HEALTH WEALTH CAREER

AVON PENSION FUND

COMMITTEE INVESTMENT PERFORMANCE REPORT QUARTER TO 30 JUNE 2018

SEPTEMBER 2018

MAKE TOMORROW, TODAY MERCER

IMPORTANT NOTICES

References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

This contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's prior written permission.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results. Mercer's ratings do not constitute individualised investment advice.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

This does not contain regulated investment advice in respect of actions you should take. No investment decision should be made based on this information without obtaining prior specific, professional advice relating to your own circumstances.

This does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products or constitute a solicitation on behalf of any of the investment managers, their affiliates, products or strategies that Mercer may evaluate or recommend.

For the most recent approved ratings of an investment strategy, and a fuller explanation of their meanings, contact your Mercer representative.

For Mercer's conflict of interest disclosures, contact your Mercer representative or see www.mercer.com/conflictsofinterest.

Mercer's universes are intended to provide collective samples of strategies that best allow for robust peer group comparisons over a chosen timeframe. Mercer does not assert that the peer groups are wholly representative of and applicable to all strategies available to investors.

Please also note:

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

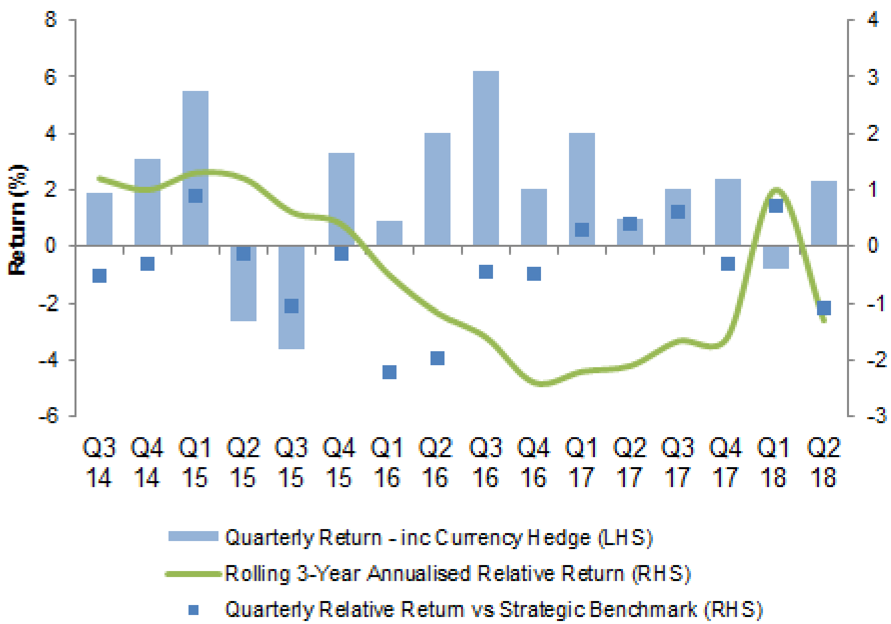
CONTENTS

SECTION 1
EXECUTIVE SUMMARY

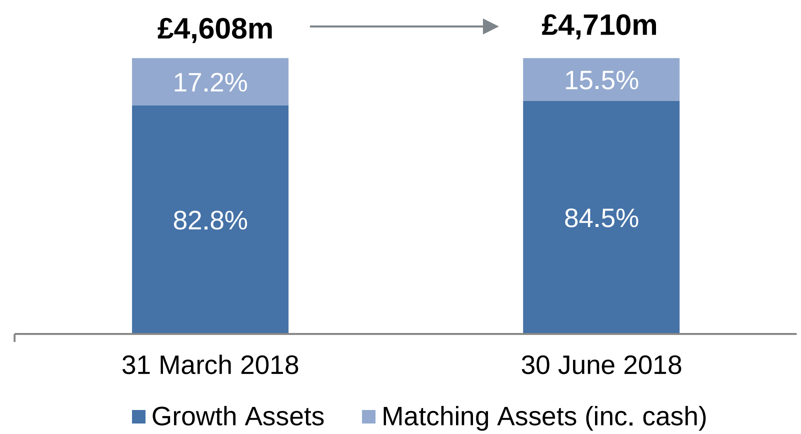
EXECUTIVE SUMMARY

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (inc currency hedge)	2.3	6.0	8.1
Total Fund (ex currency hedge)	3.4	5.9	9.6
Strategic Benchmark (no currency hedge)	3.4	6.5	9.4
Relative (inc currency hedge)	**-1.1**	**-0.5**	**-1.3**

Excess Return Chart



Asset Allocation



Commentary

Over the quarter, total Fund assets increased from £4,608m (31 March 2018) to £4,710m. This increase was driven by positive returns from all asset classes, in particular developed market equities.

