

MERTON PENSION FUND
INVESTMENT PERFORMANCE REVIEW
QUARTER ENDING 31 DECEMBER 2020

SHORT REPORT



STRATEGIC ASSET ALLOCATION

31 DECEMBER 2020

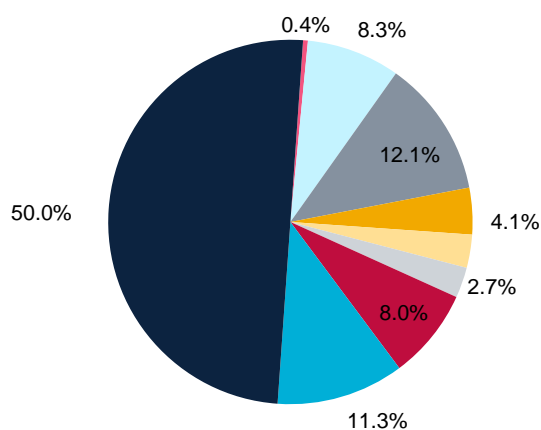
Allocation by underlying asset class

Asset Class	Market Value £000s	Actual Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	442,017	50.0	30.0	20.0	15-40
Emerging Market Equities	100,125	11.3	10.0	1.3	0-20
Diversified Growth Fund	71,110	8.0	8.0	0.0	0-15
Property	23,939	2.7	5.0	-2.3	0-10
Private Credit	25,807	2.9	6.5	-3.6	0-10
Infrastructure	36,554	4.1	11.5	-7.4	0-20
RMF – Bonds and Currency	107,371	12.1	15.0	-2.9	0-25
Multi Asset Credit	73,332	8.3	9.0	-0.7	0-15
Cash	3,766	0.4	0.0	0.4	-
Social Impact	-	0.0	5.0	-5.0	0-10
TOTAL MERTON PENSION FUND	884,021	100.0	100.0	-	

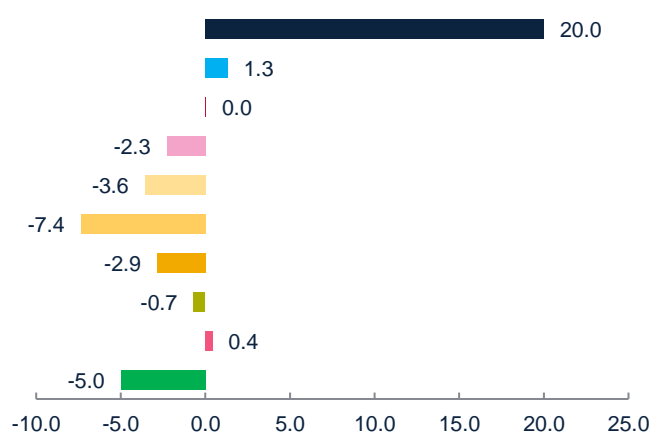
Points to note

- The Strategic Asset Allocation (SAA) reflects the strategy to be implemented as part of the 2020 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 by 0.5% to 50.0% over the quarter, being 20.0% overweight relative to its strategic allocation. This allocation will fall over time as the Fund transitions the remaining c. £56.5m from UBS Passive Equity to Private Credit and Infrastructure.

Actual Asset Allocation as at 31 December 2020 (%)



Deviation from Strategic Allocation



Note: Totals may not sum due to rounding.

