.  
As at 31 December 2020.





## BRUNEL – RENEWABLE INFRASTRUCTURE £48.1M END VALUE (£40.2M START VALUE)

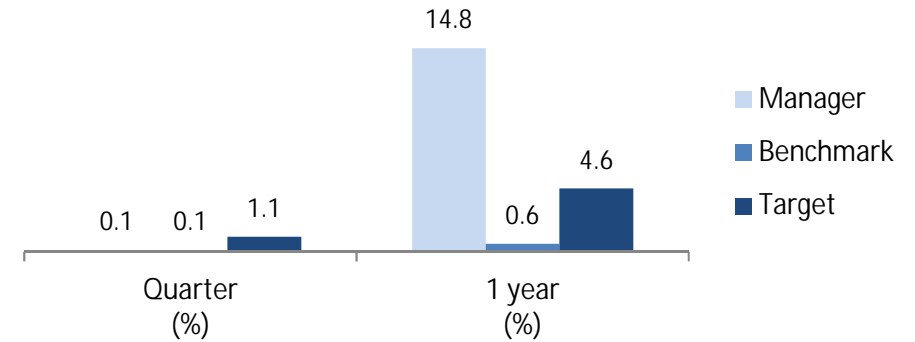
Item Monitored	Outcome	Performance
----------------	---------	-------------

Mercer Rating ● N/A

Performance Objective ● Above objective by 10.2% 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 was broadly flat over Q4, and underperformed its objective by 1.0%.
- It remained modestly up over the one year period however, thanks to strong performance earlier in the year, resulting in outperformance of its objective of 10.2%.

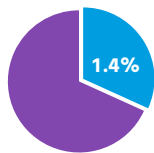


### Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

### Reason for manager

- Investment made via the Brunel pool



## RECORD – CURRENCY HEDGING (SEGREGATED)

### £72.0M END VALUE (£19.1M 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 strengthened against all major developed currencies over the quarter. Against the Dollar, Euro and Yen, this amounted to 5.7%, 1.3% and 3.4% respectively. The Brexit agreement in late December boosted sentiment for sterling at year end as the feared disruptions in trade did not generally materialise.

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 and global property 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 Q4 2020 Performance (£ terms)

##### Passive Developed Equity Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	1,065,826,246	1,081,326,385	(5.42%)	2.72%	2.74%	(2.76%)
EUR	171,250,102	174,840,694	(1.32%)	0.73%	0.73%	(0.59%)
JPY	129,219,089	115,114,124	(3.33%)	1.69%	1.73%	(1.60%)
<b>Total</b>	<b>1,366,295,437</b>	<b>1,371,281,203</b>	<b>(4.72%)</b>	<b>2.38%</b>	<b>2.39%</b>	<b>(2.38%)</b>

##### Passive Hedge Fund Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	259,246,424	271,094,716	(5.42%)	5.51%	5.53%	(0.10%)

##### Passive Property Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	25,713,655	23,632,526	(5.42%)	5.51%	5.58%	(0.05%)
EUR	182,403,184	176,111,588	(1.32%)	1.46%	1.47%	0.15%
<b>Total</b>	<b>208,116,839</b>	<b>199,744,114</b>	<b>(1.84%)</b>	<b>1.97%</b>	<b>1.98%</b>	<b>0.13%</b>



# Appendix 1

## Summary of Mandates

# SUMMARY OF MANDATES

Manager	Mandate	Benchmark/Target	Outperformance Target (p.a.)
BlackRock	Global Equity (passive)	MSCI World	-
Brunel	Global High Alpha Equity	MSCI World	+2 -3%
Brunel	Global Sustainable Equity	MSCI AC World	+2%
Brunel	Global Low Carbon Equity (passive)	MSCI World Low Carbon	-
Brunel	Emerging Market Equities	MSCI Emerging Markets	+2 -3%
Ruffer	Diversified Growth Fund	3 Month LIBOR +5% p.a.	-
Brunel	Diversified Returns Fund	SONIA	+4-5%
JP Morgan	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Loomis Sayles	Multi-Asset Credit	3 Month LIBOR +4% p.a.	-
Schroder	UK Property	IPD UK Pooled	+1%
Partners	Overseas Property	Net IRR of 10% p.a. (local currency)	-
Brunel	Secured Income	CPI	+2%
IFM	Core Infrastructure	6 Month LIBOR +2.5% p.a.	-
Brunel	Renewable Infrastructure	CPI	+4%
Brunel	Private Debt	3 Month LIBOR + 4% p.a.	-
BlackRock	Buy-and-Maintain Corporate Bonds	Return on bonds held	-
BlackRock	Matching (Liability Driven Investing)	Return on liabilities being hedged	-
Record	Passive Currency Hedging	N/A	-
BlackRock	Exchange-Traded Fund (ETF)	Bespoke benchmark to reflect total Fund allocation	-
Cash	Internally Managed	7 Day LIBID	-

## Appendix 2

# Market Statistics Indices

Asset Class	Index
UK Equities	FTSE All-Share
Global Equity	FTSE All-World
Global Developed Equity	FTSE AW Developed
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

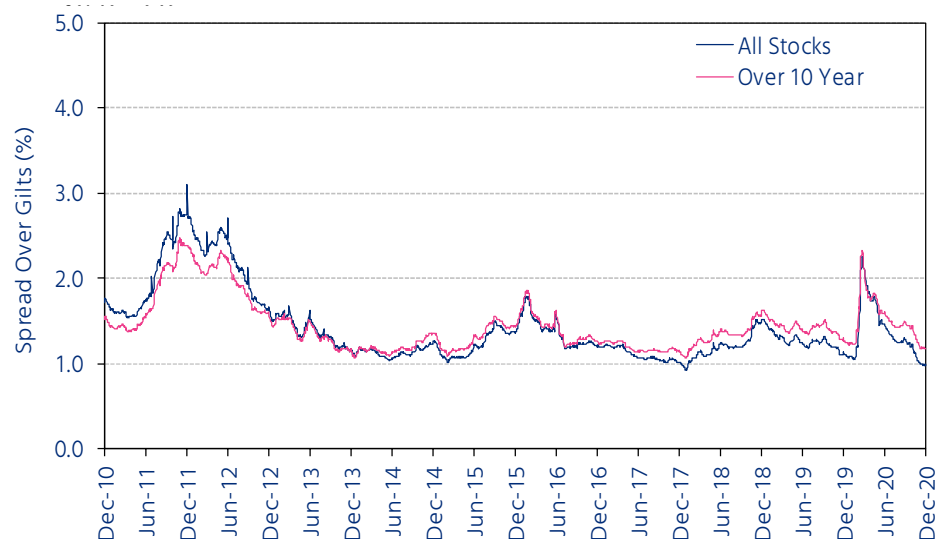
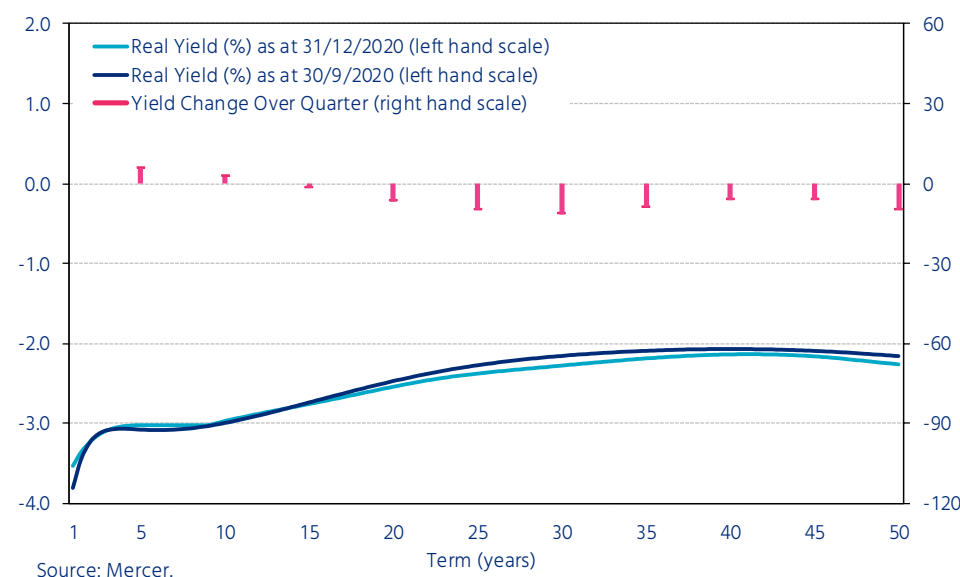
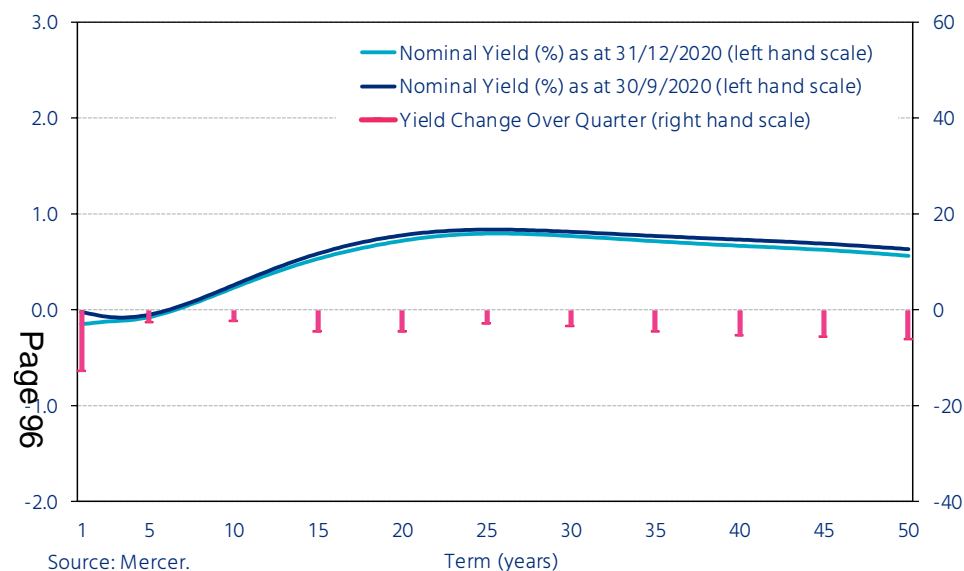
These are the indices used in this report for market commentary; individual strategy returns are shown against their specific benchmarks.

# Appendix 3

## Changes in Yields

# CHANGES IN YIELDS

- The UK yield curve shifted down marginally over the quarter as additional fiscal stimulus as well as monetary accommodation was announced in the UK.
- UK real yields shifted down marginally, in line with the small decrease in nominal yields – inflation expectations changed little. The UK Treasury announced the outcome of the RPI consultation confirming that RPI is expected to increase in line with CPIH from 2030.
- UK investment grade credit spreads narrowed over the quarter as risk-on sentiment continued.



Asset Class Yields (% p.a.)	31 Dec 2020	30 Sep 2020	31 Dec 2019	31 Dec 2018
Over 15 Year Gilts	0.67	0.71	1.25	1.76
Over 5 Year Index-Linked Gilts	-2.37	-2.29	-1.84	-1.58
Sterling Non Gilts	1.23	1.54	2.00	2.75
All Stocks				

# 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](http://www.mercer.com).

## WHAT DO MERCER'S RATINGS SIGNIFY?

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

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

## WHAT DO MERCER'S RATINGS NOT SIGNIFY?

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

### Past Performance

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

### Creditworthiness

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

### Vehicle-Specific Considerations

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

### Management Fees

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



# GUIDE TO MERCER RATINGS

## Operational Assessment

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

## FACTORS CONSIDERED IN FORMING A RATING

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

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

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

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

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

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

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

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

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

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

# GUIDE TO MERCER RATINGS

## MERCER RATING SCALE

Ratings	Rationale
A	Strategies assessed as having “above average” prospects of outperformance
B+	Strategies assessed as having “above average” prospects of outperformance, but which are qualified by at least one of the following: <ul style="list-style-type: none"> <li>There are other strategies that Mercer believes are more likely to achieve outperformance</li> <li>Mercer requires more evidence to support its assessment</li> </ul>
B	Strategies assessed as having “average” prospects of outperformance
C	Strategies assessed as having “below average” prospects of outperformance
N/no rating	Strategies not currently rated by Mercer
R	The R rating is applied in three situations: <ul style="list-style-type: none"> <li>Where Mercer has carried out some research, but has not completed its full investment strategy research process</li> <li>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</li> <li>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</li> </ul>

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.

