AVON PENSION FUND

PANEL INVESTMENT PERFORMANCE REPORT QUARTER TO 31 DECEMBER 2017

FEBRUARY 2018

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- Care should be taken when comparing private equity / infrastructure performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance). Direct comparisons are not always possible.

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SECTION 1
EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

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

Fund Performance

- The value of the Fund's assets increased by £86m (1.9%) over the fourth quarter of 2017, to £4,660m at 31 December 2017. This increase was driven by positive returns from all asset classes, in particular equities.

Strategy

- Global (developed) equity returns over the last three years were 15.5% 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). Investor sentiment continues to be supported by above trend economic growth which is expected to translate to higher corporate earnings, although valuations remain stretched.
- The three-year return from emerging market equities has increased to 13.7% p.a. from 11.6% 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. Compared to developed market equities, we are slightly more positive in our medium-term outlook for emerging market equities over the next one to three years as they continue to gather momentum on the back of broadly strong economic fundamentals and positive earnings growth.
- The material improvement in the Fund's funding position, which has largely been a result of strong equity returns, combined with the current market outlook, led to the Committee agreeing to decrease the strategic allocation to equities and to implement an equity protection strategy. These changes were implemented in Q3 and Q4 2017 (more details overleaf).
- 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 7.0% p.a. versus an assumed return of 1.90% p.a. and index-linked gilts returned 8.9% p.a. versus an assumed return of 2.15% p.a. Gilt yields fell over the quarter, resulting in positive returns from gilts.
- UK corporate bonds returned 4.5% p.a. over the three-year period against an assumed strategic return of 3.25% p.a.
- The three-year UK property return of 9.1% 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 overall for Fund performance, since Sterling rose against the US Dollar and Japanese Yen over the quarter, but fell against the Euro.

EXECUTIVE SUMMARY

Managers

- Manager absolute returns over the quarter were all positive. TT, Genesis and Unigestion produced the highest returns over the quarter, above 6%.
- Absolute returns over the year to 31 December 2017 were strong. All mandates delivered positive absolute return, with the emerging market equity mandates leading the way, as the region has benefited from a declining US dollar and positive commodity performance. In terms of relative performance, out of the active equity managers, TT, Schroders and Invesco outperformed their benchmarks over the year. Of those underperforming, the emerging markets equities mandates with Unigestion and Genesis delivered the most significant underperformance. Unigestion's underperformance has been driven by its respective style bias, since it has a 'low market beta' tilt and low volatility stocks have underperformed the wider market over the past year. Genesis' underperformance was driven by its stock selection and sector positioning.
- 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 and Schroder Global Equity did not achieve their performance objectives, but did outperform their respective benchmarks, net of fees. Invesco has achieved its performance targets over one and three years.
- Broadly speaking, the Fund's active equity managers have a tilt towards quality and low volatility style factors, along with a lack of exposure to value. Over the calendar year as a whole, value and low volatility stocks have underperformed the wider market whereas growth and quality stocks have outperformed the wider market. This has led to TT and Schroders, which both have quality and growth tilts, outperforming their respective benchmarks.

Key Points for Consideration

- Implementation of the agreed switch from equities and corporate bonds to a Multi-Asset Credit ("MAC") mandate, managed by Loomis Sayles, was completed in October 2017. This strategic change was implemented in two phases, with the first phase having been completed in Q3 2017.
- The agreed equity protection strategy was implemented by BlackRock in two phases in November and December 2017. Full details of this strategy, as well as the liability risk management strategy, are included in the risk management report.
- Further strategic changes have been agreed and are being implemented in Q1 2018, including the transfer of equities from Invesco to BlackRock to provide additional collateral and reduce leverage in the QIF. Transfer of the foreign currency hedging mandate from Record to BlackRock is expected to follow this.

EXECUTIVE SUMMARY
MANAGER INFORMATION

Manager	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	ESG	Page
BlackRock	**Equity**	✓	✓	✓	P2	*25*
BlackRock	**Corporate Bond**	✓	✓	✓	N	*25*
BlackRock	**LDI**	✓	✓	✓	N	*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*
Pyrford	**DGF**	-	✕	✕	N	*32*

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 informed us that the LDI team will be integrated into the Fixed Income business.
- A number of the active equity managers (Jupiter, TT International, Genesis and Unigestion) have underperformed their benchmarks over the longer-term. In some cases this can be explained by the managers' style tilts underperforming the wider marker, for example Unigestion has a low-volatility tilt, which has detracted.
- A general lack of exposure to value stocks has benefitted the Fund over the one-year period.

EXECUTIVE SUMMARY
MANAGER INFORMATION CONTINUED

Manager	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	ESG	Page
Standard Life	**DGF**	-	✕	N/A	4	*33*
Ruffer	**DGF**	✓	N/A	N/A	3	*34*
JP Morgan	**Fund of Hedge Funds**	✓	✓	N/A	4	*36*
Schroder	**UK Property**	-	-	✕	3	*39*
Partners	**Global Property**	✓	✕	✕	4	*40*
IFM	**Infrastructure**	✓	✓	N/A	2	*41*
Loomis Sayles	**Multi-Asset Credit**	✓	N/A	N/A	3	*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

- Provisional status assigned to Standard Life GARS in November 2017. See page 33 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

All major equity markets moved higher over the quarter in local currency and sterling terms, with Asia Pacific being the leading region, driven by Japanese equities which posted a return of 7.9% in sterling terms and 8.9% in local currency terms.

Within UK equities, small capitalisation stocks underperformed larger capitalization stocks over the quarter, returning 4.2% against a return of 5.0% for the broader market. UK economic growth is estimated to have increased by 0.4% in Q3 2017. Year on year CPI rose to 3.1% to the end of November, overshooting the upper limit of the Bank of England's target inflation range. Against this backdrop and in line with expectations, the Bank of England raised its base interest rate from 0.25% to 0.50% in November.

Within global equity markets, US equities performed well, continuing to be supported by strong positive economic data. The Fed announced another interest rate hike in December, whilst indicating that there would be three further hikes in 2018. Meanwhile, the Trump administration's tax proposals were passed, cutting the corporate tax rate to 21%, which further contributed to the boost in US equities. Europe (ex-UK) equities' performance was largely flat over the quarter, despite the release of positive regional economic data. In Japan, President Abe called for, and won, a snap general election in October. It came as no surprise that the Bank of Japan committed to keeping monetary policy largely accommodative. Emerging Market equities continued to rally, fueled by continued rising commodity prices, a weak US dollar and promising corporate earnings growth.

Bond Market Review

Bond market returns were generally positive over the quarter. Government bond yields fell across the curve in the UK. In the US and parts of Europe, however, shorter dated yields rose and the yield curve flattened, following expectations of sustained growth and an easing in monetary policy stimulus.

In the UK, the Over 15 Year Gilt Index outperformed the broader global bond market over the quarter, generating a return of 3.6%.

Real yields also fell over the quarter, resulting in the Over 5 Year Index-Linked Gilts Index returning 3.9%.

Credit spreads remained largely unchanged over the quarter, with the sterling Non-Gilts All Stocks index ending the quarter at c.1.0%. UK credit assets returned 1.8% over the quarter, outperforming the return of global credit in local currency terms.

Currency Market Review

Over the quarter, sterling appreciated against the dollar and marginally more so against the Yen (by 0.8% and 0.9% respectively). Sterling depreciated against the euro over the quarter by 0.7%. The same trends hold when compared to six months and one year ago.

Commodity Market Review

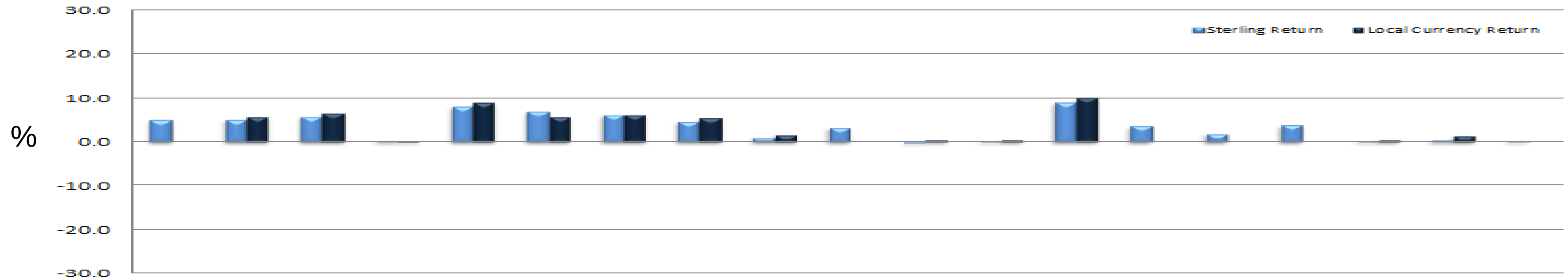
Commodities on the whole produced positive returns over the quarter, with the overall index rising 9.9% in US dollar terms. Energy continued to be the strongest performer, which can be attributed to the increase in Brent Crude Oil prices, from US$ 57.6/barrel, to US$ 66.6/barrel (a 15.7% increase) following sustained Chinese demand along with reduced supply from Iraqi Kurdistan.

Industrial Metals were the second strongest performer, with Nickel and Copper rising by 22% and 12% respectively. Within precious metals the price of gold increased from c.$1,284/oz to c.$1,304/oz.

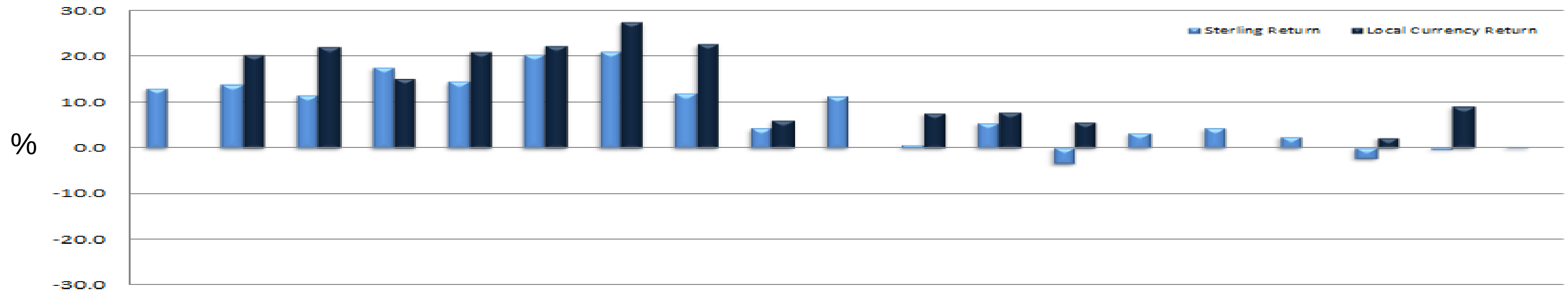
Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE

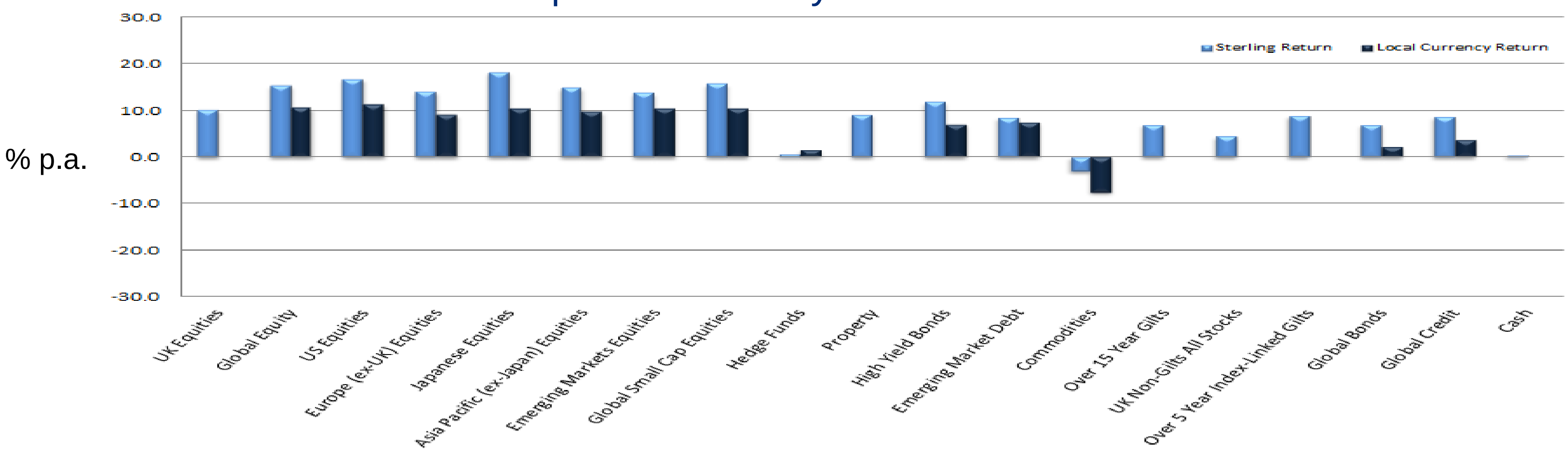
Return over the 3 months to 31 December 2017



