

Avon Pension Fund

Panel Investment Performance Report Quarter to 31 December 2019

February 2020

Steve Turner
Ross Palmer

welcome to brighter

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

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Section 1

Executive Summary

EXECUTIVE SUMMARY

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

- Invested assets decreased slightly by £7m over the quarter to 31 December 2019, to £4,985m. Positive performance across most growth assets was countered by a decrease in the value of the LDI portfolio, which was impacted by rising gilt yields and falling inflation.

Strategy

- Global (developed) equity returns over the last three years were 10.5% 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 a positive performing quarter. Favourable market behaviour and easing monetary policies was offset by elevated valuations and a macro environment that is subject to headline risk and unpredictable geopolitical disruptions.
- Emerging market equities have returned 9.0% p.a. over the three-year period, above the assumed return of 8.70% p.a. While valuations have deteriorated, the sector is still by far more attractive than other sectors in this space. The macro environment remains mixed for emerging markets but there has been a notable improvement since the last quarter, which could maintain the momentum that has recently returned to the sector.
- 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, though gilt yields saw a recovery over the quarter with consequential negative returns. Fixed interest gilts returned 5.1% p.a. over three years versus an assumed return of 1.90% p.a. whilst index-linked gilts also returned 5.3% p.a. versus an assumed return of 2.9% p.a.
- UK corporate bonds returned 4.0% p.a. over the three-year period, slightly ahead of the assumed strategic return of 3.25% p.a.
- The three-year UK property return of 6.9% p.a. remains higher than the assumed return of 5.75% p.a.
- Hedge fund returns were positive over the quarter in local currency terms, but the three-year return of 4.9% p.a. remains below the strategic return of 5.10% p.a. In recent years hedge funds have been impacted by low cash rates and the generally more challenging environment for active managers.
- The Fund’s currency hedging policy was positive overall for Fund performance over the quarter, since Sterling appreciated against major foreign currencies following the General Election result in December. Currency hedging has detracted over longer time periods.

EXECUTIVE SUMMARY

Managers

- Manager total returns over the quarter were mostly positive, with the strongest performance coming from the UK equity managers. Emerging market equities were also strong, and the performance of the two Diversified Growth Funds (“DGF”) were also modest. The IFM infrastructure mandate was a stand out performer in USD terms, and the Fund of Hedge Funds manager also saw a return to positive performance in this local currency, although it should be noted these numbers will have been hindered by the strengthening of sterling.
- The performance of the Fund’s LDI portfolio was negative in light of the recovery in gilt yields and falls in implied inflation (partly due to the prospect of RPI reform). The Brunel Renewable Infrastructure and Secured Income mandates also delivered negative returns over the quarter, but given these are still in the process of being drawn down weaker performance is currently to be expected.
- Absolute returns over the year to 31 December 2019 were broadly positive across the Fund’s investment managers with all of the managers, particularly within equity markets, delivering positive returns over the period.
- Relative performance has been slightly more mixed over the year. Notable contributors with strong relative returns included IFM, Jupiter and Loomis Sayles.
- 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 IFM and Schroders Property generating positive relative returns.

Key Points for Consideration

- The Active Global Equity mandate (with Schroders) and Emerging Market Equity mandates (with Genesis and Unigestion) were successfully transitioned to Brunel during the quarter.
- The Committee carried out a series of investment strategy workshops during the fourth quarter of 2019, reviewing all aspects of the Fund’s portfolio including potential new asset classes (such as private debt), Responsible Investment allocations (within the equity and alternative portfolios) and the risk management strategies. The Committee has agreed to continue with an equity protection strategy, with the current static strategy being renewed until mid-2021 whilst the Officers and Panel investigate further the merits of implementing a dynamic solution. The Committee will agree wider strategic changes at the upcoming February strategy meeting.
- At quarter end, the allocation to developed market equities was above the Fund’s stated upper tolerance range. A decision on whether or not to rebalance should take account of the equity protection strategy and any wider strategic changes that are agreed.

EXECUTIVE SUMMARY

MANAGER INFORMATION

Manager	Type	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	ESG	Page
BlackRock	Passive	Global Equities	A	✓	✓	P2	23
BlackRock	Passive	Corporate Bond	A	✓	✓	N	23
BlackRock	Passive	LDI	A	✓	✓	N	23
BlackRock	Passive	ETF	N/A	N/A	N/A	-	23
Brunel	Passive	Global Low Carbon Equities	N/A	✓	N/A	P1	24
Brunel	Active	UK Equities	N/A	-	N/A	-	25
Brunel	Active	Global High Alpha Equities	N/A	N/A	N/A	-	26
Brunel	Active	Emerging Market Equities	N/A	N/A	N/A	-	27
Jupiter	Active	UK Equities	B	-	✗	2	28
Jupiter	Active	Global Sustainable Equities	N	✓	N/A	N	29
Loomis Sayles	Active	Multi-Asset Credit	A	✓	N/A	3	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

- Three active equity managers (Schroder, Genesis and Unigestion) were terminated over the quarter, being replaced by two new Brunel equity mandates.

EXECUTIVE SUMMARY

MANAGER INFORMATION

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	R	-	×	4	34
Schroder	Active	UK Property	B	-	-	3	37
Partners	Active	Global Property	B+	×	×	4	38
IFM	Active	Infrastructure	B+	✓	✓	2	39
Brunel	Active	Infrastructure	N/A	N/A	N/A	-	40
Brunel	Active	Secured Income	N/A	N/A	N/A	-	341
Record Currency Management	Active	Currency Hedging	N	N/A	N/A	N	42
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

- Mercer changed its rating for JP Morgan's Fund of Hedge Funds to an 'R' rating, meaning that full research coverage will no longer be maintained. This was in response to a decline in assets under management and disappointing performance in recent periods.

Section 2

Market Background

MARKET BACKGROUND

INDEX PERFORMANCE

Equity Market Review

The rally in growth assets continued in Q4 2019, despite the ongoing slowdown in the global economy and downward growth revisions persisting. Consumer spending and sentiment, on the other hand, remained strong and employment proved resilient. With regard to geopolitics, trade uncertainty has receded somewhat after the NAFTA successor was ratified and an interim agreement between the US and China was reached. Loose monetary policy both by developed and emerging market central banks has also continued to provide some tailwind.

In the UK, quarterly annualised GDP returned to 1.6% after last quarter's contraction but a slowdown is expected for Q4. Headline CPI inflation fell to 1.3% at the end of December from 1.7% at the end of September. 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 2.1% over the quarter to September 2019, with the same rate of growth expected for Q4. The Federal Reserve cut the benchmark rate in October to 1.5% - 1.75% and has left it unchanged since then. US manufacturing remains soft, with the two leading PMI surveys sending conflicting messages. Economic growth remains largely subdued in the Eurozone and Japan.

While emerging market growth was stronger on absolute terms, trade uncertainty remains an issue, recent improvements notwithstanding.

Bond Market Review

Nominal and real yield curves shifted up and steepened marginally over the quarter. The quarter saw a return of bullish market sentiment, which reduced demand for safe-haven assets.

As an illustration, the yields on the FTSE Over 15 Year Gilts Index and FTSE Over 5 Year Index-Linked Gilts Index rose to 1.25% and -1.84% respectively, an increase for both of 0.34%.

Their respective indices returned -6.6% and -9.4% respectively as a result.

Credit spreads fell over the quarterly, mostly for lower ratings amid risk-on sentiment returning. The sterling Non-Gilts All Stocks Index credit spread ended the quarter at c.1.1% p.a., and UK credit assets delivered a return of -0.7% over the quarter.

Currency Market Review

Sterling strengthened against the US Dollar, Yen and Euro (by 7.5%, 4.4% and 8.1% respectively) in the lead up to and following the outcome of the December General Election.

Commodity Market Review

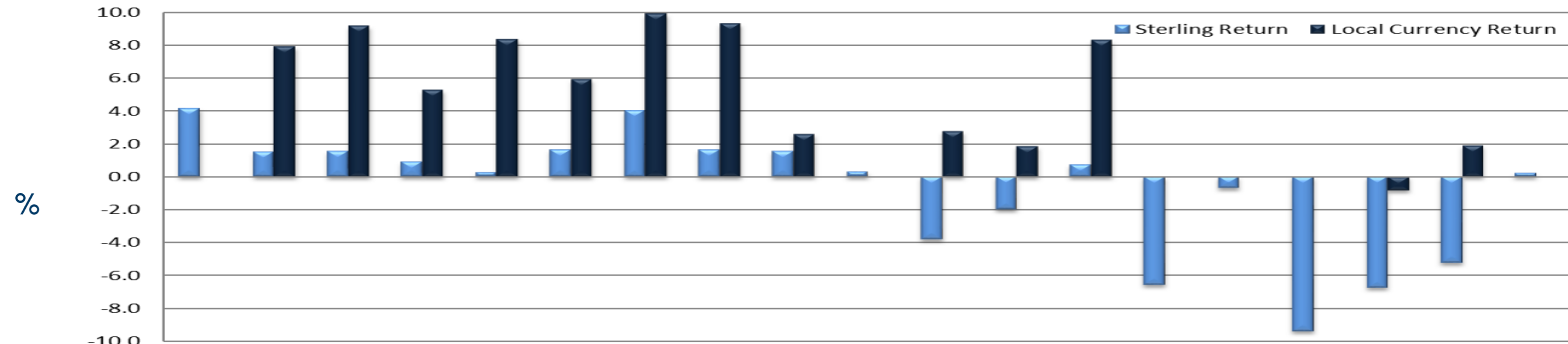
Commodity performance was positive for all sectors and led by energy. Iranian belligerence fueling tensions in the Middle East continued to worry investors as well as OPEC announcing further production cuts for the first quarter of 2020 to support oil prices. The 'phase one' trade agreement between the US and China supported industrial metals as it is expected to lead to a pick-up in economic activity. Meanwhile, precious metals saw positive returns amid a continuation of monetary stimulus across the world, which reduces the opportunity costs of holding gold, as well as net purchases by central banks such as China and Russia.