At the end of the quarter, all asset classes were within the agreed tolerance ranges.

When the currency hedge with Record is excluded, the Fund matched the Strategic Benchmark over the quarter, underperformed over the one-year period, but outperformed over the three year period.

Allowing for the currency hedge, the Fund underperformed the Strategic Benchmark by 1.1% over the quarter, given Sterling depreciated over the period. Currency hedging was marginally additive over the one-year period, but detracted over the three-year period.

EXECUTIVE SUMMARY

This report has been prepared for the Avon Pension Fund ("the Fund"), to assess the performance and risks of the Fund's investments.

Funding Level

- The estimated funding level increased by c.1% over the second quarter of 2018 to 97%, as the return on the assets more than offset the increase in liabilities.

Fund Performance

- The value of the Fund's assets increased by £102m over the second quarter of 2018, to £4,710m as at 30 June 2018. The Fund's invested assets returned 2.3% over the quarter (3.4% excluding the Record currency hedging mandate, given the depreciation of sterling over the quarter), as a result of positive returns from most asset classes. The return including currency hedging underperformed the Strategic Benchmark return by 1.1%.

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.

EXECUTIVE SUMMARY

Strategy (continued)

- 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.

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.

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

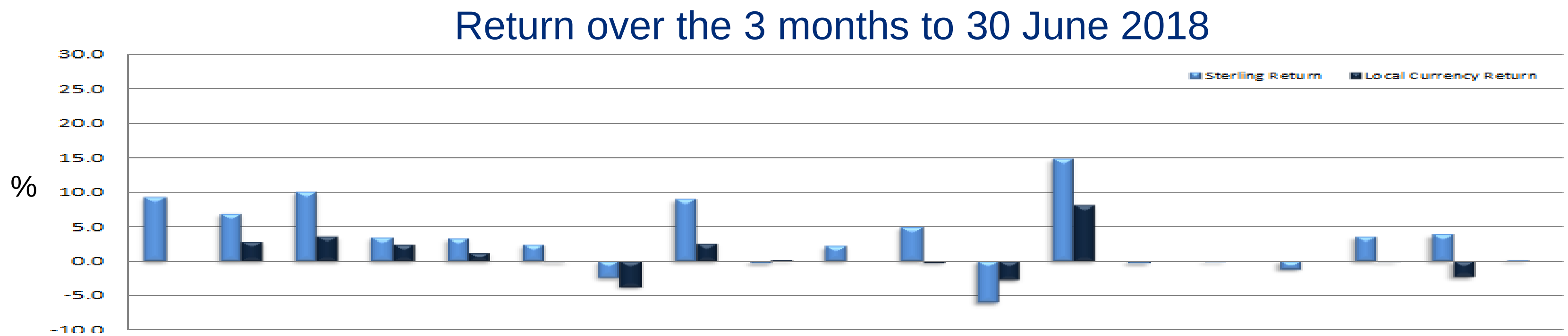
Over the quarter, sterling depreciated against the dollar by 5.9%, against the euro by 0.9% and against the Japanese yen by 2.0%.

