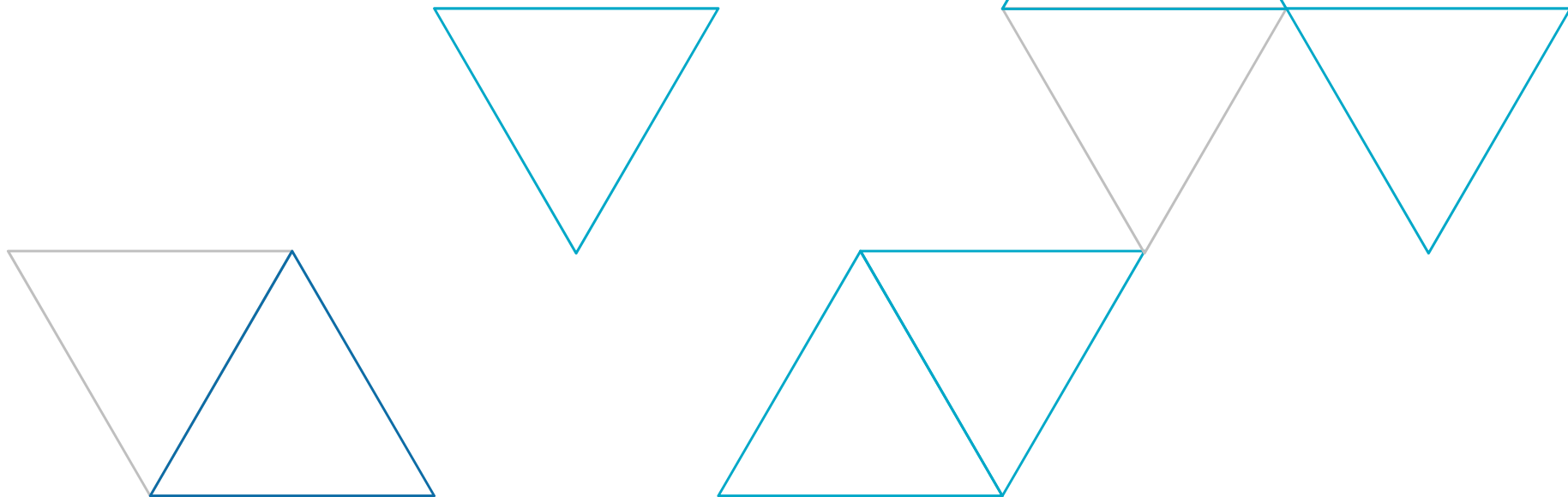


HEALTH WEALTH CAREER

AVON PENSION FUND

PANEL INVESTMENT PERFORMANCE REPORT QUARTER TO 31 MARCH 2017

MAY 2017



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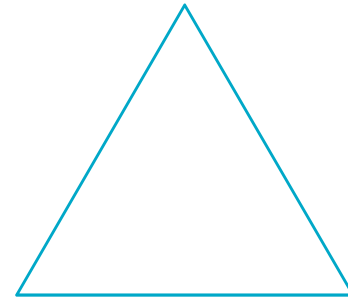
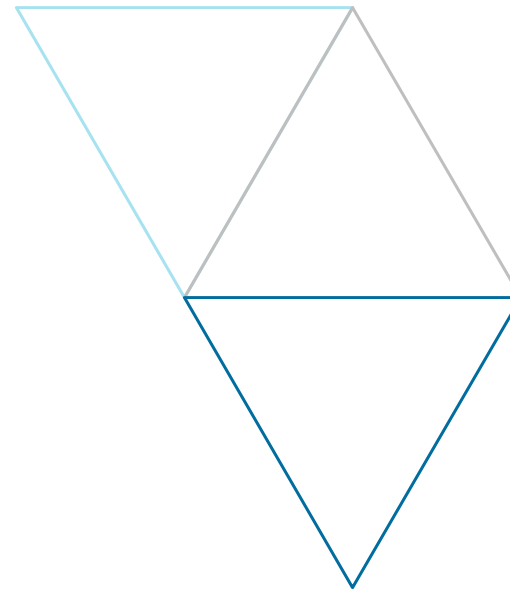
- The value of investments can go down as well as up and you may not get back the amount you have invested. In addition investments denominated in a foreign currency will fluctuate with the value of the currency.
- The valuation of investments in property based portfolios, including forestry, is generally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

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SECTION 1

EXECUTIVE SUMMARY



EXECUTIVE SUMMARY

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

Fund Performance

- The value of the Fund’s assets increased by £158m (3.8%) over the quarter, to £4,356m at 31 March 2017. This increase has come primarily from growth assets, with strong returns in particular from emerging market equities.

Strategy

- Global (developed) equity returns over the last three years were 16.8% p.a., materially ahead of the assumed strategic return of 8.25% p.a. from the review in March 2013. We remain broadly neutral in our medium-term outlook for developed market equities (over the next one to three years). Accommodative monetary policy remains generally supportive of equity markets but uninspiring earnings growth and downward revisions to earnings estimates persist.
- The three-year return from emerging market equities has increased to 12.9% p.a. from 9.4% p.a. last quarter. It is therefore above the assumed strategic return (of 8.75% p.a.) as returns have been strong over the last year and fundamentals have improved. 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-year period remain significantly above the long-term assumed strategic returns as investor demand for gilts remains high – fixed interest gilts returned 14.0% p.a. versus an assumed return of 4.5% p.a. and index-linked gilts returned 14.6% p.a. versus an assumed return of 4.25% p.a. Gilt yields fell slightly over the quarter leading to positive returns.
- UK corporate bonds returned 7.5% p.a. over the three-year period against an assumed strategic return of 5.5% p.a. The three-year UK property return of 11.2% p.a. remains substantially above the assumed return of 7% p.a.
- Hedge fund returns remain below long-term averages and the strategic return of 6% p.a., having been affected by low cash rates. Active managers in general have struggled to generate meaningful returns in recent times.

EXECUTIVE SUMMARY

Managers

- Absolute returns of the managers over the quarter were largely positive. The exception was Standard Life GARS, who delivered a return of -0.3%. Emerging market equities produced the highest returns over the quarter, with Unigestion returning nearly 10%.
- Absolute returns over the year to 31 March 2017 were strong. All mandates delivered positive absolute returns, with all overseas equities mandates returning over 20%, partly due to the significant weakening of sterling over 2016. However, a number of the active equity managers have underperformed their benchmarks over the year. This is partly due to value outperforming the wider market over the one-year period, which the Fund does not have a bias towards in its equity mandates. As such, relative performance should improve over periods where value suffers.
- Over the three-year period all mandates with a three-year track record produced positive absolute returns. A number of active funds underperformed their benchmarks over the period: Jupiter, Schroder global equities, Schroder property (over five years), Genesis, Unigestion, Pyrford and Partners (see comments on the measurement of Partners' performance later). TT, Invesco and Royal London failed to achieve their performance objectives but did outperform their respective benchmarks, net of fees. The SSgA mandates achieved their three-year performance objectives.

Key Points for Consideration

- Implementation of a liability risk management framework is in progress with BlackRock, which will include market-based triggers for increasing the level of hedging.
- An in-depth review of the Fund's broader investment strategy is also underway. The scope of this review includes the overall asset allocation, structure of the equity portfolio, possible approaches to equity risk management, future collateral management and currency hedging.

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	26
Jupiter	UK Equities	-	×	×	2	27
TT International	UK Equities	-	×	-	3	28
Schroder	Global Equities	✓	×	×	2	29
Genesis	Emerging Market Equities	✓	×	×	3	30
Unigestion	Emerging Market Equities	-	×	×	N	31
Invesco	Global ex-UK Equities	✓	✓	-	4	32
SSgA	Europe ex-UK Equities	-	✓	✓	N	33
SSgA	Pacific inc. Japan Equities	-	✓	✓	N	34
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

- § Schroder have announced that Chris Costanza, the Global Sector analyst on Financials, will leave the firm. See page 30 for details.
- § A number of the active equity managers have underperformed their benchmarks over the year. This is partly due to value outperforming the wider market over the one-year period, which the Fund does not have a bias towards in its equity mandates. As such, relative performance should improve over periods where value suffers.

EXECUTIVE SUMMARY

MANAGER INFORMATION CONTINUED

Manager	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	ESG	Page
Pyrford	DGF	-	✓	✗	N	35
Standard Life	DGF	-	✗	N/A	4	36
JP Morgan	Fund of Hedge Funds	✓	✓	N/A	4	38
Schroder	UK Property	-	✗	✗	3	41
Partners	Global Property	✓	✗	-	4	42
IFM	Infrastructure	✓	N/A	N/A	2	43
RLAM	Bonds	✓	✓	-	3	44
Record Currency Management	Currency Hedging	-	N/A	N/A	N	45
Meets criteria	✓	A or B+ rating; achieved performance target				
Partially meets criteria	-	B, N or R rating; achieved benchmark return but not performance target				
Does not meet criteria	✗	C rating; did not achieve benchmark				

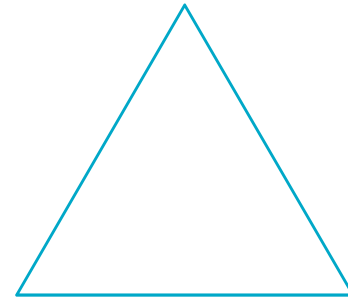
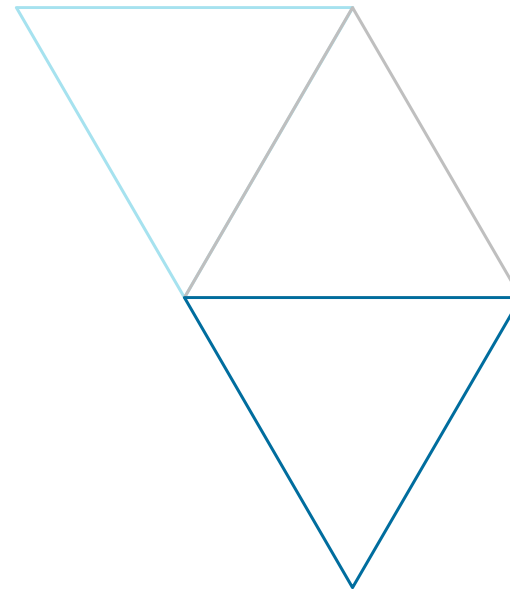
Focus Points

§ Standard Life and Aberdeen Asset Management have announced a proposed merger. Additionally, Devan Kaloo (currently Head of Equities at Aberdeen) will become Head of Equities for the combined entity post the merger. See page 36 for details.

§ Partners' performance target is 10% p.a. and benchmark taken as 8% p.a. (estimated net IRR, in local currency terms).

SECTION 2

MARKET BACKGROUND



MARKET BACKGROUND

INDEX PERFORMANCE

Equity Market Review

Equity markets strengthened over the quarter, both in sterling and local currency terms. All regions performed positively, with particularly strong returns in the Asia Pacific (ex-Japan) and emerging market regions.

Within UK equities, small capitalisation stocks outperformed larger capitalization stocks over the quarter, returning 6.1% against a return of 4.0% for the broader market. The UK economy has continued to grow, and increased a further 0.7% in the fourth quarter of 2016. Indeed, the Bank of England upgraded its GDP growth estimate for 2017 from 1.4% to 2.0%, despite continuing uncertainty surrounding the nature of the UK's exit from the EU.

Within global equity markets, US equities continued to rally to historic highs following Donald Trump's inauguration in January, on the prospect of supportive policies of fiscal spending and tax cuts. In Europe, economic sentiment continued to strengthen, as equities performed strongly, despite a disappointing January. Japanese equities lagged behind both developed and emerging market equities over the quarter, in part caused by the appreciation of the yen. Emerging Markets were one of the strongest performing regions over the quarter. China was the largest contributor to performance on the back of positive data surprises, more controlled and transparent economic policy decisions and as a result of a somewhat softer rhetoric from the US with regard to trade protectionism. Russia was the outlier as it suffered from weaker energy prices. Broadly speaking, securities within emerging market exporting countries strengthened due to reduced fears surrounding Trump's proposed protectionist trade policies.

Bond Market Review

Bond yields in the UK and the US fell slightly over the quarter, despite the Federal Reserve raising its interest rate by 0.25% at the March meeting, a move that had been predicted by markets.

In the UK, there was a slight downward shift in the yield curve over the quarter for terms over five years. The Over 15 Year Gilt Index outperformed the broader global bond market over the quarter, generating a return of 2.6%.

Real yields were slightly down over the quarter. This led to the Over 5 Year Index-Linked Gilts Index returning 2.0%.

Credit spreads remained largely unchanged over the quarter, with the sterling Non-Gilts All Stocks index ending the quarter at c.1.2% and the Sterling Non-Gilts All Stocks over 10 years index ending the quarter at c.1.3%. UK credit assets returned 1.8% over the quarter. This broadly matched the return of global credit in local currency terms.

Currency Market Review

Over the quarter, sterling appreciated slightly against the dollar (by c.1.2%) but fell in value against the euro and more so the yen (by c.0.2% and c.3.3% respectively). Sterling remains significantly weaker against these currencies than one year ago after the sharp depreciation following the UK referendum result in June 2016.

Commodity Market Review

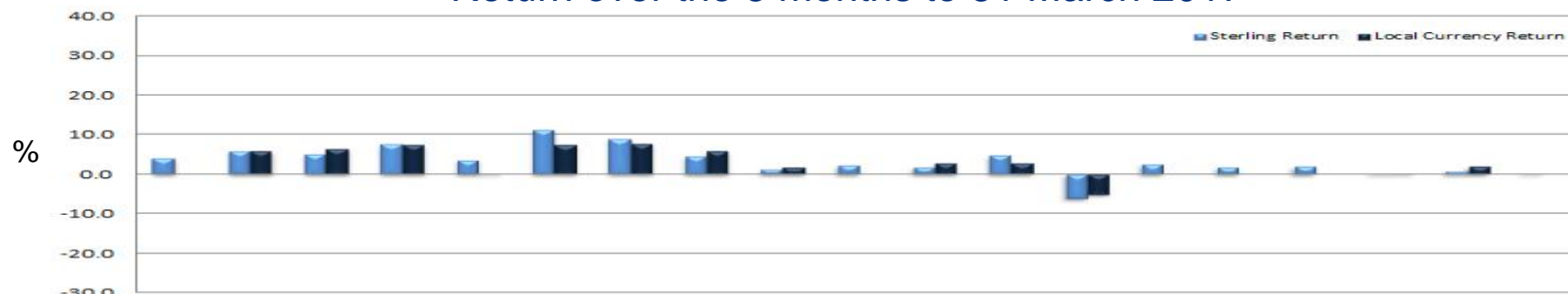
Commodities produced mixed returns over the quarter, with the overall index falling by 5.1%. This was predominantly due to a large fall in energy prices, which is the largest constituent of the index. Despite this, industrial metals and precious metals returned 9.2% and 8.9% respectively.

Brent Crude Oil prices fell from US\$56.71/barrel to US\$52.62/barrel. Meanwhile, gold prices rose from c.\$1,157/oz to c.\$1,247/oz, rebounding from the sharp sell-off seen in the fourth quarter of 2016.

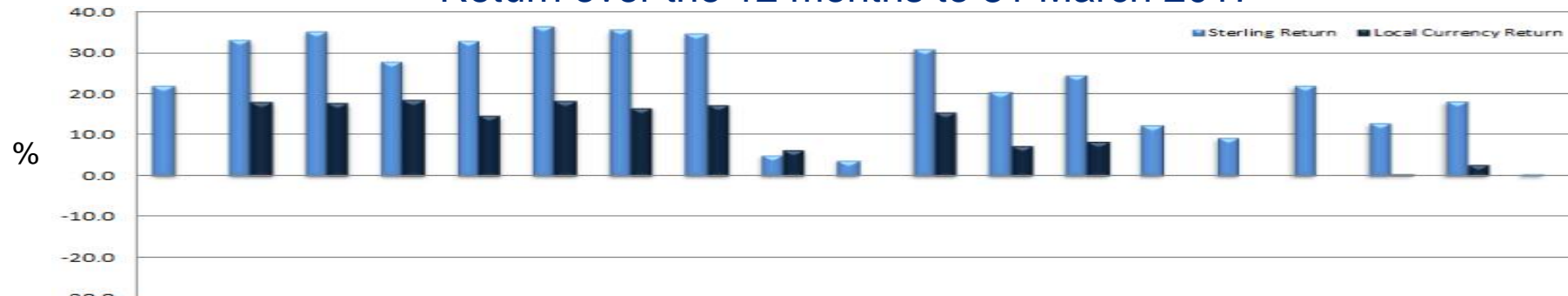
Source: Thomson Reuters Datastream.

