Bath & North East Somerset Council

Improving People's Lives

Avon Pension Fund Committee Investment Panel

Date: Tuesday, 27th February, 2024
Time: 1.00pm
Venue: Kaposvar Room - Guildhall, Bath

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

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

Chief Executive and other appropriate officers
Press and Public

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NOTES:

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

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

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

3. **Recording at Meetings:-**

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

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

4. **Public Speaking at Meetings**

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

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

Further details of the scheme can be found at:

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

5. Emergency Evacuation Procedure

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

6. Supplementary information for meetings

Additional information and Protocols and procedures relating to meetings

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

Avon Pension Fund Committee Investment Panel - Tuesday, 27th February, 2024

at 1.00pm in the Kaposvar Room - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

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

2. DECLARATIONS OF INTEREST

   At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to indicate:

   (a) The agenda item number in which they have an interest to declare.
   (b) The nature of their interest.
   (c) Whether their interest is **a disclosable pecuniary interest** or an **other interest**, (as defined in Part 4.4 Appendix B of the Code of Conduct and Rules for Registration of Interests)

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

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

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

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

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

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

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

7. MINUTES: 1ST DECEMBER 2023 (Pages 7 - 20)

8. BRUNEL GLOBAL SUSTAINABLE EQUITY PORTFOLIO (Pages 21 - 44)

   The Panel requested at its last meeting that Brunel attend to explain key performance drivers of the portfolio.

9. QUARTERLY INVESTMENT PERFORMANCE (Pages 45 - 130)

This paper reports on the performance of the individual portfolios and seeks to update the Panel on routine aspects of the Fund's investments. The report contains performance statistics for periods ending 31 December 2023.

10. QUARTERLY UPDATE: RISK MANAGEMENT FRAMEWORK (Pages 131 - 148)

This report informs Panel of issues considered and decisions made by the FRMG as well as any recommendations.

11. LOCAL IMPACT PORTFOLIO: GOVERNANCE PROCESS (Pages 149 - 154)

12. FORWARD AGENDA (Pages 155 - 156)

This report sets out the forward agenda for the Panel for 2024. 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 Council

AVON PENSION FUND COMMITTEE INVESTMENT PANEL

Minutes of the Meeting held

Friday, 1st December, 2023, 10.00 am

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

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

Also in attendance: Nick Dixon (Head of Pensions), Nathan Rollinson (Investments Manager) and Jeff Wring (Director - One West)

22 EMERGENCY EVACUATION PROCEDURE

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

23 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Councillor Paul Crossley informed the Panel that Councillor Shaun Stephenson-McGall would join the meeting virtually initially before being present in person later in the morning. He explained that he would therefore be acting as Chair for the duration of the meeting.

24 DECLARATIONS OF INTEREST

There were none.

25 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

27 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

28 MINUTES: 15TH SEPTEMBER 2023 (PUBLIC & EXEMPT)

The Panel **RESOLVED** that the minutes of the meeting held on 15th September 2023 be confirmed as a correct record and signed by the Chair.

29 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 SEPTEMBER 2023

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

- The Fund's assets were £5,268m on 30 September 2023 and delivered a net investment return of -2.9% over the quarter. The decline in the value of Fund assets over the quarter was driven mainly by the LDI portfolio and equity assets. Overseas property and secured income portfolios also detracted.

- Quarter 3 saw a decided change in tone and outlook. Although interest rates are no longer rising rapidly, the expectation is that they will now remain at higher levels for longer. This weighed on both global equity and bond markets. Brunel's portfolios were mixed during the quarter, with a number rising in absolute terms, whilst others fell. The Global High Alpha portfolio returned -0.6% during the quarter, underperforming the benchmark by 1.2%. The underweight to the energy sector combined with slower than expected revenue growth from stocks in IT, healthcare and financials weighed on performance.

- The Global Sustainable Equity portfolio delivered a return of -4.1% over the quarter, underperforming its benchmark by 4.7%. Many sustainable strategies struggled to outperform during the period due to the inherent 'growth' investment style of these funds. We believe the long-term proposition for sustainable stocks remains intact.

The Investments Manager said that Brunel were aware of this underperformance and expected them to be invited to attend either the February 2024 or June 2024 Panel meeting.

Jackie Peel referred to page 30 and asked for an explanation of the graph entitled 'Weighted Average Carbon Intensity relative to benchmark'.

The Investments Manager replied that the graph shows the carbon footprint of these 3 equity mandates relative to the global market-capitalisation benchmark. He added that the PAB Passive Global Equities was the best of these three in these terms and explained that Global High Alpha has a significant underweight to the Energy Sector, while the Global Sustainable Fund exhibited a higher carbon intensity due to the energy transition nature of some of the underlying holdings.

The Head of Pensions said that Holcim, a Swiss cement manufacturer was a good example of this as a company that is currently high for carbon intensity, but has a credible plan to decarbonise.

Steve Turner added that Brunel remains on track to deliver their net-zero portfolio by 2050 and that companies contained within that would all be at different stages. He said that it was possible to have a company that was currently showing as performing badly in this area, but on a good trajectory to meet the intended target.

Jackie Peel asked why some figures would be getting worse.

Steve Turner replied that they could have agreed an allocation to a different model. He added that carbon intensity has risen and that the price of oil was on a rising trajectory. He proposed whether the Panel should have a future session with Brunel regarding the Sustainable Fund.

John Finch commented that over the last quarter the S&P 500 had risen by 19%, but that this was due predominantly to the ‘Magnificent 7’ stocks as without them the rise would have only been around 4%.

Steve Turner said that he felt they were within a period of such dramatic change and noted that historically the months of September and October are not great for investing. He added that the end of October saw a big reversal in some markets whilst a strong rally in equity took place during November.

He added that it would be interesting to see the end of year position and informed the Panel that the Actuary was in the process of updating the discount rate.

He stated that the USA accounts for around 60% of the global market and that there were concerns over the impact of the ‘Magnificent 7’ and that the impact of AI had increased this.

Jackie Peel referred to page 73 and asked if the impact on cashflow was expected to be negative or positive.

Steve Turner replied that they were expecting it to be negative.

The Head of Pensions added that it was currently positive, but they were expecting it to move to negative.

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

The Panel **RESOLVED** to:

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

30 RISK MANAGEMENT FRAMEWORK REVIEW FOR PERIODS ENDING 30 SEPTEMBER 2023

The Investments Manager introduced the report to the Panel and highlighted the following sections.

The underlying equity benchmark fell over the quarter, with the equity protection strategy (EPS) performing in line with expectations, increasing the net equity performance by 0.15% as markets moved toward the protection levels. Since inception the EPS has detracted c. 2.0% annually from equity returns and reduced volatility by c. 25%.

Following the reinstatement of the interest and inflation trigger framework in October 2023, several interest rate triggers were hit leading BlackRock to trade up to the 40% cap on the aggregate interest rate hedge ratio. The inflation hedge ratio was around 22% at the same date. To facilitate the new triggers being switched on, £200m of equities were transferred from the Brunel passive Paris-aligned strategy into the synthetic Paris-aligned strategy managed by BlackRock. As a result there was no impact on the strategic target allocation to equities and the collateral could withstand a 4.7% increase in yields at period end.

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

The Panel **RESOLVED** to note the performance of each of the underlying RMF strategies and current collateral position.

31 RISK MANAGEMENT FRAMEWORK: DYNAMIC EQUITY PROTECTION 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.

32 FORWARD AGENDA

The Investments Manager introduced this item to the Panel. He said that in addition to the items listed in the report that they would be inviting Brunel to attend a future meeting and that officers were likely to give an update on the Local Impact Portfolio to the February 2024 meeting.

John Finch asked if there were any current implications following the Government's response to the feedback on the 'LGPS Consultation: Next steps on investments'.

Steve Turner replied that there were no immediate impacts. He said that the Fund was on track re: 5% Levelling Up investment, but that the 10% in Private Equity could be difficult to achieve.

The Head of Pensions informed the Panel that they had around 15 / 16 Local Impact proposals to consider currently and would seek to narrow that down to around 3 and bring to them a framework for them to consider and focus upon.

Councillor Paul Crossley informed the Panel that the Annual Report of the Avon Pension Fund Committee had been presented to the Council the previous evening and that one political group was challenging the ethics of some of the assumptions within the report.

He stated that he was keen for the Local Impact Portfolio to come to fruition and to be concentrated within the West of England as much as possible.

He explained that a number of groups / individuals were using information supplied by a lecturer from the University College of London to challenge their assumptions.

Steve Turner added that a report by Professor Steve Keen had been published by Carbon Tracker in July 2023 challenging all advisors and consultants with regard to their climate scenario modelling.

He explained that representatives from Mercer have met with Professor Keen to discuss these issues and we maintain our views based on our current data.

He said that the physical risks of climate change were impossible to model and gave an example of if became too hot to live in Southern Spain, how would a mass migration play out.

He stated that they plan to have a further meeting if Professor Keen is agreeable.

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

The meeting ended at 12.28 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**
MEETING DATE:	**27 FEBRUARY 2024**
TITLE:	**Brunel Global Sustainable Equity Portfolio**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Exempt Appendix 1 – Brunel Presentation: Global Sustainable Equity Portfolio**	

1. THE ISSUE

1.1. Given the relative underperformance of the Brunel Global Sustainable Equity (GSE) portfolio versus the benchmark on a since inception basis, Panel requested at its last meeting that Brunel attend to explain key performance drivers of the portfolio. Brunel will present Exempt Appendix 1 at the meeting.

1.2. The Fund has a 41.5% strategic allocation to equities; 20.5% to passive Paris-aligned equites, 10.5% to global active and 10.5% to GSE. The Fund seeded the Brunel GSE portfolio in Sept-2020. The Fund's allocation to the GSE portfolio is currently valued at £610.5m (Dec-23). 8 out of 10 underlying Brunel funds have allocations to the portfolio and the aggregate value is c. £3bn.

1.3. The portfolio is benchmarked against a global equity index (MSCI All Country World Index) and contains c. 150 stocks. It seeks to outperform the index by 2% per annum over the medium to longer term (3-5 years).

2. RECOMMENDATION

The Avon Pension Fund Investment Panel is asked to note:

2.1. **The content of the Brunel presentation at Exempt Appendix 1.**

3. FINANCIAL IMPLICATIONS

2.2. Returns achieved by the Fund for the three years commencing 1 April 2023 will impact the next triennial valuation which will be calculated as at 31 March 2025. The returns quoted are net of investment management fees.

4. PERFORMANCE OF THE BRUNEL GSE PORTFOLIO

4.1. The Performance of the GSE portfolio, net of fees, over the quarter, 1 year, 3 year and since inception can be found below:

Performance	3 month	1 year	3 year (p.a.)	Since inception
Fund	8.0%	9.3%	3.6%	5.6%
Benchmark	6.4%	15.9%	8.7%	10.3%

Excess	1.6%	-6.6%	-5.1%	-4.8%

4.2. Due to the sustainability characteristics of the GSE portfolio it has an inherent ‘quality’ and ‘growth/anti-value’ bias. This means the portfolio is underweight to sectors such as energy, banking and traditional healthcare (big pharmaceuticals) sectors and overweight to disruptive technologies and life sciences, which are more aligned to a sustainable strategy.

2.3. These portfolio biases have implications for performance. The GSE portfolio has outperformed in 8 of the 13 quarters since inception. There have been 3 quarters of material underperformance:

Q1 2022: -7.1% driven by the spike in oil prices following Russia’s invasion of Ukraine and interest rate hikes, which adversely impact the performance of ‘growth’ companies whose valuations are largely derived from projected future cashflows.

Q223: -3.3% driven by the exceptional rally (and market concentration) in the ‘magnificent 7’ stocks (Microsoft, Apple, Amazon, Google, Meta, NVIDIA and Tesla) which the GSE portfolio is underweight to. The sustainable investment case for companies such as Meta do not stack up for several reasons including known poor employment practices, use of personal data and the availability of harmful content on social media platforms.

Q323: -4.8% driven by outperformance of defensive stocks, particularly in the energy, financials and pharmaceutical sectors.

2.4. Over the quarter to Dec-23 the GSE portfolio outperformed the global equity index (MSCI ACWI) by 1.6%, benefiting from the dip in inflation and anticipated interest rate cuts priced by the market.

2.5. Despite the volatility over longer timeframes, applying metrics designed to assess the ‘quality’ of the underlying companies highlights the fact the GSE portfolio exhibits sound financial underpinnings, which are expected to be rewarded over time. We believe the long-term proposition for sustainable stocks remains intact.

5. APPLICATION OF ‘SUSTAINABILITY’ IN BRUNEL GSE PORTFOLIO

1.1. The portfolio applies a broad definition of environmental and social sustainability to identify companies and investment themes able to succeed long term through contributing to society. This includes an active approach to corporate governance, and consideration of environmental and social factors, particularly when they represent potential risks to investor capital.

1.2. The GSE portfolio does not automatically screen out companies, however, it should be noted that sustainable equities may implicitly exclude certain areas which are considered incompatible with sustainability (e.g. coal mining), and some sustainable funds may include some explicit screening.

1.3. The portfolio uses active management to achieve the performance target. Although passive ESG approaches are improving, identifying strategic change and underlying ESG risks calls on considerable manager skill. Done well, there is growing evidence that it can enhance risk and return through a robust investment process.

Top 5 Active Overweight Holdings

Company	Weight (%)	Benchmark weight (%)	Sector
Ansys	2.3	0.1	IT
Intuit	2.5	0.3	IT
Mastercard	2.7	0.5	Financials
Adobe	2.1	0.4	IT
Waste Management	1.7	0.1	Enviro/Facilities

Top 5 Active Underweight Holdings

Company	Weight (%)	Benchmark weight (%)	Sector
Apple	0.0	4.5	IT
Microsoft	2.4	4.0	IT
Google	1.0	2.3	Communication Serv
Meta	0.0	1.2	Communication Serv
Tesla	0.0	1.1	Consumer Disc

6. UNDERLYING INVESTMENT MANAGERS IN GSE PORTFOLIO

1.1. The portfolio comprises 5 underlying managers, a short summary of each manager and their respective investment strategy is set out below:

(I) **Ownership Capital (25%)** is a broad sustainable equity manager that focuses on a >10-year time horizon of sustainable investment. They define their target return as 10% absolute annual returns (4% excess above expected equity return) over 10+ years, gross of fees. Their process is built on 8 Investment principles that incorporate traditional financial metrics such as strong revenue growth potential with sustainability criteria, such as a company’s environmental and social indicators. This is complemented with an inhouse 75 factor ESG model and comprehensive proprietary risk management tool.

(II) **RBC (20%)** is a broad sustainable equity manager which believes that extra financial assets and liabilities are not reflected in typical financial reporting and therefore the market does not appreciate their impact, these can include effective emissions control, sustainable sourcing practices as well as interactions with customers. These insights are embedded into their valuation models with a continued focus on active engagement once a position has been initiated. The fund aims to outperform the benchmark by 3% (gross of fees) on an annualised basis over a 3 year period.

(III) Nordea (25%) are a bottom-up thematic equity manager which aims to invest in companies that derive significant future cashflows from their exposure to climate and environmental solution strategies. Their universe is categorised into three investment clusters; alternative energy, resource efficiency and environmental protection. They then incorporate traditional financial analysis to assess attractiveness and constantly aim to quantify the risk/reward profile of investments, which forms the basis of their construction process. They aim to outperform the MSCI ACWI by +3% (gross) annually with a controlled tracking error of 3%-6%.

(IV) Mirova (20%) is a bottom up, fundamental manager that falls into the broad sustainable universe. Their philosophy is focussed on 4 global transitions that will drive economies over the next decade: Environmental, Demographics, Technological and Governance. From these broad transitions they focus on underlying sub-sectors such as Resources and Health. The strategy aims to outperform the MSCI World index by 2% gross p.a. Company engagement is a fundamental part of their process, not only from a strategy level but also from a firmwide level, where they highlight their key engagement themes for the year.

(V) Jupiter (10%) is a bottom-up, fundamental manager that looks to provide investors access to high quality companies leading the transition to a more sustainable world. They have an active in-house approach to ESG that gives them the ability to assess strategically material areas. The investment horizon of their strategy is 5 years and that aligns with their target outperformance of 2-3% net of fees p.a. Prior to transition of assets to Brunel, Jupiter managed Avon's SRI mandate.

7. CLIMATE METRICS OF GSE PORTFOLIO

7.1. All Brunel listed equity portfolios are governed by the same net zero target, which requires portfolios to decarbonise by 7% on an annual basis.

7.2. The GSE portfolio exhibits a lower carbon intensity and higher ESG score than its benchmark. However, relative to other Brunel listed equity portfolios the GSE has a relatively high carbon intensity driven by investments in companies who are at the forefront of the energy transition. These companies are leaders in challenging and difficult-to-abate sectors and often have a higher carbon intensity today than companies in other sectors.

7.3. This is reflected in the fact the highest carbon companies in the GSE portfolio are also the largest contributors to 'green revenues' (companies that generate revenues attached to products and services that deliver environmental solutions). The Global Sustainable Equity portfolio has 12.4% exposure to green revenues compared to 7.3% in its benchmark. The majority of green revenues come from energy management and efficiency, followed by waste and pollution control technologies and solutions and transport equipment.

8. RISK MANAGEMENT

8.1. 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.

9. EQUALITIES

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

10. CLIMATE CHANGE

10.1. The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and 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.

11. OTHER OPTIONS CONSIDERED

11.1. None

12. CONSULTATION

12.1. 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	None
Please contact the report author if you need to access this report in an alternative format	

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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-1739625
Meeting / Decision: Avon Pension Fund Investment Panel
Date: 27th February 2024
Author: Nathan Rollinson
Report Title: Brunel Global Sustainable Equity Portfolio List of attachments to this report: **Exempt Appendix 1** – Brunel Presentation: Global Sustainable Equity Portfolio

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

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

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

PUBLIC INTEREST TEST

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

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972

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

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

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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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**
MEETING DATE:	**27 February 2024**
TITLE:	**Review of Investment Performance for Periods Ending 31 December 2023**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1 – Mercer Performance Monitoring Report** **Appendix 2 – Brunel Quarterly Performance 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 31 December 2023.

1.2. The Mercer report at Appendix 1 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.

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.

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 2023 will impact the next triennial valuation which will be calculated as at 31 March 2025. The returns quoted are net of investment management fees.

4. INVESTMENTS UPDATE

A – Fund Performance

4.1. The Fund's assets were £5,702m on 31 December 2023 and delivered a net investment return of 8.7% over the quarter. The increase in the value of Fund assets over the quarter was driven mainly by the LDI portfolio and equity assets, which delivered positive absolute and relative returns.

4.2. The liabilities are estimated to have increased by c.5% over the quarter. Taken together with the asset return, the funding level stood at 97% at Dec-31 (c. £170m deficit). The rise in the estimated value of the liabilities was driven by a move to a lower actuarial discount rate basis of CPI +2.5% versus CPI +2.8% at 30-Sept, as well as the impact of observed inflation.

4.3. The discount rate is reviewed each month with a full review each quarter as per the agreed approach at FRMG. The changes each quarter are based on the expected CPI+ return outlook which is based on the Fund's investment strategy and hedging levels. It then takes into account a combination of Mercer's capital market assumptions and real yield changes based on asset class correlations across the portfolio. The discount rate is then sense checked for reasonableness by the Fund actuary taking into account the long-term sustainability of contributions.

4.4. Over 1 year the Fund returned 8.5% in absolute terms and -2.2% in relative terms, where most portfolios underperformed their respective benchmarks. Underperformance was pronounced in the Global Sustainable Equity Portfolio and the Fund's real asset portfolios. The multi-asset credit and high alpha equity portfolio outperformed and matched the benchmark return, respectively. The performance drag created by the Fund's dynamic equity protection strategy compounded underperformance. Panel resolved to reduce the equity protection hedge ratio last year. Officers are in the process of implementing this change (see Item 10). Further details relating to performance attribution can be found on p14/15 of Appendix 1.

B – Investment Manager Performance

4.5. 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 20-41 of Appendix 2.

4.6. Markets finished the year strongly as most risk assets delivered positive returns over the fourth quarter. Improved market sentiment was driven by further declines in inflation towards central bank targets and more robust than expected economic growth in many developed economies. Collectively this supported a consensus among investors that developed economies will successfully achieve a 'soft landing', i.e. a normalisation of inflation without recession.

4.7. Brunel's listed market portfolios delivered strong absolute returns, benefitting from the increased appetite for risk assets and the dip in yields, which acted as a tailwind for credit assets. The Global High Alpha portfolio returned 6.2% during the quarter, underperforming its benchmark by 0.6% where stock selection was the key driver of relative return.

The Global Sustainable Equity portfolio delivered a return of 8.0% over the quarter, outperforming its benchmark by 1.6%. The inherent 'growth' investment style of this portfolio benefitting from the supportive interest rate environment. The Multi Asset Credit (MAC) and Diversified Returns Fund (DRF) both materially outperformed their cash+ benchmarks.

In private markets, deal flow has begun to pick up, thanks to increased certainty in interest rate movements. The Private Debt portfolio has continued to call capital at a healthy pace and has demonstrated positive performance since inception across all cycles on a net IRR basis. Given the nascency of investments performance measures are not yet very meaningful. Deal flow in infrastructure has been more muted and the sector continues to face structural headwinds relating to increased costs in supply chains. That said, Brunel's portfolio is well positioned with high quality assets that should remain resilient to these challenges.

The impact of rising interest rates on property portfolios is well known. Despite headwinds the long-lease property component of the Secured Income portfolio proved resilient to investor redemptions and fundamentals remain strong; rent collection is at pre-pandemic levels, average lease lengths are c. 25 years and funds are registering record high distribution yields and low vacancy rates.

INVESTMENT STRATEGY AND PORTFOLIO REBALANCING

4.8. **Returns versus Strategic Assumptions:** Returns versus the strategic assumptions used during the 2023 investment review can be found on p16/17 of Appendix 1. 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.

4.9. **Rebalancing:** Post period end £35m was drawn into the new local impact portfolio to finance the acquisition of an operational solar portfolio. A further £40m was drawn into the Fund's Secured Income portfolio. To facilitate these large capital calls the Fund used cash and liquidated some of its ETF holdings. Officers are currently in the process of rebalancing the equity portfolio, which is approximately 7% overweight.

4.10. **Responsible Investment (RI) Activity**: A summary of portfolio carbon metrics measured by Brunel over the quarter is included on page 10 of Appendix 2. The Fund undertakes in-depth carbon analysis on an annual basis and publishes the results in its Annual Responsible Investment Report.

4.11. **Voting and Engagement Activity:** Hermes engaged with 190 companies held by Avon in the Brunel active equity portfolios on a range of 698 ESG issues. Environmental topics featured in 37% of engagements, 60% of which related directly to climate change. Social topics featured in 31% of engagements, where conduct and culture, human rights and diversity featured prominently. Of the 17% of Governance related engagements most focussed on executive remuneration and board diversity. Over the last quarter Hermes made voting recommendations at 23 meetings (232 resolutions). At 18 meetings they recommended opposing one or more resolutions. Over 70% of the issues Hermes voted against management on comprised board structure and remuneration.

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

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.

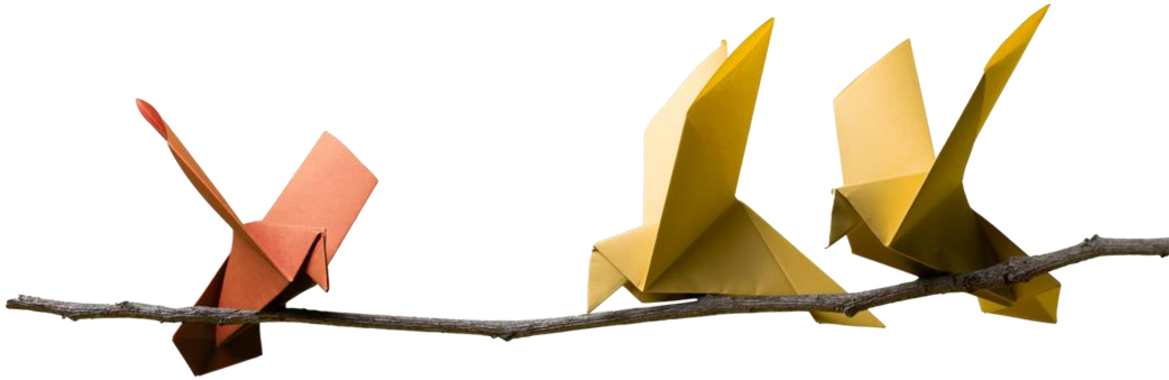
Contact person	Nathan Rollinson, Investments Manager (Tel. 01225 395357)
Background papers	Data supplied by Mercer, Brunel & State Street Performance Measurement
Please contact the report author if you need to access this report in an alternative format	

Mercer

welcome to brighter

Avon Pension Fund

Panel Investment Report Quarter to 31 December 2023



February 2024

Steve Turner

A business of Marsh McLennan

Contents

Mercer

Executive Summary

1

Executive Summary

Market background

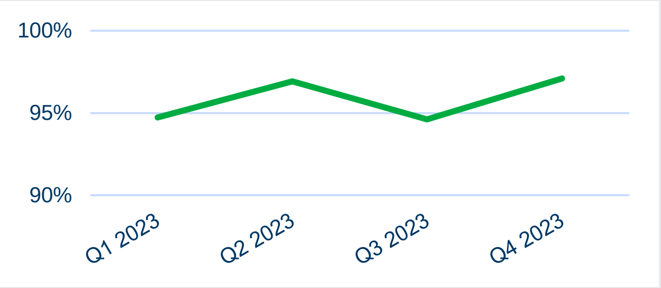
- Over the quarter, global equities were boosted by expectations of looser central bank policy and the related decline in bond yields. Soft landing hopes rose, while the US tech giants performed well.
- UK nominal and real yields fell across the curve and inflation expectations declined.