## 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.



## **Access to Information Arrangements**

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

Information Compliance Ref: 198/21

Meeting / Decision: Avon Pension Fund Investment Panel

Date: 26 February 2021

Author: Nathan Rollinson

**Report Title: Review of Investment Performance for Periods Ending 31 December 2020**

**List of attachments to this report:**

Appendix 1 – Fund Valuation

Appendix 2 – Mercer Performance Monitoring Report

**Exempt Appendix 3 – Risk Management Framework Quarterly Monitoring Report**

Appendix 4 – Brunel Quarterly Performance Report

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

Stating the exemption:

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

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

## PUBLIC INTEREST TEST

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

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

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

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

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

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



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

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## Performance Report for Quarter Ending 31 December 2020

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The fourth quarter continued to be dominated by developments around Covid and lockdown, and particularly by the appearance of a new, more contagious UK strain of the virus. Despite the broader uncertainty, markets enjoyed a buoyant quarter, partly on news of vaccines passing clinical trials. Early in the quarter, Brunel launched the £1.2 billion Diversifying Returns Fund, £300 million Global Small Cap Fund, and £1.2 billion Sustainable Equities Fund (all covered in the previous report).

In mid-November, we added the Cycle 2 Brunel Infrastructure Portfolio to their number. It employs two investment vehicles, a £470 million sub-fund that focuses on renewable energy, and a £370 million generalist sub-fund that invests in transport, telecoms, heating, power, and other sustainable infrastructure. The fund enables client funds to access infrastructure assets that are aligned with UN Sustainable Development goals. It also means clients benefit from two sources of scale advantage in fee and term negotiations.

David Vickers, our new CIO, says: "Brunel has set out its stall as an investment manager by delivering a series of major fund launches across different asset classes, backed by rigorous due diligence in both fund design and manager selection. It has integrated our Responsible Investment principles into every step of the process, thus meeting the expectations and aspirations of our shareholders, members and clients."

We continued to focus on developing our investment proposition in concert with our clients. We were delighted to hire David Vickers as our new CIO, as well as to open the search for a new Head of Product & Services Development. Meanwhile, for the first time we held our Investor Days online, hosted by James Russell-Stracey. David Cox and Richard Fanshawe provided a macro and markets overview and shared our enormous progress last year in delivering on clients' investment priorities across different asset classes, with a particular focus on property. Faith Ward presented on Brunel's engagement on sustainability issues, the impact of COVID on RI, progress around human capital, and moving towards Net Zero portfolios.

We did not cease to make our voice heard on Responsible Investment throughout the quarter, co-signing a letter to the prime minister that called for green gilts. In the days that followed, the chancellor duly made an announcement that the government had decided to proceed with green gilt issuance. We also saw some success from our co-filing of a shareholder action at Barclays.

Our role and standing within Responsible Investment received considerable recognition in the quarter. Faith Ward was appointed Chair of the Institutional Investors Group on Climate Change, which represents more than £35 trillion in assets. This fits with our broader goal of bringing change to the industry on climate; it was especially gratifying to see Faith begin her role in the crunch year of COP 26. We also received recognition across the Partnership at the IPE awards, winning the ESG and Climate-Related Risk Management categories, while the EAPF was named UK Pension Fund of the Year. Cornwall, the EAPF and Oxford also received significant recognition on ESG and investing at the LAPF Awards.

We will continue to keep clients and shareholders informed through newsletters, as well as continued engagement. In the current quarter, we will be launching our private debt and UK Affordable Housing vehicles. We are also putting the final touches to our fixed income proposition, ahead of fund launches in the coming months for Sterling Corporate Credit, Multi Asset Credit and Passive Bond funds. Meanwhile, transition of client assets continued apace through the quarter. We will be developing our role and focus, as that transition process now begins to approach its endgame. By working together as a partnership, we believe we will be able to build on our exceptional progress in the year ahead - and for the longer term.

# Market Summary – Listed Markets

## Are the tides turning on Value/Growth, EM/DM and Active/Passive?

Q4 capped an extraordinarily volatile year across markets, politics and society. Markets weakened in late October as investors fretted over the growth of two waves - a second COVID wave and a "blue wave" that looked set to hand the US presidency, House and Senate to the Democrats. With no check on their electoral promises, the fear was they could unleash too much fiscal stimulus, upsetting the carefully-balanced Goldilocks scenario of non-inflationary economic growth. That shift might trigger a rise in inflation, hence in interest rates, hence in discount rates, hence a drop in value for most assets. "Growth" equities, whose net present values are heavily weighted to earnings far into the future, are particularly sensitive to such changes in discount rates. A move to introduce anti-trust legislation to loosen the oligopolistic power of the tech giants would also hit the handful of companies that have absorbed most of the stock market's oxygen over the last year or so.

Another wave, this time of euphoria, greeted the magnificent news in November that two separate vaccines had proved highly efficacious in trials. Coming on top of results that pointed to Republican control of the Senate by 50:48, markets all rallied back past February highs, ending 2020 in new territory, as though COVID had been but a blip.

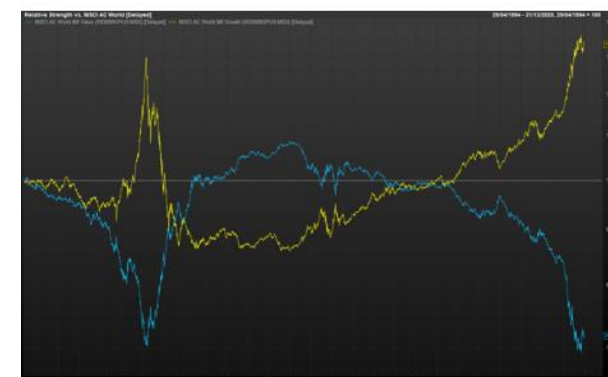
Yet beneath the surface, some seismic shifts have occurred. Lockdowns around the world have accelerated longstanding trends to warp speed. Online shopping, gaming and viewing, as well as "WFH", have changed our domestic and working lives, while, politically it seems we may at last be heeding demands for racial equity, social solidarity and urgent action to prevent climate catastrophe. The refrain, 'this time is different' has rarely seemed more apt. Where these social changes intersect with markets is in the likelihood investors attach to future growth of different sectors; and here, alas, the greater the certainty felt by the majority, the lower the chance of returns meeting expectations.

Taking a longer view, one overarching theme seems to have driven the fortunes of stocks, sectors and countries. The move to digitalisation, in combination with lax regulation, has permitted a "winner takes all" territorial grab of the data goldmine represented by cyberspace and the gateways to it, evidenced by the largest (non-state) companies in the world - by market capitalization - now being Apple, Microsoft, Amazon, Alphabet and Facebook, where in 2010 it was Wal-Mart, Exxon, Chevron, GE and Bank of America. These companies, acting as gatekeepers to the digital economy, have been able to extract rent on an extraordinary scale, and have been bid up by investors hungry for any reliable source of cashflow. These five alone contributed more than half of the MSCI World's 12.9% 2020 return. Thus the spectacular outperformance of "Growth" over "Value" that has been building since before the Global Financial Crisis, peaking the day before the first vaccine announcement.

MSCI World vs Emerging Markets



Value vs Growth



# Market Summary – Listed Markets

It is possible that this time is so different to history that Growth and Value indices never cross again, but the reversal in direction may continue. Markets respond both to earnings and sentiment. Early moves anticipate the future earnings trajectory, then there's a plateau (broadly, 2011 - 2015) as earnings grow to match the stories told of them, then the level of conviction starts to build, new investors leap aboard and the narrative takes valuations into the stratosphere. It is hard to imagine what new information might convince the "marginal growth investor" to commit to the new economy now, if they have not jumped in over the course of 2020.

We should continue to assess what such a reversal might mean for our portfolios' prospects. Those that have a natural underweight to Growth - UK Equities, Smart Beta, Low Volatility - should benefit. Emerging Market (EM) Equities seem to offer brighter prospects than Developed Market Equities, partly on fundamental grounds, with lower government and household debt levels (albeit non-financial corporate indebtedness is similarly elevated to Developed Market peers); and partly because 10-year returns from current valuation levels have historically been significantly more rewarding.

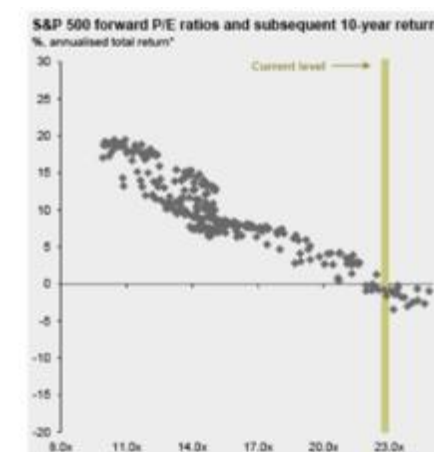
However, careful selection will be particularly important as many of the major constituents of the EM indices have been as subject as the US to irrationally exuberant hopes for the future - among them, China and Taiwan.

And that raises the question over the last area in which a reversal of fortune may play out: the Active v Passive battle. The Growth trend has been in play for nearly 15 years now, so the hidden momentum factor within indices based on market capitalisation has offered a powerful boost to the credentials of passive managers. A turn in this tide might see a rise in active investing, or at least a pause in the relentless advance of flows into passive, as happened the last time Growth stocks sank, between 2000-2005.

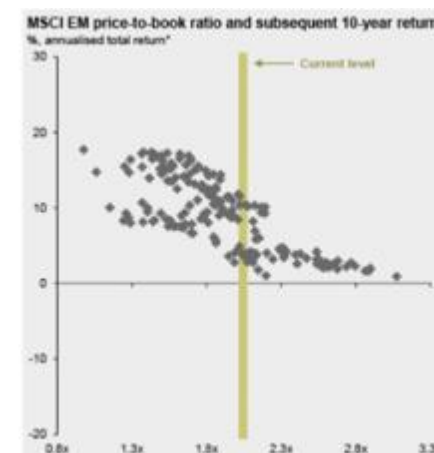
## Global Developed Equities

- Developed Market equities, proxied by the MSCI World Index, increased by 7.8% in GBP terms over the quarter, producing a 12.9% return for 2020.
- The US lagged other MSCI-constituent markets in Q4, returning a relatively modest 6.1%, while the UK made up some ground with a 12.6% return. The opposite was the case over the year, with the US returning 17.5% and thus contributing more than the total return for the whole index. By contrast, the UK, down 13.1% for the year, dragged the MSCI World down by 1.4%.
- There was a similar snapback by companies and sectors that struggled most through 2020. Oil & Gas returned 20.9% (but, despite this, fell more than 30% over 2020 as a whole), and Financials 13.6% (-3.8% in 2020). Royal Dutch Shell rose over 35%, making it the largest contributor to returns in the Oil & Gas sector

JPM Guide to the Markets - UK, Dec 31st 2020



JPM Guide to the Markets - UK, Dec 31st 2020



# Market Summary – Listed Markets

for the quarter, but it fell almost 40% over the year. JPMorgan's contribution to index returns was twice as large, even though it rose by a smaller 26%, because it is a much bigger index constituent; this was after having fallen "only" 8.4% in 2020.

- In a classic case of "buy the rumour, sell the fact", Healthcare was the least strong sector, returning just 0.8% over the quarter. Pfizer eked out a 1% return, but AstraZeneca fell 13.4%. Technology rose 6.5%, a relatively quiet end to 2020 except for Zoom, which fell nearly a third. The sector contributed 7.2% of the 9.6% (fully three quarters) of total returns for MSCI World over the year.

## UK Equities

- UK Equities (this time represented by the FTSE All Share ex Investment Trusts Index) rose 12.4% in Q4 but still fell 11.2% over the year.

- Investors in UK-listed banks received some relief in Q4 after a torrid year, with the sector rising 34% but still finishing 33% lower than it started the year. Barclays rose 50%. Oil & Gas rose 28% in Q4 but fell 40% over 2020.

- Healthcare dropped 8.5% and Technology fell 4.5%, although it would have posted positive numbers were it not for Sage's dramatic fall.

## Emerging Markets

- The MSCI Emerging Markets index continued its recovery, rising a further 13.3% in GBP terms, placing it well ahead of its Developed Markets counterpart at 18.7% (vs 11.4%) in H2 2020 and a little ahead for the whole year (15.0% vs 12.9%). There was enormous dispersion in 12-month returns: from 41% for Taiwan to -29% for Greece.

- China returned a modest 5% for Q4, far outpaced by Korea's 31% and Brazil's 29% but it still made the second-highest contribution to returns, even though this was nearly halved by Alibaba's fall (see below). Colombia returned 41% but, after its 22% fall over the year, it's so small it barely rippled the index. Egypt (-10%), Qatar (-3%) and Kuwait (-1%) were the only EM countries to fall in Q4.

