











MERTON PENSION FUND
INVESTMENT PERFORMANCE REVIEW
QUARTER ENDING 30 JUNE 2019

1 STRATEGIC ASSET ALLOCATION

30 JUNE 2019

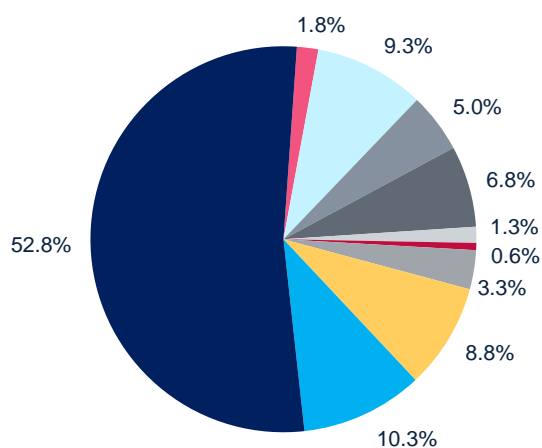
Allocation by underlying asset class

Asset Class		Market Value £000s	Actual Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities		403,102	52.8	40.0	12.8	15-85
Emerging Market Equities		78,249	10.3	10.0	0.3	0-20
Diversified Growth Fund		67,306	8.8	10.0	-1.2	0-20
Property		24,961	3.3	5.0	-1.7	0-10
Private Credit		4,580	0.6	7.5	-6.9	0-10
Infrastructure		10,238	1.3	7.5	-6.2	0-15
Long Index Linked Gilts		51,974	6.8	10.0	-3.2	0-30
Corporate Bonds		38,031	5.0	-	5.0	0-10
Multi Asset Credit		70,584	9.3	10.0	-0.7	0-20
Cash		13,704	1.8	-	1.8	-
TOTAL MERTON PENSION FUND		762,729	100.0	100.0	-	

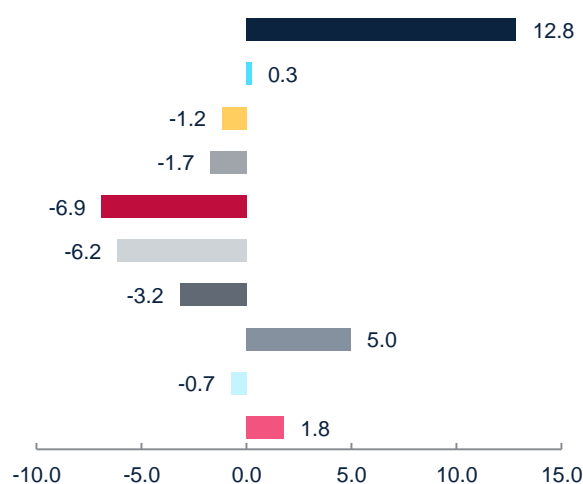
Points to note

- 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 increased to 52.8% over the quarter, thereby being 12.8% 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 30 June 2019



Deviation from Strategic Allocation (%)