Mercer market views

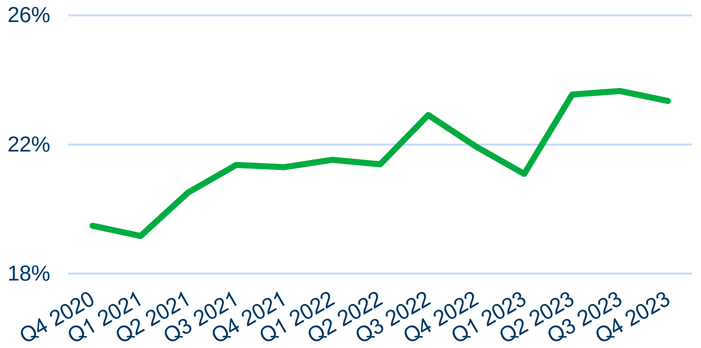
- Our medium term outlook (as at January 2024) is mixed.
- The potential for the global economy landing softly, falling inflation, resilient business balance sheets and the ongoing potential for AI should support equity prices in the near term.
- However, we are conscious that equity valuations are rich and the recent strong rally creates the risk of underperformance if we are wrong that inflation will fall further.

Funding level and risk

- The funding level is estimated to have increased over the quarter to c. 97% as the value of the assets rose by more than the estimated present value of the liabilities. *(The rise in the estimated value of the liabilities was driven by a move to a lower actuarial discount rate basis of CPI + 2.5% as at 31 December 2023 versus 30 September 2023, as well as the impact of observed inflation).*
- The funding level is estimated to be c. 1% higher over the year to 31 December 2023 (as illustrated to the right).



- The Value-at-Risk increased over the quarter to £1,371m, but fell as a percentage of liabilities to 23%.
- Levels have gradually increased since 2020 due to market movements and changes in forward-looking assumptions.



Executive Summary

Performance

- The strong returns on Fund assets over the quarter were driven by the Equity and LDI portfolios. The Multi-Asset portfolios also contributed, whilst the contribution from Alternatives was mixed.
- The Equity Protection detracted (as expected given market movements), whilst the Currency Hedge added to returns due to Sterling strengthening.

- Underperformance relative to the strategic benchmark over the one year period was due to most of the Fund's mandates underperforming, with the main exceptions being Multi-Asset Credit (which outperformed) and Global High Alpha Equities (which matched its benchmark).
- The main driver of underperformance over three years was the active equity mandates.

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	8.7	8.5	3.3
Strategic Benchmark **(2)** (ex currency hedge)	5.9	10.6	7.7
Relative **(1 - 2)**	**2.8**	**-2.2**	**-4.3**

- The Currency Hedge added to returns over the quarter and one year period due to the relative strengthening of Sterling, but detracted over three years.

- Absolute returns compared to the strategic returns modelled at the strategy review in 2023 have been mostly positive for the Equity and the Liquid Growth assets, but mostly negative for the Illiquid Growth assets.

Asset allocation and strategy

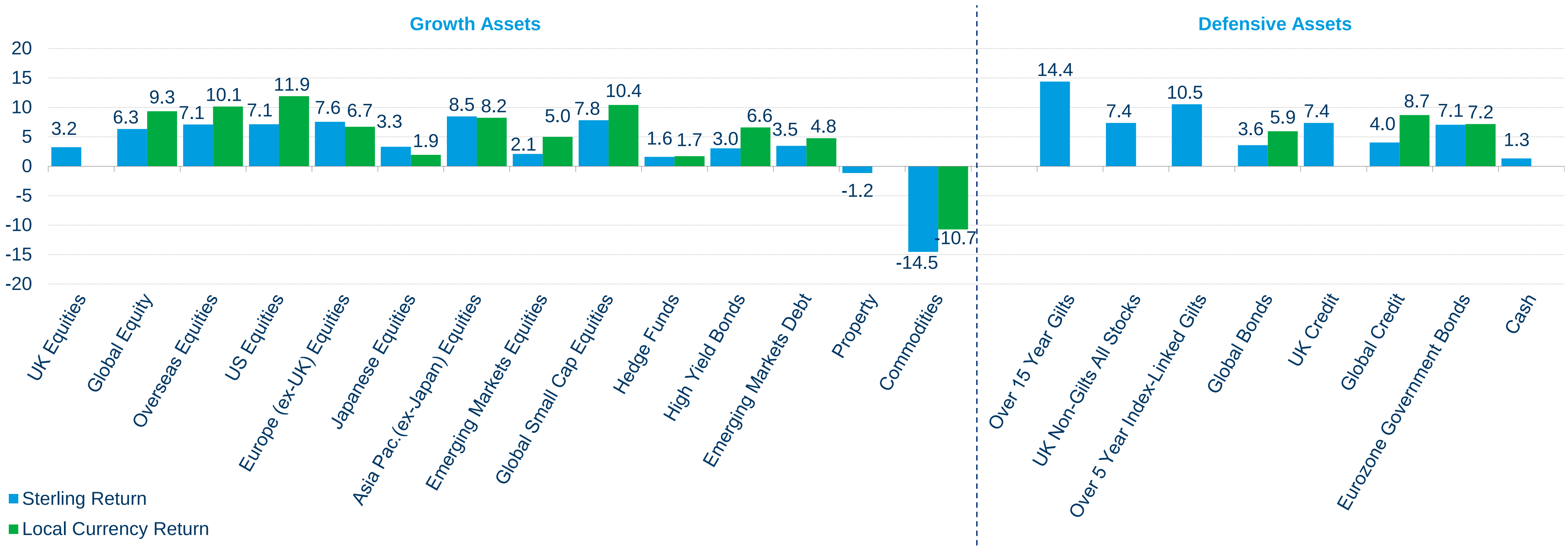
- A net amount of c. £66m was drawn down to the Brunel private market portfolios during the quarter.
- £100m was disinvested from the IFM Core Infrastructure portfolio, which served to bring the mandate in line with its strategic target allocation (4%).
- In October, the Fund disinvested £200m from the Brunel Paris Aligned Equity fund, with the exposure replicated synthetically within the BlackRock portfolio, in order to raise cash ahead of reinstating the hedging trigger framework.
- Following this, a number of interest rate triggers were breached causing BlackRock to increase the interest rate hedge ratio to the 30% maximum (39% as a % of assets). The Plan will have benefitted from this change given the fall in interest rates since then.

Market Background

2

Market Background

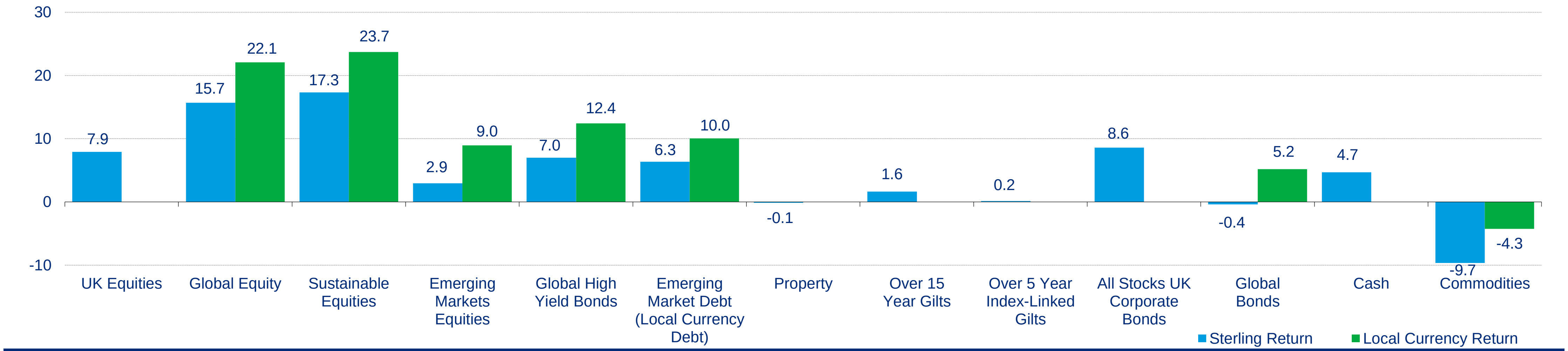
Return over 3 months to 31 December 2023 (%)



The fourth quarter of 2023 started off with low expectations owing to high long-term interest rates and renewed geopolitical tensions in the Middle East. Markets reached their lows near the end of October due to risk-off sentiment. However, in November, slowing inflation in the US and other regions raised hopes that interest rates may have peaked, thereby boosting investor confidence. Over the quarter, the US Federal Reserve kept rates unchanged, shifting towards a dovish tone. Inflation expectations also continued to decline over the quarter.

Market Background – 1 & 3 Years

Return over 12 months to 31 December 2023 (%)



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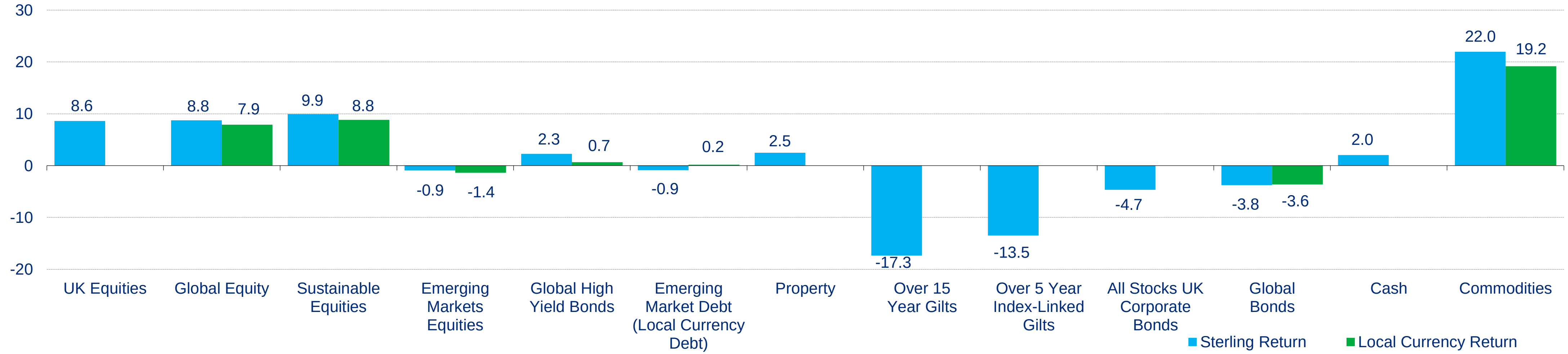
Return over 3 years to 31 December 2023 (% p.a.)



Mercer

Source: Refinitiv

Funding Level and Risk

3

Funding Level and Deficit

The Fund's assets returned 8.7% over the quarter, whilst the liabilities are estimated to have increased by c. 5%.

The combined effect of this saw the estimated funding level increase to c. 97%.

The funding level is estimated to be c. 1% higher over the year to 31 December 2023.

The rise in the estimated value of the liabilities was driven by a move to a lower actuarial discount rate basis of CPI + 2.5% as at 31 December 2023 versus 30 September 2023, as well as the impact of observed inflation.

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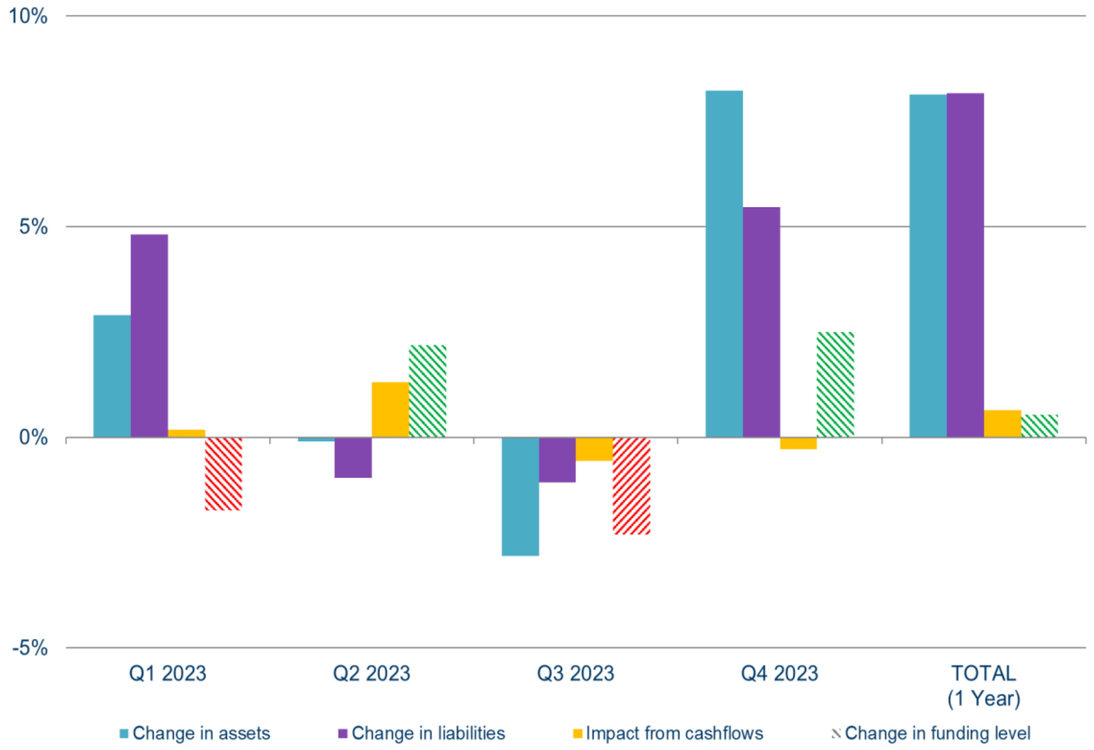
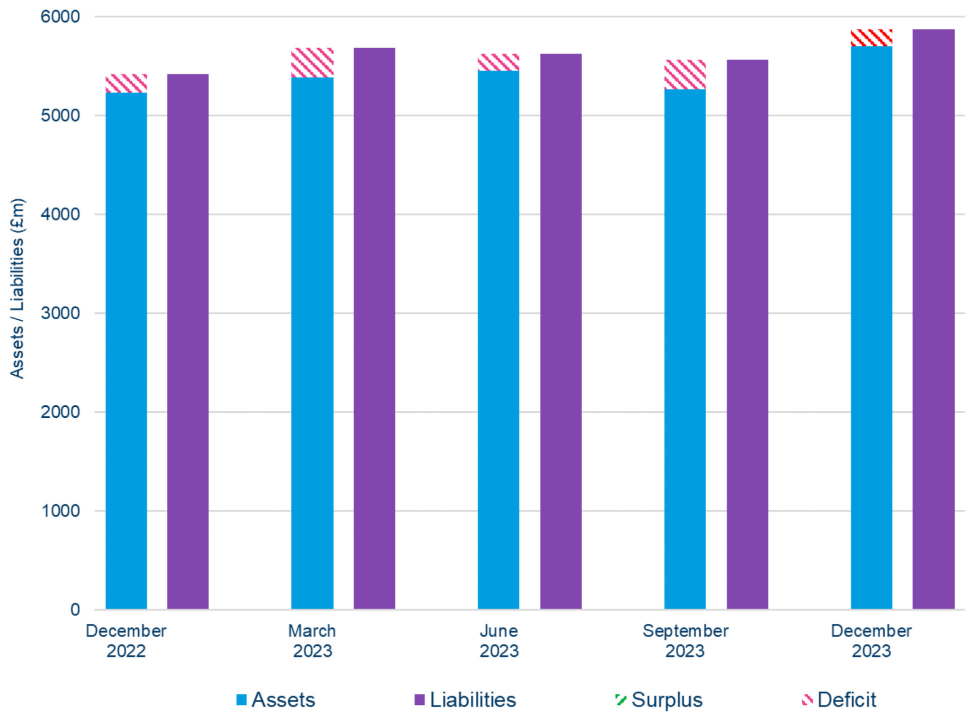


The deficit was estimated to have decreased over Q3 from c.£300m to c.£170m.

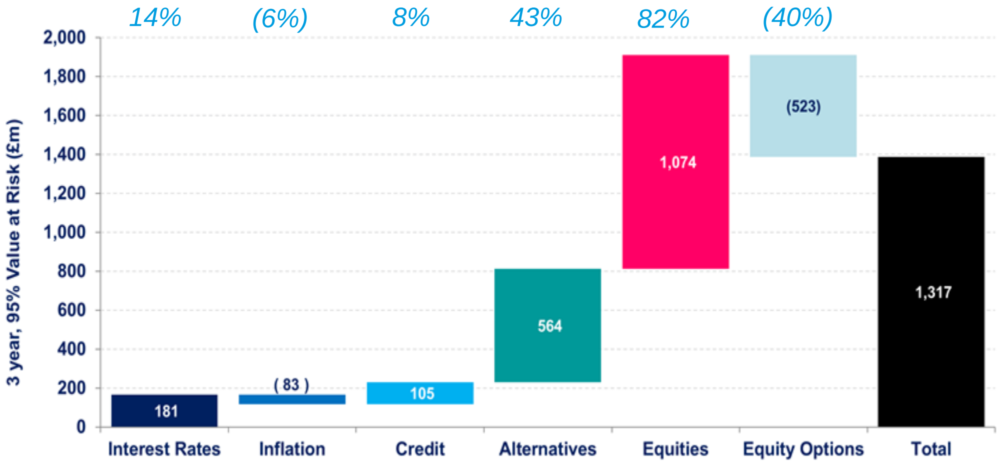


Liability values are estimated by Mercer. They are based on the actuarial valuation assumptions as at 31 March 2022 and the 'CPI plus' discount basis.
Impact figures are estimated by Mercer.

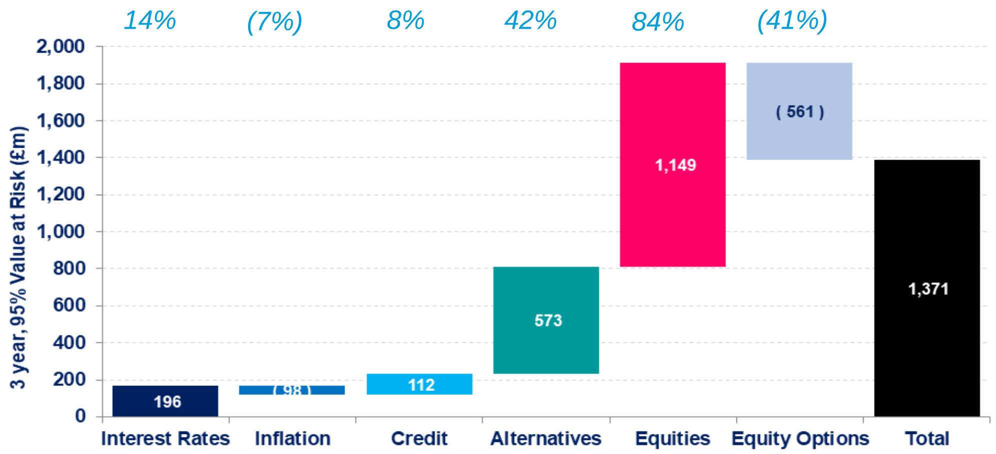
Risk Decomposition – 3 Year Value at Risk

- 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.

30 September 2023



31 December 2023



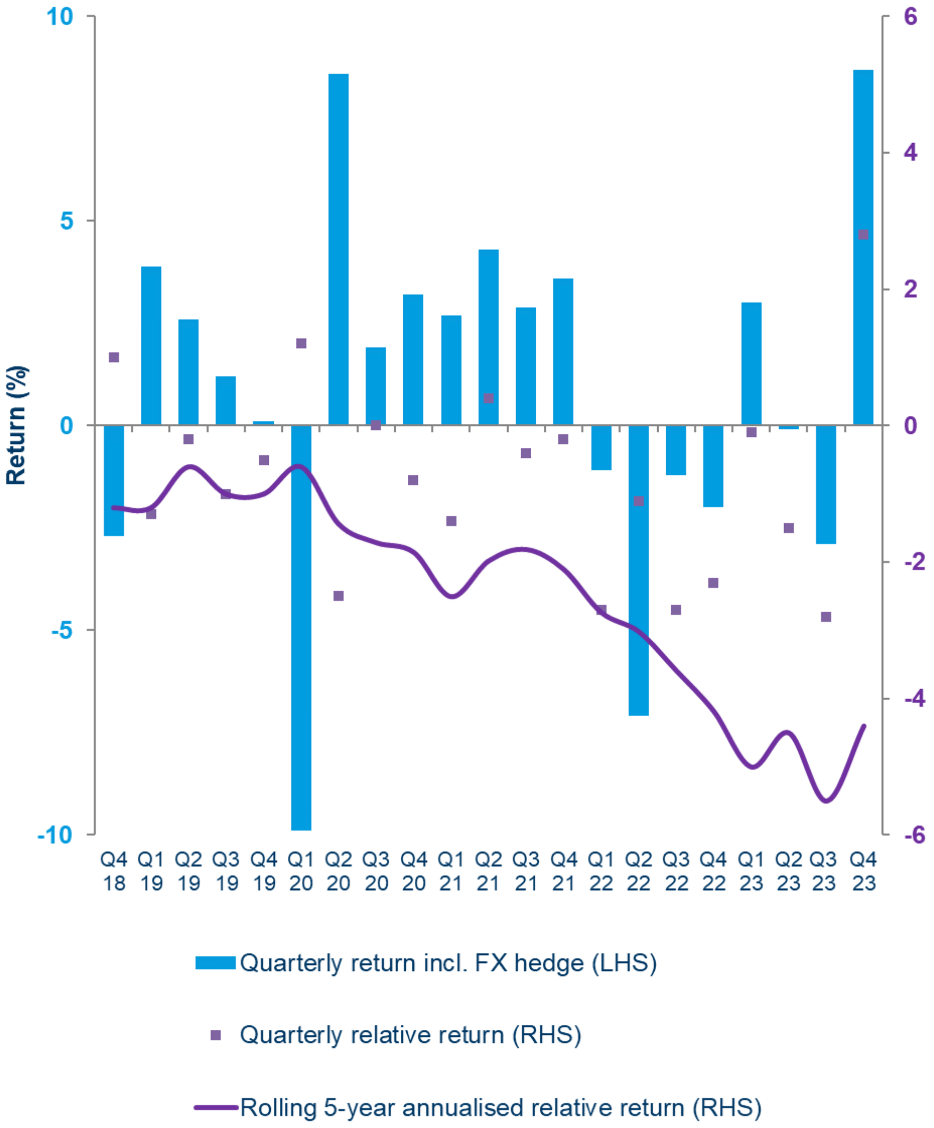
- As at 31 December 2023, if a 1-in-20 'downside event' occurred over the next three years, the funding position could deteriorate by at least an additional **£1.4bn**.
- Each bar to the left of the total represents the contribution to this total risk from the primary underlying risk exposures (interest 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 £54m over the quarter**, due to the rise in the absolute value of the assets.
- As a percentage of liabilities, VaR decreased slightly to 23% due to the increased value of the liabilities.

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.
Both are using cashflows from the 2022 valuation.

