

# Avon Pension Fund

## Panel Investment Performance Report Quarter to 30 September 2020

November 2020

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

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# Section 1

# **Executive Summary**

# EXECUTIVE SUMMARY

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 increased by £77m over the quarter to 30 September 2020, to £5,032m. Modest positive performance was seen across most asset classes, particularly overseas equity, as markets continued to be buoyed by central bank liquidity. The only negative performers in the portfolio were UK equities, which remain subdued as Brexit negotiations rumble on, and secured income, which is still in the process of being drawn down.

## Strategy

- Global (developed) equity returns over the last three years were 9.4% p.a., above the assumed strategic return of 6.8% p.a. from the strategy reviews over 2019. We remain broadly neutral in our medium-term outlook for developed market equities (over the next one to three years), though have cause for optimism on their outlook due to the backdrop of low bond yields, low inflation and very pro-growth policy makers creating a favourable environment, not withstanding the risks associated with the US election and Brexit.
- Emerging market equities have returned 4.6% p.a. over the three-year period, behind the assumed return of 8.3% p.a. Emerging markets are still more attractively priced than other developed market regions, in our view. The macro environment remains mixed for emerging markets but the continued recovery over the last quarter could continue their recent momentum.
- High yield bonds returned 4.9% p.a. over the three-year period, slightly ahead of the assumed strategic return of 4.4%, whilst UK corporate bonds were also ahead of their 2.6% target with returns of 4.7% p.a..
- The three-year UK property return of 3.2% p.a. is behind the assumed return of 5.2% p.a., suppressed by recent uncertainty.
- UK government bond returns over the three-year period remain materially higher than the long-term assumed strategic returns as investor demand for gilts remains strong, though gilt yields saw a slight shift upwards over the quarter. Fixed interest gilts returned 9.5% p.a. over three years versus an assumed return of 1.5% p.a., whilst index-linked gilts also returned 7.0% p.a. versus an assumed return of 1.6% p.a.
- The Fund’s currency hedging policy was positive overall for Fund performance over the quarter, since Sterling appreciated against the Dollar.

# EXECUTIVE SUMMARY

## Managers

- Manager total returns over the quarter were positive for all assets, with the exception of the UK Equity mandates, where wider markets continued to struggle, and also the Secured Income mandate which is still being drawn down. Global Equities and Emerging Market Equity had another strong quarter with a continued recovery in prices. The Hedge Fund mandate was also a strong performer, whilst MAC and Corporate Bonds also grew as spreads continued to narrow. The DGF mandate preserved value, whilst the Property mandate also managed to deliver positive performance despite the uncertainty associated with the asset class.
- The value of the Fund's LDI portfolio increased slightly, mainly due to a small rise in implied inflation.
- The LDI portfolio remains down over the one year period to 30 September. The recovery in the Property and the Core Infrastructure mandate were not enough to bring them into positive territory, though the Renewable Infrastructure mandate is modestly up over the year. UK Equity was significantly down, but all other Equities were up, as were the Credit mandates, DGF and Hedge Fund mandate. In addition, the majority of assets achieved positive relative performance over the period.
- Over the three-year period, three of the active mandates in place for this time –JP Morgan, Schroder Property and IFM – outperformed their benchmarks, though JP Morgan and IFM were the only ones to exceed their performance objectives. The recently terminated Jupiter UK Equity mandate underperformed over this period, as did Ruffer, Loomis Sayles and Partners.

## Key Points to Note

- The Fund's new strategic benchmark is reflected in this report, having become effective as at 1 April 2020.
- The Pyrford DGF holding was terminated towards the start of the quarter, which, alongside a partial redemption of the Ruffer DGF, was used to fund the new Brunel Diversified Returns mandate.
- The UK Equity mandates with Jupiter and Brunel, along with the small Jupiter Global Sustainable Equity holding, were terminated towards the end of the quarter to fund the new Brunel Global Sustainable Equity mandate.
- Separately, at the end of the quarter, the Fund's inflation hedge ratio was increased to c. 35% of assets. This was done in conjunction with a rebalancing exercise, with assets switched from equities to gilts within the BlackRock QIF in order to reduce the Fund's overweight equity allocation and top up the collateral pool for the risk management strategies.
- At quarter end all asset classes were within their ranges, except for the Secured Income, Renewable Infrastructure and Private Debt mandates which are in the process of being drawn down.

# EXECUTIVE SUMMARY

## MANAGER INFORMATION

Manager	Type	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	ESG	Page
BlackRock	Passive	Global Equity	A	✓	✓	P2	22
BlackRock	Passive	Corporate Bond	A	✓	✓	N	22
BlackRock	Passive	LDI	A	✓	✓	N	22
BlackRock	Passive	ETF	N/A	N/A	N/A	-	22
Jupiter	Active	UK Equity	R	-	✗	N	23
Brunel	Active	UK Equity	N/A	-	N/A	-	24
Jupiter	Active	Global Sustainable Equity	N	✓	N/A	N	25
Brunel	Active	Global Sustainable Equity	N/A	N/A	N/A	-	-
Brunel	Active	Global High Alpha Equity	N/A	N/A	N/A	-	26
Brunel	Passive	Global Low Carbon Equity	N/A	✓	N/A	P1	27
Brunel	Active	Emerging Market Equity	N/A	N/A	N/A	-	28
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					

# EXECUTIVE SUMMARY

## MANAGER INFORMATION

Manager	Type	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	ESG	Page
Ruffer	Active	DGF	A	✓	✗	2	29
Brunel	Active	Diversified Returns	N/A	N/A	N/A	-	-
Loomis Sayles	Active	Multi-Asset Credit	A	✗	✗	3	30
JP Morgan	Active	Fund of Hedge Funds	R	✓	✓	N	31
Schroder	Active	UK Property	B	-	-	3	34
Partners	Active	Global Property	B+	✗	✗	4	35
Brunel	Active	Secured Income	N/A	✗	N/A	-	36
IFM	Active	Core Infrastructure	B+	✗	✓	2	37
Brunel	Active	Renewable Infrastructure	N/A	✓	N/A	-	38
Record Currency Management	Active	Currency Hedging	N	N/A	N/A	N	39
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 of the active mandates which have been in place for at least three years have outperformed their benchmark, with two also meeting their outperformance objective.
- The UK Equity mandates, and the Jupiter Global Sustainable Equity mandate, were terminated towards the end of the quarter to fund the new Brunel Global Sustainable Equity mandate.
- The Pyrford DGF was also terminated towards the start of the quarter, which alongside a partial redemption off the Ruffer DGF, was used to fund the new Brunel Diversified Returns mandate.
- The Fund also commenced at the end of the quarter an increase to its inflation hedge ratio, to c. 35% of assets, which involved a transition from the underlying equity component of the BlackRock portfolio to the LDI component as collateral.



## Section 2

# Market Background

# MARKET BACKGROUND

## INDEX PERFORMANCE

### Equity Market Review

The strong economic rebound that started in early summer continued over the third quarter but started to slow towards quarter end. Manufacturing, services, trade, retail sales and the labour market recouped a large proportion of the losses from earlier in the year when many economies came to a standstill overnight. The rebound narrative along with continued monetary and fiscal policy support drove a risk-on rally, leading to another quarter of strong returns for risk assets and weaker performance for defensive assets.

Early estimates for the third quarter of 2020 indicate a strong rebound in the US economy. Monetary policy remained very loose, with the Federal Reserve officially moving to an average target inflation regime that will tolerate higher inflation in some periods to make up for lower inflation in others. China is still furthest ahead in terms of economic recovery after its GDP rebounded by 11.5% quarter-on-quarter (non-annualised, seasonally adjusted) to the end of June 2020. Emerging markets outside East Asia remain the epicenter of the disease, which is hampering economic activity, especially in India and Latin America. In the UK, an increase in restrictions towards quarter end has tempered the strong economic rebound seen earlier in the quarter.

Global equity markets continued to rally, returning 3.4% in sterling terms and 7.0% in local currency terms – on top of the double digit recovery seen during the second quarter and in spite of a brief sell-off during September. A number of indices, including the S&P500 are now in positive mid-single digit territory year-to-date. The September sell-off was driven by concerns over frothy technology stock valuations, fear of renewed restrictions in large economies, political gridlock in Washington and the US election.

### Bond Market Review

The UK yield curve shifted up marginally over the quarter, reflecting the general risk-on sentiment. UK monetary policy was unchanged but on the fiscal side, another spending package was announced over the quarter.

UK real yields shifted up over the quarter, in line with the small increase in nominal yields, offset to a degree by rising break-evens. The still ongoing RPI consultation is still creating uncertainty for UK inflation-linked bonds.

Credit spreads narrowed over the quarter as risk-on sentiment remained. This has been a bumper year already in terms of investment grade issuance but strong institutional demand and liquidity from central banks have kept credit markets stable, some volatility in investment grade credit markets during August notwithstanding.

### Currency Market Review

Sterling strengthened against the US dollar over the quarter (by 4.6%) which was more driven by US dollar weakness across the board as investors priced in lower rates for longer and higher inflation in the US. Sterling also appreciated against the Yen (by 2.3%) and was broadly flat (up by 0.2%) against the Euro. Sentiment was boosted by a strong rebound in UK economic activity over summer and markets shrugged off the continued stalemate over a trade deal with the EU that was exacerbated by the UK endeavoring to reopen and renegotiate the Withdrawal Agreement.

### Commodity Market Review

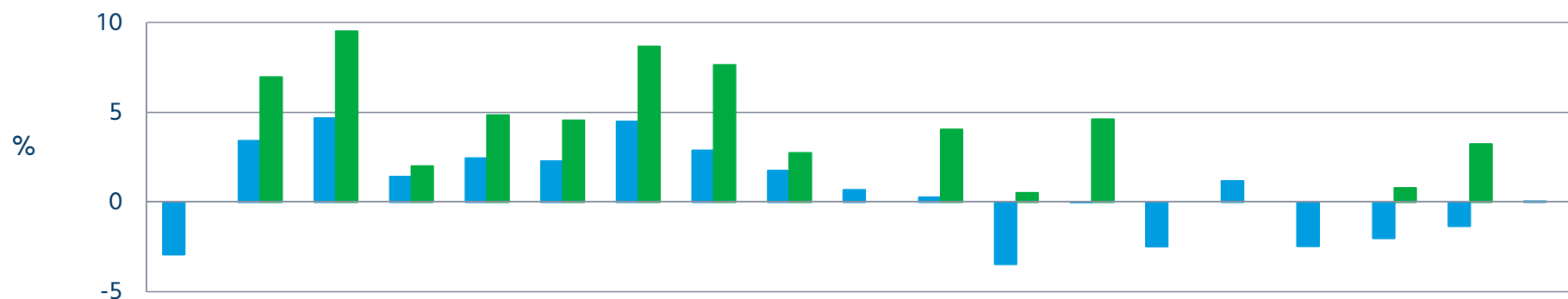
Commodity markets continued their rebound over the quarter, except for energy. Having started the quarter strongly, in September, gold performed poorly as investors started to question the sustainability of the prolonged rally. Agricultural commodities performed well amid supply constraints in major producing countries that are heavily impacted by the pandemic.

