

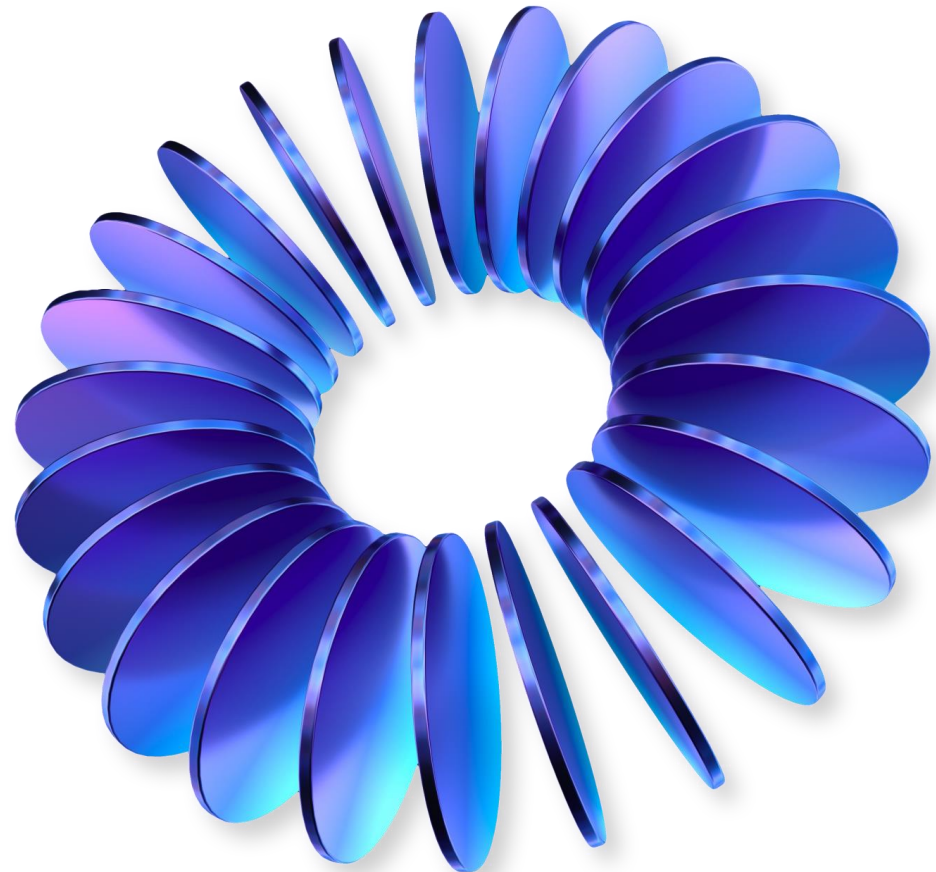
Avon Pension Fund

Panel Investment Report
Quarter to 30 June 2025

August 2025

Steve Turner

A business of Marsh McLennan



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Executive Summary



Executive Summary

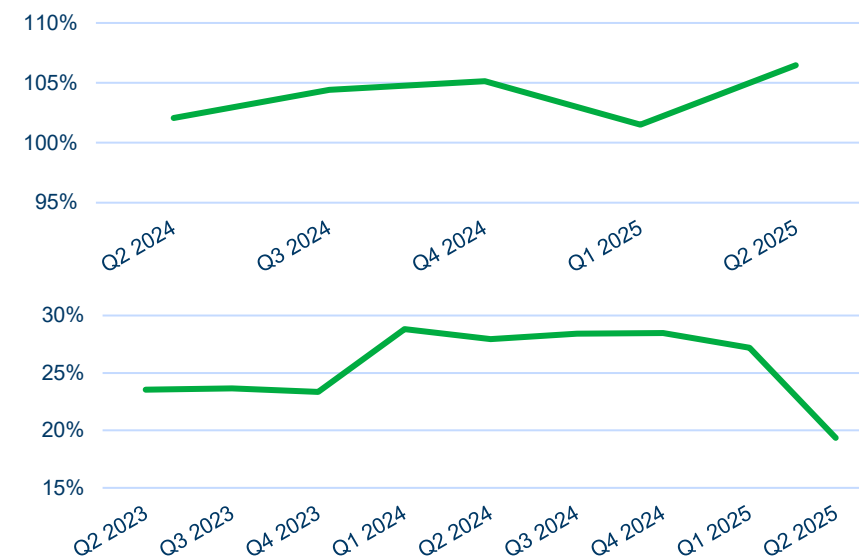
Market background

- Financial markets were primarily driven by trade and geopolitics-led developments through the second quarter of 2025. Tariff uncertainty under US President Donald Trump fuelled concerns over not just the growth and inflation outlook, but also the potential impact on fiscal and monetary policy.
- While most developed market central banks continued cutting rates, policymakers expressed caution against headwinds emerging from tariff-induced disruptions. Meanwhile, the geopolitical landscape became increasingly uncertain towards the end of the quarter amidst the Israel-Iran conflict, which was soon followed by a ceasefire deal.
- Overall, bond yields were lower across developed markets, while global equities ended the quarter on a positive note as the easing of global trade and geopolitical tensions supported risky assets.

Funding level and risk

- The funding level is estimated to have increased over the quarter to c.106%, due to both the assets increasing in value and the estimated present value of the liabilities falling.
- The funding level is estimated to be c. 4% higher over the year to 30 June 2025.

- The Value-at-Risk ("VaR") decreased over the quarter to £1,096m, due to changes in Mercer's approach to deriving capital market assumptions. Further information can be found in the Appendix.
- As a percentage of liabilities, the VaR is c.19% under the new approach.



Source for charts: State Street, Mercer estimates. See further footnotes on pages 10-11.

Asset allocation and strategy

- Over the quarter, a net amount of c. £4m was drawn down to the private market portfolio. Amongst this was the first capital call towards the Foresight SME Financing strategy, of c. £3m.

