











MERTON PENSION FUND
INVESTMENT PERFORMANCE REVIEW
QUARTER ENDING 30 SEPTEMBER 2019

1 STRATEGIC ASSET ALLOCATION

30 SEPTEMBER 2019

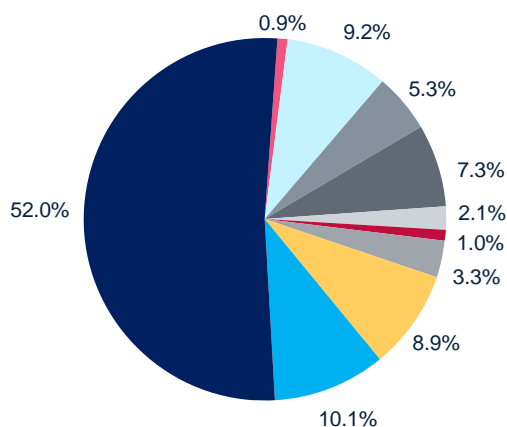
Allocation by underlying asset class

Asset Class		Market Value £000s	Actual Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities		399,962	52.0	40.0	12.0	15-85
Emerging Market Equities		77,707	10.1	10.0	0.1	0-20
Diversified Growth Fund		68,330	8.9	10.0	-1.1	0-20
Property		25,060	3.3	5.0	-1.7	0-10
Private Credit		7,591	1.0	7.5	-6.5	0-10
Infrastructure		16,007	2.1	7.5	-5.4	0-15
Long Index Linked Gilts		56,572	7.4	10.0	-2.6	0-30
Corporate Bonds		40,536	5.3	-	5.3	0-10
Multi Asset Credit		70,924	9.2	10.0	-0.8	0-20
Cash		7,024	0.9	-	0.9	-
TOTAL MERTON PENSION FUND		769,713	100.0	100.0	-	

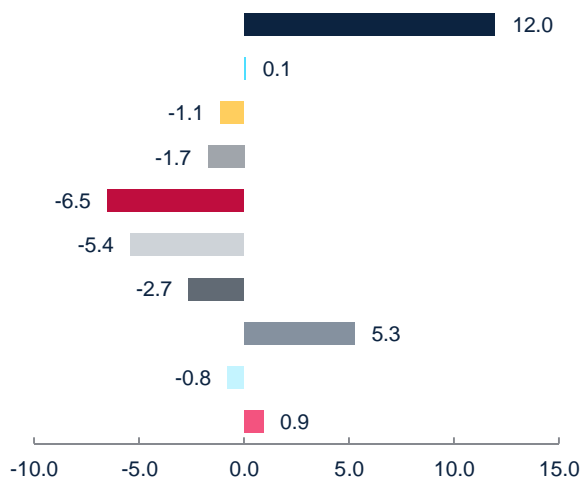
Points to note

- 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 reduced to 52.0% over the quarter, thereby being 12.0% 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 Sept 2019



Deviation from Strategic Allocation (%)



Note: Totals may not sum due to rounding.