Source: Thomson Reuters Datastream, Consensus Economics, ONS

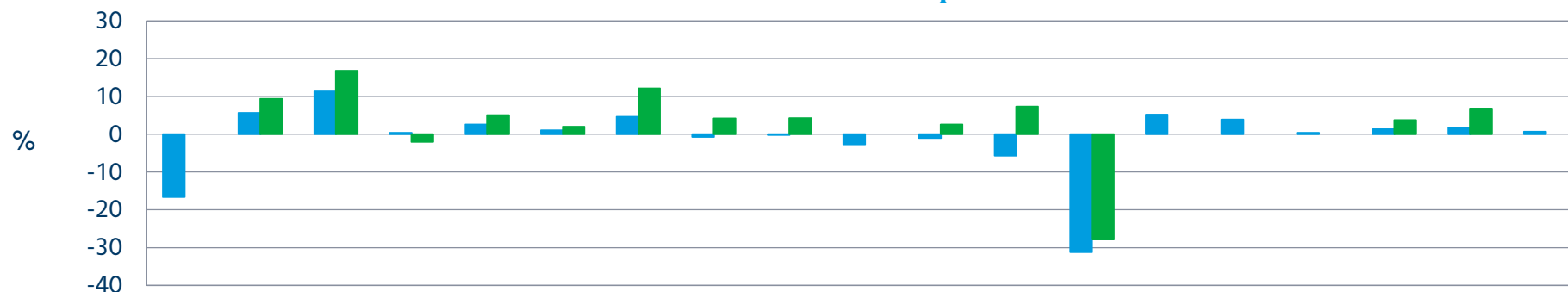
# MARKET BACKGROUND

## INDEX PERFORMANCE

Return over the 3 months to 30 September 2020



Return over the 12 months to 30 September 2020



Return p.a. over the 3 years to 30 September 2020



# Section 3

# **Strategic Assumptions**

# MARKET BACKGROUND

## INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Global Developed Equity (FTSE AW Developed)	6.8	9.4	The three year return of global developed equities has been ahead of the assumed strategic return. This increased against last quarter after a return of 3.3% over Q3.
Emerging Market Equity (FTSE AW Emerging)	8.3	4.6	The three year return from emerging market equities was unchanged and remained behind the assumed strategic return despite a modest Q3 return of 4.5%.
Diversified Growth (Libor + 5%)	5.7	5.7	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 based benchmark. Low cash rates means benchmark has underperformed the long term expected return from equity. An absolute strategic return of 5.7% p.a. has been used, along with the specific manager target for comparison. During periods of strong equity returns we would expect DGFs to underperform equities.
High Yield Bonds (BofAML Global High Yield)	4.4	4.9	The three year return of high yield bonds has been ahead of the assumed strategic return.
UK Corporate Bonds (BofAML Sterling Non Gilts)	2.6	4.7	Corporate bond returns grew compared to last quarter as spreads continued to narrow, taking the three year return further ahead of the assumed strategic return.
Property (IPD UK Monthly)	5.2	3.2	Actual property returns fell further behind expected returns. Despite growth in the index of 0.7% over Q3, this was lower than the quarter that fell out of the period. Uncertainty remains around the valuation of assets, and the extent of the impact from the coronavirus pandemic and lockdowns.
Infrastructure (S&P Global Infrastructure)	6.4	-0.2	The infrastructure three year return fell into negative territory over Q3 as the index contracted by 2.9%. It should be noted that the returns of this index can largely driven by currency moves, however 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.
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	1.5	9.5	UK gilt returns remain well above the long term strategic assumed return as yields remain low relative to historic averages. Nominal and index-linked gilts rose slightly over the last quarter.
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	1.6	7.0	

# DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD Q4 2020

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

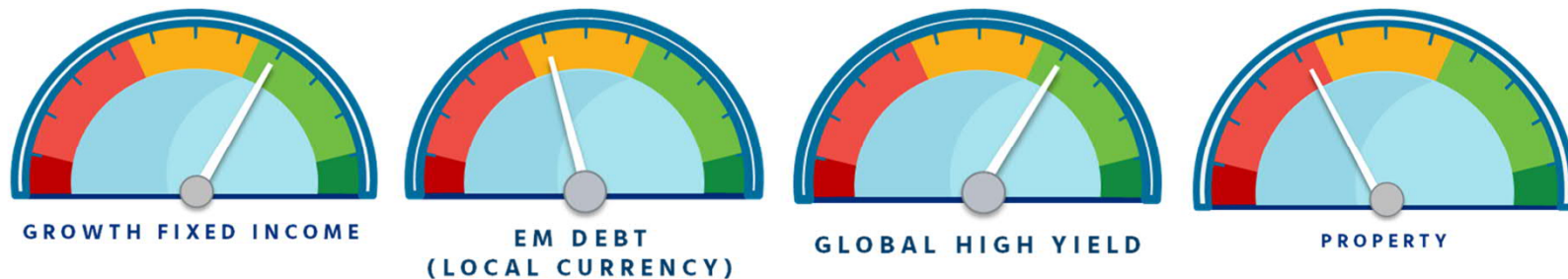
Mercer's current DAA position/view

Position/view last time (if changed)

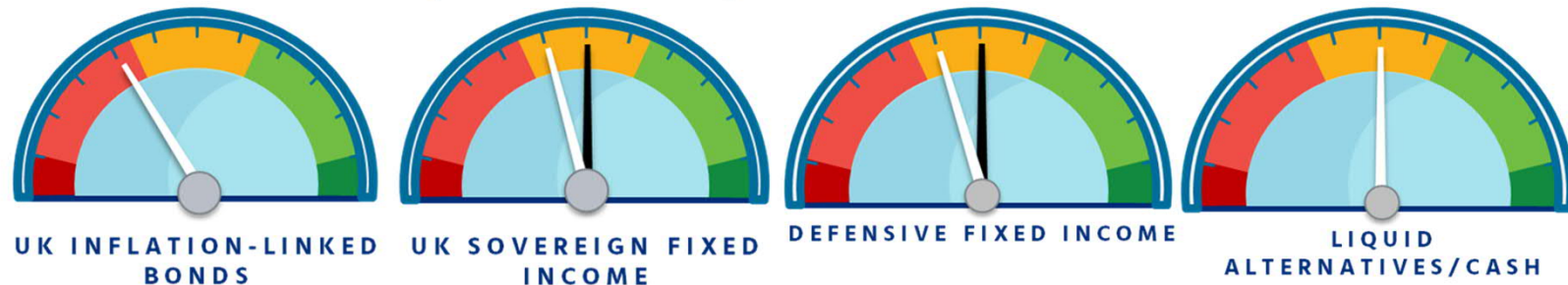
## Equities



## 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 Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Benchmark (%)	Ranges (%)			Difference (%)
Global Equity	988,863	601,895	20.0	12.0	12.0	7	-	17	+0.0
Global Sustainable Equity	357,282	494,328	7.2	9.8	10.0	5	-	15	-0.2
Global Low Carbon Equity	596,432	616,893	12.0	12.3	10.0	5	-	15	+2.3
Emerging Market Equity	233,065	246,602	4.7	4.9	5.5	3	-	9	-0.6
Diversified Growth Funds	646,324	643,596	13.0	12.8	10.0	5	-	15	+2.8
Fund of Hedge Funds*	260,004	268,702	5.2	5.3	-	No set range			+5.3
Multi-Asset Credit	293,992	302,521	5.9	6.0	6.0	3	-	9	+0.0
Property	436,675	431,097	8.8	8.6	7.5	5	-	10	+1.1
Secured Income	110,404	109,304	2.2	2.2	10.0	5	-	15	-7.8
Core Infrastructure	338,859	345,475	6.8	6.9	5.0	2.5	-	7.5	+1.9
Renewable Infrastructure	39,925	40,186	0.8	0.8	5.0	2.5	-	7.5	-4.2
Private Debt	-	-	-	-	5.0	0	-	7.5	-5.0
Corporate Bonds	131,554	133,229	2.7	2.6	2.0	No set range			+0.6
LDI & Equity Protection	370,981	625,883	7.5	12.4	12.0	No set range			+0.4
Cash**	150,603	171,951	3.0	3.4	-	0	-	5	+3.4
<b>Total</b>	<b>4,955,110</b>	<b>5,031,696</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>				

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

\*Mandate due to be terminated.

\*\*Valuation includes the ETF and currency instruments

- Secured Income, Renewable Infrastructure and Private Debt mandates are still being drawn down so allocations are below target ranges.
- The above reflects the new strategic benchmark for the Fund, which became effective on 1 April 2020.



# FUND VALUATIONS

## VALUATION BY MANAGER

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
BlackRock	Global Equity	497,323	-290,000	222,761	10.0	4.4
BlackRock	Corporate Bonds	131,554		133,229	2.7	2.6
BlackRock	LDI* & Equity Protection	370,981	+290,000	625,883	7.5	12.4
BlackRock	ETF	45,817		45,975	0.9	0.9
Jupiter	UK Equity	176,404	-170,824	0	3.6	0
Brunel	UK Equity	167,370	-164,542	0	3.4	0
Jupiter	Global Sustainable Equity	13,193	-13,780	0	0.3	0
Brunel	Global Sustainable Equity	0	+494,014	494,014	0.0	9.8
Brunel	Global High Alpha Equity	468,505	-144,899	358,018	9.5	7.1
Brunel	Global Low Carbon Equity	596,432		616,893	12.0	12.3
Schroder	Global Equities	7,508		7,321	0.2	0.1
Brunel	Emerging Market Equity	233,065		246,602	4.7	4.9

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

\* End of Quarter value includes the collateral top-up which took place just before quarter-end, funded by the Global Equities component, as part of the inflation hedge ratio increase.

