

# Avon Pension Fund

Panel Investment Report  
Quarter to 31 March 2025

May 2025

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A business of Marsh McLennan



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# Executive Summary



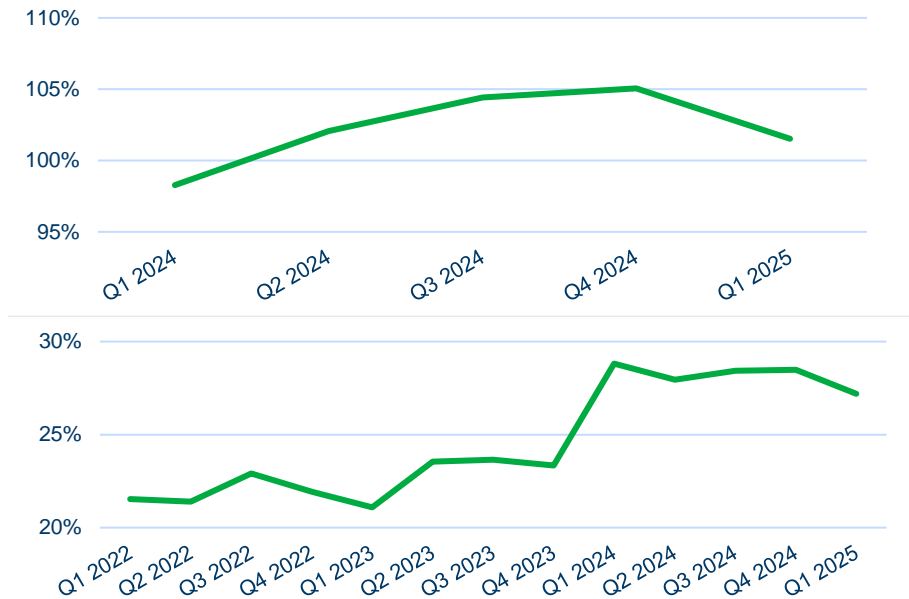
# Executive Summary

## Market background

- Continued rate cuts by most developed market central banks, the emergence of Deep Seek from China (to challenge US technology leadership through this low-cost rival to ChatGPT), European politics and tariffs were the key themes driving markets in the first quarter of 2025.
- While the US Federal Reserve held rates unchanged in Q1 2025, it revised lower its GDP growth projections for the year on the back of 'uncertainty around the economic outlook'. In Europe, Germany's political landscape and the approval of its €500bn fiscal package took centre-stage. Market sentiment continued to be driven by the soft-landing narrative in the US, as a result of uncertainty around policies under Trump's presidency.
- Overall, global equities ended the quarter in the red driven by the considerable uncertainty from tariff and growth concerns.
- Changes in bond yields were mixed across developed markets. The curve steepened in the UK amidst hawkish BOE cuts, tariff woes and revised budget spending plans.

## Funding level and risk

- The funding level is estimated to have decreased over the quarter to c.102%, as the assets fell alongside an increase in the estimated present value of the liabilities.
- The funding level is estimated to be 3% higher over the year to 31 March 2025.
- The Value-at-Risk decreased over the quarter to £1,547m due to the fall in asset values, but fell slightly as a percentage of liabilities to c.27%.
- 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 March, the Synthetic Equity exposure was reduced by £300m to address the overweight position to equities relative to the strategic benchmark. This brought the allocation back to within the target range (+/- 5%).
- Over the whole quarter, a net amount of c. £2m was drawn down to the private market portfolio. Amongst this was the first capital call towards the Octopus Affordable Housing Fund, of c. £5m. This was effectively funded by a net value of distributions from the rest of the private market assets which have recently been cashflow positive in aggregate.

# Executive Summary

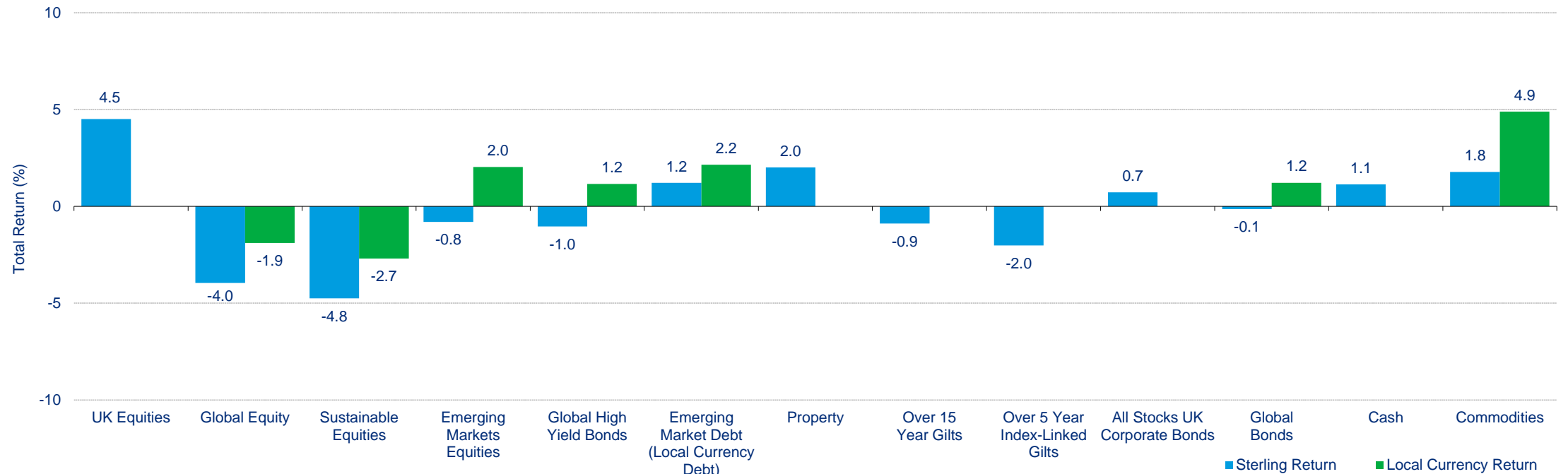
Performance	<ul style="list-style-type: none"> <li>In aggregate, negative returns were driven by the equity holdings and LDI (due to a rise in UK gilt yields).</li> <li>The Equity Protection counteracted equity market losses, and most of the alternative Liquid Growth and Illiquid Growth investments were positive.</li> <li>At the underlying level, relative performance of the mandates against their respective benchmarks was mixed. Notable detractors included the active equity mandates, Overseas Property and Secured Income, whilst the Diversified Returns Fund and Equity Protection Strategy were positive contributors.</li> <li>Underperformance relative to the strategic benchmark over the one-year period was driven by the active equity mandates, the Equity Protection Strategy (as expected in a positive environment for equity markets), the Diversified Returns Fund and the Overseas Property mandate, as well as the way in which the LDI allocation is reflected in the methodology for total Fund benchmark returns.</li> <li>The drivers of underperformance over the three year period were the active equity, Equity Protection, Liquid Growth, Property and Secured Income mandates.</li> <li>The Currency Hedge added to returns over the three month, one year and three year periods, due to the strengthening of Sterling.</li> </ul>															
	<table border="1"> <thead> <tr> <th></th> <th>3 Months (%)</th> <th>1 Year (%)</th> <th>3 Years (% p.a.)</th> </tr> </thead> <tbody> <tr> <td>Total Fund (1)</td> <td>-1.9</td> <td>-0.6</td> <td>-0.2</td> </tr> <tr> <td>Strategic Benchmark (2) (ex currency hedge)</td> <td>-1.8</td> <td>4.8</td> <td>4.3</td> </tr> <tr> <td>Relative (1 - 2)</td> <td><b>-0.1</b></td> <td><b>-5.4</b></td> <td><b>-4.5</b></td> </tr> </tbody> </table>		3 Months (%)	1 Year (%)	3 Years (% p.a.)	Total Fund (1)	-1.9	-0.6	-0.2	Strategic Benchmark (2) (ex currency hedge)	-1.8	4.8	4.3	Relative (1 - 2)	<b>-0.1</b>	<b>-5.4</b>
	3 Months (%)	1 Year (%)	3 Years (% p.a.)													
Total Fund (1)	-1.9	-0.6	-0.2													
Strategic Benchmark (2) (ex currency hedge)	-1.8	4.8	4.3													
Relative (1 - 2)	<b>-0.1</b>	<b>-5.4</b>	<b>-4.5</b>													
	<ul style="list-style-type: none"> <li>Absolute returns compared to the strategic returns modelled at the strategy review in 2023 have been positive for three out of four of the Equity mandates, with Sustainable Equities being the exception due to manager underperformance.</li> <li>Within the Liquid Growth portfolio, relative returns have been positive for the Multi-Asset Credit mandate but negative for the Diversified Returns mandate.</li> <li>Absolute returns have been negative for the Illiquid Growth assets except for Private Debt Cycle 3. However, many of these assets are still in the drawdown phase.</li> </ul>															
Liability hedging mandate	<ul style="list-style-type: none"> <li>BlackRock was in compliance with the investment guidelines over the quarter.</li> <li>The interest rate and inflation hedge ratios are c.29% and c.15% respectively (as a proportion of assets).</li> <li>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.</li> </ul>															
Collateral position	<ul style="list-style-type: none"> <li>Inclusive of assets within the collateral waterfall and the updated collateral monitoring framework, there was a total interest rate buffer of 9.6% as at end March 2025.</li> <li>BlackRock would request additional collateral if the interest rate buffer fell below 3%.</li> </ul>															

