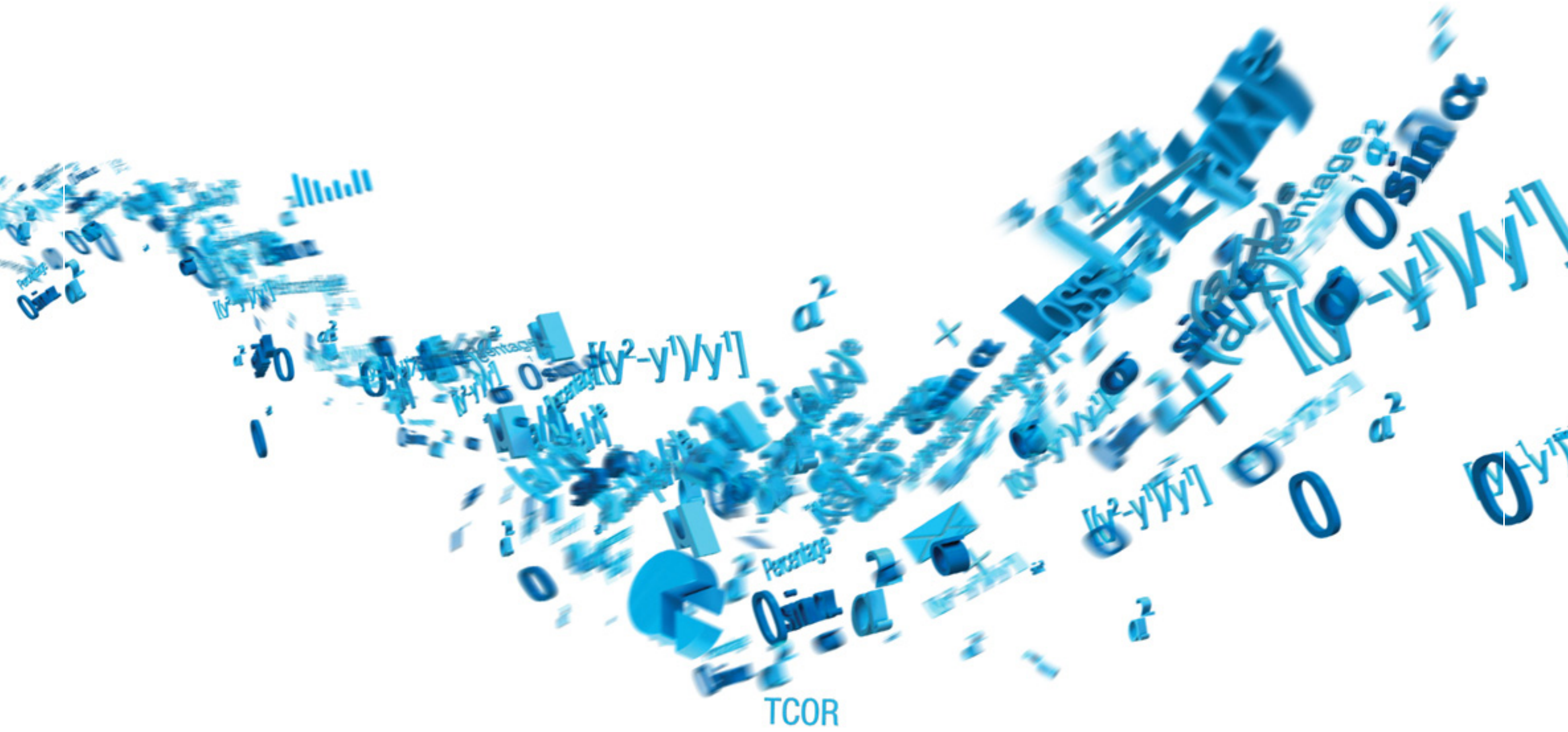


Quarterly Investment Report Q2 2019

Prepared for	London Borough of Enfield Pension Fund
Prepared by	Aon
Date	20 August 2019

QAS Institute and Faculty of Actuaries ® Quality Assurance Scheme

Aon Empower Results®

Table of Contents

Executive Summary – Q2 2019

Performance	Quarterly (%)			Annual (%)			Since Inception p.a. (%)		
	Portfolio	Benchmark	Active	Portfolio	Benchmark	Active	Portfolio	Benchmark	Active
Equities									
BlackRock UK Passive	3.3	3.3	0.0	0.6	0.6	0.0	-	-	-
BlackRock World ex UK Passive	6.7	6.6	0.1	11.1	10.6	0.5	-	-	-
MFS Global Unconstrained	8.2	6.1	2.1	16.3	9.7	6.6	14.4	11.8	2.6
LCIV Baillie Gifford	7.7	6.1	1.6	12.4	9.7	2.7	15.9	11.5	4.4
LCIV Henderson	5.6	3.0	2.6	-	-	-	12.6	14.1	-1.5
LCIV Longview Partners	4.2	6.5	-2.3	-	-	-	10.5	12.8	-2.3
Private Equity									
Adams Street	2.0	9.9	-7.9	22.9	11.2	11.6	12.4	10.2	2.3
Hedge Funds									
Lansdowne Global Equity L/S	-4.1	-	-	-12.8	-	-	5.8	-	-
York Distressed Securities	4.1	-	-	-2.6	-	-	7.5	-	-
Davidson Kempner	4.3	-	-	7.7	-	-	9.1	-	-
CFM Stratus	5.1	-	-	2.8	-	-	1.2	-	-
UK Property									
Blackrock	0.4	0.6	-0.2	3.4	3.4	0.0	-	-	-
Legal & General	0.6	0.6	0.0	2.3	3.4	-1.1	7.3	7.2	0.1
Brockton	1.2	-	-	13.9	-	-	12.4	-	-
PFI & Infrastructure									
IPPL Listed PFI	-0.2	1.6	-1.8	9.0	2.9	6.1	8.0	3.1	4.9
Bonds									
BlackRock Passive ILGs	0.9	1.0	-0.1	4.3	4.2	0.1	2.4	2.4	0.0
Western Active Credit	3.2	3.0	0.2	9.2	9.0	0.2	5.8	6.0	-0.2
Insight Absolute Return Bonds	-0.8	-	-	-2.8	-	-	-0.1	-	-
LCIV CQS MAC	1.7	0.3	1.4	-	-	-	3.1	0.7	2.4
Inflation protection illiquids									
M&G Inflation Opportunities	2.6	1.6	1.0	8.5	2.9	5.6	7.7	2.4	5.3
Total Assets	**3.9**	**3.2**	**0.7**	**7.6**	**5.8**	**1.8**	**8.6**	**-**	**-**

Source: Investment managers/ Aon / Northern Trust. Performance is shown net of fees. In the absence of audited net performance figures from Northern Trust, performance has been sourced from the managers or estimated by Aon using manager data where possible. Totals may not sum due to rounding.
1) The Fund is invested in a passive global equity mandate with BlackRock. The performance shown is for the underlying pooled funds.
2) IPPL is measured against the UK Retail Price Inflation (RPI) index.
3) Adams Street and Brockton are close ended funds and traditional time weighted returns are not reflective of true performance. Adam Street numbers are IRR figures. Returns are lagged by a quarter due to the nature of the asset class (returns are as at Q1 2019).
4) The Adams Street, Davidson Kempner, Gruss and York returns will partly reflect currency movements. Over the quarter, Sterling appreciated against the Dollar and, as a result, these returns are weaker in sterling than in local currency terms.
5) The BlackRock property line shows the return of the BlackRock fund for the quarter and year. Since inception returns relating to the combined property portfolio are not shown as accurate figures cannot be obtained in the absence of figures provided by a performance measurer.
6) Fund benchmark is composed of 35% global equities 5% private equity (proxied by a global equity index), 10% property, 29% bond composite (based on underlying manager benchmarks) 6% infrastructure and 15% hedge funds.
7) Total assets performance since inception 31 March 1987.

Manager Allocations

	31.03.2019		30.06.2019			
	Market Value (£m)	Percentage (%)	Market Value (£m)	Percentage (%)	Strategic (%)	Relative (%)
Equities	**484.3**	**41.0**	**513.8**	**42.0**	**35.0**	**7.0**
BlackRock UK Passive	168.0	14.2	178.8	14.6		
Trilogy Global Unconstrained	0.8	0.1	0.8	0.1	32.5	7.5
MFS Global Unconstrained	110.1	9.3	119.2	9.7		
LCIV Baillie Gifford	75.3	6.4	81.1	6.6		
LCIV Henderson	28.2	2.4	29.7	2.4		
LCIV Longview Partners	77.0	6.5	80.2	6.6		
Lansdowne Equity L/S[1]	25.0	2.1	24.0	2.0	2.5	-0.5
Private Equity	**69.2**	**5.9**	**73.5**	**6.0**	**5.0**	**1.0**
Adams Street	69.2	5.9	73.5	6.0	5.0	1.0
Hedge Funds	**97.1**	**8.2**	**99.5**	**8.1**	**10.0**	**-1.9**
Lansdowne Equity L/S[1]	25.0	2.1	24.0	2.0		
York Distressed Securities	19.0	1.6	19.8	1.6		
Davidson Kempner	27.7	2.3	28.7	2.3		
CFM Stratus	25.4	2.1	27.0	2.2		
UK Property	**75.9**	**6.4**	**76.0**	**6.2**	**10.0**	**-3.8**
BlackRock	38.0	3.2	37.7	3.1		
Legal & General	33.4	2.8	33.7	2.8		
Brockton	4.5	0.4	4.6	0.4		
PFI & Infrastructure	**59.0**	**5.0**	**60.9**	**5.0**	**6.0**	**-1.0**
IPPL Listed PFI	43.3	3.7	43.2	3.5		
Antin	15.7	1.3	17.7	1.4		
Bonds	**262.0**	**22.2**	**266.5**	**21.8**	**24.0**	**-2.2**
BlackRock Passive ILGs	89.1	7.5	89.9	7.3		
Western Active Bonds	91.3	7.7	94.3	7.7		
Insight Absolute Return Bonds	30.9	2.6	30.7	2.5		
LCIV CQS MAC	50.7	4.3	51.6	4.2		
Inflation protection illiquids	**77.3**	**6.5**	**89.5**	**7.3**	**10.0**	**-2.7**
M&G Inflation Opportunities	72.4	6.1	73.7	6.0		
CBRE	5.0	0.4	15.8	1.3		
Cash	**56.5**	**4.8**	**43.7**	**3.6**	**-**	**3.6**
Enfield Cash	56.5	4.8	43.7	3.6	-	3.6
Total Assets	**1181.3**	**100.0**	**1223.3**	**100.0**	**100.0**	

Source: Northern Trust, Managers
Note: Numbers may not sum due to rounding.
[1]Due to the equity-like nature of the Lansdowne global equity long / short hedge fund investment, the valuation has been split 50:50 between equities and hedge funds.

Summary of Key Developments

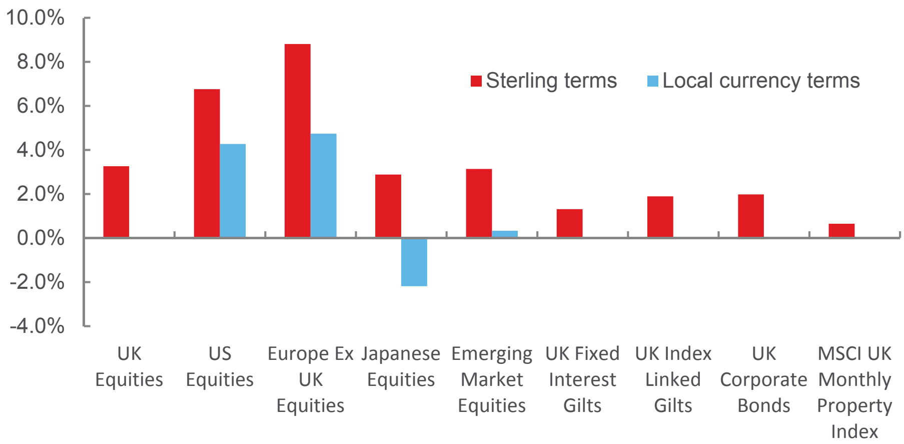
Key developments

- During the quarter, there were two capital calls for the CBRE Secured Long Income Fund. The first capital call was for c. £7.3m with settlement on the 3 May 2019. The second was for £3.6m with settlement of 18 June 2019. The total drawdown as at 30 June 2019, is £15.8m out of the £45m total commitment.
- The rating for Lansdowne Global Equity was reviewed by Aon's research specialists over the quarter and the overall Buy rating was maintained. However, changes were made to the underlying ratings for the strategy. These changes include downgrading the Business Investment Staff and Risk Management ratings, whilst increasing the Terms and Conditions and Risk Management ratings.
- Aon's research specialists carried out a full investment due diligence review of the MFS Global Equity strategy. Resultant from this review, we have decided to downgrade the strategy from Buy to Qualified, downgrading both the Investment Process and Investment Performance sub-categories from 3 (above average) to 2 (average).
- Following the announced resignation of lead portfolio manager Glen Finegan, we have downgraded our rating on the Janus Henderson Emerging Market Equity strategy to Sell. With Mr Finegan's departure, along with that of a number of his team members later in the year, we believe the continued implementation of the existing investment process will be called into question. Our perception of what we initially deemed an appropriate organizational home for this particular investment strategy and team has materially deteriorated.

Quarterly Investment Outlook Summary

Summary

- Goaded by central bank easing moves, equity markets have broken through to new highs. But the simultaneous rally in bonds, with falling long duration yields, continues to suggest a mismatch in views. Equities think economic conditions will improve while bonds do not.
- Monetary easing is a response to creeping weakness in the global economy amid big difficulties in global manufacturing and trade. Trade volumes could now shrink outright.
- The recent round of gilt yield declines appears more global than local, though the UK economy's travails are contributing too. Low though these gilt yields are, this bond-friendly environment still has a great deal of staying power.
- We remain convinced that a change to RPI to reduce the wedge with CPI is a matter of time. Though hardly straightforward, CPI-based hedging is worth exploring for some schemes.
- Credit markets have rallied with equities, but differentiation within the market shows that there is more than meets the eye. A more defensive higher quality approach to credit risk will help.
- Equity market upside is constrained by weak fundamentals shown in both earnings and valuations. With upside potential now running low, a debate over how much equity risk to reduce and how quickly is timely. De-risking now has low opportunity cost in foregone gains.
- Global macro hedge funds have had a very long wait for market volatility to pick up. It is now happening, but slowly. Returns versus equities should stop disappointing quite as much.
- Which asset classes will diversify and protect in the next downturn? There are lots of 'if's' and 'buts' but a view is best taken now to ensure that adequate protective buffers are in place. It will be worth the effort to ask and act now rather than reacting to poor market conditions later.



Portfolio overview

Asset class target ranges

The table below shows the discussions at the April 2018 Committee meeting where new strategic allocations were agreed.