# FUND VALUATIONS

## VALUATION BY MANAGER

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Brunel	Diversifying Returns Fund	0	+500,563	493,104	0.0	9.8
Pyrford	DGF	226,872	-226,981	0	4.6	0
Ruffer	DGF	419,452	-270,346	150,492	8.5	3.0
Loomis Sayles	Multi-Asset Credit	293,992		302,521	5.9	6.0
JP Morgan	Fund of Hedge Funds	260,004		268,702	5.2	5.3
Schroder	UK Property	224,450		223,742	4.5	4.4
Partners	Property	212,225	-3,622	207,355	4.3	4.1
Brunel	Secured Income	110,404		109,304	2.2	2.2
IFM	Infrastructure	338,859		345,475	6.8	6.9
Brunel	Infrastructure	39,925		40,186	0.8	0.8
Record Currency Management	Currency Hedging	15,527		19,069	-0.3	0.4
Internal Cash	Cash	136,878	-15,838	120,701	2.8	2.4
<b>Total</b>		<b>4,955,110</b>	<b>-16,095</b>	<b>5,031,696</b>	<b>100.0</b>	<b>100.0</b>

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

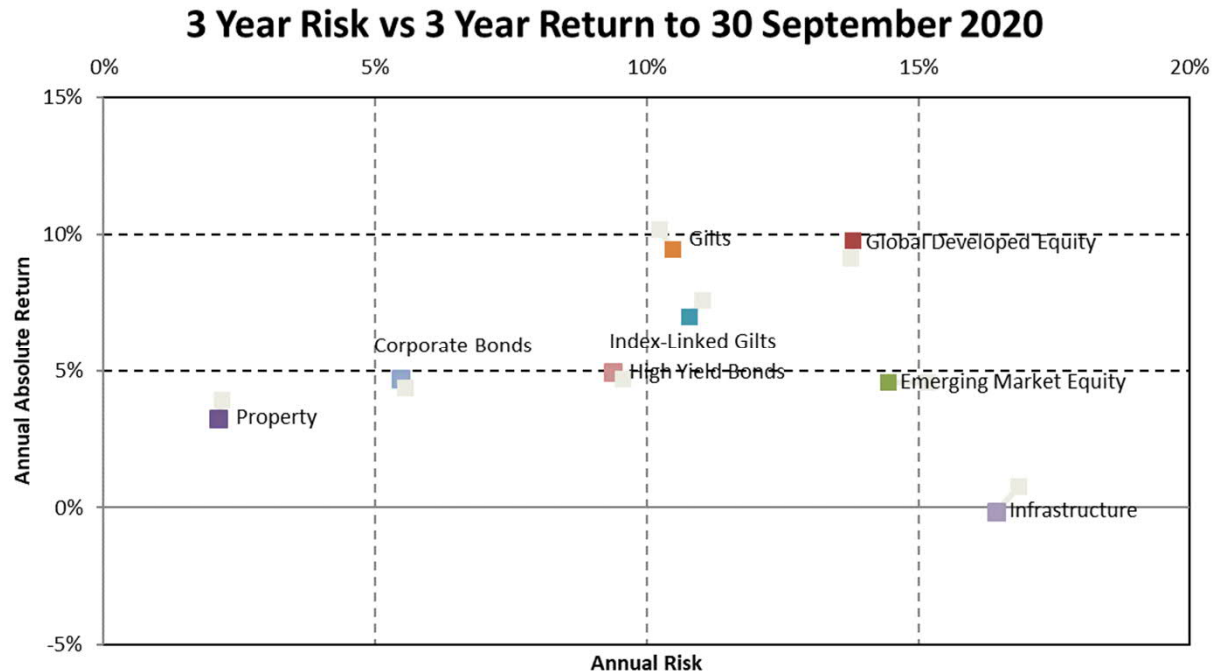
The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included in the 'Internal Cash' start and end balance to reflect the asset value position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

# Section 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 2020, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix). We also show the positions as at last quarter, in grey.

### Comments

- Equity and Bonds saw increases in observed returns over the three-year period, whilst Property, Infrastructure and Gilts fell back slightly.
- Associated volatilities rose across most asset classes, with Emerging Market Equity and Gilts being the only exceptions.
- These movements in risk and return were less pronounced than prior experience in the first half of 2020.

# MANAGER MONITORING

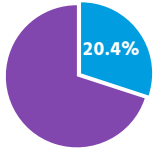
## MANAGER PERFORMANCE TO 30 SEPTEMBER 2020

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 Global Equity	3.1	3.2	-0.1	5.3	5.2	+0.1	N/A	N/A	N/A	-	N/A
BlackRock Corporate Bonds	1.3	1.3	0.0	5.9	5.9	0.0	6.9	6.9	0.0	-	Target met
BlackRock LDI	1.0	1.0	0.0	-23.1	-23.1	0.0	-4.7	-4.7	0.0	-	Target met
Jupiter UK Equity	-3.2	-2.9	-0.3	-16.0	-16.6	+0.7	-4.9	-3.2	-1.8	+2	Target not met
Brunel UK Equity	-1.7	-2.9	+1.2	-15.1	-16.6	+1.8	N/A	N/A	N/A	+2	N/A
Jupiter Global Sustainable Equity	4.5	3.5	+1.0	14.2	5.8	+7.9	N/A	N/A	N/A	+2-4	N/A
Brunel Global High Alpha Equity	7.3	3.3	+3.9	N/A	N/A	N/A	N/A	N/A	N/A	+2-3	N/A
Brunel Passive Low Carbon Equity	3.4	3.5	-0.1	6.2	6.3	-0.1	N/A	N/A	N/A	-	N/A
Brunel Emerging Market Equity	5.8	4.8	+1.0	N/A	N/A	N/A	N/A	N/A	N/A	+2-3	N/A
Ruffer DGF	0.9	1.3	-0.4	7.2	5.6	+1.5	3.3	5.7	-2.3	-	Target not met
Loomis Sayles MAC	2.9	1.0	+1.9	2.1	4.5	-2.3	2.3	4.7	-2.3	-	Target not met
JP Morgan FoHF	4.5	0.8	+3.6	13.0	4.6	+8.0	6.4	5.0	+1.3	-	Target met
Schroder UK Property	0.4	0.2	+0.2	-2.6	-2.8	+0.2	2.9	2.6	+0.3	+1	Target not met
Partners Overseas Property *	3.4	2.5	+0.9	-0.6	10.0	-9.7	4.0	10.0	-5.4	-	Target not met
Brunel Secured Income	-1.0	0.5	-1.5	-2.4	0.6	-3.0	N/A	N/A	N/A	+2	N/A
IFM Core Infrastructure **	1.9	0.8	+1.2	-3.2	4.5	-7.4	11.7	4.7	+6.7	-	Target met
Brunel Renewable Infrastructure	0.1	0.5	-0.4	10.5	0.6	+9.8	N/A	N/A	N/A	+4	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 in local currency terms.**
- \*\*IFM returns are in GBP terms after the manager switched to GBP reporting in January. Historical USD performance has been converted to GBP.
- **Returns are net of fees.**
- 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 2020 as this is the latest date that this is available.

## Section 5

# Manager Performance



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

## £ 1,027.8M END VALUE (£1,045.7M M START VALUE) (Inc. Equity protection strategy)

Item Monitored	Outcome
Mercer Rating	<p>● A for Passive Equity (no change); ESGp2</p> <p>● A for Buy-and-Maintain Credit (no change)</p> <p>● A for LDI (no change)</p>
Performance Objective <i>In line with the benchmark</i>	<p>● Portfolios performed broadly in line with their benchmarks over three years</p>

	Quarter (%)		1-Year (%)		3-Year (% p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Equity	3.1	3.2	5.3	5.2		
Corporate Bonds*	1.3	1.3	5.9	5.9	6.9	6.9
LDI**	1.0	1.0	-23.1	-23.1	-4.7	-4.7

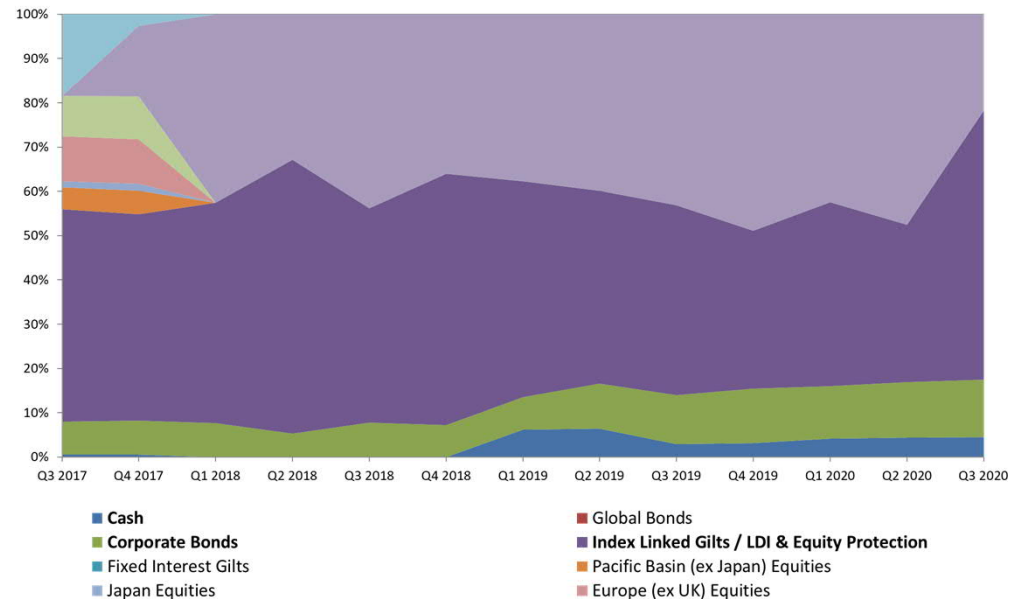
\*Corporate Bond fund and benchmark reflects legacy holdings prior to 31 March 2019 and Buy and Maintain Credit holdings thereafter. Benchmark return assumed equal to mandate.

\*\* Benchmark return for LDI performance assumed equal to mandate. Equity protection strategy performance is not reflected.

### Manager Research and Developments

- Equities returned 3.1% over the third quarter and the corporate bond portfolio returned 1.3%.
- The LDI portfolio grew by 1.0% as inflation nudged up over the quarter.
- Blackrock holdings were rebalanced over the quarter to begin implementation of an increase in the inflation hedge ratio c. 35%.

### Asset Allocation



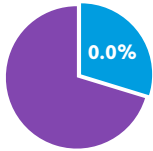
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### Reason for investment

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



# JUPITER ASSET MANAGEMENT – UK EQUITY (SRI) (SEGREGATED) £0M END VALUE\* (£176.4M 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 1.8% p.a. over three years
Tracking error was 4.0% p.a. – <i>source: Jupiter</i>	Number of stocks: 51	

## Manager Research and Developments

- Jupiter contracted by 3.2% over Q3 and underperformed its benchmark by 0.3%.
- Exposures to financials, transport and telecoms didn't fare well for the portfolio.
- The mandate outperformed its benchmark over the year period, but underperformed over three years. It has also fallen short of its performance objective over all of these recent time horizons.
- The mandate was terminated at the end of Q3 to fund the Brunel Global Sustainable Equities mandate.

