

Clwyd Pension Fund

Economic and Market Update

Q3 2023

Monthly capital market monitor

Higher rates drive negative market performance

In September, global equities declined for the second month in a row. UK markets outperformed international markets. Energy was the only equity sector with positive performance. Negative market sentiment was driven by a sharp increase in interest rates, especially at the longer end. This also led to negative returns for fixed income.

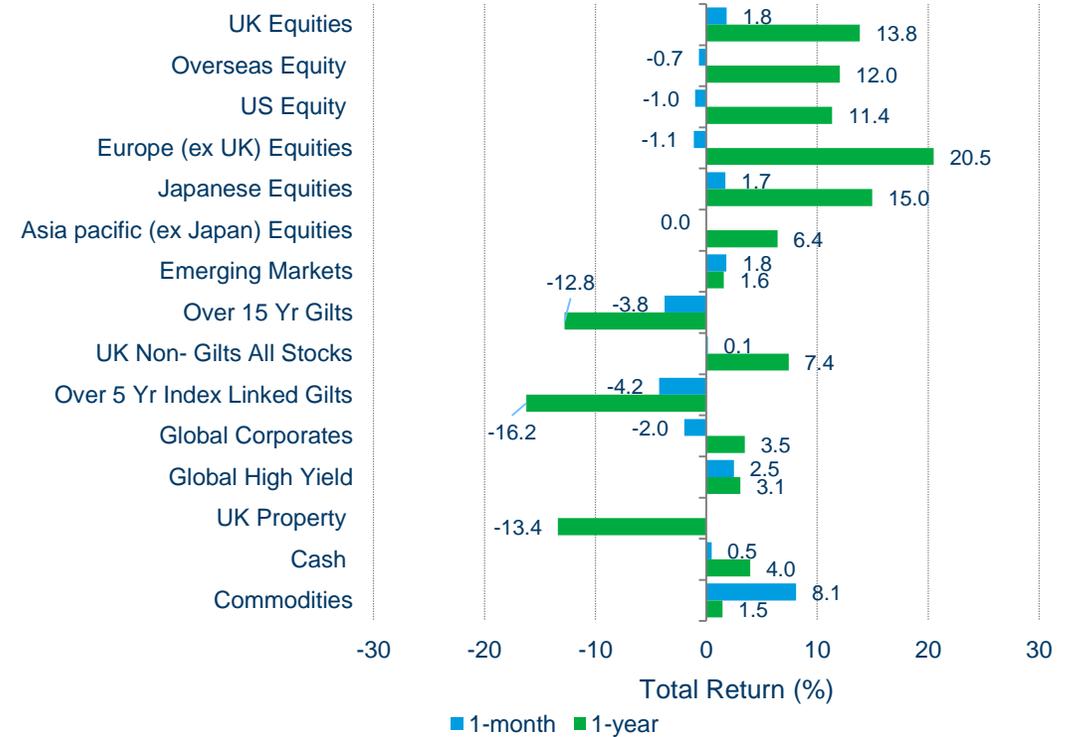
Yields spiked over the month as markets positioned for a 'higher for longer' rate environment. UK yields fell at short end of the curve and rose at the long end of the curve, and yields in other developed countries also rose. These higher rates in an environment of weaker economic growth sapped equity sentiment, especially for more rate-sensitive growth sectors. Rising rates also drove declines for fixed income asset class pricing, as well as gold given its sensitivity to real rates.

Forward-looking composite purchasing managers' indices (PMI) remained close to or in contraction territory across major regions. Consumer confidence generally remains low. Labour markets appear to be cooling, with unemployment rising in major economies albeit from record lows. China showed some modest signs of improvement amid its slowdown. Overall, this paints a picture of a slowing global economy with mild recessionary dynamics in some regions being offset by modest growth in others.

US headline inflation moved higher mostly due to base effects, but core inflation continued to trend lower. A sharp increase in oil prices raised concerns about renewed inflationary pressures. In the UK and Eurozone, headline and core inflation continued to trend lower. Central Banks generally maintained their hawkish stance, which drove upward pressure on yields during the month. The Federal Reserve kept short-dated rates unchanged, but signaled the possibility of more rates hikes in the future. The Bank of England also maintained rate levels in order to evaluate the impact of recent hikes, while the European Central Bank hiked for the 10th consecutive time. The Bank of Japan remained the outlier, maintaining easy monetary conditions and conducting bond purchase operations.

In terms of geopolitics, negotiations over grain shipment routes out of Ukraine did not make progress. Fighting in the Ukraine continued, and the US added more foreign companies, accused of aiding Russia, to sanctions lists. Tense budget negotiations continued in the US, but a last-minute agreement averted a US government shutdown.

Sterling depreciated against most developed major currencies over September. REITs underperformed broad equities by a wide margin due to their rate sensitive nature. Commodities were roughly flat as a sharp increase in oil prices offset weakness in other commodity sectors.



Source: Refinitiv. Data as of 30/09/23. 1-year UK property returns are shown as 11-month return to

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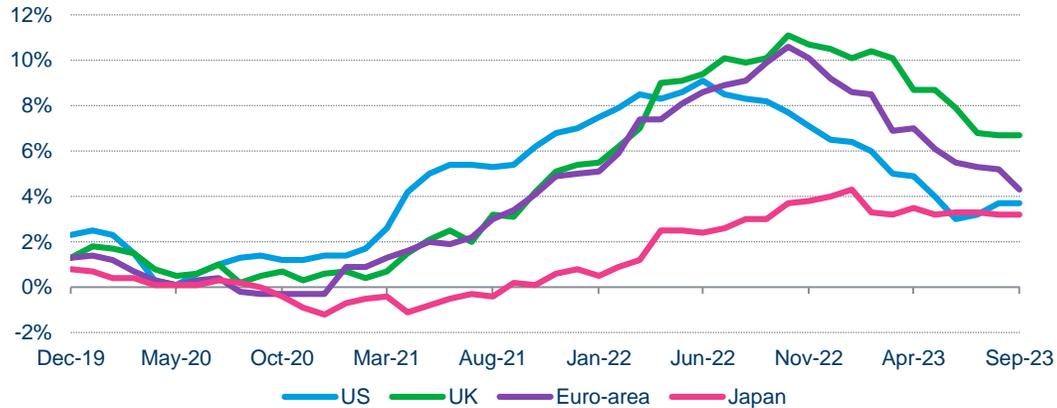
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Key drivers

