HEALTH WEALTH CAREER

AVON PENSION FUND

PANEL INVESTMENT PERFORMANCE REPORT QUARTER TO 30 JUNE 2018

AUGUST 2018

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CONTENTS

SECTION 1
EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

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

Fund Performance

- The value of the Fund's assets increased by £101m over the second quarter of 2018, to £4,709m as at 30 June 2018. This increase was driven by positive returns from most asset classes, in particular developed market equities.

Strategy

- Global (developed) equity returns over the last three years were 15.8% 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 seems to be mixed with expectations of earnings growth offset by the uncertainty stemming from trade tensions and a tighter monetary environment.
- Emerging market equities have returned 10.9% 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. Despite slowing current activity indicators and poor performance during the quarter, economic fundamentals remain strong, the global economy continues to expand and the forward earnings growth remains above 10%.
- 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 8.3% p.a. versus an assumed return of 1.90% p.a. and index-linked gilts returned 8.5% p.a. versus an assumed return of 2.15% p.a. Gilt yields increased slightly over the quarter, and as a result gilt returns were marginally negative.
- UK corporate bonds returned 4.7% p.a. over the three-year period against an assumed strategic return of 3.25% p.a.
- The three-year UK property return of 8.4% 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 negative overall for Fund performance, since Sterling depreciated against the US Dollar, the Euro and the Japanese Yen over the quarter.

EXECUTIVE SUMMARY

Managers

- Manager total returns over the quarter were broadly positive, particularly the developed market equity managers. The Pyrford and Ruffer DGF strategies also posted positive returns, whilst Aberdeen Standard posted a negative return. IFM and Loomis delivered negative absolute returns as well. Loomis's negative absolute returns were primarily caused by exposure to emerging markets.
- Absolute returns over the year to 30 June 2018 were strong. All mandates (except Aberdeen Standard) delivered positive absolute return, with the IFM mandate leading the way. In terms of relative performance, out of the active equity managers, TT, Schroders and Genesis outperformed their benchmarks over the year. Of the equity managers underperforming, the Jupiter UK equity strategy delivered the largest underperformance. Pyrford's highly defensive positioning has resulted in material underperformance versus its RPI +5% p.a. benchmark.
- 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.

Key Points for Consideration

- The transfer of equities from Invesco to BlackRock, to reduce leverage in the QIF, was completed at the end of Q1 2018.
- An allocation of £10m was made during the quarter to the Jupiter Global Sustainable Equity strategy. This was funded from the Fund's existing UK equity holding with Jupiter.

EXECUTIVE SUMMARY
MANAGER INFORMATION

Manager	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	ESG	Page
BlackRock	**Equity**	✓	✕	✓	P2	*23*
BlackRock	**Corporate Bond**	✓	✓	✓	N	*23*
BlackRock	**LDI**	✓	✓	✓	N	*23*
Jupiter	**UK Equities**	-	✕	✕	2	*24*
TT International	**UK Equities**	-	-	-	3	*25*
Jupiter	**Global Sustainable Equities**	-	N/A	N/A	N/A	*26*
Schroder	**Global Equities**	✓	-	-	2	*27*
Genesis	**Emerging Market Equities**	✓	✓	✕	3	*28*
Unigestion	**Emerging Market Equities**	-	✕	✕	N	*29*

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

- Genesis informed us of the departure of Partner, David Seaman. See page 28 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	*30*
Aberdeen Standard	**DGF**	-	✕	✕	4	*31*
Ruffer	**DGF**	✓	N/A	N/A	3	*32*
JP Morgan	**Fund of Hedge Funds**	✓	✓	N/A	4	*34*
Schroder	**UK Property**	-	-	✕	3	*37*
Partners	**Global Property**	✓	✕	✕	4	*38*
IFM	**Infrastructure**	✓	✓	N/A	2	*39*
Loomis Sayles	**Multi-Asset Credit**	✓	N/A	N/A	3	*40*
Record Currency Management	**Currency Hedging**	-	N/A	N/A	N	*41*

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

- 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

Following the falls in markets over the first quarter of 2018, equities, with the exception of emerging markets, rebounded over the second quarter, recovering most of the losses incurred at the start of the year.. The depreciation of sterling improved returns for UK investors with overseas investments.

The UK market had a good quarter, with large capitalisation stocks up by close to 10%, outperforming the broad market. Small caps were weaker on a relative basis but still returned around 6%. UK economic growth is estimated to have increased by 0.1% in Q1 2018. Year on year CPI fell to 2.4% to the end of May and the Bank of England decided to keep short-dated interest rates on hold in May although rates were raised to 0.75% in August.

Within global equity markets, US economic fundamentals remained sound while sentiment has been boosted by tax cuts, deregulation and the generally business-friendly stance of the Trump administration, although the escalation of protectionist measures was not deemed positive for business. European economic data weakened significantly and concerns about the Euro's future remained, after Italy went through a brief political crisis when an anti-establishment government coalition was formed, a weak minority government took power in Spain and Germany went through a political crisis that almost brought its government down. Emerging markets went through another challenging quarter, with double digit losses in some markets including Brazil and Turkey.

Bond Market Review

Nominal yields were broadly flat at shorter maturities and rose slightly at longer maturities over the quarter.

The Over 15 Year Gilt Index underperformed the broader global bond market over the quarter, generating a return of -0.4%.

Real yields were broadly flat at shorter maturities and slightly up at longer maturities over the quarter. This led to the Over 5 Year Index-Linked Gilts Index returning -1.2%.

Movements in credit spreads were upwards over the quarter, with the sterling Non-Gilts All Stocks Index credit spread ending the quarter at c.1.2%. UK credit assets returned -0.1% over the quarter, underperforming the return of global credit in sterling currency terms.

Currency Market Review

Over the quarter, sterling depreciated against the dollar by 5.9%, against the euro by 0.9% and against the Japanese yen by 2.0%.

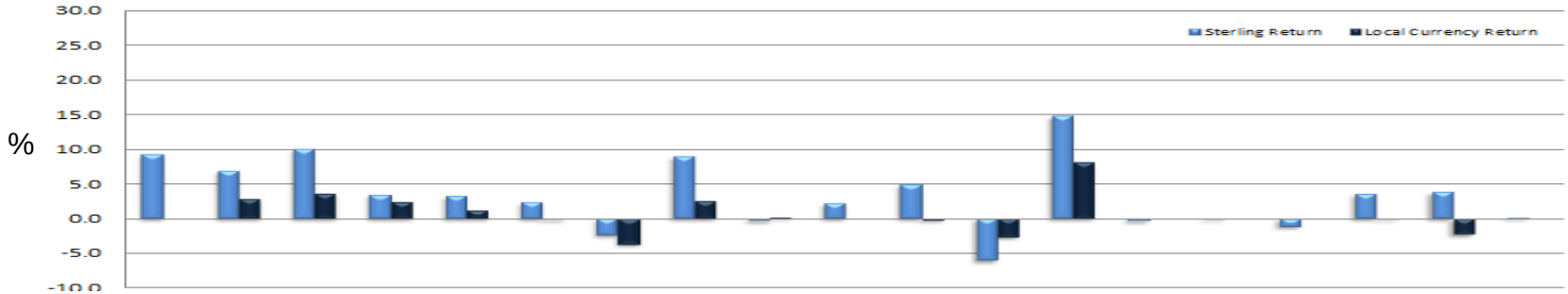
Commodity Market Review

Commodities performed well over the quarter, driven by the sharp rise in the price of oil, up from $70 to $80 due to supply concerns. Livestock and industrials metals also increased. Precious metals were a detractor with gold down around 5%, as investors shifted into riskier asset classes. Agricultural commodities also fell, potentially due to short term concerns about excess supply, given the impact tariffs could have on trade, even though in the long term, trade restrictions are more likely to lead to higher prices, as production is shifted to less efficient producers.

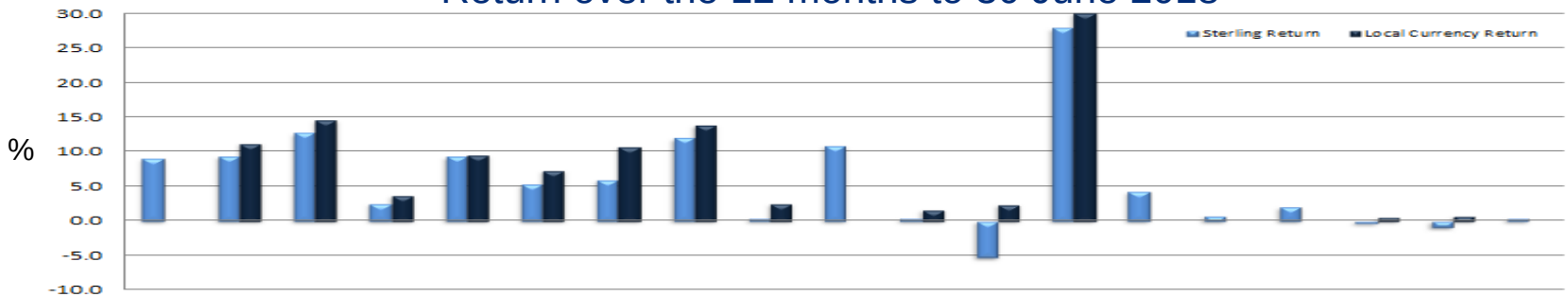
Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE

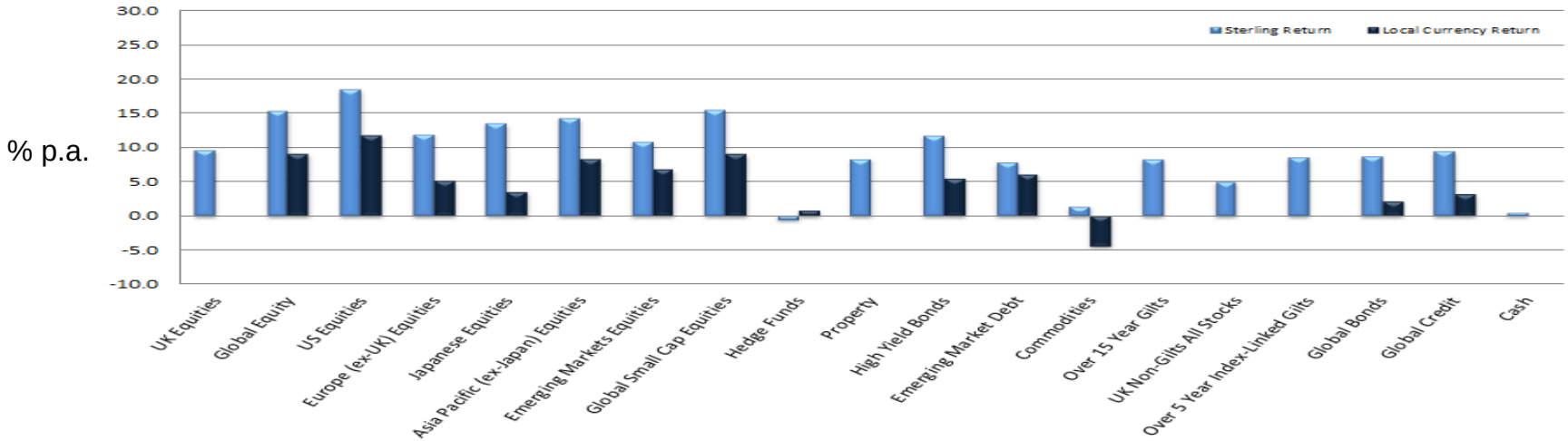
Return over the 3 months to 30 June 2018



Return over the 12 months to 30 June 2018



Return p.a. over the 3 years to 30 June 2018



Source: Thomson Reuters Datastream.