Return over the 12 months to 31 December 2017



Return p.a. over the 3 years to 31 December 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	15.5	*Remains significantly ahead of the assumed strategic return. The three year return has remained unchanged since last quarter.*
Emerging Market Equities (FTSE AW Emerging)	8.70	13.7	*The three year return from emerging market equities has increased from 11.6% p.a. last quarter, as the return of 6.1% experienced last quarter was higher than the quarter that fell out of the period (0.4%). The three year return is above the assumed strategic return.*
Diversified Growth	6.95 (Libor + 4% / RPI + 5%)	6.0 (4.5 / 7.6)	*DGFs are expected to produce an equity like return over the long term but with lower volatility – this is the basis for the Libor and RPI based benchmarks. Low cash rates means benchmark has underperformed the long term expected return from equity, but recent higher inflation means RPI benchmark has outperformed. 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	7.0	
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	2.15	8.9	*UK gilt returns remain considerably above the long term strategic assumed return as yields remain low relative to historic averages. Over the last quarter, returns were positive as yields decreased. Corporate bond returns are also ahead of the strategic assumed return.*
UK Corporate Bonds (BofAML Sterling Non Gilts)	3.25	4.5	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	5.10	0.6	*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	9.1	*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 3.4% over the fourth quarter of 2017.*
Infrastructure (S&P Global Infrastructure)	6.95	11.3	*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 – Q1 2018

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

DEVELOPED MARKET EQUITIES

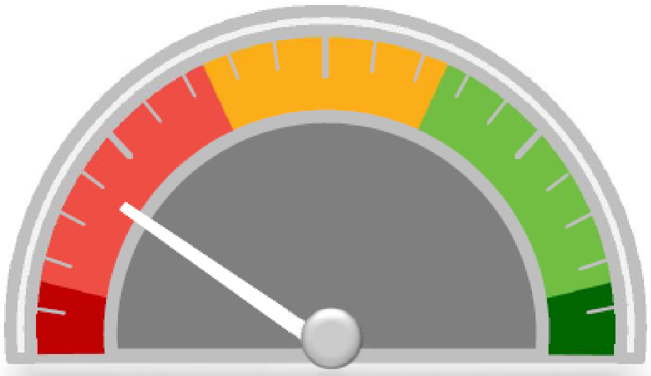
- Synchronized global economic growth underpinned by more confident consumer and elevated business optimism continues to support developed equity markets
- Despite gradual tightening by central banks, monetary policy remains relatively accommodative
- ! Valuations are starting to appear stretched, while geopolitical issues remain a key shorter term risk

EMERGING MARKET EQUITIES

- Momentum supported by strong economic fundamentals whilst valuations remain around their long-term averages
- Emerging market countries are increasingly guarding themselves from developed market headwinds through domestic-driven growth
- ! Geopolitical events and individual country risks, such as Chinese credit tightening, remain a key consideration

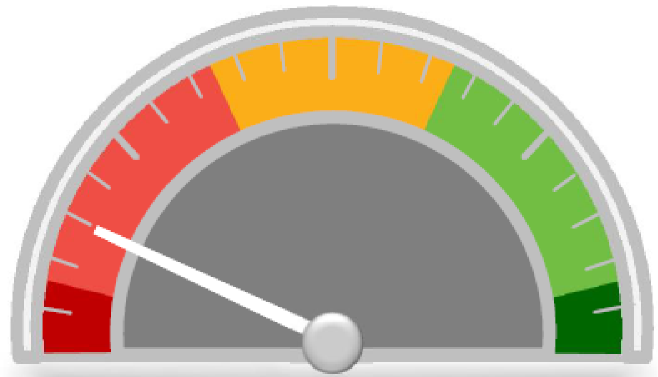
These charts summarise Mercer's views on the medium term outlook for returns from the key asset classes; by medium term we mean one to three years. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect investors to make frequent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

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q1 2018



FIXED INTEREST GILTS (ALL STOCK)

- ✔ Geopolitical uncertainties could result in safe haven demand, restricting yields from increasing significantly
- ⚠ The market continues to be sensitive to monetary policy
- ⚠ Valuations continue to look expensive as real yields remain extremely low relative to long-term averages



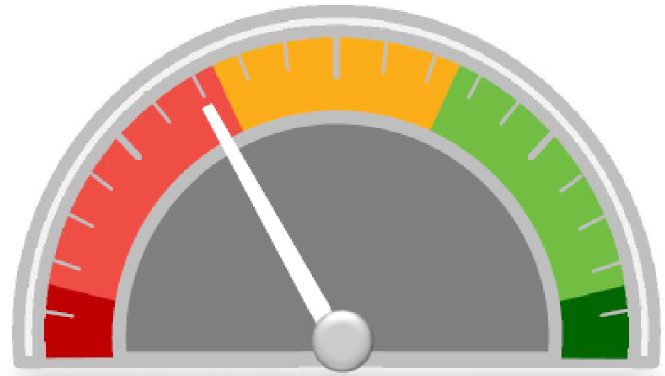
INDEX-LINKED GILTS

- ✔ Expectations of growth and recent inflation increases improve the outlook, however, this is expected to pave the way for tighter monetary policy in the UK
- ⚠ Valuations continue to look expensive as real yields remain extremely low relative to long-term averages

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q1 2018

NON-GOVERNMENT BONDS (£ ALL-STOCK)

- Credit spreads continue to tighten, but provide some coverage given expectations that the downgrade environment should remain benign
- Prospective total returns are limited and yields remain historically low, as do credit spreads
- Hawkish signals from the BoE could give rise to further market volatility as the support which has underpinned investment grade credit markets is removed



UK PROPERTY

- Values are being supported by capital markets. The industrial sector is performing strongly and rental growth is still robust
- The outcome of Brexit negotiations remain a key risk to occupiers
- Fundamentals may be showing early signs of slowing. Yields remain at historic lows but spreads over bonds are at historic highs

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	1,612,150	1,677,493	35.3	36.0	34.0	29 - 39	+2.0
Emerging Market Equities	372,208	227,284	8.1	4.9	6.0	3 - 9	-1.1
Diversified Growth Funds	603,476	616,197	13.2	13.2	15.0	10 - 20	-1.8
Fund of Hedge Funds	217,511	215,710	4.8	4.6	5.0	0 - 7.5	-0.4
Property	431,845	415,778	9.4	8.9	10.0	5 - 15	-1.1
Infrastructure	259,560	268,204	5.7	5.8	5.0	0 - 7.5	+0.8
Multi-Asset Credit	194,000	487,695	4.2	10.5	11.0	6 - 16	-0.5
Corporate Bonds	213,668	83,295	4.7	1.8	2.0	No set range	-0.2
LDI*	512,949	501,920	11.2	10.8	12.0	No set range	-1.2
Cash (including currency instruments)	155,874	166,129	3.4	3.6	-	0 - 5	+3.6
Total	**4,573,239**	**4,659,704**	**100.0**	**100.0**	**100.0**		**0.0**

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

- Invested assets increased over the quarter by £86m due to positive returns from all asset classes. At the end of the quarter, all asset classes were within the agreed tolerance ranges.

* Valuation includes c.£13m mark-to-market value of equity protection strategy

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	Equities	477,260	-2,532	487,741	10.3	10.4
BlackRock	Corporate Bonds	80,678	-	83,295	1.8	1.8
BlackRock	LDI*	512,949	-	501,920	11.3	10.8
Jupiter	UK Equities	208,038	-	213,268	4.5	4.6
TT International	UK Equities	185,815	-	197,829	4.1	4.2
Schroder	Global Equities	353,548	-	368,052	7.7	7.9
Genesis	Emerging Market Equities	208,376	-103,091	116,617	4.6	2.5
Unigestion	Emerging Market Equities	163,832	-62,000	110,667	3.6	2.4
Invesco	Global ex-UK Equities	392,733	-	413,702	8.6	8.9
Pyrford	DGF	137,379	-	138,029	3.0	3.0
Standard Life	DGF	240,097	-	244,945	5.3	5.3
Ruffer	DGF	226,000	-	233,223	4.9	5.0

Source: State Street, Avon. Totals may not sum due to rounding.

* Valuation includes c.£13m mark-to-market value of equity protection strategy

FUND VALUATIONS
VALUATION BY MANAGER CONTINUED

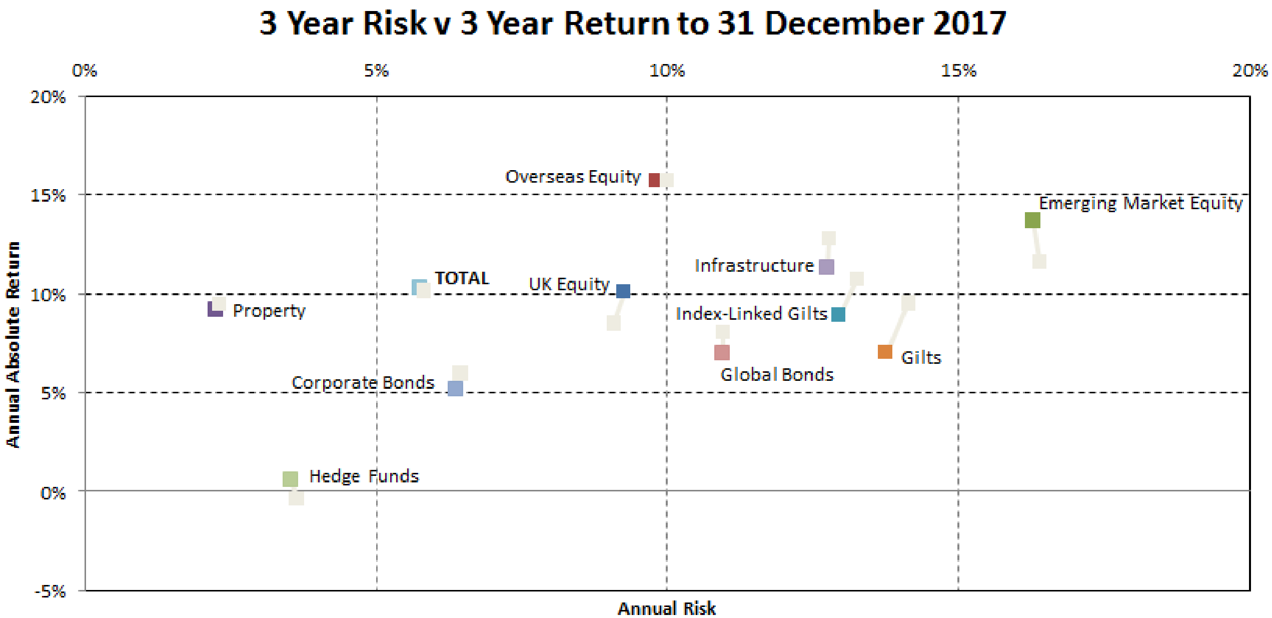
Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
Man	Fund of Hedge Funds	270	-	147	0.0	0.0
Signet	Fund of Hedge Funds	1,501	-	1,659	0.0	0.0
JP Morgan	Fund of Hedge Funds*	215,739	-	213,904	4.7	4.6
Schroder	UK Property	216,781	-	218,365	4.7	4.7
Partners	Property	215,063	-5,074	197,414	4.7	4.2
IFM	Infrastructure	259,560	-	268,204	5.7	5.8
Loomis Sayles	Multi-Asset Credit	194,000	294,000	487,695	4.2	10.5
RLAM	Corporate Bonds	132,990	-133,908	-	2.9	-
Record Currency Management	Currency Hedging	59,635	-13,389	66,347	1.3	1.4
Internal Cash	Cash	90,994	25,454	96,683	2.0	2.1
Total		**4,573,239**	**-540**	**4,659,704**	**100.0**	**100.0**

Source: State Street 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.
* Valuation shown as at 31 December 2017 is estimated.