Source: Thomson Reuters Datastream, Consensus Economics, ONS

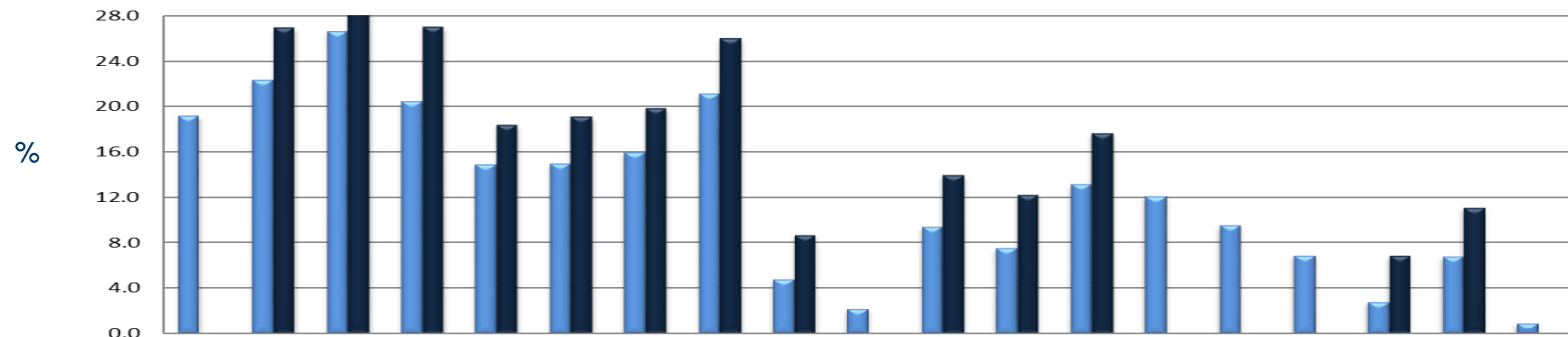
MARKET BACKGROUND

INDEX PERFORMANCE

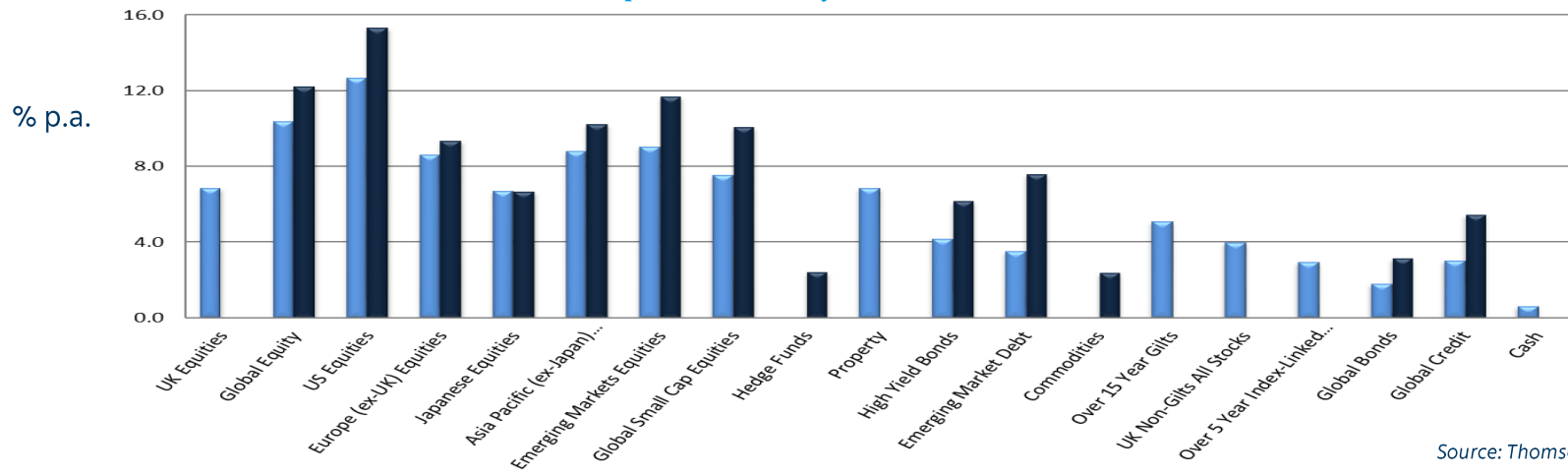
Return over the 3 months to 31 December 2019



Return over the 12 months to 31 December 2019



Return p.a. over the 3 years to 31 December 2019



Section 3

Strategic Assumptions

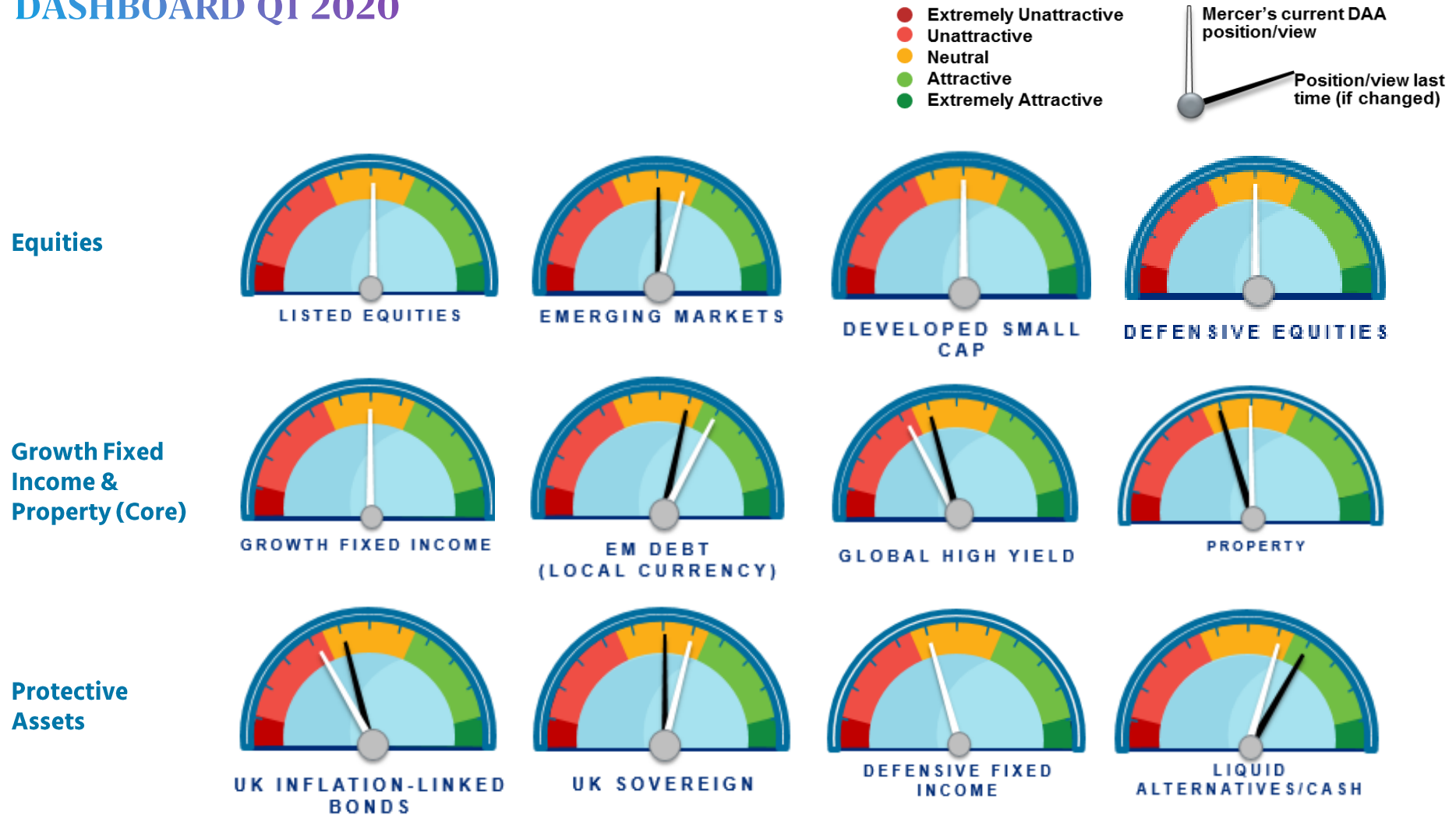
MARKET BACKGROUND

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	10.5	Remains ahead of the assumed strategic return. This fell slightly from 12.6% p.a. last quarter, as the latest quarter's return of 1.2% was lower than the return of Q4 2016, which fell out of the 3 year return.
Emerging Market Equities (FTSE AW Emerging)	8.70	9.0	The three year return from emerging market equities was ahead of the assumed strategic return this quarter, having increased from 8.4% p.a. last quarter. The return over Q4 2019 was 4.0%, which was higher than the return for the quarter that fell out of the period.
Diversified Growth	6.95 (Libor + 4% / RPI + 5%)	(4.6 / 8.0)	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	5.1	UK gilt returns remain above the long term strategic assumed return as yields remain low relative to historic averages. This is despite the negative returns in nominal gilts and index-linked gilts over the quarter as gilt yields recovered somewhat. Corporate bond returns were also ahead of the assumed strategic returns, as despite performance also being negative over the quarter at -0.7%, this was higher than the return in Q4 2016 which fell out of the period.
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	2.15	2.9	
UK Corporate Bonds (BofAML Sterling Non Gilts)	3.25	4.0	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	5.10	-0.2	Hedge fund returns remained at the end of Q4, 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	6.9	Actual property returns continue to be ahead of the expected returns, though this fell slightly from 7.7% last quarter. The asset class returned 0.3% over the fourth quarter of 2019. 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	8.8	The infrastructure three year return is above the strategic return. This performance was in part driven by currency as sterling depreciated against the US dollar and euro over the last three years. Returns of this index have been largely driven by currency moves. The 100% hedge in place for the infrastructure mandate removes the currency effect from the actual returns earned. This is also true for the global property mandate with Partners.

