Oxfordshire County Council Pension Fund

Quarterly Investment Report

Q4 2025

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Key Indicators at a Glance

Index (Local Currency)		Q4	YTD
Equities		**Total Return**	
UK Large-Cap Equities	FTSE 100	6.86%	25.78%
UK All-Cap Equities	FTSE All-Share	6.38%	24.02%
US Equities	S&P 500	2.65%	17.88%
European Equities	EURO STOXX 50 Price EUR	5.05%	21.20%
Japanese Equities	Nikkei 225	12.18%	28.65%
EM Equities	MSCI Emerging Markets	4.73%	33.57%
Global Equities	MSCI World	3.12%	21.09%
Government Bonds			
UK Gilts	FTSE Actuaries UK Gilts TR All Stocks	3.10%	5.03%
UK Gilts Over 15 Years	FTSE Actuaries Uk Gilts Over 15 Yr	5.75%	3.69%
UK Index-Linked Gilts	FTSE Actuaries UK Index-Linked Gilts TR All Stocks	3.29%	1.34%
UK Index-Linked Gilts Over 15 Ye	FTSE Actuaries UK Index-Linked Gilts TR Over 15 Yr	6.90%	0.06%
Euro Gov Bonds	Bloomberg EU Govt All Bonds TR	0.27%	0.56%
US Gov Bonds	Bloomberg US Treasuries TR Unhedged	0.90%	6.32%
EM Gov Bonds (Local)	J.P. Morgan Government Bond Index Emerging Markets Core Index	3.43%	19.00%
EM Gov Bonds (Hard/USD)	J.P. Morgan Emerging Markets Global Diversified Index	3.29%	14.30%
Bond Indices			
IBOXX Sterling Corporates	IBOXX Sterling Corporates Overall Total Return Index	2.71%	7.30%
European Corporate Investment	Bloomberg Pan-European Aggregate Corporate TR Unhedged	0.58%	2.78%
European Corporate High Yield	Bloomberg Pan-European HY TR Unhedged	0.66%	4.86%
US Corporate Investment Grade	Bloomberg US Corporate Investment Grade TR Unhedged	0.84%	7.77%
US Corporate High Yield	Bloomberg US Corporate HY TR Unhedged	1.31%	8.62%
Currencies			
GBP/EUR	GBPEUR Exchange Rate	0.11%	-5.07%
GBP/USD	GBPUSD Exchange Rate	0.22%	7.66%
EUR/USD	EURUSD Exchange Rate	0.10%	13.44%
USD/JPY	USDJPY Exchange Rate	5.96%	-0.31%
Dollar Index	Dollar Index Spot	0.56%	-9.37%
USD/CNY	USDCNY Exchange Rate	-1.86%	-4.25%
Alternatives			
Infrastructure	S&P Global Infrastructure Index	2.32%	22.51%
Private Equity	S&P Listed Private Equity Index	-1.49%	2.89%
Hedge Funds	Hedge Fund Research HFRI Fund-Weighted Composite Index	3.47%	10.92%
Global Real Estate	FTSE EPRA Nareit Global Index TR GBP	-0.45%	3.39%
Volatility		**Change in Volatility**	
VIX	Chicago Board Options Exchange SPX Volatility Index	-8.17%	-13.83%
Commodities			
Brent Crude Oil	Generic 1st Crude Oil, Brent, USD/bbl	-9.21%	-18.48%
Natural Gas (US)	Generic 1st Natural Gas, USD/MMBtu	11.60%	1.46%
Gold	Generic 1st Gold, USD/toz	13.03%	64.37%
Copper	Generic 1st Copper, USD/lb	17.00%	41.12%
Gold	Spot gold price quoted in USD per troy ounce	11.93%	64.58%
S&P GSCI	Broad, production-weighted S&P GSCI commodity benchmark	-0.27%	-0.20%
Sugar Futures	Front-month ICE Sugar #11 raw-sugar futures contract	-6.77%	-22.07%
Arabica Coffee	Front-month ICE Coffee “C” Arabica futures contract	-6.96%	9.07%
Sector Indices			
S&P500 Consumer Discretionary	S&P 500 Consumer Discretionary sector	0.55%	5.31%
S&P500 Consumer Staples	S&P 500 Consumer Staples sector	-0.71%	1.32%
NASDAQ-100 Technology	Equal-weighted NASDAQ-100 Technology Sector	0.25%	22.46%
S&P 500 Health Care	S&P 500 Health Care sector	11.20%	12.53%
S&P 500 Financials	S&P 500 Financials sector	1.64%	13.32%
S&P 500 Energy	S&P 500 Energy sector	0.66%	4.96%
S&P 500 Industrials	S&P 500 Industrials sector	0.54%	17.70%
S&P 500 Utilities	S&P 500 Utilities sector	-2.11%	12.69%
S&P 500 Communication Service	S&P 500 Communication Services sector	7.05%	32.41%
S&P 500 Real Estate	S&P 500 Real Estate sector	-3.69%	-0.35%

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

Performance

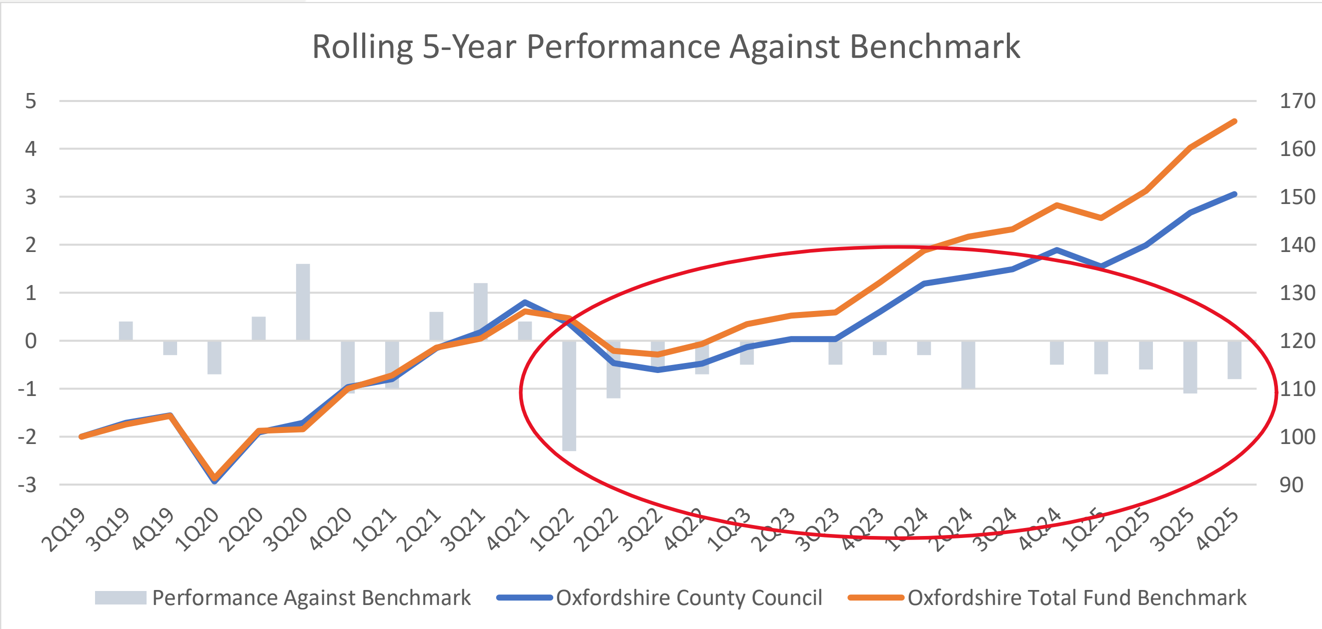
This report contains a forward looking commentary about the investment environment and a review of the historic performance of the Fund's investments. The Strategic Asset Allocation (SAA) review, also being bought to this committee meeting will cover the outlook for individual asset Classes in more depth.

