

Avon Pension Fund Committee Investment Panel

Date: Wednesday, 8th March, 2023

Time: 1.00pm

Venue: Kaposvar Room - Guildhall, Bath

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 Jackie Peel

Chief Executive and other appropriate officers
Press and Public



Mark Durnford

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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 - Wednesday, 8th March, 2023

at 1.00pm in the Kaposvar Room - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

The Chair will draw attention to the emergency evacuation procedure as set out under Note 5.

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 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 4.4 Appendix 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 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: 25TH NOVEMBER 2022 (Pages 7 - 14)

8. REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 DECEMBER 2022 (Pages 15 - 98)

This paper reports on the performance of the individual portfolios and seeks to update the Panel on routine aspects of the Fund's investments. The report contains performance statistics for periods ending 31 December 2022.

9. RISK MANAGEMENT FRAMEWORK REVIEW FOR PERIODS ENDING 31 DECEMBER 2022 (Pages 99 - 116)

The Funding and Risk Management Group (FRMG) is responsible for agreeing the operational aspects relating to the Fund's Risk Management Framework (RMF) 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.

10. FORWARD AGENDA (Pages 117 - 120)

This report sets out the forward agenda for the Panel for 2023. It is provisional as the Panel will respond to issues as they arise and as work is delegated from the Committee.

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, 25th November, 2022

Bath and North East Somerset Councillors: Shaun Stephenson-McGall (Chair), Paul Crossley and Chris Dando

Co-opted Voting Members: Pauline Gordon and Jackie Peel

Advisors: Steve Turner (Mercer) and Nick Page (Mercer)

Also in attendance: Nick Dixon (Head of Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk), Nathan Rollinson (Investments Manager) and Jeff Wring (Director, One West)

24 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer drew attention to the Emergency Evacuation Procedure.

25 DECLARATIONS OF INTEREST

There were no declarations of interest.

26 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

27 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

29 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

30 MINUTES: 30TH SEPTEMBER 2022 (PUBLIC & EXEMPT)

The Panel **RESOLVED** that the minutes of the meeting on 30th September 2022 be confirmed as a correct record and signed by the Chair.

31 BRUNEL PRESENTATION - CLIMATE SOLUTIONS AND SUSTAINABLE INFRASTRUCTURE

The Group Manager for Funding, Investment & Risk introduced this report to the Panel. She explained that the Cycle 3 infrastructure portfolio will target a broad range of assets intended to aid decarbonisation, the energy transition and mitigation across sectors. She said that this is an appropriate approach and consistent with the Fund's strategic climate objectives given the lower forward-looking returns from traditional renewables i.e., wind/solar assets.

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 note the presentation from Brunel.

32 STRATEGIC INVESTMENT REVIEW

The Group Manager for Funding, Investment & Risk introduced this report to the Panel. She informed them that the objective of the review is to:

- Determine the optimal asset allocation to deliver the return required in the funding plan to maintain stable and affordable contributions.
- Ensure the Risk Management Strategies remain appropriate and add value to the overall strategy given the change in the market environment.
- Consider if new investment opportunities including Social/Local investing could be built into the strategy.
- Consider whether the net zero ambition can be accelerated, and the climate related targets brought forward, without detracting from the overriding return objective.

Steve Turner, Mercer addressed the Panel and highlighted areas from within Appendix 1.

Key areas of focus for the review:

Review of the Fund's core investment beliefs and principles: How this influences the design of the investment strategy and its implementation, taking into account key investment and ESG objectives and any potential constraints. We acknowledge that the Fund's investment beliefs may evolve as a result of the investment strategy review, which we would look to capture.

Overriding objective: The investment strategy needs to have a minimum expected return that supports achieving the discount rate of CPI +2.4% p.a. (margin above CPI is subject to change as part of the valuation), with a desired level of probability and acceptable level of downside risk.

Other principles and goals: Achieving the Fund's climate targets (e.g. net zero carbon emissions by 2050 and interim reduction targets) and broader Environmental Social and Governance (ESG) commitments/ambitions. We will consider the impact of asset allocation decisions on the ability to meet targets, and whether potentially strengthening climate targets (e.g. considering net zero by 2045) would constrain the asset allocation in any way.

Asset allocation: is the portfolio fit for purpose?

Review of underlying asset classes and their roles, and revisiting the rationale for their inclusion in the strategy in light of current markets and long term prospects.

Pauline Gordon asked if the allocation to Private Markets had gone up in terms of the proportion of assets within the scheme and should the illiquid Private Market assets be pulled down as a result of falls in most other asset classes.

Steve Turner replied that this had not been as much of a dramatic impact on the Fund because it is not as heavily exposed to hedging assets. He said that adding a Local Social Impact portfolio at around 1 – 2% initially was being considered and that if agreed small amounts would be allocated to it at a time.

The Head of Pensions commented that from a risk management perspective it would be interesting to include in the review whether asset allocation without LDI could achieve CPI +2.4% with similar risk.

Pauline Gordon commented that they would be assessing a different set of figures now, versus if the review had taken place 12 months ago.

Steve Turner replied that there had been a big shift in numbers over the past six months and had seen total returns on asset classes increased.

Jackie Peel commented that she liked the clean sheet approach being taken and said that the target -v- risk factors have to be balanced. She added that the decision needs to be clear as to why we include what we will do in the asset allocation and if possible she would welcome a guide to the Investment Strategy.

The Group Manager for Funding, Investment & Risk replied that they would discuss whether an appendix to the Investment Strategy statement could be produced.

The Director, One West acknowledged that the timescales involved in the review were quite tight with the Committee meeting expected to take place on 17th March 2023. He said that if the review was not complete by this date that it would be allowed to continue. He added that he wanted to enable all stakeholders to have an active voice in the review.

The Panel **RESOLVED** to note the report from Mercer and specifically sections 4.3 and 4.7 of the officer's report.

33 CASHFLOW AND LIQUIDITY ANALYSIS

The Group Manager for Funding, Investment & Risk introduced the report to the Panel. She said that each valuation a revised cashflow profile is generated for the Fund and that this profile shows the net cashflow of contributions paid in less benefits paid out. She added that it is determined by the benefits structure, membership data and actuarial assumptions.

She stated that Mercer have analysed the cashflow profile of the Fund using the 2022 valuation data and that this analysis will be used in the strategic investment review due in 1Q23.

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 note the implications of the Cashflow analysis for the Strategic Investment Review.

34 RISK MANAGEMENT FRAMEWORK: PARIS-ALIGNED EQUITY SOLUTION

This entire report and the supporting appendix had been classified as exempt.

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.

35 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 SEPTEMBER 2022

The Investments Manager introduced this report to the Panel. He informed them that the Fund's assets decreased by £91m in the quarter (-1.2% net investment return) ending September 2022 giving a value for the Fund of £5,365m. He added that the fall in the value of Fund assets over the quarter was driven mainly by the currency hedge as sterling weakened, although this was partially offset by positive returns from overseas exposure. He said over 1 year the Fund returned - 6.0% driven by negative returns from equities, LDI and currency hedging. He added that the Fund underperformed its strategic benchmark by 6.6% over this time horizon and the main detractors were the active equity portfolios, MAC and DRF.

Steve Turner, Mercer addressed the Panel. He said that it had been a very challenging period to invest and generate a positive return as very few asset classes are actually up over the year. He added for example that the Dollar was up over this period alongside Commodities, Energy and Property.

He stated that the total Fund level was down around 6% overall over the 12-month period. He felt that overall this was a modest reduction given the context of what had been happening on the whole and said that they were now seeing the genuine benefits of the diversification within the portfolio.

He explained that Brunel's style of climate aware investing had struggled because of their underweight to Commodities and Energy. He added that alternative investments and the Equity Protection Strategy had cushioned losses.

He stated that another positive feature of the strategy was the performance of illiquid assets such as Property, Secured Income, Infrastructure and Private Debt which have performed well, both in absolute terms and relative to their benchmarks.

Pauline Gordon asked if any comment could be given as to how the portfolio has performed under the Dynamic Equity Protection Strategy as opposed to the Static.

Nick Page replied that it was hard to say whether it was better or worse because we have recently seen some big market movements and the strategy has moved in line with that. He added that a key differentiator of the dynamic approach- that has worked to the Fund's advantage was the premium generated by selling upside in addition to the downside protection achieved.

Steve Turner referred to a chart on page 159 that illustrated the direct impact of the equity protection on the total Fund portfolio, by comparing the estimated total asset valuation with and without the strategy in place. He added it shows that the protection strategy has led to c. £68.7m of upside impact over the period since inception.

Jackie Peel asked what level on ongoing dialogue there was with Brunel in respect of portfolio performance and other issues.

The Group Manager for Funding, Investment & Risk replied that officers meet with them every quarter to talk about the portfolios in general and certain themes. She added that officers also meet with a senior manager to discuss matters in more detail.

Steve Turner commented that Brunel's performance is on par with other Funds that invest with a similar philosophy.

The Panel **RESOLVED** to:

- i) Note the information as set out in the reports.
- ii) Identify any issues to be notified to the Committee.

36 RISK MANAGEMENT FRAMEWORK REVIEW FOR PERIODS ENDING 30 SEPTEMBER 2022

The Investments Manager introduced this report to the Panel and highlighted the following three areas.

He explained that the FRMG are reviewing the current collateral adequacy framework with the manager who has indicated a greater level of collateral may be required in future to ensure resilience against market shocks of the same magnitude as those seen in September.

He confirmed as previously mentioned that since the inception of the dynamic Equity Protection Strategy that it has added value (c. £64.2m in net gains at 30 Sept 2022).

He said that the LDI the trigger framework was currently suspended and reactivation of it would be considered as part of the forthcoming investment strategy review. He added the mandate had performed as expected over the quarter and the investment manager was within agreed guidelines.

Pauline Gordon noted that it was positive for risk levels that the inflation and interest rate hedge were aligned.

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 note:

- i) The performance of each of the underlying RMF strategies
- ii) That the FRMG are currently considering the appropriate time to reinstate the trigger framework following the pause it implemented in September
- iii) Whether the interest rate trigger framework should be adjusted higher to reflect current market conditions so that the Fund continues to hedge at attractive levels.

37 FORWARD AGENDA

The Group Manager for Funding, Investment & Risk introduced this report to the Panel. She explained that agenda items had only been listed for the March meeting as following the Local Elections in May there is the possibility of there being new Panel and Committee members.

She said that following the Investment Review they will have a clearer idea of the strategic items that need to come forward to be discussed.

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

The meeting ended at 3.52 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND INVESTMENT PANEL
MEETING DATE:	8 March 2023
TITLE:	Review of Investment Performance for Periods Ending 31 December 2022
WARD:	ALL
AN OPEN PUBLIC ITEM	
<p>List of attachments to this report:</p> <p>Appendix 1 - Quarterly Portfolio Monitoring Summary</p> <p>Appendix 2 – Brunel Quarterly Performance Report</p> <p>Appendix 3 – Mercer Performance Monitoring Report</p>	

1. THE ISSUE

- 1.1. This paper reports on the performance of the individual portfolios and seeks to update the Panel on routine aspects of the Fund's investments. The report contains performance statistics for periods ending 31 December 2022.
- 1.2. Appendix 1 contains a summary table which is designed to flag any concerns from a performance, operational and/or Responsible Investing (RI) perspective.
- 1.3. Appendix 2 is the quarterly performance report published by Brunel which includes further details on the performance of the Brunel portfolios and responsible investment activity undertaken on the Fund's behalf. This report now consolidates public and private markets portfolio information into a single report.
- 1.4. The Mercer report at Appendix 3 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.

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 decreased by £134m in the quarter (-2.0% net investment return) ending December 2022 giving a value for the Fund of £5,231m. The fall in the value of Fund assets over the quarter was driven mainly by the UK property portfolio and the long-lease property component of the Fund's Secured Income allocation, with property valuations falling as a result of the Bank of England's rate hikes. The Fund's equity protection strategy also detracted as equity markets, as proxied by the MSCI World index, delivered +2.0% over the quarter. Over 1 year the Fund returned -11.0% in absolute terms and -8.2% in relative terms, driven by negative returns from both equities and credit. Negative absolute performance was compounded by significant headwinds from the Fund's LDI portfolio which detracted value as yields rose. Over 3 years the Fund returned 1.5% p.a., underperforming its benchmark by 5.2%. Detailed performance attribution can be found on p.20/21 of Appendix 3.

B – Investment Manager Performance

4.2. 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 2.

4.3. Listed equity returns were positive on an absolute basis. The Global High Alpha portfolio returned 2.7%, outperforming its benchmark by 0.7% as stock selection overcame the headwinds arising from the portfolios tilt toward 'growth' stocks and its underexposure to Energy, the best performing sector. Since inception this portfolio has outperformed its benchmark by 1.6%. The Global Sustainable Equity portfolio generated an absolute return of 2.4%, outperforming its benchmark by 0.5%. Strong stock selection and an underweight to the large-cap technology names offset the decline in asset prices that materialised toward the end of the quarter. Since inception this portfolio has underperformed its benchmark by 4.0%. The passive Paris Aligned Benchmark produced positive returns of 1.9% over the quarter.

Better than expected corporate earnings, the expectation of more dovish global central bank policy, and a cooling of US inflation in October and November helped the Multi Asset Credit (MAC) portfolio deliver an absolute return of 3.7%, outperforming its primary (cash + 4%) benchmark by 2.0%. Since inception the MAC portfolio has delivered -5.2% in absolute terms, underperforming the cash benchmark by -10.2% but broadly keeping pace with its secondary benchmark, which comprises loans and high yield bonds. The Diversifying Returns Fund (DRF) generated an absolute return of 1.0% underperforming its primary (cash + 3%) benchmark by -0.4% due to mixed currency returns and sovereign bond positions. Since inception the DRF fund has generated +2.0%, underperforming its cash benchmark by -1.7%.

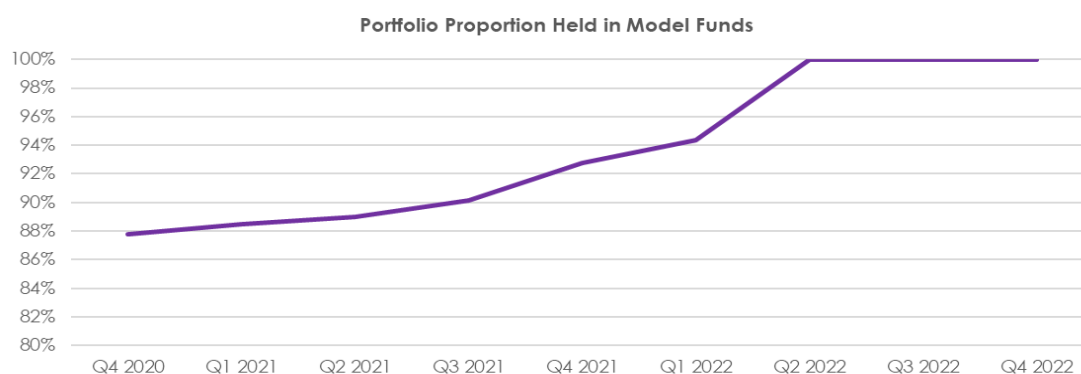
In private markets, UK Property and Secured Income portfolios continued to be affected by capital value declines which began in June in response to rising gilt yields. Negative performance in the Secured Income portfolio was partially offset by continued strong performance from the operational infrastructure component which has benefitted from higher power prices. The shift in yields was most acutely felt by the UK property portfolio and its overweight to the 'Industrials' sector. Valuations in this sector had been at historical highs until recently.

Private debt benefitted from its focus on traditionally resilient sectors such as healthcare, professional services, and established software which helped the portfolio deliver an interim IRR of 10.9%. This portfolio remains in build-up phase

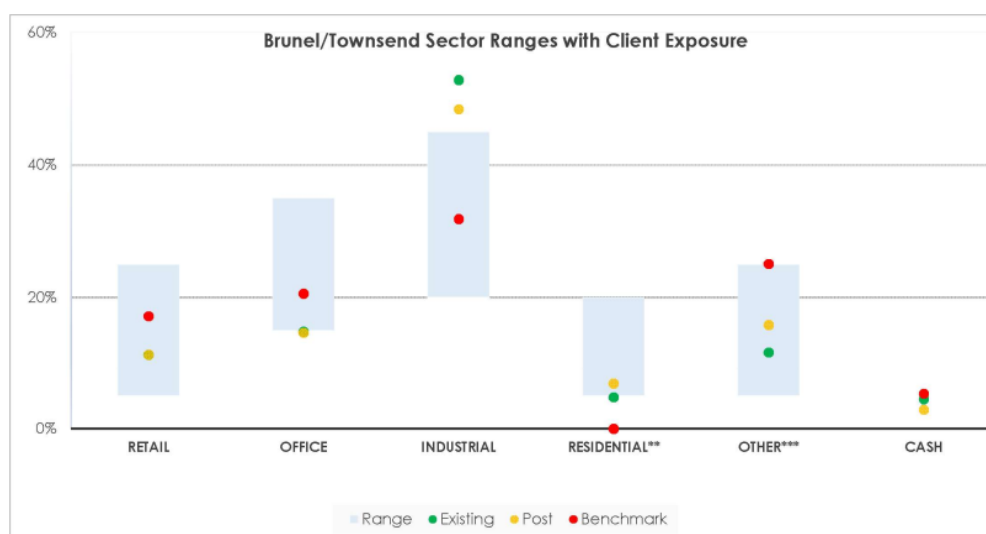
with c.40% capital deployed at the end of the quarter. The core infrastructure mandate managed by IFM delivered 5.5% in absolute terms over the quarter, benefitting from strong valuations across toll roads, seaports and renewable energy assets. Similarly, the Brunel Cycle 2 (renewable infrastructure) portfolio benefited from decarbonisation and energy tailwinds. Ongoing challenges for this asset class, particularly around rising rates (and therefore the cost of project delivery), supply chain tensions and the impact of windfall taxes continue to be monitored closely.

5. INVESTMENT STRATEGY AND PORTFOLIO REBALANCING

5.1. UK Property Portfolio Update: As can be seen from the chart below the entire portfolio is now invested in Brunel model funds which span diversified core funds and sector specialist funds. The broad spread of sectors, assets and tenants within the diversified funds provide a defensive foundation for the overall UK property portfolio. The sector specialist funds offer complimentary qualities to those within standard UK commercial sectors. Examples include healthcare, the private rented sector and life sciences (laboratory facilities).



Underlying sector positioning as at 31 December 2022 can be seen from the chart below both pre- and post planned trading/cashflows. The portfolio is structurally underweight to both retail and office sectors. The largest overweight is to industrials, a position which is actively being rebalanced to fund sector specialist acquisitions. Further information relating to the Fund UK property allocation can be found on p34 of Appendix 2.



5.2. Returns versus Strategic Assumptions: Returns versus the strategic assumptions used during the 2019/20 investment review can be found on p22/23 of Appendix 3. Significantly, Global Sustainable and Paris Aligned Equity returns are below expected returns due to portfolio biases and equity market weakness since inception. Multi Asset Credit and DRF are also behind due to negative returns from fixed income markets in 2022. The private market mandates are largely still in build-up phase or do not have a sufficient track record to properly compare against strategic return assumptions.

5.3. Rebalancing: At the start of the quarter the Fund topped-up its collateral pool within the Blackrock QIF. To facilitate this, £275m was sold down from the Paris Aligned Benchmark portfolio and a further £75m was drawn from the Blackrock ETF strategy.

£150m was drawn from DRF to bring the allocation in line with the 6% strategic target and top-up the cash holding.

A redemption request from IFM Infrastructure for £150m settled post quarter end, addressing the overweight to the asset class. Proceeds were invested in the Fund's liquidity strategy in anticipation of further private market calls arising from the Brunel portfolios.

5.4. Responsible Investment (RI) Activity: A summary of portfolio carbon metrics measured by Brunel over the quarter is included on page 9 of Appendix 2.

The Fund successfully retained its FRC UK Stewardship Code signatory status for the year ending 31 March 2022 and published its Responsible Investing Annual Report available to read [here](#).

5.5. Voting and Engagement Activity: Hermes engaged with 197 companies held by Avon in the Brunel active portfolios on a range of 695 ESG issues. Environmental topics featured in 39% of engagements, 77% of which related directly to climate change. Social topics featured in 29% of engagements, where conduct and culture, human rights and diversity featured prominently. Of the 21% of Governance related engagements most focussed on executive remuneration and board diversity. Over the last quarter Hermes made voting recommendations at 118 meetings (787 resolutions). At 53 meetings they recommended opposing one or more resolutions. 68% of the issues Hermes voted against management on comprised board structure and remuneration.

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 is addressing this through its strategic asset allocation to Transition Aligned 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 Head of Pensions has reviewed this paper 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	

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Investment Dashboard at 31 December 2022

1. Investment Strategy

	Objective	Commentary	RAG	Trend
1	Funding level	<ul style="list-style-type: none"> 97% (89% in Q3). Note – updated discount rate to reflect recent change in yields (equivalent to CPI+2.7% at 31 Dec) £141m deficit (£675m in Q3) 		↑
2	Investment Performance	<ul style="list-style-type: none"> Behind strategic benchmark over 1 and 3 years 		↓
	Qtr return	<ul style="list-style-type: none"> Negative quarter of -2.0% due to LDI, EPS, corporate bonds and property portfolios 		↓
	1 Year return	<ul style="list-style-type: none"> Behind funding objective at -11.0% p.a. 		↓
	3 Year return	<ul style="list-style-type: none"> Behind funding objective at 1.5% p.a. 		↓
	Social/Impact investing	<ul style="list-style-type: none"> Social/Impact portfolio spec being developed for 2022/23 strategic review 		↔

2. Portfolios

	Objective	Commentary	RAG	Trend
1	Brunel Listed Market portfolios	With the exception of high alpha equity portfolio all active portfolios have underperformed SI		↑
2	Private Markets Portfolios			
	Infrastructure (Brunel)	Performance: n/a - portfolio in build-up New commitments: 6 (Including a Solar ESG Fund) Capital deployment: <ul style="list-style-type: none"> Cycle 1: 78% Cycle 2: 40% Cycle 3 deployment commenced in Oct 22		↑
	Secured Income (Brunel)	Performance: <ul style="list-style-type: none"> Underperformed due to underlying movements in gilt prices causing a softening of values. Direction of travel moved to negative Portfolio still well positioned for current environment with high quality tenant base and inflation linked leases. New commitments: None. Cycles 1 & 2 fully committed Capital deployment: <ul style="list-style-type: none"> Cycle 1: 100% Cycle 2: 100% 		↓
	Private Debt (Brunel)	Performance: n/a – portfolio in build-up New Commitments: Cycle 2 fully committed Capital deployment:		↔

		<ul style="list-style-type: none"> • Cycle 2: 46% • Cycle 3 deployment commenced in Dec 22 		
	UK Property (Brunel)	n/a		↓
3	Legacy portfolios			
	IFM (infra)	£150m redeemed in 2022 (settled Jan 2023)		↔
	JPM Hedge Funds	n/a		↔
	Partners (Intl Property)	<ul style="list-style-type: none"> • Majority of funds in realisation phase. c.70% of unrealised value held in fund with 2029 contractual expiry. 		↔
	Schroder (UK Property)	<ul style="list-style-type: none"> • Single closed end debt fund (£12m) due to expire in 2025 		↔

3. Responsible investing

	Objective	Commentary	RAG	Trend
1	Climate change targets			
	43% reduction in absolute emissions by 2025	<ul style="list-style-type: none"> • Fund has decarbonised by 41.6% versus baseline (updated annually). 		↑
	30% of total assets in sustainable and Paris-aligned investments by 2025	<ul style="list-style-type: none"> • c.25% invested in Sustainable and Paris-aligned equities and invested in Brunel renewable infrastructure portfolios. • Expected to increase with proposal to move equities in QIF to a Paris-aligned solution 		↔
2	Equity fund held in Risk Management QIF	<ul style="list-style-type: none"> • Panel agreed to switch the equities in the QIF to a transition aligned solution and delegated implementation to Officers at last meeting • Pending provision of tax advice 		↑
3	Brunel Climate Policy	<ul style="list-style-type: none"> • 2023 Climate Policy launched • Reporting priorities incl. Climate Solutions and 'green revenues' reporting on private and listed markets. 		↑



Avon Pension Fund Performance Report

Quarter ending 31 December 2022

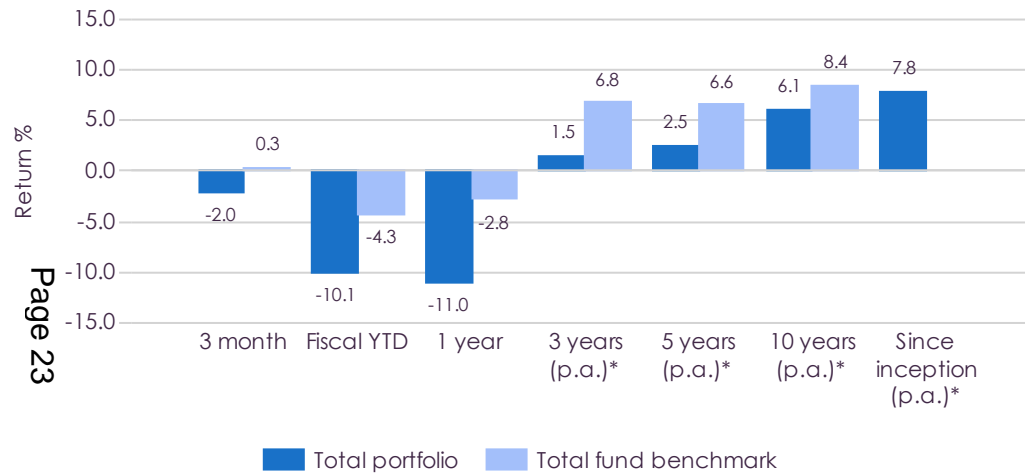


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Pension Fund performance

Performance (annualised)



Source: State Street Global Services
*per annum

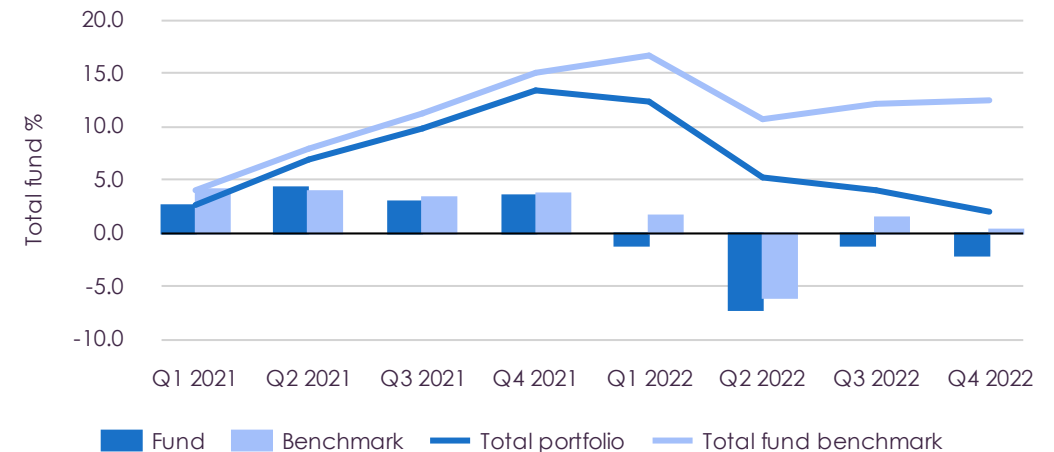
Key events

The quarter brought some welcome relief to markets. Equities and bonds both rallied, with the UK and Europe leading. Meanwhile, the US dollar started to weaken against major currencies. The main driver was the belief that inflation was starting to cool and benchmark rates would increase less than previously feared.