VALUATION SUMMARY

30 SEPTEMBER TO 31 DECEMBER 2020

Manager / Fund	30 September 2020				31 December 2020	
	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS Passive Equity	52,177	6.4	-	4,271	56,448	6.4
UBS Alternative Beta	77,283	9.5	-	5,944	83,227	9.4
LCIV RBC Sustainable Equity Fund	93,101	11.4	-	11,119	104,219	11.8
LCIV Global Alpha Growth Fund	96,564	11.8	-	10,738	107,302	12.1
BlackRock World Low Carbon Equity Tracker Fund	84,272	10.3	-	6,549	90,821	10.3
Global Equities	403,396	49.4			442,017	50.0
UBS HALO EM Fund	52,295	6.4	-	8,256	60,551	6.8
LCIV Emerging Market Equity Fund	33,767	4.1	-	5,807	39,574	4.5
Emerging Market Equities	86,062	10.5			100,125	11.3
LCIV Global Total Return Fund	34,381	4.2	-	1,075	35,457	4.0
LCIV Diversified Growth Fund	33,629	4.1	-	2,024	35,653	4.0
Diversified Growth Fund	68,011	8.3			71,110	8.0
UBS Triton Property Unit Trust	16,229	2.0	-	202	16,431	1.9
BlackRock UK Property Fund**	7,403	0.9	-	105	7,508	0.8
Property	23,632	2.9			23,939	2.7
MIRA Infrastructure Global Solution II, L.P.*	8,487	1.0	-861	-	7,626	0.9
Quinbrook Low Carbon Power LP*	11,343	1.4	278	-639	10,982	1.2
JP Morgan Infrastructure Fund**	18,469	2.3	-	-476	17,993	2.0
Infrastructure	36,410	4.6			36,554	4.1
Permira Credit Solutions IV*	10,619	1.3	1,389	-	12,008	1.4
Churchill Middle Market Senior Loan Fund II*	13,282	1.6	1,269	-753	13,799	1.6
Private Credit	23,901	2.9			25,807	2.9
Growth Assets	643,302	78.8			699,551	79.1
Wells Fargo – RMF	97,711	12.0	-	9,661	107,371	12.1
Bonds	97,711	12.0		9,661	107,371	12.1
LCIV MAC Fund	69,652	8.5	-	3,680	73,332	8.3
Multi Asset Credit	69,652	8.5		3,680	73,332	8.3
Stabilising Assets	167,362	20.5			180,703	20.4
Cash	6,180	0.8	-2,414	-	3,766	0.4
TOTAL MERTON PENSION FUND	816,844	100.0	-339	67,516	884,021	100.0

NOTE: ESTIMATED INCOME REINVESTED BY LCIV FUNDS IN THE QUARTER AMOUNTED TO c. £3.59m.

* Valuation as at 31/12/2020 is based on the 30/09/20 valuation plus cashflows in Q4 2020. Valuation for 31/12/2020 was not available at the time of writing this report.

** Valuation as at 31/12/2020 and cashflows across the quarter are estimated by JP Morgan.

PERFORMANCE SUMMARY

PERIOD ENDING 31 DECEMBER 2020

Manager / Fund	3 Months %		12 Months %		3 Years % p.a.	
	Fund	B'mark	Fund	B'mark	Fund	B'mark
UBS Passive Equity Fund*	7.7	n/a	6.4	n/a	6.6	n/a
UBS Alternative Beta	7.9	7.9	6.3	5.8	n/a	n/a
LCIV RBC Sustainable Equity Fund	11.9	7.8	24.7	12.3	n/a	n/a
LCIV Global Alpha Growth Fund	11.1	8.6	32.9	13.5	n/a	n/a
BlackRock World Low Carbon Equity Tracker Fund	7.8	7.6	13.2	12.7	n/a	n/a
Global Equities						
UBS HALO EM Fund	15.4	13.2	19.1	14.6	n/a	n/a
LCIV Emerging Market Equity Fund	17.1	13.2	26.6	14.6	n/a	n/a
Emerging Market Equities						
LCIV Global Total Return Fund	3.1	1.6	2.6	6.3	n/a	n/a
LCIV Diversified Growth Fund	6.1	0.9	2.1	3.7	n/a	n/a
<i>Mercer Universe Median***</i>		6.4		5.4		
<i>Mercer Universe Upper Quartile***</i>		7.2		7.6		
Diversified Growth Fund						
UBS Triton Property Unit Trust	1.6	2.1	-0.3	-1.0	3.4	2.3
BlackRock UK Property Fund**	2.3	2.1	-0.8	-1.0	2.4	2.3
Property						
MIRA Infrastructure Global Solution II, L.P.**	0.0	1.8	6.7	7.3	n/a	n/a
Quinbrook Low Carbon Power LP**	14.9	1.8	27.4	7.3	n/a	n/a
JP Morgan Infrastructure Fund	-2.8	2.4	n/a	n/a	n/a	n/a
Infrastructure						
Pemira Credit Solutions IV**	2.4	1.7	3.2	7.0	n/a	n/a
Churchill Middle Market Senior Loan Fund II	-3.8	1.7	-3.7	7.0	n/a	n/a
Private Credit						
Growth Assets						
Wells Fargo - RMF	9.9	n/a	10.0	n/a	n/a	n/a
Bonds						
LCIV MAC Fund	5.3	1.0	1.9	4.5	n/a	n/a
<i>Mercer Universe Median****</i>		4.9		4.5		
<i>Mercer Universe Upper Quartile****</i>		5.4		6.4		
Multi-Asset Credit						
Stabilising Assets						
TOTAL MERTON PENSION FUND						
	8.2		12.2		8.2	
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.

