












MERTON PENSION FUND  
INVESTMENT PERFORMANCE REVIEW  
QUARTER ENDING 31 MARCH 2020



# STRATEGIC ASSET ALLOCATION

## 31 MARCH 2020

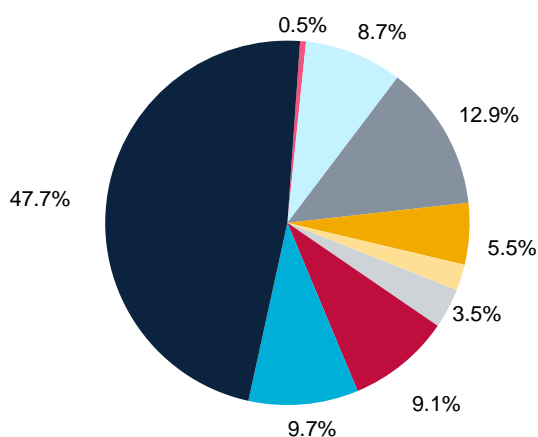
### Allocation by underlying asset class

Asset Class		Market Value £000s	Actual Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities		328,185	47.7	40.0	7.7	15-85
Emerging Market Equities		67,058	9.7	10.0	-0.3	0-20
Diversified Growth Fund		62,928	9.1	10.0	-0.9	0-20
Property		24,387	3.5	5.0	-1.5	0-10
Private Credit		15,967	2.3	7.5	-5.2	0-10
Infrastructure		37,617	5.5	7.5	-2.0	0-15
Bonds		88,960	12.9	10.0	2.9	0-30
Multi Asset Credit		59,756	8.7	10.0	-1.3	0-20
Cash		3,596	0.5	0.0	0.5	-
<b>TOTAL MERTON PENSION FUND</b>		<b>688,455</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>	

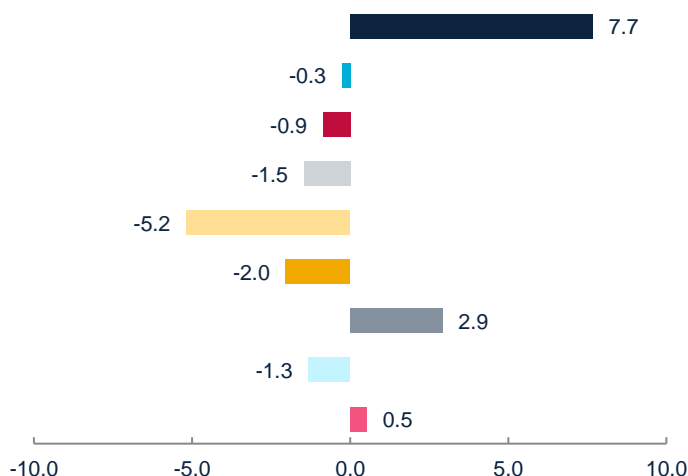
### Points to note

- 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 decreased to 47.7% over the quarter, thereby being 7.7% overweight relative to its strategic allocation. However, this allocation will fall over time as the Fund transitions the remaining c.£52.1m from UBS Passive Equity to Private Credit and Infrastructure.

### Actual Asset Allocation as at 31 March 2020



### Deviation from Strategic Allocation (%)



Note: Totals may not sum due to rounding.