- IT bucked the global trend to top the sector list, returning 27% in GBP terms. Not coincidentally, a Chinese cobalt and lithium miner rose 125%, boosting Materials, which includes controversial miners such as Vale (up 52%), to a 23% return for the quarter. Chinese Real Estate saw some big falls, reducing sector returns to just 0.3%, while the simmering conflict between Jack Ma and the Chinese state broke out, causing a fall of 25% to Alibaba's shares and dragging the Retail sector to a -7.5% return, despite Pinduoduo's 126% return for the quarter.



# Market Summary – Head of Private Markets

## Overview

The global economy improved rapidly from its partial paralysis in early Q2, when lockdowns meant that activity in certain sectors dropped to almost zero. The extreme pessimism of H1 then abated, and early indications are that Q3 and Q4 were record breaking quarters for deal activity in certain asset classes. Brunel's managers report huge volumes of opportunities coming to market but with a wide dispersion in terms of quality. In those sectors deemed most defensive through the ongoing troubles, the best assets are often very fully priced. This is where the managers must prove their sourcing capabilities, whilst maintaining price discipline.

However, optimism may once again fade with the emergence of the new, more virulent strain of Covid in late Q4. The strict "stay-at-home" orders of Lockdown 1 in early 2020 are now back, which hampers essential "physical" due diligence. Managers have coped with full virtual due diligence, but we wonder for how much longer.

Essential to the recovery in activity has been the vast amount of policy support both monetary and fiscal. Signs are that more global stimulus is on the way, not less.

## Infrastructure

Two key, long-term UK policy documents were released in Q4 2020: the National Infrastructure Strategy in November (delayed since March), and the energy white paper, originally promised for delivery in 2019. Crucially, in both, there is increased recognition of the role infrastructure investment plays as a driver of economic growth. Large-scale capital investments provide short-run demand stimulus, in part from the labour intensity of construction works, as well as longer-run supply side benefits, reducing business costs and promoting trade both domestically and internationally.

The prime minister published the government's green 10-point plan, ahead of the energy white paper. Whilst it was more a list of ambitions, signaling the importance of a green recovery from the pandemic marked a sea change in the government's language towards climate and the environment. Green jobs are vital jobs in the aftermath of the pandemic's economic shock.

Likewise, in the rest of Europe and in the US, politicians are firmly in favour of a green recovery to tackle Covid and climate change.

# Market Summary – Head of Private Markets

Both the cycle 1 and cycle 2 infrastructure portfolios will have significant exposure to the sectors set to benefit from these policy, regulatory and climate trends (~40% and 50% target exposures, respectively, to renewable energy infrastructure).

The non-renewable (general) infrastructure funds continued to perform solidly, but with few additional transactions during the period.

## Private Equity

Improved sentiment and the pick-up in investment activity continued from Q3 through to Q4. The valuation of assets remained high. Hence, General Partners ("GPs") focused more on operational improvements to create value in their portfolio companies. In addition, some GPs are executing more add-on acquisitions at lower prices to bring down the acquisition multiple. The interest in technology companies remained strong and there is a trend towards GPs digitising their portfolio companies in order to improve efficiency and to achieve higher multiples as they position to exit.

The fundraising market is bifurcated between the "haves" and "have nots". Fundraising for established platforms is moving quickly, while less proven GPs struggle to get the attention of the investor community. In addition, sector expertise is becoming increasingly important for GPs as the market continues to evolve.

## Property

The Q1 2021 lockdown has undermined optimism in the UK commercial property sector, which was prevalent in Q4 2020 following a recovery in annual transaction levels to £35bn by end-November, concentrated in the office and industrial sectors. With 52 companies having entered administration in 2020, affecting 5,000 retail outlets, further falls in rental levels and capital values are expected in that sector. This should be offset by positive, though limited, rental growth in the industrial sector, where demand for space continues to outpace supply, particularly in the south-east. Vacancy in the office market increased markedly in 2020 but supply for quality space remains tight, as development projects continue to be deferred. Residential property has shown resilience, despite the effect of UK lockdowns and concerns around the economic outlook, with capital values increasing over 6% last year.

Photo by David Sury on Unsplash



# Responsible Investment & Stewardship Review

The quarter's focus was a comprehensive review of the Stewardship Policy and Voting Guidelines. After extensive research and input from clients, we concluded the policy review in December, publishing the updated policies in the [Stewardship](#) section of our website.

## Climate Governance - Banks

Our engagement with banks continues. Brunel was one of 16 institutional investors, representing \$2.4 trillion, that co-filed a climate change resolution at HSBC, co-ordinated by ShareAction. It called on HSBC to publish a strategy and targets in order to reduce its exposure to fossil fuel assets on a timeline consistent with Paris climate goals. We will be engaging with HSBC in the run-up to their AGM in April. Our engagement with Barclays continues, following last year's co-filing of the first climate change resolution at a European bank. We have also joined a new banking sector workstream under the Institutional Investors Group on Climate Change. It will focus on developing a framework that banks can use to demonstrate alignment with the Paris goals as part of the [Net Zero Investor Framework](#).

## Social Engagement

We increased our focus on the social component of ESG through 2020, and will continue to do so in 2021:

- Through the Good Work Coalition, we sent companies a second round of letters arguing for the importance of the living wage. More engagement meetings will take place in 2021
- Brunel was [one of 64 investors](#) to write to the boards of mining companies to seek assurances about how the sector obtains and maintains a social license for its operations among First Nations and Indigenous communities
- Rathbones' UK Modern Human Slavery initiative, shortlisted for PRI Stewardship project of the year, will in 2021 expand to the FTSE 350. Companies that failed to publish a modern slavery statement, in compliance with the UK's Modern Slavery Act 2015, could face shareholder dissent at their AGM. This is integrated into Brunel's voting guidelines.
- Brunel is co-leading an asset owner diversity working group to develop a pledge for asset owners to integrate D&I into manager selection and monitoring. A toolkit and diversity questionnaire are also in development - the latter will be road-tested in January.



# Responsible Investment & Stewardship Review

Policy advocacy is a core component of our Responsible Investment and Stewardship work. As standard we respond to consultations, sign several letters and contribute to government inquiries. But we were still taken aback by the extent of the policy commitments from the UK, EU and beyond that came forth in last quarter of 2020.

In June 2019, the UK became the first major economy to commit to Net Zero. Whilst not comprehensive - we await further details - we broadly welcomed the announcements made. The key green finance elements were:

- **Issuance of first sovereign green bond**, subject to market conditions, later this year.
- **New green taxonomy**, which "will take the scientific metrics in the EU taxonomy as its basis".
- **Membership of the International Platform on Sustainable Finance.**
- Phased mandatory reporting against the **Task Force for Climate Related Finance Disclosures** (TCFD) by 2025.

Brunel has reported to the TCFD since its formation. The government's report, which sets out the [road map](#) for implementation, also committed the MHCLG to consulting in 2021 with a view to implementing the roadmap in LGPS by 2023.

Through the IIGCC we [signed a letter](#) calling for an ambitious UK 2030 Nationally Determined Contribution (NDC) in line with the UK's Net Zero 2050 target. The UK submitted its updated NDC to UNFCCC on 12th December, with an emissions reduction target of 68% below 1990 levels. Thus the UK is one of the first countries to set a domestic 2030 target in line with achieving the Paris Agreement's 1.5°C goal. As outlined in the Private Markets overview the government also set out its [Ten Point Plan for a Green Industrial Revolution](#). (An infographic that captures some of the main points is overleaf.)

Brunel was also a signatory to an [IIGCC letter to EU leaders](#) highlighting the importance of utilising the EU sustainable taxonomy for EU expenditure, and ensuring national recovery and resilience plans (RRPs) are aligned with the Europe's Net Zero 2050 target. The December meeting of the European Council agreed on a revised EU 2030 greenhouse gas emissions reduction target of at least 55% below 1990 levels.

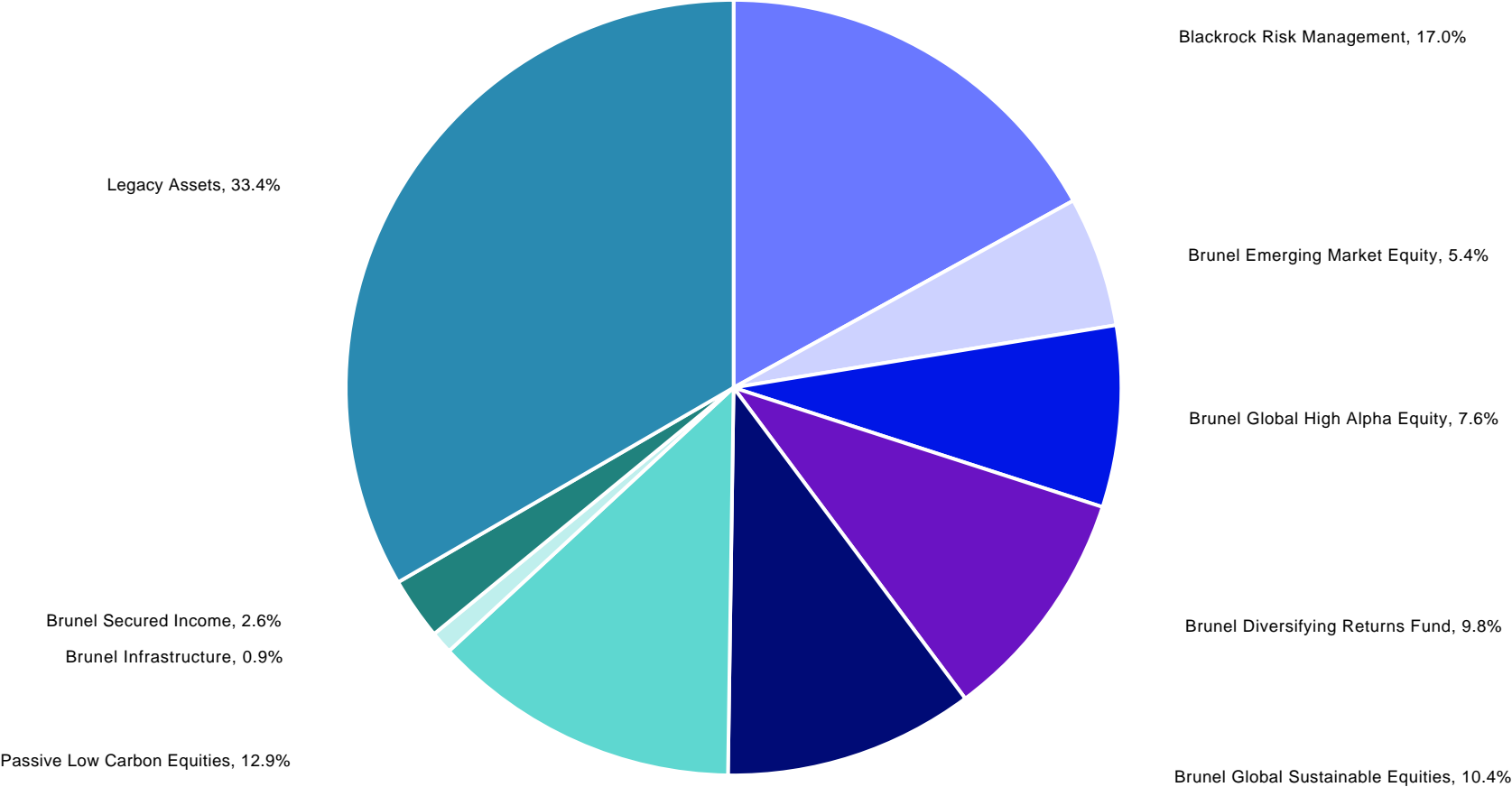
In the US, the appointment of John Kerry, the former senator and secretary of state, as special envoy on the climate crisis under Joe Biden's administration, made a strong statement. Kerry, one of the key architects of the Paris climate agreement, pledged to 'fight climate change full time' as US Climate Envoy. The role will report directly to President Biden and will elevate the climate crisis in both international diplomacy and domestic policymaking. It will also hold a seat on the National Security Council.





