Mercer

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Avon Pension Fund

Committee Investment Report
Quarter to 30 September 2025

November 2025

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A business of Marsh McLennan

Contents

Executive Summary

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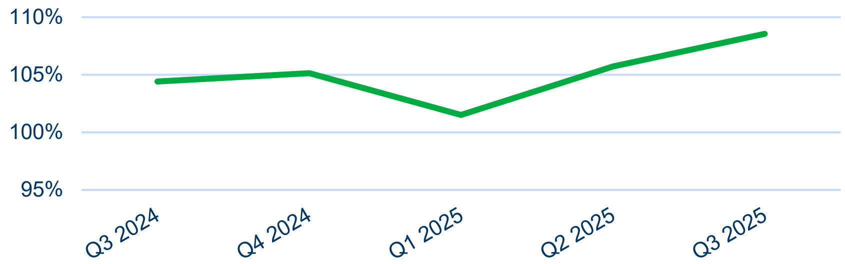
Executive Summary

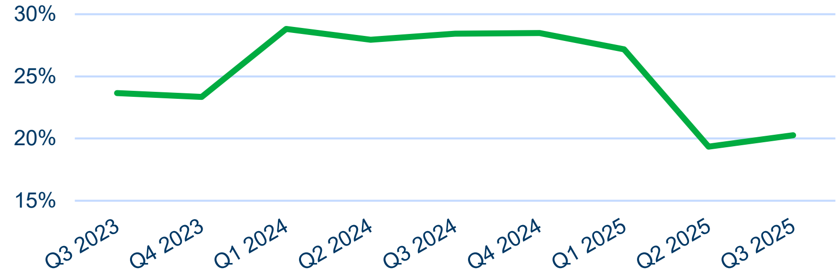
Market background	• In the third quarter, financial markets were driven by the resilience of economic growth with equities continuing to rally and bond returns mixed. • While some developed market central banks continued cutting rates, policymakers warned that the outlook warranted a cautious approach on the back of potential risks emerging from tariffs and trade. In the third quarter, the US Federal Reserve reduced its policy rate by 0.25%, amid tensions between President Donald Trump and members of the central bank. Interestingly, economic resilience shone through with growth surpassing expectations, even as the labour market softened. • Overall, bond yields were mostly higher across developed markets, while global equities ended the quarter on a positive note.

Funding level and risk

- The funding level is estimated to have increased over the quarter to c.109% due to the assets increasing in value. The estimated present value of the liabilities also fell marginally.
- The funding level is estimated to be c. 4% higher over the year to 30 September 2025.



- The Value-at-Risk ("VaR") increased over the quarter to £1,154m, due to the rise in the value of the assets, as well as a change in correlation assumptions over the quarter between interest rates and inflation expectations.
- As a percentage of liabilities, the VaR remained broadly unchanged at c.20%.



Asset allocation and strategy	• Over the quarter, a net amount of c. £11m was drawn down to the private market portfolio. • The Committee has agreed changes to the Strategic Asset Allocation as part of the 2025 Investment Strategy Review. These have not been reflected in this report, but are outlined on slide 22 for reference, and will be reflected in the next performance report once the changes have been ratified in the Investment Strategy Statement and implementation is further progressed.

Executive Summary

Performance

- In aggregate, positive returns were driven mainly by the equity holdings. Most of the alternative Liquid Growth and Illiquid Growth portfolios were also positive, with Private Debt standing out.
- The Equity Protection Strategy detracted from returns, which was in-line with expectations given rising markets, whilst the LDI also detracted due to a rise in UK gilt yields.
- At the underlying level, relative performance of the mandates against their respective benchmarks was mixed. The Active Equity mandates and the Synthetic Equity holdings (due to currency dynamics) detracted, though most of the Liquid Growth and Illiquid Growth portfolios delivered positive relative returns.
- Underperformance relative to the strategic benchmark over the one-year period was driven by the Active Equity mandates, the Synthetic Equity (due to benchmarking dynamics), the Equity Protection Strategy and the Secured Income mandates, 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, and Secured Income mandates.

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	2.9	2.8	4.9
Strategic Benchmark **(2)** (ex currency hedge)	3.9	8.7	8.5
Relative **(1 - 2)**	**-1.0**	**-5.9**	**-3.6**

- The Currency Hedge detracted from returns over the three month period due to the weakening of Sterling. It was neutral over the one year period, but added to returns over three years due to Sterling strengthening.

- Absolute returns compared to the strategic returns modelled at the strategy review in 2023 have been positive for all of the Equity mandates.
- 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.

Liability hedging mandate

- BlackRock was in compliance with the investment guidelines over the quarter.
- The interest rate and inflation hedge ratios are c.29% 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

- 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 September 2025.
- BlackRock would request additional collateral if the interest rate buffer fell below 3%.

Market Background

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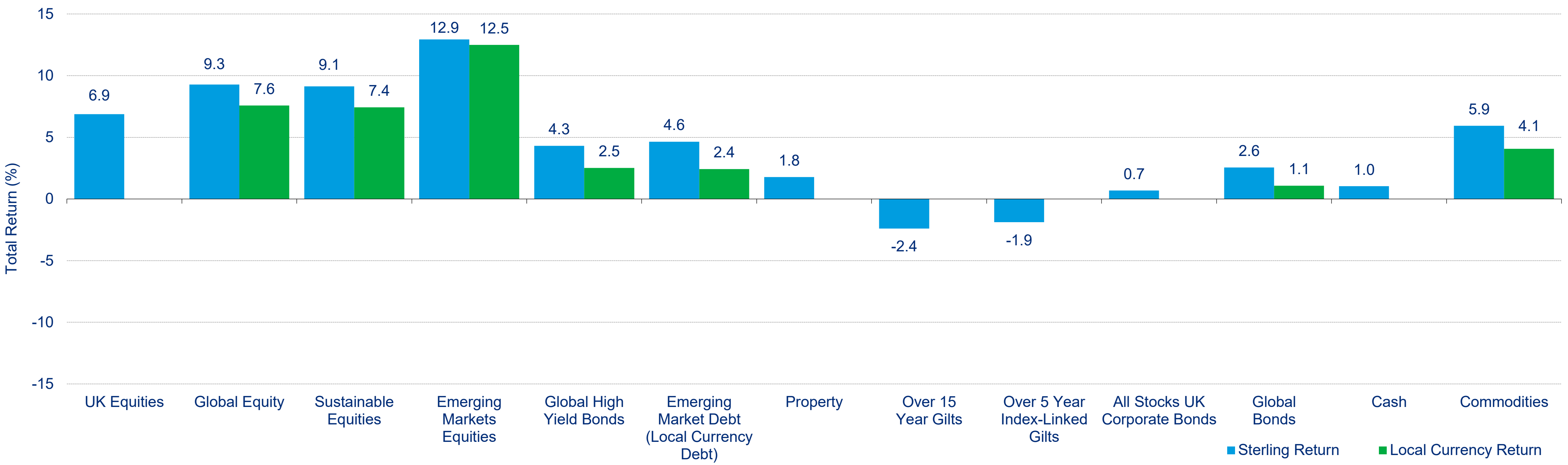
Market Background

Return over 3 months to 30 September 2025 (%)



In the third quarter, financial markets were driven by the resilience of economic growth with equities continuing to rally and bond returns mixed.

