Oxfordshire County Council Pension Fund

Quarterly Investment Report

Q1 2026

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Key Indicators at a Glance

Index (Local Currency)		Q1	2026
Equities		**Total Return**	
UK Large-Cap Equities	FTSE 100	3.42%	3.42%
UK All-Cap Equities	FTSE All-Share	2.41%	2.41%
US Equities	S&P 500	-4.33%	-4.33%
European Equities	EURO STOXX 50 Price EUR	-3.58%	-3.58%
Japanese Equities	Nikkei 225	2.18%	2.18%
EM Equities	MSCI Emerging Markets	-0.17%	-0.17%
Global Equities	MSCI World	-3.57%	-3.57%
Government Bonds			
UK Gilts	FTSE Actuaries UK Gilts TR All Stocks	-1.85%	-1.85%
UK Gilts Over 15 Years	FTSE Actuaries Uk Gilts Over 15 Yr	-4.07%	-4.07%
UK Index-Linked Gilts	FTSE Actuaries UK Index-Linked Gilts TR All Stocks	1.26%	1.26%
UK Index-Linked Gilts Over 15 Y	FTSE Actuaries UK Index-Linked Gilts TR Over 15 Yr	-0.32%	-0.32%
Euro Gov Bonds	Bloomberg EU Govt All Bonds TR	-0.64%	-0.64%
US Gov Bonds	Bloomberg US Treasuries TR Unhedged	-0.04%	-0.04%
EM Gov Bonds (Local)	J.P. Morgan Government Bond Index Emerging Markets Core Index	-2.27%	-2.27%
EM Gov Bonds (Hard/USD)	J.P. Morgan Emerging Markets Global Diversified Index	-1.26%	-1.26%
Bond Indices			
IBOXX Sterling Corporates	IBOXX Sterling Corporates Overall Total Return Index	-1.89%	-1.89%
European Corporate Investmen	Bloomberg Pan-European Aggregate Corporate TR Unhedged	-1.10%	-1.10%
European Corporate High Yield	Bloomberg Pan-European HY TR Unhedged	-1.50%	-1.50%
US Corporate Investment Grade	Bloomberg US Corporate Investment Grade TR Unhedged	-0.54%	-0.54%
US Corporate High Yield	Bloomberg US Corporate HY TR Unhedged	-0.50%	-0.50%
Currencies			
GBP/EUR	GBPEUR Exchange Rate	-0.20%	-0.20%
GBP/USD	GBPUSD Exchange Rate	-1.84%	-1.84%
EUR/USD	EURUSD Exchange Rate	-1.64%	-1.64%
USD/JPY	USDJPY Exchange Rate	1.28%	1.28%
Dollar Index	Dollar Index Spot	1.67%	1.67%
USD/CNY	USDCNY Exchange Rate	-1.35%	-1.35%
Alternatives			
Infrastructure	S&P Global Infrastructure Index	7.61%	7.61%
Private Equity	S&P Listed Private Equity Index	-17.48%	-17.48%
Hedge Funds	Hedge Fund Research HFRI Fund-Weighted Composite Index	0.94%	0.94%
Global Real Estate	FTSE EPRA Nareit Global Index TR GBP	2.87%	2.87%
Volatility		**Change in Volatility**	
VIX	Chicago Board Options Exchange SPX Volatility Index	68.90%	68.90%
Commodities			
Brent Crude Oil	Generic 1st Crude Oil, Brent, USD/bbl	94.49%	94.49%
Natural Gas (US)	Generic 1st Natural Gas, USD/MMBtu	-21.76%	-21.76%
Gold	Generic 1st Gold, USD/toz	7.06%	7.06%
Copper	Generic 1st Copper, USD/lb	-1.20%	-1.20%
Gold	Spot gold price quoted in USD per troy ounce	8.07%	8.07%
S&P GSCI	Broad, production-weighted S&P GSCI commodity benchmark	35.85%	35.85%
Sugar Futures	Front-month ICE Sugar #11 raw-sugar futures contract	3.40%	3.40%
Arabica Coffee	Front-month ICE Coffee "C" Arabica futures contract	-14.45%	-14.45%
Sector Indices			
S&P500 Consumer Discretionar	S&P 500 Consumer Discretionary sector	-9.34%	-9.34%
S&P500 Consumer Staples	S&P 500 Consumer Staples sector	7.01%	7.01%
NASDAQ-100 Technology	Equal-weighted NASDAQ-100 Technology Sector	-6.12%	-6.12%
S&P 500 Health Care	S&P 500 Health Care sector	-5.29%	-5.29%
S&P 500 Financials	S&P 500 Financials sector	-9.80%	-9.80%
S&P 500 Energy	S&P 500 Energy sector	37.24%	37.24%
S&P 500 Industrials	S&P 500 Industrials sector	4.30%	4.30%
S&P 500 Utilities	S&P 500 Utilities sector	7.52%	7.52%
S&P 500 Communication Servic	S&P 500 Communication Services sector	-7.10%	-7.10%
S&P 500 Real Estate	S&P 500 Real Estate sector	1.94%	1.94%

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

Performance

The Fund fell by -2.4% over the first quarter of 2026, underperforming the Fund benchmark by -1.9%. The fall is consistent with a market environment of falling Global Equity and Bond prices over the period due to the American attack on Iran and subsequent closure of the Strait of Hormuz and increase in the price of oil. Returns were not helped by a strengthening US Dollar as investors bought US Dollars as a safe-haven asset in times of turmoil.

UK Gilts fell close to -2% and more at longer durations which are more sensitive to potential interest rate moves with Corporate Credit also falling along with Equities. The exceptions to the fall in the first quarter were UK and Japanese Equities and UK Index-Linked Bonds although, even within Index-Linked Bonds longer duration bonds fell as the potential interest rate change outweighed the inflation linkage. Infrastructure and Real Estate also held up well supported by their inflation link.

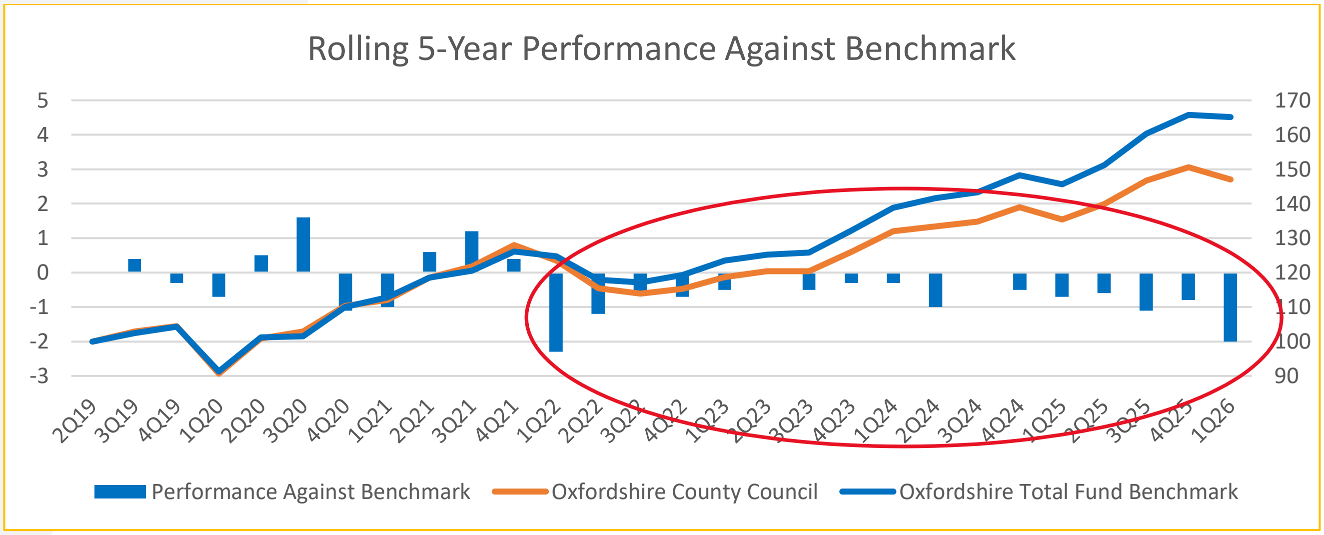
Within US Equity markets there was a discernible sector rotation during Q1 as the IT sector fell whilst Energy stocks rose by more than 30% on average. However, IT stocks have surged since quarter end, pushing the US Equity index (S&P 500) to new highs on the back of very strong earnings growth.