Executive Summary

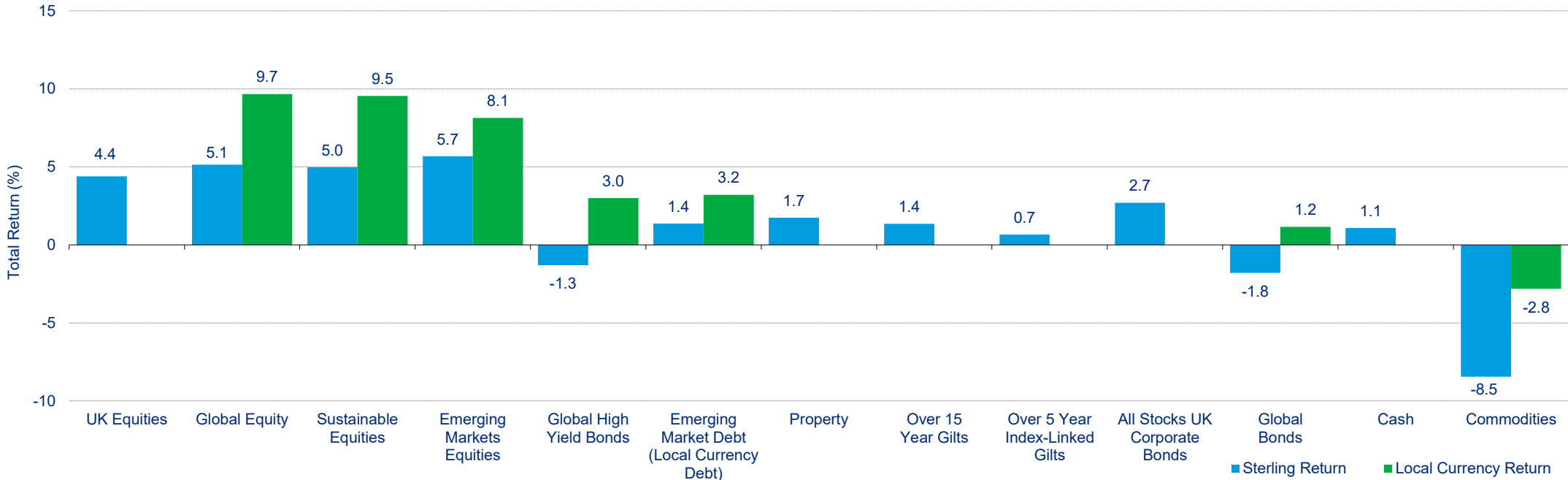
Performance	<ul style="list-style-type: none">In aggregate, positive returns were driven by the equity holdings and LDI (due to a fall in UK gilt yields).All of the Liquid Growth and Illiquid Growth assets were positive, except for Overseas Property and the Local Impact – Renewables asset. The Equity Protection detracted from returns, which was in line with expectations given rising markets.				
	<ul style="list-style-type: none">At the underlying level, relative performance of the mandates against their respective benchmarks was mixed. Notable detractors included the active equity mandates, Property and Secured Income, whilst the Synthetic Equity and Infrastructure assets were the main contributors.		3 Months (%)	1 Year (%)	3 Years (% p.a.)
		Total Fund (1)	3.7	3.4	3.5
	<ul style="list-style-type: none">Underperformance relative to the strategic benchmark over the one-year period was driven by the active equity mandates, the Equity Protection Strategy, the Diversified Returns Fund and the Overseas Property mandate.	Strategic Benchmark (2) (ex currency hedge)	3.4	6.0	7.7
	<ul style="list-style-type: none">The drivers of underperformance over the three year period were the Active Equity, Equity Protection, Property and Secured Income mandates.	Relative (1 - 2)	+0.3	-2.6	-4.2
	<ul style="list-style-type: none">The Currency Hedge added to returns over the three month, one year and three year periods, due to the strengthening of Sterling.				
Liability hedging mandate	<ul style="list-style-type: none">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.Within the Liquid Growth portfolio, relative returns have been positive for the Multi-Asset Credit mandate but negative for the Diversified Returns mandate.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.				
	<ul style="list-style-type: none">BlackRock was in compliance with the investment guidelines over the quarter.The interest rate and inflation hedge ratios are c.28% and c.15% respectively (as a proportion of assets).Following the June 2025 Committee meeting, it was agreed to discontinue the yield trigger framework in favour of adopting a strategic hedge ratio target of 50%. This will be implemented as part of the 2025 investment strategy review.				
Collateral position	<ul style="list-style-type: none">Inclusive of assets within the collateral waterfall and the updated collateral monitoring framework, there was a total interest rate buffer of more than 10.0% as at end June 2025.BlackRock would request additional collateral if the interest rate buffer fell below 3%.				

Market Background



Market Background

Return over 3 months to 30 June 2025 (%)

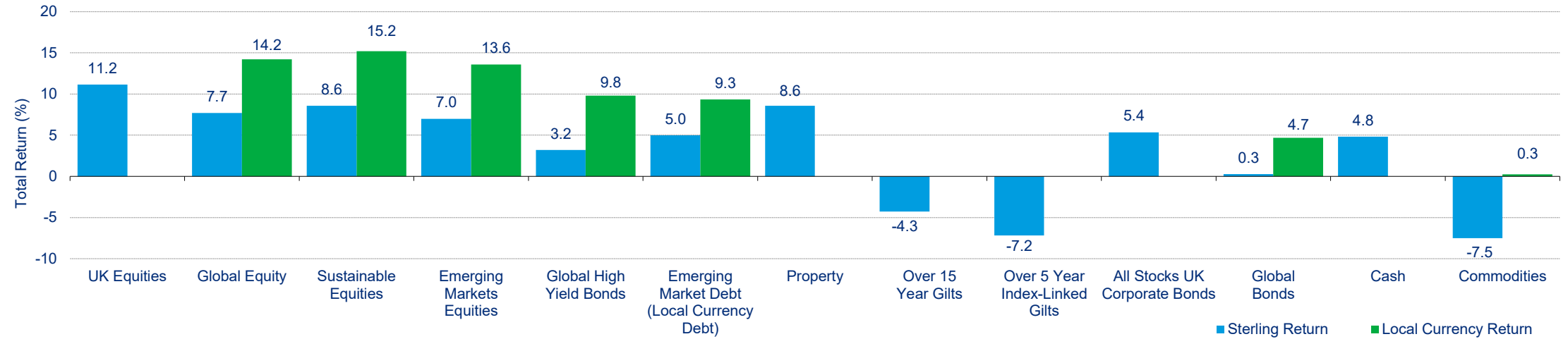


Financial markets were primarily driven by trade and geopolitics-led developments through the second quarter of 2025. Tariff uncertainty under US President Donald Trump fuelled concerns over not just the growth and inflation outlook, but also the potential impact on fiscal and monetary policy. While most developed market central banks continued cutting rates, policymakers expressed caution against headwinds emerging from tariff-induced disruptions. Although the US Federal Reserve left rates unchanged in Q2, it revised growth and inflation forecasts for the year. Market sentiment continued to be influenced by a soft-landing narrative in the US. In Europe, Germany's political landscape under new Chancellor Merz and spending plans under the draft budget for 2025 took centre-stage. Meanwhile, the geopolitical landscape became increasingly uncertain towards the end of the quarter amidst the Israel-Iran conflict, which was soon followed by a ceasefire deal.

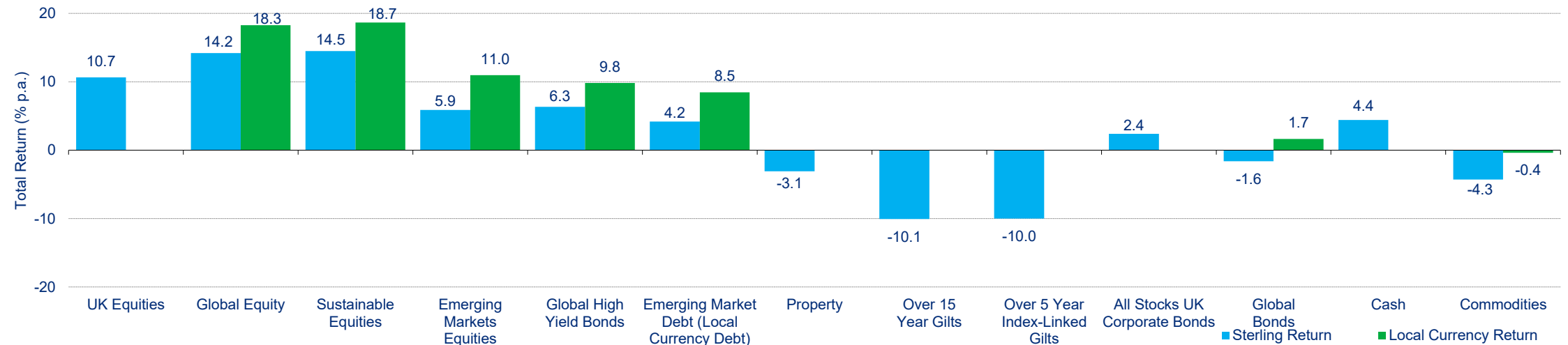
Overall, bond yields were lower across developed markets, while global equities ended the quarter on a positive note as the easing of global trade and geopolitical tensions supported risky assets.

Market Background – 1 & 3 Years

Return over 1 year to 30 June 2025 (%)



Return over 3 years to 30 June 2025 (% p.a.)



