Quarterly Funding & Investment Report

End March 2022

Prepared for: North Yorkshire Pension Fund
Prepared by: Aon
Date: 27 May 2022

Signatory of: UK STEWARDSHIP CODE | 2021

AON

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1. At a glance…

A high level summary of your investments and funding

At a glance…

Funding*

The funding level has fallen over the quarter (down by 5.2%), primarily driven by a reduction in asset values. The funding level remains above the funding level at the 2019 valuation.

Asset Allocation and Implementation

A number of short/medium term changes to the asset allocation have been agreed by the Committee in light of the agreed long-term investment strategy. The Fund invested in the Border to Coast Listed Alternatives during Q1 2022.

Performance

The Fund underperformed the composite benchmark over the quarter and 1 year period. Performance is ahead of the composite benchmark over the 3 year period to 31 March 2022.

Market Background and Investment Outlook

Geopolitical risk took centre stage over Q1 as Vladimir Putin sent Russian troops into eastern Ukraine on February 24th and has maintained a military presence since then. The G7 enacted a slew of financial sanctions to deter Russia from continuing its operations.

While the US has banned Russian oil and gas imports, the picture in Europe is more complicated given its Russian oil and gas dependence. The UK indicated it would phase out Russian oil imports by the end of the year, and the European Union stated that it would reduce dependency on Russian energy by two-thirds this year.

Central banks have pushed markets lower this year with lots of talk of tighter money. This is a rare reversal in tone after all these years of market-boosting monetary easing. If above-target inflation persists, interest rates may have to rise to levels which choke off economic activity, taking a risk of triggering outright recession.

Key actions

1. Following recent local elections, Officers and advisors to assist new Committee members getting up to speed with recent Pension Fund activity.

*This funding update makes no allowance for updated demographic assumptions, data to be used for the 2022 valuation or short term inflationary impact. Therefore this report provides only a broad illustration of the change in funding position at 31 March 2022.

Key Statistics up to end of March 2022

Assets

£4,627m ▲

Assets increased by £1,052m since last valuation

£3,575m at 2019 valuation

Funding level

124% ▲

Funding increased by 10% since 2019 valuation

114% at 2019 valuation

Return on Assets Since 2019 Valuation

+9.3% pa ▲

Current Assets Expected Return (10 year p.a.)

+5.9% ▲

0.3% increase since 2019 Valuation

5.6 % at 2019 valuation

Long-term Strategy Expected Return (10 year p.a.)

+6.1% ▲

0.5% increase since 2019 Valuation

5.6% at 2019 valuation

Discount rate

4.2% -

No change since 2019 valuation

4.2% at 2019 valuation

Current Assets Value at Risk (1 Year 1 in 20)

£940m

Long-term Strategy Assets Value at Risk (1 Year 1 in 20)

£885m

Estimated Total Employer cost

15.8% ▼

Estimated Total Employer cost decreased by 2.8% since 2019 valuation

18.6% at 2019 valuation

Note: This funding update makes no allowance for updated demographic assumptions, data to be used for the 2022 valuation or short term inflationary impact. Therefore this report provides only a broad illustration of the change in funding position at 31 March 2022.

2. Funding

A review of your funding position and contributions

Funding position – ongoing funding target

Funding level

123.7%

at end March 2022

Down from 128.9% at end December 2021 but remains up from 114.4% at 31 March 2019

Surplus

£886.5m

at end March 2022

Down from £1,105.5m at end December 2021 but remains up from £449.8m at 31 March 2019

Comments

Since the last update at 31 December 2021 the Fund's ongoing funding level has deteriorated and the surplus has decreased by £219M.