The Fund fell back below the £4bn mark to a valuation of £3.934bn. The underperformance was again driven by the Brunel active equity portfolios of Global High Alpha, Sustainable and UK Equity which all underperformed their individual benchmarks reducing performance at the total Fund level by over 1%. In addition , the Fund's direct holdings in Private Equity Investment Trusts fell by 12% and have fallen by almost 25% over the last year. I will cover this in more detail later in the report.

It is disappointing for Brunel to come to an end having failed to prove any real success in manager selection in its active equity portfolios over its 7 years of existence. The cost of this underperformance far outweighs any costs savings from pooling even before transition costs are accounted for. There are valid reasons why active management within equity markets has struggled over this period, many of which I have covered previously but performance, nonetheless, has been poor. What Brunel have achieved has been to improve the Fund's ability to access a wide range of alternative asset classes such as Infrastructure and Private Debt where performance has been better.

The chart on the following page 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 partly 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 -4.8%); over 3 years (by -2.7% p.a.); over 5 years (by -2.3% p.a.) and over 10 years (by -0.7% p.a.). Frustratingly this shows no sign of improving.

Chart 1: Oxfordshire Pension Fund Performance



This underperformance has come at a time when investors have had the benefit of strong returns with the Fund returning 7.7% p.a. over the last 10 years which has been above the Fund's actuarial discount rate assumption for future investment returns and will have helped improve the funding ratio between the triennial actuarial revaluations and remains a strong absolute rate of return over the long-term.

Over the last 5 years the performance of the underlying managers selected by Brunel has been disappointing with approximately -1.7% p.a. of the total Fund underperformance of -2.3% p.a. relative to the Strategic Benchmark coming from the poor performance of the main Equity portfolios: Sustainable, Global High Alpha and UK. However, I believe this to be heavily influenced by the strong environmental slant Brunel adopts when appointing investment managers which is a core part of their 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 table below 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 its 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.

Table 1: Fund performance (quoted Assets)

Performance figures Net of fees Absolute (relative to benchmark)	3-month %	1-year %	3-year % p.a.	5-year % p.a.	10-year % p.a.
Total Fund	**-2.4 (-1.9)**	**8.5(-4.8)**	**7.4 (-2.7)**	**5.7 (-2.3)**	**7.7 (-0.5)**
UK Equities	-1.0 (-3.8)	18.3 (-3.5)	12.7 (-0.9)	9.7 (-1.9)	n/a
Global High Alpha Equities	-5.0 (-3.5)	7.3 (-9.6)	9.2 (-5.6)	7.3 (-4.5)	n/a
Global Sustainable Equities	-2.8 (-1.6)	7.6 (-10.3)	5.8 (-8.8)	4.8 (-6.1)	n/a
Global Paris Aligned Passive	-4.3 (-0.0)	15.3 (-0.1)	13.0 (-0.1)	n/a	n/a
Sterling Corporate Bonds	-1.3 (+0.4)	5.7 (+1.3)	6.2 (+1.9)	n/a	n/a
Multi Aset Credit	-0.6 (-2.6)	5.8 (-2.5)	8.6 (-0.3)	n/a	n/a
Passive Index-Linked Gilts	1.0 (+0.0)	3.9 (+0.1)	-4.6 (+0.1)	n/a	n/a
PE Investment Trusts	-12.8 (-11.7)	-6.2 (-24.2)	6.0(-8.7)	9.4 (-2.1)	13.4 (+4.6)

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. Unfortunately, Brunel do not update these figures quarterly so I repeated the figures from my last report using data from the first cycle of investments into each asset class 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 the performance of the Private Debt portfolio has been strong given it is a low risk asset class. Unfortunately, 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 at this early stage.

Given the performance across both Liquid and Illiquid asset classes, there is no proof that Brunel has added value in performance terms over their 7 year history!

Asset Allocation

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

Asset class	Asset Allocation as at 31/12/25	Strategic Asset Allocation (SAA)	Position against the SAA	Deviation in cash terms
UK Equities	11.8%	**10%**	+1.8%	-£71m
Global Equities ex UK	41.2%	**41%**	+0.2%	-£7m
Fixed Interest	8.2%	**9%**	-0.8%	+£31m
Index-Linked Gilts	5.4%	**7%**	-1.6%	+£63m
Property	6.1%	**8%**	-1.9%	+£75m
Private Equity	10.7%	**10%**	+0.7%	-£28m
Secure Income	3.9%	**5%**	-1.1%	+£43m
Private Debt	2.6%	**5%**	-2.4%	+£94m
Infrastructure	3.9%	**5%**	-1.1%	+£43m
Cash	5.8%	**0%**	+5.8%	-£228m

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. The high cash weighting should be seen as temporary and is associated with the transition from the Brunel pool to LGPS Central. All of this cash is awaiting drawdown into the Illiquid asset classes. Given market conditions in the first quarter a high cash weighting will have protected returns.

