Bath & North East Somerset Council

Improving People's Lives

Avon Pension Fund Committee Investment Panel

Date: Friday, 15th September, 2023
Time: 10.00am
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
Democratic Services
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Web-site - http://www.bathnes.gov.uk
E-mail: Democratic_Services@bathnes.gov.uk

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

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

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

3. **Recording at Meetings:-**

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

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

4. **Public Speaking at Meetings**

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

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

Further details of the scheme can be found at:

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

5. Emergency Evacuation Procedure

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

6. Supplementary information for meetings

Additional information and Protocols and procedures relating to meetings

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

Avon Pension Fund Committee Investment Panel - Friday, 15th September, 2023

at 10.00am 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

   Mel Clarke – Statement re: Divestment from fossil fuels.

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: 14TH JULY 2023 (Pages 7 - 20)

8. LOCAL IMPACT PORTFOLIO FRAMEWORK (Pages 21 - 28)

The Panel are asked to consider the proposed framework to recommend to the Committee at its meeting on 22nd September 2023.

9. REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30TH JUNE 2023 (Pages 29 - 112)

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 30th June 2023.

10. RISK MANAGEMENT FRAMEWORK REVIEW FOR PERIODS ENDING 30 JUNE 2023 (Pages 113 - 144)

11. FORWARD AGENDA (Pages 145 - 146)

This report sets out the forward agenda for the Panel for 2023/24. 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, 14th July, 2023

Members: Councillor Shaun Stephenson-McGall (Chair), Councillor Paul Crossley, Councillor Chris Dando, John Finch, Pauline Gordon and Jackie Peel

Advisors: Nick Page (Mercer), Paul Middleman (Mercer) and Joshua Caughey (Mercer)

Also in attendance: Nick Dixon (Head of Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk), Nathan Rollinson (Investments Manager), Jamie Milne (Schroders Greencoat), Lee Moscovitch (Schroders Greencoat) and Tatiana Zervos, (Schroders Greencoat)

1 EMERGENCY EVACUATION PROCEDURE

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

2 DECLARATIONS OF INTEREST

There were none.

3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

Councillor Paul Crossley informed the Democratic Services Officer that he had encountered a problem when trying to view the agenda for the meeting through the Modern Gov application.

7 MINUTES: 25TH NOVEMBER 2022 & 8TH MARCH 2023 (INFORMAL)

The Panel **RESOLVED** that the minutes of the meetings held on 25th November 2022 and 8th March 2023 (Informal) be confirmed as a correct record and signed by the Chair.

8 LOCAL IMPACT PORTFOLIO PROPOSAL

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.

9 RISK MANAGEMENT FRAMEWORK REVIEW

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

10 FORWARD AGENDA

The Group Manager for Funding, Investment & Risk introduced the report to the Panel. She explained that dates for meetings in 2024 would be sourced soon now that the Panel was in place following the recent Local Elections.

John Finch commented that the Mercer Equity Protection Strategy analysis should be added as an agenda item for the meeting scheduled for 15th September if possible.

The Group Manager for Funding, Investment & Risk informed the Panel that they had all been invited to the Brunel Investor Day via Teams on 20th September and that on 19th October there would be an in-person Climate Workshop.

The Head of Pensions commented that they intend to share their thoughts on climate policy with a range of stakeholders across the Local Authorities in due course.

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

The meeting ended at 4.36 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**
MEETING DATE:	**15 SEPTEMBER 2023**
TITLE:	**LOCAL IMPACT PORTFOLIO FRAMEWORK**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Local Impact Portfolio framework	

1 THE ISSUE

1.1 The strategic asset allocation agreed by the Committee includes a 3% allocation to a Local Impact Portfolio. This paper sets out the proposed framework for the portfolio including the portfolio specification, implementation routes, decision making and monitoring.

1.2 The proposed framework reflects the highly differentiated opportunity set available in local investing, how conflicts of interest will be managed and how decisions will be implemented.

1.3 The Panel are asked to consider the proposed framework to recommend to the Committee at its meeting on 22 September 2023.

2 RECOMMENDATIONS

The Investment Panel:

2.1 **Agree the Local Impact Portfolio Framework to recommend to the Pensions Committee.**

3 FINANCIAL IMPLICATIONS

3.1 Once the portfolio starts to consider investment opportunities the budget for advice, due diligence work will be brought to Committee.

4 PROPOSED FRAMEWORK

4.1 The proposed framework is set out in Appendix 1. The main principles are that:

a) the assets will be managed by external managers (Brunel or others) or via externally managed funds to manage conflicts of interest;

b) collaboration with Brunel/client funds is preferred implementation route;

c) internal decision making must be flexible, robust and timely so that opportunities are not missed.

4.2 The main aspects that the Panel need to consider are:

a) Investment Objectives – the definition of impactful assets, the target return and the benchmark for monitoring performance – *note these are unchanged from those agreed as part of the Investment Review in March 2023.*

b) Geographic coverage – to maximise the opportunity set the focus will be the South West region with an expectation that some will be within the Avon area – *note this is unchanged from that agreed as part of the Investment Review in March 2023.*

c) Investment time horizon – initial 3% allocation expected to be invested within 5 years.

d) Portfolio specification – a core /specialist approach is proposed to give flexibility in terms of size of investments, access to niche assets and implementation routes. Not all assets will deliver the return target (i.e. it is not a hurdle) but the portfolio overall will need to achieve the target.

e) Implementation options – there is a governance impact on the Fund depending on the implementation routes. For the amount of capital to be invested, implementation with a low to medium governance burden is preferred.

f) Advice – external investment, legal and tax advice will be commissioned as needed on a case-by-case basis. For investments via Brunel, advice will be required as to the suitability of the investment based on the portfolio specification. For non-Brunel led investments more detailed due diligence will be commissioned by the Fund.

g) Decision making – approving the construction of a portfolio (that is, allocations to opportunities within the agreed asset allocation policy) is already delegated to the Panel. However, as the Panel meets quarterly, the preference is for a smaller working party of Panel members and officers to ensure timely decisions are made. **The Panel needs to agree which option they wish to include in the recommended framework.**

h) Portfolio monitoring – will be part of the Panel's remit to monitor the investment performance of all portfolios. It is proposed (once capital has been invested) to issue an annual activity and impact report for the Committee and wider stakeholders.

4.3 The Panel are asked to agree the proposed framework to be recommended to the Committee for approval. Exempt Appendix 1 will then be amended for presenting to the Committee.

5 RISK MANAGEMENT

5.1 An effective governance structure, defining clear responsibilities, and ensuring that the decision-making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

6 EQUALITIES STATEMENT

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

7 CLIMATE CHANGE

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

8 OTHER OPTIONS CONSIDERED

8.1 None.

9 CONSULTATION

9.1 The Head of Pensions has had the opportunity to input to this report and has cleared it for publication.

Contact person	Liz Woodyard, Group Manager, Funding, Investments & Risk 01225 395306
Background papers	None
Please contact the report author if you need to access this report in an alternative format.	

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Appendix 1

Impact Investing Portfolio Framework

1. Investment objectives:

- Invest in assets / investment funds where there is an intention to provide a local impactful outcome or there is additionality whereby the investment generates a return / outcome that would otherwise not have been realised.
- Target the Fund's overall return objective of c. 6.5%, net of fees over a 10-year period. Within the portfolio there will be a range of returns reflecting the underlying assets.
- Due to the heterogenous nature of the proposed impact portfolio, the return target will also serve as the benchmark.

2. Geographic Coverage:

The focus will be the South West region but can invest more widely in the UK if broader investment enables a material SW component. There is an expectation that some of the assets will be within the Avon area but not at the expense of return or diversification.

3. Capital allocated and investment time horizon:

An initial allocation of 3% (c. £170m) of the Fund's assets will be invested in the Impact Portfolio, expected to be invested within 5 years depending on the opportunities that arise.

4. Portfolio Specification and Implementation:

- Core portfolio: this will deploy capital at scale. This will include climate solutions and affordable housing as they address two major challenges for the local area and can generate attractive returns for the fund.
- Specialist portfolio: this will be for smaller niche investments that could be higher risk and potentially higher return. Such assets could include SME finance that generates a stronger local economy, better employment opportunities or regeneration.
- Social portfolio: this could include investments such as supported living property, housing for the homeless to provide targeted housing; schemes to assist offenders gain meaningful employment.

All investments will be managed by 3rd party managers. Implementation will be via Brunel portfolios or Brunel management of the assets where possible, or directly into managed funds or pooled funds where Brunel is not able to provide a portfolio or manage the assets. All managers selected, including Brunel, will be required to provide look through reporting of the local impact from the underlying assets. The Fund will collaborate with other Brunel funds where this is in its interest and Brunel is not able to provide a portfolio or manage the assets.

A summary is shown in the following table:

	Approx. Split	Asset Class	Expected Return	Implementation Route	Indicative fee (bps)
Core	75%	Climate Solutions	7%	Brunel / External Manager	TBC
		Affordable Housing	6-9%	Brunel / External Manager	50-75
Sector Specialist	20%	Sector Specialist 1 (e.g. Local Private Equity / SME Finance)	6% +	Brunel / External Manager	TBC
		Sector Specialist 2 (A.N. Other - assumed return neutral)	x-6%	Brunel / External Manager	TBC
Social Specialist	5%	Social Specialist 1 (e.g. Supported Housing)	6-7%	Brunel / External Manager	75-100

Implementation options:

a. **Brunel management (governance burden LOW)** - Brunel facilitates investments through Brunel portfolios or manages them as they do for some private markets where Avon holds units in external funds rather than Brunel portfolios. The governance around this would be in line with other private market portfolios.

b. **Pooled funds (governance burden MEDIUM)** - Alternatively some of the opportunities may be wrapped up in a pooled vehicle managed by the external manager in which we could directly hold units (not via Brunel). In this case the governance burden would be higher than if Brunel manages the assets, but not as high as establishing an SPV.

c. **Special Purpose Vehicle SPV (governance burden HIGH)** – If Avon were to invest directly into projects managed by an external manager but not via a fund (council housing projects for example), then an SPV could be needed to hold the assets. Would only need to explore if such investments will form part of the opportunity set and cannot be wrapped up in a pooled vehicle as it would increase the governance burden significantly.

5. Advice:

Where Brunel manages the opportunity, Brunel conducts all due diligence and Avon would obtain external advice to confirm it meets our strategic objectives for the portfolio. Our retained consultant should provide this as they do for other portfolios.

For non-Brunel led investments, the Fund will procure its own external advice. As some of these could be very small, niche opportunities, it may be more cost efficient to appoint a specialist advisor to do the due diligence for the Fund. Each opportunity should be assessed on a case-by-case basis as to whether the retained consultant or a specialist advisor is best placed to provide due diligence. Tax and legal advice will be procured separately as needed.

6. Decision making:

There are 3 options for decision-making. Involving the full committee in the decision-making to establish a portfolio would not be line with the current Terms of Reference for other aspects of the investment strategy.

In each option officers and advisors would provide the due diligence and take recommendations to the relevant decision-making body.

	Option	Advantages	Disadvantages	Governance process
1.	**Delegate decisions to officers**	Quick process. Knowledgeable.	PC/IP not involved. No internal challenge.	Would report all decisions to IP. Would require ToR change.
2.	**Delegate decisions to Investment Panel**	Knowledgeable group, internal challenge to recommendations. Manage elevated risks in a new investment area. Will be responsible for monitoring.	Formal meeting cycle will slow decisions. Less easy to meet at short notice.	Would report all decisions to PC. No change to ToR required.
3.	**Delegate to a Working Group of Panel members and officers ***	Knowledgeable group, internal challenge to recommendations. Manage elevated risks in a new investment area. Smaller group would be able to meet at short notice. Retain accountability within the Panel. As members of Panel will be responsible for monitoring.	Extra group to support within governance framework.	Would report all decisions to IP. Would require ToR change.

* For option 3 it is proposed that the working group would consist of at least 3 panel members including the Chair of the Panel and 1 independent member, plus the Head of Pensions, Group manager, Investments and Investments manager.

7. **Portfolio monitoring and reporting:**

The portfolio will be monitored by the Panel as part of the quarterly investment performance and portfolio monitoring process. The committee will be informed of any decisions through its quarterly Investment Strategy report.

In addition an annual portfolio report will be prepared for the Committee and wider stakeholders providing an update on activity and the impact of the assets on the local area.

September 2023

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**
MEETING DATE:	**15 September 2023**
TITLE:	**Review of Investment Performance for Periods Ending 30 June 2023**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Quarterly Portfolio Monitoring Summary Appendix 2 – Brunel Quarterly Performance Report Appendix 3 – Mercer Performance Monitoring Report	

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 30 June 2023.

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. 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 were £5,455m on 30 June 2023 and delivered a net investment return of -0.1% over the quarter. The marginal decline in the value of

Fund assets over the quarter was driven mainly by the protection assets (LDI and equity protection). The UK property portfolio and the long-lease property component of the Fund's Secured Income allocation also struggled to generate meaningful positive performance with property valuations effected by the high interest rate environment. Positive equity performance served to offset much of the negative performance from real assets. The passive Paris-aligned index outperformed the two active equity mandates.

4.2. Over 1 year the Fund returned -0.3% in absolute terms and -6.7% in relative terms, again driven by the equity protection strategy and property portfolios. Over 3 years the Fund returned 3.2% p.a., underperforming its benchmark by 4.5%. The currency hedge was additive to returns over the quarter and 1 year and neutral over 3 years. Detailed performance attribution can be found on p.20/21 of Appendix 3.

B – Investment Manager Performance

4.3. Brunel reports on the performance of the assets they manage on behalf of the Fund. The report for each Brunel portfolio can be found on pages 17-37 of Appendix 2.

4.4. Listed equity returns were positive on an absolute basis. The Global High Alpha portfolio returned 3.9%, flat against its benchmark. Stock selection was largely positive and offset the impact of being underweight the largest technology stocks including Apple. Since inception this portfolio has outperformed its benchmark by 2.0%. The Global Sustainable Equity portfolio was flat over the quarter, underperforming its benchmark by 3.2%, underweight positions in large technology stocks being the largest detractor. The Panel should note that the top-7 global stocks[1] contributed 65% of total global index returns. Since inception in 2021, this portfolio has underperformed its benchmark by 4.3% though we believe that the long-term proposition for sustainable stocks remains intact. The passive Paris-aligned index outperformed its active counterparts to produce an absolute return of 5.3% over the quarter.

Better than expected corporate earnings, the expectation of more dovish global central bank policy, and a cooling of US inflation helped the Multi Asset Credit (MAC) portfolio deliver an absolute return of 1.8%, flat against its primary (cash + 4%) benchmark. Since inception the MAC portfolio has delivered -1.7% in absolute terms, underperforming the cash benchmark by -7.5% 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 -0.8%. Equity positions within the DRF mandate benefitted while currency returns and sovereign bond positions detracted. Since inception the DRF fund has generated +2.1%, underperforming its cash benchmark by -2.2%.

The fundraising environment for private markets has experienced a significant slowdown in 2023 triggered by higher interest rates which translate into a higher cost of capital. The Fund's core infrastructure delivered an absolute return of 0.5% over the quarter. In local currency terms the return was 2.8%, reflecting increased demand for airport, pipeline and seaport assets. The Brunel infrastructure portfolios are still in build-up so performance is not yet meaningful.

[1] *Apple, Microsoft, Amazon, NVIDIA, Tesla, Alphabet and Meta – dubbed the 'magnificent seven'*

While the pace of deployment has slowed somewhat, it is still largely on track. Deployment rates can be found at Appendix 1. The focus over the coming quarters will shift from deployment to portfolio performance.

UK Property and Secured Income portfolios continue to face a challenging environment of higher interest rates, lower valuations and declines in transactional volume. However, the market is showing signs of improvement with the UK property portfolio returning 0.4% over the quarter. The operational infrastructure component of the Secured Income portfolio, which has benefitted from higher power prices over the past year, continues to offset depressed long lease property valuations.

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 12.4%. This portfolio remains in build-up phase with c.45% capital deployed at the end of the quarter.

5. INVESTMENT STRATEGY AND PORTFOLIO REBALANCING

5.1. **Returns versus Strategic Assumptions:** Returns versus the strategic assumptions used during the 2023 investment review can be found on p22/23 of Appendix 3. It should be noted that actual asset returns relate to a relatively short time period (post investment strategy review) so there are limitations at this stage to making direct comparisons with the longer-term strategic assumptions. Equity and liquid growth assets classes are generally delivering in line or exceeding expected returns. Property is below its modelled return and the other 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.

5.2. **Rebalancing:** A net amount of £125m was drawn down from a combination of cash at hand and the Fund’s liquidity management strategy to fund Brunel private market portfolios during the quarter, including the first drawdown to Cycle 3 Secured Income.

There were large transitions within the equity portfolio to achieve the agreed passive/active equity split and the creation of synthetic exposure to the MSCI Paris-aligned index was completed during the period.

A redemption request from IFM Infrastructure for £100m was submitted at the end of the quarter, addressing the overweight to the asset class due to strong returns. Proceeds will be used to fund private market calls arising from the Brunel portfolios.

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

5.4. **Voting and Engagement Activity:** Hermes engaged with 352 companies held by Avon in the Brunel active equity portfolios on a range of 1223 ESG issues. Environmental topics featured in 26% of engagements, 68% of which related directly to climate change. Social topics featured in 25% of engagements, where conduct and culture, human rights and diversity featured prominently. Of the 37% of Governance related engagements most focussed on executive remuneration and board diversity. Over the last quarter Hermes made voting recommendations at 454 meetings (6,430 resolutions). At 302 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. An effective governance structure, defining clear responsibilities, and ensuring that the decision-making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

7. EQUALITIES

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

8. CLIMATE CHANGE

8.1. The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable 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 had the opportunity to input to this report and has cleared it for publication.

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

Investment Dashboard at 30 June 2023

1. Investment Strategy

	Objective	Commentary	RAG	Trend
1	**Funding level**	• 97%. Estimated to be c.6% higher over year to 30 June • £155m deficit		⇧
2	**Investment Performance**	• Behind strategic benchmark over 1 and 3 years		⇩
	Qtr return	• Negative quarter of -0.1% protection assets lead detractor		⇩
	1 Year return	• Behind funding objective at -0.3% p.a.		⇧
	3 Year return	• Behind funding objective at 3.2% p.a.		⇧
	Local Impact investing	• Framework to be agreed at 15 Sept Panel meeting • Panel approved initial 1% of assets to local renewable infrastructure fund at July meeting		⇔

2. Portfolios

	Objective	Commentary	RAG	Trend
1	Brunel Listed Market portfolios	• Equity portfolio underperformance driven by quality, ESG bias, underweight large tech in Q2 23 • Credit portfolios benefitting from higher yields and favourable lending conditions • Portfolios benchmarked vs cash+ underperform due to higher interest rates – expected to readjust over time		⇧
2	**Private Markets Portfolios**			
	Infrastructure (Brunel)	Performance: n/a - portfolio in build-up Capital deployment: • Cycle 1: 88% • Cycle 2: 47% • Cycle 3: 14%		⇔
	Secured Income (Brunel)	Performance: • 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. • Cycle 1: 100% • Cycle 2: 100% • Cycle 3: 38%		⇔
	Private Debt (Brunel)	Performance: n/a – portfolio in build-up New Commitments: Cycle 2 fully committed		

		Capital deployment: • Cycle 2: 55% • Cycle 3: 30%		⇧
	UK Property (Brunel)	• 100% in Brunel preferred funds • Underweight office and retail sectors / overweight industrials and alternatives • Outperformed benchmark SI		⇧
3	**Legacy portfolios**			
	IFM (infra)	£100m redeemed in 2023 (to settle Oct 2023)		⇔
	JPM Hedge Funds	n/a		⇔
	Partners (Intl Property)	• Majority of funds in realisation phase. c.70% of unrealised value held in fund with 2029 contractual expiry.		⇔
	Schroder (UK Property)	• 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	• Remains on track despite increase in carbon footprint for Dec-2022 • Benefit of switch of entire passive equity allocation to Paris-aligned strategy yet to feed through		⇧
	30% of total assets in sustainable and Paris-aligned investments by 2025			⇔
2	**Equity fund held in Risk Management QIF**	• Switch to Paris-aligned equity solution completed in 2023		⇧
3	**Brunel Climate Policy**	• 2023 Climate Policy launched • Reporting priorities incl. Climate Solutions and 'green revenues' reporting on private and listed markets. • Annual review of policy to commence shortly		⇔

Avon Pension Fund Performance Report

Quarter ending 30 June 2023

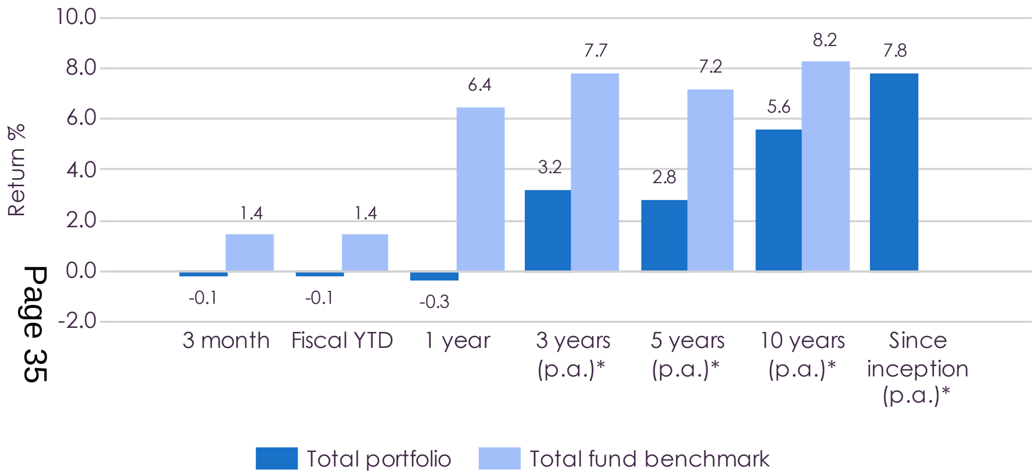
AVON PENSION FUND

BRUNEL Pension Partnership

Contents

Pension Fund performance

Performance (annualised)



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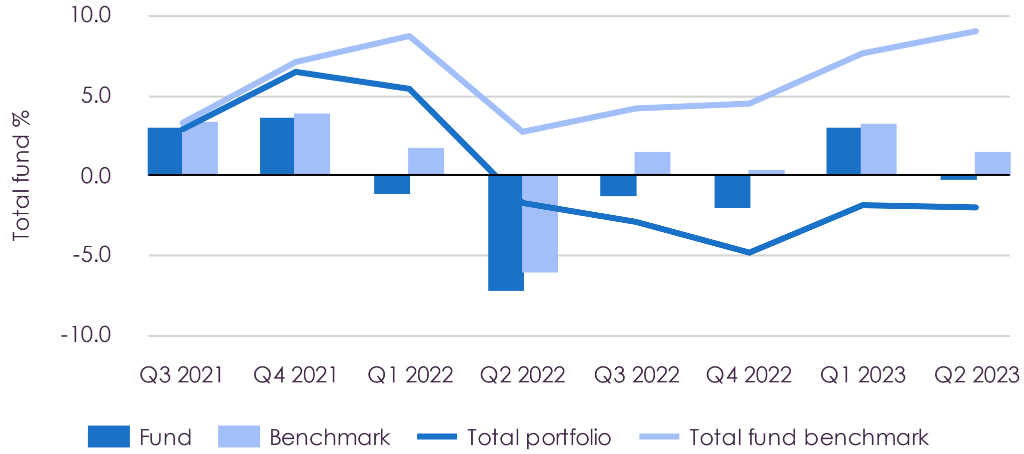
Source: State Street Global Services
*per annum. Net of all fees.

Quarterly performance



Source: State Street Global Services. Net of all fees.