The total portfolio was down 2% in the quarter, whilst the benchmark was up by 0.3%. It also lagged the benchmark across 2022 (-11% vs -2.8%).

The performance of Brunel's equity portfolios was positive in both actual and relative terms during the quarter. Multi-Asset Credit also showed improved returns, rising 3.7% to beat its index by 2%.

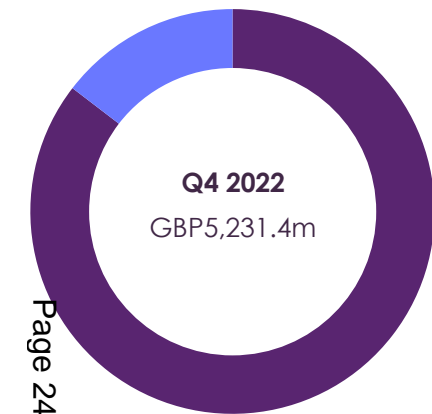
Quarterly performance



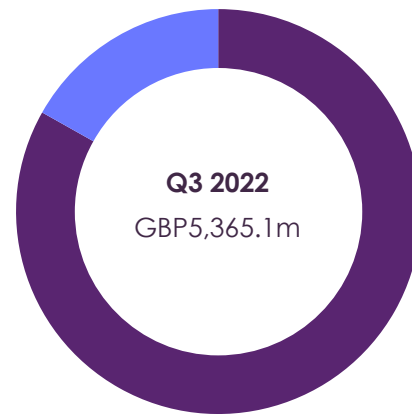
Source: State Street Global Services

Asset summary

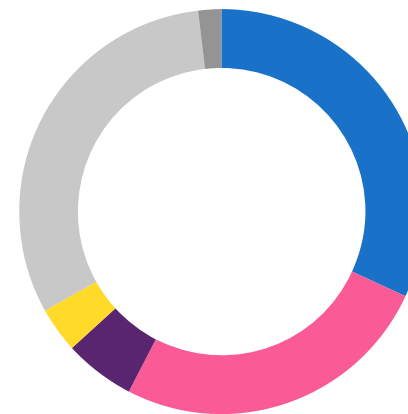
Assets transitioned to Brunel



Source: State Street Global Services



Asset allocation breakdown



Key:

Equities	31.85%
Private markets	25.73%
Fixed income	5.67%
Property	3.63%
Other	31.28%
Cash	1.85%

Source: State Street Global Services
Data includes legacy assets

Overview of assets

Detailed asset allocation

Equities	£1,666.37m	31.85%
Global Sustainable Equities	£751.50m	14.37%
Global High Alpha Equities	£652.83m	12.48%
PAB Passive Global Equities	£261.26m	4.99%
Legacy Assets	£0.78m	0.01%
Fixed income	£296.48m	5.67%
Multi-Asset Credit	£296.48m	5.67%

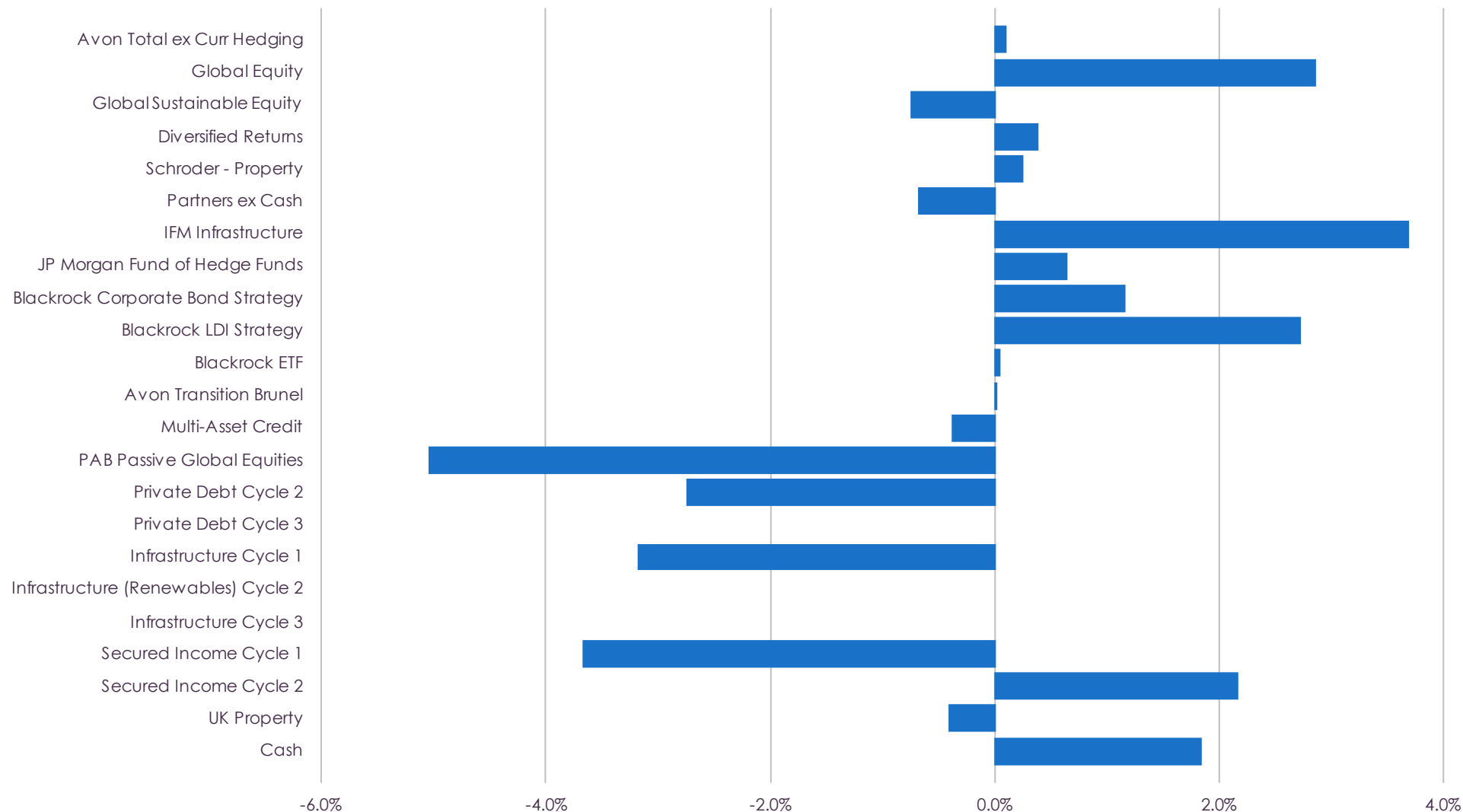
Private markets (incl. property)	£1,535.61m	29.35%
Secured Income Cycle 1	£333.63m	6.38%
UK Property	£176.51m	3.37%
Private Debt Cycle 2	£119.08m	2.28%
Secured Income Cycle 2	£113.73m	2.17%
Infrastructure Cycle 1	£96.40m	1.84%
Infrastructure (Renewables) Cycle 2	£49.46m	0.95%
Private Debt Cycle 3	£11.13m	0.21%
Infrastructure Cycle 3	£2.73m	0.05%
Legacy Assets	£632.94m	12.10%

Other	£1,636.26m	31.28%
Blackrock Risk Management	£1,269.68m	24.27%
Diversifying Returns Fund	£336.23m	6.43%
Legacy Assets	£30.35m	0.58%

Cash not included

Strategic asset allocation

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Performance attribution

Pension fund performance attribution - to quarter end

	End market value £'000	Actual % allocation at end of quarter	Strategic asset allocation (%)	Difference (%)	Fund return (%)	Contribution to return
Avon Total ex Curr Hedging	5,270,190	100.1%	100.00%	0.1%	-3.2%	-3.2%
Global Equity	1,020,450	19.4%	16.50%	2.9%	-4.3%	-0.8%
Global Sustainable Equity	751,503	14.3%	15.00%	-0.7%	2.4%	0.3%
Diversified Returns	336,229	6.4%	6.00%	0.4%	1.0%	0.1%
Schroder - Property	13,293	0.3%	-	0.3%	9.6%	0.0%
Partners ex Cash	161,741	3.1%	3.75%	-0.7%	-1.7%	-0.1%
IFM Infrastructure	457,903	8.7%	5.00%	3.7%	5.5%	0.4%
JP Morgan Fund of Hedge Funds	33,549	0.6%	-	0.6%	-9.1%	-0.1%
Blackrock Corporate Bond Strategy	166,062	3.2%	2.00%	1.2%	7.6%	0.2%
Blackrock LDI Strategy	775,706	14.7%	12.00%	2.7%	-12.4%	-2.0%
Blackrock ETF	1,993	0.0%	-	0.0%	0.7%	0.0%
Avon Transition Brunel	28	0.0%	-	0.0%	-1.5%	-0.0%
Multi-Asset Credit	296,478	5.6%	6.00%	-0.4%	3.7%	0.2%
PAB Passive Global Equities	261,256	5.0%	10.00%	-5.0%	1.9%	0.1%
Private Debt Cycle 2	119,080	2.3%	5.00%	-2.7%	-1.5%	-0.0%
Private Debt Cycle 3	11,130	0.2%	0.21%	-	-	-0.0%

Performance attribution

Pension fund performance attribution - to quarter end

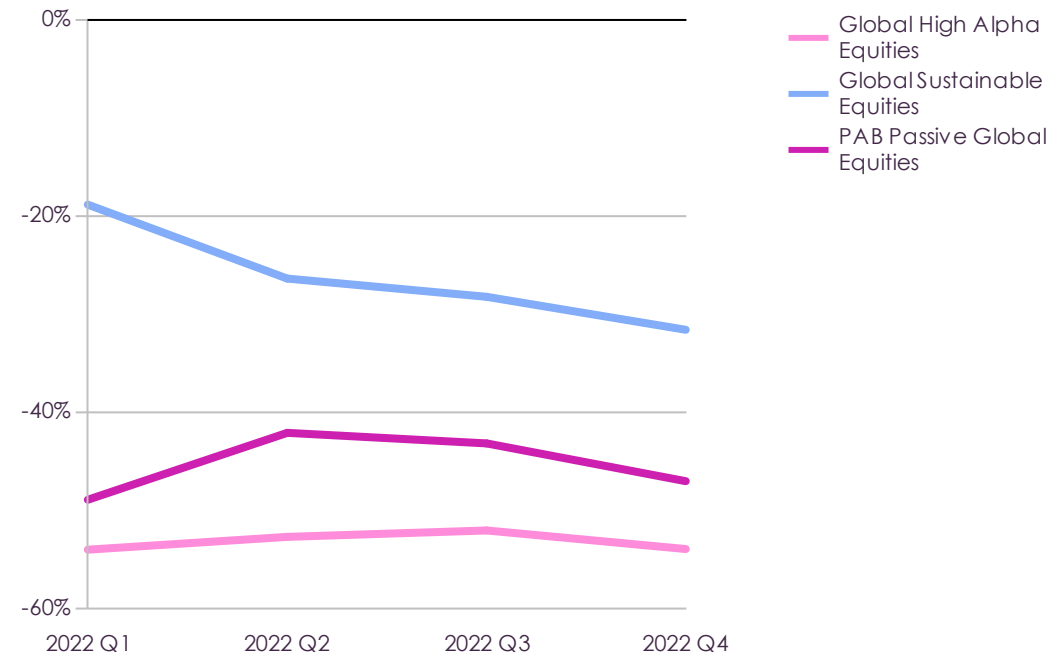
	End market value £'000	Actual % allocation at end of quarter	Strategic asset allocation (%)	Difference (%)	Fund return (%)	Contribution to return
Infrastructure Cycle 1	96,397	1.8%	5.00%	-3.2%	-0.1%	-0.0%
Infrastructure (Renewables) Cycle 2	49,460	0.9%	0.95%	-	10.6%	0.1%
Infrastructure Cycle 3	2,732	0.1%	0.05%	-	-	-0.0%
Secured Income Cycle 1	333,634	6.3%	10.00%	-3.7%	-9.7%	-0.7%
Secured Income Cycle 2	113,731	2.2%	-	2.2%	-8.8%	-0.2%
UK Property	176,514	3.3%	3.75%	-0.4%	-17.2%	-0.7%
Cash	96,718	1.8%	-	1.8%	0.1%	-0.0%

Stewardship and climate metrics

Portfolio	WACI		Extractives revenues ¹		Extractives reserves ²	
	2022 Q3	2022 Q4	2022 Q3	2022 Q4	2022 Q3	2022 Q4
Global High Alpha Equities	86	89	0.9	1.3	3.1	3.3
MSCI World*	180	193	2.6	2.8	7.1	7.8
Global Sustainable Equities	148	152	2.5	2.6	3.0	3.1
MSCI ACWI*	207	222	2.6	2.8	7.2	7.8
PAB Passive Global Equities	103	102	1.0	0.9	1.6	1.7
FTSE Dev World TR UKPD*	180	194	2.5	2.7	7.0	7.7

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

Weighted Average Carbon Intensity relative to benchmark



Stewardship reporting links

Engagement records

www.brunelpensionpartnership.org/stewardship/engagement-records/

Holdings records

www.brunelpensionpartnership.org/stewardship/holdings-records/

Voting records

www.brunelpensionpartnership.org/stewardship/voting-records/



Risk and return summary

Brunel portfolio performance - 3 year

	Annualised return	Risk (standard deviation)	Benchmark return	Benchmark standard deviation
Global High Alpha Equities	10.5%	16.2%	8.9%	15.7%
Infrastructure Cycle 1	10.5%	7.1%	5.4%	2.0%
Secured Income Cycle 1	0.7%	5.3%	5.4%	2.0%

Since portfolio inception

Risk and return summary

Legacy manager performance - 3 year

	Annualised return	Risk (standard deviation)	Benchmark return	Benchmark standard deviation
Avon Total ex Curr Hedging	2.1%	7.7%	6.8%	-
Avon Total ex Hedging ex LDI	3.1%	-	6.8%	-
Blackrock ETF	2.8%	10.9%	0.0%	0.0%
Cash	3.4%	2.8%	0.5%	0.2%
IFM Infrastructure	7.7%	6.7%	5.7%	0.2%
JP Morgan Fund of Hedge Funds	9.9%	9.7%	4.6%	0.2%
Partners ex Cash	2.2%	7.3%	6.3%	0.7%
Record Equitisation	2.4%	16.0%	2.8%	-
Schroder - Property	4.7%	5.2%	2.3%	7.4%
Schroder Equity	-21.3%	34.9%	7.9%	15.0%
TT International - UK Equities	3.7%	4.9%	2.3%	16.6%
Avon Pension Fund	1.5%	8.3%	6.8%	-

Portfolio overview

Portfolio	Benchmark	Outperformance target	AUM (GBPm)	Perf. 3 month	Excess 3 month	Perf. 1 year	Excess 1 year	Perf. 3 year	Excess 3 year	Perf. SII*	Excess SII*	Initial investment
Equities (31.84%)			1,665.59									
Global High Alpha Equities	MSCI World	+2-3%	652.83	2.7%	0.7%	-13.7%	-6.3%	10.5%	1.6%	10.6%	1.6%	15 Nov 2019
Global Sustainable Equities	MSCI ACWI	+2%	751.50	2.4%	0.5%	-15.5%	-7.9%	-	-	4.7%	-3.9%	30 Sep 2020
PAB Passive Global Equities	FTSE Dev World PAB	Match	261.26	1.9%	-	-9.2%	-	-	-	-4.9%	-0.1%	29 Oct 2021
Fixed income (5.67%)			296.48									
Multi-Asset Credit	SONIA +4%	0% to +1.0%	296.48	3.7%	2.0%	-8.5%	-14.0%	-	-	-4.7%	-9.7%	02 Jun 2021
Private markets (incl. property) (17.25%)			902.68									
Private Debt Cycle 2	SONIA	+4%	119.08	-1.5%	-3.2%	13.3%	7.9%	-	-	10.7%	5.5%	17 Sep 2021
Private Debt Cycle 3	SONIA	+4%	11.13	-	-	-	-	-	-	-0.9%	-1.1%	20 Dec 2022
Infrastructure Cycle 1	CPI	+4%	96.40	-0.1%	-2.9%	14.5%	4.0%	10.5%	5.0%	6.2%	1.8%	02 Jan 2019
Infrastructure (Renewables) Cycle 2	CPI	+4%	49.46	10.6%	7.9%	22.0%	11.5%	-	-	10.7%	3.5%	12 Oct 2020
Infrastructure Cycle 3	n/a - absolute return target	net 8% IRR	2.73	-	-2.7%	-	-	-	-	-	-2.7%	13 Oct 2022
Secured Income Cycle 1	CPI	+2%	333.63	-9.7%	-12.5%	-8.2%	-18.7%	0.7%	-4.8%	1.2%	-3.2%	15 Jan 2019
Secured Income Cycle 2	CPI	+2%	113.73	-8.8%	-11.6%	-1.4%	-11.9%	-	-	8.6%	-0.1%	01 Mar 2021
UK Property	MSCI/AREF UK	+0.5%	176.51	-17.2%	-3.8%	-11.1%	-1.0%	-	-	5.5%	2.8%	04 Jan 2021

Portfolio overview

Portfolio	Benchmark	Outperformance target	AUM (GBPm)	Perf. 3 month	Excess 3 month	Perf. 1 year	Excess 1 year	Perf. 3 year	Excess 3 year	Perf. SII*	Excess SII*	Initial investment
Other (6.43%)			336.23									
Diversifying Returns Fund	SONIA +3%	0% to +2.0%	336.23	1.0%	-0.4%	-2.6%	-7.0%	-	-	1.7%	-1.8%	27 Jul 2020
Total Brunel assets (excl. cash) (61.19%)			3,200.98									



Portfolio overview

Legacy assets

Portfolio	Benchmark	Outperformance target	AUM (GBPm)	Perf. 3 month	Excess 3 month	Perf. 1 year	Excess 1 year	Perf. 3 year	Excess 3 year	Perf. SII*	Excess SII*	Initial investment
Equities (0.01%)			0.78									
TT International - UK Equities			0.32	-0.3%	-9.2%	7.0%	6.7%	3.7%	1.4%	4.3%	-0.6%	01 Jul 2007
Schroder Equity			0.46	-58.9%	-60.8%	-51.5%	-43.9%	-21.3%	-29.3%	1.0%	-9.2%	01 Apr 2011
Private markets (incl. property) (12.10%)			632.94									
Schroder - Property			13.29	9.6%	23.0%	11.6%	20.7%	4.7%	2.4%	8.6%	2.3%	01 Jan 2009
Partners ex Cash			161.74	-1.7%	-4.4%	7.3%	-2.3%	2.2%	-4.2%	5.4%	-2.0%	01 Sep 2009
IFM Infrastructure			457.90	5.5%	3.5%	9.9%	3.4%	7.7%	2.0%	12.4%	7.4%	01 Apr 2016
Other (2.43%)			127.07									
Record Currency			-38.74	-168.9%	-168.9%	-96.0%	-96.0%	-	-	-	-	01 Mar 2016
Record Equitisation			33.53	9.5%	0.8%	4.1%	-0.7%	2.4%	-0.4%	5.6%	-0.3%	01 Apr 2012
JP Morgan Fund of Hedge Funds			33.55	-9.1%	-10.7%	9.2%	3.8%	9.9%	5.3%	7.7%	3.7%	01 Jul 2015
Cash			96.72	0.1%	-0.6%	8.6%	7.2%	3.4%	2.9%	2.9%	2.5%	01 Dec 2017
Blackrock ETF			1.99	0.7%	0.7%	-7.7%	-7.7%	2.8%	2.8%	4.7%	4.7%	08 Mar 2019

*Since initial investment

Portfolio overview

Legacy assets

Portfolio	Benchmark	Outperformance target	AUM (GBPm)	Perf. 3 month	Excess 3 month	Perf. 1 year	Excess 1 year	Perf. 3 year	Excess 3 year	Perf. SII*	Excess SII*	Initial investment
Other (2.43%)			127.07									
Avon Transition Brunel			0.03	-1.5%	-1.5%	-	-	-	-	-16.0%	-	01 Jan 2022
Total legacy assets (excl. cash) (14.54%)			760.79									

Chief Investment Officer commentary

"Santa rally" or not, Q4 provided a welcome relief for liquid market investors. Led by equities, risk assets rallied strongly, and defensive assets – in the form of government bonds – followed suit. As you can see from Figure 1, equity markets hedged to GBP rose approximately 6.5% and, within that complex, the UK and Europe were the relative winners, with the US and Japan the laggards. This capped a weak year in which the US finished down 18%, while the UK market, driven by the combination of weak sterling and global revenues, finished marginally up. Likewise, despite the late rally in UK bonds – up over 1.5% in Q4 – they still finished down an eye-watering 23% for the year.

