Bath & North East Somerset Council

Improving People's Lives

Avon Pension Fund Committee Investment Panel

Date: Thursday, 5th September, 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 - Thursday, 5th September, 2024

at 2.00pm in the Kaposvar Room - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

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

2. DECLARATIONS OF INTEREST

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

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

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

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

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

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

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

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

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

7. MINUTES: 5TH JUNE 2024 (PUBLIC & EXEMPT) (Pages 7 - 24)

8. LONG LEASE PROPERTY REVIEW (Pages 25 - 44)

   The Fund currently has a 9% strategic allocation to the Brunel Secured Income portfolio, which is split c.40% operational infrastructure and c.60% long-lease property (LLP). LLP strategies benefit from rents linked to inflation metrics and for this reason are considered a good fit for defined benefit schemes with long- term inflation linked liabilities.

9. NET ZERO MONITORING UPDATE (Pages 45 - 82)

To support its strategic investment objective the Fund has set climate targets that require regular monitoring so we can evaluate progress and to develop our climate policy as improved data emerges and new investment solutions are developed. The Fund monitors its progress against its net zero targets annually.

10. REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 JUNE 2024 (Pages 83 - 168)

This paper reports on the performance of the individual portfolios and seeks to update the Panel on routine aspects of the Fund's investments. The report contains performance statistics for periods ending 30 June 2024.

11. RISK MANAGEMENT FRAMEWORK REVIEW FOR PERIODS ENDING 30 JUNE 2024 (Pages 169 - 216)

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.

12. FORWARD AGENDA (Pages 217 - 220)

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

Wednesday, 5th June, 2024, 2.00 pm

Members: Councillor Shaun Stephenson-McGall (Chair), Councillor Chris Dando,

Independent Members: Pauline Gordon and Jackie Peel

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

Also in attendance: Nick Dixon (Head of Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk), Nathan Rollinson (Investments Manager) and Rebecca Whelan (Senior Investment Officer)

1 EMERGENCY EVACUATION PROCEDURE

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

2 DECLARATIONS OF INTEREST

There were none.

3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Councillor Paul Crossley and John Finch (Independent Member) had given their apologies to the Panel.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES: 27TH FEBRUARY 2024 (PUBLIC & EXEMPT)

The Panel **RESOLVED** that the minutes of the meeting held on 27th February 2024 be confirmed as a correct record and signed by the Chair.

8 LOCAL IMPACT PORTFOLIO

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

9 LIQUIDITY REVIEW

The Group Manager for Funding, Investment & Risk introduced the report to the Panel and highlighted the following points.

- 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.

- 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.

- 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.

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) Agree to keep the LDI trigger framework on pause, noting the Fund's projected cash requirements over the next two years.
ii) Delegate how to invest excess collateral to officers in consultation with Mercer.
iii) Delegate the decision to select an appropriate funding source for a Natural Capital allocation to officers in consultation with Mercer.

10 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 MARCH 2024

The Senior Investment Officer introduced the report to the Panel and summarised the following areas.

- 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.

- 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).

- 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.

- 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.

- 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.

- 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.

- 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.

Shell Plc Shareholder Resolution

- 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.

- 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 which was not enough for it to be passed.

- Dialogue will continue with Brunel over next steps and we expect them to continue speaking with all underlying managers regarding this issue.

The Head of Pensions commented that, although an option, selling out was not always the right thing to do as the power to influence can be lost. He added that officers intend to work with Brunel and other investors to find a way forward.

Steve Turner, Mercer addressed the Panel and highlighted the following areas from their appendices to the report.

Market background

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.

He informed the Panel that assets were likely to become more expensive, especially in terms of credit spreads. The overall yield on the Multi Asset Credit portfolio was still attractive due to the underlying cash and nominal bond rates. He explained that the actual risk premium on top of this through credit spread is actually quite low.

The Group Manager for Funding, Investment & Risk asked regarding the credit portfolio, are defaults as expected or lower.

Steve Turner replied that the market always tends to over estimate in terms of defaults.

Funding level and risk

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).

Total Fund Performance Attribution – Quarter

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

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.

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

11 RISK MANAGEMENT FRAMEWORK REVIEW FOR PERIODS ENDING 31 MARCH 2024

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

- 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%.

- 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.

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

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

12 LDI IMPLEMENTATION POLICY

The Group Manager for Funding, Investment & Risk introduced the report to the Panel and highlighted the following points.

- 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.

- 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.

Councillor Chris Dando referred to the Governance Model section of the policy and asked whether, as well as stating the role of the FRMG, it should include that matters are reported to the Investment Panel and the Avon Pension Fund Committee to give additional strength.

The Group Manager for Funding, Investment & Risk replied that any strategic risk management issues are reported to the Committee, but they have delegated the monitoring of risk management to the Panel.

The following amendment was proposed by Councillor Dando and seconded by Jackie Peel.

Strong level of governance within the FRMG, providing oversight and risk management-focused expertise that is relayed to the Investment Panel and scrutinised on a quarterly basis.

The Panel agreed and approved the amendment to the policy.

The Panel **RESOLVED** to note the LDI Implementation Policy, as amended.

13 FORWARD AGENDA

The Group Manager for Funding, Investment & Risk introduced the report to the Panel and drew their attention to the future meeting dates that have now been set through to the end of 2025.

Councillor Chris Dando referred to the meeting in September 2024 and asked whether the title 'Introduction to Nature Based Investing' was correct.

The Group Manager for Funding, Investment & Risk replied that it should be 'Introduction to Natural Capital Investing' and said that it was likely that this report would move to November 2024.

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

The meeting ended at 3.48 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**
MEETING DATE:	**5 September 2024**
TITLE:	**Long Lease Property Review**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Exempt Appendix 1 – Brunel Presentation**	

1. THE ISSUE

1.1. The Fund currently has a 9% strategic allocation to the Brunel Secured Income portfolio, which is split c.40% operational infrastructure and c.60% long-lease property (LLP). LLP strategies benefit from rents linked to inflation metrics and for this reason are considered a good fit for defined benefit schemes with long-term inflation linked liabilities.

1.2. At its December-23 meeting the Panel received a presentation from Mercer highlighting a number of issues relating to LLP including a general deterioration in the value of funds as a result of rising interest rates and large investor redemptions triggered by the 2022 gilts crisis.

1.3. Brunel have been invited to present (Exempt Appendix 1) at the meeting to help the Panel assess the outlook for LLP, whether the risks (and opportunities) highlighted last year are likely to persist and whether the current allocation to Secured Income remains consistent with the Funds overall strategic objectives.

2. RECOMMENDATION

The Avon Pension Fund Investment Panel:

2.1. **Notes the information contained in the Brunel Presentation in Exempt Appendix 1.**

3. FINANCIAL IMPLICATIONS

2.2. None

4. LONG LEASE PROPERTY ALLOCATION AND OUTLOOK

4.1. The overall strategic allocation to Secured Income is 9% and the portfolio is currently valued at £627m. LLP represents approximately 60%, or £376m, of this value, which itself is 6% of total fund assets. The remaining 40% is allocated to operational infrastructure.

4.2. The LLP component of the portfolio is split equally between two managers; ASI and M&G. The operational infrastructure component is managed by Schroders Greencoat (GRI).

4.3. In addition to the Secured Income allocation the Fund has a 7% allocation to core property. Compared to traditional commercial real estate, LLP strategies benefit from rents linked to inflation metrics or rents with fixed uplifts over long-term contracts, usually in excess of 15 years. As a result, where tenants remain solvent, cashflows derived from LLP assets are resilient to short-term economic disruption. Given the investment grade nature of tenants, LLP funds typically have a lower vacancy risk than core property portfolios and longer lease durations serve to increase the defensive characteristics of LLP funds. As long-lease assets exhibit fixed income-like characteristics, valuations can be sensitive to changes in interest rates.

4.4. The since inception internal rate of return across Cycles 1 and 2 for the LLP component of the Secured Income portfolio to March-24 was approximately -5.0% and -8.5%, respectively. This negative performance was largely offset by the positive performance from the operational infrastructure component, which has benefitted from ongoing demand for renewable assets and elevated power prices.

4.5. At its December-23 meeting the Panel discussed the challenges facing the LLP market. Notably, the investor base of a number of LLP funds had become concentrated due to redemptions from investors looking to shore up liquidity positions post the 2022 gilts crisis. Depressed LLP valuations present an opportunity to buy in at attractive levels but also call into question the ongoing viability of certain LLP funds should investor redemptions persist.

4.6. At its meeting in December the Panel was minded to retain its allocation to the Secured Income portfolio in its existing make-up of 60% LLP / 40% Operational Infrastructure and requested Brunel present their views on the return outlook for LLP, taking account of current demand from new investors and how redemptions and asset disposals have been serviced to date.

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

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA- 2027203
Meeting / Decision: Avon Pension Fund Investment Panel
Date: 5th September 2024
Author: Nathan Rollinson
Report Title: Long Lease Property Review List of attachments to this report: **Exempt Appendix 1 – Brunel Presentation**

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 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 September 2024**
TITLE:	**Net Zero Monitoring Update**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1 – Mercer Report: Net Zero Progress update**	

1. THE ISSUE

1.1. To support its strategic investment objective the Fund has set climate targets that require regular monitoring so we can evaluate progress and to develop our climate policy as improved data emerges and new investment solutions are developed.

1.2. The Fund monitors its progress against its net zero targets annually. Mercers have analysed the data across the portfolios (see Appendix 1).

1.3. The Fund continues to make good progress against its climate targets, with both listed equity and bond portfolios materially ahead of the decarbonisation pathway required to achieve net zero by 2045. On a forward-looking basis progress is likely to rely more heavily on underlying company decarbonisation rather than asset allocation decisions, which have driven efficiencies to date. Therefore, decarbonisation is expected to be more challenging and slower to 2030, highlighting the importance of active engagement with companies. There has been material progress with respect to investment in climate solutions, which feature across both listed and private markets portfolios. This is an area expected to grow as the Fund explores making an allocation to natural capital. More progress on disclosures across the private market portfolios is needed before we can set and monitor net zero targets.

1.4. This analysis will be included in the Fund's Responsible Investing report for 2023/24.

2. RECOMMENDATION

The Avon Pension Fund Investment Panel:

2.1. **Notes the Net Zero analysis and progress report.**

3. FINANCIAL IMPLICATIONS

2.2. The budget includes a provision for annual climate analysis to support strategic policy.

4. OUTCOMES OF 2023 ANALYSIS FOR CLIMATE TRANSITION (ACT)

4.1. To monitor progress against our climate targets Mercer have done an analysis across the portfolios where there is sufficient data to provide a meaningful outcome. This analysis is done annually so that we have evidence of progress due to both strategic decisions by the Fund and portfolio level decisions (made by managers).

4.2. Mercer's analysis covers all the listed, liquid portfolios. There is still an insufficient level of disclosure to adequately analyse the private market portfolios and draw meaningful conclusions to support strategic decision making. However, the level of disclosure is improving year on year and Brunel, through its managers, is expecting to start disclosing from 2025. The IIGCC has produced guidance for setting NZ targets in Real Estate, Infrastructure and Private Equity which will help drive higher levels of disclosure by the underlying managers. This year the analysis covered 62% of the Fund's assets.

4.3. Brunel also undertake an analysis of carbon disclosure rates at individual portfolio level, which this year revealed an improved level of emissions reporting among companies and a lower reliance on modelled emissions data. Disclosure metrics for listed assets are likely to vary year-on-year as the market moves toward a standardised methodology of emissions reporting.

4.4. The Fund has four decarbonisation and transition alignment targets that support the ambition to achieve Net Zero by 2045. Progress against each is summarised as follows:

	Target	**Progress**
1	Listed equities - target 43% emissions reduction by 2025 and 69% by 2030 (versus 2020 baseline)	**Ahead of** 2025 target with 60% reduction, need another 22% reduction from here to reach 2030 target. Progress will rely more heavily on underlying company decarbonisation than asset allocation.
2	Corporate Bonds -target 60% emissions reduction by 2030 (versus 2020 baseline)	**Ahead of target** pathway as achieved 47% reduction so far. Require a further 24% in carbon footprint to reach 2030 target reduction.
3	Ensure 70% of financed emissions in material sectors are subject to engagement and stewardship actions for all listed equities by end 2024 and 90% by June 2027	**On track** - 87% of material sectors' financed emissions are aligned or subject to active engagement.
4	By 2030 we will divest from developed equity holdings in high impact sectors that are not	No action taken to date 88% of financed emissions within the

	achieving NZ or not aligning to achieve NZ by 2050	listed equity portfolio are aligned[1] or subject to active engagement (up from 76% last year). Companies not aligned will be captured under the Fund's 2030 divestment commitment. Brunel have adopted more robust policies on divestment and alignment including a more stringent framework for defining climate controversial companies that will be reviewed annually. In addition there are some activity-based exclusions across specific parts of the defence, energy and tobacco sectors. These exclusions were supported by the Committee at its March-24 meeting.

4.5. Transition alignment of the underlying assets is also measured by Mercer shows the exposure to assets that are 'well aligned', those that have 'transition capacity' (not aligned as yet but can align) and those that are 'not well aligned' (and probably will find it difficult to align). The Fund has a low exposure to the 'not well aligned' category and a high allocation to the well aligned (particularly across the equity portfolios). The focus of engagement to achieve real world impact must be on our exposure to the most carbon intensive transition capacity assets.

4.6. The Fund does not have a specific target for 'Climate Solutions'. Such assets are contained within several portfolios e.g. the Paris Aligned Equity portfolio, the Infrastructure and Secured Income portfolios both invest in renewable infrastructure assets and the local impact portfolio includes renewable infrastructure as well as affordable housing which has a strong NZ focus.

4.7. The annual Responsible Investing (RI) Report will include some of this analysis to demonstrate the progress the Fund is making towards achieving Net Zero By 2045. This RI Report will be presented at the Committee meeting later in September.

4.8. Officers work closely with Brunel as the Fund's policy is implemented through the Brunel portfolios. Our climate targets are consistent with those set by Brunel and the focus of their engagement activities is on the transition alignment which will help the Fund achieve its 2030 interim targets.

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

[1] Companies have been deemed to demonstrate evidence of alignment if they have approved SBTi targets or categorized as aligned by the Transition Pathway Initiative.

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

7. CLIMATE CHANGE

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

8. OTHER OPTIONS CONSIDERED

8.1. None

9. CONSULTATION

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

Contact person	Liz Woodyard, Group Manager, Funding, Investments & Risk Tel: 01225 395306
Background papers	Mercer and Brunel analysis and reports
Please contact the report author if you need to access this report in an alternative format	

Mercer

welcome to brighter

Net Zero Monitoring 2023 Update

Avon Pension Fund

Analysis at 31 December 2023

July 2024

Hill Gaston
Steve Turner

A business of Marsh McLennan

Progress to Date

How ACT Analysis has been used to date

2021

Set targets:

- Total Fund 2050 net zero target
- Adopted listed equity portfolio carbon reduction targets of 43% by 2025 and 69% by 2030, versus 2020 baseline position
- Total Fund sustainable and transition aligned investments target of 30% by 2025

2022-23

Revised target:

- Total Fund 2045 net zero target

Monitor Progress

- Monitor progress vs. 2025 and 2030 decarbonisation targets

Investment Manager decisions

- Helped inform decision to switch from Brunel Emerging Market Fund to Brunel Global High Alpha Equity and Global Sustainable Equity Funds
- Increased investment in Paris Aligned equities and disinvestment from most carbon intensive BlackRock Passive Global Developed mandate from 2023-2024

Stewardship & Engagement

- Identified most strategically important companies to engage with from a climate perspective
- Engagement and divestment targets adopted for listed equity.

Today

Monitor Progress

- Monitor progress vs. 2025 and 2030 decarbonisation targets: **On track**

Strengthening targets

- Recommendation to:
  - Engage with Brunel on most intensive companies not already under engagement by CA100+ or Brunel.
  - Engage with Brunel on initial private market metrics and timeline for fuller disclosures. Explore adopting Brunel private market targets following this exercise.

2024 and beyond

Listed Equity / Corporate Bonds

- Evolve approach to engagement and alignment targets.

Scope 3

- Introduce targets when data quality / availability allows

Private markets

- Continue monitoring and consider net zero targets (where feasible)

New investments

- Implement allocations to biodiversity / natural capital

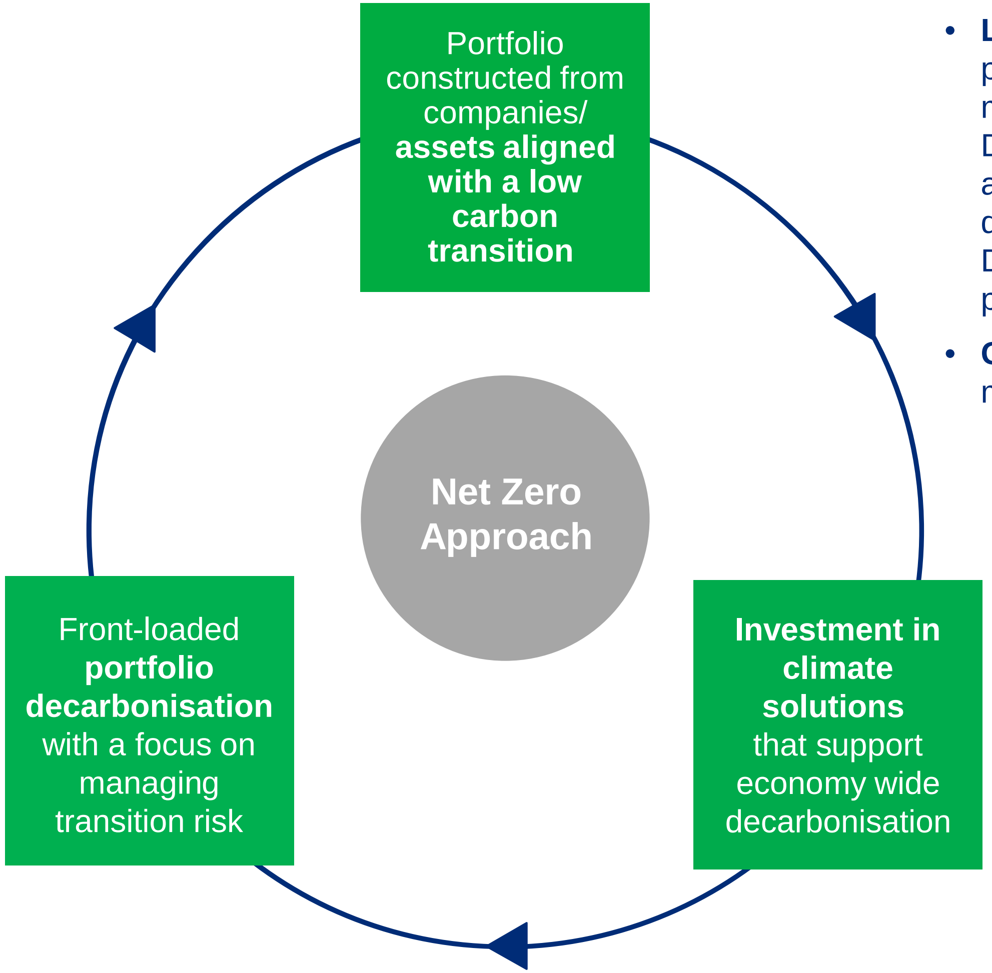
Support the Responsible Investment strategy and policy approach / Provide insight into transition capacity and monitor progress / Understand consistency with Brunel climate policy

Three Elements of Net Zero

Summary of progress

On Track   Progress Required

- **Listed equity carbon footprint has fallen 60.0%** over 2020-2024 and **is ahead of the targeted** decarbonisation pathway.** Decarbonisation has largely been driven by strategic changes during the period (e.g. reducing Emerging Market equities), as opposed to underlying company decarbonisation.
- **Corporate Bonds carbon footprint has fallen by 47.7%** over 2020-2024 and **is ahead of the targeted** decarbonisation pathway.**
- **Further work required** to bring other asset classes into target setting.



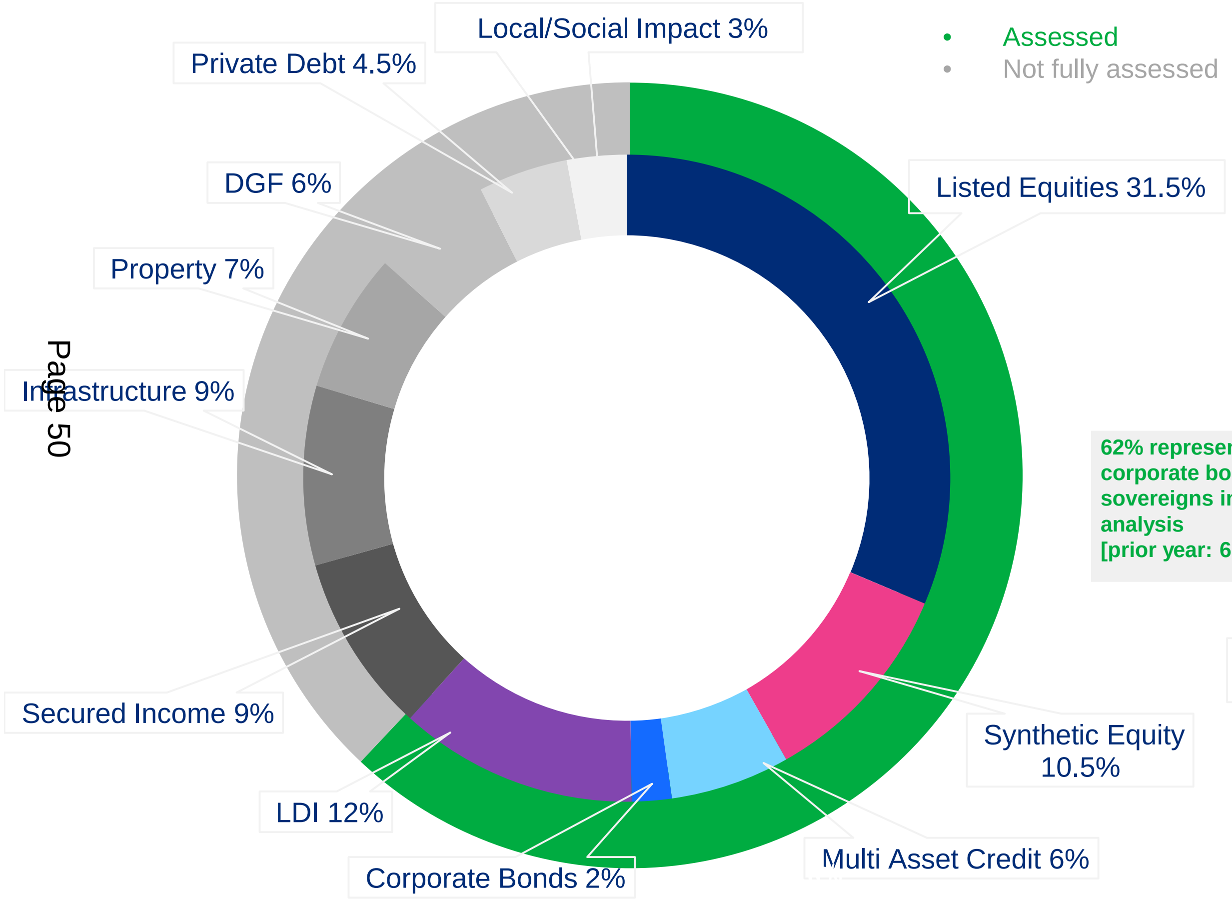
- **Low allocations to grey assets***, concentrated primarily in the Brunel MAC and Global High Alpha mandates. Positive progress in the Brunel Developed Paris Aligned mandate, which has almost eliminated exposure to grey assets. The disinvestment from the BlackRock Passive Global Developed mandate over the year also contributed positively, given its high allocation to grey assets.
- **Good progress against stewardship targets** for material (high impact) sectors.

- **Listed portfolio:** The Fund has made allocations to the **Brunel Global Sustainable** and **Developed Paris Aligned** mandates.
- Private markets: the Fund has made commitments to Schroders Greencoat, Brunel Renewable Infrastructure and Secured Income Funds. We note the Octopus Affordable Housing Fund has a strong net zero focus and the Fund is exploring natural capital allocations.

*Grey assets are not well aligned from a climate transition perspective, with high carbon emissions intensity. **These targets are ambitious and should be kept under review. In light of the wider set of targets proposed this year, there's a need to take a holistic approach to a whole economy transition.

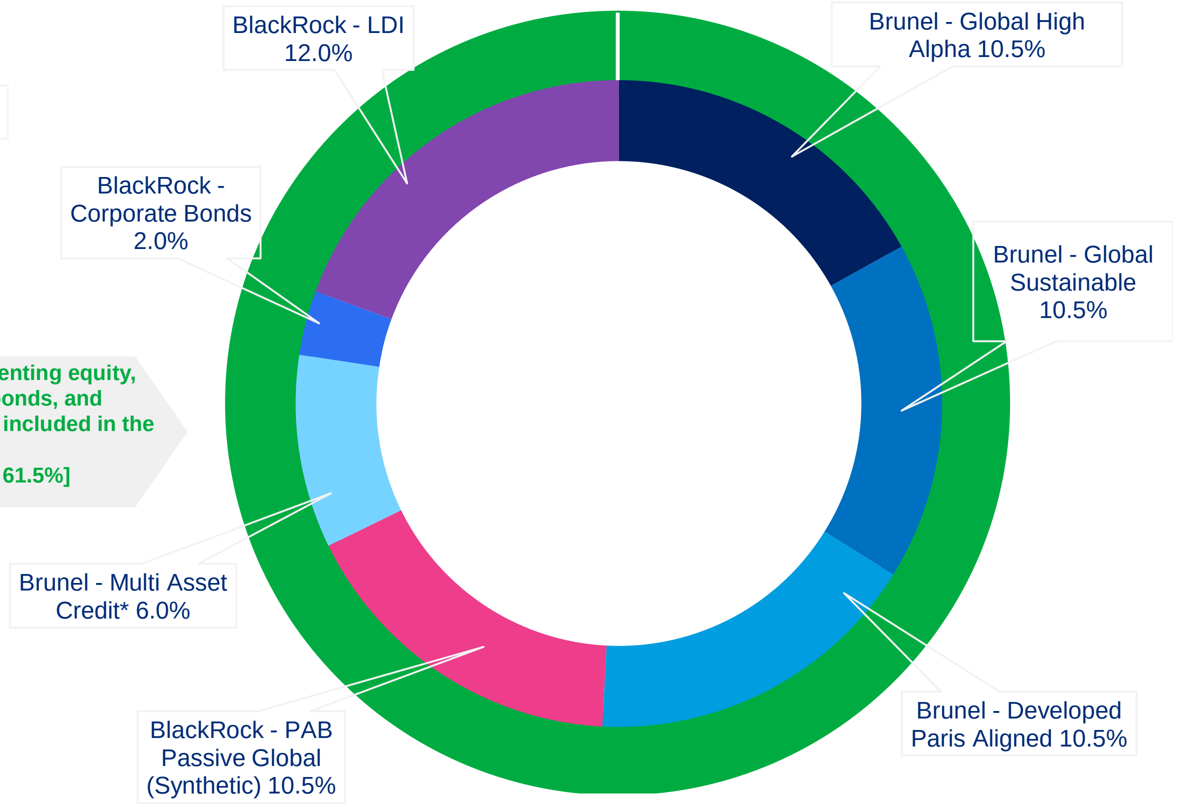
Proportion of holdings analysed

Fund strategic asset allocation as at 31 December 2023



Allocation by manager as at 31 December 2023

62% representing equity, corporate bonds, and sovereigns included in the analysis [prior year: 61.5%]



Source: Mercer.

Notes: The data analysed excludes e.g. cash and derivative allocations within the funds analysed. Where there is partial coverage of a portfolio we scale up the Absolute Emissions to estimate coverage for 100% of the mandate.
*The total SAA for the Brunel Multi-Asset Credit fund is 6.0%. However, only the Corporate Bonds portion is being included in the analysis (c.43.5% of the total Fund's SAA).

Mercer

Current Fund Targets

	Scope	Current Target	Comment
Front-loaded portfolio **decarbonisation** with a focus on managing transition risk	**Total Fund**	• **Target 2045 net zero target**	• Unchanged.
	Listed Equities	• **Target 43% emissions reduction by 2025 and a 69% emissions reduction by 2030 (2020 baseline)**	• Interim targets remain unchanged from previous years (based on the initial 2050 target), with greater decarbonisation now required from 2030 under the new curve.
	Corporate bonds	• **Target 2045 net zero target with 60% reduction by 2030 (2020 baseline)**	• Unchanged.
	Private Markets	N/A	• Continue to explore feasibility of target setting: Mercer recommends continuing to engage with managers on this point, noting Brunel expect data to be available in 2024. • Consider aligning with Brunel targets • Work with Schroders Greencoat and any new managers for the Local/Social Impact portfolio to develop climate metrics reporting for these allocations
Portfolio constructed from companies/ assets **aligned with a low carbon transition**	**Total Fund**	• **Stewardship / Engagement targets:** Ensure 70% of financed emissions in material sectors are subject to direct or collective engagement and stewardship actions for all listed equity by end 2024, increasing to 90% by June 2027. • **Divestment:** Divest from developed market equity holdings in high impact sectors that are not achieving net zero or aligning to achieve net zero by 2050 (by 2030)	• Unchanged. • Stewardship / engagement target is broadly consistent with Brunel. Officers to work with Brunel to assess engagement with top emitters in the Fund's portfolio.
Investment in **climate solutions** that support economy wide decarbonisation	**Total Fund**	**N/A**	• Allocations to Brunel Paris Aligned and Global Sustainable equity, BlackRock (synthetic) Paris Aligned Equity and commitments to Renewable Infrastructure via Brunel and Schroders Greencoat equate to c.41% of total Fund assets. • Work with Schroders Greencoat and any new managers for the Local/Social Impact portfolio to develop solutions and impact metrics reporting for these allocations.

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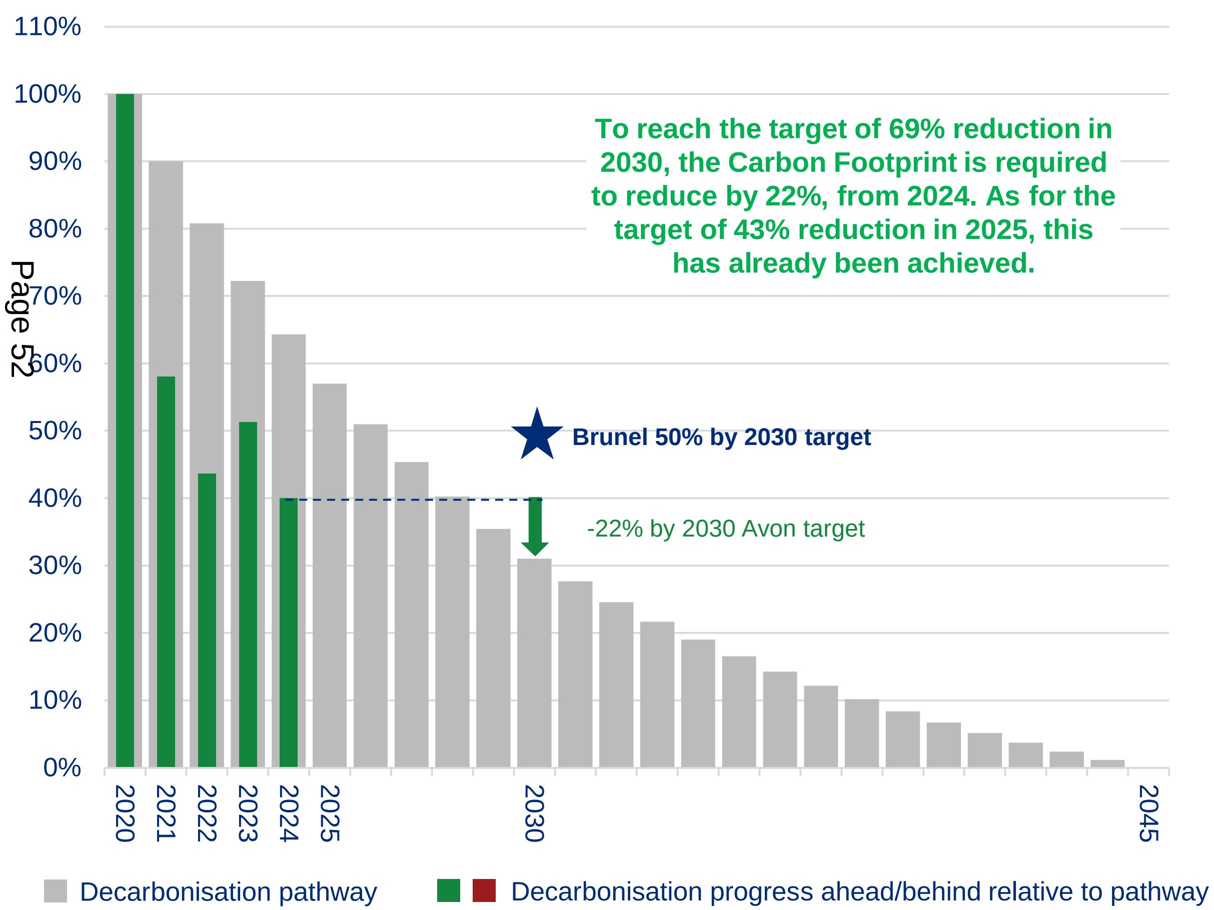
Decarbonisation progress

Progress relative to the Target Curve – Listed Equities

Carbon Footprint (tCO2e / $million invested) **for listed equities, relative to 2020 Baseline** - Scope 1 and 2



Notes: In line with the terminology used by the IIGCC, we refer to 31 December 2019 as 2020, and 31 December 2022 as 2023 etc.

