HEALTH WEALTH CAREER

AVON PENSION FUND

PANEL INVESTMENT PERFORMANCE REPORT QUARTER TO 30 JUNE 2019

AUGUST 2019

Steve Turner

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- 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

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

Fund Performance

- The value of the Fund's assets increased by £127m over the second quarter of 2019, to £4,946m as at 30 June 2019. This increase was driven primarily by positive returns from overseas equities and infrastructure.

Strategy

- Global (developed) equity returns over the last three years were 14.2% 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). Developed market equities had another strong performing quarter. The overall macro environment remains supportive of moderate but solid global growth and low inflation in the medium term. The recent dovish turn in monetary policy, including expected rate cuts in the US and potential easing measures in the Eurozone was deemed a positive development for equity investors.
- Emerging market equities have returned 12.5% 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. Valuations remain attractive relative to broad market equities and close to or only marginally above their respective long-term averages, although valuation metrics deteriorated moderately by most measures. Even though the macro outlook for emerging markets has softened a bit, it remains fairly benign and could improve considerably should the trade dispute ultimately be settled.
- UK government bond returns over the three-year period remain higher than the long-term assumed strategic returns as investor demand for gilts remains high. Fixed interest gilts returned 3.1% p.a. versus an assumed return of 1.90% p.a. and index-linked gilts returned 6.0% 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 4.0% p.a. over the three-year period, above the assumed strategic return of 3.25% p.a.
- The three-year UK property return of 6.6% p.a. remains higher than the assumed return of 5.75% p.a.
- Hedge fund returns were flat over the quarter, 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.
- The Fund's currency hedging policy was negative overall for Fund performance, since Sterling depreciated against major foreign currencies over the quarter.

EXECUTIVE SUMMARY

Managers

- Manager total returns over the quarter were on the whole positive, with the strongest performance coming from the global equity managers. The Fund's fund of hedge funds, infrastructure and multi-asset credit mandates were strong performers over the period and the two Diversified Growth Fund ("DGF") also generated positive returns.
- Absolute returns over the year to 30 June 2019 were broadly positive across the Fund's investment managers with all of the managers (aside from one of the DGF managers and the UK equity manager) delivering positive returns over the period.
- In terms of relative performance, the majority of the active equity managers outperformed their benchmarks over the quarter, although the defensive active emerging market equity manger and UK equity manager underperformed their benchmarks.
- The majority of the Fund's active managers have underperformed on a relative basis over the year to 30 June 2019. However, the infrastructure and global sustainable equity mandates have generated strong relative returns over the one-year period.
- Over the three-year period, all mandates with a three-year track record produced positive absolute returns. The majority of active funds underperformed their benchmarks over the period, with only the infrastructure and UK property mandates generating positive relative returns.

Key Points for Consideration

- In April/May 2019, the bespoke buy-and-maintain corporate bond strategy was implemented with BlackRock, replacing the legacy passive corporate bond holding, in order to better match the Fund's low-risk liability bucket. The strategy is now held within the Fund's QIF, alongside the other risk management mandates (LDI and equity protection). As part of the implementation process, £30m was switched from the LDI mandate to increase the allocation to corporate bonds, given the increase in scope of the low-risk liability bucket previously agreed by the Committee.

EXECUTIVE SUMMARY
MANAGER INFORMATION

Manager	Type	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	ESG	Page
Brunel	**Passive**	**Global Low Carbon Equities**	N/A	N/A	N/A	P1	*23*
BlackRock	**Passive**	**Global Equities**	A	✓	✓	P2	*24*
BlackRock	**Passive**	**Corporate Bond**	A	✓	✓	N	*24*
BlackRock	**Passive**	**LDI**	A	✓	✓	N	*24*
BlackRock	**Passive**	**ETF**	N/A	N/A	N/A	-	*24*
Brunel	**Active**	**UK Equities**	N/A	N/A	N/A	-	*25*
Jupiter	**Active**	**UK Equities**	B	✕	✕	2	*26*
Jupiter	**Active**	**Global Sustainable Equities**	N	✓	N/A	N	*27*
Schroder	**Active**	**Global Equities**	B+	✕	-	2	*28*
Genesis	**Active**	**Emerging Market Equities**	A	✓	✕	3	*29*
Unigestion	**Active**	**Emerging Market Equities**	R	✕	✕	N	*30*

Meets criteria	✓	**A or B+ rating; achieved performance target**
Partially meets criteria	-	**B, N or R rating; achieved benchmark return but not performance target**
Does not meet criteria	✕	**C rating; did not achieve benchmark**

Focus Points

- All active equity managers have underperformed their benchmarks over the longer-term. In some cases this can be explained by the managers' style biases underperforming the wider marker, for example Unigestion has a low-volatility bias, which will be expected to underperform in the rising market that we have seen over the longer period
- A general lack of exposure to value stocks has benefitted the Fund over the one-year period.

EXECUTIVE SUMMARY
MANAGER INFORMATION CONTINUED

Manager	Type	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	ESG	Page
Pyrford	**Active**	**DGF**	R	✕	✕	N	*31*
Ruffer	**Active**	**DGF**	A	✕	N/A	3	*32*
JP Morgan	**Active**	**Fund of Hedge Funds**	B+	✕	✓	4	*34*
Schroder	**Active**	**UK Property**	B	✓	-	3	*37*
Partners	**Active**	**Global Property**	B+	✕	✕	4	*38*
Brunel	**Active**	**Secured Income**	N/A	N/A	N/A	-	*39*
IFM	**Active**	**Infrastructure**	B+	✓	✓	2	*40*
Brunel	**Active**	**Infrastructure**	N/A	N/A	N/A	-	*41*
Loomis Sayles	**Active**	**Multi-Asset Credit**	A	✓	N/A	3	*42*
Record Currency Management	**Active**	**Currency Hedging**	N	N/A	N/A	N	*43*

Meets criteria	✓	**A or B+ rating; achieved performance target**
Partially meets criteria	-	**B, N or R rating; achieved benchmark return but not performance target**
Does not meet criteria	✕	**C rating; did not achieve benchmark**

Focus Points

- Partners' performance target is 10% p.a. and benchmark taken as 8% p.a. (estimated net IRR, in local currency terms).

SECTION 2
MARKET BACKGROUND

MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

The global economy continued to slow down even though a recession is still deemed unlikely for this year. Capital expenditure and manufacturing are weak while services are holding up and labour markets remain strong. Trade tensions between the US and China resurfaced over the quarter as the expected trade settlement did not materialize and further tariffs were levied on China instead. This had a negative impact on business confidence.

In the UK, GDP expanded by 1.8% over the year to Q1, the strongest pace of expansion since mid-2017 probably due to stockpiling ahead of the original Brexit date. CPI inflation fell to 2.0% at the end of May, and the Bank of England kept short-dated interest rates at 0.75% and offered a more dovish outlook.

Within global equity markets, the US economy grew by 3.2% over the year to Q1 but this is expected to have slowed to 2.5% over the year to Q2. The Federal Reserve's more dovish stance has calmed markets to an extent. A strong labour market and rising real wages have boosted consumption leading to an overall stable albeit slightly softer economic environment. Eurozone growth expectations have weakened with manufacturing PMIs indicating a contraction, and Japanese growth expectations have also slowed.

Emerging markets started to see a slightly more favourable environment as US monetary policy started to turn more dovish. However, GDP growth in larger countries such as Brazil, China and India continued to slow and current account balances deteriorated. The uncertainty over trade is taking a toll on the region and especially China.

Bond Market Review

Nominal yields were again down across the curve over the quarter.

The Over 15 Year Gilt Index generated a return of 2.0%, though this underperformed the broader global bond market over the quarter.

Real yields also fell across the curve over the quarter. The Over 5 Year Index-Linked Gilts Index also returned 2.0% as a result.

Credit spreads fell over the quarter as investors maintained allocations to risky assets. The sterling Non-Gilts All Stocks Index credit spread ended the quarter at c.1.2% p.a., and UK credit assets delivered a return of 2.0% over the quarter.

Currency Market Review

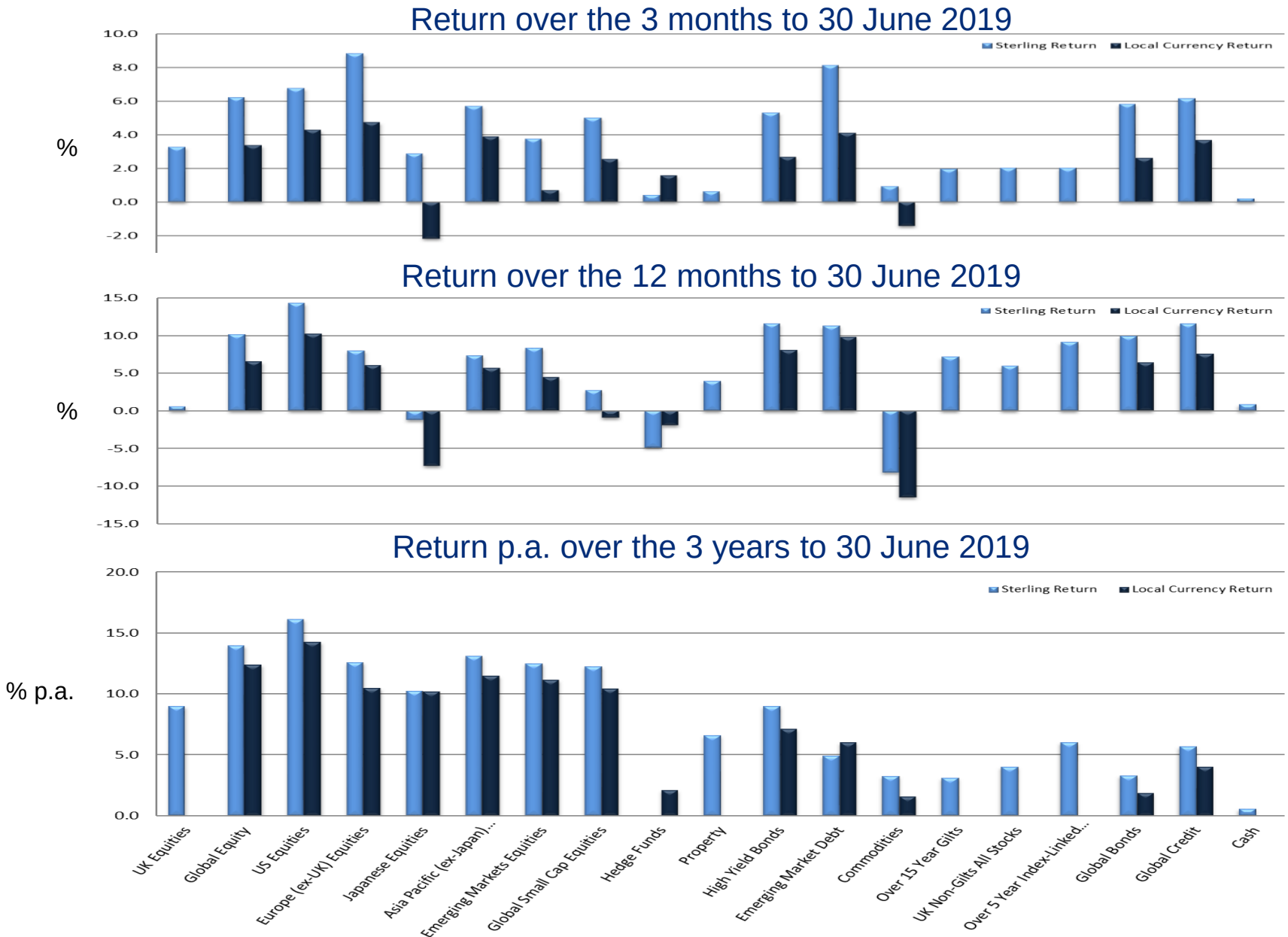
Over the second quarter of 2019, Sterling weakened against the US Dollar, the Euro and the Yen (by 2.3%, 3.7% and 4.9%, respectively).

Commodity Market Review

Commodity performance was overall negative over the quarter. Precious metals returned 8.3% as gold rallied amid inflation concerns after central banks turned dovish again. Energy was down as America's role as marginal energy producer offset renewed instability in the Middle East following attacks on oil tankers believed to have been instigated by Iran and subsequent tightening of sanctions. Industrials metals fell amid global growth fears while agricultural commodities were up.

Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE



Source: Thomson Reuters Datastream.

