Mercer

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Avon Pension Fund

Committee Investment Report
Quarter to 30 September 2024

November 2024

Steve Turner

A business of Marsh McLennan

Contents

Executive Summary

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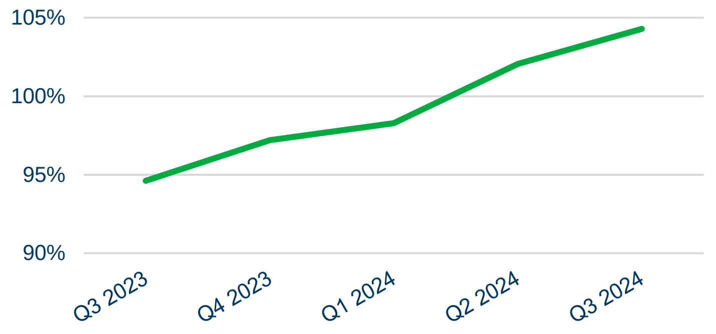
Executive Summary

Market background

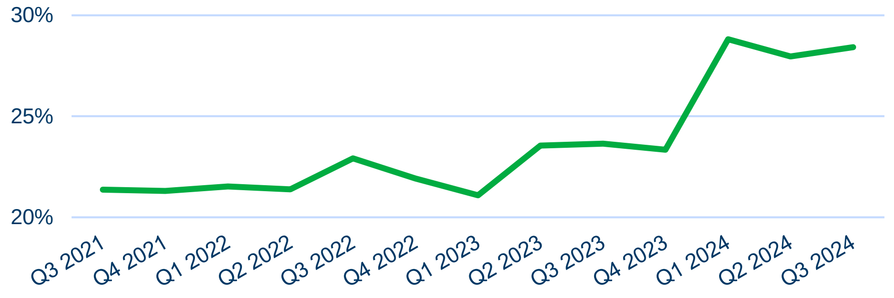
- In Q3, most developed market central banks including the Fed cut interest rates. They were prompted to loosen monetary policy amidst the macroeconomic backdrop of cooling inflation, labour markets and slowing wage growth. The Bank of Japan was a notable exception.
- Market sentiment over the quarter tilted back towards a soft-landing as fears of a US recession – which gripped markets in early August – quickly subsided.
- Overall, bond yields declined across developed market economies, while equities outperformed in response to rate cuts. That said, uncertainty around the US election and tensions in the Middle East sparked temporary volatility in financial markets.

Funding level and risk

- The funding level is estimated to have increased over the quarter to c. 104% as the value of the assets increased by more than the estimated present value of the liabilities.
- The funding level is estimated to be c. 10% higher over the year to 30 September 2024 (as illustrated to the right).



- The Value-at-Risk increased over the quarter to £1,645m, but was broadly unchanged as a percentage of liabilities at c. 28%.
- The increase in Q1 2024 was primarily due to the agreed reduction in coverage of the Equity Protection Strategy.



Source for charts: State Street, Mercer estimates
See further footnotes on page 10.

Executive Summary

Performance

- In aggregate, positive returns were driven by the Equity, LDI and Currency Hedging holdings.
- Only Property and the Equity Protection Strategy detracted at the asset class level.

- At the underlying level, most mandates outperformed their benchmark, whilst the active equity mandates were the main detractors.
- Outperformance relative to the strategic benchmark over the one-year period was due to Synthetic Equity, the Liquid Growth portfolio, Renewable Infrastructure and Private Debt, as well as the Currency Hedge adding to returns. The overweight position to Equity has also been beneficial during a period of strongly rising markets.
- The drivers of underperformance over the three year period were the active equity, Equity Protection, Overseas Property and Secured Income mandates.

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	3.5	14.8	1.8
Strategic Benchmark **(2)** (ex currency hedge)	1.3	12.1	5.8
Relative **(1 - 2)**	**2.2**	**2.7**	**-3.9**

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

Asset allocation and strategy

- A net amount of c. £13m was drawn down to private market portfolios during the quarter. The BlackRock ETF, which is used as a liquid holding mandate for short-term cashflow needs, was topped up by £20m.
- Post-quarter end, the Synthetic Equity exposure was reduced by £300m to address the overweight position to Equity (c. 8.6% as at 30 September) relative to the strategic benchmark. Based on asset values at this date, the disinvestment would reduce the size of the overweight to c. 3.7%.

Liability hedging mandate

- BlackRock was in compliance with the investment guidelines over the quarter.
- The interest rate and inflation hedge ratios are 33% and 19% respectively (as a proportion of assets).
- Inflation triggers were reinstated in September 2024, which allow BlackRock to trade up to a 40% (as a % of assets) inflation hedge ratio in aggregate if triggers are attained.

Collateral position

- Inclusive of assets within the collateral waterfall and the updated collateral monitoring framework, there was a total interest rate buffer of 8.9% as at end September 2024.
- BlackRock would request additional collateral if the interest rate buffer fell below 3%.

Market Background

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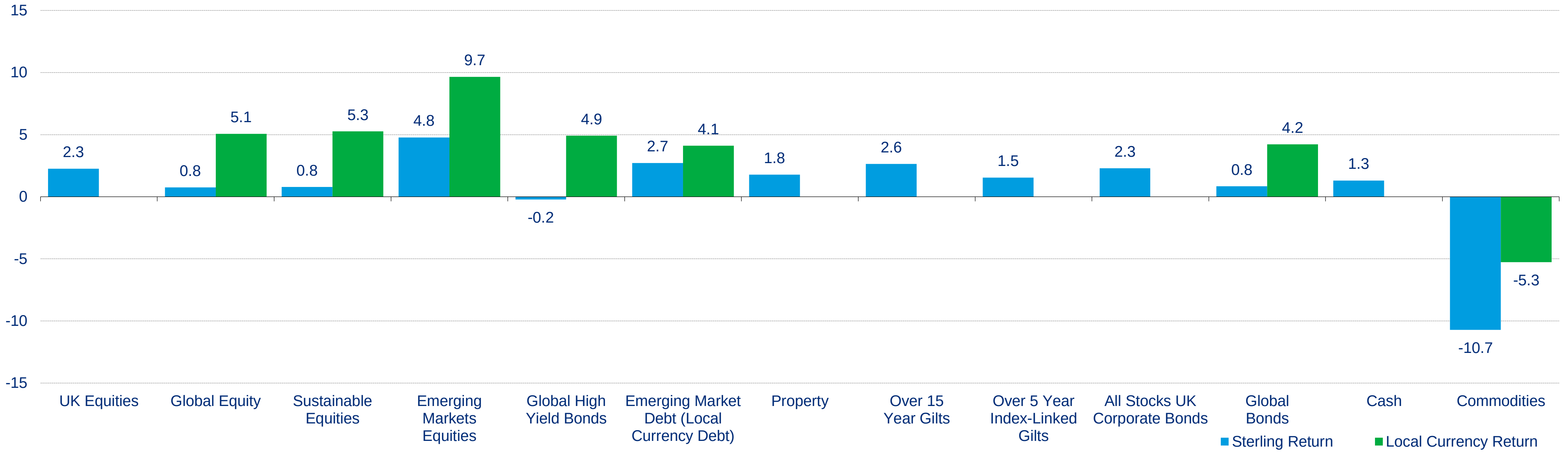
Market Background

Return over 3 months to 30 September 2024 (%)



In the third quarter of 2024, developed market ("DM") central banks including the US Federal Reserve ("Fed") cut interest rates. DM central banks were prompted to loosen monetary policy amidst the macroeconomic backdrop of cooling inflation, labour markets and slowing wage growth. Notably, the Bank of Japan ("BoJ") diverged from other DM central banks and hiked rates by 0.15% in July given the impact of robust wage negotiations on inflation.