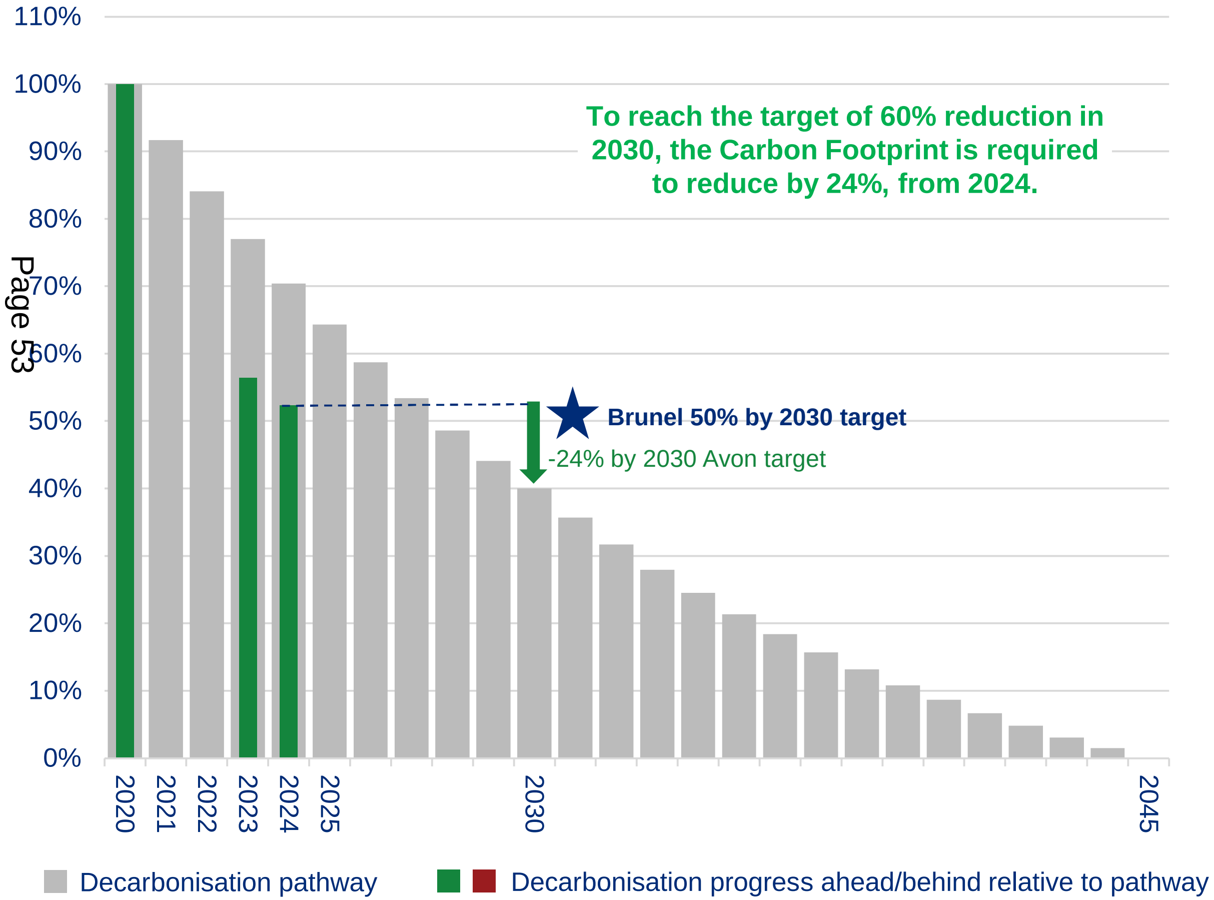
- Over the last 4 years, the Carbon Footprint (scope 1 + 2) has decreased by **60.0%** relative to the **2020 baseline**. Hence, the **Fund** is currently **ahead** of the proposed decarbonisation pathway to achieve the interim reduction targets of 43% by 2025 and 69% by 2030 as well as to reach net-zero emissions by 2045.
- Note the 2030 target has been retained whilst the net zero date has been brought forward from 2050 to 2045 following the climate review in 2023. As such, the rate of carbon reduction required from 2030 is greater under the new target trajectory.
- The listed equities portfolio is much **more carbon efficient when compared to the wider market** (57% below MSCI ACWI as at 31 December 2023).
- In order to reach the above-mentioned targets, the listed equities' carbon footprint is required to reduce by 22% by 2030. The 2025 target has already been achieved.
- On a forward looking basis progress is likely to rely more heavily on underlying company decarbonisation, including through engagement (i.e. more aligned with real world decarbonisation), than strategic changes to manager line-up. Therefore, decarbonisation progress is expected to be more difficult and slower to 2030.

Need to ensure that transition risks are managed holistically rather than on a narrow emissions-only basis

Decarbonisation progress

Progress relative to the Target Curve – BlackRock Corporate Bonds

Carbon Footprint (tCO2e / $million invested) **for BlackRock - Corporate Bonds, relative to 2020 Baseline**



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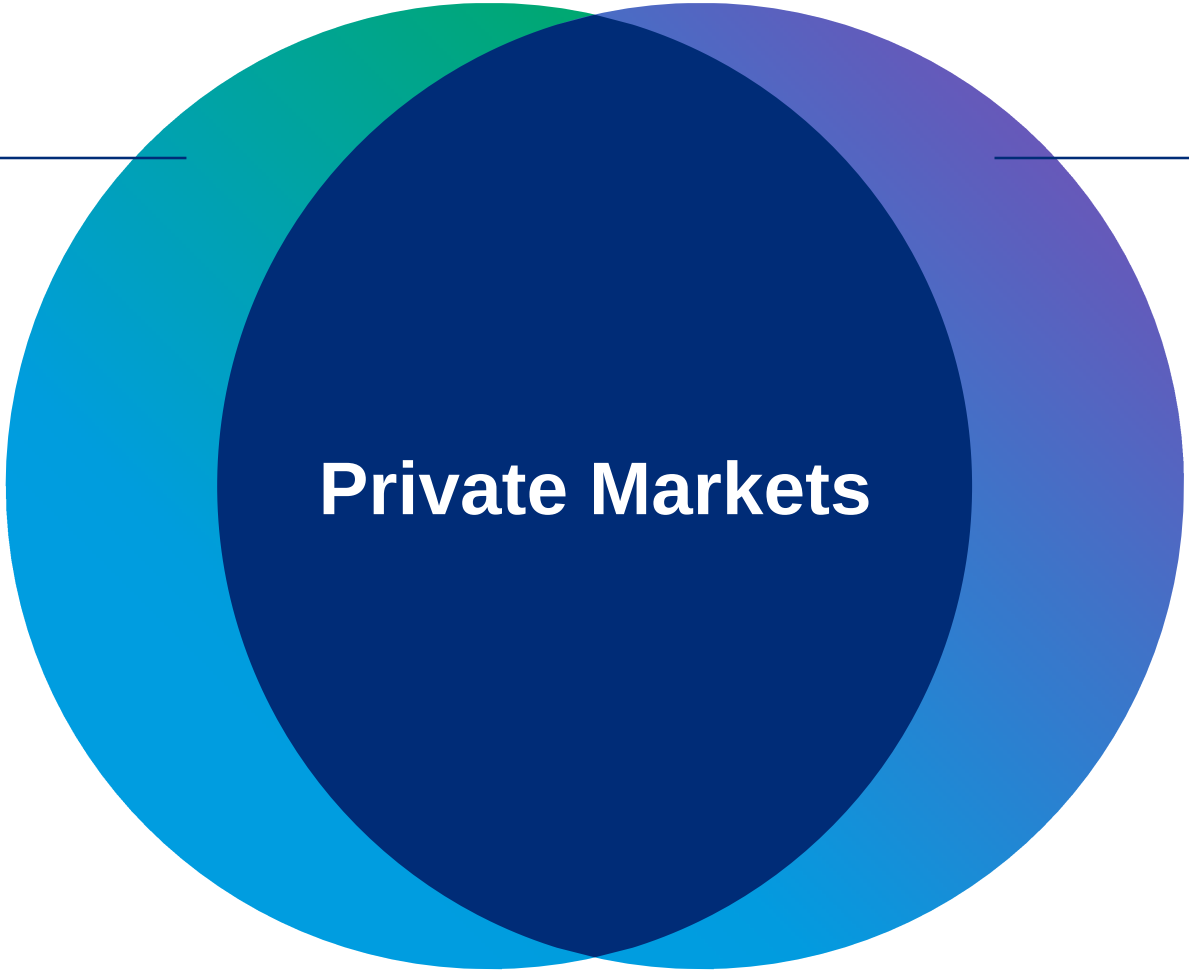
- Over the last 4 years, the Carbon Footprint (scope 1 + 2) has decreased by **47.7% r**elative to the **2020 baseline**. Hence, the **Fund** is currently **ahead** of the proposed decarbonisation pathway to achieve the interim reduction target of 60% by 2030 .
- In order to reach the above-mentioned targets, the corporate bonds' carbon footprint is required to reduce by 24% until 2030.

Need to ensure that transition risks are managed holistically rather than on a narrow emissions-only basis

Notes: In line with the terminology used by the IIGCC, we refer to 31 December 2019 as 2020, and 31 December 2022 as 2023 etc.

Portfolio Decarbonisation

Private Markets



Transparency and data remains a key challenge

But we are seeing improvements in data availability across various private asset classes.

Net Zero guidance

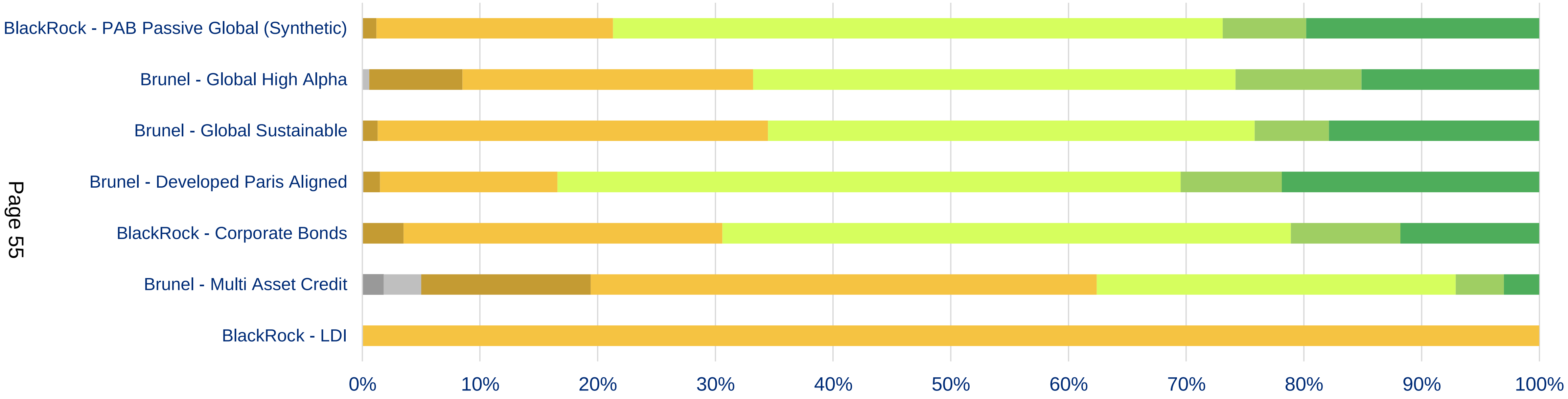
IIGCC has produced much needed guidance for asset owners looking to set net zero targets for Real Estate, Infrastructure and Private Equity. Venture Capital and Private Debt guidance being developed.

While methodologies for private markets data have recently been developed, the timing of when data will be widely available remains unclear
Further information on the status of disclosures for the Fund's private markets portfolios is provided in the appendix

Transition Alignment

By weight (%)

We present the transition alignment of the portfolio, to understand exposure to assets that are well aligned ("green"), a mix of intensities and transition capacity ("in between") or not well aligned ("grey") with the low carbon transition.



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Highlights & Questions

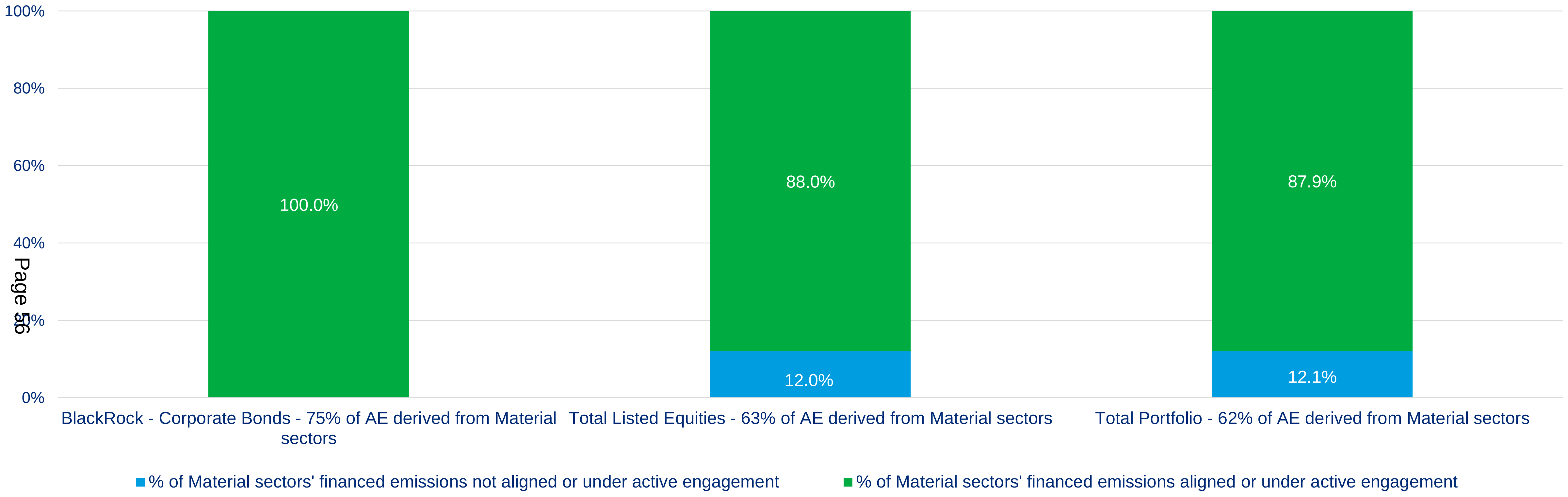
- ✓ Low allocations to Grey assets, concentrated primarily in Brunel – MAC.
- ✓ High allocations to Green across the listed equity mandates

How are Brunel engaging with the most carbon intensive and Grey companies?

Notes: Figures may not sum due to rounding. Analysis captures carbon dioxide equivalent metrics. Where there is partial coverage of a portfolio we scale up to estimate coverage for 100% of the mandate. (see Appendix on limitations).

Transition Alignment: engagement priorities

Material Sectors’ Financed Emissions not aligned or not subject to active engagement



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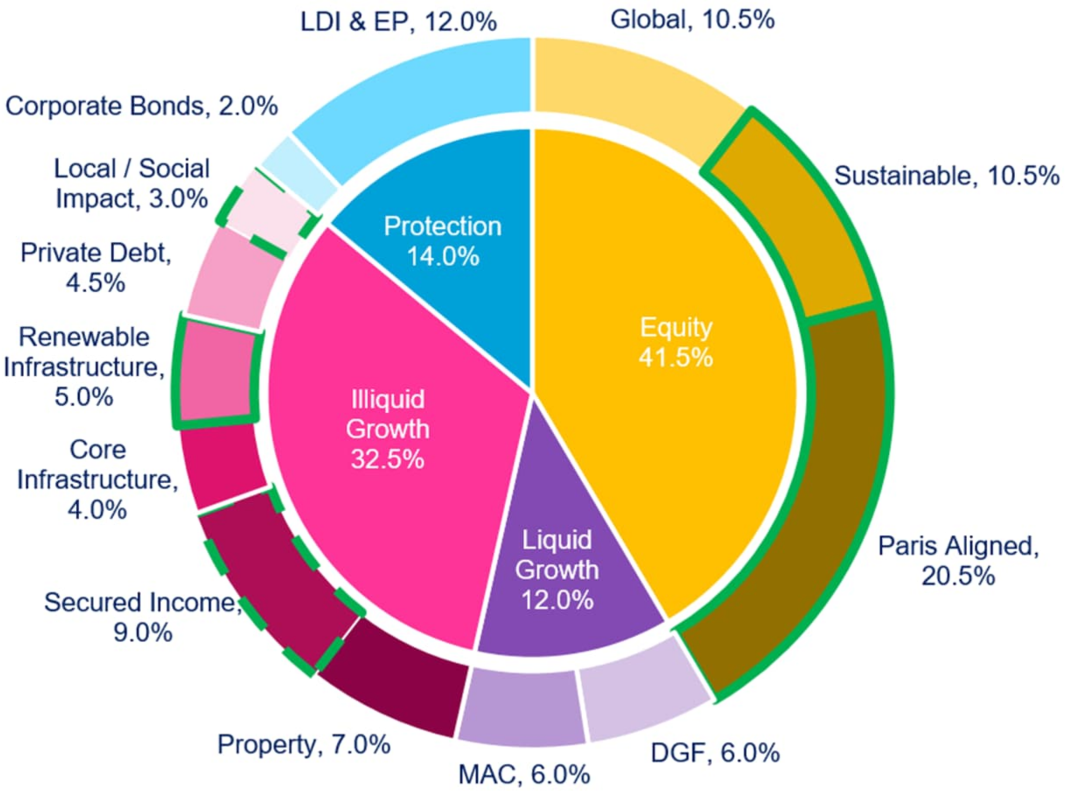
- Companies have been assessed as **under active engagement** if they are within the list of companies captured within the Climate Action 100+ engagement list or are currently being engaged by Brunel. In respect of **alignment,** companies have been deemed to demonstrate evidence of alignment if they have approved SBTi targets or categorized as aligned by the Transition Pathway Initiative (“TPI”).

✓ **87.9% of Material Sectors’ Financed Emissions at total portfolio level are aligned or subject to active engagement. Companies not aligned or under active engagement will be captured under 2030 divestment commitment**

Notes: Please note that owing to the different coverage levels across investment funds, it is difficult to compare the investment funds side by side, however comparing an investment fund’s progress on these metrics year on year will provide useful progress indicators to engage with investment managers.
Sectors are defined as material in line with IIGCC’s classification, that sets out the most material sectors from an owned-carbon emissions standpoint.

Climate Solutions

Fund strategic asset allocation as at 31 December 2023



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- The Fund has allocations to climate solutions across its portfolio including:
  - Within the listed equity portfolio (e.g. Paris Aligned Equities, Sustainable Equity).
  - Exposure to renewable infrastructure, including the Schroders Greencoat Wessex Gardens commitment and the Brunel Renewable Infrastructure and Secured Income Funds. This exposure constitutes 9-10% of total Fund assets.
  - Octopus Affordable Housing Fund has a strong net zero focus.
- The Fund has also agreed to invest in Natural Capital, with work ongoing to determine the size and make-up of this allocation.

The Fund looks to invest sustainably to support a Just Transition to a lower carbon economy but no longer targets a specific allocation of assets to sustainable / low carbon / climate solutions investments

Summary & Next Steps

Summary:

- **Good progress to date; the Fund's listed equity and corporate bond portfolios are ahead of decarbonisation targets**
- **Good progress on alignment and climate solutions**
- **Too early to set net zero targets for private markets**
- **Look to agree approach to natural capital allocation and implementation plan**
- **Integrate nature risk assessment into approach**

Continue monitoring decarbonisation progress for listed assets

- **Listed Equity:** Carbon Footprint has decreased by 60% from the baseline in 2020 and is ahead of the pathway to achieve the interim target of 69% reduction by 2030.
- **Corporate Bonds:** Carbon Footprint has decreased by 47.7% since the baseline in 2020 and is ahead of the pathwa y to achieve the interim target of 50% reduction by 2030.

Continue to monitor alignment and stewardship targets

Assessing the alignment of assets with a low carbon transition, supported by stewardship, allows for a more holistic approach to a whole economy transition.

Consider evolving alignment and stewardship targets in 2025 for the listed equity and corporate bond portfolios as data improves.

Continue to consider potential role of exclusions

Implement an Engagement plan

Agreeing how to achieve targets is important, with stewardship playing a key role. Develop a more formal engagement plan for top contributors to reduce carbon footprint within the portfolio, with Brunel to implement.

We propose the first step is to engage with Brunel on most intensive companies not already under engagement by CA100+ or Brunel.

Progress Private markets disclosures

Brunel has begun providing TCFD data for property & infrastructure in 2024. Engage with Brunel on initial metrics and timeline for fuller disclosures. Explore adopting Brunel private market targets following this exercise.

Work with Schroders Greencoat and any new managers for the Local/Social Impact portfolio to develop climate and impact metrics reporting for these allocations.

Consider role of Natural Capital allocation in portfolio.

Incorporate biodiversity considerations across pillars

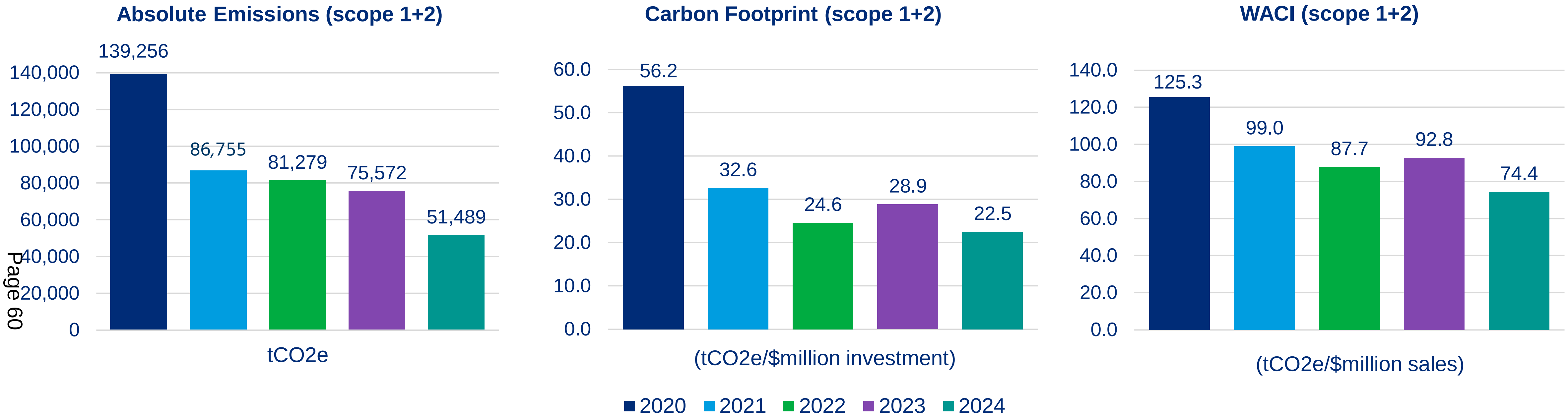
Mercer

*Brunel have begun providing TCFD data for in 2024

TECHNICAL APPENDIX

Progress versus the baseline

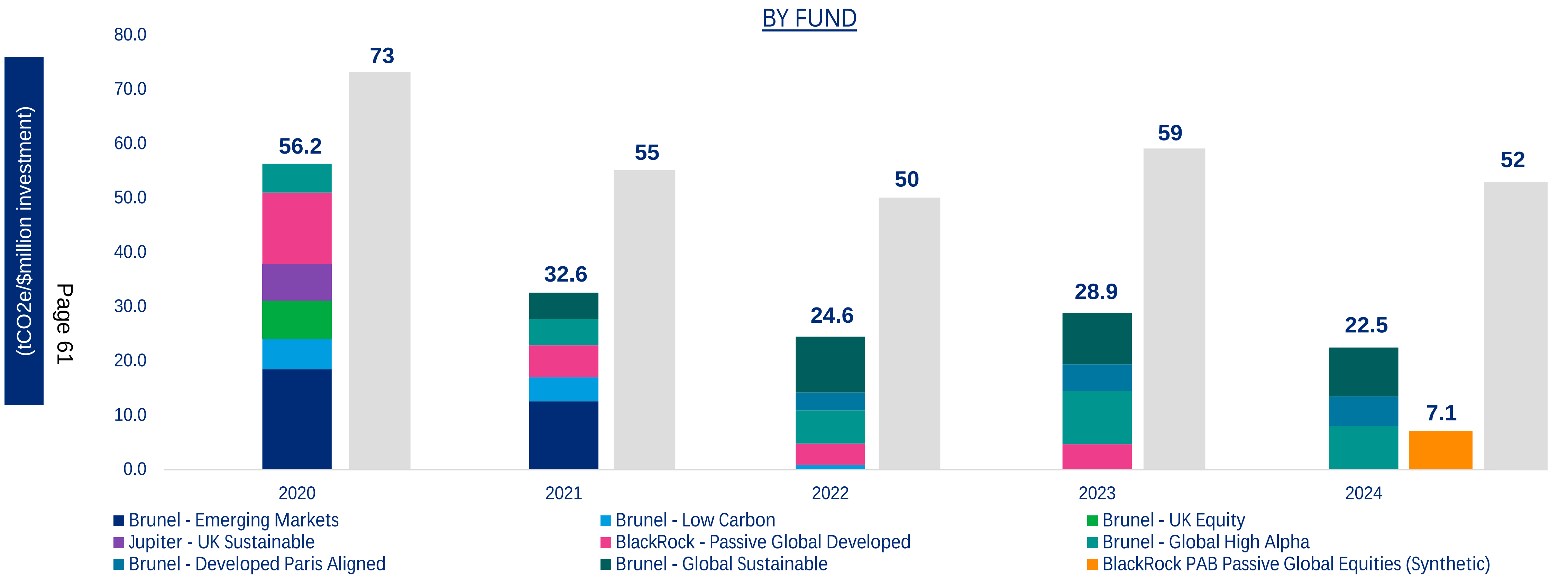
Listed Equities



- **The Fund's Listed Equities portfolio decreased by 60.0% on a Carbon Footprint basis, from December 2019 to December 2023. The Weighted Average Carbon Intensity (WACI) decreased by 40.7% in the same period, and the Absolute Emissions decreased by 63.0%.**
- During the 4-year period the **Listed Equities** portfolio underwent strategy changes, including the disinvestment from the **Brunel – UK Equity, Jupiter – UK Sustainable, Brunel – Emerging Markets**, **Brunel – Low Carbon** and **BlackRock – Passive Global Developed** mandates, and the investment in **Brunel – Developed Paris Aligned** and **Brunel – Global Sustainable.** The **Brunel – High Alpha** is the only mandate present throughout the entire analysis.
- The disinvestment from the **BlackRock – Passive Global Developed** mandate over the past year has had a positive impact on the portfolio's performance, as this was the most carbon intensive mandate amongst the equity portfolio in 2023.

Decarbonisation Path: 2020 - 2024

What has driven the change to the Listed Equities Carbon Footprint (scope 1+2)?



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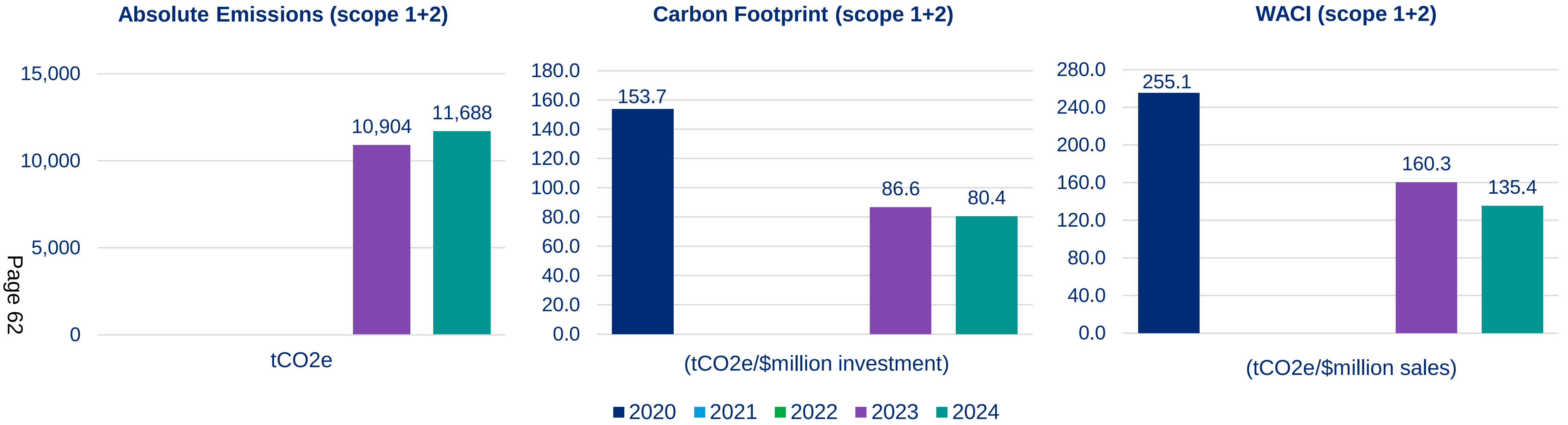
- **Understanding what has driven change in carbon footprint (scope 1+2)**
- **The Fund's Listed Equities portfolio decarbonised by 60.0% from 2020 to 2024**, as compared to a 27.6% decarbonisation seen for MSCI ACWI over the period. Moreover, the carbon footprint of the equity portfolio represented 77% of MSCI ACWI's carbon footprint in 2020, this decreased to 43% by 2024.
- The decarbonisation was **mainly driven by the significant changes in strategy that the Listed Equities portfolio has seen over the four-year period,** with the disinvestment from Brunel Emerging Markets driving a lot of that decarbonisation. From 2023 to 2024, the decarbonisation within the equity portfolio is due to the decarbonisation of the Brunel Global High Alpha and Brunel Developed Paris Aligned (which decreased by c.25% and c.20%, respectively) and the disinvestment from the BlackRock Passive Global Developed mandate.
- Note we do not include synthetic exposure (namely the BlackRock Paris Aligned mandate) in the total equity portfolio / total Fund analysis. Carbon metrics for the mandate are included in the appendix. Synthetic equity exposures are reported separately in line with best practice.

Progress versus the baseline

Corporate Bonds (exc. MAC) – BlackRock Corporate Bonds



- **The Fund's Corporate Bonds portfolio**, which is composed solely of the BlackRock – Corporate Bonds mandate, **decreased by 47.7% on a Carbon Footprint basis, from December 2019 to December 2023, while the Weighted Average Carbon Intensity (WACI) decreased by 46.9% during the same period.**
- The Carbon Footprint, which normalises Absolute Emissions by the dollar amount invested has fallen by **7.2%** over the last year. This decrease in Carbon Footprint reflects the underlying decarbonisation of the portfolio, as this metric is unaffected by the value of assets covered.

Climate metrics dashboard

Indicator of improved emissions performance vs last year
Indicator of worsened emissions performance vs last year
2023 figures shown in brackets

Scope 1 and 2 emissions – listed equity and corporate bonds

Asset Class	Mandate	WACI (tCO2e / $M sales)		Carbon Footprint (tCO2e / $M invested)		Absolute Emissions (tCO2e)		Allocation Weight
		Metric	Coverage	Metric	Coverage	Metric	Coverage	
Listed Equity	Brunel – Global High Alpha	**42.3** (68.4)	97.1%	**24.2** (32.5)	96.9%	**18,497** (25,568)	96.9%	10.5% (12.5%)
	Brunel – Global Sustainable	**101.6** (111.7)	97.8%	**27.0** (26.2)	97.8%	**20,592** (24,908)	97.8%	10.5% (15.0%)
	Brunel – Developed Paris Aligned	**79.2** (78.2)	99.7%	**16.3** (20.2)	99.6%	**12,401** (12,728)	99.7%	10.5% (10.0%)
Total listed equity		**74.4**	98.2%	**22.5**	98.1%	**51,489**	98.1%	**31.5%**
Corporate Bonds	BlackRock – Corporate Bonds	**135.4** (160.3)	94.3%	**80.4** (86.6)	68.4%	**11,688** (10,904)	68.4%	2.0% (2.0%)
Total corporate bonds		**135.4**	94.3%	**80.4**	68.4%	**11,688**	68.4%	**2.0%**
Total equity and corporate bonds		**78.0**	98.0%	**25.9**	96.3%	**63,177**	96.4%	**33.5%**
MAC	Brunel **–** Multi Asset Credit	**199.9** (200.5)	73.8%	**104.3** (82.4)	66.6%	**19,771** (16,901)	66.6%	2.6% (3.3%)
Synthetic Equity	BlackRock – PAB Passive Global	**35.0**	99.3%	**7.1**	99.1%	**5,414**	99.8%	10.5%
Comparator – MSCI ACWI		**122.7** (158.5)	99.6%	**52.8** (59.0)	99.6%	**-**	-	-

Source: MSCI and Mercer. All data as at 31 December 2023. An overview of these metrics is provided in the Appendix. Allocation weights represent the strategic asset allocation for that mandate or, for mixed mandates, the actual allocation to listed equity or corporate bonds within the mixed mandate.

