HEALTH WEALTH CAREER

AVON PENSION FUND

PANEL INVESTMENT PERFORMANCE REPORT QUARTER TO 31 MARCH 2018

MAY 2018

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- When there is no (or limited) recognised or secondary market, for example, but not limited to property, hedge funds, private equity, infrastructure, forestry, swap and other derivative based funds or portfolios it may be difficult for you to obtain reliable information about the value of the investments or deal in the investments.
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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.

CONTENTS

SECTION 1
EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

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

Fund Performance

- The value of the Fund's assets decreased by £51m over the first quarter of 2018, to £4,609m as at 31 March 2018. This decrease was driven by negative returns from most asset classes, in particular equities.

Strategy

- Global (developed) equity returns over the last three years were 10.9% p.a., above 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 solid economic growth and continued strong corporate earnings growth expectations although valuations remain stretched.
- Emerging market equities have returned 10.4% p.a. over the three-year period. It is above the assumed return of 8.70% p.a. as returns have been reasonably strong 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, an expanding global economy, a weaker Dollar, rising commodity prices and strong earnings growth.
- UK government bond returns over the three-year period remain materially higher than the long-term assumed strategic returns as investor demand for gilts remains high. Fixed interest gilts returned 6.1% p.a. versus an assumed return of 1.90% p.a. and index-linked gilts returned 7.8% p.a. versus an assumed return of 2.15% p.a. Gilt yields remained broadly steady over the quarter, and as a result gilt returns were muted
- UK corporate bonds returned 3.3% p.a. over the three-year period against an assumed strategic return of 3.25% p.a.
- The three-year UK property return of 8.9% 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 the Euro over the quarter, but fell against the Japanese Yen.

EXECUTIVE SUMMARY

Managers

- Manager total returns over the quarter were broadly negative, particularly the equity and absolute return managers. On the plus side, IFM produced a high absolute performance over the period of over 12%.
- Absolute returns over the year to 31 March 2018 were strong. All mandates (except Jupiter and Pyrford) delivered positive absolute return, with the Genesis and Schroder Property mandates leading the way. In terms of relative performance, out of the active equity managers, TT and Schroders outperformed their benchmarks over the year. Of those underperforming, the emerging markets equity mandate with Unigestion and the Jupiter UK Equity strategy delivered the most significant underperformance. Pyrford's defensive positioning, with its large bond allocation, has detracted from performance, resulting in underperformance versus its RPI +5% p.a. benchmark. 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.
- Over the three-year period all mandates (except Aberdeen Standard) 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, Aberdeen Standard, 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.
- Broadly speaking, the Fund's active equity managers have a tilt towards quality and low volatility style factors, along with limited exposure to value. Over the last year, 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

- The transfer of the BlackRock passive regional equity mandate to a passive global low carbon equity fund was implemented at the end of Q4 2017.
- The transfer of equities from Invesco to BlackRock for collateral adequacy management purposes, was completed at the end of Q1 2018.

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*

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 of some restructuring changes in their passive equities department, with Rob Shimell, Managing Director, becoming the new Head of the EMEA Institutional Indexing team. See page 25 for details.
- A number of the active equity managers (Jupiter, 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
Pyrford	**DGF**	-	✕	✕	N	*32*
Aberdeen Standard	**DGF**	-	✕	✕	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*
Record Currency Management	**Currency Hedging**	-	N/A	N/A	N	*43*

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 removed from Aberdeen Standard GARS in March 2018. See page 33 for details.
- Aberdeen Standard lost its largest client. See page 33 for details.
- Trevor Bradley, Investment Director at Ruffer, will be leaving the firm. See page 34 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

After eight quarters of positive returns from growth assets, the first quarter of 2018 saw negative returns for the majority of growth asset classes. Most equity markets performed poorly over the quarter both in sterling and local currency terms, with only emerging market equities performing positively in local currency terms (return of 0.7%).

Within UK equities, small capitalisation stocks outperformed larger capitalization stocks over the quarter, returning -4.8% against a return of -6.9% for the broader market. UK economic growth is estimated to have increased by 0.4% in Q4 2017. Year on year CPI fell to 2.7% to the end of February, in line with the Bank of England's target inflation range. In line with expectations, the Bank of England made no change to the base interest rate in March, keeping it at 0.5%.

Within global equity markets, there was a sell off for US equities, due to progressive quantitative tightening from the Federal Reserve. This coupled with rising inflation rates led investors to fear the era of cheap money was coming to an end. Europe (ex-UK) equity performance was also poor, partially driven by concerns about the long-term sustainability of the single currency, which resurfaced as Italy's general election led to a hung parliament. Emerging markets continued to gather momentum on the back of broadly strong economic fundamentals, the expanding global economy and forward earnings growth. These strong economic fundamentals are partly due to the US dollar depreciating against other major currencies. Furthermore, President Trump's tariff announcements fueled fear of a global trade war even though they may be a negotiation tool that primarily targets China for the time being.

Bond Market Review

Government bond yields remained steady at the longer dated end of the curve with the exception of the US where US Treasury yields rose. Shorter dated yields in the EU and Japan hardly moved but in the US and UK short dated yields rose.

In the UK, the Over 15 Year Gilt Index outperformed the broader global bond market over the quarter, generating a return of 1.5%.

Real yields were up at shorter maturities and were broadly flat at longer maturities over the quarter. This led to the Over 5 Year Index-Linked Gilts Index returning 0.1%.

Credit spreads moved upwards over the quarter, with the sterling Non-Gilts All Stocks index ending the quarter at c.1.1%. UK credit assets returned -1.2% over the quarter, outperforming the return of global credit in local currency terms.

Currency Market Review

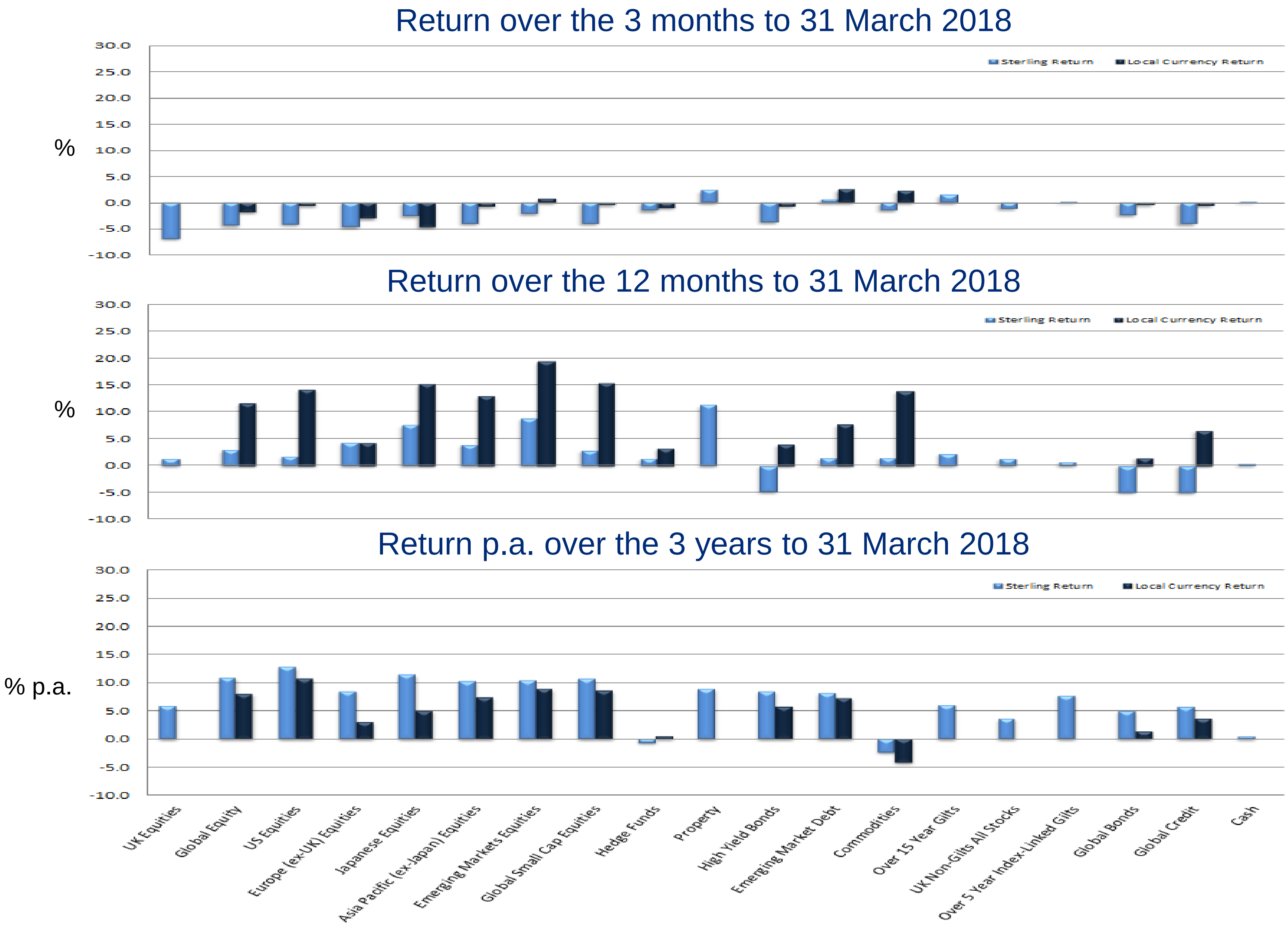
Over the quarter, sterling appreciated against the dollar by 3.7% and against the euro by 1.3%. Sterling depreciated against the Japanese yen over the quarter by 2.1%.

Commodity Market Review

Commodities produced mixed returns over the quarter, with the S&P GSCI index rising by 2.2% in US dollar terms. Energy continued to be the strongest performer, albeit the increase was at a slower pace than in the previous quarter. Brent crude oil prices rose from US$ 66.6/barrel, to US$ 67.6/barrel. Agriculture was the second strongest performer with a 3.3% return. The price of gold rose from c. $1,304/oz to c. $1,326/oz.

Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE



Source: Thomson Reuters Datastream.

SECTION 3
STRATEGIC ASSUMPTIONS

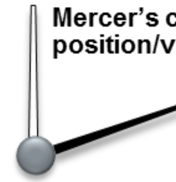
MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.05	10.9	*Remains ahead of the assumed strategic return. This has decreased from 15.5% p.a. last quarter as the latest quarter's return of -4.7% was materially lower than the 7.7% return of Q1 2015, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.70	10.4	*The three year return from emerging market equities has decreased from 13.7% p.a. last quarter, as the return of -2.2% over Q1 18 was lower than the return for the quarter that fell out of the period (7.0%). The three year return is above the assumed strategic return.*
Diversified Growth	6.95 (Libor + 4% / RPI + 5%)	6.0 (4.5 / 7.7)	*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% p.a. 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	6.1	*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 for nominal gilts and marginally positive for index linked gilts. Corporate bond returns are in line with the strategic assumed return.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	2.15	7.8	
UK Corporate Bonds (BofAML Sterling Non Gilts)	3.25	3.3	
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	8.9	*Property returns continue to be ahead of the expected returns. Slowing rental growth post-Brexit has meant fundamentals have weakened and a more cautious outlook may be required. Nevertheless, property returned 2.3% over the first quarter of 2018.*
Infrastructure (S&P Global Infrastructure)	6.95	6.4	*The infrastructure three year return has fallen from 11.3% p.a. last quarter as the index delivered a return of -8.9% this quarter, meaning the three year return is now below the strategic return. The negative performance was in part driven by currency as sterling appreciated against the US dollar and euro over the last quarter. 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 – Q2 2018

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

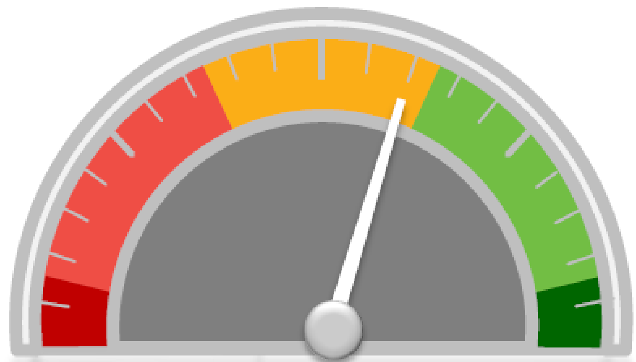


Mercer's current DAA position/view

Position/view last time (if changed)