Performance Summary

4

Total Fund Performance



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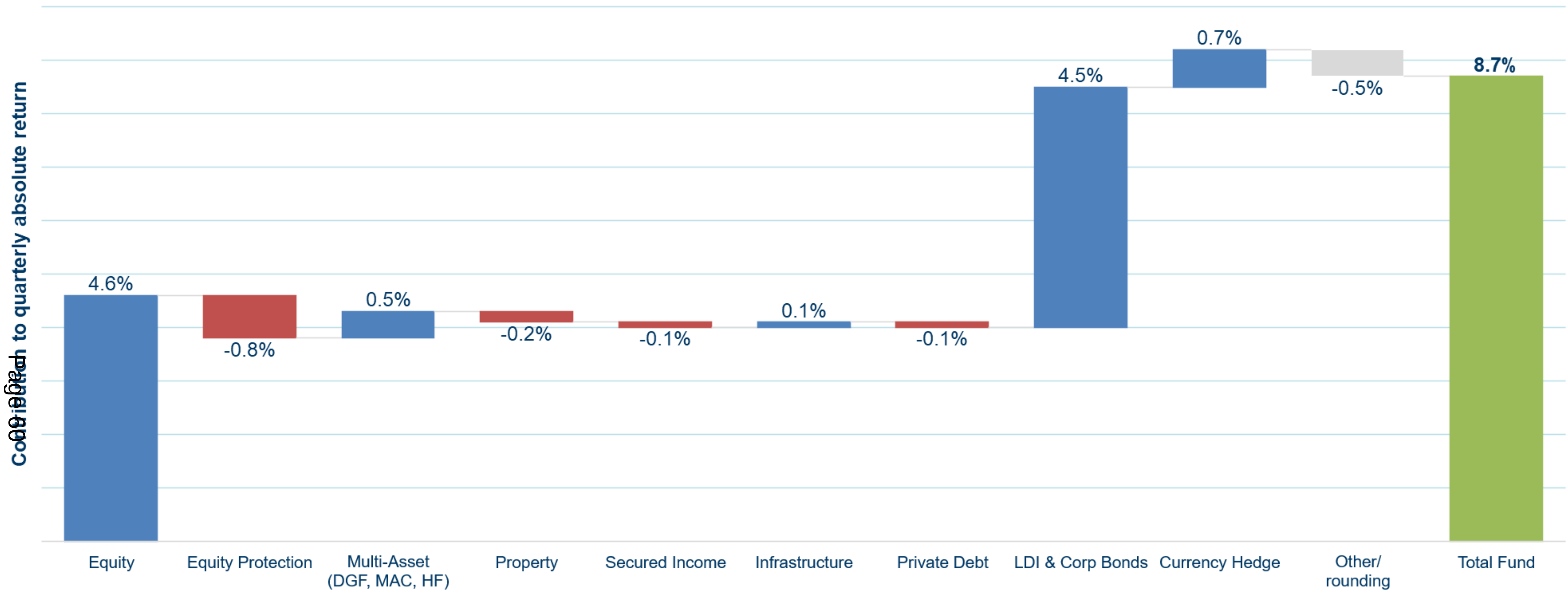
	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	8.7	8.5	3.3
Total Fund (ex currency hedge)	8.0	7.1	3.6
Strategic Benchmark **(2)** (ex currency hedge)	5.9	10.6	7.7
Relative (1 - 2)	**2.8**	**-2.2**	**-4.3**

Source: Custodian, Mercer estimates. Returns are net of fees. 'Relative' figures may not sum due to rounding.

Commentary

- As illustrated on the next slide, the positive return of Fund assets over the quarter was driven by Equity assets and the LDI portfolio.
- Relative performance was positive over the quarter, due mainly to the Sustainable Equity, Diversified Returns, Multi-Asset Credit and (in aggregate) Renewable Infrastructure portfolios.
- Underperformance relative to the strategic benchmark over the one year period was due to most of the Fund's mandates underperforming, with the main exceptions being Multi-Asset Credit (which outperformed) and Global High Alpha Equities (which matched its benchmark).
- The main driver of underperformance over three years was the active equity mandates.
- The Currency Hedge added to returns over the quarter and one year period due to the relative strengthening of Sterling, but detracted over three years.

Total Fund Performance Attribution – Quarter



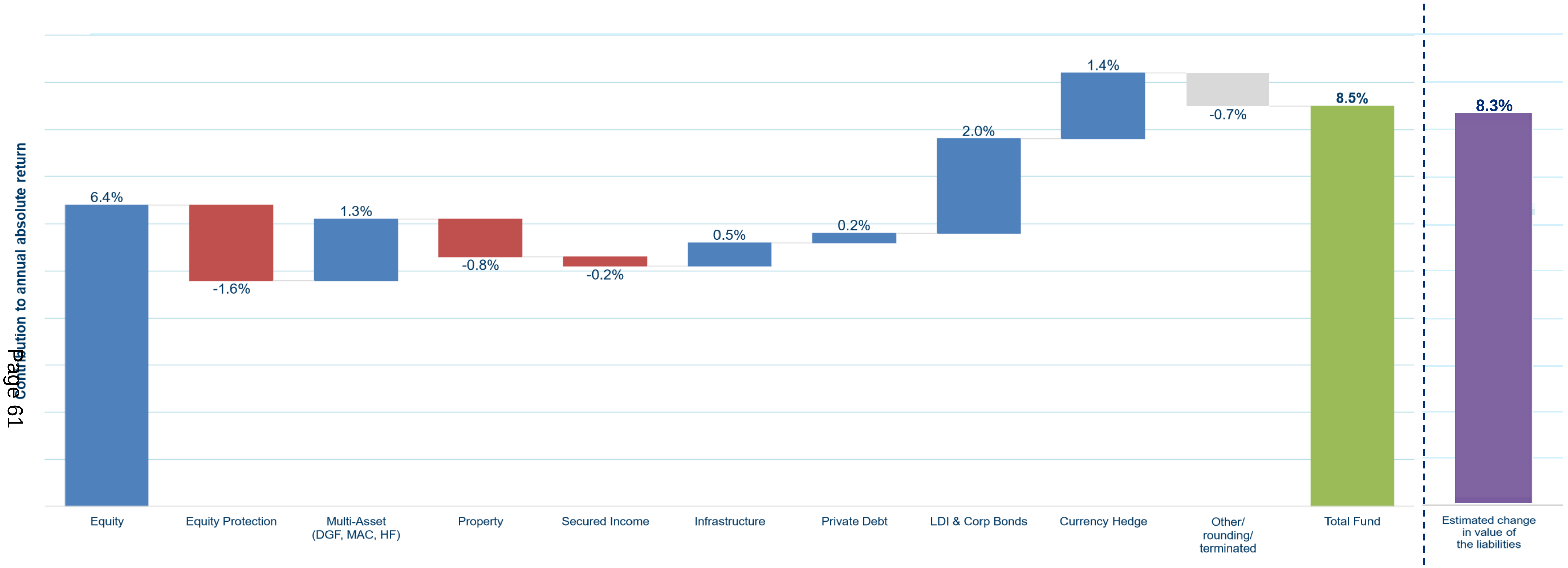
Source: Custodian and Mercer estimates
'Other' contributions to the total can include the relatively small holdings in the ETF, cash, the impact of cashflows and terminated mandates, as well as rounding.

The strong returns on Fund assets over the quarter were driven by the Equity and LDI portfolios. Multi-Asset portfolios also contributed, whilst the Alternatives were mixed.

The Equity Protection detracted due to rising underlying equity markets.

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

Total Fund Performance Attribution – 1 Year



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Source: Custodian and Mercer estimates.
'Other' contributions to the total can include the relatively small holdings in the ETF, cash, the impact of cashflows and terminated mandates, as well as rounding.
A significant portion of the rise in the estimated value of the liabilities was driven by a move to a lower actuarial discount rate basis of CPI + 2.5% as at 31 December 2023 versus 30 September 2023, as well as the impact of observed inflation.

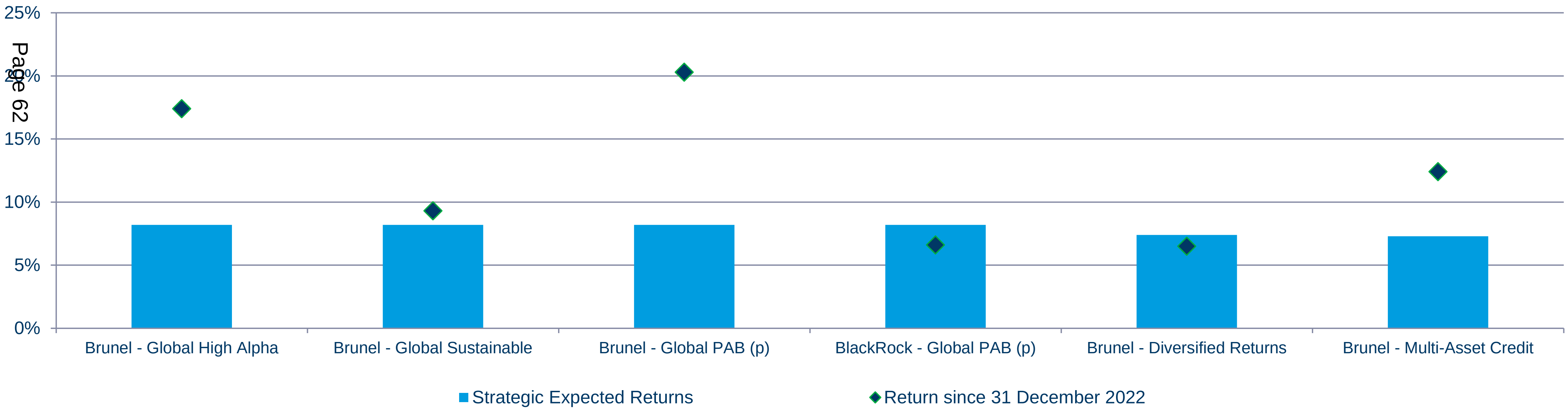
Equity was also the main driver of positive returns over the 1 year period.

Multi-Asset, Infrastructure, Private Debt and LDI were positive, whilst the Equity Protection, Property and Secured Income were negative.

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 / BlackRock 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 over 2023. No active management impact over this period.	Returns above expectations since December 2022 due to equity market strength, though mandate has underperformed the benchmark.	Brunel PAB (FTSE index) returns above expectations since December 2022 due to equity market strength. BlackRock synthetic PAB (MSCI index) returns below expectations, though exposure has only been in place since May 2023.	Returns slightly below expectations since December 2022 due to weak performance in H1.	Returns above expectations since December 2022 thanks to strength in high-yield debt markets.



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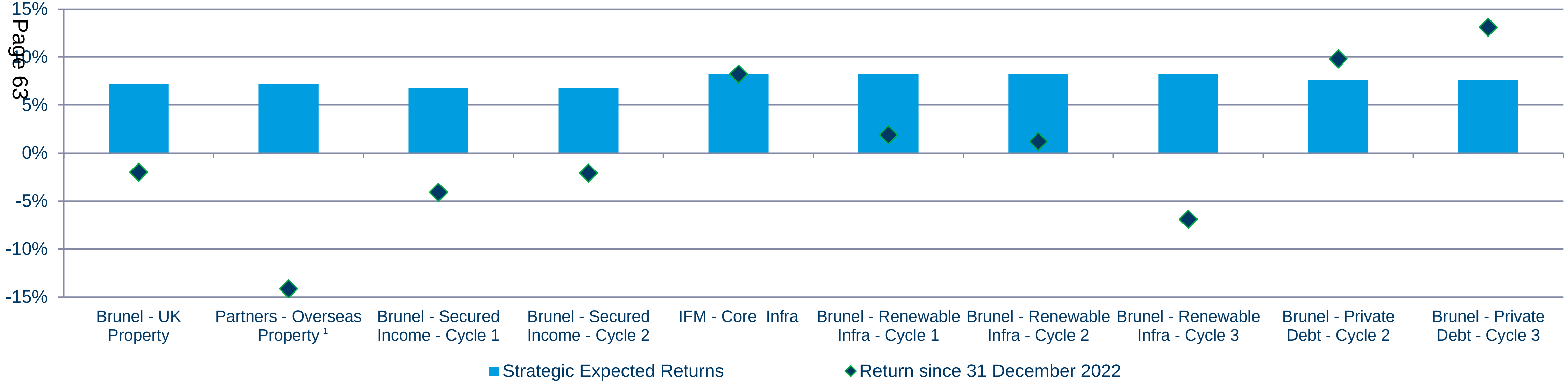
Notes:
We have illustrated the performance of the key mandates within the Fund's investment strategy.
Actual returns are from 31 December 2022 to 31 December 2023, except if otherwise stated below. Returns for periods over a year have been annualised.
The strategic expected returns are from the 2023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

Mercer

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 over 2023.			Returns in line with expectations since December 2022.	Returns for all cycles below expectations since December 2022. Mandates are still in the drawdown phase; the first drawdowns were in January 2019, October 2020 and October 2022 respectively.	Returns above expectations since December 2022 for both cycles. Mandates are still in the drawdown phase; the first drawdowns were in September 2021 and December 2022 respectively.



Notes:
We have illustrated the performance of the key mandates within the Fund's investment strategy.
Actual returns are from 31 December 2022 to 31 December 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.
[1] Returns are shown up to 30 September 2023, as this is the latest data available.

Mandate Performance to 31 December 2023

Manager / Asset Class	3 Months			1 Year			3 Year			3 Year Performance Target (% p.a.)**	3 Year Performance vs Target
	Fund (%)	B'mark (%)	Relative (%)	Fund (%)	B'mark (%)	Relative (%)	Fund (% p.a.)	B'mark (% p.a.)	Relative (% p.a.)		
Brunel Global High Alpha Equity	6.2	6.8	-0.6	17.4	17.4	0.0	7.3	10.3	-2.7	+2-3	Target not met
Brunel Global Sustainable Equity	8.0	6.4	+1.5	9.3	15.9	-5.7	3.6	8.7	-4.7	+2	Target not met
Brunel Passive Global Equity Paris-Aligned	6.8	6.7	+0.1	20.3	20.3	0.0	N/A	N/A	N/A	-	N/A (p)
MSCI World Paris-Aligned (Synthetic)	7.1	7.1	0.0	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A (p)
Brunel Diversified Returns Fund	3.2	2.0	+1.2	6.5	7.8	-1.2	3.0	5.1	-2.0	-	Target not met
Brunel Multi-Asset Credit	5.4	2.3	+3.0	12.4	8.8	+3.3	N/A	N/A	N/A	-	N/A
Brunel UK Property	-1.3	-1.1	-0.2	-2.0	-1.6	-0.4	N/A	N/A	N/A	-	N/A
Partners Overseas Property*	-6.4	2.5	-8.7	-18.7	10.0	-26.1	-3.0	10.0	-11.8	-	Target not met
Brunel Secured Income - Cycle 1	-0.4	0.2	-0.6	-4.1	3.9	-7.7	-0.9	6.6	-7.0	+2	Target not met
Brunel Secured Income - Cycle 2	1.0	0.2	+0.8	-2.1	3.9	-5.8	N/A	N/A	N/A	+2	N/A
IFM Core Infrastructure	2.4	2.5	-0.1	8.2	9.9	-1.5	11.3	7.2	+3.8	-	Target met
Brunel Renewable Infrastructure - Cycle 1	0.5	0.2	+0.3	1.9	3.9	-1.9	6.4	6.6	-0.2	+4	Target not met
Brunel Renewable Infrastructure - Cycle 2	1.6	0.2	+1.4	1.2	3.9	-2.6	8.2	6.6	+1.5	+4	Target not met
Brunel Renewable Infrastructure - Cycle 3	-1.0	0.2	-1.2	-6.9	3.9	-10.4	N/A	N/A	N/A	+4	N/A
Brunel Private Debt - Cycle 2	-2.0	2.3	-4.2	9.8	8.8	+0.9	N/A	N/A	N/A	-	N/A
Brunel Private Debt - Cycle 3	3.6	2.3	+1.3	13.1	8.8	+4.0	N/A	N/A	N/A	-	N/A
BlackRock Corporate Bonds	10.7	10.7	0.0	10.2	10.2	0.0	-10.0	-10.0	0.0	-	N/A (p)
BlackRock LDI	18.4	18.4	0.0	4.4	4.4	0.0	4.1	4.1	0.0	-	N/A (p)
Equity Protection Strategy	-0.2	N/A	N/A	-5.5	N/A	N/A	-3.0	N/A	N/A	-	N/A

Source: Investment Managers, Custodian, Mercer estimates. Returns are net of fees. Returns are in GBP terms
Relative returns have been calculated geometrically (i.e. the portfolio return is divided by the benchmark return) rather than arithmetically.
A summary of the benchmarks for each of the mandates is given in the Appendix.
Green = mandate exceeded target. Red = mandate underperformed target. Black = mandate performed in line with target (mainly reflecting passive mandates).

Performance for Partners in IRR terms. Performance for IFM is in TWR terms.
Performance of the Equity Protection Strategy is estimated by Mercer based on the change in market value of the options over time, accounting for realised profit/loss upon rolling of the strategy.
Performance for MSCI World Paris-Aligned (Synthetic) has been converted to GBP by Mercer, as the associated index is denominated in USD.
*Partners performance is to 30 September 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 Secured Income Cycle 3 investment, which will become more meaningful with the passage of time.

Asset Allocation

5

Valuation by Asset Class

Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Benchmark (%)	Ranges (%)			Relative (%)
Global High Alpha Equity	652,442	709,926	12.4	12.5	10.5	5.5	-	15.5	+2.0
Global Sustainable Equity	565,170	610,460	10.7	10.7	10.5	5.5	-	15.5	+0.2
Paris-Aligned Equity*	1,342,923	1,450,823	25.5	25.4	20.5	12.5	-	28.5	+4.9
Diversified Returns Fund	346,912	357,917	6.6	6.3	6.0	3	-	9	+0.3
Fund of Hedge Funds**	24,174	23,247	0.5	0.4	-	No set range			-
Multi-Asset Credit	316,209	333,224	6.0	5.8	6.0	3	-	9	-0.2
Property	328,138	316,007	6.2	5.5	7.0	No set range			-1.5
Secured Income	546,652	569,156	10.4	10.0	9.0	No set range			+1.0
Core Infrastructure	325,290	230,754	6.2	4.0	4.0	No set range			+0.0
Renewable Infrastructure	175,333	199,456	3.3	3.5	5.0	No set range			-1.5
Private Debt	180,756	197,730	3.4	3.5	4.5	No set range			-1.0
Local / Social Impact	-	0	-	0	3.0	No set range			-3.0
Corporate Bonds	165,443	183,069	3.1	3.2	2.0	No set range			+1.2
LDI & Equity Protection	900,673	1,366,378	17.1	24.0	12.0	No set range			+12.0
*Synthetic Equity Offset**	-728,850	-1,005,747	*-13.8*	-17.6	-	-			-
Other***	127,087	159,474	2.4	2.8	-	0	-	5	-
Total	**5,268,365**	**5,701,894**	**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.
*Paris-Aligned 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.

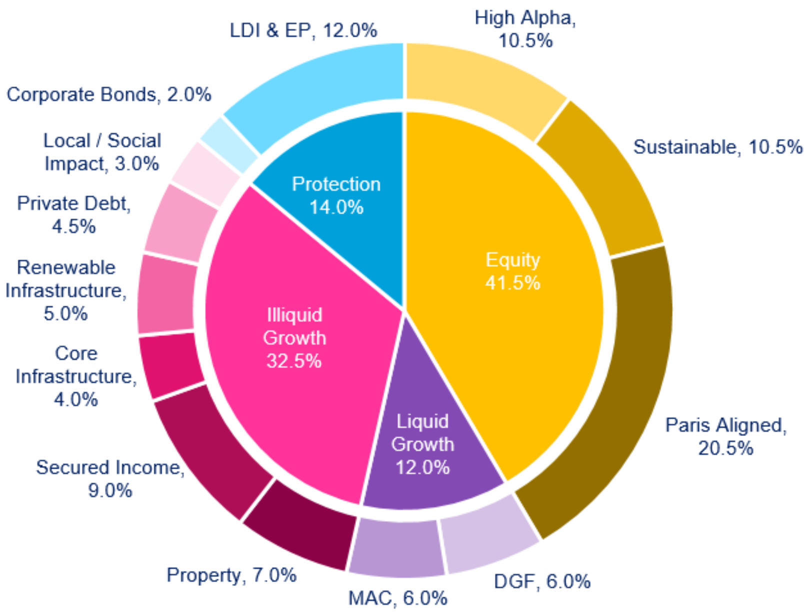
Valuation by Manager

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Brunel	Global High Alpha Equity	617,895		656,096	11.7	11.5
Brunel	Global Sustainable Equity	565,170		610,460	10.7	10.7
Brunel	Passive Global Equity Paris Aligned	614,073	-200,015	445,076	11.7	7.8
BlackRock	MSCI Paris-Aligned (Synthetic)*	728,850	+200,000**	1,005,747	13.8	17.6
Brunel	Diversified Returns Fund	346,912		357,917	6.6	6.3
JP Morgan	Fund of Hedge Funds	24,174		23,247	0.5	0.4
Brunel	Multi-Asset Credit	316,209		333,224	6.0	5.8
Brunel	UK Property	182,581	-42	180,117	3.5	3.2
Schroders	UK Property	12,738		13,263	0.2	0.2
Partners	Overseas Property	132,819		122,626	2.5	2.2
Brunel	Secured Income – Cycle 1	308,645	-4,522	303,032	5.9	5.3
Brunel	Secured Income – Cycle 2	105,805	-2,770	104,171	2.0	1.8
Brunel	Secured Income – Cycle 3	132,202	+32,285	161,953	2.5	2.8
IFM	Core Infrastructure	325,290	-100,000	230,754	6.2	4.0
Brunel	Renewable Infrastructure – Cycle 1	107,496	+1,190	109,393	2.0	1.9
Brunel	Renewable Infrastructure – Cycle 2	60,038	+15,998	77,554	1.1	1.4
Brunel	Renewable Infrastructure – Cycle 3	7,799	+4,710	12,509	0.1	0.2
Brunel	Private Debt – Cycle 2	154,272	+10,585	161,464	2.9	2.8
Brunel	Private Debt – Cycle 3	26,485	+8,442	36,266	0.5	0.6
BlackRock	Corporate Bonds	165,443		183,069	3.1	3.2
BlackRock	LDI & Equity Protection	900,673	+200,000	1,366,378	17.1	24.0
BlackRock	*Synthetic Equity Offset**	-728,850	-200,000**	-1,005,747	-13.8	-17.6
Record	Currency Hedging (incl. collateral)	36,142		74,307	0.7	1.3
BlackRock	ETF	59,927	-40,000	23,222	1.1	0.4
Internal Cash	Cash	64,792	+49,857	115,315	1.2	2.0
Total		**5,268,365**	**-24,611**	**5,701,894**	100.0	100.0

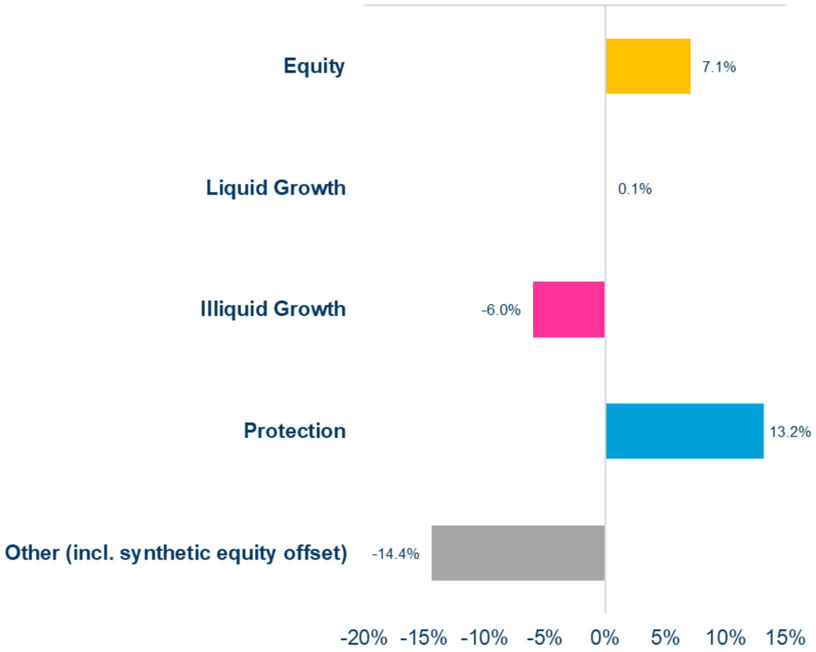
Source: Custodian, Investment Managers, Mercer. Totals may not sum due to rounding.
The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included in the 'Internal Cash' start and end balance to reflect the asset value position of the total Fund. * MSCI Paris-Aligned synthetic exposure is 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. ** Cashflow represents change in synthetic exposure.

Positioning relative to target

Strategic Asset Allocation (“SAA”)



Relative positioning



Commentary

- The Plan last updated its Strategic Asset Allocation as part of the 2023 Investment Strategy Review.
- 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 relative outperformance to other parts of the portfolio over the past year.
  - The underweight to Illiquid Growth reflects recent relative underperformance, and the fact that capital is yet to be drawn down to the Local / Social Impact portfolio.
  - 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 to persist and is unlikely to trigger any consideration for action, which would continue to be driven more specifically by collateral adequacy requirements.

Current Topics

6

Current Topics

"LGPS: Next Steps on Investment" Consultation: Government Response

"LGPS: Next Steps on Investment" Consultation – Government Response: Key Clarifications and Changes

Asset Pooling

There is no intention to take steps to mandate a move to fewer pools in the immediate term. Desire in the future to move towards a smaller number of pools with directly invested assets >£50bn.

Funds should either pool all assets by 31 March 2025 or provide justification for those assets which remain outside e.g. where it is difficult to do so or where there are value for money grounds.

Passive funds explicitly reference as a type of investment where it might not make financial sense to hold directly within a pool.