# Market Background



# Market Background

Return over 3 months to 31 March 2025 (%)

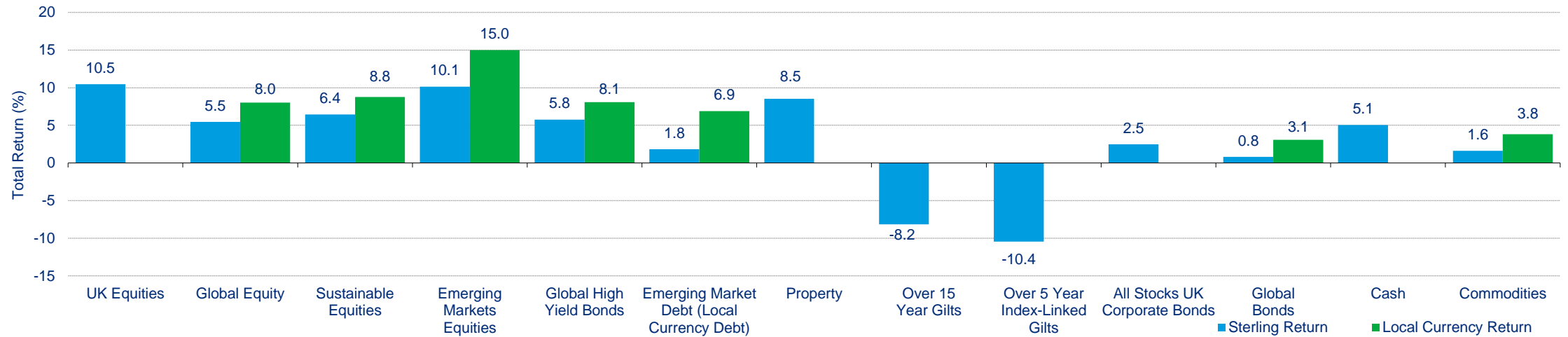


Continued rate cuts by most developed market central banks, the emergence of Deep Seek from China (to challenge US technology leadership through this low-cost rival to ChatGPT), European politics and tariffs were the key themes driving markets in the first quarter of 2025. While the US Federal Reserve held rates unchanged in Q1 2025, it revised lower its GDP growth projections for the year on the back of 'uncertainty around the economic outlook'. In Europe, Germany's political landscape and the approval of its €500bn fiscal package took centre-stage. Market sentiment continued to be driven by the soft-landing narrative in the US, as a result of uncertainty around policies under Trump's presidency.

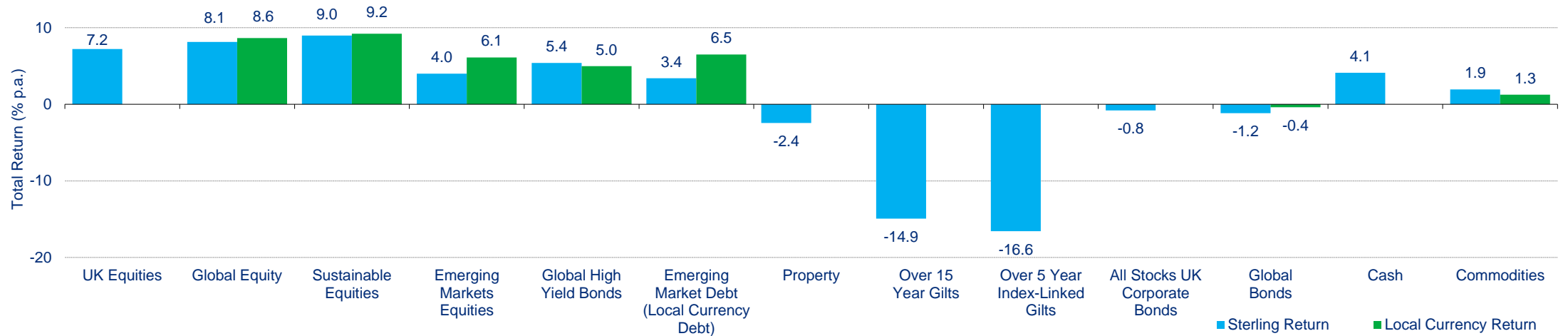
Overall, bond yields were mixed across developed markets, while global equities ended the quarter in the red.

