Bath & North East Somerset Council

Improving People's Lives

Avon Pension Fund Committee Investment Panel

Date: **Wednesday, 5th June, 2024**
Time: **2.00pm**
Venue: **Kaposvar Room - Guildhall, Bath**

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

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

Chief Executive and other appropriate officers
Press and Public

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

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

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

3. **Recording at Meetings:-**

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

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

4. **Public Speaking at Meetings**

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

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

Further details of the scheme can be found at:

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

5. Emergency Evacuation Procedure

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

6. Supplementary information for meetings

Additional information and Protocols and procedures relating to meetings

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

Avon Pension Fund Committee Investment Panel - Wednesday, 5th June, 2024

at 2.00 pm 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: 27TH FEBRUARY 2024 (Pages 7 - 22)

8. LOCAL IMPACT PORTFOLIO (Pages 23 - 44)

   This repoort and its appendix have been classified as EXEMPT.

9. LIQUIDITY REVIEW (Pages 45 - 88)

The Fund's projected cashflow position over the next two years is subject to ongoing benefit payments and existing private markets commitments, which are still being invested and therefore not distributing cash. This requires a prudent approach to liquidity given the timing and uncertainty of private market drawdowns. However, the Fund has a good liquidity position and this paper focuses on how this liquidity should be managed.

10. REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 MARCH 2024 (Pages 89 - 176)

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 March 2024.

11. RISK MANAGEMENT FRAMEWORK REVIEW FOR PERIODS ENDING 31 MARCH 2024 (Pages 177 - 208)

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

12. LDI IMPLEMENTATION POLICY (Pages 209 - 218)

The Fund already has a robust governance process in place and a clear LDI strategy. However this LDI Implementation Policy brings all aspects into one document which can be periodically reviewed to ensure resilience is maintained as market conditions or our investment strategy changes.

13. FORWARD AGENDA (Pages 219 - 222)

This report sets out the forward agenda for the Panel for 2024/25. 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

Tuesday, 27th February, 2024, 1.00 pm

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

Independent Members: John Finch, Pauline Gordon and Jackie Peel

Advisors: Steve Turner (Mercer), Josh Caughey (Mercer) and Nick Page (Mercer)

Also in attendance: Nick Dixon (Head of Pensions), Nathan Rollinson (Investments Manager), Jeff Wring (Director of One West & Avon Pension Fund) and Rebecca Whelan (Senior Investments Officer)

33 EMERGENCY EVACUATION PROCEDURE

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

34 DECLARATIONS OF INTEREST

There were none.

35 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Councillor Paul Crossley had sent his apologies to the Panel.

36 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

38 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

39 MINUTES: 1ST DECEMBER 2023 (PUBLIC & EXEMPT)

The Panel **RESOLVED** that the minutes of the meeting held on 1st December 2023 be confirmed as a correct record and signed by the Chair.

40 BRUNEL GLOBAL SUSTAINABLE EQUITY PORTFOLIO

The Investments Manager introduced the report to the Panel. He informed them that 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.

He added that the Fund seeded the Brunel GSE portfolio in Sept-2020 and that they have a high level of conviction in the strategy.

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 content of the Brunel presentation at Exempt Appendix 1.

41 QUARTERLY INVESTMENT PERFORMANCE

The Investments Manager introduced the report to the Panel. He informed them that the Fund's assets were £5,702m on 31 December 2023 and delivered a net investment return of 8.7% over the quarter against a benchmark of just under 6%. He added that 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.

Steve Turner, Mercer addressed the Panel and highlighted the following areas from their Performance Report.

- 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.
- 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.
- No emerging issues over Q4 for the portfolio.
- If interest rates remain stable or fall this will enable a more assured environment for Brunel to work within.

Pauline Gordon asked, in the context of the outlook for interest rates, whether a possible timeframe could be given for when they could expect performance from Brunel to improve.

Steve Turner replied that he would not wish to set a timescale as the interest rate environment would need to be considered. He suggested that this matter be discussed as part of their annual review. He added that he felt that the market had probably priced in too many cuts too soon and that most markets were pricing in a potential cut in interest rates at some point during the year and this would be constructive towards Brunel's performance.

Councillor Chris Dando asked if he had a level of probability that a cut in interest rates would occur.

Steve Turner replied that he felt there was a 70% chance of it happening.

John Finch stated that he believed strongly that interest rates would not go up.

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

42 QUARTERLY UPDATE: RISK MANAGEMENT FRAMEWORK

The Investments Manager introduced the report to the Panel and informed them that there were no concerns to flag. He stated that the FRMG met on 14th February and resolved to reduce the hedge ratio pro rata across the existing 3 counterparties; JPM, Goldman Sachs and Citi.

He said that implementation of the hedge ratio reduction would commence in early March, be staggered across 2 weeks to reduce the impact of timing risk and all trading will be complete prior to the Fund's financial year end.

He highlighted that 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 and Mercer will prepare an analysis of the Fund's liquidity position to determine the best use of any excess collateral.

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

The Panel **RESOLVED** to note:

i) The performance of each of the underlying RMF strategies and current collateral position.
ii) The approach to reducing the EPS hedge ratio as set out in Section 5 of the report.

43 LOCAL IMPACT PORTFOLIO

The Head of Pensions introduced this item to the Panel and said that this discussion would set the scene for the workshop that would take place on the conclusion of the meeting.

He explained that the investment strategy recommended by the Panel includes a 3% or c.£170m allocation to 'local impact' and 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%

He stated that they have already completed their 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.

He added that returns were expected to be between 7% - 9% per annum.

He informed the Panel that they now have over 15 potential local impact proposals to assess and would like the Panel to discuss an assessment framework for local impact opportunities.

He explained that the assessment process consists of two stages:

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.

Jackie Peel asked if further definition could be given to what is meant by 'Local' -v- 'South West'.

The Head of Pensions replied that it is difficult to correlate between the type of investment and the geographical footprint, but stated that it must be within the UK, regionally would be within the South West and local would be the former Avon area.

He added that the three target sectors for investment would likely be covered as follows:

- Renewable Infrastructure: South West

- Affordable Housing: Avon / South West / UK
- SME funding: UK

Jackie Peel asked if the figure in the report of ‘a preference for investments across South West England of at least at least 15-20% to meet the local test’ would be per sector or as a whole.

The Head of Pensions replied that this would be in aggregate as substantial investment in the solar farms in the South West had already been made.

The Director of One West & APF commented that he felt that it was important, especially in this first round of investment, to have a local focus.

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 proposed assessment framework for local impact opportunities and gave feedback to Officers to inform a final version of the framework.
ii) Discuss the two investment ideas in closed session, to advise Officers which of the ideas should be explored in more detail, with a view to any firm investment proposal being brought forward for agreement at a subsequent Panel.

44 FORWARD AGENDA

The Investments Manager introduced the report to the Panel. He said that in addition to the reports listed they could expect for the issue of Local Impact investing to form a standing item for the Panel and that the next meeting would include the outcomes of the Mercer liquidity analysis.

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

The meeting ended at 2.52 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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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: LGA-1862244
Meeting / Decision: Avon Pension Fund Investment Panel
Date: 5th June 2024
Author: Nathan Rollinson
Exempt Report Title: Local Impact Portfolio – Affordable Housing Manager Appointment List of attachments to this report: **Exempt Appendix 1** – Mercer Suitability Letter

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

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

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

<ins>PUBLIC INTEREST TEST</ins>

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

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

Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

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

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

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

The Council considers that the public interest 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:	**5 JUNE 2024**
TITLE:	**Liquidity Review**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Exempt Appendix 1 – Mercer Report: Holistic Liquidity Review**	

1. THE ISSUE

1.1. The Fund's projected cashflow position over the next two years is subject to ongoing benefit payments and existing private markets commitments, which are still being invested and therefore not distributing cash. This requires a prudent approach to liquidity given the timing and uncertainty of private market drawdowns. However, the Fund has a good liquidity position and this paper focuses on how this liquidity should be managed.

1.2. Cash requirements can be partially offset by using current and potential sources of income, including income generated by the UK property and Secured Income portfolios, among others.

1.3. In order to bridge any shortfall (due to timing of capital calls) the Fund can use excess collateral which was released by reducing the equity hedge to 50% in March.

1.4. Exempt Appendix 1 sets out options for redeploying excess collateral outside of the QIF and the associated impact on the Fund's LDI trigger framework.

1.5. The final section of Exempt Appendix 1 discusses possible funding sources for a dedicated Natural Capital allocation.

2. RECOMMENDATION

The Avon Pension Fund Investment Panel:

2.1. **Agrees to keep the LDI trigger framework on pause, noting the Fund's projected cash requirements over the next two years**

2.2. **Assuming 2.1 is approved, delegates how to invest excess collateral to Officers in consultation with Mercer**

2.3. **Delegates the decision to select an appropriate funding source for a Natural Capital allocation to Officers in consultation with Mercer.**

3. FINANCIAL IMPLICATIONS

2.4. Any changes to the risk management framework can affect the level of employer contributions in the future.

2.5. Investment management and advisor fees are provided for in the 2024/25 budget.

4. CURRENT LIQUIDITY POSITION

4.1. Mercer have undertaken a liquidity review exploring current and potential sources of income and how best to use collateral that currently forms part of the Fund's risk management framework.

1.1. The analysis shows that collateral released from the unwind of the equity protection strategy can either be used to reactivate the LDI trigger framework or can be redeployed outside of the risk management framework and used to fund ongoing benefit payments or private markets capital calls.

1.2. On balance Mercer recommend using the excess collateral to reinforce the Fund's cash position. The remaining collateral in the QIF will be sufficient to back the existing interest rate and inflation hedges and significantly above the collateral buffer recommended by the regulator. No further hedging will take place until the trigger framework is reactivated.

1.3. Income is the other source of liquidity and this will become more important as the cashflow matures over time. Income from the private market and property portfolios is already reinvested into those portfolios. Officers will discuss with Brunel whether there are other portfolios or underlying funds that could distribute income and how this could be achieved.

5. EXCESS COLLATERAL – INVESTMENT OPTIONS

5.1. There are a number of options available to the Fund for the reinvestment of excess collateral, which focus on capital preservation and offer daily liquidity terms. Officers will work with Mercer to determine the appropriate allocation between strategies. Options include:

a. BlackRock Exchange-Traded Funds (ETFs) - The Fund has typically used the BlackRock ETF portfolio to manage excess liquidity whilst awaiting private markets drawdowns. This provides market exposure of a similar risk and return profile to the Fund's wider investment strategy and is very liquid. The key drawback of this strategy is its uncertain capital preservation given the risk profile.

b. Liquidity Funds – These funds pay a yield roughly equivalent to the current cash rate of ~5%, are focussed on capital preservation and offer near instant liquidity. The Fund already uses liquidity funds via its custodian (State Street) to invest surplus cash. BlackRock also offer a suite of liquidity funds that would allow them access to the excess collateral at short notice, should the need arise. With interest rates at current levels, liquidity funds are an attractive option.

c. Alternatives to cash – Mercer have explored a number of highly-rated alternatives to holding cash and ETFs, which offer a yield pickup of c.1-1.5% versus cash funds for minimal additional risk. The issue with these funds is their relative immaturity and limited number of underlying investors. For this reason, Mercer do not feel comfortable making a recommendation until a positive track record is established.

6. FUNDING FUTURE PRIVATE MARKETS ALLOCATIONS

1.1. Longer term the Fund anticipates making a dedicated allocation to Natural Capital within its overall 32.5% target allocation to private markets. How we will invest is yet to be determined, however it is useful from a planning perspective to understand potential sources of funding, which could include either a reduction in property or infrastructure.

1.2. Based on current market conditions, existing exposures and the longer-term outlook the most attractive option is to reduce the Fund's legacy overseas real estate portfolio, freeing up capital for Natural Capital without requiring any redemptions from other mandates. Pages 25-30 of Exempt Appendix 1 discusses these options in greater detail.

1.3. In order of priority liquidity will be sourced in the following order (the liquidity waterfall):

a. From the ETF/cash portfolios

b. Rebalancing from overweight allocations to bring exposure back to target

c. LDI Solution depending on the collateral buffer within the portfolio

d. Synthesizing equity portfolios

e. Reduce allocations to liquid assets (least favoured due to impact on expected return and transition costs).

7. RISK MANAGEMENT

7.1. 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.

8. EQUALITIES

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

9. CLIMATE CHANGE

9.1. 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.

10. OTHER OPTIONS CONSIDERED

10.1. None

11. CONSULTATION

11.1. 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	

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-1879386

Meeting / Decision: Avon Pension Fund Investment Panel
Date: 5th June 2024

Author: Nathan Rollinson
Report Title: Liquidity Review **List of attachments to this report:** **Exempt Appendix 1** – Mercer Report: Holistic Liquidity Review

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

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

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

PUBLIC INTEREST TEST

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

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

Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

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

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

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

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

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

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**
MEETING DATE:	**5 June 2024**
TITLE:	**Review of Investment Performance for Periods Ending 31 March 2024**
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 March 2024.

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 £5,818m on 31 March 2024 and delivered a net investment return of 2.3% over the quarter which was in line with the benchmark. The increase in the value of Fund assets over the quarter reflected strong equity markets, with Brunel's listed portfolios all positive on an absolute basis, although flat on a relative basis.

4.2. The liabilities are estimated to have increased by c.0.6% over the quarter. Taken together with the asset return, the funding level stood at 98% at March-31 (c. £107m deficit).

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. The March update allows for the updated discount rate of 5.09% p.a. (equivalent to a discount rate of CPI+2.5% p.a. at 31 March 2024).

4.4. Over 1 year the Fund returned 7.8% in absolute terms and -2.0% in relative terms, where most portfolios underperformed their respective benchmarks. Underperformance was most pronounced in the Global Sustainable Equity Portfolio, with Global High Alpha also lagging its benchmark return. The multi-asset credit and diversifying returns portfolios were both ahead of their respective benchmarks.

4.5. Further details relating to performance attribution can be found on p14/15 of Appendix 1.

B – Investment Manager Performance

4.6. 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 19-40 of Appendix 2.

4.7. Risk assets began the year as they finished the last with global equities up close to 10% in sterling terms in the first quarter 2024. The US market was the clear leader, while emerging markets and the FTSE All-Share lagged. Gains across all asset classes could largely be attributed to a resilient US economy, rebounding oil prices, and continued positive sentiment around Artificial Intelligence. Expectations of interest rate cuts also boosted equity markets although the pace of cuts is likely to be slower than the market had hoped at the turn of the year as inflation has once again proved stickier than expected.

4.8. In Brunel's listed market portfolios, absolute returns were positive reflecting the strength in global equity markets over the period. Global High Alpha returned 9.9%, just 0.1% below the benchmark (MSCI World). Sector attribution showed allocation and selection were neutral overall. The Global Sustainable Equity portfolio returned 9.2%, also 0.1% behind its benchmark (MSCI ACWI). Market sentiment for sustainable investing continued its positive trend that began in Q4 2023 however, over one year to end March 2024, the portfolio remains significantly behind the benchmark. Stock selection, particularly the underweight to 4 of the 'magnificent 7', was the main driver of relative performance at a sector level.

The Diversifying Returns Fund (DRF) returned 4.3% over the quarter, ahead of the benchmark return of 2.0%. Increasing exposure to equities over the six months to quarter end enabled the portfolio to benefit from recent market performance. Multi Asset Credit (MAC) returned 2.2%, which was slightly behind the benchmark return. Credit spreads tightened over the quarter reflecting the improvement in the economic outlook and an increase in risk appetite.

In private markets, new deal volumes have been growing from recent lows. In infrastructure, despite continued volatility across the political, economic and investment landscapes, infrastructure as an asset remained broadly resilient, feeding through to the Brunel Infrastructure portfolios. While interest rate cuts, when they arrive, should positively impact asset valuations given the “higher for longer” consensus, short term impacts may be minimal.

In Secured Income despite hopes that the UK had reached the top of the interest rate cycle, further volatility was expected as the market continued to find new pricing levels. Open-ended long lease property funds have suffered heavy redemptions in recent years from liquidity shocks and investors withdrawing from the sector on liquidity concerns. Our underlying property fund managers continue to dispose of assets to fund these redemptions and more sales are expected over 2024. Despite recent outflows, the property portfolio continues to show strong fundamentals such as rent collection at pre-pandemic levels, low vacancy rates and record high distribution yields. Post period end a final £35m capital call was made by Cycle 3 Secured Income. The Fund’s full £705m commitment to Secured Income is now fully invested.

INVESTMENT STRATEGY AND PORTFOLIO REBALANCING

4.9. **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.

1.1. **Rebalancing:** During the period £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 redeemed £50m from the Brunel Paris-aligned passive equity portfolio to increase cash at hand and reduce the aggregate overweight position to equities. Post period end the Fund received advance deficit payments totalling £30m.

1.2. **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, which is cleared by Committee in September.

4.10. **Voting and Engagement Activity:** As a responsible investor, we actively endorse collaborative engagement and seek to use our power as a shareholder to encourage corporate change. Voting and engagement are delegated to the Brunel Pension Partnership for the actively managed equity portfolios and to Legal and General Investment Management (LGIM) for the passive portfolios. On significant issues, Brunel may request that their shares held by LGIM are split out and a different vote made. The voting records of Brunel and LGIM at company meetings held over the last quarter are summarised in the following table:

Votes cast at company meetings in the quarter to 31 March 2024:

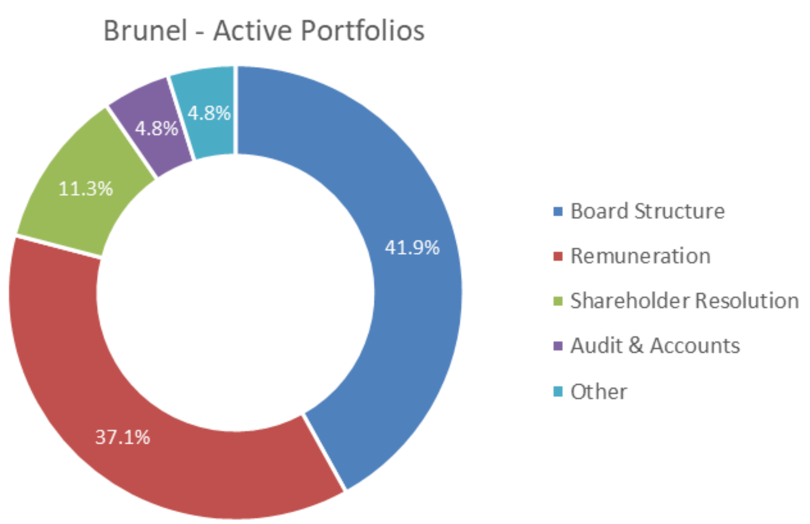
	Quarter to 31 March 2024		
Manager	**Number of Meetings**	**Number of Resolutions**	**Votes against management recommendation**
Brunel/LGIM - Passive Portfolios	128	1805	368
Brunel - Active Portfolios	23	578	62

Points to note:

a) Brunel and LGIM actively vote the shares held within their funds on behalf of their client funds, including Avon.

b) The votes against management recommendations will reflect matters where there is concern that the company is not addressing the relevant issue and managing it effectively. The Fund would expect that votes against management should be primarily on the priority areas set out in the Fund's Investment Strategy Statement. An analysis of the issues where votes have been cast against management recommendations is set out below.

Votes against management recommendation by issue – Quarter to 31 March 2024



Voting Activity Spotlight: Shell Plc Shareholder Resolution

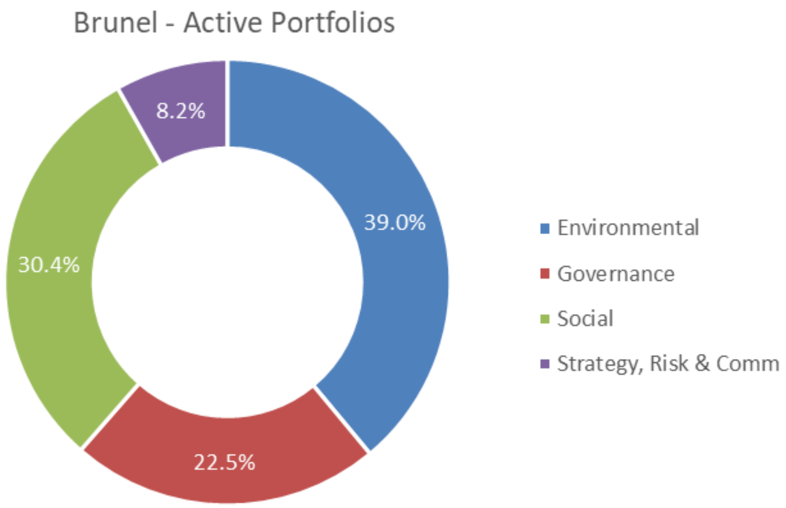
Resolution Details	Management Advice to SH	Brunel Vote	Notes
Shareholder Resolution – Resolution 23 Filed by: Follow This Shareholders support the company, by advisory note, to align its medium-term emissions reduction targets covering the GHG emissions of the use of its energy products (Scope 3) with the goal of the Paris Climate Agreement. AGM date 21 May 2024.	Vote AGAINST resolution	Vote FOR resolution Note: not held in LGIM Passive portfolio	Brunel was one of 27 leading investors that backed this resolution alongside Follow This. The resolution was designed to give Shell a shareholder mandate to drive the energy transition. The co-filing demonstrates Brunel's commitment to tackling the climate crisis at its source. Outcome: the resolution received 18.6% support from shareholders.

1.1. **Engagement:** Brunel conduct significant engagement with investee companies on behalf of the Fund. A breakdown of the engagement undertaken over the last quarter is summarised as follows:

Company engagement in the quarter to 31 March 2024:

	Quarter to 31 March 2024	
	Number of Companies	Number of Issues
Brunel - Active Portfolios	220	797

Breakdown by issues engaged on:



Further information on Brunel's engagement activity can be found on their website using the following link:

https://www.brunelpensionpartnership.org/library/

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	Rebecca Whelan, Senior Investments Officer (Tel. 01225 395355)
Background papers	Data supplied by Mercer, Brunel & State Street Performance Measurement

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

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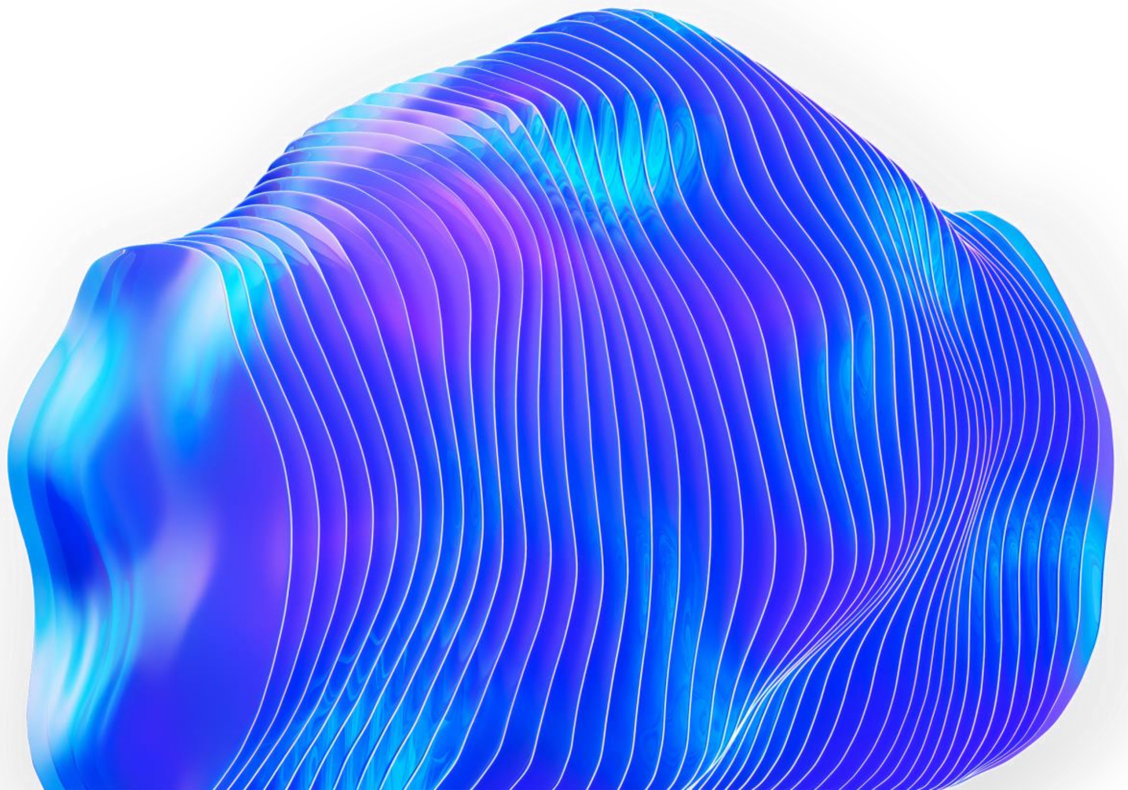
Mercer

welcome to brighter

Avon Pension Fund

Panel Investment Report Quarter to 31 March 2024



May 2024

Steve Turner

A business of Marsh McLennan

Contents

Mercer

Executive Summary

1

Executive Summary

Market background

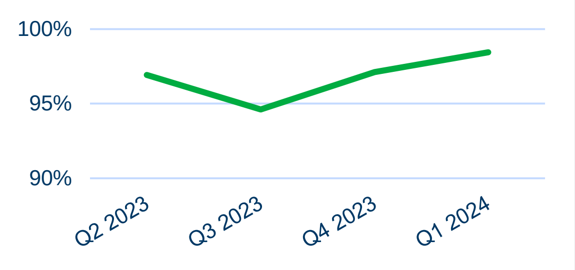
- The first quarter of 2024 was characterised by a repricing of interest rate expectations, especially for developed markets central banks. The timing of potential rate cuts by the US Federal Reserve, ECB and BOE were pushed back to the second half of 2024.
- Despite rising bond yields, equity markets continued to rally driven by AI enthusiasm, strong corporate earnings and resilient earnings.
- Headline inflation in the UK fell to 3.4% in February from 4% in December. Base effects played a significant part in inflation declining, however, food and energy costs are also declining sharply. The Bank of England maintained interest rates at 5.25%.

