HEALTH WEALTH CAREER

AVON PENSION FUND

PANEL INVESTMENT PERFORMANCE REPORT QUARTER TO 30 JUNE 2017

AUGUST 2017

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CONTENTS

SECTION 1

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

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

Fund Performance

- The value of the Fund’s assets increased by £128m (2.9%) over the quarter, to £4,495m at 30 June 2017. This increase was driven by positive returns from most asset classes.

Strategy

- Global (developed) equity returns over the last three years were 16.0% p.a., materially ahead of the assumed strategic return of 8.05% p.a. from the review in April 2017. We remain broadly neutral in our medium-term outlook for developed market equities (over the next one to three years). Accommodative monetary policy remains generally supportive of equity markets but uninspiring earnings growth and political risks in Europe and the UK persist.
- The three-year return from emerging market equities has decreased to 11.1% p.a. from 12.9% p.a. last quarter. It is above the assumed strategic return (of 8.70% 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.
- Despite this outlook, the material improvement in the Fund’s funding position provides an appropriate opportunity to lower the strategic allocation to equities.
- 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 12.3% p.a. versus an assumed return of 1.9% p.a. and index-linked gilts returned 13.2% p.a. versus an assumed return of 2.15% p.a. Gilt yields rose slightly over the quarter leading to negative returns.
- UK corporate bonds returned 6.9% p.a. over the three-year period against an assumed strategic return of 3.25% p.a. The three-year UK property return of 10.3% p.a. remains substantially above the assumed return of 5.75% p.a.
- Hedge fund returns remain below long-term averages and the strategic return of 5.10% p.a., having been affected by low cash rates. Active managers in general have struggled to generate meaningful returns in recent times.
- The Fund’s currency hedging policy was positive for overall Fund performance since the Pound Sterling rose against the US Dollar and Japanese Yen over the quarter but fell against the Euro.

EXECUTIVE SUMMARY

Managers

- Absolute returns of the managers over the quarter were largely positive. The exception was Invesco, who delivered a return of -0.6%. SSgA European equities and IFM produced the highest returns over the quarter, both delivering above 5%.
- Absolute returns over the year to 30 June 2017 were strong. All mandates delivered positive absolute returns, with most overseas equities mandates returning over 20%, partly due to the significant weakening of sterling over 2016. In terms of relative performance, half of the active equity managers (Schroder, Invesco & State Street) outperformed their benchmarks over the year. From the ones underperforming, the emerging markets equities mandates held with Unigestion and Genesis delivered the most significant underperformance. The underperformance for both of these strategies has been driven by their respective style biases, since Unigestion has a 'Low Beta' tilt with Genesis entailing a Quality bias, both of which would be expected to underperform the broader market during a rallying equity market.
- 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, Genesis, Unigestion, Pyrford, Schroder Property and Partners (see comments on the measurement of Partners' performance later). TT, Schroder Global Equities, 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.
- Broadly speaking, the Fund's active equity managers have a tilt towards quality and low volatility as style factors, along with a lack of exposure to value. Over recent periods, value has performed favourably and high quality, defensive stocks have underperformed the broader market, which has continued to rally. These market trends help to explain the broad underperformance of some of the Fund's active equity mandates.

Key Points for Consideration

- The liability risk management framework, which includes market-based triggers for increasing the level of hedging, has been implemented with BlackRock. Some triggers were hit in June – the impact of this will be reported on separately. A comprehensive report on the LDI portfolio is to be presented at the Panel meeting next quarter, with Mercer and the Officers to provide a verbal update on progress thus far for the time being.
- The Officers and Mercer have been working on implementation of the strategic changes agreed by the Committee, which are to reduce the Fund's equity risk by switching equities to a new Diversified Growth Fund ("DGF") mandate and a switch to a Multi-Asset Credit ("MAC") mandate.
- Alongside this, work is taking place for the implementation of an equity risk management solution using options.

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	*25*
Jupiter	**UK Equities**	-	✕	✕	2	*26*
TT International	**UK Equities**	-	✕	-	3	*27*
Schroder	**Global Equities**	✓	-	-	2	*28*
Genesis	**Emerging Market Equities**	✓	✕	✕	3	*29*
Unigestion	**Emerging Market Equities**	-	✕	✕	N	*30*
Invesco	**Global ex-UK Equities**	✓	✓	-	4	*31*
SSgA	**Europe ex-UK Equities**	-	✓	✓	N	*32*
SSgA	**Pacific inc. Japan Equities**	-	✓	✓	N	*33*

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

Focus Points

- BlackRock has informed us that Lorenzo Garcia, Managing Director within the ETF and Index Investing team will be leaving the firm. See page 25 for details.
- Genesis has informed us of a number of developments within the investment team. See page 29 for details.
- We do not propose any rating changes to either of the strategies due to these developments.
- A number of the active equity managers (Jupiter, TT International, Genesis & Unigestion) 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	*34*
Standard Life	**DGF**	-	✕	N/A	4	*35*
JP Morgan	**Fund of Hedge Funds**	✓	✓	N/A	4	*37*
Schroder	**UK Property**	-	✕	✕	3	*40*
Partners	**Global Property**	✓	✕	-	4	*41*
IFM	**Infrastructure**	✓	✓	N/A	2	*42*
RLAM	**Bonds**	✓	✓	-	3	*43*
Record Currency Management	**Currency Hedging**	-	N/A	N/A	N	*44*

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 have reported that there were net outflows in Q1 2017 from GARS. Further details on the merger between Standard Life and Aberdeen Asset Management have been announced. See page 35 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 in local currency terms, while in sterling terms the returns were mixed. All regions delivered positive returns in local currency terms, with the Asian market including Japan being the strongest performing region.

Within UK equities, small capitalisation stocks outperformed larger capitalization stocks over the quarter, returning 3.8% against a return of 1.4% for the broader market. UK economic growth was revised down to 0.3% in the first quarter of 2017, highlighting growing concerns over a slowdown. The General Election result in June resulted in a hung Parliament and fueled further uncertainty and questions over Brexit.

Within global equity markets, US equities rose, continuing to be supported by strong economic data including low unemployment and a recent pickup in private investment spending. In June, the Federal Reserve raised the Fed Funds rate by 0.25% to bring it to a target of 1.25% and noted plans for reducing the size of its balance sheet. A slightly more aggressive stance by the ECB and BoE caused the dollar to depreciate against its major counterparts. In Japan, markets began the quarter poorly but picked up in May and June. The Bank of Japan's monetary policy remains accommodative, which supports positive economic momentum and market sentiment and indeed investor confidence is growing. Emerging markets saw capital inflows over the quarter, largely as a result of the weakening dollar, however, dispersion in the returns of emerging market economies persists; the Chinese and Taiwanese markets were very strong, while Russia and Brazil were key detractors.

Bond Market Review

Bond market returns were mixed over the quarter. Strong demand for risk assets boosted global corporate credit, emerging market debt and high yield bond returns, which were positive as a whole in local currency terms.

In the UK, there was a slight upward shift along the yield curve over the quarter. The Over 15 Year Gilt Index underperformed the broader global bond market over the quarter, generating a return of -2.3%.

Real yields were slightly up over the quarter. This led to the Over 5 Year Index-Linked Gilts Index falling 2.4%.

Credit spreads tightened over the quarter, with the Sterling Non-Gilts All Stocks Index returning c.1.1% over the quarter and the Sterling Non-Gilts All Stocks over 10 years Index returning c.1.2% over the. UK credit assets returned 0.5% over the quarter, which was inferior to the return of global credit in local currency terms.

Currency Market Review

Over the quarter, sterling appreciated against the dollar and more so against the yen (by c.3.9% and c.4.7% respectively) but fell in value against the euro (by c.2.6%). Sterling remains weaker against the dollar and the euro compared to one year ago, following the sharp depreciation after the UK referendum result in June 2016.

Commodity Market Review

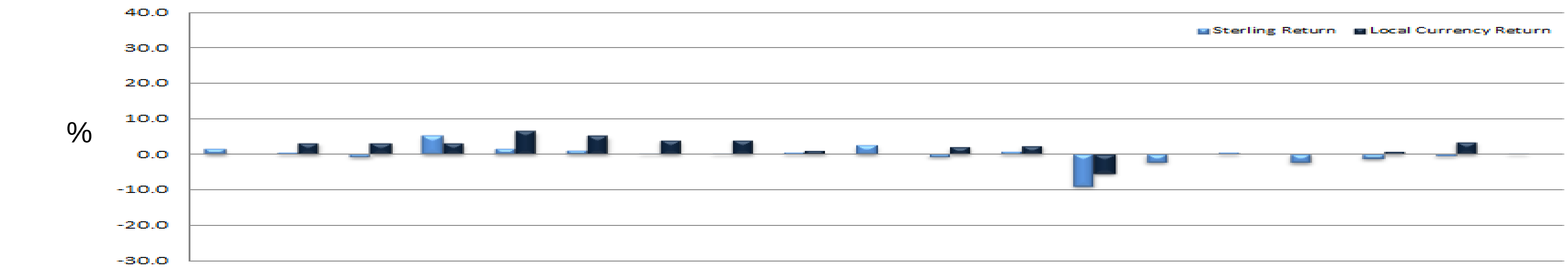
Most global commodity prices fell over the quarter and despite very strong returns from the livestock sector, the total index fell by 5.5% in US dollar terms. Energy was the weakest performer, with its downward move attributable to a fall in the Brent Crude Oil price, which fell materially from $52.62/barrel to $47.82/barrel, as producers reneged on the OPEC agreement to cut the level of oil production.

Industrial and precious metals also experienced negative returns. Silver prices fell, while the movement in the price of gold was more marginal, falling from c.$1,247/oz to c.$1,244/oz.

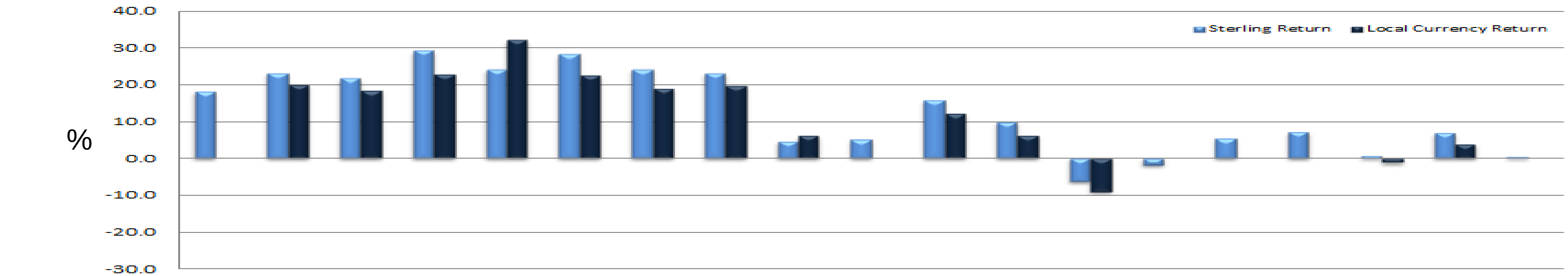
Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE

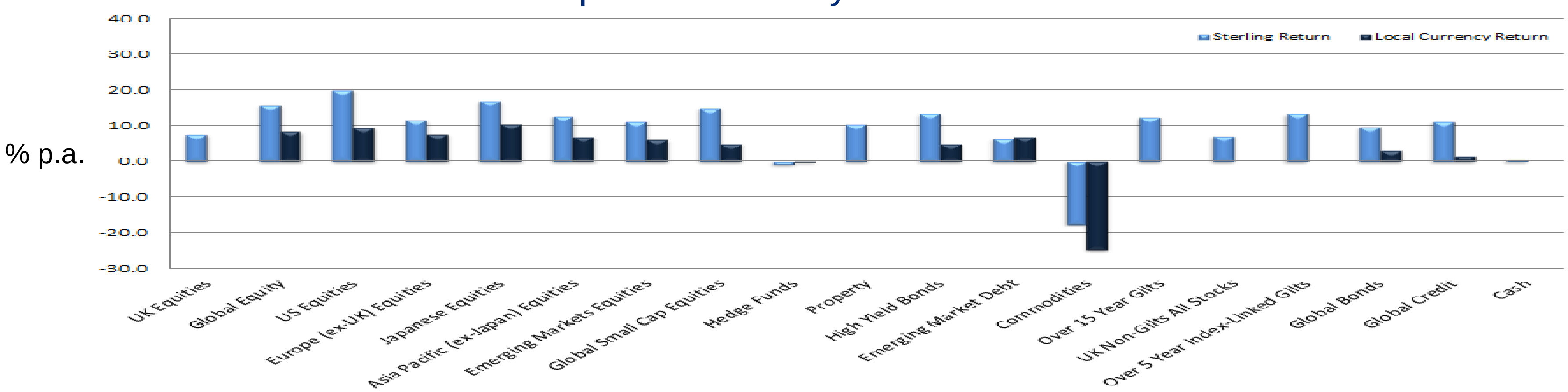
Return over the 3 months to 30 June 2017



Return over the 12 months to 30 June 2017



Return p.a. over the 3 years to 30 June 2017



Source: Thomson Reuters Datastream.

