HEALTH WEALTH CAREER

AVON PENSION FUND

COMMITTEE INVESTMENT PERFORMANCE REPORT QUARTER TO 30 SEPTEMBER 2018

NOVEMBER 2018

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CONTENTS

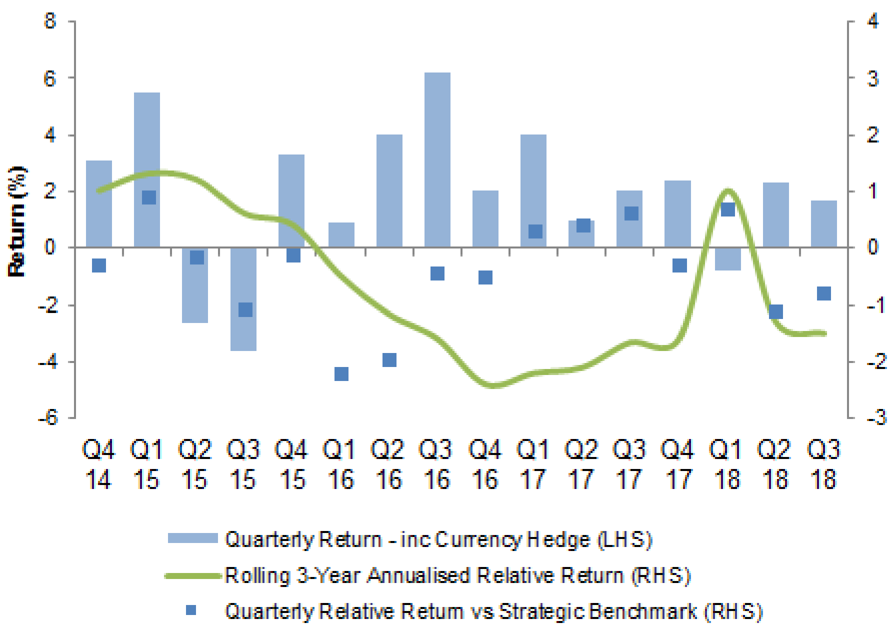
SECTION 1

EXECUTIVE SUMMARY

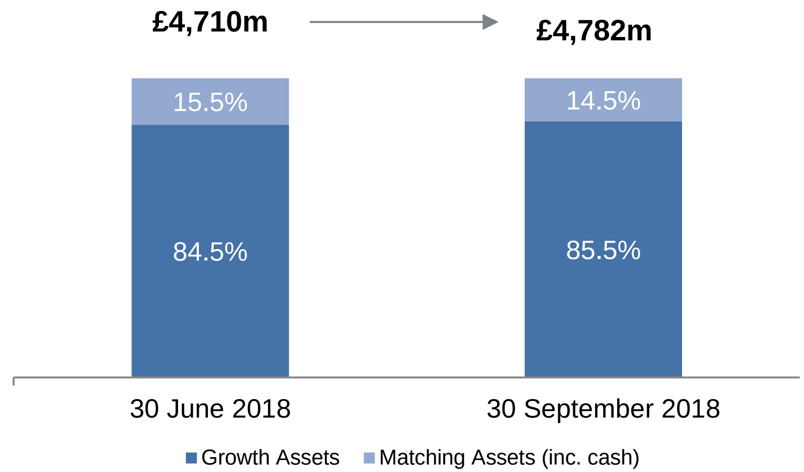
EXECUTIVE SUMMARY

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (inc currency hedge)	1.7	5.6	10.0
Total Fund (ex currency hedge)	1.9	6.3	11.4
Strategic Benchmark (no currency hedge)	2.5	7.6	11.5
Relative (inc currency hedge)	**-0.8**	**-2.0**	**-1.5**

Excess Return Chart



Asset Allocation



Commentary

Over the quarter, total Fund assets increased from £4,710m to £4,782m. This increase was driven by positive returns from some asset classes, in particular overseas 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 underperformed the Strategic Benchmark over the quarter, one year and three year periods to 30 September 2018.

Allowing for the currency hedge, the Fund underperformed the Strategic Benchmark by 0.8% over the quarter, given Sterling depreciated over the period. Currency hedging also detracted over the one year and three year periods.

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 remained relatively steady over the third quarter of 2018 at c.97%, as the return on the assets offset the increase in liabilities.

Fund Performance

- The value of the Fund's assets increased by £72m over the quarter, to £4,782m. This increase was driven primarily by positive returns from overseas developed market equities.

Strategy

- Global (developed) equity returns over the last three years were 20.1% 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 corporate sector growth offset by the uncertainty stemming from trade tensions.
- Emerging market equities have returned 17.5% 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, although our enthusiasm for the space has tempered a bit. Although slowing current activity indicators and lackluster equity market performance may continue in the near term, long-term economic fundamentals remain solid, the global economy continues to expand and continued 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 5.3% p.a. versus an assumed return of 1.90% p.a. and index-linked gilts returned 7.2% p.a. versus an assumed return of 2.15% p.a. Gilt yields increased over the quarter, and as a result gilt returns were negative over the period.
- UK corporate bonds returned 4.4% p.a. over the three-year period against an assumed strategic return of 3.25% p.a.
- The three-year UK property return of 7.8% p.a. remains materially higher than the assumed return of 5.75% p.a.

EXECUTIVE SUMMARY

Strategy (continued)

- Hedge fund returns picked up this quarter but 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 and the Euro over the quarter (despite appreciating against the Japanese Yen).

