

Avon Pension Fund Committee Investment Panel

Date: Friday, 19th November, 2021

Time: 2.00 pm

**Venue: Virtual Meeting - Zoom - Public Access via
YouTube**

<https://www.youtube.com/bathnescouncil>

To: All Members of the Avon Pension Fund Committee Investment Panel

Councillor Shaun Stephenson-McGall (Chair), Councillor Paul Crossley, Councillor Chris Dando, John Finch, Pauline Gordon and Shirley Marsh-Hughes

Chief Executive and other appropriate officers
Press and Public



Mark Durnford

Democratic Services

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NOTES:

1. **Inspection of Papers:** Papers are available for inspection as follows:

Council's website: <https://democracy.bathnes.gov.uk/ieDocHome.aspx?bcr=1>

2. **Details of decisions taken at this meeting** can be found in the minutes which will be circulated with the agenda for the next meeting. In the meantime, details can be obtained by contacting as above.

3. **Recording at Meetings:-**

The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control. Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators. We request that those filming/recording meetings avoid filming public seating areas, children, vulnerable people etc; however, the Council cannot guarantee this will happen.

The Council will broadcast the images and sounds live via the internet www.bathnes.gov.uk/webcast. The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

4. **Public Speaking at Meetings**

The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group.

Advance notice is required not less than two full working days before the meeting. This means that for meetings held on Thursdays notice must be received in Democratic Services by 5.00pm the previous Monday.

Further details of the scheme can be found at:

<https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=12942>

5. **Emergency Evacuation Procedure**

When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are signposted. Arrangements are in place for the safe evacuation of disabled people.

6. **Supplementary information for meetings**

Additional information and Protocols and procedures relating to meetings

<https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=13505>

Avon Pension Fund Committee Investment Panel - Friday, 19th November, 2021

at 2.00 pm in the Virtual Meeting - Zoom - Public Access via YouTube
<https://www.youtube.com/bathnescouncil>

A G E N D A

1. WELCOME & INTRODUCTIONS

2. DECLARATIONS OF INTEREST

At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to complete the green interest forms circulated to groups in their pre-meetings (which will be announced at the Council Meeting) to indicate:

(a) The agenda item number in which they have an interest to declare.

(b) The nature of their interest.

(c) Whether their interest is a **disclosable pecuniary interest** or an **other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer or a member of his staff before the meeting to expedite dealing with the item during the meeting.

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

To receive any declarations from Members of the Committee and Officers of personal/prejudicial interests in respect of matters for consideration at this meeting, together with their statements on the nature of any such interest declared.

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

5. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

6. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

To deal with any petitions or questions from Councillors and, where appropriate, co-opted and added members.

7. MINUTES: 17TH SEPTEMBER 2021 (Pages 7 - 18)

8. INFRASTRUCTURE PORTFOLIOS (Pages 19 - 96)
9. PERFORMANCE MONITORING (Pages 97 - 204)
10. RISK MANAGEMENT FRAMEWORK (Pages 205 - 226)
11. FORWARD AGENDA (Pages 227 - 228)

The Committee Administrator for this meeting is Mark Durnford who can be contacted on 01225 394458.

BATH AND NORTH EAST SOMERSET

AVON PENSION FUND COMMITTEE INVESTMENT PANEL

Friday, 17th September, 2021

Investment Panel: Shaun Stephenson-McGall (Chair), Paul Crossley, Chris Dando, John Finch, Pauline Gordon and Shirley Marsh-Hughes

Advisors: Steve Turner (Mercer)

Also in attendance: Tony Bartlett (Service Director - Financial Control and Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk), Nathan Rollinson (Investments Manager), David Cox (Brunel) and Chris Crozier (Brunel)

13 EMERGENCY EVACUATION PROCEDURE

The Chairman drew attention to the emergency evacuation procedure.

14 DECLARATIONS OF INTEREST

There were none.

15 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

16 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

17 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

18 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

19 MINUTES: 26TH FEBRUARY 2021 AND 28TH MAY 2021

The Panel confirmed the minutes of the two previous meetings as a true record and they were duly signed by the Chairman.

20 BRUNEL PRESENTATION

David Cox, Head of Listed Markets gave a presentation to the Panel. The full presentation will be added to the minutes as an online appendix.

There was a discussion about the new Paris aligned benchmarks that Brunel developed with FTSE Russell and how these new indices can meet client requirements. Specifically, the FTSE Russell Brunel Climate Transition Benchmark (CTB) and Paris aligned Benchmark (PAB) indices are designed to reflect the performance of a global and diversified basket of securities where weights are varied in order to achieve climate targets, including:

- i. Emissions – they have target reductions in both Carbon Reserves and Operational Emissions
- ii. Exclusions - Such as activity based exclusions – Oil, Gas, Coal and Electricity generators (PAB only) plus others such as Tobacco, Controversial Weapons, Conduct (e.g. UNGC)
- iii. Corporate Target Setting such as TPI Management Quality Score, TPI Carbon Performance

The Group Manager for Funding, Investment & Risk asked if the Passive / Index Fund was a manageable process and controlled.

David Cox replied that it was 100% rules based and followed the EU approach and had been enhanced by FTSE data. He added that they were not looking to take any undue risk.

John Finch asked if they had looked at historical information regarding the index.

David Cox replied that they had researched data dating back to 2011.

The Service Director for Financial Control and Pensions asked what would happen if companies stray from the PAB.

David Cox replied that the index would then need to be rebalanced.

David Cox explained how Brunel assesses ESG integration in the manager selection process. This includes evaluating the following: the internal ESG Culture, Climate Change Policy alignment, Thought leadership

Finally there was a discussion about Investing in China. Brunel's focus is on Human Rights in Supply Chains, Data Privacy, censorship & surveillance, Corporate Governance, Hong Kong and Taiwan, Climate Change, ADR/H-Share/A-Share

Steve Turner asked if it was harder to engage with companies linked to China.

David Cox replied that there was currently less transparency and that there was Chinese Government involvement in many companies to some degree.

The Chairman asked if companies will be given more time to declare / achieve their climate change targets.

David Cox replied that it was likely that different industries will provide a view point on what they can achieve but said that a net negative level needs to be achieved very soon after 2050. He added that passive indices would be a good judgement of their policies.

The Chairman thanked him for the presentation on behalf of the Panel.

21 EQUITY REVIEW

The Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED**, in accordance with the provisions of the Section 100(A)(4) of the Local Government Act 1972 that the public should be excluded from the meeting for this item of business, because of the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act as amended.

22 INVESTMENT PERFORMANCE

The Investments Manager introduced this report to the Panel. He informed them that the update on Brunel investment activity could be found at Appendix 3. He explained that as the transition of our assets to Brunel is drawing to a close the focus for the Panel was now on the ongoing management and performance of the Brunel portfolios. He added that a summary table is included which is designed to flag any concerns from a performance and/or RI perspective. He said that there no flags in place for this quarter.

He said that the Fund became a signatory to the '2021 Global Investor Statement to Governments on the Climate Crisis'. He added that this Statement, coordinated by the Investor Agenda and signed by over 450 investors representing \$41tn in assets, calls on Governments to strengthen their Nationally Defined Contributions to align with the transition to net-zero emissions by 2050 or sooner, commit to sector specific decarbonisation roadmaps supported by robust domestic policy, incentivise zero-emissions energy and transport infrastructure investment and support mandated climate risk disclosures.

Steve Turner, Mercer addressed the Panel and gave a summary of Appendix 2.

Market background

- The gradual emergence of many developed countries from restrictions as vaccine rollouts continued drove investor optimism, helping to bring about another strong quarter for risk assets.
- Markets largely saw through continued elevated inflation expectations, but it remains a key question as well as the potential impact of the delta variant on the economic recovery. Government bond yields fell thanks to central bank signals that have been less dovish than expected.

Mercer market views

- their medium-term views on the global economy are favourable, as they expect it to strengthen sharply as economies re-open more fully. Governments and central banks are likely to continue to support economic activity.

Funding level and risk

- The funding level is estimated to have improved from 97% to 101% over Q2 as asset growth outweighed the rise in the value of the liabilities. It is estimated to have increased by 9% over the year to 30 June 2021.
- The Value-at-Risk rose over the quarter to £1,134m, or 20.5% of liabilities. Risk as a proportion of liabilities has reduced over the year, largely due to the decision to move towards a dynamic equity option strategy.

Performance

- Underperformance relative to the strategic benchmark over the one and three-year period to 30 June 2021 is mainly due to the impact of the equity protection strategy, but this has behaved in line with expectations given the increase in the underlying equity markets.
- Relative performance was mixed at the mandate level, though the High Alpha Equity, Hedge Fund and Core Infrastructure mandates have continued to stand out in outperforming their benchmarks.

Asset allocation and strategy

- In May, the Fund implemented the new dynamic structure for the equity option strategy.
- In June, the Fund terminated its Multi-Asset Credit holdings with Loomis Sayles, transferring these to a new MAC fund with Brunel.
- At quarter end, all asset classes were within their ranges, except for the Renewable Infrastructure and Private Debt mandates which are still in the process of being drawn down.

Shirley Marsh-Hughes if there was now less demand for value stocks.

Steve Turner replied that this was difficult to answer and would depend on whether central banks raise interest rates, as they are more sensitive to economic activity.

Pauline Gordon asked if any further comment could be made in respect of the IFM – Core Infrastructure.

Steve Turner replied that this is a legacy portfolio and options for managing this allocation in the future will be discussed at the next Panel meeting.

The Panel **RESOLVED** to note the information as set out in the reports.

23 RISK MANAGEMENT

The Investments Manager introduced this report to the Panel. He explained that the Funding and Risk Management Group (FRMG) is responsible for agreeing the operational aspects relating to the Fund's risk management framework thereby ensuring that strategic objectives continue to be met.

He stated that this report informs the Panel of issues considered and decisions made by FRMG as well as any recommendations. He added that since the last Panel meeting there has been one meeting of the FRMG on the 26 August 2021 and that there are no strategic issues or concerns to raise with the Panel.

The Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED**, in accordance with the provisions of the Section 100(A)(4) of the Local Government Act 1972 that the public should be excluded from the meeting for this item of business, because of the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act as amended.

The Panel **RESOLVED** to:

- (i) Note the updated funding level and LDI hedging position
- (ii) Note the impact and performance of the equity protection strategy
- (iii) Note the performance of the Buy & Maintain Corporate Bond strategy
- (iv) Note FRMG considerations regarding the hedge ratio of the liability benchmark portfolio.

24 FORWARD AGENDA

The Group Manager for Funding, Investment & Risk introduced this report to the Panel. She said that it was likely that a stocktake review would take place during 2022.

The Panel **RESOLVED** to note the forward agenda.

The meeting ended at 3.53 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	19 November 2021	AGENDA ITEM NUMBER
TITLE:	Infrastructure Portfolios	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Exempt Appendix 1 – Mercer report		
Exempt Appendix 2 – Brunel Portfolio Scoping paper		

1 THE ISSUE

- 1.1 At its meeting in May 2021 the Panel considered the plan to manage down the legacy assets with the aim of having all the Fund's assets eventually managed by Brunel.
- 1.2 One of the actions was for Mercer to assess how Brunel's core infrastructure offer compares to the Fund's legacy infrastructure mandate and how over time the allocation to infrastructure could potentially transfer to Brunel.
- 1.3 This report sets out the initial advice from Mercer (see Exempt Appendix 1). They are not recommending any action at this stage.

2 RECOMMENDATION

- 2.1 **That the Panel notes the report and next steps.**

3 REPORT

- 3.1 The Fund has an infrastructure allocation of 10%, split 50/50 between core infrastructure (legacy portfolio) and renewable energy (Brunel portfolio). It should be noted that we also have renewable infrastructure exposure through the Secured Income Fund so on a look through basis, once fully invested, we will have more than 5% invested in renewables.
- 3.2 The legacy portfolio is 'generalist' in that it invests across a range of infrastructure assets whereas the to date Fund has invested in the renewables portfolio (note Brunel have also offered a 'generalist' infrastructure portfolio in each investment cycle). Therefore the legacy portfolio provides diversification within infrastructure for the Fund.
- 3.3 Brunel is in process of finalising the private market portfolio specifications for the next cycle of private market investments. Their scoping paper for the Infrastructure portfolios is included as Exempt Appendix 2 for reference only. The portfolio specification has not been agreed as yet; a verbal update will be

provided at the meeting and Mercer advice is subject to the final portfolio offered.

- 3.4 The Panel do not have to make any decisions at this meeting. This paper is for the Panel to explore the potential options and implications (operationally, timing) for the legacy portfolio. Allocations to the next cycle of private market portfolios offered by Brunel will be agreed at the Panel meeting in 1Q22, once portfolio specifications are available. The Fund can allocate to the next Brunel infrastructure portfolio to maintain the current strategic allocation independently of any decision concerning the legacy portfolio. *(Note: Panel are responsible for committing to private market at each cycle to maintain the strategic allocations).*

4 FINANCIAL IMPLICATIONS

- 4.1 The 2021/22 budget provides for investment management fees. Any changes to the investment structure could change the fees charged to the Fund in future years.

5 RISK MANAGEMENT

- 5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

6 CLIMATE CHANGE

- 6.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

7 EQUALITIES

- 7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8 OTHER OPTIONS CONSIDERED

- 8.1 None.

9 CONSULTATION

- 9.1 The Council's Section 151 Officer has had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Group Manager, Funding, Investments & Risk; 01225 395306
Background papers	May 2021 Investment Panel paper 'Legacy Portfolio Plan'
Please contact the report author if you need to access this report in an alternative format	

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Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: 1471/21

Meeting / Decision: AVON PENSION FUND INVESTMENT PANEL

Date: 19th November 2021

Author: Liz Woodyard

Report Title: Infrastructure Portfolios

Exempt Appendix 1 – Mercer report

Exempt Appendix 2 – Brunel Portfolio Scoping paper

The appendices contain exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption:

3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the exempt appendices be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Panel wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

The exempt appendices contain information on potential future trades by the fund, and includes information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and could prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

It is also important that the Panel should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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of the Local Government Act 1972.

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Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND INVESTMENT PANEL
MEETING DATE:	19 NOVEMBER 2021
TITLE:	Review of Investment Performance for Periods Ending 30 September 2021
WARD:	ALL
AN OPEN PUBLIC ITEM	
<p>List of attachments to this report:</p> <p>Appendix 1 – Fund Valuation</p> <p>Appendix 2 - Mercer Performance Monitoring Report</p> <p>Exempt Appendix 3 – Quarterly Portfolio Monitoring Summary</p> <p>Appendix 4 – Brunel Quarterly Performance Report</p> <p>Appendix 5 – Mercer Paper: Managing Inflation Risk</p>	

1. THE ISSUE

- 1.1. This paper reports on the performance of the Brunel and legacy portfolios and seeks to update the Panel on routine aspects of the Fund's investments. The report contains performance statistics for periods ending 30 September 2021.
- 1.2. The Mercer Performance Monitoring Report at Appendix 2 is presented in its revised format and will continue to evolve over time to focus on strategic issues.
- 1.3. The performance of the Fund's Risk Management Framework is considered separately under Agenda Item 10 – Risk Management Framework Review.
- 1.4. Exempt Appendix 3 contains a summary table which is designed to flag any concerns from a performance and/or RI perspective.
- 1.5. Appendix 4 is the quarterly performance report published by Brunel which focuses on the performance of the Brunel portfolios and responsible investment activity undertaken on the Fund's behalf over the quarter.
- 1.6. Appendix 5 examines the current inflationary environment and the potential impact on the Fund. It is intended to be a discussion document at this stage – there are no firm recommendations.

2. RECOMMENDATION

- 2.1. **Notes information as set out in the reports.**
- 2.2. **Identifies any issues to be notified to the Committee.**

3. FINANCIAL IMPLICATIONS

- 3.1. The returns achieved by the Fund for the three years commencing 1 April 2019 will impact the next triennial valuation which will be calculated as at 31 March 2022. The returns quoted are net of investment management fees.

4. INVESTMENTS UPDATE

A – Fund Performance

- 4.1. The Fund's assets increased by £139m in the quarter (2.9% net investment return) ending 30 September 2021 giving a value for the Fund of £5,710m. (see appendix 5 for asset allocation).
- 4.2. There was significant volatility in markets towards the end of the quarter, caused by supply chain disruptions and fears of default from Chinese property developer Evergrande. Gains made in July and August were wiped out in September. A lack of reliable alternative energy sources compounded supply chain disruption which drove gas prices higher. Global developed equities returned 2.6% over the quarter while emerging markets fell 5.7% in the same period. Increasing inflationary pressures led to talks of possible interest rate rises in the UK, with the Fed and ECB confirming plans to begin tapering their respective asset purchase programs. The 10-year US treasury yield rose above 1.5% following the September Fed meeting. In the UK, 5- and 10-year gilt yields increased 31bps and 30bps to 0.64% and 1.02%, respectively. In UK LDI markets, Q3 brought the inaugural green gilt, with the 2033 bond bringing record demand and a final issue size of £10bn. While demand for defensive Infrastructure assets, such as water and electric utilities, grew following rising Delta variant numbers, this proved a negative influence on the rest of the sector, which was also hit by supply chain disruptions, gas price volatility and questions around the status of the US infrastructure bill. Issuance of high yield bonds was strong and remain on course for a record-breaking year, with Private Debt markets also holding up despite a seasonal slowdown in August. Rent collection improved in the retail Property sector, with fears of falling valuations in the office sector mitigated by increased overseas demand and lack of high-quality supply. Sterling depreciated against the US Dollar by 2.4%, by 0.1% against the Euro and by 1.9% against the Japanese Yen. Further information on 3Q asset class performance can be found in the Mercer report at Appendix 2.

B – Investment Manager Performance

- 4.3. Brunel reports on the performance of the assets they manage on behalf of the Fund. The report for each Brunel portfolio can be found on pages 15-34 of Appendix 4.
- 4.4. The Mercer report at Appendix 2 provides strategic level information including total fund level performance, current funding level and an analysis of how the Fund's mandates are performing against expected strategic returns.
- 4.5. The Global Sustainable Equity portfolio posted a strong absolute return of 3.6% over the quarter, outperforming the index by over 2%. Stock selection was the main driver of returns. The High Alpha portfolio returned 1.7% in absolute terms, underperforming the index by nearly 1%. Underperformance in this portfolio was driven by stock selection and an overweight to China as fears of default following the Evergrande headlines spread to other sectors in the region. The Emerging Market equity portfolio posted an absolute return of -6.5% and a relative return of -0.8% over the quarter. Rising energy prices resulted in the portfolio underweight to the Energy and Materials sectors detracting from relative performance. The

DRF portfolio posted an absolute return of 0.5%. Core Infrastructure, Renewable Infrastructure and Secured Income all saw strong positive absolute returns despite a slowdown in the pandemic recovery and supply bottlenecks. The Fund's LDI portfolio provided a tailwind to total fund returns as the hedging positions added value as inflation expectations rose. Of those mandates with a 1-year track record the majority earned positive absolute returns with notable outperformance across the Infrastructure mandates and Sustainable Equity. The currency hedge detracted over the quarter but was additive to returns over 1- and 3-year timeframes as Sterling strengthened over these periods.

5. INVESTMENT STRATEGY AND PORTFOLIO REBALANCING

5.1. Returns versus Strategic Assumptions: Returns since the last valuation date (March 2019) for all equity mandates and core infrastructure are ahead of the assumed strategic returns used during the 2019/20 investment review. International property is below expectations as the mandate has been impacted by the pandemic. Due to the way this portfolio invests (capital drawn down over time) the focus should be on longer-term performance. Other mandates are either still in build-up phase or do not have a sufficient track record (e.g. Brunel MAC) to properly compare against strategic return assumptions.

5.2. Rebalancing: There was no rebalancing activity during the quarter. The wind down of the Schroder UK Property portfolio completed with the majority of proceeds being used to meet a Secured Income call and further funding for Brunel's UK Property portfolio post quarter end. The wind down of the JPM hedge fund mandate continues and proceeds of the first redemption are due to settle in November.

5.3. Responsible Investment (RI) Activity: A summary of RI activity undertaken by Brunel is included on page 9 of Appendix 4.

Separately, the Fund signed up to the 'Asset Owner Diversity Charter'. This charter seeks to formalise a set of actions designed to improve diversity, in all forms, across the asset management industry. In collaboration with Brunel, we will look to follow its three main commitments to incorporate diversity questions into manager selection, incorporate diversity into ongoing manager monitoring and lead and collaborate with others in the investments industry to identify diversity and inclusion best practice. This charter was originally signed by 16 signatories representing £1.08 trillion in assets.

5.4. Voting and Engagement Activity: Hermes engaged with 149 companies held by Avon in the Brunel active portfolios on a range of 475 ESG issues. Environmental topics featured in 32% of engagements, 78.9% of which related directly to climate change. Social topics featured in 23.8% of engagements, where human capital, human rights and diversity featured prominently. Of the 26.5% of Governance related engagements most focussed on executive remuneration and board diversity. Over the last quarter Hermes made voting recommendations at 116 meetings (1,228 resolutions). At 41 meetings they recommended opposing one or more resolutions. 64% of the issues Hermes voted against management on comprised board structure and remuneration. During the quarter, the underlying investment managers undertook the following voting activity on behalf of the Fund:

Companies meetings voted: 702

Resolutions voted: 3,941

Votes For: 3,419
Votes Against: 460
Abstained: 9
Withheld vote*: 53

** A Withheld vote is essentially the same as a vote to abstain, it reflects a view to vote neither for nor against a resolution. Although the use of 'abstain' or 'withheld' reflects the different terms used in different jurisdictions, a 'withheld' vote can often be interpreted as a more explicit vote against management. Both votes may be counted as votes against management, where a minimum threshold of support is required*

6. RISK MANAGEMENT

6.1. The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

7. EQUALITIES

7.1. A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8. CLIMATE CHANGE

8.1. The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

9. OTHER OPTIONS CONSIDERED

9.1. None

10. CONSULTATION

10.1. The Council's Section 151 Officer has had the opportunity to input to this report and have cleared it for publication.

Contact person	Nathan Rollinson, Investments Manager (Tel. 01225 395357)
Background papers	Data supplied by Mercer, Brunel & State Street Performance Measurement
Please contact the report author if you need to access this report in an alternative format	

AVON PENSION FUND VALUATION - 30 SEPTEMBER 2021

	Brunel Portfolios	Cash Management Strategy	QIF	Funds of Hedge Funds	Property		Infra-structure	Currency Hedging	In House Cash	TOTAL	Avon Asset Mix %
All figures in £m	Multi	BlackRock	BlackRock	JP Morgan	Schroder (UK)	Partners (Overseas)	IFM	Record	General Cash		
Equities											
UK										0.5	0.0%
Emerging Markets	280.5									280.5	4.9%
Global Developed Markets	448.3		275.5							723.7	12.7%
Global Sustainable Equities	607.9									607.9	10.6%
Global Low Carbon	763.2									763.2	13.4%
Equity Derivatives ¹			-5.0					34.9		29.9	0.5%
Total Overseas	2099.9		270.4							2370.3	42.1%
Total Equities	2099.9		270.4					34.9		2405.2	42.1%
Exchange-Traded Funds		102.1								102.1	1.8%
DGFs	533.2									533.2	9.3%
Hedge Funds				288.8						288.8	5.1%
MAC	322.9									322.9	5.7%
Property	140.5				29.7	176.6				346.7	6.1%
Infrastructure							403.8			403.8	7.1%
Renewable Infrastructure	70.7									70.7	1.2%
Secured Income	385.4									385.4	6.7%
Private Debt	19.5									19.5	0.3%
LDI Assets & Bonds											
LDI Assets			635.6							635.6	11.1%
Corporate Bonds			132.1							132.1	2.3%
Total Bonds			767.7							767.7	13.4%
Cash									80.8	82.4	1.4%
FX Hedging								-18.6		-18.6	-0.3%
TOTAL	3572.1	102.1	1038.1	288.8	29.7	176.6	403.8	16.3	80.8	5710.3	100%

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Avon Pension Fund

Panel Investment Report Quarter to 30 September 2021

Page 101

November 2021

Steve Turner
Joshua Caughey



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Executive summary



Executive summary

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<p>Market background</p>	<ul style="list-style-type: none"> The third quarter of 2021 started with optimism over reopenings but ended with global slowdown fears, amid concerns over the Delta variant and supply chain pressures. Developed equity markets remained in positive territory overall despite the sell-off in September though emerging markets contracted, driven by the regulatory crackdown in China and the restructuring of the large property developer Evergrande. Inflation expectations increased significantly, and gilt yields rose in response to hawkish signals from central banks. 																								
<p>Mercer market views</p>	<ul style="list-style-type: none"> Our medium term views on the global economy continues to be that growth will remain strong, albeit with some potential short-term challenges. Corporate profit growth is expected to remain strong, though the heightened prospect of central bank tightening could undermine equities. 																								
<p>Funding level and risk</p>	<div> <div data-bbox="383 756 1384 938"> <ul style="list-style-type: none"> The funding level is estimated to have improved slightly over Q3 to just over 101%, as asset growth outweighed the rise in the value of the liabilities. It is estimated to have increased by 8% over the year to 30 September 2021 (as illustrated to the right). </div> <div data-bbox="1395 729 2092 970"> <table border="1"> <caption>Funding Level (%)</caption> <thead> <tr> <th>Quarter</th> <th>Funding Level (%)</th> </tr> </thead> <tbody> <tr> <td>Q3 2020</td> <td>~93.0</td> </tr> <tr> <td>Q4 2020</td> <td>~97.0</td> </tr> <tr> <td>Q1 2021</td> <td>~99.0</td> </tr> <tr> <td>Q2 2021</td> <td>101.0</td> </tr> <tr> <td>Q3 2021</td> <td>101.0</td> </tr> </tbody> </table> </div> </div> <div> <div data-bbox="383 994 1384 1181"> <ul style="list-style-type: none"> The Value at Risk rose over the quarter to £1.134m, or 20.5% of liabilities. Risk the c While from Q1 2020. </div> <div data-bbox="1395 978 2092 1209"> <table border="1"> <caption>Value at Risk (%)</caption> <thead> <tr> <th>Quarter</th> <th>Value at Risk (%)</th> </tr> </thead> <tbody> <tr> <td>Q2 2020</td> <td>26.0</td> </tr> <tr> <td>Q3 2020</td> <td>26.0</td> </tr> <tr> <td>Q4 2020</td> <td>~26.5</td> </tr> <tr> <td>Q1 2021</td> <td>~26.8</td> </tr> <tr> <td>Q2 2021</td> <td>~27.0</td> </tr> </tbody> </table> </div> </div>	Quarter	Funding Level (%)	Q3 2020	~93.0	Q4 2020	~97.0	Q1 2021	~99.0	Q2 2021	101.0	Q3 2021	101.0	Quarter	Value at Risk (%)	Q2 2020	26.0	Q3 2020	26.0	Q4 2020	~26.5	Q1 2021	~26.8	Q2 2021	~27.0
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VaR commentary to follow shortly due to availability of capital market assumptions

Executive summary

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Performance

- Most assets delivered positive returns over the quarter, particularly the LDI portfolio given the rise in inflation expectations.
- Equity assets were up overall, and private market assets in UK Property, Secured Income and Infrastructure did well.

- Underperformance relative to the strategic benchmark over the one and three year period to 30 June 2021 is mainly due to the impact of the equity protection strategy and the currency hedge in place.
- Relative performance was mixed at the mandate level, though the Hedge Fund and Core Infrastructure mandates have continued to stand out in outperforming their benchmarks. The Diversified Returns mandate has also done well over the year.

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (1)	2.9	13.8	6.0
Strategic Benchmark (2) (ex currency hedge)	3.3	16.2	7.8
Relative (1 - 2)	-0.4	-2.4	-1.8

- Absolute returns for all growth mandates, except for the two older Property funds and the Renewable Infrastructure mandate still being drawn down, have been above the strategic returns modelled at the last investment strategy review in March 2019.

Asset allocation and strategy

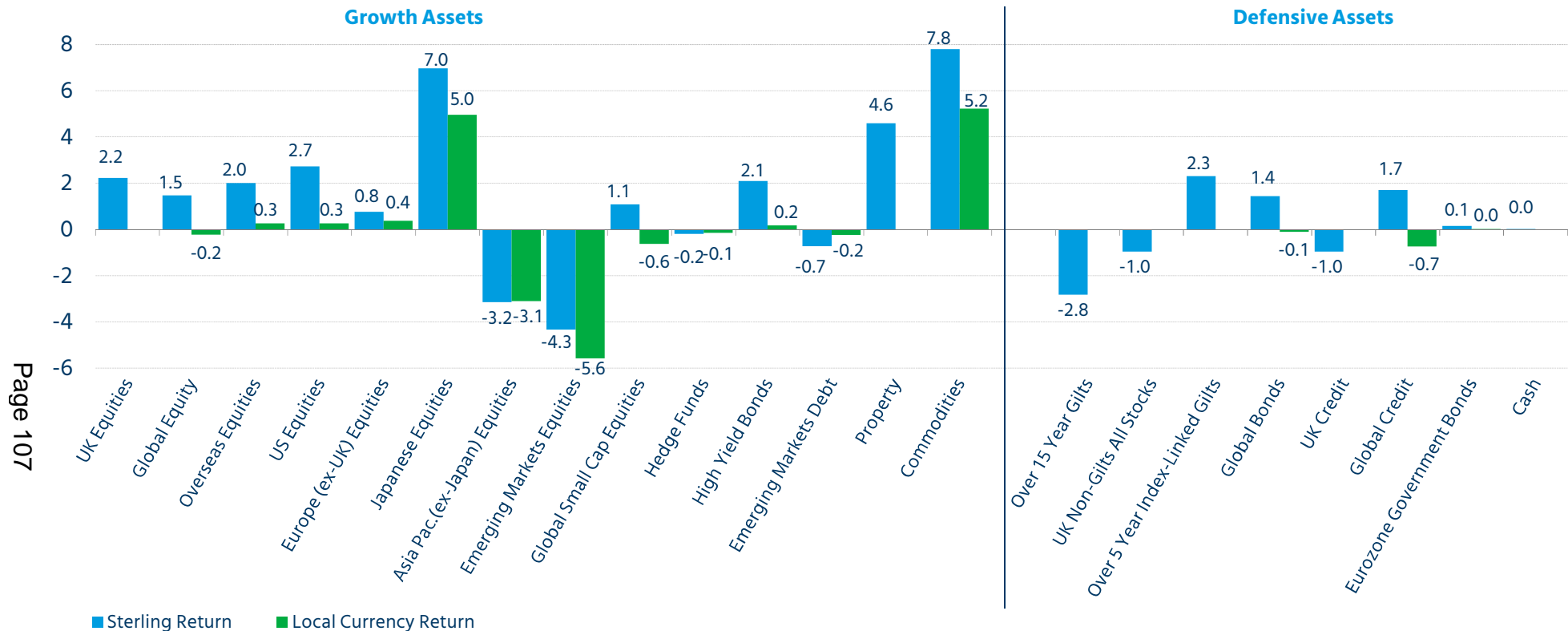
- The Fund received its first capital call from the Private Debt commitment with Brunel, to be drawn down over time towards its 5% target strategic allocation.
- At quarter end, all asset classes were within their ranges, except for the Renewable Infrastructure and Private Debt mandates which are still in the process of being drawn down.
- Post quarter-end, the Committee agreed to terminate the Fund's holdings in Emerging Markets Equity. Holdings will be distributed between the High Alpha and Sustainable Equity mandates (which still contain emerging markets exposure).
- From a strategic perspective, the allocation to Diversified Returns will also be reduced, and the global equity mandates correspondingly increased in order to maintain the overall expected return of the portfolio in light of the reduction in emerging markets equities. However, no rebalancing will take place at this stage due to prevailing relative positioning.

