East Sussex Pension Fund

Investment Performance - Summary Report

Quarter to 30 September 2023

Isio Investment Advisory

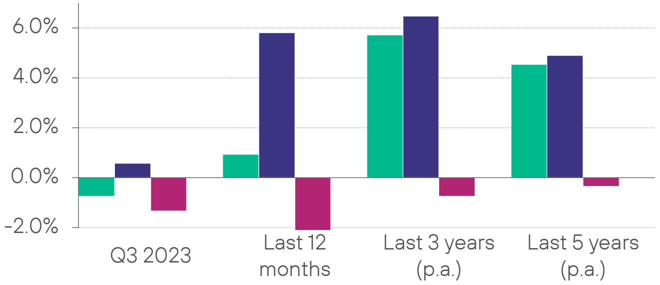
isio.

Highlights

Executive Summary – 30 September 2023

Access Pool	Fund	Q3 2023 Performance			Value at Quarter End	
		Fund	Benchmark	Relative	30-Jun-23	30-Sep-23
Yes	UBS Osmosis – Sustainable Equity	-0.1%	0.6%	-0.6%	£246.8m	£246.6m
Yes	Longview - Global Equity	-2.6%	0.6%	-3.1%	£529.0m	£495.7m
No	WHEB – Sustainable Equity	-5.2%	0.6%	-5.8%	£220.6m	£209.1m
No	Wellington – Sustainable Equity	-3.5%	0.6%	-4.1%	£222.2m	£214.4m
No	Storebrand – Sustainable Equity	-0.7%	0.6%	-1.2%	£519.2m	£489.2m
Yes	Baillie Gifford – Global Equity	-4.3%	0.6%	-4.9%	£193.1m	£184.8m
No	Harbourvest – Private Equity [1,2]	7.0%	1.0%	+6.1%	£179.0m	£192.2m
No	Adams Street – Private Equity [1,2]	4.4%	1.0%	+3.4%	£191.3m	£199.3m
Yes	Newton – Absolute Return	0.3%	1.9%	-1.6%	£335.2m	£336.4m
Yes	Ruffer - Absolute Return	-1.2%	1.9%	-3.1%	£448.7m	£443.3m
No	Schroders – Property	-0.6%	-0.4%	-0.2%	£347.8m	£342.9m
No	UBS – Infrastructure [2]	0.4%	0.9%	-0.4%	£35.4m	£35.6m
No	Pantheon – Infrastructure [2]	5.1%	0.9%	+4.2%	£83.0m	£88.4m
No	M&G – Infrastructure [2]	-2.7%	0.9%	-3.6%	£57.5m	£56.0m
No	IFM – Infrastructure	0.6%	0.8%	-0.3%	£235.4m	£235.6m
No	ATLAS - Listed Infrastructure	-6.5%	-4.7%	-1.7%	£100.0m	£93.5m
No	M&G – Real Estate Debt [2]	0.9%	2.3%	-1.3%	£40.5m	£39.8m
Yes	M&G – Diversified Credit	2.8%	2.0%	+0.8%	£300.6m	£309.0m
Yes	M&G - Corporate Bonds	-0.1%	0.0%	-0.1%	£118.5m	£118.4m
Yes	UBS - Over 5 Year Index-linked Gilts	-6.3%	-6.4%	+0.0%	£133.2m	£170.7m
	Total Assets	-0.7%	0.6%	-1.3%	**£4,536.9m**	£4500.9m

Period returns – to 30 September 2023



	Q3 2023	Last 12 months	Last 3 years (p.a.)	Last 5 years (p.a.)
Scheme Return	-0.7%	0.9%	5.7%	4.5%
Benchmark Return	0.6%	5.8%	6.5%	4.9%
Relative	-1.3%	-4.9%	-0.8%	-0.4%
Sample 60:40 Portfolio	0.2%	4.5%	2.5%	4.4%

Commentary

- The Fund's assets delivered a negative absolute return over the quarter, returning -0.7% and underperformed the benchmark return of 0.6% by 1.3%.
- The public equity managers all posted negative absolute and relative returns as equity markets were volatile and began to price in "higher for longer" interest rates leading to "growth" stocks struggling.
- The Fund's illiquid holdings in private equity, which have posted negative performance in recent quarters experienced an improvement in performance in Q3 2023.
- The various credit mandates posted mixed results in both absolute and relative terms as UK Gilt yields rose and spreads widened by varying degrees across credit sectors. The Absolute Return managers continued to disappoint relative to their "cash plus" targets, Ruffer particularly so. .
- The longer term returns at Fund level remain robust, with private equity assets adding significant value.

This page provides an overview of performance for the Fund and its underlying mandates.

Note: Sample 60:40 portfolio consists of 60% allocation to MSCI ACWI and a 40% allocation to a bond portfolio split 20% in BofA Merrill Lynch Global Corporate Index, and 10% in FTSE Gilts (all maturities) and FTSE Index Linked Gilts (all maturities) respectively, with all portfolio returns unhedged in GBP terms.

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 30 September 2023. Fund Total value excludes cash held with Northern Trust. [1] Valuation and performance information as at 30 June 2023. [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 – 30 September 2023

