HEALTH WEALTH CAREER

AVON PENSION FUND

PANEL INVESTMENT PERFORMANCE REPORT QUARTER TO 30 SEPTEMBER 2019

NOVEMBER 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.
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CONTENTS

SECTION 1
EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

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

Fund Performance

- The value of the Fund's assets increased by £46m over the third quarter of 2019, to £4,992m as at 30 September 2019. This increase was driven primarily by positive returns from overseas equities.

Strategy

- Global (developed) equity returns over the last three years were 12.6% 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 positive performing quarter. Favourable market behaviour and easier monetary policy is offset by elevated valuations and a macro environment which is subject to headline risk and fairly fragile to unpredictable geopolitical disruptions.
- Emerging market equities have returned 8.4% p.a. over the three-year period, below the assumed return of 8.70% p.a. Despite our view that attractive valuations, a better earnings outlook and more favourable market sentiment exist in emerging markets, these factors continue to be obscured by the uncertain macro environment and uncertainty surrounding the trade dispute. As a resolution to the trade dispute does not appear imminent, we recommend a neutral weight in recognition that the potential for downside is likely to persist longer than originally anticipated.
- 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 5.3% p.a. versus an assumed return of 1.90% p.a. and index-linked gilts also returned 5.3% 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 3.2% p.a. over the three-year period, marginally below the assumed strategic return of 3.25% p.a.
- The three-year UK property return of 7.7% p.a. remains higher than the assumed return of 5.75% p.a.
- Hedge fund returns were negative over the quarter in local currency terms, 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 mainly positive, with the strongest performance coming from the corporate bond and global equity managers. The Fund's infrastructure and multi-asset credit mandates were other strong performers over the period and the two Diversified Growth Fund ("DGF") and two property mandates also generated positive returns. The Fund's fund of hedge funds and the defensive, high quality emerging market equity manager generated negative total returns over the quarter.
- Absolute returns over the year to 30 September 2019 were broadly positive across the Fund's investment managers with all of the managers (aside from the defensive, high quality emerging market equity manager) delivering positive returns over the period.
- Relative performance for the Fund's active equity managers was mixed over the quarter, with the one of the emerging market equity mangers and UK equity funds outperforming their benchmarks.
- Relative performance has also been mixed over the year to 30 September 2019. The infrastructure, global sustainable equity and one of the emerging market 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, UK property and one of the emerging market equity mandates generating positive relative returns.

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

- The majority of the 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.

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	2	*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).
- Ruffer's ESG rating has been upgraded from ESG3 to ESG2

SECTION 2
MARKET BACKGROUND

MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

The global economy has continued to slow with the latest current economic activity indicators showing below trend growth for both developed and emerging markets. Manufacturing remains in a downturn, capital expenditure is soft while service indicators remain stable, albeit weaker than in the recent past. Growth remains thus reliant on consumption spending which has been strong, driven by healthy labour markets but employment growth has started to show signs of flattening out.

In the UK, GDP contracted by 0.2% over the quarter to June 2019 and is expected to be flat in Q3 at best. CPI inflation fell to 1.7% at the end of August from 2.0% at the end of June. The Bank of England kept monetary policy unchanged with short-dated interest rates at 0.75%.

Within global equity markets, the US economy grew by an annualised 2.0% over the quarter to June 2019 but this is expected to have slowed a bit in Q3. The Federal Reserve made good on its promise to ease and cut the benchmark rate twice (in July and September) from 2.25% - 2.5% to 1.75% - 2.0%. The US manufacturing PMI for September fell by the most in a decade. Consumer spending on the other hand has been holding up. Economic growth remains largely subdued in the Eurozone and Japan.

While emerging countries have more favourable growth prospects for the coming year along with reasonably stable inflation and improving current account balances in most cases, trade uncertainty remains an issue.

Bond Market Review

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

The Over 15 Year Gilt Index generated a return of 11.0%, outperforming 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 8.7% as a result.

Credit spreads were mostly flat over the quarter, as investors left risk allocations largely unchanged given the ongoing slowdown fears. The sterling Non-Gilts All Stocks Index credit spread ended the quarter at c.1.3% p.a., and UK credit assets delivered a return of 3.7% over the quarter.

Currency Market Review

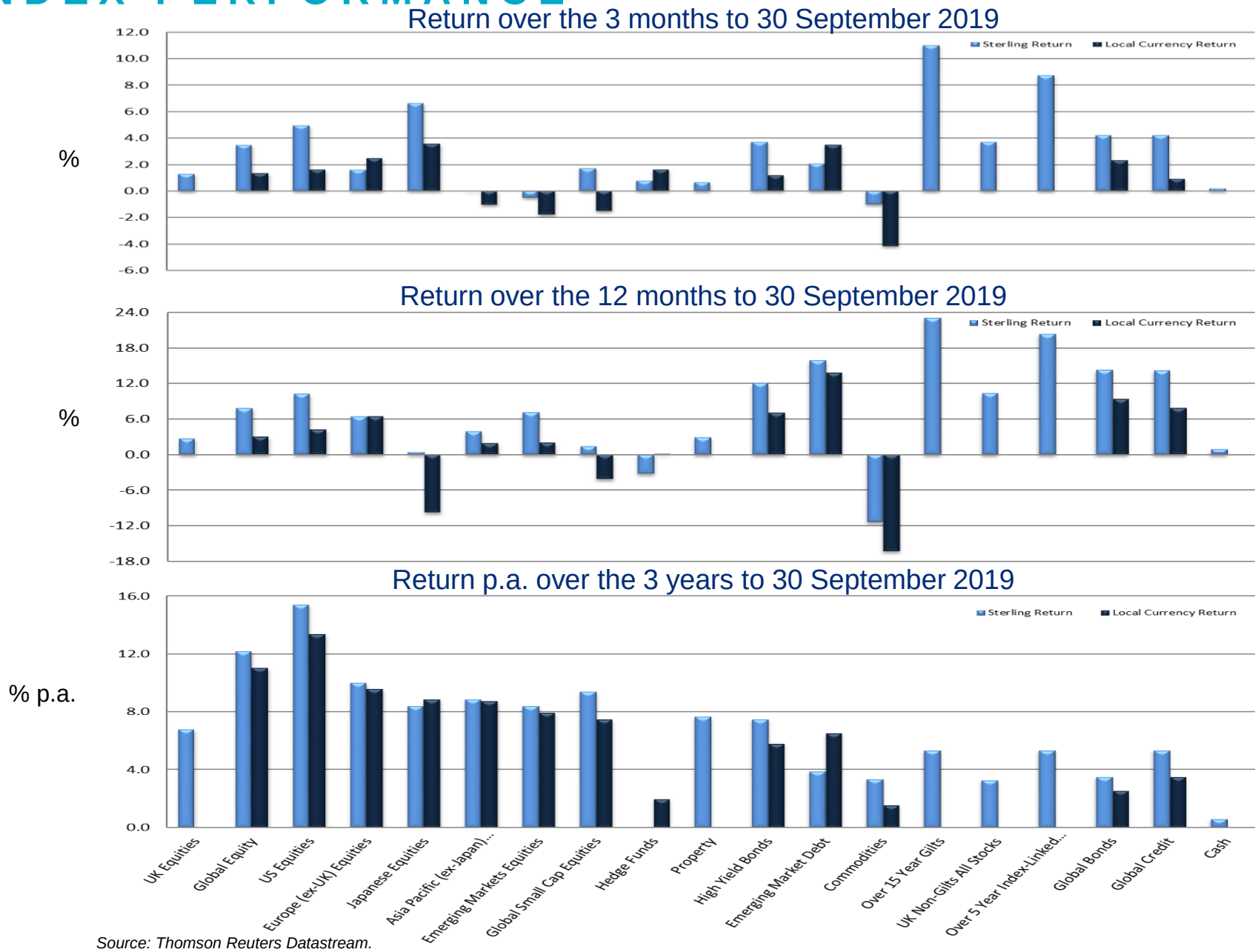
Over the quarter, Sterling weakened against the US Dollar and Yen (-3.2% and -2.9% respectively) and strengthened against the Euro by 1.1%.

Commodity Market Review

Commodity performance was negative as a whole, which was driven by economic slowdown fears. Precious metals, driven by gold, did well due to their safe haven characteristics. The pick-up in US inflation as well as lower opportunity costs of holding gold amid falling yields added to its momentum. In spite of the alleged attack by Iran on Saudi Arabian oil facilities that led to a spike in oil prices the following day, slowdown fears and rising inventories led to negative performance for the energy sector. The ongoing epidemic of African Swine fever in China boosted meat prices across the world, leading to positive returns for the livestock sector.

Source: Thomson Reuters Datastream, Consensus Economics, ONS

MARKET BACKGROUND
INDEX PERFORMANCE



Source: Thomson Reuters Datastream.

