London Borough of Merton Pension Fund

Q1 2021 Investment Monitoring Report

Nick Jellema – Senior Investment Consultant
Kameel Kapitan – Investment Associate Consultant
Jamie McLaughlan – Investment Analyst

HYMANS ROBERTSON

Executive Summary

The Fund's assets returned 2.0% over Q1 2021. To provide context, we have assessed total returns against a composite benchmark - a weighted average of the underlying manager benchmarks. Against this comparator, the Fund was marginally behind (top left chart). We have also shown performance against the Fund's actuarial target (top right chart).

Owing to the positive performance, assets grew from £883.1m to £898.8m.

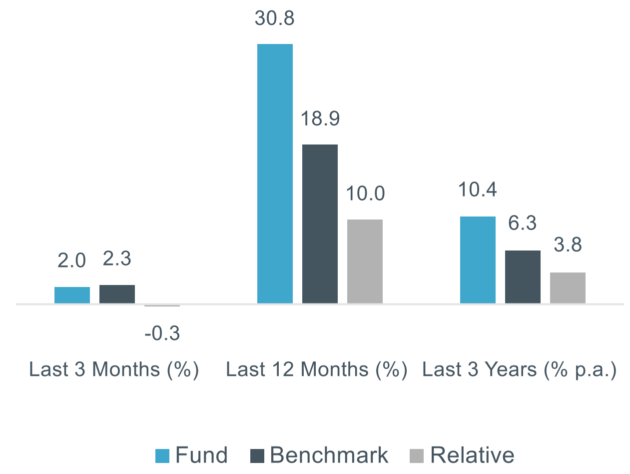
In markets, global equities rose 6.2% in the first quarter as the COVID recovery wave continued. The property market also saw gains as its recovery from the uncertainty experienced in 2020 persists.

The backdrop for fixed income markets was more challenging with rising yields creating headwinds. Despite this, high yield markets still performed well, outperforming investment grade.

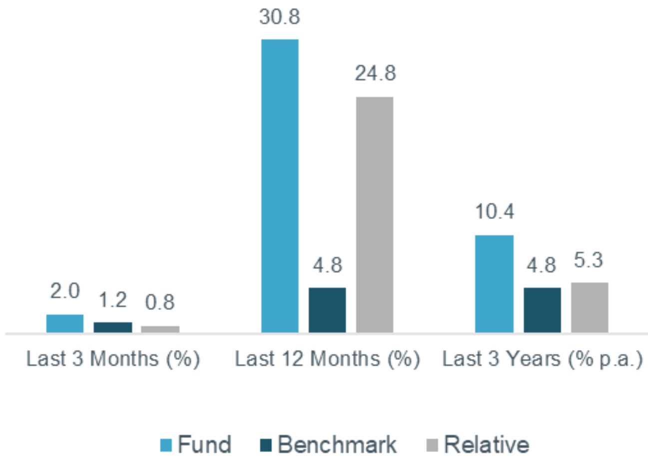
From a fund mandate perspective:

- The equity mandates in general delivered strong absolute performance, albeit overall were behind benchmarks
- Ruffer delivered strong absolute and relative performance
- The LCIV MAC fund benefited from the returns on high yield and liquid loans
- The two emerging market funds and Baillie Gifford Diversified Growth Fund detracted from relative performance

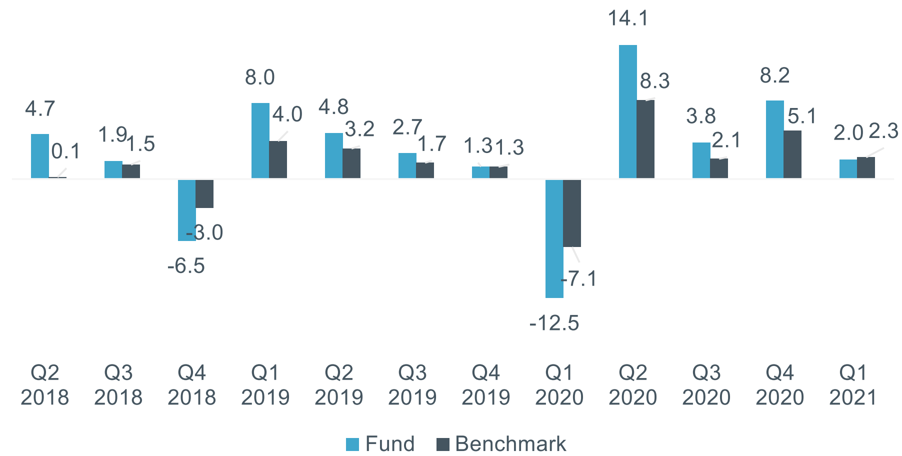
Fund performance vs benchmark/target



Fund performance vs actuarial target



Relative quarterly performance vs benchmark/target



Following the 2019 strategy review the agreed long-term target allocation for the Fund is as follows:

Global equities: 30%
Emerging market equities: 10%
Diversified growth fund: 8%
Property: 5%
Private credit: 6.5%
Infrastructure: 11.5%
Social Impact: 5%
Multi-asset credit: 9%
Risk management framework: 15%

In time the Fund will transition towards this target allocation. As it does, the benchmark (as agreed with Officers) shown in the table and used in the benchmark performance calculation the next will be gradually updated to reflect progress to date.

Commitments to infrastructure and private credit investments continued to be drawn down over time.

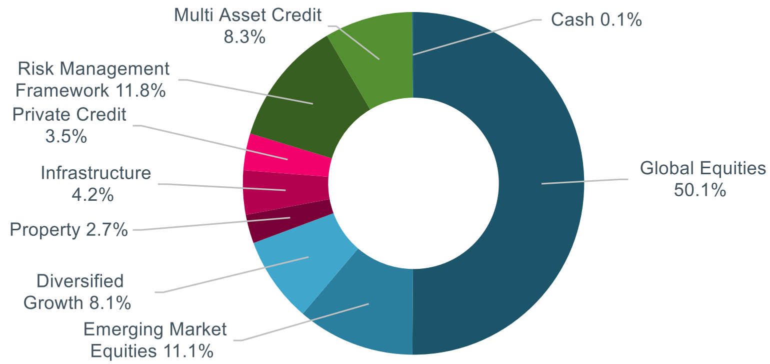
The Fund's allocation to social impact investment is still to be considered.

In the meantime, the Fund will continue to carry a larger growth allocation which in itself carries risk. Fund Officers and Panel members are in the process of considering options available to them to address this and potentially reduce the level of risk within the current allocation.

Asset Allocation

Mandate	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q4 20	Q1 21			
UBS World Equity Tracker Fund	56.4	54.1	6.0%	0.0%	6.0%
UBS Alternative Beta	83.3	88.0	9.8%	10.0%	-0.2%
LCIV RBC Sustainable Equity Fund	104.2	104.4	11.6%	10.0%	1.6%
LCIV Baillie Gifford Global Alpha Growth Fund	107.3	109.6	12.2%	10.0%	2.2%
BlackRock World Low Carbon Equity Tracker	90.8	94.2	10.5%	10.0%	0.5%
Global Equities	**442.1**	**450.3**	**50.1%**	**40.0%**	**10.1%**
UBS GEM HALO	60.6	60.6	6.7%	5.0%	1.7%
LCIV JP Morgan Emerging Market Equity Fund	39.6	39.5	4.4%	5.0%	-0.6%
Emerging Market Equities	**100.1**	**100.1**	**11.1%**	**10.0%**	**1.1%**
LCIV Pyrford Global Total Return Fund	35.5	0.0	0.0%	0.0%	0.0%
LCIV Ruffer Absolute Return Fund	0.0	37.4	4.2%	5.0%	-0.8%
LCIV Baillie Gifford Diversified Growth Fund	35.7	35.4	3.9%	5.0%	-1.1%
Diversified Growth	**71.1**	**72.8**	**8.1%**	**10.0%**	**-1.9%**
UBS Triton Property Fund	16.4	16.8	1.9%	2.5%	-0.6%
BlackRock UK Property Fund	7.5	7.6	0.8%	2.5%	-1.7%
Property	**23.9**	**24.4**	**2.7%**	**5.0%**	**-2.3%**
MIRA Infrastructure Global Solutions II L.P Fund	8.1	7.6	0.8%	3.0%	-2.2%
Quinbrook Low Carbon Power LP Fund	11.6	11.8	1.3%	1.5%	-0.2%
JP Morgan Infrastructure Fund	18.5	18.0	2.0%	3.0%	-1.0%
Infrastructure	**38.2**	**37.5**	**4.2%**	**7.5%**	**-3.3%**
Permira Credit Solutions IV Fund	12.3	14.9	1.7%	4.5%	-2.8%
Churchill Middle Market Senior Loan II Fund	14.0	16.3	1.8%	3.0%	-1.2%
Private Credit	**26.3**	**31.3**	**3.5%**	**7.5%**	**-4.0%**
Wells Fargo RMF Fund	107.4	106.4	11.8%	10.0%	1.8%
Risk Management Framework	**107.4**	**106.4**	**11.8%**	**10.0%**	**1.8%**
LCIV CQS MAC Fund	73.3	74.8	8.3%	10.0%	-1.7%
Multi Asset Credit	**73.3**	**74.8**	**8.3%**	**10.0%**	**-1.7%**
Cash	3.8	1.2	0.1%	0.0%	0.1%
Total Fund	**886.2**	**898.8**	**100.0%**	**100.0%**	

