East Sussex Pension Fund

Investment Performance
Quarter to 31 December 2021

Isio Investment Advisory

Contents

Highlights

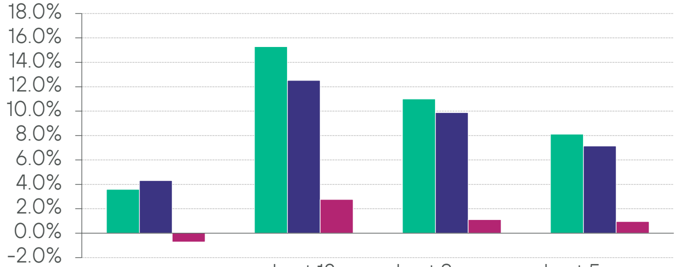
Executive Summary – 31 December 2021

The Fund's assets delivered a positive return of 3.6% over the quarter, underperforming its respective benchmark by 0.7%.

Performance across the Fund's mandates was positive on the whole, with private and public equity mandates delivering the strongest absolute returns.

Access Pool	Fund	Q4 2021 Performance			Value at quarter end	
		Fund	Benchmark	Relative	30-Sept-21	31-Dec-21
Yes	UBS - UK Equity	3.7%	4.2%	-0.5%	£36.2m	£37.5m
Yes	UBS – Global Equity	4.7%	4.7%	+0.0%	£194.4m	£203.6m
Yes	Longview - Global Equity	3.6%	6.2%	-2.6%	£503.1m	£521.3m
No	WHEB – Sustainable Equity	4.2%	7.4%	-3.2%	£246.4m	£256.9m
No	Wellington – Sustainable Equity	2.1%	7.3%	-5.1%	£246.2m	£251.4m
No	Storebrand – Sustainable Equity	7.5%	7.4%	+0.2%	£500.1m	£537.9m
Yes	Baillie Gifford – Global Equity	-0.2%	7.8%	-8.0%	£225.8m	£225.4m
No	Harbourvest – Private Equity[1,2]	4.9%	6.5%	-1.6%	£163.3m	£159.1m
No	Adams Street – Private Equity[1,2]	8.4%	6.5%	+1.9%	£187.2m	£190.3m
Yes	Newton – Absolute Return	4.0%	0.6%	+3.4%	£500.1m	£520.1m
Yes	Ruffer - Absolute Return	1.1%	0.6%	+0.5%	£512.4m	£518.2m
No	Schroders – Property	6.4%	7.5%	-1.1%	£371.9m	£393.7m
No	UBS – Infrastructure[2]	-3.1%	2.9%	-5.9%	£35.3m	£34.2m
No	Pantheon – Infrastructure[2]	0.8%	2.9%	-2.1%	£58.1m	£58.8m
No	M&G - Infrastructure[2]	2.8%	2.9%	-0.0%	£38.9m	£42.0m
No	ATLAS - Listed Infrastructure	5.6%	7.4%	-1.8%	£83.6m	£88.3m
No	M&G – Real Estate Debt[2]	1.0%	1.0%	+0.0%	£37.4m	£38.9m
Yes	M&G – Diversified Credit	-0.5%	0.8%	-1.3%	£291.0m	£289.5m
Yes	M&G - Corporate Bonds	1.6%	1.5%	+0.1%	£160.0m	£162.6m
Yes	UBS - Over 5 Year Index-linked Gilts	5.3%	5.4%	-0.1%	£136.8m	£144.1m
	Total Assets	3.6%	4.3%	-0.7%	£4,575m	£4,741m

Period returns – to 31 December 2021



	Q4 2021	Last 12 months	Last 3 years (p.a.)	Last 5 years (p.a.)
Scheme Return	3.6%	15.3%	11.0%	8.1%
Benchmark Return	4.3%	12.5%	9.9%	7.2%
Investment Objective	-0.7%	2.8%	1.1%	1.0%

Commentary

- The Fund's assets delivered an absolute return of 3.6% over the quarter, underperforming the benchmark by 0.7%. The majority of mandates returned positive absolute performance; however inflationary pressures and the emergence of the Omicron variant of Covid-19 drove return disparities across asset classes.
- The Fund's private equity mandates continued to deliver strong returns, as lagged portfolio valuations continued to catch up with public markets. Returns across real asset funds were largely positive, given their inflation-linked income streams.
- Equity mandate performance, while positive on the whole, was generally behind benchmark. Notably, the ESG mandates were adversely impacted by the failure to pass a clean energy bill in the US, as well as overall idiosyncratic stock selection.
- Longer term returns at Fund level remain strong, with the Fund's significant allocation to public and private equity markets being particularly beneficial for performance.

Notes: Totals may not sum precisely due to rounding. All returns are net of fees. Unless stated otherwise, all performance figures and objectives provided by Northern Trust as at 31 December 2021. Fund Total value includes cash held with Northern Trust. [1] Valuation and performance information as at 30 September 2021. [2] Valuations shown are either 3m or 6m lagged and adjusted for distributions / drawdowns and currency movements.

Source: Investment Managers, Northern Trust, Isio calculations.

Manager Performance – 31 December 2021

The Table shows manager performance over the short, medium and long-term.

The UBS Infrastructure Fund continues to materially underperform its benchmark across all time periods and should continue to be monitored closely.

The public equity mandates have broadly struggled to add value relative to their benchmarks over the last year.

The private equity mandates have delivered very strong performance of the 1, 3 and 5 year periods.

Fund	Q4 2021 Performance			1 Year Performance			3 Year Performance			5 Year performance		
	Fund	Objective	Relative	Fund	Objective	Relative	Fund	Objective	Relative	Fund	Objective	Relative
UBS - UK Equity	3.7%	4.2%	-0.5%	18.3%	18.3%	-0.1%	8.2%	8.3%	-0.2%	-	-	-
UBS – Global Equity	4.7%	4.7%	+0.0%	16.1%	16.3%	-0.2%	16.8%	17.0%	-0.3%	-	-	-
Longview - Global Equity	3.6%	6.2%	-2.6%	21.1%	19.6%	+1.5%	-	-	-	-	-	-
WHEB - Sustainable Equity	4.2%	7.4%	-3.2%	16.0%	23.5%	-7.5%	-	-	-	-	-	-
Wellington – Sustainable Equity	2.1%	7.3%	-5.1%	12.6%	22.9%	-10.3%	-	-	-	-	-	-
Storebrand – Sustainable Equity	7.5%	7.4%	+0.2%	22.2%	23.5%	-1.3%	-	-	-	-	-	-
Baillie Gifford – Global Equity	-0.2%	7.8%	-8.0%	-	-	-	-	-	-	-	-	-
Harbourvest – Private Equity[1]	4.9%	6.5%	-1.6%	62.6%	21.1%	+41.5%	24.9%	19.4%	+5.5%	21.2%	13.3%	+7.9%
Adams Street – Private Equity[1]	8.4%	6.5%	+1.9%	69.4%	21.1%	+48.3%	27.3%	19.4%	+7.8%	22.0%	13.3%	+8.7%
Newton – Absolute Return	4.0%	0.6%	+3.4%	6.9%	2.6%	+4.3%	-	-	-	-	-	-
Ruffer - Absolute Return	1.1%	0.6%	+0.5%	10.0%	2.6%	+7.5%	-	-	-	-	-	-
Schroders – Property	6.4%	7.5%	-1.1%	17.9%	19.2%	-1.3%	5.6%	6.2%	-0.7%	6.9%	7.1%	-0.2%
UBS – Infrastructure	-3.1%	2.9%	-5.9%	-3.4%	7.4%	-10.8%	-6.2%	4.4%	-10.7%	-3.6%	3.1%	-6.7%
Pantheon – Infrastructure[1]	0.8%	2.9%	-2.1%	23.7%	7.4%	+16.3%	7.5%	4.4%	+3.1%	-	-	-
M&G – Infrastructure	2.8%	2.9%	-0.0%	24.2%	7.4%	+16.8%	6.5%	4.4%	+2.1%	-	-	-
ATLAS – Listed Infrastructure	5.6%	7.4%	-1.8%	11.7%	17.0%	-5.3%	-	-	-	-	-	-
M&G – Real Estate Debt	1.0%	1.0%	+0.0%	6.6%	4.1%	+2.5%	-	-	-	-	-	-
M&G – Diversified Credit	-0.5%	0.8%	-1.3%	-	-	-	-	-	-	-	-	-
M&G - Corporate Bonds	1.6%	1.5%	+0.1%	-4.3%	-4.4%	+0.1%	-	-	-	-	-	-
UBS - Over 5 Year Index-linked Gilts	5.3%	5.4%	-0.1%	4.1%	4.2%	-0.1%	7.7%	7.7%	-0.0%	-	-	-
Total Assets	**3.6%**	**4.3%**	**-0.7%**	**15.3%**	**12.5%**	**2.8%**	**11.0%**	**9.9%**	**1.1%**	**8.1%**	**7.2%**	**1.0%**

Notes: Totals may not sum precisely due to rounding. All returns are net of fees. Unless stated otherwise, all performance figures and objectives provided by Northern Trust as at 31 December 2021.
[1] Valuation and performance information as at 30 September 2021.
Source: Investment Managers, Northern Trust, Isio calculations.

Looking Forward

Summary

This page sets out the main action / discussion points.

Status key

- Action
- Decision
- Discussion
- Information only

Key issues

Item	Action points / Considerations	Status
Overall Investment Strategy	**Infrastructure Equity Manager Selection** • On Wednesday 26th January 2022, the officer and advisor group attended a manager selection meeting to determine the suitability of two prospective global infrastructure equity managers, IFM and JP Morgan. Isio, IFM and JP Morgan all presented, followed by a discussion of the Fund's options. Following this, it was provisionally agreed that the IFM Global Infrastructure Fund represented the best fit for the Fund's mandate, subject to ratification from the wider Committee. The IWG cited impressive ESG credentials, a strong performance record as well as a slightly more favourable fee structure, among other factors, as rationale for the selection of IFM. This proposal will be discussed further at the Q1 Committee meeting.	Information only
	Fixed Income Allocation Implementation • Isio has prepared a paper detailing the proposed implementation approach for selection of the manager(s) to manage the agreed increased allocation to fixed income. This paper puts forward the proposed allocation and key considerations, a proposed timeline and method for manager selection and implementation, as well as an evaluation criteria with which to assess the prospective managers. The paper will be presented at the Q1 Committee meeting.	Information only
	Investment Manager Correlations • At the November 2021 meeting, the Committee raised concerns around rising inflation, the threat posed by lower central bank and government stimulus going forward, and how the various Fund's investment managers might perform on an absolute and relative basis in such an environment. It was subsequently agreed that Isio would prepare a correlations analysis paper, examining historical correlations between the investment managers. The paper will be presented at the Q1 Committee meeting.	Information only
	Macroeconomic Outlook • Realised and expected Inflation continued to rise over Q3 and Q4 2021 and in early 2022. Short term realised inflation is currently at a 10 year high in the UK and US, and elevated across much of the globe. In an effort to control this, many central banks are beginning to ramp up the tightening of monetary policy, increasing interest rates, and cutting back quantitative easing programmes. Against this backdrop, the macroeconomic outlook is uncertain, as there are general fears that the tightening of monetary policy may constrain future economic growth prospects in what is still a recovering global economy. This has the potential to cause volatility in many financial markets. • Rising inflation was flagged as a key risk to the Fund at the time of the last investment strategy review with a number of the changes, e.g. an increase to infrastructure equity and an allocation to inflation-linked property, intended to further address this risk within the Fund's asset portfolio. This will be discussed further at the Q1 Committee meeting.	Information only

Looking Forward (cont.)

Summary

This page sets out the main action / discussion points.

Status key

- Action
- Decision
- Discussion
- Information only

Key issues

Item	Action points / Considerations	Status
Overall Investment Strategy (cont.)	**Osmosis Resource Efficiency Allocation** • The implementation of the agreed allocation to the Osmosis Resource Efficiency Fund continues to progress with the timeframe for investment expected mid-February 2022. **LIBOR/SONIA Benchmark Transition** • The London Interbank Offered Rate ('LIBOR') has been used as the recognised cash benchmark for a wide range of financial purposes over the last few decades. In recent years a number of failings with LIBOR have emerged, including its position as an estimated (not actual) rate on transactions, and its vulnerability to manipulation. In 2017 the Financial Conduct Authority announced that LIBOR would be phased out by the end of 2021. • In light of LIBOR's phasing out, a number of managers have transitioned to using the Sterling Overnight Index Average rate (SONIA) as their reference rate for benchmarking. SONIA is calculated based on actual transactions, and is believed to be less open to manipulation than LIBOR. We are comfortable with this change and consider these to be relatively like-for-like risk-free rates. The switch in rates is becoming the market standard.	Information only Information only
Investment Managers	• Following the end of the quarter, we were informed of a team change within the Newton multi-asset team. It was announced that Mitesh Sheth (previously CEO of Redington) will join Newton to fill the CIO role of Newton's multi-asset business, which was temporarily being covered by CEO, Euan Munro. We are comfortable with this as it appears a sensible appointment and adds resource to the senior team overseeing the multi-asset business. In addition, we do not expect the change to have a material impact on the Real Return Fund given the team responsible for managing the Fund remains the same. • Given weak UBS infrastructure performance since inception of Fund I due to significant issues with the Southern Water holding, and the significant time left to run on the Fund's investment in Fund III, we propose that UBS continue to be monitored closely. We are working with UBS to improve the level information they are able • We suggest to continue monitoring the Longview Global Equity Fund given recent team changes and propose the Fund conduct a formal review of the position later in 2022.	Discussion Discussion

Market Background

Market Background – Overview Q4 2021

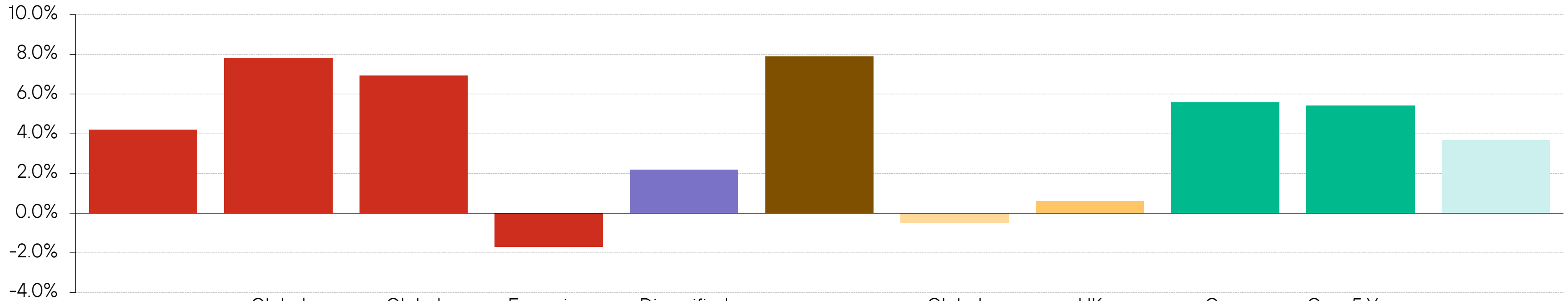
Summary

While market volatility increased in November due to the emergence of the Omicron variant, markets recovered somewhat in December as relatively positive data emerged regarding the severity of the new strain. This eased concerns regarding the scale of potential new lockdown measures required. As such, DM equities delivered positive overall returns for Q4.

Gilt yields fell over Q4, particularly in October, as lower-than-expected future gilt issuance was announced as part of the Budget. Credit spreads widened across markets, providing a drag on corporate bond valuations.

The BofE announced an increase in the UK base rate in December (0.1% to 0.25%) with short term gilt yields rising in the immediate aftermath. Overall, the interest rate curve flattened over Q4, reflecting possible concerns that long term interest rates may need to fall to stimulate future economic growth.

Returns by Asset Class – Q4 2021



UK Equity	Global Equity (£ hedged)	Global Equity (unhedged)	Emerging Market Equity (unhedged)	Diversified Growth Funds	Property	Global High Yield (£ hedged)	UK Inv. Grade Credit	Over 15 Years Gilts	Over 5 Years Index-Linked Gilts	Example Liabilities
4.2%	7.8%	6.9%	-1.7%	2.2%	7.9%	-0.5%	0.6%	5.6%	5.4%	3.7%

Key Upcoming Events

- The dates for the Bank of England's Monetary Policy Committee (MPC) announcements in Q1 2022 are 3 February (MPC vote to increase rates consecutively to 0.5%) and 17 March.
- The dates for the US Federal Reserve's Federal Open Market Committee (FOMC) announcements in Q1 2022 are 26 January and 16 March.