Market background



Market background

Return over 3 months to 30 September 2021 (%)

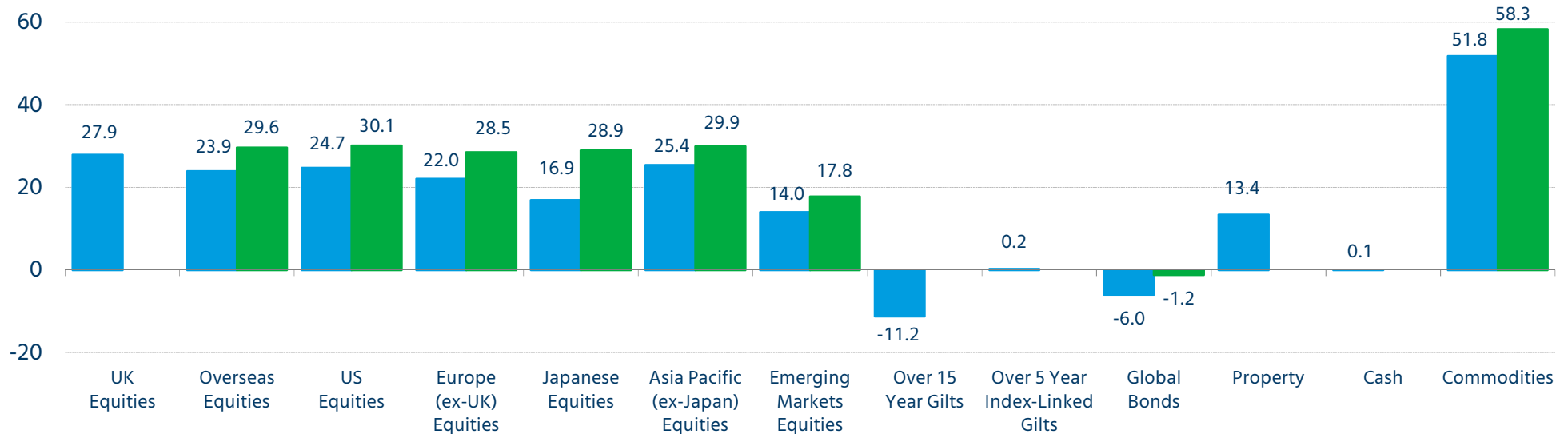


The third quarter of 2021 started with optimism over reopenings but ended with global slowdown fears. Over the first half of the quarter, the US, UK and much of Europe went ahead with fully reopening their economies which drove risk on sentiment. However, concerns over the Delta variant prompted some economies with 'zero Covid' policies, mostly around Asia Pacific to re-impose restrictions. This added to already existing supply chain pressures.

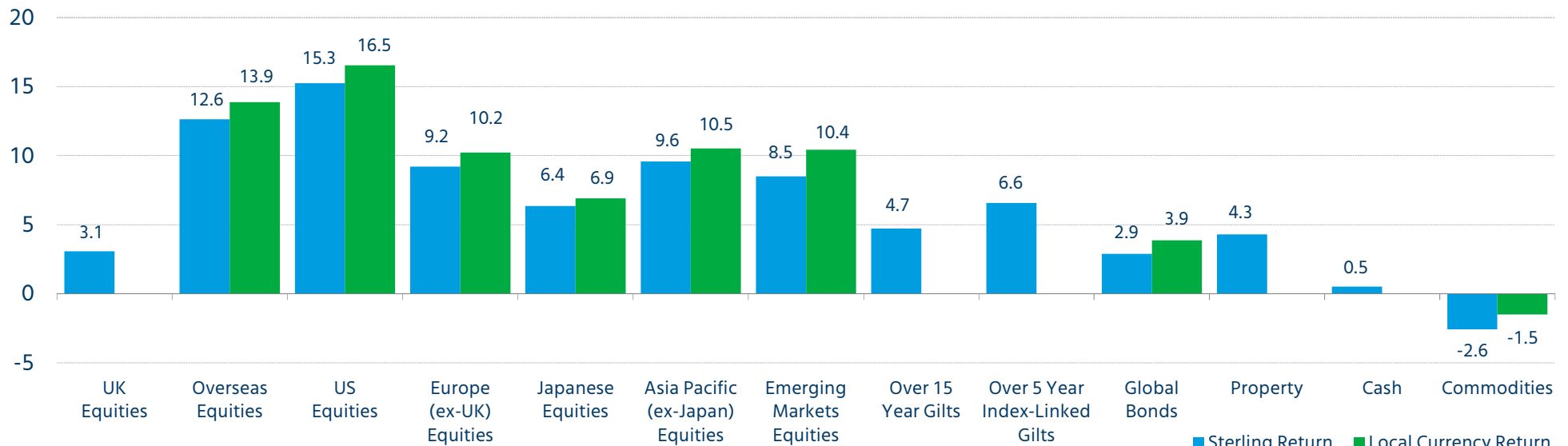
The supply impact was increasingly felt later in the quarter, in combination with concerns over pent-up demand peaking and Covid fears leading to a deterioration in sentiment. The struggles of China's largest property developer, Evergrande as well as the Chinese government intensifying its regulatory crackdown, against sectors such as technology and private education, added to concerns.

Market background – longer term

Return over 12 months to 30 September 2021 (%)



Return over 3 years to 30 September 2021 (% p.a.)



Mercer market views



Market Outlook

Mercer's current position/view
Position/view last time (if changed)

Global equity returns were flat over the quarter in US dollar terms on the back of heightened fears over recent increases in the price of energy and related supply chain disruptions. However, central banks and in particular the US Federal Reserve continued to assert that the rise in inflation was transitory and would dissipate over time. A weaker sterling led to positive global equity returns in the low single digits for unhedged UK investors. Bonds rallied at the start of the quarter as signs that the reopening surge in activity was fading started to emerge, although bond yields rose towards quarter end as the Federal Reserve began to indicate that tapering was imminent and other central banks such as the Bank of England also started to turn more hawkish.

Economic activity remained strong although the rise of the delta variant and shortages of people and goods in some sectors slowed activity through the quarter. While governments mostly avoided imposing new lockdowns, activities in certain face-to-face sectors, most notably travel, softened. In addition, ongoing supply disruptions in a range of sectors (most notably the auto sector) led to both less activity and higher prices. There were also signs that businesses were struggling to recruit the staff they needed and that this had put upward pressure on wage growth.

We expect economic growth to remain strong, although supply disruptions and near term weakness in China, could lead to near term growth being weaker than we had thought. However, any growth shortfall this year may be offset by better growth next year, especially in China and supply constrained sectors. It seems likely that the impact of COVID on economies and markets will fade, especially in those economies that have vaccinated the most.

Inflation, which has risen sharply should moderate, although remain above target for a while. While we share the US Federal Reserve view that much of the inflation increase is temporary, we think that rising wages and higher inflation expectations create the risk of a longer lasting move higher in inflation. We expect central banks to gradually withdraw some of the stimulus that was added last year.

We have reduced our high level weighting to equities from overweight to the positive side of neutral and have increased our cash position commensurately. On the one hand, corporate profit growth, which has been exceptionally strong over the last 18 months, should remain decent, while the tailwind from the poor returns available from other asset classes (such as bonds and cash) will continue. On the other hand the recent rise in inflation and the potential for it to be much longer lasting than anticipated, creates risk that the Federal Reserve and other central banks will have to tighten policy aggressively. This could undermine equities, perhaps materially. We remain underweight defensive fixed income and on the positive side of neutral on growth fixed income. We have also made marginal changes to the equity sub asset class positions.



LISTED EQUITIES



GROWTH FIXED INCOME



DEFENSIVE FIXED INCOME



CASH*

* In lieu of cash, investors might consider liquid alpha-oriented strategies with low sensitivity to equity, credit and duration.

Listed equities

ASSET CLASS	JULY 2021	OCTOBER 2021	COMMENTARY
Global Equity	Neutral	Neutral	The MSCI World Index returned 2.6% in GBP terms over 2021Q3 and returned 15.0% year-to-date ¹ . We have slightly increased our broad market equity sector position from the negative side of neutral to neutral within the global equities portfolio to offset our downgrade of defensive equities. At this time our concerns about valuations and frothy sentiment in equity markets offset our expectation for a supportive economic background. Whilst we acknowledge the current soft patch in the economic recovery, we have confidence that growth will return to its previous path once fear over Covid-19 abates and the supply chains situation improves. However, we believe that markets are pricing this recovery in already and remain vulnerable to adversity in the short term, especially policy error as central banks commence efforts to tighten monetary policy. Moreover, we believe that other sectors such as small cap equities stand to benefit more strongly from the economic recovery regaining its momentum in the medium term as the economy recovers from the recent challenges.
Global Small Cap Equity	Neutral	Neutral	The MSCI Small Cap index returned 1.1% in GBP terms over 2021Q3 and 15.1% on a year-to-date basis ¹ . We have maintained our small cap allocation at the overweight side of neutral. The macro environment remains favourable in the medium term as the current headwinds abate, especially for small caps that are expected to benefit significantly from the full and unconstrained domestic reopening that have happened in most of the developed world. Small caps' greater exposure to value sectors relative to broad market equities also makes them a good proxy to express our preference of value over growth. In relative terms, valuations have also become more attractive relative to large cap over the quarter.
Emerging Markets	Neutral	Neutral	The MSCI Emerging Markets Index returned close to -6% in GBP terms over 2021Q3 and close to 0% on a year-to-date basis ¹ . We have maintained our position at the overweight side of neutral for emerging markets equities within the global equities portfolio. Valuations remain more inviting than for other equity sectors. However, even if our outlook for EM over a three year time horizon remains positive, the macro headwinds we are seeing both in China and other EM countries in the near term has informed our decision to maintain our more prudent position for now. This positive tilt leaves us exposed to potential upside surprises, after so much negativity has been priced in during the quarter.

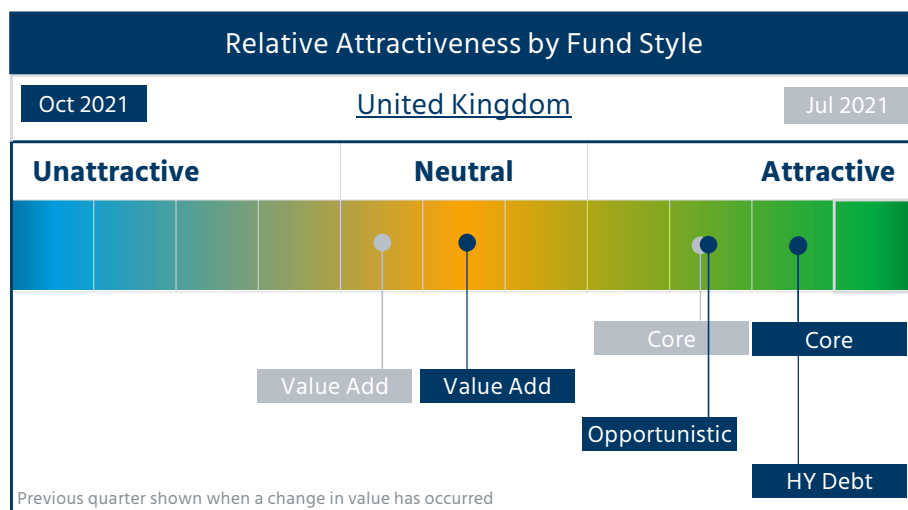
Growth fixed income

ASSET CLASS	JULY 2021	OCTOBER 2021	COMMENTARY
EM Debt (Local Currency)	Neutral	Neutral	EMD local currency markets fell through Q3 2021, posting a return of -0.7% in GBP hedged terms ¹ . We have maintained our position at a higher conviction neutral within the growth fixed income portfolio. EM FX continues to screen inexpensive relative to USD while EM rates continue to look attractive on a credit rating adjusted basis. Whilst the economic backdrop for emerging markets have improved, a number of headwinds exist and could pose a risk to the rebound continuing on the same trajectory. The persistence and level of inflation along with the direction of the US dollar are notable headwinds, however, with a lower duration profile, the sector is more insulated from higher rates compared to hard currency. We maintain a preference for local currency due to the attractive carry offered, lower duration profile and FX upside potential.
EM Debt (Hard Currency)	Neutral	Neutral	EMD hard currency markets rose through Q3 2021, posting a return of 1.7% in GBP hedged terms ¹ . We have maintained our overall neutral allocation within the growth fixed income portfolio. Inflation continues to weigh on sentiment with price increases picking up pace, and the transitory nature of inflation coming into question across select portions of the market. The spread dislocation between investment and non-investment grade continues with higher quality spreads broadly returning to pre-COVID tight, while high yield spreads remain wider by around 80bps. Whilst macro developments have been broadly positive; the Fed's more hawkish tone and the persistence of inflation are some of the key risks coming to the fore. Despite the recent slowdown in some countries, manufacturing sectors continue to recover with strong commodity prices providing support to a number of exporting nations.
Global Loans	Neutral	Neutral	Over 2021Q3, global loans returned 3.6% in GBP hedged terms ¹ . We have maintained our bank loans position at neutral within the growth fixed income portfolio. With an average price below par and a yield of 4.2%, global loan valuations look relatively attractive given the general context of low to negative yields globally. Further, their floating rate nature and senior secured position makes them quite appealing in the current environment. Forward looking default rate expectations remain low, and we believe investors are seeing sufficient reward for the level of risk. Our outlook for elevated interest rate volatility has us favoring the floating-rate nature of the loan asset class versus high yield.
High Yield	Neutral	Neutral	Over 2021Q3, global high yield returned 2.7% on a USD hedged basis ¹ . We have maintained our global high yield position at the negative side of neutral within the growth fixed income portfolio. High yield valuations have become less attractive as spreads have continued to narrow and are now inside of where they entered 2020. As a result, further spread compression appears quite limited at this point. While strong fundamentals and easy lending support low default activity, spreads may be vulnerable to any hiccups in growth expectations. We hold a slight preference for global loans over high yield given the floating rate nature and senior secured status of the loan asset class.

Defensive fixed income

ASSET CLASS	JULY 2021	OCTOBER 2021	COMMENTARY
UK Sovereign Bonds	Neutral	Neutral	Over 2021Q3, UK sovereign fixed income was flat in GBP terms ¹ . We have maintained our position in UK sovereign fixed income on the underweight side of neutral within the defensive fixed income portfolio. Like in other regions, the third quarter was largely characterised by concerns over inflation, with the UK experiencing the largest jump in inflation since records began. Ultimately this sent UK government bond yields upwards, with 10yr gilts breaching 1% for the first time since the pandemic began in March 2020. The gilt sell off was largely off the back of a more hawkish tone from the Bank of England, with the Governor signalling rate rises could even occur before the end of the year, well ahead of previous expectations. While gilts are now cheaper than last quarter, risks largely in the form inflation surprises, are ever present. Yields are likely to come under further upward pressure as output gaps close.
UK Inflation-Linked Bonds	Underweight	Underweight	Over 2021Q3, UK inflation linked bonds returned 2.3% in GBP terms ¹ . We have maintained our underweight position in UK inflation linked bonds within the defensive fixed income portfolio. UK breakevens widened further over Q3, and remain unattractive on outright valuation grounds, and also relative to nominal sovereign bonds, with UK inflation unlikely to average 3.8% over the next 10 years. Easing inflationary pressures will likely see current levels of inflation moderate. Nevertheless, timeframes remain uncertain, and other factors like wage pressures and persistent supply bottlenecks may see somewhat stickier inflation than expected. We maintain our underweight position within defensive fixed income as we view risk to be better allocated elsewhere.
UK Buy and Maintain Credit	Neutral	Neutral	Over 2021Q3, UK buy and maintain credit returned -1.0% in GBP terms ¹ . We have maintained UK investment grade credit within the defensive fixed income portfolio at neutral. UK investment grade spreads were little changed over the quarter and remain tight, both on an absolute and historical basis. However, like in other developed markets, this tightness is in part a reflection of the quality of the market. In this sort of environment credit selection is key, with many managers focusing on the crossover space and sectors in which the 'reopening trade' still has room to play. Although risk free assets have cheapened over the quarter, they remain expensive by historical standards, which should continue to support credit markets. However, upside potential seems limited and we therefore deem a neutral position still appropriate.

Real Estate Outlook and Opportunities



- **Core:** We have improved our positive view on core investment strategies compared with last quarter. We expect a strong end to 2021 as the strong recovery of investment and occupier markets feeds through into the performance of core real estate strategies. We expect the core UK institutional investor base to remain focused on income security, such as that offered by long lease strategies.
- **Value Add:** Income risk strategies remain at neutral but are more attractive than last quarter. The recovery of occupier markets has surprised on the upside and we have more confidence in the medium term outlook overall but risks remain elevated for some sectors of real estate occupier demand, for example offices and retail.
- **Opportunistic:** Opportunistic strategies remain attractive in our view as the probability of achieving asset acquisitions at discounted pricing remains while the pandemic continues. Special situations opportunities are most likely to emerge in the retail and leisure sectors. Increasing obsolescence due to the growth of ESG requirements may also result in redevelopment opportunities.
- **High Yield Debt:** Real estate debt funds continue to look attractive for income seeking investors as traditional bank lenders reduce activity while underlying assets devalue. Together, these features mean higher margins can be achieved by non-bank lenders particularly outside of London and the most liquid sectors.

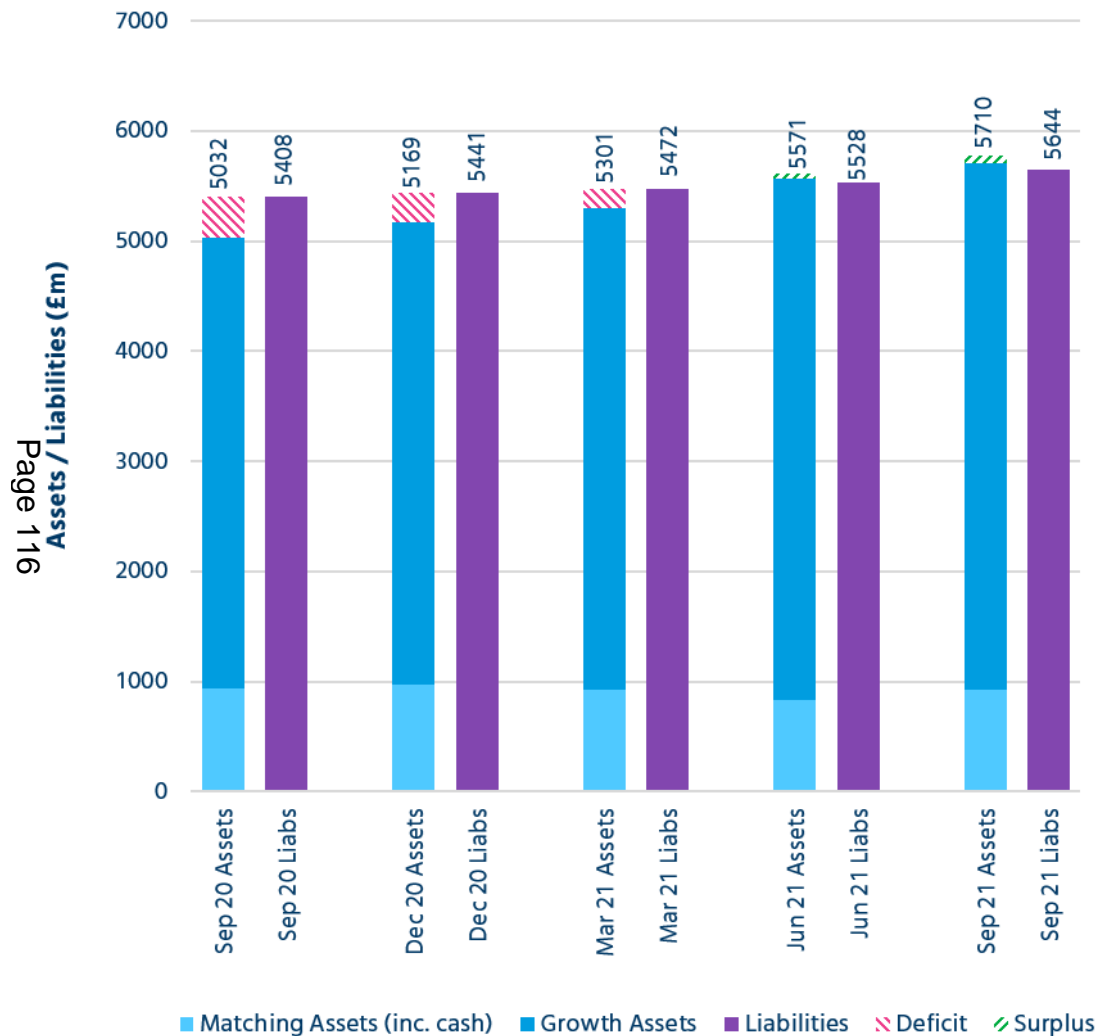
Market Outlook

- We expect the UK economy to grow strongly over the next few quarters. Unemployment is likely to continue to fall and reach low levels over the next few years. The biggest risk to this benign outlook comes from the possibility of much tighter monetary policy, which might happen if inflation fails to fall back to target as central bankers hope. The BoE indicated in September that the bank rate could start rising later in 2021.
- In our view the outlook for UK real estate remains positive overall given the improving macro-economic backdrop. However, valuations in some sub-sectors, for example weaker retail and office assets, may have further to fall amid ongoing uncertainty about secular shifts occupier demand.
- Our top three sector/geographic picks in terms of real estate fundamentals:
 1. **Mid-market Private Rented Residential:** We think strategies targeting higher yielding Private Rented Residential assets that are affordable to average households should be attractive. The sector has robust supply and demand dynamics and should be attractive to cash flow focused investors in search of diversification and inflation protection. However, operational expertise are the key to minimizing cost inefficiencies.
 2. **Logistics:** The fundamentals of supply and demand remain strong for logistics sites in and around major urban areas as commerce continues to move towards a home delivery model while supply is generally constrained by competing land uses. Attractive pricing is difficult to achieve for standing assets and so build to core strategies appear more attractive.
 3. **Accessible non-fashion retail:** Following several years of declining values as a result of weakening occupier demand we think there now appears to be relative value in the sector, although risks remain elevated. We think accessible retail Parks with rebased rents, sustainable income profiles and low fashion exposure have attractive risk return dynamics at current pricing levels.

Funding level and risk



Change in deficit



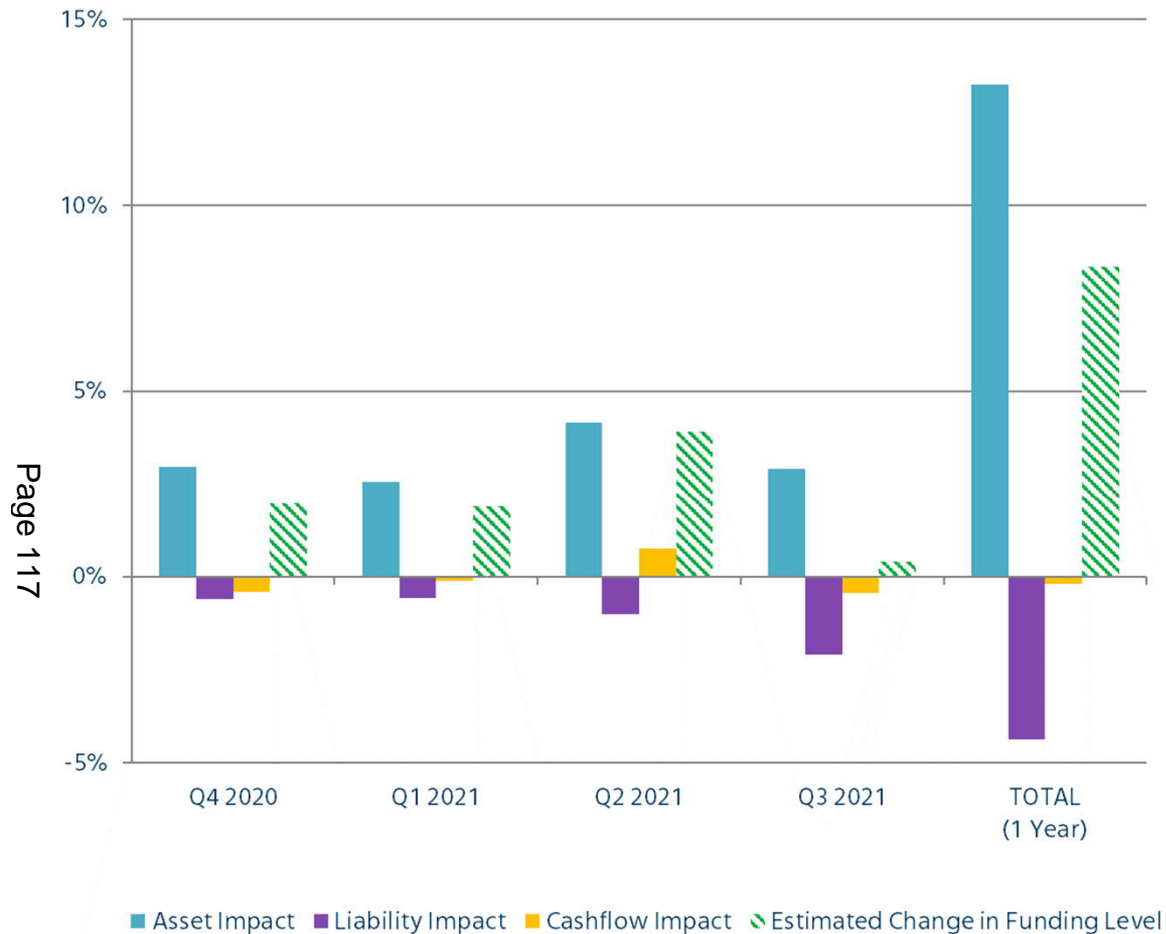
Based on financial markets, investment returns and net cashflows into the Fund, the surplus was estimated to have increased slightly over Q3 to £66m.

This occurred as the value of the assets rose by more than the present value of the liabilities over the period.

This is calculated using the actuarial valuation assumptions as at 31 March 2019 and the 'CPI plus' discount basis.

Liability values are estimated by Mercer.

Funding level attribution



The Fund's assets returned 2.9% over the quarter, whilst the liabilities are expected to have increased by c. 2.1% due to the rise in inflation.

The combined effect of this, also allowing for expected cashflow over the period, saw the funding level improve slightly to just over 101%.

The funding level is estimated to have increased by c. 8% over the year to 30 September 2021.

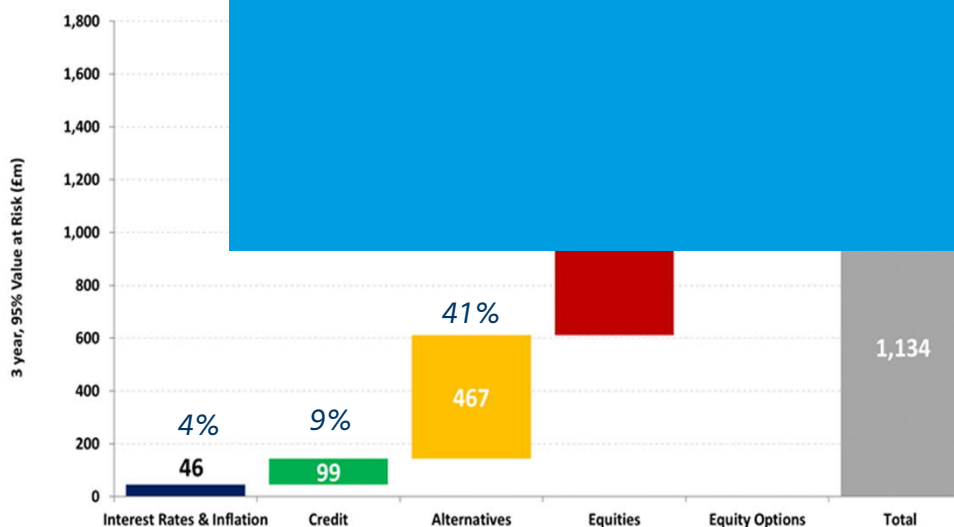
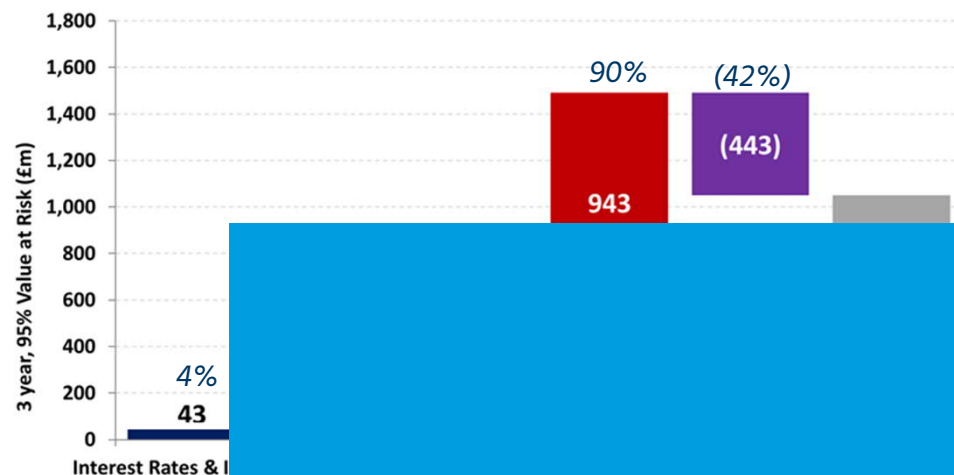
Impact figures are estimated by Mercer.

Risk decomposition – 3 year Value at Risk

31 March 2021

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30 June 2021



VaR commentary to follow shortly due to availability of capital market assumptions

- The two charts to the left illustrate the main risks that the Fund is exposed to on the 2019 funding basis, and the size of these risks in the context of the change in the deficit position.
- The purpose of showing these charts is to ensure there is an awareness of the risks faced and how they change over time, and to initiate debate on an ongoing basis around how to best manage these risks, so as not to lose sight of the 'big picture'.