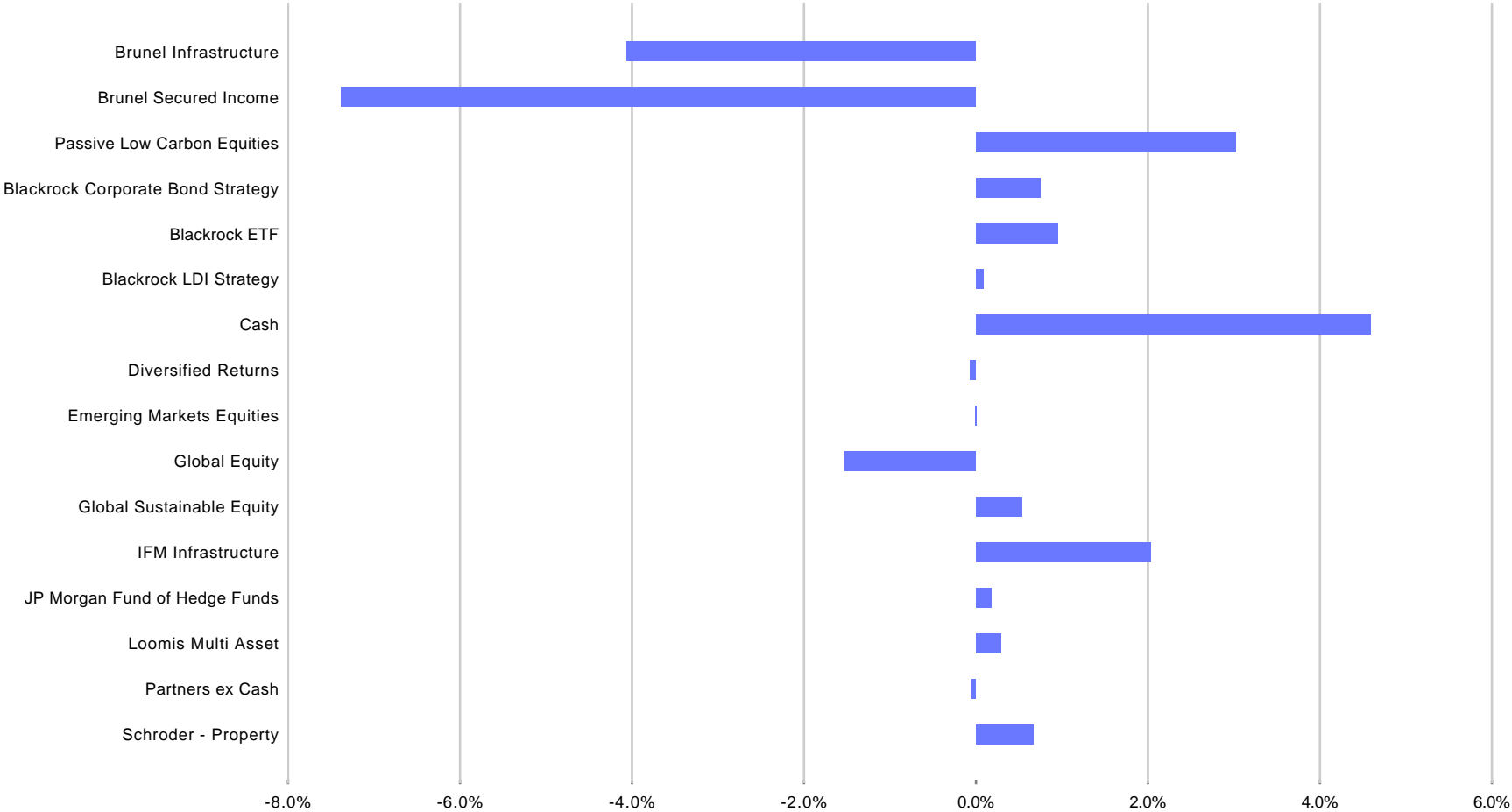


Asset Allocation Split



# Asset Allocation of Pension Fund

Allocation Against Strategic Benchmark



# 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 Diversifying Returns Fund	SONIA Benchmark	508	3.0%	3.0%							1.5%	1.5%	27 Jul 2020
Brunel Emerging Market Equity	MSCI EM TR Gross	281	13.9%	0.6%	13.9%	-1.1%					14.6%	-1.0%	09 Oct 2019
Brunel Global High Alpha Equity	MSCI World TR Gross	391	9.2%	1.3%	28.2%	15.3%					26.3%	13.7%	15 Nov 2019
Brunel Global Sustainable Equities	MSCI AC World GBP Index	539	9.1%	0.5%							9.1%	0.5%	30 Sep 2020
Passive Low Carbon Equities	MSCI World Low Carbon Target	666	7.9%	-0.0%	13.3%	-0.1%					11.3%	-0.1%	11 Jul 2018

\*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

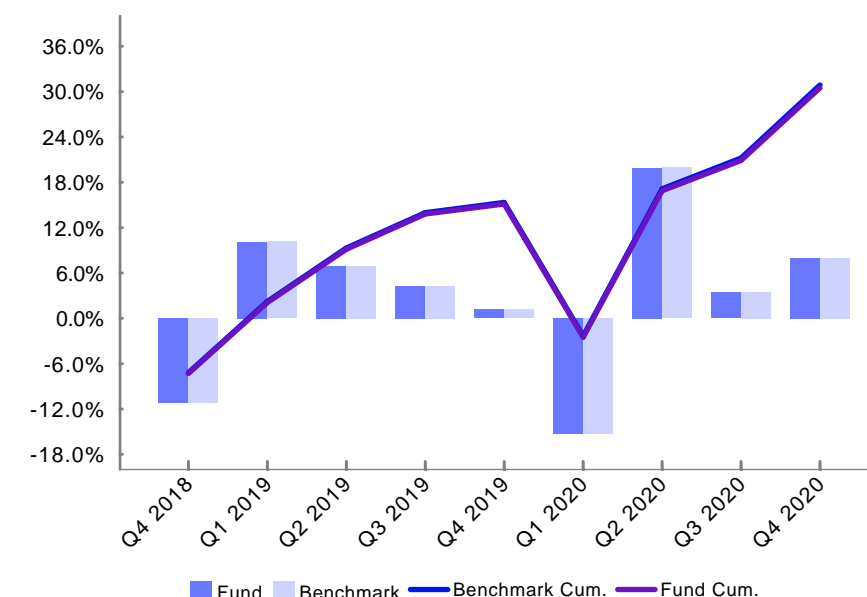
## Overview

	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:	£1,152,825,711

## Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	7.9%	8.0%	0.0%
Fiscal YTD	33.9%	34.0%	-0.2%
1 Year	13.3%	13.5%	-0.1%
3 Years			
5 Years			
10 Years			
Since Inception	11.3%	11.5%	-0.1%

## Rolling Performance\*



\* Partial returns shown in first quarter

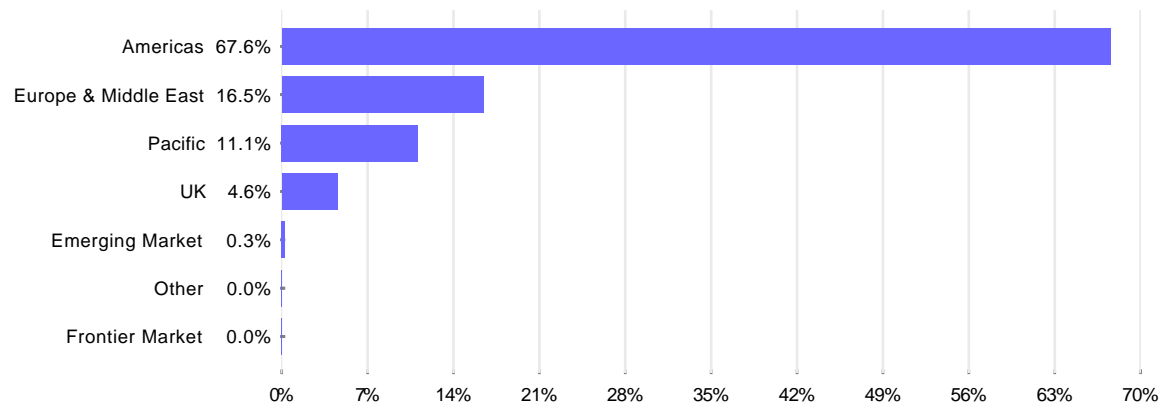
- The Passive Low Carbon fund performed positively over Q4 2020, and broadly in line with its MSCI Low Carbon Target Index. Returns were also positive for 2020, with the product returning 13.35% compared to a benchmark return of 13.48%.
- Over 2020, the strategy outperformed the wider global stock market, as measured by MSCI World. This was driven primarily by the relatively poor-performing energy, materials and utilities sectors, in which the fund is underweight. The consumer discretionary sector contributed positively, outperforming the wider stock market due to the selection of securities within the sector, rather than to an under- or over-exposure. The main detractors across the wider stock market were industrials, financials and information technology stocks.

# Passive Low Carbon Equities – Region & Sector Exposure

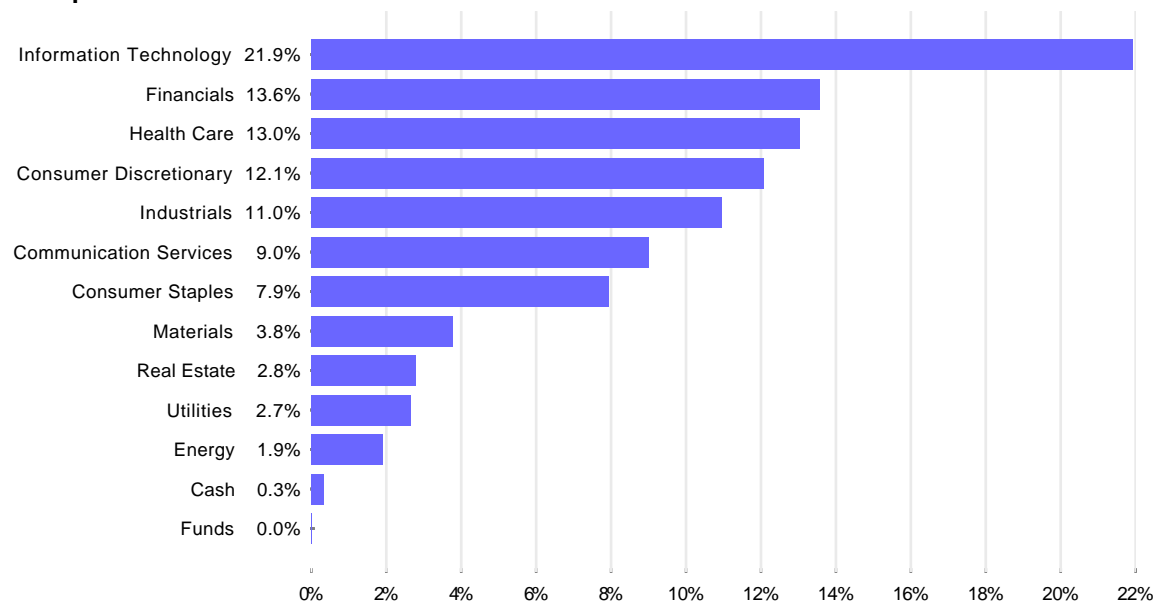
## Top 20 Holdings

	Mkt. Val.(GBP)
APPLE INC	74,008,980
MICROSOFT CORP	52,141,753
AMAZON.COM INC	45,441,086
FACEBOOK INC-CLASS A	21,453,902
ALPHABET INC-CL C	17,643,264
TESLA INC	17,249,683
ALPHABET INC-CL A	16,859,941
JOHNSON & JOHNSON	13,838,753
VISA INC-CLASS A SHARES	12,486,577
JPMORGAN CHASE & CO	12,418,706
PROCTER & GAMBLE CO/THE	11,729,737
NESTLE SA-REG	11,179,156
UNITEDHEALTH GROUP INC	10,735,408
NVIDIA CORP	10,582,228
MASTERCARD INC - A	10,552,405
WALT DISNEY CO/THE	10,491,195
BERKSHIRE HATHAWAY INC-CL B	10,269,329
HOME DEPOT INC	9,233,956
PAYPAL HOLDINGS INC	8,276,515
VERIZON COMMUNICATIONS INC	8,035,030

## Regional Exposure



## Sector Exposure



# Passive Low Carbon Equities – Responsible Investment

## Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. NEXTERA ENERGY INC	69.8	30.0
2. NESTLE SA	59.6	57.0
3. ASML HOLDING NV	62.8	87.5
4. SCHLUMBERGER NV	60.3	50.0
5. NVIDIA CORP	58.5	60.5
6. SAP SE	65.0	31.4
7. SCHNEIDER ELECTRIC SE	71.8	50.6
8. ACCENTURE PLC	61.7	45.9
9. PROCTER & GAMBLE CO/THE	57.1	68.1
10. HONEYWELL INTERNATIONAL INC	61.8	63.8

## Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. VISA INC	48.3	45.1
2. AT&T INC	43.0	36.1
3. NETFLIX INC	42.9	68.8
4. JPMORGAN CHASE & CO	46.6	62.5
5. AMAZON.COM INC	49.6	58.1
6. JOHNSON & JOHNSON	41.5	84.3
7. MICROSOFT CORP	49.5	47.0
8. FACEBOOK INC	41.1	54.9
9. ALPHABET INC	44.6	62.2
10. APPLE INC	46.4	62.4

\*From Q4 onwards we have moved to the latest and enhanced version of TruValue Labs data. Please see supplementary note on the Client portal for more detail.