# VALUATION SUMMARY

## 31 DEC 2019 TO 31 MAR 2020

Manager / Fund	31-December-19				31-March-20	
	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS - Passive Equity	64,569	8.2	-3,000	-9,453	52,116	7.6
UBS – Alternative Beta	78,983	10.0	-	-12,961	66,021	9.6
LCIV RBC Sustainable Equity Fund	83,638	10.6	-	-12,281	71,357	10.4
LCIV Global Alpha Growth Fund	80,803	10.3	-	-10,642	70,161	10.2
BlackRock World Low Carbon Equity Tracker Fund	80,237	10.2	-	-11,708	68,529	10.0
<b>Global Equities</b>	<b>388,230</b>	<b>49.3</b>			<b>328,185</b>	<b>47.7</b>
UBS – HALO EM Fund	50,340	6.4	-	-9,035	41,305	6.0
LCIV Emerging Market Equity Fund	31,226	4.0	-	-5,472	25,753	3.7
<b>Emerging Market Equities</b>	<b>81,566</b>	<b>10.4</b>			<b>67,058</b>	<b>9.7</b>
LCIV Global Total Return Fund	34,576	4.4	-	-1,667	32,909	4.8
LCIV Diversified Growth Fund	34,919	4.4	-	-4,900	30,019	4.4
<b>Diversified Growth Fund</b>	<b>69,495</b>	<b>8.8</b>			<b>62,928</b>	<b>9.1</b>
UBS Triton Property Unit Trust	16,821	2.1		13	16,834	2.4
BlackRock UK Property Fund	7,819	1.0	-	-265	7,553	1.1
<b>Property</b>	<b>24,640</b>	<b>3.1</b>			<b>24,387</b>	<b>3.5</b>
MIRA Infrastructure Global Solution II, L.P.*	12,236	1.6	-1,528	754	11,462	1.7
Quinbrook Low Carbon Power LP	7,503	1.0	770	-981	7,292	1.1
JP Morgan Infrastructure Fund	18,542	2.4	-878	1,199	18,863	2.7
<b>Infrastructure</b>	<b>38,280</b>	<b>4.9</b>			<b>37,617</b>	<b>5.5</b>
Permira Credit Solutions IV	4,872	0.6	-201	-240	4,431	0.6
Churchill Middle Market Senior Loan Fund II	8,188	1.0	2,872	475	11,536	1.7
<b>Private Credit</b>	<b>13,060</b>	<b>1.7</b>			<b>15,967</b>	<b>2.3</b>
<b>Growth Assets</b>	<b>615,270</b>	<b>78.2</b>			<b>536,143</b>	<b>77.9</b>
Wells Fargo – RMF	97,631	12.4	-	-8,671	88,960	12.9
<b>Bonds</b>	<b>97,631</b>	<b>12.4</b>			<b>88,960</b>	<b>12.9</b>
LCIV MAC Fund	71,962	9.1	-	-12,206	59,756	8.7
<b>Multi Asset Credit</b>	<b>71,962</b>	<b>9.1</b>			<b>59,756</b>	<b>8.7</b>
<b>Stabilising Assets</b>	<b>169,593</b>	<b>21.5</b>			<b>148,716</b>	<b>21.6</b>
<b>Cash</b>	<b>2,332</b>	<b>0.3</b>	<b>1,264</b>	<b>-</b>	<b>3,596</b>	<b>0.5</b>
<b>TOTAL MERTON PENSION FUND</b>	<b>787,195</b>	<b>100.0</b>			<b>688,455</b>	<b>100.0</b>

NOTE: INCOME REINVESTED BY LCIV FUNDS IN THE QUARTER AMOUNTED TO £1.2M.

\* Valuation as at 31.03.20 is based on the 31.12.19 valuation plus cashflows in Q1 2020. Valuation for 31.03.2020 was not available at the time of drafting this report.

# PERFORMANCE SUMMARY

## PERIOD ENDING 31 MARCH 2020

Manager / Fund	3 months %		12 months %		3 years % p.a.	
	Fund	Bmark	Fund	Bmark	Fund	Bmark
UBS- Passive Equity Fund*	-15.6	n/a	-4.0	n/a	1.3	n/a
UBS – Alternative Beta	-16.0	-16.1	-4.4	-4.7	n/a	n/a
LCIV RBC Sustainable Equity Fund	-14.7	-15.7	-4.5	-5.8	n/a	n/a
LCIV Global Alpha Growth Fund	-13.2	-15.8	-1.3	-6.5	n/a	n/a
BlackRock World Low Carbon Equity Tracker Fund	-14.6	-14.6	-1.1	-1.5	n/a	n/a
<b>Global Equities</b>						
UBS – HALO EM Fund	-18.1	-20.1	-9.3	-14.2	n/a	n/a
LCIV Emerging Market Equity Fund	-17.7	-18.4	n/a	n/a	n/a	n/a
<b>Emerging Market Equities</b>						
LCIV Global Total Return Fund	-4.8	1.5	-2.3	6.5	n/a	n/a
LCIV Diversified Growth Fund	-14.1	1.0	-8.2	4.2	n/a	n/a
<b>Diversified Growth Fund</b>						
UBS Triton Property Unit Trust	-0.7	-1.3	0.9	0.0	6.1	4.9
BlackRock UK Property Fund	-2.5	-1.3	-1.2	0.0	4.4	4.9
<b>Property</b>						
MIRA Infrastructure Global Solution II, L.P.	6.7	1.8	1.6	7.3	n/a	n/a
Quinbrook Low Carbon Power LP	-13.0	1.8	-10.5	7.3	n/a	n/a
JP Morgan Infrastructure Fund	6.5	2.4	n/a	n/a	n/a	n/a
<b>Infrastructure</b>						
Pemira Credit Solutions IV	-5.0	1.7	n/a	n/a	n/a	n/a
Churchill Middle Market Senior Loan Fund II	4.9	1.7	7.7	7.0	n/a	n/a
<b>Private Credit</b>						
<b>Growth Assets</b>						
Wells Fargo - RMF	-8.9	n/a	n/a	n/a	n/a	n/a
<b>Bonds</b>						
LCIV MAC Fund	-16.9	1.2	-13.8	4.9	n/a	n/a
<b>Multi-Asset Credit</b>						
<b>Stabilising Assets</b>						
<b>TOTAL MERTON PENSION FUND</b>						
	-12.5		-4.3		1.6	
<b>Strategic Target (4.8% p.a.)</b>	<b>1.2</b>		<b>4.8</b>		<b>4.8</b>	