Key events

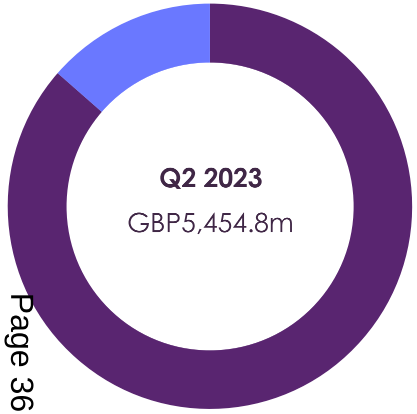
Quarter 2 was another good quarter for developed market global equities. However, if the so-called magnificent seven of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla are excluded, global equities actually fell by 2.4%. Apple now represents c5% of global equity indices and therefore is a key determinant of portfolio performance relative to a global index. Emerging Markets and UK equities declined over the period.

The total portfolio dropped 0.1% in the quarter, whilst the benchmark was up by 1.4%. It also lagged the benchmark over 1 year (-0.3% vs 6.4%).

The performance of Brunel's equity portfolios was broadly flat during the quarter thought Global Sustainable Equities lagged its benchmark by 3.4% In Fixed Income, Multi-Asset Credit continued to show positive returns, rising 1.8% to beat its index by 2%..

Asset summary

Assets transitioned to Brunel

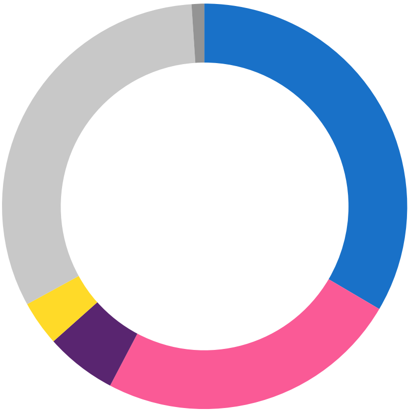


Transitioned		86.41%
Legacy assets		13.59%

Transitioned		85.82%
Legacy assets		14.18%

Source: State Street Global Services. Net of all fees.

Asset allocation breakdown



Key:

Equities	33.45%
Private markets	24.27%
Fixed income	5.69%
Property	3.56%
Other	32.00%
Cash	1.03%

Source: State Street Global Services. Net of all fees.
Data includes legacy assets

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Overview of assets

Detailed asset allocation

Equities	£1,824.49m	33.45%
Global High Alpha Equities	£621.44m	11.39%
PAB Passive Global Equities	£612.71m	11.23%
Global Sustainable Equities	£589.58m	10.81%
Legacy Assets	£0.76m	0.01%

Fixed income	£310.21m	5.69%
Multi-Asset Credit	£310.21m	5.69%

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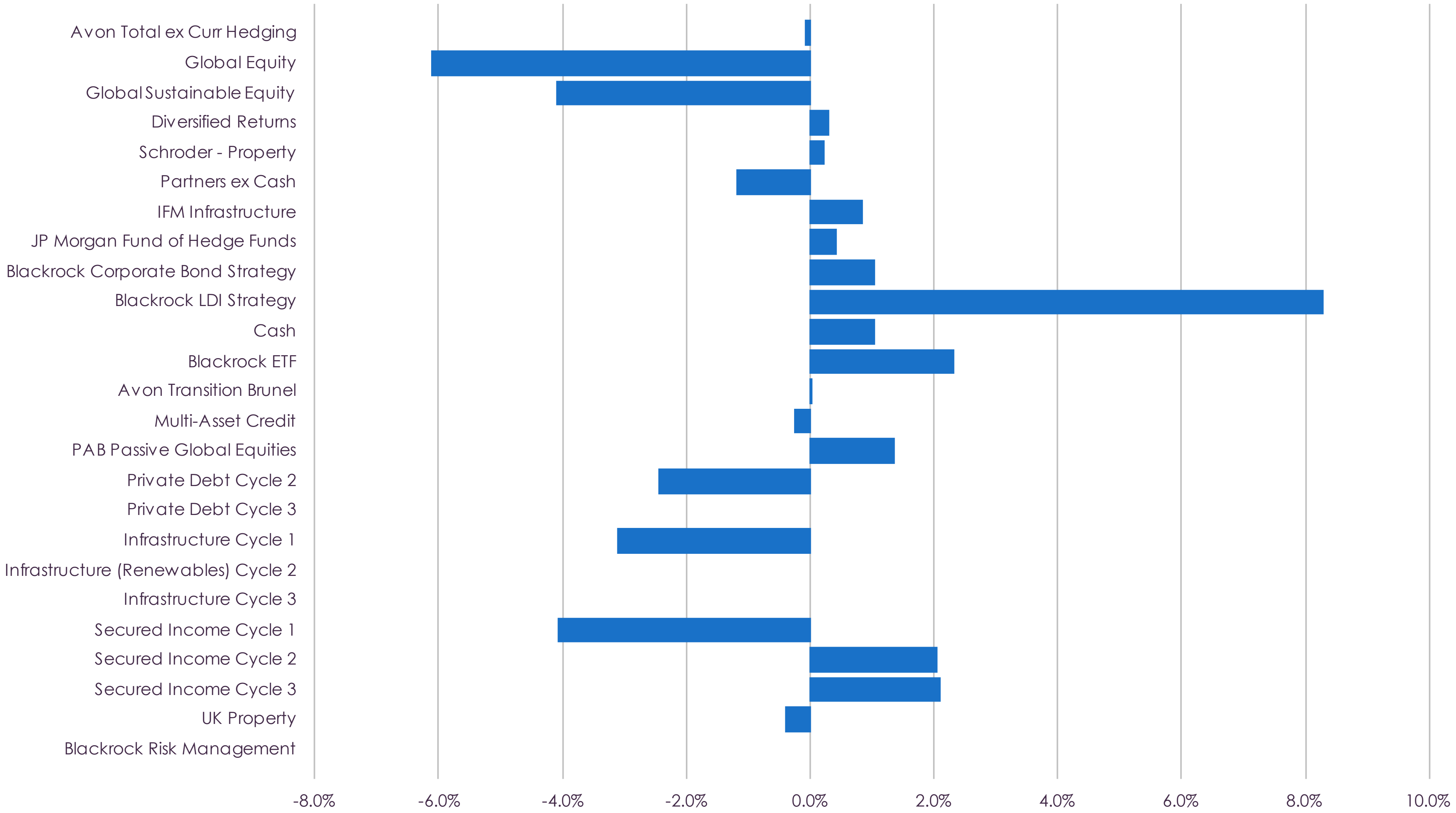
Private markets (incl. property)	£1,518.42m	27.84%
Secured Income Cycle 1	£319.83m	5.86%
UK Property	£181.69m	3.33%
Private Debt Cycle 2	£138.57m	2.54%
Secured Income Cycle 3	£113.53m	2.08%
Secured Income Cycle 2	£109.97m	2.02%
Infrastructure Cycle 1	£102.77m	1.88%
Infrastructure (Renewables) Cycle 2	£58.43m	1.07%
Private Debt Cycle 3	£20.12m	0.37%
Infrastructure Cycle 3	£7.46m	0.14%
Legacy Assets	£466.06m	8.54%

Other	£1,745.71m	32.00%
Blackrock Risk Management	£1,187.17m	21.76%
Diversifying Returns Fund	£339.87m	6.23%
Legacy Assets	£218.68m	4.01%

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 (%): 3 months	Contribution to return: 3 month
Avon Total ex Curr Hedging	**5,397,030**	**99.9%**	**100.00%**	**-0.1%**	**-0.8%**	**-0.8%**
Global Equity	560,733	10.4%	16.50%	-6.1%	1.1%	0.1%
Global Sustainable Equity	589,576	10.9%	15.00%	-4.1%	0.1%	-0.1%
Diversified Returns	339,865	6.3%	6.00%	0.3%	1.0%	0.1%
Schroder - Property	12,750	0.2%	-	0.2%	-2.1%	-0.0%
Partners ex Cash	138,506	2.6%	3.75%	-1.2%	-6.7%	-0.2%
IFM Infrastructure	314,803	5.8%	5.00%	0.8%	0.5%	0.0%
JP Morgan Fund of Hedge Funds	22,335	0.4%	-	0.4%	4.6%	0.0%
Blackrock Corporate Bond Strategy	163,667	3.0%	2.00%	1.0%	-4.1%	-0.1%
Blackrock LDI Strategy	1,094,560	20.3%	12.00%	8.3%	-8.0%	-1.6%
Cash	55,925	1.0%	-	1.0%	0.3%	0.0%
Blackrock ETF	125,687	2.3%	-	2.3%	-1.1%	-0.0%
Avon Transition Brunel	5	0.0%	-	0.0%	-2.3%	-0.0%
Multi-Asset Credit	310,208	5.7%	6.00%	-0.3%	1.8%	0.1%
PAB Passive Global Equities	612,709	11.4%	10.00%	1.4%	5.3%	0.6%
Private Debt Cycle 2	138,568	2.6%	5.00%	-2.4%	N/M	N/M

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 (%): 3 months	Contribution to return: 3 month
Private Debt Cycle 3	20,117	0.4%	0.37%	-	N/M	N/M
Infrastructure Cycle 1	102,773	1.9%	5.00%	-3.1%	N/M	N/M
Infrastructure (Renewables) Cycle 2	58,427	1.1%	1.07%	-	N/M	N/M
Infrastructure Cycle 3	7,456	0.1%	0.14%	-	N/M	N/M
Secured Income Cycle 1	319,833	5.9%	10.00%	-4.1%	N/M	N/M
Secured Income Cycle 2	109,972	2.0%	-	2.0%	N/M	N/M
Secured Income Cycle 3	113,528	2.1%	-	2.1%	N/M	N/M
UK Property	181,693	3.4%	3.75%	-0.4%	N/M	N/M
Blackrock Risk Management	1,187,170	21.8%	21.76%	-	-8.7%	-2.2%

Private Markets 3 month performance is not material.

Stewardship and climate metrics

Portfolio	WACI		Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	2023 Q1	2023 Q2	2023 Q1	2023 Q2	2023 Q1	2023 Q2
Global High Alpha Equities	**82**	**84**	**1.2**	**1.2**	**3.6**	**2.9**
MSCI World*	166	157	3.3	3.1	9.2	8.4
Global Sustainable Equities	**140**	**138**	**2.6**	**1.6**	**5.6**	**5.0**
MSCI ACWI*	193	186	3.3	3.1	9.1	8.3
PAB Passive Global Equities	**79**	**76**	**0.6**	**0.6**	**3.4**	**3.2**
FTSE Dev World TR UKPD*	168	160	3.1	3.0	9.4	8.6

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

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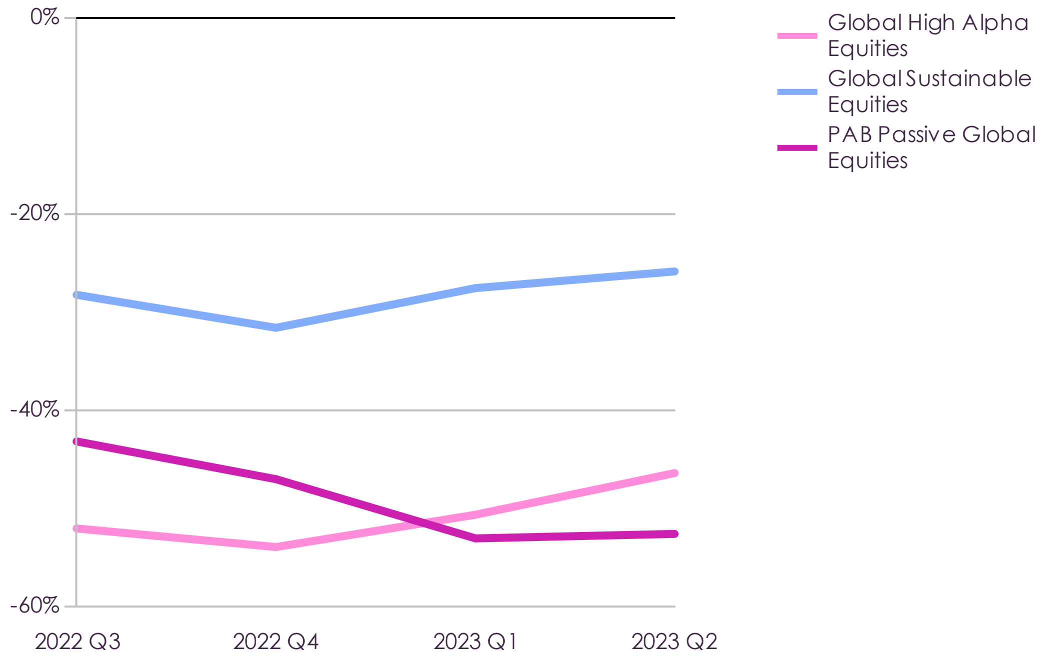
Weighted Average Carbon Intensity relative to benchmark



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	11.1%	13.9%	11.6%	12.6%
Infrastructure Cycle 1	5.1%	5.4%	6.6%	2.1%
Secured Income Cycle 1	0.4%	5.2%	6.6%	2.1%

Since portfolio inception

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 (33.43%)			**1,823.73**									
Global High Alpha Equities	MSCI World	+2-3%	621.44	3.9%	-0.1%	16.3%	2.5%	11.1%	-0.5%	12.3%	2.0%	15 Nov 2019
Global Sustainable Equities	MSCI ACWI	+2%	589.58	0.1%	-3.4%	10.2%	-1.7%	-	-	5.9%	-4.2%	30 Sep 2020
PAB Passive Global Equities	FTSE Dev World PAB	Match	612.71	5.3%	-	16.7%	-	-	-	3.5%	-0.1%	29 Oct 2021
Fixed income (5.69%)			**310.21**									
Multi-Asset Credit	SONIA +4%	0% to +1.0%	310.21	1.8%	-0.2%	7.6%	0.3%	-	-	-1.5%	-7.3%	02 Jun 2021
Private markets (incl. property) (19.29%)			**1,052.37**									
Private Debt Cycle 2	SONIA	+4%	138.57	N/M	N/M	13.4%	6.2%	-	-	12.4%	6.4%	17 Sep 2021
Private Debt Cycle 3	SONIA	+4%	20.12	N/M	N/M	-	-	-	-	4.6%	0.3%	20 Dec 2022
Infrastructure Cycle 1	CPI	+4%	102.77	N/M	N/M	4.5%	-3.4%	5.7%	-0.9%	6.3%	1.7%	02 Jan 2019
Infrastructure (Renewables) Cycle 2	CPI	+4%	58.43	N/M	N/M	12.7%	4.7%	-	-	10.0%	2.9%	12 Oct 2020
Infrastructure Cycle 3	n/a - absolute return target	net 8% IRR	7.46	N/M	N/M	-	-	-	-	-5.7%	-11.9%	13 Oct 2022
Secured Income Cycle 1	CPI	+2%	319.83	N/M	N/M	-14.4%	-22.4%	-0.5%	-7.1%	-0.4%	-5.1%	15 Jan 2019
Secured Income Cycle 2	CPI	+2%	109.97	N/M	N/M	-12.6%	-20.6%	-	-	-0.9%	-9.3%	01 Mar 2021
Secured Income Cycle 3	CPI	+2%	113.53	N/M	N/M	-	-	-	-	-	-0.2%	01 Jun 2023
UK Property	MSCI/AREF UK	+0.5%	181.69	N/M	N/M	-18.8%	-1.7%	-	-	3.3%	1.1%	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 (6.23%)			**339.87**									
Diversifying Returns Fund	SONIA +3%	0% to +2.0%	339.87	1.0%	-0.8%	1.1%	-5.2%	-	-	1.8%	-2.3%	27 Jul 2020
Total Brunel assets (excl. cash) (64.64%)			**3,526.17**									

*Since initial investment
Table above excludes Blackrock Risk Management
Private Markets 3 month performance is not material.

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Chief Investment Officer commentary

Following another strong quarter, Apple now has a market capitalisation above $3 trillion. It is the first company to pass this mark, it was also the first stock to close above $1 trillion, which it did in August 2018. It is now bigger than Microsoft and Alphabet combined, two behemoths in their own right, and it is valued more highly than the entire FTSE 100. More pertinently it is now close to a 5% weighting in the MSCI All Countries World Index. Why is this important? Well, how much you owned of Apple and indeed if you owned Apple was the biggest contributor to your performance this year.

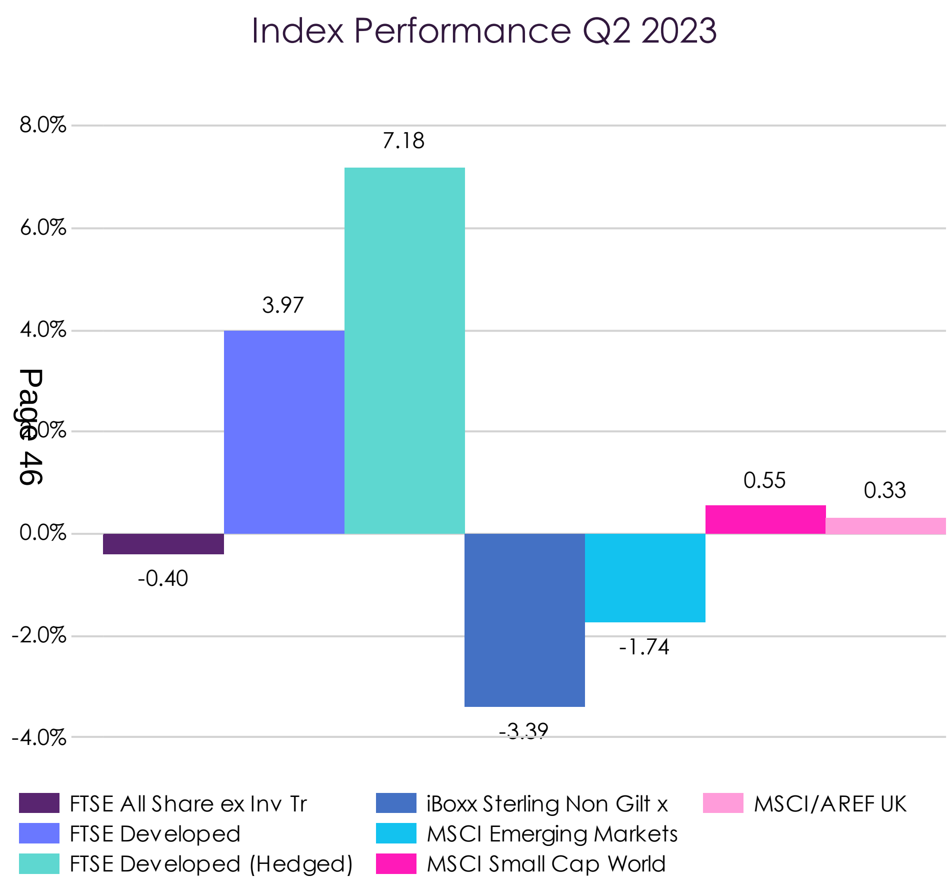
But it isn't just Apple to which this issue relates. The stock market has not been this concentrated since the 1970s when the so-called Nifty 50 stocks dominated the landscape. This quarter the performance of the top seven names, the so-called magnificent 7; Apple, Microsoft, Amazon, Nvidia, Alphabet, Tesla and Meta accounted for 85% of the total gains made by world equities.

Driven by these stocks the second quarter was another strong period for developed market equities, at least optically. An equally weighted index of world equities actually fell by 2.4%. This narrowness of the market was more obvious when looking at the performance of regional markets with Emerging Markets equities and UK equities declining over the period. Small cap equities posted only a marginal gain.

Government bonds also fell, as, apart from Japan, interest rate rises continued, albeit the US central bank did not raise rates in June. This has been coined “a hawkish pause”, implying that this is not likely to be the end of the hiking cycle but a pause to allow the effects of previous rises to feed through to the economy. This pause was driven by “better” data, showing that US Inflation not only declined in absolute terms to an annual rate of 4% but also came in lower than expectations. It is worth remembering that oil peaked last year in June and so a decline was to be mathematically expected. The soft-landing narrative also gained more traction given continued robust economic data, particularly wage growth which whilst slowing was still strong enough to support retail sales. Unemployment was also low and as such recessionary forecasts were pushed into 2024 by the remaining bears.

In the UK investors were faced not with a pause but with a reacceleration of interest rate rises culminating in a 50bp increase in June as inflation data suggested that inflation is not yet under control. This initially drove government bond yields back to levels last seen during the aftermath of the budget crisis last year, increasing the spectre of a more severe house price correction as many banks pulled their mortgage offerings.

Chief Investment Officer commentary



Source: State Street

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The impact of rising rates was also felt in Private Markets as this directly fed through to an increase in the cost of capital, most obviously in debt funding costs. This in turn has led to a significant decrease in deal activity. Added to this was the denominator effect impact on fund raising – which started in 2022 and has very much continued into 2023. The immediate implication being that marque funds failed to raise as much capital as they targeted or simply paused their fund-raising activities. The silver lining of the liquidity squeeze that many investors are experiencing is an increase in the attractiveness of secondary deals, where we stand ready to participate opportunistically.

Elsewhere commodities led by metals fell for the second quarter in a row, albeit natural gas, cocoa and soyabeans bucked the trend. This led energy and mining companies to also broadly underperform the wider indices which provided a small tailwind for our equity franchise.

Whilst a soft landing is still very plausible, the eye of the needle has narrowed; a slowdown is needed that both tames inflation and so limits the need for further rate rises but is mild enough not to create economic pain. The fact that this Goldilocks scenario appears to be increasingly consensual means that any negative surprise and reversal of this view would see a larger decline in asset prices. Equity valuations specifically have risen, the US market trades on a forward price earnings ratio of 19x, at a time when earnings look harder to come by. That said ex the afore mentioned 7 large US names that metric falls to a more manageable 15x.

The outlook for earnings therefore remains the key to medium term returns. The US earnings season begins in August and consensus expects a 9% year over year decline, driven by flat revenues and decreasing margins. This looks like a low bar to step over, however the forecast for next year is for growth of 11% which looks optimistic if the much-predicted recession does land.

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

£1,059m

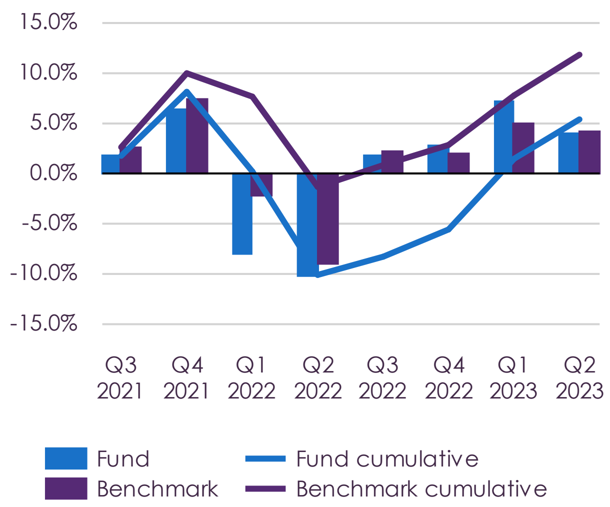
Risk profile

High

Avon's Holding:

GBP621m

Rolling 2yr performance



Performance to quarter end

Performance	3 month	1 year	Since inception *
Fund	3.9	16.3	13.0
Benchmark	4.1	13.8	11.0
Excess	-0.1	2.5	2.0

Source: State Street Global Services
*per annum. Net of all fees.

Performance commentary

Global developed equities (as proxied by the MSCI World index) returned 4.1% in GBP terms over the quarter. This strong performance was once again driven by a small number of the very largest technology names in an environment where concerns regarding financial instability receded and enthusiasm for AI gained further traction. Indeed, the seven largest names in the index (Apple, Microsoft, Amazon, NVIDIA, Tesla, Alphabet and Meta - dubbed the 'magnificent seven') returned 2.75%, a contribution of over 65% of total index returns. This concentration of returns masked the more muted performance by the broader index hampered by fears about a potential recession negatively impacting earnings.

The portfolio returned 3.9% during the period, marginally underperforming the benchmark by 0.1%.

