

Avon Pension Fund

Panel Investment Performance Report Quarter to 31 December 2020

February 2021

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- 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 £138m over the quarter to 31 December 2020, to £5,169m. Strong performance was seen amongst the equity mandates, as markets were buoyed by positive vaccine developments, and most of the other growth assets within the portfolio also managed to capture a meaningful degree of this upside.

Strategy

- Global (developed) equity returns over the last three years were 10.5% p.a., above the assumed strategic return of 6.8% p.a. from the strategy reviews over 2019. We are positive in our medium-term outlook for developed market equities (over the next one to three years), driven by the backdrop of low bond yields, low expected inflation and pro-growth policies creating a favourable environment.
- Emerging market equities have returned 6.2% 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 emerging Asia region has been less badly affected by the pandemic and benefited from foreign goods demand, which is expected to continue. A more predictable approach by the US to trade under the Biden administration is also a positive.
- High yield bonds returned 5.5% p.a. over the three-year period, ahead of the assumed strategic return of 4.4%, whilst UK corporate bonds were also ahead of their 2.6% target with returns of 5.2% p.a..
- The three-year UK property return of 2.8% p.a. is behind the assumed return of 5.2% p.a., suppressed by ongoing uncertainty regarding the market outlook in light of the last year’s events.
- 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, and gilt yields fell back further over the quarter. Fixed interest gilts returned 8.6% p.a. over three years versus an assumed return of 1.5% p.a., whilst index-linked gilts also returned 6.1% 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

- Emerging Market Equity was the strongest performer within the portfolio, whilst the other (global) equity mandates also performed strongly in line with the general market. The credit assets (corporate bonds and MAC) stood out among the other growth assets, delivering strong performance as spreads continued to narrow. The Hedge Fund mandate also performed well, and the DGFs also captured some of the upside in markets.
- The Core Infrastructure mandate stood out among the real asset mandates. UK Property and the Secured Income mandate also contributed to performance, whilst the Renewable Infrastructure mandate was broadly flat. The Overseas Property mandate was the only negative performer within the portfolio, although this reflected Q3 performance as the latest available at the time of writing.
- The value of the Fund's LDI portfolio increased over the quarter, mainly due to a slight uptick in implied inflation and the fall in gilt yields. It remained down over the year however, due to the overall fall in inflation over this period.
- The Global High Alpha Equity mandate has delivered outsized returns over the year – materially ahead of the benchmark, and the other equity mandates in place over this period were also up by double digits. The Hedge Fund and Renewable Infrastructure mandates also stood out, and the credit assets, and Ruffer DGF (until termination), also fared well. All of these mandates achieved their performance objective over this period, except for the Emerging Market mandate.
- 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 Ruffer DGF underperformed over this period (to the termination date), as did the Loomis Sayles MAC and Partners Overseas Property mandates.

Key Points to Note

- The Fund's new strategic benchmark is reflected in this report, having become effective as at 1 April 2020.
- At the start of the quarter, the Fund finalised the increase to its inflation hedge ratio to c.35% of assets.
- The final DGF holdings with Ruffer were redeemed towards the end of the quarter, with the 10% strategic allocation to this asset class now being managed by Brunel through the Diversified Returns mandate.
- 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
Brunel	Active	Global High Alpha Equity	N/A	✓	N/A	-	23
Brunel	Active	Global Sustainable Equity	N/A	N/A	N/A	-	24
Brunel	Passive	Global Low Carbon Equity	A	✓	N/A	P1	25
Brunel	Active	Emerging Market Equity	N/A	✗	N/A	-	26
Ruffer	Active	DGF	A	✓	✗	2	27
Brunel	Active	Diversified Returns	N/A	N/A	N/A	-	28
JP Morgan	Active	Fund of Hedge Funds	R	✓	✓	N	29
Loomis Sayles	Active	Multi-Asset Credit	A	✓	✗	3	32
Schroder	Active	UK Property	B	-	-	3	33
Partners	Active	Global Property	B+	✗	✗	4	34
Brunel	Active	Secured Income	N/A	✗	N/A	-	35
IFM	Active	Core Infrastructure	B+	✗	✓	2	36
Brunel	Active	Renewable Infrastructure	N/A	✓	N/A	-	37
Record Currency Management	Active	Currency Hedging	N	N/A	N/A	N	38
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					

Section 2

Market Background

MARKET BACKGROUND

COMMENTARY

Equity Market Review

Following the strong economic rebound during summer, the global economy started to slow again during the fourth quarter as restrictions gradually returned to all major regions. Nevertheless, the economic impact was not nearly as bad as in early 2020 as businesses were much better prepared this time. Good news regarding vaccine roll-out and positive developments on several political fronts led investors to look beyond the shorter term, and expectations were set towards a major recovery in 2021. This drove a risk-on rally, leading to another quarter of strong returns for risk assets and weaker performance for defensive assets.

Global equity markets rallied over the quarter, returning 8.5% in sterling terms – the third positive quarter in a row. Many major indices, including the S&P 500, showed mid to high double digit returns for the year. Volatility was higher as markets reacted to a return of pandemic-related restrictions and to major political events including the US election and the final Brexit negotiations. US equities returned 6.8% in sterling terms, as markets focused on the prospect for vaccine roll-outs. European (ex UK) equities returned 9.2% driven by similar dynamics as well as a cyclical recovery in value stocks that are expected to benefit most from a full reopening and have a heavier weight in many European indices. Emerging markets equities returned 11.2%, driven by China's advanced recovery as well as a rebound in some other EM countries, especially commodity producers, that had been lagging for much of the year.

Bond Market Review

The UK yield curve shifted down marginally over the quarter as additional fiscal stimulus as well as monetary accommodation was announced in the UK.

UK real yields shifted down marginally, in line with the small decrease in nominal yields – inflation expectations changed little. The UK Treasury announced the outcome of the RPI consultation confirming that RPI is expected to increase in line with CPIH from 2030.

UK investment grade credit spreads narrowed over the quarter as risk-on sentiment continued.

Currency Market Review

Sterling strengthened against all major developed currencies over the quarter. Against the Dollar, Euro and Yen, this amounted to 5.7%, 1.3% and 3.4% respectively. The Brexit agreement in late December boosted sentiment for sterling at year end as the feared disruptions in trade did not generally materialise.

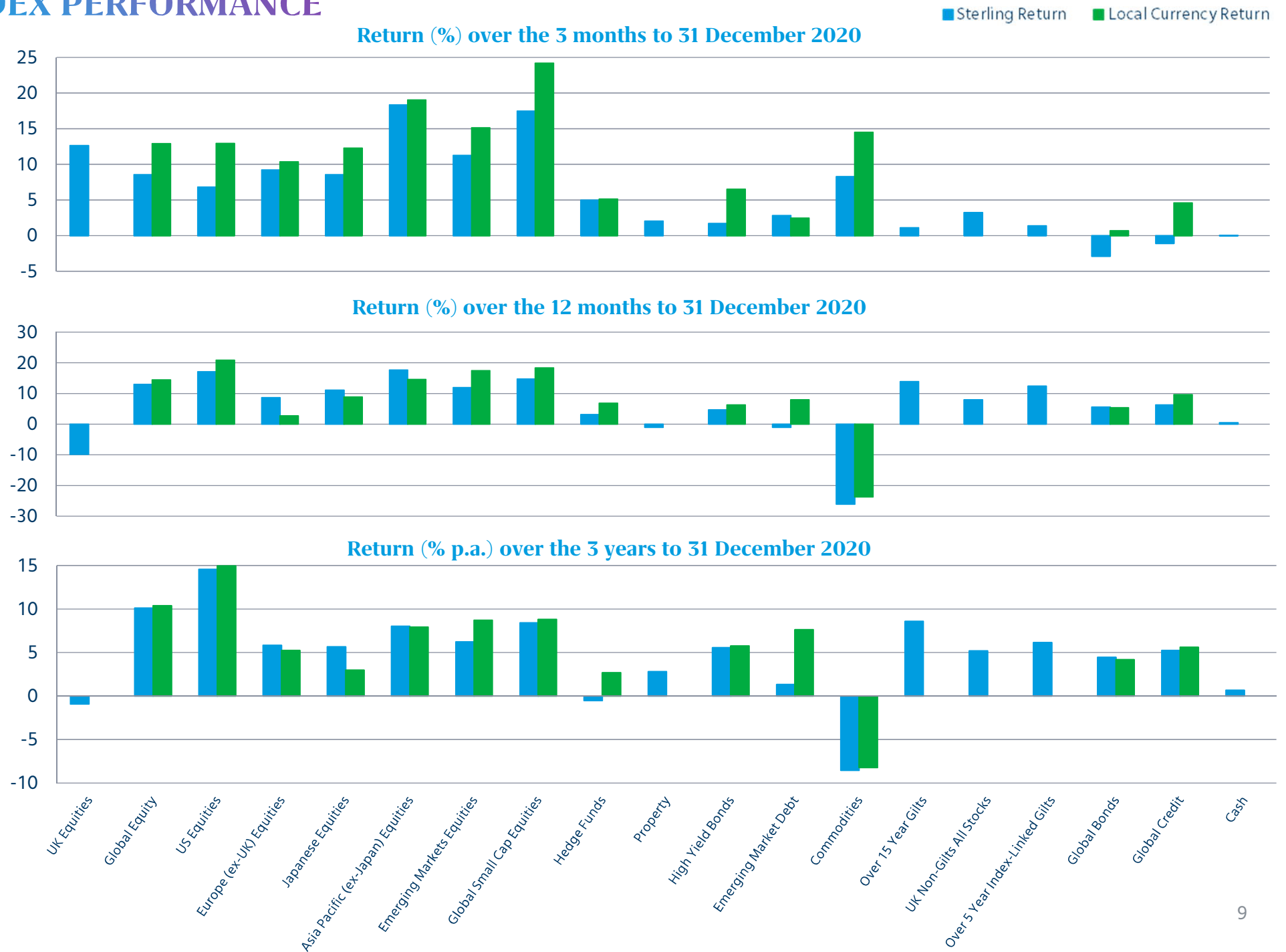
Commodity Market Review

Commodity markets continued their rebound over the quarter. Expectations of a strong economic recovery gaining pace in the coming year drove demand for cyclical commodities across the board as markets looked beyond the return of COVID-19 restrictions in many countries. Gold was flat as markets were driven by risk-on sentiment that favoured cyclical commodities and energy.