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 31 MAR 2020

### MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-25.1	-18.5	-4.2
Overseas Developed	-15.6	-5.4	2.6
North America	-14.5	-2.8	5.0
Europe (ex UK)	-17.3	-7.8	-0.4
Japan	-11.0	-2.1	1.4
Asia Pacific (ex Japan)	-21.3	-17.6	-4.2
Emerging Markets	-19.0	-13.0	-1.2
Frontier Markets	-31.0	-30.7	-10.4
Hedge Funds**	-1.4	0.1	5.6
Commodities**	-9.0	-4.3	0.4
High Yield**	-43.5	-43.2	-15.5
Emerging Market Debt	-14.2	-9.3	-1.1
Senior Secured Loans**	-9.4	-1.8	-0.5
Cash	-14.0	-10.6	-2.5

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	11.2	17.6	8.0
Index-Linked Gilts (>5 yrs)	1.9	2.4	2.9
Corporate Bonds (>15 yrs AA)	-4.7	3.2	3.5
Non-Gilts (>15 yrs)	-4.8	3.6	3.5

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-6.4	-4.8	-0.3
Against Euro	-4.3	-2.6	-1.1
Against Yen	-7.0	-7.2	-1.3

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.2	2.6	2.8
Price Inflation – CPI	0.1	1.5	1.9
Earnings Inflation*	-0.2	2.8	2.9

Yields as at 31 March 2020	% p.a.
UK Equities	5.53
UK Gilts (>15 yrs)	0.75
Real Yield (>5 yrs ILG)	-1.92
Corporate Bonds (>15 yrs AA)	2.31
Non-Gilts (>15 yrs)	2.81

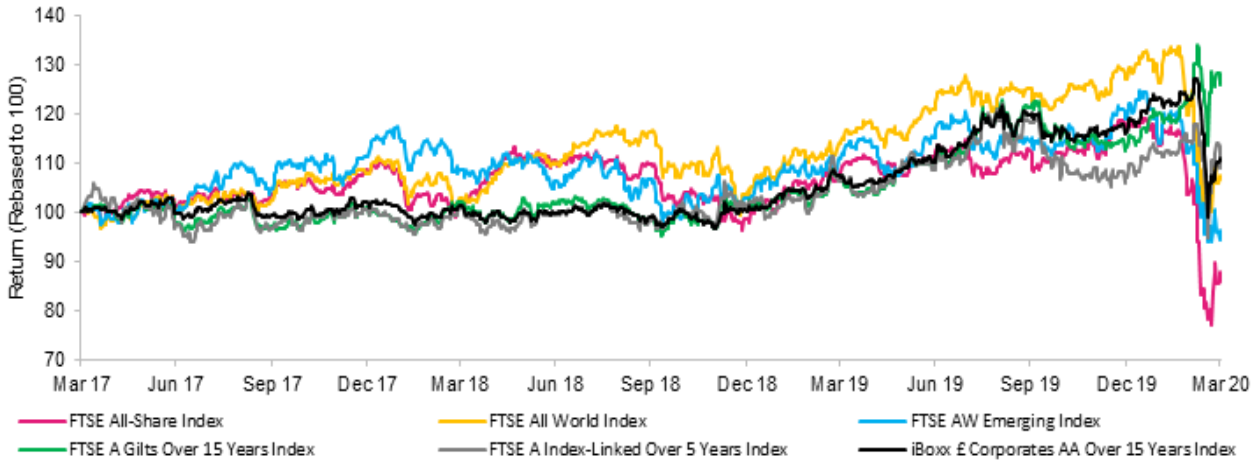
Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	1.44	1.31	2.06
UK Gilts (>15 yrs)	-0.50	-0.73	-0.90
Real Yield (>5 yrs ILG)	-0.08	-0.07	-0.21
Corporate Bonds (>15 yrs AA)	0.31	-0.05	-0.20
Non-Gilts (>15 yrs)	0.29	-0.11	-0.09