The portfolio owned six of the 'magnificent seven' but was underweight these names in aggregate, which detracted 0.5% from relative performance. Managers were able to find pockets of performance outside of these names to offset this, with positive contributions from overweight holdings in names such as Eli Lilly (returned 33%, driven by improved potential for their new diabetes drug Mounjaro), and Delta Airlines (returned 32%, as it benefitted from falling fuel prices and strong second quarter demand).

Sector attribution shows a positive impact from allocation driven by an overweight to the Consumer Discretionary sector and underweights to the two poorest performing sectors, Utilities and Energy. Selection was negative overall and weakest in the Consumer Discretionary sector where the underperformance of Chinese names versus their developed market peers was a material detractor (Alibaba, PinDuoDuo and Meituan).

Two of the five managers outperformed this quarter with a particularly strong relative performance by RLAM (+3.9%). RLAM's differentiated approach was again in evidence this quarter with several names not held elsewhere in the portfolio doing particularly well (Eli Lily, Thor Industries, Lithia Motors). Harris was the poorest performer this quarter following two quarters of outperformance. Their value approach resulted in them holding companies less appreciated by the market as value underperformed growth and quality.

Since inception the portfolio has outperformed the benchmark by 2% p.a.

Global High Alpha Equities

Top 5 holdings

	Weight %	B'mark weight %	Client value (GBP)*
MICROSOFT CORP	6.03	4.24	37,480,591
AMAZON.COM INC	3.38	2.12	20,981,433
ALPHABET INC	2.61	2.40	16,230,385
MASTERCARD INC	2.54	0.59	15,758,027
UNITEDHEALTH GROUP INC	2.16	0.79	13,400,463

*Estimated client value

Top 5 active overweights

	Weight %	Benchmark weight %
MASTERCARD INC	2.54	0.59
TAIWAN SEMICONDUCTOR	1.83	-
MICROSOFT CORP	6.03	4.24
UNITEDHEALTH GROUP INC	2.16	0.79
MOODY'S CORP	1.47	0.10

Top 5 active underweights

	Weight %	Benchmark weight %
APPLE INC	1.03	5.40
META PLATFORMS INC	-	1.12
EXXON MOBIL CORP	-	0.77
JPMORGAN CHASE & CO	-	0.75
BERKSHIRE HATHAWAY INC	0.12	0.78

Largest contributors to ESG risk

	ESG risk score* Q1 2023	ESG risk score* Q2 2023
AMAZON.COM INC	30.28	30.53
MICROSOFT CORP	15.00	15.32
ALPHABET INC-CL A	24.60	24.50
NESTLE SA-REG	27.37	27.29
MASTERCARD INC - A	17.02	17.07

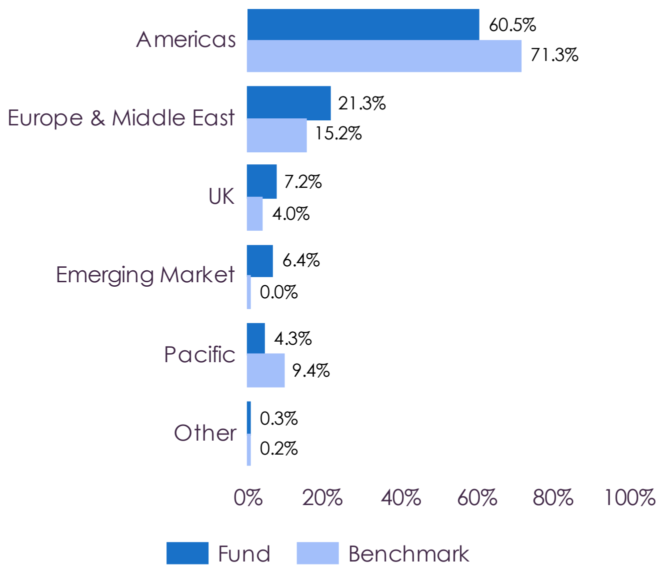
*Source: Sustainanalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

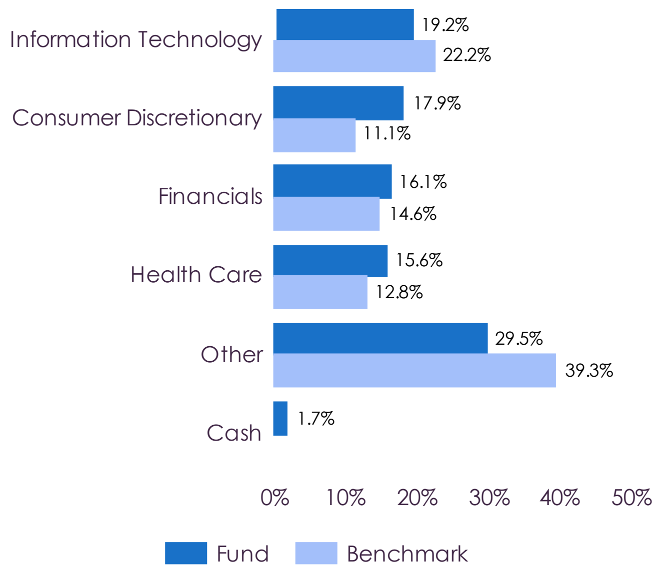
Portfolio	WACI 2023 Q1	WACI 2023 Q2	Total Extractive Exposure[1] 2023 Q1	Total Extractive Exposure[1] 2023 Q2	Extractive Industries (VOH)[2] 2023 Q1	Extractive Industries (VOH)[2] 2023 Q2
Global High Alpha	82	84	1.19	1.24	3.60	2.89
MSCI World*	166	157	3.26	3.07	9.22	8.36

*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

£3,120m

Risk profile

High

Avon's Holding:

GBP590m

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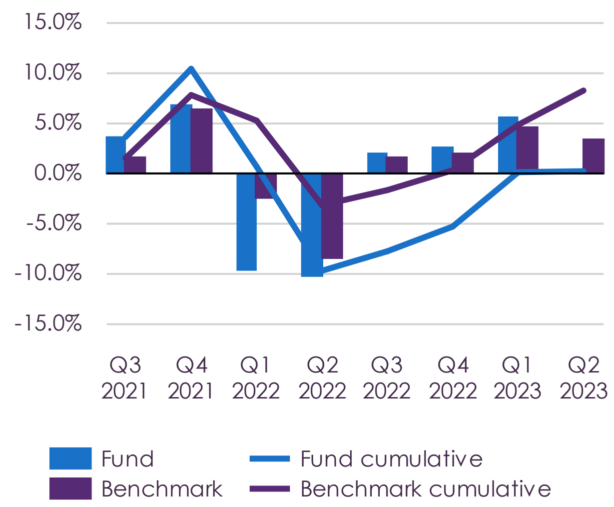
Rolling 2yr performance



Performance to quarter end

Performance	3 month	1 year	Since inception *
Fund	0.1	10.2	5.3
Benchmark	3.4	11.9	9.5
Excess	-3.4	-1.7	-4.3

Source: State Street Global Services
*per annum. Net of all fees.

Performance commentary

The fund returned 0.1% over the quarter on a net basis, a relative underperformance of 3.4% against the MSCI ACWI benchmark. Over the 1-year period the fund has returned 10.2% on a net basis, underperforming the MSCI ACWI by 1.7%, due to the performance of the most recent quarter.

As discussed in the CIO commentary, this quarter can be characterised by the outperformance of a small number of stocks, which occupy the Very Large Cap end of the market cap spectrum. Whilst the portfolio does have some exposure to the 7 names, which contributed 85% of market return, the fund is still relatively underweight. This is largely due to Valuation considerations but also Sustainable considerations when considering the investment case for Meta and Tesla. Altogether the 9% underweight in these 7 names cost the fund 100bps of relative performance over the quarter, notably 50bps from the 4.5% underweight in Apple.

The outperformance of a handful of stocks has continued to drive market concentration within the MSCI ACWI. We highlighted in the CIO commentary that the equally weighted return of the MSCI ACWI was -2.4%, which highlights the affect that the weighting structure is having within the index. If we think about proportional Stock outperformance, this quarter saw only 30% of MSCI ACWI names outperform the index, which implies that 2100 stocks underperformed the MSCI ACWI, the largest proportion of stock underperformance in over a decade of quarterly returns.

If we were to see a reversal in the trend of market concentration driven by the very narrow outperformance of a handful of mega-cap stocks we should hopefully see outperformance within the Sustainable Equity Fund. We have worked with managers over the most recent quarters to gain assurance that the fundamental analysis of the underlying stocks remain attractive and that the underperformance is largely due to short-term market sentiment, which is not reflecting the true value of these sustainable positions.

Since Inception, we have seen managers providing Alpha in different market scenarios and continue to be comfortable with the diversification exhibited. Ownership and Mirova have demonstrated significant outperformance year to date, whilst Jupiter provided defensiveness through 2022. The ability for managers to outperform in different environments should hopefully translate into long term outperformance.

Global Sustainable Equities

Top 5 holdings

	Weight %	B'mark weight %	Client value (GBP)*
MICROSOFT CORP	2.74	3.79	16,133,920
MASTERCARD INC	2.55	0.53	15,043,971
ANSYS INC	2.29	0.05	13,497,927
ADYEN NV	2.24	0.06	13,203,492
VISA INC	1.79	0.61	10,580,175

*Estimated client value

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Top 5 active overweights

	Weight %	Benchmark weight %
ANSYS INC	2.29	0.05
ADYEN NV	2.24	0.06
MASTERCARD INC	2.55	0.53
SYNOPSYS INC	1.76	0.10
INTUIT INC	1.74	0.20

Top 5 active underweights

	Weight %	Benchmark weight %
APPLE INC	-	4.84
TESLA INC	-	1.18
ALPHABET INC	0.97	2.15
MICROSOFT CORP	2.74	3.79
META PLATFORMS INC	-	1.00

Largest contributors to ESG risk

	ESG risk score* Q1 2023	ESG risk score* Q2 2023
MASTERCARD INC - A	17.02	17.07
MICROSOFT CORP	15.00	15.32
ADYEN NV	16.23	16.23
ANSYS INC	13.05	15.53
FORTIVE CORP	34.76	34.76

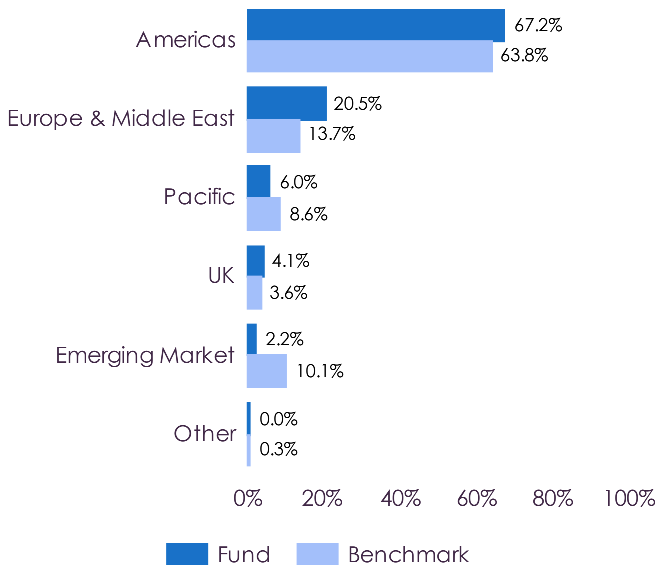
*Source: Sustainanalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

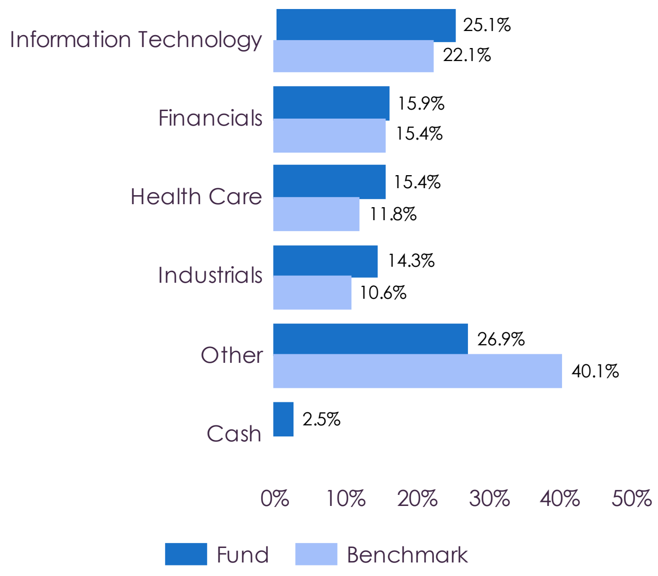
Portfolio	WACI 2023 Q1	WACI 2023 Q2	Total Extractive Exposure[1] 2023 Q1	Total Extractive Exposure[1] 2023 Q2	Extractive Industries (VOH)[2] 2023 Q1	Extractive Industries (VOH)[2] 2023 Q2
Global Sustainable	140	138	2.64	1.55	5.64	4.99
MSCI ACWI*	193	186	3.27	3.07	9.06	8.33

*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

£1,257m

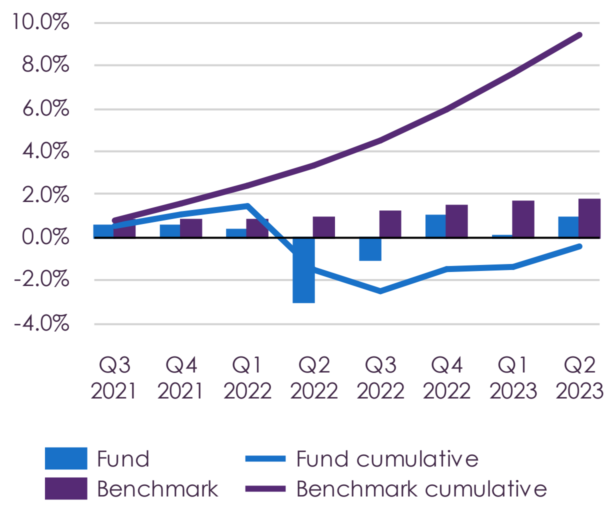
Risk profile

Moderate

Avon's Holding:

GBP340m

Rolling 2yr performance



Performance to quarter end

Performance	3 month	1 year	Since inception *
Fund	1.0	1.1	2.1
Benchmark	1.8	6.2	4.3
Excess	-0.8	-5.1	-2.2

Source: State Street Global Services
*per annum. Net of all fees.

Performance commentary

The Diversifying Returns Fund returned 1.0% over the second quarter of 2023. The cash plus 3% benchmark return was 1.8%. The portfolio returned 1.1% for the year ending 30th June 2023, underperforming the benchmark which returned 6.2%.

The sterling hedged 50/50 equity/bond index we monitor returned 3.2% over the quarter, driven by strong equity market returns of 6.6%, but diluted by bond market performance of -0.2%.

Fulcrum lost -0.4% over the quarter. The strategic equities component of the strategy made a positive contribution to returns. This was offset by negative returns from tactical positioning in currencies, where long Japanese Yen and short Euro positions dented returns. Long commodity exposure, held as a hedge against geopolitical risks and to offer diversification if the persistent strength of the US economy continues to drive inflation, also suffered weak performance.

JPM returned 3.3% for the quarter. Strong performance was underpinned by carry signals, with FX carry making the biggest contribution to return. There were also positive contributions from equity value and trend signals. Fixed income trend was the only signal to make a negative contribution to return over the quarter as markets re-assessed when interest rates are likely to peak.

Lombard Odier generated a return of 1.1%. Exposure to developed market (DM) equities made the largest contribution to return with DM credit also contributing positively. Exposure to sovereign bonds has been reduced because of high asset class volatility but still detracted 70bps from performance. Commodity exposure also made a negative contribution to return.

UBS returned -0.9% over the three-month period. Long positions in Norwegian Kroner and Japanese Yen weighed on performance. These positions remain the largest in the portfolio as UBS consider the undervaluation of these currencies to be at extreme levels. Losses from these positions were somewhat offset by long exposure to Latam currencies and short exposure to the US dollar, New Zealand dollar and Chinese Renminbi, which UBS considers overvalued in the face of a weakening Chinese economy that has not benefitted from the 're-opening trade' to the extent some market participants had expected.

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

£[illegible],656m

Risk profile

Moderate

Avon's Holding:

GBP310m

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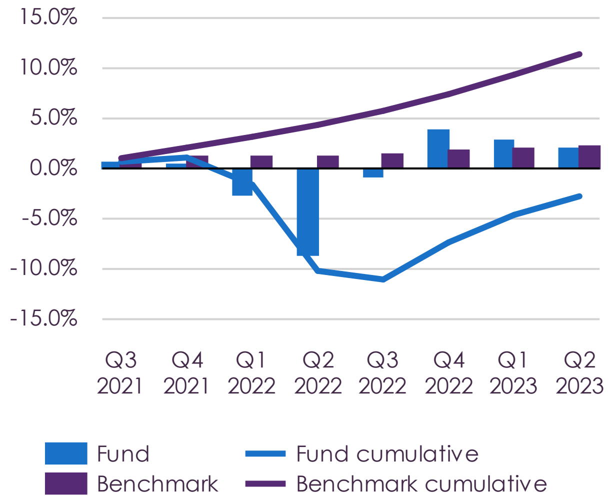
Rolling 2yr performance



Performance to quarter end

Performance	3 month	1 year	Since inception *
Fund	1.8	7.6	-1.7
Benchmark	2.0	7.2	5.8
Excess	-0.2	0.3	-7.5

Source: State Street Global Services
*per annum. Net of all fees.

Performance commentary

It was a positive but volatile quarter in leveraged finance. Positive economic data in the US caused fixed rate debt to reprice in June. The most notable drivers were favourable non-farm payrolls, retail sales and inflation releases for the month of May. The positive data releases provided further capacity for the Federal Reserve to hike interest rates to curb inflation without significantly damaging the economy.

Ultimately, this caused US Treasuries to sell off aggressively in the second quarter, with the policy sensitive 2yr yield increasing to 487bps, an increase of 80bps. Spread tightening was observed across credit because of reduced recession fears. High Yield spreads – proxied by Bloomberg Global High Yield – ended the period at +491bps, a decrease of 56bps.

All areas of leveraged finance produced positive returns, mostly due to strong carry and reduced spreads offsetting the impact of rising interest rates. High Yield and Leveraged Loans – which make up the majority of the leveraged finance universe – both posted strong returns of +2.6% and +2.4% respectively. The best performing asset class by far was Convertible Bonds, which returned +5.3% in local terms.

The portfolio returned +1.8% over the quarter, which was 0.2% behind the primary benchmark of SONIA +4%. The secondary benchmark, comprised of 50% Bloomberg Global High Yield and 50% Morningstar LSTA US Leveraged Loan Index, returned +2.4%. Manager performance was once again mixed. Neuberger Berman, CQS & Oaktree returned +113, +375 & +229bps respectively. Neuberger hold the largest amount of Investment Grade Bond exposure, which drove the underperformance vs other managers due to the higher duration. They are happy to hold investment grade as it offers attractive risk adjusted returns in higher rate environments.

Since inception performance is -1.7%, which lags the primary benchmark by 7.5%. The composite benchmark has returned approximately -1.0% over the same period.

All three managers maintain a cautiously optimistic outlook. All-in yields remain over 9% for the Multi-Asset Credit portfolio with a duration of 2.4 years. However, the recent contraction in spreads – which are now below 500bps in High Yield – have now pushed assets to expensive levels. A resurgence in recession fears could potentially cause a repricing in risk assets and it is unclear whether will be offset by falling rates.

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

£2,328m

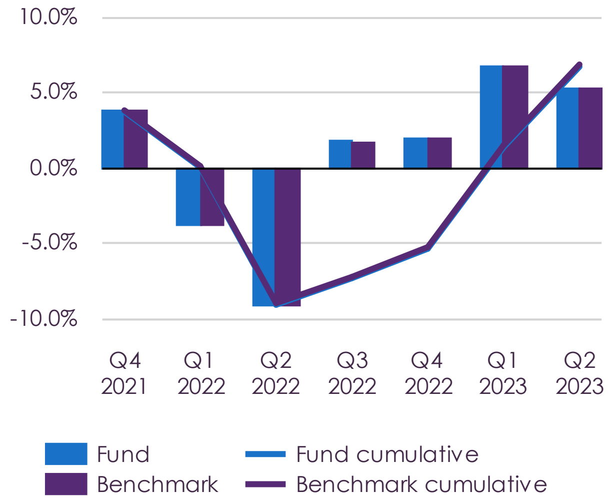
Risk profile

High

Avon's Holding:

GBP613m

Rolling 2yr performance



Performance to quarter end

Performance	3 month	1 year	Since inception *
Fund	5.3	16.7	3.5
Benchmark	5.3	16.7	3.6
Excess	-	-	-0.1

Source: State Street Global Services
*per annum. Net of all fees.

Performance commentary

The FTSE Developed Paris Aligned index (PAB) performed strongly over Q2 2023, up 5.3%. The PAB Passive Global Equities product closely replicated the performance of the benchmark over this period. The product outperformed the market capitalisation parent benchmark which returned 3.9%.

This outperformance was largely a result of the PAB product having a greater allocation to the Consumer Discretionary companies that have delivered strong performance over the period. Tesla, which made the largest contribution to returns, is held at a larger weight than in the market cap index as a result of positive scoring on emissions, carbon performance and a very high green revenues tilt. Amazon also made strong positive contributions to returns and is held at a larger weight than in the parent index due to positive tilt scoring on scope 3 emissions and green revenues.

The largest negative contribution to returns, relative to the market cap parent benchmark, came from AbbVie, held overweight because of positive tilt scores on emissions, and Nike which is also held overweight as a result of positive tilting on scope 1 and 2 emissions, green revenues and TPI management quality scoring.

At portfolio level, the PAB index has greater exposure to the Consumer Discretionary and Health Care sectors and less exposure to Energy, the Consumer Staples and Financials sectors than the market cap index. The PAB also has a higher level of exposure to the US and companies at the top end of the cap spectrum.

