Mercer

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Avon Pension Fund

Panel Investment Report
Quarter to 31 December 2024

February 2025

Steve Turner

A business of Marsh McLennan

Contents

Executive Summary

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Executive Summary

Market background

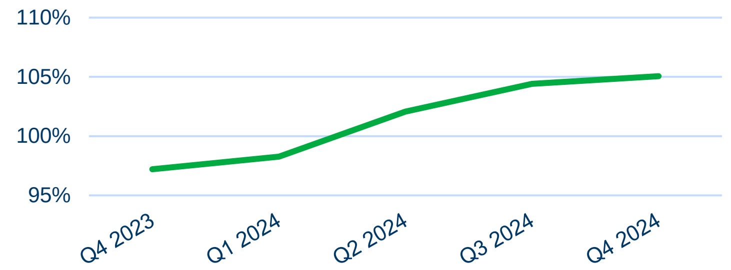
- In Q4 2024, developed market central banks continued to cut interest rates. In the US, although the Federal Reserve cut rates, a still-resilient macro backdrop prompted the Federal Open Market Committee to project fewer cuts in 2025 and 2026. Meanwhile, the European Central Bank and Bank of England maintained a cautious tone in their rate cutting approach. Surprisingly, the Bank of Japan kept interest rates unchanged through the quarter on uncertainty over future wage negotiations and the US economy.
- Market sentiment continued to be driven by the soft-landing narrative in the US, despite uncertainty around policies under a Donald Trump-led presidency.
- Overall, bond yields rose across developed market economies, while equities outperformed in response to rate cuts.

Mercer market views

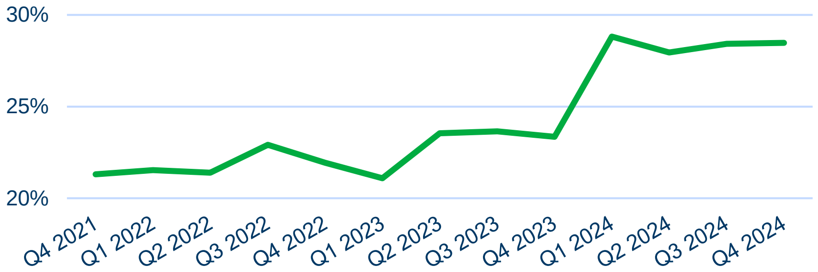
- We see the outlook for equities and the macroeconomy as mixed; supported by economic growth, positive earnings and AI enthusiasm, but cautious of high valuations and potential trade war impacts.

Funding level and risk

- The funding level is estimated to have increased over the quarter to 105% as the estimated present value of the liabilities fell by more than the value of the assets.
- The funding level is estimated to be 8% higher over the year to 31 December 2024.



- The Value-at-Risk decreased over the quarter to £1,599m, but was broadly unchanged as a percentage of liabilities at 28%.
- As a reminder, 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.

Asset allocation and strategy

- In October, the Synthetic Equity exposure was reduced by £300m to address the overweight position to Equity relative to the strategic benchmark. This brought the allocation back to within the target range (+/- 5%). The equity allocation has since surpassed the range again due to positive returns.
- Over the quarter, a net amount of c. £7m was paid out from the private market portfolio, representing the first quarter since the inception of these mandates where they are cashflow positive in aggregate.

Executive Summary

Performance

- In aggregate, negative returns were driven by LDI (due to a rise in UK gilt yields), the Equity Protection Strategy and the Currency Hedging overlay. Contributions from the Liquid and Illiquid Growth portfolios were mixed.

- The overall relative underperformance of -4.8% was evidence of a difficult environment for the Fund. This follows outperformance of 2.2% in Q3 and is in the context of a strong funding position of 105%, which has improved over the year.
- Q4 was an unusual period in which the US$, nominal gilt yields, inflation and equities all increased, whilst Sterling weakened. As a result, the currency hedging, LDI and equity protection strategies all contributed to relative underperformance, as well as underlying portfolios underperforming within their own markets.
- Based on a high level analysis, the underperformance over Q4 can be attributed to:

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	-1.8	3.7	0.0
Strategic Benchmark **(2)** (ex currency hedge)	3.0	9.0	5.5
Relative **(1 - 2)**	**-4.8**	**-5.4**	**-5.5**

  - Around half due to currency hedging and LDI (approximately equal contribution from each portfolio) due to the market dynamics outlined above. In addition, with regards to LDI, the total Fund benchmark assumes a fixed target % allocation, whereas in practice the allocation can vary materially, with the portfolio still delivering the expected performance in £ terms as it hedges the relevant liability exposures. As LDI performance was negative in Q4 due to gilt yield movements, and the % allocation to LDI was above the SAA, this has had an unusually large impact on total performance. As at the time of writing, gilt yields have reverted to their levels prior to the October 2024 Budget, so we expect most of this underperformance to have reversed.
  - Around a quarter of underperformance was due to negative relative returns from Brunel's funds, in particular the active equity strategies.
  - The remainder was due to negative relative returns from other portfolios. We would highlight the Partners Group overseas property mandate in particular. These are illiquid, private market assets that are in run-off, with a high absolute benchmark return, so meaningful performance reporting for these assets is not straight-forward.

- The drivers of underperformance over the three year period were the Active Equity, Equity Protection, Liquid Growth, Overseas Property and Secured Income mandates.

- 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.
- Absolute returns have been negative for the Illiquid Growth assets except for Private Debt. However, many of these assets are still in the drawdown phase.

Liability hedging mandate

- BlackRock was in compliance with the investment guidelines over the quarter.
- The interest rate and inflation hedge ratios are 30% and 16% respectively (as a proportion of assets).
- The 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 9.3% as at end December 2024.
- BlackRock would request additional collateral if the interest rate buffer fell below 3%.

Market Background

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Market Background

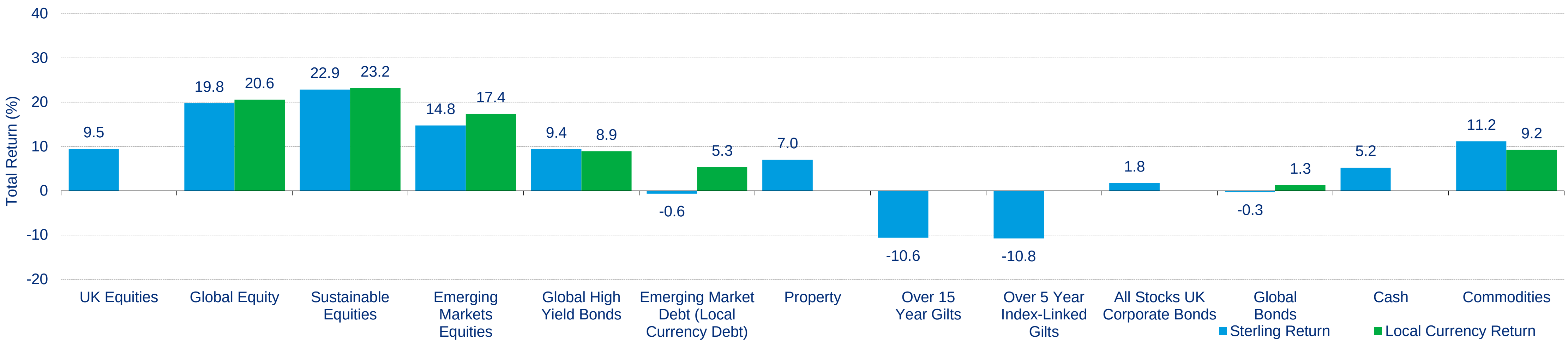
Return over 3 months to 31 December 2024 (%)

In the fourth quarter of 2024, developed market central banks continued to cut interest rates. In the US, although the Federal Reserve cut rates, a still-resilient macro backdrop prompted the Federal Open Market Committee to project fewer cuts in 2025 and 2026. Meanwhile, the European Central Bank and Bank of England maintained a cautious tone in their rate cutting approach. Surprisingly, the Bank of Japan kept interest rates unchanged through the quarter on uncertainty over future wage negotiations and the US economy. Market sentiment continued to be driven by the soft-landing narrative in the US, despite uncertainty around policies under a Donald Trump-led presidency. Overall, bond yields rose across developed market economies, while equities outperformed in response to rate cuts.