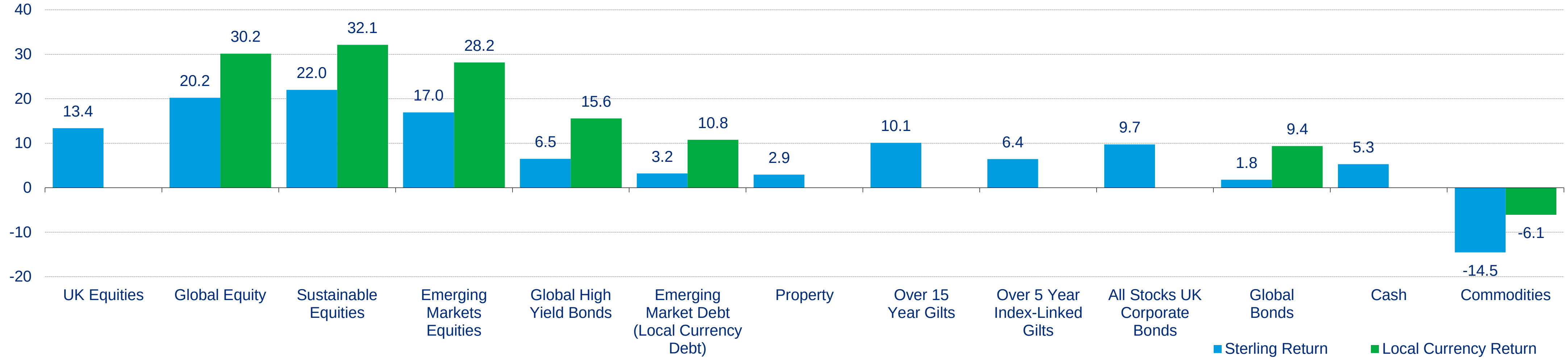
Market sentiment over the quarter tilted back towards a soft-landing as fears of a US recession – which gripped markets in early August – quickly subsided.

Overall, bond yields declined across DM economies, while equities outperformed in response to rate cuts. That said, uncertainty around the US election and tensions in the Middle East sparked temporary volatility in financial markets.

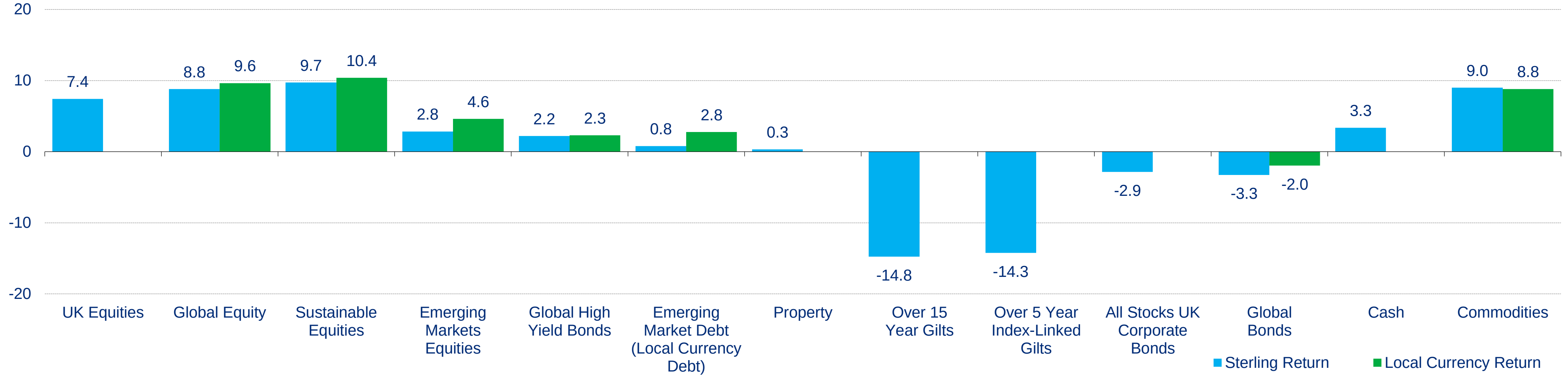
Source: LSEG Datastream

Market Background – 1 & 3 Years

Return over 12 months to 30 September 2024 (%)



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



Source: LSEG Datastream

Funding Level and Risk

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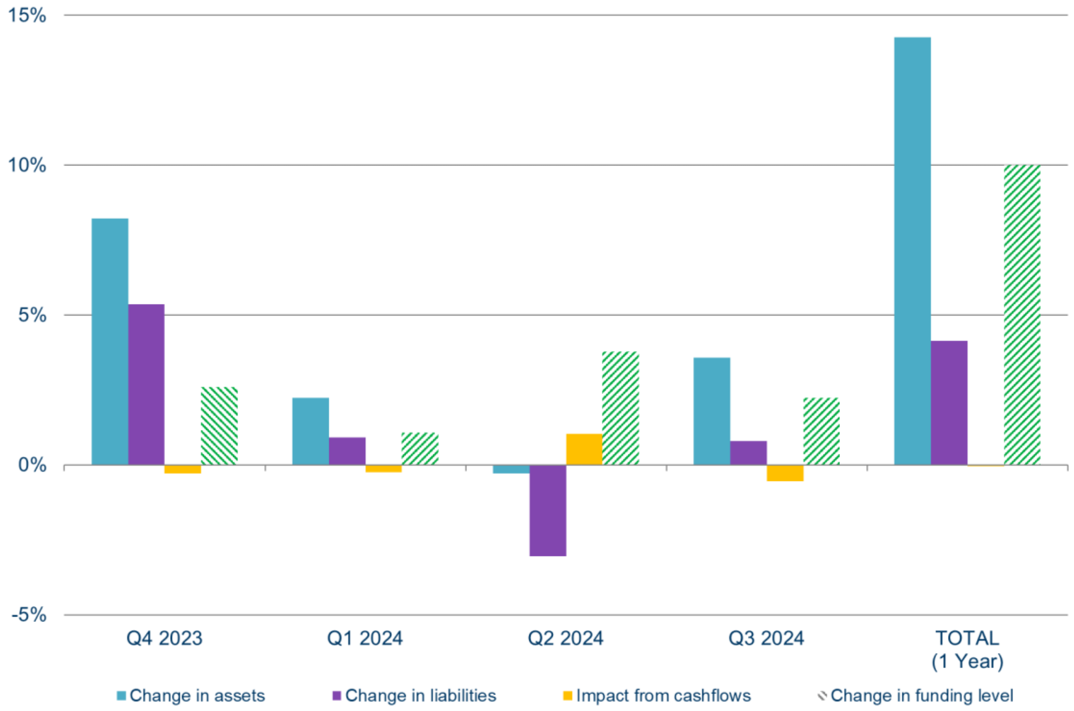
Funding Level and Deficit