Mercer market views

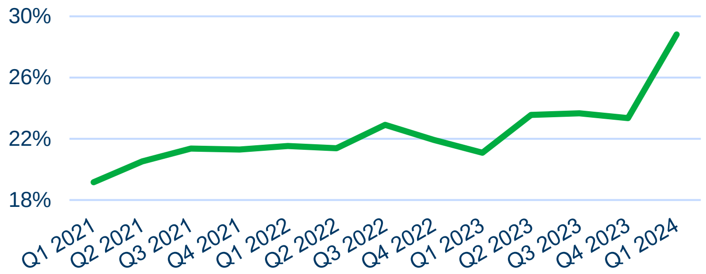
- Our medium term outlook favours growth fixed income and nominal UK government bonds, with a slight overweight to equities (Emerging Market and Japanese equities).
- A global economy landing softly, falling inflation and wage growth, resilient consumer and business balance sheets and the ongoing potential for artificial intelligence (AI) should support equity prices in the near term. However, we are conscious that equity valuations are rich and have rallied a lot in recent months.

Funding level and risk

- The funding level is estimated to have increased over the quarter to c. 98% as the value of the assets rose by more than the estimated present value of the liabilities.
- The funding level is estimated to be c. 4% higher over the year to 31 March 2024 (as illustrated to the right).
- This is despite a move to a lower actuarial discount rate basis (of CPI +2.5%) during the period, which is reflected in the figures from 31 December 2023, and all else equal served to increase the value placed on the liabilities.



- The Value-at-Risk increased over the quarter to £1,701m, and to 29% as a percentage of liabilities.
- Levels have gradually increased since 2020 due to market movements and changes in forward-looking assumptions. For Q1 2024 in particular, VaR has also increased due to the reduction in the coverage of the equity protection strategy (as expected).



Executive Summary

Performance

- The positive return of Fund assets over the quarter was driven by the Equity portfolios. The Multi-Asset strategies also fared well.
- The Equity Protection Strategy detracted as expected given underlying market returns, although the impact was partly mitigated by the reduction in the coverage during the quarter. Performance of the Illiquid Growth portfolio was mixed.
- Underperformance relative to the strategic benchmark over the one year period was in particular due to the active equity funds underperforming and detraction to returns from the Equity Protection strategy as underlying equity returns were positive. Elsewhere underlying relative performance was mixed.
- The main drivers of underperformance over three years was the active equity mandates, the Equity Protection, Overseas Property and Secured Income.

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	2.3	7.8	3.2
Strategic Benchmark **(2)** (ex currency hedge)	2.4	9.8	7.1
Relative **(1 - 2)**	**-0.0**	**-2.0**	**-3.9**

- The Currency Hedge had no overall impact on returns over the quarter. It added to returns over the one year period due to the relative strengthening of Sterling, but conversely detracted over three years.
- Absolute returns compared to the strategic returns modelled at the strategy review in 2023 have been positive for all of the Equity and Liquid Growth assets, but mostly negative for the Illiquid Growth assets.

Asset allocation and strategy

- A net amount of c. £81m was drawn down to private market portfolios during the quarter, which includes the funding of c. £35m of the £50m commitment to Schroders Greencoat Wessex Gardens; the first mandate to be implemented for the Local / Social Impact portfolio.
- A c. £50m disinvestment from the Brunel Paris Aligned Equity fund during the period helped to fund these draw downs.

Liability hedging mandate

- BlackRock was in compliance with the investment guidelines over the quarter.
- The interest rate and inflation trigger framework was revised and reinstated in October 2023.
- Following the reinstatement of the framework, several interest rate triggers were hit leading BlackRock to trade up to the target (39% as a % of assets) aggregate interest rate hedge ratio. The inflation hedge ratio was c. 22% as a % of assets at the same date. The trigger framework was subsequently paused whilst a wider review of the Fund's liquidity framework is undertaken.

Collateral position

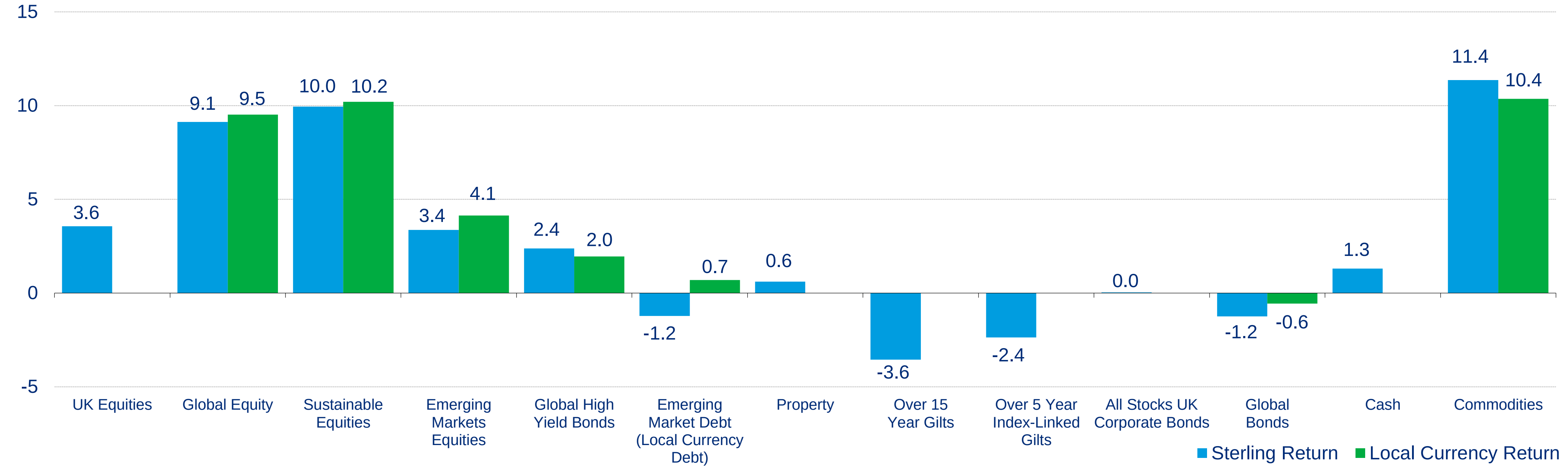
- Following the reduction in the equity protection coverage ratio in March, the Fund has adopted an updated collateral monitoring framework reflecting the significant change in exposures within the risk management portfolio.
- Inclusive of assets within the collateral waterfall and the updated collateral monitoring framework, there was a total interest rate buffer of 7.1% as at 31 March 2024.

Market Background

2

Market Background

Return over 3 months to 31 March 2024 (%)

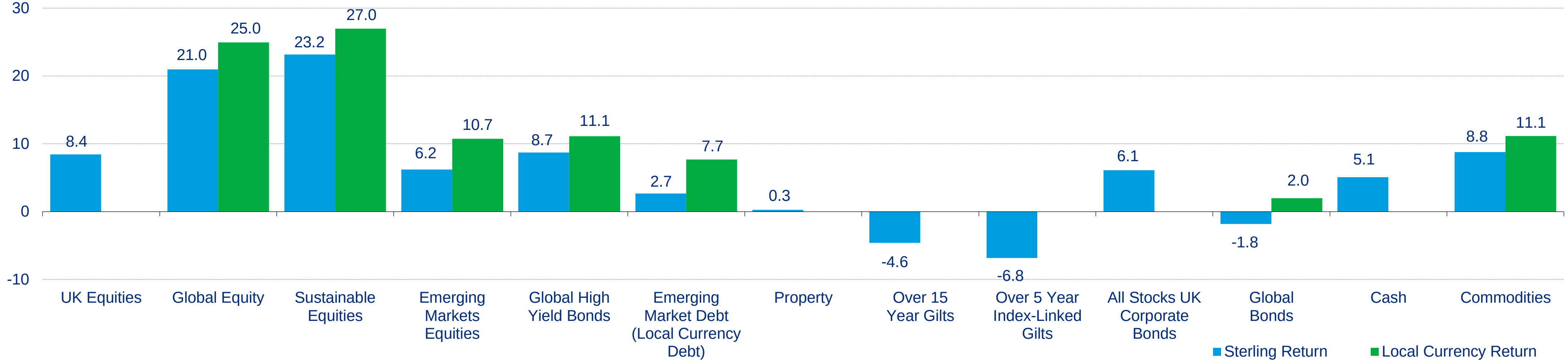


The first quarter of 2024 was characterised by a repricing of interest rate expectations, especially for developed market (DM) central banks. The timing of potential rate cuts by the US Federal Reserve, ECB and BOE were pushed back to the second half of 2024 as growth and inflation data surprised to the upside.

Despite rising bond yields, equity markets continued to rally driven by AI enthusiasm, strong corporate earnings and resilient earnings activity. Japanese equities outperformed its peers on the back of solid earnings growth and a weaker yen. Emerging Market equities were held back by weakness in China, although Chinese equities did rally in the second half of the quarter.

Market Background – 1 & 3 Years

Return over 12 months to 31 March 2024 (%)



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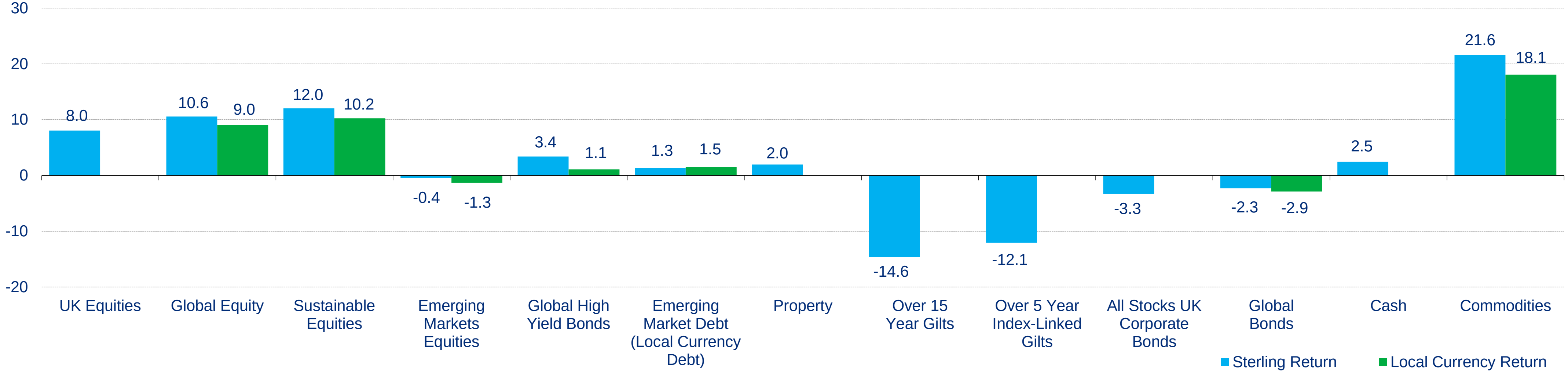
Return over 3 years to 31 March 2024 (% p.a.)



Mercer

Source: Refinitiv

Funding Level and Risk

3

Funding Level and Deficit

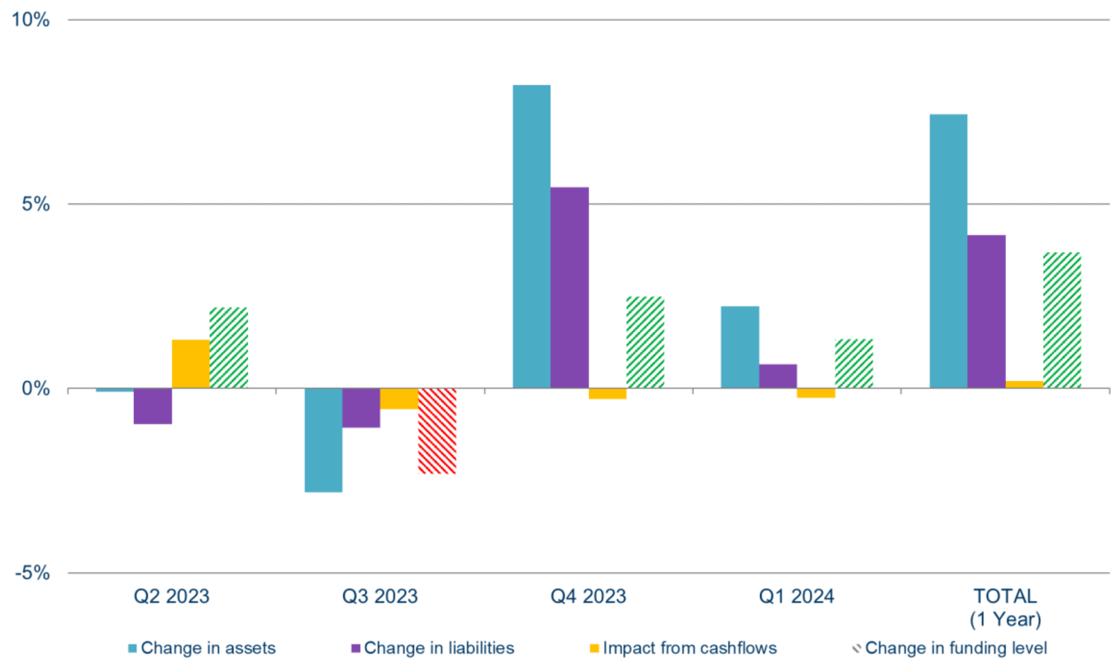
The Fund's assets returned 2.3% over the quarter, whilst the liabilities are estimated to have increased by c. 0.6%.

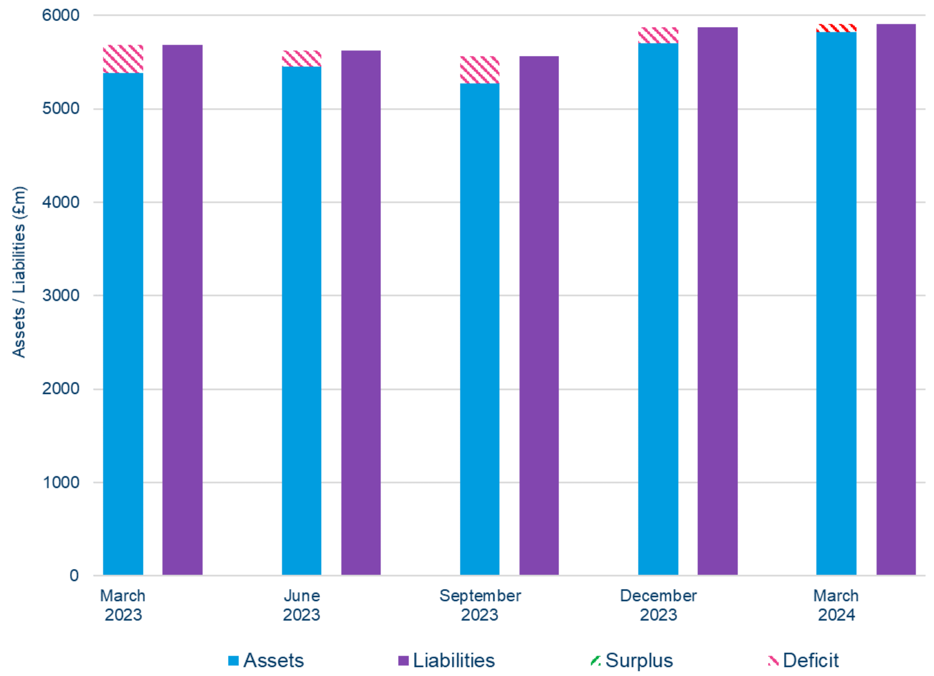
The combined effect of this saw the estimated funding level increase to c. 98%.

The funding level is estimated to be c. 4% higher over the year to 31 March 2024.

The rise in the estimated value of the liabilities shown for Q4 2023 includes the impact of a move to a lower actuarial discount rate basis of CPI + 2.5% (from CPI + 2.8%), which is reflected from 31 December 2023 onwards.

The deficit was estimated to have narrowed over Q1 from c.£170m to c.£92m.





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

Risk Decomposition – 3 Year Value at Risk

- The two charts below illustrate the main risks that the Fund is exposed to, and the size of these risks in the context of the change in the deficit position.
- The purpose of showing these is to ensure there is an awareness of the risks faced and how they change over time, and to initiate debate on an ongoing basis around how to best manage these risks, so as not to lose sight of the 'big picture'.
- The final columns show the estimated 95th percentile Value-at-Risk (VaR) over a one-year period. In other words, if we consider a downside scenario which has a 1-in-20 chance of occurring, what would be the impact on the deficit relative to our 'best estimate' of what the deficit would be in three years' time.

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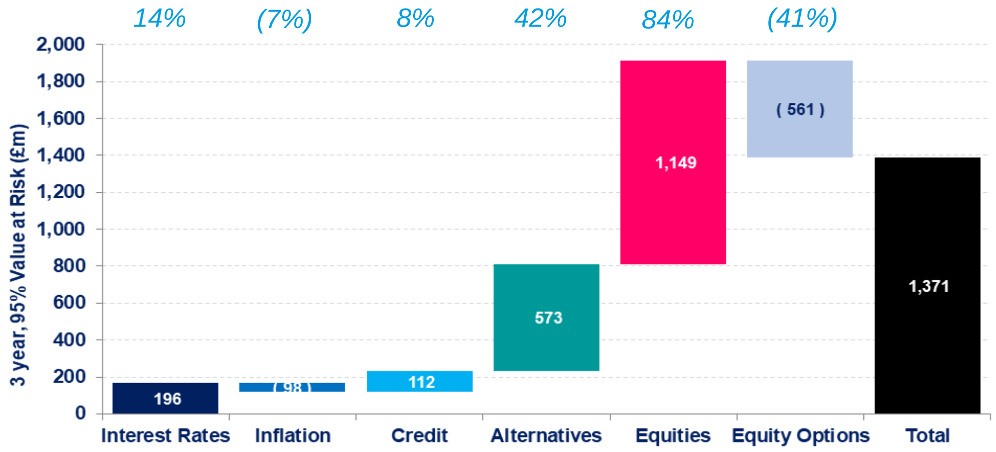
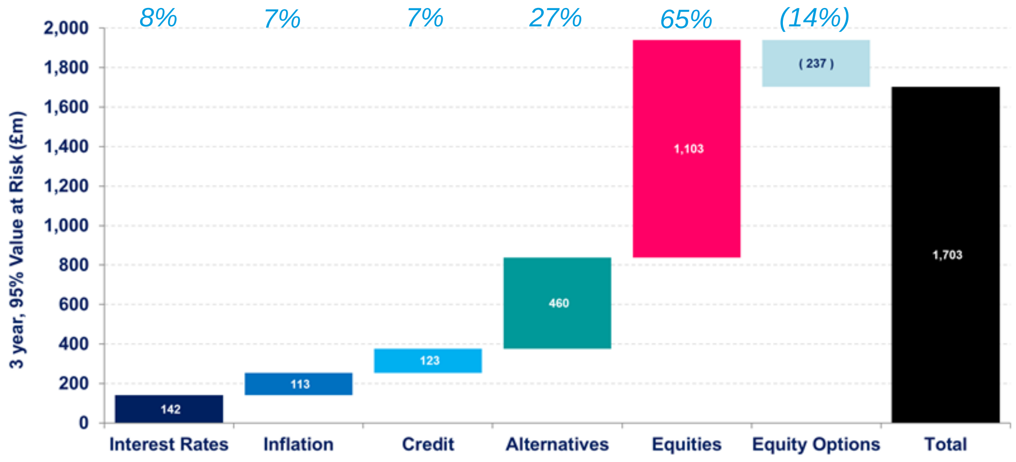
31 December 2023



31 March 2024



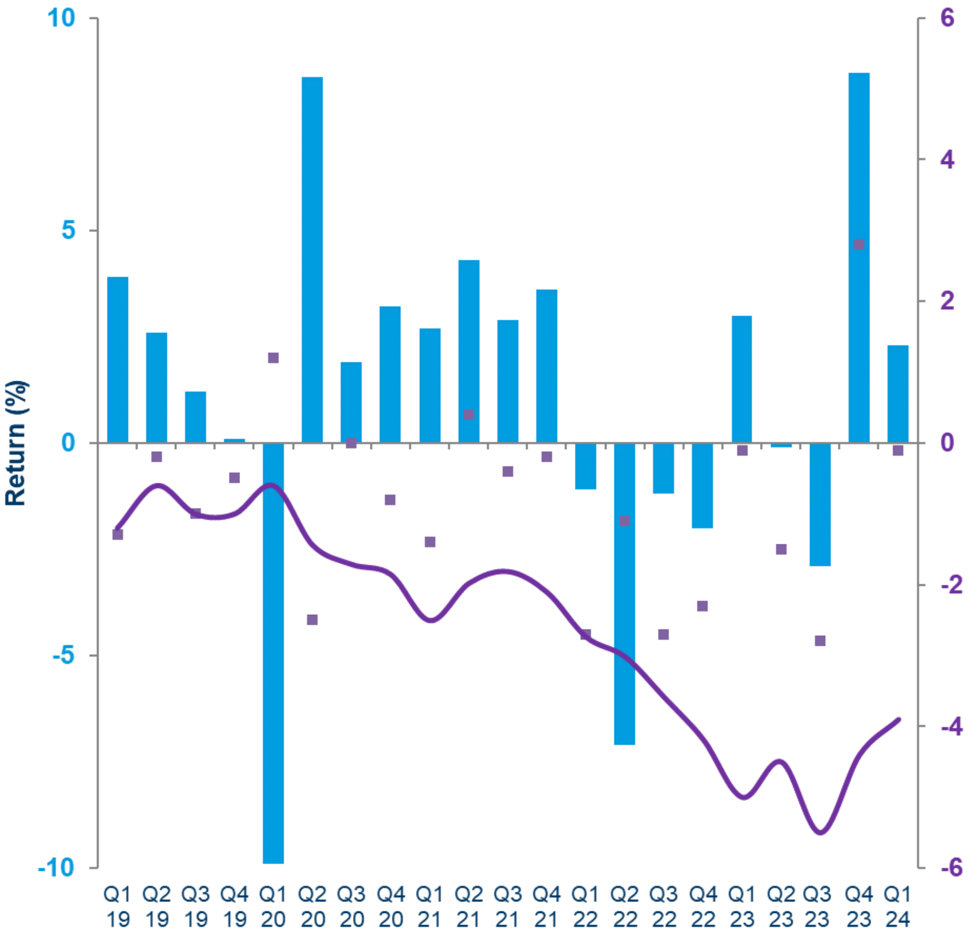
- As at 31 March 2024, if a 1-in-20 'downside event' occurred over the next three years, the funding position could deteriorate by at least an additional **£1.7bn**.
- Each bar to the left of the total represents the contribution to this total risk from the primary underlying risk exposures (interest 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 £332m over the quarter**, due to the rise in the absolute value of the assets, an increase in underlying volatility assumptions and the reduced coverage of the equity protection strategy.
- As a percentage of liabilities, VaR increased to from 23% to 29%.