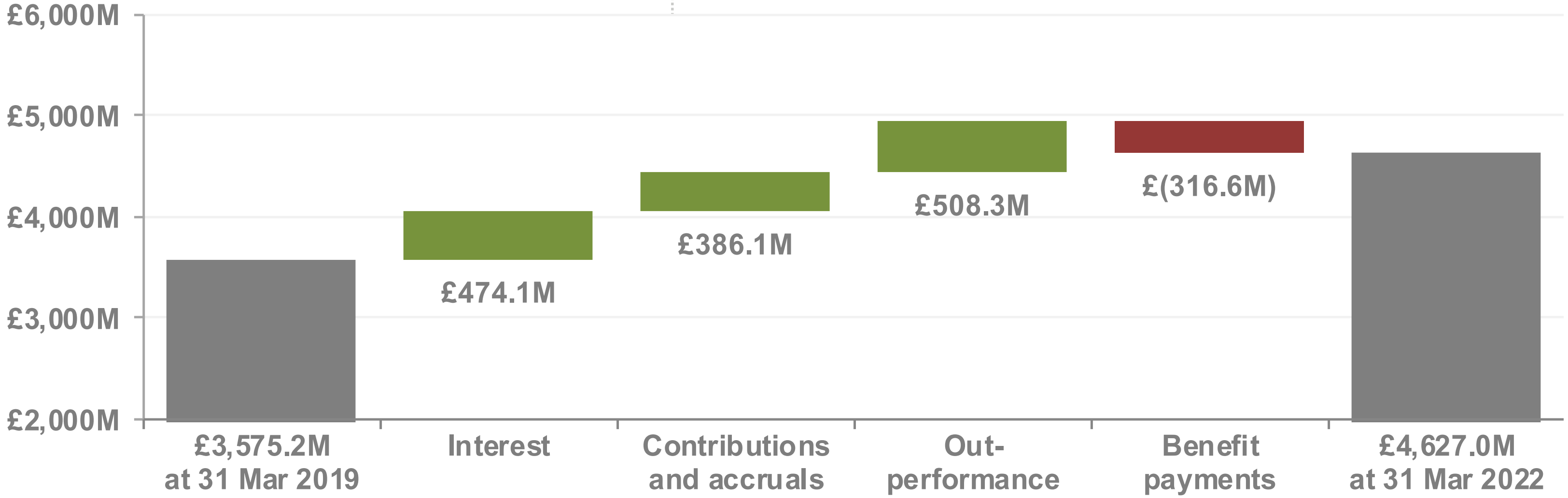
This has been primarily driven by a reduction in asset values.

Change to funding level since valuation at 31 March 2019

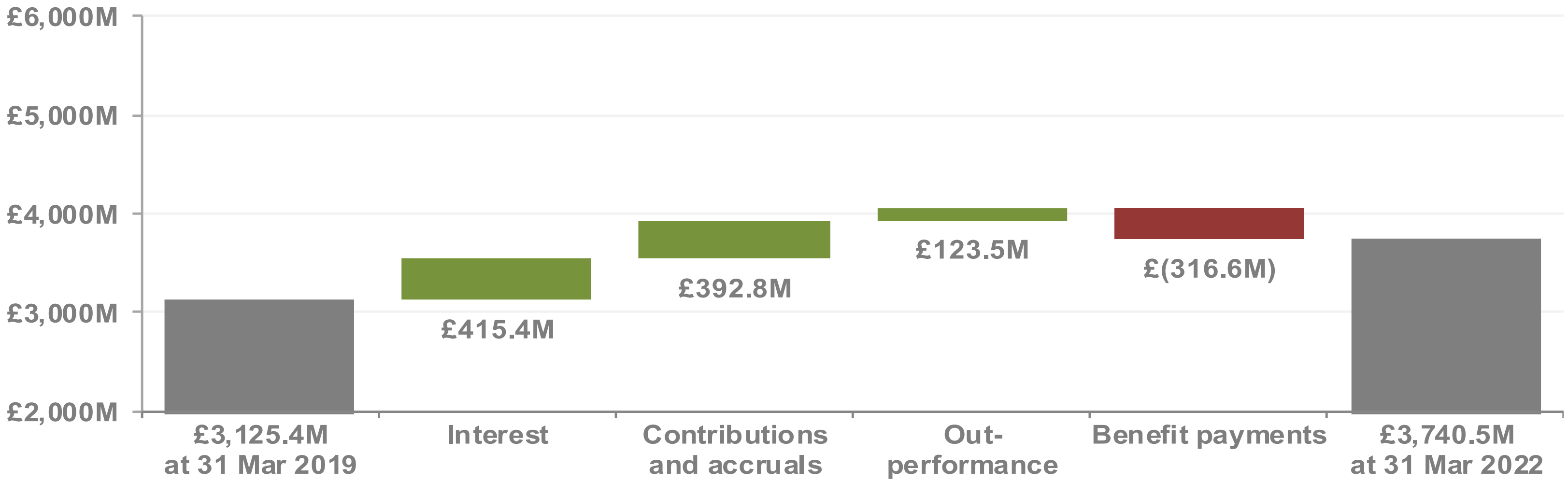
Note: This funding update makes no allowance for updated demographic assumptions, data to be used for the 2022 valuation or short term inflationary impact. Therefore this report provides only a broad illustration of the change in funding position at 31 March 2022.