2 VALUATION SUMMARY

31 MAR 2019 TO 30 JUNE 2019

Manager / Fund	31-March-19				30-June-19	
	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS - Passive Equity	89,659	12.4	-	5,792	95,451	12.5
UBS – Alternative Beta	70,606	9.8	-	4,398	75,004	9.8
LCIV RBC Sustainable Equity Fund	74,694	10.4	-	5,543	80,238	10.5
LCIV Global Alpha Growth Fund	71,067	9.9	-	5,470	76,537	10.0
BlackRock World Low Carbon Equity Tracker Fund	70,381	9.8	-	5,490	75,872	9.9
Global Equities	376,408	52.2			403,102	52.8
Aberdeen Emerging Market Equities Fund	29,050	4.0	-	1,859	30,910	4.1
UBS – HALO EM Fund	45,916	6.4	-	1,423	47,339	6.2
Emerging Market Equities	74,966	10.4			78,249	10.3
LCIV Global Total Return Fund	33,671	4.7	-	369	34,041	4.5
LCIV Diversified Growth Fund	32,924	4.6	-	342	33,266	4.4
Diversified Growth Fund	66,595	9.2			67,306	8.8
UBS Triton Property Unit Trust	16,967	2.4	-	110	17,077	2.2
BlackRock UK Property Fund	7,918	1.1	-	-	7,884	1.0
Property	24,885	3.5			24,961	3.3
MIRA Infrastructure Global Solution II, L.P.*	1,156	0.2	3,474	117	4,746	0.6
Quinbrook Low Carbon Power LP	4,385	0.6	887	220	5,492	0.7
Infrastructure	5,541	0.8			10,238	1.3
Churchill Middle Market Senior Loan Fund II	2,532	0.4	1,930	118	4,580	0.6
Private Credit	2,532	0.4			4,580	0.6
Growth Assets	550,925	76.4			588,436	77.1
Aberdeen Bonds	87,567	12.2	-	2,438	90,005	11.8
Bonds	87,567	12.2			90,005	11.8
LCIV MAC Fund	69,360	9.6	-	1,224	70,584	9.3
Multi Asset Credit	69,360	9.6			70,584	9.3
Stabilising Assets	156,927	21.8			160,589	21.1
Cash	12,819	1.8	885	-	13,704	1.8
TOTAL MERTON PENSION FUND	720,673	100.0			762,729	100.0

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

* Valuation as at 30.06.2019 for MIRA Infrastructure Global Solution II, L.P. is based on the March valuation plus cashflows in Q2 2019. The growth in the quarter is therefore solely due to currency movements. Up to date manager data is not available until 120 days after quarter end.

3 PERFORMANCE SUMMARY

PERIOD ENDING 30 JUNE 2019

Manager / Fund	3 months %		12 months %		3 years % p.a.	
	Fund	Bmark	Fund	Bmark	Fund	Bmark
UBS- Passive Equity Fund*	6.5	n/a	6.6	n/a	11.8	n/a
UBS – Alternative Beta	6.2	6.1	n/a	n/a	n/a	n/a
LCIV RBC Sustainable Equity Fund	7.4	6.5	12.8	10.3	n/a	n/a
LCIV Global Alpha Growth Fund	7.7	6.2	9.2	10.5	n/a	n/a
BlackRock World Low Carbon Equity Tracker Fund	7.8	7.6	n/a	n/a	n/a	n/a
Global Equities						
Aberdeen Global Emerging Market Equities Fund	5.2	3.1	12.1	5.4	n/a	n/a
UBS – HALO EM Fund	2.9	3.0	n/a	n/a	n/a	n/a
Emerging Market Equities						
LCIV Global Total Return Fund	1.1	2.8	2.5	8.0	n/a	n/a
LCIV Diversified Growth Fund	1.0	1.1	2.4	4.3	n/a	n/a
DGF						
UBS Triton Property Unit Trust	0.7	0.6	4.7	3.4	6.8	6.3
BlackRock UK Property Fund	0.4	0.6	3.4	3.4	5.7	6.3
Property						
MIRA Infrastructure Global Solution II, L.P.**	n/a	n/a	n/a	n/a	n/a	n/a
Quinbrook Low Carbon Power LP	4.7	1.8	n/a	n/a	n/a	n/a
Infrastructure						
Churchill Middle Market Senior Loan Fund II	4.6	1.8	n/a	n/a	n/a	n/a
Private Credit						
Growth Assets						
Aberdeen Bonds Portfolio	2.9	3.0	9.0	9.0	5.0	4.8
Bonds						
LCIV MAC Fund	1.7	1.2	3.9	4.8	n/a	n/a
Multi-Asset Credit						
Stabilising Assets						
TOTAL MERTON PENSION FUND						
	4.8		7.9		9.7	
Strategic Target (5.5% p.a.)	1.3		5.5		5.5	

Returns for private market managers are approximate, and may be low initially due to the J-curve effect. Private market investment performance is calculated on an IRR basis. All other manager performance is calculated using time-weighted rate of return.