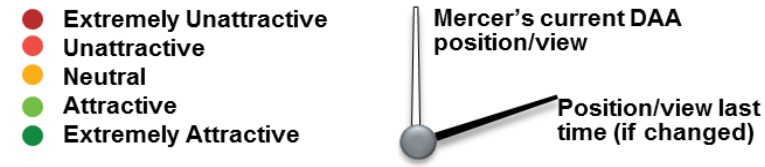
SECTION 3
STRATEGIC ASSUMPTIONS

MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.05	14.2	*Remains ahead of the assumed strategic return. This fell slightly from 15.0% p.a. last quarter, as the latest quarter's return of 6.5% was slightly lower than the return of Q2 2016, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.70	12.5	*The three year return from emerging market equities has decreased from 14.5% p.a. last quarter, as the return of 3.8% over Q2 2019 was materially lower than the return for the quarter that fell out of the period (9.5%). 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 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.*
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	1.90	3.1	*UK gilt returns remain 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 above the assumed strategic returns.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	2.15	6.0	
UK Corporate Bonds (BofAML Sterling Non Gilts)	3.25	4.0	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	5.10	0.0	*Hedge fund returns were flat again over the 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.*
Property (IPD UK Monthly)	5.75	6.6	*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 0.6% over the second quarter of 2019.*
Infrastructure (S&P Global Infrastructure)	6.95	10.6	*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 – Q3 2019



Equities

Growth Fixed Income & Property (Core)

Protective Assets

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 Fund to make frequent tactical changes to their asset allocation based upon these views.

SECTION 4
FUND VALUATIONS

FUND VALUATIONS
VALUATION BY ASSET CLASS

Asset Allocation							
Asset Class	**Start of Quarter (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**	**Target Strategic Benchmark (%)**	**Ranges (%)**	**Difference (%)**
Developed Market Equities	1,744,532	1,847,732	36.2	37.4	34.0	29 - 39	+3.4
Emerging Market Equities	228,531	237,109	4.7	4.8	6.0	3 - 9	-1.2
Diversified Growth Funds	597,717	608,926	12.4	12.3	15.0	10 - 20	-2.7
Fund of Hedge Funds	232,127	239,766	4.8	4.8	5.0	0 - 7.5	-0.2
Property	458,157	474,133	9.5	9.6	10.0	5 - 15	-0.4
Infrastructure	342,723	362,675	7.1	7.3	5.0	0 - 7.5	+2.3
Multi-Asset Credit	410,444	424,019	8.5	8.6	11.0	6 - 16	-2.4
Corporate Bonds	86,168	119,134	1.8	2.4	2.0	No set range	+0.4
LDI*	568,083	511,798	11.8	10.3	12.0	No set range	-1.7
Cash (including currency instruments)	150,553	121,101	3.1	2.4	-	0 - 5	+2.4
Total	**4,819,035**	**4,946,392**	**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 £127m due to positive returns from overseas equities and infrastructure 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 (%)
BlackRock	Global Equities	440,339		469,102	9.1	9.5
BlackRock	Corporate Bonds	86,168	+30,000	119,134	1.8	2.4
BlackRock	LDI*	568,083	-30,000	511,798	11.8	10.3
BlackRock	Cash	71,639		75,328	1.5	1.5
Brunel	Global Low Carbon Equities	520,926		556,894	10.8	11.3
Brunel	UK Equities	187,270		193,138	3.9	3.9
Jupiter	UK Equities	194,848		200,068	4.0	4.0
Jupiter	Global Sustainable Equities	10,740		11,679	0.2	0.2
Schroder	Global Equities	390,103		416,537	8.1	8.4
Genesis	Emerging Market Equities	117,600		123,271	2.4	2.5
Unigestion	Emerging Market Equities	110,931		113,837	2.3	2.3

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

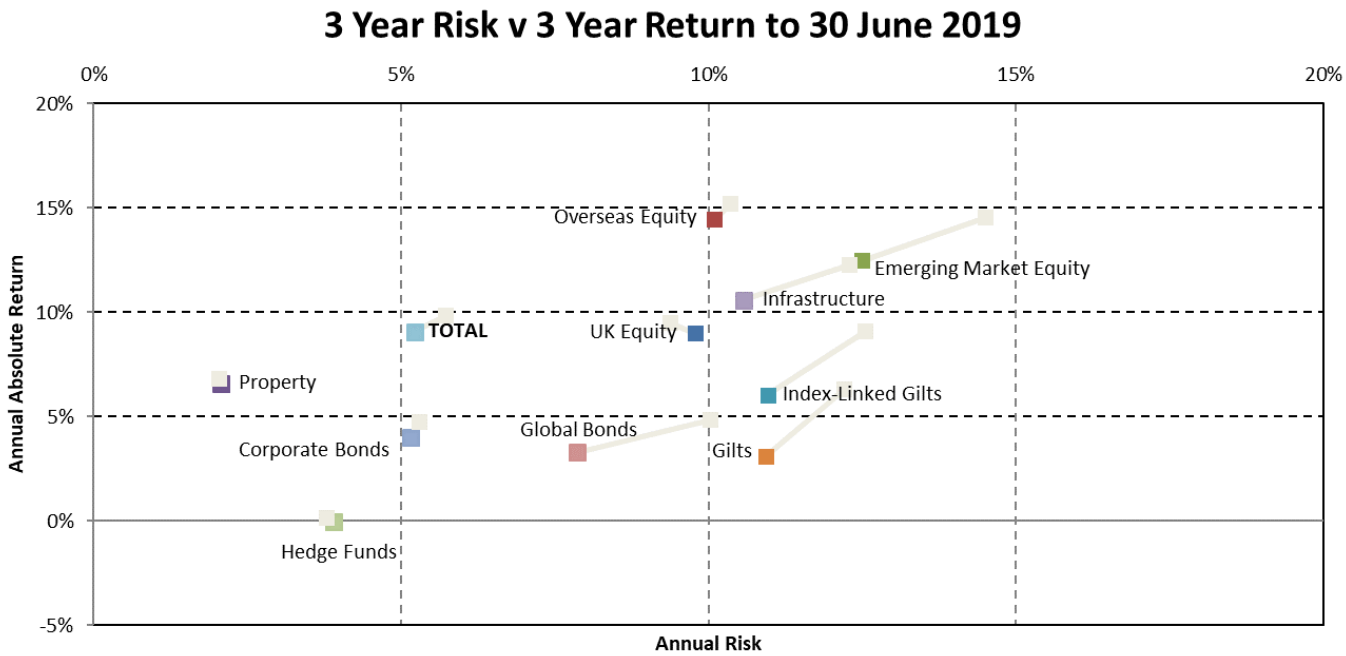
FUND VALUATIONS
VALUATION BY MANAGER CONTINUED

Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
Pyrford	DGF	218,582		221,023	4.5	4.5
Ruffer	DGF	379,136		387,902	7.9	7.8
JP Morgan	Fund of Hedge Funds	232,127		239,766	4.8	4.8
Schroder	UK Property	240,276		242,250	5.0	4.9
Partners	Property	201,187		214,950	4.2	4.3
Brunel	Secured Income	16,695		16,933	0.3	0.3
IFM	Infrastructure	331,571		352,075	6.9	7.1
Brunel	Infrastructure	11,152		10,600	0.2	0.2
Loomis Sayles	Multi-Asset Credit	410,444		424,019	8.5	8.6
Record Currency Management	Currency Hedging	29,631		-6,405	0.6	-0.1
Internal Cash	Cash	49,283		52,178	1.0	1.1
Total		**4,819,035**		**4,946,392**	**100.0**	**100.0**

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

SECTION 5
PERFORMANCE SUMMARY

MANAGER MONITORING
RISK RETURN ANALYSIS

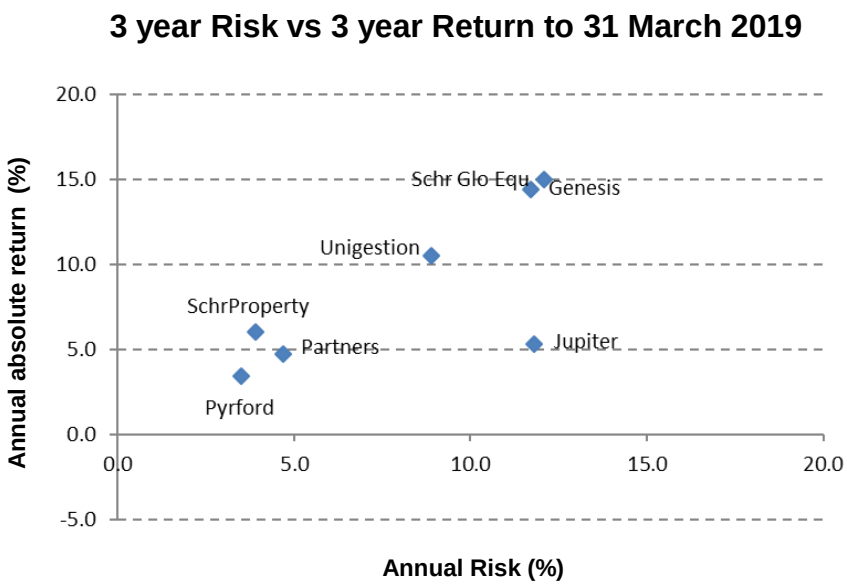


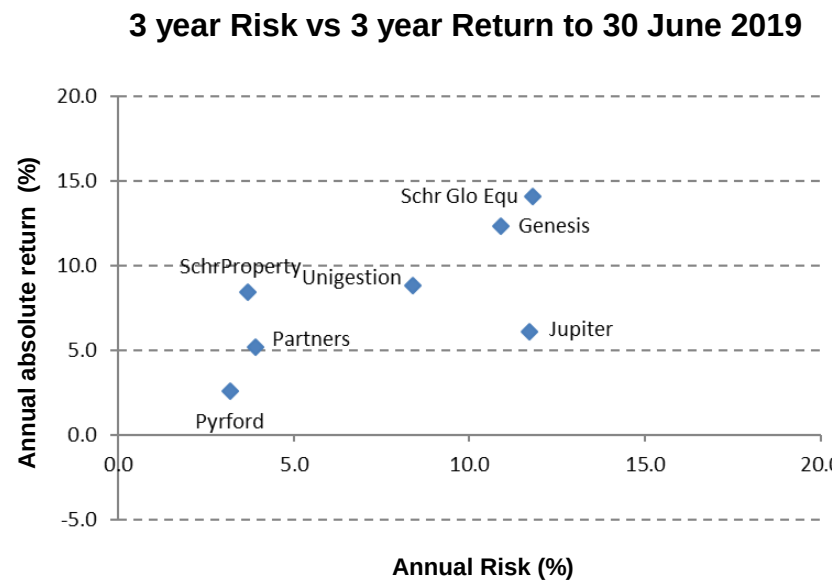
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of June 2019, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark indices and allocations from BNY Mellon). We also show the positions as at last quarter, in grey.

Comments

- All asset classes saw decreases in observed returns over the three-year period, with notable falls coming from emerging market equity, infrastructure and gilts.
- Associated volatilities also fell across most asset classes, with notable declines coming from the same asset classes

MANAGER MONITORING
RISK RETURN ANALYSIS





Comments

- The property mandates saw their three-year return increasing modestly over the quarter, while most of the equity and DGF mandates saw their three-year return fall slightly (with the exception of Jupiter).

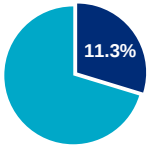
MANAGER MONITORING
MANAGER PERFORMANCE TO 30 JUNE 2019

Manager/ Asset Class	3 Months			1 Year			3 Year			3 Year Performance Target (% p.a.)	3 Year Performance vs Target
	Fund (%)	B'mark (%)	Relative (%)	Fund (%)	B'mark (%)	Relative (%)	Fund (% p.a.)	B'mark (% p.a.)	Relative (% p.a.)		
BlackRock Equities	6.8	6.6	+0.1	14.4	13.7	+0.6	15.2	14.9	+0.2	-	N/A
BlackRock Corporate Bonds	2.1	2.1	0.0	8.6	8.7	-0.1	5.3	5.3	0.0	-	N/A
BlackRock LDI	0.7	0.7	0.0	8.7	8.7	0.0	6.8	6.8	0.0	-	N/A
BlackRock Cash ETF	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Brunel UK Equity	3.1	3.3	-0.2	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Brunel Passive Low Carbon Equity	6.9	6.9	0.0	9.1	9.3	-0.2	N/A	N/A	N/A	-	N/A
Jupiter UK Equity	2.6	3.3	-0.7	-1.7	0.6	-2.3	6.1	9.0	-2.7	+2	Target not met
Jupiter Global Sustainable Equity	8.6	6.3	+2.2	16.6	10.3	+5.7	N/A	N/A	N/A	+2-4	N/A
Schroder Equity	6.6	6.3	+0.3	10.2	10.3	-0.1	14.1	14.1	0.0	+4	Target not met
Genesis	4.8	3.1	+1.6	8.8	5.4	+3.2	12.3	12.9	-0.5	-	Target not met
Unigestion	2.5	3.0	-0.5	4.5	5.0	-0.5	8.8	12.5	-3.3	+2-4	Target not met
Pyrford	1.0	2.8	-1.8	2.7	8.1	-5.0	2.6	8.4	-5.4	-	Target not met
Ruffer	2.1	1.4	+0.7	-1.5	5.9	-7.0	N/A	N/A	N/A	-	N/A
JP Morgan	2.0	1.5	+0.5	3.7	5.6	-1.7	5.0	4.7	+0.4	-	Target met
Schroder Property	0.7	0.6	+0.1	3.4	3.4	0.0	6.4	6.3	+0.1	+1	Target not met
Partners Property*	1.6	2.5	-0.9	4.2	10.0	-5.3	5.2	10.0	-4.4	-	Target not met
Brunel Secured Income	1.4	0.8	+0.6	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
IFM	3.7	1.5	+2.1	15.1	5.3	+9.3	14.1	4.3	+9.4	-	N/A
Brunel Infrastructure	6.5	0.8	+5.7	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Loomis Sayles	3.2	1.2	+2.0	5.8	4.9	+0.9	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 and Partners, whose performance is shown as IRR in local currency terms, as well as IFM, whose performance is shown in TWR in USD 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 2019 as this is the latest date that this is available to.