MARKET BACKGROUND INDEX PERFORMANCE

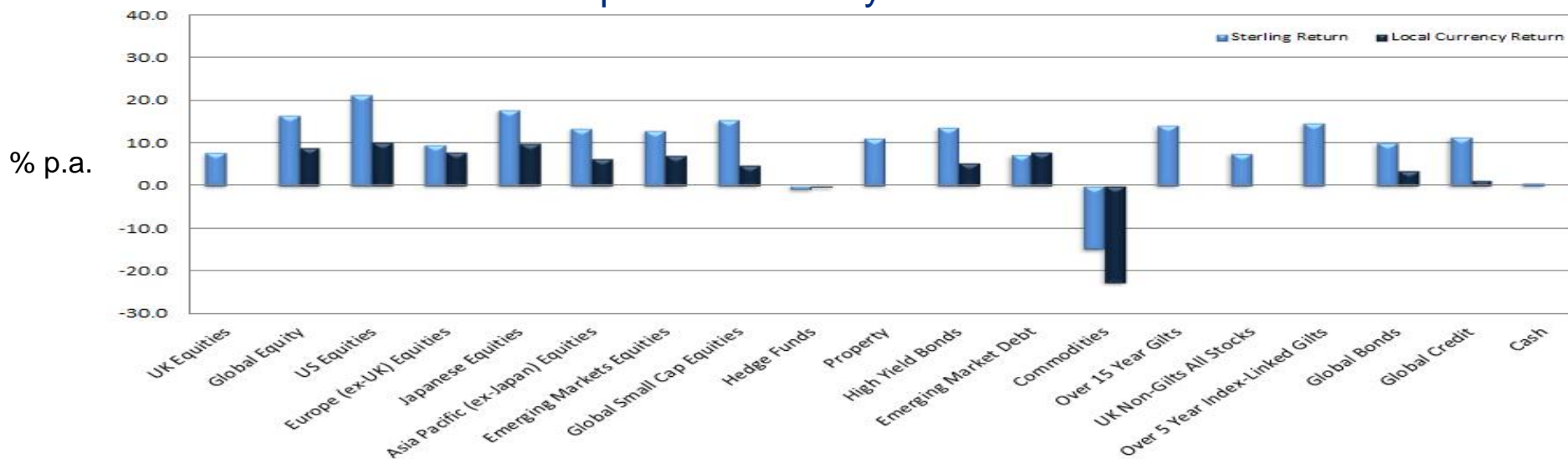
Return over the 3 months to 31 March 2017



Return over the 12 months to 31 March 2017



Return p.a. over the 3 years to 31 March 2017

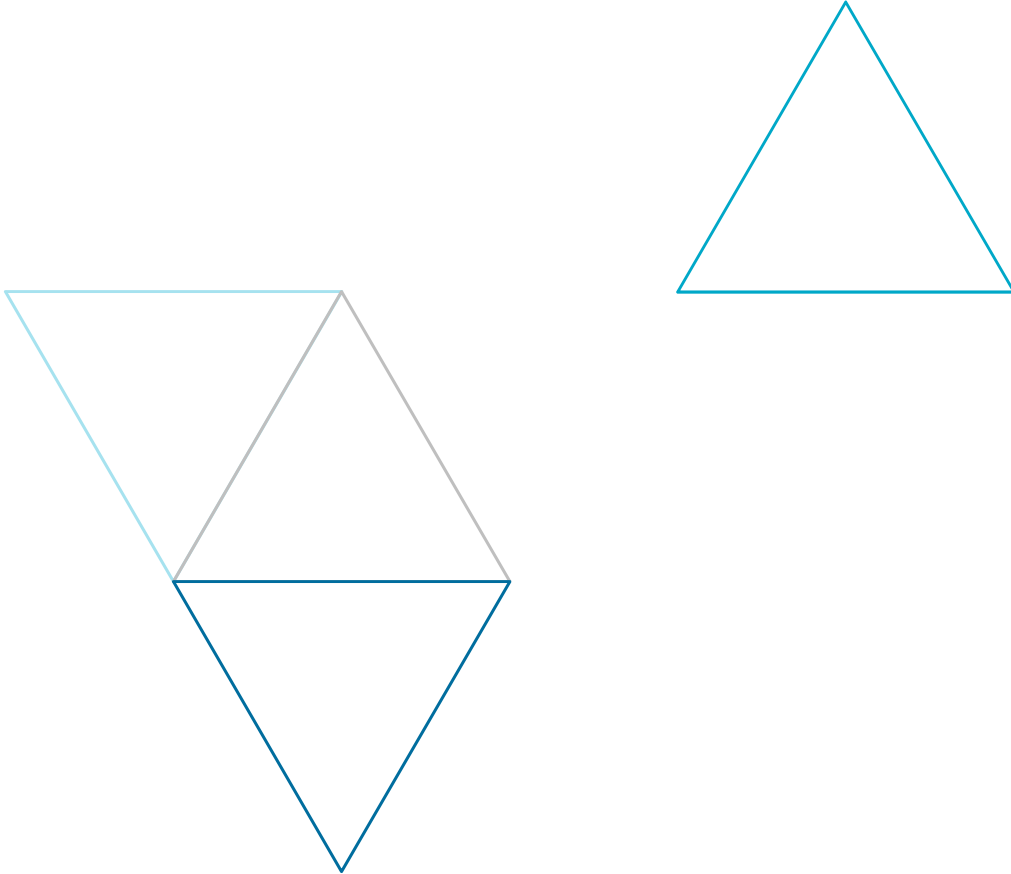


Source: Thomson Reuters Datastream.

SECTION 3

STRATEGIC

ASSUMPTIONS

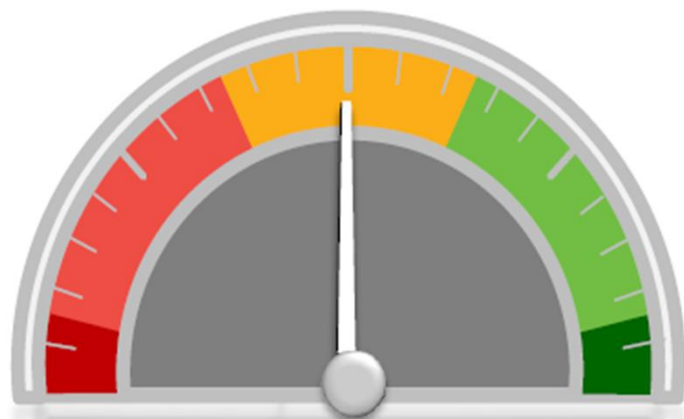
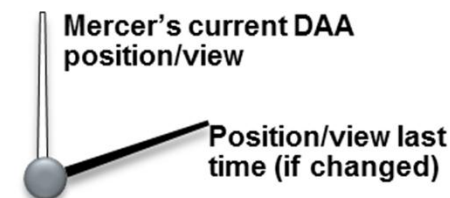


MARKET BACKGROUND INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.25	16.8	<i>Remains significantly ahead of the assumed strategic return. This has increased from 15.0% p.a. last quarter as the latest quarter's return of 5.5% was higher than the 0.7% return of Q1 2014, which fell out of the 3 year return.</i>
Emerging Market Equities (FTSE AW Emerging)	8.75	12.9	<i>The three year return from emerging market equities has increased from 9.4% p.a. last quarter, as the return of 8.9% experienced last quarter was higher than the quarter that fell out of the period (-0.7%), in large part due to the weakening of sterling. The three year return is above the assumed strategic return.</i>
Diversified Growth	Libor + 4% / RPI + 5%	4.5 / 6.9	<i>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.</i>
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	4.5	14.0	<i>UK gilt returns remain considerably above the long term strategic assumed return as yields remain low relative to historic averages. Over Q1 returns were positive as yields decreased marginally, but the long-term returns have decreased slightly as the returns experienced last quarter were higher than the quarter that fell out of the period. Corporate bond returns are also ahead of the strategic assumed return.</i>
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	4.25	14.6	
UK Corporate Bonds (BofAML Sterling Non Gilts)	5.5	7.5	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	6.0	-0.9	<i>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.</i>
Property (IPD UK Monthly)	7.0	11.2	<i>Property returns continue to be ahead of the expected returns. Slowing rental growth post-Brexit has meant fundamentals have weakened and a more cautious outlook may be required. Nevertheless, property returned 2.3% over the first quarter of 2017.</i>
Infrastructure (S&P Global Infrastructure)	7.0	14.8	<i>Infrastructure returns are well above the expected returns, driven by a strong return in the first half of 2016. This return was in part driven by currency as sterling has been depreciating over the last few quarters. Returns of this index have been largely driven by currency moves. The 100% hedge in place for the infrastructure mandate removes the currency effect from the actual returns earned. This is also true of the global property mandate with Partners.</i>

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q2 2017

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



DEVELOPED MARKET EQUITIES

- ✓ Relatively loose monetary policy remains generally supportive of equity markets
- ✓ Stronger global growth coupled with supportive fiscal policy should translate into improved corporate earnings
- ⚠ Valuations have continued to trend upwards and a number of downside risks remain as a result of political uncertainty



EMERGING MARKET EQUITIES

- ✓ Valuations remain around or slightly below long-term averages, though have risen over the year
- ✓ Positive earnings surprises, diminishing headwinds from key economies (e.g. China), improving fundamentals and increasing resilience to developed market shocks
- ⚠ The potential for protectionist policies in the US, stronger dollar and geopolitical events could hurt the asset class

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 – Q2 2017



FIXED INTEREST GILTS (ALL STOCK)

- ✓ Loose monetary policy in some economies coupled with geopolitical uncertainties may limit further upward yield movement
- ! Valuations remain expensive, with nominal yields well below long-term average levels. US Fed expected to continue its rate hiking cycle throughout the rest of 2017



INDEX-LINKED GILTS

- ✓ Improving growth expectations and more inflationary economic trends (rise in labour costs and proposed inflationary trade policies etc)
- ! Valuations increasingly expensive, with real yields well below long-term averages

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q2 2017



NON-GOVERNMENT BONDS (£ ALL-STOCK)

- ✔ Credit spreads remained largely unchanged and provide adequate coverage given expectations that the downgrade environment should remain benign
- ⚠ Yields remain historically low and prospective total returns appear to be relatively limited
- ⚠ Ongoing risk of increased volatility as a result of trading illiquidity and heightened geopolitical downside risk

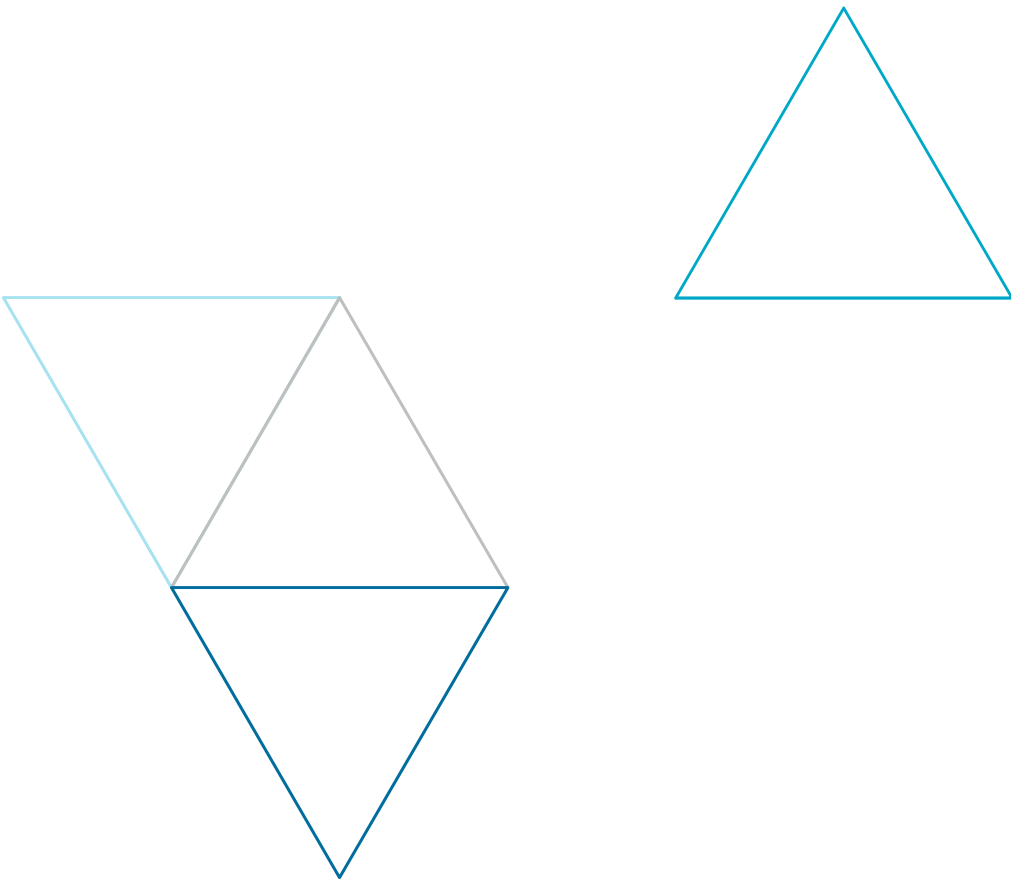


UK PROPERTY

- ✔ Relative to other asset classes, some parts of the market still present attractive opportunities (e.g. HLV property)
- ⚠ Absolute valuations look expensive and 'Brexit' uncertainty warrants caution
- ⚠ Slowing rental growth and lower investment turnover have caused fundamentals to weaken slightly

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	1,790,409	1,776,192	42.6	40.8	40.0	35	-	45	+0.8
Emerging Market Equities	385,005	419,761	9.2	9.6	10.0	5	-	15	-0.4
Diversified Growth Funds	373,249	375,391	8.9	8.6	10.0	5	-	15	-1.4
Fund of Hedge Funds	228,329	228,648	5.4	5.2	5.0	0	-	7.5	+0.2
Property	364,773	380,488	8.7	8.7	10.0	5	-	15	-1.3
Infrastructure	161,546	256,003	3.8	5.9	5.0	0	-	7.5	+0.9
Bonds	836,387	852,657	19.9	19.6	20.0	15	-	35	-0.4
Cash (including currency instruments)	58,805	67,170	1.4	1.5	-	0	-	5	+1.5
Total	4,198,502	4,356,309	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. End of quarter asset split for Jupiter UK Equities assumed to be the same as start of quarter due to unavailability of data.

- Invested assets increased over the quarter by £158m due to positive returns from most asset classes. At the end of the quarter, all asset classes were within the agreed tolerance ranges.

FUND VALUATIONS

VALUATION BY MANAGER

Manager Allocation						
Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
BlackRock	Passive Multi-Asset	1,128,514	-104,504	1,061,034	26.9	24.4
Jupiter	UK Equities	192,988	-	199,776	4.6	4.6
TT International	UK Equities	227,933	-	236,627	5.4	5.4
Schroder	Global Equities	317,853	-	337,292	7.6	7.7
Genesis	Emerging Market Equities	181,570	-	196,601	4.3	4.5
Unigestion	Emerging Market Equities	203,435	-	223,160	4.8	5.1
Invesco	Global ex-UK Equities	370,926	-	388,073	8.8	8.9
SSgA	Europe ex-UK & Pacific inc. Japan Equities	149,560	-	160,461	3.6	3.7
Pyrford	DGF	136,061	-	138,487	3.2	3.2
Standard Life	DGF	237,188	-	236,903	5.6	5.4

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

- The main movement in the asset allocation over the period, as shown overleaf, was a drawdown within the IFM infrastructure mandate, which was funded from BlackRock passive developed market equities. £84m was disinvested from US equities and £17m from European equities to fund the drawdown.

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	408	-	393	0.0	0.0
Signet	Fund of Hedge Funds	1,069	-387	1,162	0.0	0.0
Gottex	Fund of Hedge Funds	983	-	971	0.0	0.0
JP Morgan	Fund of Hedge Funds	225,869	-	226,123	5.4	5.2
Schroder	UK Property	197,435	-	201,636	4.7	4.6
Partners	Property	186,687	5,917	192,361	4.4	4.4
IFM	Infrastructure	161,546	84,320	256,003	3.8	5.9
RLAM	Bonds	253,848	-	260,812	6.0	6.0
Record Currency Management	Currency Hedging	-21,287	27,000	10,323	-0.5	0.2
Internal Cash	Cash	45,918	-12,346	28,112	1.1	0.6
Total		4,198,502	-	4,356,309	100.0	100.0

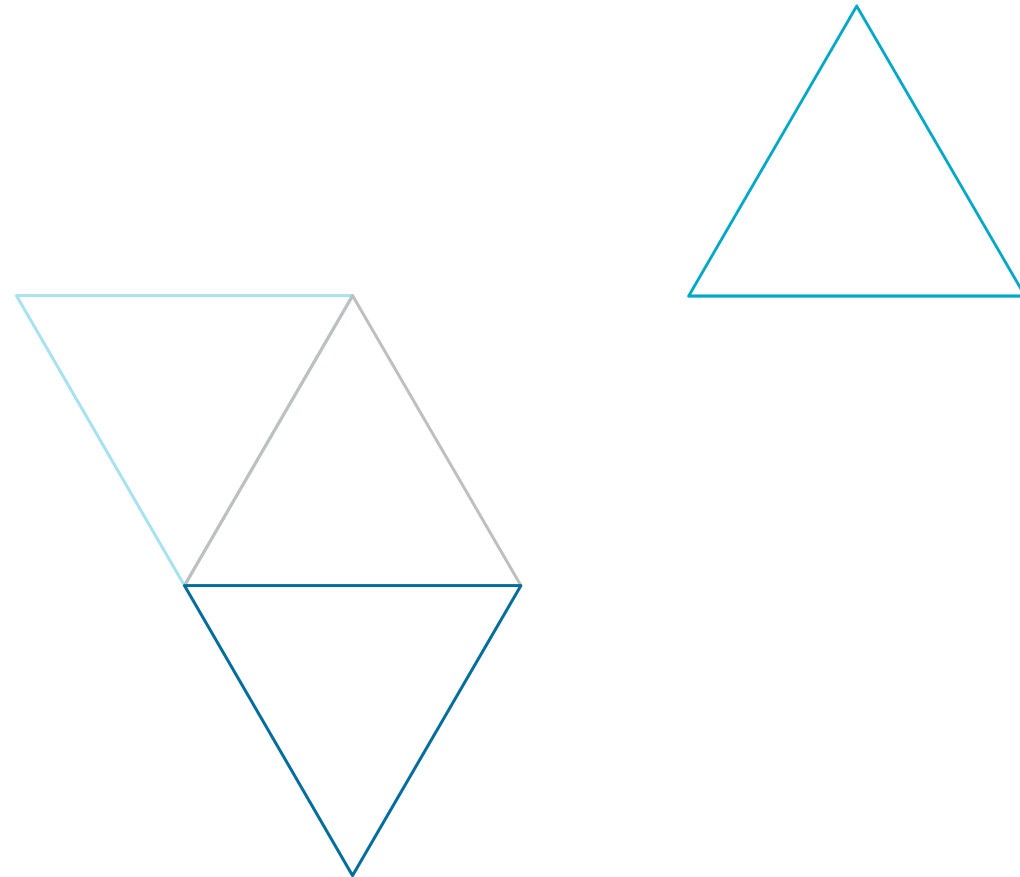
Source: BNY Mellon, Avon. Totals may not sum due to rounding.

The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included in the 'Internal Cash' start and end balance to reflect the asset value position of the total Fund.