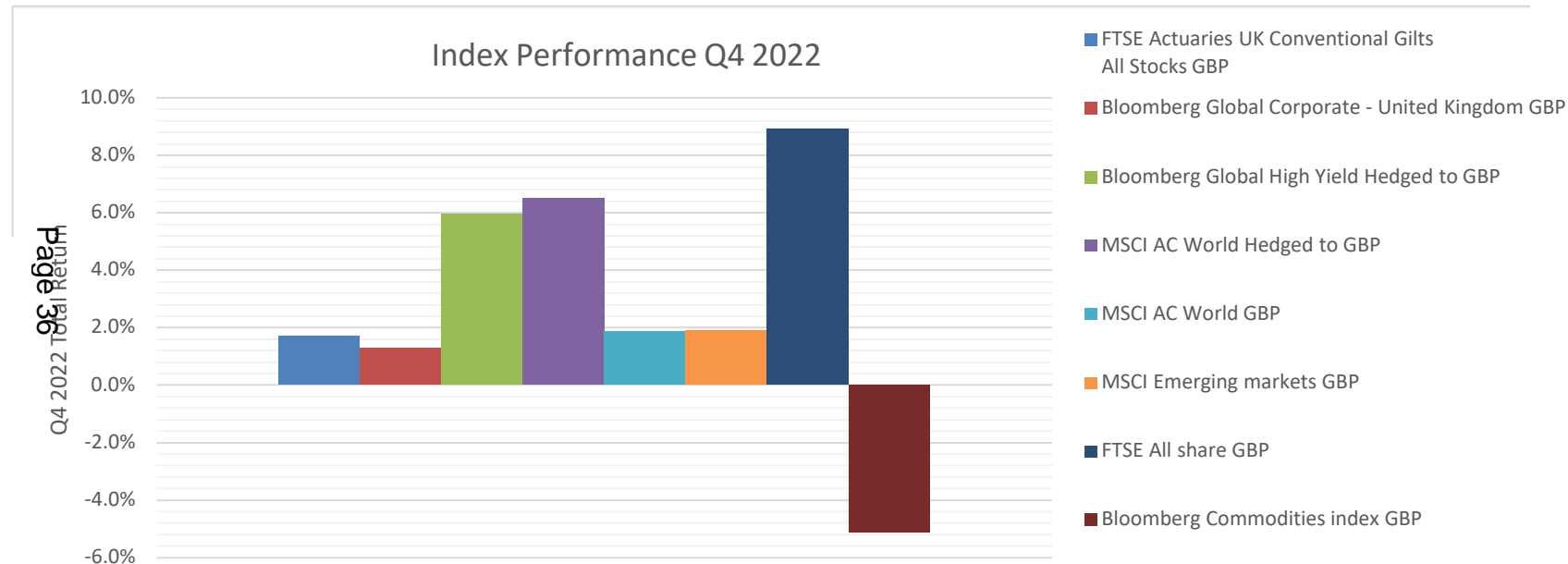


Figure 1: Q4 2022 Total Return by Index as at 31/12/2022. Source: FactSet

Chief Investment Officer commentary

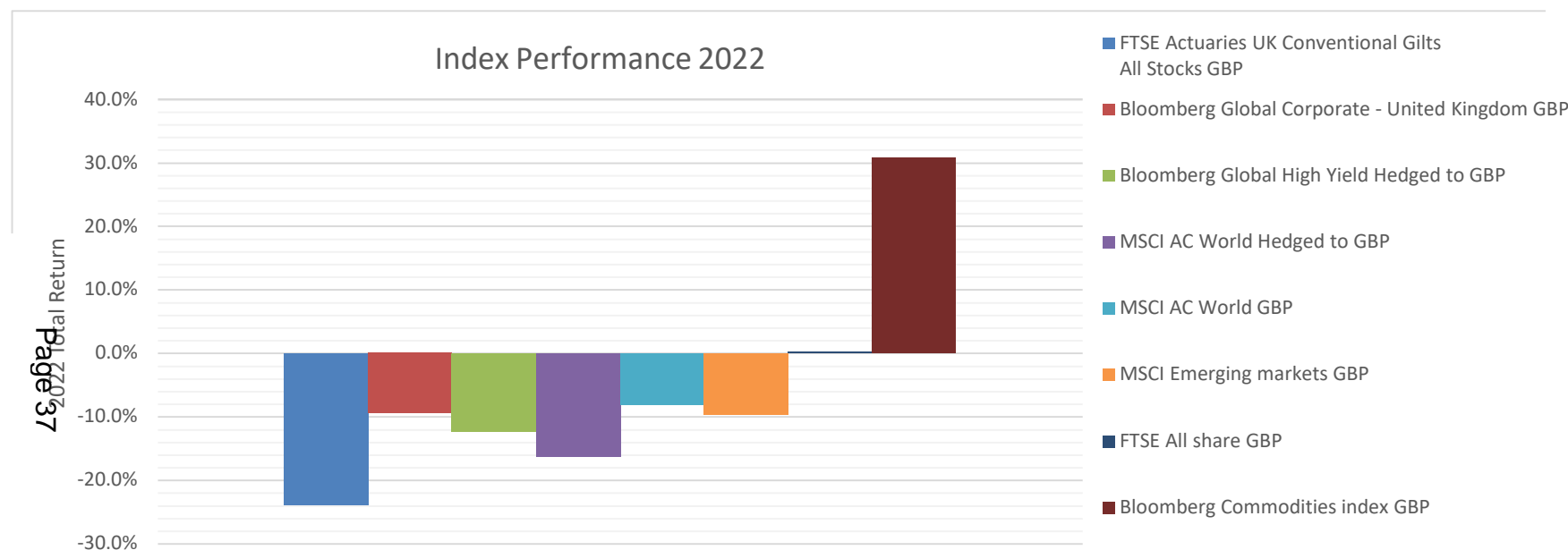


Figure 2: 2022 Total Return by Index as at 31/12/2022. Source: FactSet

Given the lag in pricing private markets, however, we began to see the beginnings of the falls being reflected in net asset values (NAVs) in Q4. The “cheque in the post”, which we referred to in last quarter’s update, has begun to filter through. Property funds – the quickest of the illiquid assets to price – moved lower first. This was particularly the case for those, such as Industrials, with tighter net initial yields, where valuations are more sensitive to changes in interest rates. As gilt yields rose dramatically, so yields of 2.5-3.0% on the most sought-after logistics assets became untenable, and we saw declines of 20%+ in some Industrial asset valuations. Declines were also exacerbated by investors seeking to tap property funds for liquidity. Ultimately, supply and demand will dictate the resilience and potential growth of income streams from property; income growth is the driver of long-term performance and the bedrock upon which the Brunel model portfolios have been built.

Elsewhere in private markets, the major themes played out in the secondary market across private equity (PE), infrastructure and private debt (PD). PE funds traded at discounts to NAV in the secondary market, whereas infra & PD funds traded at NAV or at premia. Despite several years of warnings about too much capital being raised in the secondary market, the events of Q4 showed that there are huge opportunities in secondaries, as traditional institutional investors have been forced to retrench.

Chief Investment Officer commentary

Within currency markets, it is worthy of mention that the USD began to look vulnerable and ran out of steam, falling approximately 9% against sterling. As mentioned, it may well turn out that the gilt crisis was the bottom of the sterling/dollar exchange rate decline. The other main event for investors in Q4 was the decision by the Bank of Japan to widen the band within which it has been maintaining 10-year bond yields. Although such a change was not a surprise, the timing of it was – and the yen rallied aggressively.

The market was driven higher by rumours of Chinese plans to relax policies on Covid but, more significantly and perhaps prematurely, by the view that inflation was cooling. According to this logic, it followed that central banks would have headroom to slow rate rises, and thus soften the recessionary narrative that had been building. Several data points gave the market reason to coalesce around this view: in the US, the November CPI data point was lower month-on-month (by 0.1%!) Also, whilst US unemployment remained at 3.7%, only 263,000 jobs were added – the lowest number since April 2021. A similar inflation picture was seen in Europe and both the ECB and Fed thus decided to raise interest rates by only 50 basis points (bps) in December, smaller than the November hike of 75 bps.

Within equities, broadly speaking Value was again a powerful driver of returns, and Growth a relative underperformer versus the MSCI All Country World Index. Also, despite the spot prices of oil and gas falling, commodity producers generally outperformed. Many commentators noted the conundrum. As if to prove further that markets cannot be reduced to the simplest of terms, however, stocks with a strong Responsible Investment bias also outperformed. The net effect of these trends in Q4 was therefore that many Brunel portfolios outperformed their respective benchmarks.

In November COP 27, the so-called 'implementation COP' came and went without quite the intensity of COP 26 in Glasgow last year. However, there were some notable successes; the biggest among them was the pledge to set up a loss and damage fund to provide money needed to rescue and rebuild the physical and social infrastructure of countries devastated by extreme weather. The COP 27 presidency also launched the Adaptation Agenda to build climate resilience for 4 billion by 2030, to align with IIGCC investor-led work on resilience, a core focus for Brunel's Climate Change Policy. In this regard, the UK government committed to triple funding for climate adaptation as part of that budget, from £500 million in 2019 to £1.5 billion in 2025.

Despite the rally in Q4, 2022 was a difficult year for investors and the issues that beset the market and drove it lower are still with us. The conflict in Ukraine shows no sign of ending; global interest rate rises are still likely to come through; and inflation is not yet under control, nor have its effects fully filtered through into the economy. On a more positive front, China signalled that it will drop its zero tolerance COVID policy and it seems the worst effects of a winter energy crisis may not be realised. The cold snap did not appear, and Germany and others built up their gas storage. The other very big difference, of course, is that the markets priced to some extent the change in paradigm – and that the era of cheap money is arguably over.

Looking forward, global inflation will still dominate. It is very likely that the world economy will deteriorate this year. Indeed, leading economic indicators have already slowed and are showing that economies around the world are in contraction. This is not news - a recession is remarkably consensual. However, it is a moderate recession that is priced in. A more severe episode could be induced if the central banks feel that inflation isn't under control, and they have to continue to tighten more aggressively. Such action could result in a further market dip.

The more bullish commentators argue that supply chains have normalised, aided by Chinese reopening; house prices and rents are falling; unlike in previous years, the employment squeeze has led to increased job openings, not necessarily excessive employment – and thus they are easier to unwind in a downturn. This all eases the pressure on central banks to push up rates and destroy demand to deflate the economy.

There are of course arguments on the other side that talk of more entrenched inflation. This is where battle lines are drawn, and we should be prepared for continued volatility as conviction and evidence waxes and wanes. The economist Ken Galbraith once said that the only function of economic forecasting is to make astrology look respectable – and I have a lot of sympathy with that view! What one can say with increasing conviction, however, is that, given the falls in prices in 2022, asset markets have begun to adjust to the new world of higher inflation. All else being equal, that improves the forward-looking returns from your portfolio.

Global High Alpha Equities

Investment strategy & key drivers

High conviction, unconstrained global equity portfolio

Liquidity

Managed

Benchmark

MSCI World

Outperformance target

+2-3%

Total fund value

£8,742m

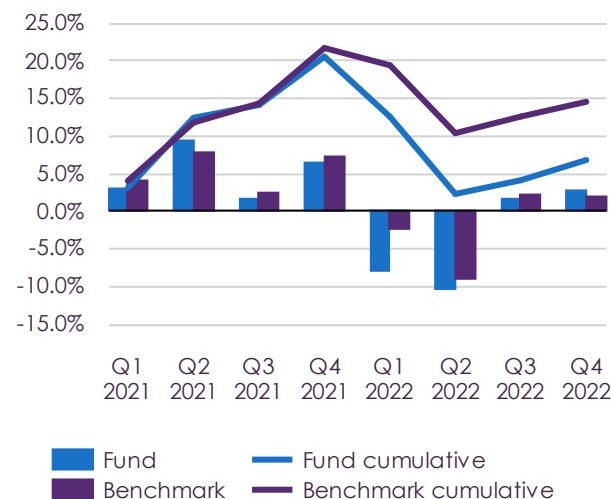
Risk profile

High

Avon's Holding:

GBP653m

Rolling performance



Performance to quarter end

Performance	3 month %	1 year %	Since inception % p.a.*
Fund	2.7	-13.7	11.3
Benchmark	2.0	-7.4	9.7
Excess	0.7	-6.3	1.6

*per annum

Performance commentary

Global developed equities (as proxied by the MSCI World index) rallied over the quarter, returning 2.0% in GBP terms. UK and Europe outperformed, whilst the US lagged the benchmark. Positive sentiment strengthened on expectations for cooling inflation and potential China re-opening. Style characteristics were again evident in the quarter, with Value outperforming Growth significantly.

The portfolio returned 2.7% during the period, outperforming the benchmark by 0.7%, as stock selection overcame the headwinds arising from the negative Value tilt and underexposure to Energy, the best-performing sector.

Sector attribution analysis showed sector allocation was negative as both of the largest active sector positions detracted (an underweight to Energy, the best-performing

sector, and an overweight to Consumer Discretionary, the worst-performing sector). This was more than offset by positive stock selection; the strongest selection was in the Consumer Discretionary and IT sectors. Within both sectors, overweights in more traditionally quality names (such as TJX, Nike, Mastercard and Oracle) and underweights in larger tech/growth names (such as Tesla and Apple) both benefited the portfolio.

Four of the five managers outperformed. RLAM's consistency continues to be in evidence, and they have outperformed in 10 out of 12 full quarters since inception in very volatile and differentiated market environments. The outlier this quarter was Baillie Gifford, who underperformed following significant outperformance last quarter. Their focus on high future

growth companies was not well rewarded as Growth underperformed other styles significantly during the quarter. This was particularly apparent in Consumer Discretionary, automotive-related stocks held overweight in the Baillie Gifford portfolio: Tesla, NIO and Carvana returned -57%, -43% and -78% respectively.

Meta exited the portfolio during the quarter as the three managers that held it all sold their positions towards end of October. This consolidated a poor year for the owners of Facebook, as it struggled with the challenges to its advertising-based business model whilst continuing to pursue what some see as an uncertain bet on the metaverse.

Global High Alpha Equities

Top 5 holdings

	Weight %	B'mark weight %	Client value (GBP)*
MICROSOFT CORP	4.69	3.41	30,600,313
AMAZON.COM INC	3.02	1.54	19,707,293
ALPHABET INC	2.56	2.05	16,687,424
MASTERCARD INC	2.44	0.60	15,917,017
UNITEDHEALTH GROUP INC	2.05	0.99	13,372,344

*Estimated Client value.

Top 5 active overweights

	Weight %	Benchmark weight %
MASTERCARD INC	2.44	0.60
HDFC BANK LTD	1.64	-
TAIWAN SEMICONDUCTOR	1.49	-
AMAZON.COM INC	3.02	1.54
TJX COS INC/THE	1.62	0.19

Top 5 active underweights

	Weight %	Benchmark weight %
APPLE INC	0.50	4.18
EXXON MOBIL CORP	-	0.92
JPMORGAN CHASE & CO	-	0.79
PROCTER & GAMBLE CO/THE	-	0.72
CHEVRON CORP	-	0.67

Companies with lowest ESG ratings

	Adjusted ESG score*	
	Q3 2022	Q4 2022
TJX COS INC/THE	32.47	30.10
MICROSOFT CORP	47.15	47.81
ALPHABET INC	46.00	46.30
JOHNSON & JOHNSON	37.53	38.78
PROGRESSIVE CORP/THE	40.16	40.55

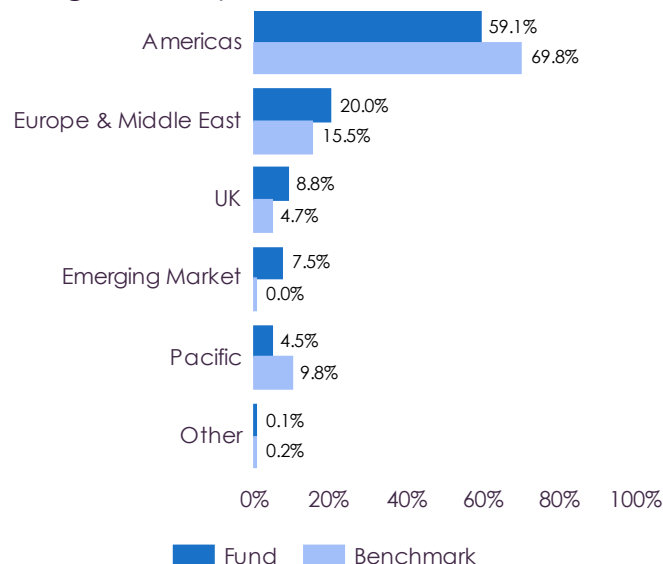
*Source: TrueValueLabs. Scores can range from a high score of 100 to a low of 0. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top.

Carbon metrics

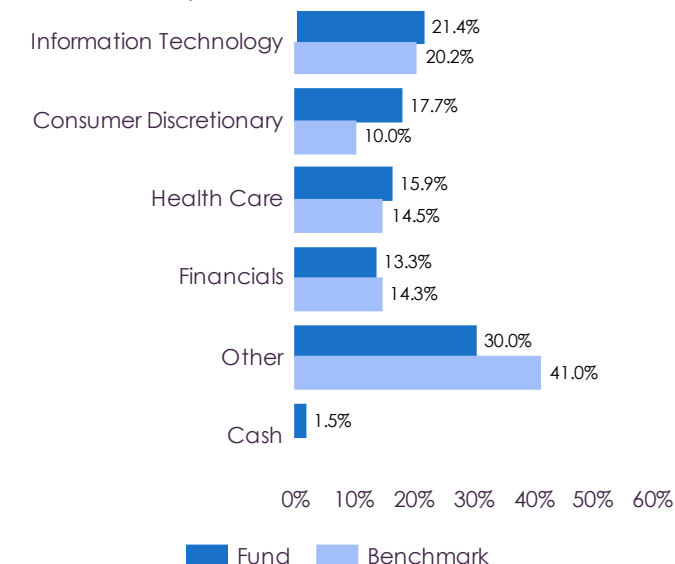
Portfolio	WACI		Extractives revenues ¹		Extractives reserves ²	
	2022 Q3	2022 Q4	2022 Q3	2022 Q4	2022 Q3	2022 Q4
Global High Alpha	86	89	0.92	1.29	3.15	3.32
MSCI World*	180	193	2.61	2.81	7.12	7.83

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

Regional exposure



Sector exposure



Global Sustainable Equities

Investment strategy & key drivers

Global equity exposure concentrating on ESG factors

Liquidity

Managed

Benchmark

MSCI ACWI

Outperformance target

+2%

Total fund value

£185m

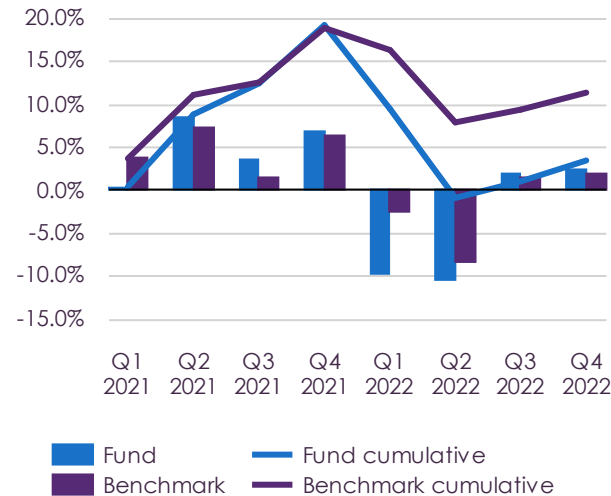
Risk profile

High

Avon's Holding:

GBP752m

Rolling performance



Performance to quarter end

Performance	3 month %	1 year %	Since inception % p.a.*
Fund	2.4	-15.5	3.9
Benchmark	2.0	-7.6	7.9
Excess	0.5	-7.9	-4.0

*per annum

Performance commentary

Global equities (as proxied by the MSCI All Countries World Index) returned 2.0% over the reporting period. The Sustainable Equities portfolio returned 2.4%, outperforming the benchmark by 0.5%.

The quarter provided a welcome respite to what had been a difficult year for all investors. However, Sustainable Equity strategies perhaps felt this challenge more than most in 2022, as the strategy has a natural underweight to Value parts of the market and has significantly less exposure to sectors such as Energy, which returned 62% over the year. The second-best performing sector was Utilities, with a return of 8.5%, which highlights the severe market dispersion.

The fund returned -15.5% over the year against an MSCI ACWI return of -7.6%. 90% of the underperformance occurred in the

first quarter - key Q1 events have been discussed in previous commentaries.

Through Oct-Nov of Q4, the market rallied to return 7.1%. The rally was largely driven by Value, notably the metals & mining sub sector, energy equipment companies, and Industrial conglomerates. Despite our underweight allocation to these sectors, the portfolio only narrowly underperformed the benchmark, gaining through our exposure to semiconductors and favourable stock selection in the automobile sector - the zero exposure to Tesla was a notable contributor.

In December, the market returned -4.85%. The main contributors were large cap tech companies. The three largest contributors on this front were Apple (-13%), Tesla (-37%) and Microsoft (-7%); the three hold a combined

weight of 7.7% in a 3,000-stock index, and so they contributed -1.1% to index return. The portfolio is underweight Microsoft and has no exposure to Tesla or Apple. This outperformance in the downward market meant the portfolio exhibited a net outperformance of 0.5% over the quarter as a whole.

Three out of the five managers outperformed; Jupiter and Mirova by 3.1% and 4.6% respectively. Mirova's holdings in Mastercard, Adobe and Visa were the biggest contributors, whilst RBC underperformed by 2.1%. RBC's performance was driven in part by Roche, which fell on the news its Alzheimer's drug failed to slow the disease. The managers continued to provide complementary but differing approach within the portfolio.

Global Sustainable Equities

Top 5 holdings

	Weight %	B'mark weight %	Client value (GBP)*
MASTERCARD INC	2.63	0.53	19,799,183
MICROSOFT CORP	2.27	3.02	17,041,992
ADYEN NV	1.99	0.05	14,929,291
ANSYS INC	1.93	0.04	14,492,367
DANAHER CORP	1.77	0.33	13,308,223

*Estimated Client value.

Top 5 active overweights

	Weight %	Benchmark weight %
MASTERCARD INC	2.63	0.53
ADYEN NV	1.99	0.05
ANSYS INC	1.93	0.04
MARKETAXESS HOLDINGS INC	1.73	0.02
DANAHER CORP	1.77	0.33

Top 5 active underweights

	Weight %	Benchmark weight %
APPLE INC	-	3.71
JOHNSON & JOHNSON	-	0.83
ALPHABET INC	0.99	1.82
EXXON MOBIL CORP	-	0.82
MICROSOFT CORP	2.27	3.02

Companies with lowest ESG ratings

	Adjusted ESG score*	
	Q3 2022	Q4 2022
MICROSOFT CORP	47.15	47.81
T-MOBILE US INC	44.95	44.06
ALPHABET INC	46.00	46.30
MUENCHENER	-	46.57
UNITEDHEALTH GROUP INC	52.44	51.89

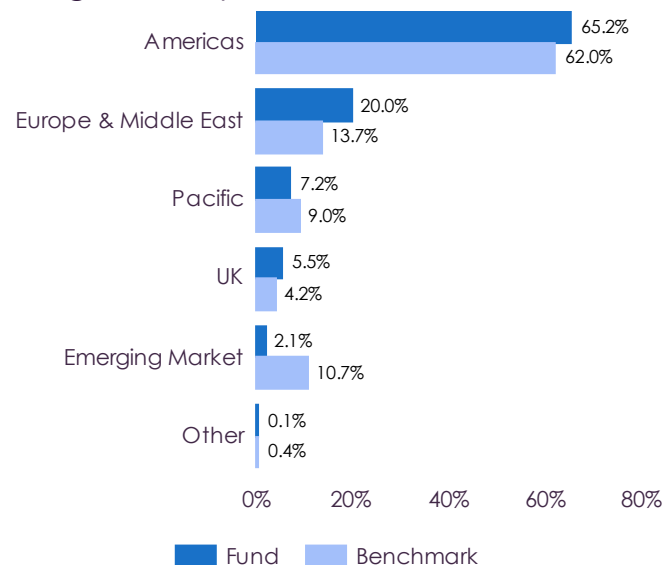
*Source: TrueValueLabs. Scores can range from a high score of 100 to a low of 0. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top.

Carbon metrics

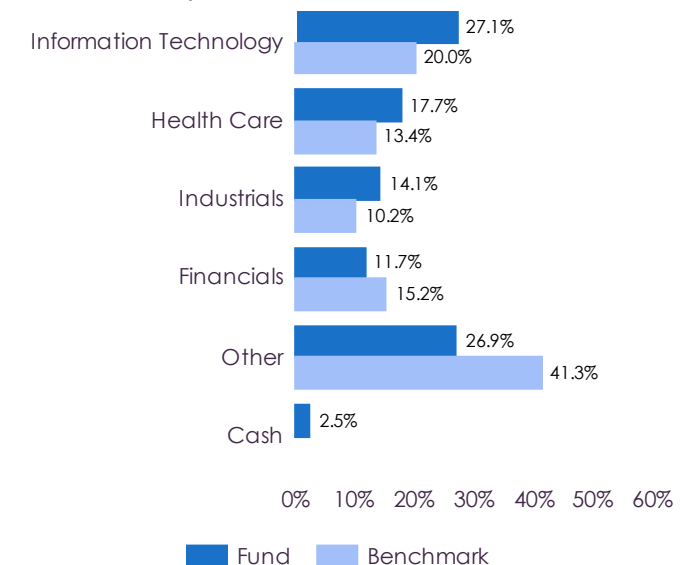
Portfolio	WACI		Extractives revenues ¹		Extractives reserves ²	
	2022 Q3	2022 Q4	2022 Q3	2022 Q4	2022 Q3	2022 Q4
Global Sustainable	148	152	2.53	2.65	2.96	3.13
MSCI ACWI*	207	222	2.62	2.82	7.18	7.76

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

Regional exposure



Sector exposure



Diversifying Returns Fund

Investment strategy & key drivers

Strategy utilising currencies, credit, rates and equities

Liquidity

Managed

Benchmark

SONIA +3%

Outperformance target

0% to +2.0%

Total fund value

£1,392m

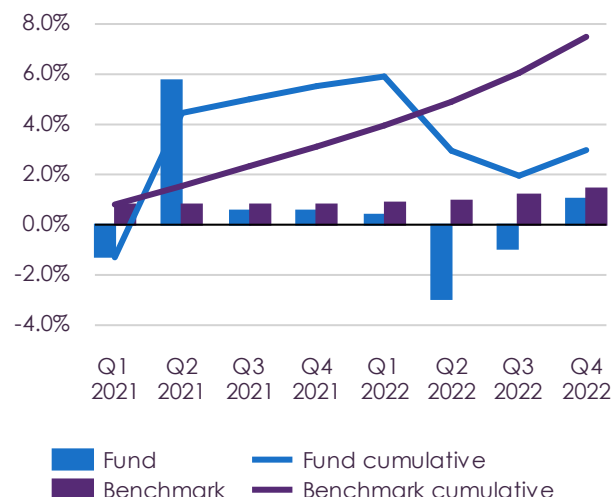
Risk profile

Moderate

Avon's Holding:

GBP336m

Rolling performance



Performance to quarter end

Performance	3 month %	1 year %	Since inception % p.a.*
Fund	1.0	-2.6	2.0
Benchmark	1.4	4.4	3.7
Excess	-0.4	-7.0	-1.7

*per annum

Performance commentary

The Diversifying Returns Fund returned 1.0% over the fourth quarter of 2022. The cash-plus-3% benchmark return was 1.4%. The portfolio returned -2.6% for 2022. While the benchmark returned 4.4%, the portfolio avoided the lion's share of the losses seen across all asset classes. For context, the sterling-hedged 50/50 equity/bond index we monitor returned 3.9% over the quarter and -17.2% over one year.