Funding Level and Risk



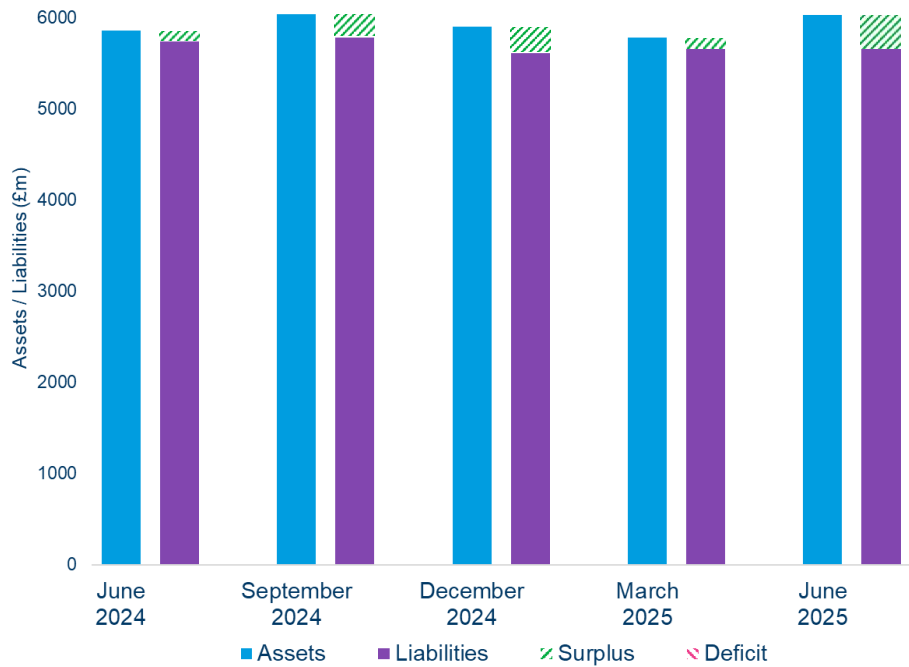
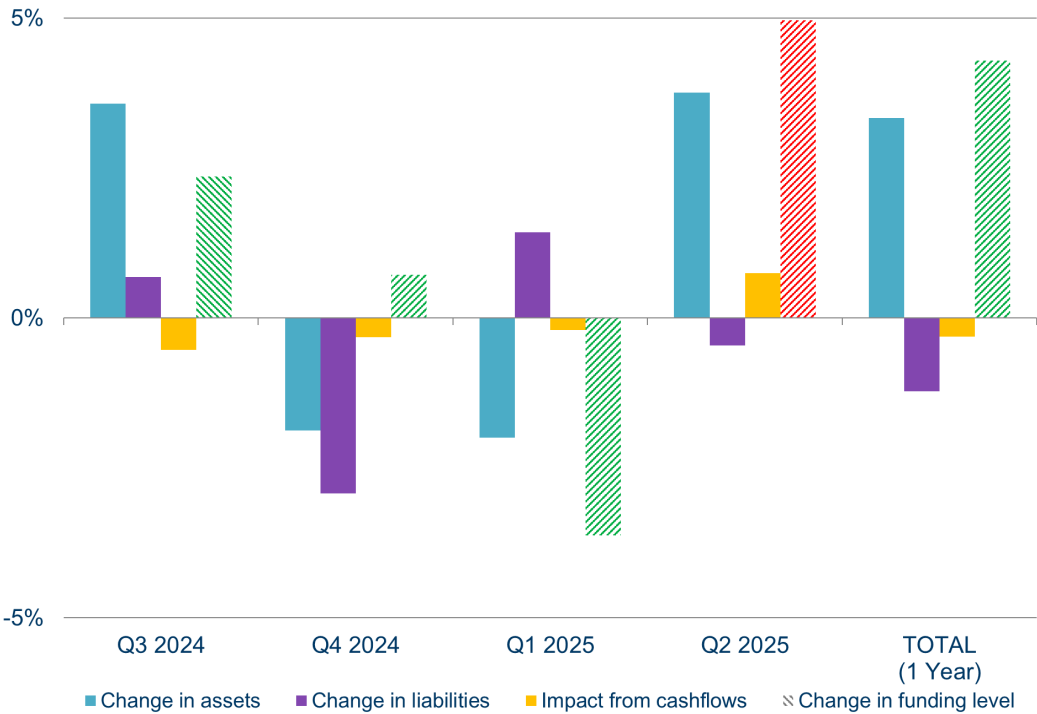
Funding Level and Deficit

The Fund's assets returned 3.7% over the quarter. The liabilities are estimated to have fallen by 0.5%, which allows for market movements, benefit accrual and benefits paid.

The combined effect of this saw the estimated funding level increase to c.106%.

The funding level is estimated to be c.4% higher over the year to 30 June 2025.

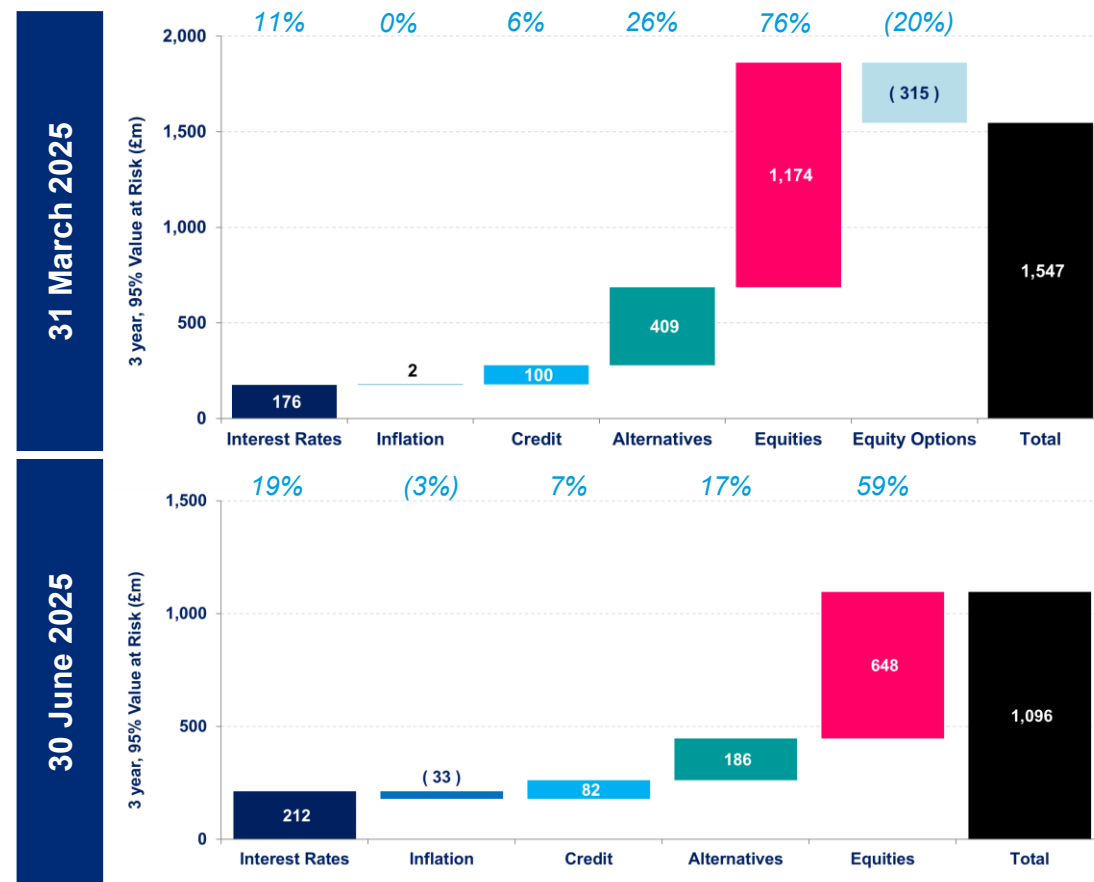
The surplus was estimated to have increased over Q1 from £86m to £367m.



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



- As at 30 June 2025, if a 1-in-20 ‘downside event’ occurred over the next three years, the funding position could deteriorate by at least an additional **£1.1bn**.

- 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 £452m over the quarter**. This was driven by changes to Mercer’s approach to deriving capital market assumptions. Further details can be found in the Appendix.

- VaR fell as a percentage of liabilities over the quarter from c.27% to c.19%, primarily due to these changes.

*From Q2 2025, the offset to risk from the equity options are shown implicitly within the ‘Equities’ bucket, rather than separately, due to modelling refinements.
 Note: Further details on the rationale and impact of changes to Mercer’s Capital Market Assumptions are included in the Appendix.