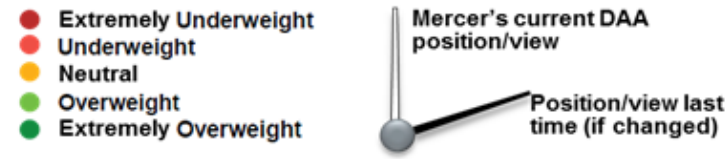
SECTION 3
STRATEGIC ASSUMPTIONS

MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

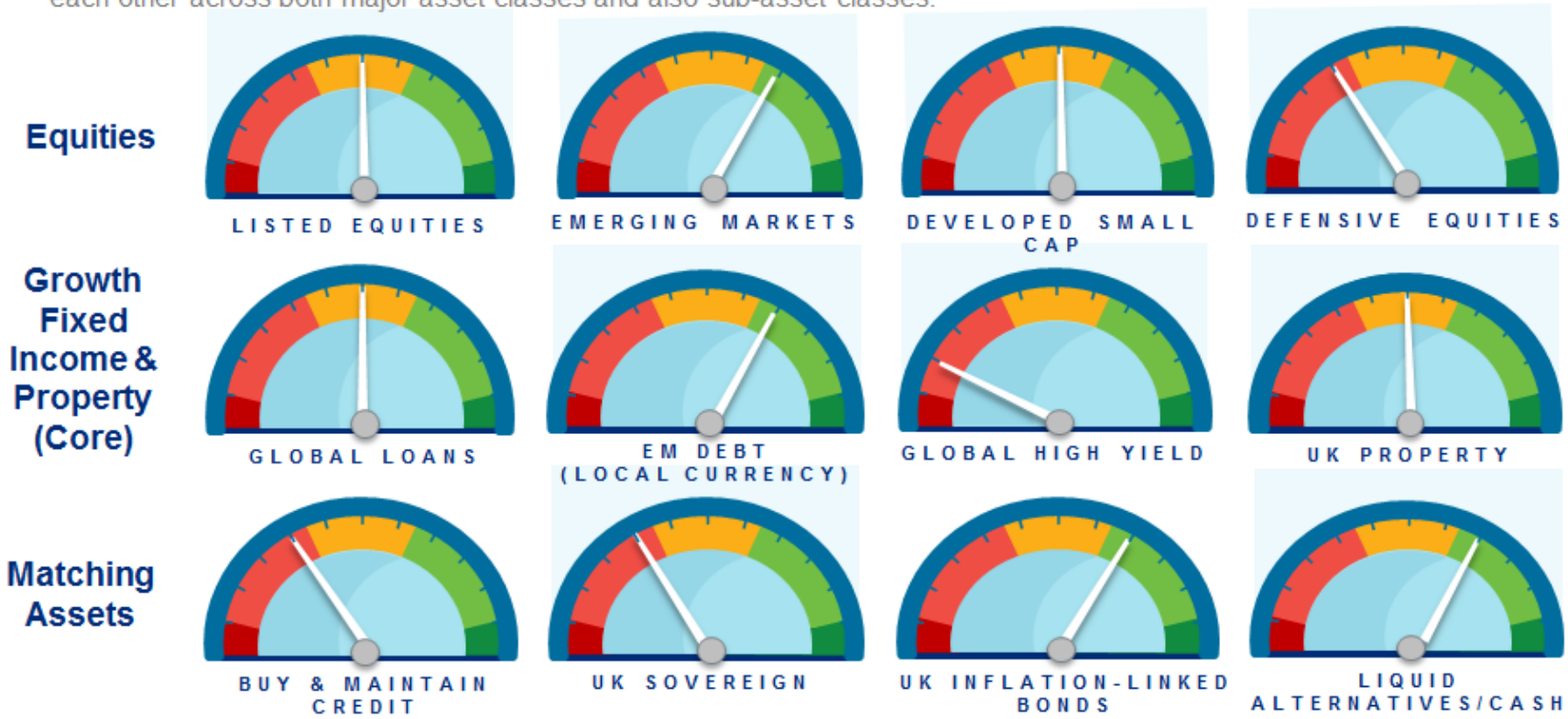
Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.05	15.8	*Remains ahead of the assumed strategic return. This has increased from 10.9% p.a. last quarter as the latest quarter's return of 7.9% was materially higher than the -5.2% return of Q2 2015, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.70	10.9	*The three year return from emerging market equities has increased from 10.4% p.a. last quarter, as the return of -2.4% over Q2 2018 was higher than the return for the quarter that fell out of the period (-3.7%). The three year return is above the assumed strategic return.*
Diversified Growth	6.95 (Libor + 4% / RPI + 5%)	6.0 (4.5 / 7.8)	*DGFs are expected to produce an equity like return over the long term but with lower volatility – this is the basis for the Libor and RPI based benchmarks. Low cash rates 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	8.3	*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 negative for nominal gilts and 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	8.5	
UK Corporate Bonds (BofAML Sterling Non Gilts)	3.25	4.7	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	5.10	-0.5	*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	8.4	*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 2.2% over the second quarter of 2018.*
Infrastructure (S&P Global Infrastructure)	6.95	12.3	*The infrastructure three year return has risen from 6.4% p.a. last quarter as the index delivered a return of 9.0% this quarter, meaning the three year return is now above the strategic return. The positive performance was in part driven by currency as sterling depreciated 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 – Q3 2018



- We have implemented two major changes to the DAA process; firstly our views or tilts are now shown on top of a reference portfolio chosen to be suitable for the majority of the UK clients, and secondly, these views are also communicated relative to each other across both major asset classes and also sub-asset classes.



The charts above summarise Mercer's views on the medium term (1-3 years) outlook for returns from the key asset classes. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect the Scheme to make frequent tactical changes to their asset allocation based upon these views.

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	1,588,295	1,715,587	34.5	36.4	34.0	29 - 39	+2.4
Emerging Market Equities	221,708	221,936	4.8	4.7	6.0	3 - 9	-1.3
Diversified Growth Funds	602,104	606,449	13.1	12.9	15.0	10 - 20	-2.1
Fund of Hedge Funds	211,766	225,974	4.6	4.8	5.0	0 - 7.5	-0.2
Property	426,039	437,617	9.3	9.3	10.0	5 - 15	-0.7
Infrastructure	283,594	294,540	6.2	6.3	5.0	0 - 7.5	+1.3
Multi-Asset Credit	482,296	474,781	10.5	10.1	11.0	6 - 16	-0.9
Corporate Bonds	82,124	81,040	1.8	1.7	2.0	No set range	-0.3
LDI*	536,222	523,136	11.6	11.1	12.0	No set range	-0.9
Cash (including currency instruments)	174,159	128,829	3.8	2.7	-	0 - 5	+2.7
Total	**4,608,307**	**4,709,889**	**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 increased over the quarter by £101m due to positive returns from most asset classes, in particular developed market equities. All of the asset classes remain within their 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	853,002	-	927,375	18.5	19.7
BlackRock	Corporate Bonds	82,124	-	81,040	1.8	1.7
BlackRock	LDI*	536,222	-	523,136	11.6	11.1
TT International	UK Equities	184,557	-	198,165	4.0	4.2
Jupiter	UK Equities	196,870	-10,000	202,977	4.3	4.3
Jupiter	Global Sustainable Equities	-	+10,000	9,996	-	0.2
Schroder	Global Equities	353,866	-	377,073	7.7	8.0
Genesis	Emerging Market Equities	113,788	-	113,320	2.5	2.4
Unigestion	Emerging Market Equities	107,920	-	108,615	2.3	2.3
Pyrford	DGF	135,269	-	137,986	2.9	2.9
Aberdeen Standard	DGF	240,709	-	235,935	5.2	5.0
Ruffer	DGF	226,126	-	232,528	4.9	4.9

Source: Investment Managers, Mercer. Totals may not sum due to rounding.
* Valuation includes mark-to-market value of equity protection strategy.

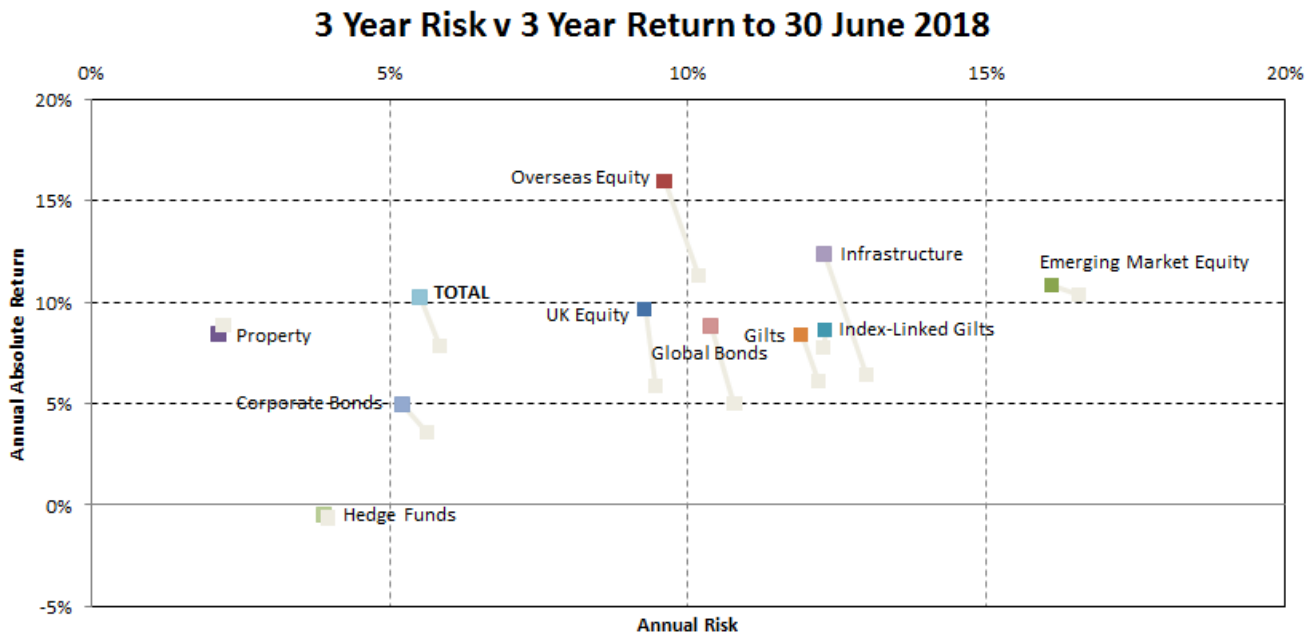
FUND VALUATIONS
VALUATION BY MANAGER CONTINUED

Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
Signet	Fund of Hedge Funds	1,633	-	-	0.0	-
JP Morgan	Fund of Hedge Funds	210,133	-	225,974	4.6	4.8
Schroder	UK Property	224,719	-	229,059	4.9	4.9
Partners	Property	201,320	-	208,559	4.4	4.4
IFM	Infrastructure	283,594	-	294,540	6.2	6.3
Loomis Sayles	Multi-Asset Credit	482,296	-	474,781	10.5	10.1
Record Currency Management	Currency Hedging	86,436	-	42,883	1.9	0.9
Internal Cash	Cash	87,723	-	85,946	1.9	1.8
Total		**4,608,307**	**-**	**4,709,889**	**100.0**	**100.0**

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

SECTION 5
PERFORMANCE SUMMARY

MANAGER MONITORING
RISK RETURN ANALYSIS



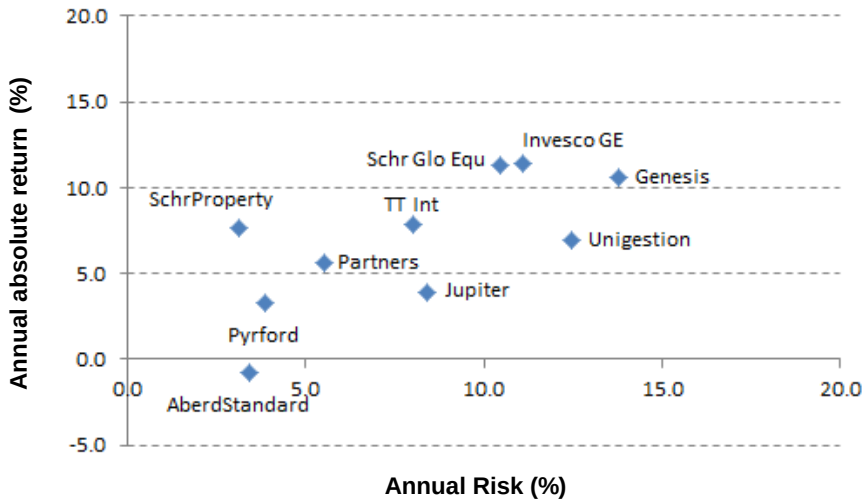
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of June 2018, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark indices and allocations from BNY Mellon). We also show the positions as at last quarter, in grey.

