HEALTH WEALTH CAREER

AVON PENSION FUND

PANEL INVESTMENT PERFORMANCE REPORT QUARTER TO 30 JUNE 2016

AUGUST 2016

MAKE TOMORROW, TODAY MERCER

IMPORTANT NOTICES

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

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

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

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

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

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

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

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

Please also note:

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

CONTENTS

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 £160m over the quarter, to £3,898m at 30 June 2016.

Strategy

- Global (developed) equity returns over the last three years at 12.0% p.a. have been ahead of the assumed strategic return of 8.25% p.a. from the strategic review in March 2013. We remain broadly neutral in our medium term outlook for developed market equities (over the next one to three years), despite growing uncertainty amidst geopolitical pressures, although we have reduced our conviction as a result of uncertainty following the EU Referendum.

- The three year return from emerging market equities has increased to 3.8% p.a. from -1.8 % p.a. last quarter. The three year return remains well below the assumed strategic return (of 8.75% p.a.) as returns have been affected by the general emerging markets weakness in recent years, although performance in the last couple of quarters was good. 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 30 June 2016 remain significantly above the long term strategic assumed returns (with fixed interest gilts returning 15.0% p.a. against an assumed return of 4.5% p.a., and index-linked gilts returning 12.2% p.a. versus an assumed return of 4.25% p.a.) as investor demand for gilts remains high.

EXECUTIVE SUMMARY

Strategy (continued)

- UK corporate bonds returned 7.4% p.a. over the three year period, being above their assumed return of 5.5% p.a., while property returns of 14.1% continue to be substantially above the assumed strategic return of 7% p.a., despite signs of slowing in Q2.
- Hedge fund returns remain below long term averages and the strategic return of 6% p.a., as they are affected by low cash rates, and as active managers in general have struggled to generate meaningful returns.
- With most listed assets looking close to fully valued, if not fully valued, we would continue to 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 continue to 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 mixed. UK equities struggled in light of concerns over the EU referendum and the slowing of economic growth at the start of the quarter, and Jupiter and TT delivered negative relative returns. Genesis had the highest returns benefitting from a positive quarter for emerging markets equities, while Standard Life GARS' performance over the quarter was disappointing (-1.1% relative to a benchmark of +1.4%).
- The EU Referendum result led to a significant depreciation of the pound; as a result, the currency hedging mandates in place detracted value. In the event of a strengthening pound they will be expected to add value.
- Returns over the year to 30 June 2016 were generally strong. The equity mandates (with the exception of Jupiter) delivered positive absolute returns. Emerging market returns for the year were positive on the back of a strong Q2, with Genesis and Unigestion returning 8.9% and 5.5% respectively.
- Over three years, all mandates with a three year track record produced positive absolute returns, with only Schroder global equity, Invesco and Partners failing to beat their benchmarks (although see comments on the measurement of Partners' performance later). In addition, Jupiter, TT, Schroder property and RLAM (marginally) failed to achieve their three-year performance objectives (however Schroder property has met it's target over five years), despite beating their benchmarks. The remainder of the active managers achieved their objectives.

EXECUTIVE SUMMARY

Key points for consideration

- The result from the EU Referendum led to UK gilt yields falling to historical all-time lows and sterling to depreciate significantly against other major currencies, falling to its lowest against the US dollar since 1985. Markets remain fragile due to heightened uncertainty and reduced liquidity and the short-term impact on UK economy is generally expected to be negative.

- Brexit and the dramatic falls in gilt yields are expected to have had limited direct impact on the liabilities on the 2016 "CPI plus" basis (as gilt yields do not directly affect the valuation of the liabilities in the way they did on the 2013 "gilts plus" basis), although if the Referendum results mean a reduction in long-term return expectations for assets relative to CPI this could increase liabilities.

- Uncertainty, volatility and reduced liquidity may create opportunities for investors that are able to respond dynamically to changing conditions.

- In addition, the impact of Brexit on the banking sector may create some interesting opportunities in private markets.

- Before the EU Referendum, UK property values were highly valued, and transaction market activity has since tailed off. Purchasers are more risk averse and unwilling to proceed with deals where projected returns were dependent on rental growth. Vendors who are not forced to sell are unwilling to accept a price reduction that may only be temporary.

- Secured income strategies (semi-liquid credit) offer a yield premium as compensation for reduced liquidity and greater complexity.

- Flexible manager strategies should also benefit from greater volatility and may make use of cash as an asset allocation tool (e.g. variable beta equity managers, multi-asset credit managers, some hedge funds, idiosyncratic multi-asset).

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**	-	✕	-	2	*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

- BlackRock have announced that Lorenzo Garcia replaced Nimish Patel, head of institutional and retail portfolio management (EMEA), effective May 2016. See page 27 for details.
- Genesis have informed us that Karen Yerburgh, Portfolio Manager and Managing Partner, has decided to retire. See page 31 for details.
- Unigestion have informed us that Bruno Taillardat, Investment Manager in the portfolio management team and a member of the Investment and Research Committee, will be leaving the firm. See page 32 for details.

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	4	*37*
JP Morgan	**Fund of Hedge Funds**	✓	N/A	N/A	N	*39*
Schroder	**UK Property**	-	✕	-	3	*42*
Partners	**Global Property**	✓	✓	✕	4	*43*
IFM	**Infrastructure**	✓	N/A	N/A	2	*44*
RLAM	**Bonds**	✓	✕	-	3	*45*
Record Currency Management	**Currency Hedging**	-	N/A	N/A	N	*46*

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

- In July 2016, we assigned a Watch (W) status to Standard Life's GARS fund following a recent review. The size of the strategy is seen as a concern. See page 37 for details.
- Partners' performance relative to benchmark is explained in more detail on page 43.
- IFM Infrastructure rating was downgraded from A to B+ in June 2016. See page 44 for details.

SECTION 2

MARKET BACKGROUND

MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

Most equity markets posted low positive returns in local currency terms over the quarter. Japanese equities were the main exception to this trend, falling by 7.7% in local currency terms, as the sharp appreciation of the Yen over the quarter led to concerns over future earnings growth. European (ex-UK) equities also fell by 0.6% in light of the uncertainty in the aftermath of the Brexit vote. Nonetheless, all major equity markets delivered strong positive returns in sterling terms due to the sharp depreciation of sterling against most other major currencies.

Within UK equities, there was a marked divergence in the performance of large capitalisation stocks and more domestically focused small and mid-caps. Large capitalisation stocks, as measured by the FTSE 100 index, returned 6.5% over the quarter as the fall in sterling and higher commodity prices benefited multi-nationals. Small and mid-sized companies, as measured by the FTSE Small Cap index and FTSE 250 Index, fell by 0.6% and 2.9% respectively over the quarter due to domestic economic uncertainty.

Within global equity markets, US equities were the strongest performer, delivering returns of 2.6% in local and 10.3% in sterling terms, as markets benefitted from the growing expectation that interest rate rises would be delayed further. In emerging markets, Latin American equities in particular enjoyed a strong quarter as Brazil and Peru rallied on positive political developments whereas emerging Europe such as Hungary and Poland generally underperformed amid uncertainty over the impact of Brexit. Small capitalisation stocks, as measured by the FTSE World Small Cap Index, also outperformed the broader equity market, returning 1.9% in local currency and 9.6% in sterling terms.

Bond Market Review

Bond yields fell across all maturities over the quarter, resulting in positive absolute returns for investors.

In the UK, nominal government bond yields decreased by c.20-55 bps across the curve over the quarter with the Over 15 Gilts Index returning 11.8%. On the day of the result of the EU Referendum, 10 year UK gilt yields fell by c.30 bps to 1.0%, the largest one day move since the financial crisis.

Real yields also decreased over the quarter, by c.40-50 bps. The Over 5 Year Index-Linked Gilts Index posted a positive return of 11.1% over the quarter.

Credit spreads widened slightly over the quarter, with the Sterling Non-Gilts All Stocks and Sterling Non-Gilts All Stocks indices both ending the quarter with spreads of 1.6% p.a. Overall, UK credit assets posted a positive return of 4.2% over the quarter, largely due to the benefits from a decrease in government bond yields.

Currency Market Review

In the days following the Brexit vote, sterling depreciated significantly against the US dollar and Japanese yen, ending the quarter weaker by c.7% and c.15% respectively. The yen also rose on the back of Bank of Japan's decision in late April to leave policy rates unchanged, despite market expectations for further rate cuts. Sterling also depreciated against the euro by c.5% over the quarter.

Commodity Market Review

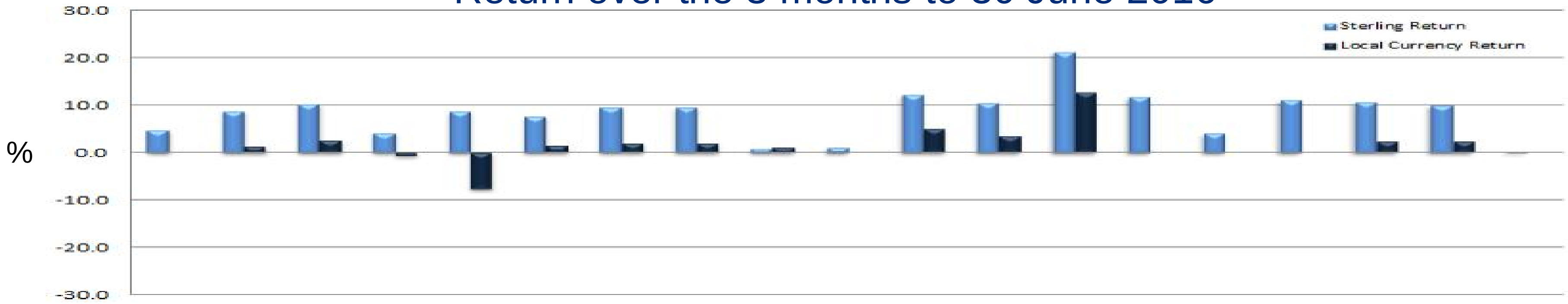
There was a broad rally in global commodities over the quarter. Energy and precious metals led the gains with positive returns of 19.0% and 8.1% respectively in US dollar terms.

Brent Crude Oil price rallied in the second quarter, to increase from US$40.0/barrel to US$49.6/barrel, a rise of c. 24%. Gold rose by 7.0% over the quarter to reach a price of c. $1,321/oz, a level not seen since June 2014, on the back of safe haven demand.

Source: Thomson Reuters Datastream.

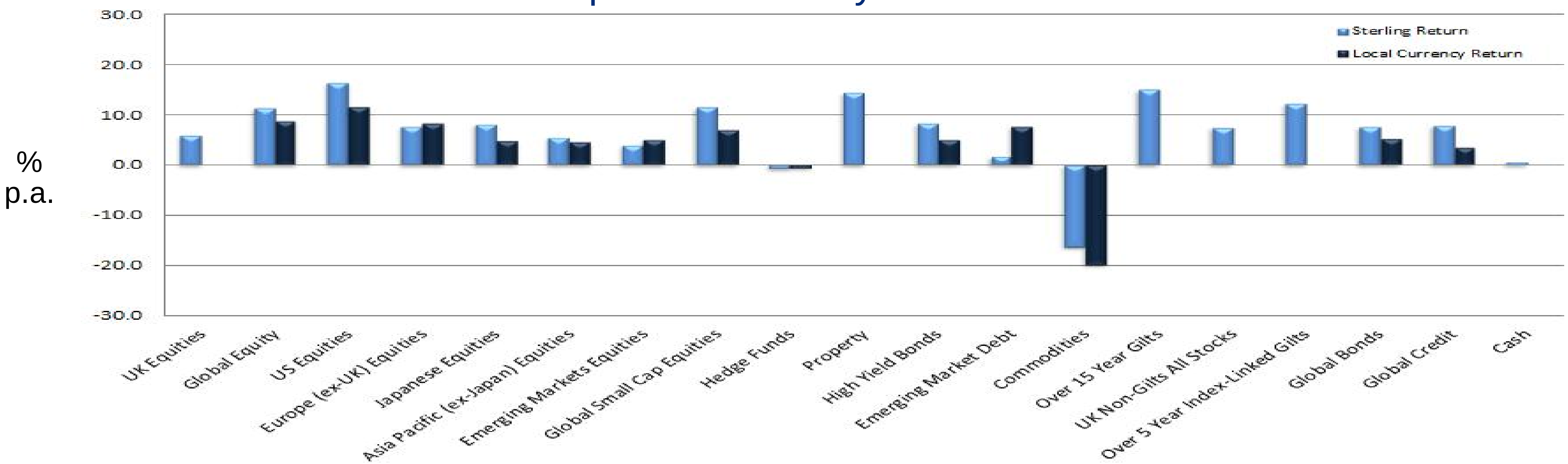
MARKET BACKGROUND
INDEX PERFORMANCE

Return over the 3 months to 30 June 2016



Return over the 12 months to 30 June 2016

Return p.a. over the 3 years to 30 June 2016



Source: Thomson Reuters Datastream.