Climate metrics dashboard

Scope 1 and 2 emissions – sovereign bonds

Asset Class	Mandate	Sovereign Carbon Intensity (tCO2e / $M PPP-Adjusted GDP)		Absolute Emissions (tCO2e)		Allocation Weight
		Metric	Coverage	**Metric**	Coverage	
Sovereign bonds	BlackRock LDI	**131.2**	100.0%	**374,095**	100.0%	12.0% (12.0%)
Total sovereign bonds		**131.2**	100.0%	**374,095**	100.0%	**12.0%**

Source: MSCI and Mercer. All data as at 31 December 2023. An overview of these metrics is provided in the Appendix. Allocation weights represent the strategic asset allocation for that mandate or, for mixed mandates, the actual allocation to sovereign bonds within the mixed mandate.

Notes: Sovereign emissions data shown are consistent with the PCAF definition of Scope 1 sovereign emissions, aligning with the UNFCCC definition of domestic territorial emissions, including emissions from exported goods and services. Emissions data include land use, land use change and forestry. Data sourced from OS-Climate.

Sovereigns methodology has improved over the year, rendering year on year comparison unfair. Values for prior years have therefore been excluded from this table.

For LDI, Absolute Emissions in respect of funded gilt exposure (£2,236.5M) are shown in the table above. The exposures from cash and liquidity funds (£88.0M) are not included in the analysis.

Climate metrics dashboard

Scope 3 emissions – listed equity and corporate bonds

Asset Class	Mandate	WACI (tCO2e / $M sales)				Carbon Footprint (tCO2e / $M invested)				Absolute Emissions (tCO2e)				Allocation Weight
		Scope 3 Upstream		Scope 3 Downstream		Scope 3 Upstream		Scope 3 Downstream		Scope 3 Upstream		Scope 3 Downstream		
		Metric	Coverage	**Metric**	Coverage	**Metric**	Coverage	**Metric**	Coverage	**Metric**	Coverage	**Metric**	Coverage	
Listed equity	Brunel – Global High Alpha	**230.4**	97.0%	**289.5**	97.0%	**91.0**	96.9%	**190.1**	96.9%	**64,254**	96.9%	**131,681**	96.9%	10.5%
	Brunel – Global Sustainable	**229.0**	97.8%	**183.4**	97.8%	**67.0**	97.8%	**71.4**	97.8%	**51,319**	97.8%	**48,871**	97.8%	10.5%
	Brunel – Developed Paris Aligned	**245.3**	99.7%	**201.5**	99.7%	**65.3**	99.7%	**61.7**	99.7%	**47,652**	99.7%	**45,267**	99.7%	10.5%
Total listed equity		**234.9**	**98.2%**	**224.8**	**98.2%**	**74.5**	**98.1%**	**107.7**	**98.1%**	**163,225**	**98.1%**	**225,819**	**98.1%**	**31.5%**
Corp. Bonds	BlackRock – Corporate Bonds	**226.4**	93.7%	**346.1**	93.7%	**132.7**	68.4%	**227.5**	68.4%	**18,662**	68.4%	**33,842**	68.4%	2.0%
Total corporate bonds		**226.4**	93.7%	**346.1**	93.7%	**132.7**	68.4%	**227.5**	68.4%	**18,662**	68.4%	**33,842**	68.4%	2.0%
Total equity and corporate bonds		**234.4**	97.9%	**232.0**	97.9%	**77.9**	96.3%	**114.9**	96.3%	**181,887**	96.4%	**259,661**	96.4%	33.5%
MAC	Brunel **–** Multi Asset Credit	**284.1**	73.1%	**628.7**	73.1%	**180.8**	66.1%	**343.7**	66.1%	**35,042**	66.6%	**64,394**	66.6%	3.5%
Synth. Equity	BlackRock – PAB Passive Global	**214.6**	100.0%	**140.9**	100.0%	**53.0**	99.7%	**31.2**	99.7%	**37,080**	99.8%	**21,915**	99.8%	10.5%

Source: MSCI and Mercer. All data as at 31 December 2023. An overview of these metrics is provided in the Appendix. Allocation weights represent the strategic asset allocation for that mandate or, for mixed mandates, the actual allocation to listed equity or corporate bonds within the mixed mandate.

Portfolio Decarbonisation

Data availability

Manager	Asset class	Strategic Asset Allocation	Included in ACT analysis?	Targets set?	Indicative timeline for target setting	Comment	Recommended action
Brunel	Private Debt	4.5%	No	No	2024/26 (subject to data availability)	Brunel are requiring managers (on a best endeavours basis) to report climate data (mirroring basic company metrics) and disclosure percentage of reported/ estimated/ unknown, but note current levels of disclosure are very low. Brunel cannot guarantee disclosures as not all GPs (especially those in the US) will be willing to accept side letter requirements relating to climate. Making this a condition would limit access to the managers with strong teams/ track records/ returns.	Work towards target setting on this part of portfolio. Assess Brunel's 2024 TCFD reporting when available.
	Renewable Infrastructure	5.0%				Brunel provide sustainable exposure analysis and are aiming to work with Stepstone for TCFD reporting in June 2024.	
	Core Property	3.5%[1]				Some climate metrics, including percentage of funds who have committed to net zero will be provided in the 2022 Real Estate Reports. This is in addition to other metrics such as GRESB scores. Brunel plan to extend the range of metrics for TCFD by June 2024.	
	Secured Income	9.0%				Brunel plan to mirror a combination of property and infrastructure metrics, given the profile of the fund. Brunel plan to develop this as part of TCFD June 2024 implementation roll-out.	
IFM	Infrastructure	4.0%	No	No	2024/25	IFM have recently issued their inaugural Infrastructure Climate Change report, which includes carbon footprint data for the IFM Global Infrastructure Fund for the year ended 31 December 2022, and an update on progress vs. climate targets. Aiming to provide % of companies that have set net zero targets. Estimated emissions data provided to clients on request, with plans to increase reported data over time.	Review data and engage with manager on target setting
Partners Group	Overseas Property	3.5%[1]	No	No	N/A – legacy funds	No plans by the manager to provide metrics given legacy status of most funds (vintages from 2008 – 2015).	Lower priority given status of funds

[1] *Strategic allocation to property is 7.0%.*

Transition Alignment

Indicator of improved emissions performance vs last year
Indicator of worsened emissions performance vs last year
2023 figures shown in brackets

Annual Monitoring as at 2024

Asset Class	Mandate	Implied Temperature Rise (ºC)* Metric	SBTi**
Listed equity	Brunel – Global High Alpha	**2.3ºC**	**41.6%** (36.8%)
	Brunel – Global Sustainable	**2.0ºC**	**50.5%** (37.1%)
	Brunel – Developed Paris Aligned	**2.1ºC**	**52.0%** (48.0%)
Total listed equity		**2.2ºC**	**48.1%**
Corporate bonds	BlackRock – Corporate Bonds	**1.9ºC**	**44.9%** (41.1%)
Total corporate bonds		**1.9ºC**	**44.9%**
Total equity and corporate bonds		**2.1ºC**	**47.9%**
MAC	Brunel **–** Multi Asset Credit	**2.7ºC**	**18.9%** (13.0%)
Synthetic Equity	BlackRock – PAB Passive Global	**2.0ºC**	**46.2%**
Comparator – MSCI ACWI		**2.5ºC**	**41.1%**

✓ **Equity and Corporate Bond Funds display positive results compared to MSCI ACWI, with SBTi alignment improving across all managers as more companies set net zero targets**

Source: MSCI and Mercer. All data as at 31 December 2023. An overview of these metrics is provided in the Appendix. Allocation weights represent the strategic asset allocation for that mandate or, for mixed mandates, the actual allocation to listed equity or corporate bonds within the mixed mandate.
Notes: Scope 1+2 only. % of fund directly analysed reflects coverage under the MSCI tool used in this analysis.
*ITR aggregation methodology has improved over the year, rendering year on year comparison unfair. Values for prior years have therefore been excluded from this table.
** This metric measures the proportion of companies in the portfolio with one or more active carbon emissions reduction target/s approved by the Science Based Targets Initiative (SBTi).

Transition Alignment - EU Taxonomy

Indicator of improved performance vs last year
Indicator of worsened performance vs last year
2023 figures shown in brackets

EU Taxonomy Substantial Contribution to Climate Adaptation and Mitigation*

			MITIGATION			ADAPTATION		
	Mandate	Allocation Weight %	EU Taxonomy Estimated Substantial Contribution to Climate Mitigation – **Maximum Percentage of Revenue** (%)	Reported Percentage of **Total CapEx Mitigation Aligned** for Non-Financial Companies (%)	Reported Percentage of **Total CapEx Mitigation Enabling Aligned** for Non-Financial Companies (%)	EU Taxonomy Estimated Substantial Contribution to Climate Adaptation – **Maximum Percentage of Revenue** (%)	Reported Percentage of **Total CapEx Adaptation Aligned** for Non-Financial Companies (%)	Reported Percentage of **Total CapEx Adaptation Enabling Aligned** for Non-Financial Companies (%)
Listed equity	Brunel – Global High Alpha	10.5%	**5.1% (5.0%)**	0.5%	0.3%	**0.1% (0.1%)**	0.0%	0.0%
	Brunel – Global Sustainable	10.5%	**6.5% (5.9%)**	2.6%	2.2%	**0.2% (0.1%)**	0.0%	0.0%
	Brunel – Developed Paris Aligned	10.5%	**11.5% (7.4%)**	1.6%	0.9%	**0.1% (0.2%)**	0.0%	0.0%
Total listed equity		31.5%	**7.7%**	1.6%	1.1%	**0.1%**	0.0%	0.0%
Corporate Bonds	BlackRock – Corporate Bonds	2.0%	**8.5% (7.3%)**	9.8%	3.6%	**1.5% (1.4%)**	0.0%	0.0%
Total corporate bonds		2.0%	**8.5%**	9.8%	3.6%	**1.5%**	0.0%	0.0%
Total equity and corporate bonds		33.5%	**7.7%**	2.1%	1.3%	**0.2%**	0.0%	0.0%
MAC	Brunel – Multi Asset Credit	2.6%	**3.3%**	0.1%	0.0%	**0.5%**	0.0%	0.0%
Synthetic Equity	BlackRock – PAB Passive Global	10.5%	**12.2%**	3.1%	2.0%	**0.6%**	0.0%	0.0%

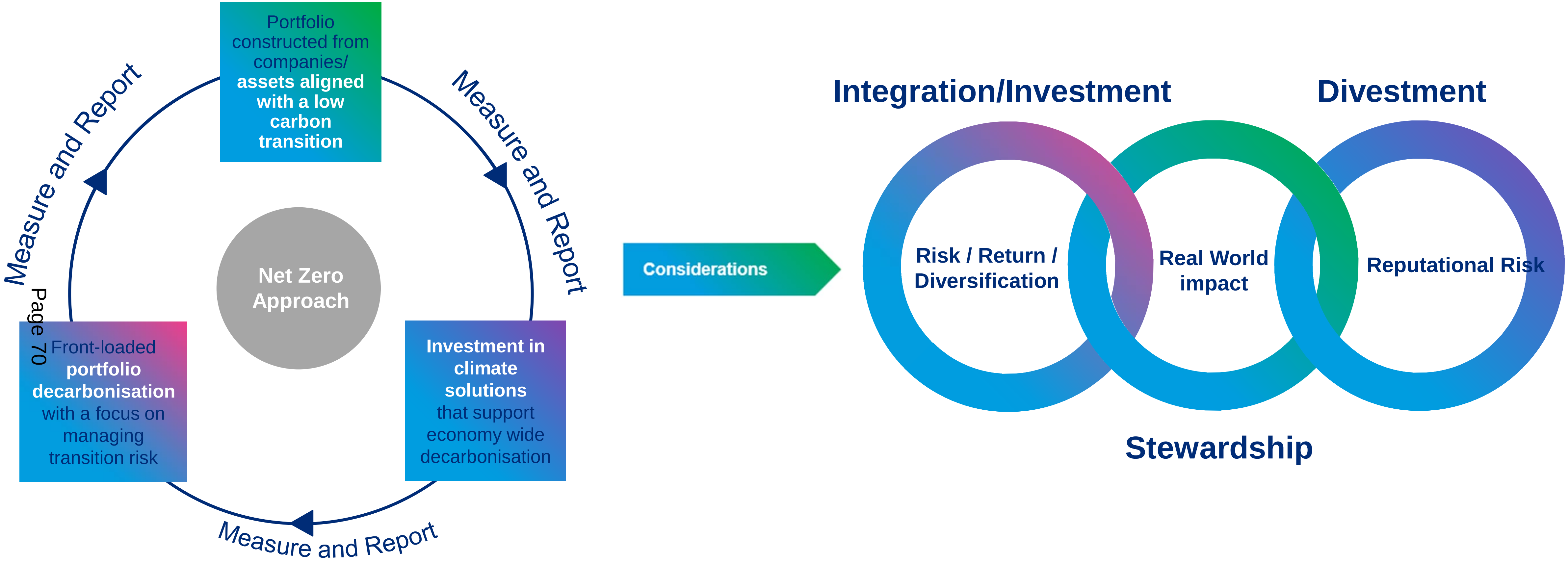
Encouraging progress on revenue exposure to mitigation and adaptation. Minimal exposure to adaptation capex

Source: MSCI and Mercer. All data as at 31 December 2023. Allocation weights represent the strategic asset allocation for that mandate or, for mixed mandates, the actual allocation to listed equity or corporate bonds within the mixed mandate.
*Definition of each factor can be found in the appendix.

APPENDIX

Net Zero Approach

Key considerations & levers



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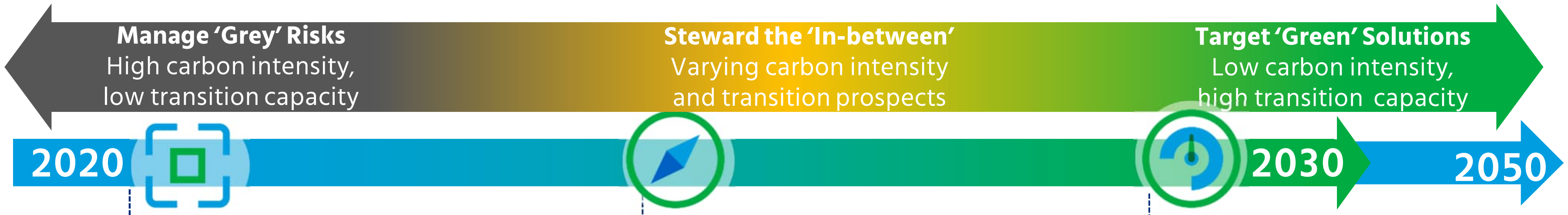
- It is **challenging to maximise every net zero approach** as there are trade-offs associated. When applied in isolation, they may lead to unintended outcomes from both a financial and sustainability perspective.
- Based on the Fund's objectives and commitments to stakeholders, it is important to **establish priorities and strive for balance** which supports financial objectives (risk, return, diversification) as well as real world impact.
- To date, the focus to reach net zero targets has been around decarbonisation followed by climate solutions. However, the **alignment assessment of assets is critical** to enable a more holistic approach to a whole economy transition.

Analytics for Climate Transition

A Framework for Transition

Investing for <2°C recognises the risks, opportunities and fiduciary duty in changes happening now and in the future. A low carbon transition plan answers key questions: How to reduce emissions and meet investment objectives? How to deliver emission reductions without just divesting high intensity companies? How to set a target that can be implemented and monitored?



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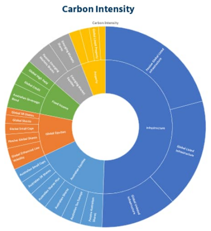
1. Current emissions baseline

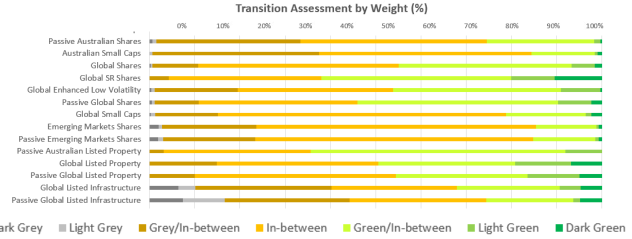
Calculations complete, dashboard drafted – total portfolio



	Mercer Single Sector Funds	Coverage	Weighted Average Carbon Intensity	Metric By Asset Class	Dark Grey %	Light Grey %	Grey/ In-between %	In-between %	Green/ In-between %	Light Green %	Dark Green %
Public – Liquid	Australian Shares		189.7	T CO2e / $M Rev	0.4	0.5	30.9	40.0	22.6	1.6	0.2
	Australian Shares Plus		185.9	T CO2e / $M Rev	0.4	0.3	33.3	41.8	21.7	1.6	0.2
	Australian SR Shares		148.3	T CO2e / $M Rev	0.1	0.8	30.4	38.3	25.2	1.2	0.8
	Australian Tax Exempt		197.1	T CO2e / $M Rev	0.4	0.6	34.1	37.3	24.7	0.8	0.4
	Passive Australian Shares		218.3	T CO2e / $M Rev	0.7	0.8	31.7	41.0	23.6	1.5	0.3
	Australian Small Caps		145.1	T CO2e / $M Rev	0.0	0.6	30.7	39.2	11.6	0.6	0.8
	Global Shares		86.0	T CO2e / $M Rev	0.3	0.3	9.7	42.1	36.4	4.9	1.5
	Global SR Shares		73.6	T CO2e / $M Rev	0.0	0.0	4.1	31.8	39.6	9.2	9.8
	Global Enhanced Low Volatility		219.0	T CO2e / $M Rev	0.4	0.7	17.6	32.8	35.5	8.3	0.4

2. Portfolio possibilities

Analysis complete on 'grey, green and in-between' transition capacity



3. Target and timing

Setting decarbonisation targets:

- 2030 and interim targets e.g. to 2025
- Net zero targets to 2050, or earlier/later

4. Transition plan for implementation

Integration

- Climate change scenario analysis
- Monitor developments and prices

Stewardship

- Engage with companies
- Utilise voting rights

Investment

- Allocate to innovation and solutions
- Monitor developments and prices

Screening

- Restrict high carbon solutions where needed

Emissions Data

Understanding the Scopes

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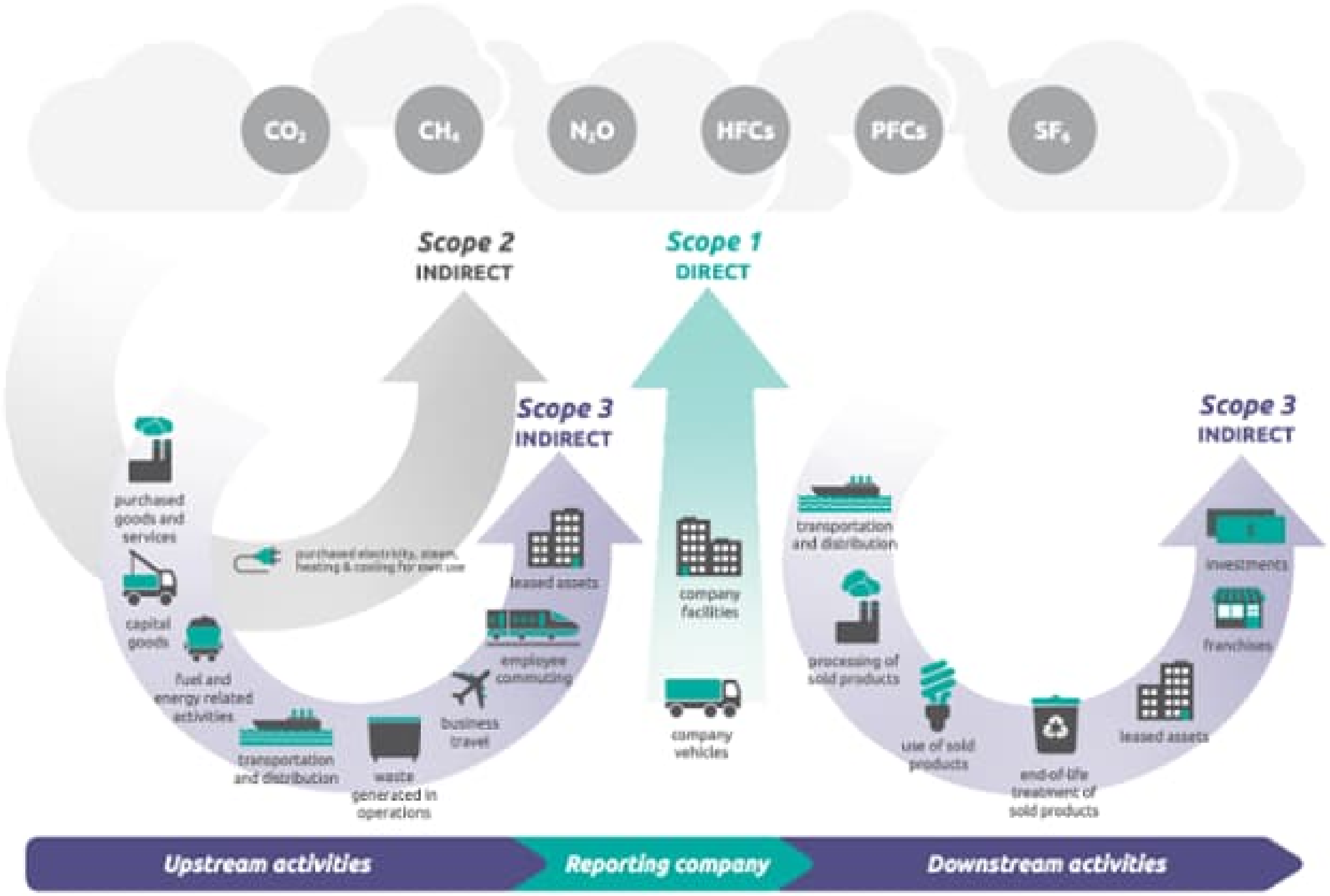
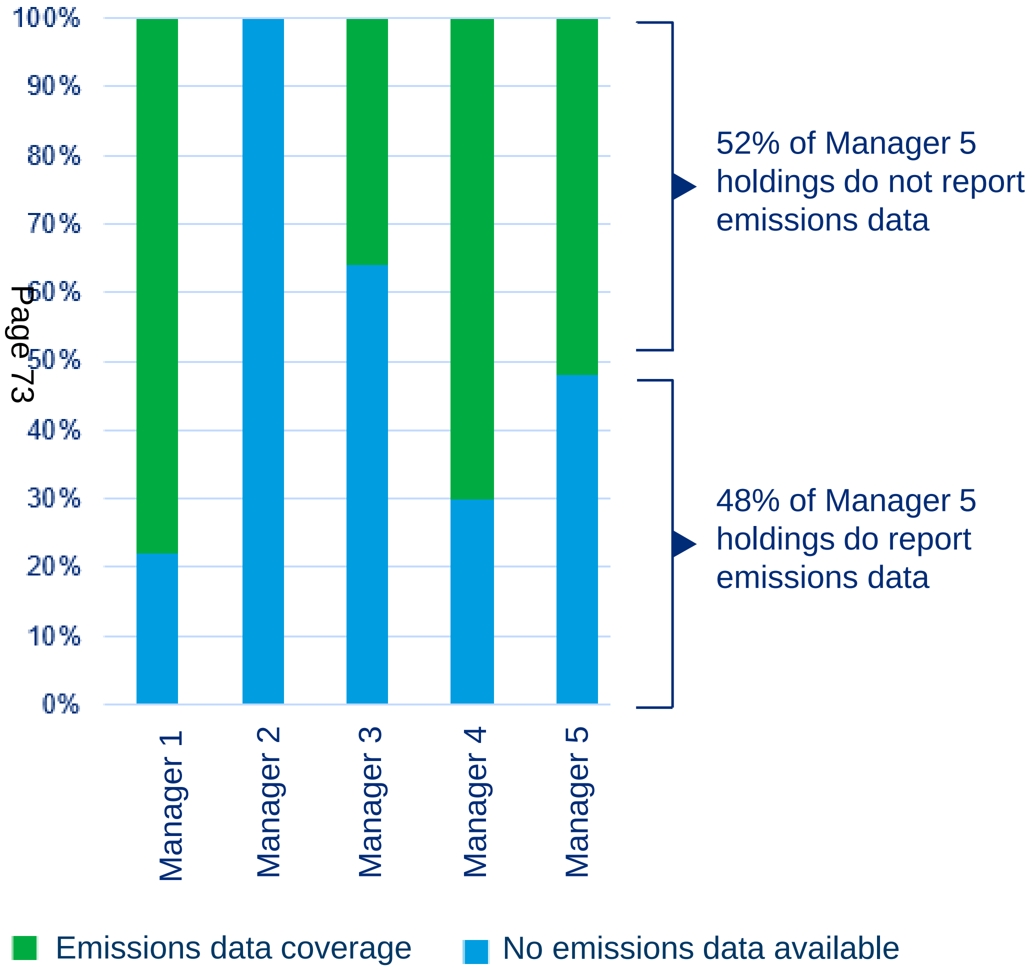


Methodology

Data Coverage and Scaling

Absolute Emissions Coverage



Many of the mandates do not have complete coverage of emissions data; this may be because some companies do not yet measure and report their emissions.

We don't recommend for absolute emissions you only report a figure covering the % of the portfolio that there is coverage for. This essentially assumes 0 emissions for the portion of the portfolio for which there is no coverage.

Therefore the portion of the portfolio for which there is coverage is scaled up, to estimate an absolute emissions figure to cover 100% of the portfolio.

Example calculation :

Manager 5's absolute emissions for 48% covered holdings = 9,746 tons CO2e

Scaling up emissions calculation = 9,746 / 48%

Absolute emissions estimated for 100% coverage = 20,303 tons CO2e

Low carbon transition

Portfolio metrics summary

Weighted Average Carbon Intensity (WACI)	Carbon Footprint
• Operational carbon emissions • **Carbon emissions (Metric tons) / $ Million revenue * portfolio weights** • Measures the portfolio's exposure to emissions-intensive companies	• Operational carbon emissions • **Carbon emissions (Metric tons) / $ Million investment * portfolio weights** • Allows for portfolio decomposition and attribution analysis

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Measures of 'current' emissions intensity

Absolute Emissions	Implied Temperature Rise
• Operational carbon emissions • **[Carbon emissions (Metric tons) * value of investment/company enterprise value] * portfolio weights** • Measures the portfolio's exposure to companies with high absolute emissions	• The implied temperature trajectory of a company's operations • **Expressed as ⁰C** • Allows for tilting of the portfolio towards companies with a <2⁰C implied temperature rise, to show alignment with the Paris Agreement ambition
Measure of absolute emissions	**Measure of transition alignment**

Emissions Intensity – Carbon Footprint

Carbon Footprint: $\frac{\text{Investor Absolute Emissions associated with a portfolio}}{\text{\$M invested in that portfolio}}$ = Portfolio Carbon Footprint (tons CO_2 equivalent / $million investment)

Answers how carbon efficient each portfolio is e.g. how many tons of carbon is associated with each $M invested in each portfolio?

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+

- As an intensity metric it is a useful comparator across asset classes/portfolios and/or as compared with a benchmark on an 'apples to apples' basis.
- Allows for portfolio decomposition and attribution analysis.
- By normalising absolute emissions by the $M invested this metrics retains the direct link with real world emissions but avoids the drawbacks of the Absolute Emissions Metrics.

–

- Backward looking, so does not take into account future trajectory of underlying investee companies / assets

Carbon footprint is the primary metric used for decarbonisation monitoring

Transition Alignment - EU Taxonomy

Definitions

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	MSCI Factor	Definition
Mitigation	Estimated Substantial Contribution to Climate Mitigation **Maximum Percentage of Revenue (%)**	EU Taxonomy Estimated Substantial Contribution to Climate Mitigation – Maximum Percentage of Revenue is the proportion of total revenue from products and services that provide solutions for reducing GHG emissions.
	Reported Percentage of **Total CapEx Mitigation Aligned** for Non-Financial Companies (%)	For Non-Financial companies, the reported percentage of total capital expenditure from the activities aligned under the Climate Change Mitigation objective of the EU Taxonomy regulation. The data is provided for the most recent fiscal year available.
	Reported Percentage of **Total CapEx Mitigation Enabling Aligned** for Non-Financial Companies (%)	For Non-Financial companies, the reported percentage of total capital expenditure from aligned and enabling activities under the Climate Change Mitigation objective of the EU Taxonomy regulation. The data is provided for the most recent fiscal year available.
Adaptation	Estimated Substantial Contribution to Climate Adaptation **Maximum Percentage of Revenue (%)**	EU Taxonomy Estimated Substantial Contribution to Climate Adaptation – Maximum Percentage of Revenue is the proportion of total revenue from products and services that reduce the risk of adverse impacts resulting from climate change.
	Reported Percentage of **Total CapEx Adaptation Aligned** for Non-Financial Companies (%)	For Non-Financial companies, the reported percentage of total capital expenditure from the activities aligned under the Climate Change Adaptation objective of the EU Taxonomy regulation. The data is provided for the most recent fiscal year available.
	Reported Percentage of **Total CapEx Adaptation Enabling Aligned** for Non-Financial Companies (%)	For Non-Financial companies, the reported percentage of total capital expenditure from aligned and enabling activities under the Climate Change Adaptation objective of the EU Taxonomy regulation. The data is provided for the most recent fiscal year available.

Decarbonisation – Emissions Metrics

Understanding the Approach & Limitations

- We analyse companies' absolute emissions, in metric tons in carbon dioxide equivalents. This data represents the company's reported *or* estimated greenhouse gas emissions, where available.
- The analysis includes various Scopes of emissions:
  - Scope 1 "direct" emissions: those from sources owned or controlled by the company (e.g. direct combustion of fuel from vehicles)
  - Scope 2 "indirect" emissions: those caused by the generation of energy (e.g. electricity) purchased by the company.
- We attribute company emissions to the Scheme, based on the value of investments.
- Caution should be exercised in interpreting individual data points, as in reality, emissions may differ, given the data coverage in the analysis is less than 100%. We assume companies not covered by the analysis are represented *within* the range of companies that have been covered in the analysis.
- The listed portfolio analysis focuses on the Listed Equity portfolio, corporate bond (including MAC) and LDI holdings, showing contributions to Fund emission metrics. We assess carbon dioxide "equivalent" metrics.
- Caution should be exercised in interpreting individual data points, as in reality, emissions may differ, given the data coverage in the analysis is less than 100%. Where companies do not have data points, companies are assumed to have the same carbon metrics as the average of companies that we do have data points for, therefore we do not assume that companies have zero emissions because we do not have data for them.
- Emissions are likely underestimated as Scope 3 emissions are not included in the metrics presented within. Although we do present an overview of the attribution of Scope 3 emissions by fund and sector as part of our detailed analysis.
- Many of the IPCC's scenarios are reliant on net zero (or net negative) assumptions later this century. This can include the deployment of mitigation technologies, such as carbon capture and storage, as well as ecosystem approaches, such as land and forest conservation and restoration. There has been some scepticism as to whether such technologies and approaches are viable, at the required scale. Mercer will look to integrate further assumptions around net zero emissions in due course, as science and technology evolves.
- The focus of these decarbonisation curves is currently on Scope 1 and Scope 2 emissions. Mercer will however seek to integrate Scope 3 emissions as methodologies improve.
- Given the limitations to all of the Metrics, Mercer advocates for monitoring decarbonisation progress on absolute emissions, WACI and carbon intensity basis.

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**
MEETING DATE:	**5 September 2024**
TITLE:	**Review of Investment Performance for Periods Ending 30 June 2024**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1 – Mercer Performance Monitoring Report – to follow** **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 30 June 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.

2. RECOMMENDATION

The Investment Panel:

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 £5,858m on 30 June 2024 and delivered a net investment return of -0.3% over the quarter which lagged the 2.2% rise in the benchmark. The relatively flat nature of returns reflects some positive performances from some of the listed Brunel portfolios, however these were offset by negative returns elsewhere in the portfolio, such as private markets and the risk management strategies.