Comments

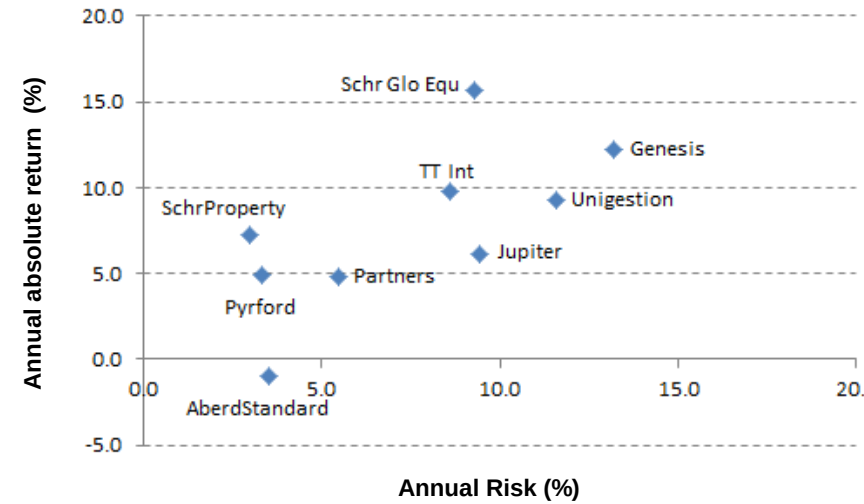
- Changes in observed returns and volatilities over the quarter were limited to some asset classes. Infrastructure, UK and overseas equities saw their three-year returns increasing.

MANAGER MONITORING
RISK RETURN ANALYSIS

3 year Risk vs 3 year Return to 31 March 2018



3 year Risk vs 3 year Return to 30 June 2018



Comments

- The equity mandates saw their three-year return increasing over the quarter.

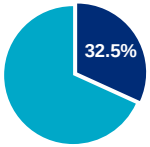
MANAGER MONITORING
MANAGER PERFORMANCE TO 30 JUNE 2018

Manager/ Asset Class	3 Months			1 Year			3 Year			3 Year Performance Target (% p.a.)	3 Year Performance vs Target
	Fund (%)	B'mark (%)	Relative (%)	Fund (%)	B'mark (%)	Relative (%)	Fund (% p.a.)	B'mark (% p.a.)	Relative (% p.a.)		
BlackRock Equities	7.9	8.2	-0.3	8.4	8.6	-0.2	13.3	13.2	+0.1	-	N/A
BlackRock Corp Bonds	-1.3	-1.4	+0.1	0.3	0.1	+0.2	7.5	7.4	+0.1	-	N/A
BlackRock LDI	3.4	3.4	0.0	5.5	5.5	0.0	8.8	8.8	0.0	-	N/A
TT International	7.3	9.2	-1.7	9.5	9.0	+0.5	9.8	9.6	+0.2	+3-4	Target not met
Jupiter	8.2	9.2	-0.9	4.2	9.0	-4.4	6.1	9.6	-3.2	+2	Target not met
Schroder Equity	6.7	7.0	-0.3	9.7	9.5	+0.2	15.7	15.3	+0.3	+4	Target not met
Genesis	-0.8	-2.0	+1.2	7.0	6.8	+0.2	12.2	12.3	-0.1	-	Target not met
Unigestion	1.2	-2.1	+3.3	5.9	6.5	-0.6	9.3	11.9	-2.4	+2-4	Target not met
Pyrford	2.0	2.4	-0.4	0.2	8.5	-7.7	4.9	8.0	-2.8	-	Target not met
Aberdeen Standard	-1.9	1.4	-3.3	-2.1	5.6	-7.3	-1.0	5.6	-6.3	-	Target not met
Ruffer	2.3	1.4	+0.9	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
JP Morgan	1.2	1.3	-0.1	5.0	4.5	+0.5	N/A	N/A	N/A	-	N/A
Schroder Property	2.0	2.0	0.0	9.9	9.7	+0.2	7.2	7.6	-0.4	+1	Target not met
Partners Property *	1.8	2.5	-0.6	6.0	10.0	-3.6	4.8	10.0	-4.8	-	Target not met
IFM	-2.3	1.2	-3.5	16.4	3.9	+12.1	15.0 **	3.7 **	+10.9 **	-	N/A
Loomis Sayles	-1.6	-0.5	-1.1	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A

- Source: Investment Managers, 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 March 2018 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)
£1,531.6M END VALUE *(£1,471.3M 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 7.9% and Corporate Bonds returned -1.3% over Q2, performing broadly in line with their benchmarks as expected, whilst 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.

Reason for investment

To provide asset growth as part of a diversified portfolio

Reason for manager

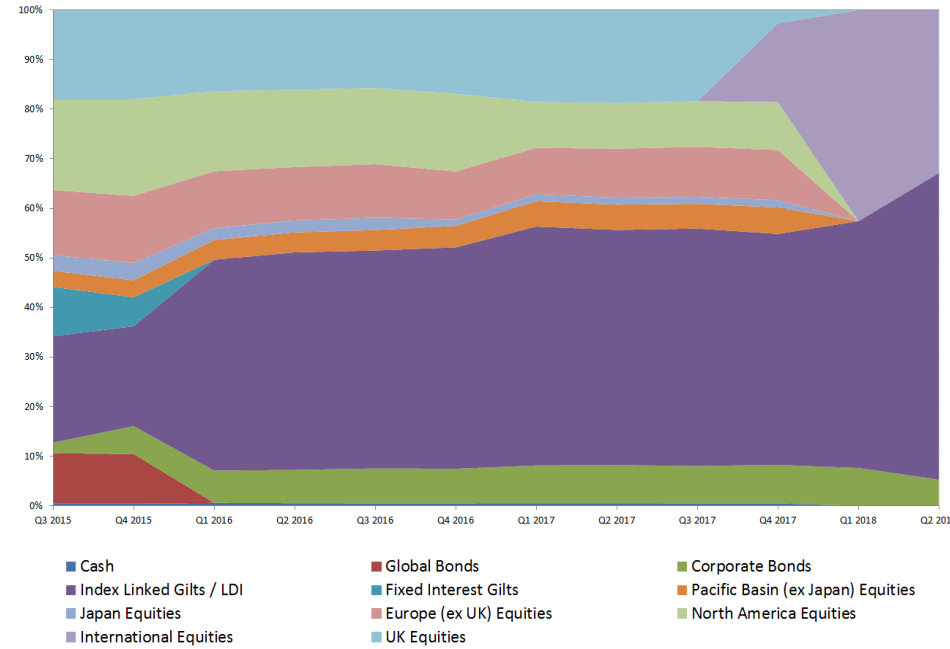
- To provide low cost market exposure across multi asset classes
- Provide efficient way for rebalancing between bonds and equities within a single portfolio

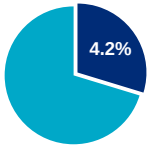
Performance

	Quarter (%)		1-Year (%)		3-Year (% p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Equities	7.9	8.2	8.4	8.6	13.3	13.2
Corporate Bonds	-1.3	-1.4	0.3	0.1	7.5	7.4
LDI*	3.4	3.4	5.5	5.5	8.8	8.8

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

Asset Allocation





TT INTERNATIONAL – UK EQUITIES (UNCONSTRAINED) (SEGREGATED)
£198.2M END VALUE *(£184.6M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B (no change over period under review). ESG3
Performance Objective *Benchmark +3-4% p.a.*	Outperformed benchmark by 0.2% p.a. over three years
Three year tracking error was 3.3% p.a. – *source: Mercer*	Number of stocks: 46

Manager Research and Developments

- TT has underperformed the benchmark over the quarter by 1.7%, but outperformed by 0.5% over the year and by 0.2% p.a. over three years.
- The fund finished behind its benchmark as outperformance in Financials was more than offset by underperformance in Industrials, Consumer Goods and Oil & Gas. The fund was also impacted by being underweight the Oil & Gas sector, which was buoyed by oil prices rising. From a stock specific perspective, British American Tobacco suffered due to fears that strong growth in the US vaping market could cannibalise combustibles sales.
- Turnover decreased from 22.1% in Q1 2018 to 20.7% in Q2 2018 while the three year tracking error (a proxy for risk relative to benchmark) decreased to 3.3% p.a.
- Assets in TT's UK equity strategies increased over the quarter from £534m to £577m in light of the positive returns; this consists of the assets within TT's pooled fund and four segregated accounts (one of which is the Fund's holdings). A significant portion (c.34%) of the firm's UK equity assets are managed on behalf of the Fund.

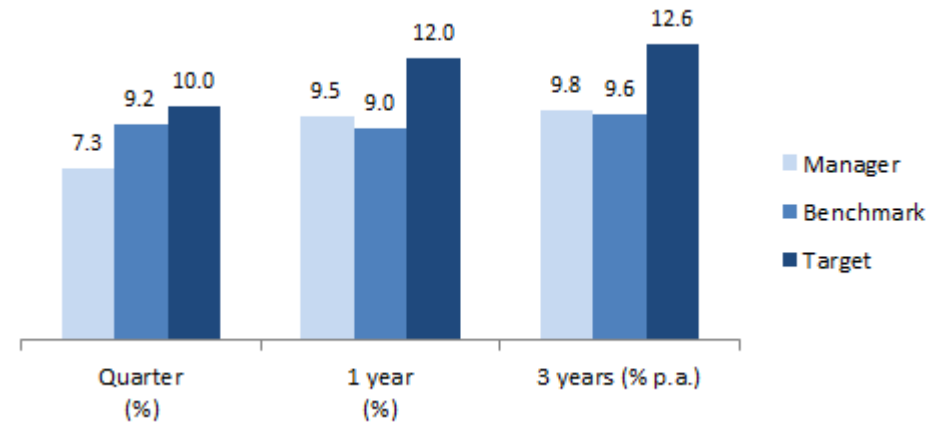
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

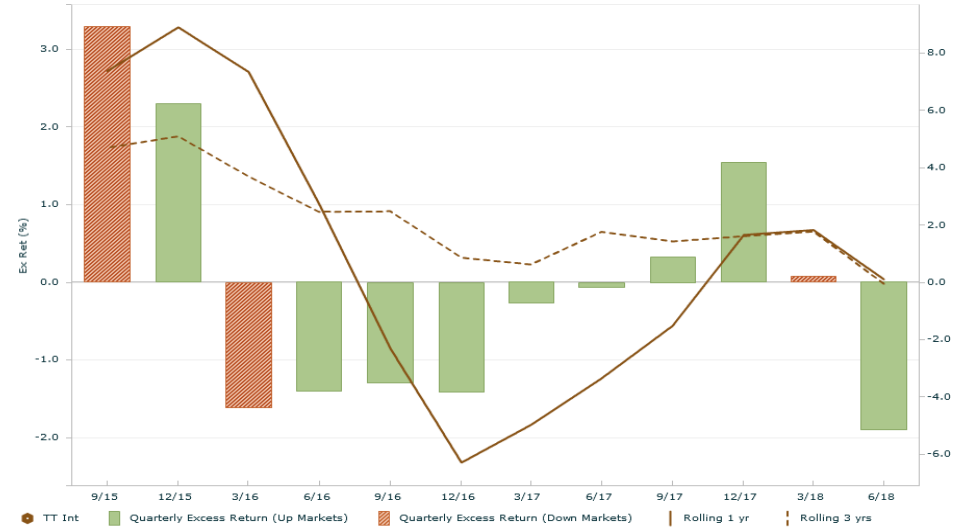
- Favoured the partnership structure that aligns manager's and Fund's interests
- Focussed investment activity and manages its capacity
- Clear, robust stock selection and portfolio construction

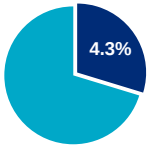
Performance



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 June-18





JUPITER ASSET MANAGEMENT – UK EQUITIES (SRI) (SEGREGATED)
£203.0M END VALUE *(£196.9M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B (no change over period under review). ESG2
Performance Objective *Benchmark +2% p.a.*	Underperformed benchmark by 3.2% p.a. over three years
Tracking error was 4.4% p.a. – *source: Jupiter*	Number of stocks: 55

Manager Research and Developments

- Jupiter underperformed its benchmark over the quarter by 0.9%. Jupiter's performance was above TT's - the other UK equity fund invested in by the Fund.
- Over the quarter, the portfolio was behind its index as a result of the strong performance of the oil and gas sector (which the portfolio does not hold) as crude oil prices climbed 13% in the quarter. The overweight to Crest Nicholson and Thomas Cook holdings also weighed down on relative performance. Notable positive contributions came from Micro Focus after its profits warning in the previous quarter, while Johnson Matthey and Tesco issued positive updates that improved their respective outlooks.
- Jupiter underperformed the benchmark by 4.4% over the year and by 3.2% p.a. over the three years to 30 June 2018.