Fund	Q3 2023 Performance			1 Year Performance			3 Year Performance			5 Year Performance		
	Fund	Benchmark	Relative	Fund	Objective	Relative	Fund	Objective	Relative	Fund	Objective	Relative
UBS Osmosis – Sustainable Equity	-0.1%	0.6%	-0.6%	11.6%	11.5%	+0.1%	-	-	-	-	-	-
Longview - Global Equity	-2.6%	0.6%	-3.1%	11.8%	11.5%	+0.3%	13.1%	10.2%	+2.9%	7.2%	8.7%	-1.5%
WHEB - Sustainable Equity	-5.2%	0.6%	-5.8%	1.6%	11.5%	-9.9%	-	-	-	-	-	-
Wellington – Sustainable Equity	-3.5%	0.6%	-4.1%	-3.0%	10.5%	-13.5%	-	-	-	-	-	-
Storebrand – Sustainable Equity	-0.7%	0.6%	-1.2%	9.6%	11.5%	-2.0%	-	-	-	-	-	-
Baillie Gifford – Global Equity	-4.3%	0.6%	-4.9%	4.6%	10.5%	-5.9%	-	-	-	-	-	-
Harbourvest – Private Equity[1]	7.0%	1.0%	+6.1%	-7.3%	12.1%	-19.4%	23.9%	10.5%	+13.4%	18.4%	9.4%	+9.0%
Adams Street – Private Equity[1]	4.4%	1.0%	+3.4%	-11.0%	12.1%	-23.1%	22.8%	10.5%	+12.3%	18.0%	9.4%	+8.7%
Newton – Absolute Return	0.3%	1.9%	-1.6%	1.1%	6.9%	-5.8%	0.8%	4.3%	-3.5%	2.6%	3.9%	-1.4%
Ruffer - Absolute Return	-1.2%	1.9%	-3.1%	-7.5%	6.9%	-14.4%	4.2%	4.3%	-0.2%	4.8%	4.0%	+0.9%
Schroders – Property	-0.6%	-0.4%	-0.2%	-12.4%	-14.3%	+1.9%	3.6%	3.2%	+0.4%	1.8%	1.8%	+0.0%
UBS – Infrastructure	0.4%	0.9%	-0.4%	-8.8%	8.6%	-17.5%	4.8%	8.6%	-3.8%	0.9%	6.4%	-5.4%
Pantheon – Infrastructure[1]	5.1%	0.9%	+4.2%	1.8%	8.6%	-6.9%	20.6%	8.6%	+12.1%	-	-	-
M&G – Infrastructure	-2.7%	0.9%	-3.6%	1.3%	8.6%	-7.3%	10.5%	8.6%	+2.0%	-	-	-
IFM – Infrastructure	0.6%	0.8%	-0.3%	-	-	-	-	-	-	-	-	-
ATLAS – Listed Infrastructure	-6.5%	-4.7%	-1.7%	7.9%	-7.4%	+15.2%	-	-	-	-	-	-
M&G – Real Estate Debt	0.9%	2.3%	-1.3%	5.1%	8.4%	-3.3%	4.0%	5.8%	-1.9%	-	-	-
M&G – Diversified Credit	2.8%	2.0%	+0.8%	9.0%	7.4%	+1.6%	4.6%	4.8%	-0.2%	4.3%	4.5%	-0.2%
M&G - Corporate Bonds	-0.1%	0.0%	-0.1%	5.5%	5.0%	+0.5%	-9.9%	-10.1%	+0.3%	-2.1%	-2.7%	+0.6%
UBS - Over 5 Year Index-linked Gilts	-6.3%	-6.4%	+0.0%	-16.2%	-16.2%	0.0%	-16.0%	-16.0%	-0.1%	-6.5%	-6.4%	-0.0%
Total Assets	-0.7%	0.6%	-1.3%	0.9%	5.8%	-4.9%	**5.7%**	**6.5%**	**-0.8%**	**4.5%**	**4.9%**	**-0.4%**

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 30 September 2023.
[1] Valuation and performance information as at 30 June 2023.
Source: Investment Managers, Northern Trust, Isio calculations.

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

The active impact public equity mandates have continued to struggle relative to their benchmarks over the last 12 months.

The private equity mandates have delivered very strong performance over the 3 and 5 year periods, however the performance has been largely negative over the last 12 months, however we saw an upturn in the most recent quarter.

Of the infrastructure mandates, Pantheon has performed particularly strongly over the last quarter with UBS the weakest performer.

Of the managers that have been in place for the longer term, UBS infrastructure have most significantly underperformed benchmark. This is primarily driven by the disappointing performance of Archmore Fund I.

Looking Forward

Key issues

Item	Action points / Considerations	Status
Overall Investment Strategy	**Liquid Fixed Income Manager Selection** • At the Q1 2022 Committee meeting, Isio presented a paper detailing the proposed implementation approach for selection of the manager to manage the agreed increased allocation to fixed income. The Committee subsequently reached agreement on a preferred choice of manager, Bluebay, and are due to arrange implementation once the fund is available on the ACCESS platform. We currently expect this to be Q4 2023. **Illiquid Fixed Income Allocation** • The Officers and IWG group have requested Isio consider the options available to the Fund in relation to implementing the strategic allocation to illiquid fixed income. Isio prepared a briefing paper in early 2023 considering this allocation. This will be revisited later in 2023 through futher follow up work. **Mansion House Speech and Pooling Consultation** • Via the Mansion House speech in July 2023, the UK government is discussing reforms which may encourage LGPS funds to increase private equity allocations in the future. Alongside this, a wide ranging LGPS investment consultation was launched seeking views on proposals relating the areas of asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments.	Information only Information only Information only
Investment Managers	• Wellington – following a material change in team, Isio refreshed the due diligence on the manager, and subsequently downgraded the fund. Isio continue to monitor Wellington closely and will provide a further update at the start of the new year. • M&G AOF Sustainable Version – Isio researched and presented a formal view on the newly launched sustainable version of the Fund's existing holding AOF. Isio will continue to monitor the fund and provide an update in the next 6 months.	Information only Information only

Summary

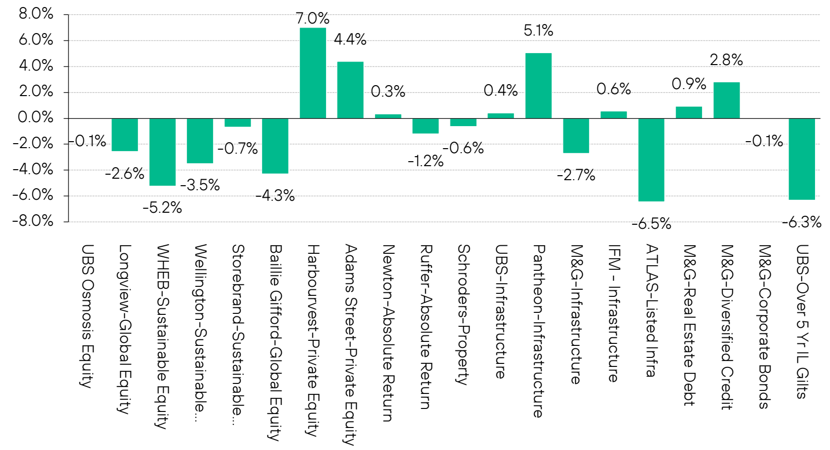
This page sets out the main action / discussion points.