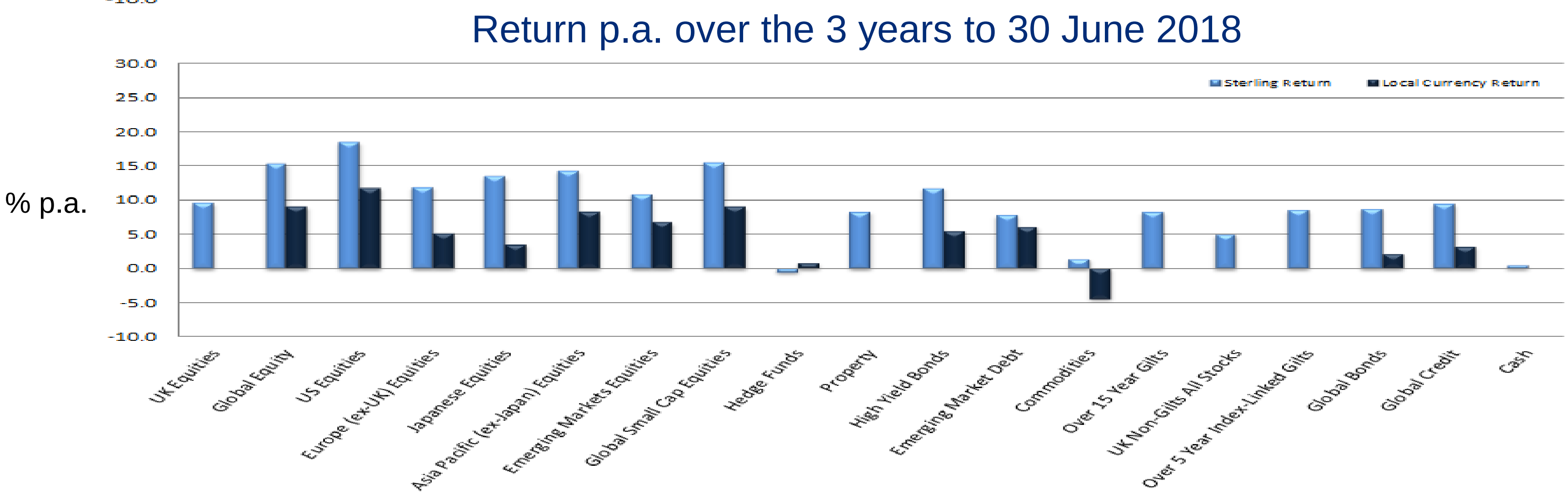
Commodity Market Review

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



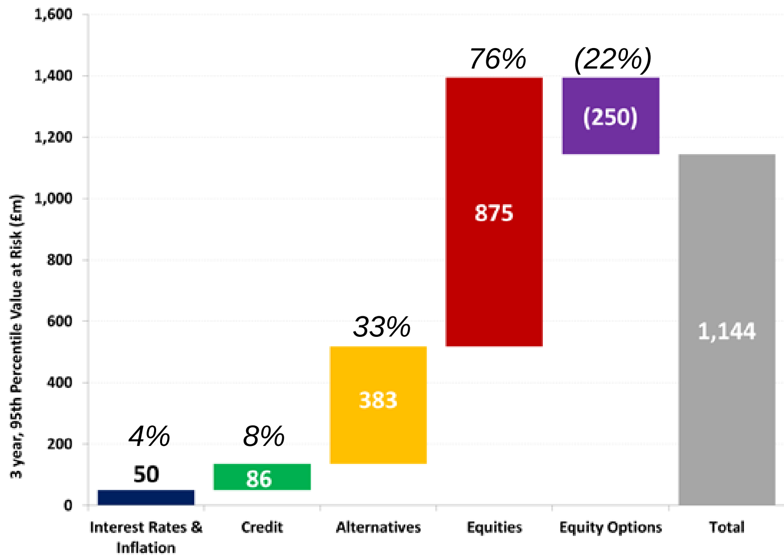


Source: Thomson Reuters Datastream.