Commentary

- Developed equity market performance was positive over Q4, despite increased volatility in November following the discovery of the Omicron COVID variant. UK equity performance lagged other developed markets due to a higher weighting towards more economically sensitive sectors (such as energy), which struggled to recover from the sell-off in late November. Emerging market ('EM') equities delivered negative returns as lower vaccination rates in these regions led investors to fear further restrictions in light of the new variant; a strengthening US Dollar also weighed on EM performance.
- Similarly, the emergence of Omicron led to credit spreads widening across most bond markets, with relative performance being driven by interest rate sensitivity. For instance, UK investment grade credit outperformed less interest rate sensitive markets (such as high yield) as long-dated interest rates fell.
- Gilt yields fell over the quarter as significantly lower than expected future gilt issuance was announced following the October budget.

Note: Please see Appendix 2 for details of the returns representing each asset class.
Source: Refinitiv, DGF investment managers, Isio calculations.

Market Background – Yields Q4 2021

Summary

These charts show yield movements at the 20-year tenor over the past year.

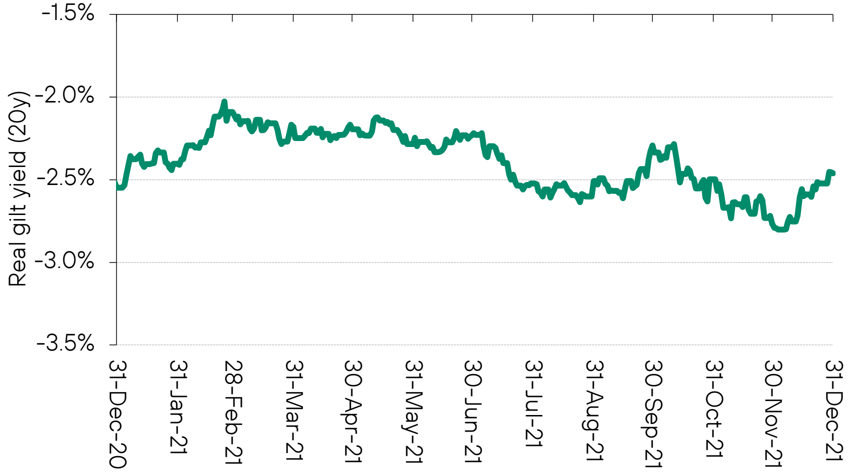
Gilt Yield Changes:

20-year Real Gilt Yield	
October	-0.20%
November	-0.27%
December	0.31%
Quarter	**-0.17%**

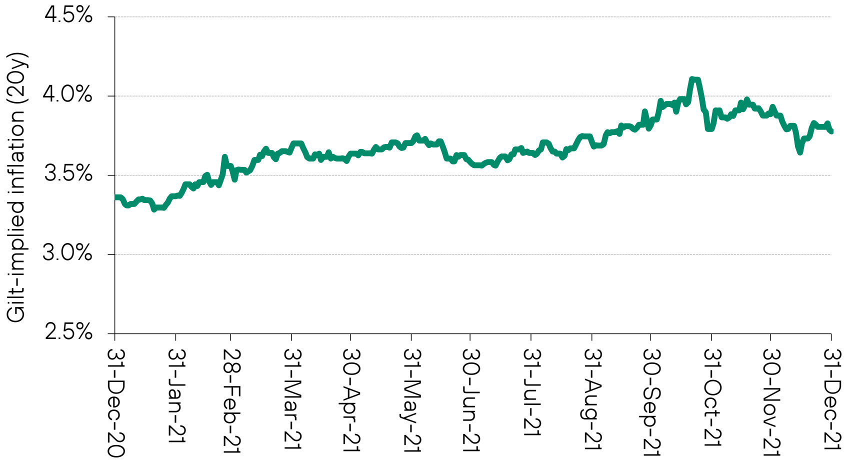
20-year Nominal Gilt Yield	
October	-0.24%
November	-0.19%
December	0.21%
Quarter	**-0.21%**

20-year Gilt-Implied Inflation	
October	-0.03%
November	0.09%
December	-0.11%
Quarter	**-0.04%**

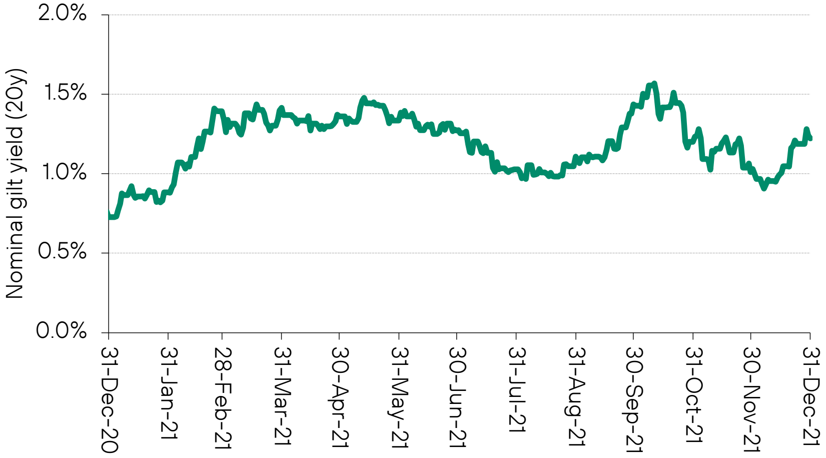
Real Gilt Yields – Last 12 months



Gilt-implied RPI Inflation – Last 12 months



Nominal Gilt Yields – Last 12 months



Note: Please see Appendix 2 for details of the example liabilities. Monthly yield changes may not sum to quarterly changes, due to rounding.
Source: Bank of England, Isio calculations.

Strategy Overview

Asset Allocation – at 31 December 2021

Summary

As at December 2021, the Fund's asset allocation was somewhat off benchmark following strategic changes agreed to the Fund's asset allocation at the July 2021 Committee meeting, which are yet to be implemented.

Allocations will be brought more closely in-line to the revised benchmark as managers for the new mandates are agreed and implemented over the coming quarters.

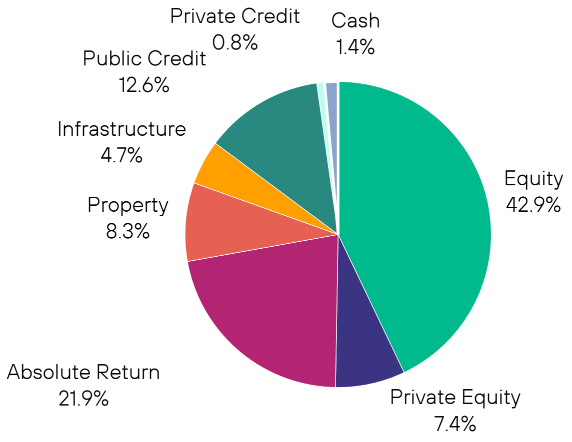
Total Assets

Start of quarter	£4,575m
End of quarter	£4,741m

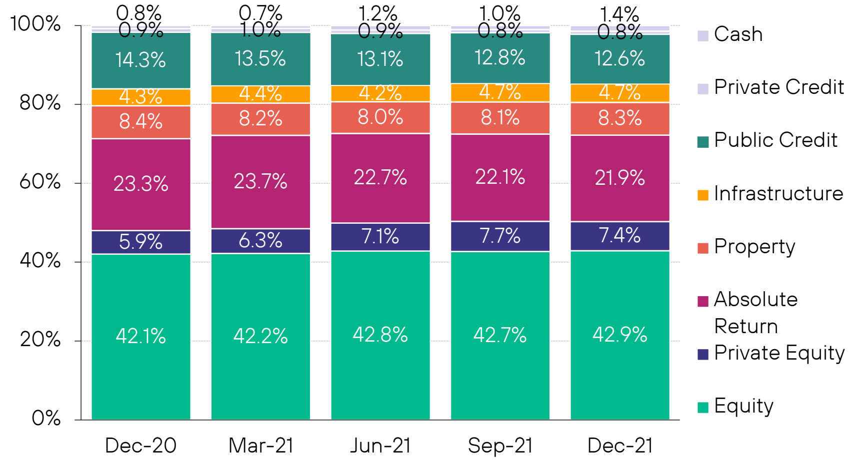
Agreed Target Allocation

Equity	40.0%
Private Equity	5.5%
Absolute Return	17.0%
Balanced Property	7.0%
Inflation-Linked Property	4.0%
Infrastructure	11.0%
Private Credit	5.0%
Diversified Credit	10.5%

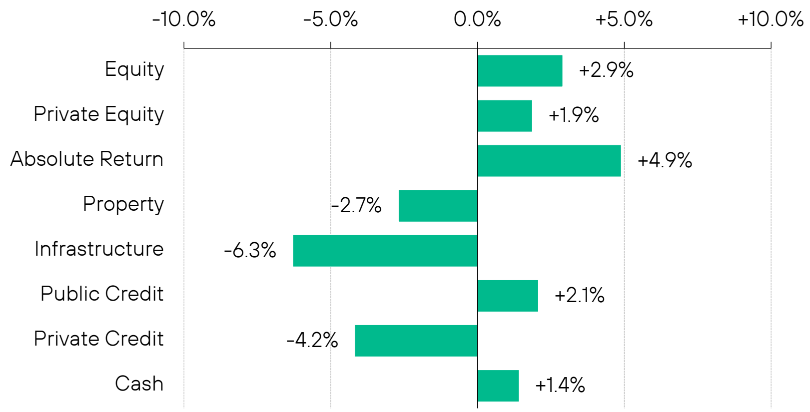
Asset Allocation – 31 December 2021



Asset Allocation Changes Since 31 December 2020



Assets Relative to Benchmark – 31 December 2021



Note: Totals may not sum due to rounding.
Source: Investment managers, Isio calculations.

Commentary

- As at December 2021, the Fund's asset allocation remained misaligned to the target benchmark following the strategic changes agreed at the July 2021 Committee meeting. These changes are outlined below:
  - Reduce: absolute return from 20% to 17%; balanced property from 10% to 7%; corporate bonds and index-linked gilts to 0%.
  - Increase: inflation-linked property allocation to 4% (new allocation); infrastructure equity from 8% to 11%; private credit from 3% to 5%; and diversified credit from 7% to 10.5%.
- The absolute return allocation is materially overweight, while the property, infrastructure and credit allocations remain underweight.
- Equity and private equity are also overweight, following strong performance over the medium term, relative to other risk asset classes.
- The allocations will be brought more closely in line with the strategic benchmark as the new mandates are agreed and implemented over 2022.

Investment Managers

Performance Summary – to 31 December 2021

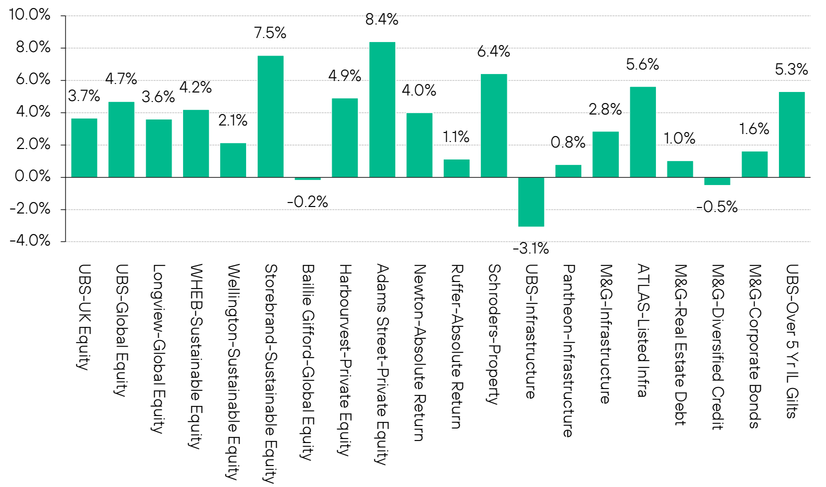
Summary

The majority of the Fund's mandates delivered positive absolute performance over the quarter, with Baillie Gifford, UBS Infrastructure and M&G Diversified Credit proving to be exceptions.

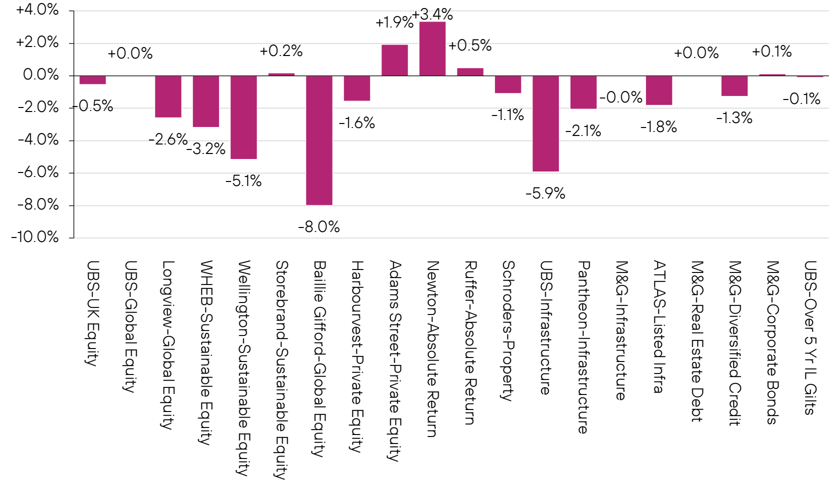
The Fund's private and public equity mandates posted the strongest absolute returns over Q4, benefitting from positive broad market sentiment.

Relative performance has been mixed over the short and medium term, with the sustainable equity funds and UBS infrastructure struggling in particular to keep pace with their respective benchmarks.

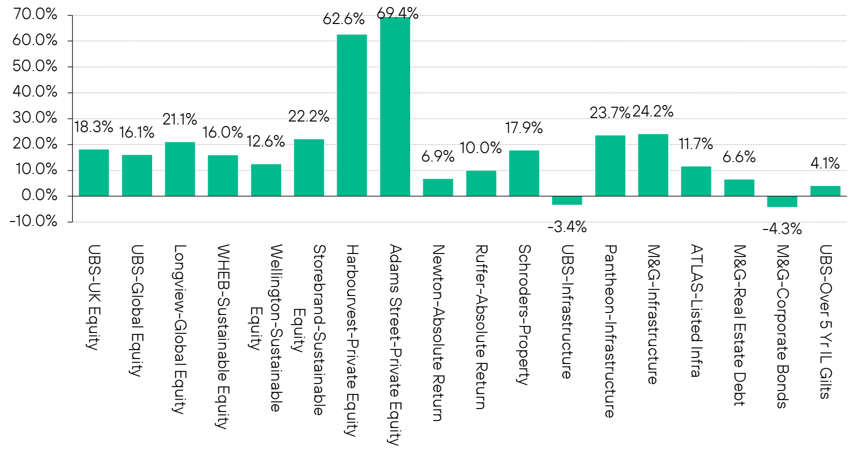
Absolute Return – Q4 2021



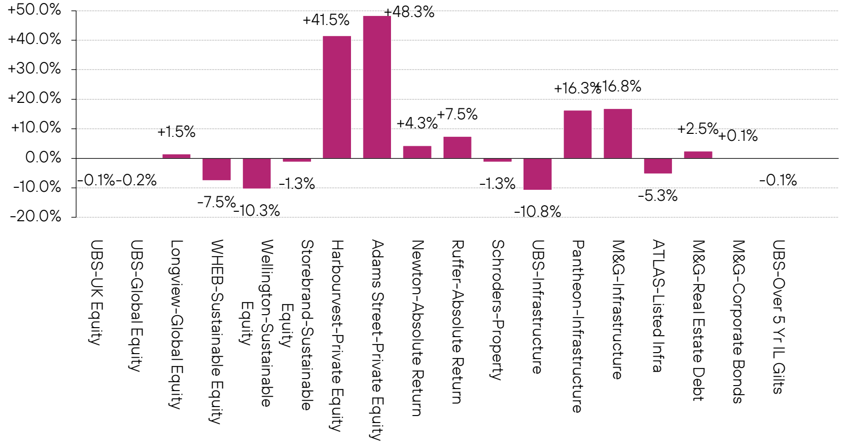
Relative Return – Q4 2021



Absolute Return – 12 months



Relative Return – 12 months



Note: Returns net of fees. 12 month relative and absolute returns are not available for the Baillie Gifford and M&G Diversified Credit mandates as they were incepted post 31 December 2020.
Source: Investment Managers, Northern Trust, Isio calculations.