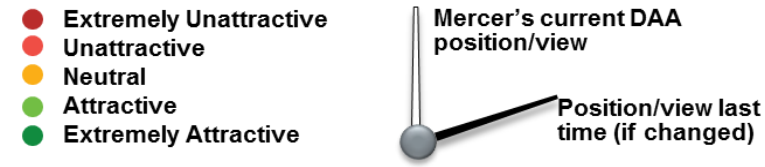
SECTION 3
STRATEGIC ASSUMPTIONS

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	12.6	*Remains ahead of the assumed strategic return. This fell slightly from 14.2% p.a. last quarter, as the latest quarter's return of 3.9% was slightly lower than the return of Q3 2016, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.70	8.4	*The three year return from emerging market equities fell below the assumed strategic return this quarter, having decreased from 12.5% p.a. last quarter. The return over Q3 2019 was negative at -0.5%, and materially lower than the return for the quarter that fell out of the period (11.2%).*
Diversified Growth	6.95 (Libor + 4% / RPI + 5%)	6.0 (4.6 / 8.2)	*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	5.3	*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 continued to fall.* *Corporate bond returns, however, fell below the assumed strategic returns, as the return over the quarter of 3.7% was lower than the return in Q3 2016, which fell out of the period.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	2.15	5.3	
UK Corporate Bonds (BofAML Sterling Non Gilts)	3.25	3.2	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	5.10	-0.4	*Hedge fund returns turned negative 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	7.7	*Actual property returns continue to be ahead of the expected returns. The asset class returned 0.6% over the third quarter of 2019, and saw the three year return grow. This has defied concerns to some extent over slowing rental growth post-Brexit and weak fundamentals, though a cautious outlook may still be required.*
Infrastructure (S&P Global Infrastructure)	6.95	9.9	*The infrastructure three year return is above the strategic return. This performance was in part driven by currency as sterling depreciated against the US dollar and euro over the last three years. Returns of this index have been largely driven by currency moves. The 100% hedge in place for the infrastructure mandate removes the currency effect from the actual returns earned. This is also true for the global property mandate with Partners.*

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

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q4 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	1,847,732	1,903,608	37.4	38.1	34.0	29 - 39	+4.1
Emerging Market Equities	237,109	237,739	4.8	4.8	6.0	3 - 9	-1.2
Diversified Growth Funds	608,926	618,077	12.3	12.4	15.0	10 - 20	-2.6
Fund of Hedge Funds	239,766	250,926	4.8	5.0	5.0	0 - 7.5	0.0
Property	474,133	462,454	9.6	9.3	10.0	5 - 15	-0.7
Infrastructure	362,675	384,700	7.3	7.7	5.0	0 - 7.5	+2.7
Multi-Asset Credit	424,019	429,778	8.6	8.6	11.0	6 - 16	-2.4
Corporate Bonds	119,134	125,865	2.4	2.5	2.0	No set range	+0.5
LDI*	511,798	484,721	10.3	9.7	12.0	No set range	-2.3
Cash (including currency instruments)	121,101	94,488	2.4	1.9	-	0 - 5	+1.9
Total	**4,946,392**	**4,992,355**	**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 £46m due to positive returns from overseas equities in particular. Infrastructure has drifted to marginally above its tolerance range, although all other asset classes remain within their 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	469,102		487,210	9.5	9.8
BlackRock	Corporate Bonds	119,134		125,865	2.4	2.5
BlackRock	LDI*	511,798		484,721	10.3	9.7
BlackRock	Cash	75,328	-45,000	32,544	1.5	0.7
Brunel	Global Low Carbon Equities	556,894		580,755	11.3	11.6
Brunel	UK Equities	193,138		193,703	3.9	3.9
Jupiter	UK Equities	200,068		203,303	4.0	4.1
Jupiter	Global Sustainable Equities	11,679		12,064	0.2	0.2
Schroder	Global Equities	416,537		426,266	8.4	8.5
Genesis	Emerging Market Equities	123,271		125,730	2.5	2.5
Unigestion	Emerging Market Equities	113,837		112,010	2.3	2.2

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

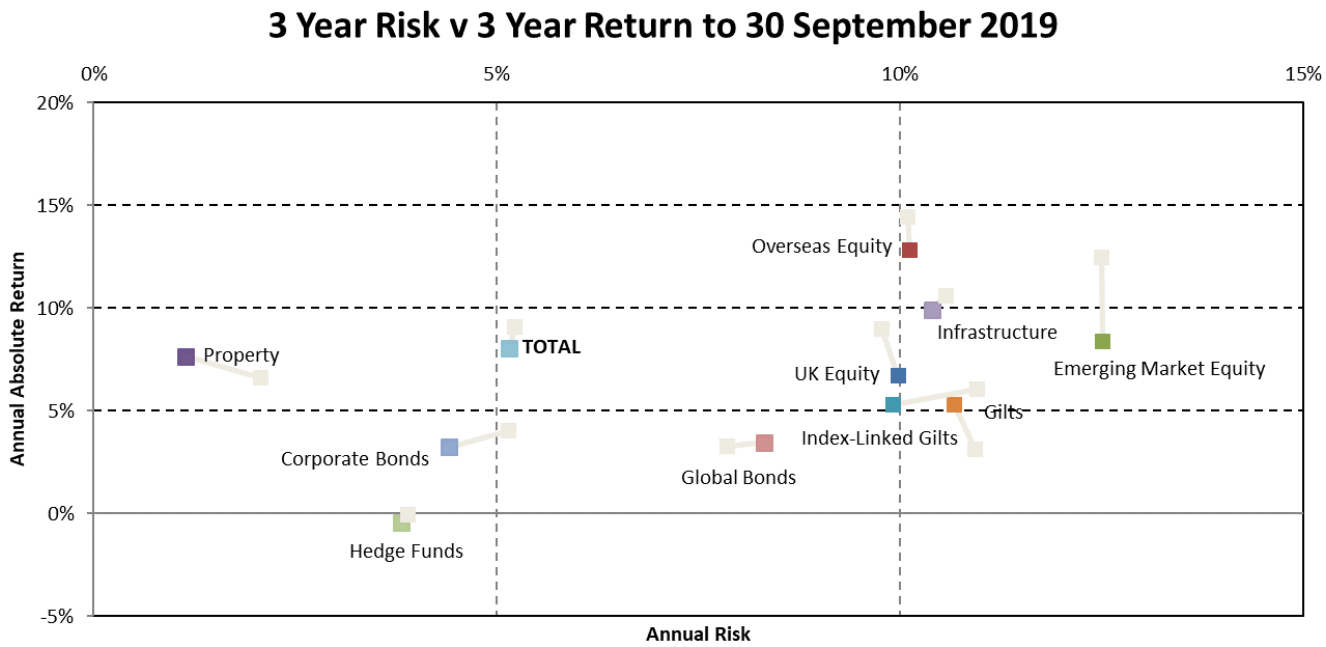
FUND VALUATIONS
VALUATION BY MANAGER CONTINUED

Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
Pyrford	DGF	221,023		223,048	4.5	4.5
Ruffer	DGF	387,902		395,029	7.8	7.9
JP Morgan	Fund of Hedge Funds	239,766		250,926	4.8	5.0
Schroder	UK Property	242,250	-14,025	229,400	4.9	4.6
Partners	Property	214,950	-2,458	215,926	4.3	4.3
Brunel	Secured Income	16,933		17,128	0.3	0.3
IFM	Infrastructure	352,075		365,379	7.1	7.3
Brunel	Infrastructure	10,600	+8,607	19,321	0.2	0.4
Loomis Sayles	Multi-Asset Credit	424,019		429,778	8.6	8.6
Record Currency Management	Currency Hedging	-6,405		-23,146	-0.1	-0.5
Internal Cash	Cash	52,178		85,090	1.1	1.7
Total		**4,946,392**		**4,992,355**	**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

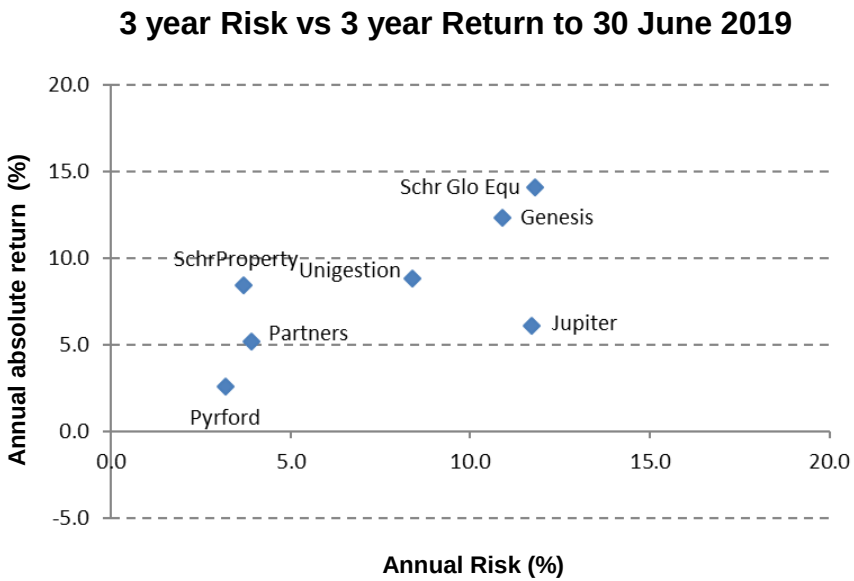


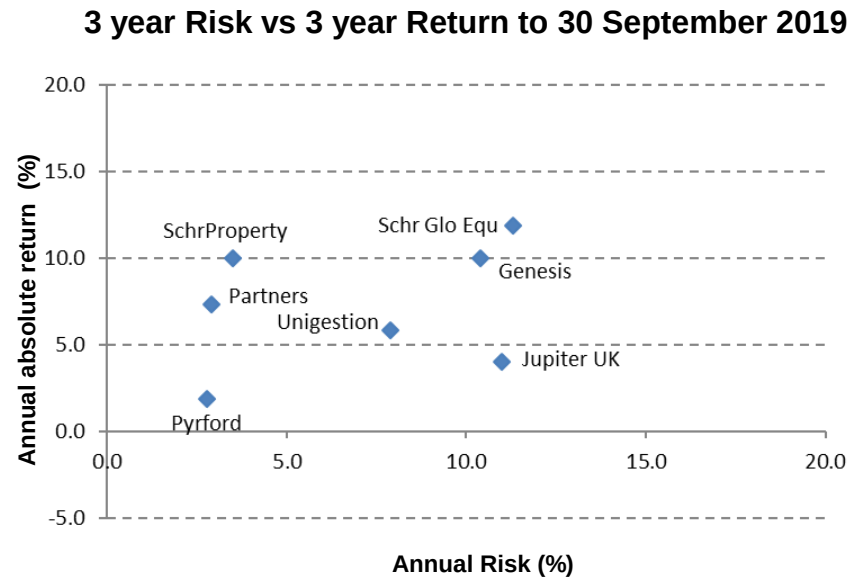
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of September 2019, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark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

Comments

- Most asset classes saw decreases in observed returns over the three-year period, with notable falls coming from Overseas and Emerging Market Equity.
- Associated volatilities also fell across most asset classes. These changes were less pronounced, although some declines of note came from Property and Index-Linked Gilts.