2025 has been a strong year for market returns albeit with elements of volatility and politically led uncertainty. Global Equity markets returned over 20% in local currency terms and still double digits returns in Sterling terms despite the strength of Sterling against the US Dollar. UK Gilts returned close to 5% with Investment Grade Bonds returning above that. Infrastructure and Private debt produced returns around 10% with UK Property and Private Equity returns nearer 5%. Private Equity is probably the most disappointing asset class return given the strong performance of Global equities.

The Fund rose by 2.6% in the fourth quarter of 2025 breaching the £4bn mark for the first time at a valuation of £4.031bn. The Fund continued to underperform its benchmark, by -0.8% this quarter, driven by the poor performance of a number of the underlying mandates managed by Brunel. 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, the UK Equity portfolio also underperformed its benchmark this quarter. Against this, the Fund's overweight position against its Strategic benchmark in Equities added to performance although the current high level of cash holdings was a slight drag. Other areas of the Fund performed predominately at or near their benchmarks.

Both actively managed Global Equity portfolios have underperformed their benchmarks continuously over the last three years and by significant amounts. Originally, in 2022, the underperformance stemmed from the Russian invasion of Ukraine which pushed oil and energy prices up as all other stocks fell. Both portfolios were underweight energy stock and had a low carbon profile. By 2023, the underperformance was linked to the strong performance of the US mega sized tech stocks, the 'Mag 7', and the increasing concentration within the global equity benchmark index of these stocks. The 'Mag 7' stocks have had a more mixed performance this last quarter with 'Value' as a style marginally outperforming 'Growth' over the period. I was hoping for a stronger performance this quarter and am disappointed to see the two Global Equity portfolios underperform again. In general, for all its positives around building environmental issues into the whole approach to investment and in broadening out the opportunity set that the Fund can invest into to include Infrastructure, Private Equity etc. Brunel has underlined how hard it is to select fund managers in the main, liquid equity markets and their performance here has been a major disappointment and costly to the 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 -3.4%); over 3 years (by -2.2%); over 5 years (by -2.1%) and over 10 years (by -0.6%). Frustratingly this shows no sign of improving.

Over the last 3 years the performance of the underlying managers selected by Brunel has been disappointing with approximately -2.0% the total underperformance of -2.2% relative to the Strategic Benchmark coming from the poor performance of the main Global Equity portfolios, Sustainable and Global High Alpha. 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!

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 and remain a strong absolute rate of return over the long-term.

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	**2.6 (-0.8)**	**8.3 (-3.4)**	**9.4 (-2.2)**	**6.5 (-2.1)**	**8.0 (-0.6)**
UK Equities	5.3 (-1.2)	22.7 (-1.9)	14.0 (+0.1)	10.9 (-1.3)	n/a
Global High Alpha Equities	1.1 (-2.2)	7.4 (-5.8)	13.7 (-3.6)	9.1 (-3.9)	n/a
Global Sustainable Equities	1.4 (-2.1)	5.6 (-8.8)	8.7 (-8.0)	5.5 (-6.5)	n/a
Global Paris Aligned Passive	4.2 (0.0)	11.0 (-0.1)	17.2 (-0.1)	n/a	n/a
Sterling Corporate Bonds	2.7 (+0.1)	8.3 (+1.4)	7.6 (+1.9)	n/a	n/a
Multi Aset Credit	1.5 (-0.5)	8.3 (-0.2)	9.9 (+1.0)	n/a	n/a
Passive Index-Linked Gilts	4.2 (+0.0)	0.9 (+0.1)	-3.2 (+0.2)	n/a	n/a
PE Investment Trusts	-3.4 (-0.0)	5.0 (-9.4)	11.8(-5.0)	14.8(0.9)	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. 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.

Given the performance across both Liquid and Illiquid asset classes, there is no proof that Brunel has added value in performance terms over their 8 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	11.7%	**10%**	+1.7%	-£69m
Global Equities ex UK	41.9%	**41%**	+0.9%	-£36m
Fixed Interest	8.1%	**9%**	-0.9%	+£36m
Index-Linked Gilts	5.3%	**7%**	-1.7%	+£69m
Property	6.0%	**8%**	-2.0%	+£81m
Private Equity	11.3%	**10%**	1.3%	-£52m
Secure Income	3.8%	**5%**	-1.2%	+£48m
Private Debt	2.5%	**5%**	-2.5%	+£101m
Infrastructure	3.7%	**5%**	-1.3%	+£52m
Cash	5.8%	**0%**	+5.8%	-£234m