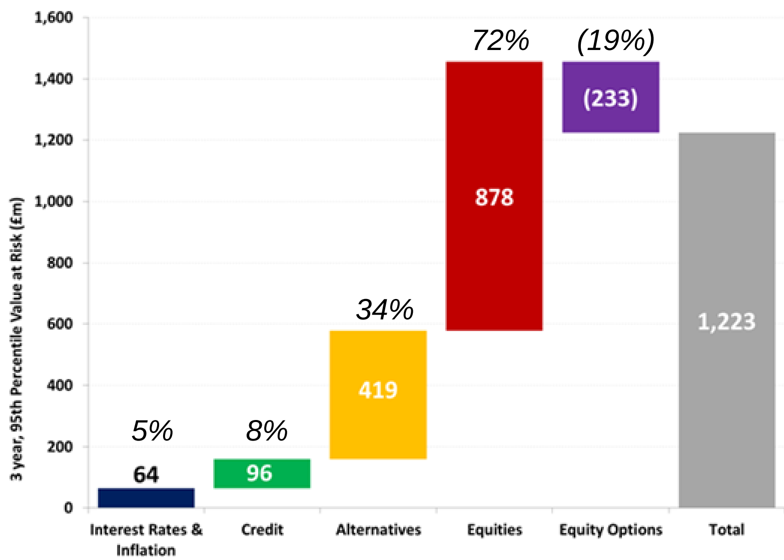
SECTION 3
STRATEGIC CONSIDERATIONS

STRATEGIC CONSIDERATIONS
RISK DECOMPOSITION

31 March 2018



30 June 2018



- The two charts to the left illustrate the main risks that the Fund is exposed to on the 2016 funding basis and the size of these risks in the context of the change in the deficit position.
- The purpose of showing these charts is to ensure there is an awareness of the risks faced and how they change over time and to initiate debate on an ongoing basis, around how to best manage these risks, so as not to lose sight of the 'big picture'.
- The grey column on the right hand side of each chart shows the estimated 95th percentile Value-at-Risk (VaR) over a one-year period. In other words, if we consider a downside scenario which has a 1-in-20 chance of occurring, what would be the impact on the deficit relative to our 'best estimate' of what the deficit would be in three years' time.
- If we focus on the chart at 30 June 2018, it shows that if a 1-in-20 'downside event' occurred over the next three years, the deficit would increase by at least an additional **£1.2bn** on top of the current deficit of **£0.1bn**, creating a deficit of at least **c.£1.3bn**.
- Each bar to the left of the grey bar represents the contribution to this total risk from the primary underlying risk exposures (interest rates and inflation, changes in credit spreads volatility of alternative assets and equity markets, and the benefit from equity options).
- The two charts show that the three-year **VaR has increased by c£80m over the quarter**. This is largely attributable to the general growth in the Fund's assets, which increases VaR in absolute terms. In funding level terms, there was little change to VaR over the period.

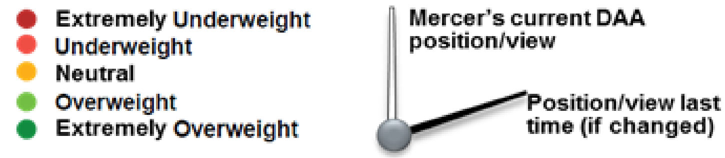
The VaR figures shown are based on approximate liability data rather than actual Fund cashflows, and are based on the strategic asset allocation at the time. They are therefore illustrative only and should not be used as a basis for taking any strategic decisions.

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



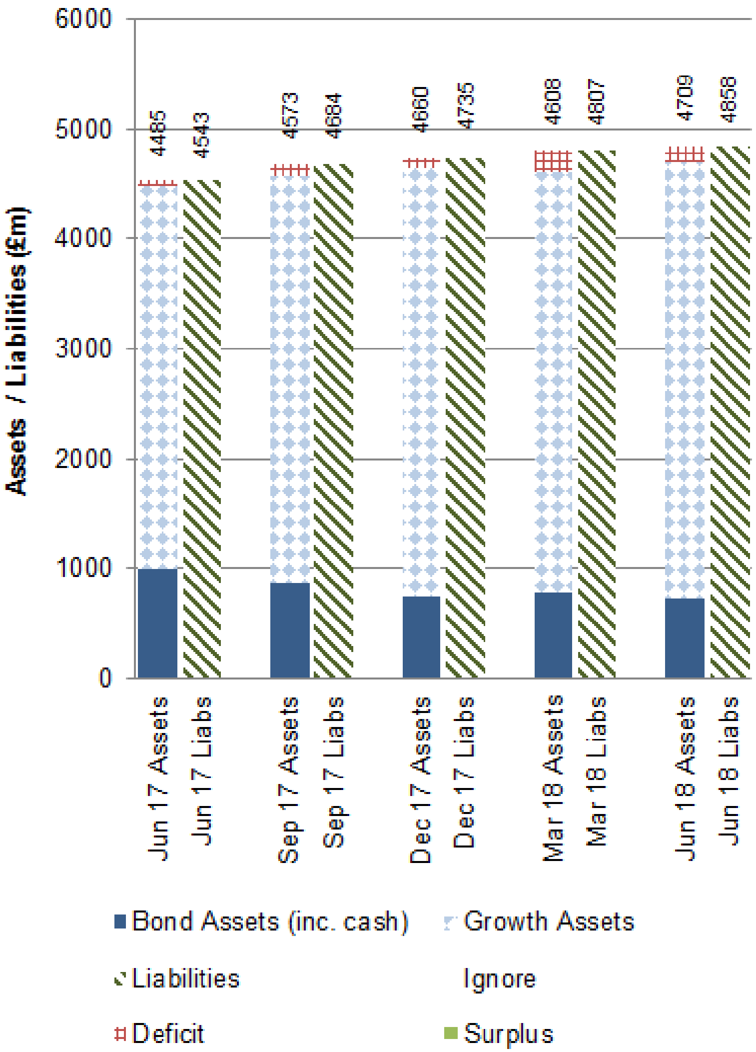
- We have implemented two major changes to the DAA process; firstly our views or tilts are now shown on top of a reference portfolio chosen to be suitable for the majority of the UK clients, and secondly, these views are also communicated relative to each other across both major asset classes and also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