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

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD Q1 2020



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

Funding 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	1,903,608	1,952,664	38.1	39.2	34.0	29	-	39	+5.2
Emerging Market Equities	237,739	246,554	4.8	4.9	6.0	3	-	9	-1.1
Diversified Growth Funds	618,077	627,760	12.4	12.6	15.0	10	-	20	-2.4
Fund of Hedge Funds	250,926	236,907	5.0	4.8	5.0	0	-	7.5	-0.2
Property	462,454	496,523	9.3	10.0	10.0	5	-	15	-
Infrastructure	384,700	388,352	7.7	7.8	5.0	0	-	7.5	+2.8
Multi-Asset Credit	429,778	359,384	8.6	7.2	11.0	6	-	16	-3.8
Corporate Bonds	125,865	124,867	2.5	2.5	2.0	No set range			+0.5
LDI*	484,721	360,598	9.7	7.2	12.0	No set range			-4.8
Cash (including currency instruments)	94,488	191,503	1.9	3.8	-	0	-	5	+3.8
Total	4,992,355	4,985,112	100.0	100.0	100.0				

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

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

- Invested assets decreased slightly over the quarter by £7m.
- The allocation to developed market equities drifted marginally above the upper tolerance range, whilst the Infrastructure allocation also remained slightly above. 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	487,210		495,950	9.8	9.9
BlackRock	Corporate Bonds	125,865		124,867	2.5	2.5
BlackRock	LDI*	484,721		360,598	9.7	7.2
BlackRock	Cash	32,544		32,089	0.7	0.6
Brunel	Global Low Carbon Equities	580,755		587,510	11.6	11.8
Brunel	UK Equities	193,703		204,255	3.9	4.1
Jupiter	UK Equities	203,303		217,369	4.1	4.4
Jupiter	Global Sustainable Equities	12,064		12,204	0.2	0.2
Schroder	Global Equities	426,266	-421,924	6,911	8.5	0.1
Brunel	Global High Alpha Equity	0	+421,924	428,169	-	8.6
Genesis	Emerging Market Equities	125,730	-125,981	-	2.5	-
Unigestion	Emerging Market Equities	112,010	-111,684	-	2.2	-
Brunel	Emerging Market Equities	0	+237,484	246,554	-	4.9

Source: Investment Managers, Mercer. Totals may not sum due to rounding.

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

FUND VALUATIONS

VALUATION BY MANAGER

Manager Allocation						
Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Loomis Sayles	Multi-Asset Credit	429,778	-75,000	359,384	8.6	7.2
Pyrford	DGF	223,048		224,509	4.5	4.5
Ruffer	DGF	395,029		403,251	7.9	8.1
JP Morgan	Fund of Hedge Funds	250,926		236,907	5.0	4.8
Schroder	UK Property	229,400		230,500	4.6	4.6
Partners	Property	215,926	-4,617	204,335	4.3	4.1
IFM	Infrastructure	365,379		366,392	7.3	7.3
Brunel	Infrastructure	19,321	+3,352	21,960	0.4	0.4
Brunel	Secured Income	17,128	+44,287	61,687	0.3	1.2
Record Currency Management	Currency Hedging	-23,146	+3,421	63,533	-0.5	1.3
Internal Cash	Cash	85,090		95,881	1.7	1.9
Total		4,992,355	-28,818	4,985,112	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.

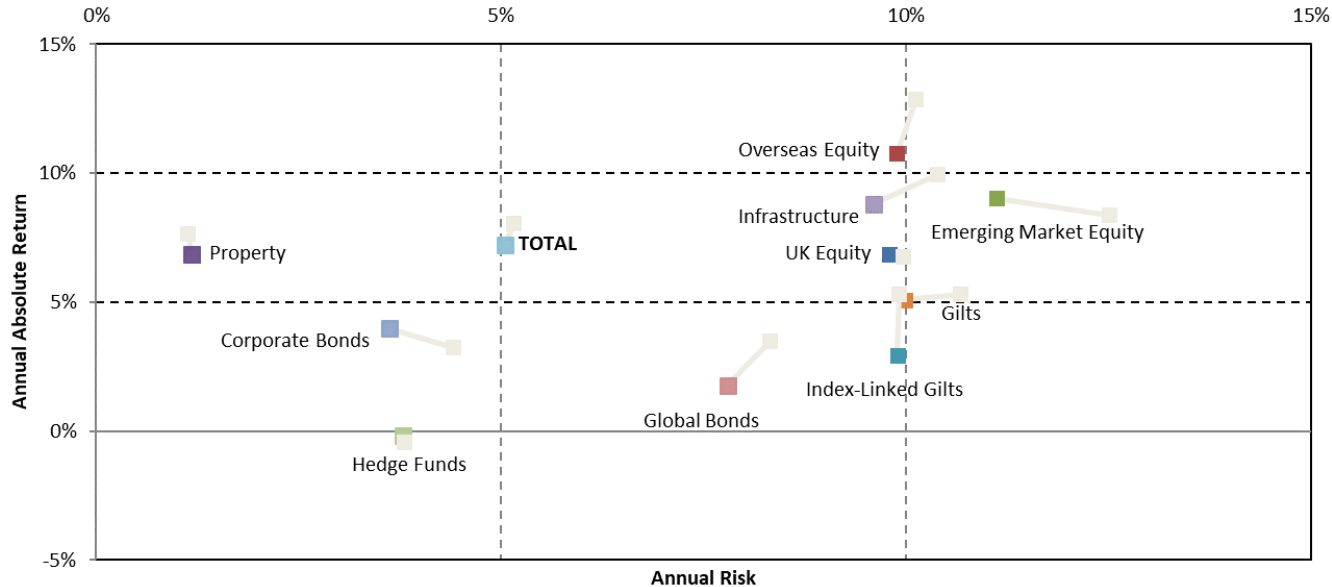
Section 5

Performance Summary

MANAGER MONITORING

RISK RETURN ANALYSIS

3 Year Risk v 3 Year Return to 31 December 2019



This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of December 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 State Street). 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 index-linked gilts, global bonds and overseas equity.
- Associated volatilities also fell across most asset classes, which was notable among emerging market equity, infrastructure and corporate bonds.

MANAGER MONITORING

MANAGER PERFORMANCE TO 31 DECEMBER 2019

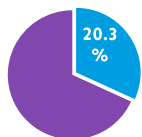
Manager/ Asset Class	3 Months			1 Year			3 Year			3 Year Performance Target (% p.a.)	3 Year Performance vs Target
	Fund (%)	B'mark (%)	Relative (%)	Fund (%)	B'mark (%)	Relative (%)	Fund (% p.a.)	B'mark (% p.a.)	Relative (% p.a.)		
BlackRock Equity	1.5	1.4	+0.1	22.5	21.8	+0.6	11.1	10.7	+0.3	-	Target met
BlackRock Corporate Bonds	0.0	0.0	0.0	16.3	16.4	-0.1	5.7	5.7	0.0	-	Target met
BlackRock LDI	-3.7	-3.7	0.0	2.8	2.8	0.0	4.4	4.4	0.0	-	Target met
Brunel Passive Low Carbon Equity	1.2	1.2	0.0	24.2	24.3	-0.1	N/A	N/A	N/A	-	N/A
Brunel UK Equity	5.4	4.2	+1.2	19.6	19.2	+0.3	N/A	N/A	N/A	+2	N/A
Brunel Global High Alpha Equity	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	+2-3	N/A
Brunel Emerging Market Equity	3.8	3.9	-0.1	N/A	N/A	N/A	N/A	N/A	N/A	+2-3	N/A
Jupiter UK Equity	6.9	4.2	+2.6	20.6	19.2	+1.2	5.5	6.9	-1.3	+2	Target not met
Jupiter Global Sustainable Equity	1.2	1.5	-0.3	29.1	22.4	+5.5	N/A	N/A	N/A	+2-4	N/A
Loomis Sayles	1.3	1.2	+0.1	10.6	4.8	+5.5	N/A	N/A	N/A	-	N/A
Pyrford	0.7	1.6	-0.9	5.3	7.4	-2.0	1.9	8.2	-5.8	-	Target not met
Ruffer	2.1	1.5	+0.6	8.6	6.0	+2.5	N/A	N/A	N/A	-	N/A
JP Morgan	3.1	1.3	+1.8	8.4	5.6	+2.6	4.9	4.9	0.0	-	Target met
Schroder UK Property	0.6	0.3	+0.3	2.3	1.6	+0.7	6.5	6.0	+0.5	+1	Target not met
Partners Property*	3.2	2.5	+0.7	7.6	10.0	-2.2	6.0	10.0	-3.6	-	Target not met
IFM	7.8	1.2	+6.5	15.7	5.3	+9.9	16.8	4.3	+12.0	-	Target met
Brunel Infrastructure	-3.7	0.0	-3.7	-5.7	1.3	-6.9	N/A	N/A	N/A	+4	N/A
Brunel Secured Income	-1.0	0.0	-1.0	2.8	1.3	+1.5	N/A	N/A	N/A	+2	N/A

- Source: Investment Managers, Mercer estimates.
- **Returns are in GBP terms**, consistent with overall fund return calculations before currency hedging is applied, **except for JP Morgan, Partners and IFM, whose performance is shown in local currency terms.**
- In the relative performance columns, returns in blue text exceeded their respective benchmarks, those in red underperformed, and black text shows performance in line with benchmark.
- In the table above, and throughout this report, relative returns have been calculated geometrically (i.e. the portfolio return is divided by the benchmark return) rather than arithmetically (where the benchmark return is subtracted from the portfolio return).
- In the table above, Partners performance is measured against an IRR target of 10% p.a.
- A summary of the benchmarks for each of the mandates is given in Appendix 1.

* Performance to 30 September 2019 as this is the latest date that this is available to.