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

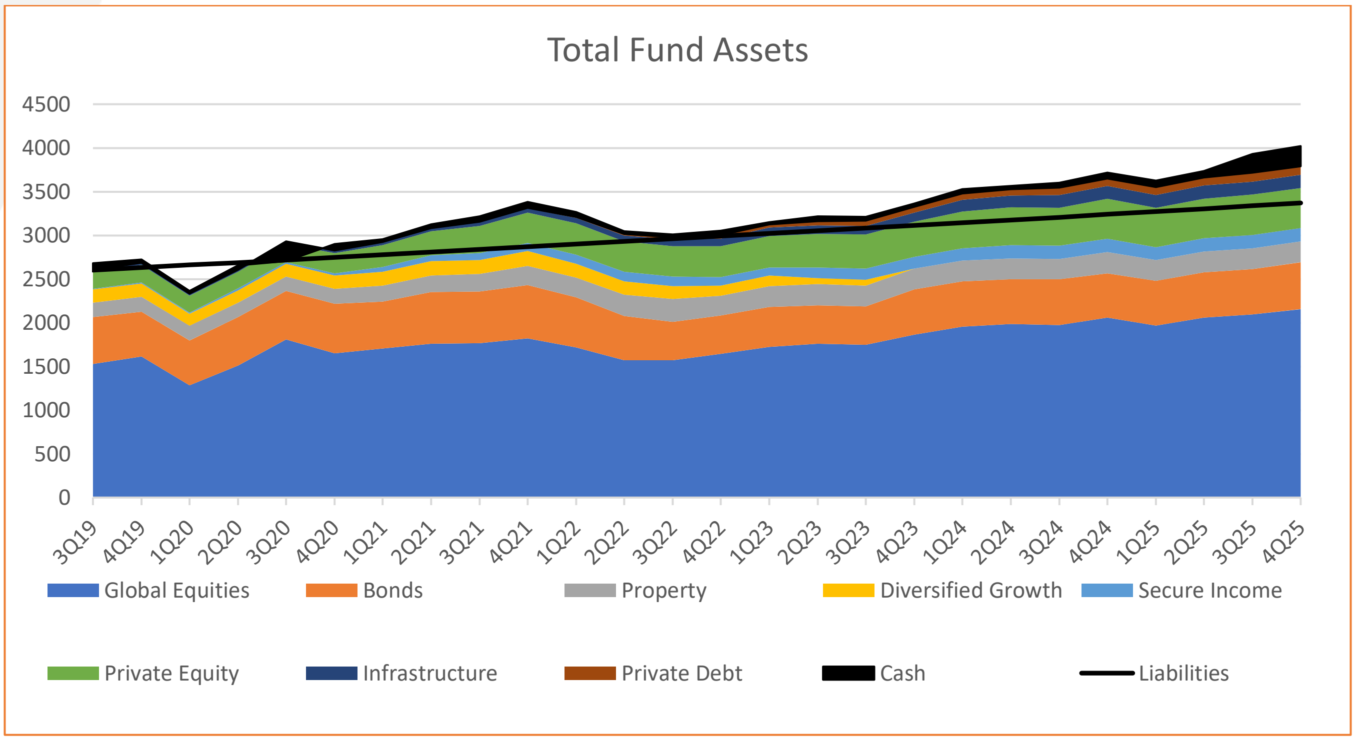
The current deviation from the Fund's SAA is within acceptable bounds. The high cash weighting should be seen as temporary and is associated with the transition from the Brunel pool to LGPS Central. All of this cash is awaiting drawdown into the illiquid asset classes.

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.

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 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 on March 2022 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 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



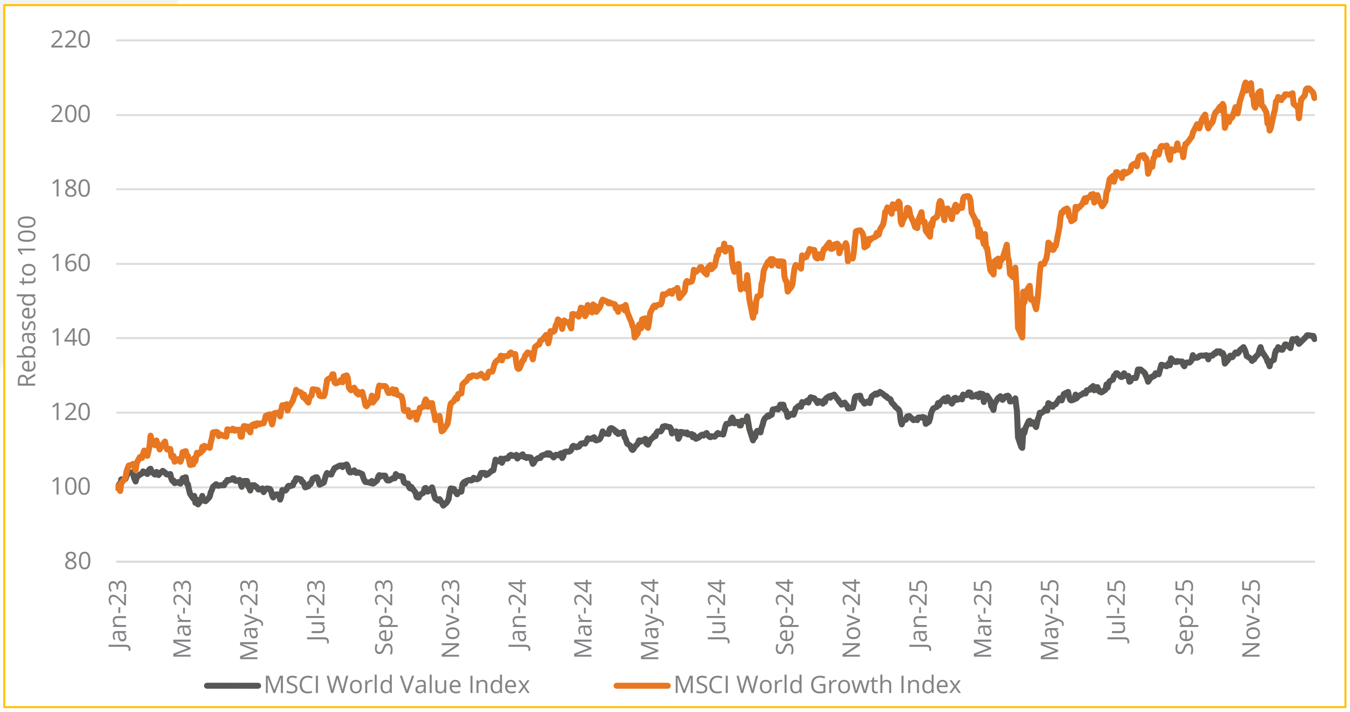
Comment

I am afraid global markets continue to be dominated by what is happening in the US, partly because the US remains the world's largest economy, partly because it is home to the largest tech companies involved in the roll out of Artificial Intelligence (AI) and partly because the political outlook here is the most unpredictable.

It is noticeable that there has been a change in market sentiment in the US which is being echoed in much of the developed world, investors' view on the potential from IA is becoming more thoughtful and moving away from rewarding anything that could be remotely involved in the area. Since October 2025, market leadership in the US equity market has shifted away from the tech focused 'Magnificent 7' into

‘Value’ stock meaning those stocks with a cheap valuation against earning and assets rather than high rates of future revenue growth. The performance of the Magnificent 7 has also become more differentiated with those that can finance their massive investment requirements for the AI rollout from their own resources being rewarded and question marks raised on those resorting to borrowing. AI business models are also coming under greater scrutiny. Maybe this is showing a more rational approach to investing and a maturing from the recent hype.