	Strategic asset allocation	Investment Strategy Statement ("ISS") ranges
Equities (including private equity)	40%	30-50%
Hedge Funds	10%	10-20%
Property	10%	5-15%
Infrastructure	6%	3-9%
Bonds	24%	19-39%
Inflation protection illiquids	10%	

Split of equity portfolio

The table below shows the allocation to emerging markets within the equity portfolio:

	30 June 2019 value (£m)	Emerging Market Allocation (%)	Emerging Market Allocation (£m)
BlackRock	178.8	0.0	0.0
MFS	119.2	1.6	1.9
Baillie Gifford	81.1	7.3	5.9
Longview	80.2	1.3	1.0
Henderson	29.7	95.4	28.4
Lansdowne	24.0	0.0	0.0
Total	**513.0**	**7.2**	**37.2**

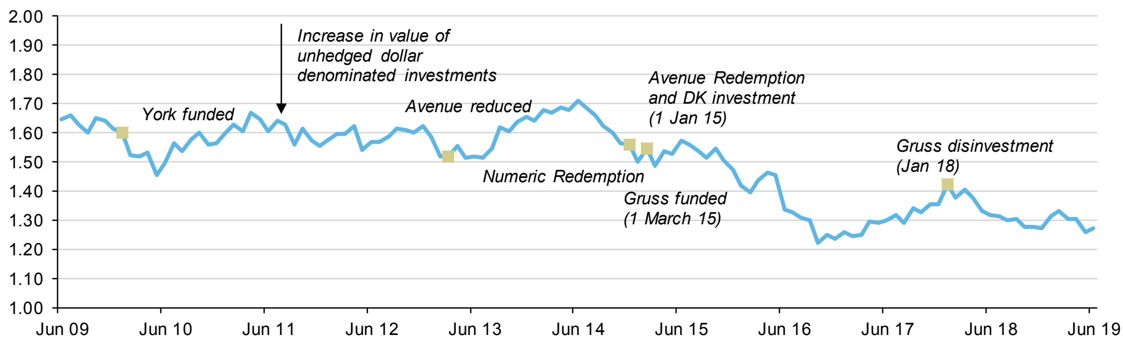
Source: Investment managers. Totals may not sum due to rounding. Does not include Trilogy because of the small allocation and the Fund is disinvesting from the mandate.

- c.35% of the equity portfolio is being managed passively by BlackRock. The remainder is being managed on an active basis, with MFS the largest holding.
- In aggregate, 7.2% of the Fund's equity portfolio is allocated to Emerging Markets. As at 30 June 2019, the MSCI All Country World Index had a 11.8% exposure to Emerging Markets.

Sterling-US dollar exchange rate

The chart below shows the movements in sterling versus the US dollar over time.

Sterling-US Dollar exchange rate over time



The appreciation of sterling versus the US dollar over the quarter decreased the value of dollar denominated holdings.

Currency analysis

The Fund has exposure to the euro, US dollar, yen and other currencies within its portfolio.

The active equity managers have exposures to various currencies as they are all global mandates, and we have approximated the currency exposures based on the geographical split of the underlying investments.

Adams Street, York and Davidson Kempner are US dollar denominated whilst Antin is euro denominated. The Lansdowne, CFM, BlackRock, CBRE, Western, M&G Inflation Opportunities, Legal & General, Brockton, Insight and IPPL mandates are assumed to have no direct exposure to foreign currencies as they are either hedged to sterling or are sterling share classes.

Currency	%	£m
Sterling	53.4	652.7
US dollar	31.7	387.4
Euro	7.5	92.3
Yen	2.0	24.0
Other	5.5	67.0
Total	100.0	1223.3

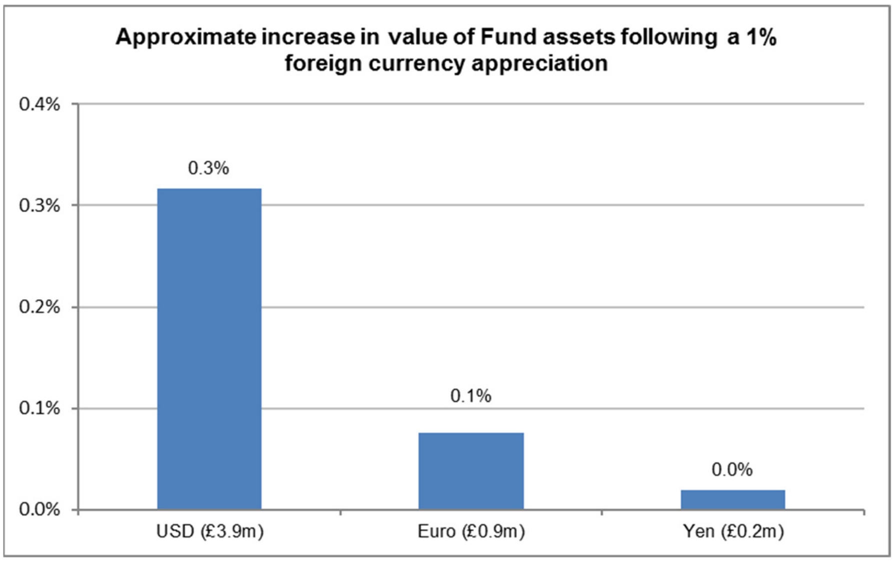
Note: Totals may not sum due to rounding.
Manager exposures are based on geographical, not currency, exposures.

Summary

US dollar exposure is the largest foreign currency risk for the Fund.

Following a 1% foreign currency appreciation (depreciation), we approximate that the value of the Funds' US dollar denominated assets will increase (decrease) by £3.9m, euro denominated assets will increase (decrease) by £0.9m and yen denominated assets will increase (decrease) by £0.2m.

Note that movements in currencies may either contribute to or be caused by factors that move other asset classes. For example, the US dollar may appreciate at times of stress which could coincide with a fall in the value of the Fund's equity holdings.



Currency	Fund exposure to currency (£m)	1% change in currency (£m)	1% change in currency (% in Fund's assets)
US dollar	387.4	3.9	0.3
Euro	92.3	0.9	0.1
Yen	24.0	0.2	0.0

Ratings

	Overall	ODD	Business	Staff	Process	Risk	Performance	T&C	ESG
Equities									
BlackRock UK Passive	**Buy**	*Pass*	4	4	4	4	4	2	2
MFS Global Unconstrained	**Qualified**	*A1*	3	3	2 (3)	2	2 (3)	2	3
LCIV Baillie Gifford	**Buy**	*A1*	4	3	3	2	3	3	2
LCIV Longview Partners	**Buy**	*A1*	3	3	3	2	3	2	2
LCIV Henderson	**Sell**	*A2*	1 (2)	2 (3)	3	2	2 (3)	2	3
Private Equity									
Adams Street	**Qualified***	-	-	-	-	-	-	-	-
Hedge Funds									
Lansdowne Global Equity L/S	**Buy (closed)**	*A2*	3(4)	3(4)	3	3(2)	3	3 (2)	-
York Distressed Securities	**Buy**	*A2*	3	3	3	2	3	2	-
Davidson Kempner	**Buy**	*A2*	4	4	4	3	3	3	-
CFM Stratus	**Buy (Closed)**	*A1*	3	4	3	3	3	2	-
UK Property									
BlackRock	**Buy**	-	-	-	-	-	-	-	-
Legal & General	**Qualified**	-	-	-	-	-	-	-	-
Brockton	**Buy (Closed)**	-	-	-	-	-	-	-	-
PFI & Infrastructure									
IPPL Listed PFI	**Not Rated**	-	-	-	-	-	-	-	-
Antin	**Performing ***	-	-	-	-	-	-	-	-
Bonds									
BlackRock Passive ILGs	**Buy**	*Pass*	4	3	4	4	4	2	2
Western Active Credit	**Qualified**	-	✓	✓	✓	⚐	✓	✓	-
Insight Absolute Return Bonds	**Buy**	A1	4	4	4	3	3	2	2
LCIV CQS MAC	**Not Rated**	-	-	-	-	-	-	-	-
Inflation Protection Illiquids									
M & G Inflation Opportunities	**Buy (closed)**	-	-	-	-	-	-	-	-
CBRE	**Buy**	-	-	-	-	-	-	-	-

Note:

1. Ratings shown as at 30 June 2019.
2. Previous quarter's ratings are shown in brackets where they have changed.
3. ER = Exceptions reported/ NER = No exceptions reported.
4. Aon does not rate the London CIV. Ratings are shown for underlying managers where appropriate.
5. Aon's process for reviewing property, private equity & infrastructure strategies has changed. Therefore, from 31 March 2019 onwards Aon's manager research specialists will not include sub-ratings for property, private equity & infrastructure strategies.

* Due to the nature of the underlying investment, Aon's monitoring of illiquid managers is conducted on an infrequent basis. Therefore overall ratings of these managers may be lagged over time.

ESG rating

Aon has increasingly been asked for input on whether and how well investment managers integrate Responsible Investment ("RI") considerations, and more specifically Environmental, Social and Governance (“ESG”) data, into their investment strategies.

To best serve our clients’ desire to understand how non-financial ESG data may (or may not) be accommodated by various outside investment managers, Aon has developed a distinct ESG rating system for buy-rated investment strategies. This serves to provide an added dimension of fund analysis for clients who have embraced, or are considering, ESG and RI within their investment policies. At this time the strategy’s ESG rating is not designed to have an impact on the overall rating of Buy/Qualified/Sell ratings.

ESG ratings are currently being deployed for buy-rated, long-only equity and credit strategies with liquid alternatives, private equity and real estate to follow. Like our investment strategy ratings, ESG ratings are assigned on a 1 to 4 scale, please refer to the Rating Explanation section for more detail.

Lansdowne rating change

The strategy rating was reviewed over the quarter and maintained, although have made changes to the ratings for the strategy. These changes include downgrading the Business Investment Staff and Risk Management ratings, whilst increasing the Terms and Conditions and Risk Management ratings.

MFS rating change

Aon’s Investment Manager Research (IMR) Team recently carried out a full investment due diligence review of the MFS Global Equity strategy.

Resultant from this review, we have decided to downgrade the strategy from Buy to Qualified, downgrading both the Investment Process and Investment Performance sub-categories from 3 (above average) to 2 (average).

Henderson rating change

Following the announced resignation of lead portfolio manager Glen Finegan, we have downgraded our rating on the Janus Henderson Emerging Market Equity strategy to Sell.

With Mr Finegan's departure, along with that of a number of his team members later in the year, we believe the continued implementation of the existing investment process will be called into question. Our perception of what we initially deemed an appropriate organizational home for this particular investment strategy and team has materially deteriorated.

We understand that the London CIV have also changed their view of the Henderson fund following the news.

BlackRock – Passive Global Equity

Buy

Key Information:

30 June 2019 Value:

£178.8 million

Vehicle:

Aquila Life

Mandate:

Global Equities

Benchmark:

FTSE All Share/ FTSE All World Developed ex UK

Target:

To perform in line with the benchmarks

Fee Scale:

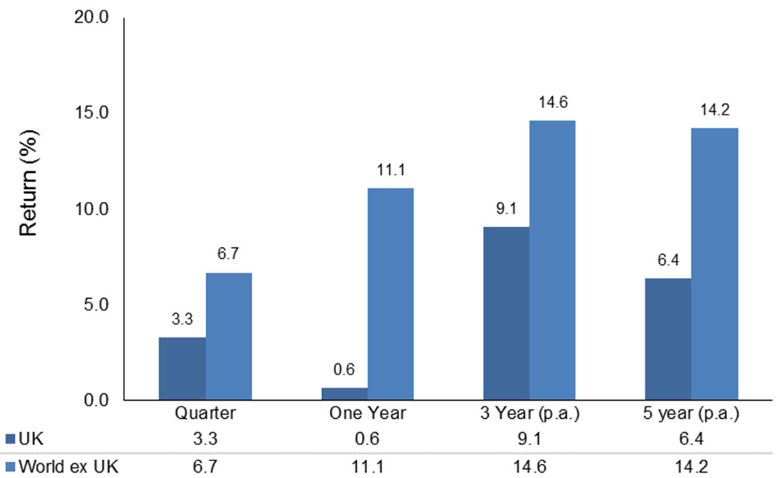
Fees following transition of units to London CIV:

UK Equity, World ex UK Equity:

0.005% p.a.

Our Ratings:

Overall	**Buy**
ODD	**Pass**
Business	4
Staff	4
Process	4
Risk	4
Performance	4
Terms	2
ESG	2



Source: Blackrock. Returns are shown net of fees.

Performance

The pooled equity funds within the BlackRock equity portfolio exhibited acceptable tracking error during the second quarter of 2019.

MFS – Global Unconstrained Equity

Qualified

Key Information:

Appointed:

August 2010

30 June 2019 Value:

£119.2 million

Initial Investment:

£35.9 million

Vehicle:

MFS Global Equity Fund

Mandate:

Global Equity

Benchmark:

MSCI AC World Total Return Index

Target:

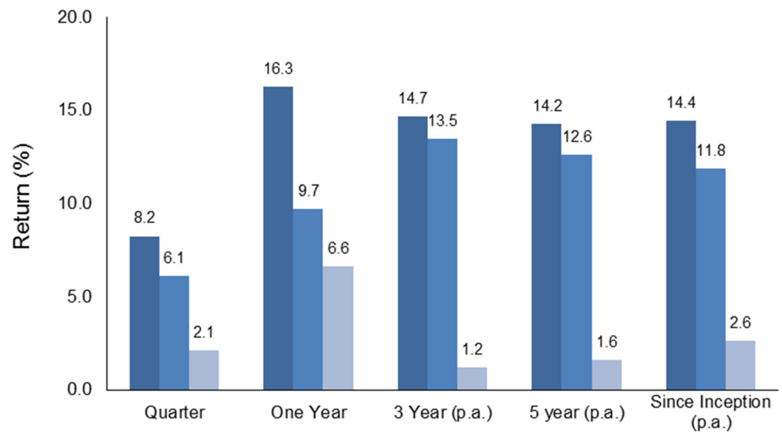
To outperform the benchmark by 2% pa gross of fees

Fee Scale:

Tiered base fee based on the AUM of 0.65% pa on the first £25.0m, 0.50% pa on the next £25.0m, 0.45% pa on the next £50.0m and 0.40% pa thereafter. No performance fee.

Our Ratings:

Overall	**Qualified**
ODD	**A1**
Business	3
Staff	3
Process	2 (3)
Risk	2
Performance	2 (3)
Terms	2
ESG	3



	Quarter	One Year	3 Year (p.a.)	5 year (p.a.)	Since Inception (p.a.)
Fund	8.2	16.3	14.7	14.2	14.4
Benchmark	6.1	9.7	13.5	12.6	11.8
Relative	2.1	6.6	1.2	1.6	2.6

Source: MFS. Returns are shown net of fees.

Performance

The MFS Global Equity strategy outperformed the benchmark in the second quarter of 2019.

Stock selection within Communication Services, Industrials, and Materials were the primary contributors to performance. More specifically, within Communication Services, an overweight position in Walt Disney and WPP Group contributed.

An underweight in- and stock selection within Financials as well as stock selection within Information Technology detracted from performance.

Major Developments

In April 2019, Aon carried out a full investment due diligence review of the MFS Global Equity Strategy and have decided to downgrade the strategy from Buy to Qualified.

We have been closely monitoring MFS over the recent years and increased the level of scrutiny after the announcement of long-time PM, David Mannheim's retirement that commenced April 2018. Subsequent to the initial notification of Mr. Mannheim's retirement, we downgraded both the Investment Staff and Investment Performance sub-categories from 4 (strong) to 3 (above average) which led to increased monitoring and further meetings.

During our last onsite visit, we identified several areas where we failed to gain the necessary confidence to maintain the Buy rating. More specifically, the team's effectiveness in sourcing ideas from the broader analyst platform and the elevated product assets' impact on portfolio flexibility, something that we have been monitoring for some time now.

London CIV – Baillie Gifford Global Alpha Growth Fund

Buy

Key Information:

Appointed:

October 2016

30 June 2019 Value:

£81.1 million

Initial Investment:

£41.4 million

Vehicle:

London CIV

Mandate:

Global Equities

Benchmark:

MSCI ACWI World Total Return Index

Target:

To outperform the benchmark by 2-3% pa gross of fees over rolling five year periods.