SECTION 3
STRATEGIC ASSUMPTIONS

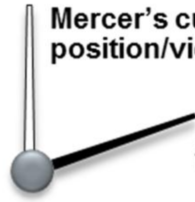
MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.25	12.0	*Remains ahead of the assumed strategic return.* *This has increased from 9.3% p.a. last quarter as the latest quarter's return of 8.7% was considerably higher than the 0.8% return of Q2 2013, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.75	3.8	*The three year return from emerging market equities has increased from -1.8% p.a. last quarter, as the return of 9.5% experienced last quarter was significantly higher than the quarter that fell out of the period (-7.5%). The three year return remains considerably below the assumed strategic return.*
Diversified Growth	Libor + 4% / RPI + 5%	4.6 / 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 and low inflation means that both benchmarks have significantly underperformed the long term expected return from equity. During periods of strong equity returns we would expect DGF to underperform equities.*
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	4.5	15.0	*UK gilt returns remain above the long term strategic assumed return as yields remain low relative to historic averages, and returns have increased compared to the previous quarter as yields fell significantly over Q2. Gilt returns are now considerably above the assumed strategic return. Corporate bond returns are now also ahead of the strategic assumed return, following a strong Q2.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	4.25	12.2	
UK Corporate Bonds (BofAML Sterling Non Gilts)	5.5	7.4	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	6.0	-0.7	*Hedge fund returns remain below long term averages and the strategic return, as they are affected by low cash rates. It should be noted that the index includes a wide variety of strategies that may have had very divergent returns.*
Property (IPD UK Monthly)	7.0	14.5	*Property returns continue to be above the expected returns, driven by the encouraging economic data in the US and the UK over the last three years. Returns slowed in June in light of the result of the EU Referendum and the investor uncertainty this created.*
Infrastructure (S&P Global Infrastructure)	7.0	13.3	*Infrastructure returns are well ahead of the expected returns, driven by a strong Q2 return of 12.9%. This return was in part driven by currency as sterling depreciated over the quarter.*

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

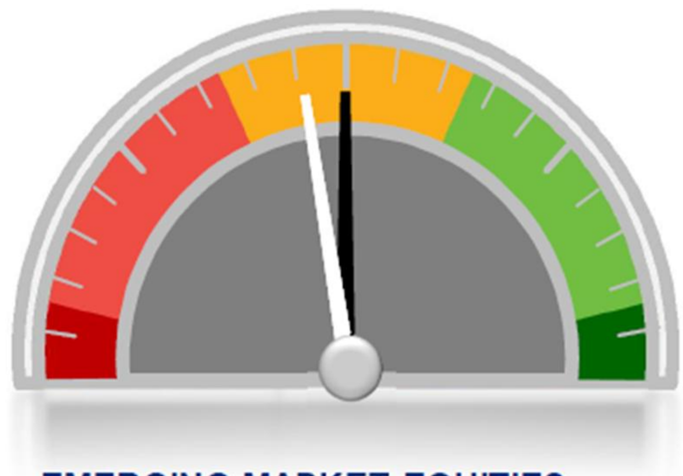
DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2016

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



DEVELOPED MARKET EQUITIES

- Monetary policy remains generally supportive of equity markets
- Macro environment more uncertain amidst geopolitical pressures. Risks appear to have shifted to the downside
- Uninspiring earnings growth and downwards revisions to earnings estimates persist



EMERGING MARKET EQUITIES

- Valuations remain below long-term averages, though have risen over the year
- Rebound in commodity prices and more dovish outlook from the Fed should prove favourable
- A period of dollar strength and an earlier than expected rate rise by the Fed would pose potential risks for emerging markets

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 – Q3 2016

FIXED INTEREST GILTS (ALL STOCK)

- ✓ Ongoing extraordinary monetary policy and uncertainty following the Brexit vote will restrain upward yield moves in medium term
- ! Valuations remain expensive, with nominal yields well below long-term average levels

INDEX-LINKED GILTS

- ✓ Breakeven inflation levels largely unchanged over the quarter and remain at cyclical lows
- ✓ Expect UK inflation to increase at least temporarily as a result of a Brexit
- ! Valuations remain expensive, with real yields well below long-term averages

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2016

NON-GOVERNMENT BONDS (£ ALL-STOCK)

- Credit spreads remain in fair value territory relative to current default rates
- Yields remain historically low and prospective total returns are relatively limited
- A reduction in trading liquidity and an uncertain macro environment have led to the risk of increased volatility

UK PROPERTY

- Relative to gilts, yields look reasonable and the referendum result may present opportunities in parts of the market in the longer term (e.g. HLV)
- Period of uncertainty for UK property market; activity in both transaction and rental markets likely to be subdued
- Whilst true impact on valuations is still unknown, values are expected to have been pushed down in light of Brexit

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	1,544,963	1,611,123	41.3	41.3	40.0	35 - 45	+1.3
Emerging Market Equities	327,975	358,238	8.8	9.2	10.0	5 - 15	-0.8
Diversified Growth Funds	360,928	363,166	9.7	9.3	10.0	5 - 15	-0.7
Fund of Hedge Funds	192,394	208,736	5.1	5.4	5.0	0 - 7.5	+0.4
Property	362,097	380,524	9.7	9.8	10.0	5 - 15	-0.2
Infrastructure	-	149,161	-	3.8	5.0	0 - 7.5	-1.2
Bonds	792,149	847,704	21.2	21.7	20.0	15 - 35	+1.7
Cash (including currency instruments)	157,710	-20,793	4.2	-0.5	-	0 - 5	-0.5
Total	**3,738,216**	**3,897,860**	**100.0**	**100.0**	**100.0**		**0.0**

Source: BNY Mellon, 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 £160m due to positive returns from most asset classes (in particular overseas equities). At the end of the quarter, all asset classes were within the agreed tolerance ranges, except cash (including currency instruments) as it takes into account the negative balance from Record currency hedging.

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	1,025,565	-21,660	1,081,129	27.4	27.7
Jupiter	UK Equities	173,896	-	174,182	4.7	4.5
TT International	UK Equities	201,799	-	208,744	5.4	5.4
Schroder	Global Equities	253,892	-	277,115	6.8	7.1
Genesis	Emerging Market Equities	149,857	-	166,886	4.0	4.3
Unigestion	Emerging Market Equities	178,118	-	191,352	4.8	4.9
Invesco	Global ex-UK Equities	289,696	-	307,650	7.7	7.9
SSgA	Europe ex-UK & Pacific inc. Japan Equities	119,803	-	127,575	3.2	3.3
Pyrford	DGF	126,947	-	131,310	3.4	3.4
Standard Life	DGF	233,981	-	231,856	6.3	5.9

Source: BNY Mellon, Avon. Totals may not sum due to rounding.

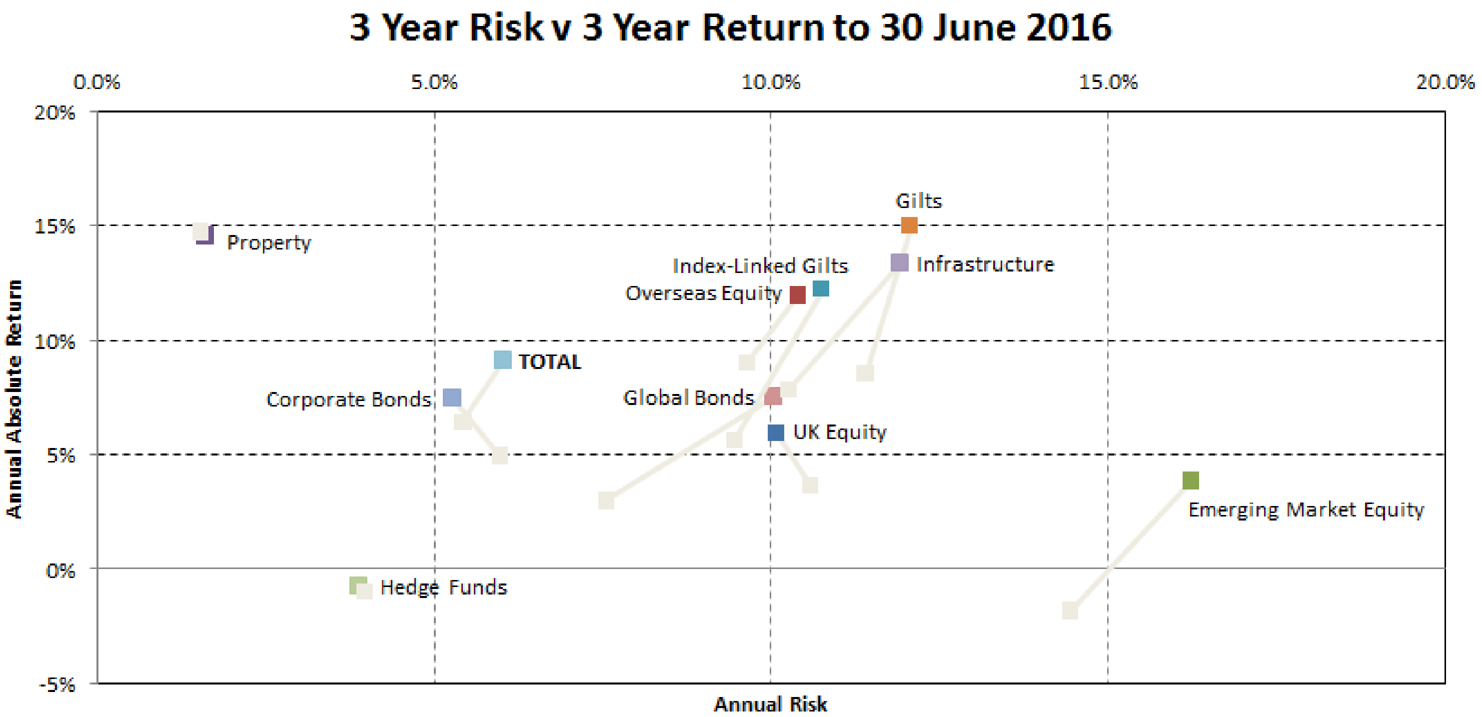
FUND VALUATIONS
VALUATION BY MANAGER CONTINUED

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	422	-	446	0.0	0.0
Signet	Fund of Hedge Funds	1,056	-	913	0.0	0.0
Gottex	Fund of Hedge Funds	3,547	-596	2,933	0.1	0.1
JP Morgan	Fund of Hedge Funds	187,695	-	204,444	5.0	5.2
Schroder	UK Property	195,868	-	194,598	5.2	5.0
Partners	Property	171,992	8,060	188,066	4.6	4.8
IFM	Infrastructure	-	136,698	149,161	-	3.8
RLAM	Bonds	289,662	-	300,968	7.7	7.7
Record Currency Management	Currency Hedging	-29,293	20,300	-72,552	-0.8	-1.9
Internal Cash	Cash	167,927	-142,801	31,083	4.5	0.8
Total		**3,738,639**	**0**	**3,897,860**	**100.0**	**100.0**

Source: BNY Mellon, Avon. Totals may not sum due to rounding.

SECTION 5
PERFORMANCE SUMMARY

MANAGER MONITORING
RISK RETURN ANALYSIS



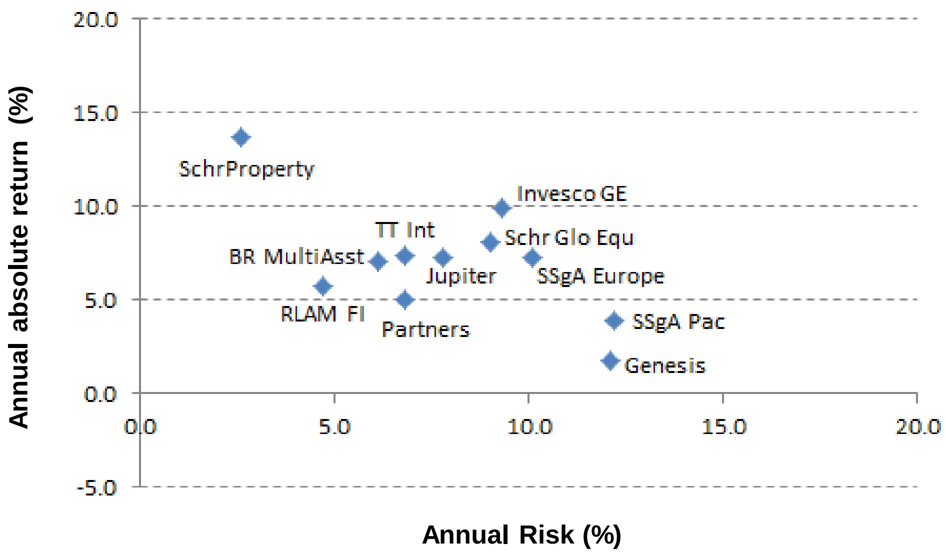
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of June 2016, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark indices and allocations from BNY Mellon). We also show the positions as at last quarter, in grey.