## Reason for investment

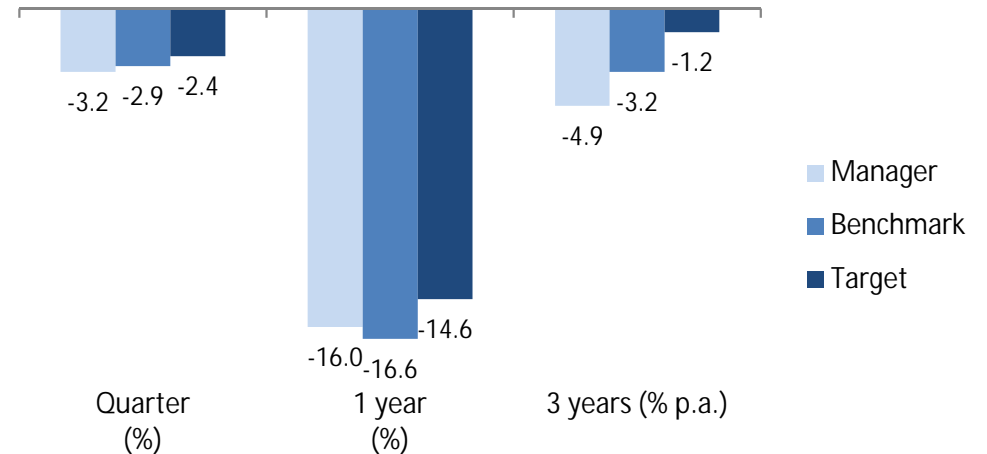
To provide asset growth as part of a diversified equity portfolio and to provide a specific SRI allocation

## 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

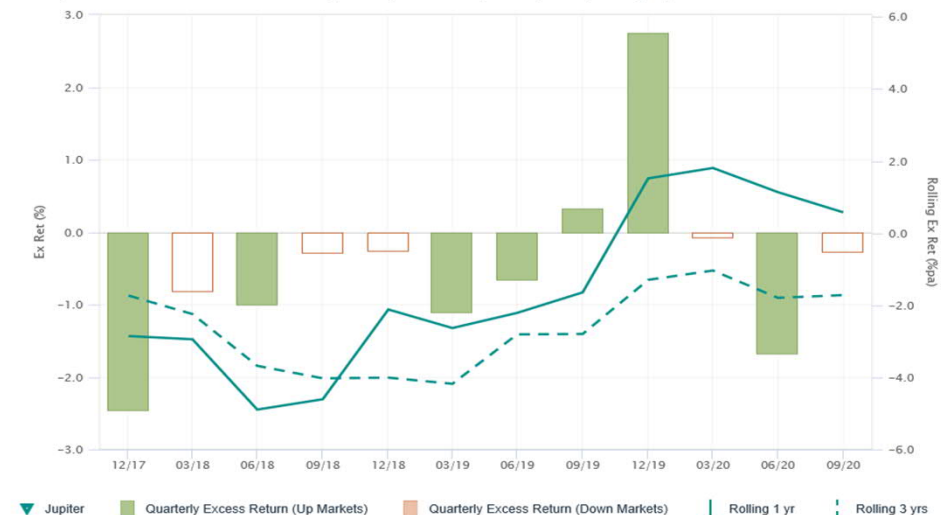


## Performance

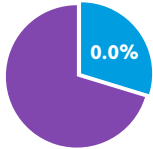


## Rolling relative returns

Quarterly Excess Return vs. FTSE All Share with rolling 1 and 3 yr lines in GBP (after fees) over 3 yrs ending September-20







## BRUNEL – ACTIVE UK EQUITY

### £OM END VALUE\* (£167.4M START VALUE)

Item Monitored	Outcome
----------------	---------

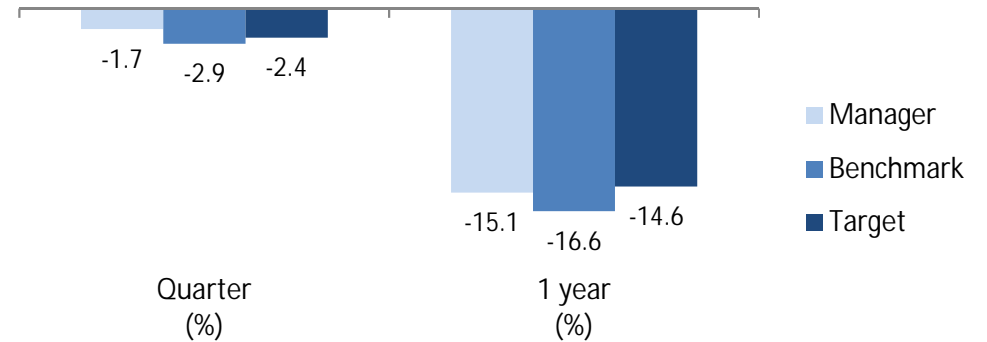
Mercer Rating	● N/A
---------------	-------

Performance Objective <i>Benchmark +2% p.a.</i>	● Has underperformed its target over the year.
--	--

#### Manager Research and Developments

- Mandate was initiated in November 2018.
- The mandate contracted by 1.7% over the quarter as UK equities struggled. This was ahead of its FTSE All-Share Index benchmark however by 1.2%.
- The mandate also outperformed the benchmark over the one year period, but fell just short of its performance objective.
- The mandate was terminated at the end of Q3 to fund the Brunel Global Sustainable Equities mandate.

#### Performance

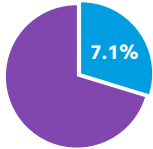


#### Reason for investment

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

£358.0M END VALUE (£468.5M START VALUE)

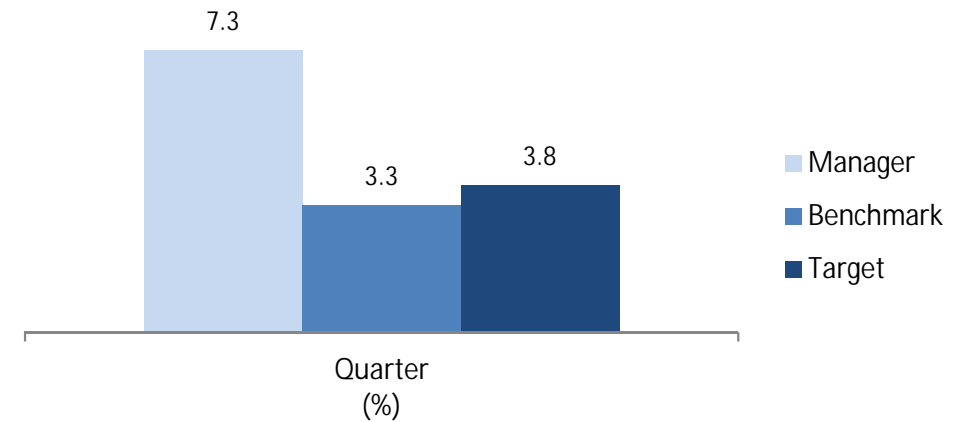
Item Monitored	Outcome	Performance
----------------	---------	-------------

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.
- The mandate returned 7.3% over the quarter, which was modestly ahead of its benchmark and performance objective.
- Whilst it is too early to confirm its relative performance over a one year period, the mandate has also outperformed modestly since its inception.

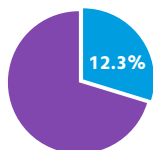


### Reason for investment

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

### Reason for manager

- Investment made via the Brunel pool



## BRUNEL – PASSIVE GLOBAL LOW CARBON EQUITY £616.9M END VALUE (£596.4M START VALUE)

### Item Monitored Outcome

Mercer Rating ● N/A

Performance Objective  
*In line with the benchmark* ● Broadly 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 3.4% over Q3 2020, and 6.2% over the one year period.
- These were broadly in line with its MSCI World Low Carbon Index benchmark as would be expected.

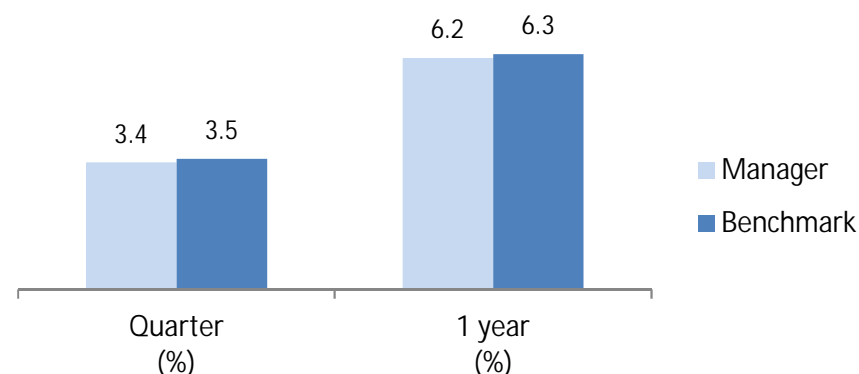
### Reason for investment

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

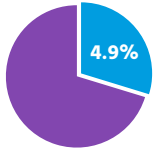
### Performance



### Sector Allocation

Information Technology	21.9
Health Care	13.8
Financials	12.5
Consumer Discretionary	11.8
Industrials	11.1
Communication Services	8.8
Consumer Staples	8.6
Materials	3.8
Real Estate	3.0
Other	4.7

Source: LGIM. As at 30 September 2020

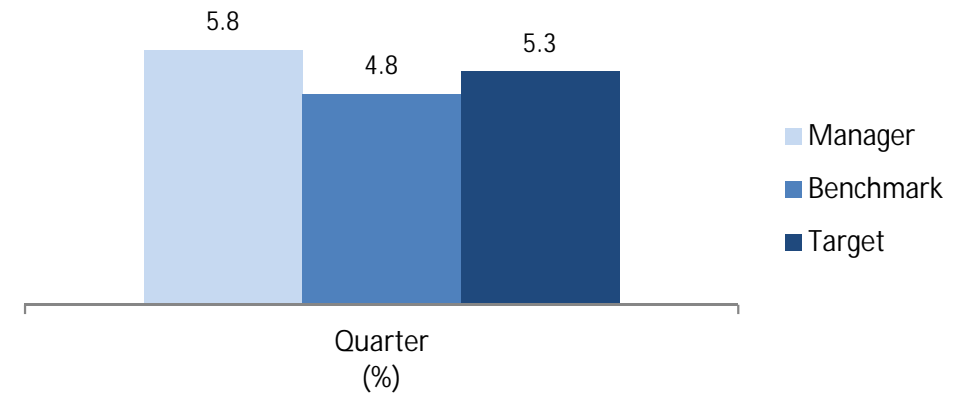


## BRUNEL – EMERGING MARKET EQUITY

### £246.6 END VALUE (£233.1M START VALUE)

Item Monitored	Outcome	
Mercer Rating	●	N/A
Performance Objective <i>Benchmark +2-3% p.a.</i>	●	Too early to determine

#### Performance



#### Manager Research and Developments

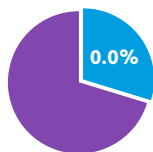
- Mandate was initiated in October 2019.
- It returned 5.8% over the quarter, which was ahead of its MSCI Emerging Markets Index benchmark, and also its performance objective.