SECTION 5

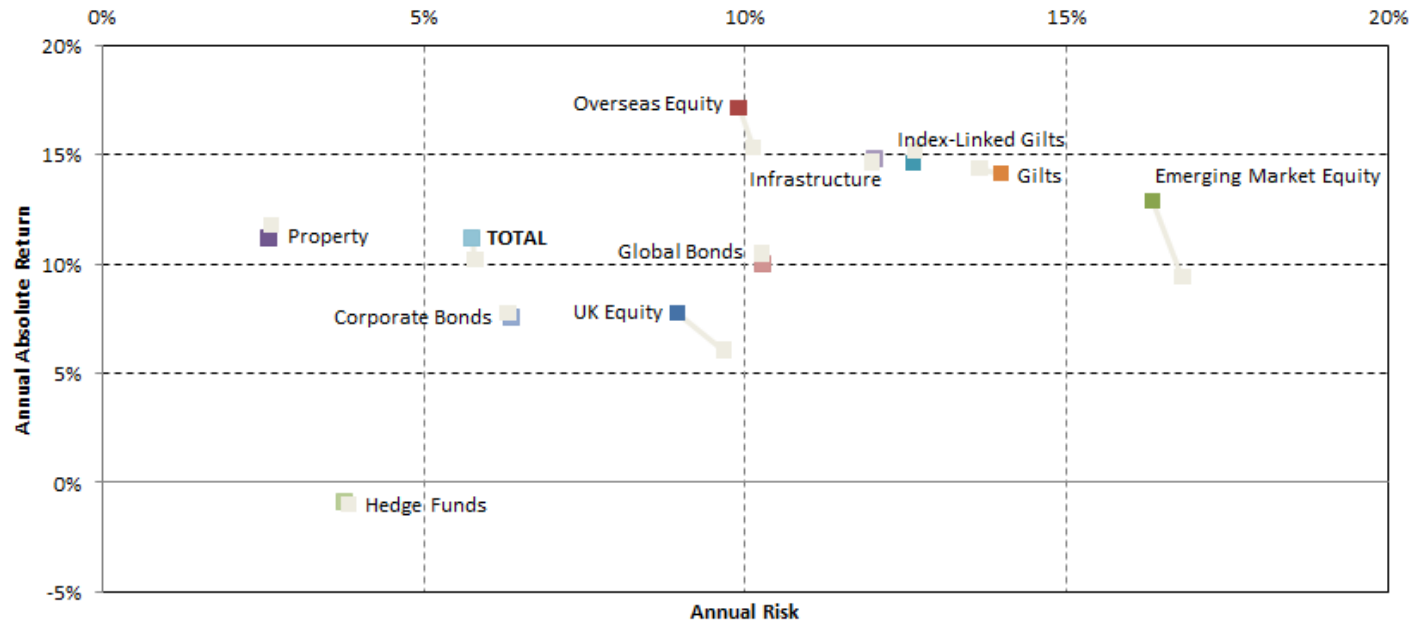
PERFORMANCE

SUMMARY



MANAGER MONITORING RISK RETURN ANALYSIS

3 Year Risk v 3 Year Return to 31 March 2017



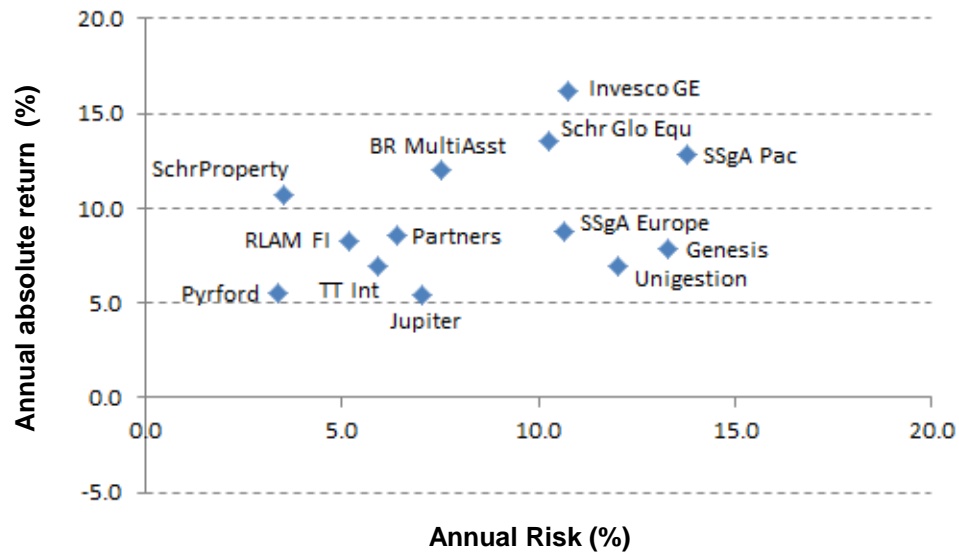
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of March 2017, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark indices and allocations from BNY Mellon). We also show the positions as at last quarter, in grey.

Comments

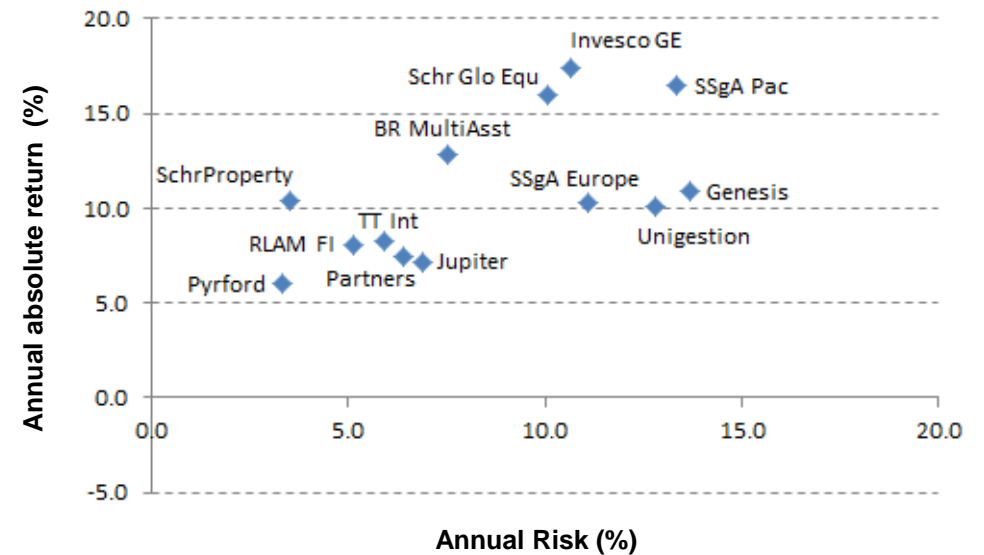
- Changes in observed returns and volatilities over the quarter in bonds and alternatives were very limited. Equities saw their 3-year returns increasing, with lower volatility.

MANAGER MONITORING RISK RETURN ANALYSIS

3 year Risk vs 3 year Return to 31 December 2016



3 year Risk vs 3 year Return to 31 March 2017



Comments

- All equity mandates saw their returns increasing over the quarter, whilst Partners' since inception return decreased, but remains positive. Volatility increased for Unigestion and SSgA Europe ex-UK equities.

MANAGER MONITORING

MANAGER PERFORMANCE TO 31 MARCH 2017

Manager / fund	3 months (%)			1 year (%)			3 year (% p.a.)			3 year outperformance target (% p.a.)	3 year performance versus target
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative		
BlackRock Multi-Asset	3.8	3.5	+0.3	23.4	23.0	+0.4	13.0	12.7	+0.2	-	Target met
Jupiter	3.5	4.0	-0.5	14.9	22.0	-5.8	7.5	7.7	-0.2	+2	Target not met
TT International	3.8	4.0	-0.2	16.9	22.0	-4.1	8.3	7.7	+0.5	+3-4	Target not met
Schroder Equity	5.9	5.8	+0.2	32.2	33.0	-0.6	15.7	16.3	-0.5	+4	Target not met
Genesis	8.3	10.2	-1.7	31.7	35.2	-2.6	10.8	11.8	-0.9	-	Target not met
Unigestion	9.7	10.1	-0.4	25.3	34.7	-7.0	10.2	11.4	-1.0	+2-4	Target not met
Invesco	4.6	5.2	-0.6	34.0	32.6	+1.1	17.4	16.9	+0.4	+0.5	Target not met
SSgA Europe	7.6	7.4	+0.2	29.9	28.0	+1.5	10.3	9.6	+0.6	+0.5	Target met
SSgA Pacific	7.1	6.9	+0.2	35.7	34.7	+0.7	16.4	15.6	+0.7	+0.5	Target met
Pyrford	1.8	2.0	-0.2	9.1	8.1	+0.9	6.0	6.9	-0.8	-	Target not met
Standard Life	-0.3	1.5	-1.8	0.6	5.6	-4.7	N/A	N/A	N/A	-	N/A
JP Morgan*	1.3	0.8	+0.5	4.8	3.5	+1.2	N/A	N/A	N/A	-	N/A
Schroder Property	2.3	2.0	+0.3	2.6	3.7	-1.1	10.0	10.2	-0.2	+1	Target not met
Partners Property**	N/A	N/A	N/A	N/A	N/A	N/A	8.2***	10.0***	-1.6***	-	Target not met
IFM*	6.2	0.7	+5.4	N/A	N/A	N/A	6.7***	2.1***	+4.5***	-	N/A
RLAM	2.7	1.8	+0.8	10.8	9.2	+1.5	8.0	7.5	+0.5	+0.8	Target not met
Internal Cash	-1.6	0.0	-1.6	-1.4	0.2	-1.6	-0.2	0.3	-0.5	-	N/A

- Source: BNY Mellon, Avon, Mercer estimates.
- Returns are in GBP terms, consistent with overall fund return calculations before currency hedging in applied, except for JP Morgan, Partners and IFM, whose performance is shown as IRR in local currency terms.
- In the relative performance columns, returns in blue text exceeded their respective benchmarks, those in red underperformed, and black text shows performance in line with benchmark.
- In the table above, and throughout this report, relative returns have been calculated geometrically (i.e. the portfolio return is divided by the benchmark return) rather than arithmetically (where the benchmark return is subtracted from the portfolio return).
- In the table above, Partners performance is measured against an IRR target of 10% p.a.
- A summary of the benchmarks for each of the mandates is given in Appendix 1.

* Returns are in US dollar terms.

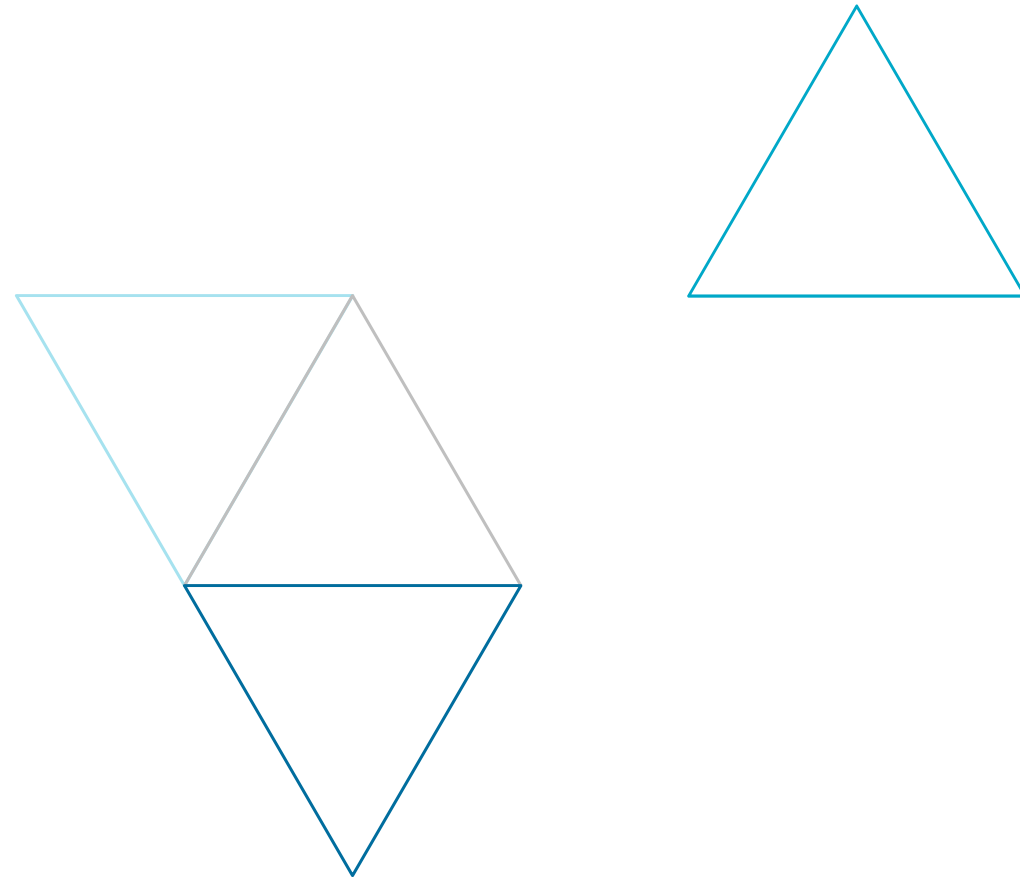
** Performance to 31 December 2016 as this is the latest date that this is available to.

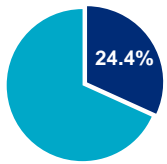
*** Performance is shown since inception.

SECTION 6

MANAGER

PERFORMANCE





BLACKROCK – PASSIVE MULTI-ASSET (POOLED EQUITIES, SEGREGATED BONDS)

£1,061.0M END VALUE (£1,128.5M START VALUE)

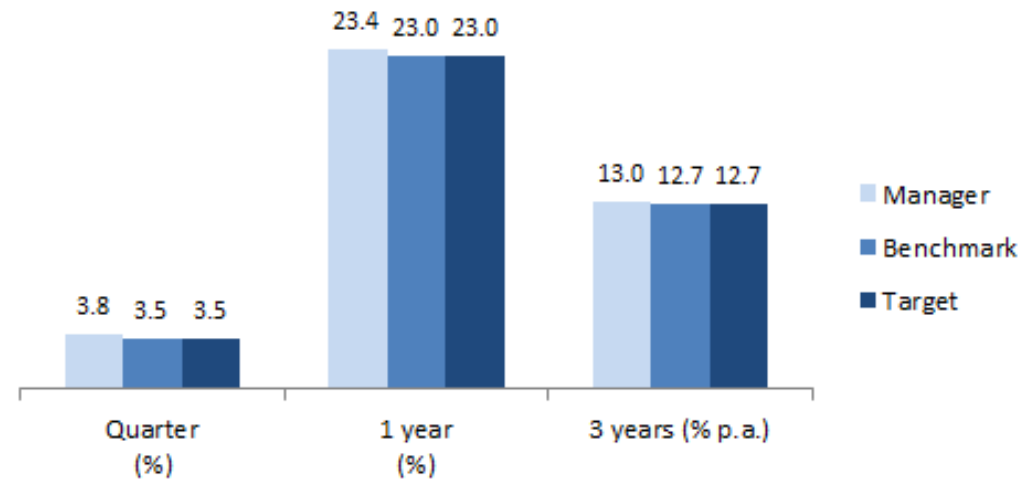
Item Monitored Outcome

Mercer Rating	● A (no change over period under review). ESGp2 for equities
Performance Objective <i>In line with the benchmark</i>	● Performed broadly in line with the benchmark over three years

Manager Research and Developments

- BlackRock returned 1.3% over the quarter, performing broadly in line with the benchmark as expected. Returns over one year and three year periods were within the tracking error ranges.

Performance



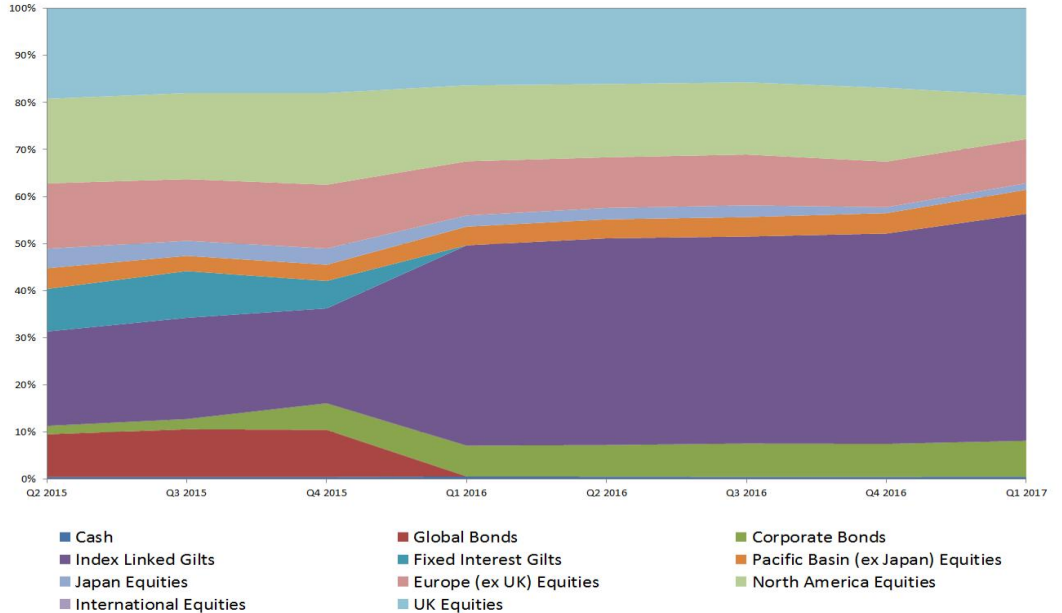
Reason for investment

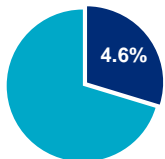
To provide asset growth as part of a diversified portfolio

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

Asset Allocation





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

£199.8M END VALUE (£193.0M START VALUE)

Item Monitored	Outcome
Mercer Rating	● B (no change over period under review). ESG2
Performance Objective <i>Benchmark +2% p.a.</i>	● Underperformed benchmark by 0.2% p.a. over three years
Tracking error was 4.5% p.a. – <i>source: Jupiter</i>	Number of stocks: 58

Manager Research and Developments

- Jupiter underperformed its benchmark over the quarter by 0.5%. Jupiter's performance was also below TT's - the other UK equity fund invested in by the Fund.
- Not holding Unilever, a company which Jupiter do not deem to be suitable for the portfolio, detracted from relative returns in the period. However a similar decision not to hold Royal Dutch Shell was positive as oil prices fell on news of record-high inventories in the US. The portfolio's holding in Tesco also detracted from performance in the quarter.
- Over the year, Jupiter underperformed the benchmark by 5.8%. This largely came in Q2 2016 due to the fund's overweight exposure to UK domestic-focused companies, as the result of the EU Referendum led to concerns of economic growth in the UK, and an underweight position in oil & gas and mining stocks and exposure to consumer staples stocks such as tobacco.
- The underperformance over the year can partly be explained by the strong rise in the oil price, which increased by 32%. The mandate's SRI nature means that it does not hold oil stocks, and so it did not benefit from the price appreciation.