SECTION 6
MANAGER PERFORMANCE



BRUNEL – PASSIVE GLOBAL LOW CARBON EQUITIES
£556.9M END VALUE *(£520.9M START VALUE)*

Item Monitored	Outcome
Mercer Rating	N/A
Performance Objective *In line with the benchmark*	Too early to determine

Manager Research and Developments

- Mandate was initiated in July 2018. LGIM is the underlying manager.
- The fund returned 6.9% over Q2 2019, broadly in line with its benchmark.
- The fund marginally outperformed the wider market capitalisation index, the MSCI World, which generated a return of 6.7% over Q2 2019.

Reason for investment

To provide asset growth as part of a diversified equity portfolio and to provide a decarbonised equity portfolio.

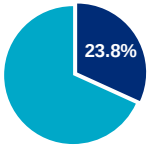
Reason for manager

- Investment made via the Brunel pool

Sector Allocation

Financials	16.6
Information Technology	16.3
Health Care	12.6
Industrials	12.6
Consumer Discretionary	10.7
Consumer Staples	8.7
Communication Services	8.5
Energy	4.1
Materials	3.7
Other	6.1

As at 30 June 2019



BLACKROCK – PASSIVE MULTI-ASSET & LDI (POOLED EQUITIES & QIF)
£1,175.4M END VALUE *(£1,166.2M START VALUE)* *(INC. EQUITY PROTECTION STRATEGY)*

Item Monitored	Outcome
Mercer Rating	A (no change over period under review). ESGp2 for equities
Performance Objective *In line with the benchmark*	Portfolios performed broadly in line with their benchmarks over three years

Manager Research and Developments

- Equities returned 6.8% over Q2, performing broadly in line with their benchmarks as expected, whilst returns over one and three year periods were within the tracking error ranges. The LDI portfolio returned 0.7%. The LDI benchmark return has been assumed to be equal to the LDI fund return.
- The corporate bond index fund allocation was switched to a bespoke Buy and Maintain Credit strategy within the QIF during the quarter (and topped up by £30m of assets already in the QIF). The Fund's Corporate Bond allocation delivered a return of 2.1% over Q2. The benchmark return has been assumed to be equal to the fund return over the quarter.

Reason for investment

To provide asset growth as part of a diversified portfolio

Reason for manager

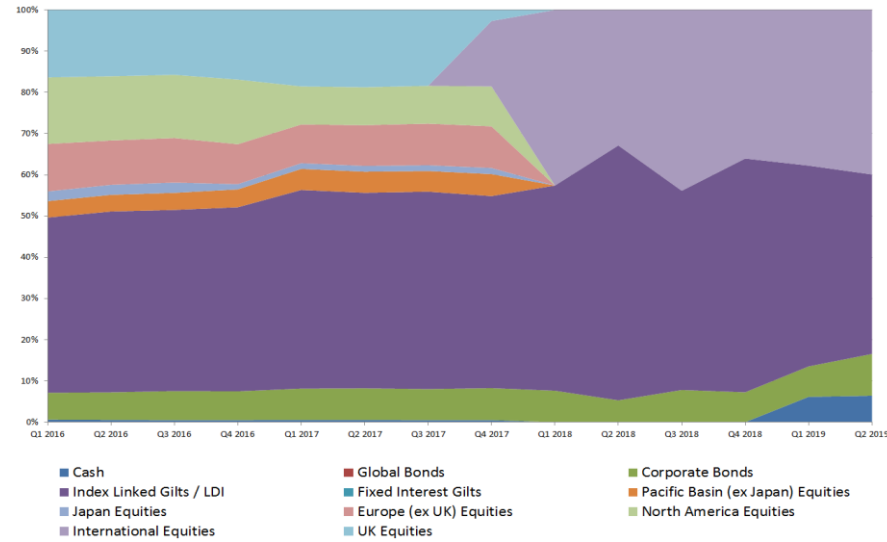
- To provide low cost market exposure across multi asset classes
- Provide efficient way for rebalancing between bonds and equities within a single portfolio

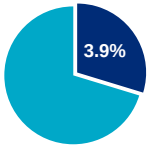
Performance

	Quarter (%)		1-Year (%)		3-Year (% p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Equities	6.8	6.6	14.4	13.7	15.2	14.9
Corporate Bonds*	2.1	2.1	8.6	8.7	5.3	5.3
LDI**	0.7	0.7	8.7	8.7	6.8	6.8
Cash	N/A	N/A	N/A	N/A	N/A	N/A

*Corporate Bond fund and benchmark reflects legacy holdings prior to 31 March 2019 and Buy and Maitain Credut holdings thereafter.
** LDI performance reflects legacy index-linked gilt holidings prior to 30 June 2017 and QIF holdings thereafter. Equity protection strategy performance is not reflected.

Asset Allocation





BRUNEL – ACTIVE UK EQUITIES
£193.1M END VALUE *(£187.3M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	N/A	Baillie Gifford Invesco Aberdeen Standard
Performance Objective *In line with the benchmark*		Too early to determine

Manager Research and Developments

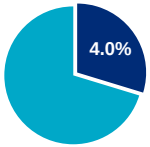
- Mandate was initiated in November 2018. Aberdeen Standard, Baillie Gifford and Invesco are the underlying managers.

Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

- Investment made via the Brunel pool



JUPITER ASSET MANAGEMENT – UK EQUITIES (SRI) (SEGREGATED)
£200.1M END VALUE *(£194.8M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B (no change over period under review). ESG2
Performance Objective *Benchmark +2% p.a.*	Underperformed benchmark by 2.9% p.a. over three years
Tracking error was 3.9% p.a. – *source: Jupiter*	Number of stocks: 54

Manager Research and Developments

- Jupiter underperformed its benchmark over the quarter by 0.7%.
- RELX, Sage and Informa impressed the market with outlooks, while RPS and Bunzl disappointed with lower growth grates. The strategy benefited from not holding Imperial, though missed out from not holding Shell.
- Jupiter underperformed the benchmark by 2.3% over the year and by 2.7% p.a. over the three years to 30 June 2019.
- Stock selection continues to be a key factor to underperformance, which raises questions about Jupiter's capabilities in this respect.
- Lack of exposure to oil and gas companies have impacted returns at different stages over the year, however this has been less pronounced than in previous periods given that the oil price fell overall over the year

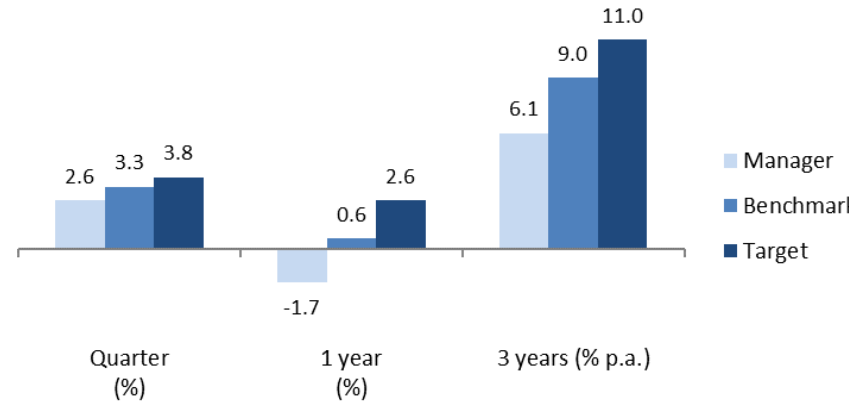
Reason for investment

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

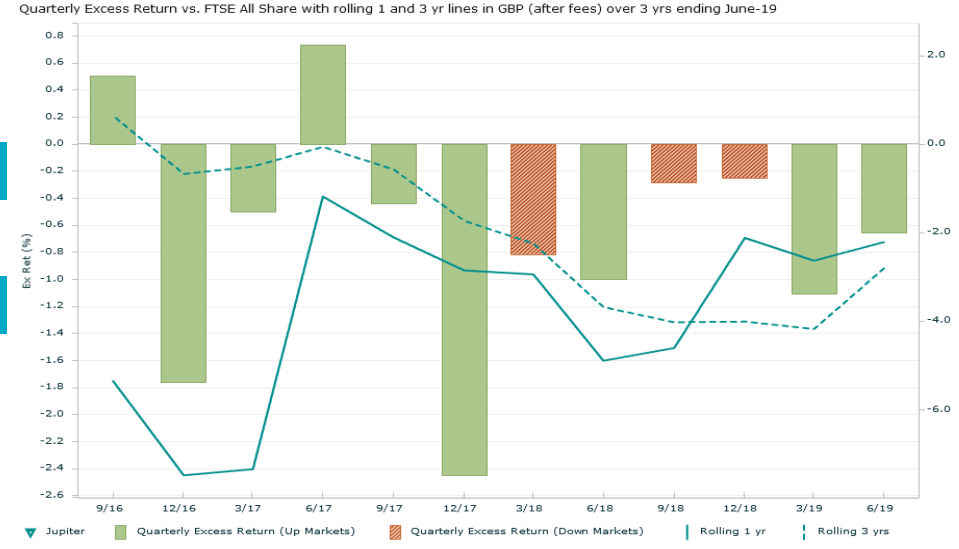
Reason for manager

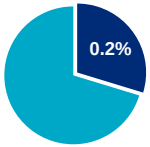
- Clear and robust approach to evaluating SRI factors within the investment process
- Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities
- Corporate commitment to SRI investment approach within a more mainstream investment team

Performance



Rolling relative returns





JUPITER ASSET MANAGEMENT – GLOBAL SUSTAINABLE EQUITIES (POOLED)
£11.7M END VALUE *(£10.7M START VALUE)*

Item Monitored	Outcome
Mercer Rating	N (no change over period under review)
Performance Objective *Benchmark +2-4% p.a.*	Too early to determine

Manager Research and Developments

- Mandate was initiated in June 2018.
- The fund returned 8.6% over Q2 2019, outperforming the benchmark return of 6.3%.

Reason for investment

Modest initial allocation to provide an indication of the typical performance of sustainable equities.

Reason for manager

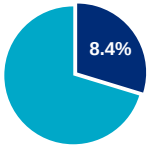
- Preference for global sustainability approach rather than negative screen approach due to integration of ESG factors into investment process
- Global approach provides access to a large universe of stocks to select from
- Clear investment philosophy and portfolio construction reflects team's highest conviction ideas

Sector Allocation

Industrials[1]	34.6%
Financials	21.1%
Consumer Goods	10.2%
Health Care	9.1%
Technology	6.4%
Basic Materials	5.3%
Utilities	3.5%
Consumer Services	3.2%
Telecommunications	1.2%
	94.5%
Cash	5.5%
Total	100.0%

[1]*Includes general electronic equipment, medical equipment and consumer financial stocks (16.22%).*

Source: Jupiter.
As at 30 June 2019.



SCHRODER – GLOBAL EQUITY PORTFOLIO (SEGREGATED)
£416.5M END VALUE *(£390.1M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review). ESG2
Performance Objective *Benchmark +4% p.a.*	Performed in line with the benchmark over three years.

Three year tracking error was 1.3% p.a. – *source: Mercer*

Manager Research and Developments

- The fund outperformed the benchmark by 0.3% over the quarter, but underperformed by 0.1% over the year. It has performed in line with the benchmark over the three years to 30 June 2019.
- Positions in consumer discretionary and healthcare were primary contributors over the quarter, while industrial stocks detracted. By region, performance of North American names lagged the most, while European and Emerging Markets holdings were stronger.
- Schneider Electric and Adidas were the largest stock specific contributors over the quarter, with the largest detractors being Phillip Morris and Bunzl.

