Oxfordshire County Council Pension Fund

Quarterly Investment Report

Q3 2025

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Key Indicators at a Glance

Index (Local Currency)		Q3	YTD
Equities		**Total Return**	
UK Large-Cap Equities	FTSE 100	7.52%	17.70%
UK All-Cap Equities	FTSE All-Share	6.87%	16.58%
US Equities	S&P 500	8.12%	14.83%
European Equities	EURO STOXX 50 Price EUR	4.51%	15.38%
Japanese Equities	Nikkei 225	11.79%	14.68%
EM Equities	MSCI Emerging Markets	10.64%	27.53%
Global Equities	MSCI World	7.27%	17.43%
Government Bonds			
UK Gilts	FTSE Actuaries UK Gilts TR All Stocks	-0.62%	1.87%
UK Gilts Over 15 Years	FTSE Actuaries Uk Gilts Over 15 Yr	-2.39%	-1.95%
UK Index-Linked Gilts	FTSE Actuaries UK Index-Linked Gilts TR All Stocks	-1.32%	-1.89%
UK Index-Linked Gilts Over 15 Ye	FTSE Actuaries UK Index-Linked Gilts TR Over 15 Yr	-3.28%	-6.40%
Euro Gov Bonds	Bloomberg EU Govt All Bonds TR	-0.22%	0.28%
US Gov Bonds	Bloomberg US Treasuries TR Unhedged	1.51%	5.36%
EM Gov Bonds (Local)	J.P. Morgan Government Bond Index Emerging Markets Core Index	2.75%	15.05%
EM Gov Bonds (Hard/USD)	J.P. Morgan Emerging Markets Global Diversified Index	4.75%	10.66%
Bond Indices			
IBOXX Sterling Corporates	IBOXX Sterling Corporates Overall Total Return Index	0.86%	4.47%
European Corporate Investment	Bloomberg Pan-European Aggregate Corporate TR Unhedged	0.66%	2.19%
European Corporate High Yield	Bloomberg Pan-European HY TR Unhedged	1.83%	4.17%
US Corporate Investment Grade	Bloomberg US Corporate Investment Grade TR Unhedged	2.60%	6.88%
US Corporate High Yield	Bloomberg US Corporate HY TR Unhedged	2.54%	7.22%
Currencies			
GBP/EUR	GBPEUR Exchange Rate	-1.65%	-5.18%
GBP/USD	GBPUSD Exchange Rate	-2.08%	7.43%
EUR/USD	EURUSD Exchange Rate	-0.45%	13.33%
USD/JPY	USDJPY Exchange Rate	2.69%	-5.92%
Dollar Index	Dollar Index Spot	0.93%	-9.87%
USD/CNY	USDCNY Exchange Rate	-0.59%	-2.44%
Alternatives			
Infrastructure	S&P Global Infrastructure Index	3.66%	19.74%
Private Equity	S&P Listed Private Equity Index	1.71%	4.44%
Hedge Funds	Hedge Fund Research HFRI Fund-Weighted Composite Index	5.68%	9.77%
Global Real Estate	FTSE EPRA Nareit Global Index TR GBP	6.30%	3.85%
Volatility		**Change in Volatility**	
VIX	Chicago Board Options Exchange SPX Volatility Index	-2.69%	-6.17%
Commodities			
Brent Crude Oil	Generic 1st Crude Oil, Brent, USD/bbl	-0.87%	-10.21%
Natural Gas (US)	Generic 1st Natural Gas, USD/MMBtu	-4.43%	-9.08%
Gold	Generic 1st Gold, USD/toz	16.12%	45.43%
Copper	Generic 1st Copper, USD/lb	-3.45%	20.61%
Gold	Spot gold price quoted in USD per troy ounce	16.83%	47.04%
S&P GSCI	Broad, production-weighted S&P GSCI commodity benchmark	1.26%	0.06%
Sugar Futures	Front-month ICE Sugar #11 raw-sugar futures contract	4.01%	-16.41%
Arabica Coffee	Front-month ICE Coffee “C” Arabica futures contract	22.20%	17.23%
Sector Indices			
NASDAQ-100 Technology	Equal-weighted NASDAQ-100 Technology Sector	7.78%	22.15%
S&P500 Consumer Discretionary	S&P 500 Consumer Discretionary sector	9.36%	4.74%
S&P500 Consumer Staples	S&P 500 Consumer Staples sector	-2.90%	2.04%
S&P 500 Health Care	S&P 500 Health Care sector	3.27%	1.20%
S&P 500 Financials	S&P 500 Financials sector	2.86%	11.49%
S&P 500 Energy	S&P 500 Energy sector	5.26%	4.27%
S&P 500 Industrials	S&P 500 Industrials sector	4.56%	17.07%
S&P 500 Utilities	S&P 500 Utilities sector	6.84%	15.13%
S&P 500 Communication Service	S&P 500 Communication Services sector	11.82%	23.69%
S&P 500 Real Estate	S&P 500 Real Estate sector	1.72%	3.47%

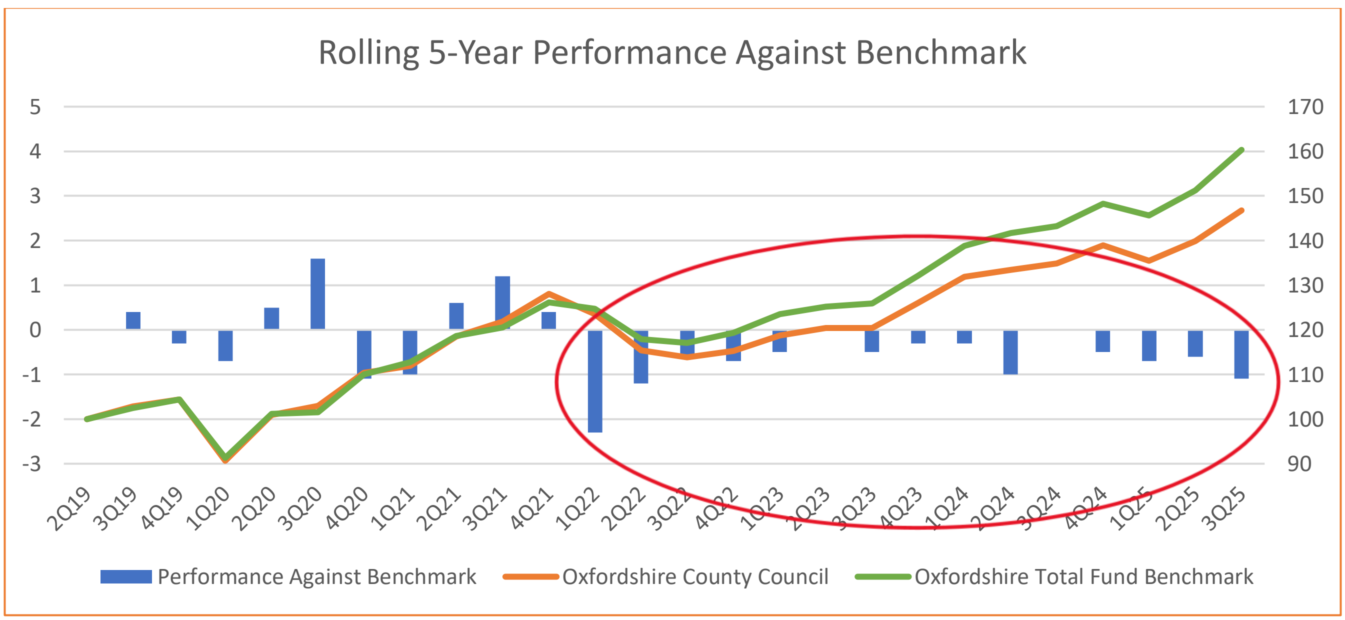
Source: Bloomberg. All return figures quoted are total return, calculated with gross dividends/income reinvested and in local currency.