PAB Passive Global Equities

Top 5 holdings

	Weight %	Client value (GBP)*
TESLA INC	6.57	40,281,462
APPLE INC	6.20	38,018,176
MICROSOFT CORP	6.08	37,262,766
ALPHABET INC	5.34	32,724,552
AMAZON.COM INC	5.24	32,122,381

*Estimated client value

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Largest contributors to ESG risk

	ESG risk score* Q1 2023	ESG risk score* Q2 2023
TESLA INC	28.82	27.25
AMAZON.COM INC	30.28	30.53
APPLE INC	16.91	16.43
MICROSOFT CORP	15.00	15.32
ALPHABET INC-CL A	24.60	24.50

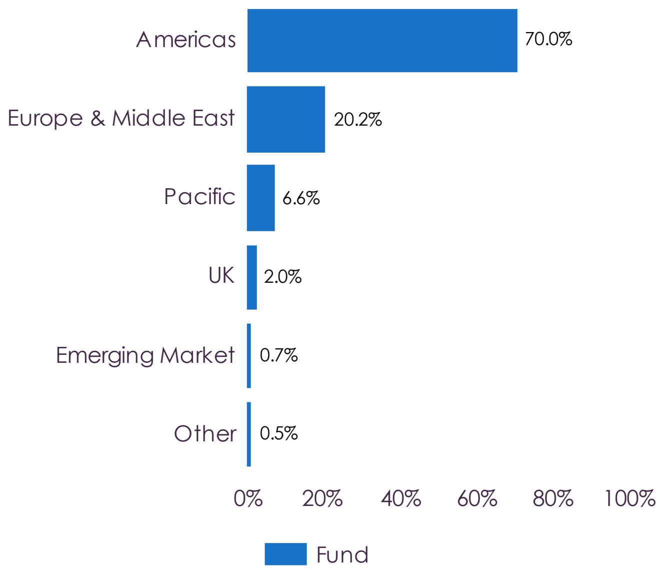
*Source: Sustainanalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

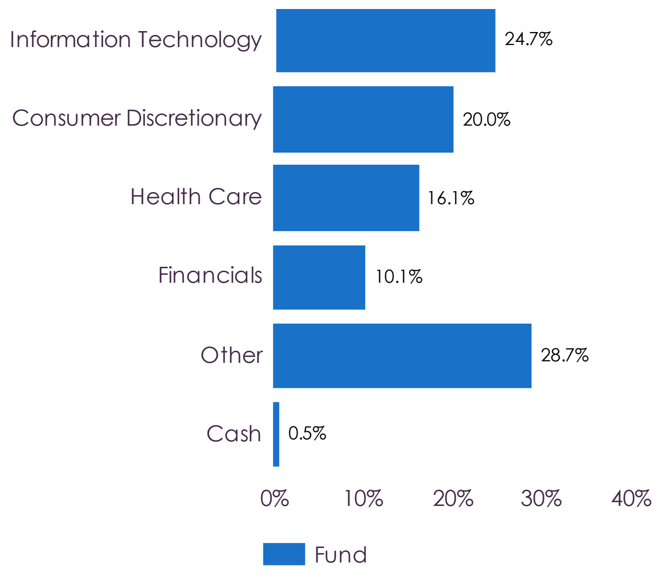
Portfolio	WACI		Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	2023 Q1	2023 Q2	2023 Q1	2023 Q2	2023 Q1	2023 Q2
PAB Passive Global	79	76	0.61	0.61	3.42	3.21
FTSE Dev World TR	168	160	3.10	2.99	9.44	8.64

*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
£135.48m

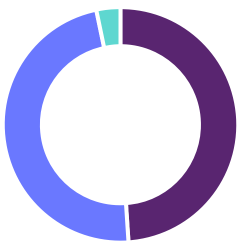
% called to date
55.30

Number of underlying funds
1

Avon's Holding:
GBP138.57m

Country

Invested in underlying investments

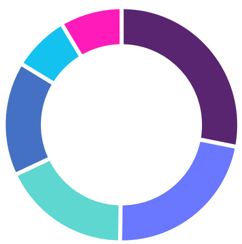


Europe	48.9%
North America	47.8%
Asia Pacific	3.3%
Other	-

Source: Aksia and underlying managers
Country data is lagged by one quarter

Sector

GICs level 1



Health Care	28.0%
Information Technology	22.2%
Industrials	17.8%
Consumer Discretionary	15.7%
Financials	7.8%
Other	8.5%

Source: Aksia and underlying managers
Sector data is lagged by one quarter

Performance commentary

Deal Activity has remained depressed due to the continued pressure of macro-economic headwinds. Central Banks continue to raise rates as June 2023 saw the Bank of England increase interest from 4.5% to 5%. Thus, forcing GPs to continue funding deals in an environment of scarcer debt financing. Whilst headline inflation is beginning to level out and come down in some instances, wage inflation has become a far more persistent problem as both US and UK labour markets tighten. Lenders are prioritising focus on margin pressure/inflation with strong focus on sustained ability to pass through costs to keep cashflow levels/interest coverage intact as debt becomes more expensive. Preference for businesses which are both asset light and have wages with a lower share of cost bases are preferred.

With respect to Brunel's private debt portfolio, the current climate has created an attractive environment for the high-quality lenders that we allocate to. Thus, benefitting from better pricing, less leverage and better terms which means the current market is suited to lenders, however the caveat is reduced deal flow, therefore lenders are relying on strong relationships and existing portfolio companies to drive portfolio activity.

The portfolio is over 50% called. All managers have now called investor capital and some managers are coming towards the end of their investment periods. Portfolio performance has been positive, reflecting the fact that higher interest rates are accretive to portfolio performance.

Portfolio summary

Market value (GBP millions)	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter		Contribution to return: 1 year	Contribution to return: since inception
138.6	13.4%	12.4%	21,329,047	10,208,297	11,120,750	13,366,400		0.3%	0.0%

*Money weighted return. Net of all fees.

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
£20.35m

% called to date
30.38

Number of underlying funds
2

Avon's Holding:
GBP20.12m

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Performance commentary

Deal Activity has remained depressed due to the continued pressure of macro-economic headwinds. Central Banks continue to raise rates as June 2023 saw the Bank of England increase interest from 4.5% to 5%. Whilst headline inflation is beginning to level out and come down in some instances, wage inflation has become a far more persistent problem as both US and UK labour markets tighten. Lenders are prioritising focus on margin pressure/inflation with strong focus on sustained ability to pass through costs to keep cashflow levels/interest coverage intact as debt becomes more expensive. Preference for businesses which are both asset light and have wages with a lower share of cost bases are preferred.

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The portfolio has made commitments to two funds, one of which has called capital. Portfolio performance has shown a minor deterioration but at this point performance measures are not yet meaningful. Additional progress has been made regarding additional manager allocations as the portfolio expects to close ~5-7 manager allocations by the end of 2023.

Portfolio summary

Market value (GBP millions)	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter		Contribution to return: 1 year	Contribution to return: since inception
20.1	-	4.6%	5,398,484	171,421	5,227,063	68,251		0.0%	0.0%

*Money weighted return. Net of all fees.

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
£114.57m

Amount Called
£100.81m

% called to date
87.98

Number of underlying funds
5

Avon's Holding:
GBP102.77m

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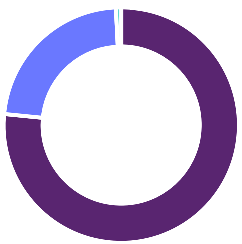
Country

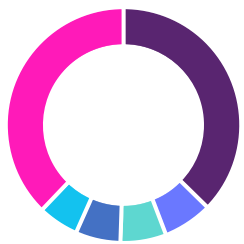
Commitment in underlying investments



Europe (incl. UK)	76.5%
North America	22.8%
Rest Of World	0.7%

Source: Stepstone
Country data is lagged by one quarter

Sector



Wind & Solar	37.3%
Distributed Energy	6.8%
Rail	6.3%
Diversified Renewables	6.2%
Diversified Social	5.6%
Other	37.8%

Source: Stepstone
Sector data is lagged by one quarter

Performance commentary

The fundraising environment for Private Markets has experienced a significant slowdown in 2023 relative to 2022. During 2022, $168bn was committed to infrastructure funds, yet by the end of Q1 2023 only $3.6bn had been raised, representing a 94% year on year drop and the worst since 2009. No real pick up was observed in Q2 2023. This appears to be a wider Private Markets theme and not an infrastructure specific issue, highlighting the importance of selecting top-performing managers with strong franchise appeal that will assist strong fund raises and therefore reduce strategy risk.

In June 2023 the Bank of England surprised many investors by raising interest rates half a percentage from 4.5% to 5%, following stickier inflation and wage growth than they had predicted. The European Central Bank followed suit and raised rates by a quarter-point to 3.5%. Despite headline inflation falling across the developed world in recent months, driven by declining goods inflation, services inflation remains strong, particularly in the UK.

As reported in previous commentary a higher rate environment presents several challenges driven primarily by the impact of higher discount rates. Market recovery continues to be inconsistent, with the increase in market volatility highlighting the importance of well-structured infrastructure investments with downside protection, strong inflation linkage and inherent mission-critical objectives. Brunel's co-investment portfolio has thus far demonstrated resilience in an environment of rising inflation given its defensive attributes thanks to: (1) high visibility of revenues,

Portfolio summary

Market value (GBP millions)	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter		Contribution to return: 1 year	Contribution to return: since inception
102.8	4.5%	6.3%	7,410,716	1,077,092	6,333,624	-1,740,420		0.1%	0.0%

*Money weighted return. Net of all fees.

Infrastructure Cycle 1

(2) low GDP exposure / high barriers to entry, and (3) inelastic demand.

In Q1 2023 it was reported that an investment into an operating UK offshore wind project had been approved by Brunel. The project has now been approved by Stepstone's Investment Committee and is in closing but subject to various anti-trust clearances expected in October. If concluded, this project completes Cycle 1 and will bring it to ~100% committed.

As at the end of Q2 2023, Cycle 1 Infrastructure remained c.93% committed with overall deployment increasing to c.82% invested. Brunel is pleased with the deployment of Cycle 1 and the overall development of the Portfolio. Focus is shifting from deployment to portfolio performance and monitoring. Early benchmarking metrics for Cycle 1 infrastructure are positive with a caveat that it is too early to be truly meaningful.

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
£56.70m

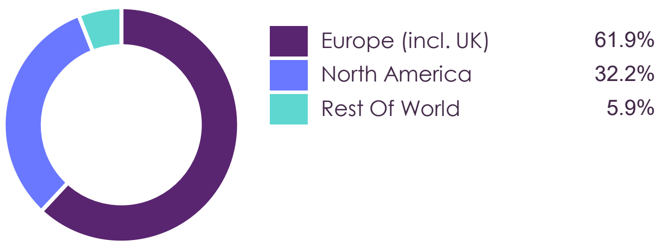
% called to date
47.25

Number of underlying funds
1

Avon's Holding:
GBP58.43m

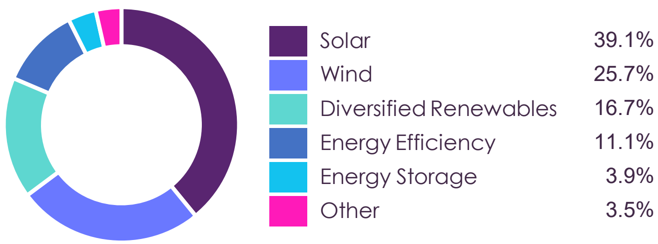
Country

Commitment in underlying investments



Source: Stepstone
Country data is lagged by one quarter

Sector



Source: Stepstone
Sector data is lagged by one quarter

Performance commentary

The fundraising environment for Private Markets has experienced a significant slowdown in 2023. While in 2022 $168bn was committed to infrastructure funds, by the end of Q1 2023 only $3.6bn had been raised, representing a 94% year on year drop and the worst since 2009. No real pick up was observed in Q2 2023. and not an infrastructure specific issue, highlighting the importance of selecting top-performing managers with strong franchise appeal that will assist strong fund raises and therefore reduce strategy risk. Renewable managers and in particular Energy Transition strategies have seen a slightly healthier fundraising environment due to strong appetite from investors to gain exposure to these sectors, driven by an increasing flight to greener assets as well as capitalising on the market tailwinds created by ambitious government targets and need for energy security.

While this is positive for renewables managers, gaining exposure to good renewable deals continues to be challenging for a number of reasons. Competition for operating renewables is high and therefore returns are lower than the cycle 2 hurdle, particularly on a real basis. This forces investors higher up the risk curve. We remain aware of several global headwinds such as grid infrastructure, supply chain and availability of talent. Despite this, Brunel and Stepstone have created a well-diversified portfolio across geographies and renewable technologies including wind, solar, batteries and transmission to name a few of the core exposures.

Activity has ticked up during H1 2023, in line with expectations and identified pipeline opportunities. The Fund offers an

Portfolio summary

Market value (GBP millions)	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter		Contribution to return: 1 year	Contribution to return: since inception
58.4	12.7%	10.0%	2,504,621	476,423	2,028,198	-1,502,320		0.1%	0.0%

*Money weighted return. Net of all fees.

Infrastructure (Renewables) Cycle 2

opportunity for investors to gain exposure to the renewables sector across operating, ready to build and development assets, seeking a stable cash yield, and contribution to climate change mitigation. Two further Tactical deals were approved by Brunel in Q2, both Solar opportunities with one being headquartered in Somerset and the other located in the US. Both deals are in final Stepstone DD stages. As at the end of Q2 and not including the recently approved deals, Cycle 2 R is c.46% invested and c.72% committed across 6 primary funds and 8 Tacticals.

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
£7.79m

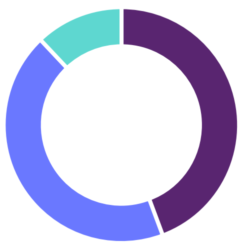
% called to date
14.17

Number of underlying funds
1

Avon's Holding:
GBP7.46m

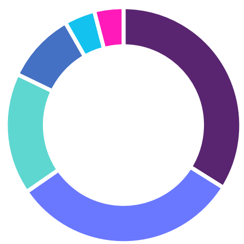
Country

Commitment in underlying investments



Source: Stepstone
Country data is lagged by one quarter

Sector



Source: Stepstone
Sector data is lagged by one quarter

Performance commentary

The fundraising environment for Private Markets has experienced a significant slowdown in 2023 relative to 2022. During 2022, $168bn was committed to infrastructure funds, yet by the end of Q1 2023 only $3.6bn had been raised, representing a 94% year on year drop and the worst since 2009. No real pick up was observed in Q2 2023. This appears to be a wider Private Markets theme and not an infrastructure specific issue, highlighting the importance of selecting top-performing managers with strong franchise appeal that will assist strong fund raises and therefore reduce strategy risk.

In June 2023 the Bank of England surprised many investors by raising interest rates half a percentage from 4.5% to 5%, following stickier inflation and wage growth than they had predicted. The European Central Bank followed suit and raised rates by a quarter-point to 3.5%. Despite headline inflation falling across the developed world in recent months, driven by declining goods inflation, services inflation remains strong, particularly in the UK.

As reported in previous commentary a higher rate environment presents several challenges driven primarily by the impact of higher discount rates. Market recovery continues to be inconsistent, with the increase in market volatility highlighting the importance of well-structured infrastructure investments with downside protection, strong inflation linkage and inherent mission-critical objectives. Brunel's co-investment portfolio has thus far demonstrated resilience in an environment of rising inflation given its defensive attributes thanks to: (1) high visibility of revenues,

Portfolio summary

Market value (GBP millions)	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter		Contribution to return: 1 year	Contribution to return: since inception
7.5	-	-5.7%	132,161	111,929	20,232	-182,943		-0.0%	-0.0%

*Money weighted return. Net of all fees.

Infrastructure Cycle 3

(2) low GDP exposure / high barriers to entry, and (3) inelastic demand.

Following the closing of Copenhagen Infrastructure Partners Fund V, Cycle 3 is c.31% committed and c.15% deployed across 4 Primaries and 4 Tacitcals. One further Primary investment was approved in Q2, Blackstone Energy Transition Partners IV (BETP), a close is expected in August subject to final DD and side letter negotiations. BETP will be an Energy Transition Fund. The pipeline of primary funds is strong and we expect to be reviewing at least 2 more funds during Q3. A more challenging fundraising environment allows the team to be more selective and push negotiations harder with managers to ensure best possible outcomes for Brunel Clients.

Tactical investments include Project Appellation, a US forestry investment focused on income from carbon credits; Project Ardor, an investment in an operating Indian renewables portfolio and IPP; Suez, the international water and waste company; and Havfram, an offshore wind installation vessel company. The Tactical opportunity alongside Blackstone into a renewables developer in the US mentioned in Q1, failed to progress from final DD stages due to concerns over pipeline valuation.

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
£344.71m

% called to date
99.92

Number of underlying funds
3

Avon's Holding:
GBP319.83m

Performance commentary

For both the long lease property funds, the continued gilt yield volatility, caused by higher than expected inflation numbers, is impacting valuations. However, this negative performance seems to have moderated since the considerable repricing towards the start of the year. Both funds have sales programmes to fund investor redemptions. These assets are selected strategically; some are at the end of their business plans, or in a sector the team no longer views favourably, or the asset has poor ESG and will require high capital expenditure to improve to an acceptable standard and in line with regulations. It is worth noting that both funds have an extended redemption process in the current environment, so neither fund has been under time pressure to sell assets. During the Quarter, M&G SPIF, with unitholder permission, amended its redemption process in an investor friendly way.

For GRI, investor commitments are now up to £1.1bn in total, with £838m drawn down to date. GRI called over the quarter, to fund solar and bio-energy from waste projects and the Schroders Greencoat team expect the fund to be fully drawn down by the end of the calendar year. The forecast hold-to-life IRR is estimated to be 8.4% (May 2023). The Fund is well diversified across technologies, projects, locations, revenue streams and subsidy mechanisms, with further pipeline opportunities executable over the next 18 months.

Portfolio summary

Market value (GBP millions)	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter		Contribution to return: 1 year	Contribution to return: since inception
319.8	-14.4%	-0.4%	48,972	4,172,311	-4,123,339	88,979		-1.0%	-0.0%

*Money weighted return. Net of all fees.

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:
GBP109.97m

Performance commentary

For both the long lease property funds, the continued gilt yield volatility, caused by higher than expected inflation numbers, is impacting valuations. However, this negative performance seems to have moderated since the considerable repricing towards the start of the year. Both funds have sales programmes to fund investor redemptions. These assets are selected strategically; some are at the end of their business plans, or in a sector the team no longer views favourably, or the asset has poor ESG and will require high capital expenditure to improve to an acceptable standard and in line with regulations. It is worth noting that both funds have an extended redemption process in the current environment, so neither fund has been under time pressure to sell assets. During the Quarter, M&G SPIF, with unitholder permission, amended its redemption process in an investor friendly way.

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Portfolio summary

Market value (GBP millions)	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter		Contribution to return: 1 year	Contribution to return: since inception
110.0	-12.6%	-0.9%	13,894	1,436,190	-1,422,296	170,108		-0.3%	-0.0%

*Money weighted return. Net of all fees.

Secured Income Cycle 3

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

Benchmark
CPI

Outperformance target
+2%

Launch date
1 April 2022

Commitment to portfolio
£240.00m

The fund is denominated in GBP

Commitment to Investment
£154.18m

Amount Called
£58.18m

% called to date
37.74

Number of underlying funds
2

Avon's Holding:
GBP113.53m

Performance commentary

For both the long lease property funds, the continued gilt yield volatility, caused by higher than expected inflation numbers, is impacting valuations. However, this negative performance seems to have moderated since the considerable repricing towards the start of the year. Both funds have sales programmes to fund investor redemptions. These assets are selected strategically; some are at the end of their business plans, or in a sector the team no longer views favourably, or the asset has poor ESG and will require high capital expenditure to improve to an acceptable standard and in line with regulations. It is worth noting that both funds have an extended redemption process in the current environment, so neither fund has been under time pressure to sell assets. During the Quarter, M&G SPIF, with unitholder permission, amended its redemption process in an investor friendly way.

In June, Brunel used the secondary market to buy £80m abrdn LLP on a pro-rata basis across clients at a 10% discount to the fund's June NAV. This leaves approximately £19m to commit to the fund in Cycle 3, either via a primary subscription or a further secondary market trade, should the opportunity arise.

For GRI, investor commitments are now up to £1.1bn in total, with £838m drawn down to date. GRI called over the quarter, to fund solar and bio-energy from waste projects and the Schroders Greencoat team expect the fund to be fully drawn down by the end of the calendar year. The forecast hold-to-life IRR is estimated to be 8.4% (May 2023). The Fund is well diversified across technologies, projects, locations, revenue streams and subsidy mechanisms, with further pipeline opportunities executable over the next 18 months.

Portfolio summary

Market value (GBP millions)	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter		Contribution to return: 1 year	Contribution to return: since inception
113.5	-	-	107,037,749	4,175	107,033,574	-		0.1%	0.0%

*Money weighted return. Net of all fees.

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

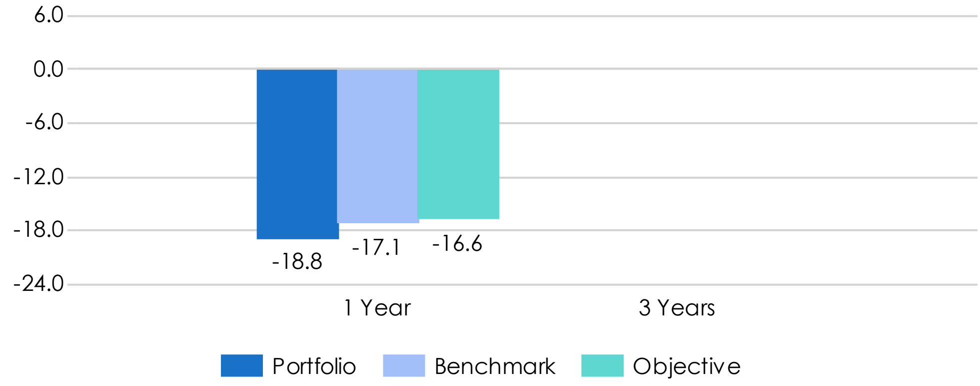
£210.0m

Amount Called

£165.6m

Number of portfolios

13



Performance commentary

Despite a weak start to 2023, UK commercial property performance recorded a marginally positive return in Q1 2023 of +0.2%. The first positive performance for eight months occurred in March, as the transactional market re-opened and valuers started to gain evidence of anticipated trends. Whereas, in 2022, declines affected interest rate-sensitive sectors with very little quality consideration, investors are now narrowly focused on best-in-class assets, particularly on prime industrial, retail park and supermarket assets.

However, in terms of volume, investment activity to April 2023 was still 57% lower than the volume transacted a year earlier, with Industrial assets accounting for 42% of all activity by value which is noteworthy given Industrial value declines were the steepest of all sectors in the 2022 albeit from high levels.

The concern for the future of the retail sector has been overshadowed this year by investors' worries about the outlook for the UK office sector. Office occupiers continue to target accommodation which meets their ESG and Wellness requirements, both in London and in the regional cities. This space represents a small proportion of the market and is commanding rental value growth. However, overall occupational demand in the office sector appears to be falling, as the impact of less optimistic business sentiment and flexible working weighs on employer occupiers. Demand for secondary office accommodation is expected to weaken further, with concomitant negative rental growth forecast.

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	181.7	0.4%	0.4%	-18.8%	-	-	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, sector positions or asset classes as applicable
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
EBITDA margin	An EBITDA margin is a profitability ratio that measures how much in Earnings a company is generating Before Interest, Taxes, Depreciation, and Amortization, as a percentage of revenue.
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 (Morgan Stanley Capital International) 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
GP or general partner	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
Low Volatility	Low Volatility is a strategy that attempts to minimise the return volatility.
LP or limited partner	In private equity, an LP is usually a third party investor in the fund
M&A	Mergers and acquisitions

Glossary

Term	Comment
Momentum	An investment strategy that aims to capitalize on the continuance of existing trends in the market
Money-weighted return	A performance measure that takes into account the timing and size of cash flows, including contributions and withdrawals.
MWR	Money weighted return - similar to an IRR - it reflects the actual investment return taking into account cashflows
NAV	Net asset value
net performance	Performance after deduction of all fees
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

Term	Comment
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 performance measure that eliminates the impact of cash flows, focussing solely on the investment's rate of return over a specific time period. It does not account for the timing and size of contributions and withdrawals.
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
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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Performance data is provided net of fees by State Street Global Services unless otherwise indicated.

