

HEALTH WEALTH CAREER

# AVON PENSION FUND

## COMMITTEE INVESTMENT PERFORMANCE REPORT QUARTER TO 31 DECEMBER 2018

MARCH 2019

# IMPORTANT NOTICES

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Please also note:

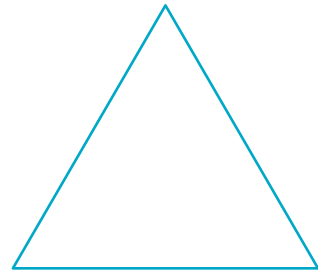
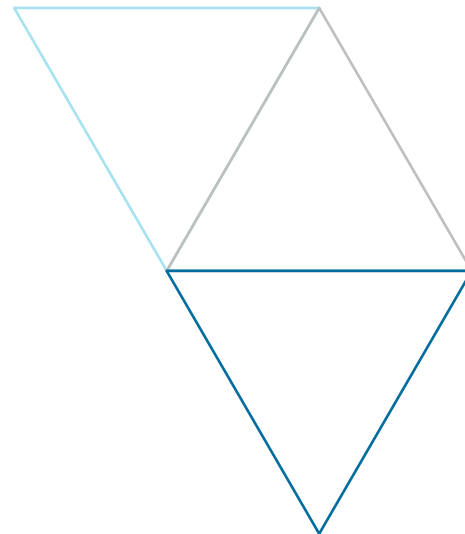
- The value of investments can go down as well as up and you may not get back the amount you have invested. In addition investments denominated in a foreign currency will fluctuate with the value of the currency.
- The valuation of investments in property based portfolios, including forestry, is generally 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.

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# SECTION 1

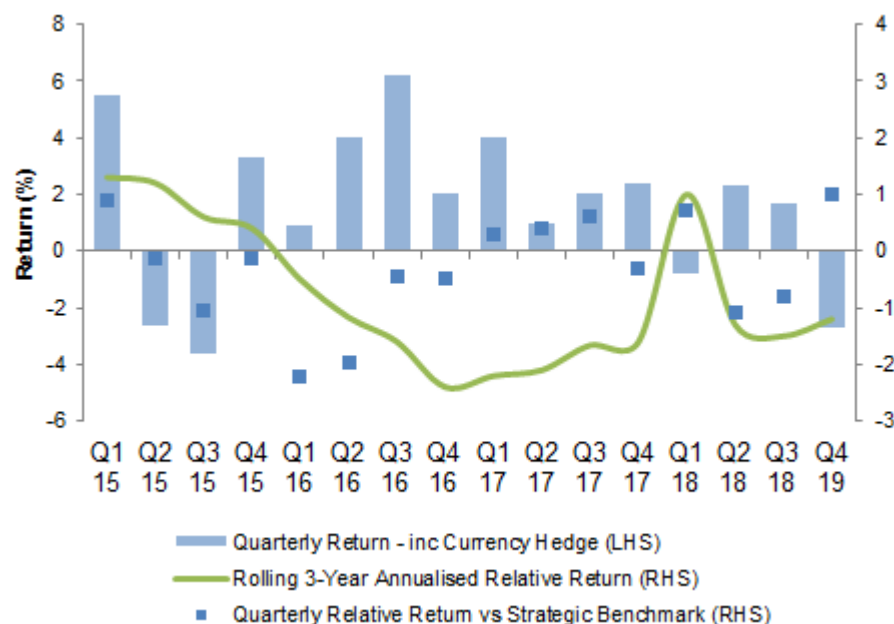
## EXECUTIVE SUMMARY



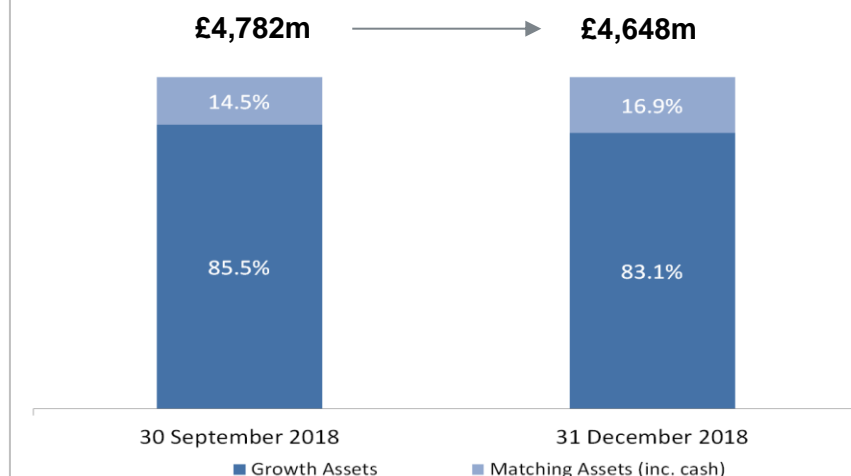
# EXECUTIVE SUMMARY

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (inc currency hedge)	-2.7	0.4	7.8
Total Fund (ex currency hedge)	-2.1	1.8	9.2
Total Fund (ex LDI)	-3.1	-0.7	-
Total Fund (ex LDI, ex currency hedge)	-2.5	0.9	
Strategic Benchmark (no currency hedge)	-3.7	0.5	9.0
<b>Relative (inc currency hedge)</b>	<b>+1.0</b>	<b>-0.1</b>	<b>-1.2</b>

## Excess Return Chart



## Asset Allocation



## Commentary

Over the quarter, total Fund assets decreased from £4,782m to £4,648m. This decrease was driven primarily by negative returns from both domestic and overseas 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 outperformed the Strategic Benchmark over the quarter, one year and three year periods to 31 December 2018.

Allowing for the currency hedge, the Fund outperformed the Strategic Benchmark by 1.0% over the quarter. Currency hedging also detracted over the one year and three year periods. The Fund outperformed the Strategic Benchmark by 1.2% on a like-for-like basis (i.e. excluding LDI and currency hedging).

LDI has been additive to performance over the last quarter and one year.

# 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 decreased by c.3% over the fourth quarter of 2018 to c.94%, as the assets fell in value while the value of the liabilities rose.

## Fund Performance

- The value of the Fund’s assets decreased by £134m over the fourth quarter of 2018, to £4,648m as at 31 December 2018. This decrease was driven primarily by negative returns from both domestic and overseas equities.

## Strategy

- Global (developed) equity returns over the last three years were 12.3% 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) but have become slightly more positive. Following the sell-off in Q4 18, valuations are more attractive now, the macro environment does not seem to be as bad as previously perceived by the market and the risk of Fed tightening triggering a recession this year is materially lower.
- Emerging market equities have returned 14.8% 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 continue to be slightly more positive in our medium-term outlook for emerging market equities over the next one to three years. Despite ongoing challenges, long-term economic fundamentals remain solid for emerging markets. Emerging market equities have also become even more attractively valued over the quarter due to the broad sell-off in risk assets and are now below their long-term historical averages.
- 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 7.1% p.a. versus an assumed return of 1.90% p.a. and index-linked gilts returned 9.2% p.a. versus an assumed return of 2.15% p.a. Gilt yields decreased over the quarter, and as a result gilt returns were positive over the period.
- UK corporate bonds returned 4.2% p.a. over the three-year period against an assumed strategic return of 3.25% p.a.
- The three-year UK property return of 7.0% p.a. remains higher than the assumed return of 5.75% p.a.
- Hedge fund returns were negative in Q4 18 and 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 years.

# EXECUTIVE SUMMARY

## Strategy (continued)

- 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.
- The Fund's equity protection strategy was positive over the quarter, rising by £127m amidst weak equity market performance.