Weighted Average ESG Score	2020 Q3	2020 Q4
Portfolio	58.3	58.5
Passive Dev Equities	58.5	58.7

\* Position 1 is the top contributor/detractor.



TruValue Labs & SASB

## Brunel Assessment:

- Facebook & Alphabet (Big Tech) regulatory scrutiny continues to grow worldwide for tech giants. The EU is presenting rules that require providers to do more to tackle illegal content, misuse and political advertising. Anti-competition fines of up to 10% of annual turnover could be introduced.
- Nvidia (Semiconductors) were subject to the SolarWinds data hack by cybercriminals. US lawmakers are making enquiries into sale of tech to China used against Uighurs. The UK Competition and Markets Authority has launched an investigation into the acquisition of ARM.
- Nextera Energy (Utilities and Generation) was ranked No. 1 in the electric and gas utilities industry in Fortune's 2020 list of World's Most Admired Companies.

100% of the bottom 10 ESG detractors are covered by engagement or specific voting activities. The benchmark is the MSCI Developed World so that carbon reductions achieved to create the Brunel Passive Low Carbon Portfolio can be monitored. Carbon intensity of the Portfolio is half that of the MSCI Developed World Index.

## Weighted Average Carbon Intensity (WACI)



Source: Trucost

## Extractive Exposure

	Total Extractive Exposure <sup>1</sup>		Extractive Industries (VOH) <sup>2</sup>	
	Q3	Q4	Q3	Q4
Portfolio	2.6	2.4	4.8	4.4
Passive Dev EQ	3.1	3.0	7.5	7.5

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 Diversifying Returns Fund

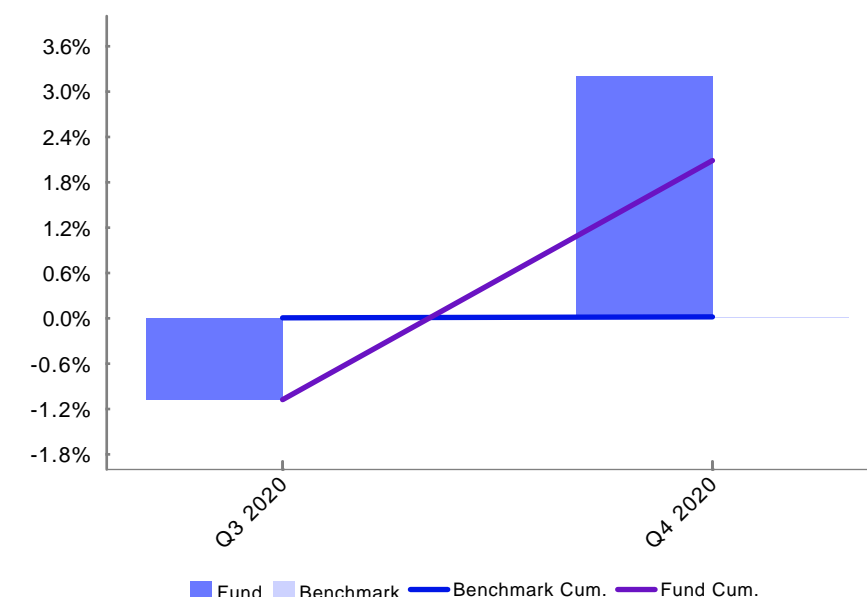
## Overview

	Description
Portfolio Objective:	Provide exposure to a range of alternative return drivers and a degree of downside protection from equity risk.
Investment Strategy & Key Drivers:	Actively managed to achieve growth at moderate absolute risk, diversified between asset classes and by geography.
Liquidity:	Managed Liquidity.
Risk/Volatility:	Moderate absolute risk against cash.
Total Fund Value:	£1,241,943,040

## Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	3.2%	0.0%	3.2%
Fiscal YTD			
1 Year			
3 Years			
5 Years			
10 Years			
Since Inception	2.1%	0.0%	2.1%

## Rolling Performance\*



\* Partial returns shown in first quarter

This was the Diversifying Returns Fund's first full quarter since launch. For the quarter, the fund returned 3.3%, ahead of its cash +3-5% target. Pleasingly, it stood up well to the drawdown test in the last two weeks of October, when MSCI World, as measured in GBP, fell 6.5% – the ninth largest market sell-off since the 2013 "Taper Tantrum". The Diversifying Returns Fund fell just 2.0% over the same period.

Markets swiftly recovered and moved to new highs by year-end. The DRF portfolio should not be expected to keep pace with such strong upward moves – it is designed to provide returns in the cash +3-5% zone. Between its mid-August performance inception date and year-end, it returned 2.2%, right on target.

The manager allocations remained within their strategic ranges throughout the period and there were no notable changes to positioning by the managers of the underlying strategies.

## Continued Commentary

- Lombard Odier captured some of the upward swing in markets, as their model moved up swiftly from neutral to positive. The indicators they monitor were strong for all markets bar government bonds, which are neutral but on a falling trend. While overall risk is similar to where it was at the start of 2020, there is a higher allocation to defensive assets.
- JPMorgan fell slightly. Its value factor failed to capture the surge following November's vaccine announcement. This appears to be due to an overlap with the quality factor, where the team avoids the stocks most likely to become insolvent, but these "junk" stocks rallied most strongly, particularly in the US.
- William Blair increased its equity risk to its long-run average and has higher-than-normal exposure to emerging market currencies. They see these risks as likely to be rewarded as the world rolls out vaccinations.
- UBS had a particularly strong quarter, as markets moved to a "risk on" footing and drove up the value of many of the positions that had caused it to underperform in the previous quarter.

# Brunel Emerging Market Equity

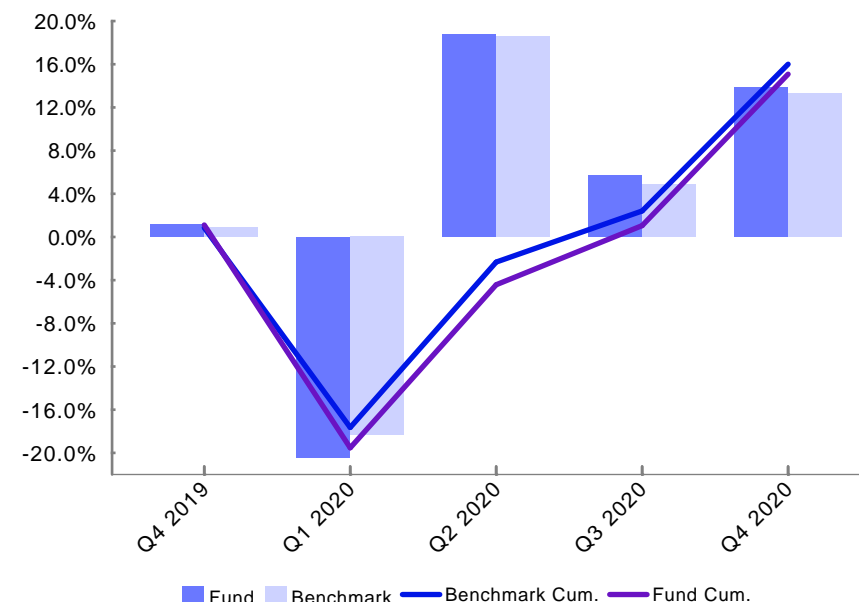
## Overview

	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:	£1,455,385,013

## Performance to Quarter End

	Ann. Performance	Fund	BM	Excess
3 Month		13.9%	13.3%	0.6%
Fiscal YTD		43.0%	40.9%	2.2%
1 Year		13.8%	15.0%	-1.2%
3 Years				
5 Years				
10 Years				
Since Inception		13.0%	13.8%	-0.8%

## Rolling Performance\*



\* Partial returns shown in first quarter

Emerging market equities saw a significant recovery in Q4 2020, no different to developed market counterparts. The vaccine news, announced on 9 November, caused a significant re-rating in equity markets, most notably in banks and distressed consumer franchises worldwide. The technology-orientated winners from the earlier stages of the pandemic, such as Tencent and Alibaba, saw a reversal in fortunes and significantly lagged the broader market. Levels of stock market recovery were observed broadly across emerging market countries; 25 out of the 28 country constituents in MSCI Emerging Markets – a proxy for emerging market equities – managed to make a positive return. 19 of these countries returned over 10% in GBP terms, which is very significant compared to history.

Despite the significant reduction in economic activity, and the subsequent hit to company earnings worldwide, emerging market equities returned an impressive +15% over the calendar year in GBP terms.

The portfolio had a strong quarter in both absolute and relative terms. Total return over the quarter was +13.9% in GBP terms, which was +0.6% ahead of MSCI Emerging Markets. Wellington significantly outperformed the benchmark, returning +15.4% over the quarter, 2.1% ahead of benchmark. Ninety One

# Brunel Emerging Market Equity

## Continued Commentary

and Genesis remained closer to benchmark, returning +13.3% and +13.6% respectively.

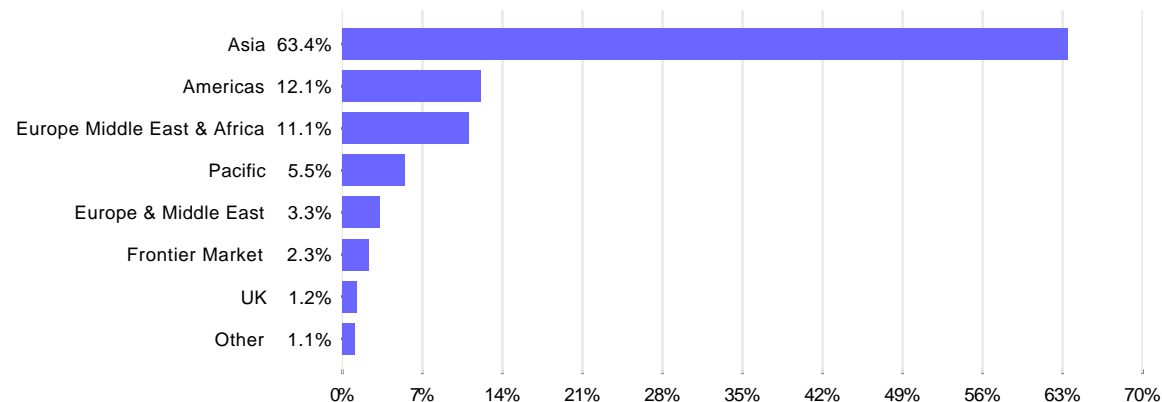
- Country allocation proved favourable for the portfolio over the last quarter. China was one of the benchmark laggards, returning +5% over the period, significantly less than the +13.9% index level return. Hence, the 4% underweight position in China – predominantly driven by Genesis – contributed positively to relative performance. The overall country allocation impact remains negative on a since-inception basis, mostly due to the significant outperformance of China vs the rest of emerging markets. China has returned roughly +28% since inception vs a benchmark return of +16%.
- Stock selection remained strong for the second successive quarter and was a significant contributor to relative performance. The November vaccine announcement caused a re-rating in many distressed consumer, energy and financial franchises. Examples of this within the portfolio include Jjangsu Yanghe Brewery, HDFC Bank and China Longyuan Power, which appreciated by 86%, 37% and 52% respectively.
- Style had a limited impact on portfolio performance in Q4 2020, since the slight overweight positioning in higher quality names did not materially impact relative performance. Quality names, proxied by the MSCI Emerging Markets Quality Index, underperformed by roughly 1% over the quarter. As observed in developed markets, value securities also outperformed other styles in emerging markets. Value stocks outperformed the benchmark by 3%, which detracted from relative performance, given the slight underweight positioning vs benchmark.
- The portfolio has now outperformed the benchmark for 3 consecutive quarters; however, since-inception performance remains behind benchmark on a net-of-fees basis. The portfolio was 75bps behind MSCI Emerging Markets as at December 2020.