Managers

- Manager total returns over the quarter were mixed, with the strongest performance coming from Overseas Developed Market Equity managers. Two out of the Fund's three Diversified Growth Fund ("DGF") strategies also posted modest positive returns, whilst the third posted a negative return. The Fund's Infrastructure mandate was also a standout performer over the quarter.
- Absolute returns over the year to 30 September 2018 were again mixed across the Fund's investment managers. The majority of mandates posed positive absolute returns, but some mandates detracted value on an absolute basis, namely the Multi-Asset Credit strategy and the hedge fund-type DGF. In terms of relative performance, out of the active equity managers, only one mandate outperformed its benchmark over the year. Of the equity managers underperforming, the UK Socially Responsible Investing ("SRI") strategy delivered the largest underperformance. Two of the Fund's DGF mandates delivered material underperformance versus their respective absolute return targets.
- Over the three-year period all mandates with a three-year track record (except the hedge fund-type DGF) produced positive absolute returns. A number of active funds underperformed their benchmarks over the period, such as the UK and Emerging Market Equity mandates and some of the DGF and Illiquid Growth mandates. The Fund of Hedge Funds and UK Property mandates achieved their performance objectives, net of fees.

Key Points for Consideration

- The passive Global Low Carbon Equity mandate was transferred to the Brunel pool during the quarter.

SECTION 2

MARKET BACKGROUND

MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

The GDP growth in global economies has continued, led by the US, which grew by 2.8% on a quarterly basis over the second quarter in spite of the Federal Reserve continuing to raise rates both in June and September to the current 2.00 – 2.25%.

UK equities as a whole went through a negative quarter, amid ongoing political uncertainty despite improved economic data. Within the UK market, small cap equities stagnated, large cap equities fell by 0.7% while mid cap stocks fell by 1.8%. The UK economy expanded by 1.6% annualised over the second quarter due to growth in services and construction. CPI inflation remained at 2.4% at the end of August and the Bank of England increased short-dated interest rates by 0.25% during the month.

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 good news for business. European economic data weakened significantly and concerns about the Euro's future remained. Italy's budgetary crisis continued and Italian bonds sold off in late September when a higher than expected budget deficit was announced. 10 year bond yields rose close to 3.5%, the highest level in over four years. Emerging market equities had a better quarter than the two previous ones even though equity performance remained subdued due to weakness in Chinese markets and threats of trade tensions. Ongoing balance of payment crises in Argentina and Turkey continued to worry investors.

Bond Market Review

Nominal yields were up across the curve over the quarter.

The Over 15 Year Gilt Index underperformed the broader global bond market over the quarter, generating a return of -3.3%.

Real yields also rose across the curve over the quarter. This led to the Over 5 Year Index-Linked Gilts Index returning -1.4%.

Movements in credit spreads were muted 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 -0.3% over the quarter.

Currency Market Review

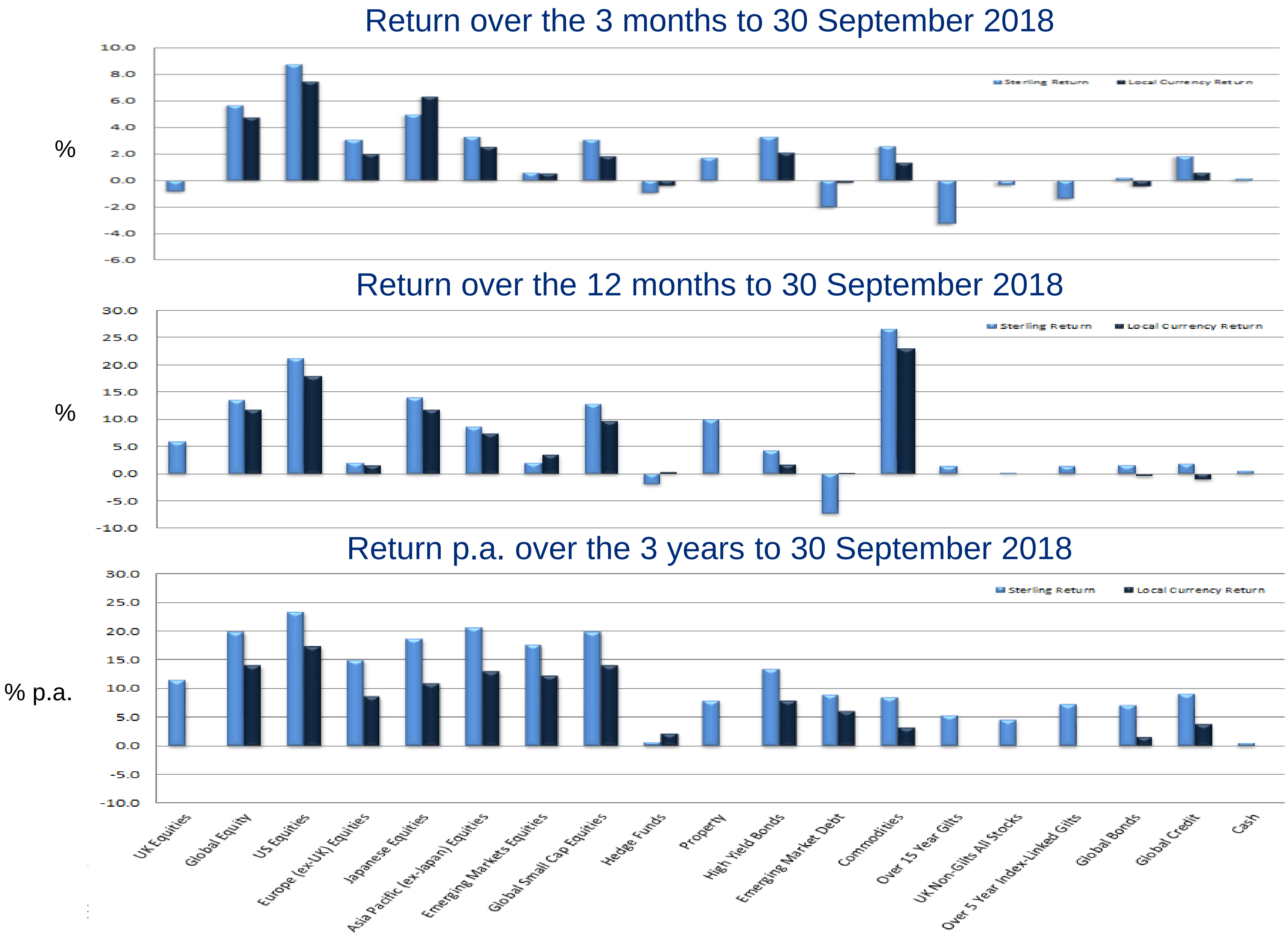
Over the quarter, sterling depreciated against the dollar by 1.2% and against the euro by 0.7% and appreciated against the Japanese yen by 1.3%.