** Performance shown to Q3 2020 due to Q4 2020 data unavailability at the time of writing.

*** Based on the net returns of 48 international Diversified Growth Funds researched by Mercer.

**** Based on the net returns of 16 Multi-Asset Credit Funds researched by Mercer.

MARKET BACKGROUND

PERIOD ENDING 31 DECEMBER 2020

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 2020	% 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	-2.3	-3.6	-1.6
Against Euro	-3.7	-1.2	-2.4
Against Yen	-4.9	-6.2	0.0

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

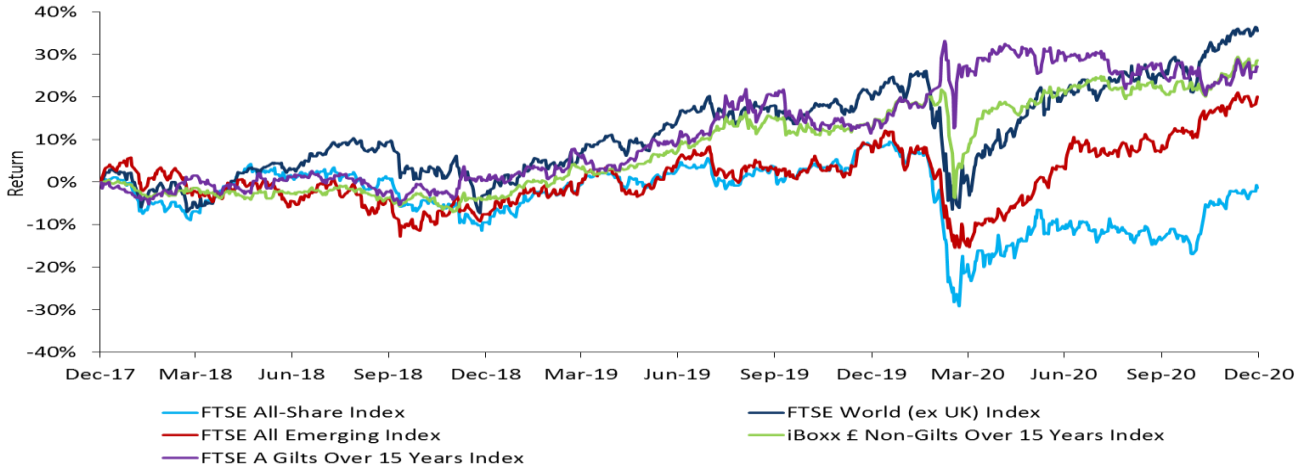
Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-0.09	0.49	0.47
UK Gilts (>15 yrs)	-0.08	-0.27	-0.21
Real Yield (>5 yrs ILG)	-0.04	-0.31	-0.51
Corporate Bonds (>15 yrs AA)	-0.11	-0.47	-0.50
Non-Gilts (>15 yrs)	-0.14	-0.38	-0.41