2 VALUATION SUMMARY

30 JUNE 2019 TO 30 SEPTEMBER 2019

Manager / Fund	30-June-19				30-September-19	
	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS - Passive Equity	95,451	12.5	-15,000	3,706	84,157	10.9
UBS – Alternative Beta	75,004	9.8	-	3,482	78,486	10.2
LCIV RBC Sustainable Equity Fund	80,238	10.5	-	924	81,162	10.5
LCIV Global Alpha Growth Fund	76,537	10.0	-	506	77,043	10.0
BlackRock World Low Carbon Equity Tracker Fund	75,872	9.9	-	3,241	79,113	10.3
Global Equities	403,102	52.8			399,962	52.0
Aberdeen Emerging Market Equities Fund	30,910	4.1	-	-517	30,393	3.9
UBS – HALO EM Fund	47,339	6.2	-	-25	47,314	6.1
Emerging Market Equities	78,249	10.3			77,707	10.1
LCIV Global Total Return Fund	34,041	4.5	-	300	34,341	4.5
LCIV Diversified Growth Fund	33,266	4.4	-	724	33,989	4.4
Diversified Growth Fund	67,306	8.8			68,330	8.9
UBS Triton Property Unit Trust	17,077	2.2	-	143	17,220	2.2
BlackRock UK Property Fund	7,884	1.0	-	-44	7,840	1.0
Property	24,961	3.3			25,060	3.3
MIRA Infrastructure Global Solution II, L.P.*	4,746	0.6	3,319	102	8,167	1.1
Quinbrook Low Carbon Power LP	5,492	0.7	1,947	402	7,840	1.0
Infrastructure	10,238	1.3			16,007	2.1
Permira Credit Solutions IV	237	0.0	2,391	398	2,789	0.4
Churchill Middle Market Senior Loan Fund II	4,580	0.6	-	222	4,802	0.6
Private Credit	4,816	0.6			7,591	1.0
Growth Assets	588,673	77.2			594,657	77.3
Aberdeen Bonds	90,005	11.8	-	7,103	97,108	12.6
Bonds	90,005	11.8			97,108	12.6
LCIV MAC Fund	70,584	9.3	-	340	70,924	9.2
Multi Asset Credit	70,584	9.3			70,924	9.2
Stabilising Assets	160,589	21.1			168,032	21.8
Cash	13,704	1.8	-6,681	-	7,024	0.9
TOTAL MERTON PENSION FUND	762,967	100.0			769,713	100.0

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

* Valuation as at 30.09.2019 for MIRA Infrastructure Global Solution II, L.P. is based on the March valuation plus cashflows in Q3 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 SEPTEMBER 2019

Manager / Fund	3 months %		12 months %		3 years % p.a.	
	Fund	Bmark	Fund	Bmark	Fund	Bmark
UBS- Passive Equity Fund*	3.9	n/a	7.6	n/a	10.3	n/a
UBS – Alternative Beta	4.7	4.6	n/a	n/a	n/a	n/a
LCIV RBC Sustainable Equity Fund	1.2	3.8	8.4	7.8	n/a	n/a
LCIV Global Alpha Growth Fund	0.7	3.4	6.7	8.2	n/a	n/a
BlackRock World Low Carbon Equity Tracker Fund	4.3	4.1	n/a	n/a	n/a	n/a
Global Equities						
Aberdeen Global Emerging Market Equities Fund	-1.4	-1.0	9.7	4.1	n/a	n/a
UBS – HALO EM Fund	-0.2	-1.1	n/a	n/a	n/a	n/a
Emerging Market Equities						
LCIV Global Total Return Fund	0.9	1.7	2.6	7.6	n/a	n/a
LCIV Diversified Growth Fund	2.2	1.1	4.5	4.3	n/a	n/a
Diversified Growth Fund						
UBS Triton Property Unit Trust	0.9	0.4	4.1	2.2	7.7	6.7
BlackRock UK Property Fund	0.2	0.4	1.9	2.2	6.5	6.7
Property						
MIRA Infrastructure Global Solution II, L.P.	1.6	1.8	n/a	n/a	n/a	n/a
Quinbrook Low Carbon Power LP	6.0	1.8	n/a	n/a	n/a	n/a
Infrastructure						
Permira Credit Solutions IV**	n/a	n/a	n/a	n/a	n/a	n/a
Churchill Middle Market Senior Loan Fund II	4.9	1.8	n/a	n/a	n/a	n/a
Private Credit						
Growth Assets						
Aberdeen Bonds Portfolio	8.0	7.8	19.1	18.9	5.1	4.8
Bonds						
LCIV MAC Fund	0.6	1.2	3.0	4.9	n/a	n/a
Multi-Asset Credit						
Stabilising Assets						
TOTAL MERTON PENSION FUND						
	2.7		8.4		8.9	
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.

**The Fund invested into the Permira Credit Solutions IV on 26th September 2019. Insufficient data to provide performance figures at this time.