Global year-on-year consumer price inflation



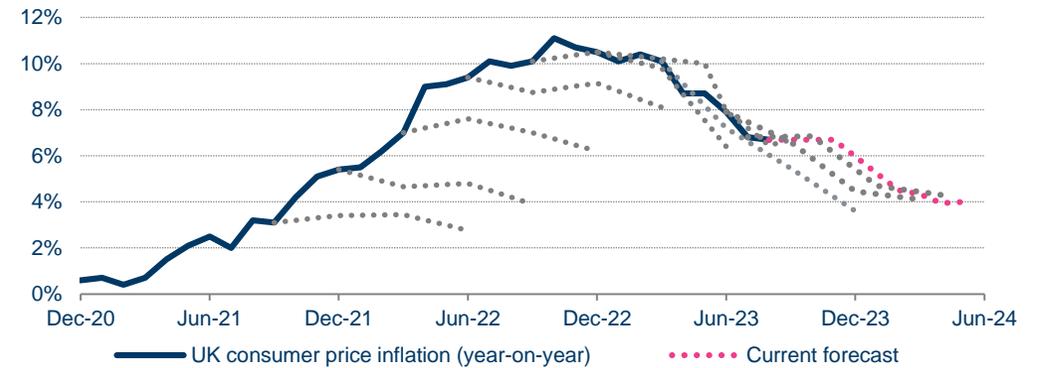
Source: Bloomberg. Data as of 30/09/2023

UK Inflation



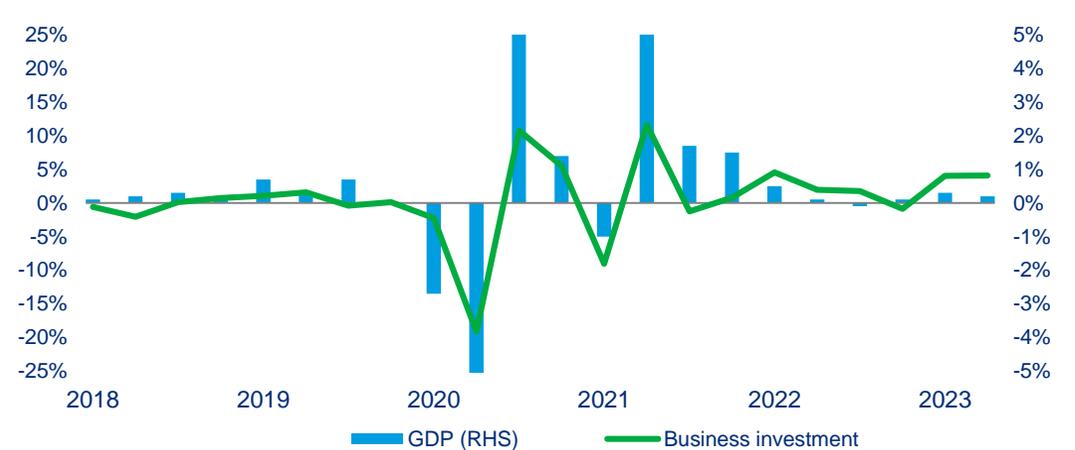
Source: Bloomberg. Data as of 30/09/2023.

UK year-on-year inflation – current and forecast



Source: Bloomberg. Data as of August 31, 2023. The consensus forecast lines are four quarter forecasts as at each

UK GDP and Business investment

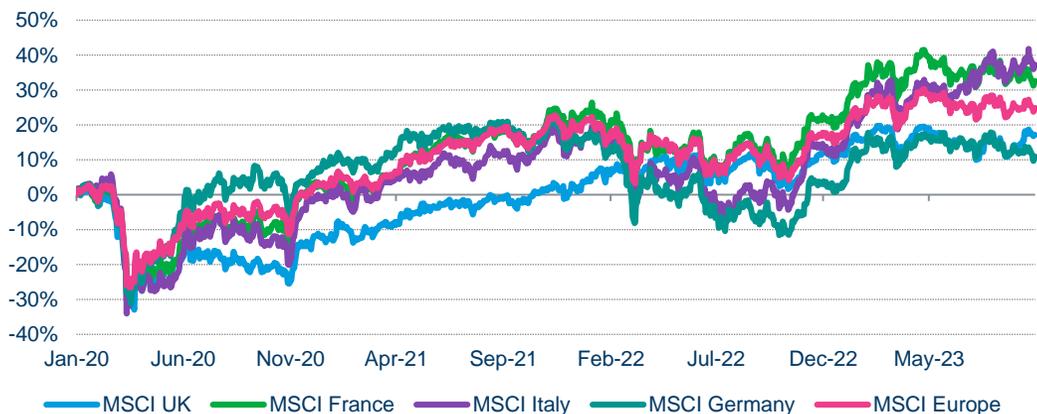


Source: Bloomberg. Data as at 31 August, 2023.

Equities

- UK equities returned 1.8% over September 2023 in Sterling terms and outperformed overseas equities which returned -0.7%. Outperformance in UK equity was driven by strong returns in energy and materials sectors.
- In the US, equities returned -1.0% over September and underperformed most developed and emerging countries. This was driven by negative sentiment around interest rates remaining higher for longer. Returns in continental Europe were also weak driven by weaker economic growth in Europe.
- 116 S&P 500 companies have issued EPS guidance with 64% of companies forecasting negative EPS, which is more negative than the 5 and 10 year average. For Q3 earnings there is an estimated earnings decline of -0.1% which would mark the fourth consecutive quarter of declines.¹
- Emerging markets returned 1.8% over September outperforming most developed markets. But performance in China was still poor as China's economy continues to be weak due to its distressed property sector.