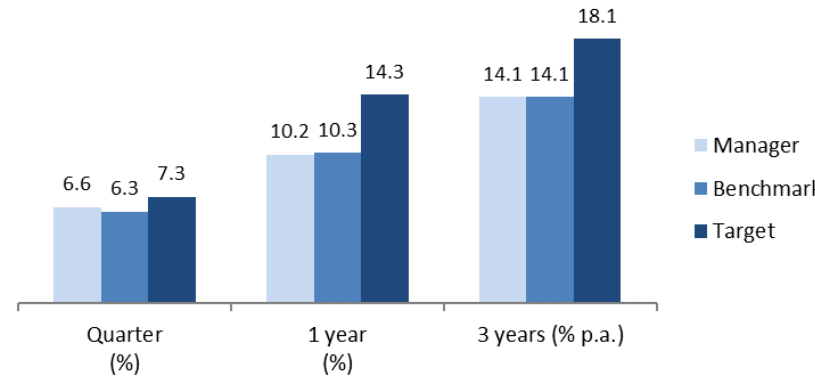
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

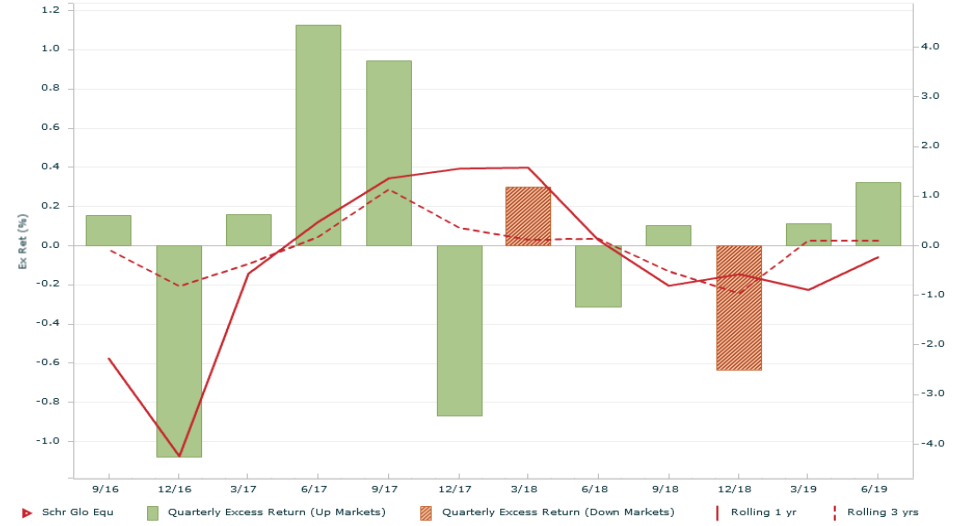
- Clear philosophy and approach
- Long term philosophy aligned with Fund's goals, commitment to incorporating ESG principles throughout the investment process
- Evidence of ability to achieve the Fund's performance target

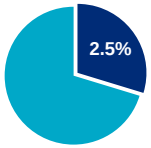
Performance



Rolling relative returns

Quarterly Excess Return vs. MSCI AC World with rolling 1 and 3 yr lines in GBP (after fees) over 3 yrs ending June-19





GENESIS ASSET MANAGERS – EMERGING MARKET EQUITIES (POOLED)
£123.3M END VALUE *(£117.6M START VALUE)*

Item Monitored	Outcome
Mercer Rating	A (no change over period under review). ESG3
Performance Objective *Benchmark*	Underperformed benchmark by 0.5% p.a. over three years
Three year tracking error was 4.1% p.a. – *source: Genesis*	Number of stocks: 109

Manager Research and Developments

- The fund has outperformed by 1.6% over the quarter and by 3.2% over the year, but underperformed by 0.5% p.a. over the three years to 30 June 2019.
- Regionally, China was the largest contributor to returns over the quarter, whilst South Korea was the largest detractor. The largest stock specific contributors were Sberbank and Wuliangye Yibin, from Russia and China respectively, whilst the largest detractor was the Russian company Gazprom. In terms of sectors, Financials were the largest contributor, whilst Communication Services were the largest detractor.

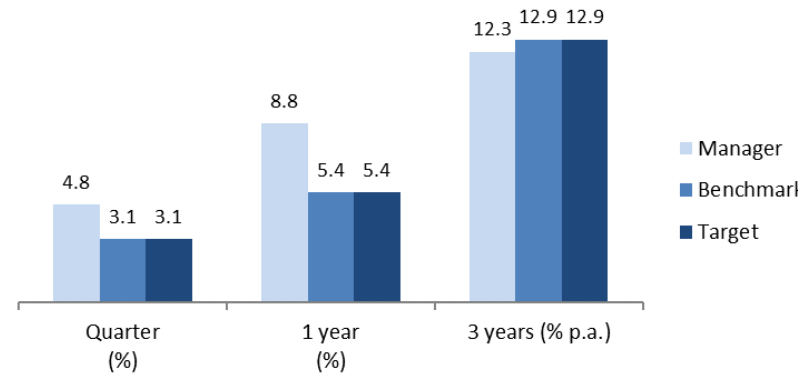
Reason for investment

To provide asset growth as part of a diversified equity portfolio

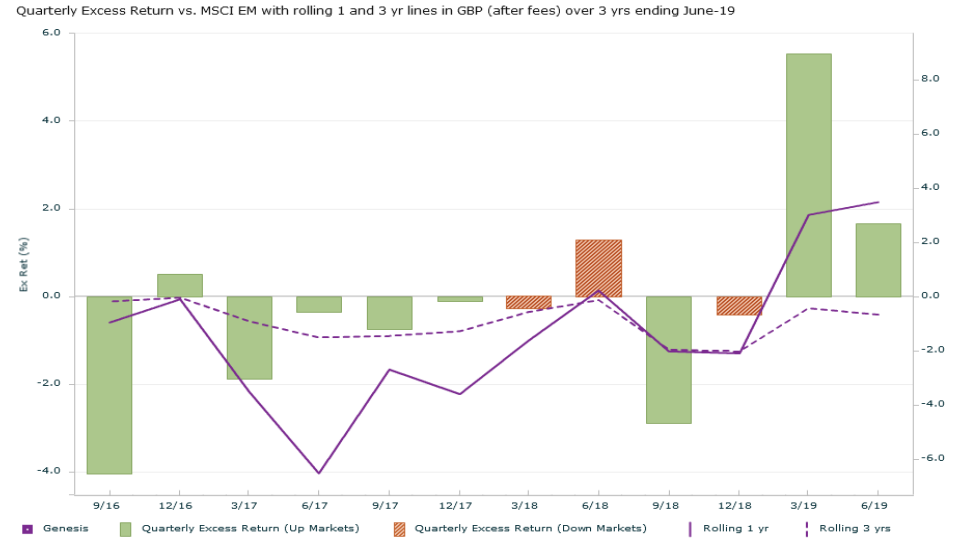
Reason for manager

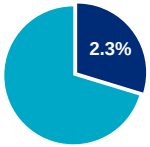
- Long term investment approach which takes advantage of evolving growth opportunities
- Niche and focussed expertise in emerging markets
- Partnership structure aligned to delivering performance rather than growing assets under management

Performance



Rolling relative returns





UNIGESTION – EMERGING MARKET EQUITIES (POOLED – SUB-FUND)
£113.8M END VALUE *(£110.9M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *Benchmark +2-4% p.a.*	Underperformed benchmark by 3.3% p.a. over three years
Three year tracking error was 7.0% p.a. – *source: Unigestion*	Number of stocks: 86

Manager Research and Developments

- The fund underperformed by 0.5% over the quarter, and by the same amount over the year. It has underperformed over the three years to 30 June 2019 by 3.3%.
- The fund outperformed in May, but this was outweighed by underperformance in April and June in particular. Relative performance in June primarily stemmed from underweight allocations to Technology and Retailing industries, and an overweight position in Software. By country, the fund could have also benefitted from a greater weight to China, and less exposure to India.
- Volatility since inception is 13.0%, lower than the index (16.2%) and consistent with the strategy's objectives (and bias to quality and large- or mega-cap stocks).
- The fund uses a defensive, high quality, low volatility approach, which should outperform in times of market volatility, but underperform in upward markets. In this respect, performance was consistent with its objectives, as it was last quarter.

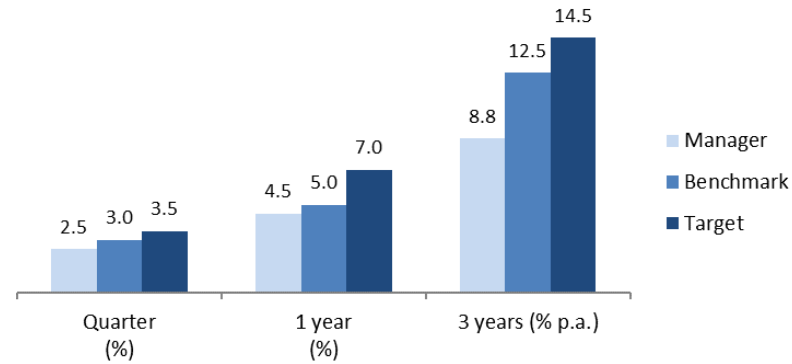
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

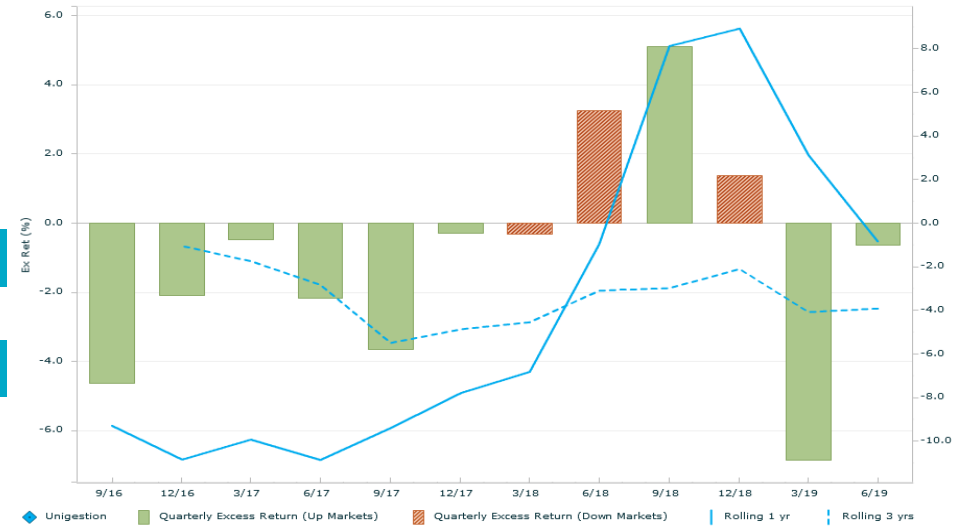
- Risk-based active management approach
- Aim for lower volatility than the MSCI Emerging Markets Index
- Combine fundamental and quantitative analysis

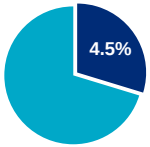
Performance



Rolling relative returns

Quarterly Excess Return vs. MSCI EM with rolling 1 and 3 yr lines in GBP (after fees) over 3 yrs ending June-19





PYRFORD – DGF (POOLED)
£221.0M END VALUE *(£218.6M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *RPI +5% p.a.*	Underperformed objective by 5.4% p.a. over three years

Manager Research and Developments

- The fund underperformed its objective (RPI + 5% p.a.) over the quarter by 1.8%, and has also underperformed by 5.0% over the year and by 5.4% p.a. over three years.
- They key driver of positive absolute returns over the quarter came from the portfolio's exposure to overseas equities, with the allocation posting a return of 7.6% over the quarter.
- The bond portfolio posted marginally positive returns over the period and the overall effect of currency hedging was negative, as sterling fell against all currencies hedged within the portfolio , cancelling out gains from the overseas bonds allocation.
- Strategic allocation of the portfolio remained unchanged over the quarter.
- Pyrford continues to adopt a defensive stance by owning short duration securities in order to protect the capital value of the portfolio from expected rises in yields.