Reason for investment

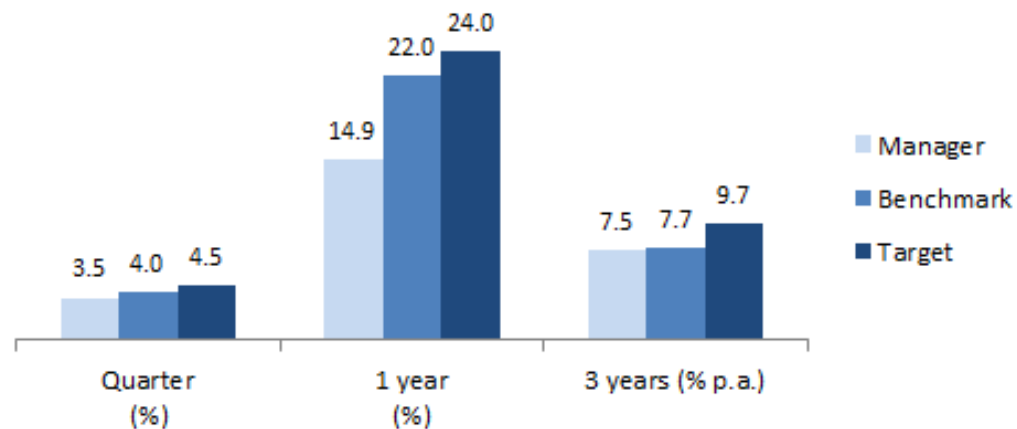
To provide asset growth as part of a diversified equity portfolio and to provide a specific SRI allocation

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

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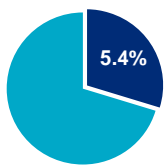
Performance



Rolling relative returns

Quarterly Excess Return vs. FTSE All Share with rolling 1 and 3 yr lines in GBP (after fees) over 3 yrs ending March-17





TT INTERNATIONAL – UK EQUITIES (UNCONSTRAINED) (SEGREGATED)

£236.6M END VALUE (£227.9M START VALUE)

Item Monitored Outcome Performance

Item Monitored	Outcome	Performance
Mercer Rating	● B (no change over period under review). ESG3	
Performance Objective	● Outperformed benchmark by 0.5% p.a. over three years	
Benchmark +3-4% p.a.		
Three year tracking error was 4.2% p.a. – source: Mercer	Number of stocks: 46	

Manager Research and Developments

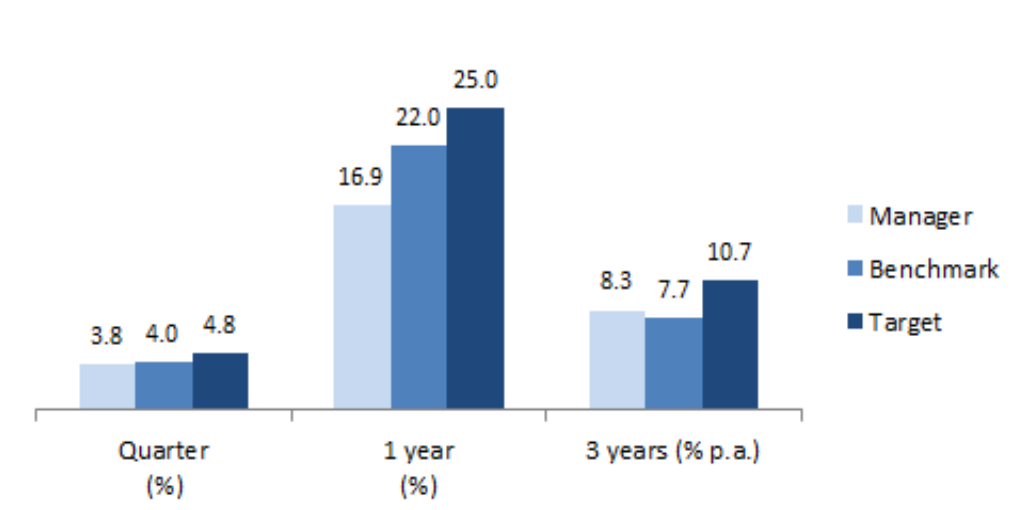
- TT underperformed their benchmark by 0.2% over the quarter and by 4.1% over the year, but outperformed by 0.5% over the three year period to 31 March 2017. This is now the fifth straight quarter of underperformance.
- This slight underperformance over the quarter was due to both sector allocation and security selection, where outperformance in the Consumer Services and Goods sectors was outweighed by underperformance in Health Care, Industrials, Basic Materials and Telecoms. Plastic packaging company RPC struggled over the quarter as it raised more equity than was needed to fund its latest acquisition, which served to dilute current equity holdings.
- Turnover decreased from 32.3% in Q4 2016 to 20.7% in Q1 2017 while the three year tracking error (a proxy for risk relative to benchmark) remained at 4.2% p.a.
- Assets under management in TT's UK equity strategies increased over the quarter to £641m 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 £582m in December 2016, £516m in March 2016 and £491m in March 2014. A significant portion (c.37%) of the firm's UK equity assets are managed on behalf of the Fund.
- Performance over the year has been well below benchmark. This can be partly explained by the strong performance of value over the period, to which the fund does not have a bias.

Reason for investment

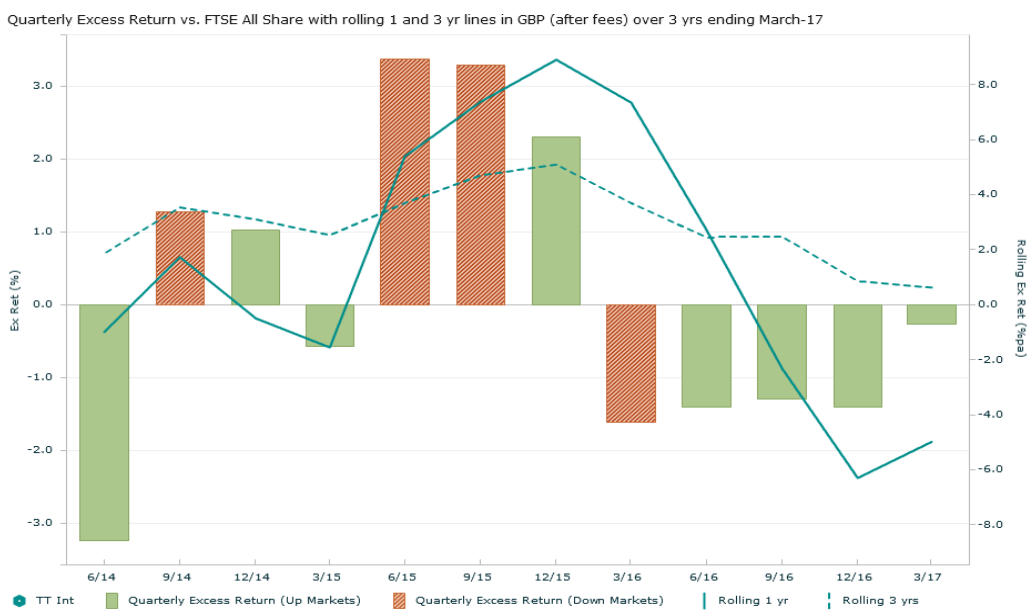
To provide asset growth as part of a diversified equity portfolio

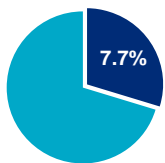
Reason for manager

- 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
- © MERCER 2017



Rolling relative returns





SCHRODER – GLOBAL EQUITY PORTFOLIO (SEGREGATED)

£337.3M END VALUE (£317.9M START VALUE)

Item Monitored Outcome

Mercer Rating	● B+ (no change over period under review). ESG2
Performance Objective Benchmark +4% p.a.	● Underperformed benchmark by 0.5% p.a. over three years

Three year tracking error was 2.5% p.a. – source: Mercer

Manager Research and Developments

- The fund marginally outperformed the benchmark over the quarter, largely through positive stock selection in industrial, IT and telecoms. Regionally, North America, Japan and emerging markets positions were the main contributors.
- Top contributors over the quarter were Jardine Strategic, HDFC Bank and Check Point Software. Cimarex Energy, Occidental Petroleum and Statoil were the most significant detractors to returns.
- The fund was behind benchmark performance over the one year and three year periods.
- Schroder have notified us that Chris Costanza, the Global Sector analyst on Financials, is to leave the firm. His responsibilities will be taken on by Andre Reichel who currently covers Real Estate & Utilities. Reichel joined Schroder six years ago having worked for a management consultancy for a couple of years. He has experience of covering banks having trained first in that sector and more recently doing some macro research on banks. Apparently a lot of the stock models Costanza used were built by Reichel. We do not propose any change to the rating.

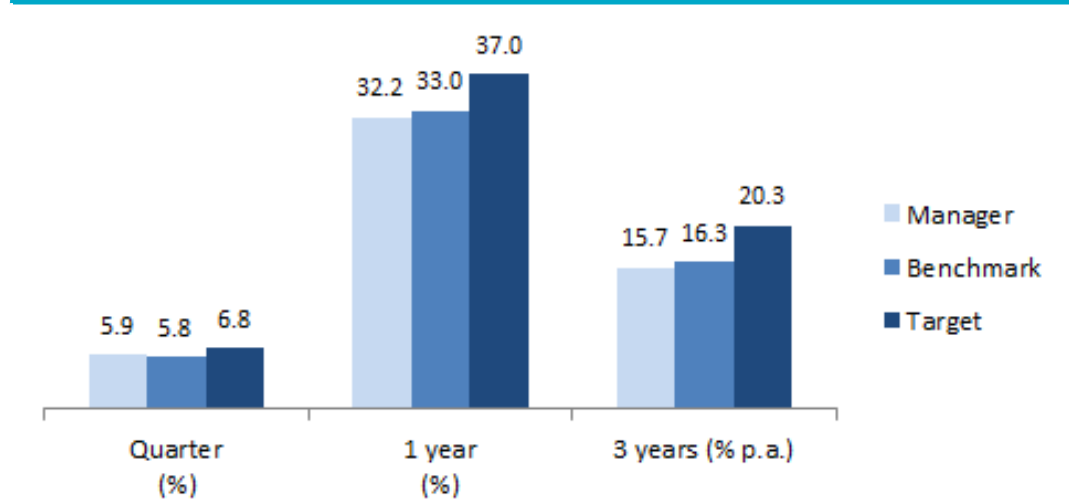
Reason for investment

To provide asset growth as part of a diversified equity portfolio

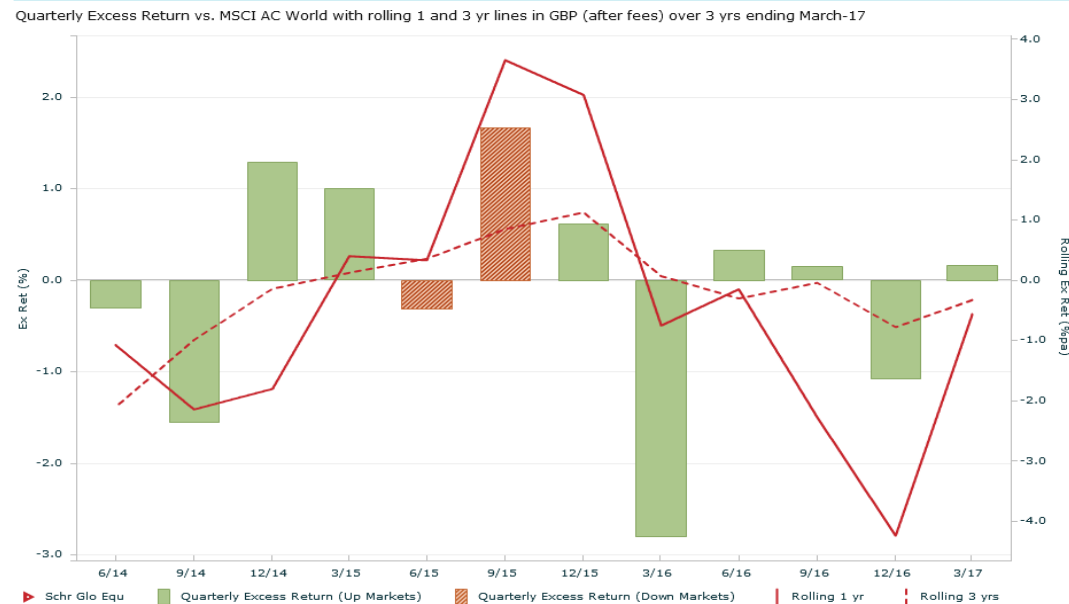
Reason for manager

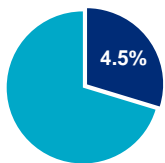
- Clear philosophy and approach
- Long term philosophy aligned with Fund's goals, commitment to incorporating ESG principles throughout the investment process
- Evidence of ability to achieve the Fund's performance target

Performance



Rolling relative returns





GENESIS ASSET MANAGERS – EMERGING MARKET EQUITIES (POOLED)

£196.6M END VALUE (£181.6M START VALUE)

Item Monitored Outcome

Mercer Rating	● A (no change over period under review). ESG3
Performance Objective <i>Benchmark</i>	● Underperformed benchmark by 0.9% p.a. over three years
Three year tracking error was 4.0% p.a. – <i>source: Genesis</i>	Number of stocks: 123

Manager Research and Developments

- The fund has underperformed by 1.7% over the quarter, by 2.6% over the year and by 0.9% p.a. over the three years to 31 March 2017.
- On a regional basis, Brazil was the biggest contributor to returns over the quarter, whilst Russia, Thailand and India were significant detractors.
- The biggest detractors at a stock level were Tullow Oil, which announced a rights issue to raise \$750m at a deep discount to market price, and Russian companies Novatek and Magnit.
- Turnover over the quarter was 28%.
- Given the types of quality growth companies Genesis favors, we would normally expect them to do better in more flat/down markets and struggle in environments where markets rapidly rise. In this respect, whilst the underperformance in Q1 and over the last 12 months was disappointing, it is in keeping with this view.
- More specifically in Q1 2017, relative performance was held back primarily due to some stock positions in Russia (which had performed strongly in 2016) and an underweight position in China.

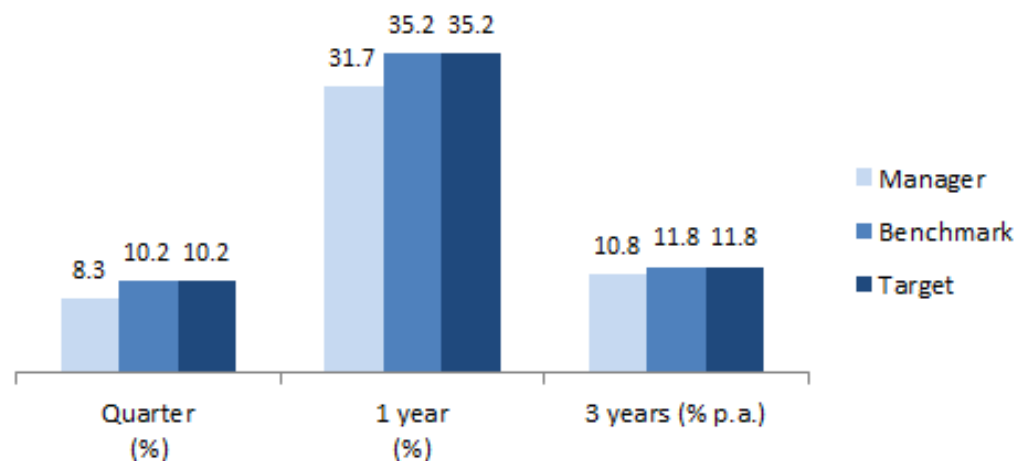
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

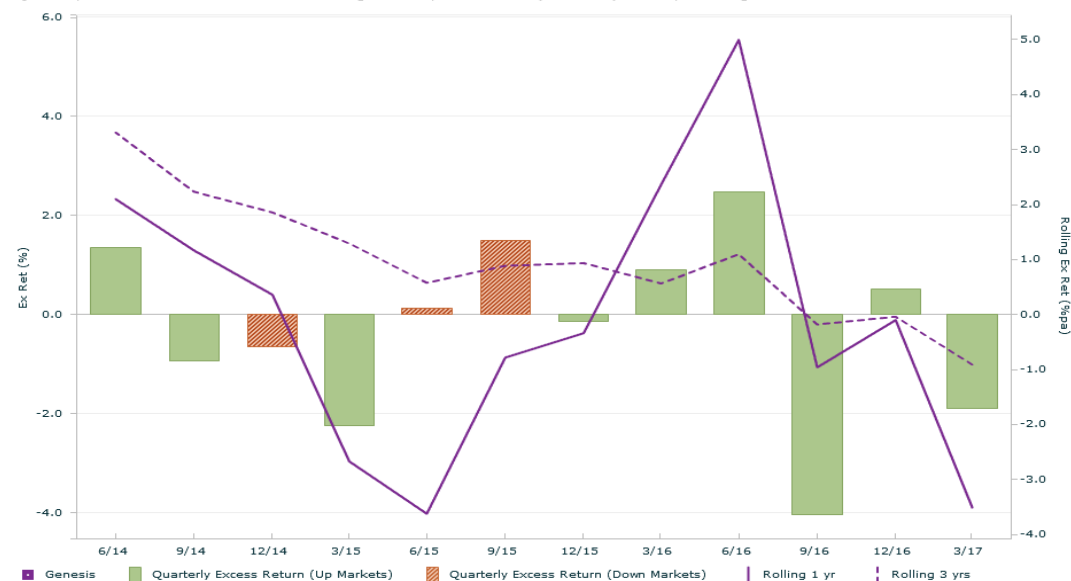
- Long term investment approach which takes advantage of evolving growth opportunities
- Niche and focussed expertise in emerging markets
- Partnership structure aligned to delivering performance rather than growing assets under management

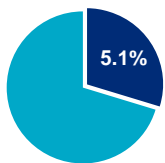
Performance



Rolling relative returns

Quarterly Excess Return vs. MSCI EM with rolling 1 and 3 yr lines in GBP (after fees) over 3 yrs ending March-17





UNIGESTION – EMERGING MARKET EQUITIES (POOLED – SUB-FUND)

£223.2M END VALUE (£203.4M START VALUE)

Item Monitored Outcome

Mercer Rating	● R (no change over period under review)
Performance Objective Benchmark +2-4% p.a.	● Underperformed benchmark by 1.0% p.a. over three years
Tracking error since inception was 5.8% p.a. – source: Unigestion	Number of stocks: 97

Manager Research and Developments

- The fund has underperformed by 0.4% over the quarter, by 7.0% over the year and by 1.0% p.a. over the three years to 31 March 2017. This is now the sixth straight quarter of underperformance.
- The underperformance over the quarter was due to significant underperformance in January. Over that month, emerging markets produced a strong return and the portfolio's defensive positioning meant it lagged the market - the overweight in Consumer Durables, Telecommunication and Food, as well as the underweight in Software, Technology and Materials, detracted from relative performance. Stock selection in South Korea, India and Brazil was detrimental to the strategy.
- Volatility since inception is 14.7%, lower than the index (at 17.6%) and consistent with the strategy's objectives (and bias to quality and large- or mega-cap stocks).
- Performance over the year has been well below benchmark. This has come at a time when emerging markets have produced a very strong return, which is expected. The fund uses a defensive, high quality, low volatility approach, which should outperform in times of market volatility, but underperform in strongly performing markets.

