

Avon Pension Fund

Committee Investment Performance Report Quarter to 30 September 2020

November 2020

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Please also note:

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

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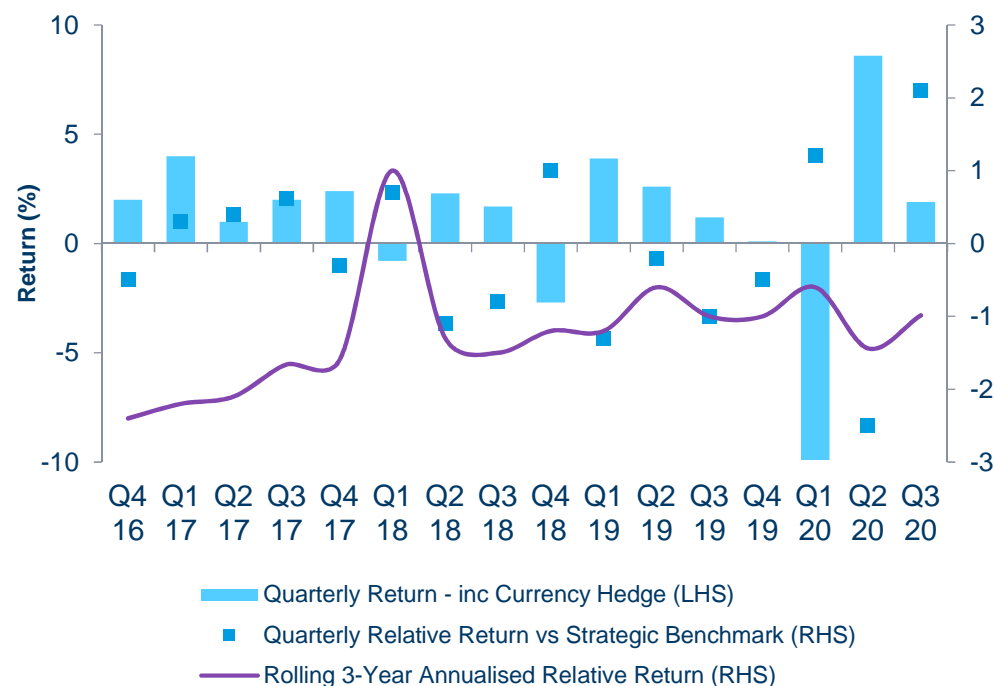
Section 1

Executive Summary

EXECUTIVE SUMMARY

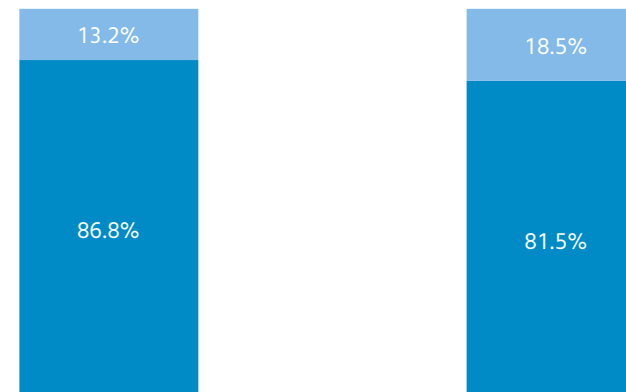
	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (1)	1.9	-0.2	3.4
Total Fund (ex currency hedge)	1.1	-0.9	3.8
Strategic Benchmark (2)	-0.2	-0.8	4.4
Relative (1 - 2)	+2.1	+0.6	-1.0

Excess Return Chart



Asset Allocation

£4,955m → £5,032m



30 June 2020

30 September 2020

■ Growth Assets

■ Matching Assets (inc. cash)

Commentary

Over the quarter, total Fund assets increased from £4,955m to £5,032m. This was driven by positive performance across most asset classes, particularly overseas equity.

At the end of the quarter, the allocation to all asset classes were within their control ranges, except for the Secured Income, Renewable Infrastructure and Private Debt mandates, which are in the process of being drawn down.

The Fund outperformed the strategic benchmark over the quarter and one-year period, but underperformed over the three-year period. The currency hedging mandate has added value over the last year as Sterling appreciated.

EXECUTIVE SUMMARY

This report has been prepared for the Investment Committee 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, notwithstanding 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.