Section 5

Manager Performance



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

£1,013.5M END VALUE (£1,130.3M START VALUE) (Inc. Equity protection strategy)

Item Monitored	Outcome
Mercer Rating	<ul style="list-style-type: none"> A for Passive Equities (no change); ESGp2 A for Buy-and-Maintain Credit (no change) A for LDI (no change)

Performance Objective <i>In line with the benchmark</i>	<ul style="list-style-type: none"> Portfolios performed broadly in line with their benchmarks over three years
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Manager Research and Developments

- Equities returned 1.5% over Q4, 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 contracted by 3.7% in light of the recovery in gilt yields, and the value Fund's Corporate Bond allocation was broadly unchanged 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

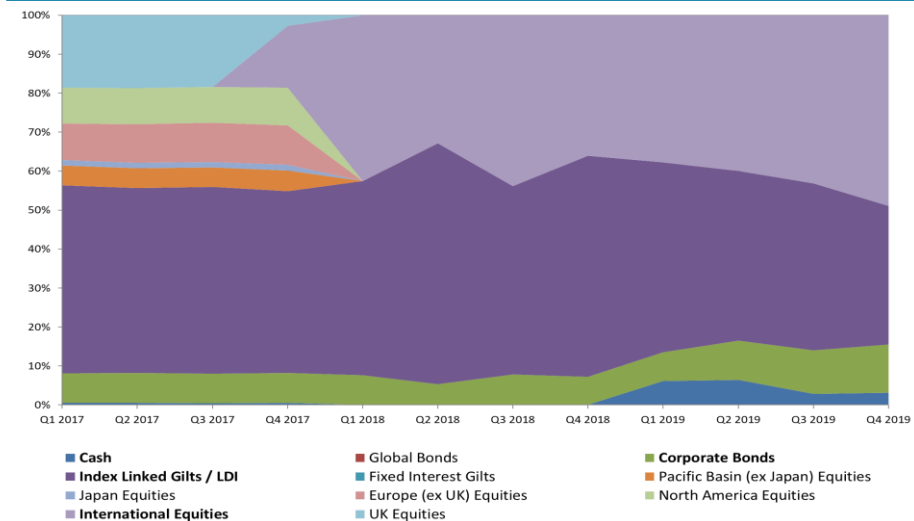


Performance						
	Quarter (%)		1-Year (%)		3-Year (% p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Equities	1.5	1.4	22.5	21.8	11.1	10.7
Corporate Bonds*	0.0	0.0	16.3	16.4	5.7	5.7
LDI**	-3.7	-3.7	2.8	2.8	4.4	4.4
Liquid Beta	-1.4	N/A	N/A	N/A	N/A	N/A

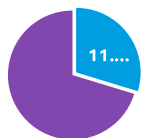
*Corporate Bond fund and benchmark reflects legacy holdings prior to 31 March 2019 and Buy and Maitain Credit holdings thereafter.

** LDI performance reflects legacy index-linked gilt holdings prior to 30 June 2017 and QIF holdings thereafter. Equity protection strategy performance is not reflected.

Asset Allocation



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BRUNEL – PASSIVE GLOBAL LOW CARBON EQUITIES

£587.5M END VALUE (£580.8M START VALUE)

Item Monitored Outcome

Mercer Rating	● N/A
Performance Objective <i>In line with the benchmark</i>	● 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 1.2% over Q4 2019, in line with its benchmark and it has also performed broadly in line with its benchmark over the year to 31 December 2019.
- This also slightly exceeded the wider market capitalisation index, the MSCI World, which generated a return of 1.1% over the quarter.

Reason for investment

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

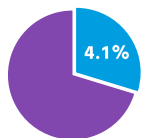
Reason for manager

- Investment made via the Brunel pool

Sector Allocation

Information Technology	17.4
Financials	16.5
Health Care	12.9
Industrials	12.4
Consumer Discretionary	10.5
Communication Services	8.6
Consumer Staples	8.5
Materials	3.6
Energy	3.3
Other	6.3

As at 31 December 2019



BRUNEL – ACTIVE UK EQUITIES

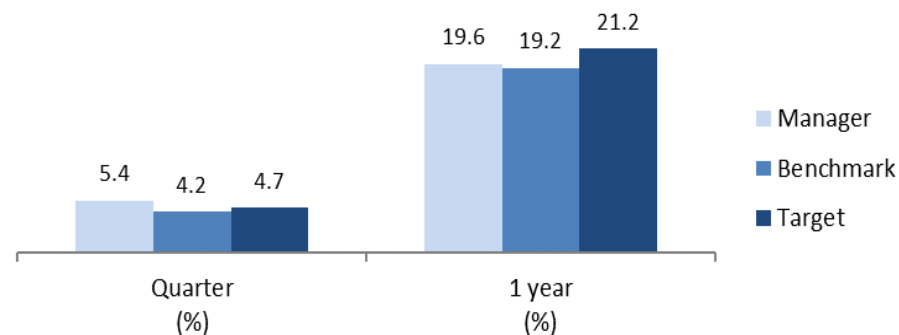
£204.3M END VALUE (£193.7M START VALUE)

Item Monitored	Outcome
Mercer Rating	<div> <div></div> <div>N/A</div> </div> <div> <div>Baillie Gifford</div> <div>Invesco</div> <div>Aberdeen Standard</div> </div>
Performance Objective <i>Benchmark +2% p.a.</i>	<div> <div></div> <div></div> </div> <div>Has slightly underperformed its target over the year.</div>

Manager Research and Developments

- Mandate was initiated in November 2018. Aberdeen Standard, Baillie Gifford and Invesco are the underlying managers.
- The mandate returned 5.4% over the quarter, outperforming its benchmark which generated a return of 4.2%.
- It returned 19.6% over the year, which was also slightly above its corresponding benchmark which returned 19.2%.

Performance

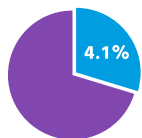


Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

- Investment made via the Brunel pool



BRUNEL – GLOBAL HIGH ALPHA EQUITY £428.2M END VALUE (£0M START VALUE)

Item Monitored

Outcome

Mercer Rating

● N/A

Performance Objective
Benchmark +2-3% p.a.

●

Too early to determine

Manager Research and Developments

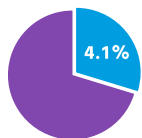
- Mandate was initiated in November 2019.
- Its benchmark is the MSCI World Index, with an outperformance target of 2-3% over a rolling 3-5 year period.

Reason for investment

To provide global equity market exposure together with excess returns from accessing leading managers.

Reason for manager

- Investment made via the Brunel pool



BRUNEL – EMERGING MARKET EQUITIES

£246.6M END VALUE (£0M START VALUE)

Item Monitored

Outcome

Mercer Rating

● N/A

Performance Objective
Benchmark +2-3% p.a.

●

Too early to determine

Manager Research and Developments

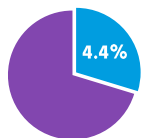
- Mandate was initiated in October 2019, and generated a return of 3.8% during its first quarter.
- This was slightly below its corresponding benchmark of the MSCI Emerging Markets Index, which returned 3.9%.

Reason for investment

To provide exposure to emerging market equities, together with excess returns and enhanced risk control from accessing leading managers.

Reason for manager

- Investment made via the Brunel pool



JUPITER ASSET MANAGEMENT – UK EQUITIES (SRI) (SEGREGATED)

£217.4M END VALUE (£203.3M START VALUE)

Item Monitored	Outcome
Mercer Rating	● B (no change over period under review); ESG2
Performance Objective <i>Benchmark +2% p.a.</i>	● Underperformed benchmark by 1.3% p.a. over three years
Tracking error was 4.0% p.a. – <i>source: Jupiter</i>	Number of stocks: 55

Manager Research and Developments

- Jupiter had a modest return over the quarter of 6.9%, and it outperformed its benchmark by 2.6%.
- The outcome of the UK elections had a positive impact on the overall portfolio which has a bias towards UK domestic stocks.
- The fund also benefitted from a depressed oil and gas backdrop, and there were strong single stocks contributions from Augan and Cranswick following positive updates.
- It subsequently outperformed its benchmark over the one year period, though this fell short of its performance objective. The mandate also fell short of its benchmark and objective over the three years to 31 December 2019.

Reason for investment

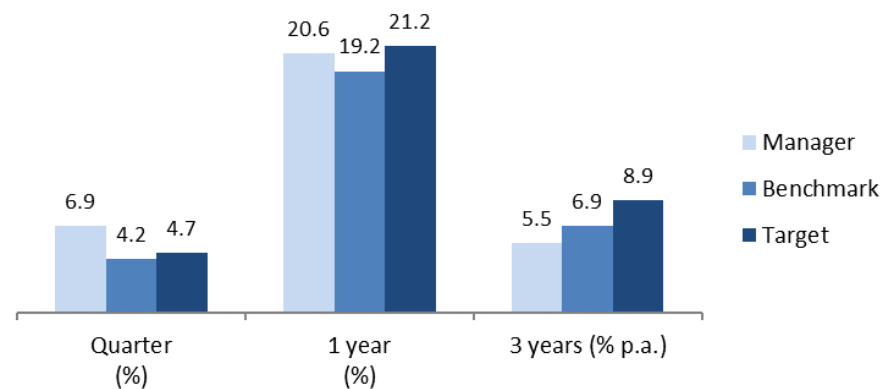
To provide asset growth as part of a diversified equity portfolio and to provide a specific SRI allocation

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

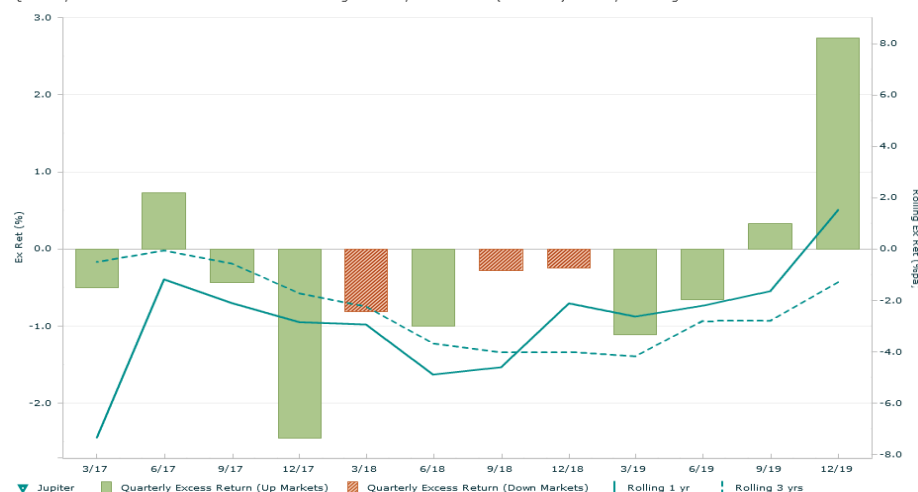


Performance

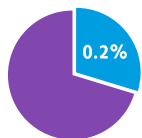


Rolling relative returns

Quarterly Excess Return vs. FTSE All Share with rolling 1 and 3 yr lines in GBP (after fees) over 3 yrs ending December-19



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JUPITER ASSET MANAGEMENT – GLOBAL SUSTAINABLE EQUITIES (POOLED)

£12.2M END VALUE (£12.1M START VALUE)

Item Monitored

Outcome

Mercer Rating



N (no change over period under review)

Performance Objective



Has achieved its objective over the year to 31 December 2019

Benchmark +2-4% p.a.