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



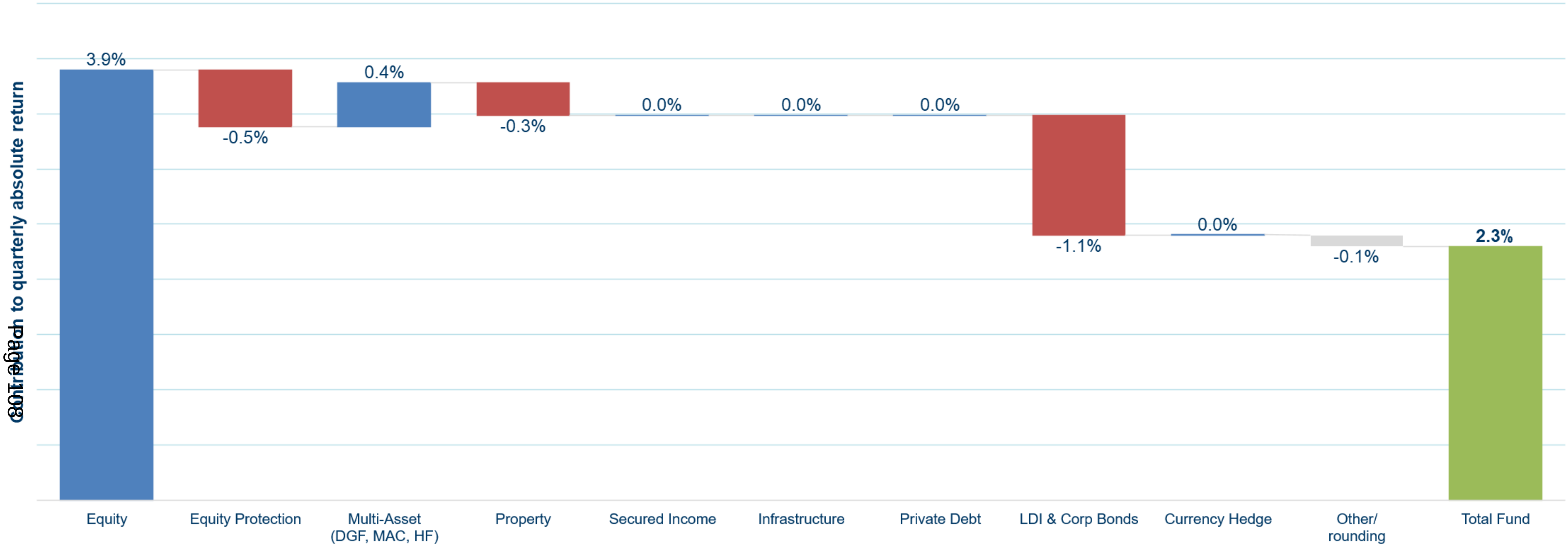
	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	2.3	7.8	3.2
Total Fund (ex currency hedge)	2.3	7.1	3.6
Strategic Benchmark **(2)** (ex currency hedge)	2.4	9.8	7.1
Relative (1 - 2)	**-0.0**	**-2.0**	**-3.9**

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 mainly driven by Equity assets. The Multi-Asset strategies also fared well.
- Relative performance was broadly neutral over the quarter, as the active equity mandates generally performed in line with their benchmarks, whilst the outcomes for the Liquid and Illiquid Growth assets were mixed.
- Underperformance relative to the strategic benchmark over the one year period was in particular due to the active equity underperforming and detraction to returns from the Equity Protection strategy as underlying equity returns were positive. Elsewhere underlying relative performance was mixed.
- The main drivers of underperformance over three years were the active equity mandates, Equity Protection, Overseas Property and Secured Income.
- The Currency Hedge had no overall impact on returns over the quarter. It added to returns over the one year period due to the relative strengthening of Sterling, but conversely detracted over three years.

Total Fund Performance Attribution – Quarter

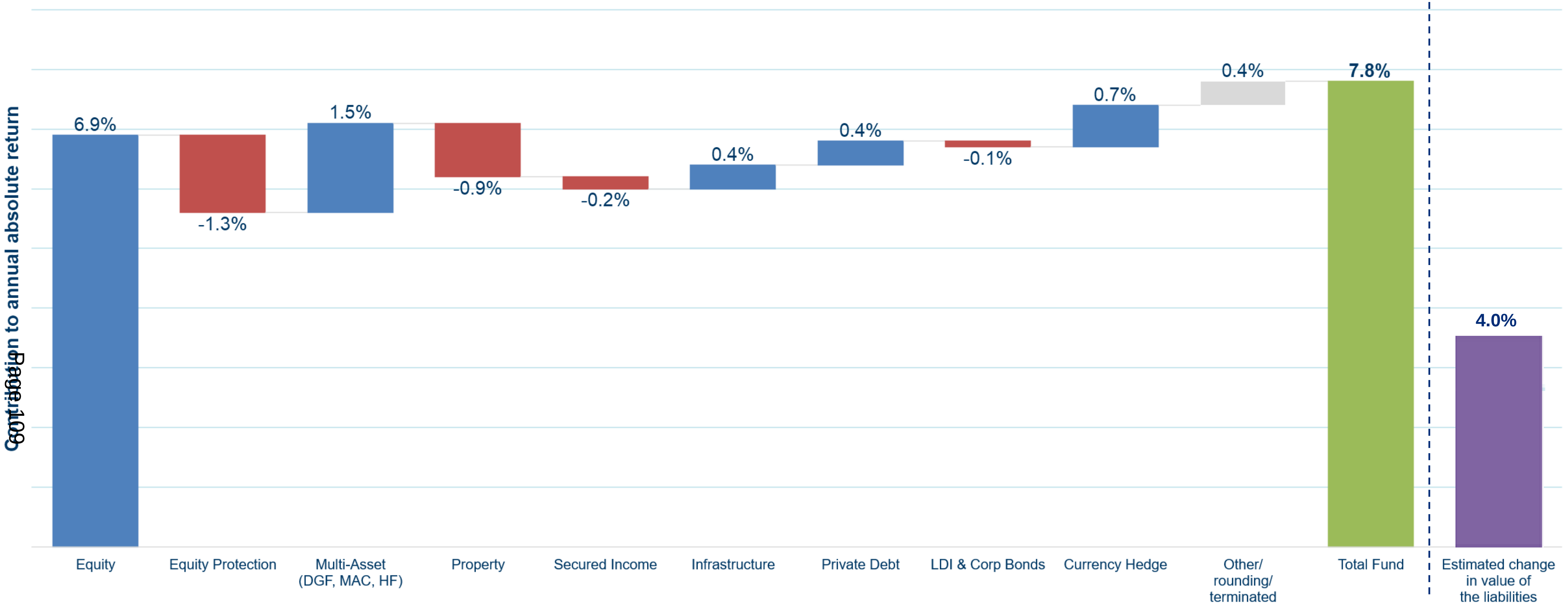


Source: Custodian and Mercer estimates
'Other' contributions to the total can include the relatively small holdings in the ETF, cash, the impact of cashflows and terminated mandates, as well as rounding.

The strong returns on Fund assets over the quarter were driven by the Equity portfolio. Multi-Asset portfolios also contributed, whilst the Alternatives did not have much impact.

The Equity Protection Strategy slightly detracted as expected given underlying positive returns from equity markets, although the impact was partly mitigated by the reduction of the coverage from 100% to 50% of the equity portfolio during the quarter.

Total Fund Performance Attribution – 1 Year



Source: Custodian and Mercer estimates.
'Other' contributions to the total can include the relatively small holdings in the ETF, cash, the impact of cashflows and terminated mandates, as well as rounding.
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 one year period, with Equity Protection slightly offsetting this as expected.

Multi-Asset, Infrastructure and Private Debt were also positive, whilst Property and Secured Income were negative.

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

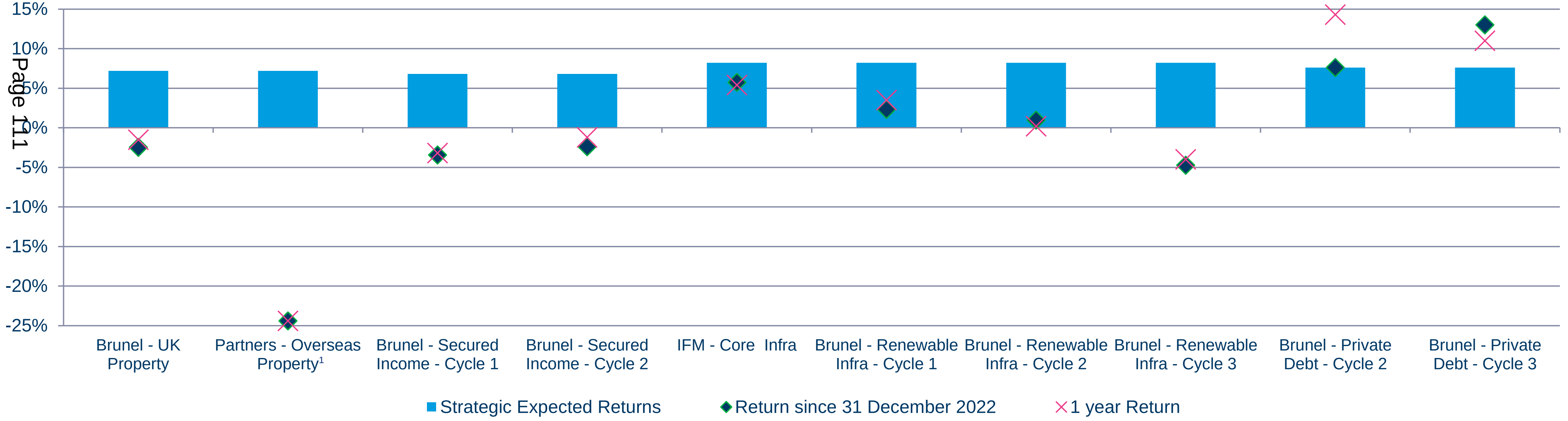
Performance vs. Expected Strategic Returns

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. 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 above expectations since May 2023; when exposure was put in place.	Returns above expectations since December 2022, thanks to the absolute returns seen in the past three quarters. Strong Q1 2024 returns were driven by equity exposure, which had been added to over the prior six months.	Returns above expectations since December 2022 thanks to strength in high-yield debt markets.

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 March 2024, except if otherwise stated below. Returns for periods over a year have been annualised.
The strategic expected returns are from the 2023 strategy review, which reflect the 10 year mean Mercer Q4 2022 asset model assumptions.

Performance vs. Expected Strategic Returns

Growth Asset	Brunel UK Property	Partners Overseas Property	Brunel Secured Income	IFM Core Infra	Brunel Renewable Infra	Brunel Private Debt
Benchmark allocation	3.5%	3.5%	9.0%	4.0%	5.0%	4.5%
Commentary	Returns below expectations since December 2022 due to the challenges continuing to be seen in Property markets.			Returns slightly below expectations since December 2022. Returns prior to this date, since the mandate's inception, are noticeably stronger.	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 for cycles 1 and 2 are stronger over their since inception periods.	Returns in line with expectations for cycle 2, and above expectations for cycle 2, since December 2022. Mandates are still in the drawdown phase; the first drawdowns were in September 2021 and December 2022 respectively.



Notes:
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Actual returns are from 31 December 2022 to 31 March 2024, 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 31 December 2023, as this is the latest data available.

Mercer

Mandate Performance to 31 March 2024

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	9.9	10.0	-0.1	20.5	23.1	-2.1	9.6	12.4	-2.5	+2-3	Target not met
Brunel Global Sustainable Equity	9.2	9.3	-0.1	13.2	21.2	-6.6	6.6	10.7	-3.7	+2	Target not met
Brunel Passive Global Equity Paris-Aligned	7.6	7.6	0.0	21.3	21.3	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	4.3	2.0	+2.3	10.9	8.1	+2.6	4.9	5.5	-0.6	-	Target not met
Brunel Multi-Asset Credit	2.2	2.3	-0.1	11.8	9.2	+2.4	N/A	N/A	N/A	-	N/A
Brunel UK Property	-1.1	0.4	-1.5	-1.5	-1.0	-0.5	2.1	0.8	+1.3	-	Target met
Partners Overseas Property*	-12.0	2.5	-14.1	-24.4	10.0	-31.3	-6.4	10.0	-14.9	-	Target not met
Brunel Secured Income - Cycle 1	-0.2	0.6	-0.8	-3.2	3.2	-6.2	-1.6	6.7	-7.8	+2	Target not met
Brunel Secured Income - Cycle 2	-0.9	0.6	-1.5	-1.2	3.2	-4.3	2.0	6.7	-4.4	+2	Target not met
Brunel Secured Income - Cycle 3	-1.1	0.6	-1.7	N/A	N/A	N/A	N/A	N/A	N/A	+3	N/A
IFM Core Infrastructure	-0.9	2.5	-3.3	5.4	10.2	-4.4	10.3	7.6	+2.5	-	Target met
Brunel Renewable Infrastructure - Cycle 1	1.0	0.6	+0.4	3.5	3.2	+0.3	7.9	6.7	+1.1	+4	Target not met
Brunel Renewable Infrastructure - Cycle 2	0.0	0.6	-0.6	0.2	3.2	-2.9	8.6	6.7	+1.8	+4	Target not met
Brunel Renewable Infrastructure - Cycle 3	1.1	0.6	+0.5	-4.0	3.2	-7.0	N/A	N/A	N/A	+4	N/A
Brunel Private Debt - Cycle 2	-0.2	2.3	-2.4	14.3	9.2	+4.7	N/A	N/A	N/A	-	N/A
Brunel Private Debt - Cycle 3	3.0	2.3	+0.7	11.0	9.2	+1.6	N/A	N/A	N/A	-	N/A
BlackRock Corporate Bonds	-0.6	-0.6	0.0	6.5	6.5	0.0	-8.1	-8.1	0.0	-	N/A (p)
BlackRock LDI	-4.5	-4.5	0.0	-2.6	-2.6	0.0	-1.7	-1.7	0.0	-	N/A (p)
Equity Protection Strategy	-0.9	N/A	N/A	-3.6	N/A	N/A	-2.8	N/A	N/A	-	N/A

Source: Investment Managers, Custodian, Mercer estimates. Returns are net of fees, unless otherwise stated. Returns are in GBP terms
From this report onwards, relative returns are calculated 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 the LDI portfolio is estimated by Mercer based on the change in exposure. These returns are gross of fees.
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 Equity	709,926	755,210	12.5	13.0	10.5	5.5 - 15.5	+2.5
Global Sustainable Equity	610,460	666,871	10.7	11.5	10.5	5.5 - 15.5	+1.0
Paris-Aligned Equity*	1,450,823	1,517,779	25.4	26.1	20.5	12.5 - 28.5	+5.6
Diversified Returns Fund	357,917	373,170	6.3	6.4	6.0	3 - 9	+0.4
Fund of Hedge Funds**	23,247	23,907	0.4	0.4	-	No set range	+0.4
Multi-Asset Credit	333,224	340,487	5.8	5.9	6.0	3 - 9	-0.1
Property	316,007	299,369	5.5	5.1	7.0	No set range	-1.9
Secured Income	569,156	600,319	10.0	10.3	9.0	No set range	+1.3
Core Infrastructure	230,754	228,645	4.0	3.9	4.0	No set range	-0.1
Renewable Infrastructure	199,456	206,889	3.5	3.6	5.0	No set range	-1.4
Private Debt	197,730	203,367	3.5	3.5	4.5	No set range	-1.0
Local / Social Impact	-	35,085	-	0.6	3.0	No set range	-2.4
Corporate Bonds	183,069	181,886	3.2	3.1	2.0	No set range	+1.1
LDI & Equity Protection	1,366,378	1,340,450	24.0	23.0	12.0	No set range	+11.0
*Synthetic Equity Offset**	-1,005,747	-1,090,079	-17.6	-18.7	-	-	-
Other***	213,304	169,037	3.7	2.3	-	0 - 5	+2.3%
Total	**5,701,894**	**5,818,000**	**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.

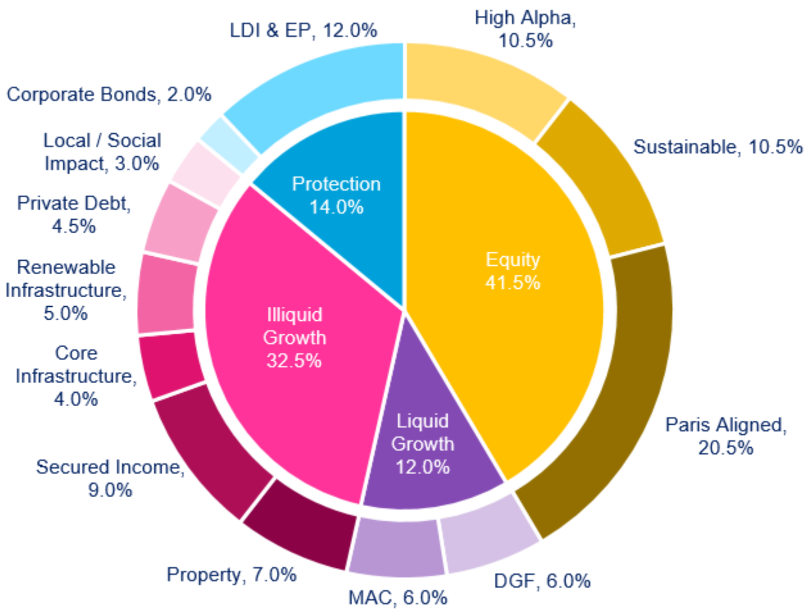
Valuation by Manager

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Brunel	Global High Alpha Equity	656,096	-	720,796	11.5	12.4
Brunel	Global Sustainable Equity	610,460	-	666,871	10.7	11.5
Brunel	Passive Global Equity Paris Aligned	445,076	-50,011	427,700	7.8	7.4
BlackRock	MSCI Paris-Aligned (Synthetic)*	1,005,747	-	1,090,079	17.6	18.7
Brunel	Diversified Returns Fund	357,917	-	373,170	6.3	6.4
JP Morgan	Fund of Hedge Funds	23,247	-	23,907	0.4	0.4
Brunel	Multi-Asset Credit	333,224	-	340,487	5.8	5.9
Brunel	UK Property	180,117	-	178,154	3.2	3.1
Schroders	UK Property	13,263	-365	13,185	0.2	0.2
Partners	Overseas Property	122,626	-	108,030	2.2	1.9
Brunel	Secured Income – Cycle 1	303,032	-6,278	296,092	5.3	5.1
Brunel	Secured Income – Cycle 2	104,171	-1,548	101,660	1.8	1.7
Brunel	Secured Income – Cycle 3	161,953	+42,606	202,568	2.8	3.5
IFM	Core Infrastructure	230,754	-	228,645	4.0	3.9
Brunel	Renewable Infrastructure – Cycle 1	109,393	+2,366	112,995	1.9	1.9
Brunel	Renewable Infrastructure – Cycle 2	77,554	+1,821	79,509	1.4	1.4
Brunel	Renewable Infrastructure – Cycle 3	12,509	+1,633	14,385	0.2	0.2
Brunel	Private Debt – Cycle 2	161,464	-	161,102	2.8	2.8
Brunel	Private Debt – Cycle 3	36,266	+4,833	42,265	0.6	0.7
BlackRock	Corporate Bonds	183,069	-	181,886	3.2	3.1
BlackRock	LDI & Equity Protection	1,366,378	-	1,340,450	24.0	23.0
BlackRock	*Synthetic Equity Offset**	-1,005,747	-	-1,090,079	-17.6	-18.7
Record	Currency Hedging (incl. collateral)	74,307	-30,000	46,603	1.3	0.8
BlackRock	ETF	23,222	-20,000	3,354	0.4	0.1
Schroders Greencoat	Wessex Gardens	-	+35,085	35,085	-	0.6
-	Internal Cash	115,315	+2,478	118,635	2.0	2.0
-	Residual Assets	459	-	446	0.0	0.0
Total		**5,701,894**	**-17,379**	**5,818,000**	100.0	100.0

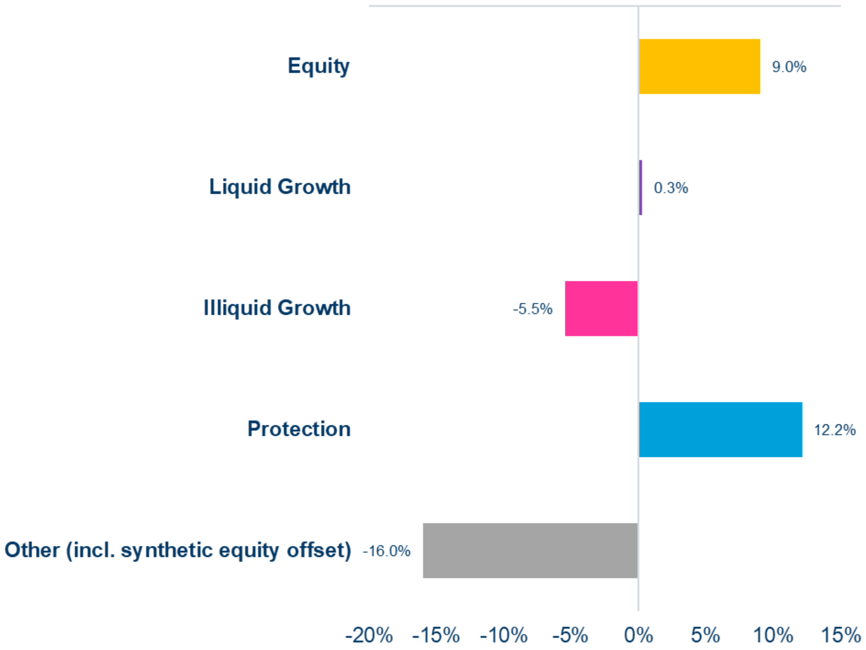
Source: Custodian, Investment Managers, Mercer. Totals may not sum due to rounding. The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included 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.

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.
- A net amount of c. £81m was drawn down to private market portfolios during the quarter, which includes the funding of c. £35m of the £50m commitment to Schroders Greencoat Wessex Gardens; the first mandate to be implemented for the Local / Social Impact portfolio.

Current Topics

6

Current Topics

When did you last review your equity portfolio?

Equity Portfolio reviews

- Rightly so, the majority of Officer and Committee’s time is spent on the Strategic asset allocation, the split between high level asset classes (equities, fixed income, alternatives). This drives the largest proportion of returns.
- But we have also seen over recent years, particularly with the strong rally in Value equities and the outperformance of the magnificent 7 over 2023, that the **portfolio construction within the equity portfolio can also have a large impact on performance.**
- As LGPS Funds consider moving more assets to the pools (where they haven’t already), this offers **a great time to assess the make up of the Fund’s equity portfolio.**
- For those who have already moved their equities to the pools, it will also be appropriate as we start to see long term (3 to 5 year) performance come through and also new equity funds be launched.

The investment approach of your equity manager(s) will have a big impact on their performance. Blending complementary approaches together can build more robust portfolios

Active / Passive Split	Style diversificati on	Sector exposures	Manager quality	Sustainable investment alignment	Mandate sizing
Return targets	Regional exposures	Net Zero alignment	Pooling alignment	Fees	Performanc e

Relevance to the Fund

The Committee last reviewed the Equity portfolio as part of the 2023 Investment Strategy Review, which covered a number of the themes illustrated.

The last deep dive into portfolio style exposures took place in 2021.

Continued underperformance of the active mandates could be one prompt for an updated deep dive review in the near future.

Mercer’s Equity and Fixed Income Playbooks

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Intra-asset class portfolio construction is a key part of investment strategy, ensure it is not ignored to build more robust portfolios. Prior to switching assets to pools is a great time to undertake a review.

01

Even the most skilful managers experience periods of underperformance. Patience and the ability to take a long-term view should be rewarded

02

Bias towards higher quality alpha sources that have shown to be the most repeatable and evidence based

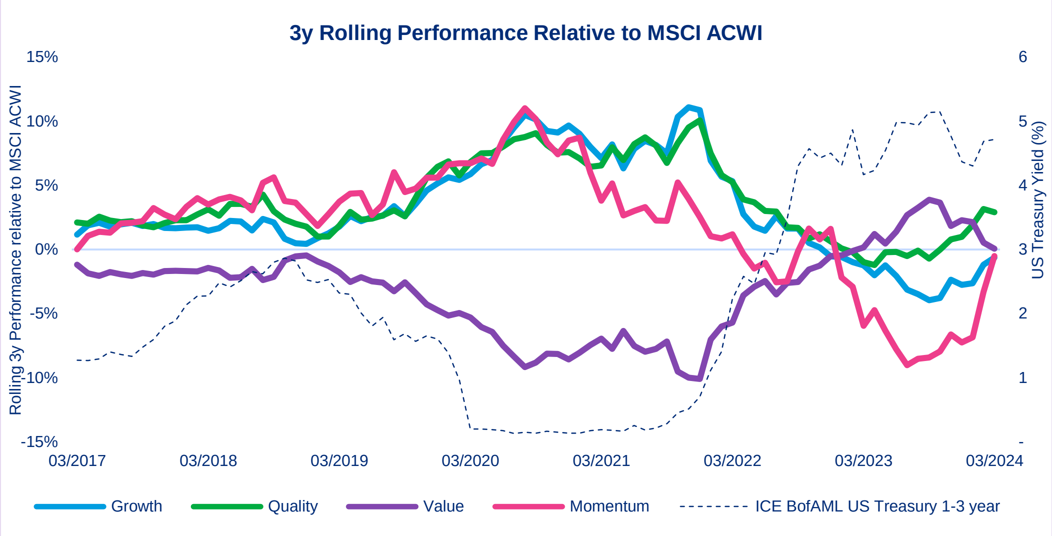
03

Empower skilled managers with flexibility to exploit market inefficiencies

04

Be mindful of regime shifts, external factors and sustainable factors that have a material impact on client outcomes

Change Coming in 2024?



