

MERTON PENSION FUND
INVESTMENT PERFORMANCE REVIEW
QUARTER ENDING 30 JUNE 2020

SHORT REPORT



STRATEGIC ASSET ALLOCATION

30 JUNE 2020

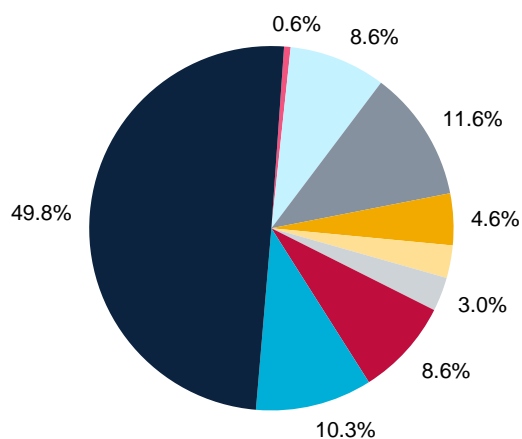
Allocation by underlying asset class

Asset Class	Market Value £000s	Actual Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	390,458	49.8	40.0	9.8	15-85
Emerging Market Equities	81,212	10.3	10.0	0.3	0-20
Diversified Growth Fund	67,471	8.6	10.0	-1.4	0-20
Property	23,658	3.0	5.0	-2.0	0-10
Private Credit	22,719	2.9	7.5	-4.6	0-10
Infrastructure	35,986	4.6	7.5	-2.9	0-15
Bonds	91,386	11.6	10.0	1.6	0-30
Multi Asset Credit	67,362	8.6	10.0	-1.4	0-20
Cash	4,555	0.6	0.0	0.6	-
TOTAL MERTON PENSION FUND	784,807	100.0	100.0	-	

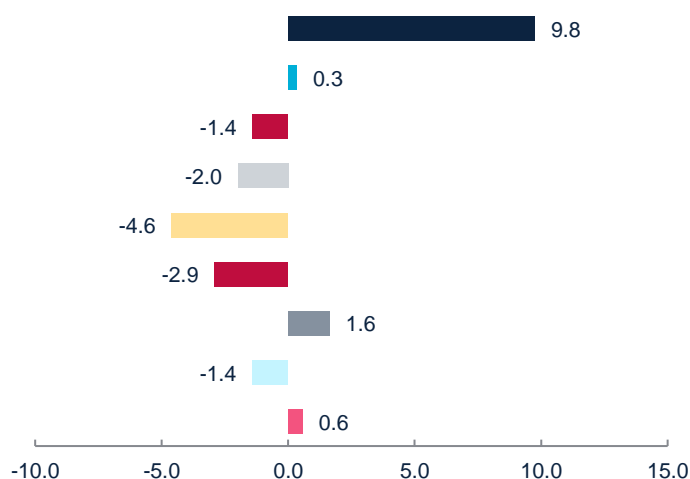
Points to note

- 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, in particular the less liquid ones such as private credit and infrastructure, will be under or overweight for an interim period until the portfolio is fully constructed.
- The allocation to Global Equities increased by c.2% to 49.8% over the quarter, thereby being 9.8% overweight relative to its strategic allocation. However, this allocation will fall over time as the Fund transitions the remaining c.£55.4m from UBS Passive Equity to Private Credit and Infrastructure.

Actual Asset Allocation as at 30 June 2020



Deviation from Strategic Allocation (%)



Note: Totals may not sum due to rounding.