Comments

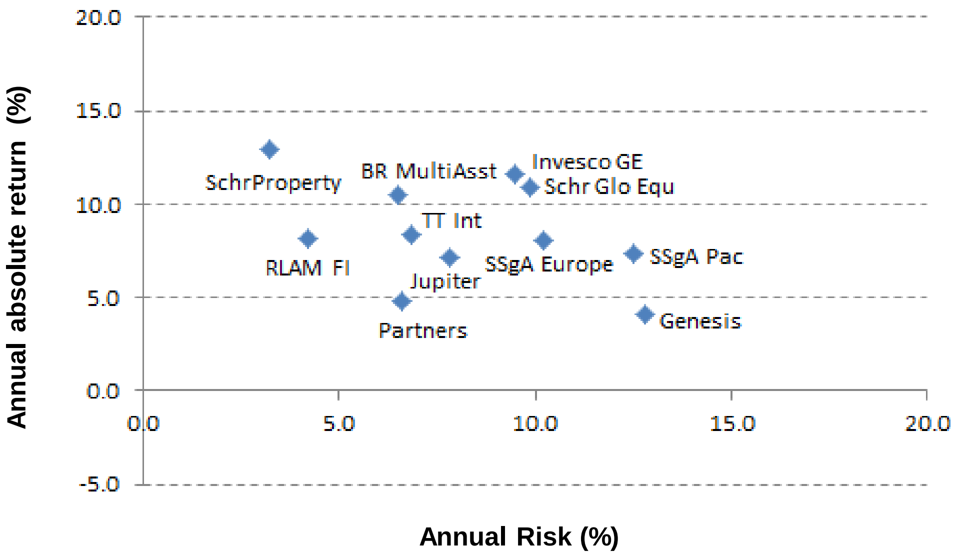
- *There were some significant shifts in observed returns and volatilities over the quarter. The asset classes with the most relevant shifts were global bonds, index-linked and fixed interest gilts, infrastructure and emerging markets equities. In all of them, both return and volatility increased. For overseas assets, a significant proportion of the increase in return and observed volatility was due to the fall in sterling over the quarter.*

MANAGER MONITORING
RISK RETURN ANALYSIS

3 year Risk vs 3 year Return to 31 March 2016



3 year Risk vs 3 year Return to 30 June 2016



Comments

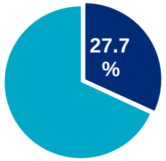
- *Absolute returns for equities and fixed income mandates increased over the quarter (consistent with the picture seen on page 23).*

MANAGER MONITORING
MANAGER PERFORMANCE TO 30 JUNE 2016

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	7.7	7.7	0.0	13.7	13.7	0.0	10.4	10.4	0.0	-	Target met
Jupiter	0.1	4.7	-4.4	-2.6	2.2	-4.7	7.0	5.9	+1.1	+2	Target not met
TT International	3.3	4.7	-1.3	4.8	2.2	+2.5	8.3	5.9	+2.3	+3-4	Target not met
Schroder Equity	9.1	8.8	+0.3	13.7	14.0	-0.3	10.7	11.2	-0.4	+4	Target not met
Genesis	10.9	8.4	+2.3	8.9	3.9	+4.8	4.1	3.0	+1.0	-	Target met
Unigestion	7.4	8.2	-0.7	5.5	3.5	+1.9	N/A	N/A	N/A	+2-4	N/A
Invesco	6.2	8.8	-2.3	12.3	15.3	-2.6	11.6	12.1	-0.4	+0.5	Target not met
SSgA Europe	4.1	3.8	+0.3	6.7	5.5	+1.1	8.1	7.6	+0.5	+0.5	Target met
SSgA Pacific	7.7	7.7	0.0	8.4	8.5	-0.1	7.3	6.8	+0.5	+0.5	Target met
Pyrford	3.4	2.0	+1.4	8.1	6.6	+1.3	N/A	N/A	N/A	-	N/A
Standard Life	-1.1	1.4	-2.4	-4.4	5.7	-9.6	N/A	N/A	N/A	-	N/A
JP Morgan	7.9	0.9	+7.0	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Schroder Property	-0.3	0.1	-0.4	6.6	7.2	-0.5	12.8	12.5	+0.3	+1	Target not met*
Partners Property	6.6	1.1	+5.4	10.4	6.9	+3.3	6.3	11.7	-4.9	+2	Target not met
IFM	9.0	0.8	+8.2	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
RLAM	4.0	4.3	-0.3	8.0	9.0	-0.9	8.1	7.4	+0.7	+0.8	Target not met
Internal Cash	0.1	0.1	0.0	0.3	0.4	0.0	0.4	0.4	0.0	-	N/A

Source: BNY Mellon, Avon, Mercer estimates.
BlackRock were unable to provide the benchmark returns in time and so we have assumed this is in line with fund performance.
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.
* Target was met over a five year time period.

SECTION 6
MANAGER PERFORMANCE



BLACKROCK – PASSIVE MULTI-ASSET (POOLED EQUITIES, SEGREGATED BONDS)
£1,081.1M END VALUE *(£1,025.6M START VALUE)*

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

Manager Research and Developments

- BlackRock have been unable to provide benchmark returns at the time of writing and as such we have assumed a benchmark return in line with the fund return.
- BlackRock have announced that Lorenzo Garcia replaced Nimish Patel, head of institutional and retail portfolio management (EMEA), effective May 2016. Patel had earlier announced his intention to leave the EMEA Beta strategies team to take a break from the asset management industry. Garcia is joining from BlackRock's Risk & Quantitative Analysis group where he was head of multi-asset investment risk for EMEA and APAC. Subject to regulatory approval, he will also replace Patel as 'named' portfolio manager on index equity pooled fund ranges. This announcement does not come as a surprise as BlackRock had previously stated they would be looking to replace Patel's expertise, but wanted to take their time on this, which seemed reasonable. We are not proposing any rating change as a result of this news.

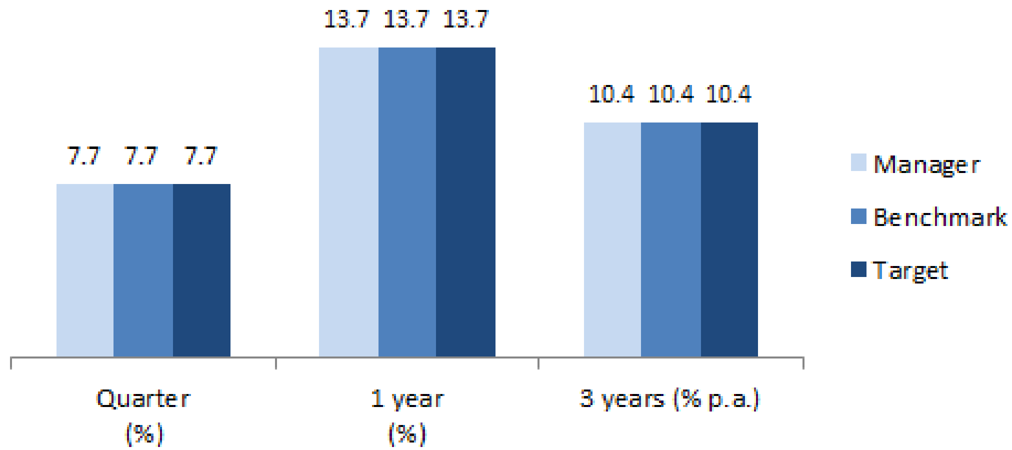
Reason for investment

To provide asset growth as part of a diversified portfolio

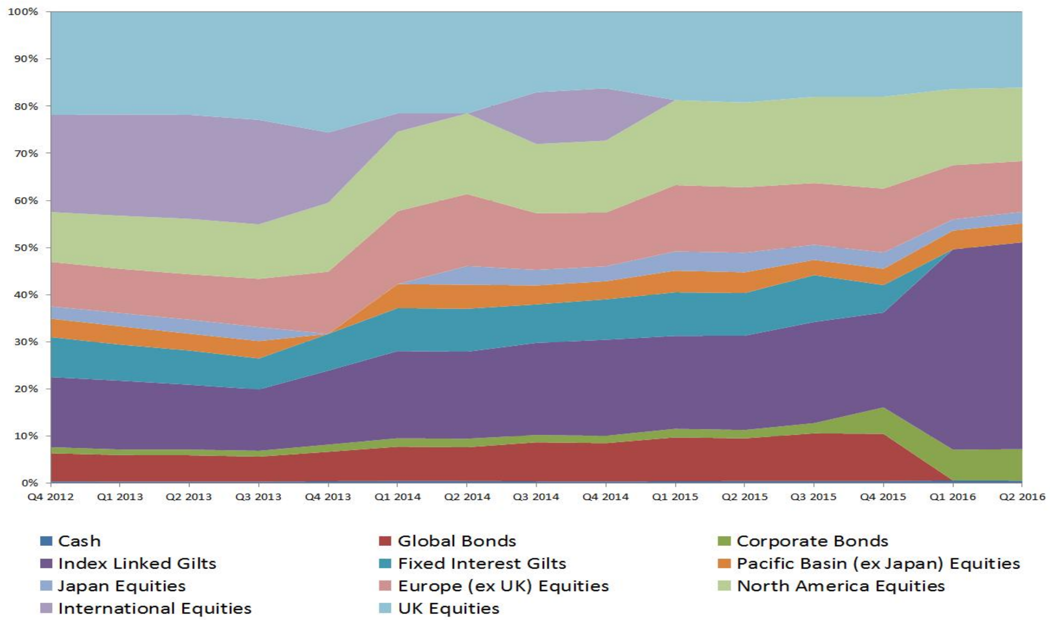
Reason for manager

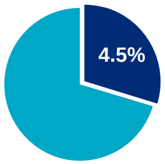
- To provide low cost market exposure across multi asset classes
- Provide efficient way for rebalancing between bonds and equities within a single portfolio

Performance



Asset Allocation





JUPITER ASSET MANAGEMENT – UK EQUITIES (SRI) (SEGREGATED)
£174.2M END VALUE *(£173.9M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B (no change over period under review). ESG2
Performance Objective *Benchmark +2% p.a.*	Outperformed benchmark by 1.1% p.a. over three years
Tracking error was 4.5% p.a. (Q1: 3.6%) – *source: Jupiter*	Number of stocks: 57

Manager Research and Developments

- The fund has significantly underperformed its benchmark over the quarter and year to 30 June 2016. The fund outperformed the benchmark over the three year period though it did not meet the target.
- The underperformance over the quarter can largely be attributed to the fund's underweight position in oil & gas and mining stocks and exposure to consumer staples stocks such as tobacco.
- The fund's overweight exposure to UK domestic-focused companies also detracted from relative performance as the result of the EU Referendum led to concerns of economic growth in the UK.

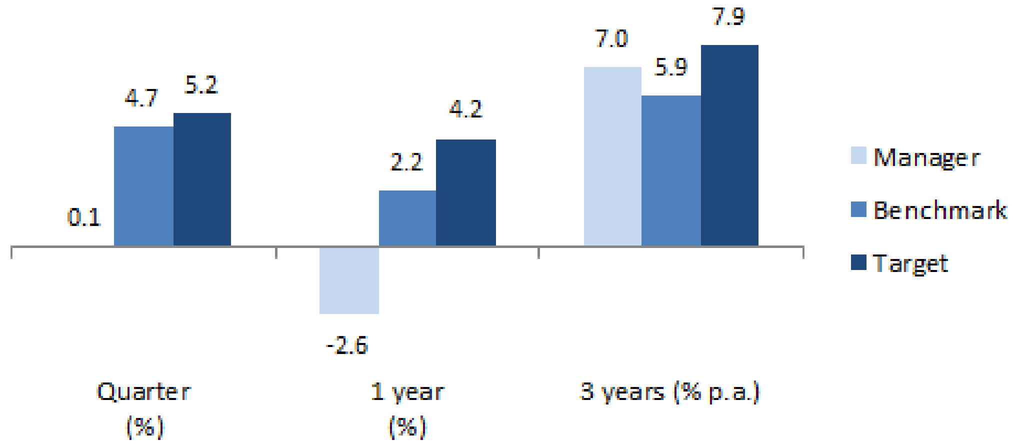
Reason for investment

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

Reason for manager

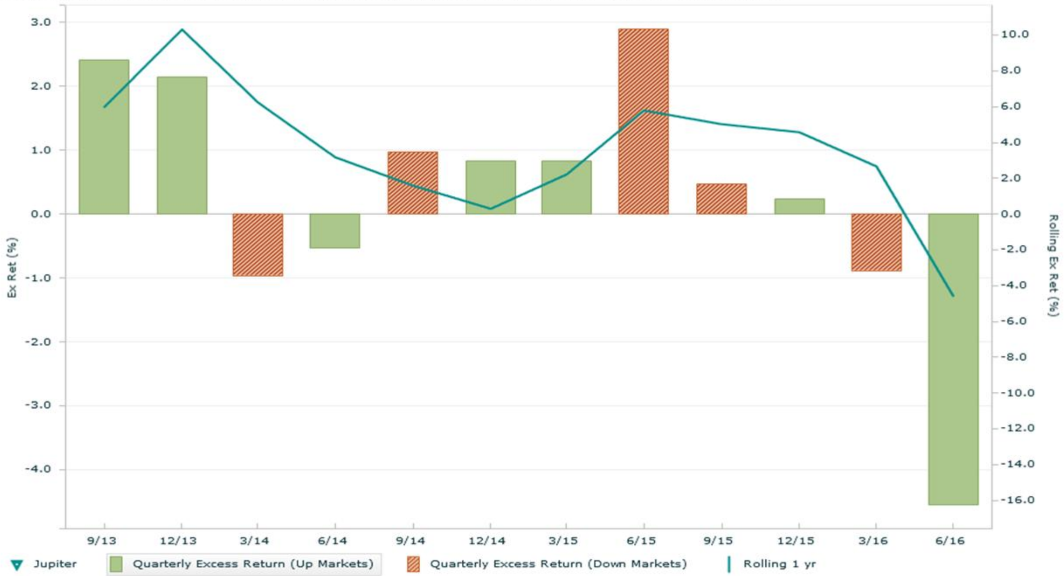
- Clear and robust approach to evaluating SRI factors within the investment process
- Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities
- Corporate commitment to SRI investment approach within a more mainstream investment team

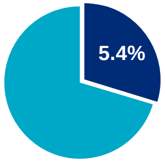
Performance



Rolling relative returns

Quarterly Excess Return vs. FTSE All Share with rolling 1 yr line in GBP (after fees) over 3 yrs ending June-16





TT INTERNATIONAL – UK EQUITIES (UNCONSTRAINED) (SEGREGATED)
£208.7M END VALUE *(£201.8M 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 2.4% p.a. over three years
Three year tracking error was 4.5% p.a. – *source: Mercer*		Number of stocks: 42

Manager Research and Developments

- TT have underperformed their benchmark by 1.3% over the quarter, but outperformed by 2.8% over the year to 30 June 2016.
- This underperformance over the quarter was largely due to stock selection in the financials sector which detracted 1.1%. Lloyds Bank was a major detractor as shares in UK banks sold off sharply following the Brexit vote on fears that they may lose their access to the EU single market.
- The fund underperformed due to the underweight in oil & gas and utilities stocks and was also impacted by negative stock selection in industrial stocks.
- Turnover decreased from 30.5% in Q1 to 18.4% in Q2 2016 while the three year tracking error (a proxy for risk relative to benchmark) rose from 4.4% to 4.5%.
- Three-year information ratios have decreased over the quarter.
- Assets under management in TT's UK equity strategies increased over the quarter to c. £533m 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 £516m in March 2016, £506m in June 2015 and £560m in June 2013). A significant portion (c.40%) of the firm's UK equity assets are managed on behalf of the Fund.