MANAGER MONITORING
RISK RETURN ANALYSIS





Comments

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

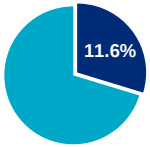
MANAGER MONITORING
MANAGER PERFORMANCE TO 30 SEPTEMBER 2019

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	1.6	1.4	+0.1	6.7	6.1	+0.6	12.6	12.3	+0.3	-	N/A
BlackRock Corporate Bonds	5.7	5.7	0.0	15.9	15.9	0.0	3.8	3.9	0.0	-	N/A
BlackRock LDI	3.3	3.3	0.0	8.4	8.4	0.0	4.9	4.9	0.0	-	N/A
Brunel UK Equity	0.3	1.3	-1.0	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Brunel Passive Low Carbon Equity	4.3	4.3	0.0	9.0	9.0	0.0	N/A	N/A	N/A	-	N/A
Jupiter UK Equity	1.6	1.3	+0.3	1.0	2.7	-1.7	3.9	6.8	-2.7	+2	Target not met
Jupiter Global Sustainable Equity	3.3	3.4	-0.1	13.0	7.9	+4.7	N/A	N/A	N/A	+2-4	N/A
Schroder Equity	2.3	3.4	-1.1	6.5	7.9	-1.3	11.9	12.3	-0.4	+4	Target not met
Genesis	2.0	-1.0	+3.0	14.0	4.1	+9.5	10.1	8.3	+1.7	-	Target met
Unigestion	-1.6	-1.1	-0.5	-2.4	3.7	-5.9	5.6	7.9	-2.1	+2-4	Target not met
Pyrford	0.9	1.8	-0.9	2.9	7.6	-4.4	1.9	8.3	-5.9	-	Target not met
Ruffer	1.8	1.5	+0.3	1.5	6.0	-4.2	N/A	N/A	N/A	-	N/A
JP Morgan	-0.4	1.4	-1.8	2.0	5.6	-3.4	4.5	4.8	-0.3	-	Target not met
Schroder Property	0.4	0.4	0.0	2.3	2.2	+0.1	6.8	6.7	+0.1	+1	Target not met
Partners Property*	1.7	2.5	-0.8	5.3	10.0	-4.3	4.6	10.0	-4.9	-	Target not met
Brunel Secured Income	1.2	0.6	+0.6	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
IFM	0.5	1.2	-0.8	8.2	5.4	+2.7	13.9	4.3	+9.2	-	N/A
Brunel Infrastructure	1.6	0.6	+1.0	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Loomis Sayles	1.4	1.2	+0.2	6.5	4.9	+1.5	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 30 June 2019 as this is the latest date that this is available to.

SECTION 6
MANAGER PERFORMANCE



BRUNEL – PASSIVE GLOBAL LOW CARBON EQUITIES
£580.8M END VALUE *(£556.9M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	●	N/A
Performance Objective *In line with the benchmark*	●	Has performed in line with its benchmark over the year

Manager Research and Developments

- Mandate was initiated in July 2018. LGIM is the underlying manager.
- The fund returned 4.3% over Q3 2019, in line with its benchmark and it has also performed in line with its benchmark over the year to 30 September 2019.
- The fund outperformed the wider market capitalisation index, the MSCI World, which generated a return of 3.8% over the quarter.

Reason for investment

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

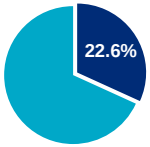
Reason for manager

- Investment made via the Brunel pool

Sector Allocation

Financials	16.6
Information Technology	16.5
Industrials	12.5
Health Care	12.4
Consumer Discretionary	10.7
Consumer Staples	8.9
Communication Services	8.5
Energy	3.8
Materials	3.7
Other	6.5

As at 30 September 2019



BLACKROCK – PASSIVE MULTI-ASSET & LDI (POOLED EQUITIES & QIF)

£1,130.3M END VALUE *(£1,175.4M 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 1.6% over Q3, 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 3.3%, and the Fund's Corporate Bond allocation returned 5.7% over the quarter. The benchmark returns for these have been assumed to be equal to the fund over the quarter.

Reason for investment

To provide asset growth as part of a diversified portfolio

Reason for manager

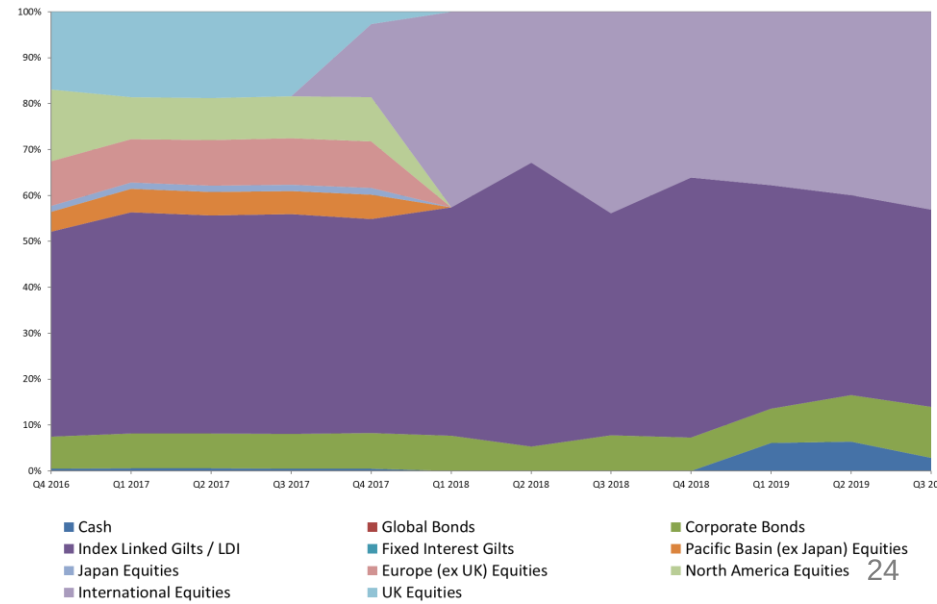
- To provide low cost market exposure across multi asset classes
- Provide efficient way for rebalancing between bonds and equities within a single portfolio

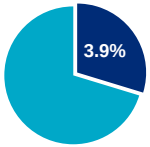
Performance

	Quarter (%)		1-Year (%)		3-Year (% p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Equities	1.6	1.4	6.7	6.1	12.6	12.3
Corporate Bonds*	5.7	5.7	15.9	15.9	3.8	3.9
LDI**	3.3	3.3	8.4	8.4	4.9	4.9
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 Credit 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
£193.7M END VALUE *(£193.1M 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

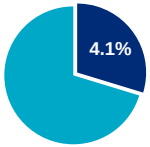
- Mandate was initiated in November 2018. Aberdeen Standard, Baillie Gifford and Invesco are the underlying managers.
- The mandate returned 0.3% over the quarter, underperforming its benchmark which generated a return of 1.3%.

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)
£203.3M END VALUE *(£200.1M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B (no change over period under review). ESG2
Performance Objective *Benchmark +2% p.a.*	Underperformed benchmark by 2.7% p.a. over three years
Tracking error was 3.8% p.a. – *source: Jupiter*	Number of stocks: 54

Manager Research and Developments

- Jupiter outperformed its benchmark over the quarter by 0.3%.
- Domestic news caused the UK stock market to lag other developed markets. While defensive stocks delivered solid gains, economically-sensitive companies, such as oil firms and miners, retreated given the concerns over the global economic outlook.
- On the positive side, Cranswick and FirstGroup were notably strong, with the latter buoyed by a series of announcements including the appointment of a new Chair, and winning the UK's Westcoast mainline rail tender.
- Jupiter underperformed the benchmark by 1.7% over the year and by 2.7% p.a. over the three years to 30 September 2019.

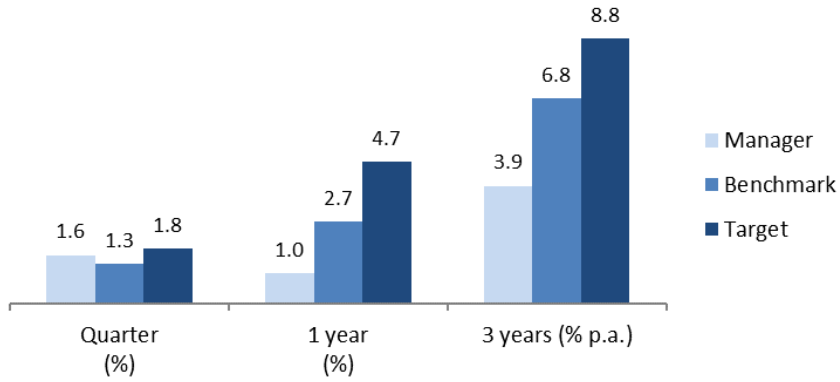
Reason for investment

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

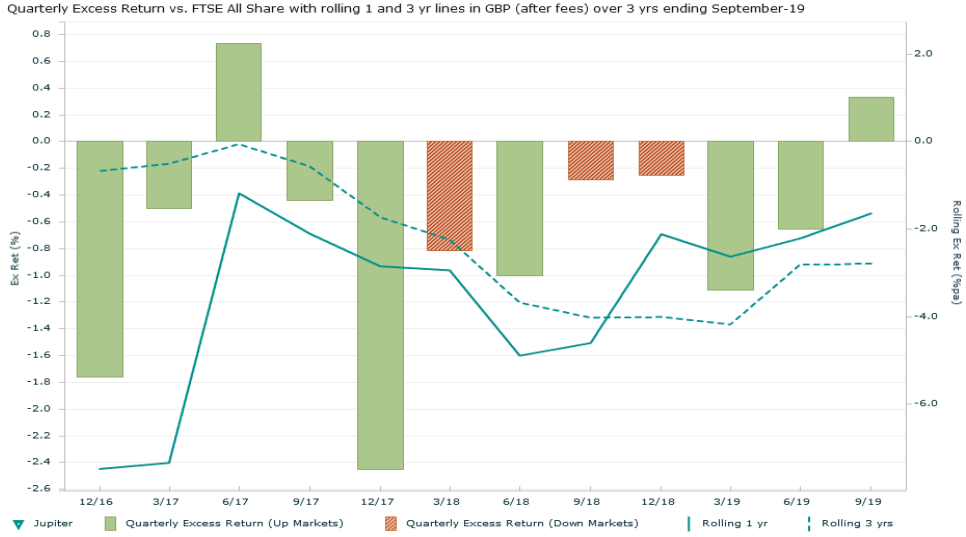
Reason for manager

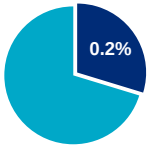
- Clear and robust approach to evaluating SRI factors within the investment process
- Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities
- Corporate commitment to SRI investment approach within a more mainstream investment team