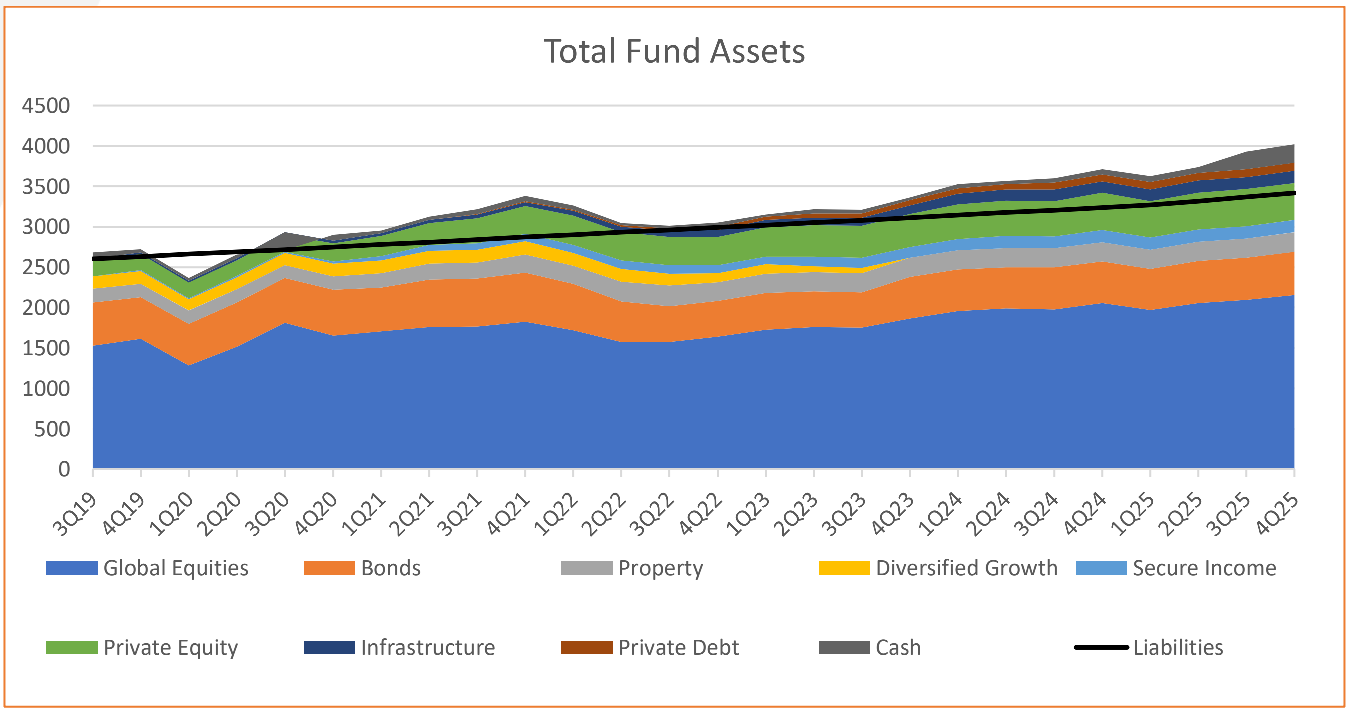
The Fund continues to progress with the agreed investment into two managers in the Social/Affordable Housing space, one investing across Shared Ownership, Affordable and Social rents and the other focusing on transitional housing to help combat homelessness.

At the last Pension Committee meeting a new SAA was agreed which Central will use to guide the Fund's investments going forward, this included reducing the Equity exposure (UK plus Global) from 53% to 46% and reinvesting this money into Social Housing, Natural Capital and Index-Linked Gilts. This will increase the Fund's linkage to inflation which we see as a key risk for the next 10 years. In addition, the intention is to reduce Private Equity exposure via the directly held Investment Trusts and to reinvest this into Venture Capital which, although high risk, is targeting higher long-term returns.

Chart 2, on the next page, 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 line 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 actuarial valuation of the liabilities by the required investment return for each quarter.

As bond yields have risen since the last actuarial revaluation the actuary will have used a higher discount rate to value future pension 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.

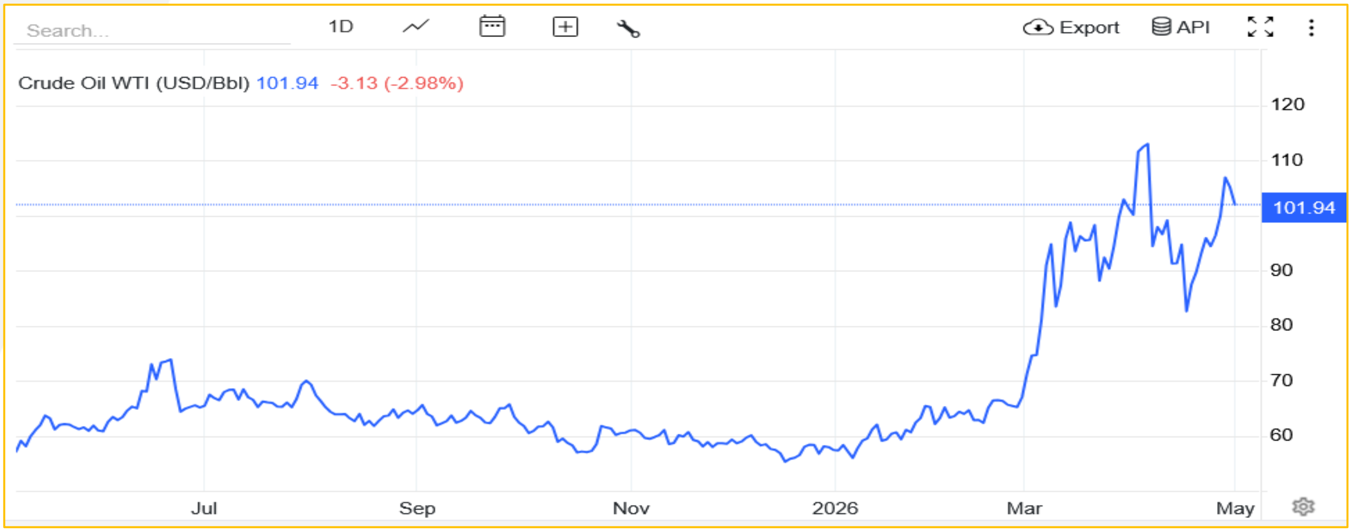
Chart 2: Oxfordshire Pension Fund Assets



Comment

Whilst all markets were rocked when the US joined Isreal in attacking Iran, the actual damage done to equity markets has, so far, been short lived. Global equities were down by over 3.5% in local currency terms over the course of the first quarter but have since largely recovered as the US Equity index, the S&P 500, hit new highs in late April with the US market again outperforming other international equity markets. This recovery is something of a surprise as global bond markets are showing that the US war with Iran is forecast to have an impact with bond yields rising slightly across the duration curve driven by an expectation of higher inflation and a reduced scope for interest rate cuts over the course of the next few years. Economically, this makes sense as the war has had a noticeable effect on oil prices which have risen to over USD100 per barrel (West Texas Intermediate) and international gas prices. This has already had an impact on fuel prices as well as the cost of fertilizer (made from natural gas) which will feed through into the price of goods and food over time. US inflation rose to 3.8% in April from 2.4% in January and February, almost entirely driven by rising fuel costs. (US gasoline prices are up 50% since the start of the US war with Iran because the US has a lower tax rate on gasoline so the effect of a rising oil price feeds through into a greater rise in gasoline prices than in the UK where the cost of the product is only a third with taxation being the rest of the cost.)

Chart 3: Oil Price (West Texas Intermediate)



Source : Centre for Strategic and International Studies.

Inflation in the Eurozone and the UK is also on an upward trend. The second round effects of higher transport costs and a shortage of fertilizer stocks are likely to keep inflation higher than expected until the situation in Iran is settled and the Strait of Hormuz re-opened. There is a risk here that a prolonged disruption to trade and higher fuel process will hit consumer spending. Falling economic growth globally when inflation is rising leads to stagflation which, in the past, has not been a good environment for investors with physical assets more likely to retain their value than paper ones.