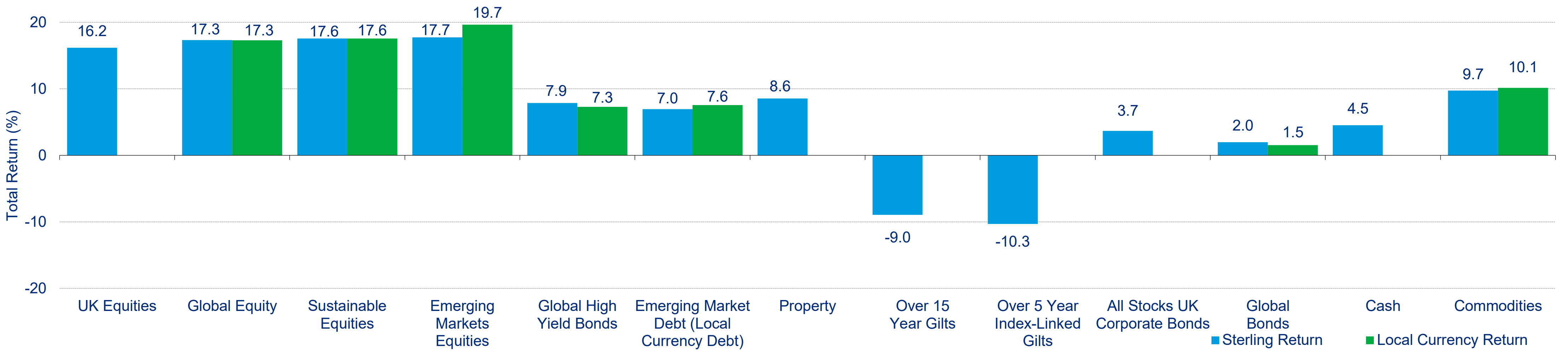
While some developed market central banks continued cutting rates, policymakers warned that the outlook warranted a cautious approach on the back of potential risks emerging from tariff and trade. In the third quarter, the US Federal Reserve reduced its policy rate by 25 basis points (bps), amid tensions between President Donald Trump and members of the central bank, including Chair Jerome Powell. Interestingly, economic resilience shone through with growth surpassing expectations, even as the labour market softened. In Europe, the European Central Bank left rates unchanged, with Germany’s fiscal stimulus supporting the growth story. Notably, the change in leadership in France stirred some volatility in regional markets.

Overall, bond yields were mostly higher across developed markets, while global equities ended the quarter on a positive note.

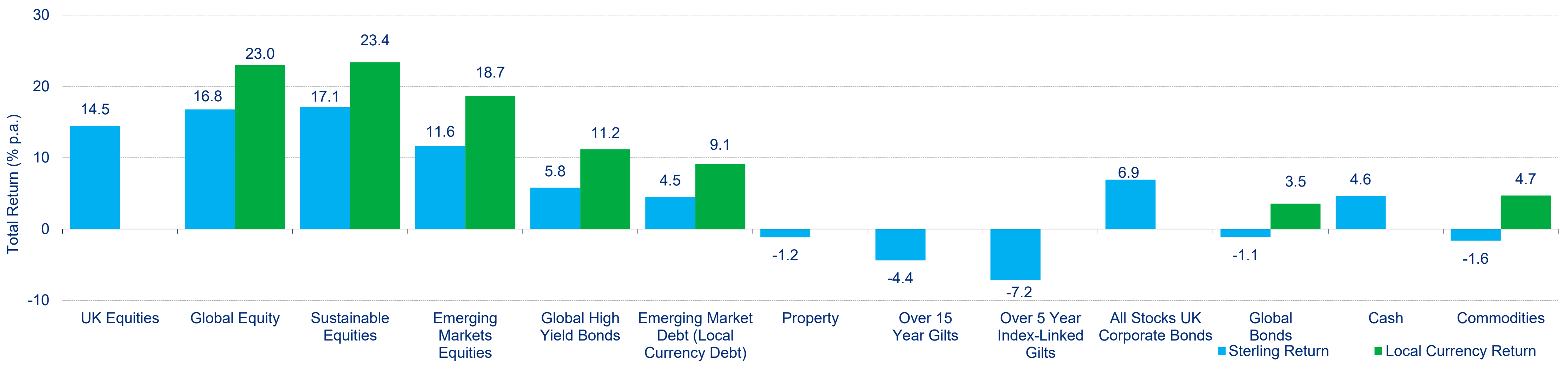
Source: LSEG Datastream

Market Background – 1 & 3 Years

Return over 1 year to 30 September 2025 (%)



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



Mercer

Source: LSEG Datastream

Funding Level and Risk

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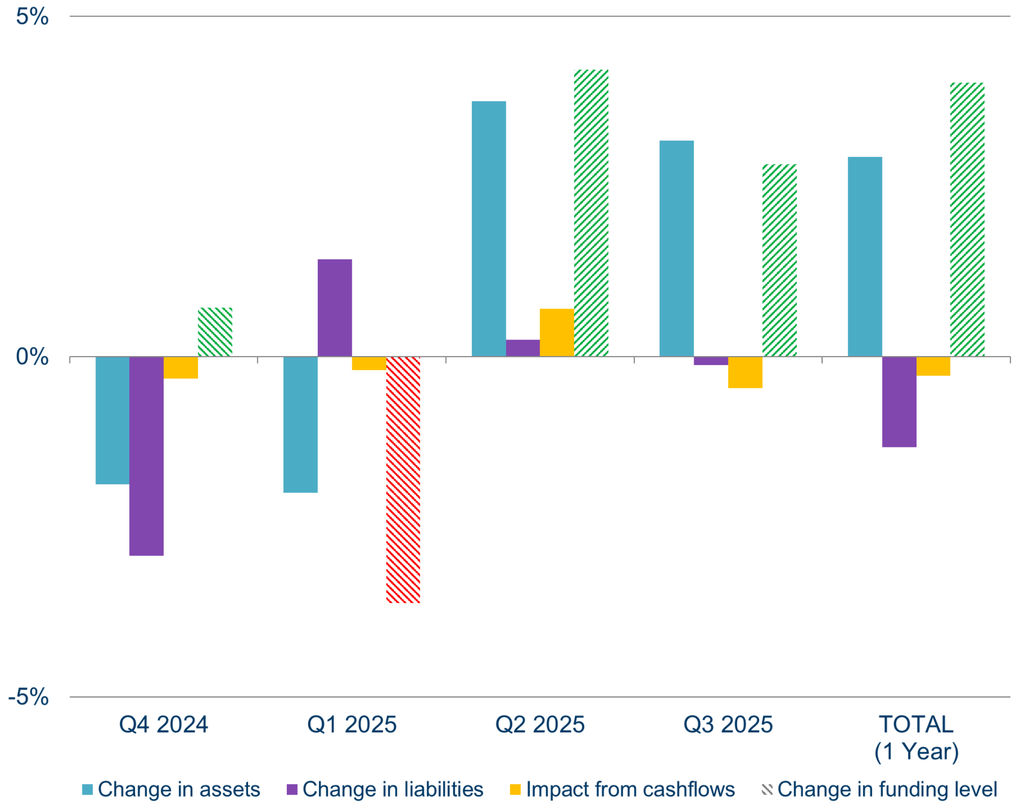
Funding Level and Deficit

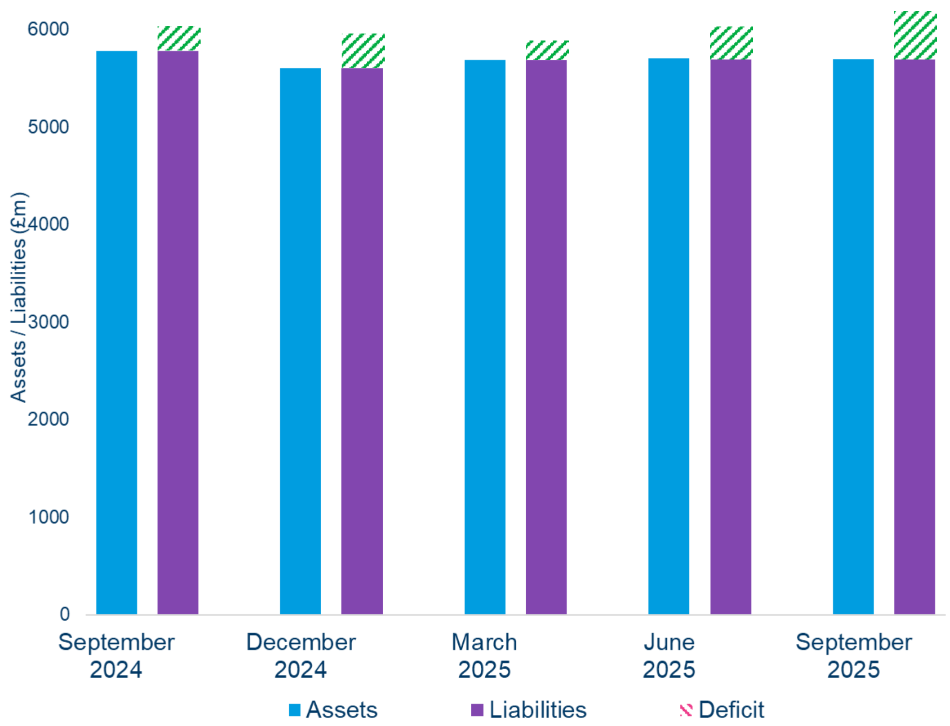
The Fund's assets returned 2.9% over the quarter. The liabilities are estimated to have decreased by 0.1%, which allows for market movements, benefit accrual and benefits paid.