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

** Performance is not shown as June data is only available 120 days after quarter end. In future reports, returns for this manager will be included on a 1 quarter lagged basis

4 MARKET BACKGROUND

PERIOD ENDING 30 JUNE 2019

MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	3.3	0.6	9.0
Overseas Developed	6.7	11.0	14.4
North America	6.8	14.1	15.9
Europe (ex UK)	8.8	8.0	12.8
Japan	2.9	-1.2	10.2
Asia Pacific (ex Japan)	5.9	6.4	12.9
Emerging Markets	3.8	8.3	12.5
Frontier Markets	8.6	4.3	8.0
Hedge Funds**	2.3	2.5	4.3
Commodities**	-2.2	-13.7	0.2
High Yield**	2.3	6.5	6.1
Emerging Market Debt	8.2	13.1	5.9
Senior Secured Loans**	1.1	2.1	3.4
Cash	0.2	0.7	0.4

Yields as at 31 December 2018	% p.a.
UK Equities	4.13
UK Gilts (>15 yrs)	1.40
Real Yield (>5 yrs ILG)	-1.90
Corporate Bonds (>15 yrs AA)	2.25
Non-Gilts (>15 yrs)	2.78

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	2.0	7.2	3.1
Index-Linked Gilts (>5 yrs)	2.0	9.1	6.0
Corporate Bonds (>15 yrs AA)	2.6	10.7	5.2
Non-Gilts (>15 yrs)	3.1	9.6	5.6

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-2.33	-3.60	-1.62
Against Euro	-3.70	-1.16	-2.43
Against Yen	-4.93	-6.23	0.00

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	1.6	2.9	3.3
Price Inflation – CPI	0.9	2.0	2.4
Earnings Inflation*	2.0	3.8	2.9

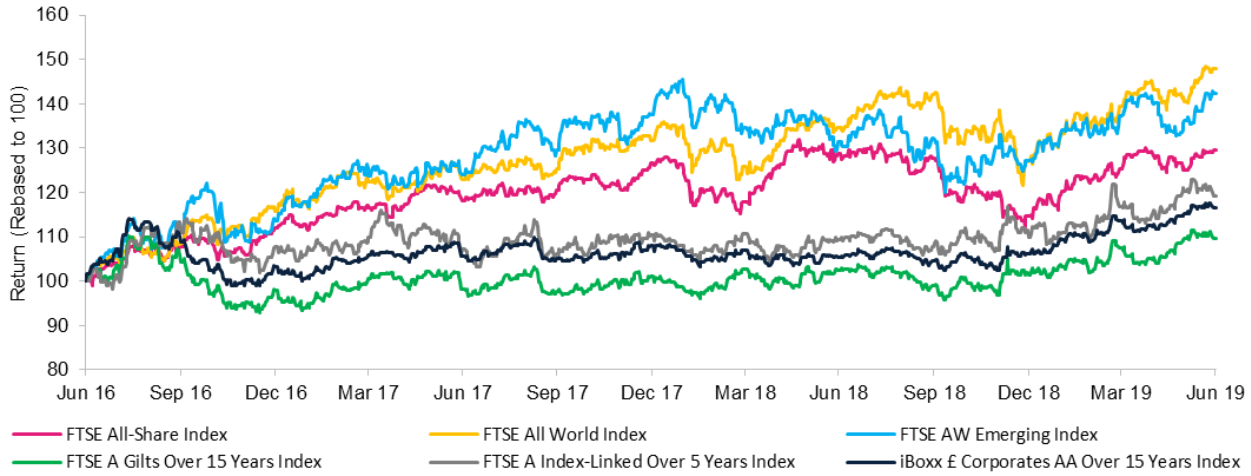
Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-0.09	0.49	0.47
UK Gilts (>15 yrs)	-0.08	-0.27	-0.21
Real Yield (>5 yrs ILG)	-0.04	-0.31	-0.51
Corporate Bonds (>15 yrs AA)	-0.11	-0.47	-0.50
Non-Gilts (>15 yrs)	-0.10	-0.32	-0.28

Source: Thomson Reuters.