Because of the heightened level of uncertainty created by the closure of the Strait of Hormuz and exacerbated by inconsistent messaging from President Trump over what his goals are for this war, a number of economic forecasters are now working with a central forecast of the Strait of Hormuz being re-opened in the near future and the economic and inflationary impact of the war in Iran being transitory whilst, at the same time, producing alternative forecasts that assume a longer term disruption and a more severe economic impact from the Iran war. This includes both the International Monetary Fund (IMF) and the Bank of England (BoE), underlining the more turbulent world we are now operating in.

The BoE now has three economic forecasts:

Scenario A - 'The combination of a relatively short-lived energy shock and weakness in demand is assumed to be enough to prevent any second-round effects in response to the shock.

Inflation peaks at a little over 3.5% at the end of 2026 before falling back to a little below 2% in around three years' time.'
Interest rates over the next three years would need to be higher than markets expected in February.'

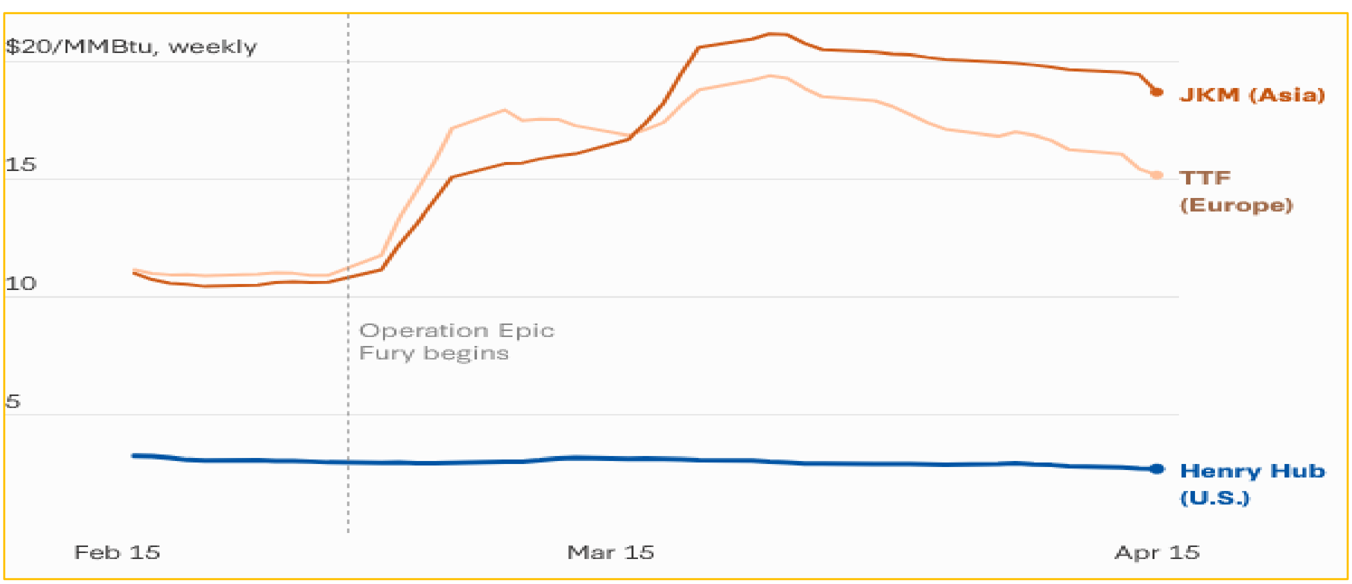
Scenario B – 'Energy prices peak at similar levels to Scenario A but remain higher. Households' saving behaviour is assumed to be similar to the past. Second-round effects are modest.
Inflation peaks at a little over 3.5% at the end of 2026 before falling back to close to 2%.
Interest rates over the next three years would need to be higher than markets expected in February.'

Scenario C – 'Energy prices rise more sharply than in Scenario A or B and stay high for a prolonged period. This causes much stronger second-round effects than in Scenario B.
Inflation peaks at more than 6% in early 2027 and is around 2.5% - above its target - at the end of the scenario in three years' time.
Bank Rate would need to be "materially higher" than financial markets expected in the 15 days to April 22 in order to bring inflation back towards target, causing weaker growth and higher unemployment.'

The market's current assumption is that Scenario C remains unlikely but the BoE's forecast here underlines what is potentially at risk. Interest rates could rise to over 7% if inflation rose to 6% for any period of time. This would likely undermine both Equity and Bond markets.

In general, the US is better positioned to weather the closure of the Strait of Hormuz and it is likely that the US economy will, therefore, continue to outperform the rest of the developed world in the near term. The US is a major oil and gas producer, although petrol prices have already risen because the US lacks refining capacity, but the country has seen a much lower price impact on natural gas because it is self-sufficient and therefore not reliant on trade through the Strait of Hormuz. Natural gas is the feed stock for most types of fertilizer. Higher costs here will feed through to food prices.

Chart 4: Natural Gas Prices



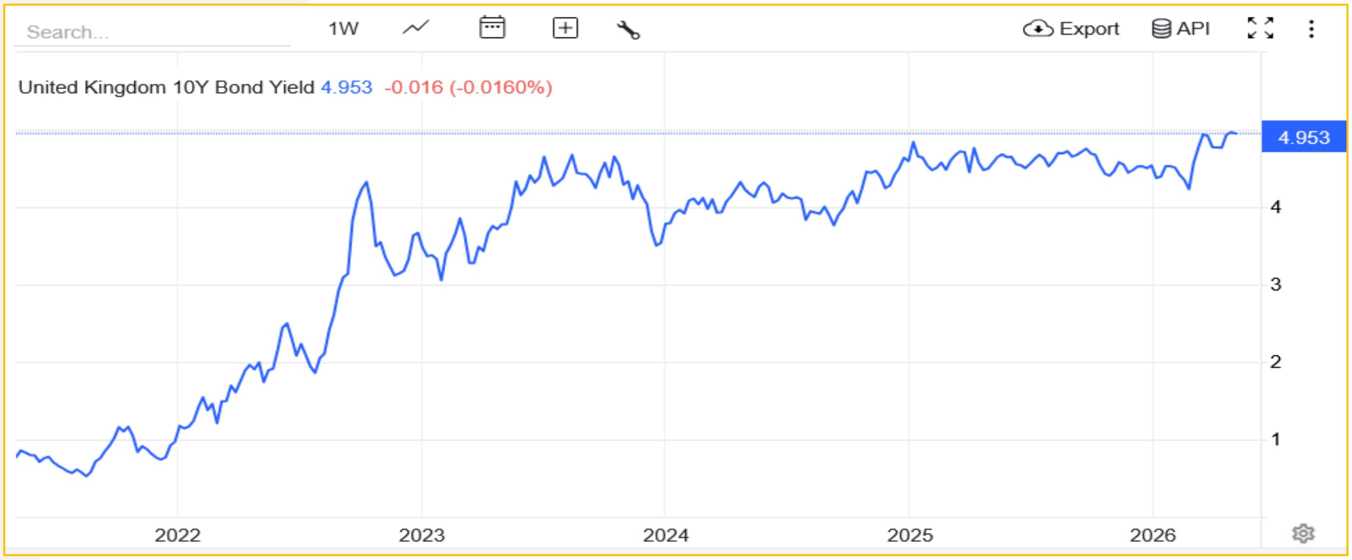
It is quite difficult to unpack why US equity markets are so unconcerned about the changing inflation outlook and a heightened level of uncertainty. Higher interest rates should slow economic growth and affect valuations leading to lower stock prices but corporate earnings in the US have remained strong and continue to surprise on the upside lead by three sectors: 1) IT sector (about 30% of the index), driven by AI demand; 2) banks, driven by strong trading gains and 3) energy companies, driven by higher energy prices. Consumer demand and employment levels remain flat. So far central banks are keeping interest rates on hold in the hope that the current situation is transitory and that a form of normality will return.