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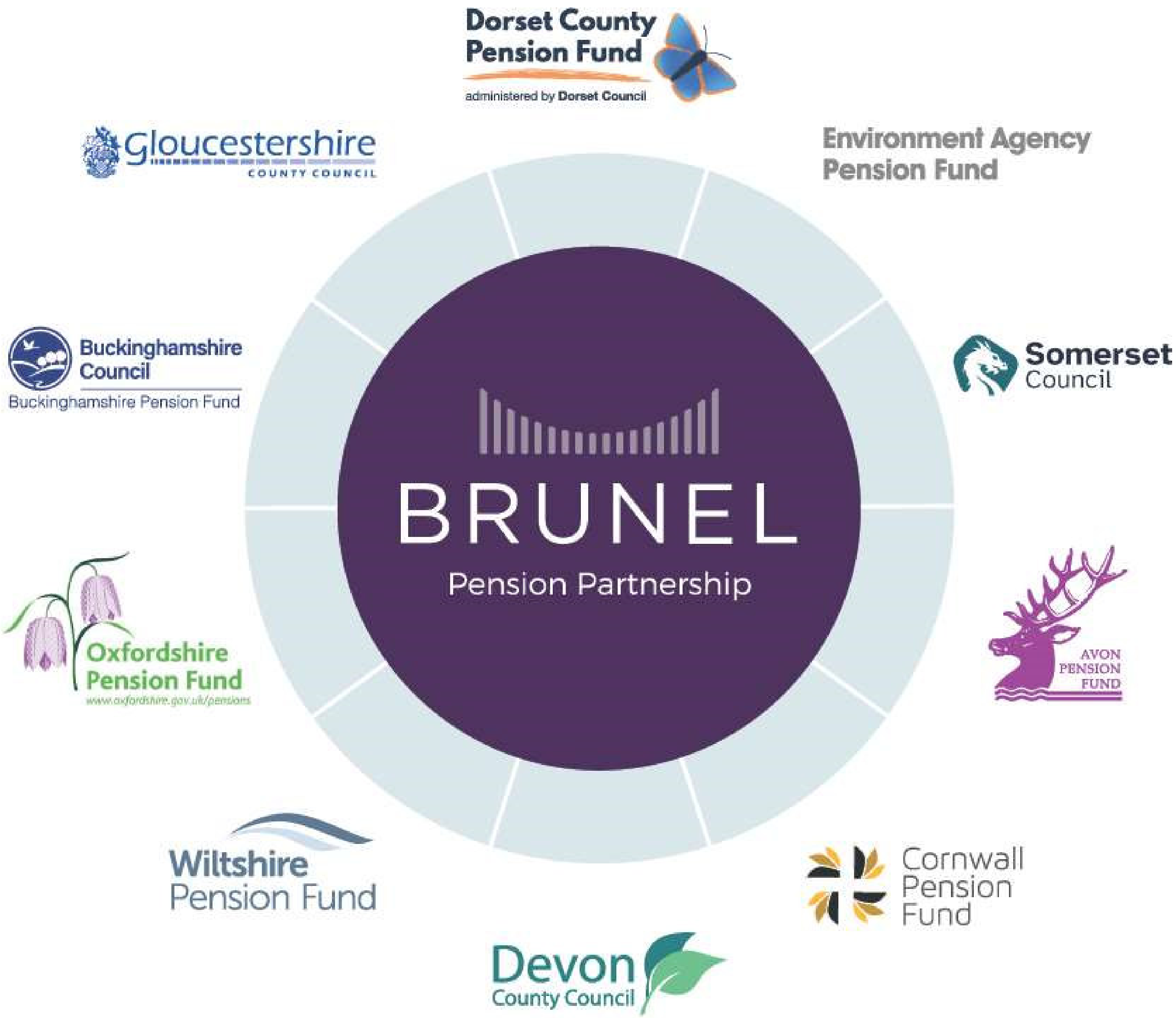

Dorset County Pension Fund
administered by Dorset Council
Environment Agency Pension Fund
Somerset Council
AVON PENSION FUND
Cornwall Pension Fund
Devon County Council
Wiltshire Pension Fund
Oxfordshire Pension Fund
www.oxfordshire.gov.uk/pensions
Buckinghamshire Council
Buckinghamshire Pension Fund
Gloucestershire COUNTY COUNCIL
BRUNEL
Pension Partnership

Mercer

welcome to brighter

Avon Pension Fund

Panel Investment Report Quarter to 30 June 2023

August 2023

Steve Turner
Joshua Caughey

A business of Marsh McLennan

Contents

Mercer

Executive Summary

1

Executive Summary

Market background

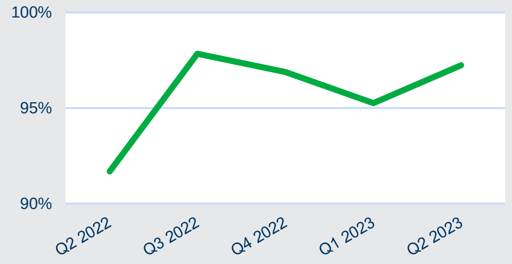
- Continued economic resilience and declining inflation (in most regions apart from the UK) led to investor optimism and thus positive performance for risk assets.
- In the UK, market-implied inflation expectations rose over the quarter, and nominal yields generally rose.

Mercer market views

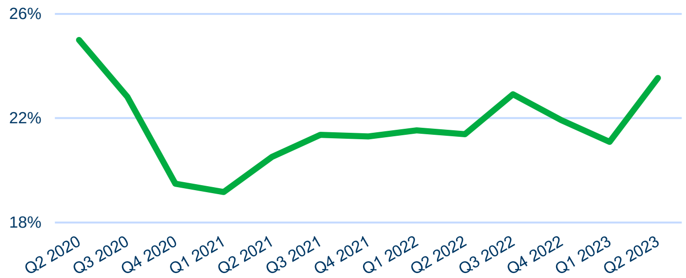
- Our medium term outlook (as at July 2023) is mixed.
- We remain slightly negative on equities due to expectations for flat or negative corporate profit growth in 2023.
- We continue to a have a modestly positive view on growth fixed income markets (e.g. Multi Asset Credit) due to attractive credit spreads and yields.

Funding level and risk

- The funding level is estimated to have increased over the quarter to c. 97%, as the decrease in the estimated value of the liabilities and impact of contributions outweighed the slight negative performance from the assets.
- It is estimated to be c. 6% higher over the year to 30 June 2023 (as illustrated to the right).



- The Value-at-Risk increased over the quarter to £1,321m, and rose as a percentage of liabilities to 23.5%.
- A key driver of this was a rise in underlying forward-looking volatility assumptions for most major asset classes over the period.
- The reduction in risk that can be seen in 2020 was due to the move from a static to dynamic equity protection strategy. Levels have gradually increased since 2020 due to market movements and changes in forward-looking assumptions.



Executive Summary

Performance

- The marginal negative return of Fund assets over the quarter was driven by the Protection assets, although this was largely offset by positive performance from all Growth assets, with the exception of Property. The Secured Income portfolio has also underperform its benchmark mainly due to the challenges seen in Property markets.
- The Currency Hedge added to returns over the period due to a strengthening of Sterling.

- Underperformance relative to the strategic benchmark over the one year period to 30 June 2023 is mainly due to the underperformance of Property and Secured Income mandates, and the Equity Protection (though performance is in line with expectations).
- The main detractors over the three year period were the Equity Protection, Overseas Property and Secured Income.

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	-0.1	-0.3	3.2
Strategic Benchmark **(2)** (ex currency hedge)	1.4	6.4	7.7
Relative **(1 - 2)**	**-1.5**	**-6.7**	**-4.5**

- The Currency Hedge overlay had positive returns over the one year period, but the impact has been neutral over three years. It should be noted that the benchmark does not make allowance for the currency hedge.

- Absolute returns compared to the strategic returns modelled at the strategy review in 2023 have been mostly positive among Equity and the Liquid Growth assets, given that these markets have seen a strong year-to-date, whilst they have been generally negative within the Illiquid Growth assets.
- A key point underpinning these is that it is comparing only a six-month period compared to expectations derived per annum, as the expectations derived from the strategy review were with effect from 31 December 2022.

Asset allocation and strategy

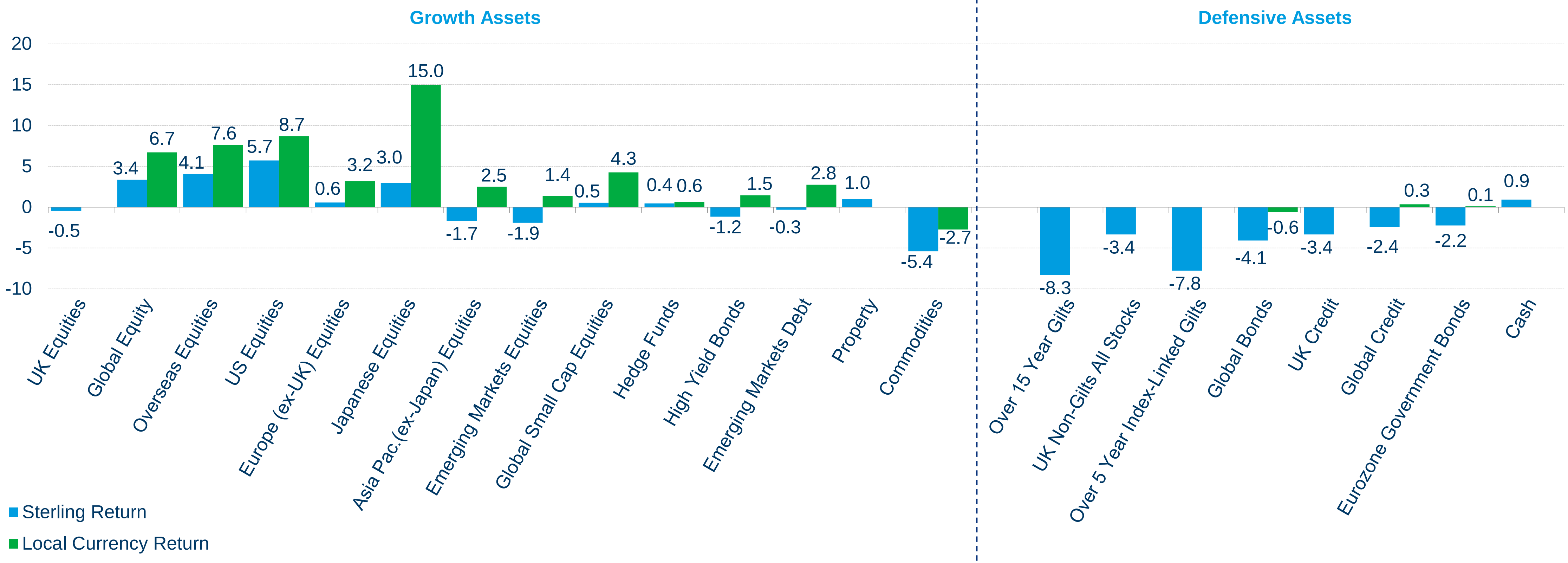
- A net amount of c. £125m was drawn down to the Brunel private market portfolios during the quarter, including the first drawdown to Secured Income – Cycle 3 to the magnitude of c. £107m.
- There were large transitions within the Equity portfolio to implement the agreed tilt towards passively-managed mandates, and the creation of synthetic exposure to the MSCI Paris-Aligned Index was completed during the period.

Market Background

2

Market Background

Return over 3 months to 30 June 2023 (%)



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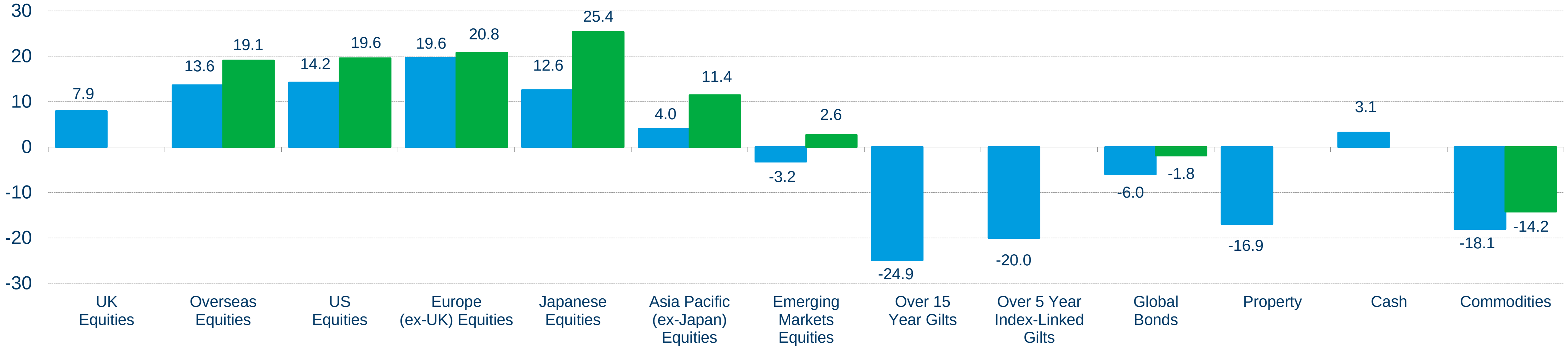
The second quarter of 2023 saw the orderly resolution of the second largest bank failure in US history and further distress among US regional banks, ongoing economic resilience, declining inflation, an equity rally led by eight stocks, and increased geopolitical tensions, including an attempted coup in Russia. Developed market central bank actions were mixed over the quarter, with some deciding to pause hiking interest rates, and others continuing to increase the policy rate, but rhetoric remained hawkish. Headline inflation continued to slow and core inflation fell in most regions apart from the UK. Inflation expectations also continued to decline over the quarter. Overall, this led to investor optimism and thus positive performance for risk assets whereas government bond performance was negative because of increasing rates.

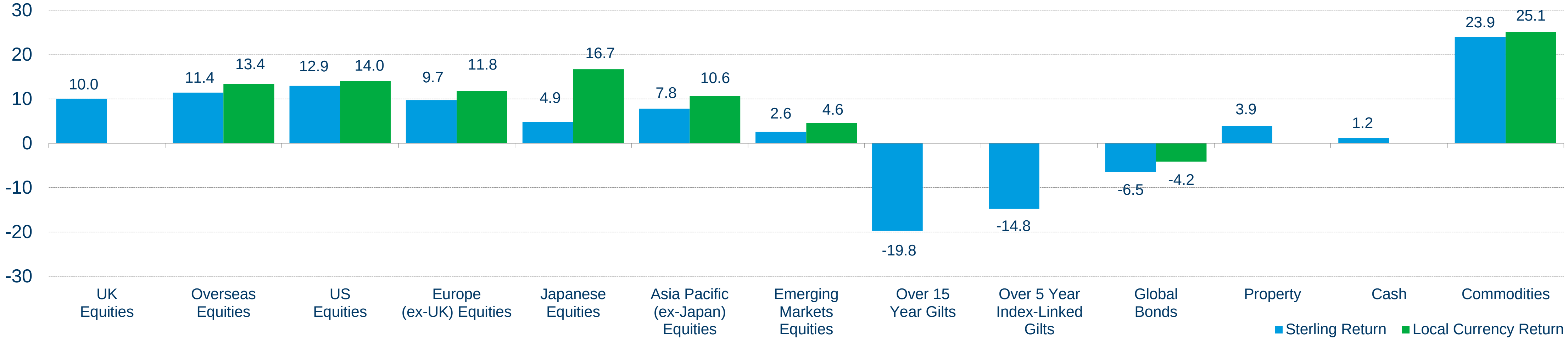
Source: Refinitiv

Market Background – 1 & 3 Years

Return over 12 months to 30 June 2023 (%)



Return over 3 years to 30 June 2023 (% p.a.)



Mercer

Source: Refinitiv

Mercer Market Views

3

Market Outlook (July 2023)

Overweight Neutral weight Underweight

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Global equities had another strong quarter, despite more aggressive central bank action in the developed world and an economic slowdown in China. Tech stocks were responsible for some of the strength, with many gaining on hopes that advances in artificial intelligence (AI) would materially boost overall economic growth. Government bond yields rose sharply as the banking crisis stabilised and as ongoing economic strength led the Federal Reserve to signal that they would probably keep raising rates in 2023H2. Central banks in Canada and Australia both restarted their hiking campaigns and the Bank of England increased rates by 0.5%. Emerging market equities underperformed developed markets with Chinese equities especially weak as growth softened following the strong start to 2023. Credit spreads tightened a little, while a weaker yen was the key development in currency markets.

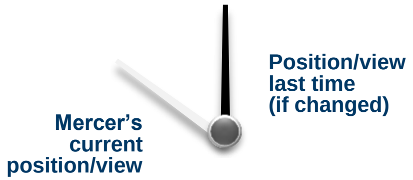
The global economy remained resilient with the US stronger than many expected. In Europe, economic growth softened, with manufacturing especially weak. Manufacturing remained weak in most of the world as the post COVID shift from manufacturing to services continued. Having grown rapidly at the start of the year, the Chinese economy weakened, especially in the manufacturing and property sectors, although the post COVID rebound in the service sector continued. In most of the developed world, labour markets remained tight, with wages still above the levels consistent with central banks' inflation targets. Emerging economies outside China were generally resilient.

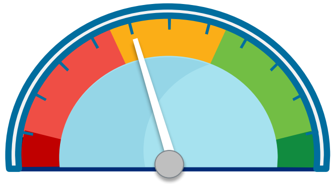
Inflation at a headline level fell sharply in many countries, although core inflation remained elevated in most of the developed world. In Spain, for example, headline inflation fell to 1.9% in June having been over 10% last July. The sharp declines seen in Spain and elsewhere were largely the result of powerful base effects and much lower energy prices. Core inflation rates, however, remained elevated, with strong wage growth continuing to put upward pressure on those companies where labour costs make up a large proportion of total costs. In the US, headline inflation fell to 4%, down from 9% last June, while core inflation fell to 5.3% from a peak of 6.5%. In Japan, inflation, wage growth and inflation expectations remained firm, suggesting a change to the disinflationary mind-set that has been in place for years. Inflation remained very low in China. Inflation in the UK remains stubbornly high and the highest amongst in developed markets peers.

The outlook for the global economy has not changed a lot. We expect high interest rates and tighter credit conditions in the US to weigh on economic activity in most of the developed world. While we continue to think a hard landing will be avoided, US growth is likely to slow to about 0% by the turn of the year, making an occasional quarter of negative growth likely. Europe is likely to follow a similar profile although it would be supported if natural gas prices don't spike in the winter. In China, we expect policy makers to announce stimulus measures to boost the economy, while broader emerging markets should perform reasonably well given they acted on increasing inflation more precipitously than developed market economies.

Headline inflation should fall further as past increases in commodity and other prices work their way out of the year-on-year calculations, while improved supply chains should reduce the prices of things like used cars. Core inflation should stay above target well into 2024 because of elevated wage growth. Central banks may soon pause their interest rate hiking cycles to assess the impact of past increase. They are unlikely to cut rates until they are certain wage growth is contained.

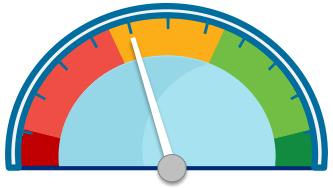
We made no material changes to our asset class preferences, continuing to prefer growth fixed income (GFI) assets (high yield, loans and EMD) to defensive fixed income assets and cash. We remain neutral equities. While further declines in inflation should support equities, we think corporate profit growth will be flat or negative in the developed world in 2023. We remain overweight emerging equities (EME), because we expect the reopening in China will generate strong economic and corporate profit growth. A generally weak US dollar should also support EME. Within GFI we increased our exposure to emerging market local currency debt, as some of their central banks are about to start a rate cutting cycle.



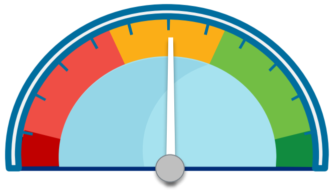


LISTED EQUITIES

GROWTH FIXED INCOME



DEFENSIVE FIXED INCOME



CASH*

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

Listed Equities

ASSET CLASS	APRIL 2023	JULY 2023	COMMENTARY
Developed Equity	Underweight	Underweight	**The MSCI World Index returned 4.1% in GBP terms over 2023Q2 and 9.2% year to date.[1] We have maintained our developed market equity sector position at underweight within the global equities portfolio.** Valuations have deteriorated again over the quarter from already rich levels. We also note the narrow leadership in equity returns over the quarter, which makes them vulnerable to a shift in the tech sector momentum. Our macro base case remains unchanged: strong consumer and business balance sheets will likely avert a deep recession. Inflation will continue to slow as base effects become even more deflationary, but core inflation will likely remain persistent into 2024. Monetary policy should remain restrictive, with most expectations of cuts for 2023 now largely priced out of bond markets. A recession that ends up being worse than our soft-landing base case therefore remains a significant risk. Equity markets are sanguine about this, even amid expectations of earnings growth beginning to turn more negative. We believe that another strong quarter means 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, such as emerging markets.
Global Small Cap Equity	Neutral	Neutral	**The MSCI Small Cap index returned 0.5% in GBP terms over 2023Q2 and 2.1% year to date.[1] We have maintained our small cap equity position at neutral.** Despite strong performance, some valuation metrics still remain historically attractive. Small-cap balance sheets remain robust. Our base case of a soft landing would be a positive environment for small-cap equities, given their cyclical exposure. However, we remain wary of the potential downside for the asset class if this scenario does not occur and a significant economic downturn takes hold, as highlighted in the developed equity section. Sentiment for equities as a whole remains bearish, as indicated by the BofA Fund Manager Survey, with investors still expecting large-cap equities to outperform small-cap equities in the coming year.[2] Overall, we balance more bearish sentiment and mixed macroeconomic scenarios with attractive valuations, both in comparison to small-cap's own history and relative to other equity sectors.
Emerging Markets Equity	Overweight	Overweight	**The MSCI Emerging Markets index returned -1.7% in GBP terms over 2023Q2 and -0.6% year to date.[1] We have maintained our positioning for emerging markets at overweight.** Valuations deteriorated over the quarter and are now looking less attractive compared to the beginning of 2023. China's reopening has been underwhelming compared to initial expectations, but there is still potential for growth as policy support gains momentum and regulations remain favourable. Even if China doesn't reach expected growth levels, the fact it is at the opposite stage in the business cycle compared to developed economies will act as a tailwind. In other Emerging Markets, economies are in a less fragile state compared to most Western economies, thanks to proactive actions by EM central banks in terms of monetary tightening. This provides more room for policy easing if an extended period of economic weakness occurs. According to the BofA fund manager survey for June 2023, investors have remained overweight in emerging market equities for seven consecutive months, after being underweight for most of 2022.[2] Despite less attractive valuations, bullish sentiment and a more positive macro outlook in comparison to developed countries support our decision to allocate our risk budget to emerging markets rather than developed markets.

[1]Source: Bloomberg, Refinitiv as of end of 2Q23
[2] BofA FMS June 2023

Growth Fixed Income

ASSET CLASS	APRIL 2023	JULY 2023	COMMENTARY
Global Loans	Underweight	Underweight	**Over 2023Q2, Global Loans returned 0.3%. We have maintained our position at underweight within growth fixed income.** Bank loans have significantly outperformed the other growth fixed income sectors in 2023 thus far, as the sector's floating rate profile has largely insulated it from sharply higher interest rates. Whilst we expect the asset class may continue to outperform, in the near-term, due to its floating rate profile, we are increasingly cautious about its lower quality nature and rising default rates. Yields offer a significant spread pickup compared to high-yield bonds, which offer some offset to the lower credit quality. The loan market is currently of lower quality than in prior cycles, with single-B loans comprising a large portion of the overall market, and the expectation that the rising cost of capital will reduce free cash flow, we would expect loan default rates to rise by year end. While all-in yields are attractive and whilst there is potential for loan outperformance over high yield in the short term, the lower quality nature of the asset class leaves spreads vulnerable over the DAA horizon.
High Yield	Overweight	Neutral	**Global high yield returned 1.3% on a GBP hedged basis in 2023Q2. We have reduced our overweight position to the positive side of neutral within growth fixed income.** Valuations within the asset class remain attractive, in our view, with an index yield over 8.7% and an average bond price below par. Spread levels have narrowed since last quarter, however they still remain far off what are typical recessionary levels. The higher quality make-up of the index is noticeable with 55% of the market rated BB. Fundamentals are still holding up to this point, business balance sheets remain strong and companies remain increasingly conservative in their approach with limited capex as well as the use of leverage decreasing. Overall, we believe investors are getting adequately compensated for risk in high yield rather than in bank loans but we reduce our conviction in global high yield, in order to, increase our conviction in emerging market debt local currency
EM Debt (Local Currency)	Neutral	Overweight	**Overweight EMD LC**. The possibility of a weakening US dollar offers return potential. Shorter-term headwinds can be found in the persistence of inflation, central bank policy, and continuing geo-political risks. The index yields 6.3%, as of 30 June 2023. LC performed reasonably well over the last quarter, with some yield compression and steady FX levels in the wake of some FX gains in Q1. The dip down in yields may reflect some degree of a peaking in inflation and rates cycles across EM countries. The recent EM currency strength, in a longer-term context, is quite modest, and EMFX continues to be attractive relative to historical valuations. Global growth continues to face a broader slowdown although some headwinds continue to show signs of alleviating over the DAA's time horizon. The Fed recently increased rates to tackle more persistent than expected inflation, and a strong labour market, but did so during the development of idiosyncratic fractures within the banking system that failed to materialise into a more systemic issue. The directionality of rates, and the depth of a potential recession in the US, will be a significant driver for EM returns. A weakening US dollar relative to a basket of emerging market currencies could well be a positive for the FX component of the asset class, but the direction of the US dollar may be whipsawed by the direction of Fed rates. Sentiment remains sensitive to global growth, the persistence of inflation, US rate levels and ongoing geo-political stories. US recessionary risk pares back sentiment. Overall, we have increased our positioning from neutral to overweight to reflect our conviction in a declining US dollar amongst tailwinds for domestic emerging market economies.
EM Debt (Hard Currency)	Neutral	Neutral	**Maintain the modest neutral/underweight on EMD HC**. The index offers a yield of 8.4% as at 30 June, and the spread is still well above long run average levels. However, within the index it is worth noting the bifurcated nature of the market with the below-IG segment of the market yielding over 12% whilst the IG portion yields just over c. 5%. Global growth continues to face a broader slowdown although some headwinds continue to show signs of alleviating over the DAA's time horizon. The Fed recently increased rates to tackle more persistent than expected inflation, and a strong labour market, but did so during the development of idiosyncratic fractures within the banking system that failed to materialise into a more systemic issue. The directionality of rates, and the depth of a potential recession in the US, will be a significant driver for EM returns. Whilst US dollar strength had begun to falter on the expectations of slowing rate hikes, expectations of a recession may push the US dollar upwards weighing on the ability of some EM countries to service their debt. Sentiment remains sensitive to global growth, the persistence of inflation, US rate levels and ongoing geopolitical stories. US recessionary risk pares back sentiment. The direction of the US dollar, Fed rate levels and continuing geopolitical risks are headwinds over the short-term, as is the relatively long duration nature of the market.