SECTION 5

PERFORMANCE SUMMARY

MANAGER MONITORING
RISK RETURN ANALYSIS

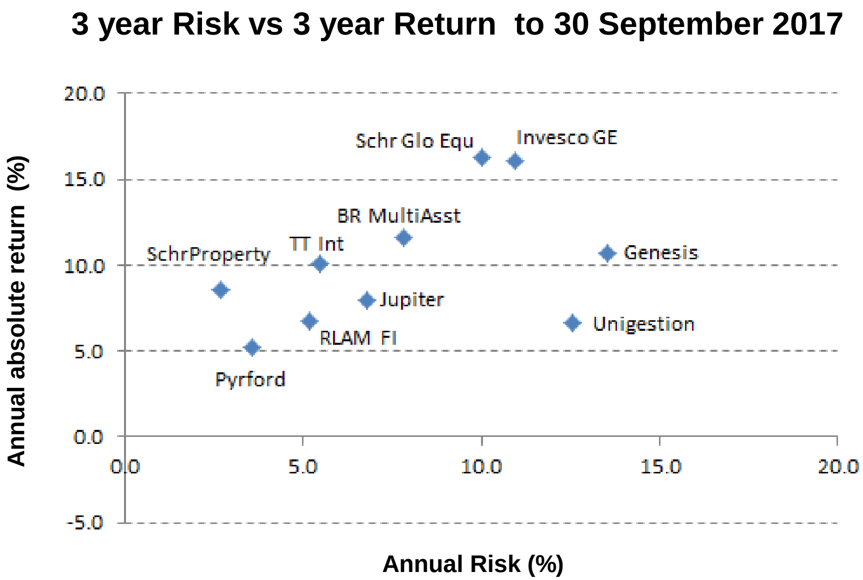


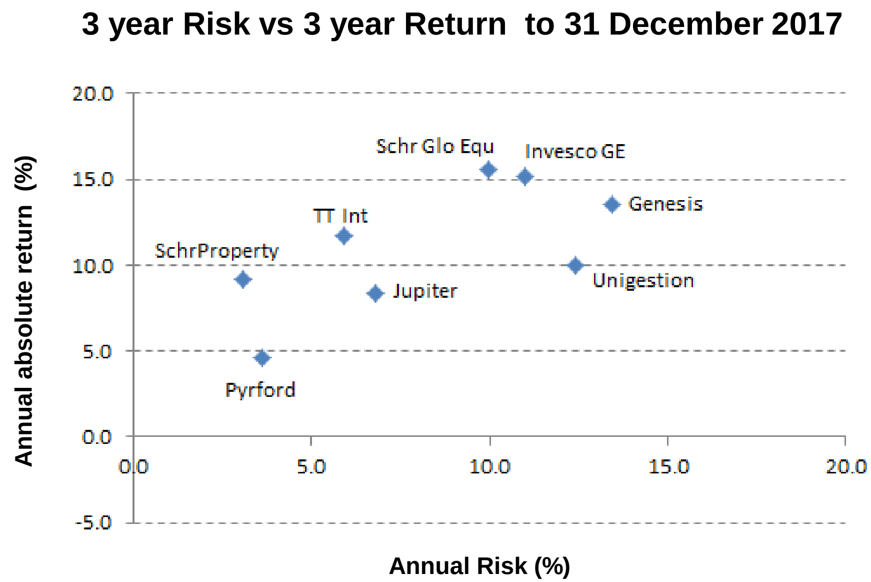
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of December 2017, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark 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 limited and mixed. UK and emerging market equities saw their three-year returns increasing, while returns for government and corporate bonds decreased.

MANAGER MONITORING
RISK RETURN ANALYSIS





Comments

- Unigestion, Genesis and TT saw their three-year return increasing over the quarter.

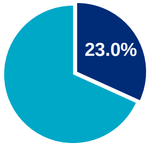
MANAGER MONITORING
MANAGER PERFORMANCE TO 31 DECEMBER 2017

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	3.2	3.2	0.0	13.5	13.5	0.0	14.5	14.5	0.0	-	N/A
BlackRock Corp Bonds	3.2	3.2	0.0	5.9	5.9	0.0	7.6	7.4	+0.2	-	N/A
BlackRock LDI	0.4	1.1	-0.7	0.7	1.1	-0.4	5.2	5.3	-0.1	-	N/A
Jupiter	2.5	4.1	-1.5	10.5	13.1	-2.3	8.7	10.1	-1.3	+2	Target not met
TT International	6.5	5.0	+1.4	15.3	13.1	+1.9	12.0	10.1	+1.7	+3-4	Target not met
Schroder Equity	4.1	5.0	-0.9	15.8	13.8	+1.8	15.9	15.2	+0.6	+4	Target not met
Genesis	6.5	6.6	-0.1	22.2	25.8	-2.9	13.4	14.8	-1.3	-	Target not met
Unigestion	6.3	6.6	-0.2	18.0	25.4	-5.9	10.1	14.4	-3.8	+2-4	Target not met
Invesco	4.9	4.6	+0.3	12.8	11.8	+0.9	16.1	15.0	+0.9	+0.5	Target met
Pyrford	0.7	2.3	-1.6	2.1	9.3	-6.6	5.0	7.7	-2.5	-	Target not met
Standard Life	1.9	1.4	+0.5	3.1	5.5	-2.3	N/A	N/A	N/A	-	N/A
Ruffer	2.7	1.4	+1.3	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
JP Morgan	0.0	0.8	-0.9	3.7	3.3	+0.4	N/A	N/A	N/A	-	N/A
Schroder Property	3.3	3.1	+0.2	10.8	10.2	+0.5	8.0	8.4	-0.4	+1	Target not met
Partners Property *	N/A	N/A	N/A	N/A	N/A	N/A	7.3 **	10.0 **	-2.5 **	-	Target not met
IFM	4.1	0.7	+3.3	20.3	3.0	+16.8	14.4 **	3.1 **	+11.0 **	-	N/A
Loomis Sayles	0.6	0.6	0.0	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
RLAM (terminated)	0.3	0.4	-0.1	5.8	3.6	+2.1	6.7	5.8	+0.8	+0.8	Target met
Internal Cash *	0.0	0.0	0.0	-1.5	0.1	-1.6	-0.3	0.3	-0.5	-	N/A

- Source: State Street, Avon, Mercer estimates.
- **Returns are in GBP terms**, consistent with overall fund return calculations before currency hedging is 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.

* Performance to 30 September 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 & LDI (POOLED EQUITIES & QIF)
£1,073.0M END VALUE *(£1,070.9M 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

- Both Equities and Corporate Bonds returned 3.2% over Q4, performing in line with their benchmarks as expected, with returns over one and three year periods were within the tracking error ranges. The LDI portfolio underperformed by 0.6% over the quarter.
- BlackRock informed us that the LDI team will be integrated into the Fixed Income business. Going forward Richard Wood will become the Head of EMEA LDI and will report to Alex Claringbull, Global Fixed Income EMEA Business Lead. There will be no other changes to reporting lines. We do not view this as a significant change to the operating of the LDI team, and propose no rating changes on the back of this.
- BlackRock informed us that they are centralising the ETF and Index Investments (EII) team in Asia Pacific by locating portfolio management teams in two locations (Hong Kong and Tokyo) as opposed to the three locations which they have historically had (Hong Kong, Tokyo and Singapore). As a result of this centralisation, Kevin Hardy, Head of Asia Pacific EII, has decided to leave the firm at the beginning of 2018 due to his desire to remain in Singapore with his family. Following Hardy's departure, Debbie Jelilian, Head of Index Equity Portfolio Management in EMEA, will assume management responsibilities for the EII team in Asia Pacific. The announcement of Hardy's departure is disappointing. However, given the overall depth and experience of the Asia Pacific EII team which is responsible for the day to day management of client portfolios, we are not unduly concerned at this stage. Therefore we do not propose any change to the ratings.

Reason for investment

To provide asset growth as part of a diversified portfolio

Reason for manager

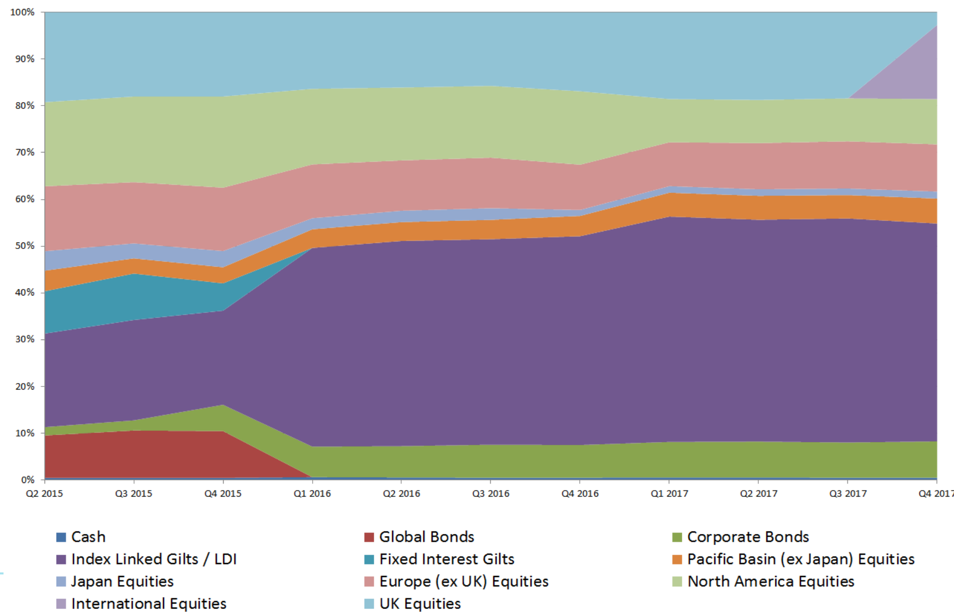
- To provide low cost market exposure across multi asset classes
- Provide efficient way for rebalancing between bonds and equities within a single portfolio

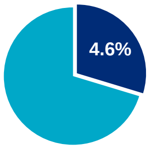
Performance

	Quarter (%)		1-Year (%)		3-Year (% p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Equities	3.2	3.2	13.5	13.5	14.5	14.5
Corporate Bonds	3.2	3.2	5.9	5.9	7.6	7.4
LDI*	0.4	1.1	0.7	1.1	5.2	5.3

* LDI performance reflects legacy index-linked gilt holdings prior to 30 June 2017 and the QIF holdings thereafter. Also reflects mark-to-market performance of the equity protection strategy since inception on 29 November 2017.

Asset Allocation

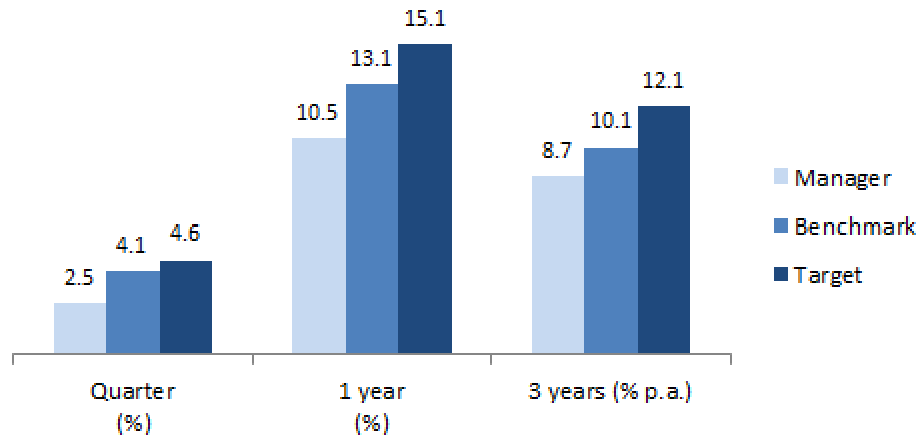




JUPITER ASSET MANAGEMENT – UK EQUITIES (SRI) (SEGREGATED)
£213.3M END VALUE *(£208.0M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B (no change over period under review). ESG2
Performance Objective *Benchmark +2% p.a.*	Underperformed benchmark by 1.3% p.a. over three years
Tracking error was 4.6% p.a. – *source: Jupiter (Q3 2017)*	Number of stocks: 58 (Q3 2017)

Performance

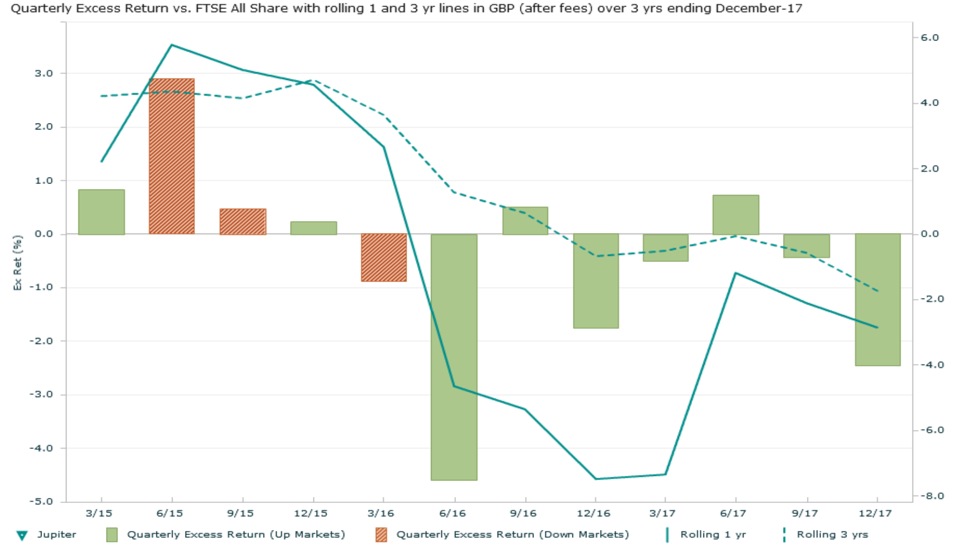


Manager Research and Developments

- Jupiter underperformed its benchmark over the quarter by 1.5%. Jupiter's performance was below TT's - the other UK equity fund invested in by the Fund.
- Over the quarter, global economic indicators improved were positive and sentiment towards commodity prices improved. As a result, sectors such as oil and gas, and mining delivered strong returns. The portfolio could not take advantage of these trends due to its remit which impedes investment in either area. Key contributors to the positive absolute performance over the quarter were Cranswick and Sage Group, whilst Centrica and Bunzl were the main detractors from performance.
- Jupiter underperformed the benchmark by 2.3% over the year and by 1.3% p.a. over the three years to 31 December 2017.