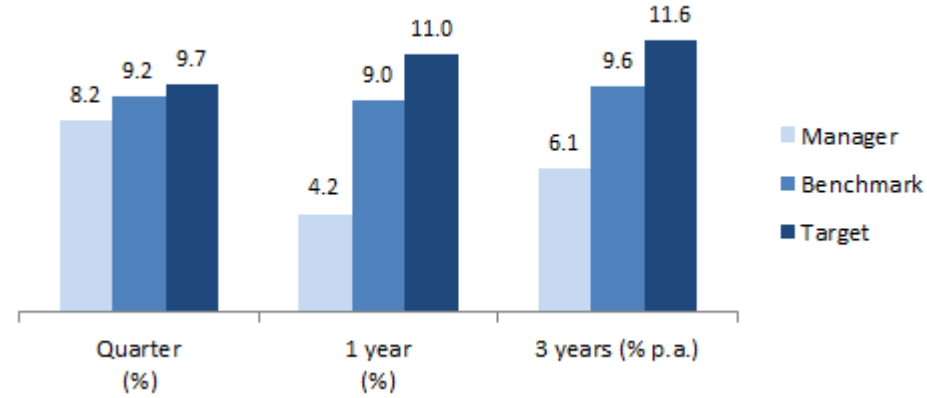
Reason for investment

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

Reason for manager

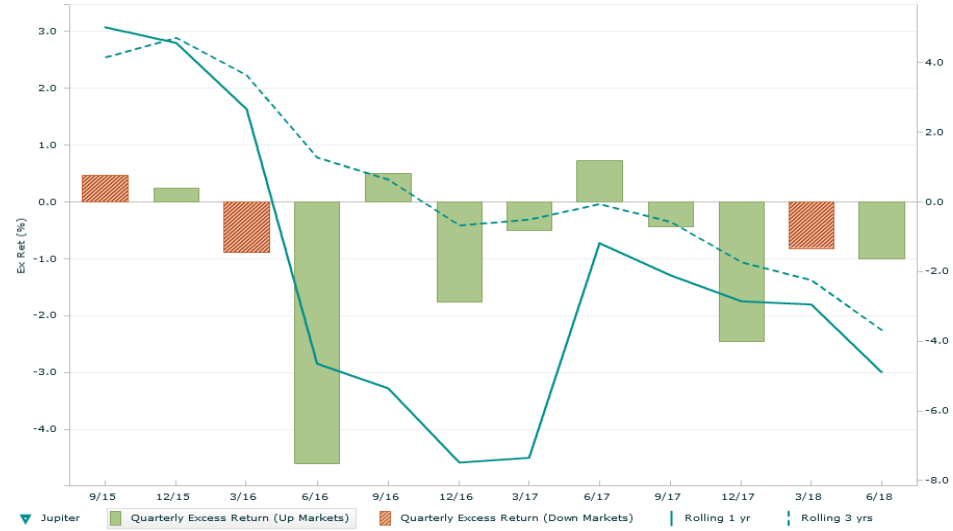
- Clear and robust approach to evaluating SRI factors within the investment process
- Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities
- Corporate commitment to SRI investment approach within a more mainstream investment team

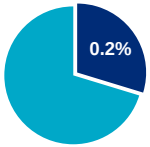
Performance



Rolling relative returns

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





JUPITER ASSET MANAGEMENT – GLOBAL SUSTAINABLE EQUITIES (POOLED)
£10.0M END VALUE *(£0.0M START VALUE)*

Item Monitored	Outcome
Mercer Rating	N/A (no formal rating).
Performance Objective *Benchmark +2-4% p.a.*	Too early to determine

Manager Research and Developments

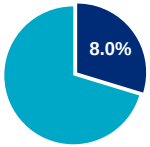
- Mandate was initiated in Q2 2018.

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



SCHRODER – GLOBAL EQUITY PORTFOLIO (SEGREGATED)
£377.1M END VALUE *(£353.9M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review). ESG2
Performance Objective *Benchmark +4% p.a.*	Outperformed benchmark by 0.3% p.a. over three years

Three year tracking error was 2.4% p.a. – *source: Mercer*

Manager Research and Developments

- The fund underperformed the benchmark by 0.3% over the quarter. Stock selection was most challenging in Technology, Industrials and Consumer Discretionary, while the Healthcare holdings were most supportive to overall portfolio perspective. From a regional perspective, performance in North America and Japan held back returns, while European holdings were additive. HP Enterprise and TSMC were the largest detractors from returns over the quarter with the largest contributors being Linde and Nutrien.
- The strategy performed above its benchmark over the one and three year periods to 30 June 2018.

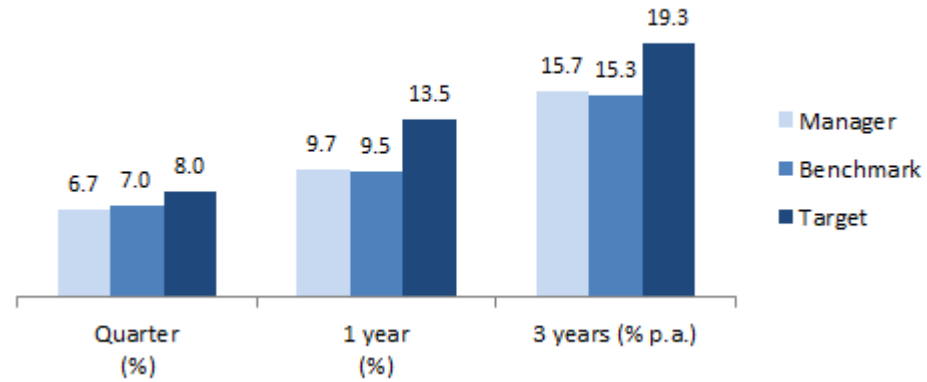
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

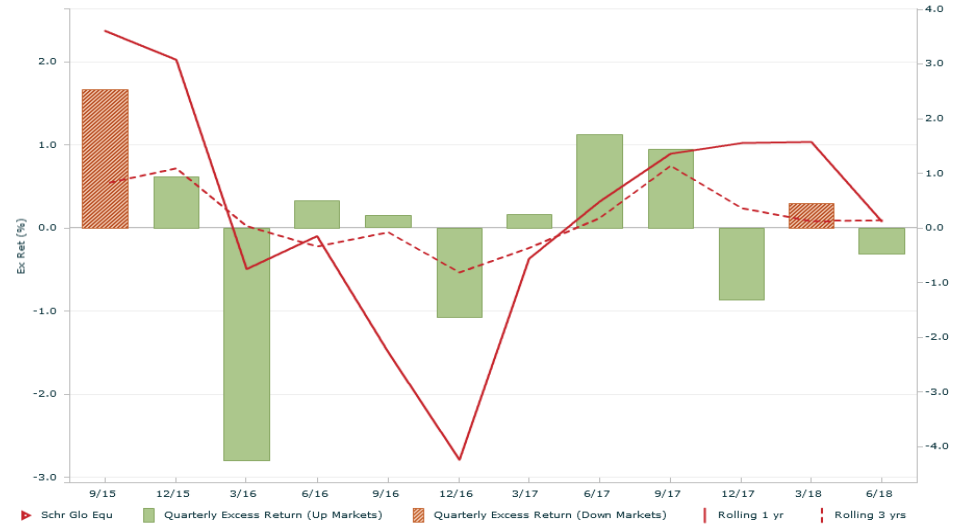
- Clear philosophy and approach
- Long term philosophy aligned with Fund's goals, commitment to incorporating ESG principles throughout the investment process
- Evidence of ability to achieve the Fund's performance target

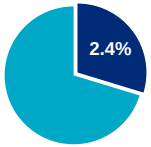
Performance



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 June-18





GENESIS ASSET MANAGERS – EMERGING MARKET EQUITIES (POOLED)
£113.3M END VALUE *(£113.8M START VALUE)*

Item Monitored	Outcome
Mercer Rating	A (no change over period under review). ESG3
Performance Objective *Benchmark*	Marginally underperformed benchmark by 0.1% p.a. over three years
Three year tracking error was 3.2% p.a. – *source: Genesis*	Number of stocks: 123

Manager Research and Developments

- The fund has outperformed by 1.2% over the quarter and by 0.2% over the year, but marginally underperformed by 0.1% p.a. over the three years to 30 June 2018.
- On a regional basis, India was the largest contributor to returns over the quarter, whilst Turkey was the largest detractor.
- The largest contributors at a stock specific level were Kotak Mahindra Bank and the Jiangsu Yanghe Brewery from India and China respectively. The biggest detractors were the banks Garanti and Itaú from Turkey and Brazil respectively.
- From a sector perspective, Financials was the largest contributor, whilst Information Technology 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, relative performance picked up in Q2 2018.
- Genesis has announced the departure of Partner, David Seaman. While we understand this was a mutual decision, we note the announcement follows a prolonged period where he has struggled from a performance perspective. Developments of this nature are disappointing, but we do not believe Seaman's departure is symptomatic of any underlying issues within the investment team. This news does not impact our positive view on Genesis' business.