Growth and Quality stocks struggled in the rising yield environment of 2022 and 2023,a more stable monetary backdrop in 2024 may be more favourable for these styles.

Mercer

Current Topics

Climate Topics

Incorporating Private Markets in Net Zero Monitoring: Overview

1

Challenges with data include lack of standardisation, availability, quality & accessibility.

2

Growing number of managers can provide carbon data, with large gap between leaders and laggards.

3

While challenges remain overall private market managers are improving.

4

Increased data sets allow clients to start increasing monitoring and exploring target setting, but also to engage with managers about expectations.

5

IIGCC guidance available for private equity, infrastructure and real estate. Private debt and venture capital on the way.

6

Mercer template available for data requests across all private market investments – helps standardise and collate large amounts of data.

IIGCC guidance on Net Zero monitoring is now available for private equity, infrastructure and real estate.

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Importance of scaling climate solutions

Scaling up investment in climate solutions is an imperative for a successful net zero transition.

The total investment required to limit global average temperature rise to 1.5°C above pre-industrial levels between now and 2050 is estimated to range from USD 109 trillion to USD 275 trillion across renewable energy, low carbon transport, energy efficient buildings, electrification of industrial processes and more*

Institutional investors have a key role to play in funding this gap, with a growing number committed to monitoring climate solutions, incorporating them into transition planning and setting targets.

*Green equity exposure in a 1.5°C scenario: Applying climate investment trajectories with green revenues (FTSE Russell, 2022)

Monitoring climate solutions exposures: IIGCC New Guidance

Two primary climate solutions metrics identified in the IIGCC 'Investing in climate solutions: listed equity and corporate fixed income' guidance. The two metrics complement one another: green revenue is backward looking, while green capex is forward looking.

Green Revenues

Revenues from the sale of climate solutions products and services.

Green Capex

- Capital expenditure in new climate solutions technologies and products.

- Green capex is typically reported in financial terms (e.g., USDm, €m, £m) based in last financial year.

Relevance to the Fund

The Fund monitored Green Revenues and Green Capex for the first time in the 2024 ACT report.

In this report a summary of the Fund's private market mandates' decarbonisation positions was also set out. We'd expect this to continue to be enhanced as data availability improves.

Other Recent Governance Announcements

The Pensions Regulator ("TPR") Guidance on Private Markets – Critical success factors

Manager Selection	Strategic Allocation	Manager Access/Pooling	Risk Management	Market Awareness
Ability to identify and select established, highly rated fund managers who bring specialized expertise and talent to the strategy they are implementing.	A strategic allocation to private markets implemented via a long-term portfolio construction plan and sustained commitments to private market partnerships over time for vintage diversification.	Access to highly rated fund managers and the ability to identify emerging fund managers in order to potentially enhance returns and further a program's maturation. Pools are at various stages of offering Private Markets.	Spread risk through diversification: by business stage, fund strategy, industry, geography, manager and time.	Greater alpha potential through active management with high quality managers expected to demonstrate significant value-add.

Others (further details available on request)

- TPR General Code of Practice
- DLUHC: Preparing the Pension Fund Annual Report
- Financial Markets Law Committee: Trustee Fiduciary Duty in the Context of Sustainability
- March budget: Investing in Children's Homes
- Levelling Up Advisory Council: Accelerating Regional Growth

Relevance to the Fund

Officers and the Committee are kept up to date on regulatory developments.

The Fund's private market holdings have been discussed several times in the past couple of years, for which these success factors have been key considerations.

Appendix

Q1 2024 Equity Market Review

Speculation surrounding artificial intelligence (AI), broadly positive corporate earnings and stronger economic activity all drove equities higher over the quarter. Japanese equities also continued to rally on the back of stronger corporate earnings linked to higher nominal growth.

Global equities returned 9.1% in sterling terms and 9.5% in local currency terms as sterling depreciated against the dollar.

US equities returned 10.3% in local currency terms, whilst European (ex-UK) equities returns 9.6%, and Japanese equities returned 18.7%.

Emerging markets (‘EM’) equities returned 4.1% in local terms.

Global small cap stocks returned 6.3% 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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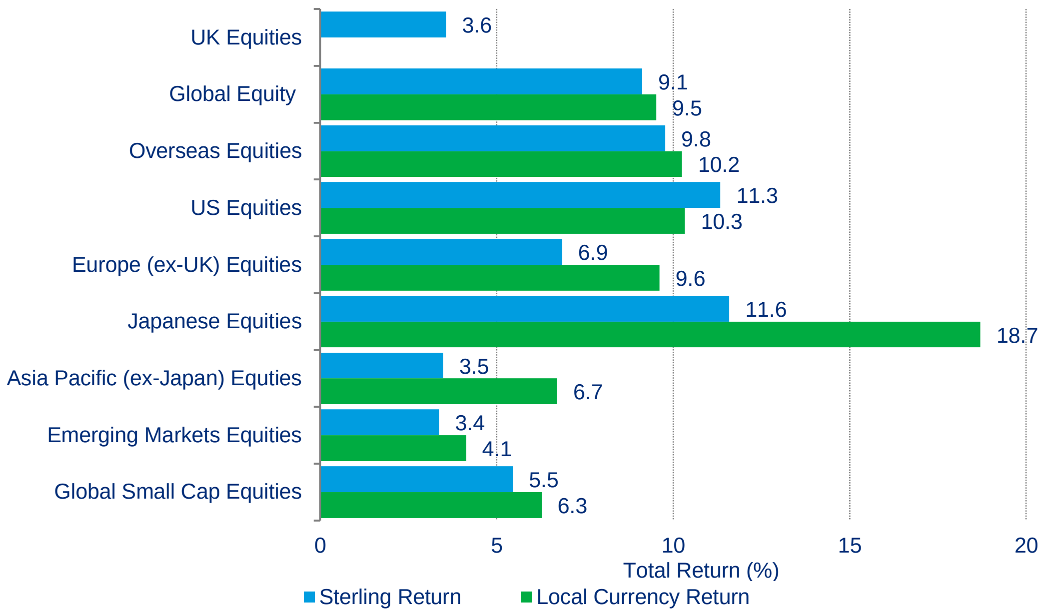
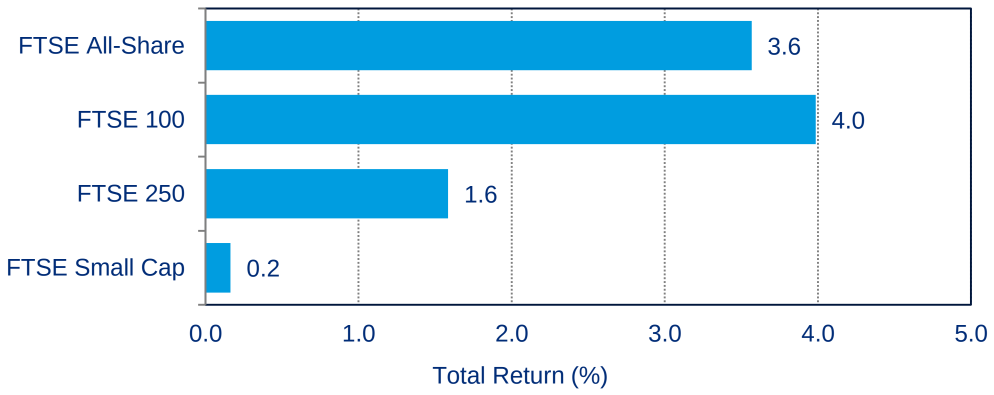
Equity Performance



The **FTSE All Share** index returned 3.6% over the quarter with the large cap **FTSE 100** index returning 4.0%. More domestically focused equities (**FTSE 250**) produced positive returns. The **small cap** index produced a positive 0.2% return.

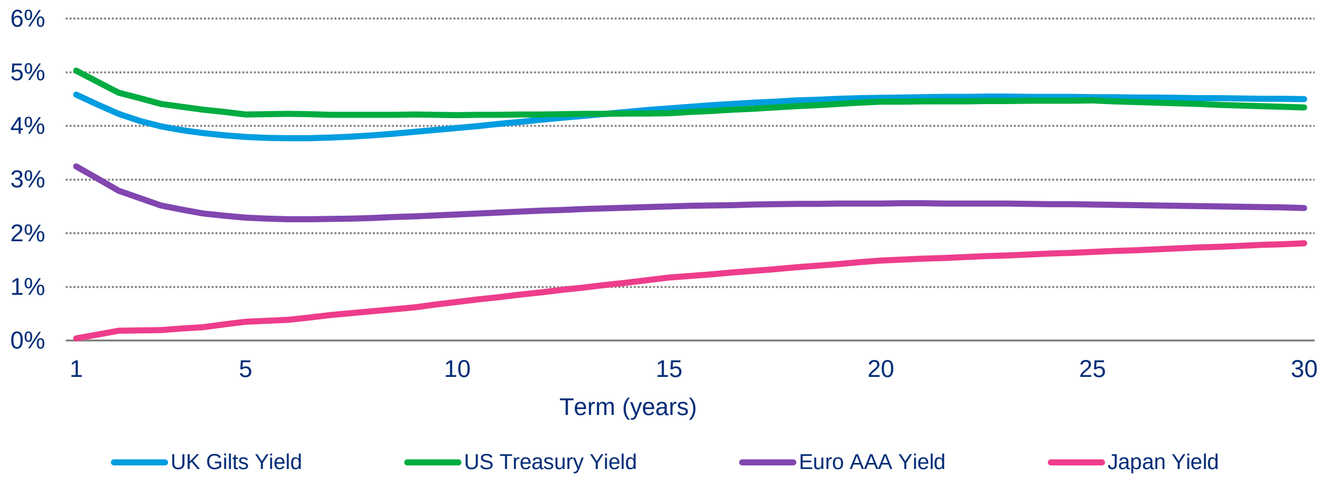
Strong performance in consumer goods and oil & gas supported the UK performance relative to global equities.

FTSE Performance by Market Cap



Source: Refinitiv

Q1 2024 Bond Market Review



Source: Mercer and Bloomberg

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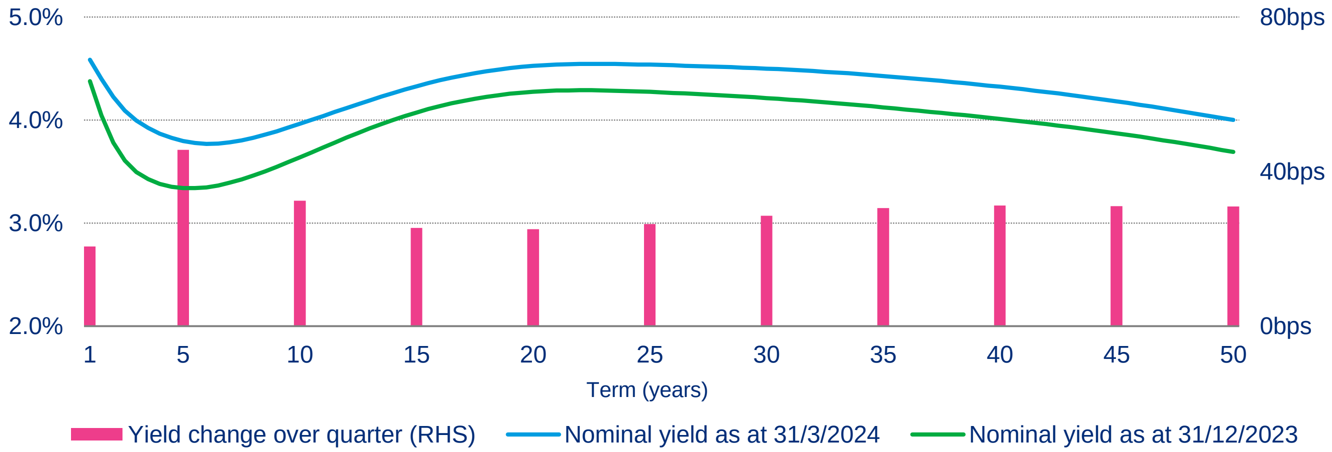


Source: Mercer

Government Bond Yields

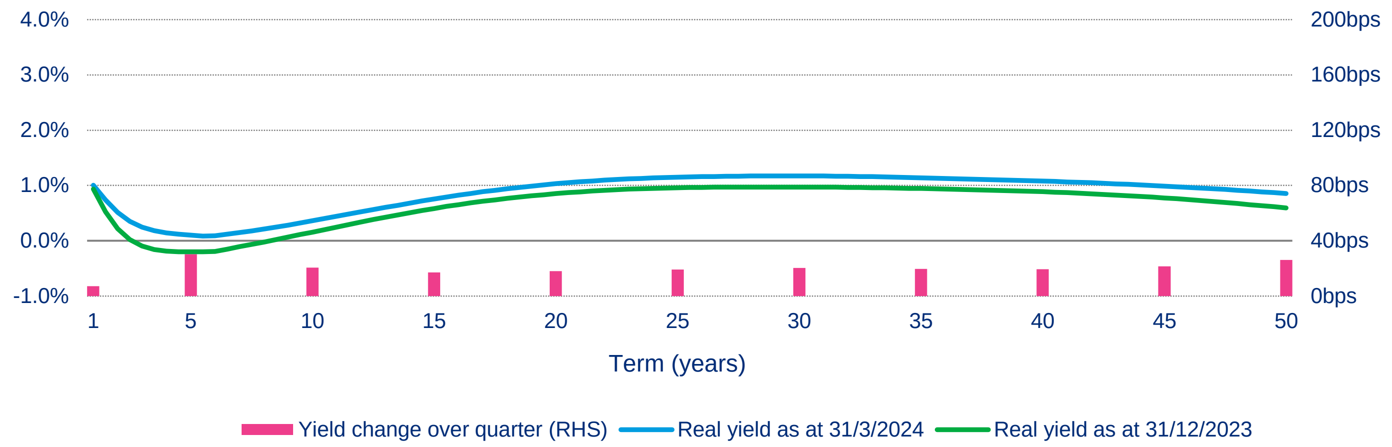
10-year global government bond yields rose over the quarter. The sell-off in bonds was driven by repricing of rate cut expectations, following upside surprises to growth and inflation data.

In the US, labor market resilience and sticky inflation postponed rate cut expectations from March to June 2024, while stubborn service inflation and wage growth in the UK pushed back rate cut timing in the UK to August 2024.

The 10-year benchmark bond yield in the US, UK and Germany rose 32 bps, 40 bps and 28 bps, respectively. Meanwhile, the yield curve across these regions continued to be inverted.

The Bank of Japan however moved in contrast, hiking interest rates for the first time in 17 years, albeit retaining its bond buying plans, this led to 10-year JGB yields ending the quarter below 0.8%.

Q1 2024 Bond Market Review



Source: Mercer

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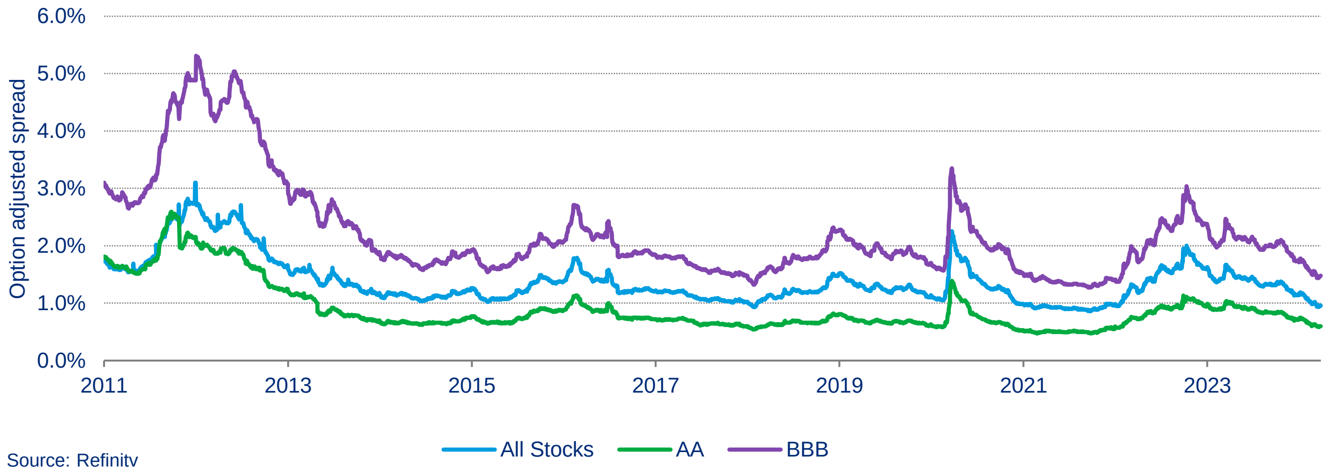


Source: Refinitv

UK Index-Linked Gilt Yields

UK real yields rose across the entire curve over the last quarter, with the 5-year segment witnessing an upside of 26 bps. Concerns of price pressures staying elevated on account of services inflation and resilient wage growth played through. Nevertheless, the BOE expects inflation to decline closer to 2% in the second quarter of 2024. However, UK 10-year breakeven rates finished the quarter at ~3.64% (16bps higher over the quarter).

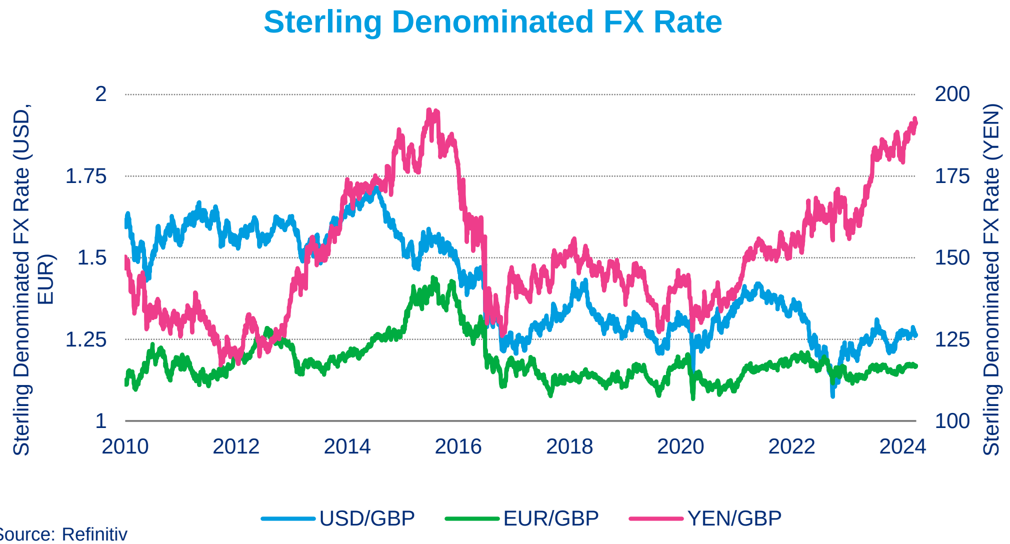
Corporate bonds

Spreads on UK investment grade credit tightened over the quarter, with spreads on lower rated credit tightening more (25bps) than for higher rated credit (11bps).

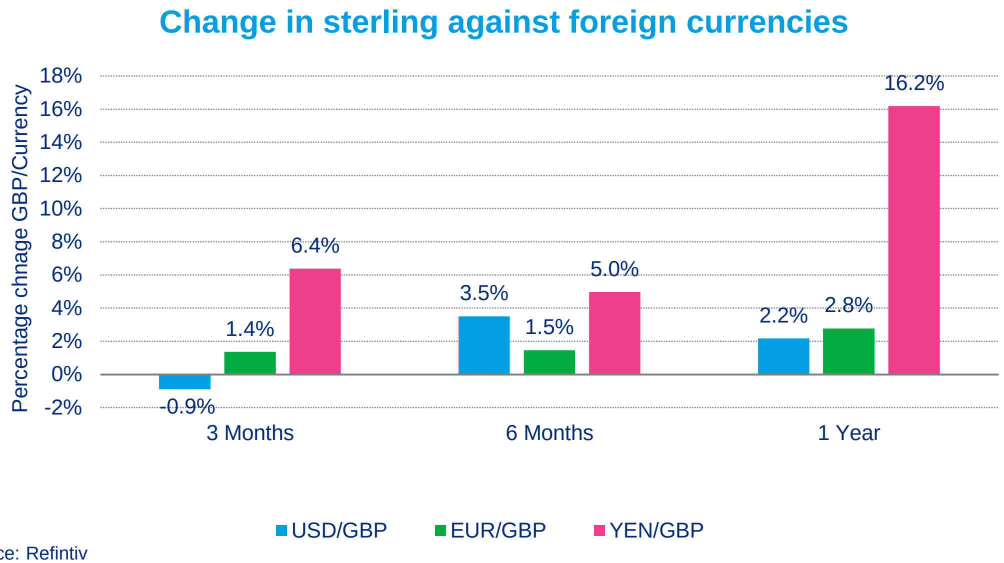
Q1 2024 Currency Market Review

Sterling remained weak against the dollar over the quarter as the dollar appreciated after better-than-expected economic data reduced expectations of a March FOMC rate cut. The US dollar index rose ~3% in the quarter, even though it recorded a 1.7% depreciation on a 12-month basis.

Similarly, against the EUR and JPY, sterling remained under pressure over the first quarter. On a 12-months basis however, sterling outperformed against the yen and marginally versus the dollar and euro.



Source: Refinitiv



Source: Refintiv

Q1 2024 Property

UK property as measured by the MSCI Index increased by 0.6% over the first quarter of 2024.

Dynamic Asset Allocation (DAA)

Dashboard, Positioning & Outlook for UK constrained Portfolio

UK Economic Outlook

UK equities underperformed global equities (in GBP terms) in the first quarter of the year. The rally in global equities was driven by decent earnings growth and central banks in the developed world broadly confirming that rate cuts remain on the horizon. Growth stocks and AI-linked names outperformed. 10-year UK gilt yields rose 0.4% over the quarter, broadly in line with global bond markets. Higher global bond yields were primarily driven by two consecutive upside surprises in the US inflation. Sterling weakened versus the US dollar however strengthened against most other major currencies. The UK economy slipped into a technical recession at the end of 2023 as the economy shrank 0.1%1 in Q3 followed by a 0.3%1 in Q4. The fall in Q4 GBP was driven by a slowdown in consumption due to higher interest rates. Household consumption also fell with the savings ratio ticking modestly higher[2].

Dynamic Asset Allocation (DAA) Positioning

Equities	In terms of UK equities, valuations are attractive, however, we think they are attractive for a good reason and given mixed outlook for 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 support corporate profit growth, both within and outside of China. 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. However, they are considered attractive on both an absolute and relative valuation basis.
Growth Fixed Income	As per last quarter, we kept a favourable view on Emerging Market Debt (EMD) Local Currency (LC). EMD LC is attractive due to the expectation of declining local yields as central banks cut interest rates. Additionally, EM currencies are expected to strengthen versus the US dollar as they are considered cheap in general and we expect the US dollar to decline. Central banks in countries like Brazil, Poland, Hungary, Chile, and Peru have already been cutting rates in 2023, and this trend is expected to continue and broaden in 2024 as EM inflation declines further. We also retain the same moderately negative view on global high yield, especially when compared with other growth fixed income assets.
Defensive Fixed Income	From a positioning standpoint, we retain our overweight position in UK gilts. Gilts did not enjoy the developed government bond rally to the same extent at the back end of last year leading to more attractive valuations. We retain our underweight real gilts vs nominal gilts, expecting the so-called break-even inflation rates to narrow further as inflation rates come down.

1 Office of National Statistics, quarter on quarter growth

2 Office of National Statistics

Constrained

Equities	**1%**
DM ex-UK	-2%
UK	0%
EM	3%
Small Cap	0%

Growth Fixed	**0%**
EM Debt (LC)	2%
Global HY	-2%

Defensive Fixed	**-1%**
Nominal Gov ex-UK	-1%
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 April 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 first half of 2024 is likely to remain challenged with negative data points (whether these are lagged or not). However, as this happens, it becomes crucial to recognize that attractive opportunities are more likely to be had in the early days of market stabilization – when prices are attractive, but sellers still outnumber buyers. We therefore encourage investors not to be spooked by near-term noise but to focus on the medium-term opportunity and long-term benefits of a real estate allocation.
- The global economy continues to be broadly 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.
- Core funds are reaching a low point in NAV, and annual returns for core funds have turned the corner. With subscription queues having dissipated across even the strongest of these funds, new capital may be drawn in a matter of months. Buying units at a low basis is a good starting point for a track record. Without making stretched assumptions, managers are predicting double digit fund returns in the 2025 for low-risk real estate.
- For those clients with a higher risk appetite, the opportunity to potentially 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 an opportunity for alternative lenders to deploy capital and potentially generate equity-like returns while occupying a sheltered position in the capital stack. However, with many US funds having raised significant capital, competition can be fierce, and margins have started to come down as managers compete for deals in sectors perceived to be most attractive (such as residential). This makes sourcing channels a critical factor to assess.
- Finally, over the longer term, real estate may 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 real estate 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
	Offices	High leverage	Spec Development

Very attractive | Attractive | Neutral | Less Attractive | Unattractive | Not applicable

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 core portfolios has been the bulk of repricing and we have upgraded our view of the US market to reflect this. In the next couple of quarters, we expect the core segments to turn attractive again. With economic growth rates relatively soft and capex budgets hard to defend when prices and liquidity are subdued, value-add remains hard to pull off.