From their intra-quarter addition to the DRF portfolio to end-2022, Fulcrum lost 1.4%. The directional equities component of the strategy made a positive contribution to returns but this was more than offset by negative returns from relative value strategies. The biggest detractors within the relative value bucket were the short position in sterling and the 'Technology Disruption' sleeve within Thematic Equities, which provides

exposure to Growth, a factor that performed poorly over the quarter.

JPM returned 3.3% for the quarter. The largest positive contributions to returns came from the equity Value and Quality signals. Credit carry also performed well over the quarter. However, trend signals struggled. Equity and fixed income trends and FX momentum all detracted from returns.

Lombard Odier recorded a positive return of 0.6%. Exposure to commodities and credit made the largest contributions to returns while sovereign bond exposure continued to weigh on performance, as it did throughout 2022. Some of Lombard Odier's peers experienced a stronger rebound over the quarter, but this was because Lombard Odier carried a low level of exposure into the quarter as a result of deleveraging

more aggressively earlier in the year - that deleveraging had limited the magnitude of losses as equity and bond markets fell.

UBS returned 0.7%. Their US dollar short position made the biggest contribution to returns while long positions in the Norwegian kroner and Japanese yen also made positive contributions to returns. Long positions in the Colombian peso and Brazilian real detracted, as did a short position in the New Zealand dollar.

Multi-Asset Credit

Investment strategy & key drivers

Exposure to higher yield bonds with moderate credit risk

Liquidity

Managed

Benchmark

SONIA +4%

Outperformance target

0% to +1.0%

Total fund value

£1463m

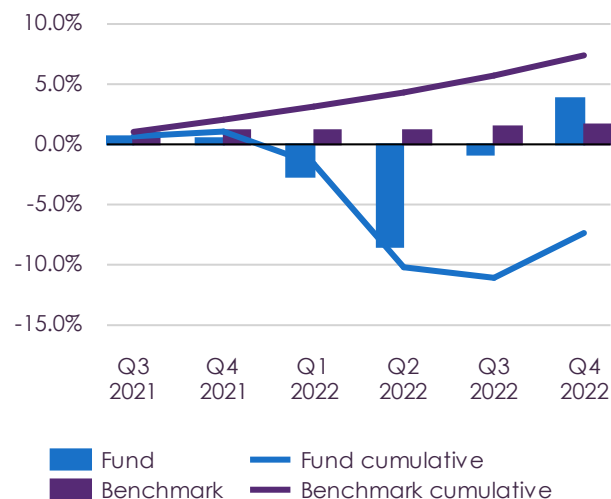
Risk profile

Moderate

Avon's Holding:

GBP296m

Rolling performance



Performance to quarter end

Performance	3 month %	1 year %	Since inception % p.a.*
Fund	3.7	-8.5	-5.2
Benchmark	1.7	5.4	5.0
Excess	2.0	-14.0	-10.2

*per annum

Performance commentary

Despite volatility in the fourth quarter, risk assets across sub-investment grade credit delivered broad-based gains. The quarter got off to a rocky start due to a failed UK budget proposal that roiled UK gilt markets, higher-than-expected September CPI in the US, and an October Communist Party Congress in China that spooked markets.

The yields of global high yield bonds soared to their year-to-date high, touching approximately 10.5% in the first half of October. Risk asset prices then reversed course amid better-than-expected third quarter earnings, expectation of more dovish global central bank policy, and a cooling of US inflation in both October and November. The subsequent credit rally lasted for most of the quarter, though markets came under renewed pressure in late December.

The Federal Reserve hiked rates in the US by 125 bps during the quarter, but ultimately this had little impact on the 2- and 10-year yields, which ended the year at +442bps and +388bps respectively. Bank capital and EM sovereign debt were the strongest asset classes over the quarter, with local returns of approximately +12% and +8% respectively. High yield corporate bonds returned almost 7% in local terms. Loans were amongst the lowest-returning asset classes in credit, returning approximately 3% in local terms. Returns were primarily driven by spread compression.

The portfolio returned +3.7% over the quarter on a net of fees basis, which was +2.0% ahead of the primary benchmark of SONIA +4%. The portfolio lagged the secondary benchmark by 0.9%. Performance by manager remained range-bound

during the quarter. Neuberger Berman, CQS and Oaktree returned +360bps, +406bps and +407bps respectively. Performance since inception is now -5.2% annualised on a net-of-fees basis, and this remains behind the SONIA +4% return of +5.0% but close to the composite benchmark return.

The portfolio now offers a yield of approximately +9.3% on a yield-to-worst basis, with modest duration close to two years, representing an attractive entry point. However, investors should express caution as the threat of an impending recession, potential inflation shocks and quantitative tightening could put upward pressure on rates and spreads worldwide. Fundamentals- focused managers should be well-placed to take advantage of attractive entry points, whilst navigating some of the potential headwinds in 2023.

PAB Passive Global Equities

Investment strategy & key drivers

Passive global equity exposure aligned to Paris Agreement climate goals

Liquidity

High

Benchmark

FTSE Dev World PAB

Outperformance target

Match

Total fund value

GBP2,467m

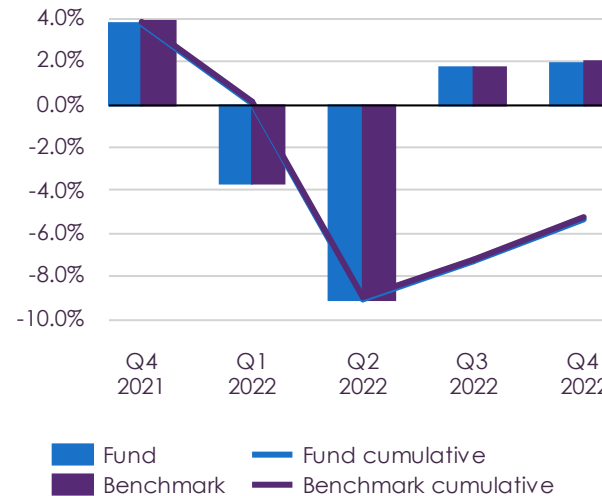
Risk profile

High

Avon's Holding:

GBP261m

Rolling performance



Performance to quarter end

Performance	3 month %	1 year %	Since inception % p.a.*
Fund	1.9	-9.2	-4.9
Benchmark	2.0	-9.2	-4.9
Excess	-	-	-0.1

*per annum

Performance commentary

In Q4 2022, the FTSE Developed Paris-Aligned benchmark (PAB) continued the trend of positive performance seen in Q3, rising 2% over the three-month period to the end of the year. The PAB Passive Global Equities portfolio closely replicated the benchmark's performance over the quarter.

This headline performance hides the performance journey over the quarter and the varied performance across underlying sectors within the index. The index performed positively to the end of November, up over 6% through the first two months of the quarter, before falling to end the reporting period up 2%.

In terms of sector, the Industrials sector was the best performer, driven by capital goods. Honeywell and

Caterpillar were the most significant stock contributors to return over the period.

The Consumer Discretionary and Communication Services sectors were a drag upon performance over Q4. Performance within Consumer Discretionary can be attributed to the large benchmark positions in Tesla and Amazon, which both had difficult quarters. Similarly, a significant position within Alphabet was a material contributor to the negative performance of the Communication Services sector over the reporting period.

PAB Passive Global Equities

Top 5 holdings

	Weight %	Client value (GBP)*
APPLE INC	5.29	13,810,099
MICROSOFT CORP	4.82	12,603,776
ALPHABET INC	3.82	9,971,386
AMAZON.COM INC	2.91	7,608,403
HONEYWELL INTERNATIONAL INC	2.72	7,093,337

*Estimated Client value.

Companies with lowest ESG ratings

	Adjusted ESG score*	
	Q3 2022	Q4 2022
MICROSOFT CORP	47.15	47.81
ALPHABET INC	46.00	46.30
APPLE INC	49.17	50.57
AMAZON.COM INC	50.72	51.99
CHUBB LTD	34.84	38.73

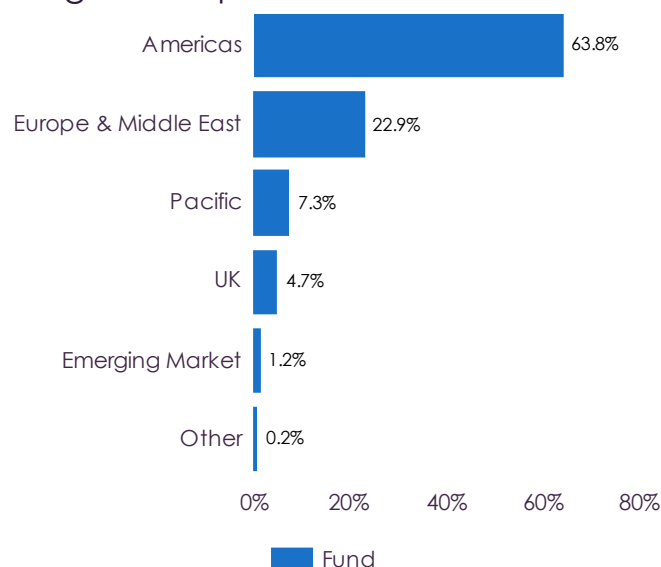
*Source: TrueValueLabs. Scores can range from a high score of 100 to a low of 0. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top.

Carbon metrics

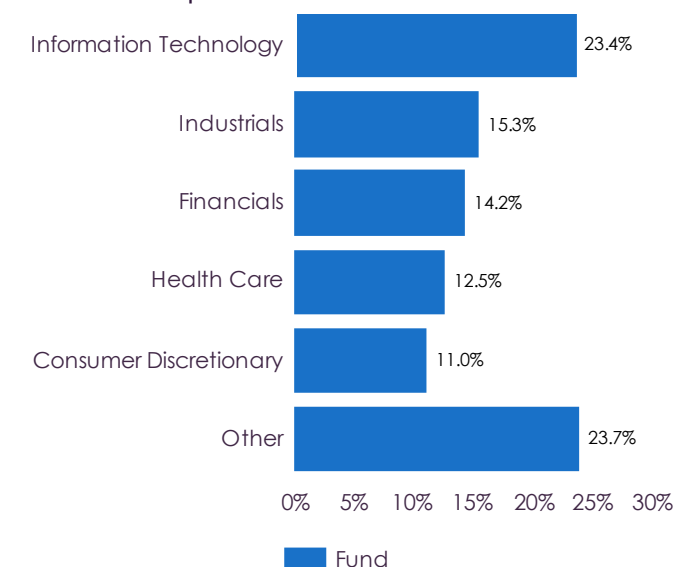
Portfolio	WACI		Extractives revenues ¹		Extractives reserves ²	
	2022 Q3	2022 Q4	2022 Q3	2022 Q4	2022 Q3	2022 Q4
PAB Passive Global	103	102	0.99	0.91	1.57	1.68
FTSE Dev World TR	180	194	2.52	2.69	7.00	7.69

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

Regional exposure



Sector exposure



Private Debt Cycle 2

Investment objective

Global portfolio of senior direct loans, predominantly to PE-sponsored companies

Benchmark

SONIA

Outperformance target

+4%

Launch date

1 May 2020

Commitment to portfolio

£245.00m

The fund is denominated in GBP

Commitment to Investment

£245.00m

Amount Called

£114.15m

% called to date

46.59

Number of underlying funds

1

Avon's Holding:

GBP119.08m

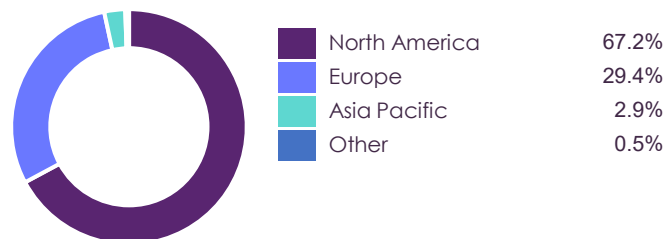
Performance commentary

As of December 2022, Cycle 2 was fully committed to 7 funds. The portfolio is in ramp up with deployment increasing to over ~40%. The next capital call (due by February 2023) is expected to take deployment to ~50%.

Prior focus by managers on traditionally resilient sectors such as healthcare, professional services and established software have continued to buoy returns as the portfolio remains in positive territory and is performing as expected. Such is reinforced by the portfolio's majority allocation to senior-most lending for investee companies. Managers report a broadly attractive environment for loan pricing despite economic headwinds. New investments in the portfolio include a European fertility clinic provider, a US baked-goods firm, a UK health-and-safety software firm and an Australian healthcare firm. The portfolio currently has a tilt towards the US (owing to faster deployment by US-focussed managers) but is expected to normalise to a broadly even split between the US and Europe over the medium term.

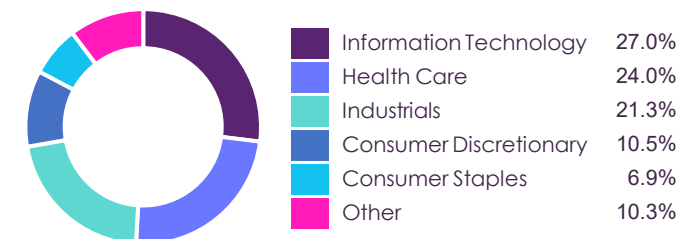
Leveraged buy-out activity continued 2022 trends to increasingly draw on private debt as its principal funding source, such is a reflection of the sustained slow-down in the broadly syndicated loan markets which had previously been traditional sources of funding for private equity sponsors. Fundraising for private debt managers had fallen in 2022 versus the previous year but the volume of dry-powder available alongside the retrenchment of traditional funding sources sees private debt managers remaining able to seize attractive direct lending opportunities as they arise.

Country Invested in underlying investments



Source: Aksia and underlying managers
Country data is lagged by two quarters

Sector GICs level 1



Source: Aksia and underlying managers
Sector data is lagged by two quarters

Portfolio summary

Market value (GBP millions)	3 Month MWR*	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	Contribution to return: 3 months	Contribution to return: 1 year	Contribution to return: since inception
119.1	-1.3%	11.8%	10.9%	26,109,250	1,106,658	25,002,592	-1,440,700	-1.5%	13.3%	10.3%

*Money weighted return

Private Debt Cycle 3

Investment objective

Global portfolio of senior direct loans, predominantly to PE-sponsored companies

Benchmark

SONIA

Outperformance target

+4%

Launch date

1 April 2022

Commitment to portfolio

£170.00m

The fund is denominated in GBP

Commitment to Investment

£67.00m

Amount Called

£11.61m

% called to date

17.32

Number of underlying funds

2

Avon's Holding:

GBP11.13m

Performance commentary

As of December 2022, Cycle 3 had made commitments to two Europe-focused managers with an initial capital call by one manager being issued at the end of 2022. With the settlement completed, overall deployment is expected to be ~7% of total client commitments and ~17% of capital committed to funds (which is an encouraging start for the portfolio). Through 2023, Brunel expects to finalise all commitments to 5-7 managers, constructing a portfolio with a senior direct lending focus and a broadly even split across US and European borrowers. There is expected to be an

alignment of investment portfolios across Cycles 2 and 3 with respect to geographical focus and allocations to predominantly senior secured debt.

Given the nascency of capital being called on the portfolio, quarter-end performance measures were unavailable but should materialise through the first half of 2023.

Portfolio summary

Market value (GBP millions)	3 Month MWR*	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	Contribution to return: 3 months	Contribution to return: 1 year	Contribution to return: since inception
11.1	-	-	-2.3%	11,605,397	374,178	11,231,218	-	-	-	-0.9%

*Money weighted return

Infrastructure Cycle 1

Investment objective

Portfolio of predominantly European sustainable infrastructure assets

Benchmark

CPI

Outperformance target

+4%

Launch date

1 October 2018

Commitment to portfolio

£115.00m

The fund is denominated in GBP

Commitment to Investment

£114.64m

Amount Called

£89.98m

% called to date

78.48

Number of underlying funds

6

Avon's Holding:

GBP96.40m

Performance commentary

Macroeconomic pressures continued into Q4. A global energy security crisis, soaring inflation and rising interest rates were combining to create a perfect storm for recession. The macroeconomic woes highlight the importance of investing in a resilient portfolio of high-quality assets. In light of events in Ukraine, governments have introduced significant regulation including REPower EU and the Inflation Reduction Act, both of which reflect their desire to boost investment beyond renewables generation and across the value chain.

During Q4, deal flow activity remained strong but also selective. Brunel was busy in Q4 reviewing a number of opportunities across all cycles. As at the end of Q4 2022, Cycle 1 Infrastructure was c.99.8% committed and c.75% deployed. At the end of Q4, the final tactical deal to complete Cycle 1 was approved by Brunel and closing is subject to StepStone's final due diligence.

Brunel is pleased with the deployment of Cycle 1 and the overall development of the portfolio. Over the next couple of years, we expect focus to shift from deployment to performance and monitoring of the portfolio.

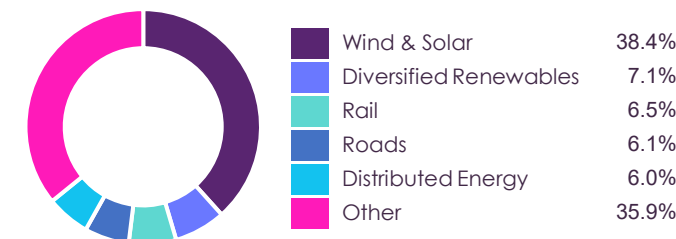
Country

Commitment in underlying investments



Source: Stepstone
Country data is lagged by one quarter

Sector



Source: Stepstone
Sector data is lagged by one quarter

Portfolio summary

Market value (GBP millions)	3 Month MWR*	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	Contribution to return: 3 months	Contribution to return: 1 year	Contribution to return: since inception
96.4	-0.1%	14.3%	9.2%	6,535,266	1,013,471	5,521,795	-69,493	-0.1%	14.5%	6.2%

*Money weighted return

Infrastructure (Renewables) Cycle 2

Investment objective

Global portfolio of renewable energy and associated infrastructure assets

Benchmark

CPI

Outperformance target

+4%

Launch date

1 May 2020

Commitment to portfolio

£120.00m

The fund is denominated in GBP

Commitment to Investment

£120.00m

Amount Called

£47.78m

% called to date

39.82

Number of underlying funds

1

Avon's Holding:

GBP49.46m

Performance commentary

For Cycle 2 Infrastructure, Clients had the opportunity to invest either in the 'Combined' Infrastructure portfolio (which allocates 50% to renewables & 50% to general infrastructure); or via the 'Renewables only' (100% to renewables). As a result, Brunel established two fund of funds with StepStone.

Macroeconomic pressures continued into Q4. A global energy security crisis, soaring inflation and rising interest rates were combining to create a perfect storm for recession. On one hand, surging power prices have boosted performance, but supply chain tensions keep on affecting the capex required to deliver projects. Rising interest rates are affecting valuations negatively and the impact of windfall taxes are still being monitored. Brunel, however, remains confident a strong pipeline will ensure deployment of this mandate in line with Scope and Specification.

During Q4, deal flow activity remained strong. Brunel was busy in Q4 reviewing several opportunities and two tactical deals were approved: a global decentralised energy generation / energy efficiency business, and a private cross-border transmission line in the US. In addition, Next Energy UK ESG Fund made its first drawdown in Q4. As at the end of Q4 Cycle 2 R is c.40% deployed across five primary funds. Two more primary funds and a single tactical deal are required to complete the cycle, subject to closing of the two Brunel approved tactical deals.

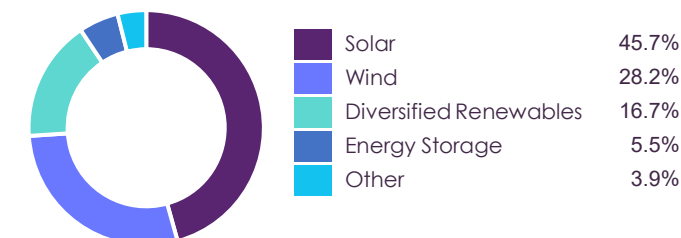
Country

Commitment in underlying investments



Source: Stepstone
Country data is lagged by one quarter

Sector



Source: Stepstone
Sector data is lagged by one quarter

Portfolio summary

Market value (GBP millions)	3 Month MWR*	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	Contribution to return: 3 months	Contribution to return: 1 year	Contribution to return: since inception
49.5	9.4%	25.6%	17.8%	10,886,022	2,269,406	8,616,616	4,076,520	10.6%	22.0%	10.5%

*Money weighted return

Infrastructure Cycle 3

Investment objective

Global portfolio of infrastructure assets, mainly focussed on climate solutions, energy transition and efficiency

Benchmark

n/a - absolute return target

Outperformance target

net 8% IRR

Launch date

1 April 2022

Commitment to portfolio

£55.00m

The fund is denominated in GBP

Commitment to Investment

£55.00m

Amount Called

£2.83m

% called to date

5.14

Number of underlying funds

1

Avon's Holding:

GBP2.73m

and positive environmental impact whilst retaining a similar risk and return profile.

As at the end of Q4, Cycle 3 is 13% committed to three investments including a €40m primary allocation to Vauban CIF IV and two tactical deals: Project Appellation, US hardwood timberlands carbon capture and carbon credit strategy; and Project Sonate 2, a follow-on to the Cycle 1 New Suez co-investment.

Performance commentary

Macroeconomic pressures continued into Q4. A global energy security crisis, soaring inflation and rising interest rates were combining to create a perfect storm for recession. The macroeconomic woes highlight the importance of investing in a resilient portfolio of high-quality assets. In light of events in Ukraine, governments have introduced significant regulation including REPower EU and the Inflation Reduction Act, both of which reflect their desire to boost investment beyond renewable generation and across the value chain.

Brunel has been working closely with StepStone over the last 12 months to redefine the scope of Cycle 3 Infrastructure and was pleased to finalise the LPA in Q3 22. Since the portfolio's inception, deal flow activity has been strong but also selective. The team has been able to benefit from the expertise within StepStone's real assets team to include nature-based solutions investments in Cycle 3. Investing in sustainable forestry and agricultural strategies allows the portfolio to benefit from increased portfolio diversification

Portfolio summary

Market value (GBP millions)	3 Month MWR*	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	Contribution to return: 3 months	Contribution to return: 1 year	Contribution to return: since inception
2.7	-	-	-3.4%	2,827,745	0	2,827,745	-	0.0%	-	0.0%

*Money weighted return

Secured Income Cycle 1

Investment objective

Portfolio of long-dated income streams, a majority of which are UK inflation-linked

Benchmark

CPI

Outperformance target

+2%

Launch date

1 October 2018

Commitment to portfolio

£345.00m

The fund is denominated in GBP

Commitment to Investment

£345.00m

Amount Called

£344.86m

% called to date

99.96

Number of underlying funds

3

Avon's Holding:

GBP333.63m

increased their GRESB score to 79 over the year, narrowly missing out on 4 stars. Rent collection for the fund is near 100% for 2022 and the fourth quarter is the busiest time for rent reviews.

Within the GRI fund, the fund is benefiting from higher power prices, but is remaining prudent with respect to valuations. The new windfall tax proposed by the government should have minimal impact on the fund's valuation, due to its conservative assumptions. The Templeborough Biomass Energy plant had an extended outage in September from excessive fouling, but it is now back on budget from October onwards. Greencoat is looking at changing the operator on the asset in Q1 2023.

Performance commentary

The M&G Secured Income Property Fund's total returns over the quarter were negative. Capital value declines began in June in response to rising gilt yields over the course of 2022 and were not a reflection of the performance of SPIF's underlying properties. Whilst there are economic headwinds, the fund is well positioned with a high-quality tenant base, inflation-linked leases and no gearing, voids or development exposure. The fund is currently deferring redemption requests to protect the interests of investors in the Fund as a whole, enabling sufficient time for fair value to be realised. In

December, SPIF completed the disposal of the Priory healthcare portfolio for a gross price of £233 million, ahead of book value.