Analysis – ongoing funding target

Reason for change since 31 March 2019 – Asset Attribution



Reason for change since 31 March 2019 – Liability Attribution



Comments

Since the valuation the surplus has increased by £436.7M. This has been primarily driven by an increase in asset values.

Note: This funding update makes no allowance for updated demographic assumptions, data to be used for the 2022 valuation or short term inflationary impact. Therefore this report provides only a broad illustration of the change in funding position at 31 March 2022.

Aggregate Employer contributions – ongoing funding target

Total employer contribution rate

15.8%

at end March 2022

Up from 15.0% at end December 2021 but down from 18.6% at 31 March 2019.

Employer cost of accrual

21.5%

at end March 2022

Down from 22.8% at end December 2021 but up from 20.2% at 31 March 2019

Comments

The cost of accrual has decreased over the quarter. However, the surplus has decreased over the quarter which has resulted in an increase in the total employer contribution rate.

Notes

Cost of accrual includes allowance for McCloud/cost management costs in line with the overall allowance in the 2019 valuation of 0.9% of pay.

The total employer contribution rate quoted above is based on the average total employer contribution rates across the Fund. Individual employer contributions can be very different to the average figure across the Fund shown above depending on their own characteristics, membership profile and funding target. The individual employer contributions will next be reviewed at the triennial valuation at 31 March 2022.

Note: This funding update makes no allowance for updated demographic assumptions, data to be used for the 2022 valuation or short term inflationary impact. Therefore this report provides only a broad illustration of the change in funding position at 31 March 2022.

3. Asset allocation

A review of your strategic asset allocation

Asset allocation – Q1 2022

Asset Group	Manager	Valuation (£m)	Current allocation	31 March 2022 Long-term strategy	Difference	Rebalancing Range	Possible action
Equities		**2,385.4**	**51.6%**	**50.0%**	**+1.6%**		
	BCPP UK equity	178.6	3.9%	4.0%	-0.1%	TBC	
	BCPP Global Equity	1,299.7	28.1%	28.0%	+0.1%	+/- 5%	
	Baillie Gifford LTGG	657.5	14.2%	18.0%	-3.8%	+/- 3%	
	Dodge & Cox	248.8	5.4%	0.0%	+5.4%		
	Fidelity	0.8	0.0%	0.0%	0.0%		
Absolute Return		**12.0**	**0.3%**	**0.0%**	**+0.3%**		
	Leadenhall Remote Risk	3.7	0.1%				
	Leadenhall Diversified	4.2	0.1%				
	Leadenhall Nat Cat	4.1	0.1%				
Property		**343.7**	**7.4%**	**7.5%**	**-0.1%**	**TBC**	
	Hermes	40.2	0.9%				
	L&G	88.8	1.9%				
	Threadneedle	214.7	4.6%				

Source: BNYM, Aon. Note: Numbers may not sum due to rounding.

Asset allocation – Q1 2022 (cont'd)

Asset Group	Manager	Valuation (£m)	Current allocation	Long-term strategy	Difference	Rebalancing Range	Possible action
		31 March 2022					
Infrastructure		**476.3**	**10.3%**	**10.0%**	**0.3%**		
	BCPP Infrastructure 1A	29.6	0.6%				
	BCPP Infrastructure 1B	110.3	2.4%				
	BCPP Listed Alts	336.4	7.3%				
Private Credit		**105.8**	**2.3%**	**5.0%**	**-2.7%**		
	BCPP Private Credit	43.0	0.9%				
	Arcmont	29.7	0.6%				
	Pemira	33.1	0.7%				
Non-Investment Grade Credit		**229.1**	**5.0%**	**5.0%**	**0.0%**	**TBC**	✓
	PIMCO	1.2	0.0%				
	BCPP Multi Asset Credit	227.9	4.9%				
Investment Grade Credit		**333.7**	**7.2%**	**7.5%**	**-0.3%**	**TBC**	✓
	BCPP Investment Grade Credit	333.7	7.2%				

Source: BNYM, Aon. Note: Numbers may not sum due to rounding.