Status key

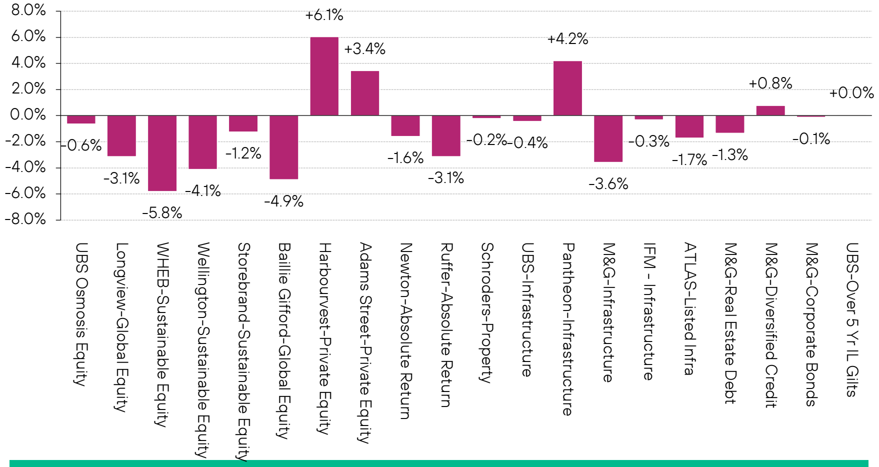
- Action
- Decision
- Discussion
- Information only

Performance Summary – to 30 September 2023

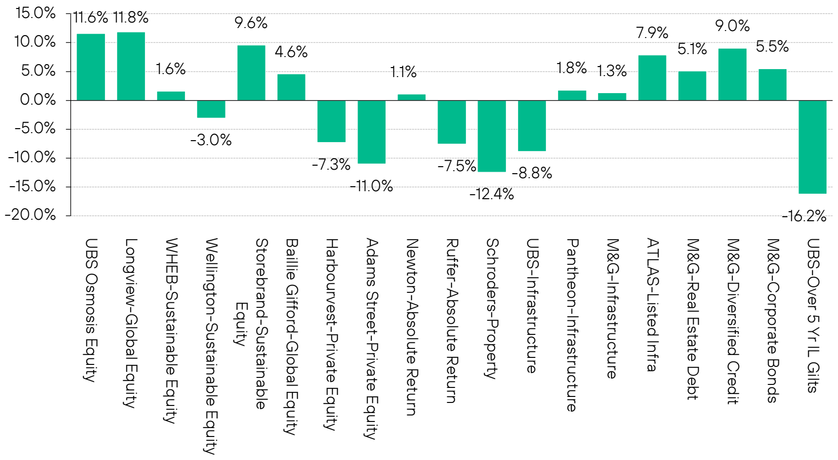
Absolute Return – Q3 2023



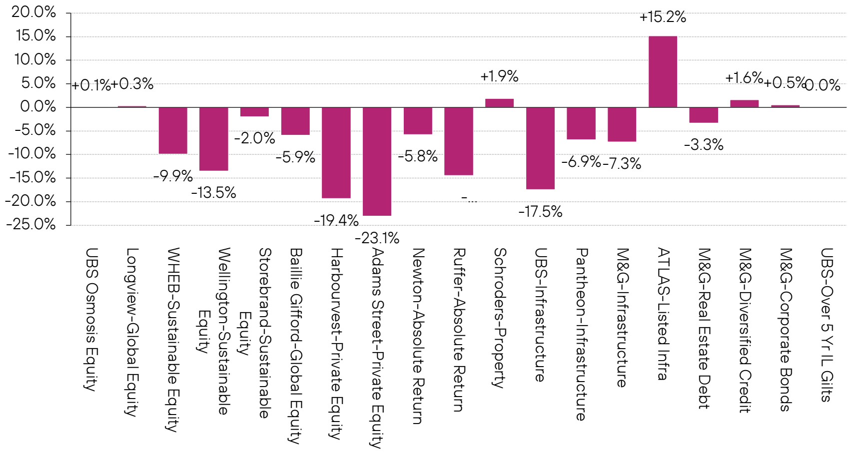
Relative Return – Q3 2023



Absolute Return – 12 months



Relative Return – 12 months



Summary

The Fund's mandates delivered mixed absolute performance over Q3, with private equity funds producing positive returns. Pantheon Infrastructure fund, and the diversified credit also exhibited positive returns.

Meanwhile, the sustainable equity funds and the index-linked gilts delivered the most notable negative absolute performance.

Infrastructure funds also produced negative contributions within the portfolio over Q3 in terms of absolute return levels with the exception of Pantheon and IFM.

On a relative basis over Q3 Baillie Gifford equity, WHEB equity, Wellington equity and M&G infrastructure all underperformed and Harbourvest was the stand out outperformer.

Public equity relative returns over the quarter have been particularly poor, as we continued to see significant headwinds for "growth stocks".

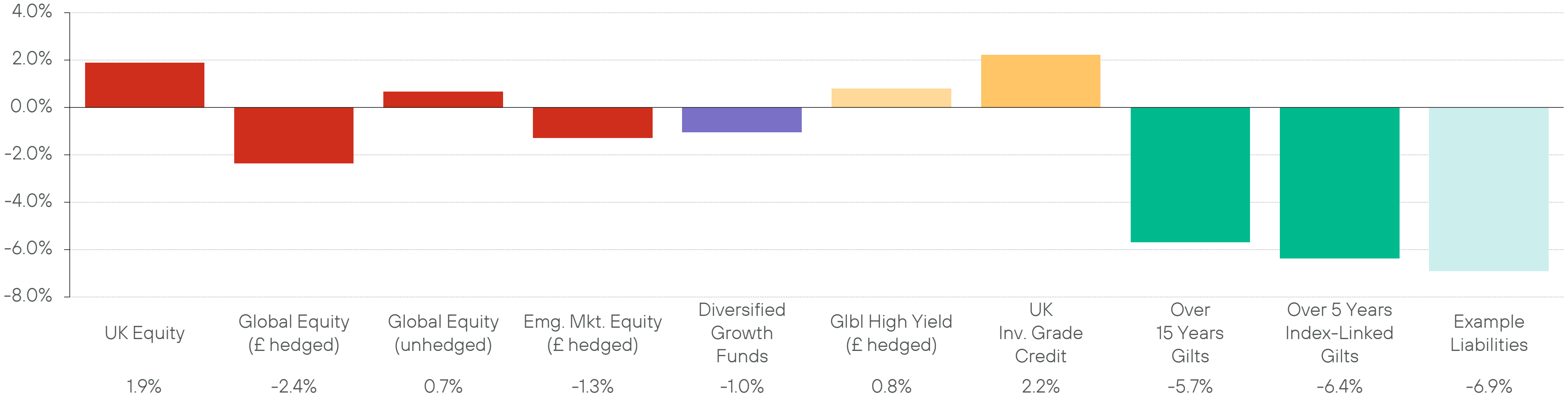
Note: Returns net of fees. 12 month relative and absolute returns are not available for the UBS Osmosis mandate as it was incepted post 30 September 2021.