#### 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

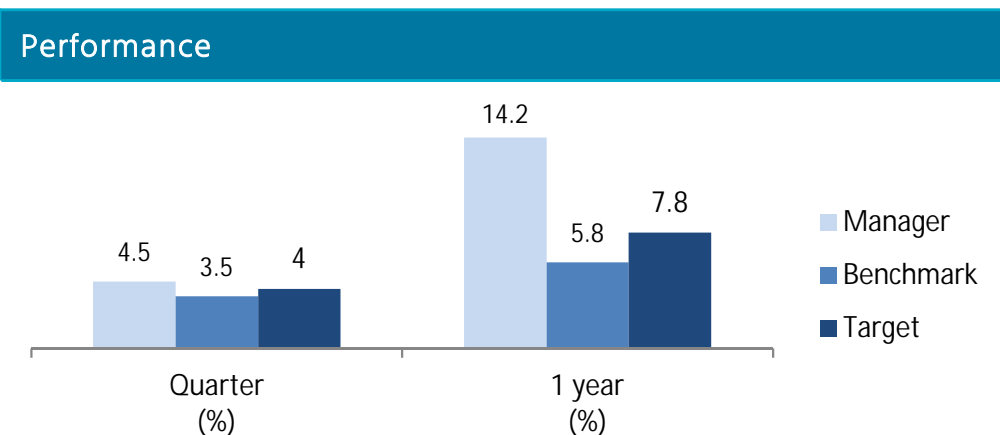
- Investment made via the Brunel pool



# JUPITER ASSET MANAGEMENT – GLOBAL SUSTAINABLE EQUITY (POOLED)

## £0M END VALUE\* (£13.2M START VALUE)

Item Monitored	Outcome
Mercer Rating	● N (no change over period under review)
Performance Objective <i>Benchmark +2-4% p.a.</i>	● Has achieved its objective over the year to 30 September 2020



- ### Manager Research and Developments
- Mandate was initiated in June 2018.
  - The fund returned 4.5% over Q3, outperforming its benchmark by 1.0%.
  - It also comfortably outperformed its benchmark and performance objective over the one year period to 30 September.
  - The mandate was terminated at the end of Q3 to fund the Brunel Global Sustainable Equities mandate.

### Reason for investment

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

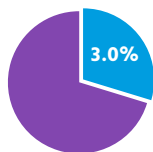
- ### Reason for manager
- Preference for global sustainability approach rather than negative screen approach due to integration of ESG factors into investment process
  - Global approach provides access to a large universe of stocks to select from
  - Clear investment philosophy and portfolio construction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

### Sector Allocation

Industry Allocation(%)	
Industrials <sup>1</sup>	34.0
Financials	13.6
Health Care	11.9
Consumer Goods	10.6
Technology	10.6
Basic Materials	5.7
Utilities	3.0
Consumer Services	2.7
Telecommunications	0.8
	<b>92.9</b>
Cash	<b>7.1</b>
<b>Total</b>	<b>100.0</b>

<sup>1</sup>Includes general electronic equipment, medical equipment and consumer financial stocks (19.57%).

Source: Jupiter. As at 30 September 2020.



## RUFFER – DGF (POOLED)

### £150.5M END VALUE (£419.5M START VALUE)

Item Monitored	Outcome
Mercer Rating	● A (no change over period under review); ESG2
Performance Objective Cash +5% p.a.	● Underperformed target by 2.3% p.a. over the year

### Manager Research and Developments

- Ruffer delivered a performance of 0.9% over the quarter, short of its objective of 1.3%.
- The portfolio continued to benefit from its gold-related holdings, driven by a combination of falling US real bond yields and a declining US dollar.
- Inflation-linked bonds also bolstered performance again, as a rebuild in inflation expectations took real US bond yields to record lows.
- Performance was curtailed by the portfolio's credit protections, due to the wider rise in risk appetite over the quarter.
- The mandate did outperform its objective over the one year period, but has underperformed over its first full three year period by 2.3%.
- Over half of Ruffer holdings (c. £270m) were transferred to fund the new Brunel Diversified Returns Fund inception in July. The Pyrford DGF was also redeemed to fund this new mandate.

### Reason for investment

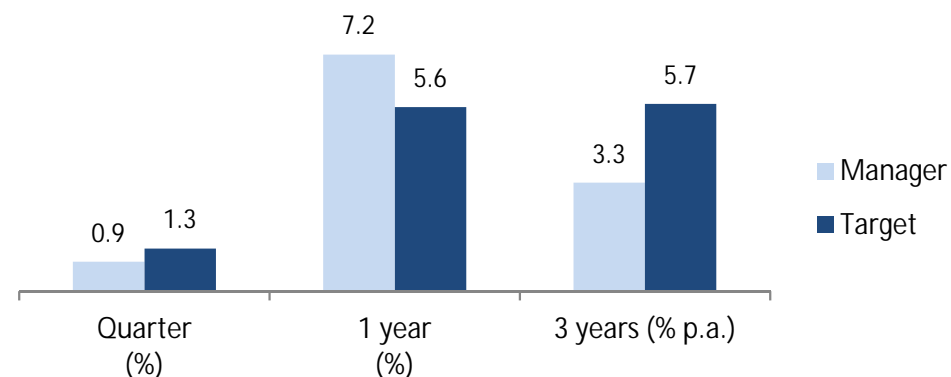
To provide equity like return over the long term but with a lower level of volatility

### Reason for manager

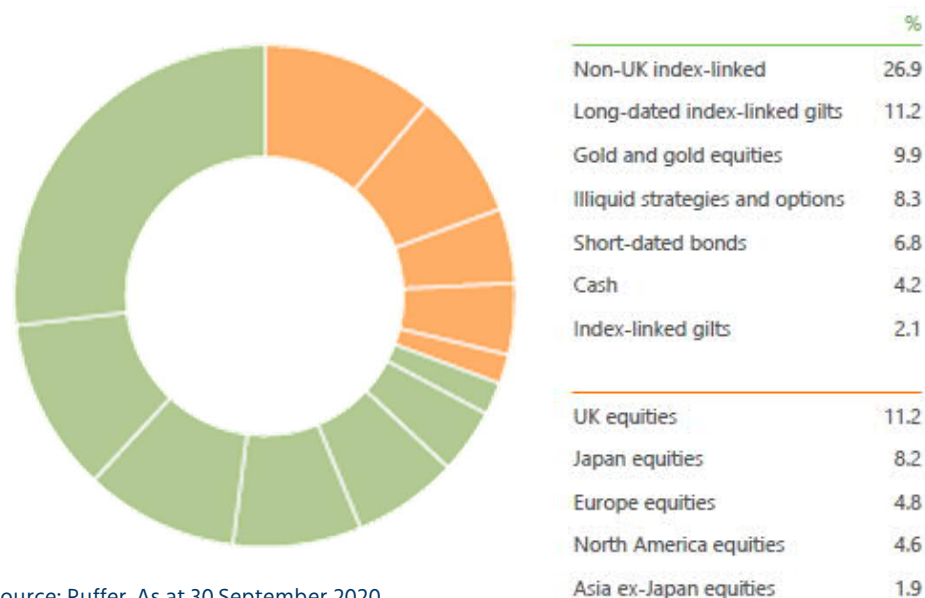
- Experience and insights of the investment team
- Focus on capital preservation
- Dynamic allocation between risk and defensive assets depending on market conditions



### Performance

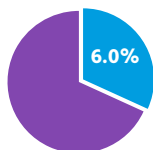


### Sector Allocation



Source: Ruffer. As at 30 September 2020.

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## LOOMIS SAYLES – MULTI-ASSET CREDIT (POOLED)

### £302.5M END VALUE (£294.0M START VALUE)

Item Monitored	Outcome
Mercer Rating	● A (no change over period under review); ESG3
Performance Objective Cash +4% p.a.	● Underperformed by 2.3% over the year

### Manager Research and Developments

- Loomis delivered a performance of 2.9% over the quarter, above its cash objective of 1.0%.
- Despite this it remained below its performance objective over the one year period by 2.3%, due to the ground lost over the start of the 2020.
- Spreads tightened for investment grade and high yield corporate bonds during the third quarter, and sectors which did well in both of these components included consumer cyclicals and financials.
- Emerging market assets performed well again, added by energy price stability and a softer US dollar, though the manager has subsequently pared back exposure in light of possible risk factors.
- The loan market and securitized assets components of the portfolio also continued a trend of positive momentum.
- The overall duration of the portfolio decreased over the quarter to 6.2 years.
- Just after quarter-end, Loomis informed us that CIO Jae Park will retire in March 2021. David Waldman, who has been Deputy CIO for the past seven years, will succeed Park as CIO upon Park's retirement. We view Waldman as a strong successor based on his three decades of experience, his tenure at Loomis and evidence of increasing responsibilities in leadership roles at the firm.

### Reason for investment

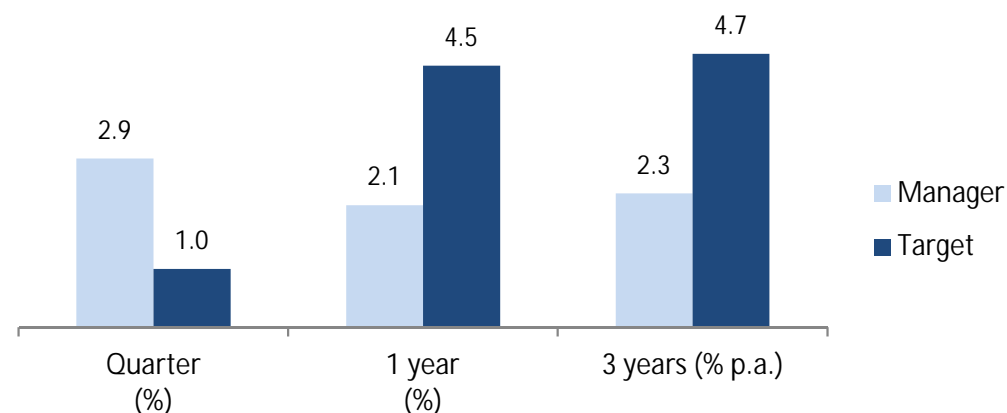
To be a diversified return seeker within the Fund's fixed income portfolio

### Reason for manager

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



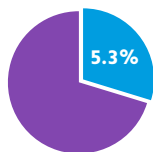
### Performance



### Sector Allocation

Sector Allocation	Fund 30/06/2020	Fund 30/09/2020
	%	%
High Yield Credit	31.7	27.8
Investment Grade Credit	22.0	23.3
Emerging Markets Debt	33.1	36.5
Securitized	5.8	5.2
Banks Loans	2.5	0.1
FX/Dur Mgmt/Cash	4.9	7.1

Source: Loomis Sayles.  
As at 30 September 2020.



