

Analysis of Investment Performance for the Quarter to 30th September 2018

1. Somerset County Council (Global Equity)

1.1 The performance for the quarter to 30th September 2018 is summarised in the following table:

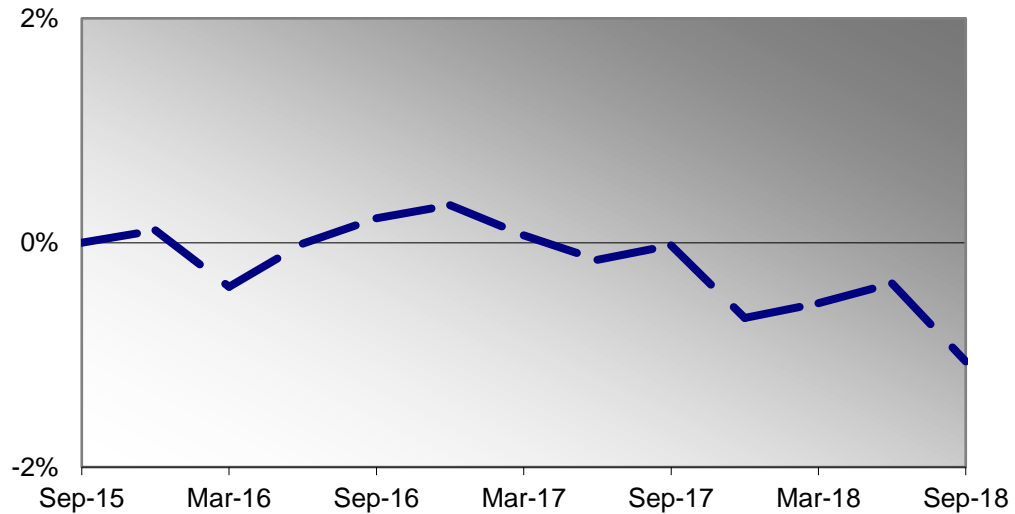
Quarter to 30 September 2018				
Value as at 30 Sept £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
32.4	Global equities	5.8	6.2	-0.4
0.1	Cash			
32.5	Total	36.9	6.2	+30.7

1.2 The majority of the stock was transferred to a LGIM managed passive pooled fund in July. The LGIM funds are the pooled solution chosen by Brunel. We have held on to a small residual position to use as a source of cash in the short term.

1.3 The movement of the majority of the fund to Brunel/LGIM caused a rather odd performance figure during July for the whole fund, this is an oddity of the performance calculation. The global equities performance for the quarter is a more realistic guide of actual value generated. The graph below has been generated ignoring the cash effects.

1.3 Absolute returns for the quarter were positive.

In-House Fund performance Vs Benchmark



2. Brunel - LGIM (Global Equity)

2.1 The performance for the quarter to 30th September 2018 is summarised in the following table:

Quarter to 30 September 2018				
Value as at 30 Sept £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %	
530.3	Global equities	4.4	5.2	-0.8

2.2 Within the new fund some loss of performance was experienced over the first day or so. Absolute performance for the quarter was positive.

2.3 If the In-house and LGIM portfolios are combined to provide a single return figure for the quarter the results are as per the following table:

Quarter to 30 September 2018				
Value as at 30 Sept £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %	
562.7	Global equities (combined)	6.1	6.2	-0.1

3. Aberdeen Standard Investments (UK Equities)

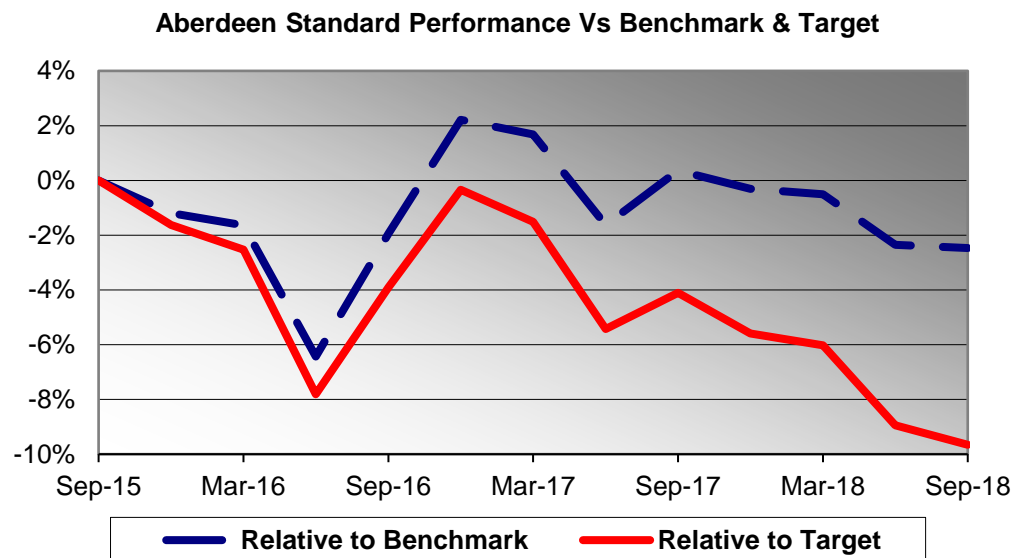
3.1 The performance for the quarter to 30th September 2018 is summarised in the following table:

Quarter to 30 September 2018				
Value as at 30 Sept £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
479.9	UK	-0.9	-0.8	-0.1
13.4	Cash			
493.3	Total	-0.9	-0.8	-0.1

3.2 Aberdeen Standard had a poor quarter relative to their benchmark. Absolute returns were negative. An underweight position in Oil producers and overweight to telecoms and leisure were responsible for the underperformance.

3.3 The transfer of the majority of this mandate to the equivalent Brunel offering took place in November.

3.4 Aberdeen Standard's target is to outperform the benchmark by an annualised return of 1.75% over continuous three-year periods after their fees have been deducted.



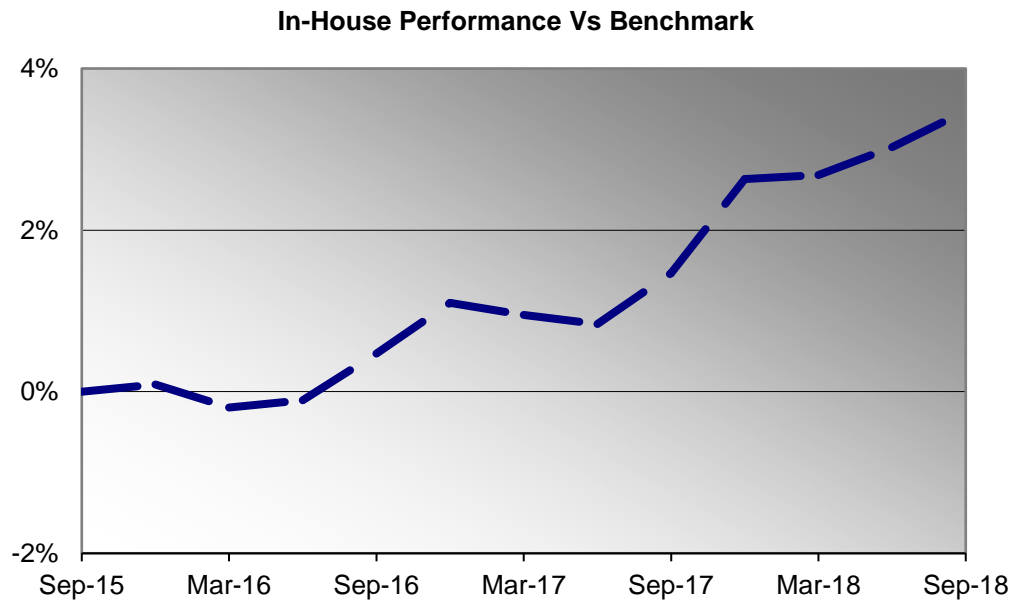
4. Somerset County Council (North American Equities)

4.1 The performance for the quarter to 30th September 2018 is summarised in the following table:

Quarter to 30 September 2018				
Value as at 30 Sept £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
118.5	North America	9.2	9.1	+0.1
0.6	Cash			
119.1	Total	9.2	9.1	+0.1