Commodity Market Review

Commodity performance was mixed over the quarter with energy and livestock being the only sectors with positive returns. Energy increased by 4.3%, amid the continued upwards trend in oil prices due to concerns over supply restrictions while oil demand remained stable. Industrial metals fell sharply. Precious metals are expected to do not so well in an environment of rising interest rates as the opportunity costs of holding them increases.

Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE

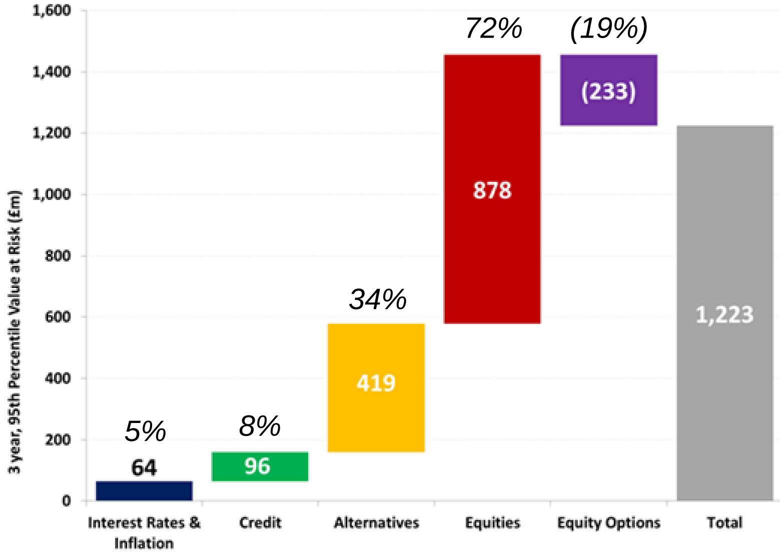


Source: Thomson Reuters Datastream.

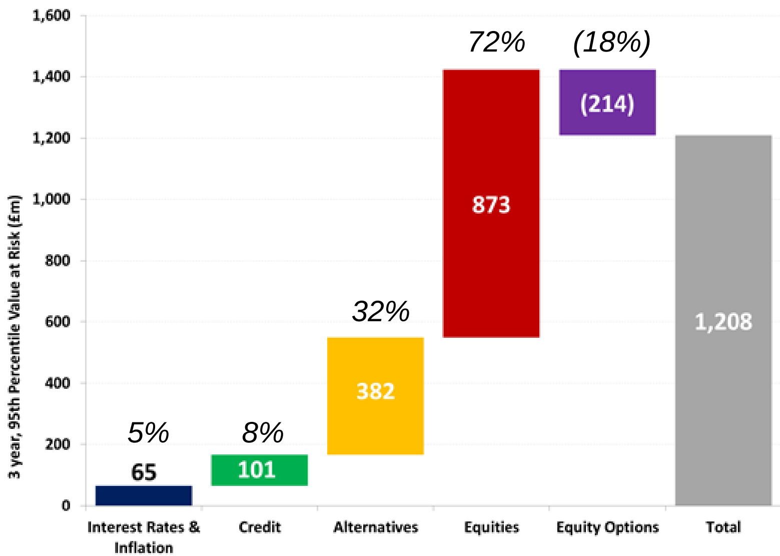
SECTION 3
STRATEGIC CONSIDERATIONS

STRATEGIC CONSIDERATIONS
RISK DECOMPOSITION

30 June 2018



30 September 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 September 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 decreased by c.£15m over the quarter**. This is largely attributable to a slight reduction in Mercer's asset volatility assumptions for some of the alternative asset classes.

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.

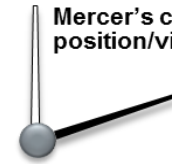
MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.05	20.1	*Remains ahead of the assumed strategic return. This has increased from 15.8% p.a. last quarter as the latest quarter's return of 6.2% was materially higher than the -4.8% return of Q3 2015, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.70	17.5	*The three year return from emerging market equities has increased from 10.9% p.a. last quarter, as the return of 0.6% over Q3 2018 was higher than the return for the quarter that fell out of the period (-15.6%). The three year return is above the assumed strategic return.*
Diversified Growth	6.95 (Libor + 4% / RPI + 5%)	6.0 (4.5 / 8.1)	*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	5.3	*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 as yields rose. Corporate bond returns are broadly in line with the strategic assumed return.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	2.15	7.2	
UK Corporate Bonds (BofAML Sterling Non Gilts)	3.25	4.4	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	5.10	0.6	*Hedge fund returns picked up this quarter but 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	7.8	*Actual 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 1.7% over the second quarter of 2018.*
Infrastructure (S&P Global Infrastructure)	6.95	13.5	*The infrastructure three year return is above the strategic return. This performance was in part driven by currency as sterling depreciated against the US dollar and euro over the last three years. 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.*