Asset allocation – Q1 2022 (cont'd)

Asset Group	Manager	Valuation (£m)	Current allocation	Long-term strategy	Difference	Rebalancing Range	Possible action
		31 March 2022					
Gilts		**716.9**	**15.5%**	**15.0%**	**+0.5%**	**TBC**	✓
	BCPP Index Linked Bonds	716.9	15.5%				
Cash		**24.0**	**0.5%**	**0.0%**	**+0.5%**	**TBC**	✓
	Internal Cash	24.0	0.5%				
Total		**4,627.0**	**100.0%**	**100.0%**			

Source: BNYM, Aon. Note: Numbers may not sum due to rounding.

Investment strategy update

Decisions taken at the March Pension Fund Committee meeting:

- The Pension Fund Committee agreed to commit:
  - £70m to the BCPP Private Credit fund
  - £120m to the BCPP Infrastructure fund
  - £180m to the BCPP Climate Opportunities fund

Implementation actions over Q1 2022:

- The addition of Border to Coast's Listed Alternatives fund into the portfolio; this was funded with the following transactions
  - Full disinvestment from the Newton Diversified Growth fund
  - Disinvestment from Leadenhall Remote Risk
  - Disinvestment from Leadenhall Diversified
  - Disinvestment from Leadenhall Nat Cat
- Disinvestment from Dodge & Cox

Transitions and cashflows

The following rebalancing activities took place over the quarter:

- £323m was invested in the Border to Coast's Listed Alternatives fund.
- Border to Coast made twenty one Infrastructure capital calls in the quarter totalling £19m and eight Private Credit capital calls totalling £13m.

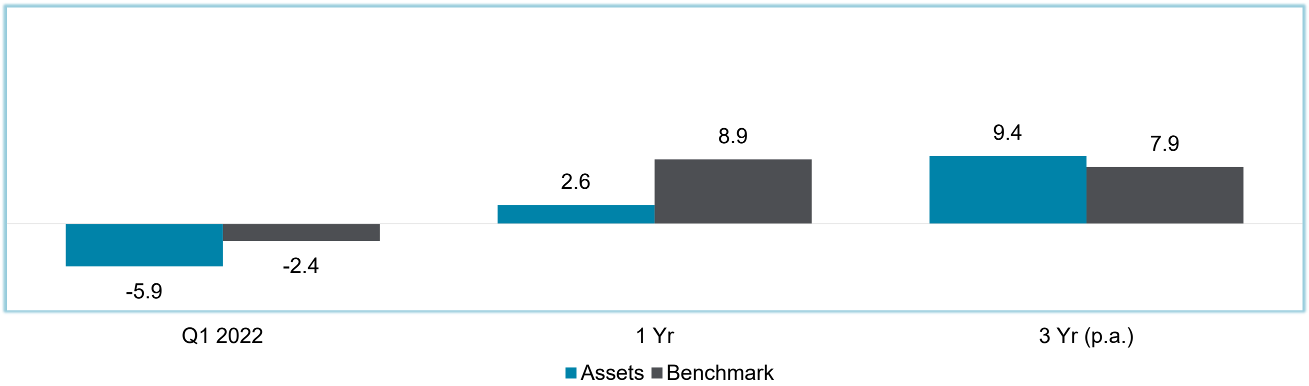
- £173m was disinvested from Newton (full disinvestment).
- £54m was disinvested from Leadenhall Remote Risk.
- £51m was disinvested from Leadenhall Diversified.
- £45m was disinvested from Leadenhall Nat Cat.
- £26m was disinvested from Dodge & Cox.
- £2m was disinvested from Fidelity, along with the disinvestment from Dodge & Cox to cover the capital calls made above in the quarter.