UBS – Global Equity

Mandate: Passive Equities

Current Value: £241.1m

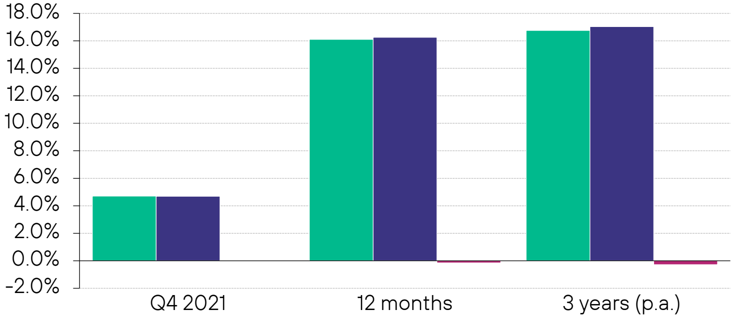
Current Weighting: 5.1%

Inception: UK Equities – December 2017 & Global Equities January 2018

Objective: To track their respective underlying respective regional equity benchmarks

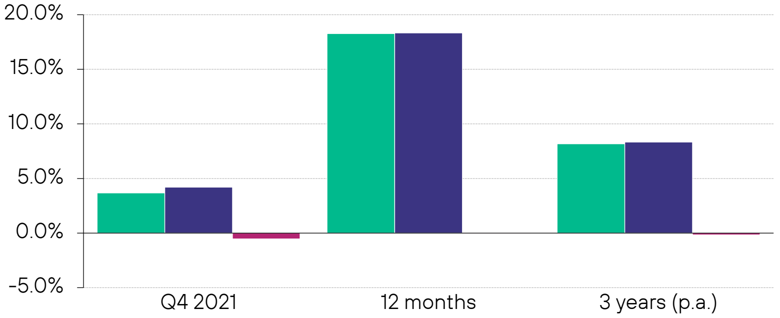
Pooled: Via Access Pool

Global Performance to 31 December 2021



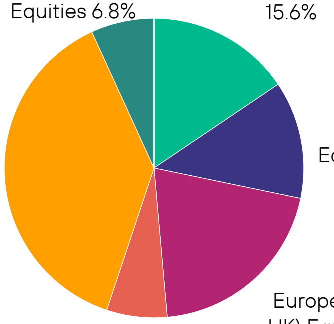
	Q4 2021	12 months	3 years (p.a.)
Return	4.7%	16.1%	16.8%
Benchmark	4.7%	16.3%	17.0%
Relative	+0.0%	-0.2%	-0.3%

UK Equities Performance to 31 December 2021



	Q4 2021	12 months	3 years (p.a.)
Return	3.7%	18.3%	8.2%
Benchmark	4.2%	18.3%	8.3%
Relative	-0.5%	-0.1%	-0.2%

Geographic Exposure as at 31 December 2021



Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Commentary

- Both UBS equity mandates delivered positive performance, in line with their respective benchmarks, over the period.
- Equity markets experienced further volatility over the quarter, as the emergence of the Omicron variant of Covid-19 and fears over the impact of rising inflation (and consequent monetary tightening) impacted investor sentiment. However markets recovered relatively quickly, as data indicated the lower severity of the new variant.
- The US was the strongest performing region, as robust corporate earnings and economic stability outweighed concerns around the emergence of Omicron. UK equities also delivered positive returns, however stricter 'Plan B' restrictions limited the recovery of sectors such as travel and leisure from November volatility.
- Emerging market and Asian equities delivered negative returns, as lower vaccination rates in these regions resulted in concerns around renewed restrictions being required to combat the Omicron variant.

Longview - Global Equity

Mandate: Active Global Equities

Current Value: £521.3m

Current Weighting: 11.0%

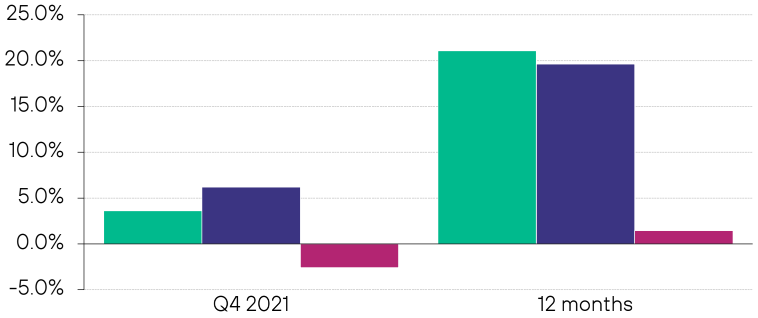
Inception: April 2013

Objective: Outperform benchmark by 3% (gross) p.a. over rolling 3 year periods.

Benchmark: MSCI ACWI

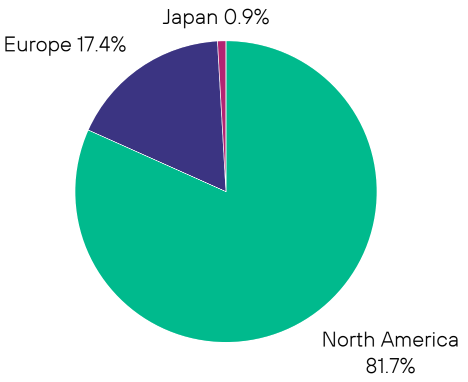
Pooled: Via Access Pool

Longview Global Equity Performance to 31 December 2021

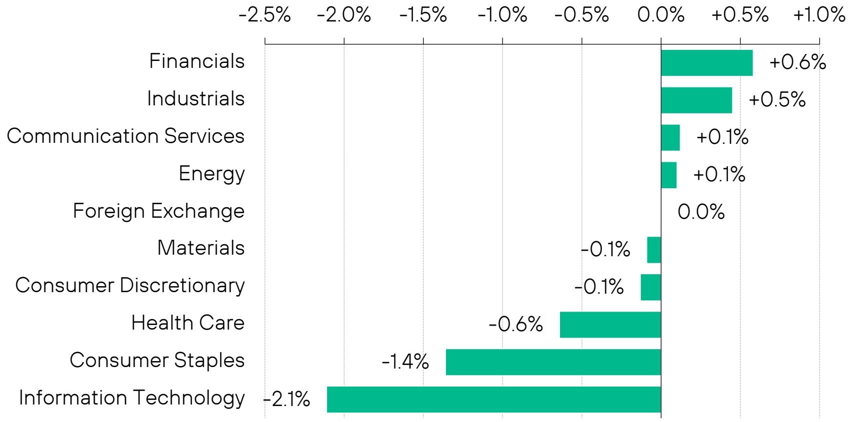


	Q4 2021	12 months
Return	3.6%	21.1%
Benchmark	6.2%	19.6%
Relative	-2.6%	+1.5%

Geographic Allocation at 31 December 2021



Performance Attribution as at 31 December 2021



Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Commentary

- The Fund delivered a positive absolute return over the quarter, however has underperformed the benchmark over the short and medium term. Short term underperformance is not surprising, given the Fund's underweight positioning in certain mega cap technology stocks, which underpinned market returns over Q4.
- Q4 underperformance was driven by stock selection within IT and consumer staples. In particular, not owning Apple, Microsoft and Nvidia detracted c. -2.0%, with all three performing strongly. Within consumer staples, Henkel detracted, as the firm absorbed significant cost inflation. Longview subsequently reduced the exposure to this stock over the period.
- Longview continue to seek out high quality names, which are less sensitive to factors such as inflation and interest rates, two key market themes going into 2022.
- As a reminder, the Fund invests in a concentrated portfolio (34 stocks as at 31 December), based on a 'bottom-up' approach. The portfolio is underweight to cyclical sectors such as energy and consumer discretionary, and overweight to the US.

WHEB – Sustainable Equity

Mandate: ESG focused Global Equity

Current Value: £256.9m

Current Weighting: 5.4%

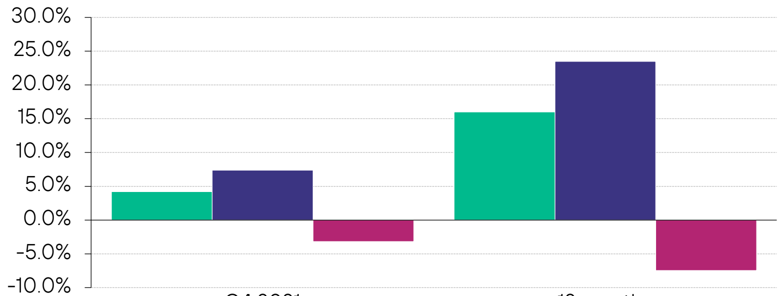
Inception: December 2020

Benchmark: MSCI World Total Return Net GBP

Objective: To achieve capital growth over the medium to longer term.

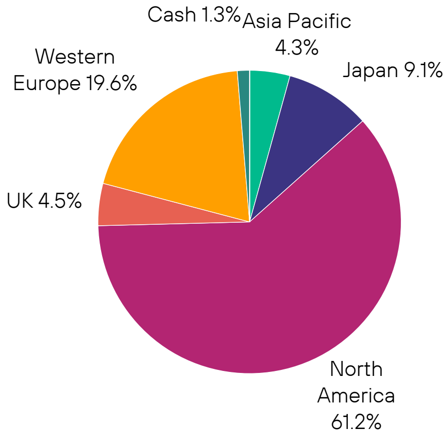
Pooled: No

WHEB – Sustainability Fund Performance to 31 December 2021

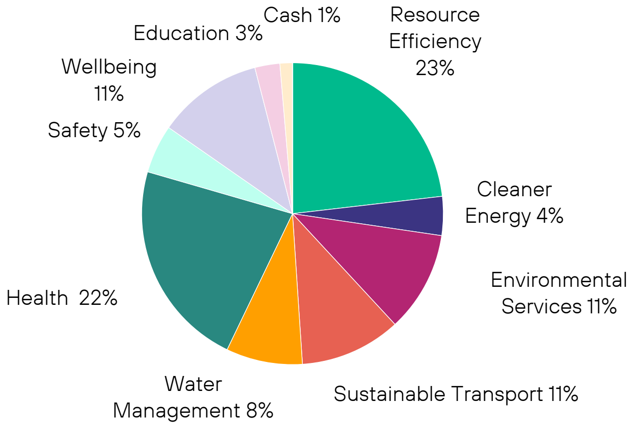


	Q4 2021	12 months
Return	4.2%	16.0%
Benchmark	7.4%	23.5%
Relative	-3.2%	-7.5%

Geographic Allocation at 31 December 2021



Impact Positioning at 31 December 2021



Commentary

- The Fund returned 4.2% over the quarter, underperforming the benchmark by 3.2%. The portfolio's high active share and WHEB's benchmark-agnostic approach means that periods of material underperformance are not unexpected, and the Fund's success should ultimately be judged over the long term.
- Q4 Underperformance was driven largely by the Clean Energy theme, with stocks in the sector impacted by difficulties in passing the US 'build back better' bill (which included c. $500bn of clean energy funding). In Wellbeing, HelloFresh weighed on returns, with near term margins expected to fall as the firm tries to meet rising demand.
- By contrast, the Resource Efficiency theme was the largest positive contributor, as names such as Silicon Labs and AO Smith posted strong financial results.
- WHEB purchased Fisher & Paykel for the Health theme, with the firm operating in the acute and respiratory care sector. WHEB note that the company's recurring revenue streams and strong market positioning are key attractive characteristics.

Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Wellington – Sustainable Equity

Mandate: Global Impact Equities

Current Value: £251.4m

Current Weighting: 5.3%

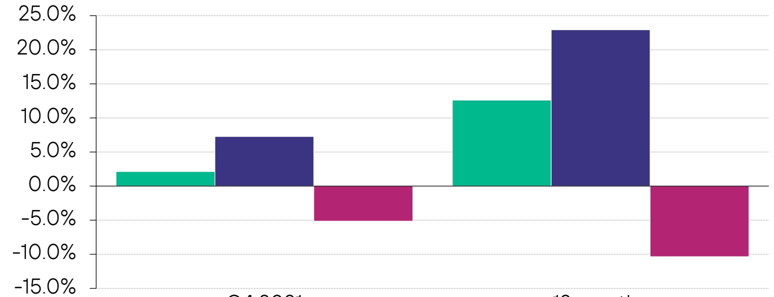
Inception: December 2020

Benchmark: MSCI AC World

Objective: To outperform the MSCI All Country World Index over the long-term.

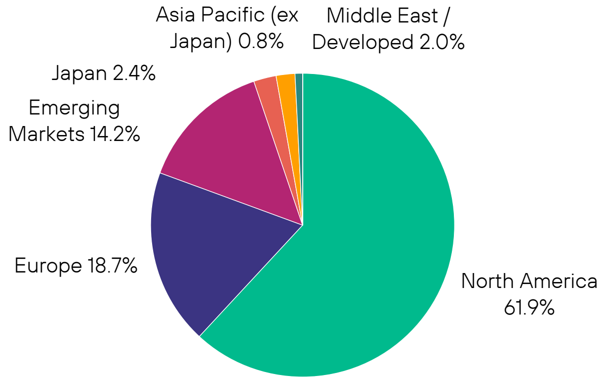
Pooled: No

Performance to 31 December 2021

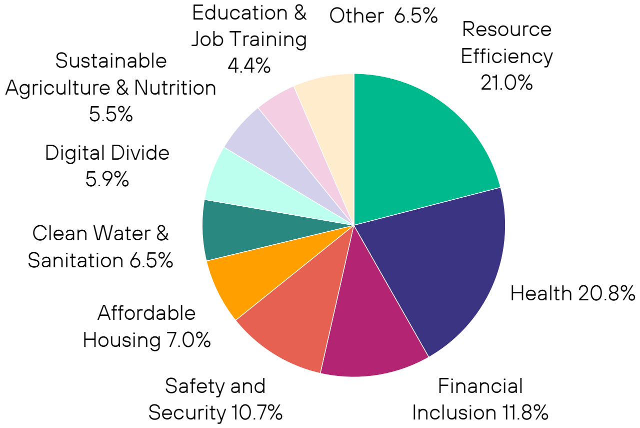


	Q4 2021	12 months
Return	2.1%	12.6%
Benchmark	7.3%	22.9%
Relative	-5.1%	-10.3%

Geographic Allocation at 31 December 2021



ESG Theme Distribution at 31 December 2021



Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Commentary

- Q4 relative performance was largely driven by stock selection (as is expected given the Fund's process), with holdings in healthcare, technology and consumer discretionary underperforming their sector benchmarks. The underweight position to technology also weighed on relative returns. Short term periods of material underperformance are not unexpected, given the active share and high tracking error of the Fund.
- High growth names such as Apple, Tesla and Block weighed on relative performance, with the first two stocks strong performing constituents of the benchmark (but not the Fund). Investors in Block reacted negatively to its rotation away from key revenue driver, payment services, while its performance was also impacted by increased competition. Wellington added to the position, based on strong conviction around its long term growth prospects.
- The team divested the position in Hapvida Participacoe (Brazilian healthcare firm), based on the belief that the current valuation did not fully reflect risk. The company had a deal blocked by the Brazilian antitrust watchdog due to failure to comply with structural remedies imposed when the deal was initially approved in February 2021.

Storebrand – Sustainable Equity

Mandate: ESG Focused Global Equities

Current Value: £537.9m

Current Weighting: 11.4%

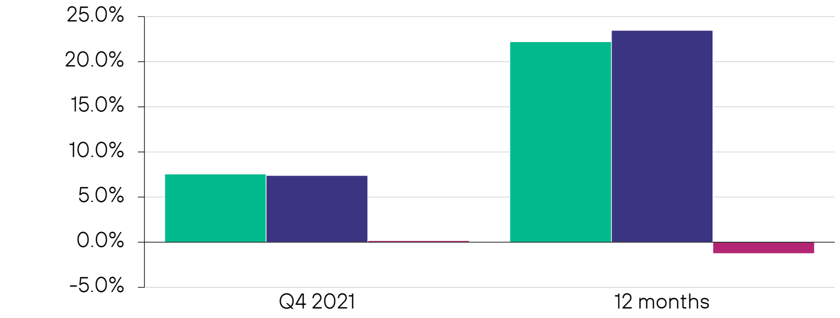
Inception: December 2020

Benchmark: MSCI World NR

Objective: Reproduce risk-return profile of the MSCI World Index

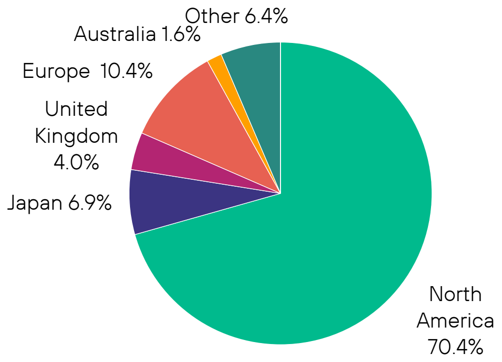
Pooled: No

Performance to 31 December 2021

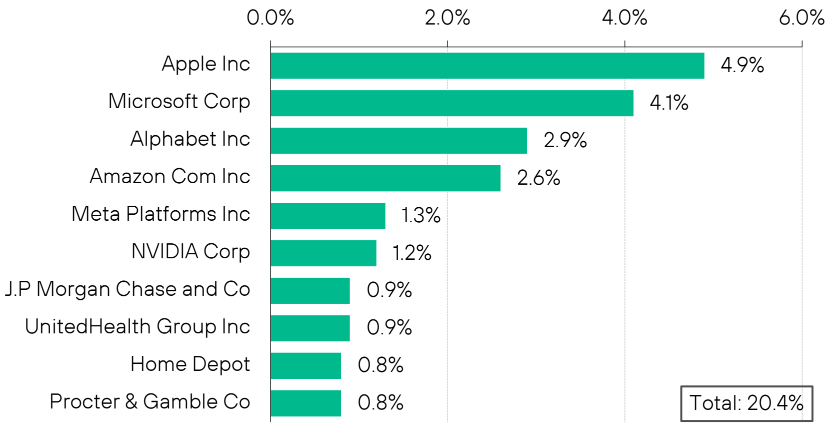


	Q4 2021	12 months
Return	7.5%	22.2%
Benchmark	7.4%	23.5%
Relative	+0.2%	-1.3%

Geographic Allocation at 31 December 2021



Top 10 Holdings as at 31 December 2021



Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Commentary

- The Fund delivered absolute performance of 7.5% over the quarter, marginally lagging the benchmark. The magnitude of relative performance continues to be broadly in line with our expectations, given the risk-controlled nature of the investment process.
- The strongest contributor to relative returns came from the strategy's optimisation, whereby it overweights companies Storebrand feel are best positioned to benefit from aligning to the Paris agreement, but are not 'pure-play climate solution' companies.
- By contrast, relative underperformance was driven by exposure to holdings directly focussed on tackling the climate crisis. Low carbon transportation was negatively impact by Covid-related delays in returning normal travel patterns, while the renewable energy sector suffered as a result of the failure to pass the climate mitigation package as part of the 'build back better' bill in the US.
- Storebrand note the uncertain macroeconomic outlook, highlighting the balance between inflationary pressures and the need to achieve growth in sectors such as renewables. Relations between US and China, as well as the outcome of Biden's Build Back Better plan are noted as additional risk factors.