Source: Thomson Reuters Datastream

MARKET BACKGROUND

INDEX PERFORMANCE



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	10.5	The three year return of global developed equities has been ahead of the assumed strategic return. This increased against last quarter after a Q4 return of 8.2%.
Emerging Market Equity (FTSE AW Emerging)	8.3	6.2	The three year return from emerging market equities remained behind the assumed strategic return, despite a strong Q4 return of 11.2%.
Diversified Growth (SONIA + 4%)	5.7	4.5	DGFs are expected to produce an attractive return over the long term but with lower volatility than equities – this is the basis for the SONIA 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	5.5	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	5.2	The three year return of corporate bonds has been ahead of the assumed strategic return. This increased against last quarter after a Q4 return of 3.2%, as spreads continued to narrow.
Property (IPD UK Monthly)	5.2	2.8	Actual property returns fell further behind expected returns. Despite growth in the index of 2.0% over Q4, this was lower than the quarter that fell out of the period. Uncertainty remains around the extent of the impact on property assets from the coronavirus pandemic and lockdowns.
Infrastructure (S&P Global Infrastructure)	6.4	2.3	The infrastructure three year return returned to positive territory over Q4 as the index returned 8.8%. 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	8.6	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 had positive returns over Q4 (though to a lesser extend than the quarter that fell out of the period).
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	1.6	6.1	

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD Q1 2021

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

Mercer's current DAA position/view

Position/view last time (if changed)

Equities



LISTED EQUITIES



EMERGING MARKETS



DEVELOPED SMALL CAP

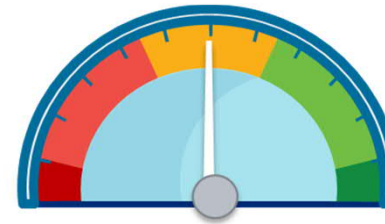


DEFENSIVE EQUITIES

Growth Fixed Income



EM DEBT
(LOCAL CURRENCY)

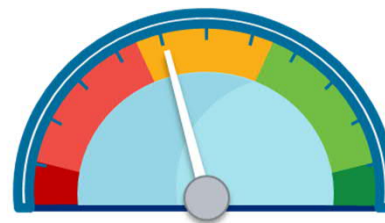


GLOBAL HIGH YIELD

Protective Assets



UK INFLATION-LINKED
BONDS



UK SOVEREIGN FIXED
INCOME



DEFENSIVE FIXED INCOME



CASH*

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	602,209	657,218	12.0	12.7%	12.0	7	-	17	+0.7%
Global Sustainable Equity	494,014	538,779	9.8	10.4%	10.0	5	-	15	+0.4%
Global Low Carbon Equity	616,893	665,924	12.3	12.9%	10.0	5	-	15	+2.9%
Emerging Market Equity	246,602	280,823	4.9	5.4%	5.5	3	-	9	-0.1%
Diversified Growth Funds	643,596	508,027	12.8	9.8%	10.0	5	-	15	-0.2%
Fund of Hedge Funds*	268,702	265,097	5.3	5.1%	-	No set range			+0.1%
Multi-Asset Credit	302,521	321,648	6.0	6.2%	6.0	3	-	9	+0.2%
Property	431,097	415,310	8.6	8.0%	7.5	5	-	10	+0.5%
Secured Income	109,304	133,870	2.2	2.6%	10.0	5	-	15	-7.4%
Core Infrastructure	345,475	359,670	6.9	7.0%	5.0	2.5	-	7.5	+2.0%
Renewable Infrastructure	40,186	48,089	0.8	0.9%	5.0	2.5	-	7.5	-4.1%
Private Debt	-	-	-	-	5.0	0	-	7.5	-
Corporate Bonds	133,229	140,422	2.6	2.7%	2.0	No set range			+0.7%
LDI & Equity Protection	625,883	496,882	12.4	9.6%	12.0	No set range			-2.4%
Cash**	171,951	337,490	3.4	6.5%	-	0	-	5	+6.5%
Total	5,031,696	5,169,488	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.

Totals may not sum due to rounding.

*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 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	222,761		240,876	4.4	4.7
BlackRock	Corporate Bonds	133,229		140,422	2.6	2.7
BlackRock	LDI & Equity Protection	625,883		496,882	12.4	9.6
BlackRock	ETF	45,975		48,603	0.9	0.9
Brunel	Global Sustainable Equity	494,014		538,779	9.8	10.4
Brunel	Global High Alpha Equity	358,018		390,871	7.1	7.6
Brunel	Global Low Carbon Equity	616,893		665,924	12.3	12.9
Schroder	Global Equities	7,321		7,135	0.1	0.1
Brunel	Emerging Market Equity	246,602		280,823	4.9	5.4
Brunel	Diversified Returns Fund	493,104	-829	508,027	9.8	9.8
Ruffer	DGF	150,492	-156,054	0	3.0	0.0
JP Morgan	Fund of Hedge Funds	268,702		265,097	5.3	5.1
Loomis Sayles	Multi-Asset Credit	302,521		321,648	6.0	6.2

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

FUND VALUATIONS

VALUATION BY MANAGER

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Schroder	UK Property	223,742		225,963	4.4	4.4
Partners	Property	207,355	-12,618	189,346	4.1	3.7
Brunel	Secured Income	109,304	22,410	133,870	2.2	2.6
IFM	Infrastructure	345,475		359,670	6.9	7.0
Brunel	Infrastructure	40,186	7,710	48,089	0.8	0.9
Record Currency Management*	Currency Hedging	19,069		71,968	0.4	1.4
Internal Cash	Cash	120,701	285,909	234,945	2.4	4.5
Total		5,031,696	-24,273	5,169,250	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.

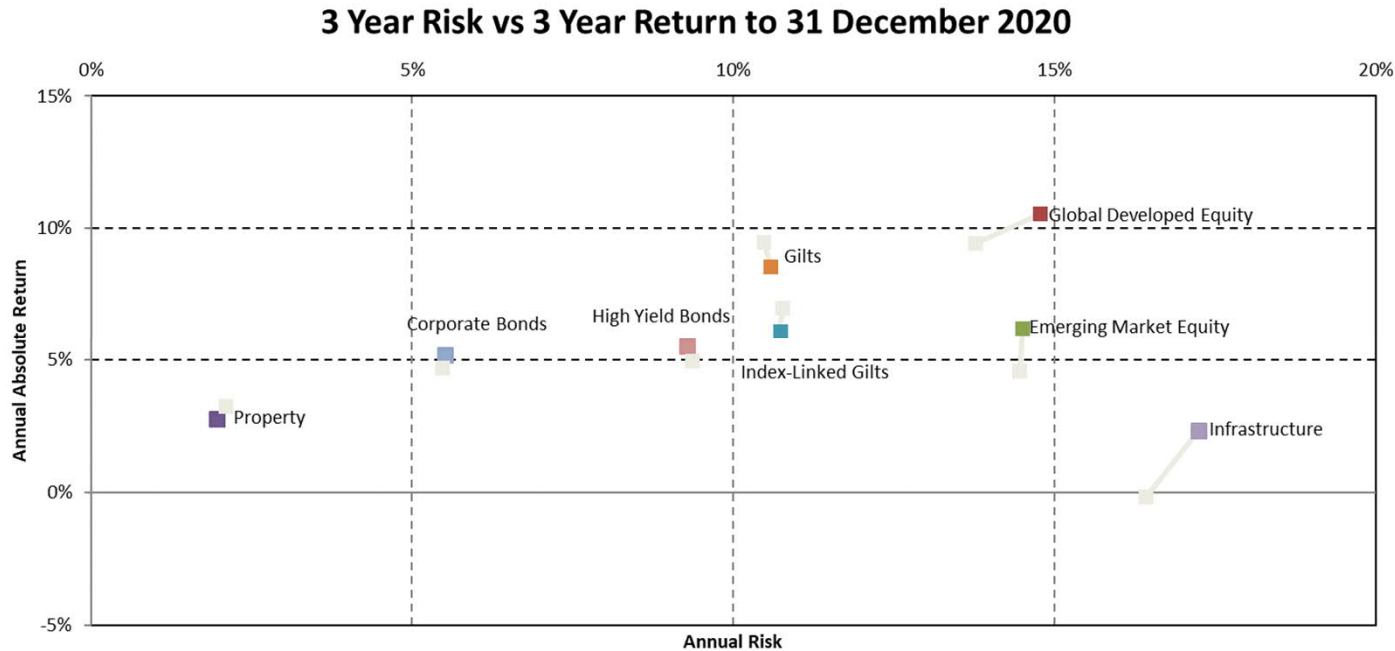
*Valuation includes the collateral holdings for the currency overlay.