The government will set out a preferred model of pooling - characteristics and outcomes focused.

Investment in other pools should be made only through a fund's own pool.

Levelling Up

Requirement for Funds to set a plan to invest up to 5%, but Funds have complete autonomy on whether to invest more or less than the 5% ambition.

Will provide additional clarity as to what constitutes levelling-up in guidance.

Encourage funds to consider investing in projects which support levelling up through their pool.

Recognise that some levelling up investments in local projects may be below the necessary scale to attract pool investment, and so some funds may wish to continue to invest outside the pool.

Private Equity

Setting an ambition to invest 10% in private equity would not mandate investment and the ambition is not restricted to private equity in the UK.

Whilst the 10% ambition relates to private equity allocations, the government recognises the broader opportunities in private markets including, for example, private debt which may also provide good returns for funds whilst contributing capital for companies seeking to grow.

Funds should start preparing now for the new guidance, given ISS's will need to be updated before 31 March 2025

Relevance to the Fund

✔

The outcome of this consultation will have an impact on the Fund.. Further work could be done around mapping the Fund's existing investments to the Levelling Up Missions

"LGPS: Next Steps on Investment" Consultation – Government Response: Mercer View

Despite the government's response acknowledging material opposition from respondents to a large number of the initial proposals, they have largely pressed ahead with the initial proposals unchanged. There have been some welcome changes e.g. in terms of not requiring net returns to be quoted against a consistent benchmark and making levelling-up reporting on a best efforts basis. There have also been some welcome clarifications, such as no intention to move to fewer pools in the immediate term and confirmation the government isn't seeking a "pooling at all costs" approach.

Whilst we acknowledge that there are differing opinions across the LGPS, we expect many Funds will be disappointed that the 31 March 2025 pooling deadline remains. However, we take comfort that this will be on a "comply or explain" basis and that retention of certain assets outside of the pools can be maintained if justified on value for money grounds, or where a pool doesn't provide a suitable solution. We also expect many Funds will be disappointed that the government have retained the ambitions of 5% in levelling-up and 10% in private equity. Importantly, the response is clear that these targets are purely ambitions and that it is entirely up to individual Funds how much (if anything) they invest in either levelling-up and / or private equity, acting in line with their fiduciary duty. It should not be taken as a given that these ambitions will be appropriate for all individual Fund circumstances.

In the context of the government's desired direction of travel, we believe that the government's adoption of the 'comply or explain' approach is balanced and pragmatic. By providing Funds with the opportunity to explain their actions, rather than mandating any one approach, it ensures that the decision making process can remain robust and in the best interests of members and employers.

It is clear that the government has a long-term vision for the LGPS, based on realising economies of scale through consolidation and Funds seeking returns by having a wider role in supporting investment in the UK economy. Whether this is in the best interests of Fund members and employers will be debated for a considerable time. We welcome a continued open dialogue with the government and will continue to monitor developments.

Multi-employer investment strategies

Multi-employer Investment Strategies: Practical Considerations

Can manage investment risk in a targeted way.

Can de-risk while contributions remain affordable for employers.

Can manage an employer through its life-cycle, including to exit.

Specific strategy for exited/exiting employers, where the Fund wants to take lower risk to manage orphaned liabilities.

Increased Operational and administrative complexity.

Likely to obtain higher costs.

Additional governance and monitoring requirements.

Current Topics

2024 – Looking ahead

Mercer's views of structural trends and emerging risks – 5 years and beyond – and their impact

Regime Change

Dispersion and Dislocation
Geopolitical risk remains elevated. Nimble alpha generators should capitalize on dispersion and dislocation.

Efficiency Gains
A more attractive outlook for fixed income implies a greater role in portfolios, but a return to negative equity/bond correlations cannot be assumed.

Super-cycles

Inflation tides
As rate rises bite, and cyclical inflation pressures subside, many structural inflation pressures remain: resources demand; supply chain realignment; the risk of fiscal largesse; "greenflation".

Shifting sands
Extraordinary debt levels are significant again, as power shifts from borrowers to lenders.

Mega-trends

Energy modernisation
Disruption in energy supply has highlighted the need for energy security, and the connection to the energy transition.

The natural (re)order
Awareness of nature loss and its consequences signal regulatory shift but could create opportunities in regenerative and innovative solutions.

Increasing Time Horizon

Relevance to the Fund

The Fund has a well-diversified portfolio, but receives frequent updates on market trends and developments.

The 2024 agenda considerations below will be relevant to the Fund as it will be for the whole LGPS community.

Preparing for the 2025 Actuarial Valuation Cycle

- Understand your current funding position
- Work closely with your Fund Actuary and Investment Consultant to understand strategic implications on contribution requirements in order to strike a balance
- Manage the employer dialogue and policy development well in advance of the 2025 valuations
- Cashflow and liquidity will be key given contribution requirements could be lower and benefits higher (as a result of high inflation)

2024 looks to be another busy year for the LGPS

- LGPS regulation due to be updated to incorporate 'Next Steps' proposals
- 'TCFD' Reporting requirements confirmed?
- c.7% uplift in member benefit payments
- Preparing for 2025 Actuarial Valuation cycle
- Sustainability leaders adopting TNFD framework

Cashflow considerations

Actions to take

Cashflow modelling
Engage with your Actuary to understand future benefit outgo. Economic scenario analysis can assist in understanding impacts of higher than expected inflation on these.
Engage with private markets managers for expectations on drawdowns and distributions. Noting these are likely to be lumpy.

Investigate sources of income
Engage with investment managers and your pool to establish likely levels of distributions and frequency of these.
For ongoing cashflow needs to meet member benefits liquid assets with strong levels of income might be best sources.

Private Markets
Consider use of liquid proxies or establish a liquidity waterfall to ensure all drawdowns can be met.
Prudent action, even if estimated, to be Cashflow neutral given lumpy nature of private market calls and distributions

Investment Strategy
Ensure Cashflow considerations are integrated into investment strategy discussions.
Stronger funding levels could present opportunities to increase assets which provide strong levels of income.

Relevance to the Fund

The Fund conducts cashflow / liquidity analysis on a broadly triennial basis. It could be appropriate to make this more frequent; on closer to an annual basis.

Mercer

Appendix

Q4 2023 Equity Market Review

Global equities were positive, supported by expectations that interest rate cuts may be approaching and expectations of a global soft landing. Within equities, developed markets outperformed emerging markets. Technology stocks continued their strong run and the so-called “magnificent seven” increased 7.7% in sterling terms.

Global equities returned 6.3% in sterling terms and 9.3% in in local currency terms as sterling appreciated against the dollar.

US equities returned 11.9% in local currency terms, whilst European (ex-UK) equities returns 6.7%, and Japanese equities returned 1.9%.

Emerging markets (‘EM’) equities returned 5.0% in local terms.

Global small cap stocks returned 10.4% in local terms. Small-cap equities were positive as cyclical assets outperformed during the quarter on expectations that a sharp recession may have been averted.

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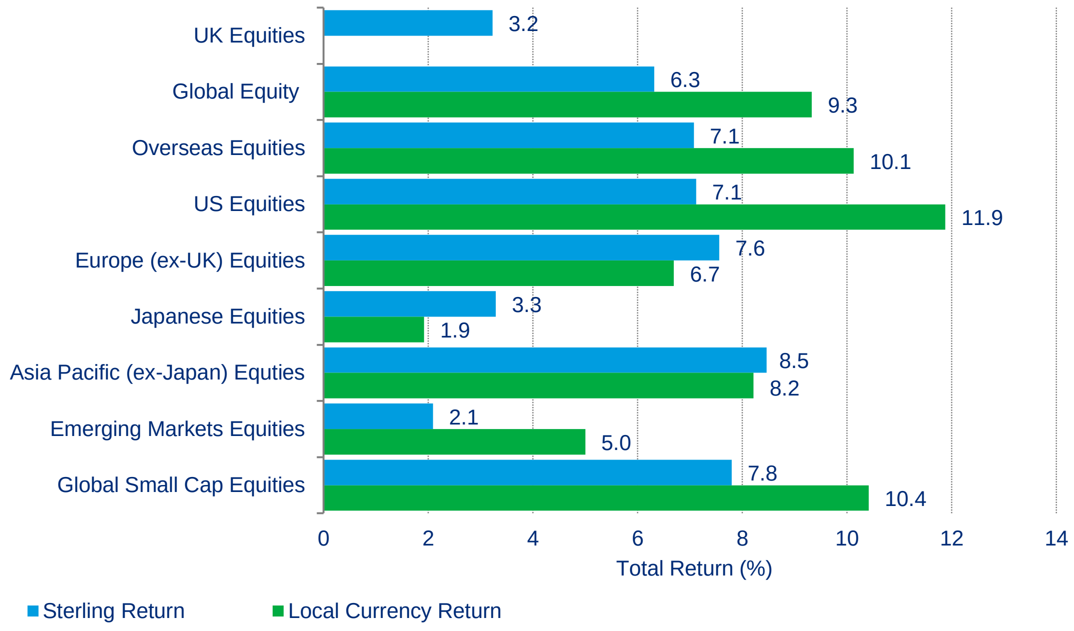
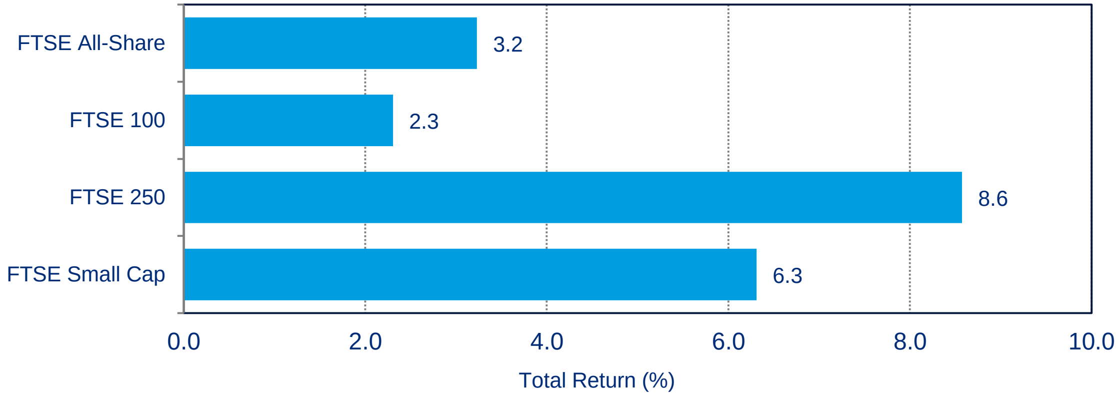
Equity Performance



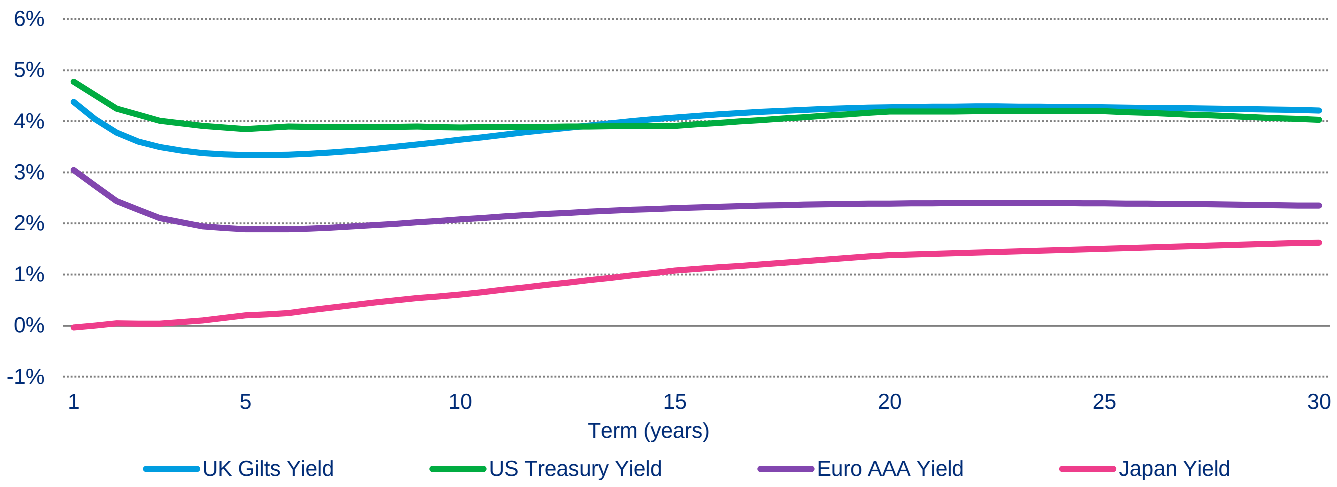
The **FTSE All Share** index returned 3.2% over the quarter with the large cap **FTSE 100** index returning 2.3%. More domestically focused equities (**FTSE 250**) produced positive returns. The **small cap** index produced a positive 6.3% return.

Strong performance in Financials and Consumer Goods sectors supported the UK performance relative to global equities.

FTSE Performance by Market Cap



Q4 2023 Bond Market Review



Source: Mercer and Bloomberg

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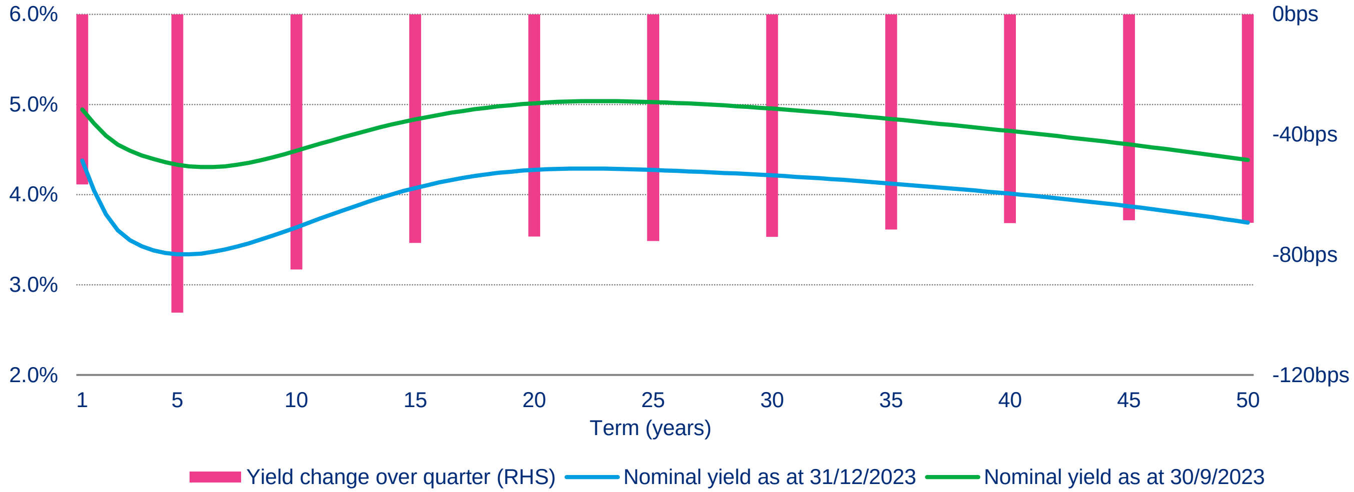


Source: Mercer

Government Bond Yields

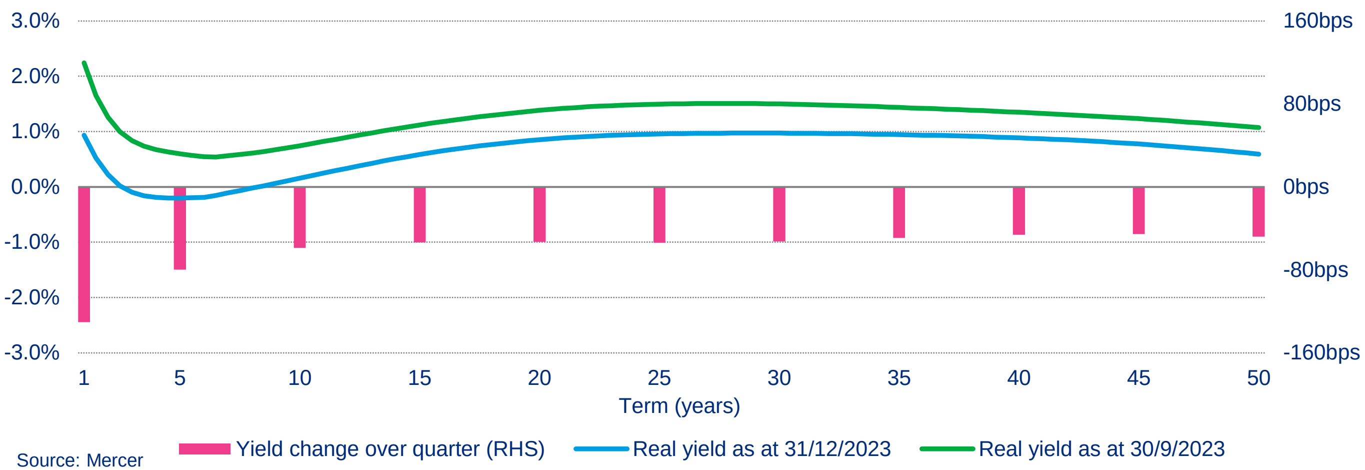
10-year global government bond yields fell sharply over the quarter. The rally in bonds was driven by lower-than-expected inflation numbers and dovish comments from central banks, particularly the Federal Reserve.

In the UK and US, 2-year yields fell by 0.9% and 0.8% respectively. 10-year yields also fell in the UK and US by 0.9% and 0.7% respectively.

The downward movement in yields was observed across the entire yield curve, with yield curves moving in a parallel downward direction. However, yield curves remain inverted in most developed markets.

The German 10-year yield fell by 0.81%; as the European Central Bank (ECB) was considerably less dovish than the Fed but bond markets still moved to price in a significant amount of rate cuts in 2024.

Q4 2023 Bond Market Review



Source: Mercer

UK Index-Linked Gilt Yields

UK real yields fell across the entire curve, led by lower-than-expected inflation prints which drove more rate cuts to be priced in at the front end of the curve. UK inflation remains considerably above target. Market based measures of inflation expectations, in the form of breakeven inflation, fell significantly over the quarter. The UK 10-year breakeven rate finished the quarter at ~3.48% (c.35bps over the quarter).

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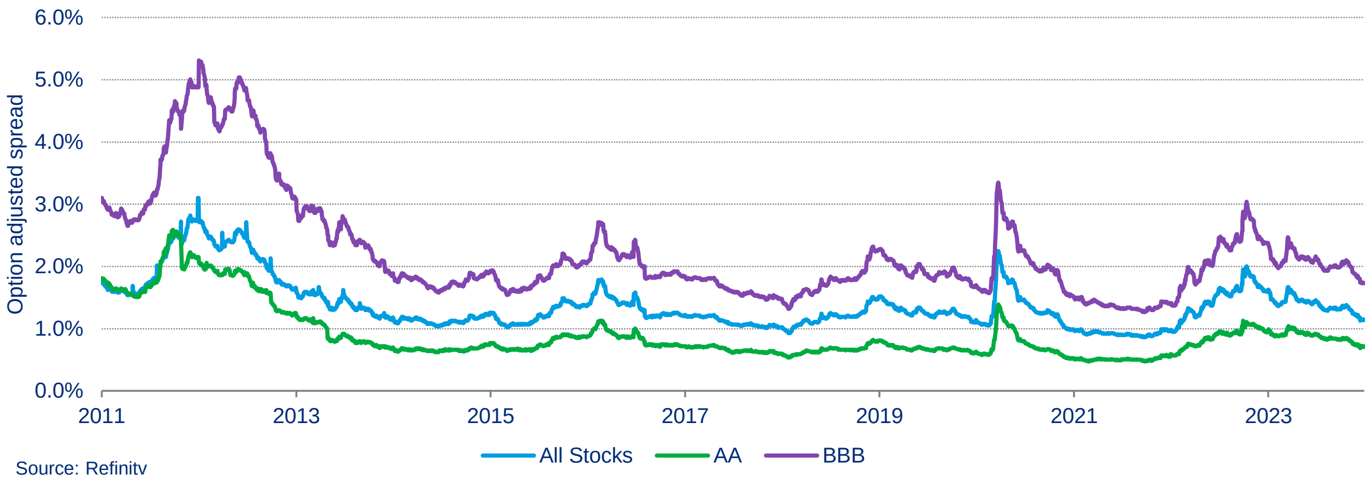

Source: Refinitv

Corporate bonds

Spreads on UK investment grade credit tightened over the quarter, with spreads on lower rated credit tightening more than for higher rated credit.

Q4 2023 Currency Market Review

Sterling's performance over the quarter was strong against the dollar mainly driven by a weak dollar following a flurry of macro headlines over the quarter. This sent the U.S. dollar to its lowest level in five months versus sterling. While against the EUR, sterling remains stable, but it continued its falling streak against the Yen.

On a 12-months basis, sterling has appreciated considerably versus U.S. dollar and yen but marginally versus euro.

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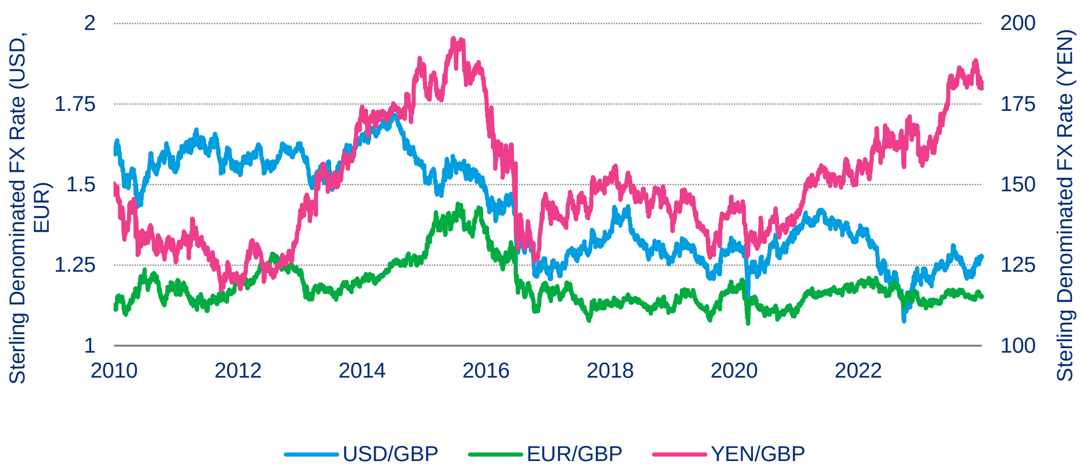
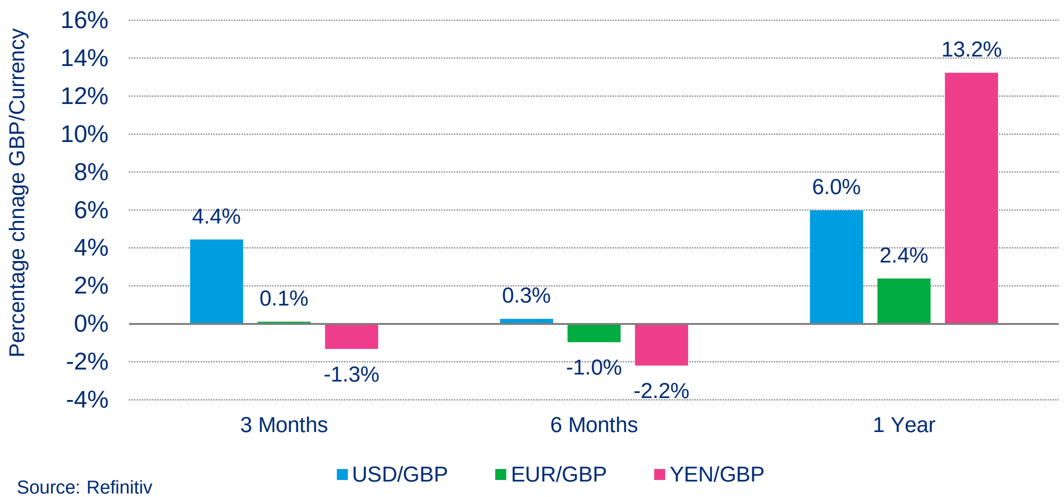
Sterling Denominated FX Rate



Source: Refinitiv

Change in sterling against foreign currencies



Source: Refinitiv

Q4 2023 Property

UK property as measured by the MSCI Index decreased by 1.2% over the fourth quarter of 2023.