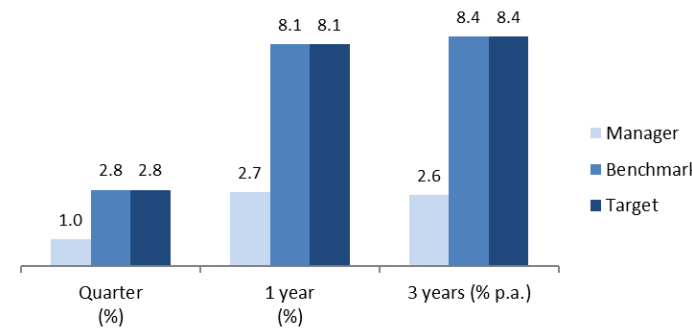
Reason for investment

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

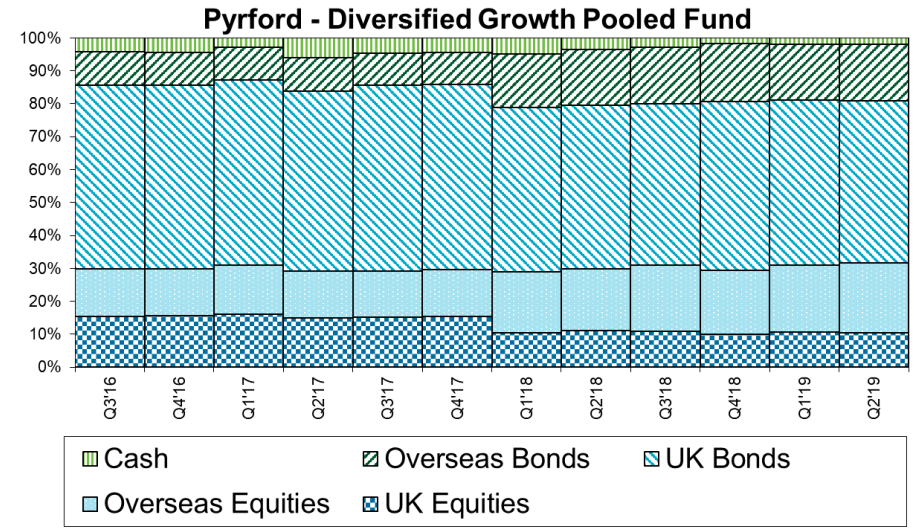
Reason for manager

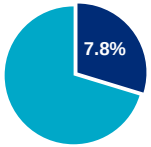
- Asset allocation skill between equities, bonds and cash
- Fundamental approach to stock selection

Performance



Asset Allocation





RUFFER – DGF (POOLED)
£387.9M END VALUE *(£379.1M START VALUE)*

Item Monitored	Outcome
Mercer Rating	A (no change over period under review). ESG3
Performance Objective *Cash +5% p.a.*	Underperformed objective by 7.4% p.a. over the year

Manager Research and Developments

- Ruffer delivered a performance of 2.1% over the quarter against a benchmark of 1.4%, and a performance of -1.5% over the year against an objective of 5.9%.
- One factor that helped performance was the exposure to gold equities, with bullion regaining its 'safe haven' status. At a stock-level, the specific equity holdings of Walt Disney also saw a surge in response to plans for a direct streaming service.
- Ruffer continues to be defensively positioned with 61% of the portfolio allocated to defensive assets (index-linked gilts, gold and gold equities, cash and illiquid strategies and options).
- Ruffer's primary focus remains capital preservation and to not lose money in any twelve-month period.
- Despite this objective, the strategy generated a negative return over the one year period, which can be partly attributed to the negative contribution from protection strategies. Ruffer's UK equity positioning also hurt performance on the back of the decline in domestic confidence amidst ongoing Brexit uncertainty.

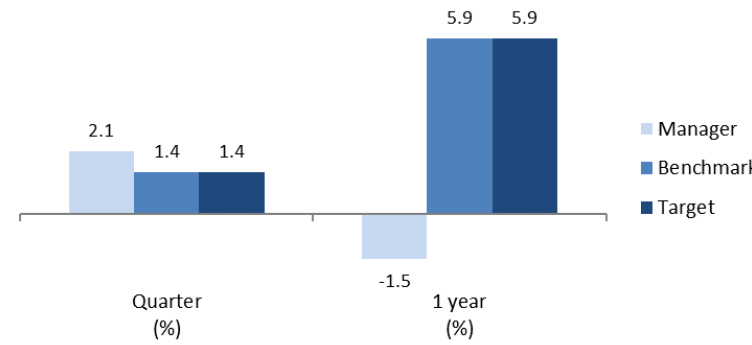
Reason for investment

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

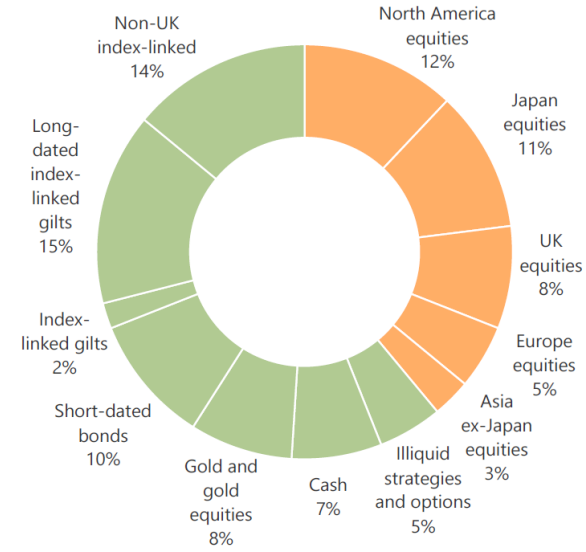
Reason for manager

- Experience and insights of the investment team
- Focus on capital preservation
- Dynamic allocation between risk and defensive assets depending on market conditions

Performance



Sector Allocation

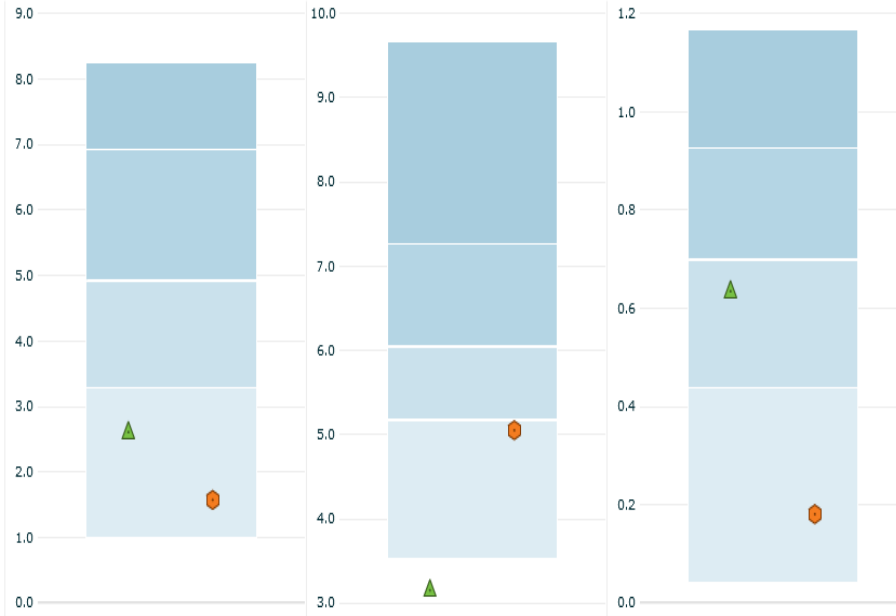


Source: Ruffer.
As at 30 June 2019.

DGF MANDATES

Performance characteristics vs. BofAML LIBOR 6 month average UK in GBP (after fees) over 3 yrs ending June-19

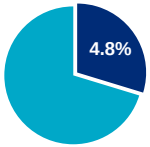
Comparison with the International Multi-asset GBP (Net) universe (Actual Ranking) (quarterly calculations)



	Ret (%pa)	Std Dev (%pa)	IR
PyrfordD...	2.6 *(44)*	3.2 *(53)*	0.6 *(32)*
RufferDGF	1.6 *(47)*	5.1 *(43)*	0.2 *(49)*
95th Percentile	8.3	9.7	1.2
Upper Quartile	6.9	7.3	0.9
Median	4.9	6.1	0.7
Lower Quartile	3.3	5.2	0.4
5th Percentile	1.0	3.5	0.0
Number	54	54	54

Commentary

- Over the three years to 30 June 2019, Pyrford outperformed the Ruffer pooled fund by 1.0% p.a.
- Both Pyrford and Ruffer were in the lower quartile of the DGF universe for performance, though it should be noted that this universe is very diverse in styles.
- This performance was achieved with a volatility of 3.2% p.a. by Pyrford, while Ruffer had a volatility of 5.1% p.a.
- Pyrford was in the bottom 5th percentile with this level of volatility, while Ruffer was less volatile than most managers in the universe.
- The information ratio (a measure of risk adjusted returns) for Pyrford was just below the medium of the universe, whereas for Ruffer was in the lower quartile.
- The information ratio (IR) measures the amount of 'information' that the manager can extract from the market. Expressed in another way this is the amount of excess return generated per unit of risk or tracking error added. The IR is therefore a measure of the skill of the manager. If the IR is large and it is measured over a reasonable period of time, then this is an indication that the manager has some skill in managing money. Mercer defines the IR as the annualised excess return divided by the annualised tracking error.



JP MORGAN – FUND OF HEDGE FUNDS
£239.8M END VALUE *(£232.1M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review). ESG4
Performance Objective *Cash +3% p.a.*	Below target over three years (in USD)

Item	
Number of funds	27 (as at 30 June 2019)

Strategy	Contribution to Performance over the Quarter in USD (%)
Relative Value	0.73
Opportunistic/Macro	0.76
Long/Short Equities	0.53
Merger Arbitrage/Event Driven	0.18
Credit	0.02
Total	**2.0 (including cash and fees)**

In USD terms, the fund return was 2.0% over Q2 (above benchmark).

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

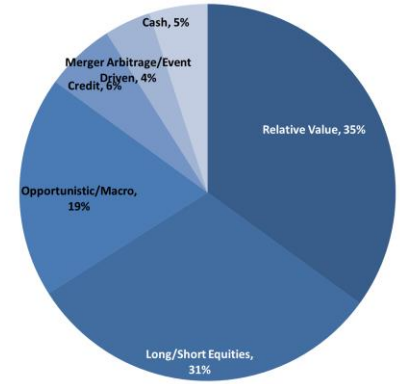
Reason for manager

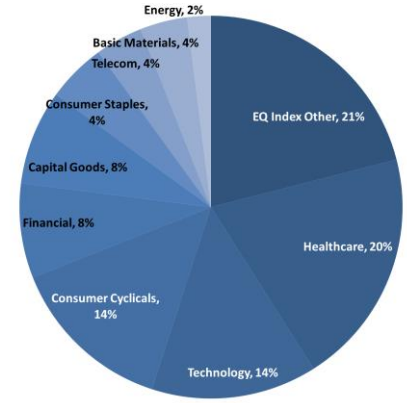
- Niche market neutral investment strategy
- Established team with strong track record
- Complemented other funds in the portfolio

Performance (GBP, JP Morgan return converted from USD)

Last Quarter	4.4%	Target	1.0%
Last Year	7.6%	Target	3.8%
Last 3 Years (p.a.)	6.7%	Target	6.7%

Portfolio Composition and Equity Sector Allocation

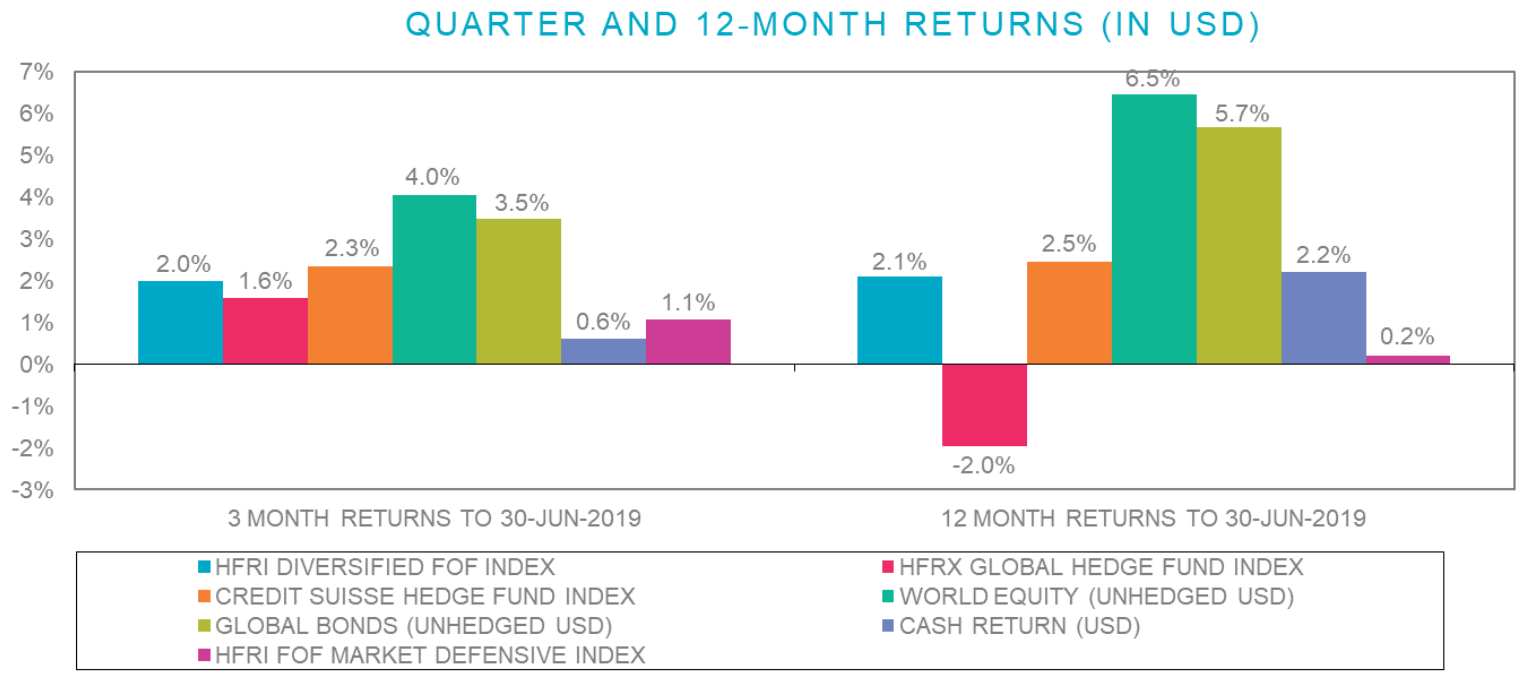




Source: JP Morgan.
As at 30 June 2019.