## JP MORGAN – FUND OF HEDGE FUNDS

### £268.7M END VALUE (£260.0M START VALUE)

Item Monitored	Outcome	
Mercer Rating	●	R ; ESG4

Performance Objective <i>Cash +3% p.a.</i>	●	Above target over three years in USD.
---	---	---------------------------------------

Item	
Number of funds	31 (as at 30 September 2020)

Strategy	Contribution to Performance over the Quarter in USD (%)
Relative Value	1.47
Opportunistic/Macro	0.74
Long/Short Equities	2.19
Merger Arbitrage/ Event Driven	0.04
Credit	0.49
<b>Total</b>	<b>4.51 (including cash and fees)</b>

In GBP terms, the mandate return was -0.1% versus a benchmark return of 0.8%

#### Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

#### Reason for manager

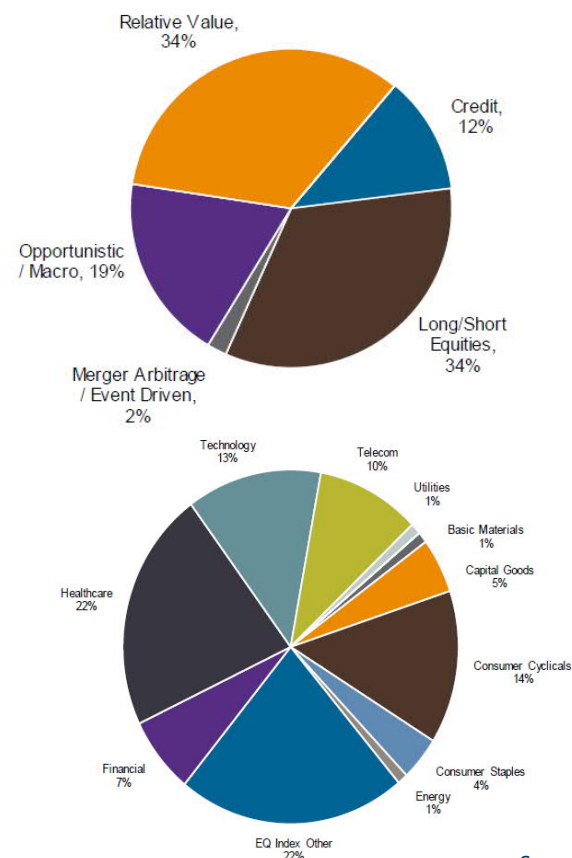
- Niche market neutral investment strategy
- Established team with strong track record
- Complemented other funds in the portfolio



#### Performance (USD)

Last Quarter	4.5 %	Target	0.8%
Last Year	13.0%	Target	4.6%
Last 3 Years (p.a.)	6.4%	Target	5.0%

#### Portfolio Composition and Equity Sector Allocation

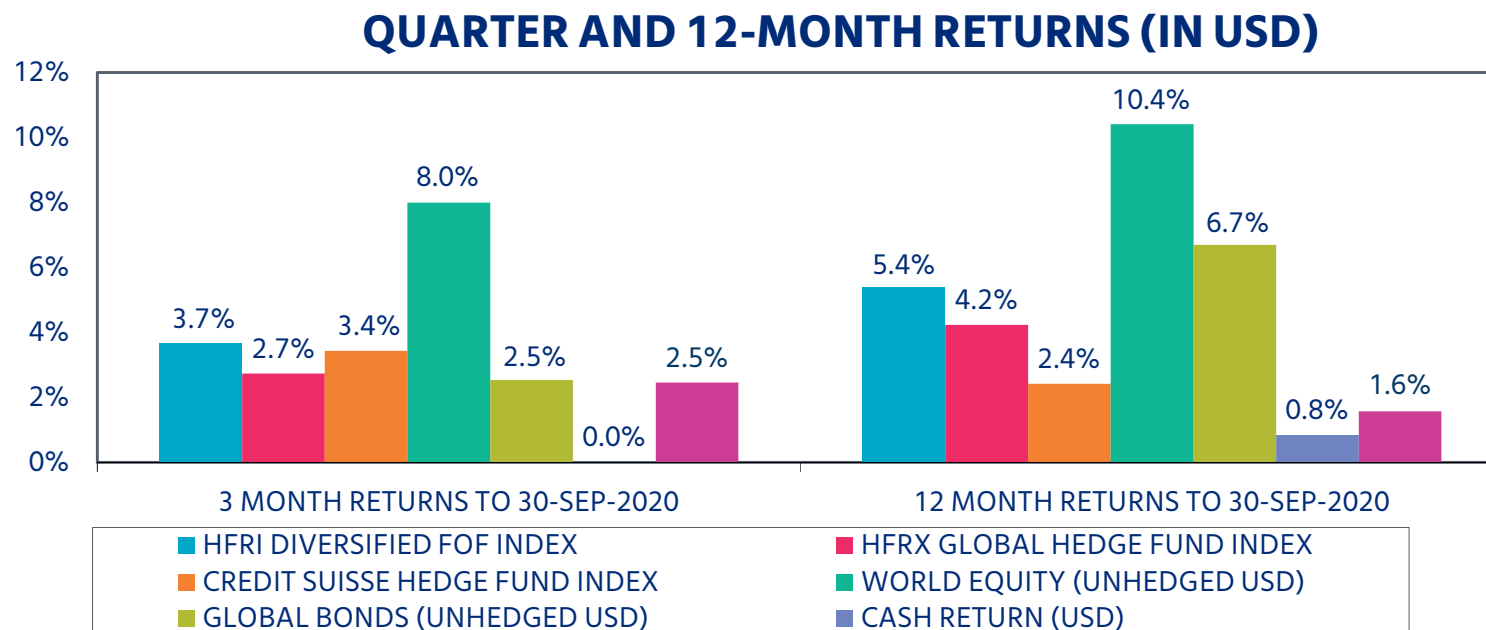


Source: JP Morgan.  
As at 30 September 2020.



# HEDGE FUND COMMENTARY – Q3 2020

- The third quarter proved constructive for hedge funds despite what was a relatively wild ride for the broad markets through the quarter.
- Equity-oriented strategies led the way as dispersion remained healthy, providing substantial opportunity to add value on both longs and shorts.
- Overall, the rising tide lifted nearly all boats with the exception of systematic macro, for which sharp intra-quarter reversals proved difficult to traverse, despite some fairly profound trends.
- Stressed/distressed credit rebounded nicely, but remained a relative laggard despite the rise in defaults. Likewise, the higher leveraged relative value strategies continue to lag in the recovery.
- Hedge funds are uniquely well-positioned to capitalize on this opportunity, as was largely realized in Q3 and despite the continued impacts of massive government and central bank activity, the opportunity set available to hedge funds remains attractive.



Source: Hedge Fund Research Inc., Credit Suisse Hedge Index LLC, Thomas Reuters Datastream and Federal Reserve.  
Includes the following indices: FTSE World, JP Morgan Global Bonds All Maturities.

# HEDGE FUND COMMENTARY – Q3 2020

## Relative Value (34%)

- Relative value strategies performed well, posting gains across all sub segments for the second straight quarter, but continue to lag.
- We have highlighted the impacts that weakened hands could have within this space. This theme appears to be playing out as capital has preferred the more 'obvious' opportunities.

## Long/Short Equities (34%)

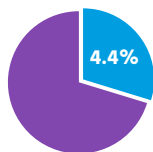
- Long/short equity generated material security selection alpha in Q3, as the “winners/losers theme” reverberated through equity markets.
- Stock correlations fell from their previously-elevated levels, indicating a supportive, bi-directional stock-picking environment, and a large portion of the hedge fund universe was able to capitalize on this opportunity. Dispersion of manager performance remained elevated as well.
- The quarter wasn't without its fireworks as a particularly violent stretch occurred with the VIX. It appears that long/short equity funds maintained exposures or even leaned into this activity; so far to their benefit.
- The general theme of growth/momentum stocks outperforming value/quality stocks continued. Likewise, alpha generation in Asia has continued to be strong year-to-date.

## Opportunistic / Macro (19%)

- Macro strategies overall posted solid results, and (discretionary) macro remains the top performing strategy year-to-date; however, dispersion between discretionary and systematic strategies is material.
- Despite some fairly strong trends within the quarter (weak dollar, strong momentum, lower short-rates), the volatility within these trends proved quite difficult for systematic and trend-following strategies to capture. Discretionary managers were able to successfully trade around this volatility.
- Equity volatility remains elevated, despite declining during the quarter. The elevated “vol of vol” may continue to be a factor for markets through the conclusion of the US Presidential election. The consensus expectation of protracted near-zero interest rates has reduced U.S. interest rate volatility to secular lows.

## Merger Arbitrage / Event Driven (2%)

- Event-driven strategies, on average, continued to enjoy a healthy rebound in Q3, although they remain the laggard hedge fund strategy year-to-date.
- Not surprisingly, more directional areas such as activism and special situations continued to lead in the rally. Merger arbitrage and distressed strategies, which were hard-hit in the first quarter, lagged in the rebound and continue to have modest losses year-to-date.
- Merger arbitrage strategies benefitted as several strategic deals closed, helping lead to general spread tightening despite the late quarter deal concerns causing LVMH to try to walk away from their acquisition of Tiffany. Deal volume came roaring back following the Q2 decline.
- Distressed strategies posted gains in Q3 but continued to lag other strategies

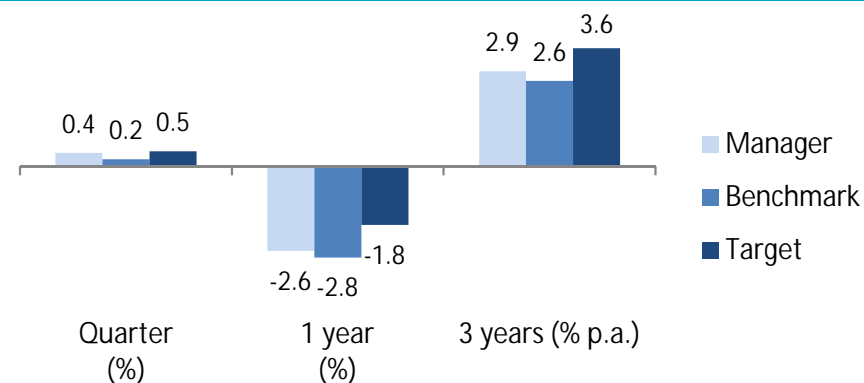


# SCHRODER – UK PROPERTY FUND OF FUNDS

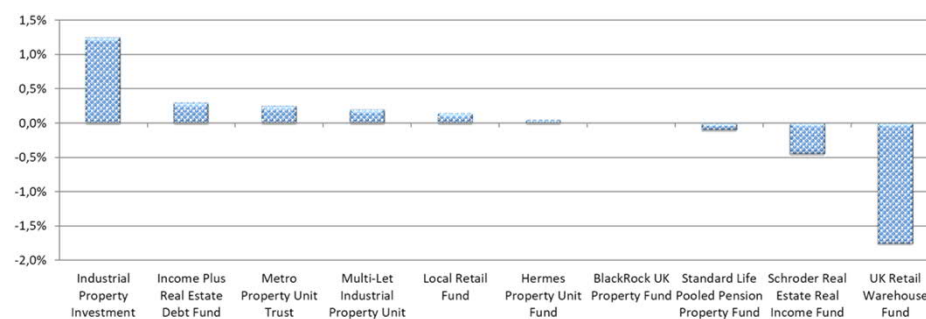
## £223.7M END VALUE (£224.5M START VALUE)