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, April 2024*

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
Schroders Greencoat	Wessex Gardens*	SONIA + 3% p.a.	-	February 2024
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 for both of these mandates is a Net IRR of 8% p.a. (GBP). The inflation/cash-plus benchmarks are 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 March 2024

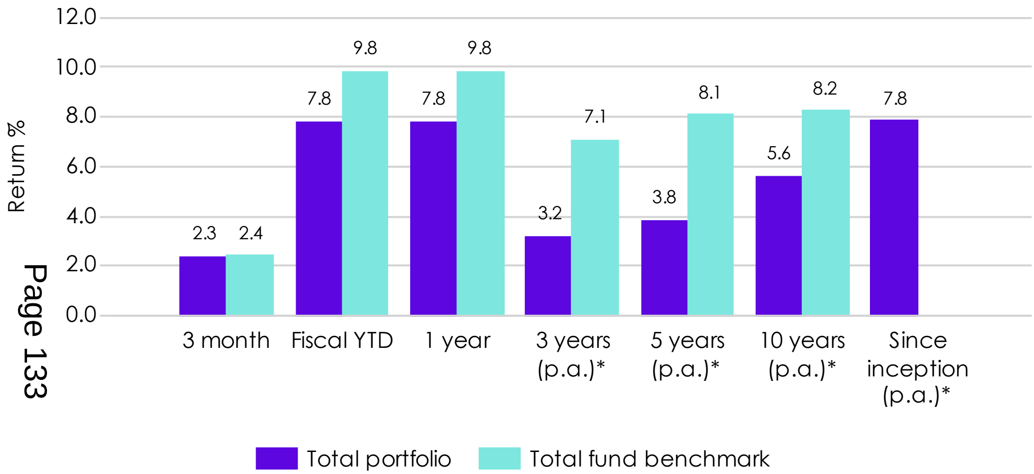
Avon Pension Fund

Brunel Pension Partnership

Contents

Pension Fund performance

Performance (annualised)



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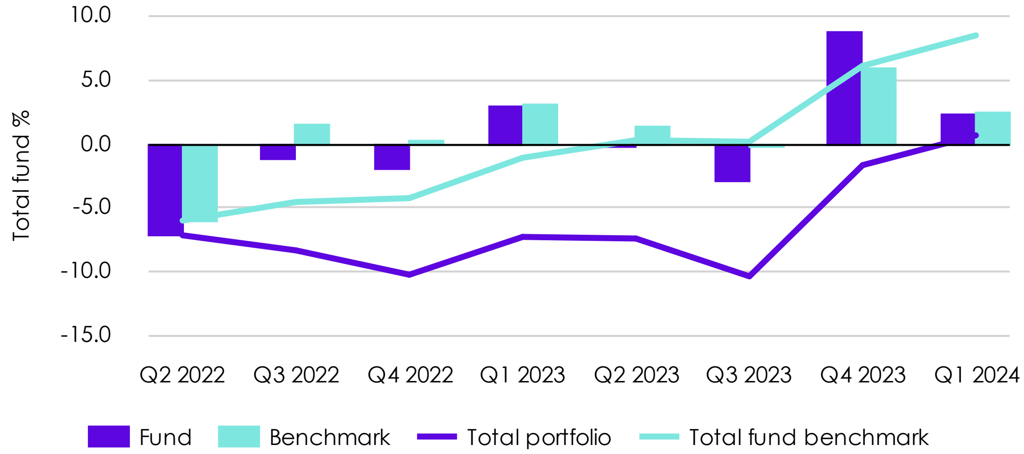
Source: State Street Global Services
*per annum. Net of all fees.

Quarterly performance



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

Key events

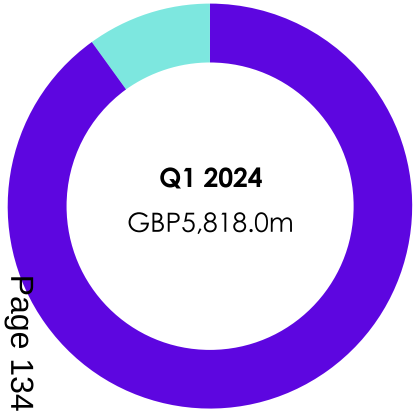
Markets enjoyed a strong first quarter, as global equities rose around 10% (GBP). US equities were strong, whilst the UK and emerging markets lagged. China remained a drag on the latter, although the market staged a slight recovery towards the end of the quarter. Credit markets also had a good quarter, and spreads in High Yield and sub-Investment Grade markets ended the quarter arguably quite tight. Gains in asset markets reflected a more positive outlook on growth and earnings. This led to expectations that interest rates would not fall as rapidly as previously expected. In private markets, fundraising in private equity remained tricky and deals to exit were thin on the ground.

The total fund increased 2.3% during the quarter, slightly lagging the 2.4% rise in the benchmark. Over the last year, the fund grew 7.8% vs the benchmark return of 9.8%.

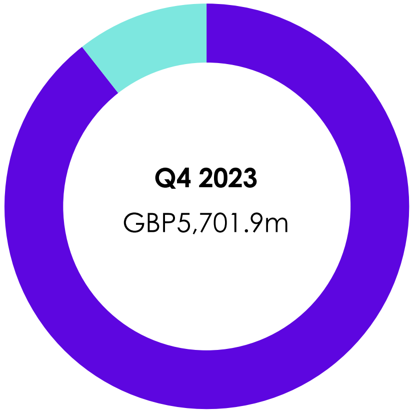
Brunel's listed portfolios reflected the strong markets and were all up in absolute terms, except for the two UK gilt portfolios, which were hindered by the "higher for longer" outlook (not held by Avon). Global High Alpha and Global Sustainable Equities both increased by more than 9%, whilst DRF was up by 4.3%.

Asset summary

Assets transitioned to Brunel



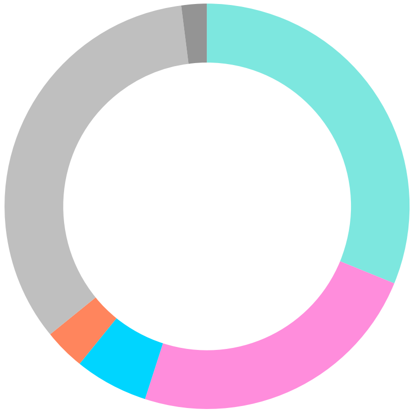
Transitioned	90.07%
Legacy assets	9.93%



Transitioned	89.42%
Legacy assets	10.58%

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

Asset allocation breakdown



Key:

Equities	31.21%
Private markets	23.76%
Fixed income	5.85%
Property	3.29%
Other	33.85%
Cash	2.04%

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

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Overview of assets

Detailed asset allocation

Equities	£1,815.81m	31.21%
Global High Alpha Equities	£720.80m	12.39%
Global Sustainable Equities	£666.87m	11.46%
PAB Passive Global Equities	£427.70m	7.35%
Legacy Assets	£0.45m	0.01%

Fixed income	£340.49m	5.85%
Multi-Asset Credit	£340.49m	5.85%

Private markets (incl. property)	£1,573.68m	27.05%
Secured Income Cycle 1	£296.09m	5.09%
Secured Income Cycle 3	£202.57m	3.48%
UK Property	£178.15m	3.06%
Private Debt Cycle 2	£161.10m	2.77%
Infrastructure Cycle 1	£113.00m	1.94%
Secured Income Cycle 2	£101.66m	1.75%
Infrastructure (Renewables) Cycle 2	£79.51m	1.37%
Private Debt Cycle 3	£42.26m	0.73%
Infrastructure Cycle 3	£14.38m	0.25%
Legacy Assets	£384.95m	6.62%

Other	£1,969.39m	33.85%
Blackrock Risk Management	£1,522.35m	26.17%
Diversifying Returns Fund	£373.17m	6.41%
Legacy Assets	£73.87m	1.27%

Cash not included

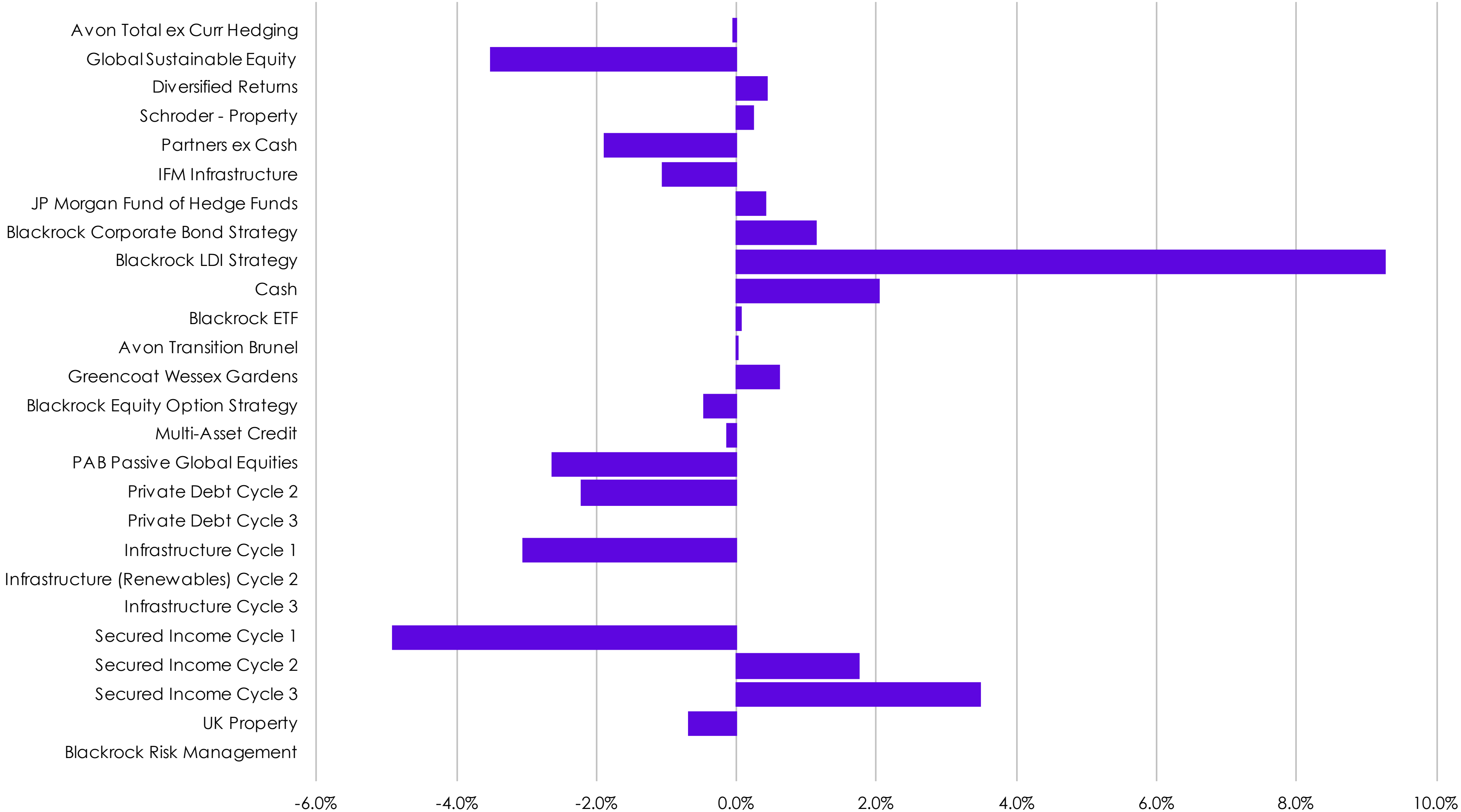
Overview of assets

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	84,466,617.15	1.45%	15.21
US0231351067	AMAZON.COM INC	Consumer Discretionary	Broadline Retail	UNITED STATES	64,480,682.08	1.11%	30.20
US57636Q1040	MASTERCARD INC - A	Financials	Transaction & Payment	UNITED STATES	42,301,569.64	0.73%	16.56
US02079K3059	ALPHABET INC-CL A	Communication Services	Interactive Media &	UNITED STATES	36,797,560.29	0.63%	24.09
US67066G1040	NVIDIA CORP	Information Technology	Semiconductors	UNITED STATES	36,235,305.75	0.62%	13.45
DK0062498333	NOVO NORDISK A/S-B	Health Care	Pharmaceuticals	DENMARK	30,096,932.80	0.52%	23.06
NL0010273215	ASML HOLDING NV	Information Technology	Semiconductor Materials &	NETHERLANDS	26,897,259.69	0.46%	10.05
US8740391003	TAIWAN SEMICONDUCTOR-SP ADR	Information Technology	Semiconductors	TAIWAN	26,298,588.11	0.45%	
US91324P1021	UNITEDHEALTH GROUP INC	Health Care	Managed Health Care	UNITED STATES	25,155,826.58	0.43%	18.00
US92826C8394	VISA INC-CLASS A SHARES	Financials	Transaction & Payment	UNITED STATES	23,661,310.27	0.41%	16.44

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

Strategic asset allocation



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Performance attribution

Pension fund performance attribution - to quarter end

	End market value £'000	Actual % allocation at end of quarter	Strategic asset allocation (%)	Difference (%)	Fund return (%): 3 months	Contribution to return: 3 month
Global Sustainable Equity	666,871	11.5%	15.00%	-3.5%	9.2%	1.0%
Diversified Returns	373,170	6.4%	6.00%	0.4%	4.3%	0.3%
Schroder - Property	13,185	0.2%	-	0.2%	-0.6%	-0.0%
Partners ex Cash	108,030	1.9%	3.75%	-1.9%	-11.6%	-0.3%
IFM Infrastructure	228,645	3.9%	5.00%	-1.1%	-0.9%	-0.0%
JP Morgan Fund of Hedge Funds	23,907	0.4%	-	0.4%	2.8%	0.0%
Blackrock Corporate Bond Strategy	181,886	3.1%	2.00%	1.1%	-0.6%	-0.0%
Blackrock LDI Strategy	1,233,960	21.3%	12.00%	9.3%	-14.0%	-3.6%
Cash	118,635	2.0%	-	2.0%	0.7%	0.0%
Blackrock ETF	3,354	0.1%	-	0.1%	3.9%	0.0%
Avon Transition Brunel	5	0.0%	-	0.0%	-1.3%	-0.0%
Greencoat Wessex Gardens	35,085	0.6%	-	0.6%	-	-
Blackrock Equity Option Strategy	-26,695	-0.5%	-	-0.5%	59.8%	2.0%
Multi-Asset Credit	340,487	5.9%	6.00%	-0.1%	2.2%	0.1%
PAB Passive Global Equities	427,700	7.4%	10.00%	-2.6%	7.6%	0.6%

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 2	161,102	2.8%	5.00%	-2.2%	N/M	N/M
Private Debt Cycle 3	42,265	0.7%	0.73%	-	N/M	N/M
Infrastructure Cycle 1	112,995	1.9%	5.00%	-3.1%	N/M	N/M
Infrastructure (Renewables) Cycle 2	79,509	1.4%	1.37%	-	N/M	N/M
Infrastructure Cycle 3	14,385	0.2%	0.25%	-	N/M	N/M
Secured Income Cycle 1	296,092	5.1%	10.00%	-4.9%	N/M	N/M
Secured Income Cycle 2	101,660	1.8%	-	1.8%	N/M	N/M
Secured Income Cycle 3	202,568	3.5%	-	3.5%	N/M	N/M
UK Property	178,154	3.1%	3.75%	-0.7%	N/M	N/M
Blackrock Risk Management	1,522,350	26.2%	26.17%	-	-1.7%	-0.5%

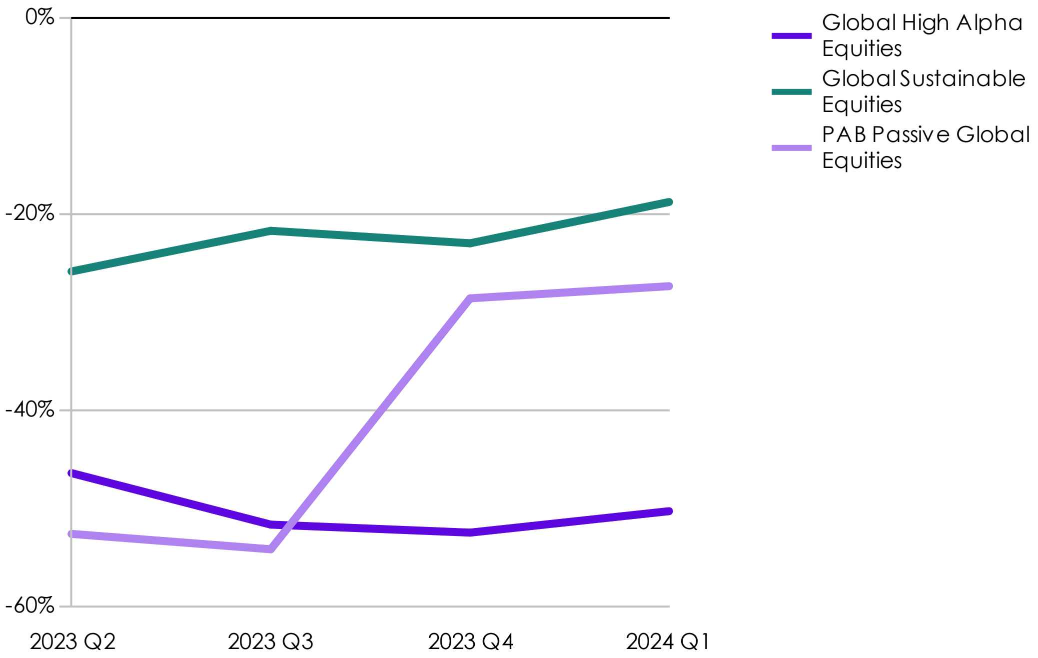
Private Markets 3 month performance is not material.

Stewardship and climate metrics

Portfolio	WACI		Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	2023 Q4	2024 Q1	2023 Q4	2024 Q1	2023 Q4	2024 Q1
Global High Alpha Equities	**78**	**79**	**1.6**	**1.5**	**2.5**	**2.4**
MSCI World*	164	160	4.9	4.8	8.2	8.0
Global Sustainable Equities	**155**	**160**	**2.2**	**2.0**	**4.8**	**5.1**
MSCI ACWI*	201	197	4.9	4.8	8.3	8.1
PAB Passive Global Equities	**120**	**118**	**1.4**	**1.2**	**3.6**	**3.5**
FTSE Dev World TR UKPD*	168	163	4.7	4.6	8.5	8.3

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

Weighted Average Carbon Intensity relative to benchmark



Stewardship reporting links

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

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

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

Risk and return summary

Brunel portfolio performance - 3 year

	Annualised return	Risk (standard deviation)	Benchmark return	Benchmark standard deviation
Equities				
Global High Alpha Equities	9.6%	13.5%	12.4%	11.7%
Global Sustainable Equities	6.6%	14.7%	10.7%	11.3%
Other				
Diversifying Returns Fund	4.9%	4.4%	5.5%	0.6%
Private markets (incl. property)				
Infrastructure Cycle 1	7.6%	4.8%	6.7%	2.1%
Infrastructure (Renewables) Cycle 2	7.8%	8.6%	6.7%	2.1%
Secured Income Cycle 1	-1.9%	5.2%	6.7%	2.1%
Secured Income Cycle 2	-1.3%	6.1%	6.7%	2.1%
UK Property	0.9%	8.9%	0.8%	10.4%

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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%	7.9%	7.1%	6.6%
Avon Total ex Hedging ex LDI	6.0%	6.7%	7.1%	6.6%
Blackrock ETF	4.3%	8.6%	0.0%	-
Cash	3.9%	2.4%	2.4%	0.6%
General Cash	3.2%	-	-	-
IFM Infrastructure	10.3%	5.5%	7.6%	0.6%
JP Morgan Fund of Hedge Funds	7.4%	29.0%	6.6%	0.6%
Partners ex Cash	-7.8%	8.9%	10.1%	0.9%
Record Equitisation	8.3%	10.1%	8.0%	10.0%
Schroder - Property	4.8%	6.0%	1.5%	10.8%
Schroder Equity	-21.2%	34.6%	10.7%	11.3%
TT International - UK Equities	2.2%	4.1%	8.0%	10.9%
Avon Pension Fund	3.2%	8.6%	7.1%	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 (31.20%)			**1,815.37**									
Global High Alpha Equities	MSCI World	+2-3%	720.80	9.9%	-0.1%	20.5%	-2.5%	9.6%	-2.8%	13.9%	1.2%	15 Nov 2019
Global Sustainable Equities	MSCI ACWI	+2%	666.87	9.2%	-0.1%	13.2%	-8.0%	6.6%	-4.1%	8.4%	-4.5%	30 Sep 2020
PAB Passive Global Equities	FTSE Dev World PAB	Match	427.70	7.6%	-	21.3%	-	-	-	8.5%	-0.1%	29 Oct 2021
Fixed income (5.85%)			**340.49**									
Multi-Asset Credit	SONIA +4%	0% to +1.0%	340.49	2.2%	-0.1%	11.8%	2.6%	-	-	2.2%	-4.5%	02 Jun 2021
Private markets (incl. property) (20.43%)			**1,188.73**									
Private Debt Cycle 2	SONIA	+4%	161.10	N/M	N/M	12.2%	3.0%	-	-	7.9%	0.9%	17 Sep 2021
Private Debt Cycle 3	SONIA	+4%	42.26	N/M	N/M	12.1%	2.9%	-	-	12.6%	3.7%	20 Dec 2022
Infrastructure Cycle 1	CPI	+4%	113.00	N/M	N/M	3.7%	0.5%	7.6%	0.8%	6.5%	2.3%	02 Jan 2019
Infrastructure (Renewables) Cycle 2	CPI	+4%	79.51	N/M	N/M	0.6%	-2.6%	7.8%	1.1%	7.4%	1.6%	12 Oct 2020
Infrastructure Cycle 3	n/a - absolute return target	net 8% IRR	14.38	N/M	N/M	-2.2%	-5.3%	-	-	-3.0%	-8.0%	13 Oct 2022
Secured Income Cycle 1	CPI	+2%	296.09	N/M	N/M	-3.1%	-6.3%	-1.9%	-8.6%	-1.3%	-5.5%	15 Jan 2019
Secured Income Cycle 2	CPI	+2%	101.66	N/M	N/M	-1.2%	-4.3%	-1.3%	-8.0%	-1.2%	-7.8%	01 Mar 2021
Secured Income Cycle 3	CPI	+2%	202.57	N/M	N/M	-	-	-	-	-	-1.3%	01 Jun 2023
UK Property	MSCI/AREF UK	+0.5%	178.15	N/M	N/M	-1.5%	-0.5%	0.9%	0.1%	1.8%	0.5%	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 (6.41%)			**373.17**									
Diversifying Returns Fund	SONIA +3%	0% to +2.0%	373.17	4.3%	2.2%	10.9%	2.8%	4.9%	-0.6%	4.1%	-0.9%	27 Jul 2020
Total Brunel assets (excl. cash) (63.90%)			**3,717.75**									

*Since initial investment
+ Excess to benchmark, may not include outperformance
Private Markets 3 month performance is not material.
Table above excludes Blackrock Risk Management

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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%)			**0.45**							
TT International - UK Equities	0.31	-3.4%	-7.0%	-1.2%	-9.6%	2.2%	-5.9%	3.8%	-1.3%	01 Jul 2007
Schroder Equity	0.14	-1.3%	-10.6%	0.8%	-20.4%	-21.2%	-31.9%	0.9%	-10.3%	01 Apr 2011
Private markets (incl. property) (6.62%)			**384.94**							
Schroder - Property	13.19	-0.6%	-0.9%	1.3%	2.3%	4.8%	3.2%	7.8%	2.1%	01 Jan 2009
Partners ex Cash	108.03	-11.6%	-14.9%	-26.8%	-40.3%	-7.8%	-17.9%	2.3%	-5.7%	01 Sep 2009
IFM Infrastructure	228.64	-0.9%	-3.4%	5.4%	-4.8%	10.3%	2.7%	11.4%	5.5%	01 Apr 2016
Greencoat Wessex Gardens	35.09	-	-	-	-	-	-	-	-1.1%	12 Feb 2024
Other (3.31%)			**192.50**							
Record Currency	12.64	5.1%	5.1%	140,223.3%	140,223.3%	-	-	-	-	01 Mar 2016
Record Equitisation	33.97	3.9%	-	5.2%	1.6%	8.3%	0.3%	5.7%	-0.1%	01 Apr 2012
JP Morgan Fund of Hedge Funds	23.91	2.8%	0.6%	11.9%	2.8%	7.4%	0.9%	7.6%	2.9%	01 Jul 2015
Cash	118.63	0.7%	-0.5%	3.3%	-1.6%	3.9%	1.5%	2.9%	1.6%	01 Dec 2017
Blackrock ETF	3.35	3.9%	3.9%	8.1%	8.1%	4.3%	4.3%	5.6%	5.6%	08 Mar 2019

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
Other (3.31%)			**192.50**							
Avon Transition Brunel	0.00	-1.3%	-1.3%	-2.7%	-2.7%	-	-	-58.1%	-	01 Jan 2022
Total legacy assets (excl. cash) (9.93%)	**577.89**									

*Since initial investment
+ Excess to benchmark, may not include outperformance

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Chief Investment Officer commentary

Risk assets began the year as they finished the last – in fine form, with global equities up close to 10% in sterling terms. The US market was the clear leader, up over 11%, while emerging markets and the FTSE All-Share brought up the rear, with returns under 4%. The former was dragged down again by China, where the market ended the quarter in negative territory. However, the China index did finish the quarter strongly, rebounding from its January lows as the People's Bank of China announced an easing of policy. Despite the risk-on nature of the market, small cap stocks underperformed their large-cap brethren. Credit also benefited in the rally, albeit to a more muted extent, given spreads were already tight - but loans, and High Yield and other sub-investment grade markets made good headway. All returns, however, paled in comparison to the return of bitcoin and other associated digital assets. I mention this in passing to highlight the role that demand has on financial assets – eleven Bitcoin ETFs were approved and launched in January in the US and they saw inflows of $12bn.