# Market Background – 1 & 3 Years

## Return over 1 year to 31 March 2025 (%)



## Return over 3 years to 31 March 2025 (% p.a.)





# Funding Level and Risk



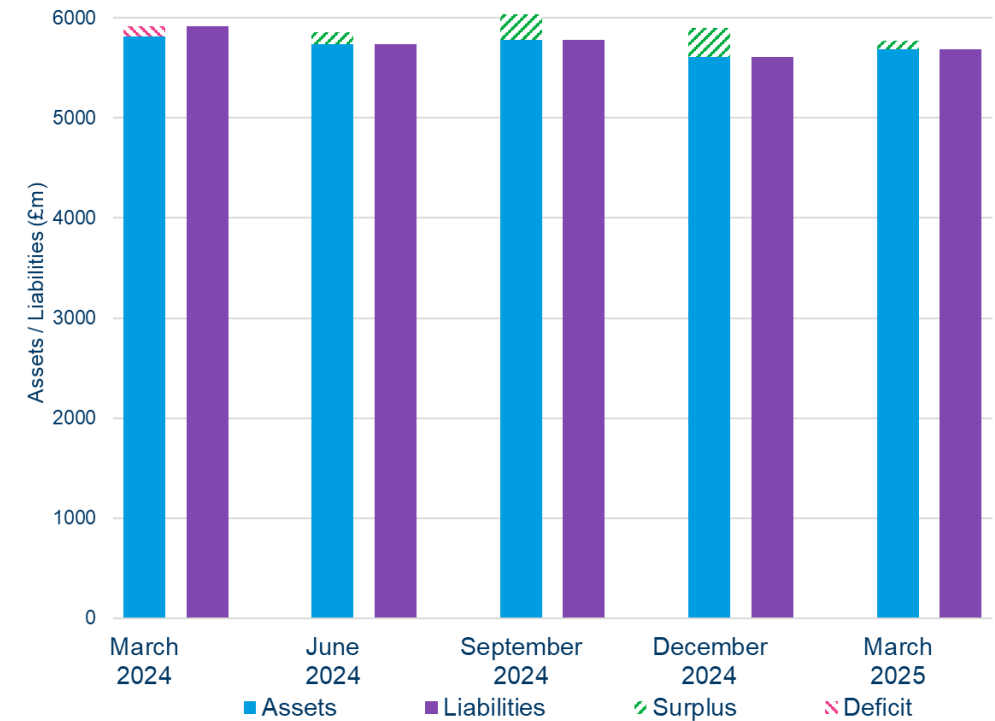
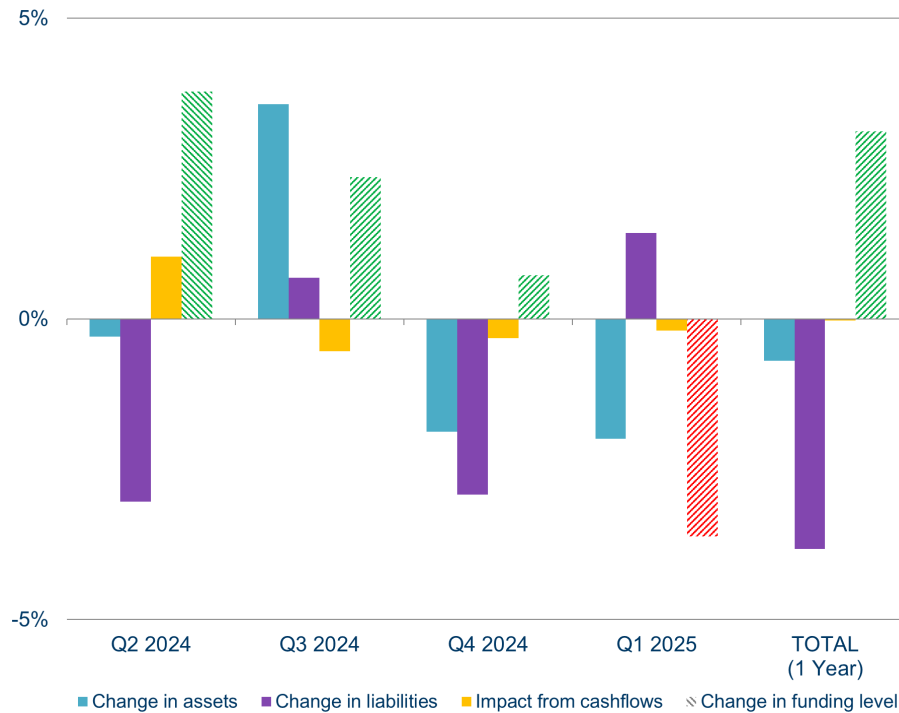
# Funding Level and Deficit

The Fund's assets returned -1.9% over the quarter. The liabilities are estimated to have risen by 1.4%, which allows for market movements, benefit accrual and benefits paid.

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

The funding level is estimated to be c.3% higher over the year to 31 March 2025.

The surplus was estimated to have decreased over Q1 from £289m to £86m.



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 95<sup>th</sup> 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 March 2025, if a 1-in-20 ‘downside event’ occurred over the next three years, the funding position could deteriorate by at least an additional **£1.5bn**.
- 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 £52m over the quarter**, due to the fall in asset values.
- However it fell slightly as a percentage of liabilities over the quarter to c.27%.

# Performance Summary



# Total Fund Performance

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (1)	-1.9	-0.6	-0.2
Total Fund (ex currency hedge)	-2.4	-1.2	-0.3
Strategic Benchmark (2) (ex currency hedge)	-1.8	4.8	4.3
<b>Relative (1 - 2)</b>	<b>-0.1</b>	<b>-5.4</b>	<b>-4.5</b>

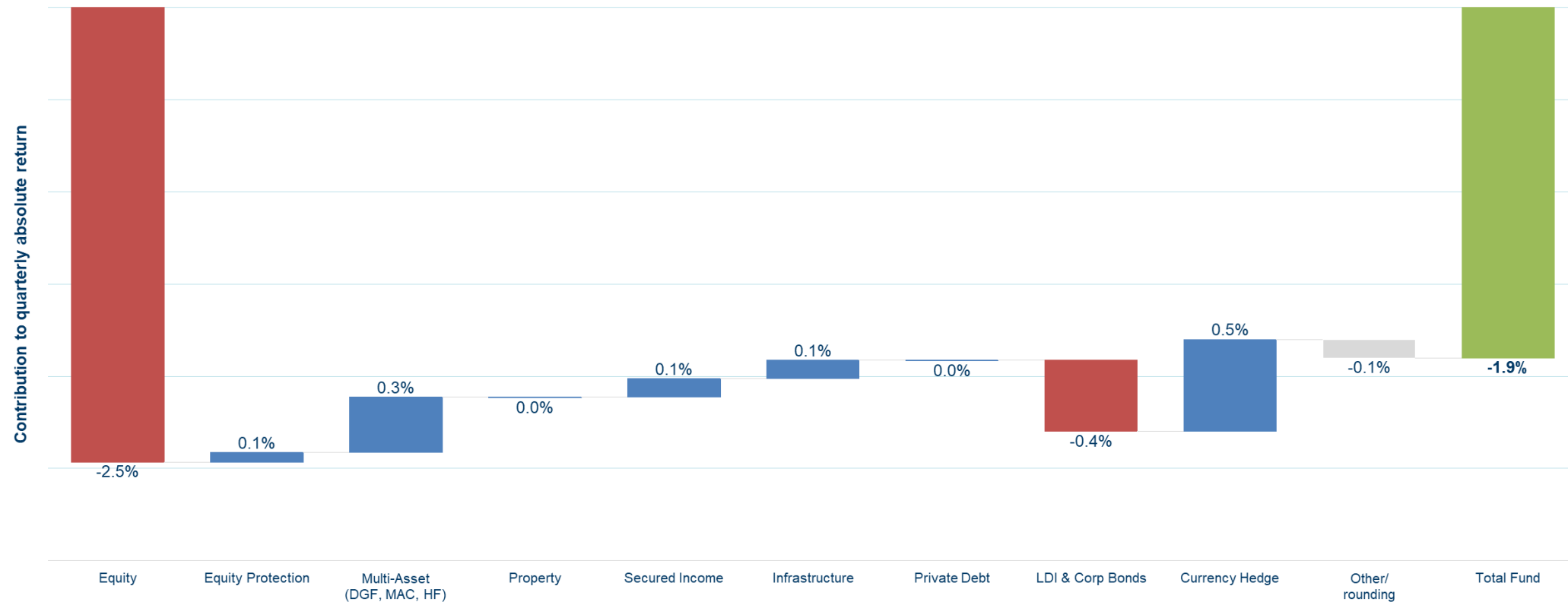
Source: Custodian, Mercer estimates. Returns are net of fees. 'Relative' figures may not sum due to rounding.

## Commentary

- As illustrated on the next slide, negative returns were predominantly driven by the Equity and LDI holdings.
- The Equity Protection offset this to dampen equity market losses, and most of the alternative Liquid Growth and Illiquid Growth investments were positive.
- At the underlying level, relative performance of the mandates against their respective benchmarks were mixed. Notable detractors included the active equity mandates, Overseas Property and Secured Income, whilst the Diversified Returns Fund and Equity Protection Strategy were contributors.
- Underperformance relative to the strategic benchmark over the one-year period was driven by the active equity mandates, the Equity Protection Strategy (as expected in a positive environment for equity markets), the Diversified Returns Fund and the Overseas Property mandate, as well as the way in which the LDI allocation is reflected in the methodology for total Fund benchmark returns\*.
- The drivers of underperformance over the three year period were the Active Equity, Equity Protection, Liquid Growth, Property and Secured Income mandates.
- The Currency Hedge added to returns over the three month, one year and three year periods, due to the strengthening of Sterling.