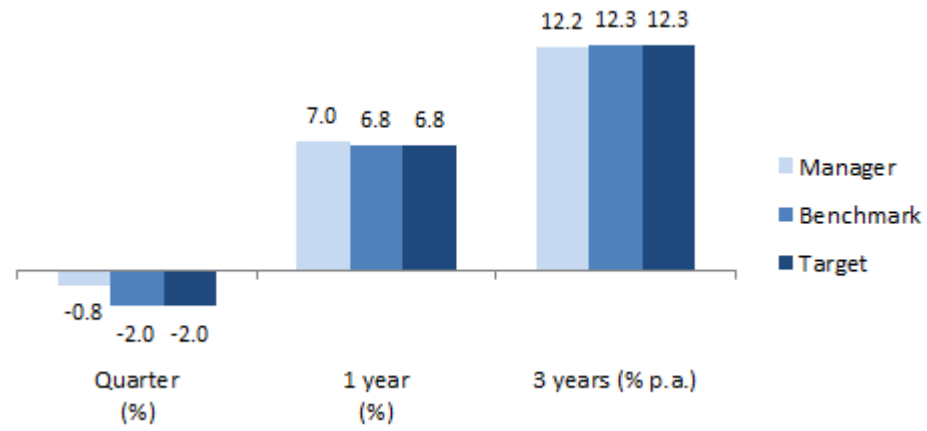
Reason for investment

To provide asset growth as part of a diversified equity portfolio

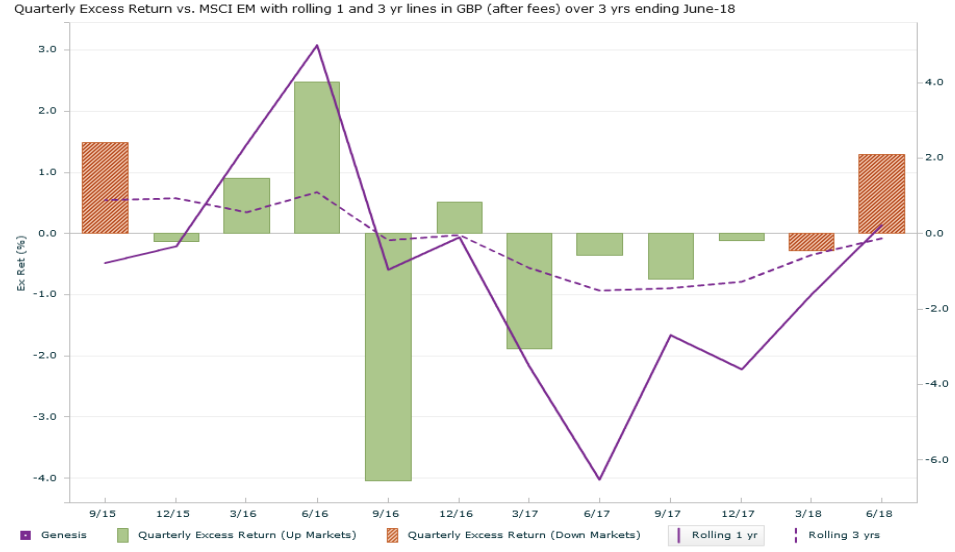
Reason for manager

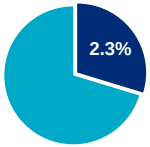
- Long term investment approach which takes advantage of evolving growth opportunities
- Niche and focussed expertise in emerging markets
- Partnership structure aligned to delivering performance rather than growing assets under management

Performance



Rolling relative returns





UNIGESTION – EMERGING MARKET EQUITIES (POOLED – SUB-FUND)
£108.6M END VALUE *(£107.9M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *Benchmark +2-4% p.a.*	Underperformed benchmark by 2.4% p.a. over three years
Three year tracking error was 6.6% p.a. – *source: Unigestion*	Number of stocks: 99

Manager Research and Developments

- The fund has outperformed by 3.3% over the quarter, but underperformed by 0.6% over the year and by 2.4% p.a. over the three years to 30 June 2018.
- The fund outperformed over all the three months of the quarter. Stock selection was positive over the quarter, particularly in Food Retailing, Food. Insurance and Technology. Sector calls were also supportive to overall fund performance, with the underweight to Technology and Capital Goods and the overweight to Telecommunications in particular contributing to performance.
- Volatility since inception is 13.6%, lower than the index (16.7%) and consistent with the strategy's objectives (and bias to quality and large- or mega-cap stocks).
- The fund uses a defensive, high quality, low volatility approach, which should outperform in times of market volatility, but underperform in upward markets. In this respect, relative performance picked up in Q2 2018.

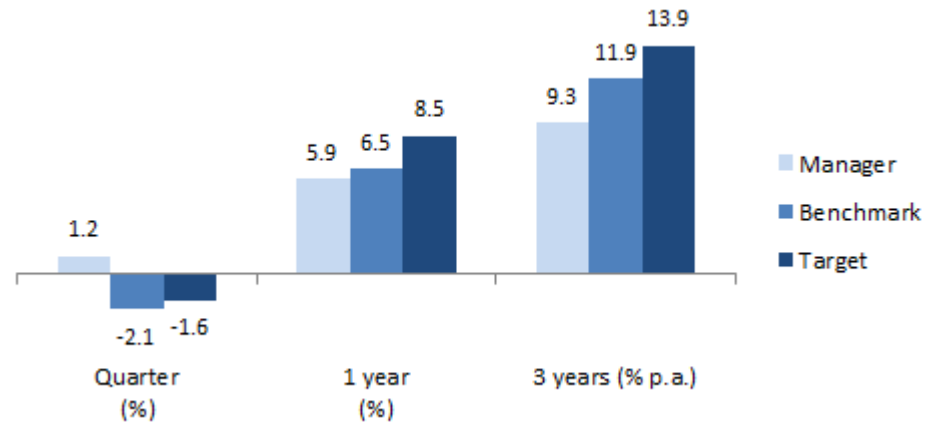
Reason for investment

To provide asset growth as part of a diversified equity portfolio

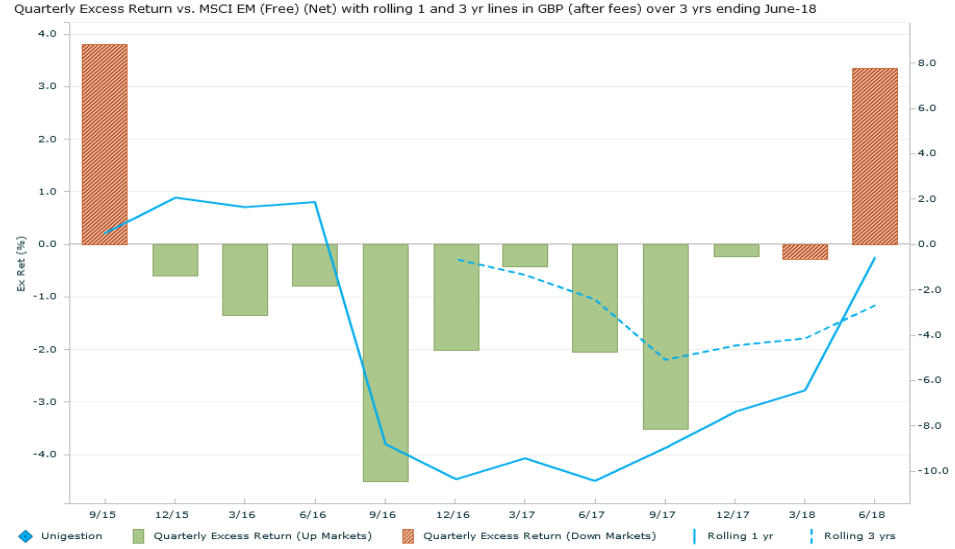
Reason for manager

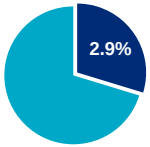
- Risk-based active management approach
- Aim for lower volatility than the MSCI Emerging Markets Index
- Combine fundamental and quantitative analysis

Performance



Rolling relative returns





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

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *RPI +5% p.a.*	Underperformed objective by 2.8% p.a. over three years

Manager Research and Developments

- The fund has underperformed its objective (RPI + 5% p.a.) over the quarter by 0.4%, by 7.7% over the year and by 2.8% p.a. over three years.
- Both the portfolio's equities and bonds were in positive territory over the period, although cash and currency hedging detracted as sterling fell. Equities provided the biggest contribution to returns with both UK (+7.0%) and overseas (+3.7%) equities performing positively.
- Strategic allocation of the portfolio remained unchanged over the quarter.
- Pyrford continues to adopt a defensive stance by owning short duration securities in order to protect the capital value of the portfolio from expected rises in yields.

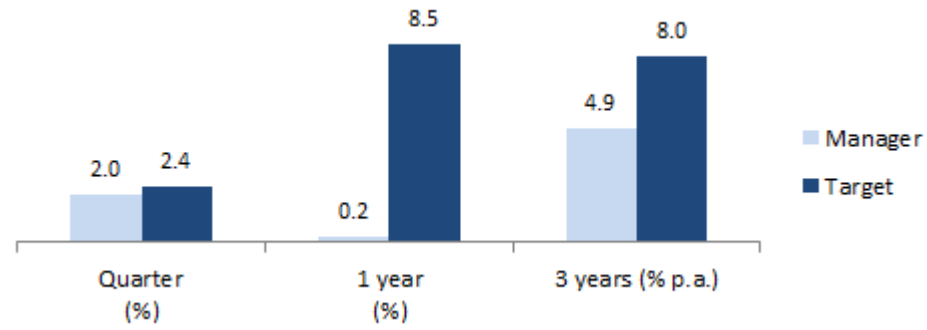
Reason for investment

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

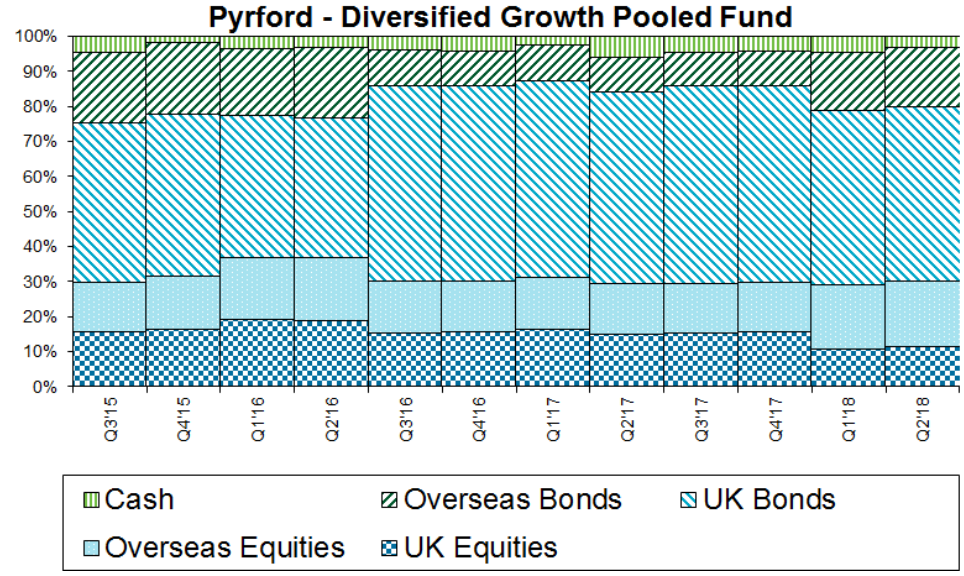
Reason for manager

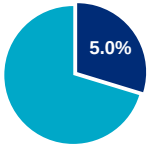
- Asset allocation skill between equities, bonds and cash
- Fundamental approach to stock selection

Performance



Asset Allocation





ABERDEEN STANDARD – DGF (POOLED)
£235.9M END VALUE *(£240.7M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review). ESG4
Performance Objective *Cash +5% p.a.*	Underperformed objective by 6.3% p.a. over three years

Manager Research and Developments

- The fund has underperformed its objective (Cash + 5% p.a.) over the quarter by 3.3%, by 7.3% over the year and by 6.3% p.a. over three years.
- Emerging market assets were hurt by the rising US dollar, elevated geopolitical tensions and global trade concerns. Consequently, the EM income, EM versus UK equity and Korean equity positions detracted from performance. The portfolio's US equity large-cap versus small-cap strategy also dragged on returns. Furthermore, the European banks versus European equities strategy contributed negatively - banks posted significant losses as the uncertain Italian political environment weighed on the long-term outlook for interest rates and economic growth.

