



**MERTON PENSION FUND**  
**INVESTMENT PERFORMANCE REVIEW**  
**QUARTER ENDING 30 SEPTEMBER 2020**

**SHORT REPORT**



# STRATEGIC ASSET ALLOCATION

## 30 SEPTEMBER 2020

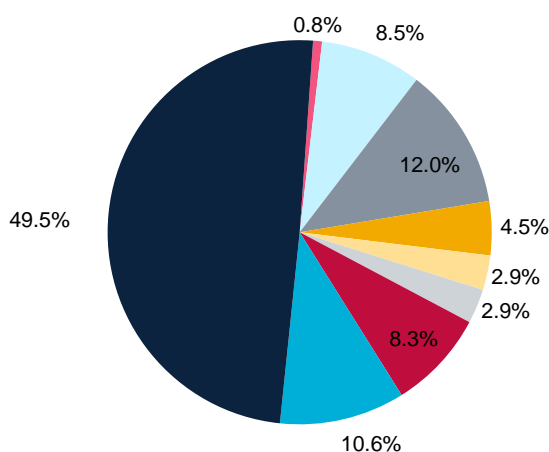
### Allocation by underlying asset class

Asset Class	Market Value £000s	Actual Weight %	Strategic Allocation %	Relative Allocation %	Strategic Range %
Global Equities	403,396	49.5	40.0	9.5	15-85
Emerging Market Equities	86,062	10.6	10.0	0.6	0-20
Diversified Growth Fund	68,011	8.3	10.0	-1.7	0-20
Property	23,632	2.9	5.0	-2.1	0-10
Private Credit	23,274	2.9	7.5	-4.6	0-10
Infrastructure	37,067	4.5	7.5	-3.0	0-15
Bonds	97,711	12.0	10.0	2.0	0-30
Multi Asset Credit	69,652	8.5	10.0	-1.5	0-20
Cash	6,180	0.8	0.0	0.8	-
<b>TOTAL MERTON PENSION FUND</b>	<b>815,503</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>	

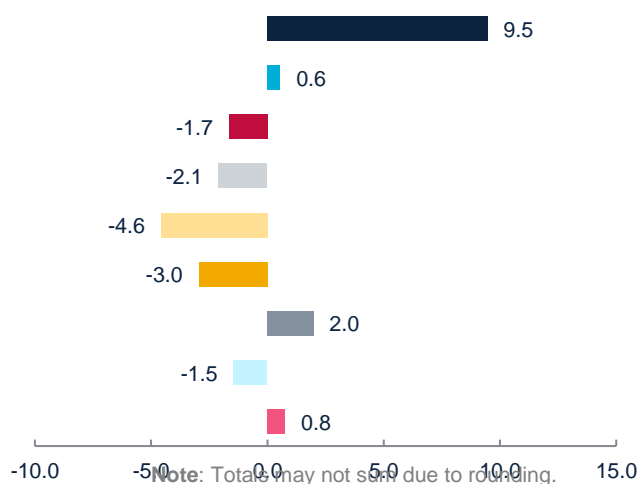
### Points to note

- The Strategic Asset Allocation (SAA) 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 underweight for an interim period until the portfolio is fully constructed. The SAA is currently being updated to reflect the recommendations of the 2020 Investment Strategy Review.
- Total allocation to Global Equities decreased by 0.3% to 49.5% over the quarter, being 9.5% overweight relative to its strategic allocation. This allocation will fall over time as the Fund transitions the remaining c.£52.2m from UBS Passive Equity to Private Credit and Infrastructure.