HEDGE FUND COMMENTARY – Q2 2019

- Hedge funds added to Q1 performance and generated alpha during the Q2 amid a backdrop of rallying risk assets and a more dovish monetary environment that led to a decline in global yields. Nearly all strategies posted positive returns with limited market sensitivity. While hedge funds trailed market indices on an absolute basis, they generated strong results on a risk-adjusted basis across all major strategy types.
- The market environment continues to face a backdrop of slowing global economic growth, historically low bond yields, and a flattening/inverting yield curve environment in which government bond term premia are near 60-year lows. Alternative diversifiers to fixed income such as hedge funds continue to remain attractive, and the opportunity set for hedge fund alpha generation remains robust.



Returns are in USD. Source: Source: Credit Suisse Hedge Index LLC, Thomas Reuters Datastream and Federal Reserve.

HEDGE FUND COMMENTARY – Q2 2019

Relative Value (35%)

- HFRI Relative Value returned +1.5% in Q2 2019.
- Gains in relative value were seen across nearly all sub-strategies, including interest-rate, volatility, credit, and convertible arbitrage strategies.
- The tension of strong employment data in the U.S., low inflation, and slowing global economic growth have created increased interest rate uncertainty—this has led to higher implied volatilities and improved trading opportunities for managers.
- Investment Grade and High Yield cash instruments have cheapened versus derivatives, increasing the opportunity set for credit relative value and convertible arbitrage.

Long/Short Equities (31%)

- HFRI Equity Hedge and Equity Market Neutral ("EMN") strategies earned +1.8% and -0.3%, respectively, in Q2 2019.
- Equity strategies saw positive performance in Q2, benefitting from a continued improved alpha-generating environment. Market dispersion was favourable from both a sub-strategy and single stock perspective, creating opportunities to add value on both long and short positions. Higher-net strategies unsurprisingly outperformed. Funds with long exposures to energy/healthcare sectors as well as international and emerging markets tended to fare worse, while those with long large cap, US-biased, growth-oriented, and low-volatility exposures tended to fare best.
- The robust rebound year-to-date has been similar to the rebound that proceeded a de-leveraging event in early 2016—in the case of 2016, first-half losses were moderated in the second half, followed by a very strong 2017.

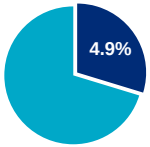
Opportunistic / Macro (19%)

- HFRI Macro: Systematic and Discretionary returned +3.7% and +2.1% respectively in Q2 2019.
- Both discretionary and systematic macro strategies posted some of the strongest gains across hedge funds during the quarter, benefitting from trending equities and rate/currency positioning, while commodity-oriented macro strategies were hurt by the collapse in global commodity prices. While broad CTA indices made money during the quarter, there continued to be wide strategy dispersion.
- Recent spikes in equity (VIX) and interest rate (MOVE) volatility have created opportunities for macro strategies. Volatility has picked up modestly but remains low relative to history. Further concerns about global economic headwinds or geopolitical tensions will continue to fuel the opportunity set for macro managers.

Merger Arbitrage / Event Driven (4%)

- HFRI Distressed and Merger Arbitrage returned +1.3% and +0.7% respectively in Q2 2019.
- Event-driven strategies posted good results in Q2. Directional and equity-oriented strategies enjoyed strong performance from positive market returns.
- Merger arbitrage strategies posted only modest gains, as continued strong deal volume was met with spread widening in volatile sectors (such as healthcare and technology) amid trade tension jitters.
- Stressed and distressed strategies benefitted from modestly tightening spreads yet added significant alpha over the quarter—these were driven by gains in large, idiosyncratic debt positions (PG&E, Puerto Rico) and post-reorg equity (Caesars), while funds with concentrated exposures to energy credits tended to suppress returns.

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



SCHRODER – UK PROPERTY FUND OF FUNDS
£242.3M END VALUE *(£240.3M START VALUE)*

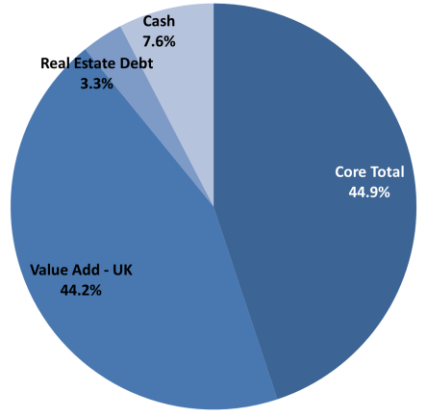
Item Monitored	Outcome
Mercer Rating	B (no change over period under review). ESG3
Performance Objective *Benchmark +1% p.a.*	Underperformed benchmark over five years

Manager Research and Developments

- The fund outperformed the benchmark over the quarter, with the Industrial Property Investment Fund (IPIF) being the strongest contributor to performance.
- Over the five year period, the fund underperformed its benchmark by 0.2%. Value add strategies continue to be the largest contributor to returns, whilst core funds and cash have diluted returns.
- There were no transactions over the quarter, in light of the expected transition of the management of the mandate to Brunel.

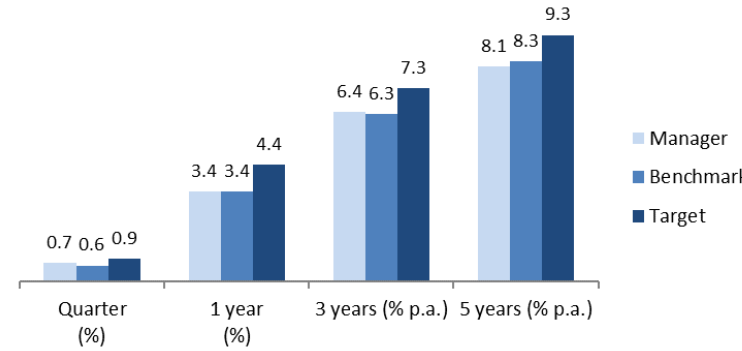
Manager and Investment type splits

Top 5 Holdings	Proportion of Total Fund (%)
Industrial Property Investment Fund	15.9
Metro Property Unit Trust	9.7
Hermes Property Unit Trust	9.5
Schroder Real Estate Income Fund	8.9
BlackRock UK Property Fund	8.9

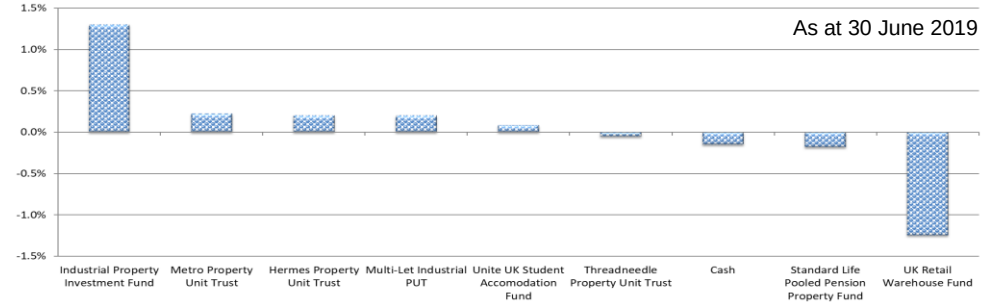


As at 30 June 2019

Performance



Top 5 Contributing and Detracting Funds over 12 Months

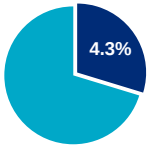


Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Demonstrable track record of delivering consistent above average performance
- Team though small is exclusively dedicated to UK multi-manager property management but can draw on extensive resources of Schroder's direct property team
- Well structured and research orientated investment process



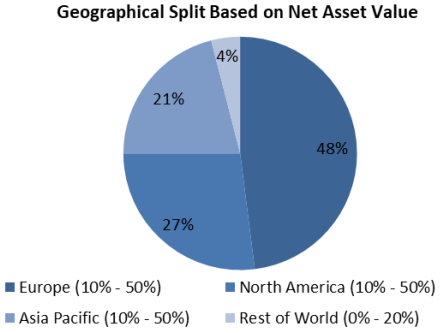
PARTNERS – OVERSEAS PROPERTY
£215.0M END VALUE *(£201.2M START VALUE)*

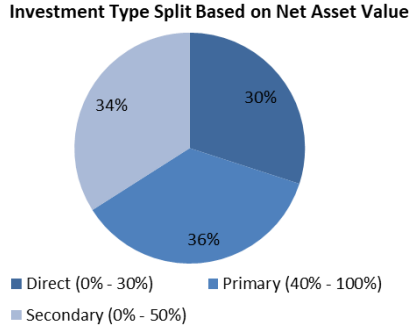
Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review). ESG4
Performance Objective *IRR of 10% p.a.*	IRR since inception to 31 March 2019 at 7.0% p.a. (in local currency) is below target of 10% p.a.

Manager Research and Developments (Q1 2019)

- The portfolio delivered a net return of 1.7% over Q1 2019 for USD programmes in local currency, and 1.6% for EUR programmes, versus the target of c. 2.5%.
- Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, such as the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 31 March 2019 at 7.0% p.a. (in local currency) is below their target of 10% p.a.; over the three years to 31 March 2019 IRR was 5.2% p.a. (in local currency terms).
- Over Q4, the allocation to Asia Pacific increased slightly (from 20% to 21%), while Europe and North American holdings both decreased by 1%. These remain within the guidelines.
- Note that Partners are rated B+ for global real estate, but A for secondary global real estate (as a result of their private equity skill set).

Geographical and Investment type splits as at 30 March 2019





Portfolio update to 31 March 2019

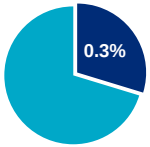
Partners Fund	Total Drawn Down (£m)	Total Distributions (£m)	Net Asset Value (£m)	Since Inception Net IRR (local currency)
Global Real Estate 2008	30.98	31.31	7.37	4.8
Real Estate Secondary 2009	19.62	19.26	11.37	9.0
Asia Pacific and Emerging Market Real Estate 2009	17.68	15.69	5.96	2.1
Distressed US Real Estate 2009	14.08	18.95	2.90	8.3
Global Real Estate 2011	25.09	24.79	12.82	8.8
Direct Real Estate 2011	11.43	11.05	6.16	6.3
Real Estate Secondary 2013	11.71	8.22	11.34	16.9
Global Real Estate 2013	97.65	8.24	116.59	7.7
Real Estate Income 2014	21.79	5.42	20.61	3.7
Asia Pacific Real Estate 2016	8.96	2.70	8.86	13.4
Total	**258.99**	**145.65**	**204.00**	**7.0**

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Depth of experience in global property investment and the resources they committed globally to the asset class
- The preferred structure for the portfolio was via a bespoke fund of funds (or private account) so the investment could be more tailored to the Fund's requirements



BRUNEL – SECURED INCOME
£16.9M END VALUE *(£16.7M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	N/A	Aberdeen Standard
Performance Objective *In line with the benchmark*		Too early to determine

Manager Research and Developments

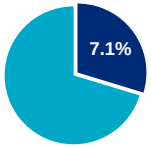
- Mandate was initiated in January 2019. Aberdeen Standard is the underlying manager, although more managers will be added over time.
- The strategy generated a return of 1.4% over Q2 2019, outperforming the benchmark return of 0.8%.

Reason for investment

To provide long-term income as part of a diversified portfolio

Reason for manager

- Investment made via the Brunel pool



IFM – INFRASTRUCTURE (POOLED)
£352.1M END VALUE *(£331.6M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	●	B+ (no change over period under review). ESG2
Performance Objective *Cash +2.5% p.a.*	●	Outperformed objective by 9.2% over the year (in USD)

Item

Number of holdings	16

Manager Research and Developments

- Over the quarter the fund returned 3.7% in US Dollar terms, against Avon's performance objective of 1.5% (cash + 2.5% p.a.).
- The mandate has now been in place for over three years since inception on 1 June 2016. Accordingly, the three-years performance has been 14.1% p.a.
- During the quarter, the IFM completed the acquisition of a 30% equity interest in Deepwater Container Terminal Gdańsk ("DCT).
- The pooled fund also received income of $82.9m of distributions from five assets.