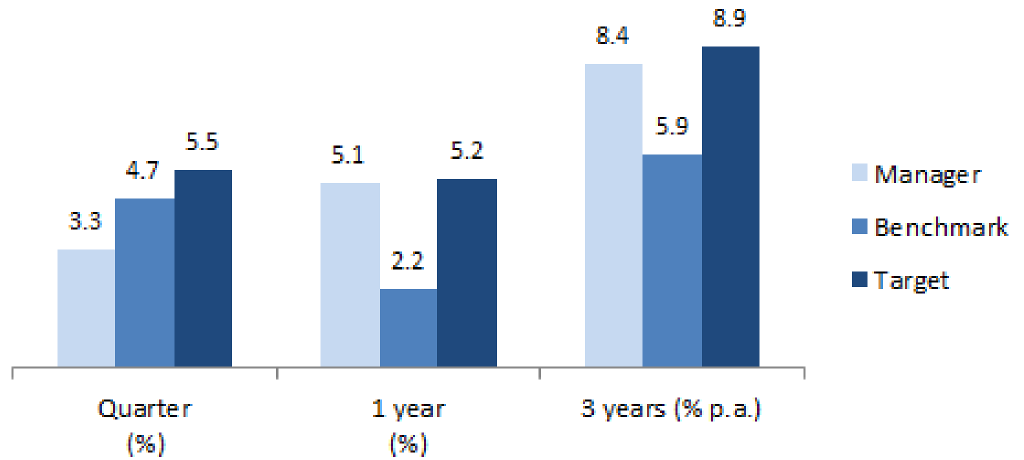
Reason for investment

To provide asset growth as part of a diversified equity portfolio

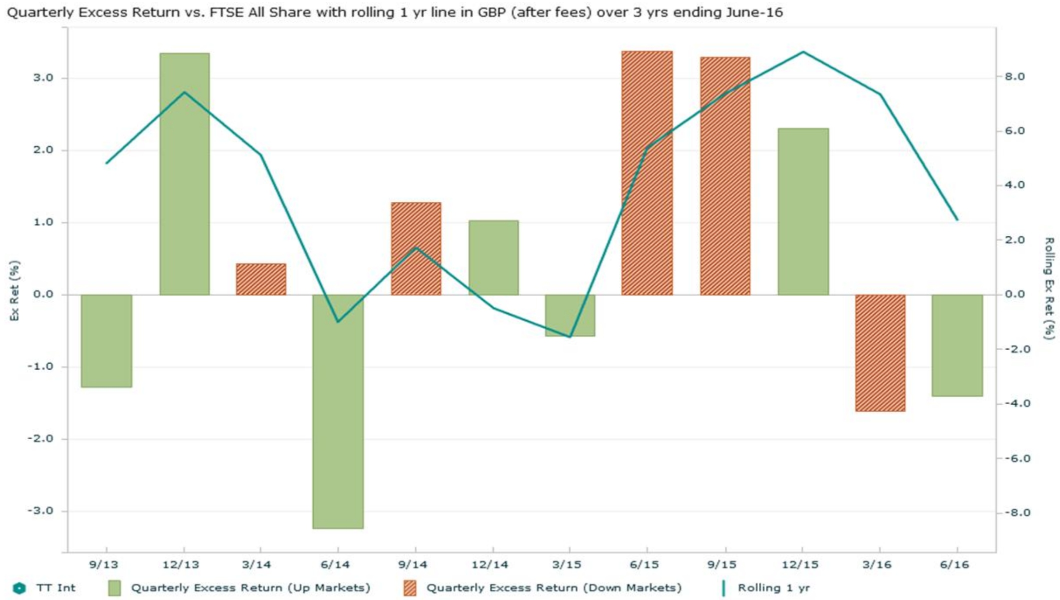
Reason for manager

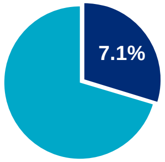
- Favoured the partnership structure that aligns manager's and Fund's interests
- Focussed investment activity and manages its capacity
- Clear, robust stock selection and portfolio construction

Performance



Rolling relative returns





SCHRODER – GLOBAL EQUITY PORTFOLIO (SEGREGATED)
£277.1M END VALUE *(£253.8M START VALUE)*

Item Monitored	Outcome
Mercer Rating	🟢 B+ (no change over period under review). ESG2
Performance Objective *Benchmark +4% p.a.*	🔴 Underperformed benchmark by 0.4% p.a. over three years

Three year tracking error was 2.6% p.a. – *source: Mercer*

Manager Research and Developments

- The fund has outperformed the benchmark over the quarter, largely through stock selection in consumer discretionary (which contributed 0.6%) and health care (+0.4%).
- By region, gains came from holdings in emerging markets and North America. Offsetting this to some extent was the negative impact of stock selection in the UK and the financials sector amid Brexit uncertainty.
- The top contributor in the quarter was US-based pharmaceutical giant Pfizer. The shares gained strongly in May when the firm reported earnings that significantly exceeded consensus expectations.
- The fund outperformed the benchmark by 0.3% over the year, but underperformed by 0.4% p.a. over the three year period.
- The tracking error decreased from 2.7% to 2.6% p.a. over the quarter.

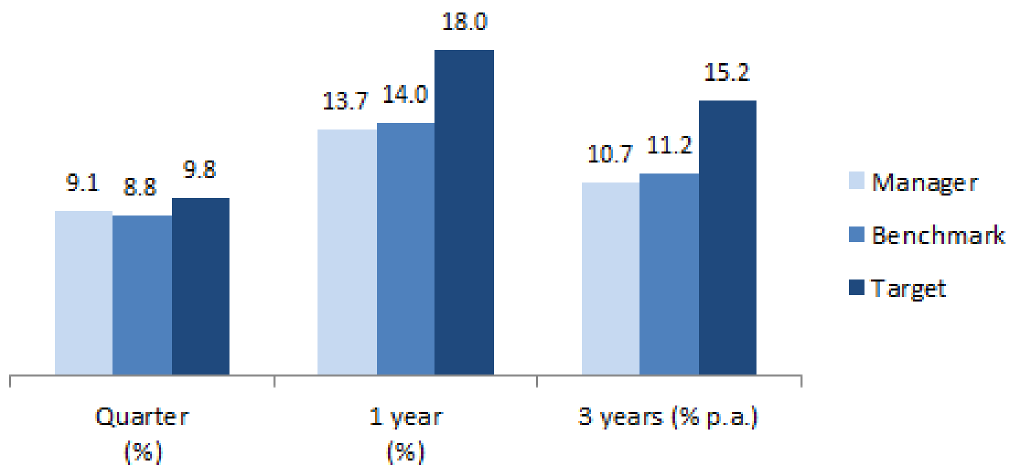
Reason for investment

To provide asset growth as part of a diversified equity portfolio

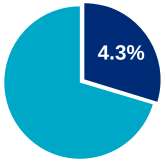
Reason for manager

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

Performance



Rolling relative returns



GENESIS ASSET MANAGERS – EMERGING MARKET EQUITIES (POOLED)
£166.9M END VALUE *(£149.2M START VALUE)*

Item Monitored	Outcome
Mercer Rating	A (no change over period under review). ESG3
Performance Objective *Benchmark*	Outperformed benchmark by 1.0% p.a. over three years
Three year tracking error was 3.7% p.a. (Q1: 3.5%) – *source: Genesis*	Number of stocks: 139

Manager Research and Developments

- The fund has significantly outperformed its benchmark over the quarter. The outperformance can largely be attributed to Thailand, South Africa, Russia and China. Financials was the stand-out sector for outperformance.
- The biggest contributor was Thai Beverage whilst the biggest detractor was Samsung Fire & Marine from South Korea. Turnover over the quarter was 22%.
- The portfolio one-year returns are 4.8% above benchmark, and three year returns are 1.0% p.a. above.
- Genesis have informed us that Karen Yerburgh, PM and Managing Partner, has decided to retire after being with the business for 26 years (though will remain Managing Partner until June 2017). Her replacement, Andrew Elder, PM and Partner, became Deputy Managing Partner in July 2016. We are not surprised Elder was chosen given he is one of the longer standing Partners within the organisation. We are broadly comfortable with this news and do not recommend rating changes.

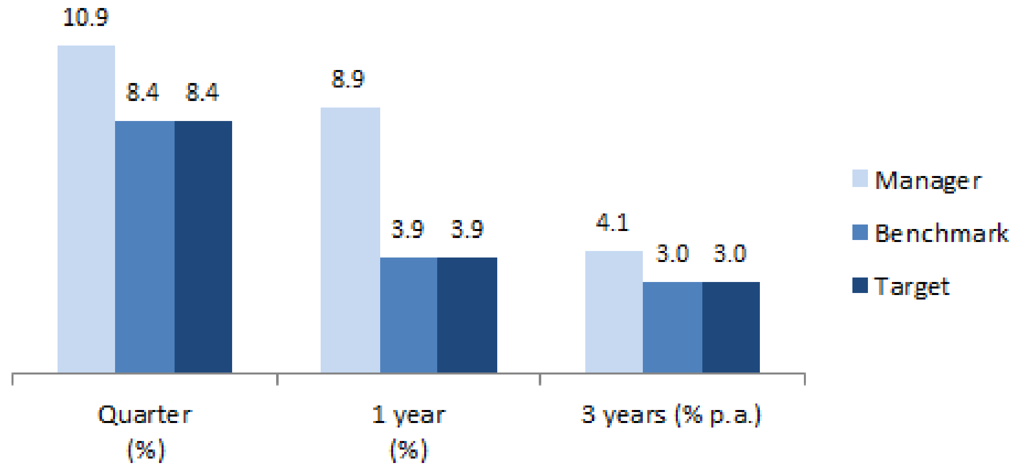
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

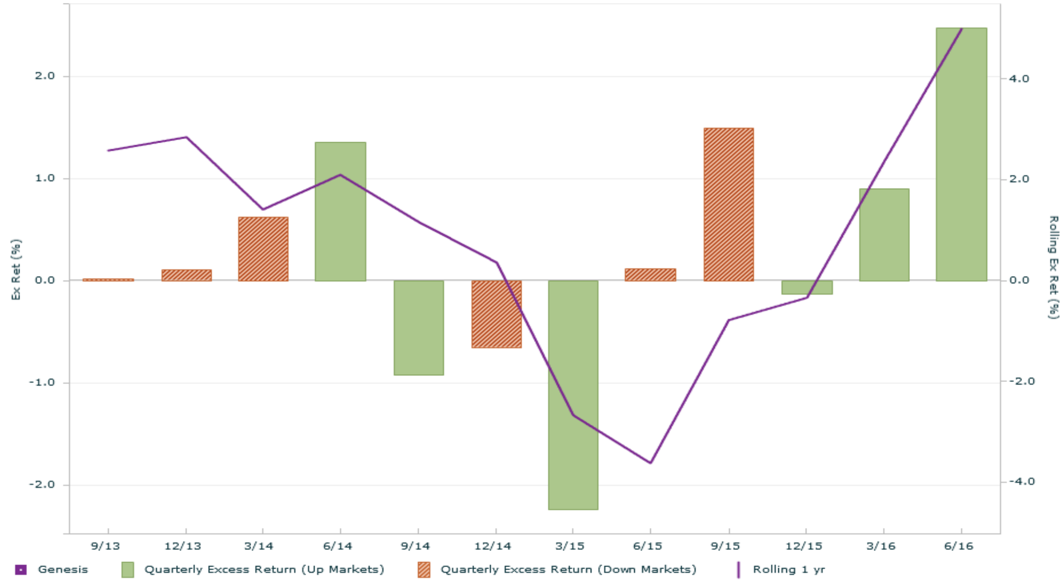
- Long term investment approach which takes advantage of evolving growth opportunities
- Niche and focussed expertise in emerging markets
- Partnership structure aligned to delivering performance rather than growing assets under management

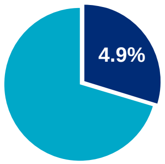
Performance



Rolling relative returns

Quarterly Excess Return vs. MSCI EM with rolling 1 yr line in GBP (after fees) over 3 yrs ending June-16





UNIGESTION – EMERGING MARKET EQUITIES (POOLED – SUB-FUND)
£191.4M END VALUE *(£178.1M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *Benchmark +2-4% p.a.*	Outperformed benchmark by 1.9% over the year
Tracking error since inception was 5.8% p.a. – *source: Unigestion*	Number of stocks: 100

Manager Research and Developments

- The fund has underperformed by 0.7% over the quarter but outperformed by 1.8% over the year to 30 June 2016 (though remaining below the performance target).
- This underperformance over the quarter occurred in June, where the fund returned 10.7% against a benchmark return of 13.2%. Over the month, relative performance was negatively affected by some stocks amid its active bets which did not perform well, in particular Indian IT stocks.
- Volatility since inception is 14.4%, lower than the index (at 17.4%) and consistent with the strategy's objectives (and bias to quality and large- or mega-cap stocks).
- Unigestion have informed us that Bruno Taillardat will be leaving the firm to take up a role at another investment firm. He is an Investment Manager in the portfolio management team and a member of the Investment and Research Committee. At the end of June Gael Combes, Member of the Research team, took over and became the leader of the Fundamental research team. Taillardat's departure is both material and disappointing given his tenure at the firm, understanding of the process and ability to articulate the approach. We suspect Unigestion will miss the continuity and knowledge Taillardat brought to the interaction with clients. However, we are not recommending any rating changes as a result of this news.