European Equity Performance (GBP)



Source: Refinitiv, Data as at 30/09/2023

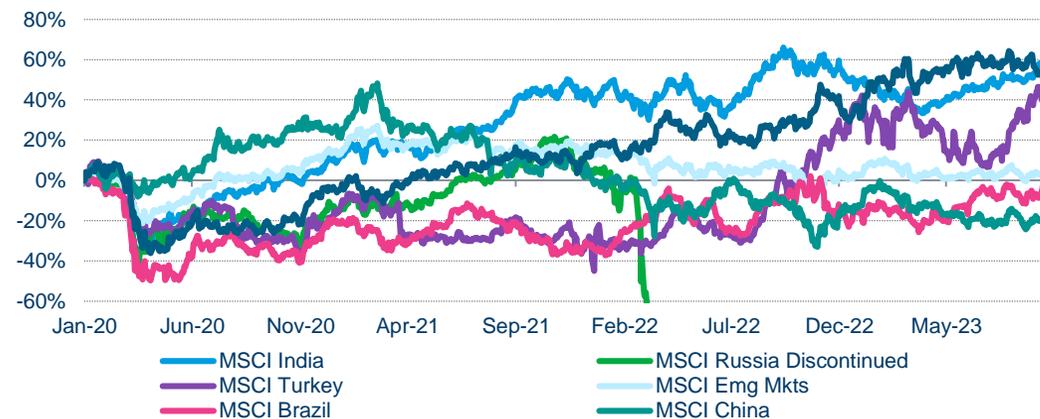
https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_092923.pdf

Global Equity Performance (GBP)



Source: Refinitiv, Data as at 30/09/2023

Emerging Market Equity Performance (GBP)

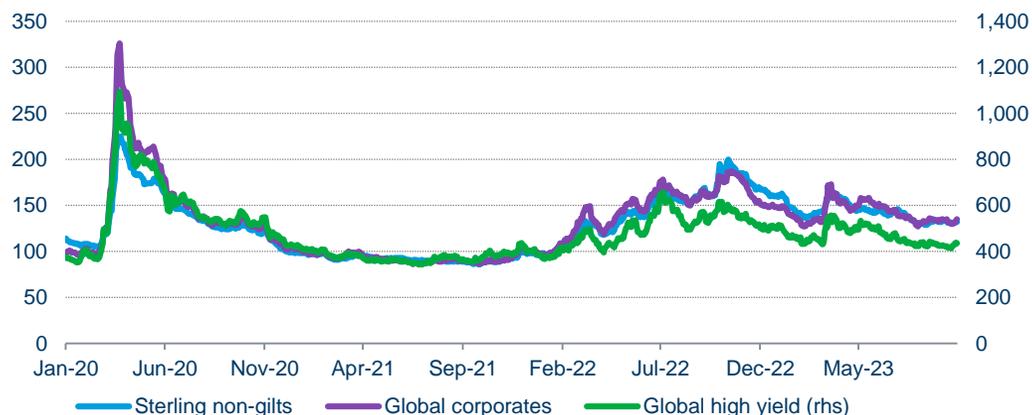


Source: Refinitiv, Data as at 30/09/2023

UK Fixed Income

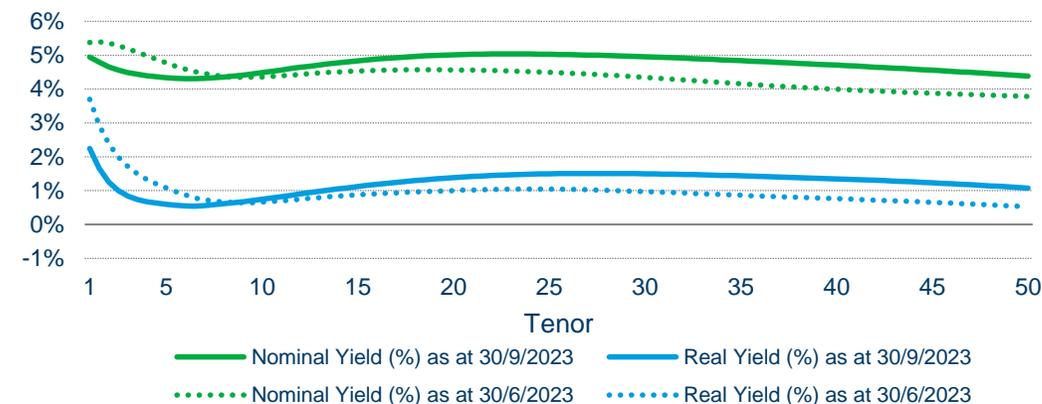
- Global bond markets witnessed sharp yield increases at the back end of the curve through September. Bond yields rose as a result of expectations of higher for longer interest rates amid central bankers maintaining their hawkish stance, as well high government budget deficits.
- In the UK, yields fell at the front end and rose at the back end of the curve. The 2-year fell by 25bps and 10-year gilt yields rose by 8bps. Yields have fallen at the front end due to negative sentiment around economic growth and central bank policy, and have risen in the back end due to expectations of rates remaining higher for longer.
- Market based measures of inflation expectations rose slightly over the month. The 10-year UK breakeven increased to 3.85% from 3.77% in the month prior. The August headline CPI print surprised to the downside and fell to 6.7%.
- Credit spreads tightened during the month, with UK credit spreads decreasing 1bps, global investment-grade spreads increasing 7 bps and high yield spreads increasing 2 bps.