4.2 The in-house fund's performance was in line with the benchmark for the quarter.

4.3 Absolute levels of performance during the quarter were strongly positive.



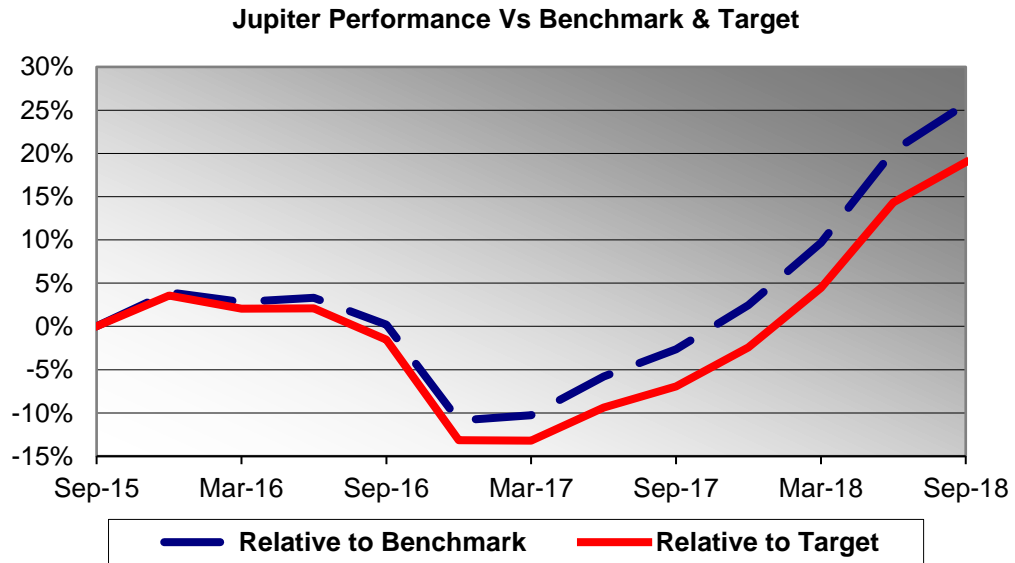
5. Jupiter (Continental European Equities)

5.1 The performance for the quarter to 30th September 2018 is summarised in the following table:

Quarter to 30 September 2018				
Value as at 30 Sept £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
165.9	Europe	6.2	3.1	+3.1
2.0	Cash			
167.9	Total	6.0	3.1	+2.9

5.2 Jupiter had a good quarter relative to the benchmark, with outperformance of 2.9%. Absolute performance was strongly positive. Performance relative to benchmark continues to be very volatile from one month to the next.

5.3 Jupiter's target is to outperform the benchmark by an annualised return of 1.5% over continuous three-year periods after their fees have been deducted.



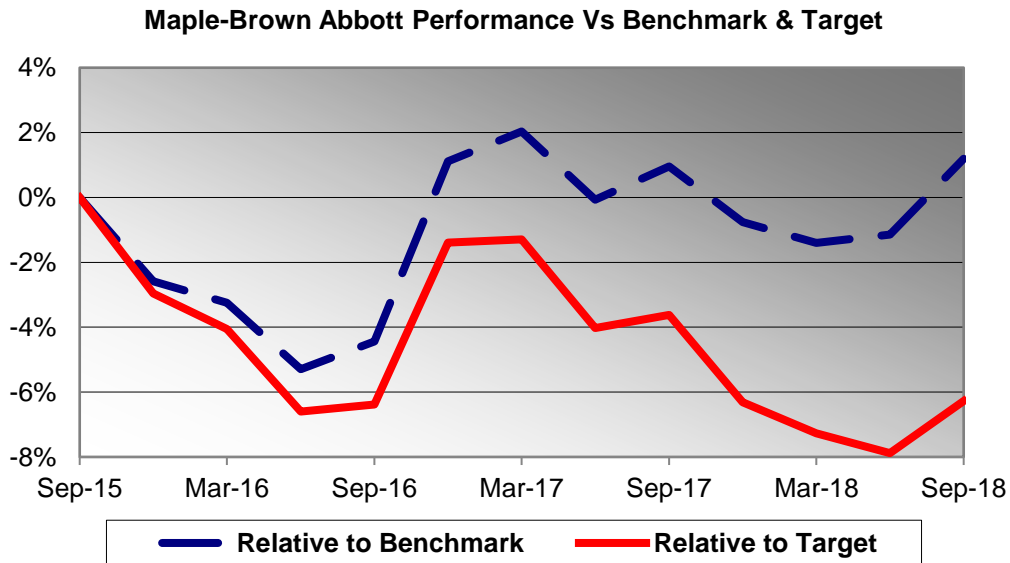
6. Maple-Brown Abbott (Far-East Equities ex-Japan)

6.1 The performance for the quarter to 30th September 2018 is summarised in the following table:

Quarter to 30 September 2018				
Value as at 30 Sept £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
64.1	Pacific (ex Japan)	2.4	0.9	+1.5
1.0	Cash			
65.1	Total	2.3	0.9	+1.4

6.2 Maple-Brown Abbott had a good quarter relative to their benchmark. Absolute returns were positive. The outperformance was due to good performance by a number of long held value stocks.