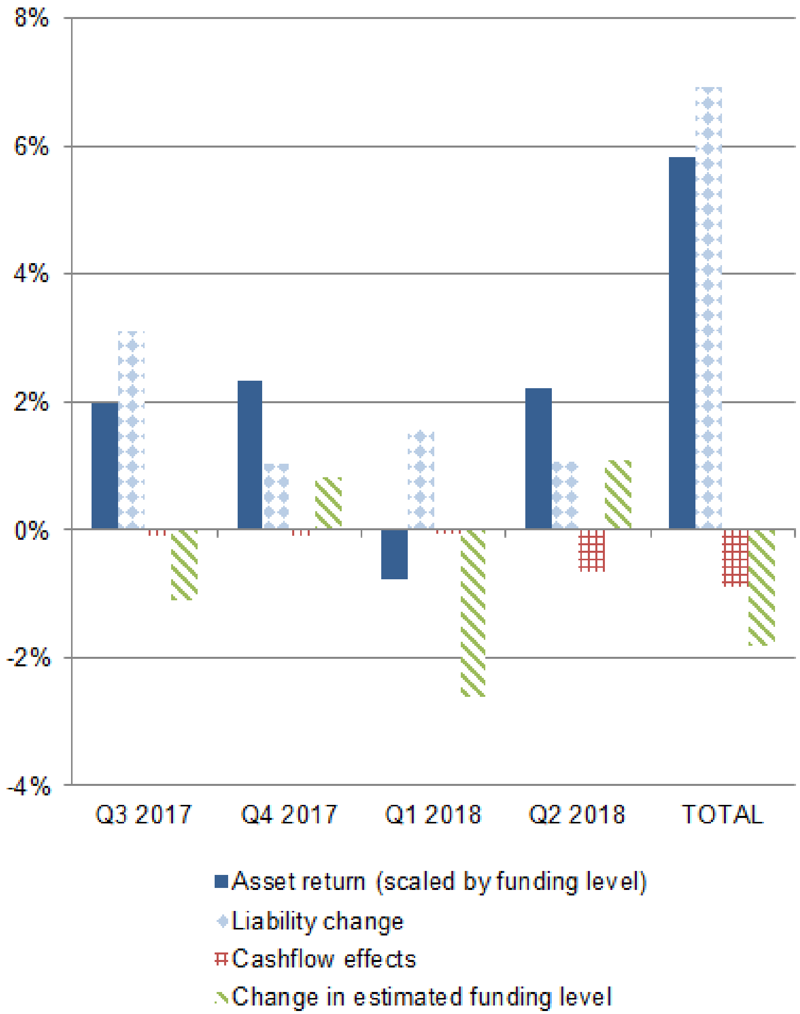
CONSIDERATION OF FUNDING LEVEL

CONSIDERATION OF FUNDING LEVEL
ASSET ALLOCATION AND FUNDING LEVEL



- Based on financial markets, investment returns and net cashflows into the Fund, the estimated funding level increased by c.1% over the second quarter of 2018 from 96% to 97%, all else being equal.
- This increase resulted from the positive return on the Fund's assets offsetting the increase in the present value of the liabilities over the quarter.
- This is calculated using the actuarial valuation assumptions as at 31 March 2016 and the 'CPI plus' discount basis.

CONSIDERATION OF FUNDING LEVEL
FUND PERFORMANCE RELATIVE TO ESTIMATED LIABILITIES



- The Fund's assets returned 2.3% over the quarter which, when allowing for the funding position, increased the funding level by 2.2%.
- The Fund's estimated liabilities increased by 1.1% over the quarter.
- Over this quarter, the 'cashflow effect' from contributions was negative but small.
- Overall, the combined effect has led to a increase in the estimated funding level of c.1% to 97% (from 96% at 31 March 2018).
- Over the 12-month period, the estimated funding level has fallen by 1.7%.

SECTION 5
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 £102m 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