Fee Scale:

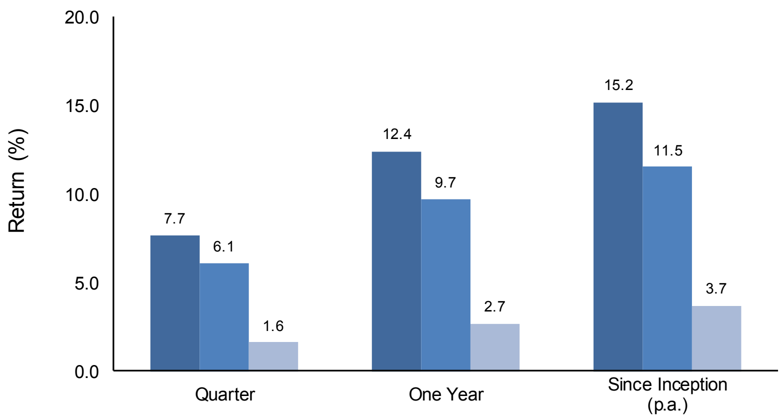
Tiered base fee based on the aggregate AUM of the Fund, 0.65% pa on the first £30.0m, 0.50% pa on the next £30.0m, and 0.35% p.a. thereafter.

An additional platform fee of 0.025% p.a. is payable to London CIV.

Our Ratings:*

Overall	**Buy**
ODD	**A1**
Business	4
Staff	3
Process	3
Risk	2
Performance	3
Terms	3
ESG	2

Ratings are shown for the underlying managers as we do not rate the London CIV.



	Quarter	One Year	Since Inception (p.a.)
Fund	7.7	12.4	15.2
Benchmark	6.1	9.7	11.5
Relative	1.6	2.7	3.7

Source: London CIV/ Aon. Returns are shown net of fees.

Performance

The Baillie Gifford Global Alpha strategy recorded another positive quarter, cementing a strong start to the year after only performing in line with the benchmark in 2018.

Stock selection was key to the outperformance over the period with Shopify (ecommerce platform / software), MarketAxcess (electronic bond trading platform) and SAP (enterprise application software) the main positive contributors. Shopify's technological solutions such as shipping, payments and Shopify Capital, are helping to drive increasing revenues with good growth in the number of merchants joining the Shopify platform. MarketAccess reported very strong first quarter results with record trading volumes across all its core products. Algorithmic-driven automated trading is gaining momentum in fixed income globally and the Global Alpha team believes MarketAxess is in a strong position to benefit from this structural shift. SAP’s rapidly expanding cloud business, together with growth in support revenue, means predictable revenue now accounts for 70% of total revenue.

The main detractors were Apache again (US oil and gas exploration / production), Alibaba (Chinese ecommerce) and Baidu (Chinese internet platform). Apache suffered from the effects of a weaker oil price and the announcement that it would delay production from its key Alpine High asset due to low natural gas prices, returning to production when it is profitable to do so. Baillie Gifford is in the process of reviewing the position, but believes the core investment case remains: that the company is a disciplined and returned focused operator. While it is easy to criticise with hindsight, this holdings has never seemed naturally aligned with the strategy's broader philosophy. Alibaba was impacted by ‘macro’ concerns about the progress of US / China trade negotiations but operational performance remained strong and the team continues to be optimistic. At Baidu growth has slowed in its core-search business and it has struggled to keep up with its peers. Following a long-term, successful period of ownership the team decided to exit the holding.

London CIV – Longview Global Equity Focus Fund

Buy (Closed)

Key Information:

Appointed:

October 2018

30 June 2019 Value:

£80.2 million

Initial Investment

£70 million

Vehicle:

London CIV

Mandate:

Global Equities

Benchmark:

MSCI AC World Total Return Index

Target:

To outperform the benchmark by 3% pa over rolling three year periods.

Fee Scale:

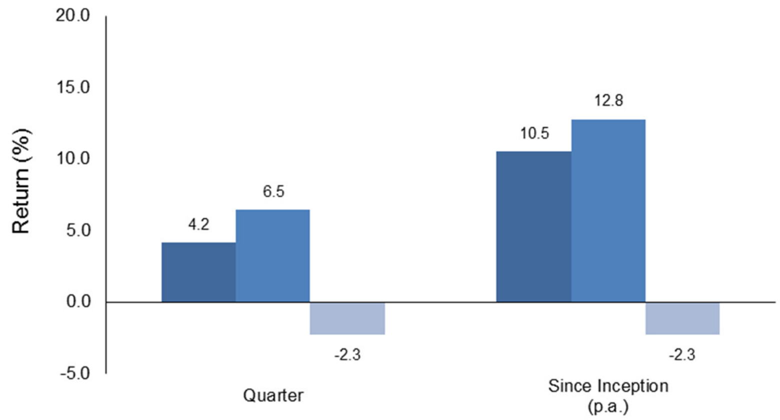
Tiered base fee based on the aggregate AUM of the Fund, 0.75% pa on the first £25.0m, 0.65% pa on the next £25.0m, 0.60% pa the next £75.0m, 0.50% pa on the next £125.0m, 0.40% pa thereafter.

An additional platform fee of 0.025% p.a. is payable to London CIV.

Our Ratings:

Overall	**Buy**
ODD	**A1**
Business	3
Staff	3
Process	3
Risk	2
Performance	3
Terms	2
ESG	2

Ratings are shown for the underlying managers as we do not rate the London CIV.



	Quarter	Since Inception (p.a.)
Fund	4.2	10.5
Benchmark	6.5	12.8
Relative	-2.3	-2.3

Source: London CIV/ Aon. Returns are shown net of fees.

Performance

Global equity markets enjoyed another strong quarter in Q2 2019. The US and Europe were the stronger markets (in sterling terms) with Japan/Asia, Emerging Markets and the UK lagging.

At the sector level, Financials, Technology were strong while Energy and Health Care were the main laggards. While Longview's longer term numbers remain impressive, the manager recorded a second quarter of underperformance in Q2. In the first 3 months the pull-back in Health Care holdings was the main detractor whereas in the latest quarter Financial and Industrial stocks proved to be main drag on portfolio returns.

At the stock level, State Street, Bank of New York Mellon and W.W. Grainger were key detractors. Longview's thesis was that State Street and BNY Mellon would benefit from growing custody businesses and that valuations were unfairly depressed by fears that any lowering of interest rates would adversely impact profitability. Industrial component supplier W.W. Grainger beat earnings forecasts but announced a slowdown in organic revenue growth.

London CIV – Henderson Emerging Market Equity Fund

Sell

Key Information:

Appointed:

October 2018

30 June 2019 Value:

£29.7 million

Initial Investment

£26.5 million

Vehicle:

London CIV

Mandate:

Emerging Market Equities

Benchmark:

MSCI Emerging Market Total Return Index

Target:

To outperform the benchmark by 2.5% pa over rolling three year periods.

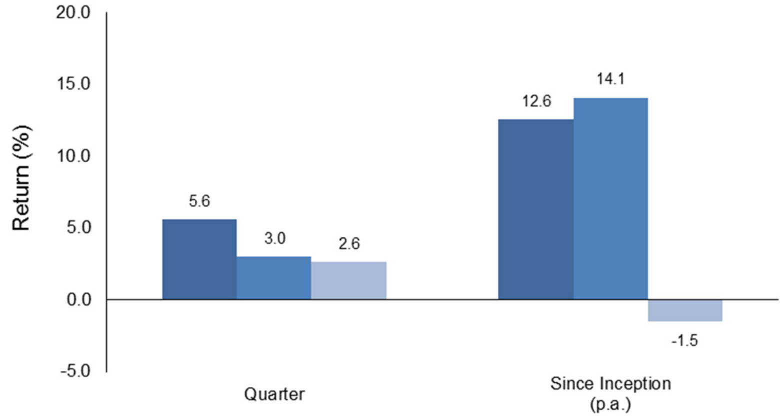
Fee Scale:

Fixed base fee of 0.65% pa on AUM. LCIV fee of 0.025%. No performance fee.

Our Ratings:

Overall	Sell
ODD	A2
Business	1 (2)
Staff	2 (3)
Process	3
Risk	2
Performance	2 (3)
Terms	2
ESG	3

Ratings are shown for the underlying managers as we do not rate the London CIV.



	Quarter	Since Inception (p.a.)
Fund	5.6	12.6
Benchmark	3.0	14.1
Relative	2.6	-1.5

Source: London CIV/ Aon. Returns are shown net of fees.

Performance

The Henderson Emerging Market Fund returned 5.6% over the second quarter, outperforming the MSCI Emerging Market index by 2.6%. Since inception, the fund returned 12.6% underperforming the MSCI Emerging Market benchmark by 1.5%.

Major Developments

Janus Henderson has announced that its lead Emerging Markets Equity portfolio manager, Glen Finegan, is leaving the firm by mutual agreement. He continued to work full time until 18 April 2019 and following a six month garden leave, his formal departure will be in October 2019. Mr. Finegan's departure is both unexpected and extremely disappointing to us, as we regard Mr. Finegan as a key to our confidence in the team, and his departure is the primary catalyst for our downgrade of the investment strategy.

The remaining members of the investment team (Nick Cowley; Stephen Deane and Michael Cahoon) will also be leaving the firm in November 2019. We would not be surprised to see Mr. Finegan start a new investment venture at some point, though the fact and certainly the timing of this outcome is far from certain; this scenario could lead to some or all of the team rejoining Mr. Finegan at a later date. Should this course of events play out, we would have no positive expectations around the investment process execution, and resultant long-term performance profile of the Janus Henderson Emerging Markets Equity investment strategy.

Also relating to the Business sub-rating, we view there to be a risk of significant asset outflows due to the profile of Mr. Finegan and the strength of his relationships with clients invested in the strategies.

Adams Street – Private Equity

Qualified*

Key Information:

Appointed:

January 2003

30 June 2019 Value:

£73.5 million

Vehicle:

Pooled fund ($ Share class)

Mandate:

Private Equity

Benchmark:

MSCI World Total Return Index

Target:

To generate an absolute return of 15% p.a. net of fees

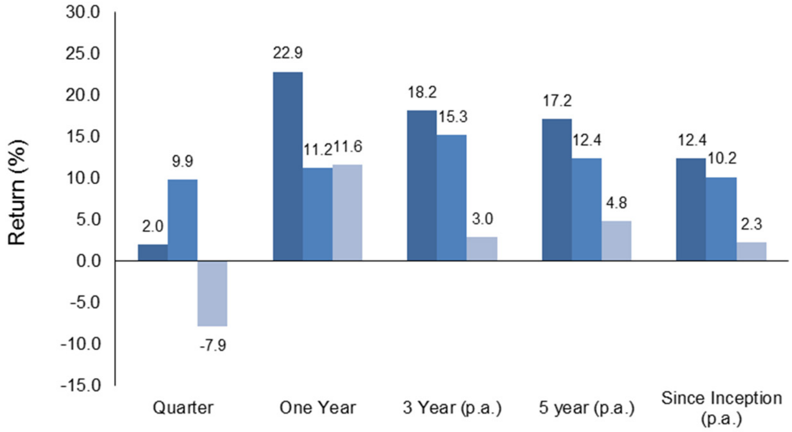
Fee Scale:

Tiered base fee based on the AUM of 1.00% pa on the first £25.0m, 0.90% pa on the next £25.0m, 0.75% pa on the next £100.0m and 0.50% pa thereafter. No performance fee.

Our Ratings:

**Due to the nature of the underlying investment, Aon's monitoring of illiquid managers is conducted on an infrequent basis. Therefore overall ratings of these managers may be lagged over time.*

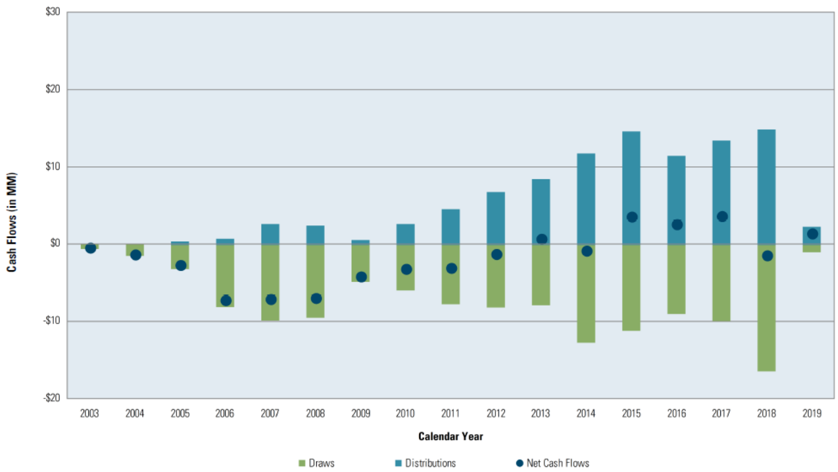
Aon's process for reviewing property, private equity & infrastructure strategies has changed. Therefore, from 31 March 2019 onwards Aon's manager research specialists will not include sub-ratings for property, private equity & infrastructure strategies.



	Quarter	One Year	3 Year (p.a.)	5 year (p.a.)	Since Inception (p.a.)
Fund	2.0	22.9	18.2	17.2	12.4
Benchmark	9.9	11.2	15.3	12.4	10.2
Relative	-7.9	11.6	3.0	4.8	2.3

Source: Adam Street. Internal rate of return (IRR) shown above. Returns are lagged by a quarter due to the nature of the asset class (returns are as at Q1 2019). Returns are shown net of fees.

- Performance of the underlying ASP funds has been strong over all major time periods.



The graph above, sourced from ASP, shows the cashflow profile of the Fund's investment in ASP. As the fund has matured over time the cashflow profile has started to improve and since 2015 (despite a dip in 2018) the Fund has been net cashflow positive.

Lansdowne – Developed Markets Hedge Fund

Buy (Closed)

Key Information:

Appointed:

September 2007

30 June 2019 Value:

£48.0 million

Initial Investment:

£25 million

Vehicle:

Lansdowne Developed Markets Master Fund Limited

(£ share class)

Mandate:

L/S Equity Hedge Fund

Benchmark:

N/A

Target:

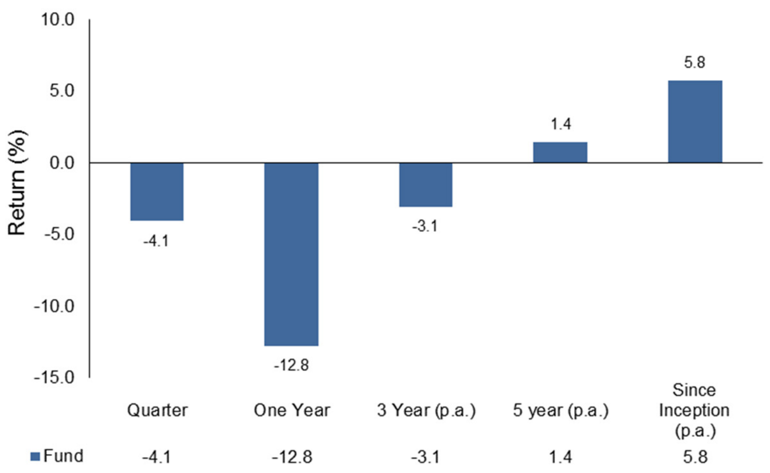
Absolute Return

Fee Scale:

Fixed based fee of 1.0% of AUM base fee plus 20% performance fee.

Our Ratings:

Overall	**Buy (Closed)**
ODD	**A2**
Business	3 (4)
Staff	3 (4)
Process	3
Risk	3 (2)
Performance	3
Terms	3 (2)



Source: Lansdowne. Returns are shown net of fees.

Performance

LDM’s difficult start to the year continued in the second quarter with the fund down -4.1% despite equity markets rising +4.0% and the HFRI Equity Hedge (Total) Index returning +1.7%. The long book was the main culprit as it lost money on an absolute basis, primarily driven by losses in Germany and the UK, while the short book lost money in absolute but was roughly flat on an alpha basis. The portfolio’s tilt towards more value orientated, capital intensive names and away from the USA was again unhelpful as central banks hinted at interest rate cuts which spurred growth stock prices further north.

Major Developments

The strategy rating was reviewed over the quarter and maintained.

Our experience of client service has been good, and requests for information have been met in a prompt fashion. Fee levels are consistent with the industry standard for this product type, however the discounts offered to Aon clients means we have increased our rating for Terms and Conditions from a 2 to a 3.