Each chart shows the 3 year, 95% Value at Risk (VaR) over a one-year period, which represents a downside scenario. The chart shows what would be the 'worst case estimate' of what the

shows that if a 1-in-100 event occurred over the next three years, the Fund would be exposed to at least an additional

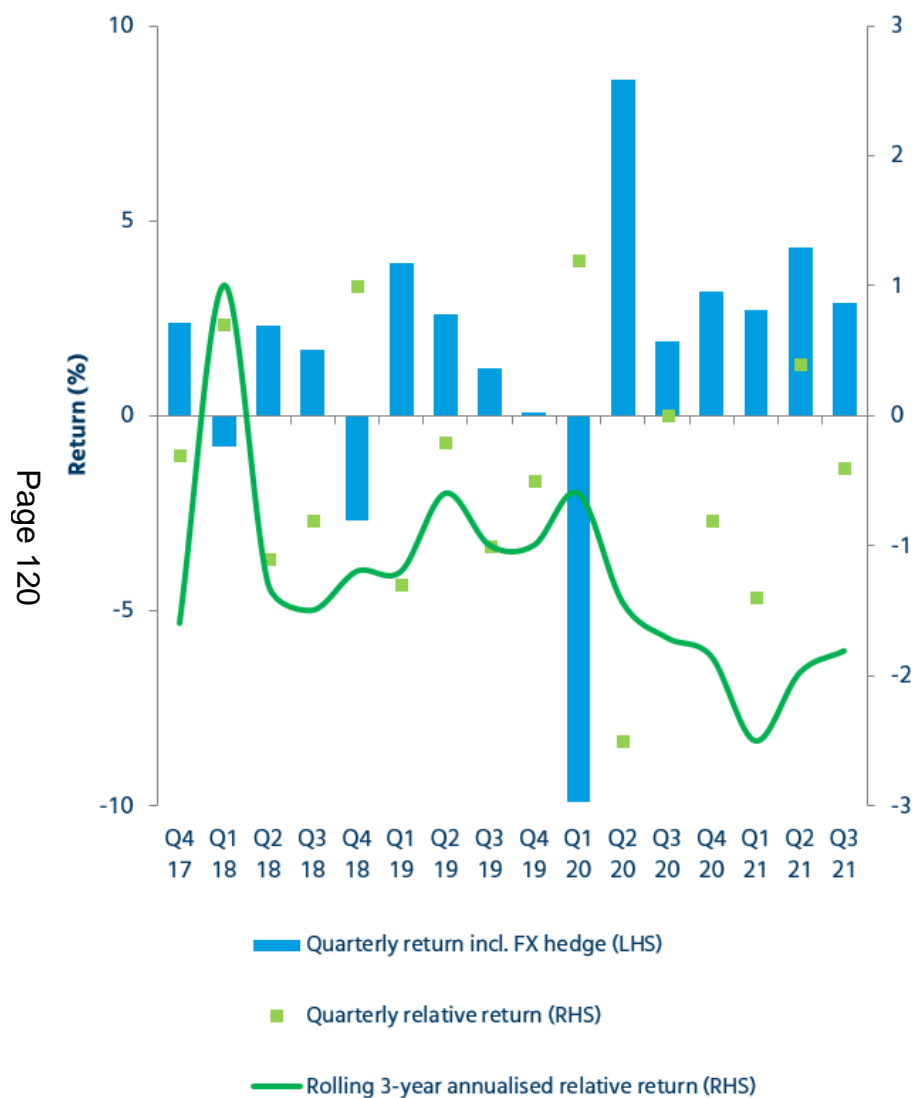
represents the contribution of the following risk exposures: Interest Rates & Inflation, Credit spreads, volatility of alternative assets and equity markets, and the benefit from equity options).

- Overall, **the VaR rose over the quarter**, which was largely due to the increase in the absolute value of all asset classes over the period.
- Both decompositions illustrate the use of a dynamic equity option strategy, which the Fund implemented during the quarter. This has significantly reduced the VaR via an increased offsetting amount from the equity options.

Performance summary

5

Total Fund performance



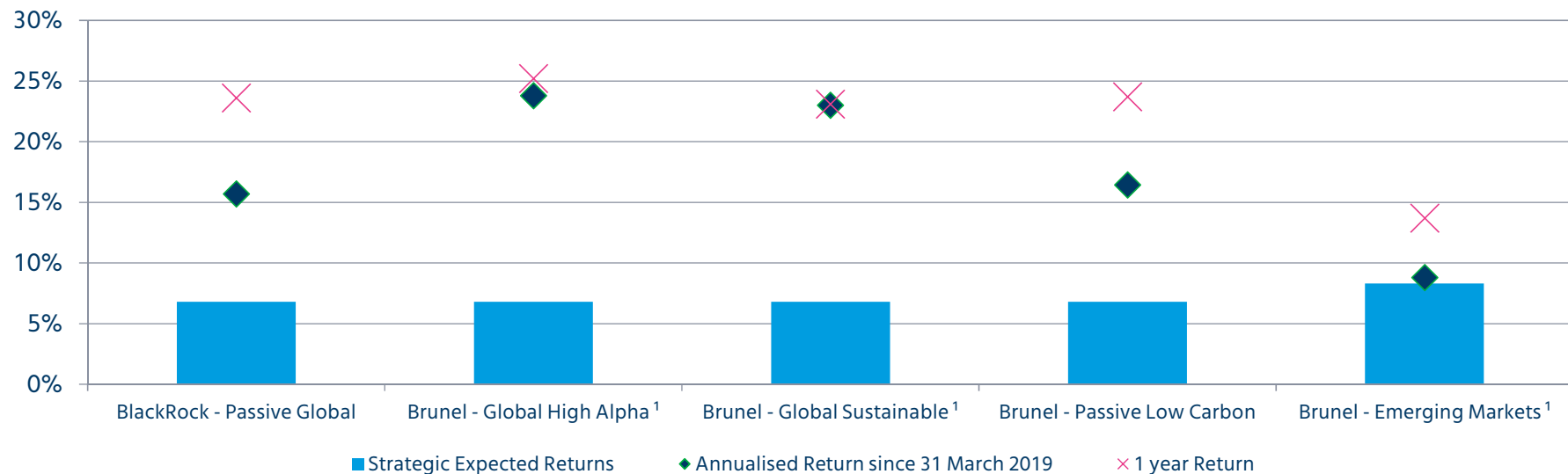
	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (1)	2.9	13.8	6.0
Total Fund (ex currency hedge)	3.4	12.8	5.9
Strategic Benchmark (2) (ex currency hedge)	3.3	16.2	7.8
Relative (1 - 2)	-0.4	-2.4	-1.8

Commentary

- Most assets delivered positive returns over the quarter, and the largest contribution came from the LDI portfolio given the rise in inflation expectations. The Fund outperformed its benchmark before factoring in the currency hedge, which detracted due to a weakening of Sterling.
- Equity assets were up overall due to the rise in developed markets. The Sustainable mandate did particularly well as a result of stock selection at the manager level, though the Emerging Markets mandate detracted. This was mitigated by the Equity Protection strategy, which as a whole slightly added value over the quarter. The UK Property mandate with Brunel was another notable performer, and other private market assets within Secured Income and Infrastructure also had a modest contribution to outperformance.
- Over the one year and three year periods, the outperformers continue to be the Hedge Fund and Core Infrastructure mandates compared to their cash plus benchmarks, whilst the Property portfolios have underperformed. The Diversified Returns mandate has also done well over the year. Renewable Infrastructure remains in negative territory over the year due to it being in the draw down phase, but is ahead of target since inception.
- The Equity Protection strategy is the main reason for underperformance relative to the strategic benchmark over the one and three year periods, though this is in line with expectations given the increase in the underlying equity markets. The Currency Hedge made a positive contribution over both periods as sterling strengthened.

Performance vs. expected strategic returns

	BlackRock Passive Global Equity	Brunel Global High Alpha	Brunel Global Sustainable	Brunel Passive Low Carbon	Brunel Emerging Markets
Benchmark allocation	12.0%	10.0%	10.0%	10.0%	5.5%
Commentary	Returns have been above expectations for all equity mandates, given the strength of equity markets since 2019.				
	Returns are above strategic expectations and the mandate has tracked the underlying market	Strong manager outperformance adding to returns	Strong returns from equity markets and the mandate has now outperformed thanks to a strong third quarter	Returns are above strategic expectations and the mandate has tracked the underlying market	Returns are above strategic expectations though the mandate has underperformed benchmark since inception



Notes:

We have illustrated the performance of the key mandates within the Fund's investment strategy.

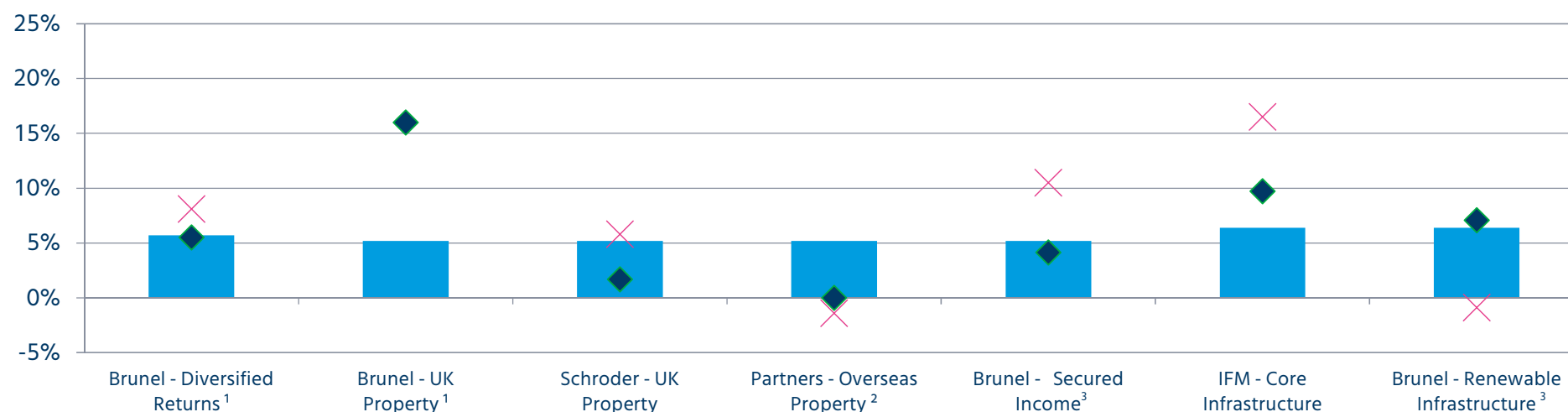
Actual returns are from 31 March 2019 to 30 September 2021, except if otherwise stated below. Returns for periods over a year have been annualised.

The strategic expected returns are from the 2019 strategy review, which reflect the 20 year mean Mercer Q1 2019 asset model assumptions.

¹ Mandate was inception after 31 March 2019. A list of inception dates can be found in the Appendix.

Performance vs. expected strategic returns

	Brunel Diversified Returns	Brunel UK Property	Schroder UK Property	Partners Overseas Property	Brunel Secured Income	IFM Core Infra	Brunel Renewable Infra
Benchmark allocation	10.0%	3.75%	0% (Transferring to Brunel)	3.75%	10.0%	5.0%	5.0%
Commentary	Returns above expectation so far thanks to exposure to rising equity markets and some of the asset class positioning of the four underlying managers.	Mandate inception in January 2021; too early to draw conclusions although property market has fared well so far in 2021	Returns below expectations due to the impact of the pandemic on some of the holdings, including retail and leisure	Returns below expectations as mandate still in drawdown phase (so focus should be on more longer-term performance). Pandemic has had recent impact on some of the holdings, including in hospitality, retail and senior housing	Returns marginally below expectations but mandate is still in the drawdown phase. Recent signs of J-curve uptick	Returns above expectations as real assets have delivered. Recent outperformance influenced by non-recurring gains on certain assets and valuation increases.	Returns above expectations (despite contracting over one year period), but mandate is still in the drawdown phase



Notes:

We have illustrated the performance of the key mandates within the Fund's investment strategy.

Actual returns are from 31 March 2019 to 30 September 2021, except if otherwise stated below. Returns for periods over a year have been annualised.

The strategic expected returns are from the 2019 strategy review, which reflect the 20 year mean Mercer Q1 2019 asset model assumptions.

¹ Mandate was inception after 31 March 2019. A list of inception dates can be found in the Appendix.

² Returns are shown up to 30 June 2021, as this is the latest data available.

³ Returns currently reflect those for the first commitment cycles only.

Mandate performance to 30 September 2021

Manager / Asset Class	3 Months			1 Year			3 Year			3 Year	3 Year
	Fund (%)	B'mark (%)	Relative (%)	Fund (%)	B'mark (%)	Relative (%)	Fund (% p.a.)	B'mark (% p.a.)	Relative (% p.a.)	Performance Target (% p.a.)	Performance vs Target
BlackRock Passive Global Equity	2.5	2.4	+0.1	23.6	23.5	+0.1	12.0	11.9	+0.1	-	N/A
Brunel Global High Alpha Equity	1.7	2.6	-0.9	25.2	24.1	+0.9	N/A	N/A	N/A	+2-3	N/A
Brunel Global Sustainable Equity	3.6	1.5	+2.1	23.1	22.7	+0.3	N/A	N/A	N/A	+2	N/A
Brunel Passive Global Low Carbon Equity	2.4	2.5	-0.1	23.7	23.9	-0.2	12.7	12.8	-0.1	-	N/A
Brunel Emerging Market Equity	-6.5	-5.7	-0.8	13.7	13.7	0.0	N/A	N/A	N/A	+2-3	N/A
Brunel Diversified Returns Fund	0.6	0.0	+0.6	8.1	0.1	+8.0	N/A	N/A	N/A	+4-5	N/A
JP Morgan FoHF	-0.6	0.8	-1.4	11.8	3.2	+8.3	8.8	4.5	+4.2	-	Target met
Brunel Multi-Asset Credit	0.6	1.0	-0.4	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Schroder UK Property	0.6	4.5	-3.8	5.8	13.1	-6.5	1.8	4.0	-2.1	+1	N/A
Brunel UK Property	5.4	4.5	+0.9	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Partners Overseas Property*	1.3	2.5	-1.2	-1.4	10.0	-10.3	1.2	10.0	-8.0	-	Target not met
Brunel Secured Income	3.6	1.0	+2.6	10.5	3.0	+7.3	N/A	N/A	N/A	+2	N/A
IFM Core Infrastructure	3.8	1.3	+2.5	16.5	5.2	+10.7	8.9	5.6	+3.1	-	Target met
Brunel Renewable Infrastructure	2.7	1.0	+1.7	-0.9	3.0	-3.8	N/A	N/A	N/A	+4	N/A
BlackRock Corporate Bonds	-1.5	-1.5	0.0	-0.8	-0.8	0.0	6.8	6.8	0.0	-	N/A
BlackRock LDI	18.1	18.1	0.0	49.0	49.0	0.0	8.3	8.3	0.0	-	N/A
Equity Protection Strategy	0.2			-0.1			-1.3			-	N/A

Since inception performance for Partners, which was the largest underperformer over the three year period, has been more favourable at 5.4% p.a. *

Source: Investment Managers, Custodian, Mercer estimates. Returns are net of fees.

Returns are in GBP terms, except for JP Morgan and Partners, whose performance is shown in local terms.

Relative returns have been calculated geometrically (i.e. the portfolio return is divided by the benchmark return) rather than arithmetically.

A summary of the benchmarks for each of the mandates is given in the Appendix.

Green = mandate exceeded benchmark. Red = mandate underperformed benchmark. Black = mandate performed in line with benchmark (mainly reflecting passive mandates).

Performance for JP Morgan and Partners in IRR terms. Performance for IFM is in TWR terms.

Performance of the Secured Income and Renewable Infrastructure mandates currently reflect those for the first commitment cycles only.

Performance of the Equity Protection Strategy is estimated by Mercer based on the change in market value of the options over time, accounting for realised profit/loss upon rolling of the strategy.

*Partners performance is to 30 June 2021 as this is the latest date that this is available. The mandate's inception was in 2009.

Asset allocation

6

Valuations by asset class

Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Benchmark (%)	Ranges (%)			Relative (%)
Passive Global Equity	755,574	760,524	13.6	13.3	12.0	7	-	17	1.3
Global Sustainable Equity	586,798	607,893	10.5	10.6	10.0	5	-	15	0.6
Passive Global Low Carbon Equity	745,054	763,187	13.4	13.4	10.0	5	-	15	3.4
Emerging Market Equity	299,916	280,490	5.4	4.9	5.5	3	-	9	-0.6
Diversified Growth Funds	530,215	533,213	9.5	9.3	10.0	5	-	15	-0.7
Fund of Hedge Funds*	283,763	288,796	5.1	5.1	-	No set range			0.1
Multi-Asset Credit	317,989	322,864	5.7	5.7	6.0	3	-	9	-0.3
Property	353,307	346,729	6.3	6.1	7.5	5	-	10	-1.4
Secured Income**	350,558	385,384	6.3	6.7	10.0	5	-	15	-3.3
Core Infrastructure	389,545	403,824	7.0	7.1	5.0	2.5	-	7.5	2.1
Renewable Infrastructure**	55,286	70,741	1.0	1.2	5.0	2.5	-	7.5	-3.8
Private Debt	-	19,530	-	0.3	5.0	0	-	7.5	-4.7
Corporate Bonds	134,187	132,115	2.4	2.3	2.0	No set range			0.3
LDI & Equity Protection	526,595	630,516	9.5	11.0	12.0	No set range			-1.0
Cash***	241,631	164,295	4.3	2.9	-	0	-	5	2.9
Total	5,570,651	5,710,102	100.0	100.0	100.0				

Source: Custodian, Investment Managers, Mercer. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges.

Totals may not sum due to rounding and other residual holdings.

*Mandate due to be terminated.

**Valuations include both funding cycle allocations.

***Valuation includes the ETF and currency instruments, as well as assets in transit.

Renewable Infrastructure and Private Debt mandates are still being drawn down so allocations are below target ranges.

Valuations by manager

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
BlackRock	Global Equity	268,832		275,451	4.8	4.8
Schroder	Global Equity	1,524		1,545	0.0	0.0
Brunel	Global High Alpha Equity	440,841		448,289	7.9	7.9
Brunel	Global Sustainable Equity	586,798		607,893	10.5	10.6
Brunel	Global Low Carbon Equity	745,054		763,187	13.4	13.4
Brunel	Emerging Market Equity	299,916		280,490	5.4	4.9
Brunel	Diversified Returns Fund	530,215		533,213	9.5	9.3
JP Morgan	Fund of Hedge Funds	283,763		288,796	5.1	5.1
Brunel	Multi-Asset Credit	317,989	2,876	322,864	5.7	5.7
Brunel	UK Property	115,388	17,950	140,467	2.1	2.5
Schroder	UK Property	58,712	-29,918	29,669	1.1	0.5
Partners	Overseas Property	179,206	-5,816	176,593	3.2	3.1
Brunel	Secured Income*	350,558	22,487	385,384	6.3	6.7
IFM	Core Infrastructure	389,545		403,824	7.0	7.1
Brunel	Renewable Infrastructure*	55,286	13,318	70,741	1.0	1.2
Brunel	Private Debt	-	19,175	19,530	-	0.3
BlackRock	Corporate Bonds	134,187		132,115	2.4	2.3
BlackRock	LDI & Equity Protection	526,595		630,516	9.5	11.0
Record	Currency Hedging**	72,250	-30,000	16,330	1.3	0.3
BlackRock	ETF	139,475	-40,000	102,066	2.5	1.8
Internal Cash	Cash***	73,977	6,634	80,830	1.3	1.4
Total		5,570,651	-23,385	5,710,102	100.0	100.0

Source: Investment Managers, Mercer. Totals may not sum due to rounding and other residual holdings.

The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included in the 'Internal Cash' start and end balance to reflect the asset value position of the total Fund.

* Valuations include both funding cycle allocations.

** Valuation includes the collateral holdings for the currency overlay.

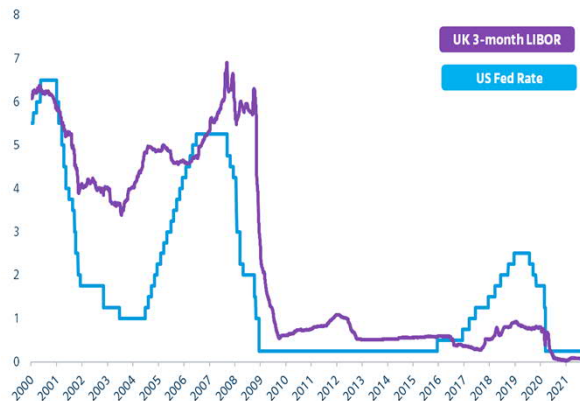
*** Valuation includes assets in transit.

Current topics



Current topics

Walking the razor's edge – tapering, rates and inflation



Official rates

A more modest version of the 2017 to 2019 tightening cycle is what central banks seem to be suggesting

Hard to envisage yields reaching early 2000's level, especially in UK

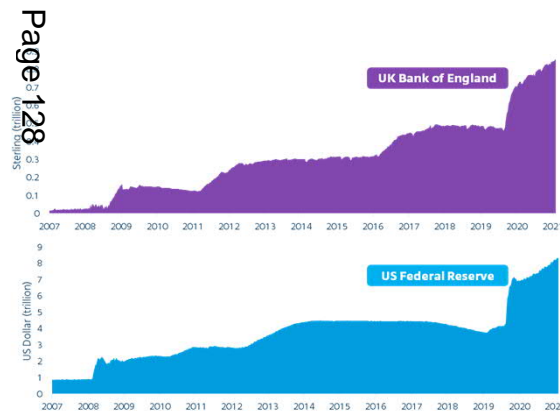
Major constraint is scale of household indebtedness

QE aka "money printing"

QE was once considered a Japanese phenomena

In both US and UK scale is now 4-5 times levels seen in wake of global financial crisis

Critics argue it has inflated asset prices, contributed to economic inequality, and "drug" to which markets are "addicted"



What could go wrong?

Inflation: Structural rather than temporary. CB action or tolerance?

Long and variable lags: Changes amplified over time

Loss of credibility: Markets decide that policy regime is damaging and not sustainable

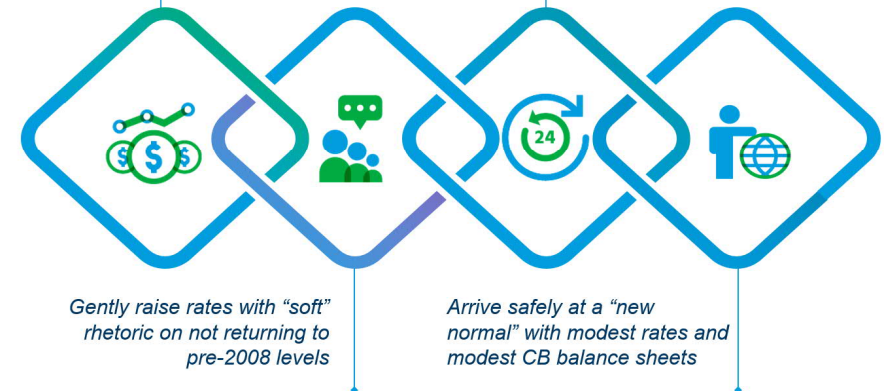
Miscommunication: Mixed messages lead to loss of confidence and volatility

Political pressure: Constituency again policy due to perceived impact on inequality and damage from low rate "addiction"

"Exit plan" appears to be "walk carefully along a razors edge"

Taper or cease asset purchases (i.e. QE or "money printing")

Gradually unwind QE (aka "money printing") by not replacing bonds as they mature



What should you do?

Discuss views

Develop contingency plan

Regularly re-evaluate

Assess "tail" risk

Relevance to the Fund



Officers receive monthly risk reports, including the Equity Protection strategy and LDI strategy. The Panel receives quarterly summaries of Mercer's forward looking market views.

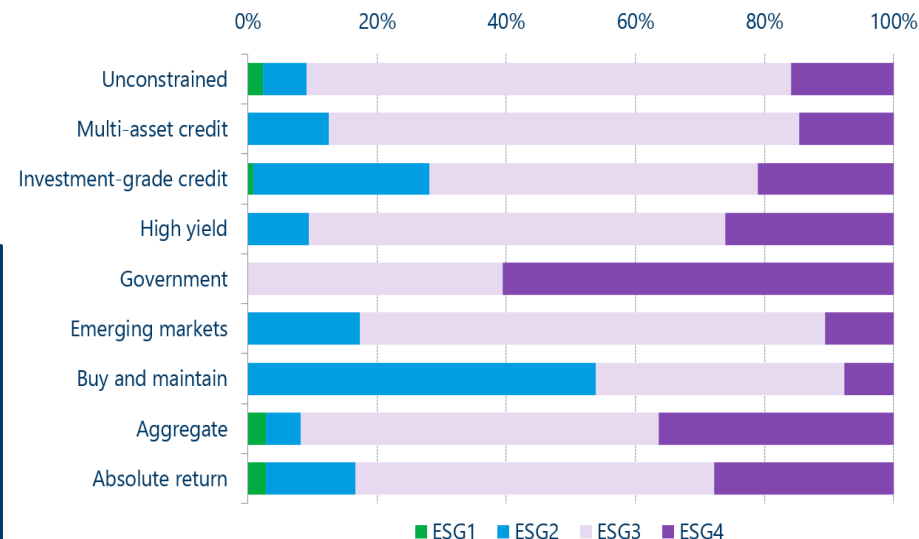
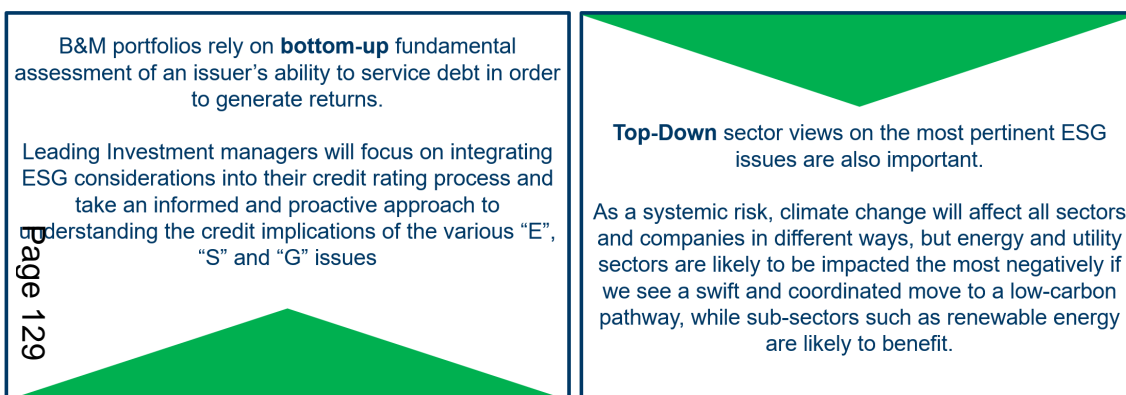
Current topics

ESG in Fixed Income portfolios

ESG factors are just as important in fixed income, especially when considering how they relate to **managing downside risk**.

A growing body of literature supports the view that ESG integration in fixed income can have a **material impact from a credit risk perspective**.

Integrating ESG in Buy and Maintain mandates



Source: [MercerInsight®](#). Data as at December 31, 2020.

Understanding climate change risks

Work with asset managers to better understand and set carbon-footprint targets for portfolios (ideally at the mandate-design stage).
Challenge managers on how they are managing climate-change risks for key companies and sectors.

Stewardship

Request engagement reporting from asset managers (specific to investor's portfolio).
Ask asset managers for evidence and case studies of positive outcomes (not just activity) across E, S and G issues.

Engage asset managers to monitor and explain ESG risk:

What are the most material ESG risks within the portfolio and how are investors being compensated for them?
Are they predominantly idiosyncratic tail risks or systemic risks?
How are they split by company level or sector-level risks?

Climate-aware or sustainable offerings:

Ask your managers if they offer climate-aware or sustainable versions of your fixed income strategies?

B&M have highest proportion of highly-rated strategies because leading managers in this space:

- focus on **integrating ESG** into ratings process as systematically and seamlessly as possible
- use **climate change metrics and transition scores** to assess holdings in climate critical sectors
- take **holistic approaches to stewardship** on key themes such as diversity and climate change.

Relevance to the Fund

The Fund only has a 2% strategic allocation to investment grade credit with BlackRock, though the manager should still be held to account on its ESG and stewardship policies, and frequent disclosures on this could be helpful.

Appendix

Q3 2021 equity market review

Equity markets performance was mixed over the third quarter.

Global Equities returned -0.2% in local currency terms. Markets sold off during the second half of September amid fears of a global economic slowdown, driven by peaking demand and supply constraints, potential contagion from the restructuring of Evergrande and large central banks signalling that monetary policy might become less expansive.

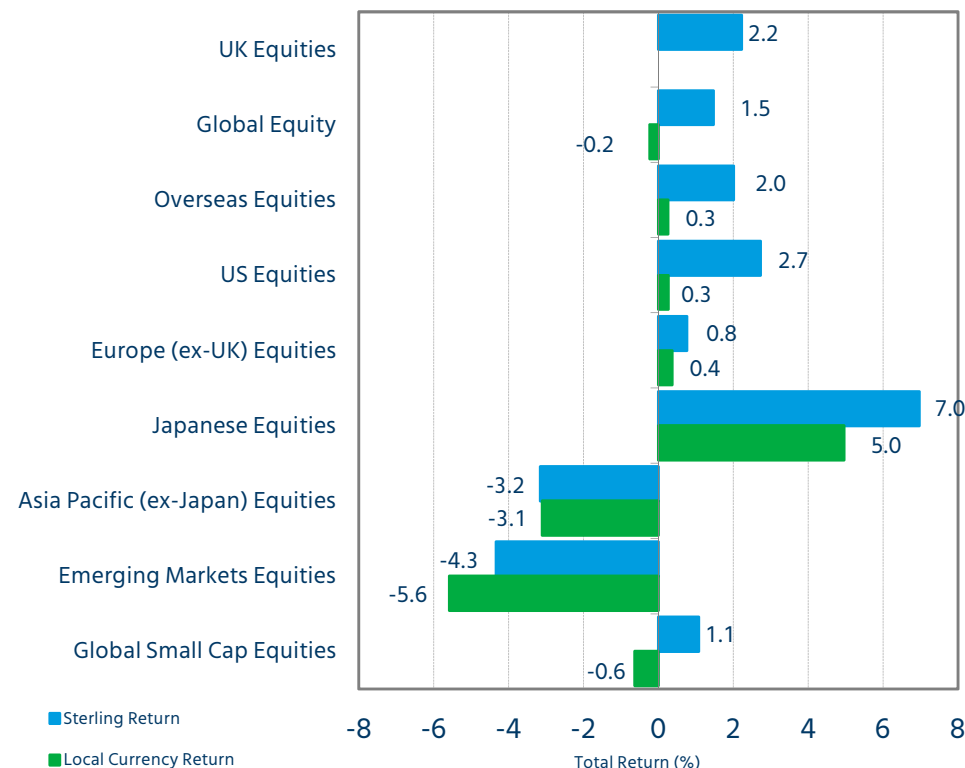
US equities returned 0.3% in local terms whilst **European (ex-UK) equities** returned 0.4%. Exposure to global trade and rising energy prices were headwinds for European equities. **Japanese equities** stood out as the best performer as political uncertainty reduced somewhat following the change in prime minister, returning 5.0%.

