











**MERTON PENSION FUND**  
**INVESTMENT PERFORMANCE REVIEW**  
**QUARTER ENDING 31 MARCH 2019**

# 1 STRATEGIC ASSET ALLOCATION

## 31 MARCH 2019

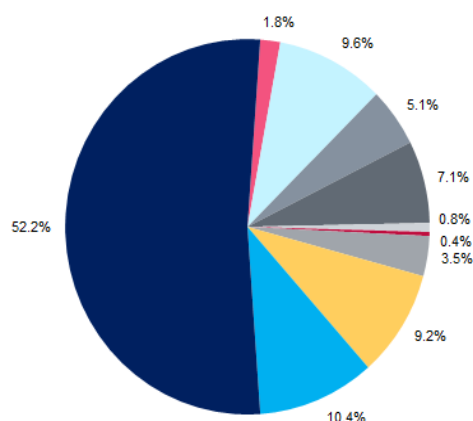
### Allocation by underlying asset class

Asset Class		Market Value £000s	Actual Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities		376,408	52.2	40.0	12.2	15-85
Emerging Market Equities		74,966	10.4	10.0	0.4	0-20
Diversified Growth Fund		66,595	9.2	10.0	-0.8	0-20
Property		24,885	3.5	5.0	-1.5	0-10
Private Credit		2,531	0.4	7.5	-7.1	0-10
Infrastructure		5,541	0.8	7.5	-6.7	0-15
Long Index Linked Gilts		51,067	7.1	10.0	-2.9	0-30
Corporate Bonds		36,500	5.1	-	5.1	0-10
Multi Asset Credit		69,360	9.6	10.0	-0.4	0-20
Cash		12,819	1.8	-	1.8	-
<b>TOTAL MERTON PENSION FUND</b>		<b>720,673</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>	

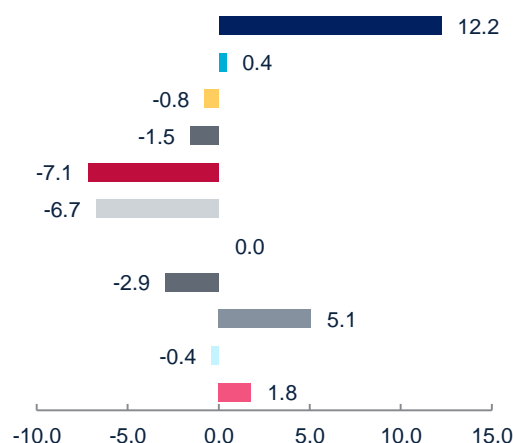
### Points to note

- The Strategic 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 decreased to 52.2% over the quarter, thereby being 12.2% overweight relative to its strategic allocation. However, this allocation will fall over time as the Fund transitions to Private Credit and Infrastructure.

### Actual Asset Allocation as at 31 March 2019



### Deviation from Strategic Allocation



Note: Totals may not sum due to rounding.