VALUATION SUMMARY

31 MAR 2020 TO 30 JUN 2020

Manager / Fund	31 March 2020				30 June 2020	
	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS Passive Equity	52,116	7.6	-7,000	10,309	55,425	7.1
UBS Alternative Beta	66,021	9.6	-	10,510	76,531	9.8
LCIV RBC Sustainable Equity Fund	71,357	10.4	-	16,347	87,704	11.2
LCIV Global Alpha Growth Fund	70,161	10.2	-	19,606	89,767	11.4
BlackRock World Low Carbon Equity Tracker Fund	68,529	10.0	-	12,502	81,031	10.3
Global Equities	328,185	47.7			390,458	49.8
UBS HALO EM Fund	41,305	6.0	-	8,685	49,990	6.4
LCIV Emerging Market Equity Fund	25,753	3.7	-	5,469	31,222	4.0
Emerging Market Equities	67,058	9.7			81,212	10.3
LCIV Global Total Return Fund	32,909	4.8	-	2,024	34,933	4.4
LCIV Diversified Growth Fund	30,019	4.4	-	2,519	32,538	4.1
Diversified Growth Fund	62,928	9.1			67,471	8.6
UBS Triton Property Unit Trust	16,834	2.4	-136	-443	16,255	2.1
BlackRock UK Property Fund	7,553	1.1	-	-150	7403	0.9
Property	24,387	3.5			23,658	3.0
MIRA Infrastructure Global Solution II, L.P.*	11,657	1.7	-3,210	-	8,446	1.1
Quinbrook Low Carbon Power LP	7,292	1.1	-	1,411	8,703	1.1
JP Morgan Infrastructure Fund	18,863	2.7	-	-26	18,837	2.4
Infrastructure	37,812	5.5			35,986	4.6
Pemira Credit Solutions IV*	4,431	0.6	5,222	-	9,653	1.2
Churchill Middle Market Senior Loan Fund II	11,536	1.7	1,466	64	13,066	1.7
Private Credit	15,967	2.3			22,719	2.9
Growth Assets	536,337	77.9			621,505	79.2
Wells Fargo – RMF	88,960	12.9	-	2,426	91,386	11.6
Bonds	88,960	12.9			91,386	11.6
LCIV MAC Fund	59,756	8.7	-	7,606	67,362	8.6
Multi Asset Credit	59,756	8.7			67,362	8.6
Stabilising Assets	148,716	21.6			158,747	20.2
Cash	3,596	0.5	958	-	4,555	0.6
TOTAL MERTON PENSION FUND	688,649	100.0	-2,700	98,858	784,807	100.0

NOTE: ESTIMATED INCOME REINVESTED BY LCIV FUNDS IN THE QUARTER AMOUNTED TO c.£1.125m.

* Valuation as at 30.06.20 is based on the 31.03.20 valuation plus cashflows in Q2 2020. Valuation for 30.06.2020 was not available at the time of writing this report.

PERFORMANCE SUMMARY

PERIOD ENDING 30 JUNE 2020

Manager / Fund	3 Months %		12 Months %		3 Years % p.a.	
	Fund	B'mark	Fund	B'mark	Fund	B'mark
UBS Passive Equity Fund*	15.9	n/a	2.9	n/a	6.0	n/a
UBS Alternative Beta	16.0	15.8	2.7	2.3	n/a	n/a
LCIV RBC Sustainable Equity Fund	23.0	19.8	9.4	5.9	n/a	n/a
LCIV Global Alpha Growth Fund	28.0	19.6	17.4	5.3	n/a	n/a
BlackRock World Low Carbon Equity Tracker Fund	18.2	18.0	6.8	6.3	n/a	n/a
Global Equities						
UBS HALO EM Fund	20.8	21.0	-10.7	-15.4	n/a	n/a
LCIV Emerging Market Equity Fund	21.3	18.5	n/a	n/a	n/a	n/a
Emerging Market Equities						
LCIV Global Total Return Fund	6.3	1.3	2.7	4.8	n/a	n/a
LCIV Diversified Growth Fund	8.3	0.9	-2.3	4.1	n/a	n/a
<i>Mercer Universe Median / Upper Quartile</i>		<i>9.7 / 11.5</i>		<i>0.6 / 2.1</i>		
Diversified Growth Fund		9.7		0.6		
UBS Triton Property Unit Trust	-1.9	-2.0	-1.7	-2.6	4.4	3.4
BlackRock UK Property Fund	-1.2	-2.0	-2.8	-2.6	3.3	3.4
Property						
MIRA Infrastructure Global Solution II, L.P.	-	1.8	1.6	7.3	n/a	n/a
Quinbrook Low Carbon Power LP	19.4	1.8	17.5	7.3	n/a	n/a
JP Morgan Infrastructure Fund	-0.1	2.4	n/a	n/a	n/a	n/a
Infrastructure						
Permira Credit Solutions IV	-	1.7	n/a	n/a	n/a	n/a
Churchill Middle Market Senior Loan Fund II	0.5	1.7	-0.9	7.0	n/a	n/a
Private Credit						
Growth Assets						
Wells Fargo - RMF	-6.4	-6.4	n/a	n/a	n/a	n/a
Bonds						
LCIV MAC Fund	12.7	1.2	-4.5	4.9	n/a	n/a
<i>Mercer Universe Median / Upper Quartile</i>		<i>10.2 / 11.7</i>		<i>-0.7 / 2.2</i>		
Multi-Asset Credit						
Stabilising Assets						
TOTAL MERTON PENSION FUND						
Strategic Target (4.8% p.a.)		1.2		4.8		4.8