Performance

The Fund rose by 4.9% in the third quarter of 2025 to a value of £3.928bn. The Fund underperformed its benchmark which rose by 6.0%. The two main Global Equity portfolios (High Alpha and Sustainable) continued to underperform their individual benchmarks accounting for almost all of the underperformance at the Total Fund level. In addition, Private Equity again failed to keep up with the return provided by public markets both for the portfolios managed by Brunel but also for the Fund's direct Private Equity investments in UK listed Investment Trusts, against this, the Fund's overweight position against its Strategic benchmark in Equities added to performance and other areas of the Fund performed in-line with their benchmark or slightly above.

Both actively managed Global Equity portfolios underperformed their benchmark over the quarter as the US mega sized tech stocks again dominated returns. As noted in earlier reports, equity managers will have their own risk constraints to stop portfolios getting too concentrated on a small number of positions and, thereby, control the absolute volatility of their portfolio. This creates issues when the benchmark they are following becomes highly concentrated in itself. At the end of October 2025, Nvidia, the US semi-conductor manufacturer, accounted for 5.36% of the MSCI All Countries World Index, a greater weight in the Index than any other country outside of the US. The largest 9 stocks in the Index are all US tech related with the 10th being a Taiwanese semi-conductor manufacturer. If an equity manager has a single stock risk limit of 5% they cannot be overweight Nvidia, even behaviourally they are unlikely to want to have one position in their portfolio accounting for more than 5% of their fund.

Chart 1: Oxfordshire Pension Fund Performance



The chart above shows the cumulative performance of the Total Fund against its Strategic Benchmark, rebalanced to 100 (the lines) on the right-hand scale and the Fund's quarterly relative performance against its Strategic Benchmark (in blocks) on the left-hand scale. All the Fund's underperformance has occurred since the transfer of assets to Brunel and, in particular, since the Russian invasion of Ukraine in 2022 and the subsequent rise in inflation and then interest rates and it is this that has driven the poor performance of their selected managers, particularly within the main active equity portfolios. Because of this the Fund continues to lag its benchmark over the longer-term, underperforming over 1 year (by-3.1%); over 3 years (by -2.0%); over 5 years (by -2.1%) and over 10 years (by -0.5%).

Over the last 3 years the performance of the underlying managers selected by Brunel has been disappointing with over half the total underperformance of -2.6% relative to the Strategic Benchmark coming from the poor performance of the main Equity portfolios, Sustainable and Global High Alpha and UK. However, I believe this to be heavily influenced by the strong environmental slant which is a core part of Brunel's ethos. I continue to support this environmentally focused slant for the longer-term, however, the poor performance is showing no signs of recovery at present and this was another disappointing quarter. Other LGPS Pools have also performed poorly across their equity mandates for much the same reason and 7 years after Pools started, we have no real proof that any of the Pools can add value through manager selection within quoted equity markets!

The very poor performance of the Sustainable portfolio is raising the question of how the Fund should invest this mandate going forward. Are active managers capable of working to a sustainable brief as well as achieving investment returns. Does the brief limit the choice of investments to such an extent that the manager has to shoehorn less attractive investments into the portfolio undermining returns?

Returns of 7.4% per annum over the last 30 years, being above the Fund's actuarial discount rate assumption for future investment returns, will have helped improve the funding ratio between the triennial actuarial revaluations.

Table 1: Fund performance (quoted Assets)

Performance figures Net of fees Absolute (relative to benchmark)	3-month %	1-year %	3-year %	5-year %	10-year %
Total Fund	4.9 (-1.1)	8.7 (-3.2)	8.8 (-2.2)	7.3 (-2.3)	7.3 (-0.5)
UK Equities	7.0 (+0.1)	15.3 (-1.0)	15.5 (+0.7)	12.1 (-1.3)	n/a
Global High Alpha Equities	7.1 (-2.2)	12.0 (-5.3)	14.3 (-2.5)	10.8 (-3.2)	n/a
Global Sustainable Equities	5.7 (-4.0)	6.9 (-10.5)	9.1 (-7.1)	7.1 (-6.1)	n/a
Global Paris Aligned Passive Equities	10.2 (0.0)	15.6 (-0.1)	16.4 (-0.1)	n/a	n/a
Sterling Corporate Bonds	1.4 (+0.7)	5.7 (+2.0)	8.8 (+2.0)	n/a	n/a
Multi Aset Credit	2.2 (+0.2)	7.4 (-1.2)	10.7 (+1.9)	n/a	n/a
Passive Index-Linked Gilts	-1.8 (+0.1)	-10.2 (+0.1)	-7.0 (+0.1)	n/a	n/a
PE Investment Trusts	-0.3 (-10.0)	7.2 (-10.1)	11.0 (-5.2)	15.9 (-2.1)	15.2 (+4.4)

The table above sets out the performance of the Fund's quoted investments. The first figure in each box is the absolute return for that period, the figure next to it in backets is that performance relative to the respective benchmark. The poor performance of the Total Fund against its benchmark over the last 5-years has been driven by the poor performance of the two actively managed Global Equity portfolios managed by Brunel with the performance of the Sustainable portfolio being particularly poor. The underperformance is high compared to the risk taken in this portfolio which again underlines how poor the actual performance has been.

For Illiquid assets (e.g. Property, Infrastructure, Private Equity and Private debt) it is harder to construct informative performance figures. These portfolios have been built up over the last 5 years and initially contained very small amounts of money so to chain link the quarterly performance of a very small portfolio from 5 years ago with a much larger portfolio now does not give a realistic figure for long-term returns. Instead a Money weighted return can be calculated along with a figure for the total value created by the portfolio. I have used the first cycle of investments into each asset class for the performance figures as they are the most mature investments. Measuring Alternative investments over short time periods provides limited useful information.

Table 2: Performance of Alternative, Illiquid Assets

	Money weighted Return (MWR) since inception	Total value to paid in capital (TVPI)
Private Equity	11.0%	1.32 times
Private Debt	10.8%	1.19 times
Infrastructure	8.2%	1.24 times

The table above gives some indication of the performance of the Alternative assets portfolio. I would suggest that he performance of the Private Debt portfolio has been strong but Brunel did not get enough money invested early enough to take the full benefit of this. Performance of Private Equity has been poor, more recent investment cycles are showing lower returns and this return lags the return from public markets. Performance across the infrastructure portfolios has been OK with more recent investment cycles disappointing.

Asset Allocation

Table 3: The Fund's current asset allocation against the Strategic Benchmark

Asset class	Asset Allocation as at 31/12/24	Strategic Asset Allocation (SAA)	Position against the SAA	Deviation in cash terms
UK Equities	11.4%	**10%**	+1.4%	-£45m
Global Equities ex UK	41.9%	**41%**	+0.9%	-£101m
Fixed Interest	8.1%	**9%**	-0.9%	+£22m
Index-Linked Gilts	5.2%	**7%**	-1.8%	+£56m
Property	6.1%	**8%**	-1.9%	+£64m
Private Equity	11.8%	**10%**	1.8%	-£82m
Secure Income	3.9%	**5%**	-1.1%	+£34m
Private Debt	2.6%	**5%**	-2.4%	+£97m
Infrastructure	3.7%	**5%**	-1.3%	+£37m
Cash	5.5%	**0%**	+5.5%	-£75m

These figures are taken from the State Street report. Figures may not add up due to rounding.