Baillie Gifford – Global Equity

Mandate: Global Equities

Current Value: £225.4m

Current Weighting: 4.8%

Inception: August 2021

Benchmark: MSCI AC World Index (GBP)

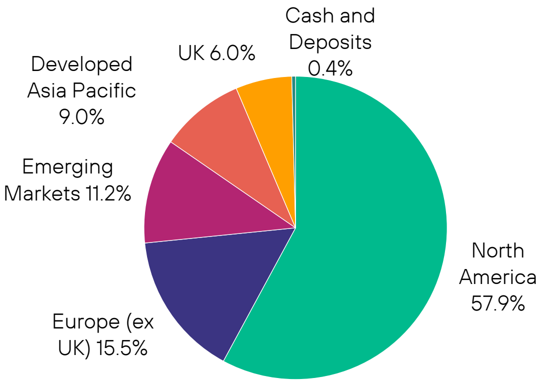
Objective: Outperform benchmark by 2.0% p.a. (net of fees) over rolling 5-year periods

Pooled: Via Access Pool

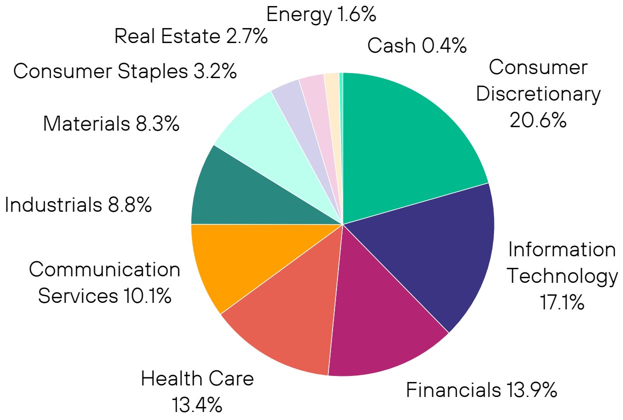
Performance to 31 December 2021

	Q4 2021
Return	-0.2%
Benchmark	7.8%
Relative	-8.0%

Geographic Allocation at 31 December 2021



Sector Allocation as at 31 December 2021



Commentary

- The Fund has underperformed its benchmark over the quarter primarily due to holdings being impacted by concerns surrounding rising rates and China's regulatory intervention.
- Moderna was a top contributor to performance over 2021 but a key detractor over Q4. BG note that the company has become sensitive to news flow relating to the Covid-19 vaccine which proved to be a headwind in Q4. However, BG remain confident over the long term opportunity when looking at the other treatments it has in its pipeline.
- Following market volatility the Fund added two new positions to the portfolio, Chewy (online pet superstore) and Coupang (South Korean e-commerce). Conversely, they completed a number of sales over the quarter, primarily due to a weakening of the underlying investment thesis. One of which, was the sale of Ping AM, that was sold due to the ongoing uncertainty surrounding China's heightened regulations
- BG are aware that current market conditions may prove unfavourable for the Fund's underlying holdings, but they continue to support companies they consider long-term winners while continuing efforts to broaden and diversify the portfolio.

Note: Totals may not sum due to rounding. Performance quoted net of fees. Performance shown since inception of the Fund's investment on 11 August 2021.
Source: Investment manager, Northern Trust, Isio calculations.

Harbourvest – Private Equity

Mandate: Private Equity

Current Value: £159.1m

Current Weighting: 3.4%

Inception: January 2003

Benchmark: MSCI World +1.5%

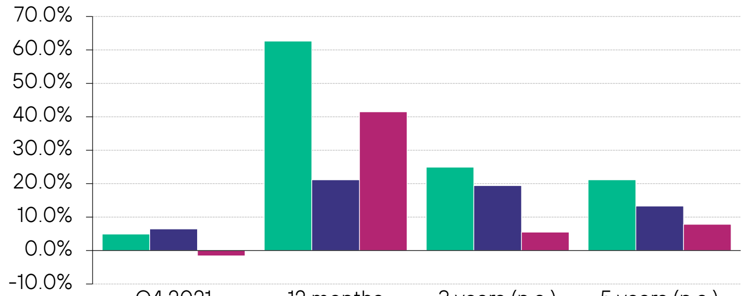
Objective: MSCI World +3.0%

Pooled: No

Harbourvest	Market Value at start (£m)	Drawdowns over quarter (£m)	Distributions over quarter (£m)	Market Value at end (£m)
HIPEP IV SUPPLEMENTAL EUROPEAN COMPANIONFUND	0.1	-	-	0.1
HARBOURVEST PTRS VIII - CAYMAN VENTURE FUND	1.9	-	0.2	1.8
HARBOURVEST INTL PEP V - CAYMAN PSHP FD	1.5	-	-	1.4
HARBOURVEST PTRS VIII - CAYMAN BUYOUT FUND	1.5	-	0.4	1.2
HARBOURVEST PARTNERS IX- CAYMAN BUYOUT FUND	14.3	-	1.4	13.8
HARBOURVEST PARTNERS XI AIF	20.7	-1.8	1.6	24.0
HARBOURVEST INTL PEP VI - CAYMAN PSHP FUND	18.7	-	2.1	15.9
HIPEP VII (AIF) PARTNERSHIP FUND LP	17.3	-	1.3	16.7
HIPEP VIII (AIF) PARTNERSHIP FUND LP	20.5	-0.9	0.9	21.7
HARBOURVEST PARTNERS CAYMAN CLEANTECH FUND I	16.7	-	0.6	16.8
HARBOURVEST PARTNERS CAYMAN CLEANTECH FUND II	30.0	-0.6	4.0	26.5
DEFAULT ISSUER HARBOURVEST PTNS VII CAYMAN BUYOUT FD LP	0.0	-	-	0.0
HARBOURVEST PTRS VIII - CAYMAN MEZZANINEAND DISTRESSED DEBT FD	0.1	-	-	0.1
HARBOURVEST PTRS VII - CAYMAN VENTURE FUND	0.4	-	0.2	0.2
HARBOURVEST PARTNERS VII - CAYMAN MEZZANINE FUND	0.0	-	-	0.0
HARBOURVEST PARTNERS IX CAYMAN VENTURE FUND	14.4	-	1.5	14.9
HARBOURVEST PARTNERS IX CAYMAN CREDIT OPPORTUNITIES FUND	1.6	-	0.2	1.5
HIPEP IX AIF SCSP	-	-1.4	-	1.3

Note: Totals may not sum due to rounding. Performance quoted net of fees. Harbourvest valuations are lagged by 3 months.
Source: Investment manager, Northern Trust, Isio calculations.

Performance to 31 December 2021



	Q4 2021	12 months	3 years (p.a.)	5 years (p.a.)
Return	4.9%	62.6%	24.9%	21.2%
Benchmark	6.5%	21.1%	19.4%	13.3%
Relative	-1.6%	+41.5%	+5.5%	+7.9%

Commentary – 3 Month Lagged

- The HarbourVest portfolio delivered more modest performance relative to recent quarters, and marginally underperformed the public markets benchmark. Performance did however continue to be underpinned by broad market strength across private equity, with the macro-environment proving to be supportive for existing holders / sellers of assets.
- Distribution activity remained healthy across the portfolio, with a number of the Fund's holdings in the 'wind down' phase. At a market level, exit activity was robust, as managers looked to crystalise profits in the upward trending market environment.
- The HarbourVest mandate has added significant value for the Fund, with long term performance ahead of the Isio return assumption for the asset class (Gilts + 6.5% p.a.).
- The suitability of current and future commitments to the mandate was last considered in early 2021. The more recently committed to allocations should continue to be monitored in detail going forwards.

Adams Street – Private Equity

Mandate: Private Equity

Current Value: £190.3m

Current Weighting: 4.0%

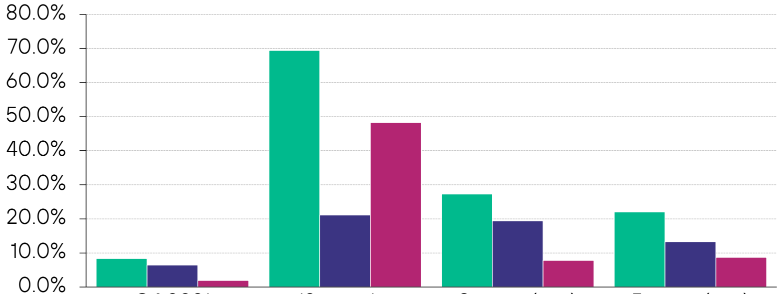
Inception: March 2003

Benchmark: MSCI World +1.5%

Objective: MSCI World +3.0%

Pooled: No

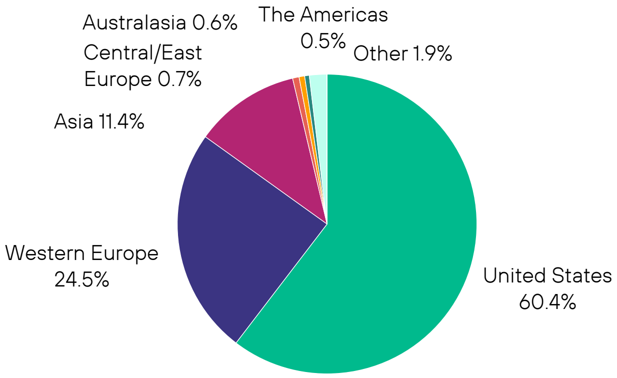
Performance to 31 December 2021



	Q4 2021	12 months	3 years (p.a.)	5 years (p.a.)
Return	8.4%	69.4%	27.3%	22.0%
Benchmark	6.5%	21.1%	19.4%	13.3%
Relative	+1.9%	+48.3%	+7.8%	+8.7%

Adams Street	Market Value at start (£m)	Drawdowns over quarter (£m)	Distributions over quarter (£m)	Market Value at end (£m)
Adams Street Feeder Funds (Global 2014-2019)	94.5	5.8	5.5	104.7
Adams Street Feeder Funds (Regional 2013)	29.4	-	2.0	30.4
Adams Street Offshore Co. Ltd Funds (Co-Investment)	1.9	0.0	0.1	1.9
Adams Street Offshore Co. Ltd Funds (Direct 2007-2011)	5.6	0.0	0.4	5.7
Adams Street Offshore Co. Ltd Funds (US 2003-2011)	24.3	0.0	4.1	22.1
Adams Street Offshore Co. Ltd Funds (non-US 2003-2011)	29.9	0.0	4.6	25.0

Geographical Exposure as at 30 September 2021



Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Commentary – 3 Month Lagged

- The Adams Street portfolio continues to add significant value over the short and medium term, which is in line with expectations given the strength of performance from broad private equity and venture capital markets.
- There were several new investments made over the quarter, with material drawdown of capital into the Global 2014-19 Fund. The portfolio remains relatively well diversified between buyout and venture capital deals, and also by geography (albeit with material exposure to the US).
- Given the current elevated pricing environment, we note that selective deal sourcing and in depth due diligence remains vital for private equity managers. Adams Street share this sentiment and note that portfolio construction is becoming slightly more defensive given the backdrop of strengthening competition for deals.
- The Adams Street mandate has added significant value for the Fund, with long term performance ahead of the Isio return assumption for the asset class (Gilts + 6.5% p.a.). The more recently committed to allocations should continue to be monitored in detail going forwards.

Newton – Absolute Return

Mandate: Diversified Growth Fund

Current Value: £520.1m

Current Weighting: 11.0%

Inception: April 2010

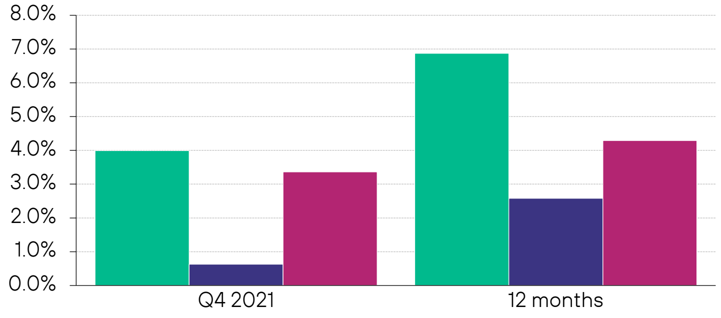
Benchmark: 3 Month LIBOR+2.5%

Objective: 3-month LIBOR + 4% p.a. (gross) over rolling 5 years

Pooled: Via Access Pool

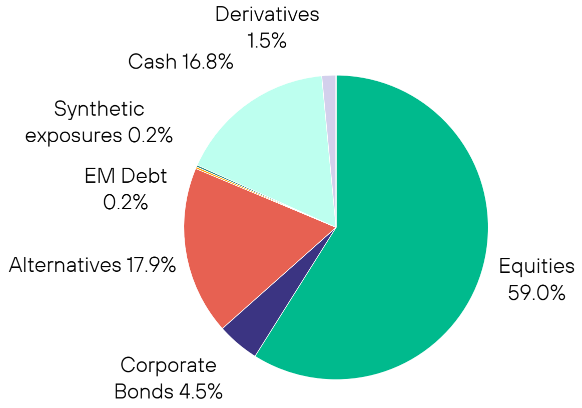
Following the end of the quarter, we were informed of a team change within the Newton multi-asset team. Mitesh Sheth will join Newton to fill the CIO role of Newton's multi-asset business, which was temporarily being covered by CEO, Euan Munro. We are comfortable with this as it appears a sensible appointment and we do not expect the change to have a material impact on the Real Return Fund given the team responsible for managing the Fund remains the same.

Performance to 31 December 2021

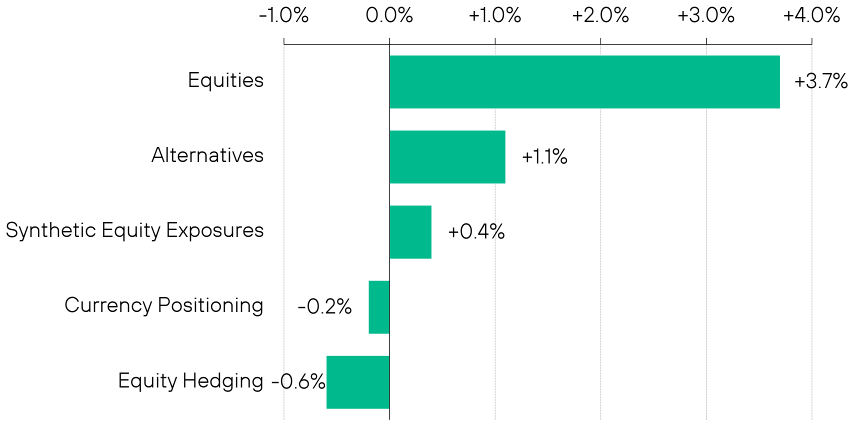


	Q4 2021	12 months
Return	4.0%	6.9%
Benchmark	0.6%	2.6%
Relative	+3.4%	+4.3%

Sector Allocation at 31 December 2021



Contributors to Performance to 31 December 2021



Note: Totals may not sum due to rounding. Performance quoted net of fees. Cash contribution includes currency hedging.