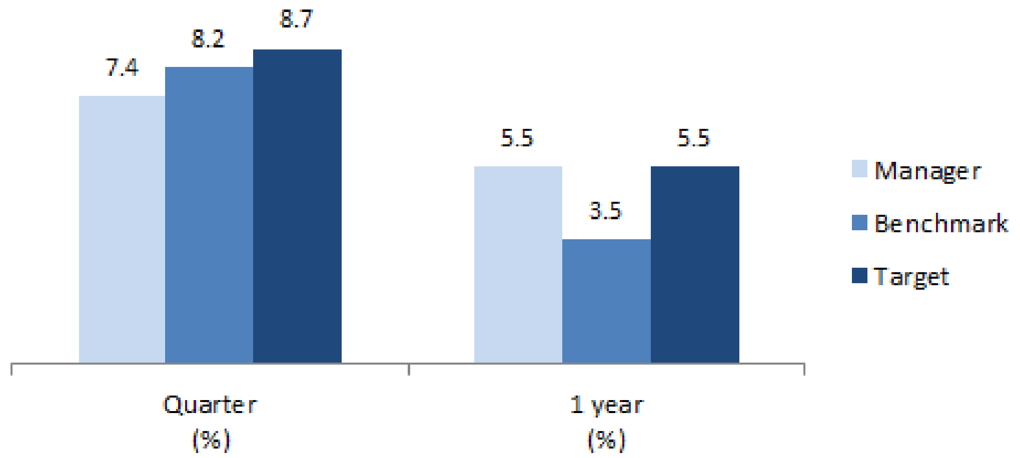
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

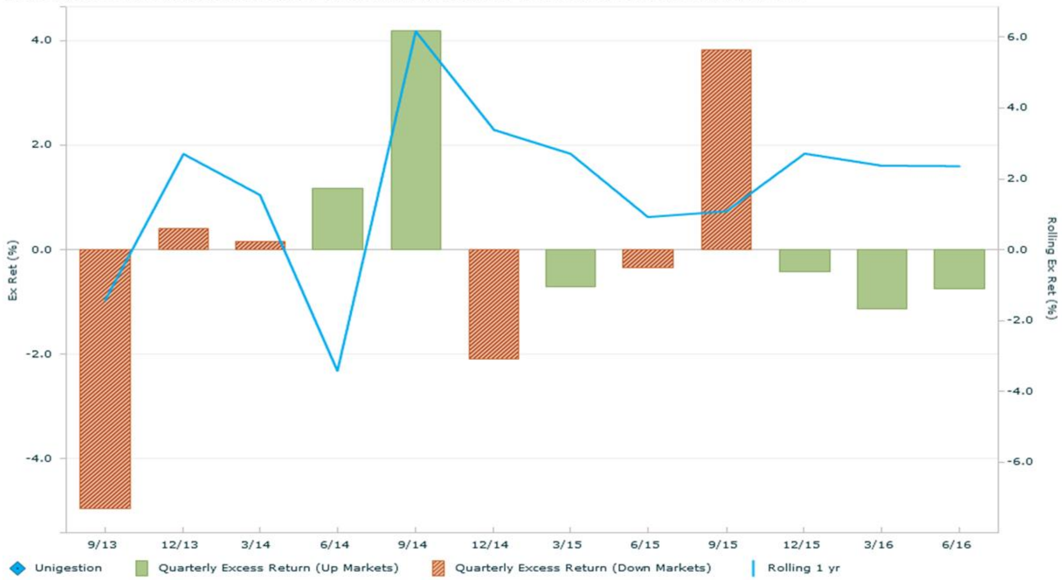
- Risk-based active management approach
- Aim for lower volatility than the MSCI Emerging Markets Index
- Combine fundamental and quantitative analysis

Performance

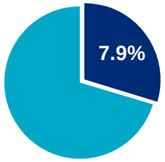


Rolling relative returns

Quarterly Excess Return vs. MSCI EM (Free) with rolling 1 yr line in GBP (before fees) over 3 yrs ending June-16



Note: Chart is pooled fund performance, gross of fees



INVESCO – GLOBAL EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)
£307.6M END VALUE *(£289.7M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	●	B+ (no change over period under review). ESG4
Performance Objective *Benchmark +0.5% p.a.*	●	Underperformed benchmark by 0.4% p.a. over three years
Tracking error since inception was 1.5% p.a. – *source: Invesco*		Number of stocks: 453 (down from 454)

Manager Research and Developments

- The fund has underperformed its benchmark by 2.3% over the last quarter (with stock selection the largest negative impact on relative performance); 2.6% over the year and 0.4% p.a. over the three year period.
- Underperformance over the quarter was largely due to stock selection in April and June. In April, stocks with attractive scores in the Market Sentiment and Value concepts performed poorly, whilst in June overweights in stocks with attractive valuation levels weighed on performance, as did an underweight in energy.
- All sector and country allocations were broadly within +/- 1.0% of benchmark weightings, in line with general expectations for an enhanced indexation product.
- Note: there are discrepancies between the performance and asset values quoted in this report and by Invesco. This is due to Invesco using end of day pricing, whilst this report uses midday.

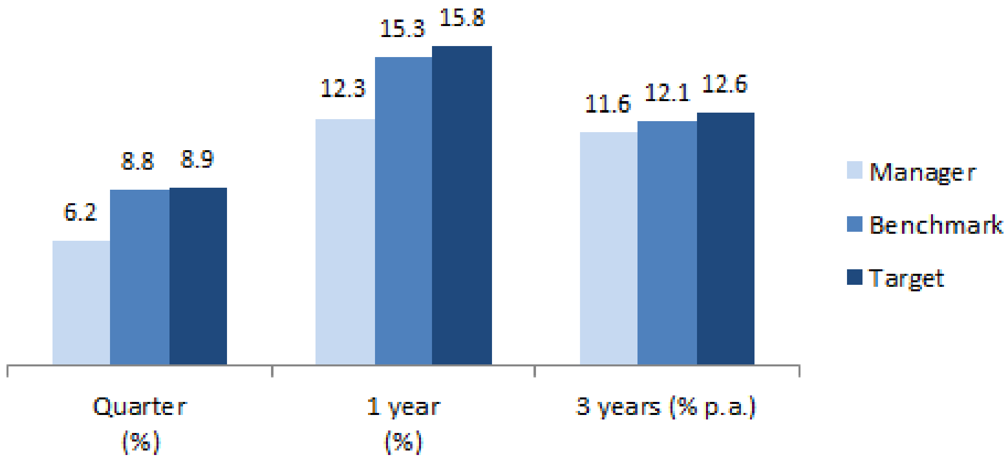
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

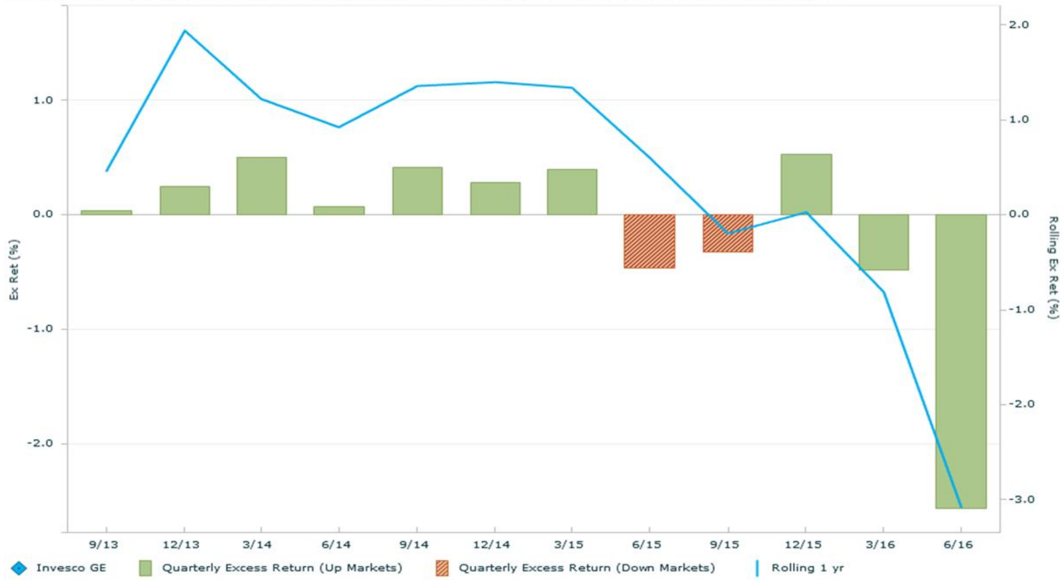
- Robust investment process supported by historical performance record, providing a high level of assurance that the process could generate the outperformance target on a consistent basis
- One of few to offer a Global ex UK pooled fund

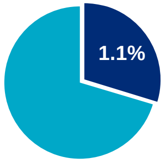
Performance



Rolling relative returns

Quarterly Excess Return vs. MSCI World ex UK NDR with rolling 1 yr line in GBP (after fees) over 3 yrs ending June-16





SSGA – EUROPE EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)
£44.4M END VALUE *(£42.6M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	Outperformed benchmark by 0.5% p.a. over three years
Three year tracking error was 0.7% p.a. – *source: Mercer*	Number of stocks: 230

Manager Research and Developments

- The fund marginally failed to achieve its outperformance target over the three year period, despite beating the benchmark
- The total pooled fund size on 30 June 2016 was £44.5m. 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 230 out of 392 stocks in the index, around 59%, within the expected range of 35-65%. Beta over three years is as expected at around 1.

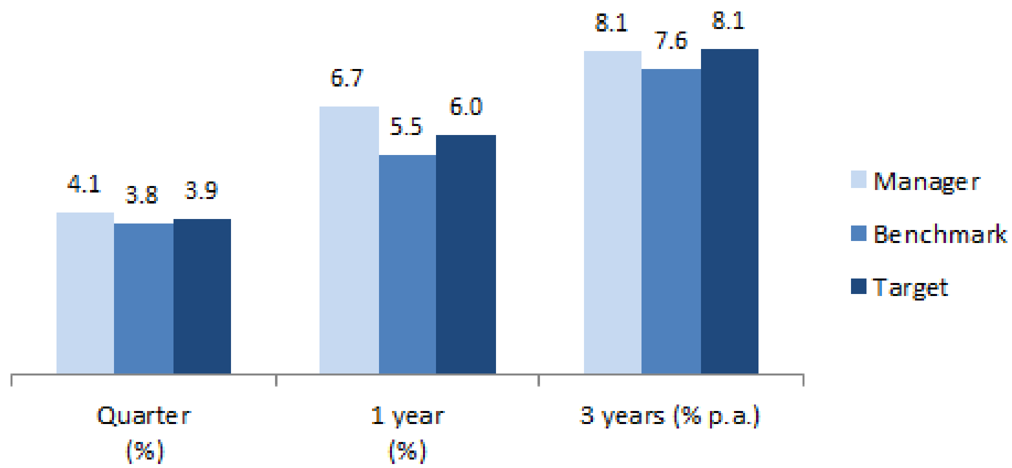
Reason for investment

To provide asset growth as part of a diversified equity portfolio

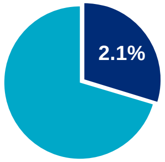
Reason for manager

- 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



SSGA – PACIFIC INC. JAPAN EQUITIES (ENHANCED INDEXATION) (POOLED)
£83.2M END VALUE *(£77.2M START VALUE)*

Item Monitored	Outcome
Mercer Rating	N (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	Outperformed benchmark by 0.5% p.a. over three years
Three year tracking error was 0.8% p.a. – *source: Mercer*	Number of stocks: 396

Manager Research and Developments

- The fund met its performance target over the three year period.
- The total pooled fund size on 30 June 2016 was £83.3m. 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).

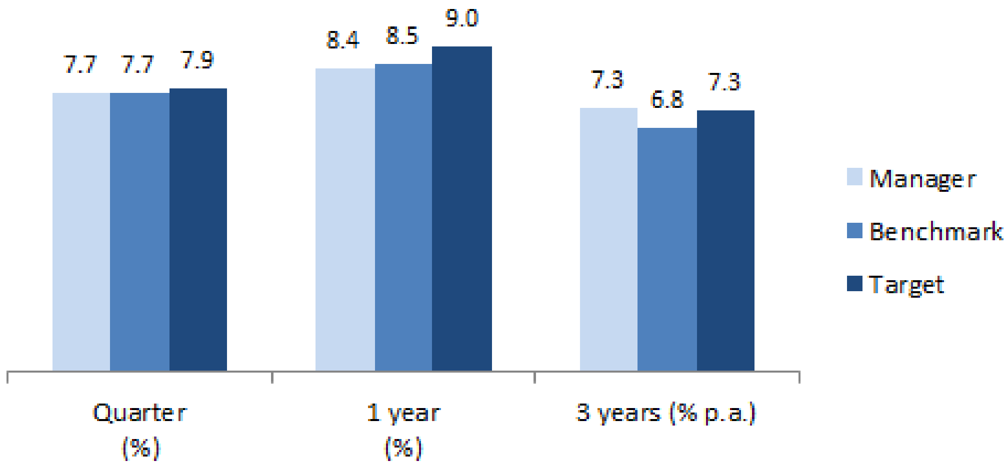
Reason for investment

To provide asset growth as part of a diversified equity portfolio

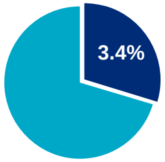
Reason for manager

- 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



PYRFORD – DGF (POOLED)
£131.3M END VALUE *(£126.9M START VALUE)*

Item Monitored		Outcome
Mercer Rating	🟠	R (no change over period under review)
Performance Objective *RPI +5% p.a.*	🟢	Outperformed benchmark by 1.3% p.a. over one year

Manager Research and Developments

- The fund has outperformed its performance objective (RPI + 5% p.a.) over the quarter by 1.4% and by 1.3% over the year.
- Currency Management was the key driver of returns over the quarter as the portfolio's unhedged overseas bond and equity exposure, which makes up c.35% of the fund, benefitted from sterling weakness. Stock selection also contributed over the quarter as the portfolio's bias to quality and value was rewarded in the volatile markets which followed the referendum.
- The portfolio's equities provided a significant source of return over the second quarter. Overseas equities added 7.5%, including the positive currency return.
- 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 stood at a record low of 1.25 years.