SECTION 3
STRATEGIC ASSUMPTIONS

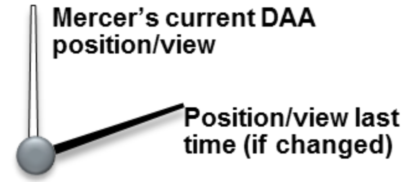
MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

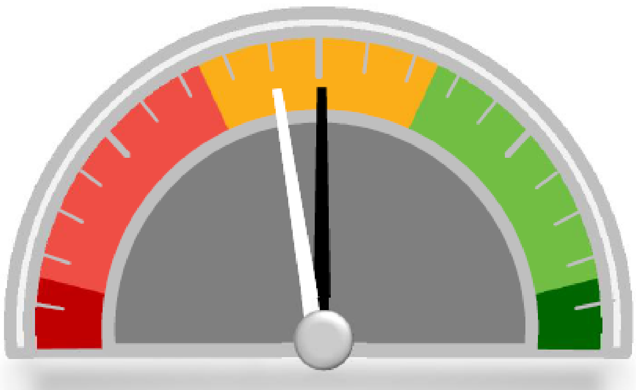
Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.05	16.0	*Remains significantly ahead of the assumed strategic return. This has decreased from 16.8% p.a. last quarter as the latest quarter's return of 0.5% was lower than the 2.4% return of Q2 2014, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.70	11.1	*The three year return from emerging market equities has decreased from 12.9% p.a. last quarter, as the return of 0.2% experienced last quarter was lower than the quarter that fell out of the period (5.0%). The three year return is above the assumed strategic return.*
Diversified Growth	6.95 (Libor + 4% / RPI + 5%)	6.0 (4.5 / 7.0)	*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. An absolute strategic return of 6.95% has been used, along with the specific manager targets for comparison. During periods of strong equity returns we would expect DGFs to underperform equities.*
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	1.90	12.3	*UK gilt returns remain considerably above the long term strategic assumed return as yields remain low relative to historic averages. Over Q2 returns were negative as yields increased marginally, leading to a decrease of the long-term returns. Corporate bond returns are also ahead of the strategic assumed return.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	2.15	13.2	
UK Corporate Bonds (BofAML Sterling Non Gilts)	3.25	6.9	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	5.10	-1.0	*Hedge fund returns remain below long term averages and the strategic return, as they are affected by low cash rates. It should be noted that the index includes a wide variety of strategies that may have had very divergent returns.*
Property (IPD UK Monthly)	5.75	10.3	*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 2.5% over the second quarter of 2017.*
Infrastructure (S&P Global Infrastructure)	6.95	13.4	*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 depreciated significantly following the EU Referendum. 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 for the global property mandate with Partners.*

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

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2017

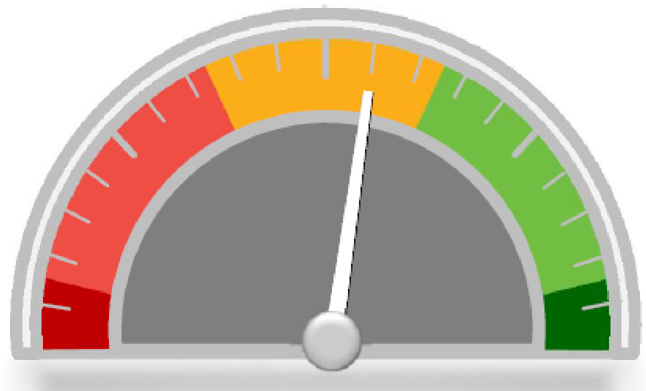
- Extremely Unattractive
- Unattractive
- Neutral
- Attractive
- Extremely Attractive





DEVELOPED MARKET EQUITIES

- Generally strong global economic data continues to support developed equity markets
- Relatively loose monetary policy remains generally supportive of equity markets, and concerns over the Fed pursuing a faster than expected rate hiking cycle have subsided
- ! Valuations have continued on their upwards trend and, despite the political risks in Europe subsiding, downside risks from uncertainty in the UK remain prominent

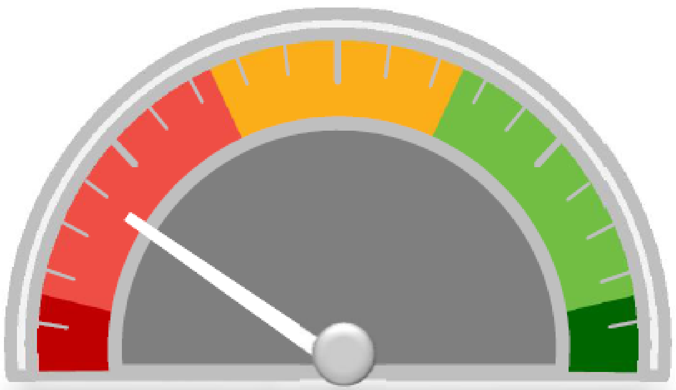


EMERGING MARKET EQUITIES

- Overall, valuations remain around or slightly below long-term averages, although have been on the rise since the beginning of 2017
- Resilience to developed market shocks is increasingly evident as domestically-driven growth continues
- ! Political turbulence in Brazil, North Korea and other countries, coupled with a risk of a slowdown in China, present potential headwinds to 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.

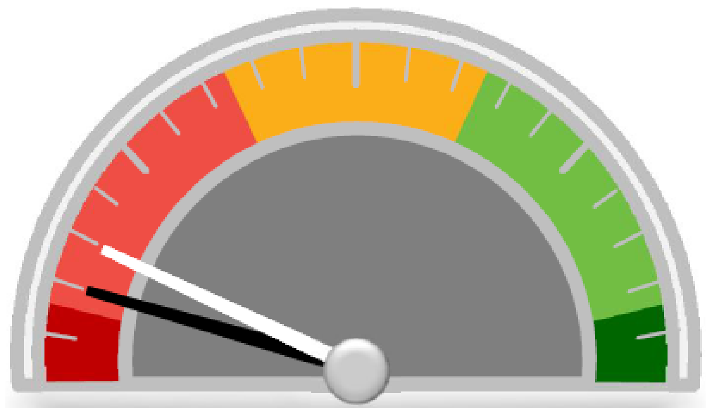
DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2017



FIXED INTEREST GILTS (ALL STOCK)

✔ Current monetary policy and geopolitical uncertainties may restrain yields from increasing substantially further, however gilt yields did move marginally higher on the back of hawkish comments from the BoE

! The yield spikes showed the market's sensitivity to monetary policy, and valuations remain expensive with yields low relative to historic averages

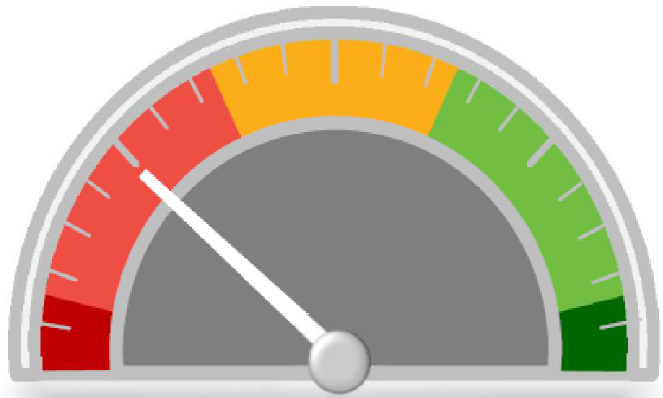


INDEX-LINKED GILTS

✔ Expectations of growth and inflationary increases improve the outlook, however, inflation expectations from earlier in 2017 are yet to materialise

! Real yields remain relatively low, as valuations continue to appear expensive relative to long-term averages

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2017



NON-GOVERNMENT BONDS (£ ALL-STOCK)

- Credit spreads have tightened, but provide some coverage given expectations that the downgrade environment should remain benign
- Prospective total returns are limited and yields remain historically low
- Continuing geopolitical risks present potential for downside risk, while signals from the BoE could give rise to further market volatility

UK PROPERTY

- UK real estate remains relatively favourable due to low gilt yields and overseas investors are benefiting from the depreciation of sterling
- Concerns surrounding Brexit negotiations remain a key risk
- Despite improvements in industrial sector, slowing rental growth remains a challenge in most regions

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	1,776,492	1,796,302	40.8	40.1	40.0	35 - 45	0.1
Emerging Market Equities	419,761	424,359	9.6	9.5	10.0	5 - 15	-0.5
Diversified Growth Funds	375,391	378,846	8.6	8.4	10.0	5 - 15	-1.6
Fund of Hedge Funds	228,648	220,527	5.2	4.9	5.0	0 - 7.5	-0.1
Property	380,488	395,757	8.7	8.8	10.0	5 - 15	-1.2
Infrastructure	256,003	259,393	5.9	5.8	5.0	0 - 7.5	+0.8
Bonds	852,657	845,159	19.6	18.8	20.0	15 - 35	-1.2
Cash (including currency instruments)	66,870	164,061	1.5	3.7	-	0 - 5	+3.7
Total	**4,356,309**	**4,484,616**	**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 £128m 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	1,061,034	-3,588	1,055,307	24.4	23.5
Jupiter	UK Equities	199,776	-	204,319	4.6	4.6
TT International	UK Equities	236,627	-	239,949	5.4	5.4
Schroder	Global Equities	337,292	-	343,132	7.7	7.7
Genesis	Emerging Market Equities	196,601	-	200,626	4.5	4.5
Unigestion	Emerging Market Equities	223,160	-	223,733	5.1	5.0
Invesco	Global ex-UK Equities	388,073	-	385,705	8.9	8.6
SSgA	Europe ex-UK & Pacific inc. Japan Equities	160,461	-	164,465	3.7	3.7
Pyrford	DGF	138,487	-	138,603	3.2	3.1
Standard Life	DGF	236,903	-	240,243	5.4	5.4

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

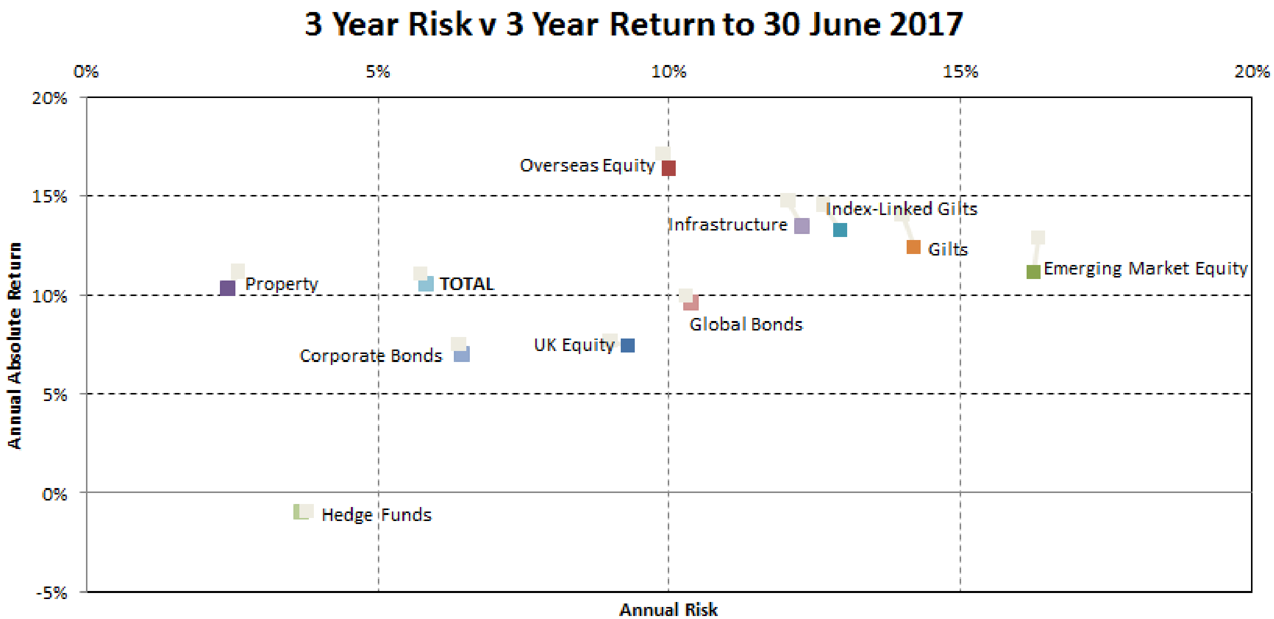
FUND VALUATIONS
VALUATION BY MANAGER CONTINUED

Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
MAN	Fund of Hedge Funds	393	-	406	0.0	0.0
Signet	Fund of Hedge Funds	1,162	-	1,389	0.0	0.0
Gottex	Fund of Hedge Funds	971	-857	-	0.0	0.0
JP Morgan	Fund of Hedge Funds	226,123	-	218,731	5.2	4.9
Schroder	UK Property	201,636	-	206,066	4.6	4.6
Partners	Property	192,361	562	195,461	4.4	4.4
IFM	Infrastructure	256,003	-	259,393	5.9	5.8
RLAM	Bonds	260,812	-	263,791	6.0	5.9
Record Currency Management	Currency Hedging	10,323	8,000	38,748	0.2	0.9
Internal Cash	Cash	28,112	77,600	104,547	0.6	2.3
Total		**4,356,309**	**-**	**4,484,616**	**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