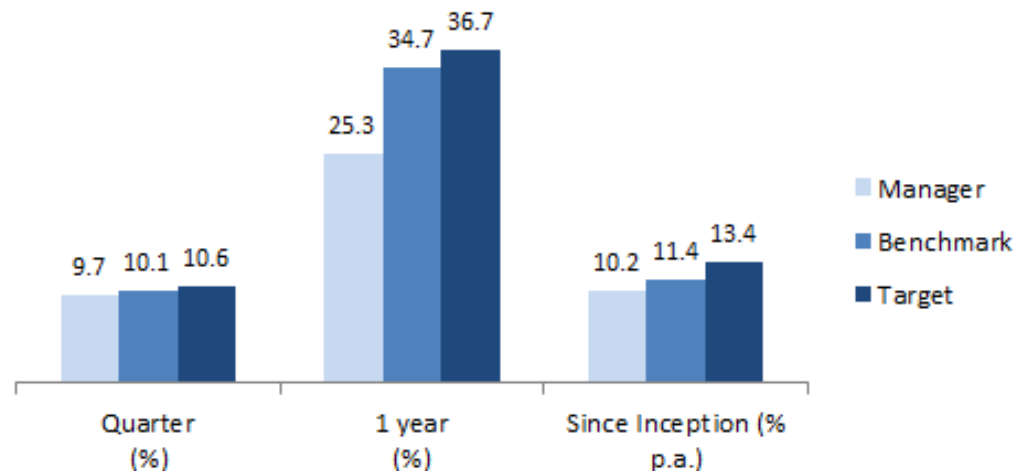
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

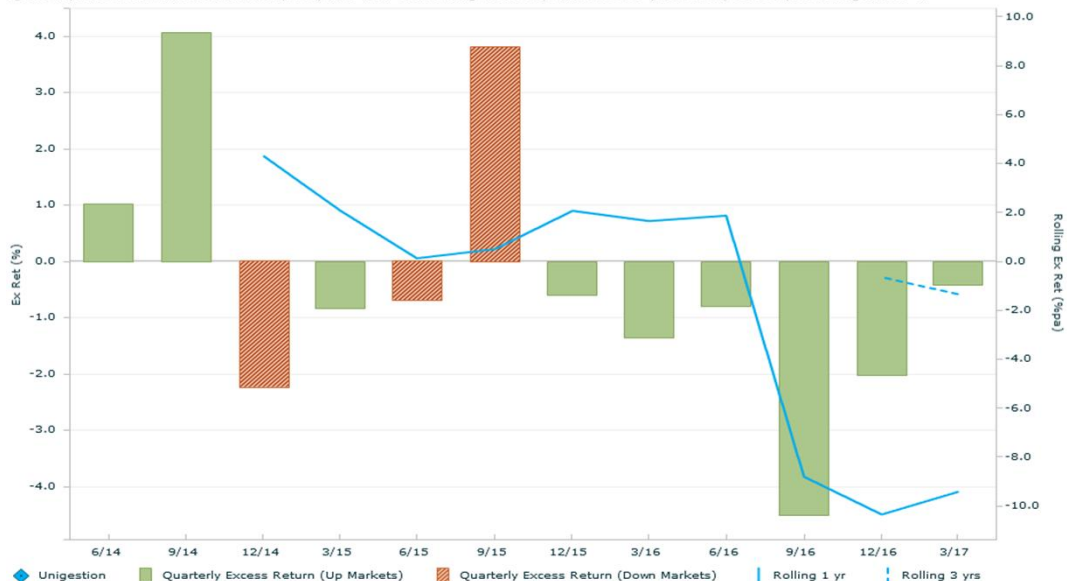
- Risk-based active management approach
- Aim for lower volatility than the MSCI Emerging Markets Index
- Combine fundamental and quantitative analysis

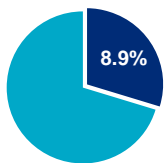
Performance



Rolling relative returns

Quarterly Excess Return vs. MSCI EM (Free) NET WHT with rolling 1 and 3 yr lines in GBP (after fees) over 3 yrs ending March-17





INVESCO – GLOBAL EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)

£388.1M END VALUE (£370.9M START VALUE)

Item Monitored	Outcome
Mercer Rating	● B+ (no change over period under review). ESG4
Performance Objective <i>Benchmark +0.5% p.a.</i>	● Outperformed benchmark by 0.4% p.a. over three years
Tracking error since inception was 1.2% p.a. – <i>source: Invesco</i>	Number of stocks: 449 (down from 474)

Manager Research and Developments

- The fund has underperformed its benchmark by 0.6% over the last quarter, but outperformed by 1.1% over the year and by 0.4% p.a. over the three year period. As such, the fund nearly met its performance target over the three years.
- Underperformance over the quarter was largely due to stock selection in February. Over that month, the overweight in stocks with attractive Management & Quality and Market Sentiment scores detracted most from relative performance.
- All sector and country allocations were broadly within +/- 1.0% of benchmark weightings, in line with general expectations for an enhanced indexation product.

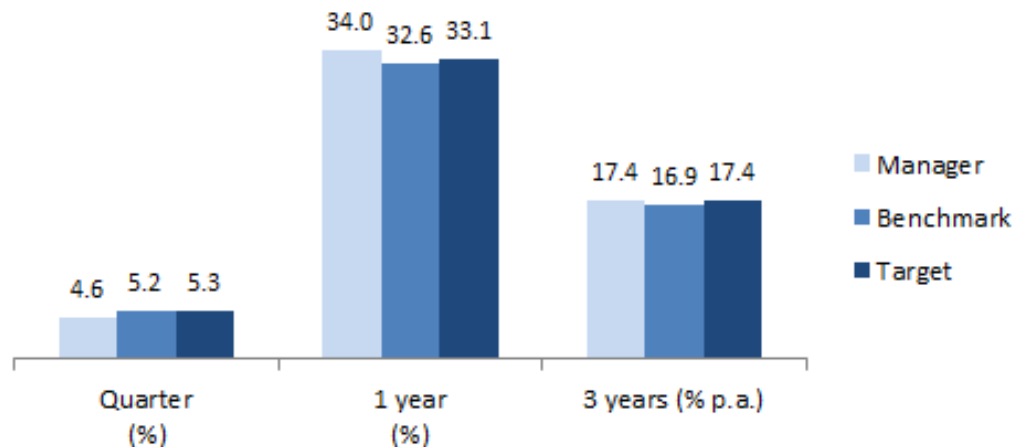
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

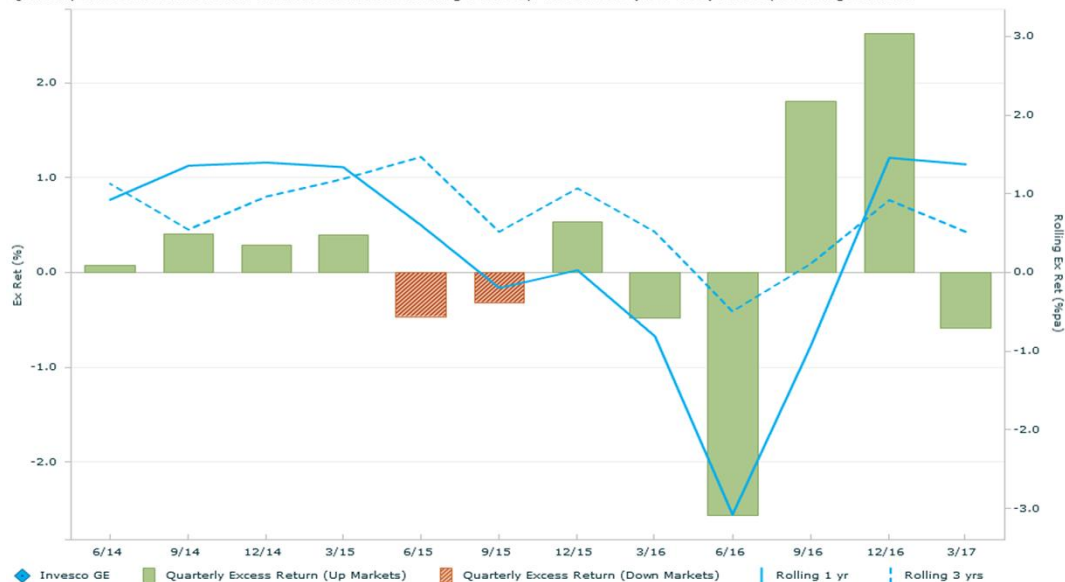
- Robust investment process supported by historical performance record, providing a high level of assurance that the process could generate the outperformance target on a consistent basis
- One of few to offer a Global ex UK pooled fund

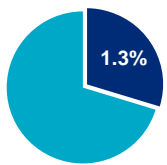
Performance



Rolling relative returns

Quarterly Excess Return vs. MSCI World ex UK NDR with rolling 1 and 3 yr lines in GBP (after fees) over 3 yrs ending March-17





SSGA – EUROPE EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)

£55.5M END VALUE (£51.6M START VALUE)

Item Monitored	Outcome
Mercer Rating	● R (no change over period under review)
Performance Objective <i>Benchmark +0.5% p.a.</i>	● Outperformed benchmark by 0.6% p.a. over three years
Three year tracking error was 0.8% p.a. – <i>source: Mercer</i>	Number of stocks: 237

Manager Research and Developments

- The fund achieved its performance target over the three year period.
- The total pooled fund size on 31 March 2017 was £55.6m. This means that the Fund is practically the only investor, although the Panel has previously concluded that the Fund could be sustained even if the Avon Pension Fund was the only investor.
- The fund holds 237 out of 405 stocks in the index, around 60%, within the expected range of 35-65%. Beta over three years is as expected at 1.

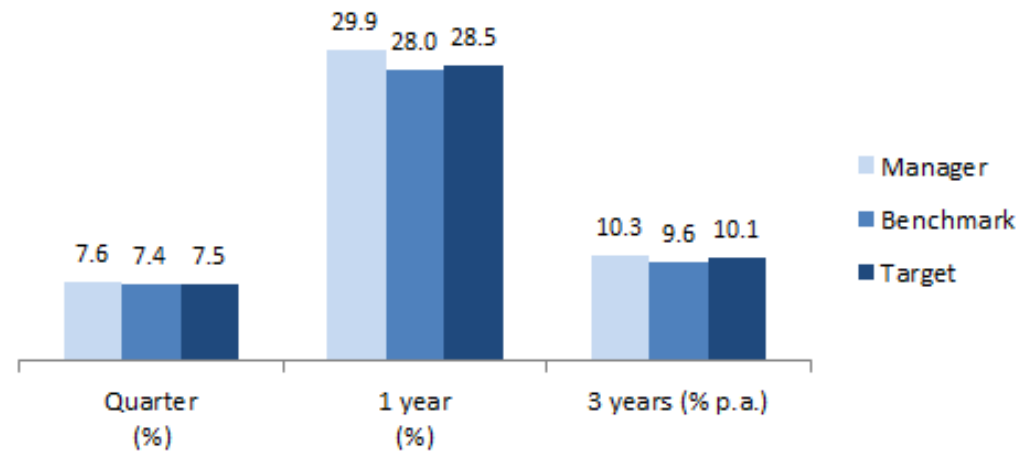
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

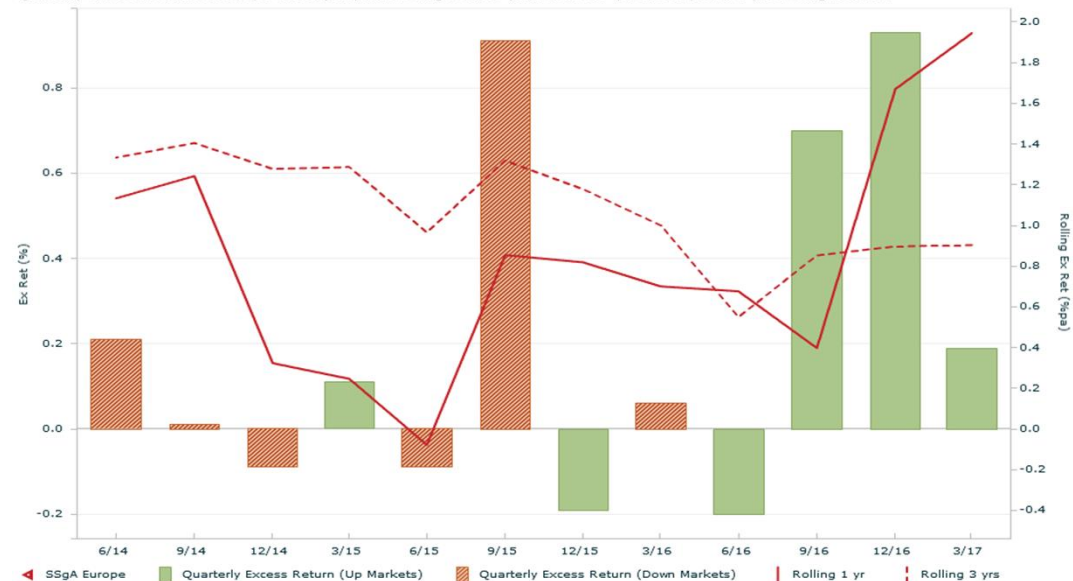
- Strength of their quantitative model and process, and ongoing research to develop the model
- Historic performance met the risk return parameters the Fund was seeking
- Two Funds (European and Pacific) to achieve the Fund’s customised asset allocation within overseas equities

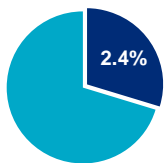
Performance



Rolling relative returns

Quarterly Excess Return vs. Europe ex UK (WM) with rolling 1 and 3 yr lines in GBP (after fees) over 3 yrs ending March-17





SSGA – PACIFIC INC. JAPAN EQUITIES (ENHANCED INDEXATION) (POOLED)

£104.9M END VALUE (£97.9M START VALUE)

Item Monitored	Outcome
Mercer Rating	● N (no change over period under review)
Performance Objective <i>Benchmark +0.5% p.a.</i>	● Outperformed benchmark by 0.7% p.a. over three years
Three year tracking error was 1.0% p.a. – <i>source: Mercer</i>	Number of stocks: 387

Manager Research and Developments

- The fund achieved its performance target over the three year period.
- The total pooled fund size on 31 March 2017 was £105.1m. 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).

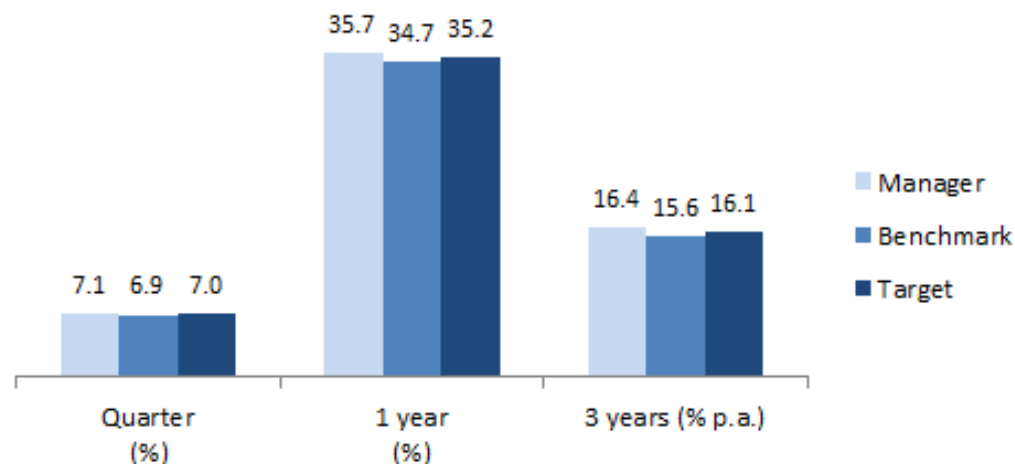
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

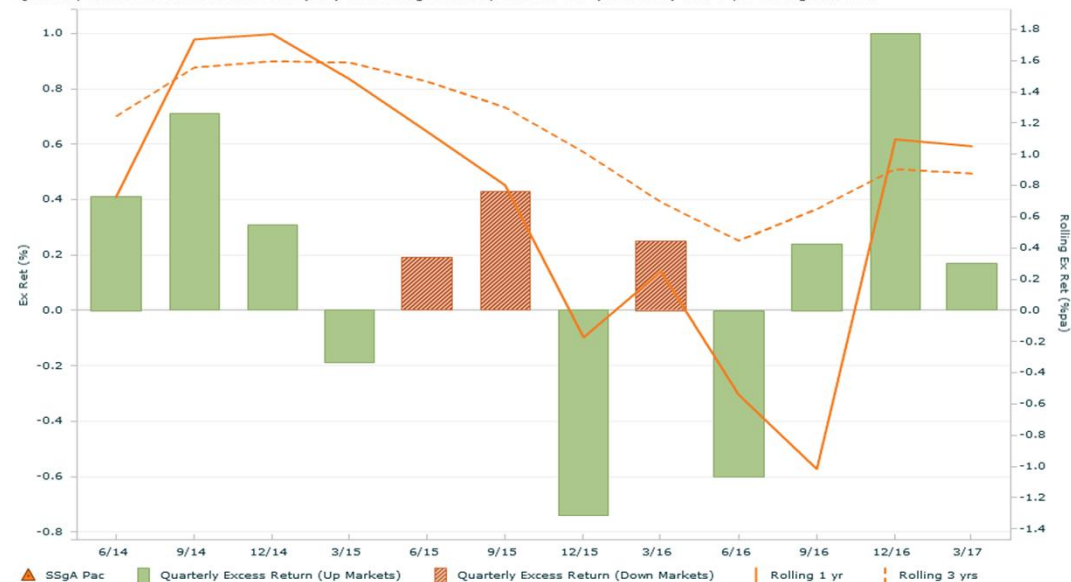
- Strength of their quantitative model and process, and ongoing research to develop the model
- Historic performance met the risk return parameters the Fund was seeking
- Two Funds (European and Pacific) to achieve the Fund’s customised asset allocation within overseas equities

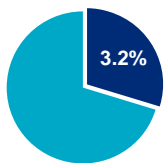
Performance



Rolling relative returns

Quarterly Excess Return vs. Asia Pacific (WM) with rolling 1 and 3 yr lines in GBP (after fees) over 3 yrs ending March-17





PYRFORD – DGF (POOLED)

£138.5M END VALUE (£136.1M START VALUE)

Item Monitored Outcome

Mercer Rating	● R (no change over period under review)
Performance Objective <i>RPI +5% p.a.</i>	● Underperformed objective by 0.8% p.a. over three years

Manager Research and Developments

- The fund has underperformed its objective (RPI + 5% p.a.) over the quarter by 0.2% but outperformed by 0.9% over the year. Over three years, the fund was below the performance objective.
- Both the allocation to bonds and equities contributed positively to returns in the quarter. The portfolio's equities (both UK and overseas) and overseas bonds performed well, having outperformed their indices. The portfolio's UK bonds (all positioned at the short end of the yield curve) were largely flat over the quarter and subsequently underperformed as UK government bond yields fell. Finally, cash and currency management detracted marginally over the quarter.
- The fund's allocation remained broadly the same, after Pyrford decided to decrease exposure to equities and increase bond exposure in Q3.
- 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 1.8 years.