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 year benchmark returns.

MARKET BACKGROUND

PERIOD ENDING 30 JUN 2020

MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	10.2	-13.0	-1.6
Overseas Developed	19.9	6.5	8.8
North America	21.9	10.9	12.5
Europe (ex UK)	18.9	0.7	3.8
Japan	12.2	6.8	4.9
Asia Pacific (ex Japan)	21.6	-5.4	2.2
Emerging Markets	18.9	-0.4	4.6
Frontier Markets	17.5	-25.1	-8.2
Hedge Funds**	6.2	-0.7	2.1
Commodities**	11.0	-35.6	-10.8
High Yield**	11.0	-1.5	1.8
Emerging Market Debt	10.2	0.1	2.8
Senior Secured Loans**	10.8	-2.0	0.8
Cash	0.2	0.8	0.7

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	3.9	19.8	10.2
Index-Linked Gilts (>5 yrs)	11.5	11.9	7.6
Corporate Bonds (>15 yrs AA)	16.3	17.0	8.9
Non-Gilts (>15 yrs)	13.3	13.9	7.7

Exchange Rates (GBP)			
Against US Dollar	-0.4	-2.9	-1.7
Against Euro	-2.7	-1.6	-1.1
Against Yen	-0.4	-2.8	-3.0

Inflation Indices			
Price Inflation – RPI	0.0	1.1	2.4
Price Inflation – CPI	0.0	0.6	1.7
Earnings Inflation*	-0.9	-0.1	2.1

Yields as at 30 June 2020	% p.a.
UK Equities	4.66
UK Gilts (>15 yrs)	0.58
Real Yield (>5 yrs ILG)	-2.38
Corporate Bonds (>15 yrs AA)	1.45
Non-Gilts (>15 yrs)	2.07

Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-0.87	0.53	1.05
UK Gilts (>15 yrs)	-0.17	-0.82	-1.22
Real Yield (>5 yrs ILG)	-0.46	-0.49	-0.81
Corporate Bonds (>15 yrs AA)	-0.86	-0.80	-1.11
Non-Gilts (>15 yrs)	-0.74	-0.71	-0.87