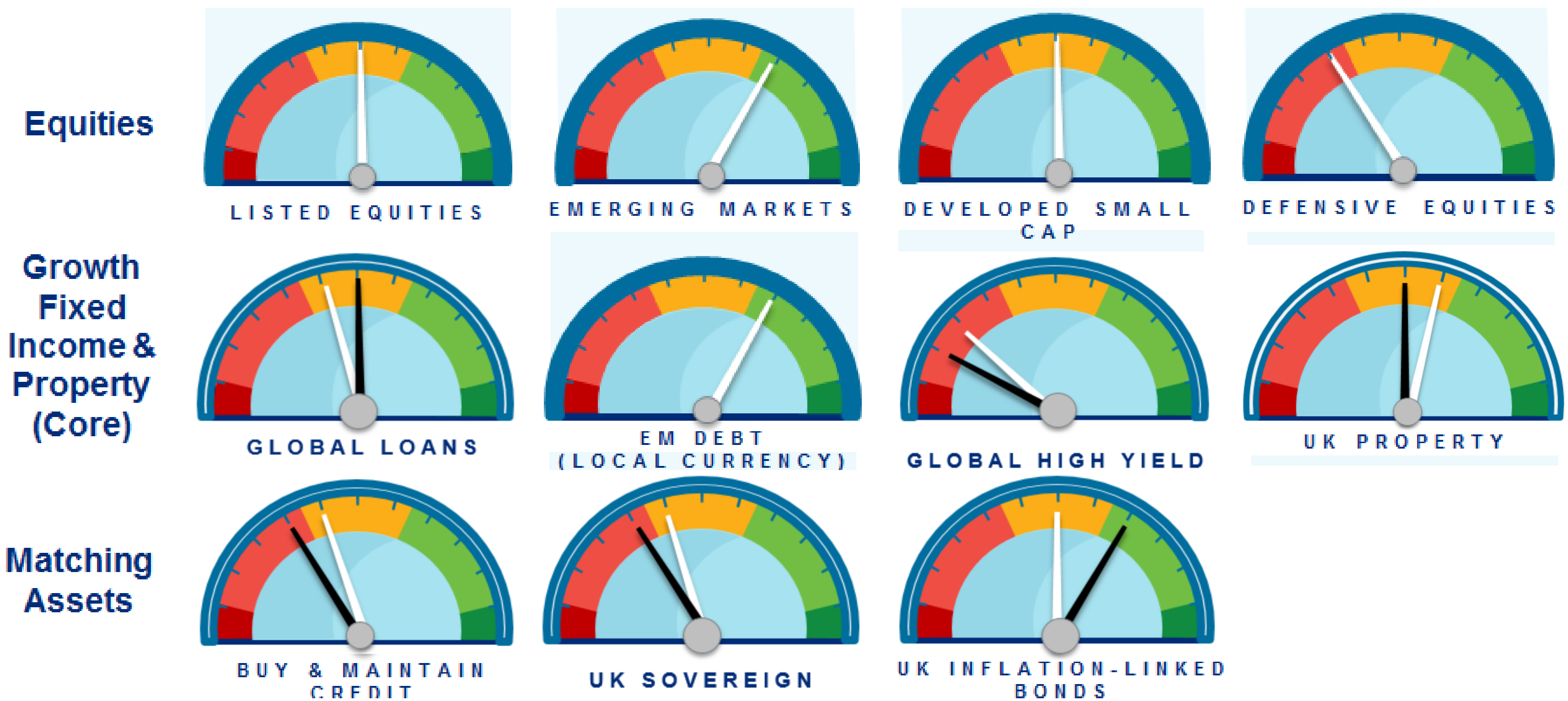
Source: Thomson Reuters Datastream. Returns are in sterling terms.

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q4 2018

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



- The views or tilts shown below are relative to a reference portfolio chosen to be suitable for the majority of the UK clients, and as such these views are communicated relative to each other across both major asset classes and also sub-asset classes.

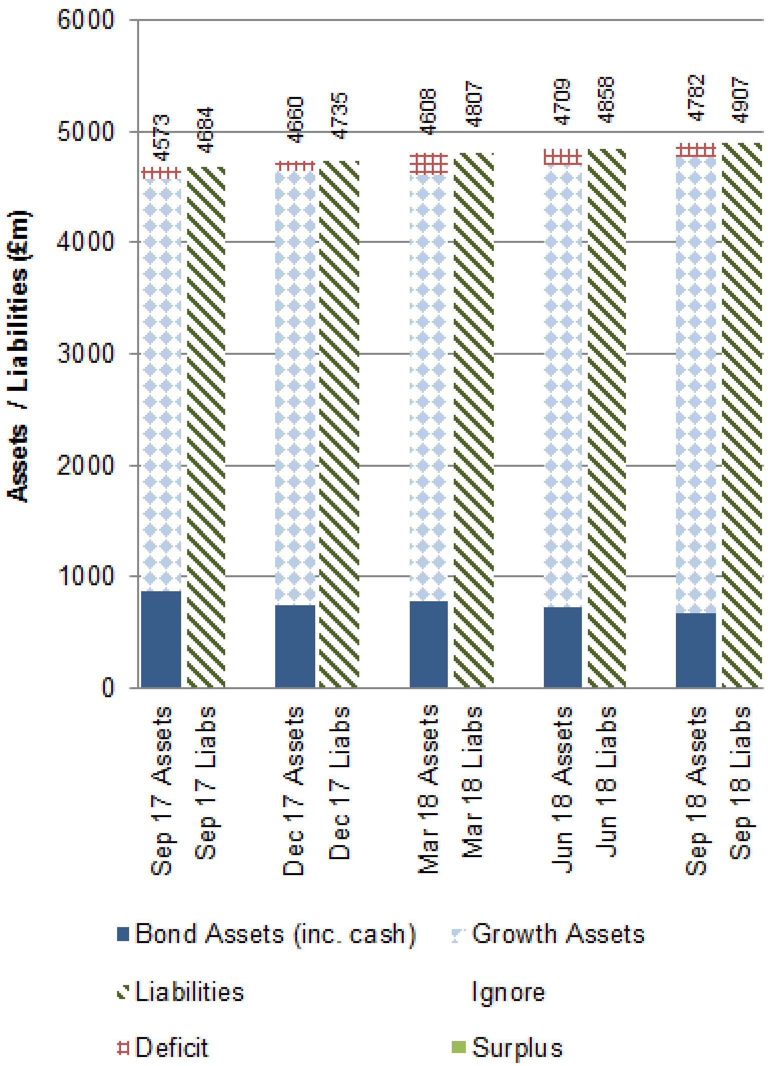


The charts above summarise Mercer's views on the medium term (1-3 years) outlook for returns from the key asset classes. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect the Scheme to make frequent tactical changes to their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