Dynamic Asset Allocation (DAA)

Dashboard, Positioning & Outlook for UK constrained Portfolio

UK Economic Outlook

UK equities lagged behind global equities (GBP terms) in the final quarter of 2023. Global equities were boosted by expectations of looser central bank policy and the related decline in bond yields. Soft landing hopes rose, while the US tech giants performed well. Given the UK's low-tech exposure the index underperformed relative to global equities. UK 10-year nominal bond yields fell sharply over the quarter, declining 0.9% to 3.5%. However, looking simply at the total quarter decline masks much of the volatility witnessed during the quarter, as over 0.6% of the total decline happened in December alone. UK yields fell, broadly in line with a rally in global bond markets which was driven by softer inflation and the Fed discussing rate cuts. Two-year yields moved in a similar fashion which led to the curve moving parallel downwards. In terms of currencies, Sterling weakened versus most major currencies over the quarter with the exception of the US dollar, which sold off. Similar to a quarter ago, the UK economy is doing just about enough to maintain economic activity marginally in positive territory, despite tight fiscal and monetary policy.

Dynamic Asset Allocation (DAA) Positioning

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Equities	In terms of UK equities, valuations are attractive, however, we think they are attractive for a good reason and given the mixed outlook for the UK economy we prefer to take risk elsewhere in the equity universe. We remain overweight emerging market (EM) equities versus Developed Market (DM) equities. EM economic growth is expected to be better than DM in 2024, driven by a recovery in China and decent growth across most other parts of EM. We are neutral on small cap equities, given the current position in the business cycle the global economy currently sits, where small cap equities may be vulnerable if there was any material change in the current economic narrative.
Growth Fixed Income	We hold a favourable view on Emerging Market Debt (EMD) Local Currency (LC). EMD LC is attractive because first we expect local yields to decline as central banks cut interest rates and second we expect EM currencies to strengthen versus the US dollar as EM currencies are cheap in general and we expect the US dollar to decline. We expect this trend will continue and broaden in 2024 as EM inflation declines further. We retain a moderately negative view on global high yield, especially when compared with other growth fixed income assets.
Defensive Fixed Income	We held a favourable overweight view on gilts in Q4 because we thought the sell-off was overdone and that inflation would fall and ultimately return to target. Following the rally at the end of last year we have reduced that view and the overweight gilt view is now much smaller. We prefer nominal bonds relative to real bond yields, expecting so-called break-even inflation rates to narrow.

Constrained

	Constrained
Equities	**2%**
DM ex-UK	-1%
UK	0%
EM	3%
Small Cap	0%
Growth Fixed	**0%**
EM Debt (LC)	2%
Global HY	-2%
Defensive Fixed	**-2%**
Nominal Gov ex-UK	-2%
UK Gilts	*2%*
Real Gov ex-UK	0%
UK Index-Linked Gilts	*-2%*
IG Credit ex-UK	0%
UK IG Credit	*0%*

Source: Mercer. For illustrative purposes only. As at January 2024.
A constrained portfolio is one that is limited to core asset classes and cannot go underweight cash. Tracking error is the relative risk of the DAA positions. All assets are unhedged.

Global Property Market Outlook

- The next couple of quarters are likely to remain challenged with negative data points (whether these show lagged data or not). However, as 2024 dawns upon us, it becomes crucial to recognize that the best opportunities are to be had in the early days of market stabilization – when prices are attractive, but sellers still outnumber buyers.
- Entering 2024, the global economy appears to be on course for a “soft landing”, supporting the strong occupational fundamentals in most real estate sectors and markets. It is important to recognise that positive rental growth and inflation-driven NOI growth softens the impact from outward yield shift and higher debt costs.
- Together with relatively low Net Asset Values, the period ahead could finally present the opportunity for investors, seeking to gain or increase exposure to income-producing real estate, to enter the strongest core/core-plus funds. With subscription queues having reduced across even the strongest of these funds, new capital may be drawn in a matter of months.
- For those clients with a higher risk appetite, the opportunity to achieve outsized returns from market dislocations also remains. Managers of value-add and opportunistic funds are seeing attractive repricing opportunities materialise and investors can best take advantage by committing capital to funds able to deploy in the near-term.
- As traditional banks retrench, re-financings mature and the funding gap grows, we also see the opportunity for alternative lenders to deploy capital and generate equity-like returns while occupying a sheltered position in the capital stack.
- Finally, over the longer term, real estate can provide asynchronized returns from liquid investments or other private market asset classes due to the asset class’s inflation-linked qualities and ability to tap into different economic sectors. This remains a fundamental reason to include the asset class in a diversified portfolio.

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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 real estate markets will see more repricing in the first half of 2024. We have maintained the US Core/Core+ segment as “less attractive” for now as this market works through this process of repricing. 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, January 2024*

Very attractive	Attractive	Neutral	Less Attractive	Unattractive	Not applicable

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	-	-	-

* The primary performance objective of this mandate is a Net IRR of 8% p.a. (GBP). Its inflation-plus benchmark is used by the custodian due to a greater ability to incorporate and the objective has value over the relative short-term, however, over time, comparison against the IRR objective will become more relevant.

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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Avon Pension Fund Performance Report

Quarter ending 31 December 2023

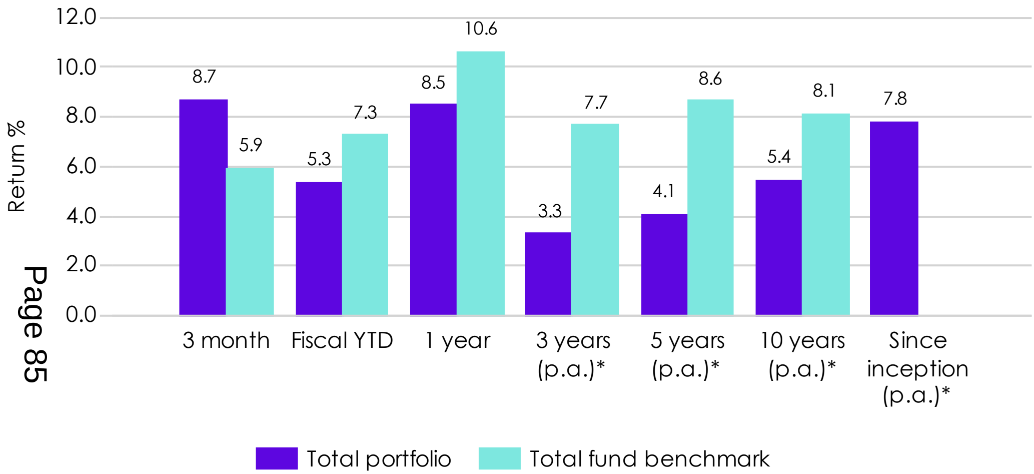
AVON PENSION FUND

Brunel Pension Partnership

Contents

Pension Fund performance

Performance (annualised)



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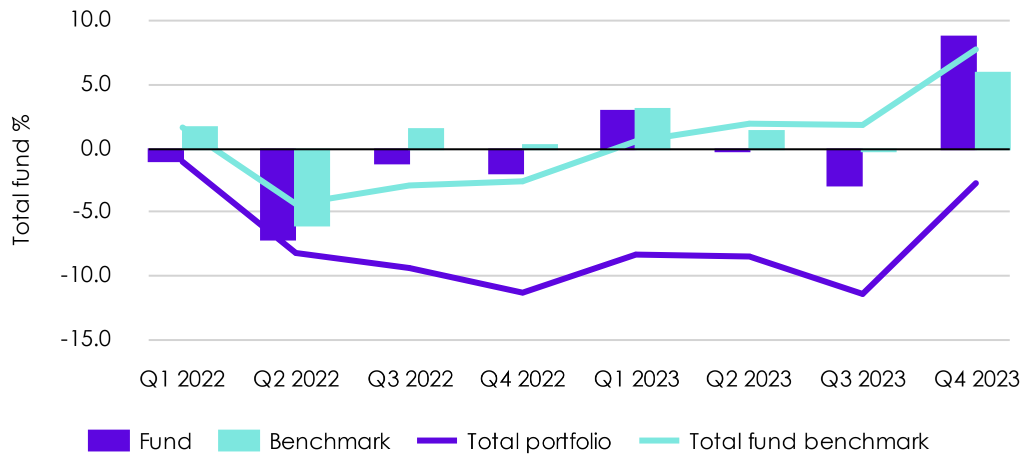
Source: State Street Global Services
*per annum. Net of all fees.

Quarterly performance



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

Key events

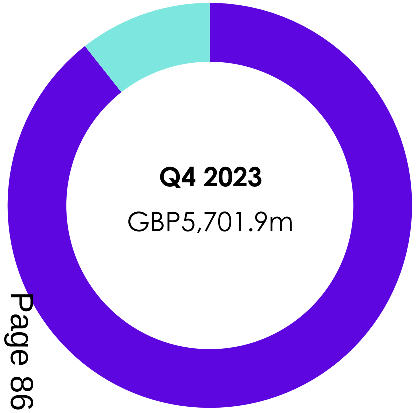
Quarter 4 witnessed an almost-synchronised fall in global inflation, which played out at a faster pace than expected. This led to investor hopes that interest rates might start to fall sooner than had been thought. The result, unsurprisingly, was a rally across most asset classes. The S&P 500, in the US, saw a rise of more than 11%, bringing the gain during 2023 to 26%. Bond markets also rallied strongly. Commodities were a laggard, and Energy's trajectory reflected both strong supply and fears that Chinese growth would continue to be weak.

The total fund rose 8.7% during the quarter, whilst the benchmark rose 5.9%. Across the calendar year, the fund grew 8.5% vs the benchmark return of 10.6%.

Brunel's portfolios reflected the strength of markets and were all up in absolute terms. Hedged portfolios' performance were ahead of their unhedged equivalents due to a bounce in sterling.

Asset summary

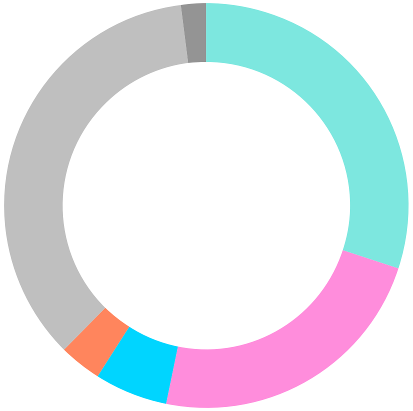
Assets transitioned to Brunel



Q4 2023		Q3 2023	
Transitioned	89.42%	Transitioned	87.54%
Legacy assets	10.58%	Legacy assets	12.46%

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

Asset allocation breakdown



Key:

Equities	30.03%
Private markets	23.15%
Fixed income	5.84%
Property	3.39%
Other	35.57%
Cash	2.02%

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

Overview of assets

Detailed asset allocation

Equities	£1,712.09m	30.03%
Global High Alpha Equities	£656.10m	11.51%
Global Sustainable Equities	£610.46m	10.71%
PAB Passive Global Equities	£445.08m	7.81%
Legacy Assets	£0.46m	0.01%

Fixed income	£333.22m	5.84%
Multi-Asset Credit	£333.22m	5.84%

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Private markets (incl. property)	£1,513.10m	26.54%
Secured Income Cycle 1	£303.03m	5.31%
UK Property	£180.12m	3.16%
Secured Income Cycle 3	£161.95m	2.84%
Private Debt Cycle 2	£161.46m	2.83%
Infrastructure Cycle 1	£109.39m	1.92%
Secured Income Cycle 2	£104.17m	1.83%
Infrastructure (Renewables) Cycle 2	£77.55m	1.36%
Private Debt Cycle 3	£36.27m	0.64%
Infrastructure Cycle 3	£12.51m	0.22%
Legacy Assets	£366.64m	6.43%

Other	£2,028.16m	35.57%
Blackrock Risk Management	£1,549.46m	27.17%
Diversifying Returns Fund	£357.92m	6.28%
Legacy Assets	£120.78m	2.12%

Cash not included

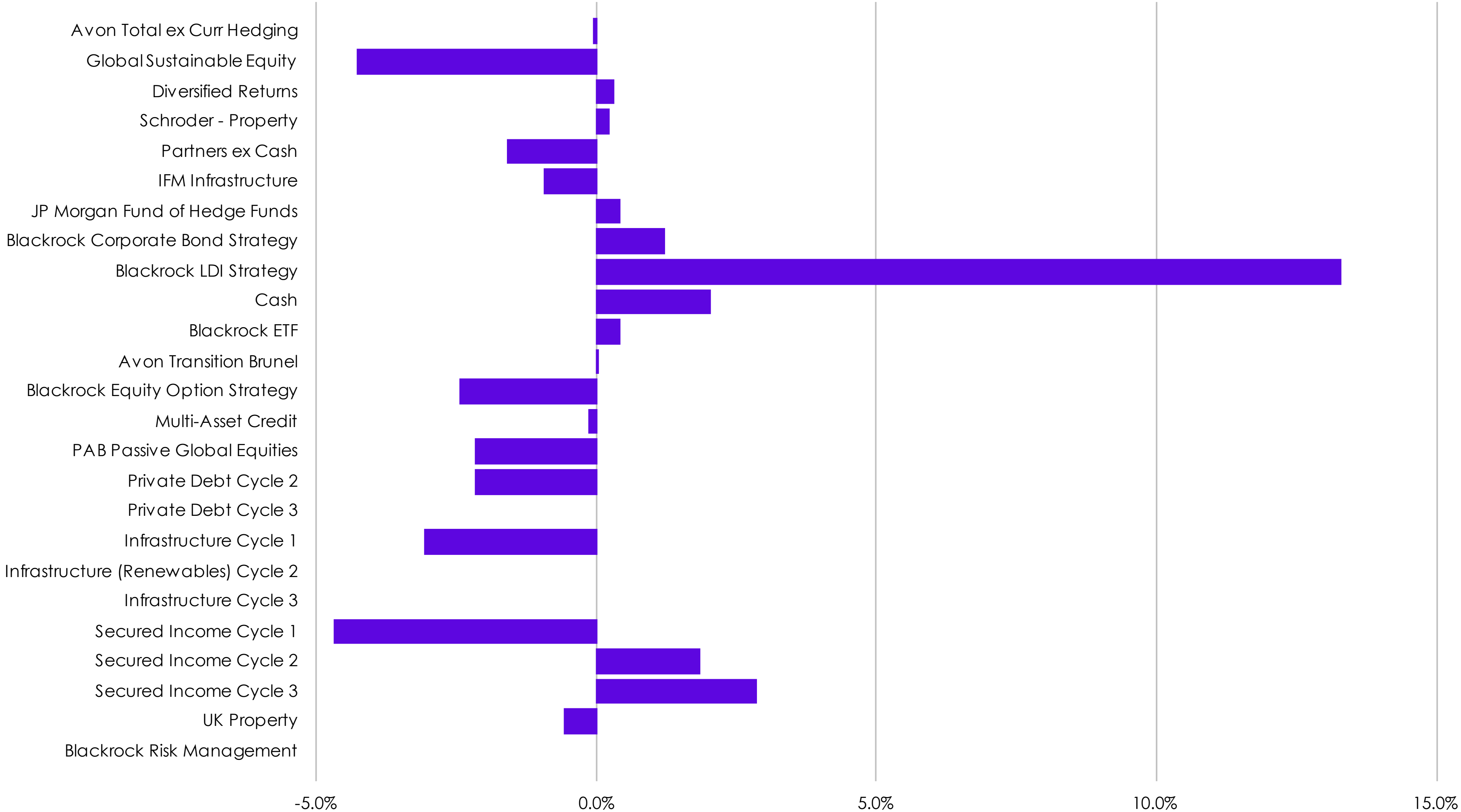
Overview of assets

Top 10 Equity Holdings at Pension Fund

ISIN	Security Name	Sector	Sub-sector	Country	Market Value (£)	% of Pension fund	ESG Score
US5949181045	MICROSOFT CORP	Information Technology	Systems Software	UNITED STATES	77,674,496.63	1.36%	15.21
US0231351067	AMAZON.COM INC	Consumer Discretionary	Broadline Retail	UNITED STATES	55,809,650.47	0.98%	30.61
US57636Q1040	MASTERCARD INC - A	Financials	Transaction & Payment	UNITED STATES	37,552,972.30	0.66%	16.56
US02079K3059	ALPHABET INC-CL A	Communication Services	Interactive Media &	UNITED STATES	34,650,977.75	0.61%	24.09
US0378331005	APPLE INC	Information Technology	Technology Hardware	UNITED STATES	27,431,977.27	0.48%	17.22
US91324P1021	UNITEDHEALTH GROUP INC	Health Care	Managed Health Care	UNITED STATES	26,025,501.68	0.46%	15.30
US67066G1040	NVIDIA CORP	Information Technology	Semiconductors	UNITED STATES	25,020,294.35	0.44%	13.45
DK0062498333	NOVO NORDISK A/S-B	Health Care	Pharmaceuticals	DENMARK	23,595,347.99	0.41%	23.06
US92826C8394	VISA INC-CLASS A SHARES	Financials	Transaction & Payment	UNITED STATES	22,441,429.37	0.39%	16.44
US88160R1014	TESLA INC	Consumer Discretionary	Automobile Manufacturers	UNITED STATES	21,924,871.09	0.38%	25.23

Table excludes cash and legacy assets. This is an estimated aggregate position using Brunel Portfolios.

Strategic asset allocation



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	**5,680,960**	**100.0%**	**100.00%**	**-0.0%**	**8.0%**	**8.0%**
Global Sustainable Equity	610,460	10.7%	15.00%	-4.3%	8.0%	0.9%
Diversified Returns	357,917	6.3%	6.00%	0.3%	3.2%	0.2%
Schroder - Property	13,263	0.2%	-	0.2%	4.1%	0.0%
Partners ex Cash	122,626	2.2%	3.75%	-1.6%	-7.7%	-0.2%
IFM Infrastructure	230,754	4.1%	5.00%	-0.9%	2.4%	0.1%
JP Morgan Fund of Hedge Funds	23,247	0.4%	-	0.4%	-3.8%	-0.0%
Blackrock Corporate Bond Strategy	183,069	3.2%	2.00%	1.2%	10.7%	0.3%
Blackrock LDI Strategy	1,435,670	25.3%	12.00%	13.3%	18.4%	4.2%
Cash	115,315	2.0%	-	2.0%	0.6%	0.0%
Blackrock ETF	23,222	0.4%	-	0.4%	6.4%	0.1%
Avon Transition Brunel	5	0.0%	-	0.0%	-0.1%	-
Blackrock Equity Option Strategy	-138,851	-2.4%	-	-2.4%	-38.7%	-0.8%
Multi-Asset Credit	333,224	5.9%	6.00%	-0.1%	5.4%	0.3%
PAB Passive Global Equities	445,076	7.8%	10.00%	-2.2%	6.8%	0.6%
Private Debt Cycle 2	161,464	2.8%	5.00%	-2.2%	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	36,266	0.6%	0.64%	-	N/M	N/M
Infrastructure Cycle 1	109,393	1.9%	5.00%	-3.1%	N/M	N/M
Infrastructure (Renewables) Cycle 2	77,554	1.4%	1.36%	-	N/M	N/M
Infrastructure Cycle 3	12,509	0.2%	0.22%	-	N/M	N/M
Secured Income Cycle 1	303,032	5.3%	10.00%	-4.7%	N/M	N/M
Secured Income Cycle 2	104,171	1.8%	-	1.8%	N/M	N/M
Secured Income Cycle 3	161,953	2.9%	-	2.9%	N/M	N/M
UK Property	180,117	3.2%	3.75%	-0.6%	N/M	N/M
Blackrock Risk Management	1,549,460	27.2%	27.17%	-	22.4%	5.3%

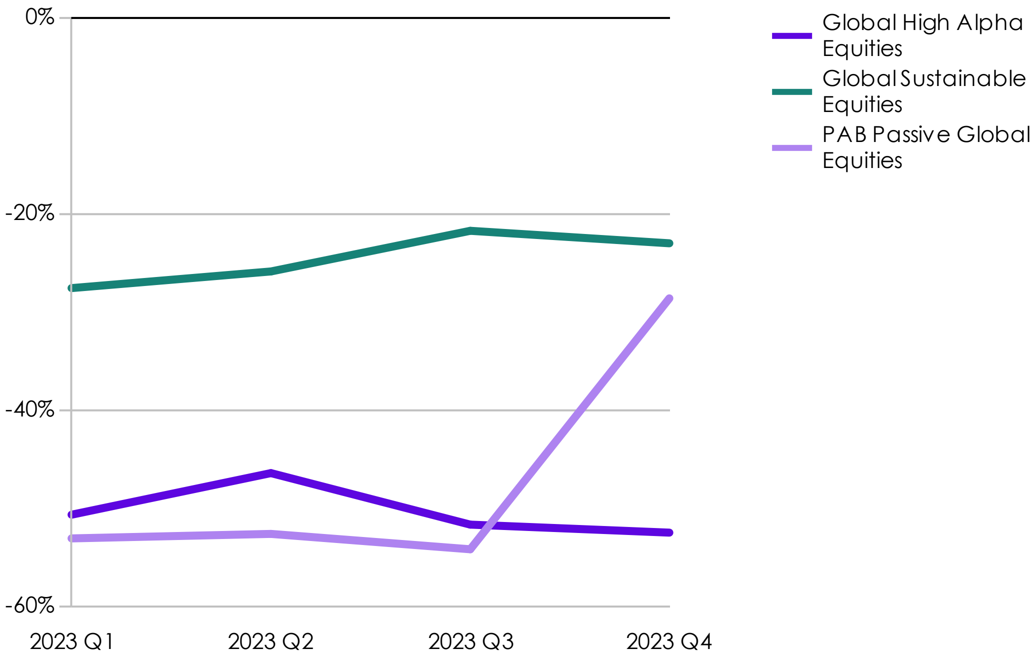
Private Markets 3 month performance is not material.

Stewardship and climate metrics

Portfolio	WACI		Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	2023 Q3	2023 Q4	2023 Q3	2023 Q4	2023 Q3	2023 Q4
Global High Alpha Equities	**79**	**78**	**1.4**	**1.6**	**2.9**	**2.5**
MSCI World*	163	164	3.8	4.9	9.2	8.2
Global Sustainable Equities	**149**	**155**	**1.9**	**2.2**	**5.2**	**4.8**
MSCI ACWI*	191	201	3.8	4.9	9.2	8.3
PAB Passive Global Equities	**76**	**120**	**0.7**	**1.4**	**3.4**	**3.6**
FTSE Dev World TR UKPD*	167	168	3.7	4.7	9.5	8.5

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

Weighted Average Carbon Intensity relative to benchmark



Stewardship reporting links

Engagement records
www.brunelpensionpartnership.org/stewardship/engagement-records/
Holdings records
www.brunelpensionpartnership.org/stewardship/holdings-records/
Voting records
www.brunelpensionpartnership.org/stewardship/voting-records/

PAB & CTB Passive Global Equities

Please note that both the WACI & Extractive Exposure figures for these two portfolios show a significant increase quarter on quarter. We are liaising with State Street to understand the precise reasons behind the increase.

PAB and CTB both target a 7% annual reduction in WACI (EVIC based) post rebalancing. Data from FTSE indicate that both portfolios met this target after the last rebalance in October 2023. We would note that State Street use a different methodology for WACI (revenue based).