Emerging markets equities returned -5.6% in local terms, driven by the sell-off in China. Offshore Chinese stocks entered correction territory in light of the far-reaching regulatory crack down. Asia Pacific (ex-Japan) returned -3.1% as Covid restrictions held back growth in the region.

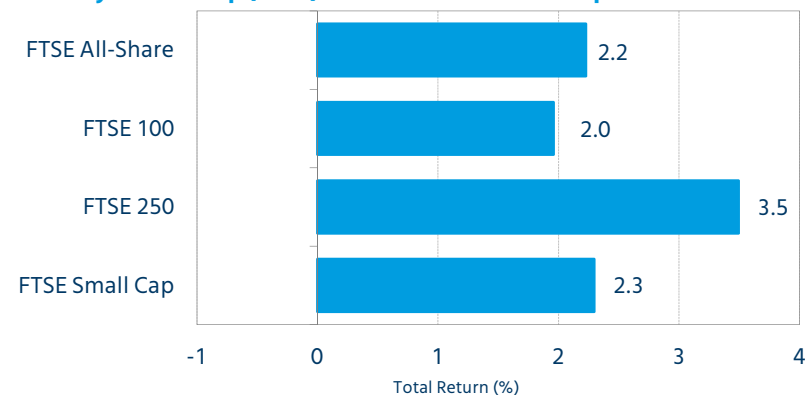
Global small cap stocks returned -0.6% in local terms. Small caps lagged global equities in local currency terms, as reopening momentum began to slow somewhat after a very strong first half of the year.

The FTSE All Share index returned 2.2%. The large exposure to financials, oil & gas, and basic materials supported UK large caps once again while small caps benefited from the economic rebound as the UK economy fully reopened earlier in the quarter. Momentum weakened later in the quarter due to soaring natural gas prices shocking the energy sector and lorry driver shortages exacerbating supply constraints, especially for crucial products such as petrol.

Equity Performance - Three Months to 30 September 2021

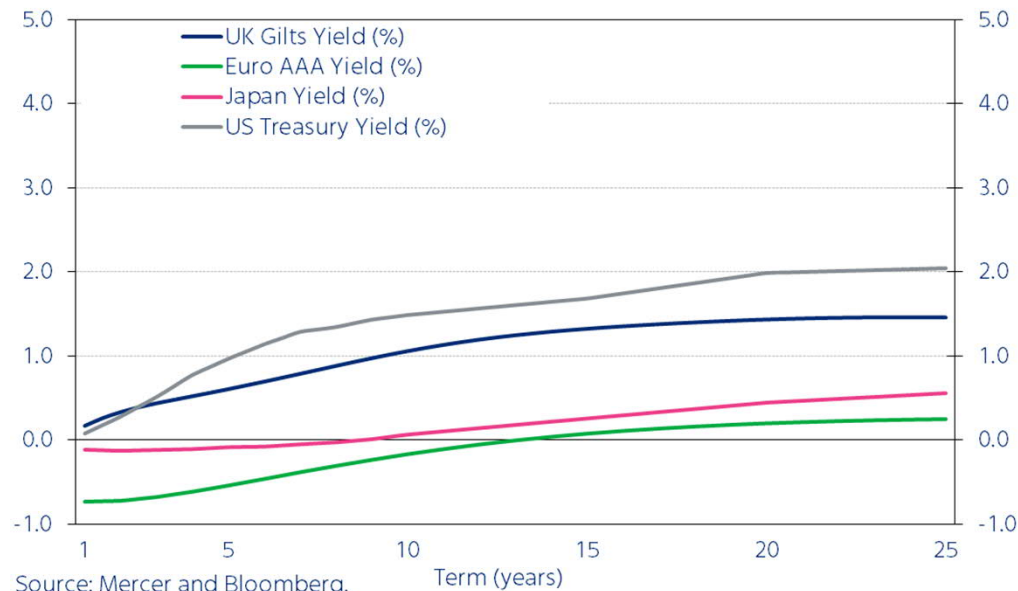


FTSE Performance by Market Cap (FTSE) - Three Months to 30 September 2021



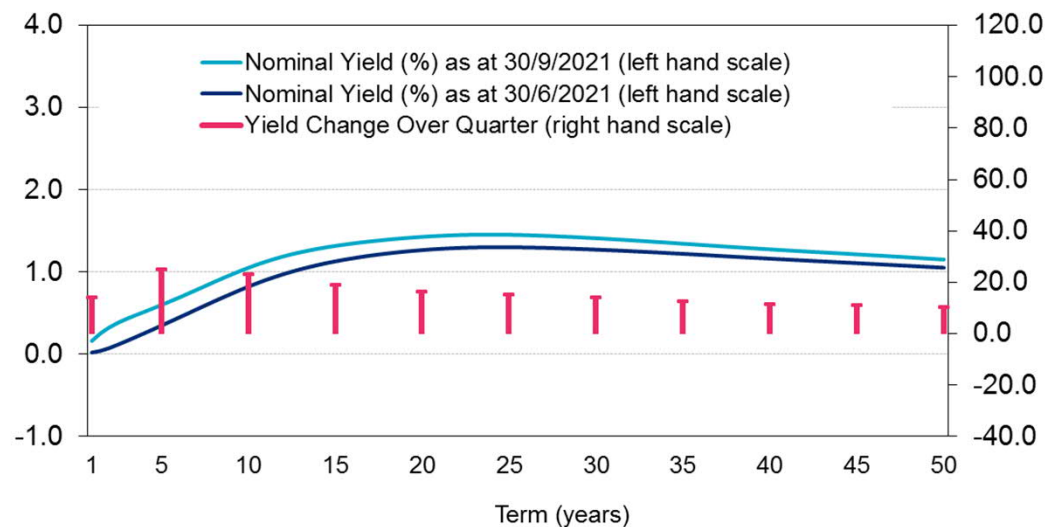
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Q3 2021 bond market review



Government Bond Yields

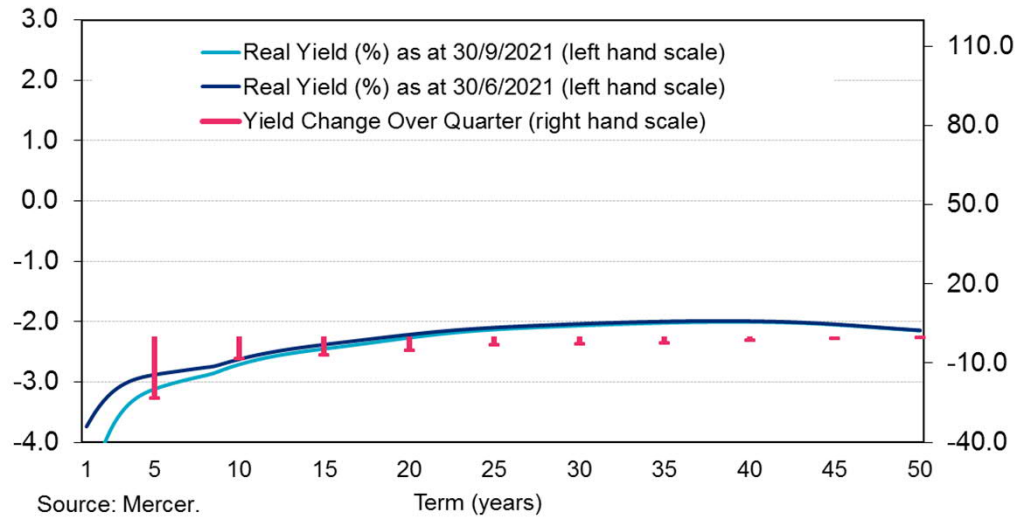
Global government bond yields generally rose over the quarter. Gilt yields rose sharply in September after falling earlier in the quarter. The UK 10-year benchmark yield rose by 27 basis points and the yield curve shifted upwards, with the 5 and 10-year yields rising the most. The US 10-year government bond yield rose by 8 basis amid expectations of tapering of asset purchases later in 2021.



UK Nominal Gilt Yields

The UK yield curve shifted upwards over the quarter. The Bank of England surprised markets by bringing forward expectations of the timing of rate increases, hinting at a move in 2022 with the first increase potentially coming as early as late 2021. During the quarter, the first green gilt was issued by the UK government and was met with strong demand from the market.

Q3 2021 bond market review



UK Index-Linked Gilt Yields

UK real yields fell across the curve, more so at the short end. Market based measures of inflation expectations, in the form of breakeven inflation, shifted upwards. The UK 10-year breakeven rate rose 50bps to 3.8% - the highest level since the 2008 Financial Crisis.



Source: Thomson Reuters Datastream.

Corporate bonds

Yields on investment grade credit generally rose as the increase in government bonds was only partially offset by tighter credit spreads.

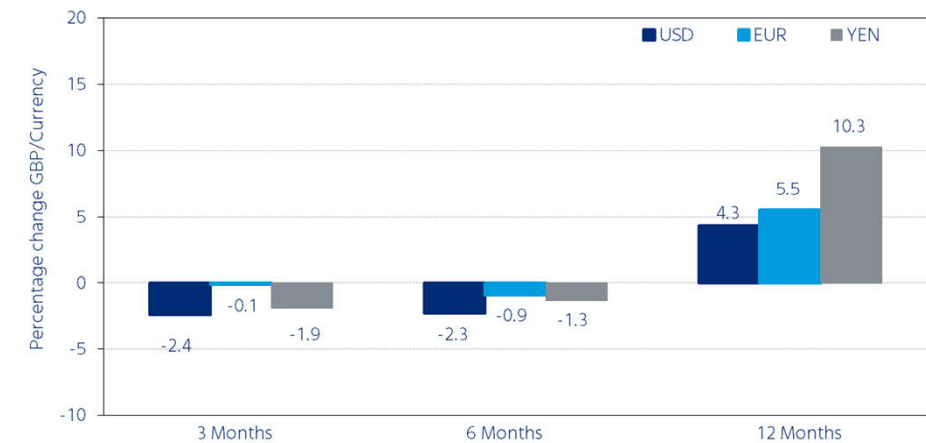
Q3 2021 currency market review

Sterling depreciated against all major developed currencies as the energy and supply shortages made investors re-consider their bullish positioning amid reopenings and a smooth Brexit. Nevertheless, on a one year basis, sterling appreciation against major currencies remains substantial. The US dollar strengthened against major developed market currencies over the quarter, due to monetary tightening in the US and safe haven demand towards the end of September.

Sterling Denominated FX Rate



Change in sterling against foreign currencies



Source: Thomson Reuters Datastream.

Q3 2021 property

UK property as measured by the MSCI Index increased by 4.6% over the quarter to 30 September 2021.

Summary of mandates

Manager	Mandate	Benchmark/Target	Outperformance Target (p.a.)	Inception Date
BlackRock	Passive Global Equity	MSCI World	-	December 2017
Brunel	Global High Alpha Equity	MSCI World	+2-3%	November 2019
Brunel	Global Sustainable Equity	MSCI AC World	+2%	September 2020
Brunel	Passive Global Low Carbon Equity	MSCI World Low Carbon	-	July 2018
Brunel	Emerging Market Equity	MSCI Emerging Markets	+2 -3%	October 2019
Brunel	Diversified Returns Fund	SONIA	+4-5%	July 2020
JP Morgan	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-	July 2015
Brunel	Multi-Asset Credit	SONIA	+4-5%	June 2021
Schroder	UK Property	IPD UK Pooled	+1%	January 2009
Brunel	UK Property	MSCI/AREF UK Quarterly Property Fund Index	-	January 2021
Partners	Overseas Property	Net IRR of 10% p.a. (local currency)	-	September 2009
Brunel	Secured Income	CPI	+2%	January 2019
IFM	Core Infrastructure	3 Month LIBOR +5% p.a.	-	April 2016
Brunel	Renewable Infrastructure	CPI	+4%	December 2018
Brunel	Private Debt	3 Month LIBOR + 4% p.a.	-	September 2021
BlackRock	Buy-and-Maintain Corporate Bonds	Return on bonds held	-	February 2016
BlackRock	Matching (Liability Driven Investing)	Return on liabilities being hedged	-	February 2016
Record	Passive Currency Hedging	N/A	-	March 2016
BlackRock	Exchange-Traded Fund (ETF)	Bespoke benchmark to reflect total Fund allocation	-	March 2019
Cash	Internally Managed	7 Day LIBID	-	-

Market background indices

Asset Class	Index
UK Equity	FTSE All-Share
Global Equity	FTSE All-World
Overseas Equity	FTSE World ex UK
US Equity	FTSE USA
Europe (ex-UK) Equity	FTSE World Europe ex UK
Japanese Equity	FTSE Japan
Asia Pacific (ex-Japan) Equity	FTSE World Asia Pacific ex Japan
Emerging Markets Equity	FTSE AW Emerging
Global Small Cap Equity	MSCI World Small Cap
Hedge Funds	HFRX Global Hedge Fund
High Yield Bonds	BofA Merrill Lynch Global High Yield
Emerging Market Debt	JP Morgan GBI EM Diversified Composite
Property	IPD UK Monthly Total Return: All Property
Commodities	S&P GSCI
Over 15 Year Gilts	FTA UK Gilts 15+ year
Sterling Non Gilts	BofA Merrill Lynch Sterling Non Gilts
Over 5 Year Index-Linked Gilts	FTA UK Index Linked Gilts 5+ year
Global Bonds	BofA Merrill Lynch Global Broad Market
Global Credit	Barclays Capital Global Credit
Eurozone Government Bonds	BofA Merrill Lynch EMU Direct Government
Cash	BofA Merrill Lynch United Kingdom Sterling LIBOR 3 month constant maturity

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Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: 1472/21

Meeting / Decision: AVON PENSION FUND INVESTMENT PANEL

Date: 19th November 2021

Author: Nathan Rollinson

Report Title: Review of Investment Performance for Periods Ending 30 September 2021

Appendix 1 – Fund Valuation

Appendix 2 – Mercer Performance Monitoring Report

Exempt Appendix 3 – Quarterly Portfolio Monitoring Summary

Appendix 4 – Brunel Quarterly Performance Report

Appendix 5 – Mercer Paper: Managing Inflation Risk

The Report contains exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption:

3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the exempt appendix be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Panel wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item

believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

The exempt appendix contains information on potential future trades by the fund, and includes information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and could prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

It is also important that the Panel should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Performance Report for Quarter Ending 30 September 2021

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The third quarter was marked by a decline in confirmed COVID-19 case numbers globally and the loosening of lockdown measures. Brunel's office returned closer to normality than it had done since the first lockdown, finally opening five days a week, albeit with various distancing and logging measures still in place.

July we celebrated our fourth birthday and a big staff party at Bristol Zoo. However, the biggest reason for the gathering was completing the launch of all 17 of our listed market funds this summer - ending with transitions to the new Gilts portfolios (£1.2bn), Multi Asset Credit portfolio (£2.1bn) and Sterling Corporate Bond portfolios (£2.1bn).

The Multi Asset Credit portfolio was launched as a multi-manager mandate divided between Neuberger Berman, Oaktree and CQS. "It gives our clients and their managers access to sub-Investment Grade credit across a range of sub-classes," said David Cox, Head of Listed Markets. "We identified three managers who displayed both investment expertise and RI acumen – as well as providing a diversity of styles."

The Sterling Corporate Bond fund was launched after Royal London Asset Management was appointed as manager. "The fund is highly diversified, providing our clients with access to a range of holdings, as well as a range of maturities," said David Cox. "The manager is contractually committed to providing evidence of ESG impacts of decisions taken in the fund, and of any broader contributions the fund is making to investing responsibly."

The quarter was dominated by the prospect of COP 26, which made one major Brunel announcement all the more timely. At the start of July, Brunel and FTSE Russell launched the new series of Paris-aligned benchmarks, which enable investors to access the benefits of passive funds while also aligning themselves to Net Zero. It is a monumental achievement, harnessing the best climate data, as well as TPI analysis, to provide a market-leading set of benchmarks.

"Brunel brings a huge amount of expertise in climate investing and were consulted on the construction of the series," said Aled Jones, Head of Sustainable Investment, EMEA at FTSE Russell. "This led to the inclusion of recently-issued guidance from the IIGCC Net Zero Investment Framework to limit investor exposure to Thermal Coal and Oil Sands...and limit the active weight of banking sector constituents."

We used the launch of the series to call on asset owners and asset managers alike to take advantage of the tools now available to implement the Paris Agreement – and to do so with added urgency. In the same month, our Chair also signed the A4S Pension Fund Chair Net Zero Statement of Support, so as to demonstrate our commitment to aligning Brunel to a 1.5C pathway.

Industry recognition of our progress on RI came in September, when Environmental Finance named Brunel 'Investment Team of the Year – Asset Owner' at the IMPACT Awards 2021. In short, it was all the ideal warm-up to COP 26 season, when we would be running a new campaign calling on policymakers and investors alike to make rapid progress to enable Net Zero.

In September, new research on pooling showed that it could drive still more value for LGPS in the future – as evidenced by international trends. That same month, our own data made a similar case, as we reported on fee savings of £33 million and excess returns of £800 million.

Executive Summary

The fund delivered positive absolute performance of 2.9% over the quarter in GBP terms, which was slightly behind the benchmark return of 3.3%. Total fund return for the one-year period to end-September was 13.7%, below the benchmark return of 16.2%.

Key points

- 2.9% absolute net performance Q3
- -0.4% relative net performance vs benchmark Q3
- 13.7% absolute net performance 1Y
- -2.5% relative net performance vs benchmark for 1Y

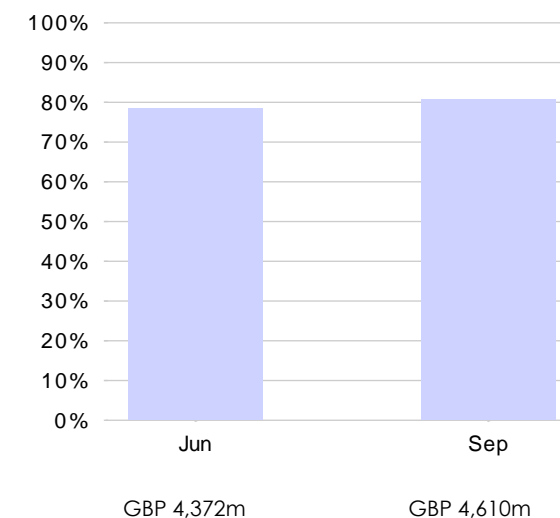
As the globe continued to emerge from varying states of virus-led lockdown, developed market equities were the main drivers of positive returns. In contrast, emerging market equities suffered negative returns, as the large index constituents of Chinese, Korean and Brazilian markets contributed high and mid-teen double-digit negative returns. However, both developed and developing market equity returns for the 12 months to quarter-end remained strongly positive.

Bonds produced more muted returns as the spectre of interest rates became more widely feared, against a backdrop of rising costs and their impact upon inflationary expectations.

Total Fund Valuation

	Total (GBPm)
30 Jun 2021	5,571
30 Sep 2021	5,710
Net cash inflow (outflow)	-23

Assets Transitioned to Brunel



Market Summary – Listed Markets

Over the quarter to the end of September, investor optimism regarding global growth was offset by various concerns, including rising commodity prices and supply chain disruption. Most equity markets ended the quarter with only modest gains or losses, after a volatile September eradicated much of the advances made earlier in the period. Global developed markets, proxied by the MSCI World index, returned 2.5% over the quarter.

In July, returns were muted by concerns around the Delta variant outbreak, slowing growth in the US, and headwinds from renewed lockdowns in some countries. By the end of August, increased optimism around earnings growth prospects had more than offset investor concerns around the Delta variant. However, global equity markets retreated in September due to concerns including supply chain disruption, inflationary pressures, and the potential for rising interest rates. Uncertainty around federal spending and debt ceiling negotiations in the US, as well as credit concerns at Chinese property developer, Evergrande Group, exacerbated global growth uncertainty and weighed on global equity returns.

Page 14 While widespread losses in September left most equity markets with modest gains or declines over the quarter, Japan contradicted this trend with a robust rally from mid-August, supported by progress on vaccine distribution and signs of continued economic expansion. The US also outperformed its developed peers over the quarter, with the MSCI US index returning 2.9%, whilst European equity market returns were muted, as European manufacturing activity slowed to its weakest pace in seven months, despite some stabilisation in COVID-19 cases.

Emerging markets lost ground over the quarter; the MSCI Emerging Markets index returned -5.7%, driven by negative returns in China. In July, severe regulatory action in the Chinese education sector heightened concerns of increased government influence in other sectors. Harsher regulation in the gaming sector was also introduced in August, adding to investor concerns of widening regulatory crackdowns. In September, Evergrande's warning of a debt default further weighed on market sentiment both in China and more broadly as it raised doubts about the global recovery. Although Chinese authorities are likely to contain the impact of Evergrande's debt crisis, the issue arguably emphasises a more significant concern of high debt levels in China. In addition, a real estate slowdown in China would weaken growth more broadly, due to factors such as weaker commodity prices, which would impact exporters of raw materials.

Market Summary – Listed Markets

While copper prices fell modestly over the quarter due to concerns about slowing Chinese demand, broad commodity indices rose as oil prices rallied. Amid strong demand, the latest rise in oil prices is largely due to OPEC producers not meeting their production targets, whilst the increase in gas and coal prices (which is particularly visible in Europe) was driven by many factors, including longstanding supply issues, depleted inventories, and insufficient shipping capacity.

Another factor which adds to soaring gas prices is the lack of availability of alternative reliable energy sources, given that investment in fossil fuels is rightly in long-term decline, and the rising price of permits to emit carbon in the EU has made coal expensive. There is arguably a lack of nuclear power generation, which may be considered a consistent and relatively low carbon energy source, to overcome the intermittency of renewable energy sources. Without reliable alternatives to current energy sources, price increases both contribute to inflation and impact consumer purchasing power. It is becoming apparent that the challenge for governments across the globe will be to smooth out volatility as the switch to renewables continues.

Page 148
With rising energy prices and eurozone inflation reaching a 13-year high in September, the subject of inflation and the potential for interest rates rises remained a prominent topic. Last quarter, we debated whether inflation was as transitory as central bankers had suggested. Over the most recent quarter, it has become increasingly apparent that price pressures will remain for several months, although it's worth noting that prices may normalise as energy prices ease following winter across the northern hemisphere and as the distribution of COVID-19 vaccines reduces disruption across global supply chains. Wages also moved upwards as a result of skills shortages in a number of sectors, adding to a building sense that inflation is proving more permanent.

As inflationary pressure continues, central banks turned hawkish, particularly in the US. The US 10-year Treasury yield rose above 1.5% in the wake of the Federal Open Market Committee (FOMC) September meeting, when US officials confirmed plans to begin tapering asset purchases this year and signalled increased support for raising interest rates next year. With the timeline for tapering now largely in place, the market is likely to move focus to the potential for, and extent of, interest rate hikes in 2022.

Market Summary – Head of Private Markets

Overview

Post-lockdown recovery continued strongly, though at a slower pace than initially forecast. Concerns around the Delta variant of Covid-19 persisted and, while vaccination rates accelerated globally, there were worries that the onset of winter in the northern hemisphere could yet hinder efforts to further re-open economies.

Business surveys confirmed that supply bottlenecks were constraining output while a low gas supply, coupled with a still summer, helped power prices to surge. Natural gas and fuel shortages triggered queues at pumps towards the end of the quarter.

The expected spike in inflation materialised. Discussions turned to whether this spike is transitory, caused in part by the supply bottlenecks and the base effects of inflation falling during lockdown last year, or whether there is a permanent change brought on by excess liquidity. Though the US Federal Reserve's tapering looked likely to commence as planned before the end of December, interest rate hikes are not anticipated until next year.

Infrastructure

During July, the most in-demand infrastructure sectors were water, waste and electric utilities, as investors sought defensive assets against a backdrop of rising Delta variant numbers. Australia and New Zealand were in the spotlight, as takeover bids for Sydney Airport and Spark Infrastructure provided a boost to sentiment.

Investor sentiment remained positive during August, despite evidence of supply chain disruption and labour market imbalances, in addition to the ongoing spread of the Delta variant.

In September, investor focus shifted from micro to macro concerns, with questions raised on global gas price volatility, OPEC's responses, the status of the US infrastructure bill, and on energy transition globally. China's economic health and supply chain bottlenecks also undermined market confidence.

Private Equity

Investment sentiment and activity remained strong and continued in Q3 2021, despite inflation fears. Asset valuations remain high, evidenced in strong exits. VC valuations continued to grow, recording multiple mega-rounds, and doubling the valuations set in 2020. Both GPs and LPs continued to show increased interest in sustainable investing.

In the US, deal value of \$787 billion in Q1-Q3 had already broken the record highs reached in 2019. The UK is following a similar trend, with deal value also exceeding 2020 values. UK company valuations remain relatively attractive, which increased PE funds' interest in take-private deals, exemplified in CD&R's £7.1 billion bid to take Morrisons private.

Market Summary – Head of Private Markets

The fundraising market is expected to mark another record this year. Mega-funds continued to dominate the market with buyout, growth, and venture the main strategies of interest. Established platforms continued to look for new strategies, offering investors different products from their flagship funds.

Private Debt

US and European high yield bond spreads were relatively flat over the quarter, with benchmark indices trading in the 300-330 basis point range. Issuance in the high yield bond market remained strong, with 2021 on course to be another record-breaking year. Goldman Sachs forecast ~\$450bn worth of USD high yield bond issuance by year-end, versus ~\$425bn issued in 2020. These data points indicate a buoyant, open and active credit market.

Private credit markets also remained buoyant. Anecdotal evidence from direct lenders suggest that deal activity was very strong through Q3, albeit with some seasonal slowdown in August, particularly in continental European jurisdictions such as France, Italy and Spain. Lending activity continued to be driven by PE equity sponsor dealmaking.

Fundraising activity continued to be very healthy. Notable funds which closed during the quarter include Page 150
HIG White Horse Direct Lending Fund (\$1.65bn), MV Credit Senior Lending (€526m) and Ares US Senior Direct Lending II, which is in the final stages of closing ~\$7bn of capital.

Property

UK investment volumes were in line with the five-year average, with offices comprising around a third of all transactional activity. Yield compression remained evident, particularly for assets in the industrial sector, which is currently forecast to deliver double-digit total returns in both 2021 and 2022.

In contrast, though, rent collection levels improved in the retail sector and occupiers negotiated competitive terms with landlords during Covid, with future rents often dependent on their future trading levels. Fashion continued to be a challenging area, but essential-based retail parks experienced strong valuation rebounds over the quarter. In the office sector, initial fears in 2020 of surplus space and falling valuations were mitigated by overseas demand (particularly for London assets) and a shortage of high-quality UK office supply. This is encouraging landlords to either improve secondary stock to meet ESG and regulatory requirements to attract tenants or, where possible, to consider change of use.

Industrial rents were growing at an annual rate of 4.3% (to June) and residential valuations were supported by an over-10% increase in house price growth over the year-to-September.

Responsible Investment & Stewardship Review

COP 26

Much of our focus this year has been on Net Zero – whether at a pension fund level or at industry level. We have made a Net Zero commitment; helped to deliver the IIGCC's Net Zero Investment Framework (and since adopted it); and developed a new series of Paris-aligned benchmarks with FTSE Russell.

In the third quarter, our priorities and themes remained constant, but our focus turned increasingly to COP 26 – and the historic opportunity it represents for our industry and for the world. We therefore launched a new communications campaign ('No Excuses on Net Zero') to highlight the messages we want to communicate to policymakers, asset owners and asset managers over the course of COP 26 season.

We chose to focus on policymakers as well as an industry audience because Faith Ward, our Chief Responsible Investment Officer, will be attending COP 26, with access to all areas, including the 'Blue Zone', where the crucial negotiations will take place. This is only possible because, as part of our broader ambitions on climate change as a partnership, we approved her to take over as Chair of the Institutional Investors Group on Climate Change (IIGCC) at the end of last year – it is in that role that she has been given a COP 26 all-areas pass, enabling her to represent the shared agendas of the IIGCC and Brunel.

We decided to emphasise the following policy-level messages:

1. **Governments need to raise their ambitions and introduce policies of substance**
2. **Governments need to cooperate on regulation and initiatives to ensure consistency**
3. **Governments need to ensure that climate policies are both smart and just**

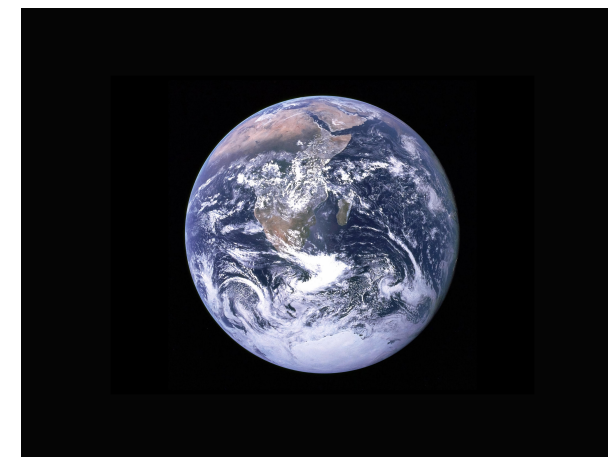
These messages reflect the importance of cross-border coordination on regulation and approaches to Net Zero, and of ensuring that the climate transition is not allowed to hit the most vulnerable hardest.