[1]Source: Bloomberg, Refinitiv as of end of 2Q23

Defensive Fixed Income

ASSET CLASS	APRIL 2023	JULY 2023	COMMENTARY
UK Sovereign Fixed Income	Neutral	Neutral	**UK Gilt returns were negative in the second quarter of 2023 at -5.4% in GBP terms[1]. We have maintained our stance on the negative side of neutral.** UK government bond yields rose over 100 basis points (bps) in the quarter, albeit without the market upheaval witnessed towards the end of Q3 2022. The rise in yield was largely driven by the unwind of the global flight to safety given the reduction of the nervousness over the banking sector that permeated Q1, the UK's precarious fiscal position and the extremely sticky UK inflation numbers that continue to surprise to the upside. The BOE hiked twice in Q2, by 25bps and again by 50bps in June, the latter being somewhat of a surprise to the market given its aggressiveness. The yield curve in the UK inverted substantially during Q2 2023, with 2 year yields rising more that 10yr yields, usually the harbinger of a recession. The large move in the front end of the curve followed the BOE's larger than expected 50bps hike in rates in June. The BOE said there had been "significant" news suggesting Britain's persistently high inflation would take even longer to fall. The unemployment rate for February to April 2023 increased by 0.1% on the quarter to 3.8%. The increase in unemployment was driven by people unemployed for up to 12 months. The economic inactivity rate decreased by 0.4% on the quarter, to 21.0% in February to April 2023.
UK Inflation-Linked Bonds	Neutral	Neutral	**UK index linked gilts returned -6.6% in the second quarter of 2023 in GBP terms[1], driven by rising real yields. We have retained our position of being on the negative side of neutral in the defensive fixed income portfolio.** Inflation prints in general surprised on the upside after appearing to moderate in the early part of the year. The April UK CPI release sparked a selloff in Gilts, coming in above expectations by 50bps. While headline CPI fell from 10.1% YoY to 7.9% YoY, this was largely a function of base effects in energy inflation. This effect had been well signposted, and the bigger story was in core CPI. At 6.8% YoY, core CPI reached its highest level in 30 years, driven by core goods prices. This was ahead of consensus estimates of no change from March's 6.2%. The BOE responded with a larger than expected 50bps hike in June, taking official rates to 5.0%. Wholesale energy prices are starting to come off and will likely ripple through the real economy in the months ahead. Nevertheless, given the uncertainty we maintain a slightly underweight position in UK Index Linked gilts as the BoE will be reluctant to cut rates until core inflation truly starts to tail-off, which is unlikely in the short run. We do however subscribe to the view that the UK should track US inflation lower, albeit with a small lag given the UK's sensitivity to energy prices. In particular, we see room for food inflation to fall rapidly given recent weakness in PPI data and forward pricing. As such, we continue to remain moderately underweight and seek a better entry point to the asset class. From a technical perspective, UK linkers continue to be supported by a captive local market seeking to hedge inflation risks in long-dated pension liabilities.
UK Buy and Maintain Credit	Neutral	Neutral	**UK investment grade credit returned -3.4% in GBP terms during the second quarter of 2023[1]. Although in the neutral range, we maintain a tilt towards IG credit within defensive fixed income.** Whilst returns were negative over the quarter, credit outperformed equivalent duration government bonds as spreads tightened. Valuations appear attractive with spreads above their ten-year average, higher than global spreads and all-in yields are still high. Although economic data have been generally stronger than expected year to date, the consensus view remains for weaker growth/recession over a six to twelve month horizon as the Bank of England continues to focus on reducing inflation, which has surprised on the upside, even at the risk of recession. Global corporate fundamentals have generally proved to be relatively resilient, although there remains a risk of a deterioration in earnings and a pick up in downgrades if economic growth remains weak or worsens. Sentiment is mixed. Whilst many active fixed income managers are cautiously positioned, noting the risk of wider spreads, some would see this as a buying opportunity. Defined benefit pension schemes in the UK are likely to increase allocations to high quality credit as they reduce leverage in their LDI portfolios and the yields available may prove attractive to asset allocators.

[1]Source: Bloomberg, Refinitiv as of end of 2Q23

Global Property Market Outlook

- The correction in real estate pricing is likely to continue until some stability in interest rates has occurred. This moment is moving closer for some markets, notably the US. In the UK and Continental Europe, the majority of interest rate hiking is also likely to have occurred, even if inflationary pressures are proving stickier here.
- The yield spread of property over local government bonds is currently very low in a historic context. Reversion of the yield spread through rising property yields seems therefore inevitable. However, we expect the yield spread to move closer to the historic norms of 200-250bps rather than the 400-500bps yield spread that prevailed for much of the past decade.
- Importantly, strong fundamentals coupled with high inflation also means that the negative impact of rising property yields is partially mitigated by NOI growth. Strong labour markets and healthy savings rates are effectively softening the blow of the capital market correction.
- If the narrative of a “soft landing” for the global economy prevails, investor sentiment in real estate could improve as soon as the fourth quarter of 2023. When it does, the turnaround in activity is likely to be quick, as investors move to capitalize on reduced net asset values.
- Longer term, real estate can provide diversified returns from liquids or other private market asset classes due to the asset class’ inflation-linked qualities and ability to tap into different economic sectors.

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	EUROPE		
Equity	+ Core/ Core+	Value Add	Oppor-tunistic
Themes	CPI Linkage	ESG refurbs	Niche sectors
	UK repriced assets	Secondary locations	Aggregation
	CBD-style offices	High leverage	Spec Development

Attractive value: With substantially higher interest rates and less bank financing available, real estate debt strategies show highly attractive risk-adjusted returns. Equity investors can also tap into this theme by backing certain opportunistic managers. Strong capital value growth prospects remain for several undersupplied niche sectors across markets.

Worst value: We think that US Core/Core+ will see more repricing in the second half of 2023, so have maintained this segment as “less attractive”. While capital value corrections are also still likely in the other regions, the worst looks to be behind us in the UK and parts of Europe, while markets in Asia Pacific are more boosted by growth and should see more shallow declines.

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, July 2023*

Very attractive	Attractive	Neutral	Less Attractive	Unattractive	Not applicable

Change from previous quarter in pink

Funding Level and Risk

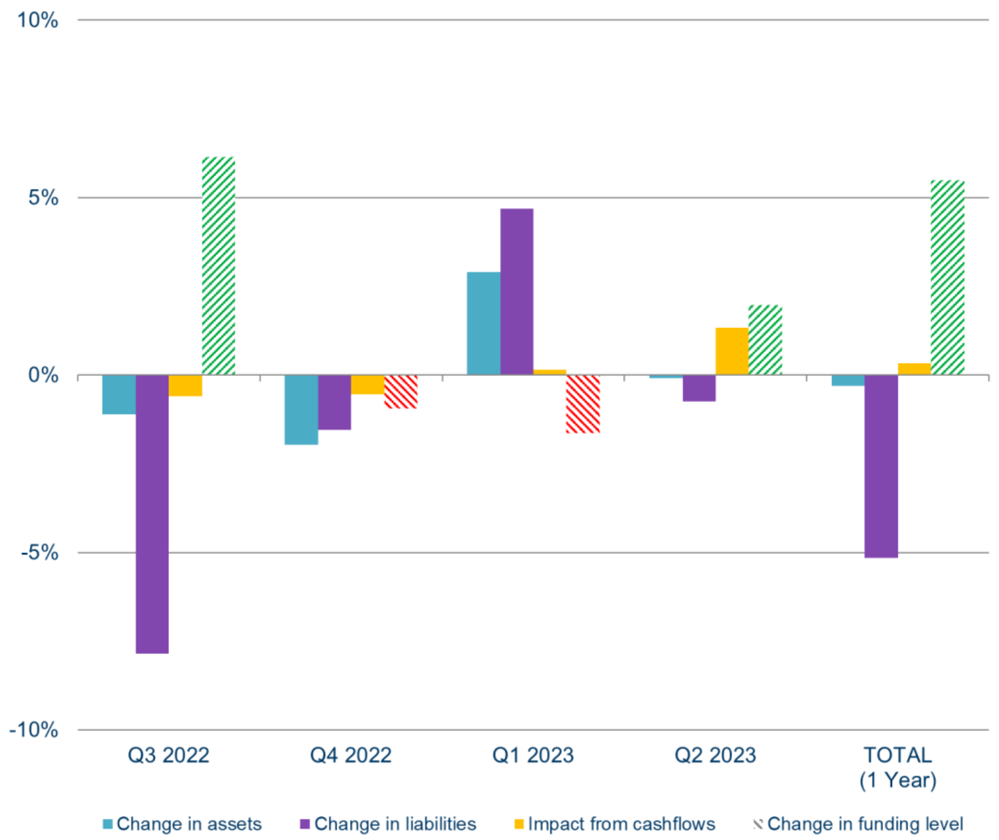
4

Funding Level and Deficit

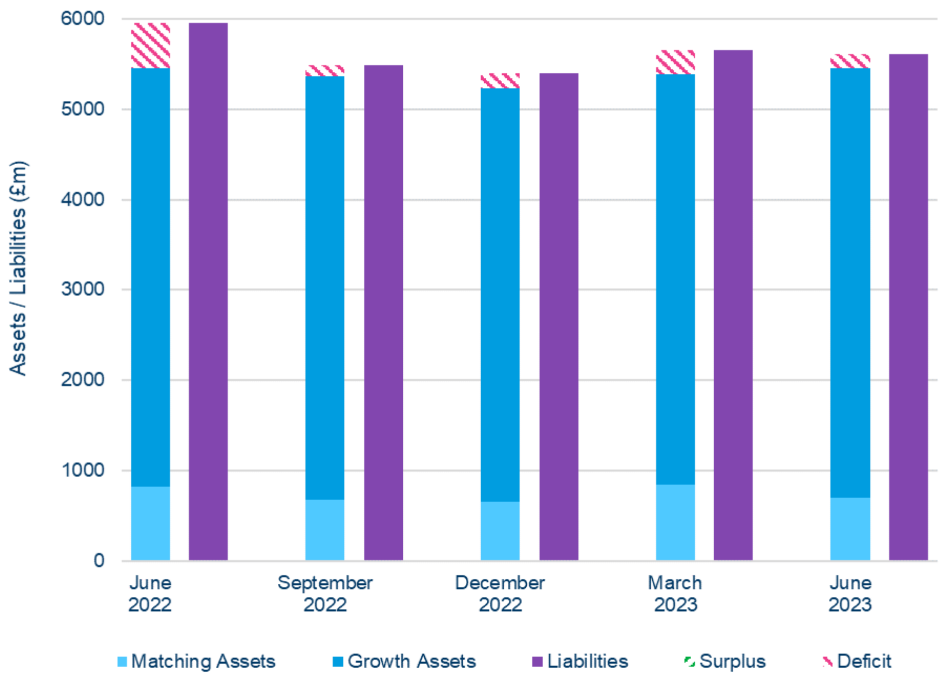
The Fund's assets returned -0.1% over the quarter, whilst the liabilities are estimated to have decreased by c. 0.7% due to the rise in nominal yields.

The combined effect of this, also allowing for expected cashflow over the period, saw the estimated funding level increase to c. 97%.

The funding level is estimated to be c. 6% higher over the year to 30 June 2023.



The deficit was estimated to have decreased over Q2 to c. £155m:



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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.
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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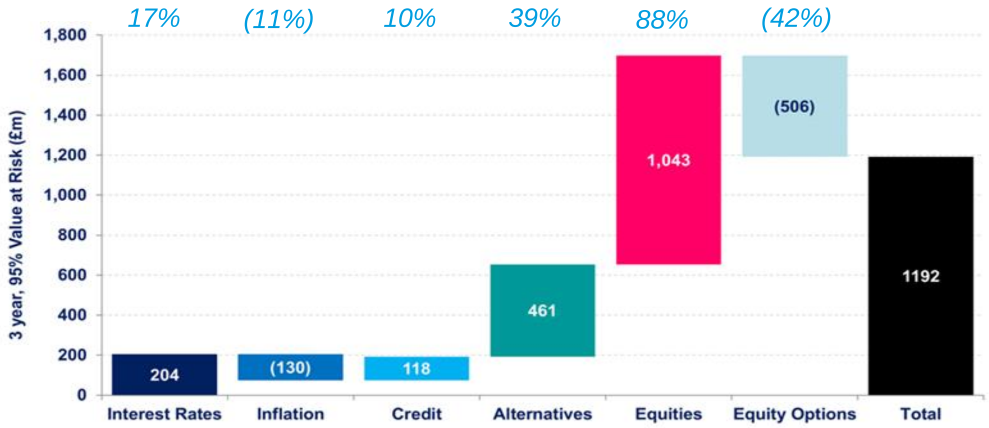
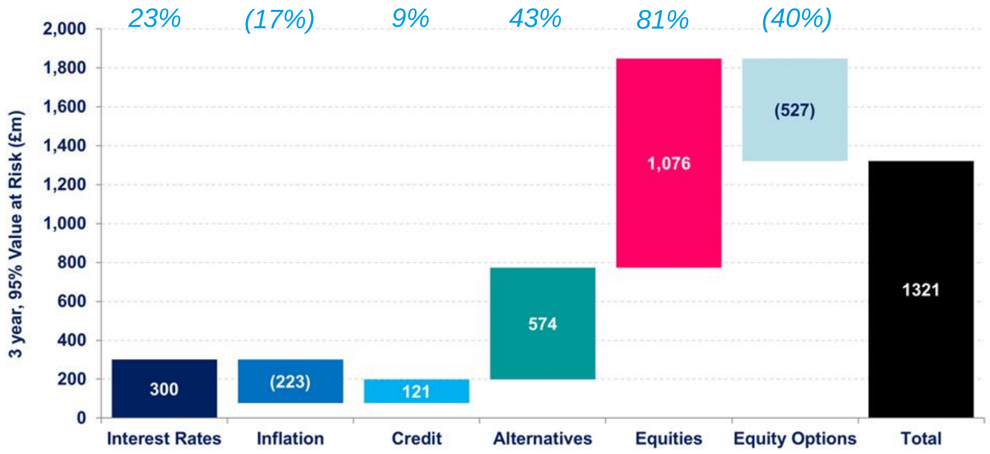
31 March 2023



30 June 2023



- As at 30 June 2023, if a 1-in-20 'downside event' occurred over the next three years, the funding position could deteriorate by at least an additional **£1.3bn**.
- 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 increased by £129m over the quarter**. A key driver of this was a rise in underlying forward-looking assumptions for volatility (and return) for most major asset classes over the period. Moreover, updating for the 2022 actuarial valuation cashflows and SAA together reinforced the upward movement.
- VaR rose as as a percentage of liabilities from 21.1% to 23.5%.

VaR figures shown are based on approximate liability data rather than actual Fund cashflows, and are based on the strategic asset allocation at the time. They are therefore illustrative only and should not be used as a basis for taking any strategic decisions.
31 March cashflows are from the 2019 actuarial valuation; scaled to more closely reflect the 2022 valuation cashflows, whilst 30 June uses cashflows from the 2022 valuation. 30 June reflects the new SAA.

Performance Summary

5

Total Fund Performance

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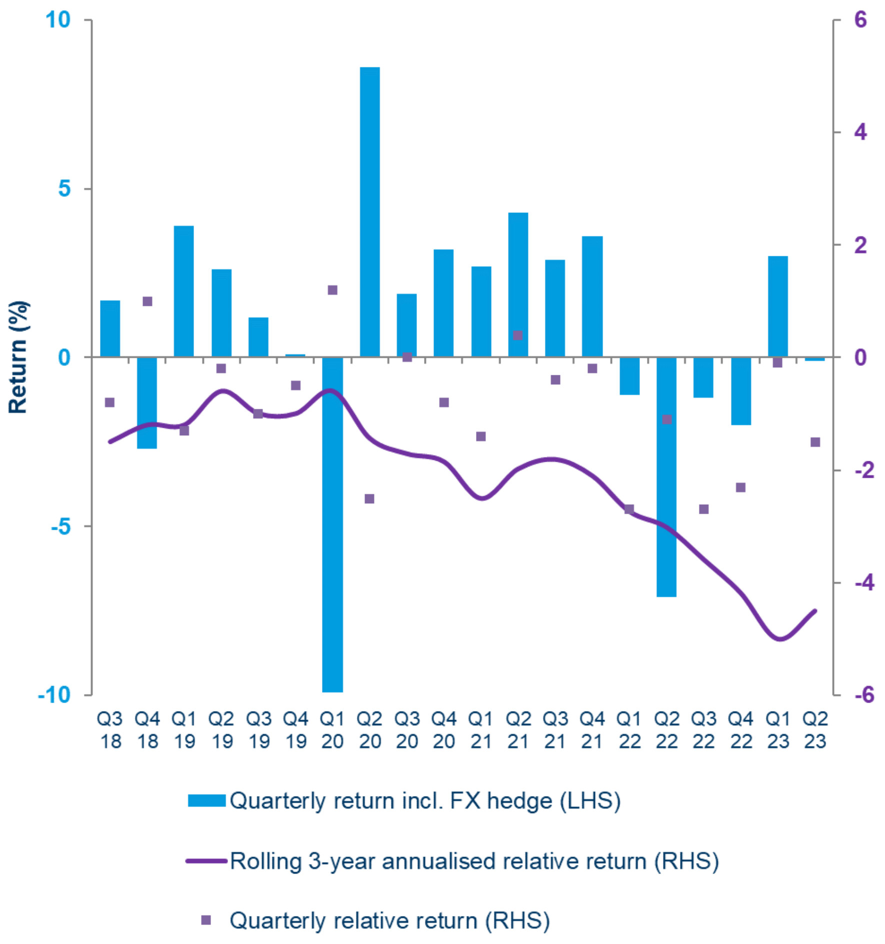


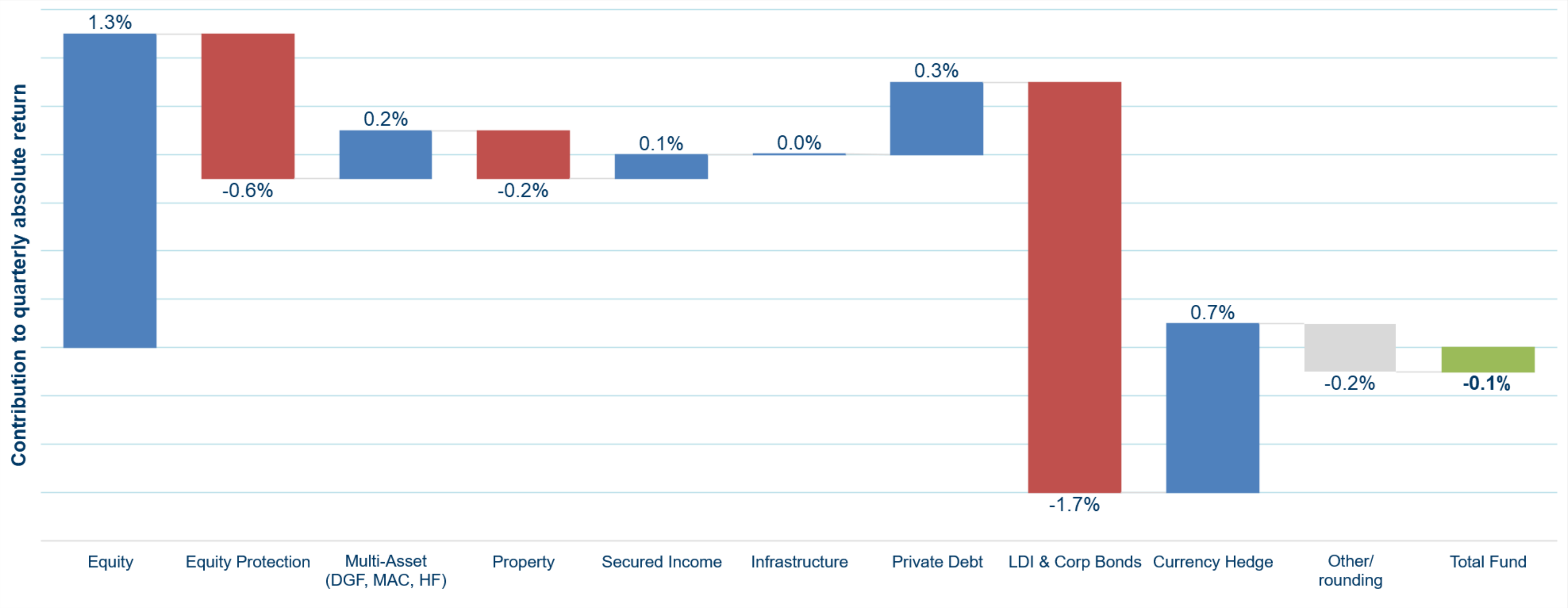
	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	-0.1	-0.3	3.2
Total Fund (ex currency hedge)	-0.8	-1.1	2.9
Strategic Benchmark **(2)** (ex currency hedge)	1.4	6.4	7.7
Relative (1 - 2)	**-1.5**	**-6.7**	**-4.5**

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

Commentary

- As illustrated on the next slide, the marginal negative return of Fund assets over the quarter was driven by the Protection assets, although this was largely offset by positive returns from all Growth assets with the exception of Property.
- Relative performance in Q2 was mostly negative. Sustainable Equity suffered from an underweight to the few large cap companies in which a lot of the equity market rally was concentrated. The Liquid and Illiquid Growth assets underperformed their cash/inflation-plus benchmarks with the Secured Income portfolio underperforming its benchmark mainly due to the challenges seen in Property markets. The only exception was the Private Debt, .
- The main 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.
- The Currency Hedge has added to returns over the period shown due to a strengthening of Sterling.

