HEALTH WEALTH CAREER

AVON PENSION FUND

PANEL INVESTMENT PERFORMANCE REPORT QUARTER TO 31 DECEMBER 2015

FEBRUARY 2016

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CONTENTS

SECTION 1
EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

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

Fund performance

- The value of the Fund's assets increased by £104m over the quarter, to £3,705m at 31 December 2015.

Strategy

- Global (developed) equity returns over the last three years at 13.6% p.a. have been significantly ahead of the assumed strategic return of 8.25% p.a. from the strategic review in March 2013. We remain neutral in our medium term outlook for developed market equities (over the next one to three years), and expect returns to be more modest over the next three years.

- The three year return from emerging market equities has fallen to -2.9% p.a. from -2.2% p.a. last quarter. The three year return remains well below the assumed strategic return (of 8.75% p.a.) as returns were affected by an ongoing commodity price slump, a stronger US dollar and slowing growth in China. As with developed markets, we are neutral in our medium term outlook for emerging market equities over the next one to three years.

- UK government bond returns over the three years to 31 December 2015 remain above the long term strategic assumed returns (with fixed interest gilts returning 5.9% p.a. against an assumed return of 4.5% p.a., and index-linked gilts returning 6.4% p.a. versus an assumed return of 4.25% p.a.) as investor demand for gilts remains high. Whilst from an absolute return perspective government bonds remain unattractive due to the low yields available, we continue to believe that their role in the context of the overall portfolio is important from a liability risk management perspective.

Strategy (continued)

- UK corporate bonds returned 4.5% p.a. over the three year period, falling behind their assumed return of 5.5% p.a., while property returns of 14.6% continue to be substantially above the assumed strategic return of 7% p.a.
- Hedge fund returns remain below long term averages and the strategic return of 6% p.a., as they are affected by low cash rates.
- With most listed assets looking close to fully valued, if not fully valued, we would expect ‘alpha’ driven investments such as hedge funds and dynamic multi-asset strategies to play an increasingly important role in return generation over the coming three years, particularly if ‘beta’ (i.e. market-driven) returns are lower looking forward. In light of reduced market liquidity, we also see opportunities for more dynamic and active strategies to add value, and believe that there are likely to be opportunities arising in distressed debt given the maturing credit cycle. Asset classes that can provide a reliable source of income such as Long Lease Property, Private Debt and Infrastructure also offer relatively attractive sources of return, in our view, given the current market outlook.

EXECUTIVE SUMMARY

Managers

- Absolute returns of the managers over the quarter were all positive. Unlike Q3, risky assets had a positive quarter, in particular equities. State Street's Asia Pacific equity mandate delivered the highest positive return, whilst JP Morgan had the biggest relative return (at 4.1% relative to a benchmark return of 0.9%).
- Returns over the year were also positive. The Fund's global equity mandates in particular fared well, however emerging market returns for the year were disappointing given the turmoil in China, the strong dollar and plummeting oil prices, with Genesis and Unigestion returning -10.0% and -7.5% respectively, (the latter still meeting its outperformance target despite the negative return, reflecting its lower volatility premise).
- Over three years, all mandates with a three year track record produced positive absolute returns (with the exception of Genesis), with Partners failing to beat its benchmark (although see comments on the measurement of their performance later). In addition, Schroder failed to achieve its three-year performance objective for the property and global equity mandates, despite both beating their benchmarks. The remainder of the active managers achieved their objectives.
- Over the quarter, Jupiter announced that Chris Watt (the portfolio manager for their Responsible Income Fund) is leaving the firm. While this doesn't directly affect the Fund's segregated mandate, which are managed by Charlie Thomas (rather than Watt), Thomas will be taking over Watt's role on the Responsible Income Fund, which could be a stretch on his time. It also brings into question whether Jupiter's Environmental and Sustainability investment team will be sufficiently resourced. Our researchers will be following up with Jupiter to determine if there has been any change to the ESG process. Our rating of 'B' is not being changed as a result, but we suggest the strategy is monitored.

EXECUTIVE SUMMARY

Key points for consideration

- Over the quarter, the transition of the hedge fund mandate to JP Morgan was largely completed. A major divestment of £49.2m was taken from Gottex on 16 November 2015, whilst £33.0m was divested from Signet (final tranche occurred on 4 December 2015). As at the end of the quarter, residual balances remain in these two funds until conditions to sell these down are met.

- Global and regional equity markets produced positive performance over the quarter, leading to the Fund's asset level increase. Over the quarter, this positive experience was helped by rising gilt yields, meaning the present value of the liabilities is expected to have decreased.

- The beginning of 2016 has however seen considerable volatility, with the FTSE All World returning -6.4% YTD to 5 February 2016, more than offsetting the gain of 4% made over 2015. Index-Linked Gilts (a proxy for the liabilities on the current funding basis) returned 5.6% YTD to 5 February 2016 as real yields fell.

- The Fund is in the process reviewing the Stabilising Asset portfolio and, as agreed at the last Panel meeting, is transitioning the current fixed interest gilts and overseas government bonds to index-linked gilts. This is expected to be completed in Q1 2016, depending on market conditions. Further discussion on liability risk management will be undertaken at the March 2016 funding and investment Committee workshop.

- The infrastructure mandate remains unfunded as yet, with the Fund having a commensurate overweight holding in developed equities.

EXECUTIVE SUMMARY
MANAGER INFORMATION

Manager	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	ESG	Page
BlackRock	Passive Multi-Asset	✓	✓	✓	P2	*27*
Jupiter	UK Equities	-	✓	✓	N	*28*
TT International	UK Equities	-	✓	✓	3	*29*
Schroder	Global Equities	✓	-	-	2	*30*
Genesis	Emerging Market Equities	✓	✕	✓	3	*31*
Unigestion	Emerging Market Equities	-	✓	N/A	N	*32*
Invesco	Global ex-UK Equities	✓	-	✓	4	*33*
SSgA	Europe ex-UK Equities	-	✓	✓	N	*34*
SSgA	Pacific inc. Japan Equities	-	-	✓	N	*35*

Meets criteria	✓	A or B+ rating; achieved performance target
Partially meets criteria	-	B, N or R rating; achieved benchmark return but not performance target
Does not meet criteria	✕	C rating; did not achieve benchmark

Focus Points

- Jupiter has informed us that Chris Watt, UK Equities (SRI) portfolio manager, will be leaving the firm. See page 28 for detail.
- Genesis has announced that investment manager Evgeny Kuznetsov has left the firm. See page 31 for detail.
- SSgA has informed us that President Greg Ehret is leaving the firm. See page 34 for detail.
- There were no changes to any ratings over the quarter.

EXECUTIVE SUMMARY
MANAGER INFORMATION CONTINUED

Manager	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	ESG	Page
Pyrford	**DGF**	-	✕	N/A	N	*36*
Standard Life	**DGF**	✓	N/A	N/A	4	*37*
JP Morgan	**Fund of Hedge Funds**	✓	N/A	N/A	N	*39*
Schroder	**UK Property**	-	✕	-	3	*42*
Partners	**Global Property**	✓	✕	✕	4	*43*
RLAM	**Bonds**	✓	-	✓	3	*44*
Record Currency Management	**Currency Hedging**	-	N/A	N/A	N	*45*

Meets criteria	✓	**A or B+ rating; achieved performance target**
Partially meets criteria	-	**B, N or R rating; achieved benchmark return but not performance target**
Does not meet criteria	✕	**C rating; did not achieve benchmark**

Focus Points

- Partners' performance relative to benchmark is explained in more detail on page 43.
- There were no changes to any ratings over the quarter.

SECTION 2
MARKET BACKGROUND

MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

All major equity markets posted a positive return over the quarter with global equities delivering a return of 8.1% and 5.9% in sterling and local currency terms respectively. Small capitalisation stocks, as measured by the FTSE World Small Cap Index, posted a positive return but underperformed the broader equity market, returning 6.7% and 3.8% respectively in sterling and local currency terms.

Japan was the strongest performing equity market, returning 12.5% in sterling and 9.9% in local currency terms, remaining supported by the extremely accommodative monetary policy regime and exceptional growth of corporate profits. In contrast, emerging markets were the worst performing region, returning 3.1% and 1.2% in sterling and local currency terms respectively.

In the UK, the FTSE All-Share Index delivered a positive return of 4.0% over the quarter but underperformed the global equity market, partly due to a relative overweight to oil and gas stocks and a relative underweight to technology stocks. Within the UK, large capitalisation stocks, as represented by the FTSE 100 Index, continued to underperform the smaller segments of the market represented by the FTSE 250 and FTSE Small Cap indices, largely due to the ongoing weakness of resource-led stocks which constitute a significantly larger proportion of the FTSE 100 Index.

Bond Market Review

Bond yields rose across all maturities over the quarter, resulting in negative returns for investors.

In the UK, government bond yields increased by c.10-20 bps across the curve, with the increase most pronounced at medium to long end of the curve. Despite this, nominal yields remain well below long-term average levels.

Real yields also rose over the quarter, with the Over 5 Year Index-Linked Gilts Index posting a negative return of 3.3%.

Credit spreads narrowed over the quarter by c.10 bps and amounted to c.1.4% for both the Sterling Non-Gilts All Stocks and Sterling Non-Gilts Over 10 Year indices at the end of December. The benefit from the narrowing of credit spreads along with the income earned on corporate bond investment more than offset the negative impact of a rise in gilt yields, leading UK credit assets to post a positive return of 0.5% in sterling terms.

Currency Market Review

Over the quarter, sterling depreciated by 2.7% and 2.3% against the US dollar and Japanese yen, respectively, but stayed largely unchanged against the euro. The relative appreciation of the US dollar was due to strengthening economic fundamentals in the US and the Federal Reserve Bank's decision to raise short-term policy rates.

Commodity Market Review

Commodity prices continued their fall over the quarter with energy prices leading the decline on the back of concerns over an energy supply glut, wavering consumer demand and US dollar strength. As at end December, Brent Crude Oil traded around $35.70/barrel, a decrease of c.24.9% over the quarter.

The negative price impact from the stronger US dollar also led to a fall in gold prices over the period by 4.7% with gold trading at $1,062/oz at end December.

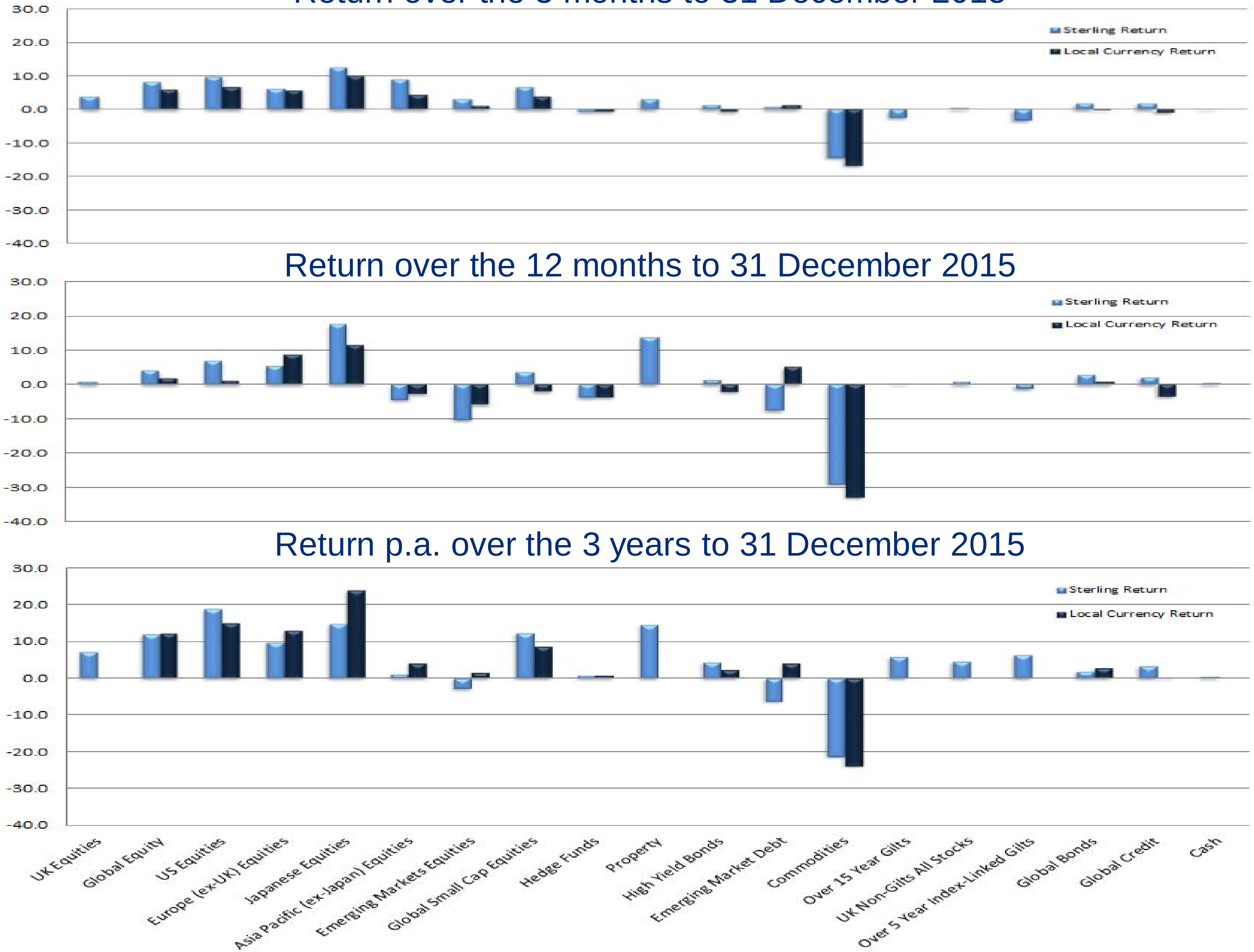
Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE

Return over the 3 months to 31 December 2015

Return over the 12 months to 31 December 2015

Return p.a. over the 3 years to 31 December 2015



Source: Thomson Reuters Datastream.