The combined effect of this saw the estimated funding level increase to c.109%.

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



The surplus was estimated to have increased over Q3 from £327m to £487m.

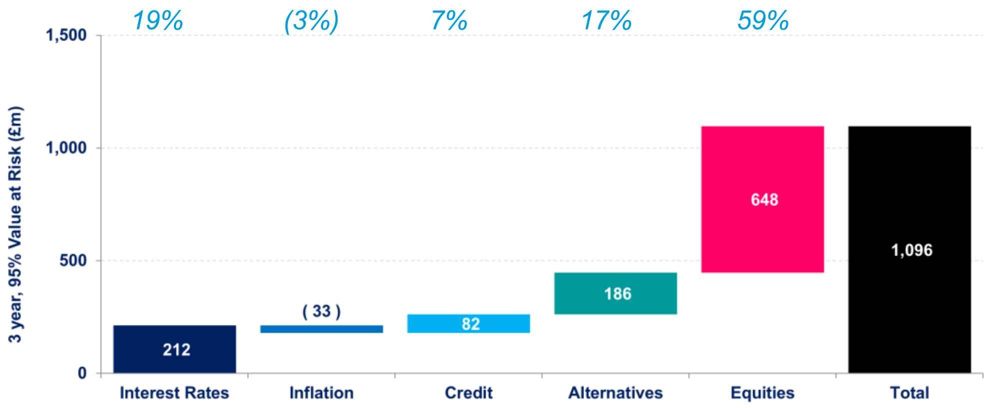


Liability values are estimated by Mercer. They are based on the actuarial valuation assumptions as at 31 March 2022 and the 'CPI plus' discount basis. This margin above CPI is dynamic, and so changes on a monthly basis due to market conditions and is reviewed each quarter to also consider any changes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

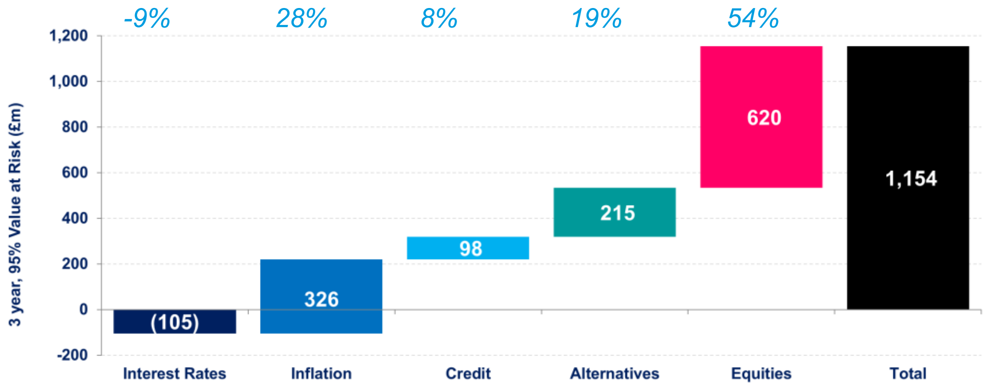
Risk Decomposition – 3 Year Value at Risk

- 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.

30 June 2025



30 September 2025



- As at 30 September 2025, if a 1-in-20 'downside event' occurred over the next three years, the funding position could deteriorate by at least an additional **£1.2bn**.
- Each bar to the left of the total represents the contribution to this total risk from the primary underlying risk exposures (interest rates and inflation, changes in credit spreads, volatility of alternative assets and equity markets, and the benefit from equity options*).
- Overall, **the VaR increased by £59m over the quarter**, due to the rise in the value of the assets as well as a change in correlation assumptions over the quarter between interest rates and inflation expectations.
- VaR rose marginally as a percentage of liabilities over the quarter from c. 19.4% to c. 20.3%.

*The offset to risk from the equity options are shown implicitly within the 'Equities' bucket, rather than separately, due to modelling refinements.

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)**	2.9	2.8	4.9
Total Fund (ex currency hedge)	3.3	2.8	3.7
Strategic Benchmark **(2)** (ex currency hedge)	3.9	8.7	8.5
Relative (1 - 2)	**-1.0**	**-5.9**	**-3.6**