## Managers

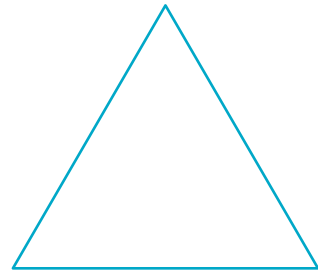
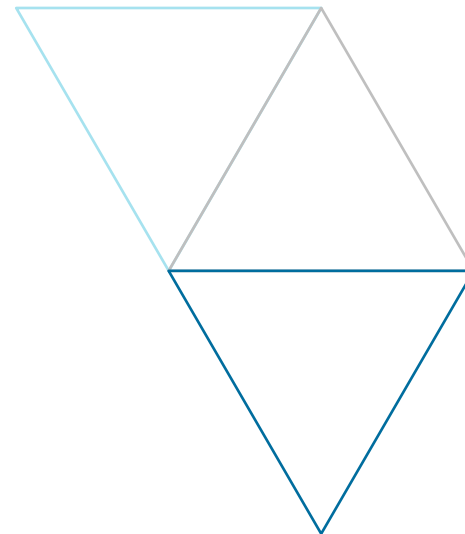
- Manager total returns over the quarter were on the whole negative, with the weakest performance coming from the overseas Developed Market Equity managers. The Fund's three Diversified Growth Fund ("DGF") strategies also posted negative returns, but provided protection during the equity market downturn and fulfilled their role within the Fund's overall investment strategy. Over Q4 18, the Fund's overall equity portfolio fell by c.10.6% whereas the overall DGF portfolio decreased in value by c.3.8% (based on changes in asset values over the quarter), illustrating the protection offered by the DGF managers during the volatile market environment. The Fund's Property and Infrastructure mandates generated positive absolute returns over the quarter.
- Absolute returns over the year to 31 December 2018 were mixed across the Fund's investment managers. The majority of mandates posted negative absolute returns, with the UK Socially Responsible Investing ("SRI") strategy and one of the emerging market equity mandates delivering the largest negative returns over the period.
- In terms of relative performance, out of the active equity managers, only the defensive active emerging market equity manager outperformed.
- The Fund's DGF and Multi-Asset Credit ("MAC") mandates underperformed versus their respective total return targets over the one year period. The DGF allocation overall did, however, perform its strategic role by protecting the portfolio versus the falls in equity markets.
- Over the three-year period all mandates with a three-year track record (except Aberdeen Standard Investments) produced positive absolute returns. The majority of active funds underperformed their benchmarks over the period, with only the UK Property and Infrastructure mandates generating positive relative returns. The Fund of Hedge Funds and UK Property mandates achieved their performance objectives, net of fees.

## Key Points for Consideration

- In November 2018, the unconstrained active UK equity mandate was terminated over the quarter with the proceeds allocated to the Brunel active UK Equity strategy.
- In November 2018, the Aberdeen Standard Investments mandate was terminated over the quarter with the proceeds allocated to the Fund's two other DGF mandates.

# SECTION 2

## MARKET BACKGROUND





# MARKET BACKGROUND INDEX PERFORMANCE

## Equity Market Review

Against the backdrop of a perceived global slowdown, trade tensions and concerns over tighter monetary policy, risk assets saw their worst quarter since the end of 2008. The continued weakness of sterling slightly reduced the losses for sterling investors.

UK and overseas equities experienced a tough quarter with domestically focused companies in particular being hurt. Political uncertainty, including an unsuccessful attempt to oust Prime Minister May by her own party, added to the weakness, as chances of a no-deal Brexit have increased. GDP expanded by 1.5% annualised over the third quarter driven by household consumption while business investment dropped. CPI inflation fell to 2.3% at the end of November and the Bank of England kept interest rates at 0.75%.

Within global equity markets, the US economy grew by 3.0% on a quarterly basis over the third quarter and is set to have grown at the same rate in the fourth quarter. While the near-term outlook remains upbeat, expectations of a slowdown in late 2019 are rising, as the US reaches the later stage of the business cycle. The Federal Reserve continued to raise rates in December pushing them to 2.25-2.50%. Growth expectations for the Eurozone continue to weaken amid a slowdown in Germany and France as well as persistent weakness in Italy. Japanese growth expectations have slowed. Trade tensions between the US and China remained unresolved during the quarter even though it now seems more likely that a deal will be struck in 2019. Some emerging markets have been slowing, mostly due to reduced demand from China which has started to feel the impact of tariffs.

## Bond Market Review

Nominal yields were down at the shorter end of the curve over the quarter.

The Over 15 Year Gilt Index underperformed the broader global bond market over the quarter, generating a return of 2.6%.

Real yields also fell across the curve over the quarter. This led to the Over 5 Year Index-Linked Gilts Index returning 2.0%.

Credit spreads increased sharply over the quarter, with the sterling Non-Gilts All Stocks Index credit spread ending the quarter at c.1.6% p.a. UK credit assets delivered a nil return over the quarter.

## Currency Market Review

Over the quarter, sterling depreciated against the dollar by 2.3%, against the euro by 0.8% and against the Japanese yen by 5.7%.

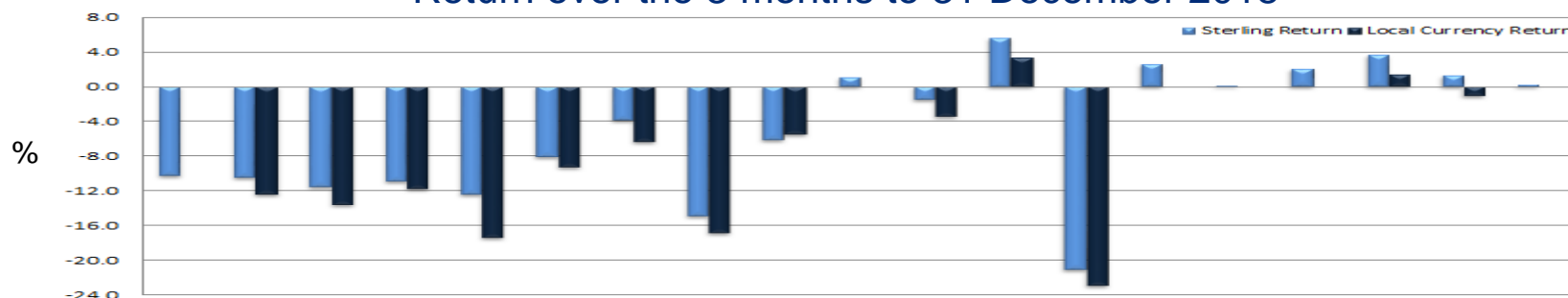
## Commodity Market Review

Commodity performance was poor over the quarter with losses in all sectors, except precious metals due to its safe haven characteristics. Energy led the losses, declining by almost 34% while industrial metals fell by 7%. The softer economic outlook is leading to concerns that global consumption might come out lower than expected next year and this has hit energy and industrial metals especially hard. For oil, unexpected waivers on sanctions on Iran eased the fears of imminent supply constraints.

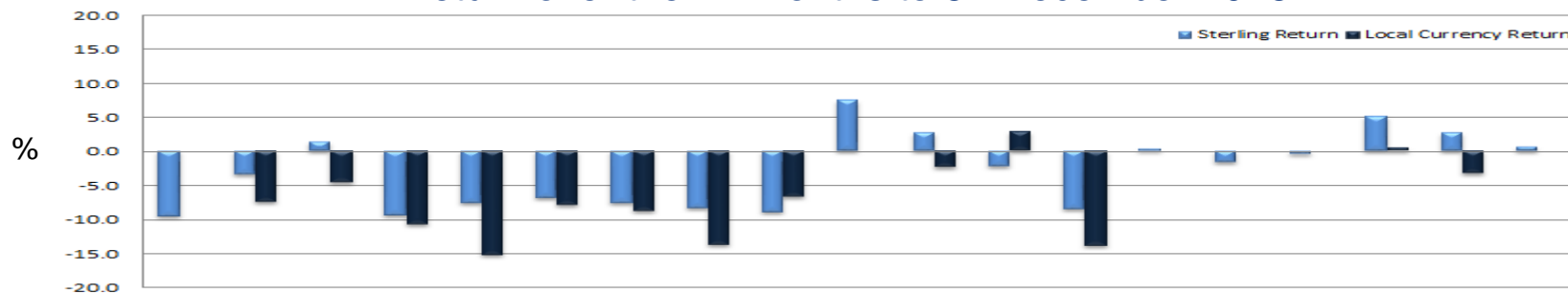
Source: Thomson Reuters Datastream.