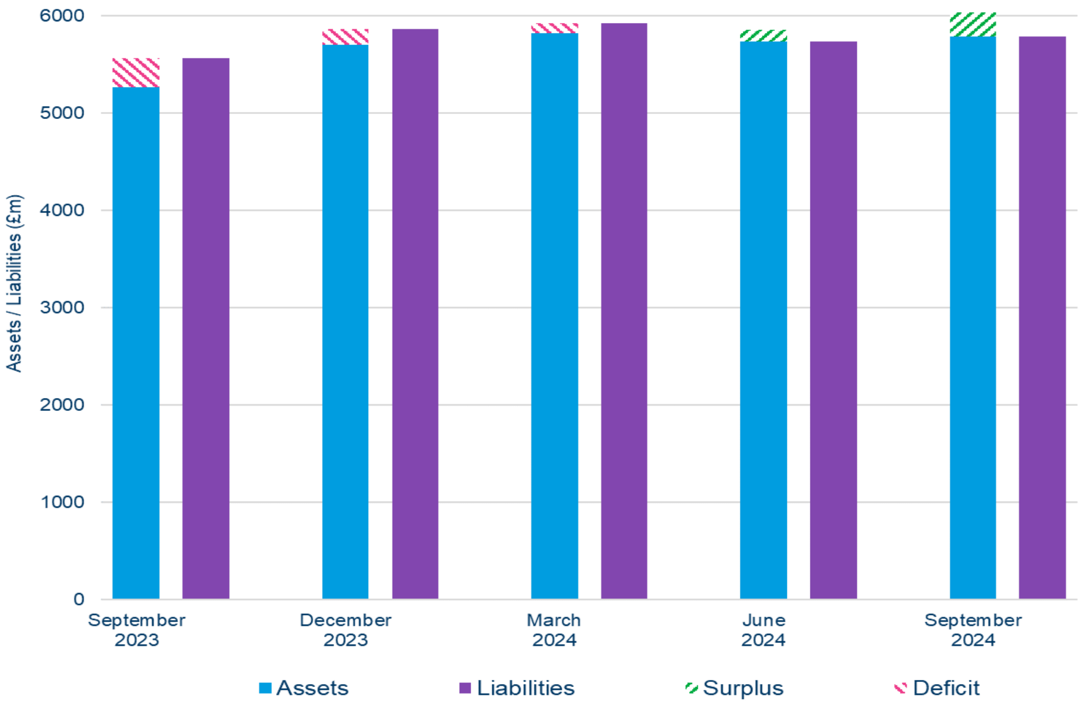
The Fund's assets returned 3.5% over the quarter, whilst the liabilities are estimated to have increased by c. 0.8%.

The combined effect of this saw the estimated funding level increase to c. 104%.

The funding level is estimated to be c. 10% higher over the year to 30 September 2024.

The surplus was estimated to have increased over Q3 from c. £118m to c. £248m.



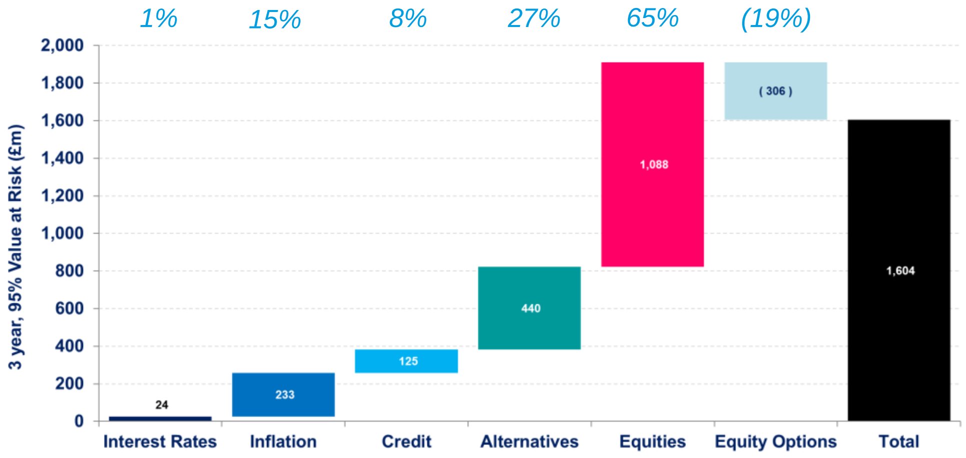


Liability values are estimated by Mercer. They are based on the actuarial valuation assumptions as at 31 March 2022 and the 'CPI plus' discount basis. This margin above CPI is dynamic, and so changes on a monthly basis due to market conditions and is reviewed each quarter to also consider any changes in return outlook. This can sometimes result in retrospective changes to previous liability value estimates presented in previous reports.
Impact figures are estimated by Mercer.

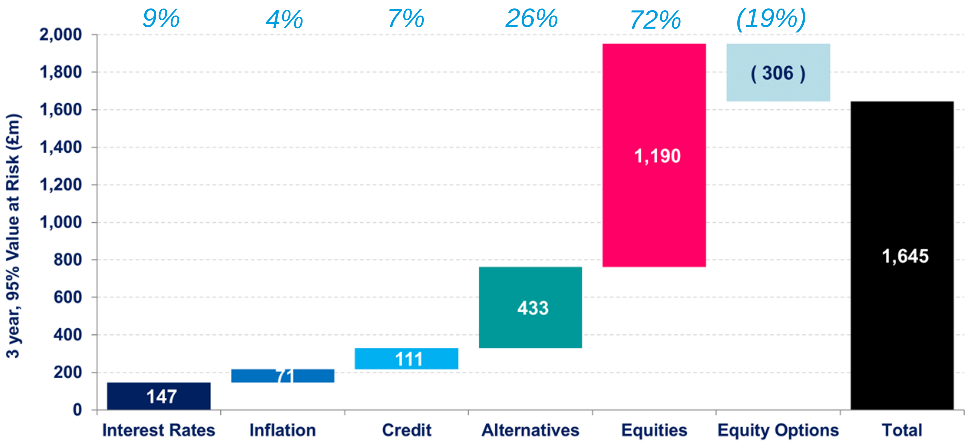
Risk Decomposition – 3 Year Value at Risk

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

30 June 2024



30 September 2024



- As at 30 September 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 increased by £41m over the quarter**, due to the rise in asset values.
- As a percentage of liabilities, VaR was broadly unchanged at c. 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

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	3.5	14.8	1.8
Total Fund (ex currency hedge)	2.5	12.7	1.7
Strategic Benchmark **(2)** (ex currency hedge)	1.3	12.1	5.8
Relative (1 - 2)	**2.2**	**2.7**	**-3.9**