Performance



Rolling relative returns

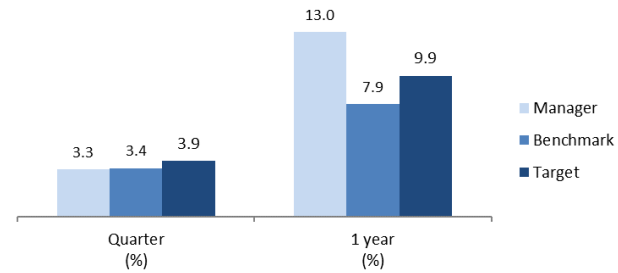




JUPITER ASSET MANAGEMENT – GLOBAL SUSTAINABLE EQUITIES (POOLED)
£12.1M END VALUE *(£11.7M START VALUE)*

Item Monitored	Outcome
Mercer Rating	N (no change over period under review)
Performance Objective *Benchmark +2-4% p.a.*	Has achieved its objective over the year to 30 September 2019

Performance



Manager Research and Developments

- Mandate was initiated in June 2018.
- The fund returned 3.3% over Q3 2019, marginally underperforming its benchmark.
- It did however outperform its benchmark by 4.7% over the year to 30 September 2019.

Sector Allocation

Sector Allocation

Industrials[1]	33.6%
Financials	21.1%
Consumer Goods	10.5%
Health Care	9.3%
Technology	7.8%
Basic Materials	5.9%
Utilities	3.9%
Consumer Services	3.0%
Telecommunications	1.2%
	96.0%
Cash	4.0%
Total	100.0%

[1]Includes general electronic equipment, medical equipment and consumer financial stocks (15.35%).

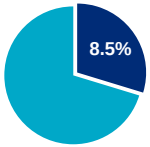
Source: Jupiter.
As at 30 September 2019.

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



SCHRODER – GLOBAL EQUITY PORTFOLIO (SEGREGATED)
£426.3M END VALUE *(£416.5M START VALUE)*

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

Three year tracking error was 2.2% p.a. – *source: Mercer*

Manager Research and Developments

- The fund underperformed the benchmark by 1.1% over the quarter, and by 1.3% over the year. It also slightly underperformed the benchmark over the three years to 30 September 2019.
- Positions in financials, industrial and technology sectors detracted the most over the quarter, while an underweight position in the utilities sector also dragged on performance.
- Performance was also weak across major regions in aggregate, particularly North America, although an underweight position in emerging markets was supportive.
- Proctor & Gamble, Alphabet and Comcast were the largest stock specific contributors over the quarter, with the largest detractors were Anthem, AIA Group and Apple.

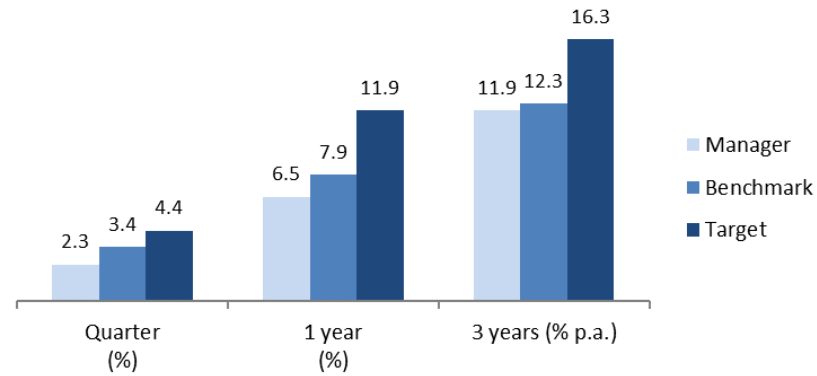
Reason for investment

To provide asset growth as part of a diversified equity portfolio

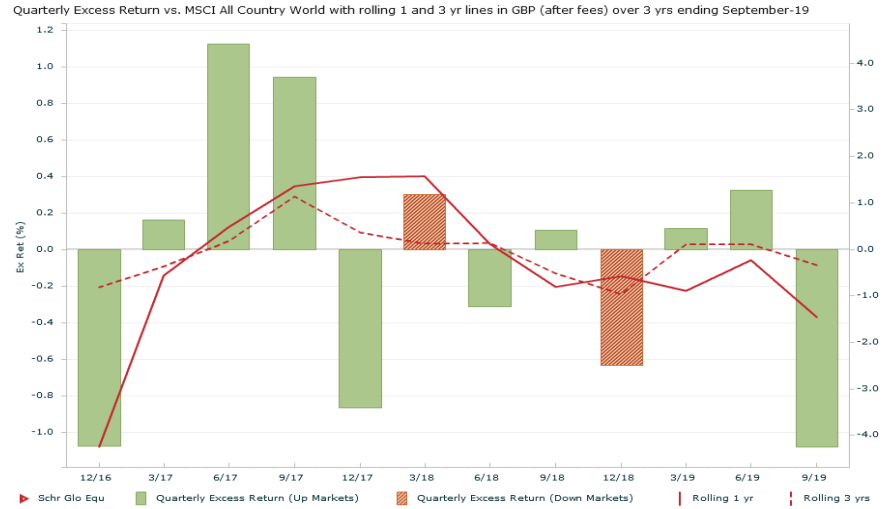
Reason for manager

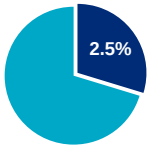
- Clear philosophy and approach
- Long term philosophy aligned with Fund's goals, commitment to incorporating ESG principles throughout the investment process
- Evidence of ability to achieve the Fund's performance target

Performance



Rolling relative returns





GENESIS ASSET MANAGERS – EMERGING MARKET EQUITIES (POOLED)
£125.7M END VALUE *(£123.3M START VALUE)*

Item Monitored	Outcome
Mercer Rating	A (no change over period under review). ESG3
Performance Objective *Benchmark*	Outperformed benchmark by 1.7% p.a. over three years
Three year tracking error was 3.8% p.a. – *source: Genesis*	Number of stocks: 110

Manager Research and Developments

- The fund has outperformed its benchmark by 3.0% over the quarter, by 9.5% over the year, and by 1.7% p.a. over the three years to 30 September 2019.
- Regionally, South Korea was the largest contributor to returns over the quarter, whilst Taiwan was the largest detractor. The largest stock specific contributors were Naver and New Oriental Education from South Korea and China respectively, whilst the largest detractor was 58.com from China. In terms of sectors, Financials were the largest contributor, whilst IT was the largest detractor.

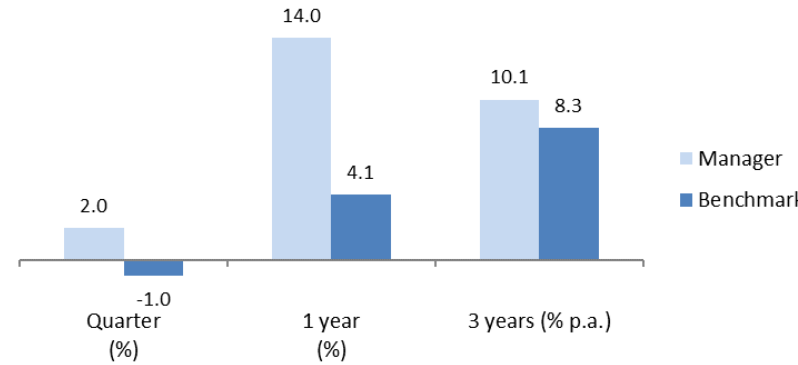
Reason for investment

To provide asset growth as part of a diversified equity portfolio

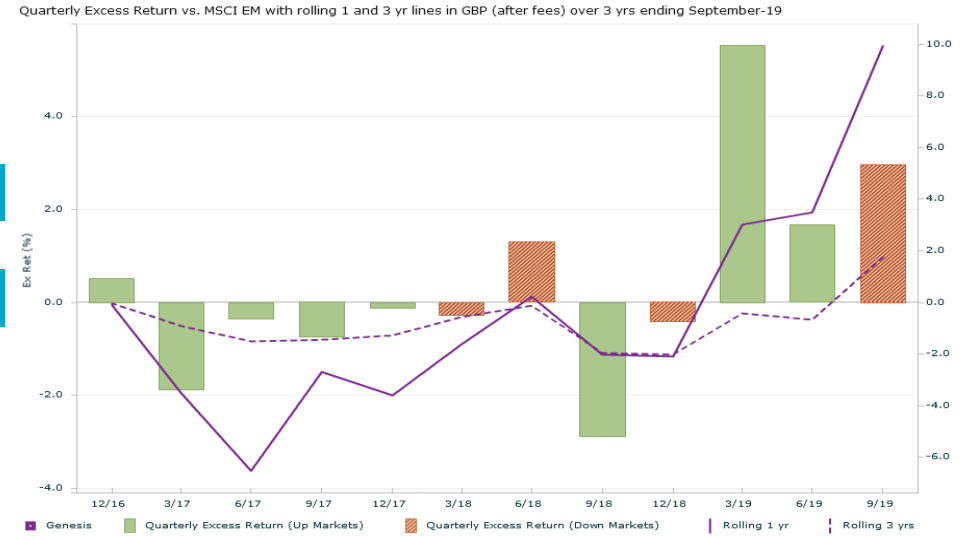
Reason for manager

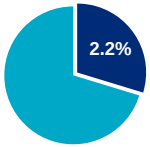
- Long term investment approach which takes advantage of evolving growth opportunities
- Niche and focussed expertise in emerging markets
- Partnership structure aligned to delivering performance rather than growing assets under management

Performance



Rolling relative returns





UNIGESTION – EMERGING MARKET EQUITIES (POOLED – SUB-FUND)
£112.0M END VALUE *(£113.8M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *Benchmark +2-4% p.a.*	Underperformed benchmark by 2.3% p.a. over three years
Three year tracking error was 6.2% p.a. – *source: Unigestion*	Number of stocks: 84

Manager Research and Developments

- The fund underperformed its benchmark by 0.5% over the quarter and by 5.9% and 2.1% over the one and three year periods respectively.
- This was largely due to poor performance in August as global equities had a significant pull back, with defensive sectors outperforming cyclicals. This was enough to outweigh modest gains in July and September.
- Relative underperformance was most notable in July however, with underweight positions in Semiconductors, Retailing and Media detracting in terms of industry group attributions. By country, the fund was also held back by overweight positions in Thailand and India.
- Volatility since inception is 12.8%, lower than the index (16.0%) 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.