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 December-17

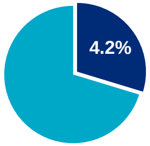


Reason for investment

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



TT INTERNATIONAL – UK EQUITIES (UNCONSTRAINED) (SEGREGATED)
£197.8M END VALUE *(£185.8M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B (no change over period under review). ESG3
Performance Objective *Benchmark +3-4% p.a.*	Outperformed benchmark by 1.7% p.a. over three years
Three year tracking error was 3.7% p.a. – *source: Mercer*	Number of stocks: 45

Manager Research and Developments

- TT has outperformed the benchmark over the quarter by 1.4%, by 1.9% over the year and by 1.7% p.a. over three years.
- The fund was ahead of its benchmark due to outperformance in Consumer Goods and Industrials over the quarter. The Health Care sector struggled in Q4 and thus the fund benefitted from not owning GlaxoSmithKline, whilst the Irish hotel company Dalata drove the outperformance within Consumer Services. In the Basic Materials sector, Mondi sold off this quarter. Following this, TT believes Mondi has an even more attractive valuation and added to its position.
- Turnover increased from 13.9% in Q3 2017 to 17.4% in Q4 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 increased over the quarter to £594m in light of 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 £579m in Sept. 2017, £582m in Dec. 2016 and £477m in Dec. 2014. A significant portion (c.33%) of the firm's UK equity assets are managed on behalf of the Fund.

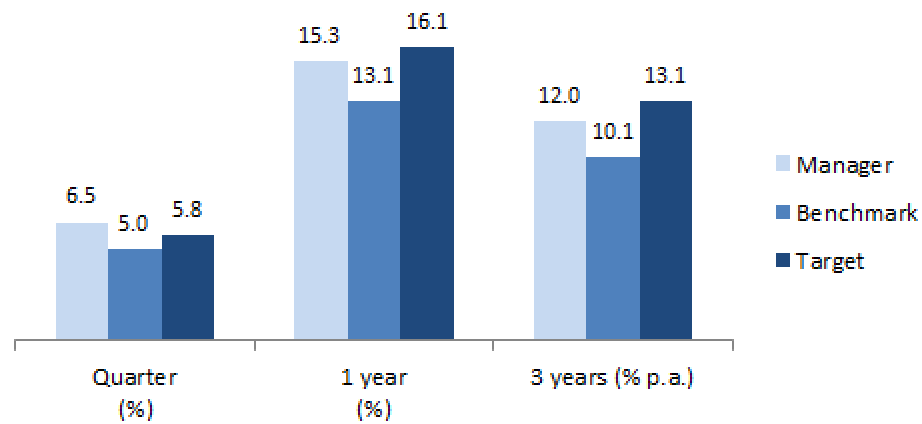
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

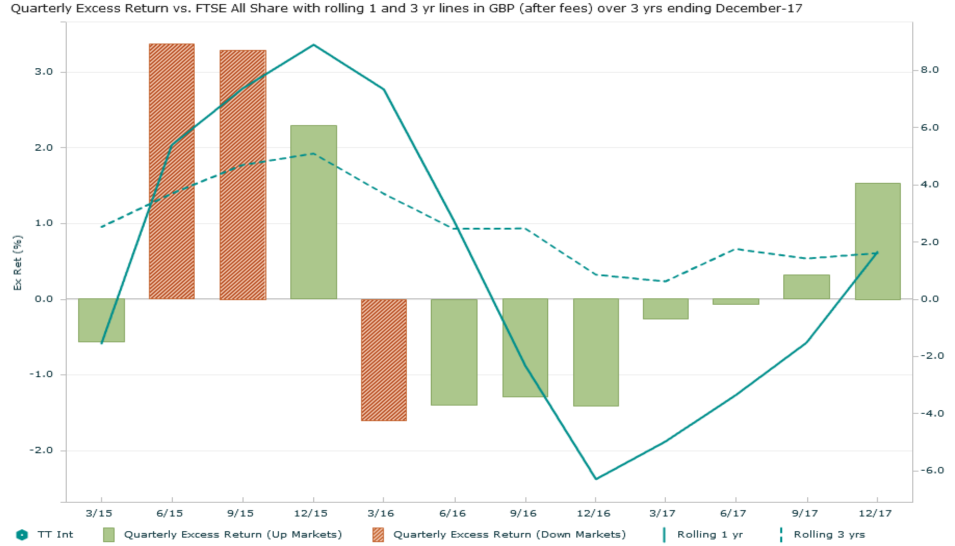
- Favoured the partnership structure that aligns manager's and Fund's interests
- Focussed investment activity and manages its capacity
- Clear, robust stock selection and portfolio construction

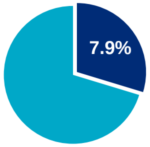
Performance



Rolling relative returns

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





SCHRODER – GLOBAL EQUITY PORTFOLIO (SEGREGATED)
£368.1M END VALUE *(£353.5M START VALUE)*

Item Monitored		Outcome
Mercer Rating	🟢	B+ (no change over period under review). ESG2
Performance Objective *Benchmark +4% p.a.*	🟠	Outperformed benchmark by 0.6% p.a. over three years

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

Manager Research and Developments

- The fund underperformed the benchmark by 0.9% over the quarter, largely due to poor stock selection in IT, financials and health care. From a regional perspective, North America and Emerging Markets positions were the main detractors.
- Largest detractors over the quarter were CheckPoint Software and Bayer. Estee Lauder and Amazon were the largest contributors to returns.
- The strategy performed above its benchmark over the one and three year periods to 31 December 2017.

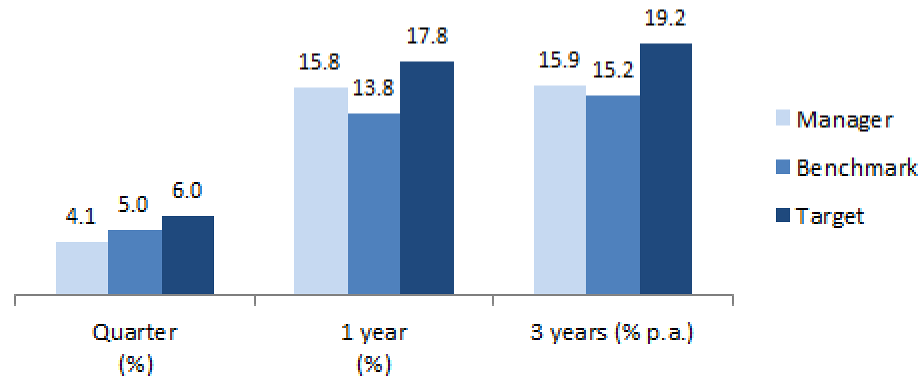
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

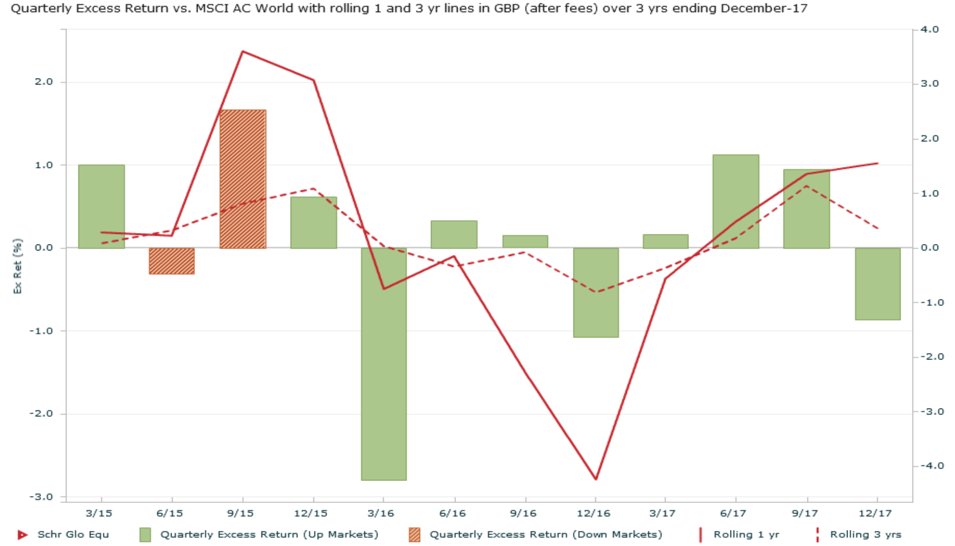
- Clear philosophy and approach
- Long term philosophy aligned with Fund's goals, commitment to incorporating ESG principles throughout the investment process
- Evidence of ability to achieve the Fund's performance target

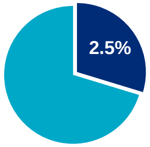
Performance



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 December-17





GENESIS ASSET MANAGERS – EMERGING MARKET EQUITIES (POOLED)
£116.6M END VALUE *(£208.4M START VALUE)*

Item Monitored	Outcome
Mercer Rating	A (no change over period under review). ESG3
Performance Objective *Benchmark*	Underperformed benchmark by 1.3% p.a. over three years
Three year tracking error was 3.7% p.a. – *source: Genesis*	Number of stocks: 131

Manager Research and Developments

- The fund has underperformed by 0.1% over the quarter, by 2.9% over the year and by 1.3% p.a. over the three years to 31 December 2017.
- On a regional basis, China was the largest contributor to returns over the quarter, whilst Russia was the most significant detractor.
- The biggest detractors at a stock specific level were the Chinese internet company Tencent and the Russian food retailer Magnit.
- From a sector perspective, Customer Discretionary was the largest contributor, whilst Financials was the most significant detractor.
- Given the types of quality growth companies Genesis favours, 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 Q4 and over the last 12 months was disappointing, it is in keeping with this view.

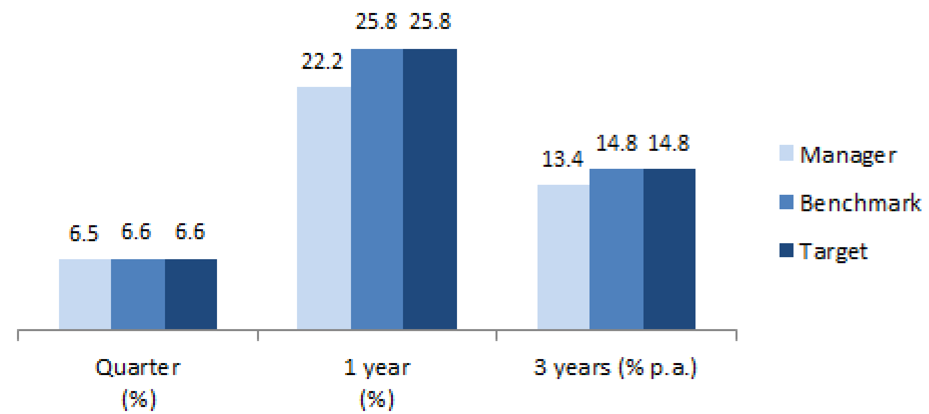
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

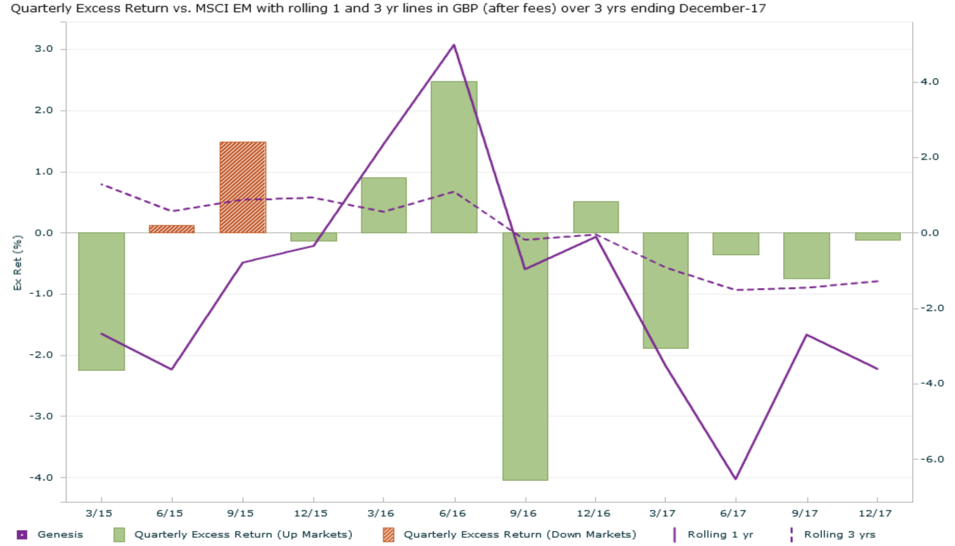
- Long term investment approach which takes advantage of evolving growth opportunities
- Niche and focussed expertise in emerging markets
- Partnership structure aligned to delivering performance rather than growing assets under management

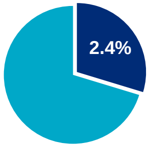
Performance



Rolling relative returns

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





UNIGESTION – EMERGING MARKET EQUITIES (POOLED – SUB-FUND)
£110.7M END VALUE *(£163.8M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *Benchmark +2-4% p.a.*	Underperformed benchmark by 3.8% p.a. over three years
Tracking error since inception was 5.9% p.a. – *source: Unigestion*	Number of stocks: 94

Manager Research and Developments

- The fund has underperformed by 0.2% over the quarter, by 5.9% over the year and by 3.8% p.a. over the three years to 31 December 2017. This is now the ninth straight quarter of underperformance.
- The underperformance over the quarter was mainly due to underperformance in December. Emerging markets started this month on a negative trend, but after one week a strong rebound took place. The fund did not fully participate to this bullish trend, as risky stocks mainly drove the rise. The overweight in Consumer Durables was detrimental for the relative performance as well as the selection in China, Thailand, Poland and South Korea.
- Volatility since inception is 14.1%, lower than the index (16.8%) and consistent with the strategy's objectives (and bias to quality and large- or mega-cap stocks).
- Performance over the year has been well below benchmark. This has come at a time when emerging markets have produced a very strong return, which is expected. The fund uses a defensive, high quality, low volatility approach, which should outperform in times of market volatility, but underperform in strongly performing markets.