### Actual Asset Allocation as at 30 September 2020 (%)



### Deviation from Strategic Allocation



# VALUATION SUMMARY

## 30 JUNE 2020 TO 30 SEPTEMBER 2020

Manager / Fund	30 June 2020				30 September 2020	
	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS Passive Equity	55,425	7.1	-5,000	1,752	52,177	6.4
UBS Alternative Beta	76,531	9.8	-	752	77,283	9.5
LCIV RBC Sustainable Equity Fund	87,704	11.2	-	5,396	93,101	11.4
LCIV Global Alpha Growth Fund	89,767	11.4	-	6,797	96,564	11.8
BlackRock World Low Carbon Equity Tracker Fund	81,031	10.3	-	3,241	84,272	10.3
<b>Global Equities</b>	<b>390,458</b>	<b>49.8</b>			<b>403,396</b>	<b>49.5</b>
UBS HALO EM Fund	49,990	6.4	-	2,305	52,295	6.4
LCIV Emerging Market Equity Fund	31,222	4.0	-	2,545	33,767	4.2
<b>Emerging Market Equities</b>	<b>81,212</b>	<b>10.3</b>			<b>86,062</b>	<b>10.6</b>
LCIV Global Total Return Fund	34,933	4.4	-	-552	34,381	4.2
LCIV Diversified Growth Fund	32,538	4.1	-	1,092	33,629	4.1
<b>Diversified Growth Fund</b>	<b>67,471</b>	<b>8.6</b>			<b>68,011</b>	<b>8.3</b>
UBS Triton Property Unit Trust	16,255	2.1	-	-27	16,229	2.0
BlackRock UK Property Fund**	7,403	0.9	-	-	7,403	0.9
<b>Property</b>	<b>23,658</b>	<b>3.0</b>			<b>23,632</b>	<b>2.9</b>
MIRA Infrastructure Global Solution II, L.P.*	8,871	1.1	-383	-	8,487	1.0
Quinbrook Low Carbon Power LP*	8,703	1.1	1,262	-	9,965	1.2
JP Morgan Infrastructure Fund***	18,837	2.4	-321	100	18,616	2.3
<b>Infrastructure</b>	<b>36,410</b>	<b>4.6</b>			<b>37,067</b>	<b>4.5</b>
Pemira Credit Solutions IV*	9,771	1.2	615	-	10,386	1.3
Churchill Middle Market Senior Loan Fund II*	13,066	1.7	340	-	13,406	1.6
<b>Private Credit</b>	<b>22,838</b>	<b>2.9</b>			<b>23,792</b>	<b>2.9</b>
<b>Growth Assets</b>	<b>622,047</b>	<b>79.2</b>			<b>641,961</b>	<b>78.7</b>
Wells Fargo – RMF	91,386	11.6	-	6,325	97,711	12.0
<b>Bonds</b>	<b>91,386</b>	<b>11.6</b>			<b>97,711</b>	<b>12.0</b>
LCIV MAC Fund	67,362	8.6	-	2,290	69,652	8.6
<b>Multi Asset Credit</b>	<b>67,362</b>	<b>8.6</b>			<b>69,652</b>	<b>8.6</b>
<b>Stabilising Assets</b>	<b>158,747</b>	<b>20.2</b>			<b>167,362</b>	<b>20.5</b>
<b>Cash</b>	<b>4,555</b>	<b>0.6</b>	<b>1,625</b>	<b>-</b>	<b>6,180</b>	<b>0.8</b>
<b>TOTAL MERTON PENSION FUND</b>	<b>785,350</b>	<b>100.0</b>	<b>-1,862</b>	<b>32,015</b>	<b>815,503</b>	<b>100.0</b>

NOTE: ESTIMATED INCOME REINVESTED BY LCIV FUNDS IN THE QUARTER AMOUNTED TO c. £0.47m.

\* Valuation as at 30/09/20 is based on the 30/06/20 valuation plus cashflows in Q3 2020. Valuation for 30/09/2020 was not available at the time of writing this report.

\*\*Valuation as at 30/06/20 is used since the valuation as at 30/09/2020 was unavailable at the time of writing this report.

\*\*\* Valuation as at 30/09/2020 and cashflows across the quarter are estimated by JP Morgan.