SECTION 3

STRATEGIC ASSUMPTIONS

MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.25	13.6	*Remains significantly ahead of the assumed strategic return.* *This has increased from 11.3% p.a. as the latest quarter's return of 8.6% was considerably higher than the 2.2% return of Q4 2012, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.75	-2.9	*The three year return from emerging market equities has fallen from -2.2% p.a. last quarter, despite a return of 3.1% experienced last quarter as this was lower than the quarter that fell out (5.1%). The three year return remains considerably below the assumed strategic return.*
Diversified Growth	Libor + 4% / RPI + 5%	4.5 / 6.8	*DGFs are expected to produce an equity like return over the long term but with lower volatility – this is the basis for the Libor and RPI based benchmarks. Low cash rates means that the Libor based benchmark has significantly underperformed the inflation (RPI) based benchmark and the long term expected return from equity. During periods of strong equity returns, such as the recent three year period, we would expect DGF to underperform equities.*
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	4.5	5.9	*UK gilt returns remain above the long term strategic assumed return as yields remain low relative to historic averages. Returns have decreased compared to the previous quarter as a result of the rise in yields (and hence negative total returns) experienced in the last quarter. Corporate bond returns have also reduced this quarter, and looking back over three years continue to be below the strategic assumed return.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	4.25	6.4	
UK Corporate Bonds (BofAML Sterling Non Gilts)	5.5	4.5	
Overseas Fixed Interest (JP Morgan Global Government Bonds ex UK)	5.5	0.9	*Although still lagging the strategic assumed return, the 3 year performance from overseas fixed interest is now in positive territory due to positive returns this quarter.*
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	6.0	0.8	*Hedge fund returns remain below long term averages and the strategic return, as they are affected by low cash rates. Volatility remains low and recent returns have fallen slightly. It should be noted that the index includes a wide variety of strategies that may have had very divergent returns.*
Property (IPD UK Monthly)	7.0	14.6	*Property returns continue to be above the expected returns, driven by the economic recovery in the US and the UK.*

Source: Thomson Reuters Datastream.

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q1 2016

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

Mercer's current DAA position/view

Position/view last time (if changed)

DEVELOPED MARKET EQUITIES

- ✓ Monetary policy remains generally supportive of equity markets
- ! Valuations have risen and, in the US in particular, are looking more expensive
- ! Continued concerns over global growth have led to a deterioration in market sentiment and increased volatility

EMERGING MARKET EQUITIES

- ✓ Valuations are well below long-term averages, though vary by region and country
- ! Risk of further currency depreciation including devaluation of Chinese Renminbi
- ! Interrelated headwinds include slowing Chinese growth, weak commodity prices and strong US dollar

These charts summarise Mercer's views on the medium term outlook for returns from the key asset classes; by medium term we mean one to three years. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect investors to make frequent tactical changes to their asset allocation based upon these views. These are also based from the view of an absolute return investor, and so do not take into account pension scheme liabilities.

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q1 2016

FIXED INTEREST GILTS (ALL STOCK)

- ✓ Ongoing extraordinary monetary policy and concerns over slowing growth continues to restrain upward yield moves
- ! Valuations remain stretched by historical norms
- ! US monetary policy normalising could hurt performance of fixed income assets

INDEX-LINKED GILTS

- ✓ Real yields continue to trade below long-term averages
- ✓ Breakeven inflation levels at cyclical lows due to weak commodity prices
- ! Core inflation expectations continue to fall amid concerns China may remain a deflationary force at the global level

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q1 2016

NON-GOVERNMENT BONDS (£ ALL-STOCK)

- ✔ While credit spreads have tightened marginally over the quarter, these remain favourable relative to current default rates
- ! Yields remain historically low and lack of trading liquidity has led to risk of increased volatility
- ! General consensus that credit cycle is fairly mature and prospective returns are relatively limited

UK PROPERTY

- ✔ Yields remain reasonable relative to other assets, despite a decrease in Q4
- ! Supply starting to come to market, leading to less favourable supply-demand imbalances
- ! Cautious of opportunistic strategies, and of London market over-heating

SECTION 4
FUND VALUATIONS

FUND VALUATIONS
VALUATION BY ASSET CLASS

Asset Allocation

Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Target Strategic Benchmark (%)	Ranges (%)	Difference (%)
Developed Market Equities	1,568,521	1,685,268	43.6	45.5	40.0	35 - 45	+5.5
Emerging Market Equities	293,957	302,627	8.2	8.2	10.0	5 - 15	-1.8
Diversified Growth Funds	357,914	365,235	9.9	9.9	10.0	5 - 15	-0.1
Fund of Hedge Funds	157,291	201,841	4.4	5.4	5.0	0 - 7.5	+0.4
Property	327,832	343,969	9.1	9.3	10.0	5 - 15	-0.7
Infrastructure	-	-	-	-	5.0	0 - 7.5	-5.0
Bonds	761,311	753,425	21.1	20.3	20.0	15 - 35	+0.3
Cash (including currency instruments)	133,923	52,665	3.7	1.4	-	0 - 5	+1.4
Total	**3,600,749**	**3,705,031**	**100.0**	**100.0**	**100.0**		**0.0**

Source: WM Performance Services, Mercer. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges.

Invested assets increased over the quarter by £104m due to positive returns across major asset classes. At the end of the quarter, developed market equities were overweight relative to benchmark (and outside the range in the SIP); this will be drawn down to fund the Infrastructure mandate.

FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
BlackRock	Passive Multi-Asset	1,099,762	-3,012	1,133,399	30.5	30.6
Jupiter	UK Equities	168,771	-	176,056	4.7	4.8
TT International	UK Equities	193,736	-	205,993	5.4	5.6
Schroder	Global Equities	232,442	-	253,171	6.5	6.8
Genesis	Emerging Market Equities	132,393	-	136,357	3.7	3.7
Unigestion	Emerging Market Equities	161,564	-	166,270	4.5	4.5
Invesco	Global ex-UK Equities	260,036	-	284,392	7.2	7.7
SSgA	Europe ex-UK & Pacific inc. Japan Equities	109,756	-	119,872	3.0	3.2
Pyrford	DGF	120,916	-	123,750	3.4	3.3
Standard Life	DGF	236,999	-	241,485	6.6	6.5

Source: WM Services, Avon. Totals may not sum due to rounding.

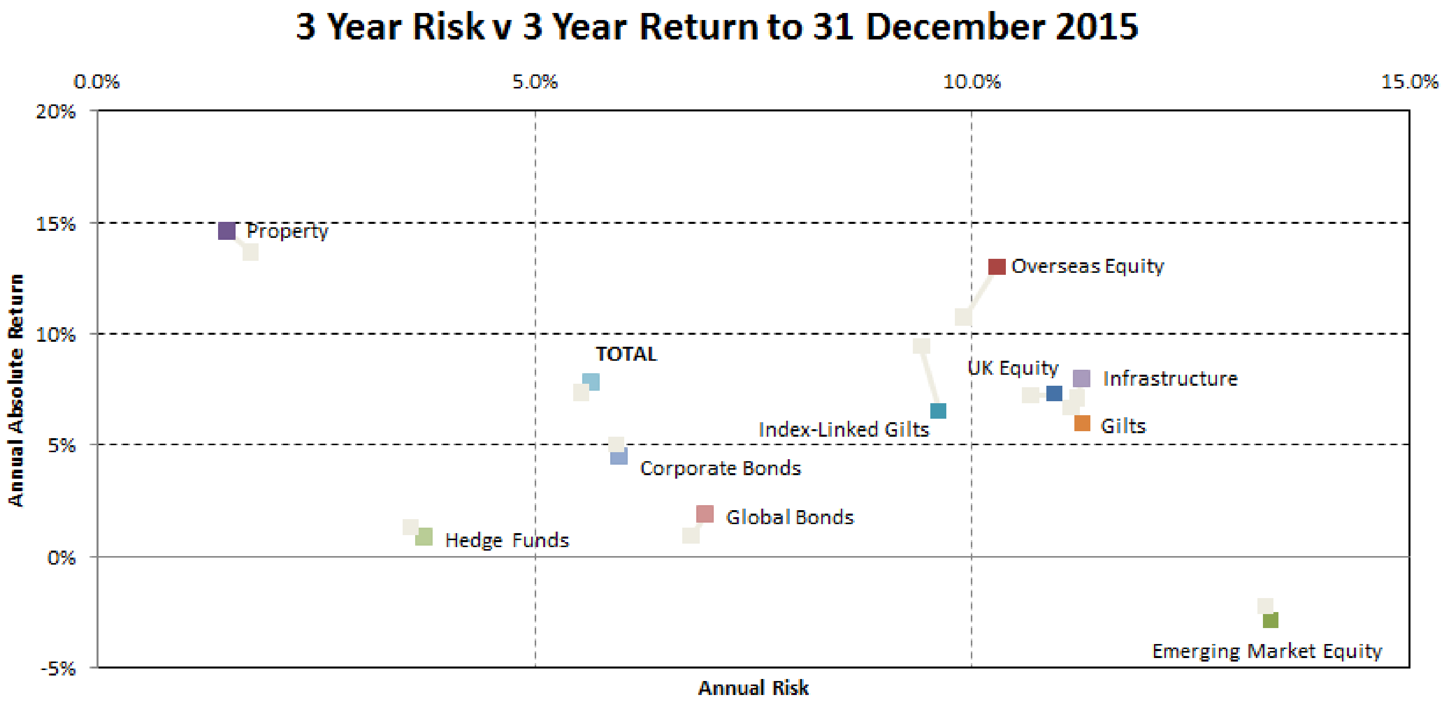
FUND VALUATIONS
VALUATION BY MANAGER CONTINUED

Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
MAN	Fund of Hedge Funds	593	-	814	0.0	0.0
Signet	Fund of Hedge Funds	38,877	-32,957	5,186	1.1	0.1
Gottex	Fund of Hedge Funds	58,405	-49,249	9,564	1.6	0.3
JP Morgan	Fund of Hedge Funds	59,416	119,391*	186,277	1.7	5.0
Schroder	UK Property	189,410	-	194,007	5.3	5.2
Partners	Property	150,487	-	151,610	4.2	4.1
RLAM	Bonds	281,004	-	282,045	7.8	7.6
Record Currency Management	Currency Hedging	3,430	-	-17,595	0.1	-0.5
Internal Cash	Cash	102,710	-34,129*	52,377	2.9	1.4
Total		**3,600,749**	**44**	**3,705,031**	**100.0**	**100.0**

Source: WM Services, Avon. Totals may not sum due to rounding. *Includes £59.6m in transition from internal cash to JP Morgan as at 30 September 2015, which was counted as cash in the Q3 2015 report and included in the Internal Cash figure above as at the start of the quarter.

SECTION 5
PERFORMANCE SUMMARY

MANAGER MONITORING
RISK RETURN ANALYSIS

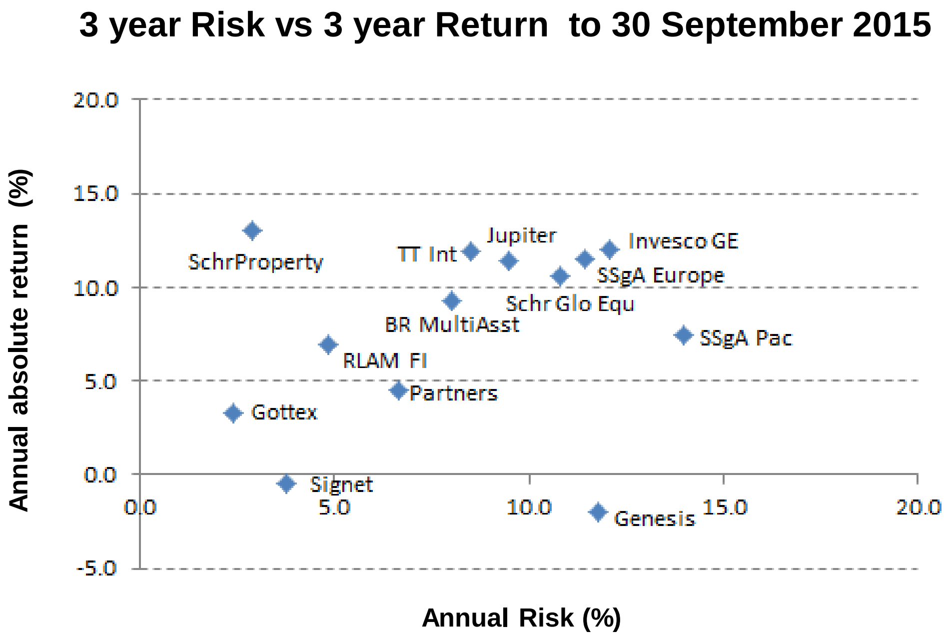


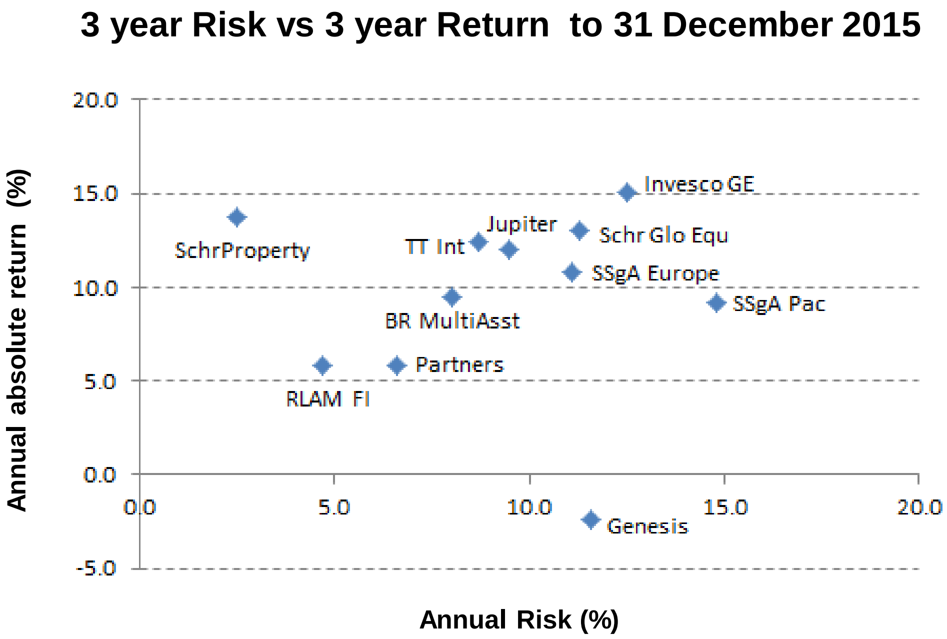
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of December 2015, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark indices and allocations from WM Services). We also show the positions as at last quarter, in grey.