SECTION 4

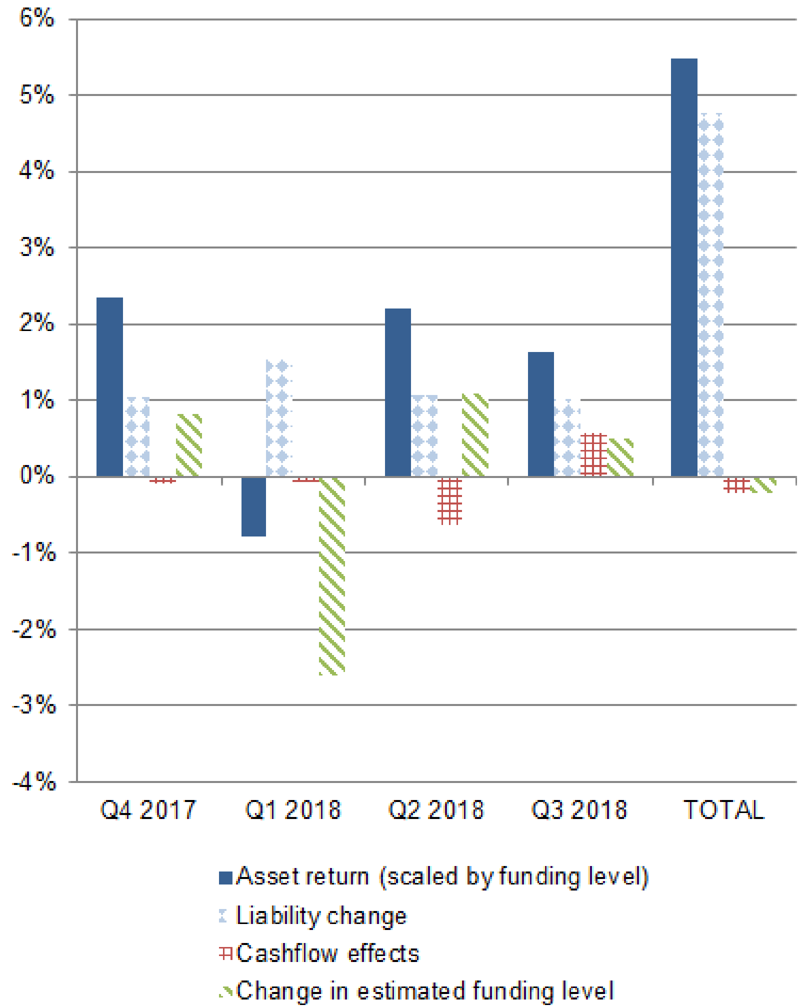
CONSIDERATION OF FUNDING LEVEL

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 remained broadly stable over the third quarter of 2018 at 97%, all else being equal.
- This stability in funding level resulted from the positive return on the Fund's assets being offset by 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 1.7% over the quarter which, when allowing for the funding position, increased the funding level by 1.6%.
- The Fund's estimated liabilities increased by 1.0% over the quarter.
- Over this quarter, the 'cashflow effect' from contributions was positive but small.
- Overall, the combined effect has not materially changed the estimated funding level, which remained at 97% .
- Over the one-year period, the estimated funding level has also not changed materially, albeit there has been volatility during the year, particularly in the first quarter of 2018.

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	1,715,587	1,790,290	36.4	37.4	34.0	29 -	39	+3.4
Emerging Market Equities	221,936	224,816	4.7	4.7	6.0	3 -	9	-1.3
Diversified Growth Funds	606,449	605,788	12.9	12.7	15.0	10 -	20	-2.3
Fund of Hedge Funds	225,974	231,734	4.8	4.8	5.0	0 -	7.5	-0.2
Property	437,617	440,154	9.3	9.2	10.0	5 -	15	-0.8
Infrastructure	294,540	318,714	6.3	6.7	5.0	0 -	7.5	+1.7
Multi-Asset Credit	474,781	477,807	10.1	10.0	11.0	6 -	16	-1.0
Corporate Bonds	81,040	80,258	1.7	1.7	2.0	No set range		-0.3
LDI*	523,136	497,558	11.1	10.4	12.0	No set range		-1.6
Cash (including currency instruments)	128,829	114,646	2.7	2.4	-	0 -	5	+2.4
Total	**4,709,889**	**4,781,764**	**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 £72m due to positive returns from some asset classes, in particular overseas 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 (%)
Brunel	Global Low Carbon Equities	-	510,299	532,884	-	11.1
BlackRock	Global Equities	927,375	-511,211	451,513	19.7	9.4
BlackRock	Corporate Bonds	81,040	-782	80,258	1.7	1.7
BlackRock	LDI*	523,136	-	497,558	11.1	10.4
TT International	UK Equities	198,165	-	195,422	4.2	4.1
Jupiter	UK Equities	202,977	-	200,748	4.3	4.2
Jupiter	Global Sustainable Equities	9,996	-	10,652	0.2	0.2
Schroder	Global Equities	377,073	-6	399,071	8.0	8.3
Genesis	Emerging Market Equities	113,320	-245	110,373	2.4	2.3
Unigestion	Emerging Market Equities	108,615	-	114,443	2.3	2.4