6.3 Maple-Brown Abbott's target is to outperform the benchmark by an annualised return of 1.5% over continuous three-year periods after their fees have been deducted.



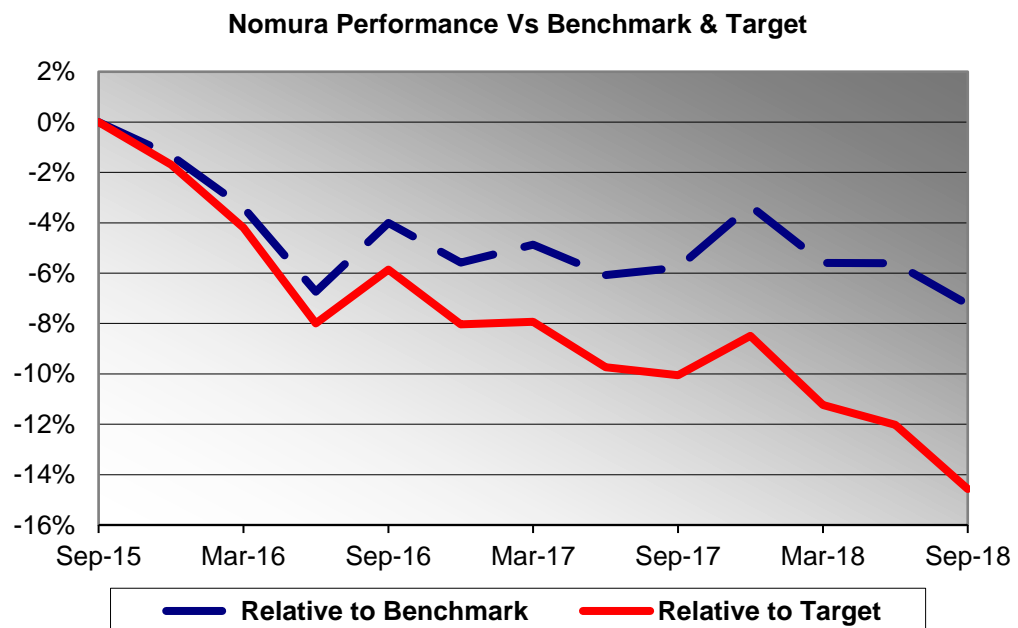
7. Nomura (Japanese Equity)

7.1 The performance for the quarter to 30th September 2018 is summarised in the following table:

Quarter to 30 September 2018			
Value as at 30 Sept £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
70.0 Japan	3.6	4.5	-0.9

7.2 Absolute performance was positive. Relative performance was negative. Poor stock selection in Chemicals and Iron & Steel were significant contributors to the underperformance.

7.3 Nomura's target is to outperform the benchmark by an annualised return of 1.5% over continuous three-year periods after their fees have been deducted.



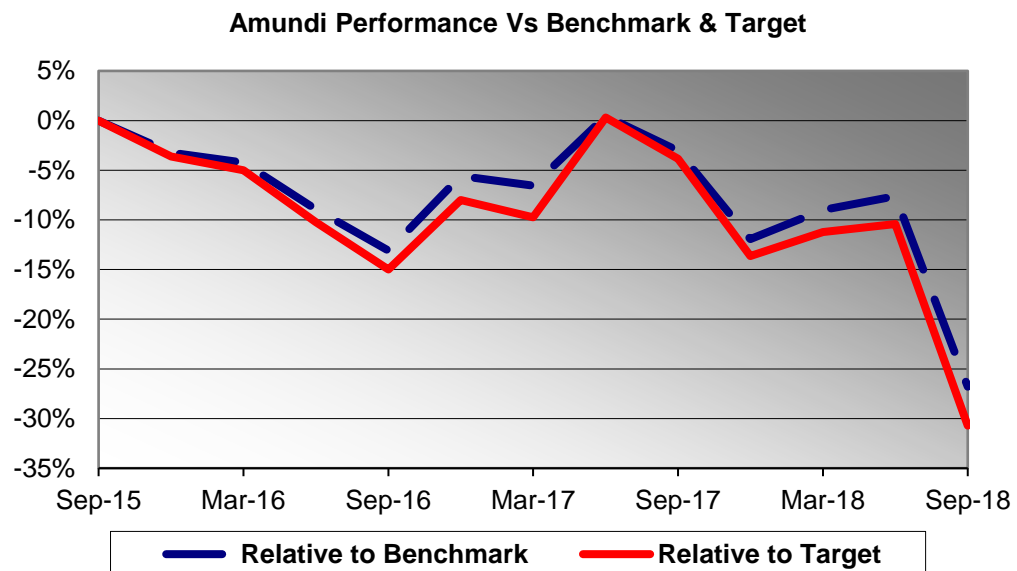
8. Amundi (Emerging Market Equity)