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

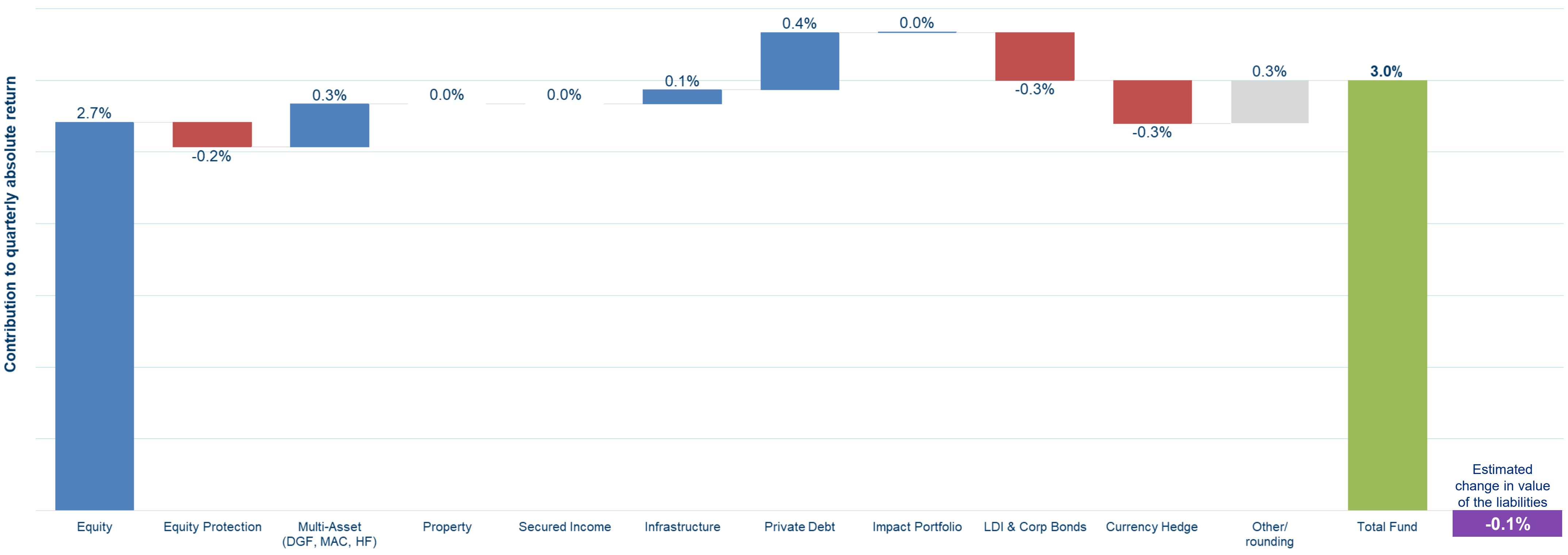
Commentary

- As illustrated on the next slide, positive absolute returns were predominantly driven by the Equity holdings.
- Most of the Liquid Growth and Illiquid Growth portfolios were also positive, with Private Debt standing out. The Equity Protection strategy offset a proportion of equity market gains as expected, and the LDI portfolio performance was negative due to a rise in UK gilt yields.
- At the underlying level, relative performance of the mandates against their respective benchmarks was mixed. The Active Equity mandates and the Synthetic Equity holdings (due to currency dynamics) detracted, though most of the Liquid Growth and Illiquid Growth portfolios delivered positive relative returns.
- Underperformance relative to the strategic benchmark over the one-year period was driven by the Active Equity mandates, the Equity Protection Strategy and the Secured Income mandates. The way in which the Synthetic Equity is benchmarked in the methodology also impacted the relative position*, as did the LDI allocation is reflected for total Fund benchmark returns**.
- The drivers of underperformance over the three year period were the Active Equity, Equity Protection and Secured Income mandates.
- The Currency Hedge detracted from returns over the three month period due to the weakening of Sterling. It was neutral over the one year period, but added to returns over three years due to Sterling strengthening.

*With regards to Synthetic Equity, the benchmark is the MSCI PAB index, however the total Fund benchmark solely reflects the FTSE PAB index, which delivered higher returns than the MSCI index. Also note Synthetic Equity returns are impacted by funding costs.

**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 over the year due to gilt yield movements, and the % allocation to LDI was above the SAA, this has had a larger impact on total performance. We are also investigating the Custodian's treatment of cashflows within the BlackRock portfolio, which may be overstating underperformance.

Total Fund Performance Attribution – Quarter



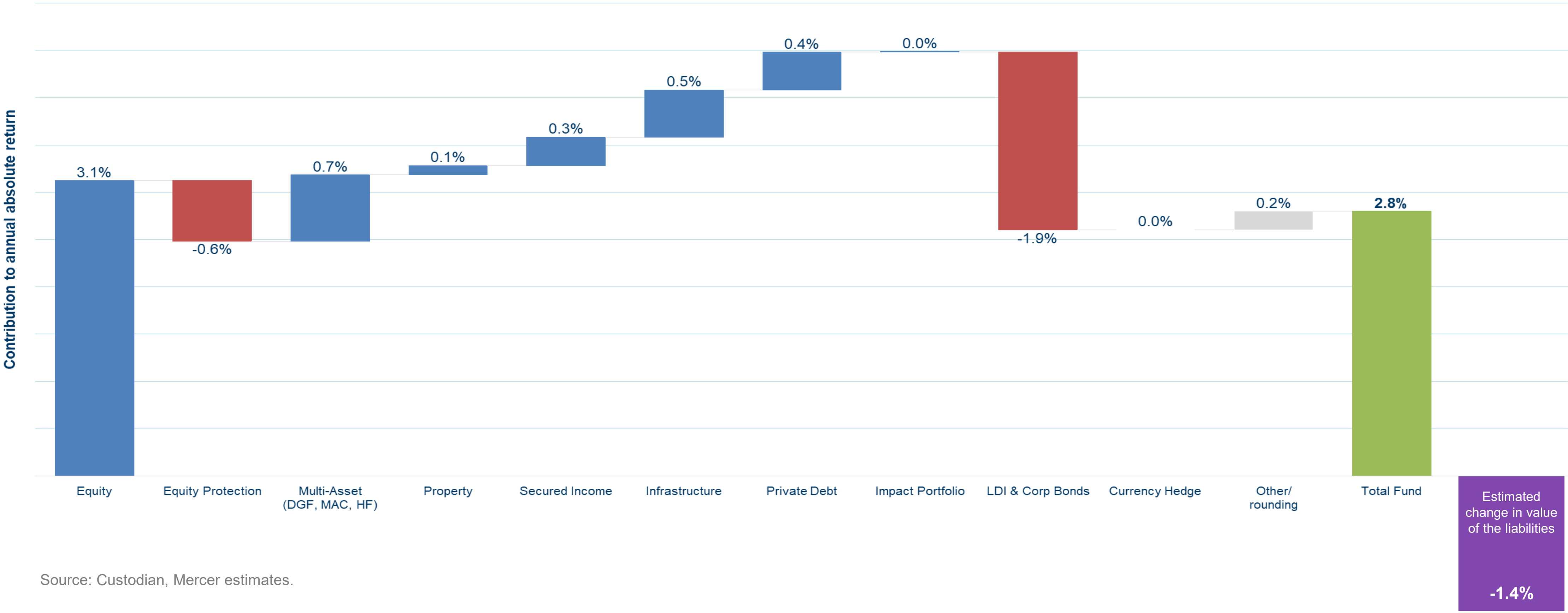
Source: Custodian, Mercer estimates.

Positive returns were driven by the Equity holdings. Most of the alternative Liquid Growth and Illiquid Growth portfolios were also positive, with Private Debt standing out in particular.

The Equity Protection counteracted equity market gains, although the effects are less visible quarter-on-quarter in terms of the 'profit and loss'. The LDI portfolio detracted due to a rise in UK gilt yields.

The Currency Hedge contribution was negative due to the weakening of Sterling.

Total Fund Performance Attribution – 1 Year



Source: Custodian, Mercer estimates.

The Equity holdings primarily drove positive returns over the one year period.

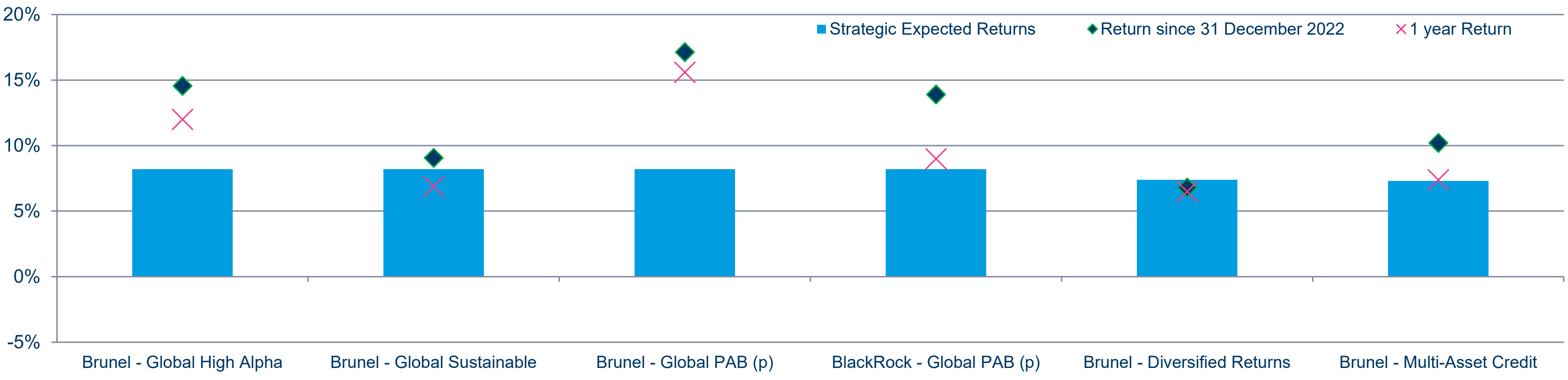
The Liquid Growth and Illiquid Growth asset class buckets were all also positive, with the exception of the Impact Portfolio for which the assets are early in their drawdown phase.

The LDI portfolio detracted over the year due to a rise in UK gilt yields, in line with the interest rate hedged element of the liabilities.

The Equity Protection detracted due to the rise in underlying equity markets.