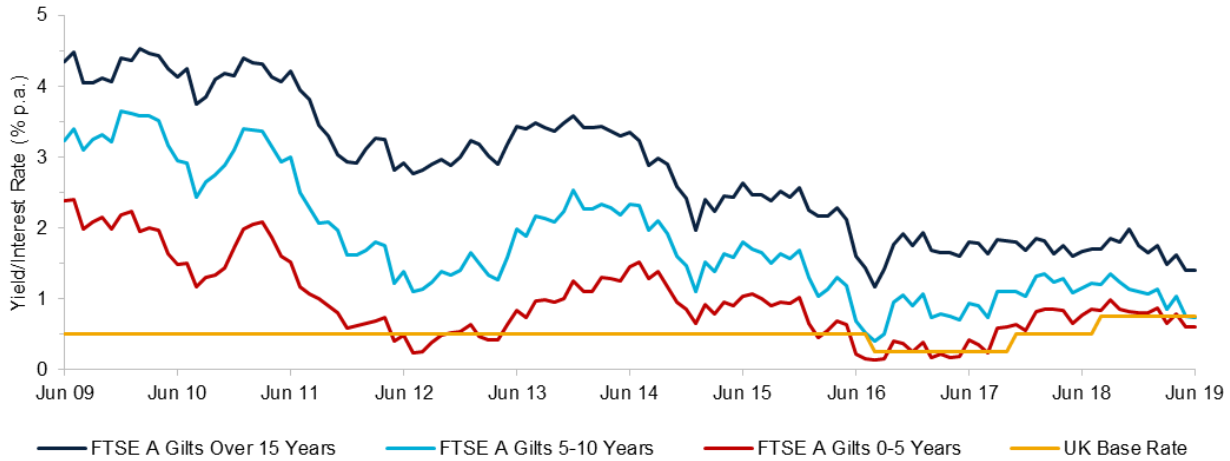
Note: * Subject to 1 month lag ** Local Currency / GBP Hedged

MARKET SUMMARY CHARTS

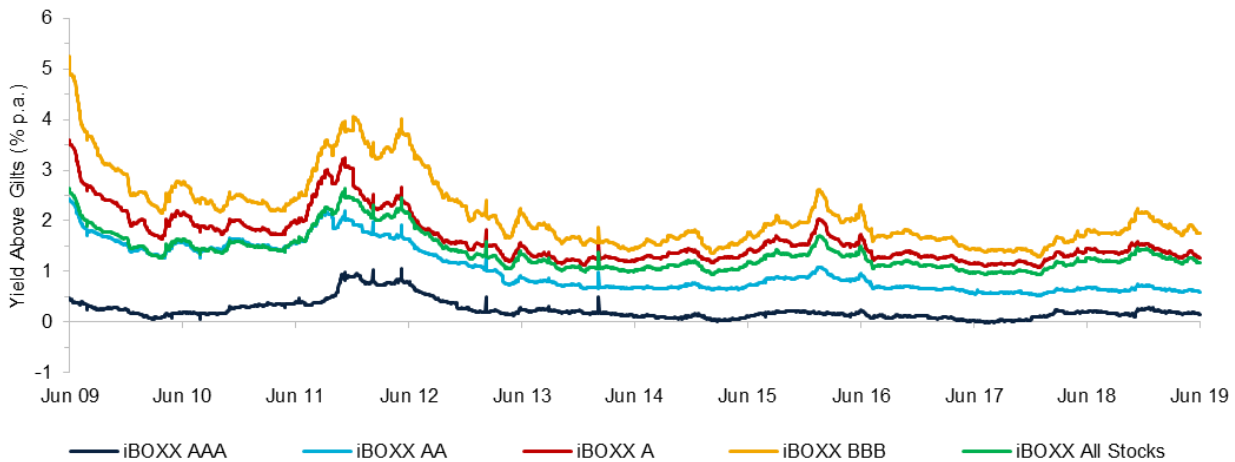
Market performance – 3 years to 30 June 2019