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 December 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, Bonds and Infrastructure saw increases in observed returns over the three-year period, whilst Property and Gilts fell back slightly.
- Changes in associated volatilities were minimal for most asset classes, except for Global Developed Equity and Infrastructure which saw more notable increases.

MANAGER MONITORING

MANAGER PERFORMANCE TO 31 DECEMBER 2020

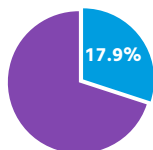
Manager / Asset Class	3 Months			1 Year			3 Year			3 Year Performance Target (% p.a.)	3 Year Performance vs Target
	Fund (%)	B'mark (%)	Relative (%)	Fund (%)	B'mark (%)	Relative (%)	Fund (% p.a.)	B'mark (% p.a.)	Relative (% p.a.)		
BlackRock Global Equity	8.1	7.8	+0.3	11.8	12.3	-0.4	10.8	10.2	+0.5	-	Target met
BlackRock Corporate Bonds	5.4	5.4	0.0	12.5	12.5	0.0	7.6	7.6	0.0	-	Target met
BlackRock LDI	2.4	2.4	0.0	-13.5	-13.5	0.0	-2.6	-2.6	0.0	-	Target met
Brunel Global High Alpha Equity	9.2	7.9	+1.2	28.2	12.9	+13.6	N/A	N/A	N/A	+2-3	N/A
Brunel Global Sustainable Equities	9.1	8.6	+0.5	N/A	N/A	N/A	N/A	N/A	N/A	+2	N/A
Brunel Passive Low Carbon Equity	7.9	8.0	-0.1	13.3	13.5	-0.2	N/A	N/A	N/A	-	N/A
Brunel Emerging Market Equity	13.9	13.3	+0.5	13.9	15.0	-1.0	N/A	N/A	N/A	+2-3	N/A
Brunel Diversified Returns Fund	3.0	0.0	+3.0	N/A	N/A	N/A	N/A	N/A	N/A	+4-5	N/A
Ruffer DGF	3.7	1.3	+2.4	8.9	5.4	+3.3	3.6	5.7	-2.0	-	Target not met
JP Morgan FoHF	6.8	0.8	+6.0	17.0	4.1	+12.4	8.7	4.9	+3.6	-	Target met
Loomis Sayles MAC	6.3	1.0	+5.2	7.1	4.3	+2.7	4.2	4.6	-0.4	-	Target not met
Schroder UK Property	2.4	2.1	+0.3	-0.9	-1.0	+0.1	2.6	2.3	+0.3	+1	Target not met
Partners Overseas Property*	-2.6	2.5	-4.9	-6.3	10.0	-14.8	2.7	10.0	-6.7	-	Target not met
Brunel Secured Income	2.0	0.1	+1.9	0.5	0.6	-0.1	N/A	N/A	N/A	+2	N/A
IFM Core Infrastructure**	4.0	0.7	+3.3	0.4	4.0	-3.5	12.0	4.6	+7.0	-	Target met
Brunel Renewable Infrastructure	0.1	0.1	0.0	14.8	0.6	+14.1	N/A	N/A	N/A	+4	N/A

Since inception performance for Partners, which was the largest underperformer over the three year period, has been more favourable at 5.7% p.a.*

- Source: Investment Managers, Custodian, 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.**
- **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.
- *Partners performance is to 30 September 2020 as this is the latest date that this is available. The mandate's inception was in 2009.
- **IFM returns are in GBP terms after the manager switched to GBP reporting in January. Historical USD performance has been converted to GBP.

Section 5

Manager Performance



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

£926,8M END VALUE (£1,027.8M 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	8.1	7.8	11.8	12.3	10.8	10.2
Corporate Bonds*	5.4	5.4	12.5	12.5	7.6	7.6
LDI**	2.4	2.4	-13.5	-13.5	-2.6	-2.6

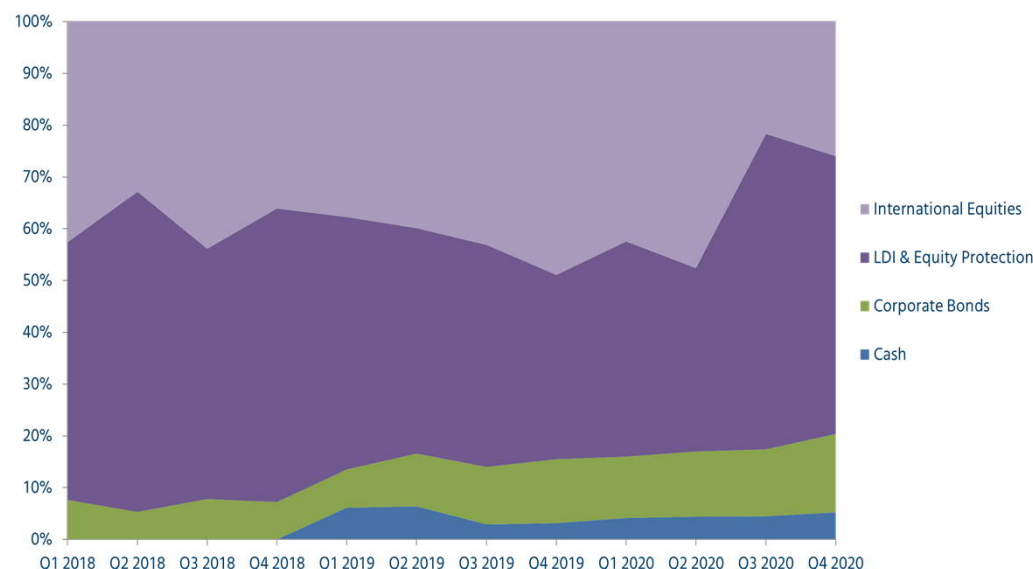
*Corporate Bond fund and benchmark reflects legacy holdings prior to 31 March 2019 and Buy and Maintain Credit holdings thereafter. Benchmark return assumed equal to mandate.

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

Manager Research and Developments

- Equities returned 8.1% over the fourth quarter and the corporate bond portfolio returned 5.4%.
- The LDI holdings grew by 2.4% as implied inflation increased slightly, and gilt yields also fell back. The increase in the inflation hedge ratio to c. 35% was finalised at the start of the quarter, following the rebalancing of holdings which took place at the end of Q3.

Asset Allocation



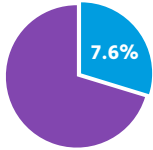
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Reason for investment

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



BRUNEL – GLOBAL HIGH ALPHA EQUITY

£390.9M END VALUE (£358.0M START VALUE)

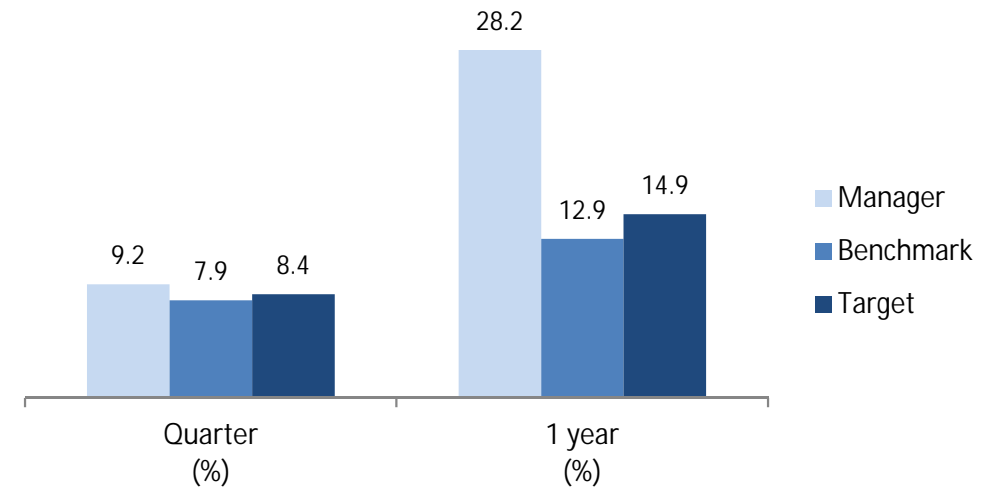
Item Monitored	Outcome	Performance
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Mercer Rating ● N/A

Performance Objective ● Above objective by 13.3% over the year
Benchmark +2-3% p.a.

Manager Research and Developments

- Mandate was initiated in November 2019.
- The mandate returned 9.2% over the quarter, which was ahead of its benchmark and performance objective.
- This continued strong performance saw it outperform its target significantly over its first full year in place.