Source: Investment Managers, Northern Trust, Isio calculations.

Market Background

Market Background – Overview Q3 2023

Returns by Asset Class – Q3 2023



Key Upcoming Events

- The dates for the Bank of England's Monetary Policy Committee (MPC) announcements in Q4 2023 are 2 November and 14 December.
- The dates for the US Federal Reserve's Federal Open Market Committee (FOMC) announcements in Q4 2023 are 1 November and 13 December.

Commentary

- Growth markets delivered mixed returns over Q3 2023, with continued performance divergence across asset classes, sub-sectors, and geographies.
- Global equities delivered negative performance in Stelrng terms, with US and European equities both declining as the prospect of a sustained period of higher interest rates weighed on investor sentiment. UK equities outperformed global markets as a recovery in oil prices benefitted energy companies, and as the Pound Sterling weakened against the US Dollar and other major global currencies.
- Broad credit market performance was negative; however, global high yield and UK investment grade credit produced positive returns as credit spreads narrowed. UK IG credit outperformed its US equivalent, as longer-dated US government bond yields rose more than those on UK assets.
- Government bonds produced negative performance over the period, as long-dated gilt yields rose.

Summary

Equity markets saw mixed performance over the quarter, with UK equities outperforming the majority of other markets.

Broadly negative global sentiment was driven by a further rise in long-dated yields, as investors increasingly expect interest rates to be 'higher for longer'. UK gilt yields reflected this sentiment, with longer-maturity government bond yields rising over the quarter, resulting in negative returns.

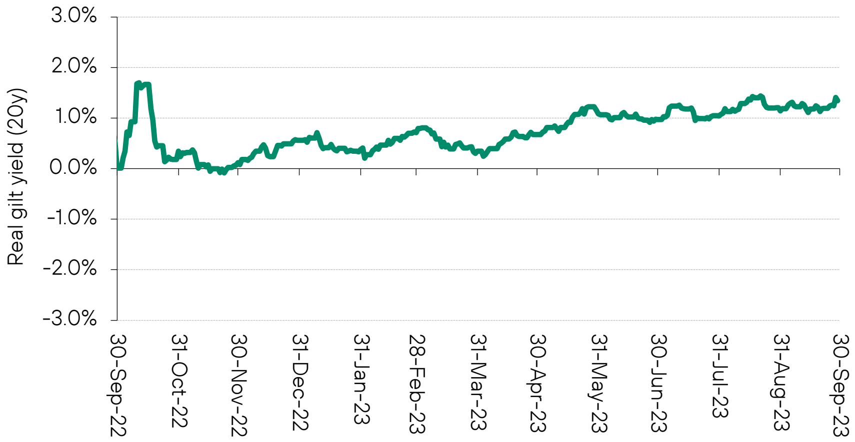
The US Federal Reserve and the Bank of England both increased interest rates by 0.25% in July and August, respectively. However, both central banks paused their rate hikes in September due to signs of slowing inflation. This brought US and UK interest rates to 5.5% and 5.25% at the end of Q3 2023, respectively.

Hedged global equities underperformed unhedged over the period, as the Pound Sterling weakened against a number of major currencies.

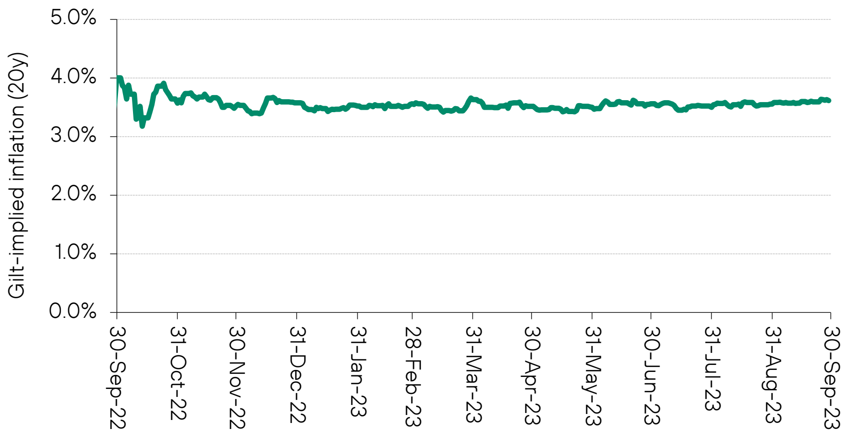
Notes: Please see the 'Explanation of Market Background' appendix for details of the returns representing each asset class.
Sources: Refinitiv, DGF investment managers, Isio calculations.