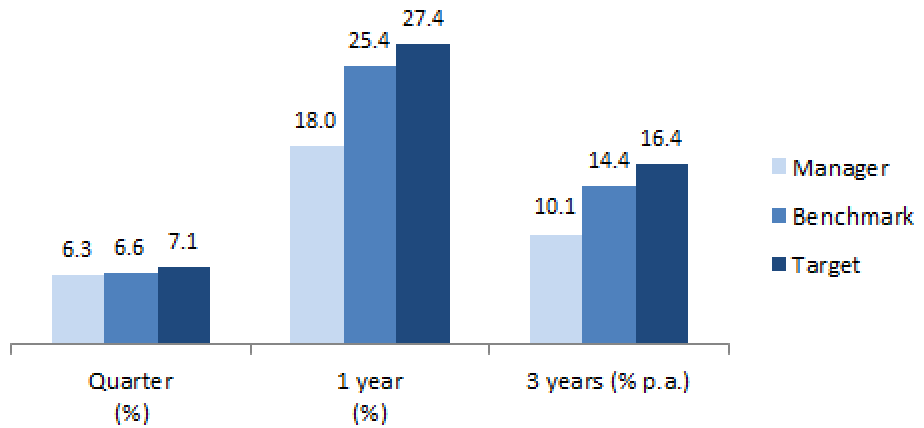
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

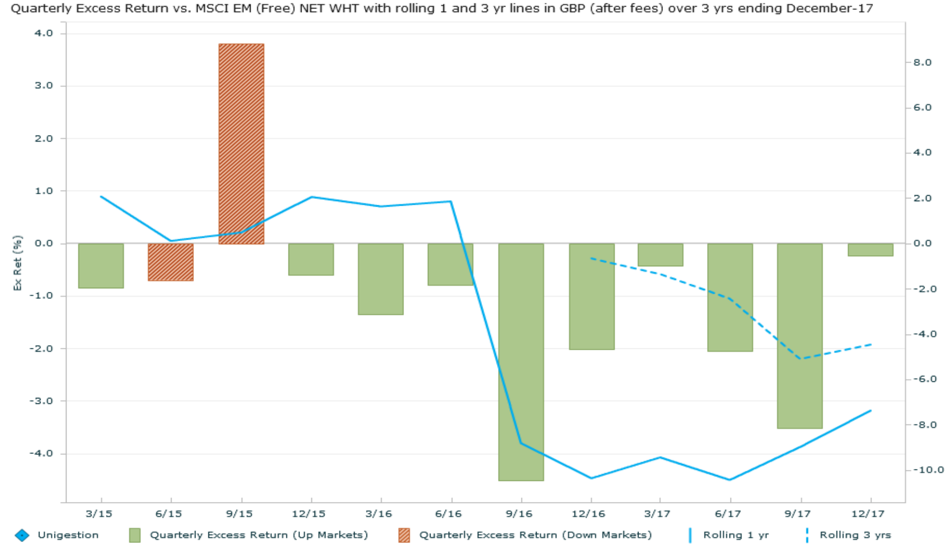
- Risk-based active management approach
- Aim for lower volatility than the MSCI Emerging Markets Index
- Combine fundamental and quantitative analysis

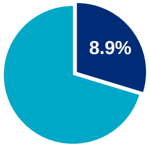
Performance



Rolling relative returns

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





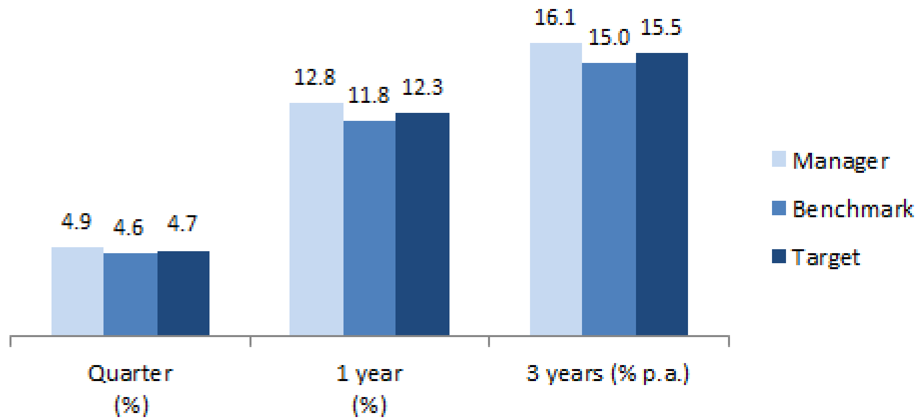
INVESCO – GLOBAL EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)
£413.7M END VALUE *(£392.7M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	B+ (no change over period under review). ESG4
Performance Objective *Benchmark +0.5% p.a.*	●	Outperformed benchmark by 0.9% p.a. over three years
Tracking error since inception was 1.5% p.a. – *source: Invesco*		Number of stocks: 399

Manager Research and Developments

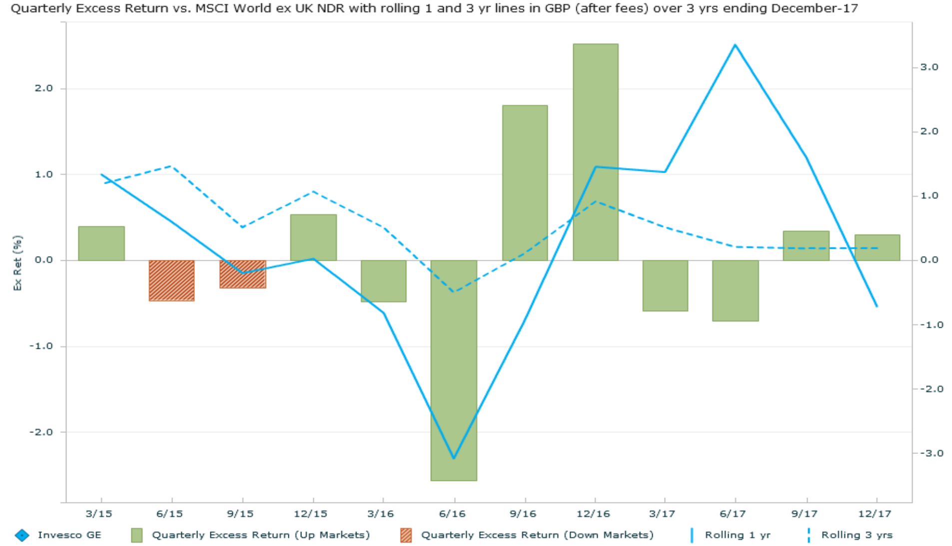
- The fund has outperformed its benchmark by 0.3% over the last quarter, and outperformed by 0.9% over the year. The fund outperformed the benchmark by 0.9% p.a. over the three year period to 31 December 2017, meeting its outperformance target.
- Outperformance over the quarter was largely due to stock selection in October, where the overweight in Health Care and the underweight in Information Technology stocks were the largest contributors.
- All sector and country allocations were broadly within +/- 1.0% of benchmark weightings, in line with general expectations for an enhanced indexation product.

Performance



Rolling relative returns

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

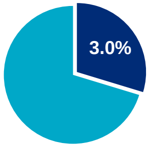


Reason for investment

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



PYRFORD – DGF (POOLED)
£138.0M END VALUE (£137.4M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	R (no change over period under review)
Performance Objective *RPI +5% p.a.*	●	Underperformed objective by 2.5% p.a. over three years

Manager Research and Developments

- The fund has underperformed its objective (RPI + 5% p.a.) over the quarter by 1.6%, by 6.6% over the year and by 2.5% p.a. over three years.
- The equity portfolio detracted over the quarter, with both the UK and overseas portfolios notably underperforming the wider market. However this would be expected in a "bull market" given the defensive nature of the portfolio. The portfolio, positioned in defensive sectors, suffered as the market reacted to rising interest rates by rotating out of sectors such as Utilities that in the short term are sensitive to rising bond yields. Furthermore, the portfolio's bonds lost some ground in absolute terms as yields rose sharply towards the end of the quarter. The portfolio's UK bonds, all positioned at the short end of the curve, underperformed the wider market (longer duration bonds), whilst the portfolio's overseas bonds outperformed. Finally, currency management contributed to performance over the quarter.
- The strategy 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.

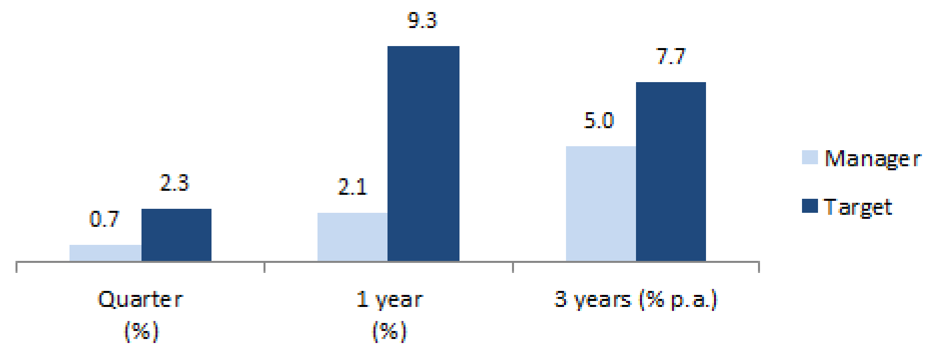
Reason for investment

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

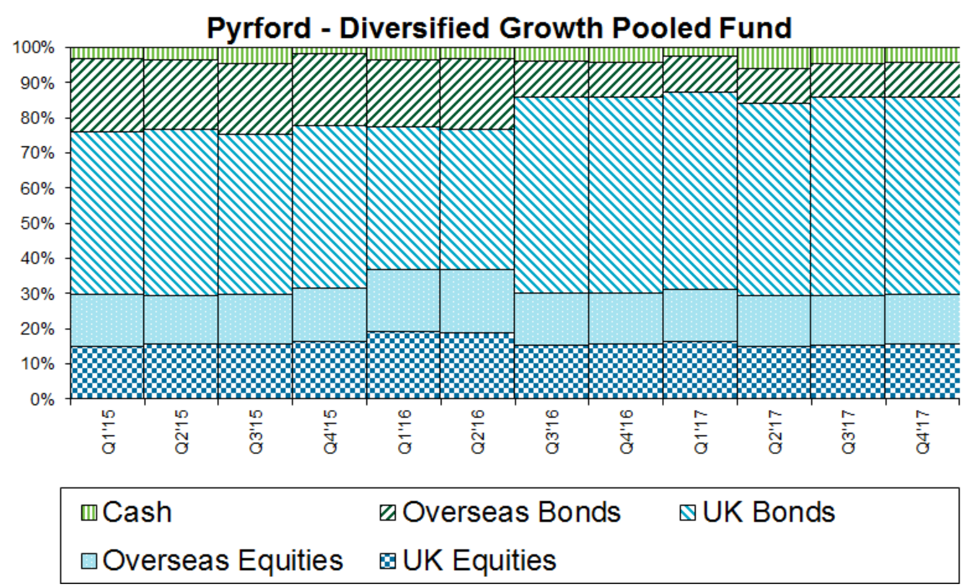
Reason for manager

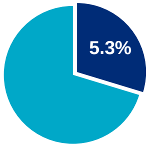
- Asset allocation skill between equities, bonds and cash
- Fundamental approach to stock selection

Performance



Asset Allocation





STANDARD LIFE – DGF (POOLED)
£244.9M END VALUE *(£240.1M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (P) (Provisional status assigned in November 2017). ESG4
Performance Objective *Cash +5% p.a.*	Underperformed objective by 2.4% p.a. over the year

Manager Research and Developments

- Over the quarter the fund returned 1.9% against an objective of 1.4%, and returned 3.1% against an objective of 5.5% over the year.
- Signs of stable economic growth continued in the US and Europe, enabling the US Federal Reserve to again raise interest rates in December and the European Central Bank to unveil plans to gradually reduce monetary support. This environment was advantageous for both the US and European equity market allocations. Further, the US real yields position gained as Treasury Inflation Protected Securities (TIPs) were lifted by rising US inflation expectations towards quarter-end. Within currency strategies, the preference for the Indian rupee over the Swiss franc was rewarded, as strong demand for domestic equities early in the quarter drove the rupee higher.
- Mercer's researchers met with Guy Stern (Head of Multi-Asset and Macro Investing) to discuss GARS. Following internal discussions, we decided to make the GARS rating Provisional in November 2017, amid concern at the strategy's future growth and capacity issues. The Provisional status means that there is temporary uncertainty around the ratings i.e. that downgrades are possible in the near term, should we not gain further comfort in the strategy.