8.1 The performance for the quarter to 30th September 2018 is summarised in the following table:

Quarter to 30 September 2018			
Value as at 30 Sept £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
83.2 Emerging Market	-12.1	0.1	-12.2

8.2 Relative performance for the quarter was very poor, absolute returns were strongly negative. In pure attribution terms the underperformance was caused by poor stock selection in financials, energy and consumer staples. Individual stock issues at a number of key holdings is probably a more nuanced view of the underperformance, with the only common factor being a strong small cap bias of the portfolio.

8.3 Amundi's target is to outperform the benchmark by an annualised return of 1.5% over continuous three-year periods after their fees have been deducted.



9. Aberdeen Standard Investments (Fixed Interest)

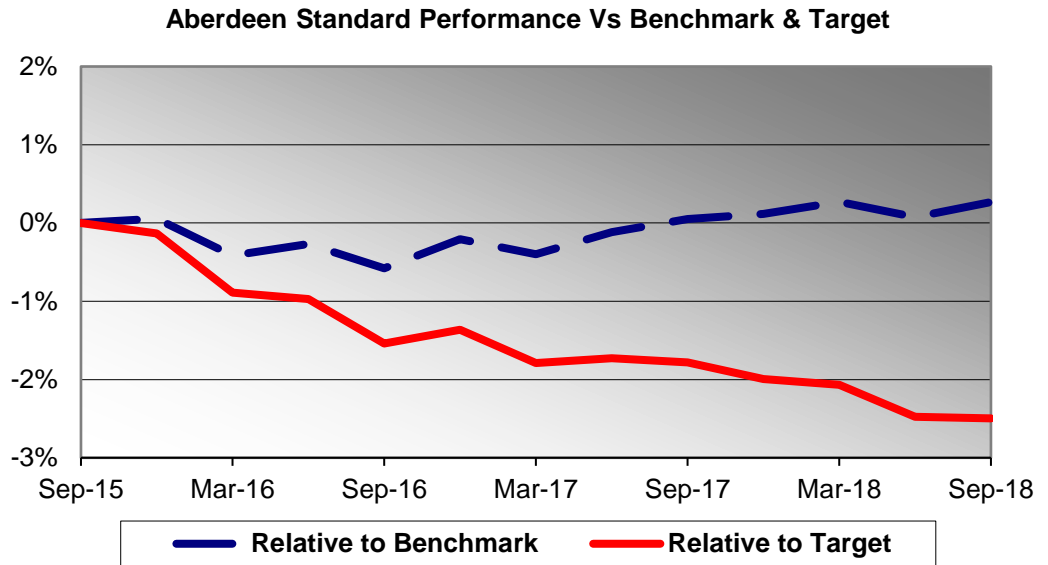
9.1 The performance for the quarter to 30th September 2018 is summarised in the following table:

Quarter to 30 September 2018				
Value as at 30 Sept £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
47.1	UK Gilts	-2.5	-1.7	-0.8
70.1	Index Linked	-1.5	-1.2	-0.3
151.8	Corporate Bonds	-0.6	-0.8	+0.2
36.9	High Yield Debt	4.1	2.4	+1.7
1.6	Foreign Gov't Bonds			
0.0	F Gov't Index Linked			
0.0	Currency Instruments			
17.9	Cash			
325.4	Total	-0.5	-0.7	+0.2

9.2 Aberdeen Standard outperformed their benchmark for the quarter. Absolute returns were negative. Outperformance in the corporate bond portfolio, High yield and asset allocation (overweight cash) were the main contributors to the outperformance.

9.3

Aberdeen Standard's target is to outperform the benchmark by an annualised return of 0.75% over continuous three-year periods after their fees have been deducted.