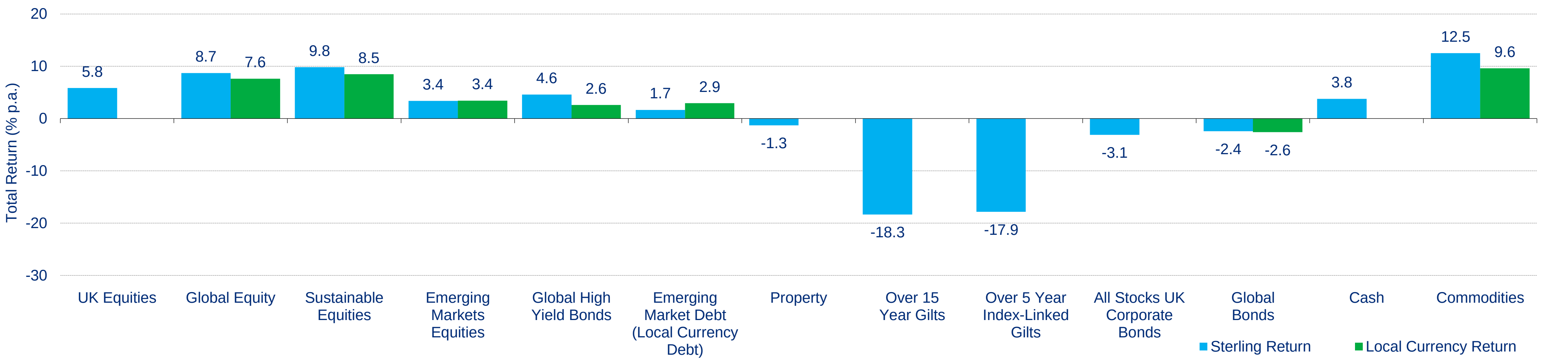
Source: LSEG Datastream

Market Background – 1 & 3 Years

Return over 12 months to 31 December 2024 (%)



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



Mercer

Source: LSEG Datastream

Funding Level and Risk

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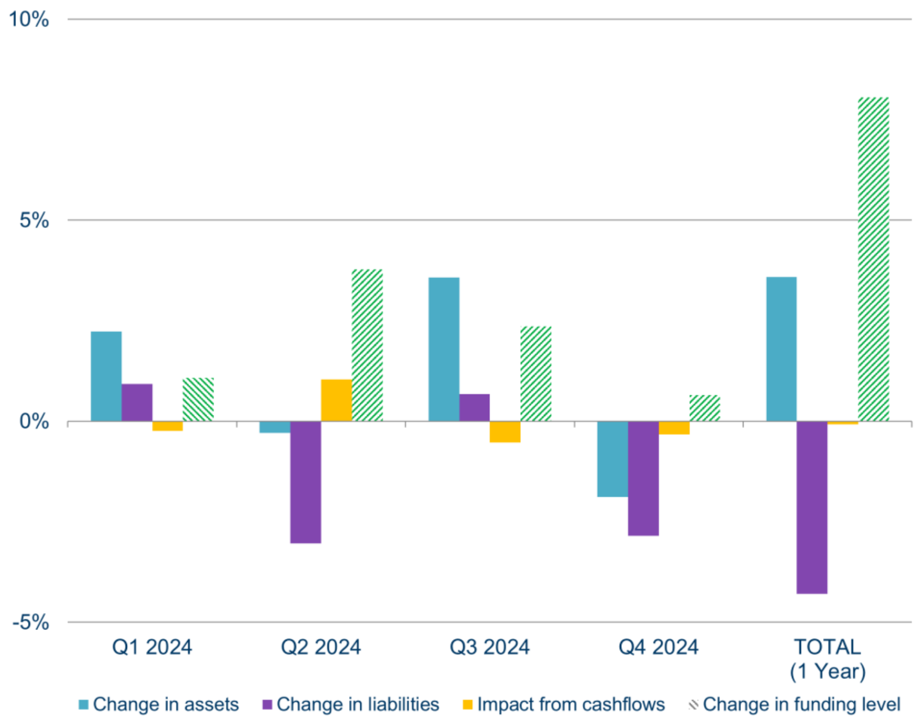
Funding Level and Deficit

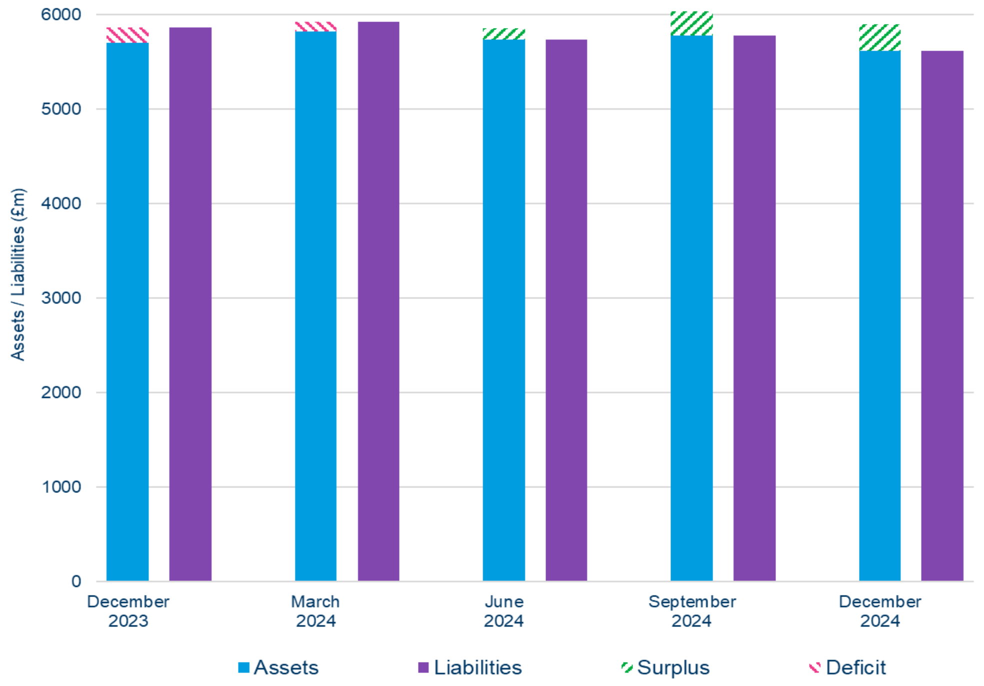
The Fund's assets returned -1.8% over the quarter, whilst the liabilities are estimated to have fallen by 2.9%.

The combined effect of this saw the estimated funding level increase to 105%.

The funding level is estimated to be 8% higher over the year to 31 December 2024.

The surplus was estimated to have increased over Q4 from £254m to £284m.