# 2 VALUATION SUMMARY

## 31 DEC 2018 TO 31 MAR 2019

Manager / Fund	31-December-18				31-March-19	
	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS - Passive Equity	89,363	13.5	-7,917	8,213	89,659	12.4
UBS – Alternative Beta	64,643	9.8	-	5,963	70,606	9.8
LCIV RBC Sustainable Equity Fund	65,854	9.9	-	8,840	74,694	10.4
LCIV Global Alpha Growth Fund	63,235	9.6	-	7,832	71,067	9.9
BlackRock World Low Carbon Equity Tracker Fund	64,282	9.7	-	6,099	70,381	9.8
<b>Global Equities</b>	<b>347,378</b>	<b>52.5</b>			<b>376,408</b>	<b>52.2</b>
Aberdeen Emerging Market Equities Fund	27,302	4.1	-	1,748	29,050	4.0
UBS – HALO EM Fund	41,304	6.2	-	1,904	45,916	6.4
<b>Emerging Market Equities</b>	<b>68,606</b>	<b>10.4</b>			<b>74,966</b>	<b>10.4</b>
LCIV Global Total Return Fund	32,786	5.0	-	885	33,671	4.7
LCIV Diversified Growth Fund	31,020	4.7	-	1,904	32,924	4.6
<b>Diversified Growth Fund</b>	<b>63,806</b>	<b>9.6</b>			<b>66,595</b>	<b>9.2</b>
UBS Triton Property Unit Trust	17,008	2.6	-	-41	16,967	2.4
BlackRock UK Property Fund	7,973	1.2	-	-55	7,918	1.1
<b>Property</b>	<b>24,981</b>	<b>3.8</b>			<b>24,885</b>	<b>3.5</b>
MIRA Infrastructure Global Solution II, L.P.	-	-	1,235	-80	1,156	0.2
Quinbrook Low Carbon Power LP	-	-	4,457	-72	4,385	0.6
<b>Infrastructure</b>	<b>-</b>	<b>-</b>			<b>5,541</b>	<b>0.8</b>
Churchill Middle Market Senior Loan Fund II	-	-	2,567	-36	2,532	0.4
<b>Private Credit</b>	<b>-</b>	<b>-</b>			<b>2,532</b>	<b>0.4</b>
<b>Growth Assets</b>	<b>504,772</b>	<b>76.2</b>			<b>550,925</b>	<b>76.4</b>
Aberdeen Bonds	83,661	12.6	-	3,905	87,567	12.2
<b>Bonds</b>	<b>83,661</b>	<b>12.6</b>			<b>87,567</b>	<b>12.2</b>
LCIV MAC Fund	67,572	10.2	-	1,788	69,360	9.6
<b>Multi Asset Credit</b>	<b>67,572</b>	<b>10.2</b>			<b>69,360</b>	<b>9.6</b>
<b>Stabilising Assets</b>	<b>151,233</b>	<b>22.8</b>			<b>156,927</b>	<b>21.8</b>
<b>Cash</b>	<b>6,078</b>	<b>0.9</b>	<b>6,741</b>	<b>-</b>	<b>12,819</b>	<b>1.8</b>
<b>TOTAL MERTON PENSION FUND</b>	<b>662,083</b>	<b>100.0</b>			<b>720,673</b>	<b>100.0</b>

NOTE: INCOME REINVESTED BY LCIV FUNDS IN THE QUARTER AMOUNTED TO £0.5M.

# 3 PERFORMANCE SUMMARY

## PERIOD ENDING 31 MARCH 2019

Manager / Fund	3 months %		12 months %		3 years % p.a.	
	Fund	Bmark	Fund	Bmark	Fund	Bmark
UBS- Passive Equity Fund †	9.8	n/a	7.9	n/a	11.8	n/a
UBS – Alternative Beta	9.2	9.2	n/a	n/a	n/a	n/a
LCIV RBC Sustainable Equity Fund	13.4	9.9	n/a	n/a	n/a	n/a
LCIV Global Alpha Growth Fund	12.4	10.2	n/a	n/a	n/a	n/a
BlackRock World Low Carbon Equity Tracker Fund	9.5	9.8	n/a	n/a	n/a	n/a
<b>Global Equities</b>						
Aberdeen Global Emerging Market Equities Fund	7.3	7.5	n/a	n/a	n/a	n/a
UBS – HALO EM Fund	11.2	7.4	n/a	n/a	n/a	n/a
<b>Emerging Market Equities</b>						
LCIV Global Total Return Fund	2.7	1.1	n/a	n/a	n/a	n/a
LCIV Diversified Growth Fund	6.2	1.1	n/a	n/a	n/a	n/a
<b>DGF</b>						
UBS Triton Property Unit Trust	0.6	0.3	7.1	4.8	6.9	6.1
BlackRock UK Property Fund	0.1	0.3	4.9	4.8	6.1	6.1
<b>Property</b>						
MIRA Infrastructure Global Solution II, L.P.*	-6.5	0.2	n/a	n/a	n/a	n/a
Quinbrook Low Carbon Power LP*	-1.6	0.6	n/a	n/a	n/a	n/a
<b>Infrastructure</b>						
Churchill Middle Market Senior Loan Fund II*	-1.4	0.5	n/a	n/a	n/a	n/a
<b>Private Credit</b>						
<b>Growth Assets</b>						
Aberdeen Bonds Portfolio	4.7	4.7	6.3	5.9	7.5	7.4
<b>Bonds</b>						
LCIV MAC Fund	2.6	1.2	n/a	n/a	n/a	n/a
<b>Multi-Asset Credit</b>						
<b>Stabilising Assets</b>						
<b>TOTAL MERTON PENSION FUND</b>	<b>8.0</b>		<b>7.7</b>		<b>10.6</b>	
<b>Strategic Target (5.5% p.a.)</b>	<b>1.3</b>		<b>5.5</b>		<b>5.5</b>	

\* Partial quarter performance shown. These funds were entered into in mid-January 2019 and hence the fund returns are not reflecting the entire of Q1 2018. Returns for private market managers are approximate, and may be low initially due to the J-curve effect.

† Benchmark suspended in Q2 2018 as a result of transition activity. This impacts 3 month, 12 month and 3 year benchmark returns.