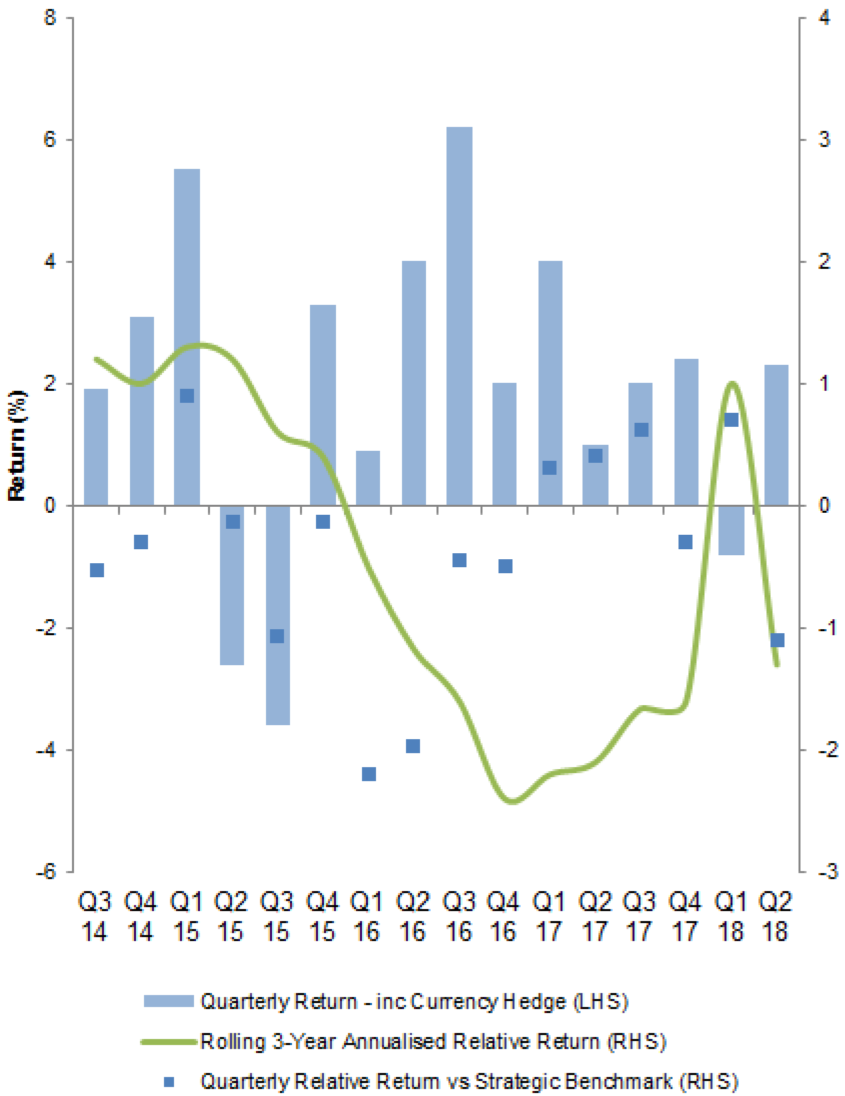
Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
Signet	Fund of Hedge Funds	1,633	-	-	0.0	-
JP Morgan	Fund of Hedge Funds	210,133	-	225,974	4.6	4.8
Schroder	UK Property	224,719	-	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 6