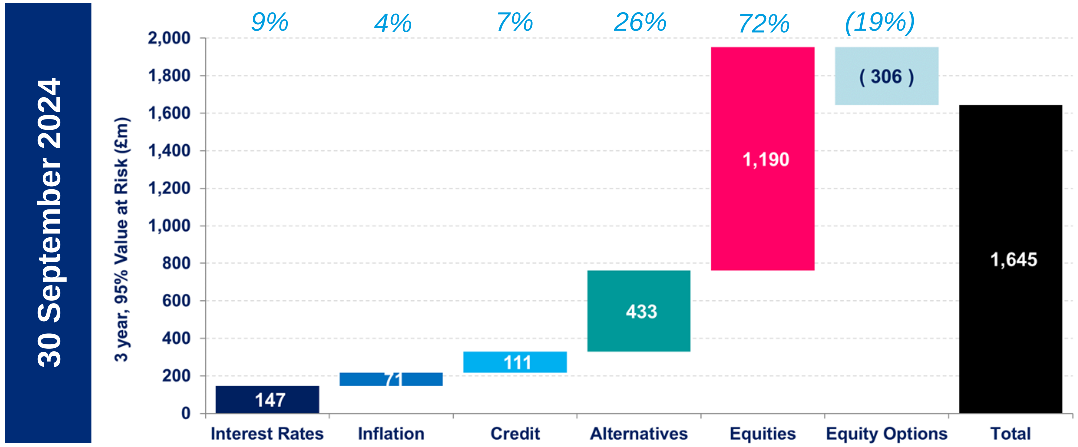


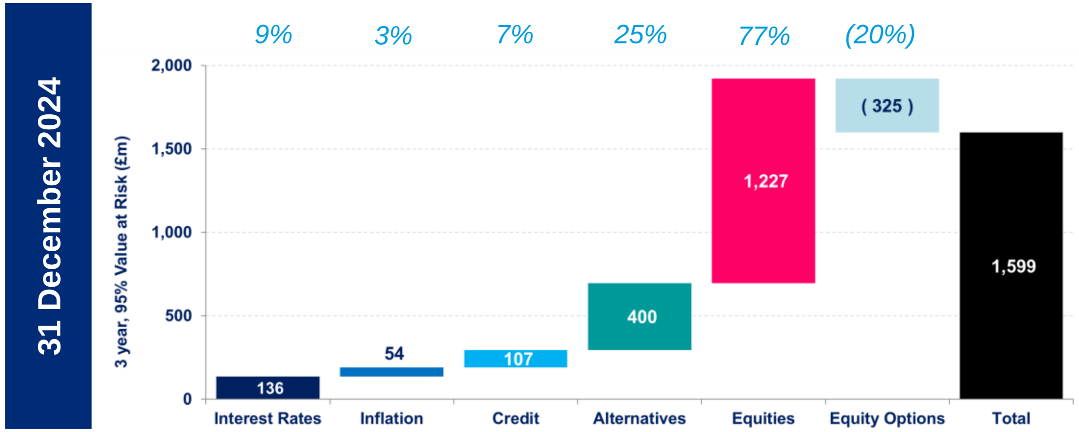


Liability values are estimated by Mercer. They are based on the actuarial valuation assumptions as at 31 March 2022 and the 'CPI plus' discount basis. This margin above CPI is dynamic, and so changes on a monthly basis due to market conditions and is reviewed each quarter to also consider any changes 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.





- As at 31 December 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 £46m over the quarter**, due to the fall in asset values.
- As a percentage of liabilities, VaR was broadly unchanged at 28%.

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)**	-1.8	3.7	0.0
Total Fund (ex currency hedge)	-0.7	3.6	0.3
Strategic Benchmark **(2)** (ex currency hedge)	3.0	9.0	5.5
Relative (1 - 2)	**-4.8**	**-5.4**	**-5.5**

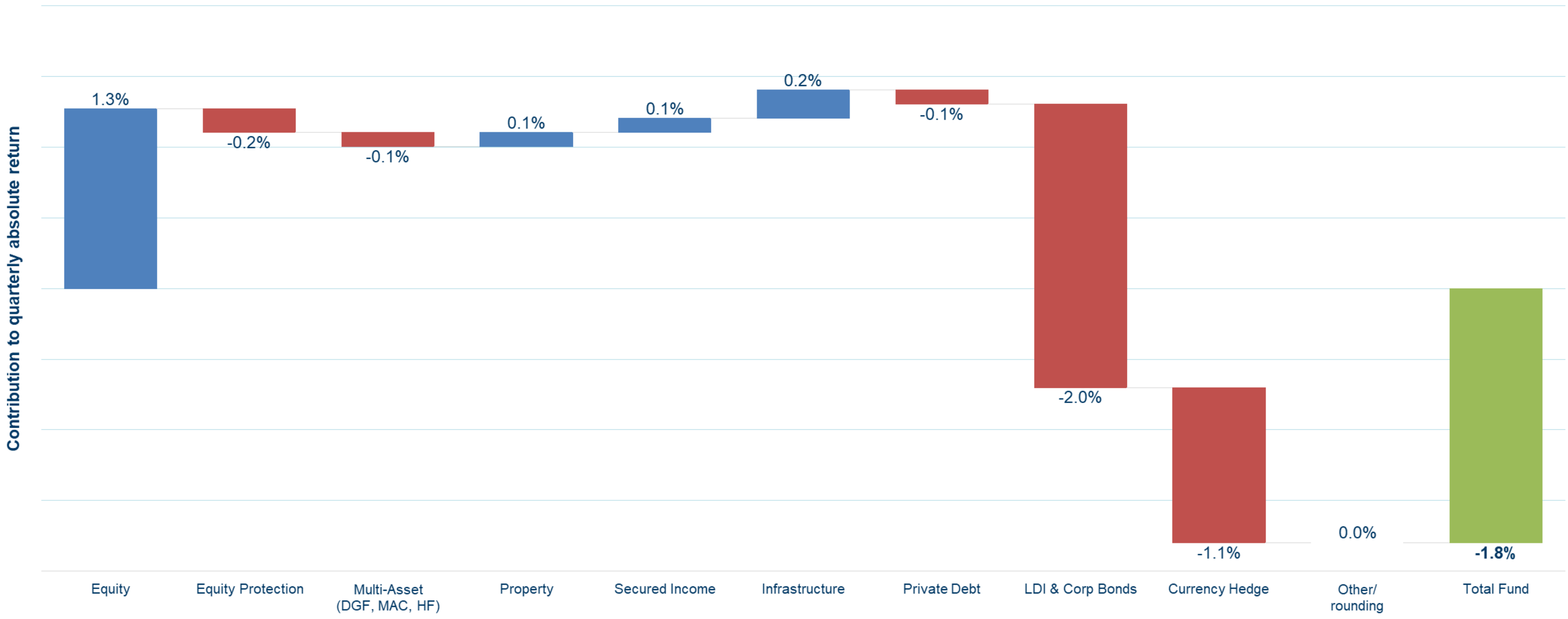
Source: Custodian, Mercer estimates. Returns are net of fees. 'Relative' figures may not sum due to rounding.

Commentary

- As illustrated on the next slide, negative returns were predominantly driven by LDI, the Equity Protection Strategy and the Currency Hedging portfolios. The equity holdings offset this with strong positive returns, whilst the returns within the Liquid and Illiquid Growth portfolios were mixed.
- The overall relative underperformance of -4.8% was evidence of a difficult environment for the Fund. This follows outperformance of 2.2% in Q3 and is in the context of a strong funding position of 105%, which has improved over the year.
- Q4 was an unusual period in which the US$, nominal gilt yields, inflation and equities all increased, whilst Sterling weakened. As a result, the currency hedging, LDI and equity protection strategies all contributed to relative underperformance, as well as underlying portfolios underperforming within their own markets.
- Based on a high level analysis, the underperformance over Q4 can be attributed to:
  - Around half due to currency hedging and LDI (approximately equal contribution from each portfolio) due to the market dynamics outlined above. In addition, with regards to LDI, the total Fund benchmark assumes a fixed target % allocation, whereas in practice the allocation can vary materially, with the portfolio still delivering the expected performance in £ terms as it hedges the relevant liability exposures. As LDI performance was negative in Q4 due to gilt yield movements, and the % allocation to LDI was above the SAA, this has had an unusually large impact on total performance. As at the time of writing, gilt yields have reverted to their levels prior to the October 2024 Budget, so we expect most of this underperformance to have reversed.
  - Around a quarter of underperformance was due to negative relative returns from Brunel's funds, in particular the active equity strategies.
  - The remainder was due to negative relative returns from other portfolios. We would highlight the Partners Group overseas property mandate in particular. These are illiquid, private market assets that are in run-off, with a high absolute benchmark return, so meaningful performance reporting for these assets is not straight-forward.
- The LDI portfolio and underperformance of the active equity mandates were also key drivers of the negative relative return against the strategic benchmark over the one year period, as well as the Equity Protection Strategy
- The drivers of underperformance over the three year period were the Active Equity, Equity Protection, Liquid Growth, Overseas Property and Secured Income mandates.