Total Fund Performance Attribution – Quarter

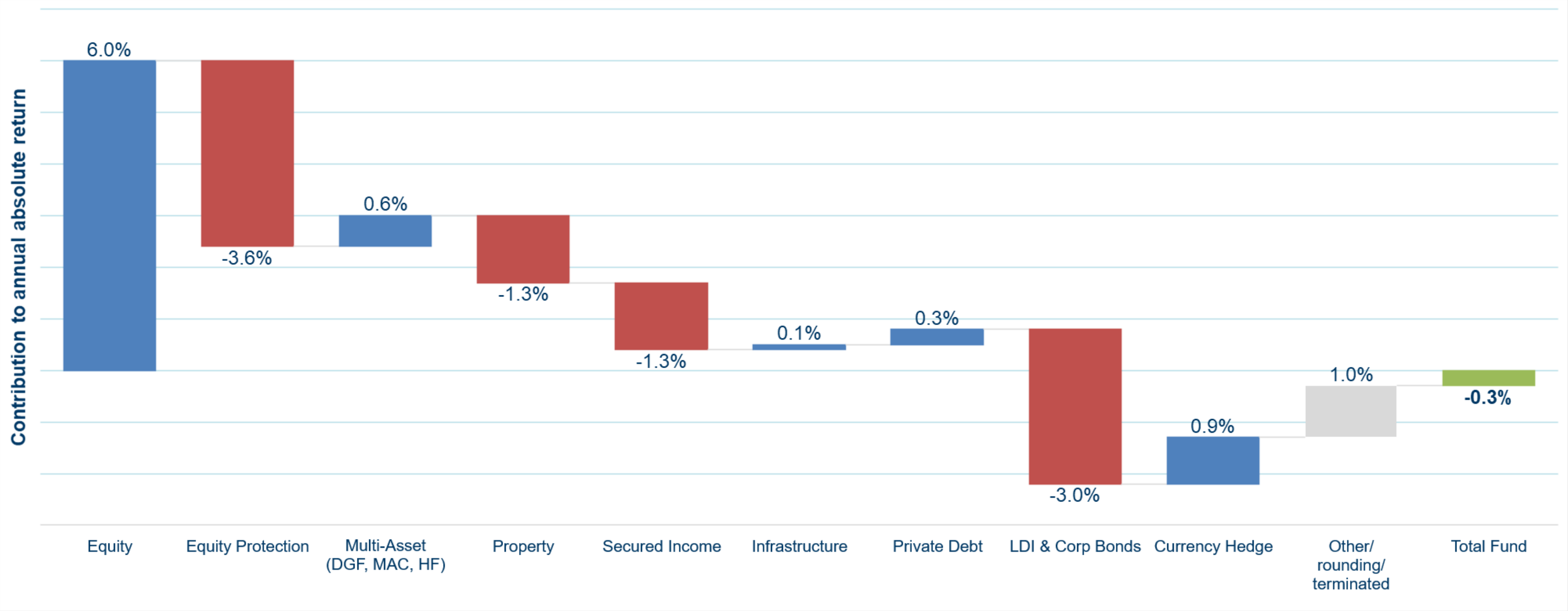


Source: Custodian and Mercer estimates
'Other' contributions to the total can include the relatively small holdings in the ETF, cash, the impact of cashflows and terminated mandates, as well as rounding.

The marginal negative return on the Fund assets over the quarter was driven mainly by the decline in value of the LDI portfolio as nominal yields rose. The Equity Protection detracted, in line with expectations as the underlying physical equity holdings posted positive returns.

All of the broad Growth asset categories contributed to return, except for Property. The Currency Hedge contribution was positive due to the strengthening of Sterling.

Total Fund Performance Attribution – 1 Year



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.

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The negative returns from LDI and the Equity Protection were the main detractors over the 1 year period.

Property and Secured Income have also had a difficult year, though all other Growth asset categories contributed positively, especially Equity.

The Currency Hedge contribution was positive due to the strengthening of Sterling.

Performance vs. Expected Strategic Returns

Growth Asset	**Brunel Global High Alpha**	**Brunel Global Sustainable**	**Brunel Passive Global PAB**	**Brunel Diversified Returns**	**Brunel Multi-Asset Credit**
Benchmark Allocation	10.5%	10.5%	20.5%	6.0%	6.0%
Commentary	Returns above expectations* since December 2022 due to equity market strength year-to-date. Active management contribution has been marginally positive over this period.	Returns marginally below expectations* since December 2022 due to a negative active management contribution. During Q2, this was largely due to an underweight to the few large cap companies in which a lot of the equity market rally was concentrated. However period is still less than one year.	Returns above expectations* since December 2022 due to equity market strength.	Returns below expectations* since December 2022 due to flat Q1 performance, however period is still less than one year.	Returns below expectations* since December 2022 thanks to strength in high-yield debt markets year-to-date.

*Expected strategic returns have been updated to reflect the assumptions for the 2023 Investment Strategy Review, which are as at 31 December 2022. As such the return track record has also been recalibrated to commence from this date. **Given this, the return period covers six months whereas the expected returns are per annum, so there are limitations at this stage to making direct comparisons.**

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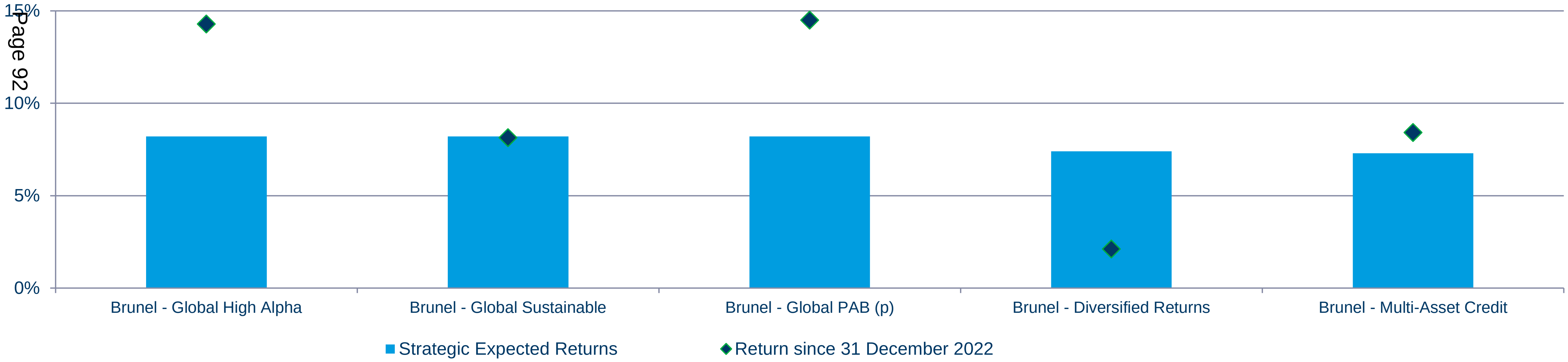
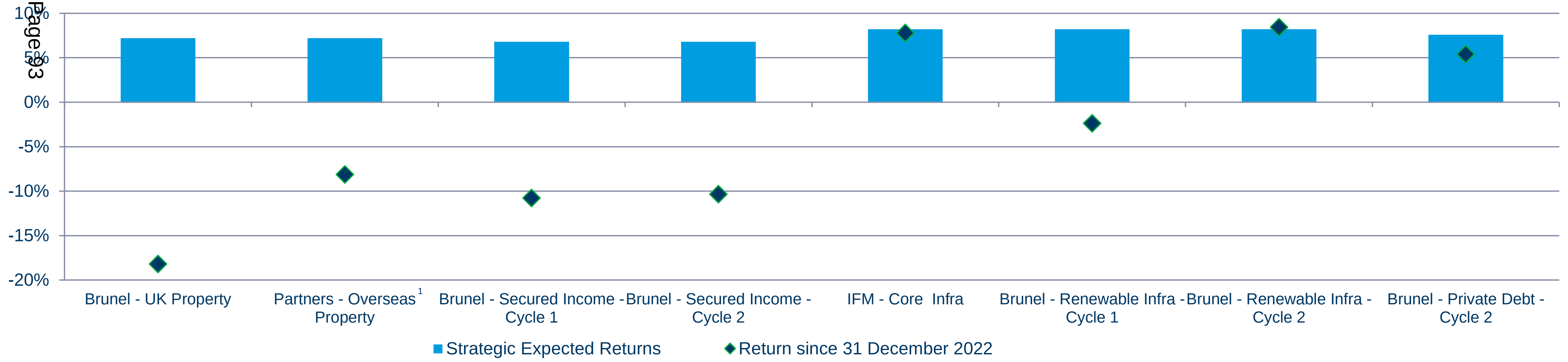


Notes:
We have illustrated the performance of the key mandates within the Fund's investment strategy.
Actual returns are from 31 March 2019 to 30 June 2023, except if otherwise stated below. Returns for periods over a year have been annualised.
The strategic expected returns are from the 2023 strategy review, which reflect the 10 year mean Mercer Q4 2022 asset model assumptions.

Performance vs. Expected Strategic Returns

Growth Asset	**Brunel UK Property**	**Partners Overseas Property**	**Brunel Secured Income**	**IFM Core Infra**	**Brunel Renewable Infra**	**Brunel Private Debt**
Benchmark allocation	3.75%	3.75%	9.0%	4.0%	5.0%	4.5%
Commentary	Returns below expectations* since December 2022 due to the challenges seen in Property markets year-to-date.			Returns broadly in line with expectations* since December 2022.	Returns for cycle 2 assets (first drawdown in October 2021) broadly in line with expectations* since December 2022, though the assets within cycle 1 (first drawdown in January 2021) have reported lower returns. Mandates are still in the drawdown phase.	Returns below expectations* since December 2022, however period is still less than one year. Mandates are still in the drawdown phase.

**Expected strategic returns have been updated to reflect the assumptions for the 2023 Investment Strategy Review, which are as at 31 December 2022. As such the return track record has also been recalibrated to commence from this date.*
Given this, the return period covers six months whereas the expected returns are per annum, so there are limitations at this stage to making direct comparisons.



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The strategic expected returns are from the 2023 strategy review, which reflect the 10 year mean Mercer Q4 2022 asset model assumptions.
[1] Returns are shown up to 31 March 2023, as this is the latest data available.

Mandate Performance to 30 June 2023

Manager / Asset Class	3 Months Fund (%)	3 Months B'mark (%)	3 Months Relative (%)	1 Year Fund (%)	1 Year B'mark (%)	1 Year Relative (%)	3 Year Fund (% p.a.)	3 Year B'mark (% p.a.)	3 Year Relative (% p.a.)	3 Year Performance Target (% p.a.)**	3 Year Performance vs Target
Brunel Global High Alpha Equity	3.9	4.1	-0.2	16.3	13.8	+2.2	11.1	11.6	-0.4	+2-3	Target not met
Brunel Global Sustainable Equity	0.1	3.4	-3.2	10.2	11.9	-1.5	N/A	N/A	N/A	+2	N/A
Brunel Passive Global Equity Paris-Aligned	5.3	5.3	0.0	16.7	16.7	0.0	N/A	N/A	N/A	-	N/A (p)
Brunel Diversified Returns Fund	1.0	1.8	-0.8	1.1	6.2	-4.8	N/A	N/A	N/A	-	N/A
Brunel Multi-Asset Credit	1.8	2.0	-0.2	7.6	7.3	+0.3	N/A	N/A	N/A	-	N/A
Brunel UK Property	0.4	0.3	+0.1	-19.0	-17.1	-2.3	N/A	N/A	N/A	-	N/A
Partners Overseas Property*	-3.5	2.5	-5.9	-8.9	10.0	-17.2	0.5	10.0	-8.6	-	Target not met
Brunel Secured Income - Cycle 1	0.0	2.0	-2.0	-14.4	8.0	-20.7	0.4	6.6	-5.8	+2	Target not met
Brunel Secured Income - Cycle 2	0.1	2.0	-1.9	-12.7	8.0	-19.2	N/A	N/A	N/A	+2	N/A
IFM Core Infrastructure	0.5	2.3	-1.7	6.1	8.3	-2.0	11.4	6.3	+4.8	-	Target met
Brunel Renewable Infrastructure - Cycle 1	-1.8	2.0	-3.7	5.4	8.0	-2.4	5.1	6.6	-1.4	+4	Target not met
Brunel Renewable Infrastructure - Cycle 2	-2.5	2.0	-4.4	15.7	8.0	+7.1	N/A	N/A	N/A	+4	N/A
Brunel Private Debt - Cycle 2	11.7	2.0	+9.5	16.5	7.2	+8.7	N/A	N/A	N/A	-	N/A
BlackRock Corporate Bonds	-4.1	-4.1	0.0	-16.0	-16.0	0.0	-11.4	-11.4	0.0	-	N/A (p)
BlackRock LDI	-8.0	-8.0	0.0	-17.4	-17.4	0.0	1.9	1.9	0.0	-	N/A (p)
Equity Protection Strategy	-1.2	N/A	N/A	-6.8	N/A	N/A	-5.6	N/A	N/A	-	N/A

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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 31 March 2023, 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.
Performance is not yet illustrated for Private Market Cycle 3 investments, which will become more meaningful with the passage of time.

Asset Allocation

6

Valuations by Asset Class

Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Benchmark (%)	Ranges (%)	Relative (%)
Global Equity*	1,416,993	635,125	26.3	11.6	10.5	5.5 - 15.5	+1.1
Global Sustainable Equity	792,531	589,576	14.7	10.8	10.5	5.5 - 15.5	+0.3
Paris-Aligned Equity*	278,856	1,346,330	5.2	24.7	20.5	12.5 - 28.5	+4.2
Diversified Returns Fund	336,583	339,865	6.3	6.2	6.0	3 - 9	+0.2
Fund of Hedge Funds**	32,638	22,335	0.6	0.4	-	No set range	+0.4
Multi-Asset Credit	304,609	310,208	5.7	5.7	6.0	3 - 9	-0.3
Property	342,961	332,948	6.4	6.1	7.0	No set range	-0.9
Secured Income	435,092	543,334	8.1	10.0	9.0	No set range	+1.0
Core Infrastructure	313,207	314,803	5.8	5.8	4.0	No set range	+1.8
Renewable Infrastructure	163,699	168,655	3.0	3.1	5.0	No set range	-1.9
Private Debt	128,903	158,685	2.4	2.9	4.5	No set range	-1.6
Local / Social Impact	-	-	-	-	3.0	No set range	-
Corporate Bonds	170,711	163,667	3.2	3.0	2.0	No set range	+1.0
LDI & Equity Protection	983,979	1,023,496	18.3	18.8	12.0	No set range	+6.8
*Synthetic Equity Offset**	*-562,614*	*-733,621*	*-10.4*	*-13.4*	-	-	-
Other***	245,723	239,340	4.6	4.4	-	0 - 5	+4.4
Total	**5,383,885**	**5,454,760**	**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.
*Global Equity (at the start of the quarter) and Paris-Aligned (at the end of the quarter) includes synthetic exposure via the BlackRock QIF; Synthetic Equity Offset reflects an offsetting value to account for the difference between the exposure to equity markets and the actual mark to market value of the holding.
**Mandate due to be terminated.
***Valuation includes internal cash, the ETF and currency instruments.

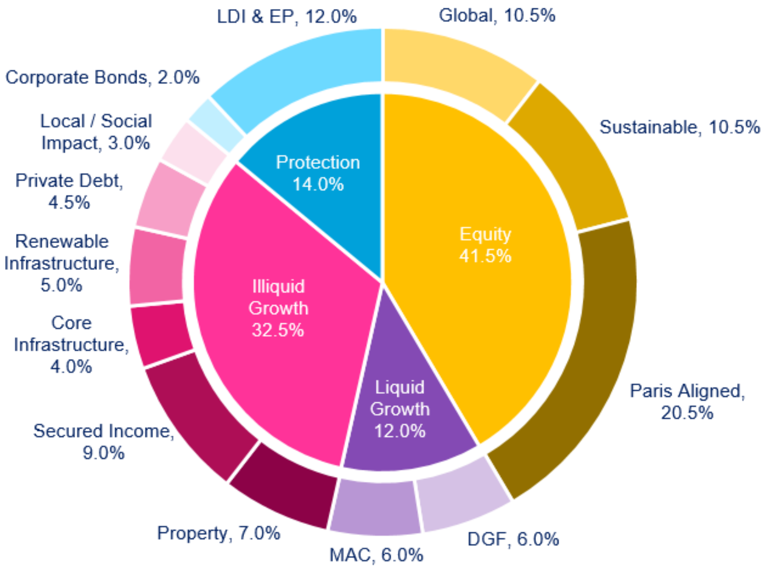
Valuations by Manager

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
BlackRock	Global Equity*	708,487	-148,208	-	13.2	0.0
Brunel	Global High Alpha Equity	698,860	-99,930	621,442	13.0	11.4
Brunel	Global Sustainable Equity	792,531	-199,880	589,576	14.7	10.8
Brunel	Passive Global Equity Paris Aligned	278,856	299,993	612,709	5.2	11.2
BlackRock	MSCI Paris-Aligned (Synthetic)*	-		733,621	-	13.4
Brunel	Diversified Returns Fund	336,583		339,865	6.3	6.2
JP Morgan	Fund of Hedge Funds	32,638	-12,038	22,335	0.6	0.4
Brunel	Multi-Asset Credit	304,609		310,208	5.7	5.7
Brunel	UK Property	180,699	-72	181,693	3.4	3.3
Schroders	UK Property	13,018		12,750	0.2	0.2
Partners	Overseas Property	149,245	-798	138,506	2.8	2.5
Brunel	Secured Income – Cycle 1	323,868	-4,123	319,833	6.0	5.9
Brunel	Secured Income – Cycle 2	111,224	-1,422	109,972	2.1	2.0
Brunel	Secured Income – Cycle 3	-	107,034	113,528	-	2.1
IFM	Core Infrastructure	313,207		314,803	5.8	5.8
Brunel	Renewable Infrastructure – Cycle 1	98,180	6,281	102,773	1.8	1.9
Brunel	Renewable Infrastructure – Cycle 2	57,901	1,843	58,427	1.1	1.1
Brunel	Renewable Infrastructure – Cycle 3	7,618	-41	7,456	0.1	0.1
Brunel	Private Debt – Cycle 2	114,081	10,727	138,568	2.1	2.5
Brunel	Private Debt – Cycle 3	14,821	4,979	20,117	0.3	0.4
BlackRock	Corporate Bonds	170,711		163,667	3.2	3.0
BlackRock	LDI & Equity Protection	983,979	148,208	1,023,496	18.3	18.8
BlackRock	*Synthetic Equity Offset*	-562,614		-733,621	-10.4	-13.4
Record	Currency Hedging (incl. collateral)	25,681	10,000	70,650	0.5	1.3
BlackRock	ETF	127,088		125,687	2.4	2.3
Internal Cash	Cash	101,839	-46,349	55,925	1.9	1.0
Total		**5,383,885**	**76,200**	**5,454,760**	100.0	100.0

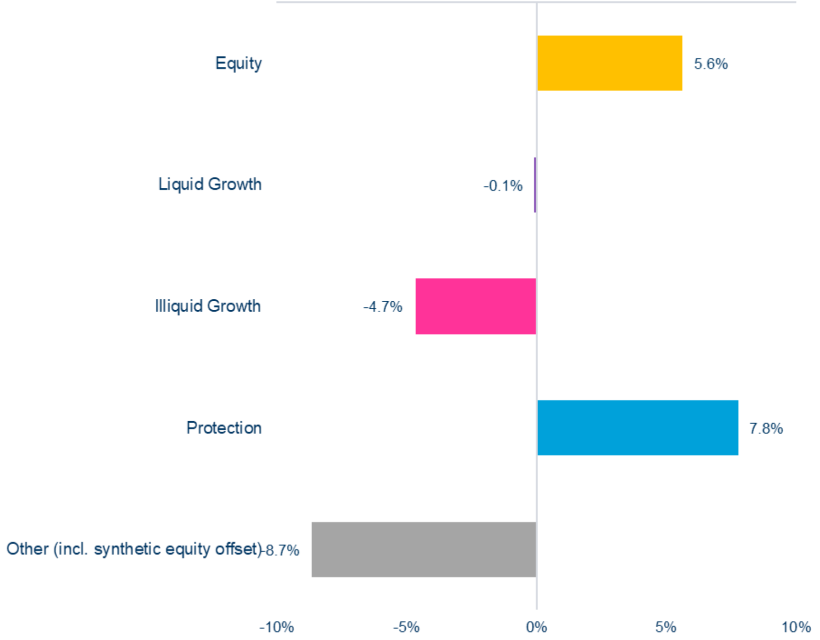
Source: Investment Managers, Mercer. Totals may not sum due to rounding.
The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included in the 'Internal Cash' start and end balance to reflect the asset value position of the total Fund. *Global Equity (at the start of the quarter) and MSCI World PAB includes synthetic exposure via the BlackRock QIF; Synthetic Equity Offset reflects an offsetting value to account for the difference between the exposure to equity markets and the actual mark to market value of the holding.

Positioning relative to target

Strategic Asset Allocation ("SAA")



Relative positioning



Commentary

- The Plan updated its Strategic Asset Allocation as part of the 2023 Investment Strategy Review. Among other things, specific to the SAA this included agreements to:
  - Tilt the active/passive split for equities from 67/33 to 50/50
  - Introduce an initial target allocation of 3% for a Local/Social Impact portfolio; being funded strategically from the other existing components of the Illiquid Growth portfolio
- The right hand side chart displays the actual relative weights of the key portfolio building blocks compared to the SAA:
  - The overweight to Equity reflects strong recent absolute performance
  - The underweight to Illiquid Growth reflects the fact that most of the portfolios are still drawing down capital, and in particular the plans to fund the new allocation to a Local / Social Impact portfolio are still being developed.
  - The overweight to Protection reflects the collateral boost provided by the synthesising of some of the Equity allocation; meaning that in practice an overweight to this building block is likely persist and is unlikely to trigger any consideration for action, which would continue to be driven more specifically by collateral adequacy requirements.

Current Topics

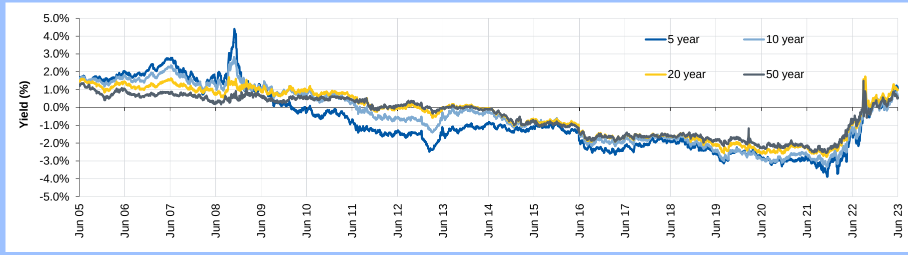
7

Current Topics

Index-Linked Gilts

Positive real yields for the first time in over a decade

- Given rising yields the index-linked gilts have become considerably cheaper
- Currently, long term index-linked gilts are yielding +1% above long-term CPI expectations



Source: Refinitiv

Attractions for LGPS Funds

Index-Linked Gilts had previously been considered unviable investments except for the most well funded LGPS funds, but with improved funding levels and higher yields, they are once again a viable de-risking asset.

- Attractive yield above inflation
- Direct UK CPI inflation linkage
- Cashflow generative
- Highly liquid and cheap
- Collateral

What are the risks?

- Yields continue to rise in short to medium term
- Reduces expected return too far

Relevance to the Fund

The liability hedging component of the risk management framework (including the inflation hedge ratio) has recently been reviewed.

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Local and Social Impact

Levelling Up Missions

The government's 2022 white paper on 'Levelling Up' stated *"the UK Government is asking LGPS funds, working with the LGPS asset pools, to publish plans for increasing local investment, including setting an ambition of up to 5% of assets invested in projects which support local areas."*

Living Standards	Research & Development	Transport
Digital Connectivity	Education	Skills
Health	Well-being	Pride in place
Housing	Crime	Local leadership

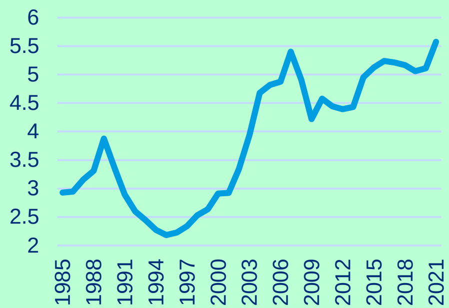
Social and Affordable Housing

- Social and Affordable Housing refer to housing provided with public subsidy, or in a general way to describe housing of any housing tenure that is affordable to a particular group.
- We define Social and Affordable housing as residential real estate that is leased to occupants whose housing costs relative to their incomes exceed norms and who may face problems with housing-related payments.