# MARKET BACKGROUND INDEX PERFORMANCE

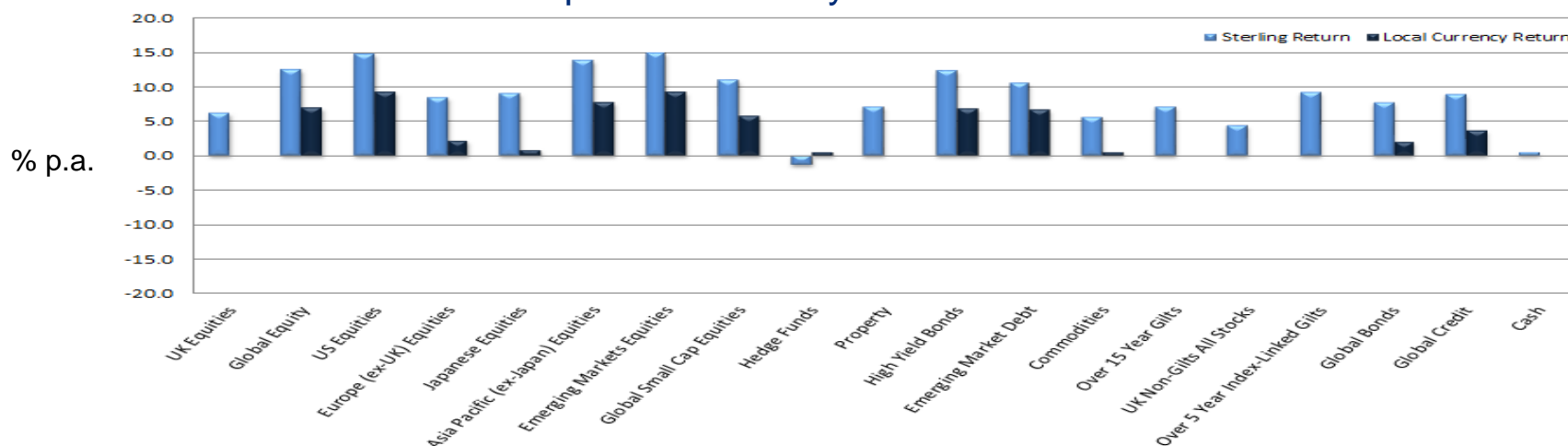
Return over the 3 months to 31 December 2018



Return over the 12 months to 31 December 2018

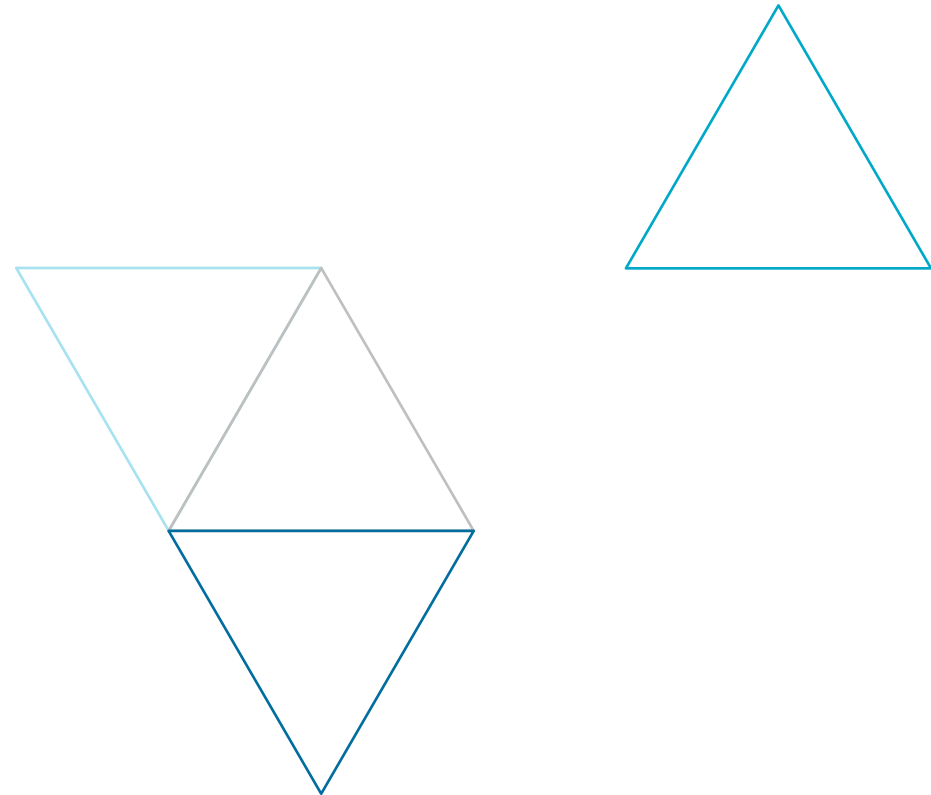


Return p.a. over the 3 years to 31 December 2018



# SECTION 3

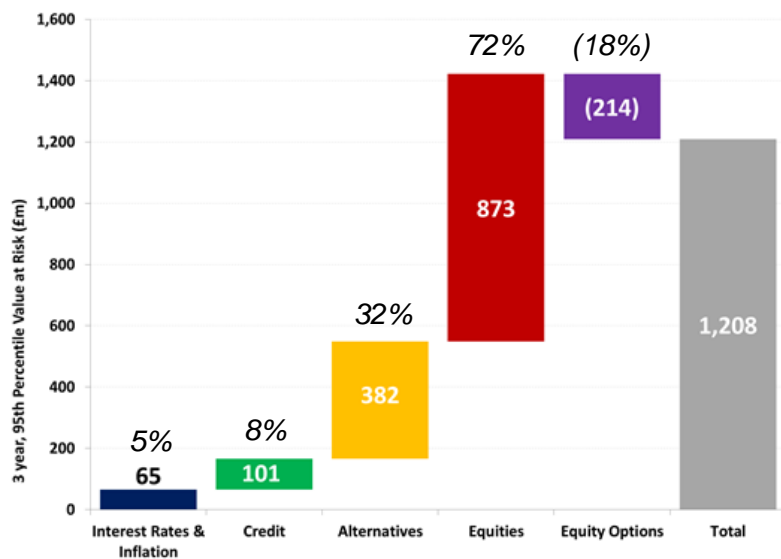
## STRATEGIC CONSIDERATIONS



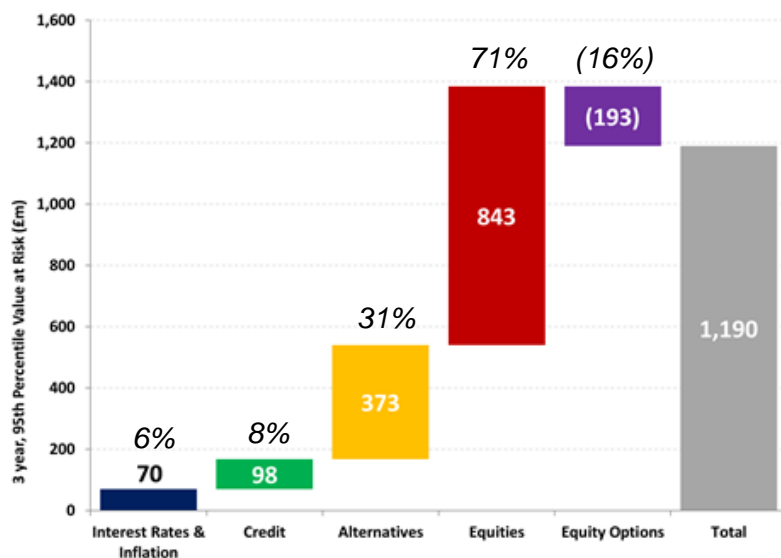
# STRATEGIC CONSIDERATIONS

## RISK DECOMPOSITION

30 September 2018



31 December 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 95<sup>th</sup> 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 31 December 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 **£0.3bn**, creating a deficit of at least **c.£1.5bn**.
- 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.£18m 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
<b>Developed Equities (Global)</b> (FTSE All-World Developed)	8.05	12.3	Remains ahead of the assumed strategic return. This has decreased from 20.1% p.a. last quarter as the latest quarter's return of -11.2% was materially lower than the 8.6% return of Q4 2015, which fell out of the 3 year return.
<b>Emerging Market Equities</b> (FTSE AW Emerging)	8.70	14.8	The three year return from emerging market equities has decreased from 17.5% p.a. last quarter, as the return of -3.9% over Q4 2018 was lower than the return for the quarter that fell out of the period (3.1%). The three year return is above the assumed strategic return.
<b>Diversified Growth</b>	6.95 (Libor + 4% / RPI + 5%)	6.0 (4.5 / 8.1)	DGFs are expected to produce an attractive return over the long term but with lower volatility than equities – 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.
<b>UK Gilts</b> (FTSE Actuaries Over 15 Year Gilts)	1.90	7.1	UK gilt returns remain considerably above the long term strategic assumed return as yields remain low relative to historic averages. Over the last quarter, returns were positive for nominal gilts and index linked gilts as yields fell. Corporate bond returns are broadly in line with the strategic assumed return.
<b>Index Linked Gilts</b> (FTSE Actuaries Over 5 Year Index-Linked Gilts)	2.15	9.2	
<b>UK Corporate Bonds</b> (BofAML Sterling Non Gilts)	3.25	4.2	
<b>Fund of Hedge Funds</b> (HFRX Global Hedge Fund Index)	5.10	-1.2	Hedge fund returns were negative this quarter and 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.
<b>Property</b> (IPD UK Monthly)	5.75	7.0	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 1.1% over the fourth quarter of 2018.
<b>Infrastructure</b> (S&P Global Infrastructure)	6.95	12.3	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 – Q1 2019