# Brunel Emerging Market Equity – Region & Sector Exposure

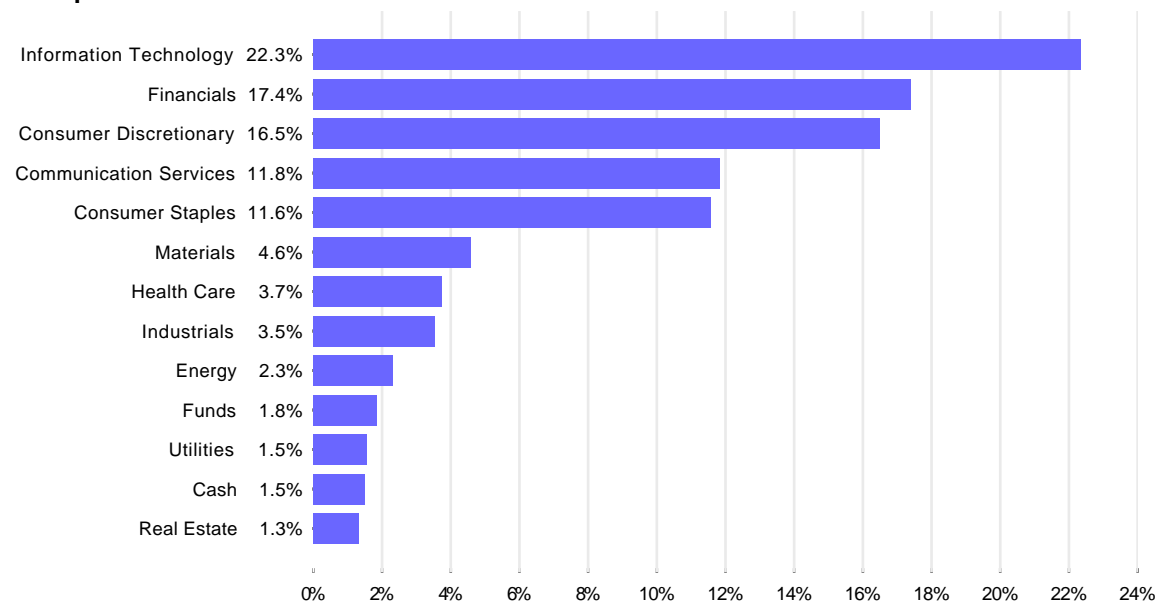
## Top 20 Holdings

	Mkt. Val.(GBP)
TAIWAN SEMICONDUCTOR MANUFAC	89,297,687
TENCENT HOLDINGS LTD	76,826,423
SAMSUNG ELECTRONICS CO LTD	55,730,304
ALIBABA GROUP HOLDING-SP ADR	39,587,891
ALIBABA GROUP HOLDING LTD	29,299,648
AIA GROUP LTD	26,601,209
SBERBANK PJSC -SPONSORED ADR	23,945,960
HDFC BANK LTD-ADR	18,606,234
WULIANGYE YIBIN CO LTD-A	17,909,559
ISHARES MSCI INDIA ETF	17,047,711
INFOSYS LTD-SP ADR	16,744,584
PING AN INSURANCE GROUP CO-H	15,403,375
SAMSUNG ELECTRONICS-PREF	14,668,798
MEDIATEK INC	13,882,994
NASPERS LTD-N SHS	13,795,543
CHINA CONSTRUCTION BANK-H	12,134,280
YANDEX NV-A	11,970,524
BID CORP LTD	10,949,038
NEW ORIENTAL EDUCATIO-SP ADR	10,515,580
BANK CENTRAL ASIA TBK PT	9,994,163

## Regional Exposure



## Sector Exposure





# Brunel Emerging Market Equity – Responsible Investment

## Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. TAIWAN SEMICONDUCTOR MANUFACTURING	64.2	40.8
2. DELTA ELECTRONICS INC	77.4	50.0
3. CHINA LONGYUAN POWER GROUP CORP LTD	69.8	50.0
4. OPAP SA	68.6	86.9
5. SINO-AMERICAN SILICON PRODUCTS INC	73.3	26.9
6. HANON SYSTEMS	71.0	84.0
7. MEDIATEK INC	59.8	36.4
8. GRUMA SAB DE CV	65.0	86.2
9. SBERBANK OF RUSSIA PISC	56.6	71.4
10. GLOBALWAFERS CO LTD	66.7	84.7

## Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. WAL-MART DE MEXICO SAB DE CV	42.6	73.1
2. TAL EDUCATION GROUP	42.0	13.4
3. GRUPO MEXICO SAB DE CV	43.3	33.0
4. COGNIZANT TECHNOLOGY SOLUTIONS CORP	34.1	40.0
5. NETEASE INC	40.6	70.4
6. PETROLEO BRASILEIRO SA	38.1	72.4
7. ALIBABA GROUP HOLDING LTD	51.0	29.5
8. WULIANGYE YIBIN CO LTD	40.9	89.2
9. SAMSUNG ELECTRONICS CO LTD	48.2	72.1
10. TENCENT HOLDINGS LTD	47.6	39.5

\*From Q4 onwards we have moved to the latest and enhanced version of TruValue Labs data.  
Please see supplementary note on the Client portal for more detail.

Weighted Average ESG Score	2020 Q3	2020 Q4
Portfolio	58.3	59.3
MSCI EM	57.5	59.0

TruValue Labs & SASB

\* Position 1 is the top contributor/detractor.



## Brunel Assessment:

- TAL Education Group (Education), China's biggest e-learning company, is under investigation by The United States Court of Appeals as a securities suit against the company is revived. Investors have come forward to support US claims that TAL are secretly controlling two companies in which they invest.
- Regulators in China have warned the country's tech giants that they face closer scrutiny as both Tencent and Alibaba are fined for failing to report past deals for anti-trust reviews. An investigation is underway by Chinese regulators who accuse Alibaba of 'suspected monopolist conduct'.
- MediaTek (Semiconductors) are launching a new line of smartphone chips and processors that will help bring more competition to affordable devices. The new chips are 28% more energy efficient, helping to reduce battery drain when using 5G, whilst the new processors should help to increase the supply of lower-cost laptops.

80% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.

The carbon intensity of the Portfolio and its benchmark increased over the quarter, following market movements. This was a result of falling revenues in the energy sector, causing the Weighted Average Carbon Intensity (WACI) measure (Tonnes CO<sub>2</sub>eq/\$m sales) to increase for certain companies. We continue to monitor the longer term WACI trend, alongside other carbon metrics.

## Weighted Average Carbon Intensity (WACI)



Source: Trucost

## Extractive Exposure

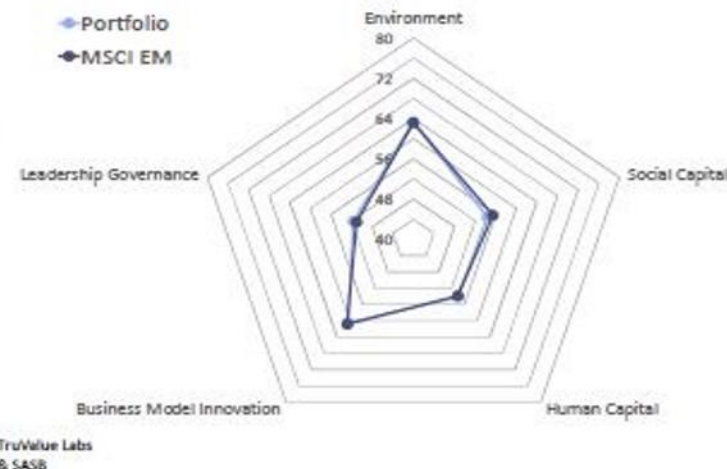
	Total Extractive Exposure <sup>1</sup>		Extractive Industries (VOH) <sup>2</sup>	
	Q3	Q4	Q3	Q4
Portfolio	3.0	2.5	3.1	4.0
MSCI EM	3.2	2.9	8.0	8.0

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

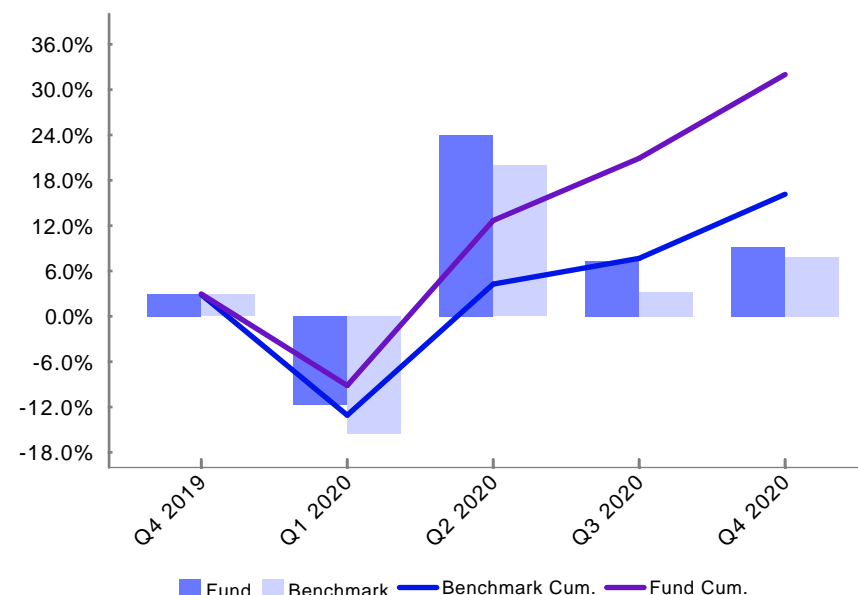
## Overview

	Description
Portfolio Objective:	Provide global equity market exposure together with excess returns from accessing leading managers.
Investment Strategy & Key Drivers:	High conviction, concentrated portfolios with strong style/factor biases invested in a unconstrained manner.
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:	£3,405,020,471

## Performance to Quarter End

	Ann. Performance	Fund	BM	Excess
3 Month		9.2%	7.9%	1.3%
Fiscal YTD		45.3%	33.6%	11.6%
1 Year		28.2%	12.9%	15.3%
3 Years				
5 Years				
10 Years				
Since Inception		29.6%	15.0%	14.6%

## Rolling Performance\*



\* Partial returns shown in first quarter

Over the quarter, global equity markets were driven by the announcement of an effective COVID-19 vaccine in November and, to a lesser extent, the US election in the same month. The market reacted positively, and developed market equities (proxied by MSCI World) delivered a return of 7.9% (in GBP terms) for the quarter. Within that aggregate performance, a significant market rotation occurred on the vaccine news, out of stocks deemed to have prospered from the COVID-19-induced slowdown, and into those stocks most hurt by the pandemic. The two best-performing sectors by far were energy and financials.

Against this backdrop, the sub-fund returned 9.2% over the quarter, outperforming the benchmark by 1.3%. Added to the strong relative returns since launch in December 2019, this amounted to an outperformance of 14.6% above benchmark since inception (on an annualised basis).

Over the reporting period, the outperformance was largely driven by stock selection, with particularly strong performance in the consumer discretionary and information technology sectors. On an allocation basis, the negative impact of being underweight the energy and financial sectors was offset by being underweight in poor-performing sectors such as consumer staples and utilities. On a country allocation basis, the sub-fund's underweight to the US and

## Continued Commentary

overweight to China did not drive performance during the quarter.

Manager performance continues to reflect the different investment styles of the managers. It was pleasing to see Harris perform strongly in market conditions that rewarded its value-driven approach.

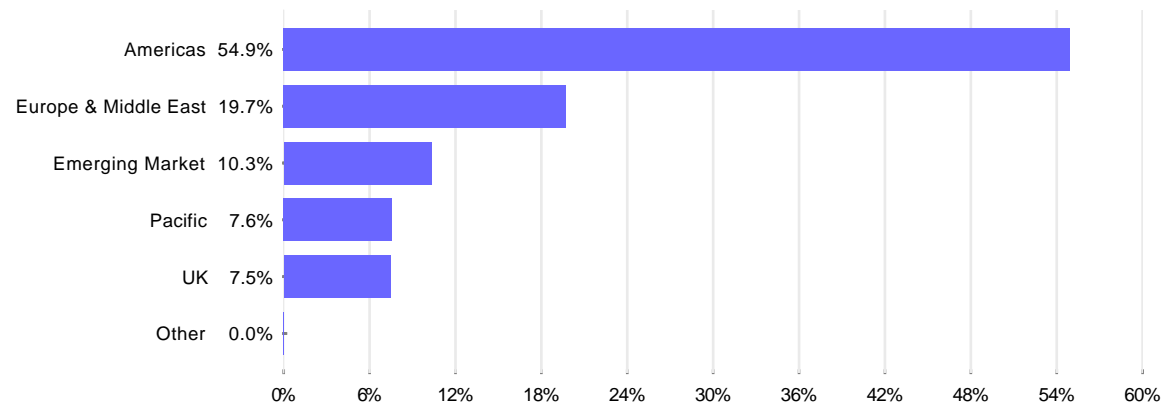
During the quarter, £45m was redeemed from the portfolio to help fund client investments in the Brunel Small Cap Global Equity Fund launch. The outflow was used to rebalance the manager allocations back towards target.