DEVELOPED MARKET EQUITIES

- Solid global economic growth, underpinned by increased levels of consumer confidence, corporate earnings growth and rising levels of capital expenditure
- Despite gradual tightening by central banks, monetary policy remains relatively accommodative
- ! Valuations continued to be rich, while geopolitical issues and trade frictions remain a key shorter term risk



EMERGING MARKET EQUITIES

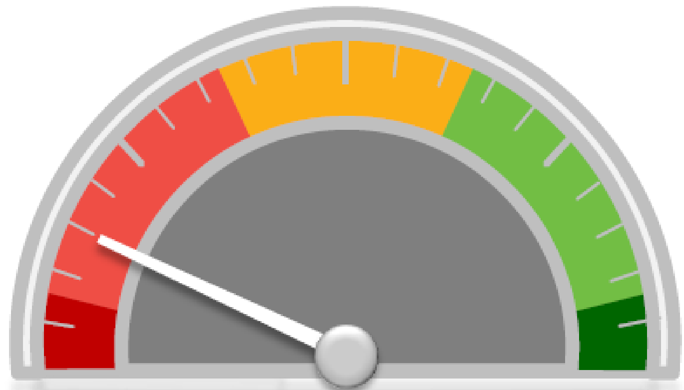
- Emerging Markets continue to gather momentum on the back of broadly strong economic fundamentals
- A number of EM countries have started to show domestic-driven organic growth which is insulating them from developed market headwinds to an extent
- ! Geopolitics, trade frictions and individual country risks remain a key consideration. Valuations are on the rise

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

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q2 2018

FIXED INTEREST GILTS (ALL STOCK)

- Geopolitical uncertainties could result in safe haven demand, restricting yields from increasing significantly
- Recent weaker inflation will reduce short-term pressure on the BoE to raise rates again, although over-arching policy regarding QE remains generally hawkish
- Valuations continue to look expensive as yields remain low relative to long-term averages



INDEX-LINKED GILTS

- A slowdown in inflation taints the outlook, as the Brexit-induced boost from a weaker pound sterling fades swiftly.
- Valuations continue to look expensive as yields remain low relative to long-term averages

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q2 2018

NON-GOVERNMENT BONDS (£ ALL-STOCK)

- Credit spreads are at low levels historically, 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. Brexit also represents a source of uncertainty although many issuers are global in nature.

UK PROPERTY

- A strong economic environment continues to support demand for UK real estate with yields looking favourable in the context of the broader low rate environment
- The outcome of Brexit negotiations continue to dominate as a key risk in the occupier market
- Unexpected strong performance in the short-term, would increase the possibility of a sharp correction in the medium-term

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	1,677,493	1,588,536	36.0	34.5	34.0	29 - 39	+0.5
Emerging Market Equities	227,284	221,709	4.9	4.8	6.0	3 - 9	-1.2
Diversified Growth Funds	616,197	602,103	13.2	13.1	15.0	10 - 20	-2.0
Fund of Hedge Funds	215,710	211,907	4.6	4.6	5.0	0 - 7.5	-0.4
Property	415,778	427,268	8.9	9.3	10.0	5 - 15	-0.7
Infrastructure	268,204	283,594	5.8	6.2	5.0	0 - 7.5	+1.2
Multi-Asset Credit	487,695	482,296	10.5	10.5	11.0	6 - 16	-0.5
Corporate Bonds	83,295	82,124	1.8	1.8	2.0	No set range	-0.2
LDI*	501,920	536,222	10.8	11.6	12.0	No set range	-0.4
Cash (including currency instruments)	166,129	173,304	3.6	3.8	-	0 - 5	+3.8
Total	**4,659,704**	**4,609,062**	**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.
* Valuation includes mark-to-market value of equity protection strategy.

- Invested assets decreased over the quarter by £51m due to negative returns from most asset classes. At the end of the quarter, all asset classes were within the agreed tolerance ranges.

FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
BlackRock	Equities	487,741	394,266	853,244	10.4	18.5
BlackRock	Corporate Bonds	83,295	-	82,124	1.8	1.8
BlackRock	LDI*	501,920	-	536,222	10.8	11.6
Jupiter	UK Equities	213,268	-	196,869	4.6	4.3
TT International	UK Equities	197,829	-	184,557	4.2	4.0
Schroder	Global Equities	368,052	-	353,866	7.9	7.7
Genesis	Emerging Market Equities	116,617	-	113,788	2.5	2.5
Unigestion	Emerging Market Equities	110,667	-	107,921	2.4	2.3
Invesco	Global ex-UK Equities	413,702	-401,018	-	8.9	-
Pyrford	DGF	138,029	-	135,269	3.0	2.9
Aberdeen Standard	DGF	244,945	-	240,709	5.3	5.2
Ruffer	DGF	233,223	-	226,126	5.0	4.9

Source: State Street, Avon. Totals may not sum due to rounding.
* Valuation includes mark-to-market value of equity protection strategy.

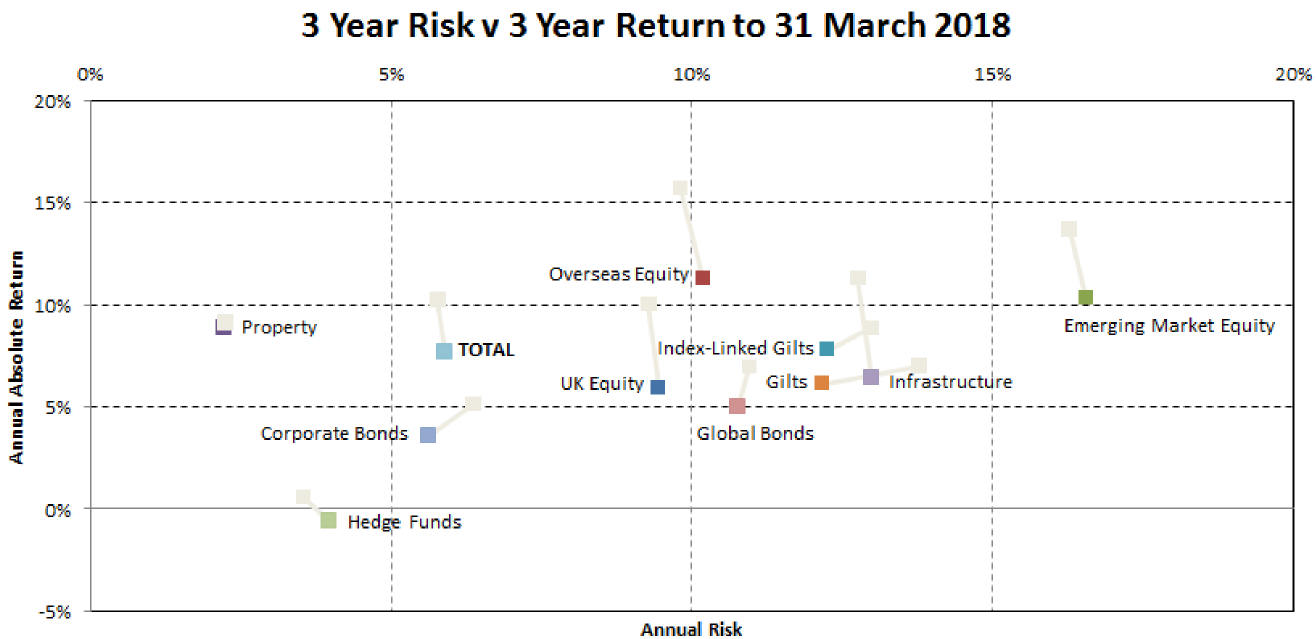
FUND VALUATIONS
VALUATION BY MANAGER CONTINUED

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	147	-	141	0.0	0.0
Signet	Fund of Hedge Funds	1,659	-	1,633	0.0	0.0
JP Morgan	Fund of Hedge Funds	213,904	-	210,133	4.6	4.6
Schroder	UK Property	218,365	-	225,947	4.7	4.9
Partners	Property*	197,414	-4,603	201,320	4.2	4.4
IFM	Infrastructure	268,204	-	283,594	5.8	6.2
Loomis Sayles	Multi-Asset Credit	487,695	-	482,296	10.5	10.5
Record Currency Management	Currency Hedging	66,347	-29,448	86,436	1.4	1.9
Internal Cash	Cash	96,683	34,051	86,868	2.1	1.9
Total		**4,659,704**	**-6,752****	**4,609,062**	**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 March 2018 is estimated.
** Loss on in-specie transfer from Invesco to BlackRock.

SECTION 5
PERFORMANCE SUMMARY

MANAGER MONITORING
RISK RETURN ANALYSIS

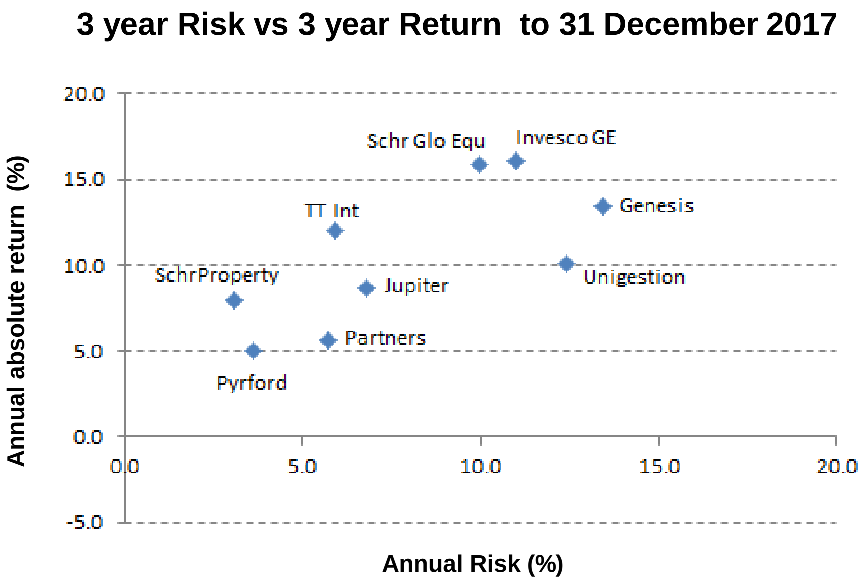


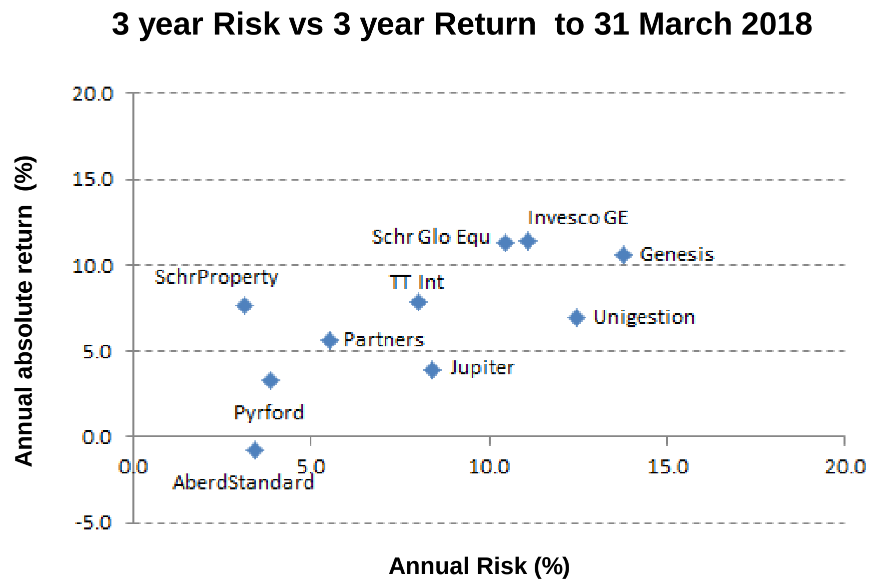
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of March 2018, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark 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

- Most mandates saw their three-year return decreasing over the quarter.
- Aberdeen Standard has reached three-year performance.