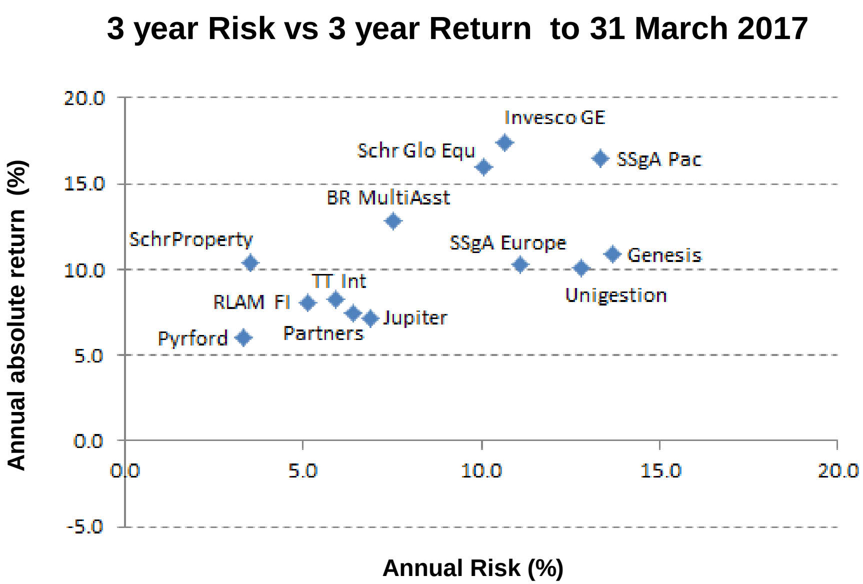


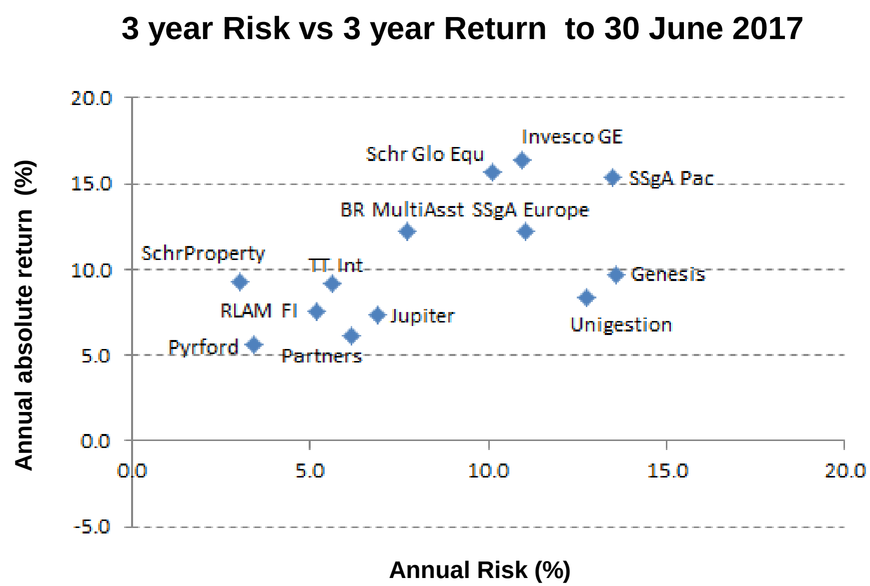
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of June 2017, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark 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 were very limited. Still, the asset classes saw their 3-year returns broadly decreasing.

MANAGER MONITORING
RISK RETURN ANALYSIS





Comments

- Unigestion, Genesis, Invesco, SSgA Pacific equities, Schroder Property and Partners saw their three-year return decreasing over the quarter, whilst TT and SSgA Europe ex-UK equities' return increased. Volatility decreased slightly for Schroder Property.

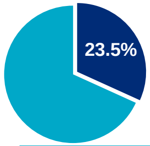
MANAGER MONITORING
MANAGER PERFORMANCE TO 30 JUNE 2017

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 Equities	1.6	1.4	+0.2	23.1	22.9	+0.2	12.4	12.0	+0.4	-	N/A
BlackRock Corp Bonds	0.3	0.4	-0.1	7.2	7.3	-0.1	10.5	10.5	0.0	-	N/A
BlackRock Matching	-1.9	-1.9	0.0	6.4	6.4	0.0	10.6	10.7	-0.1	-	N/A
Jupiter	2.2	1.4	+0.7	16.7	18.1	-1.2	7.2	7.4	-0.2	+2	Target not met
TT International	1.4	1.4	-0.1	14.7	18.1	-2.9	9.1	7.4	+1.6	+3-4	Target not met
Schroder Equity	1.7	0.6	+1.1	23.2	22.9	+0.2	15.5	15.5	0.0	+4	Target not met
Genesis	2.1	2.4	-0.4	21.3	27.8	-5.1	9.6	11.2	-1.4	-	Target not met
Unigestion	0.3	2.3	-2.0	16.9	27.4	-8.2	8.5	10.8	-2.0	+2-4	Target not met
Invesco	-0.6	0.1	-0.7	25.4	22.0	+2.8	16.3	16.1	+0.2	+0.5	Target not met
SSgA Europe	5.4	5.0	+0.4	31.6	29.0	+2.0	12.3	11.5	+0.8	+0.5	Target met
SSgA Pacific	0.9	1.0	-0.1	27.1	25.6	+1.2	15.4	14.8	+0.5	+0.5	Target met
Pyrford	0.1	2.3	-2.2	5.6	8.5	-2.7	5.5	7.0	-1.4	-	Target not met
Standard Life	1.2	1.4	-0.1	2.9	5.5	-2.5	N/A	N/A	N/A	-	N/A
JP Morgan*	0.5	0.8	-0.3	5.0	3.4	+1.5	N/A	N/A	N/A	-	N/A
Schroder Property	2.2	2.3	-0.1	5.7	6.0	-0.3	8.9	9.5	-0.5	+1	Target not met
Partners Property **	N/A	N/A	N/A	N/A	N/A	N/A	7.8***	10.0***	-2.0***	-	Target not met
IFM *	5.2	0.8	+4.4	14.4	3.1	+11.0	12.2***	3.2***	+8.8***	-	N/A
RLAM	1.1	0.5	+0.6	7.7	5.3	+2.4	7.6	6.9	+0.6	+0.8	Target not met
Internal Cash	0.0	0.0	0.0	-1.5	0.2	-1.6	-0.3	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 March 2017 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)
£1,055.3M END VALUE *(£1,061.0M START VALUE)*

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

Manager Research and Developments

- BlackRock Equities returned 1.6% in Q2, Corporate Bonds 0.3% and the Matching Portfolio -1.9%. All performed broadly in line with their benchmarks as expected. Returns over one and three year periods were within the tracking error ranges.
- BlackRock have informed us that Lorenzo Garcia, Managing Director within the ETF and Index Investing (EII) team will be leaving the firm to pursue other opportunities. Garcia replaced Nimesh Patel in early 2016 as Head of the Beta Strategies group. Subsequent to this change, BlackRock made the decision to combine the Beta Strategies and iShares teams into one entity (EII) and reviewed the roles within the business. This resulted in the PM function being focused only on day to day investment, with the client engagement function coming under the newly created Global Clients team. BlackRock state that this, along with the expansion of the Product Strategy team, meant that Garcia's client facing responsibilities were less necessary. As such, there is no intention of replacing Garcia. Senior PMs in the Index Equity team, Kieran Doyle and Dharma Laloobhai, will be picking up Garcia's people management responsibilities. Although this is the latest in a series of organisational changes at BlackRock in the past 18 months, given the evolution of client engagement roles within EII, we can see why Garcia's role was no-longer deemed necessary. We continue to believe the Index Equity team is adequately resourced and do not expect the additional responsibilities of Doyle or Laloobhai to prove overly burdensome. As a result, we do not recommend any rating changes.

Reason for investment

To provide asset growth as part of a diversified portfolio

Reason for manager

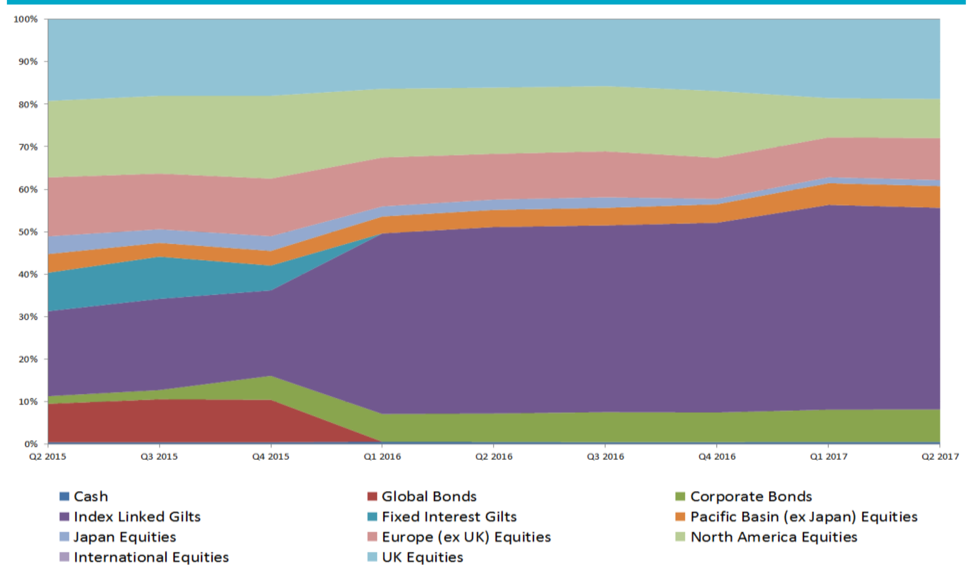
- To provide low cost market exposure across multi asset classes
- Provide efficient way for rebalancing between bonds and equities within a single portfolio

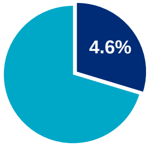
Performance

	Quarter (%)		1-Year (%)		3-Year (% p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Equities	1.6	1.4	23.1	22.9	12.4	12.0
Corporate Bonds	0.3	0.4	7.2	7.3	10.5	10.5
Matching *	-1.9	-1.9	6.4	6.4	10.6	10.7

* Matching portfolio includes legacy Index-Linked Gilts and the new LDI portfolio. Full details on the Index Linked Gilts purchased in July will be provided in next quarter's full LDI report.

Asset Allocation





JUPITER ASSET MANAGEMENT – UK EQUITIES (SRI) (SEGREGATED)
£204.3M END VALUE *(£199.8M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B (no change over period under review). ESG2
Performance Objective *Benchmark +2% p.a.*	Underperformed benchmark by 0.2% p.a. over three years
Tracking error was 4.6% p.a. – *source: Jupiter*	Number of stocks: 59

Manager Research and Developments

- Jupiter outperformed its benchmark over the quarter by 0.7%. Jupiter's performance was above TT's - the other UK equity fund invested in by the Fund.
- Over the quarter key contributions to performance came from a strong trading environment notably from Cranswick and SIG but also the acquisition of a longstanding holding WS Atkins by SNC Lavalin. The fund also benefitted from no oil exposure in the quarter which was a drag on markets generally. The underweight position in HSBC was the largest detractor to performance over the quarter. Tesco, despite improving internal actions, continued to drag on performance. Also concerns over the regulatory backdrop for water utilities impacted on Severn Trent.
- Jupiter underperformed the benchmark by 1.2% over the year and by 0.2% p.a. over three years.

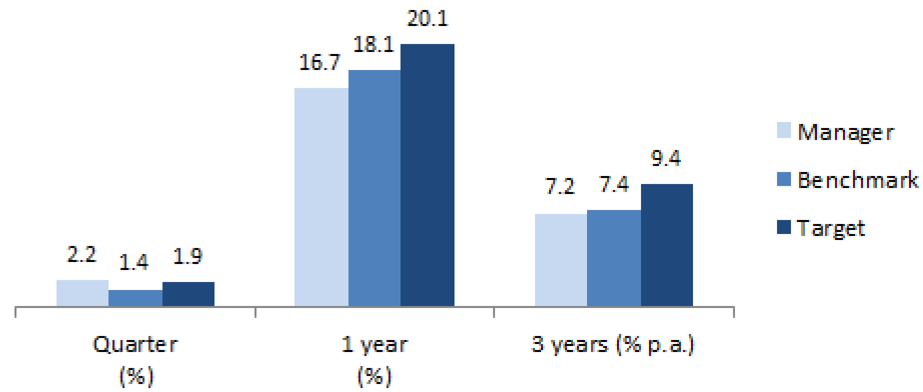
Reason for investment

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

Reason for manager

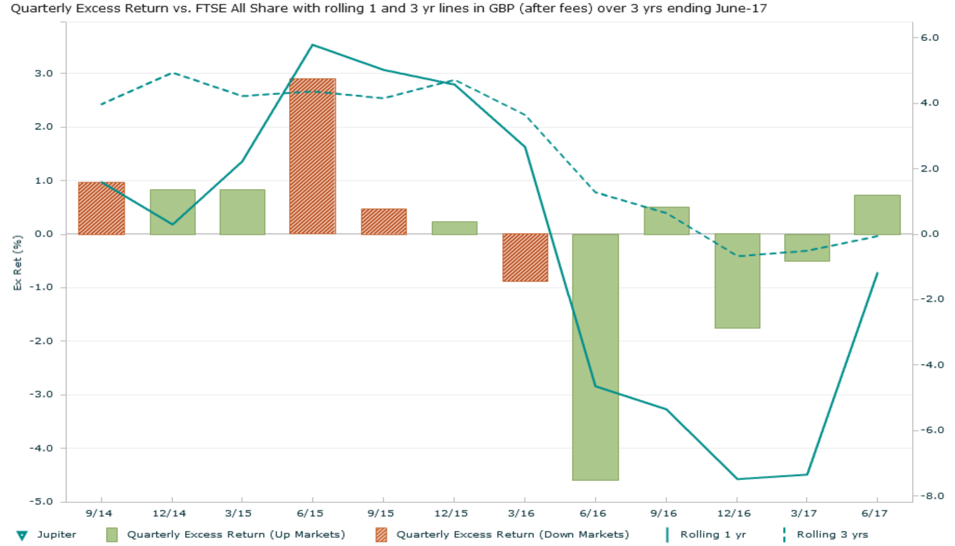
- Clear and robust approach to evaluating SRI factors within the investment process
- Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities
- Corporate commitment to SRI investment approach within a more mainstream investment team