# Brunel Global High Alpha Equity – Region & Sector Exposure

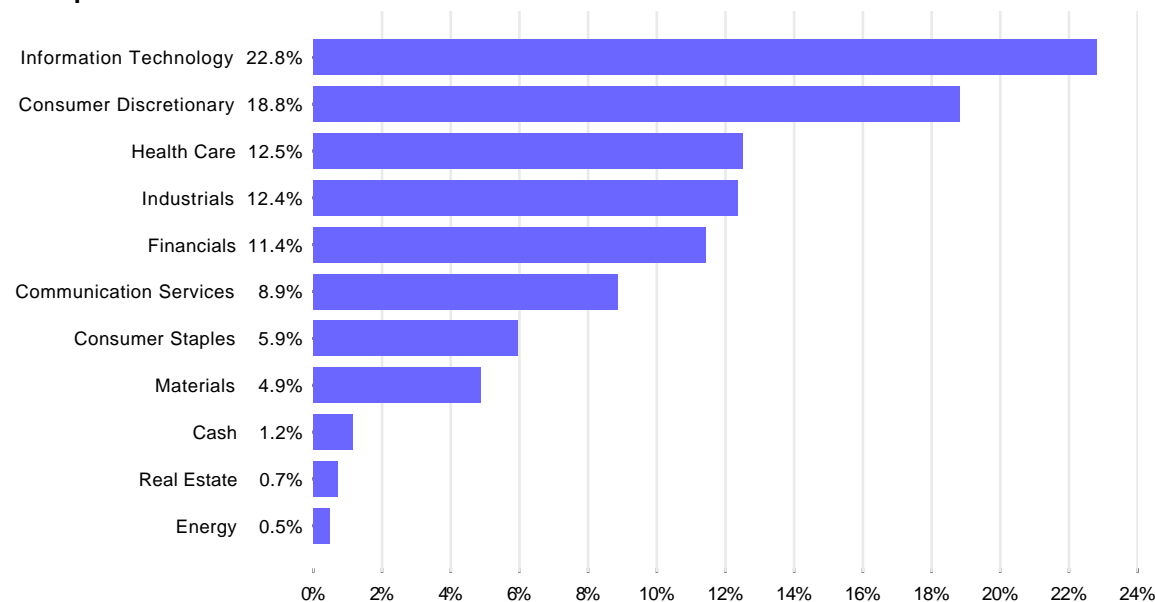
## Top 20 Holdings

	Mkt. Val.(GBP)
MICROSOFT CORP	120,589,293
MASTERCARD INC - A	99,931,678
KEYENCE CORP	81,569,128
ALPHABET INC-CL A	75,838,734
TAIWAN SEMICONDUCTOR-SP ADR	70,347,376
MOODY'S CORP	69,897,567
NESTLE SA-REG	63,101,900
TJX COMPANIES INC	61,940,713
TESLA INC	52,410,824
AMAZON.COM INC	51,938,485
ALIBABA GROUP HOLDING-SP ADR	50,346,388
SCHWAB (CHARLES) CORP	50,033,507
TENCENT HOLDINGS LTD	49,915,314
NIKE INC -CL B	49,584,863
JOHNSON & JOHNSON	49,391,837
FACEBOOK INC-CLASS A	45,725,708
ASML HOLDING NV	45,508,181
NIDEC CORP	43,333,153
APTIV PLC	37,846,732
MSCI INC	37,736,365

## Regional Exposure



## Sector Exposure





# Brunel Global High Alpha Equity – Responsible Investment

## Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. TAIWAN SEMICONDUCTOR MANUFACTURING	64.2	40.8
2. NIDEC CORP	64.3	29.4
3. ASML HOLDING NV	62.8	87.5
4. MIURATA MANUFACTURING CO LTD	66.1	86.3
5. NESTLE SA	59.6	57.0
6. EUROFINS SCIENTIFIC SE	68.8	91.5
7. ADMIRAL GROUP PLC	78.7	19.9
8. WORKDAY INC	73.7	28.5
9. RECRUIT HOLDINGS CO LTD	64.9	18.8
10. SPIRAX-SARCO ENGINEERING PLC	68.2	64.4

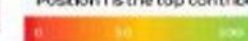
## Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. TENCENT HOLDINGS LTD	47.6	39.5
2. BECTON DICKINSON AND CO	42.7	73.8
3. NIKE INC	46.5	65.2
4. TJX COS INC/THE	47.4	31.3
5. MICROSOFT CORP	49.5	47.0
6. AUTOZONE INC	32.6	80.8
7. FACEBOOK INC	41.1	54.9
8. JOHNSON & JOHNSON	41.5	84.3
9. VERISK ANALYTICS INC	34.9	28.1
10. ALPHABET INC	44.6	62.2

\*From Q4 onwards we have moved to the latest and enhanced version of TruValue Labs data.

Please see supplementary note on the Client portal for more detail.

\* Position 1 is the top contributor/detractor.



Weighted Average ESG Score	2020 Q3	2020 Q4
Portfolio	58.6	58.6
MSCI World	58.4	58.6

TruValue Labs & SASB

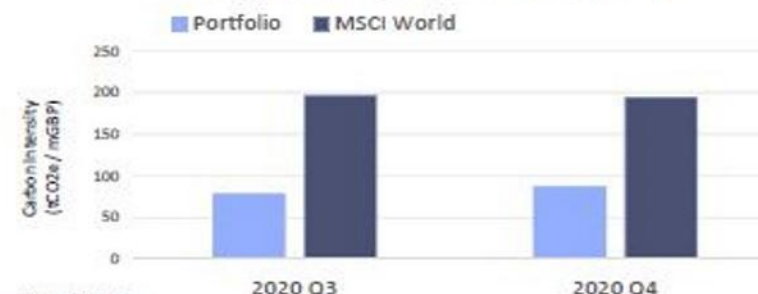
## Brunel Assessment:

- Verisk Analytics (Data Services)** services the insurance industry which was hit by Hurricane Laura. Verisk is focused on nurturing an inclusive environment with diverse perspectives, backgrounds, and people, with programs tailored to those who are starting or re-starting their careers. It has achieved 'Great Place to Work-Certified™' for the fifth time.
- Workday Inc (Software & IT Services)** has launched new VIBE™ Solutions to equip HR leaders to advance belonging and diversity. The VIBE index measures talent acquisition, development, promotion, employee experience and workplace culture.
- Recruit Holdings Co (Services)** provides platforms for job searching such as Indeed and Glassdoor. Glassdoor rolled out a new diversity and inclusion feature for jobseekers.
- Becton Dickinson and Co (Medical Equipment)** settled a \$60 million lawsuit over faulty surgical mesh. Positive momentum driven by the roll out of rapid covid detection tests.

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

The Portfolio continues to have a carbon intensity significantly lower than its benchmark. Revenues from extractive activity are half that of its benchmark.

## Weighted Average Carbon Intensity (WACI)



Source: TruCost

## Extractive Exposure

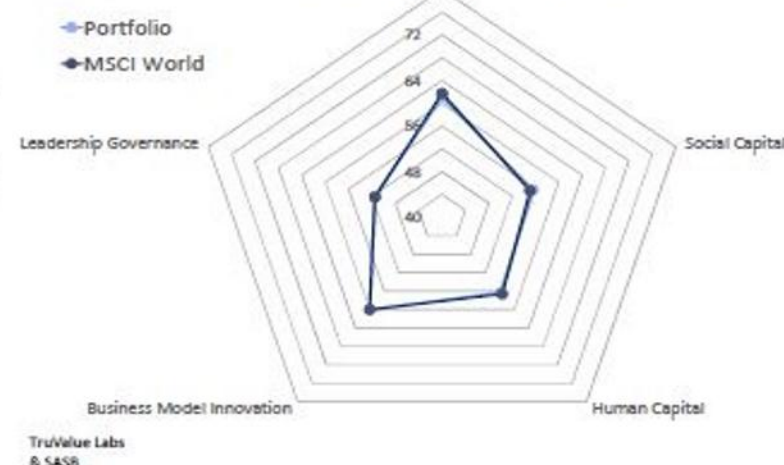
	Total Extractive Exposure <sup>1</sup>		Extractive Industries (VOH) <sup>2</sup>	
	Q3	Q4	Q3	Q4
Portfolio	1.8	1.6	2.8	3.3
MSCI World	3.3	3.2	7.4	7.5

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 Sustainable Equities

## Overview

## Performance to Quarter End

	Description	Ann. Performance	Fund	BM	Excess
Portfolio Objective:	To provide exposure to global sustainable equities markets, including excess returns from manager skill and ESG considerations.	3 Month			
		Fiscal YTD			
Investment Strategy & Key Drivers:	Actively managed, diversified by sector and geography. Consideration for a companies Environmental & Social sustainability.	1 Year			
		3 Years			
Liquidity:	Managed Liquidity.	5 Years			
		10 Years			
Risk/Volatility:	High, representing an equity portfolio.	Since Inception	6.9%	6.5%	0.4%
Total Fund Value:	£1,551,616,399				

The Global Sustainable Equity Fund launched on 19 October. Since the inception of the fund, the MSCI ACWI index has returned 6.5%, whilst the portfolio has returned 6.9% on a net-of-fees basis.

- On 9 November, Pfizer/BioNTech announced a Covid-19 vaccine, with 90% efficacy, that brought renewed hope to the cyclical value parts of the market that had largely underperformed in the year to date. In November, we also saw Joe Biden become president-elect and the Democrats come close to a "clean sweep" of the US House of Representatives and Senate, a result which was confirmed in January. This brought the potential for further stimulus to the US economy. The best-performing sectors since inception were energy and banks, returning 19% and 18% respectively. The portfolio is underweight to both sectors, as they are commonly represented by companies with weak sustainability characteristics.
- Given the headwinds faced by the portfolio, and on the back of a value rally, we are pleased that the fund has provided a level out performance, given that it is primarily growth/quality-focused. Nordea and RBC outperformed the benchmark and returned 7.4% and 7.3% respectively, with Ownership

## Continued Commentary

performing in line with the index, with returns of 6.5%.

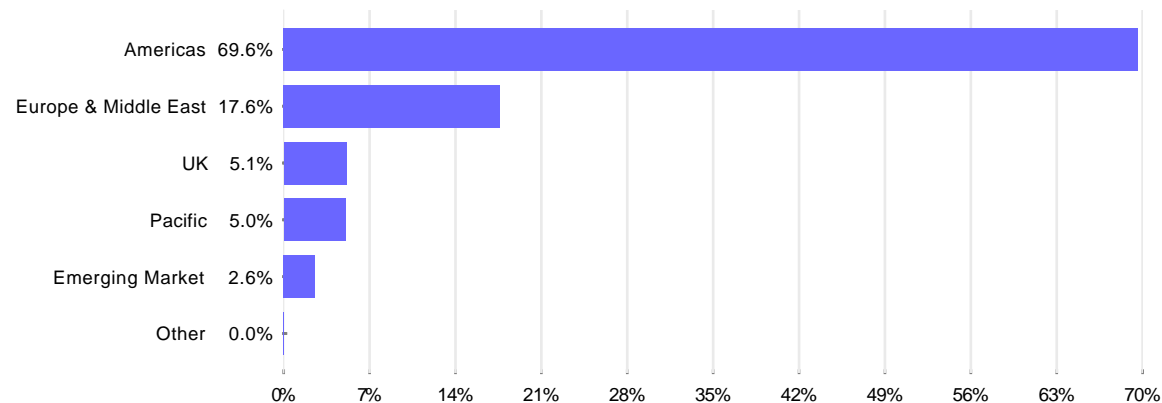
- We also take comfort that the three managers were able to generate alpha from different parts of the market through their stock selection, and that they therefore continue to provide diversification.
- Whilst it is still very early in this portfolio's journey, we are pleased with the performance shown so far. We are also pleased that the portfolio's sustainable characteristics are aligned with those expressed during the construction phase. The fund exhibits a carbon reduction outcome relative to the MSCI ACWI of ~40%, as well as demonstrating an ESG score that is superior to the benchmark, as measured by our ESG data provider.