\*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 2024 and Q1 2025 due to gilt yield movements, and the % allocation to LDI was above the SAA, this has had an unusually large impact on total performance.

# Total Fund Performance Attribution – Quarter



Source: Custodian, Mercer estimates.

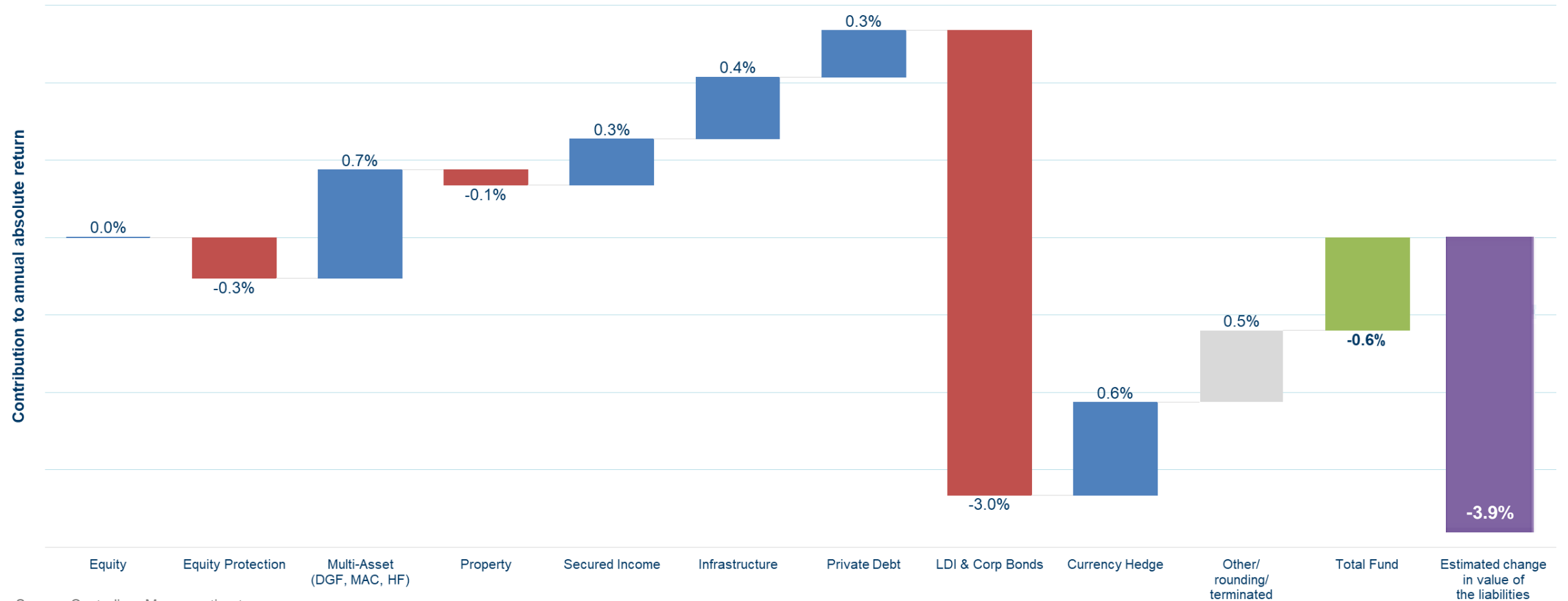
Negative returns were driven by the Equity holdings and LDI (due to a rise in UK gilt yields).

The Equity Protection counteracted equity market losses, although the effects are less visible quarter-on-quarter in terms of the 'profit and loss'.

In aggregate, each of the alternative Liquid Growth and Illiquid Growth asset class buckets were positive.

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

# Total Fund Performance Attribution – 1 Year



Source: Custodian, Mercer estimates.

The LDI was also the main driver of negative returns over the one year period, although the liabilities fell by a greater extent, in line with expectations.

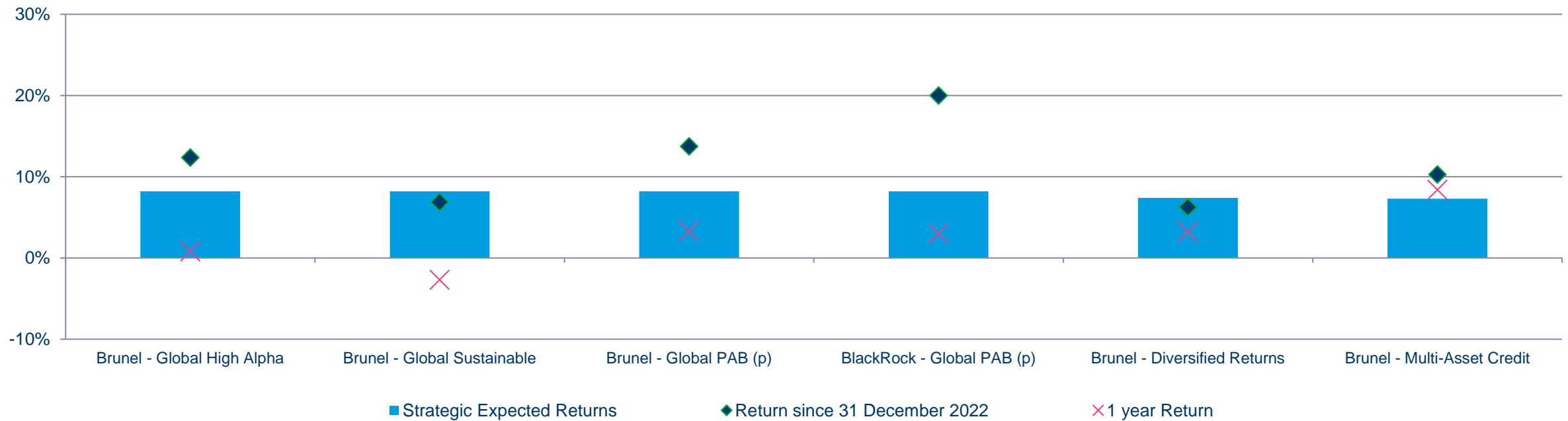
The overall contribution of the Equity holdings was flat due to the significant underperformance of the active mandates. The Equity Protection detracted due to the rise in underlying equity markets.

Each of the Liquid Growth and Illiquid Growth asset class buckets were also positive over the year, except for Property.

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

# Performance vs. Expected Strategic Returns

Growth Asset	Brunel Global High Alpha	Brunel Global Sustainable	Brunel / BlackRock Passive Global PAB	Brunel Diversified Returns	Brunel Multi-Asset Credit
<b>Benchmark Allocation</b>	10.5%	10.5%	20.5%	6.0%	6.0%
<b>Commentary</b>	Returns above expectations since December 2022 due to equity market strength, though mandate has underperformed the benchmark over this period.	Returns below expectations since December 2022 (despite equity market strength) due to manager underperformance.	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.