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

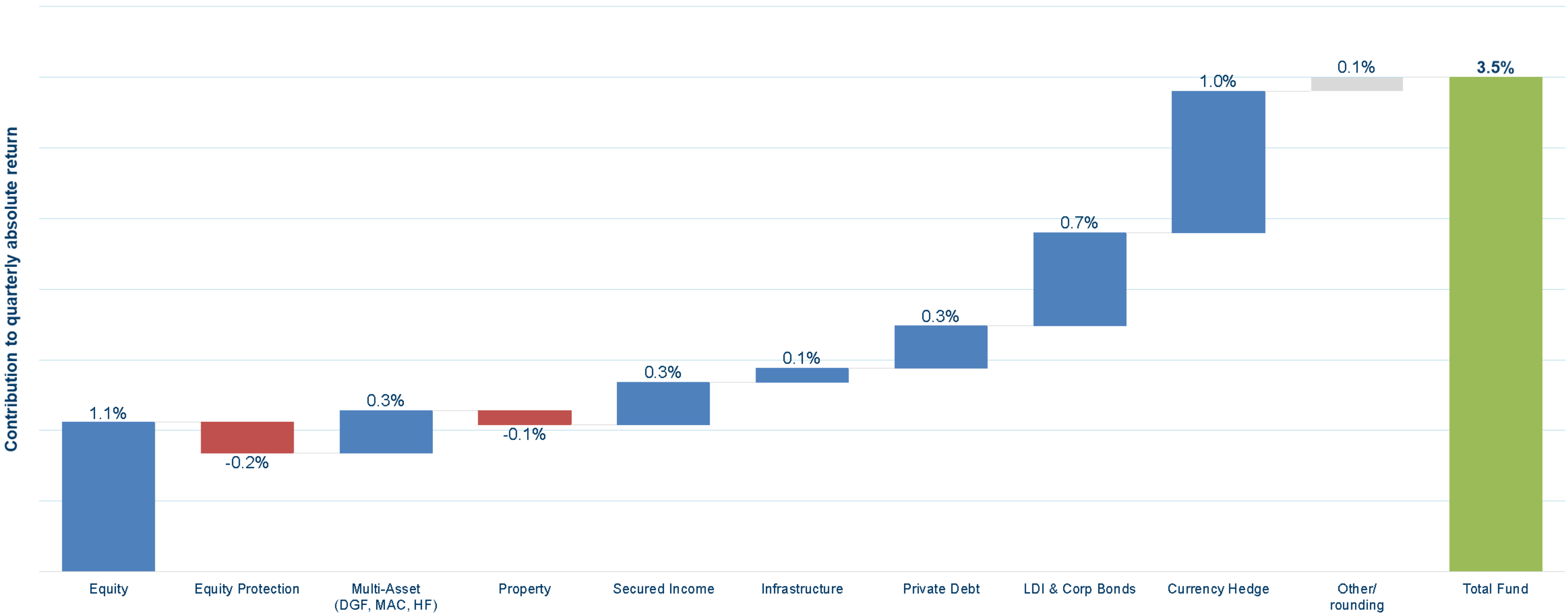
Commentary

- As illustrated on the next slide, positive returns were in aggregate driven by the Equity, LDI and Currency Hedging holdings. Only Property and the Equity Protection Strategy detracted at the asset class level.
- At the underlying level, most mandates outperformed their benchmark, whilst the active equity mandates were the main detractors.
- Outperformance relative to the strategic benchmark over the one-year period was due to the Synthetic Equity,* Liquid Growth portfolio, Renewable Infrastructure and Private Debt, as well as the Currency Hedge adding to returns. The overweight position to Equity has also been beneficial during a period of strongly rising markets.
- The drivers of underperformance over the three year period were the active equity, Equity Protection, Overseas Property and Secured Income mandates.

Strategic benchmark returns have been retrospectively updated from 1 April 2023 to 30 June 2024 to better reflect the strategic asset allocation in place following the 2023 investment strategy review.

** The outperformance for Synthetic Equity reflects the fact that only a portion (c. 9%) of the returns are exposed to currency movements (the profit/loss on the positions), whilst the benchmark is entirely exposed to currency movements, due to the nature of the arrangement.*

Total Fund Performance Attribution – Quarter



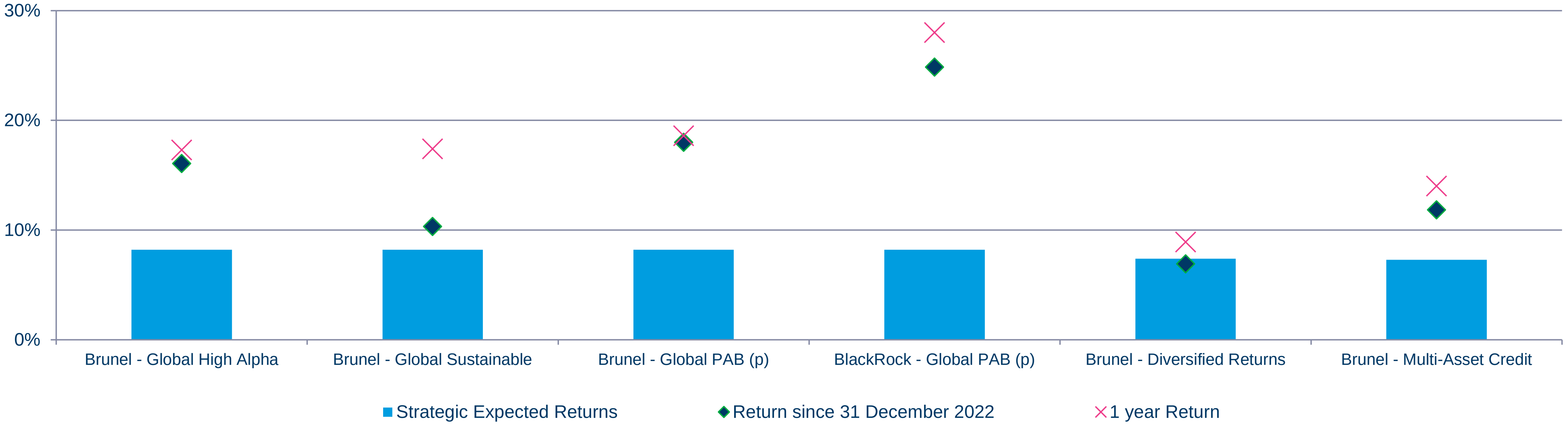
Source: Custodian and Mercer estimates
‘Other’ contributions to the total can include the relatively small holdings in the ETF, cash, the impact of cashflows and terminated mandates, as well as rounding.

Positive returns were driven by the Equity, LDI and Currency Hedging (due to the strengthening of Sterling) holdings.

Only Property and the Equity Protection strategy detracted from an asset class perspective.

Performance vs. Expected Strategic Returns

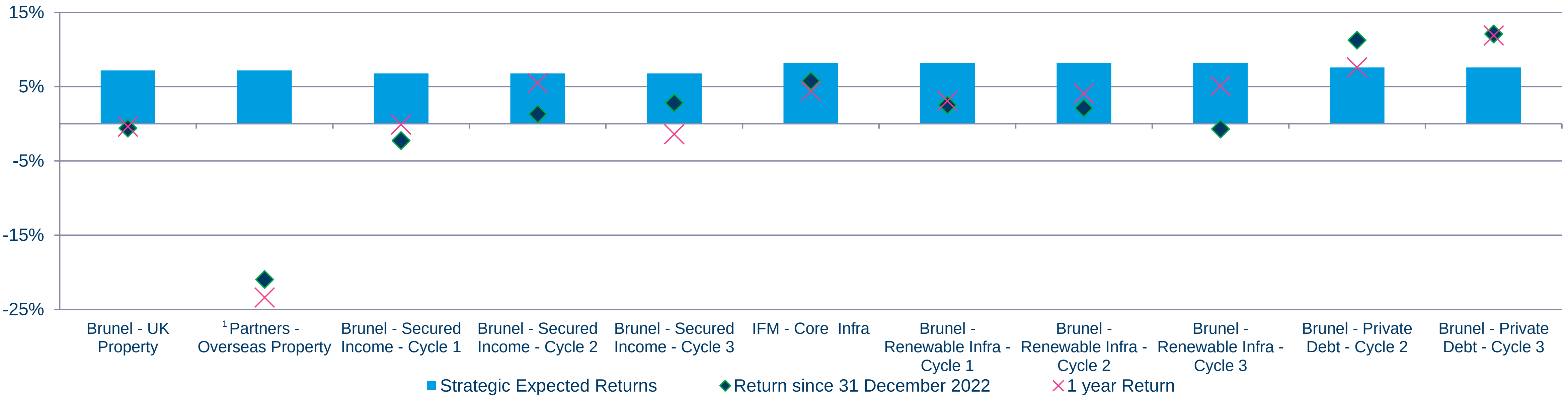
Growth Asset	Brunel Global High Alpha	Brunel Global Sustainable	Brunel / BlackRock Passive Global PAB	Brunel Diversified Returns	Brunel Multi-Asset Credit
Benchmark Allocation	10.5%	10.5%	20.5%	6.0%	6.0%
Commentary	Returns above expectations since December 2022 due to equity market strength, though mandate has underperformed the benchmark over this period.	Returns above expectations since December 2022 due to equity market strength, though mandate has underperformed the benchmark.	Brunel PAB (FTSE index) returns above expectations since December 2022 due to equity market strength. BlackRock synthetic PAB (MSCI index) returns above expectations since May 2023; when exposure was put in place. This has been magnified by the fact that only a portion of the returns are exposed to currency movements, over a period when overseas currencies have generally depreciated relative to GBP.	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.