4.2. The estimated funding level stood at 102% at 30 June (c. £120m surplus).

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 considers a combination of Mercer's capital market assumptions and real yield changes based on asset class correlations across the portfolio. The discount rate is sense checked for reasonableness by the Fund actuary taking into account the long-term sustainability of contributions. The June update allows for the updated discount rate of 5.40% p.a. (equivalent to a discount rate of CPI+2.8% p.a. at 30 June 2024).

4.4. Over 1 year the Fund returned 7.6% in absolute terms and -3.1% in relative terms. Underperformance was most pronounced in the listed portfolios, where both the Global High Alpha and Global Sustainable Equity portfolios underperformed their respective benchmarks. The Multi-Asset Credit and Diversifying Returns portfolios both outperformed their respective benchmarks, while performance of the private markets portfolios was mixed.

4.5. Further details relating to performance attribution can be found in section 4 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 19-39 of Appendix 2.

4.7. Economic and market momentum continued into the second quarter of 2024 with another positive period for equity markets. Strong economic data and sticky inflation resulted in a drop in expectations for interest rate cuts for 2024, with only the ECB enacting a reduction during the period. Global equities rallied, driven by a small group of companies exposed to the artificial intelligence (AI) theme, as market concentration increased even further. Emerging market equities posted the strongest returns while the UK market also advanced with the FTSE 100 hitting an all-time high. Rate sensitive small cap stocks and REITs suffered from confirmation of the higher-for-longer interest rate environment. Conversely, fixed income endured another quarter of negative returns as yields rose, although the benign macro environment was supportive of the riskier segments of the fixed income market.

4.8. In Brunel's listed market portfolios, absolute returns were largely positive however underperformed on a relative basis.

Global High Alpha returned 1.1%, lagging its benchmark (MSCI World) by 1.6%. Attribution data showed that positioning in the IT sector was the biggest detractor of returns, driven largely by underweight positions in Apple and NVIDIA.

The Global Sustainable Equity portfolio fell 0.5% over the quarter, underperforming its benchmark (MSCI ACWI) by 3.5% in a challenging environment for sustainable investing. As with Global High Alpha, narrow market concentration was the main driver for this underperformance, with the portfolio having a 10% underweight position to the five strongest performing names.

The PAB Passive Global Equities portfolio returned 2.8% over the quarter, with the so-called “Magnificent Seven” stocks accounting for the vast majority of the contributions to return.

The Diversifying Returns Fund (DRF) returned -0.5% over the quarter, underperforming the benchmark return by 2.5%. While the fund captured some positive returns from equities and interest earned on cash positions it was a weaker quarter for alternative premia (which seek to generate returns from trends, market volatility and other non-traditional sources of return). Underperformance in currency positioning was pronounced.

Multi-Asset Credit (MAC) returned 1.9%, benefitting from strong appetite for risk assets. The return was slightly behind the cash benchmark (SONIA +4%) where Sterling rates remained elevated. Differences in manager performance were driven by duration positioning, with Neuberger making the lowest return given their higher duration.

In private markets, there was a notable pick-up in M&A activity which is a positive sign for deal flow for lenders and lower rate cut expectations is a tailwind for private debt. However, the high-rate environment remains a challenge for some companies, with ability of companies to meet interest payments on borrowings stretched. The delay in anticipated rate cuts is proving a headwind for the infrastructure portfolios, however these are well diversified and continue to exhibit strong defensive characteristics. Notably, renewable energy generating assets have been, and are expected to continue to be, a key beneficiary of the AI theme, which is responsible for driving exponential demand for green energy.

In Secured Income, both long lease property managers noted markets were more optimistic in the second quarter, with evidence transactions are picking up in areas such as industrial and residential. The occupier market remained resilient, with no rent concerns and near 100% occupancy. But high interest rates and uncertainty persisted, and we could continue to see small valuation write-downs throughout the rest of the year. Over the quarter underlying managers made progress on their redemption queues whilst Schroder Greencoat completed the restructuring and refinancing of the Project Toucan solar portfolio.

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 in line with 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, following the reduction in the equity protection hedge ratio, and to increase the amount of cash held in anticipation of future private markets calls, officers redeemed £50m from the Risk Management portfolio. Aggregate private markets call, excluding the final drawdown from the Secured Income portfolio, totalled £17 million. The Secured Income portfolio is now fully drawn.

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 30 June 2024:

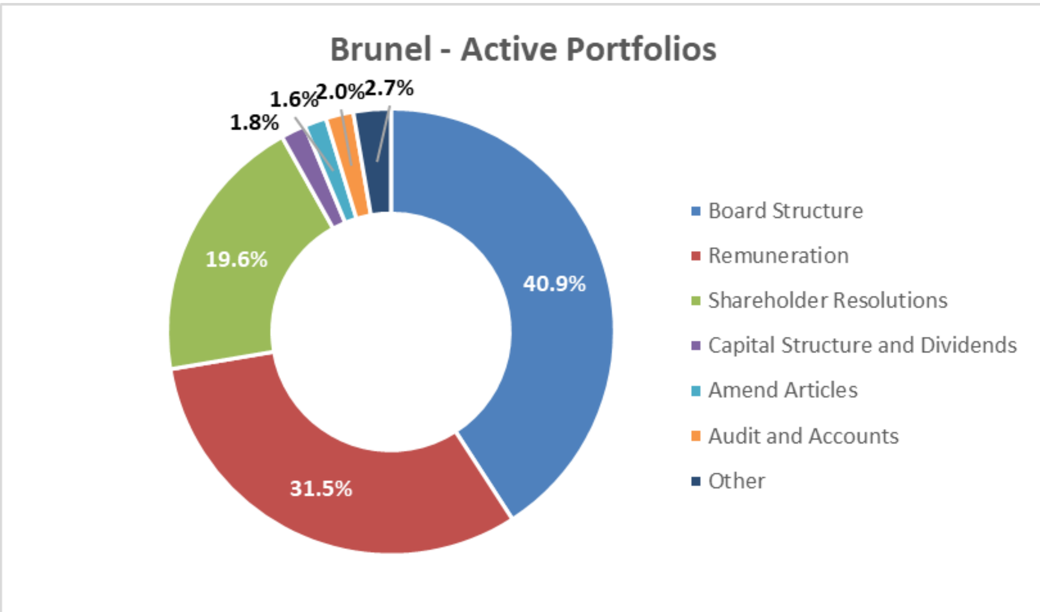
	Quarter to 30 June 2024		
Manager	Number of Meetings	Number of Resolutions	Votes against management recommendation
Brunel/LGIM - Passive Portfolios	766	11,897	2,745
Brunel - Active Portfolios	230	3,447	511

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 30 June 2024

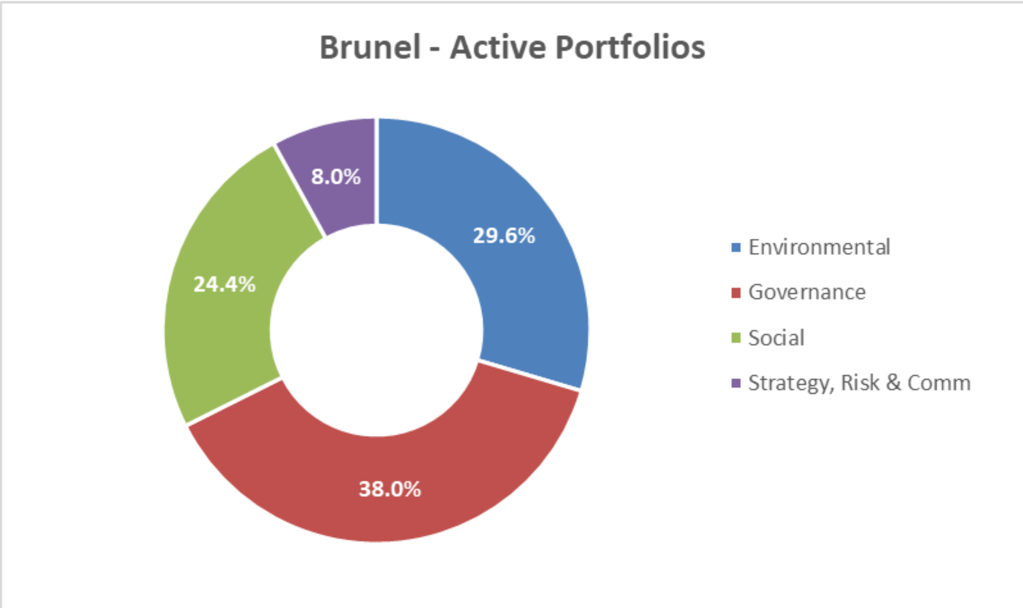


1.1. **Engagement:** Brunel conduct significant engagement with investee companies on behalf of the Fund. A breakdown of the engagement undertaken over the last quarter is summarised as follows:

Company engagement in the quarter to 30 June 2024:

	Quarter to 30 June 2024	
	Number of Companies	Number of Issues
Brunel - Active Portfolios	289	1,004

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	

welcome to brighter

Avon Pension Fund

Panel Investment Report Quarter to 30 June 2024

August 2024

Steve Turner

A business of Marsh McLennan

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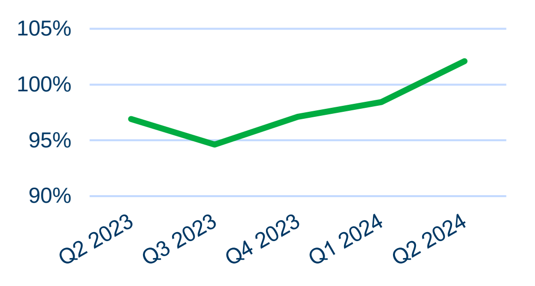
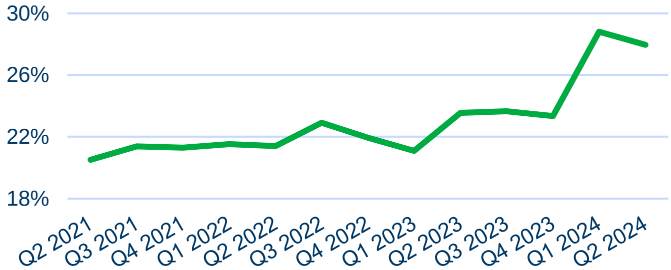
Mercer

Executive Summary

1

Executive Summary

Market background	• The second quarter of 2024 saw inflation rates largely soften towards central banks' targets for most developed market economies. This set the stage for a shift towards monetary policy easing. • Despite this, bond yields rose over the quarter as inflation data came in above market expectations in Q1 and April, especially in the US. Equity markets, barring Japanese equities, continued to rally, with emerging market equities outperforming developed markets. • Headline inflation in the UK fell to 2.0% in May from 3.2% in March. This was led by a slowdown in the cost of food. However, core inflation remains elevated at 3.5%. The Bank of England maintained interest rates at 5.25%.
Mercer market views	• We believe the US economy is slowing which should lead to further labour market loosening. This should lead to lower inflation allowing the Fed to cut interest rates. We believe this creates an environment where risk assets should perform strongly. We continue to remain wary about equity valuations and corporate earnings forecasts, particularly given higher bond yields. However, we continue to believe further upside is likely and that favourable macroeconomic conditions balances stretched valuations.
Funding level and risk	• The funding level is estimated to have increased over the quarter to c. 102% as the value of the assets fell by less than the estimated present value of the liabilities. • The funding level is estimated to be c. 5% higher over the year to 30 June 2024 (as illustrated to the right).  • The Value-at-Risk decreased over the quarter to £1,604m, and to 28% as a percentage of liabilities. • The increase in Q1 2024 was primarily due to the agreed reduction in coverage of the Equity Protection Strategy. 

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Executive Summary

Performance

- Portfolio absolute returns were mixed. The biggest driver of the overall negative return was the LDI and Corporate Bond portfolios, due to rising interest rates.
- Equity was the largest contributor to returns, some of which was offset by the Equity Protection strategy. Multi-Asset Credit and the Currency Hedge added to returns, whilst Property detracted.
- Underperformance relative to the strategic benchmark over the one year period was mainly due to the active equity funds underperforming, as well as negative 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, Equity Protection, Overseas Property and Secured Income mandates.

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	-0.3	7.6	1.6
Strategic Benchmark **(2)** (ex currency hedge)	2.2	10.7	6.5
Relative **(1 - 2)**	**-2.5**	**-3.1**	**-4.9**

- The Currency Hedge 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, except for the Diversified Returns portfolio which is marginally negative
- They have been negative for the Illiquid Growth assets except for Private Debt cycle 2. However many of these assets are still in the drawdown phase.

Asset allocation and strategy

- A net amount of c. £42m was drawn down to private market portfolios during the quarter. Amongst this was a large drawdown of c. £36m to Secured Income cycle 3, after which the commitments to this asset class have now been fully drawn down.
- £50m of collateral was withdrawn from the BlackRock QIAIF during the period.
- The Fund currently has an overweight to Equity (although the underlying allocations are within their target ranges), in part reflecting relative outperformance to other parts of the portfolio over the past year.

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

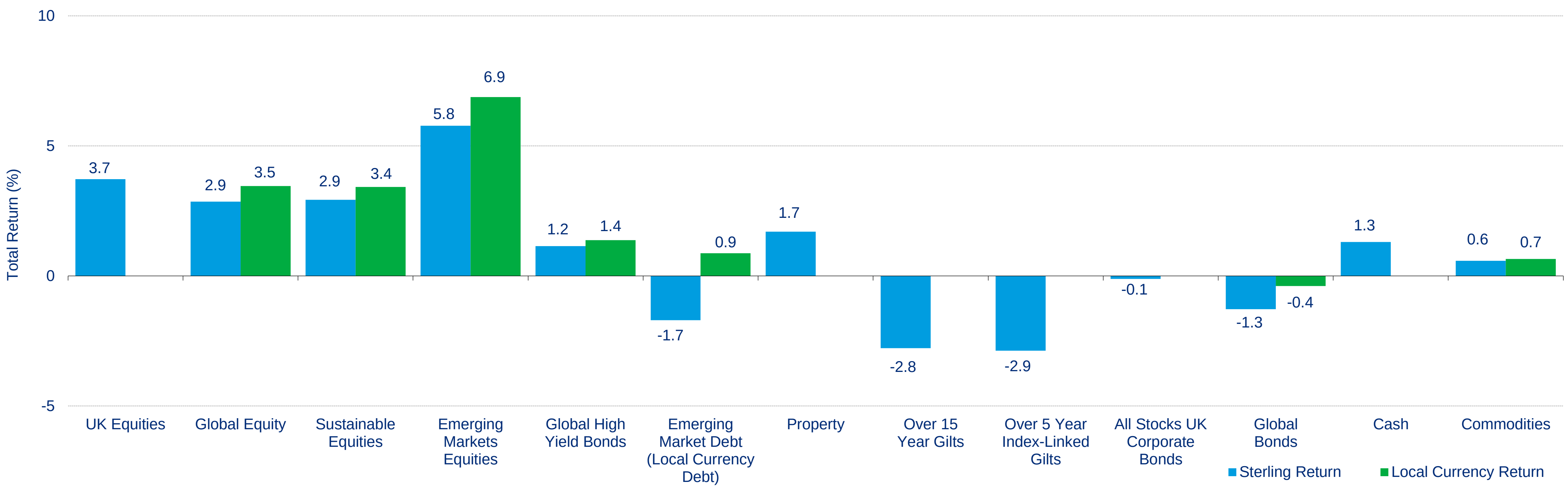
- Following the reduction in the equity protection coverage ratio in March, the Fund has adopted an updated collateral monitoring framework reflecting the significant change in exposures within the risk management portfolio.
- Inclusive of assets within the collateral waterfall and the updated collateral monitoring framework, there was a total interest rate buffer of 6.5% as at 30 June 2024.

Market Background

2

Market Background

Return over 3 months to 30 June 2024 (%)



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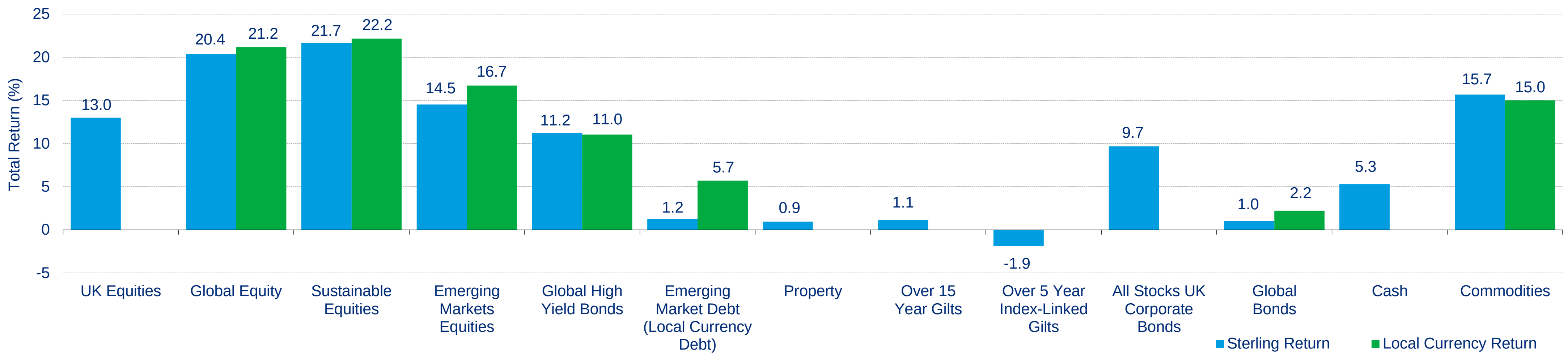
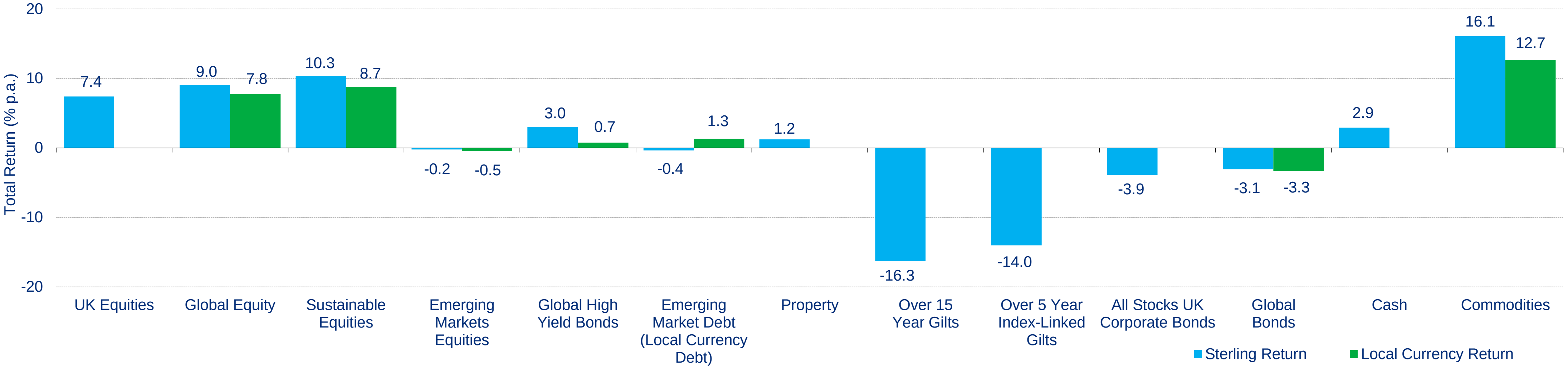
The second quarter of 2024 saw inflation rates largely soften towards central banks' targets for most developed market economies. This set the stage for a shift towards monetary policy easing. The European Central Bank cut interest rates in June. Cooling inflation and a gradual loosening of the labour markets in the US prompted markets to price in two cuts by the US Federal Reserve by the end of 2024. The timing of potential rate cuts by the Bank of England was pushed to August despite waning price pressures, as service inflation remains elevated. Despite this, bond yields rose over the quarter as inflation data came in above market expectations in Q1 and April, especially in the US. Equity markets, barring Japanese equities, continued to rally, with emerging market equities outperforming developed markets. Political volatility remained high with a snap election called in the UK & France while the first TV debate of the US election campaign took place in June.

Market Background – 1 & 3 Years

Return over 12 months to 30 June 2024 (%)



Return over 3 years to 30 June 2024 (% p.a.)



Mercer

Source: Refinitiv

Funding Level and Risk

3

Funding Level and Deficit

The Fund's assets returned -0.3% over the quarter, whilst the liabilities are estimated to have decreased by c. 2.9%.

The combined effect of this saw the estimated funding level increase to c. 102%.

The funding level is estimated to be c. 5% higher over the year to 30 June 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.

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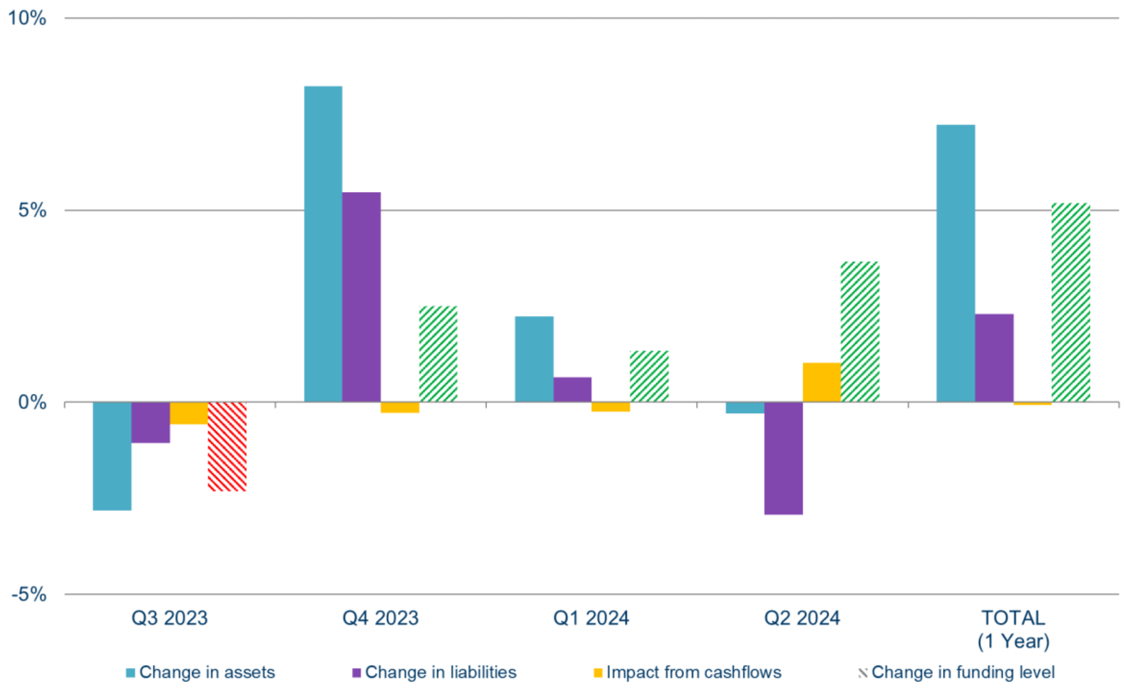
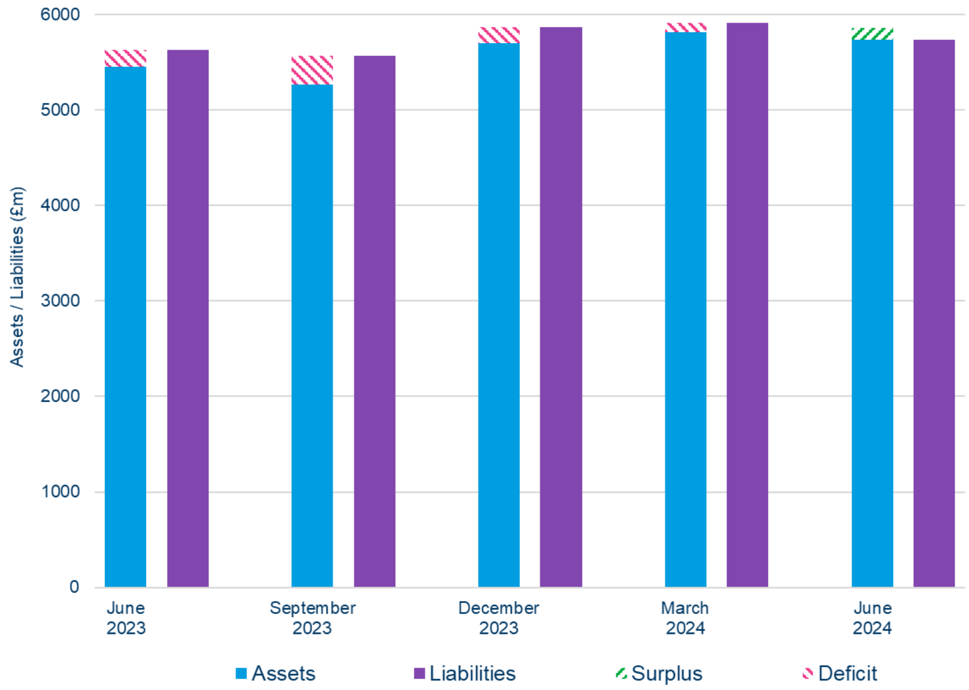


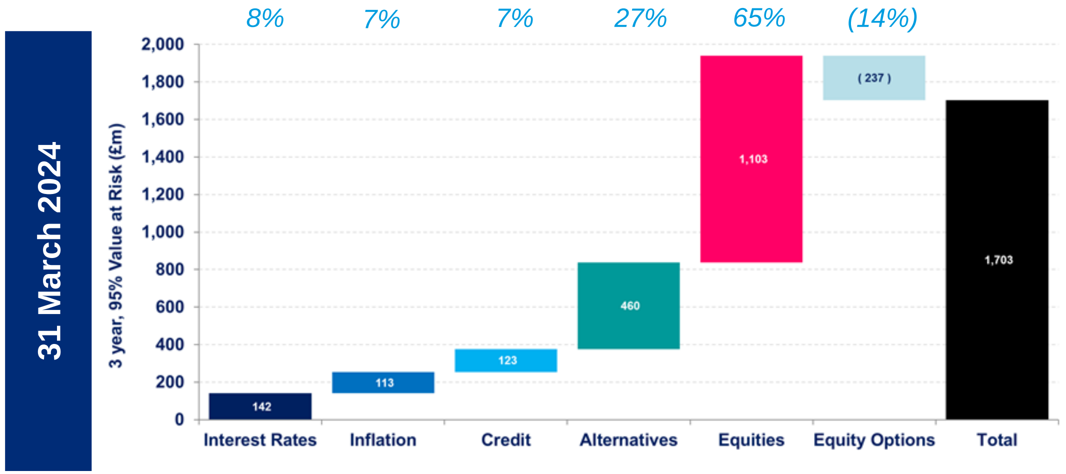
A surplus of c. £120m is now estimated, compared to the deficit last quarter of c. £92m.

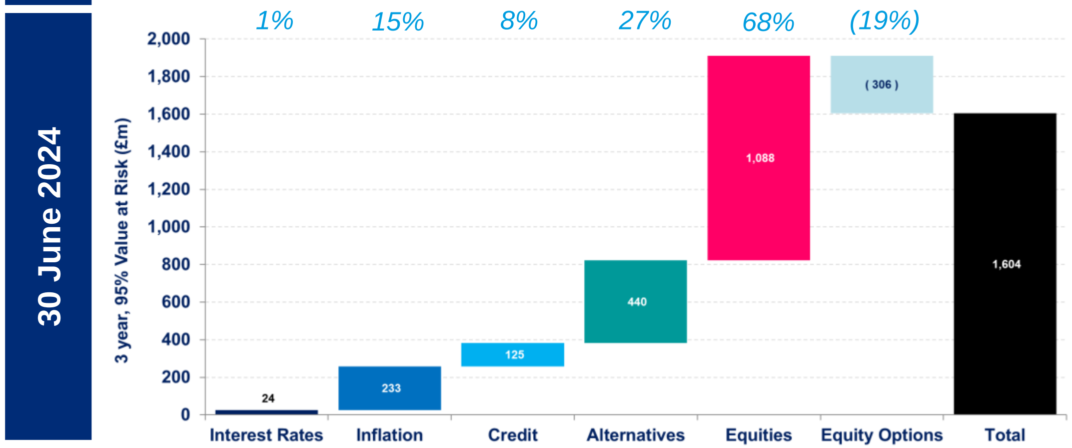


Liability values are estimated by Mercer. They are based on the actuarial valuation assumptions as at 31 March 2022 and the 'CPI plus' discount basis.
Impact figures are estimated by Mercer.

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.





- As at 30 June 2024, if a 1-in-20 'downside event' occurred over the next three years, the funding position could deteriorate by at least an additional **£1.6bn**.
- Each bar to the left of the total represents the contribution to this total risk from the primary underlying risk exposures (interest rates and inflation, changes in credit spreads, volatility of alternative assets and equity markets, and the benefit from equity options).
- Overall **the VaR decreased by £99m over the quarter.** This was due to an overall decrease in underlying volatility assumptions, as well as some modelling refinements.
- As a percentage of liabilities, VaR decreased to from 29% to 28%.