Risk and return summary

Brunel portfolio performance - 3 year

	Annualised return	Risk (standard deviation)	Benchmark return	Benchmark standard deviation
Equities				
Global High Alpha Equities	7.3%	13.2%	10.3%	11.7%
Global Sustainable Equities	3.6%	14.4%	8.7%	11.1%
Other				
Diversifying Returns Fund	3.0%	4.3%	5.1%	0.6%
Private markets (incl. property)				
Infrastructure Cycle 1	6.9%	5.1%	6.6%	2.1%
Infrastructure (Renewables) Cycle 2	9.0%	8.7%	6.6%	2.1%
Secured Income Cycle 1	-1.6%	5.3%	6.6%	2.1%

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Risk and return summary

Legacy manager performance - 3 year

	Annualised return	Risk (standard deviation)	Benchmark return	Benchmark standard deviation
Avon Total ex Curr Hedging	3.6%	7.7%	7.7%	6.6%
Avon Total ex Hedging ex LDI	3.2%	6.0%	7.7%	6.6%
Blackrock ETF	3.0%	8.7%	0.0%	-
Cash	3.2%	2.5%	2.0%	0.6%
General Cash	2.9%	-	-	-
IFM Infrastructure	11.3%	5.3%	7.2%	0.6%
JP Morgan Fund of Hedge Funds	7.9%	9.7%	6.1%	0.6%
Partners ex Cash	-5.7%	6.9%	9.3%	1.0%
Record Equitisation	8.6%	10.1%	8.3%	10.0%
Schroder - Property	5.4%	6.0%	2.2%	10.8%
Schroder Equity	-22.0%	34.6%	8.7%	11.1%
TT International - UK Equities	2.5%	4.4%	8.6%	10.8%
Avon Pension Fund	3.3%	8.5%	7.7%	6.6%

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 (30.02%)			**1,711.63**									
Global High Alpha Equities	MSCI World	+2-3%	656.10	6.2%	-0.6%	17.4%	-	7.3%	-3.0%	12.2%	1.3%	15 Nov 2019
Global Sustainable Equities	MSCI ACWI	+2%	610.46	8.0%	1.6%	9.3%	-6.6%	3.6%	-5.1%	6.1%	-4.7%	30 Sep 2020
PAB Passive Global Equities	FTSE Dev World PAB	Match	445.08	6.8%	-	20.3%	-	-	-	5.9%	-0.1%	29 Oct 2021
Fixed income (5.84%)			**333.22**									
Multi-Asset Credit	SONIA +4%	0% to +1.0%	333.22	5.4%	3.1%	12.4%	3.6%	-	-	1.6%	-4.9%	02 Jun 2021
Private markets (incl. property) (20.11%)			**1,146.46**									
Private Debt Cycle 2	SONIA	+4%	161.46	N/M	N/M	8.8%	-	-	-	9.6%	2.8%	17 Sep 2021
Private Debt Cycle 3	SONIA	+4%	36.27	N/M	N/M	13.4%	4.6%	-	-	12.6%	3.9%	20 Dec 2022
Infrastructure Cycle 1	CPI	+4%	109.39	N/M	N/M	2.2%	-1.8%	6.9%	0.3%	6.8%	2.4%	02 Jan 2019
Infrastructure (Renewables) Cycle 2	CPI	+4%	77.55	N/M	N/M	1.6%	-2.3%	9.0%	2.4%	8.8%	2.7%	12 Oct 2020
Infrastructure Cycle 3	n/a - absolute return target	net 8% IRR	12.51	N/M	N/M	-5.2%	-9.1%	-	-	-5.9%	-11.4%	13 Oct 2022
Secured Income Cycle 1	CPI	+2%	303.03	N/M	N/M	-4.1%	-8.0%	-1.6%	-8.2%	-1.3%	-5.6%	15 Jan 2019
Secured Income Cycle 2	CPI	+2%	104.17	N/M	N/M	-2.1%	-6.1%	-	-	-0.9%	-7.9%	01 Mar 2021
Secured Income Cycle 3	CPI	+2%	161.95	N/M	N/M	-	-	-	-	-	-0.7%	01 Jun 2023
UK Property	MSCI/AREF UK	+0.5%	180.12	N/M	N/M	-2.0%	-0.4%	-	-	2.3%	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 (6.28%)			**357.92**									
Diversifying Returns Fund	SONIA +3%	0% to +2.0%	357.92	3.2%	1.1%	6.5%	-1.3%	3.0%	-2.0%	3.1%	-1.6%	27 Jul 2020
Total Brunel assets (excl. cash) (62.25%)			**3,549.23**									

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

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Portfolio overview

Legacy assets

Portfolio	AUM (GBPm)	Perf. 3 month	Excess 3 month	Perf. 1 year	Excess 1 year	Perf. 3 year	Excess 3 year	Perf. SII*	Excess SII*	Initial investment
Equities (0.01%)			**0.46**							
TT International - UK Equities	0.32	2.1%	-1.2%	1.2%	-6.7%	2.5%	-6.1%	4.1%	-0.9%	01 Jul 2007
Schroder Equity	0.14	1.7%	-4.7%	0.8%	-15.1%	-22.0%	-30.7%	1.0%	-9.7%	01 Apr 2011
Private markets (incl. property) (6.43%)			**366.64**							
Schroder - Property	13.26	4.1%	5.2%	-0.2%	1.4%	5.4%	3.2%	8.0%	2.3%	01 Jan 2009
Partners ex Cash	122.63	-7.7%	-11.0%	-22.3%	-35.5%	-5.7%	-14.9%	3.2%	-4.7%	01 Sep 2009
IFM Infrastructure	230.75	2.4%	-0.1%	8.2%	-1.7%	11.3%	4.1%	11.9%	6.2%	01 Apr 2016
Other (4.14%)			**236.10**							
Record Currency	20.94	-	-	-	-	-	-	-	-	01 Mar 2016
Record Equitisation	53.37	2.1%	4.0%	4.6%	1.5%	8.6%	0.3%	5.5%	-0.1%	01 Apr 2012
JP Morgan Fund of Hedge Funds	23.25	-3.8%	-6.1%	5.9%	-2.9%	7.9%	1.8%	7.5%	2.9%	01 Jul 2015
Cash	115.31	0.6%	-0.7%	2.5%	-2.1%	3.2%	1.3%	2.9%	1.7%	01 Dec 2017
Blackrock ETF	23.22	6.4%	6.4%	6.6%	6.6%	3.0%	3.0%	5.1%	5.1%	08 Mar 2019
Avon Transition Brunel	0.00	-0.1%	-0.1%	-82.9%	-82.9%	-	-	-62.1%	-	01 Jan 2022
Total legacy assets (excl. cash) (10.58%)	**603.20**									

*Since initial investment

Chief Investment Officer commentary

“When the facts change, I change my mind, what do you do?” This quote, often attributed to Keynes or Churchill, would be very apt for the final quarter of 2023, in which almost every asset class rose in value, reversing the malaise of the previous quarter.

Global equities rallied, with the US market leading the way with a rise of more than 11% in local currency terms. The S&P 500 finished the calendar year up over 26%, almost touching all-time highs. Whilst over 80% of this was attributable to the “magnificent seven”, the rally broadened out in the final quarter. Emerging markets also made progress, but the broad index was held back again by the performance of China, as continuing concern around the property sector and further government intervention in the tech sector weighed on share prices. Elsewhere, the UK stock market posted a positive return albeit lower than other regional markets as the strength of sterling versus the US dollar dampened the prospects of large cap multinationals. This did allow small and mid-cap stocks to rise, and thus delivered active managers the chance to flourish. The relative strength of the pound also meant that unhedged overseas asset class returns were significantly lower than currency-hedged returns.

The main “change in facts” that drove markets higher was the almost synchronised fall in global inflation, at a pace faster than expected. Previously, the market had galvanised around the view that the hiking cycle was over, but that rates would be higher for longer. When US CPI fell from 3.7% in September to 3.1% in November, and Eurozone inflation also fell to 2.4% (versus 10.4% a year earlier), the market “pivoted” and interest rate cuts for 2024 were priced back in. The core measure of the Personal Consumption Expenditures deflator, possibly the most influential data series for the Fed, weighed in at exactly 2% (the central bank’s target) for the third quarter. As such, it became very plausible to claim that the inflation dragon has indeed been slain. This view gained further credence when Fed chair Jerome Powell indicated that the central bank was aware of the risk of keeping rates at restrictive levels for too long. Minutes from their latest policy meeting showed that members expect rates to end next year at 4.5%-4.75%, down from the current 5.25%-5.5% range.

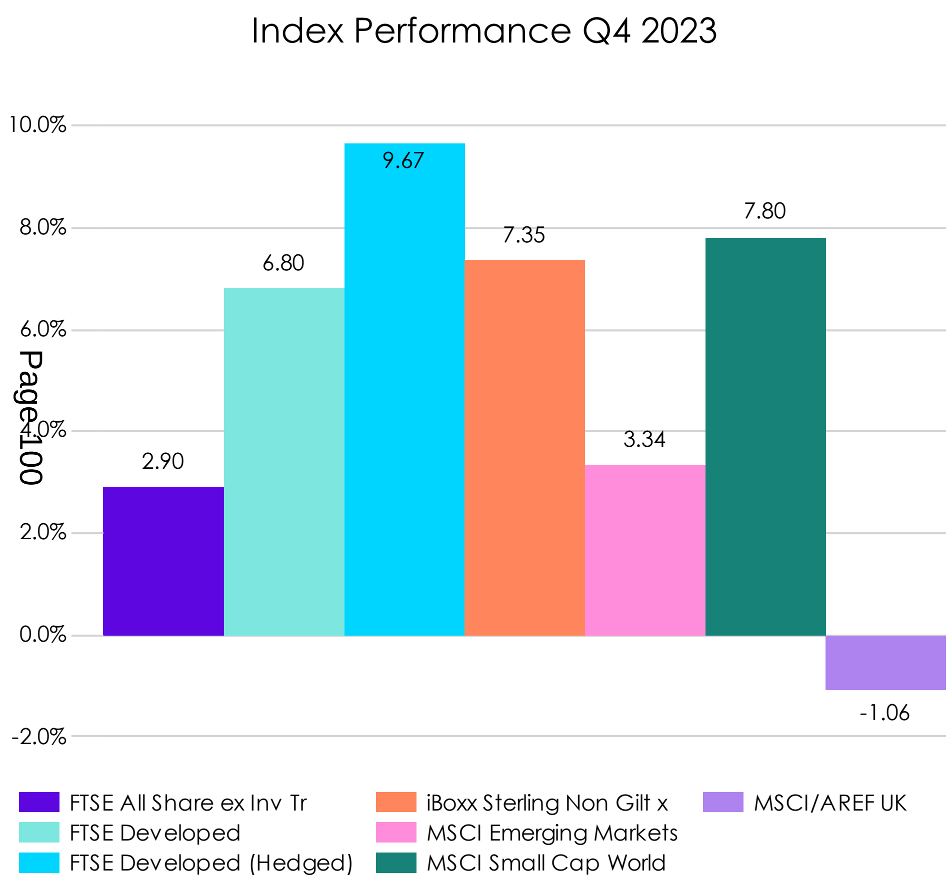
Unsurprisingly government bonds also rose in value, posting their best quarterly performance in 20 years, as the change in Fed forecasts drove all bond markets higher – even if other central banks expressed more caution. The rally in duration and risk assets inevitably meant that corporate bonds did well, as financial conditions eased. Should this trend continue, it lowers the probability of a deep recession and thus default risk. Sub-Investment Grade bonds, performed strongly, capping a year of double-digit returns for the asset class. However, it has left spreads (the compensation an investor receives for default risk) at very low levels, reducing the protection investors have if a recession has in fact been delayed rather than cancelled as increasingly the market is pricing.

In private markets, falling interest rates will also help the forward valuations of assets. This is most directly evident in infrastructure and real estate, where values are much more closely tied to discount rates – lower rates being better for the net present value (NPV) of assets, but also through potentially lowered funding costs. Contra to popular opinion, it is in the often-opaque private markets that we have seen the signs of stress from higher rates building up. Specifically, we have seen interest rate coverage come down sharply in private debt, where the floating rate nature of the loan book means that they have been affected more quickly than their public market counterparts. This has led to private equity sponsors using varying techniques to preserve cash or even shore up businesses with “equity cures”. 2023 also saw a log jam created by a muted IPO market, which led to realisations being delayed. (This is not an issue in the Brunel funds, given the relative infancy of the programme). Some commentators expect this trend to reverse in 2024 because of the perception that the backdrop is improving, but it remains a watchpoint, given the increasing importance of private investments in the financial system.

Only commodities declined in the final quarter, driven by falling prices in the agriculture and energy sectors. The production cuts that had driven energy prices up 25% in Q3 were undermined by a failure by various actors to comply with the agreed supply reduction.

Looking back over 2023, it is clear that the year wrong-footed many commentators, given the predicted recession never materialised. Although gains in asset prices were not surprising given the fall in values in 2022, the strength of the rally surpassed most investors’ expectations. That said, as we have highlighted before, the market was very narrowly driven by a few large stocks – gains were not evenly distributed. The question for 2024 is: has inflation been tamed and a recession successfully avoided? To my mind, there isn’t yet a conclusive answer. However, the probability of a successful soft economic landing has increased, due both to the very slow deflation of consumer spending, which has supported markets, and the recent easing of financial conditions. However, the market has very much priced this scenario in, and so any disappointment will be keenly felt in asset values.

Chief Investment Officer commentary



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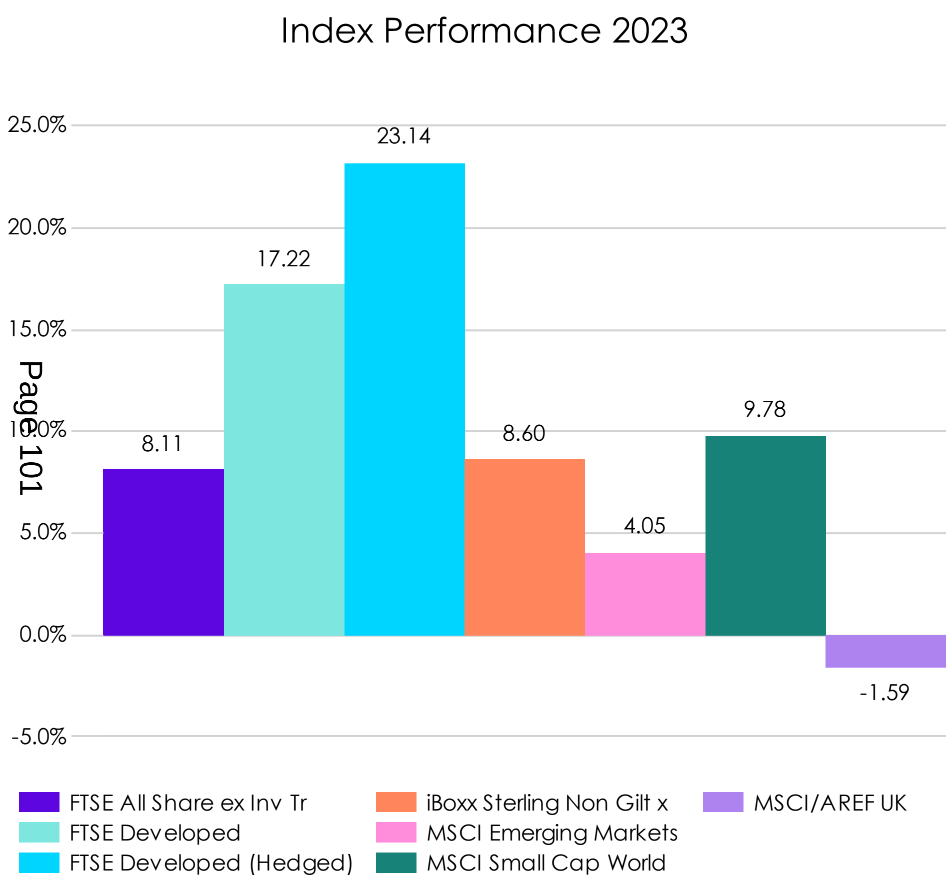
Source: State Street

Chief Investment Officer commentary



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Source: State Street

Global High Alpha Equities

Launch date
6 December 2019

Investment strategy & key drivers
High conviction, unconstrained global equity portfolio

Liquidity
Managed

Benchmark
MSCI World

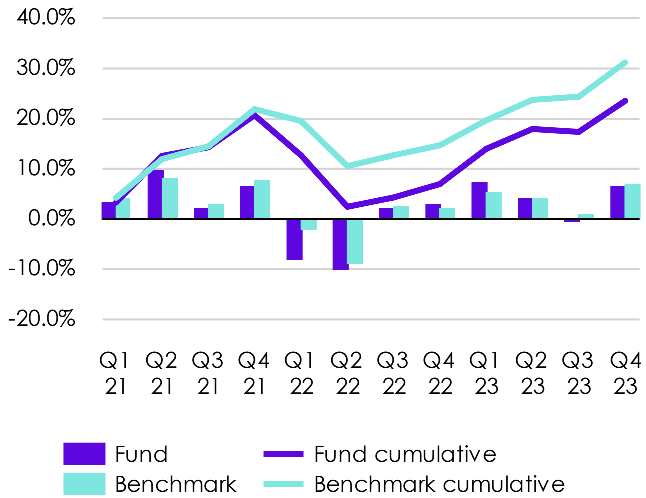
Outperformance target
+2-3%

Total fund value
£6148m

Risk profile
High

Avon's Holding:
GBP656m

Rolling 3yr performance



Performance to quarter end

Performance	3 month	1 year	3 year*	Since inception*
Fund	6.2	17.5	7.4	12.8
Benchmark	6.8	17.4	10.3	11.5
Excess	-0.6	0.1	-3.0	1.3

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

Performance commentary

Global developed equities (as proxied by the MSCI World index) returned 6.8% in GBP terms over the quarter. The market rally, which took place in November and December, reflected easing inflation and rising expectations of a potential end to the "higher-for-longer" monetary policy regime. Index returns were again driven by large IT-related names. Five of the top 10 contributing companies came from the 'Magnificent 7' (Microsoft, Apple, Amazon, NVidia and Meta), and another four were semiconductor names (Advanced Micro Devices, Broadcom, ASML and Intel). Taken together, these names contributed 2.3% to the index return. Style characteristics showed a reversal versus last quarter, as Growth outperformed Value.

The portfolio returned 6.2% during the period, underperforming the benchmark by 0.6%.

Sector attribution showed a small positive impact, which was largely a result of the underweight to Energy, the weakest-performing sector. Stock selection exerted a negative impact on relative performance, which was weakest in the Industrials sector, largely due to an overweight holding in Alstom (the French train manufacturer). It returned -46%, after the company downgraded cashflow guidance due to delays to both deliveries and new orders. Stock selection was strong in the IT sector, where the largest positive contributors were overweight holdings in Microsoft and two semiconductor names, ASML and TSMC. (These three returned 14%, 22% and 15% respectively. TSMC is a large Taiwanese semiconductor company that sits outside the MSCI World index).

Four of the five underlying managers underperformed the index this quarter. Baillie Gifford's strong outperformance was the outlier, driven by positive selection in the Financials and IT sectors. Baillie Gifford benefited from the semiconductor names held in its portfolio as well as from some companies recovering from negative returns last quarter (among which Adyen was the most notable - down 55% last quarter, but up 65% this quarter).

From inception to quarter-end, the portfolio outperformed the benchmark by 1.3% p.a.

Global High Alpha Equities

Top 5 holdings

	Weight %	B'mark weight %	Client value (GBP)*
MICROSOFT CORP	**6.11**	**4.41**	**40,066,838**
AMAZON.COM INC	**3.94**	**2.34**	**25,859,613**
MASTERCARD INC	**2.78**	**0.60**	**18,232,305**
ALPHABET INC	**2.69**	**2.60**	**17,630,994**
UNITEDHEALTH GROUP INC	**2.24**	**0.81**	**14,708,022**

*Estimated client value

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Top 5 active overweights

	Weight %	Benchmark weight %
MASTERCARD INC	**2.78**	**0.60**
TAIWAN SEMICONDUCTOR	**1.75**	**-**
MICROSOFT CORP	**6.11**	**4.41**
AMAZON.COM INC	**3.94**	**2.34**
UNITEDHEALTH GROUP INC	**2.24**	**0.81**

Top 5 active underweights

	Weight %	Benchmark weight %
APPLE INC	**0.89**	**5.00**
META PLATFORMS INC	**-**	**1.31**
BROADCOM INC	**-**	**0.82**
JPMORGAN CHASE & CO	**-**	**0.82**
BERKSHIRE HATHAWAY INC	**-**	**0.77**

Largest contributors to ESG risk

	ESG risk score* Q3 2023	Q4 2023
AMAZON.COM INC	**30.61**	**30.61**
MICROSOFT CORP	**15.06**	**15.21**
ALPHABET INC-CL A	**24.04**	**24.09**
MASTERCARD INC - A	**17.07**	**16.56**
NESTLE SA-REG	**27.25**	**27.01**

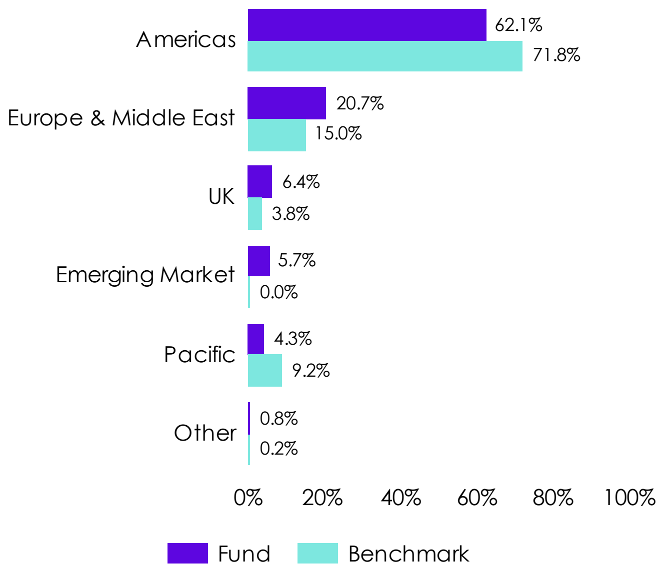
*Source: Sustainanalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

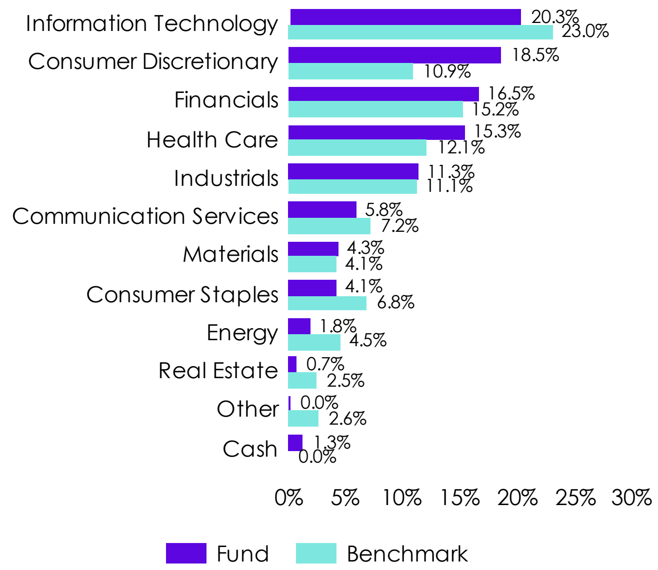
Portfolio	WACI 2023 Q3	WACI 2023 Q4	Total Extractive Exposure[1] 2023 Q3	Total Extractive Exposure[1] 2023 Q4	Extractive Industries (VOH)[2] 2023 Q3	Extractive Industries (VOH)[2] 2023 Q4
Global High Alpha	**79**	**78**	1.39	1.55	2.92	2.52
MSCI World*	**163**	**164**	3.81	4.87	9.24	8.24

*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

Launch date
20 October 2020

Investment strategy & key drivers
Global equity exposure concentrating on ESG factors

Liquidity
Managed

Benchmark
MSCI ACWI

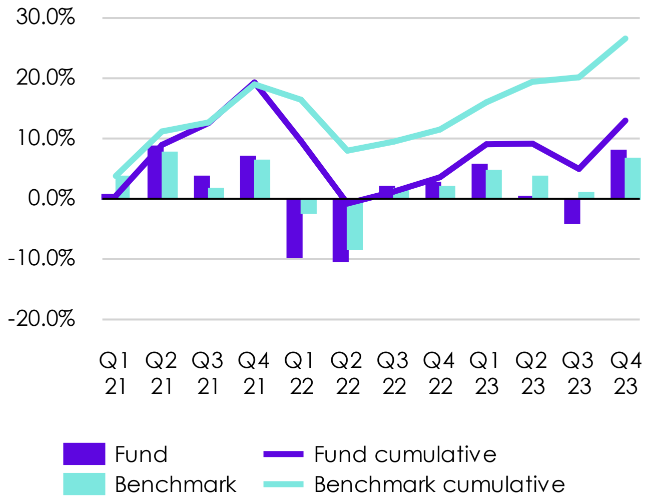
Outperformance target
+2%

Total fund value
£3470m

Risk profile
High

Avon's Holding:
GBP610m

Rolling 3yr performance



Performance to quarter end

Performance	3 month	1 year	3 year*	Since inception*
Fund	8.0	9.3	3.6	5.6
Benchmark	6.4	15.9	8.7	10.3
Excess	1.6	-6.6	-5.1	-4.8

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

Performance commentary

The portfolio returned 8.0% over the quarter on a net basis, a relative outperformance of 1.6% against the MSCI ACWI benchmark. Ownership, Jupiter and Mirova all outperformed, whilst RBC were inline, and Nordea returned 5.3%. Over the 1-year period, the fund returned 9.3%, underperforming the MSCI ACWI by 6.6%. All underperformance came through in Q2 and Q3. In Q2, the market was heavily concentrated while, in Q3, the environment favoured Energy stocks. However, the shift discussed in the CIO commentary meant Q4 provided an environment in which the Global Sustainable Equity Fund could significantly outperform the index.

The synchronised fall in global inflation led the market to anticipate a number of rate cuts throughout 2024; this "market pivot" supported increasing equity valuations in Q4.

The portfolio has greater exposure to the Quality/Growth styles and thus future cash flows account for a greater weighting that in the broader market. When interest rates are expected to decline, the present value of these cash flows increases, and company valuations also increase. The portfolio added relative alpha through its positioning in growth-orientated sectors and sub-sectors, such as Software, Health Care Equipment and Financial Services, but also through avoiding Value-focused market sectors such as Oil and Gas, which fell 7% over the quarter.

As discussed last quarter, we have also undertaken a lot of work with the managers to understand the fundamental quality of the businesses we are invested in. We look at metrics such as quality of leverage and stability of margins.

Whilst the interest rate decline may provide a short-term technical uplift in valuations, we hope the quality of the businesses will continue to provide alpha over the long term, when interest rate stability returns to the market.