There is significant ownership of the fund's assets by partners and employees so that the interests of clients are very much aligned with those of the firm. Former Chairman, Stuart Roden has recently retired, but we view the revised management structure as appropriate. The recent decline in assets, although in part targeted by the firm, combined with these organisational changes holds us back from maintaining our highest rating for the business. We have subsequently downgraded Business from a 4 to a 3.

All members of the team are incentivised financially by the fund's performance. Although Stuart Roden has not held portfolio management responsibility for several years, his retirement from the firm means the team no longer has day-to-day access to his experience which we had viewed as a positive. On this basis, while we maintain strong conviction in the co-PMs we have decided to reduce our rating from the highest possible. We have subsequently downgraded Investment Staff from a 4 to a 3.

Lansdowne uses both conventional and proprietary techniques for risk management. The fund managers display good portfolio risk awareness and there is independent risk oversight from the CRO. We have upgraded our risk rating on the basis of improvements to the risk management process made over the past few years by the CRO, Andrew Ryder, who joined in 2016. We are notably favourable on improvements to systems and the increased interaction between the risk team and PMs. We have subsequently increased the rating for Risk Management from a 2 to a 3.

York – Distressed Securities Hedge Fund

Buy

Key Information:

Appointed:

January 2010

30 June 2019 Value:

£19.8 million

Initial Investments:

$16.0 million (£10.0 million)

Vehicle:

York Credit Opportunities Fund
($ share class)

Mandate:

Distressed debt hedge fund

Benchmark:

N/A

Target:

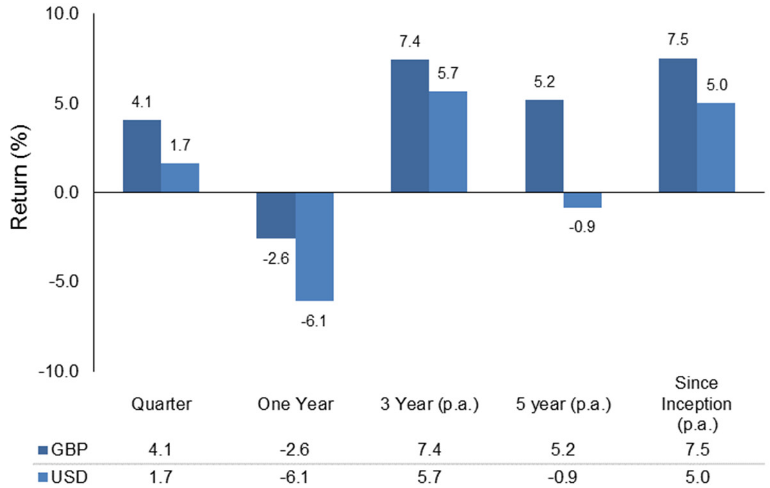
Absolute Return

Fee Scale:

Fixed based fee of 1.5% p.a. on AUM + 20% performance fee.

Our Ratings:

Overall	**Buy**
ODD	**A2**
Business	3
Staff	3
Process	3
Risk	2
Performance	3
Terms	2



Source: York. Returns shown above are Sterling and USD returns, net of fees.

Performance

YCO was up 4.1% in the second quarter ("Q2"), outperforming the benchmark HFRI ED: Distressed/Restructuring Index (1.2%) and bringing 12 month performance to -2.6%. Given the idiosyncratic nature of the portfolio, gains reflected positive strategic developments in some of the fund's core investments. Performance was partially offset by losses on energy-related holdings. As noted previously, YCO has significant holdings in the equity of companies that York has taken through a bankruptcy process and these positions are more sensitive to event catalysts than to market moves.

Larger contributors to performance included LNG development company Next Decade, which rallied after announcing an off-take agreement with Shell and two engineering, procurement and construction bids to build its planned LNG export facilities. Importantly, the company also received the final environmental impact study from the Federal Energy Regulatory Commission ("FERC"), moving closer to fundraising for construction later in 2019.

Detractors from performance included reorganized equities of Roan Resources and Riviera Resources, which were formerly known as Linn Energy. Roan traded lower on concerns around challenging operational performance and the resignation of its chief executive officer. Riviera fell on no company specific news. The liquidation of its assets continues and York expects substantial appreciation from current marks.

Davidson Kempner – Event Driven Hedge Fund

Buy

Key Information:

Appointed:

January 2015

30 June 2019 Value:

£28.7 million

Initial Investment:

£19.2 million ($30.0 million)

Vehicle:

Davidson Kempner International Ltd ($ share class)

Mandate:

Event Driven hedge fund

Benchmark:

N/A

Target:

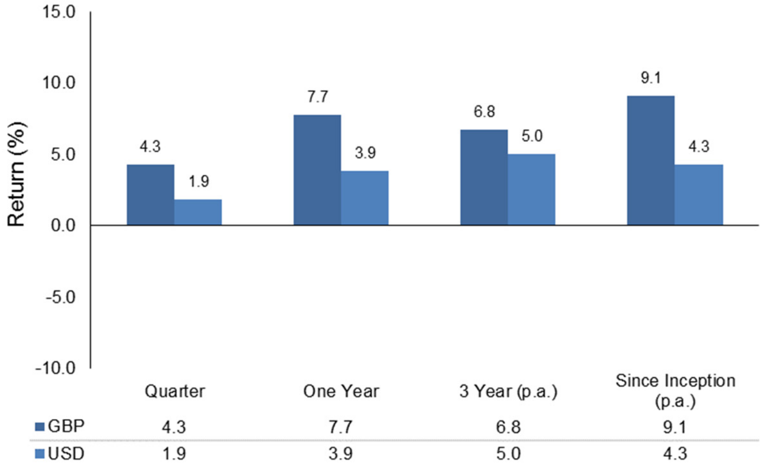
Absolute Return (7-10% p.a.)

Fee Scale:

Fixed base fee of 1.5% pa on AUM plus 20% performance fee.

Our Ratings:

Overall	**Buy**
ODD	**A2**
Business	4
Staff	4
Process	4
Risk	3
Performance	3
Terms	3



Source: Davidson Kempner. Returns shown above are Sterling and USD returns, net of fees.

Performance

DK International finished the second quarter up 4.3% (in GBP terms). This brings 12 month performance of the fund to 7.7%. Following the credit and equity market rally in the first quarter of 2019, markets suffered a marginal sell-off in May, before finishing the quarter positively. Against this backdrop, all strategies contributed positively over the quarter, with the distressed book leading the gains (+1.6%), followed by merger arbitrage (+0.7%).

At a position level there were two main contributors over the quarter. The bonds of bankrupt US utility company PG&E added +0.4%. DK owns the senior unsecured debt and, after adding to the position in the second quarter, is now the third largest creditor. The second largest contributor was Anadarko (+0.3%). DK entered the position when Chevron declared it would acquire the company in early April. However, the stock traded up when Occidental announced a higher bid for the company during the quarter.

There was only one notable detractor during the quarter, the stock of restructured telecom company Avaya (-0.1%). The company announced profitability was down significantly in May leading to the share price trading down from $18 to $12. DK sold a third of its position at $15 following the earnings announcement, taking the view that management were struggling to execute on the operational turnaround strategy.

CFM – Stratus Hedge Fund

Buy (closed)

Key Information:

Appointed:

1 February 2016

30 June 2019 Value:

£27.0 million

Vehicle:

Pooled fund (£ Share class)

Mandate:

Multi Strategy hedge fund

Benchmark:

n/a

Target:

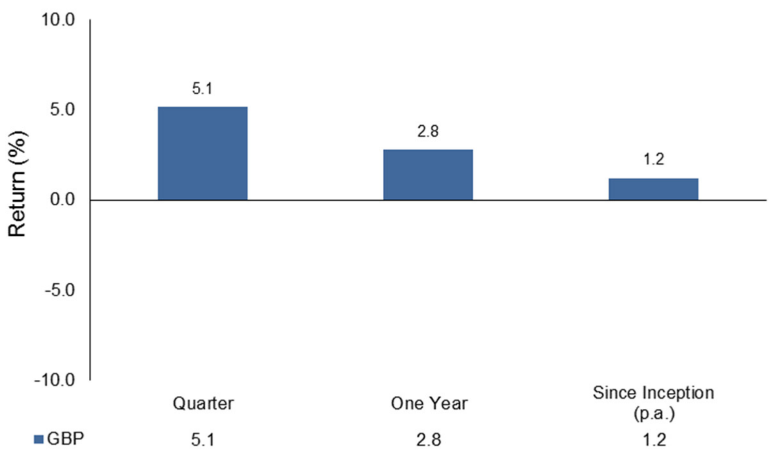
Absolute Return

Fee Scale:

Fixed base fee of 2.0% pa on AUM. 20% performance fee.

Our Ratings:

Overall	**Buy (Closed)**
ODD	**A1**
Business	3
Staff	4
Process	3
Risk	3
Performance	3
Terms	2



Source: CFM. Returns shown above are net of fees.

Performance

The fund continued to generate strong performance, resulting in a gain of 5.1% for the quarter. The Directional bucket generated the majority of the positive return, contributing +5.1% to performance, with the other strategies generating much smaller gains.

The Directional strategy returned over +13.0% standalone for the quarter, with the largest gains coming from fixed income (+5.0%) and strong performance also coming from commodities (+3.8%) and equities (+3.7%). FX was also a small positive contributor. The best performing sub-strategy was trend (+6.4%), with leader/laggard (+4.3%) and seasonal (+2.9%) also offering strong performance. The largest detractor was carry (-1.5%).

The statistical arbitrage strategy contributed +0.2% over the quarter, with a strong May offset by a more difficult April and June. Most of the sub-strategies were positive, however trend had a poor quarter (-5.0%) offsetting the gains made elsewhere. Similarly to last year, Europe has performed much better than the US, contributing +6.4% YTD compared to a -1.2% loss for the US portfolio.

Of the three smaller strategies, volatility arbitrage had the strongest performance, contributing +0.5% to the fund with standalone performance of +7.0%. Mean reversion and analysts' estimate added the majority of the positive performance. Of the remaining strategies, short term (+0.1%) and directional volatility (+0.1%) were both positive. There were no strategy allocation changes over the quarter.

BlackRock – UK Property

Buy

Key Information:

Appointed:

December 2012

30 June 2019 Value:

£37.7 million

Vehicle:

Pooled fund

Mandate:

UK Property

Benchmark:

IPD UK Pooled Property All Balanced Funds Total Return Index

Target:

To outperform the benchmark

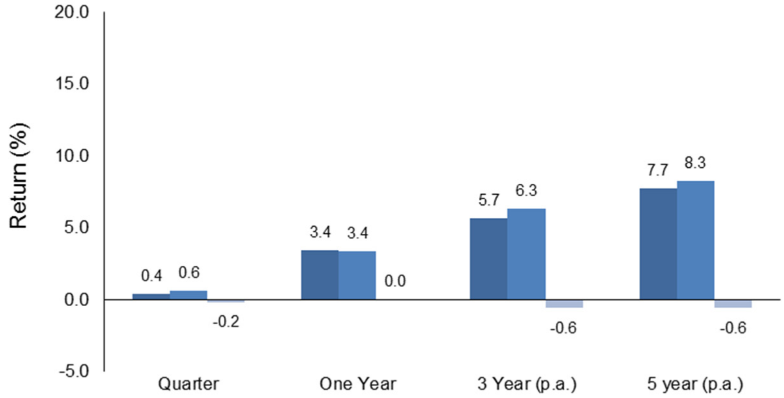
Fee Scale:

Fixed base fee of 1.0% pa on AUM. No performance fee.

Our Ratings:

Overall	Buy

Aon's process for reviewing property, private equity & infrastructure strategies has changed. Therefore, from 31 March 2019 onwards Aon's manager research specialists will not include sub-ratings for property, private equity & infrastructure strategies.



	Quarter	One Year	3 Year (p.a.)	5 year (p.a.)
Fund	0.4	3.4	5.7	7.7
Benchmark	0.6	3.4	6.3	8.3
Relative	-0.2	0.0	-0.6	-0.6

Source: Blackrock. Returns are shown net of fees.

Performance

Performance over the quarter was 0.4% which lagged the Fund's benchmark, the IPD All Balanced Property Fund Index, of 0.6%. Performance over 12 months to 30 June 2019 was level with the benchmark at 3.4%.

Due to the underperformance of the Fund during the first half of 2019, three-year annualised performance is lower than that of the benchmark (5.7% versus 6.3% respectively). It remains the case that performance over five years to 30 June 2019 is negative relative to the benchmark (7.7% versus 8.3%).

The Fund is generally well positioned maintaining overweight positions in defensive assets, namely alternatives. The Fund continues to want to increase the portfolio's exposure to this sector through assets such as doctors' surgeries and student accommodation.

Transactions

The Fund completed two acquisitions during the quarter and completed no disposals.

The Fund acquired an additional unit at Birmingham Business park, Compton House, for £8.7 million. The sector and region has performed positively for the Fund historically and therefore the team felt the opportunity to add to the business park was particularly compelling.

In addition, the Fund acquired The Old Firehouse Medical Centre in Bishop Auckland for £4.7 million. Although relatively small, this acquisition is evidence of the team's efforts to grow the portfolio's exposure to the alternatives sector.

LGIM – UK Property

Qualified

Key Information:

Appointed:

February 2010

30 June 2019 Value:

£33.7 million

Initial Investment:

£14 million

Vehicle:

Pooled fund

Mandate:

UK Property

Benchmark:

IPD UK PPFI All Balanced Property Funds

Target:

To outperform the benchmark

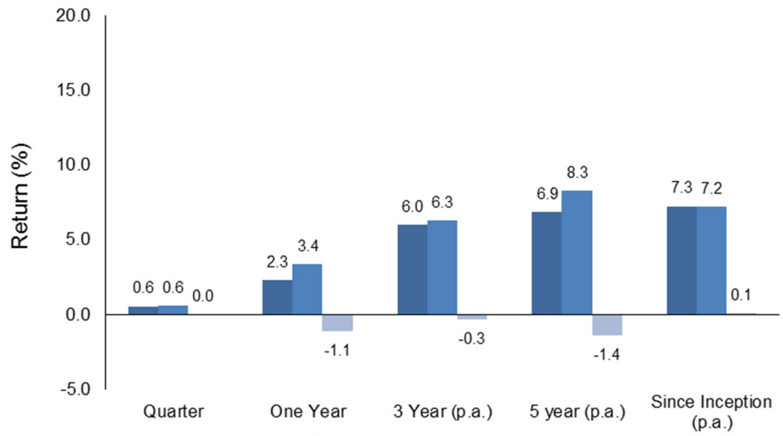
Fee Scale:

Tiered base fee based on the AUM of 0.70% pa on the first £2.5m, 0.65% pa on the next £2.5m, 0.60% pa on the next £7.5m and 0.55% pa thereafter. No performance fee

Our Ratings:

Overall **Qualified**

Aon's process for reviewing property, private equity & infrastructure strategies has changed. Therefore, from 31 March 2019 onwards Aon's manager research specialists will not include sub-ratings for property, private equity & infrastructure strategies



	Quarter	One Year	3 Year (p.a.)	5 year (p.a.)	Since Inception (p.a.)
Fund	0.6	2.3	6.0	6.9	7.3
Benchmark	0.6	3.4	6.3	8.3	7.2
Relative	0.0	-1.1	-0.3	-1.4	0.1

Source: LGIM. Returns are shown net of fees.

Performance

The Fund returned 0.6% over the quarter, in line with the benchmark. The positive relative performance through the first half of 2019 has resulted in three-year performance, to 30 June 2019, to move ahead of the benchmark. The Fund continues to underperform over longer time periods.

The Fund's void rate was reduced further over the second quarter of 2019 to 7.9% which is marginally below the benchmark's void rate of 8.0% (as at end-Q1 2019).

The Fund is reasonably well positioned regarding income security with a weighted unexpired lease term of 8.3 years. Additionally, the Fund's tenant percentile risk rating (which is effectively a covenant strength measure) was significantly stronger than the benchmark.