Performance vs. Expected Strategic Returns

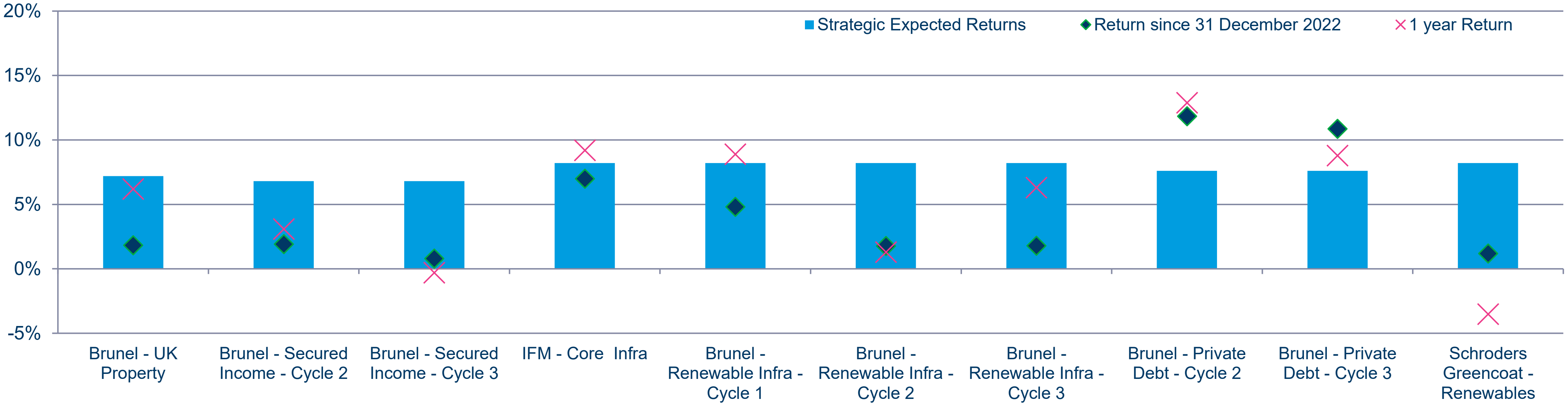
	Brunel Global High Alpha	Brunel Global Sustainable	Brunel / BlackRock Passive Global PAB	Brunel Diversified Returns	Brunel Multi-Asset Credit
Benchmark Allocation	10.5%	10.5%	20.5%	6.0%	6.0%
Commentary	Returns above expectations since December 2022 due to equity market strength, though mandate has underperformed the benchmark over this period.	Returns slightly above expectations since December 2022 due to equity market, though mandate has underperformed the benchmark over this period.	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 slightly below expectations since December 2022, due to muted returns in 2024.	Returns above expectations since December 2022 largely due to strength in high-yield debt markets.



Notes:
We have illustrated the performance of the key mandates within the Fund's investment strategy.
Actual returns are from 31 December 2022 to 30 September 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, though performance has picked up again in the past year.	Returns for all cycles below expectations since December 2022. Mandates are still in the drawdown phase; the first drawdowns were in 2019, 2020 and 2022 respectively. Returns are stronger over since inception periods (i.e. prior to December 2022).	Returns above expectations since December 2022. Mandates are still in the drawdown phase.	Return below expectations, but mandate is still early in the drawdown phase.



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Mandate Performance to 30 September 2025

Manager / Asset Class	3 Months			1 Year			3 Year			5 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.)	Fund (% p.a.)	B'mark (% p.a.)	Relative (% p.a.)		
Brunel Global High Alpha Equity	7.1	9.3	-2.2	12.0	17.3	-5.3	14.3	16.8	-2.5	10.8	14.0	-3.2	+2-3	Target not met
Brunel Global Sustainable Equity	5.7	9.7	-4.0	6.9	17.4	-10.5	9.1	16.2	-7.1	7.1	13.1	-	+2	Target not met
Brunel Passive Global Equity Paris-Aligned	10.2	10.2	0.0	15.6	15.7	-0.1	16.4	16.5	-0.1	-	-	-	-	N/A (p)
MSCI World Paris-Aligned (Synthetic)*	6.4	9.0	-2.6	9.0	13.8	-4.8	N/A	N/A	-	-	-	-	-	N/A (p)
Brunel Diversified Returns Fund	3.3	1.8	1.5	6.5	7.6	-1.1	6.5	7.7	-1.2	4.9	5.9	-	-	Target not met
Brunel Multi-Asset Credit	2.2	2.1	0.1	7.4	8.7	-1.3	10.7	8.8	1.9	-	-	-	-	N/A
Brunel UK Property	1.3	1.3	0.0	6.2	6.3	-0.1	-3.6	-2.3	-1.3	-	-	-	-	N/A
Brunel Secured Income - Cycle 1	0.7	0.3	0.4	4.7	3.8	0.9	-3.0	4.0	-7.0	0.9	5.0	-4.1	+2	Target not met
Brunel Secured Income - Cycle 2	0.3	0.3	0.0	3.1	3.8	-0.7	-1.2	4.0	-5.2	-	-	-	+2	N/A
Brunel Secured Income - Cycle 3	-0.9	0.3	-1.2	-0.3	3.8	-4.1	-	-	-	-	-	-	+2	N/A
IFM Core Infrastructure	1.6	2.3	-0.7	9.2	9.7	-0.5	8.3	9.8	-1.5	9.8	8.1	1.7	-	Target not met
Brunel Renewable Infrastructure - Cycle 1	0.9	0.3	0.6	8.9	3.8	5.1	4.4	4.0	0.4	6.2	5.0	1.2	+4	Target not met
Brunel Renewable Infrastructure - Cycle 2	0.4	0.3	0.1	1.3	3.8	-2.5	5.0	4.0	1.0	-	-	-	+4	N/A
Brunel Renewable Infrastructure - Cycle 3	-0.5	0.3	-0.8	6.3	3.8	2.5	-	-	-	-	-	-	+4	N/A
Brunel Private Debt - Cycle 2	13.5	2.1	11.4	12.9	8.7	4.2	10.2	8.8	1.4	-	-	-	-	N/A
Brunel Private Debt - Cycle 3	2.3	2.1	0.2	8.8	8.7	0.1	-	-	-	-	-	-	-	N/A
Schroders Greencoat Wessex Gardens	-2.7	1.8	-4.5	-3.5	7.6	-11.1	-	-	`	-	-	`	-	N/A
Octopus Affordable Housing	2.9	1.8	1.1	-	-	-	-	-	-	-	-	-	-	N/A
Foresight Regional Investment	-17.4	1.8	-19.2	-	-	-	-	-	-	-	-	-	-	N/A
BlackRock Corporate Bonds	0.6	0.6	0.0	2.6	2.6	0.0	7.1	7.1	0.0	-4.5	-4.5	0.0	-	N/A (p)
BlackRock LDI	-2.8	-2.8	0.0	-12.0	-11.3	-0.7	-5.9	-5.9	0.0	-2.8	-2.3	-0.4	-	N/A (p)
Equity Protection Strategy	-0.8	N/A	N/A	-3.1	N/A	N/A	-4.6	N/A	N/A	-	-	-	-	N/A

Source: Investment Managers, Custodian, Mercer estimates. Returns are net of fees, unless otherwise stated. Returns are in GBP terms
Relative returns are calculated arithmetically.
A summary of the benchmarks for each of the mandates is given in the Appendix.
Green = mandate exceeded target. Red = mandate underperformed target. Black = mandate performed in line with target (mainly reflecting passive mandates).
Performance 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