Chart 3: Global Equity Markets, Growth v Value

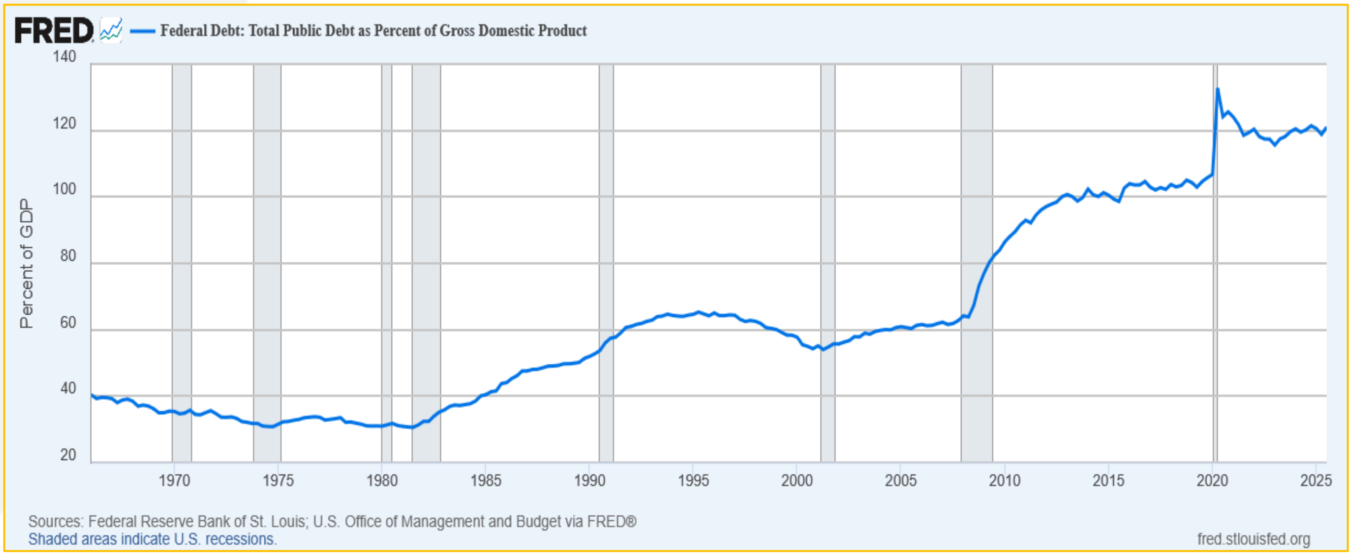


The chart above shows the massive leadership ‘Growth’ stocks have enjoyed over the last 3 years (and indeed longer), yet the far right of the chart, representing the last quarter of 2025, suggests the beginning of a turn in sentiment with ‘Growth’ stocks volatile and going sideways and ‘Value’ stocks continuing to perform. The increased interest in ‘Value’ stocks is driven, in part, by the belief that the US may see higher economic growth next year, driven by an expectation President Trump will announce a USD2,000 per head giveaway to all legal US residents which will be described as a tariff reward payment. This will no doubt be finalised and paid in the run up to the mid-term elections in the US in November this year. This volatility and switch in market leadership has continued into the new year and feels like a change in market mentality.

My last report set out 5 things which need to go right for the US economy and politics and thereby global markets looking forward but in reality it all comes down to growth and inflation in the US.

The US economy has to keep growing. This is the most important issue and imperative for equity markets to have any chance of producing a positive return over the next few years. Because of the high and rising level of US Government indebtedness, any slowing or negative growth in the US economy will rapidly lead investors to question the sustainability of US debt issuance and create a Liz Truss moment.

Chart 4: US Public Debt as a percentage of GDP



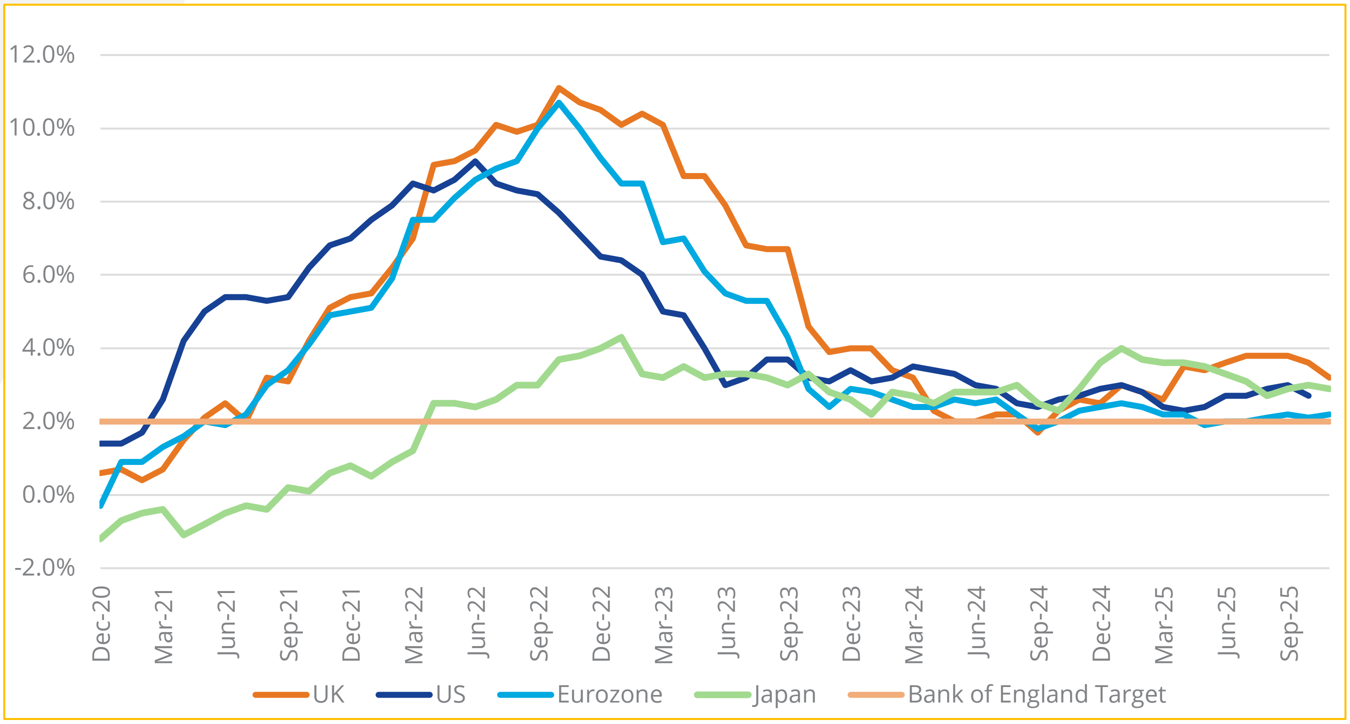
President Trump has accelerated government borrowing with his One Big Beautiful Bill meaning debt to GDP will continue to rise as a percentage of GDP into the near future. There seems no appetite for a reduction in spending in the US so there needs to be strong economic growth to stop this debt mountain becoming unsustainable. Tariff revenues can pick up some of the slack to balance the government budget but this requires the tariffs to be ongoing and not a negotiating tool.

US economic growth would be supported by lower interest rates and a weak jobs market indicates that lower rates may be necessary despite decent economic growth in the US at present but President Trump's pressure on the Chair of the Federal Reserve (US Fed), Jerome Powell to cut rates is likely to be counterproductive in the short-term. However, Interest rates can only be lowered if inflation is under control. The two main policy objectives of President Trump are inflationary; tariffs and the deportation of undocumented labour which reduces the available labour pool as is a weaker US Dollar yet, so far, US inflation has remained under control if above the US Fed's target of 2%.