Source: Investment manager, Northern Trust, Isio calculations.

Commentary

- The Fund's performance was ahead of its peers through Q4, and remains towards the top of the peer group over longer time periods. Equities were the main driver of performance while alternatives also contributed positively through commodities exposure and an investment in carbon pricing which benefitted from increased demand for carbon credits. Equity protection strategies, in contrast caused a performance drag as these markets rallied.
- Over Q4, the Fund reduced its net exposure to equity by c.12% while rotating exposures away from highly priced growth stocks (such as technology) towards financials and commodities. The Fund currently holds no government bonds or precious metals in its stabilising assets allocation given current pricing levels, relying on equity protection strategies and significant cash allocation of c.17% to dampen volatility. Newton noted the cash also means they have 'dry powder' should opportunities present themselves.
- Newton believe economic growth will continue over the next year but are aware that governments will struggle to balance economic growth with higher inflation, expecting returns to be more muted than 2021, with increased volatility in markets.

Ruffer – Absolute Return

Mandate: Diversified Growth Fund

Current Value: £518.2m

Current Weighting: 10.9%

Inception: April 2010

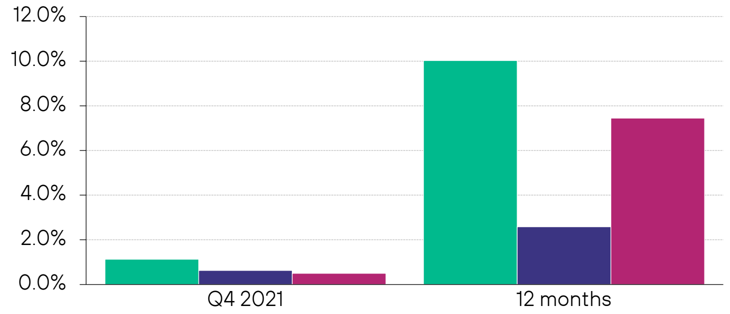
Benchmark: 3-month LIBOR + 2.5%

Objective: 3-month LIBOR + 4% p.a. (gross) over rolling 5 years

Pooled: Via Access Pool

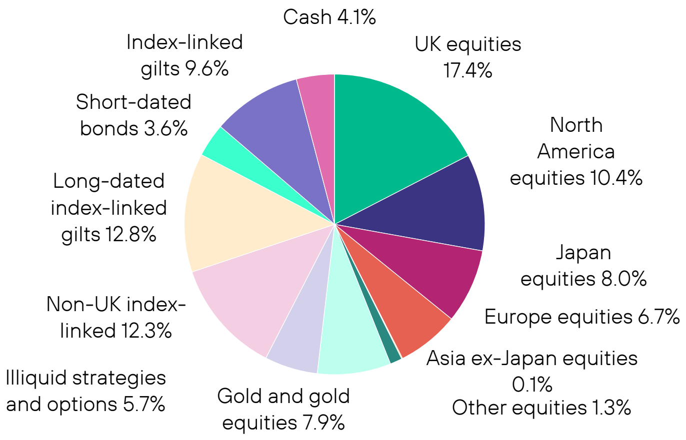
Ruffer has recently announced a number of senior departures at a business level which will not impact the ongoing management of the Fund. These appear to be for unrelated reasons and Ruffer is planning to fill these roles with existing members of the team, therefore we do not have any immediate concerns. We will continue to monitor the situation.

Performance to 31 December 2021

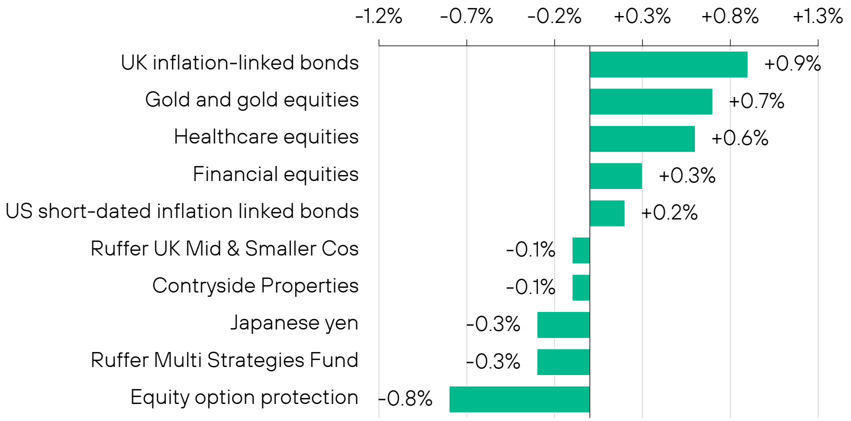


	Q4 2021	12 months
Return	1.1%	10.0%
Benchmark	0.6%	2.6%
Relative	+0.5%	+7.5%

Asset Allocation at 31 December 2021



Contributors to Performance at 31 December 2021 [1]



Note: Totals may not sum due to rounding. Performance quoted net of fees. [1] Chart shows the top 5 and bottom 5 contributors to performance.

Source: Investment manager, Northern Trust, Isio calculations.

Commentary

- The largest contributor to performance in Q4 were equities (in totality) as the Fund's investments in global pharmaceuticals (a sector Ruffer characterises as lowly valued but defensive) performed strongly. Interest rate options (which benefit from rising interest rates) were the main detractor as nominal yields fell, but this benefitted the index-linked bonds allocation helping to offset the impact.
- Ruffer took profits from energy and financials stocks, rotating towards healthcare equities. They increased allocations to gold, credit protection and equity option protection to manage risk as accommodative monetary policy is removed. Ruffer also reduced the portfolio's sensitivity to interest rates (Duration) believing interest rates will have to rise to curb inflation.
- Ruffer has long flagged its belief that higher inflation was due which proved prescient. They now expect inflation to be volatile as the impact of energy price rises & car prices (US) currently driving inflation 'drop out' of y/y inflation. They therefore continue to hold assets offering inflation protection such as Inflation Linked Bonds and Gold.

Schroders - Property

Mandate: Balanced Property

Current Value: £393.7m

Current Weighting: 8.3%

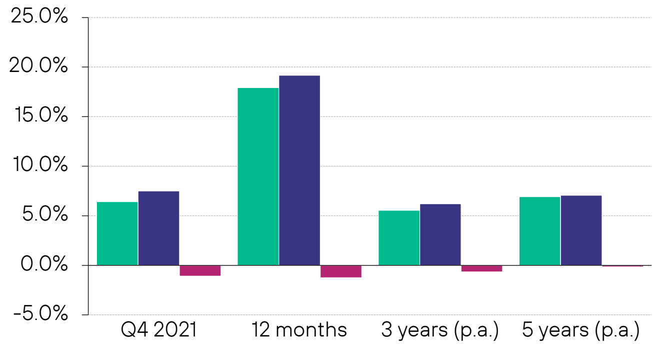
Inception: December 2009

Benchmark: IPD All Balanced Fund Index

Objective: Outperform benchmark by 0.75% p.a. (net) over rolling 3 years

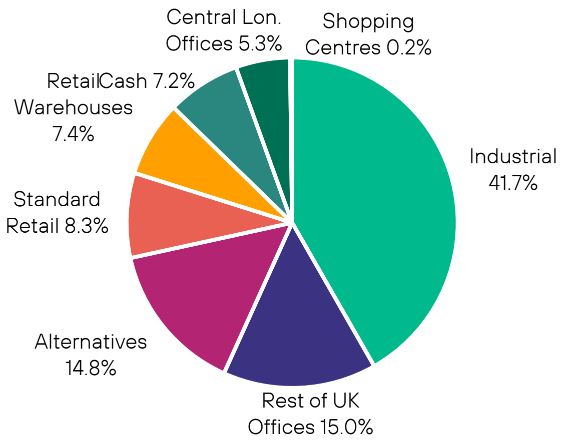
Pooled: No

Performance to 31 December 2021

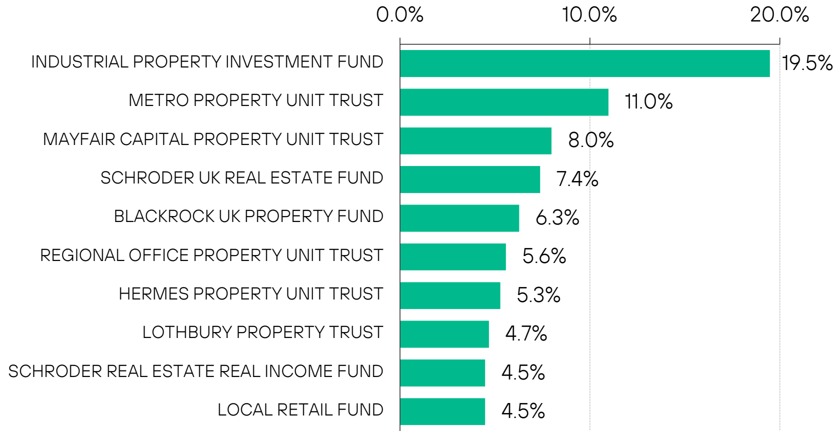


	Q4 2021	12 months	3 years (p.a.)	5 years (p.a.)
Return	6.4%	17.9%	5.6%	6.9%
Benchmark	7.5%	19.2%	6.2%	7.1%
Relative	-1.1%	-1.3%	-0.7%	-0.2%

Sector Allocation at 30 September 2021



Top 10 Holdings as at 30 September 2021



Commentary

- The Fund delivered a strong absolute return of 6.4% over the quarter, underperforming the event stronger benchmark by 1.1%.
- The weaker relative performance over the quarter was a result of balanced holdings, cash and the defensive allocation within the portfolio (via investments such as convenience retail) which dampen returns in a very strong wider market but will be accretive in periods of weaker returns.
- The team were active over the quarter, using cash that had built up in the Fund to invest, making several transactions with c. £10.6m of acquisitions and no sales. The Fund acquired units in: Hermes Property Unit Trust (c£2m), Local Retail Fund (c£1.1m), Multi-let Industrial Property unit Trust (c£1.4m) and Schroder Special Situation Fund (c£6.2m).
- Industrial Property Investment Fund (IPIF) and UK Retail Warehouse Fund (UKRWF) were the strongest contributors over the quarter following further yield compression and rental growth in the industrial sector.

Note: Totals may not sum due to rounding. Performance quoted net of fees. Within the portfolio sector allocation, cash also includes cash held within the underlying funds.
Source: Investment manager, Northern Trust, Isio calculations.

UBS - Infrastructure

Mandate: Infrastructure

Current Value: £34.2m

Current Weighting: 0.7%

Inception: January 2008

Benchmark: CPI + 2.0%

Objective: CPI + 3%

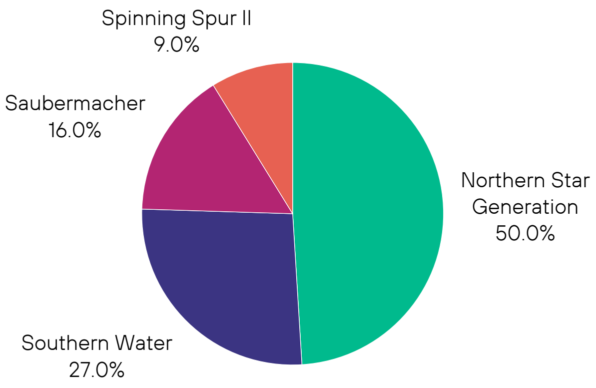
Pooled: No

The UBS infrastructure funds should be monitored closely going forward.

Performance to 31 December 2021

	Q4 2021	12 months	3 years (p.a.)	5 years (p.a.)
Return	-3.1%	-3.4%	-6.2%	-3.6%
Benchmark	2.9%	7.4%	4.4%	3.1%
Relative	-5.9%	-10.8%	-10.7%	-6.7%

Underlying Asset Split as at 30 September 2021



Commitments and Distributions to 30 September 2021 [1]

UBS	Fund I	Fund III
Total Commitment ($m)	35.0	50.0
Commitment Drawn ($m)	33.3	32.6
Distributions ($m)	23.9	13.1
Outstanding Commitment ($m)	1.7	17.4
Estimated Market Value (£m)[2]	9.5	24.7

Commentary – 3 Month Lagged

- Over the quarter the portfolio returned -3.1%, underperforming the CPI linked benchmark by 5.9%.
- Fund I remains in the value realisation phase and is paying capital back to Investors, whilst Fund III is in its investment phase and continues to draw capital for investment.
- Poor performance continues to be driven by Fund I, with the large holding in Southern Water (SW) particularly weighing on returns. The parent company of SW reached an agreement in October with Macquarie, for the manager to inject an additional £1,076m of new capital into the company in order to recapitalise the sutrcture. Following the latest capital raise, and in light of a recent significant fine from the Environmental Agency, the UBS holding in Southern Water was marked down 33%.
- As at 30th June 2021, Fund III continued to see strong deal flow, targeting small-to-middle market deals across digital infrastructure, energy transition, utilities and transportation in Europe, whilst focusing on energy storage and telecom opportunities within the Americas. It is too early in the lifecycle to make a proper assessment.
- We will continue to monitor this position closely going forward.

Note: Totals may not sum due to rounding. Performance quoted net of fees. [1] Figures as at 30 September 2021 due to lagged year end reporting. 2 Estimated £ market value as at end December 2021, based on Northern Trust valuation and estimate split between the two funds.
Source: Investment manager, Northern Trust, Isio calculations.

Pantheon – Infrastructure

Mandate: Infrastructure

Current Value: £58.8m

Current Weighting: 1.2%

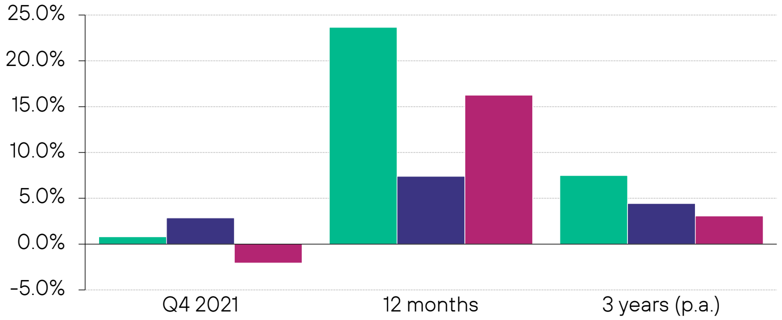
Inception: May 2018

Benchmark: CPI + 2.5%

Objective: CPI + 3%

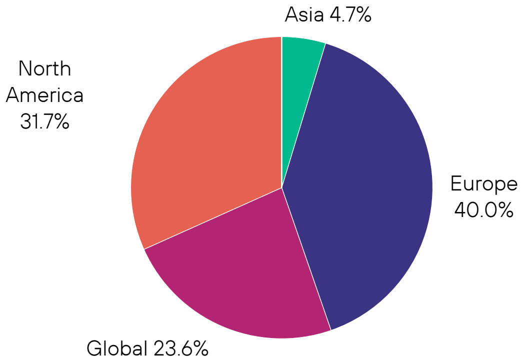
Pooled: No

Performance to 31 December 2021



	Q4 2021	12 months	3 years (p.a.)
Return	0.8%	23.7%	7.5%
Benchmark	2.9%	7.4%	4.4%
Relative	-2.1%	+16.3%	+3.1%

Geographical Allocation at 30 September 2021



Commitments and Distributions to 30 September 2021

Pantheon	
Total Commitment ($m)	117.0
Commitment Drawn ($m)	72.5
Distributions ($m)	5.9
Outstanding Commitment ($m)	44.5
Market Value (£m)	58.8

Commentary - 3 Month Lagged

- The Fund delivered a positive absolute return of 0.8% over the quarter, underperforming the benchmark by 2.1%.
- As at the end of September, the highest IRR in the portfolio continued to belong to European firm IFT (35.5%), with the majority of the majority of the rest of the Fund also performing strongly.
- The Fund continues to allocate capital with a material drawdown of capital over the period. The two new investments were as follows: a co-investment in Astound, a broadband and fibre company providing high speed data, video and voice services, and a secondary investment in Project Anthem (the acquisition of stakes in KKR Global Infrastructure Investors II, KKR Global Infrastructure Investors III, North Haven Infrastructures Partners II and North Haven Infrastructure Partners from a large multi-national insurance company).
- The Fund continues to perform well over the longer term periods.

Note: Totals may not sum due to rounding. Performance quoted net of fees. Performance information available to 30 June 2021 due to 3 month reporting lag.
Source: Investment manager, Northern Trust, Isio calculations.