Gains across all asset classes could largely be attributed to a US economy that proved more resilient than had been predicted, and to a collective shrug at the implication that higher-than-expected growth would lead to interest rates being higher for longer as a result of stickier inflation. Corporate earnings also came in positively, with even Nvidia beating its own, very lofty expectations. In terms of US economic data: Q4 GDP was revised up; employment data was strong; manufacturing data moved back into expansion territory; and positive consumer spending was sustained. The upshot was that inflation increased in February when measured year-on-year, halting the recent disinflationary trend. Whilst the Federal Reserve kept its 'dot plot' forecast at three interest rate cuts for the year, markets jettisoned their December forecast for seven cuts, and, by the end of March, were forecasting just two.

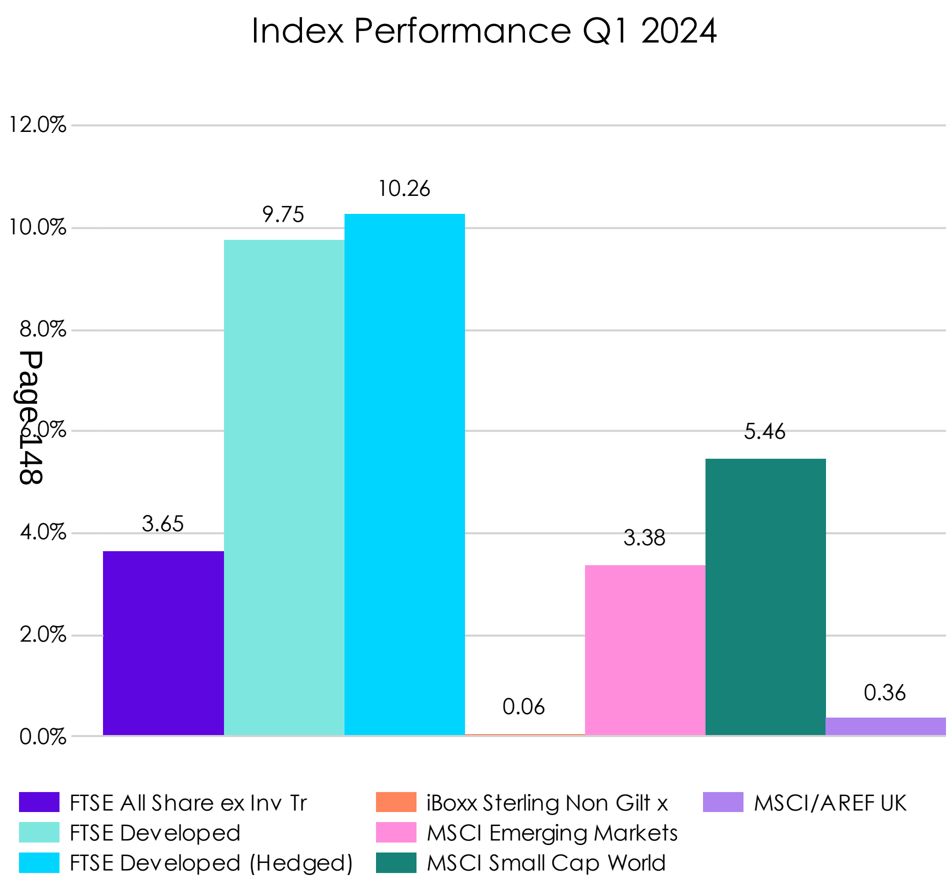
Unsurprisingly, government bonds adjusted to the change in expectation. UK 10-year government bond yields rose from 3.5% to 3.9% as prices fell. Interestingly, the move didn't derail growth stocks or the market, as it might have done previously, although the 'magnificent seven' became the 'magnificent five', as Tesla and Apple underperformed!

The tightening of corporate credit spreads meant that borrowers could refinance debt that had been originated at much higher financing costs. As such, Issuance in the US and European leveraged loan and high-yield markets skyrocketed, as investors' risk appetite improved materially. Demand was also strong in the CLO market, as previously warehoused loans overhanging from 2023 were sold. The continued expansion of the private credit market led to significant personnel changes and, indeed, whole team lift-outs, as new players seek to enter the market – quite reminiscent of bull market behaviour of old.

Fund raising in private equity broadly remained challenging, as end-investors still face liquidity concerns from previous overcommitments. Venture capital and growth funds looked most depressed at quarter-end, raising the smallest amount since 2017. On the exit side of the equation, deal activity remained muted and, although there were tentative green shoots in the IPO market (which had been shut for most of 2023), the recovery looks fragile.

In other macro news, Donald Trump was confirmed as the US presidential Republican candidate, but the more significant development after quarter-end was the missile attack by Iran on Israel - whilst little damage was done and the current market thesis is that this may be the end of hostilities, it certainly increased the risks in the region and elsewhere.

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

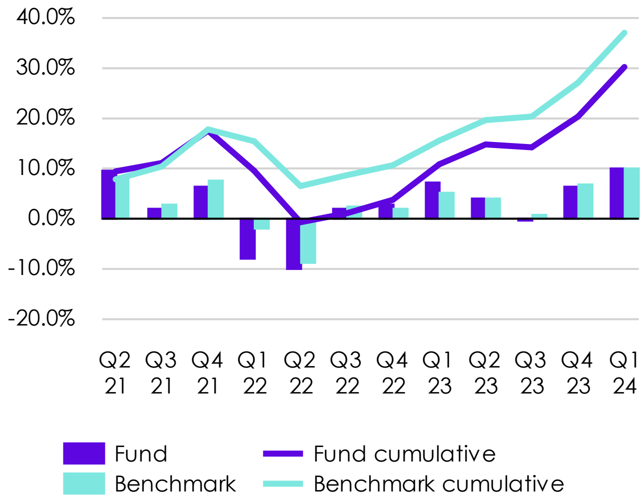
Outperformance target
+2-3%

Total fund value
£3,448m

Risk profile
High

Avon's Holding:
GBP721m

Rolling 3yr performance



Performance to quarter end

Performance	3 month	1 year	3 year*	Since inception*
Fund	9.9	20.5	9.6	14.5
Benchmark	10.0	23.1	12.4	13.3
Excess	-0.1	-2.5	-2.8	1.2

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

Performance commentary

Global developed equities (as proxied by the MSCI World index) returned 10% in GBP terms over the quarter. The strong return was delivered against a backdrop of a resilient US economic growth outlook, rebounding oil prices, and continued positive sentiment around Artificial Intelligence and interest rate cuts. (It should be noted, however, that expectations for those cuts were pared back over the quarter). Cyclical sectors generally outperformed defensive. Communications Services, IT and Financials were the best-performing sectors. Broad style indices showed that Quality outperformed Growth, and both outperformed Value.

The portfolio captured the strong market performance, returning 9.9% during the period, just 0.1% below-benchmark.

Sector attribution showed allocation and selection were neutral overall. Selection was strong in IT, where an overweight to TSMC added 0.4% and an underweight to Apple added 0.8%, which more than offset the negative impact of an underweight holding in Nvidia, costing 0.5%. TSMC (a large Taiwanese semiconductor company) was the largest single contributor to relative returns. The company returned 26% after reporting strong revenue and guidance that lived up to its lofty consensus expectations for AI-driven growth. Selection was weak in Communications Services, largely due to an underweight to Meta, which performed strongly. It was also weak in Financials, driven by overweight holdings in HDFC and Moody's - the latter underperformed after reporting quarterly earnings that missed consensus estimates.

Underlying manager performance varied widely for the quarter. RLAM and Baillie Gifford outperformed, whilst Fiera and AB, two managers with more of a quality focus, moderately underperformed - despite the MSCI Quality index outperforming the broader index. Their underperformance partly reflected the fact that neither manager holds Nvidia or Meta, thereby missing out on 2.3% from relative returns versus the MSCI World index. (The companies are also among the largest three holdings in the MSCI Quality index - thus the latter's very strong quarter). Unsurprisingly, Harris was the weakest performer, as Value stocks in general were not well-rewarded during the quarter.

From inception to quarter-end, the portfolio outperformed the benchmark by 1.2% p.a.

Global High Alpha Equities

Top 5 holdings

	Weight %	B'mark weight %	Client value (GBP)*
MICROSOFT CORP	6.28	4.57	45,291,287
AMAZON.COM INC	4.37	2.58	31,533,887
MASTERCARD INC	2.86	0.62	20,624,423
ALPHABET INC	2.71	2.58	19,515,263
TAIWAN SEMICONDUCTOR	2.24	-	16,173,292

*Estimated client value

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Top 5 active overweights

	Weight %	Benchmark weight %
TAIWAN SEMICONDUCTOR	2.24	-
MASTERCARD INC	2.86	0.62
AMAZON.COM INC	4.37	2.58
MICROSOFT CORP	6.28	4.57
UNITEDHEALTH GROUP INC	2.06	0.70

Top 5 active underweights

	Weight %	Benchmark weight %
APPLE INC	0.75	3.88
META PLATFORMS INC	-	1.66
NVIDIA CORP	2.08	3.44
BROADCOM INC	-	0.91
JPMORGAN CHASE & CO	-	0.89

Largest contributors to ESG risk

	ESG risk score* Q4 2023	ESG risk score* Q1 2024
AMAZON.COM INC	30.61	30.20
MICROSOFT CORP	15.21	15.21
ALPHABET INC-CL A	24.09	24.09
MASTERCARD INC - A	16.56	16.56
NOVO NORDISK A/S-B	23.06	23.06

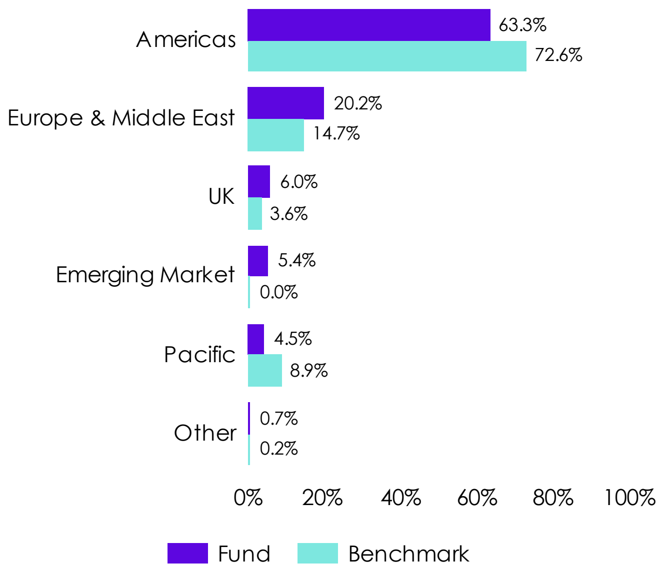
*Source: Sustainanalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

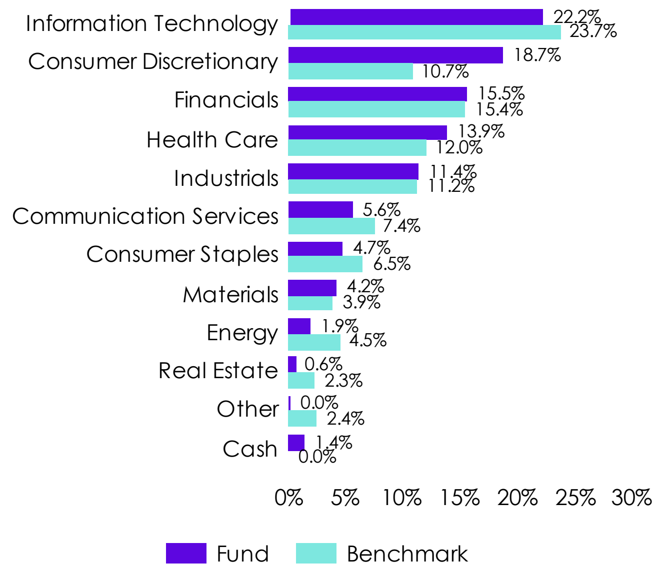
Portfolio	WACI 2023 Q4	WACI 2024 Q1	Total Extractive Exposure[1] 2023 Q4	Total Extractive Exposure[1] 2024 Q1	Extractive Industries (VOH)[2] 2023 Q4	Extractive Industries (VOH)[2] 2024 Q1
Global High Alpha	78	79	1.55	1.54	2.52	2.44
MSCI World*	164	160	4.87	4.80	8.24	8.05

*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
£[illegible]817m

Risk profile
High

Avon's Holding:
GBP667m

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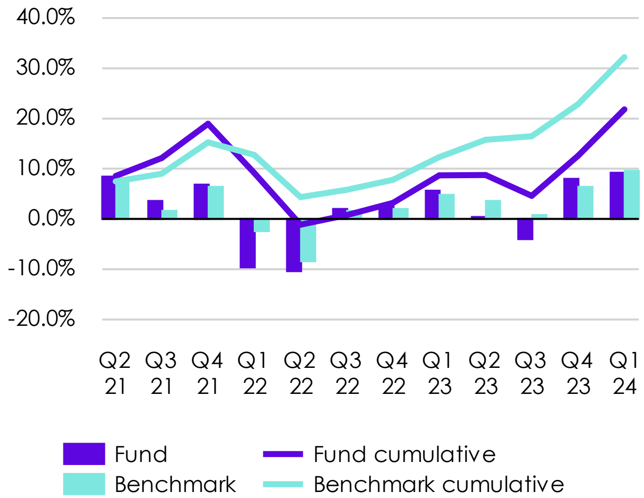
Rolling 3yr performance



Performance to quarter end

Performance	3 month	1 year	3 year*	Since inception*
Fund	9.2	13.2	6.6	7.9
Benchmark	9.3	21.2	10.7	12.4
Excess	-0.1	-8.0	-4.1	-4.5

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

Performance commentary

The portfolio returned 9.2% over the quarter, while the MSCI ACWI benchmark returned 9.3%. Over the year to quarter-end, the fund returned 13.2%, short of the MSCI ACWI's 21.2%. One-year underperformance could be attributed to a spike in market concentration in Q2 and to a subsequent rally for Energy stocks in Q3. However, as noted in the previous quarterly commentary, the market environment then shifted to favour sustainable investing. The portfolio notably outperformed in Q4 2023 and, in Q1 2024, captured all of the upside in one of the strongest market rallies this century - the 9th strongest ACWI quarter out of 97.

Over the quarter, there was a drop in the number of rate cuts the market anticipated for 2024. This came on the back of inflation numbers that were stickier than first expected. The anticipation of imminent rate cuts had acted as a tailwind for the portfolio's Quality/Growth style of investing in Q4 2023 - relative negative underperformance is therefore to be expected when that sentiment reverses. However, the strength of the Quality names in the portfolio, coupled with positive quarterly earnings for the underlying companies, meant that the portfolio sustained its strong performance momentum despite the revised rate expectations.

Stock selection was the main driver of relative performance at a sector level. The portfolio added notable performance through the Health Care sector, largely through the equipment and technology sub-sectors. Edwards Lifesciences, for example, returned 26% over the quarter.

Meanwhile, the "magnificent 7" stocks continued to exert a major impact. In 2023, their strength had caused a relative drag on portfolio performance - but that strength dimmed somewhat in Q1 2024. The portfolio has no exposure to Apple and Tesla, and both declined over the quarter, returning -10% and -30% respectively. Of the remaining five, however, it had exposure to four: Microsoft, Nvidia, Amazon and Alphabet. Each of these contributed positively to absolute return over the period, most notably Nvidia, which returned 84%.

Whilst fund underperformance over the year is disappointing, it is notable that the majority of sustainable manager peers also failed to outperform the MSCI ACWI.

Global Sustainable Equities

Top 5 holdings

	Weight %	B'mark weight %	Client value (GBP)*
MASTERCARD INC	2.80	0.56	18,694,125
MICROSOFT CORP	2.39	4.12	15,921,409
INTUIT INC	2.36	0.25	15,730,084
ANSYS INC	2.06	0.04	13,706,131
ASML HOLDING NV	2.05	0.54	13,667,919

*Estimated client value

Top 5 active overweights

	Weight %	Benchmark weight %
MASTERCARD INC	2.80	0.56
INTUIT INC	2.36	0.25
ANSYS INC	2.06	0.04
WASTE MANAGEMENT INC	2.03	0.12
ADYEN NV	1.57	0.05

Top 5 active underweights

	Weight %	Benchmark weight %
APPLE INC	-	3.49
MICROSOFT CORP	2.39	4.12
META PLATFORMS INC	-	1.49
ALPHABET INC	1.01	2.32
NVIDIA CORP	1.96	3.09

Largest contributors to ESG risk

	ESG risk score* Q4 2023	ESG risk score* Q1 2024
MASTERCARD INC - A	16.56	16.56
INTUIT INC	17.95	17.95
WASTE MANAGEMENT INC	19.58	19.58
AMAZON.COM INC	30.61	30.20
EDWARDS LIFESCIENCES CORP	23.88	23.88

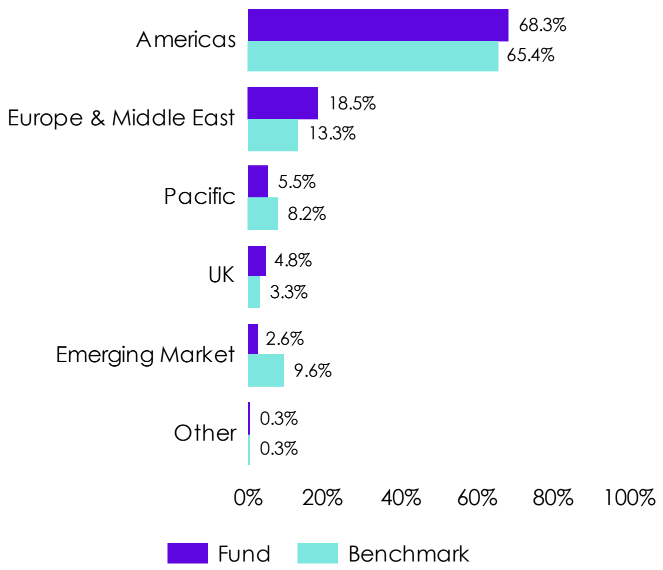
*Source: Sustainalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

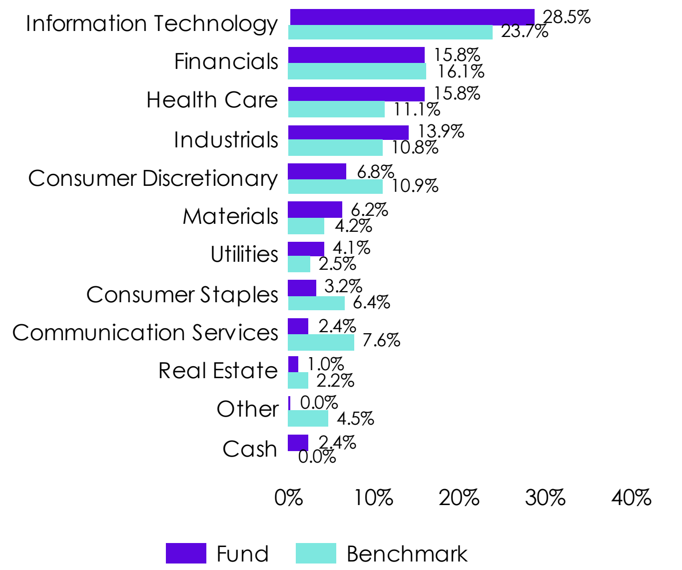
Portfolio	WACI 2023 Q4	WACI 2024 Q1	Total Extractive Exposure[1] 2023 Q4	Total Extractive Exposure[1] 2024 Q1	Extractive Industries (VOH)[2] 2023 Q4	Extractive Industries (VOH)[2] 2024 Q1
Global Sustainable	155	160	2.21	1.96	4.83	5.06
MSCI ACWI*	201	197	4.89	4.82	8.25	8.08

*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%

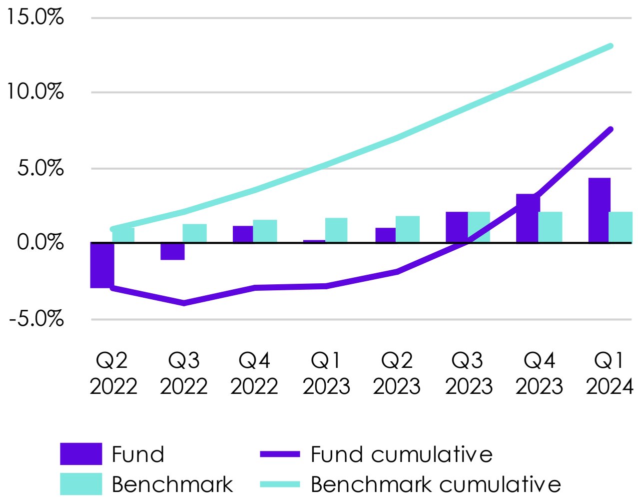
Outperformance target
0% to +2.0%

Total fund value
£[illegible]68m

Risk profile
Moderate

Avon's Holding:
GBP373m

Rolling 2yr performance



Performance to quarter end

Performance	3 month	1 year	3 year*	Since inception*
Fund	4.3	10.8	4.9	4.3
SONIA +3%	2.0	8.1	5.5	5.1
Excess	2.2	2.7	-0.6	-0.9

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

Performance commentary

The Diversifying Returns Fund returned 4.3% over the first quarter of 2024. The benchmark return was 2.0%. The sterling-hedged 50/50 equity/bond index we monitor returned 4.8% over the quarter, as equities performed well.

Increasing exposure to equities over the six months to quarter-end enabled the portfolio to benefit from the 2024 market rally and to decrease the level of underperformance vs the cash-plus benchmark. However, the portfolio remained behind the cash-plus benchmark, both since inception and over a three-year period. This benchmark has been hard to beat in an environment where interest rates have risen aggressively, raising the benchmark return whilst simultaneously hampering the performance of risk assets.

Exposure to traditional asset classes held through Fulcrum and Lombard Odier benefited performance; exposure to equities and commodities made a positive contribution to returns. Exposure to sovereign bonds held through these managers detracted from performance, but not enough to negate the significant positive returns gained from exposure to other traditional asset classes. Over the quarter, Lombard Odier returned 4.9% and Fulcrum 5.6%.

Fulcrum also benefitted from alternative return streams, with positive contributions coming from the long/short thematic equities book and from discretionary macro positioning in Japanese equities and commodities.

J. P. Morgan also performed well over the quarter, returning 9.3%. Following a disappointing end to 2023, relative value equity momentum was the best-performing signal. Other equity signals also performed well with Value, Quality and Trend making positive contributions to returns.

UBS returned -7.0% for the period. Its largest positions, long Norwegian Kroner and Japanese Yen, each played a large part in its negative returns. In particular, the yen was weak. Despite the removal of negative interest rates by the Bank of Japan, increasing US yields resulted in the large rate differential between the yen and dollar persisting.

There were positive contributions from a short position in the New Zealand dollar and long exposure to the Colombian peso. There was also a positive contribution from the short position in the Chinese renminbi, as Chinese monetary policy was eased.