Source: Refinitiv

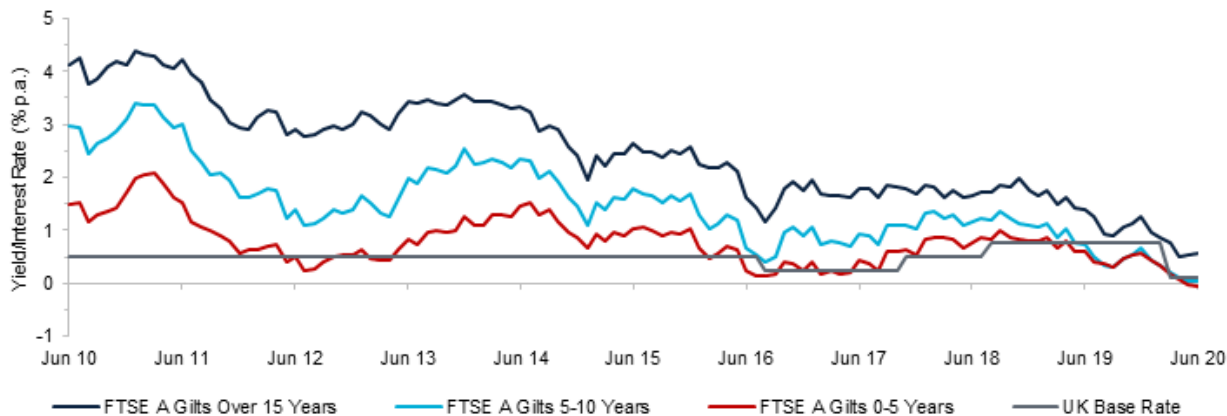
Note: * Subject to 1 month lag ** Local Currency / GBP Hedged

MARKET SUMMARY CHARTS

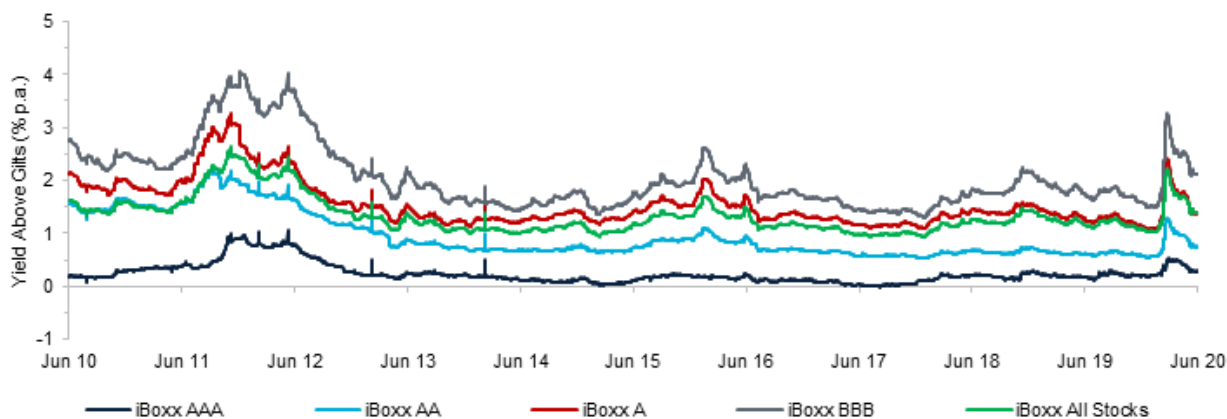
Market performance – 3 years to 30 June 2020