4. Fund performance

A review of your investment performance

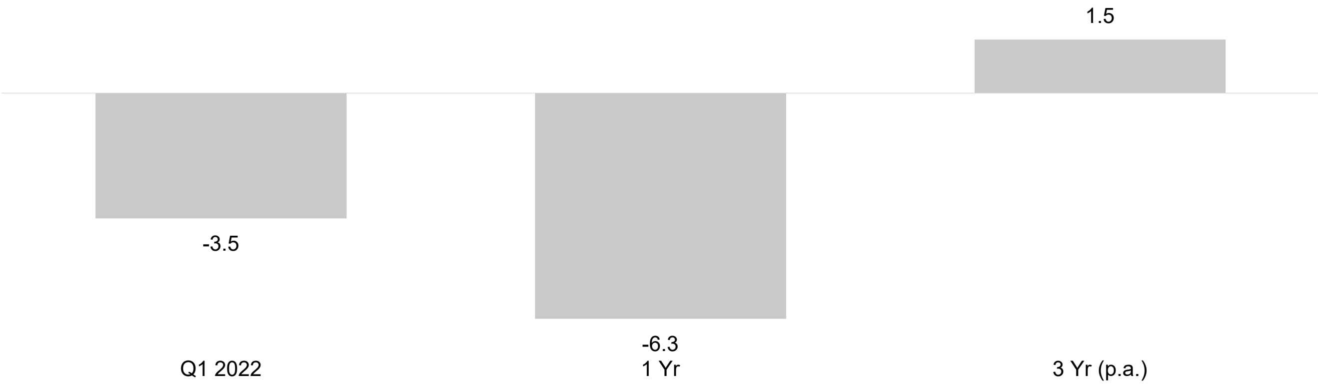
Total Fund performance – Snapshot

Fund performance & benchmark



Relative performance

Relative Return (%)



Source: BNYM, Aon

Quarterly (relative)

-3.5%

The Fund underperformed the benchmark returning -5.9% vs -2.4% over the quarter.

3 year (relative)

+1.5%

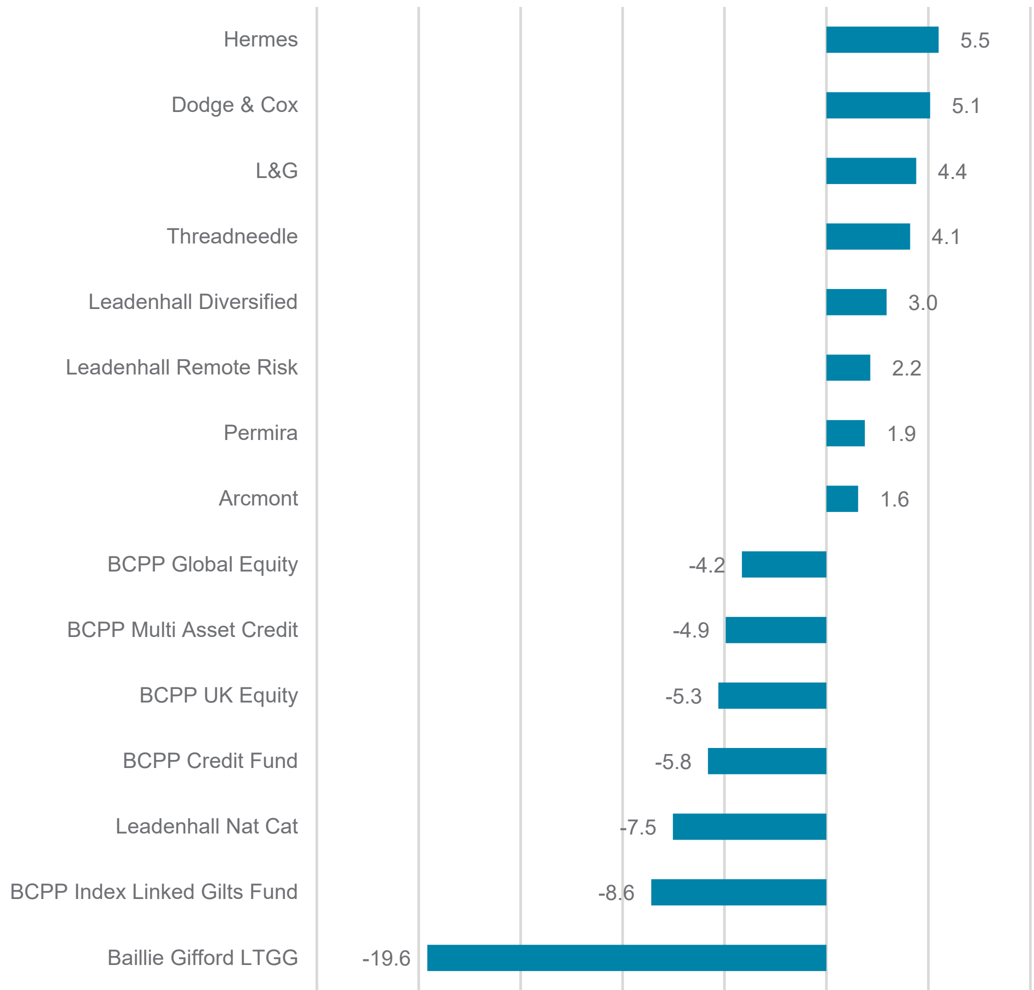
Over 3 years the Fund has outperformed the benchmark returning 9.4% vs 7.9%.