The current deviation from the Fund's SAA is within acceptable bounds. Over the quarter £120m was divested from Global Equities and placed with the Councils' Treasury team to lend out over the short-term to achieve a return. The Treasury team will only lend to AAA rated UK entities. The intention is to hold this cash for the short-term and redeploy via LGPS Central once contracts are in place.

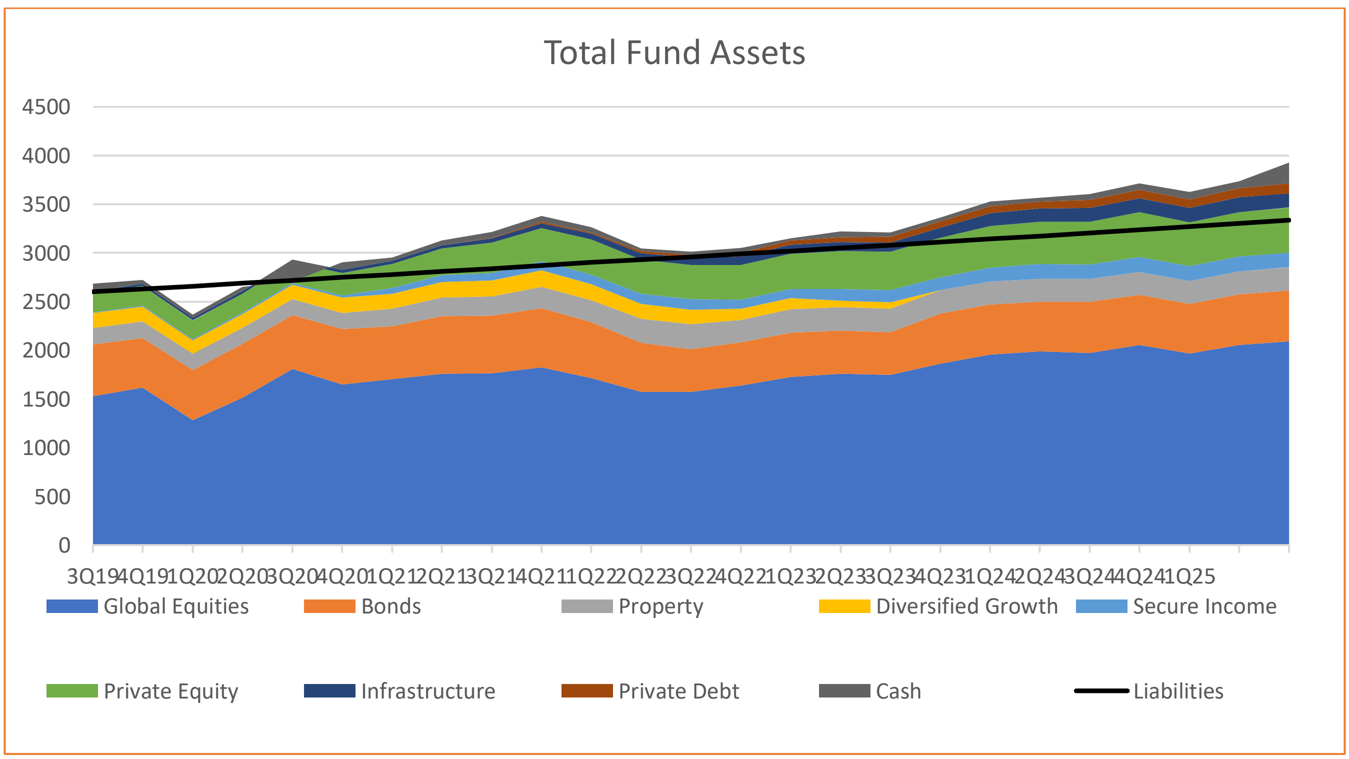
The recent work on Affordable/Social Housing resulted in MAN group being appointed to manage a £50m investment into Social and Affordable Housing working in the shared ownership, affordable rent and social rent

space. It is recommended that this now be accompanied by a £10m investment into a fund with greater social impact. The investments can be financed from available cash balances and will bring the property weighting into line with the Strategic Benchmark over time. Both of the Social Housing portfolios will include an element of local exposure into the Oxfordshire region.

Chart 2 shows the assets of the Fund by asset class. I have also shown a black line which is the assumed valuation of the liabilities. Please treat this with some caution, the liabilities are valued by the actuary every three years. At this time, they calculate the value of all earnt pension benefits plus the expected value of all future pension entitlements by the existing membership. This future liability is discounted back to today's value using a discount rate which reflects market conditions on the day of the valuation so, in essence, a snapshot once every three years. At the time of the actuarial revaluation, the actuary also calculates the future investment return which gives them the required probability of maintaining full funding into the future. To create the line in the chart, I have compounded up the valuation of the liabilities on March 2022 by the required investment return for each quarter.

As bond yields have risen since the last actuarial revaluation it is likely that the actuary will use a higher discount rate to value future pension liabilities when they revalue the liabilities using 31/3/25 data. This will reduce the current valuation of future pensions in today's money and, thereby, reduce the value of the liabilities and increase the funding level of the Fund, all else being equal; but, in addition, the actuary is likely to require a higher investment return going forward. There are also a number of other assumptions that the actuary makes when calculating the value of the pension liabilities including longevity and I have not made any estimation for these.

Chart 2: Oxfordshire Pension Fund Assets



Comment

Although it seems to have been a busy quarter in terms of news flow, the basic storyline is unchanged. Is the US economy slowing? Is US inflation under control? These issues will drive investment markets across the globe. Given that the US Government is currently shut down as it ran out of cash in October we have not had reliable statistics for the last few months but I think the answer to both of these questions is a heavily quantified yes.

The US economy is slowing but is still outperforming the rest of the developed world. The US Government continues to run a substantial budget deficit even as the ratio of debt to GDP passes 125%. At some stage the budget has to be brought into balance otherwise the debt to GDP ratio spirals out of control and lenders stop financing the US Government on the basis that they are unlikely to get their capital back. Because of this, the US Government cannot afford a recession as this would reduce GDP and require greater spending to bring the economy out of the recession. President Trump believes that he can avoid a recession by cutting taxes on businesses and the wealthy, raising trade tariffs on imported goods and cutting spending on the poor whilst playing to his political base through a tough anti-immigration stance. So far investment markets have enjoyed the tax cuts, seen businesses continue to grow and welcomed a splurge of spending on AI pushing a select few stocks exposed to this theme rapidly higher.

What needs to go right from here?

1) The US economy has to keep growing. This is the easiest solution to the debt issue. Expect President Trump to continue to push for lower interest rates and for the US Federal Reserve (US Fed) to accommodate this as much as it can but the direction of inflation will matter as to how far and fast they can cut interest rates whilst retaining the belief of investors that inflation is under control. As you know from my previous reports, I expect US inflation to remain above the 2% central bank target but providing it remains around 3% then interest rates can be cut from the current 3.75-4%. The September inflation reading was 3% but the trend is gently upwards. Markets are probably discounting too many interest cuts in 2026 at present and will need a reset at some stage. US fiscal policy continues to stimulate the US economy with President Trump's 'big beautiful bill' front loading Government spending and tax cuts and back loading any revenue raising items over the next 5 years.

2) Can spending cuts sort the issue? The noise over spending cuts makes it difficult to move from announcements to getting a figure for what is actually being saved. In addition, the savings are very linked to areas where President Trump and the Republicans believe political capital can be made with their supporters, anti-Woke, anti-climate change, anti-financial regulation. US Government spending accounts for 17-18% of GDP, cutting this spending does lower economic growth even if the actual activities being cut have no economic value in the near term. The cuts will store up issues for the future though.