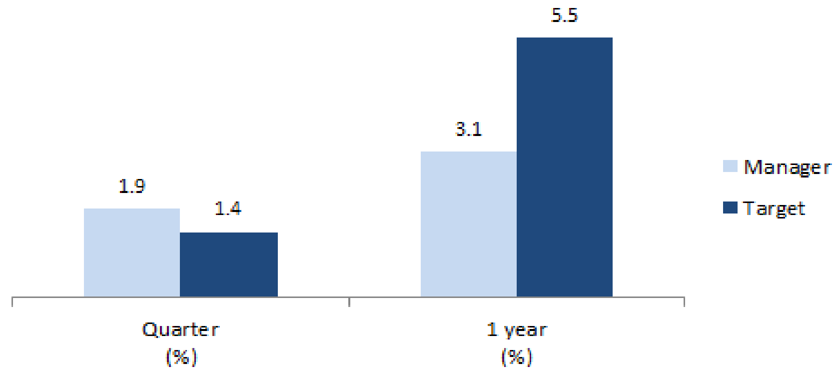
Reason for investment

To provide attractive absolute returns over the long term

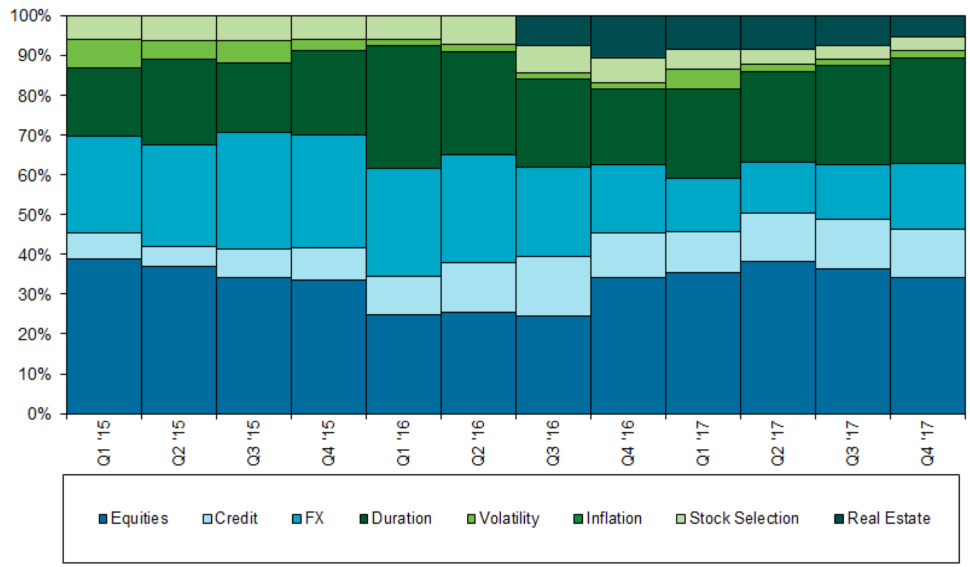
Reason for manager

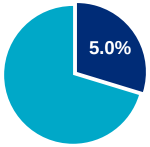
- Diversification from equities
- Exposure to relative value strategies and different approach to Pyrford's largely static asset allocation investment strategy

Performance



Asset Allocation/Risk Exposure





RUFFER – DGF (POOLED)
£233.2M END VALUE *(£226.0M START VALUE)*

Item Monitored	Outcome
Mercer Rating	A (no change over period under review). ESG3
Performance Objective *Cash +5% p.a.*	Too early to determine

Manager Research and Developments

- Mandate was initiated on 27 September 2017.
- Ruffer delivered a performance of 2.7% over the quarter, against an objective of 1.4%.
- Japanese equities, especially banks and life assurers, contributed to performance amid encouraging signs of domestic growth.
- Sony and BP were the holdings the contributed most to returns over the quarter.
- Due to their relatively cautious outlook, Ruffer hold a number of option protection strategies which detracted as markets rallied and volatility remained subdued.

Reason for investment

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

Reason for manager

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

DGF MANDATES

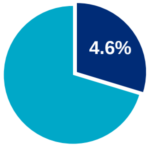
Performance characteristics vs. BofAML LIBOR 6 month average UK in GBP (after fees) over 3 yrs ending December-17

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

	Ret (%pa)	Std Dev (%pa)	IR
Pyrford DGF	4.6 *(30)*	3.6 *(43)*	1.1 *(12)*
SLI GARS	1.3 *(44)*	4.1 *(38)*	0.2 *(44)*
Ruffer DGF	3.7 *(33)*	5.8 *(22)*	0.5 *(30)*
95th Percentile	11.1	8.8	1.5
Upper Quartile	6.7	7.0	1.1
Median	5.0	5.6	0.7
Lower Quartile	2.7	4.4	0.4
5th Percentile	1.2	3.6	0.1
Number	46	46	46

Commentary

- Over the three years to 31 December 2017, Pyrford outperformed the Standard Life GARS pooled fund and the Ruffer pooled fund by 3.3% p.a. and 0.9% p.a. respectively.
- All three mandates are below the median of the DGF universe for performance. Furthermore, 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 between Pyrford and Standard Life (volatilities of 3.6% p.a. and 4.1% p.a. respectively), while Ruffer had a volatility of 5.8% p.a.
- Pyrford and Standard Life (which were in the lower quartile for volatility) were less volatile than most managers in the universe, while Ruffer was above the median.
- The information ratio (a measure of risk adjusted returns) for Pyrford was the 12th highest of the universe, for Standard Life was the 3rd lowest and for Ruffer was below the median.
- The information ratio (IR) measures the amount of 'information' that the manager can extract from the market. Expressed in another way this is the amount of excess return generated per unit of risk or tracking error added. The IR is therefore a measure of the skill of the manager. If the IR is large and it is measured over a reasonable period of time, then this is an indication that the manager has some skill in managing money. Mercer defines the IR as the annualised excess return divided by the annualised tracking error.



JP MORGAN – FUND OF HEDGE FUNDS
£213.9M END VALUE *(£215.7M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	●	B+ (no change over period under review). ESG4
Performance Objective *Cash +3% p.a.*	●	Outperformed target by 0.4% over the year (in USD)

Item	
Number of funds	35 (as at 30 November 2017)

Strategy	Contribution to Performance over the Quarter in USD (%)
Relative Value	0.66
Opportunistic/Macro	-0.52
Long/Short Equities	0.14
Merger Arbitrage/Event Driven	-0.09
Credit	-0.15
Total	**-0.03 (including cash and fees)**

In USD terms, the fund return was close to 0% over Q4 (0.8 % below benchmark). This return was below the wider hedge fund indices, discussed over the next two pages.

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

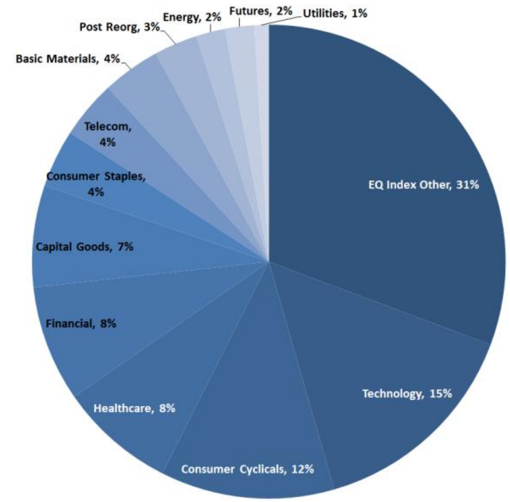
Reason for manager

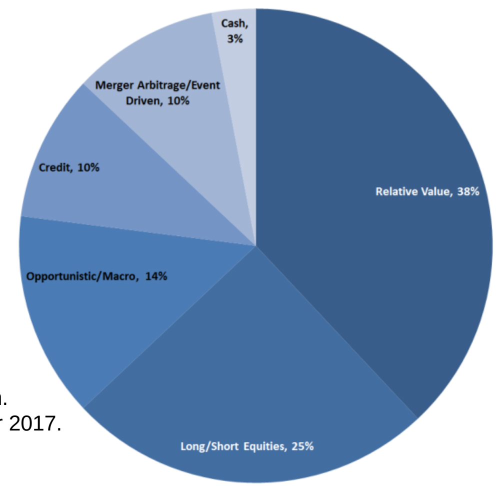
- Niche market neutral investment strategy
- Established team with strong track record
- Complemented other funds in the portfolio

Performance (GBP, JP Morgan return converted from USD)

Last Quarter	-0.9%	Target	0.8%
Last Year	-5.4%	Target	3.4%

Portfolio Composition and Equity Sector Allocation

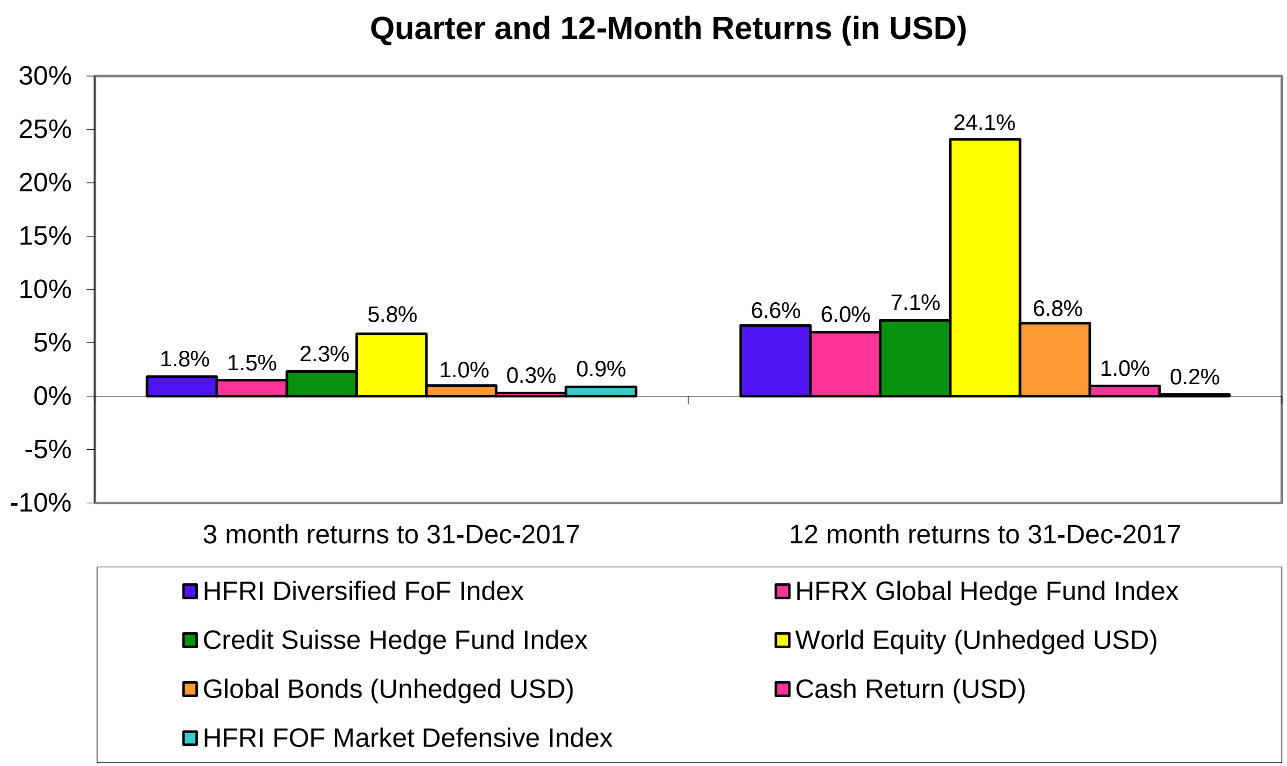




Source: JP Morgan.
As at 30 November 2017.

HEDGE FUND COMMENTARY – Q4 2017

- Overall, hedge funds generated good returns for the year. All major hedge fund strategies earned positive results for the period.
- While the low beta of the average hedge fund portfolio have hindered results relative to risk assets, hedge funds have continued to fulfill a risk-diversifying mandate, earning absolute returns with limited sensitivity to broad markets (as illustrated below) and have outperformed bonds, their risk-reducing counterpart, over the trailing three years.



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

HEDGE FUND COMMENTARY – Q4 2017

Relative Value (38%)

- Fixed Income and Convertible Arbitrage strategies gained 2.2% and 0.9%, respectively, during the fourth quarter of 2017.
- Relative value and arbitrage-oriented strategies broadly earned modest positive results during the year overall, despite a low interest rate and muted volatility environment. Convertible arbitrage strategies benefitted from an uptick in new issuance and tightening credit spreads, though returns were offset by hedges.

Long/Short Equities (25%)

- Long/Short Equity and Equity Market Neutral ("EMN") strategies earned 3.3% and 1.4%, respectively, in Q4 2017.
- Long/short equity strategies unsurprisingly benefitted from directional equity markets in 2017. Reasonable market dispersion aided the opportunity set for security selection during the year and a return of alpha generation, despite low broad market volatility, was encouraging (particularly on the short side).