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

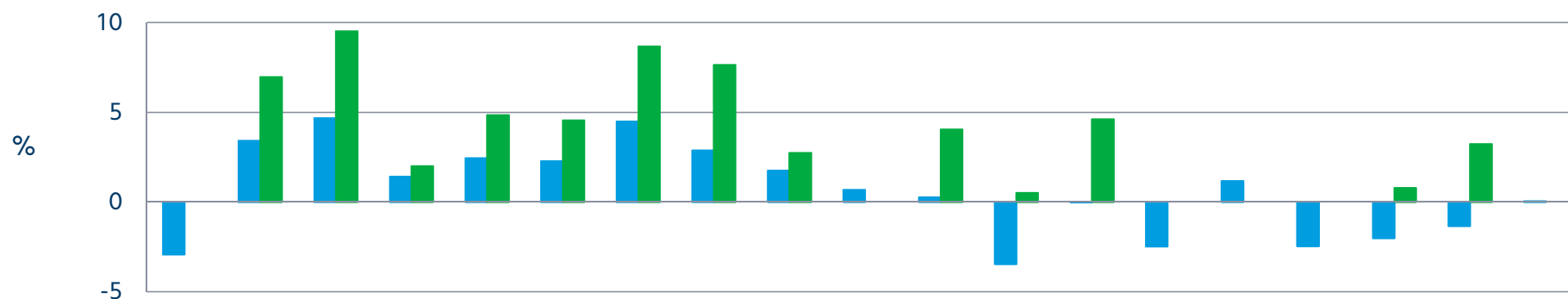
Commodity markets continued their rebound over the quarter, except for energy. Having started the quarter strongly, in September, gold performed poorly as investors started to question the sustainability of the prolonged rally. Agricultural commodities performed well amid supply constraints in major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