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%

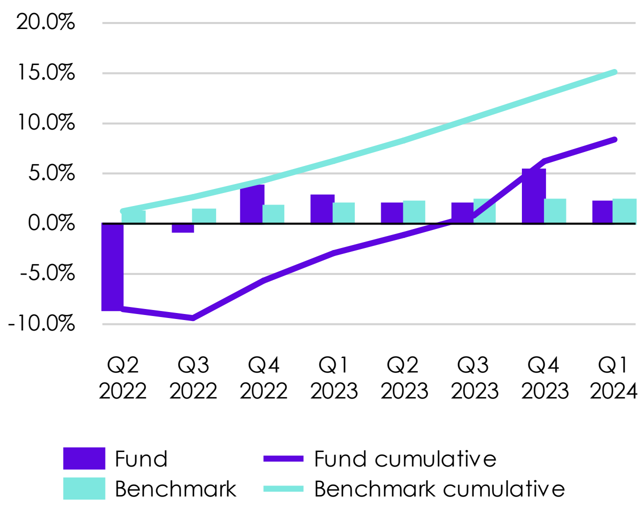
Outperformance target
0% to +1.0%

Total fund value
£968m

Risk profile
Moderate

Avon's Holding:
GBP340m

Rolling 2yr performance



Performance to quarter end

Performance	3 month	1 year	3 year*	Since inception*
Fund	2.2	11.8	-	2.2
SONIA +4%	2.3	9.2	-	6.8
Excess	-0.1	2.6	-	-4.6

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

Performance commentary

Sub-investment grade started the year in positive fashion against a backdrop of rising interest rates and tightening credit spreads. Investors started to pull back from the aggressive pivot mentality, causing a rise in US Treasury yields. Many market participants are assuming two or fewer rate cuts in the US this year - a significant reversal from the six-cuts narrative that dominated last year. US and UK 2-year yields rose by 37 basis points (bps) and 21bps respectively.

Credit spreads tightened over the quarter, with High Yield Bonds – proxied by Bloomberg Global High Yield – tightening by 41bps to 382bps at quarter-end. A wider acceptance of a soft landing - or of none at all - along with strong technical factors, such as excess cash with asset managers, had fuelled the contraction.

All areas of sub-Investment Grade posted a positive return despite the rising interest rate environment. This was driven by spread compression and carry. Collateralised Loan Obligations (CLOs) were the primary beneficiaries, given their floating rate and higher carry; sub-IG CLO tranches returned in excess of 3%. High Yield Bonds and Leveraged Loans posted local returns of +2.1% and +1.6% respectively. The only notable outlier across the broader credit spectrum was Investment Grade, which fell by approximately 75bps in local terms.

The portfolio returned +2.2% over the quarter, which was in line with both the primary and composite benchmarks. Neuberger Berman, CQS and Oaktree returned +1.6%, +3.2% and +2.9% respectively. Neuberger Berman posted a weaker return due to its rate-sensitive allocation to Investment Grade corporates and its lack of exposure to CLOs. Oaktree and CQS saws strong opportunities in CLOs, given their higher carry and stronger structural protection against default.

Since-inception performance reached +2.2%, lagging the primary benchmark by 4.6%. The composite benchmark had returned approximately +2.6% over the same period.

All three managers maintained a cautiously optimistic outlook. All-in yields had fallen to 7.8% (at quarter-end) for the Multi-Asset Credit portfolio with a duration of 2.8 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, leaving them well-positioned to outperform versus market default rates.

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

£2,711m

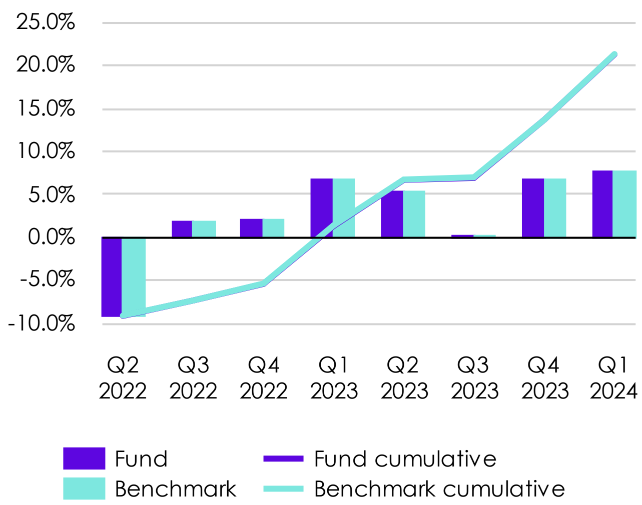
Risk profile

High

Avon's Holding:

GBP428m

Rolling 2yr performance



Performance to quarter end

Performance	3 month	1 year	3 year*	Since inception*
Fund	7.6	21.3	-	8.5
Benchmark	7.6	21.3	-	8.6
Excess	-	-	-	-0.1

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

Performance commentary

The FTSE Developed Paris Aligned Index (GBP Hedged) (PAB) returned 7.9% over Q1 2024.

The PAB's holding in Tesla made a large negative contribution to returns. 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 suffered a significant fall in share price over the quarter, driven by falling demand, production halts, rumours of staff layoffs, growing pressure to cut prices, and increasing pressure from competitors - particularly Chinese EV manufacturers.

Among the 'Magnificent 7', Tesla suffered the worst performance over the quarter. Overweights to Microsoft and Alphabet meant that both made positive contributions to returns over the quarter. However, the portfolio had underweight positions in Nvidia and Meta, and these stocks both had strong performance over the quarter. The main driver of performance for Meta was strong earnings results, while Nvidia continued to benefit from the surging interest in AI.

At quarter-end, the PAB had 4 holdings in the Energy sector, each of which made a negative contribution to portfolio returns over the quarter: Vestas Wind Systems A/S, First Solar, Enphase Energy and SolarEdge Technologies. Each of these stocks was held overweight due to Green Revenue and TPI Management Quality scores. The broader Energy sector, including companies with significant oil & gas exposure, performed strongly over the quarter. Stocks held by the market-weighted index but not held at all in this portfolio included Exxon Mobil, Chevron, Shell, BP and ConocoPhillips. Each of these delivered positive returns over the quarter, benefiting from significant increases in the price of crude oil.

The portfolio decarbonisation trajectory is in line with the requirements of EU regulations for Paris-aligned benchmarks, which utilises EVIC rather than revenue in its decarbonisation calculations.

PAB Passive Global Equities

Top 5 holdings

	Weight %	Client value (GBP)*
AMAZON.COM INC	5.80	24,816,027
MICROSOFT CORP	5.44	23,253,852
ALPHABET INC	4.60	19,683,538
APPLE INC	4.06	17,359,286
TESLA INC	2.83	12,084,758

*Estimated client value

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Largest contributors to ESG risk

	ESG risk score* Q4 2023	Q1 2024
AMAZON.COM INC	30.61	30.20
MICROSOFT CORP	15.21	15.21
TESLA INC	25.23	25.26
APPLE INC	17.22	16.72
ALPHABET INC-CL A	24.09	24.09

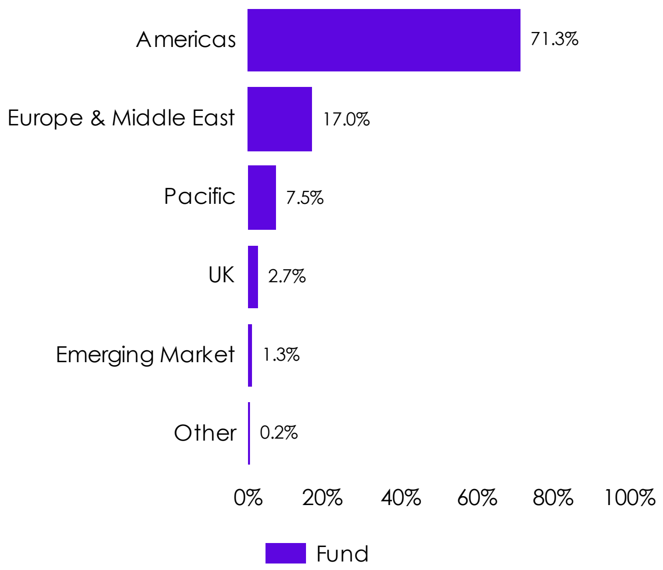
*Source: Sustainanalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

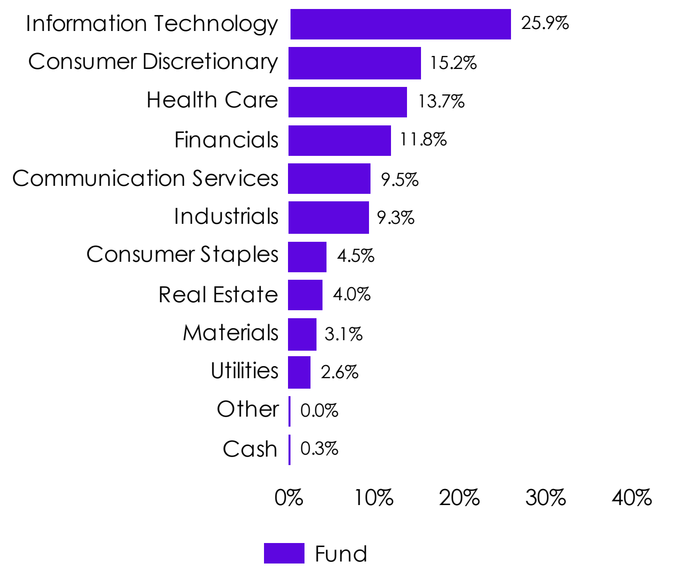
Portfolio	WACI		Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	2023 Q4	2024 Q1	2023 Q4	2024 Q1	2023 Q4	2024 Q1
PAB Passive Global	120	118	1.39	1.21	3.57	3.48
FTSE Dev World TR	168	163	4.69	4.60	8.45	8.34

*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

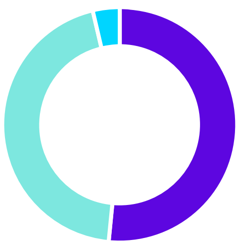
% called to date
66.78

Number of underlying funds
1

Avon's Holding:
GBP161.10m

Country

Invested in underlying investments

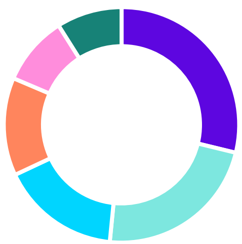


Europe	51.5%
North America	44.8%
Asia Pacific	3.7%
Other	-

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

Sector

GICs level 1



Health Care	28.8%
Information Technology	22.8%
Industrials	16.4%
Consumer Discretionary	13.5%
Financials	9.5%
Other	9.0%

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

Performance commentary

With new deal volumes growing from recent lows, lenders were originating deals in new platforms/companies alongside generating new business from follow-on financings to existing borrowers. The latter is especially relevant for roll-up M&A, which has become a core component of many GP investment theses.

Inflationary pressures appeared to be easing. However, wage inflation remained sticky in the US and UK, creating problems for companies that have a time lag associated with passing costs through to customers. These inflationary pressures created additional EBITDA margin pressure for companies exposed to wage inflation or staff shortages. The problem has been compounded by financing costs which have remained elevated (typically in excess of ~10% on an all-in basis due to elevated base rates). The net result is a broad deterioration in interest/debt coverage capacity by borrowers. Despite these challenges, the Brunel portfolios remained focused on high-quality borrowers in defensive and non-cyclical sectors and, as at quarter-end, acute borrower stress had thus far been limited.

During Q1, the industry witnessed an unusual and unfortunate series of events unfold at Barings, where a majority of the senior investment team left en masse to join a rival start-up organisation. The 'key person event' triggered a pause to investment activity for the fund in the Brunel portfolio (GPLF 4), pending approval of any solution proposed by Barings. This will require a vote at the LPAC, on which Aksia (representing Brunel) has a seat.

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
161.1	12.2%	7.9%	0	0	0	-362,273	1.11	0.3%	0.0%

*Money weighted return. Net of all fees.

Private Debt Cycle 2

At the end of Q1, the portfolio was ~67% invested and 100% committed. All managers have now called investor capital and some managers are coming towards the end of their investment periods. Portfolio performance was positive but generally flat across the portfolio and underlying funds over the quarter.

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
£44.05m

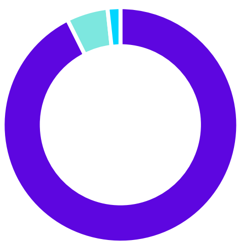
% called to date
37.41

Number of underlying funds
4

Avon's Holding:
GBP42.26m

Country

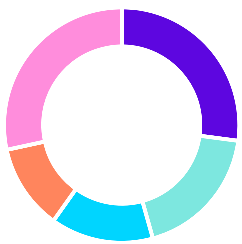
Invested in underlying investments



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

Sector

GICs level 1



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

Performance commentary

With new deal volumes growing from recent lows, lenders are originating deals in new platforms/companies alongside generating new business from follow-on financings to existing borrowers. The latter is especially relevant for roll-up M&A, which has become a core component of many GP investment theses. Inflationary pressures appeared to be easing by quarter-end. However, wage inflation remained 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 created additional EBITDA margin pressure for companies exposed to wage inflation or staff shortages, compounded by financing costs, which have remained elevated (typically in excess of ~10% on an all-in basis due to elevated base rates). The net result is a broad deterioration in interest/debt coverage capacity by borrowers. Despite these challenges, the Brunel portfolios remained focused on high-quality borrowers in defensive and non-cyclical sectors and, as at quarter-end, acute borrower stress remained limited.

During Q1, the industry witnessed an unusual and unfortunate series of events unfold at Barings, where a majority of the senior investment team left en masse to join a rival start-up organisation. This 'key person event' triggered a pause to investment activity for the fund in the Brunel portfolio (NAPLF 3), pending approval of any solution proposed by Barings. The solution will require a vote at the LPAC, on which Brunel has a seat.

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
42.3	12.1%	12.6%	8,477,277	3,599,736	4,877,542	1,121,620	1.09	0.1%	0.0%

*Money weighted return. Net of all fees.

Private Debt Cycle 3

On the last day of Q1, the fifth fund commitment closed (and thus is not included in the figures to the left). The sixth and final fund commitment closed in early April, post-period end. Both these US funds had previously been presented to ISG. These final two fund commitments took the portfolio to three US funds and three European funds, broadly balancing the portfolio by geographic exposure. There had previous been a skew to Europe, as shown in the pie chart, which reflects current investments by the European funds (to which the earliest commitments were made).

Pipeline:

There is no fund pipeline, with the portfolio fully committed as of April, pending the outcome of the Barings situation. Work has commenced on market mapping for the Cycle 4 Private Debt portfolio.

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
£114.56m

Amount Called
£108.83m

% called to date
94.99

Number of underlying funds
5

Avon's Holding:
GBP113.00m

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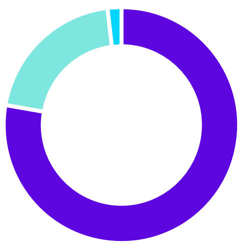
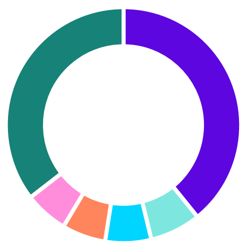
Country

Commitment in underlying investments



Source: Stepstone
Country data is lagged by one quarter

Sector



Source: Stepstone
Sector data is lagged by one quarter

Performance commentary

Despite continued volatility across the political, economic and investment landscapes, Infrastructure as an asset remained broadly resilient. The portfolio was no exception. The consensus remained that most major developed economies would see positive, but sluggish growth throughout 2024 and that the Fed, ECB and BoE would start cutting rates in 2024. While this would lower the discount rate used by managers for their valuations, given the "higher for longer" consensus we do not forecast any significant short-term impacts as a result.

Global Infrastructure also remains key in the execution of government agendas to boost economic growth, bring down energy consumption and increase the production of renewable energy. The ability to build diversified portfolios with medium-to-long-term investment horizons, low exposures to cyclical sectors, the ability to work closely with portfolio company management teams, and an emphasis on investing in companies with strong recurring cashflows, should continue to provide downside protection and strong competitive advantages.

The Cycle 1 portfolio is fully committed to nine primary funds and seven tactical investments. As at the end of Q1 2024, the portfolio was ~92% invested and 100% committed. Overall, we are pleased with the evolution of Cycle 1. The portfolio is well-diversified across sectors, technologies, geographies, managers and vintages and had (as at quarter-end) proven to be resilient to market volatility as it continued to deliver performance in line with the target set at inception.

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
113.0	3.7%	6.5%	4,122,625	1,652,302	2,470,323	1,131,680	1.18	0.1%	0.0%

*Money weighted return. Net of all fees.

Infrastructure Cycle 1

Pipeline:

Cycle 1 is fully committed, 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
£77.45m

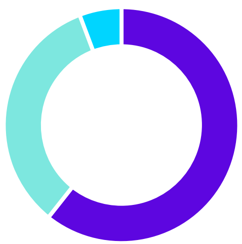
% called to date
64.54

Number of underlying funds
1

Avon's Holding:
GBP79.51m

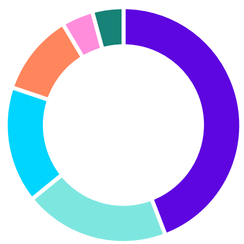
Country

Commitment in underlying investments



Source: Stepstone.
Country data is as of latest available Q3 23

Sector



Source: Stepstone.
Country data is as of latest available Q3 23

Performance commentary

Despite continued volatility in political, economic and investment landscapes, Infrastructure as an asset class and the Brunel portfolio, has remained broadly resilient and proven an attractive option for investors during more turbulent times. The consensus remained that most major developed economies would see positive, but sluggish growth throughout 2024 and that the Fed, ECB and BoE would start cutting rates in 2024. This would ordinarily lower the discount rate used by managers for their valuations. However, given the "higher for longer" consensus, we do not forecast any significant short-term impacts.

Global Infrastructure also remained key in the execution of government agendas to boost economic growth, bring down energy consumption, and increase the production of renewable energy. The ability to build diversified portfolios with medium-to-long-term investment horizons, low exposures to cyclical sectors, the capacity to work closely with portfolio company management teams, and an emphasis on investing in companies with strong recurring cashflows, should continue to provide downside protection and strong competitive advantages.

Power prices influence valuations both through differences in the price achieved versus the modelled position in each period and, more significantly, through changes to the modelled power price curves over the lifespan of the assets. Many funds utilise futures to forecast the unhedged portion of short-term cashflows (two years), and the independent power curve thereafter. Over the last few quarters, long term power price forecasts have reduced markedly compared

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
79.5	0.6%	7.4%	2,886,715	906,980	1,979,735	-23,901	1.11	0.0%	0.0%

*Money weighted return. Net of all fees.

Infrastructure (Renewables) Cycle 2

with the peaks of 2022. For the Brunel portfolio more specifically, we do not expect this to have a significant impact on the NAVs, as most revenue across the portfolio is contracted (i.e. through PPAs or CfDs), in addition, most models include a prudent capture discount.

In the UK, we note the decline in the forward curve means the funds now do not have any assumed liability to the Electricity Generator Levy (EGL) where merchant prices (as opposed to fixed) are assumed. This is because the forward curve is now below the CPI-linked £75/MWh benchmark price - above which, the EGL takes effect.

At the end of Q1, the Cycle 2 Renewables portfolio was ~89% committed and ~65% invested across 6 primary funds and 12 tactical investments. Only one small primary fund ticket is required to complete construction of the the Cycle 2 Renewables portfolio. The lower invested-capital percentage is due to the weighting towards 'greenfield' renewables that require time to be constructed. Two of the tacticals, for instance, are in construction Interconnector cable projects, which will draw down capital over several years. Likewise, the more traditional renewable generation investments (wind and solar farms) also require construction periods, albeit shorter periods. This was necessary given the return targets set at portfolio inception, and also to achieve the necessary diversification in such a targeted portfolio with fewer 'levers' to pull.

Pipeline:

We await proposals from StepStone for the final primary fund selection for Cycle 2 Renewables. Two potential funds have been identified and early due diligence has been initiated. 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
£14.78m

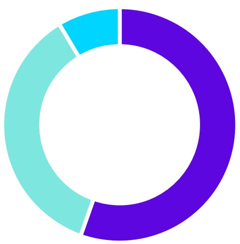
% called to date
26.87

Number of underlying funds
1

Avon's Holding:
GBP14.38m

Country

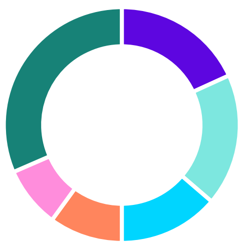
Commitment in underlying investments



Europe (incl. UK)	55.4%
North America	36.0%
Rest Of World	8.6%

Source: Stepstone.
Country data is as of latest available Q3 23

Sector



Diversified Renewables	18.1%
Timber	18.1%
Wind	13.8%
Water Utilities	10.1%
Agriculture	8.4%
Other	31.5%

Source: Stepstone.
Country data is as of latest available Q3 23

Performance commentary

Despite continued volatility in political, economic and investment landscapes, Infrastructure as an asset class remained broadly resilient and an attractive option for investors during more turbulent times.

The consensus remained that most major developed economies would see positive, but sluggish growth throughout 2024 and that the Fed, ECB and BoE would start cutting rates in 2024, lowering the discount rate used by managers for their valuations. However, given the “higher for longer” consensus, we do not forecast any significant short-term impacts.

Global Infrastructure remained key in the execution of government agendas to boost economic growth, bring down energy consumption, and increase the production of renewable energy. The ability to build diversified portfolios with medium-to-long-term investment horizons, low exposures to cyclical sectors, the capacity to work closely with portfolio company management teams, and an emphasis on investing in companies with strong recurring cashflows, should combine to continue providing downside protection and strong competitive advantages.

At the end of Q1 2024, Cycle 3 was ~58% committed and ~28% invested. At the end of Q4 2023, Cibus Fund II closed - the European agriculture-focused primary fund. Cibus held final close in Q1 2024 at $510m. In addition, There were also Q1 closures for Mirova Energy Transition 6, a Europe-focused renewables, and energy transition infrastructure primary fund, and DIF Infrastructure VII, a global primary fund focused on

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
14.4	-2.2%	-3.0%	1,712,168	0	1,712,168	163,504	0.97	-0.0%	-0.0%

*Money weighted return. Net of all fees.

Infrastructure Cycle 3

brownfield and greenfield infrastructure assets. Mirova held its first close at the end of Q1 2024.

Pipeline:

During Q1, three tactical investments were approved by Brunel and are subject to further StepStone due diligence:

1. ~£28m follow-on co-investment opportunity into a platform which invests in sustainable infrastructure, innovative technologies & essential assets arising from Cycle 2G

2. ~£28m co-investment opportunity into a US renewable energy developer

3. ~£32m secondaries fund consisting of 7-8 secondary investments.

StepStone will be responsible for sourcing high-quality secondary opportunities and writing smaller tickets across both LP-led and GP-led strategies, capitalising on the tailwinds created by the supply-demand imbalance in the secondary market, as both GP and LP appetite for liquidity solutions increases.

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
£344.52m

% called to date
99.86

Number of underlying funds
3

Avon's Holding:
GBP296.09m

Performance commentary

Despite hopes that the UK had reached the top of the interest rate cycle, further volatility was expected as the market continued to find new pricing levels.

Open-ended long lease property funds suffered redemptions by investors hit by the liquidity shock in late 2022, with further redemptions received from de-risking investors and those concerned about the outlook for the property asset class.

Deferring payments, both funds made selective asset sales to fund these redemptions, with M&G Secured Property Income Fund (SPIF) making excellent progress and faster payments than Abrdn Long Lease Property (LLP), where we expect to see more sales over 2024.

Despite the outflows, both funds showed strong fundamentals. Rent collection was at pre-pandemic levels, both have WAULTs longer than 25 years, record high distribution yields and low vacancy. As at quarter-end, M&G SPIF had no vacancy, while Abrdn LLP was working hard to reduce its one void in the portfolio, leasing up the majority of the remaining floorspace over Q4, albeit on a multi-tenant as opposed to single-tenant basis.

The portfolio is fully drawn into Greencoat Renewable Income (GRI). Over final months of 2023, the fund deployed into a number of strategies, including further top-ups into Solar II. New investments were made into the Green Hydrogen Energy Company (GHECO), a JV to develop ready-to-build hydrogen electrolyser projects, and Equans, the largest owner of district heating assets in the UK. Furthermore, Greencoat finalised the acquisition of Project Toucan, and is now de-aggregating the solar assets across multiple SMAs and unitised vehicles, including the vehicle in which the portfolio will be invested. It is hoped this re-structuring will be completed over the summer.

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
296.1	-3.1%	-1.3%	15,266	6,293,123	-6,277,857	-662,504	0.97	-0.2%	-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
£119.99m

% called to date
99.99

Number of underlying funds
3

Avon's Holding:
GBP101.66m

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Performance commentary

Despite hopes that the UK has reached the top of the interest rate cycle, further volatility is expected as the market continues to find new pricing levels.

Open-ended long lease property funds suffered redemptions by investors hit by the liquidity shock in late 2022, with further redemptions received from de-risking investors and those concerned about the outlook for the property asset class. Deferring payments, both funds made selective asset sales to fund these redemptions, with M&G Secured Property Income Fund (SPIF) making excellent progress and faster payments than Abrdn Long Lease Property (LLP), where we expect to see more sales over 2024.