President Trump's recommendation for the next chair of the US Fed, Kevin Walsh, has dampened market concerns about the President appointing a patsy with Walsh at least having some qualifications to do the job. However, his past comments suggest a desire to see interest rates lower, based on a belief that AI is transformative and will boost productivity enabling the US economy to grow faster without igniting inflation. He is also known to believe that the US Fed should narrow its remit and reduce its balance sheet which was expanded rapidly during Quantitative Easing (QE). How he manages the stimulative forces of lower interest rates with the contractionary forces of withdrawing cash from the system without igniting inflation or destabilising the US banking system will be complex. I suspect he will lower interest rates first and tread carefully on reducing the US Fed's balance sheet as the economy cannot afford to reduce the banking system's ability to lend into the economy if it wishes to prioritise economic growth.

I believe we continue to be in a period of high uncertainty with an unbalanced US economy relying too heavily on investment into vast data centres for AI and too heavily on wealthy US consumers to continue to spend at a time when US equity valuations are high and the cost of credit low against US Treasuries.

Chart 5: CPI – Annual rate of Inflation – 5 years to Sept 2025.



Points for Consideration

It would appear, from discussions with LGPS Central (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 following 18 months. Below are my (very) initial thoughts about what this may entail and what the Pensions Committee should be thinking about.

Overall, I would not like to see the Fund increase it's exposure to US assets at the current time and I continue to favour inflation linked asset classes e.g. Infrastructure, Social Housing and Index-Linked Gilts. Both these themes are reflected in the SAA review.

1) **UK Active Equity mandate** I continue to believe this mandate should move to a small medium capitalisation one which would increase the portfolio's exposure to the UK

economy. Discussions should be held at some 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 but transitions to the new managers will need to be monitored carefully when they happen.

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 Alternative 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 Net Asset Values (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 were very limited new allocations by Brunel in any of the Alternative asset classes last quarter suggesting that they may be unwilling to make new commitments at the current time. The Cycle 1 Private Debt fund managed by Brunel had a noticeably poor quarter which may be down to currency but needs explaining and the Fund's Private Equity investments, both within Brunel and via UK Investment Trust holdings, continue to underperform quoted equity markets.

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

6) **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 Total Fund increasing in value upwards of £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 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

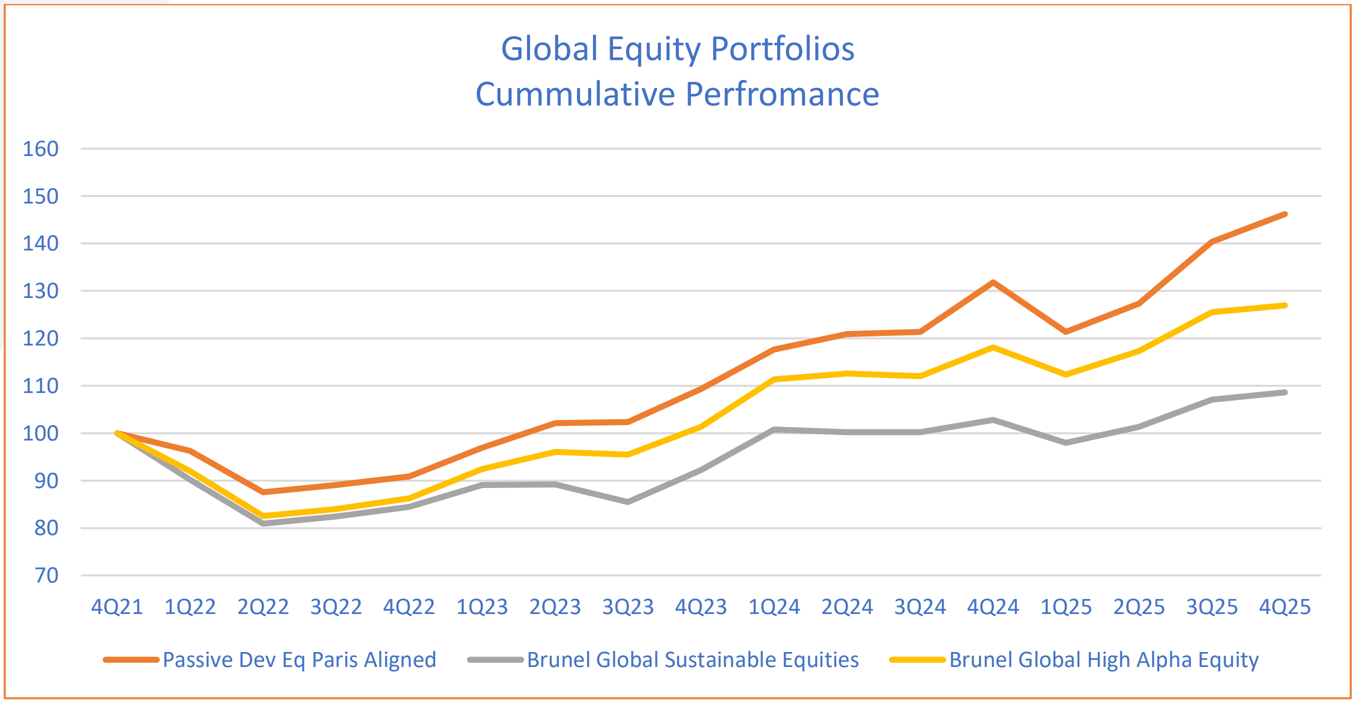
Portfolio	Benchmark	Inception	Performance	3-year rel p.a.	Comment
UK Equity	FT All-Share EX IT	09/18		+0.1%	Performance below benchmark over 5 years and since inception. Mandate should focus on small/medium UK stocks.
Global High Alpha	MSCI World Equity	11/19		-3.6%	Underperformance over five years of -3.9% p.a. with performance consistently poor.
Global Sustainable	MSCI All World Equity	10/20		-8.0%	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		+1.0%	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		-0.9%	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 underperforming public equities over the last 5 years.
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



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 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.

However, 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.