Corporate bond spreads



Source: Refinitiv, Data as at 30/09/2023

UK gilt curves



Source: Mercer. Data as of 30/09/2023

UK government bond yields

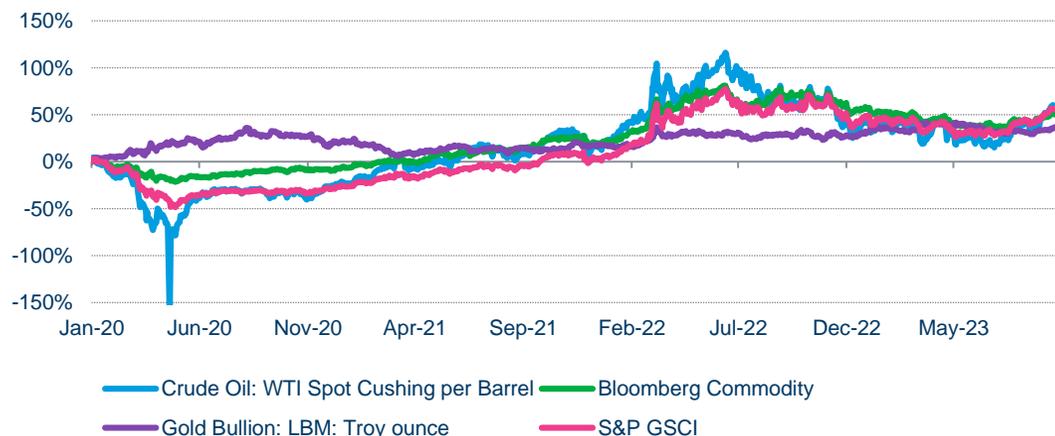


Source: Refinitiv, Data as at 30/09/2023

Currency and commodities

- Broad commodity returns were mixed through September and outperformed equities by more than 8%. Oil rose sharply by 12.7% during September.
- Sterling depreciated versus most major currencies through September. The US dollar strengthened against all major currencies over the month due to expectations that interest rates will remain elevated for a longer period of time.

Commodity performance (GBP)



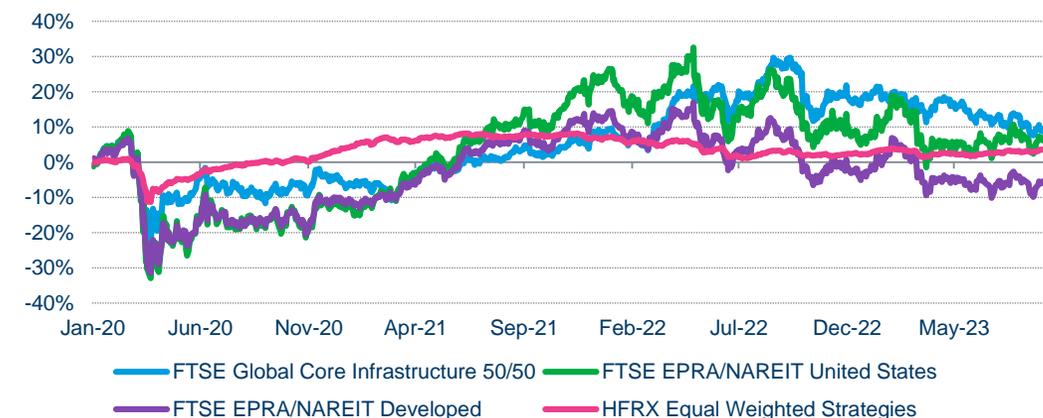
Source: Refinitiv, Data as at 30/09/2023

Currency performance



Source: Refinitiv, Data as at 30/09/2023

REITs, Hedge funds, Infrastructure performance (GBP)



Source: Refinitiv, Data as at 30/09/2023

Valuation and yields

Ending 30 September 2023

Valuations

FTSE ALL-Share	30-09-2023	30-06-2023	31-03-2023	31-12-2022
Index Level	8772.8	8610.8	8650.3	8391.9
P/E Ratio (Trailing)	11.8	10.5	10.5	12.0
CAPE Ratio	16.6	17.0	17.1	18.2
Dividend Yield	4.0	4.1	4.2	3.7
P/B	1.6	1.6	1.6	1.6
P/CF	8.1	5.8	5.8	5.0
MSCI World ex-UK	30-09-2023	30-06-2023	31-03-2023	31-12-2022
Index Level	8755.5	9077.1	8480.6	7866.8
P/E Ratio (Trailing)	18.9	19.4	18.3	17.2
CAPE Ratio	25.2	26.1	24.6	24.6
Dividend Yield	2.1	2.0	2.1	2.3
P/B	2.9	3.0	3.0	2.8
P/CF	13.9	13.4	12.3	12.0
MSCI EM	30-09-2023	30-06-2023	31-03-2023	31-12-2022
Index Level	494.9	509.8	505.3	486.1
P/E Ratio (Trailing)	13.8	13.0	12.6	12.4
CAPE Ratio	16.6	16.8	16.4	17.0
Dividend Yield	2.9	3.0	3.2	3.2
P/B	1.5	1.5	1.6	1.6
P/CF	8.2	8.3	7.5	9.1