Market Background – Yields

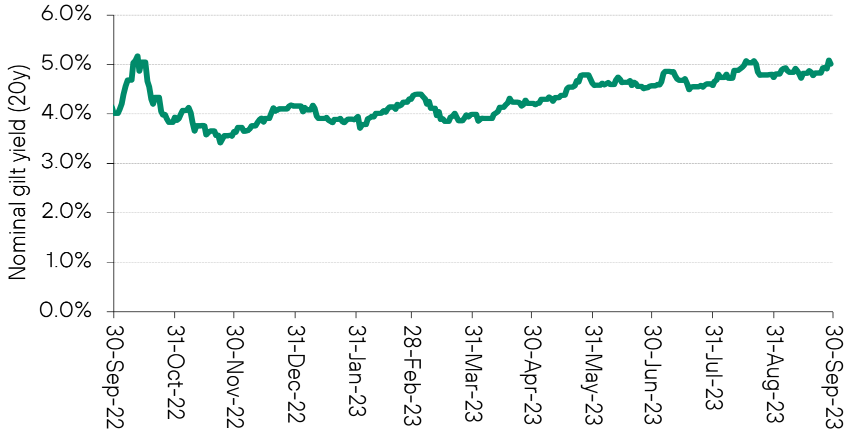
Real Gilt Yields – Last 12 months



Gilt-Implied Inflation – Last 12 months



Nominal Gilt Yields – Last 12 months



Example Liabilities

- The liabilities for an example DB pension scheme decreased by c. 6.9% over the quarter. This can be broken down into the following components:
  - c. 5.5% decrease, due to the increase in real yields;
  - c. 2.7% decrease, due to the increase in nominal yields; and
  - c. 1.3% increase due to the "unwinding" effect (also known as "interest" on the liabilities).
- The liabilities for an example DB pension scheme decreased by c. 14.2% over the last 12 months.

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

The "Example Liabilities" indicate how a typical scheme's past-service liabilities may have moved.

Gilt Yield and Implied Inflation Changes

20-year Real Gilt Yield	
July	0.07%
August	0.10%
September	0.20%
Quarter	**0.38%**

20-year Nominal Gilt Yield	
July	0.01%
August	0.16%
September	0.27%
Quarter	**0.44%**

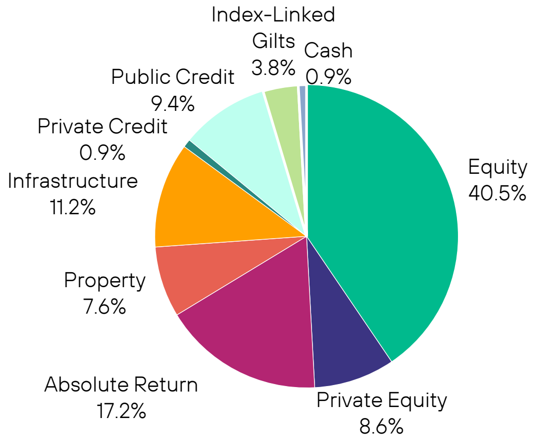
20-year Gilt-Implied Inflation	
July	-0.06%
August	0.06%
September	0.06%
Quarter	**0.05%**

Notes: Please see the 'Explanation of Market Background' appendix for details of the example liabilities. Monthly yield changes may not sum to quarterly changes, due to rounding. Zero coupon rates are shown.
Sources: Bank of England, Isio calculations.

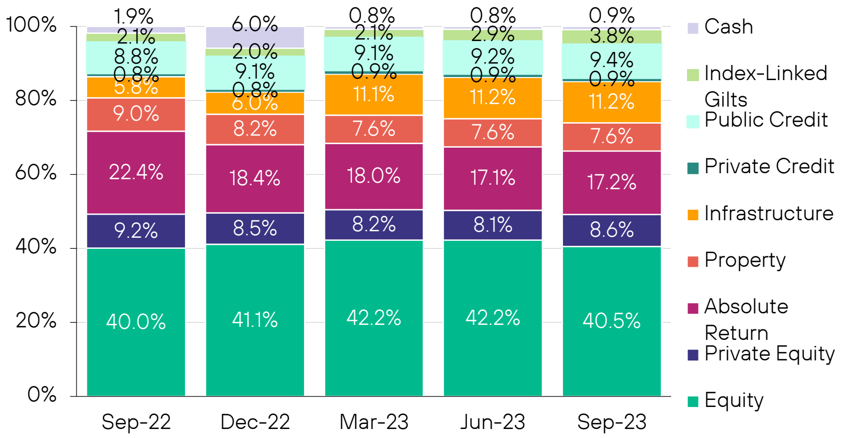
Strategy Overview

Asset Allocation – at 30 September 2023

Asset Allocation – 30 September 2023

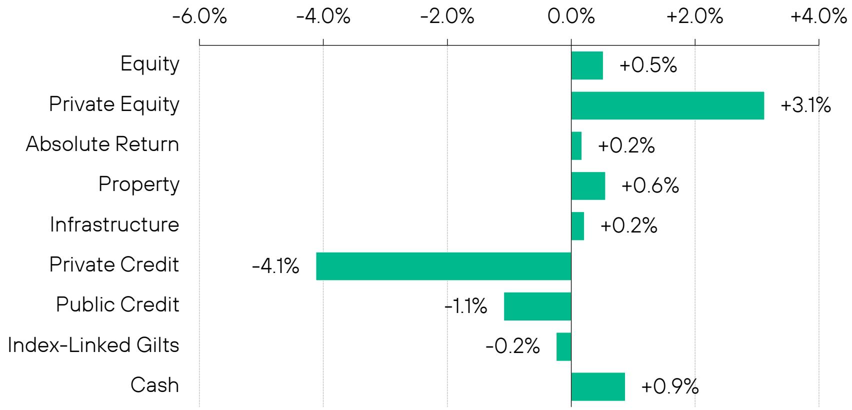


Asset Allocation Changes Since 30 September 2023



This page provides and overview of the current asset allocation positoin of the Fund.

Assets Relative to Benchmark – 30 September 2023



Commentary

- As at September 2023, the Fund's asset allocation remained off-benchmark relative to the newly agreed target asset allocation; though steps are being taken to address this through the continued implementation of the target investment strategy.
- The absolute return, equity (public and private) and cash allocations continue to be overweight; while the private credit allocation remains underweight.
- The allocations will be brought more closely in line with the strategic benchmark as the new mandates are agreed and implemented going forward.
- More specifically, a commitment to private credit is expected to be made in the coming quarters, with capital drawn into the chosen fund following this.
- A formal asset allocation review took place in July, with a decision on the final revised target asset allocation was taken in the September meeting where it was agreed to replace the Inflation-Linked Property allocation with Index-Linked Gilts .
- A market level trigger framework is now in place to move the allocation to Index-linked Gilts to an overweight position should market levels become attractive to do so.