Manager Research and Developments

- Mandate was initiated in June 2018.
- The fund returned 1.2% over Q4 2019, underperforming its benchmark by 0.3%.
- It did however outperform its benchmark by 2.2% over the year to 31 December 2019.

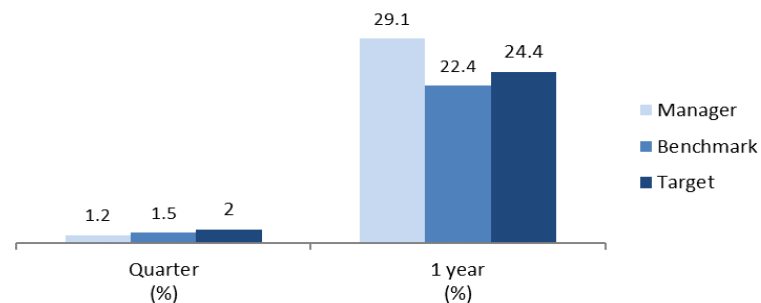
Reason for investment

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

Performance



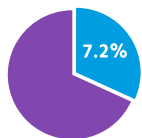
Sector Allocation

Sector Allocation

Industrials ¹	34.3%
Financials	21.1%
Health Care	10.0%
Consumer Goods	9.9%
Technology	8.2%
Basic Materials	5.4%
Utilities	3.5%
Consumer Services	2.8%
Telecommunications	1.2%
	96.4%
Cash	3.6%
Total	100.0%

¹Includes general electronic equipment, medical equipment and consumer financial stocks (15.96%).

Source: Jupiter.
As at 31 December 2019.



LOOMIS SAYLES – MULTI-ASSET CREDIT (POOLED)

£359.4M END VALUE (£429.8M START VALUE)

Item Monitored

Outcome

Mercer Rating ● A (no change over period under review); ESG3

Performance Objective ● Outperformed by 5.5% over the year
Cash +4% p.a.

Manager Research and Developments

- Loomis delivered a performance of 1.3% over the quarter, against a benchmark return of 1.2%. Over the year, the fund returned 10.6%, outperforming its benchmark by 5.5%.
- Emerging market exposure within the portfolio provided the largest contribution to quarterly performance, particularly within fixed income assets as US treasury yields rose and credit spreads tightened.
- Global high yield corporate bonds were supported by ongoing central bank support and a relatively strong consumer, and consumer and communication issues within the portfolio were also major contributors. The overall duration of the portfolio remained at 5.0 years.

Reason for investment

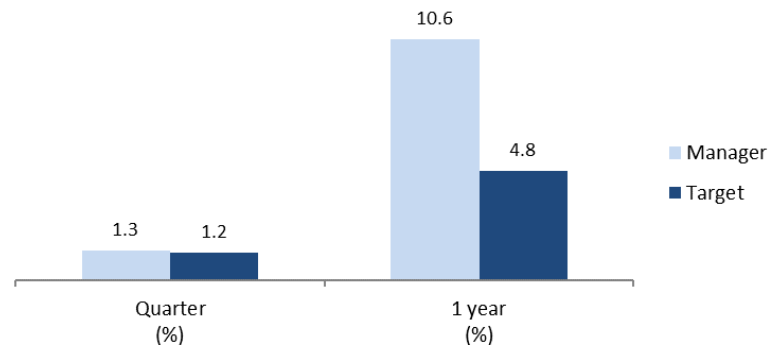
To be a diversified return seeker within the Fund's fixed income portfolio

Reason for manager

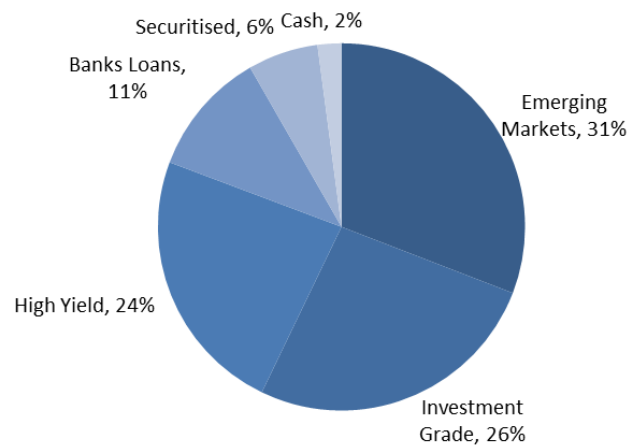
- Core low to moderate risk Multi-Asset Credit option
- Depth and breadth of fundamental credit analysis



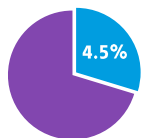
Performance



Sector Allocation



Source: Loomis Sayles.
As at 31 December 2019.



PYRFORD – DGF (POOLED)

£224.5M END VALUE (£223.0M START VALUE)

Item Monitored

Outcome

Mercer Rating



R (no change over period under review)

Performance Objective

RPI +5% p.a.



Underperformed target by 6.4% 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 2.0% over the year and by 5.8% p.a. over three years.
- Currency hedging within the portfolio was the single largest contributor over the quarter in light of the strengthening of sterling.
- The Fund also took advantage of the rally in UK equities, and key contributors within this included Legal & General, IMI and British American Tobacco.
- 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. This mitigated losses over the quarters as global bond yields rose.
- Strategic allocation of the portfolio remained unchanged over the quarter.

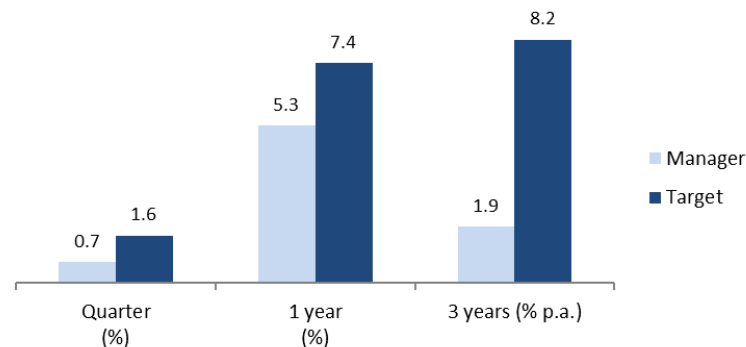
Reason for investment

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

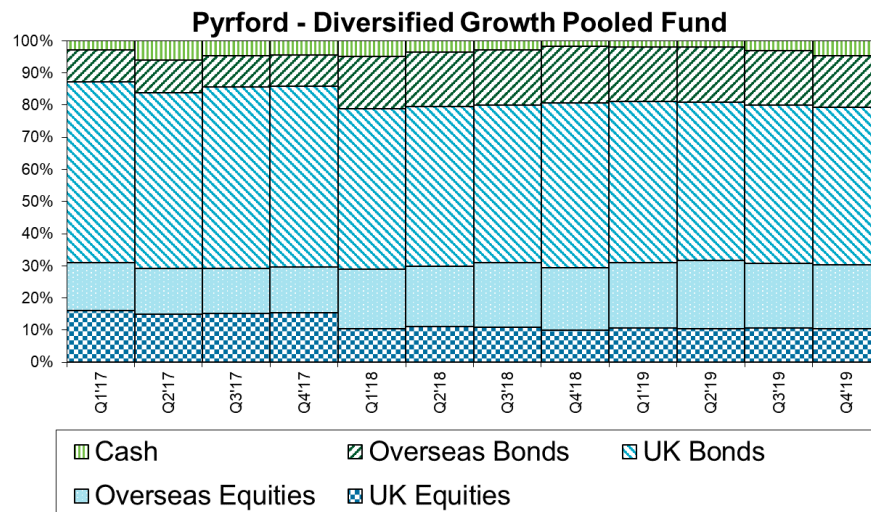
Reason for manager

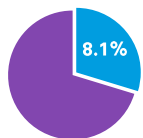
- Asset allocation skill between equities, bonds and cash
- Fundamental approach to stock selection

Performance



Asset Allocation





RUFFER – DGF (POOLED)

£403.3M END VALUE (£395.0M START VALUE)

Item Monitored

Outcome

Mercer Rating ● A (no change over period under review); ESG2

Performance Objective ● Outperformed target by 2.6% p.a. over the
Cash +5% p.a. year

Manager Research and Developments

- Ruffer delivered a performance of 2.1% over the quarter against an objective of 1.5%, and a performance of 8.6% over the year against an objective of 6.0%.
- The Fund benefited from the drive in UK equities, which also had an increased weighting.
- Another tactical allocation which paid off was to a basket of US healthcare stocks, which were perceived to have been excessively discounted.
- Rising gilt yields hit the value of the portfolio's inflation-linked bonds, though this fall was softened by interest rate protection added earlier in the quarter.
- Ruffer's primary focus remains capital preservation and to not lose money in any twelve-month period.