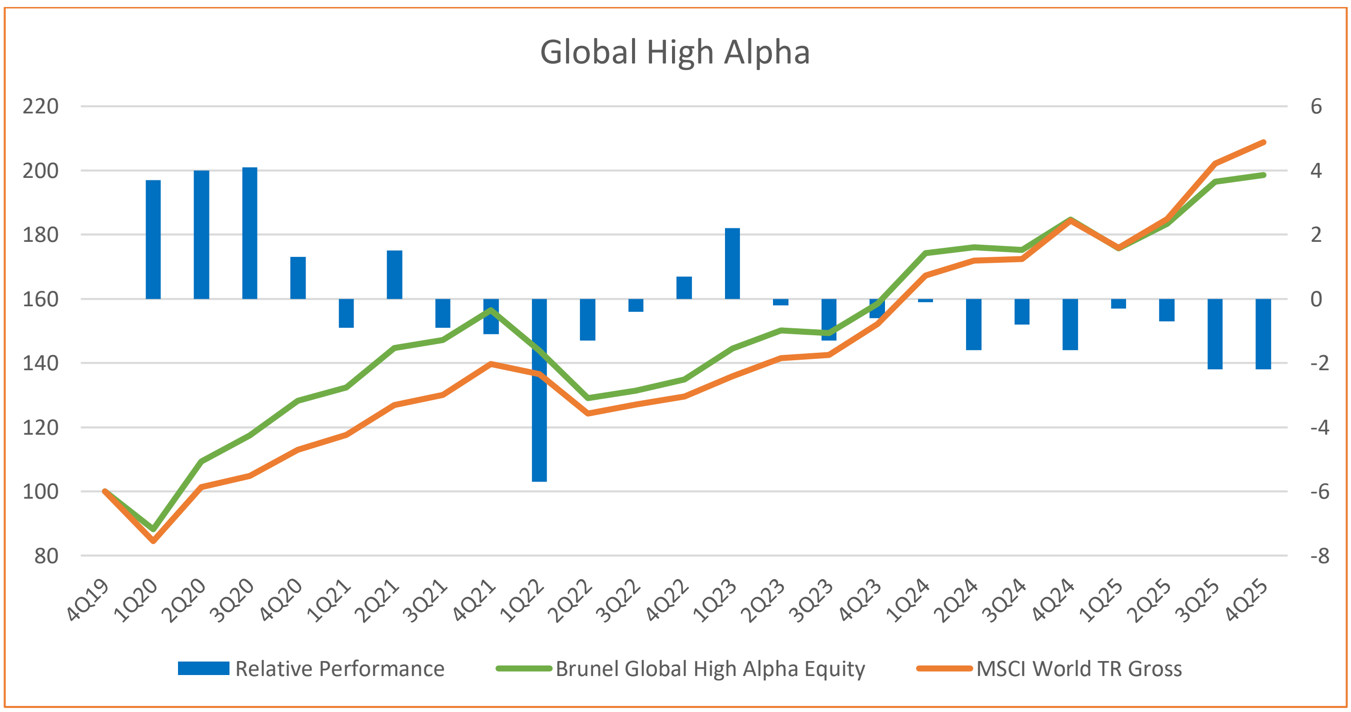
This underlines the importance of recognising which benchmark a portfolio is being benchmarked against as this can materially affect performance over the long-term. Because of this, care should be taken as the various portfolios are transferred to Central to ensure the benchmark selected reflects the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

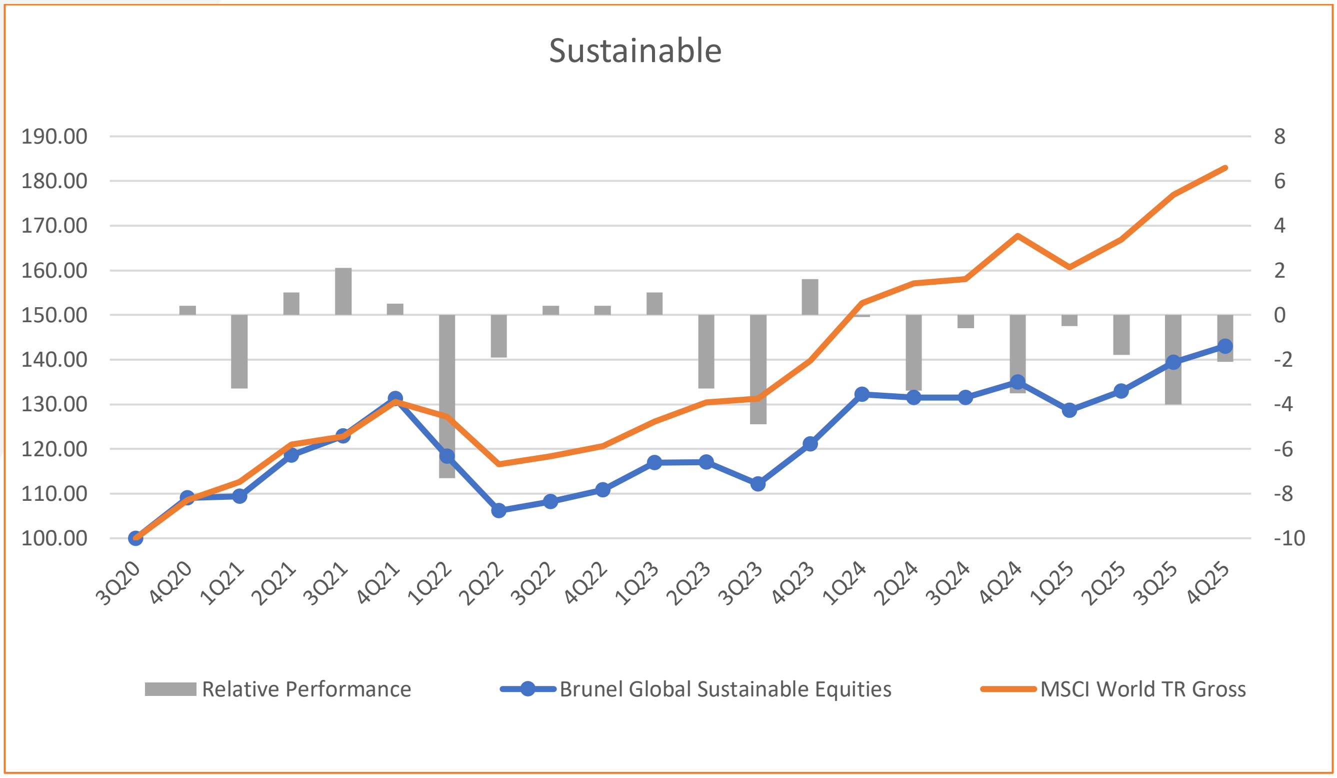
Chart 7: Global high Alpha portfolio



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 this quarter was different with a switch to 'Value' as an investment style and a more differentiated performance across the 'Mag 7' but again the portfolio underperformed.