Comments

- *There were limited shifts in observed returns and volatilities over the quarter, the two significant movements being an increase in returns and volatility for overseas equity (on the back of observed strong performance), and a drop in observed returns for gilts as yields rose.*

MANAGER MONITORING
RISK RETURN ANALYSIS





Comments

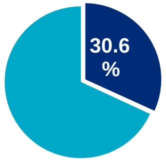
- *In general absolute returns of the funds increased over the quarter, whilst volatility remained relatively stable. This impact was most noticeable in Schroder and Invesco global equity funds as well as SSgA Pacific inc. Japan equity fund given the significantly positive returns delivered by those equity markets.*

MANAGER MONITORING
MANAGER PERFORMANCE TO 31 DECEMBER 2015

Manager / fund	3 months (%)			1 year (%)			3 year (% p.a.)			3 year outperformance target (% p.a.)	3 year performance versus target
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative		
BlackRock Multi-Asset	3.4	3.4	0.0	2.8	2.7	0.1	9.6	9.5	0.1	-	Target met
Jupiter	4.2	4.0	0.2	5.4	1.0	4.4	12.2	7.3	4.6	+2	Target met
TT International	6.3	4.0	2.2	9.9	1.0	8.8	12.5	7.3	4.9	+3-4	Target met
Schroder Equity	8.7	8.1	0.6	6.7	3.8	2.8	12.9	11.8	1.0	+4	Target not met
Genesis	3.4	3.5	-0.1	-10.0	-9.7	-0.4	-2.6	-3.4	0.8	-	Target met
Unigestion	2.9	3.5	-0.5	-7.5	-10.0	2.7	N/A	N/A	N/A	+2-4	N/A
Invesco	9.4	8.8	0.5	5.5	5.5	0.0	15.2	14.0	1.0	+0.5	Target met
SSgA Europe	6.1	6.2	-0.1	6.5	5.2	1.2	10.9	10.1	0.8	+0.5	Target met
SSgA Pacific	10.9	11.6	-0.6	8.5	8.5	0.0	9.3	8.3	1.0	+0.5	Target met
Pyrford	2.3	1.6	0.7	2.1	6.2	-3.9	N/A	N/A	N/A	-	N/A
Standard Life	1.7	1.4	0.4	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
JP Morgan	4.1	0.9	3.2	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Schroder Property	2.5	2.8	-0.3	11.9	12.5	-0.5	13.6	12.9	0.6	+1	Target not met
Partners Property	3.2	1.1	2.1	5.8	12.3	-5.8	5.9	11.0	-4.6	+2	Target not met
RLAM	0.4	0.4	0.0	1.0	0.5	0.5	5.8	4.4	1.4	+0.8	Target met
Internal Cash	0.1	0.1	0.0	0.3	0.3	0.0	0.4	0.4	0.0	-	N/A

Source: WM Services, Avon.
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).
A summary of the benchmarks for each of the mandates is given in Appendix 1.

SECTION 6
MANAGER PERFORMANCE



BLACKROCK – PASSIVE MULTI-ASSET (POOLED EQUITIES, SEGREGATED BONDS)
£1,133.4M END VALUE *(£1,099.8M START VALUE)*

Item Monitored	Outcome
Mercer Rating	A (no change over period under review). ESGp2 for equities
Performance Objective *In line with the benchmark*	Outperformed benchmark by 0.1% p.a. over three years

Manager Research and Developments

- Returns have been in line with the benchmark over the quarter, which is expected for a passive mandate with a benchmark based on monthly mean fund weights.
- Current holdings in UK and overseas government bonds are approximately £471m, or 12.7% of the total Fund – this is in the process of being consolidated in index-linked gilts.
- BlackRock has informed us that they have entered into an agreement with Bank of America's asset management business, to transfer the investment management responsibilities for approximately $87bn of money market assets to BlackRock. The transaction is expected to close in the first half of 2016 subject to regulatory and other approvals. This transaction would grow BlackRock's global cash management platform to over $370bn. Following a call with BlackRock, we are comfortable that the agreement will not affect the investment process or capacity within money market strategies.
- Panel last met with BlackRock at the "meet the manager" workshop session on 9 November 2015.

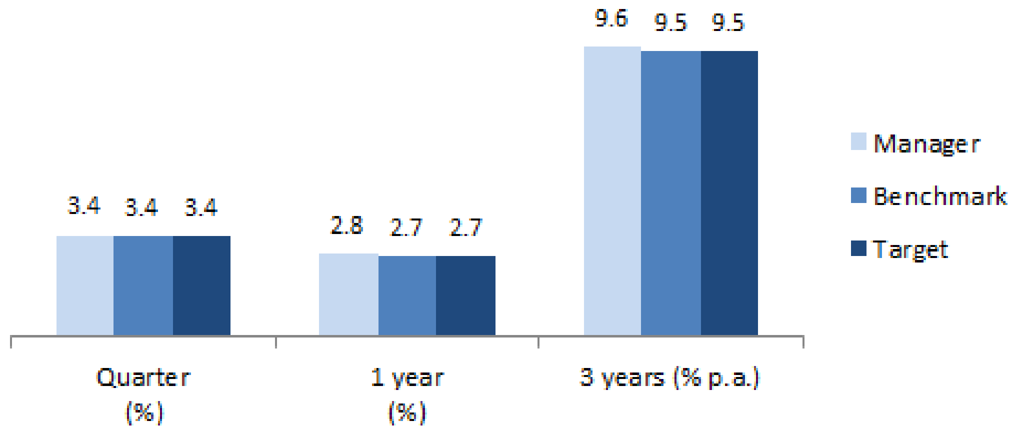
Reason for investment

To provide asset growth as part of diversified portfolio

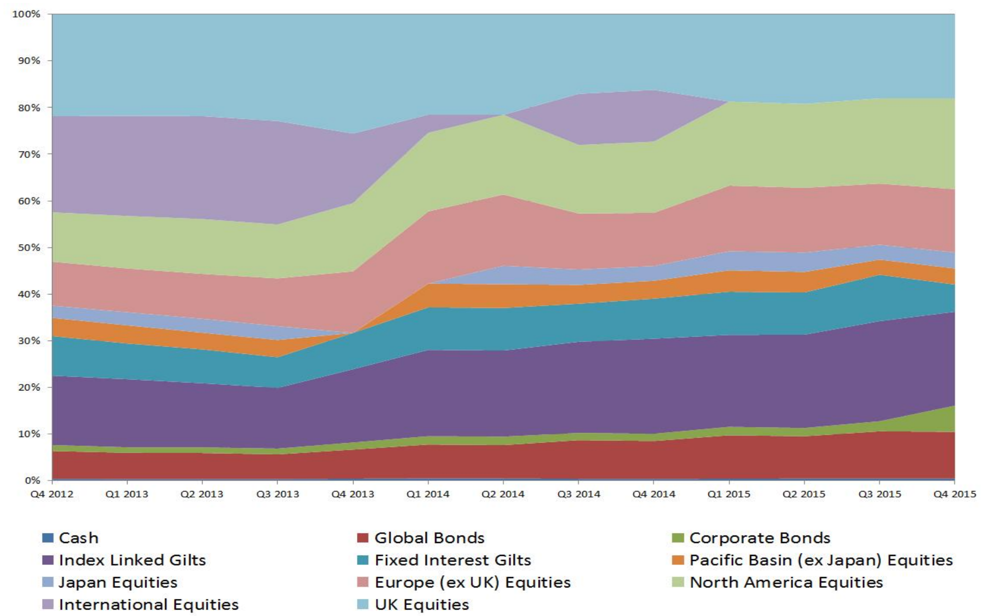
Reason for manager

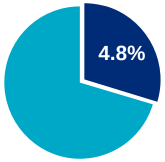
- To provide low cost market exposure across multi asset classes
- Provide efficient way for rebalancing between bonds and equities within a single portfolio

Performance



Asset Allocation





JUPITER ASSET MANAGEMENT – UK EQUITIES (SRI) (SEGREGATED)
£176.1M END VALUE *(£168.8M START VALUE)*

Item Monitored		Outcome
Mercer Rating	● (orange)	B (no change over period under review)
Performance Objective *Benchmark +2% p.a.*	● (green)	Outperformed benchmark by 4.6% p.a. over three years
Tracking error was 3.6% p.a. (Q3: 3.5%) – *source: Jupiter*		Number of stocks: 58 (new holding in Royal Mail added over the quarter)

Manager Research and Developments

- The fund achieved its target over the year and three year periods.
- The outperformance over the quarter was largely due to strong stock-specific performance and, at a sector level, the natural underweight position in the Mining sector, which lagged the index as a whole by 17% as commodity prices continued to fall (0% holding versus a benchmark of 3.2%).
- Jupiter has informed us that Chris Watt, UK Equities (SRI) portfolio manager, will be leaving the firm to take an opportunity with another fund management firm. The fund will be managed by the Environmental & Sustainability team headed by Charlie Thomas, the portfolio manager for the Fund's segregated mandate. Thomas seems a natural choice, but we are concerned that the additional responsibilities could be a stretch on his time. It also brings into question if Jupiter's Environmental & Sustainability team will be sufficiently resourced. Our rating of 'B' has not changed as a result, but we suggest the strategy is monitored.

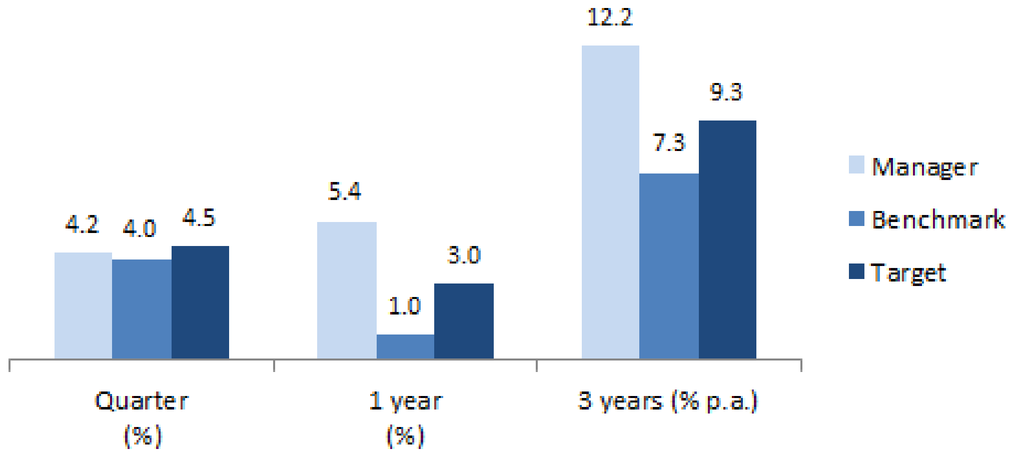
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

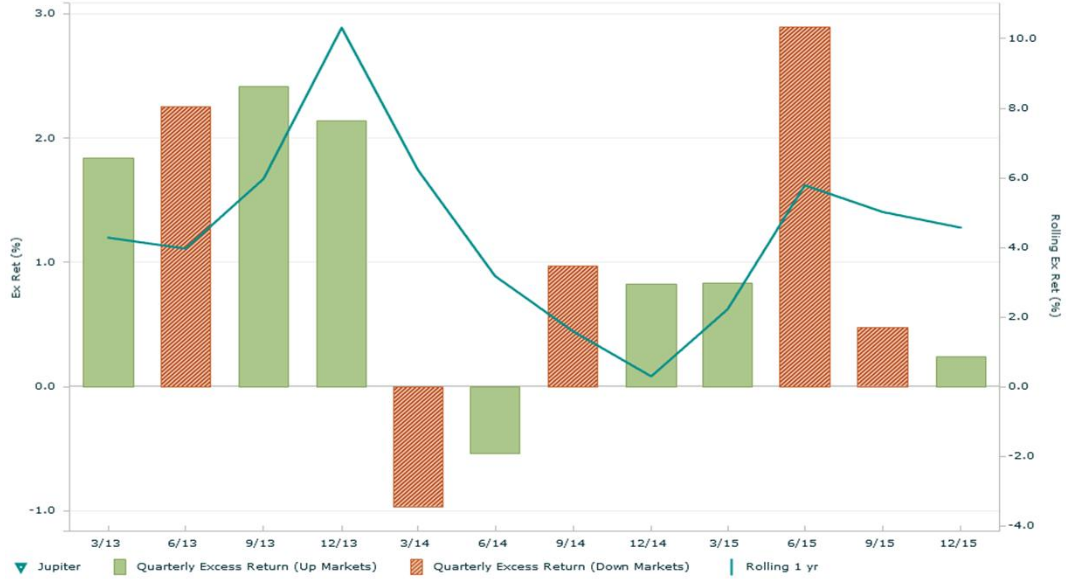
- Clear and robust approach to evaluating SRI factors within the investment process
- Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities
- Corporate commitment to SRI investment approach within a more mainstream investment team

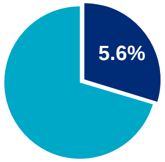
Performance



Rolling relative returns

Quarterly Excess Return vs. FTSE All Share with rolling 1 yr line in GBP (after fees) over 3 yrs ending December-15





TT INTERNATIONAL – UK EQUITIES (UNCONSTRAINED) (SEGREGATED)
£206.0M END VALUE *(£193.7M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B (no change over period under review). ESG3
Performance Objective *Benchmark +3-4% p.a.*	Outperformed benchmark by 4.9% p.a. over three years
Three year tracking error was 4.1% p.a. – *source: Mercer*	Number of stocks: 51

Manager Research and Developments

- TT significantly outperformed their benchmark by 2.2% over the quarter, and 8.8% over the year to 31 December 2015.
- This outperformance over the quarter was largely due to strong stock selection in the Consumer, Industrials and Financials sectors (adding 3.2% to returns in total).
- In terms of sector positioning, the fund lost out from being underweight Basic Materials and also from the cash holding (at 7.3% at the start of the quarter and 1.0% by the end) in a time of rising markets.
- Turnover decreased from 25.2% in Q3 to 23.7% in Q4 2015 while the three year tracking error (a proxy for risk relative to benchmark) rose from 4.0% to 4.1%.
- Three-year information ratios have remained stable over the quarter.
- Assets under management in TT's UK equity strategies increased over the quarter to c. £526m in light of positive returns.; this consists of the assets of TT's pooled fund, and three segregated accounts (one of which being the Fund's holdings). This compares to £495m in September 2015, £477m in December 2014 and £543m in December 2012). A significant portion (c.40%) of the firm's UK equity assets are managed on behalf of the Fund.