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

Mercer's current DAA position/view

Position/view last time (if changed)

## Equities



LISTED EQUITIES



EMERGING MARKETS



DEVELOPED SMALL CAP



DEFENSIVE EQUITIES

## Growth Fixed Income & Property (Core)



GROWTH FIXED INCOME



EM DEBT (LOCAL CURRENCY)



GLOBAL HIGH YIELD



PROPERTY

## Matching Assets



UK INFLATION-LINKED BONDS



UK SOVEREIGN



DEFENSIVE FIXED INCOME

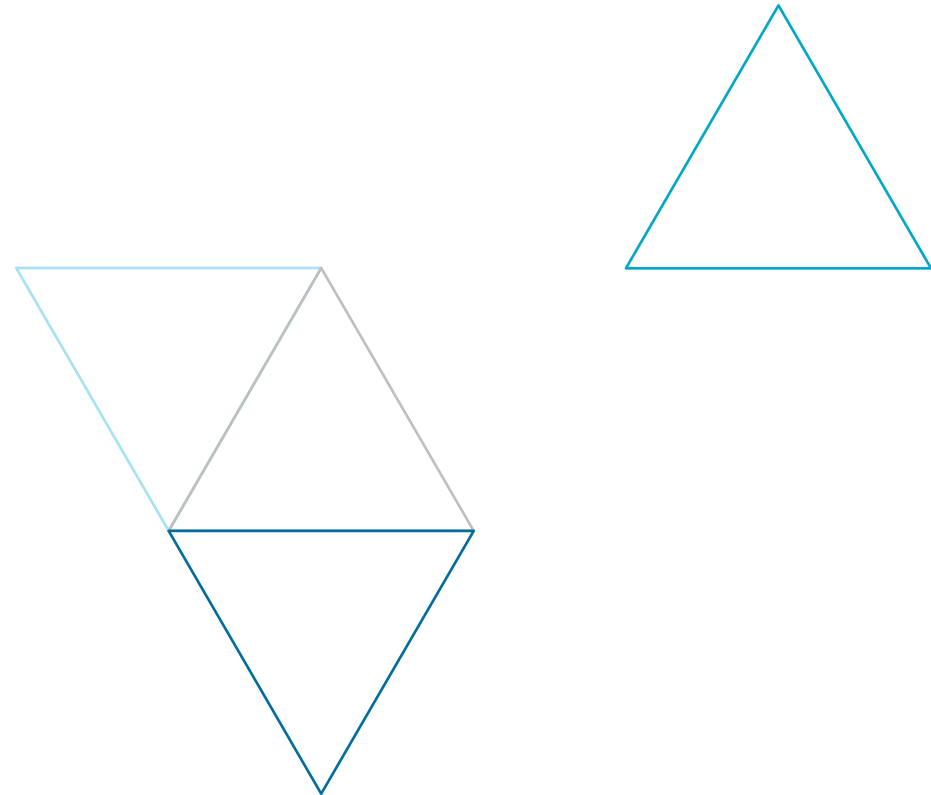


LIQUID ALTERNATIVES/CASH

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

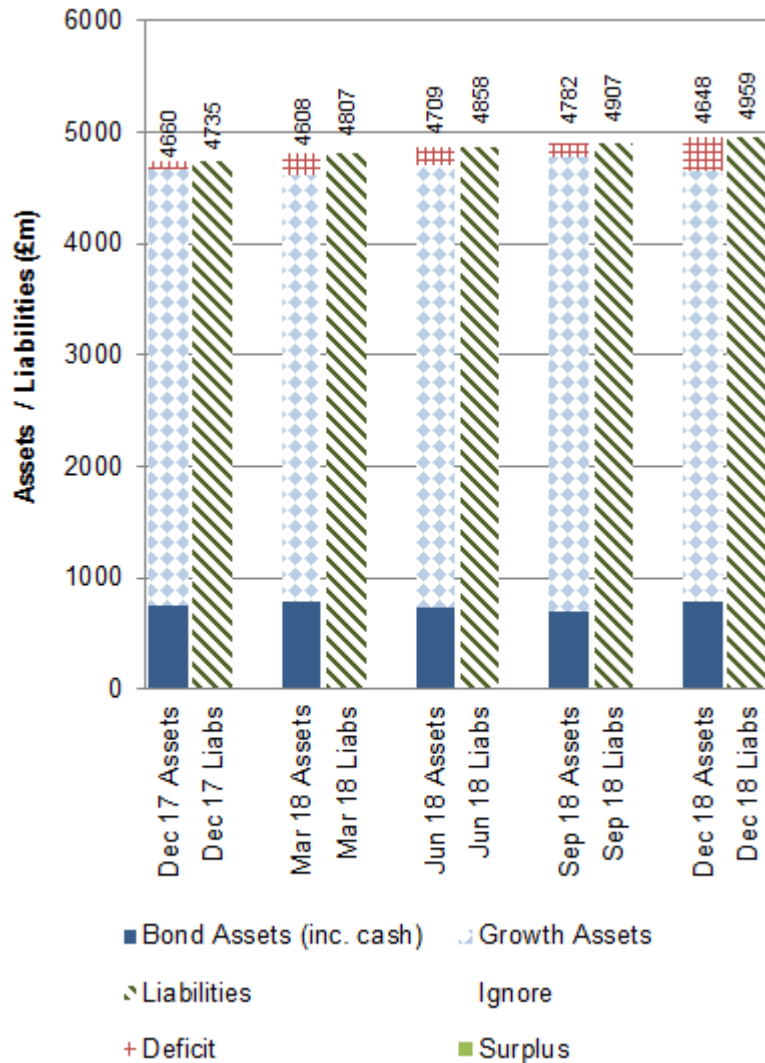
## CONSIDERATION OF FUNDING LEVEL





# CONSIDERATION OF FUNDING LEVEL

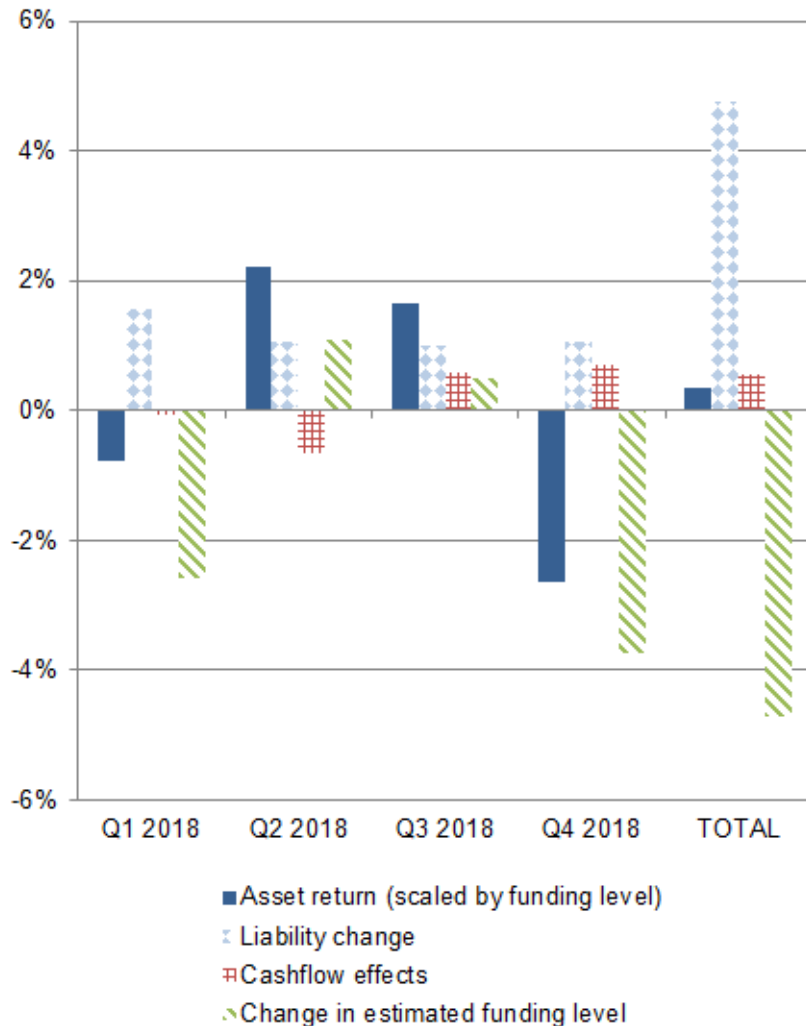
## ASSET ALLOCATION AND FUNDING LEVEL



- Based on financial markets, investment returns and net cashflows into the Fund, the estimated funding level decreased by c.3% over the fourth quarter of 2018 from 97% to 94%, all else being equal.
- This decrease in funding level resulted from the negative return on the Fund's assets coupled with 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.