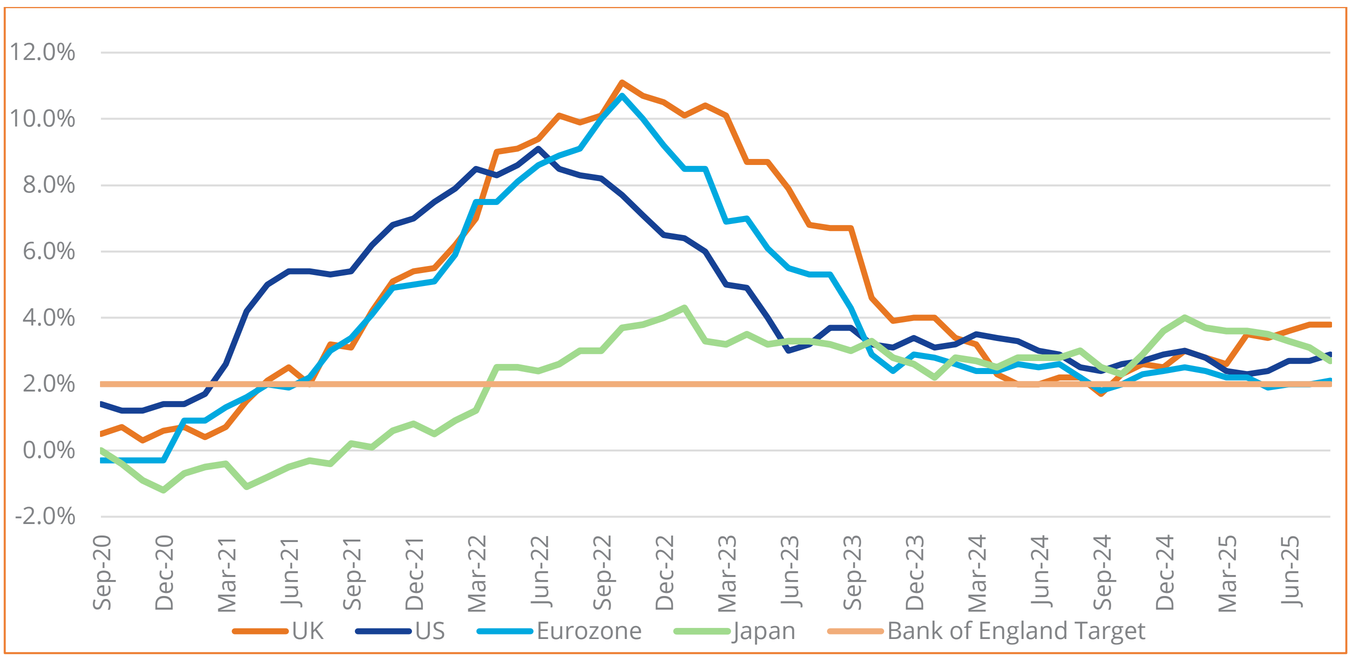
3) Can the AI boom continue? A colossal amount of money is being spent on building out business models which rely on the capabilities of AI. Some estimates show AI spending accounting for all of US capital spending making the US economy very reliant on this continuing. The mega sized US tech stocks have, traditionally, had massive free cash flow but are now turning to debt markets to finance this spending. Since quarter end there has been a noticeable change in investor appetite for this debt and we seem to be entering a slightly more rational environment with those stocks with sound business models and cash flow seeing their stock prices hold up whilst other recent stock market darlings fall back. I think there is a basic issue here. The mega sized US tech stocks have traditionally had high levels of profitability due to

having a low physical capital base and high levels of intellectual capital which does not depreciate as quickly as physical assets do. Given the massive levels of capital spending, depreciation will have to rise at all of these companies, this will hold back profit growth unless the profitability of the AI investments is as least as high as the company's existing, high margin, capital light business model. I see this as unlikely and fear we are entering bubble territory in this subsection of the market.

4) Can tariffs cover the budget deficit? That depends on what President Trump is trying to achieve. At present trade tariffs seem to be being used as a bargaining tool, sometimes driven by the President's personal animosity to a particular issue. They only fill the US Government coffers if they are here to stay. Even then, they are not being paid by foreign manufacturers where import prices into the US have not fallen to account for the tariffs. There may be some importers taking a margin squeeze but importers are not usually high margin businesses. Most of the cost of tariffs is slowly being passed on to the consumer. This is part of my argument why inflation will remain high in the US. It is interesting to see that, as I write, President Trump has rowed back on some tariffs on agricultural products where consumer prices have been rising rapidly including beef, orange juice and some vegetables underlining the conflicting drives of trade tariffs and inflation.

5) Is the US economy unbalanced? I think the answer here is yes. Too much capital investment is being driven by the AI boom, too much consumer spending is reliant on the affluent whilst lower income groups continue to struggle.

Chart 3: Annual Rate of Inflation – 5 Years to Sept 2025.



Outside of the US, in Japan, a new (and their first ever female) Prime Minister is likely to take a higher growth stance involving higher spending and interest rates remaining accommodative to this outcome. This will likely lead to a continuing weaker Yen for the time being. In Europe and the UK, growth remains the issue and so interest rates will be cut where they can be. In the UK, some of the inflationary effects of the rises in employer NI contributions, a higher minimum wage and rises in utility bills will pass through the annual inflation figures in due course but the Government has a real issue balancing the books and further tax rises will likely hurt the economy in some form.

Overall, the risk of a policy mistake or a political misstep remains high and with stock and bond valuations looking stretched in places, now does not seem to be the time to load up on investment risk. The exposure of all asset markets to the US and US Dollar is another reason for concern and efforts to tilt the Fund away from the US assets, the US Dollar and US mega tech stocks should pay off in due course.

Points for Consideration

It would appear, from discussions with LGPS Central, that existing assets can be transferred across to Central on day one without massive change, with Central then looking to merge the product offerings from their existing client base, the three ex Brunel Funds and the three ex Access Funds over the next 18 months. Below are my (very) initial thoughts about what this may entail and what the Pensions Committee should be thinking about.

1) **UK Active Equity mandate**: I understand that the decision to alter the focus of this portfolio towards mid and small cap stocks has now been delayed due to the need to move existing assets across to Central. I continue to support the investment rationale of altering the UK Equity mandate to focus on small and mid-sized stocks as this would give a greater focus on those stock active in the UK economy and avoid the concentration in the UK FT All-Share index towards a few large multi-national stocks who have a UK domicile (BP, Shell, BAT, HSBC, Rio Tinto). Central do not currently offer a UK Small/Mid Cap Equity mandate. It would incur unnecessary costs to transition the existing portfolio across to a Central UK Equity portfolio with new managers and then transition to the new mandate,. Discussions should be held at this stage with Central about their willingness to create a UK Small/Mid Cap Equity offering.

2) **Global Equity mandates:** Central have a main Global Equity Fund and three differing responsible Investment/Low carbon style mandates. A decision will need to be made over what exact mandate(s) the Fund should invest in.

3) **Fixed Interest mandates:** The match here is good with Central offering similar portfolios.