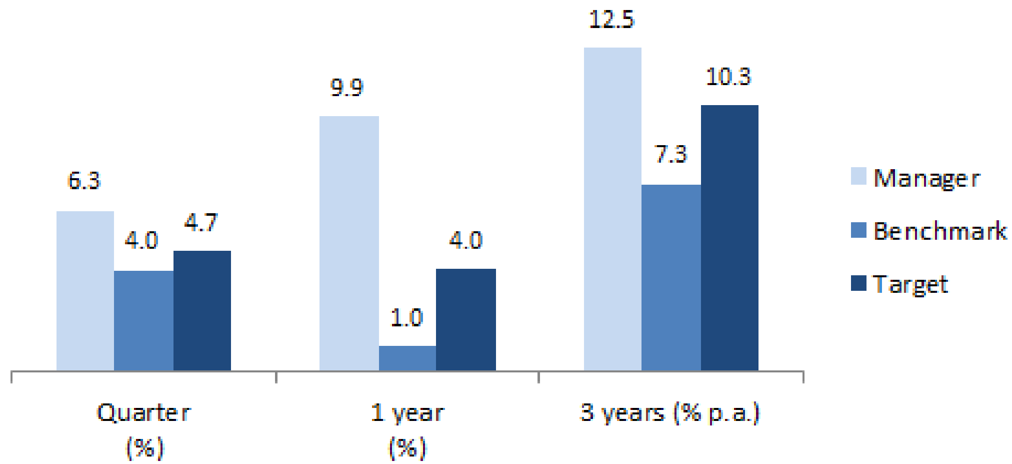
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

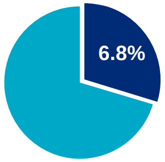
- Favoured the partnership structure that aligns manager's and Fund's interests
- Focussed investment activity and manages its capacity
- Clear, robust stock selection and portfolio construction

Performance



Rolling relative returns

Quarterly Excess Return vs. FTSE All Share with rolling 1 yr line in GBP (after fees) over 3 yrs ending December-15



SCHRODER – GLOBAL EQUITY PORTFOLIO (SEGREGATED)
£253.2M END VALUE *(£232.4M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review). ESG2
Performance Objective *Benchmark +4% p.a.*	Outperformed benchmark by 1.0% p.a. over three years, but lagged target

Three year tracking error was 2.1% p.a. – *source: Mercer*

Manager Research and Developments

- The fund outperformed the benchmark over the quarter, largely through stock selection in consumer discretionary and industrials. Being overweight information technology also helped as the sector outperformed the wider market.
- Looking on a region by region basis, the fund gained the most from holdings in North America, Japan and the emerging markets. Stock selection in Europe weighed on returns, as did the overweight exposure to the UK (14.3% versus 6.7% in the index, with the UK underperforming wider UK equities over the period.
- The largest contributor over the quarter was Amazon where shares gained on the back of impressive earnings results, which showed strong growth across all segments.
- Mercer's manager researchers met with Alex Tedder, the portfolio manager for the strategy, in November and confirmed the existing B+ rating.

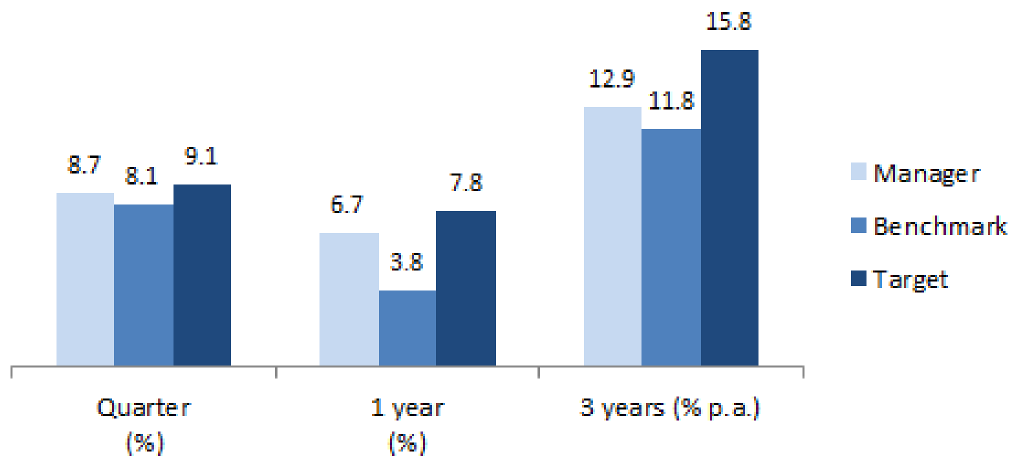
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

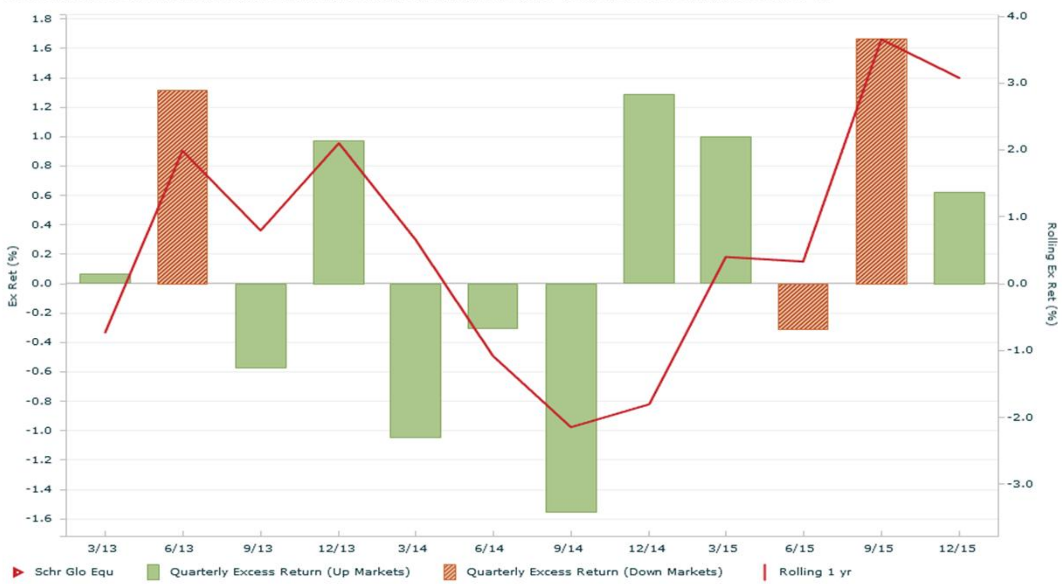
- Clear philosophy and approach
- Long term philosophy aligned with Fund's goals, commitment to incorporating ESG principles throughout the investment process
- Evidence of ability to achieve the Fund's performance target

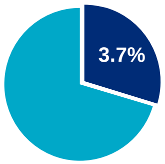
Performance



Rolling relative returns

Quarterly Excess Return vs. MSCI AC World with rolling 1 yr line in GBP (after fees) over 3 yrs ending December-15

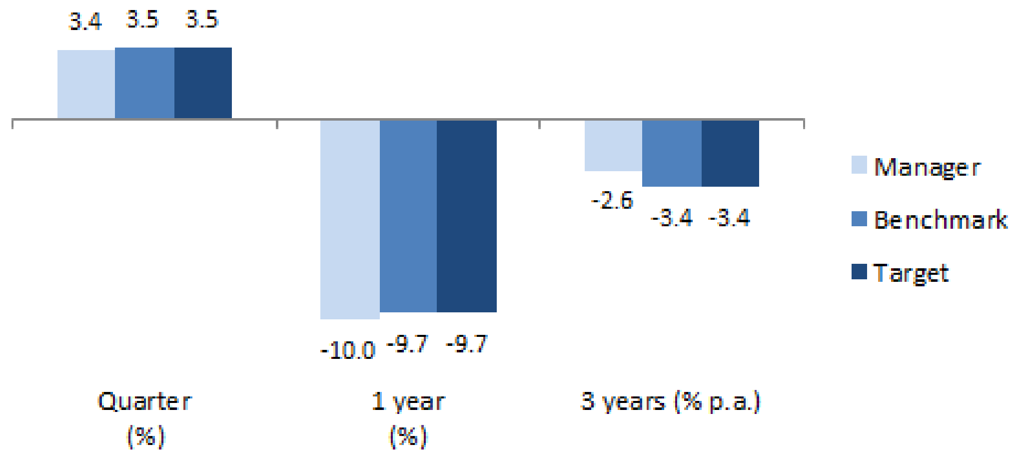




GENESIS ASSET MANAGERS – EMERGING MARKET EQUITIES (POOLED)
£136.4M END VALUE *(£132.4M START VALUE)*

Item Monitored	Outcome
Mercer Rating	A (no change over period under review). ESG3
Performance Objective *Benchmark*	Outperformed benchmark by 0.8% p.a. over three years
Three year tracking error was 3.4% p.a. (Q3: 3.5%) – *source: Genesis*	Number of stocks: 159

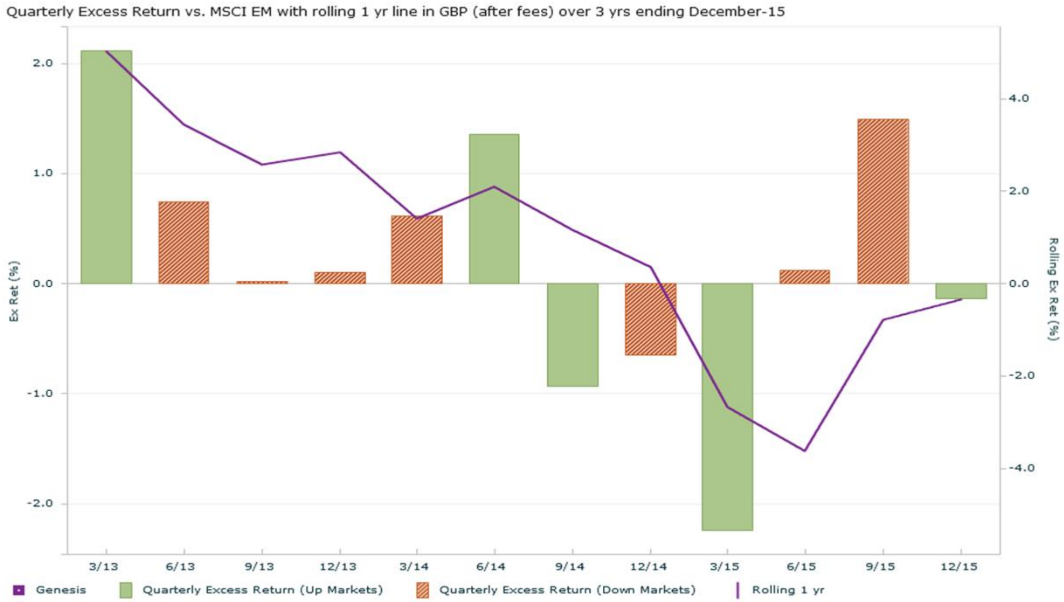
Performance



Manager Research and Developments

- The fund slightly underperformed its benchmark over the quarter. Relative to the index, underperformance in India, South Africa and Nigeria holdings and the underweight position in the strong Indonesian market cost the portfolio. This was partly offset by stock selection in a number of Asian markets as some Chinese holdings made large gains.
- The biggest contributor was SABMiller whilst the biggest detractor was Anglo American (both from South Africa). Turnover over the quarter was 17%.
- The portfolio one-year returns are 0.3% below benchmark, while three year returns are 0.8% ahead.
- Investment manager Evgeny Kuznetsov has left Genesis after 18 years in the team in order to pursue other business interests. The decision to leave was amicable and Genesis has no plans to make a direct hire to replace Kuznetsov, although they maintain an 'open door policy'. We do not propose any change to the rating, yet if we were to see other departures in the immediate future this would raise concern.

Rolling relative returns

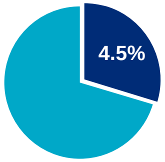


Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

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



UNIGESTION – EMERGING MARKET EQUITIES (POOLED – SUB-FUND)
£166.3M END VALUE *(£161.6M START VALUE)*

Item Monitored		Outcome
Mercer Rating	● (orange)	R (no change over period under review)
Performance Objective *Benchmark +2-4% p.a.*	● (green)	Outperformed benchmark by 2.7% over the year
Tracking error since inception was 7.2% p.a. – *source: Unigestion*		Number of stocks: 88

Manager Research and Developments

- The Fund has underperformed by 0.5% over the quarter but outperformed by 2.7% over the year to 31 December 2015.
- This underperformance over the quarter largely occurred in October, where the fund returned 3.9% against a benchmark return of 5.1%. This largely came from the asset allocation, with an overweight to Telecommunication and Food as well as an underweight to Technology detracting from performance. Geographical allocation reduced the fund performance, especially in South Korea and India.
- Volatility since inception is 15.2%, lower than the index (at 17.5%) and consistent with their objectives (and the strategy's bias towards quality and large- or mega-cap stocks).
- Panel last met with Unigestion at the "meet the manager" workshop session on 9 November 2015.

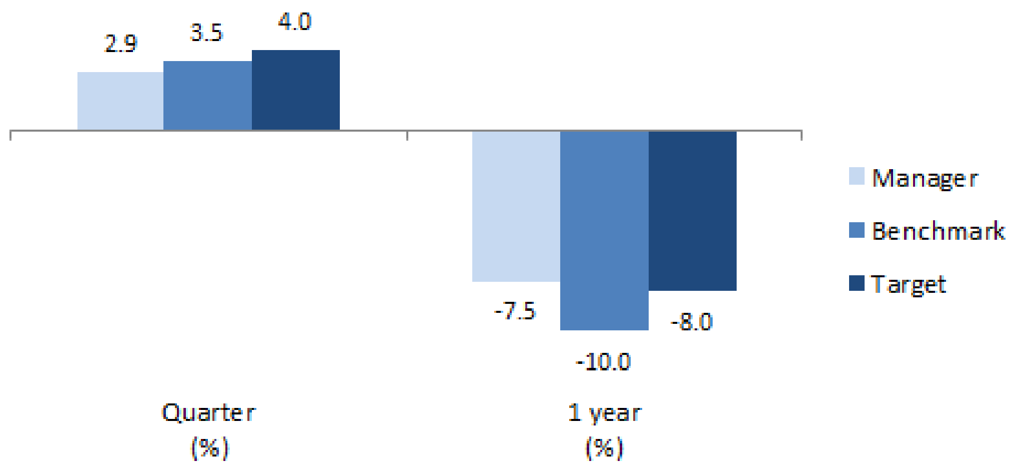
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