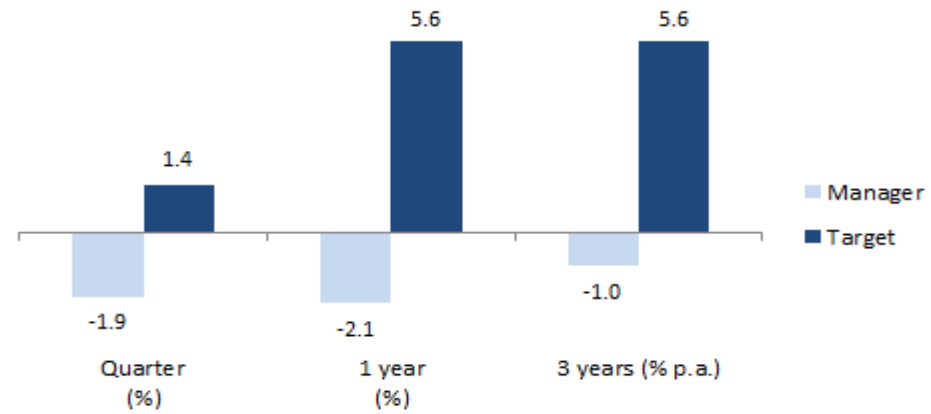
Reason for investment

To provide attractive absolute returns over the long term

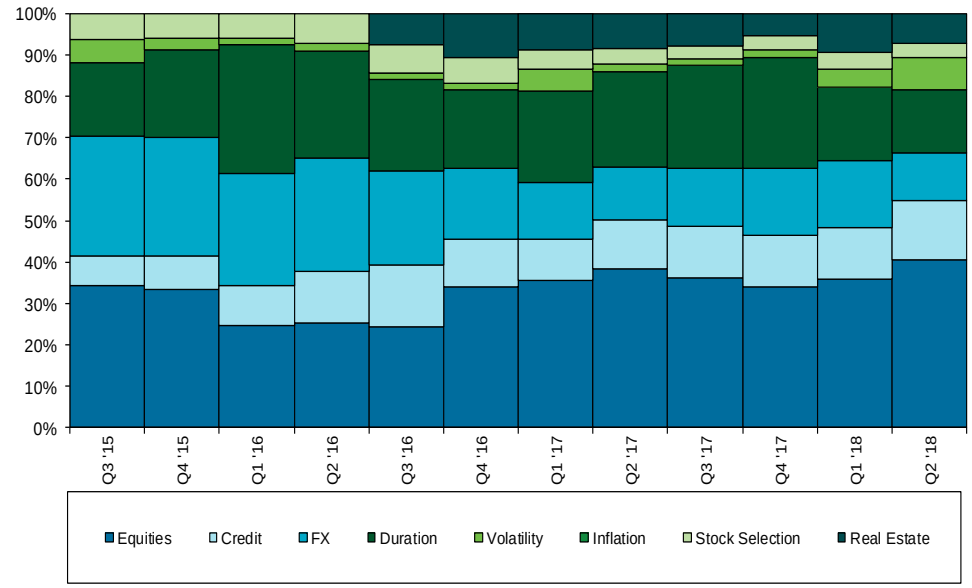
Reason for manager

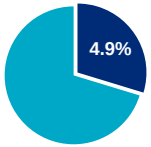
- Diversification from equities
- Exposure to relative value strategies and different approach to Pyrford's largely static asset allocation investment strategy

Performance



Asset Allocation/Risk Exposure





RUFFER – DGF (POOLED)
£232.5M END VALUE *(£226.1M 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 2.3% over the quarter, against an objective of 1.4%.
- The fund's performance spurred by strong UK equity performance (UK stocks in the portfolio rose by 15% on average), with the strategy benefitting from the increase in UK exposure. Ocado, Sophos and Tesco led the way here, with BP and Royal Dutch Shell also making decent gains as the oil price continued to rise. US dollar exposure was also a positive contributor to performance amid strong US growth and the US Federal Reserve continuing on its path of raising interest rates. The portfolio's defensive positions hurt performance over the quarter as equity markets regained their poise and volatility subsided. The index-linked gilt exposure also detracted from performance, as bond yields rose and inflation expectations changed very little.

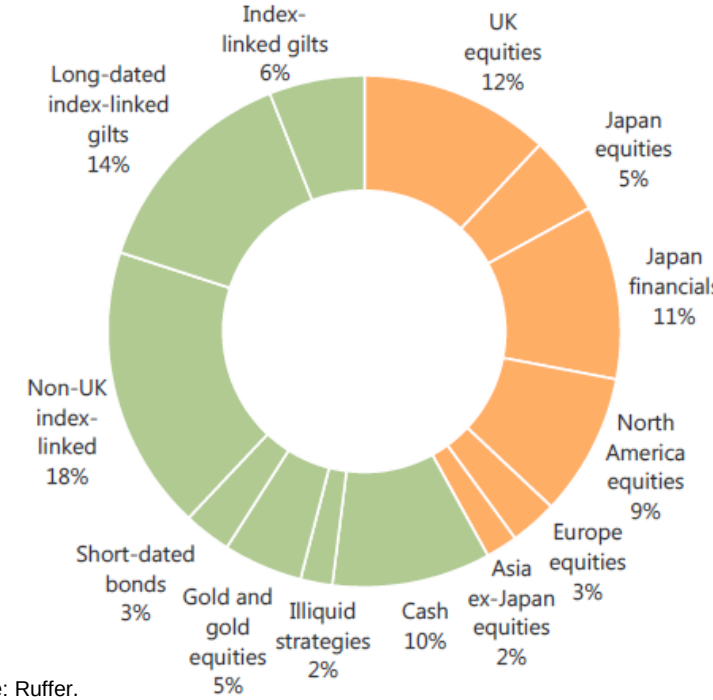
Reason for investment

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

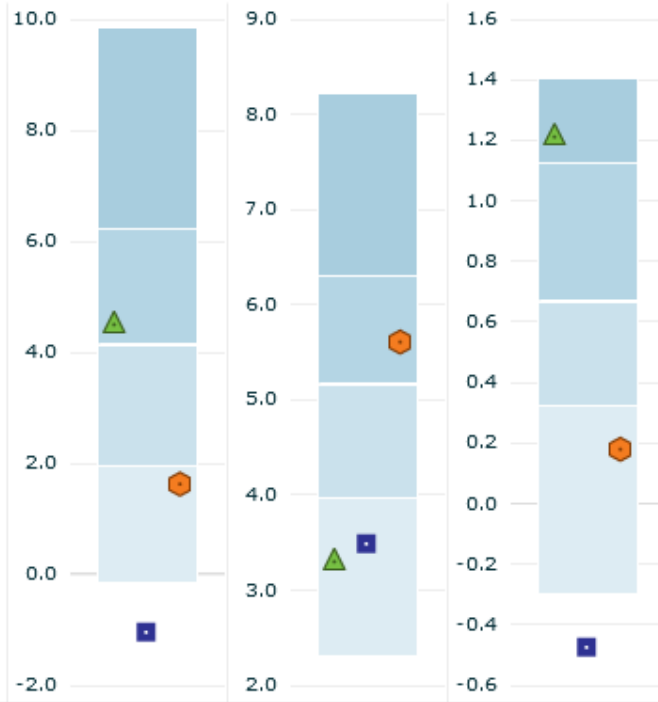


Source: Ruffer.
As at 30 June 2018.

DGF MANDATES

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

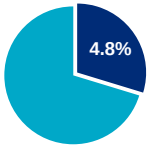
Comparison with the International Multi-asset GBP (Net) universe (Actual Ranking) (quarterly calculations)



	Ret (%pa)	Std Dev (%pa)	IR
Pyrford DGF	4.5 *(30)*	3.3 *(58)*	1.2 *(12)*
ASI GARS	-1.0 *(66)*	3.5 *(56)*	-0.5 *(65)*
Ruffer DGF	1.6 *(54)*	5.6 *(27)*	0.2 *(55)*
95th Percentile	9.9	8.2	1.4
Upper Quartile	6.2	6.3	1.1
Median	4.1	5.2	0.7
Lower Quartile	2.0	4.0	0.3
5th Percentile	-0.1	2.3	-0.3
Number	67	67	67

Commentary

- Over the three years to 30 June 2018, Pyrford outperformed the Aberdeen Standard GARS pooled fund and the Ruffer pooled fund by 5.5% p.a. and 2.9% p.a. respectively.
- Pyrford is above the median of the DGF universe for performance, whilst Ruffer is below that. 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 3.3% p.a. and 3.5% 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 12th highest of the universe, whereas for Aberdeen Standard it was the 3rd 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
£226.0M END VALUE *(£210.1M START VALUE)*

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

Item	
Number of funds	33 (as at 30 June 2018)

Strategy	Contribution to Performance over the Quarter in USD (%)
Relative Value	0.70
Opportunistic/Macro	0.50
Long/Short Equities	0.63
Merger Arbitrage/Event Driven	-0.52
Credit	0.14
Total	**1.24 (including cash and fees)**

In USD terms, the fund return was 1.2% over Q4 (underperforming benchmark by 0.1%). 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

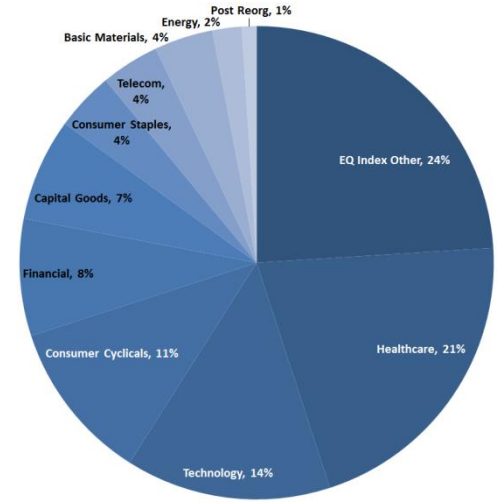
Reason for manager

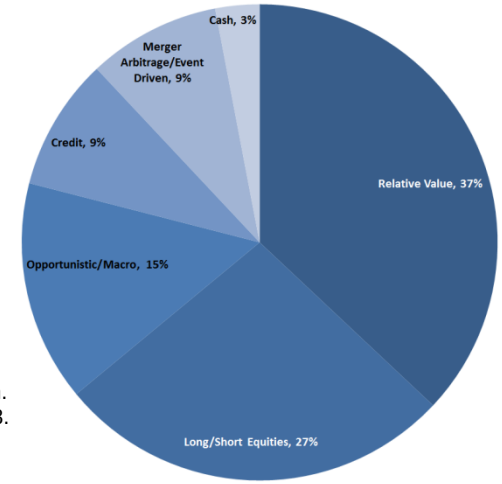
- Niche market neutral investment strategy
- Established team with strong track record
- Complemented other funds in the portfolio

Performance (GBP, JP Morgan return converted from USD)

Last Quarter	7.6%	Target	0.9%
Last Year	3.2%	Target	3.4%

Portfolio Composition and Equity Sector Allocation

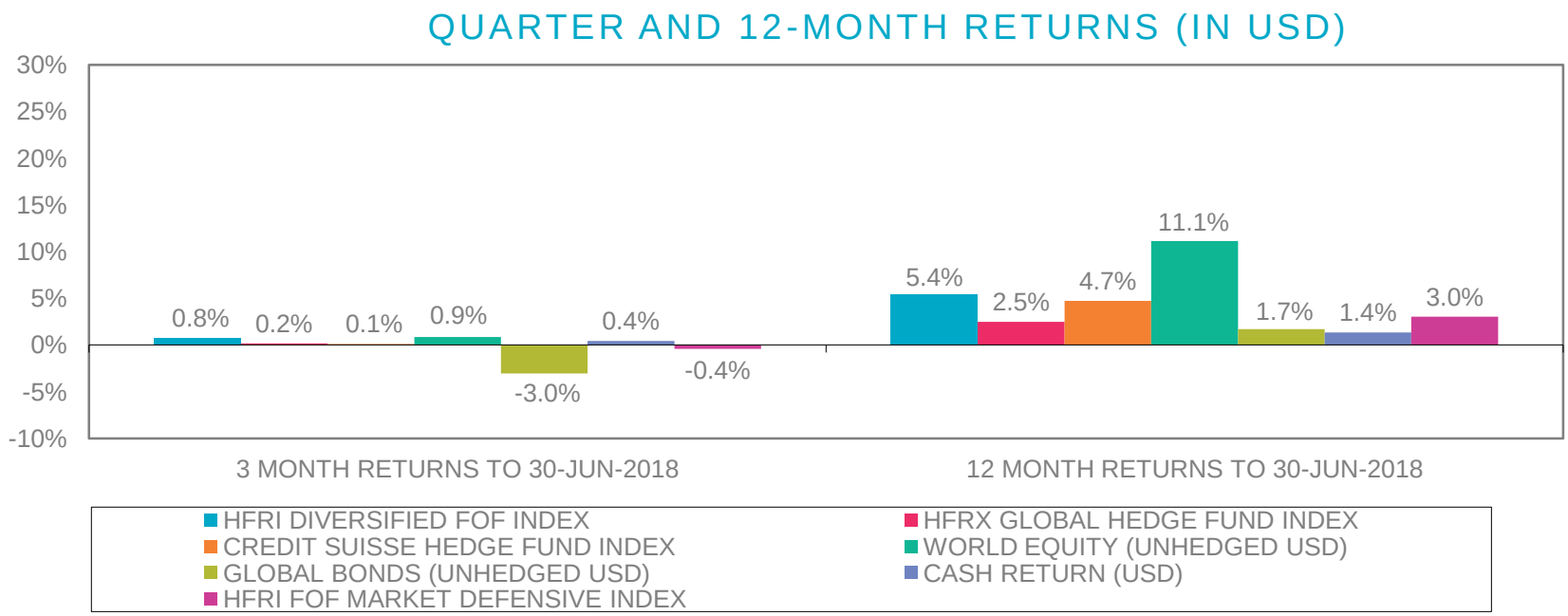




Source: JP Morgan.
As at 30 June 2018.