Agreed long-term allocation

Equity	40.0%
Private Equity	5.5%
Absolute Return	17.0%
Balanced Property	7.0%
Index-Linked Gilts	4.0%
Infrastructure	11.0%
Public (Diversified) Credit	10.5%
Private Credit	5.0%

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

Appendices

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

A2: Explanation of Market Background

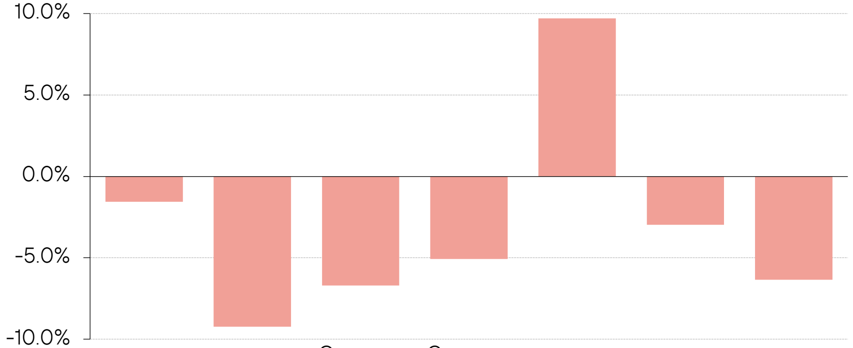
A3: Disclaimers

Market Background – Global Equity

Regional Returns – Q3 2023

	World	UK	North America	Europe exc UK	Japan	Emerging Markets
Unhedged	0.7%	1.9%	1.0%	-1.6%	3.1%	1.3%
Hedged	-2.4%	1.9%	-3.0%	-2.9%	2.2%	-1.3%

Sector Returns – Q3 2023 (Local)



	Financial	Utilities	Consum. Staples	Consum. Discret.	Energy	Health	Tech
Sector	-1.6%	-9.2%	-6.7%	-5.1%	9.7%	-3.0%	-6.3%

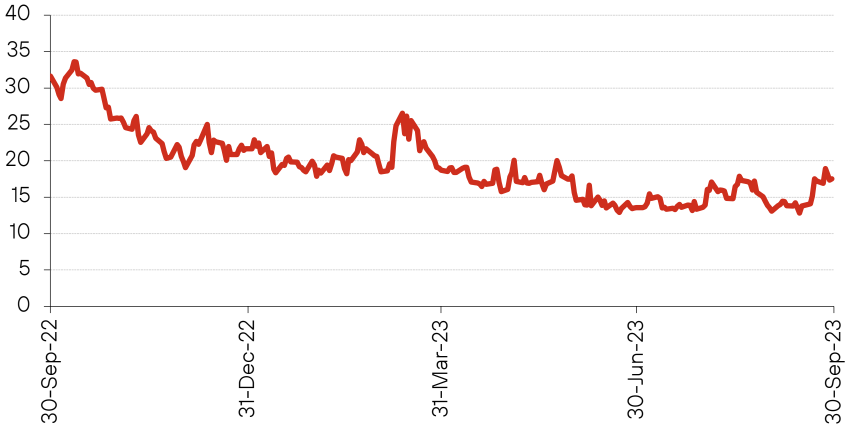
Summary

Q3 saw mixed performance across equity markets. The US had a challenging quarter: despite resilient economic growth, investors reacted negatively to expectations of increasingly tight monetary policy.

UK equities performed well, largely driven by the energy market, with the sector benefitting from a rise in the oil price.

Currency-hedged mandates underperformed their hedged equivalents over the quarter, as Sterling weakened against a number of major currencies.

VIX Volatility Index – Last 12 months



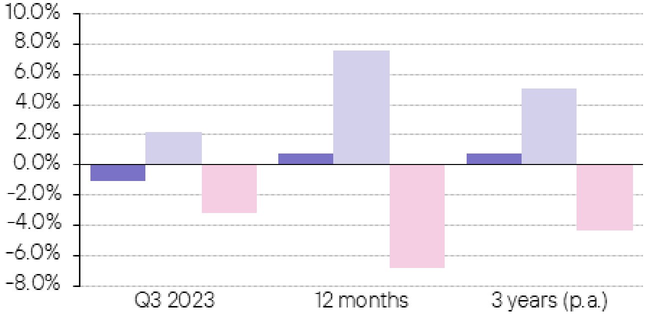
Commentary

- UK equities performed well, with the energy sector particularly benefiting from a rise in crude oil prices (as several oil exporting countries reduced production). Furthermore, domestically oriented sectors rebounded, as consumer confidence improved, influenced by the perception that interest rates may have peaked.
- The US and European markets struggled over the period, with expectations of tighter monetary policy, and their potential impact on consumer spending, hampering investor confidence. US large-cap tech stocks had a particularly challenging quarter, following the strong returns posted in H1 2023.
- The Japanese market delivered robust returns, with a notable upswing in the performance of value and small cap stocks, as corporate earnings remained resilient.
- Emerging markets were impacted by investor uncertainty regarding the potential persistence of high US interest rates, as well as weakness in the Chinese property sector.

Notes: Please see the 'Explanation of Market Background' appendix for details of the underlying indices. Please note that sector returns are based on local USD pricing.
Sources: Refinitiv.