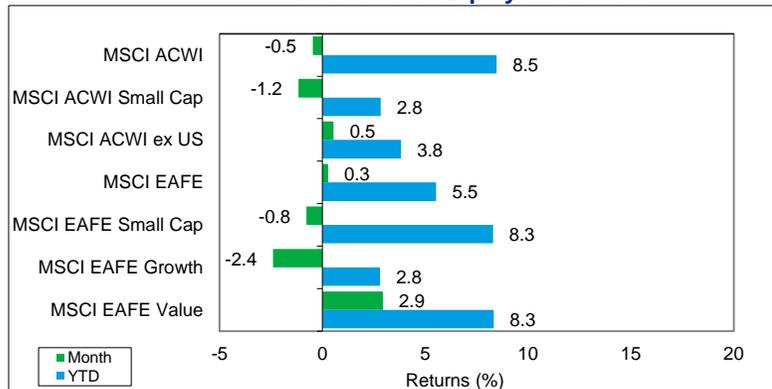
Yields

Global Bonds	30-09-2023	30-06-2023	31-03-2023	31-12-2022
Germany – 10Y	2.84	2.39	2.29	2.57
France - 10Y	3.40	2.93	2.79	3.12
US - 10Y	4.57	3.84	3.47	3.87
Switzerland – 10Y	1.10	0.96	1.25	1.62
Italy – 10Y	4.78	4.07	4.10	4.72
Spain 10Y	3.93	3.39	3.30	3.66
Japan – 10Y	0.77	0.40	0.35	0.42
Euro Corporate	4.52	4.44	4.22	4.32
Euro High Yield	8.43	8.29	8.18	8.32
EMD (\$)		9.66	8.55	9.57
EMD (LCL)	7.01	6.66	6.78	7.00
US Corporate	6.04	5.48	5.17	5.42
US Corporate High Yield	8.88	8.52	8.96	9.68
UK Bonds	30-09-2023	30-06-2023	31-03-2023	31-12-2022
SONIA	5.19	4.93	4.18	3.43
10 year gilt yield	4.44	4.39	3.38	3.67
30 year gilt yield	4.89	4.42	3.83	3.96
10 year index linked gilt yield	0.59	0.52	-0.29	0.06
30 year index linked gilt yield	1.47	0.95	0.37	0.55
AA corporate bond yield	5.42	5.71	4.76	4.79
A corporate bond yield	5.82	6.08	5.13	5.20
BBB corporate bond yield	6.45	6.82	5.84	5.96

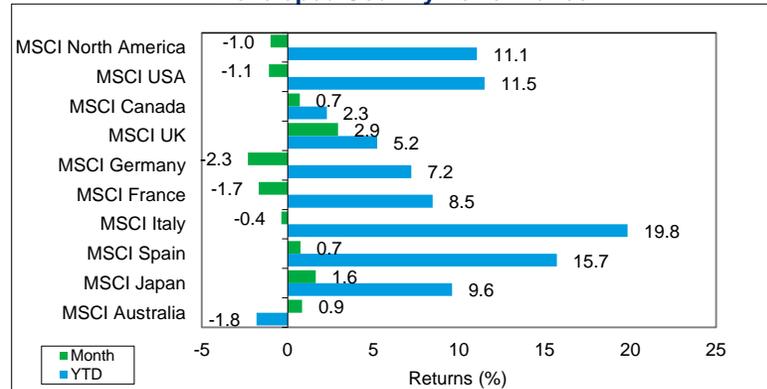
Performance summary (GBP)