The abrdn Long Lease Property Fund also incurred negative performance over the quarter. The fund is selling some Asda and Morrisons stores, and a Reading office is on the market. While these disposals were planned, given their weaker covenants and shortening leases, the sales have been accelerated with the aim of funding redemptions. The fund

Portfolio summary

Market value (GBP millions)	3 Month MWR*	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	Contribution to return: 3 months	Contribution to return: 1 year	Contribution to return: since inception
333.6	-9.7%	-8.1%	0.0%	1,281	2,854,603	-2,853,322	-36,086,600	-9.7%	-8.2%	1.2%

*Money weighted return

Secured Income Cycle 2

Investment objective

Portfolio of long-dated income streams, a majority of which are UK inflation-linked

Benchmark

CPI

Outperformance target

+2%

Launch date

1 May 2020

Commitment to portfolio

£120.00m

The fund is denominated in GBP

Commitment to Investment

£120.00m

Amount Called

£120.00m

% called to date

100.00

Number of underlying funds

3

Avon's Holding:

GBP113.73m

increased their GRESB score to 79 over the year, narrowly missing out on four stars. Rent collection for the fund is near 100% for 2022 and the fourth quarter is the busiest time for rent reviews.

Within the GRI Fund, the fund is benefiting from higher power prices, but is remaining prudent with respect to valuations. The new windfall tax proposed by the government should have minimal impact on the Fund's valuation, due to its conservative assumptions. The Templeborough Biomass Energy plant had an extended outage in September from excessive fouling, but it is now back on budget from October onwards. Greencoat are looking at changing the operator on the asset in Q1 2023.

Performance commentary

The M&G Secured Income Property Fund's total returns over the quarter were negative. Capital value declines from June were in response to rising gilt yields over the course of 2022 and were not a reflection of the performance of SPIF's underlying properties. Whilst there are economic headwinds, the fund is well positioned with a high-quality tenant base, inflation-linked leases and no gearing, voids or development exposure. The fund is currently deferring redemption requests to protect the interests of investors in the Fund as a whole, enabling sufficient time for fair value to be realised. In

December, SPIF completed the disposal of the Priory healthcare portfolio for a gross price of £233 million, ahead of book value.

The abrdn Long Lease Property Fund also incurred negative performance over the quarter. The fund is selling some Asda and Morrisons stores, and a Reading office is on the market. While these disposals were planned, given their weaker covenants and shortening leases, the sales have been accelerated with the aim of funding redemptions. The fund

Portfolio summary

Market value (GBP millions)	3 Month MWR*	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	Contribution to return: 3 months	Contribution to return: 1 year	Contribution to return: since inception
113.7	-8.8%	-4.5%	0.1%	74,956	773,167	-698,211	-11,028,700	-8.8%	-1.4%	8.6%

*Money weighted return

UK Property

Investment strategy & key drivers

Portfolio of active UK property funds seeking capital & income returns

Liquidity

Illiquid

Benchmark

MSCI/AREF UK

Outperformance target

+0.5%

Commitment to portfolio

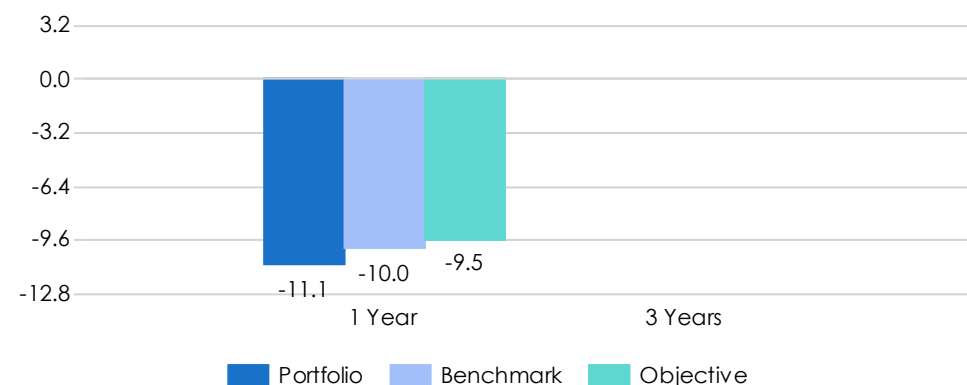
£210.0m

Amount Called

£159.5m

Number of portfolios

13



Performance commentary

Property valuations responded to the Bank of England's rate hikes with significant falls in NAV, as the asset class adjusted to future borrowing costs and its relative yield positioning. The outward yield shift was more pronounced in certain sectors, particularly in Industrial, where, following very strong returns over recent years, assets were priced at historically low yields.

Low transaction levels persisted into Q4, given the uncertainty around pricing. There was debate as to when repricing would decelerate and stabilise, but it is unlikely that the impacts of rising rates or the UK recession have fully played out. Significant redemption requests across property funds, triggered by forced selling from some corporate DB

schemes, resulted in many managers announcing redemption deferrals, adding to investor caution.

Secondary markets remained illiquid in Q4, despite buyers being offered discounts to NAV pricing of over 20% to 3Q NAVs, as sellers sought liquidity. The market remained uncertain as to whether even such large discounts were sufficient to compensate for further potential capital falls in 4Q and early 2023.

On the brighter side, occupier markets held firm, despite fears of an imminent recession. Some sectors, like Industrial and Residential, are still expected to see rental growth in 2023, given their occupational supply/demand dynamics.

Though Brunel paused secondary trading in Q4, client funds were committed to Orchard Street's new impact fund in October. This cross-sector fund will look to acquire unloved assets in good locations and use its management expertise to improve the environmental and social metrics of each building through refurbishment and repurposing. The fund should benefit from the current economic environment, as potential opportunities reprice to lower levels.

Property holdings summary

Holding	Cost (GBP millions)	Market value (GBP millions)	Perf. 3 month	Perf. FYTD	Perf. 1 year	Perf. 3 year	Perf. 5 year	Inception Date
Brunel UK Property	118.7	176.5	-17.2%	-16.3%	-11.1%	-	-	Jan 2021

Glossary

Term	Comment
absolute risk	Overall assessment of the volatility that an investment will have
ACS	Authorised Contractual Scheme - a collective investment arrangement that holds and manages assets on behalf of a number of investors
active risk/weight	A measure of the percentage of a holding that differs from the benchmark index; can relate to an equity, a sector or a country/region
amount called	In private investments, this reflects the actual investment amount that has been drawn down
amount committed	In private investments, this is the amount that a client has committed to an investment - it will be drawn down (called) during the investment period
annualised return	Returns are quoted on an annualised basis, net of fees
asset allocation	Performance driven by selecting specific country or sector positions
basis points (BP)	A basis point is 0.01% - so 100bps is 1.0%. Often used for fund performance and management fees
CTB	Climate Transition Benchmark - targets 30% lower carbon exposure from 2020 and then a 7% annual reduction
DLUHC	Department for Levelling Up, Housing & Communities; the government body with oversight of pooling
DPI	Distributed to Paid In; ratio of money distributed to Limited Partners by the Fund, relative to contributions. Used for private markets investments
duration	A measure of bond price sensitivity to changes in interest rates. A high duration suggests a bond's price will fall by relatively more if interest rates increase than a bond with a low duration

Term	Comment
ESG	ESG is an umbrella term to capture the various environmental, social and governance risks investors factor into their assessment of a company's sustainability profile. Brunel views assessing ESG factors as a central part of our fiduciary duty
ESG Score	MSCI score based on its assessment of the ESG credentials of an underlying investment. If the portfolio score is below the index, the portfolio is assessed by MSCI to be investing in companies with a better ESG score
extractive exposures VOH	Value of Holdings of invested companies which derive revenues from extractive industries
general partner (GP)	In Private Equity, the GP is usually the firm that manages the fund
gross performance	Performance before deduction of fees
Growth	Growth stocks typically exhibit faster long term growth prospects and are often valued at higher price multiples
IRR	Internal Rate of Return - a return that takes account of actual money invested
legacy assets	Client assets not managed via the Brunel Pension Partnership
limited partner (LP)	In private equity, an LP is usually a third party investor in the fund
Low Volatility	Low Volatility is a strategy that attempts to minimise the return volatility.
Momentum	An investment strategy that aims to capitalize on the continuance of existing trends in the market
MWR	Money weighted return - similar to an IRR - it reflects the actual investment return taking into account cashflows
net performance	Performance after deduction of all fees

Glossary

Term	Comment
PAB	Paris-Aligned Benchmark - targets a 50% lower carbon exposure from 2020 and then a 7% annual reduction
Quality	Quality stocks typically have a high Return on Equity, a very consistent profit outcome and exhibit higher and stable margins
relative risk	Relative volatility when compared with a benchmark
sector/stock selection	Performance driven by the selection of individual investments within a country or sector
since inception	Period since the portfolio was formed
since initial investment	Period since the client made its first investment in the fund
SONIA	Sterling Overnight Index Average - Overnight interbank interest rate - replacement for LIBOR
source of performance data	Source of performance data is provided net of fees by State Street Global Services unless otherwise indicated
standard deviation	Standard deviation is a measure of volatility for an investment using historical data. Volatility is used as a measure of investment risk. A higher number may indicate a more volatile (or riskier) investment but should be taken in context with other measures of risk
time-weighted return	A return measure that takes no account of actual amounts invested
total extractive exposure	Revenue derived from extractive operations as a % of total corporate revenue
total return (TR)	Total Return - including price change and accumulated dividends
tracking error	A measure of relative volatility around a benchmark. A fund which differs greatly from the benchmark is likely to have a high tracking error

Term	Comment
transitioned assets	Client assets that have been transferred to the Brunel Pension Partnership
TVPI	Total Value to Paid In; ratio of the current value of remaining investments within a fund, plus the total value of all distributions to date, relative to the total amount of capital paid in
Value	Value stocks typically have a low valuation when measured on a Price to Book or Price to earnings ratio
WACI	Weighted Average Carbon Intensity; measures the carbon intensity of businesses rather than total carbon emissions. It is expressed as tonnes of CO2 equivalent per million GBP of investment exposure
yield to worst	Lowest possible yield on a bond portfolio assuming no defaults

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Avon Pension Fund

Panel Investment Report Quarter to 31 December 2022

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February 2023

Steve Turner
Joshua Caughey

A business of Marsh McLennan



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Executive Summary



Executive Summary

Market background

- The narrative of peaking inflation and resilient economic growth drove positive equity returns during October and November.
- Risk-on sentiment earlier in the quarter and a slower pace of US monetary tightening led to a weaker US dollar.
- In the UK, nominal yields ended the quarter higher, whilst market-implied inflation expectations fell.

Mercer market views

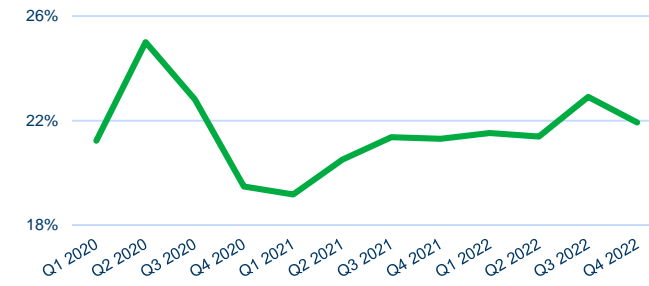
- Our medium term outlook (as at January 2023) is mixed.
- We are slightly negative on equities due to the weak global macroeconomic environment, despite boosts from China's reopening and signs of headline inflation figures starting to fall.
- We continue to have a modest overweight in growth fixed income.

Funding level and risk

- The funding level is estimated to have decreased marginally over the quarter to c.97%, as the assets contracted in value, outweighing the fall in the estimated value of the liabilities.
- It is estimated to be c.5% lower over the year to 31 December 2022* (as illustrated to the right).

**Liability values have been restated for 31 March to 30 September 2022 valuation since our Q3 report.*

- The Value-at-Risk decreased over the quarter to £1,184m due to the fall in absolute value of the Fund's assets and decreases in underlying volatility assumptions for the equity and credit assets.
- It fell as a percentage of liabilities to 21.9%.
- The reversal in Q4 of the small increase in risk levels during Q3 means that the risk as a proportion of liabilities is broadly unchanged compared to one year ago.
- The reduction in risk that can be seen in 2020 was due to the move from a static to dynamic equity protection strategy.



Executive Summary

Performance

- The Fund assets fell in value primarily due to the contraction of the LDI assets, a detraction from the Equity Protection and valuation changes within property-related assets.
- The Currency Hedge added to returns amid the recovery to Sterling, whilst the Infrastructure assets continued to show resilience.

- Underperformance relative to the strategic benchmark over the one year period to 31 December 2022 is mainly due to underperformance of the active equity, Multi-Asset (DGF and MAC), Property and Secured Income mandates.

- The main detractors over the three year period were Equity Protection, Overseas Property (though performance is in line with expectations) and Secured Income.

- The Currency Hedge overlay has detracted from returns over the one and three year periods. It should be noted that the benchmark does not make allowance for the currency hedge.

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (1)	-2.0	-11.0	1.5
Strategic Benchmark (2) (ex currency hedge)	0.3	-2.8	5.7
Relative (1 - 2)	-2.3	-8.2	-4.2

- Absolute returns for the global equity mandates compared to the strategic returns modelled at the strategy review in 2019 have been mixed. The most recently-incepted Paris-Aligned mandate has underperformed due to its point of inception, though the underperformance of the Sustainable Equity mandate is due to active management.
- The Diversified Returns and Multi-Asset Credit mandates have also fallen short of expectations due to 2022's negative returns.
- Property and Secured Income have been mixed, however all of the Infrastructure and Private Debt assets have outperformed.

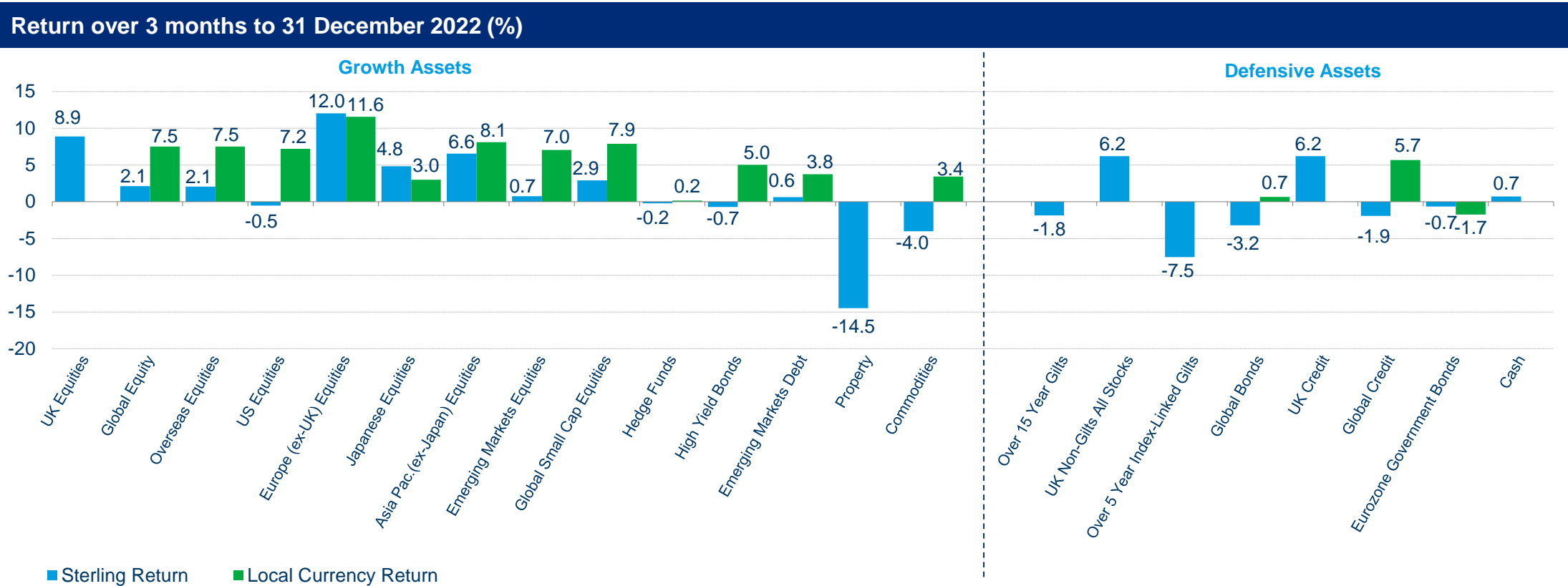
Asset allocation and strategy

- At the start of the quarter, the BlackRock QIF was topped up by £275m to support the collateral pool. This was funded from the Paris-Aligned Equity mandate, though overall equity exposure was maintained by adding an equivalent amount of synthetic exposure to the MSCI World index accessed by the BlackRock mandate.
- A net amount of c£47m was drawn down to the Brunel private market portfolios during the quarter.
- During the period, c. £150m was disinvested from the overweight Diversified Returns portfolio to meet cashflow requirements elsewhere.
- Post-quarter end, £150m was disinvested from the IFM Core Infrastructure portfolio for liquidity purposes (and to address the overweight position to this mandate which had built up).

Market Background



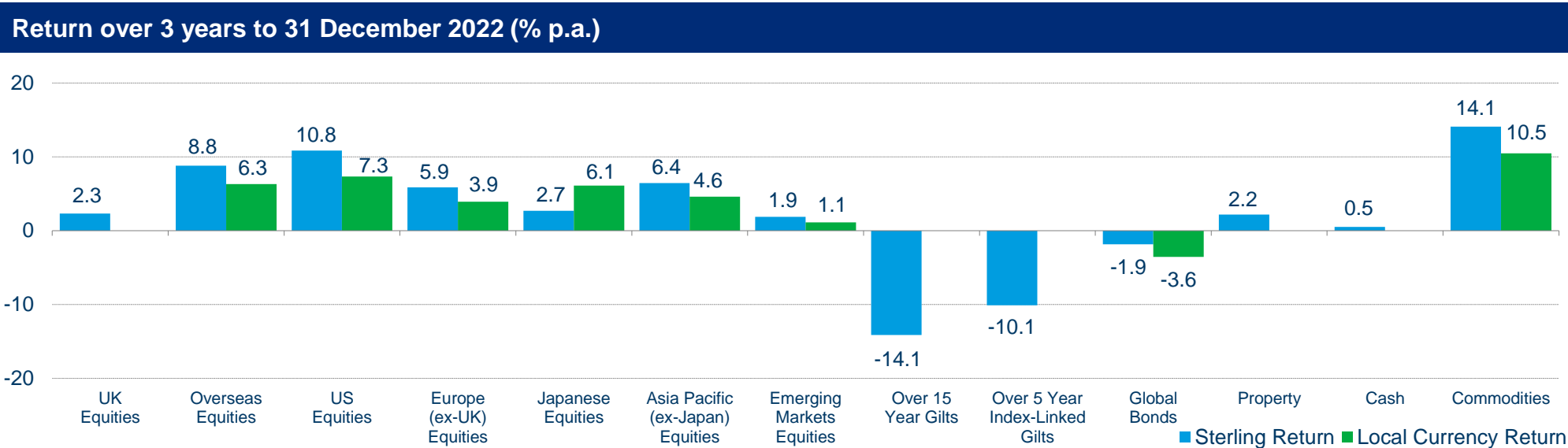
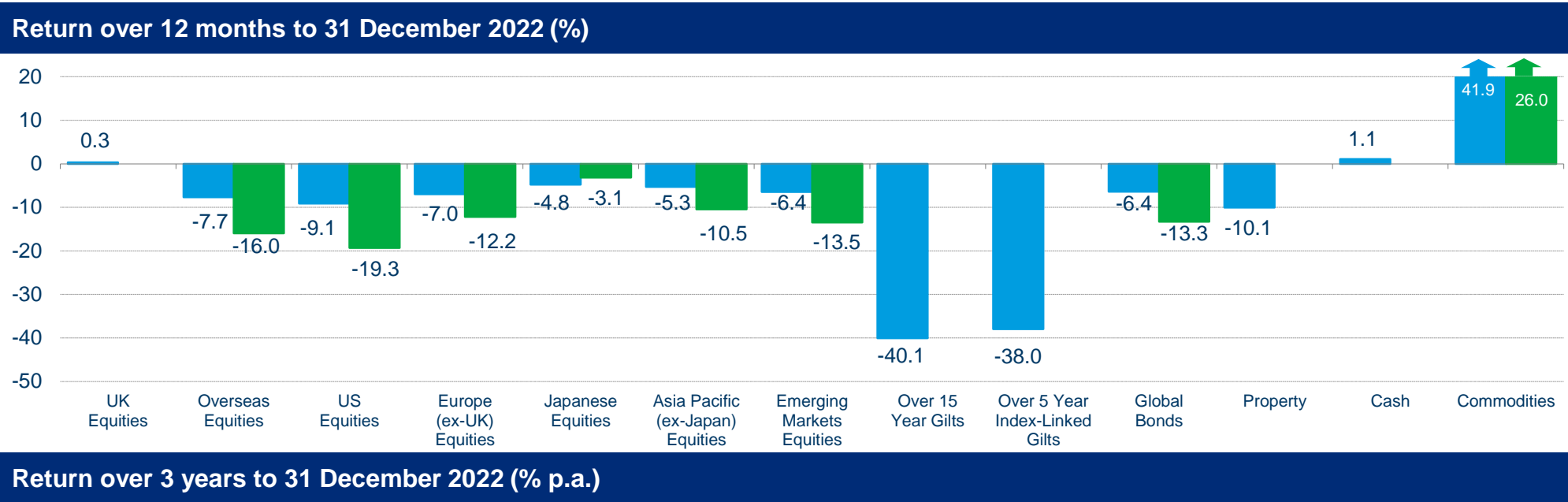
Market Background



Inflation and central bank policy were once again the key market drivers for Q4 2022. Developed market central banks continued tightening monetary policy throughout the quarter, but the pace of tightening began to slow in the US amid an encouraging downwards trend in inflation, albeit from high levels. In China, a near total reversal of all Covid-related restrictions were a late year boost to its ailing economy.

The narrative of peaking inflation and resilient economic growth drove positive equity returns during October and November, but hawkish messaging from central banks in December led to a premature end of the “Santa rally”. Risk-on sentiment earlier in the quarter and a slower pace of US monetary tightening led to a weaker US dollar over the quarter, which detracted from unhedged sterling investors’ US equity returns.

Market Background – 1 & 3 Years



Mercer Market Views



Market Outlook (January 2023)

Equities rose in the final quarter by 2% in sterling terms, with little dispersion between the high level equity segments, as inflation showed signs of having peaked, although 2022 as a whole was still one of the worst years on record for most equity markets. Other risk assets such as high yield bonds performed well, with the US dollar weakening, having risen sharply over the last two years. Markets benefited from a decline in headline inflation in many parts of the world while lower natural gas prices in Europe, on the back of mild weather, reduced both growth and inflation fears. Government bond yields were little changed as central banks continued to hike rates, despite the improving inflation news.

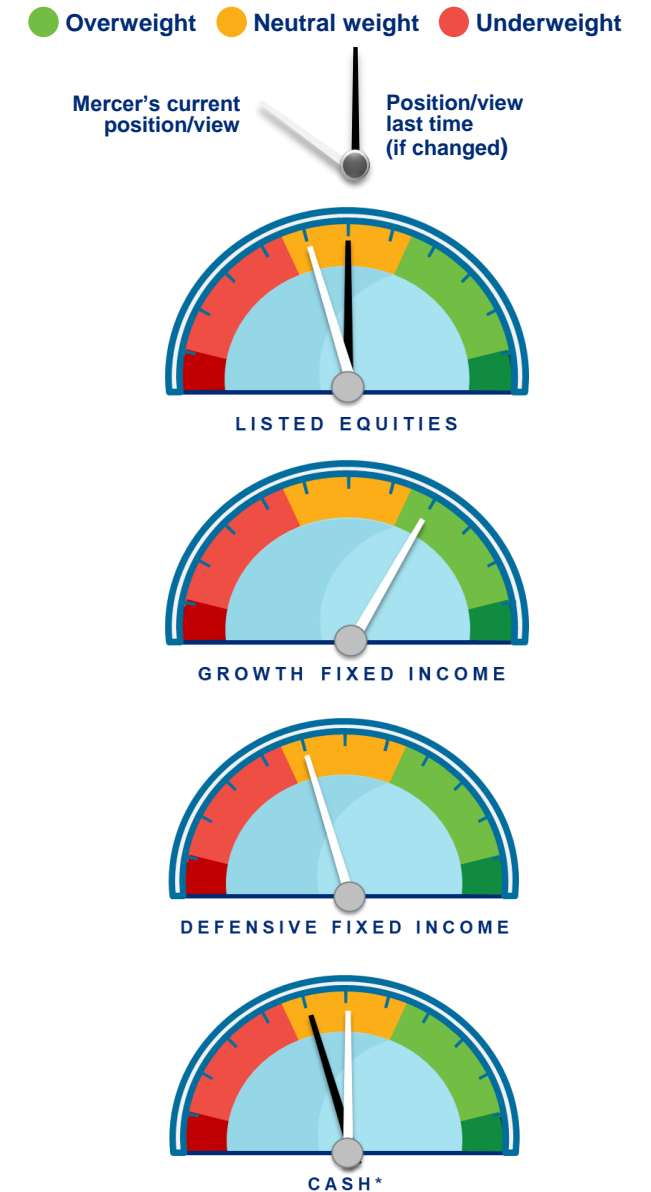
Global economic growth remained weak, despite some resilience in the US. Economic activity was especially weak in China as the ongoing weakness in the property sector together with COVID-related lockdowns pushed Chinese economic growth towards 0%. In Europe, there were signs that the UK and the Eurozone may have entered recession although the sharp decline in natural gas prices raised hopes that any recession would be a mild one.