The Fund's cash weighting increased during the quarter from 8.2% to 8.9% of net asset value. This cash weighting remains above both the benchmark and the Fund's target range (5-7.5%). We are comfortable with this position.

Transactions

The Fund completed three sales during the quarter and no acquisitions. The disposals consisted of:

- Sandy Lane Retail Park, Worksop. This is a four-unit retail park sold as a result of the team's uncertainty regarding repeatability of current income levels.
- Building 1200, Thorpe Park, Leeds. This is a small out of town office building let to Regus. The asset was sold for £5.27 million representing a c.5% premium to market value.
- Tesco Warehouse, Widnes. This is a distribution warehouse let to Tesco on a 15-year unexpired lease.

Brockton – Opportunistic Property

BUY (Closed)

Key Information:

Appointed:

August 2014

30 June 2019 Value:

£4.6 million

Total commitment:

£20.0 million

Capital drawn:

£8.0 million

Vehicle:

Pooled fund (close ended)

Mandate:

Opportunistic Property

Benchmark:

3 Month LIBOR

Target:

15% net IRR and 1.5x net multiple.

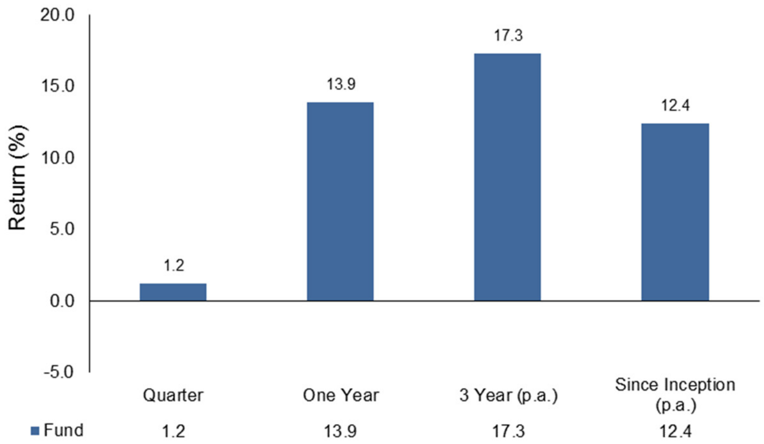
Fee Scale:

Management fee of 1.4% over the life if the fund. Carried interest proportion subject to IRR of the fund.

Our Ratings:

Overall	Buy (Closed)

Aon's process for reviewing property, private equity & infrastructure strategies has changed. Therefore, from 31 March 2019 onwards Aon's manager research specialists will not include sub-ratings for property, private equity & infrastructure strategies.



Source: Brockton.

Capital Commitments and Investments

The fund has total investor commitments of £786 million and as at 30 June 2019, the fund had made investments of £587 million across six different strategies. The fund has established reserves of £40.9 million for the completion of their asset management plans.

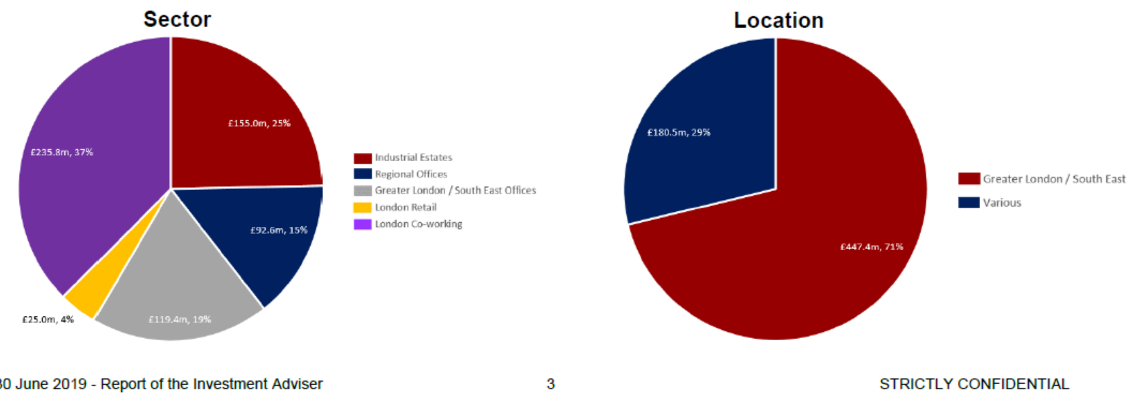
Existing portfolio and strategy

There are eight operational Fora co-working assets totalling 220,000 sq ft, all with revenues higher than initially underwritten. Fora Soho is already 75% occupied having opened in Q2 2019. In addition, Fora Borough is now 100% let and achieving private desk rates of over £800 which is ahead any competition in its area.

The acquisition of Foyles Soho by Waterstones (which is now majority owned by Elliot Management Corporation) has significantly improved the credit quality of the lease. In June 2019, they confirmed that it was acquiring Barnes & Noble, the largest bookstore chain. The single ownership and management of Barnes & Noble, Waterstones and Foyles is positive for the credit of the tenant.

In May, the fund completed the corporate sale of Crewe Tolle, Scotland within its Regional Office Portfolio, It comprises of mixed accommodation including office, research & development facilities and carparking. During April 2019, the fund also completed the sale of Martello Court & Dorey Court, St. Peter's Port in Guernsey for a gross price of £60,65 million. In addition, the fund completed a 10 year lease on the 11th Floor at the Pinnacle, Leeds to Adecco UK Limited at £110k p.a.

The charts, sourced from Brockton, show the BC FIII portolfio by sector and location



Relevant dates of the funds

First Closing Date	12 August 2014
Final Closing Date	12 February 2016
Fund Life	12 August 2022 (8 years from First Closing Date, excluding Fund Life Extension)
Fund Life Extension	Two one-year extension options at the discretion of the GP (requires Advisory Committee approval)
Investment Period	12 August 2018 (up to 4 years from First Closing Date)
Commitment Period	12 August 2022 (8 years from First Closing Date, excluding Fund Life Extension)

International Public Partnership Ltd – Listed PFI

Key Information:

Appointed:

January 2006

30 June 2019 Value:

£43.2 million

Initial Investment:

£15.0 million

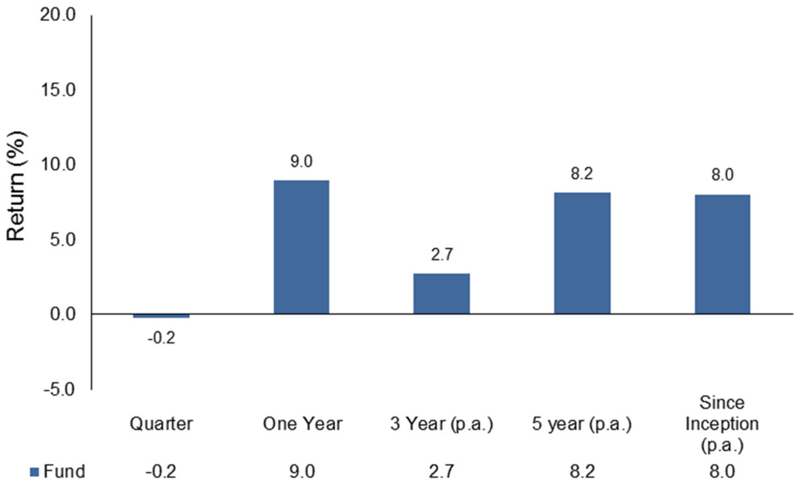
Additional Investment:

£4.0 million (April 2017)

£5.0 million (December 2017)

Mandate:

Listed PFI



Source: Northern Trust. Returns are shown net of fees.

2018 Annual Report Summary

The information below pertains to the International Public Partnerships Limited released 2018 Annual Report.

International Public Partnerships Limited ("IPP Ltd") invests in 130 public infrastructure projects. As at 31 December 2018, the majority (c. 71%) of the fund is invested in the UK although the fund also has material exposure to Australia (c.10%) and Belgium (c.10%).

The weighted average investment life of the portfolio is currently 35 years. As at 31 December 2018, the investment life and project stake breakdown of the portfolio was as follows:

Investment Life	% of fund	Project Stake	% of fund
<20 years	**48%**	**100%**	**49%**
20-30 years	**26%**	**50% - 100%**	**7%**
>30 years	**26%**	**<50%**	**44%**

The fund is seeing an attractive pipeline of new opportunities across Europe, primary in UK public infrastructure. The Company is due to invest a further c.£150-155 million (subject to price adjustment per the terms of the option agreements) in Cadent Gas Limited ('Cadent'), a Gas Distribution company in the UK, by the end of June 2019.

2018 was a strong year for the IPPL, delivering strong performance in addition to making over £105m in new or follow-on investments. Progress continues to be made on the construction of one of the largest projects, Tideway, where the new 25km sewer being built under the River Thames in London is now c.40% complete.

Antin – Infrastructure Fund III

Performing*

Key Information:

Appointed:

January 2017

Total Commitment:

€25.0m

31 March 2019 Value:

£15.7m

Mandate:

European Infrastructure

Benchmark:

Burgiss iQ European Infrastructure (EUR)

Target:

15% Gross IRR with a gross yield target of 5% p.a.

Fee Scale:

1.5% p.a. of total commitments during investment period

Our Ratings:

**Due to the nature of the underlying investment, Aon's monitoring of illiquid managers is conducted on an infrequent basis. Therefore overall ratings of these managers may be lagged over time.*

Aon's process for reviewing property, private equity & infrastructure strategies has changed. Therefore, from 31 March 2019 onwards Aon's manager research specialists will not include sub-ratings for property, private equity & infrastructure strategies.

Overall View

Antin is one of the strongest European infrastructure managers with a large team with deep knowledge of the infrastructure sector. While Fund I's performance will be difficult to replicate, Aon believe Antin is capable of achieving its 15% gross IRR target for Fund III.

Drawdown

The Fund has committed €25m EUR to the fund and the manager will call down capital gradually over time.

Relevant dates of the funds

First and Final Closing Date	9 December 2016
Fund Term	9 December 2026 (10 years from First Closing Date, excluding Fund Life Extension)
Fund Life Extension	Two one-year extension options at the discretion of the GP following consultation with the Investors' Committee
Investment Period	9 December 2021 (up to 5 years from First Closing Date)
Commitment Period	12 August 2022 (8 years from First Closing Date, excluding Fund Life Extension)

BlackRock – Passive Index-Linked Gilts

Buy

Key Information:

Appointed:

October 2005

30 June 2019 Value:

£89.9 million

Vehicle:

Pooled

Mandate:

Index-Linked Gilts

Benchmark:

Composite benchmark of Aquila Life Up To 5 Years UK Gilt Index Fund and the Aquila Life All Stocks UK Index-Linked Gilt Index

Target:

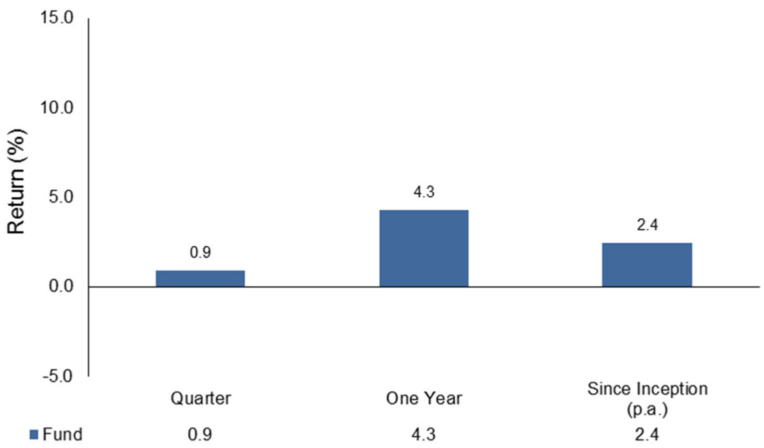
N/A

Fee Scale:

0.005% p.a.

Our Ratings:

Overall	**Buy**
ODD	**Pass**
Business	4
Staff	3
Process	4
Risk	4
Performance	4
Terms	2
ESG	2



Source: Blackrock. Returns are shown net of fees. Since inception figures shown reflect performance since the inception of the restructured mandate in July 2016.

The Fund invests in a blend of the Aquila Life Up To 5 Years UK Gilt Index Fund and the Aquila Life All Stocks UK Index-Linked Gilt Index Fund to create a portfolio with duration of c.10 years. At the outset of the portfolio's construction, the split was set to approximately 60/40 between the two funds, although this has, and will change, over time as market conditions dictate.

The table below shows the pooled funds held in the portfolio and their value as at quarter end (provided by BlackRock):

Security	Value (£)	Allocation	Nominal yield	Duration
Aquila Life Up To 5 Years UK Gilt Index Fund	53,735,740	59.78%	0.66%	2.09
Aquila Life All Stocks UK Index-Linked Gilt Index Fund	36,151,008	40.22%	1.23%	21.57
Total	**89,886,749**	**100.00%**	**0.89%**	**9.95**

Western – Active Investment Grade Credit

Qualified

Key Information:

Appointed:

April 2003

30 June 2019 Value:

£94.3 million

Vehicle:

Segregated

Mandate:

IG Credit

Benchmark:

BofA Merrill Lynch Sterling Non-Gilt 10+ Index

Target:

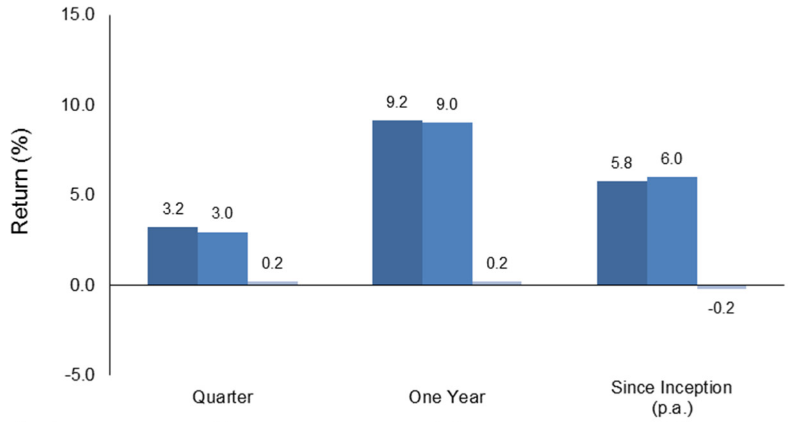
To outperform the benchmark by 0.75% pa over a rolling 5 year period

Fee Scale:

Fixed base fee of 0.15% pa thereafter.

Our Ratings:

Overall	**Qualified**
ODD	-
Business	✓
Staff	✓
Process	✓
Risk	⚐
Performance	✓
Terms	✓



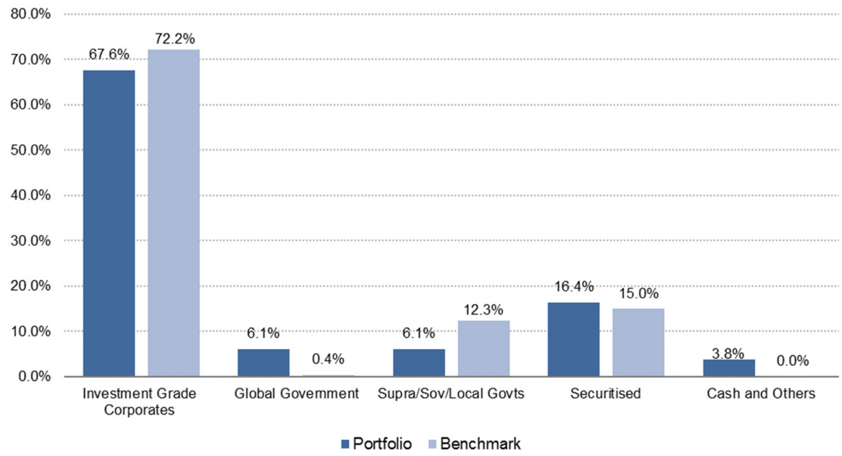
	Quarter	One Year	Since Inception (p.a.)
Fund	3.2	9.2	5.8
Benchmark	3.0	9.0	6.0
Relative	0.2	0.2	-0.2

Source: Western. Returns are shown net of fees.