Undoubtedly we are living through a golden age of technological advancement, not just with AI but also across pharmaceutical research and the unpacking of the human genome and across communication and automation. What is very difficult to forecast is how these changes will affect individual people, economies and, thereby, markets. The big tech stocks are changing their business model somewhat by investing so heavily into AI. They have previously been asset light with high margins and strong cashflow. Going forward earnings growth will have to cope with rapidly increasing depreciation from the huge capital investment they are currently undergoing.

With equity markets increasingly driven more by index funds, hedge funds and algorithmic trading, many investors have a very short-term time horizon that requires no real view on valuations. They also believe that President Trump will always alter course when his actions lead to a falling stock market (the TACO trade). This, in my mind, leaves the market open to higher volatility and potential down side corrections. I am concerned that the next downturn may develop at a rapid pace and with less political harmony than in the past. The desire of the US Federal Reserve to act as lender of last resort and support other central banks in stabilising the global economy may not happen as it did in the depths of the Global Economic Crisis of 2008/9 as the political will may be lacking. The US stock market remains heavily dependent on the success of AI related stocks which sit on high valuations and the more benign economic view depends on President Trump extricating himself from the situation in Iran and re-opening the Strait of Hormuz at the earliest opportunity, yet there seems to be limited strategic direction at the head of the US administration with the time horizon for decision making reflecting the very short-term time horizons of many investors.

In fixed Interest markets we have seen bond yields rise gently since the US war on Iran with 10-year UK Gilts now yielding over 5%. This would seem fair value given an expectation of inflation averaging 3% per annum over that period and cheap if you believe the BoE will achieve its stated target inflation rate of 2% per annum. This yield surpasses that reached in the Truss trauma of late 2022 despite this government providing more detail on its medium-term spending plans underlining how inflation expectations are changing. UK Inflation-Linked Gilts are also now yielding above expected inflation.

Chart 5: UK 10-Year Gilt yield.



In my quarterly report of a year ago, I made a couple of comments at the start of Donald Trump's tenure as US President which I have repeated below. I think the issue now, unfortunately, is not whether the Republicans can retain control of the US House and Senate through the Mid-term elections to be held in November this year, but how they retain control. President Trump and his entourage are very exposed to charges of impeachment given the strong conflicts of interest many of his family and advisers are exposed to, the signs of insider dealing in financial markets and the disregard for past protocols in defining the limits of Presidential power. Because of this, the need to retain power and a subordinated system of governance below the President is imperative for the current leadership. The issue is how this plays out in investment terms. Will the US public accept an election which has been manipulated? Will Equity markets care? Will international investors continue to purchase US Government debt in the quantities required to support a continuing budget deficit and total debt levels to GDP rising through 125%? Current betting markets suggest the Republicans will lose control of the House of Representatives with the control of the Senate being too close to call.

Quarter 1 2025 investment report

'Of greater concern is the attack on many of the guardrails of the American structure of governance. The removal of government contracts from legal firms that have fallen on the wrong side of the President. The attacks on educational establishments, including Yale and Harvard on charges of antisemitism, the removal of many of the military top brass and the gutting of many regulators including the Federal Trade Commission. I am, personally, concerned that the modus operandi that President Trump is moving towards is one of a system of patronage where economic success or failure is at the hand of the all-powerful President himself. Patronage is secured through providing either political support or money to those favoured by the President. The benefits of such patronage are large as policy can be written in a single business's favour with limited constraints. We see this system of 'governance' across many emerging economies with each change of government accusing the last of the massive misappropriation

of funds and fraud. It seems autocracy and kleptocracy are fundamentally linked suggesting that the whole purpose of an autocracy is the accumulation of assets and wealth by the ruling family. The effect of such an approach in economic terms is to increase the misdirection of capital investment leading to sub-optimal returns over the long-term. All this suggests to me that the era of US exceptionalism we have seen with a stronger economy and greater investment returns since the Global Financial Crisis in 2008/9 is coming to an end. This is a major concern for global equity markets because the US accounts for 70% of the index and this weighting is concentrated in a few mega cap names mainly in the technology sector.

… As an aside, the scale of volatility in asset prices since President Trump's re-election has been a boon for Wall Street traders with many investment banks reporting blow-out trading revenues and profits. The gutting of the budgets of many regulators including those in the financial industry will make it very difficult to stop nefarious practices in this industry and having one individual capable of making announcements which can move global equity, bond and currency markets in such scale creates much scope for those connected to power to game the system to their own advantage. It is very noticeable that the President has blurred the lines between his own family dealings and those of the state.'

Because of this I would prioritise domestic, Sterling-based investments over global where the US is over represented and I would focus on assets which have a linkage to inflation as I expect inflation to be higher and more volatile going forward. In addition, I would look to lower US exposure within Global Equities and, in particular, would avoid increasing exposure to the 'Mag 7' at the current time.

Points for Consideration

My understanding is that the Global Equity portfolios (High Alpha and Sustainable) have been transitioned to new managers selected by Central at the beginning of the second quarter. Central do not have a UK Active Equity portfolio available at present so will take the Brunel portfolio as it stands and then think about whether to transition this to a more mid/small company focused portfolio with new managers in due course. The two bond portfolios (Investment Grade and Multi Asset Credit) will be taken into the Central system as is with a view to transitioning to Central's own managers shortly and the Alternative portfolios, including Property, can be switched to Central management without any need to transition the underlying investments as these are held in the Fund's own name and accounts rather than Brunel's.

I am reassured that a transition manager has been used for the move from Brunel to Central for the Global High Alpha portfolio, in addition a transition oversight manager has been employed and I have reviewed their report which I find satisfactory. Total costs for this transition has been reported at £791,019 which on a transfer of £684m of assets is a low cost result. The costs include both sales commissions, market impact and taxes.

It is important that the costs of transferring assets from Brunel to Central is reported as reviewed by this Committee and minuted along with the cost of closing Brunel as an operating entity.

I would also expect Central to present on how they will move the Fund to the new SAA and particularly how they intend to approach the new investment into Natural Capital. At present Central do manage a portfolio in this area but this is mainly made up of global forestry assets which may not fit with the Committee's expectations for this asset class.

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 five years.

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		-0.9%	Performance below benchmark over 5 years and since inception. Mandate should focus on small/medium UK stocks.
Global High Alpha	MSCI World Equity	11/19		-5.6%	Underperformance over five years of -4.5% p.a. with performance consistently poor.
Global Sustainable	MSCI All World Equity	10/20		-8.8%	Performance has been disastrous and a major concern with the portfolio underperforming by over 6.2% p.a. since inception and no sign of recovery.
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 to investment.
UK £ Corporate Bond	£ Non-Gilt Credit	11/21		+1.9%	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		-0.3%	Performance behind the benchmark since inception by -3.4% p.a. with a poor 1Q26.
Property	Property benchmark	04/20		-0.3%	UK Performance has been acceptable 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 but more recent performance has improved.
Infrastructure	CPI	01/19		n/a	Drawdown has been slow; performance looks OK. Some concern over Wessex Gardens. Benchmark of CPI is an easy target.
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 now underperforming public equities over the last 5 years and has performed poorly recently
Private Debt	Cash + 5%	08/17		n/a	Drawdown has been slow; performance looks good bar a noticeable fall this quarter.