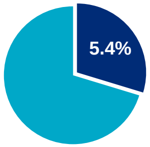
Performance



Rolling relative returns

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





TT INTERNATIONAL – UK EQUITIES (UNCONSTRAINED) (SEGREGATED)
£239.9M END VALUE *(£236.6M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	●	B (no change over period under review). ESG3
Performance Objective *Benchmark +3-4% p.a.*	●	Outperformed benchmark by 1.6% p.a. over three years
Three year tracking error was 3.7% p.a. – *source: Mercer*		Number of stocks: 42

Manager Research and Developments

- TT performed in line with their benchmark over the quarter and underperformed by 2.9% over the year, but outperformed by 1.6% p.a. over the three years.
- The fund matched its benchmark over the quarter as outperformance in Consumer Services and Utilities was offset by underperformance in Financials, Health Care, Consumer Goods and Oil & Gas. Ryanair, International Consolidated Airlines Group and Carnival delivered strong performance whilst Barclays was a major detractor as Q1 results were below expectations.
- Turnover decreased from 20.7% in Q1 2017 to 10.9% in Q2 while the three year tracking error (a proxy for risk relative to benchmark) decreased to 3.7% p.a.
- Assets in TT's UK equity strategies decreased over the quarter to £634m despite positive returns; this consists of the assets within TT's pooled fund and four segregated accounts (one of which is the Fund's holdings). This compares to £641m in March 2017, £533m in June 2016 and £472m in June 2014. A significant portion (c.38%) of the firm's UK equity assets are managed on behalf of the Fund.
- Performance over the year has been well below benchmark. This underperformance is more concerning than that of the active emerging market strategies since the TT fund does not have a notable style bias.

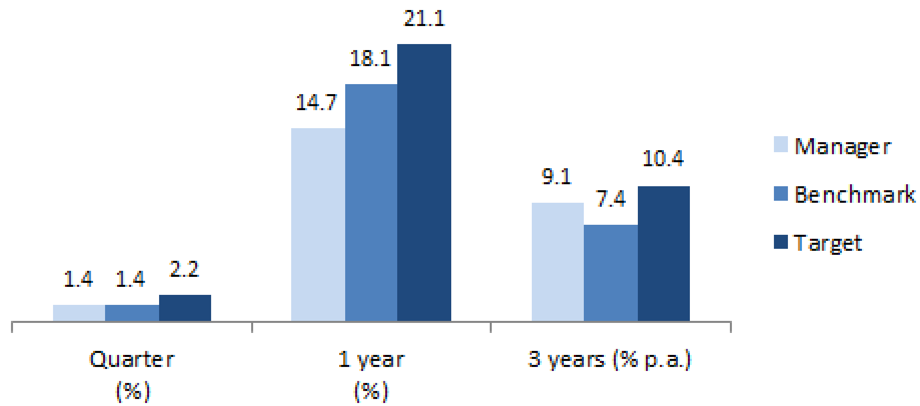
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

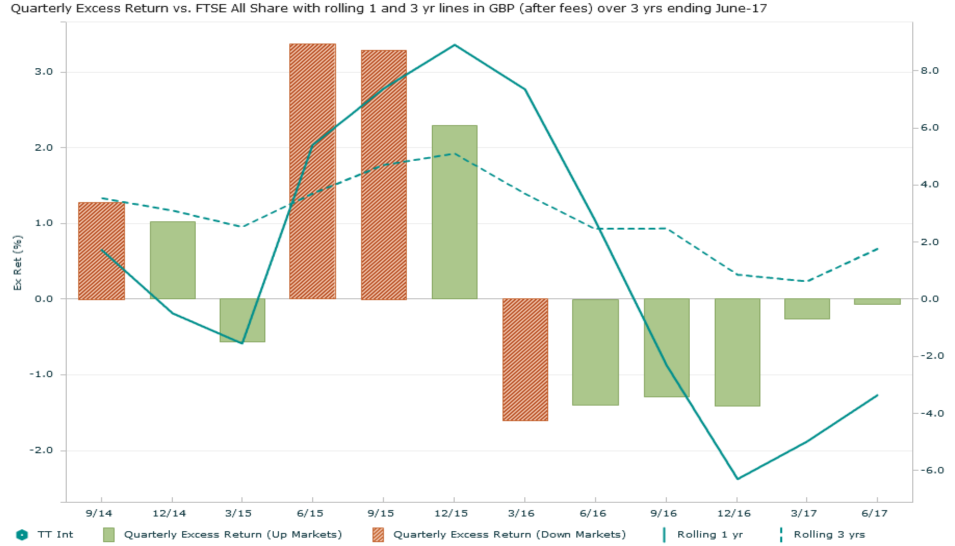
- Favoured the partnership structure that aligns manager's and Fund's interests
- Focussed investment activity and manages its capacity
- Clear, robust stock selection and portfolio construction

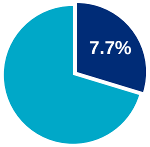
Performance



Rolling relative returns

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





SCHRODER – GLOBAL EQUITY PORTFOLIO (SEGREGATED)
£343.1M END VALUE *(£337.3M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review). ESG2
Performance Objective *Benchmark +4% p.a.*	Performed in line with benchmark over three years

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

Manager Research and Developments

- The fund outperformed the benchmark over the quarter, largely through positive stock selection in financials, IT and consumer staples. From a regional perspective, North America, Asia ex Japan and Emerging Markets positions were the main contributors.
- Top contributors over the quarter were Citigroup, Alibaba Group and UnitedHealth Group. Cimarex Energy, Schlumberger and T-Mobile were the most significant detractors to returns.
- The strategy performed above its benchmark over the year and was in line with the benchmark over the three year period to 30 June 2017.

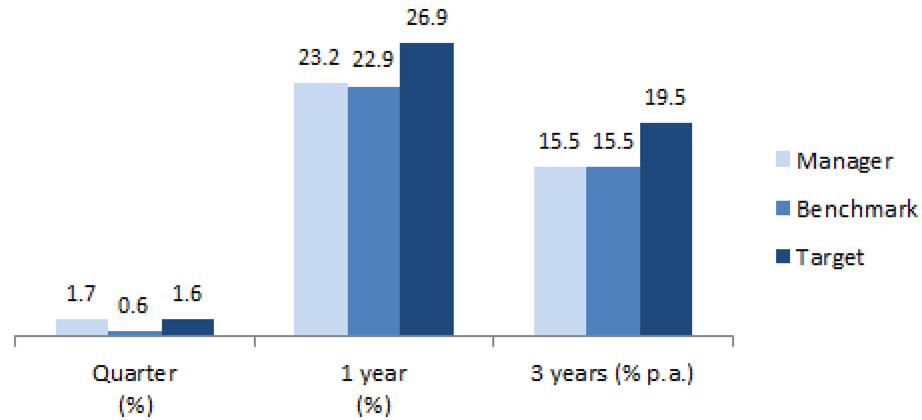
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

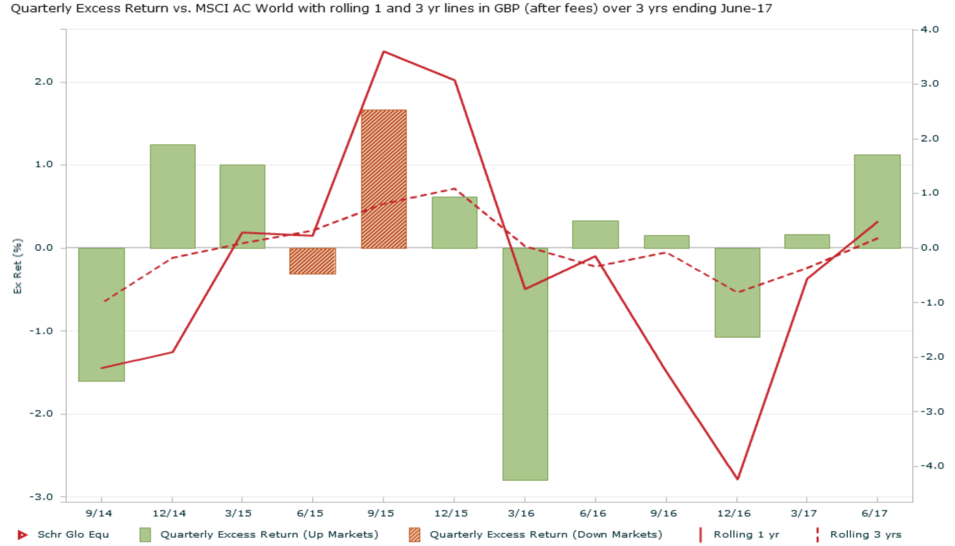
- Clear philosophy and approach
- Long term philosophy aligned with Fund's goals, commitment to incorporating ESG principles throughout the investment process
- Evidence of ability to achieve the Fund's performance target

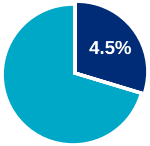
Performance



Rolling relative returns

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





GENESIS ASSET MANAGERS – EMERGING MARKET EQUITIES (POOLED)

£200.6M END VALUE *(£196.6M START VALUE)*

Item Monitored	Outcome
Mercer Rating	A (no change over period under review). ESG3
Performance Objective *Benchmark*	Underperformed benchmark by 1.4% p.a. over three years
Three year tracking error was 3.8% p.a. – *source: Genesis*	Number of stocks: 122

Manager Research and Developments

- The fund has underperformed by 0.4% over the quarter, by 5.1% over the year and by 1.4% p.a. over the three years to 30 June 2017.
- On a regional basis, Brazil was the biggest contributor to returns over the quarter, whilst India, Russia and South Korea were significant detractors.
- The biggest detractors at a stock level were the Chinese Tencent and the Indian pharmaceutical companies Sun Pharmaceutical and Lupin.
- Given the types of quality growth companies Genesis favors, we would normally expect them to do better in flat or down markets and struggle in environments where markets rapidly rise. In this respect, whilst the underperformance in Q2 and over the last 12 months was disappointing, it is in keeping with this view.
- We have been informed by Genesis that Partner/PM Paul Ballantyne is expected to retire in June 2018. Further, PMs Richard Mather and Mario Solari have been promoted to Associate Partners and Sebastian Peters (Analyst) promoted to PM. It is disappointing to learn of Ballantyne's departure (he was an experienced investor, a clear advocate of the Genesis approach and one of the longest serving members of the team). We do believe though that Genesis has paid careful attention over the years to ensure sufficient resourcing, thus we do not propose any rating change.

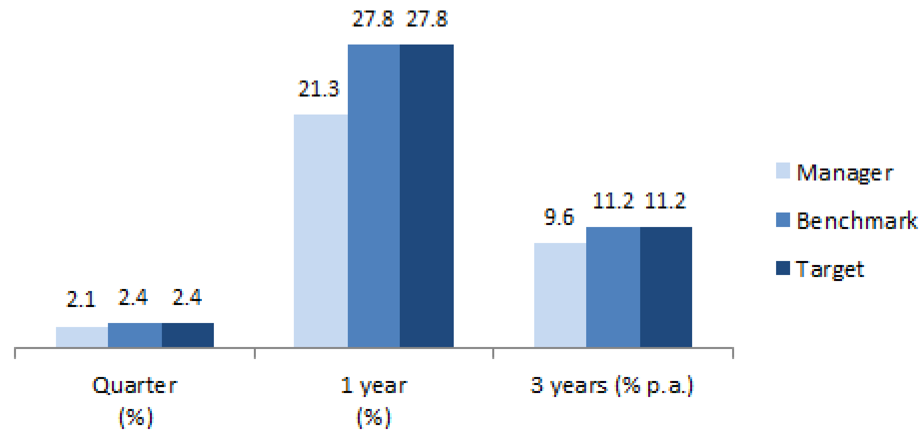
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

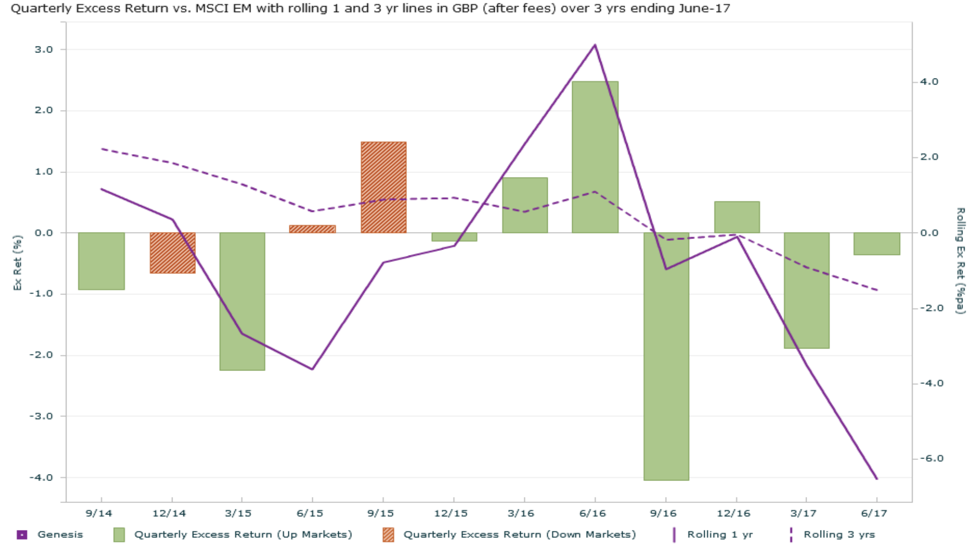
- Long term investment approach which takes advantage of evolving growth opportunities
- Niche and focussed expertise in emerging markets
- Partnership structure aligned to delivering performance rather than growing assets under management

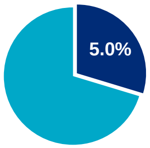
Performance



Rolling relative returns

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





UNIGESTION – EMERGING MARKET EQUITIES (POOLED – SUB-FUND)
£223.7M END VALUE *(£223.2M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *Benchmark +2-4% p.a.*	Underperformed benchmark by 2.0% p.a. over three years
Tracking error since inception was 5.8% p.a. – *source: Unigestion*	Number of stocks: 106

Manager Research and Developments

- The fund has underperformed by 2.0% over the quarter, by 8.2% over the year and by 2.0% p.a. over the three years to 30 June 2017. This is now the seven straight quarter of underperformance.
- The underperformance over the quarter was largely due to significant underperformance in April. Over that month, the portfolio struggled amidst the bearish market moves, especially the downturn between 5 – 19 April. In particular, the strategy was penalised by its underweight to South Africa which was the best performer. In addition, from a country perspective, the selection in Brazil, India and Thailand was not positive, and the sectoral stock picking was also detrimental to performance, particularly in Software, Food and Consumer Services.
- Volatility since inception is 14.5%, lower than the index (17.3%) 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.