** The majority of the underperformance for Synthetic Equity in Q4 reflects the fact that only a portion 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. Currency movements were material by historical standards in Q4.*
Some of the Q4 underperformance is due to the funding leg strain, however this is offset elsewhere within the BlackRock portfolio so does not have an impact on overall relative Fund performance.

Total Fund Performance Attribution – Quarter



Source: Custodian and Mercer estimates. Due to unavailability of data from BlackRock at the time of writing, cashflows between the LDI/EP portfolio in December 2024 have been estimated by Mercer based on prior months' data. '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.

Negative returns were driven by LDI, the Equity Protection Strategy and Currency Hedging (due to the weakening of Sterling) holdings.

Contributions from the Liquid and Illiquid Growth portfolios were mixed.

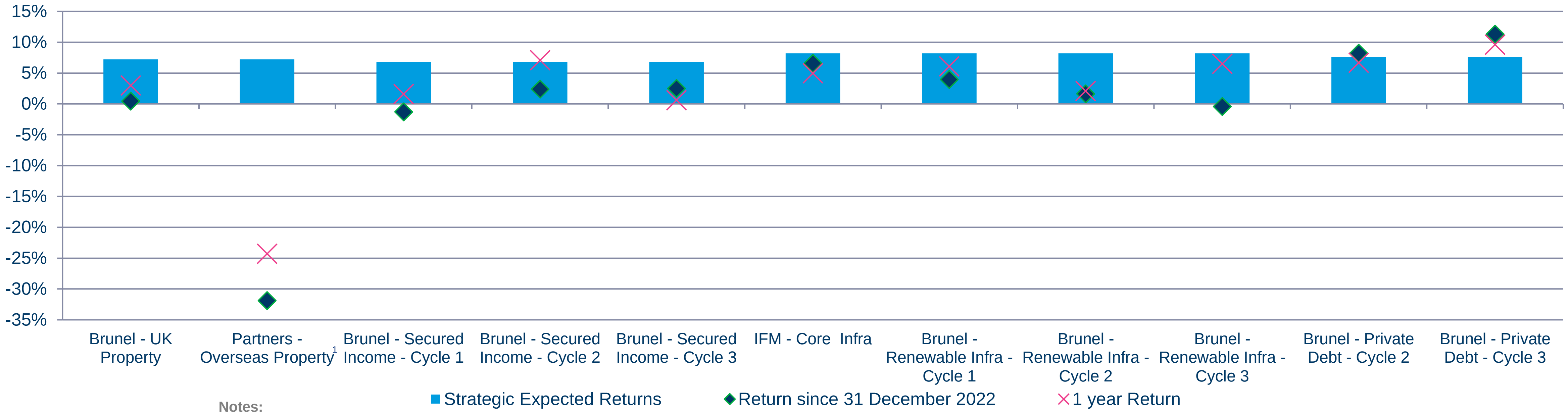
Performance vs. Expected Strategic Returns

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.	Returns below expectations since December 2022, due to muted returns in 2024.	Returns above expectations since December 2022 thanks to strength in high-yield debt markets.

Notes:
We have illustrated the performance of the key mandates within the Fund’s investment strategy.
Actual returns are from 31 December 2022 to 31 December 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 2.9% 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.



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.
[1] Returns are shown up to 30 September 2024, as this is the latest data available.

Mandate Performance to 31 December 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	5.4	7.0	-1.6	16.4	21.3	-4.9	5.7	9.7	-4.0	+2-3	Target not met
Brunel Global Sustainable Equity	2.6	6.1	-3.5	11.5	20.1	-8.6	1.0	8.7	-7.7	+2	Target not met
Brunel Passive Global Equity Paris-Aligned	8.6	8.6	0.0	20.6	20.8	-0.2	9.6	9.7	-0.1	-	N/A (p)
MSCI World Paris-Aligned (Synthetic)*	-1.7	6.1	-7.8	12.4	20.2	-7.8	-	-	-	-	N/A (p)
Brunel Diversified Returns Fund	-1.5	2.0	-3.5	4.0	8.3	-4.3	2.5	6.8	-4.3	-	Target not met
Brunel Multi-Asset Credit	0.7	2.2	-1.5	9.0	9.4	-0.4	3.9	7.9	-4.0	-	Target not met
Brunel UK Property	2.0	2.0	0.0	3.0	5.1	-2.1	-2.7	-2.4	-0.3	-	Target not met
Partners Overseas Property**	-5.2	2.5	-7.7	-24.3	10.0	-34.3	-12.9	10.0	-22.9	-	Target not met
Brunel Secured Income - Cycle 1	1.4	1.0	+0.4	1.6	2.6	-1.0	-3.6	5.6	-9.2	+2	Target not met
Brunel Secured Income - Cycle 2	2.5	1.0	+1.5	7.1	2.6	+4.5	1.1	5.6	-4.5	+2	Target not met
Brunel Secured Income - Cycle 3	0.2	1.0	-0.8	0.6	2.6	-2.0	-	-	-	+2	N/A
IFM Core Infrastructure	3.1	2.5	+0.6	5.0	10.5	-5.5	7.7	8.9	-1.2	-	Target not met
Brunel Renewable Infrastructure - Cycle 1	3.4	1.0	+2.4	6.1	2.6	+3.5	7.4	5.6	+1.8	+4	Target not met
Brunel Renewable Infrastructure - Cycle 2	-0.3	1.0	-1.3	2.1	2.6	-0.5	7.9	5.6	+2.3	+4	Target not met
Brunel Renewable Infrastructure - Cycle 3	0.4	1.0	-0.6	6.5	2.6	+3.9	-	-	-	+4	N/A
Brunel Private Debt - Cycle 2	-2.7	2.2	-4.9	6.7	9.4	-2.7	9.9	7.9	+2.0	-	Target met
Brunel Private Debt - Cycle 3	1.5	2.2	-0.7	9.6	9.4	+0.2	-	-	-	-	N/A
Schroders Greencoat Wessex Gardens	0.4	2.0	-1.6	-	-	-	-	-	-	-	N/A
BlackRock Corporate Bonds	-1.3	-1.3	0.0	-0.4	-0.4	0.0	-8.6	-8.6	0.0	-	N/A (p)
BlackRock LDI	-9.2	-8.7	-0.5	-14.4	-13.4	-1.0	-7.0	-6.6	-0.4	-	N/A (p)
Equity Protection Strategy	-0.5	N/A	N/A	-2.3	N/A	N/A	-2.4	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 of the mandate (the profit/loss on the positions) being exposed to currency movements, whilst the benchmark is entirely exposed to currency movements. The funding leg strain of synthetic equity will also have an impact on relative performance.
**Partners performance is to 30 September 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	778,947	833,633	12.9	14.1	10.5	5.5	-	15.5	+3.6
Global Sustainable Equity	663,399	680,760	11.0	11.5	10.5	5.5	-	15.5	+1.0
Paris-Aligned Equity*	1,582,981	1,380,736	26.2	23.4	20.5	12.5	-	28.5	+2.9
Total Equity	**3,025,327**	**2,895,129**	**50.1**	**49.1**	**41.5**	**36.5**	**-**	**46.5**	**+7.6**
Diversified Returns Fund	377,868	372,269	6.3	6.3	6.0	3	-	9	+0.3
Multi-Asset Credit	360,511	363,090	6.0	6.2	6.0	3	-	9	+0.2
Total Liquid Growth	**738,379**	**735,359**	**12.2**	**12.5**	**12.0**	**7**	**-**	**17**	**0.5**
Property	291,085	293,785	4.8	5.0	7.0	No set range			-2.0
Secured Income	630,584	628,543	10.5	10.7	9.0	No set range			+1.7
Core Infrastructure	235,226	242,402	3.9	4.1	4.0	No set range			+0.1
Renewable Infrastructure	222,323	224,196	3.7	3.8	5.0	No set range			-1.2
Private Debt	245,836	246,495	4.1	4.2	4.5	No set range			-0.3
Local / Social Impact	37,094	36,646	0.6	0.6	3.0	No set range			-2.4
Total Illiquid Growth	**1,662,148**	**1,672,068**	**27.5**	**28.3**	**32.5**	**No set range**			**-4.2**
Corporate Bonds	184,782	182,357	3.1	3.1	2.0	No set range			+1.1
LDI & Equity Protection	1,330,803	1,179,391	22.1	20.0	12.0	No set range			+8.0
Total Protection	**1,515,585**	**1,361,748**	**25.1**	**23.1**	**14.0**	**No set range**			**9.1**
*Synthetic Equity Offset**	-1,141,284	-901,242	-18.9	-15.3	-	-			-
Other***	233,369	135,408	3.9	2.3	-	0	-	5	+2.3
Total	**6,033,545**	**5,898,491**	**100.0**	**100.0**	**100%**				

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.