Inflation remained at very high levels in most countries, with the notable exception of China. However, there were encouraging signs that it may have peaked and that softer commodity prices, easing supply chain disruptions and the softness in overall economic activity should lead to lower inflation in 2023.

Global economic activity is likely to remain weak in 2023, although downside risks to economic activity have perhaps diminished on the back of the decline in European natural gas prices and an imminent sharp recovery in China, as the government rolled out a package of measures to support the property sector and largely ended COVID restrictions. As we have seen elsewhere, the end of covid restrictions leads to a pickup in economic activity as consumers splash out on activities that have been restricted like tourism and retail/entertainment. Chinese economic activity will also be boosted by the property sector support and broad monetary and fiscal policy loosening. The recovery in China will support trade partners and especially Chinese tourism destinations, who would otherwise be under pressure from the ongoing weakness elsewhere. The Japanese economy should have a better 2023, boosted by its COVID reopening and the recovery in China.

Inflation should fall sharply as past rises in commodity prices fall out of YoY comparisons, although the Chinese re-opening creates some upside risks to commodities. It remains to be seen whether inflation will fall back to 2% targets and central banks will remain hawkish until they are confident it will remain moderated. Nonetheless we are expecting most central banks, including the US Fed to pause their hiking cycles in 2023H1 to assess what impact the past 12 months of tightening has had.

We made no material changes to our asset class preferences, continuing to prefer growth fixed income assets (high yield, loans and EMD) to defensive fixed income assets and cash. We remain neutral equities, although nudged our dial rating from 0 to -1, still within the neutral bracket, but reflecting a mildly negative view over the next 1-3 years. While further declines in inflation should support equities, we think corporate profit growth will be flat or negative in the developed world in 2023 and into 2024 and that market expectations of the Fed cutting rates before the end of 2023 are premature. Within equities we moved to overweight emerging market equities as we expect the recovery in China, the pullback in the US dollar and more favourable valuations to support the asset class.



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

Listed Equities

ASSET CLASS	OCTOBER 2022	JANUARY 2023	COMMENTARY
Developed Equity	Neutral	Underweight	The MSCI World Index returned 2% in GBP terms over 2022Q4 and -7.4% over calendar 2022.¹ We have downgraded our developed market equity sector position to underweight within the global equities portfolio. Valuations have deteriorated meaningfully over the quarter as a result of strong performance. Positive developments over the quarter such as US inflation slowing, the tightening of monetary policy shifting into lower gear and softer yet resilient growth have supported our base case of a soft landing. However, risks surrounding our base case remain. Inflation remains a wildcard, especially with China's reopening being expected to lead to renewed upwards pressure on commodity prices. If that happens, monetary tightening may have to ramp up again. Earnings growth expectations remain optimistic given the current slowing in economic activity. Sentiment has turned from more positive earlier in 2022Q4 to more negative towards year end and remains volatile. We believe that after a strong quarter, valuations offer even less compensation for a less benign scenario than our base case. We prefer to allocate our risk budget to other equity sub-sectors with more compelling valuations.
Global Small Cap Equity	Neutral	Neutral	The MSCI Small Cap index returned 2.9% in GBP terms over 2022Q4 and -8.1% over calendar 2022.¹ We have maintained our small cap equity position at neutral. Valuations have also deteriorated over the quarter as a result of strong performance but unlike for developed equities, small cap valuations remain historically attractive. Earnings have proven remarkably resilient and balance sheets are robust following the experience of the last few years. If our macro economic base case of a soft landing materializes and markets coalesce around such a consensus, small cap equities would be expected to outperform their large cap counterparts. Our preference for small cap vs. large cap is premised on more attractive valuations for small caps which still offer more upside should our base case materialize. Sentiment remains negative but allocators are beginning to decrease their level of conviction that large cap equities will outperform small cap over the coming 12-months. ²
Emerging Markets Equity	Neutral	Overweight	The MSCI Emerging Markets index returned 1.9% in GBP terms over 2022Q4 and -9.6% over calendar 2022.¹ We have upgraded our positioning for emerging markets from neutral to overweight funded by a commensurate decrease in developed market equity. Valuations have deteriorated but still remain attractive relative to other equity sub-asset classes. There is still plenty of valuation compression to recover. China is the largest country in the index and its macroeconomic outlook has improved significantly. The surprising reopening as well as meaningful support for the property sector means that the coming year could see a strong economic recovery from a low base, reminiscent to the western experience in 2021. Other EM regions should continue to be supported by China's recovery, especially commodity producing countries. Emerging market exposure can also mitigate less benign macro outcomes in developed countries and the impact this would have on equities, should our base case not materialize. We therefore prefer to spend our risk budget on emerging markets and upgrade our neutral dial position to overweight.

Growth Fixed Income

ASSET CLASS	OCTOBER 2022	JANUARY 2023	COMMENTARY
Global Loans	Neutral	Underweight	Over 2022Q4, global loans returned -4.7% in GBP terms and 11.9% over calendar 2022. ¹ We have downgraded our position to underweight within growth fixed income. Bank loans have significantly outperformed the other growth fixed income sectors over the course of 2022 as the sector's floating rate profile largely insulated it from sharply higher interest rates. While the headline yield of the loan index appears quite attractive at over 9%, we note the underlying credit quality of the market has deteriorated quite significantly over the last few years. At current, over 70% of the index is now rated single B or lower, which makes the sector vulnerable to further downgrade activity leading to even wider spreads. For context, the same metric for percentage of index rated single B or lower for high yield is just 45%. Given rising recessionary risks, we prefer the credit quality available in high yield relative to bank loans at this point in the cycle.
High Yield	Overweight	Overweight	Over 2022Q4, global high yield returned 4.7% on a GBP hedged basis and -12.6% over calendar 2022. ¹ We have maintained our overweight position within growth fixed income. While high yield generated a strong return during the fourth quarter, the sector still finished the calendar year down -12.6%. Valuations within the asset class remain attractive, in our view, with an index yield over 9% and an average bond price below \$90. The lower average dollar price of the index, which entered 2022 above par, provides ample capital appreciation potential for the asset class going forward. Spread levels remain just slightly wide of longer term averages, but the higher quality make-up of the index is noticeable with 55% of the market rated BB. Solid fundamentals up to this point have supported low default activity and despite macroeconomic pressure, defaults are unlikely to reach recessionary averages over the DAA horizon due to the limited number of upcoming maturities. Overall, we believe investors are getting more appropriately compensated for risk in high yield than in bank loans.
EM Debt (Local Currency)	Neutral	Neutral	EMD local currency market rallied through Q4 2022, posting a return of 0.6% in GBP terms and -0.6% over calendar 2022. We have upgraded our position to neutral/overweight within growth fixed income. We increase our preference relative to Hard Currency due to more attractive spread valuations, historically cheap EM currencies, the lower duration profile and emerging market central banks generally being ahead of developed peers in their monetary cycle. Global growth continues to face a broader slowdown although some headwinds are beginning to alleviate pressure but the timing and the extent to which they do so will dictate much of the emerging market story over the DAA's time horizon.
EM Debt (Hard Currency)	Neutral	Neutral	EMD hard currency markets rallied through Q4 2022, posting a return of 0.3% in GBP terms and -7.4% over calendar 2022. ¹ We have maintained our position to a lower conviction neutral allocation within the growth fixed income portfolio. The index offers an attractive yield but the differential between the IG and HY segment is extremely bifurcated. Whilst spreads tightened over the quarter they remain elevated versus pre-pandemic levels. Rising rates and continuing geo-political risks are headwinds, as is the large duration component of the asset class. However, US dollar strength has begun to unwind with the Federal Reserve's hiking cycle expected to slow and potentially begin reversing in 2023. Sentiment remains vulnerable to the slowdown in global growth, inflation, and the ongoing war in Ukraine.

Defensive Fixed Income

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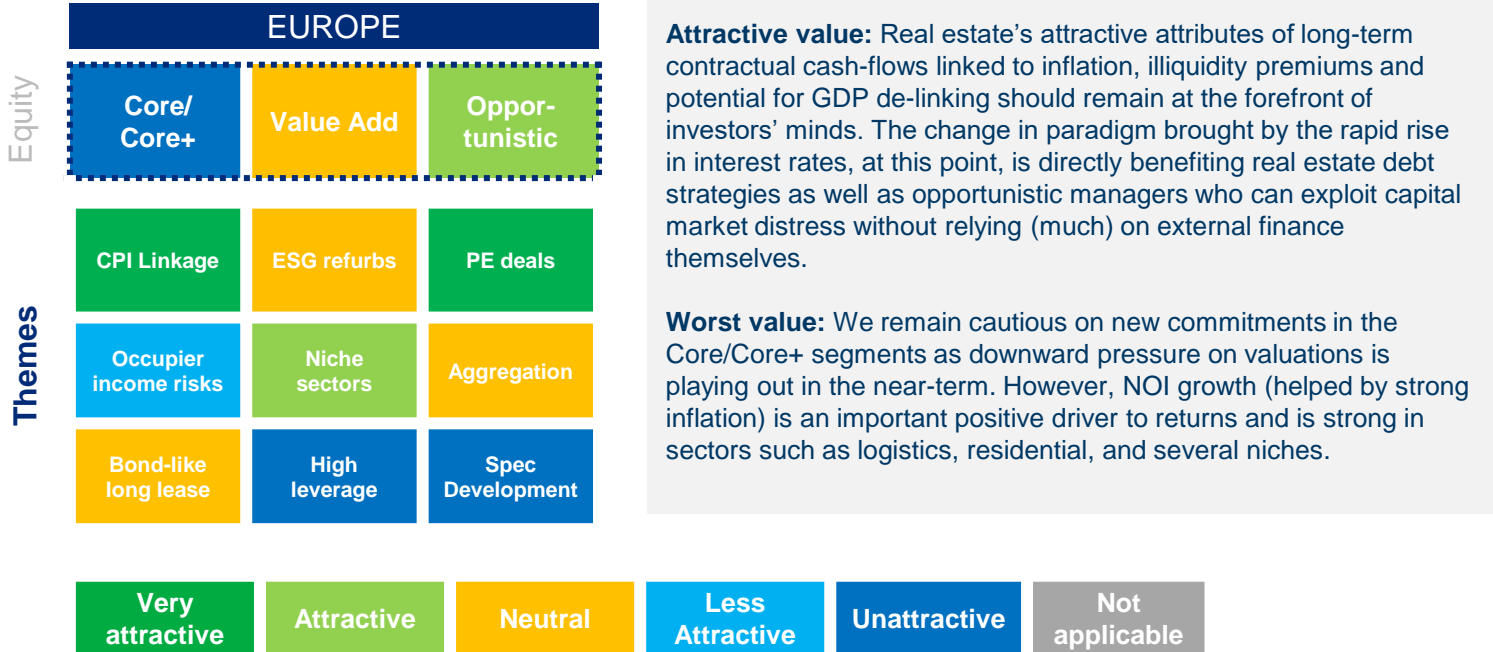
ASSET CLASS	OCTOBER 2022	JANUARY 2023	COMMENTARY
UK Sovereign Fixed Income	Neutral	Neutral	Over 2022Q4, UK Gilts returned 1.7% in GBP terms, but was down 23.9% for 2022. We have moved to the negative side of neutral to accommodate an increased allocation to credit. UK 10-year government bond yields fell during Q4 after being roiled by political uncertainty during Q3. Volatility in the gilt markets has been exceptionally high and will likely remain elevated in the near-term, albeit less extreme. The gilt markets are recovering from the shock of the upheaval that followed the government's ill-fated mini budget in September. It is suggested that there will be record net gilt issuance in the coming year, which is likely to create a floor under gilt yields. However, with the economy heading into late cycle, concrete signs of a slowdown could quickly shift the narrative in favour of gilts as a risk off asset.
UK Inflation-Linked Bonds	Neutral	Neutral	Over 2022Q4, UK inflation linked bonds returned -5.9% in GBP terms and -33.4% for 2022, driven by both surging nominal (and real) yields. We have retained our position of being the negative side of neutral in the defensive fixed income portfolio. Over Q4, long dated UK breakevens fell sharply following the dislocations in the market during Q3. Inflation prints have moderated but remain elevated. At these levels, the UK market in our view continues to trade as expensive. Unions in the UK have become more active as employees demand higher wages to combat the cost of living crisis. We see this a persistent concern that is likely to plague the UK government in the months to come. Easing temporary and supply-side factors could see inflationary pressures moderate, seeing current inflation prints falling but remaining above central bank targets for the foreseeable future. However, timeframes remain highly uncertain.
UK Investment Grade Credit	Neutral	Neutral	UK investment grade credit returned 6.2% in GBP terms during the fourth quarter of 2022 but returned -17.8% for 2022. Although in the neutral range, we have a tilt towards IG credit within defensive fixed income. Credit spreads tightened and credit outperformed equivalent duration government bonds over the quarter, although returns were negative for the year as a whole. Valuations appear attractive in IG credit with spreads remaining significantly above 10-year averages, despite the tightening seen during the quarter, and are higher than global IG spreads. All-in yields are also high based on a 10-year comparison. Corporate fundamentals remain solid, and the trend in global credit ratings has seen a positive skew of upgrades relative to downgrades. There is, however, a risk of a deterioration in earnings and a pick up in downgrades if economic growth remains weak or worsens, and we believe there is greater downside risk to the economic outlook in the UK relative to the US. Sentiment is mixed. Whilst many active fixed income managers are overweight credit risk, they remain nervous that there may be another leg wider in spreads if economic conditions worsen. On the other hand, defined benefit pension schemes in the UK may increase allocations to liquid, high-quality credit as they reduce leverage in their LDI portfolios.

Global Property Market Outlook

With the Q3 2022 data as presented in this report only showing modest impacts from the interest rate increases that characterized capital markets in 2022, Q4 data will show a deepening correction of real estate valuations. We therefore anticipate more widespread negative total returns for Q4 but total returns should remain positive for the calendar year of 2022. Ahead, the most profound impacts are likely to be felt on the yield side of the returns equation, as valuers revert back to a positive yield premium over the relevant risk-free rate (often a 10-year bond yield). However, as key economies are expected to be pushed into a mild recession, the continuing war in Ukraine, geo-political tensions between the US and China, and growing awareness of climate change may potentially add to a gloomy economic perspective. If these events are prolonged, there is a risk that occupier markets will start to feel the pinch too, causing a more significant downturn in real estate markets.

Real estate markets are not decoupled from the macro-economic environment but the resilient and long-term nature of property should assist values in remaining relatively stable as both equity and fixed income portfolios will suffer more from a recessionary environment caused by high inflation and rising interest rates. This notwithstanding, we anticipate that, until monetary policies stabilize at some point in 2023, property portfolios will continue to exhibit weak to negative capital growth, thereby reversing some of the large recent value gains. The overall impact to property returns will, on the one hand, depend on the severity of the economic downturn as they affect rental growth potential, and on the other hand, whether asset-class specific factors may soften the blow. The softening impact of these tail winds may be felt more locally and could include: low vacancy or supply in certain markets; limited use of leverage through the last cycle; willingness of lenders to lend on more sustainable properties; or the persistence of structural trends boosting demand for certain property types.

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Disclaimer: For illustration purposes only. The above table presents a simplified perspective at the time of writing this report and is subject to change without notice. All categories offer attractive opportunities and optimal allocations are subject to manager selection. The outlook represented is for new investors with a non-constrained risk budget over a 3 to 5 year investment horizon. ‘Unattractive’ positions therefore do not imply advice to liquidate existing investments.

Further guidance is available in Mercer’s *Global Market Summary: Quarterly Real Estate Report, January 2023*

Change from previous quarter in pink [No changes in January 2023]

Funding Level and Risk

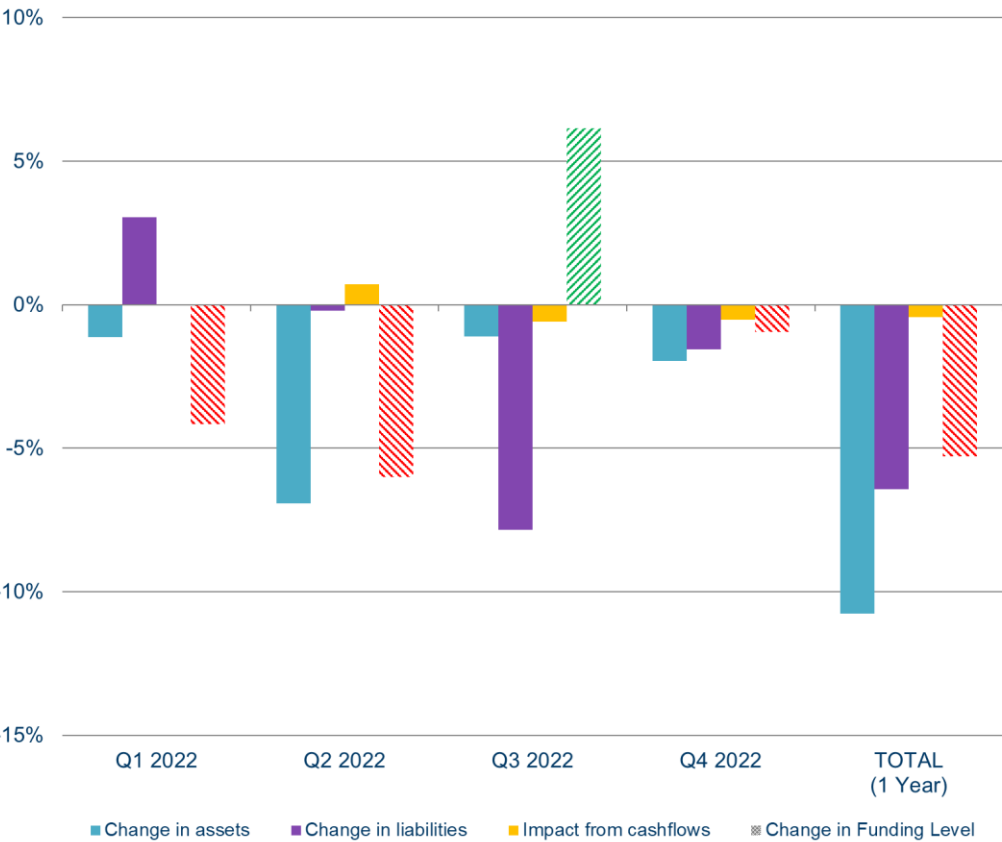


Funding Level and Deficit

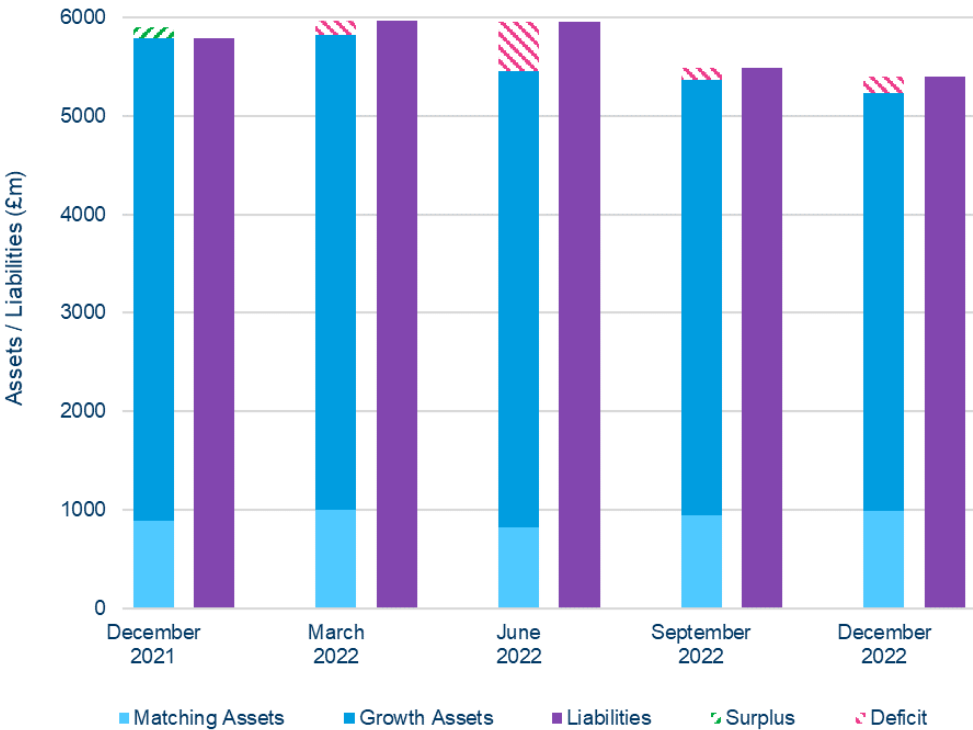
The Fund’s assets contracted by 2.0% over the quarter, whilst the liabilities are expected to have fallen by c. 1.5%. The combined effect of this, also allowing for expected cashflow over the period, saw the estimated funding level decrease marginally to c.97%*.

The funding level is estimated to be c. 5% lower over the year to 31 December 2022**.

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The deficit was estimated to have increased over Q4 to c.£168m:



Liability values are estimated by Mercer. They are based on the actuarial valuation assumptions as at 31 March 2022 and the 'CPI plus' discount basis.

*Since the Q3 investment report, the liability values from March 2022 to September 2022 have been restated to reflect the results of the actuarial valuation.

**December 2021 liability values are based on the previous actuarial valuation assumptions.

Impact figures are estimated by Mercer.

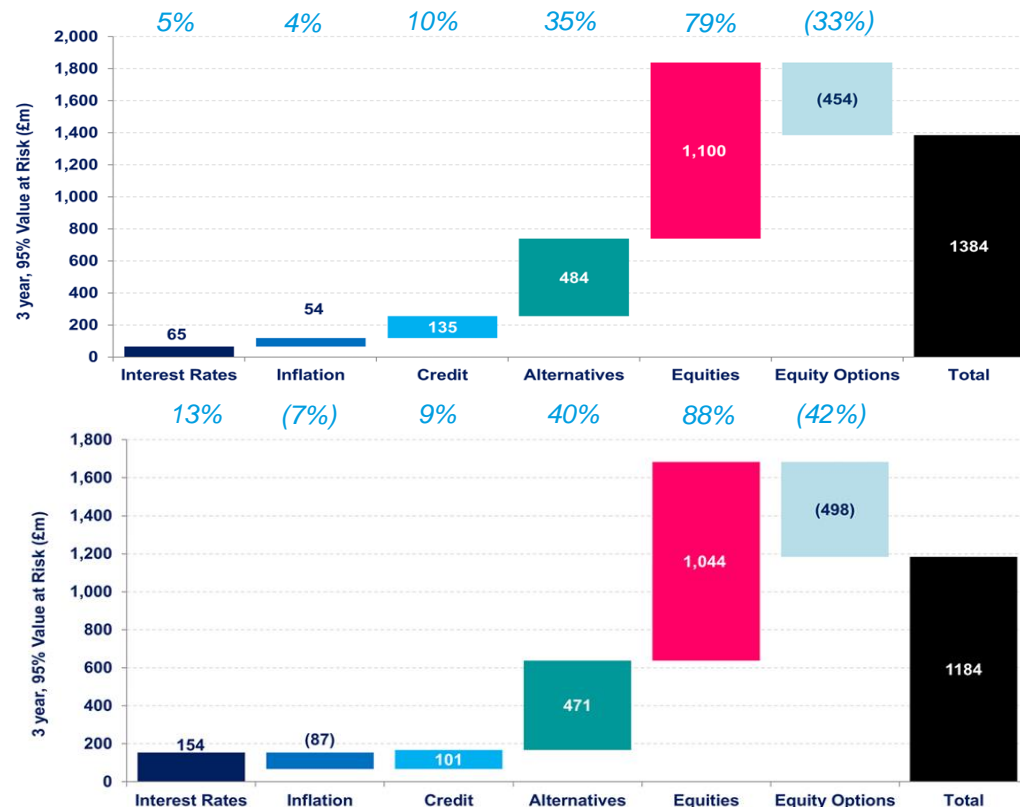
Risk Decomposition – 3 Year Value at Risk

- The two charts below illustrate the main risks that the Fund is exposed to, and the size of these risks in the context of the change in the deficit position.
- The purpose of showing these 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'.
- The final columns show the estimated 95th percentile Value-at-Risk (VaR) over a one-year period. In other words, if we consider a downside scenario which has a 1-in-20 chance of occurring, what would be the impact on the deficit relative to our 'best estimate' of what the deficit would be in three years' time.