We decided on the following key messages to the industry and began to communicate these in Q3 via speaker events and videos/articles on our website:

4. **Investors need to adopt credible Paris-aligned investment objectives**
5. **Benchmarks can be a central part of the solution to climate change**

Finally, we decided to prioritise a message that targets both policy and industry audiences:

6. **Government & industry need better collaboration to enable investors to meet transition aims**

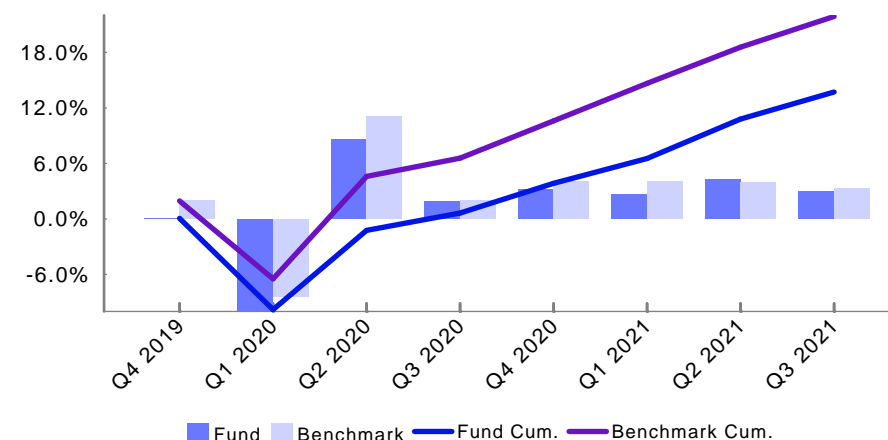


Summary of Pension Fund Performance

Performance of Fund Against Benchmark (Annualised Performance)

Period	Fund	Strategic BM	Excess
3 Month	2.9%	3.3%	-0.4%
Fiscal YTD	7.3%	7.4%	-0.0%
1 Year	13.7%	16.2%	-2.5%
3 Years	5.9%	9.3%	-3.4%
5 Years	6.5%	8.8%	-2.3%
10 Years	8.5%	10.0%	-1.5%
Since Inception	8.3%		

Rolling Quarter Total Fund (Net of Manager Fees)



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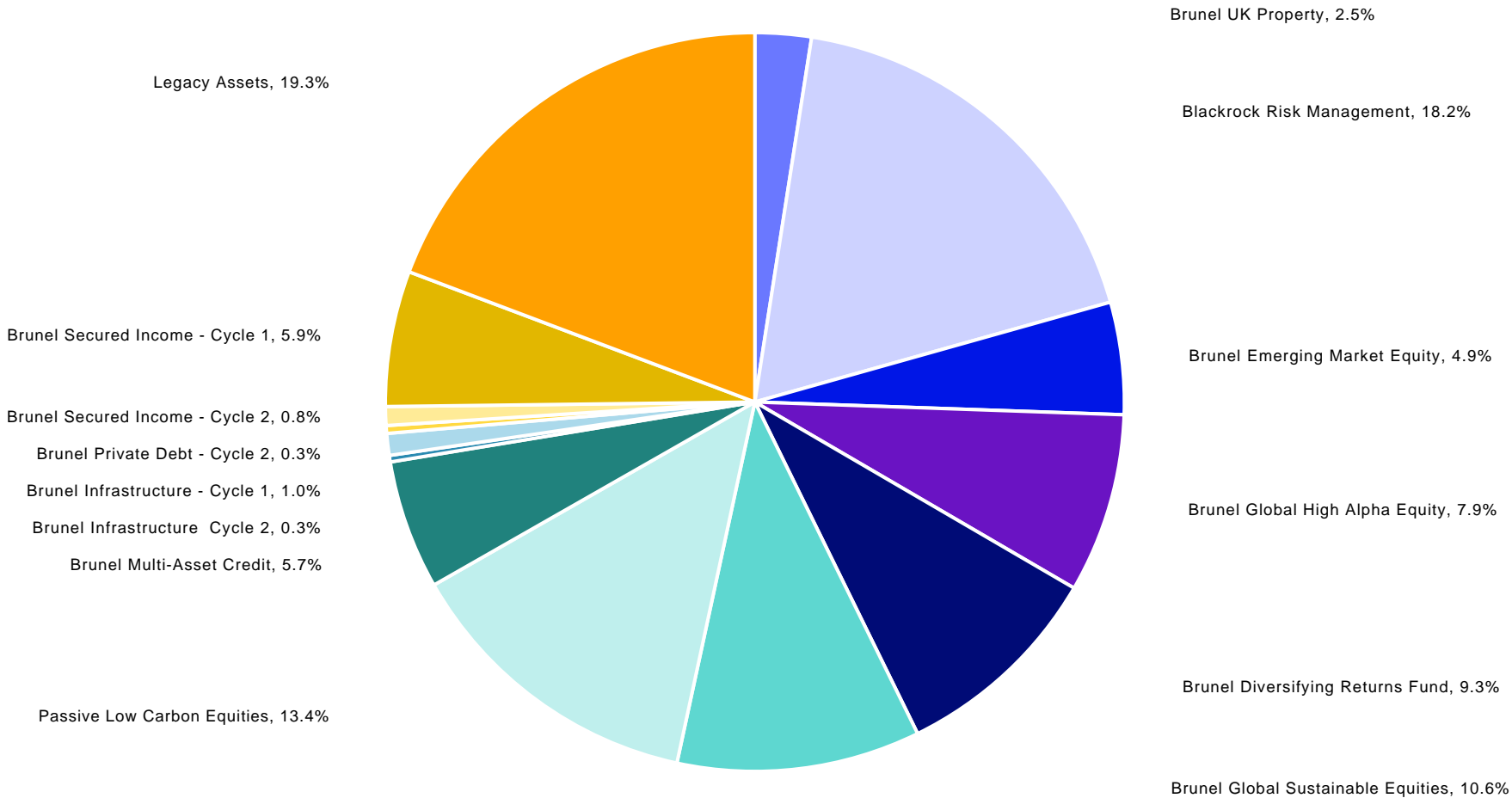
Global Sustainable Equities returned 3.6% for the quarter, ahead of the benchmark return of 1.5%. Since inception the strategy is marginally ahead of the benchmark with a return of 20.6%.

The Diversifying Returns Fund has generated positive returns over all time frames, providing a measure of upside participation coupled with downside protection.

The Global High Alpha Equity portfolio lagged the benchmark with a return of 1.7% for the quarter. For the year, the return was 25.2%, 1.1% ahead of the benchmark.

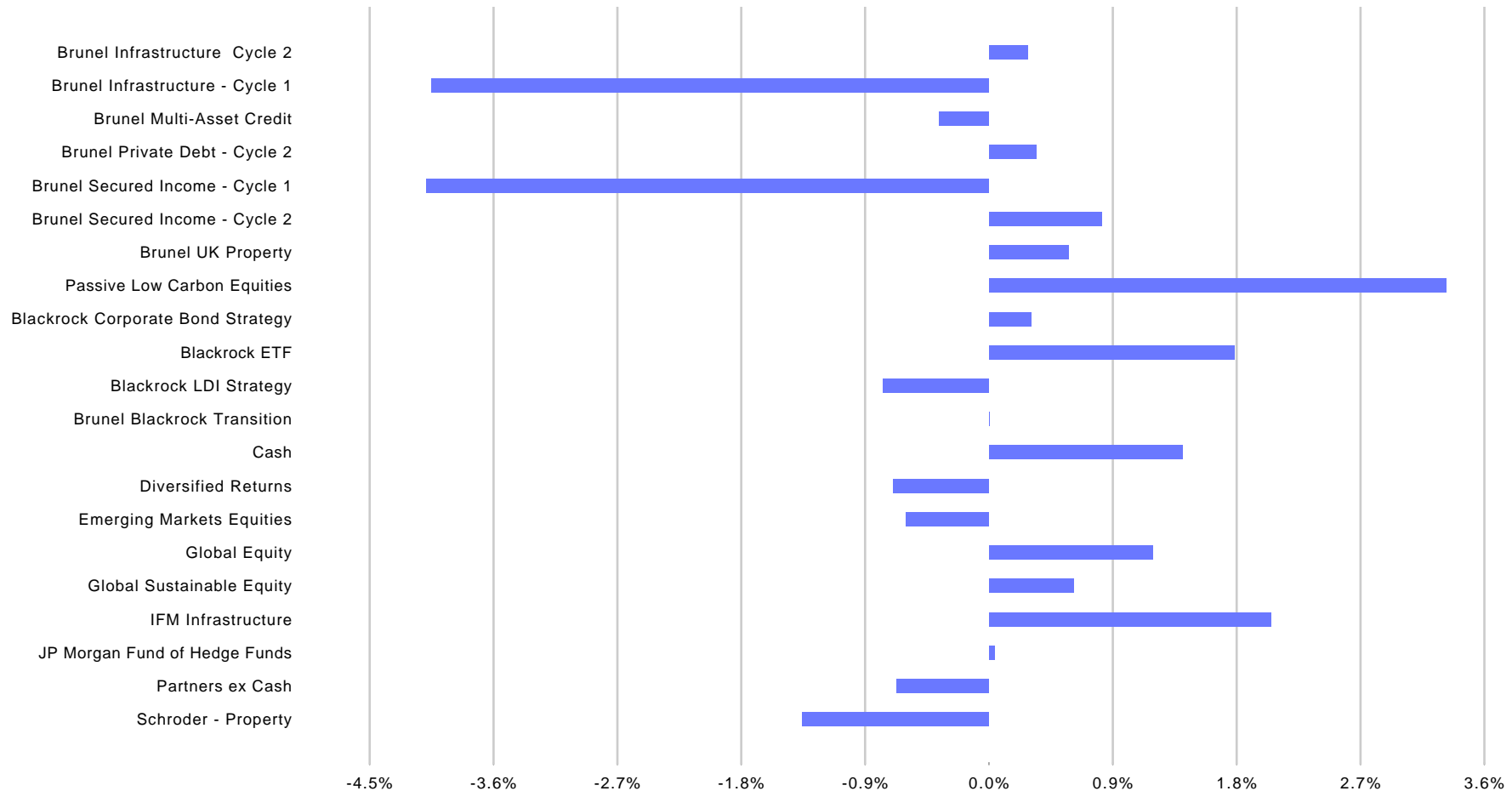
The Emerging Market Equity portfolio's return of -6.5% for the quarter was behind that of the benchmark. Over 12 months the portfolio has matched the benchmark return of 13.7%.

Asset Allocation Split



Asset Allocation of Pension Fund

Allocation Against Strategic Benchmark



Brunel Portfolios Overview

Portfolio	Benchmark	AUM (GBPm)	Perf. 3 Month	Excess 3 Month	Perf. 1 Year	Excess 1 Year	Perf. 3 Year	Excess 3 Year	Perf. 5 Year	Excess 5 Year	Perf. SII*	Excess SII*	Initial Investment
Brunel Global High Alpha Equity	MSCI World TR Gross	448	1.7%	-0.9%	25.2%	1.2%					23.8%	8.1%	15 Nov 2019
Brunel Global Sustainable Equities	MSCI AC World GBP Index	608	3.6%	2.1%	23.1%	0.3%					23.0%	0.3%	30 Sep 2020
Brunel Emerging Market Equity	MSCI EM TR Gross	280	-6.5%	-0.8%	13.7%	0.0%					8.8%	-0.9%	09 Oct 2019
Brunel Diversifying Returns Fund	SONIA Benchmark	533	0.6%	0.6%	8.1%	8.1%					5.5%	5.4%	27 Jul 2020
Brunel Multi-Asset Credit	SONIA + 4%	646	0.3%	-0.7%							0.7%	-0.5%	02 Jun 2021
Passive Low Carbon Equities	MSCI World Low Carbon Target	763	2.4%	-0.0%	23.7%	-0.1%	12.7%	-0.1%			13.3%	-0.1%	11 Jul 2018

*Since Initial Investment

Performance based on tradeable NAV

Where there are disparities between returns quoted above and returns provided for the same fund and period in the following pages, this is because the fund-specific pages reflect the posttransition phase, important for monitoring the performance of selected managers, while those given above reflect the Clients' actual experience from the point of initial investment, which in some cases includes the shared impact of transition costs.

Tradeable NAV performance reflects NET performance. The following product pages reflect the portfolio's NET performance

Brunel Global High Alpha Equity

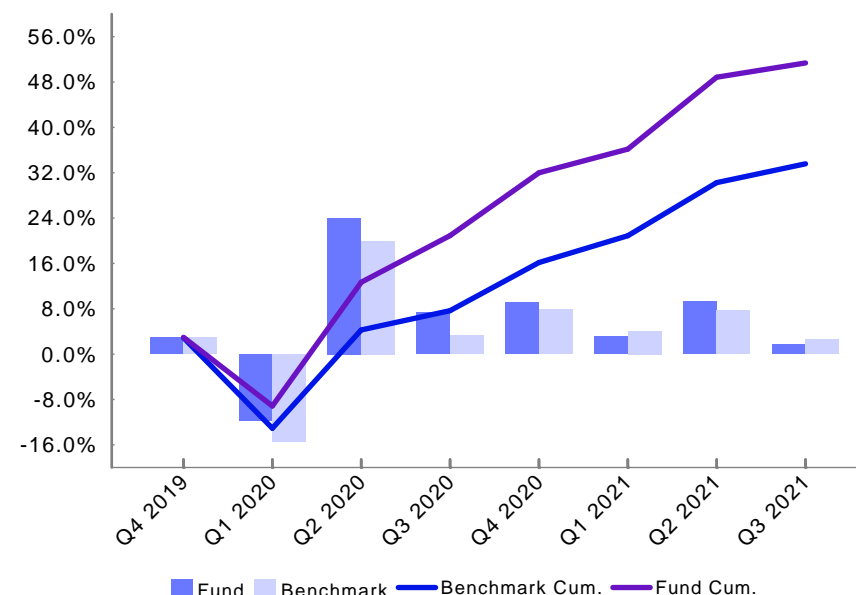
Overview

	Description
Portfolio Objective:	Provide global equity market exposure together with excess returns from accessing leading managers.
Investment Strategy & Key Drivers:	High conviction, concentrated portfolios with strong style/factor biases invested in a unconstrained manner.
Liquidity:	Managed liquidity. Less exposure to more illiquid assets.
Risk/Volatility:	High absolute risk with moderate to high relative risk, around 5-6% tracking error.
Total Fund Value:	£3,329,703,004

Performance to Quarter End

	Ann. Performance	Fund	BM	Excess
3 Month		1.7%	2.6%	-0.9%
Fiscal YTD		11.2%	10.5%	0.7%
1 Year		25.2%	24.1%	1.1%
3 Years				
5 Years				
10 Years				
Since Inception		25.6%	17.3%	8.4%

Rolling Performance*



* Partial returns shown in first quarter

The positive performance of global equity markets continued over the quarter until negative performance in the final month moderated absolute returns. In September, increasing uncertainty around concerns for inflation, rising energy prices, supply disruptions and labour shortages weighed on growth forecasts. Global developed equities (as proxied by the MSCI World index) delivered a 2.6% return over the quarter, significantly outperforming the MSCI Emerging Markets index which returned -5.7%. This underperformance reflected the negative performance by China on the back of uncertainty from increasing regulatory actions and concerns on debt levels, highlighted by the Evergrande default warning. Within developed markets, Japan was the standout performer, returning 7.3%, whilst the US marginally outperformed the benchmark and Europe underperformed. On a style basis, Quality and Growth outperformed Value over the quarter despite a reversal in September, when Value significantly outperformed. On a sector basis, the best performers were Financials and Energy, with Materials the poorest performing sector.

- The portfolio returned 1.7% over the quarter, underperforming the benchmark by 0.9%, almost entirely driven by stock selection.
 - Stock selection was particularly weak in the Consumer Discretionary sector. Overweights in Chinese internet names (Alibaba, Meituan and Pinduoduo) and apparel and luxury goods names (Hermes, LVMH, Nike, and Kering) detracted, as these areas sold off. In addition, areas where the portfolio is generally

Brunel Global High Alpha Equity

Continued Commentary

underweight, such as auto manufacturers, leisure, hotels and restaurants performed well. Stock selection was also weak in Financials, where financial exchange names (CME Group and Moody's) particularly struggled. In contrast, stock selection in the IT sector was positive; electronic equipment and semiconductor names (Keyence, Murata, ASML), and payments platform names (Adyen, Paypal) held in the portfolio performed well.

- Sector allocation was marginally negative over the quarter, with the overweight to Consumer Discretionary and underweight to Financials the two main detractors.

- On a country basis, the portfolio's overweight allocation to China detracted (-1.5%), partially offset by positive stock selection in Japan and the US.

- Fiera was the only manager to outperform the index this quarter, building on a strong outperformance in Q2. Baillie Gifford posted the largest underperformance, and continued to experience significant volatility in relative returns on a quarterly basis, with the last four quarters showing alternate outperformance and underperformance, resulting in a -2.6% relative return over the 12-month period. Such volatility is not unexpected given Baillie Gifford's concentrated, benchmark-agnostic approach and its strategy to identify long-term growth companies which have often been impacted in the short term by swings in market sentiment. Manager performance continues to reflect the different investment styles of the managers.

- Since inception, the portfolio has outperformed the index by 8.4% on an annualised basis. Attribution analysis shows that this outperformance was largely a result of positive stock selection which reflects the approach of employing fundamental managers chosen for their ability to select concentrated portfolios of high conviction names.

- Looking forward, market commentators continue to focus on the concerns outlined above, noting the complexity and interconnectedness of those concerns and the ongoing debate about how transitory or sustained their impact may be. As such, managers are expecting volatility to continue in the short term.

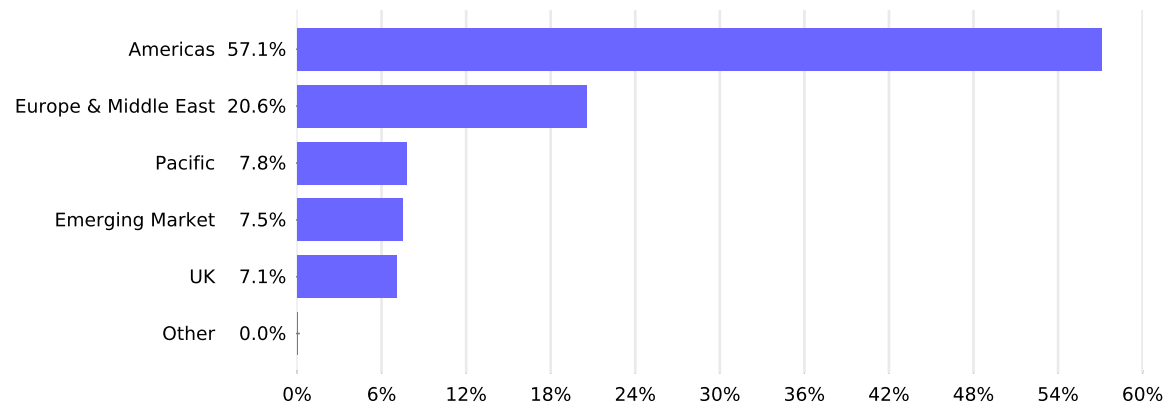
- During the quarter, the portfolio experienced a £336.5m net outflow. This included a £320m single redemption by Wiltshire as part of their transition into Brunel's Global Sustainable Equity portfolio. In addition, Cornwall invested in the portfolio for the first time. All flows were used to return the underlying manager allocations towards target.

Brunel Global High Alpha Equity – Region & Sector Exposure

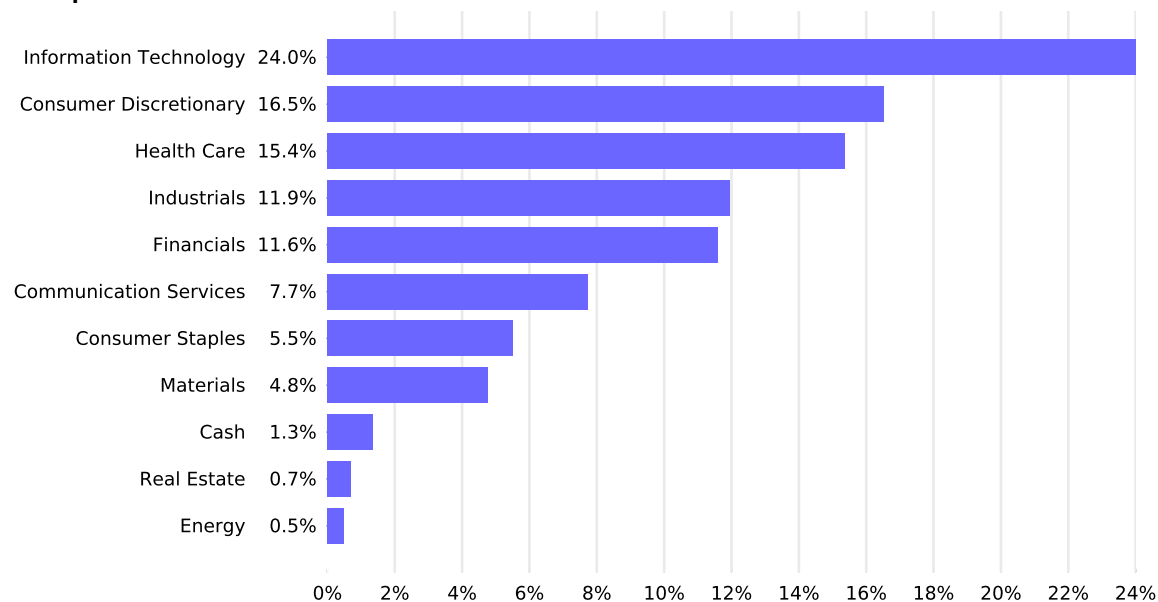
Top 20 Holdings

	Mkt. Val.(GBP)
MICROSOFT CORP	139,970,934
ALPHABET INC-CL A	109,318,551
MASTERCARD INC - A	86,350,329
AMAZON.COM INC	81,568,554
MOODY'S CORP	67,975,772
KEYENCE CORP	63,074,840
ASML HOLDING NV	62,373,411
TAIWAN SEMICONDUCTOR-SP ADR	60,536,481
NESTLE SA-REG	58,604,459
TJX COMPANIES INC	56,436,224
NIKE INC -CL B	55,592,555
SCHWAB (CHARLES) CORP	51,386,500
CAPGEMINI SE	46,246,622
RECRUIT HOLDINGS CO LTD	40,848,026
FACEBOOK INC-CLASS A	40,677,054
APTIV PLC	39,048,689
UNITEDHEALTH GROUP INC	38,830,987
ASSTEAD GROUP PLC	36,964,922
MSCI INC	36,034,509
AUTOMATIC DATA PROCESSING	35,516,976

Regional Exposure



Sector Exposure



Brunel Global High Alpha Equity – Responsible Investment

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. KEYENCE CORP	74.1	79.4
2. ASML HOLDING NV	65.8	72.7
3. RECRUIT HOLDINGS CO LTD	67.6	71.2
4. CAPGEMINI SE	63.2	62.1
5. APTIV PLC	63.4	79.7
6. METTLER-TOLEDO INTERNATIONAL INC	67.6	82.3
7. GENMAB A/S	65.6	89.4
8. NESTLE SA	59.3	44.4
9. ADMIRAL GROUP PLC	76.4	20.0
10. TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD	58.7	23.4

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. CHARLES SCHWAB CORP/THE	48.6	33.9
2. ALIBABA GROUP HOLDING LTD	45.9	22.7
3. AMAZON.COM INC	50.1	58.4
4. AUTOZONE INC	41.5	80.0
5. FACEBOOK INC	43.1	64.6
6. JOHNSON & JOHNSON	40.6	65.9
7. NIKE INC	45.3	42.3
8. ALPHABET INC	45.9	58.6
9. TJX COS INC/THE	34.6	14.2
10. MICROSOFT CORP	46.0	27.0

*From Q4 onwards we have moved to the latest and enhanced version of Truvalue Labs data. Please see supplementary note on the Client portal for more detail.

Weighted Average ESG Score	2021 Q2	2021 Q3
Portfolio	54.4	54.6
MSCI World	54.2	54.3

* Position 1 is the top contributor/detractor.



TruValue Labs & SASB

Brunel Assessment:

- Charles Schwab (Financials) introduced Moneywise America, a programme aimed to help close the financial education gap by making free financial education available to every school in the United States by 2025. Charles Schwab will pay \$200 million to the SEC related to its robo-advisor platform and concerns of misleading advertisements about investment products.
- Microsoft (Technology) made its Emissions Impact Dashboard tool generally available, allowing Microsoft cloud customers to track, report and analyse carbon emissions associated with cloud usage. The company has also agreed to a human rights review in contracts for police, immigration enforcement and unspecified other government agencies.
- Capgemini (Consumer goods) pledges to plant 20 million trees by 2030 as part of the World Economic Forum (WEF) Trillion Trees Movement. The Group is currently switching to 100% renewable electricity (as part of the RE100 initiative), and is transitioning to fully hybrid and electric vehicle fleets (as part of the EV100 global initiative).
- Admiral (Insurance) has been named 2nd in the 2021 UK's Best Workplaces™ for Women list, and 17th Best Workplace in Europe by Great Place to Work® UK.

100% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.

The portfolio continues to have a carbon intensity significantly lower than its benchmark. Revenues from extractive activity and the extractives value of holdings are less than half that of its benchmark.

Weighted Average Carbon Intensity (WACI)



Source: Trucost

Extractive Exposure

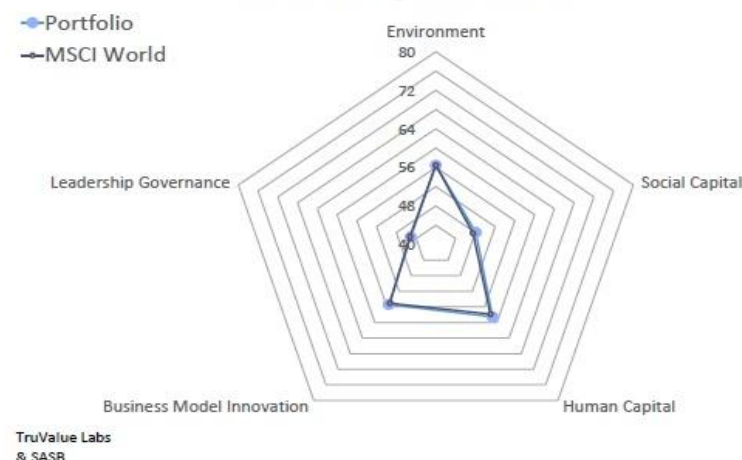
	Total Extractive Exposure ¹		Extractive Industries (VOH) ²	
	Q2	Q3	Q2	Q3
Portfolio	1.4	1.4	3.0	1.8
MSCI World	2.8	2.9	7.1	5.1

1 Extractive revenue exposure as share (%) of total revenue.

2 Value of holdings (VOH)-companies who derive revenues from extractives.

Source: Trucost

Absolute Weighted ESG Scores



TruValue Labs & SASB

Brunel Global Sustainable Equities

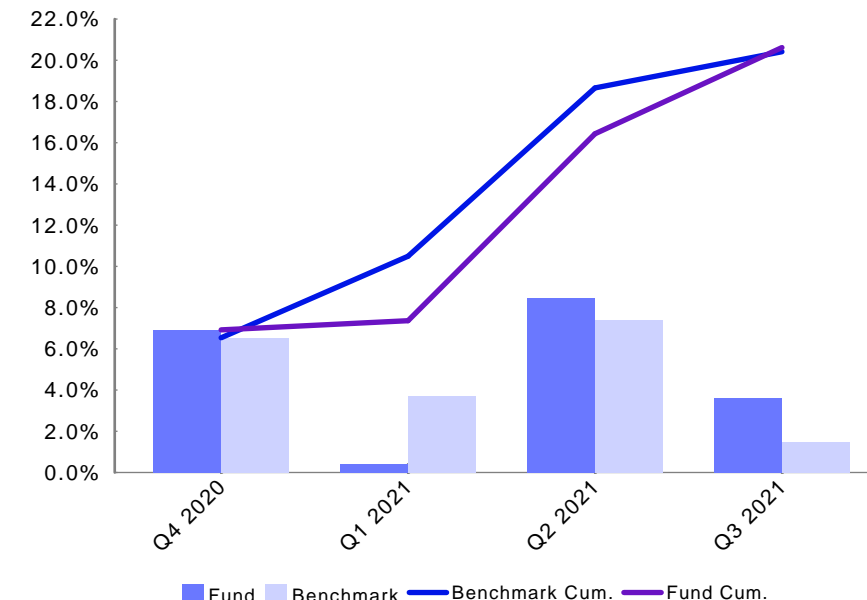
Overview

	Description
Portfolio Objective:	To provide exposure to global sustainable equities markets, including excess returns from manager skill and ESG considerations.
Investment Strategy & Key Drivers:	Actively managed, diversified by sector and geography. Consideration for a companies Environmental & Social sustainability.
Liquidity:	Managed Liquidity.
Risk/Volatility:	High, representing an equity portfolio.
Total Fund Value:	£2,803,453,412

Performance to Quarter End

	Ann. Performance	Fund	BM	Excess
3 Month		3.6%	1.5%	2.1%
Fiscal YTD		12.3%	9.0%	3.4%
1 Year				
3 Years				
5 Years				
10 Years				
Since Inception		20.6%	20.4%	0.2%

Rolling Performance*



* Partial returns shown in first quarter

The Global Sustainable Equity portfolio launched on 19 October 2020. Since the inception of the fund, the MSCI ACWI index has returned 20.4%, whilst the portfolio has returned 20.6% on a net-of-fees basis. Over the quarter, the fund returned 3.6% on a net basis, outperforming the MSCI ACWI, which returned 1.5%.

- The quarter can be characterised by two distinct periods of performance, the last week of September and the period before it. Over the period of 30/06 – 23/09, the fund exhibited a comfortable 4.5% outperformance against the MSCI ACWI, returning 7.1%. The outperformance was driven by stock selection at the manager level. However, the portfolio also has overweight exposure to both Information Technology and Healthcare, which supported outperformance as the best-performing sectors over this period.

- The last week of September brought a challenging market environment for the fund. Fuel shortages brought about by labour shortages, gas shortages caused by increased activity, as well as some fresh speculation on the potential future of quantitative easing, resulted in an uplift to some parts of the market that are not aligned to a sustainable equity fund. Over this week, the energy sector returned 4.9%, whilst the sectors that are more aligned such as

Continued Commentary

Technology and Healthcare, returned -3.1% and -1.8% respectively. The fund itself gave up some of the outperformance earned earlier in the quarter. However, we are pleased that the fund still outperformed by +2.1% over the entire quarter.

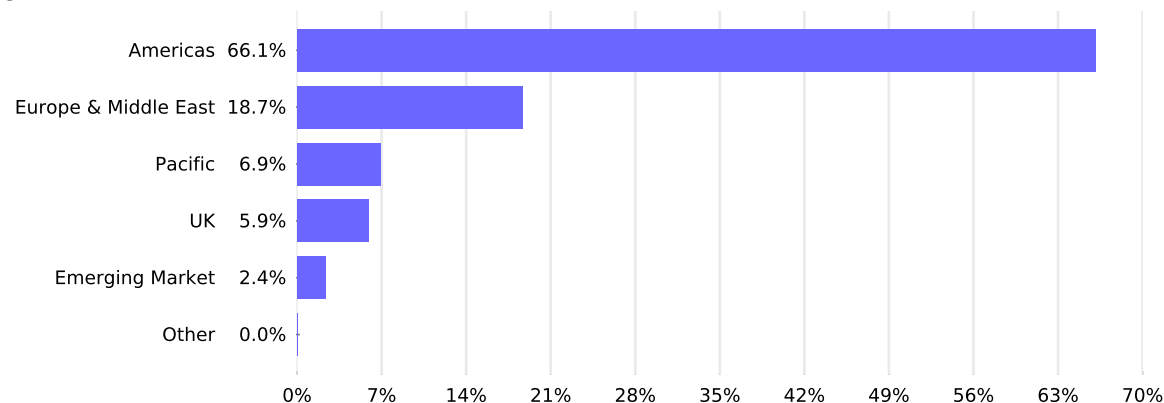
- Over the quarter, we saw all sustainable managers outperform the market. Ownership and Nordea both returned 3.9%, whilst RBC provided a return of 3.2% against the market return of 1.5%. The manager's outperformance was driven by stock selection in all instances. However, each manager continued to add value from different parts of the market.
- During the quarter, we initiated a position in Mirova that has an allocation of 13% in the portfolio. Mirova is a broad sustainable manager that will complement the portfolio and allow Brunel to manage capacity.
- The fund continues to demonstrate the characteristics that were outlined during the original construction phase of the portfolio. The Sustainalytics scores remain superior to that of the MSCI ACWI benchmark and we continue to see a carbon intensity reduction of ~25% in comparison to the broader index.