Source: Refinitiv

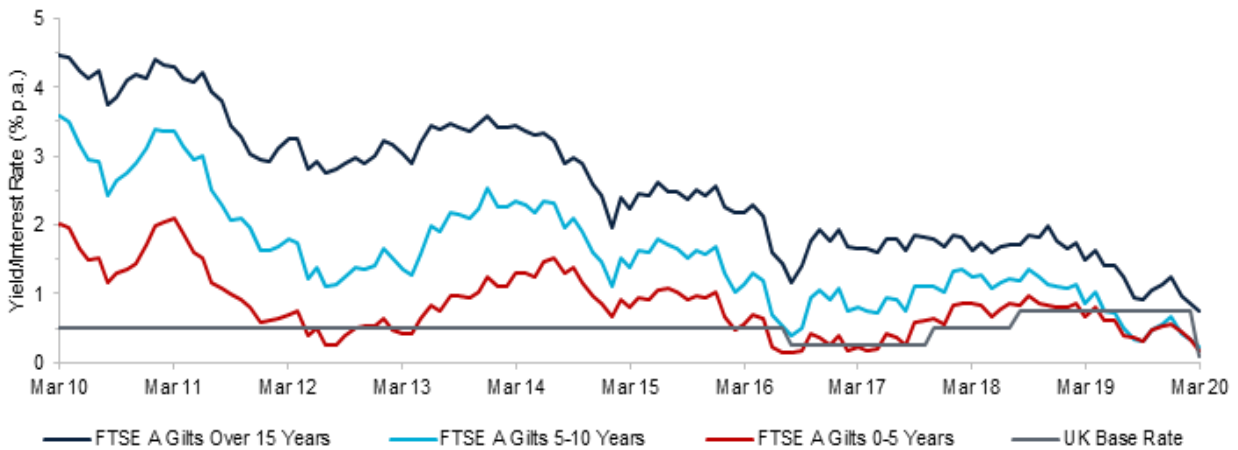
Note: \* Subject to 1 month lag \*\* Local Currency / GBP Hedged

# MARKET SUMMARY CHARTS

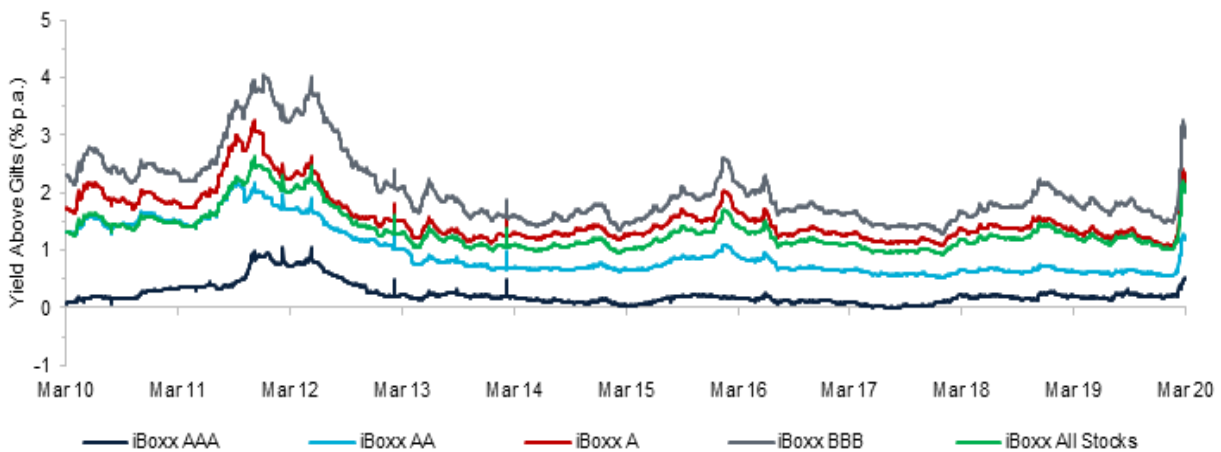
## Market performance – 3 years to 31 March 2020