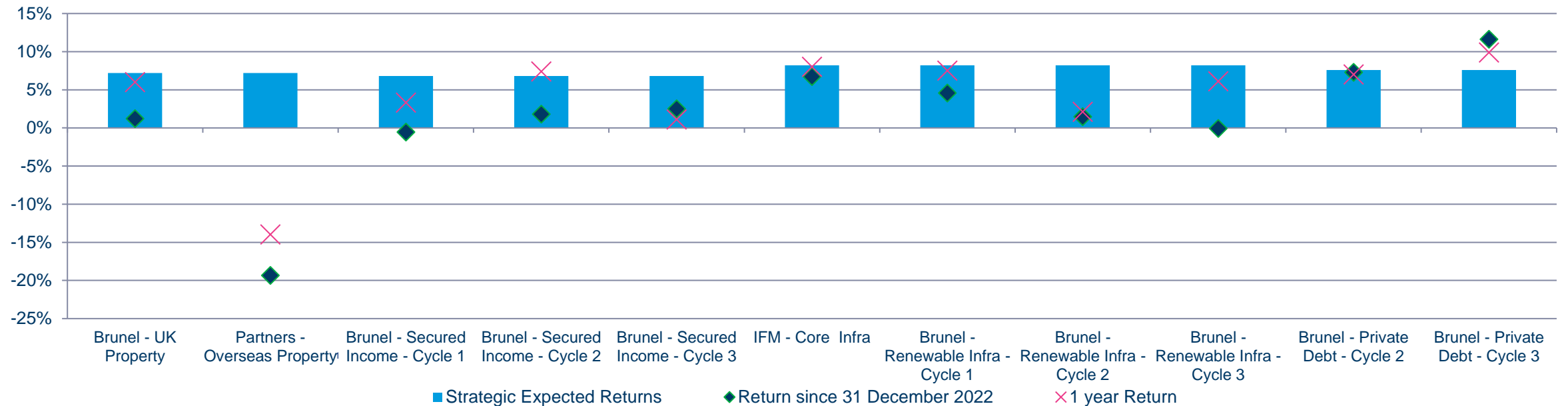
**Notes:**

We have illustrated the performance of the key mandates within the Fund's investment strategy. Actual returns are from 31 December 2022 to 31 March 2025, 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 <sup>1</sup>	Brunel Secured Income	IFM Core Infra	Brunel Renewable Infra	Brunel Private Debt
<b>Benchmark allocation</b>	3.5%	3.5%	9.0%	4.0%	5.0%	4.5%
<b>Commentary</b>	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 2.1% 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 marginally below expectations for Cycle 2 and above for Cycle 3 since December 2022. Mandates are still in the drawdown phase



**Notes:**

We have illustrated the performance of the key mandates within the Fund's investment strategy. Actual returns are from 31 December 2022 to 31 March 2025, 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.

<sup>1</sup> Returns are shown up to 31 December 2024, as this is the latest data available.

# Mandate Performance to 31 March 2025

Manager / Asset Class	3 Months			1 Year			3 Year			3 Year Performance Target (% p.a.)***	3 Year Performance vs Target
	Fund (%)	B'mark (%)	Relative (%)	Fund (%)	B'mark (%)	Relative (%)	Fund (% p.a.)	B'mark (% p.a.)	Relative (% p.a.)		
Brunel Global High Alpha Equity	-4.9	-4.6	-0.3	0.8	5.2	-4.4	6.9	8.8	-1.9	+2-3	Target not met
Brunel Global Sustainable Equity	-4.7	-4.2	-0.5	-2.7	5.3	-8.0	2.8	8.1	-5.3	+2	Target not met
Brunel Passive Global Equity Paris-Aligned	-7.9	-7.8	-0.1	3.3	3.4	-0.1	8.0	8.1	-0.1	-	N/A (p)
MSCI World Paris-Aligned (Synthetic)*	-5.6	-6.9	+1.3	-0.1	3.3	-3.4	-	-	-	-	N/A (p)
Brunel Diversified Returns Fund	3.5	1.9	+1.6	3.2	8.1	-4.9	3.6	7.2	-3.6	-	Target not met
Brunel Multi-Asset Credit	1.7	2.1	-0.4	8.4	9.2	-0.8	5.4	8.2	-2.8	-	Target not met
Brunel UK Property	1.8	1.4	+0.4	6.0	6.3	-0.3	-4.1	-3.4	-0.7	-	Target not met
Partners Overseas Property**	-4.7	2.5	-7.2	-14.0	10.0	-24.0	-14.4	10.0	-24.4	-	Target not met
Brunel Secured Income - Cycle 1	1.4	0.7	+0.7	3.3	2.6	+0.7	-4.2	5.2	-9.4	+2	Target not met
Brunel Secured Income - Cycle 2	-0.7	0.7	-1.4	7.4	2.6	+4.8	-1.2	5.2	-6.4	+2	Target not met
Brunel Secured Income - Cycle 3	-0.6	0.7	-1.3	1.1	2.6	-1.5	-	-	-	+2	N/A
IFM Core Infrastructure	1.9	2.3	-0.4	8.0	10.3	-2.3	7.5	9.3	-1.8	-	Target not met
Brunel Renewable Infrastructure - Cycle 1	2.3	0.7	+1.6	7.5	2.6	+4.9	7.5	5.2	+2.3	+4	Target not met
Brunel Renewable Infrastructure - Cycle 2	0.0	0.7	-0.7	2.1	2.6	-0.5	7.5	5.2	+2.3	+4	Target not met
Brunel Renewable Infrastructure - Cycle 3	0.7	0.7	0.0	6.1	2.6	+3.5	-	-	-	+4	N/A
Brunel Private Debt - Cycle 2	0.0	2.1	-2.1	7.0	9.2	-2.2	9.7	8.2	+1.5	-	Target met
Brunel Private Debt - Cycle 3	3.3	2.1	+1.2	9.9	9.2	+0.7	-	-	-	-	N/A
Schroders Greencoat Wessex Gardens	-1.1	1.9	-3.0	5.0	8.1	-3.1	-	-	-	-	N/A
Octopus Affordable Housing	-	-	-	-	-	-	-	-	-	-	N/A
BlackRock Corporate Bonds	0.1	0.1	0.0	0.4	0.4	0.0	-5.8	-5.8	0.0	-	N/A (p)
BlackRock LDI	-1.4	-0.9	-0.5	-11.6	-10.2	-1.3	-8.5	-7.9	-0.6	-	N/A (p)
Equity Protection Strategy	0.2	N/A	N/A	-1.0	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

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 the mandate's relative performance, however this is offset elsewhere within the BlackRock portfolio so does not have an impact on overall relative performance.

\*\*Partners performance is to 31 December 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



# 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	833,633	798,991	14.1%	13.8%	10.5	5.5 - 15.5	+3.3%
Global Sustainable Equity	680,760	648,956	11.5%	11.2%	10.5	5.5 - 15.5	+0.7%
Paris-Aligned Equity*	1,380,736	983,464	23.4%	17.0%	20.5	12.5 - 28.5	-3.5%
<b>Total Equity</b>	<b>2,895,129</b>	<b>2,431,412</b>	<b>49.1%</b>	<b>42.1%</b>	<b>41.5</b>	<b>36.5 - 46.5</b>	<b>0.6%</b>
Diversified Returns Fund	372,269	385,269	6.3%	6.7%	6.0	3 - 9	+0.7%
Multi-Asset Credit	363,090	369,145	6.2%	6.4%	6.0	3 - 9	+0.4%
<b>Total Liquid Growth</b>	<b>735,359</b>	<b>754,414</b>	<b>12.5%</b>	<b>13.1%</b>	<b>12.0</b>	<b>7 - 17</b>	<b>+1.1%</b>
Property	293,785	287,108	5.0%	5.0%	7.0	No set range	-2.0%
Secured Income	628,543	620,690	10.7%	10.7%	9.0	No set range	+1.7%
Core Infrastructure	242,402	246,967	4.1%	4.3%	4.0	No set range	+0.3%
Renewable Infrastructure	224,196	235,618	3.8%	4.1%	5.0	No set range	-0.9%
Private Debt	246,495	252,095	4.2%	4.4%	4.5	No set range	-0.1%
Local / Social Impact	36,646	40,984	0.6%	0.7%	3.0	No set range	-2.3%
<b>Total Illiquid Growth</b>	<b>1,672,068</b>	<b>1,683,463</b>	<b>28.3%</b>	<b>29.1%</b>	<b>32.5</b>	<b>No set range</b>	<b>-3.4%</b>
Corporate Bonds	182,357	182,592	3.1%	3.2%	2.0	No set range	+1.2%
LDI & Equity Protection	1,179,391	1,112,590	20.0%	19.3%	12.0	No set range	+7.3%
<b>Total Protection</b>	<b>1,361,748</b>	<b>1,295,182</b>	<b>23.1%</b>	<b>22.4%</b>	<b>14.0</b>	<b>No set range</b>	<b>+8.4%</b>
<i>Synthetic Equity Offset*</i>	-901,242	-541,658	-15.3%	-9.4%	-	-	-
Other**	135,408	153,279	2.3%	2.7%	-	0 - 5	+2.7%
<b>Total</b>	<b>5,898,491</b>	<b>5,776,113</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100%</b>		

Source: Custodian, Investment Managers, Mercer.