International Equity ending 30 September 2023

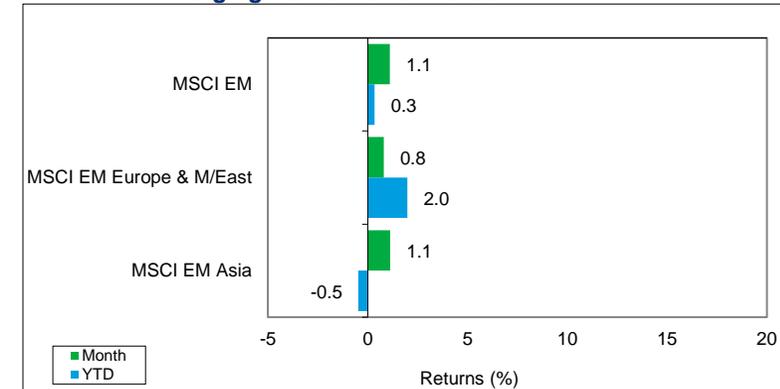
International Equity Performance



Developed Country Performance



Emerging Market Performance

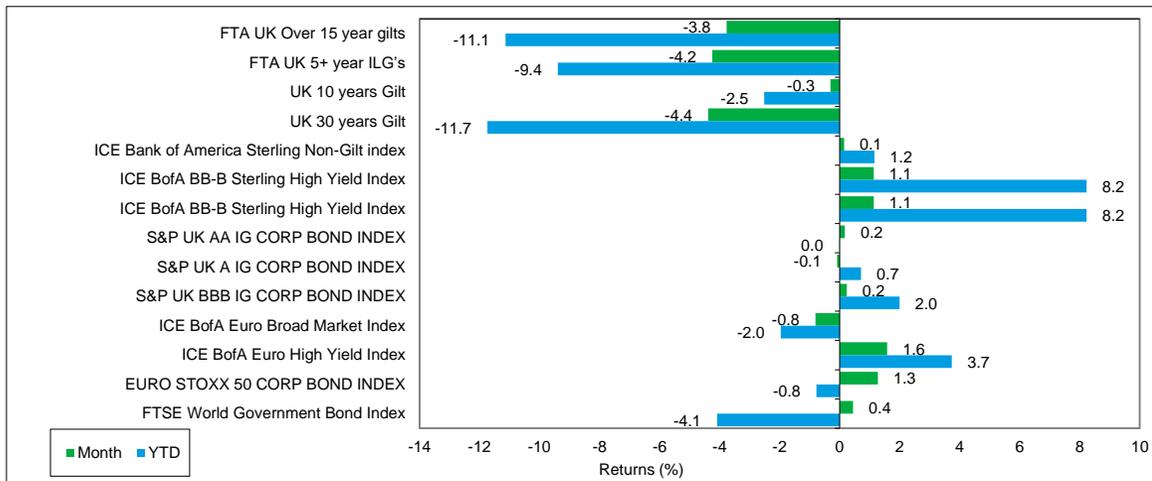


Index Returns	1 Mth	3 Mth	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years	20 Years	2022	2021	2020	2019	2018
MSCI ACWI	-0.5	0.6	8.5	10.5	2.9	9.0	7.9	9.6	10.6	9.4	-8.1	19.6	12.7	21.7	-3.8
MSCI ACWI IMI	-0.5	0.7	8.2	10.5	2.8	9.5	8.0	9.8	11.0	10.1	-7.7	19.8	13.2	22.1	-4.0
MSCI ACWI Small Cap	-1.2	0.6	2.8	5.4	-2.2	8.9	4.9	7.3	9.2	10.3	-8.4	17.2	12.7	19.8	-9.1
MSCI ACWI ex US	0.5	0.2	3.8	10.1	-0.2	5.7	3.9	5.7	6.3	7.7	-5.4	8.8	7.2	16.8	-8.9
MSCI EAFE	0.3	-0.1	5.5	14.9	1.9	7.8	4.6	6.2	6.8	7.5	-3.7	12.3	4.5	17.3	-8.4
MSCI EAFE Growth	-2.4	-4.8	2.8	9.8	-3.9	2.3	4.6	6.2	7.4	7.8	-13.2	12.3	14.6	23.0	-7.4
MSCI EAFE Value	2.9	4.8	8.3	20.3	7.7	13.3	4.2	5.9	5.9	7.1	6.3	11.9	-5.6	11.6	-9.5
EM	1.1	1.1	0.3	2.2	-5.8	0.2	1.9	4.1	5.0	9.0	-10.0	-1.6	14.7	13.8	-9.3
North America	-1.0	0.8	11.1	10.3	4.9	11.1	10.6	12.3	13.9	10.7	-9.4	27.6	16.2	25.7	0.1
Europe	-0.3	-1.0	6.4	17.8	3.5	9.3	5.3	6.7	6.8	7.8	-4.4	17.4	2.1	19.0	-9.6
EM Europe & M/East	0.8	3.2	2.0	-4.2	-15.3	0.1	-1.3	1.5	-0.6	4.5	-27.2	25.1	-10.4	14.6	-2.2
EM Asia	1.1	1.1	-0.5	2.4	-6.6	-1.6	2.3	4.9	6.8	9.4	-11.2	-4.2	24.4	14.6	-10.2
Latin America	1.4	-0.8	11.3	9.2	15.0	17.3	4.2	4.9	3.1	10.1	22.6	-7.2	-16.5	12.9	-0.8
USA	-1.1	0.9	11.5	10.7	5.0	11.1	10.8	12.6	14.4	10.8	-9.7	27.6	17.0	25.8	0.9
Canada	0.7	0.0	2.3	2.0	3.5	11.2	6.7	7.1	6.9	8.9	-1.9	27.1	2.1	22.6	-12.1
Australia	0.9	0.7	-1.8	5.4	3.2	10.4	5.8	6.6	6.4	9.8	6.7	10.4	5.4	18.2	-6.5
UK	2.9	2.6	5.2	14.2	8.9	14.2	4.2	5.4	5.5	6.9	7.1	19.6	-13.2	16.4	-8.8
Germany	-2.3	-3.9	7.2	23.9	-3.0	1.7	1.6	3.7	4.9	8.0	-12.6	6.3	8.1	16.1	-17.3
France	-1.7	-3.1	8.5	23.0	6.2	13.3	6.2	9.1	8.3	8.1	-2.4	20.6	0.9	20.9	-7.3
Italy	-0.4	2.1	19.8	40.5	10.2	15.8	7.9	9.9	7.2	4.3	-3.6	16.1	-1.3	22.4	-12.6
Spain	0.7	0.1	15.7	32.0	8.9	14.3	2.8	4.5	4.0	6.3	4.4	2.3	-7.7	7.7	-11.0
Japan	1.6	2.5	9.6	15.2	-0.8	4.8	3.4	5.8	7.4	6.2	-6.1	2.6	10.9	15.0	-7.5
Brazil	4.0	0.4	11.0	5.4	15.2	15.5	5.6	5.5	3.5	11.1	28.5	-16.6	-21.5	21.4	5.7
China	1.0	2.1	-8.6	-3.7	-13.3	-12.6	-2.9	1.6	4.6	10.0	-12.1	-21.0	25.5	18.7	-13.8
India	5.6	7.0	6.4	0.7	4.7	17.2	11.3	10.1	12.9	13.1	3.6	27.4	12.0	3.4	-1.5

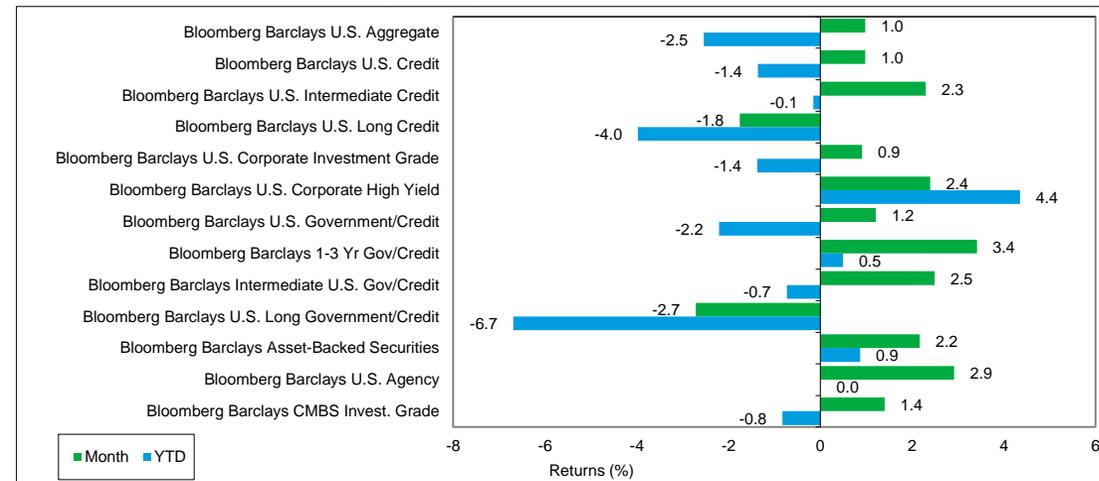
Performance summary (GBP)