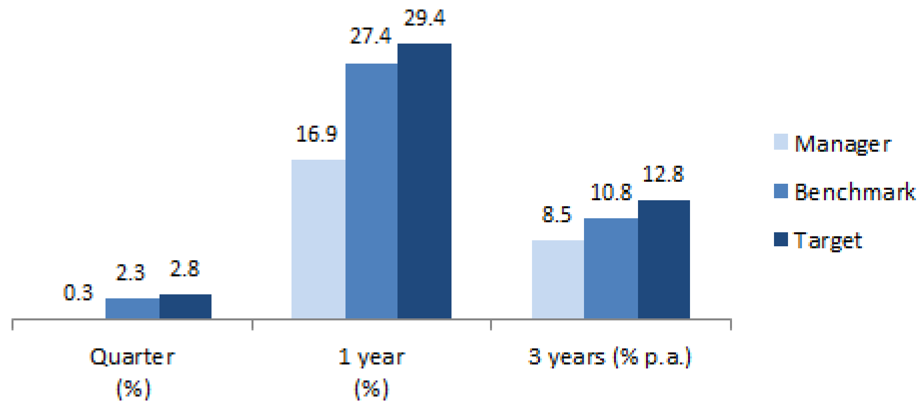
Reason for investment

To provide asset growth as part of a diversified equity portfolio

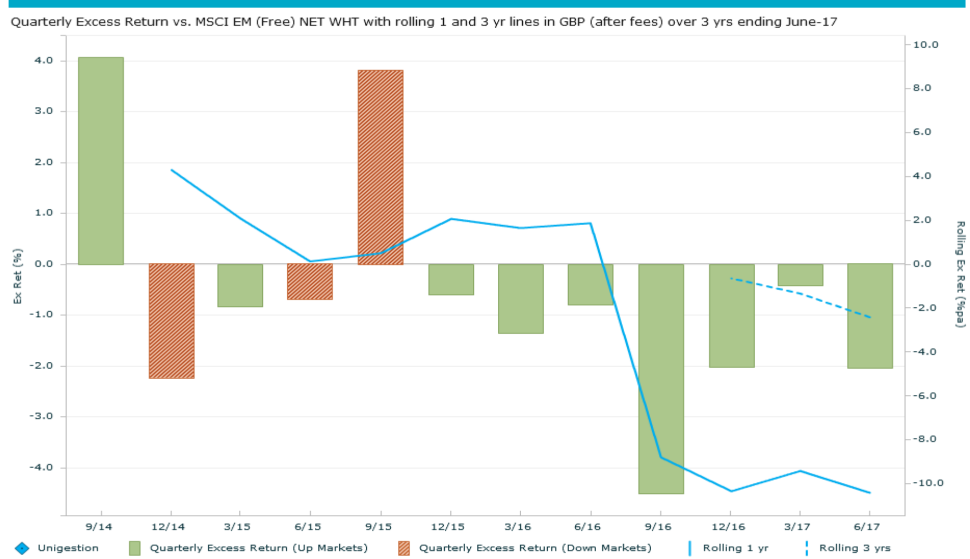
Reason for manager

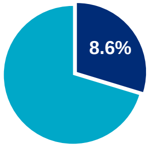
- Risk-based active management approach
- Aim for lower volatility than the MSCI Emerging Markets Index
- Combine fundamental and quantitative analysis

Performance



Rolling relative returns

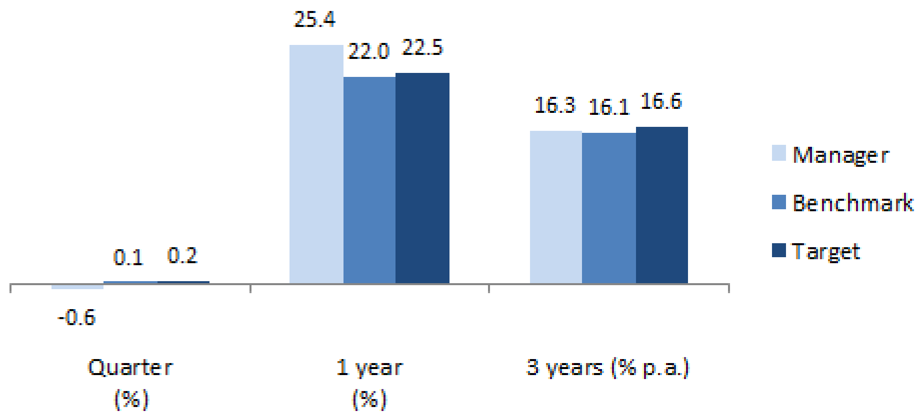




INVESCO – GLOBAL EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)
£385.7M END VALUE *(£388.1M START VALUE)*

Item Monitored		Outcome
Mercer Rating	Green	B+ (no change over period under review). ESG4
Performance Objective *Benchmark +0.5% p.a.*	Orange	Outperformed benchmark by 0.2% p.a. over three years
Tracking error since inception was 1.3% p.a. – *source: Invesco*		Number of stocks: 425

Performance

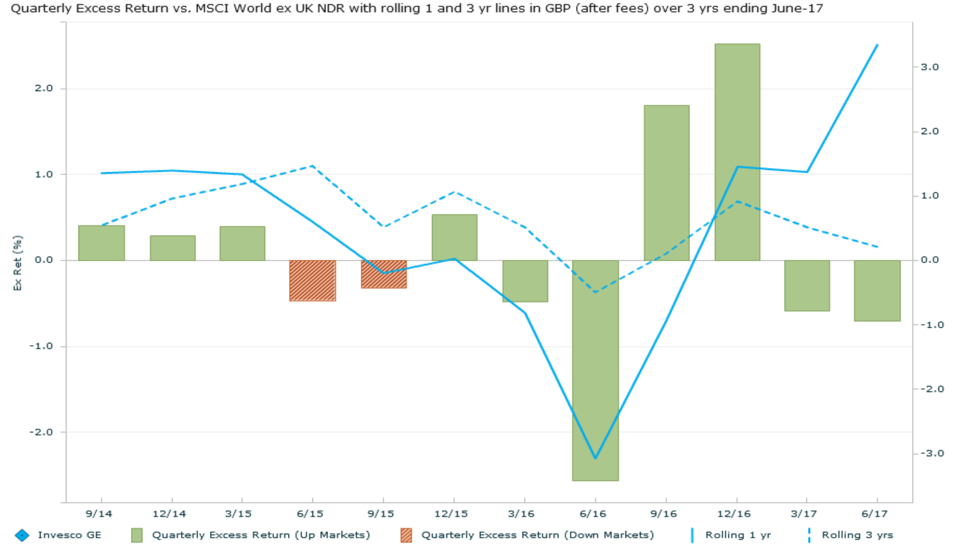


Manager Research and Developments

- The fund has underperformed its benchmark by 0.7% over the last quarter, but outperformed by 2.8% over the year and by 0.2% p.a. over the three year period. However, the fund did not meet its performance target over the three years.
- Underperformance over the quarter was largely due to stock selection in May. Over the month, the overweight in Consumer Discretionary and Small Cap stocks were the largest detractors 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.

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 June-17

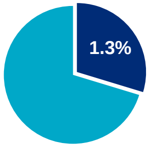


Reason for investment

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



SSGA – EUROPE EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)
£58.5M END VALUE *(£55.5M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	🟠	R (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	🟢	Outperformed benchmark by 0.8% p.a. over three years
Three year tracking error was 0.8% p.a. – *source: Mercer*		Number of stocks: 244

Manager Research and Developments

- The fund has achieved its performance target over the three year period.
- The total pooled fund size on 30 June 2017 was £58.6m. 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 244 out of 404 stocks in the index, around 60%, within the expected range of 35-65%. Beta over three years is as expected at 1.

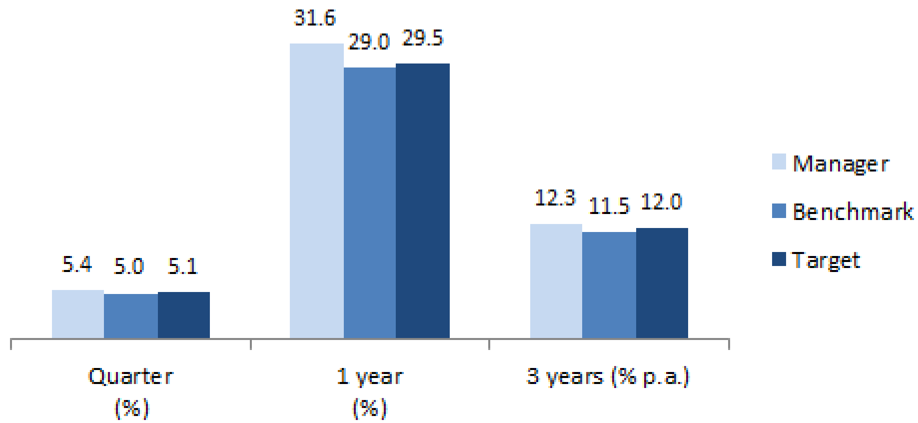
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

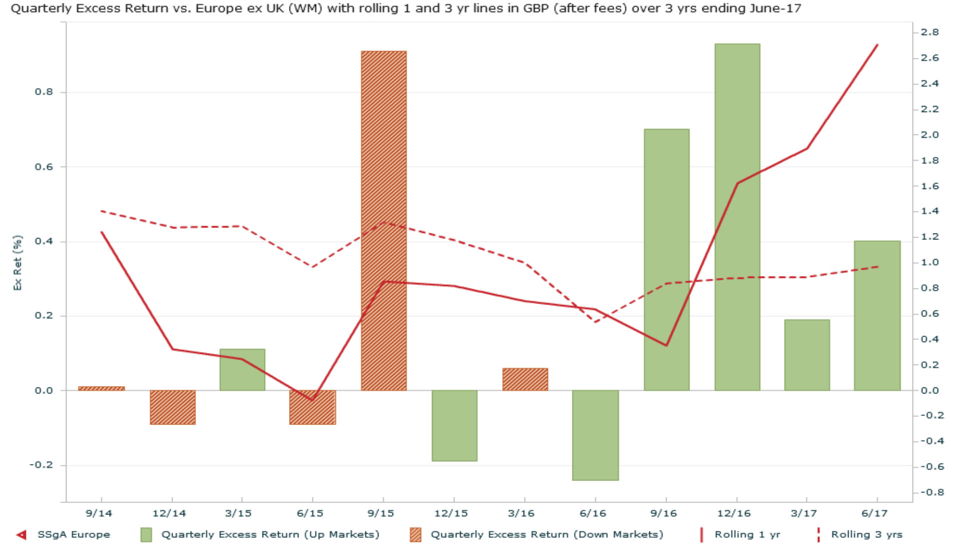
- Strength of their quantitative model and process, and ongoing research to develop the model
- Historic performance met the risk return parameters the Fund was seeking
- Two Funds (European and Pacific) to achieve the Fund's customised asset allocation within overseas equities

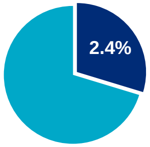
Performance



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 June-17





SSGA – PACIFIC INC. JAPAN EQUITIES (ENHANCED INDEXATION) (POOLED)
£105.9M END VALUE *(£104.9M START VALUE)*

Item Monitored	Outcome
Mercer Rating	N (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	Outperformed benchmark by 0.5% p.a. over three years
Three year tracking error was 1.0% p.a. – *source: Mercer*	Number of stocks: 392

Manager Research and Developments

- The fund has achieved its performance target over the three year period.
- The total pooled fund size on 30 June 2017 was £106.1m. 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).