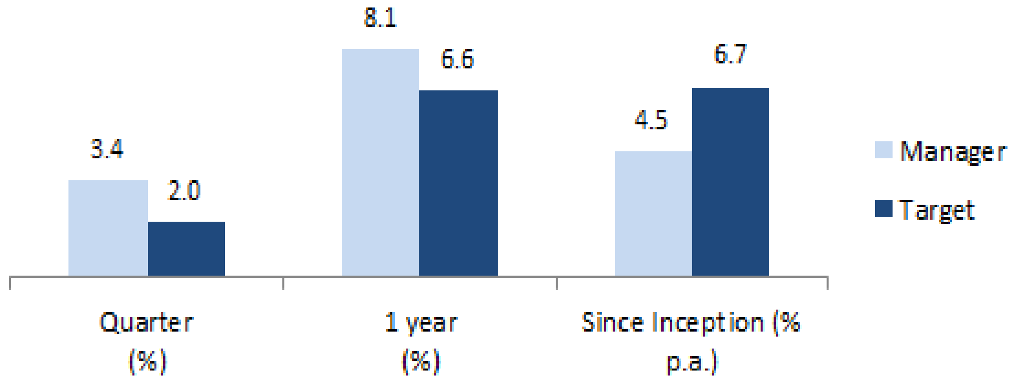
Reason for investment

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

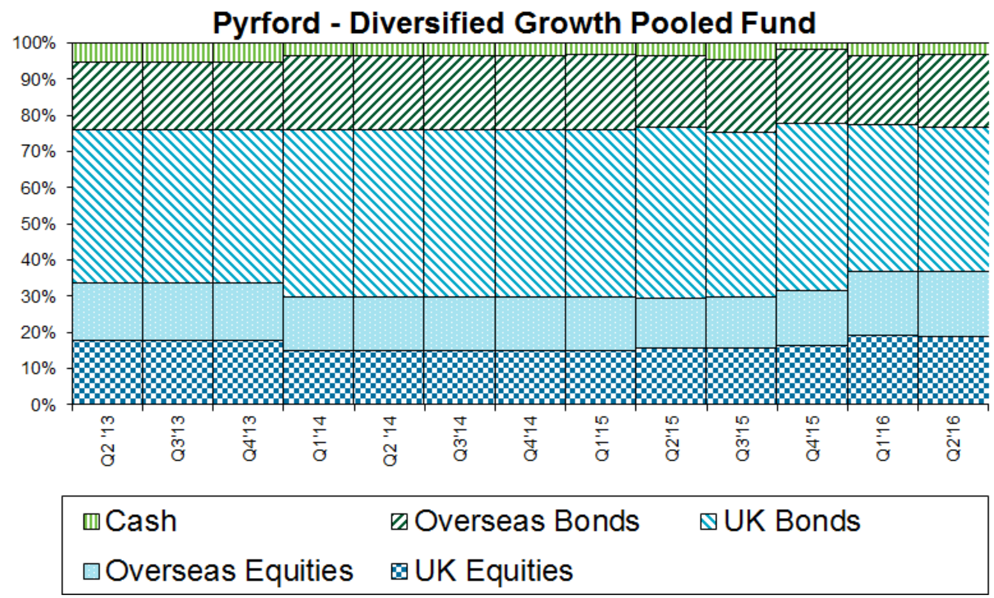
Reason for manager

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

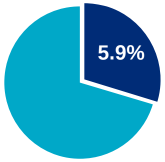
Performance



Asset Allocation



Annual data prior to Q1 2015.



STANDARD LIFE – DGF (POOLED)
£231.9M END VALUE *(£234.0M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (W) (Watch status applied in July 2016). ESG4
Performance Objective *Cash +5% p.a.*	Underperformed benchmark by 9.6% p.a. over the year

Manager Research and Developments

- Over the quarter the fund returned -1.1% against a benchmark of 1.4%, and returned -4.4% against a benchmark of 5.7% over the year.
- Investors' worries on the future of the EU and its economy resulted in losses for the European equity strategy. US equity technology versus small-cap and US equity large-cap versus small-cap strategies were also loss-making over the quarter.
- Both the short US duration and US real yield versus nominal yield strategies dragged on performance as a consequence of increasing demand for longer-dated, positive-yielding, safe-haven assets.
- We continue to have high regard for the investment process behind GARS and are also comfortable with the team management, which has seen a period of low turnover and good additions to the team. However, we have growing concerns about the sheer size of GARS and continued inflows into the strategy. We note that Standard Life's analysis shows less of the portfolio can now be liquidated quickly, that it is taking longer to implement trades and that the size and capacity of GARS is regarded as commercially sensitive to Standard Life. While Standard Life's shown the unwillingness to provide an indication on capacity levels for GARS, we believe that capacity management is a key issue for Standard Life's considering that the strategy has grown from £41bn at the end of 2014 to £53bn at the end of March 2016. As a result, in July 2016, we assigned a Watch (W) status to the strategy. See appendix for details on what Mercer ratings mean.

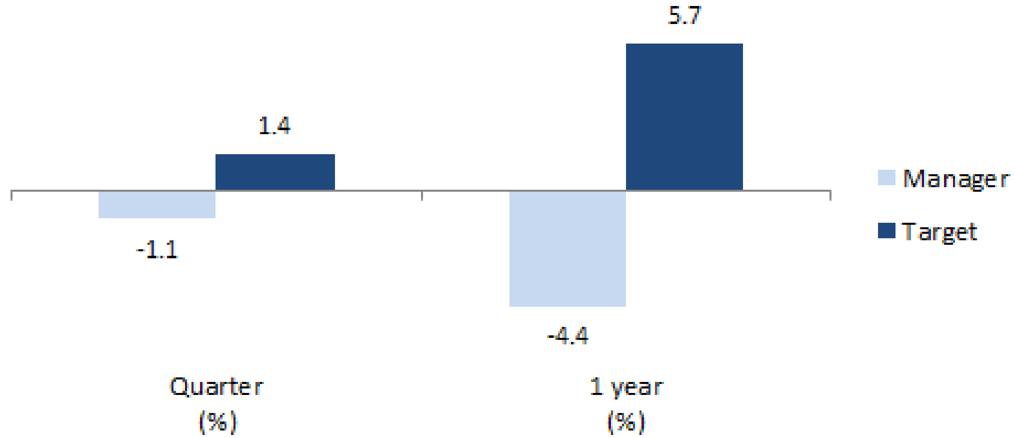
Reason for investment

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

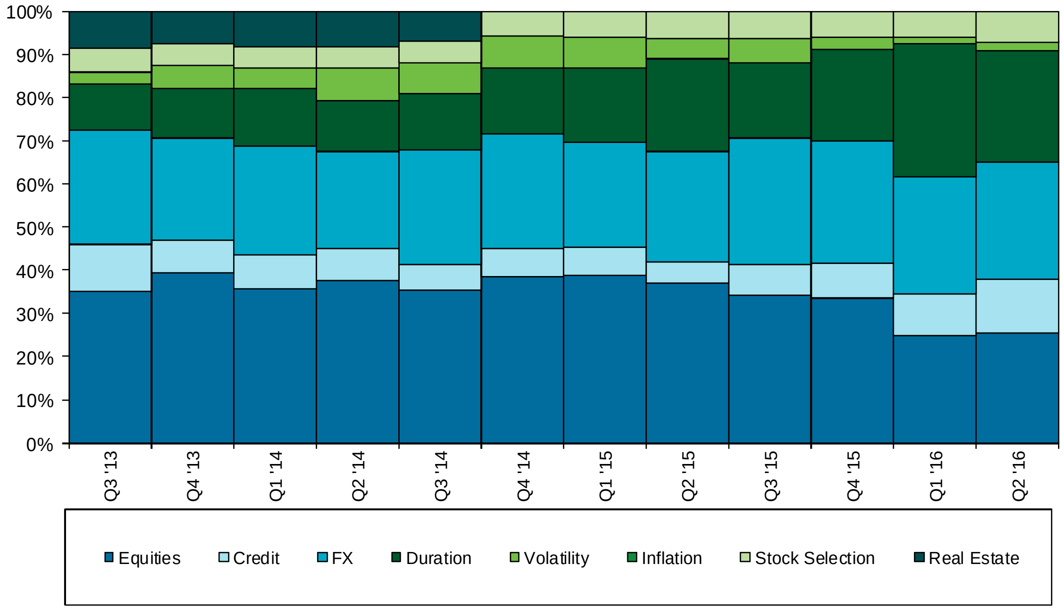
Reason for manager

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

Performance



Asset Allocation/Risk Exposure



DGF MANDATES

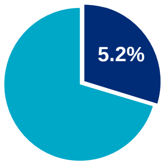
Performance characteristics vs. BofAML LIBOR 6 month average UK in GBP (after fees) over 2 yrs ending June-16

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

	Ret (%pa)	Std Dev (%pa)	IR
Pyrford DGF	5.7 *(9)*	3.9 *(42)*	1.3 *(4)*
SLI GARS	1.2 *(37)*	5.2 *(35)*	0.1 *(37)*
95th Percentile	8.0	9.1	1.4
Upper Quartile	5.1	7.5	0.8
Median	3.4	6.0	0.5
Lower Quartile	1.1	4.6	0.1
5th Percentile	-1.7	2.9	-0.4
Number	49	49	49

Commentary

- Over the two years to 30 June 2016, the Standard Life GARS pooled fund significantly underperformed Pyrford by 4.5% p.a.
- This placed Pyrford in the upper quartile of the DGF universe for performance. On the other hand, Standard Life was below the median of the universe. It should be noted that this universe is very diverse in styles.
- This with relatively similar levels of volatility, with Pyrford’s volatility standing at 3.9% p.a. against Standard Life’s 5.2% p.a.
- Both managers were below the median for volatility, meaning they were less volatile than most managers in the universe.
- As a result, the information ratio (a measure of risk adjusted returns) for Pyrford was the fourth highest of the universe and for Standard Life was below the median.
- 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
£204.4M END VALUE *(£187.7M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	●	B+ (no change over period under review)
Performance Objective *Cash +3% p.a.*	●	Outperformed benchmark by 7.0% p.a. over the quarter (**due to sterling depreciation – underperformed in USD by 0.5%**)

Item	
Number of funds	32

Strategy	Contribution to Performance over the Quarter in USD (%)
Relative Value	0.12
Opportunistic/Macro	0.05
Long/Short Equities	0.22
Merger Arbitrage/Event Driven	-0.02
Credit	0.17
Total	**0.39 (including cash and fees)**

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

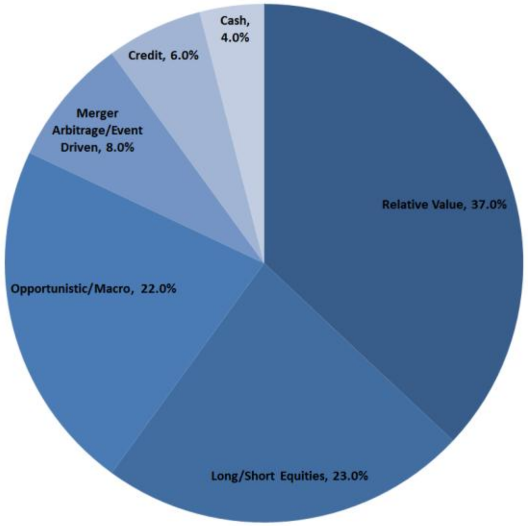
Reason for manager

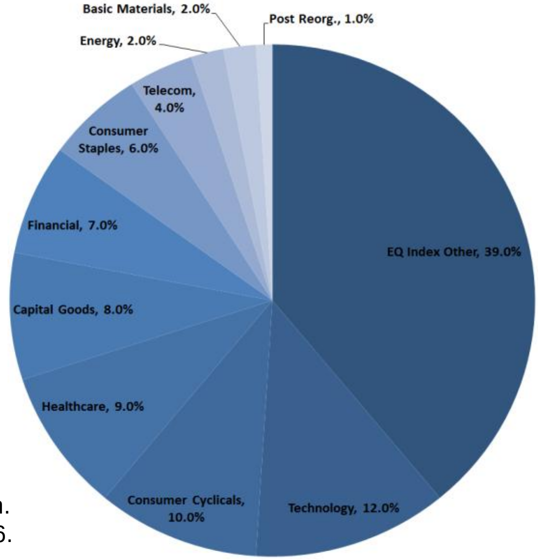
- Niche market neutral investment strategy
- Established team with strong track record
- Complemented other funds in the portfolio

Performance (GBP, JP Morgan return converted from USD)

Last Quarter	7.9%	Benchmark	0.9%

Portfolio Composition and Equity Sector Allocation





Source: JP Morgan.
As at 30 June 2016.

HEDGE FUND COMMENTARY – Q2 2016

- Hedge funds produced slight gains for the second quarter of 2016. The HFRI Index gained 0.5%, the HFRX Index returned 1.1%, and the Dow Jones Credit Suisse Hedge Fund Index earned 0.6% (USD returns).
- While performance for hedge fund strategies was broadly positive, there were meaningful increases in volatility across asset classes at quarter-end (surrounding the EU Referendum in the UK).
- Following a meaningful flight to quality initially following the Brexit news, markets sharply reversed, erasing much of the decline. Given the generally modest positioning of many hedge fund portfolios, participation in both moves was limited.
- As hedge funds broadly produced positive results in the second quarter of 2016, the size of the overall industry grew, ending June at $2.9 trillion in assets. However, net flows were negative for the quarter, as investors pulled $8.2 billion from hedge funds, marking year-to-date redemptions of roughly $23.3 billion (though still less than 1% of total industry assets).
- As we have mentioned previously, we ultimately view a culling of the industry to be healthy and a net benefit to the opportunity set for hedge fund investing.

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

HEDGE FUND COMMENTARY – Q2 2016

Relative Value (37%)

- Fixed Income and Convertible Arbitrage strategies gained 1.0% and 2.6%, respectively, during the second quarter of 2016.
- Relative Value strategies broadly gained over the quarter, as bouts of volatility created trading opportunities for many.
- Returns in convertibles were driven by a general tightening in spreads and stronger valuations amidst relatively modest new issuance, while fixed income strategies were able to take advantage of volatility in global yield curves.