# 4 MARKET BACKGROUND

## PERIOD ENDING 31 MAR 2019

### MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	9.4	6.4	9.5
Overseas Developed	9.6	11.3	15.2
North America	11.3	17.5	17.1
Europe (ex UK)	8.1	2.9	11.2
Japan	4.5	-0.9	12.3
Asia Pacific (ex Japan)	7.7	4.8	13.6
Emerging Markets	7.9	1.9	14.5
Frontier Markets	3.5	-15.4	7.0
Property	0.4	5.0	6.5
Hedge Funds**	5.0	-1.2	3.6
Commodities**	14.1	-5.0	4.5
High Yield**	6.3	3.5	7.1
Emerging Market Debt	7.0	4.2	5.8
Senior Secured Loans**	4.5	1.0	3.9
Cash	0.2	0.6	0.4

Yields as at 31 December 2018	% p.a.
UK Equities	4.22
UK Gilts (>15 yrs)	1.48
Real Yield (>5 yrs ILG)	-1.86
Corporate Bonds (>15 yrs AA)	2.36
Non-Gilts (>15 yrs)	2.92

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	6.0	4.7	6.3
Index-Linked Gilts (>5 yrs)	6.3	5.7	9.1
Corporate Bonds (>15 yrs AA)	7.1	6.2	7.6
Non-Gilts (>15 yrs)	7.8	4.9	7.3

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	2.31	-7.11	-3.22
Against Euro	4.16	1.74	-2.74
Against Yen	3.22	-3.32	-3.71

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	-0.2	2.4	3.0
Price Inflation – CPI	-0.1	1.9	2.2
Earnings Inflation*	0.1	3.2	2.6

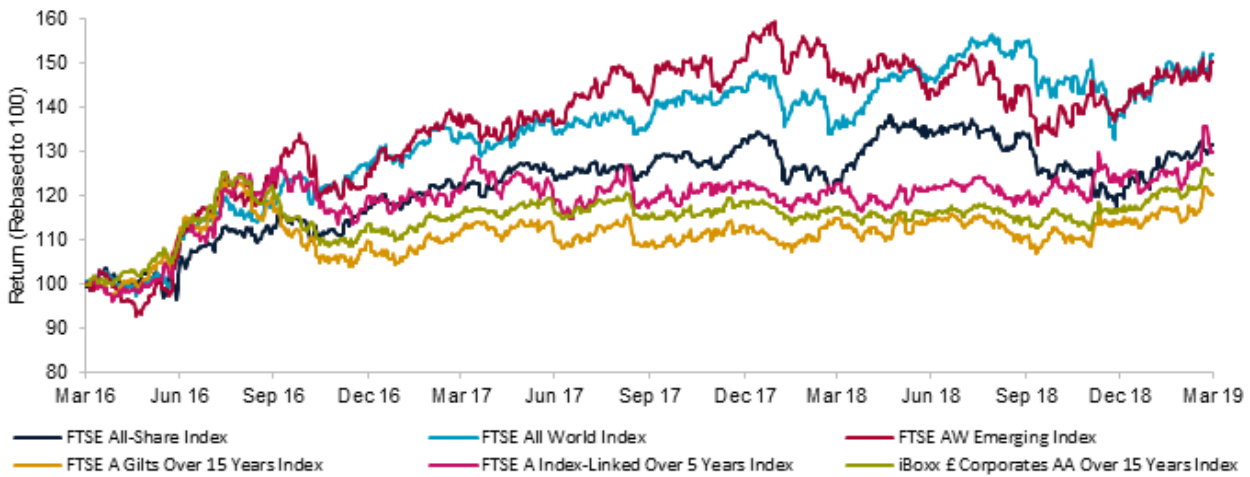
Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-0.24	0.37	0.45
UK Gilts (>15 yrs)	-0.28	-0.15	-0.69
Real Yield (>5 yrs ILG)	-0.27	-0.20	-0.88
Corporate Bonds (>15 yrs AA)	-0.41	-0.22	-1.00
Non-Gilts (>15 yrs)	-0.44	-0.10	-0.79

Source: Thomson Reuters.