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 September 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.
Mandates with a track record less than one year have not yet been included.

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. Since inception performance for the winding down Partners mandate is more favourable at 2.7% p.a. IRR (net GBP). The Secured Income mandates came out of the drawdown phase relatively recently, with the last capital call to Cycle 3 occurring in Q2 2024.			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 Q1 2019, Q4 2020 and Q4 2022 respectively. Returns for all cycles are stronger over their since inception periods.	Returns above expectations for both cycles since December 2022. Mandates are still in the drawdown phase; the first drawdowns were in Q3 2021 and Q4 2022 respectively.



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The strategic expected returns are from the 2023 strategy review, which reflect the 10 year mean Mercer Q4 2022 asset model assumptions.
Mandates with a track record less than one year have not yet been included.
[1] Returns are shown up to 30 June 2024, as this is the latest data available.

Mandate Performance to 30 September 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	-0.5	0.3	-0.8	17.3	21.1	-3.8	6.0	9.8	-3.8	+2-3	Target not met
Brunel Global Sustainable Equity	0.0	0.6	-0.6	17.4	20.4	-3.0	2.3	8.8	-6.5	+2	Target not met
Brunel Passive Global Equity Paris-Aligned	0.4	0.5	-0.1	18.6	18.7	-0.1	N/A	N/A	N/A	-	N/A (p)
MSCI World Paris-Aligned (Synthetic)*	6.0	1.7	+4.3	28.0	22.7	+5.2	N/A	N/A	N/A	-	N/A (p)
Brunel Diversified Returns Fund	1.7	2.1	-0.4	8.9	8.4	+0.5	3.2	6.4	-3.2	-	Target not met
Brunel Multi-Asset Credit	3.9	2.3	+1.6	14.0	9.5	+4.5	3.7	7.5	-3.8	-	Target not met
Brunel UK Property	1.5	1.3	+0.2	-0.4	2.0	-2.4	-0.8	-0.9	+0.1	-	Target met
Partners Overseas Property**	-2.9	2.5	-5.4	-23.4	10.0	-33.4	-8.1	10.0	-18.1	-	Target not met
Brunel Secured Income - Cycle 1	1.1	0.1	+1.0	-0.1	1.7	-1.8	-3.4	6.1	-9.5	+2	Target not met
Brunel Secured Income - Cycle 2	3.8	0.1	+3.7	5.5	1.7	+3.8	1.2	6.1	-4.9	+2	Target not met
Brunel Secured Income - Cycle 3	1.3	0.1	+1.2	-1.4	1.7	-3.1	N/A	N/A	N/A	+2	N/A
IFM Core Infrastructure	2.2	2.6	-0.4	4.4	10.5	-6.1	7.7	8.5	-0.8	-	Target not met
Brunel Renewable Infrastructure - Cycle 1	1.3	0.1	+1.2	3.1	1.7	+1.4	7.8	6.1	+1.7	+4	Target not met
Brunel Renewable Infrastructure - Cycle 2	1.3	0.1	+1.2	4.1	1.7	+2.4	9.4	6.1	+3.3	+4	Target not met
Brunel Renewable Infrastructure - Cycle 3	1.7	0.1	+1.6	5.1	1.7	+3.4	N/A	N/A	N/A	+4	N/A
Brunel Private Debt - Cycle 2	10.3	2.3	+8.0	7.6	9.5	-1.9	10.6	7.5	+3.1	-	Target met
Brunel Private Debt - Cycle 3	3.9	2.3	+1.6	11.9	9.5	+2.4	N/A	N/A	N/A	-	N/A
Schroders Greencoat Wessex Gardens	6.0	2.1	+3.9	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
BlackRock Corporate Bonds	2.4	2.4	0.0	11.7	11.7	0.0	-7.9	-7.9	0.0	-	N/A (p)
BlackRock LDI	2.8	2.9	-0.1	10.3	11.5	-1.2	-3.8	-3.4	-0.4	-	N/A (p)
Equity Protection Strategy	-0.5	N/A	N/A	-2.9	N/A	N/A	-2.6	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
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. There will therefore be differences between actual performance and the benchmark shown as a result of only a portion (c. 9%) of the mandate (the profit/loss on the positions) being exposed to currency movements, whilst the benchmark is entirely exposed to currency movements.
**Partners performance is to 30 June 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	772,755	778,947	13.2	12.9	10.5	5.5	-	15.5	+2.4
Global Sustainable Equity	663,348	663,399	11.3	11.0	10.5	5.5	-	15.5	+0.5
Paris-Aligned Equity*	1,561,760	1,582,981	26.7	26.2	20.5	12.5	-	28.5	+5.7
Total Equity	**2,997,863**	**3,025,327**	**51.2**	**50.1**	**41.5**	**36.5**	**-**	**46.5**	**+8.6**
Diversified Returns Fund	371,464	377,868	6.3	6.3	6.0	3	-	9	+0.3
Multi-Asset Credit	347,111	360,511	5.9	6.0	6.0	3	-	9	-0.0
Total Liquid Growth	**718,575**	**738,379**	**12.3**	**12.2**	**12.0**	**7**	**-**	**17**	**+0.2**
Property	294,347	291,085	5.0	4.8	7.0	No set range			-2.2
Secured Income	629,318	630,584	10.7	10.5	9.0	No set range			+1.5
Core Infrastructure	230,142	235,226	3.9	3.9	4.0	No set range			-0.1
Renewable Infrastructure	216,134	222,323	3.7	3.7	5.0	No set range			-1.3
Private Debt	209,166	245,836	3.6	4.1	4.5	No set range			-0.4
Local / Social Impact	34,984	37,094	0.6	0.6	3.0	No set range			-2.4
Total Illiquid Growth	**1,614,091**	**1,662,148**	**27.6**	**27.5**	**32.5**	**No set range**			**-5.0**
Corporate Bonds	180,396	184,782	3.1	3.1	2.0	No set range			+1.1
LDI & Equity Protection	1,244,564	1,330,803	21.2	22.1	12.0	No set range			+10.1
Total Protection	**1,424,960**	**1,515,585**	**24.3**	**25.1**	**14.0**	**No set range**			**+11.1**
*Synthetic Equity Offset**	-1,122,022	-1,141,284	-19.2	-18.9	-	-			
Other***	224,213	233,369	3.8	3.9	-	0	-	5	+3.9
Total	**5,857,702**	**6,033,545**	**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 the Fund of Hedge Fund mandate (due to be terminated), internal cash, the ETF and currency instruments.