Brunel Global Sustainable Equities – Region & Sector Exposure

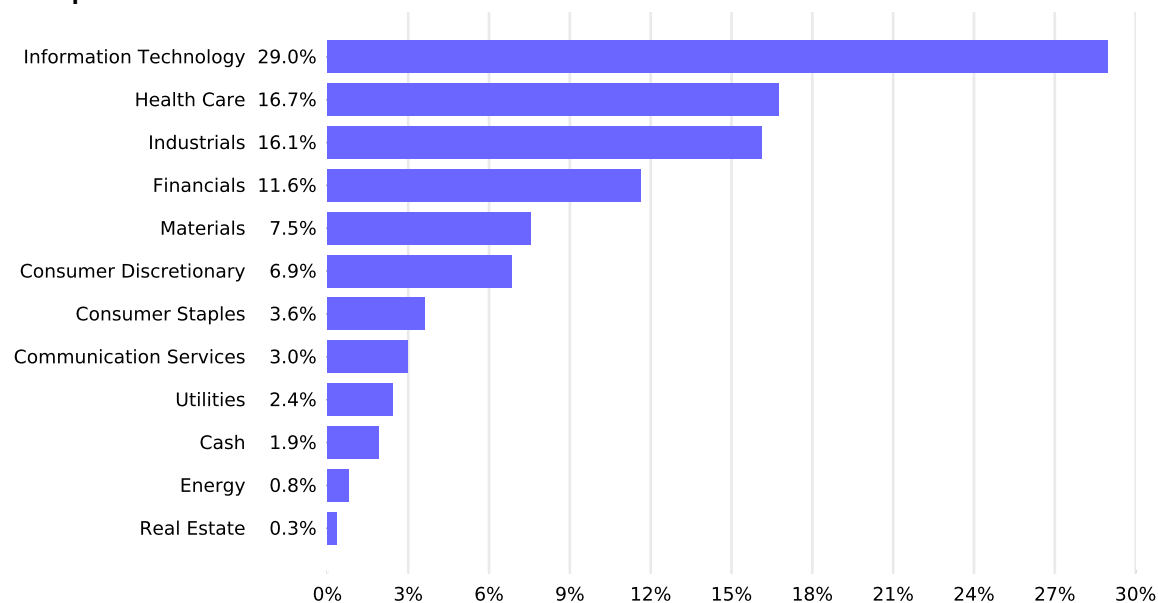
Top 20 Holdings

	Mkt. Val.(GBP)
ADYEN NV	67,712,706
MICROSOFT CORP	61,193,735
MASTERCARD INC - A	57,719,449
ALPHABET INC-CL A	55,098,542
MARKETAXESS HOLDINGS INC	50,891,897
ECOLAB INC	50,624,311
ANSYS INC	49,174,986
INTUIT INC	47,339,827
WORKDAY INC-CLASS A	46,355,269
DANAHER CORP	44,813,617
EDWARDS LIFESCIENCES CORP	43,700,213
MASIMO CORP	41,464,183
BIO-TECHNE CORP	37,167,941
TRADEWEB MARKETS INC-CLASS A	36,723,084
ROCHE HOLDING AG-GENUSSCHEIN	34,774,055
PAYPAL HOLDINGS INC	34,615,320
BLACKSTONE INC	33,566,668
UNITEDHEALTH GROUP INC	33,470,981
SYNOPTIS INC	33,307,708
ILLUMINA INC	32,861,648

Regional Exposure



Sector Exposure



Brunel Global Sustainable Equities – Responsible Investment

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. ECOLAB INC	71.4	50.0
2. MASIMO CORP	69.9	60.9
3. ORSTED AS	72.4	48.1
4. ANSYS INC	66.0	29.9
5. KERRY GROUP PLC	68.8	48.8
6. CRODA INTERNATIONAL PLC	74.1	75.5
7. FORTIVE CORP	67.7	25.9
8. ABIOMED INC	71.4	84.5
9. NESTE OYJ	69.5	72.9
10. ZEBRA TECHNOLOGIES CORP	74.1	63.3

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. MASTERCARD INC	54.6	50.0
2. SYNOPSIS INC	50.8	48.9
3. ROCHE HOLDING AG	49.9	36.3
4. ILLUMINA INC	49.1	38.4
5. PAYPAL HOLDINGS INC	48.4	50.1
6. INTUIT INC	49.8	25.5
7. MARKETAXESS HOLDINGS INC	50.0	16.5
8. TJX COS INC/THE	34.6	14.2
9. ALPHABET INC	45.9	58.6
10. MICROSOFT CORP	46.0	27.0

*From Q4 onwards we have moved to the latest and enhanced version of TruValue Labs data. Please see supplementary note on the Client portal for more detail.

	2021 Q2	2021 Q3
Weighted Average ESG Score		
Portfolio	59.2	59.2
MSCI ACWI	54.2	54.5

* Position 1 is the top contributor/detractor.



TruValue Labs & SASB

Brunel Assessment:

- Microsoft (Technology) made its Emissions Impact Dashboard tool generally available, allowing Microsoft cloud customers to track, report and analyse carbon emissions associated with their cloud usage and has agreed to a human rights review in contracts for police, immigration enforcement and unspecified other government agencies.
- Intuit Inc (Technology) TurboTax customers had personal data accessed following a series of account takeover attacks. Intuit has committed \$1 million over the next three years to teach students in underserved communities about finance and entrepreneurship.
- Ansys (Technology) saw five employees receive awards in the categories of Technology All-Star, Technology Rising Star and Educational Leadership during the Women of Color (WOC) STEM Conference.
- Zebra Technologies (Technology) expanded its relationship with FourKites, modernizing the digital supply chain, to deliver end to end visibility of their freight. Zebra's circular economy programme won Business Intelligence Groups 2021 Sustainability Award.

80% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.

As expected from this Sustainable Portfolio, the carbon intensity and exposure to extractive industries are significantly below benchmark. The Portfolio has considerably higher ESG scores compared to its Benchmark across Environment, Social and Human Capital categories.

Weighted Average Carbon Intensity (WACI)



Source: Trucost

Extractive Exposure

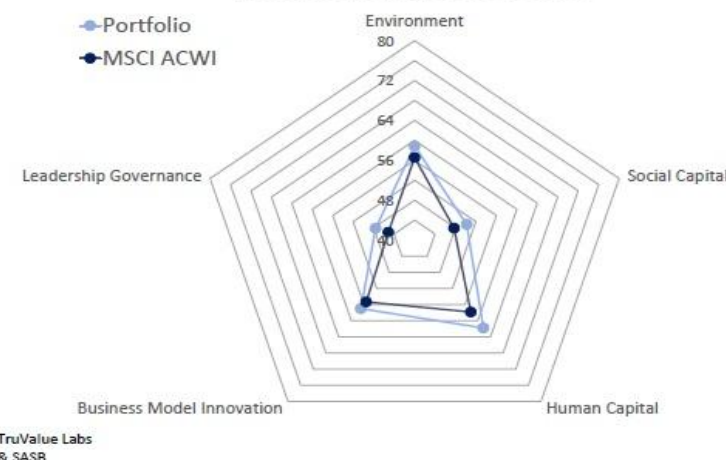
	Total Extractive Exposure ¹		Extractive Industries (VOH) ²	
	Q2	Q3	Q2	Q3
Portfolio	3.0	3.1	3.7	3.4
MSCI ACWI	2.8	3.0	7.3	5.4

1 Extractive revenue exposure as share (%) of total revenue.

2 Value of holdings (VOH)-companies who derive revenues from extractives.

Source: Trucost

Absolute Weighted ESG Scores



TruValue Labs & SASB

Brunel Emerging Market Equity

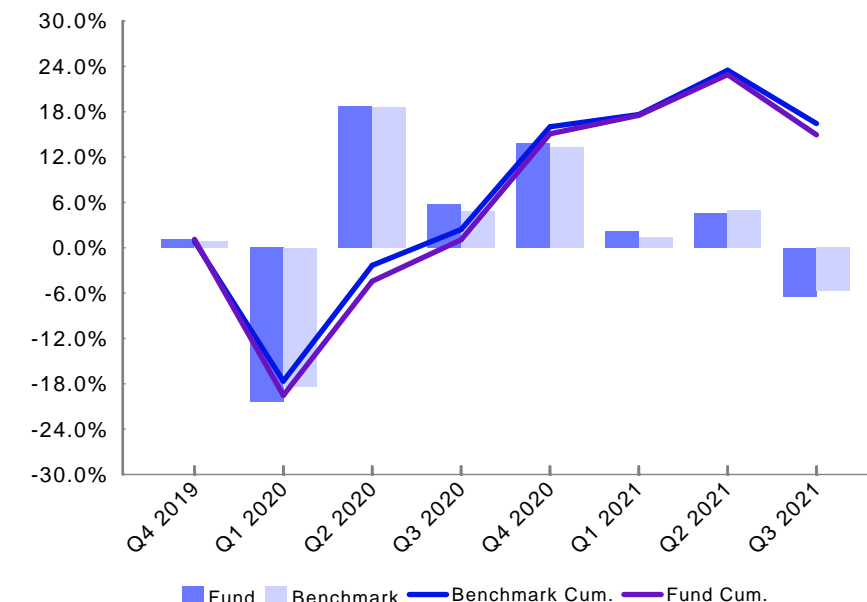
Overview

	Description
Portfolio Objective:	Provide exposure to emerging market equities, targeting excess returns and enhanced risk control from leading managers.
Investment Strategy & Key Drivers:	A geographically diverse portfolio, typically expected to achieve higher long-term growth rates than developed economies.
Liquidity:	Managed liquidity. Less exposure to more illiquid assets
Risk/Volatility:	High absolute risk with moderate to high relative risk, around 5% tracking error.
Total Fund Value:	£1,500,030,380

Performance to Quarter End

	Ann. Performance	Fund	BM	Excess
3 Month		-6.5%	-5.7%	-0.8%
Fiscal YTD		-2.2%	-1.0%	-1.2%
1 Year		13.7%	13.7%	0.0%
3 Years				
5 Years				
10 Years				
Since Inception		7.6%	8.4%	-0.7%

Rolling Performance*



* Partial returns shown in first quarter

Emerging market equities generated negative performance over Q3. MSCI Emerging Markets, a proxy for emerging equities, returned -5.7% in GBP terms. However, emerging markets trailing year returns remain positive at +13.7%.

Over the quarter, the large benchmark constituents China and Korea lagged, returning -16.1% and -11.0% respectively. Brazil also had a poor quarter, returning -18.2%. The Chinese yuan saw no significant depreciation over the quarter. However both the Korean won and Brazilian real saw significant depreciation versus the US dollar. The largest benchmark constituents which saw strong returns over the quarter were India and Russia, returning +15.5% and +12.6% respectively. Neither the Indian rupee nor the Russian rouble saw significant appreciation or depreciation versus the US dollar.

Almost all sectors made negative returns; Only Financials (+3.7%), Utilities (+10.4%) and Energy (+12.1%) had positive returns, driven by rate rises and rising energy prices, which rose sharply in the second half of the quarter as OPEC+ producers continued their policy of limiting production increases. The worst performing sector was the Consumer Discretionary sector, which returned -21.0%, with Chinese education companies continuing to fall after regulatory changes forced them to become non-profit.

Brunel Emerging Market Equity

Continued Commentary

No style had significant positive performance over the quarter; the best performing style category was Large Cap Value, which returned +1.58%, driven by the performance of energy companies. Almost all of the negative return of the MSCI Emerging Markets is attributable to Large Growth companies, which have performed poorly this quarter, driven by poor performance from Technology and e-commerce companies such as Alibaba and Tencent.

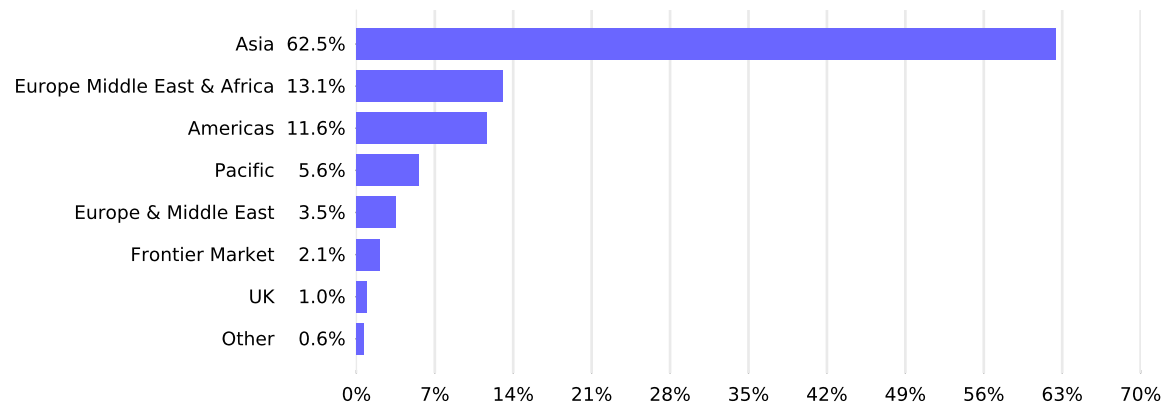
- The portfolio underperformed the benchmark, returning -6.5%, which was -0.8% behind the benchmark. All managers experienced below-benchmark performance. The excess return of Genesis and Wellington was -1.66% and -1.25% respectively. Ninety One returned -0.55%.
- On a country basis at the portfolio level, this underperformance can mainly be attributed to underweights in India, Saudi Arabia and Taiwan, where all managers underperformed. Ninety One had the best performance of the three managers, mainly due to a strong quarter in China, where both an underweight to the country and strong stock selection contributed. India was the largest drag on performance; the Indian portion of the benchmark had an average weight of 11.1% and returned +15.5% over the quarter, the portfolio has a 6.4% underweight to India, and the Indian portion of the portfolio returned only 7.8%. Hence India was a detractor on both an allocation and stock selection basis.
- Sector allocation detracted from relative performance. Rising energy prices resulted in the portfolio underweight to the Energy and Materials sectors detracting from relative performance. However, although all three managers were negatively affected by these underweights, Ninety One and Wellington actually had a positive overall allocation effect, across all sectors, of +0.91% and +0.70% respectively. It was the significant negative allocation effect of Genesis (-2.25%) that caused the allocation to detract from the portfolio as a whole. The most significant reason for this difference was the 5.6% Genesis overweight to the Consumer Discretionary sector, which returned -21.0%. It is worth noting that the Genesis holdings in this sector were stronger than the benchmark, returning -16.6%. Chinese education stocks continued their fall. Holdings New Oriental and TAL Education returned -74.6% and -78.2% respectively. Another major detractor for Genesis and Wellington was Alibaba Holding Group, which returned -33.7% over the quarter.

Brunel Emerging Market Equity – Region & Sector Exposure

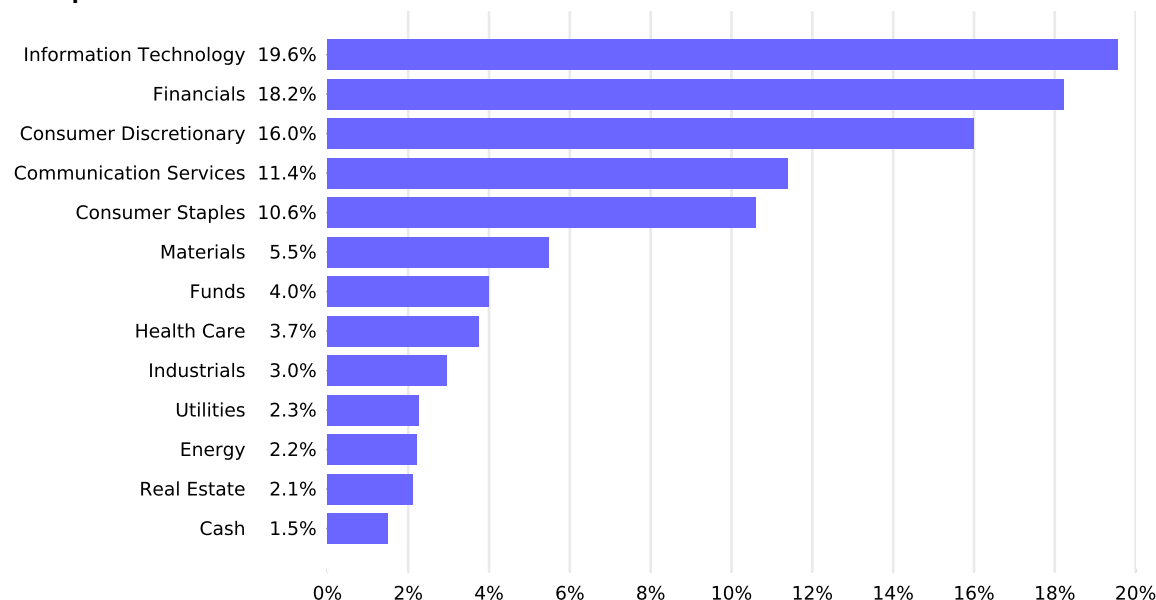
Top 20 Holdings

	Mkt. Val.(GBP)
TAIWAN SEMICONDUCTOR MANUFAC	116,039,498
TENCENT HOLDINGS LTD	87,999,137
SAMSUNG ELECTRONICS CO LTD	53,243,872
ISHARES MSCI INDIA ETF	52,718,128
SBERBANK PJSC -SPONSORED ADR	33,222,003
INFOSYS LTD-SP ADR	29,139,372
ALIBABA GROUP HOLDING-SP ADR	29,041,013
AIA GROUP LTD	27,762,882
ALIBABA GROUP HOLDING LTD	19,313,761
HDFC BANK LTD-ADR	19,140,744
YANDEX NV-A	18,807,400
MEDIATEK INC	16,526,333
BID CORP LTD	16,197,237
CHINA LONGYUAN POWER GROUP-H	15,605,120
SAMSUNG ELECTRONICS-PREF	15,376,530
NASPERS LTD-N SHS	14,918,713
CHINA CONSTRUCTION BANK-H	14,336,752
CONTEMPORARY AMPEREX TECHN-A	14,135,832
ICICI BANK LTD-SPON ADR	13,451,711
COUNTRY GARDEN SERVICES HOLD	13,170,207

Regional Exposure



Sector Exposure



Brunel Emerging Market Equity – Responsible Investment

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD	58.7	23.4
2. CHINA LONGYUAN POWER GROUP CORP LTD	70.4	64.0
3. CONTEMPORARY AMPEREX TECHNOLOGY CO LTD	66.8	60.0
4. MEDIATEK INC	64.1	73.8
5. AIA GROUP LTD	59.4	77.2
6. DELTA ELECTRONICS INC	72.8	23.4
7. INNER MONGOLIA YILI INDUSTRIAL GROUP CO LTD	75.1	55.4
8. BY-HEALTH CO LTD	69.6	79.1
9. OTP BANK NYRT	69.3	86.2
10. YUM CHINA HOLDINGS INC	67.7	72.6

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. HIKMA PHARMACEUTICALS PLC	41.5	20.8
2. REALTEK SEMICONDUCTOR CORP	28.0	19.9
3. BID CORP LTD	48.4	18.9
4. NAVER CORP	45.6	47.0
5. ICICI BANK LTD	44.2	57.1
6. ANTA SPORTS PRODUCTS LTD	37.0	28.6
7. YANDEX NV	44.7	25.1
8. SAMSUNG ELECTRONICS CO LTD	50.0	71.3
9. ALIBABA GROUP HOLDING LTD	45.9	22.7
10. TENCENT HOLDINGS LTD	47.4	47.1

*From Q4 onwards we have moved to the latest and enhanced version of TruValue Labs data.
Please see supplementary note on the Client portal for more detail.

* Position 1 is the top contributor/detractor.



	2021 Q2	2021 Q3
Weighted Average ESG Score		
Portfolio	54.2	55.3
MSCI EM	54.4	55.7

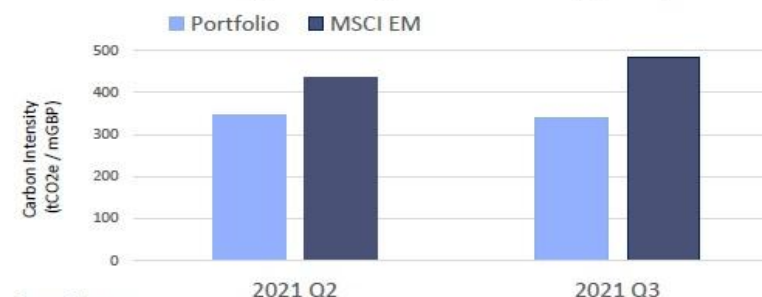
TruValue Labs & SASB

Brunel Assessment:

- Bid Corp LTD** (Food & Beverage) performance has been impacted by the second wave on the pandemic in Europe. Bid corp will be pressing charges against all involved in a fraud ring at one of its operations in Hong Kong.
- Delta Electronics** (Technology) joined Open Manufacturing Platform (OMP) The platform jointly launched by BMW Group and Microsoft aims to achieve high-efficiency, low-cost and sustainable innovative energy solutions. Delta was named 2021 ENERGY Partner of the Year for the sixth consecutive year by the U.S. Environmental Protection Agency (EPA).
- Yandex** (Technology) has signed a 5-year power purchase agreement (PPA) for wind energy with Finnish renewable energy company Ilmatar Energy. During October Yandex battled the largest distributed denial-of-service attack in russian internet history, 22 million requests per second.
- AIA Group** (Insurance) won the silver Talent Training Project Planning Excellence Award at the the Taiwan Insurance Excellence Award for promoting talent training programs, in addition to successfully training IFRS 17 professional, project management and leadership management.

90% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.
The weighted average carbon intensity of the portfolio saw a slight decline over the quarter. The portfolio remains below its benchmark, the MSCI Emerging Markets, for both extractives revenue exposures and extractive industries value of holdings.

Weighted Average Carbon Intensity (WACI)



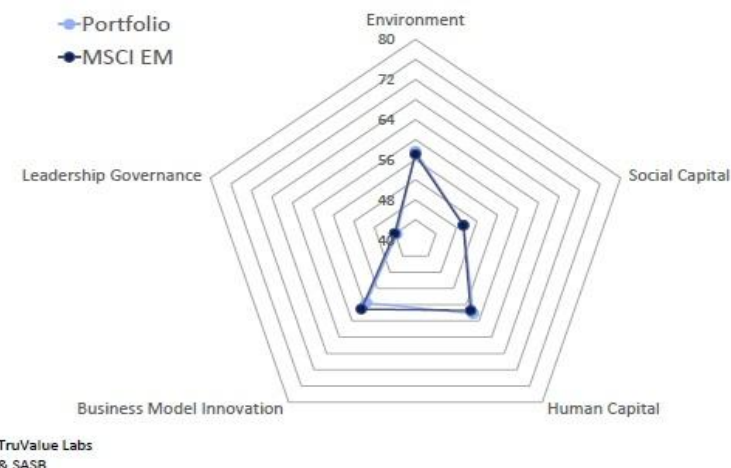
Source: Trucost

Extractive Exposure

	Total Extractive Exposure ¹		Extractive Industries (VOH) ²	
	Q2	Q3	Q2	Q3
Portfolio	2.2	1.9	5.2	4.1
MSCI EM	3.7	3.6	8.6	7.7

1 Extractive revenue exposure as share (%) of total revenue.
2 Value of holdings (VOH)-companies who derive revenues from extractives.
Source: Trucost

Absolute Weighted ESG Scores



TruValue Labs & SASB

Brunel Diversifying Returns Fund

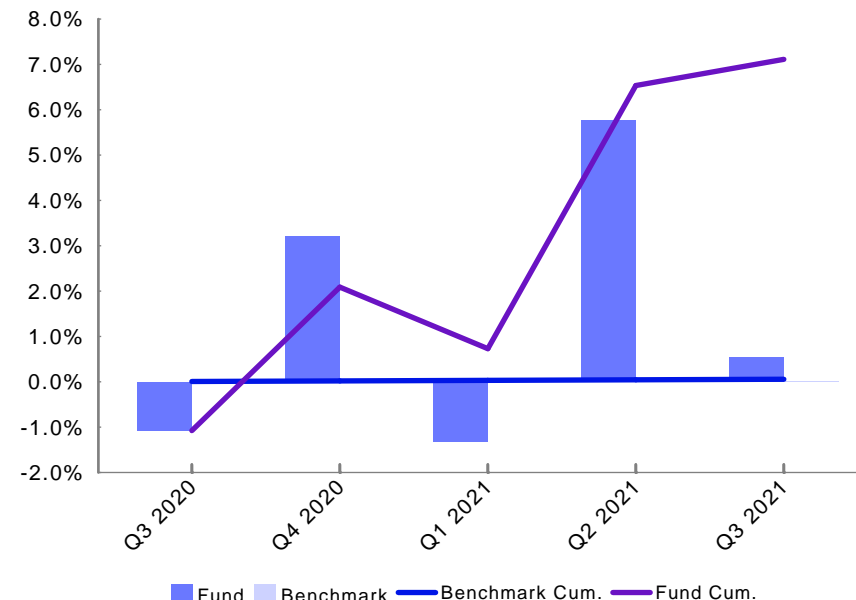
Overview

	Description
Portfolio Objective:	Provide exposure to a range of alternative return drivers and a degree of downside protection from equity risk.
Investment Strategy & Key Drivers:	Actively managed to achieve growth at moderate absolute risk, diversified between asset classes and by geography.
Liquidity:	Managed Liquidity.
Risk/Volatility:	Moderate absolute risk against cash.
Total Fund Value:	£1,798,029,246

Performance to Quarter End

	Ann. Performance	Fund	BM	Excess
3 Month		0.5%	0.0%	0.5%
Fiscal YTD		6.3%	0.0%	6.3%
1 Year		8.3%	0.0%	8.2%
3 Years				
5 Years				
10 Years				
Since Inception		6.2%	0.0%	6.2%

Rolling Performance*



* Partial returns shown in first quarter

Over Q3 2021, the Diversifying Returns Fund returned 0.5%. For the same period, the target return was 0.8%.

- JPMorgan generated a return of 1.6% in Q3. For the most part, equity signals performed well with positive contributions to return from relative value equity Momentum, equity Quality and Value. Volatility in September hampered the effectiveness of trend signals in equities, fixed income and FX, which all contributed negatively to returns.
- Strength in commodity markets helped Lombard Odier generate a return of 0.25% over the period. Developed market equities also made a positive contribution to returns but emerging market equity and sovereign bond exposures both detracted from performance.
- UBS returned -0.5% for the quarter. Negative returns from a short position in the US dollar were only partly offset by a positive exposure to the Japanese yen. The long Brazilian real position detracted from performance though long positions in other cyclically-exposed currencies such as the Norwegian kroner, Columbian peso and Russian ruble, all of which produced positive returns.
- Over the three months, William Blair delivered performance of 0.5%. The largest positive contribution to returns came from security selection in equities. The impact of equity beta and FX exposures were limited over the period. William Blair's fixed income allocation detracted from returns, with developed market exposure having a muted impact but exposure in emerging markets costing in performance terms.

Overview

Performance to Quarter End

	Description	Ann. Performance	Fund	BM	Excess
Portfolio Objective:	To gain exposure to a diversified portfolio of enhanced credit opportunities with modest exposure to interest rate risk.	3 Month			
		Fiscal YTD			
Investment Strategy & Key Drivers:	Exposure to specialised, higher yielding bond sectors which provide diversified credit driven returns.	1 Year			
		3 Years			
		5 Years			
Liquidity:	Managed liquidity	10 Years			
		Since Inception	0.6%	1.0%	-0.4%
Risk/Volatility:	Moderate absolute and relative risk with high relative risk vs cash.				
Total Fund Value:	£2,322,700,544				

The Multi Asset Credit portfolio returned +0.6% between portfolio inception on 7 July 2021 and quarter-end; this was marginally behind the SONIA+4% benchmark, which returned +1.0%. Performance was comfortably ahead of the secondary benchmark – comprised of 50% loans and 50% high yield bonds and hedged to GBP – which returned +0.4% since inception. All three managers delivered positive performance. Neuberger Berman, CQS and Oaktree returned +0.4%, +1.2% and +0.7% respectively.

Floating-rate assets typically outperformed their fixed-rate counterparts over the quarter against a backdrop of volatile interest rates; global senior loans and high yield bonds returned +0.9% and -0.1% respectively, whilst investment grade bonds remained flat. US Treasury yields picked up at the 5 and 10-year parts of the curve, rising about +10 basis points each; the portfolio was mostly unimpacted by this shift, given that the duration of the broader portfolio was 2.7 years, which is comfortably within the expected range of 2-5 years.

Loan markets enjoyed a strong third quarter with buoyant levels of new issuance; this was led by increased activity in private equity markets, which use loan markets for financing, and was quickly absorbed by market participants. Loan markets – proxied by the S&P/LSTA U.S. Leveraged Loan Index - returned

Continued Commentary

+0.9% on a GBP-hedged basis. The Multi Asset Credit portfolio has approximately 30% exposure to loans.

High yield markets endured a tougher time in Q3 2021 as a result of slowing growth expectations and change in tone from central banks, returning near flat performance over the quarter, mostly thanks to the offsetting income component. Option adjusted spreads picked up slightly but stayed close to the lowest levels seen since early 2018; the option-adjusted spread to treasuries on the Bloomberg Barclays Global High Yield Index increased by +37bps to +382bps at quarter end. Global high yield bonds now yield +4.7% on a yield-to-worst basis. Approximately 37% of the broader MultiAsset Credit portfolio is invested in high yield bonds.

Emerging market debt struggled on both the corporate and sovereign sides, with local returns of -1.6% and -0.7% respectively. Slow growth, supply chain concerns and runaway inflation were the main drivers. Several EM central banks raised interest rates aggressively to combat the inflation element; this was most common in LatAm economies like Brazil, which raised rates from +4.25% to +6.25% over the quarter. Estimated inflation in Brazil is +7.4% for the calendar year for 2021. The portfolio has minimal exposure to emerging market debt; this is currently close to 6%.