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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*	845,450	914,746	14.0%	14.8%	10.5%	5.5 - 15.5	+4.3%
Global Sustainable Equity	671,048	709,091	11.1%	11.5%	10.5%	5.5 - 15.5	+1.0%
Paris-Aligned Equity**	1,037,429	1,136,073	17.2%	18.4%	20.5%	12.5 - 28.5	-2.1%
Total Equity	**2,553,927**	**2,759,910**	**42.3%**	**44.6%**	**41.5%**	**36.5 - 46.5**	**+3.1%**
Diversified Returns Fund	389,741	402,613	6.5%	6.5%	6.0%	3 - 9	+0.5%
Multi-Asset Credit	378,860	387,300	6.3%	6.3%	6.0%	3 - 9	+0.3%
Total Liquid Growth	**768,601**	**789,913**	**12.7%**	**12.8%**	**12.0%**	**7 - 17**	**+0.8%**
Property	284,404	286,638	4.7%	4.6%	7.0%	No set range	-2.4%
Secured Income	618,401	609,209	10.3%	9.9%	9.0%	No set range	+0.9%
Core Infrastructure	252,817	256,837	4.2%	4.2%	4.0%	No set range	+0.2%
Renewable Infrastructure	240,813	237,528	4.0%	3.8%	5.0%	No set range	-1.2%
Private Debt	260,914	289,006	4.3%	4.7%	4.5%	No set range	+0.2%
Local Impact	52,137	53,899	0.9%	0.9%	3.0%	No set range	-2.1%
Total Illiquid Growth	**1,709,485**	**1,733,117**	**28.3%**	**28.0%**	**32.5%**	**No set range**	**-4.5%**
Corporate Bonds	188,527	189,643	3.1%	3.1%	2.0%	No set range	+1.1%
LDI & Equity Protection	1,153,656	1,143,069	19.1%	18.5%	12.0%	No set range	+6.5%
Total Protection	**1,342,183**	**1,332,712**	**22.3%**	**21.5%**	**14.0%**	**No set range**	**+7.5%**
*Synthetic Equity Offset***	-573,834	-625,403	-9.5%	-10.1%	-	-	-
Other**	230,327	194,205	3.8%	3.1%	0.0%	0 - 5	+3.1%
Total	**6,030,707**	**6,184,471**	**100.0%**	**100.0%**	**100.0%**		

Source: Custodian, Investment Managers, Mercer.
Totals may not sum due to rounding.
*Global Equity valuation also includes the collateral holdings for the currency overlay which are held in overseas equities and two residual equity portfolios.
**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

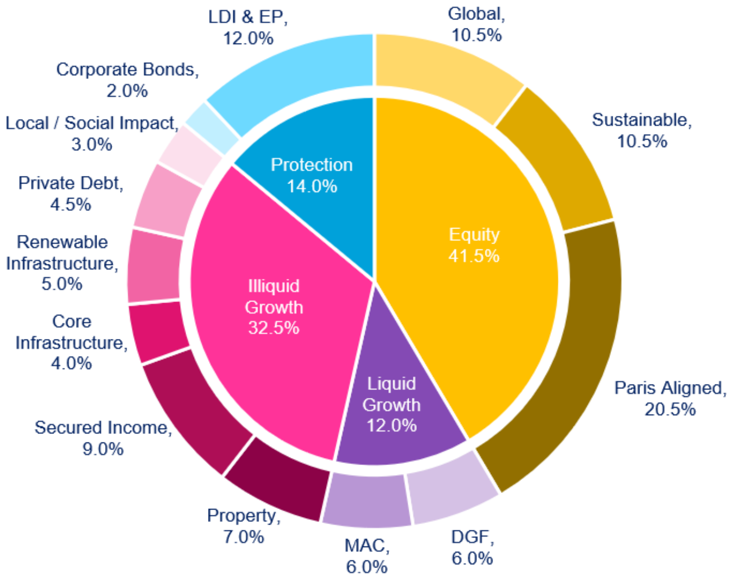
Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Brunel	Global High Alpha Equity	758,100	-	811,548	12.6	13.1
Brunel	Global Sustainable Equity	671,048	-	709,091	11.1	11.5
Brunel	Passive Global Equity Paris Aligned	463,595	-11	510,669	7.7	8.3
BlackRock	MSCI World Paris-Aligned (Synthetic)	573,834	-	625,403	9.5	10.1
Brunel	Diversified Returns Fund	389,741	-	402,613	6.5	6.5
Brunel	Multi-Asset Credit	13,895	-	15,265	0.2	0.2
Brunel	UK Property	378,860	-	387,300	6.3	6.3
Schroders	UK Property	190,619	-	193,168	3.2	3.1
Partners	Overseas Property	13,267	-	13,420	0.2	0.2
Brunel	Secured Income – Cycle 1	80,518	-127	80,050	1.3	1.3
Brunel	Secured Income – Cycle 2	287,562	-4,437	285,182	4.8	4.6
Brunel	Secured Income – Cycle 3	97,689	-1,595	96,424	1.6	1.6
IFM	Core Infrastructure	233,150	-3,377	227,603	3.9	3.7
Brunel	Renewable Infrastructure – Cycle 1	252,817	-	256,837	4.2	4.2
Brunel	Renewable Infrastructure – Cycle 2	118,126	249	119,386	2.0	1.9
Brunel	Renewable Infrastructure – Cycle 3	96,154	-4,148	92,513	1.6	1.5
Brunel	Private Debt - Cycle 2	26,533	-816	25,629	0.4	0.4
Brunel	Private Debt - Cycle 3	188,326	-5,638	208,537	3.1	3.4
Schroders Greencoat	Local Impact – Renewables	72,588	6,123	80,470	1.2	1.3
Octopus	Local Impact - Affordable Housing	188,527	-	189,643	3.1	3.1
Foresight	Local Impact - SME Financing	1,153,656	-	1,143,069	19.1	18.5
BlackRock	Corporate Bonds	-573,834	-	-625,403	-9.5	-10.1
BlackRock	LDI & derivatives MTM	141,561	-	130,099	2.3	2.1
BlackRock	Synthetic offset	24,611	-	25,907	0.4	0.4
JP Morgan	Fund of Hedge Funds	36,594	-856	34,744	0.6	0.6
Record	Currency Hedging	3,030	664	3,569	0.1	0.1
BlackRock	ETF	12,513	2,715	15,586	0.2	0.3
Internal Cash	Cash	137,167	-12,975	125,681	2.3	2.0
Residual assets	Residual Assets	444	-	451	0.0	0.0
Total		**6,030,707**	**-24,228**	**6,184,471**	**100.0**	**100.0**

Mercer

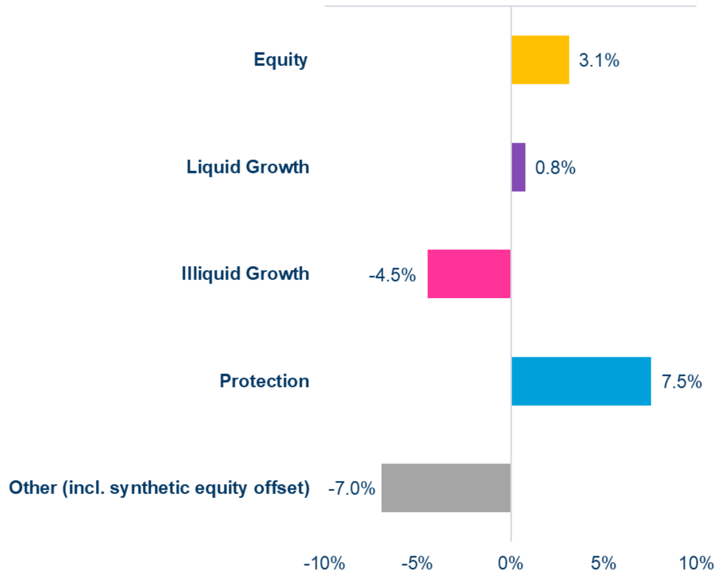
Source: Custodian, Investment Managers, Mercer. Totals may not sum due to rounding. The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included 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 Committee has agreed changes to the Strategic Asset Allocation as part of the 2025 Investment Strategy Review.
- **We have not illustrated these in this report**, but will do so next quarter once the changes have been ratified in the Investment Strategy Statement, and implementation is further progressed. Changes include:
  - The removal of the DGF allocation, funding an increase of the MAC allocation and a new allocation to Index-Linked Gilts (alongside a restructuring of the liability hedging structures)
  - Re-weightings within the Illiquid Growth portfolio to accommodate a higher strategic allocation to the Local Impact Portfolio and a new strategic allocation to Natural Capital
- The right-hand side chart displays the actual relative weights of the key portfolio building blocks compared to the current documented 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.