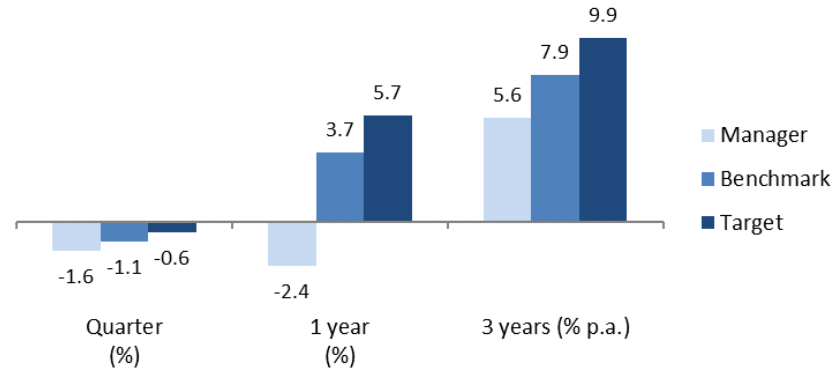
Reason for investment

To provide asset growth as part of a diversified equity portfolio

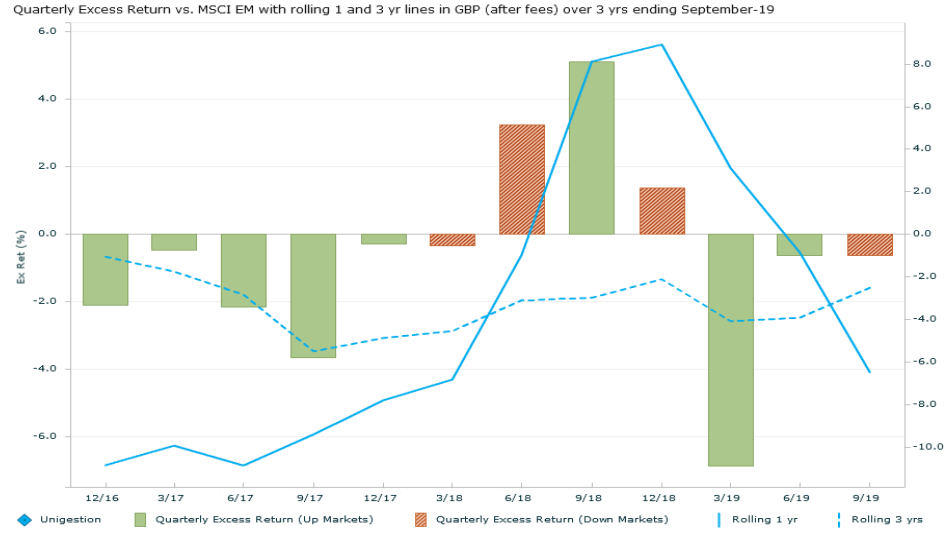
Reason for manager

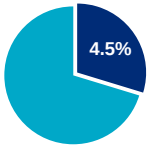
- Risk-based active management approach
- Aim for lower volatility than the MSCI Emerging Markets Index
- Combine fundamental and quantitative analysis

Performance



Rolling relative returns





PYRFORD – DGF (POOLED)
£223.0M END VALUE *(£221.0M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *RPI +5% p.a.*	Underperformed target by 5.9% p.a. over three years

Manager Research and Developments

- The fund underperformed its objective (RPI + 5% p.a.) over the quarter by 0.9%, and has also underperformed by 4.4% over the year and by 5.9% p.a. over three years.
- They driver of positive absolute returns over the quarter came from the portfolio's exposure to domestic equities, in particular Vodafone, GlaxoSmithKline and SSE.
- 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.

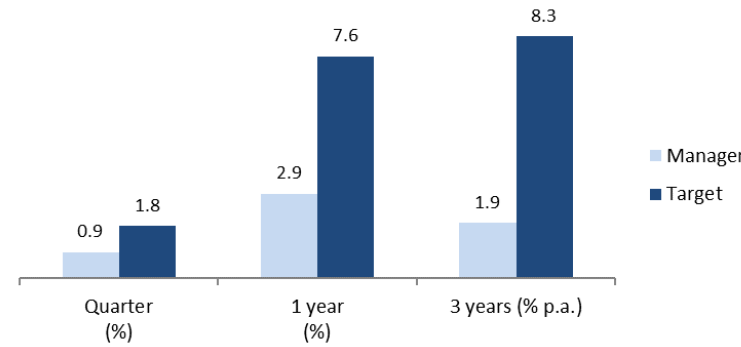
Reason for investment

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

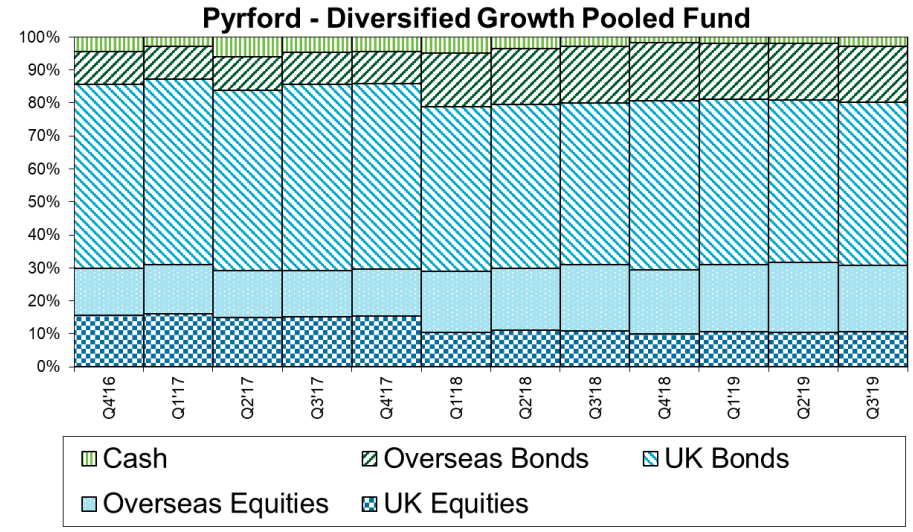
Reason for manager

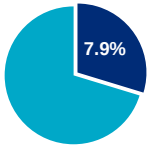
- Asset allocation skill between equities, bonds and cash
- Fundamental approach to stock selection

Performance



Asset Allocation





RUFFER – DGF (POOLED)
£395.0M END VALUE *(£387.9M START VALUE)*

Item Monitored	Outcome
Mercer Rating	A (no change over period under review). ESG2
Performance Objective *Cash +5% p.a.*	Underperformed target by 4.2% p.a. over the year

Manager Research and Developments

- Ruffer delivered a performance of 1.8% over the quarter against an objective of 1.5%, and a performance of 1.5% over the year against an objective of 6.0%.
- Strong stock selection in Japanese equities boosted returns with this exposure returning 10% on average.
- The collapse in government bond yields meant that UK index-linked prices rose strongly, and gold equities similarly continued their strong performance with its status as a 'safe haven' in the context of negative-yielding global bonds.
- Ruffer's primary focus remains capital preservation and to not lose money in any twelve-month period.
- To this end the strategy was successful over the year to 30 September 2019. However, part of the underperformance can be attributed to the negative contribution from protection strategies. Ruffer's UK equity positioning has also hurt performance on the back of the decline in domestic confidence amidst ongoing Brexit uncertainty.
- Ruffer saw it's Mercer ESG rating upgraded over the quarter to ESG2. Mercer takes the view that they systematically integrate ESG considerations into their investment process, starting at the idea-generation stage and continuing through to the stock-review process.