Asset class exposures



Source: Investment Managers

Manager Performance

Total Fund return was 2.0% over the period, marginally behind (0.2%) of the calculated composite benchmark. Over longer timeframes returns are more favourable with 12 month and 3 year performance driven by the Fund's equity allocation.

UBS's strong performance was driven b the Life Developed World Equity Fundamentally Weighted fund which delivered 10.4% in the quarter. Within the broader equity holdings, RBC's Sustainable Equity Fund only returned 0.2% and detracted from relative performance (4.0% benchmark).

Both emerging market funds encountere challenging conditions with a stronger dollar and a Chinese equity market sell-off in February providing headwinds.

Ruffer's defensive positioning and preference for cyclical stocks served it well over the period compared to the Baillie Gifford mandate.

The property funds benefited from the continued recovery in valuations following the write-downs of 2020 albeit UBS were slightly behind benchmark or the quarter.

The MAC holding with CQS delivered ahead of benchmark as high yield debt and liquid loans performed well.

In calculating total fund benchmark we have assumed benchmark values for Wells Fargo (equal to actuals). We are currently working with Wells Fargo to agree a suitable benchmark. Given the structure of the mandate, we are comfortable with this method in the interim.

Manager performance

Mandate	Last 3 Months (%)			Last 12 Months (%)			Last 3 Years (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
UBS World Equity Tracker Fund	4.1	4.1	**-0.0**	39.4	39.4	**-0.0**	-	-	-
UBS Alternative Beta	5.5	5.5	**-0.0**	15.7	15.8	**-0.1**	-	-	-
LCIV RBC Sustainable Equity Fund	0.2	4.0	**-3.6**	46.4	38.5	**5.7**	-	-	-
LCIV Baillie Gifford Global Alpha Growth Fund	2.2	3.6	**-1.3**	56.5	39.6	**12.1**	-	-	-
BlackRock World Low Carbon Equity Tracker	3.7	3.9	**-0.2**	37.4	37.2	**0.2**	-	-	-
Global Equities									
UBS GEM HALO	-0.1	1.3	**-1.4**	45.9	45.3	**0.4**	-	-	-
LCIV JP Morgan Emerging Market Equity Fund	-0.1	1.3	**-1.5**	53.5	42.3	**7.8**	-	-	-
Emerging Market Equities									
LCIV Ruffer Absolute Return Fund	4.8	0.6	**4.1**	-	-	-	-	-	-
LCIV Baillie Gifford Diversified Growth Fund	-0.7	0.9	**-1.6**	18.0	3.6	**13.8**	-	-	-
Diversified Growth									
UBS Triton Property Fund	4.0	2.2	**1.8**	4.2	2.5	**1.7**	3.6	2.4	**1.2**
BlackRock UK Property Fund	2.2	2.2	**0.0**	4.0	2.5	**1.5**	2.6	2.4	**0.2**
Property									
MIRA Infrastructure Global Solutions II L.P Fund	4.5	1.8	**2.6**	9.0	7.4	**1.5**	-	-	-
Quinbrook Low Carbon Power LP Fund	0.7	1.8	**-1.1**	20.2	7.4	**12.0**	-	-	-
JP Morgan Infrastructure Fund	1.3	2.5	**-1.2**	7.1	10.4	**-3.0**	-	-	-
Infrastructure									
Permira Credit Solutions IV Fund	1.3	1.7	**-0.4**	6.9	7.0	**-0.0**	-	-	-
Churchill Middle Market Senior Loan II Fund	1.8	1.7	**0.1**	3.4	7.0	**-3.3**	-	-	-
Private Credit									
Wells Fargo RMF Fund	-0.9	-0.9	**0.0**	25.5	25.5	**0.0**	-	-	-
Risk Management Framework									
LCIV CQS MAC Fund	2.1	1.1	**1.0**	25.2	4.4	**20.0**	-	-	-
Multi Asset Credit									
Cash	-	-	-	-	-	-	-	-	-
Total Fund	2.0	2.3	**-0.3**	30.8	18.9	**10.0**	10.4	6.3	**3.8**