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30 September 2022

31 December 2022

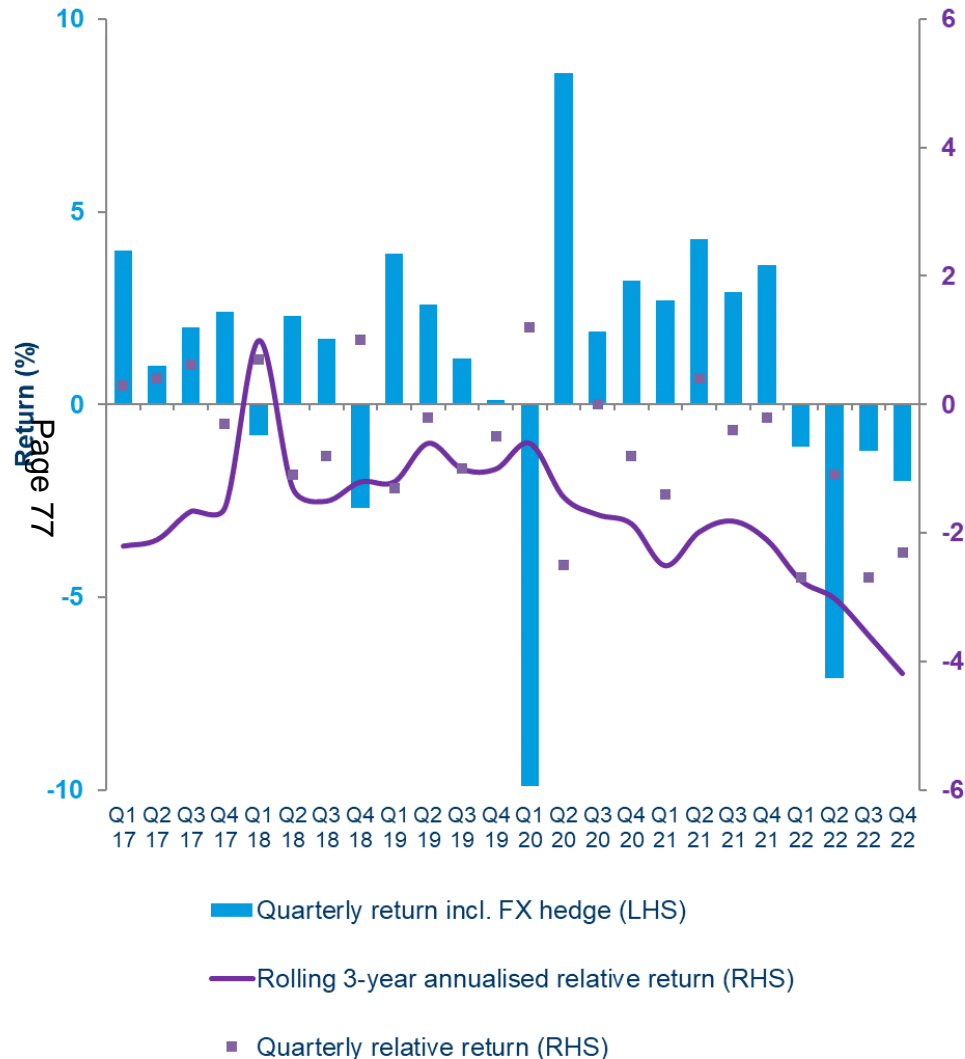


- As at 31 December 2022, if a 1-in-20 'downside event' occurred over the next three years, the funding position could deteriorate by at least an additional **£1.2bn**.
- Each bar to the left of the total represents the contribution to this total risk from the primary underlying risk exposures (interest rates and inflation, changes in credit spreads, volatility of alternative assets and equity markets, and the benefit from equity options).
- Overall **the VaR decreased over the quarter**, due to the fall in absolute value of the Fund's assets and decreases in underlying volatility assumptions for the equity and credit assets.

Performance Summary



Total Fund Performance



	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (1)	-2.0	-11.0	1.5
Total Fund (ex currency hedge)	-3.2	-9.1	2.1
Strategic Benchmark (2) (ex currency hedge)	0.3	-2.8	5.7
Relative (1 - 2)	-2.3	-8.2	-4.2

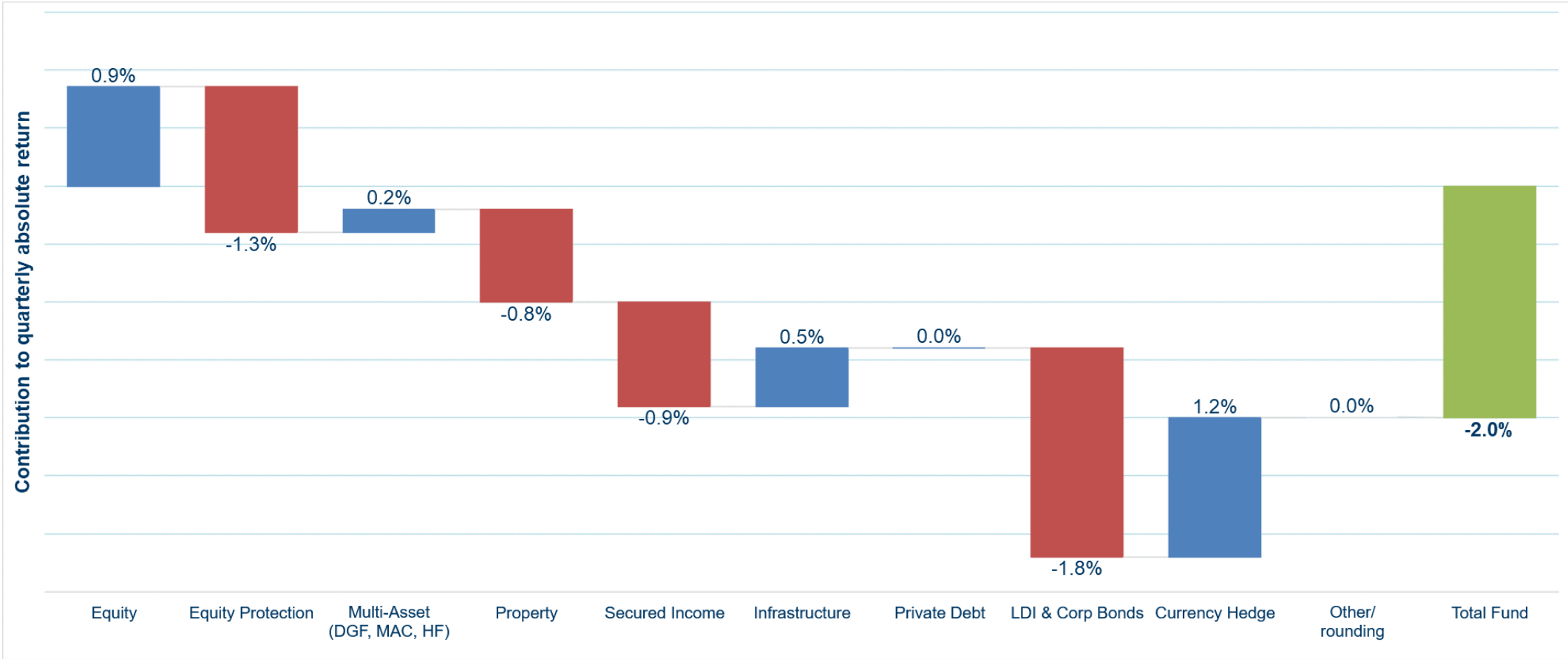
Source: Custodian, Mercer estimates. Returns are net of fees.

Commentary

- As illustrated on the next slide, the fall in the value of Fund assets over the quarter was driven mainly by the contraction of the LDI assets, a detraction from the Equity Protection and valuation changes within property-related assets.
- The Currency Hedge added to returns amid the recovery to Sterling, whilst the Infrastructure assets continued to show resilience.
- Relative performance in Q4 was generally positive within Equity, Multi-Asset Credit and Infrastructure, but negative within Secured Income, Property and Private Debt.
- Drivers of underperformance over three years include the Equity Protection strategy (as we would expect given the positive performance from the physical equity holdings), Overseas Property and the Secured Income portfolio.

Total Fund Performance Attribution – Quarter

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Source: Custodian and Mercer estimates

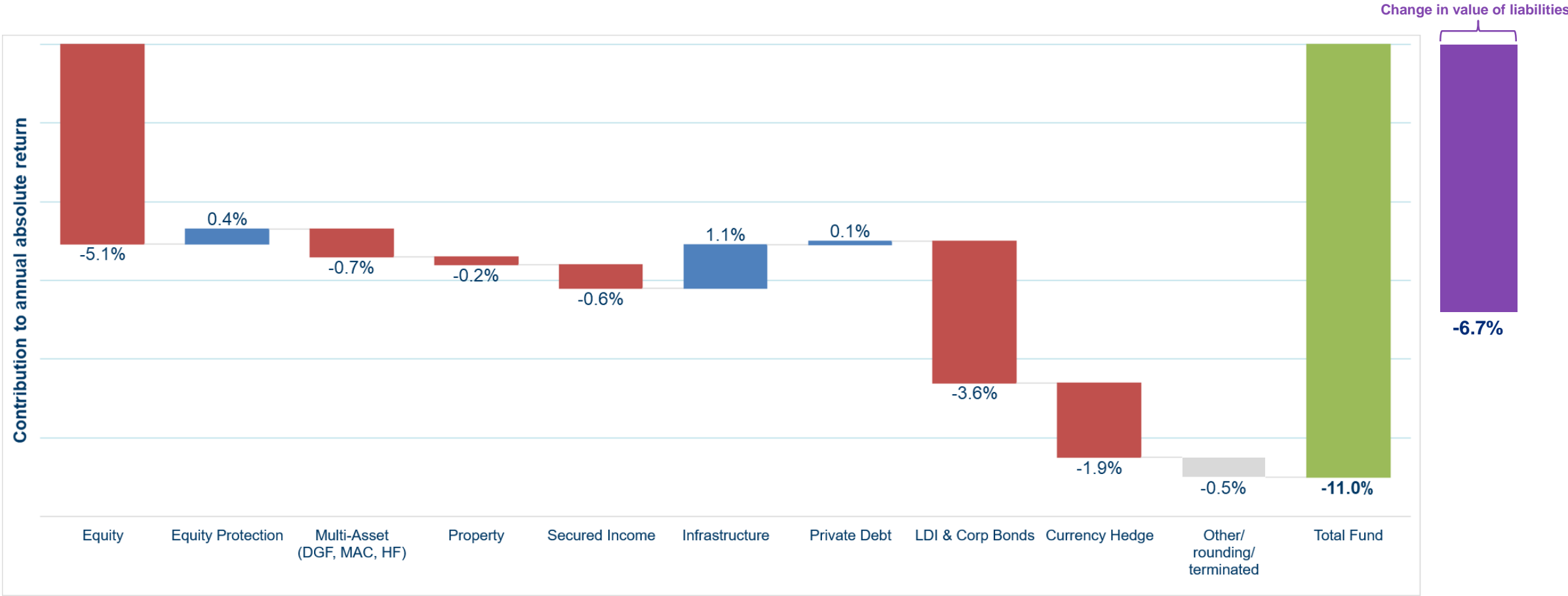
'Other' contributions to the total can include the relatively small holdings in the ETF, cash, the impact of cashflows and terminated mandates, as well as rounding.

The fall in the value of Fund assets over the quarter was driven mainly by the contraction of LDI assets, as inflation fell. There was also a negative impact on returns from the Equity Protection, and continued challenges to capital valuations within the Property and Secured Income portfolios.

This was offset by positive Equity performance, resilience within Infrastructure and the Currency Hedge overlay.

Total Fund Performance Attribution –1 Year

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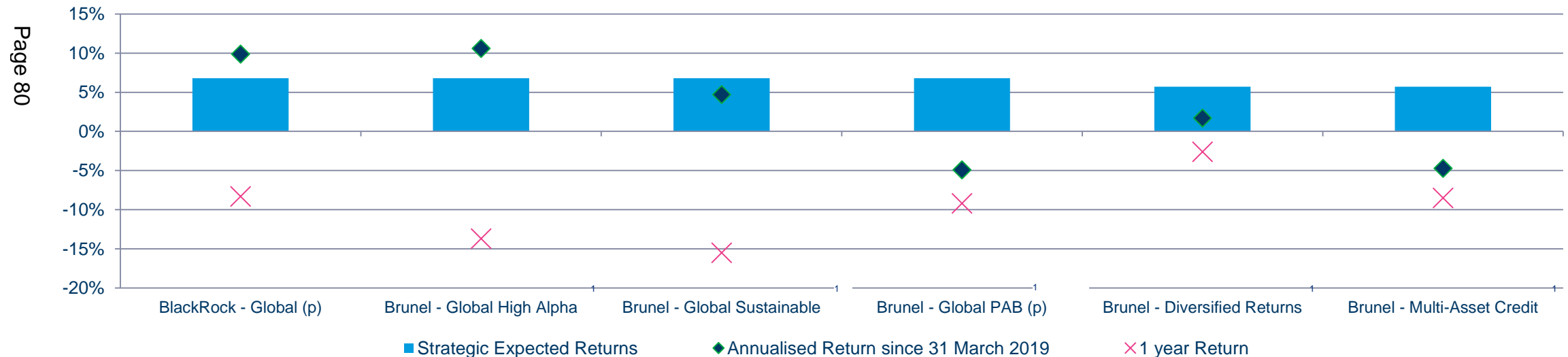


Source: Custodian and Mercer estimates
'Other' contributions to the total can include the relatively small holdings in the ETF, cash, the impact of cashflows and terminated mandates, as well as rounding.

The negative returns from equities, LDI and currency hedging were the main drivers of negative performance over the 1 year period.
The Infrastructure portfolio and the Equity Protection cushioned losses.

Performance vs. Expected Strategic Returns

	BlackRock Passive Global Equity	Brunel Global High Alpha	Brunel Global Sustainable	Brunel Passive Global PAB	Brunel Diversified Returns	Brunel Multi-Asset Credit
Benchmark allocation	4.0%	12.5%	15.0%	10.0%	6.0%	6.0%
Commentary	Returns above strategic expectations since inception, but below over the year. Mandate has tracked the underlying market.	Returns above expectations since inception, but below over the year. Relative performance has been weaker during general market rotations from Growth over the past couple of years.	Returns below expectations due to mandate underperformance since inception.	Returns below expectations due to equity market weakness since inception.	Returns below expectations due to weakness in growth asset markets since inception.	Returns below expectations due to the negative returns across fixed income markets in 2022.



Notes:

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

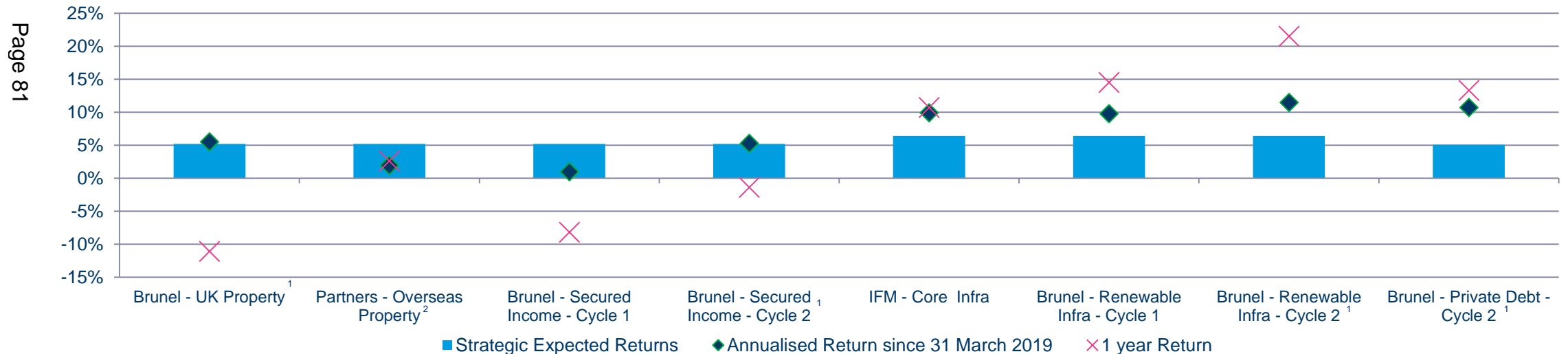
Actual returns are from 31 March 2019 to 31 December 2022, except if otherwise stated below. Returns for periods over a year have been annualised.

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 UK Property	Partners Overseas Property	Brunel Secured Income	IFM Core Infra	Brunel Renewable Infra	Brunel Private Debt
Benchmark allocation	3.75%	3.75%	10.0%	5.0%	5.0%	5.0%
Commentary	Returns above strategic expectations due to property market strength in 2021 / early 2022, but one year returns are below due to recent signs of stress.	Returns below expectations. Generally the mandate's longer-term performance is stronger.	Returns marginally above expectations for cycle 2 but below for cycle 1, since inception. Recent challenges to property markets have eroded returns, hence the negative returns over the year. Mandates are still in the drawdown phase.	Returns above expectations thanks to strong portfolio returns and the continued general resilience of the asset class.	Returns above expectations for both cycles thanks to strong asset returns, especially within the cycle 2 assets (first drawdown in October 2021). Mandates are still in the drawdown phase.	Returns above expectations thanks to asset class resilience, including because of the exposure to inflation.



Notes:

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

Actual returns are from 31 March 2019 to 31 December 2022, 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 September 2022, as this is the latest data available.

Mandate Performance to 31 December 2022

Manager / Asset Class	3 Months			1 Year			3 Year			3 Year Performance Target (% p.a.)**	3 Year Performance vs Target
	Fund (%)	B'mark (%)	Relative (%)	Fund (%)	B'mark (%)	Relative (%)	Fund (% p.a.)	B'mark (% p.a.)	Relative (% p.a.)		
BlackRock Passive Global Equity	2.0	1.9	+0.1	-8.3	-7.8	-0.5	8.1	8.4	-0.3	-	N/A (p)
Brunel Global High Alpha Equity	2.7	2.0	+0.7	-13.7	-7.4	-6.8	10.5	8.9	+1.5	+2-3	Target not met
Brunel Global Sustainable Equity	2.4	2.0	+0.4	-15.5	-7.6	-8.5	N/A	N/A	N/A	+2	N/A
Brunel Passive Global Equity Paris-Aligned	1.9	2.0	-0.1	-9.2	-9.2	0.0	N/A	N/A	N/A	-	N/A (p)
Brunel Diversified Returns Fund	1.0	1.4	-0.4	-2.6	4.4	-6.7	N/A	N/A	N/A	-	N/A
Brunel Multi-Asset Credit	3.7	1.7	+2.0	-8.5	5.5	-13.3	N/A	N/A	N/A	-	N/A
Brunel UK Property	-17.2	-13.4	-4.4	-11.1	-10.0	-1.2	N/A	N/A	N/A	-	N/A
Partners Overseas Property*	-1.0	2.5	-3.4	2.6	10.0	-6.7	0.2	10.0	-8.9	-	Target not met
Brunel Secured Income - Cycle 1	-9.7	2.7	-12.1	-8.2	10.5	-16.9	0.7	5.4	-4.5	+2	Target not met
Brunel Secured Income - Cycle 2	-8.8	2.7	-11.2	-1.4	10.5	-10.8	N/A	N/A	N/A	+2	N/A
IFM Core Infrastructure	5.5	1.9	+3.5	9.9	6.5	+3.2	8.5	5.7	+2.7	-	Target met
Brunel Renewable Infrastructure - Cycle 1	-0.1	2.7	-2.7	14.5	10.5	+3.6	10.5	5.4	+4.8	+4	Target met
Brunel Renewable Infrastructure - Cycle 2	10.1	2.7	+7.2	21.5	10.5	+10.0	N/A	N/A	N/A	+4	N/A
Brunel Private Debt - Cycle 2	-1.5	1.7	-3.1	13.3	5.4	+7.5	N/A	N/A	N/A	-	N/A
BlackRock Corporate Bonds	7.6	7.6	0.0	-30.6	-30.6	0.0	-9.4	-9.4	0.0	-	N/A (p)
BlackRock LDI	-12.4	-12.4	0.0	-26.9	-26.9	0.0	-1.7	-1.7	0.0	-	N/A (p)
Equity Protection Strategy	-3.4	N/A	N/A	0.4	N/A	N/A	-2.9	N/A	N/A	-	N/A

Source: Investment Managers, Custodian, Mercer estimates. Returns are net of fees. Returns are in GBP 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 target. Red = mandate underperformed target. Black = mandate performed in line with target (mainly reflecting passive mandates).

Performance for Partners in IRR terms. Performance for IFM is in TWR terms.

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 September 2022, as this is the latest data available.

**Where the outperformance target has not already been incorporated into the benchmark returns shown. See Appendix for further details.

Asset Allocation



Valuations by Asset Class

Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Benchmark (%)	Ranges (%)			Relative (%)
Global Equity*	1,328,632	1,363,750	24.8	26.1	16.5	11.5	-	21.5	+9.6
Global Sustainable Equity	733,562	751,503	13.7	14.4	15.0	10	-	20	-0.6
Paris-Aligned Equity	256,262	261,256	4.8	5.0	10.0	5	-	15	-5.0
Diversified Returns Fund	481,942	336,229	9.0	6.4	6.0	4	-	10	+0.4
Fund of Hedge Funds**	58,096	33,548	1.1	0.6	-	No set range			+0.6
Multi-Asset Credit	285,847	296,478	5.3	5.7	6.0	3	-	9	-0.3
Property	393,148	351,548	7.3	6.7	7.5	5	-	10	-0.8
Secured Income	498,032	447,365	9.3	8.6	10.0	0	-	15	-1.4
Core Infrastructure	434,221	457,903	8.1	8.8	5.0	2.5	-	7.5	+3.8
Renewable Infrastructure	127,711	148,589	2.4	2.8	5.0	0	-	7.5	-2.2
Private Debt	95,518	130,210	1.8	2.5	5.0	0	-	7.5	-2.5
Corporate Bonds	126,403	166,062	2.4	3.2	2.0	No set range			+1.2
LDI & Equity Protection	603,696	427,177	11.3	8.2	12.0	No set range			+3.8
Other***	-58,164	59,967	-1.1	1.1	-	0	-	5	+1.1
Total	5,365,047	5,231,441	100.0	100.0	100.0				

Source: Custodian, Investment Managers, Mercer. Red numbers indicate the allocation is outside of tolerance ranges.

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

*Includes synthetic exposure to this asset class, although in practice the physical assets would be located within the LDI allocation. As at 31 December, the synthetic exposure amount to c. £334m.

**Mandate due to be terminated.

***Valuation includes the internal cash, the ETF and currency instruments.

The deviations from target for Global Equity and Paris-Aligned Equity are because assets were transferred from the latter to the former to support the BlackRock QIF. In aggregate the Equity portfolio was only overweight by 3.9%.

The overweight to Core Infrastructure reflects its stronger relative recent performance. Whilst it is offset somewhat by the underweight to Renewable Infrastructure, rebalancing action has been taken with the disinvestment of £150m, which settled in January.

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*	678,367	-68,000	676,430	12.6	12.9
Brunel	Global High Alpha Equity	635,774		652,832	11.9	12.5
Brunel	Global Sustainable Equity	733,562		751,503	13.7	14.4
Brunel	Passive Global Equity Paris Aligned	256,262	-28	261,256	4.8	5.0
Brunel	Diversified Returns Fund	481,942	-149,895	336,229	9.0	6.4
JP Morgan	Fund of Hedge Funds	58,096	-20,153	33,548	1.1	0.6
Brunel	Multi-Asset Credit	285,847		296,478	5.3	5.7
Brunel	UK Property	213,281	-28	176,514	4.0	3.4
Partners	Overseas Property	167,737	-3,149	161,741	3.1	3.1
Brunel	Secured Income – Cycle 1	372,574	-2,853	333,634	6.9	6.4
Brunel	Secured Income – Cycle 2	125,458	-698	113,731	2.3	2.2
IFM	Core Infrastructure	434,221		457,903	8.1	8.8
Brunel	Renewable Infrastructure – Cycle 1	90,944	5,402	96,397	1.7	1.8
Brunel	Renewable Infrastructure – Cycle 2	36,767	8,473	49,460	0.7	0.9
Brunel	Renewable Infrastructure – Cycle 3	-	2,732	2,732	-	0.1
Brunel	Private Debt – Cycle 2	95,518	22,455	119,080	1.8	2.3
Brunel	Private Debt – Cycle 3	-	11,035	11,130	-	0.2
BlackRock	Corporate Bonds	126,403	30,000	166,062	2.4	3.2
BlackRock	LDI & Equity Protection	603,696	245,000	427,177	11.3	8.2
Record	Currency Hedging (incl. collateral)	-125,946	50,000	- 5,216	-2.3	- 0.1
BlackRock	ETF	1,980		1,993	0.0	0.0
Internal Cash	Cash	78,853	18,421	96,718	1.5	1.8
Total		5,365,047	-28,396	5,231,441	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.

*Includes synthetic exposure to this asset class, although in practice the physical assets would be located within the LDI allocation. As at 31 December, the synthetic exposure amount to c. £334m.

Current Topics



Current Topics

Investment Insights



Cashflow Position

- We have seen an increase in schemes that opt for distribution rather than reinvestment of income assets (i.e. credit), to supplement cash flows.
- Negative cash flow adds complexity to investment strategies due to dual imperatives of capital preservation and cash-flow management. There is additional risk in that a large disinvestment may be necessary after a market fall (September 2022), and can be a permanent crystallisation of the loss.