Whilst we are disappointed that the portfolio underperformed over the year, we take comfort that the majority of sustainable managers also failed to outperform the MSCI ACWI over this time period. Compared to the Sustainable peer group, the MSCI ACWI would have finished in the top quartile and those managers that did outperform the index had notable overweight positions in 'Magnificent 7' stocks, which, from our perspective, are not all aligned to sustainability.

Global Sustainable Equities

Top 5 holdings

	Weight %	B'mark weight %	Client value (GBP)*
MASTERCARD INC	**2.69**	**0.53**	**16,405,369**
INTUIT INC	**2.45**	**0.26**	**14,935,016**
MICROSOFT CORP	**2.39**	**3.95**	**14,605,002**
ANSYS INC	**2.31**	**0.05**	**14,123,044**
ADOBE INC	**2.13**	**0.40**	**13,028,002**

*Estimated client value

Top 5 active overweights

	Weight %	Benchmark weight %
ANSYS INC	**2.31**	**0.05**
INTUIT INC	**2.45**	**0.26**
MASTERCARD INC	**2.69**	**0.53**
ADOBE INC	**2.13**	**0.40**
WASTE MANAGEMENT INC	**1.67**	**0.11**

Top 5 active underweights

	Weight %	Benchmark weight %
APPLE INC	**-**	**4.47**
MICROSOFT CORP	**2.39**	**3.95**
ALPHABET INC	**1.02**	**2.33**
META PLATFORMS INC	**-**	**1.17**
TESLA INC	**-**	**1.06**

Largest contributors to ESG risk

	ESG risk score* Q3 2023	ESG risk score* Q4 2023
MASTERCARD INC - A	**17.07**	**16.56**
INTUIT INC	**17.95**	**17.95**
ANSYS INC	**15.89**	**15.89**
MICROSOFT CORP	**15.06**	**15.21**
AMAZON.COM INC	**30.61**	**30.61**

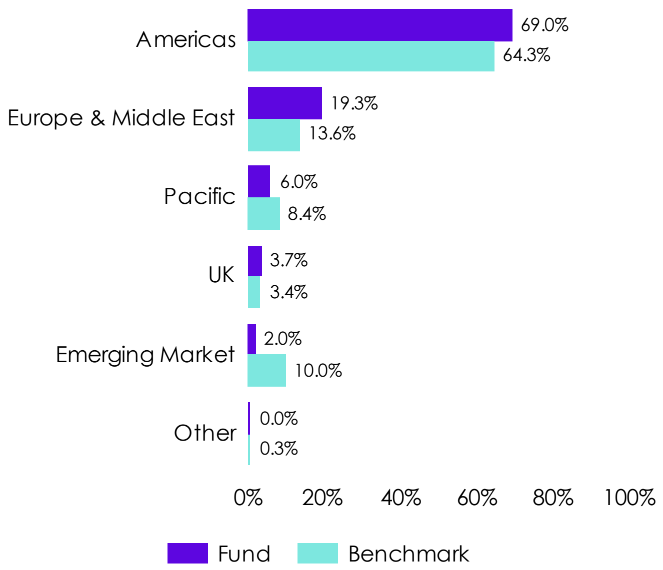
*Source: Sustainalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

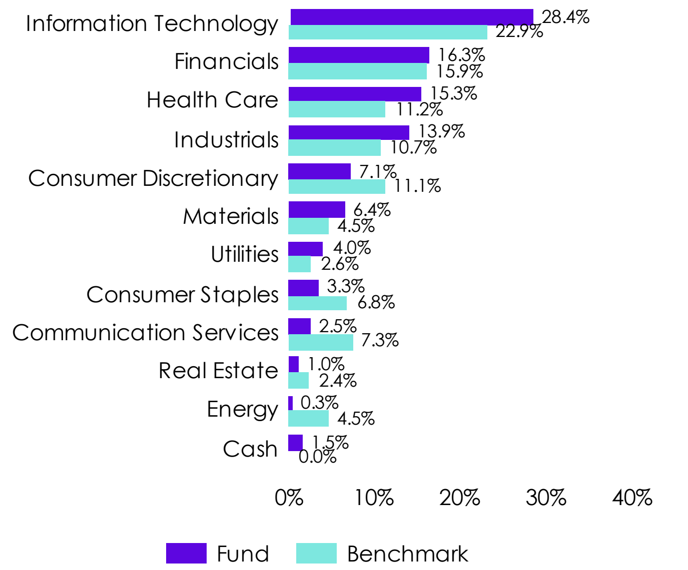
Portfolio	WACI 2023 Q3	WACI 2023 Q4	Total Extractive Exposure[1] 2023 Q3	Total Extractive Exposure[1] 2023 Q4	Extractive Industries (VOH)[2] 2023 Q3	Extractive Industries (VOH)[2] 2023 Q4
Global Sustainable	**149**	**155**	1.90	2.21	5.25	4.83
MSCI ACWI*	**191**	**201**	3.81	4.89	9.16	8.25

*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

Launch date

12 August 2020

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

£1,008m

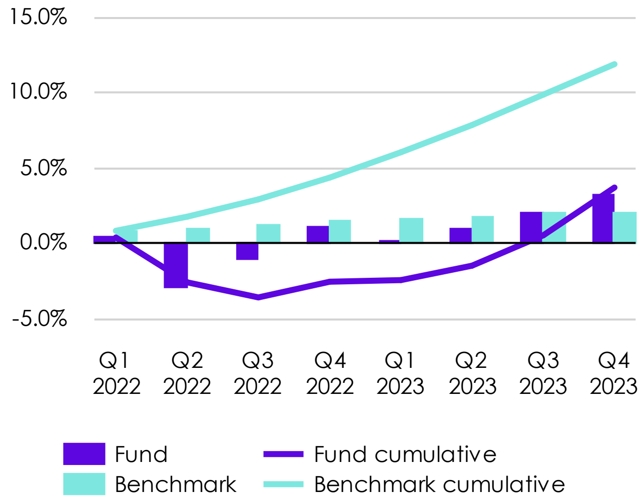
Risk profile

Moderate

Avon's Holding:

GBP358m

Rolling 2yr performance



Performance to quarter end

Performance	3 month	1 year	3 year*	Since inception*
Fund	3.2	6.4	3.0	3.3
Benchmark	2.0	7.8	5.1	4.9
Excess	1.1	-1.4	-2.1	-1.6

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

Performance commentary

The Diversifying Returns Fund returned 3.2% over the fourth quarter of 2023. The benchmark return was 2.0%.

The sterling-hedged 50/50 equity/bond index we monitor returned 7.6% over the quarter, highlighting the strong returns generated by traditional asset classes. Since portfolio inception, the equity/bond index had returned 3.0% at quarter-end and the fund had returned 3.3% (on an annualised basis).

Whilst the fund fell behind the cash-plus benchmark, the latter remains hard to beat in an environment where interest rates have risen aggressively. Moreover, the fund did recover from the drawdown that started in 2022. Since January 2022, equity markets remain 7% down on a sterling-hedged basis and, whilst we expect equities to outperform the DRF portfolio over the long run, the faster drawdown recovery of the DRF portfolio highlights the advantages of a defensive strategy in challenging conditions.

The portfolio was able to capture the positive returns from equity and bond markets through the holdings in Lombard Odier and Fulcrum. Fulcrum further added positive returns through long duration positioning and volatility carry in the discretionary macro section of their fund. Over the quarter, Lombard Odier returned 4.6% and Fulcrum returned 2.2%.

The fund also benefitted from exposure to alternative premia. UBS had a strong quarter, returning 6.0%. The Norwegian Kroner and Japanese Yen appreciated - both are large positions in the UBS funds. Despite the Bank of Japan maintaining loose monetary policy, the Japanese yen was a beneficiary of dovish comments from other central banks, as markets priced the possibility of a fall in the rate differential between Japan and the rest of the world, thereby driving the yen to extreme levels of weakness. The Norwegian kroner was well supported as the Norges Bank delivered a surprise interest rate hike, citing continued high inflation.

JP Morgan's returns were more muted, following a very strong few years' performance, with the fund returning 0.3% over the quarter. JPM made small positive returns from a number of the alternative premia signals it targets. The sector-neutral, equity Value signal, credit carry and cash provided the strongest returns. However, these were largely offset by relative Value momentum in equities, as the Federal Reserve interest rate commentary led to a an equity market shift.

Multi-Asset Credit

Launch date
7 July 2021

Investment strategy & key drivers
Exposure to higher yield bonds with moderate credit risk

Liquidity
Managed

Benchmark
SONIA +4%

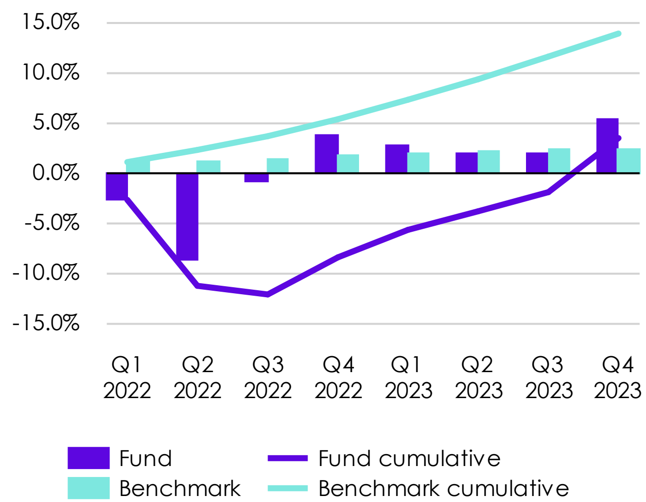
Outperformance target
0% to +1.0%

Total fund value
£2895m

Risk profile
Moderate

Avon's Holding:
GBP333m

Rolling 2yr performance



Performance to quarter end

Performance	3 month	1 year	3 year*	Since inception*
Fund	5.4	12.4	-	1.5
Benchmark	2.3	8.8	-	6.5
Excess	3.1	3.6	-	-5.0

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

Performance commentary

Sub-investment grade credit markets finished the year in strong fashion, resulting in double-digit gains for 2023. As mentioned in the CIO commentary, the market narrative on interest rates changed from 'higher for longer' to 'pivot', following better-than-expected inflation data in the US. The UK also saw interest rate expectations fall.

US and UK yields fell right along the curve, but more so at the policy-sensitive end. 2-year yields for the US and UK ended the year at 4.25% and 3.96% respectively. Credit spreads also fell across the quarter, as hopes of a soft landing grew. High Yield option-adjusted spreads – proxied by the Bloomberg High Yield Index – ended the period at +423 basis points (bps), a 58bps decrease from Q3 2023. The backdrop of declining interest rate expectations and spread compression resulted in all asset classes making a positive return over the quarter. Fixed rate assets appreciated far more than their floating counterparts. The best-performing asset classes were Contingent Capital (CoCos) and Emerging Market Sovereigns, which returned +11% and +10.2%, respectively, in local currency terms.

The portfolio returned +5.4% over the quarter, which was comfortably ahead of the primary benchmark (SONIA +4%), which returned +2.3%. The portfolio was in line with the secondary composite benchmark, which is evenly split between the Bloomberg Global High Yield and the Morningstar LSTA US Leveraged Loan Index. Neuberger Berman, CQS and Oaktree returned +5.9%, +4.7% and +4.8% respectively. Neuberger Berman posted a stronger return due to its rate-sensitive allocation to Investment Grade Corporates - it took profit on its allocation later in the quarter.

Performance for the calendar year was an impressive +12.4%, materially ahead of the primary cash benchmark. Since-inception performance is now +1.5%, which lags the primary benchmark by 5.0%. The composite benchmark has returned approximately +1.8% over the same period.

All three managers maintain a cautiously optimistic outlook. All-in yields have fallen to 7.9% for the Multi-Asset Credit portfolio, with a duration of 2.7 years. Investors should remain wary of the reduced amount of compensation for credit risk. Our managers remain heavily focused on the quality of their issuers.

PAB Passive Global Equities

Launch date

1 November 2021

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

£2,153m

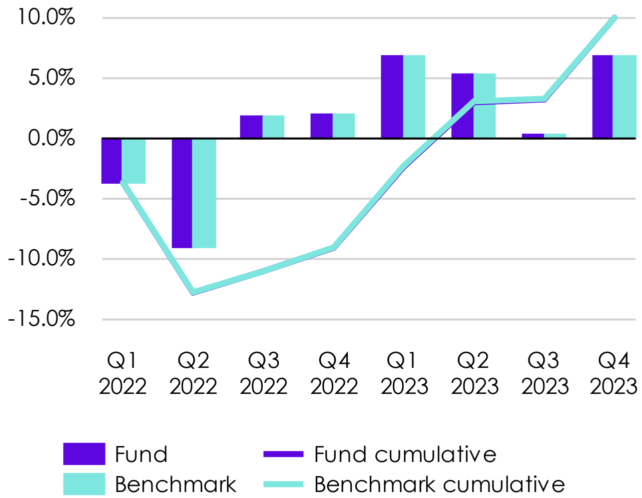
Risk profile

High

Avon's Holding:

GBP445m

Rolling 2yr performance



Performance to quarter end

Performance	3 month	1 year	3 year*	Since inception*
Fund	6.8	20.3	-	5.9
Benchmark	6.7	20.3	-	6.0
Excess	-	-	-	-0.1

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

Performance commentary

The FTSE Developed Paris-aligned index (PAB) returned 6.7% over Q4 2023. The PAB Passive Global Equities product replicated the performance of the benchmark over the period, returning 6.8%.

The PAB's holding in Vestas Wind Systems A/S made a positive contribution to returns of 0.1%. The wind turbine manufacturer reported Q3 profits that were four times greater than analysts' consensus expectations. Vestas is held in the PAB at a larger weight than in the market cap index due to very strong Green Revenue scoring and a positive tilt on TPI Management Quality scoring.

The only Energy sector investments in the PAB are Vestas and First Solar. Not owning companies with exposure to oil benefitted performance, as oil prices fell significantly over the period.

The PAB's large positions in Microsoft, Amazon and Apple all made significant positive contributions to returns, as Growth stocks benefited from the market factored in a higher probability of interest rate cuts in 2024.

The PAB's holding in Tesla made the largest negative contribution to returns, costing 67 basis points of performance. Tesla is a significant position in the portfolio owing to its strong Green Revenue score and a positive tilt score for Scope 3 Carbon Emissions Intensity. Tesla reported increasing inventories which may put pressure on margins. However, Tesla was not alone in recording weak performance. The Autos sub-sector underperformed the broader market.

An index rebalancing took place during the quarter. The portfolio decarbonisation trajectory is in line with the requirements of EU regulations for Paris-aligned benchmarks, which utilise EVIC rather than Revenue in its decarbonisation calculations.

PAB Passive Global Equities

Top 5 holdings

	Weight %	Client value (GBP)*
AMAZON.COM INC	5.19	23,115,759
MICROSOFT CORP	5.17	23,002,621
APPLE INC	4.85	21,572,682
ALPHABET INC	4.53	20,139,806
TESLA INC	4.23	18,843,122

*Estimated client value

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Largest contributors to ESG risk

	ESG risk score* Q3 2023	ESG risk score* Q4 2023
AMAZON.COM INC	30.61	30.61
TESLA INC	25.23	25.23
APPLE INC	17.22	17.22
MICROSOFT CORP	15.06	15.21
ALPHABET INC-CL A	24.04	24.09

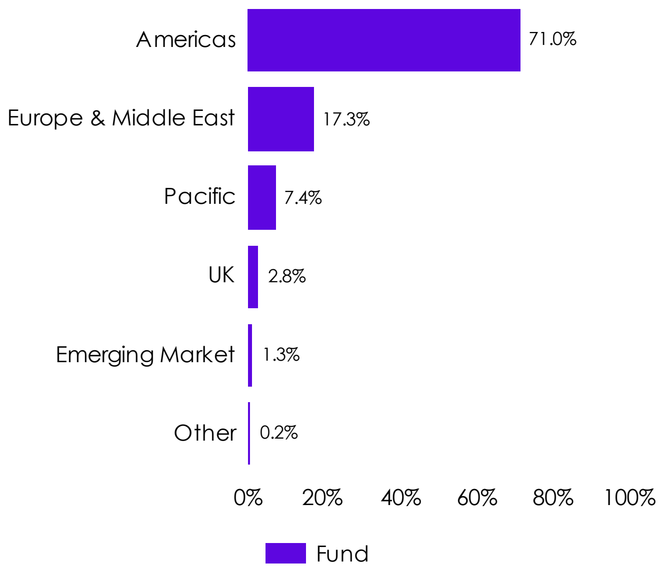
*Source: Sustainanalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

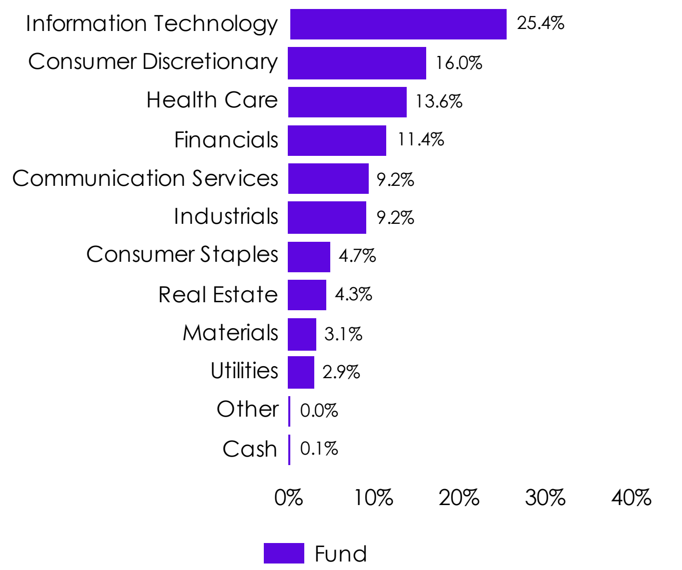
Portfolio	WACI 2023 Q3	WACI 2023 Q4	Total Extractive Exposure[1] 2023 Q3	Total Extractive Exposure[1] 2023 Q4	Extractive Industries (VOH)[2] 2023 Q3	Extractive Industries (VOH)[2] 2023 Q4
PAB Passive Global	76	120	0.72	1.39	3.39	3.57
FTSE Dev World TR	167	168	3.67	4.69	9.52	8.45

*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
£163.62m

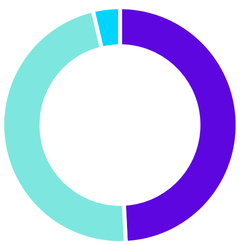
% called to date
66.78

Number of underlying funds
1

Avon's Holding:
GBP161.46m

Country

Invested in underlying investments

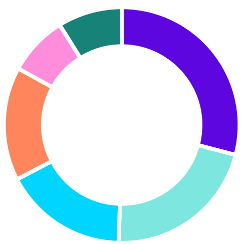


Europe	49.2%
North America	47.1%
Asia Pacific	3.7%
Other	-

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

Sector

GICs level 1



Health Care	29.1%
Information Technology	21.3%
Industrials	17.0%
Consumer Discretionary	15.6%
Financials	8.2%
Other	8.8%

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

Performance commentary

Deal activity saw a quarter-on-quarter increase, implying that's GPs are beginning to find the comfort required to transact in the current environment. Interest rate rises appear to be slowing, creating greater certainty around their future direction. Despite a rising number of deals, deal dynamics remain unchanged. GPs are continuing to fund deals with larger amounts of equity - an advantage for private debt providers who are underwriting loans into more secure and better-returning capital structures. The current environment remains attractive for debt providers that are issuing new loans. However, incumbent portfolio companies remain under pressure as interest coverage ratios are falling and watchlists are gradually growing in length. Inflationary pressure appears to be easing. However, wage inflation remains sticky in the US and UK, creating problems for companies that have a time lag on passing costs through to customers. These inflationary pressures are creating additional EBITDA margin pressure for companies exposed to wage inflation or staff shortages. Despite this, the Brunel Private Debt portfolio remains well positioned to absorb inflationary pressures due to the portfolio's bias to non-cyclical sectors (such as Technology and Business Services).

The portfolio is ~60% invested. All managers have now called investor capital and some managers are coming towards the end of their investment periods. Portfolio performance was positive across the portfolio and underlying funds over the quarter. The portfolio has one position which underwent restructuring prior to the quarter: a US dental services organization. This business had struggled to recover from some Covid-19 related issues and required additional

Portfolio summary

Market value (GBP millions)	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	TVPI	Contribution to return: 1 year	Contribution to return: since inception
161.5	8.8%	9.6%	14,668,695	3,932,912	10,735,783	-3,543,460	1.12	0.2%	0.0%

*Money weighted return. Net of all fees.

Private Debt Cycle 2

liquidity, which resulted in the provision of an equity injection into the business by the sponsor. The company's recent trading and credit metrics have improved. Both the manager and Brunel will continue to monitor the situation closely.

Pipeline

There is no fund pipeline, with the portfolio fully committed.

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
£117.74m

Amount Called
£35.57m

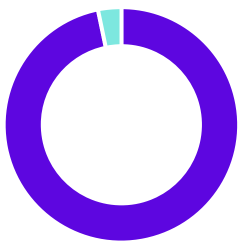
% called to date
30.21

Number of underlying funds
4

Avon's Holding:
GBP36.27m

Country

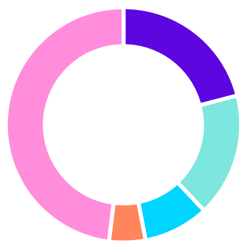
Invested in underlying investments



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

Sector

GICs level 1



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

Performance commentary

Deal activity saw a quarter-on-quarter increase, implying that GPs are beginning to find the comfort required to transact in the current environment. Interest rate rises appear to be slowing, creating more confidence about the trajectory. Despite a rising number of deals, deal dynamics remain unchanged. GPs are continuing to fund deals with larger amounts of equity, favouring private debt providers who are underwriting loans into more secure and better-returning capital structures. The current environment remains attractive for debt providers that are issuing new loans. However, incumbent portfolio companies remain under pressure as interest coverage ratios are falling and watchlists are gradually growing in length. Inflationary pressure appears to be easing. However, wage inflation remains sticky in the US and UK, thus creating problems for companies that have a time lag associated with passing costs through to customers. These inflationary pressures are creating additional EBITDA margin pressure for companies exposed to wage inflation or staff shortages. Despite this, the Brunel Private Debt portfolio remains well positioned to absorb inflationary pressures due to its bias to non-cyclical sectors (such as Technology and business services).

The portfolio has now made commitments to four funds, all of which have called capital. Portfolio performance has been marginally negative versus the prior quarter (but remains positive), but given the nascency of investments, such measures are not yet very meaningful. We have good line of sight on finalising the remaining two fund commitments before the end of Q1 2024.

Portfolio summary

Market value (GBP millions)	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	TVPI	Contribution to return: 1 year	Contribution to return: since inception
36.3	13.4%	12.6%	9,452,110	822,330	8,629,780	1,151,390	1.07	0.1%	0.0%

*Money weighted return. Net of all fees.

Private Debt Cycle 3

Pipeline

The final two funds, both North America-focused, have already been approved by BIC and presented to clients at ISG. They remain in late-stage legal negotiations, but we expect commitments to be closed in Q1 2024. This will complete the Cycle 3 fund selection.

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
£114.58m

Amount Called
£104.70m

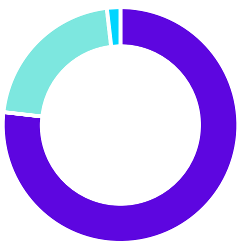
% called to date
91.38

Number of underlying funds
5

Avon's Holding:
GBP109.39m

Country

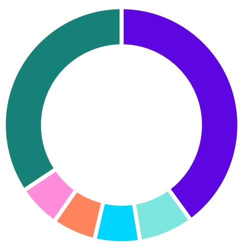
Commitment in underlying investments



Europe (incl. UK)	76.7%
North America	21.4%
Rest Of World	1.9%

Source: Stepstone
Country data is lagged by one quarter

Sector



Wind & Solar	39.9%
Rail	7.5%
Distributed Energy	6.2%
Diversified Renewables	6.0%
Diversified Social	5.9%
Other	34.5%

Source: Stepstone
Sector data is lagged by one quarter

Performance commentary

Against an unusual and challenging macroeconomic backdrop across 2023, Infrastructure largely proved its resilience to inflationary pressures and higher interest rates. By year-end, many across the US and Europe believed the top of the interest rate cycle had been reached, although inflation was not yet at the level targeted by central banks - and may thus persist for longer than hoped. A scenario of stable - and potentially lowering - interest rates, coupled with higher inflation, is a good outcome for infrastructure assets, since they are correlated with inflation and offer cost pass-through capacity. As reported in prior quarters, Brunel's portfolio is well-positioned, with high quality assets, to remain resilient in this environment.

As a result of Infrastructure's characteristics, many LPs continued to allocate to the asset class, and some were expecting to increase their allocations. According to a Campbell Lutyens' report, which is based on a survey of roughly 130 LPs, 57% said they plan to increase their infrastructure allocation. Following a poor start to 2023, Infrastructure fundraising picked up in H2 2023 and Preqin forecast this trend to continue into 2024, predicting that fundraising will almost double in 2024 to $84bn.