4 MARKET BACKGROUND

PERIOD ENDING 30 SEPT 2019

MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	1.3	2.7	6.8
Overseas Developed	3.9	8.2	12.8
North America	4.9	10.4	15.1
Europe (ex UK)	1.6	6.3	10.0
Japan	6.6	0.3	8.4
Asia Pacific (ex Japan)	-1.6	3.7	8.1
Emerging Markets	-0.5	7.1	8.4
Frontier Markets	-7.0	0.2	3.2
Hedge Funds**	0.3	2.1	3.8
Commodities**	-4.7	-18.5	-0.3
High Yield**	0.9	5.4	4.6
Emerging Market Debt	2.5	16.5	4.9
Senior Secured Loans**	0.9	1.4	2.7
Cash	0.2	0.7	0.5

Yields as at 30 September 2019	% p.a.
UK Equities	4.21
UK Gilts (>15 yrs)	0.91
Real Yield (>5 yrs ILG)	-2.20
Corporate Bonds (>15 yrs AA)	1.81
Non-Gilts (>15 yrs)	2.33

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	11.0	23.0	5.3
Index-Linked Gilts (>5 yrs)	8.7	20.3	5.3
Corporate Bonds (>15 yrs AA)	8.5	21.0	5.2
Non-Gilts (>15 yrs)	7.8	19.3	4.8

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-3.2	-5.5	-1.7
Against Euro	1.1	0.7	-0.7
Against Yen	-2.9	-10.1	0.41

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.5	2.4	3.2
Price Inflation – CPI	0.5	1.7	2.4
Earnings Inflation*	0.9	3.4	3.1

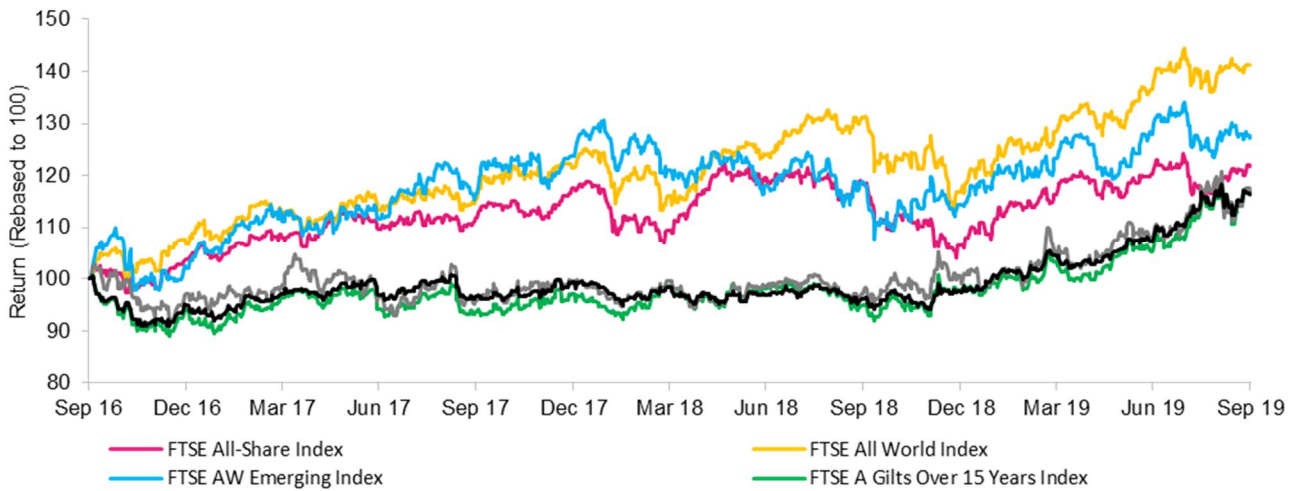
Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	0.08	0.41	0.75
UK Gilts (>15 yrs)	-0.49	-0.95	-0.51
Real Yield (>5 yrs ILG)	-0.31	-0.71	-0.42
Corporate Bonds (>15 yrs AA)	-0.44	-1.00	-0.42
Non-Gilts (>15 yrs)	-0.45	-0.94	-0.27

Source: Thomson Reuters.