Performance

The Western mandate delivered a return of 3.2% over the quarter, outperforming the benchmark by 0.2%. Since the inception of the restructured mandate on 30 November 2016, the fund has underperformed against its benchmark, by 0.2%.

The chart below shows the portfolio and benchmark allocations as at 30 June 2019.



Source: Western, ICE BofAML

M&G – Inflation Opportunities

BUY*

Key Information:

Appointed:

May 2013

30 June 2019 Value:

£73.7 million

Total Strategy Assets:

£1.4 billion March 2015)

Vehicle:

Pooled fund

Mandate:

Inflation Opportunities

Benchmark:

RPI

Target:

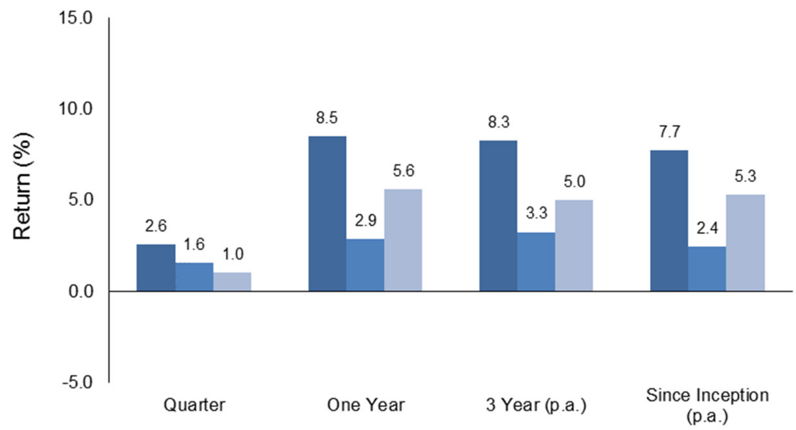
Benchmark + 2.5% pa

Fee Scale:

Fixed base fee of 0.20%- 0.50% pa on AUM.

Our Ratings:

**Due to the nature of the underlying investment, Aon's monitoring of illiquid managers is conducted on an infrequent basis. Therefore, overall ratings of these managers may be lagged over time.*



	Quarter	One Year	3 Year (p.a.)	Since Inception (p.a.)
Fund	2.6	8.5	8.3	7.7
Benchmark	1.6	2.9	3.3	2.4
Relative	1.0	5.6	5.0	5.3

Source: M&G. Returns are shown net of fees.

Performance

Overall, performance of the fund has been stable with a return of 2.6% over the quarter and 8.5% over the 12 months to June 2019.

The Fund continues to significantly outperform both the target of RPI + 2.5% and the FTSE Inflation Linked 5+ Years Bond Index over the longer term. However, the level of outperformance has reduced in more recent periods. Performance over the quarter was driven by income strips and ground rents which contributed 0.63% and 0.5% of absolute return respectively due to their long duration.

The Fund NAV is now £587 million and is well diversified across several investment types although these are predominantly real estate as M&G were unable to source many opportunities in other asset classes that offered value and met the Fund's return objective. This reflected high prices in the inflation linked debt markets rather than any deficiency on the part of M&G. The Fund acquired £0.63 million face value of bonds of Catalyst Healthcare on the secondary market during the quarter.

continued on next page

M&G – Inflation Opportunities (continued)

The chart below shows the portfolio including undrawn commitments as at 30 June 2019.

Source: M&G

CBRE – UK Secured Long Income Fund

Buy

Key Information:

Appointed:

December 2018

30 June 2019 Value:

£15.8 million

Commitment:

£45 million

Vehicle:

Open ended (3 year initial lock up period)

Mandate:

Inflation protecting Illiquids

Benchmark:

N/A

Target:

UK LPI +2.5%-3% p.a. over rolling 10y periods

Fee Scale:

0.25% management fee per annum

Our Ratings:

Overall	Buy

Aon's process for reviewing property, private equity & infrastructure strategies has changed. Therefore, from 31 March 2019 onwards Aon's manager research specialists will not include sub-ratings for property, private equity & infrastructure strategies.

The CBRE UK Secured Long Income Fund is an open-ended product The Fund will target property with long term, predictable cash flows and explicit inflation linkage. The target annualised net distribution yield is 2.5% to 3%. The Fund will have exposure to traditional sale and leaseback properties (let on long leases with explicit inflation linkage) together with ground rents and income strips. The key individuals managing the Fund are all very experienced and skilled investors, following a rigorous and well defined process. The fee structure is very competitive and well below peer group funds

Performance and positioning

As at the end of Q2 2019, the Fund had a NAV of £99.7 million, split across five investments and 26 underlying properties. The portfolio has 80% inflation linkage and a ratio of vacant possession value to investment value of 110%. This ratio is expected to increase to 140% once the portfolio is fully invested and stabilised.

In terms of portfolio build-up, the first investment made in December 2018 was the Marchwood power station near Southampton in Kent. This is a natural-gas fired combined cycle (CCGT) facility let to a joint venture between SSE and other power suppliers on a 22 year lease.

Four further investments were made over Q2 2019, with a total value of £57 million. The investments are outlined below:

- A portfolio of pubs in London were acquired for just under £20 million. The pubs are currently let on 25 year leases and are trading well. They are all in strong locations which underpins the value of each asset.

- An industrial estate in East London, near to the Olympic Park in Stratford, was acquired for £10 million. The investment is an income strip with a 57 year lease to the local borough council at a rent approximately 25% below market value. There is an outstanding rent review with potential for increasing the rent received by the Fund. Additionally, CBRE believes that there is the possibility that the lease can be restructured so that there is explicit inflation linkage. The site is also underpinned by residential use if a joint venture arrangement can be agreed with the local council.

- A portfolio of care home ground rents in the South East of England was acquired for £10 million. The Fund owns the freehold to these assets and the total ground rent payable is well secured with a 4x rent cover ratio based on the open market rental value of the portfolio. The vacant possession value is also significantly higher than the investment value with a ratio of 2.2x. The leases are 150 years in length and are linked to RPI (0% floor, 5% cap) with annual reviews. There is a buyback option for the leaseholder to acquire the Fund's freehold interest for a nominal amount at the end of the lease term.

- A further portfolio of pubs let on 150 year ground leases with annual reviews linked to RPI were acquired for approximately £18 million.

The Fund has also agreed terms to acquire a freehold hotel in Greater London for a price of approximately £16 million. The asset is let to Travelodge on a 30 year uncapped RPIX linked lease. The hotel is well located adjacent to a train station and near to a high capacity sporting venue. CBRE expects to exchange contracts on this following completion of certain remedial works to the cladding system.

The pipeline remains strong and the team expects to be close to fully invested by the end of 2019, with circa £90 million of investments expected to close during Q3. Investments in the pipeline include a number of RPI linked ground rents, including one secured against a gym, two further hotel investments and another healthcare portfolio that is complimentary to the existing portfolio of healthcare assets. Whilst acquisitions for the portfolio have taken longer than expected, we are pleased with more recent progress and this to a large degree reflects the lead-in time necessary to build a pipeline of deliverable investment opportunities suitable for the Fund which are short in supply and very specific in structure.

London CIV – CQS Multi Asset Credit Fund

Not Rated

Key Information:

Appointed:

December 2018

30 June 2019 Value:

£51.6 million

Initial Investment

£50.0 million

Vehicle:

London CIV

Mandate:

Multi Asset Credit

Benchmark:

3 Month LIBOR (UK) Total Return Index

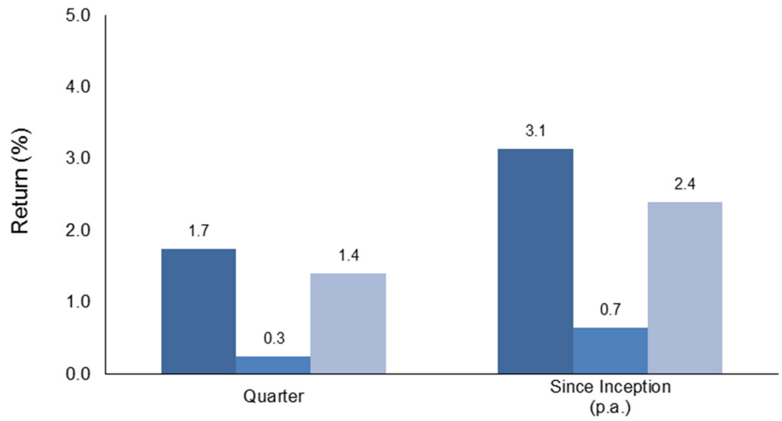
Target:

LIBOR +4-5% over 4 years

Fee Scale:

Fixed base fee of 0.41% pa on AUM. No performance fee.

An additional platform fee of 0.025% p.a. is payable to London CIV.



	Quarter	Since Inception (p.a.)
Fund	1.7	3.1
Benchmark	0.3	0.7
Relative	1.4	2.4

Insight – Absolute Return Bond Funds

Buy

Key Information:

Appointed:

December 2013

30 June 2019 Value:

£30.7 million

Initial Investments:

£10.0 million

Additional Investments:

£10.0 million (January 2014)

£10.0 million (March 2014)

Vehicle:

Insight Bonds Plus 400 Fund

Mandate:

Absolute Return Bonds

Benchmark:

3 Month LIBOR (UK) Total Return Index

Target:

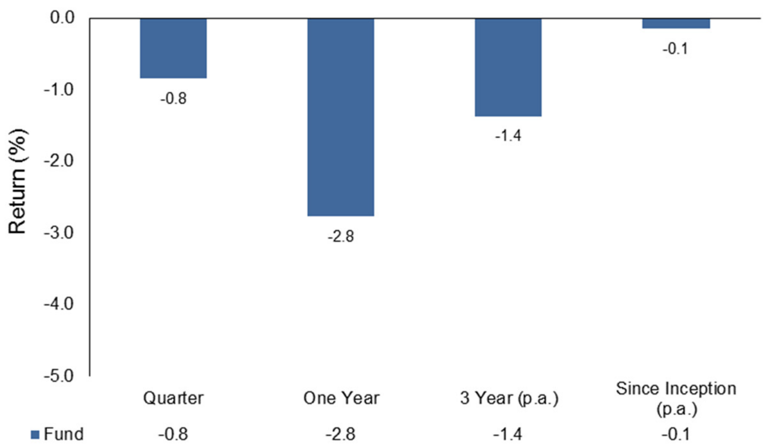
Benchmark + 4.0% pa over rolling 3 year periods net of fees.

Fee Scale:

Fixed base fee of 0.75% per annum.

Our Ratings:

Overall	**Buy**
ODD	**A1**
Business	4
Staff	4
Process	4
Risk	3
Performance	3
Terms	2
ESG	2



Source: Northern Trust/ Aon. Returns are shown net of fees.

Performance

The fund posted a negative absolute return over the quarter.

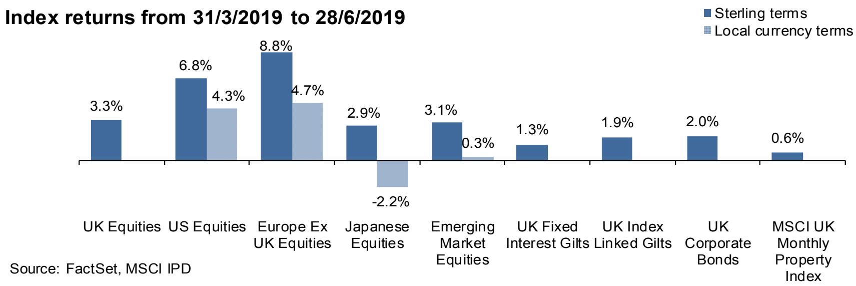
Duration was the largest detractor to performance. Short Italy 10yr bonds was the main negative contributor to performance as the yield on 10-year German government bonds continued to fall deeper into negative territory, supporting Italian bonds as investors searched for yield. Yield curve flatteners detracted overall. In the US a short 7yr versus long 30yr flattener was the main negative. The long 30yr US breakeven inflation position in US TIPS was negative due to a move lower in US inflation pricing over the period.

Country allocation was a positive contributor with Insight preferring treasuries over bunds. Being short Germany versus long US was the primary driver. This was offset by a small negative from a short US versus long UK position.

Staff

Over Q2 2019, Francesca Fornasari joined Insight to lead the new investment unit combining Insight's three core currency management activities: Dynamic Hedging, Discretionary Alpha and Passive Management. Francesca has over 20 years' experience in Currency, starting her career at The World Bank then spending time as an FX strategist at both Lehman Brothers and Morgan Stanley, before joining GSAM in 2006. She also holds a PhD in Economics from Georgetown University in the US. Francesca will report directly to Adrian Grey, Global CIO.

Appendix A – Market Background: Q2 2019



General Background

- Concerns of slowing global growth and trade wars rattled equity markets in the middle of the quarter but signs of increasingly accommodative central banks and positive steps towards a US-China trade resolution late in June resulted in positive returns. Although not as high as the prior quarter's impressive double-digit return, the MSCI AC World Index posted a 3.2% gain in local currency terms.
- Fears over a stalling global economy alongside weak inflation, despite tight labour conditions, appeared to force central banks to shift to a more accommodative stance. The US Federal Reserve (Fed) lowered their Federal Funds rate projections, with the Fed consensus indicating a rate cut later this year. The European Central Bank (ECB) also affirmed its commitment to keep monetary conditions easy while stressing that there are sufficient tools to ease further, if required.
- For the second successive quarter, expectations of greater central bank easing as well as downgraded global growth and inflation outlooks, drove developed market bond yields lower. The FTSE Actuaries UK Conventional Gilts All Stocks Index and the FTSE Actuaries UK Index Linked Gilts All Stocks Index posted positive returns of 1.3% and 1.9%, respectively.
- Improved risk appetite supported slightly lower credit spreads. Credit spread narrowing and lower underlying government bond yields resulted in a 2.0% overall return for UK investment grade bonds; a slight outperformance over government bonds.
- Brexit uncertainty continued to weigh on sterling, which dipped by 3.1% on a trade-weighted basis. Weaker sterling provided a further boost to global equities (6.1%) for currency-unhedged UK investors.
- UK property capital values trended lower for a third successive quarter, but steady income returns led to a positive overall return.

UK Equities

- UK equities built on their positive gains made in the first quarter, returning 3.3% in Q2 2019. The fairly strong return was achieved despite lacklustre UK economic data releases. Similar to other economies, the UK's manufacturing sector contracted for the first time since July 2016, as indicated by the fall in the Purchasing Managers' Index (PMI) below 50. Industrial production data also revealed the largest monthly fall in almost seven years.

- Given the weakness in the UK economy and its dimming outlook, as growth forecasts have been revised lower, it came as no surprise that more domestically-focused equities performed less well. The Utilities and the Real Estate sectors were the weakest performers; both posting negative returns over the quarter. Technology stocks (up 14.0%), in comparison, were the standout performers but did not significantly contribute to overall returns due to their small weight in the FTSE All Share Index.
- Large cap stocks (3.3%) outperformed smaller cap stocks with the Industrials and Energy sectors performing particularly well. Sterling weakness shielded large cap UK equities from falling sharply in May as they tend to benefit from currency translation effects from their larger share of revenues generated overseas. Mid cap and small cap stocks both returned 2.9% over the quarter with poor Energy sector returns contributing to their underperformance relative to the FTSE All Share Index.