Mercer

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

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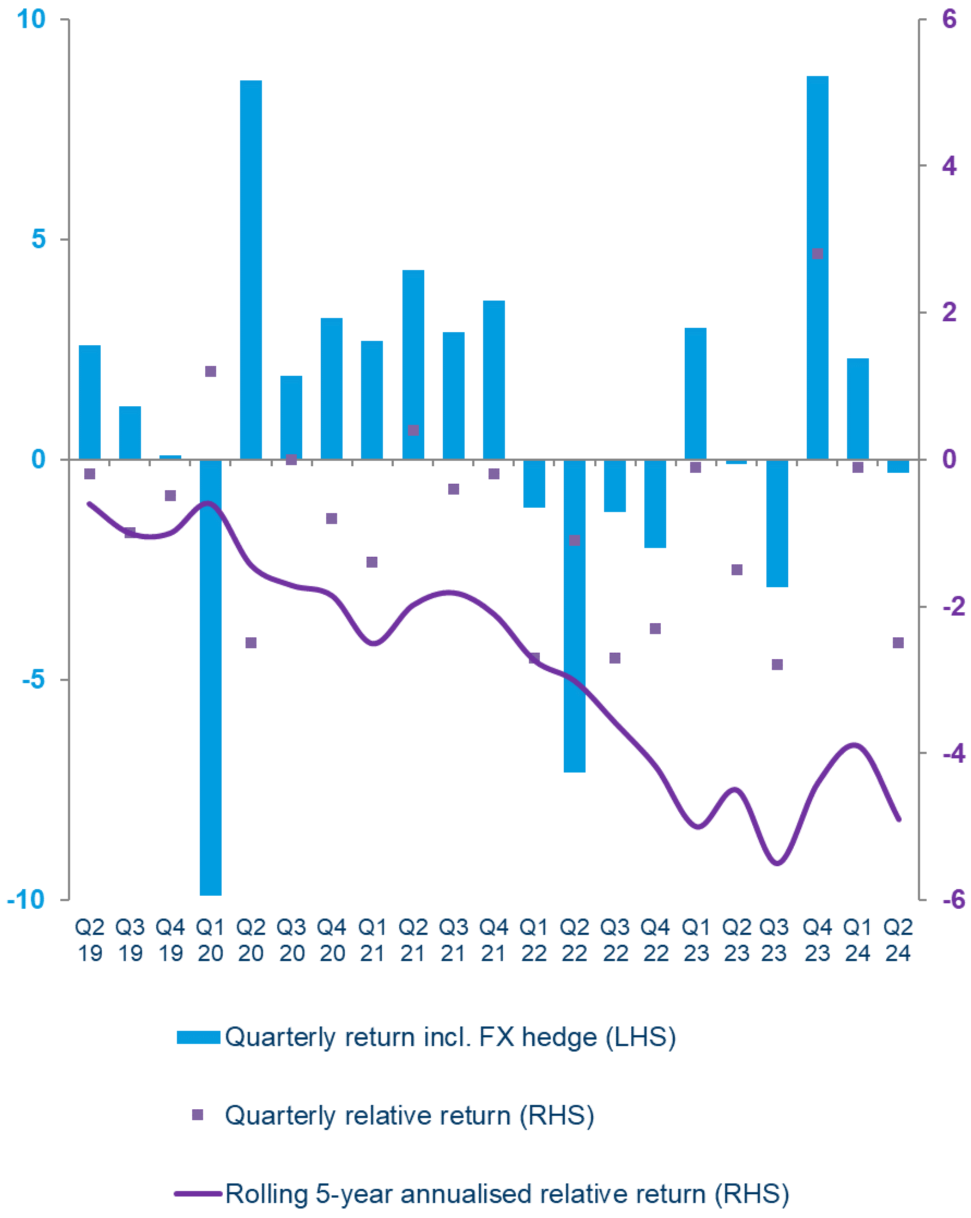
Total Fund Performance



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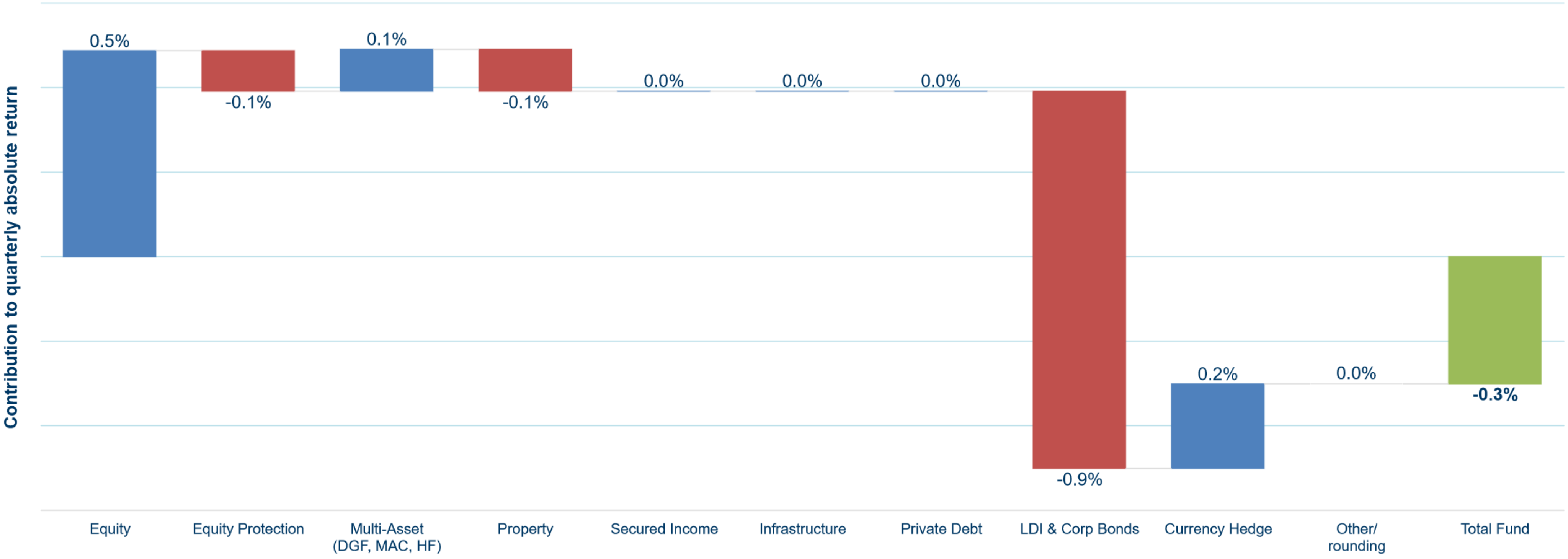
	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	-0.3	7.6	1.6
Total Fund (ex currency hedge)	-0.5	7.4	2.0
Strategic Benchmark **(2)** (ex currency hedge)	2.2	10.7	6.5
Relative (1 - 2)	**-2.6**	**-3.2**	**-4.8**

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 marginal negative return for the Fund over the quarter was driven by the LDI and Corporate Bonds portfolio due to its interest rate exposure. Equity was the largest contributor to returns, some of which was offset by the Equity Protection strategy. Multi-Asset Credit and the Currency Hedge added to returns, whilst Property detracted.
- Relative performance was negative for all active mandates except for some of the Secured Income and Infrastructure mandates.
- Underperformance relative to the strategic benchmark over the one year period was mainly due to the active equity funds underperforming, as well as negative 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, Equity Protection, Overseas Property and Secured Income mandates.
- The Currency Hedge 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



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

The marginal negative return on Fund assets over the quarter was driven by the LDI and Corporate Bonds portfolio due to its interest rate exposure.

Equity was the largest contributor to returns, some of which was offset by the Equity Protection strategy. Multi-Asset Credit and the Currency Hedge added to returns, whilst Property detracted.

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, though mandate has underperformed the benchmark.	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 marginally below expectations since December 2022, despite strong absolute returns over most of the past year.	Returns above expectations since December 2022 thanks to strength in high-yield debt markets.

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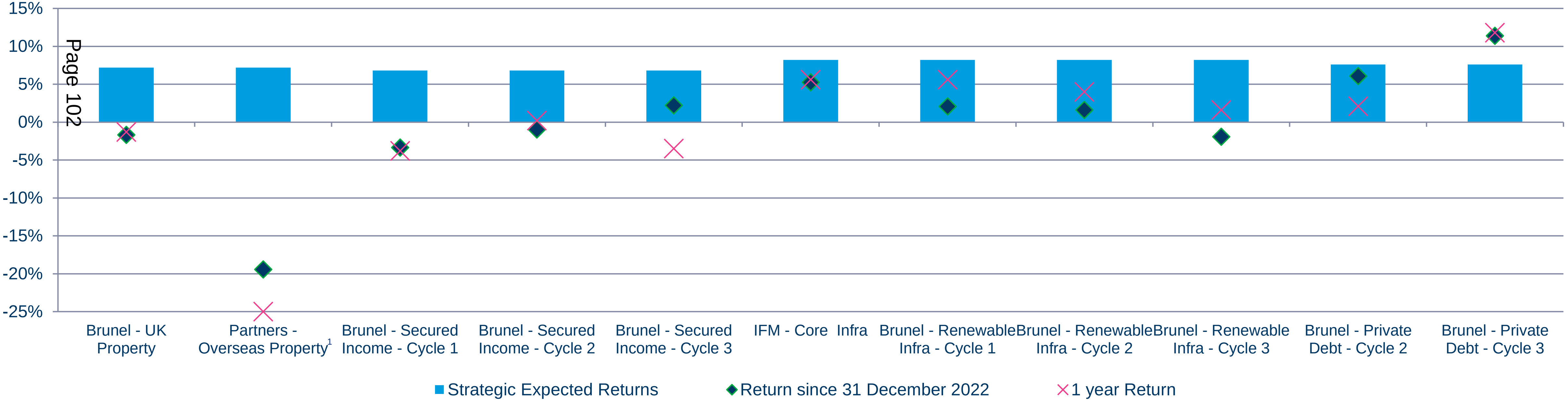
Notes:
We have illustrated the performance of the key mandates within the Fund's investment strategy.
Actual returns are from 31 December 2022 to 30 June 2024, except if otherwise stated below. Returns for periods over a year have been annualised.
The strategic expected returns are from the 2023 strategy 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 seen in Property markets. Time horizon for Secured Income Cycle 3 is since June 2023; when it first drew down capital.			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 below with expectations for cycle 2 but above expectations for cycle 3, since December 2022. Mandates are still in the drawdown phase; the first drawdowns were in September 2021 and December 2022 respectively.



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Notes:
We have illustrated the performance of the key mandates within the Fund's investment strategy.
Actual returns are from 31 December 2022 to 30 June 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 March 2024, as this is the latest data available.

Mandate Performance to 30 June 2024

Manager / Asset Class	3 Months Fund (%)	3 Months B'mark (%)	3 Months Relative (%)	1 Year Fund (%)	1 Year B'mark (%)	1 Year Relative (%)	3 Year Fund (% p.a.)	3 Year B'mark (% p.a.)	3 Year Relative (% p.a.)	3 Year Performance Target (% p.a.)**	3 Year Performance vs Target
Brunel Global High Alpha Equity	1.1	2.7	-1.6	17.2	21.4	-4.2	6.8	10.6	-3.8	+2-3	Target not met
Brunel Global Sustainable Equity	-0.5	2.9	-3.4	12.5	20.6	-8.1	3.5	9.1	-5.6	+2	Target not met
Brunel Passive Global Equity Paris-Aligned	2.8	2.8	0.0	18.4	18.4	0.0	N/A	N/A	N/A	-	N/A (p)
MSCI World Paris-Aligned (Synthetic)	1.7	1.7	0.0	15.8	15.8	N/A	N/A	N/A	N/A	-	N/A (p)
Brunel Diversified Returns Fund	-0.5	2.0	-2.5	9.3	8.4	+0.9	2.8	6.0	-3.2	-	Target not met
Brunel Multi-Asset Credit	1.9	2.3	-0.4	11.9	9.4	+2.5	2.7	7.0	N/A	-	N/A
Brunel UK Property	0.6	1.4	-0.8	-1.3	0.0	-1.3	0.4	0.0	+0.4	-	Target met
Partners Overseas Property*	-4.3	2.5	-6.8	-25.0	10.0	-35.0	-8.1	10.0	-18.1	-	Target not met
Brunel Secured Income - Cycle 1	-0.7	0.8	-1.5	-3.8	2.0	-5.8	-2.6	6.4	-9.0	+2	Target not met
Brunel Secured Income - Cycle 2	1.6	0.8	+0.8	0.2	2.0	-1.8	0.9	6.4	-5.5	+2	Target not met
Brunel Secured Income - Cycle 3	0.2	0.8	-0.6	-3.5	2.0	-5.5	N/A	N/A	N/A	+2	N/A
IFM Core Infrastructure	0.7	2.5	-1.8	5.6	10.5	-4.9	8.2	8.1	+0.1	-	Target met
Brunel Renewable Infrastructure - Cycle 1	0.2	0.8	-0.6	5.6	2.0	+3.6	8.2	6.4	+1.8	+4	Target not met
Brunel Renewable Infrastructure - Cycle 2	1.2	0.8	+0.4	4.0	2.0	+2.0	10.3	6.4	+3.9	+4	Target not met
Brunel Renewable Infrastructure - Cycle 3	3.2	0.8	+2.4	1.6	2.0	-0.4	N/A	N/A	N/A	+4	N/A
Brunel Private Debt - Cycle 2	-0.3	2.3	-2.6	2.1	9.4	-7.3	N/A	N/A	N/A	-	N/A
Brunel Private Debt - Cycle 3	0.9	2.3	-1.4	11.8	9.4	+2.4	N/A	N/A	N/A	-	N/A
BlackRock Corporate Bonds	-0.8	-0.8	0.0	10.2	10.2	0.0	-9.1	-9.1	0.0	-	N/A (p)
BlackRock LDI	-4.0	-3.5	-0.5	-1.2	-1.8	+0.6	-3.5	-3.0	-0.5	-	N/A (p)
Equity Protection Strategy	-0.4	N/A	N/A	-2.5	N/A	N/A	-2.3	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 31 March 2024, as this is the latest data available.
**Where the outperformance target has not already been incorporated into the benchmark returns shown. See Appendix for further details.

Asset Allocation

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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	755,210	772,755	13.0	13.2	10.5	5.5 - 15.5	+2.7
Global Sustainable Equity	666,871	663,348	11.5	11.3	10.5	5.5 - 15.5	+0.8
Paris-Aligned Equity*	1,517,779	1,561,760	26.1	26.7	20.5	12.5 - 28.5	+6.2
Diversified Returns Fund	373,170	371,464	6.4	6.3	6.0	3 - 9	+0.3
Fund of Hedge Funds**	23,907	17,914	0.4	0.3	-	No set range	+0.3
Multi-Asset Credit	340,487	347,111	5.9	5.9	6.0	3 - 9	-0.1
Property	299,369	294,347	5.1	5.0	7.0	No set range	-2.0
Secured Income	600,319	629,318	10.3	10.7	9.0	No set range	+1.7
Core Infrastructure	228,645	230,142	3.9	3.9	4.0	No set range	-0.1
Renewable Infrastructure	206,889	216,134	3.6	3.7	5.0	No set range	-1.3
Private Debt	203,367	209,166	3.5	3.6	4.5	No set range	-0.9
Local / Social Impact	35,085	34,984	0.6	0.6	3.0	No set range	-2.4
Corporate Bonds	181,886	180,396	3.1	3.1	2.0	No set range	+1.1
LDI & Equity Protection	1,340,450	1,244,564	23.0	21.2	12.0	No set range	+9.2
*Synthetic Equity Offset**	-1,090,079	-1,122,022	-18.7	-19.2	-	-	-
Other***	134,623	206,299	2.3	3.5	-	0 - 5	+3.5%
Total	**5,818,000**	**5,857,702**	**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.

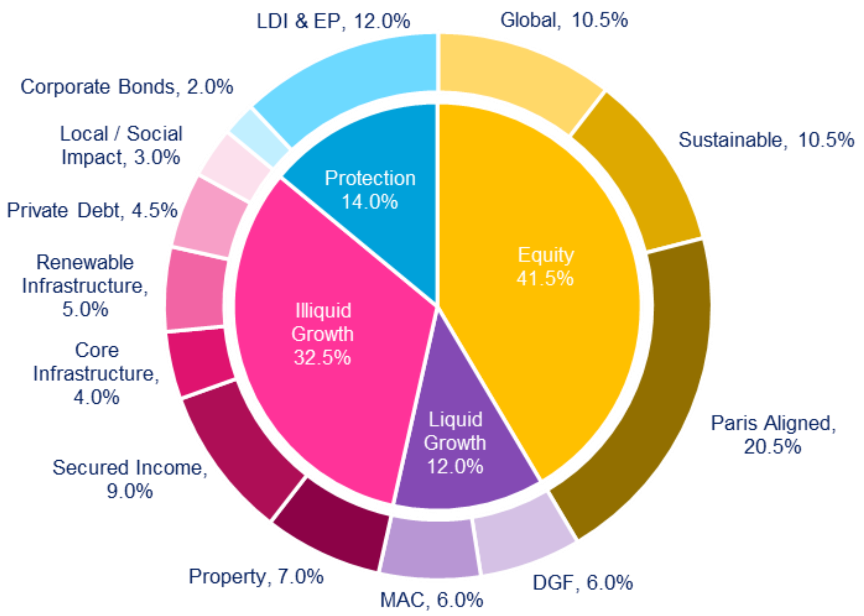
Valuation by Manager

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Brunel	Global High Alpha Equity	720,796	-	728,542	12.4	12.4
Brunel	Global Sustainable Equity	666,871	-	663,348	11.5	11.3
Brunel	Passive Global Equity Paris Aligned	427,700	-11	439,738	7.4	7.5
BlackRock	MSCI Paris-Aligned (Synthetic)*	1,090,079	-	1,122,022	18.7	19.2
Brunel	Diversified Returns Fund	373,170	-	371,464	6.4	6.3
JP Morgan	Fund of Hedge Funds	23,907	-6,425	17,914	0.4	0.3
Brunel	Multi-Asset Credit	340,487	-	347,111	5.9	5.9
Brunel	UK Property	178,154	-131	179,251	3.1	3.1
Schroders	UK Property	13,185	-31	13,967	0.2	0.2
Partners	Overseas Property	108,030	-	101,130	1.9	1.7
Brunel	Secured Income – Cycle 1	296,092	-1,961	292,196	5.1	5.0
Brunel	Secured Income – Cycle 2	101,660	-3,179	100,108	1.7	1.7
Brunel	Secured Income – Cycle 3	202,568	34,049	237,013	3.5	4.0
IFM	Core Infrastructure	228,645	-	230,142	3.9	3.9
Brunel	Renewable Infrastructure – Cycle 1	112,995	270	113,570	1.9	1.9
Brunel	Renewable Infrastructure – Cycle 2	79,509	5,161	85,733	1.4	1.5
Brunel	Renewable Infrastructure – Cycle 3	14,385	1,853	16,831	0.2	0.3
Brunel	Private Debt – Cycle 2	161,102	-	160,676	2.8	2.7
Brunel	Private Debt – Cycle 3	42,265	5,770	48,490	0.7	0.8
BlackRock	Corporate Bonds	181,886	-	180,396	3.1	3.1
BlackRock	LDI & Equity Protection	1,340,450	-50,000	1,244,564	23.0	21.2
BlackRock	*Synthetic Equity Offset**	-1,090,079	-	-1,122,022	-18.7	-19.2
Record	Currency Hedging (incl. collateral)	46,603	-	55,727	0.8	1.0
BlackRock	ETF	3,354	-	3,400	0.1	0.1
Schroders Greencoat	Wessex Gardens	35,085	-	34,984	0.6	0.6
-	Internal Cash	118,635	71,492	190,949	2.0	3.3
-	Residual Assets	446	-	435	0.0	0.0
Total		**5,818,000**	**56,843**	**5,857,702**	100.0	100.0

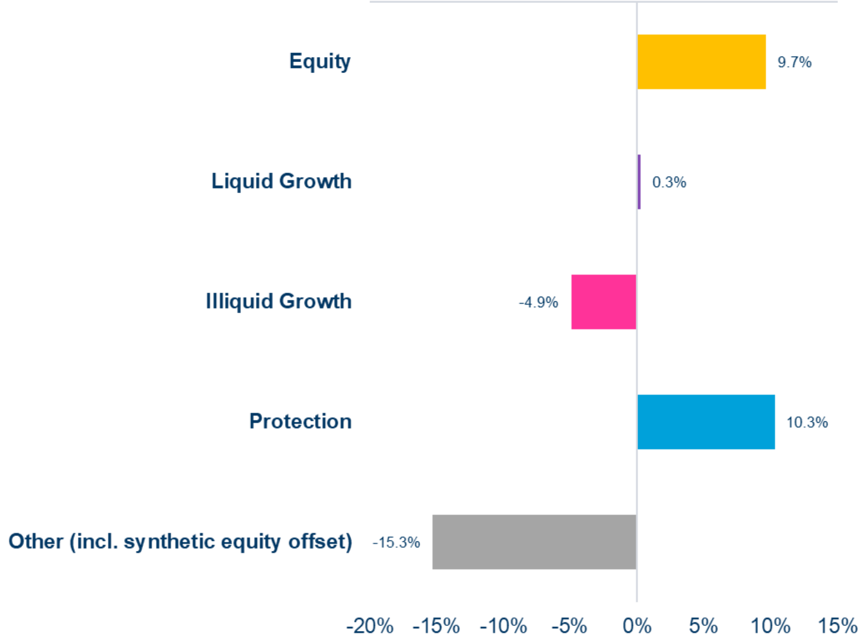
Source: Custodian, Investment Managers, Mercer. Totals may not sum due to rounding. The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included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

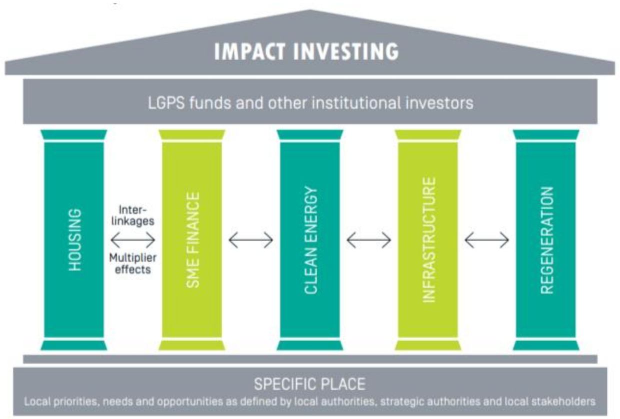
- The Plan last updated its Strategic Asset Allocation as part of the 2023 Investment Strategy Review.
- The right hand side chart displays the actual relative weights of the key portfolio building blocks compared to the SAA:
  - The overweight to Equity reflects relative outperformance to other parts of the portfolio over the past year.
  - The underweight to Illiquid Growth reflects recent relative underperformance, and the fact that in aggregate, capital is still being drawn (i.e. in excess of distributions being returned).
  - 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. £42m was drawn down to private market portfolios during the quarter. Amongst this was a large drawdown of c. £36m to Secured Income cycle 3, after which the commitments to this asset class have now been fully drawn down.
- £50m of collateral was withdrawn from the BlackRock QIAIF during the period.

Current Topics

6

Current Topics

Investing in the UK with Impact



Place-based impact investing considerations:

1. Impact intentionality
2. Define place
3. Community / stakeholder engagement
4. Impact measurement
5. Collaboration

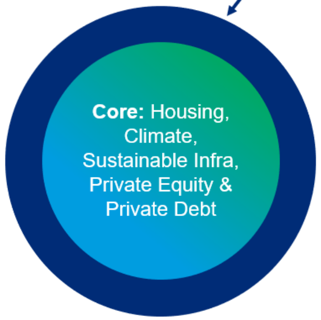
Building a UK Impact portfolio – Example approach

Satellite:
Local / Emerging Impact Theme (e.g. entrepreneur funding)

Core allocation:
Affordable Housing, Climate Transition & Renewable Energy, Sustainable Infrastructure, Impact / SME Private Equity and Private Debt

Suggested allocation: 70-90%

Rationale: More established strategies, capabilities and managers. Diversified across UK.



Satellite allocation:
Entrepreneur funding / emerging theme / local focus.

Suggested allocation: 10-30%

Rationale: Focused impact potential, ability to encourage innovative strategies and support emerging mechanisms for financing new segments e.g. local entrepreneurs.

Relevance to the Fund

✔

The Fund already has a strategic allocation to an Impact Portfolio, for which the composition looks broadly similar to the illustrated example.
It has already committed to 'Core' investments in Housing and Climate, and the current priority is finding investible opportunities related to the supporting of local small and medium sized enterprises, which fits into the 'Satellite' allocation of this example.

Open-Ended Infrastructure (Unlisted Equity)

Why consider Open Ended implementation?

Relatively short period to get invested + **Gaining exposure to known assets** + **Unlikely to have to manage multiple drawdowns /distributions** + **Manageable liquidity for most investors**

Most managers currently have 3 to 12 month commitment queues (subject to change)

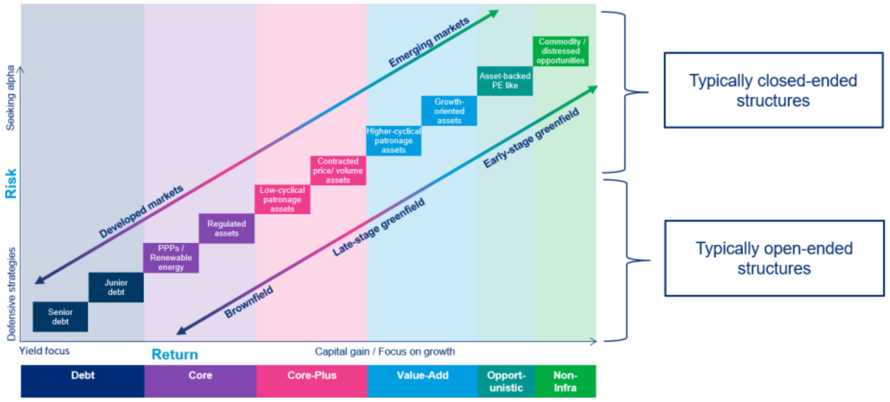
Most funds are multi-billion in size with global exposure. Blind pool and J-curve risks not a concern

More straight-forward implementation
Free-up governance time to focus on other issues

Redemption requests on a "best endeavours basis"
Need to be comfortable with potential soft-locks (e.g. 3 or 4 years) and dis-investment costs (if want to come out before the lock ends)

Less complexity than traditional closed ended investment route

A varied risk and return spectrum:



For illustration and educational purposes only. These are the views of Mercer at this time and are subject to change and are not guaranteed.

Relevance to the Fund

✔

The Fund has exposure to open-ended infrastructure through the IFM Global Infrastructure Fund. Its place within the portfolio has been reaffirmed relatively recently, and the key benefits of this assets are echoed here.

Current Topics

Opportunities on the Secondary Market

Background

- Typically closed-ended funds
- Varying degrees of time left to run-off – some relatively short (sub 5 years)
- Mercer receive indicative pricing (discounts) from brokers for a range of private market assets
- Taking the example of infrastructure equity, initial quoted discounts range from 5% to 25% on but might be higher once negotiated

With some UK DB private sector pension funds looking to sell illiquid private market funds, we are seeing highly rated funds offered at attractive discounts on the secondary market.

Key Considerations

1 – Price Discovery

- Typical to engage a broker to review the market.
- Buyers may need to take the whole of the seller's fund allocation or in some cases the seller will agree to a partial sale.

2 – Acting Swiftly

- Sellers will expect buyers to conduct their due diligence quickly and be able to agree legal agreements to transition ownership (e.g. 1-3 months).
- Liaison and work required relating to the communications between, the buyer and the potential seller, General Partners and broker.

3 – Transfer of Ownership

- Lawyers will be required to agree a transfer agreement and purchase and sale agreement and review underlying fund documentation.

4 – Due Diligence

- Review data on the underlying funds and select appropriate funds to bid on.
- Due diligence undertaken by reviewing information provided by the seller in a data room.
- Manager research may be helpful but there could also be limitations (e.g. if research is old).

Key Risks

Bids from potential buyers may not be accepted

There could be inherent non-performing assets in the portfolio that need to be worked out. Identifying any realised / unrealised losses is key to the due diligence process.

Private market funds may struggle to sell on the underlying assets and not achieve the price that is reflected in the net asset value.

Investors may not get back the full value invested and Internal Rates of Return could be lower than expected.

A fund's life could be extended.

Mercer's Secondary Activity

Robust deal flow and access to all secondary types, including LP-leds, GP-leds, and other deal types:

>1000
Active private equity manager and broker relationships

>400
Private equity secondary deals screened in 2023, globally

31
Private equity secondaries closed in 2023 on behalf of covered clients

$328.5m
Volume closed in 2023 on behalf of covered clients

+ >300 real asset secondary deals reviewed during the year

+ 7 real asset secondary deals with a total volume of >$450mn closed

Since end of 2020, Mercer deployed nearly $2bn in >100 secondary transactions across deal types and asset classes (key focus on private equity and infrastructure) and belongs to a small group of regular secondary buyers in the market

[1] As of June 30, 2023; includes 971 managers with active private equity primary, secondary and co-investments across advisory, partial discretion and full discretion clients' portfolios that Mercer monitors and reports on as well as c. 50 brokers we regularly interact with to source secondary transactions.

Relevance to the Fund

The Fund has an established plan for funding its private market strategic allocations in the medium term, so is unlikely to pursue these opportunities directly. Impact Portfolio themes are likely to be too niche / novel to have a noticeable presence on the secondary market. There is exposure to secondaries within the Brunel private market portfolios, which means the Fund does indirectly access the associated benefits.

Mercer

Appendix

Q2 2024 Equity Market Review

Q2 2024 has been another positive quarter for equity markets. Equity markets, especially in the developed market, are continuing to be narrowly led; with a small number of stocks driving the returns. Corporate earnings have remained resilient while subsiding inflationary pressures has created a more positive macroeconomic environment for equities.

Global equities returned 2.9% in sterling terms and 3.5% in local currency terms while sterling ended broadly flat against the US dollar.

US equities returned 4.1% in local currency terms, whilst European (ex-UK) equities returns 0.8%, and Japanese equities returned 1.4%.

Emerging markets equities returned 6.9% in local terms.

Global small cap stocks returned 1.9% in local terms. Small-cap stocks suffered from confirmation of the higher-for-longer interest rate environment.

The **FTSE All Share** index returned 3.7% over the quarter, with the large-cap **FTSE 100** index also returning 3.7%. More domestically focused equities (**FTSE 250**) produced positive returns too. The **small-cap** index produced a positive 6.5% return.

Strong performance in telecom and financials supported the UK performance relative to global equities.

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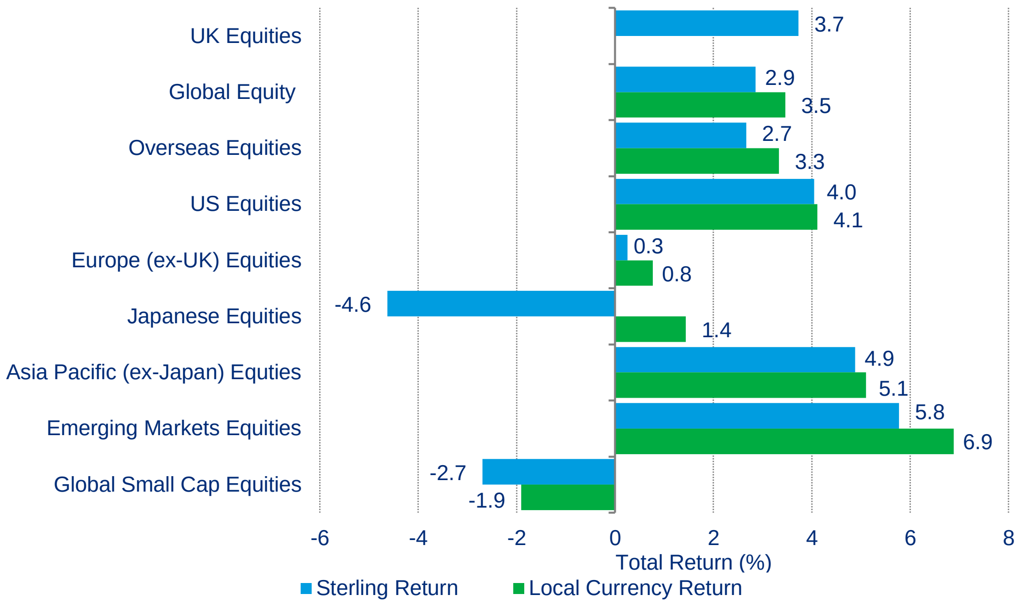
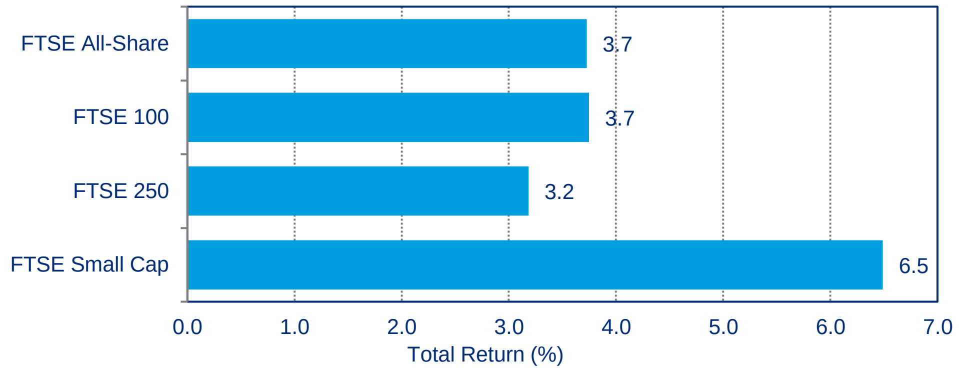
Equity Performance



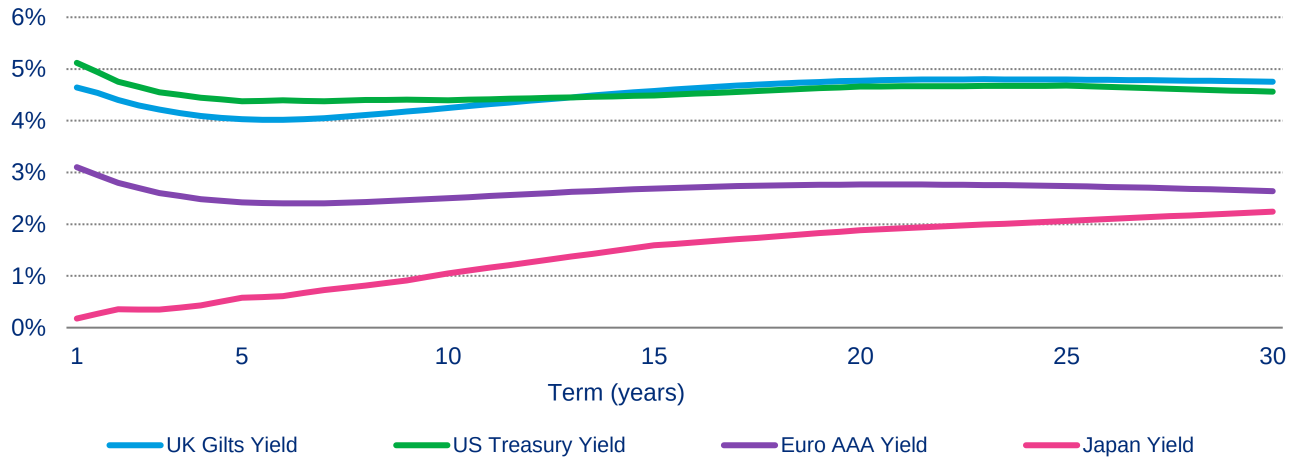
FTSE Performance by Market Cap



Mercer

Source: Refinitiv

Q2 2024 Bond Market Review



Source: Mercer and Bloomberg

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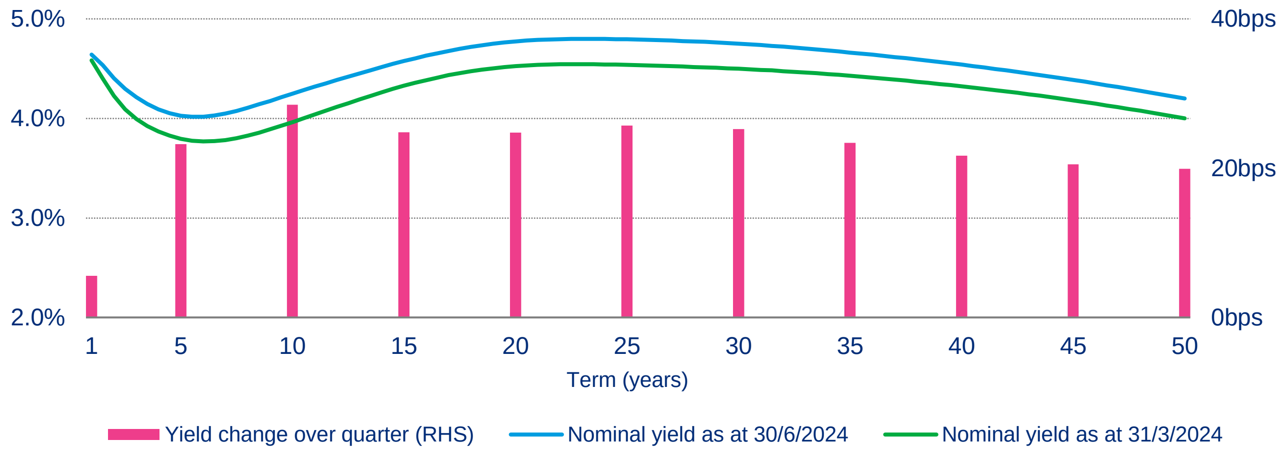


Source: Mercer

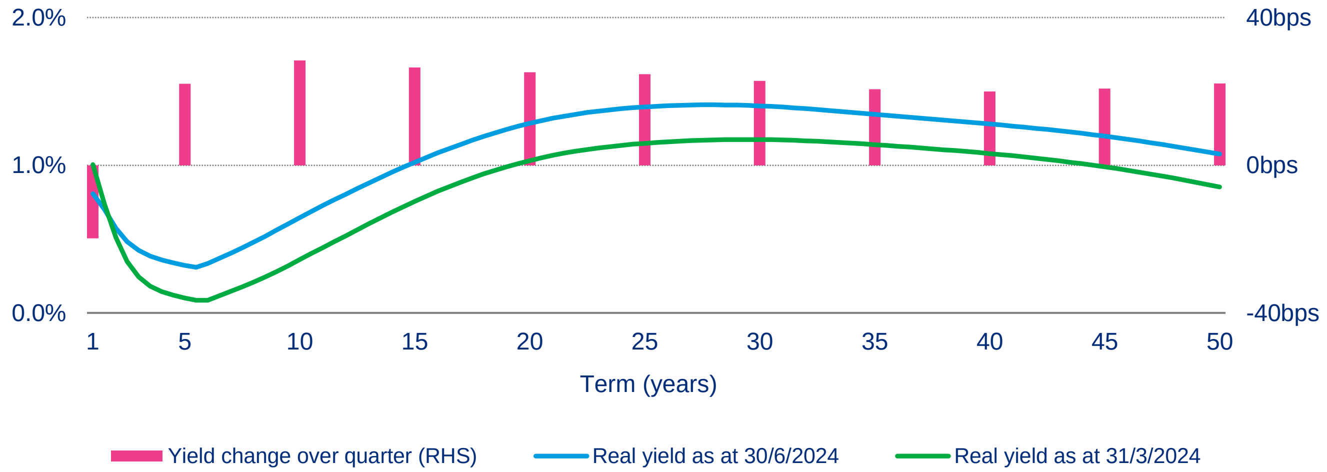
Government Bond Yields

Global government bond yields on the 10-year tenor rose over the quarter (bond yields and prices move in opposite directions). The sell-off in bonds can be attributed to prospects of delayed rate cuts.