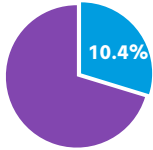


Reason for investment

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

Reason for manager

- Investment made via the Brunel pool



BRUNEL – GLOBAL SUSTAINABLE EQUITIES

£538.8M END VALUE (£494.0M START VALUE)

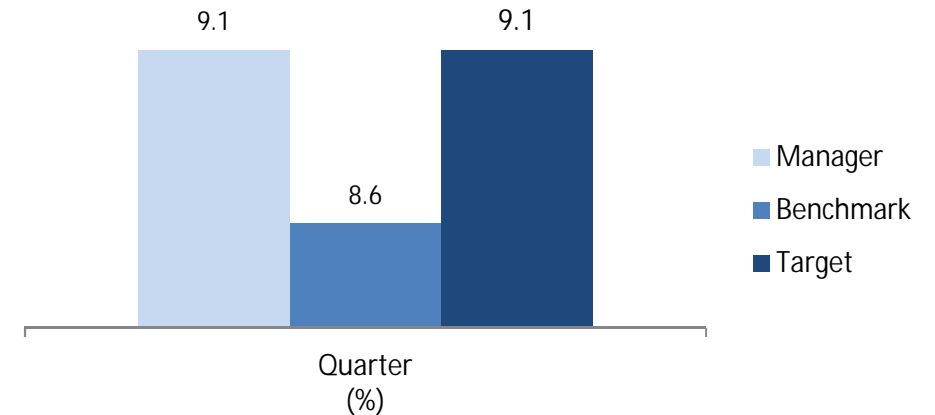
Item Monitored	Outcome	Performance
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Mercer Rating ● N/A

Performance Objective
Benchmark +2% p.a. ● Too early to determine

Manager Research and Developments

- Mandate was initiated in September 2020.
- The mandate returned 9.1% over the quarter, which was ahead of its MSCI AC World benchmark, and in line with its performance objective.

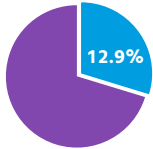


Reason for investment

To provide exposure to global sustainable equities markets, including excess returns from manager skill and ESG considerations.

Reason for manager

- Investment made via the Brunel pool



BRUNEL – PASSIVE GLOBAL LOW CARBON EQUITY £665.9M END VALUE (£616.9M START VALUE)

Item Monitored	Outcome
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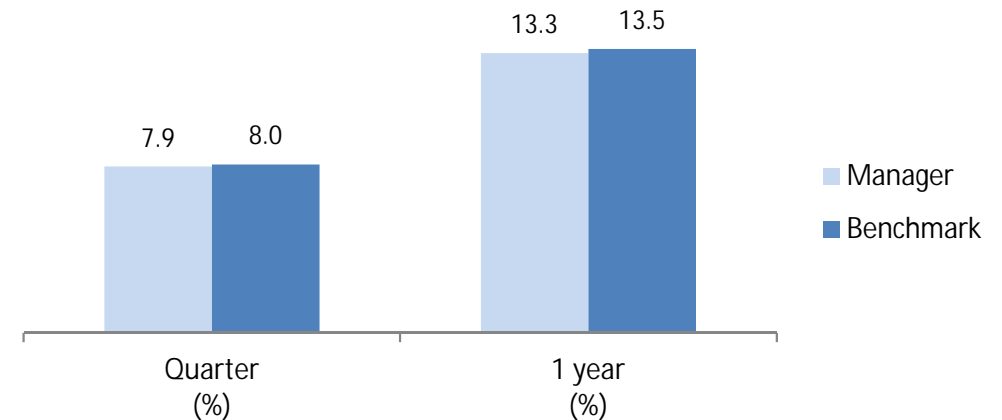
Mercer Rating	● A rated; ESG1 (Parent Fund)
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Performance Objective <i>In line with benchmark</i>	● Broadly in line with its benchmark over the year
--	--

Manager Research and Developments

- Mandate was initiated in July 2018. LGIM is the underlying manager.
- The fund returned 7.9% over Q4 2020 and 13.3% over the one year period.
- These were broadly in line with its MSCI World Low Carbon Index benchmark as expected.

Performance



Sector Allocation

Information Technology	22.0
Financials	13.6
Health Care	13.1
Consumer Discretionary	12.1
Industrials	11.0
Communication Services	9.0
Consumer Staples	8.0
Materials	3.8
Real Estate	2.8
Other	4.6

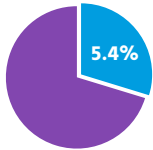
Source: LGIM. As at 31 December 2020

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



BRUNEL – EMERGING MARKET EQUITY

£280.8M END VALUE (£246.6M START VALUE)

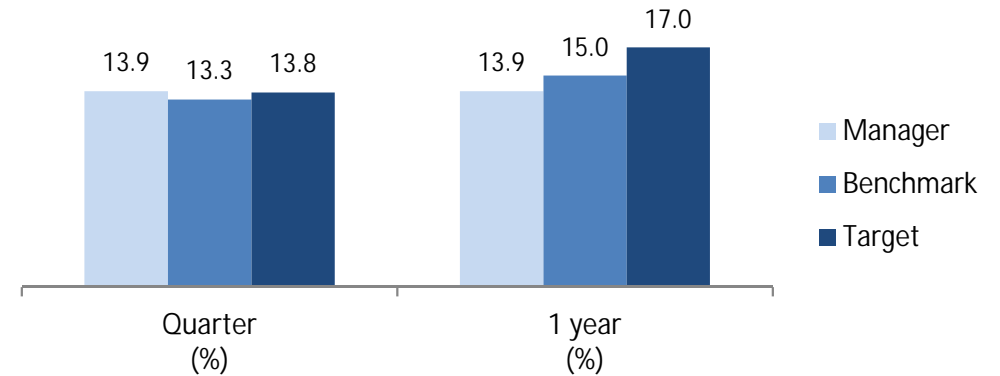
Item Monitored	Outcome	Performance
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Mercer Rating ● N/A

Performance Objective ● Below objective over the year
Benchmark +2-3% p.a.

Manager Research and Developments

- Mandate was initiated in October 2019.
- Performance was strong over the quarter, with returns of 13.9%; ahead of its MSCI Emerging Markets Index benchmark, and also its performance objective.
- It failed to match both of these in its first full year period, however, due to underperformance in previous quarters.

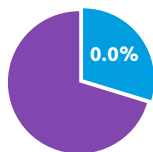


Reason for investment

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



RUFFER – DGF (POOLED) £0M END VALUE (£150.5M START VALUE)

Item Monitored	Outcome
Mercer Rating	● A (no change over period under review); ESG2
Performance Objective Cash +5% p.a.	● Underperformed objective over three year period to termination

Manager Research and Developments

- Ruffer returned 3.7% over the fourth quarter until its termination, driven largely by the wider uptick in equities.
- The mandate ended on a fairly strong year, particularly having protected capital in Q1, though it did underperform its benchmark objective over the three year period (to termination) by 2.0%.
- Ruffer made a notable allocation to Bitcoin in Q4. The allocation made a significant profit before Ruffer rebalanced.
- Performance since its inception in October 2017 has been 4.2% against its benchmark of 5.7%.
- The mandate has been replaced by the Diversified Returns Fund with Brunel to meet the Fund's 10% strategic allocation to this asset class.

Reason for investment

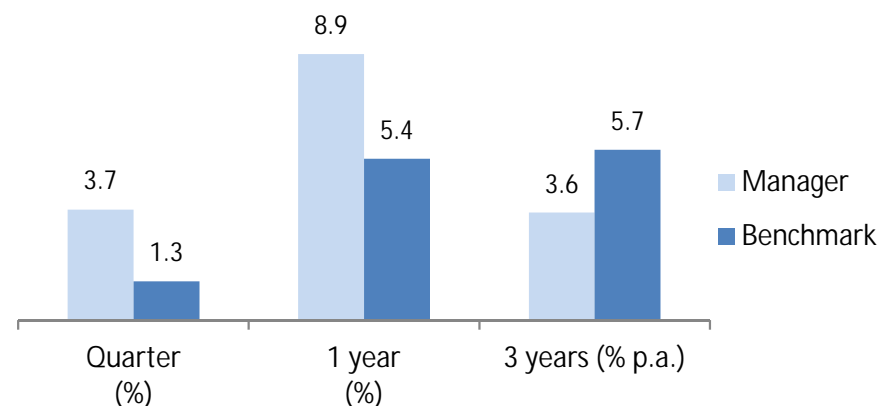
To provide equity like return over the long term but with a lower level of volatility

Reason for manager

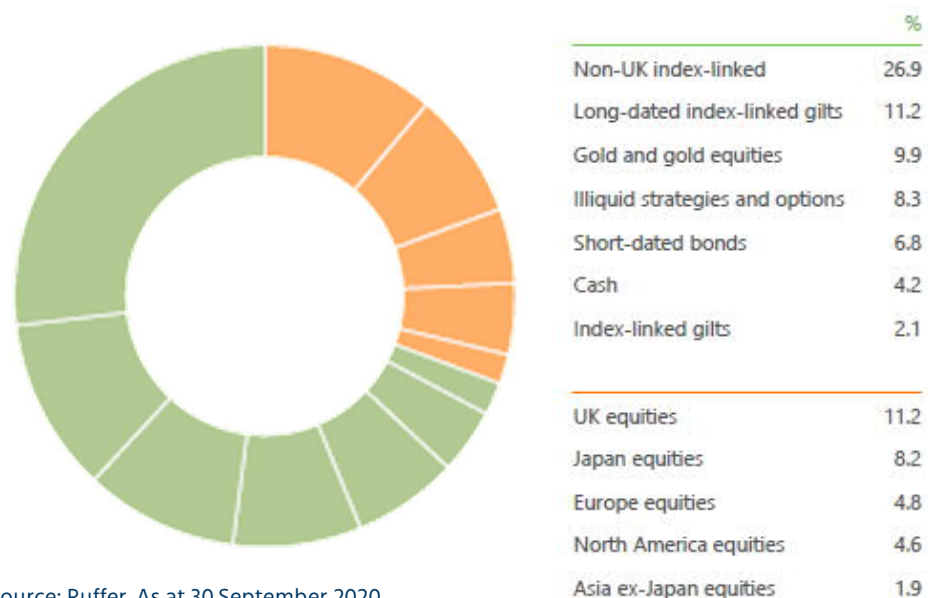
- Experience and insights of the investment team
- Focus on capital preservation
- Dynamic allocation between risk and defensive assets depending on market conditions



Performance

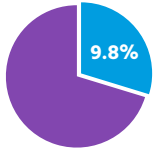


Sector Allocation



Source: Ruffer. As at 30 September 2020.