# PERFORMANCE SUMMARY

## PERIOD ENDING 30 SEPTEMBER 2020

Manager / Fund	3 Months %		12 Months %		3 Years % p.a.	
	Fund	B'mark	Fund	B'mark	Fund	B'mark
UBS Passive Equity Fund*	1.0	n/a	0.0	n/a	5.6	n/a
UBS Alternative Beta	1.0	1.0	-0.9	-1.3	n/a	n/a
LCIV RBC Sustainable Equity Fund	6.2	3.2	14.8	5.2	n/a	n/a
LCIV Global Alpha Growth Fund	7.6	3.8	25.5	5.7	n/a	n/a
BlackRock World Low Carbon Equity Tracker Fund	4.0	4.0	6.5	6.2	n/a	n/a
<b>Global Equities</b>						
UBS HALO EM Fund	4.2	4.7	9.5	5.3	n/a	n/a
LCIV Emerging Market Equity Fund	8.2	4.7	13.6	7.2	n/a	n/a
<b>Emerging Market Equities</b>						
LCIV Global Total Return Fund	-1.6	1.8	0.2	4.9	n/a	n/a
LCIV Diversified Growth Fund	3.4	0.9	-1.1	3.9	n/a	n/a
<i>Mercer Universe Median***</i>		2.4		0.2		
<i>Mercer Universe Upper Quartile***</i>		3.1		3.0		
<b>Diversified Growth Fund</b>						
UBS Triton Property Unit Trust	0.7	0.2	-1.9	-2.8	3.9	2.6
BlackRock UK Property Fund**	-1.2	-2.0	-2.8	-2.6	3.3	3.4
<b>Property</b>						
MIRA Infrastructure Global Solution II, L.P.**	4.3	1.8	6.0	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	0.5	2.4	n/a	n/a	n/a	n/a
<b>Infrastructure</b>						
Pemira Credit Solutions IV**	3.1	1.7	16.1	7.0	n/a	n/a
Churchill Middle Market Senior Loan Fund II**	5.1	1.7	3.7	7.0	n/a	n/a
<b>Private Credit</b>						
<b>Growth Assets</b>						
Wells Fargo - RMF	6.9	6.9	n/a	n/a	n/a	n/a
<b>Bonds</b>						
LCIV MAC Fund	3.3	1.0	-2.0	4.7	n/a	n/a
<i>Mercer Universe Median****</i>		2.6		0.9		
<i>Mercer Universe Upper Quartile****</i>		3.3		3.9		
<b>Multi-Asset Credit</b>						
<b>Stabilising Assets</b>						
<b>TOTAL MERTON PENSION FUND</b>						
	<b>3.8</b>		<b>5.3</b>		<b>6.8</b>	
<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

\*\* Performance shown to Q2 2020 due to Q3 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 30 SEPTEMBER 2020

### MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-2.9	-16.6	-3.2
Overseas Developed	3.3	5.8	9.4
North America	4.5	10.5	13.6
Europe (ex UK)	1.6	0.7	3.1
Japan	2.4	2.6	5.4
Asia Pacific (ex Japan)	0.8	-3.0	2.3
Emerging Markets	4.5	4.6	4.6
Frontier Markets	4.3	-16.0	-7.7
Hedge Funds**	3.4	2.4	2.7
Commodities**	4.0	-29.7	-11.5
High Yield**	3.8	1.3	2.4
Emerging Market Debt	-3.8	-6.1	1.4
Senior Secured Loans**	3.3	0.4	1.7
Cash	0.0	0.7	0.7

Yields as at 30 September 2020	% p.a.
UK Equities	4.56
UK Gilts (>15 yrs)	0.71
Real Yield (>5 yrs ILG)	-2.29
Corporate Bonds (>15 yrs AA)	1.53
Non-Gilts (>15 yrs)	2.08

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	-2.5	5.2	9.5
Index-Linked Gilts (>5 yrs)	-2.5	0.4	7.0
Corporate Bonds (>15 yrs AA)	-1.0	6.7	8.7
Non-Gilts (>15 yrs)	0.5	6.2	7.9

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	4.6	4.9	-1.2
Against Euro	0.2	-2.5	-1.0
Against Yen	2.3	2.4	-3.3

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.5	1.1	2.3
Price Inflation – CPI	0.4	0.5	1.6
Earnings Inflation*	2.8	1.7	2.9

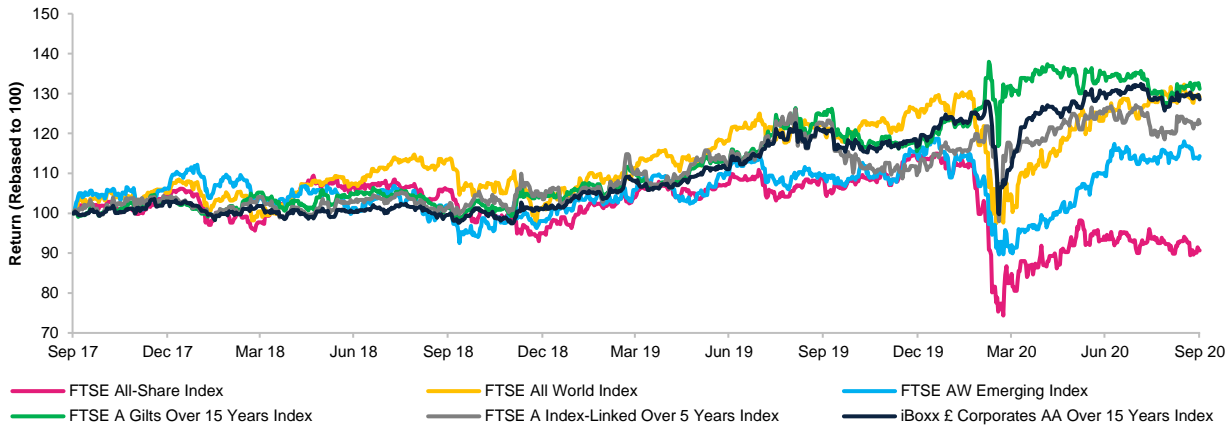
Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-0.10	0.35	0.88
UK Gilts (>15 yrs)	0.13	-0.20	-1.13
Real Yield (>5 yrs ILG)	0.09	-0.09	-0.78
Corporate Bonds (>15 yrs AA)	0.08	-0.28	-1.11
Non-Gilts (>15 yrs)	0.01	-0.26	-0.97