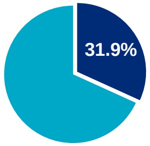
MANAGER MONITORING
MANAGER PERFORMANCE TO 31 MARCH 2018

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	-5.7	-5.7	0.0	2.1	2.1	0.0	8.9	8.9	0.0	-	N/A
BlackRock Corp Bonds	-1.4	-1.4	0.0	2.0	1.9	+0.1	5.3	5.2	+0.1	-	N/A
BlackRock LDI	1.1	1.1	0.0	0.1	0.1	0.0	6.4	6.4	0.0	-	N/A
Jupiter	-7.7	-6.9	-0.9	-1.5	1.2	-2.7	3.9	5.9	-1.9	+2	Target not met
TT International	-6.8	-6.9	+0.1	3.6	1.2	+2.4	7.9	5.9	+1.9	+3-4	Target not met
Schroder Equity	-4.1	-5.0	+0.9	4.7	2.3	+2.3	11.3	10.6	+0.6	+4	Target not met
Genesis	-2.4	-2.2	-0.3	10.2	11.7	-1.4	10.6	11.3	-0.6	-	Target not met
Unigestion	-2.5	-2.3	-0.2	4.9	11.4	-5.8	6.9	10.9	-3.6	+2-4	Target not met
Invesco (terminated)	-2.5	-2.6	+0.1	3.9	4.0	-0.1	11.4	11.4	+0.0	+0.5	Target not met
Pyrford	-1.9	1.3	-3.2	-1.8	8.5	-9.4	3.3	7.8	-4.2	-	Target not met
Aberdeen Standard	-1.9	1.4	-3.3	1.0	5.5	-4.3	-0.8	5.6	-6.1	-	Target not met
Ruffer	-3.0	1.4	-4.4	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
JP Morgan	1.9	1.1	+0.8	4.3	4.2	+0.1	N/A	N/A	N/A	-	N/A
Schroder Property	1.7	1.9	-0.2	10.2	10.1	+0.1	7.7	8.1	-0.4	+1	Target not met
Partners Property *	3.0	2.5	+0.5	4.3	10.0	-5.2	5.6	10.0	-4.0	-	Target not met
IFM	12.4	0.8	+11.5	30.8	3.7	+26.2	23.2 **	3.6 **	+19.0 **	-	N/A
Loomis Sayles	-1.1	-1.6	+0.5	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Internal Cash	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-	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 31 December 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)
£1,471.6M END VALUE *(£1,073.0M START VALUE)* *(INC. EQUITY PROTECTION STRATEGY)*

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

- Equities returned -5.7% and Corporate Bonds returned -1.4% over Q1, performing in line with their benchmarks as expected, with returns over one and three year periods were within the tracking error ranges. The LDI benchmark return has been assumed to be equal to the LDI fund return.
- BlackRock informed us that they will be combining their Institutional Index Equity and Commodities Index Portfolio Engineering (aka Portfolio Management) teams into a single team. Rob Shimell, Managing Director, will become the new Head of this EMEA Institutional Indexing team. Dharma Laloobhai and Kieran Doyle (senior portfolio managers in the Institutional Indexing team) will report into Shimell who himself reports into Debbie Jelilian, Head of Portfolio Engineering for EMEA and APAC. BlackRock stated this has no impact on the day to day portfolio management responsibilities of the wider index team. This is the latest in a series of changes following the decision in late 2016 to bring together the former Beta Strategies teams and iShares teams into a combined group, ETF and Index Investments (EII). Overall we continue to believe the passive equity team at BlackRock is well resourced and are not proposing any rating changes as a result.

Reason for investment

To provide asset growth as part of a diversified portfolio

Reason for manager

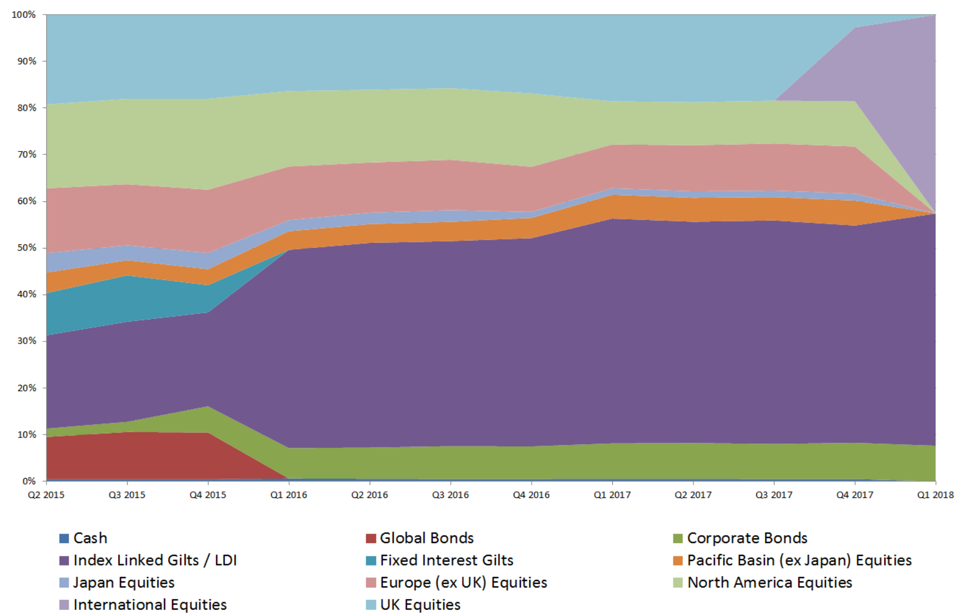
- To provide low cost market exposure across multi asset classes
- Provide efficient way for rebalancing between bonds and equities within a single portfolio

Performance

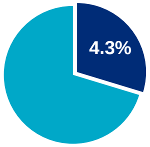
	Quarter (%)		1-Year (%)		3-Year (% p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Equities	-5.7	-5.7	2.1	2.1	8.9	8.9
Corporate Bonds	-1.4	-1.4	2.0	1.9	5.3	5.2
LDI*	1.1	1.1	0.1	0.1	6.4	6.4

* LDI performance reflects legacy index-linked gilt holdings prior to 30 June 2017 and QIF holdings thereafter. Equity protection strategy performance is not reflected.

Asset Allocation



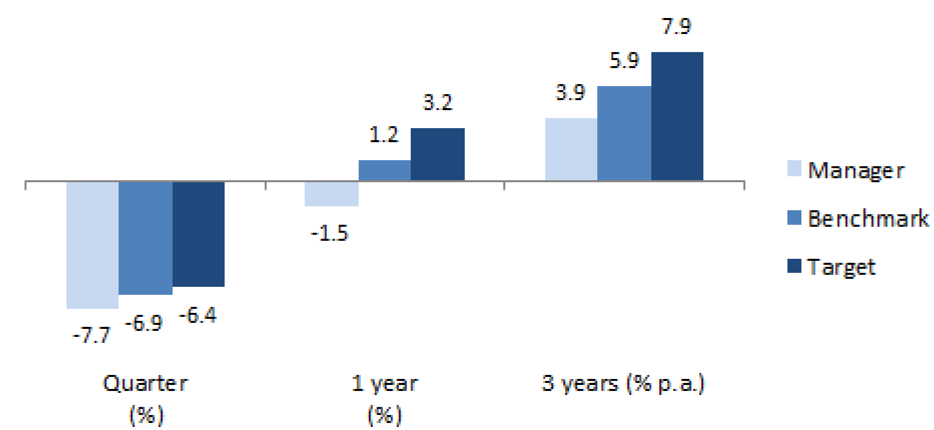
Asset allocation split as at Q1 2018 does not include the amount disinvested from Invesco into BlackRock global equities.



JUPITER ASSET MANAGEMENT – UK EQUITIES (SRI) (SEGREGATED)
£196.9M END VALUE *(£213.3M START VALUE)*

Item Monitored		Outcome
Mercer Rating	● (orange)	B (no change over period under review). ESG2
Performance Objective *Benchmark +2% p.a.*	● (red)	Underperformed benchmark by 1.9% p.a. over three years
Tracking error was 4.7% p.a. – *source: Jupiter*		Number of stocks: 57

Performance

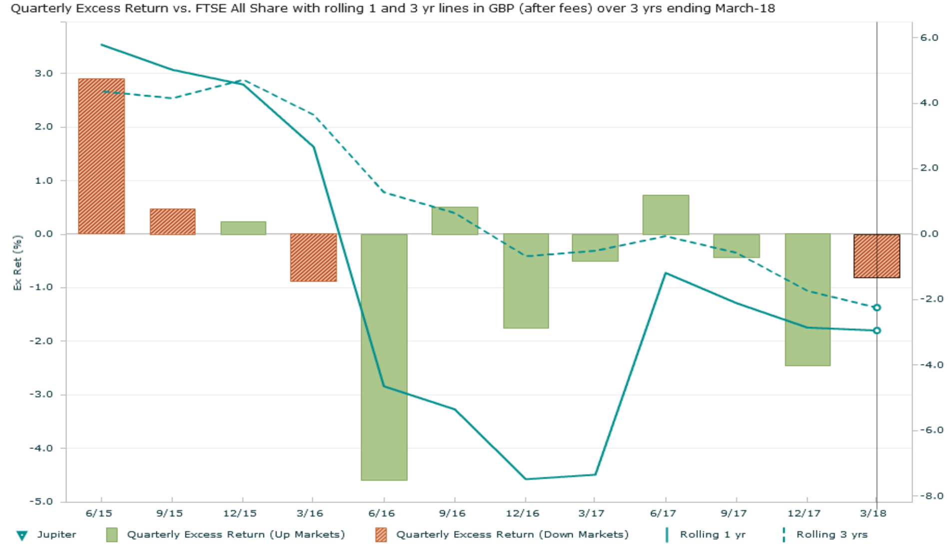


Manager Research and Developments

- Jupiter underperformed its benchmark over the quarter by 0.9%. Jupiter's performance was below TT's - the other UK equity fund invested in by the Fund.
- Over the quarter, relative performance was largely due to a key stock-specific disappointment: Micro Focus International (the mandate was 3.4% overweight to this stock) lost considerable ground following a profits warning related to the integration of Hewlett Packard's enterprise software business, prompting a change in management. Key contributors to relative performance over the quarter were United Business Media and British Airline Tobacco, whilst Micro Focus International and Cranswick were the main detractors from performance.
- Jupiter underperformed the benchmark by 2.7% over the year and by 1.9% p.a. over the three years to 31 March 2018.

Rolling relative returns

Quarterly Excess Return vs. FTSE All Share with rolling 1 and 3 yr lines in GBP (after fees) over 3 yrs ending March-18

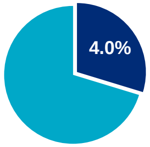


Reason for investment

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)
£184.6M END VALUE *(£197.8M 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 1.9% p.a. over three years
Three year tracking error was 3.6% p.a. – *source: Mercer*	Number of stocks: 41

Manager Research and Developments

- TT has outperformed the benchmark over the quarter by 0.1%, by 2.4% over the year and by 1.9% p.a. over three years.
- The fund was slightly ahead of its benchmark with outperformance in the Consumer Services and Technology sectors offsetting underperformance in Financials and Health Care. Coca-Cola Hellenic performed well after positive results and some growing recognition about the optionality on the potential acquisition of Coca-Cola Beverages Africa. TP ICAP (a UK-based interdealer broker) was the fund's most significant detractor due to higher than expected regulatory compliance costs.
- Turnover increased from 17.4% in Q4 2017 to 22.1% in Q1 2018 while the three year tracking error (a proxy for risk relative to benchmark) decreased to 3.6% p.a.
- Assets in TT's UK equity strategies decreased over the quarter to £534m in light of the negative 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 £594m in Dec. 2017, £641m in Mar. 2017 and £496m in Mar. 2015. A significant portion (c.34%) of the firm's UK equity assets are managed on behalf of the Fund.