Item Monitored	Outcome
Mercer Rating	● B (no change over period under review); ESG3
Performance Objective <i>Benchmark +1% p.a.</i>	● Below performance objective over three years

### Performance



### Top 5 Contributing and Detracting Funds over 12 Months



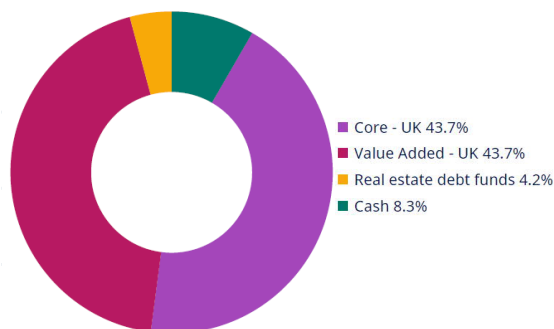
Source: Schroder. As at 30 September 2020

### Manager Research and Developments

- The fund returned 0.4% over Q3, as there was a partial recovery in investment transactions. Valuers were also able to remove the 'Material Uncertainty' caveats from the majority of assets.
- Industrials and niche property markets such as social supported housing and retirement living are faring relatively well, though retail and leisure are continuing to suffer, particularly given the re-introduction of restrictions post-quarter end.
- There were two sales over the quarter, the main one being the final redemption proceeds of c. £2.7m received from Standard Life Pooled Pension Property Fund
- The fund outperformed its benchmark over the quarter, and also the one and three year periods, though it has underperformed its objective over all of these time horizons.

### Manager and Investment type splits

Top 5 Holdings	Proportion of Total Fund (%)
Industrial Property Investment Fund	17.6
Metro Property Unit Trust	10.2
Hermes Property Unit Trust	9.7
BlackRock UK Property Fund	9.1
GBP Cash	8.3



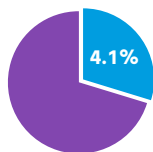
Source: Schroder. As at 30 September 2020

### 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

### £207.4M END VALUE (£212.2M START VALUE)

#### Item Monitored

#### Outcome

Mercer Rating



B+ (no change over period under review); ESG4

Performance Objective  
IRR of 10% p.a.



IRR since inception to 30 June 2020 at 6.1% p.a. (in local currency) is below target of 10% p.a.

#### Manager Research and Developments (Q2 2020)

- The portfolio delivered a net return of 1.7% over Q2 2020 for USD programmes in local currency, and 3.6% for EUR programmes, versus the target of c. 2.5%.
- Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, such as the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 30 June 2020 at 6.1% p.a. (in local currency) is below their target of 10% p.a..
- 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).

#### Portfolio update to 30 June 2020

Program	Current period		Since inception		Net asset value	Net return
	Net contributions	Distributions	Net contributions	Distributions		
PG Asia-Pacific & Emerging Markets Real Estate 2009, L.P.	0	0	17'467'664	17'085'048	4'854'200	4.7%
PG Asia-Pacific Real Estate 2016, L.P. Inc.	3'241'542	0	17'175'017	5'066'685	16'499'286	16.2%
PG Direct Real Estate 2011, L.P. Inc.	-1'465	0	11'424'808	12'414'816	4'485'120	8.4%
PG Distressed U.S. Real Estate 2009 S.C.A., SICAR	0	0	14'076'841	19'040'050	2'020'898	9.2%
PG Global Real Estate 2008 S.C.A., SICAR	0	0	30'939'953	34'328'921	4'049'154	4.0%
PG Global Real Estate 2011 S.C.A., SICAR	-2'730	0	25'077'248	27'416'912	8'740'583	7.8%
PG Global Real Estate 2013 S.C.A., SICAR	5'328'595	0	110'890'394	8'245'941	142'273'759	8.9%
PG Real Estate Income 2014 (EUR), L.P. Inc.	0	0	21'785'730	14'474'582	13'085'453	6.6%
PG Real Estate Secondary 2009 (Euro) S.C.A., SICAR	0	0	19'619'025	21'802'764	8'823'326	8.6%
PG Real Estate Secondary 2013 (EUR), S.C.A. SICAR	-1'963	0	11'704'737	8'889'145	10'527'341	15.8%
<b>Total</b>	<b>8'563'978</b>	<b>0</b>	<b>280'161'417</b>	<b>168'764'864</b>	<b>215'359'121</b>	<b>7.8%</b>

Source: Partners. Figures in GBP

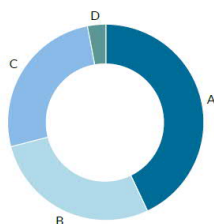
#### Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

#### Reason for manager

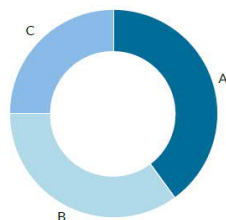
- Depth of experience in global property investment and the resources they committed globally to the asset class
- The preferred structure for the portfolio was via a bespoke fund of funds (or private account) so the investment could be more tailored to the Fund's requirements

#### Geographical and Investment type splits as at 30 June 2020



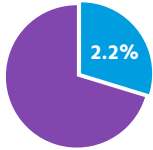
Investments by regional focus

A Europe	43%	C Asia-Pacific	26%
B North America	28%	D Rest of World	3%



Investments by transaction type

A Secondary	40%	C Direct	25%
B Primary	35%		



## BRUNEL – SECURED INCOME

### £109.3M END VALUE (£110.4M START VALUE)

Item Monitored	Outcome
----------------	---------

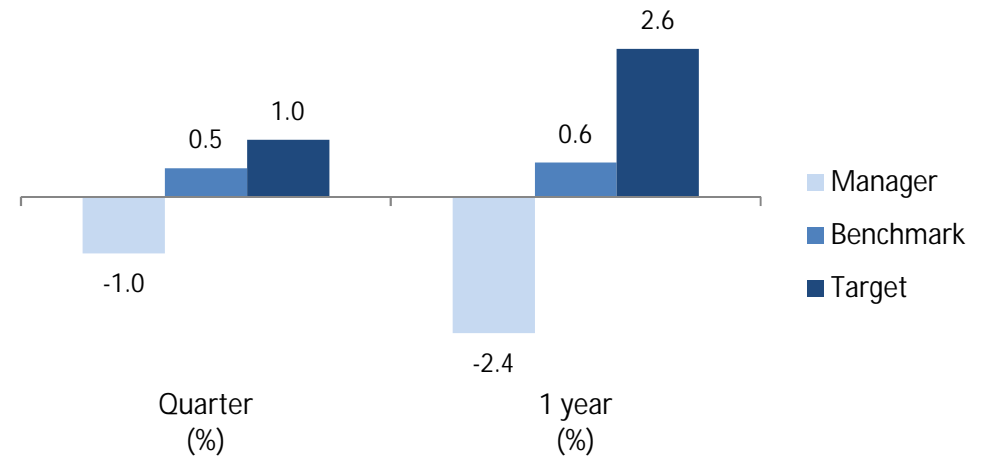
Mercer Rating ● N/A

Performance Objective ● Underperformed target by 5.0% p.a. over the year  
CPI +2.0% p.a.

#### Manager Research and Developments

- Mandate was initiated on 15 January 2019. Aberdeen Standard and Greencoat are the underlying managers, although more will be added over time.
- The strategy contracted by 1.0% over Q3 2020, which was 2.0% below its performance objective.
- It was also down over the one year period and below its objective by 3.0%.
- The mandate is still in its early stages of being funded.

#### Performance

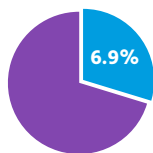


#### Reason for investment

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

#### Reason for manager

- Investment made via the Brunel pool



## IFM – CORE INFRASTRUCTURE (POOLED)

### £345.5M END VALUE (£338.9M 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 6.7% p.a. over the three year period (in GBP)

Item	
Number of holdings	17

### Manager Research and Developments

- Over the quarter the fund returned 1.9%, against Avon's performance objective of 0.8% (cash + 2.5% p.a.).
- It underperformed over the one year period, given the difficulties at the start of 2020, but has outperformed over the three year period by 6.7% p.a.
- During the quarter, Freeport Train 2 distributed \$544.5 million to Buckeye Partners. These proceeds will be partially distributed to the Fund in Q4 2020, and partially retained at Buckeye Partners to reduce leverage ratios. In addition, the Fund repaid the outstanding \$650 million drawn on the Fund liquidity facility, initially drawn to assist in funding the Buckeye acquisition.

### Reason for investment

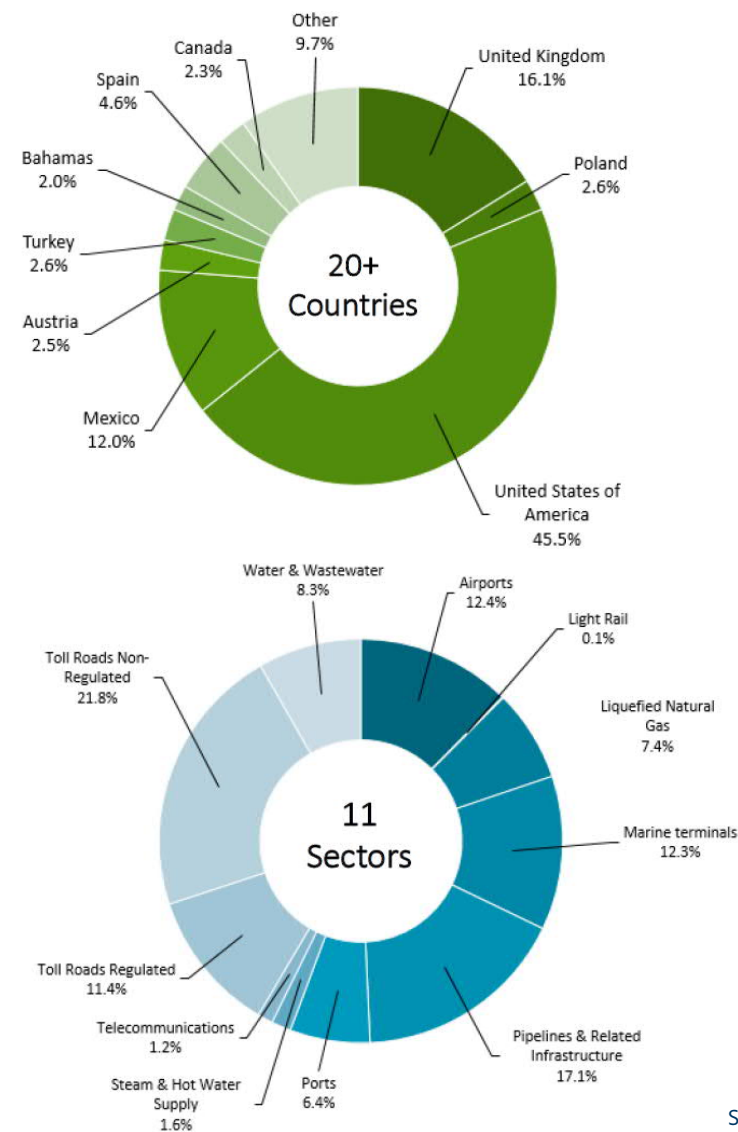
To reduce volatility of the Growth portfolio and increase diversification