Performance Summary



Total Fund Performance

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (1)	3.7	3.4	3.5
Total Fund (ex currency hedge)	2.8	2.0	2.7
Strategic Benchmark (2) (ex currency hedge)	3.4	6.0	7.7
Relative (1 - 2)	+0.3	-2.6	-4.2

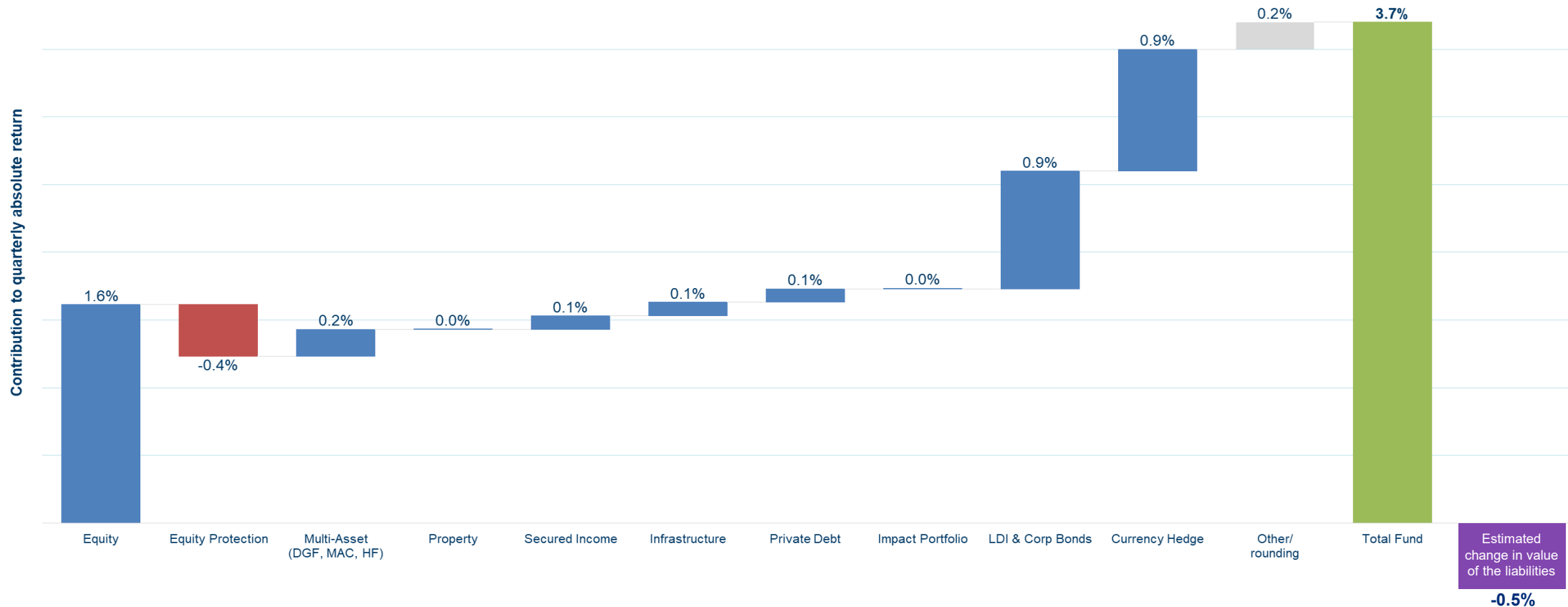
Source: Custodian, Mercer estimates. Returns are net of fees. 'Relative' figures may not sum due to rounding.

Commentary

- As illustrated on the next slide, positive returns were predominantly driven by the Equity and LDI holdings.
- All of the Liquid Growth and Illiquid Growth assets were positive, except for just Overseas Property and the Local Impact – Renewables asset. The Equity Protection detracted from returns, in line with expectations given rising markets.
- At the underlying level, relative performance of the mandates against their respective benchmarks was mixed. Notable detractors included the active equity mandates, Property and Secured Income, whilst the Synthetic Equity and Infrastructure holdings were the main contributors.
- Underperformance relative to the strategic benchmark over the one-year period was driven by the active equity mandates, the Equity Protection Strategy, 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, 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



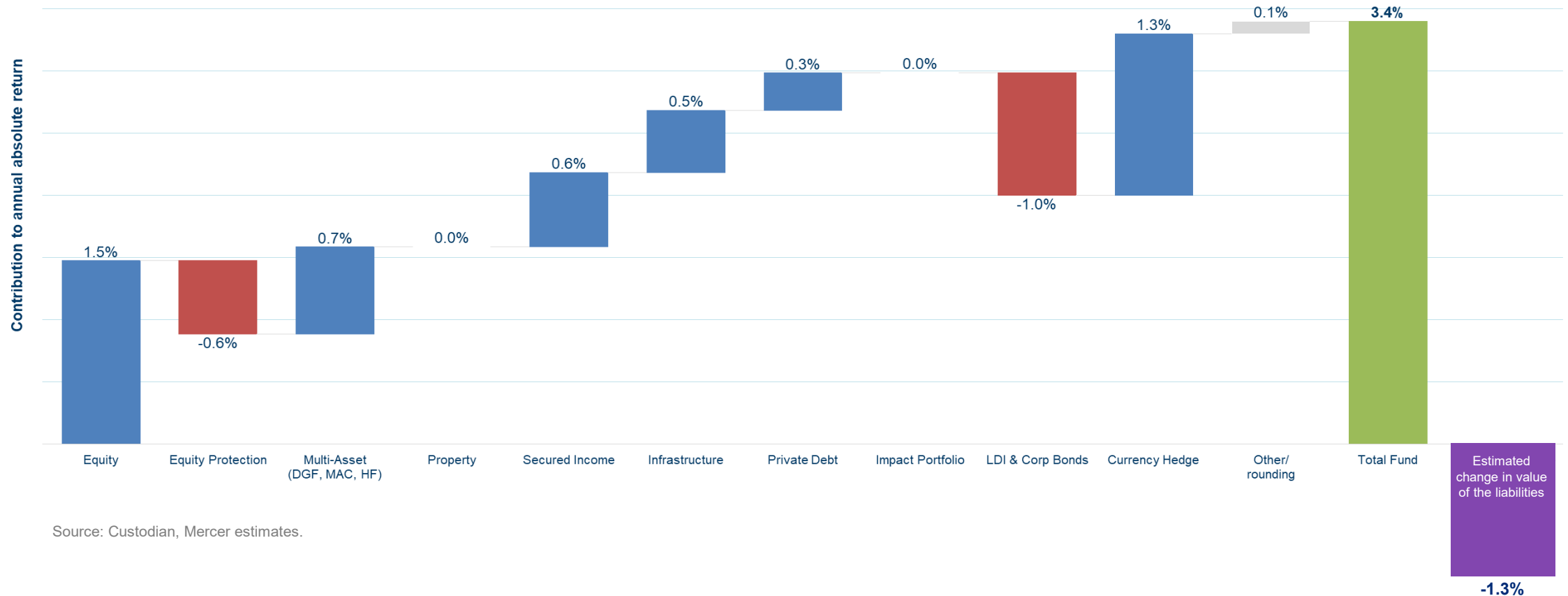
Source: Custodian, Mercer estimates.

Positive returns were driven by the Equity holdings and LDI (due to a fall in UK gilt yields). The Currency Hedge contribution was positive due to the strengthening of Sterling.

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

All of the alternative Liquid Growth and Illiquid Growth asset class buckets were positive.

Total Fund Performance Attribution – 1 Year



Source: Custodian, Mercer estimates.

The Equity holdings and the Currency Hedge were the main drivers of positive returns over the one year period. The Liquid Growth and Illiquid Growth asset class buckets were also positive.

The LDI detracted over the year due to a rise in UK gilt yields, although the liabilities fell by a greater extent, in line with expectations. The Equity Protection detracted due to the rise in underlying equity markets.

Performance vs. Expected Strategic Returns

	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 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.