Corporate structured credit was one of the most successful areas last quarter. Sub-investment grade collateralised loan obligations (CLO's) returned close to +2% over the quarter, fuelled by heavy new issuance volumes.

Passive Low Carbon Equities

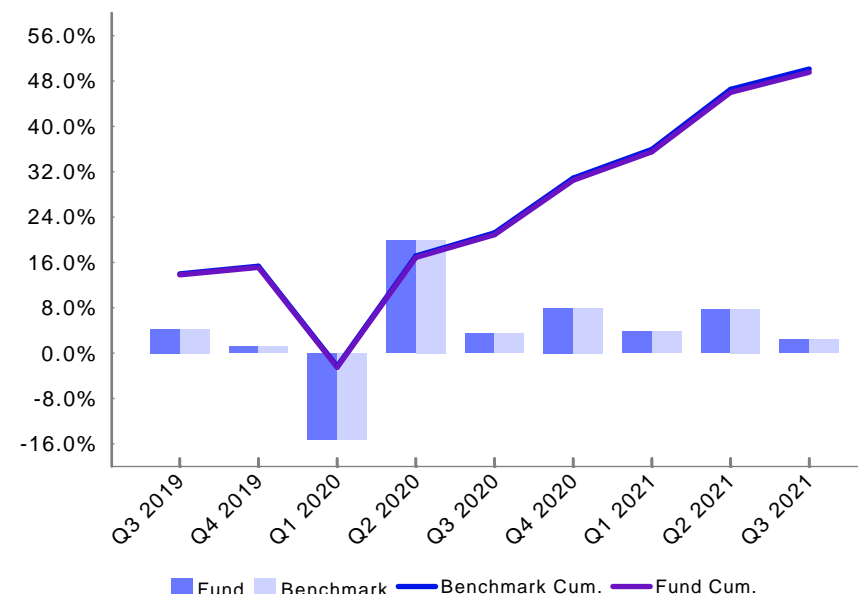
Overview

	Description
Portfolio Objective:	Provide exposure to equity returns and global economy with low exposure to carbon emissions and fossil fuels.
Investment Strategy & Key Drivers:	Portfolio is invested in global equities in accordance with Low Carbon index.
Liquidity:	High
Risk/Volatility:	High absolute risk with very low tracking error.
Total Fund Value:	£1,321,214,217

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	2.4%	2.5%	0.0%
Fiscal YTD	10.4%	10.4%	-0.1%
1 Year	23.7%	23.9%	-0.1%
3 Years	12.7%	12.8%	-0.1%
5 Years			
10 Years			
Since Inception	13.3%	13.4%	-0.1%

Rolling Performance*



* Partial returns shown in first quarter

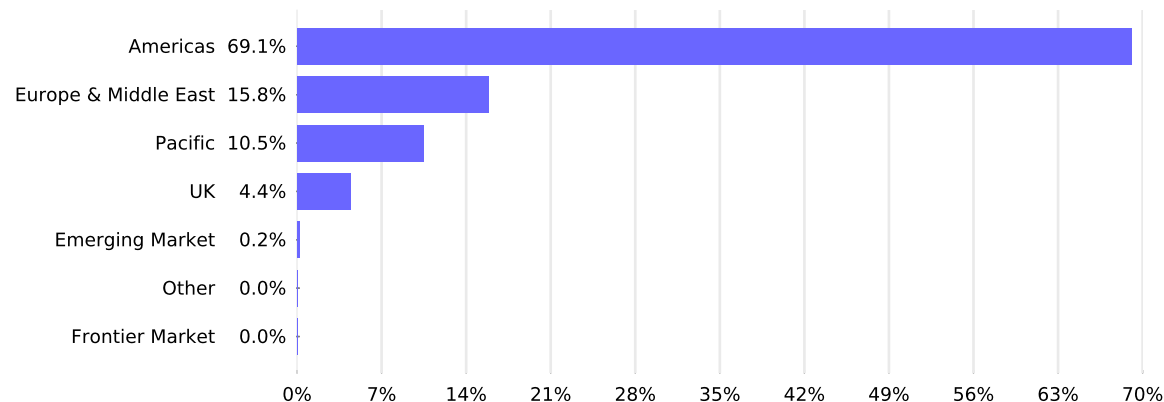
- The Passive Low Carbon portfolio recorded a return of 2.44% during Q3 2021, in line with the MSCI World Low Carbon Target Index, which returned 2.45%.
- The MSCI World Low Carbon Target slightly underperformed the MSCI World index, which returned 2.54% over the quarter. On a sectoral basis, this is mainly attributable to oil and gas stocks in the Energy sector, which are not held in the MSCI World Low Carbon Target Index; these stocks performed strongly over the quarter due to rises in energy prices.
- Over the 12-month period (to quarter-end), the Passive Low Carbon portfolio returned 23.7%.
- The MSCI Low Carbon Index slightly underperformed the MSCI World Index, returning 23.9% over the 12-month period, compared to an MSCI World Index return of 24.0%. Positive contributions from an overweight to the Financials sector were offset by underweights to the Energy and Materials sectors.

Passive Low Carbon Equities – Region & Sector Exposure

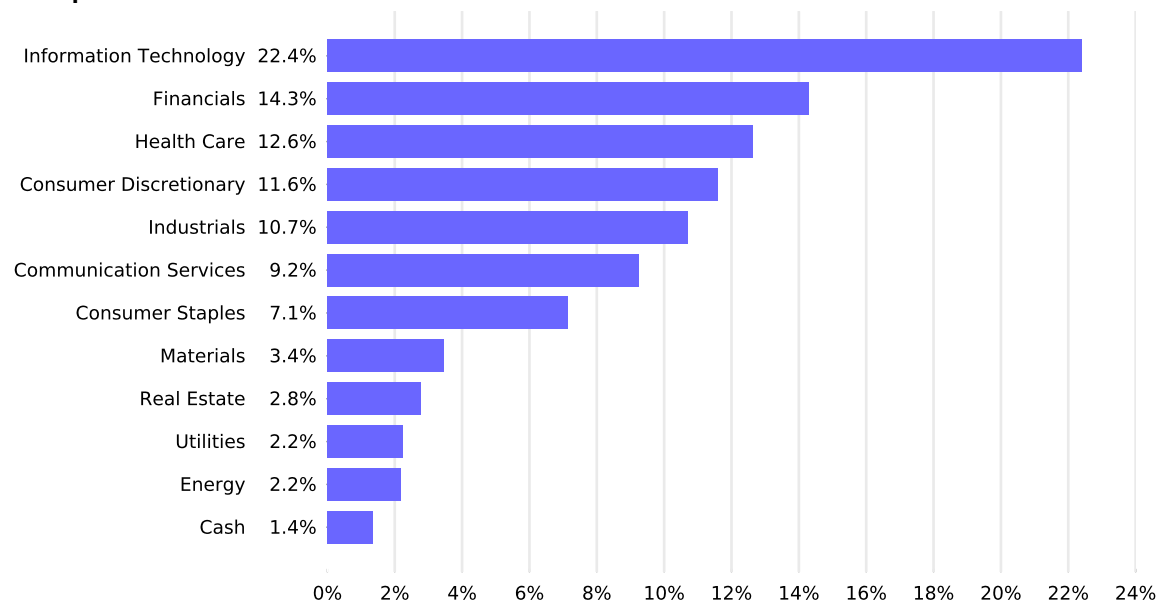
Top 20 Holdings

	Mkt. Val.(GBP)
APPLE INC	78,439,213
MICROSOFT CORP	66,471,089
AMAZON.COM INC	46,602,110
FACEBOOK INC-CLASS A	26,869,786
ALPHABET INC-CL C	26,562,336
ALPHABET INC-CL A	25,824,816
TESLA INC	19,278,729
NVIDIA CORP	17,177,940
JPMORGAN CHASE & CO	16,347,577
JOHNSON & JOHNSON	13,048,839
VISA INC-CLASS A SHARES	13,006,064
PROCTER & GAMBLE CO/THE	12,121,324
UNITEDHEALTH GROUP INC	12,074,409
HOME DEPOT INC	11,739,001
NESTLE SA-REG	11,417,544
BERKSHIRE HATHAWAY INC-CL B	11,037,756
BANK OF AMERICA CORP	10,845,666
MASTERCARD INC - A	10,382,703
ASML HOLDING NV	10,315,046
WALT DISNEY CO/THE	10,144,931

Regional Exposure



Sector Exposure



Passive Low Carbon Equities – Responsible Investment

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. ASML HOLDING NV	65.8	72.7
2. NEXTERA ENERGY INC	69.7	50.0
3. HONEYWELL INTERNATIONAL INC	68.7	75.3
4. KEYENCE CORP	74.1	79.4
5. TEXAS INSTRUMENTS INC	65.2	82.0
6. PROCTER & GAMBLE CO/THE	59.4	67.0
7. SCHNEIDER ELECTRIC SE	71.6	50.0
8. NESTLE SA	59.3	44.4
9. PROLOGIS INC	70.1	77.4
10. SIEMENS AG	66.0	72.9

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. VISA INC	48.5	32.7
2. ABBVIE INC	42.3	23.9
3. JPMORGAN CHASE & CO	49.4	69.6
4. NETFLIX INC	44.7	66.8
5. JOHNSON & JOHNSON	40.6	65.9
6. AMAZON.COM INC	50.1	58.4
7. FACEBOOK INC	43.1	64.6
8. ALPHABET INC	45.9	58.6
9. MICROSOFT CORP	46.0	27.0
10. APPLE INC	47.1	50.0

*From Q4 onwards we have moved to the latest and enhanced version of TruValue Labs data.
Please see supplementary note on the Client portal for more detail.

* Position 1 is the top contributor/detractor.



Weighted Average ESG Score	2021 Q2	2021 Q3
Portfolio	54.1	54.2
Passive Dev Equities	54.2	54.4

TruValue Labs & SASB

Brunel Assessment:

- Microsoft (Technology) made its Emissions Impact Dashboard tool generally available, allowing Microsoft cloud customers to track, report and analyse carbon emissions associated with their cloud usage and has agreed to a human rights review in contracts for police, immigration enforcement and unspecified other government agencies.
- Abbvie (Health care) agreed to pay \$24 million to settle a lawsuit that alleged insurance fraud by the drugmaker. A separate antitrust case for anti-competitive conduct was dropped by the Federal Trade Commission.
- Nestle (Food & Beverage) joined The Climate Pledge committing to achieving Net-Zero by 2040 or sooner. Nestle is laying out its plans to support and accelerate the transition to a regenerative food system, investing \$1.3 billion over the next five years to spark regenerative agriculture across its supply chain.
- Siemens (Technology) and 7 other companies were fined combined €127.3 million by Spain's competition watchdog for allegedly rigging public contracts relating to rail-signalling systems.

100% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.

The benchmark is the MSCI Developed World so that carbon reductions achieved to create the Brunel Passive Low Carbon Portfolio can be monitored. Carbon intensity of the Portfolio is half that of the MSCI Developed World Index.

Weighted Average Carbon Intensity (WACI)



Source: Trucost

Extractive Exposure

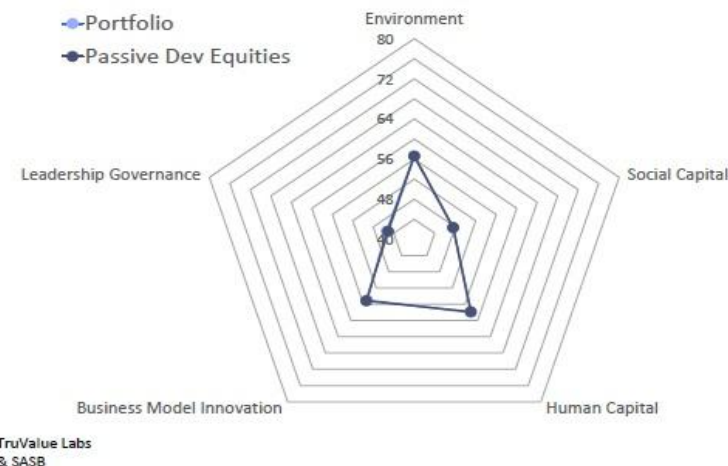
	Total Extractive Exposure ¹		Extractive Industries (VOH) ²	
	Q2	Q3	Q2	Q3
Portfolio	2.0	2.2	4.3	3.2
Passive Dev EQ	2.6	3.0	7.2	5.1

1 Extractive revenue exposure as share (%) of total revenue.

2 Value of holdings (VOH)-companies who derive revenues from extractives.

Source: Trucost

Absolute Weighted ESG Scores



TruValue Labs & SASB

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Avon Pension Fund

Managing inflation risk

Page 177

November 2021

Steve Turner
Nick Page

welcome to brighter

Managing inflation risk

Introduction

This paper is addressed to the Investment Panel (“the Panel”) of the Avon Pension Fund (“the Fund”) and examines the current inflationary environment and the potential impact on the Fund. It is intended to be a discussion document at this stage – there are no firm recommendations.

Given that the Fund’s liabilities are linked to inflation, one of the Fund’s key risks is that investment returns don’t keep pace with the liabilities in an elevated and sustained inflationary scenario. If inflation rises by 1% and the assets don’t keep pace, then this would be equivalent to a 30% fall in the value of the Fund’s equity holdings (c. £700m funding strain).

The investment portfolio is robust to a wide range of inflationary scenarios through the direct inflation hedging within the liability driven investment (LDI) strategy, as well as allocations to real assets such as infrastructure and property that provide some inflation sensitivity. However, we believe the range of scenarios that inflation could take has widened, and it is important for the Panel to understand the risks posed and how the portfolio is positioned in these scenarios.

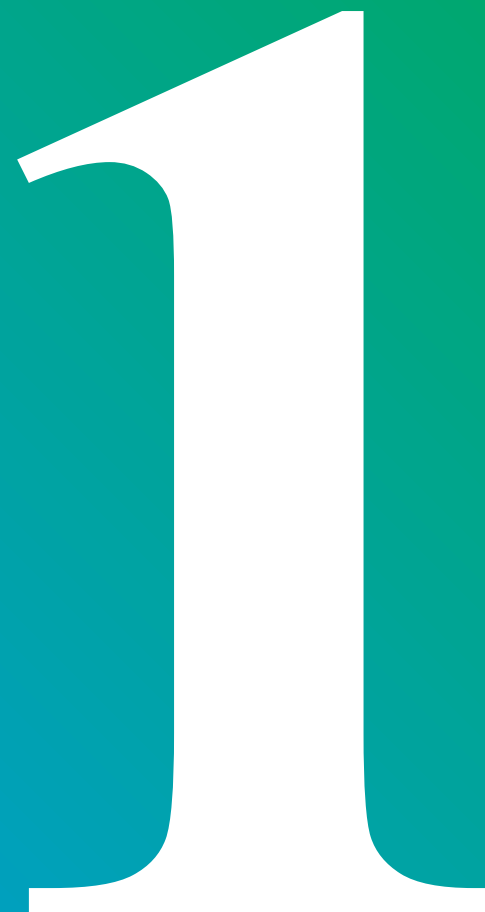
In this paper, we will:

- Discuss why the risk of an inflationary outcomes has increased in recent years and why inflation can be a problem for the Fund
- Present several scenarios on how the economic environment could play out over the coming years
- Qualitatively assess how these scenarios may impact individual asset classes at a high level

A next step could be to investigate further the quantitative impact of the various inflation scenarios on the current and alternative investment strategies. However, we would note that there is no silver bullet asset allocation that works all the time in all inflationary scenarios.

We look forward to discussing this paper with the Panel.

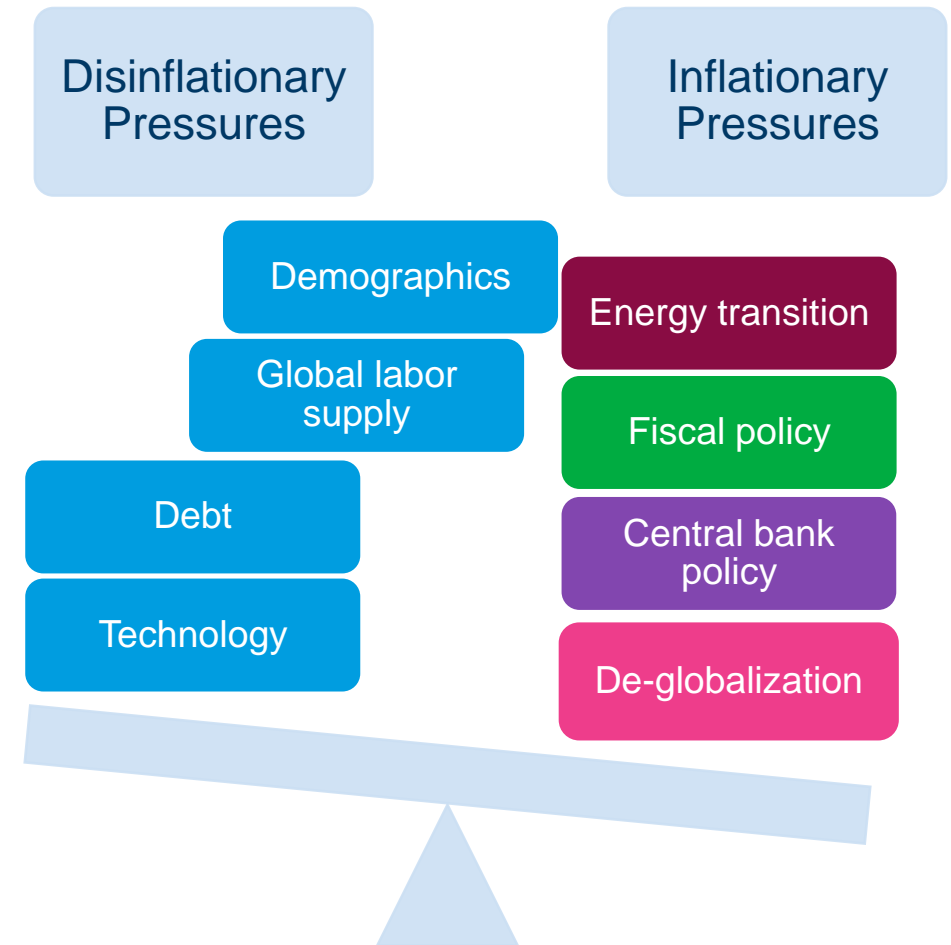
Why are we talking about inflation now?
And why is it now a problem?



Why are we talking about inflation now?

Introduction

- Long term secular forces driving disinflation such as globalisation could be turning the other way now.
- Direct inflation risks have also increased as a result of changed central bank philosophies and more monetary/fiscal coordination.
- Governments may prefer to reduce public debt indirectly through higher inflation rather than outright taxation.
- We believe the risk of seeing a wider range of outcomes has increased, including among them:
 - more frequent inflation regime changes
 - higher inflation volatility
 - longer periods of higher inflation levels

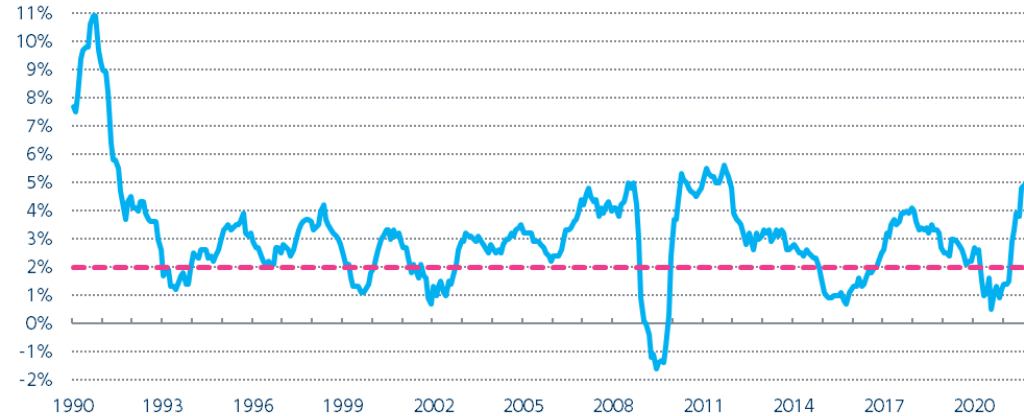


Why are we talking about inflation now?

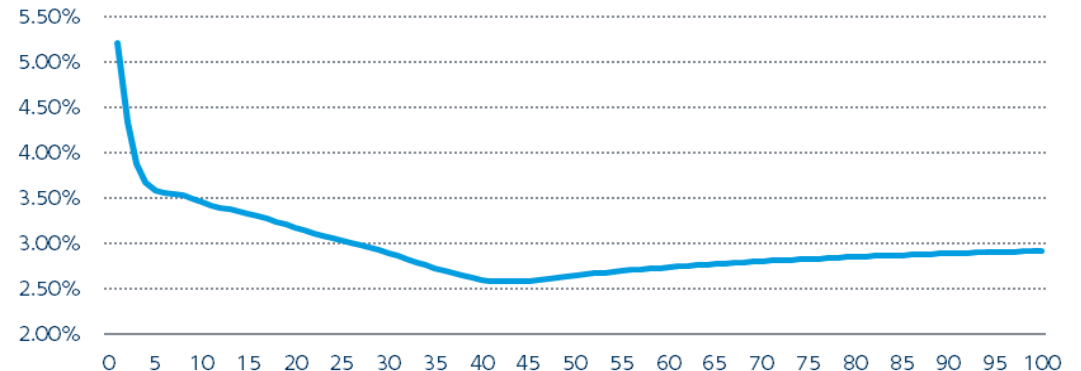
Markets may be underestimating the risk of higher inflation

- With the recovery from the pandemic crisis, inflation levels have risen substantially in 2021 as pent up consumer demand has hit up against supply chain issues, as well as soaring energy prices and frictions from Brexit.
- Inflation levels are currently well above the Bank of England's 2% p.a. target, but most central banks' current view is that this is transitory.
- The risk is that current inflation becomes more entrenched and problematic, noting higher inflation is also associated with higher volatility of inflation.
- Across the developed world, short term inflation is highest in the UK, however, we view the weakening of secular disinflationary forces is a global phenomenon.

UK Retail Price Index since 1990



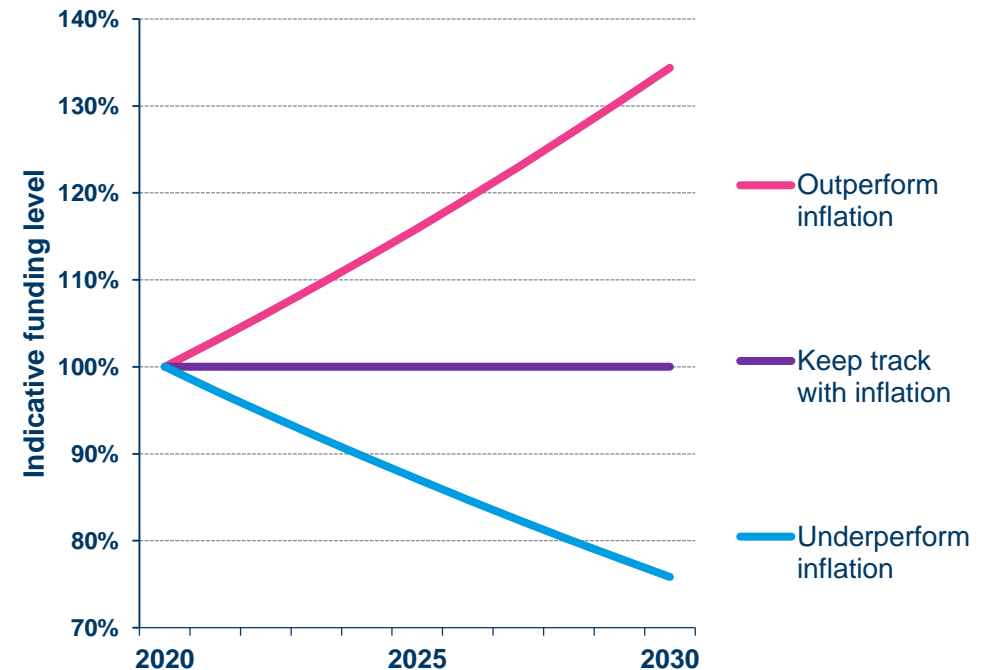
CPI Yield Curve as at 29/10/21



Why are we talking about inflation now?

What's the fundamental issue with inflation?

- The Fund's liabilities are directly linked to (uncapped) CPI inflation.
- A rise of inflation by 1% p.a. would increase the size of the liabilities by 20% (all else equal).
- This means that the investment strategy has to deliver an additional 1% p.a. otherwise this would lead to a funding strain putting upwards pressure on contributions.
- The Fund's discount rate for past service is currently CPI + 1.75% p.a. meaning if (CPI) inflation is higher, the Fund's investments need to return more in order to satisfy the discount rate requirements.
- Since the 2019 valuation, whilst absolute expected returns have remained broadly stable, CPI inflation expectations are 0.4% p.a. higher, meaning the probability of the investment strategy to achieve the discount rate has fallen (63% confidence of achieving CPI + 1.75% p.a. in March 2019 compared to 57% confidence in August 2021).



For illustrative purposes only. Assumes 3% p.a. out-/under-performance.

Assessing inflation risk

... means assessing both likelihood and impact of different scenarios



- The likelihood of certain inflationary scenarios occurring has increased.
- Pre-existing, long term disinflationary forces now compete with coordinated monetary and fiscal policy and potentially less robust supply chains.

- Equity/bond dominated portfolios have performed well through the last two decades of disinflation...
- ...but a transition to a more inflationary regime could negatively impact both equities and bonds.

- Rising likelihood and adverse impact means inflation exposure for the average portfolio should be reviewed to avoid taking unrewarded risk.
- This inflation risk may require a re-alignment of portfolios.

Likelihood: different future states of inflation

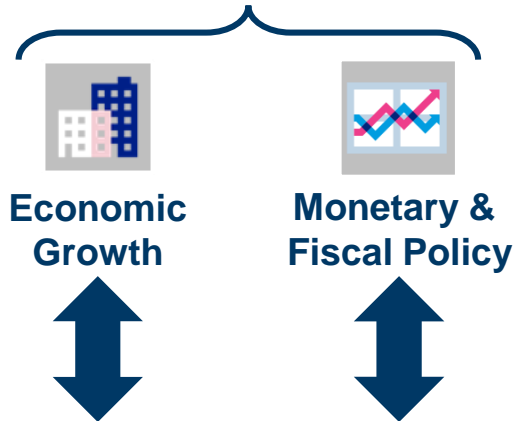


Assessing inflation risks

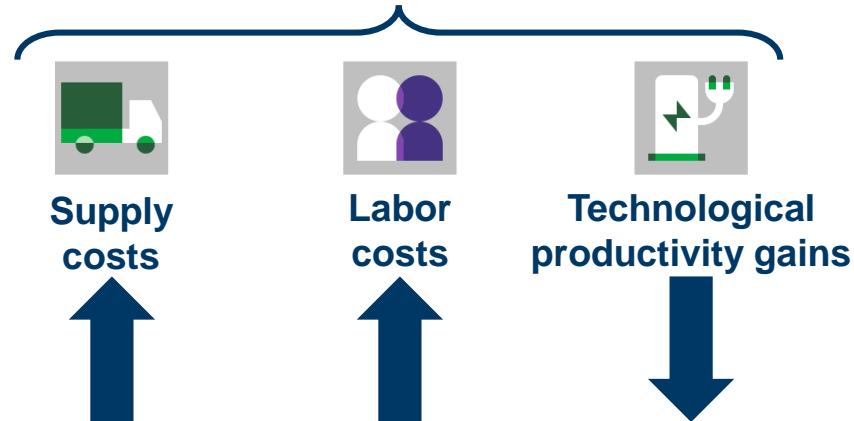
Different scenarios are shaped by different inflation drivers...

- We consider different forward-looking economic scenarios of how economies and markets could behave under different conditions resulting from different combinations of inflation drivers and other factors that interact.

Demand-pull drivers



Cost-push drivers



Note that, on the next few slides, these are colour coded:
red = strongly inflationary,
yellow = somewhat inflationary
blue = disinflationary.
For example, monetary policy can increase inflation when too loose but reduce inflation when tightening occurs.

Building scenarios

Where could we go from here – growth and inflation scenarios

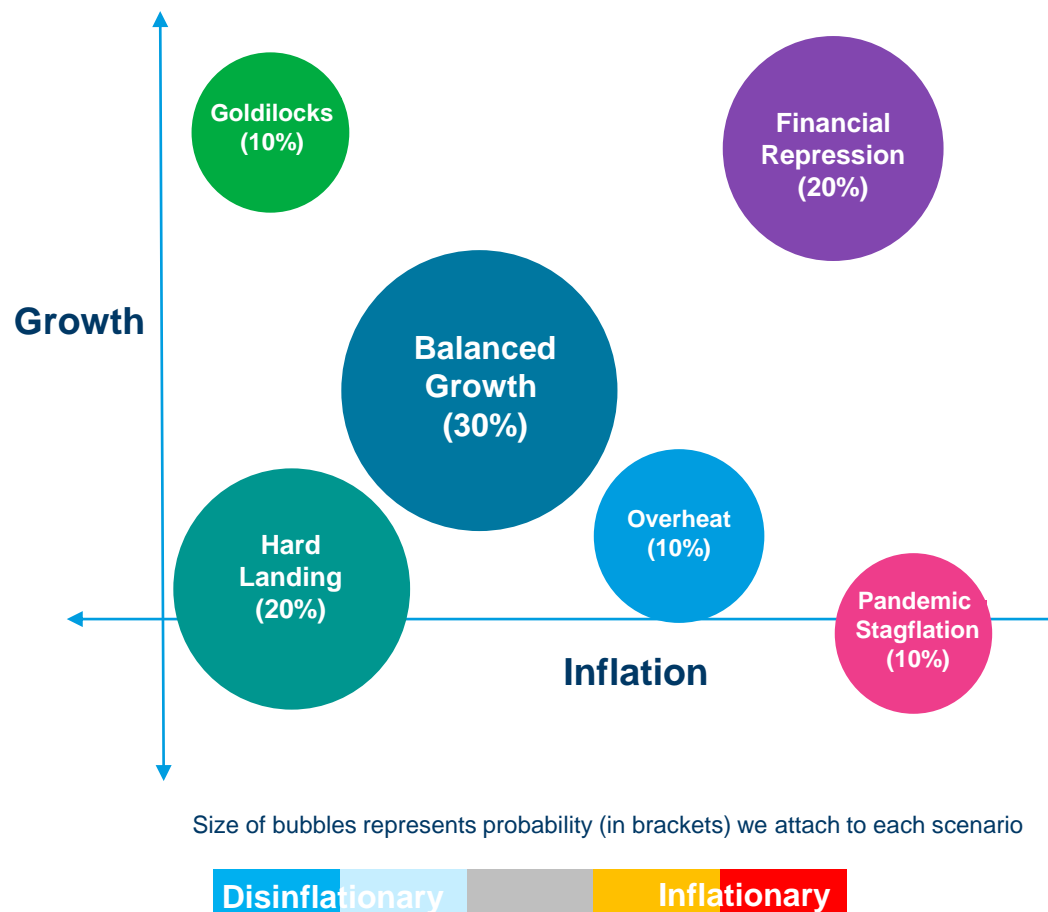
Goldilocks: Robust growth, driven by productivity gains, which also keeps inflation low



Balanced Growth: Economic growth and inflation moderate, consistent with consensus forecast.