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.

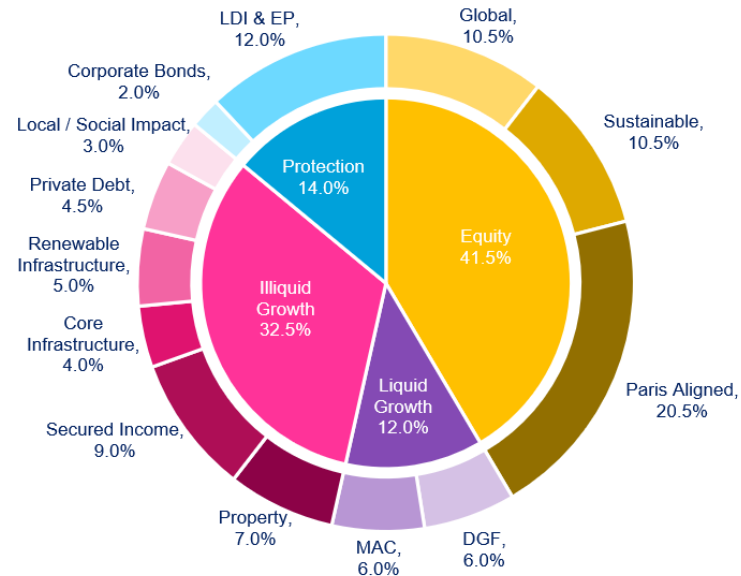
\*\*Valuation includes the Fund of Hedge Fund mandate (due to be terminated), internal cash, the ETF and currency instruments.

# Valuation by Manager

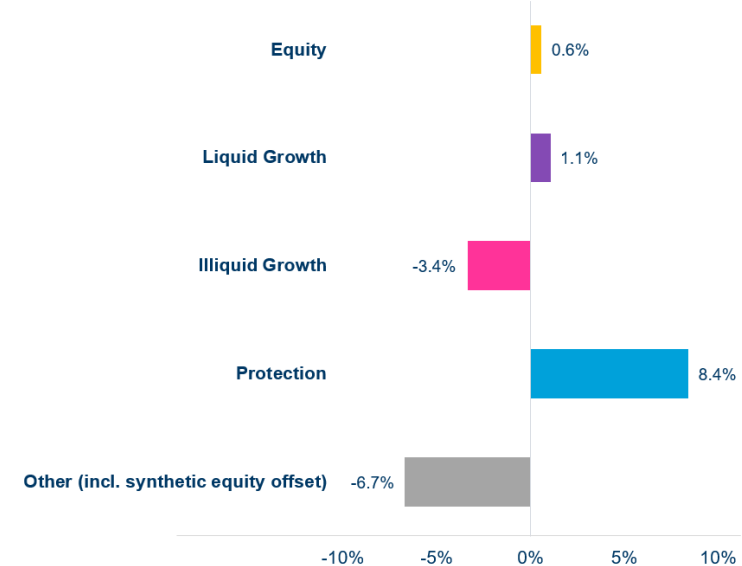
Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Brunel	Global High Alpha Equity	763,848	-	726,463	12.9	12.6
Brunel	Global Sustainable Equity	680,760	-	648,956	11.5	11.2
Brunel	Passive Global Equity Paris Aligned	479,494	- 12	441,806	8.1	7.6
BlackRock	MSCI Paris-Aligned (Synthetic)*	901,242	- 300,000	541,658	15.3	9.4
Brunel	Diversified Returns Fund	372,269	-	385,269	6.3	6.7
JP Morgan	Fund of Hedge Funds	18,789	- 3,570	15,206	0.3	0.3
Brunel	Multi-Asset Credit	363,090	-	369,145	6.2	6.4
Brunel	UK Property	185,498	- 355	188,821	3.1	3.3
Schroders	UK Property	14,403	-	13,105	0.2	0.2
Partners	Overseas Property	93,884	- 4,049	85,183	1.6	1.5
Brunel	Secured Income – Cycle 1	291,611	- 7,112	288,336	4.9	5.0
Brunel	Secured Income – Cycle 2	99,638	- 792	98,202	1.7	1.7
Brunel	Secured Income – Cycle 3	237,295	- 1,768	234,152	4.0	4.1
IFM	Core Infrastructure	242,402	-	246,967	4.1	4.3
Brunel	Renewable Infrastructure – Cycle 1	116,949	- 2,230	117,541	2.0	2.0
Brunel	Renewable Infrastructure – Cycle 2	87,342	+ 5,461	92,986	1.5	1.6
Brunel	Renewable Infrastructure – Cycle 3	19,905	+ 4,902	25,092	0.3	0.4
Brunel	Private Debt – Cycle 2	184,131	-	184,131	3.1	3.2
Brunel	Private Debt – Cycle 3	62,363	+ 3,107	67,964	1.1	1.2
BlackRock	Corporate Bonds	182,357	-	182,592	3.1	3.2
BlackRock	LDI & Equity Protection	1,179,391	-	1,112,590	20.0	19.3
BlackRock	Synthetic Equity Offset*	- 901,242	+ 300,000	- 541,658	-15.3	-9.4
Record	Currency Hedging (incl. collateral)	49,357	-	85,350	0.8	1.5
BlackRock	ETF	24,390	-	23,701	0.4	0.4
Schroders Greencoat	Wessex Gardens	36,646	- 649	35,591	0.6	0.6
Octopus	Affordable Housing	-	- 5,393	5,393	0.0	0.1
-	Internal Cash	112,227	-11,327	101,119	1.9	1.8
-	Residual Assets	430	-	432	0.0	0.0
<b>Total</b>		<b>5,898,491</b>	<b>- 13,001</b>	<b>5,776,113</b>	<b>100.0</b>	<b>100.0</b>

# 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 2025 Investment Strategy Review is now underway, 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 underweight to Illiquid Growth reflects 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 March, the Synthetic Equity exposure was reduced by £300m to address the overweight position to Equity (c. 8.6% as at 31 December) relative to the strategic benchmark. This brought the allocation back to within the target range (+/- 5%).
- Over the quarter, a net amount of c. £2m was drawn down to the private market portfolio. Amongst this was the first capital call towards the Octopus Affordable Housing Fund, of c. £5m. This was effectively funded by a net value of distributions from the rest of the private market assets which have recently been cashflow positive in aggregate.

# Appendix

# Q1 2025 Equity Market Review

In Q1 2025, global equities declined in local and sterling terms as considerable uncertainty from tariff and growth concerns weighed on risk assets. Within equities, emerging markets outperformed developed markets. Initially during the quarter, the risk off sentiment and the potential tariff threats weighed on emerging market equities. Later, stronger Chinese equities, weaker US dollar and higher commodity prices supported the market. Chinese equities were higher as additional government stimulus measures supported the economy and advances in artificial intelligence by Chinese companies boosted returns.

**Global equities** declined 4.0% in unhedged sterling terms and -1.9% in local currency terms as sterling appreciated against the US dollar.

**US equities** returned -4.3% in local currency terms, whilst European (ex-UK) equities returned 6.4%, and Japanese equities returned -3.9%.