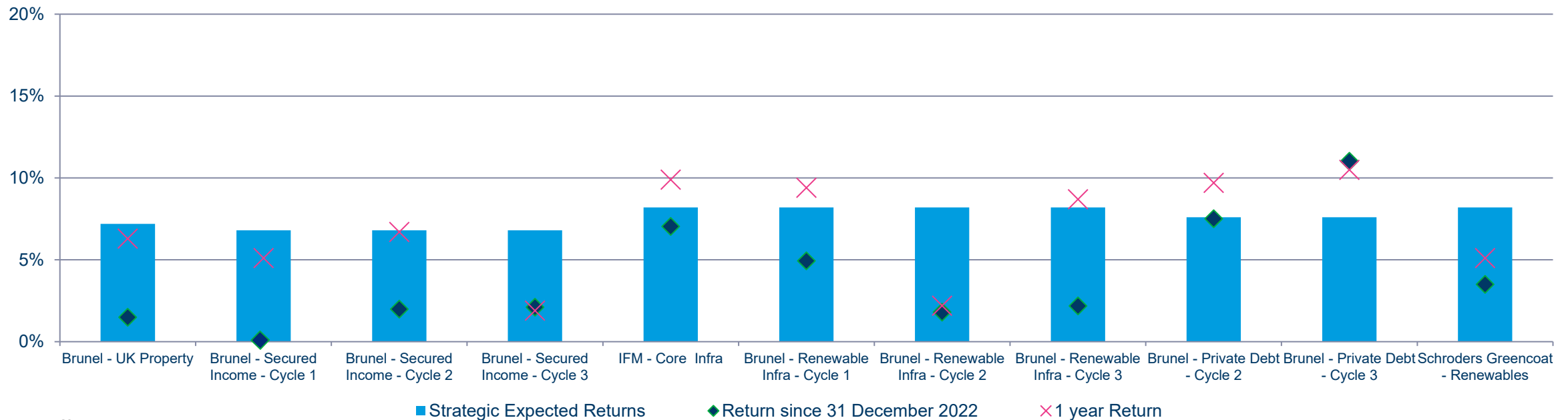


Notes:

We have illustrated the performance of the key mandates within the Fund's investment strategy. Actual returns are from 31 December 2022 to 30 June 2025. 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

	Brunel UK Property	Brunel Secured Income	IFM Core Infra	Brunel Renewable Infra	Brunel Private Debt	Schroders Greencoat - Renewables
Benchmark allocation	3.5%	9.0%	4.0%	5.0%	4.5%	3%
Commentary	Returns below expectations since December 2022 due to the challenges seen in Property markets. 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 are stronger over the 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.	Return below expectations, but mandate is 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 30 June 2025. 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.

Mandate Performance to 30 June 2025

Manager / Asset Class	3 Months			1 Year			3 Year			3 Year Performance Target (% p.a.)**	3 Year Performance vs Target	5 Year		
	Fund (%)	B'mark (%)	Relative (%)	Fund (%)	B'mark (%)	Relative (%)	Fund (% p.a.)	B'mark (% p.a.)	Relative (% p.a.)			Fund (% p.a.)	B'mark (% p.a.)	Relative (% p.a.)
Brunel Global High Alpha Equity	4.4	5.1	-0.7	4.1	7.7	-3.6	12.4	14.2	-1.8	+2-3	Target not met	10.9	12.7	-1.8
Brunel Global Sustainable Equity	3.4	5.2	-1.8	1.2	7.6	-6.4	7.8	13.3	-5.5	+2	Target not met	-	-	-
Brunel Passive Global Equity Paris-Aligned	4.9	5.0	-0.1	5.4	5.6	-0.2	13.3	13.4	-0.1	-	N/A (p)	-	-	-
MSCI World Paris-Aligned (Synthetic)*	10.4	5.8	+4.6	8.6	6.3	+2.3	-	-	-	-	N/A (p)	-	-	-
Brunel Diversified Returns Fund	1.2	1.8	-0.6	4.9	7.9	-3.0	5.0	7.5	-2.5	-	Target not met	-	-	-
Brunel Multi-Asset Credit	2.6	2.0	+0.6	9.1	9.0	+0.1	9.5	8.5	1.0	-	Target met	-	-	-
Brunel UK Property	1.0	1.4	-0.4	6.3	6.3	0.0	-5.2	-4.1	-1.1	-	Target not met	-	-	-
Brunel Secured Income - Cycle 1	1.1	1.8	-0.7	5.1	3.6	+1.5	-4.7	4.5	-9.2	+2	Target not met	0.5	5.0	-4.5
Brunel Secured Income - Cycle 2	0.9	1.8	-0.9	6.7	3.6	+3.1	-2.3	4.5	-6.8	+2	Target not met	-	-	-
Brunel Secured Income - Cycle 3	1.0	1.8	-0.8	1.9	3.6	-1.7	-	-	-	+2	N/A	-	-	-
IFM Core Infrastructure	2.4	2.3	+0.1	9.9	10.0	-0.1	7.1	9.6	-2.5	-	Target not met	9.9	7.9	+2.0
Brunel Renewable Infrastructure - Cycle 1	2.0	1.8	+0.2	9.4	3.6	+5.8	6.8	4.5	+2.3	+4	Target not met	6.0	5.0	+1.0
Brunel Renewable Infrastructure - Cycle 2	1.2	1.8	-0.6	2.2	3.6	-1.4	7.1	4.5	+2.6	+4	Target not met	-	-	-
Brunel Renewable Infrastructure - Cycle 3	5.7	1.8	+3.9	8.7	3.6	+5.1	-	-	-	+4	N/A	-	-	-
Brunel Private Debt - Cycle 2	2.3	2.0	+0.3	9.7	9.0	+0.7	9.3	8.5	+0.8	-	Target met	-	-	-
Brunel Private Debt - Cycle 3	1.4	2.0	-0.6	10.5	9.0	+1.5	-	-	-	-	N/A	-	-	-
Schroders Greencoat Wessex Gardens	-0.2	1.8	-2.0	5.1	7.9	-2.8	-	-	-	-	N/A	-	-	-
Octopus Affordable Housing	3.2	1.8	+1.4	-	-	-	-	-	-	-	N/A	-	-	-
Foresight Regional Investment	-	-	-	-	-	-	-	-	-	-	N/A	-	-	-
BlackRock Corporate Bonds	3.3	3.3	0.0	4.5	4.5	0.0	-1.1	-1.1	0.0	-	N/A (p)	-4.4	-4.4	0.0
BlackRock LDI	1.2	1.2	0.0	-7.0	-6.1	-0.9	-5.6	-5.0	-0.6	-	N/A (p)	-2.0	-2.1	+0.1
Equity Protection Strategy	-1.9	N/A	N/A	-2.7	N/A	N/A	-4.3	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 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 cost 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.

**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	798,991	845,450	13.8%	14.0%	10.5%	5.5	-	15.5	+3.5%
Global Sustainable Equity	648,956	671,048	11.2%	11.1%	10.5%	5.5	-	15.5	+0.6%
Paris-Aligned Equity*	983,464	1,037,429	17.0%	17.2%	20.5%	12.5	-	28.5	-3.3%
Total Equity	2,431,412	2,553,927	42.1%	42.3%	41.5%	36.5	-	46.5	0.8%
Diversified Returns Fund	385,269	389,741	6.7%	6.5%	6.0%	3	-	9	+0.5%
Multi-Asset Credit	369,145	378,860	6.4%	6.3%	6.0%	3	-	9	+0.3%
Total Liquid Growth	754,414	768,601	13.1%	12.7%	12.0%	7	-	17	+0.7%
Property	287,108	284,404	5.0%	4.7%	7.0%	No set range			-2.3%
Secured Income	620,690	618,401	10.7%	10.3%	9.0%	No set range			+1.3%
Core Infrastructure	246,967	252,817	4.3%	4.2%	4.0%	No set range			+0.2%
Renewable Infrastructure	235,618	240,813	4.1%	4.0%	5.0%	No set range			-1.0%
Private Debt	252,095	260,914	4.4%	4.3%	4.5%	No set range			-0.2%
Local Impact	40,984	52,137	0.7%	0.9%	3.0%	No set range			-2.1%
Total Illiquid Growth	1,683,463	1,709,485	29.1%	28.3%	32.5%	No set range			-4.2%
Corporate Bonds	182,592	188,527	3.2%	3.1%	2.0%	No set range			+1.1%
LDI & Equity Protection	1,112,590	1,153,656	19.3%	19.1%	12.0%	No set range			+7.1%
Total Protection	1,295,182	1,342,183	22.4%	22.3%	14.0%	No set range			+8.3%
<i>Synthetic Equity Offset*</i>	-541,658	-573,834	-9.4%	-9.5%		-			
Other**	153,279	230,327	2.7%	3.8%	0.0%	0	-	5	+3.8%
Total	5,776,113	6,030,707	100.0%	100.0%	100.0%				0.0%

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.