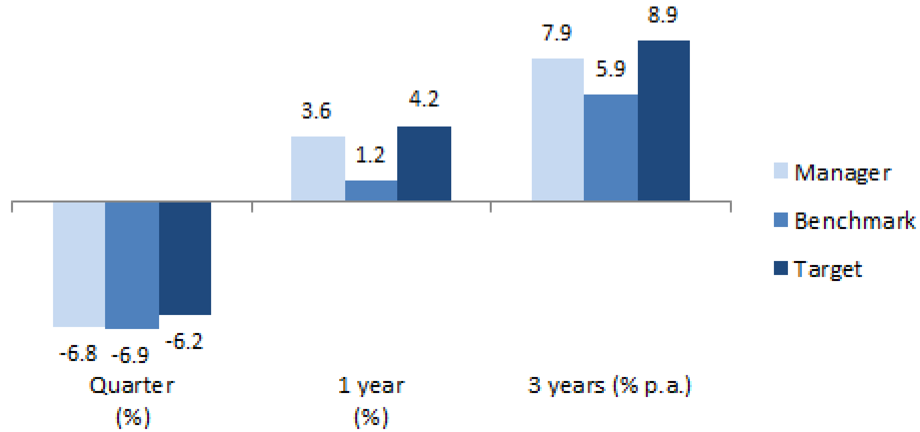
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

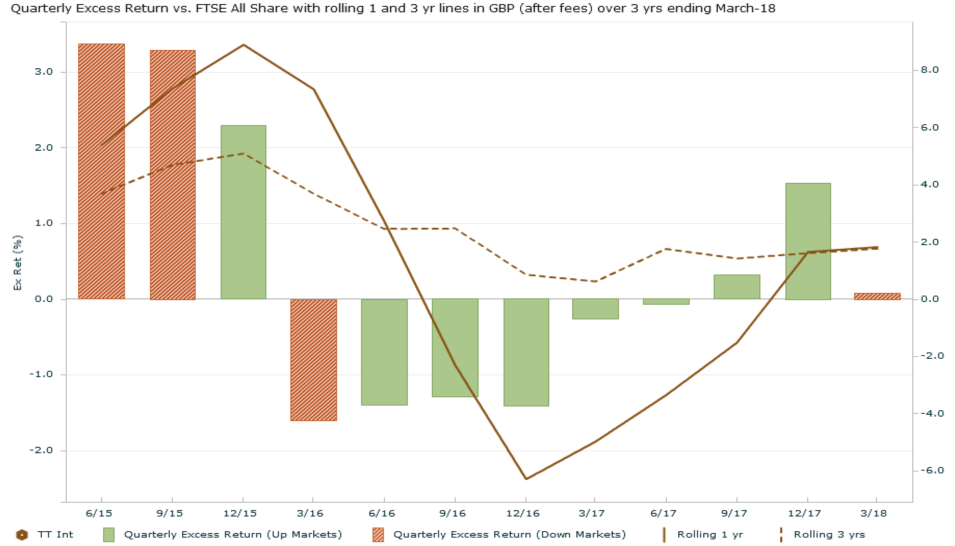
- Favoured the partnership structure that aligns manager's and Fund's interests
- Focussed investment activity and manages its capacity
- Clear, robust stock selection and portfolio construction

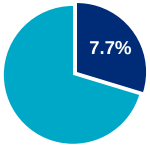
Performance



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 March-18





SCHRODER – GLOBAL EQUITY PORTFOLIO (SEGREGATED)
£353.9M END VALUE *(£368.1M 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 2.4% p.a. – *source: Mercer*

Manager Research and Developments

- The fund outperformed the benchmark by 0.9% over the quarter, largely due to superior stock selection. Portfolio positioning also supported returns, with positions in the Financial and Consumer sectors – both Discretionary and Staples – contributing most meaningfully. From a regional perspective, North America, Emerging Markets and Japan were the primary contributors.
- HP Enterprise and Estee Lauder were the largest contributors to returns over the quarter with the largest detractors being Alcoa and Cabot.
- The strategy performed above its benchmark over the one and three year periods to 31 March 2018.

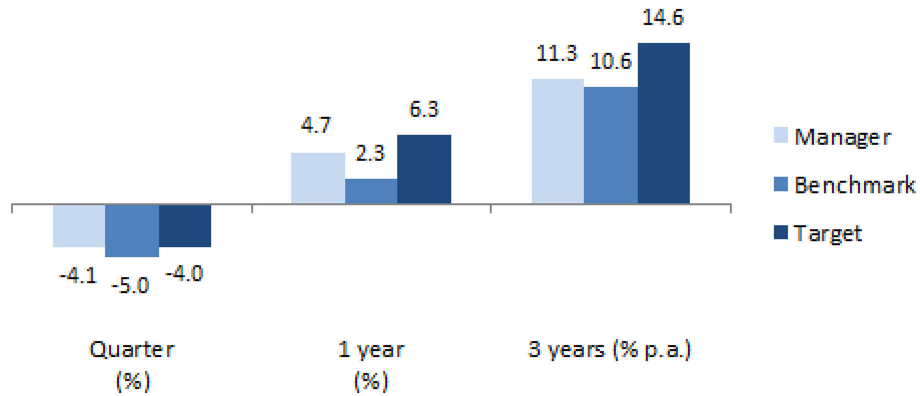
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

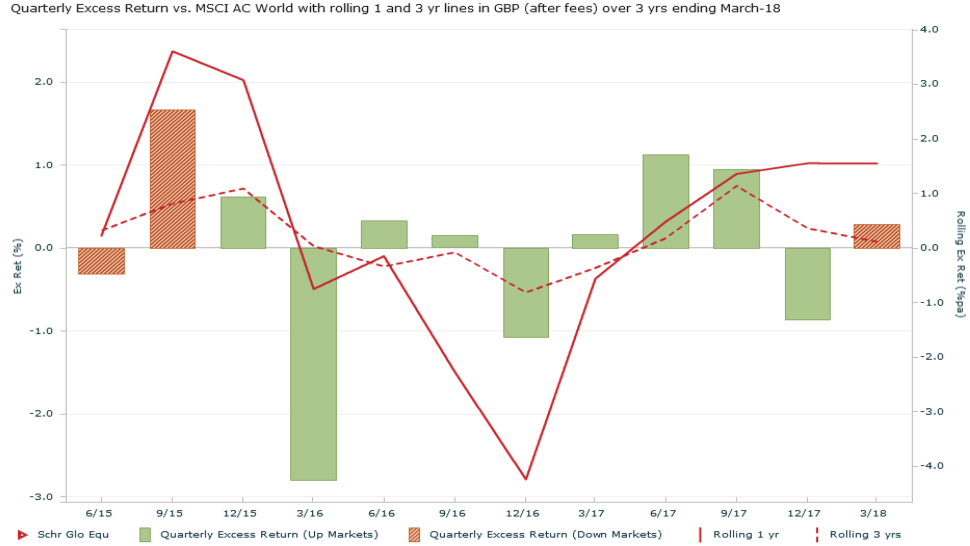
- Clear philosophy and approach
- Long term philosophy aligned with Fund's goals, commitment to incorporating ESG principles throughout the investment process
- Evidence of ability to achieve the Fund's performance target

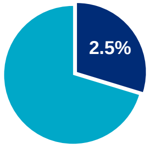
Performance



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 March-18





GENESIS ASSET MANAGERS – EMERGING MARKET EQUITIES (POOLED)
£113.8M END VALUE *(£116.6M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	●	A (no change over period under review). ESG3
Performance Objective *Benchmark*	●	Underperformed benchmark by 0.6% p.a. over three years
Three year tracking error was 3.7% p.a. – *source: Genesis*		Number of stocks: 121

Manager Research and Developments

- The fund has underperformed by 0.3% over the quarter, by 1.4% over the year and by 0.6% p.a. over the three years to 31 March 2018.
- On a regional basis, India was the largest contributor to returns over the quarter, whilst South Africa was the largest detractor.
- The largest contributors at a stock specific level were the Brazilian bank Itaú and Bangkok Dusit Medical Services. The biggest detractors were the Russian food retailer Magnit and the South African internet and entertainment group Naspers.
- From a sector perspective, Financials was the largest contributor, whilst Consumer Staples was the largest 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 rise. In this respect, whilst the underperformance in Q1 and over the last 12 months has been disappointing, it is in keeping with this view (bearing in mind that emerging market equities delivered positive absolute performance in local currency terms in Q1).

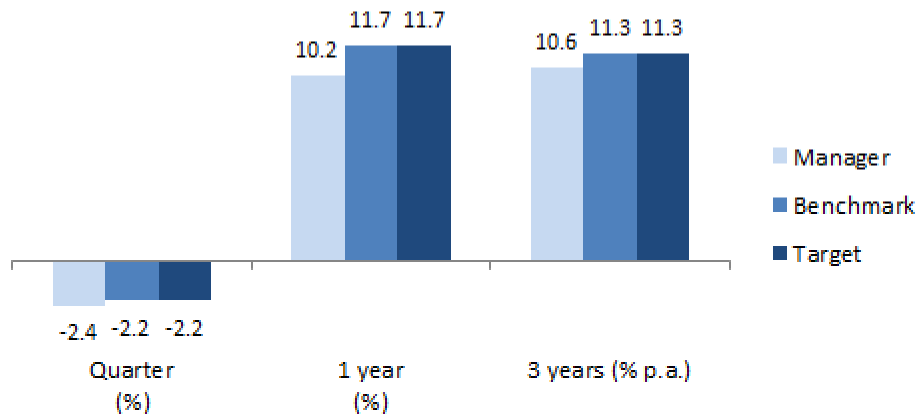
Reason for investment

To provide asset growth as part of a diversified equity portfolio

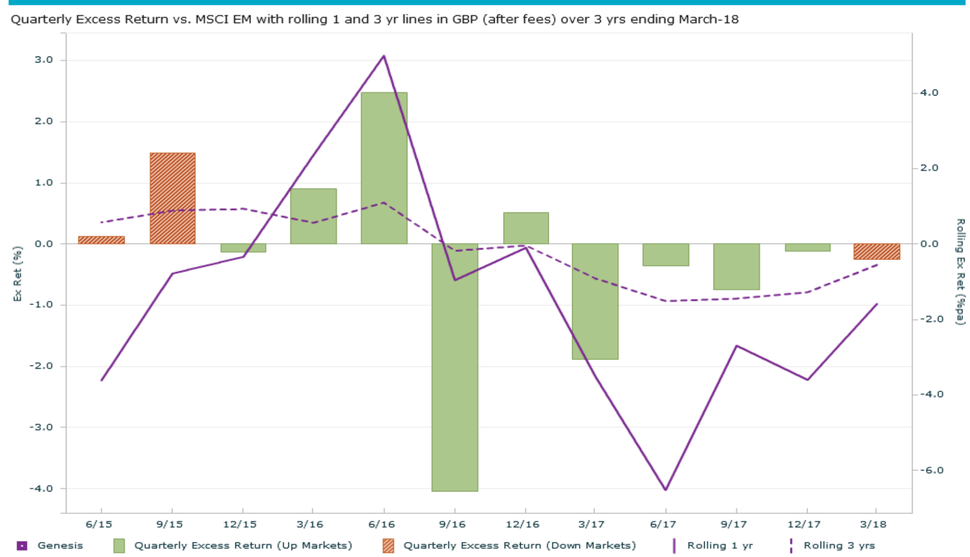
Reason for manager

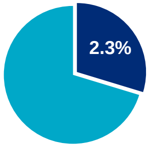
- Long term investment approach which takes advantage of evolving growth opportunities
- Niche and focussed expertise in emerging markets
- Partnership structure aligned to delivering performance rather than growing assets under management

Performance



Rolling relative returns

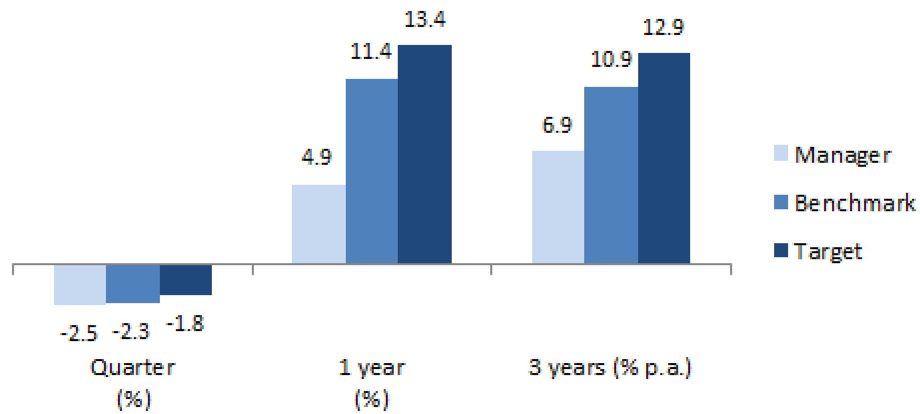




UNIGESTION – EMERGING MARKET EQUITIES (POOLED – SUB-FUND)
£107.9M END VALUE *(£110.7M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *Benchmark +2-4% p.a.*	Underperformed benchmark by 3.6% p.a. over three years
Three year tracking error was 6.6% p.a. – *source: Unigestion*	Number of stocks: 99