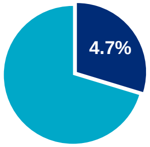
Opportunistic / Macro (14%)

- The broad Global Macro universe gained 1.9% during the quarter, while Managed Futures earned 6.6%.
- Macro sub-strategies broadly saw a reversal of fortune to finish off the year. Discretionary macro strategies faltered in the fourth quarter, eliminating year-to-date gains and ending 2017 in the red.
- Systematic strategies, however, benefited from strongly trending equities and were able to overcome negative year-to-date performance in the fourth quarter to end the year in positive territory. We note, however, that due to positioning changes, many of these strategies are likely heavily exposed to the "risk-on" trade at the moment and may not provide the diversifying characteristics that many investors anticipate.

Merger Arbitrage / Event Driven (10%)

- Event-driven and distressed strategies continued to post positive returns throughout the quarter and year.
- While equity and credit markets provided a tailwind, idiosyncratic, market-insensitive positions have continued to be material drivers of performance. Despite struggles in Puerto Rican debt following Hurricane Maria, gains in restructuring, liquidation and structured credit situations contributed materially during the year.
- Merger arbitrage generated modest gains during 2017, coming off from strong deal volume and attractive spread levels, though regulatory risk following the US Department of Justice lawsuit against the ATT/Time Warner deal increased investor uncertainty broadly and mitigated returns in the fourth quarter.

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



SCHRODER – UK PROPERTY FUND OF FUNDS
£218.4M END VALUE *(£216.8M START VALUE)*

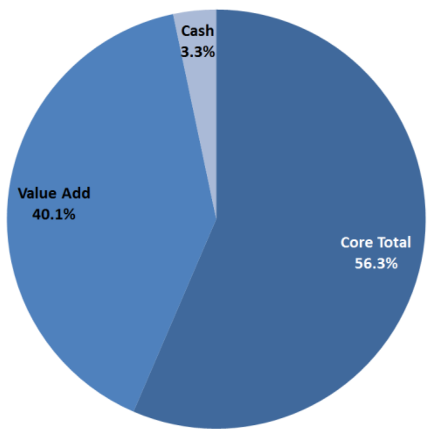
Item Monitored	Outcome
Mercer Rating	B (no change over period under review). ESG3
Performance Objective *Benchmark +1% p.a.*	Underperformed benchmark by 0.4% p.a. over five years

Manager Research and Developments

- The fund slightly outperformed the benchmark by 0.2% over the quarter. The Industrial Property Investment Fund and Metro Property Unit Trust were the largest contributors to returns. Value Add funds added to performance over the quarter, while Core funds were neutral and cash holdings diluted returns.
- Over the five year period, the fund has outperformed its benchmark by 0.2% p.a., largely due to performance from Value Add strategies.
- Over the quarter, there were c. £3.8m of purchases and c. £5.8m of sales. Units were acquired in Regional Office Property Unit Trust (c. £3.4m) and Multi-Let Industrial Property Unit Trust (c. £0.4m). Units sold were all from Aviva Investors Pensions Property Fund.

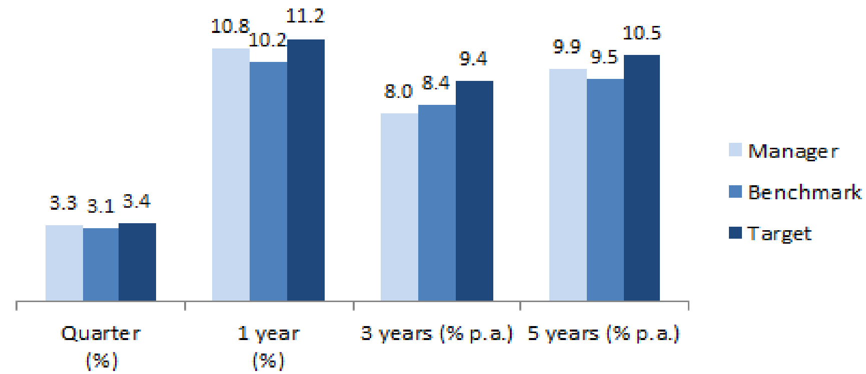
Manager and Investment type splits

Top 5 Holdings	Proportion of Total Fund (%)
Industrial Property Investment Fund	12.7
L&G Managed Property Fund	12.7
Metro Property Unit Trust	9.9
Hermes Property Unit Trust	9.8
Schroder Real Estate Real Income Fund	9.5

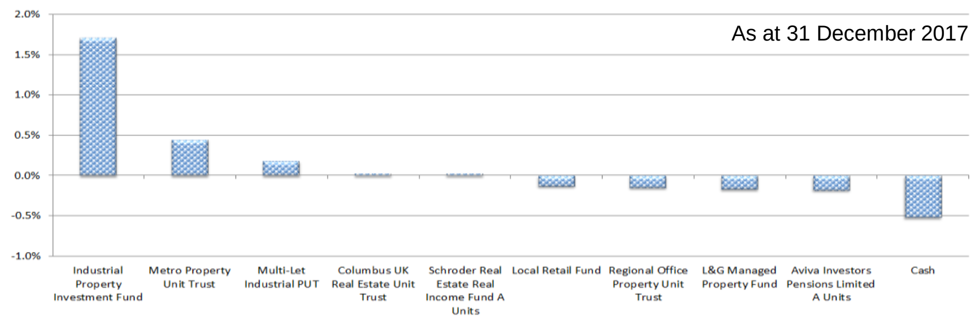


As at 31 December 2017

Performance



Top 5 Contributing and Detracting Funds over 12 Months

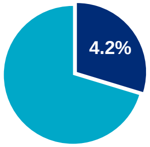


Reason for investment

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



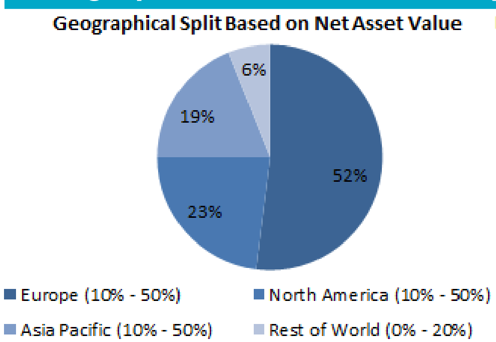
PARTNERS – OVERSEAS PROPERTY
£197.4M END VALUE *(£215.1M START VALUE)*

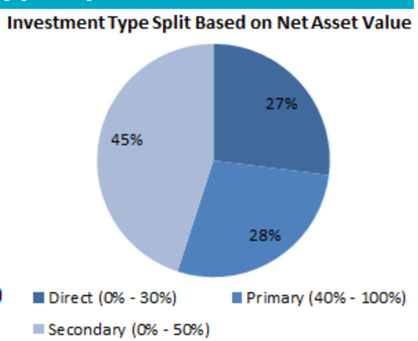
Item Monitored	Outcome	
Mercer Rating	🟢	B+ (no change over period under review). ESG4
Performance Objective *IRR of 10% p.a.*	🔴	IRR since inception to 30 September 2017 at 7.3% p.a. (in local currency) is below target of 10% p.a.

Manager Research and Developments (Q3 2017)

- The portfolio delivered a net return of -2.6% over Q3 2017 for USD programmes in local currency, and 2.3% 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 30 September 2017 at 7.3% p.a. (in local currency) is below their target of 10% p.a.; over the year to date to 30 September 2017 IRR was 1.1% (in local currency terms).
- Over Q3, the allocation to Europe increased from 48% to 52%, with North America decreasing (from 25% to 23%) and Asia Pacific also decreasing (from 21% to 19%). 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 30 September 2017





** Note the allocation shown is based on NAV, while the exposure guidelines are calculated by adding the NAV and unfunded commitment. As such, as at 30 September 2017, Partners confirmed the Europe exposure is still within the allocation range.*

Portfolio update to 30 September 2017

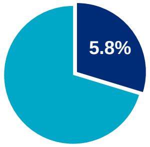
Partners Fund	Total Drawn Down (£m)	Total Distributions (£m)	Net Asset Value (£m)	Since Inception Net IRR (local currency)
Global Real Estate 2008	31.35	24.31	15.87	5.6
Real Estate Secondary 2009	19.63	12.01	18.54	10.1
Asia Pacific and Emerging Market Real Estate 2009	17.70	11.32	10.80	3.1
Distressed US Real Estate 2009	14.22	16.43	5.20	8.5
Global Real Estate 2011	25.11	15.33	22.49	10.2
Direct Real Estate 2011	11.44	7.92	9.48	7.9
Real Estate Secondary 2013	10.56	4.17	13.48	22.1
Global Real Estate 2013	76.65	8.25	81.99	4.9
Real Estate Income 2014	20.89	4.04	19.94	2.6
Asia Pacific Real Estate 2016	3.30	1.00	3.73	n/a
Total	**230.86**	**104.76**	**201.51**	**7.3**

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)
£268.2M END VALUE *(£259.6M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review). ESG2
Performance Objective *Cash + 2.5% p.a.*	Outperformed objective by 16.8% over the year (in USD)

Item	
Number of holdings	15

Manager Research and Developments

- Over the quarter the fund returned 4.1% in US Dollar terms, against Avon's performance objective of 0.7% (cash + 2.5% p.a.). Key contributors to performance were OHL Mexico and M6toll.
- As a consequence of this quarter's performance, IRR since inception on 1 June 2016 rose to 14.4%. Please note that this is still early in the life of the fund.
- During the quarter, IFM completed the acquisition of a controlling stake in Mersin International Port and increased its direct ownership in Conmex (held in OHL Mexico). In December, IFM also realised its investment in the Freeport Investment Notes and participated in a portion of the new Freeport Investment Notes 2 issuance.
- The pooled fund also received income of $142.8m over the quarter, with major dividend distributions from Indiana Toll Road, Manchester Airports Group and OHL Mexico.

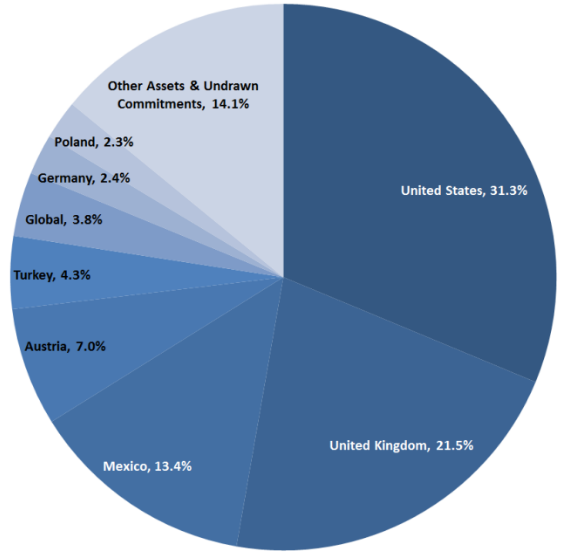
Reason for investment

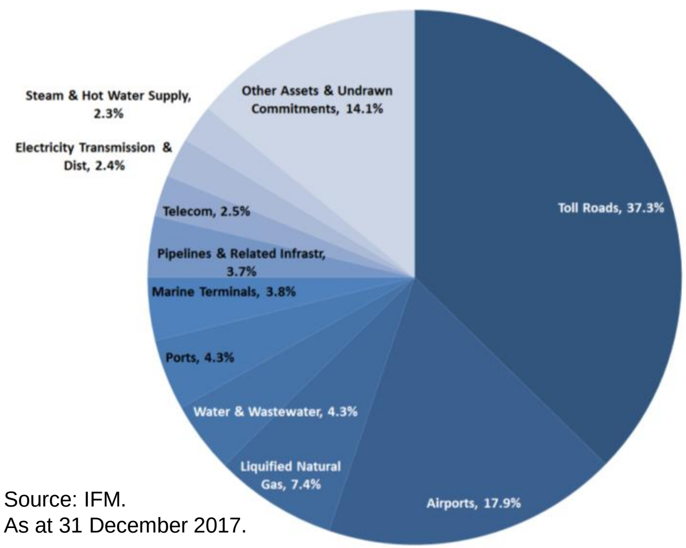
To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

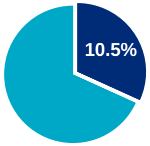
- Invests in core infrastructure assets in countries with established regulatory environments and strong rule-of-law.
- Seeks to invest in assets with strong market positions, predictable regulatory environments, high barriers to entry, limited demand elasticity and long lives

Geographical and Sub-Sector Allocation





Source: IFM.
As at 31 December 2017.



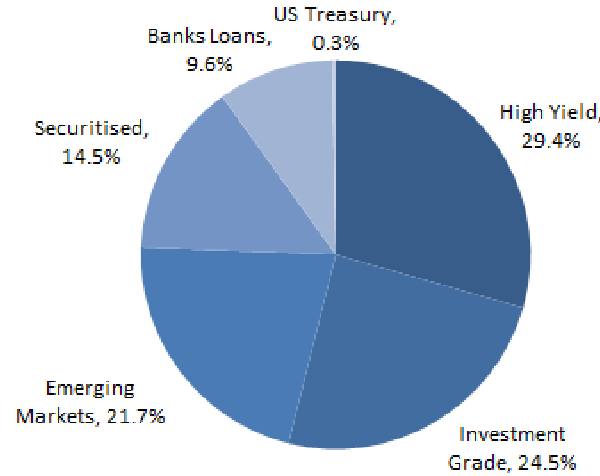
LOOMIS SAYLES – MULTI-ASSET CREDIT (POOLED)
£487.7M END VALUE *(£194.0M START VALUE)*

Item Monitored	Outcome
Mercer Rating	A (no change over period under review). ESG3
Performance Objective *Benchmark*	Too early to determine

Manager Research and Developments

- Mandate was initiated on 29 September 2017.
- The portfolio returned 0.6% over the quarter, in line with its benchmark.
- High yield credit saw muted returns as spreads remained tight, with limited upside. Emerging markets returns were modest over the quarter as the market experienced bouts of US dollar strength, increased volatility with the South African election, and weak Asian total returns. Emerging markets high yield outperformed developed during the period, which had been the case all year. Investment grade credit performed well during the quarter as solid underlying fundamentals and decent demand tightened spreads.
- The overall duration of the portfolio was 3.9 years (within Loomis' permitted range of 0-7 years, changed from 0-5 years in December). Loomis believe developed market growth is broadly strong and emerging market growth is improving.