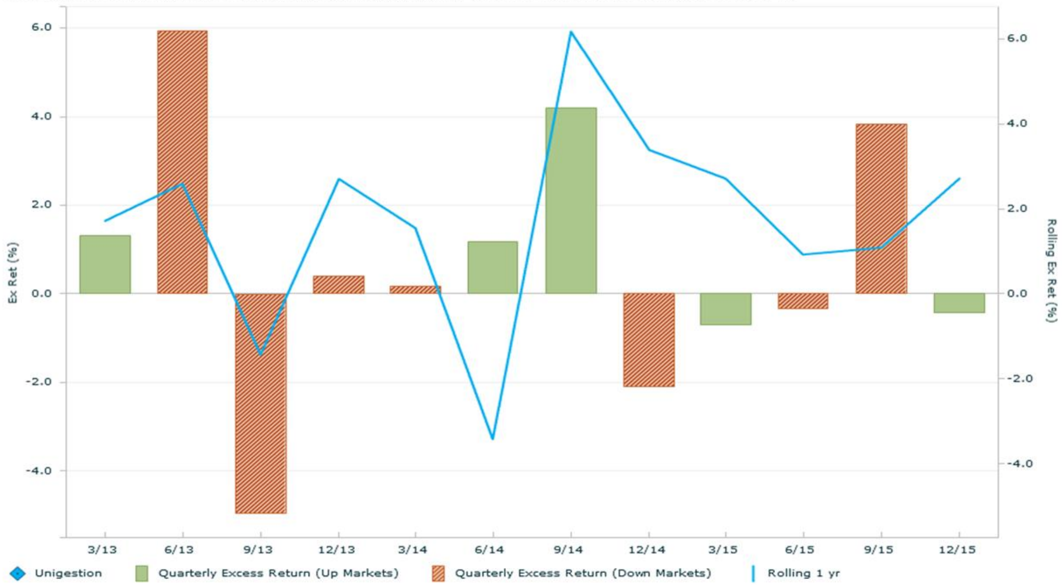
- Risk-based active management approach
- Aim for lower volatility than the MSCI Emerging Markets Index
- Combine fundamental and quantitative analysis

Performance

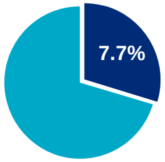


Rolling relative returns

Quarterly Excess Return vs. MSCI EM with rolling 1 yr line in GBP (before fees) over 3 yrs ending December-15



Note: Chart is pooled fund performance, gross of fees



INVESCO – GLOBAL EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)
£284.4M END VALUE *(£260.0M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	B+ (no change over period under review). ESG4
Performance Objective *Benchmark +0.5% p.a.*	●	Outperformed benchmark by 1.0% p.a. over three years
Tracking error since inception was 1.5% p.a. – *source: Invesco*		Number of stocks: 432 (up from 422)

Manager Research and Developments

- The fund outperformed its benchmark by 0.5% over the last quarter and is above its outperformance target over 3 years (source: WM). Beta remains near to one, as expected.
- All sector and country allocations were within +/- 1.2% of benchmark weightings, in line with general expectations for an enhanced indexation product.

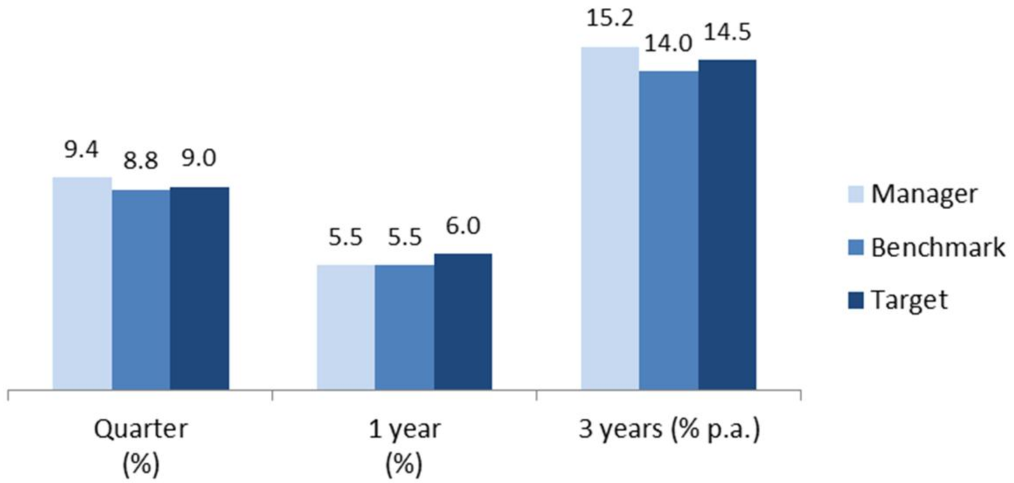
Reason for investment

To provide asset growth as part of diversified equity portfolio

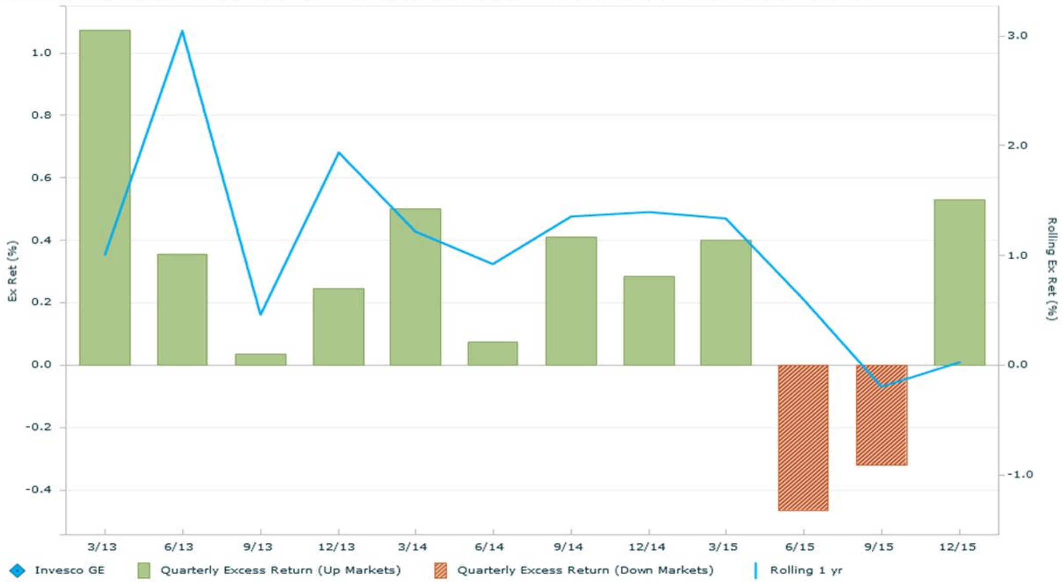
Reason for manager

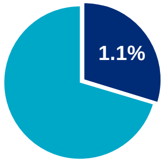
- Robust investment process supported by historical performance record, providing a high level of assurance that the process could generate the outperformance target on a consistent basis
- One of few to offer a Global ex UK pooled fund

Performance



Rolling relative returns

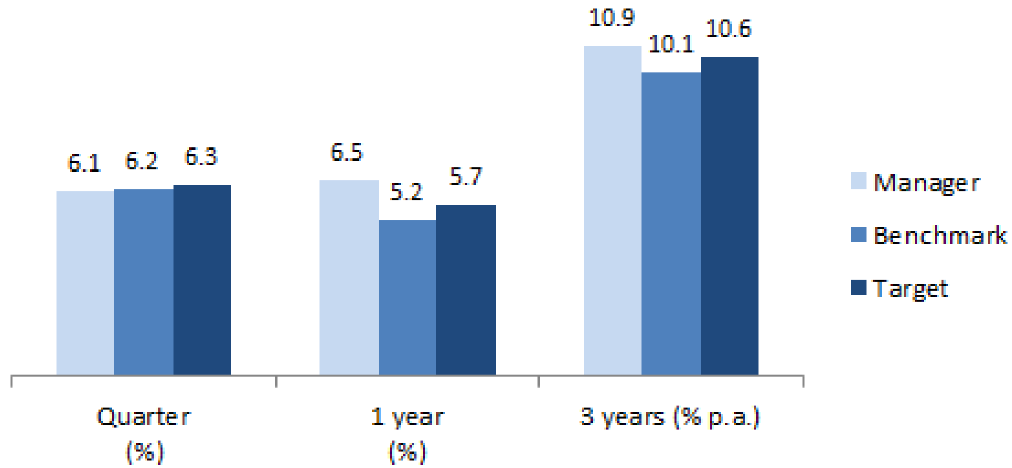




SSGA – EUROPE EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)
£42.6M END VALUE *(£40.1M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	Outperformed benchmark by 0.8% p.a. over three years
Three year tracking error was 0.9% p.a. – *source: Mercer*	Number of stocks: 210

Performance

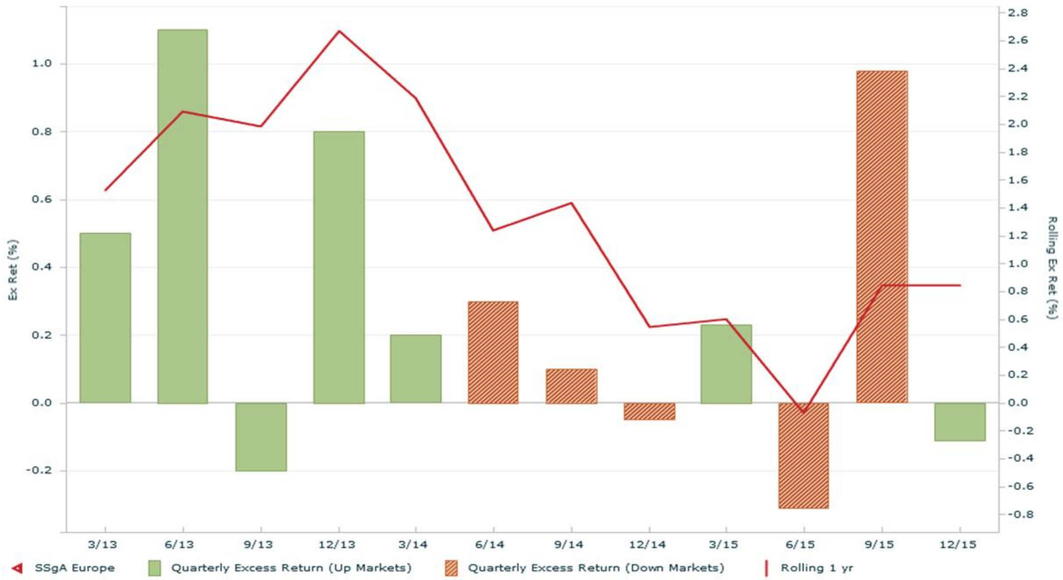


Manager Research and Developments

- The Fund outperformed its performance target over the three year period.
- The total pooled fund size on 31 December 2015 was £42.6m. This means that the Fund is practically the only investor, although the Panel has previously concluded that the Fund could be sustained even if the Avon Pension Fund was the only investor.
- The fund holds 210 out of 387 stocks in the index, around 54%, within the expected range of 35-65%. Beta over three years is as expected at around 1.
- SSgA has informed us that President Greg Ehret is leaving the firm to pursue other opportunities. Effective immediately, CEO Ronald O'Hanley has assumed the title of President, which carries the responsibilities of leading all non-investment related groups at SSgA. There are no immediate plans to replace Ehret, who became President in June 2015 (replacing O'Hanley who acted as CEO and President at the time). Ehret had strictly non-investment responsibilities, and as such we do not believe his departure will materially impact SSgA's investment strategies. We are not recommending any rating changes as a result of this news.

Rolling relative returns

Quarterly Excess Return vs. Europe ex UK (WM) with rolling 1 yr line in GBP (after fees) over 3 yrs ending December-15

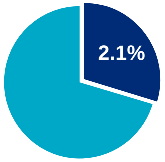


Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

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



SSGA – PACIFIC INC. JAPAN EQUITIES (ENHANCED INDEXATION) (POOLED)
£77.3M END VALUE *(£69.8M START VALUE)*

Item Monitored	Outcome
Mercer Rating	N (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	Outperformed benchmark by 1.0% p.a. over three years
Three year tracking error was 1.0% p.a. – *source: Mercer*	Number of stocks: 404

Manager Research and Developments

- The Fund outperformed its performance target over 3 years, but lagged in Q3. The majority of underperformance came from stock selection in October and November. Growth factors were slightly negative in both months indicating that stocks with strong growth prospects were not favoured by the market. Quality factors also failed to add value as investors showed little preference for safe stocks. In October the weakest performance came from sentiment factors due to unsuccessful momentum-based stock selection techniques, whilst in November it came from value factors as attractively-valued stocks underperformed.
- The total pooled fund size on 31 December 2015 was £77.4m. As with the European fund, the conclusion has been that the Fund could be sustained even with the Avon Pension Fund as the only investor.
- As with the European fund, Beta is around 1 (i.e. broadly in line with a market cap approach).
- SSgA has informed us that President Greg Ehret is leaving the firm. See page 34 for detail.

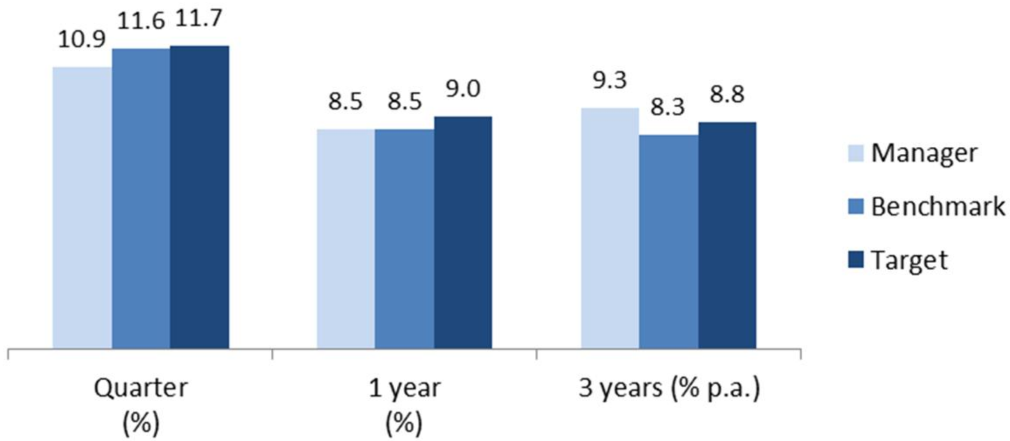
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