Reason for investment

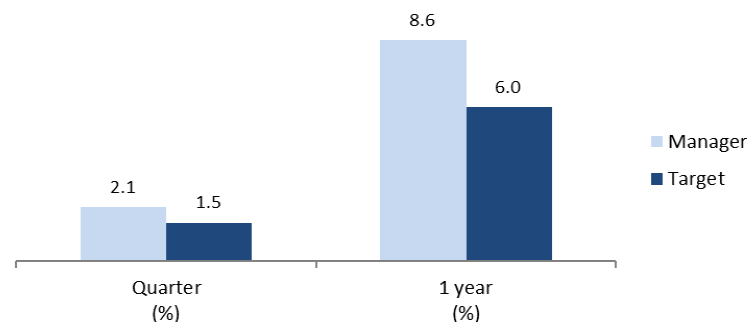
To provide equity like return over the long term but with a lower level of volatility

Reason for manager

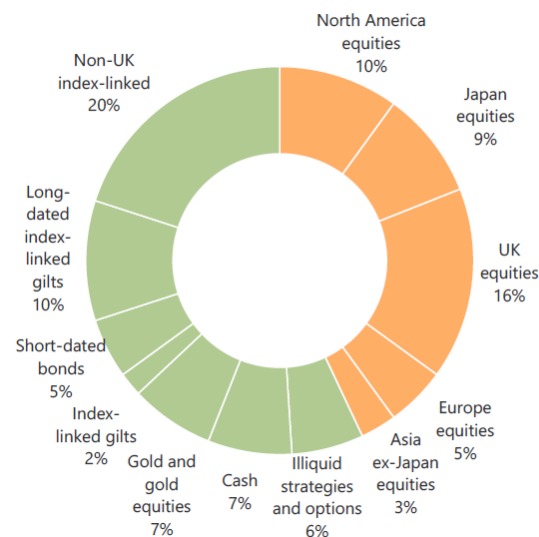
- Experience and insights of the investment team
- Focus on capital preservation
- Dynamic allocation between risk and defensive assets depending on market conditions



Performance



Sector Allocation



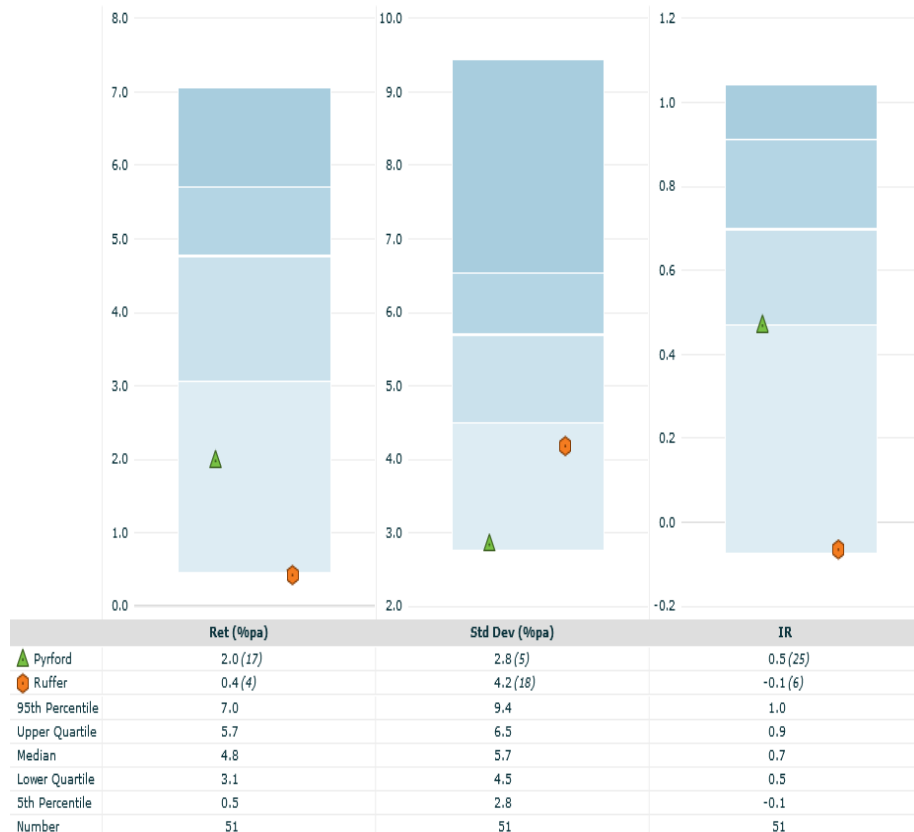
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Source: Ruffer.
As at 31 December 2019.

DGF MANDATES

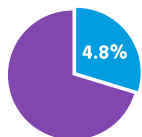
Performance characteristics vs. BofAML LIBOR 6 month average UK in GBP (after fees) over 3 yrs ending December-19

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



Commentary

- Over the three years to 31 December 2019, **Pyrford** outperformed the **Ruffer** pooled fund by 1.6% p.a.
- Pyrford** were in the lower quartile of the DGF universe for performance, while **Ruffer** was in the bottom 5%. It should be noted though 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 4.2% 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 at the lower quartile range of the universe, and **Ruffer** were just above the bottom 5%.
- 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

£236.9M END VALUE (£250.9M START VALUE)

Item Monitored	Outcome
Mercer Rating	● R (change from previous quarter in light of AUM decline and poor recent performance); ESG4
Performance Objective Cash +3% p.a.	● In line with target over three years in USD, though below in GBP terms

Item	
------	--

Number of funds 29 (as at 31 December 2019)

Strategy	Contribution to Performance over the Quarter in USD (%)
----------	---

Relative Value 0.68

Opportunistic/Macro 0.37

Long/Short Equities 2.05

Merger Arbitrage/Event Driven 0.04

Credit 0.30

Total 3.11 (including cash and fees)

In USD terms, the fund return was 3.1% over Q4 versus a benchmark return of 1.3%

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

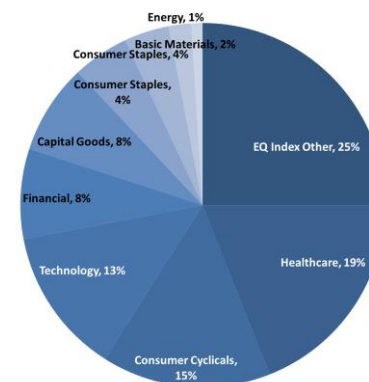
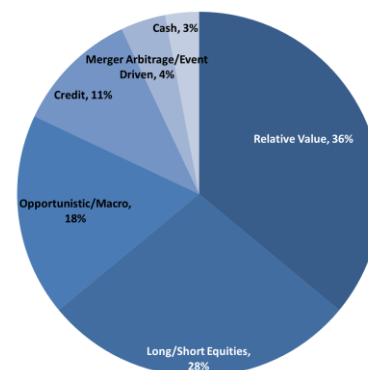
- Niche market neutral investment strategy
- Established team with strong track record
- Complemented other funds in the portfolio



Performance (USD)

Last Quarter	3.1%	Target	1.3%
Last Year	8.4%	Target	5.6%
Last 3 Years (p.a.)	4.9%	Target	4.9%

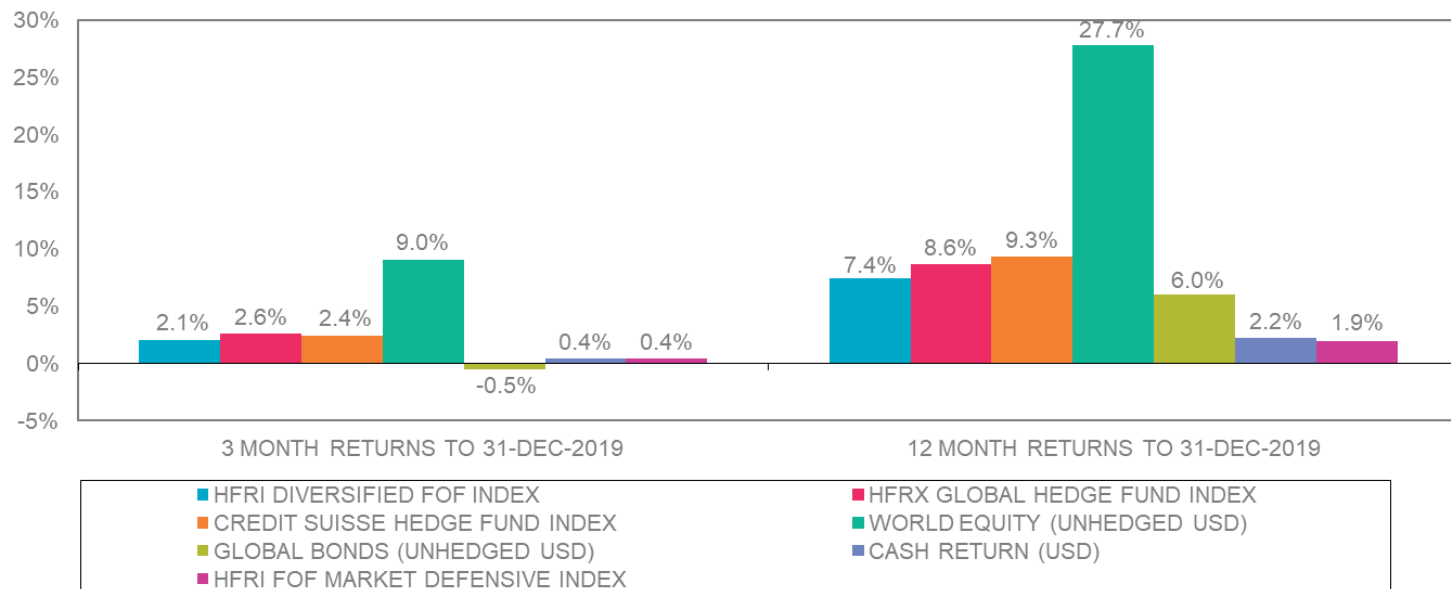
Portfolio Composition and Equity Sector Allocation



HEDGE FUND COMMENTARY – Q4 2019

- Amid a backdrop of global equity and credit market strength, hedge funds generated sizable returns in 2019. All major hedge fund categories posted gains both throughout the year, and all but distressed and systematic macro posted gains in Q4. Equity strategies posted the strongest results.
- Credit and particularly distressed largely posted muted performance on the year. We have witnessed an improved dispersion and volatility environment across many hedge fund sub-sectors throughout the year, resulting in stronger alpha generation.