Despite the outflows, both funds showed strong fundamentals. Rent collection was 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 Abrdn LLP has been working hard to reduce its one void in the portfolio, leasing up the majority of the remaining floorspace over Q4, albeit on a multi-tenant as opposed to single-tenant basis.

The portfolio is fully drawn into Greencoat Renewable Income (GRI). Over the final months of 2023, the fund deployed into a number of strategies, including further top ups into Solar II. New investments were made into the Green Hydrogen Energy Company (GHECO), a JV to develop ready-to-build hydrogen electrolyser projects, and Equans, the largest owner of district heating assets in the UK. Furthermore, Greencoat finalised the acquisition of Project Toucan, and is now de-aggregating the solar assets across multiple SMAs and unitised vehicles, including the vehicle in which the portfolio will be invested. It is hoped this re-structuring will be completed over the summer.

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
101.7	-1.2%	-1.2%	4,327	1,552,036	-1,547,709	-963,394	0.94	-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

£201.83m

% called to date

85.00

Number of underlying funds

3

Avon's Holding:

GBP202.57m

Performance commentary

Despite the hopes that the UK has reached the top of the interest rate cycle, further volatility is expected as the market continues to find new pricing levels. Open-ended long lease property funds have 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 excellent progress and faster payments than Abrdn Long Lease Property (LLP), where we expect to see more sales over 2024.

Despite the outflows, both funds are showing 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 Abrdn LLP has been working hard to reduce their one void in the portfolio, leasing up the majority of the remaining floorspace over Q4 albeit on a multi-tenant as opposed to single tenant basis.

Post the period end a draw down into Greencoat Renewable Income (GRI) was made which took the cycle 3 portfolio to being fully drawn. Over the last few months of 2023, GRI invested into a number of strategies, including further top ups into Solar II. New investments were made into the Green Hydrogen Energy Company (GHECO), a JV to develop ready to build hydrogen electrolyser projects, and Equans, the largest owner of district heating assets in the UK. Furthermore, Greencoat finalised the acquisition of Project Toucan, and are now de-aggregating the solar assets across multiple SMAs and unitised vehicles, including the vehicle in which the portfolio will be invested. It is hoped this re-structuring will be completed over the Summer.

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
202.6	-	-	43,651,208	1,041,794	42,609,415	-1,994,580	1.03	0.0%	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

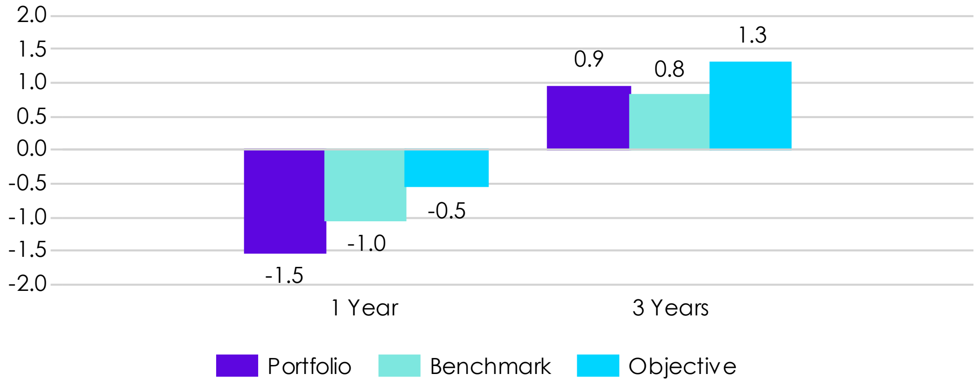
£210.0m

Amount Called

£179.2m

Number of portfolios

13



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Performance commentary

Despite market hopes that interest rates may begin a downward path this year, investment in UK commercial property remained muted, at 56% below the five-year average investment level. London was the main area of interest and international investors accounted for nearly half of the overall transaction activity.

Whilst valuations within the UK office sector weakened over the reporting period, Industrial yields remained generally stable and some yields in the prime retail parks sector actually compressed.

Within Brunel's UK property model, LGIM's Industrial Property Investment Fund (IPIF), with its focus on south-east multi-let industrial assets, continued to outperform. The two residential funds, M&G UK Residential Fund and PGIM UK Affordable Housing Fund, provided positive returns over twelve months to quarter-end, supported by strong occupational and rental demand.

Columbia Threadneedle (TPUT) and UBS's Triton Property Trust proved resilient performers among the diversified funds, although other balanced funds were engaged in sales programmes to fund investor redemptions over the 12-month period, as the asset class fell out of favour - hitting performance. However, overall, Brunel's UK model property portfolio retained low gearing and was defensively positioned, and thus protected, should interest rates fail to move lower during 2024.

Pipeline

There is no fund pipeline, with the portfolio fully committed to model funds. A review of the model portfolio with our adviser (Townsend) is due over Q2 and the team continue to monitor the market for interesting new opportunities.

Property holdings summary

Holding	Cost (GBP millions)	Market value (GBP millions)	Perf. 1 year	Perf. 3 year	Perf. 5 year	Perf. SII*	TVPI	Inception Date
Brunel UK Property	179.2	178.2	-1.5%	0.9%	-	1.8%	1.3	Jan 2021

*Since initial investment

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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Dorset County Pension Fund
administered by Dorset Council
Environment Agency Pension Fund
Gloucestershire County Council
Buckinghamshire Council
Buckinghamshire Pension Fund
Somerset Council
Brunel Pension Partnership
Avon Pension Fund
Oxfordshire Pension Fund
www.oxfordshire.gov.uk/pensions
Wiltshire Pension Fund
Cornwall Pension Fund
Devon County Council

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**
MEETING DATE:	**5 JUNE 2024**
TITLE:	**Risk Management Framework Review for Periods Ending 31 March 2024**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Exempt Appendix 1 – Mercer Report: Risk Management Framework Review to 31 March 2024**	

1. THE ISSUE

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

1.2. Exempt Appendix 1 shows all risk management strategies are rated green and continue to perform in line with expectation.

1.3. The reduction in the equity hedge was implemented at the end of the quarter. Transaction costs of c.£500k (0.03% of exposure) were independently verified as being in line with expectations.

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.**

3. FINANCIAL IMPLICATIONS

2.2. 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 0.9% as markets moved toward the protection levels. Since inception the dynamic EPS has detracted c. 2.7% 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 have been 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. As it has hit the 40% hedge ratio, the trigger framework is currently suspended.

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

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-1879374
Meeting / Decision: Avon Pension Fund Investment Panel
Date: 5th June 2024
Author: Nathan Rollinson
Report Title: Risk Management Framework Review for Periods Ending 31 March 2024 List of attachments to this report: **Exempt Appendix 1** – Mercer Report: Risk Management Framework Review to 31 March 2024

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.

<u>PUBLIC INTEREST TEST</u>

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

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

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**	
MEETING DATE:	**05 June 2024**	**AGENDA ITEM NUMBER**
TITLE:	**LDI Implementation Policy**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – LDI Implementation Policy		

1 THE ISSUE

1.1 Following the UK gilt market disruption in September 2022 when gilt yields rose sharply, the TPR issued guidance on how pension funds should manage their LDI arrangements. The guidance requires funds to have robust and effective operational processes in place to ensure the resilience of the scheme to market shocks and reduce the risks to the scheme to acceptable levels.

1.2 The Fund already has a robust governance process in place and a clear LDI strategy. However this LDI Implementation Policy brings all aspects into one document which can be periodically reviewed to ensure resilience is maintained as market conditions or our investment strategy changes.

1.3 Mercer, as the Fund's risk advisor has drafted the policy (see Appendix 1).

2 RECOMMENDATION

2.1 **That the Panel notes the LDI Implementation Policy.**

3 FINANCIAL IMPLICATIONS

3.1 There are no financial implications arising from this report.

4 LDI IMPLEMENTATION POLICY

4.1 The policy has been drafted in line with the guidance from TPR, which addresses the issues that pension funds in general faced during the gilts crisis. It sets out the operational, governance and monitoring processes established by the Fund, as well as the responsibilities of each of the parties involved. This includes:

a) How the LDI manager, BlackRock, implements the strategy.

b) The level of collateral held and BlackRock's required collateral buffer.

c) The availability of collateral outside the LDI strategy.

d) Ability to transfer additional collateral into the QIF within a suitable timeframe.

e) The governance arrangements.

f) Ongoing monitoring of collateral resilience.

4.2 The policy will be reviewed annually by the Funding & Risk Management Group, or more frequently should there be material changes to the investment strategy (which could, for example, affect how we source additional collateral) or market conditions.

4.3 The Panel are invited to comment on the policy before noting it.

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	

Avon Pension Fund (the "Fund")

LDI Implementation Policy – May 2024

This paper provides a summary of the Fund's Liability Driven Investments ("LDI") arrangements, in particular, referencing, where necessary, guidance published by the Pensions Regulator on 24 April 2023, which can be read here[1].

The policy sets out the operational, governance and monitoring processes established and implemented by the Fund, along with the responsibilities of each of the stakeholders involved.

This policy is reviewed at least annually, or more frequently should there be material changes to the Fund's investments.

A summary is provided below, with more detail on each element of the policy provided in the Appendix.

Summary of LDI Policy

Policy element		Current Position	Recommended Action
LDI Manager's ability to implement strategy	●	The Fund has appointed BlackRock Investment Management (UK) Limited ("BlackRock") to manage the LDI portfolio. BlackRock are highly rated by Mercer for managing LDI strategies of this type (single-investor bespoke pooled fund). BlackRock are reliant on the cashflows provided to them to implement the appropriate hedging portfolio. Therefore, it is important for the Liability Benchmark Portfolio (LBP) to be monitored and updated on a regular basis (at least annually) in order to manage the risk of a drift in the liability sensitivities.	Funding and Risk Management Group (FRMG), with research undertaken by Mercer, to continue to review BlackRock regularly. Mercer are responsible for the monitoring and recalculation of the LBP.
Level of collateral held within LDI strategy	●	The Fund's Investment Management Agreement (IMA) with BlackRock sets out guidelines under which BlackRock monitor and manage collateral requirements on behalf of the Fund. Given the nature of the Fund's investments in relation to the wider Risk Management Framework (systematic equity protection and synthetic equity), there are a number of inter-connected elements to be taken into account within the collateral framework in order to more accurately reflect the impact of wider market stresses on the Fund's collateral buffer. Yield headroom of c. 7.1% as at 31 March 2024 allowing for the full collateral framework (including stresses on the systematic equity protection strategy and synthetic equity mandate). BlackRock's LDI collateral adequacy framework sets out the following key definitions and targets:	FRMG monitor the collateral position through the monthly and quarterly risk monitoring reports provided by Mercer, and regularly report this position to the Fund's Investment Panel and Pensions Committee.

[1] https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/funding-and-investment-detailed-guidance/liability-driven-investment

Policy element	Current Position	Recommended Action
	- **Total Collateral Waterfall Buffer**: yield headroom at BlackRock should be more than 325bps. Mercer recommend at least 350bps of headroom is maintained. - BlackRock will begin notifying Officers (and Mercer) of breaching this tolerance at 400bps, and at each further 25bps deterioration in headroom thereafter. No immediate action is required from the Fund at this stage, however BlackRock recommend the Fund performs one or more of the following, depending on specific investment and governance structure considerations: 1) Prepare to provide additional capital to the LDI mandate 2) Instruct asset transfer of additional collateral to the LDI mandate, especially where the dealing process is longer than a week 3) Adjust the objectives of the LDI mandate (i.e., reduce hedge ratios) to increase Total Collateral Waterfall Adequacy - **Urgent collateral Creation Point**: yield headroom of 290bps. BlackRock at this point expect the Fund to perform one or both of the following: 1) Urgently provide additional assets within 5 business days (6th date of notification on day 1) to increase collateral adequacy by at least 50bps 2) Adjust the objectives of the LDI mandate (i.e. reducing hedge ratios) to increase Total Collateral Waterfall Adequacy by at least 50bps If yield headroom fell below 290bps, then additional collateral would be required or hedging may be reduced.	
Availability of collateral outside LDI strategy	Action was taken over the course of 2023 in order to bolster the Fund's collateral position through the sale of the Brunel Paris Aligned Benchmark ("PAB") equity holdings, which is to be used as the primary collateral source. The lost equity exposure was replaced synthetically at BlackRock via Total Return Swaps referencing the MSCI PAB index in order to maintain the overall exposure to equities. The Fund retains physical exposure to equities with Brunel which can be which could be synthesised in order to provide additional collateral, as required. The quantum of the available capital is regularly monitored by the FRMG. As at 31 March 2024, the Fund held c. £428m in the Brunel Passive PAB mandate, which would be the first source of collateral as it can be easily synthesised by implementing a Total Return Swap on the MSCI PAB benchmark index. In addition, the Fund held c. £667m and c. £720m in Brunel Global Sustainable Equity and	Consider including a facility to raise collateral via the Fund's corporate bond holding within the BlackRock QIF either directly by including corporate bonds in the collateral waterfall or indirectly through a credit repo facility to cover extreme market movements. The FRMG should consider potential market timing risk and transaction costs or funding costs before making changes.

Policy element		Current Position	Recommended Action
		Global High Alpha Equity mandates respectively. Whilst these mandates could be sold and the exposure broadly replaced using synthetic equity, this would create an element of basis risk given these are active mandates. If yield headroom falls to c. 300bps (assuming no additional stresses applied to the equity holdings, which would have an impact on the wider collateral position), the Fund would need to raise c. £142m as at 31 March 2024 from Brunel PAB Equity in order to top up the yield headroom to in excess of 400bps. If the Brunel PAB Equity mandate were to be fully depleted, then the next source of collateral to be utilised would be from the other Brunel equity mandates noted above or from BlackRock's Exchange Traded Funds ("ETF") mandate (c.£3.4m as at 31 March 2024).	
Ability to transfer additional collateral to the LDI strategy in a suitable timeframe		The Brunel equity funds require 5 days' notice to trade and is weekly dealing, with settlement of T+2. Therefore, it can take 2 to 3 weeks to source collateral. There is a very low probability of listed equity markets becoming "illiquid", however, this can change over time. Overall liquidity considerations will be considered on a regular basis. There is no automated process in place for utilising the corporate bonds held within the bespoke pooled fund currently.	Consider incorporating the corporate bonds as a source of capital in a "last resort scenario" that BlackRock could utilise in extreme market conditions.
Governance Model		Strong level of governance within the FRMG, providing oversight and risk management-focused expertise that is relayed to the Investment Panel regular. FRMG consists of Officers, Investment Consultant, Risk Advisor and the Fund's Actuary, with a specific terms of reference and delegated responsibilities from the Committee / Panel. The FRMG meets at least quarterly, but can convene quickly on an ad-hoc basis if required. Officers are typically available for approval and to sign instructions in short timeframes if required. Officers sign relevant forms and co-ordinates asset transfers, with the help of the Investment Consultants if necessary. Mercer report the collateral headroom levels on a monthly and quarterly basis in the risk monitoring reports. Regular training is provided to the Investment Panel and Pensions Committee on LDI strategies, as required.	None
Ongoing monitoring of LDI collateral resilience		BlackRock monitors collateral headroom on a daily basis and informs Officers and the Investment Consultant by email when collateral falls below 400bps and for each subsequent 25bps fall below.	Keep under regular review. Overall position currently is positive with significant current headroom and

Policy element	Current Position	Recommended Action
	Investment Consultant informs the Officers of any breach of the target collateral level by email and provides written advice on proposed action to source additional collateral in order to top up the position to 400bps. BlackRock provides monthly and quarterly updates in respect of the collateral position to the Investment consultant by email. Investment Consultant keep Officers informed of key updates within the market and at BlackRock. Detailed monthly and quarterly monitoring of collateral resilience, alongside other LDI risk factors, presented to Officers by the Investment Consultant at FRMG meetings.	liquidity within the wider asset holdings to fund collateral calls as necessary.

Source: Mercer estimates and investment managers.

Appendix – Additional Detail

Fund's LDI Arrangements	
Appointed LDI Manager	BlackRock Investment Management (UK) Limited
Lead LDI Investment Consultant/Risk Adviser	Nick Page / Mercer
Fund Actuary	Paul Middleman / Mercer
Nature of LDI Arrangements	• Bespoke pooled fund (QIF) with a monthly dealing cycle (although ad-hoc dealing days can be arranged); • End-point target of 70% interest and inflation rates hedge ratios as a percentage of assets (based on 31 March 2022 cashflows, updated for market conditions to 31 May 2023). Subject to interest rate and inflation trigger framework; • LBP produced by Mercer, using cashflows provided by the Fund Actuary at the last actuarial valuation date of 31 March 2022; • LBP reviewed after each triennial valuation and on an annual basis thereafter; • Instruments Used: Gilts, Index Linked Gilts, Interest Rate and Inflation Swaps, Gilt TRS, Repos, Bond Futures, Cash Funds, Direct cash holdings and Spot Currency Contracts; • Nature of documentation: IMA.

Setting LDI Strategy and Ongoing Implementation	
How often is the LDI strategy reviewed?	• Officers to consider liability hedging / LDI strategy as part of broader investment strategy considerations on a regular basis and FRMG meet at least quarterly; • LBP updated based on cashflows from triennial actuarial valuation and updated annually to reflect changing market conditions and approximate allowance for member experience. • Mercer provide BlackRock with the LBP and work alongside them to formulate a suitable hedging solution. Usually provided in the format of a short advice paper setting out the current and proposed solutions and any trading required, taking into account collateral management/estimated implementation costs as well as wider strategic implications for the Fund.
What are the key objectives of the LDI strategy?	• To lock-in to an attractive level of real yields in order to provide an appropriate return over inflation in a risk-free way to help stabilise contribution requirements for the Fund's employers.
How is success of the LDI strategy measured?	• Performance attribution related (£ return vs liability change); • Improve stability of funding level (relative to having unleveraged exposure to liability hedging assets); • Protect funding position from significant deterioration in a falling gilt yield or rising inflation environment.

What is the target level of collateral resiliency for assets held within the LDI mandate?	• Recommendation from Mercer to maintain a minimum of 350bps headroom within bespoke pooled fund (including LDI and collateral waterfall assets) i.e. green zone • To calculate the overall yield headroom, BlackRock have stressed the systematic equity protection strategy by +10% with an offsetting stress of -20% to the synthetic equity Total Return Swap exposure to reflect the conditions

	under which wider equity market movements would have an impact on collateral; • BlackRock managed Buy and Maintain Credit fund's interest rate exposure is reported for in hedge levels, but the credit assets are not currently included in the collateral sufficiency calculation produced by BlackRock.
At what level of collateral resiliency will collateral buffers be replenished?	• BlackRock define the minimum level of collateral within the portfolio (equivalent to the "market stress buffer" as defined by tPR) to be 290bps headroom assuming a 5 business day period to source additional collateral.
What is the expected timeframe for collateral buffers to be replenished?	• BlackRock is expected to provide the collateral call notification "as soon as reasonably practicable". • The Brunel equity funds require 5 days notice to trade and is weekly dealing, with settlement of T+2. Therefore, it can take 2 to 3 weeks to source collateral.
What assets are available for use as collateral sources? What level of coverage are they expected to provide?	• Assets held in the Brunel PAB (c.£428m as at 31 March 2024) are expected to provide coverage for feasible market scenarios. The fund is weekly priced. • • Assets held in BlackRock ETF (c.£3.4m as at 31 March 2024) or Brunel Global Sustainable (c. £667m as at 31 March 2024) or Global High Alpha (c. £721m as at 31 March 2024) equities act as the secondary source of collateral, in the event that Brunel PAB holdings are fully depleted. The ETF fund is daily priced whereas the Brunel equity funds have the same dealing terms as the Brunel PAB fund.
Where assets have been used to meet capital calls, what steps may be taken to ensure suitable collateral sources remain in place for future collateral calls?	• Should holdings in the Brunel PAB fund be significantly or entirely depleted, the FRMG will consider on a case by case basis whether and how to replenish these holdings (taking into account any changes in the overall position of the Fund and wider strategic requirements.)
Governance and Implementation	
What are the key steps to implementing the LDI strategy and who is responsible for each?	• Fund Actuary: Providing liability cashflows. • Investment Consultant: Producing LBP. Advising on investment and hedging strategy. Engagement with LDI manager. Co-ordination of asset transfers. • Officers: Engagement with investment Consultant and LDI manager. Signing manager IMA and instructions to facilitate asset transfers. • BlackRock: execution and ongoing collateral monitoring, notification of limit breaches.
What is the governance process for providing collateral to LDI funds?	• Collateral management delegated to BlackRock through IMA in place and accompanying collateral waterfall policy implemented. Authorisation/input only required from Officers when additional collateral is required • BlackRock informs the Investment Consultant by email of a breach of the 290bps target, detailing the collateral position and effective headroom. • Investment Consultant informs the Officers of any breach of the target collateral level and advice on action to provide additional collateral, after considering broader investment strategy and liquidity issues.
Who is responsible for monitoring of the collateral resilience of the LDI strategy?	• BlackRock on daily basis (documented via IMA). • Mercer report on the collateral position within the monthly and quarterly risk monitoring reports presented to the FRMG and Investment Panel. Mercer responsible for supporting Officers with reporting and advice on collateral calls.

Stress Testing, Monitoring Resilience and Ongoing Reporting

What are the key data items monitored to ensure the LDI manager's continued collateral resiliency?

- Yield headroom.
- LDI asset value
- LDI PV01 & IE01
- Yield rise required for collateral call.
- Market stress and operational buffers in place.
- Stress testing for different yield movements. Analysis to include:
    - Yield stresses of 1%, 2%, 3% and 4% rises
    - Yield headroom following a further equity market stress event
    - Collateral top up required to return to the target headroom
    - Value of collateral pool following the stress.

Under the existing collateral framework – a 20% negative stress to the synthetic equity TRS notional value, and a 10% positive stress to the systematic equity protection strategy notional value – the collateral position at 31 March 2024 was:

Stress	Yield Headroom following stress	Collateral required / (released) to return to 4% headroom
0%	7.1%	(£300m)
1%	6.1%	(£227m)
2%	5.1%	(£128m)
3%	4.1%	(£7m)
4%	3.1%	£142m

Following a 4% rise in yields, the Fund would require c. £142m of capital to increase the yield headroom back to 4%. In this scenario, the value of the Brunel PAB equities would be c. £428m, and synthesising this value would release c. £341m of collateral (assuming -20% stress on equities).

Under a stress of the existing collateral framework – a 40% negative stress to the synthetic equity TRS notional value, and a 20% positive stress to the systematic equity protection strategy notional value – the collateral position at 31 March 2024 was:

Stress	Yield Headroom following stress	Collateral required / (released) to return to 4% headroom
0%	5.6%	(£180m)
1%	4.6%	(£109m)
2%	3.6%	£64m
3%	2.6%	£229m
4%	1.6%	£433m

Under a 20% equity fall, and a 4% rise in yields, the Fund would require c. £433m of capital to increase the yield headroom back to 4%. In this scenario, the value of the Brunel PAB equities would be c. £341m, and synthesising this value would release c. £273m of collateral (assuming -20% stress on equities). Additional collateral of c. £160m would be required from the Brunel Global Sustainable Equity or Brunel Global High Alpha Equity mandates in this scenario.

How regularly are they reviewed and who is responsible for ensuring it takes place? **How are they reported to the Officers and in what format?**	• **Quarterly:** BlackRock provide LDI reporting including the collateral levels. Investment Consultant monitors output and includes it in their quarterly performance reports to the FRMG. Investment Panel receive reports quarterly. • **Monthly:** Investment Consultant reports the collateral position to Officers on a monthly basis. • **Daily:** BlackRock monitors collateral intra-day as part of their portfolio management responsibilities. • **Ad hoc:** Any events considered material by the BlackRock and Investment Consultant will be notified to the Officers as required. • **Stress testing:** Policy to be updated annually, or more frequently if there have been significant changes to market conditions, and presented to the FRMG.

Important Notices

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results. Mercer's ratings do not constitute individualised investment advice.

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Mercer's universes are intended to provide collective samples of strategies that best allow for robust peer group comparisons over a chosen timeframe. Mercer does not assert that the peer groups are wholly representative of and applicable to all strategies available to investors.

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**	
MEETING DATE:	**05 June 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 2024/25. It is provisional as the Panel will respond to issues as they arise and as work is delegated from the Committee.

1.2 Please note the dates for meetings in 2025.

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 **Strategic** • Review ACT Analysis • Introduction to Nature Based Investing
26 November 2024	**Routine:** • Quarterly Investment Performance • Risk Management Framework Monitoring **Strategic:** • Pooling of legacy portfolios
26 February 2025	**Routine:** • Quarterly Investment Performance • Risk Management Framework Monitoring
06 June 2025	**Routine:** • Quarterly Investment Performance • Risk Management Framework Monitoring
03 September 2025	**Routine:** • Quarterly Investment Performance • Risk Management Framework Monitoring
26 November 2025	**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	
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