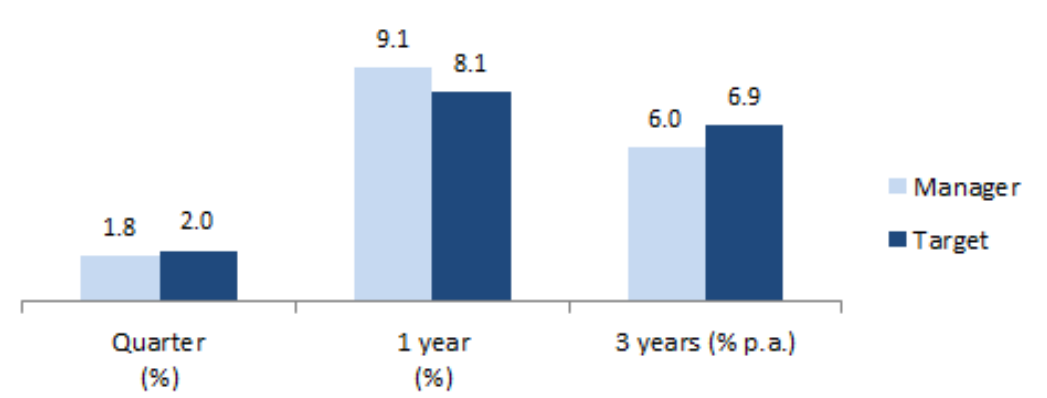
Reason for investment

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

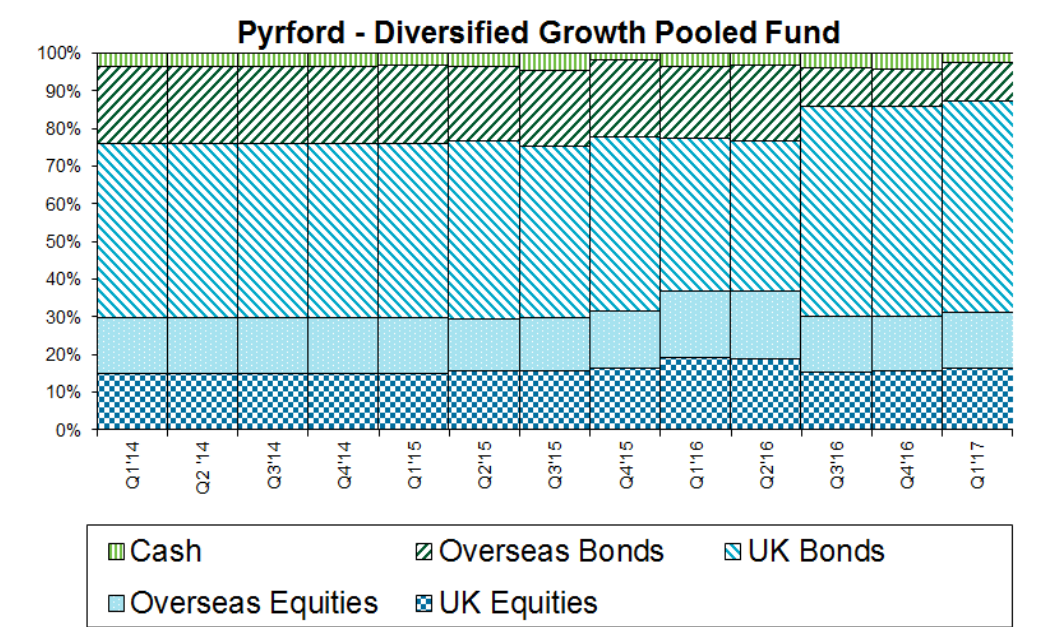
Reason for manager

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

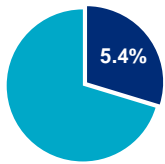
Performance



Asset Allocation



Annual data prior to Q1 2015.



STANDARD LIFE – DGF (POOLED)

£236.9M END VALUE (£237.2M START VALUE)

Item Monitored	Outcome
Mercer Rating	● B+ (W) (no change over period under review). ESG4
Performance Objective <i>Cash +5% p.a.</i>	● Underperformed objective by 4.7% p.a. over the year

Manager Research and Developments

- Over the quarter the fund returned -0.3% against a performance objective of 1.5%, and returned 0.6% against an objective of 5.6% over the year.
- The allocation to European equities contributed to performance, in a positive quarter for the broad asset class. However, the Fed's slower-than-expected path of future interest rate rises hurt the fund's position preferring US banks to US consumer staples, as banks are beneficiaries of rising rates.
- The interest rate strategies in place favouring UK government bonds to European government bonds delivered a positive return, as investors sought more defensive assets in the UK, whilst a mounting unease over political risks weighed on sentiment in Europe.
- Standard Life and Aberdeen Asset Management have announced a proposed merger. It is difficult to say what the longer term impacts of the merger will be until further details have been announced although this clearly presents some uncertainty with respect to the management of the business. We would expect limited impact on GARS but clearly this is another challenge, and is a further reason for us maintaining a Watch status on the strategy.
- Following the departure of Standard Life's Head of Equities David Cumming, Devan Kaloo (currently Head of Equities at Aberdeen) will become Head of Equities for the combined entity post the merger. Cumming was not a key contributor to the multi-asset group, so we believe his departure has little immediate impact on GARS.

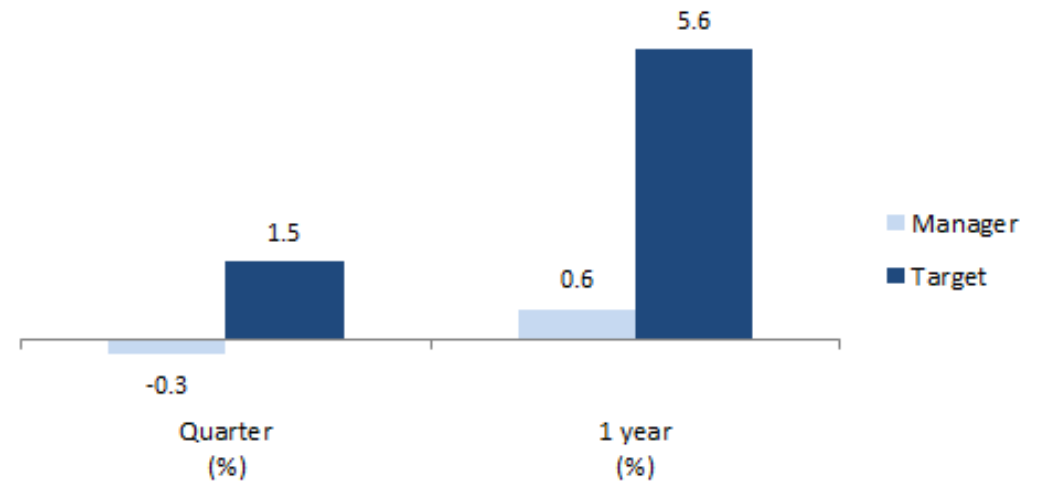
Reason for investment

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

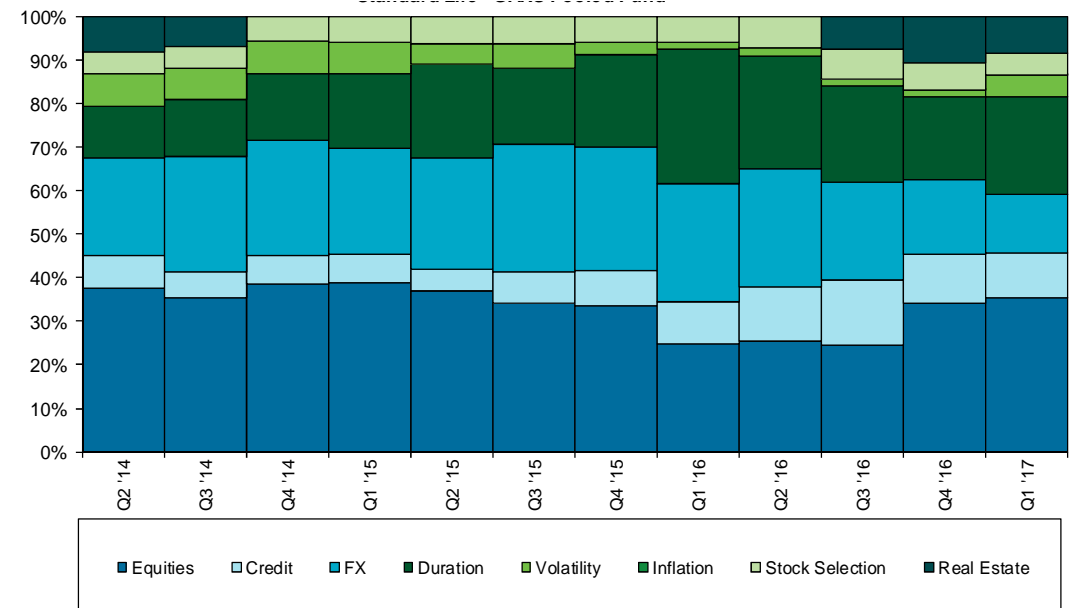
Reason for manager

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

Performance



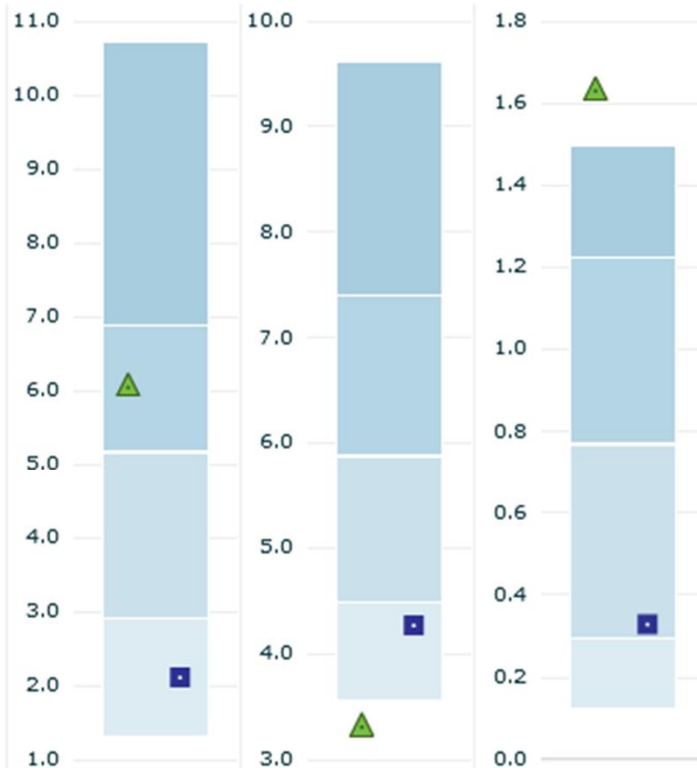
Asset Allocation/Risk Exposure



DGF MANDATES

Performance characteristics vs. BofAML LIBOR 6 month average UK in GBP (after fees) over 3 yrs ending March-17

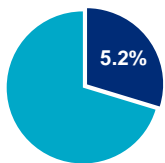
Comparison with the International Multi-asset GBP (Net) universe (Actual Ranking) (quarterly calculations)



	Ret (%pa)	Std Dev (%pa)	IR
▲ Pyrford DGF	6.0 (14)	3.3 (35)	1.6 (1)
■ SLI GARS	2.1 (30)	4.3 (30)	0.3 (26)
95th Percentile	10.7	9.6	1.5
Upper Quartile	6.9	7.4	1.2
Median	5.2	5.9	0.8
Lower Quartile	2.9	4.5	0.3
5th Percentile	1.3	3.6	0.1
Number	35	35	35

Commentary

- Over the three years to 31 March 2017, the Standard Life GARS pooled fund significantly underperformed Pyrford by 3.9% p.a.
- This placed Pyrford above the median of the DGF universe for performance. On the other hand, Standard Life was in the lower quartile of the universe. It should be noted that this universe is very diverse in styles.
- This performance was achieved with similar levels of volatility, with Pyrford's volatility standing at 3.3% p.a. against Standard Life's 4.3% p.a.
- Pyrford was the least volatile manager in the universe, while Standard Life (which was in the lower quartile for volatility) was less volatile than most managers in the universe.
- The information ratio (a measure of risk adjusted returns) for Pyrford was the 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

£226.1M END VALUE (£225.9M START VALUE)

Item Monitored	Outcome
Mercer Rating	● B+ (no change over period under review). ESG4
Performance Objective <i>Cash +3% p.a.</i>	● Outperformed target by 0.5% over the quarter (in USD) ● Outperformed target by 1.2% over the year (in USD)

Item	
Number of funds	32

Strategy	Contribution to Performance over the Quarter in USD (%)
Relative Value	0.50
Opportunistic/Macro	-0.25
Long/Short Equities	1.26
Merger Arbitrage/Event Driven	0.07
Credit	-0.09
Total	1.33 (including cash and fees)

In US dollar terms, the fund returned 1.3% over the quarter. This was 0.5% ahead of benchmark, but 0.3% below target. The quarter's return was also behind the wider hedge fund indices of c. 2%, which is discussed over the next two pages.

Reason for investment

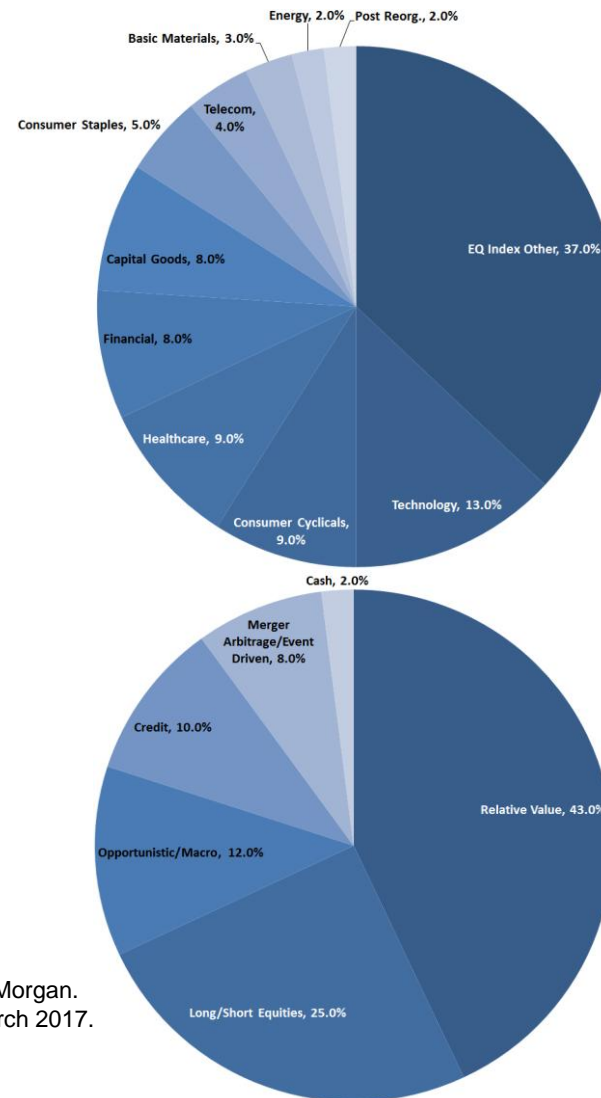
To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Niche market neutral investment strategy
 - Established team with strong track record
 - Complemented other funds in the portfolio
- © MERCER 2017

Performance (GBP, JP Morgan return converted from USD)			
Last Quarter	0.1%	Target	0.8%
Last Year	20.5%	Target	3.5%

Portfolio Composition and Equity Sector Allocation



Source: JP Morgan.
As at 31 March 2017.