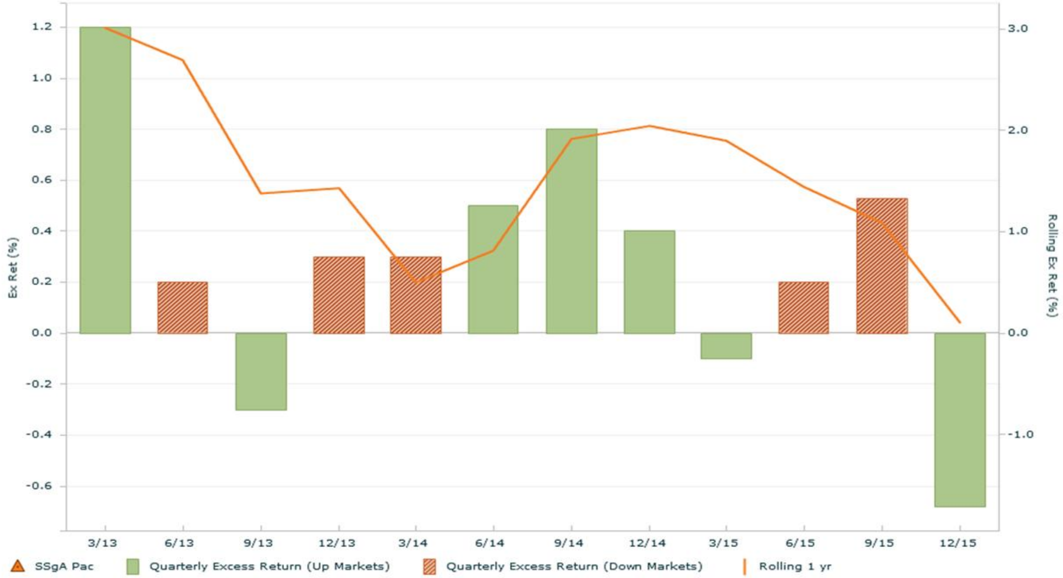
- Strength of their quantitative model and process, and ongoing research to develop the model
- Historic performance met the risk return parameters the Fund was seeking
- Two Funds (European and Pacific) to achieve the Fund's customised asset allocation within overseas equities

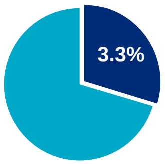
Performance



Rolling relative returns

Quarterly Excess Return vs. Asia Pacific (WM) with rolling 1 yr line in GBP (after fees) over 3 yrs ending December-15





PYRFORD – DGF (POOLED)
£123.8M END VALUE *(£120.9M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *RPI +5% p.a.*	Underperformed benchmark by 3.9% p.a. over one year

Manager Research and Developments

- The fund has outperformed the benchmark over the quarter by 0.7% but substantially underperformed over the year by 3.9%.
- The target asset allocation of the fund remained unchanged over the quarter at 30% equities, 67% bonds and 3% cash, with a marginal fall in actual cash held
- Performance in Q4 was above benchmark, with a return of 2.3%, largely due to the equity holdings, with UK stock selection continuing to be a key driver of performance.
- Pyrford continues to adopt a defensive stance by owning short duration securities in order to protect the capital value of the portfolio from expected rises in yields. At the end of the quarter the modified duration of the fixed income portfolio fell to 1.5 years.
- Panel last met with Pyrford at the "meet the manager" workshop session on 9 November 2015.

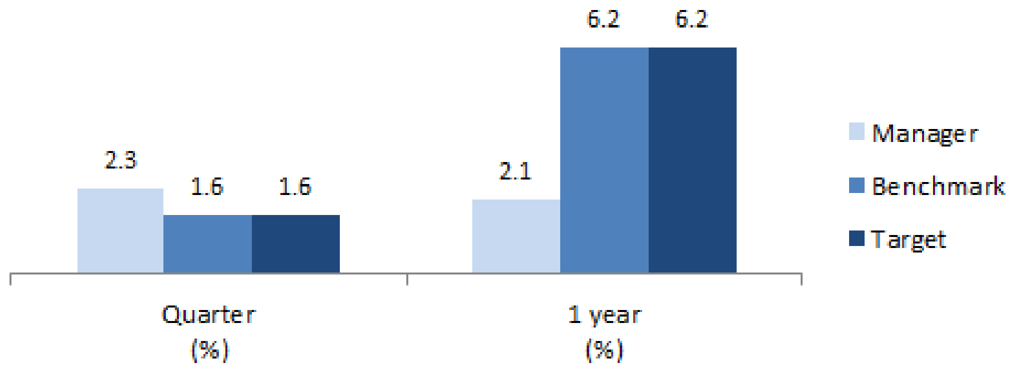
Reason for investment

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

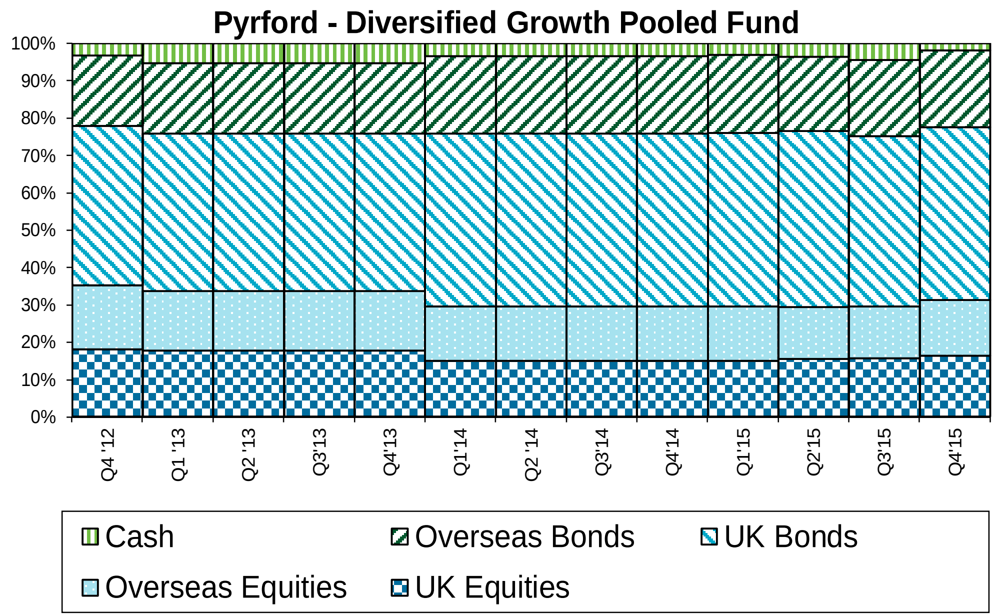
Reason for manager

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

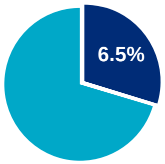
Performance



Asset Allocation



Annual data prior to Q1 2015.



STANDARD LIFE – DGF (POOLED)
£241.5M END VALUE *(£237.0M START VALUE)*

Item Monitored		Outcome
Mercer Rating	🟢	B+ (no change over period under review). ESG4
Performance Objective *Cash +5% p.a.*	🟢	Outperformed benchmark by 0.4% p.a. over the quarter
	🔴	Underperformed benchmark since inception by 3.8% (1.1% vs 5.1% gross of fees)

Manager Research and Developments

- Over the quarter the Fund returned 1.7% against a benchmark of 1.4%.
- The charts to the right (and overleaf) provide analysis of the performance of the pooled fund (net of fees) over the three years to 31 December 2015, illustrating that while returns have been broadly in line with the median DGF manager, the risk taken to produce these returns has been significantly lower and as the result risk adjusted returns are above the 95th percentile.
- The largest contributes to performance over the quarter were their US equity technology versus small cap strategy (which made gains as large-cap technology stocks outperformed small caps during the broad equity market rally early in the quarter) and their holdings in Japanese and European equities (which responded positively to the prospect of continued low borrowing costs).
- At the end of the quarter, the positive view of European equities was the strategy's largest market return position, closely followed by the bias towards US technology companies over small cap stocks, and their directional view to be short US rates on the expectation of monetary tightening.

Reason for investment

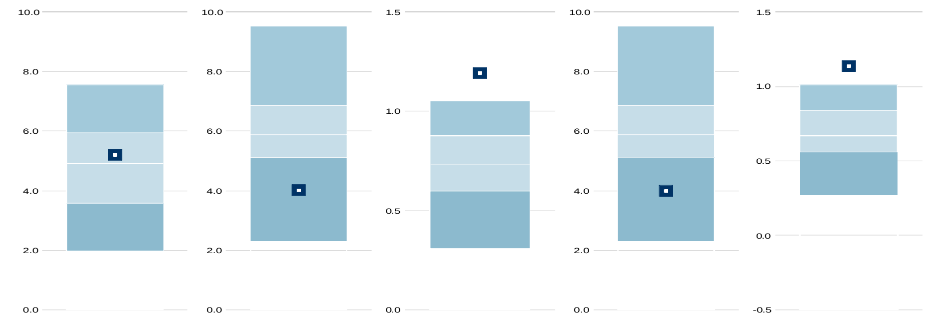
To provide equity like return over the long term but with a lower level of volatility

Reason for manager

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

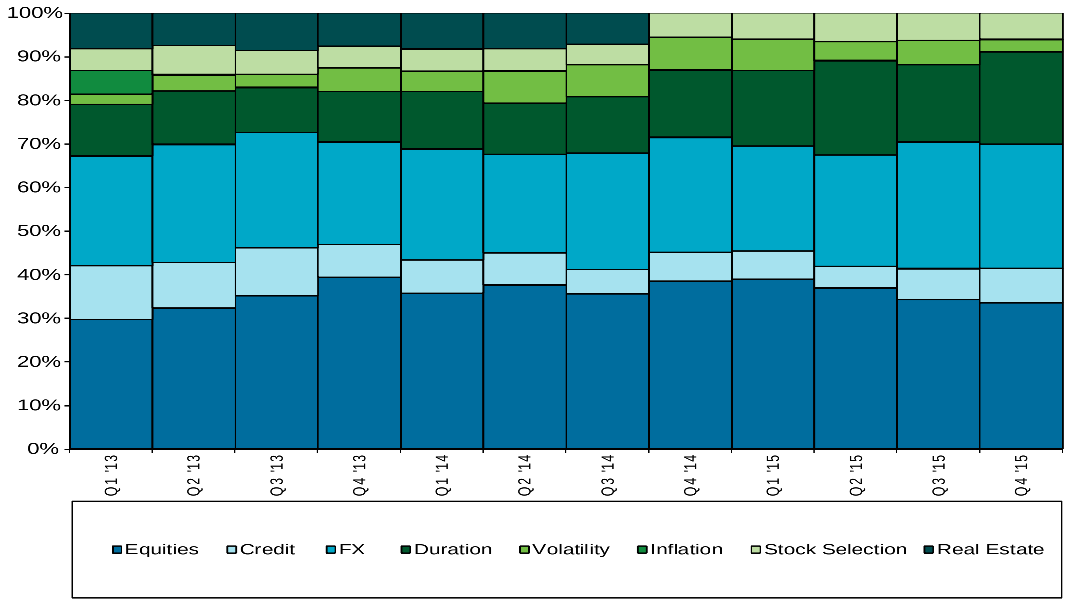
Performance

Performance characteristics vs. 6 Month Sterling LIBOR (after fees) over 3 years ending December-15
Comparison with the International Multi-Asset GBP (Net) universe (Actual Ranking) (quarterly calculations)



Name	Ret (% p.a.)	Std Dev (% p.a.)	Sharpe	TE (% p.a.)	IR
Standard Life	5.2 (11)	4.0 (20)	1.2 (1)	4.0 (20)	1.1 (1)
95th Percentile	7.6	9.5	1.1	9.5	1.0
Upper Quartile	5.9	6.9	0.9	6.9	0.8
Median	4.9	5.9	0.7	5.9	0.7
Lower Quartile	3.6	5.1	0.6	5.1	0.6
5th Percentile	2.0	2.3	0.3	2.3	0.3
Number of Funds	22	22	22	22	22

Asset Allocation/Risk Exposure



DGF MANDATES

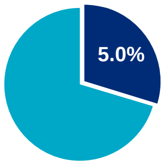
Performance characteristics vs. BofAML LIBOR 6 month average UK in GBP (after fees) over 1 yr ending December-15

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

	Ret (%)	Std Dev (%)	IR
▲ Pyrford DGF	2.1 *(14)*	5.0 *(39)*	0.3 *(13)*
▼ SLI GARS	2.8 *(8)*	5.9 *(34)*	0.4 *(9)*
95th Percentile	5.6	13.3	0.7
Upper Quartile	2.6	9.3	0.3
Median	1.1	7.8	0.0
Lower Quartile	0.0	5.9	-0.1
5th Percentile	-2.4	2.8	-0.6
Number	45	45	45

Commentary

- Over the year to 31 December 2015, the Standard Life GARS pooled fund outperformed Pyrford by 0.7% (however the Fund has only been invested since February 2015).
- This placed both Standard Life and Pyrford above the median manager of the DGF universe for performance (with Standard Life in the top quartile). It should be noted that this universe is very diverse in styles.
- However this was achieved whilst taking different levels of risk, with Standard Life's volatility standing at 5.9% against Pyrford's 5.0%.
- Both managers were in the lower quartile for risk, meaning they took less risk than most managers in the universe.
- As a result, information ratios (a measure of risk adjusted returns) for both Pyrford and Standard Life were in the upper quartile of the universe.
- Note that this is a short time-frame over which to measure risk, and reflects the limited period the Fund has been invested for. More telling analysis will emerge as the track record grows.
- The information ratio (IR) measures the amount of 'information' that the manager can extract from the market. Expressed in another way this is the amount of excess return generated per unit of risk or tracking error added. The IR is therefore a measure of the skill of the manager. If the IR is large and it is measured over a reasonable period of time, then this is an indication that the manager has some skill in managing money. Mercer defines the IR as the annualised excess return divided by the annualised tracking error.



JP MORGAN – FUND OF HEDGE FUNDS
£186.3M END VALUE *(£59.4M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review)
Performance Objective *Cash +3% p.a.*	Outperformed benchmark by 3.2% p.a. over the quarter

Item	
Number of funds	30

Strategy	Contribution to Performance over the Quarter in USD (%)
Relative Value	0.63
Opportunistic/Macro	0.26
Long/Short Equities	0.54
Merger Arbitrage/Event Driven	0.06
Credit	0.05
Total	**1.36 (including cash and fees)**

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

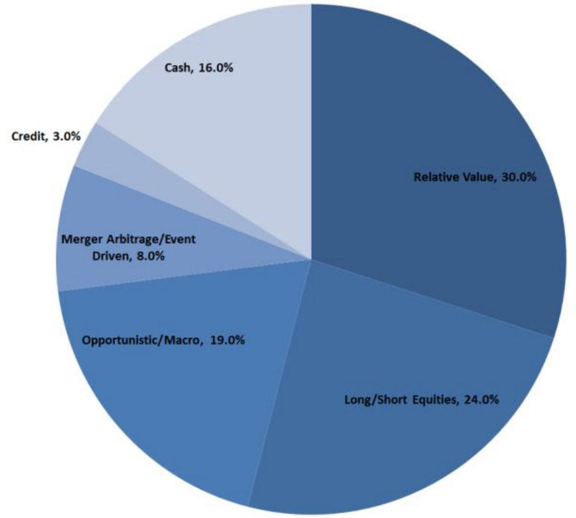
Reason for manager

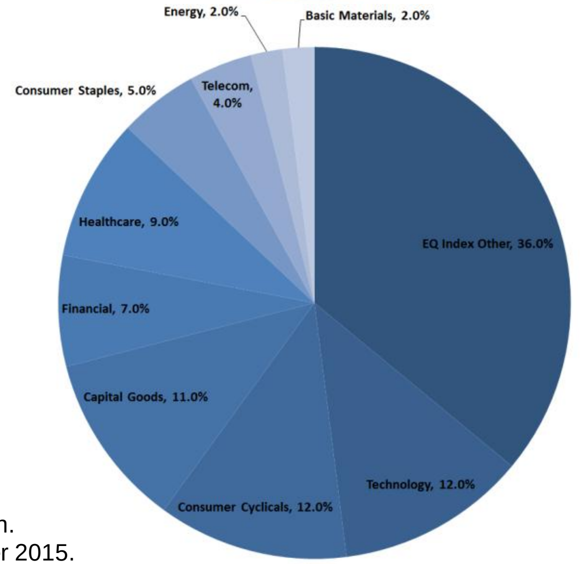
- Niche market neutral investment strategy
- Established team with strong track record
- Complemented other funds in the portfolio

Performance (GBP, from WM Services)

Last Quarter	4.1%	Benchmark	0.9%

Portfolio Composition and Equity Sector Allocation





Source: JP Morgan.
As at 31 December 2015.