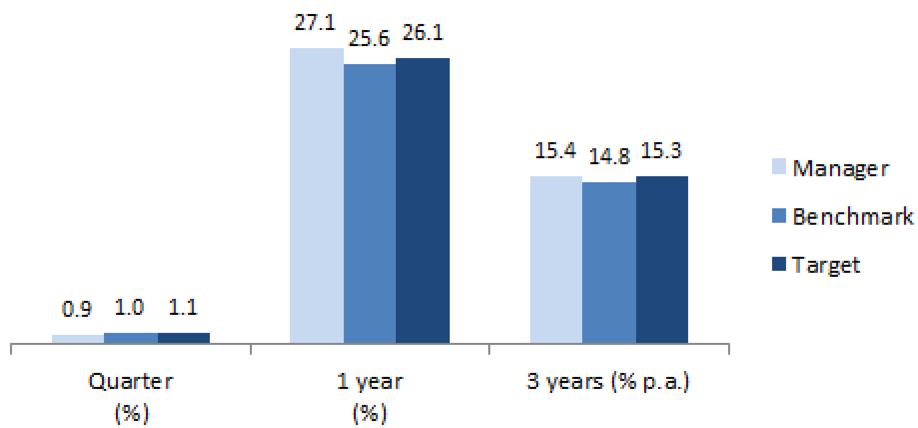
Reason for investment

To provide asset growth as part of a diversified equity portfolio

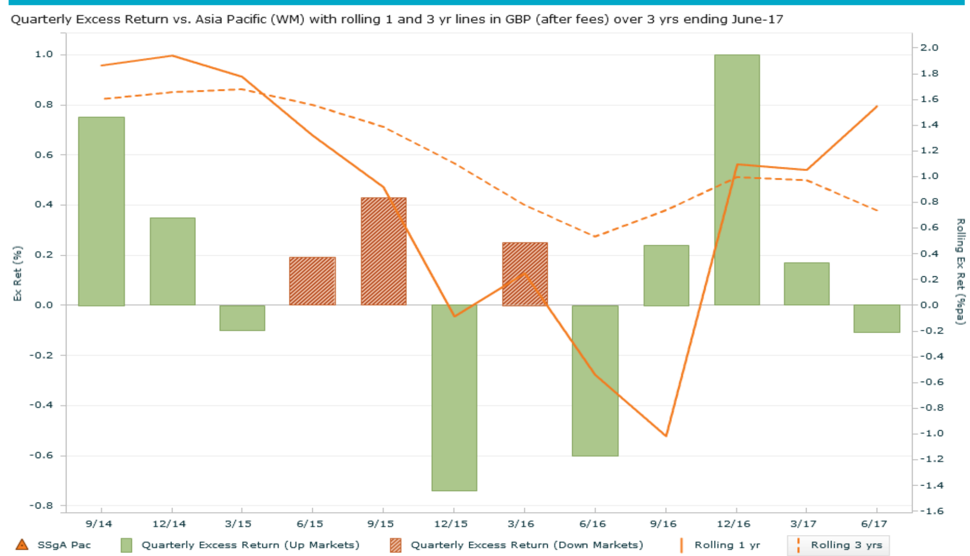
Reason for manager

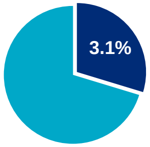
- Strength of their quantitative model and process, and ongoing research to develop the model
- Historic performance met the risk return parameters the Fund was seeking
- Two Funds (European and Pacific) to achieve the Fund's customised asset allocation within overseas equities

Performance



Rolling relative returns



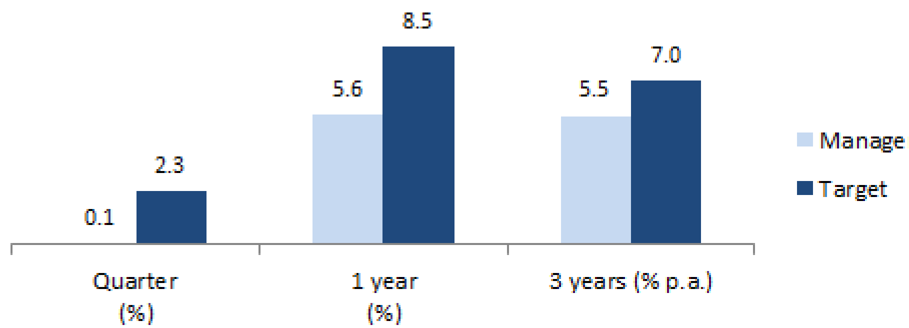


PYRFORD – DGF (POOLED)

£138.6M END VALUE *(£138.5M START VALUE)*

Item Monitored		Outcome
Mercer Rating		R (no change over period under review)
Performance Objective *RPI +5% p.a.*		Underperformed objective by 1.4% p.a. over three years

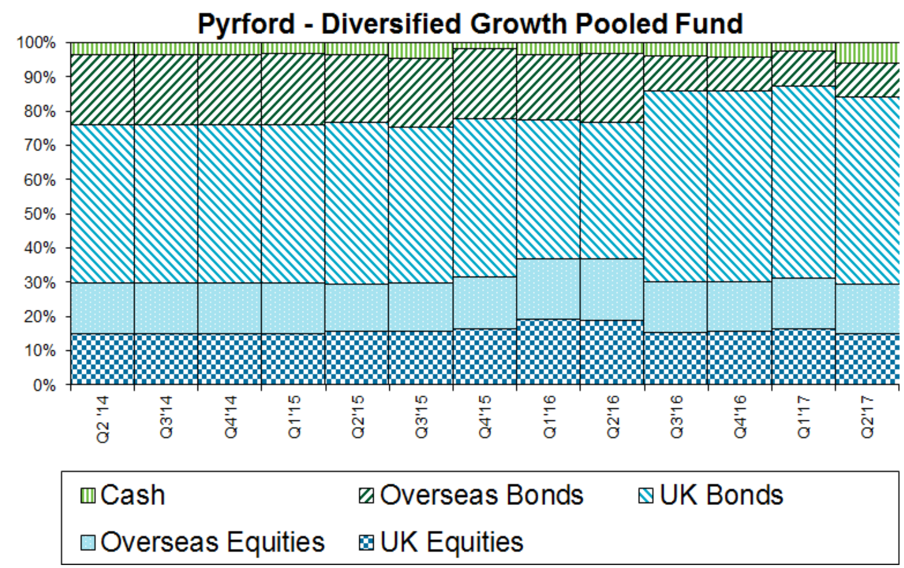
Performance



Manager Research and Developments

- The fund has underperformed its objective (RPI + 5% p.a.) over the quarter by 2.2%, by 2.7% over the year and by 1.4% p.a. over three years.
- The UK equity portfolio detracted over the quarter, as opposed to the allocation to overseas equities which added value relative to the market. Furthermore, the portfolio's UK bond exposure outperformed the index as this position was positioned at the short end of the curve, whilst the overseas bonds were weaker due to sterling strength over the quarter. Finally, currency management contributed to performance over the quarter.
- Despite a slight increase at the expense of the UK exposure, the strategy's cash allocation remained broadly the same, after Pyrford decided to decrease exposure to equities and increase bond exposure in Q3 2016.
- 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 1.5 years.

Asset Allocation



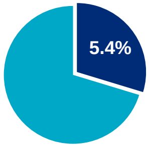
Annual data prior to Q1 2015.

Reason for investment

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

Reason for manager

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



STANDARD LIFE – DGF (POOLED)
£240.2M END VALUE *(£236.9M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (W) (no change over period under review). ESG4
Performance Objective *Cash +5% p.a.*	Underperformed objective by 2.5% p.a. over the year

Manager Research and Developments

- Over the quarter the fund returned 1.2% against an objective of 1.4%, and returned 2.9% against an objective of 5.5% over the year.
- The allocation to Korean equities was rewarded, and the relative value position proved beneficial for Emerging Market equities compared to Brazilian equities. The US investment grade credit strategy was among the top performers as credit markets remained firm, supported by improving fundamentals. The US real yields strategy struggled; designed to profit when US inflation expectations rise, inflation expectations in fact retreated owing to weaker oil prices and doubts over the Trump administration's timeline for stimulative economic policies.
- After a number of years of positive net inflows into GARS and thus strong asset growth, Standard Life have reported that inflows and outflows in 2016 broadly matched and that there were net outflows in Q1 2017 (over £2bn). We have expressed growing concerns about the sheer size of GARS, hence manageable net outflows such as those (under 5% of asset over the quarter) are both welcomed and understandable.
- The merger between Aberdeen and Standard Life has been approved by the shareholders of both companies and now has a target date of 14 August 2017. Following the merger, the Board of Directors for the Combined Group will comprise six existing directors from each company as well as co-CEOs Keith Skeoch and Martin Gilbert, CIO Rod Paris and CFO Bill Rattray. The Combined Group will be registered as Standard Life Aberdeen plc following the merger, and the investment management business will be known as Aberdeen Standard Life Investments.

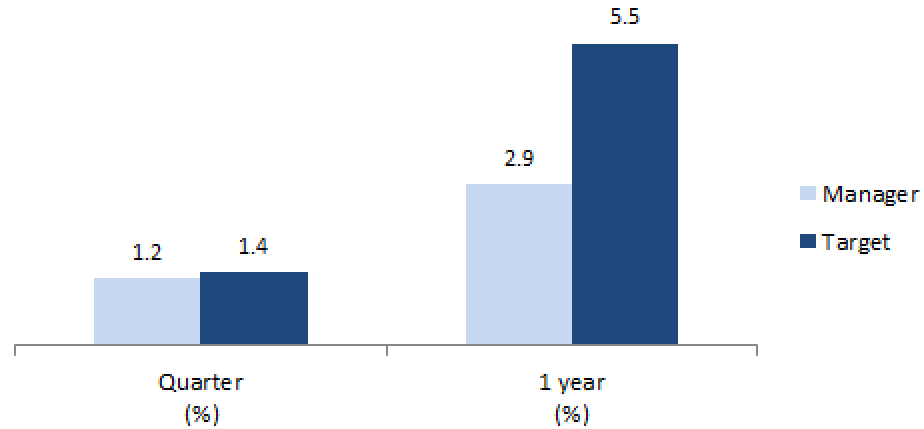
Reason for investment

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

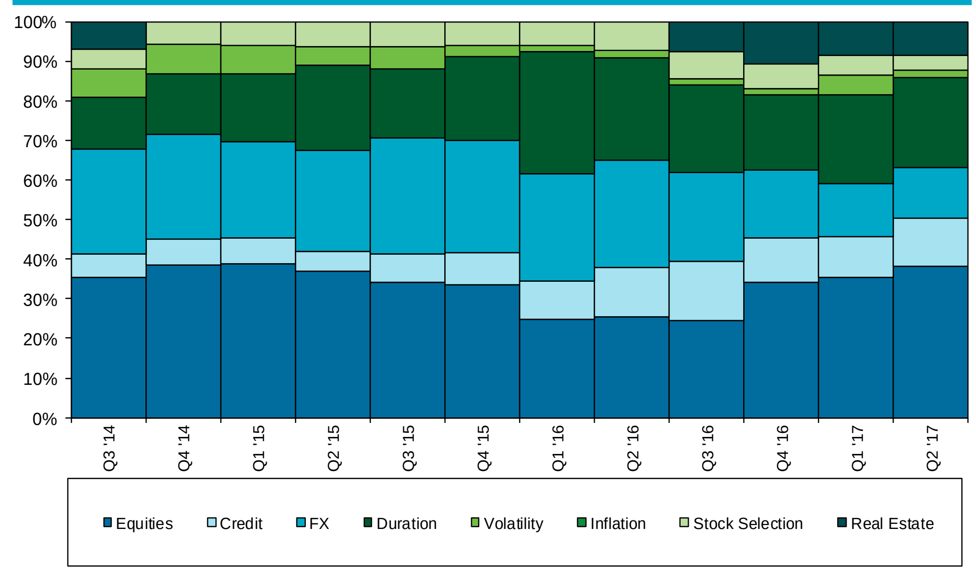
Reason for manager

- 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

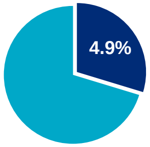
Performance characteristics vs. BofAML LIBOR 6 month average UK in GBP (after fees) over 3 yrs ending June-17

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

	Ret (%pa)	Std Dev (%pa)	IR
Pyrford DGF	5.6 *(23)*	3.4 *(51)*	1.5 *(8)*
SLI GARS	2.0 *(41)*	4.3 *(44)*	0.3 *(39)*
95th Percentile	12.9	8.8	1.6
Upper Quartile	7.5	7.3	1.3
Median	4.6	5.8	0.8
Lower Quartile	2.2	4.6	0.3
5th Percentile	-0.1	3.6	-0.1
Number	52	52	52

Commentary

- Over the three years to 30 June 2017, the Standard Life GARS pooled fund underperformed Pyrford by 3.6% 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 3.4% p.a. against Standard Life's volatility being 4.3% p.a.
- Pyrford was the second 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 eighth highest of the universe and for Standard Life was in the lower quartile.
- 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
£218.7M END VALUE *(£226.1M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review). ESG4
Performance Objective *Cash +3% p.a.*	Outperformed target by 1.5% over the year (in USD)

Item	
Number of funds	35 (as of May 2017)

Strategy	Contribution to Performance over the Quarter in USD (%)
Relative Value	-0.01
Opportunistic/Macro	-0.29
Long/Short Equities	1.08
Merger Arbitrage/Event Driven	-0.05
Credit	-0.10
Total	**0.49 (including cash and fees)**

In USD terms, the fund returned 0.5% over Q2 (0.3% below benchmark). This return was below the majority of wider hedge fund indices, which is discussed over the next two pages.