PERFORMANCE SUMMARY

PERFORMANCE SUMMARY
TOTAL FUND PERFORMANCE

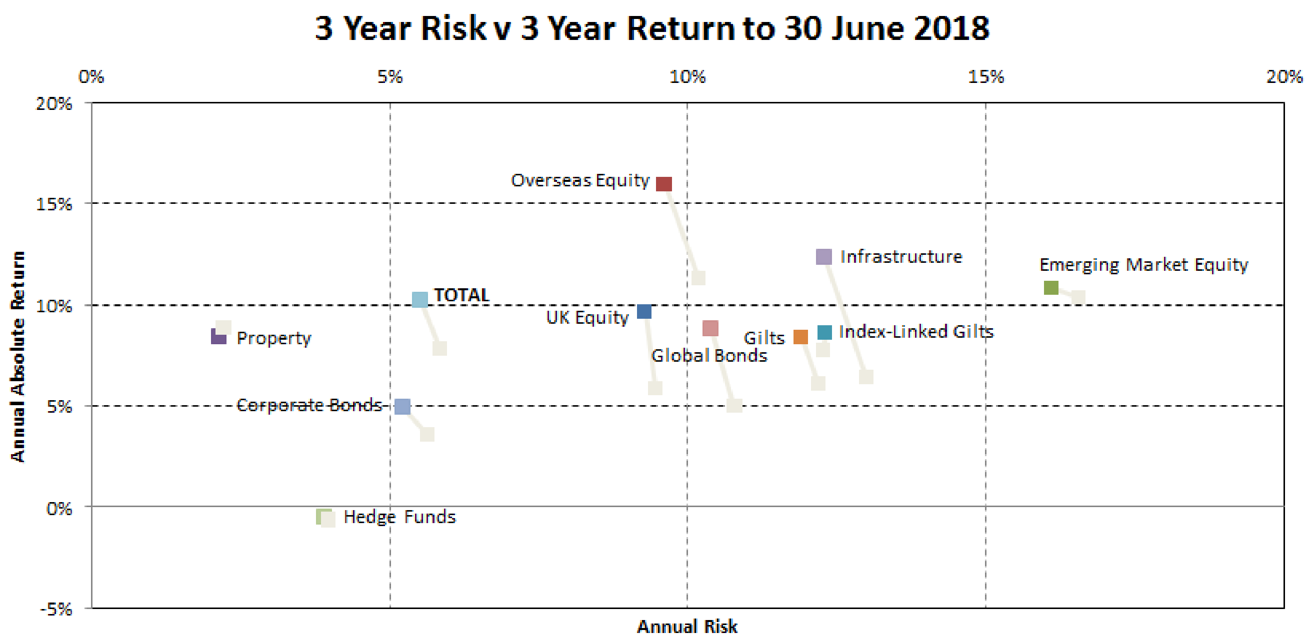


	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (inc currency hedge)	2.3	6.0	8.1
Total Fund (ex currency hedge)	3.4	5.9	9.6
Strategic Benchmark (no currency hedge)	3.4	6.5	9.4
Relative (inc currency hedge)	**-1.1**	**-0.5**	**-1.3**

Comments

- Over Q2 2018, the Fund matched the Strategic Benchmark excluding currency hedging, but underperformed by 1.1% when including the currency hedge (as sterling depreciated).
- The Fund has underperformed the Strategic Benchmark over the year by 0.5%. The underperformance was mainly due to material underperformance from the following managers:
  - Pyrford (-7.7%) – the defensive positioning continues to detract from performance.
  - Aberdeen Standard (-7.3%) – the EM and European banks positions were in particular material detractors from performance.
  - Jupiter (-4.4%) – lack of exposure to oil and gas sector hurt relative underperformance.
- The Fund underperformed the Strategic Benchmark over the three year period by 1.3% p.a., albeit this was largely down to the impact of the currency hedge. Excluding the currency hedge, the Fund outperformed by 0.2% p.a.

MANAGER MONITORING
RISK RETURN ANALYSIS

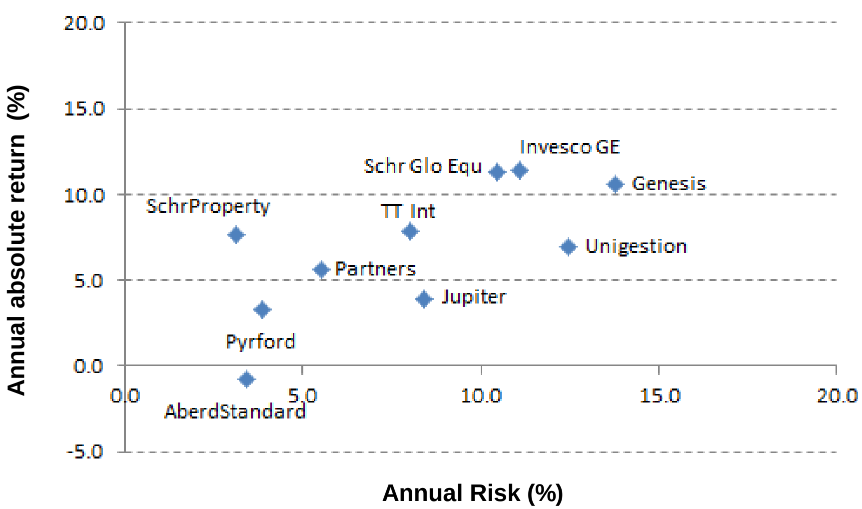


Comments

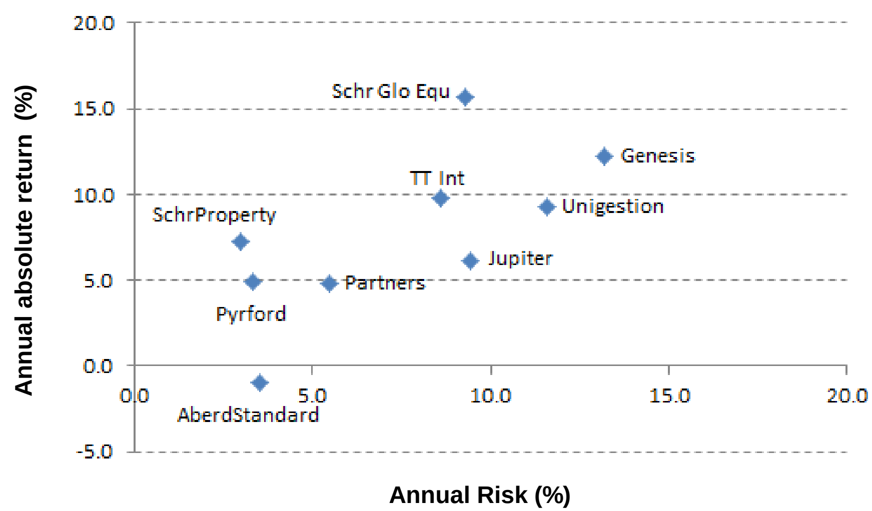
- This chart shows the 3-year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of June 2018, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark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