Fixed Income ending 30 September 2023

Bond Performance by Duration



Sector, Credit, and Global Bond Performance

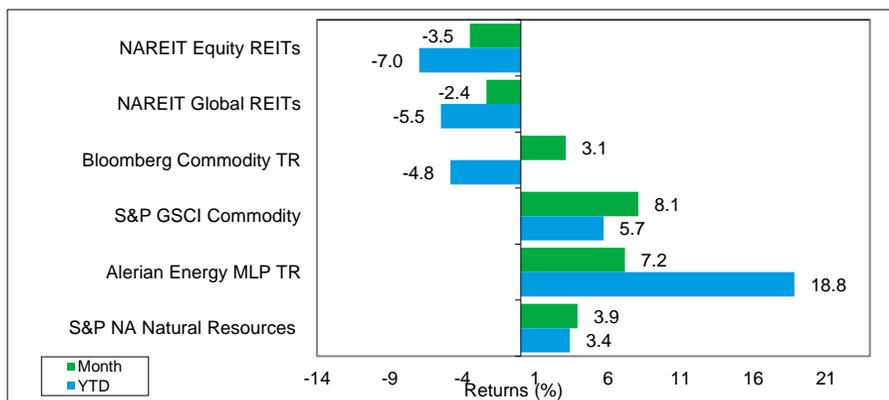


Index Returns	1 Mth	3 Mth	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years	20 Years	2022	2021	2020	2019	2018
FTA UK Over 15 year gilts	-3.8	-5.7	-11.1	-12.8	-25.0	-20.7	-8.4	-6.7	-0.4	2.8	-40.1	-7.3	13.9	12.0	0.3
FTA UK 5+ year ILG's	-4.2	-6.4	-9.4	-16.2	-23.0	-15.9	-6.4	-5.0	0.8	4.0	-38.0	4.2	12.4	6.8	-0.4
UK 10 years Gilt	-0.3	0.6	-2.5	-0.3	-11.4	-9.7	-3.2	-2.7	0.7	3.4	-20.1	-5.7	6.6	5.2	2.0
UK 30 years Gilt	-4.4	-6.5	-11.7	-13.0	-27.0	-21.8	-9.2	-7.6	-0.8	2.6	-42.7	-6.4	13.8	11.7	0.4
ICE Bank of America Sterling Non-Gilt index	0.1	2.2	1.2	7.4	-8.6	-5.9	-0.9	-0.7	2.0	3.8	-17.8	-3.0	8.0	9.5	-1.6
ICE BofA BB-B Sterling High Yield Index	1.1	3.7	8.2	15.2	-2.2	1.7	3.1	3.8	5.1	9.1	-11.1	3.0	6.1	13.8	-1.4
S&P UK AA IG CORP BOND INDEX	0.2	1.8	0.0	4.9	-8.7	-6.8	-1.6	-1.3	1.6	3.6	-17.3	-4.6	7.7	7.3	-0.3
S&P UK A IG CORP BOND INDEX	-0.1	1.7	0.7	6.4	-9.7	-7.2	-1.4	-1.3	2.0	3.6	-19.9	-3.7	8.4	10.4	-1.5
S&P UK BBB IG CORP BOND INDEX	0.2	2.6	2.0	9.1	-8.0	-4.9	-0.1	0.1	2.6	4.6	-17.4	-2.3	8.7	11.6	-2.6
ICE BofA Euro Broad Market Index	-0.8	-0.5	-2.0	-1.7	-8.6	-7.8	-2.6	-1.8	0.9	3.6	-12.2	-8.8	9.9	0.1	1.6
ICE BofA Euro High Yield Index	1.6	2.8	3.7	9.8	-2.8	-0.7	0.8	2.2	3.6	7.2	-6.5	-3.1	8.6	5.1	-2.5
EURO STOXX 50 CORP BOND INDEX	1.3	1.1	-0.8	1.2	-5.2	-5.0	-1.5	-0.8	1.1	--	-6.9	-7.3	8.5	-0.9	0.1
FTSE World Government Bond Index	0.4	-0.3	-4.1	-7.6	-6.8	-7.0	-1.3	-1.6	1.6	3.4	-8.0	-6.1	6.7	1.8	5.3
Bloomberg Barclays U.S. Aggregate	1.0	0.6	-2.5	-7.5	-2.7	-3.4	1.4	0.7	3.8	4.2	-2.5	-0.7	4.3	4.6	5.8
Bloomberg Barclays U.S. Credit	1.0	0.9	-1.4	-5.0	-3.2	-3.0	2.1	1.6	4.9	5.1	-4.9	-0.2	6.0	9.4	3.7
Bloomberg Barclays U.S. Intermediate Credit	2.3	3.0	-0.1	-4.7	0.4	-0.7	2.8	2.0	4.7	4.8	1.9	-0.1	3.8	5.4	5.9
Bloomberg Barclays U.S. Long Credit	-1.8	-3.5	-4.0	-6.0	-9.7	-7.2	1.1	0.8	5.5	6.0	-16.0	-0.3	9.8	18.6	-1.1
Bloomberg Barclays U.S. Corporate Investment Grade	0.9	0.8	-1.4	-4.9	-3.5	-3.1	2.2	1.7	5.0	5.2	-5.5	-0.2	6.5	10.2	3.3
Bloomberg Barclays U.S. Corporate High Yield	2.4	4.4	4.4	1.3	2.0	3.6	4.2	4.6	6.9	7.7	-0.5	6.1	3.9	10.0	3.6
Bloomberg Barclays U.S. Government/Credit	1.2	0.9	-2.2	-7.3	-2.8	-3.5	1.7	0.9	4.0	4.3	-3.1	-0.9	5.6	5.6	5.4