Source: Refinitiv

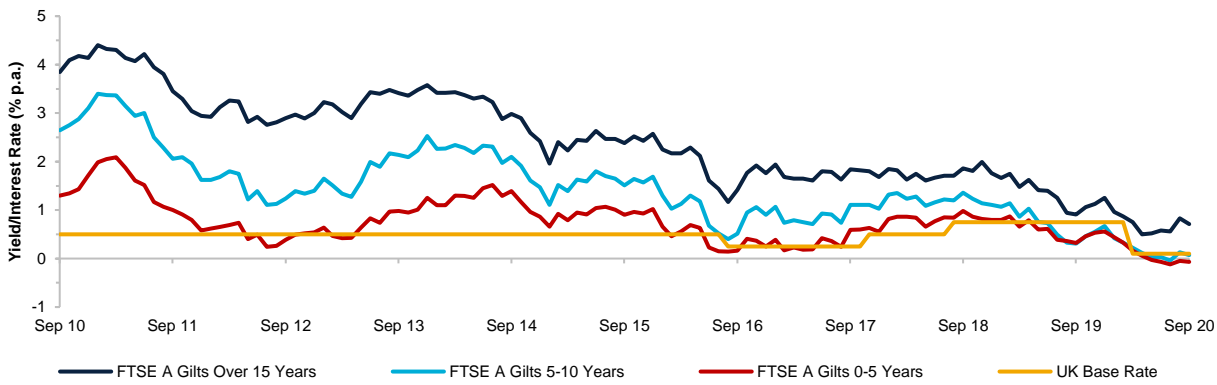
Note: \* Subject to 1 month lag \*\* Local Currency / GBP Hedged

# MARKET SUMMARY CHARTS

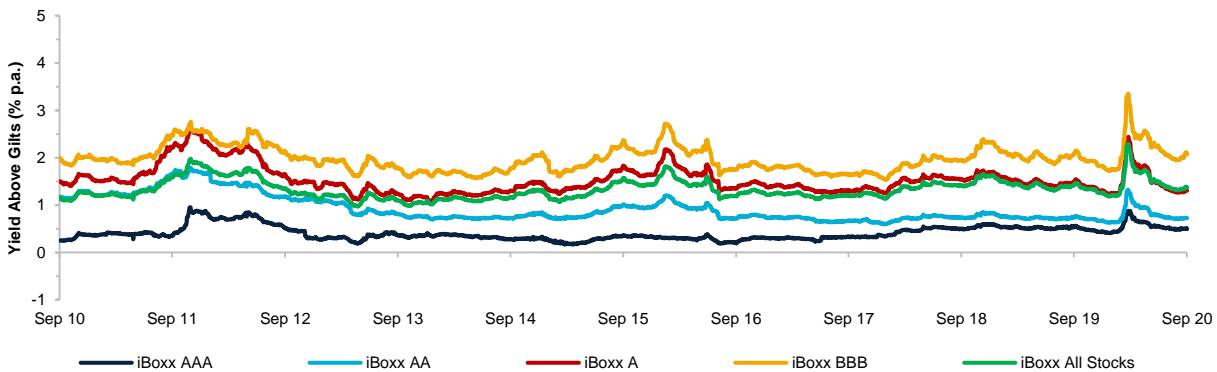
## Market performance – 3 years to 30 September 2020