QUARTER AND 12-MONTH RETURNS (IN USD)



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

HEDGE FUND COMMENTARY – Q4 2019

Relative Value (36%)

- HFRI Relative Value returned +2.0% in Q4. Overall in 2019, it gained +7.6%.
- Gains were broad-based across strategies and were led by convertible arbitrage and credit relative value for the quarter and year. Interest rate focused relative value strategies and volatility arbitrage strategies also posted gains in 2019, albeit somewhat lower than that of credit-related relative value strategies.
- Throughout 2019, idiosyncratic geopolitical events, policy uncertainty, and macroeconomic divergences created periods of dislocation that were broadly captured by relative value managers. Volatility levels moved closer to longer-term averages during the year, and while price action in traded securities was reactive to short-term events, the continuation of strong underlying fundamentals drove convergence following periodic price dislocations.

Long/Short Equities (28%)

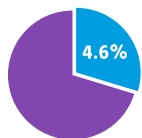
- HFRI Equity Hedge and Equity Market Neutral gained +5.7% and +0.4% in Q4, respectively. Overall in 2019, they gained +13.7% and +2.3%, respectively.
- Equity hedge strategies overall posted strong gains, finishing one of the best years of manager stock selection in the past decade. Popular long positions outperformed market indices and short positions underperformed, generating positive alpha on both sides during the quarter and year. Stock correlations fell overall during the year, providing relative value opportunities for equity funds, though varying sector and style performance continued to impact returns. Growth-oriented stocks, for example, significantly outperformed value-oriented stocks, driving gains for appropriately-positioned long/short strategies.

Opportunistic / Macro (18%)

- HFRI Macro: Discretionary and HFRI Macro: Systematic gained +1.9% and lost -1.5% respectively in Q4. Overall in 2019, they gained +5.6% and +6.9% respectively.
- Macro strategies earned mixed results during the quarter but were positive on the year. In a reversal of Q3, systematic strategies lagged while discretionary strategies gained in Q4. Throughout the year, trend-following strategies were boosted by long bond and equity positioning, as directional exposures have been rewarded throughout 2019.
- 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 Merger Arbitrage and HFRI Distressed gained +2.4% and lost -0.5% respectively in Q4. Overall in 2019, they gained +6.8% and +2.5% respectively.
- Event-driven strategies were mixed during the quarter though largely positive on the year. Activist and special situations equity strategies fared particularly well as multiples expanded across global equities.
- Merger arbitrage strategies continued to generate gains on the back of deal progress and healthy spreads, as a large supply of new deals in 2019 largely outstripped the amount of arbitrage capital.



SCHRODER – UK PROPERTY FUND OF FUNDS

£230.5M END VALUE (£229.4M START VALUE)

Item Monitored

Outcome

Mercer Rating



B (no change over period under review); ESG3

Performance Objective
Benchmark +1% p.a.



In line with objective over five years

Manager Research and Developments

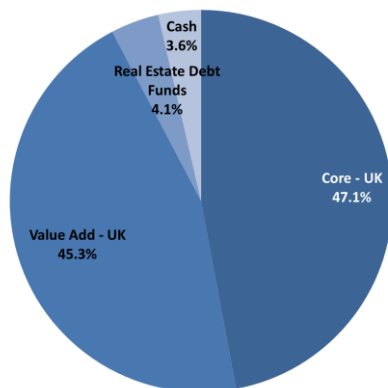
- The fund returned 0.6% over the quarter, and has outperformed the benchmark over this and all other time horizons.
- Value add strategies continue to be the largest contributor to returns, whilst diluted returns have mainly come from the cash funds.
- The Industrial Property Investment Fund (IPIF) also continued to be the strongest specific contributor to performance.
- The fund was subsequently in line with its objective over five years, though was slightly below over the one year and three year period.
- There was an investment into the Income Plus Real Estate Debt Fund over the quarter, in the form of a c.£1.3m drawdown.

Manager and Investment type splits

Top 5 Holdings

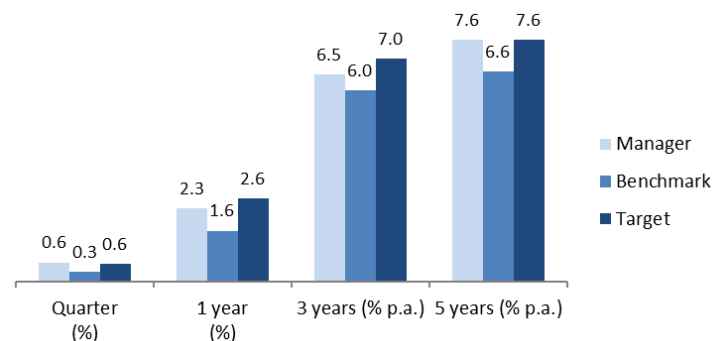
Proportion of Total Fund (%)

Industrial Property Investment Fund	17.0
Metro Property Unit Trust	10.4
Hermes Property Unit Trust	9.9
BlackRock UK Property Fund	9.3
Schroder Real Estate Income Fund	8.7

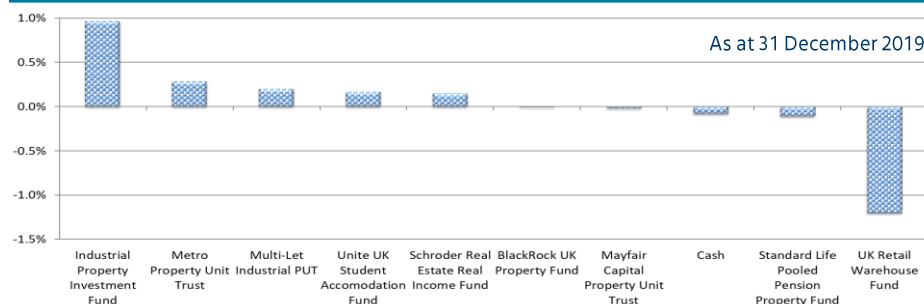


As at 31 December 2019

Performance



Top 5 Contributing and Detracting Funds over 12 Months

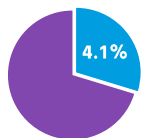


Reason for investment

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

£204.3M END VALUE (£215.9M START VALUE)

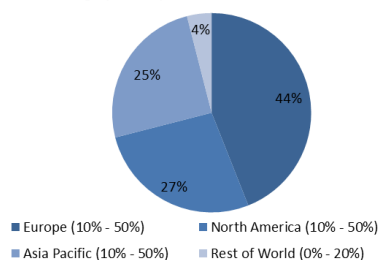
Item Monitored	Outcome
Mercer Rating	● B+ (no change over period under review); ESG4
Performance Objective <i>IRR of 10% p.a.</i>	● IRR since inception to 30 September 2019 at 7.2% p.a. (in local currency) is below target of 10% p.a.

Manager Research and Developments (Q3 2019)

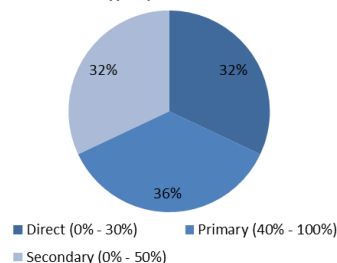
- The portfolio delivered a net return of 2.3% over Q3 2019 for USD programmes in local currency, and 3.4% for EUR programmes, versus the target of c. 2.5%.
- Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for 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 September 2019 at 7.2% p.a. (in local currency) is below their target of 10% p.a.; over the three years to 30 September 2019 IRR was 6.0% p.a. (in local currency terms).
- Over Q3, the allocation to Asia Pacific increased slightly (from 23% to 25%), while North American 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 September 2019

Geographical Split Based on Net Asset Value



Investment Type Split Based on Net Asset Value



Portfolio update to 30 September 2019

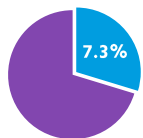
Partners Fund	Total Drawn Down (£m)	Total Distributed (£m)	Net Asset Value (£m)	Since Inception Net IRR (local currency)
Global Real Estate 2008	30.98	32.25	6.71	4.7
Real Estate Secondary 2009	19.62	20.07	11.05	8.8
Asia Pacific and Emerging Market Real Estate 2009	17.68	15.69	6.79	2.5
Distressed US Real Estate 2009	14.08	19.04	2.73	8.0
Global Real Estate 2011	25.09	26.31	11.50	8.5
Direct Real Estate 2011	11.43	11.15	6.25	6.0
Real Estate Secondary 2013	11.71	8.89	11.35	16.0
Global Real Estate 2013	105.64	8.25	135.55	8.5
Real Estate Income 2014	21.79	10.94	16.36	4.0
Asia Pacific Real Estate 2016	11.65	5.07	11.26	17.1
Total	269.66	157.64	219.56	7.2

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



IFM – INFRASTRUCTURE (POOLED)

£366.4M END VALUE (£365.4M 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 12.0% over the year (in USD)

Item

Number of holdings

17

Manager Research and Developments

- Over the quarter the fund returned 7.8% in US Dollar terms, against Avon's performance objective of 1.2% (cash + 2.5% p.a.).
- IFM also achieved notable outperformance over the one year period of 9.9%, and over the three year period of 12.0%.
- During the quarter, a total of \$3,635m was accepted in new commitments.
- In this period, the Fund also reached the completion of its acquisition of Buckeye Partners, L.P. ("Buckeye"), one of the leading midstream energy companies in the United States.
- The pooled fund also received income of \$84.1m of distributions from four assets.

Reason for investment

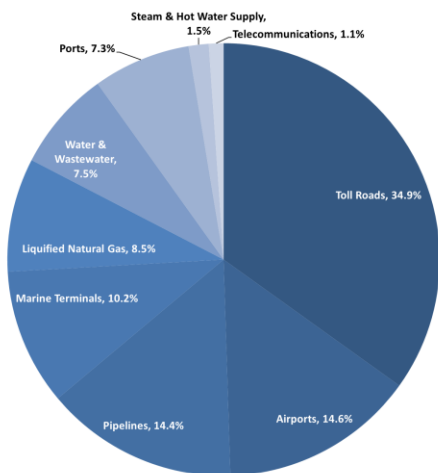
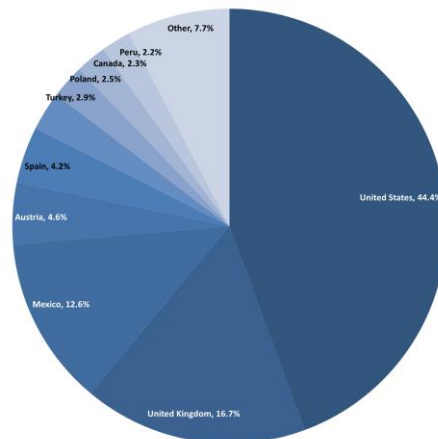
To reduce volatility of the Growth portfolio and increase diversification

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 31 December 2019.