Source: Refinitiv

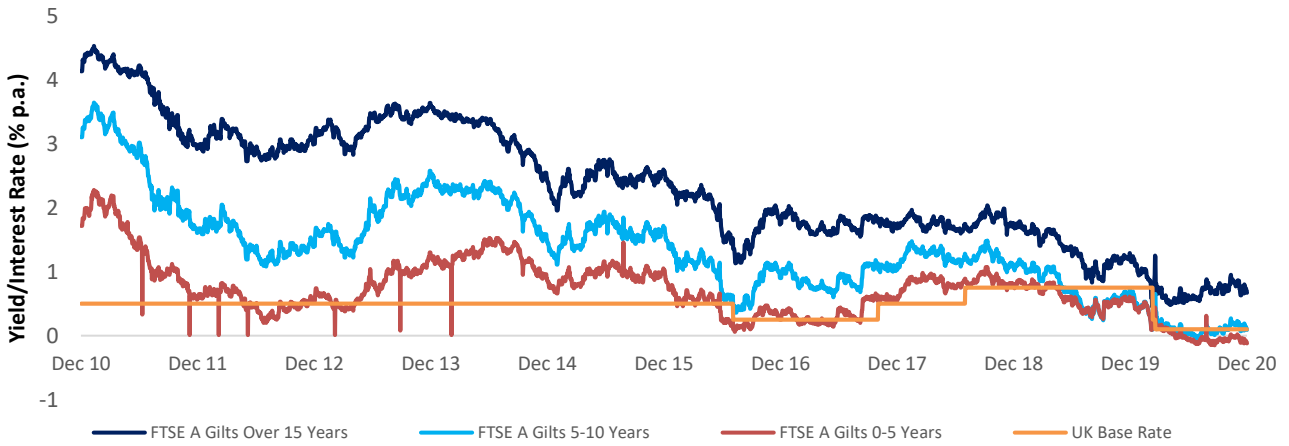
Note: * Subject to 1 month lag ** Local Currency / GBP Hedged

MARKET SUMMARY CHARTS

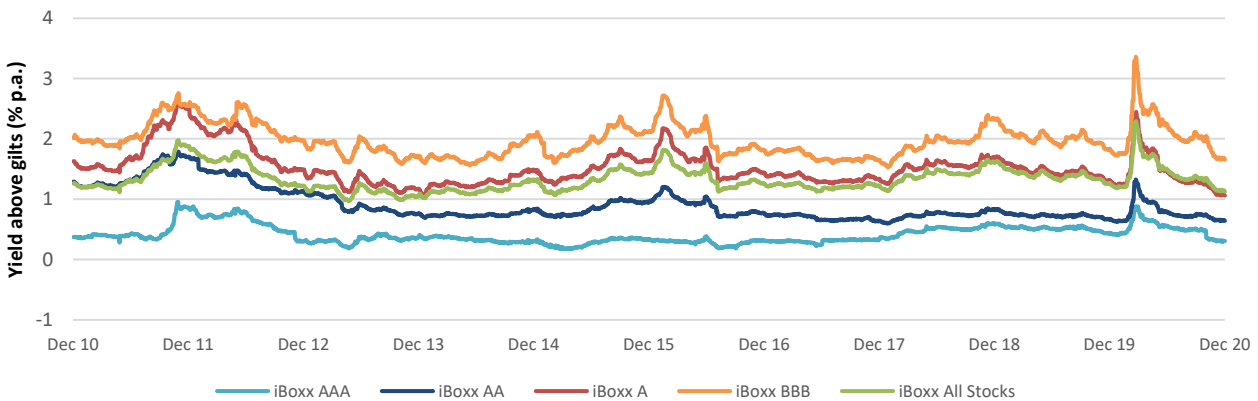
Market performance – 3 years to 31 December 2020