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

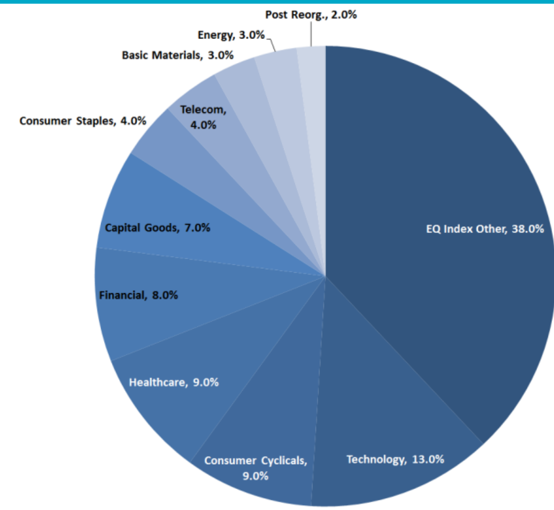
Reason for manager

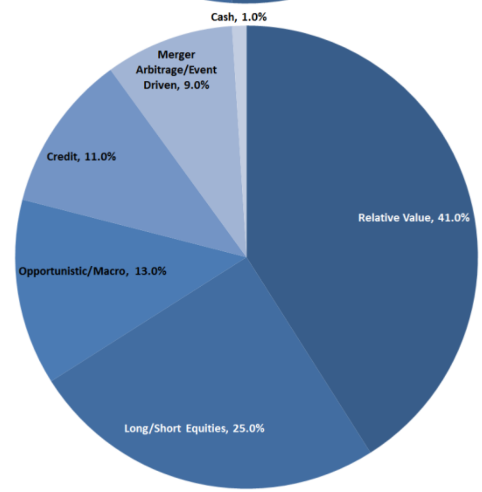
- Niche market neutral investment strategy
- Established team with strong track record
- Complemented other funds in the portfolio

Performance (GBP, JP Morgan return converted from USD)

Last Quarter	-3.3%	Target	0.8%
Last Year	8.1%	Target	3.4%

Portfolio Composition and Equity Sector Allocation





Source: JP Morgan.
As at 31 May 2017.

HEDGE FUND COMMENTARY – Q2 2017

- Building off a solid start to the year, hedge funds broadly posted relatively flat results in the second quarter. The HFRI Diversified FoF Index gained 0.2%; the HFRX Index returned 0.9%; and the Credit Suisse Hedge Fund Index earned 0.8% (USD returns). Most underlying strategies produced positive returns; while macro strategies declined.
- We would not expect to see hedge funds necessarily keep up with an equity risk-on environment such as the one which has been witnessed over the last year (global equities up over 18% with only one down month and realized volatility of 5%); however, we are pleased to see that they have materially added value relative to bonds.
- Industry assets rose in the second quarter, ending June at a record high of $3.1 trillion. Gains were driven by positive performance across most strategies as well as net inflows. Following six consecutive quarters of net redemptions, investors were net buyers of hedge funds in the second quarter, adding $6.7 billion.

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

HEDGE FUND COMMENTARY – Q2 2017

Relative Value (43%)

- Fixed Income and Convertible Arbitrage strategies gained 1.6% and 0.2%, respectively, during the second quarter of 2017.
- Relative value and arbitrage-oriented strategies broadly earned mixed results for the quarter. While event-oriented strategies and those that benefitted from healthy levels of market dispersion were rewarded, low levels of volatility across many broad markets created challenges.
- Fixed income-focused strategies were able to exploit dispersion and benefit from rate trading. Despite low volatility, Convertible Arbitrage strategies were able to post slight gains on the back of strong mid-quarter issuance and spread tightening.

Long/Short Equities (25%)

- Long/Short Equity and Equity Market Neutral ("EMN") strategies earned 3.1% and 0.4%, respectively, in Q2 2017.
- Long/Short Equity strategies continued to benefit from rising markets, with directional exposure rewarded. Market dispersion has remained favorable, with inter-stock correlations at multi-year lows. This has aided security selection broadly and positively impacted the performance of many "popular" hedge fund holdings, which have meaningfully outperformed broad markets over the past year. While we have continued to see improvements in alpha generation on both long and short portfolios broadly, the dispersion of manager returns has been meaningful.

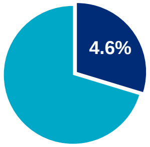
Opportunistic / Macro (12%)

- The broad Global Macro universe declined 1.8% during the quarter, while Managed Futures declined 3.4%.
- We have continued to see mixed results within macro strategies. Discretionary managers have generally been able to generate modest positive returns over recent periods; while systematic strategies have largely struggled.
- While equity-related exposure has been beneficial, we note that a lack of short-term market volatility has presented challenges for many trend followers. Rate and currency positioning (particularly vs USD) has continued to be a key determinant of results.

Merger Arbitrage / Event Driven (8%)

- The Event space posted modest results for the second quarter overall, returning 1.1%.
- Results were aided by a generally favorable environment, including a tailwind from broad equity and credit markets and substantial dispersion among sectors. Special situation equity and idiosyncratic debt positions were material drivers for many.
- Merger Arbitrage strategies benefitted from this favorable event environment and generated gains amidst strong deal volume and positive news flow.

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



SCHRODER – UK PROPERTY FUND OF FUNDS
£206.1M END VALUE *(£201.6M START VALUE)*

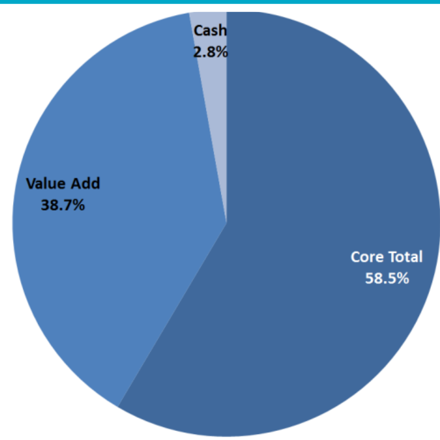
Item Monitored	Outcome
Mercer Rating	B (no change over period under review). ESG3
Performance Objective *Benchmark +1% p.a.*	Underperformed benchmark by 0.5% p.a. over five years

Manager Research and Developments

- The fund slightly underperformed the benchmark by 0.1% over the quarter. Positive contributions from the Industrial Property Investment Fund and Multi-Let Industrial Property Unit Trust, were offset by weak performance from the Mayfair Capital Property Unit Trust and L&G Managed Property Fund. Value Add funds aided performance over the quarter, while Core funds and cash holdings diluted returns.
- Over the five year period, the fund has outperformed its benchmark by 0.5% p.a., largely due to performance from Value Add strategies.
- Over the quarter, there were c. £15.6m of purchases and c. £6.3m of sales. Units were acquired in Mayfair Capital Property Unit Trust (c. £5.9m), Unite UK Student Accommodation Fund (c. £3.8m), Regional Office Property Unit Trust (c. £3.6m) and Metro Property Unit Trust (c. £2.2m). Units were sold from BlackRock UK Property Fund (c. £3.4m) and West End of London Property Unit Trust (c. £2.8m).

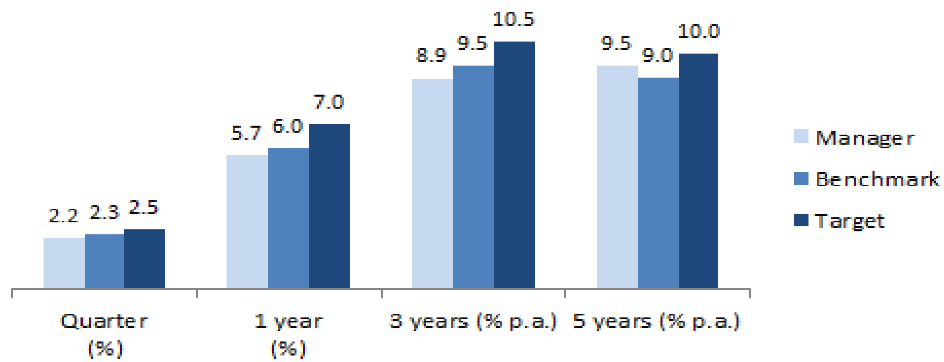
Manager and Investment type splits

Top 5 Holdings	Proportion of Total Fund (%)
L&G Managed Property Fund	12.8
Industrial Property Investment Fund	12.2
BlackRock UK Property Fund	10.7
Metro Property Unit Trust	9.9
Schroder Real Estate Real Income Fund	9.8

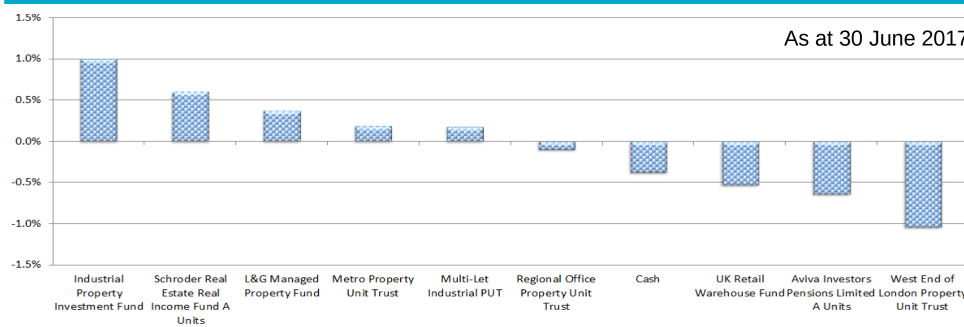


As at 30 June 2017

Performance



Top 5 Contributing and Detracting Funds over 12 Months

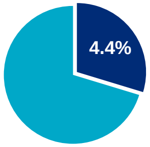


Reason for investment

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
£195.5M END VALUE *(£192.4M START VALUE)*

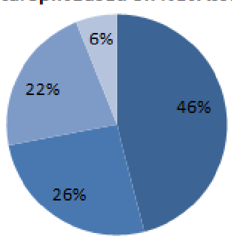
Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review). ESG4
Performance Objective *IRR of 10% p.a.*	IRR since inception to 31 March 2017 at 7.8% p.a. (in local currency) is below target of 10% p.a.

Manager Research and Developments (Q1 2017)

- The portfolio delivered a net return of -0.6% over Q1 2017 for USD programmes in local currency, and 0.4% for EUR programmes, versus the target of c. 2.5%.
- Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, for example the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 31 March 2017 at 7.8% p.a. (in local currency) is below their target of 10% p.a.; over the year to date to 31 March 2017 IRR was c. 0.2% (Mercer estimate, in local currency terms).
- Over Q1, the allocation to Europe remained at 46%, with North America decreasing (from 27% to 26%) and Asia Pacific increasing (from 21% to 22%). These remain within the guidelines.
- Note that Partners are rated B+ for global real estate, but A for secondary global real estate (as a result of their private equity skill set).

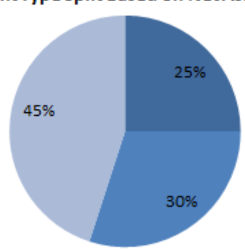
Geographical and Investment type splits as at 31 March 2017

Geographical Split Based on Net Asset Value



Europe (10% - 50%)
North America (10% - 50%)
Asia Pacific (10% - 50%)
Rest of World (0% - 20%)

Investment Type Split Based on Net Asset Value



Direct (0% - 30%)
Primary (40% - 100%)
Secondary (0% - 50%)

Portfolio update as at 31 March 2017

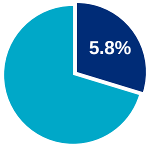
Partners Fund	Total Drawn Down (£m)	Total Distributions (£m)	Net Asset Value (£m)	Since Inception Net IRR (local currency)
Global Real Estate 2008	31.40	22.37	18.12	6.2
Real Estate Secondary 2009	19.64	10.18	18.75	10.0
Asia Pacific and Emerging Market Real Estate 2009	17.70	10.89	12.50	3.8
Distressed US Real Estate 2009	14.23	15.60	7.28	9.4
Global Real Estate 2011	25.12	10.73	25.56	10.5
Direct Real Estate 2011	11.45	7.36	10.69	8.4
Real Estate Secondary 2013	8.45	2.05	12.00	22.8
Global Real Estate 2013	60.42	4.65	66.15	5.2
Real Estate Income 2014	14.49	1.23	15.62	2.4
Asia Pacific Real Estate 2016	3.31	0.00	5.84	n/a
Total	**206.20**	**85.06**	**192.52**	**7.8**

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

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



IFM – INFRASTRUCTURE (POOLED)
£259.4M END VALUE *(£256.0M 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 objective by 11.0% over the year (in USD)

Item	
Number of holdings	13

Manager Research and Developments

- Over the quarter the fund returned 5.2% in US Dollar terms, against Avon's performance objective of 0.8% (cash + 2.5% p.a.). Key contributors to performance were Vienna Airport, Conmex and Colonial Pipeline Company.
- As a consequence of this quarter's performance, IRR since inception on 1 June 2016 rose to 12.2%. Please note that this is still early in the life of the fund.
- During the quarter, IFM completed the sale of its interest in Duquesne Light Holdings, increased its holding in Conmex, and completed the acquisition of a controlling stake in M6toll (a UK toll road concession).
- The pooled fund also received income of $87m over the quarter, with major dividend distributions from Indian Toll Road, Vienna Airport and Colonial Pipeline Company.