Note, performance for the LCIV Ruffer Absolute Return Fund is since inception on 13 January 2021.

Source: Fund performance provided by Investment Managers and is net of fees.
Benchmark performance provided by Investment Managers and DataStream

HYMANS ROBERTSON

Market Background

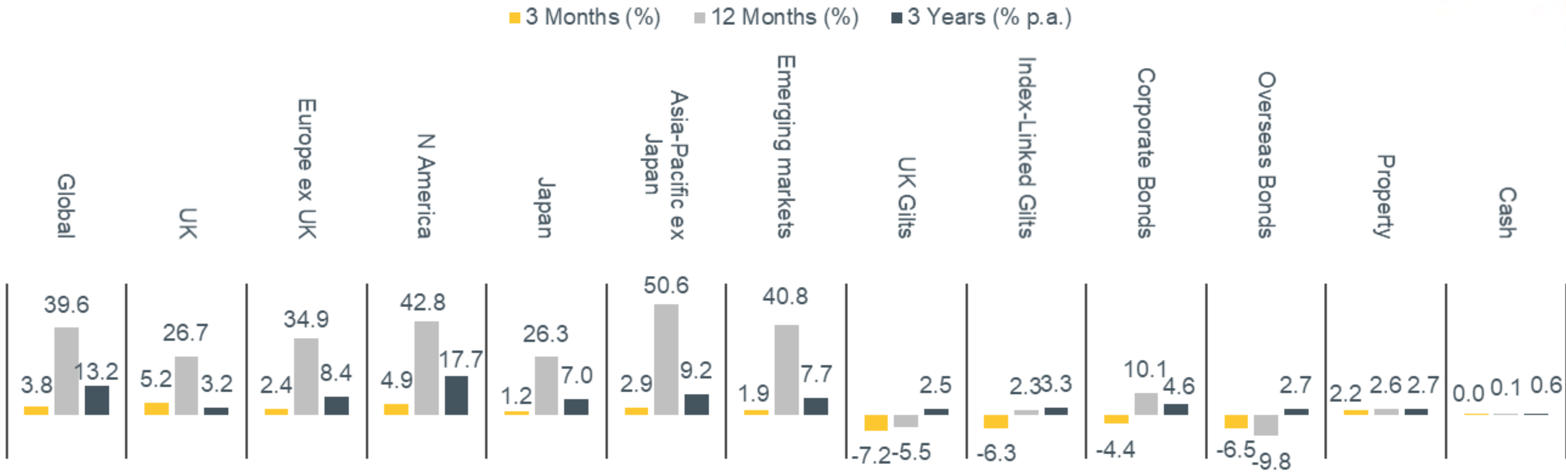
Consensus forecasts for global GDP growth have continued to improve, to 5.6% in 2021, following a 3.6% contraction in 2020. Recent data confirms that although the quarterly pace of global growth slowed in Q1 after a robust H2 2020, the hit to activity from tighter restrictions has been less than initially feared. Expectations of a re-acceleration of growth beyond Q2 seem well-founded amid significant progress in vaccine rollouts and massive fiscal support in the US. Indeed, March's global composite PMI rose to its highest level in over 6 years.

Global equity markets gained 6.2% during the quarter. The improving economic outlook was supportive for more cyclical sectors with energy, financials, basic materials, and industrials the top performing sectors year-to-date, in that order.