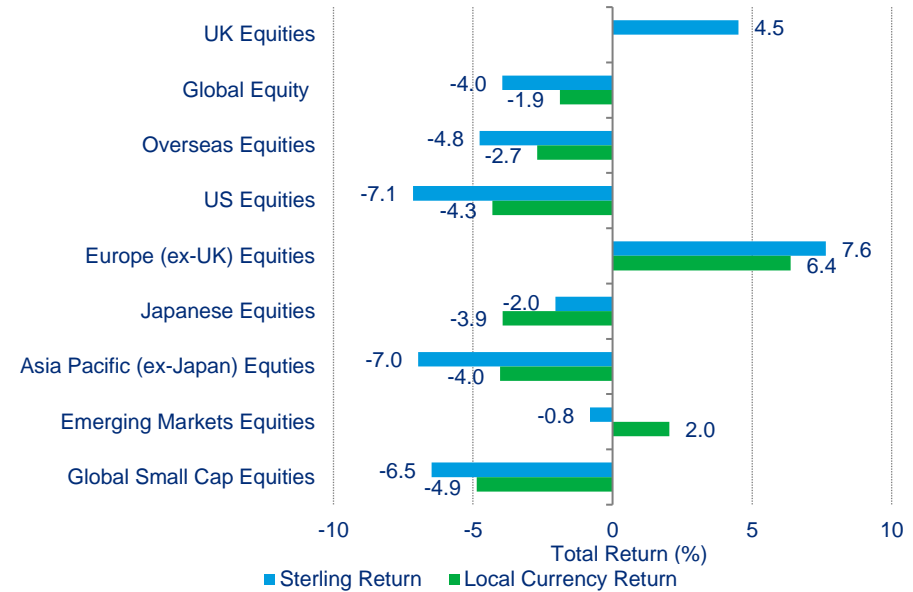
**Emerging markets equities** returned 2.0% in local terms.

**Global small cap stocks** returned -4.9% in local terms, amid ongoing worries around the global economic outlook.

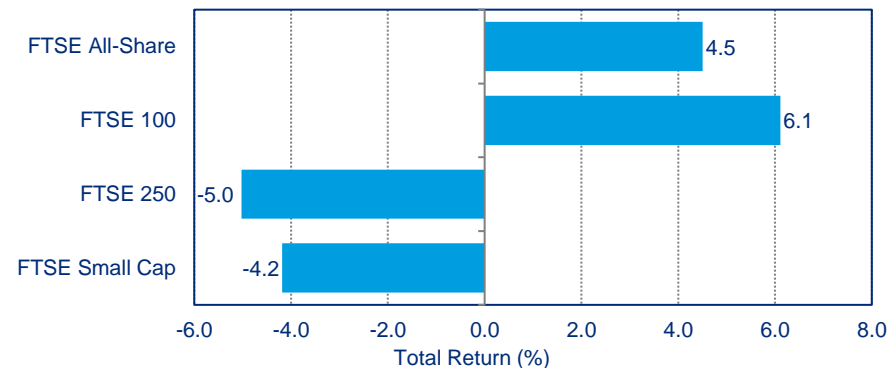
The **FTSE All Share** index returned 4.5% over the quarter, with the large-cap **FTSE 100** index returning 6.1%. More domestically focused equities (**FTSE 250**) also produced negative returns of 5.0%. The **small-cap** index produced a negative 4.2% return.

Sentiment towards UK small and mid-sized companies continued to deteriorate over the quarter.

## Equity Performance

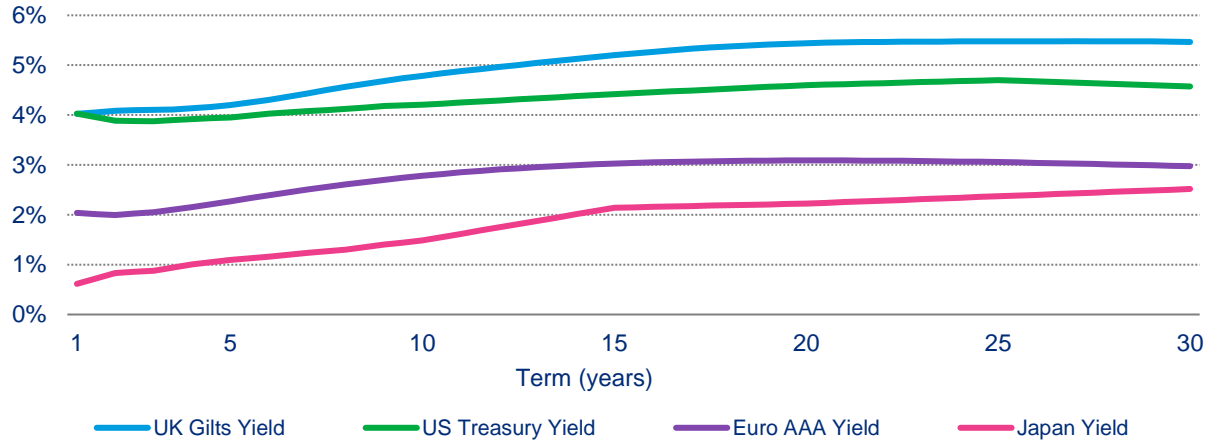


## FTSE Performance by Market Cap

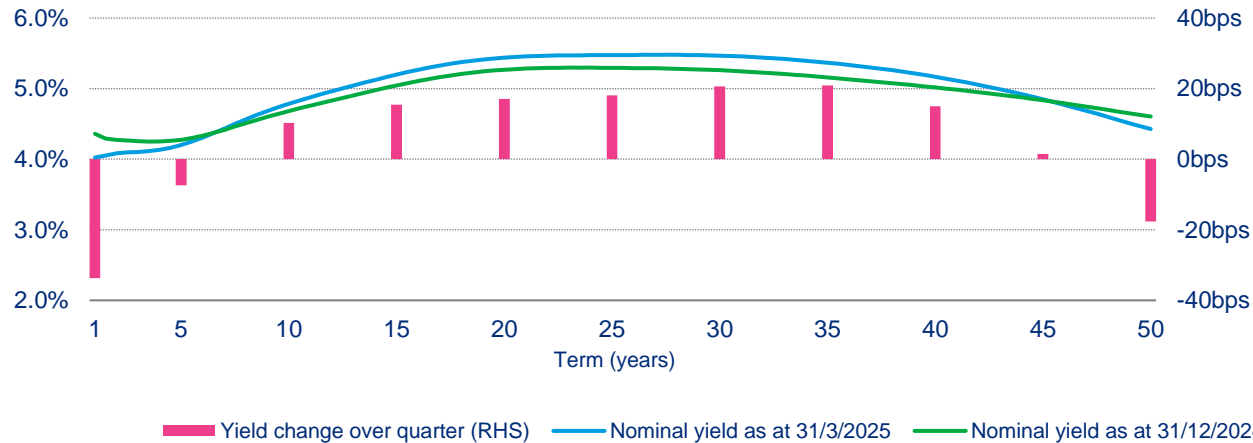




# Q1 2025 Bond Market Review



Source: Mercer and Bloomberg



Source: Mercer

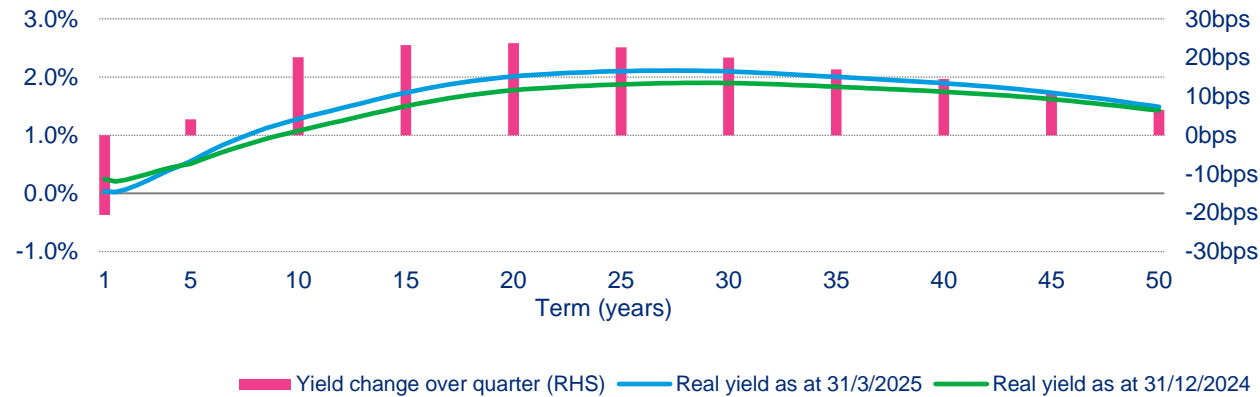
## Government Bond Yields

Global government bond yields were mixed over the first quarter.