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 charts below are an update of the performance of the main Global Equity portfolios from last quarter.

Global Equities

Chart 6: Global Equities

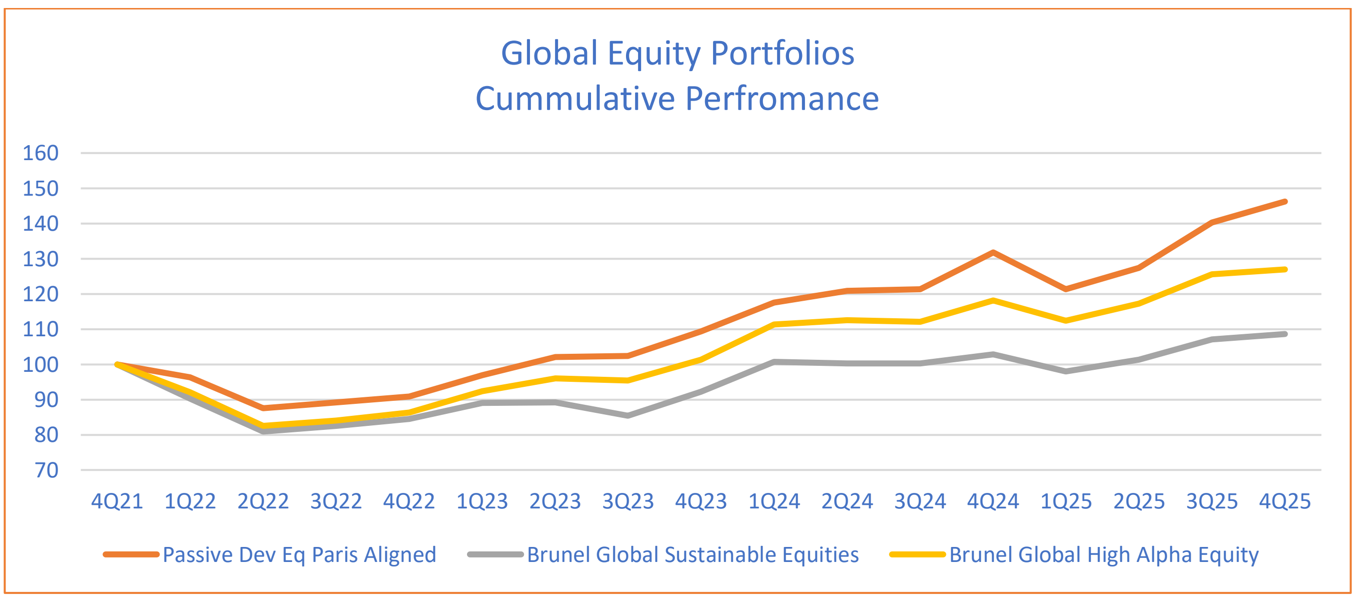


Chart 6 above shows the cumulative performance of the Fund's three global equity portfolios over the last four years. Over that period, the financial effect of the underperformance of the two actively managed portfolios, Sustainable and Global High Alpha, against the performance of the Paris Aligned passive portfolio cost the Fund over £200m. 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 5% larger.

An element of this is around the selection of the index. The FTSE Paris Aligned index is a developed world index so excludes emerging market equities. The High Alpha portfolio is benchmarked against the MSCI World benchmark which also excludes emerging markets but has a slightly different construction and rules to the FTSE version. The Sustainable portfolio is benchmarked against the MSCI All-World which includes emerging markets. Until 2025, emerging markets had underperformed developed markets, pulling the MSCI All Countries index down compared to the FTSE Developed Market index.

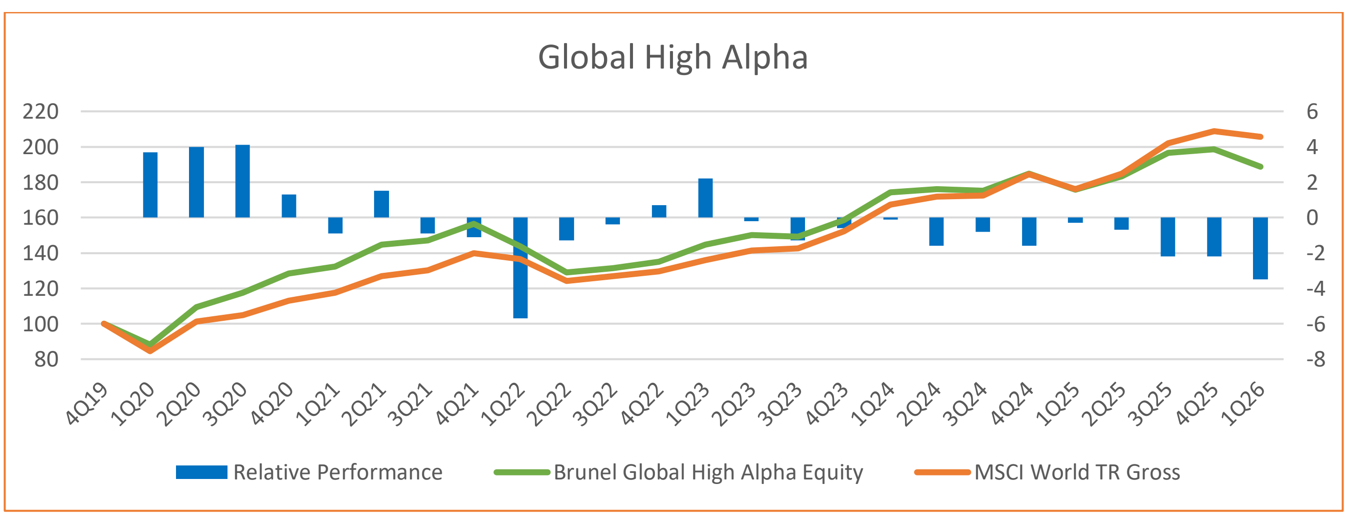
This underlines the importance of recognising which benchmark a portfolio is being measured against as this can materially affect performance over the long-term. Because of this, care should be taken as the various portfolios are transferred to Central to ensure the benchmark selected reflects the universe a portfolio can invest in and that reflects the intention of the portfolio.

Whilst some of this 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 a 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 their view of responsible investment and how they see themselves fulfilling the Pension Committee's desire to invest in this area.