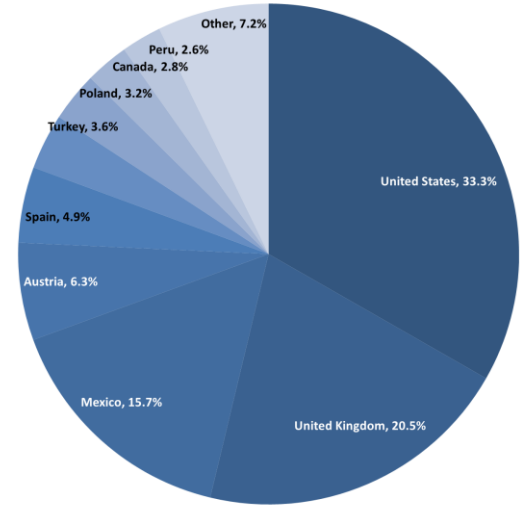
Reason for investment

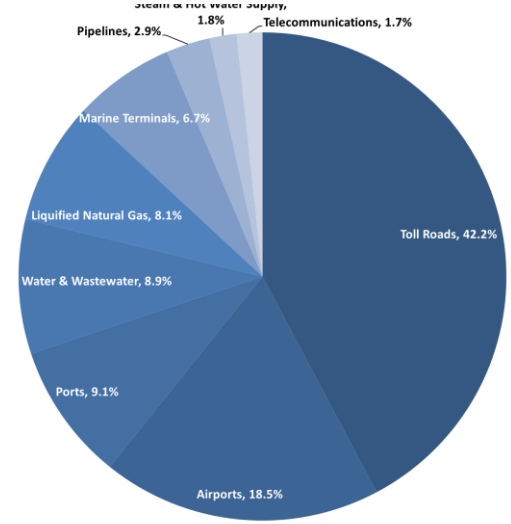
To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

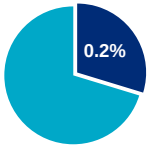
- Invests in core infrastructure assets in countries with established regulatory environments and strong rule-of-law
- Seeks to invest in assets with strong market positions, predictable regulatory environments, high barriers to entry, limited demand elasticity and long lives

Geographical and Sub-Sector Allocation





Source: IFM.
As at 30 June 2019.



BRUNEL – INFRASTRUCTURE
£10.6M END VALUE *(£11.1M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	N/A	Mirova NPR
Performance Objective *In line with the benchmark*		Too early to determine

Manager Research and Developments

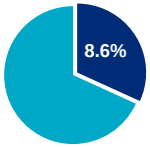
- Mandate was initiated in January 2019. NTR and Mirova are the underlying managers.
- The fund's performance rebounded from a negative one in Q1, to deliver a return of 6.5% over Q2 19.

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Investment made via the Brunel pool



LOOMIS SAYLES – MULTI-ASSET CREDIT (POOLED)
£424.0M END VALUE *(£410.4M START VALUE)*

Item Monitored	Outcome
Mercer Rating	A (no change over period under review). ESG3
Performance Objective *Cash +4% p.a.*	Too early to determine

Manager Research and Developments

- Loomis delivered a performance of 3.2% over the quarter, against an objective of 1.2%. Over the year, the fund returned 5.8%, outperforming its objective.
- Securitised assets bolstered performance over the quarter with exposure to asset-backed securities in particular having a positive impact.
- Global high-yield corporate bonds also contributed as spreads tightened during the quarter. High-yield markets in generally benefitted from the continued equity market strength through the second quarter. Global investment grade corporate bonds outperformed treasuries again during the quarter as spreads tightened.
- Within the loans allocation, returns were driven from individual industrial, consumer non-cyclical, and technology issues.
- The overall duration of the portfolio remained at 4.9 years.

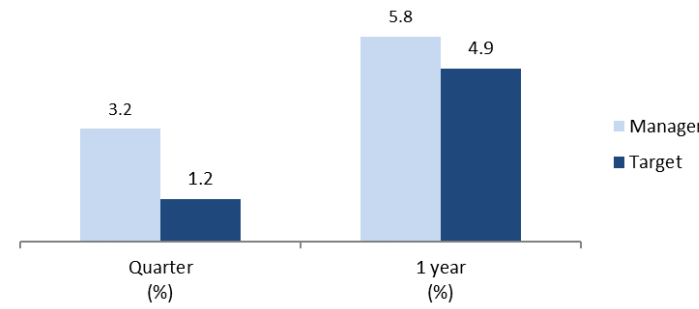
Reason for investment

To be a diversified return seeker within the Fund's fixed income portfolio

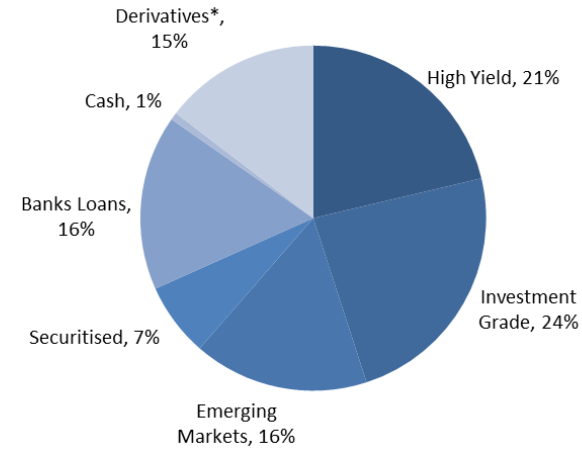
Reason for manager

- Core low to moderate risk Multi-Asset Credit option
- Depth and breadth of fundamental credit analysis

Performance

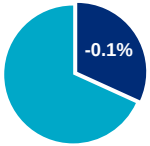


Sector Allocation



Source: Loomis Sayles.
As at 30 June 2019.

*includes holdings of currency, interest rate swaps and interest rate futures



RECORD – CURRENCY HEDGING (SEGREGATED)
-£6.4M END VALUE *(£29.6M START VALUE)*

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

Manager Research and Developments

Over the quarter, Sterling weakened against the US Dollar, the Euro and the Yen by 2.3%, 3.7% and 4.9% respectively. (These currency exchange movements are based on end of day pricing, which may not tie in precisely with the pricing points used by Record).

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

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

Reason for investment

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

Reason for manager

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

Currency Hedging Q2 2019 Performance (£ terms)

Passive Developed Equity Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	821,305,387	843,146,173	2.38%	(1.47%)	(1.45%)	0.96%
EUR	158,973,158	180,150,587	3.84%	(1.77%)	(1.75%)	2.07%
JPY	93,930,678	91,603,487	5.18%	(2.49%)	(2.51%)	2.73%
Total	**1,074,209,223**	**1,114,900,247**	**2.85%**	**(1.60%)**	**(1.59%)**	**1.28%**

Passive Hedge Fund Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	227,347,568	242,253,253	2.38%	(2.93%)	(2.92%)	(0.52%)
Total	**227,347,568**	**242,253,253**	**2.38%**	**(2.93%)**	**(2.92%)**	**(0.52%)**

Passive Property Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	23,879,908	24,421,801	2.38%	(2.93%)	(2.93%)	(0.53%)
EUR	176,095,090	188,142,309	3.84%	(3.53%)	(3.50%)	0.26%
Total	**199,974,998**	**212,564,110**	**3.67%**	**(3.46%)**	**(3.44%)**	**0.17%**

Passive Infrastructure Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	138,747,130	150,926,711	2.38%	(2.93%)	(2.93%)	(0.53%)
EUR	50,028,494	49,083,693	3.84%	(3.53%)	(3.50%)	0.26%
Total	**188,775,625**	**200,010,404**	**2.75%**	**(3.08%)**	**(3.07%)**	**(0.33%)**

APPENDIX 1
SUMMARY OF MANDATES

SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance Target (p.a.)
Brunel	Passive Global Low Carbon Equities	MSCI World Low Carbon	-
BlackRock	Passive Global Equites	MSCI World	-
BlackRock	Buy-and-Maintain Corporate Bonds	Return on bonds held	-
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)	-
Brunel	Secured Income	CPI	+2%
IFM	Infrastructure	6 Month LIBOR +2.5% p.a.	-
Brunel	Infrastructure	CPI	+4%
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
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.

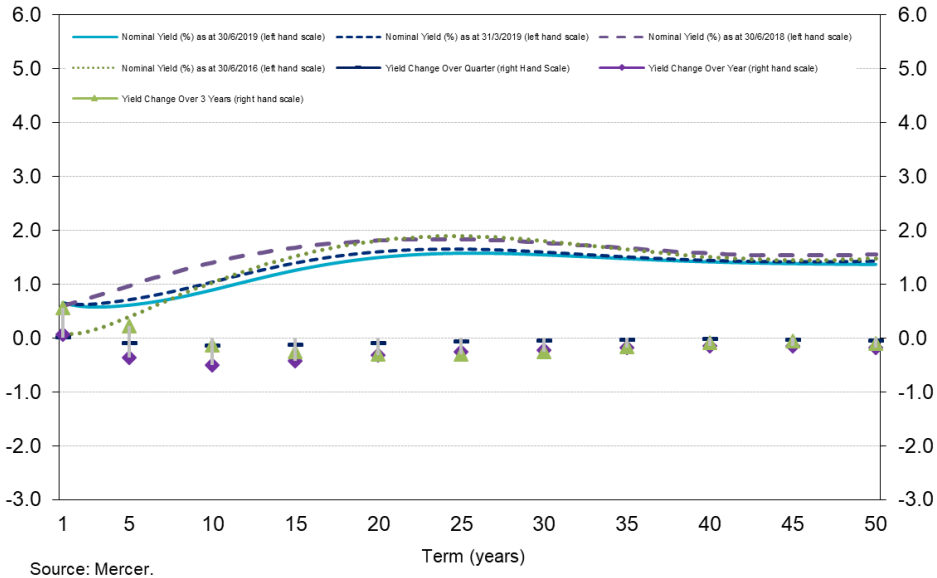
APPENDIX 3
CHANGES IN YIELDS

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 Jun 2019	31 Mar 2019	30 Jun 2018	30 Jun 2017
UK Equities	4.13	4.22	3.64	3.61
Over 15 Year Gilts	1.40	1.48	1.67	1.80
Over 5 Year Index-Linked Gilts	-1.89	-1.85	-1.58	-1.57
Sterling Non Gilts	2.16	2.34	2.50	2.24

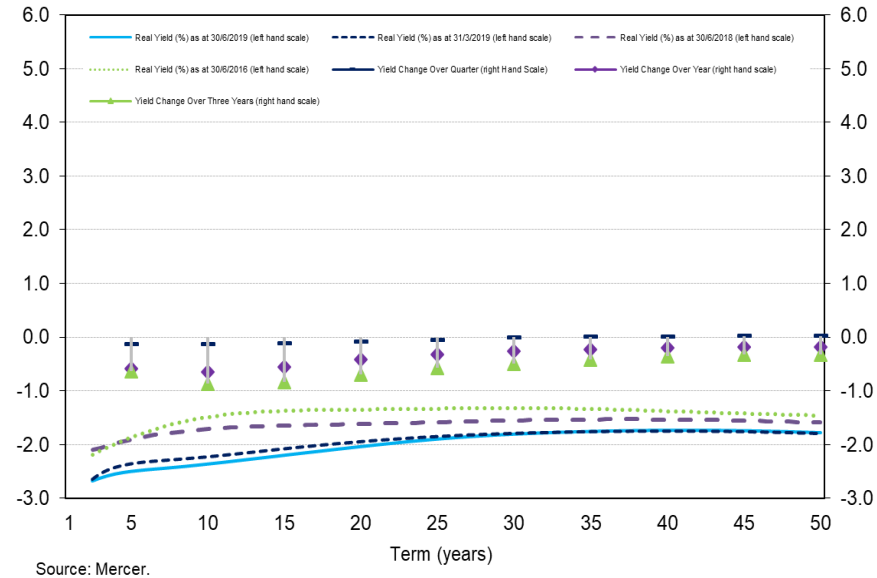
- Nominal yields were again down across the curve over the quarter.
- The Over 15 Year Gilt Index generated a return of 2.0%, though this underperformed the broader global bond market over the quarter.
- Real yields also fell across the curve over the quarter. The Over 5 Year Index-Linked Gilts Index also returned 2.0% as a result.
- Credit spreads fell over the quarter as investors maintained allocations to risky assets. The sterling Non-Gilts All Stocks Index credit spread ended the quarter at c.1.2% p.a., and UK credit assets delivered a return of 2.0% over the quarter.

Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

APPENDIX 4

GUIDE TO MERCER RATINGS

GUIDE TO MERCER RATINGS

INTRODUCTION

This is a guide to the investment strategy research ratings (herein referred to as rating[s]) produced by Mercer's Investments business (herein referred to as Mercer). It describes what the ratings are intended to mean and how they should and should not be interpreted.

If you have any questions or would like more information about specific topics after reading this guide, please contact your Mercer consultant or click "Contact us" on our website www.mercer.com.

WHAT DO MERCER'S RATINGS SIGNIFY?

Mercer's ratings signify Mercer's opinion of an investment strategy's prospects for outperforming a suitable benchmark over a time frame appropriate for that particular strategy (herein referred to as outperformance). The rating is recorded in the strategy's entry on Mercer's Global Investment Manager Database (GIMD™) at www.mercergimd.com.

Mercer's ratings are normally assigned to investment strategies rather than to specific funds or vehicles. In this context, the term "strategy" refers to the process that leads to the construction of a portfolio of investments, regardless of whether the strategy is offered in separate account format or through one or more investment vehicles. There are exceptions to this practice. These are primarily in real estate and private markets where the rating is normally applied to specific funds.

WHAT DO MERCER'S RATINGS NOT SIGNIFY?

This section contains important exclusions and warnings; please read it carefully.

Past Performance

The rating assigned to a strategy may or may not be consistent with its past performance. While the rating reflects Mercer's expectations on future performance relative to a suitable benchmark over a time frame appropriate for the particular strategy, Mercer does not guarantee that these expectations will be fulfilled.

Creditworthiness

Unlike those of credit rating agencies, Mercer's ratings are not intended to imply any opinions about the creditworthiness of the manager providing the strategy.

Vehicle-Specific Considerations

As Mercer's ratings are normally assigned to strategies rather than to specific investment vehicles, potential investors in specific investment vehicles should consider not only the Mercer ratings for the strategies being offered through those investment vehicles but also any investment vehicle-specific considerations. These may include, for example, frequency of dealing dates and any legal, tax, or regulatory issues relating to the type of investment vehicle and where it is domiciled. Mercer's ratings do not constitute individualized investment advice.

Management Fees

To determine ratings, Mercer does not generally take investment management fees into account. The rationale for this is that, due to differing account sizes, differing inception dates, or other factors, the fees charged for a specific strategy will vary among clients. Potential investors in a specific strategy should therefore consider not only the Mercer rating for that strategy but also the competitiveness of the fee schedule that they have been quoted. The area of Alternative Investments is an exception — Mercer follows market practice for "Alternatives" and rates strategies on a net of fees basis.

Operational Assessment

Mercer's research process and ratings do not include an evaluation of a manager's custodian, prime brokerage, or other vendor relationships, or an assessment of the manager's back office operations, including any compliance, legal, accounting, or tax analyses of the manager or the manager's investment vehicles. Research is generally limited to the overall investment decision-making process used by managers. In forming a rating, Mercer's investment researchers do not generally perform corporate-level operational infrastructure due diligence on a manager and do not perform financial or criminal background checks on investment management staff. Unless Mercer's investment researchers are aware of material information to the contrary (such as a view expressed by a manager's auditors or Mercer Sentinel®; see section 9), they assume that the manager's operational infrastructure is reasonable. Operational weaknesses that Mercer's investment researchers discover during their analysis of the four factors outlined in section 4 will be noted and, where appropriate, taken into account in determining ratings.

FACTORS CONSIDERED IN FORMING A RATING

In order to determine the rating for a particular strategy, Mercer's investment researchers review the strategy on the basis of four specific factors — idea generation, portfolio construction, implementation, and business management — each of which is assigned one of four scores: negative, neutral, positive, or very positive.

Mercer believes that idea generation, portfolio construction, and implementation are the main components of every investment process. These factors are defined as:

Idea generation encompasses everything that the investment manager (herein referred to as manager) does to determine the relative attractiveness of different investments.

Portfolio construction refers to the manner in which the manager translates investment ideas into decisions on which investments to include in a portfolio and what weightings to give to each of these investments.

Implementation refers to the capabilities surrounding activities that are required to achieve the desired portfolio structure.

Mercer believes that managers that do these activities well should have above-average prospects of outperformance. However, Mercer also believes that to remain competitive over longer periods, managers must be able to maintain and enhance their capabilities in these three areas. To do this, managers need to have significantly strong business management, which is the fourth factor Mercer assesses.

Business management refers to the overall stability of the firm, firm resources, and overall operations.

The four factors above apply to most product categories that Mercer researches. Variations on these factors are used in some product categories. Examples here include passive strategies, liability driven investment and private markets.

A strategy's overall rating is not determined as a weighted average of the four factor scores, and no prescribed calculations are made to arrive at the four-factor score or the overall rating. Instead, for each strategy, Mercer's investment researchers identify which factors Mercer believes are most relevant to a manager's investment process and place weight on the factors accordingly. Example considerations include:

- Mercer's confidence in the manager's ability to generate value-adding ideas.
- Mercer's view on any specified outperformance target.
- The opportunities available in the relevant market(s) to achieve outperformance.
- An assessment of the risks taken to try to achieve outperformance.
- An assessment of the strategy relative to peer strategies.
- An assessment of the manager's business management and its impact on particular strategies.

GUIDE TO MERCER RATINGS

MERCER RATING SCALE

Ratings	Rationale
A	Strategies assessed as having “above average” prospects of outperformance
B+	Strategies assessed as having “above average” prospects of outperformance, but which are qualified by at least one of the following: ▪ There are other strategies that Mercer believes are more likely to achieve outperformance ▪ Mercer requires more evidence to support its assessment
B	Strategies assessed as having “average” prospects of outperformance
C	Strategies assessed as having “below average” prospects of outperformance
N/no rating	Strategies not currently rated by Mercer
R	The R rating is applied in three situations: ▪ Where Mercer has carried out some research, but has not completed its full investment strategy research process ▪ In product categories where Mercer does not maintain formal ratings but where there are other strategies in which we have a higher degree of confidence ▪ Mercer has in the past carried out its full investment-strategy research process on the strategy, but we are no longer maintaining full research coverage

The above definitions apply to the majority of product categories researched by Mercer. However for some product categories the rating scale reflects Mercer’s degree of confidence in a manager’s ability to achieve a strategy’s stated aims. Examples of where this applies include low volatility equities, cash, passive, liability driven strategies and DC specific solutions.

SUPPLEMENTAL INDICATORS

Provisional (P)

If the Mercer strategy rating is followed by a (P) - for example, A (P) or B+ (P) - the rating is “provisional” - that is, there is temporary uncertainty about the rating, but it is expected that this will soon be resolved. For example, should two managers announce a merger, but without further details, this uncertainty may be highlighted by modifying the rating strategies for one or both of those firms - for instance, from A to A (P). (P) indicators are intended to be temporary and should normally last for no more than two weeks. As soon as the temporary uncertainty has been resolved, or if it becomes apparent that this uncertainty is unlikely to be resolved quickly, the (P) indicator will be removed and the rating confirmed or changed, or the strategy will be assigned the indicator “watch” (W).

Watch (W)

If the Mercer strategy rating is followed by a (W) – for example, A (W) or B+ (W) - the rating is “watch” - there is some uncertainty about the rating and resolution is not expected soon, but Mercer believes there is a low probability that the resolution of this uncertainty will lead to a change in the strategy’s rating. (W) indicators are typically issued when there is an expectation of long-term uncertainty surrounding the rating - for example, a change, or potential change, in a manager’s ownership.

Specifically Assigning (P) and (W) Supplemental Indicators

(P) and (W) indicators are assigned - and removed - by the regular ratings review process described earlier; however, there are circumstances where organizational or reputational issues that affect a manager warrant the specific assignment of a (P) or (W) indicator to an existing rating. In such circumstances, the decision to apply - or remove - a (P) or (W) indicator is taken by two senior members of the leadership group of the Manager Research team. These occasions are rare, and the relevant investment researchers will contribute to any discussions before a (P) or (W) indicator is assigned or removed.

High Tracking Error (T)

If the Mercer strategy rating is followed by a (T) — for example, A (T) or B+ (T) — the strategy is considered to have the potential to generate a tracking error substantially higher than the average for the relevant product category. In this context, “tracking error” refers to the variability of performance relative to the nominated benchmark for the strategy. A strategy may be assigned the (T) indicator because the potential for high tracking error has been demonstrated by the strategy’s past performance and/or because the nature of the investment process is such that a significantly higher than average tracking error could be expected. The absence of a (T) following a rating does not guarantee that the strategy’s tracking error will not be higher than the average for the relevant product category.

NICHE STRATEGIES

Mercer categorize a limited number of strategies as Niche. The Niche categorization is applied to strategies that are perceived as highly differentiated. Mercer does not have specific rules as to what characterizes a Niche strategy but examples might include strategies where a manager is seeking to exploit anomalies not generally recognized by other market participants. It might also be applied to strategies with a short track record and/or limited assets under management.

RESEARCH INDICATIONS – INDICATIVE VIEW

For strategies where Mercer has conducted some initial research, we may apply Mercer Research Indications. Mercer's Research Indications are an indication of whether a strategy merits deeper / further due diligence. This indication is shown by an assigned indicative view, identified as a colour. A Research Indication does not necessarily result in future research. All Research Indications are assigned as R rating.

- Red – further research has "below average" prospects of resulting in an investable rating.
- Amber – further research has "average" prospects of resulting in an investable rating.
- Green – further research has "above average" prospects of resulting in an investable rating.

An investable rating is defined as an A or B+.

OPERATIONAL RISK ASSESSMENTS

Mercer Sentinel, a division within Mercer, undertakes operational risk assessments (ORAs) on managers, most often on behalf of clients. These ORAs assess managers' operations and implementation risk profiles and cover some of the areas mentioned in section 3, as well as other areas related to operational risk. ORAs are undertaken separately from the Manager Research process; however, the results are shared with the Lead Researcher for the manager. A Mercer Sentinel ORA that concludes with an unsatisfactory rating (namely, a "Review" rating) for a manager will result in an immediate (P) rating for all that manager's relevant rated strategies. Discussions will follow and any subsequent change in investment rating will be ratified by the standard Manager Research process. Contact your Mercer consultant for more information.

ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE RATINGS

Mercer also assigns ratings to strategies that represent Mercer's view on the extent to which environmental, social and corporate governance (ESG) and active ownership practices (voting and engagement) are integrated into the manager's investment process and decision-making across asset classes. ESG factors are incorporated into the investment process on the basis that these issues can impact revenue, operating costs, competitive advantage, and the cost of capital. During discussions with managers about ESG integration, Mercer assesses the use of ESG information to generate outperformance.

ESG Rating Scale	
ESG1	The highest ESG rating is assigned to strategies that Mercer believes to be leaders in integrating ESG and active ownership into their core processes, and that provide clear evidence that ESG overall, or a particular ESG theme, is core to idea generation and portfolio construction.
ESG2	The second highest rating is assigned to strategies that, in Mercer's view, include ESG factors as part of decision making, with a strong level of commitment made at a firmwide level and some indication that data and research are being taken into account by the managers in their valuations and investment process.
ESG3	The penultimate rating is assigned to strategies for which, in Mercer's view, the manager has made some progress with respect to ESG integration and/or active ownership, but for which there is little evidence that ESG factors are taken into consideration in valuations and investment process.
ESG4	The lowest ESG rating is assigned to strategies for which, in Mercer's view, little has been done to integrate ESG and active ownership into their core process.

For passive strategies, Mercer applies an ESGp1 through to ESGp4. There are two key distinctions between ESG ratings for passive and active strategies. First, for passive, the bulk of the focus is on voting and engagement practices. Second, most of Mercer's analysis focuses on firm-wide levels of commitment rather than at the individual strategy level.

RATINGS REVIEW COMMITTEES

Mercer has a process for reviewing and ratifying the ratings proposed by individual investment researchers. For most product categories, strategy ratings are reviewed regularly by one of several RRCs that operate within Mercer. These committees are composed of professionals from Mercer's investment research and consulting groups who draw on research carried out by Mercer investment researchers and consultants. The role of the RRCs is to review this research from a quality control perspective and ensure consistency of treatment across strategies within a product category.

For certain asset classes, ratings will not have been reviewed by an RRC; however, the rating will have been reviewed by at least two suitably qualified investment researchers or consultants other than the recommending researcher. An R rating will not necessarily have been reviewed by an RRC but will have been subject to Mercer's standard peer review process.

CONFIDENTIALITY OF MERCER'S RATINGS

Mercer's ratings, along with all other information relating to Mercer's opinions on managers and the investment strategies they offer, represent Mercer's confidential and proprietary intellectual property and are subject to change without notice. The information is intended for the exclusive use of the parties to whom it was provided by Mercer and may not be modified, sold, or otherwise provided, in whole or in part, to any other person or entity (including managers) without Mercer's prior written permission.

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