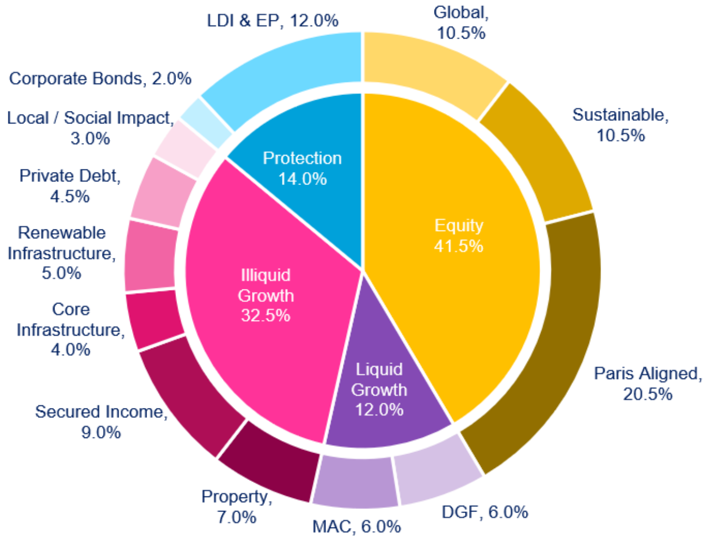
Valuation by Manager

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Brunel	Global High Alpha Equity	724,628	-	763,848	12.0	12.9
Brunel	Global Sustainable Equity	663,399	-	680,760	11.0	11.5
Brunel	Passive Global Equity Paris Aligned	441,698	-11	479,494	7.3	8.1
BlackRock	MSCI Paris-Aligned (Synthetic)*	1,141,284	-	901,242	18.9	15.3
Brunel	Diversified Returns Fund	377,868	-	372,269	6.3	6.3
JP Morgan	Fund of Hedge Funds	17,098	-	18,789	0.3	0.3
Brunel	Multi-Asset Credit	360,511	-	363,090	6.0	6.2
Brunel	UK Property	181,913	-280	185,498	3.0	3.1
Schroders	UK Property	13,013	-	14,403	0.2	0.2
Partners	Overseas Property	96,160	-1,235	93,884	1.6	1.6
Brunel	Secured Income – Cycle 1	292,636	-5,160	291,611	4.9	4.9
Brunel	Secured Income – Cycle 2	100,253	-3,124	99,638	1.7	1.7
Brunel	Secured Income – Cycle 3	237,695	-969	237,295	3.9	4.0
IFM	Core Infrastructure	235,226	-	242,402	3.9	4.1
Brunel	Renewable Infrastructure – Cycle 1	115,454	- 2,638	116,949	1.9	2.0
Brunel	Renewable Infrastructure – Cycle 2	87,378	174	87,342	1.4	1.5
Brunel	Renewable Infrastructure – Cycle 3	19,490	285	19,905	0.3	0.3
Brunel	Private Debt – Cycle 2	189,296	-	184,131	3.1	3.1
Brunel	Private Debt – Cycle 3	56,539	4,874	62,363	0.9	1.1
BlackRock	Corporate Bonds	184,782	-	182,357	3.1	3.1
BlackRock	LDI & Equity Protection	1,330,803	-	1,179,391	22.1	20.0
BlackRock	*Synthetic Equity Offset**	-1,141,284	-	-901,242	-18.9	-15.3
Record	Currency Hedging (incl. collateral)	117,533	-	49,357	1.9	0.8
BlackRock	ETF	23,937	-	24,390	0.4	0.4
Schroders Greencoat	Wessex Gardens	37,094	- 609	36,646	0.6	0.6
-	Internal Cash	128,688	- 18,393	112,227	2.1	1.9
-	Residual Assets	432	-	430	0.0	0.0
Total		**6,033,545**	**-27,086**	5,898,491	100.0	100.0

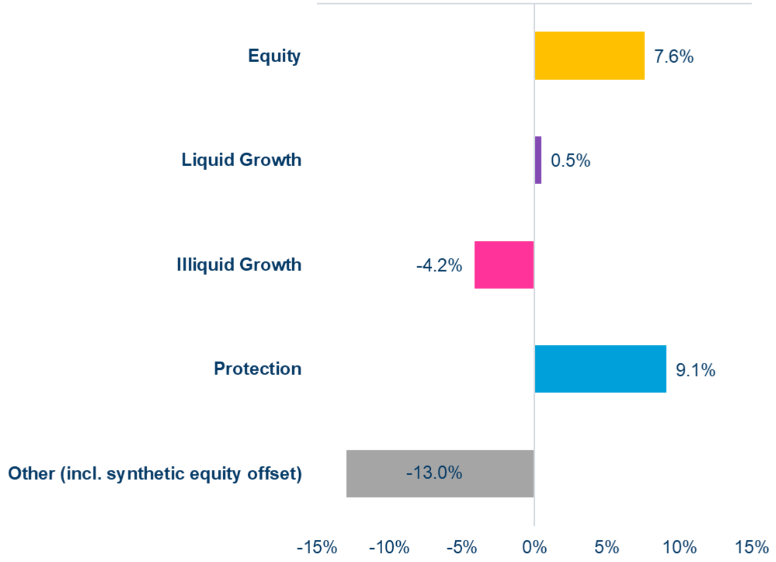
Source: Custodian, Investment Managers, Mercer. Totals may not sum due to rounding. The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included 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 last modification to the Plan's Strategic Asset Allocation occurred in 2024 with the newly agreed target allocation to Natural Capital. An investment strategy review is scheduled to take place in 2025, which may see further changes to the overall buckets and/or underlying allocations.
- The right hand side chart displays the actual relative weights of the key portfolio building blocks compared to the current 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.
- In October, 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. This brought the allocation back to within the target range (+/- 5%), however it has since surpassed the range again due to continued equity outperformance.
- Over the whole quarter, a net amount of c. £7m was paid out from the private market portfolio, representing the first quarter since the inception of these assets whereby they are cashflow positive in aggregate.

Appendix

Q4 2024 Equity Market Review

In Q4 2024, global equities generated positive returns in local and sterling terms, however, posted negative returns in USD terms when measured with the MSCI world index. The start of Q4 2024 was volatile for global equities given the uncertainty ahead of the presidential election and concerns over the path of interest rates. Later during the quarter, US equities outperformed, welcoming Donald Trump’s victory, while emerging markets (EMs) and many other regional markets came under pressure mainly due to tariff fears. Economic weakness, political turmoil and limited exposure to artificial intelligence did not fare well for European equities. UK equities was also a detractor as number of domestically focussed sectors declined owing to concerns over the UK economic outlook. On the other hand, weak yen, government stimulus plans and ongoing corporate reforms contributed positively to Japanese equities returns.

Global equities returned 5.9% in unhedged sterling terms and 1.3% in local currency terms as sterling depreciated against the US dollar.

US equities returned 2.7% in local currency terms, whilst European (ex-UK) equities returns -3.3%, and Japanese equities returned 5.4%.