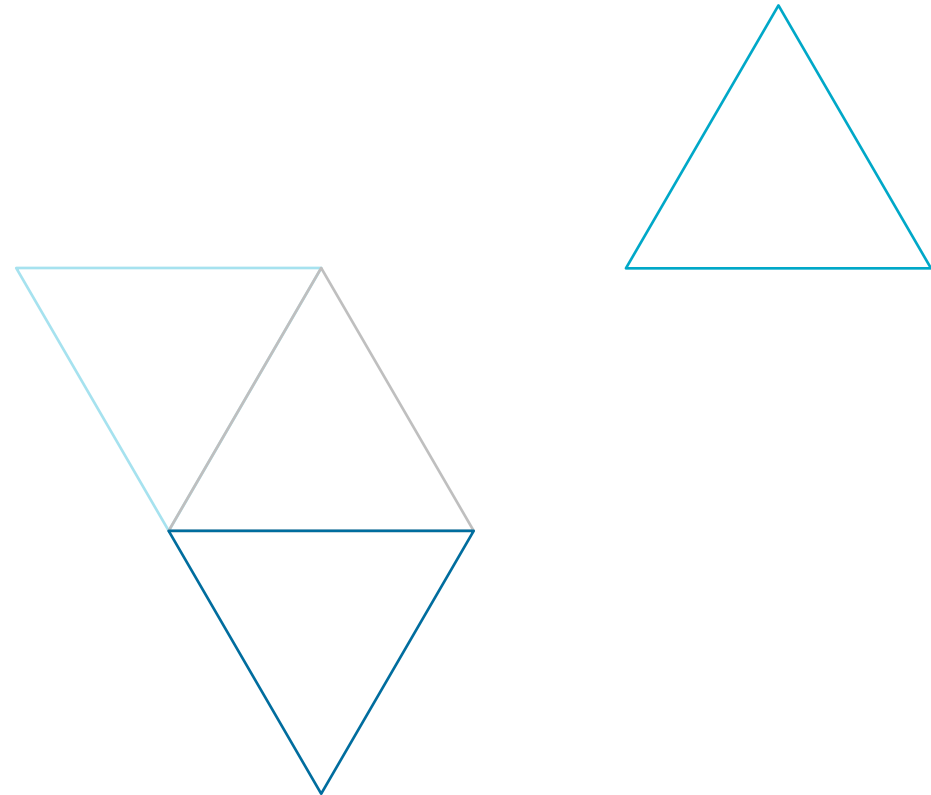
# CONSIDERATION OF FUNDING LEVEL FUND PERFORMANCE RELATIVE TO ESTIMATED LIABILITIES



- The Fund's assets returned -2.7% over the quarter which, when allowing for the funding position, decreased the funding level by 2.6%.
- The Fund's estimated liabilities increased by 1.1% over the quarter.
- Over this quarter, the 'cashflow effect' from contributions was positive but small.
- Overall, the combined effect has decreased the estimated funding level, from 97% to 94%.
- Over the one-year period, the estimated funding level has also decreased by c.5%.

# 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	1,790,290	1,587,452	37.4	34.2	34.0	29	-	39	+0.2
Emerging Market Equities	224,816	214,209	4.7	4.6	6.0	3	-	9	-1.4
Diversified Growth Funds	605,788	582,786	12.7	12.5	15.0	10	-	20	-2.5
Fund of Hedge Funds	231,734	231,533	4.8	5.0	5.0	0	-	7.5	0.0
Property	440,154	450,262	9.2	9.7	10.0	5	-	15	-0.3
Infrastructure	318,714	328,989	6.7	7.1	5.0	0	-	7.5	+2.1
Multi-Asset Credit	477,807	466,241	10.0	10.0	11.0	6	-	16	-1.0
Corporate Bonds	80,258	80,345	1.7	1.7	2.0	No set range			-0.3
LDI*	497,558	628,409	10.4	13.5	12.0	No set range			+1.5
Cash (including currency instruments)	114,646	77,488	2.4	1.7	-	0	-	5	+1.7
Total	4,781,764	4,647,715	100.0	100.0	100.0				0.0

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

\* Valuation includes mark-to-market value of equity protection strategy.

- Invested assets decreased over the quarter by £134m due to negative returns domestic and overseas equities in particular. 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	532,884		472,992	11.1	10.2
BlackRock	Global Equities	451,513		399,349	9.4	8.6
BlackRock	Corporate Bonds	80,258		80,345	1.7	1.7
BlackRock	LDI*	497,558		628,409	10.4	13.5
Brunel	UK Equities	-	176,737	170,763	0.0	3.7
TT International	UK Equities	195,422	-176,737	655	4.1	0.0
Jupiter	UK Equities	200,748		179,756	4.2	3.9
Jupiter	Global Sustainable Equities	10,652		9,434	0.2	0.2
Schroder	Global Equities	399,071		354,505	8.3	7.6
Genesis	Emerging Market Equities	110,373		104,077	2.3	2.2
Unigestion	Emerging Market Equities	114,443		110,133	2.4	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

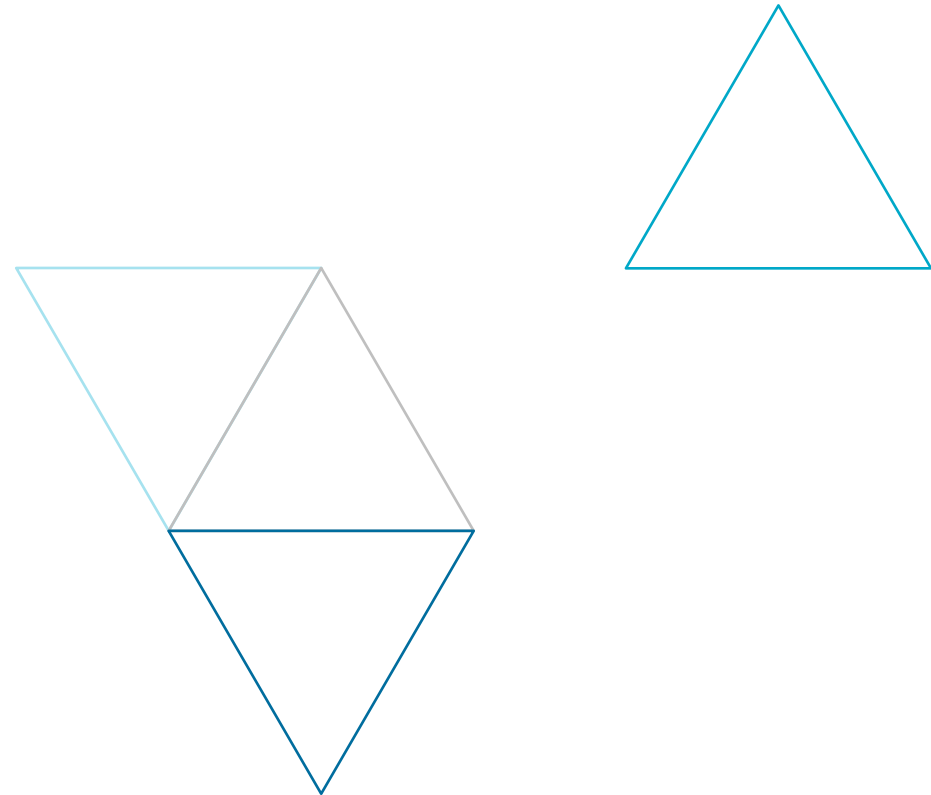
Manager Allocation						
Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Pyrford	DGF	139,091	77,000	212,778	2.9	4.6
Aberdeen Standard	DGF	236,975	-230,000	-	5.0	0.0
Ruffer	DGF	229,721	153,000	370,008	4.8	8.0
JP Morgan	Fund of Hedge Funds	231,734		231,533	4.8	5.0
Schroder	UK Property	234,696		238,437	4.9	5.1
Partners	Property	205,458		211,826	4.3	4.6
IFM	Infrastructure	318,714		328,989	6.7	7.1
Loomis Sayles	Multi-Asset Credit	477,807		466,241	10.0	10.0
Record Currency Management	Currency Hedging	29,380	-28,650	-2,101	0.6	0.0
Internal Cash	Cash	85,266		79,589	1.8	1.7
<b>Total</b>		<b>4,781,764</b>		<b>4,647,715</b>	<b>100.0</b>	<b>100.0</b>

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.