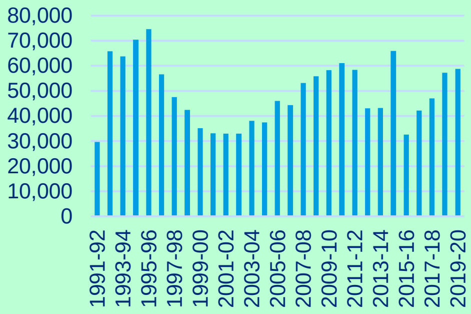
Investment opportunity

- Housing affordability is poor
- Driven by economic & demographic trends
- Supply is constrained

First time buyer house price earnings ratio, UK



Supply of new affordable housing units in England



Source: English Housing Survey (2021), Nationwide HPI (2021), ONS, MHCLG (2021) Live Table 1000

Relevance to the Fund

Officers and the Committee have had extensive discussion on Impact Investing.

The Fund has carved out a new 3% strategic allocation to a Local / Social Impact portfolio, for which the contents are to be discussed further.

Current Topics

Climate Risk Reporting

Review of UK pension scheme TCFD reports

- Almost all reports were published on time
- Length from 10 to 85 pages, with an average of 34 pages
- Showed an encouraging level of trustee engagement with the new requirements
- Some reports included helpful non-technical summaries
- Data quality and coverage remain a challenge

Reporting in the LGPS is now expected to commence from 1 April 2024, with first reports due in late 2025. However, there are good reasons not to delay

Scheme Advisory Board Survey: Preparedness of pension funds for the changes being considered by the Government

Do not have adequate resources to produce a risk report

30%

Do not have a sufficient project plan in place to deliver a report by the anticipated initial deadline (Dec 2024)

45%

25% do not believe that they have access to sufficient data to populate a risk report. 27% unsure if they have access to the necessary data.

52%

Respondents who indicated they had conducted a full assessment on what expertise was required for risk analysis.

35%

Respondents who indicated they had a plan to source the resources required for the production of the report.

69%

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What should we be doing?

Understand

- Familiarise yourself with the provisional requirements
- Read TPR's review of TCFD reports
- Undertake training on the requirements and metrics

Agree responsibility

- Who will be producing the Metrics analysis required?
- Who will be producing the Climate Scenario analysis
- Who has responsibility for drafting the report?

Engage with boards

- Ensure Committee members / boards are familiar with the requirements and work required
- Discuss where responsibility for target setting lies (Officers / Committee)

Be Ready

- Production of metrics & scenario analysis is no small undertaking
- Ensure you obtain capacity with whoever is producing the analysis well in advance

Relevance to the Fund

✔

The Fund is in the process of producing its second annual TCFD report.

"LGPS (England and Wales): Next Steps on Investment" Consultation

Summary of recommendations

1 Asset Pooling

2 Levelling Up

3 Investment Opportunities in Private Equity

4 Improving the provision of investment consultancy services to the LGPS

5 Updating the LGPS definition of investments

Relevance to the Fund

✔

The Committee should understand the recommendations. Mercer is working on a fuller response but would welcome thoughts from impacted LGPS committees.

Appendix

Q2 2023 Equity Market Review

Global equity markets exhibited extremely narrow leadership over the second quarter. Nvidia was the catalyst for a rally in technology stocks. Fewer than 10 stocks made up most of the S&P 500 return through Q2.

Equity markets in the US have looked through the regional banking distress during the quarter. Earnings remained resilient, but analyst expectations point to a decline in the coming quarter.

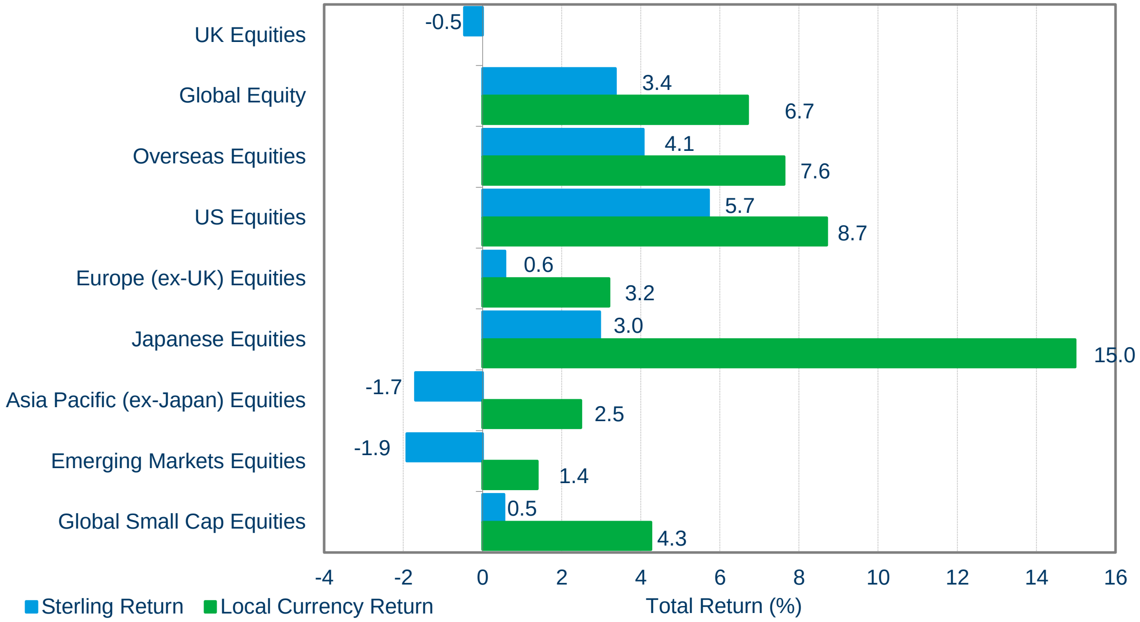
Global equities returned 3.4% in sterling terms and 6.7% in local currency terms as the dollar depreciated versus sterling.

US equities returned 8.7% in local currency terms, whilst European (ex-UK) equities returns 3.2%, and Japanese equities returned 15.0%.

Emerging markets ('EM') equities returned 1.4% in local terms.

Global small cap stocks returned 4.3% in local terms. Small caps underperformed global equities due to their lack of exposure to the large cap tech stocks which were the main driver of global equity returns this quarter.

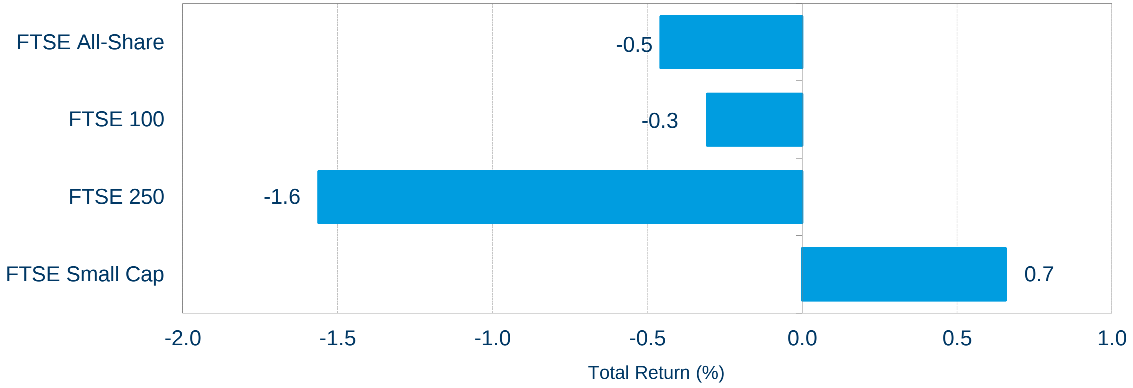
Equity Performance



The **FTSE All Share** index returned -0.5% over the quarter with the large cap **FTSE 100** index returning -0.3%. Large cap equities (All-Share and FTSE 100) produced negative returns whilst smaller, more domestically focused, equities (**FTSE 250**) produced worse negative returns. However, the **small cap** index produced a positive 0.7% return.

Poor performance in the basic materials and telecoms sectors were a drag on UK performance relative to global equities.

FTSE Performance by Market Cap

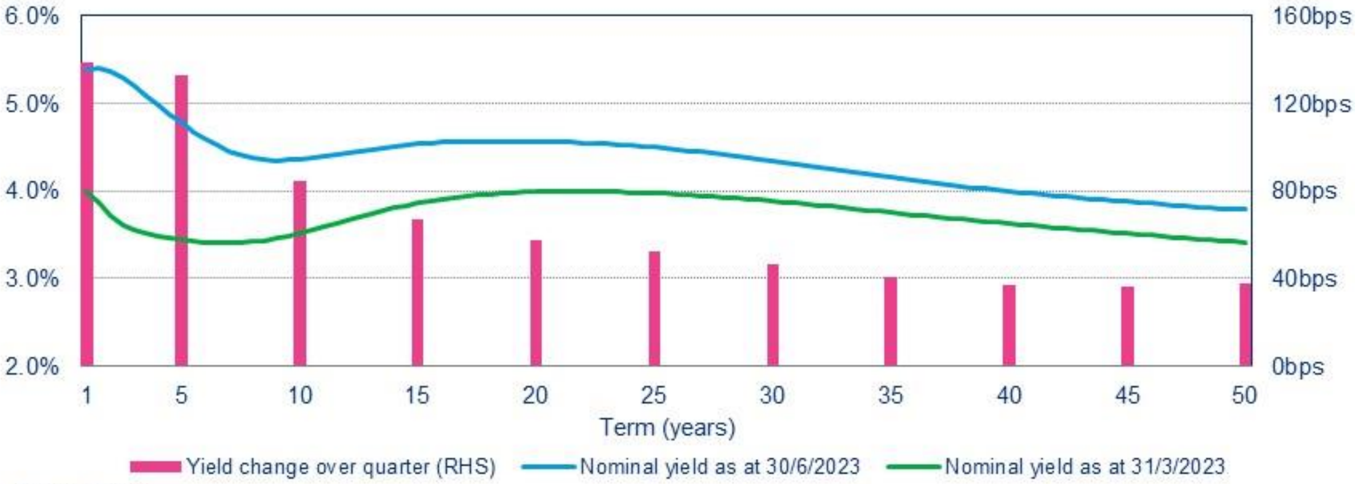


Mercer

Source: Refinitiv

Q2 2023 Bond Market Review

Source: Mercer and Bloomberg



Source: Mercer

Government Bond Yields

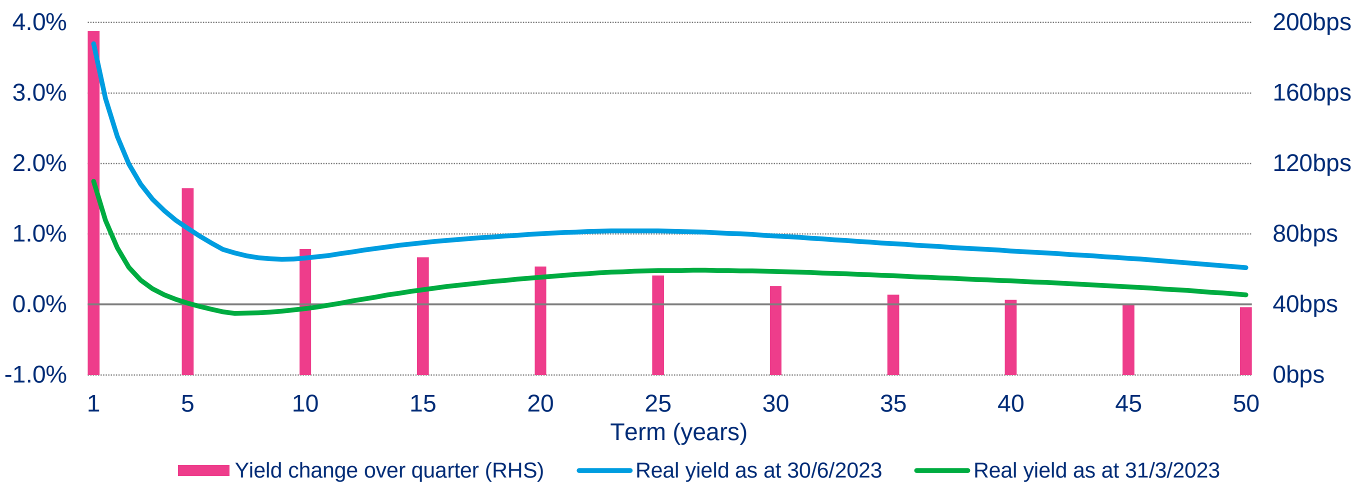
10-year global government bond yields rose over the quarter. In the UK, short- dated gilts rose sharply, further inverting the curve from short-dated to 10-year tenors. The UK is now back at yield levels witnessed during the gilt crisis in September 2022 but the market is considerably less disorderly than in September.

The US, like the UK, saw a further inverting of the curve, as the front end rose more than the long end. 5-year yields rose 130bps in the UK and 58bps in the US. 20-year yields rose by around 69bps in the UK and 27bps in the US.

Both the Federal Reserve and the Bank of England raised interest rates over the quarter, while the Fed paused rate hikes at their June meeting but are expected to hike again at their next meeting.

The German 10-year yield rose around 10bps; the European Central Bank raised rates twice over the quarter and continue to reiterate hawkish guidance that they remain committed to increase rates further.

Q2 2023 Bond Market Review



Source: Mercer

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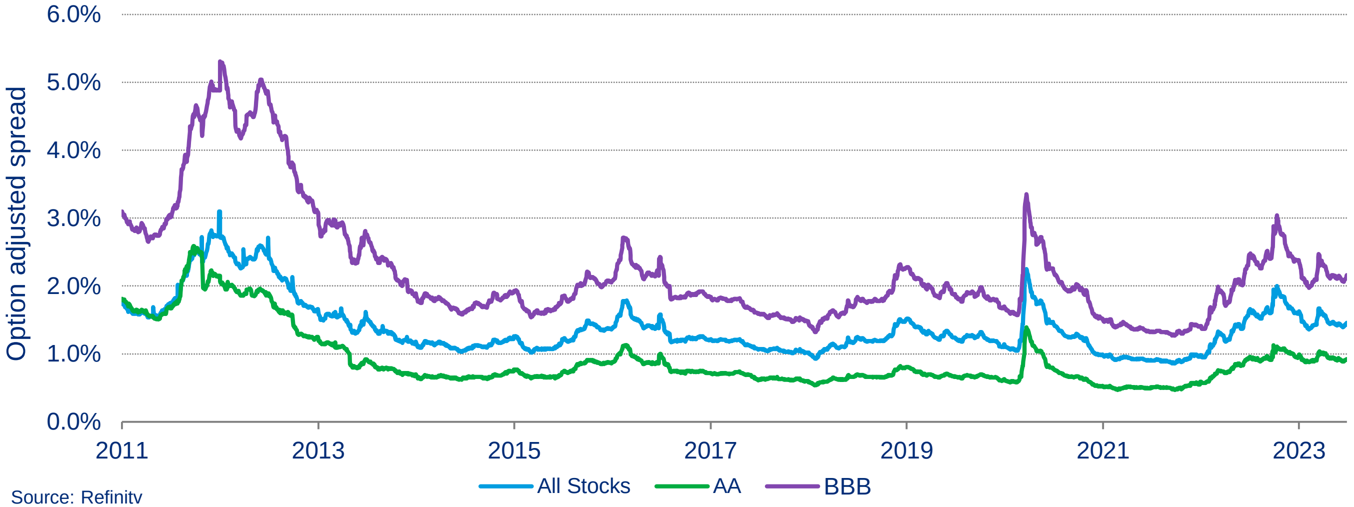


Source: Refinitv

UK Index-Linked Gilt Yields

UK real yields rose across the curve, led by the short end as the Bank of England remained in its hiking cycle. UK inflation remains considerably above target. Real yields, for all maturities remain in positive territory. Market based measures of inflation expectations, in the form of breakeven inflation, rose over the quarter. The UK 10-year breakeven rate rose to 3.9%, ~9bps higher than at the end of last quarter. However, this masks some of the volatility witnessed in the quarter, as 10yr breakeven rates fell to 3.5% intra quarter. Market based measures of inflation expectations for the US fell over the quarter.

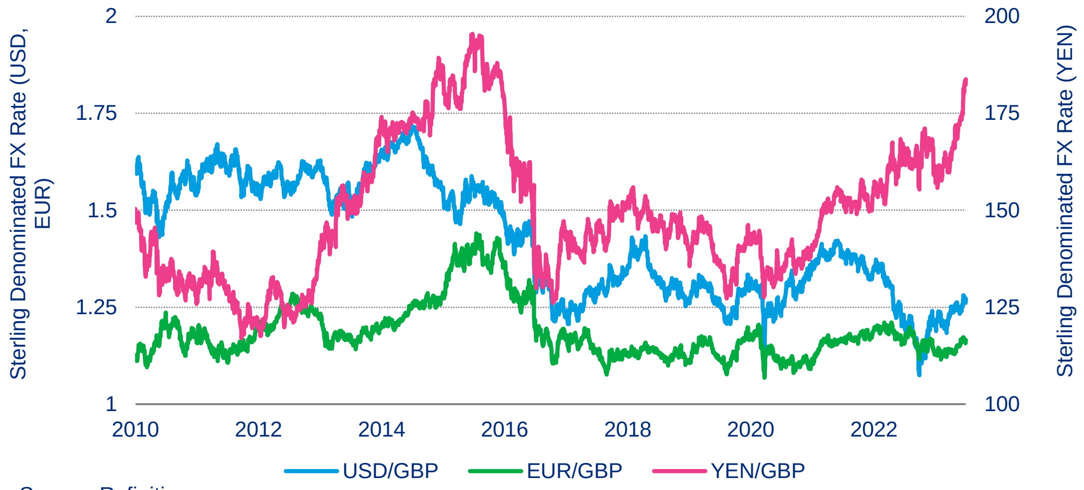
Corporate bonds

Spreads on UK investment grade credit tightened marginally over the quarter, with spreads on lower rated credit tightening more than for higher rated credit. UK credit outperformed equivalent duration government bonds. This was at odds with the negative performance we saw for UK equities.

Q2 2023 Currency Market Review

Sterling's performance over the quarter was positive, appreciating versus the US dollar, euro and yen. Sterling strength was driven by a combination of a weak US dollar, economic weakness in the Eurozone, in addition to rising UK rates supporting Sterling versus other currencies, most notably yen.

On a 12-months basis, sterling has appreciated considerably versus US dollar and yen but is flat versus euro.



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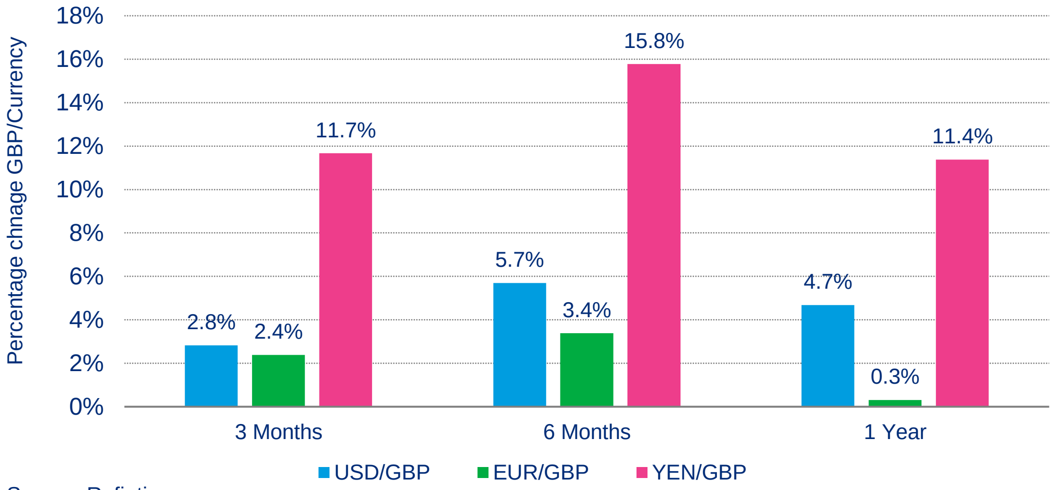

Source: Refintiv

Q2 2023 Property

UK property as measured by the MSCI Index increased by 1.0% over the quarter.

Summary of Mandates

Manager	Mandate	Benchmark/Target	Outperformance Target (p.a.)	Inception Date
BlackRock	Passive Paris-Aligned Equity (Synthetic Exposure)	MSCI Paris-Aligned Benchmark	-	May 2023
Brunel	Global High Alpha Equity	MSCI World	+2-3%	November 2019
Brunel	Global Sustainable Equity	MSCI AC World	+2%	September 2020
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 (Cycles 1-3)	CPI	+2%	January 2019
IFM	Core Infrastructure	SONIA +5% p.a.	-	April 2016
Brunel	Renewable Infrastructure (Cycles 1-3)	CPI	+4%	January 2019
Brunel	Private Debt (Cycles 2-3)	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 Emerging
Global Small Cap Equity	MSCI World Small Cap
Hedge Funds	HFRX Global Hedge Fund
High Yield Bonds	ICE BofAML Global High Yield
Emerging Market Debt	JP Morgan GBI EM Diversified Composite
Property	MSCI UK Monthly Total Return: All Property
Commodities	S&P GSCI
Over 15 Year Gilts	FTA UK Gilts 15+ year
Sterling Non Gilts	ICE BofAML Sterling Non Gilts
Over 5 Year Index-Linked Gilts	FTA UK Index Linked Gilts 5+ year
Global Bonds	ICE BofAML Global Broad Market
Global Credit	Bloomberg Capital Global Credit
Eurozone Government Bonds	ICE BofAML EMU Direct Government
Cash	SONIA

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: IG-1523702
Meeting / Decision: Avon Pension Fund Investment Panel
Date: 15th September 2023
Author: Nathan Rollinson
Exempt Report Title: Risk Management Framework Review for Periods Ending 30 June 2023 **List of attachments to this report:** **Exempt Appendix 1 –** Mercer Report: Risk Management Framework Review to 31 December 2022 **Exempt Appendix 2 –** Mercer Report: Revised Trigger Framework

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

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

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

PUBLIC INTEREST TEST

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

Bath & North East Somerset Council

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

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

Therefore it is recommended that exemptions set out above apply. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A).

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

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<tr><td>MEETING DATE:</td><td>15 SEPTEMBER 2023</td><td>AGENDA ITEM NUMBER</td></tr>
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<tr><td colspan="3">AN OPEN PUBLIC ITEM</td></tr>
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1 THE ISSUE

1.1 This report sets out the forward agenda for the Panel for 2023/24. 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
01 December 2023	**Strategic:** • Responsible Investment Disclosures: TCFD Statement • Equity Protection analysis **Routine:** • Quarterly Investment Performance • Risk Management Framework Monitoring
27 Feb 2024	**Routine:** • Quarterly Investment Performance Risk Management Framework Monitoring
5 June 2024	**Routine:** • Quarterly Investment Performance Risk Management Framework Monitoring
5 September 2024	**Routine:** • Quarterly Investment Performance Risk Management Framework Monitoring
26 November 2024	**Routine:** • Quarterly Investment Performance Risk Management Framework Monitoring

5 RISK MANAGEMENT

5.1 An effective governance structure, defining clear responsibilities, and ensuring that the decision-making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

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 Head of Pensions has had the opportunity to input to this report and has cleared it for publication.

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