4) **Alternative mandates:** My current understanding is the Fund's existing mandates in this area are structured within Brunel so that each underlying member fund holds units in each underlying investment made across the Alterative asset classes (Property, Private Equity, Private Debt and Infrastructure). This makes shifting these assets across to Central easier. It is very important that the Fund does not have to sell any assets under duress as this would be likely to attract offers at a discount to current NAV's and thereby destroy value for the Fund. I do not think Central are quite as advanced as Brunel was in managing portfolios in this area and so it may be that Central take on the ex-Brunel mandates from Gloucestershire, Wiltshire and Oxfordshire and retains the consultants embedded in each asset class portfolio which would reduce disruption in the short-term. It will be important to watch whether new commitments are being made in these asset classes in a timely manner by Central going forward as they build out their capacity in this area. It is noticeable that there has been very limited new allocations by Brunel in any of the Alternative asset classes this quarter suggesting that they may be unwilling to make new commitments at the current time.

5) **Wessex Gardens:** (The portfolio managed by Schroders Greencoat.**)** A third successive poor quarter driven by recommendations by the Government to lower the rate of inflation protection in solar assets from RPI to the lower CPI measure of UK inflation. This has resulted in reduced valuations for these assets. The valuation parameters used in valuing the assets in this portfolio need to stabilise for the underlying income generation to come through in returns.

6) **Property:** Brunel's efforts to diversify the Property portfolio into international assets looks to have been consistently poor and needs further explanation.

7) **Social And Affordable Housing:** A small allocation has been made to this asset class (£60m). This money has been allocated across two different managers and is now being drawn down, including some into investments into the Oxfordshire area. With the Fund increasing in value towards £4bn, there is scope to allocate a further amount to this asset class and this is being reviewed as part of the SAA review being conducted by Apex.

Underlying Mandates

Rather than comment on each portfolio separately, duplicating the reporting from Brunel, the table below sets out each portfolio within the Fund with a note on my opinion of the management and performance using a traffic light system. Because of the transfer of assets to Brunel all the portfolios will have changed manager over the last four years. For this reason, I have rated some of the portfolio's amber purely because the performance history is too short to support an opinion.

We now have 3-year performance figures for both Private equity and Infrastructure and, whilst the initial drawdowns to these portfolios were slow and Brunel's speed of commitment was initially poor, this has now speeded up and performance figures do suggest that Brunel are achieving a reasonable level of return from these asset classes.

Table 4: Brunel portfolios

Portfolio	Benchmark	Inception	Performance	3-year rel p.a.	Comment
UK Equity	FT All-Share EX IT	09/18		+0.7%	Performance below benchmark over 5 years and since inception. Mandate/managers to be changed.
Global High Alpha	MSCI World Equity	11/19		-2.5%	Underperformance over five years of -3.2% p.a. Performance consistently poor.
Global Sustainable	MSCI All World Equity	10/20		-7.1%	Performance a major concern with the portfolio underperforming by over 6.1% p.a. since inception.
Global Paris Aligned	MSCI Paris Aligned	07/18		n/a	I do not see this as a particularly efficient way to adopt a more carbon neutral investment approach.
UK £ Corporate Bond	£ Non-Gilt Credit	11/21		+2.0%	Credible performance in a strong credit environment.
Passive Index-Linked	FTSE >5-Year Index-Linked			n/a	Passive portfolio and so will match the index on performance. Returns from Index-Linked bonds have been very poor but may now be approaching attractive levels.

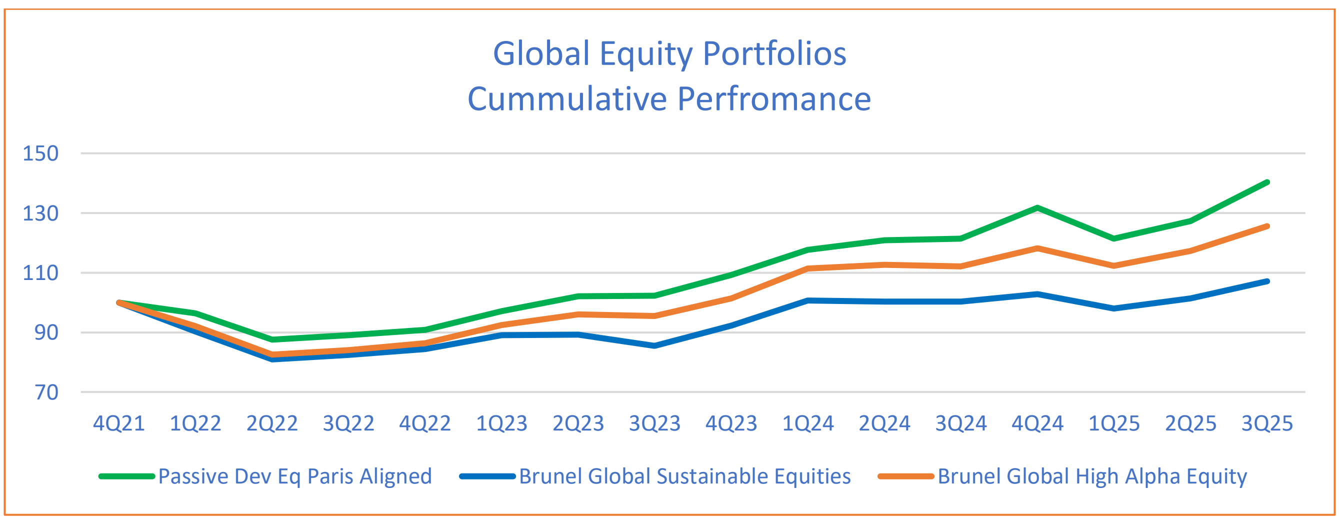
Multi Asset Credit	Cash + 2%	11/21		+1.9%	Performance behind the benchmark since inception by -3.0% p.a. Portfolio construction heavily weighted to one, defensive manager which has impacted returns.
Property	Property benchmark	04/20		n/a	UK Performance has been good outperforming since inception, but international property has been very poor.
Secure Income	Cash + 4%	07/20		n/a	These portfolios have failed to meet their inflation benchmarks suggesting issues with portfolio construction.
Infrastructure	CPI	01/19		n/a	Drawdown has been slow; performance looks OK. Some concern over Wessex Gardens.
Private Equity	MSCI All World Equity	01/19		n/a	Drawdown has been slow; was noticeably poor this quarter undermining longer-term returns. Direct Private Equity has been strong long-term but is underperforming public equities over the last 5 years.
Private Debt	Cash + 5%	08/17		n/a	Drawdown has been slow; performance looks good.

Portfolio Performance

From the table above it is noticeable how few of the Brunel managed portfolios are achieving their investment goals in performance terms. The chart below are an update of the performance of the main Global Equity portfolios from last quarter.