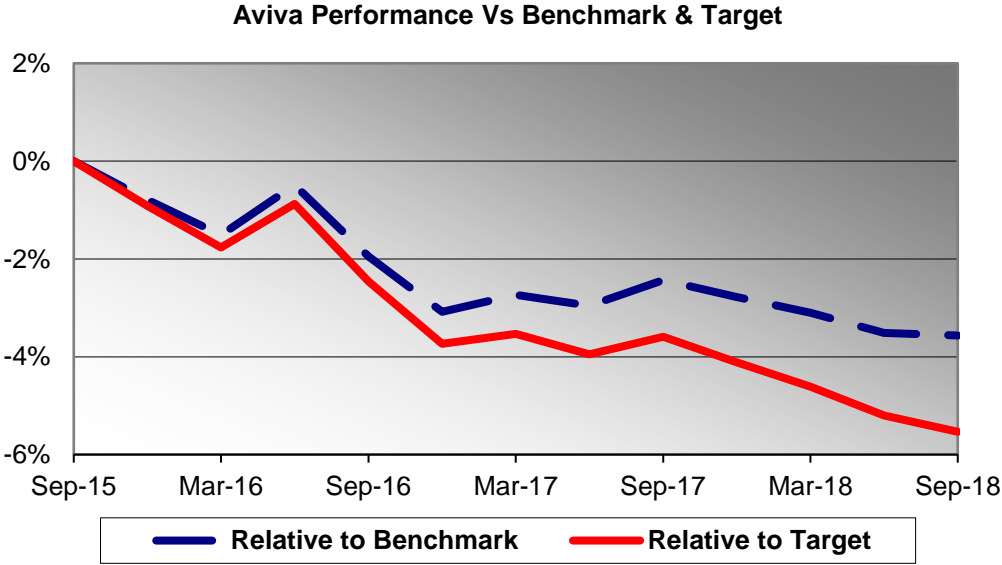
10. Aviva (Property Fund of Funds)

10.1 The performance for the quarter to 30th September 2018 is summarised in the following table:

Quarter to 30 September 2018				
Value as at 30 Sept £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
182.8	UK Property	1.7	1.6	+1.1
0.1	European Property	5.2		
0.0	Currency Instruments			
27.9	Cash			
210.8	Total	1.5	1.6	-0.1

10.2 Property returns from the UK market were positive for the quarter. The fund underperformed relative to the benchmark. A couple of specialist retail holdings and cash drag were responsible for the underperformance.

10.3 Aviva’s target is to outperform the benchmark by an annualised return of 0.5% over continuous three-year periods after their fees have been deducted.



11. Neuberger Berman (Global Private Equity)

11.1 The performance for the quarter to 30th September 2018 is summarised in the following table:

Quarter to 30 September 2018			
Value as at 30 Sept £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
40.1 Private Equity	7.4	0.2	+7.2

11.2 The return indicated above is significantly affected by currency movements, specifically the change in the value of the US dollar against GBP.

11.3 The 2010 fund continues to make good progress. The underlying return on this fund for the quarter, excluding currency movements, was 19.0%.

11.4 The Neuberger Berman Crossroads XX fund is also making good progress. The underlying return on this fund for the quarter, excluding currency movements, was 6.3%.

11.5 The Crossroads XXI fund is also making good progress. The underlying return on this fund for the quarter, excluding currency movements, was 4.7%.

11.6 The Crossroads XXII fund is still very young however it is no longer in the negative part of the “J-curve” and is running at a small profit. The return for the quarter, excluding currency movements, was 4.2%.

12. South West Ventures Fund

12.1 The fund continues to make reasonable progress.

13. Combined Fund

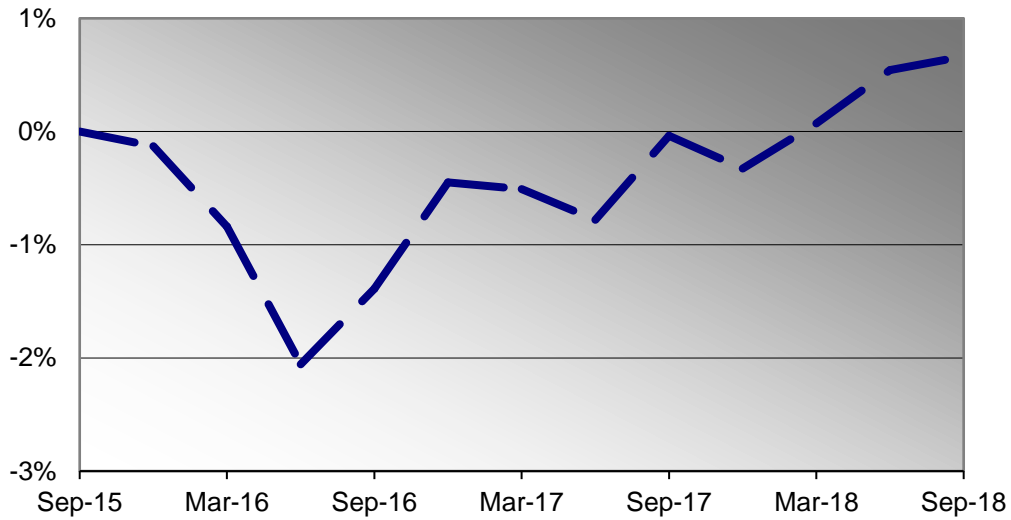
13.1 The performance for the quarter to 30th September 2018 is summarised in the following table:

Quarter to 30 September 2018				
Value as at 30 Sept £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
32.5	In-House (Global Eq)	36.9	6.2	+30.7
530.3	Brunel (Global Eq)	4.4	5.2	-0.8
493.3	ASI (UK Eq)	-0.9	-0.8	-0.1
119.1	In-House (US Eq)	9.2	9.1	+0.1
167.9	Jupiter	6.0	3.1	+2.9
65.1	Maple-Brown Abbott	2.3	0.9	+1.4
70.0	Nomura	3.6	4.5	-0.9
83.2	Amundi	-12.1	0.1	-12.2
325.4	ASI (FI)	-0.5	-0.7	+0.2
210.8	Aviva	1.5	1.6	-0.1
1.6	SWRVF	0.0	0.2	-0.2
40.1	Neuberger Berman	7.4	0.2	+7.2
0.8	Brunel	0.0	0.0	+0.0
61.3	Cash	0.2	0.2	+0.0
2,201.4	Whole Fund	2.1	2.0	+0.1

13.2 The fund as a whole outperformed its benchmark during the quarter. The level of absolute return was positive. Jupiter and Maple-Brown Abbott produced performance ahead of their target for the quarter.

13.3 The outperformance was due to stock selection of the managers within the fund with asset allocation being a negligible positive.

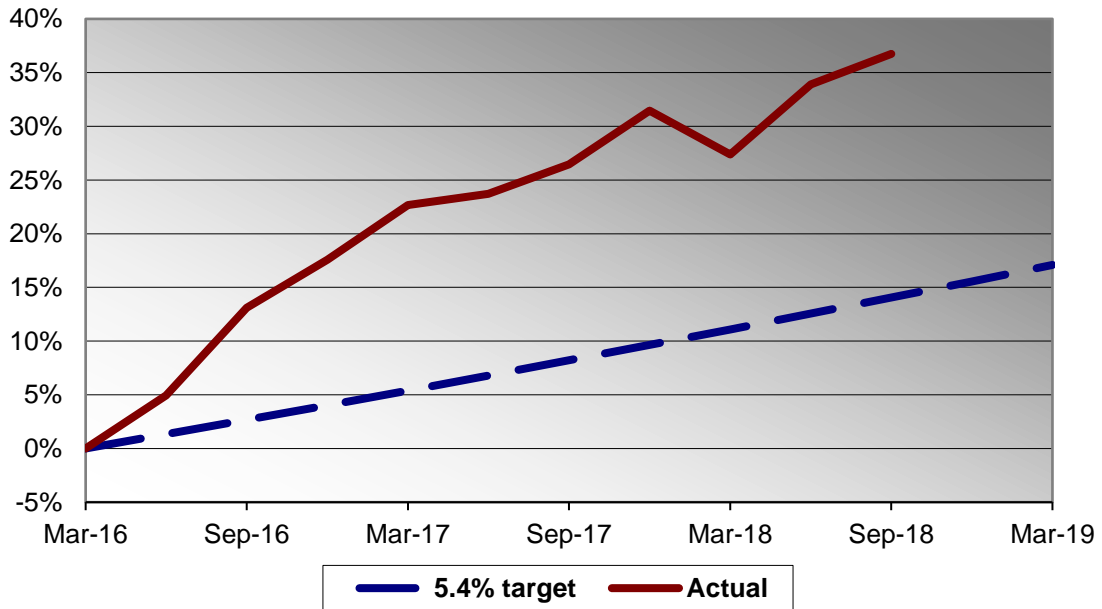
Whole Fund Performance Vs Benchmark



13.4

At the March 2017 committee meeting the committee adopted an absolute return target of 5.4% for the fund as this is consistent with the fund becoming fully funded within the timescales indicated by the actuary as part of the 2016 valuation. Progress against this target for the 2016 to 2019 actuarial cycle is shown in the graph below.