Source: Thomson Reuters Datastream, Consensus Economics, ONS

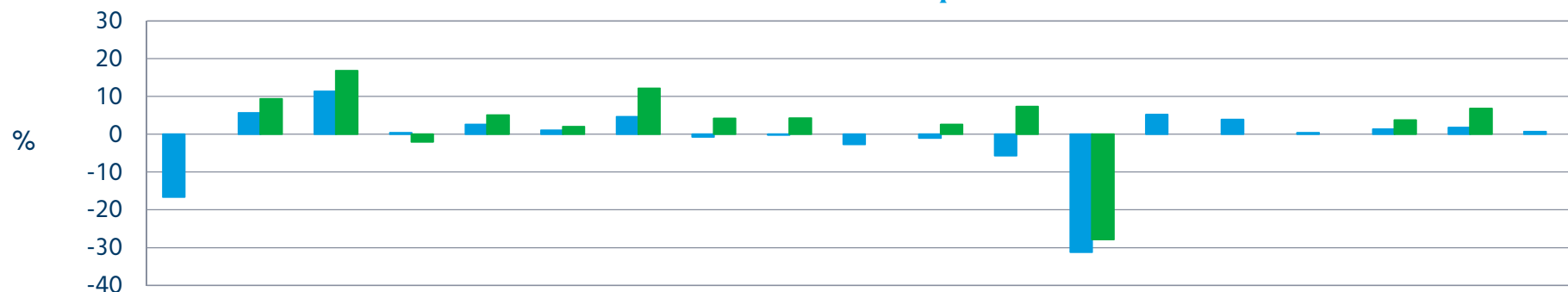
MARKET BACKGROUND

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



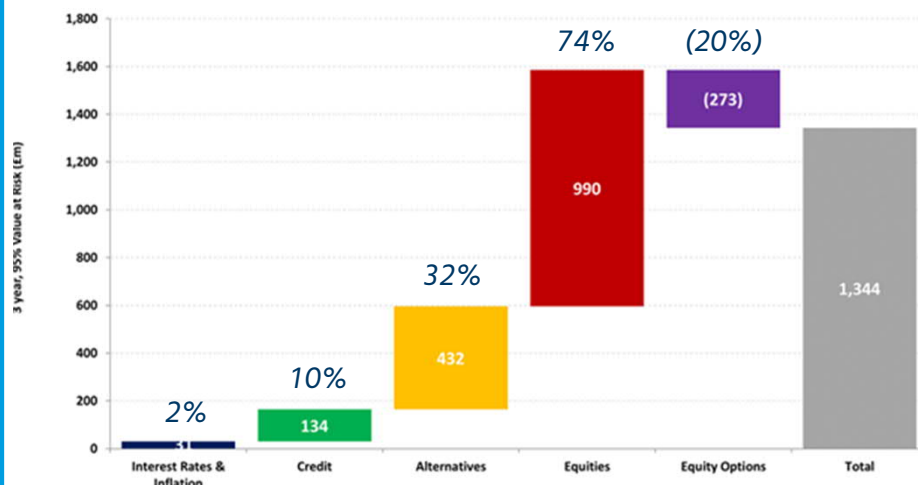
Section 3

Strategic Considerations

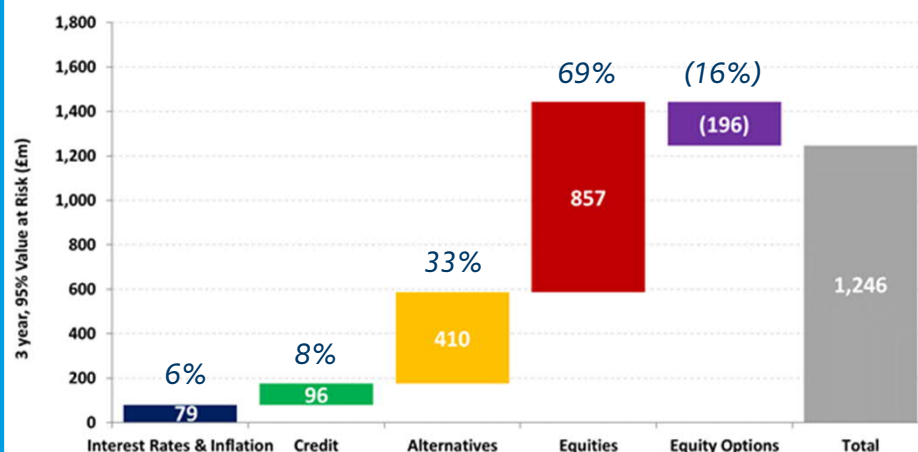
STRATEGIC CONSIDERATIONS

RISK DECOMPOSITION

30 June 2020



30 September 2020



- The two charts to the left illustrate the main risks that the Fund is exposed to on the 2019 funding basis, and the size of these risks in the context of the change in the deficit position.
- The purpose of showing these charts is to ensure there is an awareness of the risks faced and how they change over time, and to initiate debate on an ongoing basis around how to best manage these risks, so as not to lose sight of the 'big picture'.
- The grey column on the right hand side of each chart shows the estimated 95th percentile Value-at-Risk (VaR) over a one-year period. In other words, if we consider a downside scenario which has a 1-in-20 chance of occurring, what would be the impact on the deficit relative to our 'best estimate' of what the deficit would be in three years' time.
- If we focus on the chart at 30 September 2020, it shows that if a 1-in-20 'downside event' occurred over the next three years, the deficit could increase by at least an additional **£1.2bn**.
- Each bar to the left of the grey bar represents the contribution to this total risk from the primary underlying risk exposures (interest rates and inflation, changes in credit spreads, volatility of alternative assets and equity markets, and the benefit from equity options).
- Overall **the VaR has fallen over the quarter**, which is largely attributable to the lower equity allocation within the new strategic benchmark for the Fund, which the Q3 VaR is based on. The interest rate and inflation VaR has marginally increased in light of the recently updated LBP.

The VaR figures shown are based on approximate liability data rather than actual Fund cashflows, and are based on the strategic asset allocation at the time. They are therefore illustrative only and should not be used as a basis for taking any strategic decisions.

MARKET BACKGROUND

INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
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	



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

Strategic assumed returns are from the 2019 strategy review, reflecting the 20 year mean Mercer asset model assumptions as at 31 March 2019.