Overseas Equities

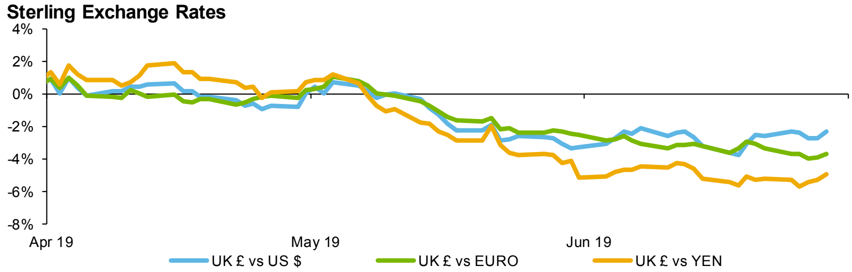
- Cyclical stocks outperformed in the US, particularly Financials which returned 8.0% over the second quarter. More defensive areas of the US equity market underperformed but it was only the Energy sector that posted negative returns over the quarter as crude oil prices slipped. US equities rallied strongly late in the quarter as the Fed move to a more dovish stance and trade concerns retreated slightly. This helped to reverse poor May performance. Similar to the prior quarter, valuation multiple expansion drove the positive performance while earnings growth was revised lower.
- Although buffeted by the global slowdown and rising trade concerns, European equity markets were buoyed by improving investor risk appetite over the quarter. Contemporaneous data releases pointed to no significant improvement in the bloc's manufacturing sector while industrial production also stalled. Moreover, ongoing trade uncertainty (amongst other factors) appeared to take its toll with the Sentix Eurozone Investor Confidence Index slipping into negative territory in June. More cyclical stocks outperformed with the exception of stocks in the Real Estate sector which were impacted by idiosyncratic factors such as rent freeze proposals.
- Trade concerns continued to hurt emerging markets and especially exporting countries and/or those with greater linkages to China. Those more exposed to the US-China trade spat, whether directly (China) or indirectly (South Korea), underperformed. In particular, technology-related stocks were caught in the crossfire as the trade war spilled over into an apparent battle for 'tech' supremacy. Overall, the MSCI EM Index was relatively flat (0.3%) in local currency terms.
- Japanese equities (-2.2%) struggled over the second quarter and were the only major equity market to fall in local currency terms. Headwinds in the guise of the trade war and yen appreciation put pressure on Japanese equities. Underperformance was fairly broad-based but more notable in cyclical stocks. Q1 data revealed a more resilient economy with stronger than expected export growth that boosted GDP growth to 2.1%. That being said, much like the Euro Area, more contemporaneous data showed that Japan's

manufacturing sector continued to shrink with a PMI that is still below 50.

- Similar to the UK, the Financial sector (5.1% in local currency terms) was one of the better performing sectors in the FTSE All World ex-UK Index. While the Health Care sector certainly lagged other sectors over the quarter, the Oil & Gas sector was the only sector to post negative returns as crude oil prices fell. Weaker energy demand, amid a global economic slowdown, more than offset supply worries triggered by rising geopolitical risks in Venezuela and Iran.

Currencies and Interest Rates

Sterling Exchange Rates



Source: FactSet

- The modest sterling appreciation that followed the EU's approval to extend the Article 50 deadline to 31 October 2019 proved to be short-lived. Failure to pass through the Withdrawal Agreement in Parliament on the third occasion, as well as dismal support for the Conservative Party in the European Parliamentary elections, once again increased political uncertainty. Consequently, Theresa May's already precarious position as Prime Minister became untenable and a Conservative Party leadership contest was announced. The tough stance over leaving the EU by the end of October taken by Boris Johnson, May's most likely successor, has increased expectations of a no-deal Brexit. This resulted in sterling depreciation over the quarter. higher. On a trade-weighted basis, sterling depreciated by 3.1% over the quarter with particular underperformance against the yen and euro. Sterling ended the quarter at €1.12/£ and $1.27/£ against the euro and US dollar respectively.

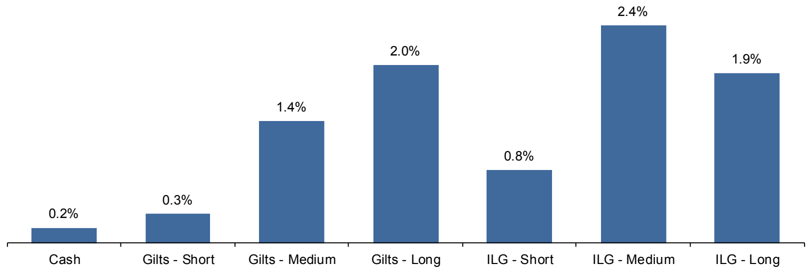
- The upward trend in the US dollar stalled in the second quarter. The dollar fell in June as expectations of Fed easing grew. Cyclical supports to the 'greenback' (stronger relative economic growth and wide interest rate differentials) lost momentum. The US dollar index (DXY) fully retraced its first quarter's 1.2% appreciation. The US dollar was particularly weak against the Japanese yen and the euro, depreciating by 2.7% and 1.4% respectively.

- Over the quarter, the euro gained 1.4% against the US dollar and 1.6% on a trade-weighted basis.

- The yen strengthened over the quarter as investors moved back to the 'safe-haven' currency. In theEuro Area, there was less disappointment in economic releases while the gap between US and Japanese government bond yields narrowed by c.50bps. On a trade-weighted basis, the yen appreciated by 3.4%.

Gilt Returns

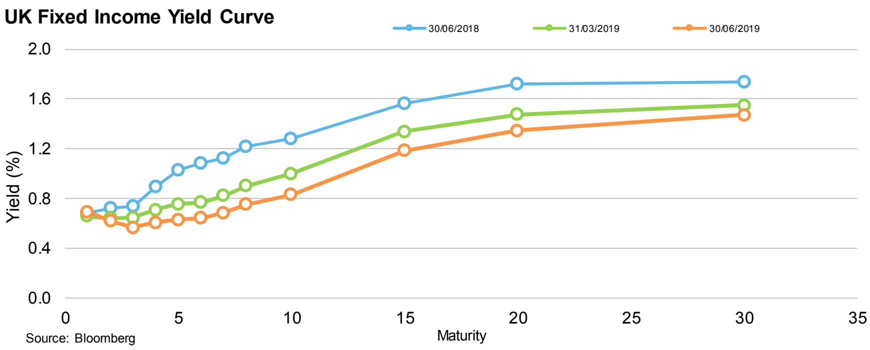
Index returns from 31/3/2019 to 28/6/2019

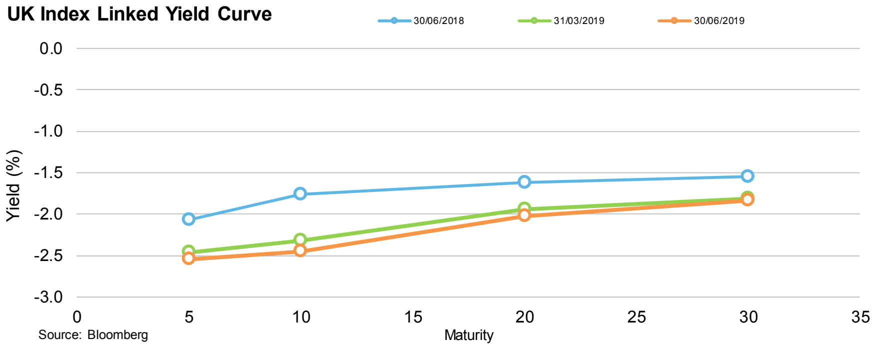


Source: Factset

- The descent of UK gilt yields carried on into the second quarter of 2019. Gilt yields were influenced by the downtrend in global bond yields on the back of the easier monetary stance of central banks and weaker global growth. Apart from a brief move up in yields after the EU's agreement on an October Brexit deadline extension in April, the clear absence of any Brexit resolution and a deterioration in the UK's economic outlook also weighed on yields.
- In this falling yield environment, the FTSE All Stocks Gilts Index returned 1.3% over the quarter. The flattening of the UK yield curve that prevailed over the prior couple of quarters continued into the second quarter and, as a result, longer-duration bonds outperformed relative to shorter-duration government bonds. Longer-duration bonds posted a 2.0% return, above the 0.3% and 1.4% return of short and intermediate maturity bonds respectively. With limited movement in short-dated yields, the return of short-dated government bonds was principally from income returns.
- With the exception of long-duration bonds, index-linked government bonds, outperformed their nominal counterparts with the Actuaries UK Index Linked Gilts All Stocks Index returning 1.9%. This was despite the fall in breakeven inflation which meant real yield movements were generally more muted.

Fixed Interest and Index-Linked Yield Curves

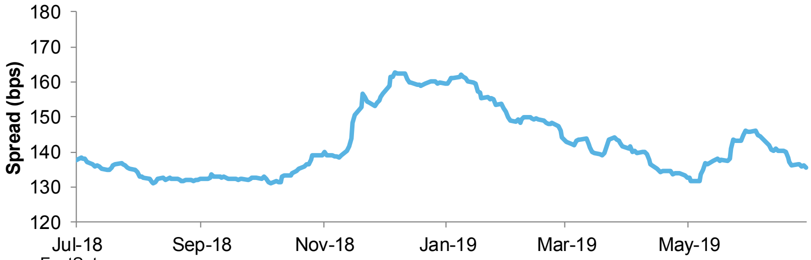




- Unlike prior quarters where the progress of Brexit negotiations had a greater bearing on UK gilt yield movement, most of the move down in UK yields this quarter appeared to be globally driven. As with other developed market yield curves, the short-to-intermediate part of the UK nominal yield curve inverted with the policy-sensitive 2-year government bond yield falling below the current policy rate of 0.75% - implying that the next Bank of England move would be a rate cut Meanwhile, the 10-year yield fell to its lowest level since late-2016.
- The fall in nominal yields was driven by both lower real yields and breakeven inflation. Other major sovereign bonds behaved in a similar fashion with the key driver of this global trend being concerns over a slowdown in the global economy, exacerbated by the escalation in the trade dispute but also, and arguably more importantly, the increasingly dovish stance among major central banks. Downward revisions to the global growth outlook were reflected by lower real yields while declining inflation expectations drove breakeven inflation lower. Index-linked gilt yields fell by a few basis points across all maturities apart from the 10-year tenor point which dropped by 13bps.

UK Investment Grade Credit

iBoxx Non-Gilts Index Credit Spread

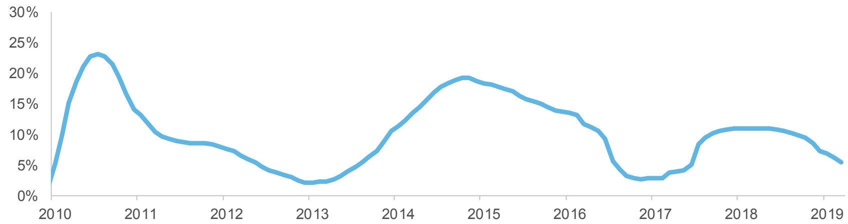


Source: FactSet

- Mirroring equity market concern, UK investment grade credit spreads moved higher over May. However, as these worries eased, and investor risk appetite returned, credit spreads partially retraced the spread widening over May to end the quarter 6bps lower at 136bps.
- Although spreads narrowed across all credit grades, the move was most notable among lower quality corporate bonds. BBB-rated non-gilt spreads decreased by 11bps compared to a marginal 2bps dip for AAA and AA-rated spreads. That being said, spreads in riskier credit areas, such as global high yield debt, rose slightly over the quarter. Spread compression occurred across all major sectors but was slightly more pronounced for Utilities and Financials.
- Similar to the prior quarter, UK corporate bond outperformance over gilts was led by lower underlying government bond yields and to a lesser extent, narrower credit spreads.

UK Property

12 Months Rolling Returns
MSCI UK Monthly Property Index



Source: MSCI

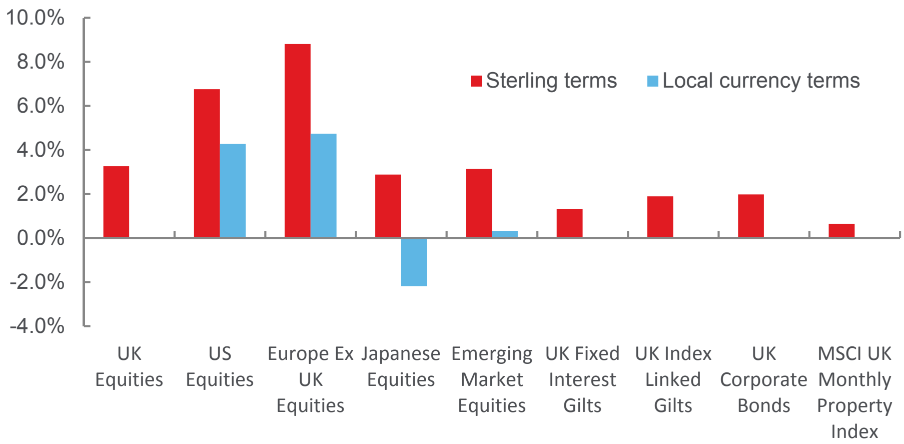
- In a slight improvement over the prior quarter, the MSCI UK Monthly Index returned 0.6%. Tough market conditions meant capital values fell for a further quarter, moving 0.7% lower. These lower values were, however, more than offset by stable income returns. There was no discernible change in either market rents or vacancy rates over the quarter, based on MSCI IPD data.
- For a second successive quarter, Industrial properties outperformed with a 1.7% return. The struggles faced by the Retail sector in the past couple of years have not abated as evidenced by a further 2.5% fall in capital values which more than offset strong income returns Retail sector capital values have now fallen by 10.8% since early 2018. Capital values also fell in the Office sector although strong income returns lifted the sector return to 1.0%.

Accounting Deficit (FTSE 350)	▪ The aggregate accounting balance of final salary pension schemes returned to a surplus at the end of the second quarter; moving from a deficit of £0.6bn to a surplus of £5.5bn. ▪ Discount rates, which are typically based on estimates of corporate bond yields at longer maturities, ended the quarter lower due to the combined effect of the downward move in underlying government bond yields and, to a lesser degree, the narrowing in credit spreads. The long-dated corporate bond yield, based on the iBoxx Non-Gilts Over 10 Year Index, dropped to 2.69% from 2.84% which supported the £7.6bn increase in pension liabilities over the period. ▪ Risk assets performed well over the quarter, finding support from renewed investor risk appetite. Equity market strength predominantly drove pension scheme assets higher over the quarter with positive returns from fixed income assets also contributing to asset value growth.
Funding Levels (Typical Pension Scheme)	▪ Liabilities increased on a gilts basis over the quarter as long-dated bond yields fell over the quarter. There was slight improvement in both funding ratios and the funding deficit although it was more muted than the improvement made on an accounting basis. ▪ Long-dated fixed-interest gilt yields (20-year duration) decreased by 13bps to 1.35% over the quarter. 20-year real yields also fell over the quarter but by comparably less than fixed due to the decrease in breakeven inflation.

Appendix B – Quarterly Investment Outlook

Summary

- Goaded by central bank easing moves, equity markets have broken through to new highs. But the simultaneous rally in bonds, with falling long duration yields, continues to suggest a mismatch in views. Equities think economic conditions will improve while bonds do not.
- Monetary easing is a response to creeping weakness in the global economy amid big difficulties in global manufacturing and trade. Trade volumes could now shrink outright.
- The recent round of gilt yield declines appears more global than local, though the UK economy's travails are contributing too. Low though these gilt yields are, this bond-friendly environment still has a great deal of staying power.
- We remain convinced that a change to RPI to reduce the wedge with CPI is a matter of time. Though hardly straightforward, CPI-based hedging is worth exploring for some schemes.
- Credit markets have rallied with equities, but differentiation within the market shows that there is more than meets the eye. A more defensive higher quality approach to credit risk will help.
- Equity market upside is constrained by weak fundamentals shown in both earnings and valuations. With upside potential now running low, a debate over how much equity risk to reduce and how quickly is timely. De-risking now has low opportunity cost in foregone gains.
- Global macro hedge funds have had a very long wait for market volatility to pick up. It is now happening, but slowly. Returns versus equities should stop disappointing quite as much.
- Which asset classes will diversify and protect in the next downturn? There are lots of 'if's' and 'buts' but a view is best taken now to ensure that adequate protective buffers are in place. It will be worth the effort to ask and act now rather than reacting to poor market conditions later.