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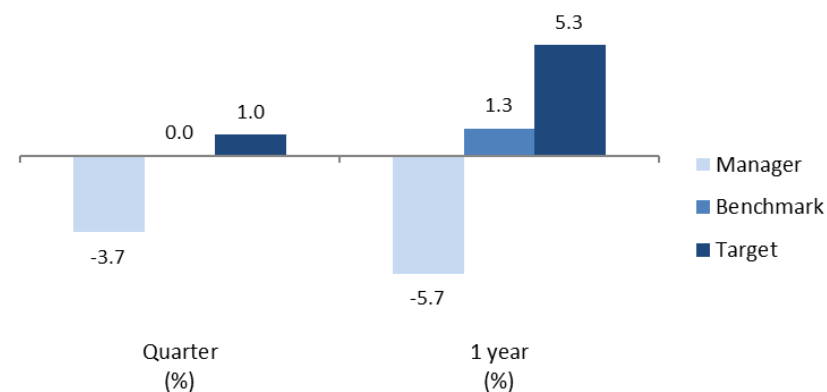
BRUNEL – INFRASTRUCTURE

£22.0M END VALUE (£19.3M START VALUE)

Item Monitored	Outcome	Performance
Mercer Rating	<div>● N/A</div> Mirova NTR Capital Dynamics	
Performance Objective <i>CPI +4.0% p.a.</i>	<div>●</div> Underperformed benchmark by 6.9% p.a. over the year to date	

Manager Research and Developments

- Mandate was initiated on 2 January 2019. NTR and Mirova are the underlying managers.
- The fund underperformed its benchmark over the quarter by 3.7%, and by 6.9% over the year to date.

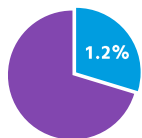


Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Investment made via the Brunel pool



BRUNEL – SECURED INCOME

£61.7M END VALUE (£17.1M START VALUE)

Item Monitored	Outcome
Mercer Rating	<div>● N/A</div> Aberdeen Standard Greencoat
Performance Objective <i>CPI +2.0% p.a.</i>	<div>●</div> Underperformed target by 0.5% p.a. over the year to date

Manager Research and Developments

- Mandate was initiated on 15 January 2019. Aberdeen Standard is the underlying manager, although more managers will be added over time.
- The strategy generated a return of -1.0% over Q4 2019 against a broadly flat benchmark return.
- It did outperform over the one year period however, generating a return of 2.8% against a benchmark return of 1.3%.

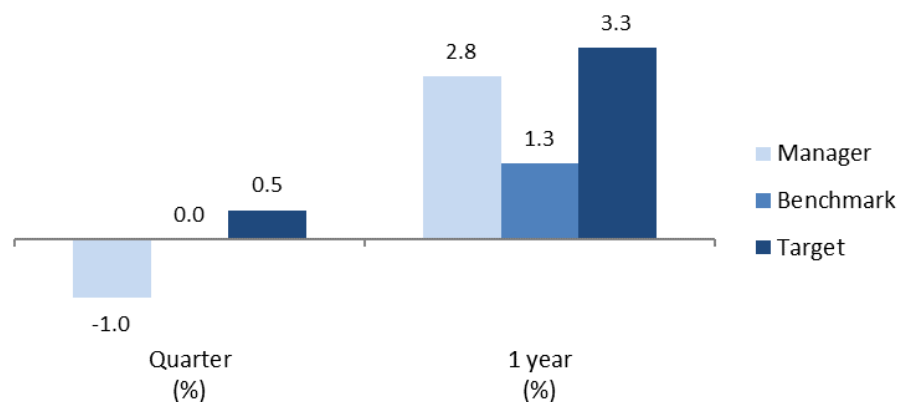
Reason for investment

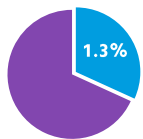
To provide long-term income as part of a diversified portfolio

Reason for manager

- Investment made via the Brunel pool

Performance





RECORD – CURRENCY HEDGING (SEGREGATED)

-£63.5M END VALUE (-£ 23.1M 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

Sterling strengthened against the US Dollar, Yen and Euro by 7.5%, 4.4% and 8.1% 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 Q4 2019 Performance (£ terms)

Passive Developed Equity Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	885,046,070	837,707,471	(6.98%)	3.38%	3.35%	(3.73%)
EUR	185,574,608	159,557,936	(4.22%)	2.31%	2.35%	(1.93%)
JPY	90,482,902	122,975,611	(7.49%)	4.02%	4.05%	(3.61%)
Total	1,161,103,579	1,120,241,018	(6.61%)	3.28%	3.26%	(3.45%)

Passive Hedge Fund Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	253,976,270	241,302,035	(6.98%)	6.79%	6.72%	(0.54%)
Total	253,976,270	241,302,035	(6.98%)	6.79%	6.72%	(0.54%)

Passive Property Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	25,719,059	24,582,918	(6.98%)	6.79%	6.71%	(0.55%)
EUR	189,817,859	182,004,271	(4.22%)	4.58%	4.62%	0.27%
Total	215,536,918	206,587,190	(4.55%)	4.84%	4.87%	0.18%

Passive Infrastructure Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	161,771,750	185,223,304	(6.98%)	6.79%	6.71%	(0.55%)
EUR	53,698,525	46,605,407	(4.22%)	4.58%	4.64%	0.29%
Total	215,470,275	231,828,711	(6.35%)	6.29%	6.24%	(0.35%)

Appendix 1

Summary of Mandates

SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance Target (p.a.)
BlackRock	Passive Global Equities	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%
Brunel	Global High Alpha Equity	MSCI World	+2 -3%
Brunel	Passive Global Low Carbon Equities	MSCI World Low Carbon	-
Brunel	Emerging Market Equities	MSCI Emerging Markets	+2 -3%
Jupiter Asset Management	UK Equities (SRI)	FTSE All Share	+2%
Jupiter Asset Management	Global Sustainable Equities (SRI)	MSCI AC World	+2-4%
Loomis Sayles	Multi-Asset Credit	3 Month LIBOR +4% p.a.	-
Pyrford	Diversified Growth Fund	RPI +5% p.a.	-
Ruffer	Diversified Growth Fund	3 Month LIBOR +5% p.a.	-
JP Morgan	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Schroder	UK Property	IPD UK Pooled	+1%
Partners	Overseas Property	Net IRR of 10% p.a. (local currency)	-
IFM	Infrastructure	6 Month LIBOR +2.5% p.a.	-
Brunel	Infrastructure	CPI	+4%
Brunel	Secured Income	CPI	+2%
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
Cash	BofA Merrill Lynch United Kingdom Sterling LIBOR 3 month constant maturity

These are the indices used in this report for market commentary; individual strategy returns are shown against their specific benchmarks.

Appendix 3

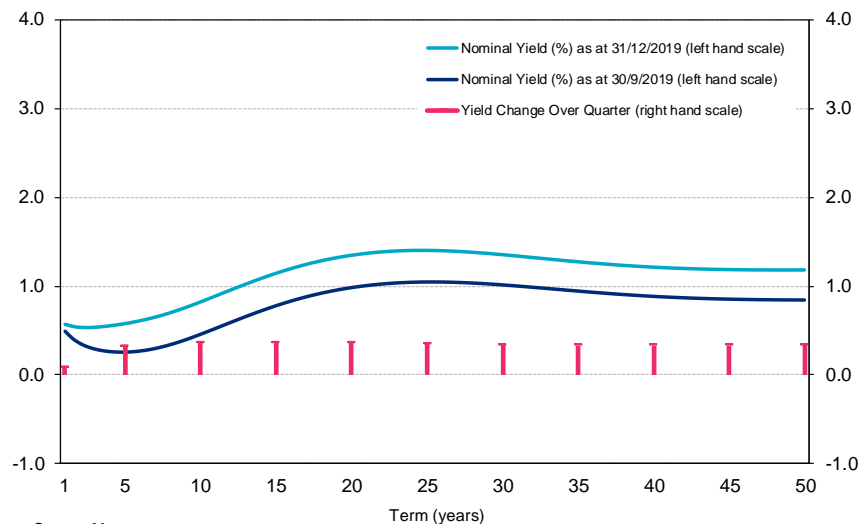
Changes in Yields

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	31 Dec 2019	30 Sep 2019	31 Dec 2018	30 Dec 2017
UK Equities	4.09	4.21	4.46	3.59
Over 15 Year Gilts	1.25	0.91	1.76	1.68
Over 5 Year Index-Linked Gilts	-1.84	-2.20	-1.58	-1.66
Sterling Non Gilts	2.00	1.84	2.75	2.17

- Nominal and real yield curves shifted up and steepened marginally over the quarter. The quarter saw a return of bullish market sentiment, which reduced demand for safe-haven assets.
- The Over 15 Year Gilt Index generated a return of -6.6% as a result, while the Over 5 Year Index-Linked Gilts Index also returned -9.4%.
- Credit spreads fell over the quarterly, mostly for lower ratings amid risk-on sentiment returning. The sterling Non-Gilts All Stocks Index credit spread ended the quarter at c.1.1% p.a., and UK credit assets delivered a return of -0.7% 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.

GUIDE TO MERCER RATINGS

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: <ul style="list-style-type: none">▪ 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: <ul style="list-style-type: none">▪ 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.

GUIDE TO MERCER RATINGS

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.

GUIDE TO MERCER RATINGS

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.

GUIDE TO MERCER RATINGS

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.