HEDGE FUND COMMENTARY – Q1 2017

- Hedge funds produced positive performance in the first quarter of 2017. The HFRI Index gained 1.8%, the HFRX Index returned 1.7%, and the Credit Suisse Hedge Fund Index earned 2.1% in US dollar terms.
- Although trailing a directional global equity market, the average portfolio of hedge funds outperformed many other asset classes, with aggregate bonds posting just slightly positive returns. Overall, most underlying hedge fund strategies posted positive results, with systematic macro the lone exception.
- Following a year in which investors pulled record capital from hedge funds, overall redemptions slowed considerably. Net outflows approximated \$5.4 billion in Q1 2017, representing less than 0.2% of industry assets.
- Despite net redemptions, the hedge fund industry continued to grow, propelled by healthy gains across many strategies. As at 31 March 2017, total hedge fund industry assets were c. \$3.1 trillion, marking the fourth consecutive quarter of net growth and the third consecutive quarter of record-setting asset levels.

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

HEDGE FUND COMMENTARY – Q1 2017

Relative Value (43%)

- Fixed Income and Convertible Arbitrage strategies gained 2.3% and 2.2%, respectively, during the first quarter of 2017.
- Relative value and arbitrage-oriented strategies broadly earned modest results for the quarter. While their overall balanced positioning was not rewarded given the market directionality, favorable conditions aided performance broadly as moderate dispersion created opportunities.
- Convertible and fixed income-focused strategies earned decent returns, benefitting from strong broad market performance, healthy new issuance, and profitable sovereign and yield curve trading.

Long/Short Equities (25%)

- Long/Short Equity and Equity Market Neutral (“EMN”) strategies earned 3.5% and 2.1%, respectively, in Q1 2017.
- Long/short strategies benefitted from positive market tailwinds and improved security selection (though we note a fair degree of dispersion in manager returns for the quarter). Popular hedge fund holdings largely produced strong results, and there were alpha opportunities on both long and short sides of the portfolio. For the past year, a naïvely positioned portfolio 100% long and 50% short the most commonly-held hedge fund holdings (as represented by the Goldman Sachs VIP list) would have outperformed global equity markets, with only 50% net exposure.

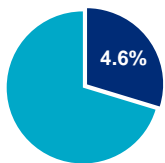
Opportunistic / Macro (12%)

- The broad Global Macro universe gained 0.2% during the quarter, while Managed Futures declined 1.0%.
- Macro strategies on the whole posted rather benign results for the first quarter. However, performance by sub-strategies was mixed.
- Discretionary strategies earned positive, consistent results throughout the quarter; while systematic strategies struggled. Many post-US election trends from Q4 2016 reversed in the 1st quarter, with equity and rate positioning being key drivers of performance.

Merger Arbitrage / Event Driven (8%)

- The Event space posted healthy results for the first quarter overall, returning 2.7%.
- While tightening spreads (particularly in high yield issues) provided a somewhat favorable backdrop, much of the positive performance was driven by idiosyncratic positions in stressed and distressed credit.
- Merger arbitrage strategies held on to produce gains for the quarter, despite a number of deal collapses (Aetna/Humana, Cigna/Anthem and Walgreens/Rite Aid). Overall volume remains robust.

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



SCHRODER – UK PROPERTY FUND OF FUNDS

£201.6M END VALUE (£197.4M START VALUE)

Item Monitored Outcome

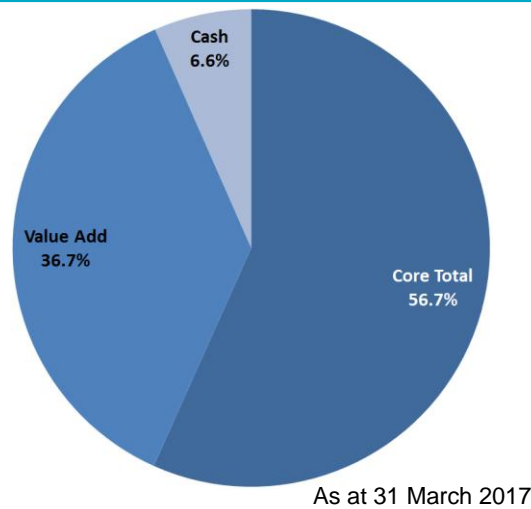
Mercer Rating	● B (no change over period under review). ESG3
Performance Objective Benchmark +1% p.a.	● Outperformed benchmark by 0.6% p.a. over five years

Manager Research and Developments

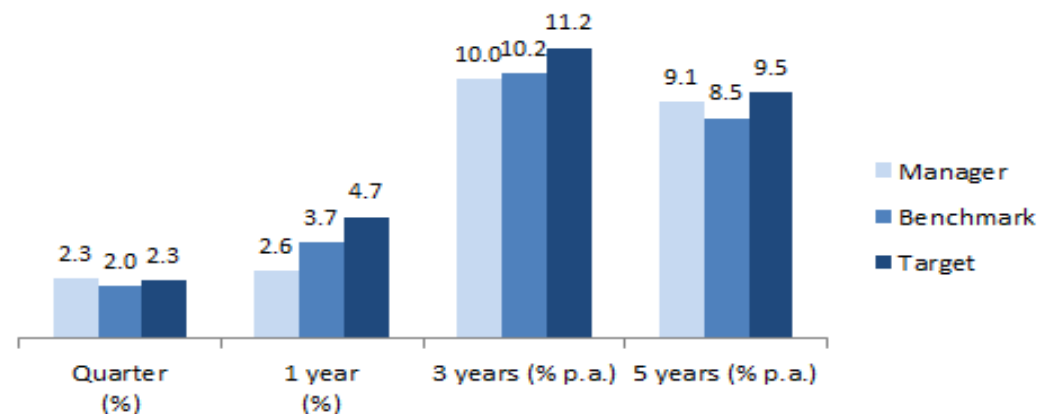
- The fund has outperformed the benchmark over the quarter by 0.3%, mainly due to positive contributions from Industrial Property Investment Fund and Multi-Let Industrial Property Unit Trust, whilst cash holdings slightly diluted returns. Value Add funds and Core funds aided performance over the quarter.
- Over the five year period, the fund has outperformed its benchmark by 0.6% p.a., largely due to performance from Value Add strategies.
- Over the quarter, there were c. £7.5m of purchases and c. £0.1m of sales. Units were acquired in Schroder Real Estate Real Income Fund (c. £2.2m), UK Retail Warehouse Fund (c. £2.0m), Regional Office Property Unit Trust (c. £1.9m) and Local Retail Fund (c. £1.4m).

Manager and Investment type splits

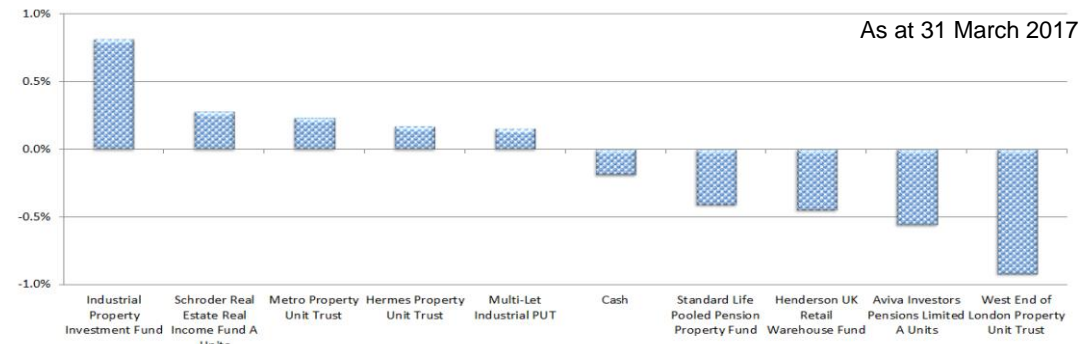
Top 5 Holdings	Proportion of Total Fund (%)
L&G Managed Property Fund	13.0
BlackRock UK Property Fund	12.5
Industrial Property Investment Fund	11.9
Schroder Real Estate Real Income Fund	9.9
Metro Property Unit Trust	8.9



Performance



Top 5 Contributing and Detracting Funds over 12 Months

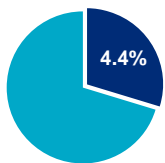


Reason for investment

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

£192.4M END VALUE (£186.7M START VALUE)

Item Monitored Outcome

● Mercer Rating: B+ (no change over period under review). ESG4

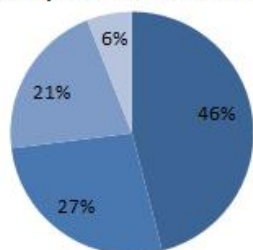
● Performance Objective: IRR since inception to 31 December 2016 at 8.2% p.a. (in local currency) is below target of 10% p.a.

Manager Research and Developments (Q4 2016)

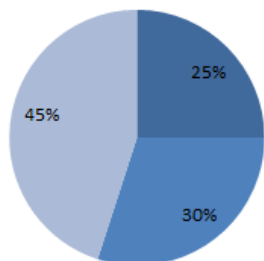
- The portfolio delivered a net return of 3.1% over Q4 2016 for USD programmes in local currency, and 2.7% for EUR programmes, versus the target of c. 2.5%.
- Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for 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 December 2016 at 8.2% p.a. (in local currency) is below their target of 10% p.a.; over the year to date to 31 December 2016 IRR was c. 5.4% (Mercer estimate, in local currency terms).
- Over Q4, the allocation to Europe remained at 46%, with North America increasing (from 24% to 27%) and Asia Pacific decreasing (from 24% to 21%). These remain within the guidelines.
- Note that Partners are rated B+ for global real estate, but A for secondary global real estate (as a result of their private equity skill set).

Geographical and Investment type splits as at 31 December 2016

Geographical Split Based on Net Asset Value



Investment Type Split Based on Net Asset Value



■ Europe (10% - 50%) ■ North America (10% - 50%) ■ Direct (0% - 30%) ■ Primary (40% - 100%)
■ Asia Pacific (10% - 50%) ■ Rest of World (0% - 20%) ■ Secondary (0% - 50%)

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Portfolio update as at 31 December 2016

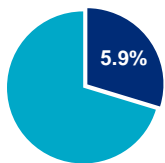
Partners Fund	Total Drawn Down (£m)	Total Distributions (£m)	Net Asset Value (£m)	Since Inception Net IRR (local currency)
Global Real Estate 2008	31.40	21.53	19.32	6.5
Real Estate Secondary 2009	19.64	9.33	19.94	10.8
Asia Pacific and Emerging Market Real Estate 2009	17.70	10.89	12.91	4.1
Distressed US Real Estate 2009	14.25	15.12	7.85	9.5
Global Real Estate 2011	25.12	10.73	24.96	10.6
Direct Real Estate 2011	11.45	7.36	10.81	8.7
Real Estate Secondary 2013	7.43	1.03	11.56	23.5
Global Real Estate 2013	52.36	4.65	57.95	5.7
Real Estate Income 2014	14.49	1.23	15.52	2.4
Asia Pacific Real Estate 2016	3.32	0.00	5.92	n/a
Total	197.17	81.87	186.73	8.2

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)

£256.0M END VALUE (£161.5M START VALUE)

Item Monitored Outcome

Mercer Rating	● B+ (no change over period under review). ESG2
Performance Objective 6 month LIBOR + 2.5% p.a.	● Outperformed benchmark by 5.4% over the quarter in USD terms

Item

Number of holdings	13
--------------------	----

Manager Research and Developments

- Over the quarter the fund returned 6.2% in US Dollar terms, against Avon's performance objective of 0.8% (cash + 2.5% p.a.). As a consequence of this quarter's performance, IRR since inception on 1 June 2016 rose to 6.7%, bearing in mind that it is still early in the life of the fund.
- The remaining capital commitment of \$105m was fully drawn down over the quarter.
- The strategy has completed the acquisition of 25% of VTTI for \$575m. VTTI owns 13 marine terminals in globally strategic locations that provide import, export and storage infrastructure for oil majors, refiners and commodity marketers. The strategy also invested \$110m in Freeport Train 2, a gas processing site in Texas.
- The fund also received income of \$29m over the quarter, with dividend distributions from Anglian Water Group and the American firms, Colonial Pipeline Company and Duquesne Light Holdings.

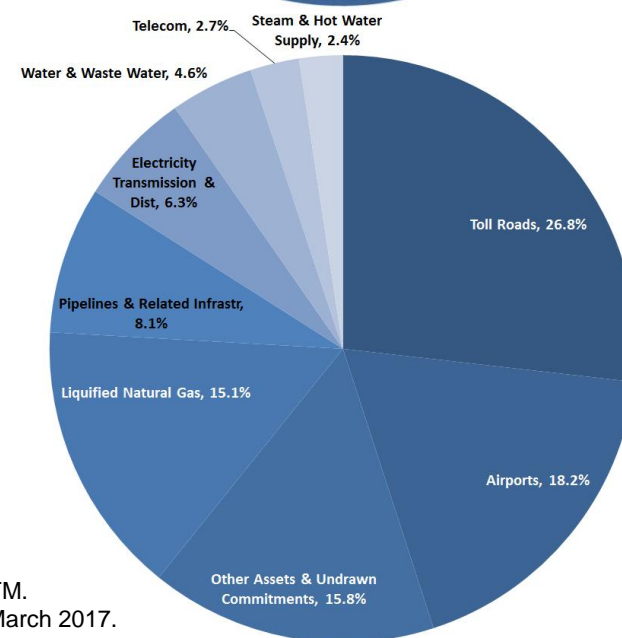
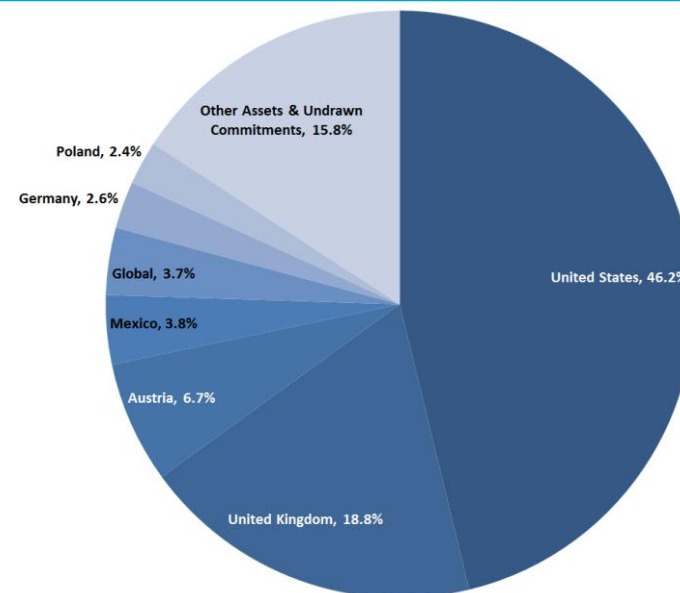
Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

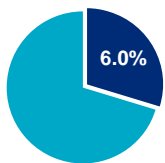
Reason for manager

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

Geographical and Sub-Sector Allocation



Source: IFM.
As at 31 March 2017.



ROYAL LONDON ASSET MANAGEMENT – FIXED INTEREST (POOLED)

£260.8M END VALUE (£253.8M START VALUE)

Item Monitored Outcome

Mercer Rating ● A (no change over period under review). ESG3

Performance Objective ● Outperformed benchmark by 0.5% p.a. over three years
Benchmark +0.8% p.a.

Manager Research and Developments

- Performance for the quarter was ahead of benchmark by 0.8%. The fund also outperformed over the year by 1.5% and over the three years by 0.5% p.a., although the fund has failed to meet its target over three years.
- Royal London retain their short duration position, in the expectation of a gradual increase in UK government bonds yields. That positioning had a small negative impact on performance over the quarter.
- The bias towards subordinated financials and secured and structured bonds aided performance. Underweight allocations to consumer-orientated sectors and supranationals were also advantageous.
- Royal London remain underweight AAA-AA bonds, and overweight BBB-unrated.

Weighted Duration	Start of Quarter	End of Quarter
<i>Fund</i>	7.8	8.0
<i>Benchmark</i>	8.1	8.2

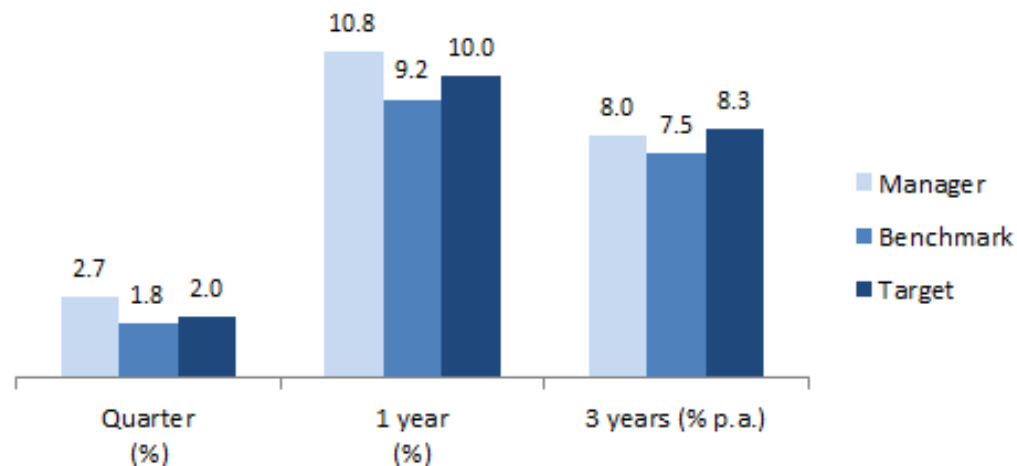
Reason for investment

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



Rolling relative returns

Quarterly Excess Return vs. Markit iBoxx Non Gilts Overall with rolling 1 and 3 yr lines in GBP (after fees) over 3 yrs ending March-17



RECORD – CURRENCY HEDGING (SEGREGATED)

£10.3M END VALUE (-£21.3M 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

Over the quarter, sterling appreciated slightly against the dollar (by c.1.2%) but fell slightly in value against the euro and more so the yen (by c.0.2% and c.3.3% respectively). Sterling remains significantly weaker against these currencies than one year ago after the sharp depreciation following the UK referendum result in June 2016. (These currency exchange movements are based on end of day pricing, which may not tie in precisely with the pricing points used by Record).