Performance

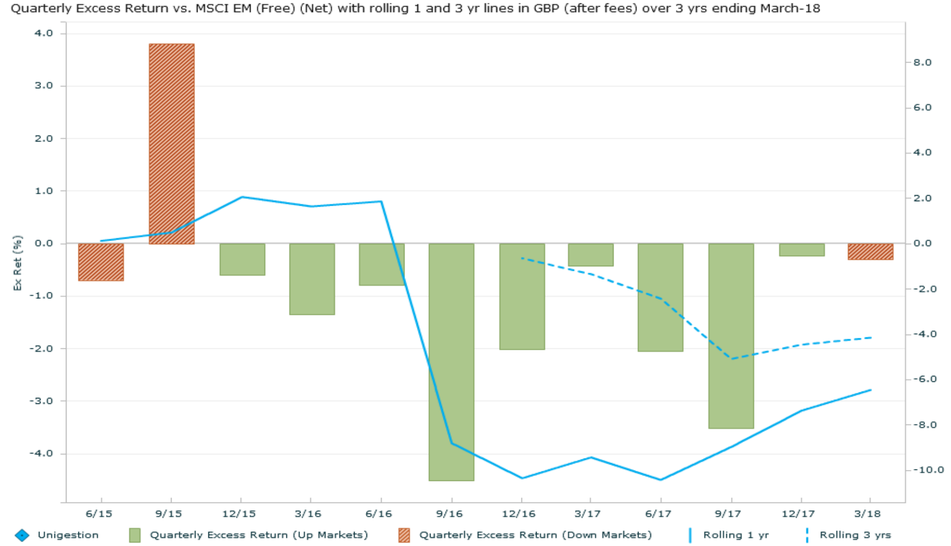


Manager Research and Developments

- The fund has underperformed by 0.2% over the quarter, by 5.8% over the year and by 3.6% p.a. over the three years to 31 March 2018. This is now the tenth straight quarter of underperformance.
- The fund suffered over the quarter during market rebounds with its low risk and high quality stance resulting in underperformance compared to the broader regional benchmark. In particular stock selection in the Energy, Banks and Food sectors was the main detractor to relative performance.
- Volatility since inception is 13.9%, lower than the index (17.0%) 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 upward markets.

Rolling relative returns

Quarterly Excess Return vs. MSCI EM (Free) (Net) with rolling 1 and 3 yr lines in GBP (after fees) over 3 yrs ending March-18

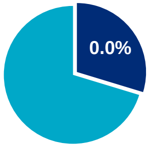


Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

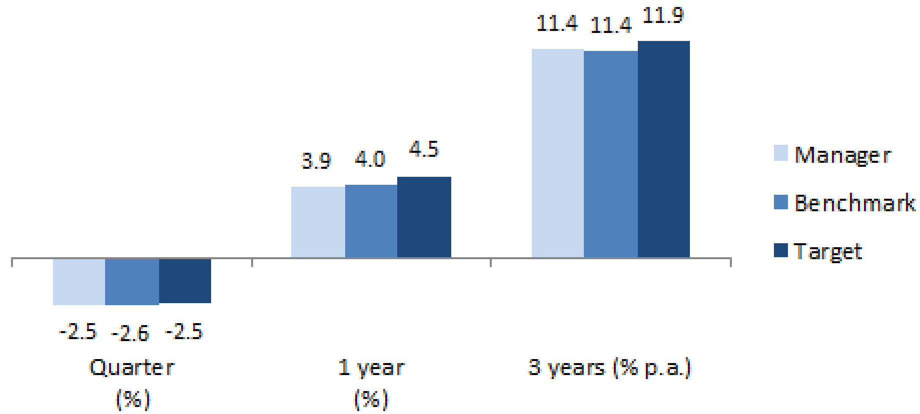
- Risk-based active management approach
- Aim for lower volatility than the MSCI Emerging Markets Index
- Combine fundamental and quantitative analysis



INVESCO – GLOBAL EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)
£0.0M END VALUE *(£413.7M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review). ESG4
Performance Objective *Benchmark +0.5% p.a.*	Performed in line with the benchmark over the three years up to termination

Performance

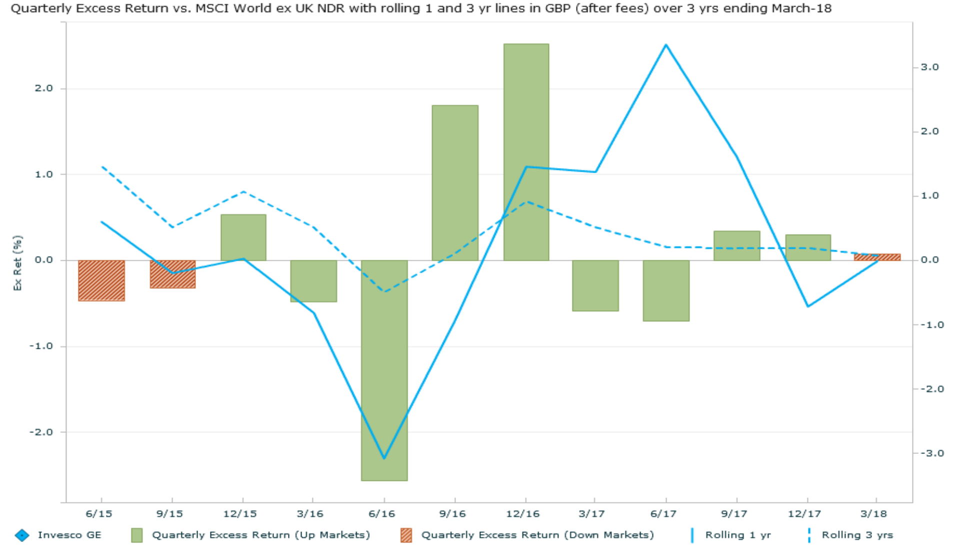


Manager Research and Developments

- The mandate was terminated on 20 March 2018.
- Over the last quarter up to termination, Invesco has marginally outperformed the benchmark, having performed in line with it over the three year period.

Rolling relative returns

Quarterly Excess Return vs. MSCI World ex UK NDR with rolling 1 and 3 yr lines in GBP (after fees) over 3 yrs ending March-18

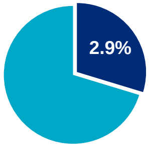


Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

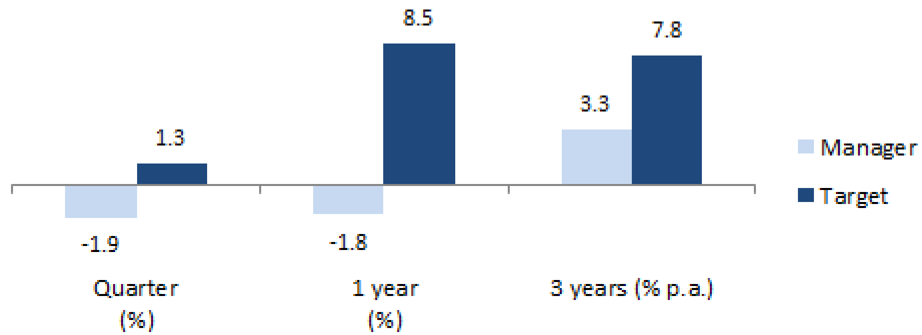
- Robust investment process supported by historical performance record, providing a high level of assurance that the process could generate the outperformance target on a consistent basis
- One of few to offer a Global ex UK pooled fund



PYRFORD – DGF (POOLED)
£135.3M END VALUE *(£138.0M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *RPI +5% p.a.*	Underperformed objective by 4.2% p.a. over three years

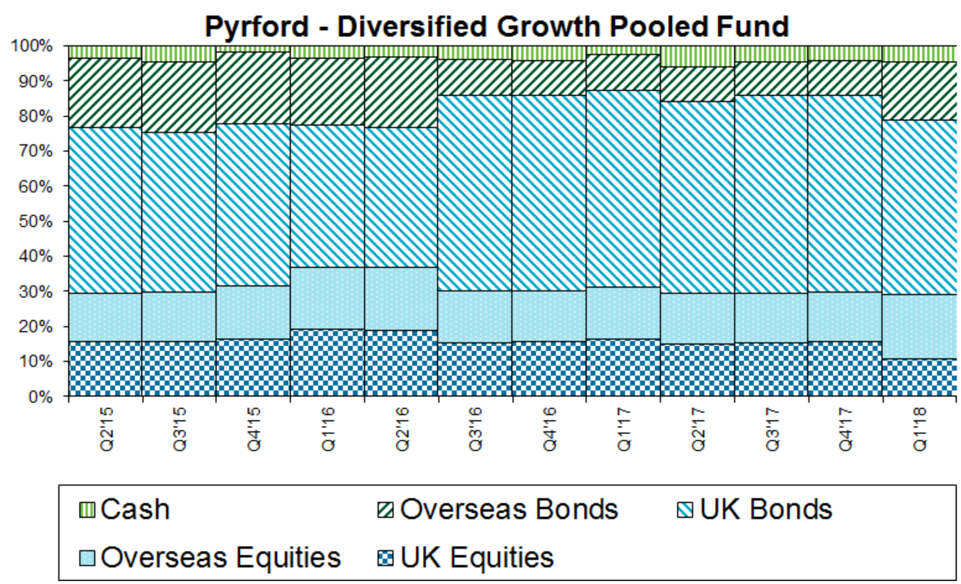
Performance



Manager Research and Developments

- The fund has underperformed its objective (RPI + 5% p.a.) over the quarter by 3.2%, by 9.4% over the year and by 4.2% p.a. over three years.
- Both the portfolio's equities and bonds were in negative territory over the period. The biggest detractor for the strategy came from the UK equity exposure, which slightly underperformed the domestic index. Utilities and Tobacco were in particular were weak within the UK equity portfolio. Both are traditionally defensive sectors which Pyrford favours when markets are overpriced, (as is their current house view). Elsewhere the strategy's bond exposure (both UK and overseas) lost some ground over the quarter as government bond yields ticked up, despite the retreat towards the end of the period. Finally, currency management contributed positively to performance over the quarter.
- Over the quarter, Pyrford reduced the exposure to UK equities from 15% to 10%. The decision was driven by a reduction in the earnings growth forecast from 1% to 0.5% due to concerns over household debt levels and limited upside for dividend payout ratios. The proceeds were reallocated across the overseas equity portfolio. There was also a change to the geographical allocation of the fixed income portion of the portfolio as the UK bond exposure reduced and a 7% position was taken in US government bonds.
- 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.

Asset Allocation

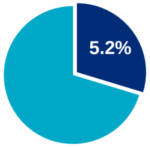


Reason for investment

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



ABERDEEN STANDARD – DGF (POOLED)
£240.7M END VALUE *(£244.9M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (Provisional status removed in March 2018). ESG4
Performance Objective *Cash +5% p.a.*	Underperformed objective by 3.5% p.a. over the year

Manager Research and Developments

- The fund has underperformed its objective (Cash + 5% p.a.) over the quarter by 3.3%, by 4.3% over the year and by 6.1% p.a. over three years.
- Global equities fell sharply in late-January before partially recovering. There was a further market drawdown again towards quarter-end, largely led by large-cap technology companies amid rising concerns over a regulatory crackdown and fears of a global trade war. Consequently, the strategy's Japanese equity and the US equity large-cap versus small-cap positions dragged on performance. The latter strategy suffered further as losses in the small cap sector were partly cushioned by investors seeking to diversify into those stocks less sensitive to global trade. Global government bonds sold off in January amid rising prospects for higher interest rates, and this hurt the strategy's US real yields position. UK gilts underperformed against a backdrop of renewed optimism over a Brexit deal and higher interest rates, resulting in the UK versus Germany cross-market interest rates strategy delivering a negative return. The Japanese yen versus the Korean won position was the largest contributor to performance over the quarter.
- As mentioned in last quarter's report, a Provisional status was assigned to the strategy's rating in November 2017 amid concern at future growth and capacity issues. This has now been removed. The size and capacity of the multi-asset platform remains our key concern, but we are more comfortable after the assets in GARS shrunk to £43bn at the end of 2017.
- Aberdeen Standard's largest client, Scottish Widows, has given notice that it will be terminating its investment mandates with the manager. Over £109bn will be disinvested, approx. one sixth of the firm's total assets under management.