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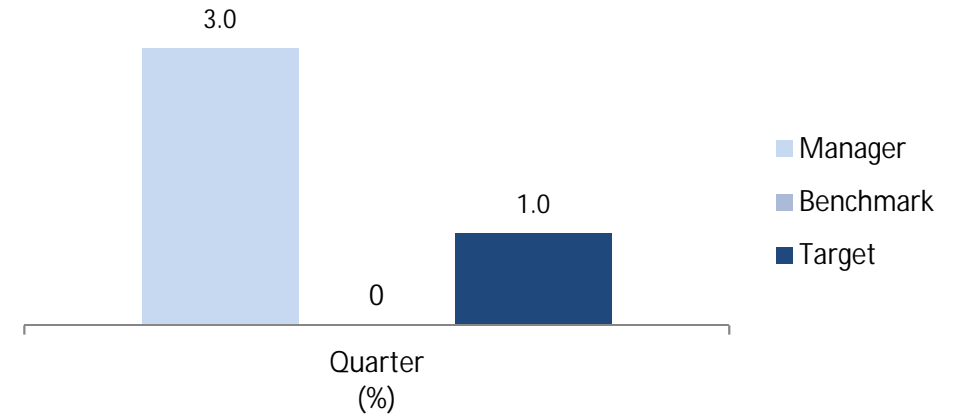


BRUNEL – DIVERSIFIED RETURNS FUND

£508.1M END VALUE (£493.1M START VALUE)

Item Monitored	Outcome	
Mercer Rating	●	N/A
Performance Objective <i>Benchmark +4-5% p.a.</i>	●	Too early to determine

Performance



Manager Research and Developments

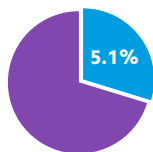
- Mandate was initiated in July 2020.
- Its benchmark is SONIA (Sterling Overnight Index Average), which it aims to outperform by 4-5% p.a.
- It returned 3.0% in its first full quarter; ahead of its benchmark and performance objective.

Reason for investment

To provide exposure to a range of alternative return drivers. The portfolio will seek to provide a degree of downside protection from equity risk.

Reason for manager

- Investment made via the Brunel pool



JP MORGAN – FUND OF HEDGE FUNDS

£265.1M END VALUE (£268.7M START VALUE)

Item Monitored	Outcome
Mercer Rating	● R ; ESG4

Performance Objective
Cash +3% p.a. ● Above objective over three year period (in USD)

Item	
Number of funds	29 (as at 31 December 2020)

Strategy	Contribution to Performance over the Quarter in USD (%)
Relative Value	2.36
Opportunistic/Macro	0.93
Long/Short Equities	3.37
Merger Arbitrage/ Event Driven	0.10
Credit	0.59
Total	6.80 (including cash and fees)

In GBP terms, the mandate return was 1.0% versus a benchmark return of 0.8%

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

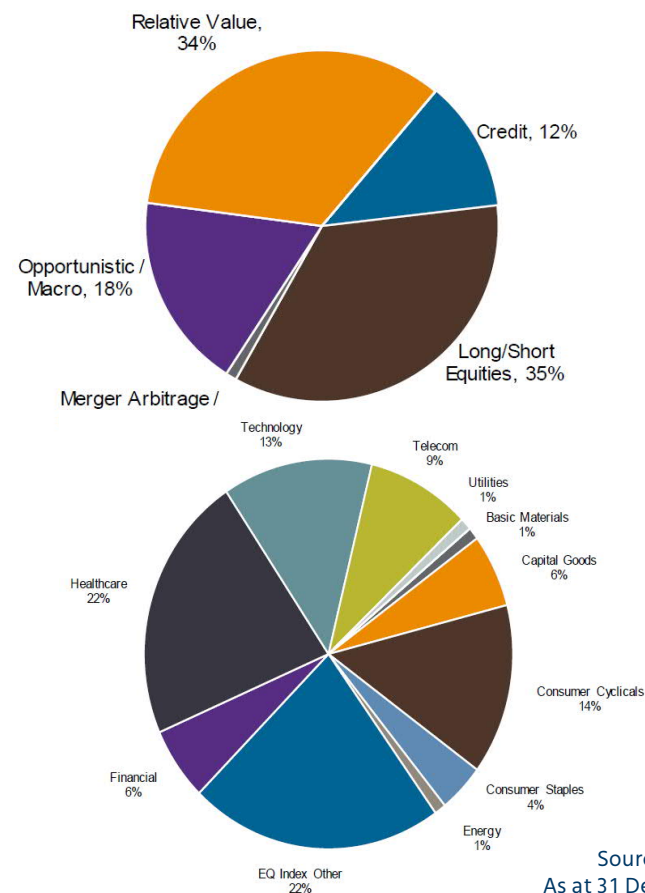
- Niche market neutral investment strategy
- Established team with strong track record
- Complemented other funds in the portfolio



Performance (USD)

Last Quarter	6.8 %	Target	0.8%
Last Year	17.0%	Target	4.1%
Last 3 Years (p.a.)	8.7%	Target	4.9%

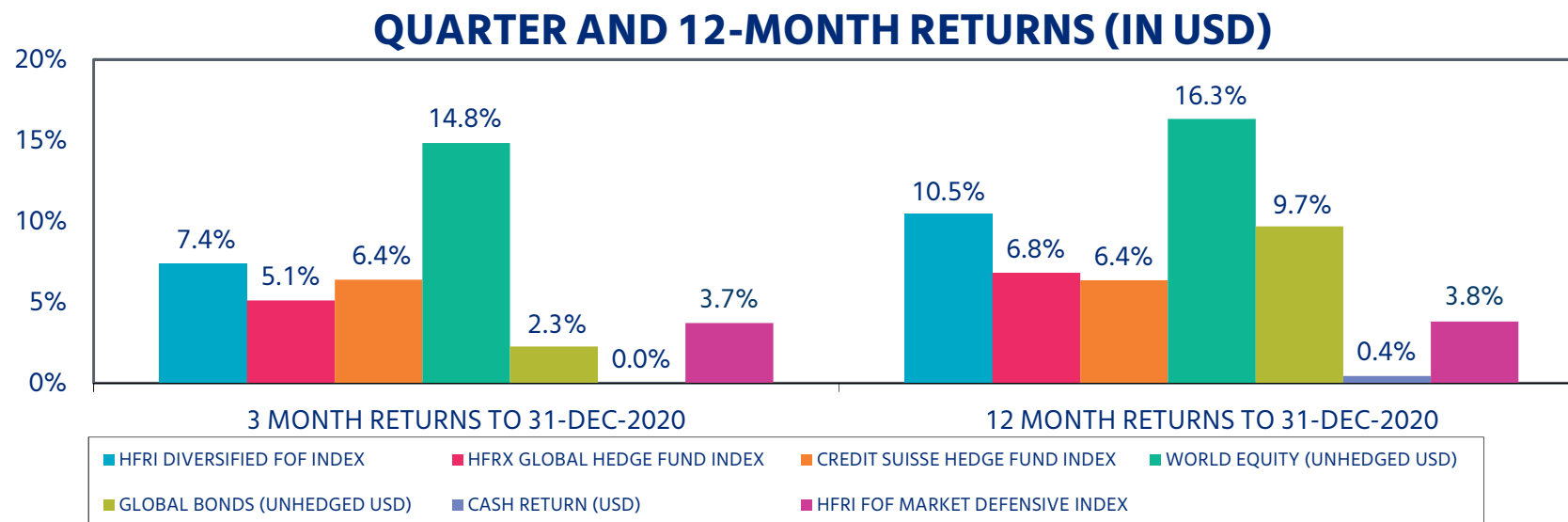
Portfolio Composition and Equity Sector Allocation



Source: JP Morgan.
As at 31 December 2020.

HEDGE FUND COMMENTARY – Q4 2020

- 2020 was a year that endured sharp price swings, disruptions in credit markets, rapid shifts in fundamentals, and record government and central bank policy action across the globe. This posed both challenges and opportunities for hedge funds, which by and large were able to adapt and provide double-digit returns in 2020 (+10.3%) following a strong Q4 (+7.5%).
- Equity-oriented strategies fared the strongest in Q4 and overall in 2020 in an environment of elevated stock dispersion.
- While strategies that were long risk assets tended to do well in the quarter and throughout 2020, market trends and nimble trading drove strong gains for discretionary macro strategies.
- Stressed/distressed credit strategies had a notable rebound in the quarter, and other event-driven strategies benefited from price appreciation of COVID-sensitive assets that had previously lagged the recovery
- Lower-net strategies such as relative value and market neutral equities continued to lag other strategies on an aggregate basis.



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 – Q4 2020

Relative Value (34%)

- While “weakened hands” continue to weigh on the strategy, relative value funds overall posted modest returns, though there was dispersion at the sub-strategy level.
- Large dislocations in pricing across credit and volatility markets created a rich opportunity set for convertible arbitrage strategies, which generated double-digit returns in 2020. There was dispersion across credit-oriented RV managers—corporate-focused strategies benefited from the tailwind of improved liquidity and tightening spreads, while ABS-focused managers were stymied by less liquidity and malaise in the commercial real estate market.