Figure 1. Proportion of schemes that are cash-flow negative

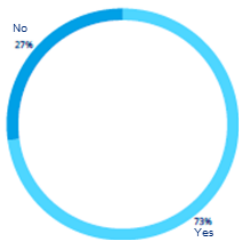
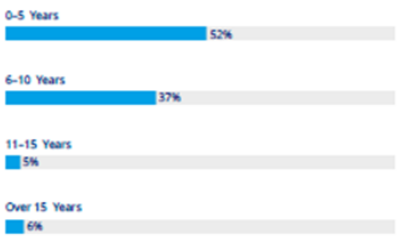


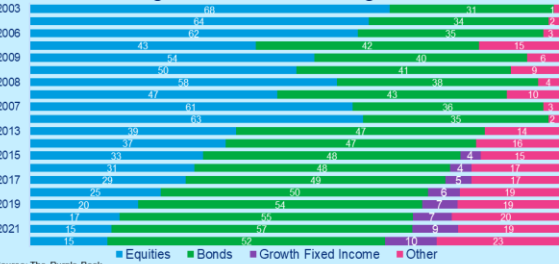
Figure 2. Expected time for cash-flow-positive schemes to become cash-flow negative



Scheme De-Risking

- The direction of travel for most schemes is to de-risk from growth into matching assets over time, and increase hedge ratios as opportunities arise.
- This helps prepare the scheme for the endgame, which in most cases is to move to a self-sufficient position and eventual buy out.

The decline in growth allocations is a long-term trend



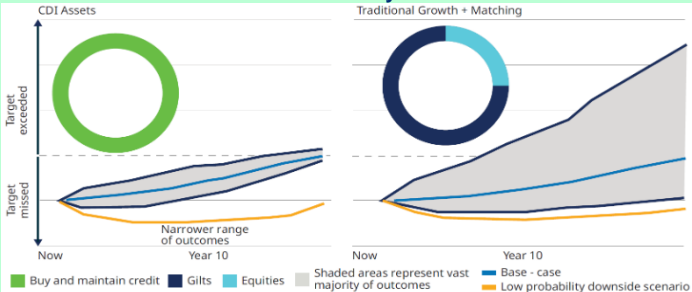
Source: The Purple Book



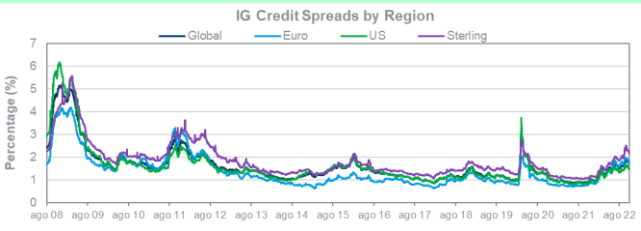
Investment Strategy - Income

- It is critical for schemes in negative cash-flow territory to avoid permanent losses in capital. As such, the scheme should try to avoid sales of assets (equity, credit) in times of market stress such as have been witnessed in recent months.
- An increase in the allocation to income generation assets presents a more stable flightpath, and wider credit spreads over 2022 present an attractive entry point for many investors.
- Some income assets are 'semi-liquid' in terms of capital, which needs to be considered carefully in today's environment, however they may still have a role in generating high levels of predictable income.

Schemes can reduce volatility via income assets



Credit spreads widened in 2022 as markets declined



Relevance to the Fund



The Fund reviewed the level of income generation within the portfolio. As part of this, it was confirmed that the Fund is currently cashflow negative, although the majority of this gap is expected to be covered by income from assets.

It was agreed that exploratory discussions could take in due course with Brunel regarding the possibility of starting to receive income from the Equity and MAC portfolios..



The Fund receives frequent updates on market developments and prospects. The Fund has exposure to assets that are positioned for the transition. The Fund has a degree of dynamism through the Equity Protection strategy.

Themes and Opportunities 2023 - Déjà New

History Rhyme

Resources conflict, weak growth, soaring inflation, and unconventional fiscal policy leave investors looking to the lessons of yesteryear on how to be equipped for whatever comes next. With the withdrawal of liquidity, markets will have to stand on their own two feet, increasing the value of capital.

Position for Transition

The decline in commodity availability has highlighted the need for energy security, energy innovation and a long overdue overhaul of ageing infrastructure. Necessity is the mother of invention, and our current challenges will drive the next wave of technologies in energy, the environment, healthcare, and beyond.

Degrees of Freedom

'Degrees of freedom' is mathematics speak for wiggle room. This theme speaks to the power of quality governance: the ability to capitalise on opportunities, the capacity to make and manage sophisticated investments, particularly in private markets, and the potential to dynamically diversify.

Appendix

Q4 2022 Equity Market Review

Global equity markets returns were positive in October and November. Positive sentiment was driven by a tentative slowdown in inflation and resilient economies.

In December, equity markets gave back some of their gains as major central banks reiterated their hawkish messaging.

Global Equities returned 7.5% in local currency terms (but 2.1% in sterling terms as the the dollar depreciated versus sterling).

US equities returned 7.2% in local terms, whilst European (ex-UK) equities returned 11.6%. Japanese equities returned 3.0%.

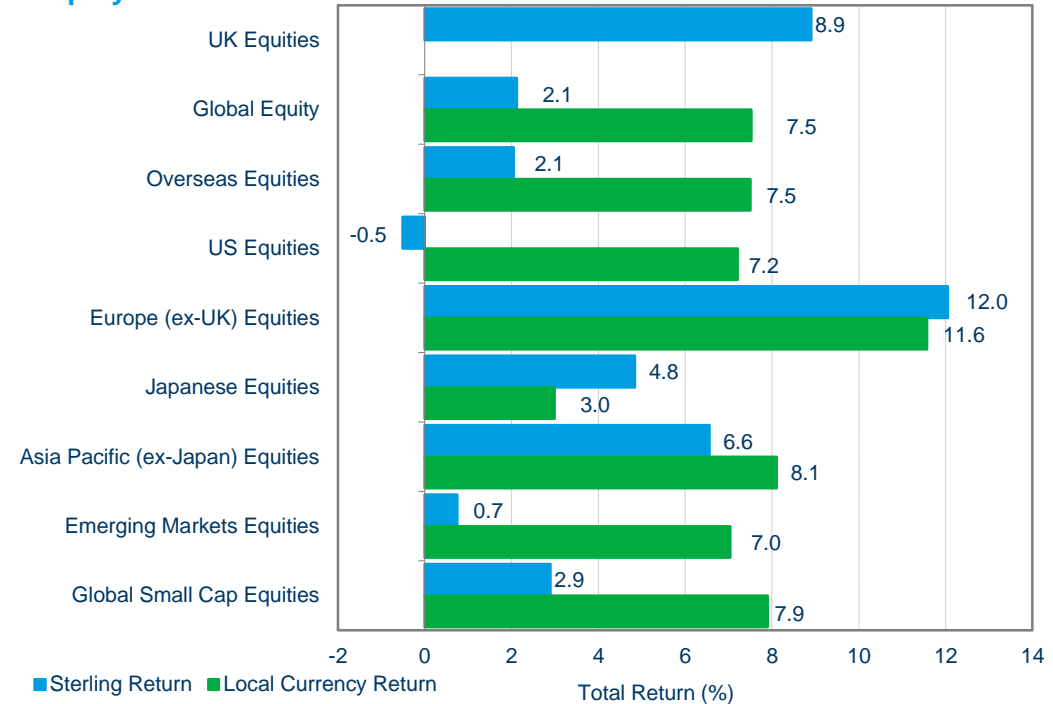
Emerging markets ('EM') equities 7.0% in local terms.

Global small cap stocks returned 7.9% in local terms. Small caps slightly outperformed global equities due to their lower implied duration but remain vulnerable in a recessionary environment due to their cyclical nature.

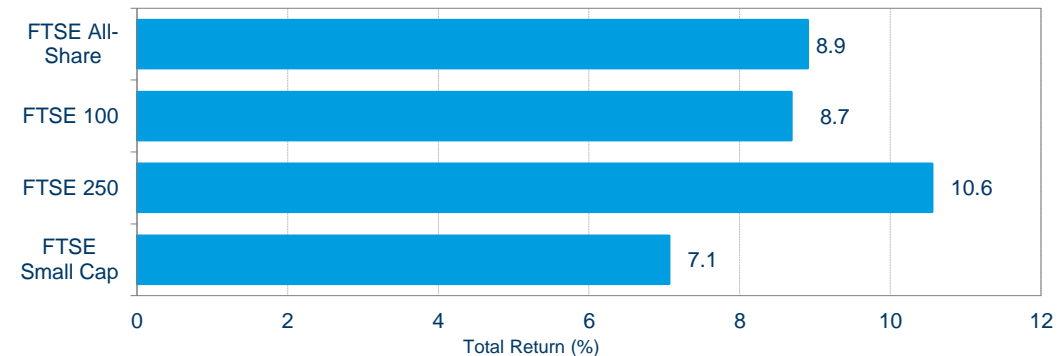
The **FTSE All Share** index returned 8.9% over the quarter with the large cap **FTSE 100** index returning 8.7%. Sentiment towards the UK improved considerably over the quarter, partly due to positive global momentum but also as political stability returned and energy prices fell. The **FTSE 250** therefore outperformed the FTSE 100 and FTSE All Share by a wide margin.

This made **UK large** and **mid-cap** stocks the second best performer for major developed equity markets, after Europe ex UK.

Equity Performance

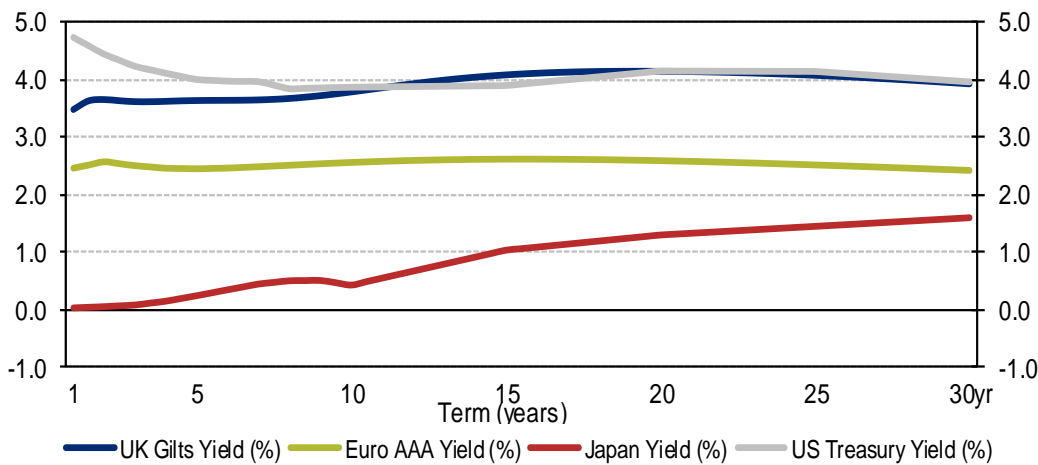


FTSE Performance by Market Cap

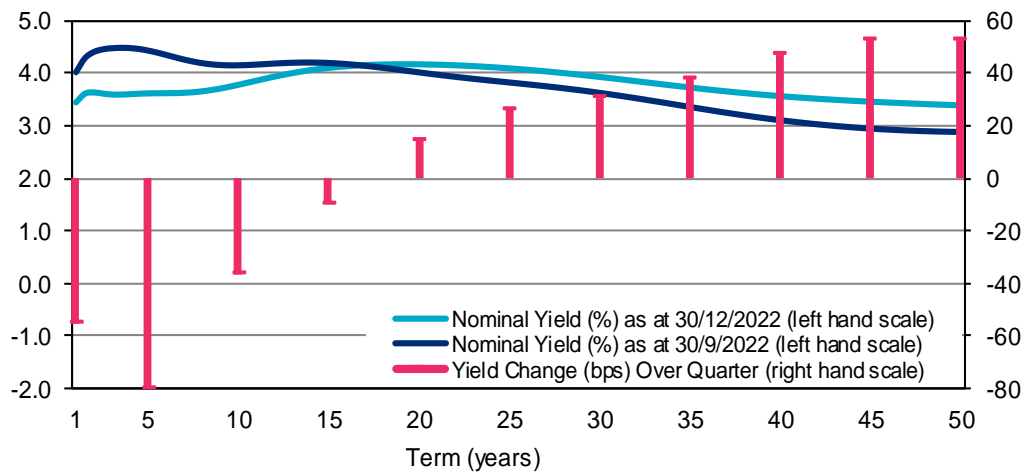


Q4 2022 Bond Market Review

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Source: Mercer and Bloomberg.



Source: Mercer.

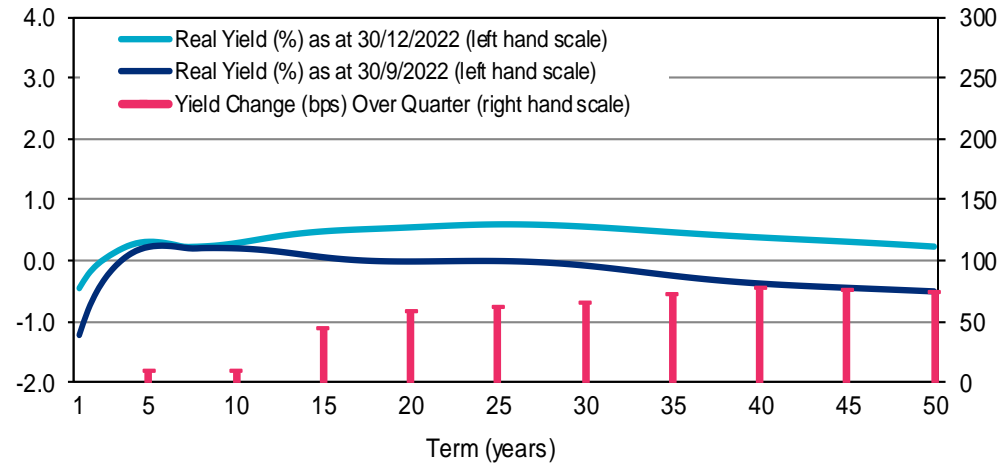
Government Bond Yields

Global government bond yields moved in different directions across regions. In the UK, curves steepened as short-dated bond yields fell and longer dated maturities rose. In the US, the curve remained inverted with short dated bond yields much high than longer dated bond yields. 2-year yields in the UK fell - 66bps and rose 14bps in the US. 10-year gilt yields fell by 42bps while US 10-year treasury yields rose by 5bps.

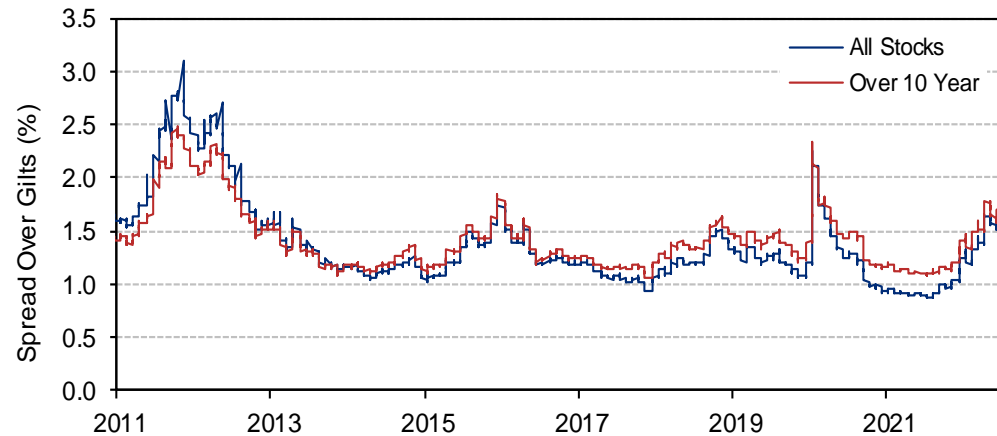
Both the Fed and the Bank of England raised interest rates over the quarter several times and are expected to continue to tighten policy into 2023. In particular, the Bank of England, raised rates twice by a total of 1.25% to 3%. The BoE was also still active in the gilt market early on in the quarter following the gilt-market crisis at the end of Q3.

Eurozone yields also rose significantly; the European Central Bank raised rates twice over the quarter. It primed markets that further hikes would likely follow in 2023.

Q4 2022 Bond Market Review



Source: Mercer.



Source: Refinitiv.

UK Index-Linked Gilt Yields

UK real yields rose across the curve. Real yields for all but the shorted durations are now positive. Market based measures of inflation expectations, in the form of breakeven inflation, fell over the quarter. The UK 10-year breakeven rate fell to 3.6%, 54bps lower than at the end of last quarter as markets expect inflation to peak as tighter monetary policy takes effect and energy prices have stabilized for now.

Corporate bonds

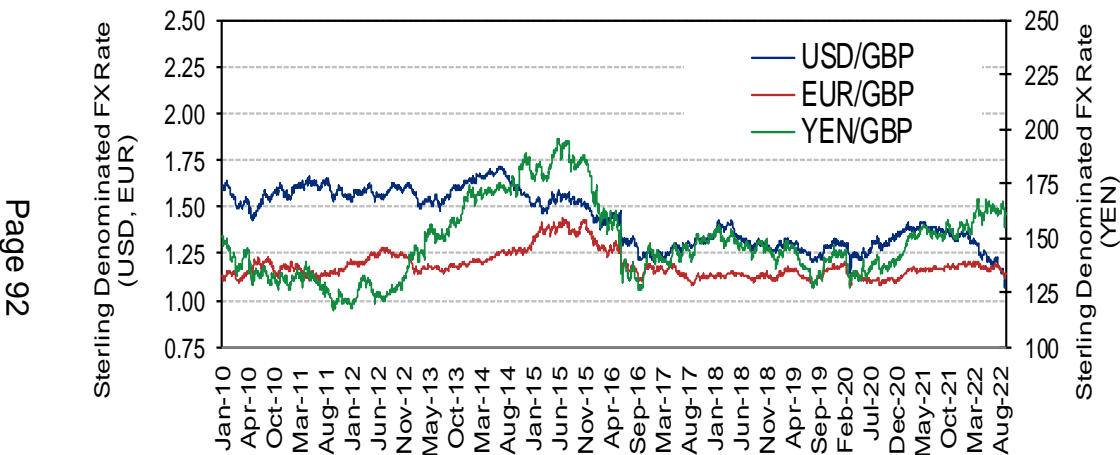
Spreads on UK investment grade credit tightened and outperformed equivalent duration government bonds. This was in line with the positive performance seen elsewhere in risk assets such as equities.

Q4 2022 Currency Market Review

Sterling’s performance over the quarter was mixed. It appreciated sharply versus the US dollar driven by general dollar weakness but depreciated slightly versus euro and yen as the inflation outlook turned more favorable for the Eurozone and for Japan relative to the UK.

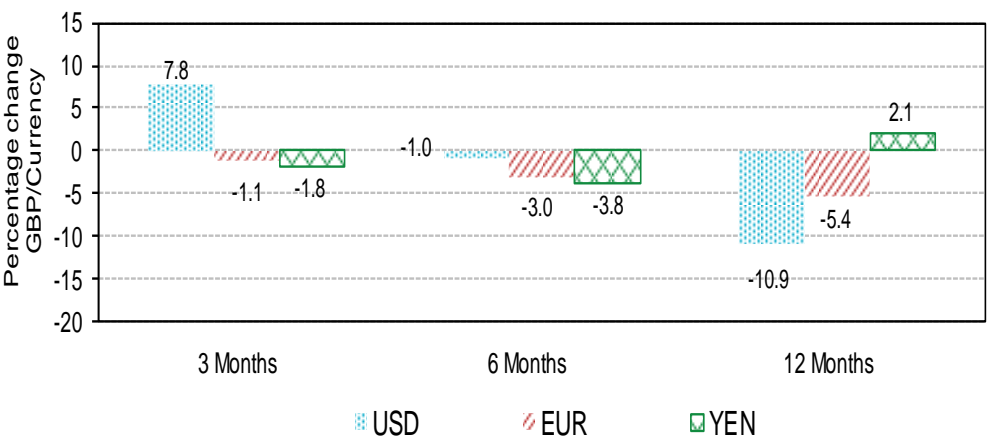
On a 12-months basis, sterling has depreciated considerably versus US dollar and euro but has strengthened slightly versus yen.

Sterling Denominated FX Rate



Source: Refinitiv.

Change in sterling against foreign currencies



Source: Refinitiv.

Q4 2022 Property

UK property as measured by the MSCI Index decreased by 14.5% over the quarter.

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	Passive Global Equity Paris Aligned	FTSE Developed World PAB Index	-	October 2021
Brunel	Diversified Returns Fund	SONIA +3-5% p.a.	-	July 2020
Brunel	Multi-Asset Credit	SONIA +4-5% p.a.	-	June 2021
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	SONIA +5% p.a.	-	April 2016
Brunel	Renewable Infrastructure	CPI	+4%	January 2019
Brunel	Private Debt	SONIA + 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	-	-	-

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

Important Notices

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Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND INVESTMENT PANEL
MEETING DATE:	8 MARCH 2023
TITLE:	Risk Management Framework Review for Periods Ending 31 December 2022
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 31 December 2022</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 (RMF) 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. Exempt Appendix 1 shows all risk management strategies are rated green and continue to perform in line with expectation. At the end of December and based on the existing collateral adequacy framework, the collateral in the QIF remained rated 'green'. However, FRMG are reviewing the current collateral adequacy framework with the manager who has indicated a greater level of collateral may be required in future to ensure resilience against market shocks of the same magnitude as those seen during the gilts crisis in September.
- 1.3. Exempt Appendix 1 is the Mercer report the FRMG considered at its last meeting on 9 February. A summary of the FRMG discussion is included in Section 5 of this report.

2. RECOMMENDATION

The Avon Pension Fund Investment Panel is asked to note:

- 2.1. **The performance of each of the underlying RMF strategies**
- 2.2. **That ongoing FRMG workstreams relating to the collateral adequacy and LDI trigger frameworks**

3. FINANCIAL IMPLICATIONS

- 2.3. 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

Strategy/Objective	Commentary	RAG	Trend
LDI	<ul style="list-style-type: none"> • Trigger framework currently suspended pending strategic review • Interest rate hedge ratio c. 40% • Inflation hedge ratio c. 40% • Mandate performed as expected. Manager in compliance with investment guidelines 		↔
Equity Protection	<ul style="list-style-type: none"> • Since inception the dynamic EPS has led to c. £8.1m of downside impact. This consists of £12.6m foregone on the developed market indices and £4.5m of gains crystallised on the emerging market leg that was closed out in December 2021. 		↔
Low Risk Corporate Bonds	<ul style="list-style-type: none"> • Level of cashflow matching has declined since inception due to the rise in inflation which impacts the liability cashflows but not the corporate bonds cashflows. Ongoing monitoring by FRMG – to update mandate following provision of 2022 actuarial valuation data. 		↔
Collateral Position	<ul style="list-style-type: none"> • TPR and the Central Bank of Ireland (as the regulator of the QIF) have issued guidance on collateral requirements following significant market volatility in Sept/Oct. • FRMG have worked with the manager to ensure collateral 'headroom' and monitoring levels are in line with current best practice. To formalise new collateral adequacy framework post ISR 2Q23. 		↔

5. FRMG CURRENT WORKSTREAMS

- 5.1. The LDI trigger framework was paused in September last year due to the collateral implications arising from the market volatility associated with the 'mini-budget'. FRMG will await the conclusion of the investment strategy review in order to better assess the future role of LDI within the investment portfolio and whether the trigger framework in its current form is still fit for purpose.
- 5.2. LDI managers are now revisiting their collateral monitoring frameworks, including their calculation methodologies, in order to improve the robustness of client portfolios. Based on regulatory guidance from TPR and the Central Bank of Ireland the recommended collateral headroom is now 300-400bps. The collateral headroom at the end of December was c.190bps. Post quarter end BlackRock sold a portion of the passive equity fund that is in place to release cash for collateral purposes, taking the headroom to c. 350bps. FRMG will work with the manager to formalise the collateral monitoring framework in March, following the conclusion of the investment strategy review.

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 is addressing this through its strategic asset allocation to Paris Aligned 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 Head of Pensions has reviewed this paper 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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Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref:LGA-1242468

Meeting / Decision: Avon Pension Fund Investment Panel

Date: 8th March 2023

Author: Nathan Rollinson

**Report Title: Risk Management Framework Review for Periods
Ending 31 December 2022**

List of attachments to this report:

Exempt Appendix 1 – Mercer Report: Risk Management Framework
Review to 31 December 2022

The appendix 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.

Document is Restricted

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	8 March 2023	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 2023. 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
14 July 2023	Strategic: <ul style="list-style-type: none"> • Post elections training session (TBC) Routine: <ul style="list-style-type: none"> • Quarterly Investment Performance • Risk Management Framework Monitoring
08 September 2023	Strategic: <ul style="list-style-type: none"> • Risk Management Framework Review w/ recommendation to Committee • Responsible Investment Disclosures: TCFD Statement • Local Impact Portfolio Routine: <ul style="list-style-type: none"> • Quarterly Investment Performance • Risk Management Framework Monitoring
01 December 2023	Strategic: <ul style="list-style-type: none"> • Local Impact Portfolio Routine: <ul style="list-style-type: none"> • Quarterly Investment Performance • Risk Management Framework Monitoring

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.

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

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