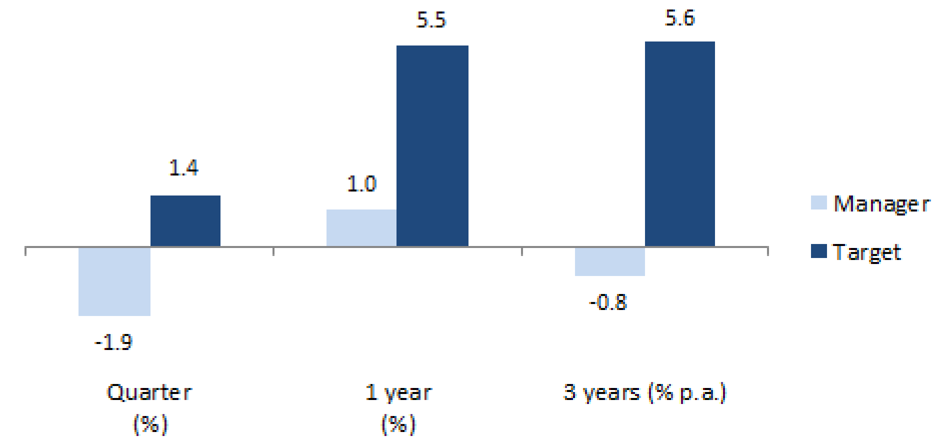
Reason for investment

To provide attractive absolute returns over the long term

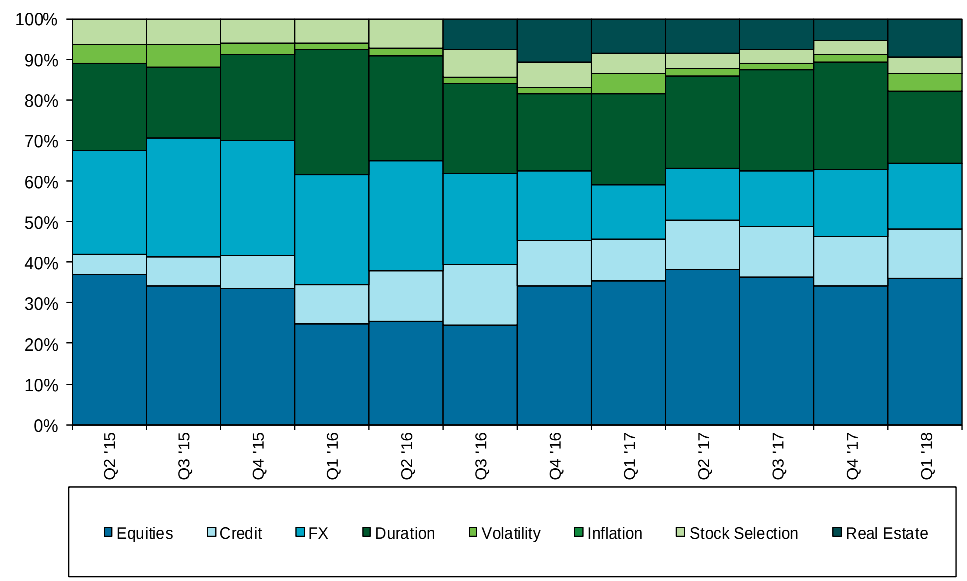
Reason for manager

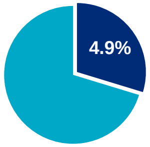
- Diversification from equities
- Exposure to relative value strategies and different approach to Pyrford's largely static asset allocation investment strategy

Performance



Asset Allocation/Risk Exposure





RUFFER – DGF (POOLED)
£226.1M END VALUE *(£233.2M 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

- Ruffer delivered a performance of -3.0% over the quarter, against an objective of 1.4%.
- Due to their relatively cautious outlook, Ruffer hold a number of equity and credit protection strategies which contributed to performance as increased risk was reflected in higher credit spreads and cross-asset volatility.
- Index-linked gilts holdings also had a positive impact on the portfolio.
- The main headwind to performance was the fall in equity markets which in particular hurt the strategy's Japanese equity exposure. From a stock specific perspective, the BP and Vodafone holdings were the largest detractors to overall fund performance
- Ruffer note that a notable feature of February's market sell-off was that none of the traditional 'safe havens' stepped forward, be they gold, the Swiss franc or US bonds. This market backdrop encouraged Ruffer to think that while the portfolio's unconventional protections have the consequence of bearing a cost, they may be the only way of obtaining genuinely uncorrelated protection.
- We have been informed that Trevor Bradley, Investment Director at Ruffer, will be leaving the firm. We do not see Bradley's departure as a material one with respect to the investment process, hence we are not recommending a rating change as a result.

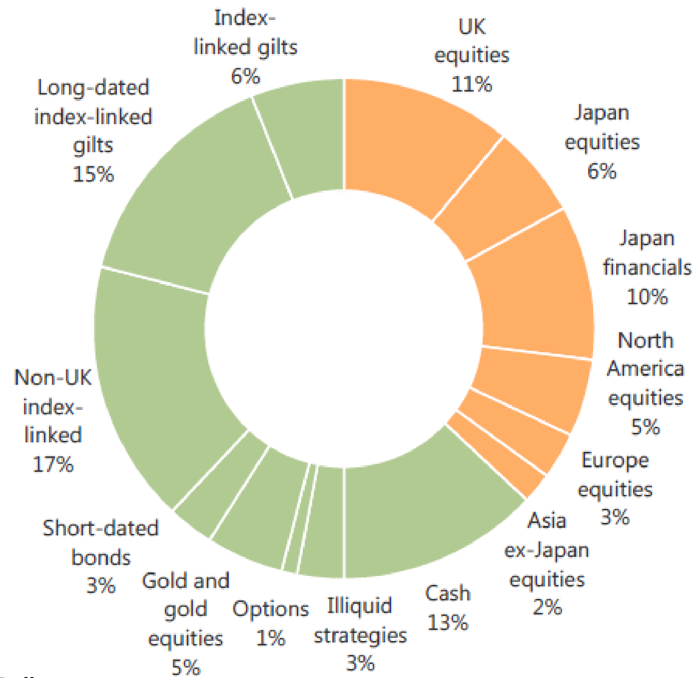
Reason for investment

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

Sector Allocation



Source: Ruffer.
As at 31 March 2018.

DGF MANDATES

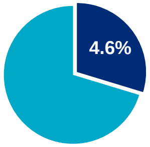
Performance characteristics vs. BofAML LIBOR 6 month average UK in GBP (after fees) over 3 yrs ending March-18

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

	Ret (%pa)	Std Dev (%pa)	IR
Pyrford DGF	2.9 *(29)*	3.8 *(43)*	0.6 *(19)*
ASI GARS	-0.8 *(54)*	3.4 *(48)*	-0.4 *(52)*
Ruffer DGF	1.3 *(42)*	5.6 *(24)*	0.1 *(44)*
95th Percentile	7.1	9.2	0.9
Upper Quartile	4.7	6.9	0.7
Median	3.0	5.4	0.4
Lower Quartile	1.2	4.3	0.1
5th Percentile	-0.6	2.7	-0.4
Number	55	55	55

Commentary

- Over the three years to 31 March 2018, Pyrford outperformed the Aberdeen Standard GARS pooled fund and the Ruffer pooled fund by 3.7% p.a. and 1.6% p.a. respectively.
- Pyrford and Ruffer are below the median of the DGF universe for performance. Furthermore, Aberdeen Standard was one of the worst performers 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 Aberdeen Standard (volatilities of 3.8% p.a. and 3.4% p.a. respectively), while Ruffer had a volatility of 5.6% p.a.
- Pyrford and Aberdeen Standard (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 19th highest of the universe, whereas for Aberdeen Standard it was the 4th lowest and for Ruffer it was in the lower quartile.
- The information ratio (IR) measures the amount of ‘information’ that the manager can extract from the market. Expressed in another way this is the amount of excess return generated per unit of risk or tracking error added. The IR is therefore a measure of the skill of the manager. If the IR is large and it is measured over a reasonable period of time, then this is an indication that the manager has some skill in managing money. Mercer defines the IR as the annualised excess return divided by the annualised tracking error.



JP MORGAN – FUND OF HEDGE FUNDS
£210.1M END VALUE *(£213.9M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review). ESG4
Performance Objective *Cash +3% p.a.*	Outperformed target by 0.9% over the year (in USD)

Item	
Number of funds	34 (as at 28 February 2018)

Strategy	Contribution to Performance over the Quarter in USD (%)
Relative Value	1.68
Opportunistic/Macro	-0.03
Long/Short Equities	0.64
Merger Arbitrage/Event Driven	-0.35
Credit	0.19
Total	**1.88 (including cash and fees)**

In USD terms, the fund return was 1.9% over Q1 (outperforming benchmark by 1.1%). This return was above the wider hedge fund indices, discussed over the next two pages.

Reason for investment

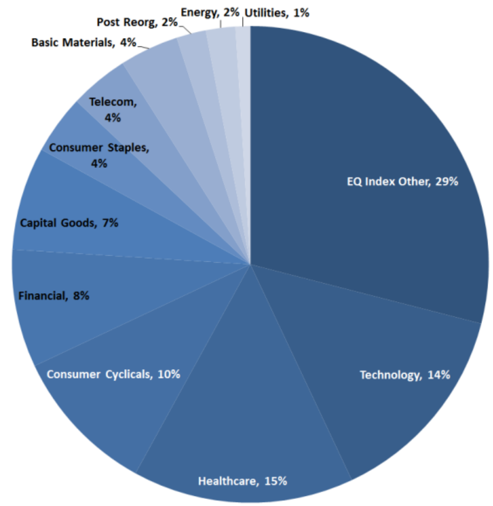
To reduce volatility of the Growth portfolio and increase diversification

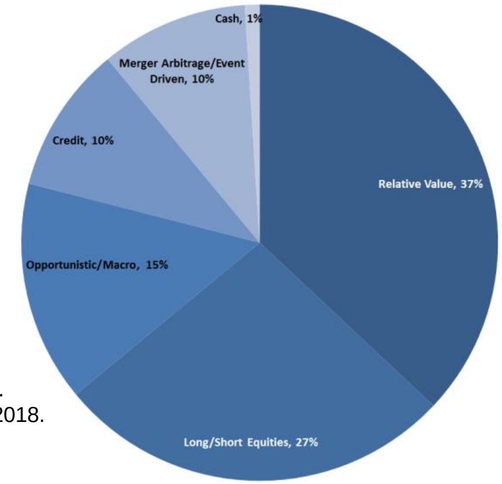
Reason for manager

- 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	-1.8%	Target	0.8%
Last Year	-7.2%	Target	3.3%