HEDGE FUND COMMENTARY – Q4 2015

- Hedge funds produced relatively flat results for the fourth quarter of 2015. The HFRI index returned 0.5%, the HFRX index returned -0.6% and the Dow Jones Credit Suisse Hedge Fund Index declined 0.1% (USD returns).
- The fourth quarter marked a volatile end to an overall unstable year for assets broadly. A variety of macro concerns (broad economic growth, global monetary policy, Greece, China, commodities, market liquidity, etc.) drove wild swings across many asset classes.
- The hedge fund industry ended the year at roughly $2.9 trillion in assets. Performance-based gains aided growth for the year, though assets still remain below peak levels reached in Q2.
- While investors were net buyers of hedge funds for 2015 as a whole, Q4 saw the first net quarterly outflow since the fourth quarter of 2011, as investors redeemed $1.5 billion.

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

HEDGE FUND COMMENTARY – 2015

Relative Value (30%)

- Fixed income and convertible arbitrage strategies earned a modest 0.6% and 0.8%, respectively, during the year.
- While volatility across and within markets created trading opportunities for many relative value managers in 2015 (fixed income included), we note rather wide dispersion in sub-strategy performance, as instability in yield and spread trading hurt many portfolios.
- Convertible arbitrage generated gains, amidst a reasonable level of new issues and increased volatility

Long/Short Equities (24%)

- Long/short equity gained 3.6% in 2015
- A poor Q3 offset what was otherwise a reasonable year for many long/short equity managers, outweighing the year's favorable dispersion characteristics. Specifically, 2015 witnessed an improved environment for shorting. Manager dispersion was significant, however, and we note that other long/short equity indices, such as the HFRI Equity Hedge Index, posted slightly negative results for the year. Many managers struggled on the long side in 2015, particularly as crowded long positions and energy-related exposures suffered.

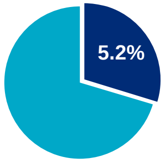
Opportunistic / Macro (19%)

- The broad global macro universe earned 0.2% over the year, while managed futures declined 0.9%. However, we once again note a fairly wide dispersion of strategy and manager performance.
- Systematic strategies generally fared worse, despite a strong start to 2015, as strategies were largely unable to navigate choppiness in rate, currency and commodity markets.
- Discretionary strategies held up better, with USD, rate and short commodity positioning benefitting many portfolios.

Merger Arbitrage / Event Driven (8%)

- The multi-strategy / event space posted losses broadly during the quarter and struggled for the year.
- Merger arbitrage strategies held up best in 2015. Global M&A activity was robust, with a record-setting $5.7 trillion in announced deals during the year. This surge in volume, accompanied by attractive spreads and a number of deal closings (mitigating spread widening) benefitted the strategy.
- Softer catalyst situations and distressed assets really struggled, as a lack of progress in many deals, accompanied by broad credit sensitivity (particularly lower rated issues) and market illiquidity punished many portfolios. Energy-related exposure detracted meaningfully.

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



SCHRODER – UK PROPERTY FUND OF FUNDS
£194.0M END VALUE *(£189.4M START VALUE)*

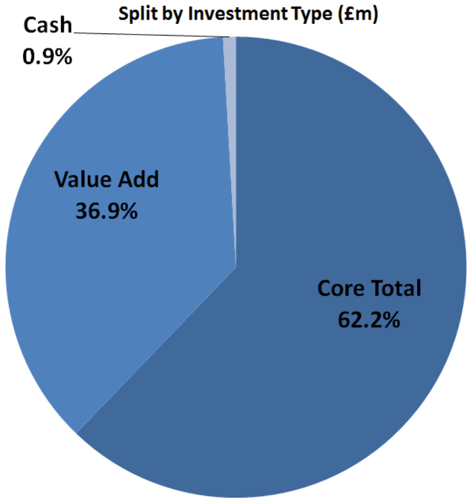
Item Monitored	Outcome
Mercer Rating	B (no change over period under review). ESG3
Performance Objective *Benchmark +1% p.a.*	Outperformed benchmark by 0.6% p.a. over three years

Manager Research and Developments

- The fund underperformed the benchmark over the quarter by 0.3%, as core fund holdings and cash detracted from performance.
- Over the three year period, the fund has outperformed its benchmark by 0.6% p.a., largely due to strong performance from Value Add strategies (i.e. alternative or less mainstream assets with low industrial and central London exposure).
- There was a significant volume of purchases over the quarter, with c. £11.7m invested in total – including in Threadneedle Property Unit Trust (c. £3.8m), Industrial Property Investment Fund (c. £3.6m), Metro Property Unit Trust (c. £3.1m), Multi-Let Industrial Property Unit Trust (c. £0.9m) and the Regional Office Property Unit Trust (c. £0.3m).

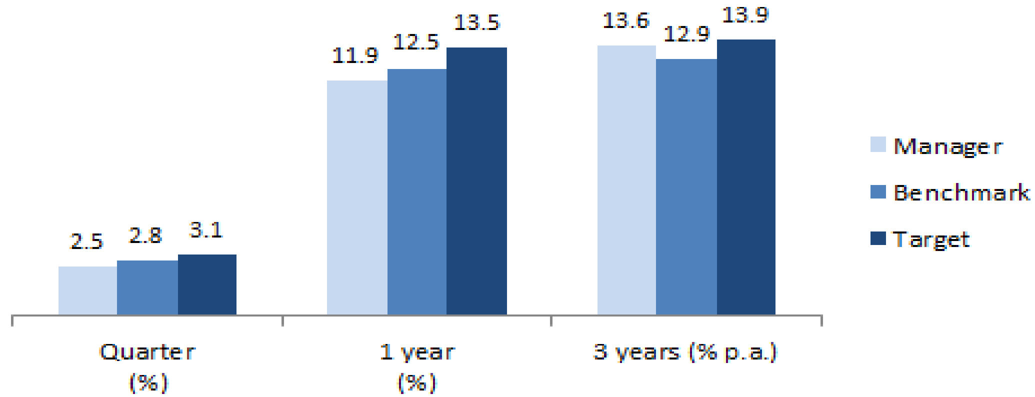
Manager and Investment type splits

Top 5 Holdings	Proportion of Total Fund (%)
L&G Managed Property Fund	13.0
BlackRock UK Property Fund	12.9
Industrial Property Investment Fund	11.4
Standard Life Pooled Pension Property Fund	9.9
Aviva Investors Pensions	9.4

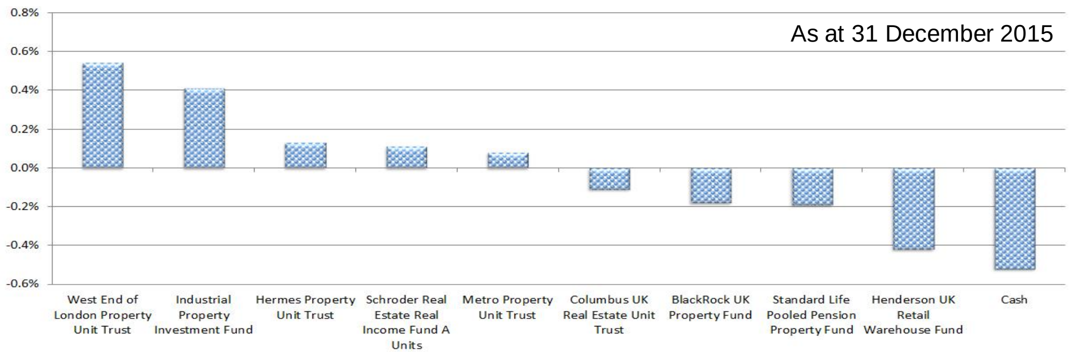


As at 31 December 2015

Performance



Top 5 Contributing and Detracting Funds over 12 Months

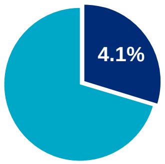


Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Demonstrable track record of delivering consistent above average performance
- Team though small is exclusively dedicated to UK multi-manager property management but can draw on extensive resources of Schroder's direct property team
- Well structured and research orientated investment process



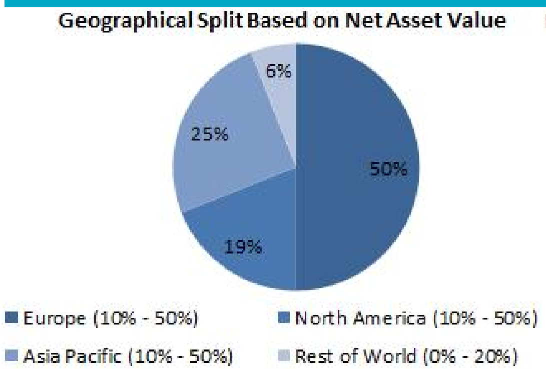
PARTNERS – OVERSEAS PROPERTY
£151.6M END VALUE *(£150.5M START VALUE)*

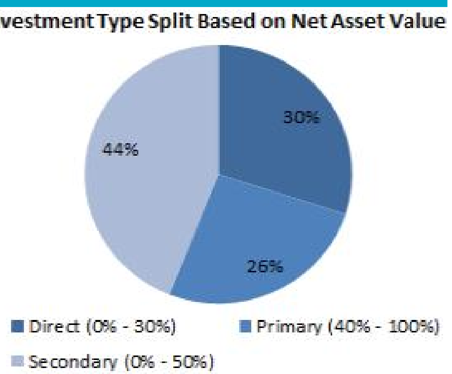
Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review). ESG4
Performance Objective *Benchmark +2% p.a.*	Underperformed benchmark by 4.6% p.a. over three years to 31 December 2015

Manager Research and Developments

- Over Q4 2015, the fund outperformed the benchmark by 2.1%, but underperformed by 4.6% p.a. over the three year period.
- **Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, for example the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 30 September 2015 at 8.8% p.a. is below their target of 10% p.a.**
- Over Q3, the allocation to Europe remained at 50%, while North America increased (from 17% to 19%) and Asia Pacific fell slightly (from 27% to 25%). These remain within the guidelines.
- Exposure to Secondary opportunities rose during the third quarter (from 40% to 44%), with Direct falling (from 34% to 30%) and Primary remaining at 26%. Primary exposure continues to be below the guidelines. Short-term deviation from the guidelines is expected whilst the amount drawn-down is below target.
- Note that Partners are rated B+ for global real estate, but A for secondary global real estate (as a result of their private equity skill set).

Geographical and Investment type splits as at 30 September 2015





Portfolio update as at 30 September 2015

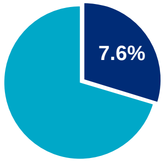
Partners Fund	Total Drawn Down (£m)	Total Distributions (£m)	Net Asset Value (£m)	Since Inception Net IRR
Global Real Estate 2008	31.66	16.88	21.53	7.9
Real Estate Secondary 2009	19.01	4.84	19.78	12.9
Asia Pacific and Emerging Market Real Estate 2009	15.75	6.47	12.79	5.2
Distressed US Real Estate 2009	14.75	13.43	7.69	9.5
Global Real Estate 2011	24.69	6.98	22.53	11.7
Direct Real Estate 2011	10.79	3.69	10.70	9.0
Real Estate Secondary 2013	3.90	0.21	5.25	28.3
Global Real Estate 2013	34.78	0.00	33.16	2.0
Real Estate Income 2014	13.26	0.26	12.80	2.0
Total	**168.59**	**52.76**	**146.22**	**8.8**

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



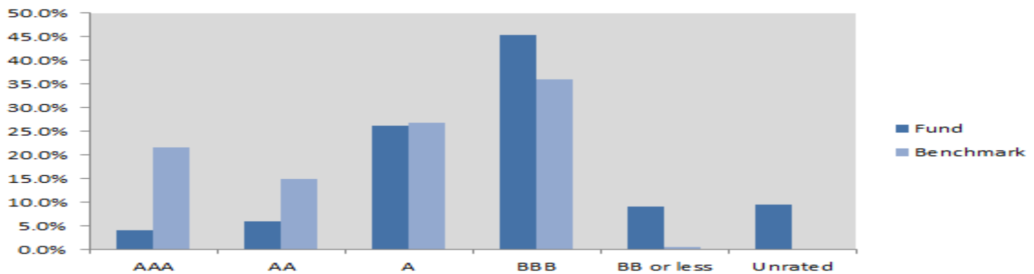
ROYAL LONDON ASSET MANAGEMENT – FIXED INTEREST (POOLED)
£282.0M END VALUE *(£281.0M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	A (no change over period under review). ESG3
Performance Objective *Benchmark +0.8% p.a.*	●	Outperformed benchmark by 1.4% p.a. over three years

Manager Research and Developments

- Our researchers met with Royal London in October 2015 and reconfirmed the existing A rating, noting their clear philosophy, focussing on under-researched areas such as secured bonds, remains a competitive advantage in UK credit markets.
- Panel last met with RLAM at the "meet the manager" workshop session on 9 November 2015.