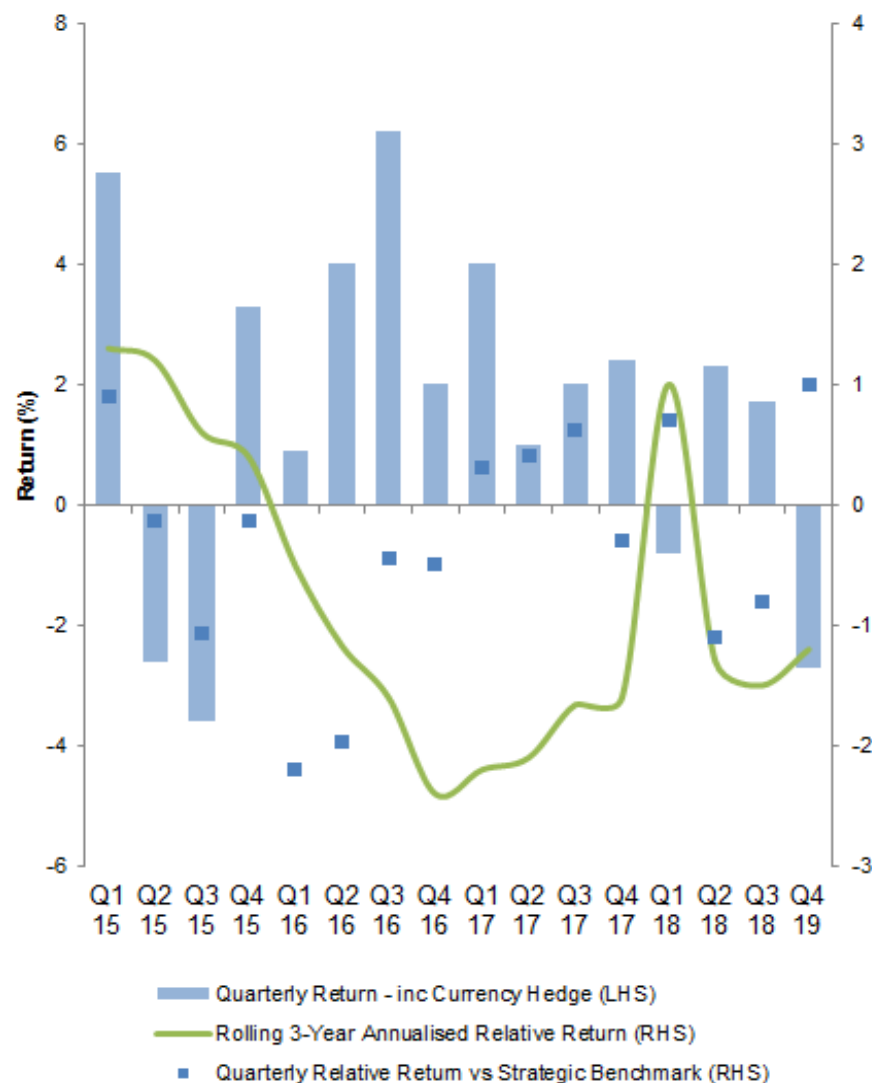
# SECTION 6

## PERFORMANCE SUMMARY



# PERFORMANCE SUMMARY

## TOTAL FUND PERFORMANCE

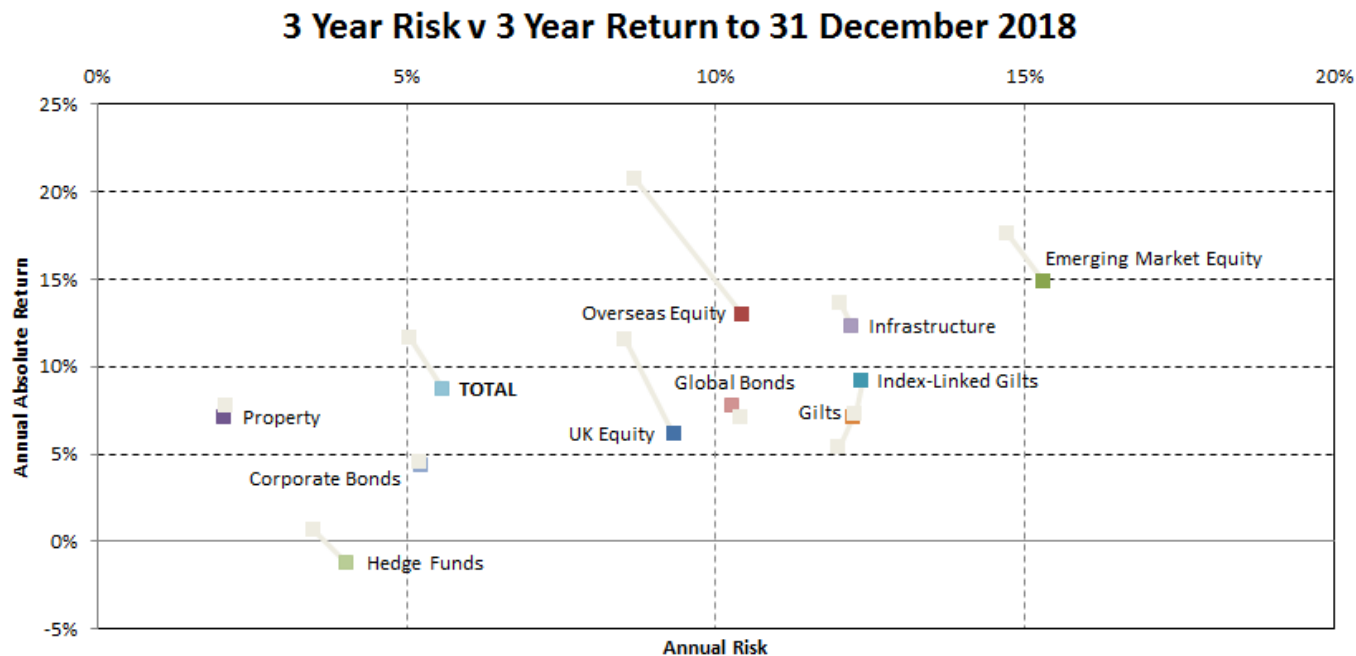


	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (inc currency hedge)	-2.7	0.4	7.8
Total Fund (ex currency hedge)	-2.1	1.8	9.2
Total Fund (ex LDI)	-3.1	-0.7	-
Total Fund (ex LDI, ex currency hedge)	-2.5	0.9	-
Strategic Benchmark (no currency hedge)	-3.7	0.5	9.0
Relative (inc currency hedge)	+1.0	-0.1	-1.2

### Comments

- Over Q4 2018, the Fund outperformed the Strategic Benchmark by 1.6% when excluding currency hedging and by 1.0% when including currency hedging (as sterling depreciated). The Fund outperformed the Strategic Benchmark by 1.2% on a like-for-like basis (i.e. excluding LDI and currency hedging).
- The Fund outperformed the Strategic Benchmark over the year by 1.3%, when excluding currency hedging but marginally underperformed by 0.1% when including currency hedging.
- The Fund underperformed the Strategic Benchmark over the three year period by 1.2% 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