Hard Landing: Growth slows sharply, as fiscal stimulus is reined in; deflation risk rises



Financial Repression: Strong growth and inflation, supported long term by low central bank rates, designed to reduce debt



Overheat: Central banks preemptively tighten policy to avoid risk of runaway inflation



Pandemic Stagflation: Pandemic stress re-emerges. Growth slows, but supply chains drive inflation.



Building scenarios

Incorporating *energy transition*

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- A major scenario that has not been discussed so far is that of energy transition.
- We believe this is a critical consideration and needs to be considered separately from broader economic scenario analysis.
- Rather than being an economic scenario on its own, **we expect it to occur alongside many of the scenarios considered here.**
- **We believe that the effect of energy transition is more likely to be inflationary than deflationary, however, because:**
 - Replacing much of existing energy and transport infrastructure requires huge upfront investments which could be passed on to consumers
 - Eschewing cheaper and more efficient production processes and energy sources to reduce emissions could lead to a fall in productivity as increased input is not matched by higher output with higher prices balancing out reduced supply
- If it were considered as a separate scenario, the ongoing trend of energy transition would make this the most likely scenario of all
- The risks and opportunities presented by energy transition are likely to be more dependent on specific strategy selection **than higher level asset class allocation**, which means it is harder to generalise in an asset class heat-map.

Portfolio impact: strategies for inflationary environments



Asset classes to mitigate inflationary environments

Determining our options

- We have considered the impact of each of these scenarios on a broad range of asset classes and summarised the results in a heatmap.
- The analysis highlights:
 - How exposed traditional portfolios are to certain inflation scenarios.
 - The silver bullet asset class that does well in all scenarios does not exist.
- However, we discuss a small selection of asset classes that feature strongly in the analysis as a result of their relationships with inflation:
 - Inflation-linked bonds
 - Commodities, and commodity related strategies
 - ...including gold
 - Real assets
 - Hedge fund strategies
 - Private markets more broadly
- We also summarise the qualitative assessment of the different inflation scenarios on the Fund and what asset classes can be introduced to help manage a particular scenario.

Asset classes to mitigate inflationary environments

Impact of different inflation scenarios

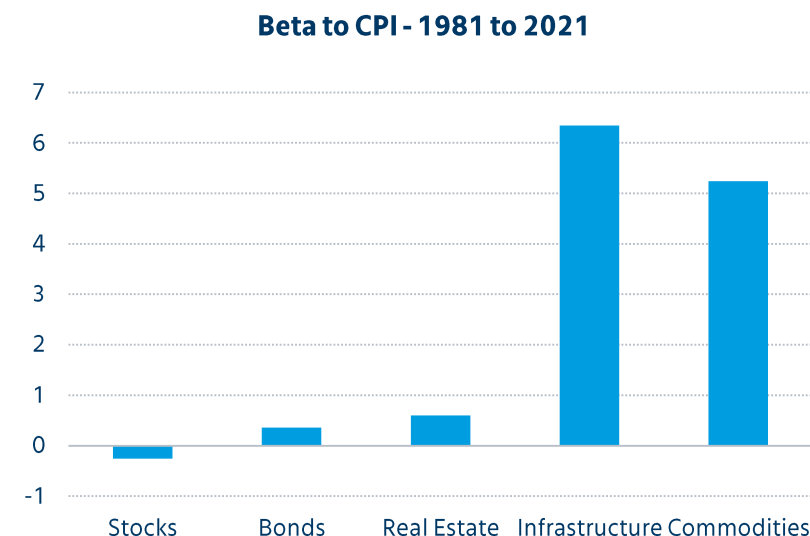
Asset Class/Scenario	Benchmark Allocation	Recent Recovery	Balanced Growth	Financial Repression	Hard Landing	Goldilocks	Pandemic Stagflation	Overheat
Global Equity	37.5%							
UK Government Bonds	-							
Investment Grade Credit	2%							
High Yield	MAC 6%							
Emerging Market Debt								
Floating Rate Structured Credit								
Index-linked Gilts	12%*							
Private Debt	5%							
Commodities (ex-Gold)	-							
Gold	-							
Natural Resource Equity (Listed)	-							
Natural Resource Equity (Private)	-							
REITs	-							
Property	17.5%							
Listed Infrastructure	-							
Unlisted Infrastructure	10%							
Benchmark allocation total	90%**							

Asset classes to mitigate inflationary environments

Deeper dive (1)

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- **Inflation-linked gilts**
 - Despite the strong inflation linkage, on a short term (transition) basis, index-linked gilts are also exposed to changes in interest rates that may offset any protection in an inflationary scenario if monetary policy tightens quicker than expected.
- **Commodities, and commodity related strategies**
 - Commodities hedge against cost-push inflation as they tend to exhibit high 'inflation beta'. Economic transformation drives demand for commodities – urbanization and energy transition are structural forces that *could* support prices over the longer term.
- **Gold**
 - A 'fear asset' that has performed most strongly when markets are either very weak, or very nervous about high inflation. It is seen as a long term hedge against currency devaluation.
- **Real assets**
 - Reasonable relationships between real assets (e.g. infrastructure) and inflation, driven primarily by the link to the underlying cashflows.



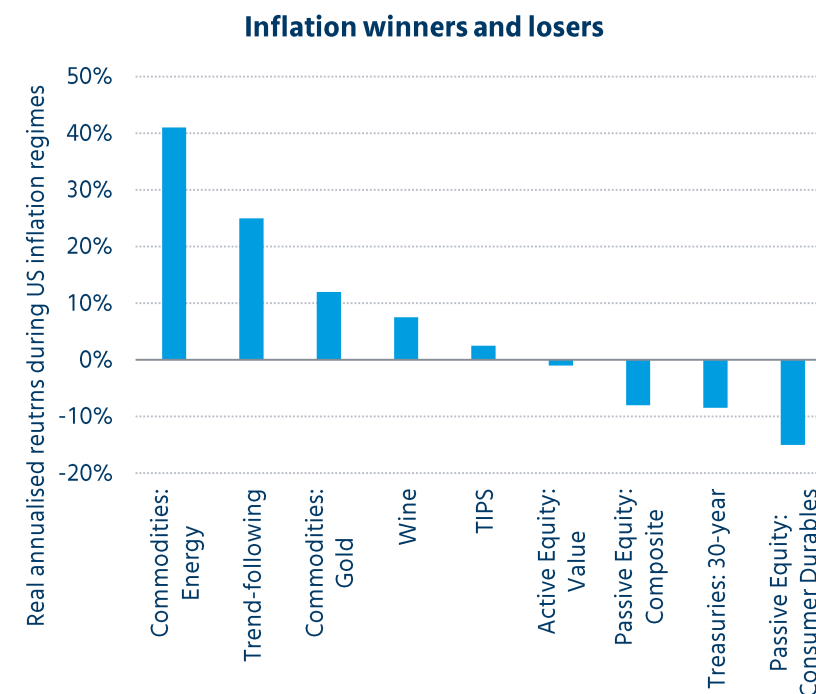
Source: Aether Investment Partners, Mercer. Data as of January 31, 1981 to April 30, 2021. Infrastructure data as of November 30, 2002 to April 30, 2021.

Asset classes to mitigate inflationary environments

Deeper dive (2)

Page 192

- **Hedge funds**
 - **Macro strategies** may be better equipped at managing through a transitional period than **trend-following strategies**, while anticipating and managing for a potential inflationary environment
- **Equities**
 - Long term investment best suited to high growth, low to moderate inflation environments. Can perform in rising inflation environments if supported by growth, until inflation levels rise to a level that makes markets nervous
 - Derivations of strategies which exhibit stronger inflation sensitivity than others – commodities and real assets – can be found in the equity markets: **natural resource equity, REITs and listed infrastructure**.
- **Private Debt**
 - Vast majority of cases a floating-rate asset class that provides a 'hedge' against central bank rate response to inflation.
 - Higher starting yields make them a more attractive option than listed floating rate instruments.

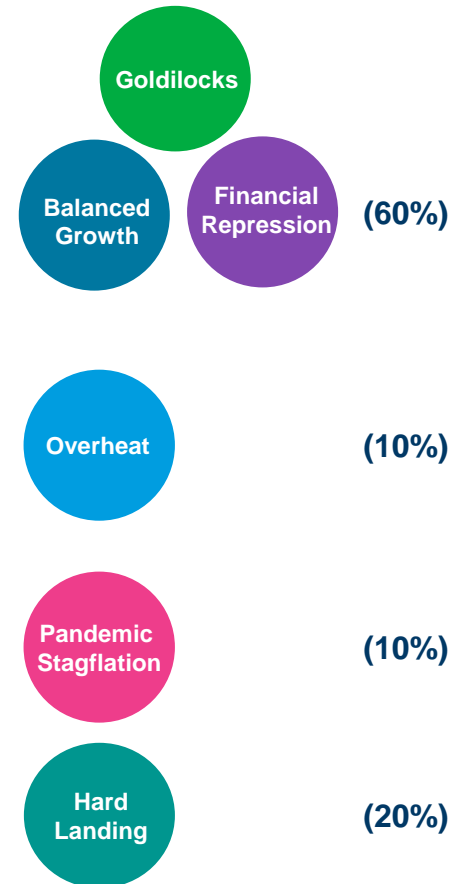


Source: Man, Mercer. Data as of June, 2021.

Asset classes to mitigate inflationary environments

Summary

- We have discussed a number of asset classes that can enhance the portfolio's robustness to inflation risks. As we have seen in the heat maps, however, **no single asset class gives universal inflation protection to all scenarios** – we need to invest across a selection of strategies to help broaden the protection and the Fund has many of the building blocks already.
 - The Fund is well positioned for growth scenarios where inflation moderately exceeds central bank targets (**balanced growth**) or where central banks force nominal yields below inflation (**financial repression**) – **equities and traditional real assets** such as property and infrastructure can provide what we feel to be sufficient protection.
 - The Fund is vulnerable to the **overheat** scenario where inflation spins out of control and central banks need to respond. Where they scramble to rein it in, rate risk may become more significant than inflation risk, and **floating rate strategies** such as **private debt** may soften the blow. Long nominal bonds (gilts and corporate bonds) are very exposed in these scenarios, suggesting maintaining a low interest rate hedge ratio.
 - Under the **pandemic stagflation** scenario where growth and inflation pull the central bank in different directions, the addition of **gold or commodities** can help protect against tail inflation risks but these present governance and operational difficulties.
 - Under the **hard landing** scenario, downside protection that worked in the past such as government bonds will be of limited use for valuation reasons. The **equity protection downside strategy** will help manage downside risk and **introducing gold** could be considered as an alternative to government bonds.



Conclusion



Conclusion and next steps

Managing inflation risk

- In our view, whilst the outlook is uncertain, there is an increased risk of higher inflation scenarios.
- The Fund is well positioned against **growth-oriented and/or long term inflation scenarios**
 - Outright inflation protection through the LDI portfolio but with a low interest rate hedge ratio, as well as allocations to equities, infrastructure and real estate with inflation sensitivity
- **Higher inflation scenarios and where inflation is met with an aggressive rate response** present different problems that may require portfolio re-alignment.
- A next step for the Fund could be to review the level of inflation protection **at a portfolio level** across the different inflationary scenarios and the impact of different investment strategies. This would look to assess direct and indirect sensitivities.
- The Panel could look to increase the inflation hedge ratio (for example, by 10%, up to the current maximum permitted under the risk management framework) via the BlackRock LDI mandate, which could be implemented quickly, however there are practical considerations around the level of collateral required to implement this change. The FRMG will be considering whether the hedge ratios remain appropriate in more detail.
- A higher allocation to real assets (infrastructure and property) is another portfolio change that could be made, however given the drawdown process, this would take longer to fully implement.
- However, it should be noted that:
 - Inflation can manifest in different ways, and the risk posed by different scenarios evolves over time
 - There is no silver bullet strategy that works all the time, and across all scenarios
- A diversified exposure across a range of assets is a pragmatic solution to help the Fund mitigate various inflationary scenarios.

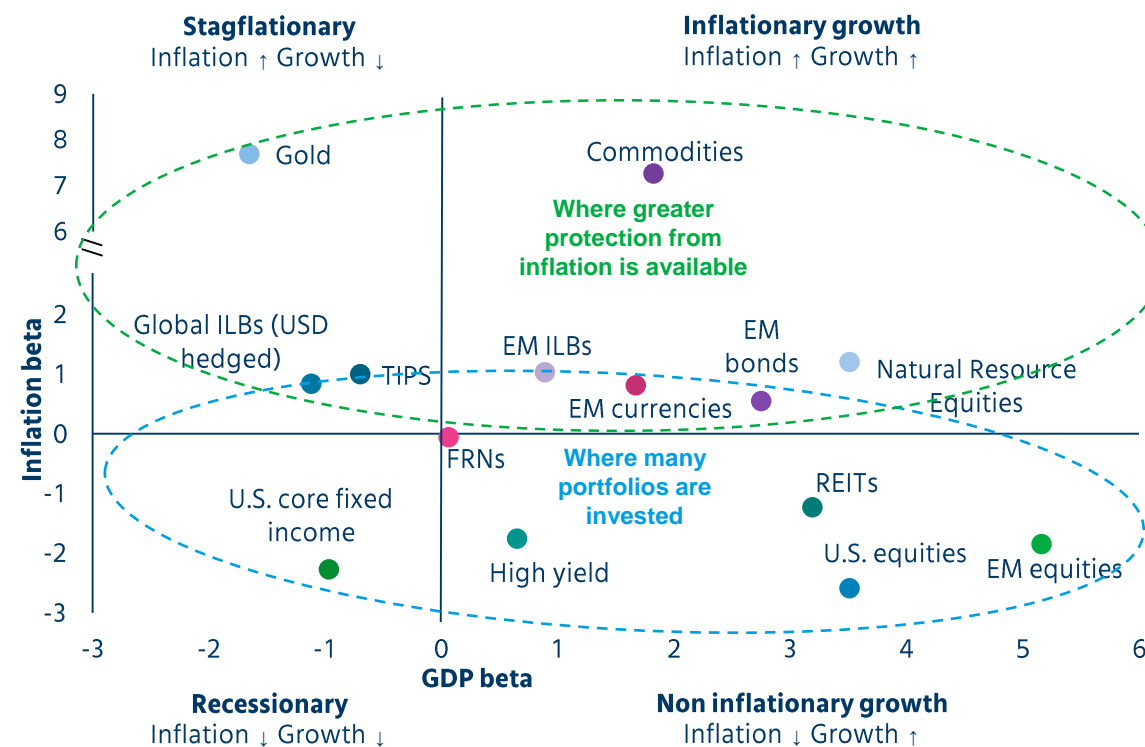
Appendix



Why are we talking about inflation now?

Portfolios are typically not structured for it

- The Fund has performed well during the past disinflationary environment, seeing equity and bond valuations sore.
- A regime shift to a more inflationary environment could negatively impact both equities and bonds.
- The correlation between equities and bonds has been negative through this period but could become positive.
- Investors may need to consider asset classes that exhibit higher 'inflation beta' to improve the robustness for different inflation scenarios.



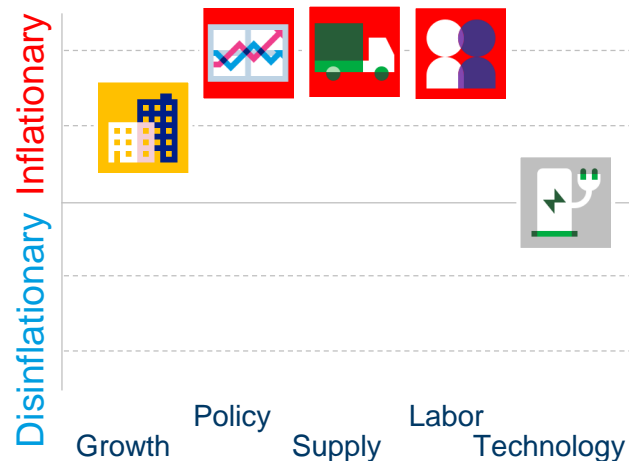
Source: PIMCO. Data as of March 31, 2021.

Building scenarios

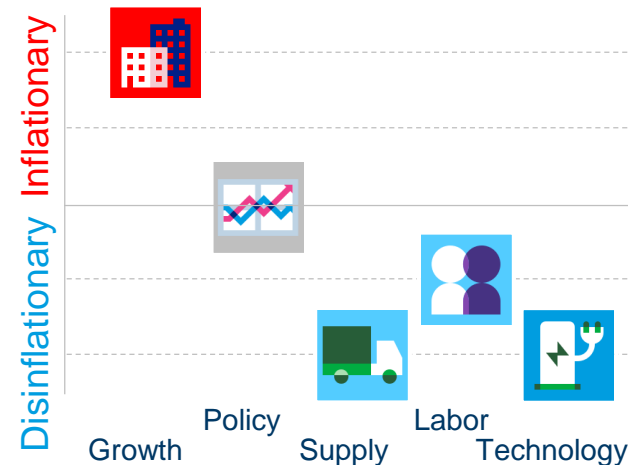
(Relatively) recent history of inflation

- The 1970s inflation breakout resulted from a combination of strong (1960s) growth, loose policy, oil shocks, and a union-heavy labor market.
- Whilst a repeat of the 1970s has felt like a remote possibility in recent decades, supply chain issues and labor shortages are now combining with pressure on energy prices which leads many to re-assess the risk of stagflation.
- The 1980s and early 90s saw a change to a disinflationary regime as CB independence increased and inflation fighting became their main focus.
- Other drivers were globalisation of supply chains, and extraordinary technology gains, including the launch of the internet. Wage growth was also moderate in developed markets.
- The disinflationary forces of technology, ageing demographics and high debt remain.
- However, these are now plotted against a number of inflationary forces emerging or already in play: uncertain outlook for global trade, amid high China/US tensions; shifts in inflation targeting by central banks; infrastructure spend required for energy transition.

1970s Stagflation



1980-2020 Disinflation



2020s...?



Building scenarios

Very recent history – strong growth, higher inflation, policy support

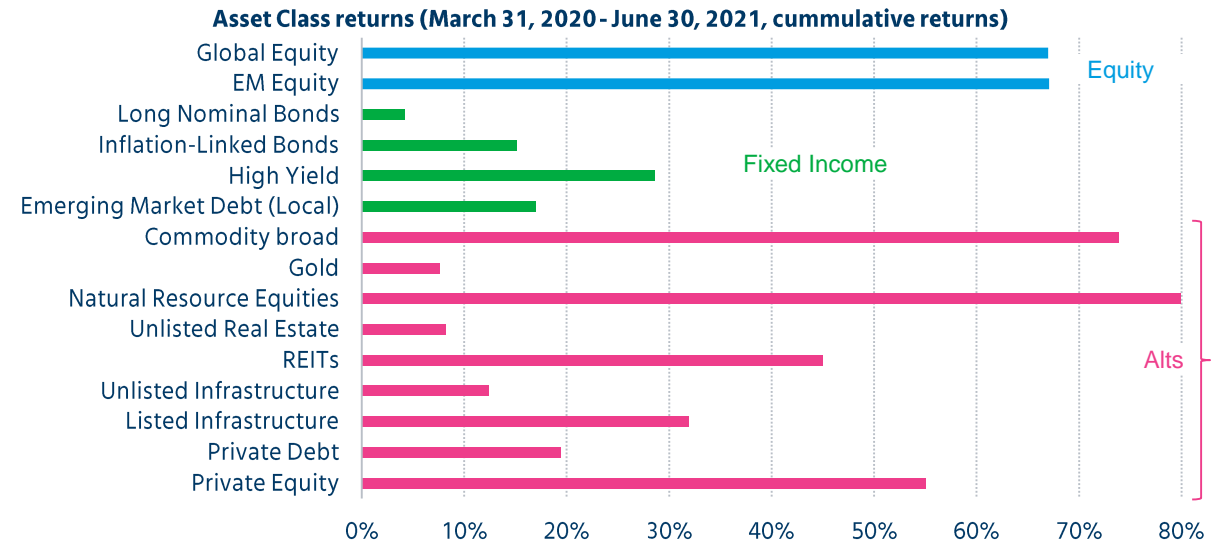
• Macroeconomic Backdrop

- COVID-19 continues to hold back some regions, while other economies have reopened, as vaccines are rolled out
- Economic growth is high, albeit off a low base, with demand supported by unprecedented levels of stimulus
- Supply chains are stretched and bottlenecks have driven the inflationary rebound to a significant degree. Central banks keep the party going under the assumption that inflationary pressure is just transitory...

• Impact on Assets

- Equities have surged forward, particularly cyclicals
- Long nominal yields, break-evens, and real yields have risen but only moderately, suggesting that markets buy into the 'transitory inflation' narrative for now
- Real assets and commodities have risen sharply, particularly industrial metals and energy; precious metals (including gold) have seen more moderate returns amid rising real yields and risk-on market sentiment

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Source: Thomson Reuters Datastream, Burgiss, Mercer. All returns in USD.

Strategies to mitigate inflationary environments

Positioning for different scenarios

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Scenario	Strategy Selection implications
Balanced Growth	Growth asset classes do well in this optimistic scenario and the gradual pace of policy normalization means that duration assets will not be hurt either. Traditional portfolios are well positioned for this.
Financial Repression	Monetary expansion in a strong growth scenario is a deliberate policy to inflate away debt. All asset classes do well in nominal terms but in real terms, fixed income will suffer – the principal rationale of financial repression! Portfolios need to position towards real cashflows (real estate/infrastructure and equities with pricing power) especially if they need to meet real liabilities.
Goldilocks	A more optimistic version of balanced growth, with greater productivity gains suppressing inflation, and a return to normal for supply chains. A scenario for which traditional portfolios are well positioned.
Pandemic Stagflation	A portfolio meltdown that spares few asset classes, including all those contained in traditional portfolios. Commodities and gold are the only reliable hedges against these tail risks in the short term. Should conditions develop into a protracted stagflation environment, inflation linked bonds would be expected to provide protection.
Hard Landing	In a disinflationary recession, whether driven by the return of austerity or not, nominal assets will do well. High valuations for government bonds limit their upside however, so alternative downside protection strategies should be considered for portfolios, such as gold and hedge fund solutions.
Overheat	When central banks hit the brake because inflation is getting out of control, the majority of asset classes do poorly. This includes gold and nominal bonds due to the rise in real yields – floating rate assets are preferred. Commodity exposure could still provide support as inflation remains at elevated levels, depending on sentiment.

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The analysis contained in this paper is subject to and compliant with TAS 100 regulations.

welcome to
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Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND INVESTMENT PANEL
MEETING DATE:	19 NOVEMEBR 2021
TITLE:	Risk Management Framework Review for Periods Ending 30 September 2021
WARD:	ALL
AN OPEN PUBLIC ITEM	
<p>List of attachments to this report:</p> <p>Exempt Appendix 1 – Mercer Report: Risk Management Framework Review to 30 September 2021</p>	

1. THE ISSUE

- 1.1. The Funding and Risk Management Group (FRMG) is responsible for agreeing the operational aspects relating to the Fund's risk management framework thereby ensuring that strategic objectives continue to be met. This report informs Panel of issues considered and decisions made by FRMG as well as any recommendations.
- 1.2. Since the last Panel meeting there has been two meetings of the FRMG on the 19 October 2021 and 4 November 2021. There are no strategic issues or concerns to raise with the Panel.
- 1.3. Exempt Appendix 1 summarises the risk management strategies at 30 September 2021. No LDI triggers were breached during the period. The Equity Protection Strategy (EPS) is currently 'amber' (under review) as it needs to be restructured following decision to change the equity allocations. At the end of the period the Fund had sufficient collateral to support the risk management strategies. Mercer will present their paper at the meeting.

2. RECOMMENDATION

The Avon Pension Fund Investment Panel is asked to:

- 2.1. **Note the current funding level and LDI hedging position**
- 2.2. **Note the impact and performance of the equity protection strategy**
- 2.3. **Note the current collateral adequacy position**
- 2.4. **Note the current FRMG workstreams as summarised in sections 5-7 below**

3. FINANCIAL IMPLICATIONS

- 3.1. The risk management strategies have been implemented to provide greater certainty that the funding plan will be achieved and therefore contribution levels will be stable and minimised. Any changes to the framework can affect the level of employer contributions in the future.

4. UPDATE ON RISK MANAGEMENT STRATEGIES AND FUNDING LEVEL

- 4.1. FRMG reviews the performance of each strategy each quarter ahead of the Panel meeting. At the last meeting it also considered the level of risk in the investment portfolio following the outcome of the interim funding review. (see section 5 below).
- 4.2. The **funding level** was estimated to be 101% (net of the impact from the equity protection strategy) at the end of September 2021. This shows that the Fund's position was ahead of the expected funding level by c.6%.
- 4.3. **The Liability Driven Investment (LDI)** strategy seeks to hedge the impact of inflation and interest rates on the value of the Fund's liabilities. The liability hedging component of the risk management framework delivered a return of 4.1% over the quarter due to changes in inflation expectations. No interest rate or inflation triggers were breached over the quarter and based on the current liability benchmark the hedge ratios are estimated to be 10% and 38%, respectively. The mandate has performed as expected and the manager is in compliance with investment guidelines.
- 4.4. **The Equity Protection Strategy (EPS)** protects the fund's equity assets from a material fall in value whilst allowing the Fund to participate in equity gains sufficient to support the actuarial valuation assumptions. The underlying equities returned -0.8% over the quarter and the EPS added marginal gains to produce a net return of -0.6%. On a regional basis, the net return of the hedged DM equity portfolio was 0.4% over the quarter. For EM the net return was -7.2% over the same period. Periodic returns are included on pages 8-9 of Exempt Appendix 1.
- 4.5. **The Corporate Bond Buy-and-Maintain Strategy** seeks to reduce the funding risk in respect of the 'low risk' bucket of liabilities, which are valued on a corporate bond discount basis. There has been minimal change in the cashflow matching within the portfolio over the period and credit spreads have returned to pre-pandemic levels. No further action is required in respect of this portfolio at this stage.
- 4.6. **Collateral and Counterparty Position.** When interest rates rise, inflation falls or the EPS declines in value the investment manager is required to post collateral to maintain the strategies. An 'early warning' and 'top up' trigger allow the Fund time to source collateral from elsewhere in the portfolio. As a secondary line of defence, the investment manager has access to a pooled fund of listed equities that they can sell to generate cash collateral should the need arise. At 30 September 2021 the Fund's existing pool of collateral was within guidelines and could sustain a 2.9% rise in interest rates, a 0.4% fall in inflation or an 11% decline in the value of the EPS before triggering the 'early warning' test.

5. INVESTMENT STRATEGY RISK AND CONTRIBUTION ANALYSIS

- 5.1. Following the September 2021 interim funding review, FRMG considered the potential for increasing risk/return in the investment strategy to support the 2019 valuation assumptions, given that longer term inflationary factors meant the expected return outlook - and probability of achieving the 2019 discount rates - had reduced. FRMG resolved to maintain the current investment strategy and revisit as part of the broader investment strategy review next year.

6. REFRESH OF LIABILITY BENCHMARK PORTFOLIO

- 6.1. FRMG are considering an increase to the level of inflation hedging under the LDI mandate following the outcome of the annual recalibration of the liability

benchmark portfolio (LBP) that was presented at the September Panel meeting. It should be noted that any increase to the hedge ratio could impact the level of collateral required to implement the change.

- 6.2. A positioning paper on inflation is included under Agenda Item 9, Appendix 5 which will form the basis of further work by FRMG to assess the suitability of increasing the inflation hedge ratio; the outcome of which will be reported back to Panel.

7. EQUITY PROTECTION STRATEGY RESTRUCTURE

- 7.1. The EPS is currently being restructured to take account of the changes to the underlying equity portfolio that were agreed as part of the wider equity allocation review in September.
- 7.2. FRMG has considered how many counterparties the additional global equity exposure should be split across, which counterparty should be selected and the process for implementation. Mercer will give a verbal update on the EPS restructure at the meeting.

8. RISK MANAGEMENT

- 8.1. The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

9. EQUALITIES

- 9.1. A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

10. CLIMATE CHANGE

- 10.1. The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

11. OTHER OPTIONS CONSIDERED

- 11.1. None

12. CONSULTATION

- 12.1. The Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	Nathan Rollinson, Investments Manager (Tel. 01225 395357)
Background papers	FRMG papers
Please contact the report author if you need to access this report in an alternative format	

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Exclusion of access by the public to Council meetings

Information Compliance Ref: 1473/21

Meeting / Decision: AVON PENSION FUND INVESTMENT PANEL

Date: 19th November 2021

Author: Nathan Rollinson

Report Title: Risk Management Framework Review for Periods Ending 30 September 2021

Exempt Appendix 1 – Mercer Report: Risk Management Framework Review to 30 September 2021

The Report contains exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption:

3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the exempt appendix be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Panel wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

The exempt appendix contains information on potential future trades by the fund, and includes information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and could prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

It is also important that the Panel should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	19 November 2021	AGENDA ITEM NUMBER
TITLE:	Forward Agenda	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Nil		

1 THE ISSUE

- 1.1 This report sets out the forward agenda for the Panel for 2021/22. It is provisional as the Panel will respond to issues as they arise and as work is delegated from the Committee.

2 RECOMMENDATION

- 2.1 **That the Panel notes the Panel forward agenda.**

3 FINANCIAL IMPLICATIONS

- 3.1 There are no financial implications arising from this report.

4 FORWARD AGENDA

- 4.1 The provisional agenda is as follows:

Date	Proposed agenda
25 February 2022	Strategic <ul style="list-style-type: none"> • Cycle 3 Private Market commitments Monitoring <ul style="list-style-type: none"> • Investment performance • Risk Management Framework

- 4.2 The following Panel dates for 2022 have been agreed:

- 25 February
- 27 May
- 9 September
- 25 November

5 RISK MANAGEMENT

- 5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management

processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

6 CLIMATE CHANGE

- 6.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Paris Aligned Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

7 EQUALITIES

- 7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8 OTHER OPTIONS CONSIDERED

- 8.1 None.

9 CONSULTATION

- 9.1 The Council's Section 151 Officer has had the opportunity to input to this report and have cleared it for publication.

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Background papers	
Please contact the report author if you need to access this report in an alternative format	