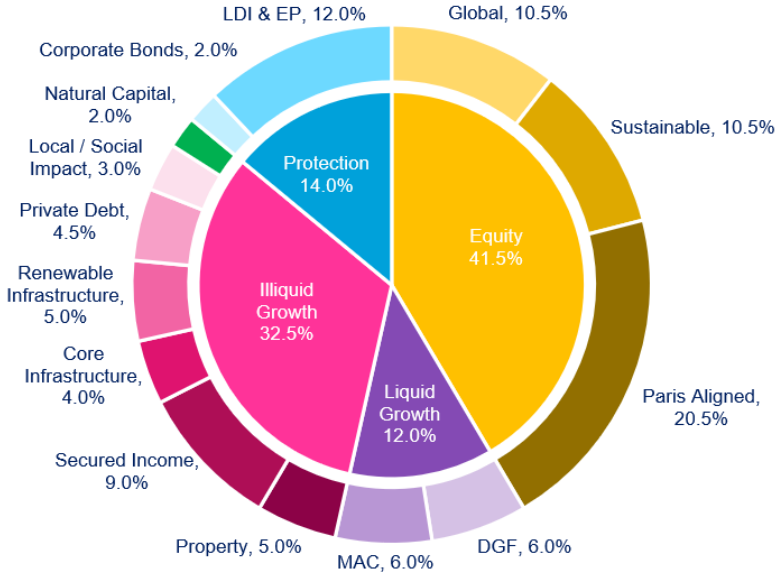
Valuation by Manager

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Brunel	Global High Alpha Equity	728,542	-	724,628	12.4	12.0
Brunel	Global Sustainable Equity	663,348	-	663,399	11.3	11.0
Brunel	Passive Global Equity Paris Aligned	439,738	-11	441,698	7.5	7.3
BlackRock	MSCI Paris-Aligned (Synthetic)*	1,122,022	-	1,141,284	19.2	18.9
Brunel	Diversified Returns Fund	371,464	-	377,868	6.3	6.3
JP Morgan	Fund of Hedge Funds	17,914	-	17,098	0.3	0.3
Brunel	Multi-Asset Credit	347,111	-	360,511	5.9	6.0
Brunel	UK Property	179,251	1	181,913	3.1	3.0
Schroders	UK Property	13,967	-37	13,013	0.2	0.2
Partners	Overseas Property	101,130	-	96,160	1.7	1.6
Brunel	Secured Income – Cycle 1	292,196	-2,811	292,636	5.0	4.9
Brunel	Secured Income – Cycle 2	100,108	-3,623	100,253	1.7	1.7
Brunel	Secured Income – Cycle 3	237,013	2,389	237,695	4.0	3.9
IFM	Core Infrastructure	230,142	-	235,226	3.9	3.9
Brunel	Renewable Infrastructure – Cycle 1	113,570	296	115,454	1.9	1.9
Brunel	Renewable Infrastructure – Cycle 2	85,733	441	87,378	1.5	1.4
Brunel	Renewable Infrastructure – Cycle 3	16,831	2,254	19,490	0.3	0.3
Brunel	Private Debt – Cycle 2	160,676	13,077	189,296	2.7	3.1
Brunel	Private Debt – Cycle 3	48,490	6,011	56,539	0.8	0.9
BlackRock	Corporate Bonds	180,396	-	184,782	3.1	3.1
BlackRock	LDI & Equity Protection	1,244,564	-	1,330,803	21.2	22.1
BlackRock	*Synthetic Equity Offset**	-1,122,022	-	-1,141,284	-19.2	-18.9
Record	Currency Hedging (incl. collateral)	55,727	-	117,533	1.0	1.9
BlackRock	ETF	3,400	20,000	23,937	0.1	0.4
Schroders Greencoat	Wessex Gardens	34,984	-	37,094	0.6	0.6
-	Internal Cash	190,949	62,778	128,688	3.3	2.1
-	Residual Assets	435	-	432	0.0	0.0
Total		**5,857,702**	**-29,569**	6,033,545	100.0	100.0

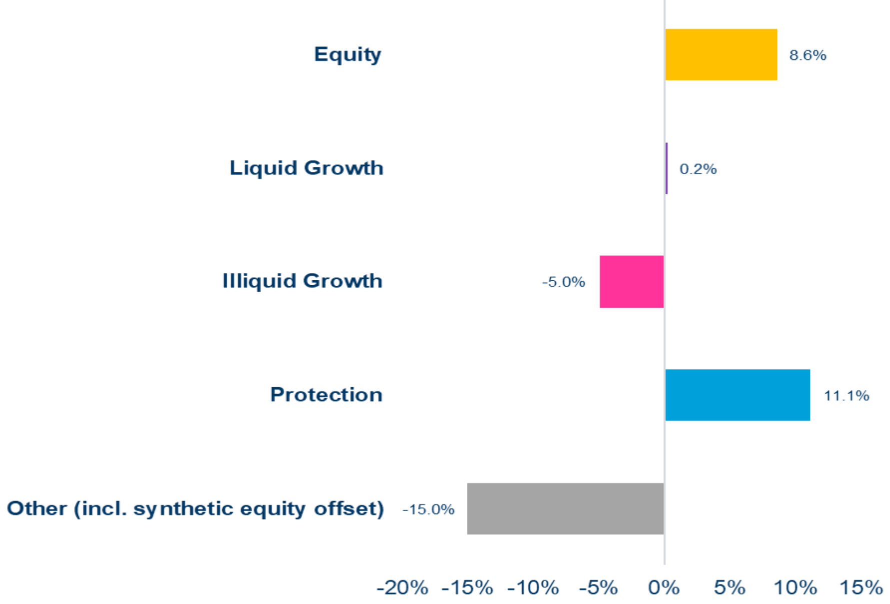
Source: Custodian, Investment Managers, Mercer. Totals may not sum due to rounding. The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included 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. £13m was drawn down to private market portfolios during the quarter. The BlackRock ETF, which is used as a liquid holding mandate for short-term cashflow needs, was topped up by £20m.
- Post-quarter end, the Synthetic Equity exposure was reduced by £300m to address the overweight position to Equity (c. 8.6% as at 30 September) relative to the strategic benchmark. Based on asset values at this date, the disinvestment would reduce the size of the overweight to c. 3.7%.

Appendix

Q3 2024 Equity Market Review

Q3 2024 has been another positive quarter for equity markets. However, volatility was heightened in early August. The quarter saw the ripple effect of the unwinding of the US dollar-Japanese yen carry trade, US employment data surprising to the downside and the unemployment rate rising. Despite this, forthcoming US economic data remained upbeat. Global equities rose later in the quarter as major central banks continued to ease their respective policy rates, with the US Federal Reserve joining them. Chinese equities surged near the end of the quarter after authorities committed to provide further monetary and fiscal support to boost activity.

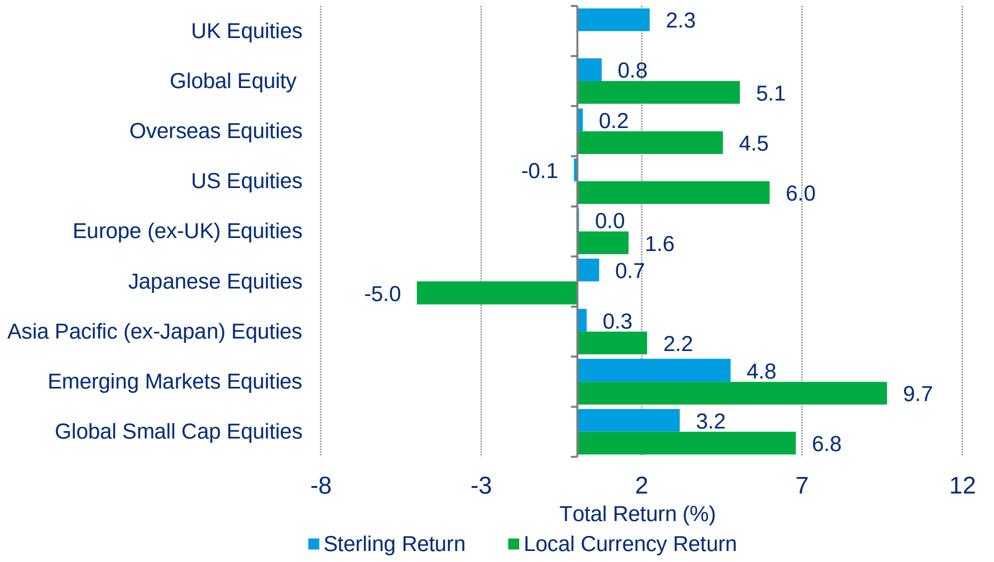
Global equities returned 0.8% in sterling terms and 5.1% in local currency terms as sterling appreciated against the US dollar.