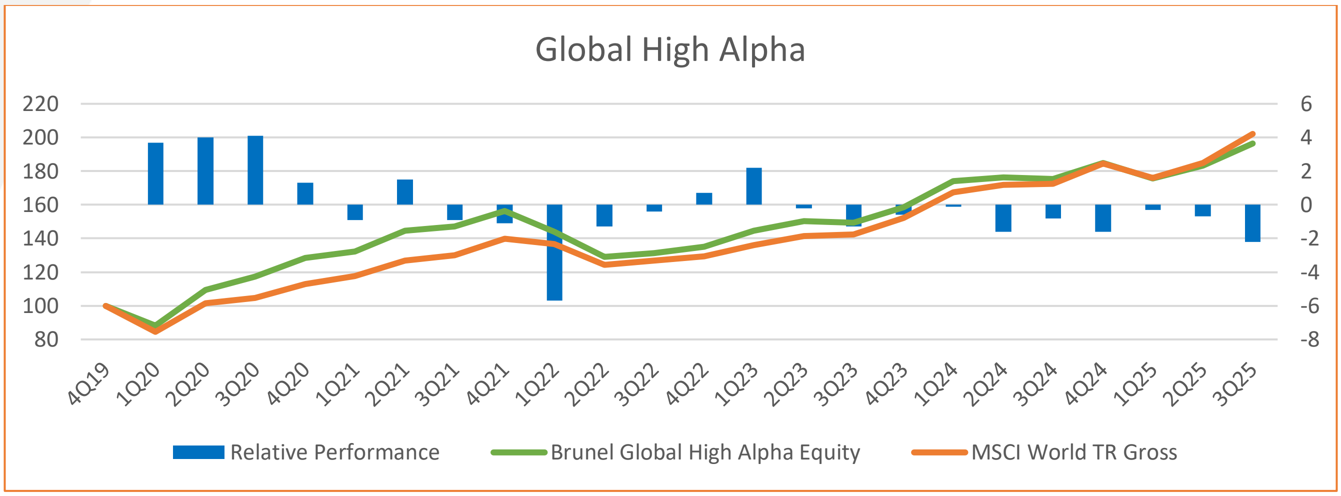
Global Equities

Chart 4: Global Equities



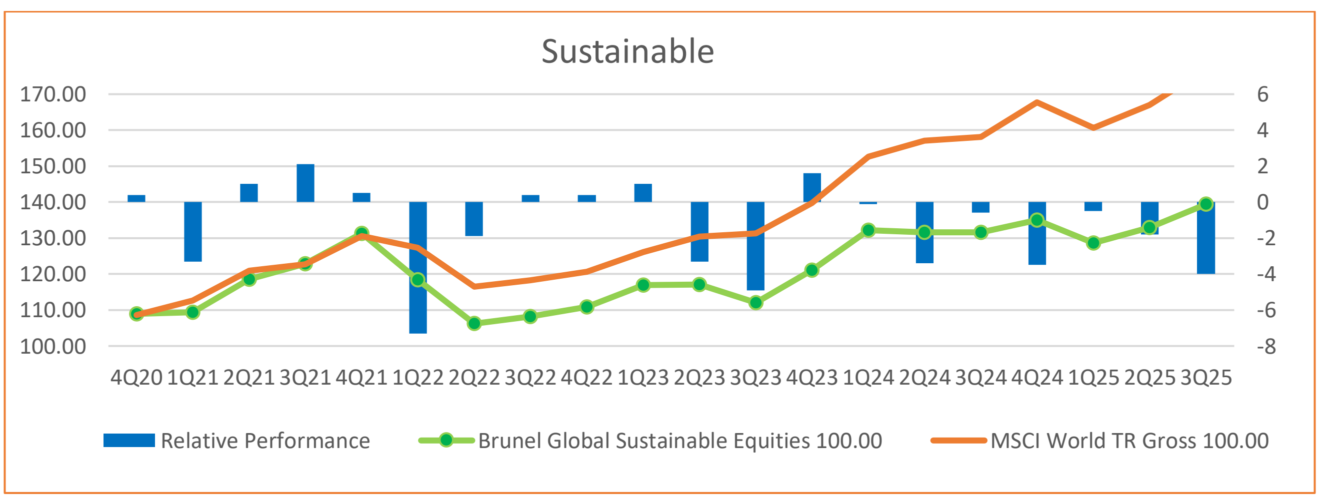
The above chart shows the cumulative performance of the Fund's three global equity portfolios over the last four years. Over that period, the financial effect of the underperformance of the two actively managed portfolios, Sustainable and Global High Alpha, against the performance of the Paris Aligned passive portfolio was over £150m. I.e. if the Fund had chosen to invest all its global equities into the Paris Aligned portfolio rather than across all three portfolios the Total Fund would now be approximately 4% larger. This underlines the scale of the underperformance by the managers appointed by Brunel to run the active Global Equity portfolios. Whilst some of the underperformance is explainable and all active Global Equity managers have found the last 5 years a very difficult environment to add value in, I do think the underperformance of the Sustainable portfolio, in particular, should raise questions on whether this style of dual mandate, focusing on both returns and investing in a subset of the market which the manager sees as helping solve climate change, is the feasible approach. Does the constraint to only invest in companies with a positive impact on climate change inhibit the manager too much, forcing them to shoehorn less attractive investments into the portfolio to fit this part of the mandate? The last 5 years of performance figures would suggest this was the case. The transition to LGPS Central will potentially require these portfolios to be changed. I would recommend the Committee challenge LGPS Central on there view of responsible investment and how they see themselves fulfilling the Pension Committee's desire to invest in this area.

Chart 5: Global high Alpha portfolio



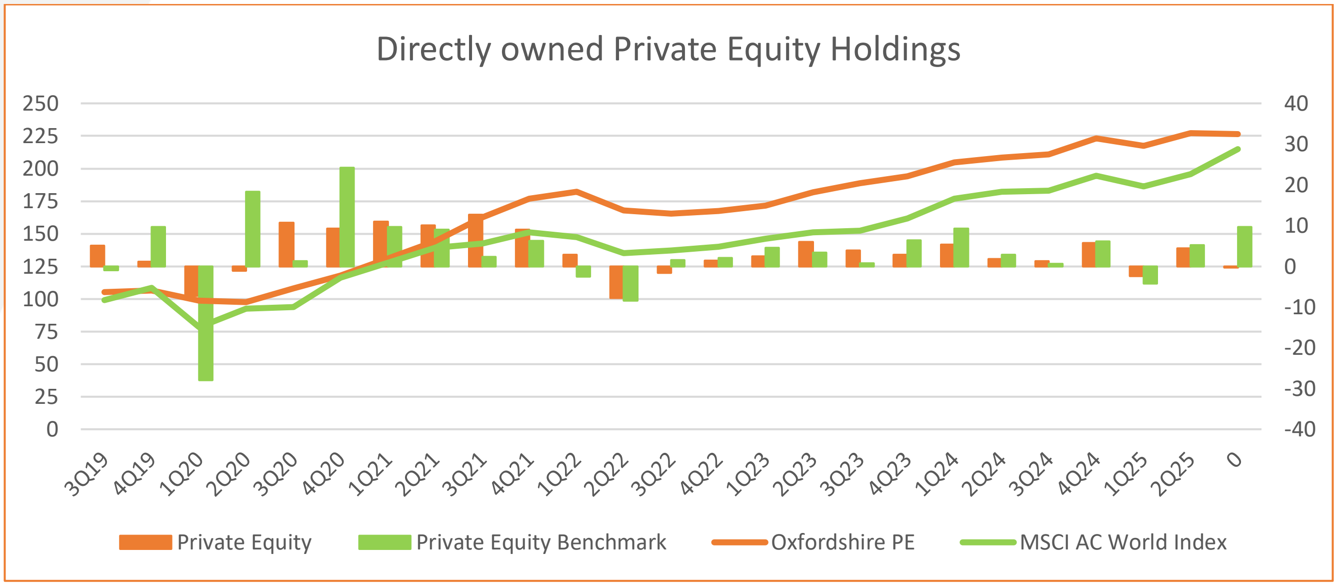
As can be seen from the above chart the initial performance of the Global High Alpha portfolio in 2020 was very strong but the Russian invasion of Ukraine, rising inflation and rising interest rates undermined the portfolio's performance against its benchmark and the portfolio is yet to show solid signs of recovery.

Chart 6: Sustainable Equity Portfolio



The Sustainable Equity portfolio was invested into a year after the Global High Alpha portfolio so missed out on the market conditions where a focus on innovative, smaller, fast-growing companies, was rewarded by investors. Instead, this portfolio has been held purely through a period when interest rates have been rising and companies with a strong environmental slant have been out of favour. Nonetheless, if you match the time periods between the two charts above and look at the bars (the quarterly relative performance) you will see a strong similarity. This is because Brunel's Responsible Investment and ESG mantra runs through all their manager selection briefs thereby giving all the portfolios they produce an overriding style bias which will have a dominant effect on each portfolio's performance against its benchmark.