Appendix

Q3 2025 Equity Market Review

In Q3 2025, global equities rose due to easing trade tensions, sustained enthusiasm for AI, and growing expectations of interest rate cuts by the Fed.

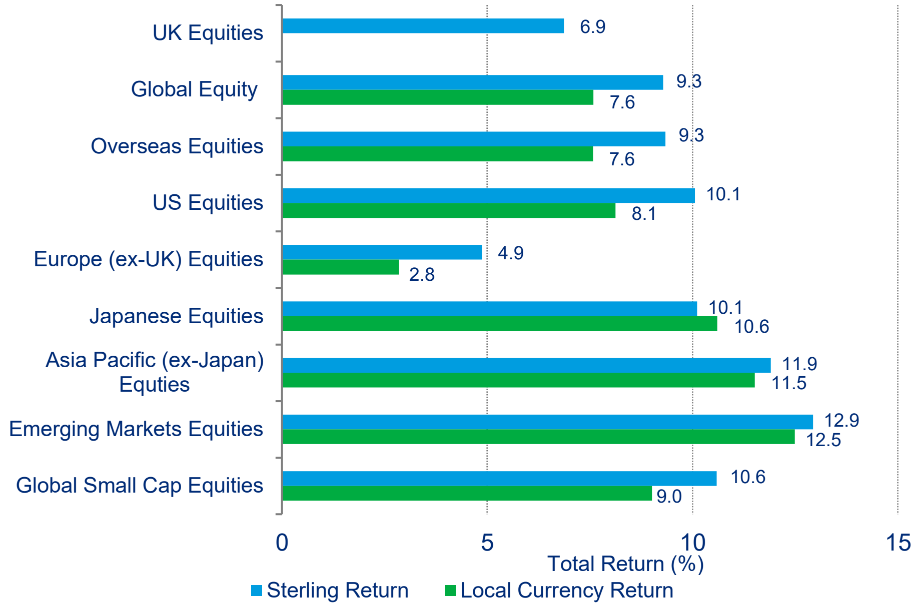
Global equities rose 9.3% in unhedged sterling terms and 7.6% in local currency terms as the sterling depreciated against the US dollar.

US equities returned 8.1% in local currency terms, whilst European (ex-UK) equities returned 2.8%, and Japanese equities returned 10.6%.

Emerging markets equities returned 12.5% in local terms.

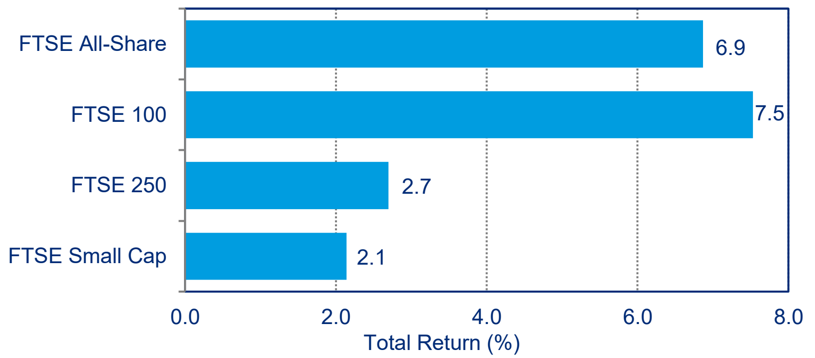
Global small cap stocks returned 9.0% in local terms, driven by resilient global activity data and rising expectations for near-term policy easing from the Fed.

Equity Performance

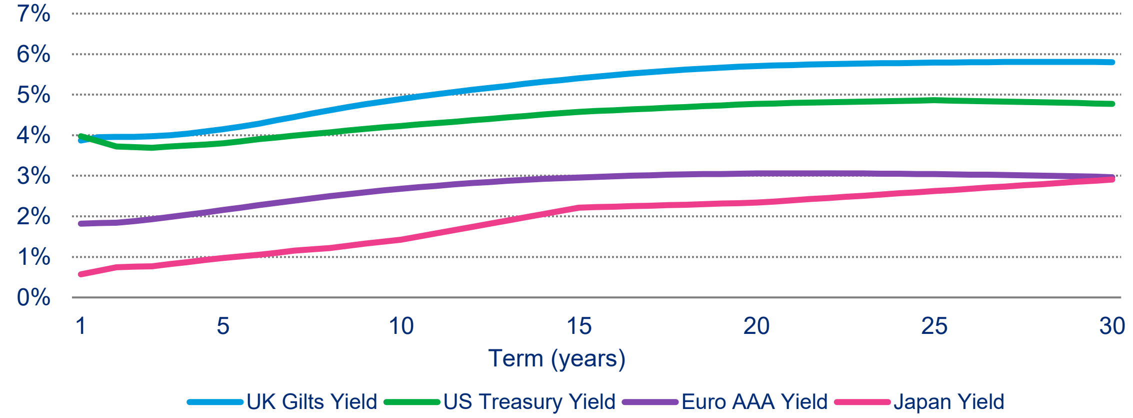


The **FTSE All Share** index returned 6.9% over the quarter, with the large-cap **FTSE 100** index returning 7.5%. More domestically focused equities **(FTSE 250)** produced returns of 2.7%. The **small-cap** index produced a positive 2.1% return.

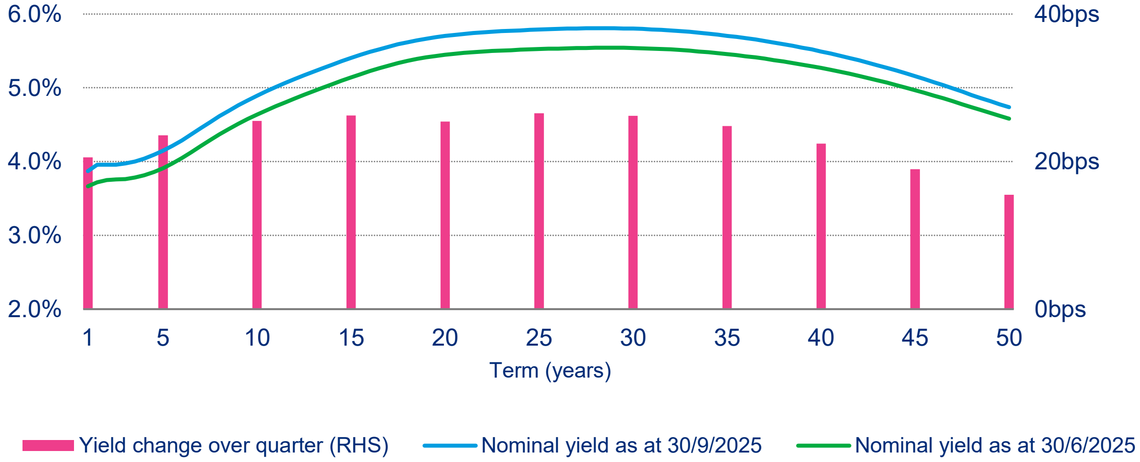
FTSE Performance by Market Cap



Q3 2025 Bond Market Review



Source: Mercer and Bloomberg



Source: Mercer

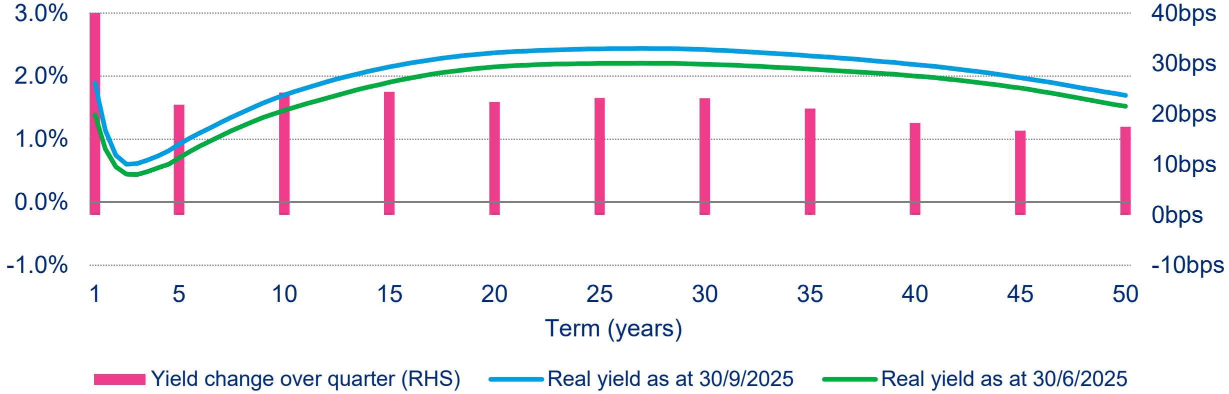
Government Bond Yields

Omitting the US, government bond yields were higher across the curve for most other major economies in the third quarter.