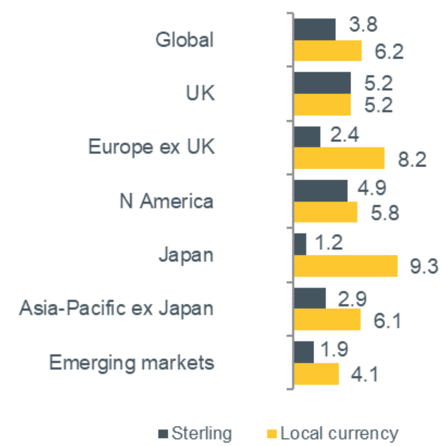
Sectoral performance helps explain regional equity performance: Japan and Europe ex-UK, with their above average exposures to industrials, lead the regional performance rankings year-to-date. Emerging markets underperformed markedly, weighed on by a stronger dollar and a Chinese equity market sell-off in February. Despite a higher than average exposure to oil & gas and financials, the UK market underperformed, perhaps weighed down by sterling strength given the high proportion of overseas earnings in the index.

Page 13

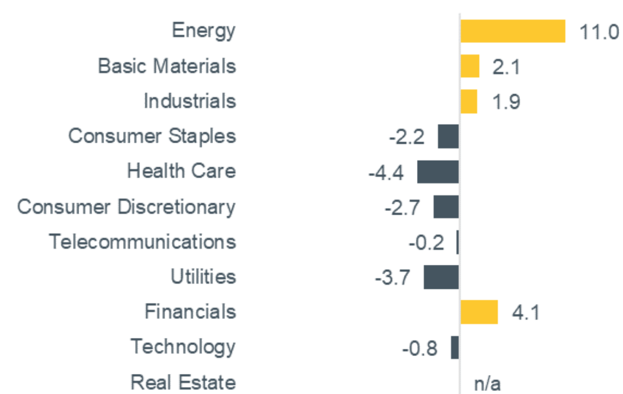
Historic returns for world markets [1]



Regional equity returns [2]



Global equity sector returns (%) [3]



Source: DataStream. [1] Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All World, FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds, MSCI UK Monthly Property; UK Interbank 7 Day. [2] FTSE All World Indices. Commentary compares regional equity returns in local currency. [3] Returns shown relative to FTSE All World. FTSE indices migrated to a new ICB structure in Q1 2021 – returns for Real Estate will be included when there is a sufficient track record.

While realised inflation has remained subdued, UK headline CPI inflation rose to 0.7% year-on-year in March, a resumption of activity and deferred consumption alongside rising oil prices are expected to lead to higher inflation in the short-term.

Reflecting the improvement in economic outlook, government bond yields rose significantly: UK 10-year government bond yields rose 0.7% p.a. to 0.8% p.a. Real yields rose less, with 10-year implied inflation, based on the difference in yield on conventional and index-linked gilts, rising 0.4% p.a. to 3.7% p.a.

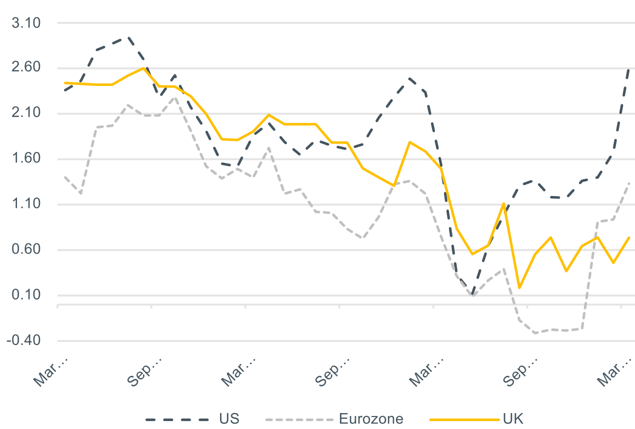
Rising sovereign bond yields weighed on total returns in fixed interest credit markets, which are negative year-to-date for investment-grade markets. Global investment-grade spreads fell 0.1% p.a. to 1.0% p.a. and speculative-grade spreads fell 0.4% p.a. to 3.7% p.a.

Sterling continued to move higher, rising 4.1% in trade-weighted terms. Relative improvement in the economic outlook and increased market-implied odds of rate rises saw the US dollar rise 2.5%, in trade-weighted terms, while the Euro and Japanese Yen fell 1.7% and 4.4%, respectively.