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD Q4 2020

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

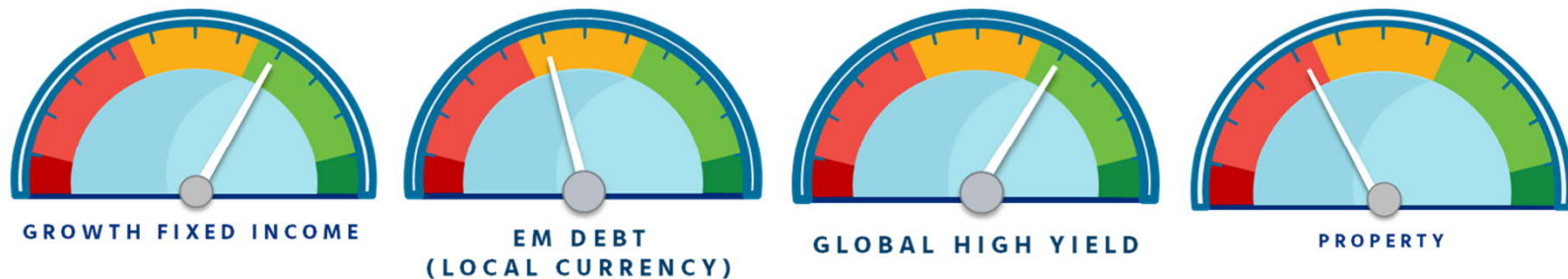
Mercer's current DAA position/view

Position/view last time (if changed)

Equities



Growth Fixed Income & Property (Core)



Protective Assets



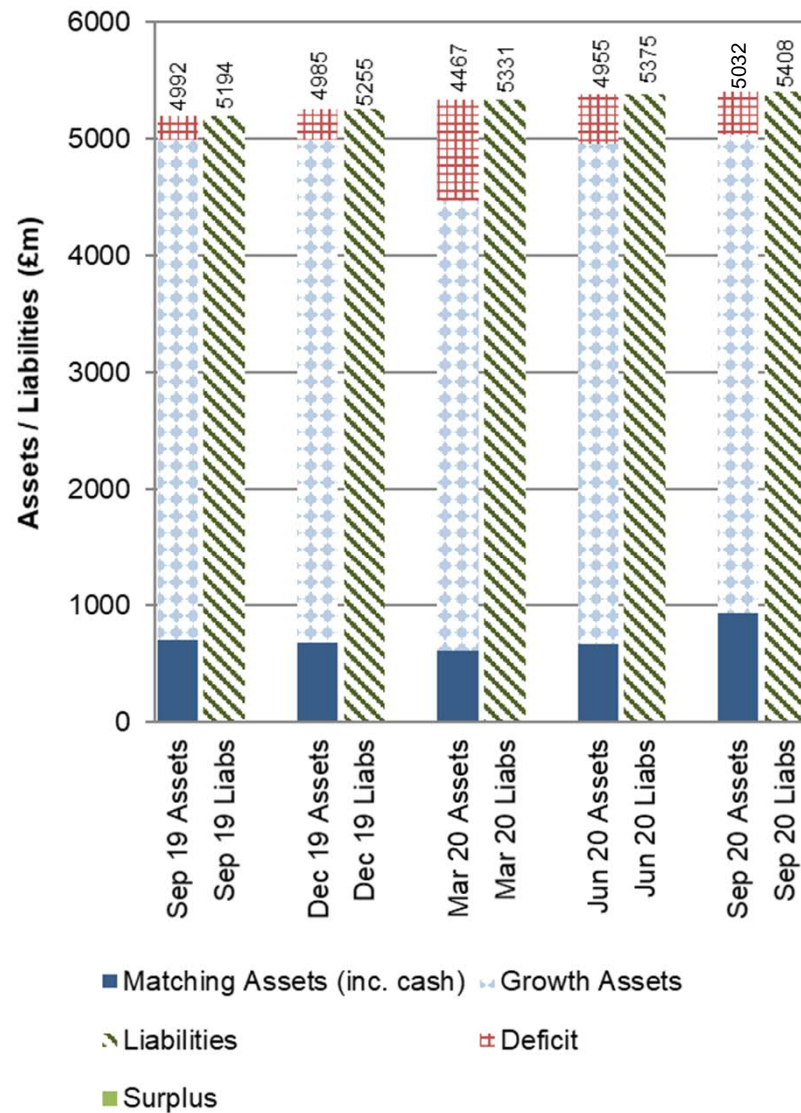
The charts above summarise Mercer's views on the medium term (1-3 years) outlook for returns from the key asset classes. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect the Fund to make frequent tactical changes to their asset allocation based upon these views.