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

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

Reason for investment

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

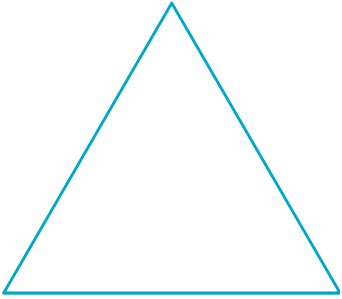
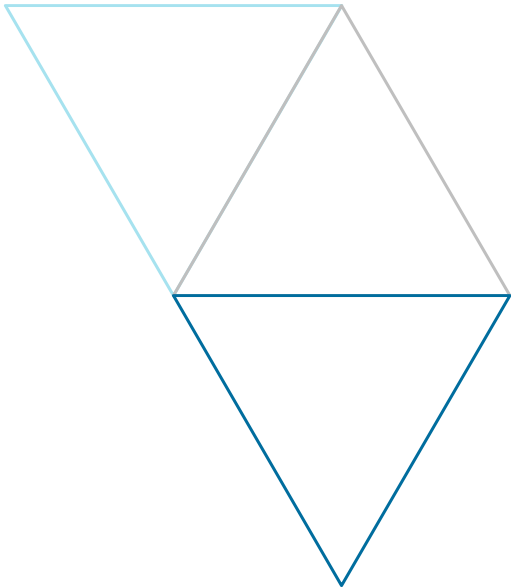
Reason for manager

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

Currency Hedging Q1 2017 Performance (£ terms)						
Passive Developed Equity Hedge						
Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	617,956,577	566,546,627	(1.18%)	0.44%	0.46%	(0.64%)
EUR	187,348,160	186,052,434	0.20%	(0.03%)	0.00%	0.26%
JPY	130,562,894	135,640,419	3.43%	(1.65%)	(1.59%)	1.94%
Total	935,867,632	888,239,480	(0.25%)	0.05%	0.08%	(0.09%)
Passive Hedge Fund Hedge						
Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	222,616,456	226,422,372	(1.18%)	0.70%	0.67%	(0.11%)
Total	222,616,456	226,422,372	(1.18%)	0.70%	0.67%	(0.11%)
Passive Property Hedge						
Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	36,719,132	36,735,954	(1.18%)	0.71%	0.71%	(0.10%)
EUR	144,998,957	147,562,492	0.20%	(0.08%)	0.01%	0.33%
Total	181,718,089	184,298,446	(0.06%)	0.09%	0.16%	0.25%
Passive Infrastructure Hedge						
Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	90,879,485	145,827,716	(1.18%)	0.72%	0.64%	(0.17%)
EUR	14,927,507	28,275,512	0.20%	(0.12%)	(0.12%)	0.21%
Total	105,806,993	174,103,228	(1.00%)	0.63%	0.57%	(0.12%)

APPENDIX 1

SUMMARY OF MANDATES



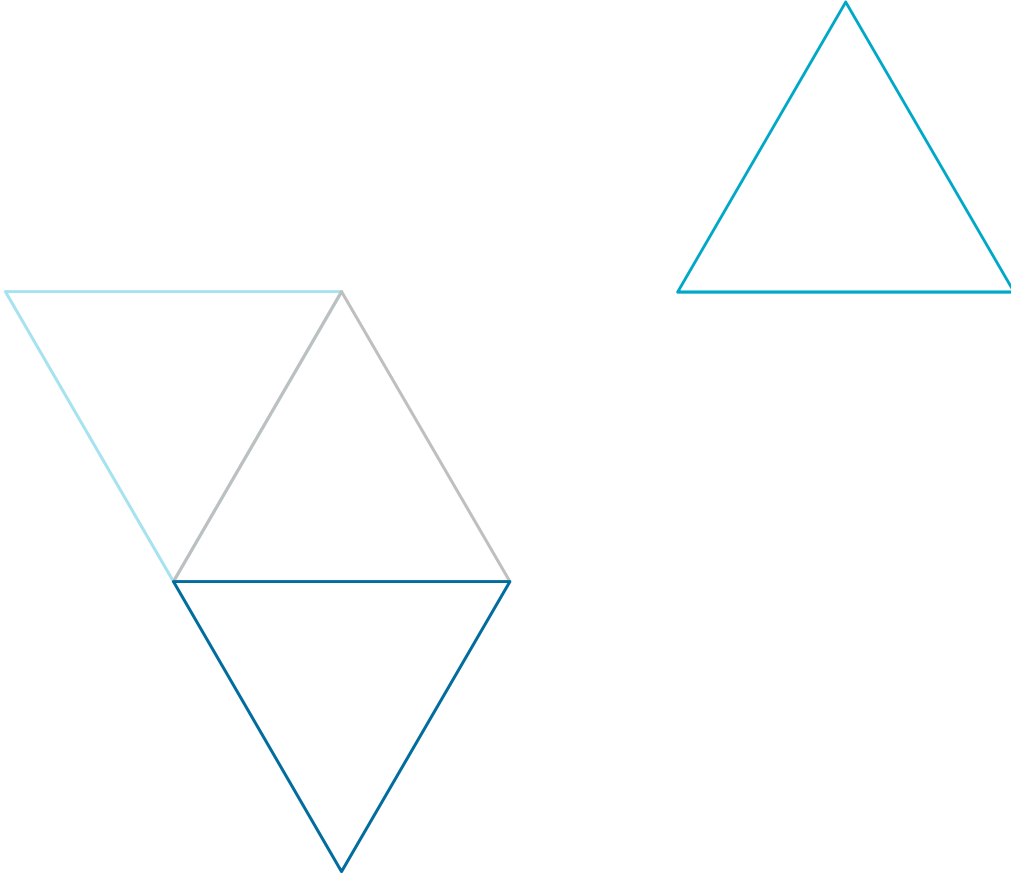
SUMMARY OF MANDATES

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	Net IRR of 10% p.a. (local currency)	-
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



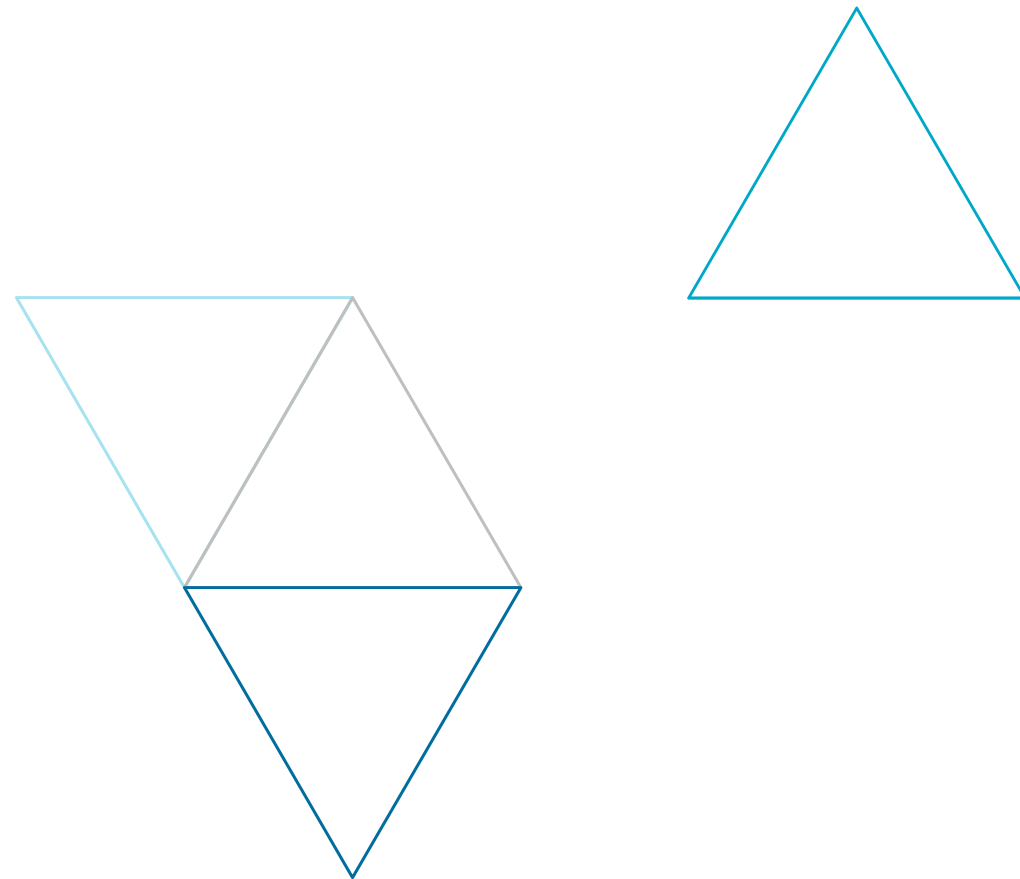
MARKET STATISTICS INDICES

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

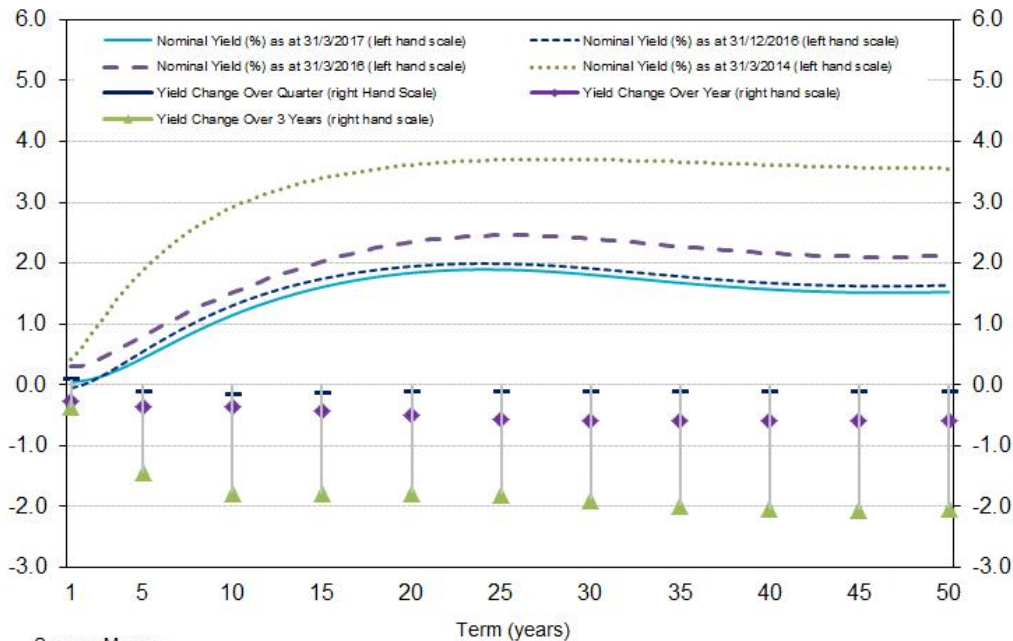


CHANGES IN YIELDS

Asset Class Yields (% p.a.)	31 Mar 2017	31 Dec 2016	31 Mar 2016	31 Mar 2015
UK Equities	3.47	3.47	3.77	3.33
Over 15 Year Gilts	1.65	1.76	2.17	2.23
Over 5 Year Index-Linked Gilts	-1.71	-1.66	-0.97	-0.91
Sterling Non Gilts	2.20	2.29	2.90	2.65

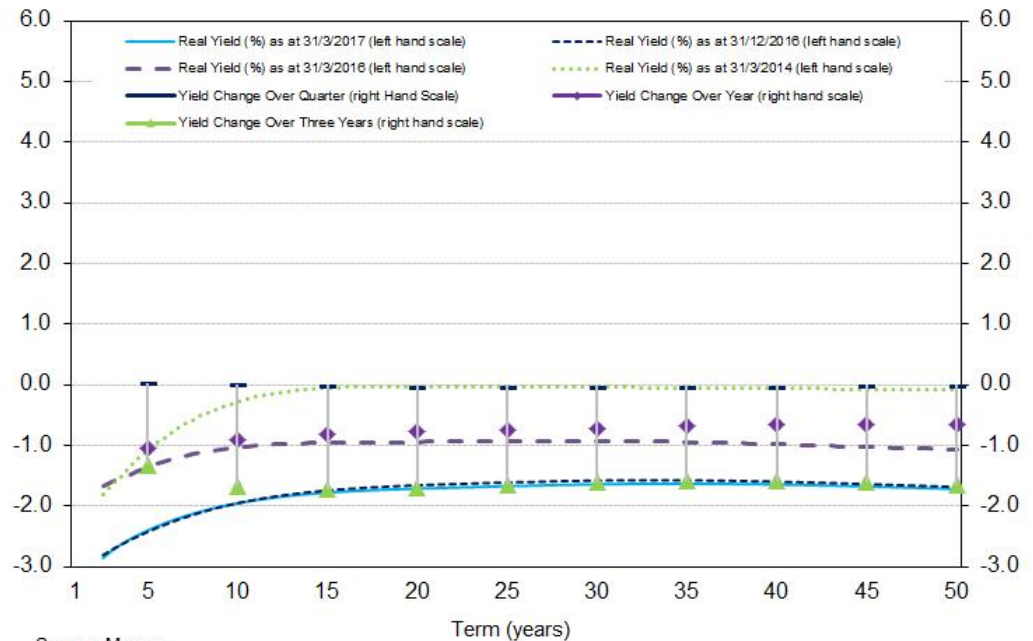
- Bond yields in the UK and the US fell slightly over the quarter, despite the Federal Reserve raising its interest rate by 0.25% at the March meeting, a move that had been predicted by markets.
- In the UK, there was a slight downward shift in the yield curve over the quarter for terms over five years. The Over 15 Year Gilt Index outperformed the broader global bond market over the quarter, generating a return of 2.6%.
- Real yields were slightly down over the quarter. This led to the Over 5 Year Index-Linked Gilts Index returning 2.0%.
- Credit spreads remained largely unchanged over the quarter, with the sterling Non-Gilts All Stocks index ending the quarter at c.1.2% and the Sterling Non-Gilts All Stocks over 10 years index ending the quarter at c.1.3%. UK credit assets returned 1.8% over the quarter. This broadly matched the return of global credit in local currency terms.

Nominal yield curves



Source: Mercer.

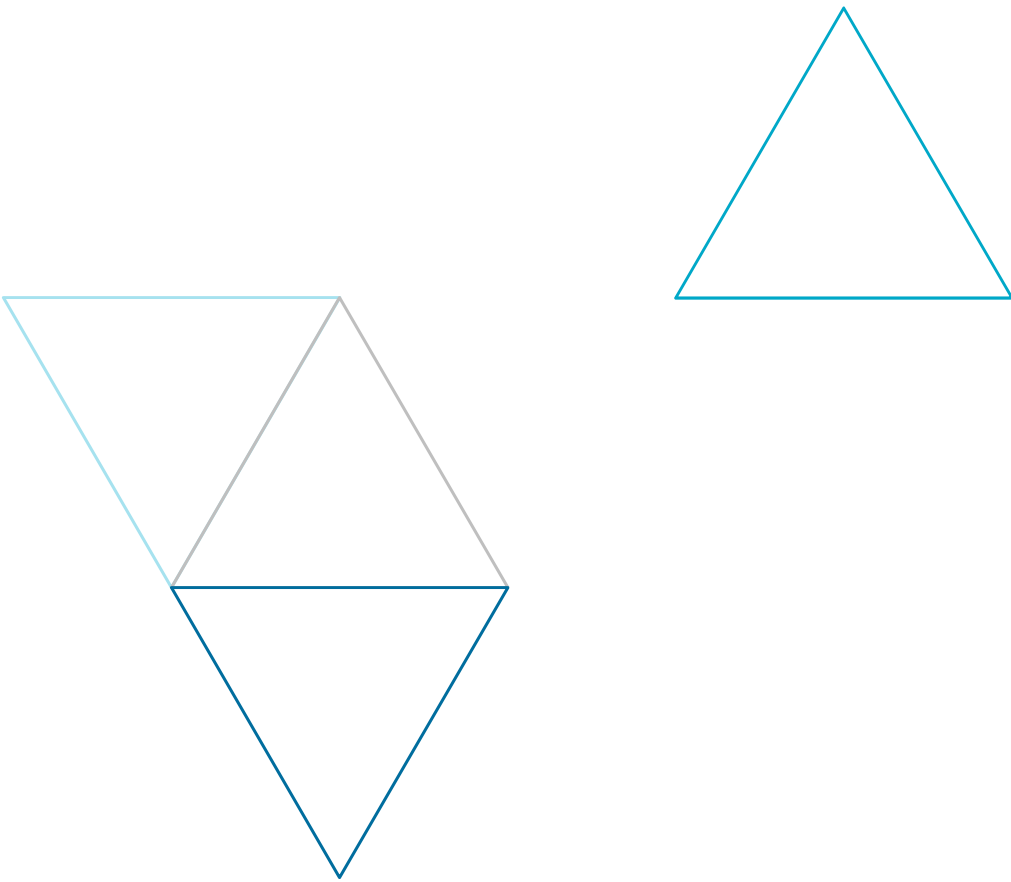
Real yield curves



Source: Mercer.

APPENDIX 4

GUIDE TO MERCER RATINGS



GUIDE TO MERCER RATINGS

INTRODUCTION

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

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

WHAT DO MERCER'S RATINGS SIGNIFY?

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

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

WHAT DO MERCER'S RATINGS NOT SIGNIFY?

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

Past Performance

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

Creditworthiness

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

Vehicle-Specific Considerations

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

Management Fees

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

GUIDE TO MERCER RATINGS

Operational Assessment

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

FACTORS CONSIDERED IN FORMING A RATING

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

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

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

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

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

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

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

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

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

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

GUIDE TO MERCER RATINGS

MERCER RATING SCALE

Ratings	Rationale
A	Strategies assessed as having “above average” prospects of outperformance
B+	Strategies assessed as having “above average” prospects of outperformance, but which are qualified by at least one of the following: § 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.

GUIDE TO MERCER RATINGS

SUPPLEMENTAL INDICATORS

Provisional (P)

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

Watch (W)

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

Specifically Assigning (P) and (W) Supplemental Indicators

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

High Tracking Error (T)

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

NICHE STRATEGIES

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

GUIDE TO MERCER RATINGS

RESEARCH INDICATIONS – INDICATIVE VIEW

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

§ Red – further research has “below average” prospects of resulting in an investable rating.

§ Amber – further research has “average” prospects of resulting in an investable rating.

§ Green – further research has “above average” prospects of resulting in an investable rating.

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

OPERATIONAL RISK ASSESSMENTS

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

ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE RATINGS

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

GUIDE TO MERCER RATINGS

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

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

RATINGS REVIEW COMMITTEES

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

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

CONFIDENTIALITY OF MERCER'S RATINGS

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

MAKE



**TOMORROW,
TODAY**

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