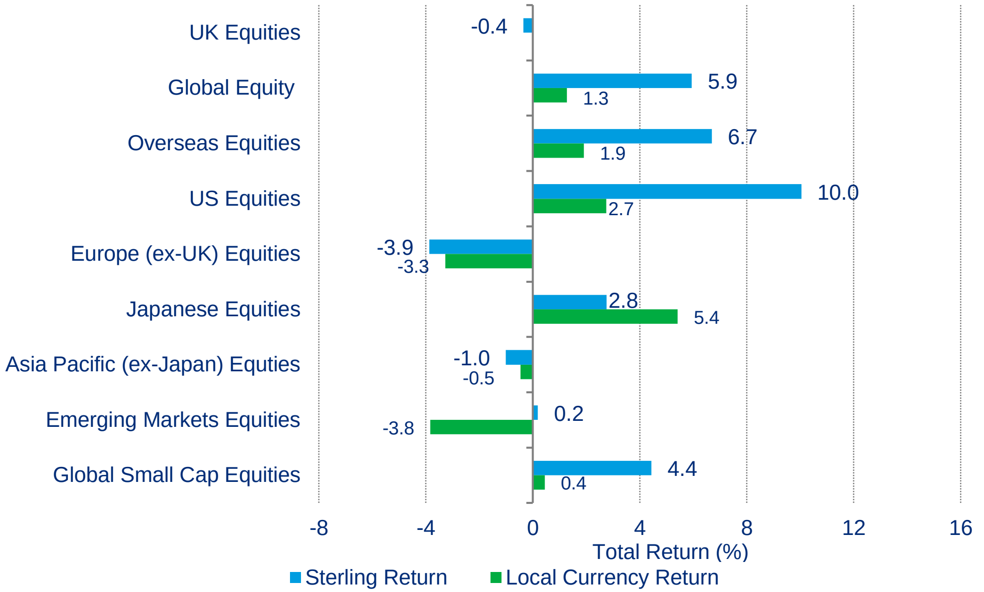
Emerging markets equities returned -3.8% in local terms.

Global small cap stocks returned 0.4% in local terms, supported by easing monetary policy.

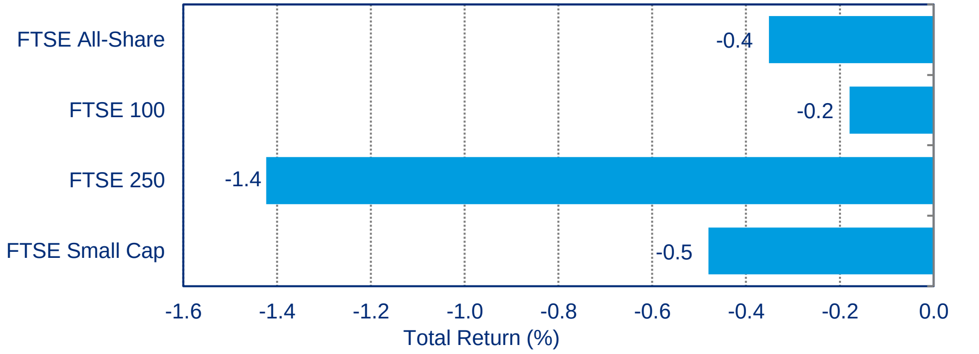
The **FTSE All Share** index returned -0.4% over the quarter, with the large-cap **FTSE 100** index returning -0.2%. More domestically focused equities **(FTSE 250)** also produced negative returns of -1.4%. The **small-cap** index produced a negative 0.5% return.

Weak performance in basic materials and healthcare dragged UK performance relative to global equities.

Equity Performance



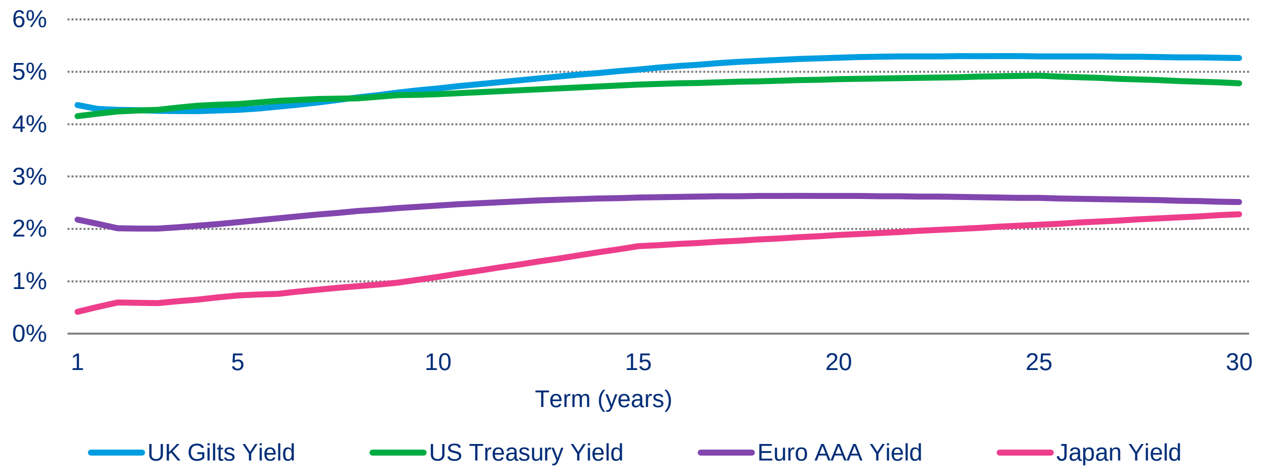
FTSE Performance by Market Cap



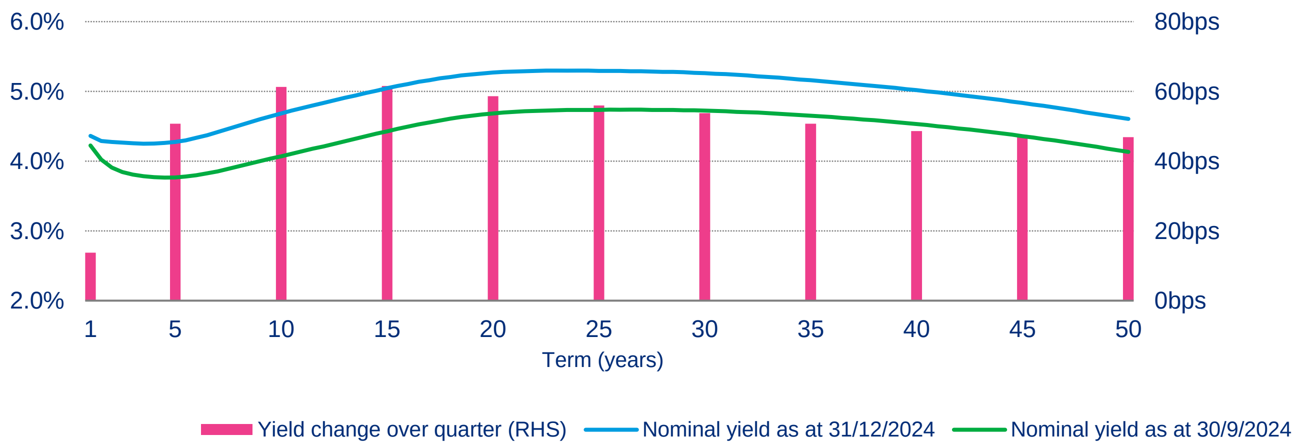
Mercer

Source: LSEG Datastream

Q4 2024 Bond Market Review



Source: Mercer and Bloomberg



Source: Mercer

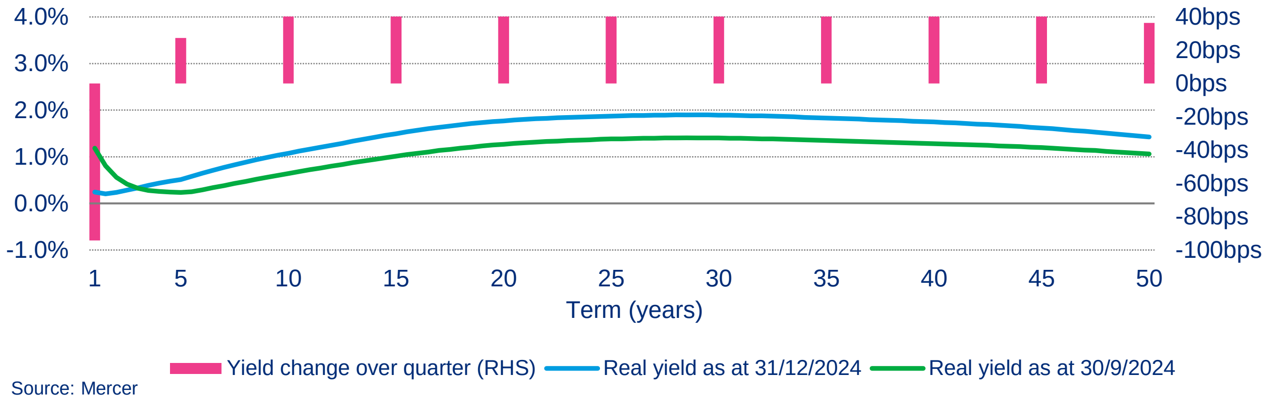
Government Bond Yields

Global government bond yields (ex-Japan) rose over the quarter as the macro backdrop quelled bets of aggressive policy easing by DM central banks.