Comments

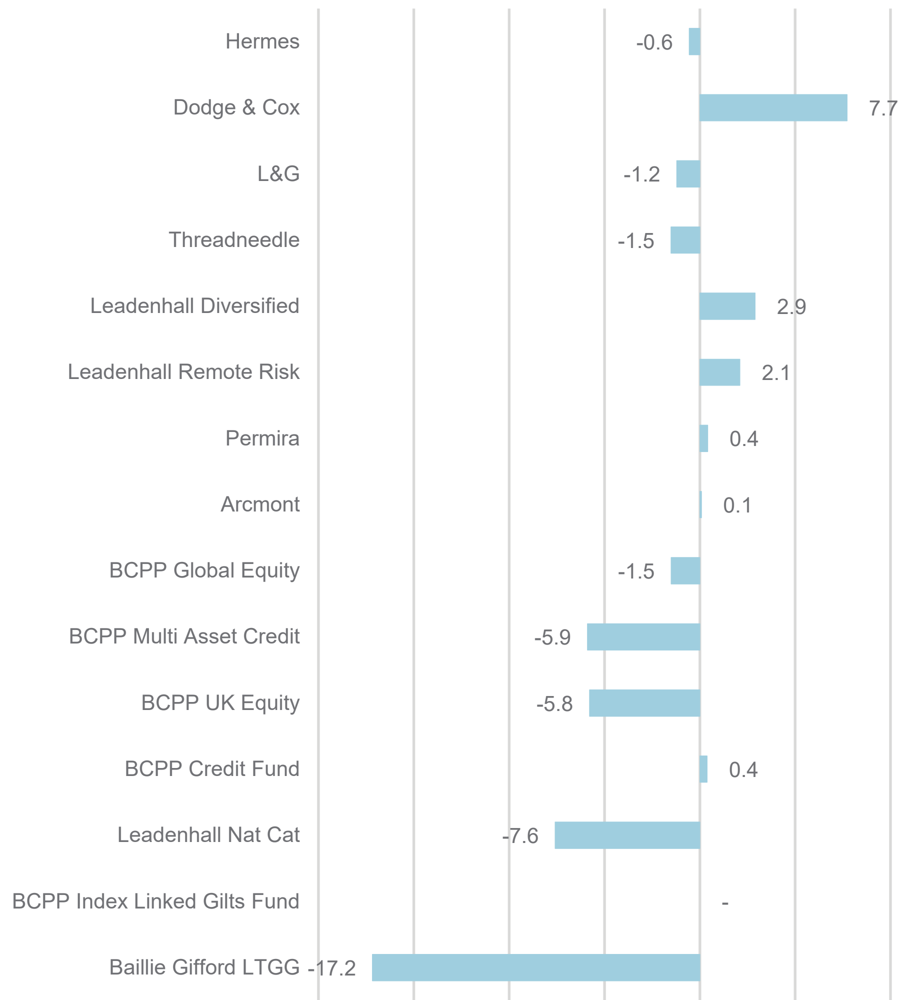
Total Fund performance is behind the composite benchmark over the quarter and 1 year period but ahead of the compositive benchmark over 3 year period to 31 March 2022.

Manager performance – Quarter Snapshot

Absolute performance



Relative performance



Source: BNYM, Managers, Aon.
Note: BCPP Infrastructure returns and BCPP Private Credit returns not shown during initial investment drawdown phase. Performance for Fidelity and PIMCO is not shown as mandates only hold residual assets.

Manager performance – Longer term

	1 Year (%)			3 Years (% p.a.)			Since inception		
	Perf	B'mark	Rel	Perf	B'mark	Rel	Perf	B'mark	Rel
Equity									
UK Equity									
BCPP UK Equity	3.3	13.0	-9.7	-	-	-	4.7	5.8	-1.1
Global Equity									
BCPP Global Equity	7.6	12.8	-5.2	-	-	-	11.6	13.8	-2.2
Baillie Gifford LTGG	-13.6	12.8	-26.4	23.1	13.9	+9.2	16.4	10.0	+6.4
Dodge & Cox	15.5	12.8	+2.7	13.1	13.9	-0.8	10.0	11.7	-1.7
Absolute Return									
Insurance-Linked									
Leadenhall Remote Risk	1.3	0.0	+1.3	3.0	0.2	+2.8	2.6	0.3	+2.3
Leadenhall Diversified	2.5	0.0	+2.5	2.1	0.2	+1.9	1.4	0.3	+1.1
Leadenhall Nat Cat	-10.3	0.0	-10.3	-4.4	0.2	-4.6	-4.5	0.3	-4.8
Property									
Hermes	21.1	22.5	-1.4	7.6	7.9	-0.3	8.4	6.9	+1.5
L&G	22.6	23.1	-0.5	7.9	8.1	-0.2	8.0	7.0	+1.0
Threadneedle	23.8	23.1	+0.7	7.8	8.1	-0.3	9.0	6.8	+2.1