Global Equities

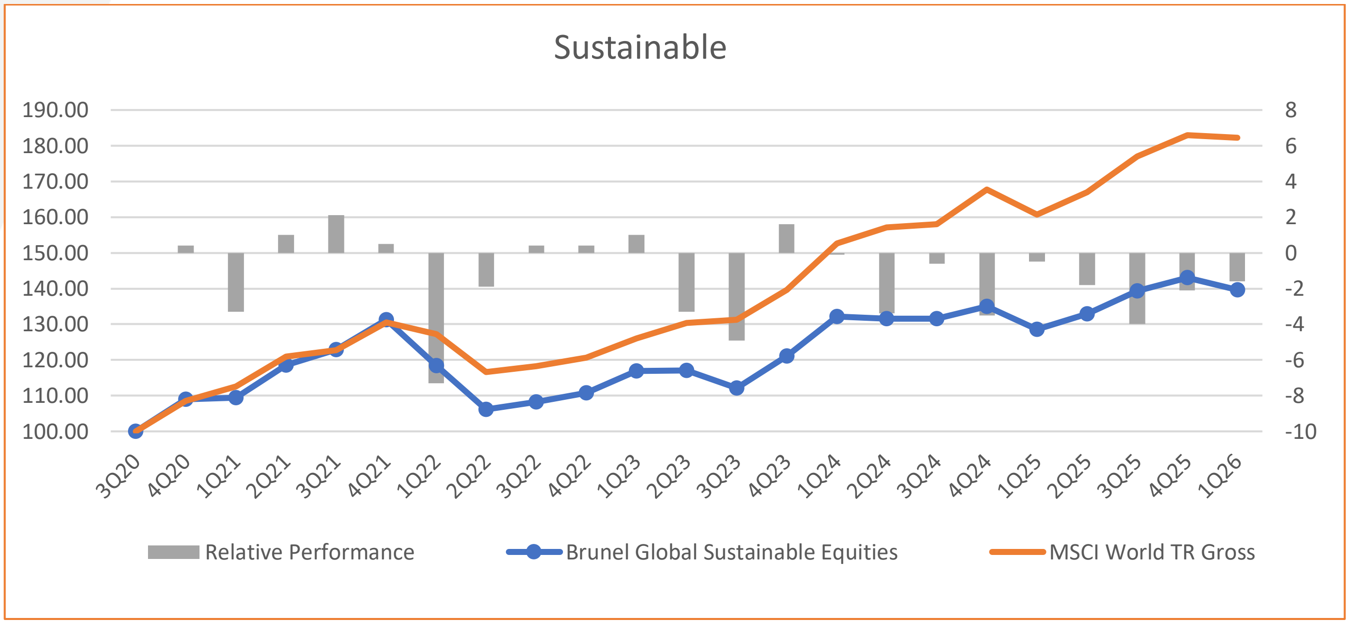
Expanding on the underperformance of the two actively managed global equity portfolios further:

Chart 7: 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. Much has been made of the difficulty of outperforming a global equity benchmark over the last few years as the mega sized US tech stocks have dominated returns but the last two quarters were different with a switch to 'Value' as an investment style and a more differentiated performance across the 'Mag 7' but again the portfolio underperformed. The portfolio has underperformed in each of the last 12 quarters. This quarter, the US attack on Iran and rising oil prices negatively affected performance for a portfolio which is underweight Energy and Defence stocks.

Chart 8: Sustainable Equity Portfolio



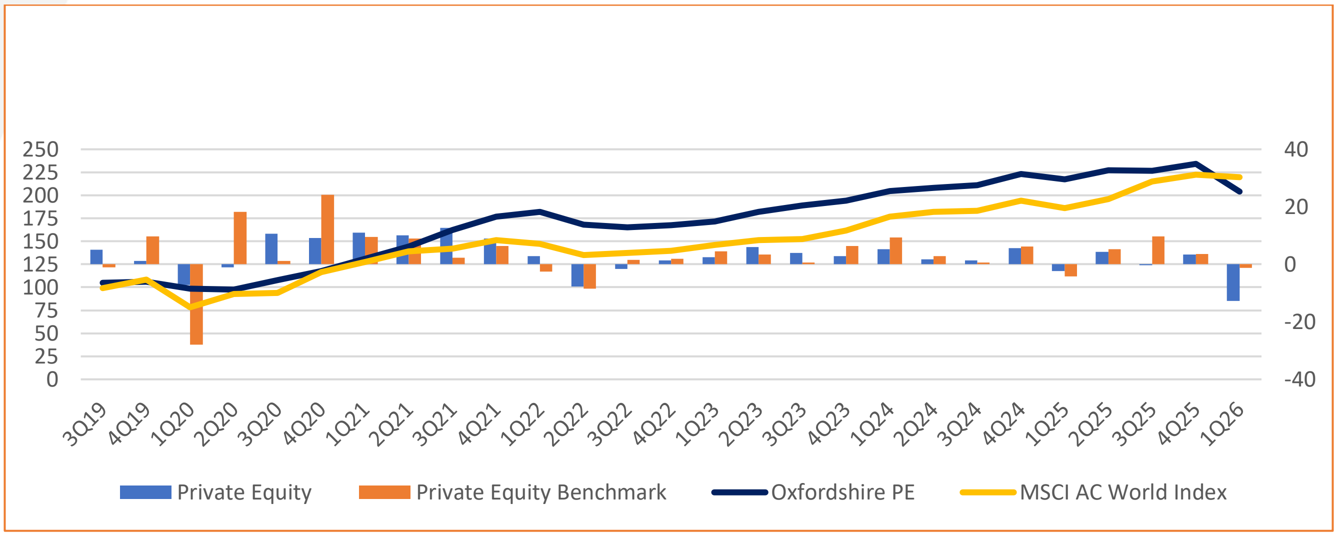
The Sustainable Equity portfolio was invested into a year after the Global High Alpha portfolio so missed out on the market conditions where a focus on innovative, smaller, fast-growing companies, was rewarded by investors. Instead, this portfolio has been held purely through a period when interest rates 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. The underperformance of this portfolio has been very poor and cost the Fund significantly. With the move to Central as the new Pool, the Committee need to discuss how they wish to reflect their environmental views in their global equity mandates.

Private Equity

A second area where the performance of the portfolio is now underperforming is Private Equity.

The chart below shows the performance of the Fund's directly owned Private Equity portfolio. This was valued at £288m as at 31/12/25 and comprises 7.1% 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 below, 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 5 years and underperforming over the last 3 years. 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.

Chart 7: Directly owned Private Equity



This was a particularly poor quarter for the Fund's directly held Private Equity holdings. These are invested through UK listed Investment Trusts which then invest into Private Equity funds. These Investment Trusts are quoted on the UK stock exchange and can trade at a premium or discount to the underlying Net Asset Value of the trust itself. This makes them more volatile than the underlying holdings. The last 6 months have seen a reappraisal of how AI will effect the economy in the future and in particular, a realisation that it will be service sector jobs, particularly around the processing of data which could be replaced with AI. This sector of the economy has long been a mainstay of Private Equity funds as traditionally companies operating in this area hold data which their clients need and provide analysis of this data for a fee. This could be replaced by AI, undermining this style of business model.

The Fund's direct exposure into private equity is via UK listed Investment Trusts. These trusts can trade at a discount or premium to their underlying asset value as they are quoted vehicles traded on the London Stock Exchange. This gives liquidity but comes with higher costs and greater volatility.

Chart 10 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 (Purple Line) 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.

I would recommend that once the Committee and your officers are happy with the capabilities of Central in this asset class the direct holdings held via the UK Investment Trusts should be rolled into Private Equity funds managed by individual managers, this should reduce cost slightly.