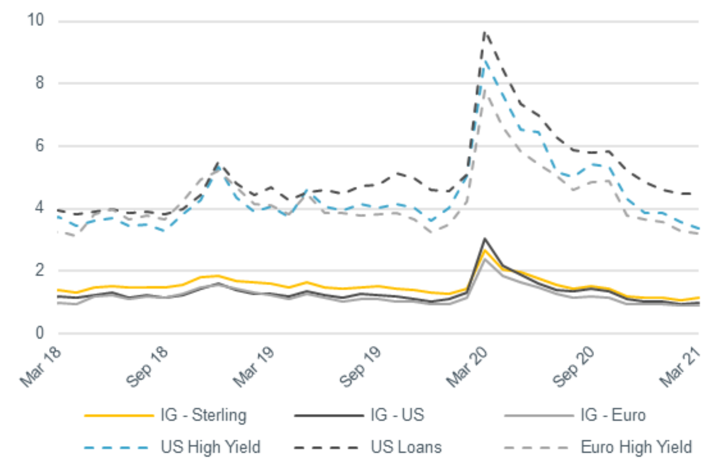
Despite slipping towards the end of the period, oil prices rose 22.4% in the first quarter to $64 per barrel, while the dollar spot price of gold slipped 10.2% as bond yields rose.

The rolling 12-month total return on the MSCI UK Monthly Property Index was 2.6% to the end of March. Capital values, in aggregate, fell 2.9% over the period (driven by a 12.4% decline in retail sector), however aggregate monthly capital value growth has been positive since November.

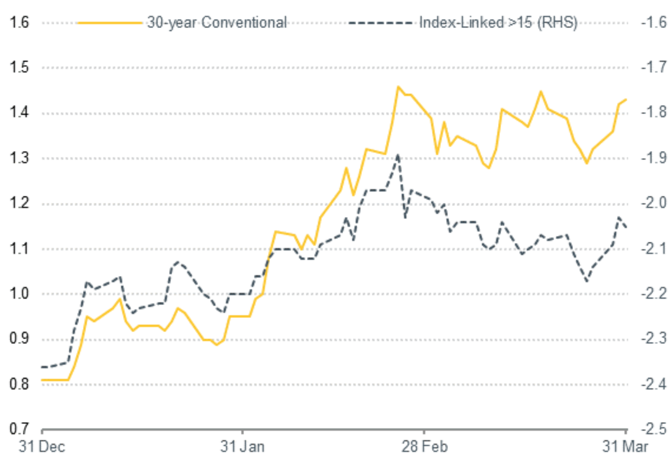
Annual CPI Inflation (% p.a.)



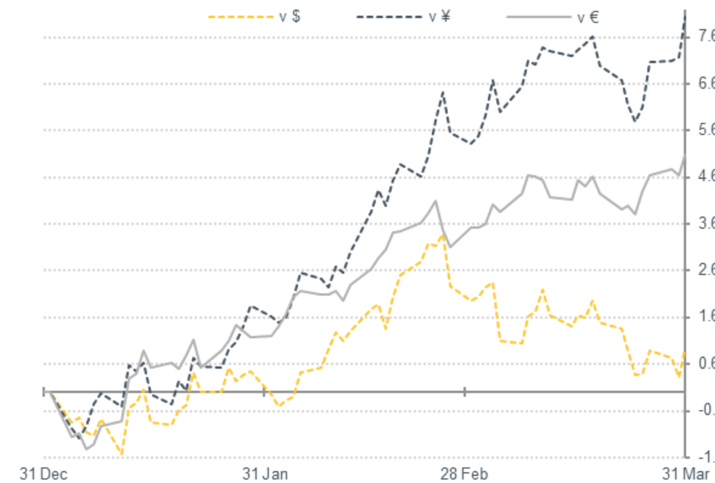
Investment and speculative grade credit spreads (% p.a.)



Gilt yields chart (% p.a.)



Sterling trend chart (% change)



Source: DataStream, Barings and ICE

Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.

Hymans Robertson LLP has relied upon third party sources and all copyright and other rights are reserved by such third party sources as follows: DataStream data: © DataStream; Fund Manager data: Fund Manager; Morgan Stanley Capital International data: © and database right Morgan Stanley Capital International and its licensors 2021. All rights reserved. MSCI has no liability to any person for any losses, damages, costs or expenses suffered as a result of any use or reliance on any of the information which may be attributed to it; Hymans Robertson data: © Hymans Robertson. Whilst every effort has been made to ensure the accuracy of such estimates or data - including third party data - we cannot accept responsibility for any loss arising from their use. © Hymans Robertson LLP 2021.

Geometric v Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\frac{(1 + Fund\ Performance)}{(1 + Benchmark\ Performance)} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$Fund\ Performance - Benchmark\ Performance$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.