Deal activity overall in 2023 remained low versus previous years, but this is not siloed to Infrastructure. Dynamics on the sell side have shifted, and there are fewer buyers in the market who can be selective and; many have instead been focused on investing in growing platforms. Debt has indeed increased in cost, but lenders' flight to quality has meant the

Portfolio summary

Market value (GBP millions)	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	TVPI	Contribution to return: 1 year	Contribution to return: since inception
109.4	2.2%	6.8%	2,287,434	967,946	1,319,488	577,685	1.17	0.0%	0.0%

*Money weighted return. Net of all fees.

Infrastructure Cycle 1

asset class is relatively well protected and that debt is still available to investors.

Previously, Brunel had reported that a US-specific renewables fund had been experiencing ongoing difficulties, as many underlying renewable challenges still persisted globally. A satisfactory resolution has since been reached which will diminish uncertainty and strengthen the position of the Fund, improving the outlook for LPs.

As at the end of Q4 2023, Cycle 1 Infrastructure was ~97% committed and ~85% invested. Project Anemoi, the final Tactical allocation in Cycle 1, was a co-investment opportunity (alongside Equitix) into an operating offshore wind farm in Scotland; it closed at the start of Q4 2023, thus completing Cycle 1.

Pipeline: Cycle 1 is now fully committed, and so no new investments are being considered.

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
£74.57m

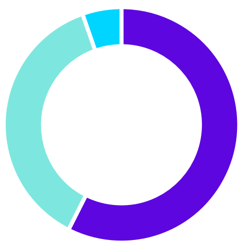
% called to date
62.14

Number of underlying funds
1

Avon's Holding:
GBP77.55m

Country

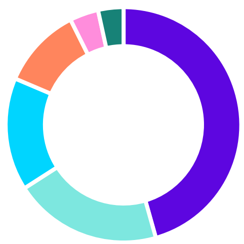
Commitment in underlying investments



Europe (incl. UK)	57.4%
North America	37.2%
Rest Of World	5.4%

Source: Stepstone
Country data is lagged by one quarter

Sector



Solar	45.6%
Wind	20.4%
Diversified Renewables	15.5%
Energy Efficiency	11.2%
Energy Storage	3.9%
Other	3.4%

Source: Stepstone
Sector data is lagged by one quarter

Performance commentary

Amid an unusual and challenging macroeconomic backdrop through 2023, Infrastructure generally proved its resilience to inflationary pressures and higher interest rates. Across the US and Europe, by year-end many believed we had reached the top of the interest rate cycle, although inflation is not at the level targeted by central banks and may persist for longer. A scenario of stable, and potentially lowering interest rates, coupled with higher inflation, is a good outcome for infrastructure assets with inflation correlation and capacity for cost pass-through. As reported in prior quarters, Brunel's portfolio is well-positioned with high quality assets to remain resilient in this environment.

During the second half of 2023, Renewable Infrastructure managers continued to focus on addressing the increase in costs realised through their supply chain. As previously reported, capital expenditure in wind assets specifically spiked and made many projects no longer financially viable. Global responses by governments have helped mitigate the impact and the cooling of inflation during H2 2023 implied a more positive outlook for the near term. Global policies and corporate Net Zero commitments continued to provide tailwinds for the industry, while COP 28 stressed the need to triple renewable energy capacity and double efficiency improvements by 2030. Investors will need to be careful and selective to ensure they are investing alongside managers capable of dealing with many of the headwinds that exist.

As at the end of Q4, Cycle 2R was ~87% committed and ~62% invested across 7 primary funds and 10 Tacticals. Only one more Primary fund is required to complete the Cycle 2

Portfolio summary

Market value (GBP millions)	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	TVPI	Contribution to return: 1 year	Contribution to return: since inception
77.6	1.6%	8.8%	16,611,205	360,801	16,250,404	1,264,720	1.12	0.0%	0.0%

*Money weighted return. Net of all fees.

Infrastructure (Renewables) Cycle 2

Renewables' portfolio construction. Two projects closed in Q4: Project Flare, a co-investment opportunity alongside ICG Infrastructure in the acquisition of a stake in a large independent solar PV developer in the UK, and Project Luna Nordic, an infrastructure debt co-investment deal in onshore wind and solar PV in the Nordics alongside Copenhagen Infrastructure. Together, these two investments completed the Tactical allocation for Cycle 2R.

Pipeline:

We await proposals from StepStone for the final primary fund selection for Cycle 2 Renewables, although it should be noted that the commitment amount is small at just £25m. No other investments have been approved by Brunel, pending closing.

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
£13.06m

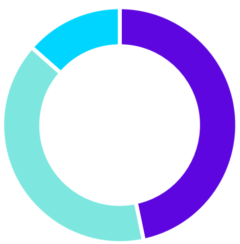
% called to date
23.75

Number of underlying funds
1

Avon's Holding:
GBP12.51m

Country

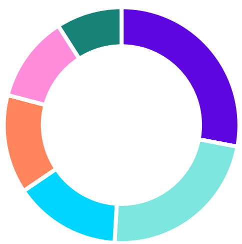
Commitment in underlying investments



Europe (incl. UK)	46.7%
North America	39.8%
Rest Of World	13.5%

Source: Stepstone
Country data is lagged by one quarter

Sector



Timber	27.9%
Utilities	23.0%
Wind	14.6%
Diversified Renewables	13.5%
Agriculture	11.9%
Other	9.1%

Source: Stepstone
Sector data is lagged by one quarter

Performance commentary

Against an unusual and challenging macroeconomic backdrop experienced through 2023, Infrastructure largely proved its resilience to inflationary pressures and higher interest rates. Across the US and Europe, by year-end, many believed we had reached the top of the interest rate cycle, although inflation was not yet at the level targeted by central banks - so could yet persist for longer. A scenario of stable, and potentially lowering interest rates, coupled with higher inflation, is a good outcome for infrastructure assets with inflation correlation and capacity for cost pass-through. As reported in prior quarters, Brunel's portfolio is well-positioned, with high quality assets, to remain resilient in this environment.

As a result of Infrastructure's characteristics, many LPs continued to allocate to the asset class, and some were expecting to increase their allocations. According to a Campbell Lutyens' report, which is based on a survey of roughly 130 LPs, 57% said they plan to increase their infrastructure allocation. Following a poor start to 2023, Infrastructure fundraising picked up in H2 2023 and Preqin forecast this trend to continue into 2024, predicting that fundraising would almost double in 2024 to $84bn.

Deal activity overall in 2023 remained low versus previous years, but this is not siloed to Infrastructure. Dynamics on the sell side have shifted, and there are fewer buyers in the market who can be selective; many have instead been focused on investing in growing platforms. Debt has indeed increased in cost, but lenders' flight to quality has meant the asset class is relatively well-protected and that debt is still available to investors.

Portfolio summary

Market value (GBP millions)	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	TVPI	Contribution to return: 1 year	Contribution to return: since inception
12.5	-5.2%	-5.9%	4,803,211	12,895	4,790,316	-80,120	0.96	-0.0%	-0.0%

*Money weighted return. Net of all fees.

Infrastructure Cycle 3

As at the end of Q4, Cycle 3 is ~45% committed and ~26% invested. Blackstone Energy Transition Partners IV was closed; the global primary fund was focused on primary or secondary beneficiaries of energy transition megatrends. Additional investments include Project Indigo, a European GP-led secondary opportunity with DWS, and Project Mars, a co-investment opportunity alongside Dutch Infrastructure Partners in a telecommunications company focused on enterprise and residential fibre in Midwest US.

Pipeline:

During Q4, two further primary funds were approved by Brunel and are subject to further StepStone due diligence before anticipated closings in Q4 2023 and Q1 2024, respectively: a £29m commitment to a European agriculture-focused primary fund and a £30m commitment to a global diversified primary fund, focusing on renewables, concessions, and utilities. The agriculture fund has already been presented at Client ISG.

£90m remains to be committed to three more funds. A Europe/OECD-focussed energy transition fund has been identified and StepStone continues to progress work on an Infrastructure Secondary fund. This leaves one further general infra fund to be found to complete the fund selection work for Cycle 3.

There are six more tactical investment placeholders in the portfolio construction plan. Opportunities to fill these have yet to be identified.

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
£344.69m

% called to date
99.91

Number of underlying funds
3

Avon's Holding:
GBP303.03m

Performance commentary

The two long lease property funds held in the portfolio were impacted by rising interest rates, resulting in significant valuation write-downs. Despite hopes that the UK had reached the top of the interest rate cycle, further volatility was expected as the market finds new pricing levels. Alongside traditional real estate funds, open-ended long lease property funds also suffered redemptions from investors hit by the liquidity shock in late 2022, with further redemptions received from de-risking investors. Deferring payments, both funds have made selective asset sales to fund these redemptions, with M&G Secured Property Income Fund (SPIF) making tremendous progress and faster payments than Standard Life Long Lease Property (LLP), where we expect to see more sales over 2024.

Despite the outflows, both funds showed strong fundamentals at quarter-end. Rent collection is at pre-pandemic levels, both have WAULTs longer than 25 years, record high distribution yields and low vacancy. M&G SPIF has no vacancy, while Standard Life LLP has been working hard to reduce its one void in the portfolio, leasing up the majority of the remaining floorspace over Q4.

The portfolio is fully drawn into Greencoat Renewable Income (GRI). Over the quarter, the Fund deployed further capital into Solar. The Fund has been working on a large transaction which is expected to complete in Q1 2024 and will call further capital.

Pipeline

There is no fund pipeline, with the portfolio fully committed and invested.

Portfolio summary

Market value (GBP millions)	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	TVPI	Contribution to return: 1 year	Contribution to return: since inception
303.0	-4.1%	-1.3%	15,848	4,538,166	-4,522,318	-1,090,260	0.97	-0.3%	-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:

GBP104.17m

Performance commentary

The two long lease property funds held in the portfolio were impacted by rising interest rates, resulting in significant valuation write-downs. Despite hopes that the UK had reached the top of the interest rate cycle, further volatility was expected as the market finds new pricing levels. Alongside traditional real estate funds, open-ended long lease property funds also suffered redemptions from investors hit by the liquidity shock in late 2022, with further redemptions received from de-risking investors. Deferring payments, both funds are making selective asset sales to fund these redemptions, with M&G Secured Property Income Fund (SPIF) making tremendous progress and faster payments than Standard Life Long Lease Property (LLP), where we expect to see more sales over 2024.

Despite the outflows, both funds showed strong fundamentals at quarter-end. Rent collection is at pre-pandemic levels, both have WAULTs longer than 25 years, record high distribution yields and low vacancy. M&G SPIF has no vacancy, while Standard Life LLP has been working hard to reduce its one void in the portfolio, leasing up the majority of the remaining floorspace over Q4.

The portfolio is fully drawn into Greencoat Renewable Income (GRI). Over the quarter, the Fund deployed further capital into Solar. The Fund has been working on a large transaction, which is expected to complete in Q1 2024 and will call further capital.

Pipeline

There is no fund pipeline, with the portfolio fully committed and invested.

Portfolio summary

Market value (GBP millions)	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	TVPI	Contribution to return: 1 year	Contribution to return: since inception
104.2	-2.1%	-0.9%	14,309	2,774,359	-2,760,050	1,126,230	0.95	-0.0%	-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
£237.44m

Amount Called
£158.21m

% called to date
66.63

Number of underlying funds
3

Avon's Holding:
GBP161.95m

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Performance commentary

The two long lease property funds held in the portfolio were impacted by rising interest rates, resulting in significant valuation write-downs. Despite the hopes that the UK had reached the top of the interest rate cycle, further volatility was expected, as the market finds new pricing levels. Alongside traditional real estate funds, open-ended long lease property funds also suffered redemptions from investors hit by the liquidity shock in late 2022, with further redemptions received from de-risking investors. Deferring payments, both funds made selective asset sales to fund these redemptions, with M&G Secured Property Income Fund (SPIF) making tremendous progress, and faster payments than Standard Life Long Lease Property (LLP), where we expect to see more sales over 2024.

Despite the outflows, both funds showed strong fundamentals. Rent collection is at pre-pandemic levels, both have WAULTs longer than 25 years, record high distribution yields and low vacancy. M&G SPIF has no vacancy, while Standard Life LLP has been working hard to reduce their one void in the portfolio, leasing up the majority of the remaining floorspace over Q4.

The final commitments were made for Cycle 3 over Q4, with a c. £10m purchase of Standard Life LLP settling in November; a £9m purchase of SPIF settling in December; and the final £3.5m purchase of SPIF settling in the first week of January 2024. These were all purchased at discounts to NAV in the secondary funds market.

The portfolio is committed to Greencoat Renewable Income (GRI). Over the quarter, the Fund deployed further capital into Solar. The Fund has been working on a large transaction which is expected to complete in Q1 2024, with the aim of calling the portfolio's remaining uncalled commitment in January.

Pipeline

There is no fund pipeline, with the portfolio fully committed.

Portfolio summary

Market value (GBP millions)	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	TVPI	Contribution to return: 1 year	Contribution to return: since inception
162.0	-	-	33,159,049	862,877	32,296,171	-2,545,500	1.04	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

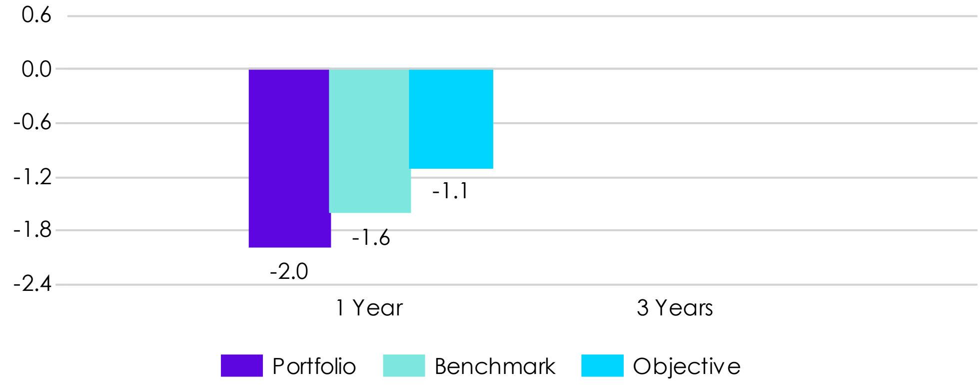
£210.0m

Amount Called

£179.0m

Number of portfolios

13



Performance commentary

2023 was a less dramatic year for UK commercial property than initially anticipated, with total returns from the industrial sector (+3% since December 2022) partially offsetting the almost-10% decline in the UK Office sector during 2023. Expectations for UK All-Property are muted for 2024, but forecasts of total returns exceeding 7% in 2025 and beyond offer a more positive long-term picture.

Brunel's model portfolio sector weightings reflect the stronger total returns forecast between 2023 and 2027 for the Industrial sector (+c.9% expected) and the lower expectations for the Office sector (+c.4%). Industrial's projected rental growth and a potential supply shortage within prime warehouse space (as speculative development moderates) support these forecasts. In contrast, an over-supply of secondary office space will continue to push down office sector forecasts. The trend is especially strong where economically obsolete assets, particularly in the regions, may need re-purposing towards leisure or residential uses.

Following a virtual halving of UK property investment volumes in 2023 (compared with 2022), any improvement in financing rates this year will provide greater stability and a stronger framework for increased transactional activity. The key players will be well-financed property and development companies who are strongly aligned with occupier needs. Across the industry, Net Zero Carbon Scope 3 requirements will accelerate engagement and distinguish managers who have already established Net Zero Carbon pathways from those who are failing to respond to occupier and investor demand. Outside of the Industrial sector, the Brunel model portfolio's >10% exposure to the Residential and the Healthcare sectors should continue to offer rental growth and relatively stable pricing within a tough economic environment.

Pipeline

There is no fund pipeline, with the portfolio fully committed to model funds.

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	180.1	-1.3%	-0.4%	-2.0%	-	-	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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COUNTY COUNCIL

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**
MEETING DATE:	**27 FEBRUARY 2024**
TITLE:	**Risk Management Framework Review for Periods Ending 31 December 2023**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Exempt Appendix 1 – Mercer Report: Risk Management Framework Review to 31 December 2023**	

1. THE ISSUE

1.1. The Funding and Risk Management Group (FRMG) is responsible for agreeing the operational aspects relating to the Fund's Risk Management Framework (RMF) thereby ensuring that strategic objectives continue to be met. This report informs Panel of issues considered and decisions made by FRMG as well as any recommendations.

1.2. Exempt Appendix 1 shows the equity protection strategy rated amber 'under review' given the drag on returns since inception and the fact Officers are in the process of reducing the overall hedge ratio under delegated authority from Panel. All other risk management strategies are rated green and continue to perform in line with expectation.

2. RECOMMENDATION

The Avon Pension Fund Investment Panel is asked to note:

2.1. **The performance of each of the underlying RMF strategies and current collateral position.**

2.2. **The approach to reducing the EPS hedge ratio as set out in Section 5 of this report.**

3. FINANCIAL IMPLICATIONS

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

4. UPDATE ON RISK MANAGEMENT STRATEGIES

4.1. The underlying equity benchmark rose over the quarter, with the equity protection strategy (EPS) performing in line with expectations, decreasing net equity performance by 1.6% as markets moved toward the protection levels.

Since inception the EPS has detracted c. 2.5% from equity returns and reduced volatility by c. 25%.

4.2. Following the reinstatement of the interest and inflation trigger framework in October 2023, several interest rate triggers were hit leading BlackRock to trade up to the 39% cap on the aggregate interest rate hedge ratio. The inflation hedge ratio was around 22% at the same date. The decrease in yields during the quarter helped the LDI mandate deliver a positive return.

5. UPDATE ON EPS HEDGE RATIO REDUCTION

5.1. FRMG met on 14 February and resolved to reduce the hedge ratio pro rata across the existing 3 counterparties; JPM, Goldman Sachs and Citi.

5.2. Implementation of the hedge ratio reduction will commence in early March and be staggered across 2 weeks to reduce the impact of timing risk. All trading will be complete prior to the Fund's financial year end.

5.3. The collateral buffer is currently >600bps, which is expected to increase marginally post EPS hedge ratio reduction. Guidance from the regulator stipulates a buffer of c. 400bps is appropriate for the type of LDI mandate the Fund employs. Mercer will prepare an analysis of the Fund's liquidity position to determine the best use of any excess collateral. The analysis will look at the prospect of reinstating the interest and inflation trigger framework, which is currently suspended, and will also look at the cash requirements of the Fund including outstanding private markets capital commitments. A paper will be brought to the next panel meeting for consideration.

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

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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-1739603
Meeting / Decision: Avon Pension Fund Investment Panel
Date: 27th February 2024
Author: Nathan Rollinson
Report Title: Risk Management Framework Review for Periods Ending 31 December 2023 List of attachments to this report: **Exempt Appendix 1** - Mercer Report: Risk Management Framework Review to 31 December 2023

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

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

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

PUBLIC INTEREST TEST

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

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972

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

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

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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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND – INVESTMENT PANEL**
MEETING DATE:	**27 FEBRUARY 2024**
TITLE:	**LOCAL IMPACT PORTFOLIO**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: None	

1 THE ISSUE

1.1 The investment strategy recommended by the Panel includes a 3% or c.£170m allocation to ‘local impact’.

1.2 It was envisaged that our local impact investments would be spread over three broad sectors:

- Renewable infrastructure: 40% - 50%
- Affordable Housing: 40% - 50%
- SME funding: 10% - 20%

1.3 The Panel and Pensions Committee both agreed that local impact investments should align with some basic principles:

- Investments with tangible positive impact which can be measured and reported.
- Financial returns contributing to aggregate portfolio returns of c. 6.5%, with lower returns tolerated only where risks are lower, not because the investment is local or socially positive.
- UK diversified geographic coverage with a preference for investments across South West England of at least 15-20% to meet the local test.

1.4 We have already completed our first local impact investment – the £50m allocation to Wessex Gardens. £35m has already been drawn by the fund to finance the acquisition of an operational solar portfolio, which in its final state, will comprise 17 solar farms across South West England, made in partnership with 6 other LGPS[1].

1.5 Looking forward we now have over 15 potential local impact proposals to assess. And we would like the Panel to discuss an assessment framework for local impact opportunities and, in closed session for reasons of commercial confidentiality, consider two separate investment ideas.

[1] Cornwall, Devon, Dorset, Gloucestershire, Oxfordshire, Wiltshire

2 RECOMMENDATION

The Panel:

2.1 Notes the proposed assessment framework for local impact opportunities, sharing its insights and suggestions with Officers to inform a final version of the framework.

2.2 Discusses the two investment ideas in closed session, to advise Officers which of the ideas should be explored in more detail, with a view to firm investment proposal being brought forward for agreement at a subsequent Panel.

3 FINANCIAL IMPLICATIONS

3.1 There are no immediate financial implications arising from this discussion.

3.2 Once we know which ideas to explore in more detail, projected costs for advice, due diligence and other work will be brought to Panel.

4 PROPOSED ASSESSMENT FRAMEWORK

4.1 We are implementing a 2-stage review process to identify opportunities offering the most attractive mix of financial returns and local impact. It is key that all opportunities have clear strategic rationale underpinned by a sound business case. Additionally, we are not willing to compromise on the risk-return profile with lower returns in exchange for doing good.

4.2 The assessment process consists of:

a) Initial screening: to assess each opportunity objectively, we have developed an assessment matrix based on high level research and preliminary discussions with the investment manager. The matrix uses 12 criteria to capture factors such as the level of local impact, financial attractiveness, and environmental credentials. The scoring system is not designed to be mechanical, rather to help evaluate and rank opportunities, providing a short list for in-depth due diligence.

b) In-depth due diligence and independent advice: is applied to shortlisted proposals and undertaken by independent consultants or specialist advisers before a firm recommendation is brought to Panel to approve.

c) Criteria in the initial screening is summarised below:

Mission & Impact:

- Is there a clear mission with local impact?
- Define mission – what is the proposal and how will it be achieved?
- Define impact – what does the proposal aim to achieve?
- Affordable Housing – define affordable and target underlying tenant mix
- Impact – does the proposal have Article 9 status?

Strategic Case & Product

- What is the investment case and why is it needed?
- How will the proposal be executed/delivered?
- What are the economic considerations?

Returns
- Gross and net return targets
- Are revenues index-linked?
- Use of leverage
- Overall attractiveness of returns verses Fund target

Risks
- Are the risks known and can they be managed?
- Uncontrollable risks – e.g. economic risk, market risk, political risk
- Controllable risks – e.g. execution risk, development risk, counterparty risk

Localness
- Is the proposal national or regional/local?
- If national, is there an opportunity for a local sleeve?
- Is it relevant and can it connect with local communities?

Timeframe
- How quickly can capital be deployed?
- What stage is the proposal currently at – already investable, still in development, etc.
- Is the proposal open-ended?
- Time frame for achieving return on investment.

Climate Aligned
- Does the proposal have any explicit climate targets?
- Affordable housing – EPC targets? GRESB scores?
- How realistic are these targets?
- Absolute verses relative levels of carbon emissions.

Capital £
- Can capital be deployed at meaningful scale? i.e. >£15m
- What is the minimum level of capital the Fund can deploy?
- Is there a maximum level of capital the Fund can deploy into a specific proposal?
- Are there any liquidity considerations?

Management Quality
- Does management have experience in the relevant area?
- Does management have the necessary connections and relationships to develop credible development pipelines?
- Strength of board and external directors – credibility, experience etc.

Asset Management
- Who will manage the assets – project development, ops management, etc.
- Structure of investment vehicle and legal basis – e.g. open or close-ended vehicle, SPV etc
- Company structure – listed or private entity, PE backing etc

Fees

- Initial fee
- Annual management charges
- Do performance fees apply?
- Are any discounted fees available for scale or early investment?
- What fees are associated with a dedicated SW sleeve for national schemes?

Monitoring and Reporting Impact

- How can impact be quantified?
- Can this be independently verified?
- How reliable is this?

Each investment idea is summarised and assessed, with each criteria assigned a score of 1-10 with a colour code.

10	8	6	4	2	1

5 INVESTMENT IDEAS

5.1 The Panel will consider two investment ideas as part of a closed workshop.

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 STATEMENT

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 Panel.

9 OTHER OPTIONS CONSIDERED

9.1 None.

10 CONSULTATION

10.1 The Council's Director of One West has had the opportunity to input to this report and has cleared it for publication.

Contact person	Nick Dixon, Head of Avon Pension Fund

	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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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**	
MEETING DATE:	**27 February 2024**	**AGENDA ITEM NUMBER**
TITLE:	**Forward Agenda**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: None		

1 THE ISSUE

1.1 This report sets out the forward agenda for the Panel for 2024. 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
5 June 2024	**Routine:** • Quarterly Investment Performance • Risk Management Framework Monitoring **Strategic:** • Holistic Liquidity Analysis - Mercer
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	