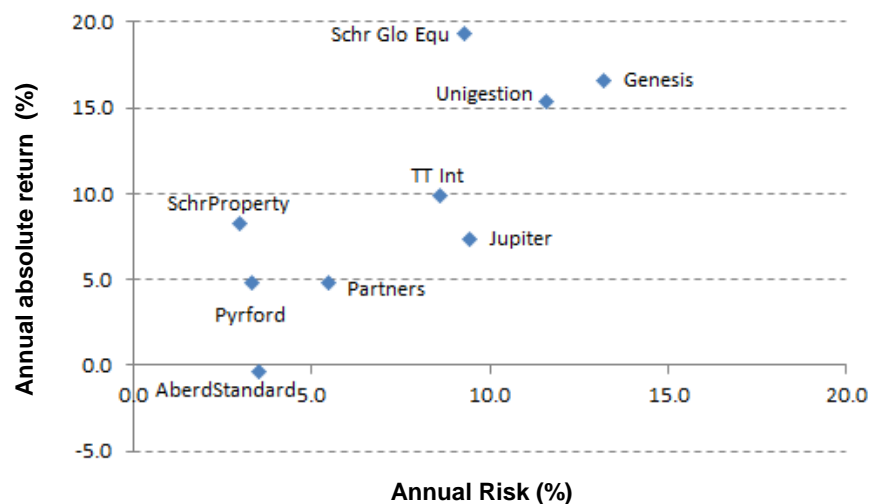
## Comments

- This chart shows the 3-year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of December 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. Equities saw notable decreases in the three-year returns and increases in the associated volatility.

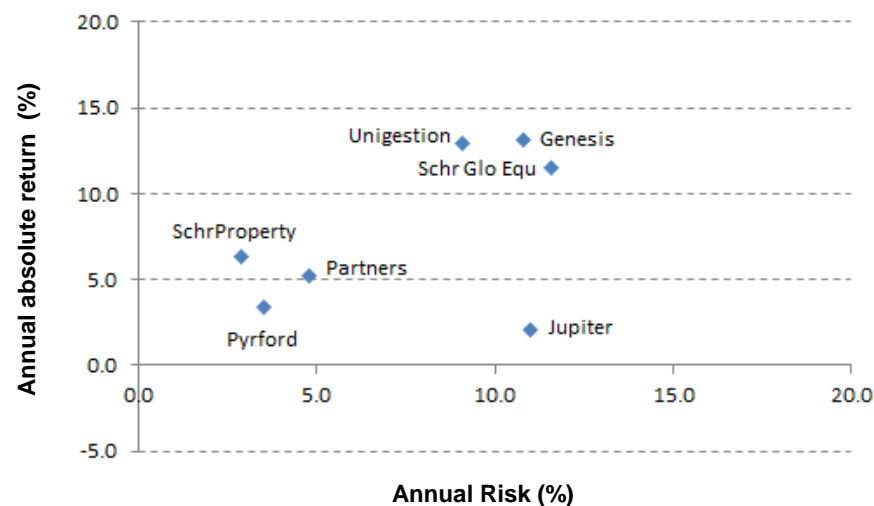


# MANAGER MONITORING RISK RETURN ANALYSIS

3 year Risk vs 3 year Return to 30 September 2018



3 year Risk vs 3 year Return to 31 December 2018



## Comments

- The equity mandates saw their three-year return decreasing more significantly over the quarter.

# MANAGER MONITORING

## MANAGER PERFORMANCE TO 31 DECEMBER 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	-11.2	-11.2	0.0	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
BlackRock Equities	-11.6	-11.8	+0.2	-2.1	-2.1	0.0	11.3	11.1	+0.2	-	N/A
BlackRock Corp Bonds	-0.4	-0.5	+0.1	-4.0	-4.1	+0.1	6.5	6.4	+0.1	-	N/A
BlackRock LDI	1.5	1.5	0.0	9.8	9.8	0.0	9.9	10.0	-0.1	-	N/A
TT International ***	-6.1	-5.2	-0.9	-3.8	-1.5	-2.3	6.2	7.8	-1.5	+3-4	Target not met
Jupiter UK Equity	-10.5	-10.2	-0.3	-11.5	-9.5	-2.2	2.1	6.1	-3.8	+2	Target not met
Jupiter Glb Sust Equity	-11.4	-10.6	-0.9	N/A	N/A	N/A	N/A	N/A	N/A	+2-4	N/A
Schroder Equity	-11.2	-10.6	-0.7	-3.9	-3.3	-0.6	11.5	12.5	-0.9	+4	Target not met
Genesis	-5.6	-5.2	-0.4	-11.0	-8.9	-2.3	13.1	15.1	-1.7	-	Target not met
Unigestion	-3.8	-5.3	+1.6	-0.5	-9.3	+9.7	12.9	14.7	-1.6	+2-4	Target not met
Pyrford	-1.7	1.8	-3.4	-0.9	7.9	-8.2	3.4	8.2	-4.4	-	Target not met
Aberdeen Standard ***	-2.4	1.3	-3.6	-5.3	5.8	-10.5	-2.0	5.6	-7.2	-	Target not met
Ruffer	-4.6	1.5	-6.0	-6.0	5.8	-11.2	N/A	N/A	N/A	-	N/A
JP Morgan	-3.0	1.3	-4.2	1.4	5.1	-3.5	2.6	4.3	-1.6	-	Target not met
Schroder Property	0.7	0.9	-0.2	6.6	6.5	+0.1	6.3	6.4	-0.1	+1	Target not met
Partners Property *	1.0	2.5	-1.5	6.8	10.0	-2.9	5.2	10.0	-4.4	-	Target not met
IFM	0.8	1.2	-0.4	15.1	4.5	+10.1	14.8 **	3.9 **	+10.4 **	-	N/A
Loomis Sayles	-2.4	1.2	-3.6	-4.4	4.8	-8.8	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.

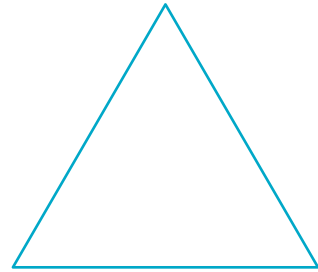
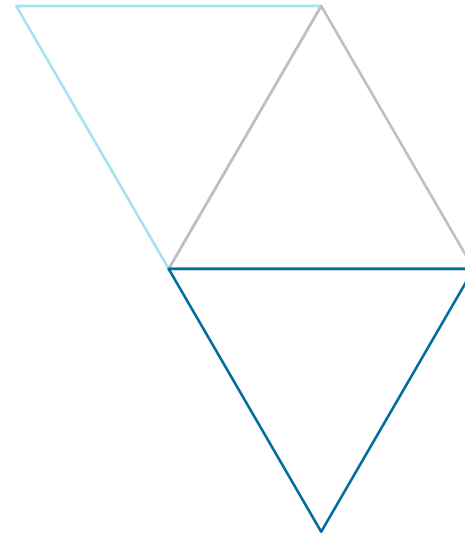
\* Performance to 30 September 2018 as this is the latest date that this is available to.

\*\* Performance is shown since inception.

\*\*\* Performance for TT and Aberdeen Standard shown to 31 October 2018 as that is the closest month end to termination. 3 months performance represents performance over October 2018.