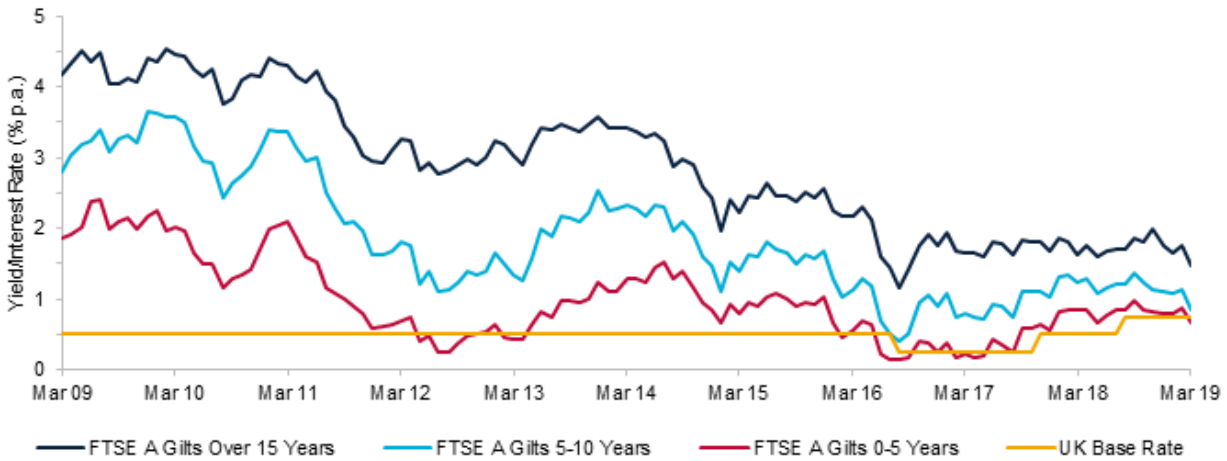
Note: \* Subject to 1 month lag \*\* GBP Hedged

# MARKET SUMMARY CHARTS

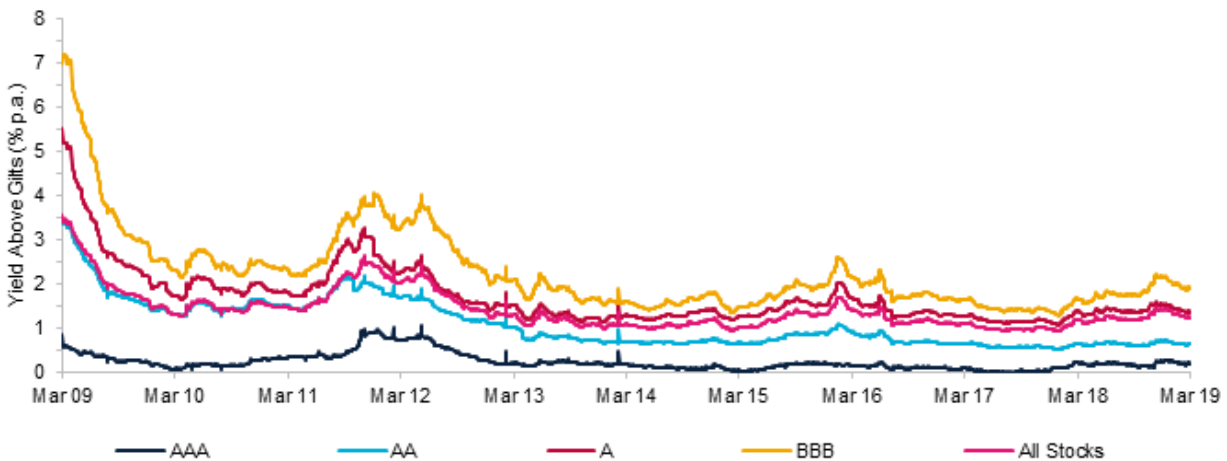
## Market performance – 3 years to 31 March 2019