Source: BNYM, Managers, Aon. Numbers may not sum due to rounding.
Hermes, L&G, Threadneedle; IPD data was used for benchmarking purposes, total fund performance was calculated using BNYM data.
Note: BCPP Infrastructure returns and BCPP Private Credit returns not shown during initial investment drawdown phase.

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Manager performance – Longer term (cont'd)

	1 Year (%)			3 Years (% p.a.)			Since inception		
	Perf	B'mark	Rel	Perf	B'mark	Rel	Perf	B'mark	Rel
Infrastructure									
BCPP Listed Alts	-	-	-	-	-	-	4.0	1.4	+2.6
Illiquid credit									
Arcmont	8.9	6.0	+2.9	7.6	6.0	+1.6	7.2	6.0	+1.2
Permira	6.0	6.0	0.0	5.7	6.0	-0.3	7.5	6.0	+1.5
Investment grade credit									
BCPP Investment Grade Credit	-4.1	-5.2	+1.1	-	-	-	-2.4	-4.0	+1.6
Non-investment grade credit									
BCPP Multi-Asset Credit	-	-	-	-	-	-	-5.0	1.4	-6.4
Gilts									
BCPP Index Linked Bonds	4.0	3.9	+0.1	-	-	-	-0.1	-1.9	+1.8
Total	**2.6**	**8.9**	**-6.3**	**9.4**	**7.9**	**+1.5**	**7.9**	**8.0**	**-0.1**

Source: BNYM, Managers, Aon. Numbers may not sum due to rounding.
Note: BCPP Infrastructure returns and BCPP Private Credit returns not shown during initial investment drawdown phase.

5. Market background and investment outlook

Aon’s views on the market outlook and snapshot of investment markets and key economic data

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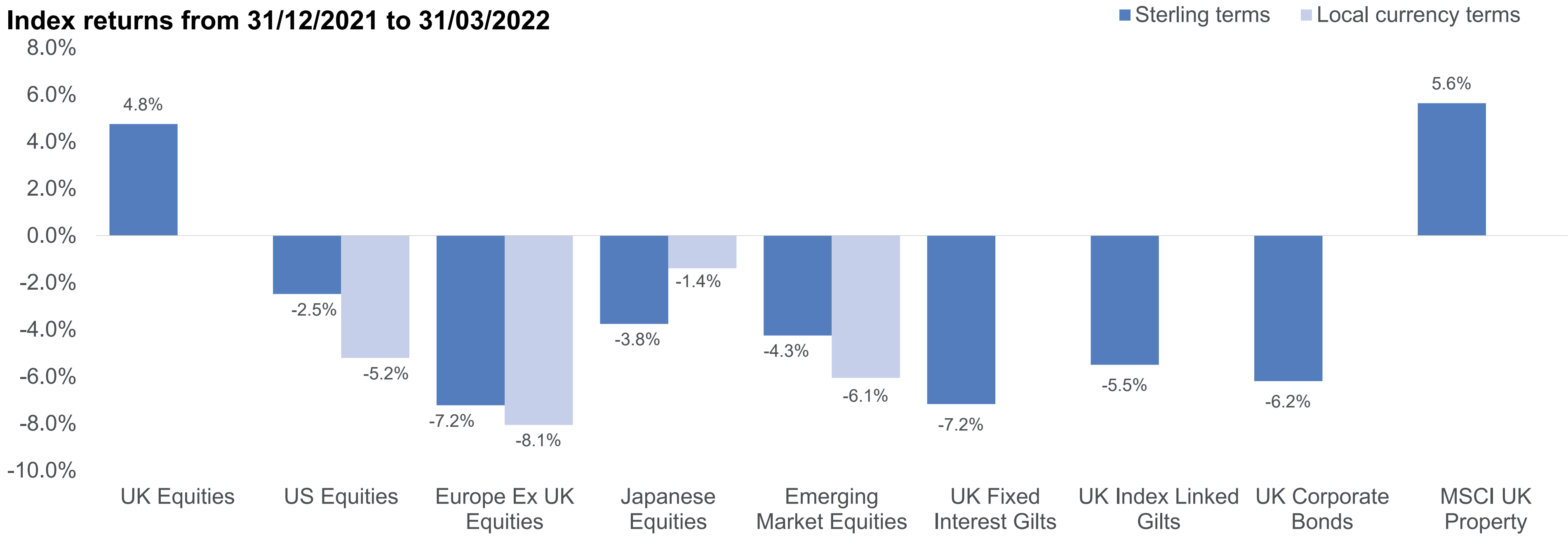
Market – Background Q1 2022



