

MERTON PENSION FUND
INVESTMENT PERFORMANCE REVIEW
QUARTER ENDING 30 SEPTEMBER 2018

1 STRATEGIC ASSET ALLOCATION

30 SEPTEMBER 2018

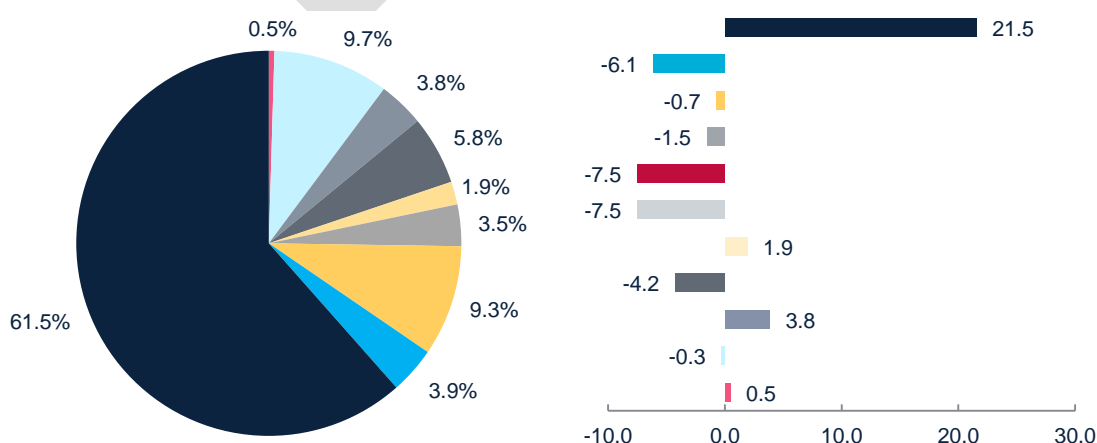
Allocation by underlying asset class

| Asset Class | Market Value £000s | Actual Weight % | Strategic Allocation % | Relative % | Strategic Range % |
|----------------------------------|--------------------|-----------------|------------------------|------------|-------------------|
| Global Equities | 436,020 | 61.5 | 40.0 | 21.5 | 15-85 |
| Emerging Market Equities | 27,777 | 3.9 | 10.0 | -6.1 | 0-20 |
| Diversified Growth Fund | 65,954 | 9.3 | 10.0 | -0.7 | 0-20 |
| Property | 24,706 | 3.5 | 5.0 | -1.5 | 0-10 |
| Private Credit | - | 0.0 | 7.5 | -7.5 | 0-10 |
| Infrastructure | - | 0.0 | 7.5 | -7.5 | 0-15 |
| Long Gilts | 13,660 | 1.9 | - | 1.9 | 0-5 |
| Long Index Linked Gilts | 40,962 | 5.8 | 10.0 | -4.2 | 0-30 |
| Corporate Bonds | 27,273 | 3.8 | - | 3.8 | 0-10 |
| Multi Asset Credit | 68,952 | 9.7 | 10.0 | -0.3 | 0-20 |
| Cash | 3,319 | 0.5 | - | 0.5 | - |
| TOTAL MERTON PENSION FUND | 708,623 | 100.0 | 100.0 | - | |

Points to note

- Asset allocation reflects the strategy to be implemented as part of the 2017 Investment Strategy Review; as such a number of asset classes will be under or overweight for an interim period until the portfolio is fully constructed.
- Total allocation to Global Equities increased to 61.5% over the quarter, thereby 21.5% overweight relative to its strategic allocation is. However, this allocation will fall over time as the Fund transitions to other asset classes.