UK government bond yields – 10 years to 30 June 2020



Corporate bond spreads above government bonds – 10 years to 30 June 2020



Source: Refinitiv

MARKET EVENTS

What is Happening?		
Asset Class	Positive Factors	Negative Factors
United Kingdom	<ul style="list-style-type: none"> The FTSE 100 index posted its highest quarterly returns in over a decade as it joined in the global equity market rally following the collapse in markets in the first quarter. 	<ul style="list-style-type: none"> Dividend pay-outs have dropped to their lowest level since 2014, as UK businesses struggle to protect their balance sheets from the financial impact of COVID-19.
North America	<ul style="list-style-type: none"> The S&P 500 index gained more than 20% in Q2 2020, posting the largest gain since Q4 1998. Stimulus measures announced by central banks around the world, including a series of interventions by the US Federal Reserve boosted investor sentiment. 	<ul style="list-style-type: none"> The near term outlook remains uncertain due to rising unemployment, strained relations with China and the emergence of a second wave of COVID-19 infections.
Europe (ex UK)	<ul style="list-style-type: none"> The FTSE AW Dev Europe (ex UK) Index rose 12.2% in Q2 2020. The European Central Bank (ECB) announced an unprecedented Euro 750bn stimulus package in a bid to mitigate the economic impact of COVID-19. 	
Japan	<ul style="list-style-type: none"> Despite a rise in COVID-19 cases globally, Japanese equities performed positively over the quarter. The TOPIX returned 11.7% in GBP terms. 	
Asia Pacific (ex Japan)	<ul style="list-style-type: none"> The FTSE AW Dev Asia Pacific (ex-Japan) Index posted positive returns of 21.1%, outperforming the FTSE All-World Index. Markets were supported by fresh stimulus extended by major governments and steady reopening of economies coming out of lockdowns. Hopes of recovery in global demand and lower oil prices helped overall outperformance. 	<ul style="list-style-type: none"> No definite timelines for COVID-19 vaccines, fear of a 'Second Wave' and deteriorating Sino-US relations are likely to add to market volatility in near future.

What is Happening?

Asset Class	Positive Factors	Negative Factors
Emerging Markets	<ul style="list-style-type: none"> Emerging Market (EM) equities rebounded significantly in the second quarter of 2020 (the MSCI EM Index returned 18.1% in USD terms) with a modest recovery in capital flows witnessed during the quarter. Chinese stocks were the biggest contributors to the index as the country's business activity recovered steadily. Monetary policies adopted by EM central banks helped support their respective economies. 	<ul style="list-style-type: none"> COVID-19 infection rates continue to rise in many emerging countries, hurting optimism over a smooth unlock in the region. Weak healthcare and financing aids have been major risks for the region resulting in a slower growth recovery rate and increased market volatility.
Conventional Gilts	<ul style="list-style-type: none"> UK nominal gilts performed well as yields fell over the quarter. Globally, government bond yields fell due to the monetary policy measures undertaken amidst concerns over the economic impact of the COVID-19 pandemic. Additionally, the increased demand for liquid assets supported this asset class. Demand for UK nominal gilts outstripped the increased bond supply. Consequently, yields at the shorter end of the curve entered negative territory. 	
Index-Linked Gilts	<ul style="list-style-type: none"> UK index-linked gilts performed well as yields fell over the quarter. UK index-linked yields fell more than the UK nominal yields due to an increase in inflation expectations, notably beyond the shorter end of the curve. 	
Corporate Bonds	<ul style="list-style-type: none"> UK corporate bonds generated positive returns over the quarter due to a fall in gilt yields and narrower credit spreads. The UK government and central bank announced a number of fiscal and monetary measures to provide support to businesses that have been adversely impacted by the COVID-19 pandemic. 	

What is Happening?

Asset Class	Positive Factors	Negative Factors
Commodities	<ul style="list-style-type: none"> The S&P GSCI Index rallied in Q2 2020, recovering some of the ground lost in Q1 (amidst the COVID-19 pandemic), aided by US dollar weakness. The energy component posted a sharp gain, as OPEC and Russia agreed to make temporary production cuts. Precious metals posted a gain despite a fall in Palladium prices. 	<ul style="list-style-type: none"> Energy prices encountered very sharp falls as economic activity around the globe came to a standstill as a result of the ongoing COVID-19 pandemic, and this was exacerbated by disagreement between OPEC members about production. WTI and Brent Crude Prices plunged with Natural Gas declining to its lowest level since 2000.
UK Property		<ul style="list-style-type: none"> In Q2 2020, the IHS Markit/CIPS UK construction purchasing managers' index (PMI) fell to 30.8, significantly lower than the crucial 50-point threshold level. The construction PMI dropped to 8.2 in April which was the lowest since the PMI survey began 23 years ago. However, in May and June, the construction PMI pared back some of the loss and rose to 28.9 and 55.3 respectively. Reopening of the UK construction supply chain had helped to ease the downturn in UK construction output. Nevertheless, construction companies continued to face challenges in securing new work against an unfavourable economic backdrop.

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