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

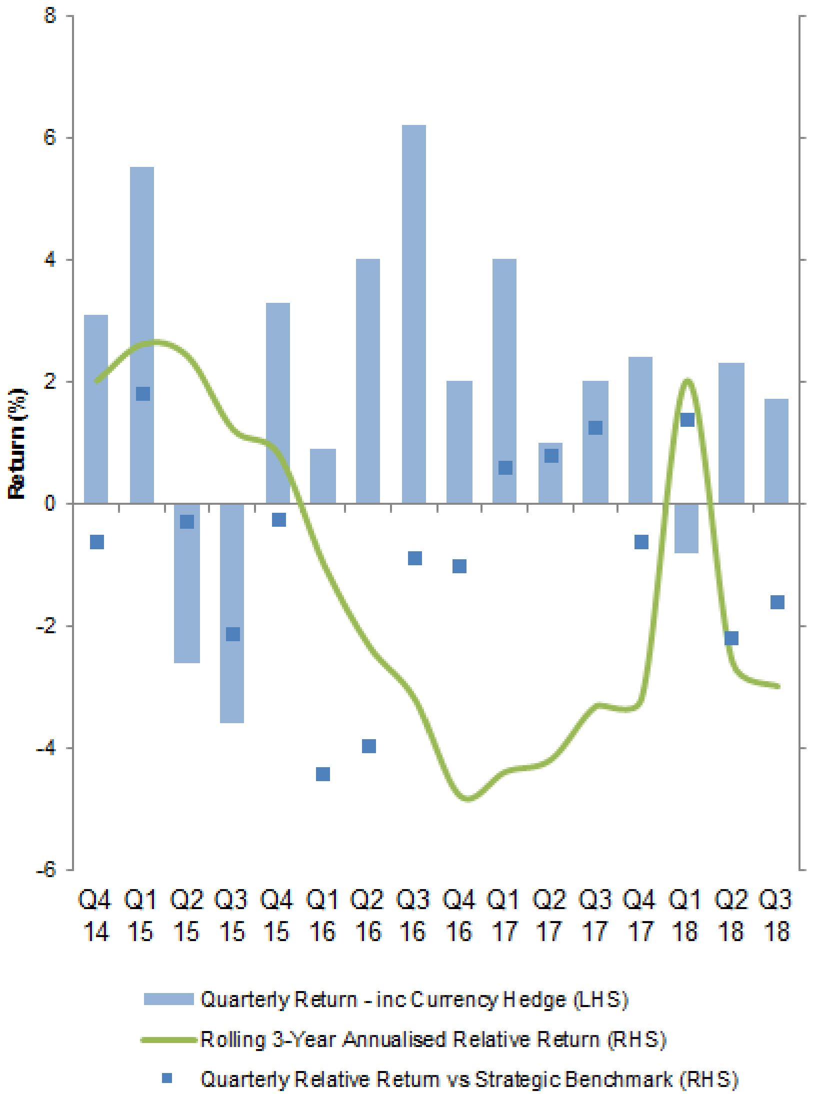
FUND VALUATIONS
VALUATION BY MANAGER CONTINUED

Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
Pyrford	DGF	137,986	-	139,091	2.9	2.9
Aberdeen Standard	DGF	235,935	-	236,975	5.0	5.0
Ruffer	DGF	232,528	-	229,721	4.9	4.8
JP Morgan	Fund of Hedge Funds	225,974	-	231,734	4.8	4.8
Schroder	UK Property	229,059	-36	234,696	4.9	4.9
Partners	Property	208,559	-5,379	205,458	4.4	4.3
IFM	Infrastructure	294,540	29	318,714	6.3	6.7
Loomis Sayles	Multi-Asset Credit	474,781	-	477,807	10.1	10.0
Record Currency Management	Currency Hedging	42,883	-32,119	29,380	0.9	0.6
Internal Cash	Cash	85,946	-	85,266	1.8	1.8
Total		**4,709,889**	**-39,450**	**4,781,764**	**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

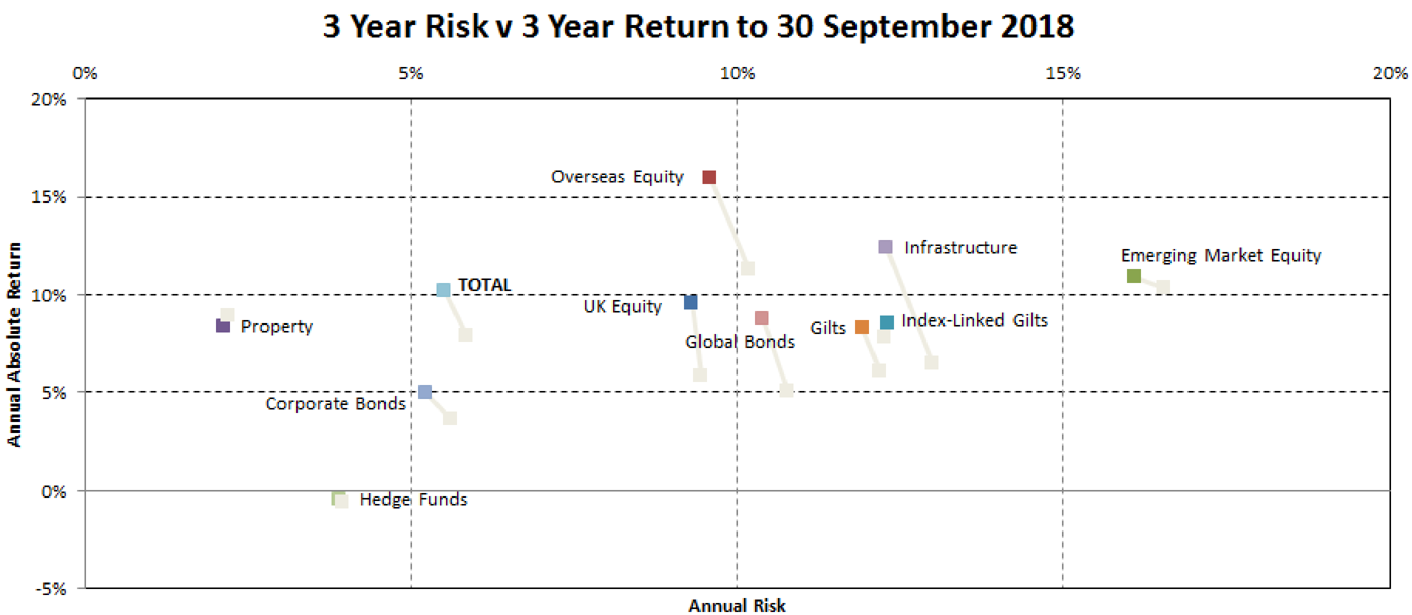


	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (inc currency hedge)	1.7	5.6	10.0
Total Fund (ex currency hedge)	1.9	6.3	11.4
Strategic Benchmark (no currency hedge)	2.5	7.6	11.5
Relative (inc currency hedge)	**-0.8**	**-2.0**	**-1.5**