In the US, softening inflation and cooling labour markets led the Fed to cut interest rates by a total of 0.5% in Q4, while also lowering rate cut bets for 2025. In Europe and to a lesser extent in the UK, the gradual deterioration in economic outlook strengthened the case for a measured pace of rate cuts.

The 10-year benchmark bond yield in the US, UK, and Germany rose 0.79%, 0.57%, and 0.24%, respectively, in Q4. The 10-year JGB yield also moved higher by 0.23% during the quarter as markets geared up for more rate hikes by BOJ.

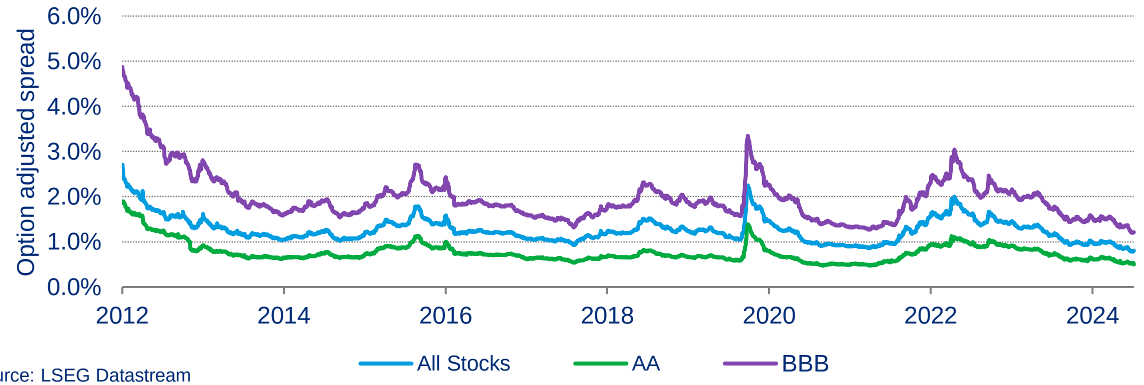
Q4 2024 Bond Market Review



Source: Mercer

UK Index-Linked Gilt Yields

UK real yields rose across most of the curve over the last quarter. As widely expected, the BOE left rates unchanged at the December policy meeting on concerns over sticky services inflation and its impact on core inflation. UK 5-year, 10-year and 30-year breakeven rates finished the quarter at 3.12%, 3.52% and 3.16%, respectively, up 4bps, 12bps and 1bps, respectively from the previous quarter.



Source: LSEG Datastream

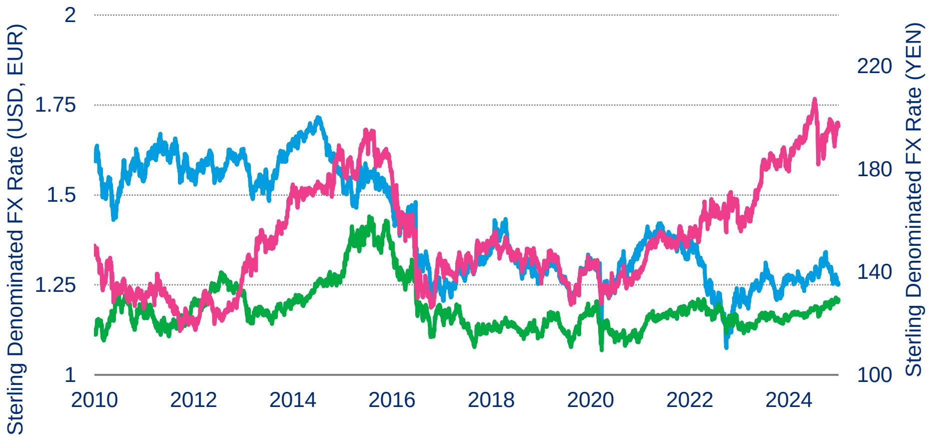
Corporate bonds

Spreads on UK investment-grade credit tightened across the credit quality spectrum through the fourth quarter, with spreads for AA-rated credit at down 11bps to 50bps, and that of BBB-rated credit down 29 bps at 121bps.

Q4 2024 Currency Market Review

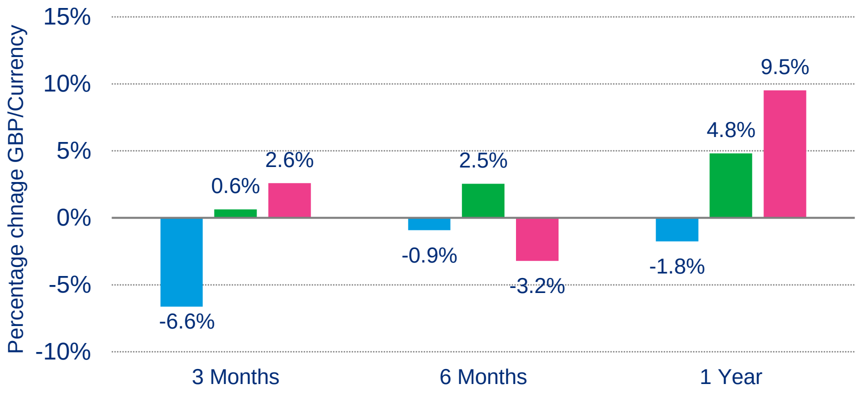
Sterling outperformed against most major currencies, barring the US dollar, during the fourth quarter. Sterling appreciated 2.6% and 0.6% against the yen and euro, respectively, while weakening 6.6% against USD. The US dollar index appreciated ~8% over the quarter as prospects of aggressive monetary policy easing by the Fed dimmed. On a 12-month basis too, sterling strengthened significantly against JPY and EUR, rising 9.5%, 4.8%, respectively, while depreciating 1.8%, against USD.

Sterling Denominated FX Rate



Source: LSEG Datastream

Change in sterling against foreign currencies



Source: LSEG Datastream

Q4 2024 Property

UK property as measured by the MSCI Index increased by 2.8% over fourth quarter of 2024.

Dynamic Asset Allocation (DAA)

Dashboard, Positioning & Outlook for UK constrained Portfolio

UK Economic Outlook

UK equities were weak over Q4, as the FTSE 100 finished broadly flat and underperformed global equities (in GBP terms). Global equities rose 7% (in GBP terms) over the quarter with markets led higher by a strong performance in the US. Over most of 2024, we saw US technology names driving returns, but following the US election in November, there was a broadening out in markets with small caps and value names rallying. This came in anticipation of the deregulation and tax cuts proposed by the Trump administration. Gilt yields rose 0.57% as investors adjusted BoE rate cut expectations amid weak growth and persistent inflation. We are overweight long-dated UK gilts, viewing yields as attractive, and maintain an underweight on long-term breakeven inflation rates. UK equities are appealing, but we prefer risks elsewhere.