UK government bond yields – 10 years to 30 June 2019



Corporate bond spreads above government bonds – 10 years to 30 June 2019



Source: Thomson Reuters

5 MARKET EVENTS

Asset Class	What happened?	
	Positive Factors	Negative Factors
United Kingdom	<ul style="list-style-type: none"> The FTSE 100 gained 3.3% over the quarter finishing Q2 2019 at a near nine-month high. The index posted strong returns despite the uncertainty surrounding global trade conflicts and Brexit. UK dividends remain a robust source of investment income despite reported headwinds, most notably Brexit. 	<ul style="list-style-type: none"> The Markit Manufacturing PMI slipped below 50 for the first time since July 2016, thus signalling a contraction in the manufacturing sector.
North America	<ul style="list-style-type: none"> Indications of progress in trade talks, and the dovish rhetoric of the US Federal Reserve (Fed), which marked a shift from its hawkish rhetoric displayed earlier in the year, propelled US equity markets to a record high. The S&P 500 closed the quarter 4.3% higher. 	
Europe (ex UK)	<ul style="list-style-type: none"> Economic growth in the Eurozone continued to remain positive with the Q1 2019 GDP growing at 1.5% YoY, up from a growth rate of 1.2% YoY seen in Q4 2018. The European Central Bank (ECB) committed to not hiking interest rates until the first half of 2020. It has also announced several measures to inject further liquidity and has left the door open to re-introduce quantitative easing measures. 	<ul style="list-style-type: none"> Inflation in the Eurozone continues to remain tepid. The annual headline inflation came in at 1.2% in June, down from 1.4% seen in March. Core inflation remains subdued at 1.1%, significantly below ECB's target level of 2.0%.
Japan		<ul style="list-style-type: none"> Japanese equities have seen a sell-off since the start of 2019 with concerns over the impact of the trade war, a strengthening Yen, and a looming increase in the sales tax. US-China trade tensions have led to weak external demand and low export growth.
Asia Pacific (ex Japan)		<ul style="list-style-type: none"> Major economies in the APAC region lost value over Q2 amid renewed trade tension between China and the US.
Emerging Markets	<ul style="list-style-type: none"> The MSCI Emerging Markets Index ended Q2 2019 on a positive note, with the index up by 2.0%. Markets reacted positively to the Fed's dovish stance. 	
Conventional Gilts	<ul style="list-style-type: none"> UK nominal gilts performed well as yields fell across all maturities over the quarter, 	

Asset Class	What happened?	
	Positive Factors	Negative Factors
	<p>especially in the latter half of the quarter.</p> <ul style="list-style-type: none"> Globally, government bonds rallied following weak economic data, lower inflation expectations and risks arising from the ongoing trade conflicts. Additionally, the dovish stance of the major central banks of the world supported government bonds. Demand for gilts remains robust and auctions by the DMO continue to be oversubscribed.. 	
Index-Linked Gilts	<ul style="list-style-type: none"> UK index-linked gilts performed well as yields fell across most of the maturities over the quarter, especially in the latter half of the quarter. Sterling depreciated over the quarter, leading to expectations of higher inflation through imports. This resulted in increased demand for this asset class. Demand for index-linked gilts remains robust and auctions by the DMO continue to be oversubscribed. 	
Corporate Bonds	<ul style="list-style-type: none"> 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. Apart from the technology sector, all the sectors witnessed narrower credit spreads over the quarter. The utility, insurance, telecommunications, and services sectors were the best performers. 	
Commodities	<ul style="list-style-type: none"> Precious metals recorded modest gains over the quarter, led by gold which rose by 9.1%. 	<ul style="list-style-type: none"> The S&P GSCI Spot Index posted a negative return over the quarter amid geopolitical tensions and uncertainties surrounding global trade.
UK Property		<ul style="list-style-type: none"> In Q2 2019, political and economic uncertainties continued to affect UK construction activities. The IHS Markit/CIPS UK construction purchasing managers' index fell to 43.1 from 49.7 a quarter ago; the decline has been the worst since April 2009 and far below the 50 threshold level. All categories of construction activities (housebuilding, commercial and civil engineering) fell during the quarter.

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