In the US, softening inflation and growth, led to bond markets to price in two rate cuts in 2024. In Europe, although the ECB cut interest rates, the subsequent press conference lacked concrete forward guidance, leading markets to perceive the move as hawkish. Meanwhile, easing UK Inflation has set the stage for a BoE rate cut in August.

The 10-year benchmark bond yield in the US, UK, and Germany rose 0.20%, 0.24%, and 0.20%, respectively. Meanwhile, the yield curve across these regions continued to be inverted. 10-year bond yields in Japan also moved past 1.0% on increasing expectations of further policy tightening by the BoJ.

Q2 2024 Bond Market Review



Source: Mercer

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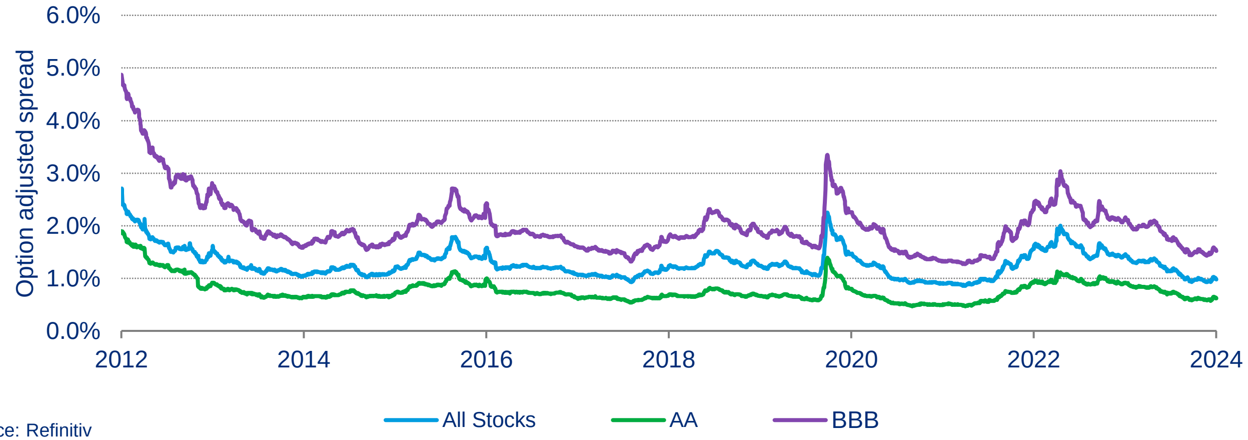


Source: Refinitiv

UK Index-Linked Gilt Yields

UK real yields rose across most of the curve over the last quarter, with the 10-year tenor increasing 0.28%. There remain concerns that stubborn services inflation and still-healthy wage growth may keep core inflation elevated. UK 10-year breakeven rates finished the quarter at ~3.59% (0.06% lower over the quarter). Despite this, the BoE is widely expected to commence with a rate cut in August.

Corporate bonds

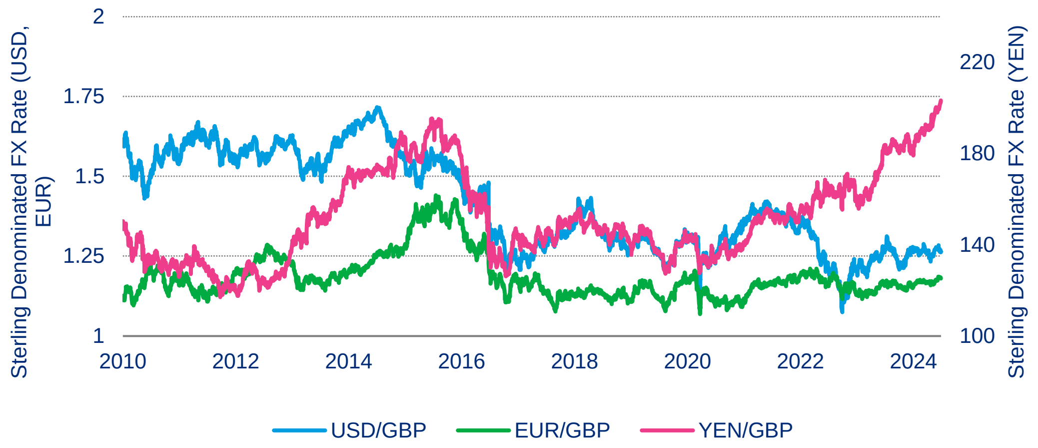
Spreads on UK investment-grade credit widened marginally over the quarter, with spreads on lower-rated credit widening more (0.04%) than for higher-rated credit (0.02%).

Mercer

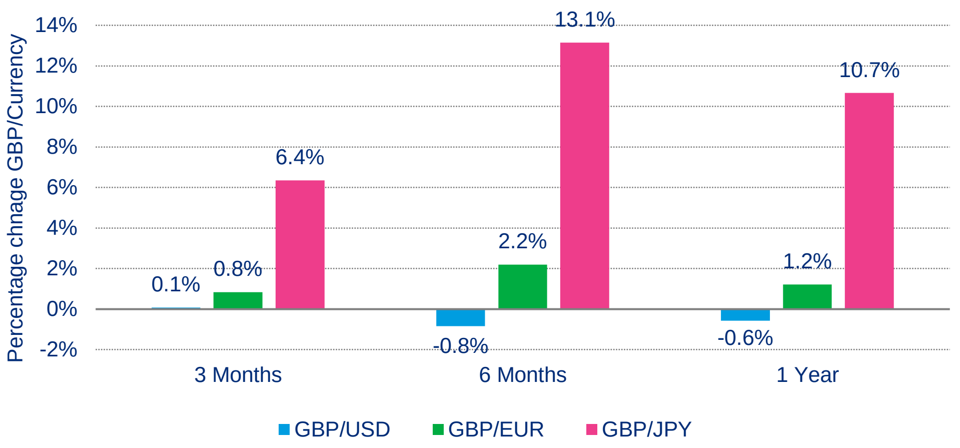
Q2 2024 Currency Market Review

Sterling was broadly unchanged versus US dollar over the quarter, while it appreciated 0.8% and 6.4% against the euro and the yen, respectively. The US dollar index rose a little over 1.0% in the quarter, supported by incoming macro data. On a 12-month basis, sterling significantly outperformed against the yen and marginally versus the euro, while weakening 0.6% against the US dollar.

Sterling Denominated FX Rate



Change in sterling against foreign currencies



Q2 2024 Property

UK property as measured by the MSCI Index increased by 1.7% over the second quarter of 2024.

Mercer

Source: Refinitiv

Dynamic Asset Allocation (DAA)

Dashboard, Positioning & Outlook for UK constrained Portfolio

UK Economic Outlook

UK equities had a strong quarter as the FTSE 100 outperformed global equities (in GBP terms). Global markets were buoyed by the continued moderation in inflation, a resilient economy and positive momentum in corporate earnings. Growth outperformed value by a wide margin while small caps underperformed. Despite falling into a technical recession at the end of last year, the UK economy rebounded strongly in the first quarter of 2024 with real GDP rising 0.7% quarter-on-quarter.[1] This was driven by growth in real disposable income for households as headline inflation hit the central bank's 2% target. That being said, April GDP numbers were a little more disappointing as growth was unchanged on a month-on-month basis.

[1] Office of National Statistics, quarter on quarter growth

Dynamic Asset Allocation (DAA) Positioning

Equities	In terms of UK equities, valuations are attractive, however, we believe they are attractive for a good reason and given mixed outlook for the UK economy we prefer to take risk elsewhere in the equity universe. We remain overweight Emerging Market (EM) equities versus developed market (DM) equities. Economic growth has proven to be more resilient in EM. Policy stimulus in China coupled with ex-China EM central banks easing policy should bolster real household income and boost consumption growth, in turn supporting corporate earnings growth. We expect EM earnings to outpace developed market counterparts over the coming years. We are neutral on small cap equities. With lower pricing power and a lower portion of profitable corporates, small cap equities are more susceptible to a higher-for-longer case, thereby seeing steeper negative earnings revisions. As such, we view the pessimistic sentiment and cheap valuations in small cap equities as justified.
Growth Fixed Income	We retain a favorable view on Emerging Market Debt (EMD) Local Currency (LC) from a tactical perspective. We view it as attractive, expecting yields to decline further as central banks continue a gentle rate cutting cycle. Furthermore, we expect EM currencies to strengthen as central banks cut rate to support growth with inflation back towards target. We are underweight Global High Yield to fund other positions within growth fixed income. Delinquencies from consumer and corporate bankruptcies have been picking up, although from very low levels. As monetary policy conditions remain tight in the developed world it could weigh on corporate balance sheets, especially for companies that are highly levered.
Defensive Fixed Income	From a positioning standpoint, we retain our overweight position in UK gilts. Valuations remain attractive as Gilts sold off more than other developed market government bonds. Bond prices should rise as the Bank of England embarks on an easing cycle while growth remains weak and core inflation falls further towards target. 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.

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

Source: Mercer. For illustrative purposes only. As at June 2024.
*Latest change made on 5 June 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 remains characterized by negative data points for property markets, but it is important to recognize that this is largely due to (1) the lagged nature of these data points and (2) the repricing occurring in the office sector which will take longer than other sectors.
- The summer months of 2024 appear to be the early days of market stabilization – when prices are still attractive, and negotiating power sits with capital providers. 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.
- Despite heightened political risk this year, the global economy remains 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.
- Open-ended funds are reaching a historically low point in NAV, and some funds seem to have turned the corner. However, redemption queues in the US pose an uncertainty both to the market and for new investors. This notwithstanding, for the strongest funds, a low entry basis and shortened drawdown periods provide a good track record starting point. 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 achieve outsized returns from market dislocations also remains. Managers of value-add and opportunistic funds are seeing attractive repricing opportunities materialise and investors can best take advantage by committing capital to funds able to deploy in the near-term.
- As traditional banks retrench, re-financings mature and the funding gap grows, we also see the opportunity for alternative lenders to deploy capital and generate equity-like returns while occupying a sheltered position in the capital stack. 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 has the potential to 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 that can provide diversifier in terms of sources of return. This remains a fundamental reason to consider including the asset class in a diversified portfolio.

	EUROPE		
Equity	Core/ Core+	Value Add	Oppor-tunistic
Themes	CPI Linkage	ESG refurbs	Niche sectors
	Convenience Retail	Logistics Aggregation	Secondary locations
	Offices	High leverage	Spec Development

Attractive value: With the interest rate cycle on its descent, we have upgraded Europe core/core-plus to attractive after seven quarters at neutral or below. Demand for European core/core-plus real estate is tentatively returning as portfolio valuations look attractive from an historic perspective. Other regions should follow in time. Certain core/core-plus strategies such as US logistics already appear attractive value.

Worst value: We continue to be cautious on traditional value-add strategies which require high leverage and strong economic growth to hit target returns. Across risk levels, significant risks remain in the office sector which suffers from a significant drop in investor demand while traditionally making up a substantial part of investor portfolios.

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

Further guidance is available in Mercer’s *Global Market Summary: Quarterly Real Estate Report, July 2024*

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

Summary of Mandates

Manager	Mandate	Benchmark/Target	Outperformance Target (p.a.)	Inception Date
BlackRock	Passive Paris-Aligned Equity (Synthetic Exposure)	MSCI Paris-Aligned Benchmark	-	May 2023
Brunel	Global High Alpha Equity	MSCI World	+2-3%	November 2019
Brunel	Global Sustainable Equity	MSCI AC World	+2%	September 2020
Brunel	Passive Global Equity Paris Aligned	FTSE Developed World PAB Index	-	October 2021
Brunel	Diversified Returns Fund	SONIA +3-5% p.a.	-	July 2020
Brunel	Multi-Asset Credit	SONIA +4-5% p.a.	-	June 2021
Brunel	UK Property	MSCI/AREF UK Quarterly Property Fund Index	-	January 2021
Partners	Overseas Property	Net IRR of 10% p.a. (local currency)	-	September 2009
Brunel	Secured Income (Cycles 1-3)	CPI	+2%	January 2019
IFM	Core Infrastructure	SONIA +5% p.a.	-	April 2016
Brunel	Renewable Infrastructure (Cycles 1-3)*	CPI	+4%	January 2019
Brunel	Private Debt (Cycles 2-3)	SONIA + 4% p.a.	-	September 2021
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
Sustainable Equity	MSCI World Low Carbon Target
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

Important Notices

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Avon Pension Fund Performance Report

Quarter ending 30 June 2024

Avon Pension Fund

Brunel Pension Partnership

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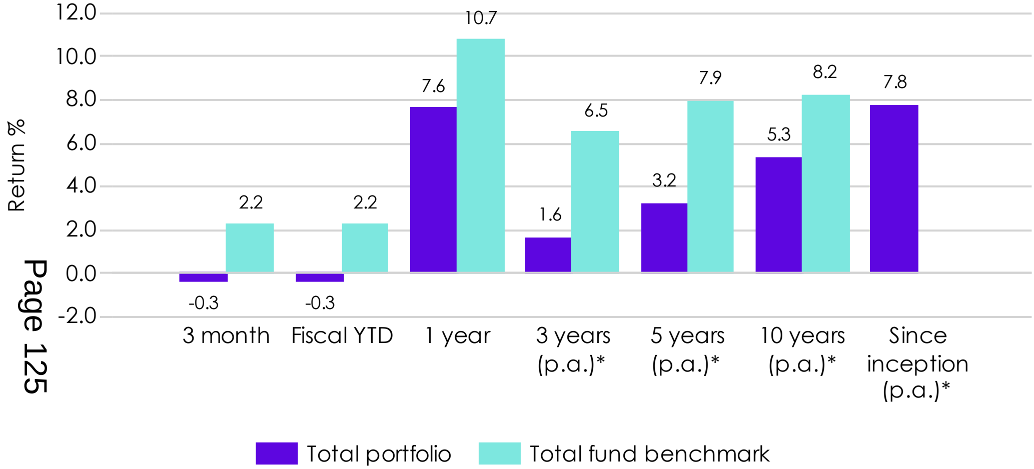
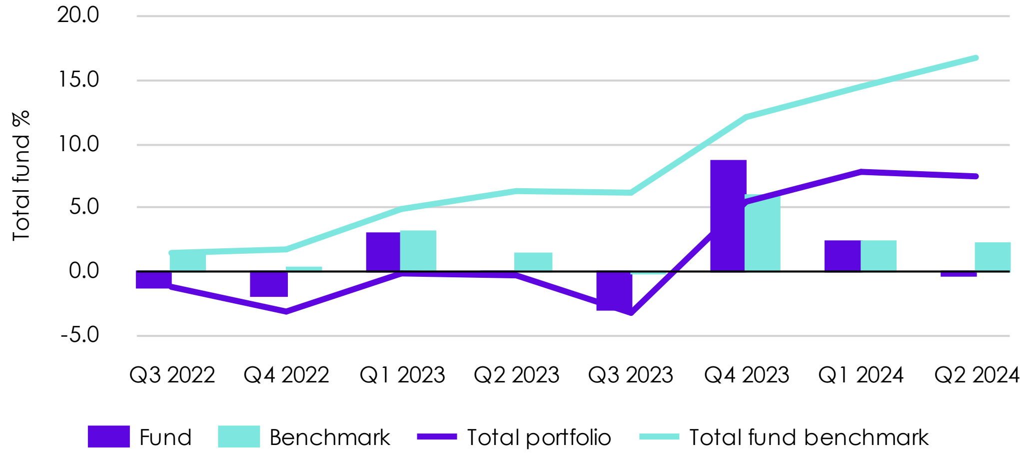
Pension Fund performance

Performance (annualised)



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

Quarterly performance



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

Key events

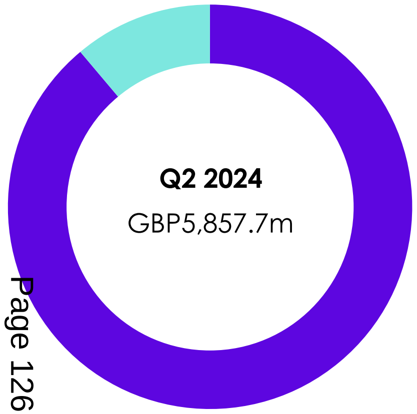
Markets generally moved upwards in the second quarter, continuing the trend from the first quarter, although at a more moderate pace. The emerging markets enjoyed positive performance, with China rallying after government efforts to support real estate. The ECB cut rates, but the US Fed remained firmly on hold as inflationary pressures persisted above comfort levels. The quarter also saw a noisy political backdrop with elections pending in the UK and results announced in France, South Africa and India. Credit markets continued to see a tightening of spreads over government yields. Private markets are still facing digestion issues with sluggish IPO markets and continued high interest rates.

The total fund was broadly flat during the quarter, lagging the 2.2% rise in the benchmark. Over the last year, the fund grew 7.6% vs the benchmark return of 10.7%.

Brunel's listed portfolios generally saw absolute positive performance in the quarter, although Global Sustainable Equities was slightly lower. Multi Asset Credit continued its strong run and is now up 11.6% over the last year.

Asset summary

Assets transitioned to Brunel



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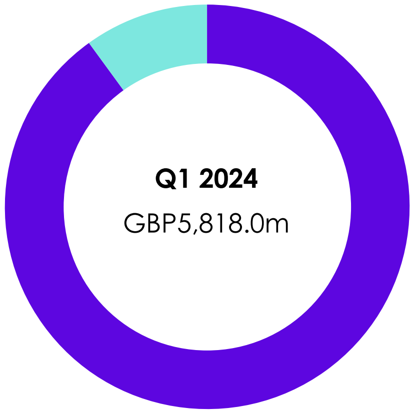
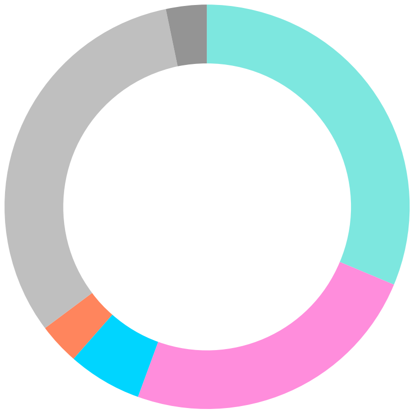
Transitioned		88.93%
Legacy assets		11.07%



Transitioned		90.07%
Legacy assets		9.93%

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

Asset allocation breakdown



Key:

Equities	31.28%
Private markets	24.26%
Fixed income	5.93%
Property	3.30%
Other	31.98%
Cash	3.26%

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

Overview of assets

Detailed asset allocation

Equities	£1,832.06m	31.28%
Global High Alpha Equities	£728.54m	12.44%
Global Sustainable Equities	£663.35m	11.32%
PAB Passive Global Equities	£439.74m	7.51%
Legacy Assets	£0.44m	0.01%

Fixed income	£347.11m	5.93%
Multi-Asset Credit	£347.11m	5.93%

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Private markets (incl. property)	£1,614.09m	27.56%
Secured Income Cycle 1	£292.20m	4.99%
Secured Income Cycle 3	£237.01m	4.05%
UK Property	£179.25m	3.06%
Private Debt Cycle 2	£160.68m	2.74%
Infrastructure Cycle 1	£113.57m	1.94%
Secured Income Cycle 2	£100.11m	1.71%
Infrastructure (Renewables) Cycle 2	£85.73m	1.46%
Private Debt Cycle 3	£48.49m	0.83%
Infrastructure Cycle 3	£16.83m	0.29%
Legacy Assets	£380.22m	6.49%

Other	£1,873.49m	31.98%
Blackrock Risk Management	£1,424.98m	24.33%
Diversifying Returns Fund	£371.46m	6.34%
Legacy Assets	£77.05m	1.32%

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	89,317,514.92	1.52%	14.18
US0231351067	AMAZON.COM INC	Consumer Discretionary	Broadline Retail	UNITED STATES	67,300,903.75	1.15%	29.32
US67066G1040	NVIDIA CORP	Information Technology	Semiconductors	UNITED STATES	45,069,001.89	0.77%	13.17
US02079K3059	ALPHABET INC-CL A	Communication Services	Interactive Media &	UNITED STATES	41,040,680.87	0.70%	24.81
US57636Q1040	MASTERCARD INC - A	Financials	Transaction & Payment	UNITED STATES	39,371,408.50	0.67%	15.59
US8740391003	TAIWAN SEMICONDUCTOR-SP ADR	Information Technology	Semiconductors	TAIWAN	34,968,440.00	0.60%	13.48
DK0062498333	NOVO NORDISK A/S-B	Health Care	Pharmaceuticals	DENMARK	32,366,745.28	0.55%	22.66
NL0010273215	ASML HOLDING NV	Information Technology	Semiconductor Materials &	NETHERLANDS	30,543,253.89	0.52%	8.69
US0378331005	APPLE INC	Information Technology	Technology Hardware	UNITED STATES	28,229,805.64	0.48%	16.79
US91324P1021	UNITEDHEALTH GROUP INC	Health Care	Managed Health Care	UNITED STATES	25,803,376.34	0.44%	16.96

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

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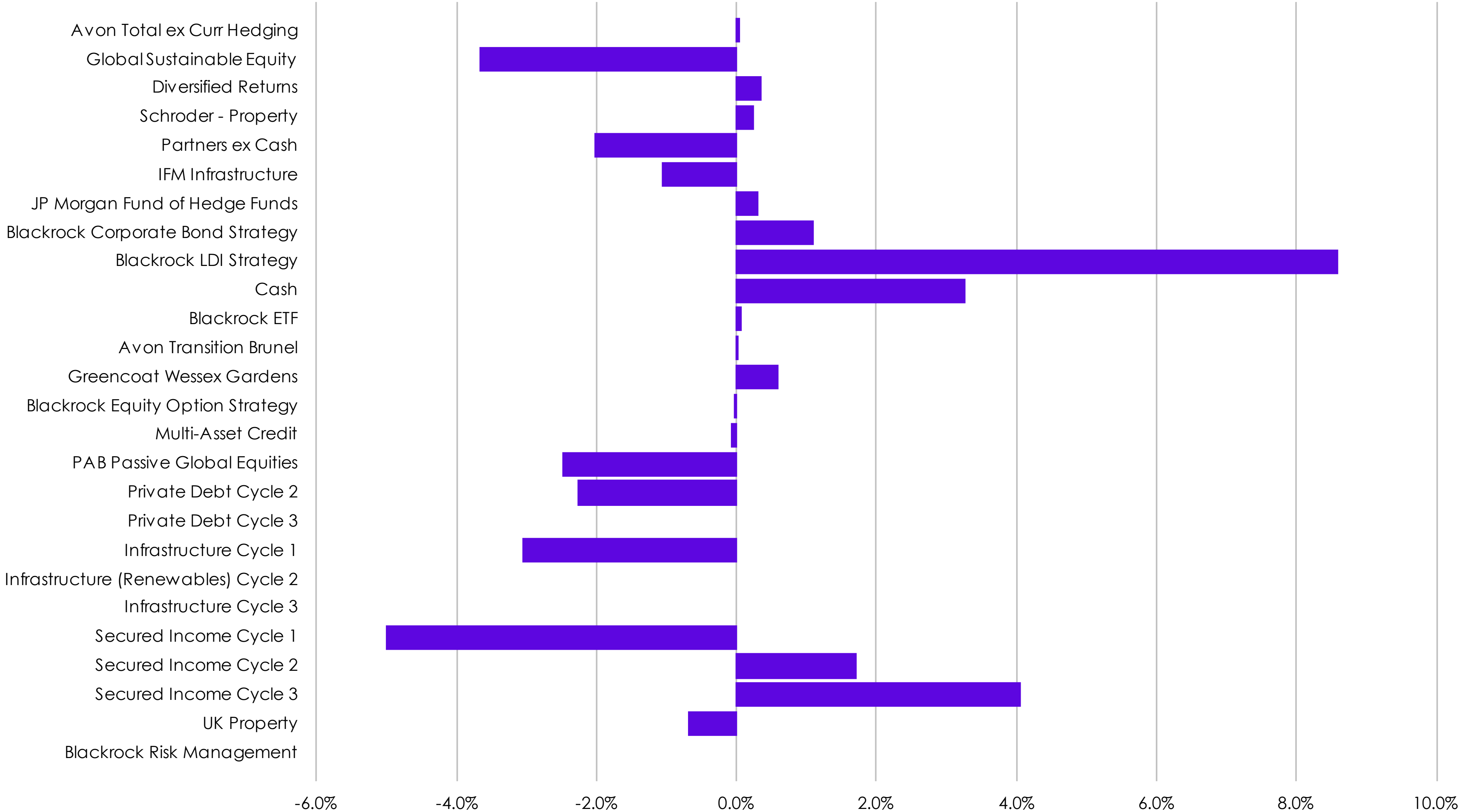
Strategic asset allocation



Performance attribution

Pension fund performance attribution - to quarter end

	End market value £'000	Actual % allocation at end of quarter	Strategic asset allocation (%)	Difference (%)	Fund return (%): 3 months	Contribution to return: 3 month
Global Sustainable Equity	663,348	11.3%	15.00%	-3.7%	-0.5%	-0.1%
Diversified Returns	371,464	6.4%	6.00%	0.4%	-0.5%	-0.0%
Schroder - Property	13,967	0.2%	-	0.2%	5.9%	0.0%
Partners ex Cash	101,130	1.7%	3.75%	-2.0%	-6.4%	-0.1%
IFM Infrastructure	230,142	3.9%	5.00%	-1.1%	0.7%	0.0%
JP Morgan Fund of Hedge Funds	17,914	0.3%	-	0.3%	1.9%	0.0%
Blackrock Corporate Bond Strategy	180,396	3.1%	2.00%	1.1%	-0.8%	-0.0%
Blackrock LDI Strategy	1,202,920	20.6%	12.00%	8.6%	1.6%	0.3%
Cash	190,949	3.3%	-	3.3%	0.6%	0.0%
Blackrock ETF	3,400	0.1%	-	0.1%	1.4%	0.0%
Avon Transition Brunel	5	0.0%	-	0.0%	-0.8%	-0.0%
Greencoat Wessex Gardens	34,984	0.6%	-	0.6%	-0.3%	-0.0%
Blackrock Equity Option Strategy	-1,245	-0.0%	-	-0.0%	247.1%	0.5%
Multi-Asset Credit	347,111	5.9%	6.00%	-0.1%	1.9%	0.1%
PAB Passive Global Equities	439,738	7.5%	10.00%	-2.5%	2.8%	0.2%

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	160,676	2.7%	5.00%	-2.3%	N/M	N/M
Private Debt Cycle 3	48,490	0.8%	0.83%	-	N/M	N/M
Infrastructure Cycle 1	113,570	1.9%	5.00%	-3.1%	N/M	N/M
Infrastructure (Renewables) Cycle 2	85,733	1.5%	1.46%	-	N/M	N/M
Infrastructure Cycle 3	16,831	0.3%	0.29%	-	N/M	N/M
Secured Income Cycle 1	292,196	5.0%	10.00%	-5.0%	N/M	N/M
Secured Income Cycle 2	100,108	1.7%	-	1.7%	N/M	N/M
Secured Income Cycle 3	237,013	4.1%	-	4.1%	N/M	N/M
UK Property	179,251	3.1%	3.75%	-0.7%	N/M	N/M
Blackrock Risk Management	1,424,980	24.3%	24.33%	-	-3.2%	-0.9%

Private Markets 3 month performance is not material. Private Markets interim period performance is calculated using NAVs provided on business day 8. Later revisions to these NAVs are not captured in the calculations so please use caution when using this data.