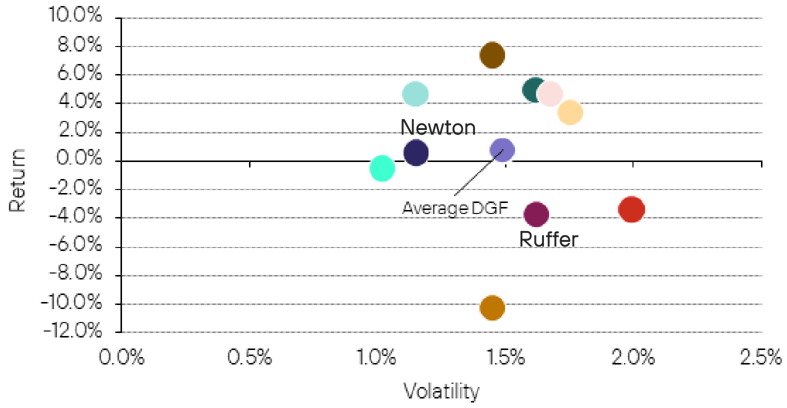
Market Background – Absolute Return

Sample Manager Average Returns– Q3 2023



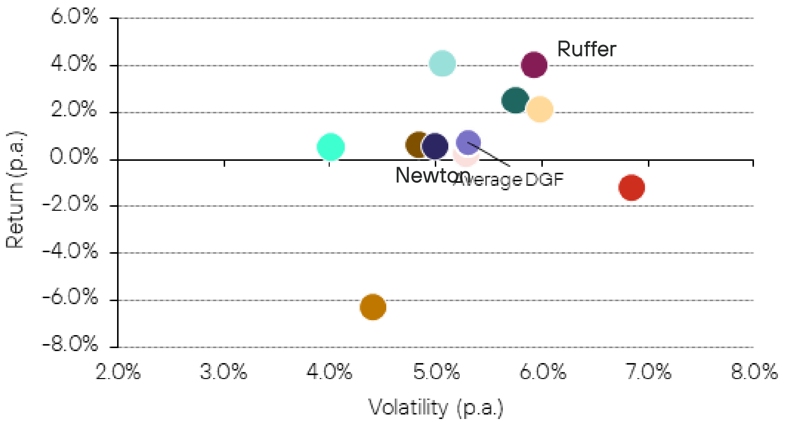
	Q3 2023	12 months	3 years (p.a.)
Average DGF	-1.0%	0.8%	0.7%
Cash +3.5%	2.2%	7.6%	5.1%
Relative	-3.2%	-6.8%	-4.4%

Sample Manager Returns and Volatility – 12 months



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



Commentary

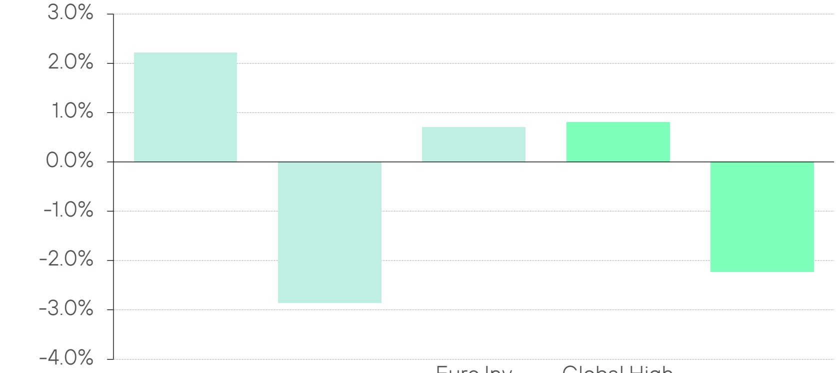
- The average DGF underperformed the cash plus target over Q3 2023, and has also trailed the cash + 3.5% objective over longer periods.
- In a theme that has persisted over several months, monetary policy continued to have the largest effect on sentiment, as markets priced in higher longer term interest rates.
- Equity returns were mixed over the period, with the UK outperforming due to strength in more 'traditional' sectors; other regions delivered negative returns as investors continued to worry about rising interest rates.
- Most managers struggled to generate value from credit exposures, as the rise in long term interest rates created further pressure on valuations for assets which have duration exposure (sensitivity to rising interest rates).
- The majority of DGF managers remain aware to geopolitical tensions, as well as the potential impact of moving into a recessionary economic environment.

Notes: Please see the 'Explanation of Market Background' appendix for details of the underlying indices. All returns quoted are net of management fees.
Sources: Investment Managers, Isio calculations.

Appendix 1

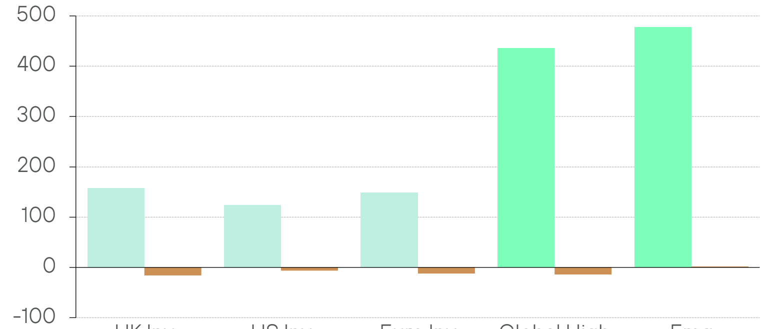
Market Background – Credit

Credit Market Returns – Q3 2023



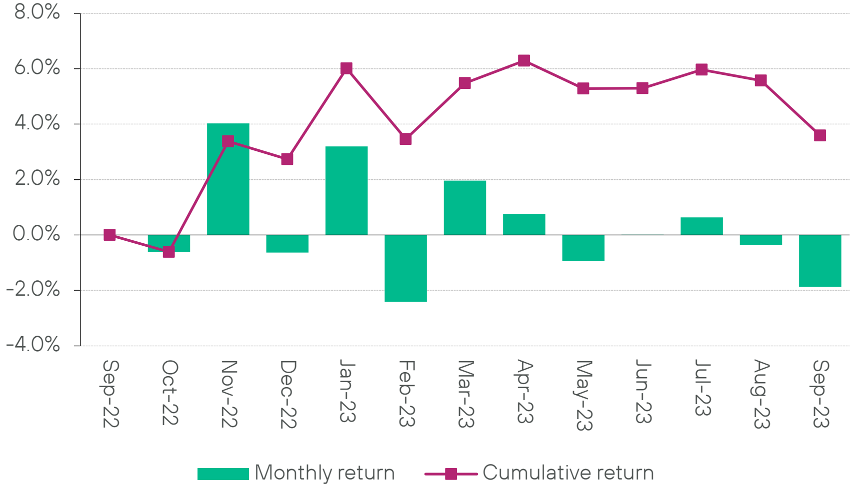
	UK Inv Grade	US Inv Grade	Euro Inv Grade	Global High Yld	Emg Markets
£ Hedged	2.2%	-2.9%	0.7%	0.8%	-2.2%

Credit spreads – Q3 2023



	UK Inv Grade	US Inv Grade	Euro Inv Grade	Global High Yld	Emg Markets
End of qtr	158	124	149	436	478
Qtr change	-16	-6	-12	-14	2

Global broad credit market return – Last 12 months



Commentary

Global credit market performance was negative, driven by rising government bond yields across all regions, particularly in September. This came despite credit spreads largely tightening, due to improved economic data:

- **Investment grade ('IG') bond** spreads tightened over Q3, which supported overall performance. Regional differences were driven by sensitivity of this sub-asset class to rising government bond yields. US IG bonds underperformed UK and European equivalents due to longer-dated US government bond yields rising the most.
- **High yield ('HY') bonds** produced positive returns, driven both by ongoing carry and spreads tightening due to better-than-expected company earnings and economic data. Lower sensitivity to government bond yields also supported HY returns relative to IG – a consequence of its shorter maturity profile.
- **Emerging market ('EM') debt** produced negative returns due to the increase in developed market government bond yields (especially the US) and negative currency returns – owing to the US Dollar strengthening.