Actual Asset Allocation as at 30 September 2018 Deviation from Strategic Allocation



2 VALUATION SUMMARY

30 JUNE 2018 TO 30 SEPTEMBER 2018

| Manager / Fund | 30-June-18 | | | | 30-September-18 | |
|--|--------------------|--------------|-------------------|-----------------|--------------------|--------------|
| | Valuation £000s | Weight % | Cashflow £000s | Growth £000s | Valuation £000s | Weight % |
| UBS - Passive Equity | 236,670 | 34.0 | - | 7,513 | 244,183 | 34.5 |
| UBS - Active Equity Fund | 45,156 | 6.5 | - | -442 | 44,714 | 6.3 |
| LCIV RBC Sustainable Equity Fund | 71,138 | 10.2 | - | 3,741 | 74,879 | 10.6 |
| LCIV Global Alpha Growth Fund | 70,112 | 10.1 | - | 2,132 | 72,244 | 10.2 |
| Aberdeen Equity | - | - | - | - | - | 0.0 |
| Global Equities | 423,076 | 60.8 | | | 436,020 | 61.5 |
| Aberdeen Emerging Market Equities Fund | 27,584 | 4.0 | - | 192 | 27,777 | 3.9 |
| Emerging Market Equities | 27,584 | 4.0 | | | 27,777 | 3.9 |
| LCIV Global Total Return Fund | 33,210 | 4.8 | - | 251 | 33,461 | 4.7 |
| LCIV Diversified Growth Fund | 32,470 | 4.7 | - | 23 | 32,493 | 4.6 |
| Diversified Growth Fund | 65,680 | 9.4 | | | 65,954 | 9.3 |
| UBS Triton Property Unit Trust | 16,631 | 2.4 | - | 200 | 16,831 | 2.4 |
| BlackRock UK Property Fund | 7,758 | 1.1 | - | 117 | 7,875 | 1.1 |
| Property | 24,389 | 3.5 | | | 24,706 | 3.5 |
| Growth Assets | 540,729 | 77.7 | | | 554,457 | 78.2 |
| Aberdeen Bonds | 82,864 | 11.9 | - | -968 | 81,895 | 11.6 |
| Bonds | 82,864 | 11.9 | | | 81,895 | 11.6 |
| LCIV MAC Fund | 67,884 | 9.8 | - | 1,068 | 68,952 | 9.7 |
| Multi Asset Credit | 67,884 | 9.8 | | | 68,952 | 9.7 |
| Stabilising Assets | 150,748 | 21.7 | | | 150,847 | 21.3 |
| Cash | 4,123 | 0.6 | -804 | - | 3,319 | 0.5 |
| TOTAL MERTON PENSION FUND | 695,600 | 100.0 | | | 708,623 | 100.0 |

3 PERFORMANCE SUMMARY

PERIOD ENDING 30 SEPTEMBER 2018

| Manager / Fund | 3 months % | | 12 months % | | 3 years % p.a. | | 3yr Performance vs Bmark |
|--|------------|-------|-------------|-------|----------------|-------|--------------------------|
| | Fund | Bmark | Fund | Bmark | Fund | Bmark | |
| UBS - Passive Equity Fund | 3.0 | n/a | 9.7 | n/a | 15.4 | n/a | n/a |
| UBS - Active Equity Fund | -0.9 | -0.5 | 4.5 | 4.8 | 12.1 | 12.4 | Benchmark not met |
| LCIV RBC Sustainable Equity Fund | 5.3 | 6.3 | n/a | n/a | n/a | n/a | n/a |
| LCIV Global Alpha Growth Fund | 3.1 | 5.6 | n/a | n/a | n/a | n/a | n/a |
| Global Equities | | | | | | | |
| Aberdeen Global Emerging Market Equities Fund ^{1&2} | 0.0 | -1.0 | n/a | n/a | n/a | n/a | n/a |
| Emerging Market Equities | | | | | | | |
| LCIV Global Total Return Fund | 0.8 | 2.2 | n/a | n/a | n/a | n/a | n/a |
| LCIV Diversified Growth Fund | 0.1 | 1.0 | n/a | n/a | n/a | n/a | n/a |
| DGF | | | | | | | |
| UBS Triton Property Unit Trust | 1.9 | 1.6 | 10.0 | 8.8 | 7.7 | 7.1 | Benchmark met |
| BlackRock UK Property Fund | 1.9 | 1.6 | 9.9 | 8.8 | 8.0 | 7.1 | Benchmark met |
| Property | | | | | | | |
| Growth Assets | | | | | | | |
| Aberdeen Bonds Portfolio ¹ | -1.1 | -1.2 | 1.9 | 1.3 | 7.2 | 6.9 | Benchmark met |
| Bonds | | | | | | | |
| LCIV MAC Fund | 1.5 | 1.2 | n/a | n/a | n/a | n/a | n/a |
| Multi-Asset Credit | | | | | | | |
| Stabilising Assets | | | | | | | |
| TOTAL MERTON PENSION FUND | 1.9 | | 7.1 | | 13.1 | | |
| Strategic Target (5.5% p.a.) | 1.3 | | 5.5 | | 5.5 | | |