M&G – Infrastructure

Mandate: Infrastructure

Current Value: £42.0m

Current Weighting: 0.9%

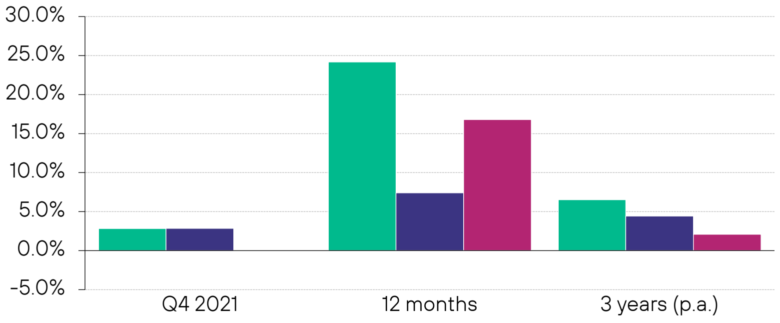
Inception: October 2018

Benchmark: CPI + 2.5%

Objective: CPI + 3%

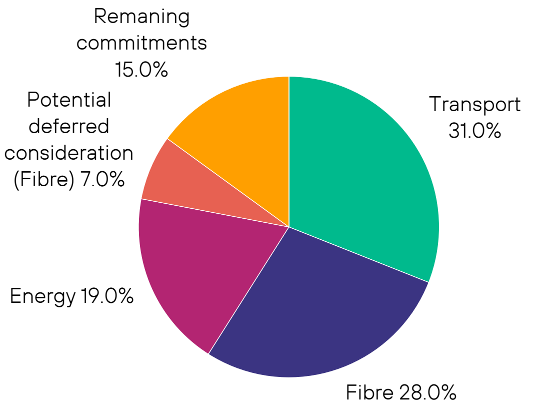
Pooled: No

Performance to 31 December 2021



	Q4 2021	12 months	3 years (p.a.)
Return	2.8%	24.2%	6.5%
Benchmark	2.9%	7.4%	4.4%
Relative	-0.0%	+16.8%	+2.1%

Brownfield Sector Exposure to 30 September 2021



Commitments and Distributions to 30 September 2021

M&G – Infracapital	Brownfield III	Greenfield II
Total Commitment (£m)	42.0	20.0
Commitment Drawn (£m)	33.9	-
Distributions (£m)	4.4	-
Outstanding Commitment (£m)	8.1	-
Market Value (£m)	42.0	-

Commentary – 3 month lagged

- The Fund delivered positive performance over Q4, marginally underperforming its benchmark. Performance continues to be solely driven by the Brownfield III Fund as the Greenfield Fund remains undrawn. As at the end of Q3, the gross IRR of Brownfield III stood at 14.4%, with the Fund continuing to draw capital.
- Q3 performance was driven by valuation uplifts across the brownfield portfolio. Notable strong performers included the Infrafibre Germany holding - with the uplift supported by a strengthening of team and a company rebrand in two underlying portfolio companies - and the holding in GB Railfreight, whose operating performance has been above budget.
- Greenfield II already has investments in 5 portfolio companies, with a pipeline of potential investments of >90% of its capital commitment target. M&G expect drawdowns to the Fund to commence over 2022.

Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

ATLAS – Listed Infrastructure

Mandate: Global Infrastructure Equity

Current Value: £88.3m

Current Weighting: 1.9%

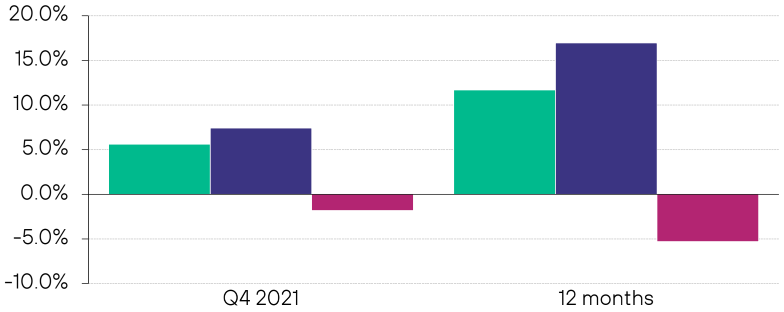
Inception: December 2020

Benchmark: FTSE Developed Core 50/50 Infrastructure Index

Objective: CPI + 5%

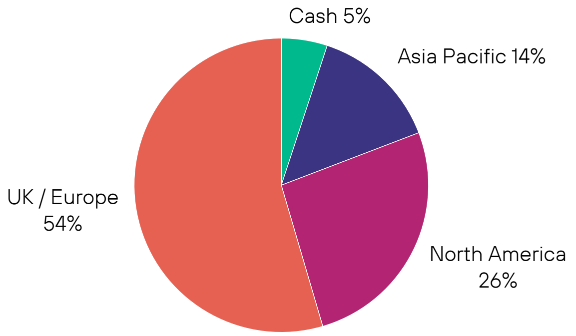
Pooled: No

Performance to 31 December 2021

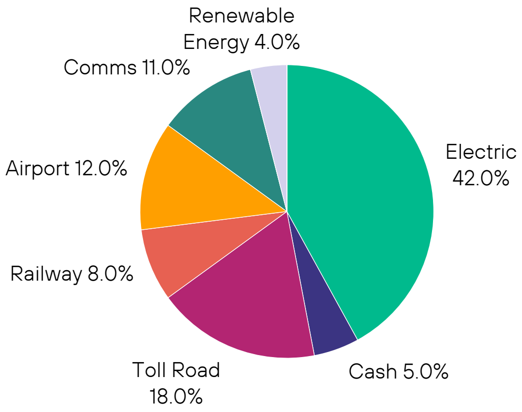


	Q4 2021	12 months
Return	5.6%	11.7%
Benchmark	7.4%	17.0%
Relative	-1.8%	-5.3%

Geographic Allocation at 31 December 2021



Sector Allocations at 31 December 2021



Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Commentary

- The Fund delivered a return of 5.6% over the quarter, underperforming its benchmark by 1.8%. Listed infrastructure as a sector gained 8.2% during Q4, outperforming global equities.
- The key detractors for the Fund were the relative underweight exposures to North America and the higher weight to Europe. At a stock level, SES (Europe communications), Aena (Europe Airport) and Eutelsat (Europe Communications) were the main detractors relative to the benchmark.
- The team added two new positions over Q4: Eiffage (French Toll roads) and Atlantia (Italian toll roads). This deals were funded by the sales of Ausnet (Australian electric utility where the ongoing bid process had led to a material increase in valuation, and consequent forward return decline) and Spark Infrastructure (Australian regulated electric where there was approval of a takeover).
- !2 month performance remains below benchmark.

M&G – Real Estate Debt

Mandate: Private Debt

Current Value: £38.9m

Current Weighting: 0.8%

Inception: April 2019

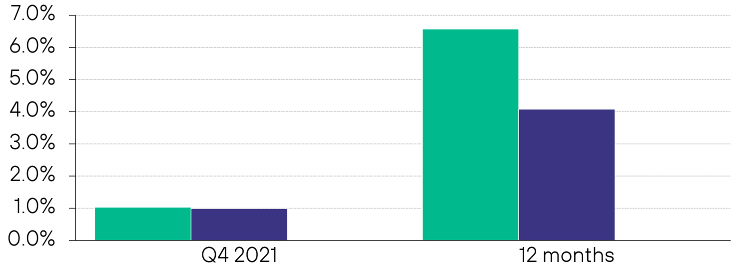
Benchmark: Benchmark: 3m LIBOR +4%

Objective: Objective: 3m LIBOR +5%

Pooled: No

We downgraded the Funds to 'partially meets criteria' following the resignation of four senior members within M&G's Real Estate Debt business in April. This led to the Funds' investment period being temporarily suspended, however a new Investment Committee was approved over Q2, allowing the reinvestment period to be reinstated and further capital to be recycled.

Performance to 31 December 2021

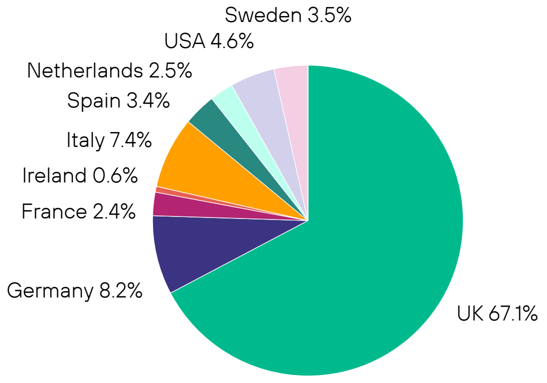


	Q4 2021	12 months
Return	1.0%	6.6%
Benchmark	1.0%	4.1%
Objective	0.0%	0.0%

Commitments and Distributions to 31 December 2021

M&G – Real Estate Debt Fund	
Total Commitment (£m)	60.0
Commitment Drawn (£m)	36.2
Distributions (£m)	-
Outstanding Commitment (£m)	23.8
Market Value (£m)	38.9

Average Invested Capital by Geography Across the Portfolio



Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Commentary – 3 month lag

- The portfolios are largely fully invested and are performing in line with expectations. Project Pontiac was removed from the minor watchlist in September, whilst two deals remain on the minor watchlist. There were no new deals over the quarter, however REDF IV and V allocated to a luxury retail position post quarter end.
- Project Genesis remains the only major watchlist position; footfall over Q3 remained c.30-40% lower than pre-COVID levels. M&G are focusing on stabilising the asset through value add opportunities, such as exploring planning consent to convert the retail space for alternative use. The senior lender group do not expect to advance any further of the £10.4m undrawn commitment to the end of 2021.
- M&G continue to have a strong pipeline of opportunities to recycle capital into over the remainder of the reinvestment period. Demand for logistics and office assets remain strong, however M&G are cautious of the high pricing of these assets relative to their underlying quality. Despite negative sentiment and volatility, M&G advised that they are identifying pockets of opportunity within the retail sector.

M&G – Diversified Credit

Mandate: Multi Asset Credit

Current Value: £289.5m

Current Weighting: 6.1%

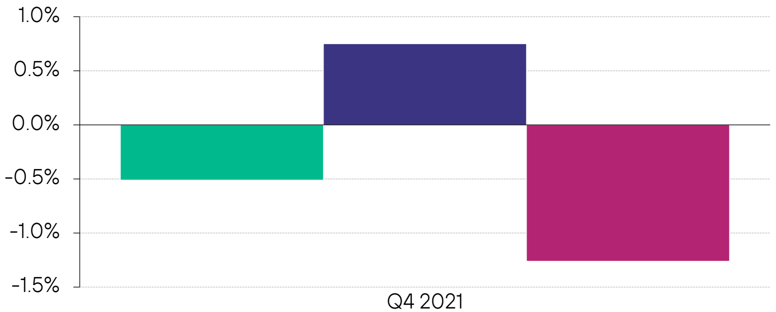
Inception: November 2009

Benchmark: 3 Month Libor +3%

Objective: 3 Month Libor +5% (gross)

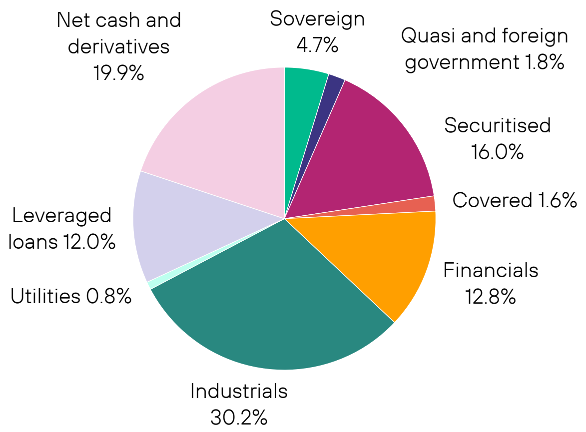
Pooled: Via Access Pool

Performance to 31 December 2021 [1]

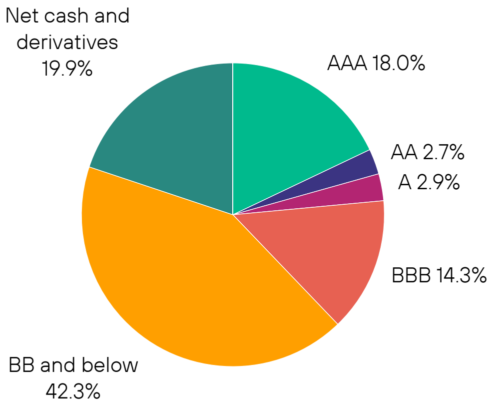


	Q4 2021
Return	-0.5%
Benchmark	0.8%
Relative	-1.3%

Sector Allocation as at 31 December 2021



Credit Ratings as at 31 December 2021



Commentary

- The Fund underperformed its objective over Q4, as wider credit markets faced a challenging backdrop of inflationary concerns and the outbreak of the Omicron Covid variant. The Fund also underperformed higher duration peers as nominal gilt yields fell; despite this, outperformance remains strong over the long term.
- Performance was muted across all areas in which the Fund invests. The leveraged loan allocation was the top contributor (0.12% gross of fees), driven predominantly by income. Interest rate hedging was the main detractor as gilt yields fell, however we are comfortable low duration remains suitable to reduce volatility over the longer term.
- M&G are focused on defensive, income-generating assets, and increased the cash, sovereign bonds and loan allocations over Q4. Looking forward, M&G anticipate future interest rate rises and maintain a high cash allocation (c.20%) to capture opportunities should any market turbulence materialise. We note this allocation has the potential to provide a drag on returns; we will monitor over coming periods.

Note: Totals may not sum due to rounding. Performance quoted net of fees. [1] Q4 2021 return shown for illustrative purposes by combining performance prior to the switch onto the ACCESS platform on 1 December 2021.
Source: Investment manager, Northern Trust, Isio calculations.

M&G – Corporate Bonds

Mandate: Corporate Bonds

Current Value: £162.6m

Current Weighting: 3.4%

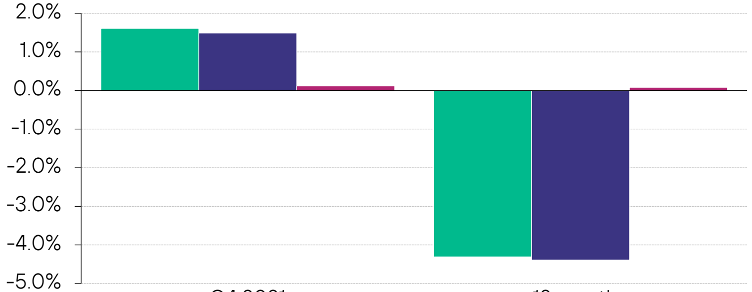
Inception: December 1996

Benchmark: Benchmark: - 50% iBoxx Non-Gilts Over 15Y - 50% iBoxx Non-Gilts

Objective: Outperform benchmark by 0.8% p.a. (gross)

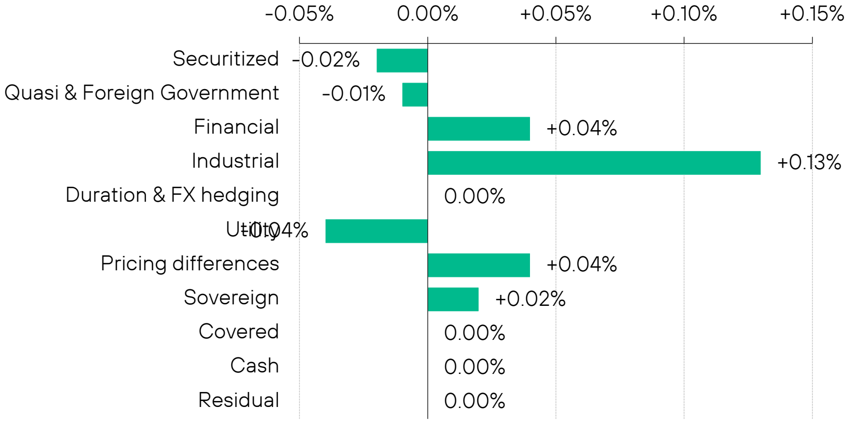
Pooled: Via Access Pool

Performance to 31 December 2021

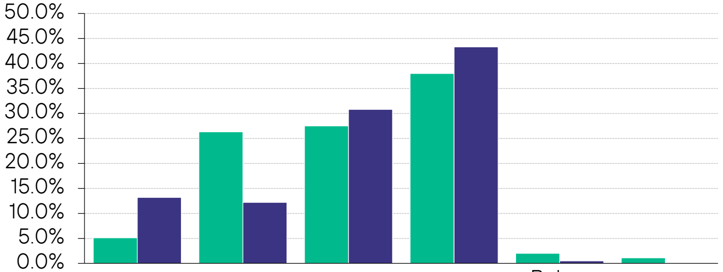


	Q4 2021	12 months
Return	1.6%	-4.3%
Benchmark	1.5%	-4.4%
Relative	+0.1%	0.1%

Performance Attribution as at 31 December 2021



Fund Credit Ratings to Benchmark at 31 December 2021



	AAA	AA	A	BBB	Below BBB or Non-rated	Cash and Derviatives
Credit Rating	5.1%	26.3%	27.5%	38.0%	2.0%	1.1%
Benchmark	13.2%	12.2%	30.8%	43.3%	0.5%	0.0%

Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Commentary

- The Fund returned 1.6% over the quarter, outperforming its benchmark by 0.1%. Positive absolute returns were largely driven by falling long-dated interest rates, as investors reacted to fears around the Omicron variant. Despite the increase in realised inflation over the quarter, long-dated expectations fell marginally, with gilt yields following suit.
- The manager continued to de-risk the Fund and retains an underweight position in credit spread duration and corporate risk relative to the benchmark. The manager also continued to reduce the Fund's exposure to off-benchmark names such as Iliad and Rolls Royce, which M&G believe no longer offer attractive risk-adjusted returns. M&G also reduced exposure to strong performing assets such as APT Pipelines.
- M&G continue to believe that valuations across much of the credit market look stretched, and are therefore defensively positioned at present.