Comments

- Over Q3 2018, the Fund underperformed the Strategic Benchmark by 0.6% when excluding currency hedging and by 0.8% when including currency hedging (as sterling depreciated).
- The Fund has underperformed the Strategic Benchmark over the year by 2.0%. The underperformance was mainly due to material underperformance from the following managers:
  - Pyrford (-6.7% relative to benchmark, absolute returns of 1.2%) – the defensive positioning continues to detract from performance.
  - Aberdeen Standard (-6.7% relative to benchmark, absolute returns of -1.3%) – the Emerging Market debt and European banks positions were in particular material detractors from performance.
  - Loomis Sayles (-5.8% relative to benchmark, absolute returns of -1.5%) – the exposure to Emerging Market debt in countries in credit repair and the recovery phase of the credit cycle has hurt relative performance.
- The Fund underperformed the Strategic Benchmark over the three year period by 1.5% p.a., albeit this was largely down to the impact of the currency hedge. Excluding the currency hedge, the Fund marginally underperformed by 0.1% p.a.

MANAGER MONITORING
RISK RETURN ANALYSIS

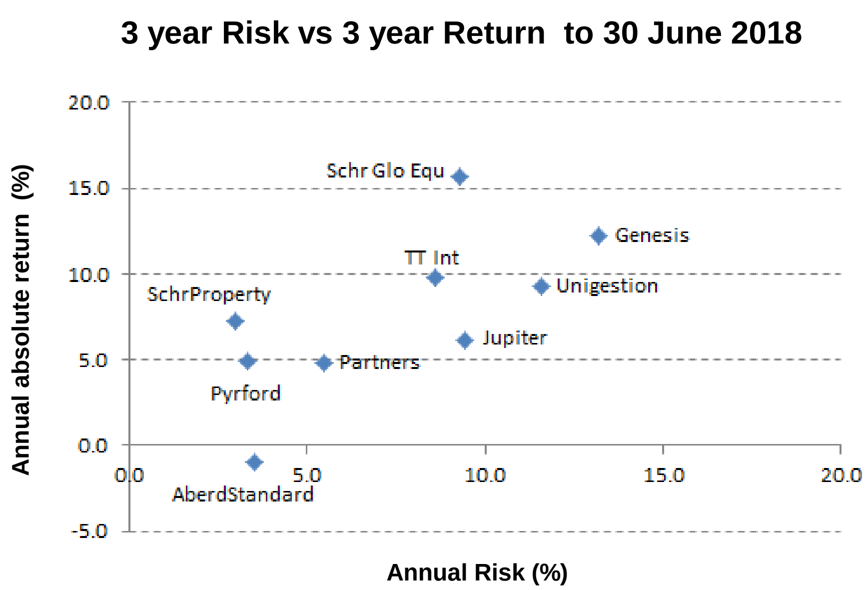


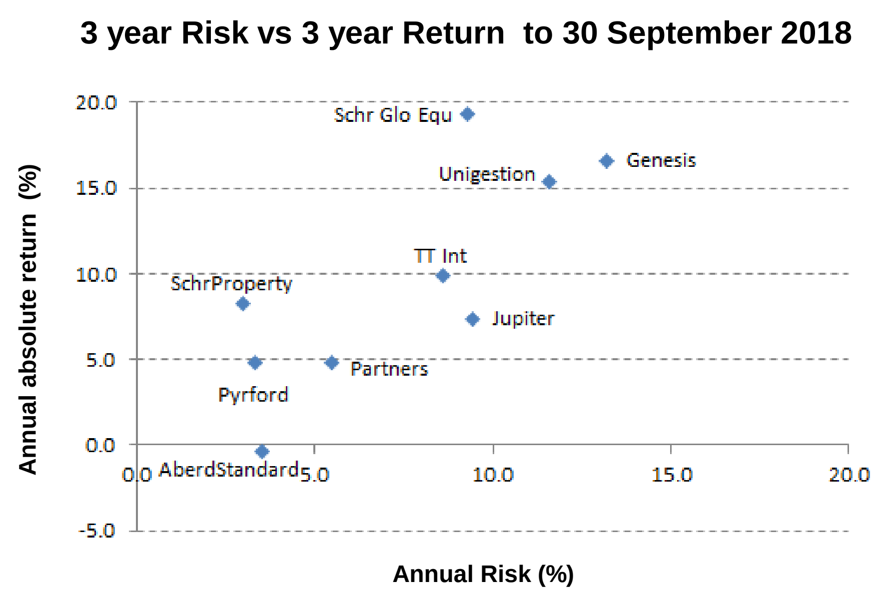
Comments

- This chart shows the 3-year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of September 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 and overseas equities saw the most notable three-year return increases.