1: ABERDEEN GLOBAL BOND FUND AND ABERDEEN GLOBAL EMERGING MARKET EQUITIES FUND PRESENTED GROSS OF FEES. ALL OTHERS ARE NET.

2 PERFORMANCE QUOTED IN USD

4 MARKET BACKGROUND

PERIOD ENDING 30 SEPTEMBER 2018

MARKET STATISTICS

| Market Returns Growth Assets | 3 Mths % | 1 Year % | 3 Years % p.a. |
|------------------------------|----------|----------|----------------|
| UK Equities | -0.8 | 5.9 | 11.5 |
| Overseas Developed | 6.7 | 14.7 | 20.6 |
| North America | 8.5 | 20.3 | 22.8 |
| Europe (ex UK) | 3.2 | 2.5 | 15.1 |
| Japan | 5.0 | 13.9 | 18.6 |
| Asia Pacific (ex Japan) | 0.9 | 6.5 | 19.7 |
| Emerging Markets | 0.6 | 2.0 | 17.5 |
| Frontier Markets | -3.2 | -6.7 | 6.3 |
| Property | 1.6 | 9.1 | 7.5 |
| Hedge Funds** | 0.2 | 2.3 | 4.3 |
| Commodities** | 0.9 | 20.9 | 1.8 |
| High Yield** | 1.9 | 0.5 | 7.1 |
| Emerging Market Debt | -0.6 | -4.7 | 10.6 |
| Senior Secured Loans** | 1.7 | 3.3 | 4.1 |
| Cash | 0.2 | 0.5 | 0.4 |

| Market Returns Bond Assets | 3 Mths % | 1 Year % | 3 Years % p.a. |
|------------------------------|----------|----------|----------------|
| UK Gilts (>15 yrs) | -3.3 | 1.3 | 5.3 |
| Index-Linked Gilts (>5 yrs) | -1.4 | 1.4 | 7.2 |
| Corporate Bonds (>15 yrs AA) | -0.7 | -0.4 | 6.6 |
| Non-Gilts (>15 yrs) | -0.9 | -0.7 | 6.7 |

| Exchange Rates: Change in Sterling | 3 Mths % | 1 Year % | 3 Years % p.a. |
|------------------------------------|----------|----------|----------------|
| Against US Dollar | -1.2 | -2.8 | -4.9 |
| Against Euro | -0.7 | -1.1 | -6.1 |
| Against Yen | 1.3 | -1.9 | -6.5 |

| Inflation Indices | 3 Mths % | 1 Year % | 3 Years % p.a. |
|-----------------------|----------|----------|----------------|
| Price Inflation – RPI | 1.2 | 3.5 | 3.0 |
| Price Inflation – CPI | 0.7 | 2.7 | 2.0 |
| Earnings Inflation* | 0.9 | 3.2 | 2.5 |