Credit Rating Allocation



Weighted Duration	Start of Quarter	End of Quarter
Fund	*7.5*	*7.5*
Benchmark	*7.7*	*7.7*

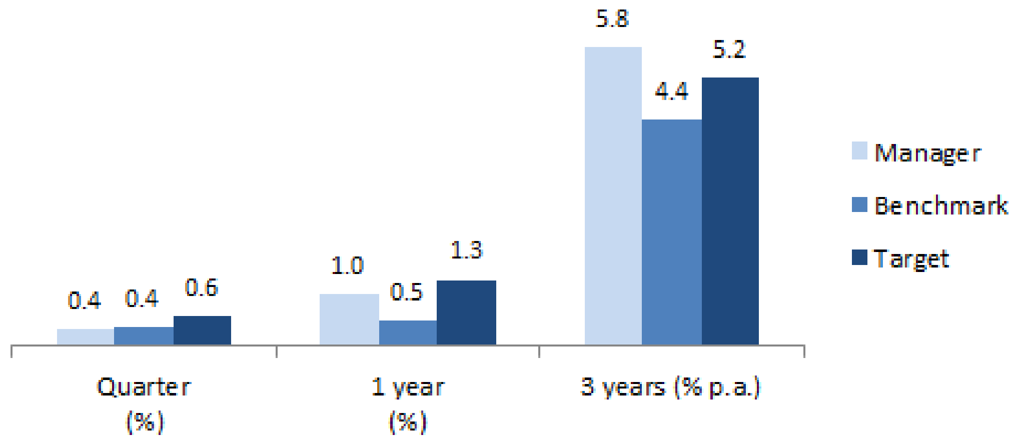
Reason for investment

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

Reason for manager

- Focussed research strategy to generate added value
- Focus on unrated bonds provided a "niche" where price inefficiencies are more prevalent. Product size means can be flexible within market

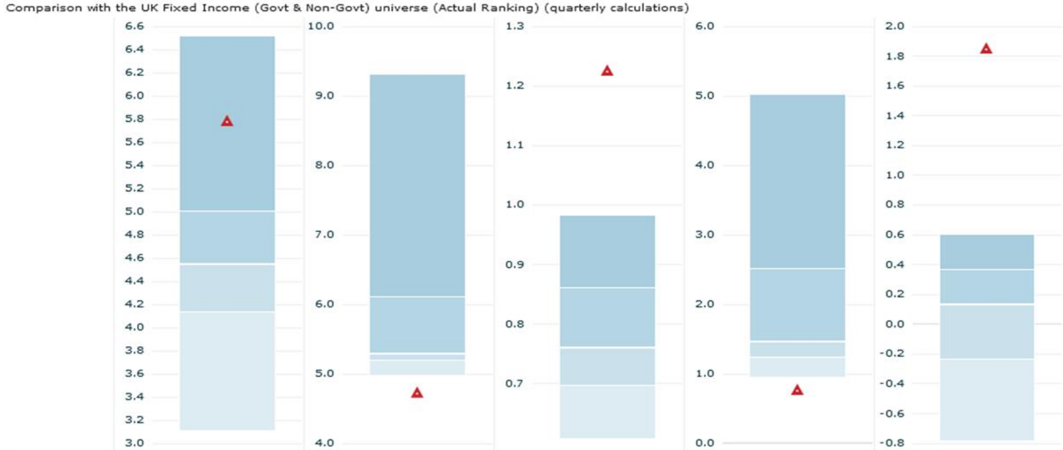
Performance



Risk and Return relative to benchmark

Performance characteristics vs. Markit iBoxx Non Gilts Overall in GBP over 3 yrs ending December-15

Comparison with the UK Fixed Income (Govt & Non-Govt) universe (Actual Ranking) (quarterly calculations)



	Ret (%pa)	Std Dev (%pa)	Ret/SD	TE (%pa)	IR
▲ RLAM FI	5.8 *(5)*	4.7 *(24)*	1.2 *(1)*	0.8 *(24)*	1.8 *(1)*
95th Percentile	6.5	9.3	1.0	5.0	0.6
Upper Quartile	5.0	6.1	0.9	2.5	0.4
Median	4.5	5.3	0.8	1.5	0.1
Lower Quartile	4.1	5.2	0.7	1.2	-0.2
5th Percentile	3.1	5.0	0.6	1.0	-0.8
Number	24	24	24	24	24

RECORD – CURRENCY HEDGING (SEGREGATED)
-£17.6M END VALUE *(£3.4M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	N (no change over period under review)
Performance Objective *N/A*	●	The three initiated hedging mandates have all slightly underperformed their benchmark returns since inception

Manager Research and Developments

Over the quarter, sterling depreciated against the US dollar and the yen and remained largely unchanged against the euro.

On 30 October 2015, the dynamic hedging mandate was closed and a new passive mandate was initiated to hedge 50% of the currency exposure on developed global equities (dollar, euro and yen), and 100% on the hedge fund and global property mandates; in practice, as the change to the hedging policy for equities was agreed earlier in the month, Record effectively "froze" their dynamic hedging ratios in mid October when the dynamic hedge was near 50%.

Performance for each of these separate periods and accounts is shown to the right; as expected, performance for the passive mandate has been in line with the (informal) 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). Such significant divergence would not be expected for future periods.

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 reply on human intervention
- Strong IT infrastructure and currency specialists

Currency Hedging Q4 2015 Performance (£ terms)

Dynamic Hedge* *- terminated on 30 October 2015*

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Hedge Return (%)	Record Hedge Return (%)	Net Return (%)
USD	491,943,312	0	(1.92%)	0.97%	0.50%	(1.42%)
EUR	188,257,965	0	(2.93%)	1.50%	0.77%	(2.16%)
JPY	120,361,671	0	(2.66%)	1.35%	0.74%	(1.92%)
Total	**800,562,949**	**0**	**(2.27%)**	**1.15%**	**0.60%**	**(1.67%)**

Passive Developed Equity Hedge** *- started on 30 October 2015*

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	519,385,896	543,272,596	4.78%	(2.08%)	(2.07%)	2.66%
EUR	202,510,453	201,088,471	3.04%	(1.30%)	(1.35%)	1.79%
JPY	130,307,306	136,648,893	5.11%	(2.08%)	(2.18%)	2.93%
Total	**852,203,655**	**881,009,960**	**4.43%**	**(1.88%)**	**(1.91%)**	**2.50%**

Passive Hedge Fund Hedge** *- started on 30 October 2015*

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	59,388,255	183,189,146	4.78%	(4.12%)	(4.21%)	0.44%
Total	**59,388,255**	**183,189,146**	**4.78%**	**(4.12%)**	**(4.21%)**	**0.44%**

Passive Property Hedge** *- started on 30 October 2015*

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	31,856,476	31,048,435	4.78%	(4.14%)	(4.10%)	0.54%
EUR	118,279,395	110,809,724	3.04%	(2.58%)	(2.62%)	0.54%
Total	**150,135,871**	**141,858,158**	**3.42%**	**(2.90%)**	**(2.92%)**	**0.54%**

* Figures from 30 September 2015 to 30 October 2015.
** Figures from 30 October 2015 to 31 December 2015.

APPENDIX 1
SUMMARY OF MANDATES

SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance target (p.a.)
BlackRock	Passive Multi-Asset	In line with customised benchmarks using monthly mean fund weights	-
Jupiter Asset Management	UK Equities (Socially Responsible Investing)	FTSE All Share	+2%
TT International	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Schroder	Global Equities (Unconstrained)	MSCI AC World Index Free	+4%
Genesis	Emerging Market Equities	MSCI EM IMI TR	-
Unigestion	Emerging Market Equities	MSCI EM NET TR	+2-4%
Invesco	Global ex-UK Equities (Enhanced Indexation)	MSCI World ex UK NDR	+0.5%
SSgA	Europe ex-UK Equities (Enhanced Indexation)	FTSE AW Europe ex UK	+0.5%
SSgA	Pacific inc. Japan Equities (Enhanced Indexation)	FTSE AW Dev Asia Pacific	+0.5%
Pyrford	Diversified Growth Fund	RPI +5% p.a.	-
Standard Life	Diversified Growth Fund	6 Month LIBOR +5% p.a.	-
JP Morgan	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Schroder	UK Property	IPD UK Pooled	+1%
Partners	Overseas Property	IPD Global Pooled	+2%
Royal London Asset Management	UK Corporate Bonds	iBoxx £ Non-Gilts All Maturities	+0.8%
Record	Passive Currency Hedging	N/A	-
Cash	Internally Managed	7 Day LIBID	-

APPENDIX 2

MARKET STATISTICS INDICES

MARKET STATISTICS INDICES

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

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

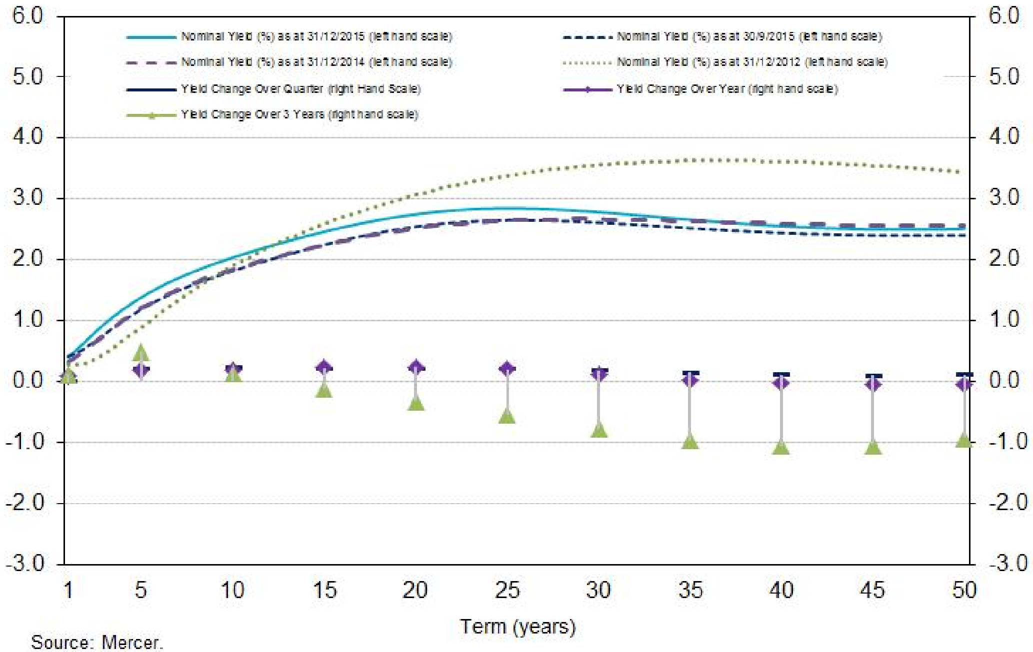
APPENDIX 3
CHANGES IN YIELDS

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	31 December 2015	30 September 2015	31 December 2014	31 December 2013
UK Equities	3.70	3.71	3.37	3.28
Over 15 Year Gilts	2.57	2.38	2.42	3.58
Over 5 Year Index-Linked Gilts	-0.70	-0.83	-0.75	0.05
Sterling Non Gilts	3.23	3.16	2.99	3.85

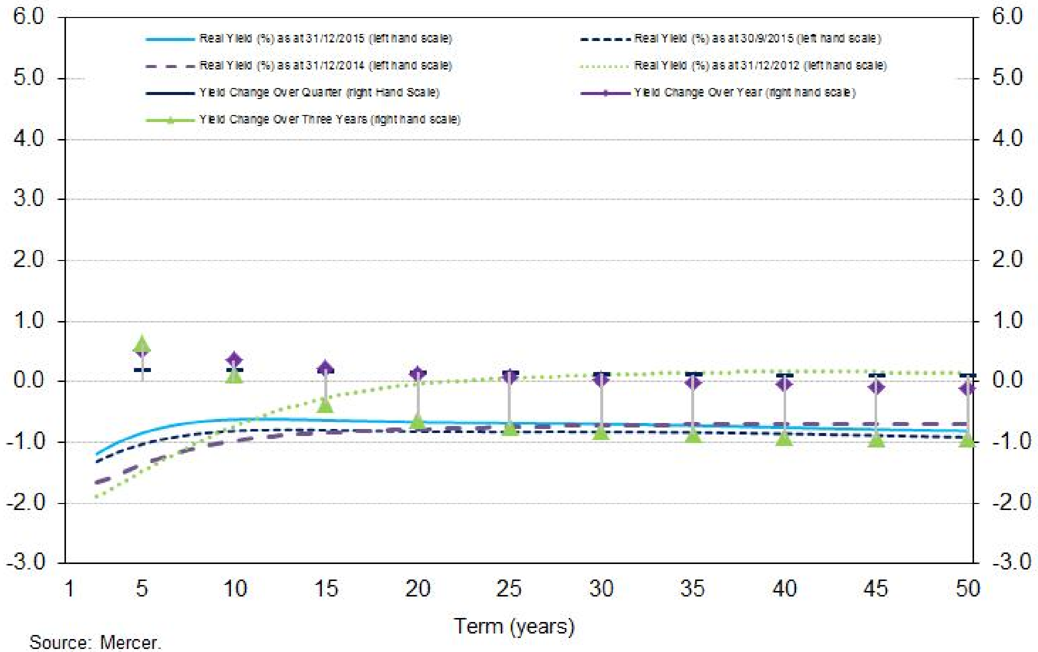
- Bond yields rose across all maturities over the quarter, resulting in negative returns for investors.
- In the UK, government bond yields increased by c.10-20 bps across the curve, with the increase most pronounced at medium to long end of the curve. Despite this, nominal yields remain well below long-term average levels.
- Real yields also rose over the quarter, with the Over 5 Year Index-Linked Gilts Index posting a negative return of 3.3%.
- Credit spreads narrowed over the quarter by c.10 bps and amounted to c.1.4% for both the Sterling Non-Gilts All Stocks and Sterling Non-Gilts Over 10 Year indices at the end of December. The benefit from the narrowing of credit spreads along with the income earned on corporate bond investment more than offset the negative impact of a rise in gilt yields, leading UK credit assets to post a positive return of 0.5% in sterling terms.

Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

APPENDIX 4
GUIDE TO MERCER RATINGS

GUIDE TO MERCER RATINGS

INTRODUCTION

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

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

WHAT DO MERCER'S RATINGS SIGNIFY?

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

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

WHAT DO MERCER'S RATINGS NOT SIGNIFY?

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

Past Performance

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

Creditworthiness

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

Vehicle-Specific Considerations

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

Management Fees

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

Operational Assessment

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

FACTORS CONSIDERED IN FORMING A RATING

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

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

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

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

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

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

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

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

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

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

GUIDE TO MERCER RATINGS

MERCER RATING SCALE

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

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

SUPPLEMENTAL INDICATORS

Provisional (P)

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

Watch (W)

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

Specifically Assigning (P) and (W) Supplemental Indicators

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

High Tracking Error (T)

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

NICHE STRATEGIES

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

GUIDE TO MERCER RATINGS

RESEARCH INDICATIONS – INDICATIVE VIEW

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

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

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

OPERATIONAL RISK ASSESSMENTS

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

ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE RATINGS

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

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.

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