Section 4

Consideration of Funding Level

CONSIDERATION OF FUNDING LEVEL

ATTRIBUTION OF CHANGE IN DEFICIT/SURPLUS



- Based on financial markets, investment returns and net cashflows into the Fund, the deficit was estimated to have reduced further over the third quarter of 2020, from £420m to £376m.
- This occurred as the value of the assets rose by more than the present value of the liabilities over the period.
- This is calculated using the actuarial valuation assumptions as at 31 March 2019 and the 'CPI plus' discount basis.

CONSIDERATION OF FUNDING LEVEL

ATTRIBUTION OF CHANGE IN FUNDING LEVEL



- The Fund's assets returned 1.9% over the quarter, whilst the Fund's liabilities increased by 0.6% due to the increase in inflation.
- The combined effect of this, also allowing for cashflow over the period, saw the funding level grow slightly from 92% to 93%.

Section 5

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
Total	4,955,110	5,031,696	100.0	100.0	100.0				

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
Total		4,955,110	-16,095	5,031,696	100.0	100.0

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

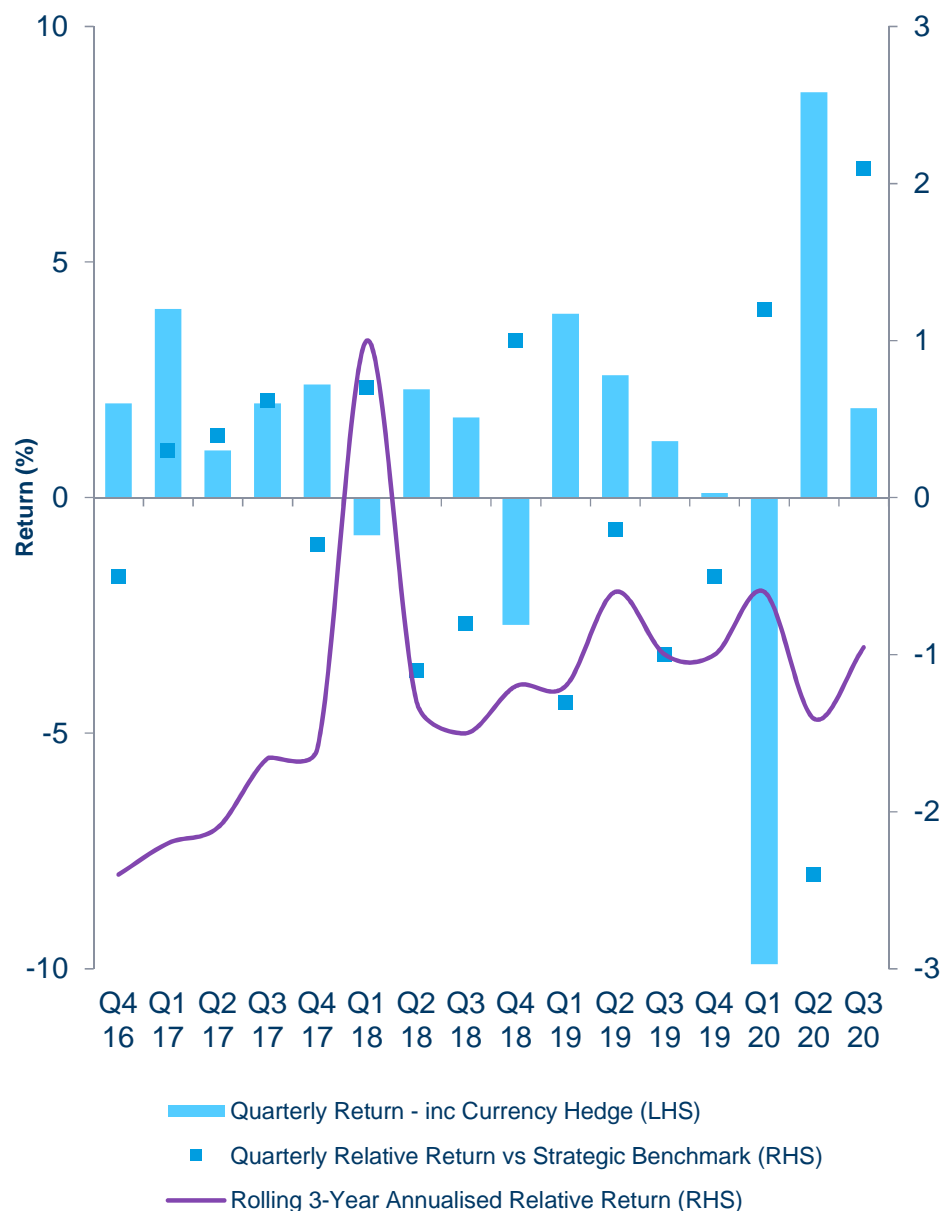
The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included in the 'Internal Cash' start and end balance to reflect the asset value position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