In the US, yields declined across the curve as weakening macro fundamentals strengthened the case for more Fed rate cuts. Meanwhile, yields in the UK and Germany were higher as political uncertainty and concerns over fiscal prudence weighed on bonds. Moreover, the ECB and BoE maintained a more cautious approach over future monetary easing, as compared to the Fed. The 10-year benchmark bond yield in the US fell 0.08%, closing the quarter at 4.15%. In contrast, the UK and German 10-year yield rose 0.21% and 0.11%, respectively.

The 10-year Japanese Government Bonds (JGB) yield also rose by 0.22% during the quarter as increased bets of BoJ rate hikes offset ongoing political and fiscal woes.

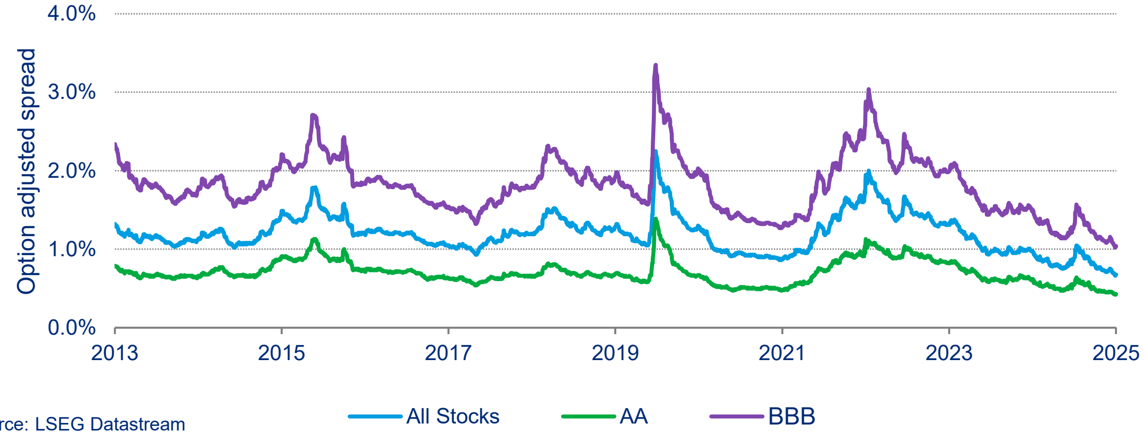
Q3 2025 Bond Market Review



Source: Mercer

UK Index-Linked Gilt Yields

UK real yields rose across the curve over the previous quarter. Both headline inflation and wage growth remained sticky through the quarter, although services inflation witnessed notable moderation. While the BoE cut rates by 25bps in Q3, the Monetary Policy Committee ("MPC") maintained a cautious approach over future rate cuts owing to inflation risks and elevated global uncertainty due to US tariffs. UK 5-year, 10-year and 30-year breakeven rates finished the quarter at 3.13%, 3.11% and 3.09%, respectively.



Source: LSEG Datastream

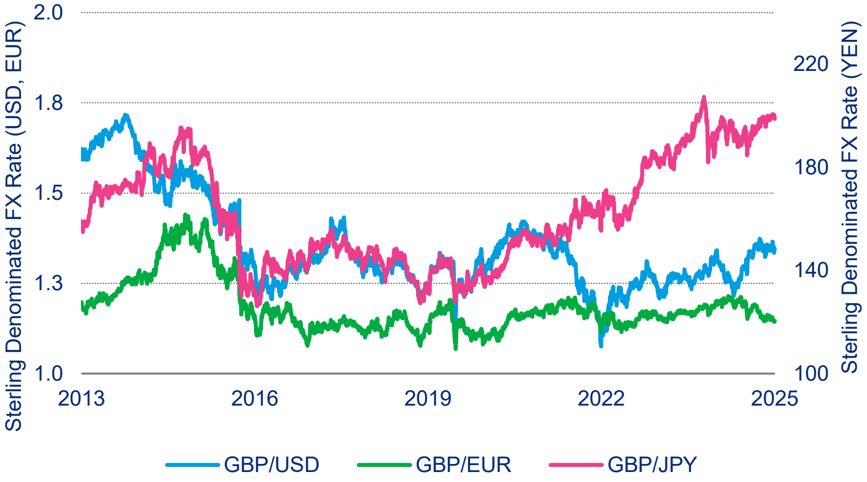
Corporate bonds

Spreads on UK investment-grade credit tightened across the credit quality spectrum through the third quarter, falling to multi-year lows. Spreads on AA-rated credit was down 6bps at 43bps, and that for BBB-rated credit was lower by 16 bps at 104bps.

Q3 2025 Currency Market Review

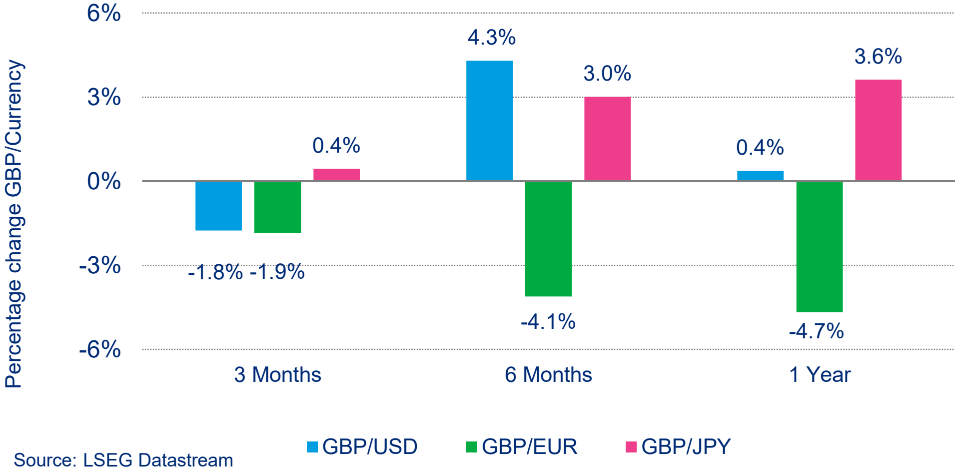
In the third quarter of 2025, sterling depreciated against the US dollar and the euro, whilst strengthening against the Japanese yen. Sterling weakened 1.8% and 1.9% against USD and EUR, respectively, while appreciating 0.4% against JPY. The US dollar index rose ~1% over the quarter, reversing its downward trend seen through the year, in the third quarter, as growth showed signs of resilience. On a 12-month basis, sterling strengthened 0.4% against USD and 3.6% against JPY, while declining 4.7% against EUR.

Sterling Denominated FX Rate



Source: LSEG Datastream

Change in sterling against foreign currencies



Source: LSEG Datastream

Q3 2025 Property

UK property as measured by the MSCI Index increased by 1.8% over the third quarter of 2025.

Mercer

Source: LSEG Datastream

Summary of Mandates

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

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