HEDGE FUND COMMENTARY – Q2 2018

- In an environment where equities and bonds produced benign results, hedge funds have continued to grind ahead. Although generating modest absolute returns, the average portfolio of hedge funds has performed reasonably on a relative basis, outperforming both global equities and bonds over the quarter and year-to-date periods and has now produced nine consecutive quarters of positive returns. Gains have been relatively broad-based.
- As the markets increasingly appear to display late cycle characteristics, the diversification that hedge funds provide could prove quite valuable. As favorable recent results relative to equities and bonds have renewed interest in hedge funds, it will be interesting to see if material inflows result and if the industry can absorb them. That said, we still believe that well-constructed hedge fund programs will be capable of achieving the value proposition forward-looking.



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

HEDGE FUND COMMENTARY – Q2 2018

Relative Value (37%)

- Relative value and arbitrage-oriented strategies broadly earned mixed results during the quarter, as event-oriented strategies outpaced equity and fixed-income related strategies.
- Fixed Income and Convertible Arbitrage strategies generally struggled, declining 0.3% and 0.8% respectively, amidst rising interest rates and a decline in volatility.

Long/Short Equities (27%)

- Long/Short Equity and Equity Market Neutral ("EMN") strategies declined 0.3% and 0.6%, respectively, in Q2 2018.
- Despite modest declines broadly, we saw significant dispersion in strategy returns during the quarter, as many fundamental long/short strategies were able to add value over global equities. Broad security selection opportunities remained, as stock dispersion characteristics were overall healthy during Q2. Interestingly, for most managers, positive results were driven from the long side, with relative weakness on the short side despite what was on the whole a weak equity environment. Again, we note the degree to which styles and sectors impacted overall results, with certain areas driving returns (growth, technology, consumer discretionary, energy) and others detracting (financials, consumer staples). Given the narrowly-led markets, we were pleased to see 'hedged' equity portfolios add value.

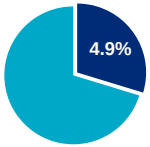
Opportunistic / Macro (15%)

- The broad Global Macro universe gained 1.3% during the quarter, while Managed Futures declined 0.3%.
- While discretionary strategies earned healthy returns during the quarter, systematic strategies furthered their year-to-date decline.
- Commodity and fixed income positioning were generally additive in the quarter, though many trend following strategies struggled amidst choppy FX and equity markets. Exposure to EM was quite volatile during the quarter with mixed results for managers that had exposure.

Merger Arbitrage / Event Driven (9%)

- Event-driven strategies posted positive results overall during the quarter.
- While broad corporate credit markets provided a mixed backdrop for the quarter (investment grade issues suffered, while high yield earned positive returns), event driven and distressed strategies posted attractive gains.
- Merger strategies generated healthy returns propelled by positive progress in a number of deals (ATT/Time Warner, Fox/Disney, Monsanto/Bayer), while idiosyncratic stressed and distressed situations drove gains for many event-oriented credit strategies.

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



SCHRODER – UK PROPERTY FUND OF FUNDS
£229.1M END VALUE *(£224.7M START VALUE)*

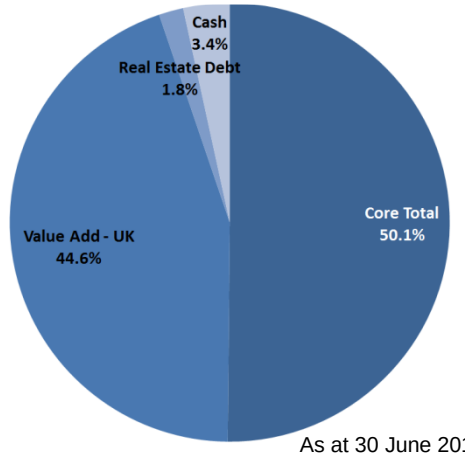
Item Monitored	Outcome
Mercer Rating	B (no change over period under review). ESG3
Performance Objective *Benchmark +1% p.a.*	Marginally outperformed benchmark by 0.1% p.a. over five years

Manager Research and Developments

- The fund performed in line with the benchmark 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 was offset by core funds and cash.
- Over the five year period, the fund has delivered a slight outperformance of 0.1% p.a. versus its benchmark, largely due to performance from value add strategies.
- Over the quarter, there were c. £18.5m of purchases and c. £6.0m of sales. Units were acquired in Mayfair Capital Property Unit Trust (c. £4.5m), UNITE UK Student Accommodation Fund (c. £3.9m), Local Retail Fund (c. £3.8m), Industrial Property Investment Fund (c. £1.0m), Multi-Let Industrial Property Unit Trust (c. £0.8m), and Regional Office Property Unit Trust (c. £0.2m). Units were sold only from L&G Managed Property Fund. Also, c. £4.3m was invested in Income Plus Real Estate Debt Fund.

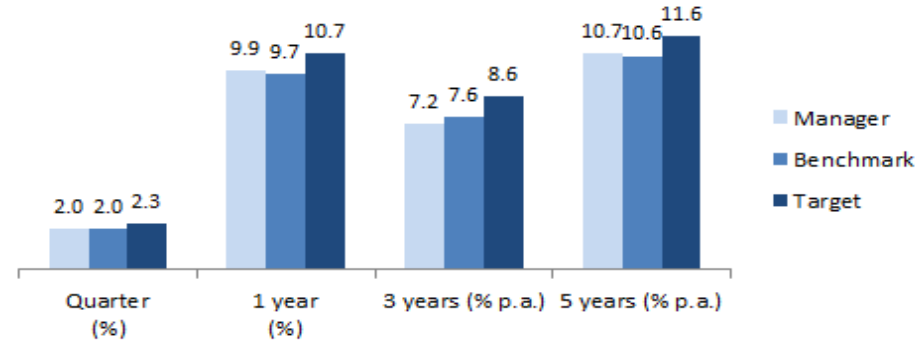
Manager and Investment type splits

Top 5 Holdings	Proportion of Total Fund (%)
Industrial Property Investment Fund	14.8
Metro Property Unit Trust	9.8
L&G Managed Property Fund	9.7
Hermes Property Unit Trust	9.6
Schroder Real Estate Real Income Fund	9.2

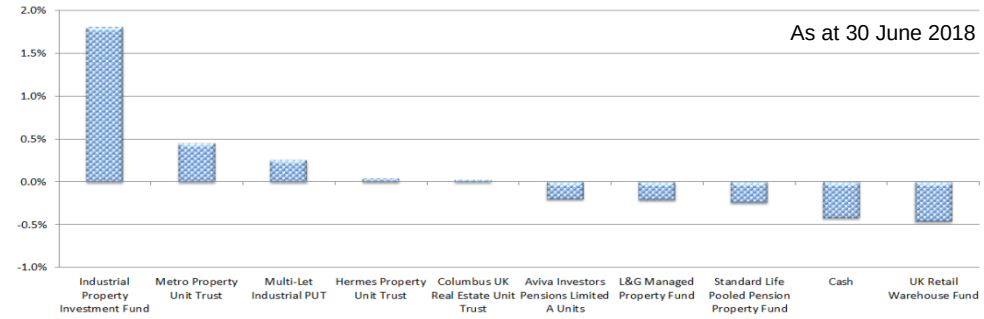


As at 30 June 2018

Performance



Top 5 Contributing and Detracting Funds over 12 Months



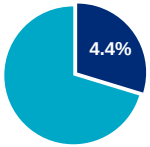
As at 30 June 2018

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



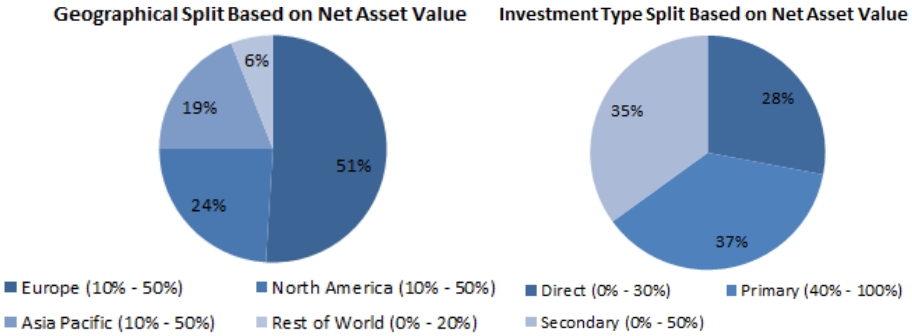
PARTNERS – OVERSEAS PROPERTY
£208.6M END VALUE *(£201.3M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review). ESG4
Performance Objective *IRR of 10% p.a.*	IRR since inception to 31 March 2018 at 7.5% p.a. (in local currency) is below target of 10% p.a.

Manager Research and Developments (Q1 2018)

- The portfolio delivered a net return of 2.6% over Q1 2018 for USD programmes in local currency, and 1.7% for EUR programmes, versus the target of c. 2.5%.
- Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, such as the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 31 March 2018 at 7.5% p.a. (in local currency) is below their target of 10% p.a.; over the three years to 31 March 2018 IRR was 4.8% p.a. (in local currency terms).
- Over Q1, the allocation to Europe decreased (from 52% to 51%), with North America decreasing (from 25% to 24%) and Asia Pacific increasing (from 18% to 19%). These remain within the guidelines.*
- Note that Partners are rated B+ for global real estate, but A for secondary global real estate (as a result of their private equity skill set).

Geographical and Investment type splits as at 31 March 2018



** 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 March 2018, Partners confirmed the Europe exposure is still within the allocation range.*

Portfolio update to 31 March 2018

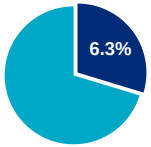
Partners Fund	Total Drawn Down (£m)	Total Distributions (£m)	Net Asset Value (£m)	Since Inception Net IRR (local currency)
Global Real Estate 2008	31.23	27.25	12.36	5.2
Real Estate Secondary 2009	19.63	15.14	15.59	9.7
Asia Pacific and Emerging Market Real Estate 2009	17.69	12.35	9.49	3.1
Distressed US Real Estate 2009	14.09	17.27	4.14	8.4
Global Real Estate 2011	25.10	20.01	18.24	9.9
Direct Real Estate 2011	11.44	8.87	8.04	7.4
Real Estate Secondary 2013	11.72	6.25	13.22	20.6
Global Real Estate 2013	87.01	8.25	98.77	7.2
Real Estate Income 2014	20.65	4.04	20.12	3.1
Asia Pacific Real Estate 2016	4.90	1.00	6.14	21.8
Total	**243.46**	**120.41**	**206.10**	**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)
£294.5M END VALUE *(£283.6M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	●	B+ (no change over period under review). ESG2
Performance Objective *Cash + 2.5% p.a.*	●	Outperformed objective by 12.1% over the year (in USD)

Item	
Number of holdings	14

Manager Research and Developments

- Over the quarter the fund returned -2.3% in US Dollar terms, against Avon's performance objective of 1.2% (cash + 2.5% p.a.).
- IRR since inception on 1 June 2016 is 15.0%. 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 and the divestment of its 49% direct stake in Conmex.
- The pooled fund also received income of $102.2m over the quarter amid major dividend distributions from OHL Concessiones, Vienna Airport, and Mersin International Port.