MANAGER MONITORING
MANAGER PERFORMANCE TO 30 JUNE 2018

Manager/ Asset Class	3 Months Fund (%)	3 Months B'mark (%)	3 Months Relative (%)	1 Year Fund (%)	1 Year B'mark (%)	1 Year Relative (%)	3 Year Fund (% p.a.)	3 Year B'mark (% p.a.)	3 Year Relative (% p.a.)	3 Year Performance Target (% p.a.)	3 Year Performance vs Target
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.

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.

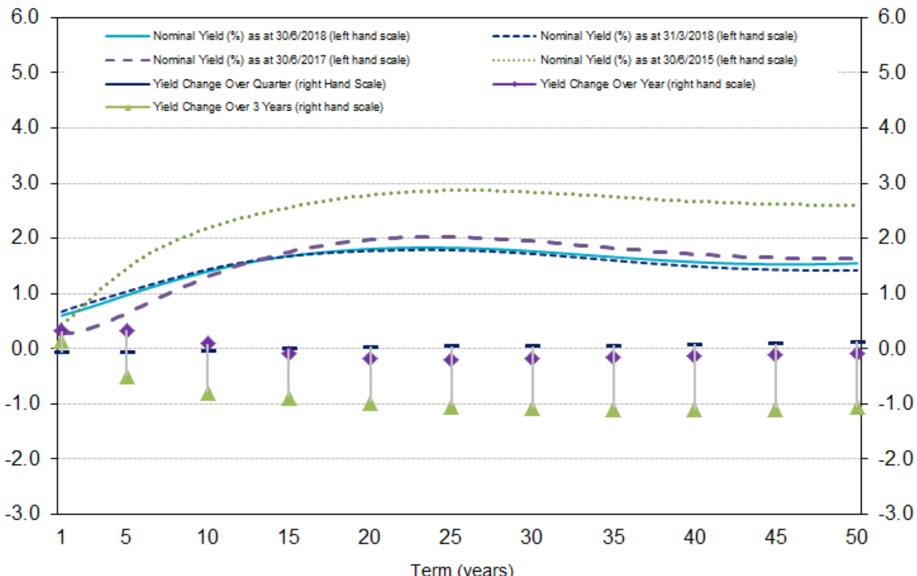
APPENDIX 3
CHANGES IN YIELDS

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

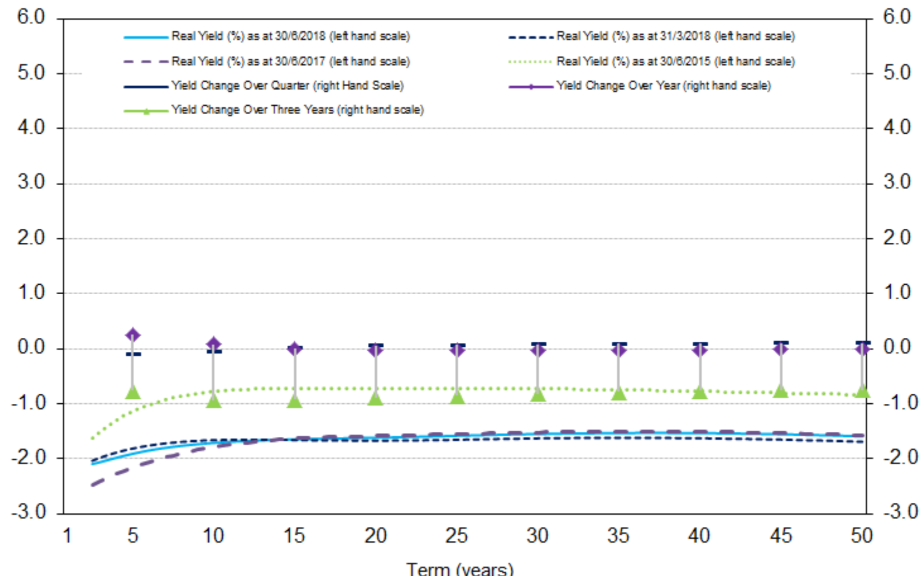
- Nominal yields were broadly flat at shorter maturities and rose slightly at longer maturities over the quarter.
- The Over 15 Year Gilt Index underperformed the broader global bond market over the quarter, generating a return of -0.4%.
- Real yields were broadly flat at shorter maturities and slightly 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.

MAKE TOMORROW, TODAY

MERCER