Summary

Similar to recent quarters, central bank messaging regarding the future path of interest rates was a key driver of bond market performance over Q3. While major central banks continued to increase interest rates, their rhetoric implied that they were coming to the end of their hiking cycles. Regardless, government bond yields still rose due to market participants interpreting that interest rates would stay 'higher for longer' than previously expected.

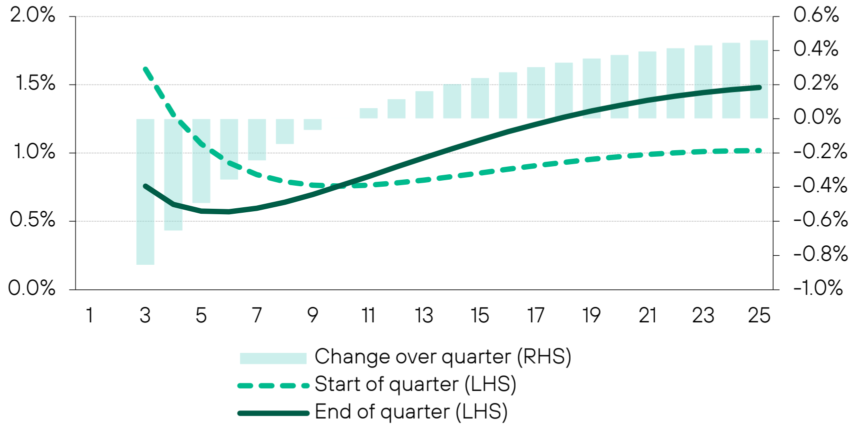
While this put pressure on investment grade ('IG') bond returns, especially in the US, encouraging economic data led to a tightening in credit spreads in most areas, which supported performance.

UK and European IG bonds outperformed the US, due to differences in the long-dated government bond yield movements.

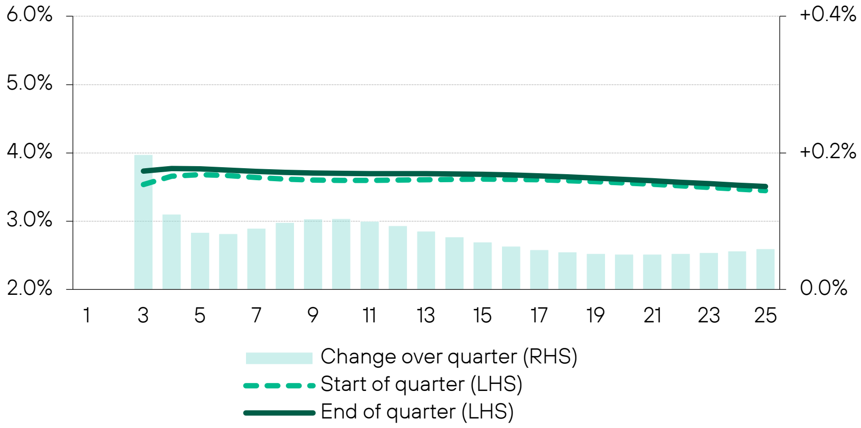
Notes: Please see the 'Explanation of Market Background' appendix for details of the underlying indices shown. Credit spreads are shown in basis points (100bps = 1%) and correspond to the incremental yield available on corporate bonds above government bonds of a similar maturity. Sources: Thomson Reuters, PIMCO, Fidelity.

Market Background – Yields

Real Gilt Yields – Q3 2023

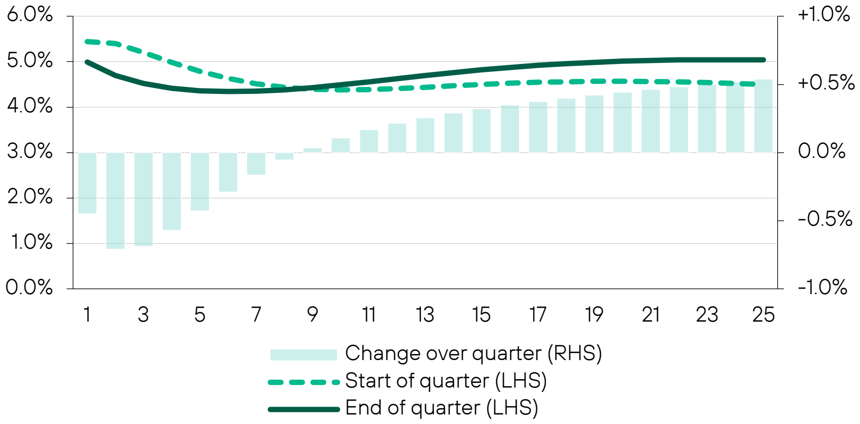


Gilt-Implied Inflation – Q3 2023



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

Nominal Gilt Yields – Q3 2023



Example Liabilities

- Long-dated (20-year) yields at the quarter-end were:
  - Real gilt yield: 1.3%
  - Nominal gilt yield: 5.0%
  - Gilt-implied inflation expectation: 3.6%

Sources: Bank of England, Isio calculations.

Explanation of Market Background

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
  - Absolute Return Funds: mean of a sample of 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.

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).

Explanation of Market Background (cont.)

Market Background – Absolute Return

- **Absolute Return Funds** – Due to the lack of a market index for Absolute Return, 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 Absolute Return Fund' 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.
- Absolute Return 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

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).

Explanation of Market Background (cont.)

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.

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).

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