Long/Short Equities (23%)

- Long/Short Equity declined 1.2% in Q2, while Equity Market Neutral (“EMN”) strategies finished the quarter down 3.2%.
- Long/short equity strategies performed poorly in Q2, as measured by the CS Index, largely due to security selection fundamentals. The dramatic moves at the end of the quarter following the result of the Brexit vote were most impactful to equity strategies; hedged portfolios served to protect capital better. However, we note a significant dispersion of manager returns in the space and observe that other peer groups, such as the HFRI Indices, posted more favorable results.

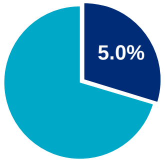
Opportunistic / Macro (22%)

- The broad Global Macro universe gained 0.7% during the quarter, while Managed Futures declined 2.2%. Macro strategies overall posted positive results in Q2.
- Despite the headline number, many systematic strategies performed well in the quarter, demonstrating particular strength during the Brexit sell-off, largely driven by favorable positioning and a general continuation of currency and interest rate trends.
- Discretionary strategies broadly provided positive, but muted performance for the quarter. Discretionary traders as a whole pulled back on risk heading into the referendum vote and were cautious in deploying capital immediately following, in light of the uncertainties.

Merger Arbitrage / Event Driven (8%)

- The Multi-Strategy / Event space posted mixed results for Q2.
- Merger Arbitrage ended the quarter slightly negative. Spreads widened in April as the proposed Allergan/Pfizer transaction broke down and again in June as Brexit concerns were reflected in strategic deals. However, a number successful deal completions during the quarter helped to offset losses. Outside of M&A, Event-Driven strategies had a good quarter overall. In a near reversal of recent trends, positive results from many catalyst-oriented situations added to results.
- Stressed and distressed assets also generated solid returns, as deal progress in legacy situations and energy-related exposure aided results. Sovereign-related exposure also continued to positively impact returns for many in the space.

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



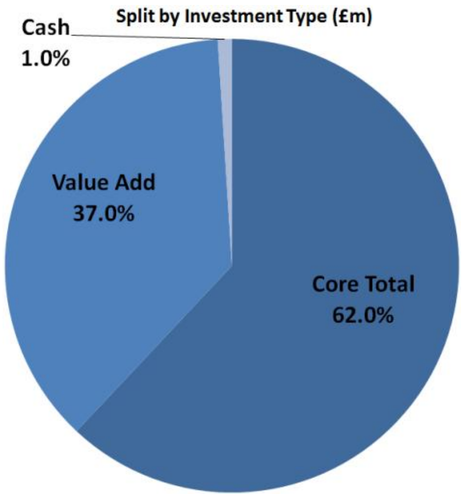
SCHRODER – UK PROPERTY FUND OF FUNDS
£194.6M END VALUE *(£201.0M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B (no change over period under review). ESG3
Performance Objective *Benchmark +1% p.a.*	Outperformed benchmark by 0.5% p.a. over three years (but met the performance target over five years)

Manager Research and Developments

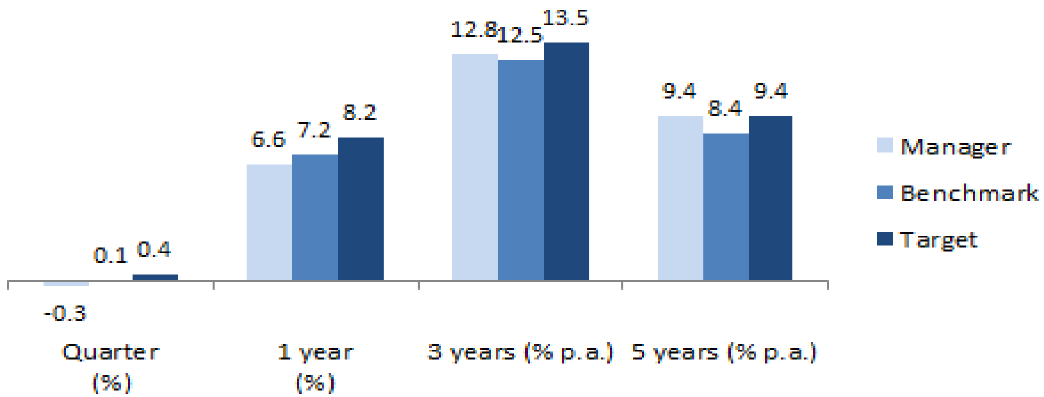
- The fund has underperformed the benchmark over the quarter by 0.4%, due to downward adjustments by some of the underlying fund holdings, in response to investor activity after the EU Referendum result.
- Performance in the short term was negatively impacted by fair value adjustments to the L&G Managed Property fund and Standard Life Pooled Pension Property fund. Spread adjustments were made to the BlackRock UK Property Fund and Schroder Real Estate Real Income Fund. These changes were made in response to more uncertainty on property values after the EU Referendum, and retail investor activity which saw net outflows from property funds
- Over the five year period, the fund has outperformed its benchmark by 1.0% p.a., largely due to performance from Value Add strategies.
- The only purchase over the quarter was within the Regional Office Property Unit Trust (c. £0.1m).

Top 5 Holdings	Proportion of Total Fund (%)
BlackRock UK Property Fund	12.7
L&G Managed Property Fund	12.5
Industrial Property Investment Fund	11.7
Standard Life Pooled Pension Property Fund	9.6
Aviva Investors Pensions	9.5

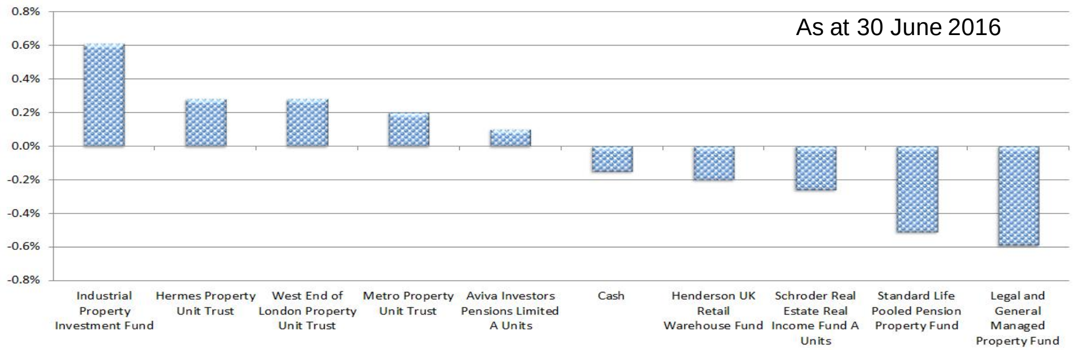


As at 30 June 2016

Performance



Top 5 Contributing and Detracting Funds over 12 Months

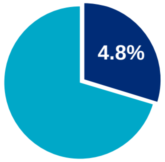


Reason for investment

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



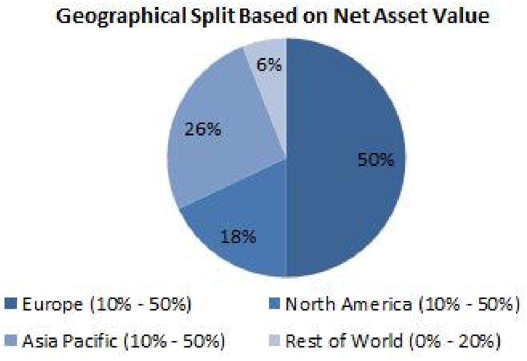
PARTNERS – OVERSEAS PROPERTY
£188.1M END VALUE *(£172.0M START VALUE)*

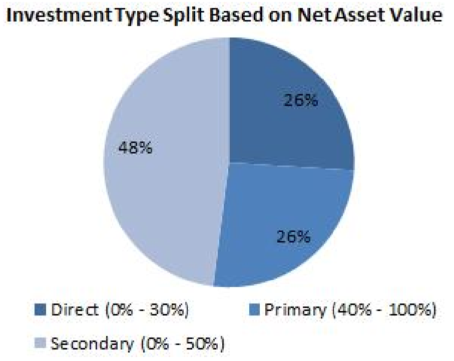
Item Monitored		Outcome
Mercer Rating	●	B+ (no change over period under review). ESG4
Performance Objective *IRR of 10% p.a.*	●	IRR since inception to 31 March 2016 at 8.2% p.a. (in sterling terms) is below target of 10% p.a.

Manager Research and Developments

- The portfolio delivered a net return of -0.1% over Q1 2016 for USD programmes in local currency, and 0.4% for EUR programmes, versus the target of c. 2.5%.
- Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, for example the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 31 March 2016 at 8.4% p.a. (in local currency) is below their target of 10% p.a.; over the year to date to 31 March 2016 IRR was 0.3% (in local currency terms).
- Over Q1, the allocation to Europe increased (from 48% to 50%), with North America remaining at 18% and Asia Pacific decreasing (from 28% to 26%). These remain within the guidelines.
- Exposure to Secondary opportunities rose during the first quarter (from 47% to 48%), with Direct investments falling (from 27% to 26%) 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 31 March 2016





Portfolio update as at 31 March 2016

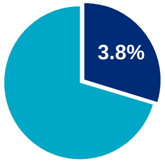
Partners Fund	Total Drawn Down (£m)	Total Distributions (£m)	Net Asset Value (£m)	Since Inception Net IRR (local currency)
Global Real Estate 2008	31.65	17.45	21.99	7.1
Real Estate Secondary 2009	19.65	5.58	21.96	12.3
Asia Pacific and Emerging Market Real Estate 2009	17.71	8.71	12.74	4.2
Distressed US Real Estate 2009	14.74	14.60	6.98	9.2
Global Real Estate 2011	25.13	7.73	24.75	11.1
Direct Real Estate 2011	11.21	5.28	10.92	9.8
Real Estate Secondary 2013	7.44	0.53	10.30	29.2
Global Real Estate 2013	44.40	1.23	44.21	1.1
Real Estate Income 2014	13.26	0.46	13.61	1.6
Asia Pacific Real Estate 2016	2.76	0.00	4.49	n/a
Total	**187.94**	**61.58**	**171.94**	**8.4**

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

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



IFM – INFRASTRUCTURE (POOLED)
£149.2M END VALUE *(£0.0M START VALUE)*

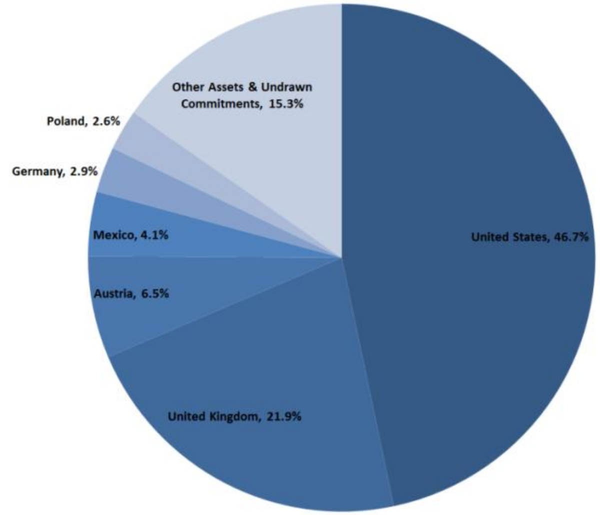
Item Monitored		Outcome
Mercer Rating	●	B+ (downgraded from A in June 2016). ESG2
Performance Objective *6 month LIBOR + 2.5% p.a.*	●	Outperformed benchmark by 8.2% over the quarter

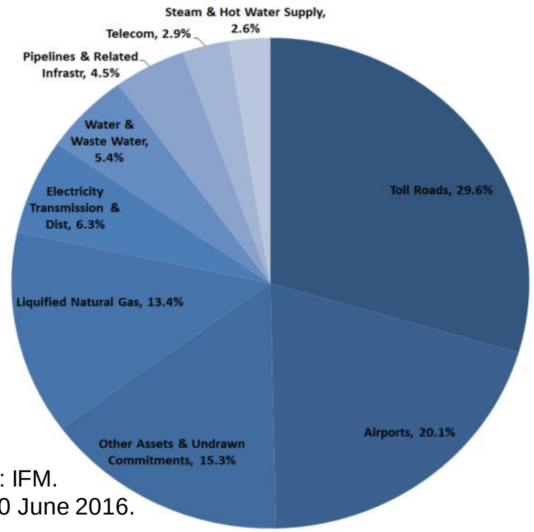
Item	
Number of holdings	13

Manager Research and Developments

- £136m of capital was drawn down by IFM on 1 April 2016.
- Over the quarter the fund returned 9.0% in sterling terms, against a benchmark of 0.8%. **However, the fund returned -1.4% in US dollars (the currency the fund is denominated in).**
- The fund underperformed in US dollar terms due negative contributions from Arquiva Limited and Manchester Airports Group (MAG). Arquiva Limited underperformed due to a disadvantageous change in the tax treatment of its cashflows. MAG underperformed due to a change in long-term inflation assumptions and a small change to the terminal value of the asset.
- Over the quarter, the fund increased its holding in Vienna Airport, in line with the focus of the fund on midstream energy and transportation in US and Europe.
- The currency exposure to US dollars and euros is hedged through Record.
- Our researchers met with IFM over the quarter as part of our regular research. While we note that the fund has a relatively large and established global team we have not been able to identify any significant differentiators that stand the team and fund apart from its competitors. In addition, we consider there to be a number of ongoing risk elements including governance (i.e. the fact that IFM's owners, IFS Private Capital and IFMNL, are also large investors), asset management (with historic difficulty in managing 100% owned assets), asset and risk concentrations that persist in relation to the fund, for example a relatively high exposure to road assets and to "core plus" assets that will increase the risk profile of the fund. As result, we downgraded the rating of the strategy to B+.

Geographical and Sub-Sector Allocation





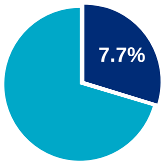
Source: IFM.
As at 30 June 2016.