Stewardship and climate metrics

Portfolio	WACI		Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	2024 Q1	2024 Q2	2024 Q1	2024 Q2	2024 Q1	2024 Q2
Global High Alpha Equities	**79**	**77**	**1.5**	**1.3**	**2.4**	**2.4**
MSCI World*	160	158	4.8	4.2	8.0	7.9
Global Sustainable Equities	**160**	**178**	**2.0**	**1.9**	**5.1**	**5.4**
MSCI ACWI*	197	203	4.8	4.2	8.1	8.0
PAB Passive Global Equities	**118**	**117**	**1.2**	**1.1**	**3.5**	**3.2**
FTSE Dev World TR UKPD*	163	166	4.6	4.0	8.3	8.4

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

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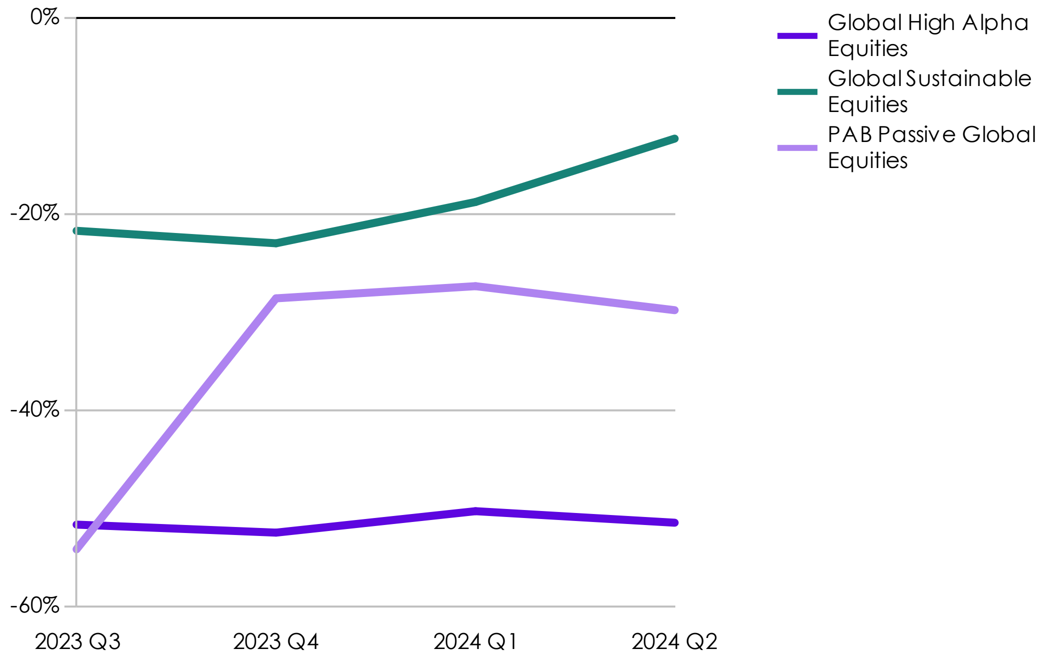
Weighted Average Carbon Intensity relative to benchmark



Stewardship reporting links

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

Risk and return summary

Brunel portfolio performance - 3 year

	Annualised return	Risk (standard deviation)	Benchmark return	Benchmark standard deviation
Equities				
Global High Alpha Equities	6.8%	13.3%	10.6%	11.6%
Global Sustainable Equities	3.5%	14.3%	9.1%	11.1%
Fixed income				
Multi-Asset Credit	2.7%	6.2%	7.0%	0.6%
Other				
Diversifying Returns Fund	2.8%	4.1%	6.0%	0.6%
Private markets (incl. property)				
Infrastructure Cycle 1	7.4%	4.6%	6.4%	2.1%
Infrastructure (Renewables) Cycle 2	8.0%	7.5%	6.4%	2.1%
Secured Income Cycle 1	-2.8%	17.3%	6.4%	2.1%
Secured Income Cycle 2	-1.2%	7.5%	6.4%	2.1%
UK Property	-0.1%	8.5%	-	10.2%

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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	2.0%	8.2%	6.5%	6.8%
Avon Total ex Hedging ex LDI	3.1%	6.2%	6.5%	6.8%
Blackrock ETF	3.0%	8.6%	0.0%	-
Cash	4.0%	2.4%	2.8%	0.6%
General Cash	3.4%	-	-	-
IFM Infrastructure	8.2%	5.0%	8.1%	0.6%
JP Morgan Fund of Hedge Funds	7.2%	29.0%	7.0%	0.6%
Partners ex Cash	-10.3%	8.9%	10.9%	0.8%
Record Currency	4,697.5%	-	-	-
Record Equitisation	7.6%	10.1%	8.0%	9.9%
Schroder - Property	6.5%	6.3%	0.7%	10.6%
Schroder Equity	-21.6%	34.5%	9.1%	11.1%
TT International - UK Equities	1.7%	3.9%	7.4%	10.9%
Avon Pension Fund	1.6%	9.0%	6.5%	6.8%

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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 (31.27%)			**1,831.63**									
Global High Alpha Equities	MSCI World	+2-3%	728.54	1.1%	-1.6%	17.2%	-4.2%	6.8%	-3.8%	13.4%	0.7%	15 Nov 2019
Global Sustainable Equities	MSCI ACWI	+2%	663.35	-0.5%	-3.5%	12.5%	-8.1%	3.5%	-5.6%	7.6%	-5.2%	30 Sep 2020
PAB Passive Global Equities	FTSE Dev World PAB	Match	439.74	2.8%	-	18.4%	-	-	-	8.8%	-0.1%	29 Oct 2021
Fixed income (5.93%)			**347.11**									
Multi-Asset Credit	SONIA +4%	0% to +1.0%	347.11	1.9%	-0.3%	11.9%	2.5%	2.7%	-4.4%	2.7%	-4.3%	02 Jun 2021
Private markets (incl. property) (21.06%)			**1,233.87**									
Private Debt Cycle 2	SONIA	+4%	160.68	N/M	N/M	1.4%	-8.0%	-	-	6.7%	-0.5%	17 Sep 2021
Private Debt Cycle 3	SONIA	+4%	48.49	N/M	N/M	11.0%	1.6%	-	-	10.4%	1.4%	20 Dec 2022
Infrastructure Cycle 1	CPI	+4%	113.57	N/M	N/M	5.6%	3.6%	7.4%	1.0%	6.1%	1.9%	02 Jan 2019
Infrastructure (Renewables) Cycle 2	CPI	+4%	85.73	N/M	N/M	4.0%	2.0%	8.0%	1.6%	7.1%	1.4%	12 Oct 2020
Infrastructure Cycle 3	n/a - absolute return target	net 8% IRR	16.83	N/M	N/M	4.0%	2.0%	-	-	0.9%	-3.9%	13 Oct 2022
Secured Income Cycle 1	CPI	+2%	292.20	N/M	N/M	-3.8%	-5.8%	-2.8%	-9.2%	-1.3%	-5.6%	15 Jan 2019
Secured Income Cycle 2	CPI	+2%	100.11	N/M	N/M	0.2%	-1.8%	-1.2%	-7.6%	-0.5%	-6.9%	01 Mar 2021
Secured Income Cycle 3	CPI	+2%	237.01	N/M	N/M	-3.0%	-5.0%	-	-	-	-2.0%	01 Jun 2023
UK Property	MSCI/AREF UK	+0.5%	179.25	N/M	N/M	-1.3%	-1.3%	-0.1%	-0.1%	1.8%	0.2%	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 (6.34%)			**371.46**									
Diversifying Returns Fund	SONIA +3%	0% to +2.0%	371.46	-0.5%	-2.5%	9.3%	0.9%	2.8%	-3.1%	3.7%	-1.5%	27 Jul 2020
Total Brunel assets (excl. cash) (64.60%)			**3,784.07**									

*Since initial investment

⁺ Excess to benchmark, may not include outperformance

Private Markets 3 month performance is not material. Private Markets interim period performance is calculated using NAVs provided on business day 8. Later revisions to these NAVs are not captured in the calculations so please use caution when using this data.

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%)	**0.44**									
TT International - UK Equities	0.31	-0.2%	-3.9%	-0.3%	-13.3%	1.7%	-5.7%	3.8%	-1.6%	01 Jul 2007
Schroder Equity	0.13	-0.8%	-3.7%	1.2%	-19.4%	-21.6%	-30.7%	0.8%	-10.4%	01 Apr 2011
Private markets (incl. property) (6.49%)	**380.22**									
Schroder - Property	13.97	5.9%	4.6%	9.5%	9.6%	6.5%	5.7%	8.1%	2.4%	01 Jan 2009
Partners ex Cash	101.13	-6.4%	-9.7%	-26.6%	-40.3%	-10.3%	-21.2%	1.8%	-6.3%	01 Sep 2009
IFM Infrastructure	230.14	0.7%	-1.9%	5.6%	-4.9%	8.2%	0.2%	11.1%	5.1%	01 Apr 2016
Greencoat Wessex Gardens	34.98	-0.3%	-2.3%	-	-	-	-	-0.3%	-3.4%	12 Feb 2024
Other (4.58%)	**267.99**									
Record Currency	11.95	-10,933.9%	-10,933.9%	-5,225,015.2 %	-5,225,015.2 %	4,697.5%	4,697.5%	-	-	01 Mar 2016
Record Equitisation	43.78	3.5%	-2.2%	12.1%	2.2%	7.6%	-0.5%	5.9%	-0.3%	01 Apr 2012
JP Morgan Fund of Hedge Funds	17.91	1.9%	-0.3%	9.1%	-0.3%	7.2%	0.2%	7.6%	2.8%	01 Jul 2015
Cash	190.95	0.6%	-0.7%	3.6%	-1.5%	4.0%	1.2%	2.8%	1.4%	01 Dec 2017
Blackrock ETF	3.40	1.4%	1.4%	10.8%	10.8%	3.0%	3.0%	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 (4.58%)			**267.99**							
Avon Transition Brunel	0.00	-0.8%	-0.8%	-1.2%	-1.2%	-	-	-54.5%	-	01 Jan 2022
Total legacy assets (excl. cash) (11.07%)	**648.65**									

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

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Chief Investment Officer commentary

Economic and market price momentum from the first quarter of 2024 continued into the second, albeit at a more moderate pace. Initial strong economic data was, at the margin, viewed negatively by investors given the stickier nature of inflation, particularly service inflation, which remained stubbornly higher than the levels with which the US central bank is comfortable. The Federal Reserve meeting in June poured further cold water on the idea of early rate cuts by striking a hawkish tone. The European central bank actually cut interest rates but, in keeping with other developed markets, expectations of further ECB rate cuts diminished.

Global equities rallied, driven by an ever-narrower clutch of AI-themed companies, as concentration increased even further. To highlight this point, an equally weighted benchmark of US companies underperformed the market cap-weighted benchmark by 10% in the first half of this year. Despite this, it was emerging market equities that posted by far the strongest returns, up in excess of 5% during the quarter. This was driven by several factors, not least the rally in the Chinese market, which was spurred into life by the positivity surrounding the government's efforts to support the real estate sector and President Xi's reform rhetoric. Politics also had a hand to play, as investors were heartened by the coalition formed in South Africa, and by Narendra Modi's NDA coalition retaining a parliamentary majority in India, albeit reduced. Not to be outdone, the UK stock market also posted strong returns and the FTSE 100 hit all-time highs.

Politics wasn't far from the agenda elsewhere, with (spoiler alert) then-PM Rishi Sunak calling for an election on 4 July. In France, snap parliamentary elections saw gains for right-wing parties, which created uncertainty and drove eurozone shares lower. The performance of Joe Biden, the US president, in a televised debate did, accordingly to polls, increase the likelihood of the former president, Donald Trump, returning to the White House. Politics as a rule doesn't drive long-term asset prices but can create short term volatility. That said, we do have a disproportionate number of elections this year, which does amplify the "noise level."

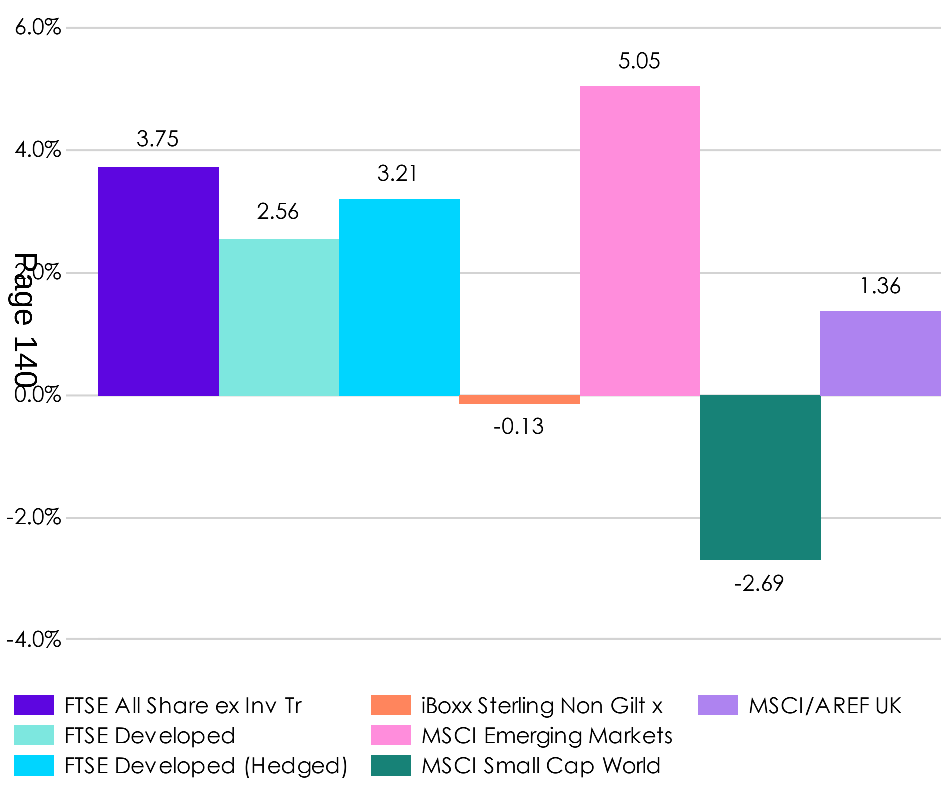
Despite some cracks appearing in US consumer data towards the end of June, the relatively benign economic news seen over the quarter put pressure on core government bonds but was supportive of the riskier ends of the fixed income market. Whilst all-in yields remained high, corporate spreads, which had stayed in narrow ranges this year, ended near post-financial crisis lows, driven by healthy fundamentals including continued positive corporate earnings. Linking back to my comments above, it is worthy of note that, whilst profits were at or near all-time highs in many markets, the share of profit increases coming back to employees was much, much lower, perhaps driving discontent and a move away in many places from the centre ground of politics.

In private markets, the macro themes described have played out somewhat differently. AI-powered technology allows for greater efficiencies and greater innovation but also hugely increases demand for power, which adds pressure to the energy transition. However, there were positives in the form of company actions: Microsoft, for example, this year signed a huge 10GW renewable energy contract agreement (PPA) to help it meet its demands and its Net Zero commitment. This type of action creates significant opportunities - and provides leadership by example.

Elsewhere in private equity and infrastructure, the market consensus of a higher-for-longer rate environment meant GPs buying assets with their eyes wide open. It's therefore very plausible that this current vintage should be a strong one. However, as the IPO markets remained quiet, there continued to be unresolved digestion problems, specifically in the private equity universe, where managers were unable to sell assets and return capital to their investors. In real estate, despite rates remaining elevated, some managers were starting to talk of green shoots and of more optimism in the market. Occupier markets were still resilient, although they have slowed since peak and, anecdotally, transaction volumes are anticipated to recover compared to the lows of the previous quarter and of 2023.

Chief Investment Officer commentary

Index Performance Q2 2024



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
£4,418m

Risk profile
High

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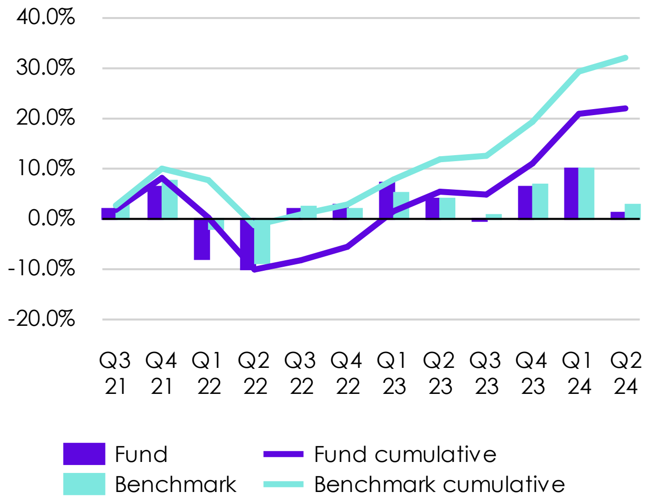
Avon's Holding:
GBP729m

Rolling 3yr performance



Performance to quarter end

Performance	3 month	1 year	3 year*	Since inception*
Fund	1.1	17.2	6.8	13.9
MSCI World	2.7	21.4	10.6	13.2
Excess	-1.6	-4.2	-3.8	0.7

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

Performance commentary

Global developed equities (as proxied by the MSCI World index) returned 2.7% in GBP terms over the quarter, continuing the rally experienced over the previous two quarters, albeit at a more moderate pace. Returns were driven by a handful of AI-connected large cap holdings, again highlighting the continuing concentration within the index. The largest four names in the index (Amazon, Apple, Microsoft, and NVIDIA, comprising nearly 17% of the index by market cap) together contributed c. 2.7%, to the index return (practically 100% of it). The other c.1,400 constituents contributed essentially nothing to absolute returns in aggregate. Therefore, it is no surprise that positioning in those top four names largely drove relative performance outcomes over the quarter. Cyclical sectors again generally outperformed defensive, with IT and Communications Services the significant outperformers. Broad style indices showed Quality and Growth outperformed whilst Value materially underperformed the index.

The portfolio returned 1.1%, underperforming the index by 1.6%. It is underweight the four largest names in aggregate and it was the underweights to Apple and NVIDIA that hurt most, together detracting 1.1% from relative returns.

Sector attribution showed that, whilst the overweight allocation to the Consumer Discretionary sector detracted, it was weak selection within the IT sector that had the largest negative impact on performance, driven by underweights to Apple and NVIDIA. Selection within Financials was also weak, partly due to the negative impact of the transactions and payments-type businesses held overweight in the portfolio (with Mastercard and Adyen two of the larger detractors).

Manager performance varied widely. Baillie Gifford was the only manager to outperform (+0.9%), resulting from sector positioning (overweights in IT and Communications Services added 0.9%) and an aggregate overweight in the largest four (which contributed 1.1% to relative returns). Harris underperformed (-6.1%), as it struggled against the headwinds of being 15% underweight the largest four, and of Value underperforming, which led to weak selection across the board. AB and Fiera had more muted underperformance. RLAM was neutral versus the index.

From inception to quarter-end, the portfolio outperformed the benchmark by 0.7% p.a.

Global High Alpha Equities

Top 5 holdings

	Weight %	B'mark weight %	Client value (GBP)*
MICROSOFT CORP	**6.52**	**4.77**	**47,512,382**
AMAZON.COM INC	**4.41**	**2.73**	**32,133,077**
ALPHABET INC	**3.23**	**3.04**	**23,545,460**
TAIWAN SEMICONDUCTOR	**3.07**	**-**	**22,342,710**
MASTERCARD INC	**2.68**	**0.56**	**19,523,325**

*Estimated client value

Top 5 active overweights

	Weight %	Benchmark weight %
TAIWAN SEMICONDUCTOR	**3.07**	**-**
MASTERCARD INC	**2.68**	**0.56**
MICROSOFT CORP	**6.52**	**4.77**
AMAZON.COM INC	**4.41**	**2.73**
UNITEDHEALTH GROUP INC	**2.12**	**0.71**

Top 5 active underweights

	Weight %	Benchmark weight %
APPLE INC	**0.92**	**4.67**
NVIDIA CORP	**2.29**	**4.67**
META PLATFORMS INC	**-**	**1.67**
BROADCOM INC	**-**	**1.07**
JPMORGAN CHASE & CO	**-**	**0.88**

Largest contributors to ESG risk

	ESG risk score* Q1 2024	ESG risk score* Q2 2024
AMAZON.COM INC	**30.20**	**29.32**
MICROSOFT CORP	**15.21**	**14.18**
ALPHABET INC-CL A	**24.09**	**24.81**
NOVO NORDISK A/S-B	**23.06**	**22.66**
MASTERCARD INC - A	**16.56**	**15.59**

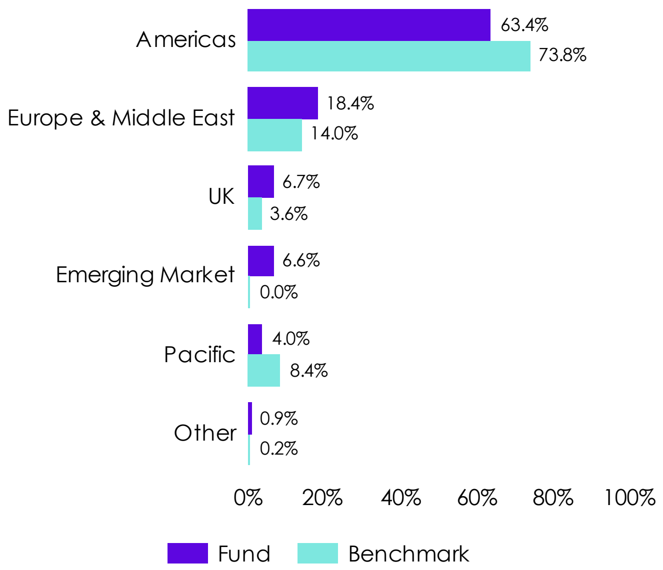
*Source: Sustainanalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

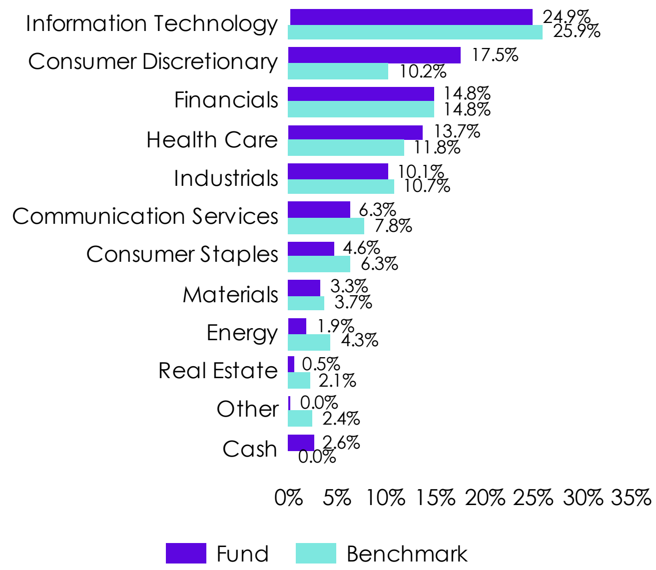
Portfolio	WACI 2024 Q1	WACI 2024 Q2	Total Extractive Exposure[1] 2024 Q1	Total Extractive Exposure[1] 2024 Q2	Extractive Industries (VOH)[2] 2024 Q1	Extractive Industries (VOH)[2] 2024 Q2
Global High Alpha	**79**	**77**	1.54	1.25	2.44	2.42
MSCI World*	**160**	**158**	4.80	4.16	8.05	7.90

*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

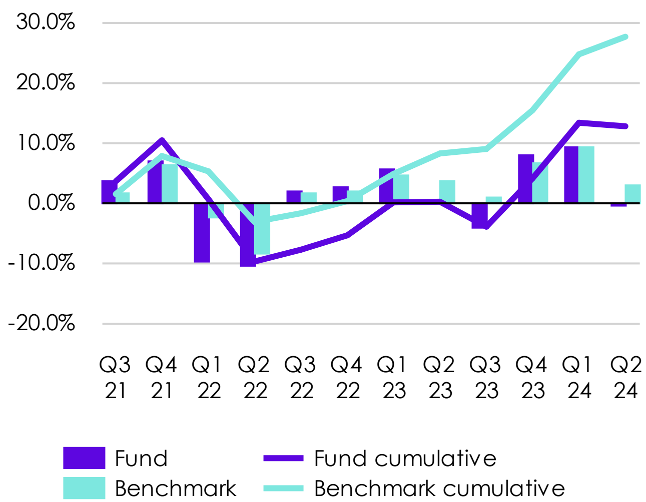
Outperformance target
+2%

Total fund value
£3,767m

Risk profile
High

Avon's Holding:
GBP663m

Rolling 3yr performance



Performance to quarter end

Performance	3 month	1 year	3 year*	Since inception*
Fund	-0.5	12.5	3.5	7.2
MSCI ACWI	2.9	20.6	9.1	12.4
Excess	-3.5	-8.1	-5.6	-5.2

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

Performance commentary

The portfolio returned -0.5% over the quarter, while the MSCI ACWI benchmark returned 2.9%. Whilst the quarter was flat in terms of absolute return, over the first half of 2024 the fund returned 8.9%, and 12.9% over the 12 months to quarter-end.

The market this quarter was reminiscent of the concentrated environment we saw during large parts of 2023. Whilst 2023 was dominated by headlines on the "Magnificent 7", the quarter saw a handful of names dominate an "AI Trade". Five individual stocks - NVIDIA, Apple, Microsoft, Alphabet and TSMC - contributed 2.9% to the market's 2.9% return. Therefore, the remaining ~2900 (~85% of the index) stocks in the index collectively contributed 0% to the market return. The equally weighted MSCI ACWI returned -0.7% over the quarter and so, whilst the market appeared in good health, the average stock actually fell over the quarter. This left many to question what happens when NVIDIA doesn't meet ~20% quarterly earnings growth.

The concentration in the market is causing concern for many active managers as they start to feel their internal risk frameworks are being stretched by the increasing weights of these top names. One GSE manager, for instance, has a prudent 5% max weight on any position size and has held NVIDIA at this weight for a number of years. As NVIDIA has now grown to an index weight of 4.2%, relative outperformance has been squeezed out compared to when NVIDIA was 2% of the index. The GSE portfolio itself has a 10% underweight position to the five outperforming names, which contributed 1.6% of the 3.4% relative underperformance.

The remaining contribution to underperformance largely came from companies deemed to be on the other side of the "AI Trade", notably, software companies such as Ansys. These companies all cited a tougher selling environment given previous strong growth periods, and a notable trend in increased AI-focused company spend, which pushed out software projects. We have engaged with managers on these affected positions; however, we have already seen a recovery in names such as Adobe.

Whilst it is always disappointing to have a quarter of underperformance, we note that the majority of Sustainable managers also underperformed the broad MSCI ACWI index. At time of writing, 82% had failed to outperform the index - the outperformers had significant exposure to AI names.

Global Sustainable Equities

Top 5 holdings

	Weight %	B'mark weight %	Client value (GBP)*
NVIDIA CORP	2.58	4.19	17,103,972
MASTERCARD INC	2.58	0.50	17,095,282
MICROSOFT CORP	2.55	4.28	16,903,044
INTUIT INC	2.43	0.25	16,088,187
ASML HOLDING NV	2.41	0.56	15,968,983

*Estimated client value

Top 5 active overweights

	Weight %	Benchmark weight %
INTUIT INC	2.43	0.25
MASTERCARD INC	2.58	0.50
ASML HOLDING NV	2.41	0.56
WASTE MANAGEMENT INC	1.85	0.12
ANSYS INC	1.67	0.04

Top 5 active underweights

	Weight %	Benchmark weight %
APPLE INC	-	4.19
ALPHABET INC	0.70	2.73
MICROSOFT CORP	2.55	4.28
NVIDIA CORP	2.58	4.19
META PLATFORMS INC	-	1.50

Largest contributors to ESG risk

	ESG risk score* Q1 2024	ESG risk score* Q2 2024
INTUIT INC	17.95	16.92
MASTERCARD INC - A	16.56	15.59
NOVO NORDISK A/S-B	23.06	22.66
AMAZON.COM INC	30.20	29.32
MICROSOFT CORP	15.21	14.18

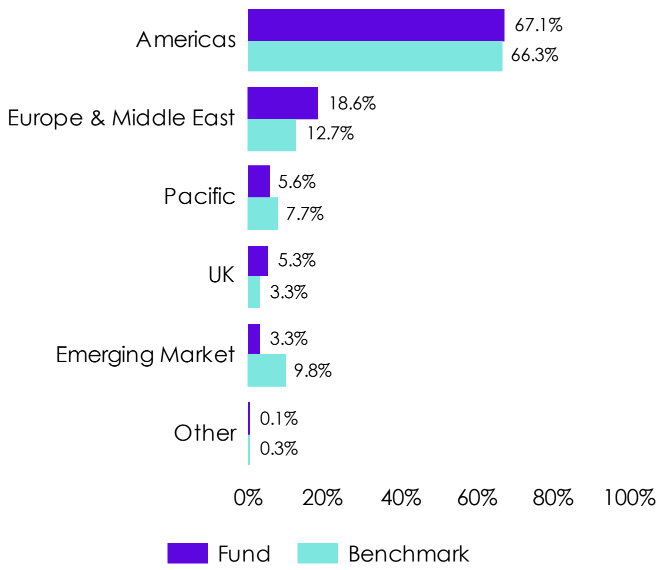
*Source: Sustainalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

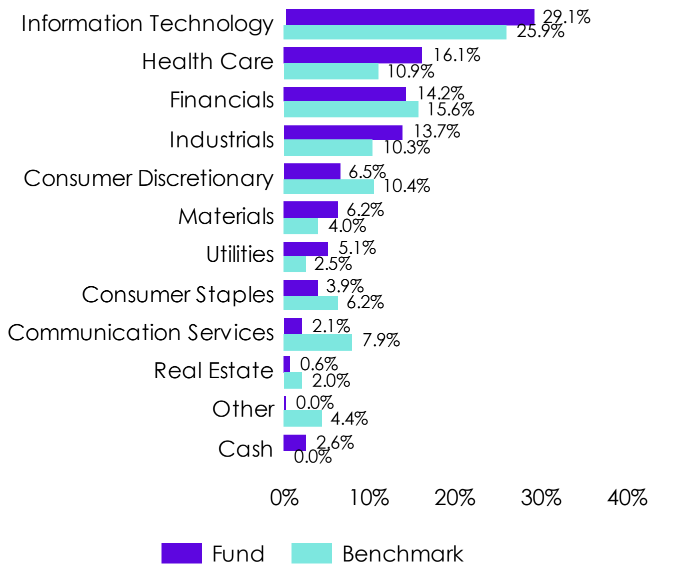
Portfolio	WACI 2024 Q1	WACI 2024 Q2	Total Extractive Exposure[1] 2024 Q1	Total Extractive Exposure[1] 2024 Q2	Extractive Industries (VOH)[2] 2024 Q1	Extractive Industries (VOH)[2] 2024 Q2
Global Sustainable	160	178	1.96	1.89	5.06	5.36
MSCI ACWI*	197	203	4.82	4.20	8.08	7.95

*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
£748m

Risk profile
Moderate

Avon's Holding:
GBP371m

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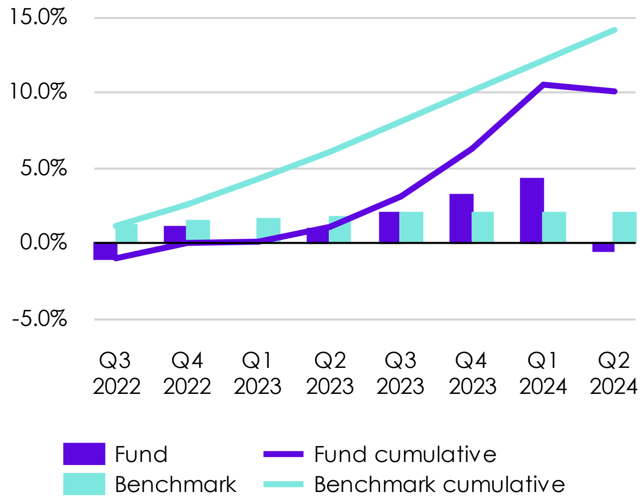
Rolling 2yr performance



Performance to quarter end

Performance	3 month	1 year	3 year*	Since inception*
Fund	-0.5	9.2	2.8	3.9
SONIA +3%	2.0	8.4	6.0	5.3
Excess	-2.5	0.9	-3.1	-1.5

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

Performance commentary

The Diversifying Returns Fund returned -0.5% over the second quarter of 2024. SONIA +3% returned 2.0%. The sterling hedged 50/50 equity/bond index we monitor returned 1.8% over the quarter, with equities generating positive performance and bonds close to flat.

The fund captured some positive returns from equities and from interest earned on large cash positions in derivative heavy sub-strategies. However, it was a weaker quarter for alternative premia, leading to negative returns for the fund.

Fulcrum were able to take advantage of positive equity market and returned 1.8%. The long-short thematic equity sleeve and exposure to precious metals also made positive contributions to returns. Currency positioning and trend following strategies detracted from performance over the quarter.

Lombard Odier also benefitted from exposure to equities and commodities generating a return of 0.6% for the period. Interest earned on cash also made a positive contribution to returns but sovereign bond exposure and carry signals detracted.

The aggregate performance of JPM's factor signals was muted, with interest on cash aiding a quarterly return of 0.6%. Credit and FX carry were the best performing of the factor signals with Relative Value Equity Momentum also making a positive contribution to returns. Other equity signals had a weak quarter and trend signals across asset classes also contributed negative returns in a choppy quarter.

UBS returned -8.2% for the period with further losses from their long Yen position as the Bank of Japan quashed hopes that significant additional rate rises will follow March's increase. The Brazilian Real also fell over the quarter and dampened returns. The Norwegian Kroner, which has been weak for some time, did make a positive contribution to returns along with short positions in the Euro and Sterling.