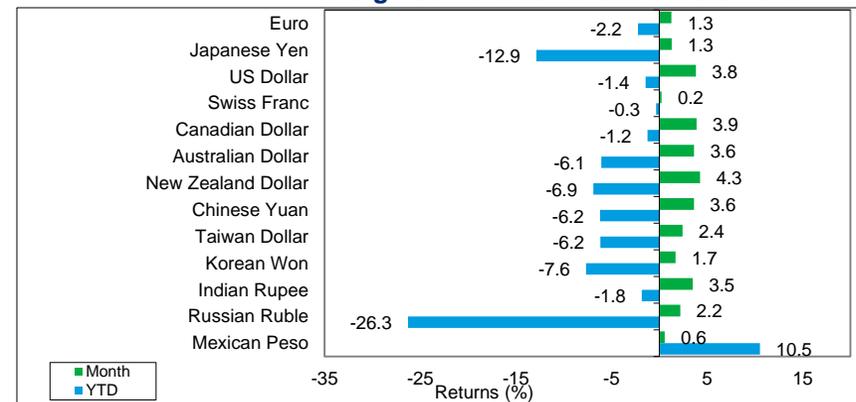
Performance Summary (GBP)

Alternatives ending 30 September 2023

Real Asset Performance



Performance of Foreign Currencies versus the US Dollar



Index Returns	1 Mth	3 Mth	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years	20 Years	2022	2021	2020	2019	2018
NAREIT Equity REITs	-3.5	-4.5	-7.0	-10.1	-4.7	4.7	4.2	4.0	9.2	9.6	-15.5	42.6	-8.1	23.7	1.9
NAREIT Global REITs	-2.4	-1.7	-5.5	-6.1	-6.0	3.5	1.0	1.5	5.9	8.1	-14.9	28.4	-11.0	18.3	1.2
Bloomberg Commodity TR	3.1	9.1	-4.8	-9.7	10.4	18.5	7.5	5.6	2.1	2.3	30.7	28.3	-6.1	3.5	-5.7
S&P GSCI Commodity	8.1	20.8	5.7	1.5	23.1	32.0	7.0	8.3	0.3	1.2	41.9	41.6	-26.1	13.1	-8.5
Alerian Energy MLP TR	7.2	14.5	18.8	21.4	32.4	45.9	8.2	5.9	4.9	10.3	47.4	41.5	-30.9	2.4	-7.0
Oil	12.7	33.9	11.5	4.5	15.6	33.7	5.8	10.4	1.6	7.5	20.2	56.4	-23.0	29.3	-20.2
Gold	-1.5	0.7	0.7	2.1	8.3	1.4	10.8	6.0	6.4	9.9	12.5	-2.6	20.6	14.3	3.9
S&P NA Natural Resources	3.9	12.6	3.4	13.5	29.6	35.3	8.9	7.6	6.5	9.6	51.0	41.2	-21.5	13.1	-16.2
Euro	1.3	1.1	-2.2	-1.2	0.5	-1.5	-0.5	0.0	0.4	1.1	5.7	-6.2	5.6	-5.6	1.1
Japanese Yen	1.3	0.9	-12.9	-11.3	-9.1	-9.2	-4.1	-4.5	-1.4	0.1	-1.7	-9.5	2.0	-2.9	9.1
US Dollar	3.8	4.2	-1.4	-8.5	5.1	1.9	1.3	0.9	2.9	1.6	12.6	0.9	-3.1	-3.9	6.2
Swiss Franc	0.2	1.9	-0.3	-1.6	6.1	2.1	2.7	1.7	2.7	3.4	10.9	-2.1	6.2	-2.1	5.0
Canadian Dollar	3.9	1.9	-1.2	-7.1	1.7	1.5	0.4	0.5	0.1	1.5	5.0	1.8	-1.4	1.3	-2.6
Australian Dollar	3.6	0.6	-6.1	-9.4	-0.7	-1.6	-0.9	-1.5	-0.9	1.3	4.6	-5.0	5.9	-4.0	-4.0
New Zealand Dollar	4.3	1.5	-6.9	-4.8	-2.2	-1.6	-0.7	-1.9	-0.5	--	3.8	-4.5	3.1	-2.9	0.2
Chinese Yuan	3.6	3.6	-6.2	-11.2	-1.1	-0.4	0.1	-0.4	1.1	2.2	3.2	3.6	3.2	-5.2	0.7
Taiwan Dollar	2.4	0.5	-6.2	-10.0	-2.4	-1.7	0.2	0.5	2.0	1.8	1.4	2.5	3.4	-1.4	2.8
Korean Won	1.7	1.7	-7.6	-3.0	-1.5	-2.8	-2.6	-2.0	0.6	0.7	5.9	-7.8	3.2	-7.2	1.9
Indian Rupee	3.5	2.9	-1.8	-10.4	-0.6	-2.0	-1.4	-2.2	0.0	-1.4	1.2	-0.8	-5.3	-6.0	-2.9
Russian Ruble	2.2	-4.5	-26.3	-42.7	-9.2	-5.6	-6.4	-5.2	-7.9	-4.2	15.7	-0.5	-18.6	7.4	-11.9
Brazilian Real	2.7	0.4	4.0	-1.2	9.7	6.1	-3.1	-5.1	-5.1	-1.1	18.8	-5.9	-24.9	-7.4	-9.1
Mexican Peso	0.6	2.8	10.5	5.8	14.3	10.4	2.8	2.5	0.0	-0.7	18.2	-1.7	-8.2	0.3	5.5
BofA ML All Convertibles	1.1	1.5	4.3	-1.7	-2.5	5.1	9.8	10.7	12.0	9.8	-8.5	7.3	41.7	18.4	6.4
60%S&P 500/40% Barc Agg	-0.3	0.7	5.8	3.7	2.8	6.0	7.4	8.2	10.6	8.5	-5.7	17.7	10.6	17.7	3.3

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