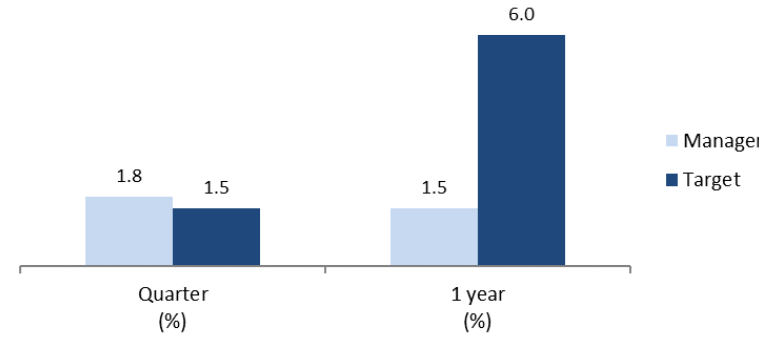
Reason for investment

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

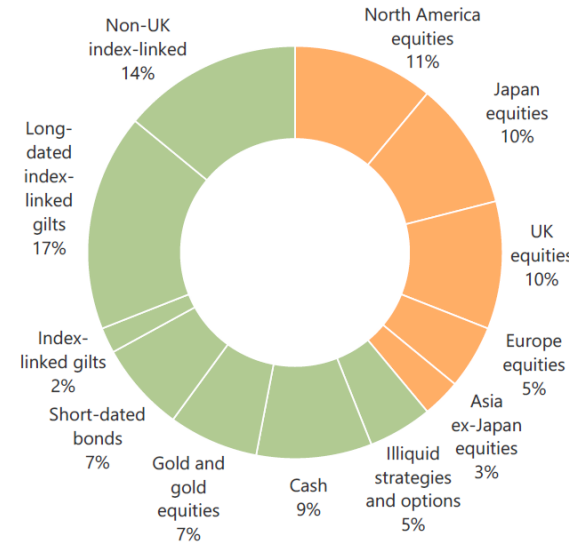
Reason for manager

- 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

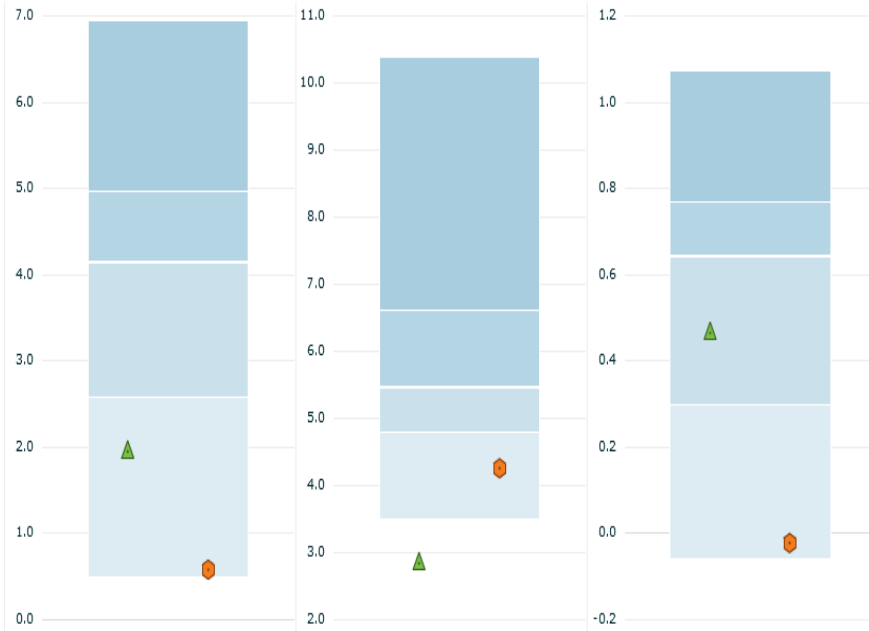


Source: Ruffer.
As at 30 September 2019.

DGF MANDATES

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

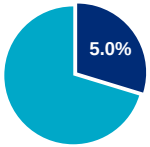
Comparison with the International Multi-asset GBP (Net) universe (Actual Ranking) (quarterly calculations)



	Ret (%pa)	Std Dev (%pa)	IR
Pyrford	1.9 *(35)*	2.8 *(42)*	0.5 *(29)*
Ruffer	0.6 *(39)*	4.3 *(39)*	0.0 *(39)*
95th Percentile	7.0	10.4	1.1
Upper Quartile	5.0	6.6	0.8
Median	4.1	5.5	0.6
Lower Quartile	2.6	4.8	0.3
5th Percentile	0.5	3.5	-0.1
Number	43	43	43

Commentary

- Over the three years to 30 September 2019, Pyrford outperformed the Ruffer pooled fund by 1.3% 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 2.8% p.a. by Pyrford, while Ruffer had a volatility of 4.3% 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
£250.9M END VALUE *(£239.8M START VALUE)*

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

Item	
Number of funds	29 (as at 30 September 2019)

Strategy	Contribution to Performance over the Quarter in USD (%)
Relative Value	0.14
Opportunistic/Macro	0.32
Long/Short Equities	-0.89
Merger Arbitrage/Event Driven	-0.01
Credit	0.03
Total	**-0.4 (including cash and fees)**

In USD terms, the fund return was 2.8% over Q3 (above benchmark).

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

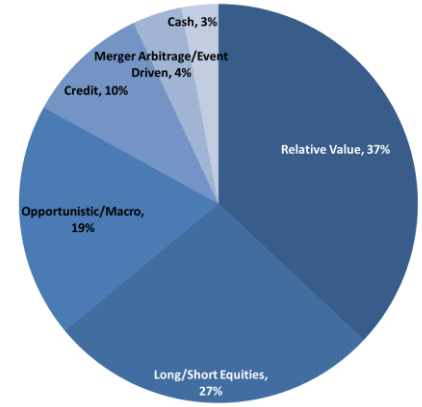
Reason for manager

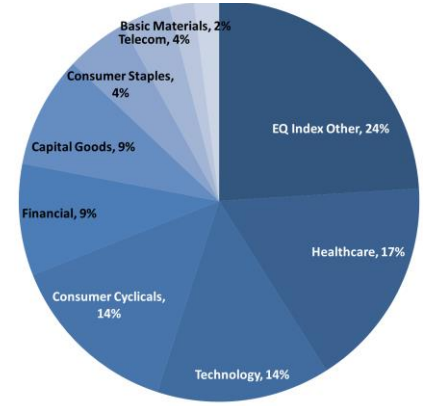
- Niche market neutral investment strategy
- Established team with strong track record
- Complemented other funds in the portfolio

Performance (GBP, JP Morgan return converted from USD)

Last Quarter	2.8%	Target	1.0%
Last Year	4.9%	Target	3.9%
Last 3 Years (p.a.)	5.3%	Target	3.6%

Portfolio Composition and Equity Sector Allocation

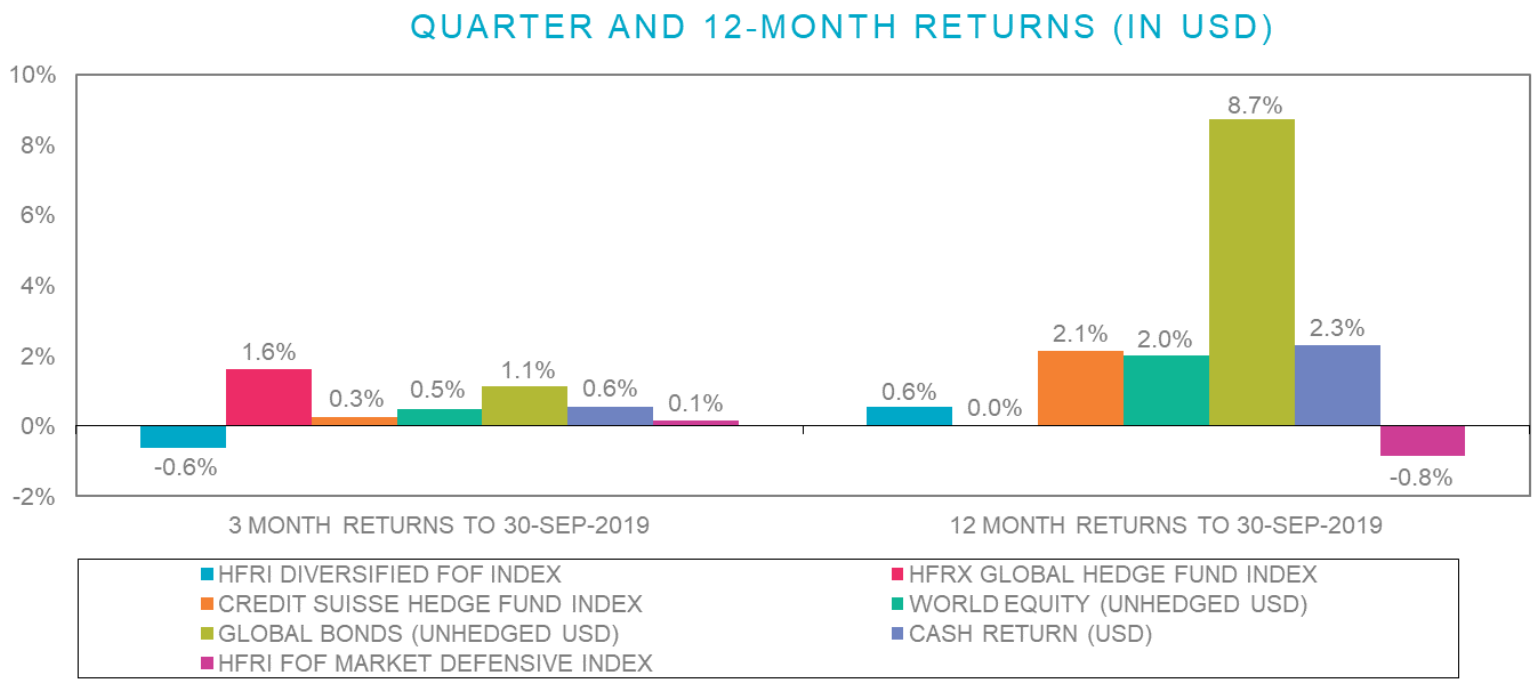




Source: JP Morgan.
As at 30 September 2019.

HEDGE FUND COMMENTARY – Q3 2019

- Following a solid start to the year and further positive and uncorrelated returns through Q2, hedge funds underperformed both equities and bonds during Q3. While most strategies protected capital during the August market selloff, the 3rd quarter overall was challenging for hedge fund performance, particularly within equity strategies.
- 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 – Q3 2019

Relative Value (37%)

- HFRI Relative Value returned +0.2% in Q3 2019.
- Gains in relative value strategies were mixed across sub-strategies types, as gains in convertible arbitrage, credit relative, and interest-rate relative value strategies were coupled with losses from volatility strategies and other diversified relative value strategies.
- A confluence of factors, including idiosyncratic geopolitical events, policy uncertainty, and macroeconomic divergences were headwinds to performance during the quarter but highlighted an improved environment for trading opportunities among managers.
- The investment grade and high yield cash-synthetic basis have moved less negative but is lower than its historical average, improving the return profile for credit relative quarter while highlighting a continued strong structural opportunity set. Convertible arbitrage strategies also posted gains during the quarter.

Long/Short Equities (27%)

- HFRI Equity Hedge and Equity Market Neutral ("EMN") strategies earned -1.1% and +0.6%, respectively, in Q3 2019.
- Equity strategies posted losses during the quarter in a reversal of the previously strong year-to-date alpha generation. A technical unwind which saw a large decline in momentum names fuelled one of the largest negative alpha months for equities in recent history, particularly for US-based funds that reduced long positions in crowded names. Other regions were less susceptible to this crowding dynamic and had better performance.
- The aforementioned deleveraging of long positions disproportionately affected longer-biased and US-focused managers. That said, performance varied across managers with exposures to different geographies and sectors. Stock correlations spiked overall in Q3, but dispersion among sectors had a disparate impact on managers' portfolios.