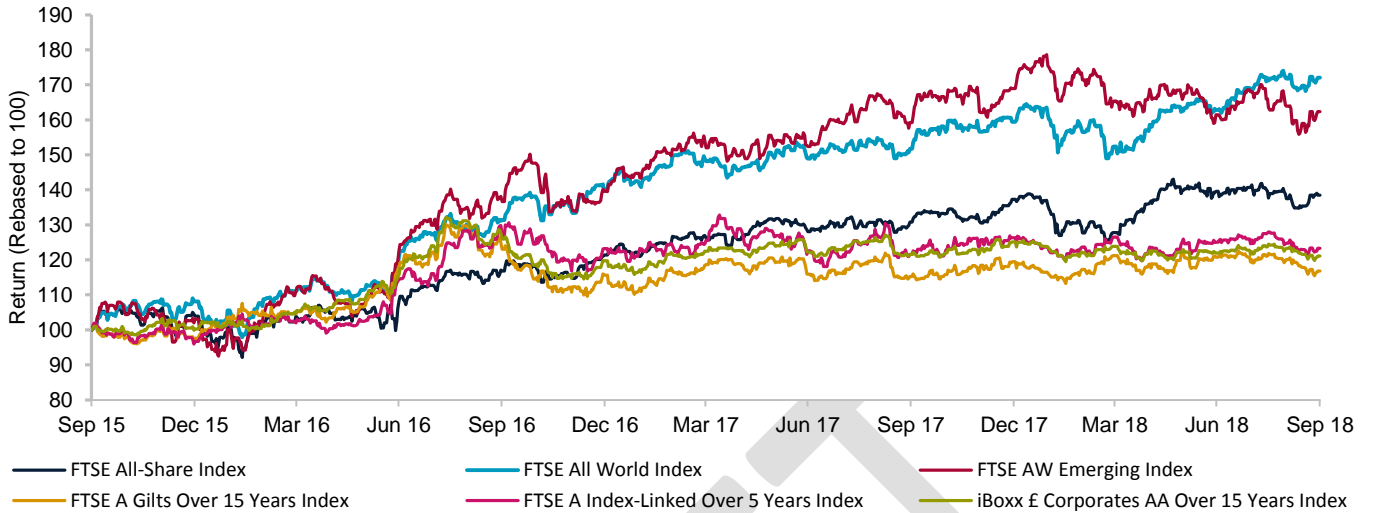
| Yields as at 30 September 2018 | % p.a. |
|--------------------------------|--------|
| UK Equities | 3.80 |
| UK Gilts (>15 yrs) | 1.86 |
| Real Yield (>5 yrs ILG) | -1.50 |
| Corporate Bonds (>15 yrs AA) | 2.81 |
| Non-Gilts (>15 yrs) | 3.28 |

| Absolute Change in Yields | 3 Mths % | 1 Year % | 3 Years % p.a. |
|------------------------------|----------|----------|----------------|
| UK Equities | 0.16 | 0.12 | 0.09 |
| UK Gilts (>15 yrs) | 0.19 | 0.02 | -0.52 |
| Real Yield (>5 yrs ILG) | 0.09 | 0.02 | -0.66 |
| Corporate Bonds (>15 yrs AA) | 0.09 | 0.17 | -0.82 |
| Non-Gilts (>15 yrs) | 0.12 | 0.23 | -0.68 |