Portfolio Composition and Equity Sector Allocation

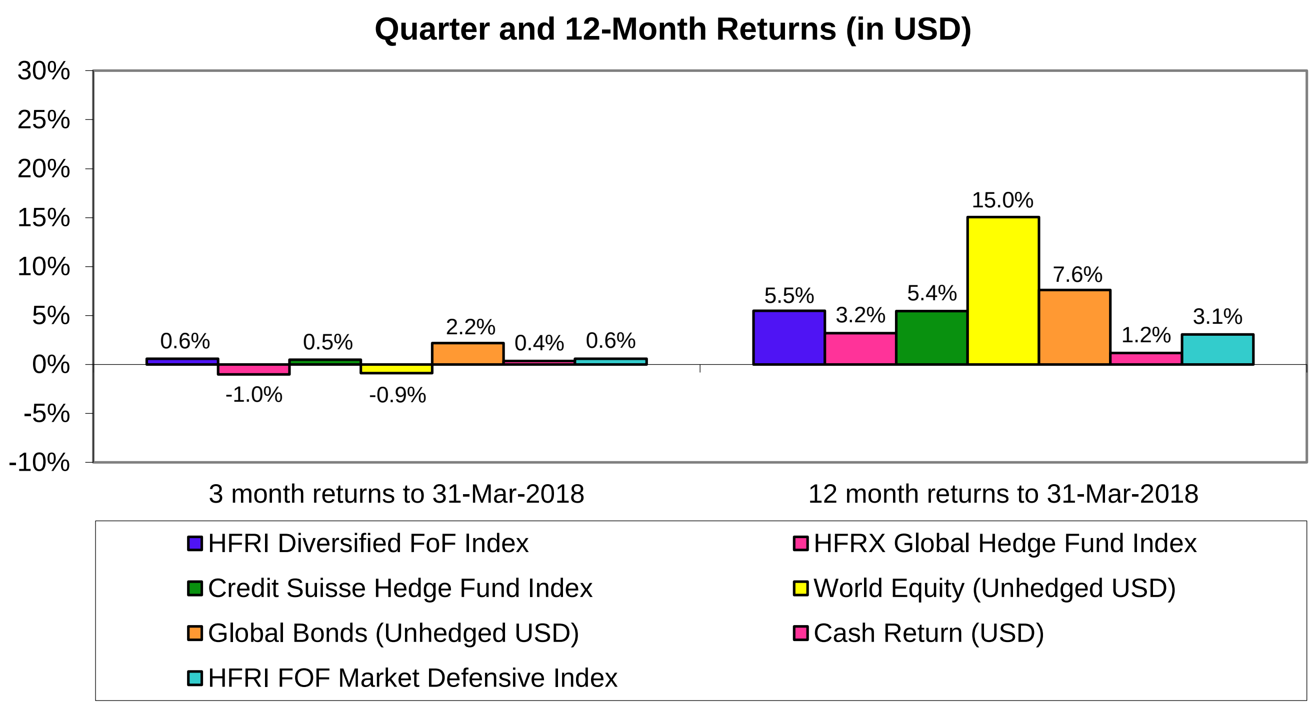




Source: JP Morgan.
As at 28 February 2018.

HEDGE FUND COMMENTARY – Q1 2018

- Volatility returned to the markets leaving stocks and many bond markets negative for the quarter. Hedge funds, however, stayed the course, producing modest gains and marking eight consecutive positive quarters. Previously underappreciated diversification benefits showed as positive returns were generally broad-based with the exception of Macro.
- When equities rise unabatedly, the value of diversification can be difficult to appreciate. The recent return to relatively normal volatility serves as a reminder to the value of not only diversification, but bi-directional investing. As the markets demonstrate more and more late cycle behavior, it may prove timely to ensure that such diversification value is present in the portfolio.



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

HEDGE FUND COMMENTARY – Q1 2018

Relative Value (37%)

- Fixed Income and Convertible Arbitrage strategies gained 1.8% and 0.8%, respectively, during the first quarter of 2018.
- Relative value and arbitrage-oriented strategies broadly earned positive results during the quarter, benefitting from heightened volatility and a rising interest rate environment. Convertible arbitrage strategies benefitted from increasing valuations globally and a robust quarter of attractively priced new issuance.

Long/Short Equities (27%)

- Long/Short Equity and Equity Market Neutral (“EMN”) strategies earned 1.0% and 0.7%, respectively, in Q1 2018.
- Despite negative returns for equity markets, fundamental long/short strategies were able to post positive returns for the quarter. Popular hedge funds positions, both long and short, broadly added value, as significant dispersion between and within industries, styles and regions presented alpha generating opportunities. Sector positioning, however, was a critical driver of results during the quarter, creating a fairly wide range of manager returns.
- Favorable dispersion characteristics and increased market volatility expanded the opportunity set for many trading-oriented equity strategies, benefitting equity market neutral.

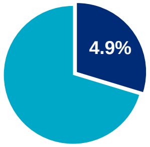
Opportunistic / Macro (15%)

- The broad Global Macro universe gained 0.6% during the quarter, while Managed Futures declined 3.4%.
- Macro strategies produced mixed results overall during Q1, though systematic strategies fared the worst. As noted in previous quarters, many of these strategies were positioned with heavy “risk on” exposure over recent periods and as a result did not provide the diversifying characteristics that many anticipated during February’s equity market reversal.
- Discretionary strategies produced more mixed results during the quarter, with currency and rate exposure being key drivers of performance.

Merger Arbitrage / Event Driven (10%)

- Event-driven strategies posted mixed results overall during the quarter.
- While broad corporate credit markets declined on modest spread widening, stressed and distressed credit strategies posted market-insensitive gains, largely driven by idiosyncratic distressed and liquidation positions. Progress in the Puerto Rican fiscal situation benefitted many managers’ positioning in the first quarter.
- Merger arbitrage also generated gains during the quarter on the back of attractive spread levels and deal progress. However, the potential for regulatory scrutiny weighed on some deals late in the quarter.

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



SCHRODER – UK PROPERTY FUND OF FUNDS
£225.9M END VALUE *(£218.4M START VALUE)*

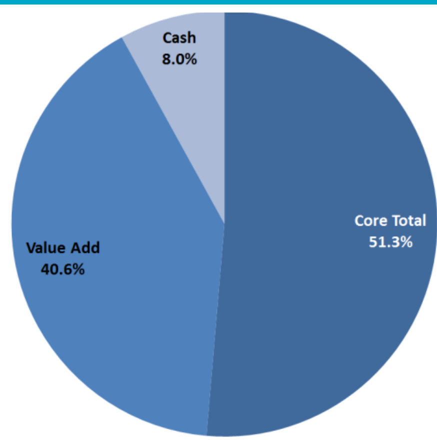
Item Monitored		Outcome
Mercer Rating	●	B (no change over period under review). ESG3
Performance Objective *Benchmark +1% p.a.*	●	Outperformed benchmark by 0.1% p.a. over five years

Manager Research and Developments

- The fund underperformed the benchmark by 0.2% over the quarter. The Industrial Property Investment Fund was the largest contributor to returns. Value add funds added to performance over the quarter but this offset somewhat by core funds and cash.
- Over the five year period, the fund has delivered an outperformance of 0.4% p.a. versus its benchmark, largely due to performance from value add strategies.
- Over the quarter, there were c. £5.3m of purchases and c. £11.6m of sales. Units were acquired in Industrial Property Investment Fund (c. £2.5m), Threadneedle Property Unit Trust (c. £2.5m) and Multi-Let Industrial Property Unit Trust (c. £0.3m). Units were sold from Standard Life Pooled Pension Property Fund (c. £8.0m) and Aviva Investors Pensions Property Fund (c. £3.6m).

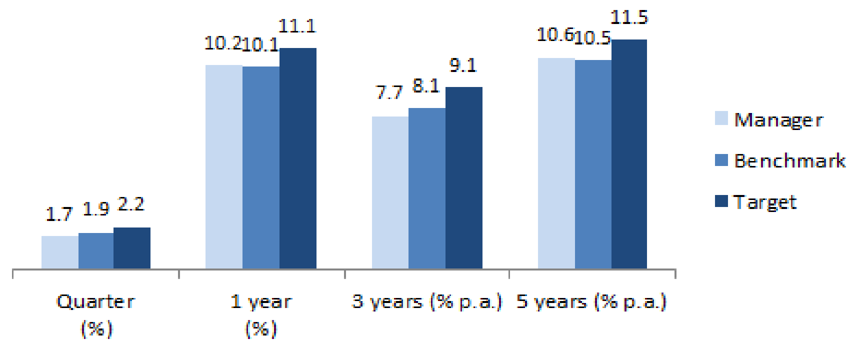
Manager and Investment type splits

Top 5 Holdings	Proportion of Total Fund (%)
Industrial Property Investment Fund	13.9
L&G Managed Property Fund	12.5
Metro Property Unit Trust	9.8
Hermes Property Unit Trust	9.6
Schroder Real Estate Real Income Fund	9.3

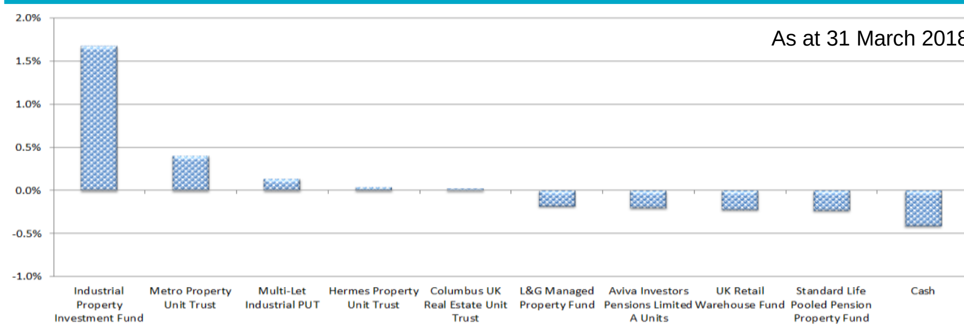


As at 31 March 2018

Performance



Top 5 Contributing and Detracting Funds over 12 Months

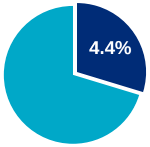


Reason for investment

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



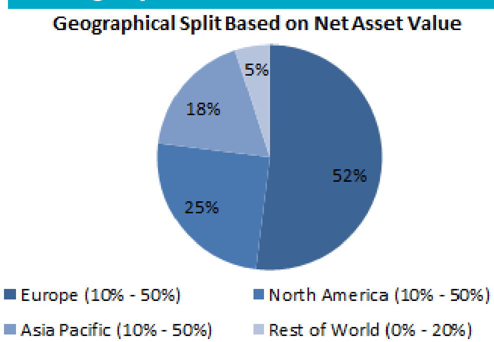
PARTNERS – OVERSEAS PROPERTY
£210.3M END VALUE *(£197.4M START VALUE)*

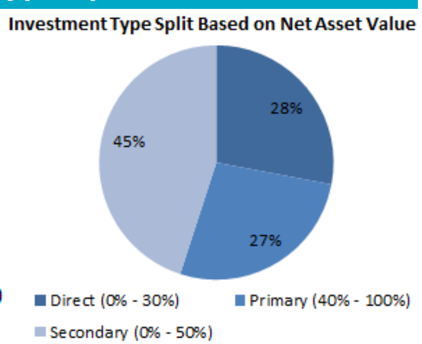
Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review). ESG4
Performance Objective *IRR of 10% p.a.*	IRR since inception to 31 December 2017 at 7.5% p.a. (in local currency) is below target of 10% p.a.

Manager Research and Developments (Q4 2017)

- The portfolio delivered a net return of 2.0% over Q4 2017 for USD programmes in local currency, and 3.2% for EUR programmes, versus the target of c. 2.5%.
- Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, for example the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 31 December 2017 at 7.5% p.a. (in local currency) is below their target of 10% p.a.; over the three years to 31 December 2017 IRR was 5.6% p.a. (in local currency terms).
- Over Q4, the allocation to Europe remained at 52%, with North America increasing (from 23% to 25%) and Asia Pacific decreasing (from 19% to 18%). These remain within the guidelines.*
- Note that Partners are rated B+ for global real estate, but A for secondary global real estate (as a result of their private equity skill set).

Geographical and Investment type splits as at 31 December 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 31 December 2017, Partners confirmed the Europe exposure is still within the allocation range.*

Portfolio update to 31 December 2017

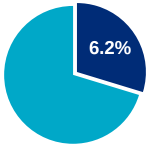
Partners Fund	Total Drawn Down (£m)	Total Distributions (£m)	Net Asset Value (£m)	Since Inception Net IRR (local currency)
Global Real Estate 2008	31.23	26.00	13.88	5.3
Real Estate Secondary 2009	19.63	15.14	15.98	10.1
Asia Pacific and Emerging Market Real Estate 2009	17.69	12.35	9.79	3.1
Distressed US Real Estate 2009	14.09	16.78	4.81	8.5
Global Real Estate 2011	25.11	17.80	20.63	10.1
Direct Real Estate 2011	11.44	8.23	8.91	7.5
Real Estate Secondary 2013	10.95	5.48	13.33	22.0
Global Real Estate 2013	87.05	8.25	97.04	6.5
Real Estate Income 2014	20.65	4.04	20.10	2.9
Asia Pacific Real Estate 2016	4.90	1.00	5.78	18.6
Total	**242.75**	**115.05**	**210.25**	**7.5**

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)
£283.6M END VALUE *(£268.2M 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 27.2% over the year (in USD)

Item	
Number of holdings	15

Manager Research and Developments

- Over the quarter the fund returned 12.4% in US Dollar terms, against Avon's performance objective of 0.7% (cash + 2.5% p.a.). Key contributors to performance were M6toll, Mersin International Port and OHL Mexico.
- As a consequence of this quarter's performance, IRR since inception on 1 June 2016 rose to 23.2%. Please note that this is still early in the life of the fund.
- During the quarter, IFM completed the acquisition of 100% of OHL Concessiones.
- The pooled fund also received income of $112.4m over the quarter amid major dividend distributions from Indiana Toll Road, Anglian Water Group, Colonial Pipeline Company and VTTI.