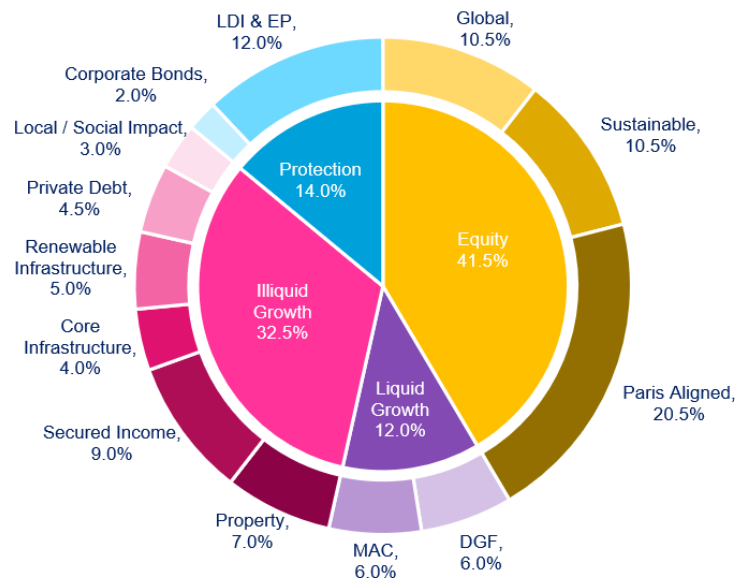
**Valuation includes the Fund of Hedge Fund mandate (due to be terminated), internal cash, the ETF and currency instruments.

Valuation by Mandate

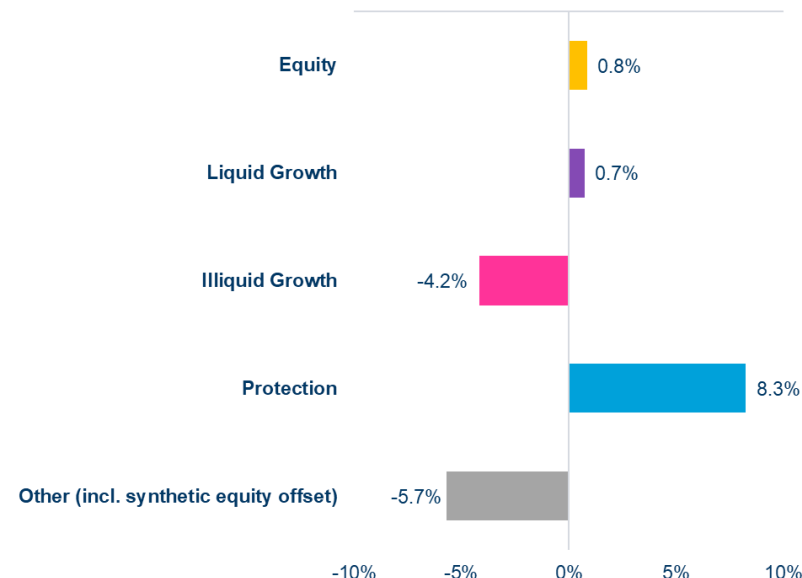
Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Brunel	Global High Alpha Equity	726,463	-	758,100	12.6%	12.6%
Brunel	Global Sustainable Equity	648,956	-	671,048	11.2%	11.1%
Brunel	Passive Global Equity Paris Aligned	441,806	-12	463,595	7.6%	7.7%
BlackRock	MSCI World Paris-Aligned (Synthetic)	541,658	-	573,834	9.4%	9.5%
Brunel	Diversified Returns Fund	385,269	-	389,741	6.7%	6.5%
Brunel	Multi-Asset Credit	369,145	-	378,860	6.4%	6.3%
Brunel	UK Property	188,821	-1	190,619	3.3%	3.2%
Schroders	UK Property	13,105	-	13,267	0.2%	0.2%
Partners	Overseas Property	85,183	-2,113	80,518	1.5%	1.3%
Brunel	Secured Income – Cycle 1	288,336	-4,037	287,562	5.0%	4.8%
Brunel	Secured Income – Cycle 2	98,202	-1,408	97,689	1.7%	1.6%
Brunel	Secured Income – Cycle 3	234,152	-3,231	233,150	4.1%	3.9%
IFM	Core Infrastructure	246,967	-	252,817	4.3%	4.2%
Brunel	Renewable Infrastructure – Cycle 1	117,541	-1,875	118,126	2.0%	2.0%
Brunel	Renewable Infrastructure – Cycle 2	92,986	1,889	96,154	1.6%	1.6%
Brunel	Renewable Infrastructure – Cycle 3	25,092	-156	26,533	0.4%	0.4%
Brunel	Private Debt - Cycle 2	184,131	-	188,326	3.2%	3.1%
Brunel	Private Debt - Cycle 3	67,964	3,600	72,588	1.2%	1.2%
Schroders Greencoat	Local Impact – Renewables	35,591	1,066	36,594	0.6%	0.6%
Octopus	Local Impact - Affordable Housing	5,393	6,945	12,513	0.1%	0.2%
Foresight	Local Impact - SME Financing	-	3,079	3,030	0.0%	0.1%
BlackRock	Corporate Bonds	182,592	-	188,527	3.2%	3.1%
BlackRock	LDI & derivatives MTM	1,112,590	-	1,153,656	19.3%	19.1%
BlackRock	Synthetic offset	-541,658	-	-573,834	-9.4%	-9.5%
JP Morgan	Fund of Hedge Funds	15,206	-	13,895	0.3%	0.2%
Record	Currency Hedging	85,350	-	141,561	1.5%	2.3%
BlackRock	ETF	23,701	-	24,611	0.4%	0.4%
Internal Cash	Cash	101,119	35,974	137,167	1.8%	2.3%
Residual assets	Residual Assets	432	-	444	0.0%	0.0%
Total		5,776,113	39,721	6,030,707	100%	100%

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.
- In the first part of the review, the Committee agreed in-principle to some changes, including the removal of the DGF allocation, an increase of the MAC allocation and a new allocation to Index-Linked Gilts (alongside a restructuring of the liability hedging structures). The ratification of these changes are subject to tests in the second part of the review.
- 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.
- Over the quarter, a net amount of c. £4m was drawn down to the private market portfolio. Amongst this was the first capital call towards the Foresight SME Financing strategy, of c. £3m.

Appendix

Q2 2025 Equity Market Review

In Q2 2025, global equities rose as both the easing of global trade and geopolitical tensions supported risky assets. Q2 2025 had begun with global equities being volatile following President Trump's tariff announcement on April 2, "Liberation Day." Nonetheless, a 90-day tariff suspension aided recovery, with both the US and China agreeing to the suspension.

Global equities rose 5.1% in unhedged sterling terms and 9.7% in local currency terms as the sterling appreciated against the US dollar.

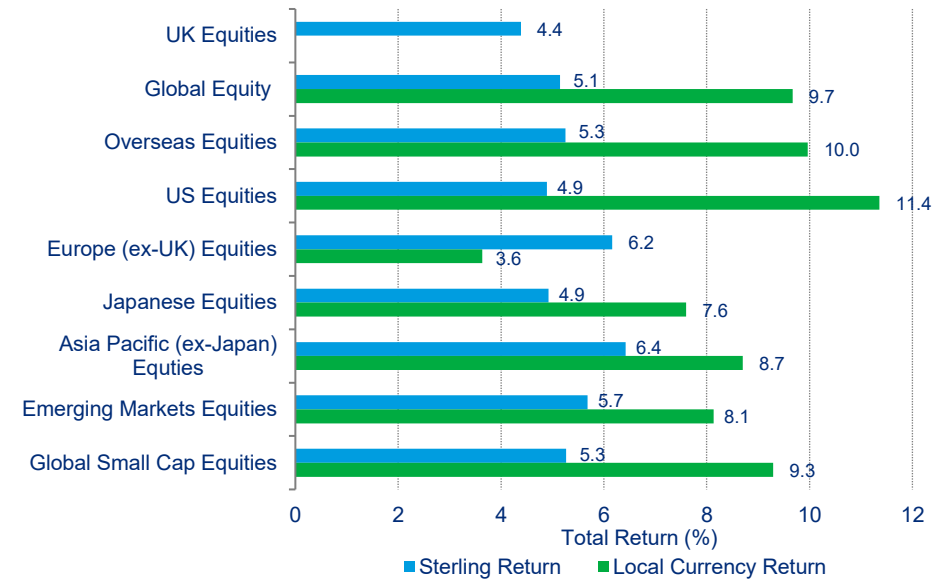
US equities returned 11.4% in local currency terms, whilst European (ex-UK) equities returned 3.6%, and Japanese equities returned 7.6%.