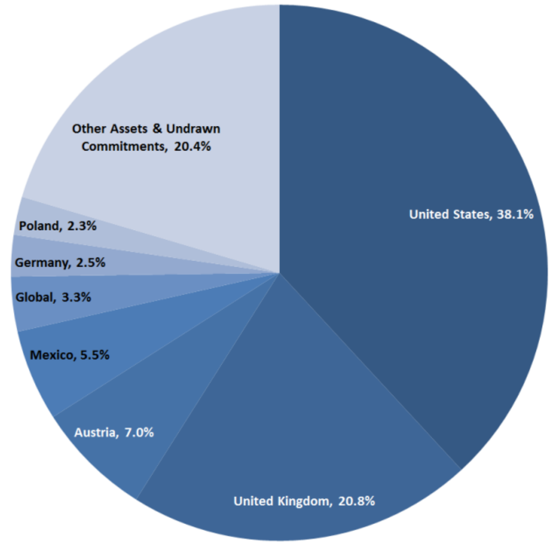
Reason for investment

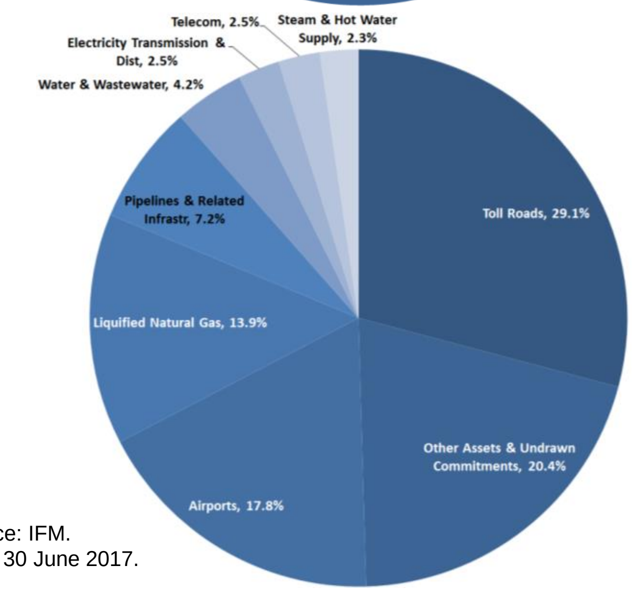
To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

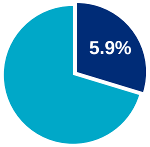
- Invests in core infrastructure assets in countries with established regulatory environments and strong rule-of-law.
- Seeks to invest in assets with strong market positions, predictable regulatory environments, high barriers to entry, limited demand elasticity and long lives

Geographical and Sub-Sector Allocation





Source: IFM.
As at 30 June 2017.



ROYAL LONDON ASSET MANAGEMENT – FIXED INTEREST (POOLED)
£263.8M END VALUE *(£260.8M START VALUE)*

Item Monitored		Outcome
Mercer Rating	Green	A (no change over period under review). ESG3
Performance Objective *Benchmark +0.8% p.a.*	Orange	Outperformed benchmark by 0.6% p.a. over three years

Manager Research and Developments

- Performance for the quarter was ahead of benchmark by 0.6%. The fund also outperformed over the year by 2.4% and over the three years by 0.6% 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. This positioning did not have a material impact upon relative performance.
- The bias towards subordinated financials aided performance. Underweight allocations to consumer-orientated sectors and supranationals were also advantageous. Furthermore, stock selection along with secured and structured bonds had a positive impact on performance.
- Royal London remain underweight AAA-AA bonds, and overweight BBB-unrated. The bias had a strong positive impact upon performance.

Weighted Duration	Start of Quarter	End of Quarter
Fund	*8.0*	*8.0*
Benchmark	*8.2*	*8.1*

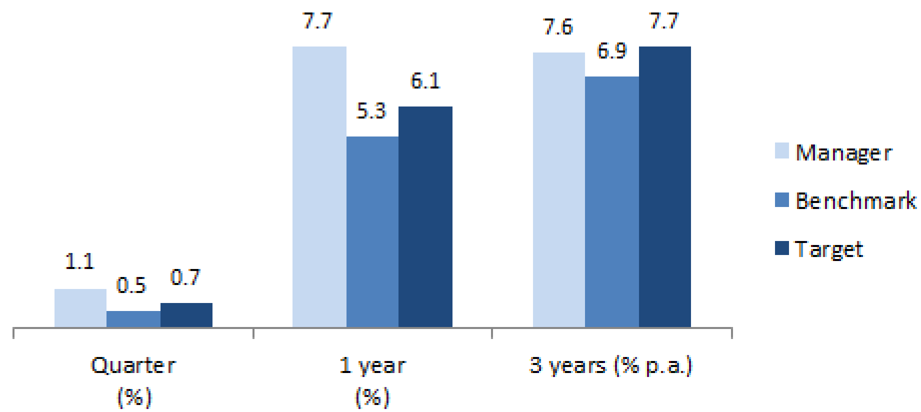
Reason for investment

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

Reason for manager

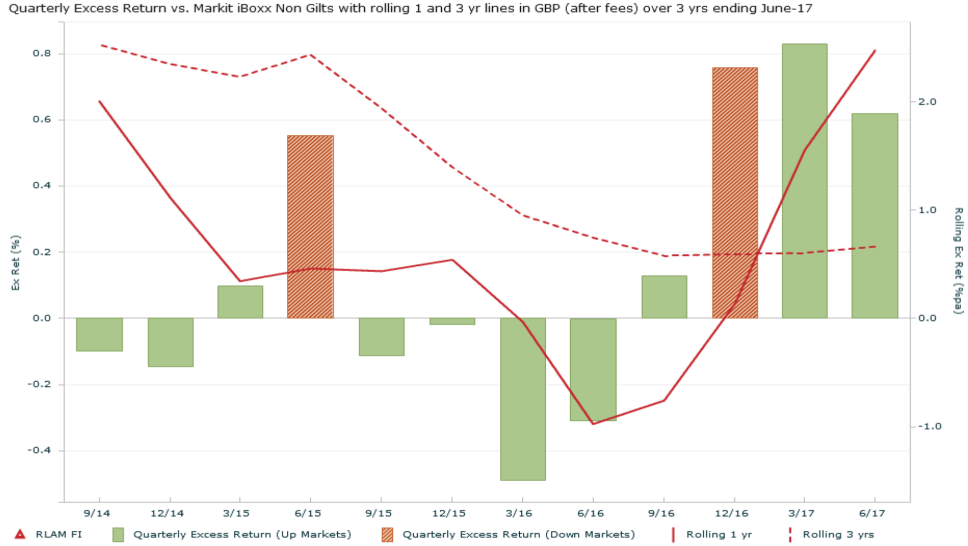
- Focussed research strategy to generate added value
- Focus on unrated bonds provided a "niche" where price inefficiencies are more prevalent. Product size means can be flexible within market

Performance



Rolling relative returns

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



RECORD – CURRENCY HEDGING (SEGREGATED)
£38.7M END VALUE *(£10.3M 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 against the dollar and more so against the yen (by c.3.9% and c.4.7% respectively) but fell in value against the euro (by c.2.6%). Sterling remains weaker against the dollar and the euro compared to one year ago amidst 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 Q2 2017 Performance (£ terms)

Passive Developed Equity Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	566,546,627	571,333,534	(3.73%)	1.74%	1.77%	(1.97%)
EUR	186,052,434	198,129,836	2.66%	(1.27%)	(1.24%)	1.46%
JPY	135,640,419	132,628,287	(4.53%)	2.33%	2.36%	(2.19%)
Total	**888,239,480**	**902,091,657**	**(2.51%)**	**1.18%**	**1.21%**	**(1.28%)**

Passive Hedge Fund Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	226,422,372	219,746,698	(3.73%)	3.48%	3.52%	(0.21%)
Total	**226,422,372**	**219,746,698**	**(3.73%)**	**3.48%**	**3.52%**	**(0.21%)**

Passive Property Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	36,735,954	34,607,735	(3.73%)	3.48%	3.52%	(0.21%)
EUR	147,562,492	160,654,878	2.66%	(2.50%)	(2.46%)	0.21%
Total	**184,298,446**	**195,262,613**	**1.46%**	**(1.41%)**	**(1.37%)**	**0.13%**

Passive Infrastructure Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	145,827,716	144,100,012	(3.73%)	3.42%	3.47%	(0.18%)
EUR	28,275,512	32,951,903	2.66%	(2.53%)	(2.51%)	0.17%
Total	**174,103,228**	**177,051,916**	**(2.41%)**	**2.16%**	**2.18%**	**(0.12%)**

APPENDIX 1
SUMMARY OF MANDATES

SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance target (p.a.)
BlackRock	Passive Global Equity	In line with customised benchmarks using monthly mean fund weights	-
BlackRock	Passive Corporate Bond	In line with customised benchmarks using monthly mean fund weights	-
BlackRock	Matching	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.

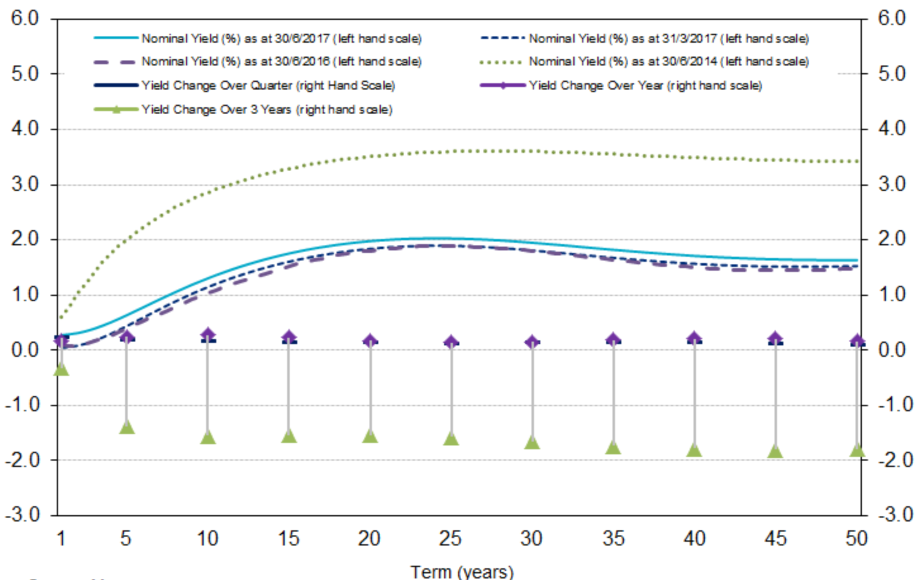
APPENDIX 3
CHANGES IN YIELDS

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 Jun 2017	31 Mar 2017	30 Jun 2016	30 Jun 2015
UK Equities	3.61	3.47	3.66	3.46
Over 15 Year Gilts	1.80	1.65	1.61	2.63
Over 5 Year Index-Linked Gilts	-1.57	-1.71	-1.38	-0.75
Sterling Non Gilts	2.24	2.20	2.55	3.15

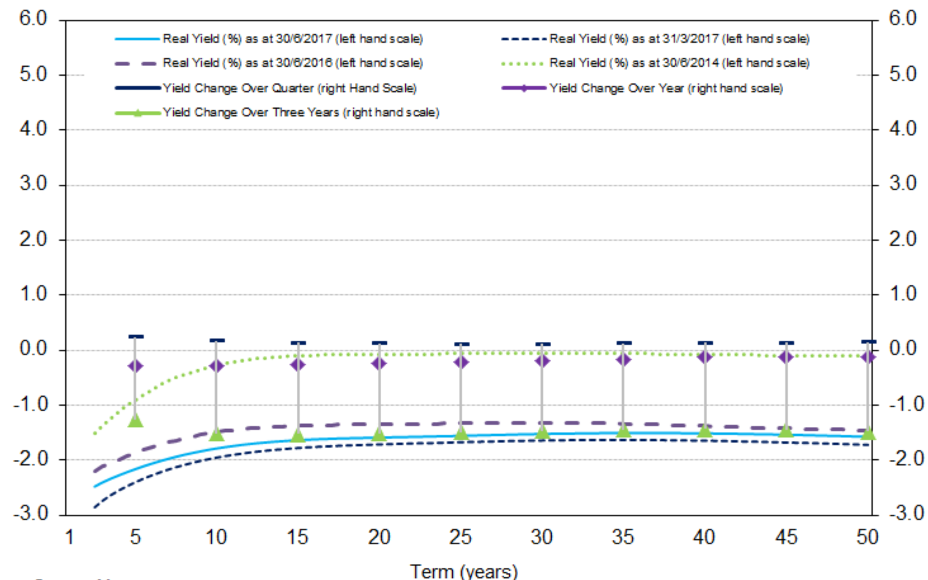
- Bond yields in the UK and the US fell slightly over the quarter, despite the Federal Reserve raising its interest rate by 0.25% at the March meeting, a move that had been predicted by markets.
- In the UK, there was a slight downward shift in the yield curve over the quarter for terms over five years. 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.

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.

MERCER RATING SCALE

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

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

SUPPLEMENTAL INDICATORS

Provisional (P)

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

Watch (W)

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

Specifically Assigning (P) and (W) Supplemental Indicators

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

High Tracking Error (T)

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

NICHE STRATEGIES

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

RESEARCH INDICATIONS – INDICATIVE VIEW

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

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

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

OPERATIONAL RISK ASSESSMENTS

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

ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE RATINGS

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

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

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

RATINGS REVIEW COMMITTEES

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

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

CONFIDENTIALITY OF MERCER'S RATINGS

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

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