US equities returned 6.0% in local currency terms, whilst European (ex-UK) equities returns 1.6%, and Japanese equities returned -5.0%.

Emerging markets equities returned 9.7% in local terms.

Global small cap stocks returned 6.8% in local terms, supported by easing monetary policy.

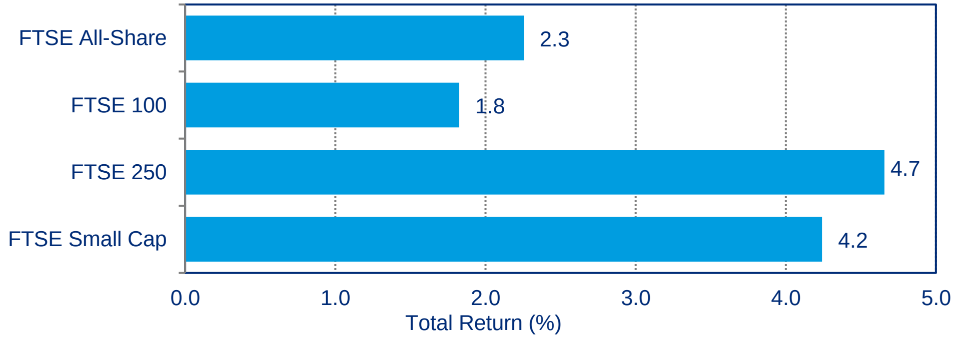
Equity Performance



The **FTSE All Share** index returned 2.3% over the quarter, with the large-cap **FTSE 100** index returning 1.8%. More domestically focused equities **(FTSE 250)** produced positive returns of 4.7%. The **small-cap** index produced a positive 4.2% return.

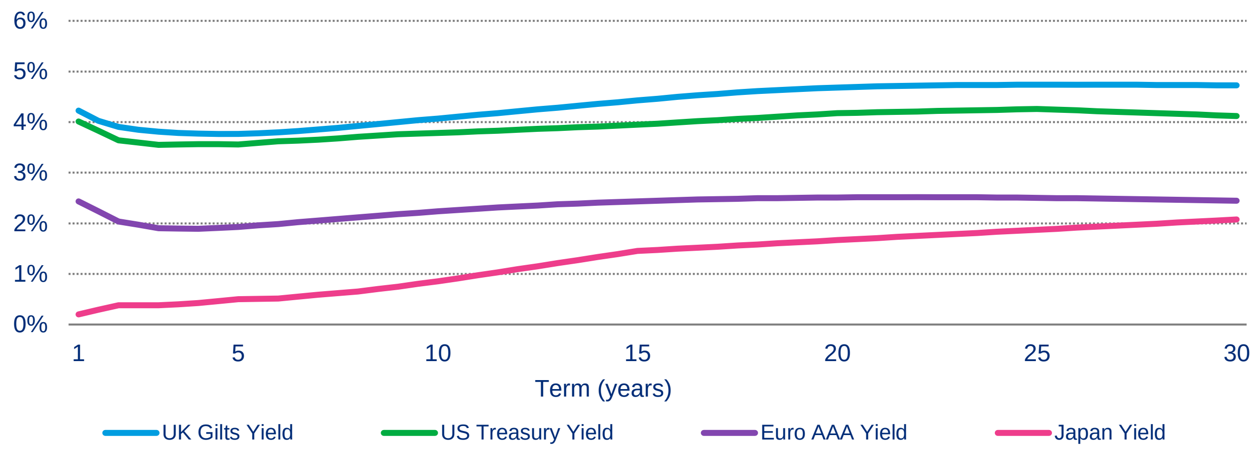
Strong performance in consumer goods and telecom supported the UK performance relative to global equities.

FTSE Performance by Market Cap

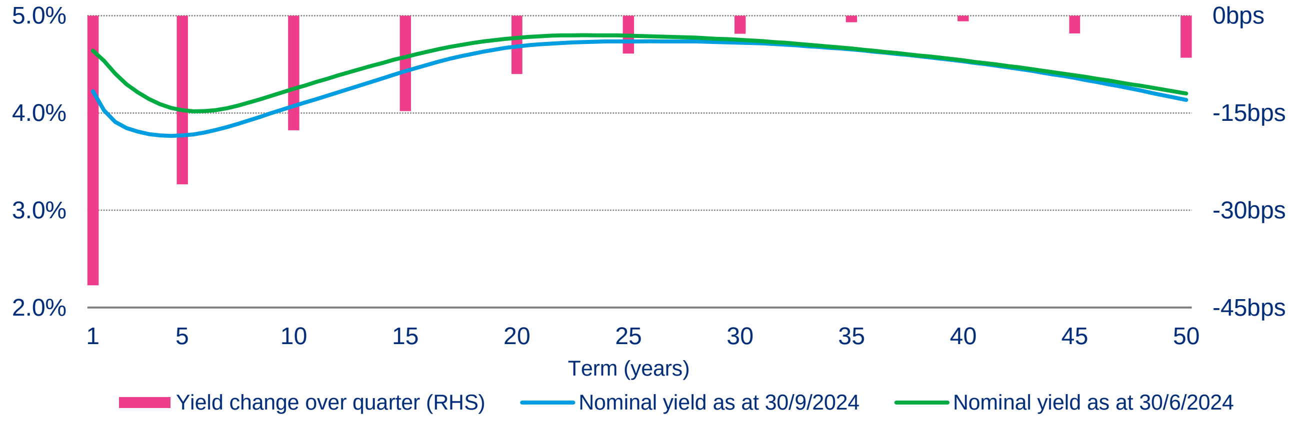


Source: LSEG Datastream

Q3 2024 Bond Market Review



Source: Mercer and Bloomberg



Source: Mercer

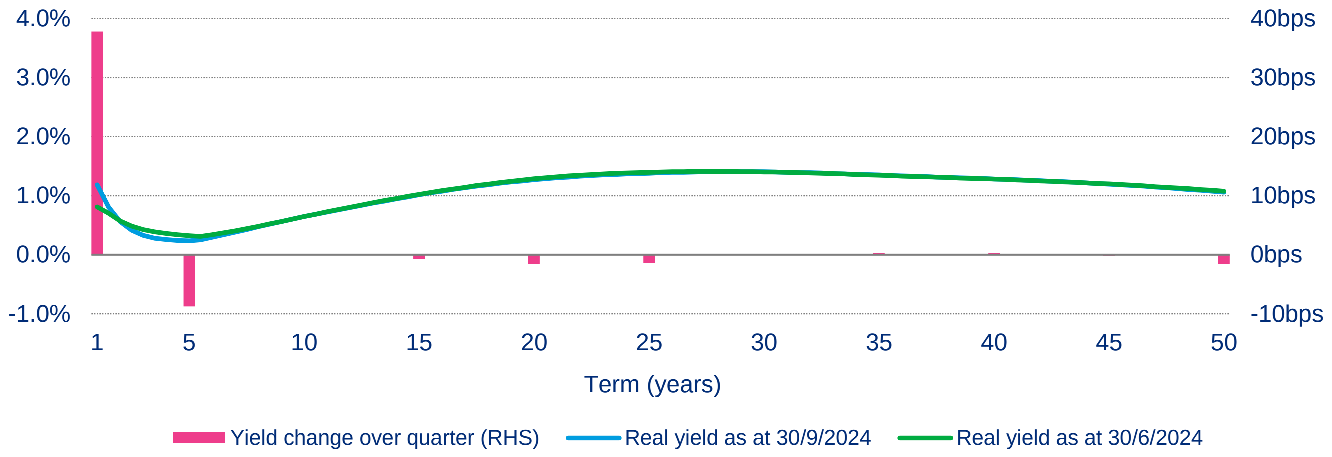
Government Bond Yields

Global government bond yields (ex-Japan) declined over the quarter as most DM central banks cut interest rates.