Performance of Fund Vs. 5.4% absolute return target



13.5

The movement in the value of the fund over the quarter is summarised in the table below.

	Value as at 30 June		Value as at 30 Sept		Strategic
	£m	%	£m	%	Weighting
In-House (Global Eq)	525.0	24	32.5	1	23
Brunel (Global Eq)	0.0	0	530.3	24	0
ASI (UK Eq)	497.7	23	493.3	22	23
In-House (US Eq)	109.1	5	119.1	5	5
Jupiter	158.3	7	167.9	8	5
M-BA (Pac Eq)	63.5	3	65.1	3	3
Nomura	67.5	3	70.0	3	3
Amundi	94.6	5	83.2	4	5
ASI (FI)	327.9	15	325.4	15	19
Aviva	207.9	10	210.8	10	10
SWRVF	1.6	0	1.6	0	0
Neuberger Berman	42.1	2	40.1	2	3
Brunel	0.8	0	0.8	0	0
Cash	61.1	3	61.3	3	1
Whole Fund	2,157.1	100	2,201.4	100	100

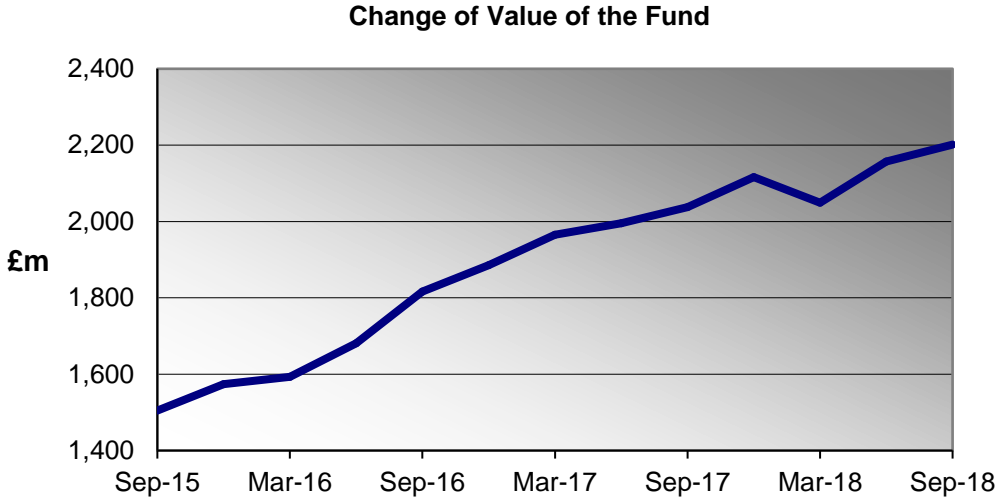
13.6

During the quarter the following movements of cash between funds took place:

- £499m was transferred from the in-house global passive to the equivalent Brunel fund with an additional £8.7m of cash also transferred.
- £4.9m was withdrawn from the in-house global equity fund during the quarter. This broadly represents dividend income on this fund during the quarter.
- £3.9m was withdrawn in Neuberger Berman's Private equity mandate during the quarter.

13.7

The change in the value of the investment fund over the last three years can be seen in the graph below.



13.8

The Fund’s Actuary, Barnett Waddingham, have provided the following update.

“The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 30 September 2018 is 92.2% and the average required employer contribution would be 19.5% of payroll assuming the deficit is to be paid by 2038.
- This compares with the reported (smoothed) funding level of 77.4% and average required employer contribution of 22.6% of payroll at the 2016 funding valuation.

It should be borne in mind that the nature of the calculations is approximate and so the results are only indicative of the underlying position.”

Barnett Waddingham have also made the following comments:

“The results summarised above and in the Appendix are based on the ongoing basis. On the SCAPE basis, as at 30 September 2018, we estimate the comparable funding level to be 84.3% and the average required employer contribution rate would be 26.3% of payroll assuming the deficit is to be paid by 2038. This contribution includes 18.5% of payroll towards the cost of future benefits and 7.8% of payroll towards deficit recovery.

Although the SCAPE discount rate is used for the purpose of the valuations of the unfunded public service pension schemes rather than the LGPS, it is likely that this will have some influence on the Section 13 assessments applied to the local LGPS valuations and so also some influence on the assumptions to be adopted for the Fund's 2019 valuation.