# APPENDIX 1

## SUMMARY OF MANDATES

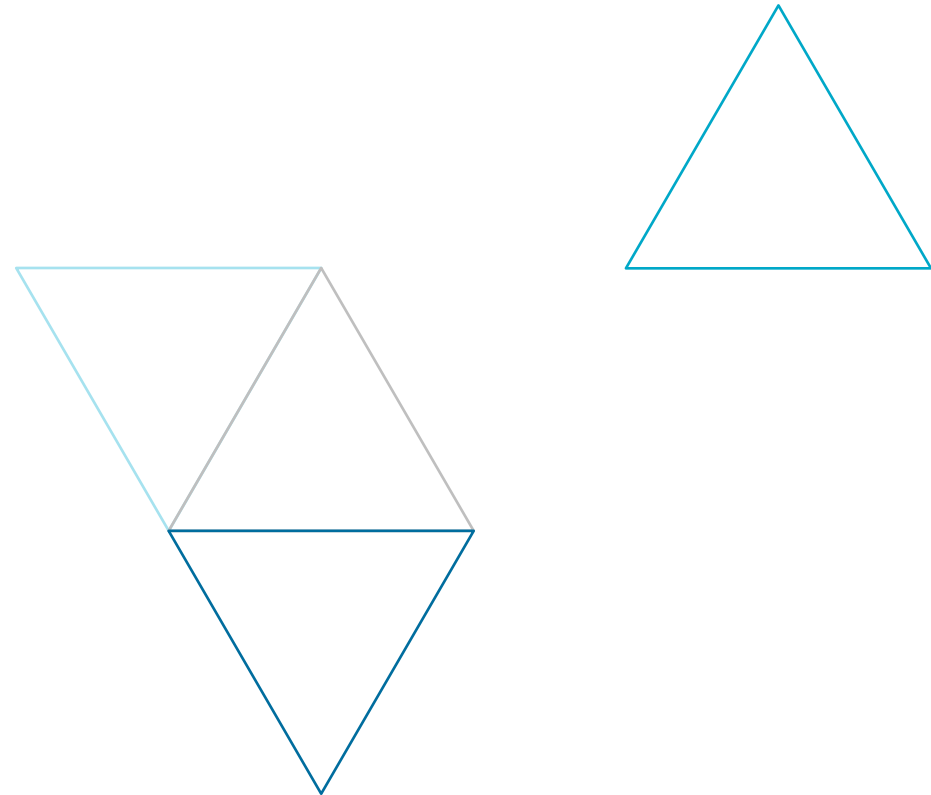


# SUMMARY OF MANDATES

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	-
Brunel	Active UK Equities	FTSE All Share	+2%
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.	-
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



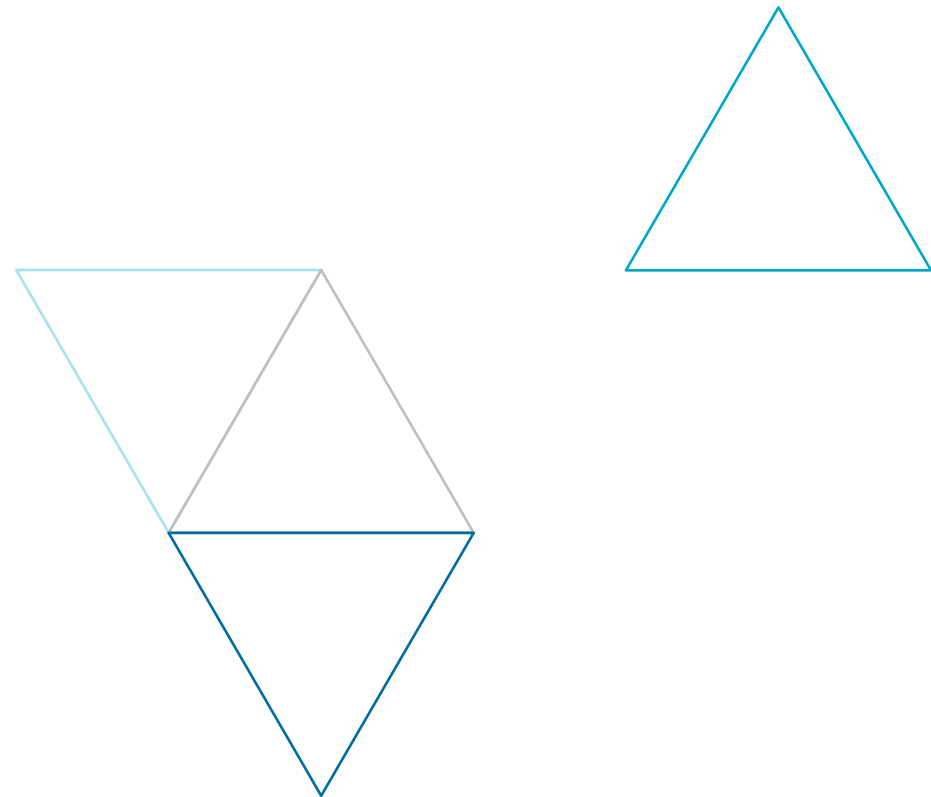
# MARKET STATISTICS INDICES

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

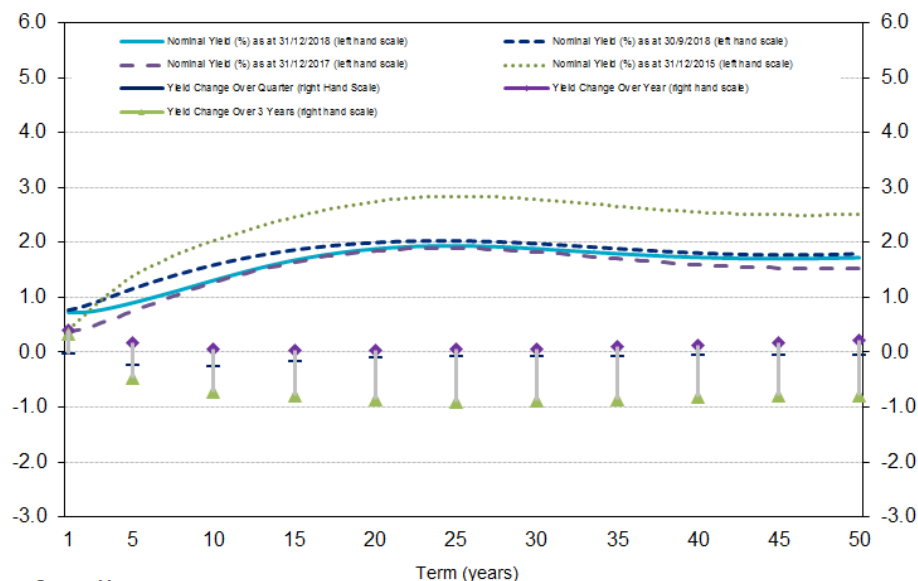


# CHANGES IN YIELDS

Asset Class Yields (% p.a.)	31 Dec 2018	30 Sep 2018	31 Dec 2017	31 Dec 2016
UK Equities	4.46	3.80	3.59	3.47
Over 15 Year Gilts	1.76	1.86	1.68	1.76
Over 5 Year Index-Linked Gilts	-1.58	-1.49	-1.66	-1.66
Sterling Non Gilts	2.75	2.63	2.17	2.29

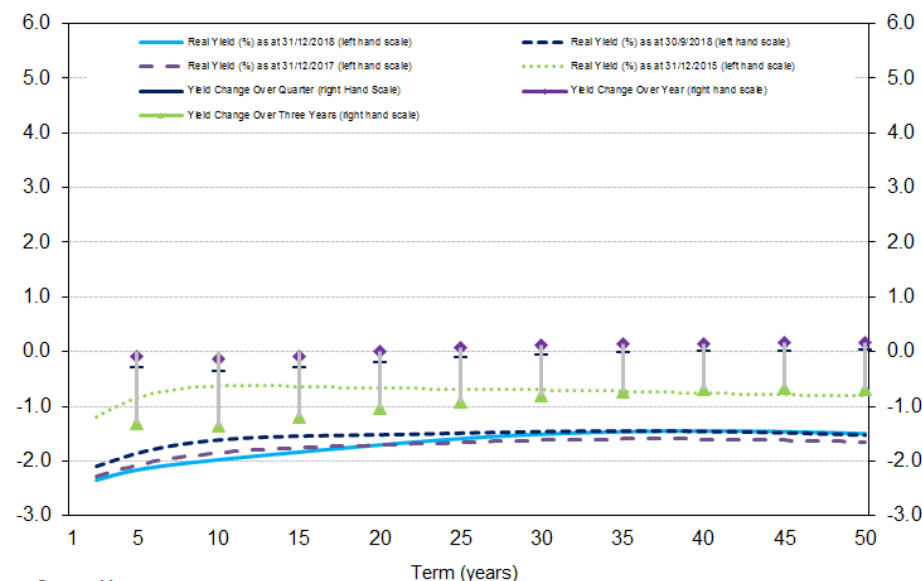
- Nominal yields were down at the shorter end of the curve over the quarter.
- The Over 15 Year Gilt Index underperformed the broader global bond market over the quarter, generating a return of 2.6%.
- Real yields also fell across the curve over the quarter. This led to the Over 5 Year Index-Linked Gilts Index returning 2.0%.
- Credit spreads increased sharply over the quarter, with the sterling Non-Gilts All Stocks Index credit spread ending the quarter at c.1.6% p.a. UK credit assets delivered a nil return over the quarter.

## Nominal yield curves



Source: Mercer.

## Real yield curves



Source: Mercer.



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