Emerging markets equities returned 8.1% in local terms.

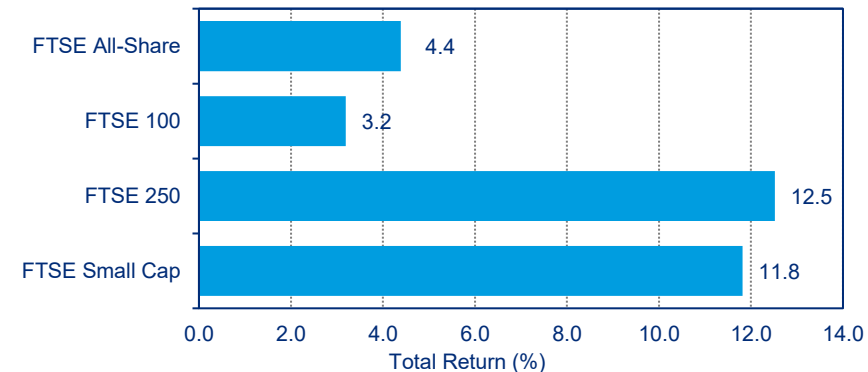
Global small cap stocks returned 9.3% in local terms, amid easing concerns around the global economic outlook.

The **FTSE All Share** index returned 4.4% over the quarter, with the large-cap **FTSE 100** index returning 3.2%. More domestically focused equities (**FTSE 250**) produced returns of 12.5%. The **small-cap** index produced a positive 11.8% return.

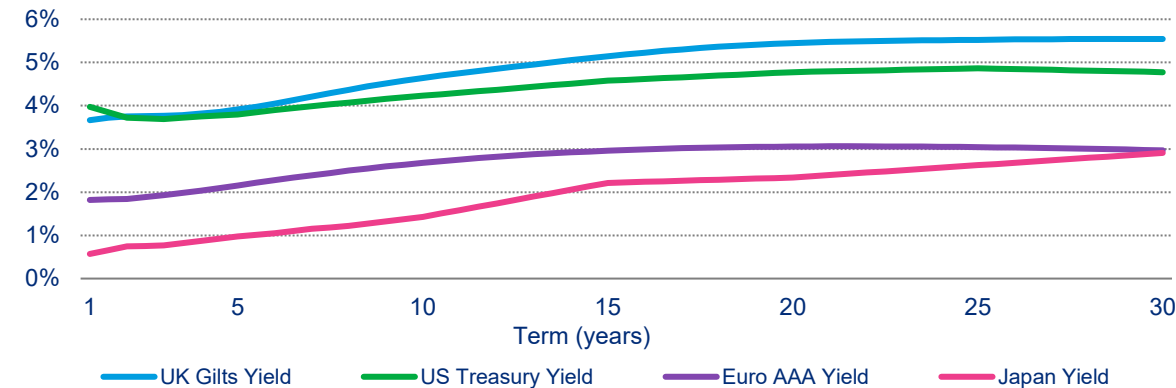
Equity Performance



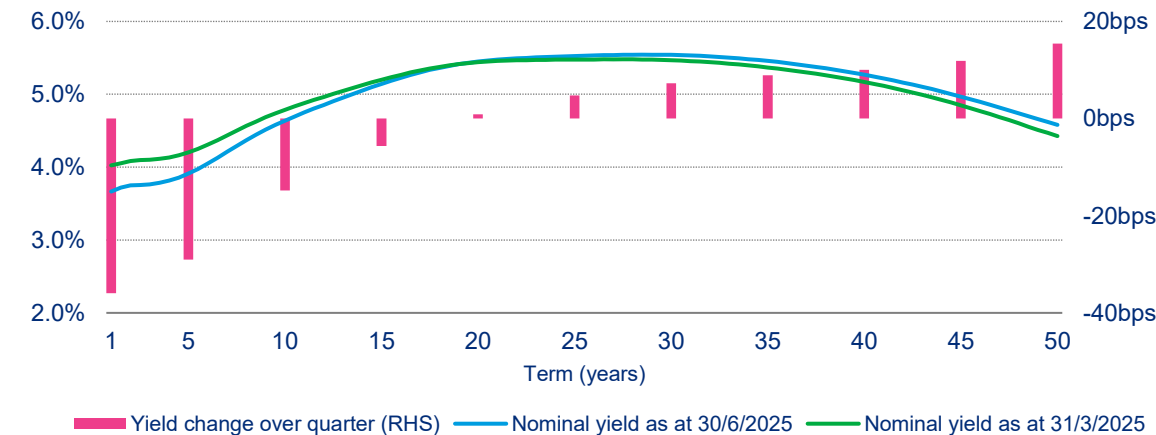
FTSE Performance by Market Cap



Q2 2025 Bond Market Review



Source: Mercer and Bloomberg



Source: Mercer

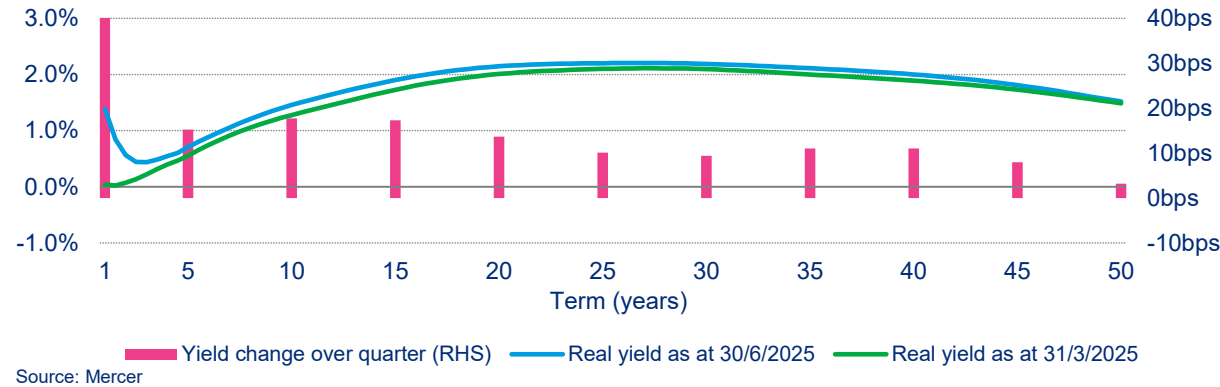
Government Bond Yields

Global government bond yields were mostly down over the second quarter.

In the US, the treasury curve steepened with long-term yields moving higher amidst macro volatility and fiscal spending concerns after the House passed the 'One Big Beautiful Bill'. In contrast, German bund yields moved lower across the curve. Meanwhile, in the UK, gilt yields declined sharply during the quarter amid expectations of more rate cuts by the BoE.