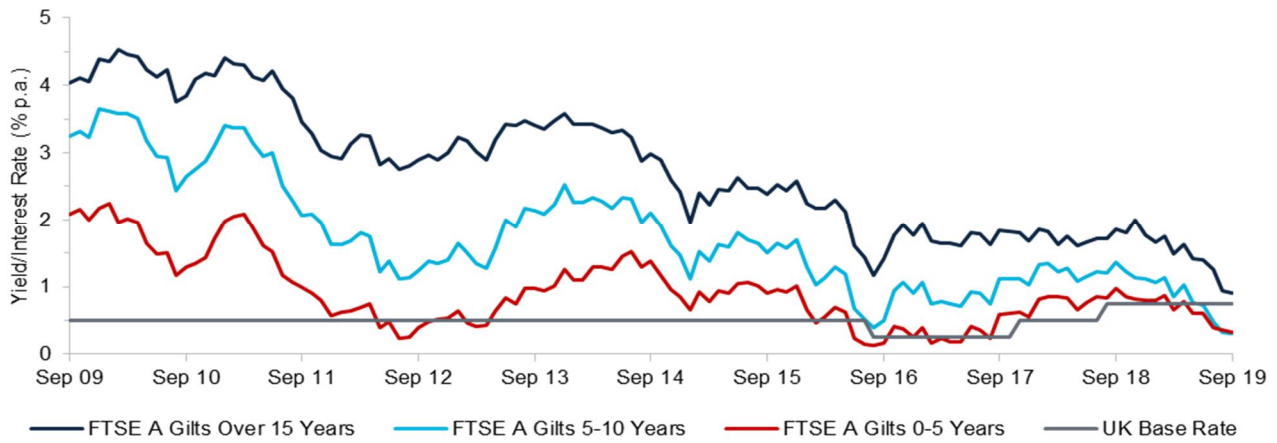
Note: * Subject to 1 month lag ** Local Currency / GBP Hedged

MARKET SUMMARY CHARTS

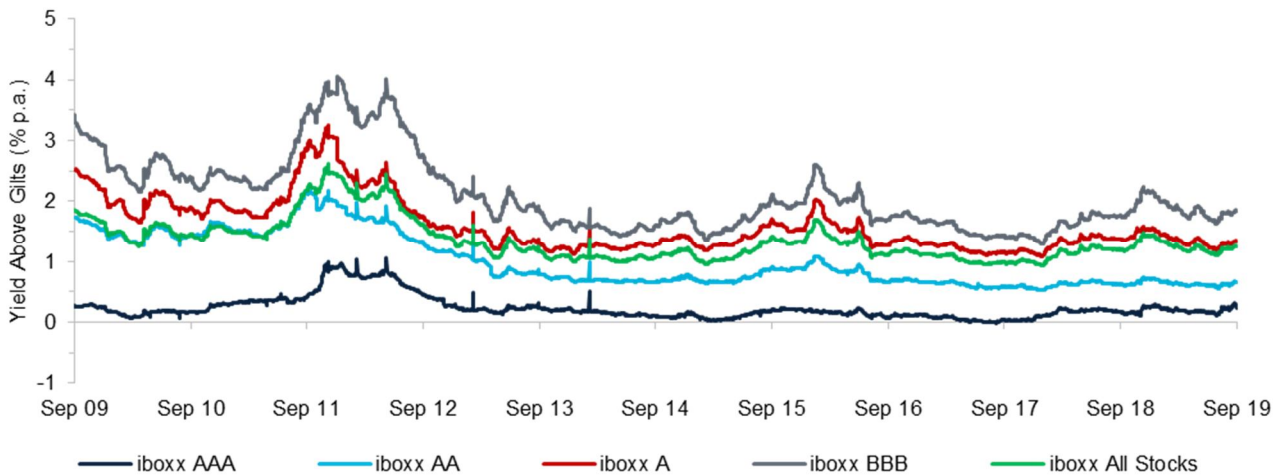
Market performance – 3 years to 30 September 2019