## UK government bond yields – 10 years to 31 March 2019



## Corporate bond spreads above government bonds – 10 years to 31 March 2019



Source: Thomson Reuters

# 5 MARKET EVENTS

Asset Class	What happened?	
	Positive Factors	Negative Factors
<b>United Kingdom</b>	<ul style="list-style-type: none"> <li>UK equities rose over the quarter in line with the global equity markets, despite the uncertainty over the global economic outlook. Central banks moved towards a more dovish stance, helping fuel the risk-on rally.</li> <li>UK domestic stocks also performed well on the back of expectations of a delay in Brexit.</li> </ul>	<ul style="list-style-type: none"> <li>The IHS Markit/CIPS UK Services PMI fell to 48.9 in March from 51.3 in February, the first contraction in the services sector since July 2016.</li> </ul>
<b>North America</b>	<ul style="list-style-type: none"> <li>The S&amp;P 500 made its best start in 30 years on account of higher than expected earnings for Q4 2018, posting positive returns for all the 3 months.</li> <li>The US Fed left interest rates unchanged and adopted a dovish stance, thereby providing some respite in the cost of borrowing for US corporations.</li> </ul>	<ul style="list-style-type: none"> <li>Earning &amp; revenue forecasts for Q1 2019 are down on concerns of slowing economic growth and fading tax cuts impact. As per data from Factset, the estimated earning decline for S&amp;P 500 would be -3.9%, marking the first YoY decline in earnings since Q2 2016.</li> <li>The US 10 year Treasury yield went below the 3 month yield for first time since 2017, raising concerns of a recession.</li> </ul>
<b>Europe (ex UK)</b>	<ul style="list-style-type: none"> <li>Economic growth in the Eurozone continued to remain positive with the Q4 2018 GDP growing at 1.2% YoY. While the growth rate has moderated slightly, it remains healthy.</li> <li>The European Central Bank (ECB) has committed to maintaining its interest rates at the current levels through 2019. It has also announced several schemes to inject liquidity into the economy.</li> </ul>	<ul style="list-style-type: none"> <li>Inflation in the Eurozone reached a two-year low in March. The annual headline inflation number came in at 1.4%, down from the high of 2.1% seen in last year. Core inflation still remains subdued at 0.8%, significantly below the ECB's target of 2.0%.</li> </ul>
<b>Japan</b>	<ul style="list-style-type: none"> <li>Nikkei rose over the quarter as the Yen depreciated amidst a risk-on sentiment. Corporate earnings improved due to developments in Japan's domestic economy.</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing uncertainty around the US-China trade dispute adversely impacted the economy. Weakening of global auto sales and Chinese demand for capex goods led to a downgrade of EPS estimates.</li> </ul>
<b>Asia Pacific (ex Japan)</b>	<ul style="list-style-type: none"> <li>Signs of progress in US-China trade negotiation and delay in the imposition of further tariff on Chinese goods by the US was welcomed by the markets.</li> </ul>	<ul style="list-style-type: none"> <li>Economic growth over the quarter was largely subdued due to weak macroeconomics data from the US and China.</li> </ul>
<b>Emerging Markets</b>	<ul style="list-style-type: none"> <li>The MSCI Emerging Markets Index started 2019 on a positive note. The index was up by 7.4%, mainly led by China. Markets reacted positively to the US Fed's dovish stance and Trump's decision to suspend further tariffs on China.</li> </ul>	<ul style="list-style-type: none"> <li>Chinese economic data over January and February raised concerns over slowdown in Chinese economy.</li> </ul>

Asset Class	What happened?	
	Positive Factors	Negative Factors
<b>Conventional Gilts</b>	<ul style="list-style-type: none"> <li>UK nominal gilts performed well as yields fell across all maturities over the quarter, especially in March.</li> <li>Globally, government bonds rallied following the dovish stance of the US Federal Reserve, indicating no rate hikes for this year.</li> <li>Demand for gilts remains robust and auctions by the DMO continue to be oversubscribed.</li> </ul>	
<b>Index-Linked Gilts</b>	<ul style="list-style-type: none"> <li>UK index-linked gilts performed well as yields fell across all maturities over the quarter.</li> <li>Demand for index-linked gilts remains robust and auctions by the DMO continue to be oversubscribed.</li> </ul>	
<b>Corporate Bonds</b>	<ul style="list-style-type: none"> <li>UK corporate bonds generated positive returns over the quarter as corporate bond yields fell owing to narrower credit spreads and a fall in gilt yields. Whilst gilt yields fell primarily in the month of March, credit spreads narrowed mainly in the first two months of the quarter on the back of a risk-on rally.</li> <li>Across the various sectors, credit spreads narrowed with the capital goods and insurance sectors being the best performer over the quarter.</li> </ul>	
<b>Commodities</b>	<ul style="list-style-type: none"> <li>Energy prices led the increase in the S&amp;P GSCI Spot Index over Q1 as crude oil prices rebounded due to production cuts from OPEC and other oil producers. Base metals also moved higher amid positive signs emanating from US-China trade talks.</li> </ul>	<ul style="list-style-type: none"> <li>Record levels of US crude oil production limited the price increase. Downward revision of global growth by the OECD also put downward pressure on commodity prices.</li> </ul>
<b>UK Property</b>		<ul style="list-style-type: none"> <li>In Q1 2019, the Brexit-related uncertainties continued to affect UK construction activities. The IHS Markit/CIPS UK construction purchasing managers' index fell to a three quarter low at 49.7, below the 50 threshold level. Commercial construction was the worst performing sector, with business activity falling to the greatest extent since March 2018.</li> </ul>



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