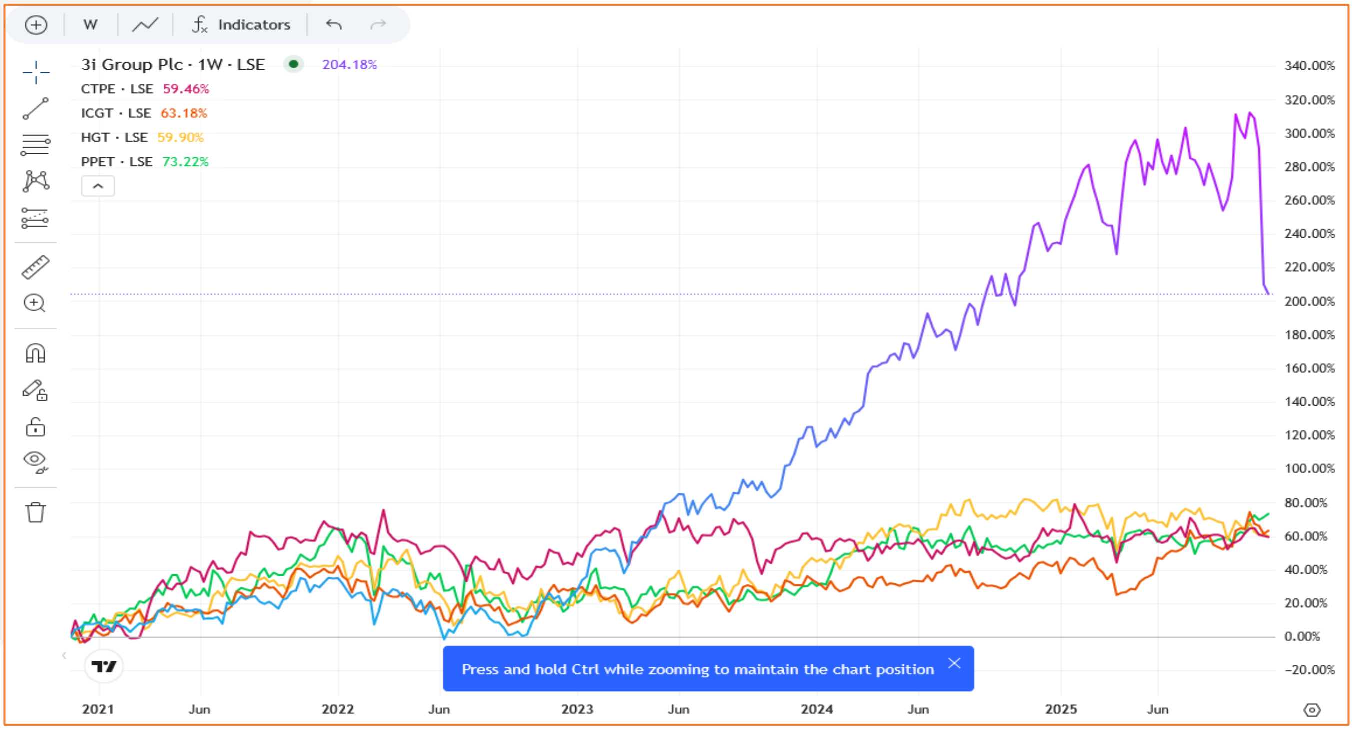
Chart 7: Directly owned Private Equity



The chart above shows the performance of the Fund's directly owned Private Equity portfolio. This was valued at £294m as at 30/6/25 and comprises 7.5% of the Total Fund. The portfolio has been in existence for over two decades and has done well over the long-term returning 12.1% per annum since April 2005 against 7.9% per annum for listed global equities as measured by the MSCI AC World index. However, as can be seen from the chart above, the last bout of outperformance was during the recovery from the Covid pandemic with Private Equity performing approximately in line with quoted equity over the last 4½ years and underperforming more recently. This coincided with a period of rising interest rates which would have acted as a drag on financial performance for an industry which uses gearing to boost returns. I am not convinced that all of the issues with legacy portfolios post the advent of higher interest rates have been worked through and any economic slowdown and ensuing fall in quoted equity markets now may see further issues come to the surface.

Over the last 3 years the Fund's directly owned Private Equity portfolio has returned 11.0% per annum against the MSCI AC World index returning 16.2% per annum. Whilst this is below the return of the benchmark it is noticeably better than the return from the two Brunel Private Equity portfolios which have returned below 5% per annum in aggregate over this period although this may be a harsh comparison for Brunel as their funds would have incurred some startup costs and time weighted performance figures are not a particularly good measurement for illiquid funds during this period.

Chart 8 5-Year Performance of the directly held Private Equity UK Investment Trusts.



As can be seen from the chart above, the short-term performance of the Fund's directly held UK Private Equity Investment Trusts has been dominated by a major fall in the price of the 3i Investment Trust which had been the Fund's strongest performing vehicle in this area over the last 10 years. 3i made one very successful investment in a retail chain called Action. This has been so successful that it now accounts for 70% of the Investment Trust by value. The retail group has been expanding across Europe and recently entered Switzerland but its core market of France is finally showing signs of a slowdown in growth and it is this that unsettled investors. 3i has a fundamental issue with Action, it will, at some stage, have to realise this holding but it has been so successful that I am not sure it is repeatable or that it proves that the management at 3i are necessarily brilliant investors (a one off?) so reinvesting any cash raised from a sale of Action will be difficult with most investors in 3i actually investing purely for exposure to this one underlying stock.

Market Summary

- The third quarter of 2025 was eventful, with a combination of market euphoria and macro-economic fragilities intertwined. Q3 started with optimism: AI-driven equity rallies, a fragile US–China trade truce, and a global economy that was still expanding, if unevenly. The quarter ended with the main stock indices having hit all-time highs, the US Government shutting down, sovereign Credit Default Swaps (CDS) spreads widening, and geopolitical tensions simmering. (CDS are the price of insuring against a default with the price rising as a default becomes more likely.) Risk assets were rewarded over the period, while Gilts and Sterling were weak. Eurozone held rates steady at 2% throughout the quarter. In contrast, the BoE made one 25bps cut in August, bringing its policy rate to 4%. Meanwhile, the US Fed made its first rate cut since 2024 in September by lowering the federal funds rate by 0.25% to a range of 4.00%–4.25%. US CPI remained stable at 2.7% and 2.9% in July and August, respectively. In comparison, UK CPI averaged 3.8% over the same period, while the Eurozone maintained a relatively low average of 2.1% through the quarter. The Dollar Index rose slightly by 0.9% during Q3, though it remains down 9.9% YTD. Sterling depreciated 1.7% against the Euro and 2.4% against the US Dollar. The US economy maintained stable annual GDP growth of 2.1% in Q2. The UK economy saw a slight slowdown, with annual GDP declining to 1.4% from 1.7%. Meanwhile, the Eurozone experienced a modest decline in momentum with annual GDP growth falling to 1.5% from 1.6%. Japan, however, maintained a steady annual GDP growth of 1.7% over the quarter. The US composite PMI increased slightly from 52.9 to 53.9 over the quarter.