## UK government bond yields – 10 years to 31 March 2020



## Corporate bond spreads above government bonds – 10 years to 31 March 2020



Source: Refinitiv

# MARKET EVENTS

What is Happening?		
Asset Class	Positive Factors	Negative Factors
<b>United Kingdom</b>	<ul style="list-style-type: none"> <li>In an effort to offset the economic impact of COVID-19 outbreak, the Bank of England (BoE) cut interest rates by 65 basis points to an all-time low of 0.1%. The BoE's monetary policy committee also increased its bond-buying program by £200bn.</li> </ul>	<ul style="list-style-type: none"> <li>Over Q1 2020, the FTSE 100 posted a negative return of 25%, thereby entering a bear market. Sterling also hit multi-year lows as investors flocked to perceived safe haven assets.</li> </ul>
<b>North America</b>	<ul style="list-style-type: none"> <li>For the first time since the 2008 financial crisis, the Federal Reserve cut interest rates twice in March. They also announced an unlimited quantitative easing programme to inject liquidity into the economy.</li> </ul>	<ul style="list-style-type: none"> <li>The S&amp;P 500 posted its worst fall since the 2008 subprime crisis, as the country underwent lockdowns in various regions to fight the spread of COVID-19. This impacted businesses and consumption demands.</li> </ul>
<b>Europe (ex UK)</b>		<ul style="list-style-type: none"> <li>European equity markets fell sharply in Q1 2020, as COVID-19 spread across Europe, particularly in Italy and Spain. This led to a lockdown in majority of the countries within Europe thereby hurting the economic activity across the region.</li> </ul>
<b>Japan</b>		<ul style="list-style-type: none"> <li>Japanese equities fell over the quarter, amidst a slowdown in business activity as manufacturing &amp; services output fell at the sharpest rate (since the aftermath of Tsunami in 2011), due to the COVID-19 spread.</li> </ul>
<b>Asia Pacific (ex Japan)</b>	<ul style="list-style-type: none"> <li>Economic stimulus comprising of rate cuts and capital injections provided some relief to the investors. The pandemic was contained in major Asian countries like South Korea, Hong Kong and Taiwan.</li> </ul>	<ul style="list-style-type: none"> <li>Equities in the Asia Pacific region witnessed a sell off amid the ongoing COVID-19 pandemic. The FTSE AW Dev Asia Pacific (ex-Japan) Index ended the quarter in the red, posting negative returns of 21.3%.</li> </ul>
<b>Emerging Markets</b>		<ul style="list-style-type: none"> <li>Emerging Markets (EM) equities fell over the quarter as COVID-19 rapidly spread outside China, leading to lockdowns and resulting in a sharp decline in the economic activities across the region. Also, a stronger US dollar proved to be an additional headwind for the region. The FTSE Emerging Markets Index posted a negative return of 19.0% over Q1 2020.</li> </ul>

## What is Happening?

Asset Class	Positive Factors	Negative Factors
<b>Conventional Gilts</b>	<ul style="list-style-type: none"> <li>UK nominal gilts performed well as yields fell over the quarter.</li> <li>Globally, government bond yields fell due to concerns over the economic impact of the coronavirus pandemic and the increased demand for safe haven assets.</li> </ul>	
<b>Index-Linked Gilts</b>	<ul style="list-style-type: none"> <li>UK index-linked gilts performed well as yields fell over the quarter. However, the fall in the UK index-linked yields was less than that of UK nominal yields due to a reduction in inflation expectations.</li> </ul>	
<b>Corporate Bonds</b>	<ul style="list-style-type: none"> <li>The UK government and central bank announced a number of fiscal and monetary stimuli to provide support to the businesses that have been adversely impacted from the coronavirus pandemic.</li> </ul>	<ul style="list-style-type: none"> <li>UK corporate bonds generated negative returns over the quarter, despite a fall in gilt yields, as credit spreads widened due to concerns about the impact on the corporate sector of the coronavirus pandemic.</li> </ul>
<b>Commodities</b>		<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>UK Property</b>		<ul style="list-style-type: none"> <li>In Q1 2020, the IHS Markit/CIPS UK construction purchasing managers' index (PMI) fell to 46.7, lower than the crucial 50-point threshold level. The construction PMI dropped to 39.3 in March (lowest since April 2009) from 52.6 in February and 48.4 in January. The drastic fall in the construction activity during the month of March is attributable to the COVID-19 pandemic.</li> </ul>



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