Section 6

Performance Summary

PERFORMANCE SUMMARY

TOTAL FUND PERFORMANCE

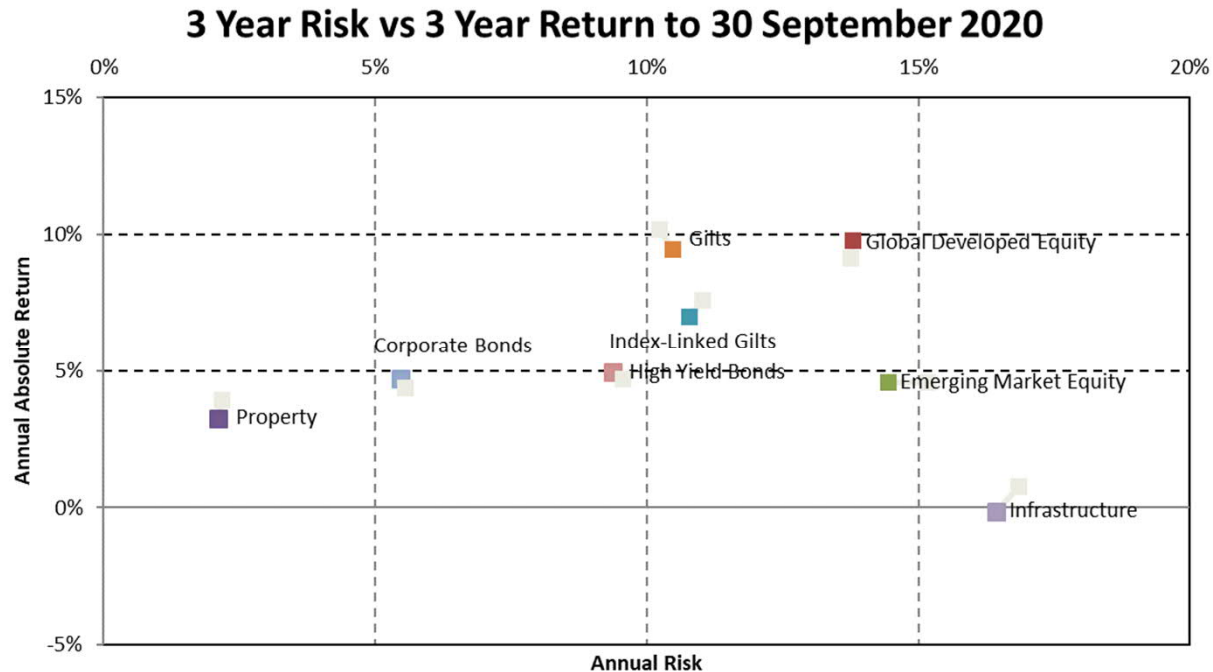


	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (1)	1.9	-0.2	3.4
Total Fund (ex currency hedge)	1.1	-0.9	3.8
Strategic Benchmark (2) (ex currency hedge)	-0.2	-0.8	4.4
Relative (1 - 2)	+2.1	+0.6	-1.0

- Over the quarter, total Fund assets increased from £4,955m to £5,032m. This was driven by positive performance across most asset classes, particularly overseas equity.
- At the end of the quarter, the allocation to all asset classes were within their control ranges, except for the Secured Income, Renewable Infrastructure and Private Debt mandates, which are in the process of being drawn down.
- The Fund outperformed the strategic benchmark over the quarter and one-year period, but underperformed over the three-year period. The currency hedging mandate has added value over the last year as Sterling appreciated.

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.

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