UK government bond yields – 10 years to 31 December 2020



Corporate bond spreads above government bonds – 10 years 31 December 2020



Source: Refinitiv, Datastream

MARKET EVENTS

What is Happening?		
Asset Class	Positive Factors	Negative Factors
United Kingdom	<ul style="list-style-type: none"> The FTSE 100 posted positive returns over the quarter, with the index outperforming most of its regional peers, as the UK became the first country to approve the COVID-19 vaccine. Agreement on the Brexit trade deal further supported markets. 	<ul style="list-style-type: none"> Despite the positive performance posted over Q4 2020, the near-term outlook remains uncertain due to the strict lockdowns imposed across the UK to control the spread of the highly infectious new COVID-19 variant.
North America	<ul style="list-style-type: none"> The S&P 500 rose over the quarter, on the back of positive sentiment around the COVID-19 vaccine coupled with the \$900 billion stimulus package announced in late December. The Federal Reserve reiterated its supportive monetary policy stance, indicating that the current levels of quantitative easing are to continue in the short term. 	
Europe (ex UK)	<ul style="list-style-type: none"> The FTSE Developed Europe (ex UK) Index increased sharply over the quarter due to positive news of an effective vaccine along with approval of the historic €1.8 trillion budget package by the EU, which included the €750 billion recovery fund. Further, the trade deal with the UK was also received positively by markets. 	
Japan	<ul style="list-style-type: none"> The TOPIX index rose over the quarter, driven by similar factors to other markets. 	<ul style="list-style-type: none"> Though the TOPIX posted positive returns, Japanese equities overall have not witnessed the same improvement as other markets, given the distinct underperformance of small cap equities over the quarter.
Asia Pacific (ex Japan)	<ul style="list-style-type: none"> The FTSE Asia Pacific (ex-Japan) Index recorded a positive return over the quarter, continuing a positive trend over recent quarters as the policy response to the virus has generally been more effective than in other regions. 	

What is Happening?

Asset Class	Positive Factors	Negative Factors
Emerging Markets	<ul style="list-style-type: none"> Emerging Equities (EM) equities posted strong returns over Q4 2020. Expected rollout of a vaccine to curb increasing COVID-19 infections, along with a weakened dollar and rise in commodity prices bolstered the market performance. 	<ul style="list-style-type: none"> The impact of fresh lockdowns in many EM countries, due to the new strain of novel Coronavirus is likely to fuel market volatility in near future.
Conventional Gilts	<ul style="list-style-type: none"> Globally, government bond yields were mixed across regions, driven by their respective central bank policies. 	<ul style="list-style-type: none"> The UK yield curve marginally tilted downwards over the quarter, as positive news around development of a COVID-19 vaccine was hampered due to reinforcement of lockdown measures, following the discovery of a new COVID-19 strain.
Index-Linked Gilts	<ul style="list-style-type: none"> UK Index-Linked yields dropped slightly over the quarter, indicating a slight rise in inflation expectations. 	
Corporate Bonds	<ul style="list-style-type: none"> UK corporate bonds outperformed government bonds over the quarter, as credit spreads contracted due to positive vaccine and political developments. 	
Commodities	<ul style="list-style-type: none"> In Q4, the Bloomberg Commodity Index posted a strong return as positive COVID-19 vaccine news boosted expectations for a global economic rebound. In addition, the combination of a weak dollar and low interest rates is likely to continue to provide the underlying support for commodity prices. 	

What is Happening?

Asset Class	Positive Factors	Negative Factors
UK Property	<ul style="list-style-type: none">The real estate market continues to cope with the impacts of the COVID-19 crisis. The economy improved at a quicker pace during Q4 than expected. As a result, Industrial and commercial properties have seen fundamentals hold steady, and in some cases have even strengthened.	<ul style="list-style-type: none">Although activity levels are beginning to pick up, commercial real estate transaction activity remained muted in Q4, with the total volume failing to reach the pre COVID-19 levels.

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- Where the investment is via a fund of funds the investment manager typically has to rely on the underlying managers for valuations of the interests in their funds.

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