UBS – Over 5 Year Index-linked Gilts

Mandate: Index Linked Gilts

Current Value: £144.1m

Current Weighting: 3.0%

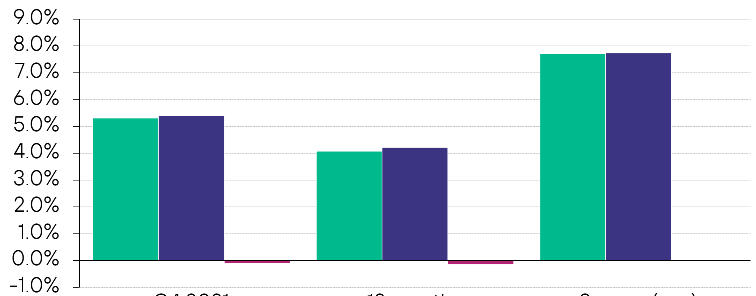
Inception: August 2017

Benchmark: FTSE Index- Linked Gilts Over 5 Years

Objective: Match benchmark

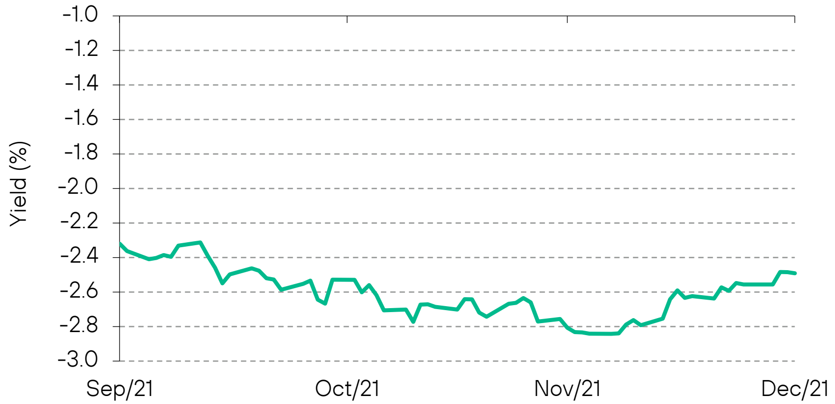
Pooled: Via Access Pool

Performance to 31 December 2021



	Q4 2021	12 months	3 years (p.a.)
Return	5.3%	4.1%	7.7%
Benchmark	5.4%	4.2%	7.7%
Relative	-0.1%	-0.1%	-0.0%

Real Gilt Yields – Q4 2021



Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Commentary

- The Fund returned 5.3% over the quarter, marginally underperforming its benchmark.
- Real gilt yields fell slightly over the quarter, despite a similarly small fall in long-term inflation expectations. This was due to a fall in long-dated nominal gilt yields.
- This allocation has defensive characteristics, providing the Fund with protection against the impact of both interest rates and inflation expectations on the value placed on the liabilities.

Appendices

A1: Market Background: Global Equity, Absolute Return, Real Assets, Credit & Yields

A2: Explanation of Market Background

A3: Disclaimers

Market Background – Global Equity

Summary

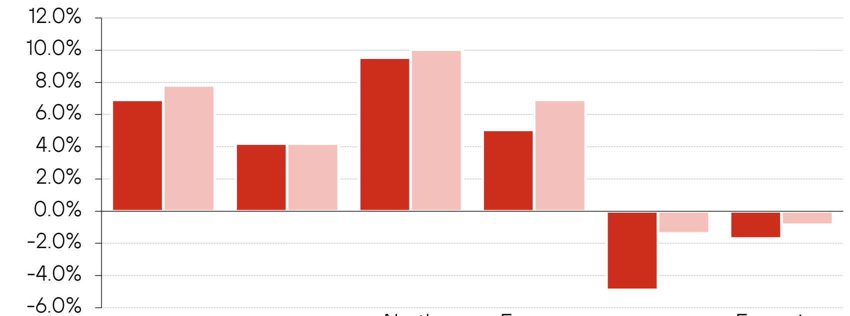
Developed market equities provided positive returns, with the impact of strong corporate earnings outweighing fears in relation to the pace of US monetary tightening and the new COVID-19 variant, Omicron.

Emerging markets underperformed over the period, with Chinese equities continuing to be a key detractor from returns.

Following a relative decline in volatility over the last 12 months, the news of the Omicron variant resulted in a spike in volatility during November, which subsided in December as Omicron did not lead to widespread lockdown measures or hospitalisations.

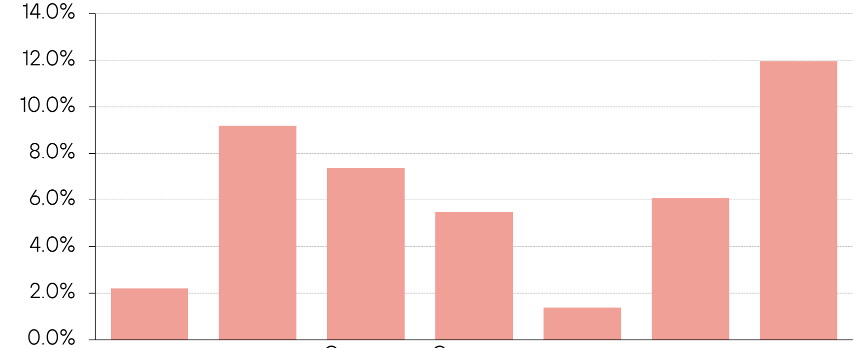
GBP hedged assets outperformed unhedged equivalents over the quarter, with Sterling strengthening against most major currencies over the period.

Regional Returns – Q4 2021



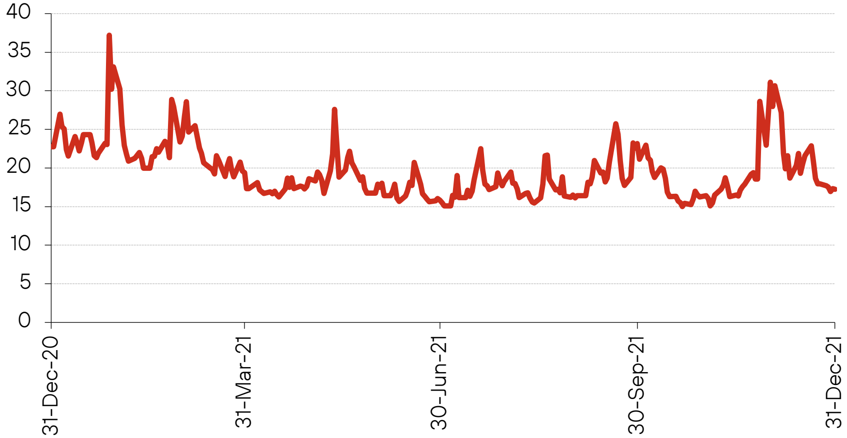
	World	UK	North America	Europe exc UK	Japan	Emerging Markets
Sterling	6.9%	4.2%	9.5%	5.1%	-4.9%	-1.7%
Local	7.8%	4.2%	10.0%	6.9%	-1.4%	-0.8%

Sector Returns – Q4 2021



	Financial	Utilities	Consum. Staples	Consum. Discret.	Energy	Health	Tech
Sector	2.2%	9.2%	7.4%	5.5%	1.4%	6.1%	12.0%

VIX Volatility Index – Last 12 months



Commentary

- Developed equity markets delivered strong returns over Q4 following increased investor confidence as a result of economic resilience against the new COVID-19 variant, Omicron. In particular, technology stocks provided strong returns, with US chipmakers in particular announcing robust future earnings expectations.
- Despite an increase in COVID-19 infection rates and US monetary tightening adding to volatility in markets, US equities were the strongest performer over the quarter with improved corporate earnings being a key factor. UK equities also delivered positive performance over the quarter but lagged the US. This was due to underperformance in financials, coupled with sharp declines in oil prices negatively impacting the energy sector, where the UK market has relatively material exposure.
- Emerging market equities continued their recent underperformance, with Chinese stocks in particular continuing to lag the broader market. Amongst a backdrop of longer-term structural changes, China have reintroduced accommodative monetary and fiscal measures due to concerns about potential downside economic risks.

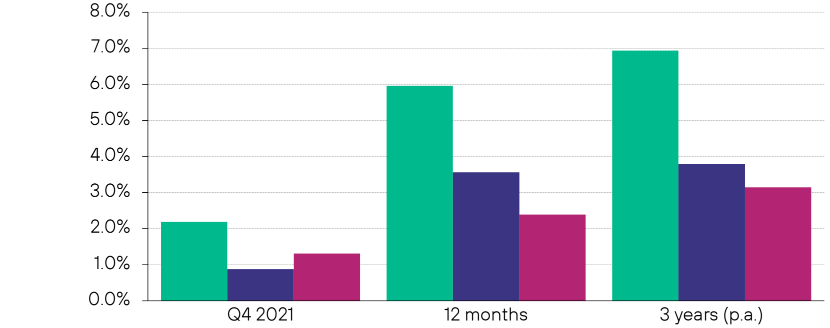
Note: Please see Appendix 2 for further information.
Source: Datastream, Isio calculations.

Market Background – Absolute Return

Summary

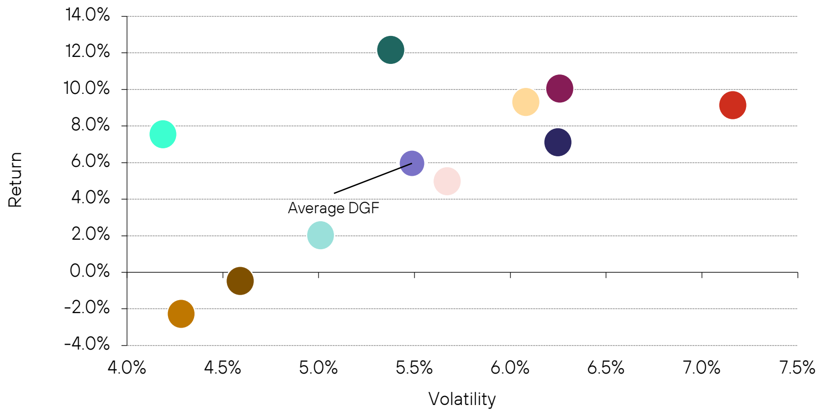
Within our sample of managers we have incorporated the performance of ten DGFs with various manager styles, aiming to give a balanced view of the market.

Sample Manager Average Returns – Q4 2021

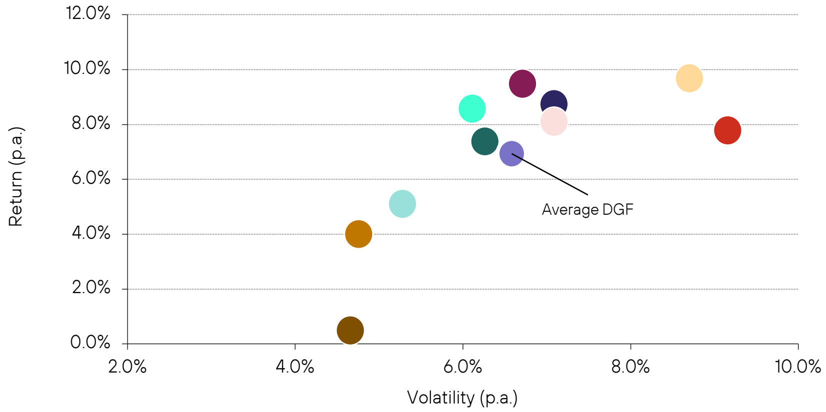


	Q4 2021	12 months	3 years (p.a.)
Average DGF	2.2%	6.0%	6.9%
Cash +3.5%	0.9%	3.6%	3.8%
Relative	1.3%	2.4%	3.1%

Sample Manager Returns and Volatility – 12 months



Sample Manager Returns and Volatility – 3 years (p.a.)



Commentary

- The average DGF posted positive performance over Q4 2021, with global equities remaining strong as investors focused on positive corporate earnings announcements. The emergence of the Omicron variant led to a spike in equity volatility at the end of November, but markets quickly recovered as data from South Africa and the UK indicated a lower risk of severe disease.
- Over the 1 and 3 year periods, equity allocations continued to be the strongest contributor to returns, with the asset class aided by actions from governments and central banks. The strongest performing managers continue to be those who typically have portfolios with the highest exposure to broad market movements, resulting in the more traditional asset allocation style outperforming relative value strategies.
- The majority of DGF managers maintain their positive outlook, however they remain alert to the prospect of monetary and fiscal policy tightening on the horizon, with the issue of increasing inflation also of increasing importance.

Note: Please see Appendix 2 for further information. All returns are quoted net of management fee. The cash +3.5% benchmark in the 'Sample Manager Average Returns' chart broadly equates to the Isio long-term DGF return assumption of Gilts +3.5% p.a.
Source: Investment Managers, Isio calculations.

Market Background – Real Assets

Summary

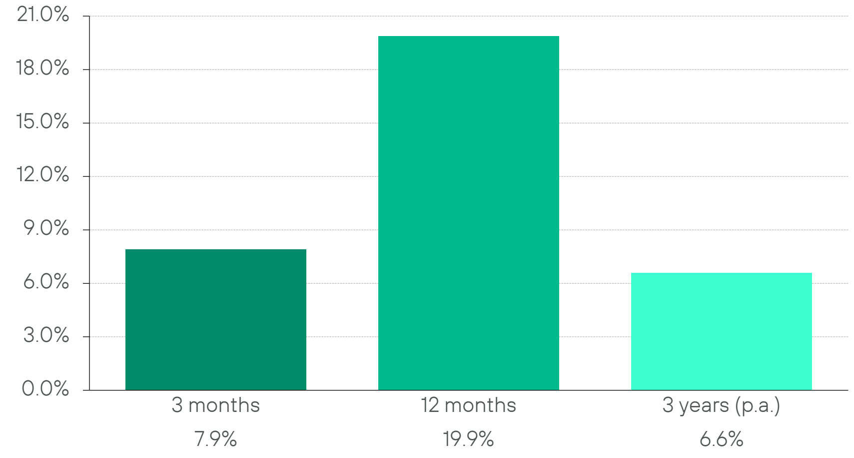
Both Core and Long Lease Property returned strong positive performance over the quarter, despite signals that the economic recovery had slowed given the outbreak of the Omicron virus.

Industrials continue to be in high demand across both asset classes and displayed strong level of rental growth as e-commerce continues to be a key focus and driving force in the market.

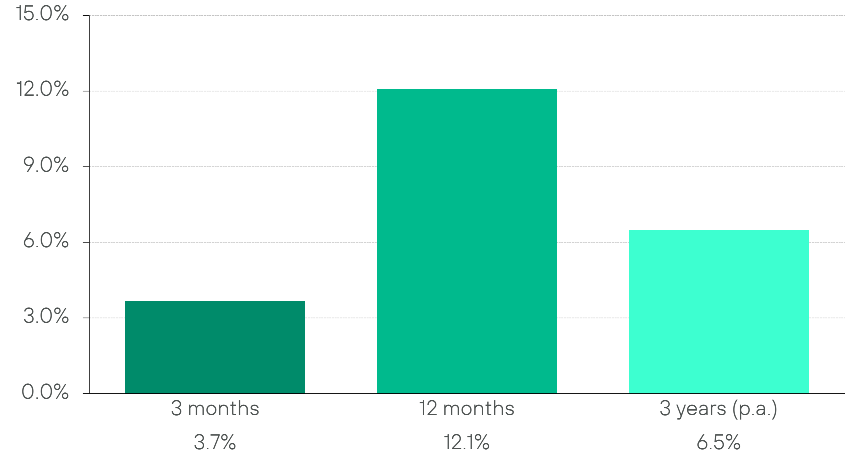
Demand for retail picked up over the quarter driven by savings during the pandemic being used for early Christmas shopping, particularly online sales. Office space requirements are changing reflective of hybrid working patterns, however, leasing activity for central London office is rising.