- Equity markets delivered strong returns across the board. The S&P 500, Nasdaq, Dow Jones, and Russell 2000 all reached new peaks, with 15 of the G20 countries' main indices hitting record highs, including the FTSE 100, Nikkei 225, CAC 40, and BSE Sensex, while market concentration, notably in US tech, became even more pronounced. AI optimism also drove the Hang Seng Tech Index up by 22.1% and Taiwan's tech-heavy market up by 14.7%. Global equities the quarter by +7.3% (+17.4%. YTD), led by the Nikkei (+11.8%, +14.7% YTD), Emerging Markets (+10.6%, +27.5% YTD), the US (+8.1%, +14.8% YTD), and the UK (+7.5%, 17.7% YTD). Europe had more modest gains comparatively (+4.5%). Government bonds' performance varied across regions. Only US (+1.5%) and Emerging Markets (+4.8% in US Dollar terms) bonds ended the quarter in positive territory, while UK (-0.6%) and Eurozone (-0.2%) bonds posted modest declines. Across the US, UK, and Europe, both high yield and investment grade credit outperformed. Bitcoin finished the quarter up +6.3% reaching $114,056 as of September 2025.

We highlight the following themes impacting investment markets:

- **Government Credit Sovereign Risk Repricing:** While financial conditions remained broadly accommodative, sovereign credit risk rose sharply. US CDS spreads climbed to levels comparable with BBB-rated sovereigns, driven by Moody's US debt credit downgrade, debt ceiling volatility, and tariff-related inflation risks. Italian and Greek spreads remained elevated but stable. France saw a rise in spreads, with their five-year CDS pricing approaching 40bps amid EU-wide fiscal concerns. Turkey, Argentina, and South Africa saw CDS spreads widen and bond yields spike (Turkey's 10Y reaching 15%). EM Debt generally was supported by US Dollar weakness and rate cuts. US High Yield outperformed European High Yield. CDS trading volumes rose, particularly around geopolitical flashpoints and US fiscal events.
- **Mixed Signals in Europe:** Eurozone equities delivered solid gains overall in the third quarter, with strength in financials and healthcare. Banks were buoyed by strong earnings, helping lift overall market sentiment. Germany, Italy, and Spain saw encouraging expansion in their services sectors, reflecting underlying economic resilience. France, however, continues to be a source of concern. Political instability has deepened significantly: Prime Minister François Bayrou stepped down after his proposed austerity measures failed to gain parliamentary support. His successor, Sébastien Lecornu, has now resigned just 26 days into the role - the fifth prime ministerial departure under President Macron in just two years. The problems for France's economy include sluggish growth, a recent credit rating downgrade, and rising uncertainty around fiscal planning and borrowing costs. Meanwhile, foreign demand for European goods remains subdued. Export orders declined for the 28th consecutive month, underscoring persistent global trade challenges. August inflation aligned with the ECB's 2% target, though September figures are expected to come in slightly higher.

However, despite headwinds from US-imposed trade tariffs, the eurozone performed better than expected, with moderate growth impacts and limited inflationary spillover.

- **Strategic Reflections**: Headline strength in financial markets contrasts with underlying economic risks and fragilities that are becoming more acute. Traditional fixed income assets such as developed markets government bonds appear increasingly challenged, with geopolitical risks rising in many parts of the global economy and inflationary risks tilted to the upside. Against this backdrop, the importance of achieving effective portfolio diversification is increasing. Real assets can provide effective hedges against inflation and policy unpredictability.

Regional Commentary

- In the US, the Federal Reserve cut rates by 25bps in September, its first move of the year, responding to a cooling labour market and modest inflation. The S&P 500 total return was +8.1% (+14.8% YTD). Unemployment in the US edged up slightly from 4.1% in June to 4.3% in August and core inflation remained elevated at 3.1% in August. The quarter ended with a full government shutdown, triggered by a breakdown in budget negotiations, and 750,000 federal workers were furloughed. Key economic data releases were suspended. Markets rotated into safe-haven assets; gold surged, Treasury yields fell, and equity momentum paused. The Manufacturing PMI decreased to 52.0 and The Services PMI increased to 54.2 in September (both 52.9 in March).

- In Europe, the Euro Stoxx 50 delivered a strong quarterly return of +4.5%, bringing its year-to-date performance to +15.4%. In France, political reshuffling saw PM Bayrou replaced by Lecornu. Equities gained modestly (+3.3%), but fiscal consolidation remains uncertain. Meanwhile, Germany continued to underperform (-1.2%) amid industrial stagnation and weak exports. The ECB did not implement any rate cuts during the quarter, maintaining its policy rate at 2%, while core inflation averaged 2.3% over this period.

- UK equity indices rose. The FTSE All-Share rose 6.9% (+16.6% YTD), and the FTSE 100 was up 7.5% (+17.7% YTD), supported by UK companies' global exposure and a weaker sterling. Yet, 30-year Gilt yields hit their highest since 1998, reflecting inflation and fiscal concerns. The BoE implemented a 25bps rate cut in August, bringing the policy rate down to 4%, despite persistently high core annual inflation, which stood at 3.6% for the month. Labour market conditions continued to soften, with the unemployment rate rising to 4.7% in July and job vacancies declining further. Business activity also weakened, with the manufacturing PMI falling to 46.2 from 47.7 in June, while the services PMI dropped to 50.8 (52.8 in June). UK gilts posted a modest decline of 0.6%, broadly in line with the previous quarter, but long-duration gilts (15 years) saw a shaper drop of 2.39%.

- Japan was the strongest-performing developed market in Q3. The Nikkei advanced by 11.8% (+14.7% YTD), benefitting from a new U.S. trade deal and continued yen weakness. Business activity was mixed, the manufacturing PMI decreased to 48.5, whereas the services PMI increased to 53.3 from 51.7 in June. The Bank of Japan kept rates at 0.5%, following a hike earlier in 2025. GDP growth in Q2 held steady at 1.7%, unchanged from Q1.

- Emerging market equities performed well (+10.6%), delivering a YTD return of +27.5%, led by Mexico, Brazil, and India. In China, the US–China trade truce held, boosting sentiment. Chinese tech stocks (Hang Seng Tech Index) rallied 22.1% and the Shanghai Shenzhen CSI 300 Index China 300 outperformed over the quarter.

- In commodities, the S&P GSCI index was up 1.3% (YTD: 0.1%), with Brent crude ending down 0.9% (YTD: -10.2%) despite geopolitical tensions, as surplus expectations weighed on sentiment and talks of OPEC increasing supply. Natural gas fell by 4.4%. The Bloomberg Commodity Index rose +3.7% in Q3. Gold rallied on safe-haven demand, inflation fears, and central bank easing, ending the quarter at $3,841 per troy ounce (+16.1%, YTD +45.4%). Silver: Surged to $46/oz, up 45% YTD, driven by industrial demand and structural supply deficits. Copper peaked mid-quarter then eased, ending the quarter by -3.5%. In the agricultural sector, cocoa hit record highs due to West African crop failures, while coffee & sugar supplies tightened. The arabica coffee front-month ICE Coffee "C" Arabica futures contract rose by 22.2% over the quarter.
- Global real estate shares strengthened during the quarter, with the FTSE EPRA NAREIT Global Index (GBP) rising 6.3%, bringing YTD gains to 3.9%. UK nationwide house price index rose 1.1% during Q3.
- Equity volatility remained subdued throughout the quarter, with the VIX largely holding in the mid-teens despite occasional spikes around geopolitical flare-ups and tariff headlines. Since March, markets have shown a remarkable ability to climb higher while largely shrugging off political tension, trade friction, and policy uncertainty. This steady backdrop has kept implied volatility anchored at historically low levels, a sign that investors remain confident, or perhaps a touch complacent. With equities at or near record highs and yields edging up, the current calm may not last. As ever, it may be wise to keep an eye on the VIX as experience tells us it has a habit of waking up suddenly when investors least expect it.