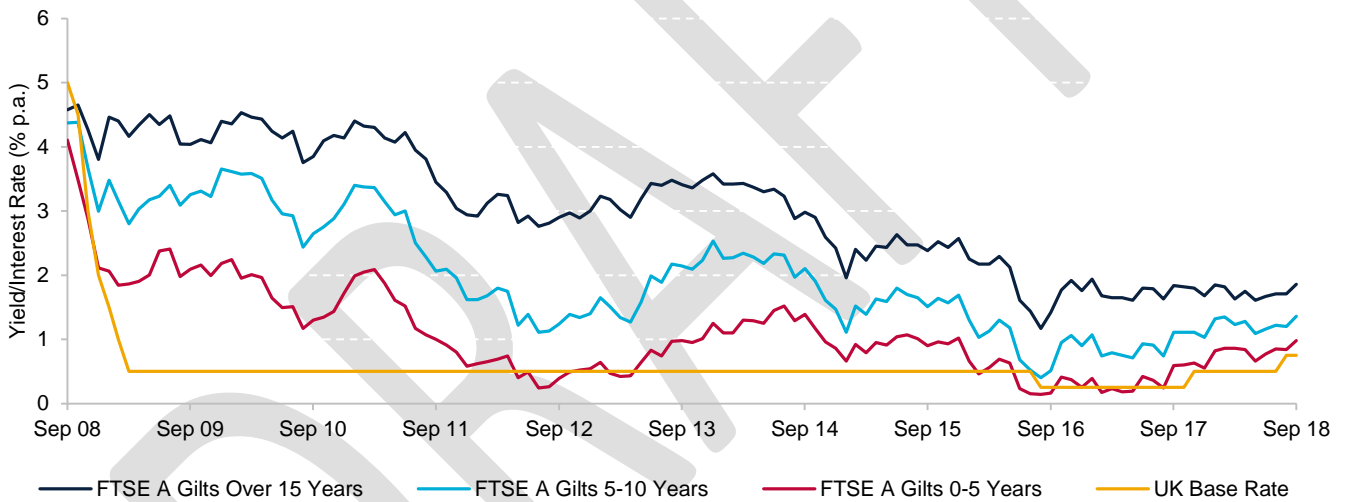
Source: Thomson Reuters.
Note: * Subject to 1 month lag ** GBP Hedged

MARKET SUMMARY CHARTS

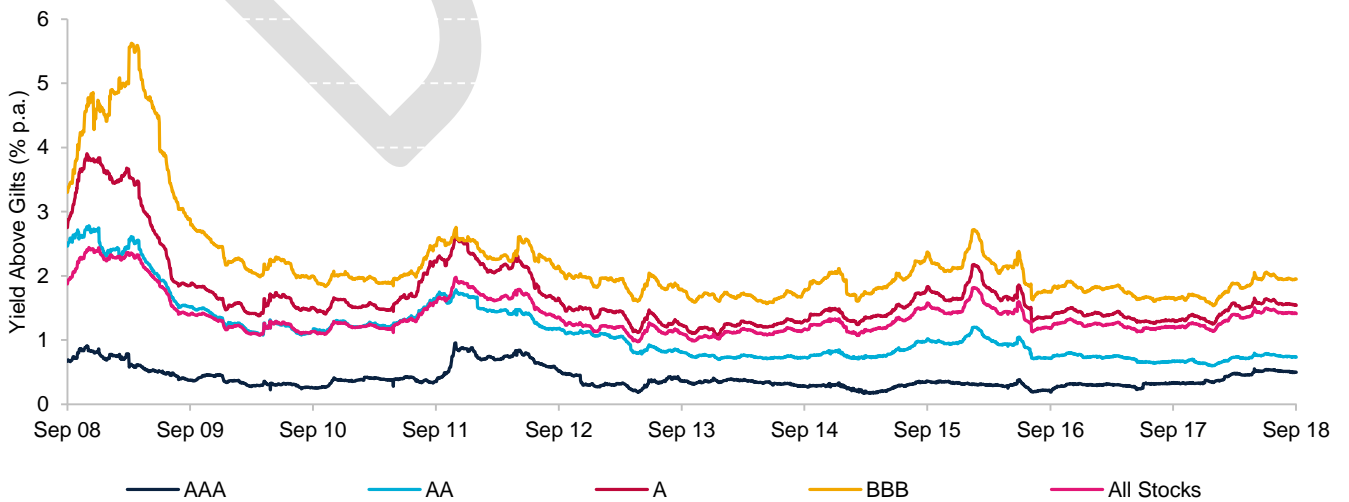
Market performance – 3 years to 30 September 2018



UK government bond yields – 10 years to 30 September 2018



Corporate bond spreads above government bonds – 10 years to 30 June 2018



Source: Thomson Reuters

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