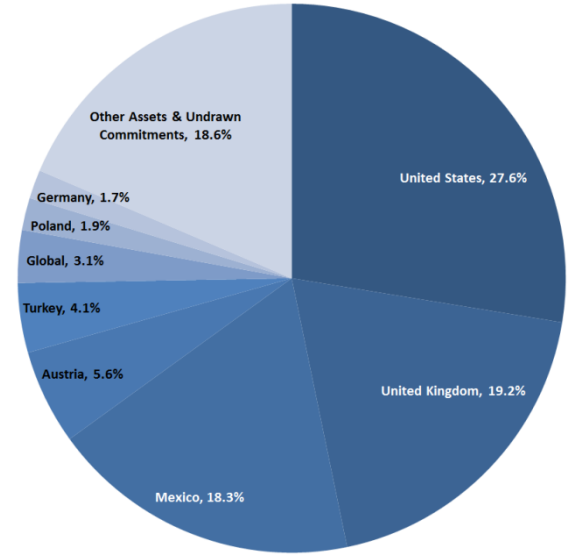
Reason for investment

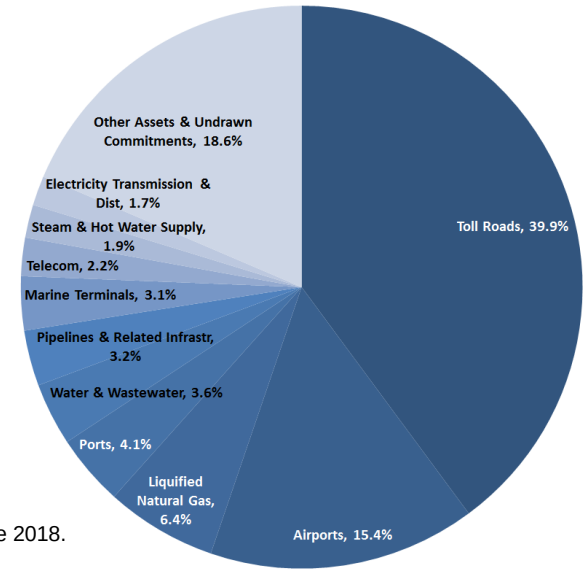
To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

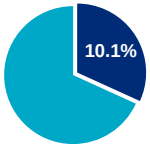
- Invests in core infrastructure assets in countries with established regulatory environments and strong rule-of-law.
- Seeks to invest in assets with strong market positions, predictable regulatory environments, high barriers to entry, limited demand elasticity and long lives

Geographical and Sub-Sector Allocation





Source: IFM.
As at 30 June 2018.



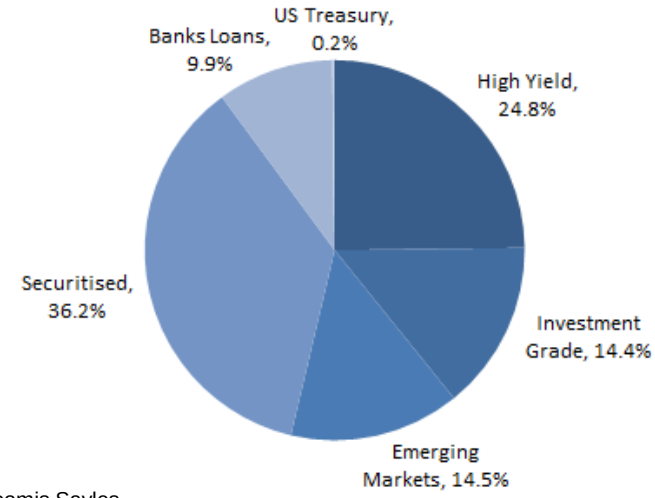
LOOMIS SAYLES – MULTI-ASSET CREDIT (POOLED)
£474.8M END VALUE *(£482.3M START VALUE)*

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 -1.6% over the quarter, against a benchmark of -0.5%.
- With regards to emerging markets, Loomis continued to maintain exposure in credits within countries that are in credit repair & the recovery phase of credit cycle and they will tactically trade around countries with elections and geopolitical risks, like Brazil, Turkey, South Africa and Mexico. US dollar strength put downward pressure on emerging markets, particularly in countries where valuations were stretched relative to fundamentals. This resulted in capital flowing out of emerging markets, reflecting investor hesitation regarding allocations, and this weighed down materially on overall portfolio performance.
- The overall duration of the portfolio was 4.1 years.

Sector Allocation



Source: Loomis Sayles.
As at 30 June 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)
£42.9M END VALUE *(£86.4M 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 depreciated against the dollar by 5.9%, against the euro by 0.9% and against the Japanese yen by 2.0%. (These currency exchange movements are based on end of day pricing, which may not tie in precisely with the pricing points used by Record).

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

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

Reason for investment

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

Reason for manager

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

Currency Hedging Q2 2018 Performance (£ terms)

Passive Developed Equity Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	752,603,044	775,027,134	6.25%	(3.26%)	(3.21%)	2.93%
EUR	164,576,524	170,323,323	0.87%	(0.31%)	(0.26%)	0.61%
JPY	105,780,087	98,879,597	2.02%	(0.98%)	(0.91%)	1.19%
Total	**1,022,959,655**	**1,044,230,054**	**4.94%**	**(2.55%)**	**(2.50%)**	**2.38%**

Passive Hedge Fund Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	214,064,666	223,985,270	6.25%	(6.52%)	(6.45%)	(0.39%)
Total	**214,064,666**	**223,985,270**	**6.25%**	**(6.52%)**	**(6.45%)**	**(0.39%)**

Passive Property Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	27,616,464	28,545,560	6.25%	(6.52%)	(6.44%)	(0.38%)
EUR	177,024,039	174,895,899	0.87%	(0.66%)	(0.60%)	0.32%
Total	**204,640,503**	**203,441,458**	**1.58%**	**(1.46%)**	**(1.39%)**	**0.23%**

Passive Infrastructure Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	114,820,336	129,101,612	6.25%	(6.58%)	(6.56%)	(0.57%)
EUR	42,928,700	32,557,630	0.87%	(0.67%)	(0.56%)	0.35%
Total	**157,749,036**	**161,659,242**	**4.80%**	**(5.04%)**	**(4.99%)**	**(0.33%)**

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	-
TT International	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Jupiter Asset Management	UK Equities (SRI)	FTSE All Share	+2%
Jupiter Asset Management	Sustainable Global Equities (SRI)	MSCI AC World	+2-4%
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%
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.

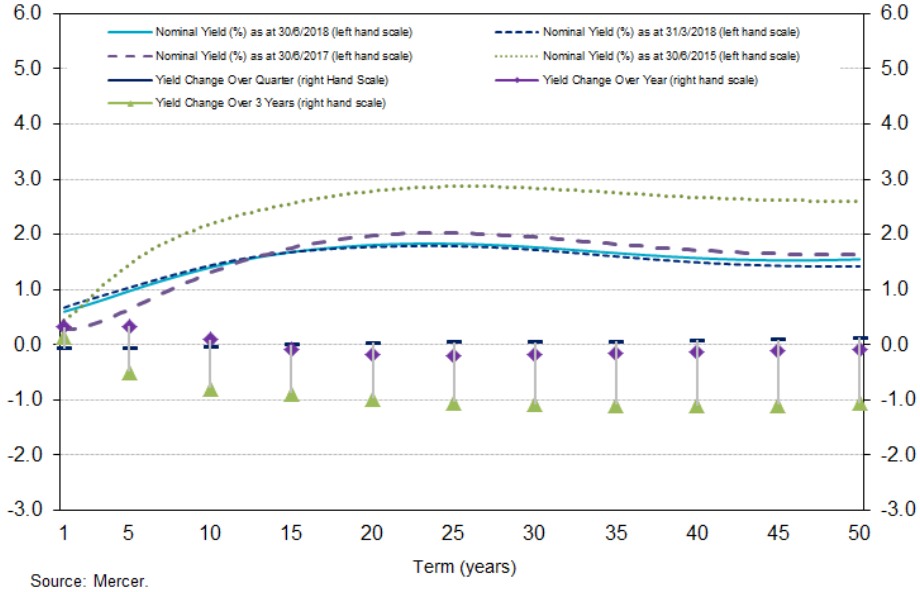
APPENDIX 3
CHANGES IN YIELDS

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 Jun 2018	31 Mar 2018	30 Jun 2017	30 Jun 2016
UK Equities	3.64	3.85	3.61	3.66
Over 15 Year Gilts	1.67	1.63	1.80	1.61
Over 5 Year Index-Linked Gilts	-1.58	-1.65	-1.57	-1.38
Sterling Non Gilts	2.50	2.47	2.24	2.55

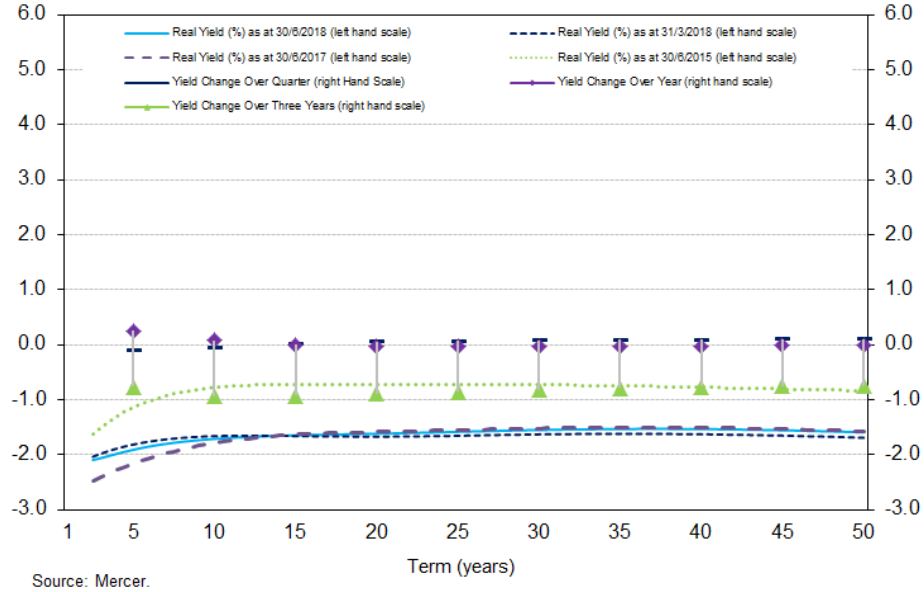
- Nominal yields were broadly flat at shorter maturities and rose slightly at longer maturities over the quarter.
- The Over 15 Year Gilt Index underperformed the broader global bond market over the quarter, generating a return of -0.4%.
- Real yields were broadly flat at shorter maturities and slightly up at longer maturities over the quarter. This led to the Over 5 Year Index-Linked Gilts Index returning -1.2%.
- Movements in credit spreads were upwards over the quarter, with the sterling Non-Gilts All Stocks Index credit spread ending the quarter at c.1.2% p.a. UK credit assets returned -0.1% over the quarter, underperforming the return of global credit in sterling 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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