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

£3026m

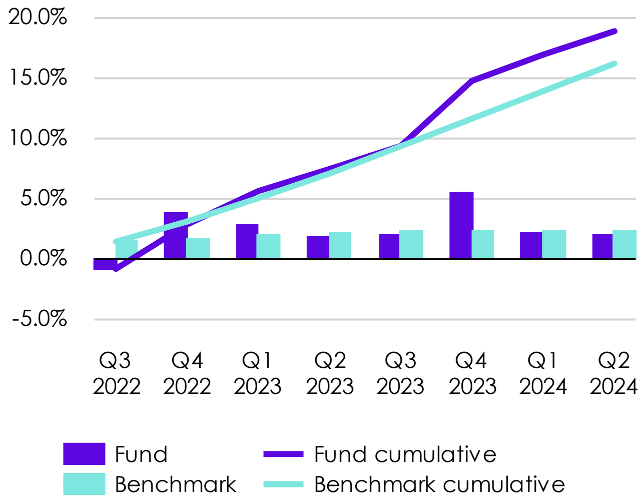
Risk profile

Moderate

Avon's Holding:

GBP347m

Rolling 2yr performance



Performance to quarter end

Performance	3 month	1 year	3 year*	Since inception*
Fund	1.9	11.9	-	2.7
SONIA +4%	2.3	9.4	-	7.0
Excess	-0.3	2.5	-	-4.4

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

Performance commentary

Leveraged finance produced a positive return last quarter, following a small rise in yields. The small rise in yields masked another volatile period for interest rate expectations in the United States (US). As mentioned in the CIO commentary, an upside surprise, in March CPI and other robust macro data, was enough to evaporate hopes of policy rate cut before the US elections. Risk assets rebounded in May as interest rates fell from their 2024 peak. Weaker-than-expected jobs data and stabilising US inflation also fuelled increased speculation of rate cuts before year end.

Government bond yields rose modestly, with longer dated parts of the curve increasing more. The US 2 & 10-year bond yields ended the quarter at 4.72% and 4.37% respectively. This was an increase of 10 and 17bps respectively. It was a similar story in the UK where the 2 and 10-year yields ended the period at 4.21% and 4.15% respectively. Credit spreads remained fairly stable last quarter as a result of both sentiment and a muted default environment. Spreads in High Yield corporates ended the quarter at 328bps, narrowly up from the 322bps in March. Once again, rising government bond yields and stable spreads resulted in floating rate asset classes being the most successful. The highest returning asset class was Collateralised Loan Obligations (CLOs), with all sub-investment grade tranches returning in excess of 2.3%. Higher duration asset classes - such as investment grade corporates – were once again the laggards.

The Multi-Asset Credit portfolio returned +1.9% last quarter. This was ahead of the composite benchmark – comprised of Loans and High Yield bonds – which returned +1.6%. The primary cash benchmark – SONIA +4% - returned +2.3% as Sterling rates remained elevated. Differences in manager performance were driven by duration positioning, with Neuberger making the lowest return given their higher duration.

Looking forward, investors should treat the muted default environment with caution. Extensions, payment in kind (PIK) and rescue financing is on the rise. Environments like this bode well for active management, allowing investors to avoid defaults. Our managers remain mindful of the current default environment and have increased quality, currently BB-, in the portfolio to reflect this view.

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

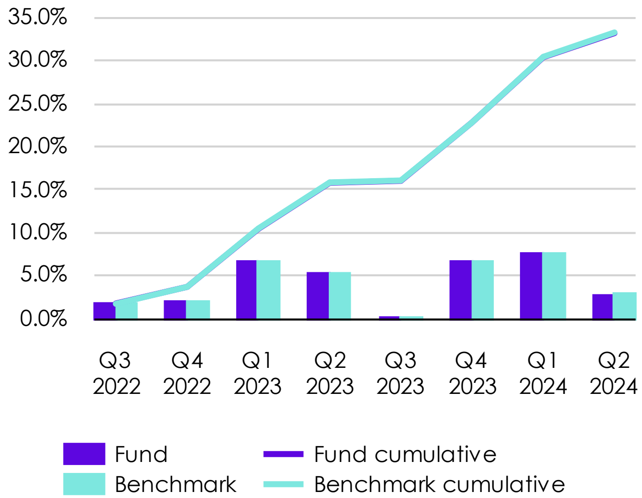
Outperformance target
Match

Total fund value
£2,763m

Risk profile
High

Avon's Holding:
GBP440m

Rolling 2yr performance



Performance to quarter end

Performance	3 month	1 year	3 year*	Since inception*
Fund	2.8	18.4	-	8.8
FTSE Dev World PAB	2.8	18.4	-	8.9
Excess	-0.0	-0.0	-	-0.1

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

Performance commentary

The FTSE Developed Paris Aligned Index (PAB) returned 2.8% over Q2 2024.

Six of the so-called "Magnificent Seven" stocks accounted for the vast majority of the contributions to return over the quarter. Alphabet made the highest contribution, owing to strong Q1 earnings and margin improvement, jumping 12% in a day on a 15% increase in revenue. Apple also beat modest earnings expectations, with an expectation to return to revenue growth, and an announcement of a record share buyback for the company of $110bn. Growth in the services and MacBook segments of the business worked against falls in iPhone sales. Nvidia returned to its run of strong performance following the announcement of a new family of AI chips and a stock split on top of strong revenue growth.

Amazon's stock price performance was more muted, reflecting Amazon's sensitivity to the US consumer environment. However, as a large portfolio constituent, it remained a top contributor. Microsoft revenues also exceeded expectations, with the high-margin Azure cloud segment seeing 23% year-over-year growth.

For all five of the above, proximity to the AI megatrend appears to have been a significant driver of investor sentiment, despite muted announcement activity from Apple on this subject.

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. The PAB's holding in Tesla made a small positive contribution to returns, driven by significant growth in energy storage deployments and high numbers of EVs delivered.

The only "Mag-7" company not to materially contribute to performance over the quarter was Meta, which was forced to delay the rollout of generative AI in Europe by regulators. Moreover, investors responded negatively to the announcement of large expenditure plans to build capacity in AI without clear revenue opportunities.

Salesforce was the largest detractor from returns, following poor forward revenue guidance.

At quarter-end, the PAB had three holdings in the Energy sector, each of which made a negative contribution to portfolio returns over the quarter: Vestas Wind Systems A/S and Enphase Energy contributed negatively to returns following a disappointing Q1, while FirstSolar contributed positively to returns due to regulatory change in China and high analyst expectations. Each of these stocks was held overweight due to Green Revenue and TPI Management Quality scores. The PAB Energy sector outperformed the Energy sector of the FTSE Developed Markets weighted index, which includes companies with significant oil & gas exposure. Stocks held by the market-weighted index but not held at all in this portfolio included Exxon Mobil, Chevron, Shell, BP and ConocoPhillips, and these stocks had a mixed, mainly negative quarter.

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	**6.09**	**26,778,622**
MICROSOFT CORP	**5.66**	**24,902,082**
ALPHABET INC	**5.43**	**23,895,784**
APPLE INC	**4.90**	**21,538,214**
TESLA INC	**3.11**	**13,688,487**

*Estimated client value

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Largest contributors to ESG risk

	ESG risk score* Q1 2024	ESG risk score* Q2 2024
AMAZON.COM INC	**30.20**	**29.32**
APPLE INC	**16.72**	**16.79**
MICROSOFT CORP	**15.21**	**14.18**
TESLA INC	**25.26**	**24.73**
ALPHABET INC-CL A	**24.09**	**24.81**

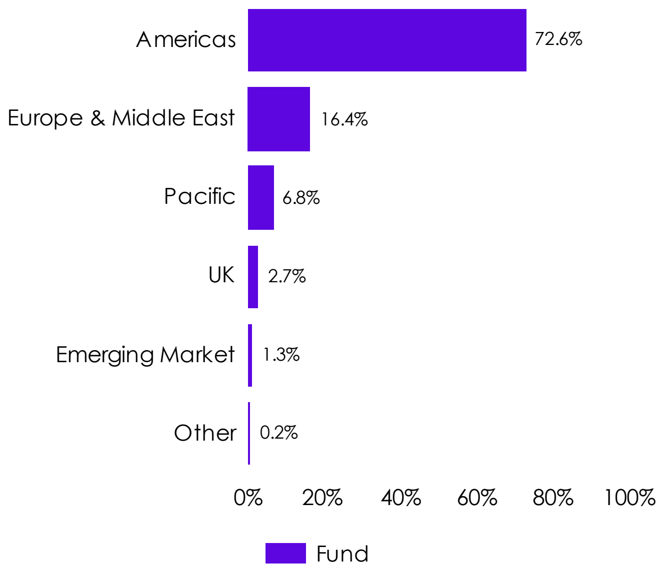
*Source: Sustainanalytics. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top. ESG Risk Score reference: 0-10 is Negligible, 10-20 is Low, 20-30 is Medium, 30-40 is High, 40+ is Severe.

Carbon metrics

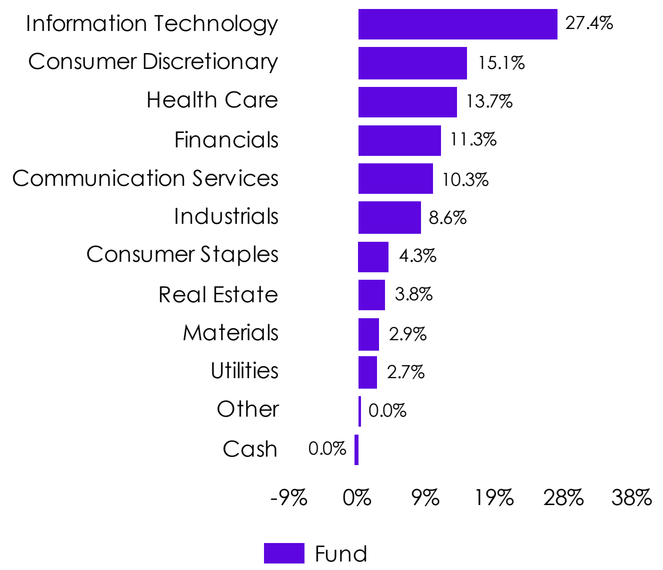
Portfolio	WACI 2024 Q1	WACI 2024 Q2	Total Extractive Exposure[1] 2024 Q1	Total Extractive Exposure[1] 2024 Q2	Extractive Industries (VOH)[2] 2024 Q1	Extractive Industries (VOH)[2] 2024 Q2
PAB Passive Global	**118**	**117**	1.21	1.12	3.48	3.23
FTSE Dev World TR	**163**	**166**	4.60	3.95	8.34	8.39

*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

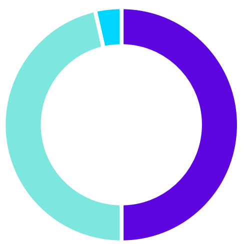
% called to date
66.78

Number of underlying funds
1

Avon's Holding:
GBP160.68m

Country

Invested in underlying investments

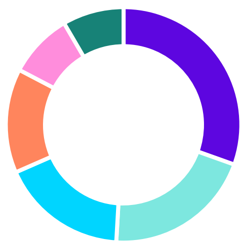


Europe	50.0%
North America	46.4%
Asia Pacific	3.6%
Other	-

Source: Aksia and underlying managers
Country data is as of latest available Q2 24

Sector

GICs level 1



Health Care	30.5%
Information Technology	20.5%
Industrials	17.4%
Consumer Discretionary	14.3%
Financials	8.9%
Other	8.4%

Source: Aksia and underlying managers
Sector data is as of latest available Q2 24

Performance commentary

During Q2, there was a notable pick-up in M&A activity which is a positive sign for deal flow for lenders following a prolonged period where there has been greater reliance on a manager's back book. Sticky inflation has led to lower rate cut expectations which is a tailwind for private credit, benefiting from higher base rates. However, the high-rate environment remains a challenge for some companies, with interest coverage ratios continuing to edge lower. There is increased pressure on highly levered companies, further demonstrating the importance of sensible capital structures and prudent opening leverage.

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 (GPLF 4), pending approval of any cure proposed by Barings. This will require a vote at the LPAC, on which Aksia (representing Brunel) has a seat. As yet, there is no specified voting timeline for GPLF IV.

At the end of Q2, 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 has been positive but generally flat across the portfolio and underlying funds over the quarter.

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
160.7	1.4%	6.7%	0	0	0	-425,862	1.11	0.1%	0.0%

*Money weighted return. Net of all fees. Private Markets interim period performance is calculated using NAVs provided on business day 8. Later revisions to these NAVs are not captured in the calculations so please use caution when using this data.

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

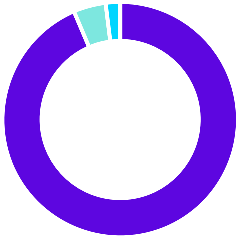
% called to date
37.41

Number of underlying funds
4

Avon's Holding:
GBP48.49m

Country

Invested in underlying investments

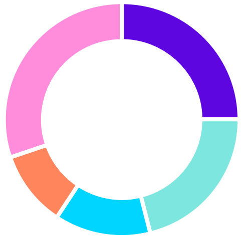


Europe	93.5%
North America	4.5%
Asia Pacific	2.0%
Other	-

Source: Aksia and underlying managers
Country data is as of latest available Q1 24

Sector

GICs level 1



Health Care	25.0%
Software	21.1%
Financials & Insurance	13.2%
Professional Services	10.5%
Other	30.2%

Source: Aksia and underlying managers
Sector data is as of latest available Q1 24

Performance commentary

During Q2, there was a notable pick-up in M&A activity which is a positive sign for deal flow for lenders following a prolonged period where there has been greater reliance on a manager's back book. Sticky inflation has led to lower rate cut expectations which is a tailwind for private credit, benefiting from higher base rates. However, the high-rate environment remains a challenge for some companies, with interest coverage ratios continuing to edge lower. There is increased pressure on highly levered companies, further demonstrating the importance of sensible capital structures and prudent opening leverage.

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 cure proposed by Barings. Brunel is considering the proposed cure and have been advised we hold a material share of capital in the fund.

At the end of Q2 the portfolio had made commitments to six funds (3 European, 3 US) with the fifth fund closing at the very end of March. All funds across cycle 3 have previously been presented at ISG.

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 Cycle 4 Private Debt portfolio.

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
48.5	11.0%	10.4%	7,950,257	2,137,291	5,812,967	411,789	1.08	0.1%	0.0%

*Money weighted return. Net of all fees. Private Markets interim period performance is calculated using NAVs provided on business day 8. Later revisions to these NAVs are not captured in the calculations so please use caution when using this data.

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

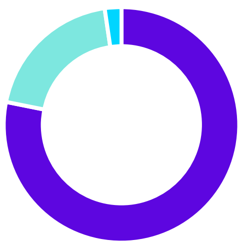
% called to date
94.99

Number of underlying funds
5

Avon's Holding:
GBP113.57m

Country

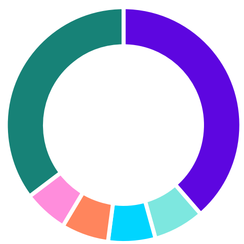
Commitment in underlying investments



	Europe (incl. UK)	78.1%
	North America	19.6%
	Rest Of World	2.3%

Source: Stepstone
Country data is as of latest available Q2 24

Sector



	Wind & Solar	38.6%
	Rail	7.0%
	Distributed Energy	6.5%
	Diversified Renewables	6.5%
	Diversified Social	6.1%
	Other	35.3%

Source: Stepstone.
Sector data is as of latest available Q2 24

Performance commentary

H1 2024 continued to experience mixed macroeconomic data, leading to continued volatility. The anticipated rate relief was delayed, particularly in the US where inflation has proved somewhat more persistent. Elsewhere in the developed world inflation has been more benign, with YoY rates continuing to head back towards central bank targets. Many feel that we are on the cusp of central banks making their next moves on interest rates which will likely unlock capital and support the closing of a strong pipeline of infrastructure investments.

Whilst the impact of an economic slowdown on equity investments is generally negative, we believe that many infrastructure investments continue to exhibit strong defensive characteristics. In addition, we expect that the diversification of the portfolios in terms of sectors, countries, business models and other characteristics will protect the overall Fund performance against macroeconomic shocks.

The Cycle 1 portfolio is fully committed to nine primary funds and seven tactical investments. As at the end of Q2 2024, the portfolio was ~91% 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 has proven to be resilient to market volatility as it continues to deliver performance in line with target at inception.

Pipeline

Cycle 1 is fully committed, so no new investments are being considered.

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
113.6	5.6%	6.1%	842,309	544,313	297,996	277,253	1.18	0.1%	0.0%

*Money weighted return. Net of all fees. Private Markets interim period performance is calculated using NAVs provided on business day 8. Later revisions to these NAVs are not captured in the calculations so please use caution when using this data.

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:
GBP85.73m

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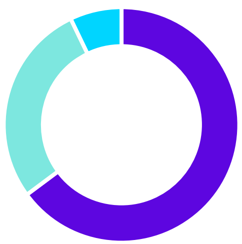
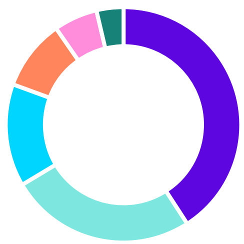
Country

Commitment in underlying investments



Source: Stepstone
Country data is as of latest available Q2 24

Sector



Source: Stepstone.
Sector data is as of latest available Q2 24

Performance commentary

H1 2024 continued to experience mixed macroeconomic data, leading to continued volatility. The anticipated rate relief was delayed, particularly in the US where inflation has proved somewhat more persistent. Elsewhere in the developed world inflation has been more benign, with YoY rates continuing to head back towards central bank targets. Many feel that we are on the cusp of central banks making their next moves on interest rates which will likely unlock capital and support the closing of a strong pipeline of infrastructure investments.

Whilst the impact of an economic slowdown on equity investments is generally negative, we believe that many infrastructure investments continue to exhibit strong defensive characteristics. In addition, we expect that the diversification of the portfolios in terms of sectors, countries, business models and other characteristics will protect the overall Fund performance against macroeconomic shocks.

The outlook for renewables is supported by strong global policy initiatives and an increasing demand for data. The rise of AI has played a role in this increasing demand, AI powered technology allows for greater Resulting in, a vast increase in renewable power demand to support green data centres. This year Microsoft signed a 10GW PPA with Brookfield and the movement of large corporations towards renewable energy is a tailwind for renewables moving forwards.

At the end of Q2 2024, the Cycle 2 Renewables portfolio is ~89% committed and ~68% invested across six primary funds and twelve tactical investments. In Q2 2024, the final Primary fund ticket, a North America-focused fund targeting renewable and energy transition subsectors, was approved

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
85.7	4.0%	7.1%	5,572,917	340,226	5,232,691	990,724	1.12	0.1%	0.0%

*Money weighted return. Net of all fees. Private Markets interim period performance is calculated using NAVs provided on business day 8. Later revisions to these NAVs are not captured in the calculations so please use caution when using this data.

Infrastructure (Renewables) Cycle 2

subject to further StepStone due diligence, thus completing the Cycle 2 Renewables' portfolio.

Pipeline

Upon the closing of the final Primary investment, Cycle 2 Renewables will be fully committed, and therefore no new investments will be considered.

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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

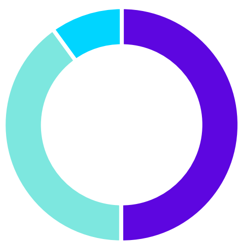
% called to date
26.87

Number of underlying funds
1

Avon's Holding:
GBP16.83m

Country

Commitment in underlying investments



Source: Stepstone
Country data is as of latest available Q2 24

Sector

Source: Stepstone.
Sector data is as of latest available Q2 24

Performance commentary

H1 2024 continued to see mixed macroeconomic data, leading to continued volatility. The anticipated rate relief was delayed, particularly in the US, where inflation has proved persistent. Elsewhere, inflation has been more benign, with rates heading back towards central bank targets. Many feel that we are close to central banks making their next moves on interest rates, which will likely unlock capital and support the closing of a strong pipeline of infrastructure investments.

Whilst the impact of an economic slowdown on equity investments is generally negative, we believe that many infrastructure investments continue to exhibit strong defensive characteristics. In addition, we expect that the diversification of the portfolios in terms of sectors, countries, business models and other characteristics will protect the overall Fund performance against macroeconomic shocks.

At the end of Q2 2024, Cycle 3 was ~66% committed and ~33% invested across nine Primaries and nine Tacticals.

Pipeline:

During Q2, three Tactical investments were approved by Brunel and are subject to further StepStone due diligence. These include a ~£32m allocation to a Secondaries Mini Portfolio comprising 7-8 investments, to gain additional exposure into Secondaries. This will help achieve a high level of diversification across managers and assets. The other two approved tactical allocations were: a ~£28m co-investment opportunity into a renewable energy developer focused on the western US states; and a ~£24m co-investment opportunity alongside Energy Capital Partners ("ECP") in the take-private of a publicly-traded owner, operator and developer of highly-contracted renewable energy.

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
16.8	4.0%	0.9%	2,212,083	294,338	1,917,745	528,311	1.01	0.0%	0.0%

*Money weighted return. Net of all fees. Private Markets interim period performance is calculated using NAVs provided on business day 8. Later revisions to these NAVs are not captured in the calculations so please use caution when using this data.

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

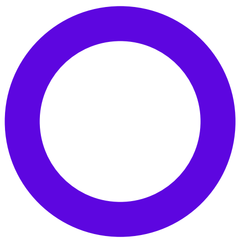
% called to date
99.86

Number of underlying funds
3

Avon's Holding:
GBP292.20m

Country

Invested in underlying investments



United Kingdom 100.0%

No Data

Source: Colmore
Country data is as of latest available Q2 24

Performance commentary

Both long lease property managers have noted that markets are more optimistic in Q2, with evidence suggesting transactions are picking up in areas like industrial and residential. The occupier market remained resilient, with no rent concerns and near 100% occupancy. But high interest rates and uncertainty persisted, and there could be small valuation write-downs throughout 2024.

M&G Secured Property Income Fund (SPIF) made progress with the redemption queue. They also saw interest on the secondary market, with £130m worth of sales from September to end-Q2. The Fund has sold over £1bn, achieving an average 3% premium over valuation. Yield is around 5%.

abrdn Long Lease Property (LLP) also sold assets to reduce its redemption queue. These were sold near book value. The distribution yield on the fund is also high at 5.2%. The fund continued to market its one void, Ingenuity House.

The Schroder Greencoat team completed the restructuring and refinancing of Project Toucan, the solar portfolio. This allows for distributions to be made this year and allows Greencoat to split the constituent assets into the relevant vehicles, including Greencoat Renewable Income (GRI).

GRI initially invested £15m into Toucan, with a further stake of £44.7m invested in Q2. GRI also accepted at least a further £170m of commitments. During Q1, the NAV increased due to calls, used to fund investments into Toucan and Solar II. However, valuations fell, driven by assumptions regarding the power price. A distribution was also made in Q1.

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
292.2	-3.8%	-1.3%	0	1,960,862	-1,960,862	-1,935,010	0.97	-0.2%	-0.0%

*Money weighted return. Net of all fees. Private Markets interim period performance is calculated using NAVs provided on business day 8. Later revisions to these NAVs are not captured in the calculations so please use caution when using this data.

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

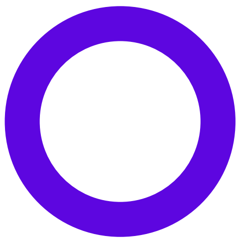
% called to date
99.99

Number of underlying funds
3

Avon's Holding:
GBP100.11m

Country

Invested in underlying investments



No Data

Source: Colmore
Country data is as of latest available Q2 24

Performance commentary

Both long lease property managers have noted that markets are appearing more optimistic in Q2, with anecdotal evidence suggesting transactional volumes are picking up in key sectors like industrial and residential. The occupier market remains resilient, with no rent concerns and near 100% occupancy. Having said that, high interest rates and uncertainty remain, and both suggest that there could be small valuation write-downs throughout 2024.

M&G Secured Property Income Fund (SPIF) made progress with the redemption queue, with a further £180m of assets under offer. They also saw interest on the secondary market, with £130m worth of sales since September. The Fund has sold over £1bn, achieving an average 3% premium over valuation. The distribution yield is high at 5.0% as at Q1.

abrdn Long Lease Property (LLP) also sold assets in a bid to reduce their redemption queue, including some car park assets. These were sold near book value. The distribution yield on the fund is also high at 5.2% as at Q1. The fund continues to market their one void in the fund, Ingenuity House in Birmingham.

The Schroder Greencoat team has recently completed the restructuring and refinancing of Project Toucan, the large solar portfolio, a month ahead of target. This allows for distributions to be made this year and allows Greencoat to split the constituent assets into the relevant vehicles, including Greencoat Renewable Income (GRI).

GRI has initially invested £15m into Toucan, with a further stake of £44.7m invested in Q2. GRI also accepted at least a further £170m commitments in Q2. Over the first three months of the year, the NAV increased due to calls, used to fund

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
100.1	0.2%	-0.5%	0	3,178,679	-3,178,679	1,627,360	0.94	-0.0%	-0.0%

*Money weighted return. Net of all fees. Private Markets interim period performance is calculated using NAVs provided on business day 8. Later revisions to these NAVs are not captured in the calculations so please use caution when using this data.

Secured Income Cycle 2

investments into Toucan and Solar II. However, the valuations fell, driven by assumptions regarding power price. A distribution was also made in Q1.

Pipeline

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

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:
GBP237.01m

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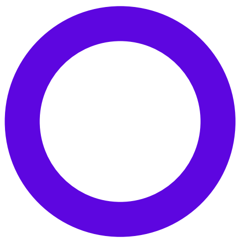
Country

Invested in underlying investments



United Kingdom	100.0%

No Data

Source: Colmore
Country data is as of latest available Q2 24

Performance commentary

Both long lease property managers have noted that markets appear more optimistic in Q2, with anecdotal evidence suggesting transactional volumes are picking up in key sectors like industrial and residential. The occupier market remains resilient, with no rent concerns and near 100% occupancy. Having said that, high interest rates and uncertainty remain and both warn that there could be small valuation write downs throughout 2024.

M&G Secured Property Income Fund (SPIF) has made progress with the redemption queue, with a further £180m of assets under offer. They have also seen interest on the secondary market, with £130m worth of sales since September. The Fund has sold over £1bn, achieving an average 3% premium over valuation. The distribution yield is high at 5.0% as at Q1.

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GRI has initially invested £15m into Toucan, with a further stake of £44.7m invested in Q2. GRI also accepted at least a further £170m commitments in Q2. Over the first three months

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
237.0	-3.0%	-	35,593,747	1,544,252	34,049,495	395,985	1.01	-0.1%	-0.0%

*Money weighted return. Net of all fees. Private Markets interim period performance is calculated using NAVs provided on business day 8. Later revisions to these NAVs are not captured in the calculations so please use caution when using this data.

Secured Income Cycle 3

of the year, the NAV increased due to calls, used to fund investments into Toucan and Solar II. However, the valuations fell, driven by assumptions regarding power price. A distribution was also made in Q1.

Pipeline

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

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

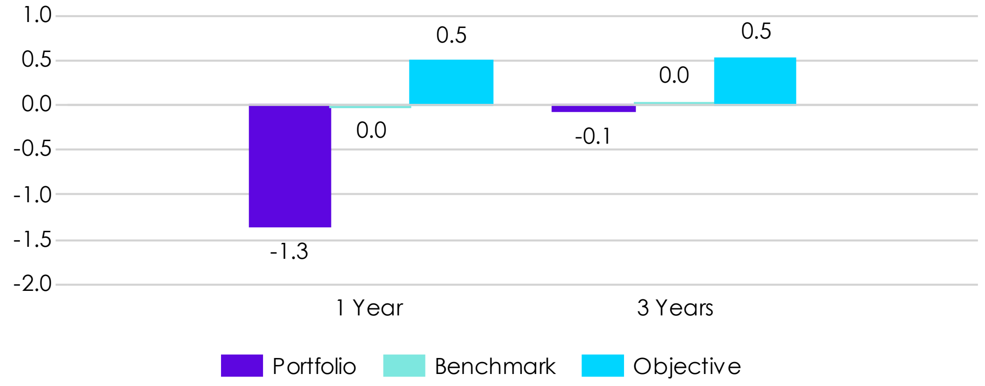
£210.0m

Amount Called

£179.2m

Number of portfolios

13



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Performance commentary

Investor interest for UK property has been diverse so far in 2024, with offices, industrial, retail and hotels all accounting for similar shares of activity. Active capital is slowly stepping forward to meet the pricing aspirations, or floors, of vendors in various areas of the UK market (industrials, retail warehouses and supermarkets, for example).

Overall, investment activity will likely remain subdued until interest rates start to come down later in the year. The first cut is likely to lead in a substantial increase in activity, especially as the last few months to quarter-end saw an increasing stabilisation of yields after a period of significant repricing.

Positive signs of recovery could be further supported by the general election result, which gave Labour a clear mandate to drive its policy priorities, particularly in housing.

Within Brunel's UK property model, the Octopus Healthcare Fund remained resilient, with continued positive performance. Structural factors continued to support the industrial sector, and the LGIM Industrial Property Investment Fund (IPIF) benefited, with occupational markets supportive of rental growth and scope for a yield fall in the short term as base rates move downwards.

The Orchard Street Social & Environmental Impact Fund acquired its second asset, a Southeast London last-mile industrial estate, for c. £21m. The nine-unit industrial estate in Charlton is fully let, and Orchard Street has plans to carry out low embodied carbon refurbishments across the 1980s estate to improves the EPCs, electrify units to reduce carbon emissions, and to install solar PV panels and air source heat pumps.

Pipeline

There is no fund pipeline, with the portfolio fully committed to model funds. A review of the model portfolio with our adviser (Townsend) was completed and approved at BIC and presented at ISG.

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	182.5	179.3	-1.3%	-0.1%	-	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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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**
MEETING DATE:	**5 SEPTEMBER 2024**
TITLE:	**Risk Management Framework Review for Periods Ending 30 June 2024**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Exempt Appendix 1 – Mercer Report: Risk Management Framework Review to 30 June 2024** **Exempt Appendix 2 – Revised Trigger Framework**	

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. FRMG has considered whether to reinstate the inflation trigger framework which has been suspended since the 2022 gilt crisis. Following the liquidity review in June 2024 it was agreed that given the projected liquidity position over the next few years we would not utilise any of the excess capital to increase the interest rate or inflation hedge ratios.

1.4. Mercer has since explored with Blackrock how the inflation hedge ratio could be increased without impacting the collateral buffer. This proposal is explained in Exempt Appendix 2 for the Panel to consider.

2. RECOMMENDATION

The Avon Pension Fund Investment Panel:

2.1. **Agrees to reinstate the inflation triggers to up to a 40% hedge ratio without impacting the collateral buffer as set out in Exempt Appendix 2.**

2.2. **Notes the performance of each of the underlying RMF strategies and current collateral position.**

3. FINANCIAL IMPLICATIONS

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

4. INFLATION TRIGGER FRAMEWORK

4.1. The long-term strategic target is to achieve a 70% hedge ratio for interest rates and inflation (as a proportion of the Fund's assets). However hedging has become more capital intensive since the gilts crisis as we are required to hold a larger collateral buffer to support the strategy in times of market stress. Therefore the interim target is capped at c. 40%. Given the interest rate hedge is at 40% (and the inflation hedge is at c.22%) the trigger framework is currently suspended.

4.2. In the June meeting the Panel reviewed the liquidity requirements for the Fund over the next few years. Given the increased commitment to private markets it was agreed that the hedge ratios could not increase without depleting the collateral headroom. However Mercer have explored whether the inflation hedging could be increased in isolation towards 40% without impacting the collateral buffer.

4.3. Mercer's assessment and proposal are set out in Exempt Appendix 2 (this paper was originally prepared for the FRMG). By changing the instruments that Blackrock can use to implement the hedge, a higher hedging ratio could be achieved, capped at 40% without impacting the collateral buffer.

4.4. The existing inflation trigger levels will not be changed as they represent attractive levels to lock in inflation, therefore no immediate action is expected to take place upon reactivation of the inflation triggers.

4.5. Officers have considered the proposal and support it.

5. UPDATE ON RISK MANAGEMENT STRATEGIES

5.1. The underlying equity benchmark rose over the quarter, with the equity protection strategy (EPS) performing in line with expectations, decreasing net equity performance by 0.4% as markets moved toward the protection levels. Since inception the dynamic EPS has detracted c. 2.6% from equity returns and reduced volatility by c. 25%.

5.2. There was no change to the hedge ratios during the quarter with the interest rate hedge ratio at 40% and the inflation hedge ratio was around 22%.

6. RISK MANAGEMENT

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

7. EQUALITIES

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

8. CLIMATE CHANGE

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

9. OTHER OPTIONS CONSIDERED

9.1. None

10. CONSULTATION

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

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

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA- 2027169
Meeting / Decision: Avon Pension Fund Investment Panel
Date: 5th September 2024
Author: Liz Woodyard
Report Title: Risk Management Framework Review for Periods Ending 30 June 2024 List of attachments to this report: **Exempt Appendix 1** – Mercer Report: Risk Management Framework Review to 30 June 2024 **Exempt Appendix 2** – Revised Trigger Framework

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

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

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

PUBLIC INTEREST TEST

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

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local

Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the 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 appendices 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 appendices 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 September 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 September 2024	**Routine:** • Quarterly Investment Performance • Risk Management Framework Monitoring **Strategic** • Review ACT Analysis • Long Lease Property (Brunel presentation)
26 November 2024	**Routine:** • Quarterly Investment Performance • Risk Management Framework Monitoring **Strategic:** • Local Impact portfolio – SMEs Plus SME managers to present • Introduction to Natural Capital Investing
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	
Please contact the report author if you need to access this report in an alternative format	

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