Chart 8: Sustainable Equity Portfolio



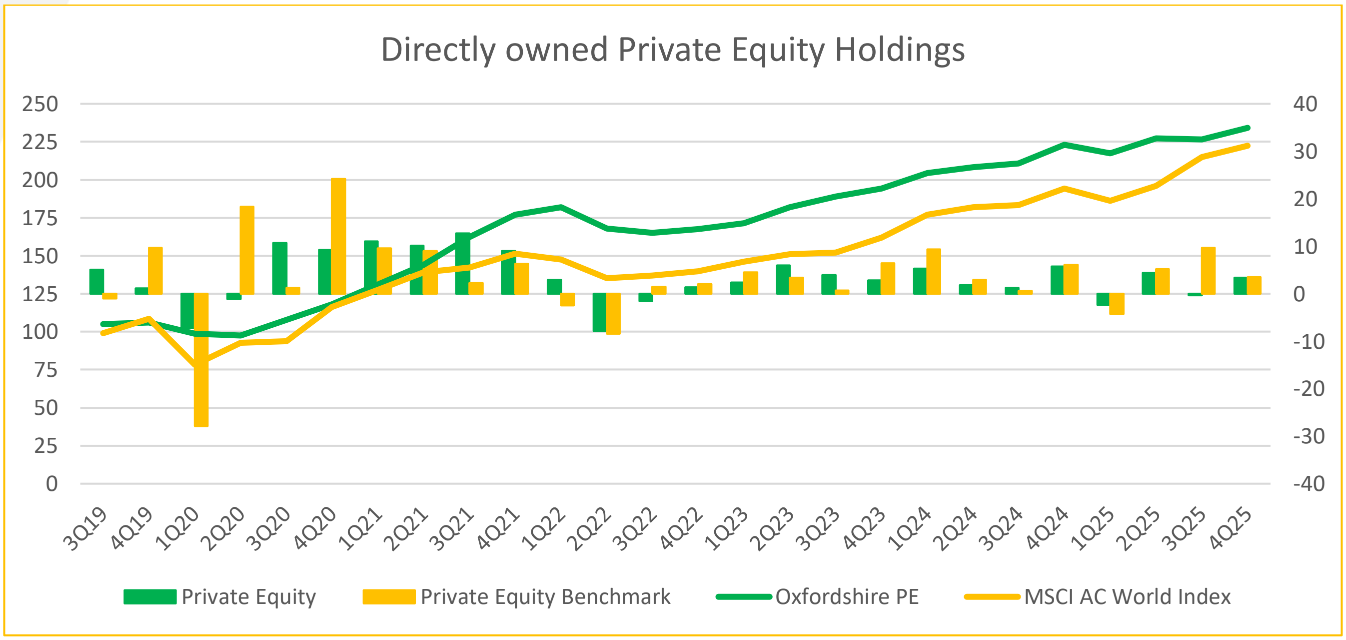
The Sustainable Equity portfolio was invested into a year after the Global High Alpha portfolio so missed out on the market conditions where a focus on innovative, smaller, fast-growing companies, was rewarded by investors. Instead, this portfolio has been held purely through a period when interest rates 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 on the following page 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 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 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.

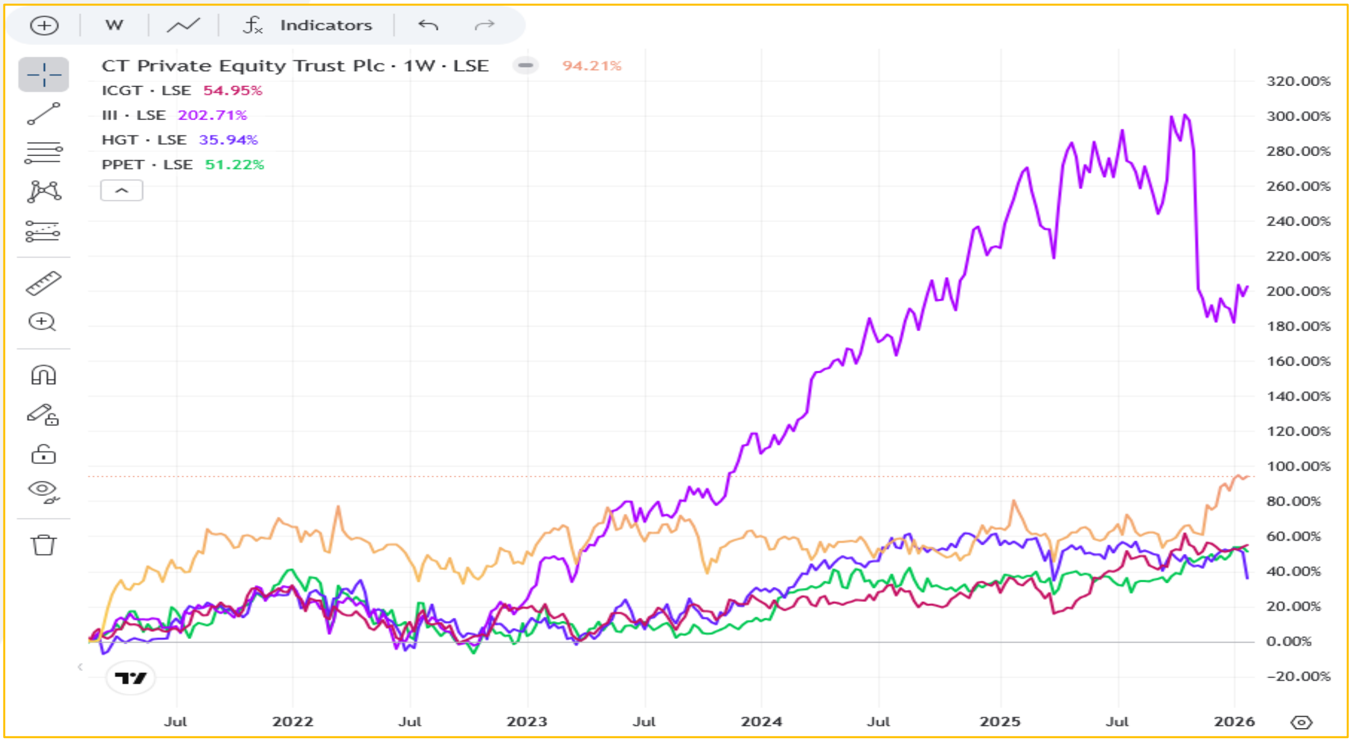
Chart 7: Directly owned Private Equity



Over the last 3 years the Fund's directly owned Private Equity portfolio has returned 11.8% per annum against the MSCI AC World Index returning 16.8% per annum. Whilst this is below the return of the benchmark it is similar to the return from the two Brunel Private Equity portfolios which have returned below this 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.

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 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 extended gains in Q4 2025, with many indices ending the year near record or multi-year highs. Performance leadership broadened meaningfully, with non-US equities outperforming the US, supported by a weaker US Dollar, more attractive valuations, and easing inflation. The S&P 500 rose 2.7% over the quarter, though returns were increasingly constrained by valuation sensitivity and greater sector dispersion. Market breadth improved beyond mega-cap technology, with industrials, financials, healthcare, and utilities contributing more consistently. European and UK equities delivered strong relative performance, benefiting from easing inflation pressures, improved real income dynamics, and heavier exposure to cyclical and value-oriented sectors. Japan was a standout, supported by strong earnings momentum and continued corporate governance reforms. Emerging markets also performed well, aided by US Dollar weakness and supportive global financial conditions. Inflation trends continued to improve across major economies, reinforcing expectations of gradual policy easing into 2026. Bond yields remained elevated but stable, supporting carry-driven returns in credit markets. Overall, Q4 marked a transition toward broader regional and sector participation, setting a more balanced foundation for markets entering 2026.