## UK government bond yields – 10 years to 30 September 2020



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



Source: Refinitiv, Datastream

# MARKET EVENTS

What is Happening?		
Asset Class	Positive Factors	Negative Factors
<b>United Kingdom</b>		<ul style="list-style-type: none"> <li>The FTSE 100 was down 4.9% over the quarter. This was due to the re-imposition of restrictions owing to the rise of COVID-19 infections along with renewed concerns about the market impact of Brexit.</li> </ul>
<b>North America</b>	<ul style="list-style-type: none"> <li>The S&amp;P 500 Index posted positive returns over the quarter, owing to the indications of an economic recovery coupled with accommodative monetary policies.</li> </ul>	<ul style="list-style-type: none"> <li>Though the S&amp;P 500 Index rose over the quarter, the US economy shrunk at an annualized rate of 31.4% quarter-on-quarter in Q2 2020 owing to the disruptions caused by COVID-19. Furthermore, the uncertainty around the US Presidential elections and concerns over the lack of fiscal stimulus measures are likely to affect market sentiment in the near term.</li> </ul>
<b>Europe (ex UK)</b>		<ul style="list-style-type: none"> <li>The FTSE Developed Europe (ex UK) Index remained flat over the quarter due to contracting business activities as localised restrictions were imposed in many European countries due to sharply rising COVID-19 infections. Additionally, the near term outlook for European equities remains uncertain due to deflationary pressures coupled with the strengthening of the Euro.</li> </ul>
<b>Japan</b>	<ul style="list-style-type: none"> <li>Despite a rise in COVID-19 cases globally, Japanese equities performed positively over the quarter. The TOPIX returned 11.7% in GBP terms.</li> </ul>	<ul style="list-style-type: none"> <li>Though the TOPIX posted positive returns over Q3 2020, the resignation of Shinzo Abe in August led to a momentary sense of uncertainty in the Japanese markets, over fear of discontinuation of his signature monetary and fiscal policies.</li> </ul>
<b>Asia Pacific (ex Japan)</b>	<ul style="list-style-type: none"> <li>The FTSE Asia Pacific ex Japan Index posted a positive return as Asian Markets stabilised on the belief that demand will bounce back in the first half of 2021.</li> </ul>	<ul style="list-style-type: none"> <li>Despite the rise over the quarter, high uncertainty around economic growth and the inflation outlook are likely to fuel market volatility in near future.</li> </ul>

## What is Happening?

Asset Class	Positive Factors	Negative Factors
<b>Emerging Markets</b>	<ul style="list-style-type: none"> <li>Emerging Market (EM) equities rose over Q3 2020 (The FTSE EM Index posted positive 4.5% returns in Sterling terms) due to the reopening of major emerging economies, increased capital inflows and lower global interest rates. Additionally, a weaker US dollar proved beneficial.</li> </ul>	<ul style="list-style-type: none"> <li>Emerging markets outside East Asia remain the epicenter of the disease, which is hampering economic activity, especially in India and Latin America.</li> </ul>
<b>Conventional Gilts</b>	<ul style="list-style-type: none"> <li>The UK yield curve shifted up marginally over the quarter, reflecting the general risk-on sentiment. UK monetary policy was unchanged but on the fiscal side, another spending package was announced over the quarter.</li> </ul>	<ul style="list-style-type: none"> <li>Emerging Market (EM) equities rose over Q3 2020 (The FTSE EM Index posted positive 4.5% returns in Sterling terms) due to the reopening of major emerging economies, increased capital inflows and lower global interest rates. Additionally, a weaker US dollar proved beneficial.</li> </ul>
<b>Index-Linked Gilts</b>	<ul style="list-style-type: none"> <li>UK index linked yields increased less than UK nominal yields due to a slight pick up in longer term inflation expectations.</li> </ul>	
<b>Corporate Bonds</b>	<ul style="list-style-type: none"> <li>Despite the rise in COVID-19 cases, UK corporate bonds generated a positive return owing to strong institutional demand and liquidity from central banks.</li> </ul>	
<b>Commodities</b>	<ul style="list-style-type: none"> <li>The Bloomberg Commodity Index rose over the quarter. Livestock and Agricultural commodities were the best performing components. Industrial metals, led by coal, iron ore and zinc, showed good gains as a strong recovery in manufacturing drove demand for industrial metals.</li> </ul>	<ul style="list-style-type: none"> <li>Energy was the only component that produced negative returns amid concerns about the sustainability of the recovery in global growth.</li> </ul>
<b>UK Property</b>	<ul style="list-style-type: none"> <li>The IHS Markit / CIPS UK Construction Purchasing Managers ' Index rose to 56.8 in Q3 2020, affirming a reacceleration in the pace of activity growth. This was driven by home building activity and work on commercial projects.</li> </ul>	<ul style="list-style-type: none"> <li>Many property funds have been suspended for the entire quarter as clauses of "material uncertainty" made it impossible to value the underlying holdings accurately. This not only makes it impossible to continue with sale and purchasing transactions, but also induces uncertainty surrounding the transparency of prices and rent collection, which further strains the property market.</li> </ul>



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