Dynamic Asset Allocation (DAA) Positioning

Equities	We maintain a neutral stance on equities versus cash, supported by economic growth, positive earnings, and AI enthusiasm, but cautious of high valuations and potential trade war impacts. We are neutral on emerging market (EM) equities compared to developed markets (DM), noting resilient growth and stimulus in China, but mixed monetary policies. We are overweight Japanese equities due to structural growth shifts and governance reforms enhancing earnings. We hold a slight overweight in global REITs, expecting strong fundamentals and benefits from lower rates and Trump's policies. Lastly, we are neutral on small-cap equities, supported by lower rates but facing challenges in earnings growth and pricing power.
Growth Fixed Income	Our portfolios exhibit low active risk from dynamic asset allocation, primarily within the growth fixed income segment. We are overweight frontier market debt, which performed strongly in 2024 with over 14% returns, and notable improvements in economies like Argentina. While hard currency yields have narrowed, local currency debt remains attractively priced. We are neutral on local-currency emerging market debt due to a stronger US dollar but suggest a modest overweight in hard-currency emerging market debt to leverage resilient global growth and potential Chinese recovery. We are underweight global high yield due to tight spreads, driven by strong demand and a resilient US economy, which could lead to significant widening if growth weakens. Conversely, we see opportunities in Asian high yield, where spreads remain wide and fundamentals are strong, with expectations for further spread contraction and benefits for Chinese property developers from government support.
Defensive Fixed Income	We hold a neutral view on global government bonds but have specific regional insights. We exited our underweight position in December due to rising global yields from hawkish Fed comments and stronger growth data. Current US yields are fair, with 10-year yields up nearly 80bps in Q4. We are overweight long-dated UK gilts, viewing them as mispriced, while bearish on Japanese government bonds due to expected tightening by the Bank of Japan. We are bullish on Australian government bonds, anticipating rate cuts from the Reserve Bank of Australia in 2025. For inflation-linked bonds, we remain neutral globally but underweight UK inflation-linked bonds, expecting narrowing break-even rates. We are neutral on investment-grade credit due to tight spreads.
Currency	In Q4 2024, we shifted to an overweight position in the US dollar due to a strong economy and rising tariffs, while also favoring the cheap Japanese yen. These positions are funded by underweights in the euro, offshore renminbi, New Zealand dollar, and Swiss franc, with the renminbi underweight reflecting expected depreciation from tariffs. We have no strong views on mainstream EM currencies.

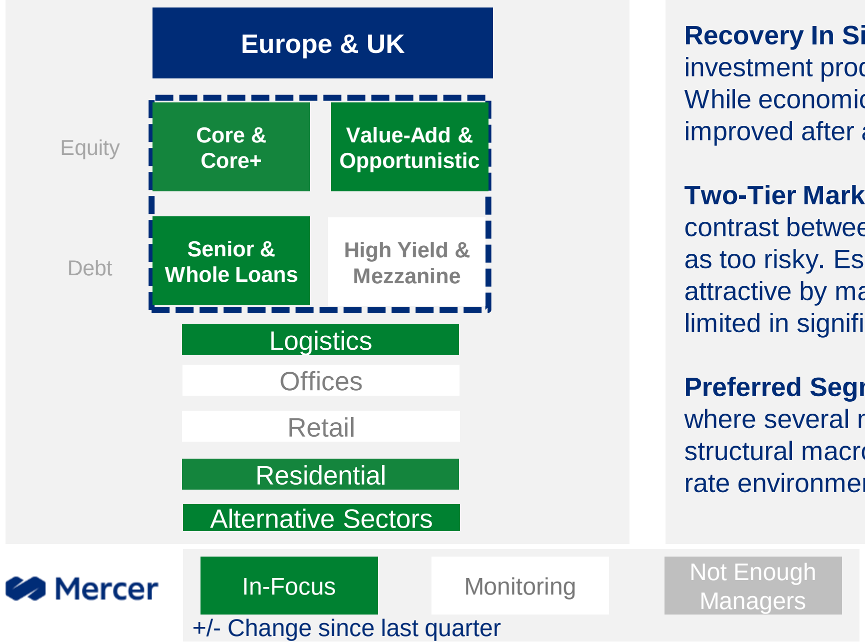
Unconstrained

	Position	Change*
Equities	**0%**	
DM	-3%	
UK	0%	
EM	0%	
Small Cap	0%	
REITs	1%	
Japan	2%	
Growth Fixed	**5%**	
EM Debt (HC)	0%	
EM Debt (LC)	0%	
Global HY	-3%	
Frontier Debt	5%	
Asia HY	3%	
Defensive Fixed	**6%**	
Nominal Gov ex-UK	0%	↑2%
UK Gilts	*7%*	↑5%
Real Gov ex-UK	0%	
UK Index-Linked Gilts	*-1%*	
IG Credit ex-UK	0%	
UK IG Credit	*0%*	
Commodities	**0%**	
Cash Like	**-11%**	↓7%

Source: Mercer. For illustrative purposes only. As at December 2024.
*Latest change made on 19 December 2024.
An unconstrained portfolio is one that is able to invest in a broad range of liquid asset classes including being underweight cash. All fixed income assets are GBP hedged excluding emerging/frontier market debt. Equities are unhedged.

Global Property Market Outlook

- The global economy continues to expand at a modest rate, demonstrating a degree of resilience. The US economy is likely to remain resilient, driven by strong consumer spending and income growth. President Trump's deregulation plans have the potential to support growth, although tariffs and, to some extent, immigration reforms may pose challenges. The Eurozone saw another year of lacklustre growth in 2024 despite some optimism at the start of the year. Germany in particular is struggling.
- We expect that challenges to the Eurozone manufacturing growth will persist. In France, fiscal consolidation remains necessary as the deficit stays significantly above target. In addition, the political elections in France and Germany adds further uncertainty to the outlook. In Japan, economic growth was moderate in 2024, but we expect GDP growth to improve throughout 2025, led by robust domestic demand. The outlook for China's economy remains mixed, as weak consumption will continue to constrain activity, particularly in the absence of a material fiscal impulse. At the time of writing, the scale of US tariffs is uncertain, but they are likely to be material, requiring further Chinese policy support.
- We expect the global disinflationary process to continue, with inflation returning to target in most countries in 2025. In the US, tariffs will lead to a short-term pick-up in goods and thus overall inflation, although as long as wage growth remains near or slightly below current levels, these price increases will fall out of the year-on-year numbers in due course. In the Eurozone, inflation has continued to ease. Services inflation has made good progress towards the central bank's target and should continue this trend as wage growth moderates. The main exception to the global inflation picture is China, which is and will likely remain near deflationary levels
- The US Federal Reserve is likely to cut interest rates at a pace that is slower than expected. While we expect a few more cuts, it is possible that US interest rates will remain on hold for the rest of the year. By contrast, European rate cuts should continue at the same pace and might even accelerate in countries such as the UK. We expect the People's Bank of China ("PBOC") to cut policy rates and the RRR further to complement its expansionary fiscal policy. While it is unclear how exactly the PBOC and the government will respond to US tariff hikes, looser monetary and fiscal policy are likely to be part of the mix. The Bank of Japan ("BoJ")will remain the main exception and is likely to continue to hike rates at a gentle pace.
- In currencies, the dollar is likely to be supported by the ongoing strength of the US economy, at least in the near term, and by the increase in US tariffs. Mercer believes macro fundamentals continue to favor the yen as the BoJ continues to tighten monetary policy while we expect other central banks to continue easing.



Recovery In Sight: By the start of 2025, inbound enquiries on real estate assets and investment products are experiencing a significant uptick compared to the middle of 2024. While economic and political uncertainty remains rife, investor sentiment has tangibly improved after a 2.5-year period where prices were uncertain, and valuations declined.

Two-Tier Market: Despite the overall more positive backdrop, we are observing a sharp contrast between sectors and markets regarded to be future-proofed and those still perceived as too risky. Especially, much of the global office and retail markets are deemed as non-attractive by many investors and activity, together with pricing transparency, remains therefore limited in significant parts of the investable universe.

Preferred Segments: We approach today's global opportunity set through a thematic lens, where several market segments are benefiting from demand underpinned by long-term structural macro trends. Supply-side dynamics are generally modest in today's high-interest rate environment.

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 and allocations are subject to manager selection. Access to opportunities cannot be guaranteed.

Further guidance is available in Mercer's *Global Market Summary: Quarterly Real Estate Report, January 2025*

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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