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



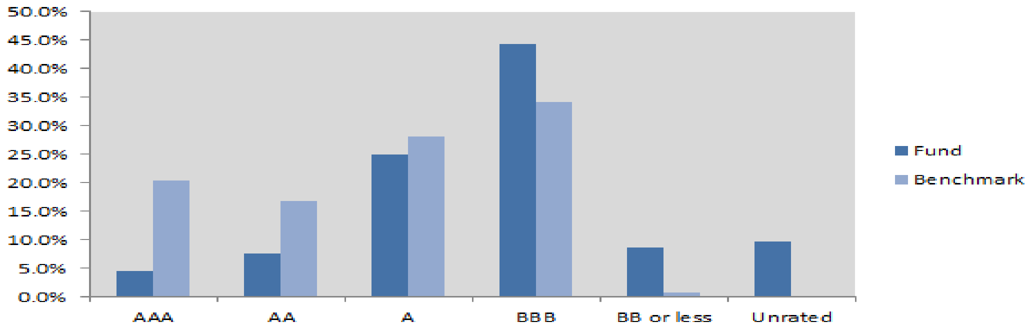
ROYAL LONDON ASSET MANAGEMENT – FIXED INTEREST (POOLED)
£301.0M END VALUE *(£289.6M START VALUE)*

Item Monitored		Outcome
Mercer Rating	● (green)	A (no change over period under review). ESG3
Performance Objective *Benchmark +0.8% p.a.*	● (orange)	Outperformed benchmark by 0.7% p.a. over three years

Manager Research and Developments

- Royal London remain underweight AAA-A bonds, and overweight BBB-unrated, a strategy which has performed strongly over the three year period.

Credit Rating Allocation



Weighted Duration	Start of Quarter	End of Quarter
Fund	*7.5*	*7.5*
Benchmark	*7.8*	*8.1*

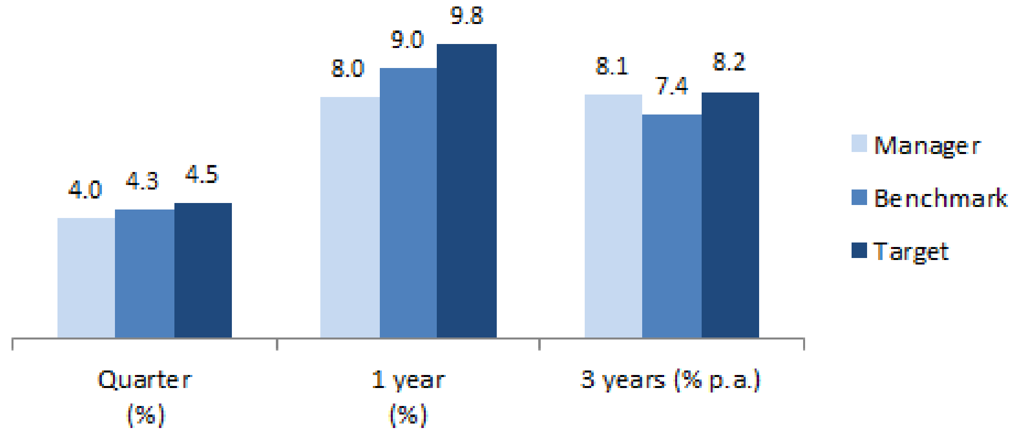
Reason for investment

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

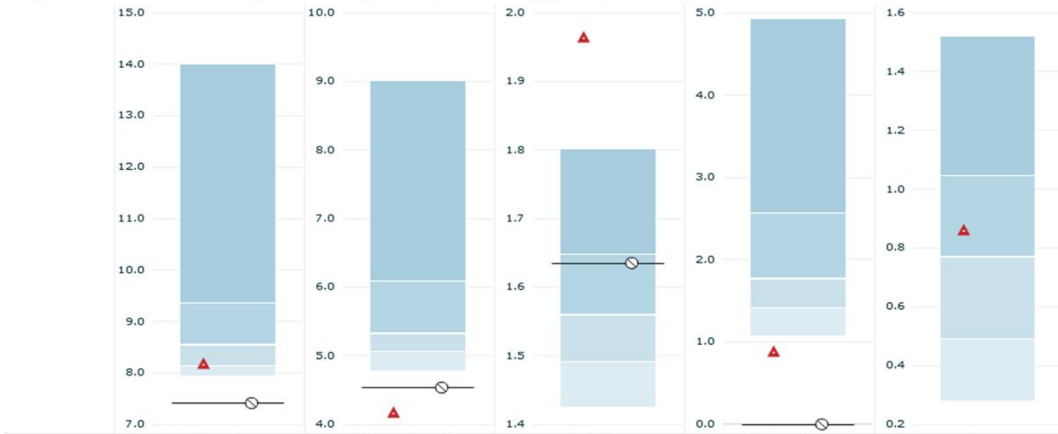
Performance



Risk and Return relative to benchmark

Performance characteristics vs. Markit iBoxx Non Gilts Overall in GBP over 3 yrs ending June-16

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	8.2 *(19)*	4.2 *(26)*	2.0 *(1)*	0.9 *(26)*	0.9 *(11)*
⃠ IBNGO	7.4 *(26)*	4.5 *(26)*	1.6 *(9)*	0.0 *(27)*	-
95th Percentile	14.0	9.0	1.8	4.9	1.5
Upper Quartile	9.4	6.1	1.6	2.6	1.0
Median	8.5	5.3	1.6	1.8	0.8
Lower Quartile	8.1	5.1	1.5	1.4	0.5
5th Percentile	7.9	4.8	1.4	1.1	0.3
Number	26	26	26	26	26

RECORD – CURRENCY HEDGING (SEGREGATED)
-£72.6M END VALUE *(-£29.3M 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

In the days following the Brexit vote, sterling depreciated significantly against the US dollar and Japanese yen, ending the quarter weaker by c.7% and c.15% respectively. The yen also rose on the back of Bank of Japan's decision in late April to leave policy rates unchanged, despite market expectations for further rate cuts. Sterling also depreciated against the euro by c.5% over the quarter.

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

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

Reason for investment

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

Reason for manager

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

Currency Hedging Q2 2016 Performance (£ terms)

Passive Developed Equity Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	572,761,642	548,740,916	7.52%	(3.87%)	(3.83%)	3.82%
EUR	188,644,012	160,475,476	4.82%	(2.50%)	(2.50%)	2.65%
JPY	130,089,526	125,406,018	17.79%	(8.87%)	(8.84%)	9.11%
Total	**891,495,180**	**834,622,411**	**8.45%**	**(4.31%)**	**(4.28%)**	**4.34%**

Passive Hedge Fund Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	194,312,572	187,295,246	7.52%	(7.66%)	(7.64%)	(0.04%)
Total	**194,312,572**	**187,295,246**	**7.52%**	**(7.66%)**	**(7.64%)**	**(0.04%)**

Passive Property Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	36,421,737	33,418,344	7.52%	(7.75%)	(7.64%)	(0.05%)
EUR	134,164,968	136,191,661	4.82%	(4.89%)	(4.96%)	0.14%
Total	**170,586,705**	**169,610,005**	**5.36%**	**(5.46%)**	**(5.49%)**	**0.11%**

Passive Infrastructure Hedge – inception on 17 May 2016

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	69,295,032	78,259,428	8.07%	(8.10%)	(8.07%)	(0.13%)
EUR	15,114,049	14,698,035	5.87%	(5.88%)	(6.00%)	(0.05%)
Total	**84,409,081**	**92,957,464**	**7.72%**	**(7.74%)**	**(7.73%)**	**(0.12%)**

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	3 Month LIBOR +4% p.a.	-
IFM	Infrastructure	6 Month LIBOR +2.5% p.a.	-
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
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 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.

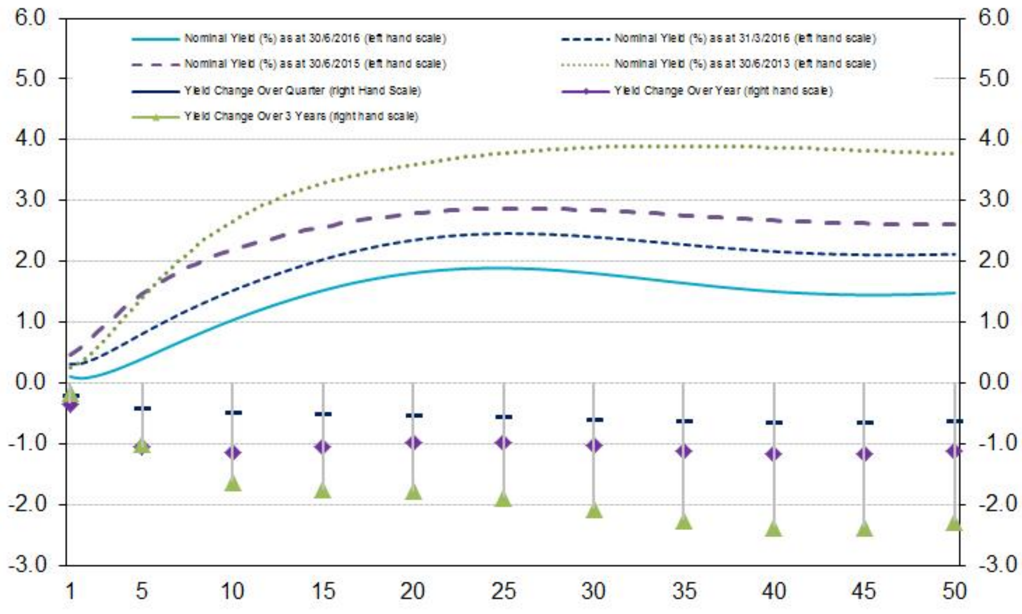
APPENDIX 3
CHANGES IN YIELDS

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 June 2016	31 March 2016	30 June 2015	30 June 2014
UK Equities	3.66	3.77	3.46	3.27
Over 15 Year Gilts	1.61	2.17	2.63	3.34
Over 5 Year Index-Linked Gilts	-1.38	-0.97	-0.75	-0.10
Sterling Non Gilts	2.55	2.90	3.15	3.59

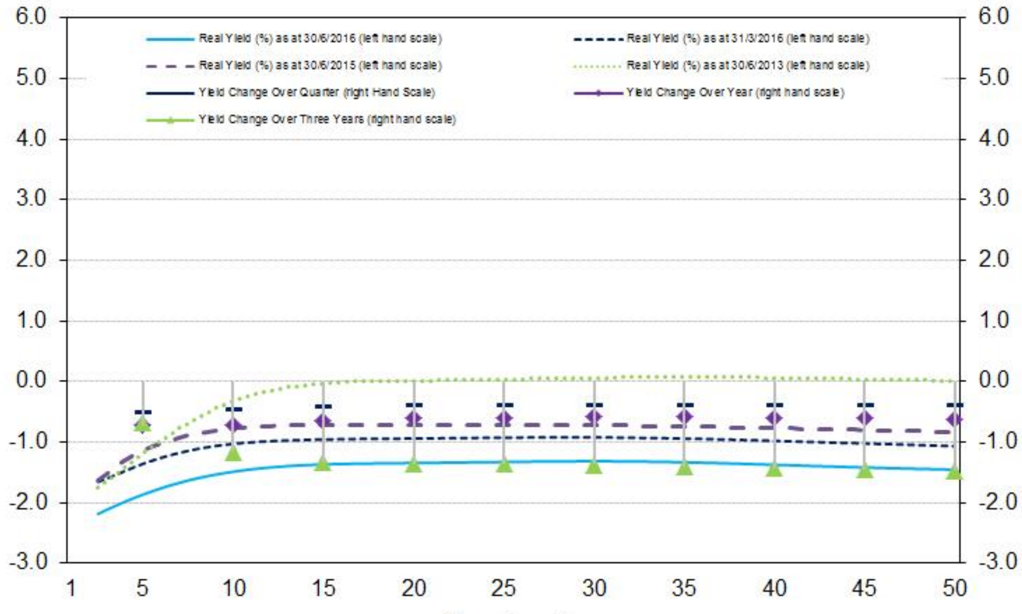
- Bond yields fell across all maturities over the quarter, resulting in positive absolute returns for investors.
- In the UK, nominal government bond yields decreased by c.20-55 bps across the curve over the quarter with the Over 15 Year Gilts Index returning 11.8%. On the day of the result of the EU Referendum, 10 year UK gilt yields fell by c.30 bps to 1.0%, the largest one day move since the financial crisis.
- Real yields also decreased over the quarter, by c.40-50 bps. The Over 5 Year Index-Linked Gilts Index posted a positive return of 11.1% over the quarter.
- Credit spreads widened slightly over the quarter, with the Sterling Non-Gilts All Stocks and Sterling Non-Gilts All Stocks indices both ending the quarter with spreads of 1.6% p.a. Overall, UK credit assets posted a positive return of 4.2% over the quarter, largely due to the benefits from a decrease in government bond yields.

Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

APPENDIX 4
GUIDE TO MERCER RATINGS

GUIDE TO MERCER RATINGS

INTRODUCTION

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

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

WHAT DO MERCER'S RATINGS SIGNIFY?

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

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

WHAT DO MERCER'S RATINGS NOT SIGNIFY?

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

Past Performance

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

Creditworthiness

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

Vehicle-Specific Considerations

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

Management Fees

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

Operational Assessment

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

FACTORS CONSIDERED IN FORMING A RATING

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

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

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

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

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

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

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

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

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

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

GUIDE TO MERCER RATINGS

MERCER RATING SCALE

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

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

SUPPLEMENTAL INDICATORS

Provisional (P)

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

Watch (W)

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

Specifically Assigning (P) and (W) Supplemental Indicators

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

High Tracking Error (T)

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

NICHE STRATEGIES

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

RESEARCH INDICATIONS – INDICATIVE VIEW

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

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

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

OPERATIONAL RISK ASSESSMENTS

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

ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE RATINGS

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

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.

MERCER

MAKE
TOMORROW,
TODAY