MANAGER MONITORING
RISK RETURN ANALYSIS





Comments

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

MANAGER MONITORING
MANAGER PERFORMANCE TO 30 SEPTEMBER 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.)		
Brunel Passive Low Carbon Equity	4.4	4.5	-0.1	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
BlackRock Equities	9.5	9.5	0.0	16.4	16.6	-0.2	18.9	18.8	+0.1	-	N/A
BlackRock Corp Bonds	-1.0	-0.9	0.0	-0.6	-0.7	+0.2	6.8	6.7	+0.0	-	N/A
BlackRock LDI	3.6	3.6	0.0	8.7	8.7	0.0	9.2	9.3	-0.1	-	N/A
TT International	-1.4	-0.8	-0.6	5.0	5.9	-0.8	9.9	11.5	-1.4	+3-4	Target not met
Jupiter UK Equity	-1.1	-0.8	-0.3	1.2	5.9	-4.4	7.3	11.5	-3.8	+2	Target not met
Jupiter Glb Sust Equity	6.6	5.7	+0.9	N/A	N/A	N/A	N/A	N/A	N/A	+2-4	N/A
Schroder Equity	5.8	5.7	+0.1	12.7	13.5	-0.7	19.3	19.9	-0.5	+4	Target not met
Genesis	-2.6	0.3	-2.9	0.5	2.4	-1.9	16.6	18.5	-1.6	-	Target not met
Unigestion	5.4	0.1	+5.3	10.0	2.0	+7.8	15.4	18.1	-2.3	+2-4	Target not met
Pyrford	0.8	2.2	-1.4	1.2	8.5	-6.7	4.8	8.1	-3.1	-	Target not met
Aberdeen Standard	0.4	1.5	-1.1	-1.3	5.8	-6.7	-0.4	5.6	-5.7	-	Target not met
Ruffer	-1.2	1.5	-2.7	1.3	5.5	-4.0	N/A	N/A	N/A	-	N/A
JP Morgan	1.3	1.3	-0.1	5.1	4.8	+0.3	4.1	4.1	0.0	-	Target met
Schroder Property	2.5	1.6	+0.9	11.0	8.8	+2.0	8.3	7.1	+1.1	+1	Target met
Partners Property *	0.7	2.5	-1.7	7.3	10.0	-2.4	4.8	10.0	-4.7	-	Target not met
IFM	6.9	1.2	+5.6	20.2	4.2	+15.4	17.7 **	3.9 **	+13.3**	-	N/A
Loomis Sayles	0.6	1.2	-0.6	-1.5	4.6	-5.8	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 30 June 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.)
Brunel	Passive Global Low Carbon Equity	MSCI World Low Carbon	-
BlackRock	Passive Global Equity	MSCI World	-
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	Global Sustainable Equities (SRI)	MSCI AC World	+2-4%
Schroder	Global Equities (Unconstrained)	MSCI AC World	+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	3 Month LIBOR +4% p.a.	-
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.

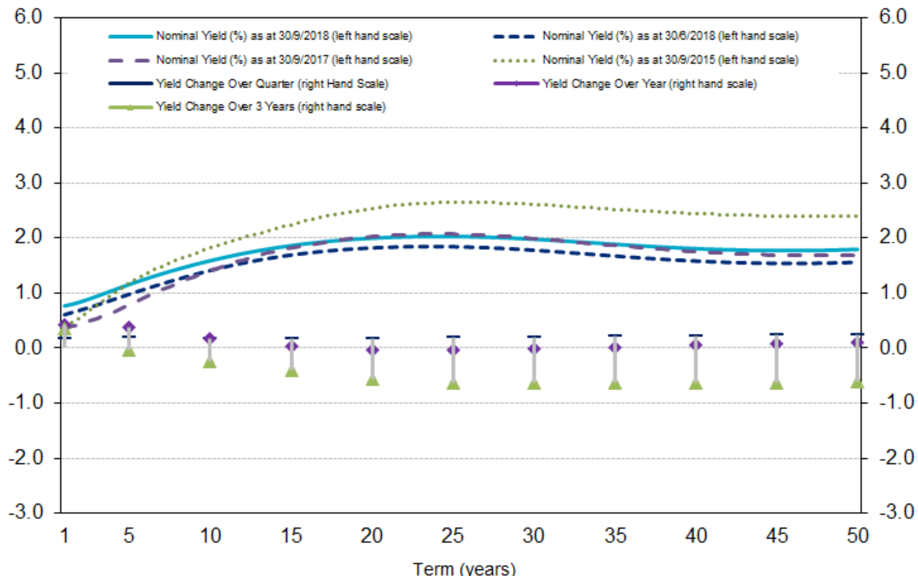
APPENDIX 3
CHANGES IN YIELDS

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 Sep 2018	30 Jun 2018	30 Sep 2017	30 Sep 2016
UK Equities	3.80	3.64	3.68	3.46
Over 15 Year Gilts	1.86	1.67	1.84	1.42
Over 5 Year Index-Linked Gilts	-1.49	-1.58	-1.51	-1.78
Sterling Non Gilts	2.63	2.50	2.30	1.99

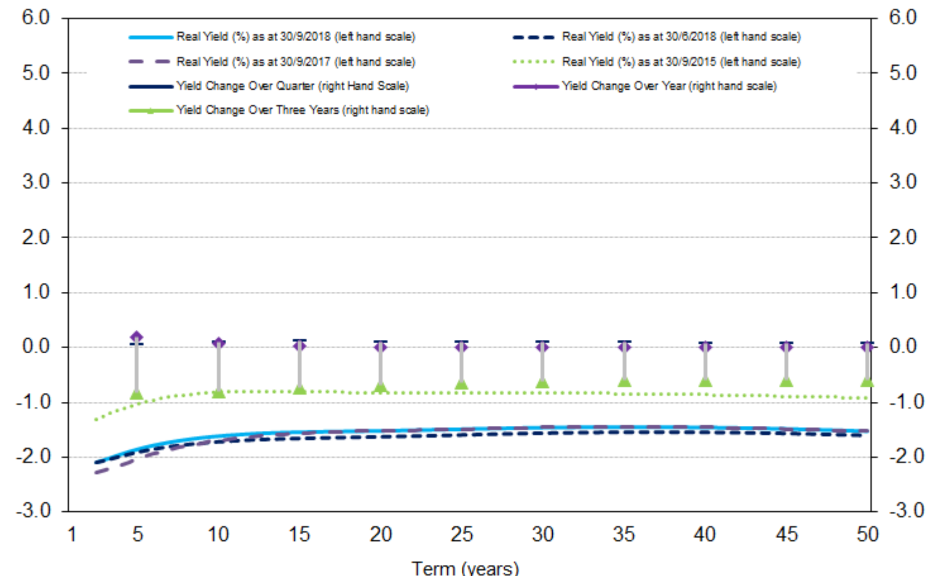
- Nominal yields were up across the curve over the quarter.
- The Over 15 Year Gilt Index underperformed the broader global bond market over the quarter, generating a return of -3.3%.
- Real yields also rose across the curve over the quarter. This led to the Over 5 Year Index-Linked Gilts Index returning -1.4%.
- Movements in credit spreads were minimal 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 -0.3% over the quarter.

Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

MERCER

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