The fourth quarter of 2025 was characterised by a moderation in growth momentum alongside improving inflation dynamics and the aforementioned broadening of market leadership. While global activity softened in parts, risk assets remained resilient, supported by expectations of policy easing in 2026, moderation of inflationary pressures and improved earnings breadth outside the narrow US mega-cap cohort. GDP growth moderated across most developed markets: the US economy expanded by 1.1% in Q3, the UK posted marginal growth of 0.1%, the Eurozone grew by 0.3%, while Japan contracted by -0.6%, highlighting uneven global momentum entering year-end. Inflation continued to trend lower: US CPI eased to 2.7% in December, the UK disinflation path continued with CPI falling from 3.6% in October to 3.2% in November, while Eurozone CPI remained contained around 2.1–2.2%. Japan's CPI also moderated from 3.0% to 2.9% over the period. Labour markets softened modestly but remained resilient. US unemployment edged up to 4.4% in September, while job openings declined materially from July levels, signalling easing labour tightness. UK unemployment rose to 5.0%, reflecting slowing domestic demand, while Eurozone unemployment remained elevated but stable at 6.4%. Japan continued to exhibit tight labour conditions, with unemployment steady at 2.6%. Wage growth cooled across regions, supporting the ongoing disinflation narrative.

Business sentiment decelerated but remained expansionary in most regions. US composite PMI eased from mid-50s levels but stayed firmly above 50, supported by resilient services activity. UK PMI slipped to around 51.4 in December, reflecting weaker manufacturing (46.2) partially offset by services resilience. Eurozone PMI came in at 51.5 in December, while Japan was similarly 51.5, suggesting stabilisation rather than contraction heading into 2026.

Equity markets delivered positive but more differentiated returns, with a clear rotation toward value, international and cyclical exposures. MSCI World Value (+2.9%) outperformed Growth (+2.7%), while Japan's TOPIX was the standout major market (+8.8%), benefiting from domestic reforms and Yen stability. Emerging markets posted mixed but generally positive returns, led by MSCI EM LATAM (+8.4%) and EM Asia (+4.6%), while China equities were broadly flat. US equities delivered more modest gains, with the NASDAQ up 2.5% amid ongoing consolidation in large-cap technology leadership. European equities advanced, with MSCI EM EMEA up 4.0%, supported by stabilising macro data.

Regional Commentary

US equities continued to advance in Q4, though they lagged several international peers. The S&P 500 returned +2.7% in Q4 and +17.9% YTD, reflecting still-solid earnings growth but more constrained returns as valuations remained elevated and leadership broadened beyond a narrow cohort of mega-cap technology stocks. Sector performance was mixed: healthcare and communication services delivered strong gains, while consumer-facing sectors, particularly discretionary and staples, underperformed over the quarter. The NASDAQ-100 rose sharply, highlighting continued investor appetite for high-quality growth, though market breadth improved modestly into year-end. From a macro perspective, easing inflation and a third rate cut from the US Fed in December supported the soft-landing narrative. However, relative US equity performance was tempered by a weaker US Dollar and the fact that US assets were less leveraged to falling rates than some overseas markets, where valuations were more compressed. 10-year bond yields remained unchanged over the quarter.

European equities delivered strong relative performance. The EURO STOXX 50 rose +5.1% in Q4 and +21.2% YTD, benefiting from easing inflation, improving financial conditions, and renewed investor interest in cyclical and value-oriented sectors. Financials performed well as rate pressures eased, while healthcare and utilities attracted defensive flows amid still-mixed growth signals. The ECB maintained policy rates, and European government bonds posted modest gains. Euro government bonds returned +0.27% in Q4 and +0.56% YTD, reflecting stable inflation expectations and contained term premia.

UK equities were among the strongest developed markets in 2025. The FTSE All-Share rose +6.38% in Q4 and +24.0% YTD, while the FTSE 100 gained +6.86% in Q4 and +25.8% for the year. Performance was driven by internationally exposed sectors such as financials, energy, mining, and defence, while domestically focused companies continued to face margin and cost pressures amid a softer growth backdrop. UK government bonds also performed well as the Bank of England cut rates in December and the Chancellor's November budget supported the perception of a cautious fiscal stance. All-Stocks Gilts returned +3.10% in Q4 and +5.0% YTD, supported by easing inflation, improved fiscal clarity, and expectations of gradual monetary easing into 2026. Index-linked gilts lagged in relative terms as inflation expectations declined.

Japan remained a standout performer. The Nikkei 225 surged +12.2% in Q4 and +28.7% YTD, supported by strong earnings momentum, continued corporate governance reforms, and sustained investor interest in technology-linked manufacturing and defence-related sectors. This outperformance occurred despite tightening domestic financial conditions, reinforcing Japan's differentiated position within global equity markets. Japanese bonds fell as the government announced a Yen 21.3 trillion fiscal package (around 3.5% of GDP) in order to boost growth and increase defence spending.

Emerging market equities delivered strong returns, outperforming developed markets over the year. The MSCI Emerging Markets Index rose +4.7% in Q4 and +33.6% YTD, supported by a weaker US Dollar, easing global financial conditions and selective improvements in growth expectations. Performance was regionally differentiated, with Latin America and parts of Asia leading gains. Emerging market debt also performed well. Local-currency EM government bonds returned +3.4% in Q4 and +19.0% YTD, while hard-currency EM bonds gained +3.3% in Q4 and +14.3% YTD, reflecting attractive carry and improved investor risk appetite.

In commodities, performance in Q4 was highly divergent, reflecting differing supply-demand dynamics, geopolitical factors and the late-cycle macro environment. Energy markets weakened materially, with Brent crude oil down −9.2% in Q4 and −18.5% YTD, reflecting ample supply, softening demand expectations and fading geopolitical risk premia. The broader S&P GSCI commodity index fell −0.3% in Q4 and −0.2% YTD, underscoring that energy weakness was offset by gains elsewhere in the complex. Industrial metals were notably strong, consistent with improved global manufacturing sentiment and continued investment in electrification and energy transition themes. Copper rose +17.0% in Q4 and +41.1% YTD, reflecting supply constraints and robust demand linked to infrastructure, EVs, and AI-related capex. Precious metals delivered standout performance, supported by falling real yields, central bank demand, and a weaker US Dollar. Gold gained +13.0% in Q4 and +64.4% YTD (futures basis), while spot gold rose +11.9% in Q4 and +64.6% YTD, reinforcing its role as both an inflation hedge and portfolio diversifier during late-cycle conditions. Agricultural commodities were mixed to weaker.

Global real estate shares softened modestly during Q4, with the FTSE EPRA NAREIT Global Index (GBP) declining 0.5% over the quarter, while year-to-date returns remained positive at 3.39%, reflecting ongoing sensitivity to elevated bond yields despite improving inflation and stable rate expectations.

Equity volatility remained supportive of risk assets through Q4. Lower and more stable volatility reinforced carry strategies, supported equity valuations, and contributed to tight credit spreads. Episodic volatility around macro and policy headlines proved short-lived, underscoring strong underlying demand for risk assets in a late-cycle environment.