Market Summary

- Global markets experienced a decisive shift in regime at the start of 2026, driven by the escalation of geopolitical tensions between the US (under President Donald Trump) and Iran, and the resulting disruption to energy flows through the Strait of Hormuz. As a key artery for global energy supply, the shock triggered a rapid and broad-based repricing across inflation expectations, monetary policy expectations and global risk premia. Equity, fixed income and credit markets all softened during the quarter, as, markets rapidly reassessed the outlook for monetary policy, shifting away from expectations of near-term rate cuts toward a more prolonged "higher-for-longer" interest rate environment. Central banks responded by maintaining policy rates and emphasising data dependence, reflecting increased uncertainty around second-round inflation effects and the balance between inflation and growth risks.
- Energy markets were at the centre of this adjustment, with Brent crude rising approximately +94.9% over the quarter, from USD61/bbl to USD118/bbl. This move represented not only a supply shock but also the reintroduction of a meaningful geopolitical risk premium into commodity markets. The magnitude and speed of the increase materially altered inflation expectations, reversing the prevailing narrative of steady disinflation and reintroducing upside risks to headline inflation across major economies.
- The US remained at the centre of market volatility and repricing. Equity markets declined, with the S&P 500 falling by -4.3%, as higher energy costs, rising bond yields and increased macro uncertainty weighed on valuations. Importantly, the quarter exposed the sensitivity of US equities—particularly growth and technology sectors to changes in discount rates and inflation expectations. This resulted in a pronounced rotation away from long-duration growth assets toward value-oriented and cash-generative sectors. Energy equities were the standout performers, with the S&P 500 Energy sector rising over +37%, benefiting directly from higher oil prices and improved earnings expectations. In contrast, rate-sensitive sectors such as technology underperformed, with the NASDAQ-100 Technology declining -6.1%, highlighting the divergence in performance driven by macro conditions rather than broad-based earnings deterioration. Tariffs also hit the headlines again as the US Supreme Court struck down the US administration's use of emergency powers to impose tariffs.
- Across asset classes, performance was highly divergent and underscored the changing nature of diversification in an inflation-driven environment. Commodities (+35.9%) were the dominant outperformer, reflecting both direct exposure to the supply shock and their role as an effective hedge against rising inflation expectations. Real assets more broadly also performed well, with listed infrastructure (+7.6%) delivering positive returns supported by inflation-linked cash flows. In contrast, global equities declined, with the MSCI World Index down -3.6%, while fixed income markets also came under pressure as sovereign yields rose across major regions. This challenged the traditional diversification benefits of duration, as correlations between equities and bonds became less favourable during the quarter. Credit markets were more resilient but still reflected a repricing of macro risk rather than a deterioration in underlying fundamentals.

- Business sentiment softened but remained marginally expansionary, with Purchasing Managers Indices (PMI's) across major economies hovering around the 50 level. While this indicates slowing momentum, it suggests the transmission of the energy shock into real economic activity remains in its early stages. Labour markets also remained relatively resilient, supporting near-term growth despite rising uncertainty.
- Overall, Q1 2026 marked a transition to a more complex and inflation-sensitive macro regime, characterised by heightened geopolitical risk, supply-side shocks and increased dispersion across asset classes. In this environment, performance was increasingly driven by inflation sensitivity, sector positioning and exposure to real assets, rather than broad market beta and correlations between equities and bonds turned less favourable, reducing the effectiveness of traditional diversification.

Regional Commentary

- US equities declined, with the S&P 500 down -4.3%, reflecting heightened volatility and sensitivity to rising yields and inflation expectations. Sector dispersion was pronounced, with energy (+37.2%) outperforming while technology (-6.1%) lagged. Labour markets remained resilient (unemployment 4.3%–4.4%), though job openings declined to 6.9 million and wage growth moderated to ~3.5%. Core inflation remained stable at 2.5%. Business sentiment softened, with the composite PMI at 50.3, driven by weaker services (49.8) despite manufacturing resilience (52.3). The Federal Reserve held rates at 3.5%–3.8%. US fixed income markets outperformed other government bond markets, reflecting the US economy's stronger position as an energy exporter, in contrast to European and Asian economies.
- European equities declined (-3.6%), reflecting rising energy costs, weaker growth momentum, and increased macro uncertainty. Inflation remained contained at 2.3%, while labour markets were stable (unemployment 6.2%). Business sentiment remained marginally expansionary, with PMI at 50.7, supported by manufacturing (51.6) while services softened (50.2), highlighting uneven sector dynamics. The European Central Bank (ECB) held rates (deposit rate 2.0%), emphasising the inflation-growth trade-off and heightened uncertainty.
- UK equities were more resilient, with the FTSE 100 +3.4% and FTSE All-Share +2.4%, supported by energy and value exposure. Inflation remained elevated (3.2%), while wage growth moderated (3.9%). Unemployment remained at ~5.2%. Business sentiment remained just above expansionary levels (PMI 50.3), reflecting slower services and modest manufacturing resilience. The BoE held rates at 3.8%. UK gilts fell, and Sterling also declined against most major currencies.
- Japan outperformed, with equities rising +2.2%, supported by stronger domestic activity. Positive performance was supported by a weaker currency and a decisive election victory by the ruling LDP party and its new leader Sanae Takaichi. Labour markets remained tight (unemployment 2.6%), while inflation was modest (1.4%). Business sentiment remained robust (PMI 53.0), supported by both manufacturing and services. The Bank of Japan held rates at 0.8%.

- Emerging markets were broadly flat (+0.2%), though performance was highly dispersed. Commodity-exporting regions, particularly in Latin America, benefited from higher energy prices, while energy-importing economies lagged, reflecting the uneven impact of the energy shock across regions.
- In commodities, performance in Q1 2026 was exceptionally strong and highly concentrated, reflecting the direct impact of the energy shock and associated supply disruptions. Energy markets led the rally, with Brent crude rising +94.5%, driven by supply constraints and heightened geopolitical risk premia. In contrast, natural gas declined -21.9% driven by supply constraints and heightened geopolitical risk premia. The broader S&P GSCI index rose +35.9%, underscoring the dominant contribution of energy within the commodity complex. Industrial metals delivered mixed performance, with copper (-1.2%) declining modestly, while precious metals were stronger, with gold rising +7.1% to +8.1%, reflecting its role as both an inflation hedge and defensive asset amid heightened uncertainty. Gold continued to demonstrate its role as a defensive asset amid heightened uncertainty. Agricultural commodities were weaker, with Arabica coffee (-14.5%) declining materially, highlighting divergence within the broader commodity complex.
- Global real estate shares delivered modestly positive returns, with the FTSE EPRA NAREIT Global Index up +2.9%, supported by stable income characteristics but still sensitive to elevated bond yields. The asset class continues to reflect a balance between improving inflation dynamics and the headwind of higher financing costs.

Volatility increased meaningfully during the quarter, with the VIX spiking to a recent new high of 68.9%, reflecting heightened uncertainty and risk-off conditions. Unlike Q4 2025, where volatility remained subdued and supportive of risk assets, Q1 saw more persistent and structurally higher volatility levels. This contributed to wider dispersion across asset classes and reduced the effectiveness of traditional carry strategies, particularly as equity and bond correlations shifted in response to the inflation shock.