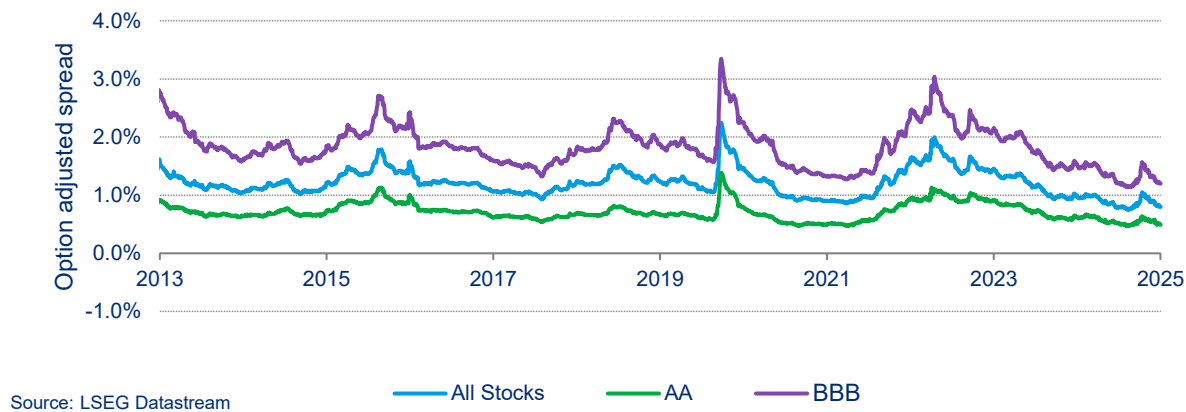
The 10-year benchmark bond yield in the US rose 0.02%, closing the quarter at 4.23%. In contrast, the UK and German 10-year yield fell 0.19% and 0.13%, respectively. The 10-year JGB yield also decreased by 0.06% during the quarter as tariff headwinds lowered BoJ rate hike bets.

Q2 2025 Bond Market Review



UK Index-Linked Gilt Yields

UK real yields rose across the curve over the previous quarter. Both headline and services inflation in the UK continued to exhibit a deflationary trend through the quarter, albeit with some upside risks emerging from higher energy prices. While the BoE cut rates by 25bps in Q2, the Monetary Policy Committee ("MPC") maintained a 'gradual and careful' assessment of the timing of further easing citing "elevated global uncertainty". UK 5-year, 10-year and 30-year breakeven rates finished the quarter at 3.10%, 3.03% and 3.04%, respectively, with the 10-year at the lowest level since December 2020.



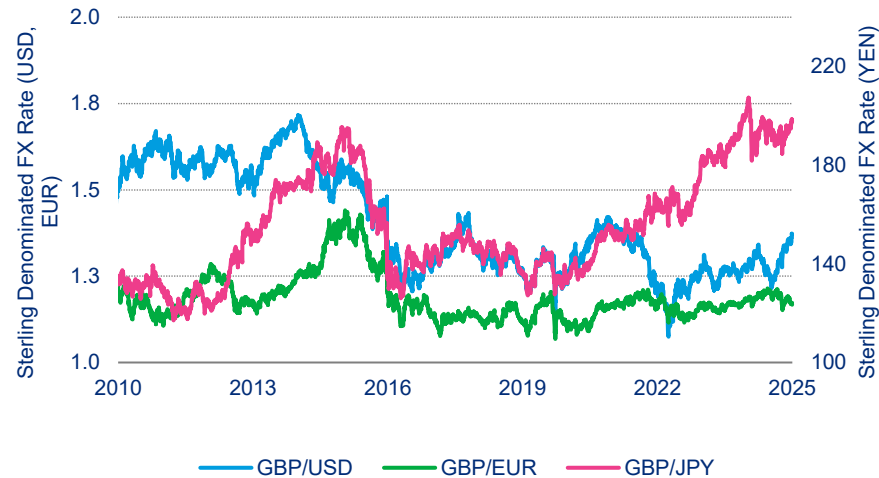
Corporate bonds

Spreads on UK investment-grade credit tightened across the credit quality spectrum through the second quarter, with spreads for AA-rated credit down 6bps at 49bps, as well as BBB-rated credit down 11 bps at 120bps.

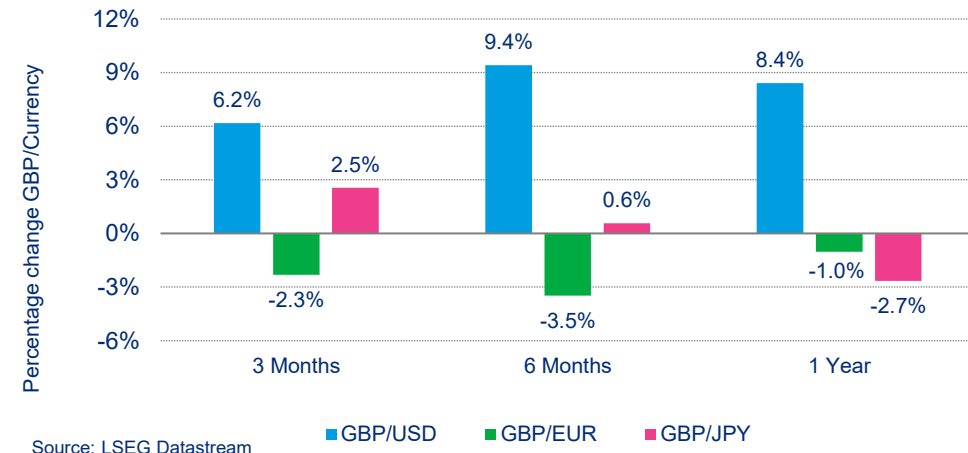
Q2 2025 Currency Market Review

In the second quarter of 2025, sterling strengthened against the US dollar and Japanese yen, whilst weakened against the Euro. Sterling appreciated 6.2% and 2.5% against USD and JPY, respectively, while depreciating 2.3% against EUR. The US dollar fell ~7% over the quarter on the back of waning US exceptionalism amidst signs of a gradual slowdown. On a 12-month basis, sterling strengthened 8.4% against USD, while declining 1% and 2.7% against EUR and JPY, respectively.

Sterling Denominated FX Rate



Change in sterling against foreign currencies



Q2 2025 Property

UK property as measured by the MSCI Index increased by 1.7% over the second 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
Foresight	Local Impact - SME Financing*	SONIA + 3% p.a.	-	April 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., for Local Impact – Renewables and Local Impact - Affordable Housing it is 7% p.a., and for Local Impact – SME Financing it is 15% 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.

The cash-plus objective is aligned for the Local Impact portfolio despite underlying differences to reflect the return which was strategically targeted for this portfolio.

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

Changing capital market assumptions

- Mercer has historically used a stable model for deriving capital market assumptions. Initial gilt yields and credit spreads reflect market conditions and drive future returns. Growth assets were modelled with stable “risk premia”.
- Discussions about market valuations and outlook has generally been facilitated via our dynamic asset allocation views.
- We have decided to update our approach to capital market assumptions to include a view on market valuations and how they impact expectations.
- We are making this change for four reasons.
 - (a) To improve their predictive ability
 - (b) To better reflect the market conditions which have changed markedly since 2022.
 - (c) To have our capital market assumptions respond more quickly to future changes in conditions.
 - (d) To be consistent globally across Mercer.
- The new approach is now in use from 30 June 2025.
- The following slide provides more detail on the changes and how they may impact asset liability analysis.

Summary of changes

Asset class or area	Change in methodology?		10-year impact	Comment
	Change?	Current	New	
Equities	Yes	Fixed equity risk premium ("ERP") of 3.7%	Gordon growth model with price earnings reversion (<i>dividend yield + real growth + inflation + valuation adjustment</i>)	↓ Equity expected returns will be more dynamic reflecting whether equity market performance and price/earnings ratios are high / low by historical standards. The connection to bond yields will be much weaker.
Investment Grade Credit	No	Market based credit spread with adjustment for defaults and spread reversion		= No change in model, but there will be impact from different parameterisation and the underlying gilt model (see below).
Gilts	Yes	Market based yields	Market based yield but with adjustment for yield reversion	↑ Element of yield reversion to be included to better reflect expected path of yields given current market and historical levels.
Cash	Yes	Based on market inputs	Market based but with adjustment reversion	↓ Element of yield reversion to be included to better reflect yields in current market environment relative to historical levels.
Inflation	Yes	Driven by breakeven inflation	Driven by a view on long term inflation levels and reversion towards that	↓ Our long-term level is set based on long term expectations from consensus economics. These are cross referenced against central targets.
Reversion / Dispersion	Yes	Limited reversion allowed for	Ongoing reversion in key variables leads to less dispersion of returns.	↓ While short term uncertainty will remain at a similar level, in the longer-term returns will be less dispersed. This is because if early years shows prices or yield moving in one direction, they are likely to revert in the longer term under our new approach.

Mercer's Capital Market Assumptions are subject to change and are reviewed on an ongoing basis. They will change over time as financial conditions change. Asset class assumptions other than those shown above will also change.

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