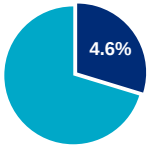
Opportunistic / Macro (19%)

- HFRI Macro: Systematic and Discretionary returned 3.0% and 0.4% respectively in Q3 2019.
- Macro strategies on average performed the best during the quarter across all major hedge fund sub-strategies, posting gains when equities stumbled in August. While there was dispersion across macro managers, systematic strategies fared the best. Broad CTA indices made money overall and were boosted by long bond and equity positioning, and discretionary managers that were not overly exposed to Argentina posted gains amid global 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. Divergent central bank policies, concerns about global economic headwinds, geopolitical tensions, and trade policies will continue to fuel the opportunity set for macro managers.

Merger Arbitrage / Event Driven (4%)

- HFRI Distressed and Merger Arbitrage returned -2.6% and +1.0% respectively in Q3 2019.
- Event-driven strategies were mixed during the quarter. Longer-biased strategies, including special situations equities, were whipsawed by similar dynamics that affected long/short equity managers.
- Distressed strategies were hurt by a collapse in prices of many lower-quality credits, particularly within energy, and due to idiosyncratic events. An impending jury decision of liability for PG&E caused a selloff, and losses in Argentine bonds followed President Macri's primary loss to Peronist Alberto Fernandez.
- Merger arbitrage strategies posted modest gains while other strategies struggled. Continued strong deal volume and size and a shift towards strategic deals drove a healthy opportunity set. Spreads remained attractive, and the closing of Anadarko/Occidental buoyed results

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



SCHRODER – UK PROPERTY FUND OF FUNDS
£229.4M END VALUE *(£242.3M START VALUE)*

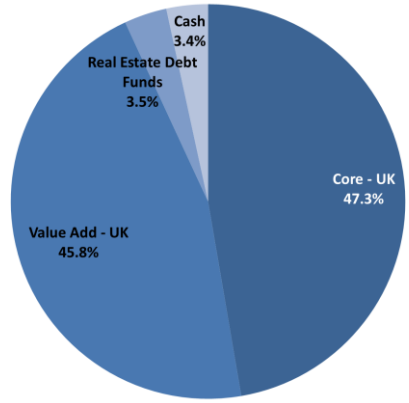
Item Monitored	Outcome
Mercer Rating	B (no change over period under review). ESG3
Performance Objective *Benchmark +1% p.a.*	Underperformed benchmark over five years

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.
- Disinvestments were made from the Schroder Real Estate Investment Fund (c.£1.3m).

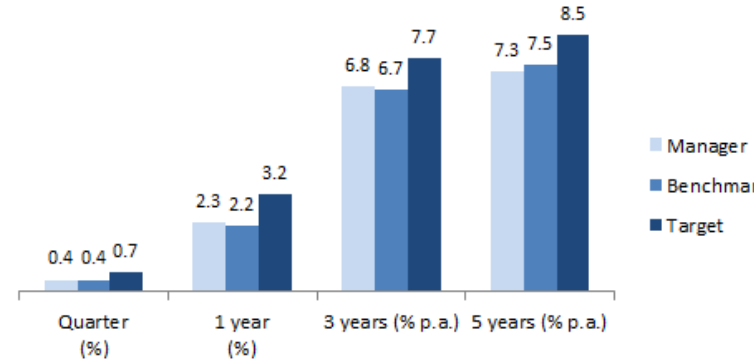
Manager and Investment type splits

Top 5 Holdings	Proportion of Total Fund (%)
Industrial Property Investment Fund	16.9
Metro Property Unit Trust	10.3
Hermes Property Unit Trust	10.0
BlackRock UK Property Fund	9.4
Schroder Real Estate Income Fund	8.8

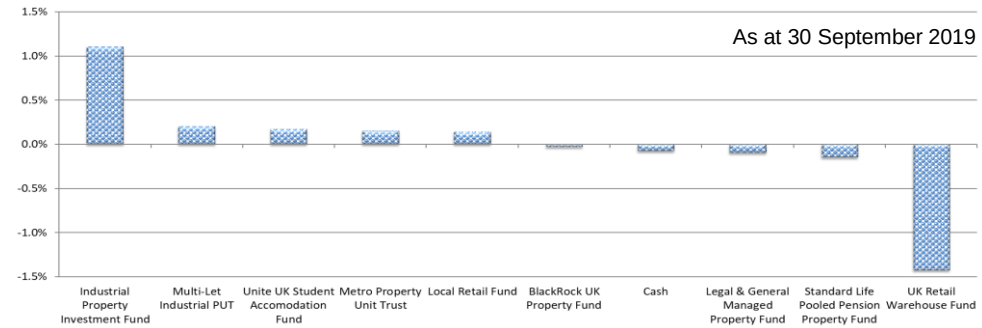


As at 30 September 2019

Performance



Top 5 Contributing and Detracting Funds over 12 Months

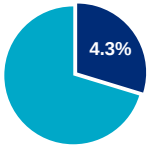


Reason for investment

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



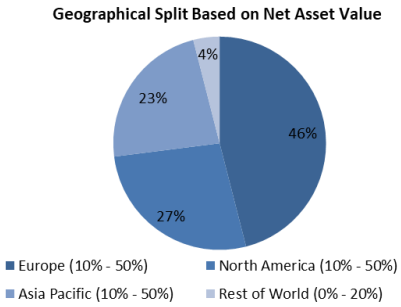
PARTNERS – OVERSEAS PROPERTY
£215.9M END VALUE *(£215.0M START VALUE)*

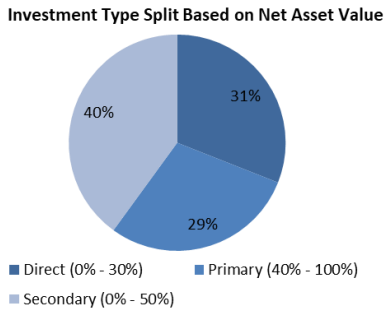
Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review). ESG4
Performance Objective *IRR of 10% p.a.*	IRR since inception to 30 June 2019 at 7.0% p.a. (in local currency) is below target of 10% p.a.

Manager Research and Developments (Q2 2019)

- The portfolio delivered a net return of 4.1% over Q2 2019 for USD programmes in local currency, and 1.4% 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 30 June 2019 at 7.0% p.a. (in local currency) is below their target of 10% p.a.; over the three years to 30 June 2019 IRR was 4.6% p.a. (in local currency terms).
- Over Q2, the allocation to Asia Pacific increased slightly (from 21% to 23%), while Europe holdings also decreased by 2%. 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 June 2019





Portfolio update to 30 June 2019

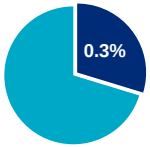
Partners Fund	Total Drawn Down (£m)	Total Distributions (£m)	Net Asset Value (£m)	Since Inception Net IRR (local currency)
Global Real Estate 2008	30.98	31.68	7.01	4.6
Real Estate Secondary 2009	19.62	19.26	11.34	8.6
Asia Pacific and Emerging Market Real Estate 2009	17.68	15.69	6.07	2.1
Distressed US Real Estate 2009	14.08	19.04	2.70	8.1
Global Real Estate 2011	25.09	25.33	12.22	8.4
Direct Real Estate 2011	11.43	11.15	5.98	6.0
Real Estate Secondary 2013	11.71	8.22	11.60	15.8
Global Real Estate 2013	100.2	8.25	127.41	8.1
Real Estate Income 2014	21.79	6.09	21.13	3.9
Asia Pacific Real Estate 2016	11.66	5.07	10.85	18.6
Total	**264.24**	**149.77**	**216.32**	**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
£17.1M END VALUE *(£16.9M 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

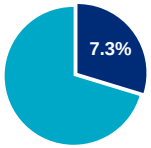
- Mandate was initiated in January 2019. Aberdeen Standard is the underlying manager, although more managers will be added over time.
- The strategy generated a return of 1.2% over Q3 2019, outperforming the benchmark return of 0.6%.

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)
£365.3M END VALUE *(£352.1M 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 2.7% over the year (in USD)

Item

Number of holdings	16

Manager Research and Developments

- Over the quarter the fund returned 0.5% in US Dollar terms, against Avon's performance objective of 1.2% (cash + 2.5% p.a.).
- IFM outperformed returning 8.2% against the objective of 5.4% over the year. They also outperformed the objective over three years, returning 13.9% p.a. versus 4.3%.
- During the quarter, a total of $1,213m was accepted in new commitments. There were no notable acquisitions during this time.
- The pooled fund also received income of $370.2m of distributions from three assets.
- It was recently announced that IFM Investors' Chief Executive Brett Himbury will be stepping down from his role in December 2020. His intention to continue in the role for more than 12 months provides substantial opportunity for IFM Investors to undertake an appropriate search for a replacement and to manage the transition of responsibilities. At this stage, Mercer has no significant concerns regarding this.
- regarding this announcement.