Long/Short Equities (35%)

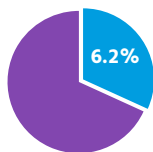
- Long/short equity generated one of the best years of security selection alpha in a decade following a strong Q4.
- Stock correlations, outside of the initial COVID shock period, remained at relative lows throughout the year, indicating a supportive environment for stock-picking. In aggregate, crowded hedge fund names performed much better than the market.
- There was continued dispersion in manager performance, especially given the large swings in underlying factor exposures throughout the year. Long positioning in technology and growth-oriented names versus old-economy and value-oriented names drove manager outperformance.
- Since March, long/short equity hedge funds have been increasing net exposure and leverage, with net exposures ending 2020 at all-time highs.

Opportunistic / Macro (18%)

- A strong depreciation of the US dollar in Q4 was a boon to both discretionary and trend-following macro strategies, many of which were short the dollar. Strong trends in commodities and equities were helpful to systematic strategies in Q4, pushing them into positive territory on the year. While Discretionary managers have continued to prove their ability in trading around volatility to better capture opportunities than systematic strategies in 2020.
- Equity volatility (and equity “vol of vol”) remains elevated, which may drive trading opportunities. U.S. interest rate volatility ended the year at secular lows, but this benign environment may be tested in the near term if the incoming administration produces the flood of stimulus they desire.

Merger Arbitrage / Event Driven (1%)

- Event-driven strategies benefited from a rally in risk assets and enhanced liquidity. Expectations of post-election policy stability and a vaccine-fueled recovery encouraged deal making that may otherwise have been put on hold.
- As was the case in previous quarters, more directional areas such as activism and special situations led in the rally in Q4. Merger arbitrage and distressed strategies, which were hard-hit in the first quarter, ended the year in the black.
- Merger arbitrage strategies benefited from a continued strong merger pipeline, a large increase in large deals closing in Q4, steadily increasing takeout premiums, and deal spread tightening following vaccine-fueled optimism. While the strategy experienced steep losses in the first quarter, it ended the year with positive returns.



LOOMIS SAYLES – MULTI-ASSET CREDIT (POOLED)

£321.6M END VALUE (£302.5M START VALUE)

Item Monitored

Outcome

Mercer Rating



A (no change over period under review); ESG3

Performance Objective

Cash +4% p.a.



Below objective over three year period

Manager Research and Developments

- Loomis delivered performance of 6.3% over the quarter, above its cash plus objective of 1.0%.
- This took it above its objective over the one year period by 2.8%, though it remained slightly under over the three year period.
- Credit assets reacted well to the positive vaccine developments over the quarter, as well as the continued support from central banks and the prospect of further fiscal stimulus.
- As a result spreads continued to tighten for investment grade and high yield corporate bonds.
- Emerging market assets also performed strongly, buoyed by a softer US dollar and energy price strength.
- The loan market rallied, accompanied by increases in new issue volume and CLO issuance, and the securitized assets in the portfolio also added to performance.
- The overall duration of the portfolio decreased slightly over the quarter to 5.2 years.

Reason for investment

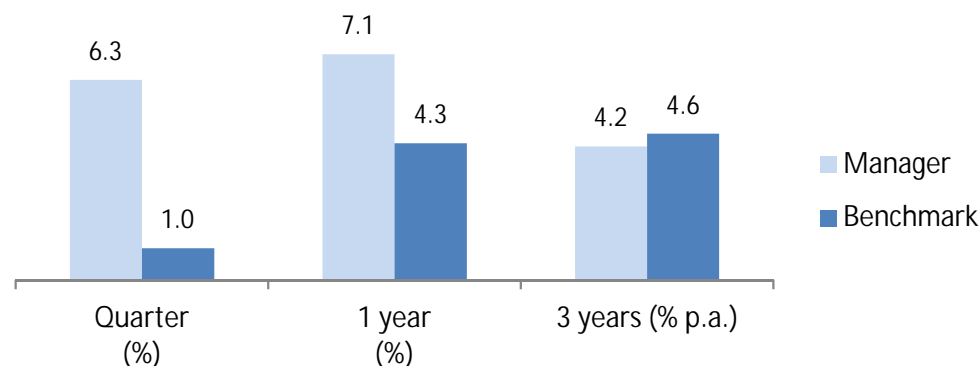
To be a diversified return seeker within the Fund's fixed income portfolio

Reason for manager

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



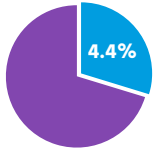
Performance



Sector Allocation

Sector Allocation	Fund 30/09/2020	Fund 31/12/2020
	%	%
High Yield Credit	27.2	27.0
Investment Grade Credit	26.6	19.7
Emerging Markets Debt	37.0	39.5
Securitized	5.7	5.2
Banks Loans	0.1	0.1
FX/Dur Mgmt/Cash	3.3	8.5

Source: Loomis Sayles.
As at 31 December 2020.



SCHRODER – UK PROPERTY FUND OF FUNDS

£226.0M END VALUE (£223.7M START VALUE)

Item Monitored	Outcome
Mercer Rating	● B (no change over period under review); ESG3

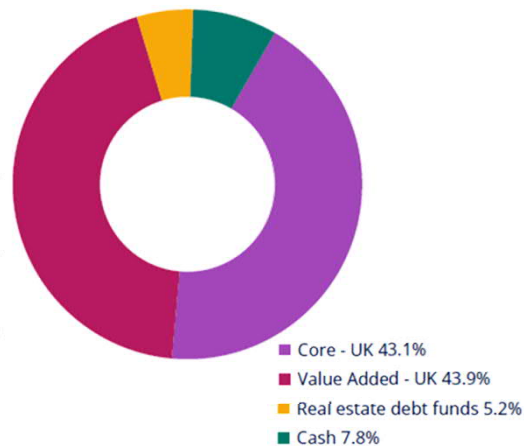
Performance Objective
Benchmark +1% p.a. ● Below objective over three year period

Manager Research and Developments

- The fund returned 2.4% over Q4 and met its performance objective.
- Industrial assets continued to be the strongest performers, which benefitted from the review by manufacturers and retailers of their supply chains and the holding of extra stocks of key items.
- The main parts of the market where uncertainties remain are in shopping centres and leisure schemes.
- There was one transaction over the quarter; a c. £2.5m drawdown into the Income Plus Real Estate Debt Fund.
- The mandate has outperformed its benchmark over the one and three year periods, though underperformed its objective.

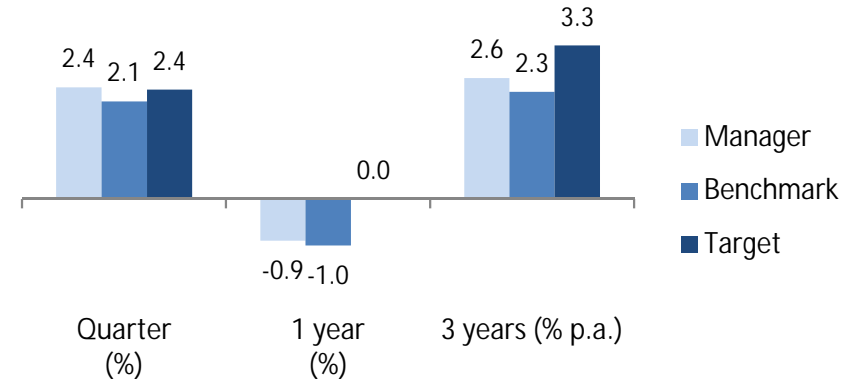
Manager and Investment type splits

Top 5 Holdings	Proportion of Total Fund (%)
Industrial Property Investment Fund	18.5
Metro Property Unit Trust	10.1
Hermes Property Unit Trust	9.5
BlackRock UK Property Fund	9.0
Cash	7.8



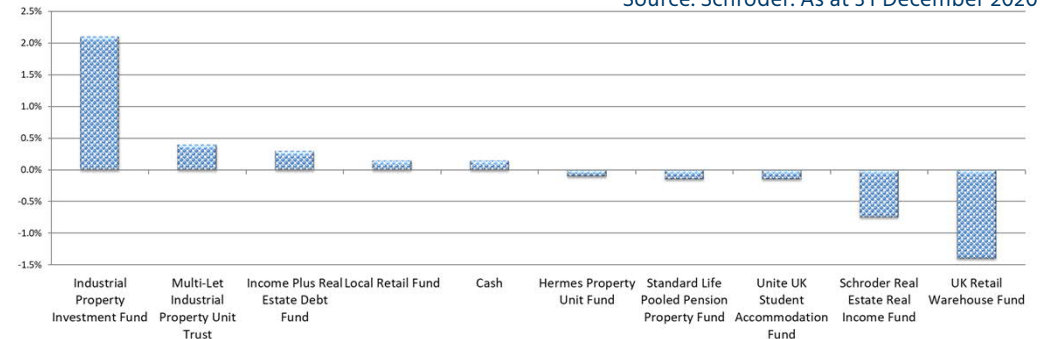
Source: Schroder. As at 31 December 2020

Performance



Top 5 Contributing and Detracting Funds over 12 Months

Source: Schroder. As at 31 December 2020

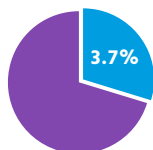


Reason for investment

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

£189.3M END VALUE (£207.4M START VALUE)

Item Monitored Outcome

Mercer Rating	● B+ (no change over period under review); ESG4
Performance Objective	● IRR since inception to 30 September 2020 at 5.7% p.a. (in local currency) is below target of 10% p.a.