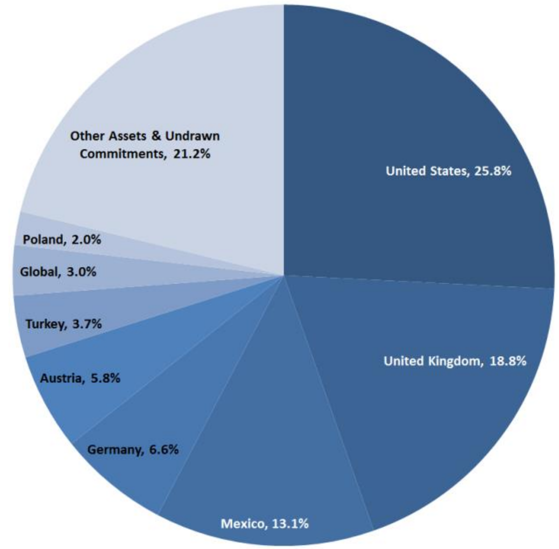
Reason for investment

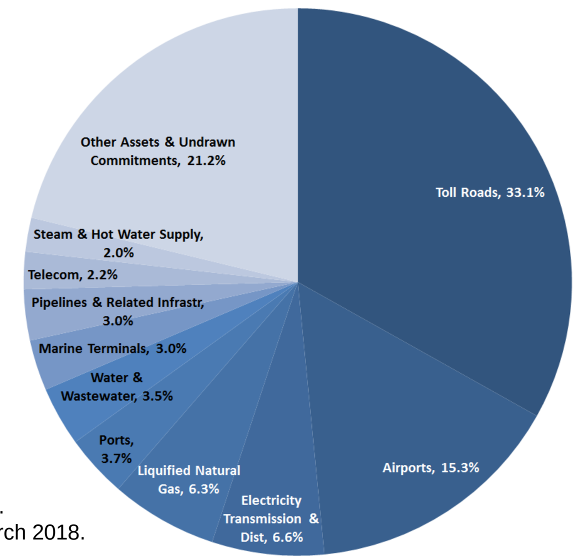
To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

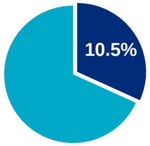
- Invests in core infrastructure assets in countries with established regulatory environments and strong rule-of-law.
- Seeks to invest in assets with strong market positions, predictable regulatory environments, high barriers to entry, limited demand elasticity and long lives

Geographical and Sub-Sector Allocation





Source: IFM.
As at 31 March 2018.



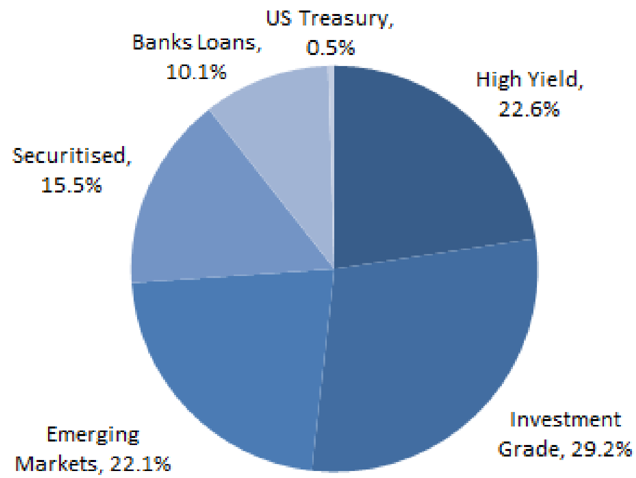
LOOMIS SAYLES – MULTI-ASSET CREDIT (POOLED)
£482.3M END VALUE *(£487.7M START VALUE)*

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

Manager Research and Developments

- Loomis delivered a performance of -1.1% over the quarter, against a benchmark of -1.6%.
- Being overweight to Bank Loans and underweight to Investment Grade Credit were the main contributors to performance. There continued to be strong appetite for loans with the asset class continuing to gather attention throughout the quarter amid a strong economic backdrop and rising expectations for further monetary tightening from the Federal Reserve. Investment grade credit spreads modestly widened during the quarter and interest rates ticked up due to the expectation of higher inflation. This impacted duration sensitive asset classes, resulting in an unattractive negative total return for the asset class. Stock selection in emerging markets debt also added value.
- The overall duration of the portfolio was 4.8 years.

Sector Allocation



Source: Loomis Sayles.
As at 31 March 2018.

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

RECORD – CURRENCY HEDGING (SEGREGATED)
£86.4M END VALUE *(£66.3M START VALUE)*

Item Monitored	Outcome
Mercer Rating	N (no change over period under review)
Performance Objective *N/A*	In line with the 50% hedging position

Manager Research and Developments

Over the quarter, sterling appreciated against the dollar by 3.7% and against the euro by 1.3%. Sterling depreciated against the Japanese yen over the quarter by 2.1%. (These currency exchange movements are based on end of day pricing, which may not tie in precisely with the pricing points used by Record).

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

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

Reason for investment

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

Reason for manager

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

Currency Hedging Q1 2018 Performance (£ terms)

Passive Developed Equity Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	593,351,568	752,603,044	(3.57%)	1.51%	1.57%	(1.88%)
EUR	178,486,169	164,576,524	(1.23%)	0.73%	0.72%	(0.49%)
JPY	80,482,543	105,780,087	2.14%	(1.11%)	(1.15%)	1.11%
Total	**852,320,280**	**1,022,959,655**	**(2.52%)**	**1.08%**	**1.12%**	**(1.31%)**

Passive Hedge Fund Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	213,595,095	214,064,666	(3.57%)	3.16%	3.24%	(0.25%)
Total	**213,595,095**	**214,064,666**	**(3.57%)**	**3.16%**	**3.24%**	**(0.25%)**

Passive Property Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	28,295,997	27,616,464	(3.57%)	3.16%	3.25%	(0.26%)
EUR	168,901,586	177,024,039	(1.23%)	1.47%	1.47%	0.25%
Total	**197,197,583**	**204,640,503**	**(1.58%)**	**1.73%**	**1.75%**	**0.17%**

Passive Infrastructure Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	125,317,033	114,820,336	(3.57%)	3.17%	3.25%	(0.23%)
EUR	32,911,510	42,928,700	(1.23%)	1.47%	1.47%	0.25%
Total	**158,228,544**	**157,749,036**	**(3.06%)**	**2.83%**	**2.90%**	**(0.11%)**

APPENDIX 1
SUMMARY OF MANDATES

SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance Target (p.a.)
BlackRock	Passive Global Low Carbon Equity	MSCI World Low Carbon Target	-
BlackRock	Passive Corporate Bond	iBoxx £ Non-Gilts Over 15 Years	-
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 Free	+4%
Genesis	Emerging Market Equities	MSCI Emerging Markets IMI TR	-
Unigestion	Emerging Market Equities	MSCI Emerging Markets 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.	-
Aberdeen Standard	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.

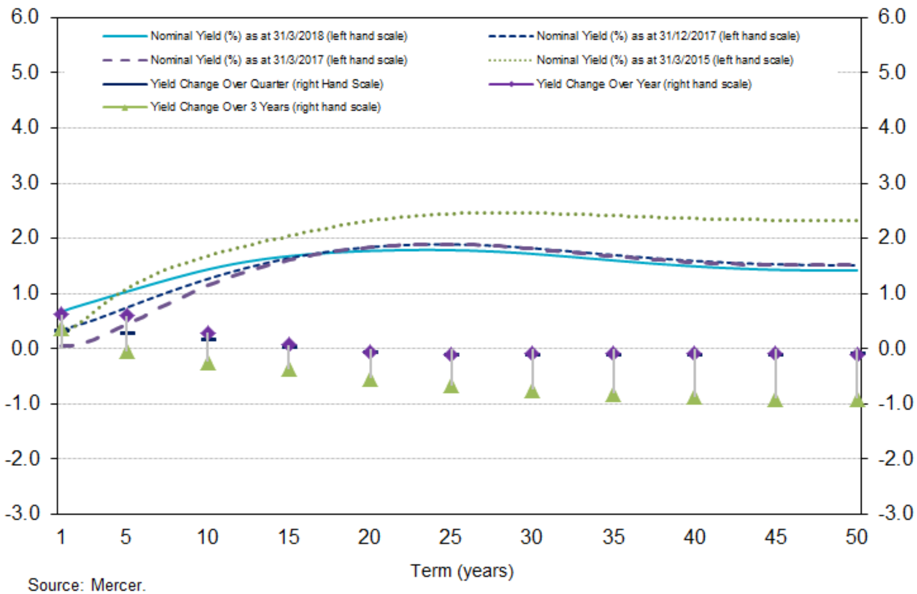
APPENDIX 3
CHANGES IN YIELDS

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	31 Mar 2018	31 Dec 2017	31 Mar 2017	31 Mar 2016
UK Equities	3.85	3.59	3.47	3.77
Over 15 Year Gilts	1.63	1.68	1.65	2.17
Over 5 Year Index-Linked Gilts	-1.65	-1.66	-1.71	-0.97
Sterling Non Gilts	2.47	2.17	2.20	2.90

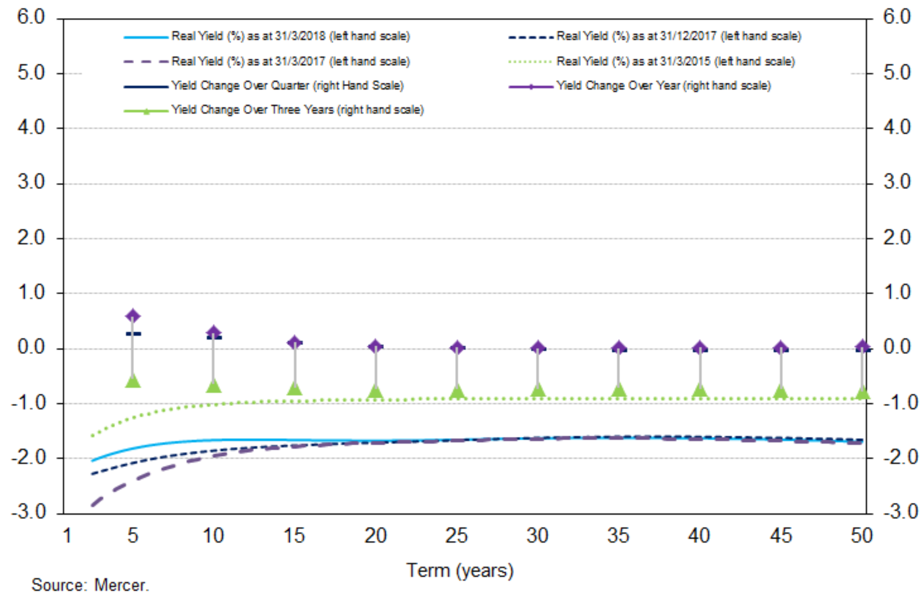
- Government bond yields remained steady at the longer dated end of the curve with the exception of the US where US Treasury yields rose. Shorter dated yields in the EU and Japan hardly moved but in the US and UK short dated yields rose.
- In the UK, the Over 15 Year Gilt Index outperformed the broader global bond market over the quarter, generating a return of 1.5%.
- Real yields were up at shorter maturities and were broadly flat at longer maturities over the quarter. This led to the Over 5 Year Index-Linked Gilts Index returning 0.1%.
- Movements in credit spreads were upwards over the quarter, with the sterling Non-Gilts All Stocks index ending the quarter at c.1.1%. UK credit assets returned -1.2% 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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