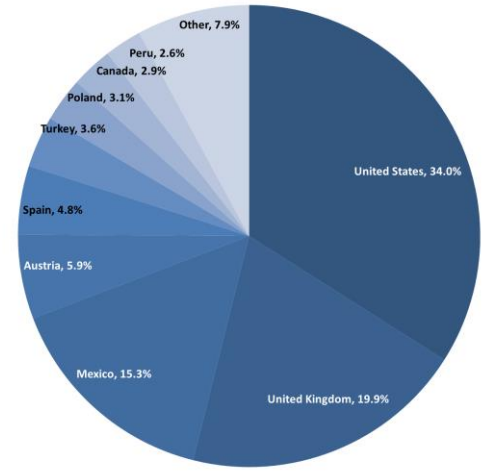
Reason for investment

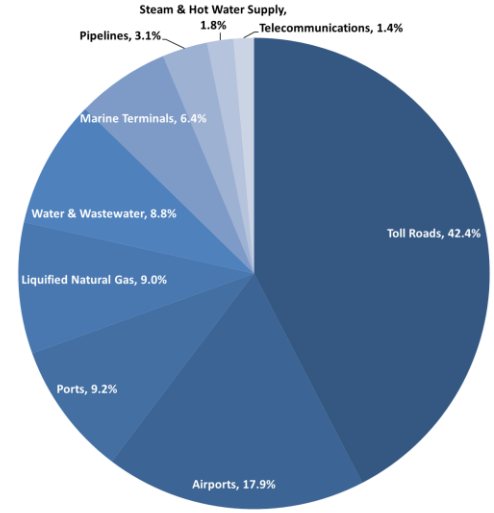
To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

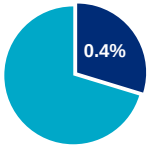
- Invests in core infrastructure assets in countries with established regulatory environments and strong rule-of-law
- Seeks to invest in assets with strong market positions, predictable regulatory environments, high barriers to entry, limited demand elasticity and long lives

Geographical and Sub-Sector Allocation





Source: IFM.
As at 30 September 2019.



BRUNEL – INFRASTRUCTURE
£19.3M END VALUE *(£10.6M START VALUE)*

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

Manager Research and Developments

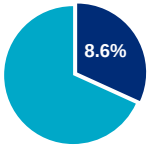
- Mandate was initiated in January 2019. NTR and Mirova are the underlying managers.
- The fund had another quarter of positive performance delivering a return of 1.6%, above the benchmark return of 0.6%.

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)
£429.8M END VALUE *(£424.0M START VALUE)*

Item Monitored	Outcome
Mercer Rating	A (no change over period under review). ESG3
Performance Objective *Cash +4% p.a.*	Outperformed by 1.5% over the year

Manager Research and Developments

- Loomis delivered a performance of 1.4% over the quarter, against a benchmark return of 1.2%. Over the year, the fund returned 6.5%, outperforming its benchmark.
- Investment grade corporate selections aided performance, with financials, communications, and technology issues having the largest positive impacts.
- Global high-yield corporate bonds also benefited from stability in equity markets and a continuation of accommodative Federal Reserve policy.
- Emerging markets holdings also performed well, despite the asset class coming under pressure from a stronger US dollar, and remaining concerns around a protracted US/China trade conflict.
- The overall duration of the portfolio remained at 5.2 years.

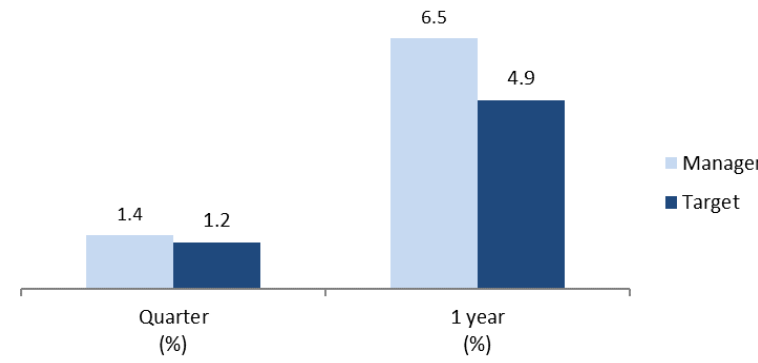
Reason for investment

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

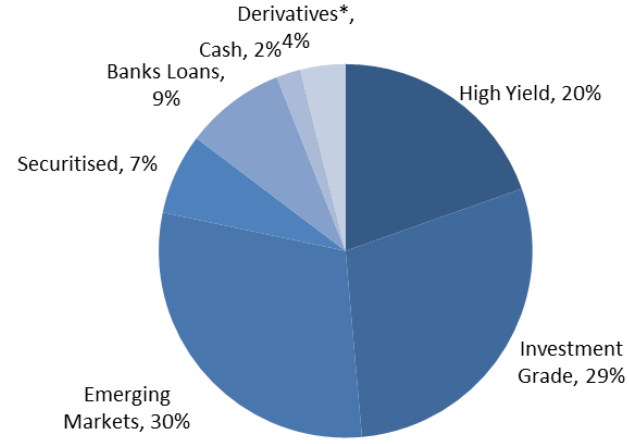
Reason for manager

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

Performance

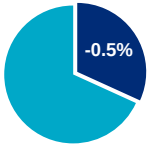


Sector Allocation



Source: Loomis Sayles.
As at 30 September 2019.

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



RECORD – CURRENCY HEDGING (SEGREGATED)
-£23.1M END VALUE *(£ -£6.4M START VALUE)*

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

Manager Research and Developments

Over the quarter, Sterling weakened against the US Dollar and Yen (-3.2% and -2.9% respectively) and strengthened against the Euro by 1.1%. (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 Q3 2019 Performance (£ terms)

Passive Developed Equity Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	843,146,173	885,046,070	3.28%	(1.89%)	(1.82%)	1.48%
EUR	180,150,587	185,574,608	(1.13%)	0.68%	0.71%	(0.39%)
JPY	91,603,487	90,482,902	2.96%	(1.43%)	(1.47%)	1.58%
Total	**1,114,900,247**	**1,161,103,579**	**2.54%**	**(1.44%)**	**(1.39%)**	**1.19%**

Passive Hedge Fund Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	242,253,253	253,976,270	3.28%	(3.78%)	(3.67%)	(0.38%)
Total	**242,253,253**	**253,976,270**	**3.28%**	**(3.78%)**	**(3.67%)**	**(0.38%)**

Passive Property Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	24,421,801	25,719,059	3.28%	(3.78%)	(3.67%)	(0.37%)
EUR	188,142,309	189,817,859	(1.13%)	1.31%	1.36%	0.31%
Total	**212,564,110**	**215,536,918**	**(0.63%)**	**0.71%**	**0.77%**	**0.23%**

Passive Infrastructure Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	150,926,711	161,771,750	3.28%	(3.78%)	(3.67%)	(0.37%)
EUR	49,083,693	53,698,525	(1.13%)	1.31%	1.37%	0.31%
Total	**200,010,404**	**215,470,275**	**2.17%**	**(2.53%)**	**(2.43%)**	**(0.20%)**

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.

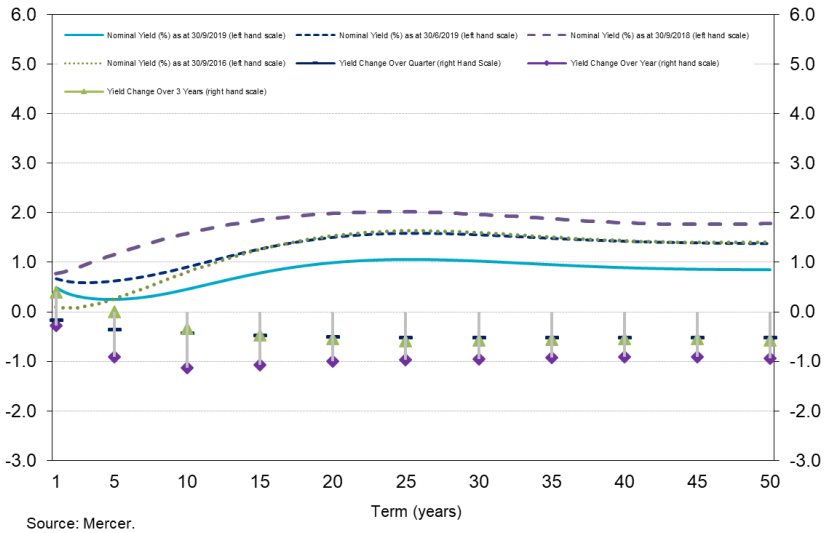
APPENDIX 3
CHANGES IN YIELDS

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 Sep 2019	30 Jun 2019	30 Sep 2018	30 Sep 2017
UK Equities	4.21	4.13	3.80	3.68
Over 15 Year Gilts	0.91	1.40	1.86	1.84
Over 5 Year Index-Linked Gilts	-2.20	-1.89	-1.49	-1.51
Sterling Non Gilts	1.84	2.16	2.63	2.30

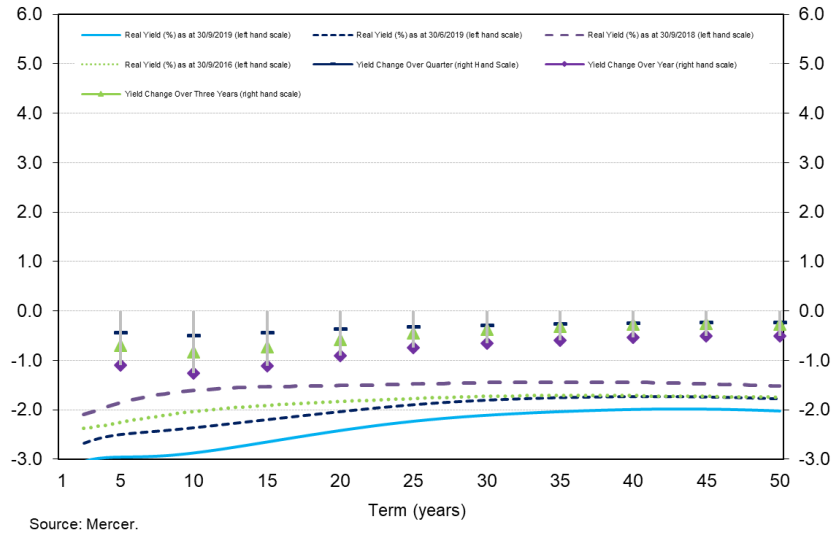
- Nominal yields were again down across the curve over the quarter.
- The Over 15 Year Gilt Index generated a return of 11.0%, outperforming the broader global bond market over the quarter.
- Real yields also fell across the curve over the quarter. The Over 5 Year Index-Linked Gilts Index also returned 8.7% as a result.
- Credit spreads were mostly flat over the quarter, as investors left risk allocations largely unchanged given the ongoing slowdown fears. The sterling Non-Gilts All Stocks Index credit spread ended the quarter at c.1.3% p.a., and UK credit assets delivered a return of 3.7% 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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