In the US, softening inflation and cooling labour markets led the Fed to cut interest rates by 50bps and for bond markets to price aggressive easing cycle. In Europe and to a lesser extent the UK, the gradual deterioration in economic outlook strengthened the case for more rate cuts. The 10-year benchmark bond yield in the US, UK, and Germany fell 0.62%, 0.17%, and 0.38%, respectively, in Q3.

Interestingly, the 10-year JGB yield also moved lower by 0.20% during the quarter on prospects of delayed rate hikes and political jitters stemming from leadership under a new Prime Minister.

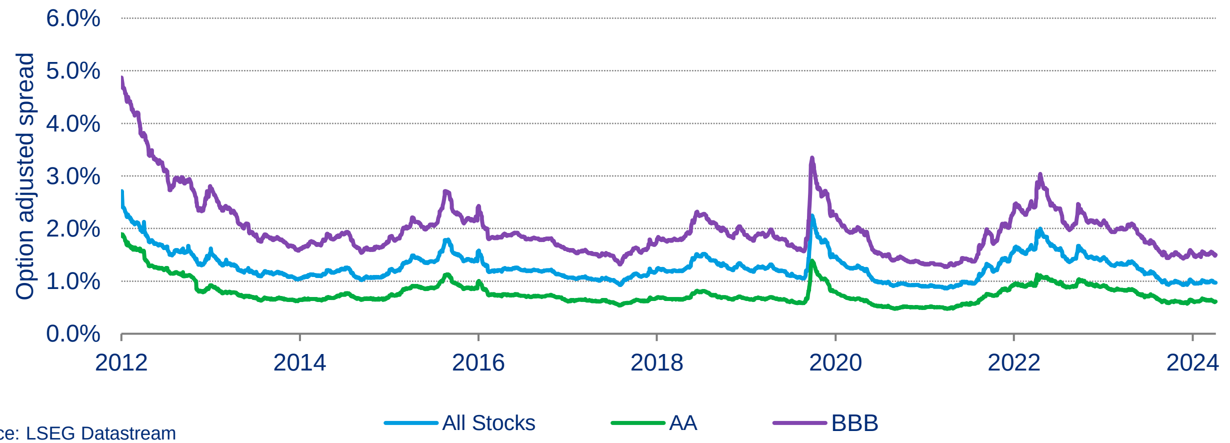
Q3 2024 Bond Market Review



Source: Mercer

UK Index-Linked Gilt Yields

UK real yields fell across most of the curve over the last quarter. The 10-year tenor remained largely flat. 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 ~3.40% (0.19% lower over the quarter).



Source: LSEG Datastream

Corporate bonds

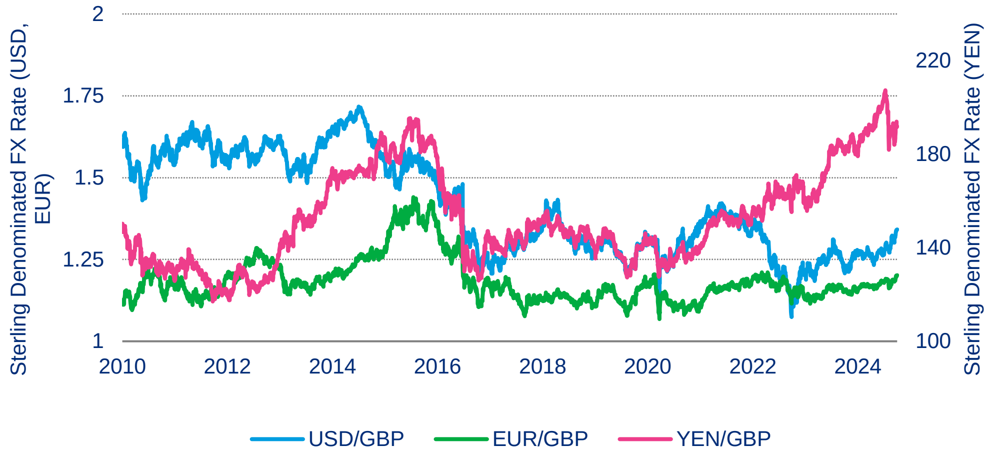
Spreads on UK investment-grade credit remained flat at 97bps over the quarter across the credit quality spectrum, with spreads for AA-rated credit at 61bps, and that of BBB-rated credit at 150bps.

Mercer

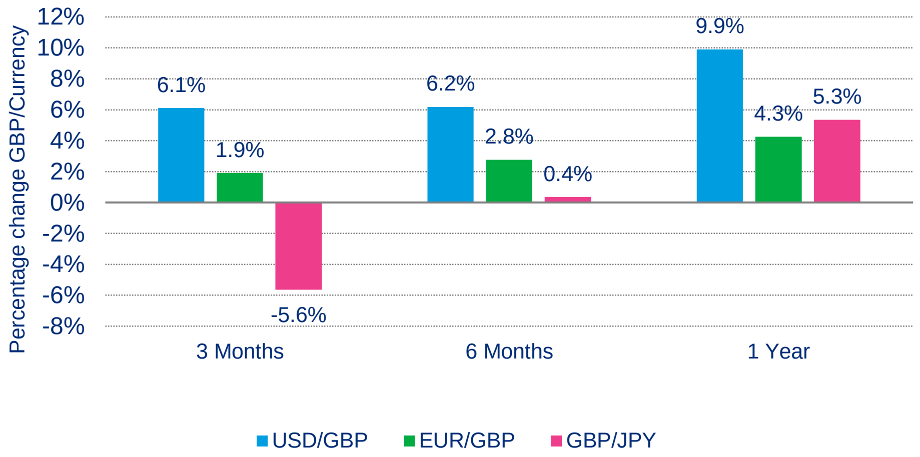
Q3 2024 Currency Market Review

Sterling outperformed against most major currencies, barring the Japanese Yen, during the third quarter. Sterling appreciated 6.1% and 1.9% against the dollar and euro, respectively, while weakening 5.6% against JPY. The US dollar index weakened ~5% over the quarter as the Federal Reserve cut interest rates amid cooling inflation. On a 12-month basis too, sterling strengthened significantly, rising 9.9%, 4.3% and 5.3%, against USD, EUR and JPY, respectively.

Sterling Denominated FX Rate



Change in sterling against foreign currencies



Q3 2024 Property

UK property as measured by the MSCI Index increased by 1.8% over the third quarter of 2024.

Mercer

Source: LSEG Datastream

Summary of Mandates

Manager	Mandate	Benchmark/Target	Outperformance Target (p.a.)	Inception Date
BlackRock	Passive Paris-Aligned Equity (Synthetic Exposure)	MSCI World Climate PAB Index (USD - converted to GBP for performance measurement purposes)	-	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 Paris-Aligned Equity	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
Octopus	Affordable Housing*	SONIA + 3% p.a.	-	*Capital yet to be drawn down*
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 Renewable Infrastructure is a net GBP IRR of 8% p.a., whilst for both Wessex Gardens and Affordable Housing it is a net GBP IRR of 7% p.a.
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

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