UK government bond yields – 10 years to 30 September 2019



Corporate bond spreads above government bonds – 10 years to 30 September 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 posted a modest positive return of 1.0% over the quarter despite uncertainties surrounding global economic growth and Brexit. Index performance was primarily driven by defensive and quality sectors. 	<ul style="list-style-type: none"> Data released by the Office of National Statistics showed that the UK economy contracted by 0.2% over Q2 2019. The contraction was primarily due to Brexit uncertainties and a reduction of stockpiles in the manufacturing sector.
North America	<ul style="list-style-type: none"> The S&P 500 posted positive returns over the quarter, with most of the gains coming in during the latter half of the quarter. Monetary easing by the US Federal Reserve with an interest rate cut in the month of July and September supported this asset class. 	<ul style="list-style-type: none"> Concerns over a weak global economic outlook and the ongoing trade conflicts capped equity market gains.
Europe (ex UK)	<ul style="list-style-type: none"> Equity markets closed the quarter in the green despite concerns over trade wars and global growth. The European Central Bank (ECB) cut its interest rates to a record low of -0.5%. It also announced the resumption of its quantitative easing programme, with the purchase of assets worth €20 billion a month for an indefinite period. 	<ul style="list-style-type: none"> The Eurozone economy grew at 0.2% over Q2 2019, significantly lower than the 0.4% seen in Q1 2019. Germany registered a GDP contraction of 0.1%, primarily due to trade conflicts and a global economic slowdown. Inflation in the Eurozone continued to remain subdued. The headline annual inflation came in at 0.9% in September, marking a near three year low. Core inflation too remains tepid, at 1%. The current inflation levels remain significantly below the ECB's target of 2.0%.
Japan	<ul style="list-style-type: none"> Japanese equities rose during the quarter, especially in the first half of September. Expectations of monetary stimulus from major global central banks led to a depreciation of the Japanese Yen, benefiting the export-oriented Japanese equity market. 	
Asia Pacific (ex Japan)		<ul style="list-style-type: none"> Escalating trade tensions between the US and China negatively impacted equity markets of this region.
Emerging Markets		<ul style="list-style-type: none"> Ongoing trade talks between the US and China coupled with global recession fears continues to loom over emerging markets. Due to this, the MSCI Emerging Markets Index posted a negative return of 0.5% over Q3 2019.
Conventional	<ul style="list-style-type: none"> UK nominal gilts performed well as yields 	

Asset Class	What happened?	
	Positive Factors	Negative Factors
Gilts	<p>fell across all maturities over the quarter, flattening the yield curve. The yield curve inverted for UK nominal gilts maturing within five years.</p> <ul style="list-style-type: none"> • Globally, government bonds rallied on concerns over the ongoing trade conflicts and subdued economic growth. Additionally, in the UK, increased expectations for an interest rate cut this year by the Bank of England and rising possibility of a no-deal Brexit supported this asset class. • Demand for nominal 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 all maturities over the quarter. In contrast to the UK nominal yield curve, the UK index-linked yield curve steepened over the quarter as inflation expectations rose over the medium-term. • Sterling depreciated during 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, despite wider credit spreads, as corporate bond yields fell owing to a fall in gilt yields. • Yields for longer-dated bonds fell more than those for the shorter-dated bonds, flattening the yield curve. 	<ul style="list-style-type: none"> • Most of the sectors witnessed wider credit spreads over the quarter.
Commodities	<ul style="list-style-type: none"> • Precious metals were positive over the quarter, posting a 7.1% gain. 	<ul style="list-style-type: none"> • The S&P GSCI Spot Index posted a negative return over the quarter due to a strengthening US Dollar and geopolitical tensions.
UK Property		<ul style="list-style-type: none"> • In Q3 2019, Brexit-related uncertainties continued to affect UK construction activities. The IHS Markit/CIPS UK construction purchasing managers' index fell to 43.3 and marked the third consecutive decline for the index. All categories of construction activities (housebuilding, commercial and civil engineering) fell during the quarter.

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