# Brunel Global Sustainable Equities – Region & Sector Exposure

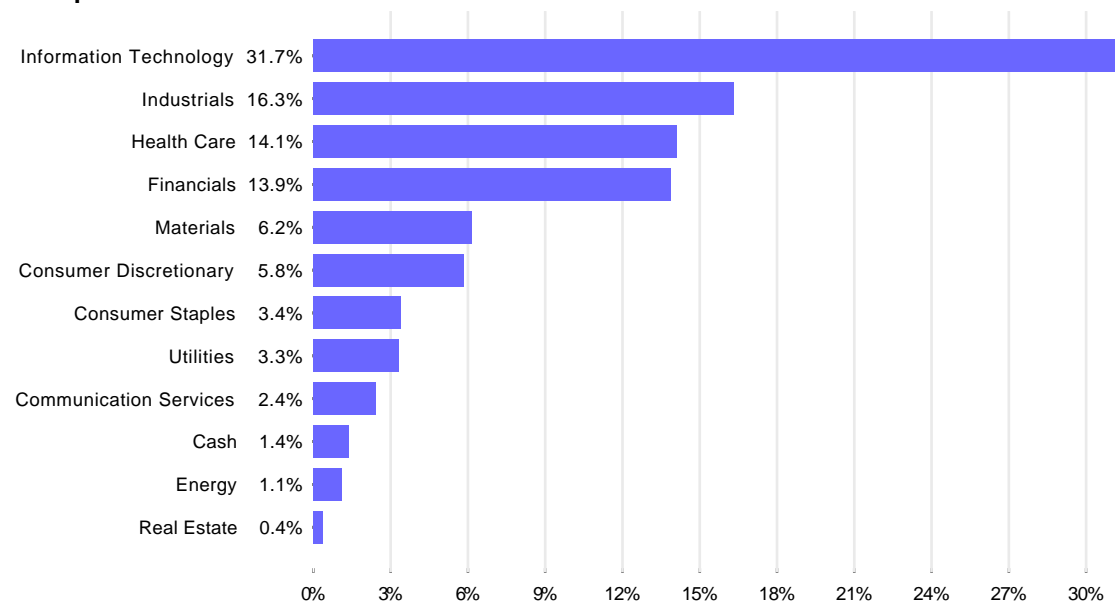
## Top 20 Holdings

	Mkt. Val.(GBP)
MARKETAXESS HOLDINGS INC	46,045,692
MASTERCARD INC - A	36,973,002
ANSYS INC	36,103,133
ADYEN NV	35,747,853
WORKDAY INC-CLASS A	28,021,492
PTC INC	27,648,779
MASIMO CORP	27,278,593
ECOLAB INC	22,881,179
INTUIT INC	22,112,893
EDWARDS LIFESCIENCES CORP	22,074,743
MICROSOFT CORP	21,974,819
INTERCONTINENTAL EXCHANGE IN	21,617,587
PAYPAL HOLDINGS INC	21,517,520
VERISK ANALYTICS INC	21,272,367
TRADEWEB MARKETS INC-CLASS A	20,597,786
ROCHE HOLDING AG-GENUSSCHEIN	20,149,116
TYLER TECHNOLOGIES INC	18,802,714
ALPHABET INC-CL A	18,322,893
UNITEDHEALTH GROUP INC	18,184,037
BIO-TECHNE CORP	18,096,331

## Regional Exposure



## Sector Exposure





# Brunel Global Sustainable Equities – Responsible Investment

## Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. WORKDAY INC	73.7	28.5
2. ECOLAB INC	71.4	62.4
3. ORSTED AS	72.3	34.8
4. ANSYS INC	65.1	67.9
5. PTC INC	65.5	71.8
6. MASIMO CORP	64.6	83.8
7. FORTIVE CORP	70.2	27.6
8. MARKETAXESS HOLDINGS INC	61.5	33.9
9. CRODA INTERNATIONAL PLC	70.3	21.3
10. TERADYNE INC	75.2	77.1

## Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. CME GROUP INC	44.9	32.1
2. AMAZON.COM INC	49.6	58.1
3. ROCHE HOLDING AG	50.5	38.1
4. VISA INC	48.3	45.1
5. TJX COS INC/THE	47.4	31.3
6. MICROSOFT CORP	49.5	47.0
7. PAYPAL HOLDINGS INC	49.0	70.5
8. INTERCONTINENTAL EXCHANGE INC	47.3	71.1
9. ALPHABET INC	44.6	62.2
10. VERISK ANALYTICS INC	34.9	28.1

\* From Q4 onwards we have moved to the latest and enhanced version of TruValue Labs data. Please see supplementary note on the Client portal for more detail.

Weighted Average ESG Score	2020 Q3	2020 Q4
Portfolio		62.9
MSCI ACWI		58.7

\* Position 1 is the top contributor/detractor.



TruValue Labs & SASB

## Brunel Assessment:

- Verisk Analytics (Data Services) services the insurance industry which was hit by Hurricane Laura. Verisk is focused on nurturing an inclusive environment with diverse perspectives, backgrounds, and people, with programs tailored to those who are starting or re-starting their careers. It has achieved 'Great Place to Work-Certified™' for the fifth time.
- Workday Inc (Software & IT Services) has launched new VIBE™ Solutions to equip HR leaders with advancing belonging and diversity. The VIBE index measures talent acquisition, development, promotion, employee experience and workplace culture.
- Ecolab (Services) has been named in CDP's climate and water security "A List", recognising the company as a global leader in corporate environmental ambition, action, and transparency.
- Alphabet (Big Tech) regulatory scrutiny continues to grow worldwide for tech giants. The EU is presenting rules that require providers to do more to tackle illegal content, misuse and political advertising. Anti-competition fines of up to 10% of annual turnover could be introduced.

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

As expected from this Sustainable Portfolio, the carbon intensity and exposure to extractive industries are significantly below benchmark. The Portfolio has considerably higher ESG scores compared to its Benchmark across Environment, Social and Human Capital categories.

## Weighted Average Carbon Intensity (WACI)



Source: Trucost

## Extractive Exposure

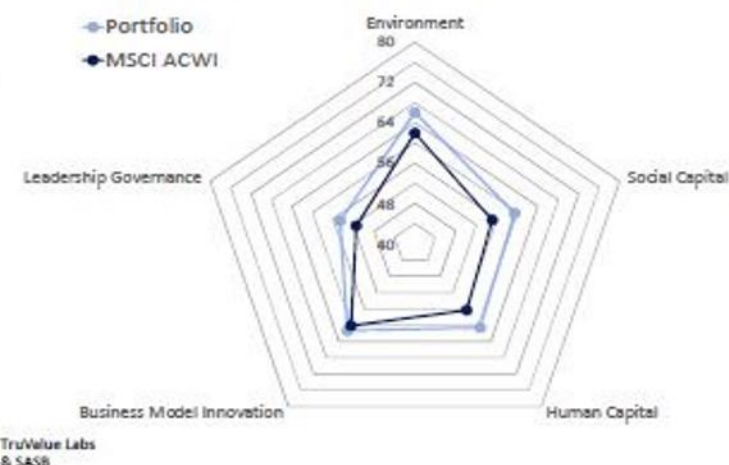
	Total Extractive Exposure <sup>1</sup>		Extractive Industries (VOH) <sup>2</sup>	
	Q3	Q4	Q3	Q4
Portfolio		1.7		3.4
MSCI ACWI		3.1		7.5

<sup>1</sup> Extractive revenue exposure as share (%) of total revenue.

<sup>2</sup> 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 ( <b>Brunel</b> )		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 ( <b>CFO</b> )		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 ( <b>CLO</b> )		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.
Collective Investment Scheme ( <b>CIS</b> )		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 ( <b>CAD policy</b> )		Brunel procedure for creation, amendment and deletion of portfolios
Cross Pool Collaboration Group ( <b>CPCG</b> )		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 <b>(ESG)</b>		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 <b>(FBC)</b>		Strategic, financial, economic, commercial and management case.
Finance and Legal Assurance Group <b>(FLAG)</b>		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 <b>(FCA)</b>		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 <b>(FOI)</b>		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 <b>(IIGCC)</b>		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 <b>(IMA)</b>		The contract with a fund manager
Investment Strategy Statement <b>(ISS)</b>	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 <b>(KYC)</b>		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 <b>(LGIM)</b>		Investment management firm
Local Government Association <b>(LGA)</b>		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 <b>(LAPF)</b>		A magazine for local authority pension investment specialists.
Local Authority Pension Fund Forum <b>(LAPFF)</b>		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 <b>(LGPS)</b>		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 <b>(LGPS)</b>		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 <b>(MiFID II)</b>	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, NED	To oversee key functions of the Regulated Company, including: <ul style="list-style-type: none"> <li>- Financial and Annual reporting</li> <li>- Internal controls</li> <li>- Compliance and whistleblowing</li> <li>- External audit function</li> </ul>
Brunel Investment Committee	BIC	CIO	Formal meeting of the Brunel Investment Team, covering: <ul style="list-style-type: none"> <li>- Economic and Markets update</li> <li>- Responsible Investment update</li> <li>- Stakeholder input (from Client Relations Team)</li> <li>- Investment proposals (private and listed markets)</li> <li>- Procedures</li> <li>- Forward look</li> </ul>
Brunel Investment Risk Committee	BIRC	CIO	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 Oversight Board has been established by the administering authorities participating in the Brunel Pension Partnership. Acting for the administering authorities in their capacity as shareholders in, and clients of, Brunel, the Oversight Board will have responsibility for ensuring that Brunel delivers the services required to achieve investment pooling across the 10 LGPS funds comprising the Brunel Pension Partnership. The Oversight Board shall comprise of one individual appointee of each administering authority participating in the Brunel Pension Partnership. In addition to the individuals appointed by each of the administering authorities, two members representing Fund members shall be entitled to attend and contribute to meetings of the Oversight Board.
Brunel Operations Committee	BOC	COO	To review the detailed elements of Brunel's operations, including: <ul style="list-style-type: none"> <li>- Technology and infrastructure</li> <li>- HR policies</li> </ul>



# Brunel Committees and Groups

Full name	Abbreviation	Chair	Purpose
Brunel Operations Committee	BOC	COO	<ul style="list-style-type: none"> <li>- Regulatory change (and compliance with)</li> <li>- Finance</li> <li>- Managing supplier relationships</li> <li>- ICAPP oversight</li> </ul>
Brunel Risk and Compliance Committee	BRCC	DoR & GC	Second line review overseeing the Compliance and Risk function
Client Group	CG	Sean Collins	Client Group has been established by the administering authorities participating in the Brunel Pension Partnership. Acting for the administering authorities in their capacity as shareholders in, and clients of, Brunel, the Client Group will provide practical and technical support, guidance and assistance to the Oversight Board in its strategic role of ensuring that Brunel delivers the services required to achieve investment pooling across the 10 LGPS funds comprising the Brunel Pension Partnership. Client Group shall comprise of at least one individual appointee of each administering authority participating in the Brunel Pension Partnership.
The Executive Committee	ExCo	CEO	<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"> <li>- Chief Executive Officer</li> <li>- Chief Investment Officer</li> <li>- Chief Operations Officer</li> <li>- Client Relationship Director</li> </ul>
Remuneration Committee	RemCo	Mike Clark, NED	In line with the Shareholders Agreement, to set and monitor remuneration policy including that for senior management remuneration.

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	26 February 2021	AGENDA ITEM NUMBER 11
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 for 2021. 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
26 February 2021	Strategic <ul style="list-style-type: none"><li>• Review of equity portfolio</li><li>• Brunel presentation - Overview of Private Market Portfolios</li><li>• Decision whether to top up allocation to Private Market portfolios in 2021 (current cycle)</li><li>• Dynamic Hedging strategy counterparty proposal (if required)</li></ul> Monitoring <ul style="list-style-type: none"><li>• Update on pooling</li><li>• Investment performance</li><li>• Risk Management Framework</li></ul>
28 May 2021	Strategic <ul style="list-style-type: none"><li>• Brunel – CIO overview</li><li>• Review of equity portfolio (part 1)</li></ul> Monitoring <ul style="list-style-type: none"><li>• Update on pooling</li><li>• Investment performance</li><li>• Risk Management Framework</li></ul>
10 September 2021	Strategic <ul style="list-style-type: none"><li>• Brunel update on listed market portfolios</li><li>• Review of equity portfolio (part 2)</li></ul> Monitoring <ul style="list-style-type: none"><li>• Update on pooling</li><li>• Investment performance</li><li>• Risk Management Framework</li></ul>
19 November 2021	Strategic <ul style="list-style-type: none"><li>• Cycle 3 Private Market commitments</li></ul> Monitoring <ul style="list-style-type: none"><li>• Update on pooling</li><li>• Investment performance</li><li>• Risk Management Framework</li></ul>

### 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.

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

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