Sector Allocation



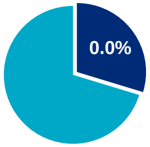
Source: Loomis Sayles.
As at 31 December 2017.

Reason for investment

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

Reason for manager

- Core low to moderate Multi-Asset Credit option
- Depth and breadth of fundamental credit analysis



ROYAL LONDON ASSET MANAGEMENT – FIXED INTEREST (POOLED)
£0.0M END VALUE *(£133.0M START VALUE)*

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

Manager Research and Developments

- The mandate was completely disinvested 20 October 2017. The information contained in this report is to 20 October 2017 unless otherwise stated.
- Before termination, performance for the quarter was below benchmark by 0.1%. The fund also outperformed over the year by 2.1% and over the three years by 0.8% p.a., meeting its outperformance target.
- Royal London retain their short duration position, with some lengthening into year end, in the expectation of a gradual increase in UK government bonds yields. This positioning had a small positive impact upon relative performance.
- The key drivers of performance over the quarter were the bias towards financials, particularly subordinated debt, and the stock selection within secured and structured debt.
- Royal London remain underweight AAA-AA bonds, and overweight A-unrated. The bias had a positive impact upon performance.

Weighted Duration	Start of Quarter	End of Quarter
Fund	*8.0*	*8.4*
Benchmark	*8.0*	*8.0*

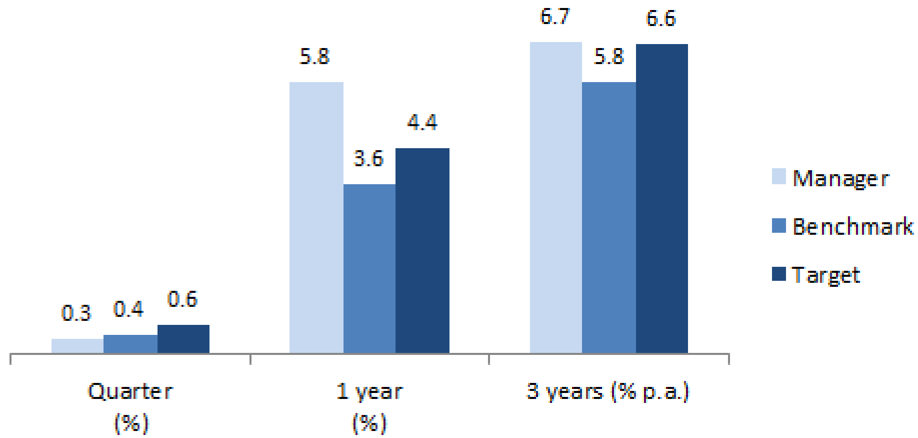
Reason for investment

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

Reason for manager

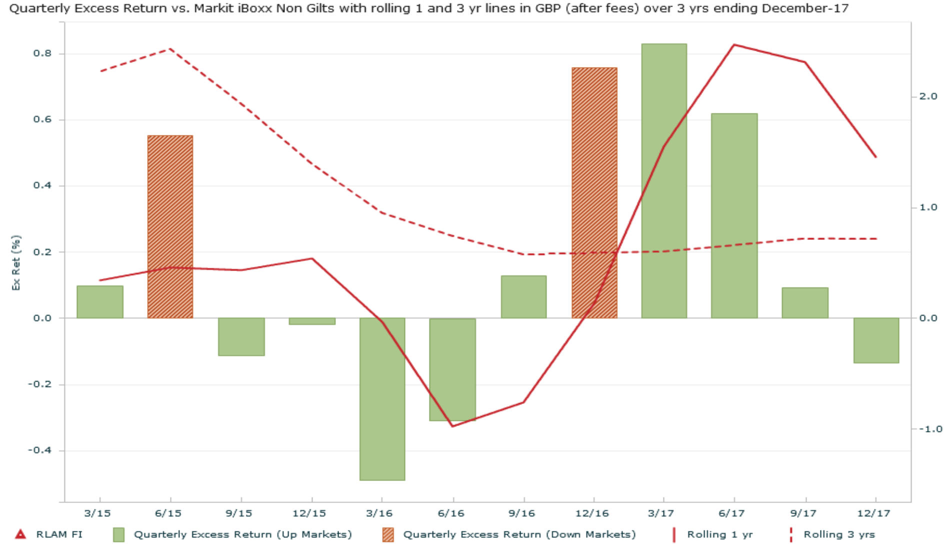
- Focussed research strategy to generate added value
- Focus on unrated bonds provided a "niche" where price inefficiencies are more prevalent. Product size means can be flexible within market

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 December-17



RECORD – CURRENCY HEDGING (SEGREGATED)
£66.3M END VALUE *(£59.6M 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 marginally more so against the Yen (by 0.8% and 0.9% respectively). Sterling depreciated against the euro over the quarter by 0.7%. The same trends hold when compared to six months and one year ago. (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 Q4 2017 Performance (£ terms)

Passive Developed Equity Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	571,439,794	593,351,568	(0.82%)	0.23%	0.27%	(0.53%)
EUR	174,650,950	178,486,169	0.74%	(0.26%)	(0.23%)	0.51%
JPY	74,651,999	80,482,543	(0.90%)	0.52%	0.59%	(0.31%)
Total	**820,742,743**	**852,320,280**	**(0.48%)**	**0.16%**	**0.19%**	**(0.28%)**

Passive Hedge Fund Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	223,424,780	213,595,095	(0.82%)	0.47%	0.52%	(0.13%)
Total	**223,424,780**	**213,595,095**	**(0.82%)**	**0.47%**	**0.52%**	**(0.13%)**

Passive Property Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	31,229,934	28,295,997	(0.82%)	(3.58%)	0.52%	(0.14%)
EUR	173,169,530	168,901,586	0.74%	0.16%	(0.48%)	0.34%
Total	**204,399,464**	**197,197,583**	**0.52%**	**(0.35%)**	**(0.34%)**	**0.27%**

Passive Infrastructure Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	119,647,457	125,317,033	(0.82%)	0.47%	0.53%	(0.18%)
EUR	37,005,254	32,911,510	0.74%	(0.52%)	(0.50%)	0.35%
Total	**156,652,711**	**158,228,544**	**(0.50%)**	**0.28%**	**0.33%**	**(0.07%)**

APPENDIX 1

SUMMARY OF MANDATES

SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance Target (p.a.)
BlackRock	Passive Global Equity	Composite using monthly mean fund weights	-
BlackRock	Passive Corporate Bond	Composite using monthly mean fund weights	-
BlackRock	Matching (Liability Driven Investing)	Return on liabilities being hedged	-
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%
Pyrford	Diversified Growth Fund	RPI +5% p.a.	-
Standard Life	Diversified Growth Fund	6 Month LIBOR +5% p.a.	-
Ruffer	Diversified Growth Fund	3 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.	-
Loomis Sayles	Multi-Asset Credit	50% Barclays Global Agg, 25% Barclays Global HY, 15% JPM CEMBI, 10% S&P/LSTA Leveraged Loan	+0.5-1.0%
Royal London Asset Management	UK Corporate Bonds	iBoxx £ Non-Gilts All Maturities	+0.8%
Record	Passive Currency Hedging	N/A	-
Cash	Internally Managed	7 Day LIBID	-

APPENDIX 2
MARKET STATISTICS INDICES

MARKET STATISTICS INDICES

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

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

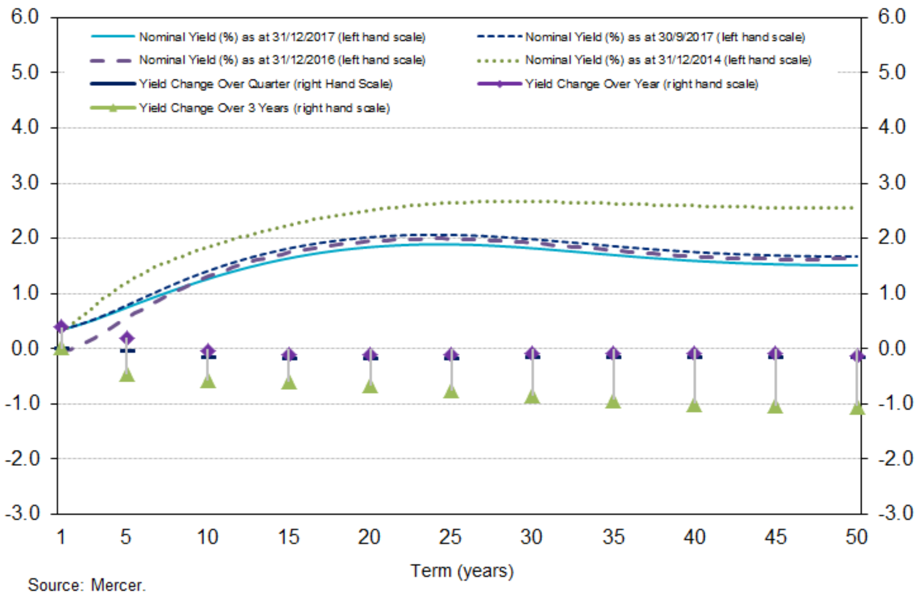
APPENDIX 3
CHANGES IN YIELDS

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	31 Dec 2017	30 Sep 2017	31 Dec 2016	31 Dec 2015
UK Equities	3.59	3.68	3.47	3.70
Over 15 Year Gilts	1.68	1.84	1.76	2.57
Over 5 Year Index-Linked Gilts	-1.66	-1.51	-1.66	-0.70
Sterling Non Gilts	2.17	2.30	2.29	3.23

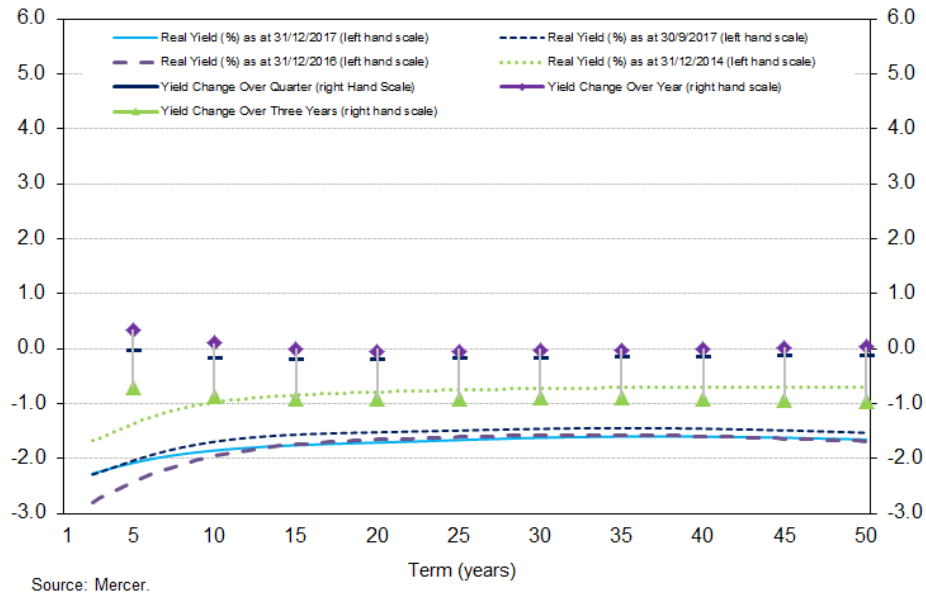
- Bond market returns were generally positive over the quarter. Government bond yields fell across the curve in the UK. In the US and parts of Europe, however, shorter dated yields rose and the yield curve flattened, following expectations of sustained growth and an easing in monetary policy stimulus.
- In the UK, the Over 15 Year Gilt Index outperformed the broader global bond market over the quarter, generating a return of 3.6%.
- Real yields were also down over the quarter. This led to the Over 5 Year Index-Linked Gilts Index returning 3.9%.
- Credit spreads remained largely unchanged over the quarter, with the sterling Non-Gilts All Stocks index ending the quarter at c.1.0%. UK credit assets returned 1.8% over the quarter, outperforming 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.

GUIDE TO MERCER RATINGS

MERCER RATING SCALE

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

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

SUPPLEMENTAL INDICATORS

Provisional (P)

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

Watch (W)

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

Specifically Assigning (P) and (W) Supplemental Indicators

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

High Tracking Error (T)

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

NICHE STRATEGIES

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

RESEARCH INDICATIONS – INDICATIVE VIEW

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

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

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

OPERATIONAL RISK ASSESSMENTS

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

ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE RATINGS

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

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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