In the US, Treasury yields declined on prospects of increased Fed rate cuts this year in response to signs of slowing US economic growth. In contrast, German bund yields moved higher following the sizeable fiscal announcement. Market uncertainty around Trump's economic agenda also added to the sell-off. Meanwhile, in the UK, the yield curve steepened in the quarter amidst hawkish BOE cuts, tariff woes and revised budget spending plans.

The 10-year benchmark bond yield in the US eased 0.37%, closing the quarter at 4.21%. In contrast, the UK and German 10-year yield rose 0.11% and 0.37%, respectively. The 10-year JGB yield also moved higher by 0.40% during the quarter as the macro landscape warranted more BOJ rate hikes.

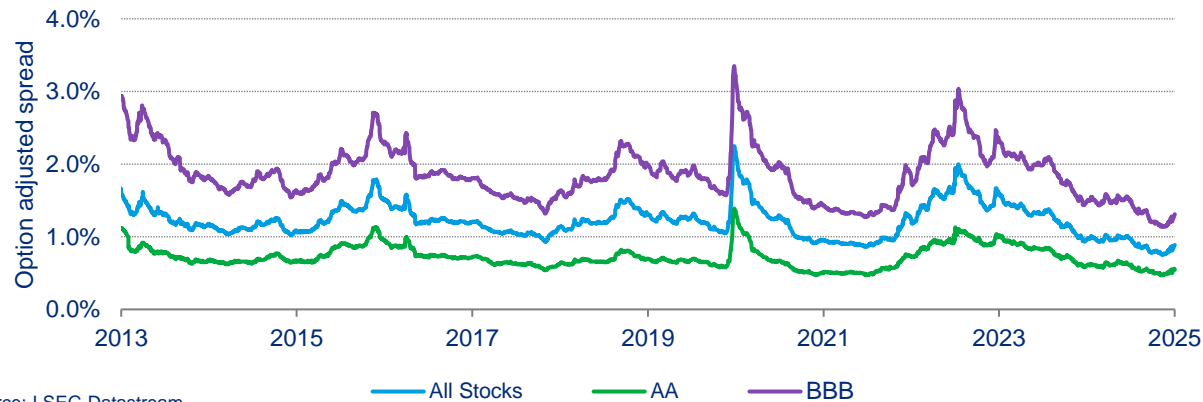
# Q1 2025 Bond Market Review



Source: Mercer

## UK Index-Linked Gilt Yields

UK real yields rose across the curve over the last quarter, with the 10-year real yield touching its highest level since 2009. Amidst signs of weak economic growth and sticky inflation, BOE cut rates by 25bps in Q1 2025, even as some stickiness in services inflation on account of wage growth was still prevalent. The cut was however followed by hawkish comments, warning of a temporary spike in inflation and uncertainty around growth prospects against the backdrop of a prospective global trade war. UK 5-year, 10-year and 30-year breakeven rates finished the quarter at 3.02%, 3.39% and 3.12%, respectively, down 10bps, 12bps and 5bps, from the previous quarter.



Source: LSEG Datastream

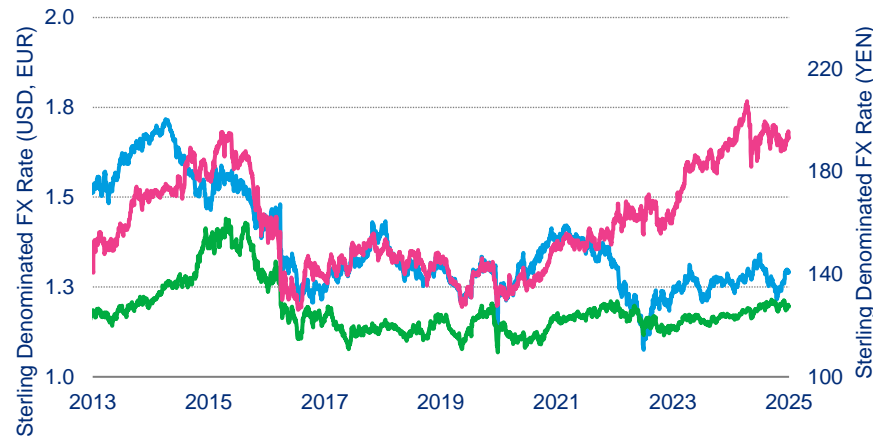
## Corporate bonds

Spreads on UK investment-grade credit widened marginally across the credit quality spectrum through the first quarter, with spreads for AA-rated credit up 5bps at 55bps, and that of BBB-rated credit up 1bps at 131bps.

# Q1 2025 Currency Market Review

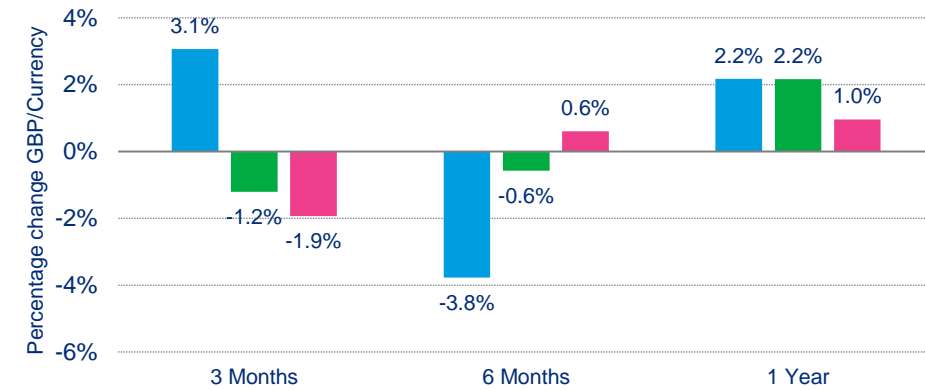
In the first quarter of 2025, sterling strengthened against the US dollar, while weakened against the Euro and the Japanese Yen. Sterling appreciated 3.1% against USD, while depreciating 1.2% and 1.9% against EUR and JPY, respectively. The US dollar fell ~4% over the six-month period on uncertainty around tariffs, trade and signs of slowing growth, putting the Fed on track to continue cutting rates. On a 12-month basis, sterling strengthened against USD, EUR and JPY, rising 2.2%, 2.2% and 1%, respectively.

**Sterling Denominated FX Rate**



Source: LSEG Datastream  
 — GBP/USD — GBP/EUR — GBP/JPY

**Change in sterling against foreign currencies**



Source: LSEG Datastream  
 ■ GBP/USD ■ GBP/EUR ■ GBP/JPY

# Q1 2025 Property

UK property as measured by the MSCI Index increased by 2.0% over the first quarter of 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	Local Impact – Renewables*	SONIA + 3% p.a.	-	February 2024
Octopus	Local Impact - Affordable Housing*	SONIA + 3% p.a.	-	March 2025
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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