Global Outlook

Bonds and equities seeing outlook very differently

The rebound in risky assets continued into the second quarter, helped by central bank assessments that more easing was needed and on its way. While such expectations naturally helped shorter duration bonds, strength in longer durations where global yields fell markedly, was less easily explained. In fact, the latter suggested growing pessimism over the economic outlook. This chimed in with what central banks have been saying but has diverged from the upbeat mood in equity markets.

It is possible that equity markets are expecting easier monetary policy to spur an economic rebound while also believing that trade conflicts will subside. Bond markets, on the other hand, are seeing current globally soft economic conditions as less amenable to improvement. Whatever the explanation, there is little doubting the impressiveness of the stock market rebound in 2019. This has been one of the strongest first half-year market performances for a very long-time. Taking the longer view, a new record has now been set for the length of a bull market (now about 10 years long), eclipsing the 1990's run, though market gains then were somewhat larger.

Trade-led economic slowdown

Evidence accumulates on the dampening effects of trade conflict and uncertainty on economic activity. Global manufacturing activity is now in the doldrums. The causal factor behind this appears to be disruption in global trade flows and supply chains from rising import and foreign investment barriers, but also from an expectation of more escalation to come. As the chart below shows, global trade flows have stalled badly and could be poised to shrink outright, typically only seen in global recessions.

Is global trade now shrinking?
(Growth in trade volume on a year ago)

Source: FactSet, CPB

The question is whether this slowdown in global manufacturing will lead to a broader economic deceleration that risks turning into outright recession.

Manufacturing may be less important than it used to be in the UK and the US, but this activity employs a lot of people, more so in the likes of China and Germany. Employment and income losses here could spill over elsewhere. It is this worry that is hanging heavily over global interest rate markets. While some policy easing helps at the margin, it cannot fully forestall a growing negative impact from trade conflict. We see a clear and present danger that the current economic environment looks worse rather than better.

Interest rates and gilt yields

Global interest rate expectations fall further

UK and European interest rates were already very low well before growing bond market pessimism on the outlook took hold in recent months. In Europe, with policy rates already at about zero, the expectation is that the European Central Bank will step up quantitative easing again. In the UK, we now have an expectation of at least one interest rate cut over the next year, which is extraordinary given that bank rate is at a mere 0.75%.

Both local and global factors are at work currently depressing UK rate expectations and pulling gilt yields down. The economy has recently slowed further to almost no growth, reflecting Brexit-related uncertainty and the impact of the global slowdown. There is little to suggest that these conditions will change. A chaotic Brexit that could lead to even lower interest rates and gilt yields still looks unlikely but cannot be dismissed out of hand. Equally, even a negotiated Brexit will not lift some local and global uncertainties that have made for a bond-friendly environment. All this suggests a broadly sideways trading pattern for gilt yields at current low levels.

Inflation hedging

RPI measurement change remains a strong possibility

The earlier House of Lords report that was critical of current RPI has now been followed by a report from a Commons Parliamentary committee that has criticised the UK Statistics Authority for not taking the initiative to address the issue of the costly overstatement of inflation that continues with current RPI. Our view is that the pressure to change RPI continues to build and will sooner or later lead to a change, most likely taking the form of reversing the 2010 adjustment to the measurement of clothing prices which raised the differential over CPI by about 0.3%.

Given the preoccupation with Brexit now, an imminent measurement change is unlikely, but this still leaves the issue as more a matter of ‘when’ rather than ‘whether’ a change happens. As a measurement change occurs, RPI-based hedges could lose value against CPI-based liabilities. This points to an improving case for CPI-based hedging, even though it is procedurally more complex. Our liability driven investment team can advise on approaches to do this.

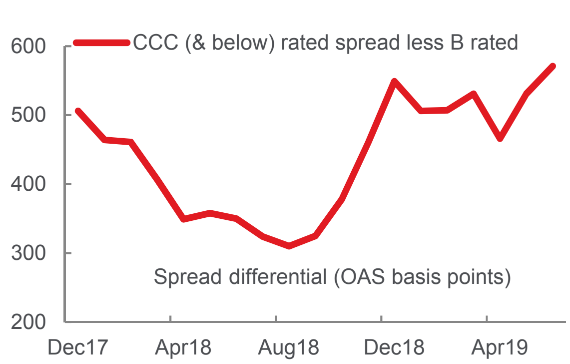
Credit views

Credit ‘canary in the coal mine’?

The recent rally in risky assets prompted by the promise of monetary easing from central banks has helped credit too. Credit spreads over government bonds have tightened, though at the time of writing, they are short of reaching their lows from last year, a less sparkling run than for equities which have pushed through to new highs recently.

More revealingly, underneath the headline move in credit spreads, performance dispersion within the market is rising. There is now a tendency for lower quality credits to underperform, significant given that good market conditions normally see the reverse. It suggests that the credit market, at any rate, is less optimistic than might appear from the trend in average spreads. As the chart below shows, within global sub-investment grade, we see lower quality underperforming relative to grade rungs higher up, a level of performance dispersion that is greater than during the sell-off late last year. Since credit has typically led the cycle in risky assets, ahead of equities, such dispersion trends bear watching. If it increases, broad market risks will rise too.

Credit markets not as optimistic as might appear



Source: Bank of America Merrill Lynch, Global High Yield Index

A defensive/quality focus in credit

Our preferred credit approach is focused on a quality-orientated conservative approach that is cautious and selective in taking credit risk. This is a way to manage credit disruption risk, now significant given the erosion in credit quality we have often discussed in the past year. It applies with equal force in any new investment in private credit. A much more sustained version of the trends we saw in the closing weeks of last year before central banks came to the rescue is a big danger for credit markets as we look ahead.

Relatedly, we have, after strong performance in the year to date, become more cautious on local currency emerging market debt. This remains a strategically attractive asset class and emerging currencies still offer upside potential over longer-term horizons. However, current trade conflicts and the likelihood of more risk aversion arriving will not be helpful for its medium-term performance.

Equities

Upside now more limited

After such large market gains year-to-date, upside potential has dwindled sharply. Though current conditions are still within what we have described as a ‘transition market’ environment rather than worse, we do see that we are further along this phase to a point where the room for gains continues to shrink. Equally, the chances of market drawdowns are higher to a point where the onset of bear market conditions, by which we mean a sustained market fall of greater than 20%, may not be that far away.

Why do we believe this to be the case? Essentially because macroeconomic and market conditions are pointing that way. As we noted, the market rebound is based on the view that monetary easing could lift current weak conditions, extending the life of the current US expansion, already the longest in the past 150 years. The problem is that easier money is a response to the global economic drags from trade conflict and soft economic activity in Europe and China. It could cushion a further activity slowdown, but given what can be done, it is unlikely to spur much of an economic rebound. Bonds clearly do not believe the rebound story, already seen in the twelve months ahead (July 2020) US recession probability of 1 in 3 recently signalled by the New York Federal Reserve’s widely used measure of risk to the economic cycle.

When we look at equities directly, neither valuations nor earnings appear to offer much fuel for the market. The current forward P-E ratio of 17x for the US market is high. Neither does the likely fall in corporate profits (earnings per share) in 2019 given continued sharp downgrades to earnings expectations, throw off much optimism. As we noted at the start of the year, share buybacks by US companies have been a key market driver of the 2019 rebound, given the absence of other buyers. This could continue near-term, but increasingly appears as a tactical or shorter-term market support only.

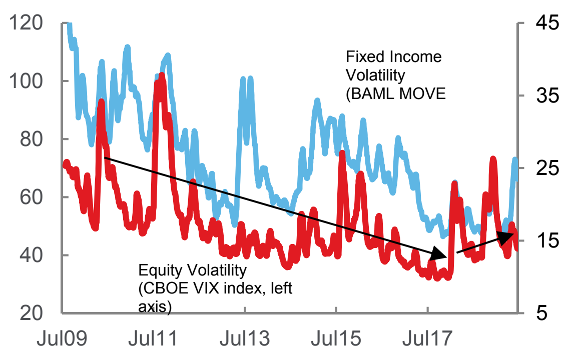
De-risking has low opportunity costs now

What should be done? Precisely timing a sustained large market breakdown is almost impossible, but this should not matter very much if room for sustained gains in the market is small. In other words, the opportunity cost of foregone market gains in de-risking is currently small. Given funding level improvements, many UK pension funds will have been moving towards lower reliance on equity risk already in the past few years. Continuing or moving faster down such a de-risking path seems reasonable now. Where equity reliance remains substantial, portfolio risk can be mitigated by a switch at the margin to other asset classes which still offer return at lower risk. Alternatively, direct protection solutions can be found through using option strategies or utilising funds which gain from market falls. Both bring some new governance requirements, but Aon advice and support is readily available.

Hedge funds

Global macro - waiting for volatility to pick up?

Volatility on the rise but still quite low



Source: FactSet, Bank of America Merrill Lynch, CBOE

One area with a claim to diversifying equity risk is in global macro hedge fund strategies which will typically aim at a very low correlation with equities. After good performance spanning the 2007-9 crisis period, they have, with some exceptions, generally struggled to deliver much by way of positive returns after fees. The finger of blame for disappointing performance is usually pointed at central banks for suppressing volatility in markets which hurts such strategies. It is true that volatility has been falling or simply low for much of the past decade, though it has picked up across both fixed income and equities over the past year (see chart above).

A positive relationship between performance in macro strategies and market volatility means that any prolonged period of higher volatility should help. Also, as equity market returns dwindle, relative returns will compare better. This makes global macro offer something ultimately quite valuable. Simple past comparisons with equity market performance could mislead given that a full market cycle is incomplete. Even so, these strategies should be seen delivering a modest positive and smoother return profile than anything much more ambitious. The hedge fund universe has changed markedly, with growing competition, which make the performance strength of the last financial crisis appear less likely.

Diversifiers

Not so easy to find the winning formula

This is a logical moment to ask where the genuine and robust diversifiers of equity and credit risk are to be found given a widespread expectation that risky assets will come under more sustained pressure. It is harder than it looks to answer this. The standard indicators of co-movement – so called ‘correlations’ (the lower, the better) may not work so well because correlations can reverse or become unstable in unusual market conditions. Correlations also do not indicate performance directly, so low correlation approaches may help portfolio risk, but performance could fall well short of delivering even modest return expectations. This is especially so if certain areas are more susceptible to swings in performance that come from reactive changes in investor demand, particularly from retail investors.

This is an involved and complex area and the bottom line here with diversifiers is that they need to be assessed with up-to-date and forward-looking expectations rather than just looking back at historical data. After all, we live in highly abnormal times, amply indicated by the way interest rates are at rock bottom levels a decade after the end of the financial crisis. Past performance and market behavior has seldom seemed less relevant than they do at present.

Our view is that it is a very good time for clients to ask questions on the robustness of their current portfolios to a market downturn. This is essential to form a view on whether they have adequate diversification embedded into portfolios at present.

Appendix C – Explanation of Manager Ratings

Below we describe the criteria which we use to rate fund management organizations and their specific investment products. Our manager research process assesses each component using both our qualitative and Aon InForm criteria. With the exception of Operational Due Diligence ("ODD"), each component is assessed as follows:

Qualitative Outcome	Aon InForm Outcome	
1 = Weak	✓	**Pass**: This component in isolation meets or exceed our desired criteria
2 = Average	⚐	**Alert**: This component in isolation does not meet our desired criteria, or the lack of data on this component means that we are not able to judge whether it meets our desired criteria
3 = Above Average	-	**Not assessed**: There is a lack of data, which means that we are not able to assess this component, however we do not consider this in isolation to justify an Alert
4 = Strong	↗	Component has improved over the quarter
	=	Component remains broadly unchanged over the quarter
	↘	Component has worsened over the quarter

The ODD factor is assigned a rating and can be interpreted as follows:

Overall ODD Rating	What does this mean?
A1	No material operational concerns – the firm's operations largely align with a well-controlled operating environment.
A2	The firm's operations largely align with a well-controlled operating environment, with limited exceptions – managers may be rated within this category due to resource limitations or where isolated areas do not align with best practice.
Conditional Pass ("CP")	Specific operational concerns noted that the firm has agreed to address in a reasonable timeframe; upon resolution, we will review the firm's rating.
F	Material operational concerns that introduce the potential for economic or reputational exposure exist – we recommend investors do not invest and/or divest current holdings.

Aon Hewitt previously assigned ODD ratings of pass, conditional pass, or fail for the ODD factor. We are in the process of refreshing all ODD ratings to the new terminology. During the transition period, the prior ratings, as follows, may persist in some deliverables until the ODD factor rating is converted to the above noted letter ratings.

- **Pass** – Our research indicates that the manager has acceptable operational controls and procedures in place.
- **Conditional Pass** – We have specific concerns that the manager needs to address within a reasonable established timeframe.
- **Fail** – Our research indicates that the manager has critical operational weaknesses and we recommend that clients formally review the appointment.

An overall rating is then derived taking into account both the above outcomes for the product. The overall rating can be interpreted as follows:

Overall Rating	What does this mean?
Buy	We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products
Buy (Closed)	We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products, however it is closed to new investors
Qualified	A number of criteria have been met and we consider the investment manager to be qualified to manage client assets
Sell	We recommend termination of client investments in this product
In Review	The rating is under review as we evaluate factors that may cause us to change the current rating

The comments and assertions reflect our views of the specific investment product and our opinion of its quality. Overall rating changes must go through our qualitative manager vetting process. Similarly, we will not issue a Buy recommendation before fully vetting the manager on a qualitative basis.

The ESG factor is assigned a rating and can be interpreted as follows:

Overall Rating	What does this mean?
4	The Fund Management Team demonstrates high awareness of all known and potentially financially material ESG risks in the investment strategy and, at present, has incorporated appropriate processes to identify, evaluate and potentially mitigate these risks across the entire portfolio.
3	The Fund Management Team demonstrates an above average awareness of potential ESG risks in the investment strategy and has taken essential steps to identify, evaluate and potentially mitigate these risks.
2	The Fund Management Team is aware of potential ESG risks in the investment strategy and has taken some steps to identify, evaluate and potentially mitigate these risks.
1	The Fund Management Team appears unaware or unconcerned with ESG risks in the investment strategy and has not taken any material steps to address ESG considerations in the portfolio.
N/A (Not Applicable)	An evaluation of ESG risks is not directly applicable to this strategy and therefore an ESG rating has not been assessed.
NR (Not Rated)	An evaluation of ESG risks is not yet available for this strategy.

Ratings Explanation - Infrastructure

The standard ratings for **closed** Infrastructure funds have changed from Buy, Qualified, Not Qualified to a Performance Rating of Exceeding Expectations, Performing, or Below Expectations. This change is being made to better address the nature of the asset class and closed fund structures. The current "Buy, Qualified, Not Qualified" rating system is not really useful for closed funds since an investor can neither invest in nor exit a closed fund, except through the secondary market. The Performance Rating is designed to provide better and more useful information on a closed fund's performance. The Performance Rating is based on a series on quantitative inputs, the weighting of which adjust as a fund matures. A fund will be rated annually through the quantitative rating process. Performance Ratings will not be adjusted quarterly unless there is a very significant change in performance. The definition of the Performance Ratings is below:

Overall Rating	What does this mean?
Exceeding Expectations	The product has adequate diversification relative to its goals and is performing well relative to its peers of the same vintage.
Performing	The product has adequate diversification relative to its goals and is performing in line with its peers of the same vintage. The product may have some investment concentrations relative to its goals yet is performing well relative to, or in line with, its peers of the same vintage.
Below Expectations	The product is performing below its peers of the same vintage. The product may have some or significant investment concentrations relative to its goals.
In Review	The rating is under review as we evaluate factors that may cause us to change the current rating

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