Higher inflation levels and thus higher interest rates, could lead to downward pressure on capital values in the future. However prime property assets is expected to remain favourable.

Core UK Property Returns



Long Lease UK Property Returns



Commentary – Core UK Property

- Core UK property delivered strong positive returns over the quarter despite signals that the economic recovery had slowed given the outbreak of the Omicron virus. Rising inflation drove the Bank of England to increase base interest rates to 0.25% but UK real estate yields remained attractive on a relative basis.
- The industrial sector continues to be the strongest performer, driving market returns over the quarter. Occupiers are focusing the trend to e-commerce and futureproofing supply chains therefore increasing leasing activity within the logistics sector, increasing rents by c. 30%. over the year.
- Despite early Christmas shopping increasing retail sales volumes, high street retail and shopping centres remains an area for recovery. In contrast, retail warehouses have been a key focus area with tenants agreeing leases at or above market rents as the sector is seen to have "bottomed out".
- Requirements for office space is changing with hybrid working becoming permanent. However demand for grade A London city offices was the highest since the start of the pandemic, up c. 25% over the year, but still c.40% below the 10 year average.

Commentary – Long Lease UK Property

- Long Lease Property delivered strong positive returns over the period, largely driven by income return but with some capital growth. Rent collections for most long lease funds are now at or near 100%. This strong position reflects the high-quality tenants selected by asset managers, who have been less impacted by lockdown restrictions in the UK.
- The supermarket (essential retail) and industrial sectors in particular were key return drivers. However, the Long Lease index underperformed the Balanced index due to the lower weighting in industrials and more defensive risk profile. Leisure sectors hit by the pandemic such has hotels and cinemas were boosted by consumer spending.
- Inflation has hit its highest level over the quarter, largely driven by supply constraints. Long Lease Property funds have seen little impact as most leases are inflation linked..
- Transaction activity in the UK property market, as measured by investment volumes, remained stable over the quarter. As compared to 2020 and 2019 the volume was higher.

Note: Please see Appendix 2 for further information.
Source: AREF / IPD and Investment Managers.

Market Background – Credit

Summary

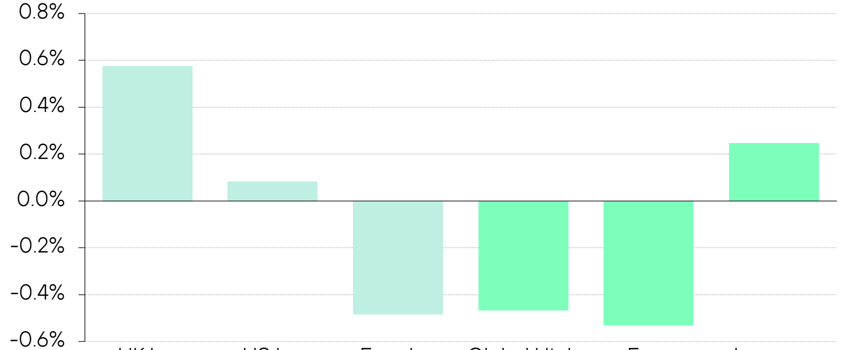
The emergence of the Omicron COVID-19 variant was a key driver of credit markets over the quarter, with credit spreads widening across most markets as a result.

Central banks introduced plans to pullback their monetary support as inflation expectations rose, an issue exacerbated by the ongoing supply chain crisis. However, the uncertainty surrounding the Omicron variant led to many central banks to delay their plans to increase policy rates.

The news that the Omicron variant is more transmissible than previous COVID-19 variants led to some governments reintroducing restrictions and dampening investor sentiment. This led to credit spreads widening and drove the underperformance of lower quality credit.

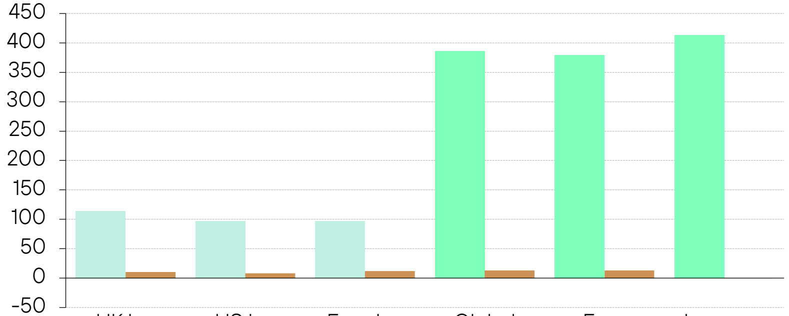
Fixed rate bonds underperformed floating rate as investors shifted into the latter in light of rising interest rates. The exception was in the UK, where falling gilt yields supported IG bond performance.

Credit Market Returns – Q4 2021



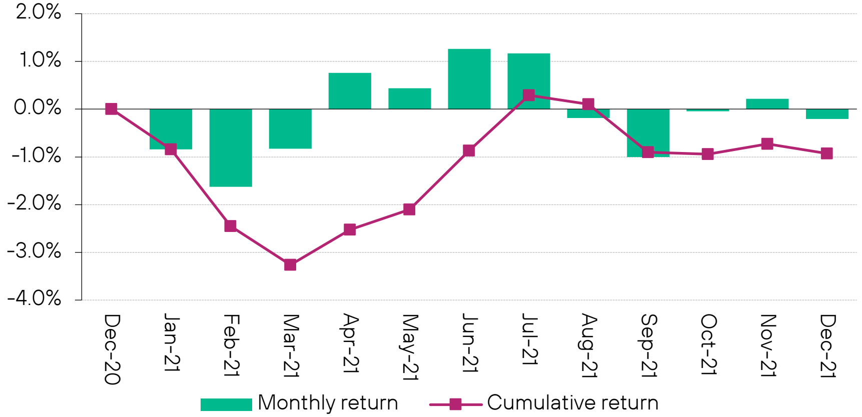
	UK Inv Grade	US Inv Grade	Euro Inv Grade	Global High Yld	Emg Markets	Leverag. Loans
£ Hedged	0.6%	0.1%	-0.5%	-0.5%	-0.5%	0.2%

Credit Spreads – Q4 2021



	UK Inv Grade	US Inv Grade	Euro Inv Grade	Global High Yld	Emg Markets	Leverag. Loans
End of qtr	114	97	97	386	379	414
Qtr change	10	8	12	13	13	-1

Global Broad Credit Market Return – Last 12 Months



Commentary

Credit markets delivered mixed performance as inflationary pressures continued to grow and central banks signalled moves to tighten monetary policy. Meanwhile the emergence of the Omicron COVID-19 variant led to credit spreads widening.

- **Investment grade ('IG')** bond performance was mixed. UK IG outperformed other regions due to its sensitivity to falling yields, as lower than expected future issuance was announced.
- **High yield ('HY') bonds** delivered negative returns, as credit spreads widened due to uncertainty around Omicron. HY continued to underperform leveraged loans, with investors preferring floating rate assets, to guard against the risk of rising interest rates.
- **Emerging market ('EM') debt** performed negatively as the Omicron variant led to spreads widening, especially as EM countries' vaccine rollouts continue to lag developed nations. Similarly the impact of the default of Chinese property developer Evergrande's bonds hampered Chinese debt performance.

Note: Please see Appendix 2 for further information. Credit spreads are shown in basis points (100 bp = 1%) and correspond to the incremental yield available on corporate bonds above government bonds of a similar maturity. Floating rate assets have reduced interest rate sensitivity than fixed rate and are therefore less exposed to rising interest rates.

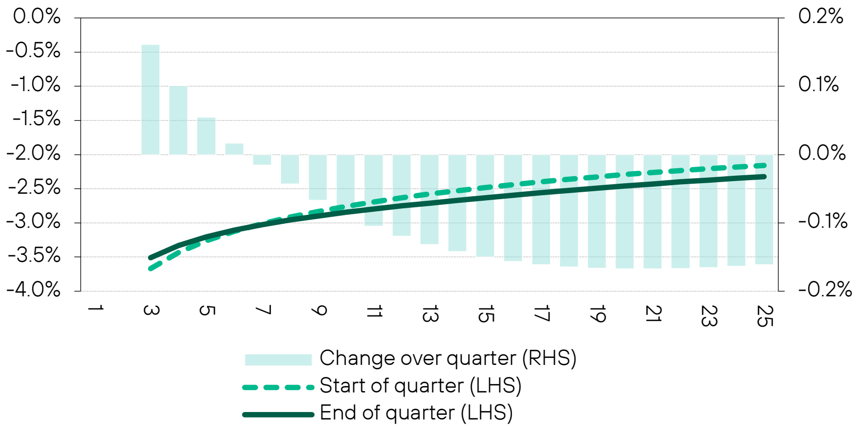
Source: Investment Managers, Isio calculations, Eikon

Market Background – Yields

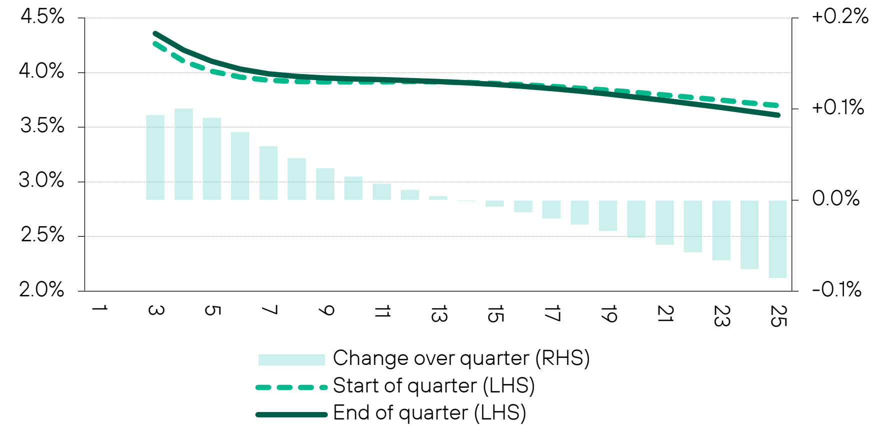
Summary

These curves show gilt yields and inflation expectations at varying time horizons. The horizontal axis represents the number of years.

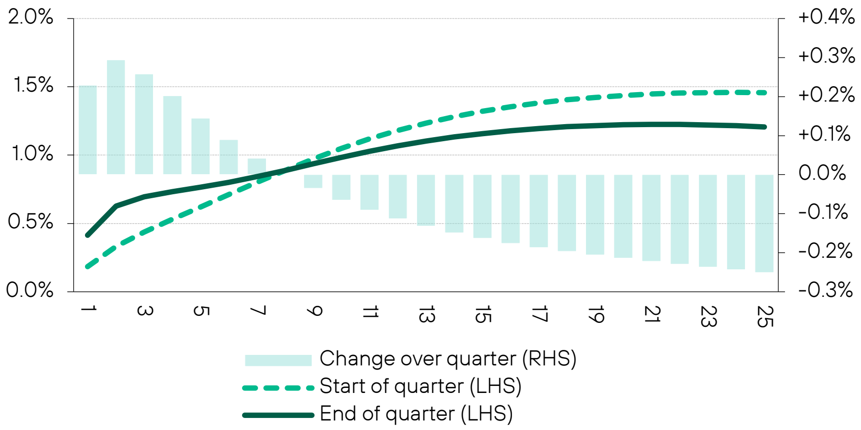
Real Gilt Yields – Q4 2021



Gilt-Implied Inflation – Q4 2021



Nominal Gilt Yields – Q4 2021



Commentary

- Long-dated (20-year) yields at the quarter-end were:
  - Real gilt yield: -2.5%
  - Nominal gilt yield: 1.2%
  - Gilt-implied inflation expectation: 3.8%

Note: Please see Appendix 2 for further information.
Source: Bank of England, Isio Calculations

Explanation of Market Background

This glossary explains the components of the Market Background charts in Appendix 1.

All returns are in Sterling terms, unhedged, unless otherwise stated. Where "hedged" returns are quoted, these are local currency returns (i.e. any costs and imprecisions in hedging are assumed to be negligible).

Market Background – Overview

- Returns by Asset Class – The market indices underlying this chart are as follows:
  - UK Equity: FTSE All-Share
  - Global Equity: FTSE World (Unhedged and Hedged)
  - Emerging Market Equity: MSCI Emerging Markets
  - Diversified Growth Funds: mean of a sample of DGF managers
  - Property: IPD Monthly UK
  - Global High Yield: BoAML Global High Yield (GBP Hedged)
  - UK Inv. Grade Credit: BoAML Sterling Non-Gilt
  - Over 15 Years Gilts: FTSE Over 15 Year Gilt
  - Over 5 Years Index-Linked Gilts: FTSE Over 5 Year Index-Linked Gilt
  - Example Liabilities: a simplified calculation illustrating how a typical pension scheme's past-service liabilities may have moved

Market Background – Global Equity

- Regional Returns – The market indices underlying this chart are as follows:
  - World: FTSE World
  - UK: FTSE All Share
  - North America: FTSE North America
  - Europe ex UK: FTSE Europe ex UK
  - Japan: FTSE Japan
  - Emg Mkts: MSCI Emerging Markets
- Sector Returns – The market indices underlying this chart are the relevant sectors from the MSCI All-Countries index.
- VIX Volatility Index – This is a forward-looking indicator. It represents the expected range of movement (in percentage terms) in the S&P 500 index (i.e. US equities in dollar terms) over the next year, at a 68% confidence level. It is calculated using options prices over a 30-day horizon.

Explanation of Market Background (cont.)

This glossary explains the components of the Market Background charts in Appendix 1.

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Market Background – Absolute Return

- **Diversified Growth Funds ("DGFs")** – Due to the lack of a market index for DGFs, we illustrate the performance of this by showing the returns of 10 of the largest funds by assets under management. Specifically:
  - Aberdeen Standard Global Absolute Return Strategies
  - Aviva Multi-Strategy Target Return
  - Baillie Gifford Diversified Growth
  - BlackRock Dynamic Diversified Growth
  - Invesco Perpetual Global Targeted Returns
  - L&G Diversified
  - Newton Real Return
  - Nordea Stable Return
  - Ruffer Absolute Return
  - Schroder Diversified Growth
- The 'Average DGF' performance is an equally-weighted average of the sample of 10 managers' performance figures.
- Returns are shown net of each manager's standard fee. While every effort has been taken to select vehicles with institutional/clean fee structures, the impact may not necessarily reflect any particular client's fee arrangements.
- Volatility is calculated by annualising the volatility of daily returns.
- As clients have specific selection criteria, the managers listed here may not meet any given client's criteria.
- DGFs encompass a range of investment approaches, return targets, and risk profiles. Consequently, different managers' returns are not necessarily a like-for-like comparison.

Market Background – Real Assets

- Real Assets – The market indices underlying these charts are:
  - Core UK Property: IPD Monthly UK Index
  - Long Lease UK Property: IPD Long Income Property Fund Index

Explanation of Market Background (cont.)

This glossary explains the components of the Market Background charts in Appendix 1.

All returns are in Sterling terms, unhedged, unless otherwise stated. Where "hedged" returns are quoted, these are local currency returns (i.e. any costs and imprecisions in hedging are assumed to be negligible).

Market Background – Credit

- Sector Returns and Credit Spreads – The market indices underlying this chart are as follows:
  - UK Inv Grade: BoAML Sterling Non-Gilt
  - US Inv Grade: BoAML US Corporate (GBP Hedged)
  - Euro Inv Grade: BoAML Euro Corporate (GBP Hedged)
  - Global High Yield: BoAML Global High Yield (GBP Hedged)
  - Emerging Markets: JP Morgan EMBI Global (GBP Hedged)
  - Leveraged Loans: S&P/LSTA US Leveraged Loan Equity (GBP Hedged)
- Global broad credit market return – The market index underlying this chart is the BoAML Global Broad Market Corporate Index (GBP Hedged):
  - The Global Broad Market Index tracks the performance of investment grade public debt issued in the major domestic and eurobond markets, including 'global' bonds.
  - Qualifying bonds must have at least one year remaining term to maturity and a fixed coupon schedule. Bonds must be rated investment grade and be domiciled in a country having an investment grade foreign currency long-term debt rating (based on a composite of Moody's and S&P).

Market Background – Yields

- Yields – Yields shown are annual yields (i.e. they have been converted from the "continuously compounded" basis quoted by the Bank of England).
- Example Liabilities – This illustrates how a typical scheme's past-service liabilities may have moved.
  - It is based on a simplified calculation assuming a scheme with duration 20 years and liabilities split 70% inflation-linked and 30% fixed.
  - Liability movement is calculated using yield changes and unwinding (short-term interest rate with no premium) only, with no accrual, outgo, or inflation experience.
  - A rise in yields equates to a fall in the calculated value of the liabilities (due to the higher discount rate at which the future cashflows are valued); conversely, a fall in yields means a rise in liabilities.

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