Manager Research and Developments (Q3 2020)

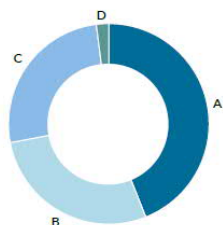
- The portfolio delivered a net return of -5.6% over Q3 2020 for USD programmes in local currency, and -2.1% for EUR programmes, versus the target of c. 2.5%.
- Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, such as the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 30 September 2020 at 5.7% 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 September 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	3'692'805	1.3%
PG Asia-Pacific Real Estate 2016, L.P. Inc.	-7'137	0	17'167'880	5'066'685	15'085'258	8.0%
PG Direct Real Estate 2011, L.P. Inc.	-1'413	0	11'423'394	12'414'816	4'283'564	5.2%
PG Distressed U.S. Real Estate 2009 S.C.A., SICAR	0	54'004	14'076'841	19'094'054	2'003'385	7.5%
PG Global Real Estate 2008 S.C.A., SICAR	0	118'909	30'939'953	34'447'830	3'340'294	4.1%
PG Global Real Estate 2011 S.C.A., SICAR	-2'784	114'086	25'074'464	27'530'999	7'985'757	6.8%
PG Global Real Estate 2013 S.C.A., SICAR	-42'107	0	110'848'287	8'245'941	139'378'960	5.6%
PG Real Estate Income 2014 (EUR), L.P. Inc.	0	2'335'918	21'785'730	16'810'499	10'643'077	3.5%
PG Real Estate Secondary 2009 (Euro) S.C.A., SICAR	0	661'588	19'619'025	22'464'351	8'240'636	8.1%
PG Real Estate Secondary 2013 (EUR), S.C.A. SICAR	-1'849	335'661	11'702'888	9'224'806	10'046'022	12.2%
Total	-55'290	3'620'166	280'106'127	172'385'030	204'699'759	5.7%

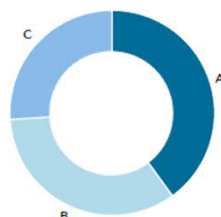
Source: Partners. Valuation figures are in GBP; net return figures are in local currency.

Geographical and Investment type splits as at 30 September 2020



Investments by regional focus

A Europe	44%	C Asia-Pacific	26%
B North America	28%	D Rest of World	2%



Investments by transaction type

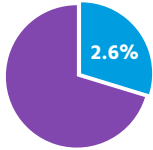
A Secondary	40%	C Direct	26%
B Primary	34%		

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

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



BRUNEL – SECURED INCOME

£133.9M END VALUE (£109.3M START VALUE)

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

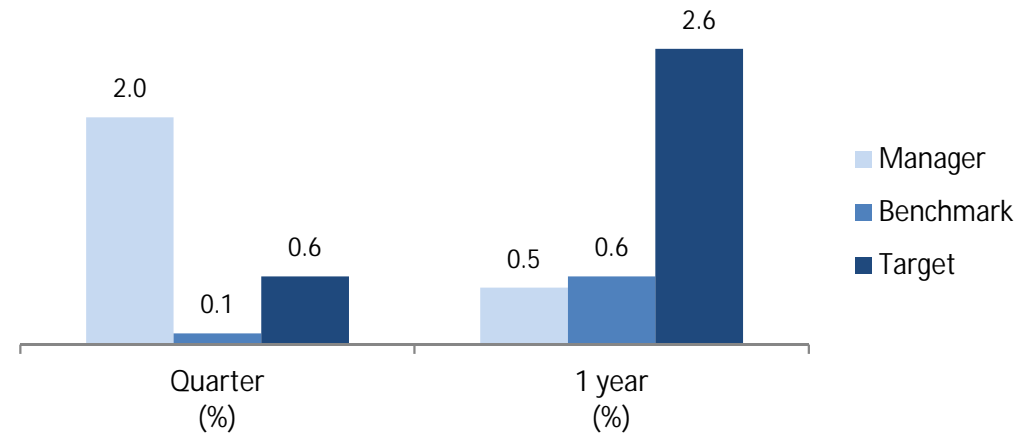
Mercer Rating ● N/A

Performance Objective
CPI +2.0% p.a. ● Below objective over the year

Manager Research and Developments

- Mandate was initiated on 15 January 2019.
- The strategy returned 2.0% over Q4, which was ahead of its performance objective.
- This brought it into positive territory over the one year period, though it remained behind its performance objective by 2.1%.
- The mandate is still in its early stages of being funded.

Performance

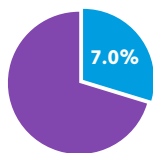


Reason for investment

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

Reason for manager

- Investment made via the Brunel pool



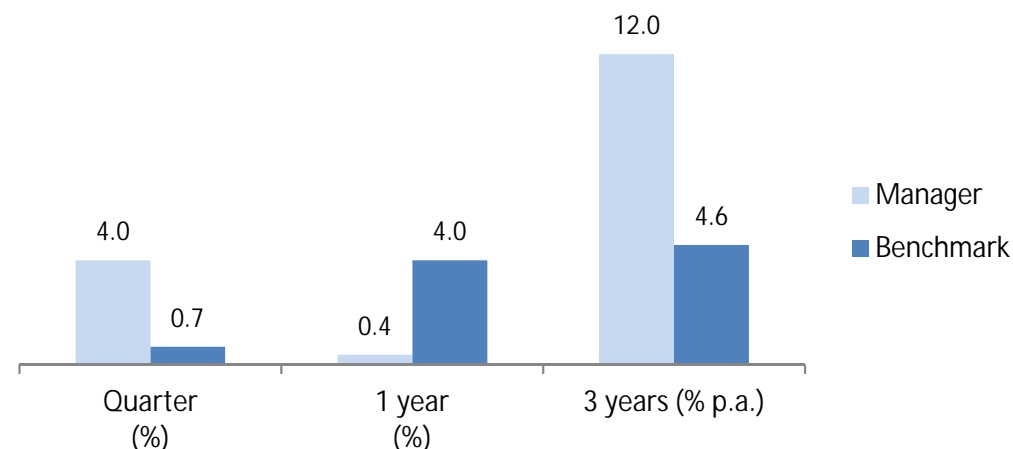
IFM – CORE INFRASTRUCTURE (POOLED)

£359.7M END VALUE (£345.5M START VALUE)

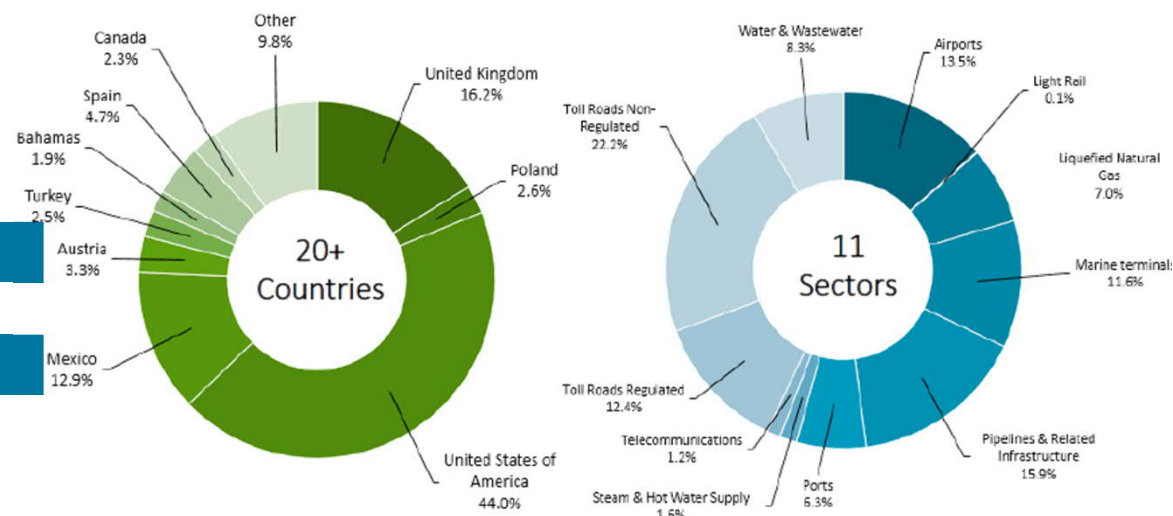
Item Monitored	Outcome
Mercer Rating	● B+ (no change over period under review); ESG2
Performance Objective Cash +2.5% p.a.	● Outperformed objective by 7.0% p.a. over the three year period (in GBP)

Item	
Number of holdings	17

Performance



Geographical and Sub-Sector Allocation

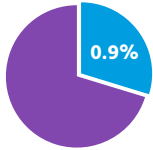


Reason for investment

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



BRUNEL – RENEWABLE INFRASTRUCTURE £48.1M END VALUE (£40.2M START VALUE)

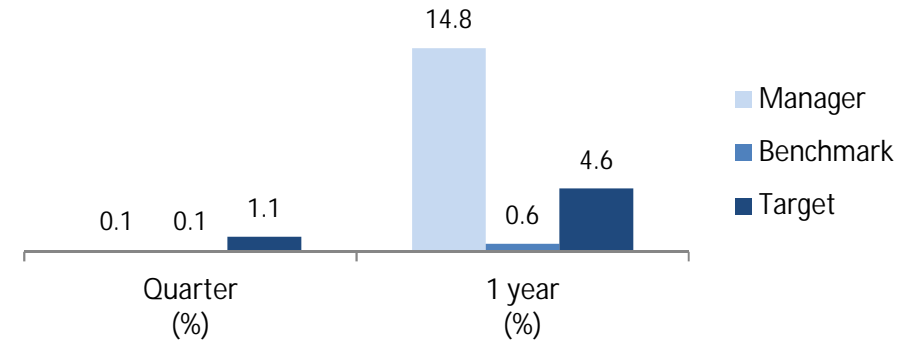
Item Monitored	Outcome	Performance
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Mercer Rating ● N/A

Performance Objective ● Above objective by 10.2% 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 was broadly flat over Q4, and underperformed its objective by 1.0%.
- It remained modestly up over the one year period however, thanks to strong performance earlier in the year, resulting in outperformance of its objective of 10.2%.