### 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 2020.

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## BRUNEL – RENEWABLE INFRASTRUCTURE

### £40.2M END VALUE (£39.9M START VALUE)

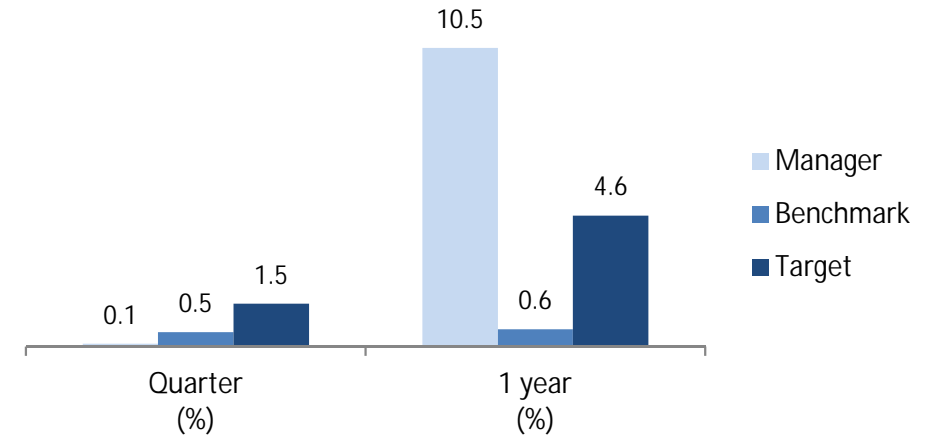
Item Monitored	Outcome	Performance
----------------	---------	-------------

Mercer Rating ● N/A

Performance Objective ● Outperformed objective by 5.8% p.a. over the year  
CPI +4.0% p.a.

#### Manager Research and Developments

- Mandate was initiated on 2 January 2019. NTR and Mirova are the underlying managers.
- The fund underperformed its objective over the quarter by 1.4%, but outperformed by 5.9% over the one year period.



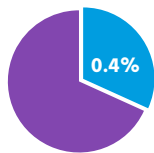
#### Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

#### Reason for manager

- Investment made via the Brunel pool





## RECORD – CURRENCY HEDGING (SEGREGATED)

### £19.1M END VALUE (-£16.6M START VALUE)

#### Item Monitored

#### Outcome

Mercer Rating ● N (no change over period under review)

Performance Objective ● N/A In line with the 50% hedging position

#### Manager Research and Developments

Sterling strengthened against the US dollar over the quarter (by 4.6%) which was more driven by US dollar weakness across the board as investors priced in lower rates for longer and higher inflation in the US. Sterling also appreciated against the Yen (by 2.3%) and was broadly flat (up by 0.2%) against the Euro. Sentiment was boosted by a rebound in UK economic activity over summer and markets shrugged off the continued stalemate over a trade deal with the EU that was exacerbated by the UK endeavoring to reopen and renegotiate the Withdrawal Agreement.

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 2020 Performance (£ terms)

##### Passive Developed Equity Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	1,000,702,661	1,065,826,246	(4.42%)	2.06%	2.05%	(2.22%)
EUR	158,243,278	171,250,102	(0.21%)	0.16%	0.18%	(0.01%)
JPY	119,212,146	129,219,089	(2.29%)	1.05%	1.10%	(1.03%)
<b>Total</b>	<b>1,278,158,085</b>	<b>1,366,295,437</b>	<b>(3.70%)</b>	<b>1.73%</b>	<b>1.73%</b>	<b>(1.83%)</b>

##### Passive Hedge Fund Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	264,274,852	259,246,424	(4.42%)	4.20%	4.23%	(0.06%)

##### Passive Property Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	27,390,442	25,713,655	(4.42%)	4.20%	4.22%	(0.07%)
EUR	182,442,002	182,403,184	(0.21%)	0.32%	0.38%	0.23%
<b>Total</b>	<b>209,832,444</b>	<b>208,116,839</b>	<b>(0.76%)</b>	<b>0.83%</b>	<b>0.88%</b>	<b>0.19%</b>



# Appendix 1

# **Summary of Mandates**

# SUMMARY OF MANDATES

Manager	Mandate	Benchmark/Target	Outperformance Target (p.a.)
BlackRock	Global Equity (passive)	MSCI World	-
Brunel	Global High Alpha Equity	MSCI World	+2 -3%
Brunel	Global Sustainable Equity	MSCI AC World	+2%
Brunel	Global Low Carbon Equity (passive)	MSCI World Low Carbon	-
Brunel	Emerging Market Equities	MSCI Emerging Markets	+2 -3%
Ruffer	Diversified Growth Fund	3 Month LIBOR +5% p.a.	-
Brunel	Diversified Returns Fund	SONIA	+4-5%
JP Morgan	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Loomis Sayles	Multi-Asset Credit	3 Month LIBOR +4% 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% p.a.	-
IFM	Core Infrastructure	6 Month LIBOR +2.5% p.a.	-
Brunel	Renewable Infrastructure	CPI + 4% p.a.	-
Brunel	Private Debt	3 Month LIBOR + 4% p.a.	-
BlackRock	Buy-and-Maintain Corporate Bonds	Return on bonds held	-
BlackRock	Matching (Liability Driven Investing)	Return on liabilities being hedged	-
Record	Passive Currency Hedging	N/A	-
BlackRock	Exchange-Traded Fund (ETF)	Bespoke benchmark to reflect total Fund allocation	-
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
Global Developed Equity	FTSE AW Developed
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

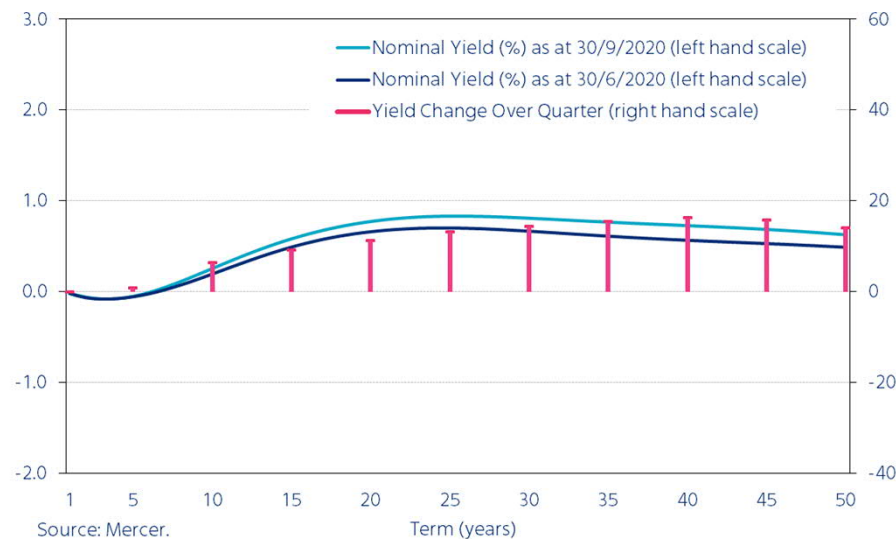
## Changes in Yields

# CHANGES IN YIELDS

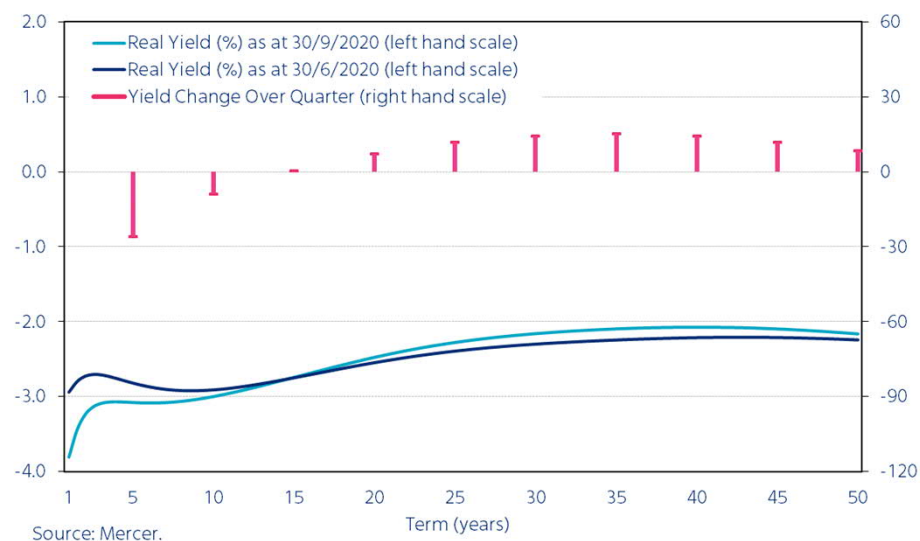
Asset Class Yields (% p.a.)	30 Sep 2020	30 Jun 2020	30 Sep 2019	30 Sep 2018
UK Equities	4.56	4.66	4.21	3.80
Over 15 Year Gilts	0.71	0.58	0.91	1.86
Over 5 Year Index-Linked Gilts	-2.29	-2.38	-2.20	-1.49
Sterling Non Gilts	1.54	1.68	1.84	2.63

- The UK yield curve shifted up marginally over the quarter, reflecting the general risk-on sentiment. UK monetary policy was unchanged but on the fiscal side, another spending package was announced over the quarter.
- UK real yields shifted up over the quarter, in line with the small increase in nominal yields, offset to a degree by rising break-evens. The still ongoing RPI consultation is still creating uncertainty for UK inflation-linked bonds.
- Credit spreads narrowed over the quarter as risk-on sentiment remained. This has been a bumper year already in terms of investment grade issuance but strong institutional demand and liquidity from central banks have kept credit markets stable, some volatility in investment grade credit markets during August notwithstanding.

## Nominal yield curves



## Real yield curves



# 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](http://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](http://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"><li>▪ There are other strategies that Mercer believes are more likely to achieve outperformance</li><li>▪ Mercer requires more evidence to support its assessment</li></ul>
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"><li>▪ Where Mercer has carried out some research, but has not completed its full investment strategy research process</li><li>▪ 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</li><li>▪ 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</li></ul>

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.