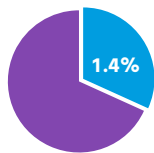


Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Investment made via the Brunel pool



RECORD – CURRENCY HEDGING (SEGREGATED)

£72.0M END VALUE (£19.1M START VALUE)

Item Monitored

Outcome

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

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

Manager Research and Developments

Sterling strengthened against all major developed currencies over the quarter. Against the Dollar, Euro and Yen, this amounted to 5.7%, 1.3% and 3.4% respectively. The Brexit agreement in late December boosted sentiment for sterling at year end as the feared disruptions in trade did not generally materialise.

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 and global property mandates.

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

Reason for investment

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

Reason for manager

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



Currency Hedging Q4 2020 Performance (£ terms)

Passive Developed Equity Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	1,065,826,246	1,081,326,385	(5.42%)	2.72%	2.74%	(2.76%)
EUR	171,250,102	174,840,694	(1.32%)	0.73%	0.73%	(0.59%)
JPY	129,219,089	115,114,124	(3.33%)	1.69%	1.73%	(1.60%)
Total	1,366,295,437	1,371,281,203	(4.72%)	2.38%	2.39%	(2.38%)

Passive Hedge Fund Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	259,246,424	271,094,716	(5.42%)	5.51%	5.53%	(0.10%)

Passive Property Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	25,713,655	23,632,526	(5.42%)	5.51%	5.58%	(0.05%)
EUR	182,403,184	176,111,588	(1.32%)	1.46%	1.47%	0.15%
Total	208,116,839	199,744,114	(1.84%)	1.97%	1.98%	0.13%

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%
IFM	Core Infrastructure	6 Month LIBOR +2.5% p.a.	-
Brunel	Renewable Infrastructure	CPI	+4%
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

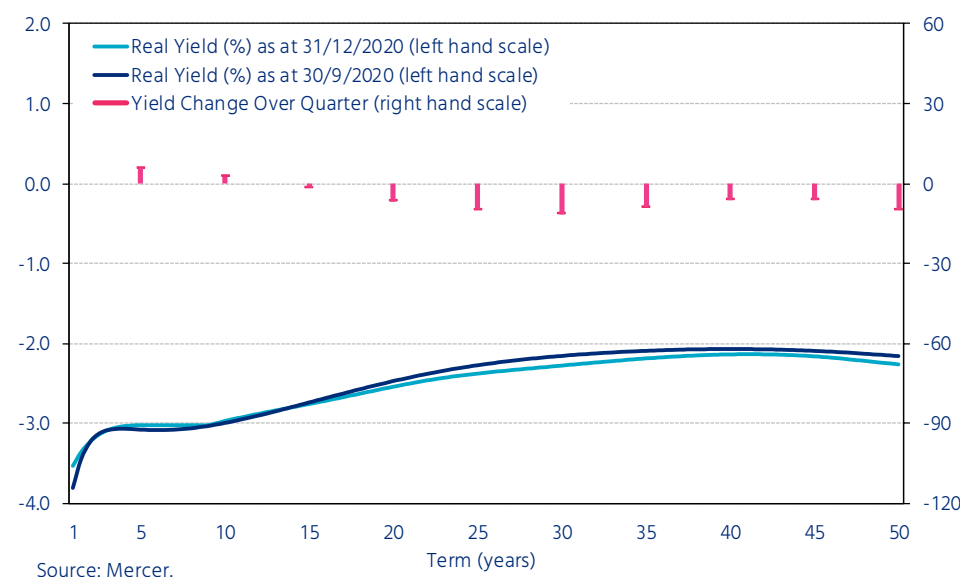
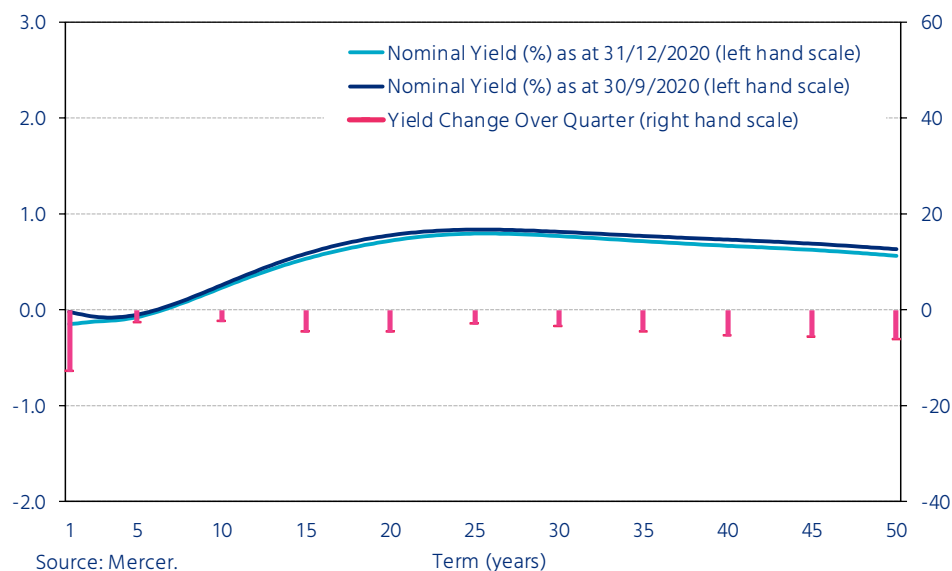
These are the indices used in this report for market commentary; individual strategy returns are shown against their specific benchmarks.

Appendix 3

Changes in Yields

CHANGES IN YIELDS

- The UK yield curve shifted down marginally over the quarter as additional fiscal stimulus as well as monetary accommodation was announced in the UK.
- UK real yields shifted down marginally, in line with the small decrease in nominal yields – inflation expectations changed little. The UK Treasury announced the outcome of the RPI consultation confirming that RPI is expected to increase in line with CPIH from 2030.
- UK investment grade credit spreads narrowed over the quarter as risk-on sentiment continued.



Asset Class Yields (% p.a.)	31 Dec 2020	30 Sep 2020	31 Dec 2019	31 Dec 2018
Over 15 Year Gilts	0.67	0.71	1.25	1.76
Over 5 Year Index-Linked Gilts	-2.37	-2.29	-1.84	-1.58
Sterling Non Gilts	1.23	1.54	2.00	2.75
All Stocks				

Appendix 4

Guide to Mercer Ratings

GUIDE TO MERCER RATINGS

INTRODUCTION

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

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

WHAT DO MERCER'S RATINGS SIGNIFY?

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

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

WHAT DO MERCER'S RATINGS NOT SIGNIFY?

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

Past Performance

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

Creditworthiness

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

Vehicle-Specific Considerations

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

Management Fees

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

GUIDE TO MERCER RATINGS

Operational Assessment

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

FACTORS CONSIDERED IN FORMING A RATING

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

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

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

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

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

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

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

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

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

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

GUIDE TO MERCER RATINGS

MERCER RATING SCALE

Ratings	Rationale
A	Strategies assessed as having “above average” prospects of outperformance
B+	Strategies assessed as having “above average” prospects of outperformance, but which are qualified by at least one of the following: <ul style="list-style-type: none">▪ There are other strategies that Mercer believes are more likely to achieve outperformance▪ Mercer requires more evidence to support its assessment
B	Strategies assessed as having “average” prospects of outperformance
C	Strategies assessed as having “below average” prospects of outperformance
N/no rating	Strategies not currently rated by Mercer
R	The R rating is applied in three situations: <ul style="list-style-type: none">▪ Where Mercer has carried out some research, but has not completed its full investment strategy research process▪ In product categories where Mercer does not maintain formal ratings but where there are other strategies in which we have a higher degree of confidence▪ Mercer has in the past carried out its full investment-strategy research process on the strategy, but we are no longer maintaining full research coverage

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

GUIDE TO MERCER RATINGS

SUPPLEMENTAL INDICATORS

Provisional (P)

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

Watch (W)

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

Specifically Assigning (P) and (W) Supplemental Indicators

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

High Tracking Error (T)

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

NICHE STRATEGIES

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

GUIDE TO MERCER RATINGS

RESEARCH INDICATIONS – INDICATIVE VIEW

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

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

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

OPERATIONAL RISK ASSESSMENTS

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

ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE RATINGS

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

GUIDE TO MERCER RATINGS

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

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

RATINGS REVIEW COMMITTEES

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

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

CONFIDENTIALITY OF MERCER'S RATINGS

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