Source: FactSet, MSCI (Equities, Property), FTSE (Gilts), iBoxx (Credit)

Equities

The MSCI AC World index posted a -4.6% return in local terms and a -2.5% return in sterling terms as global equity markets fell in response to heightened geopolitical tensions and continued inflationary pressure.

UK equities rose by 4.8% in sterling terms and were the best performing equity market region.

US equities performed the second-best amongst major equity regions, returning -5.2% over the quarter in local currency terms and -2.5% in sterling terms.

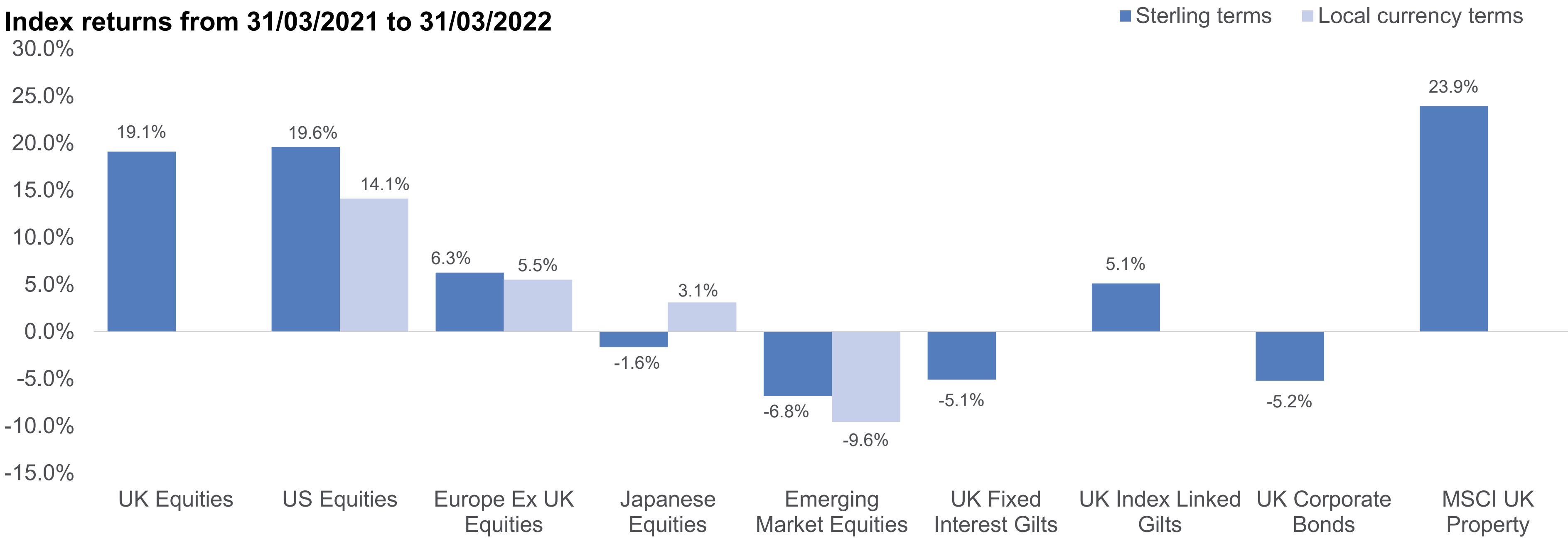
Bonds

Credit spreads widened over the quarter. UK investment grade credit spreads rose by 22bps to 130bps, based on IBoxx Sterling Non-Gilts data. Lower quality bond credit spreads widened more than their higher quality counterparts, with BBB-rated non-gilt spreads rising by 33bp to 185bps. The increase in spreads and the significant rise in government bond yields led the Sterling Non-Gilts Index to post a return of -6.2%.

Gilts

The UK gilt curve rose across all maturities over the first quarter on expectations of higher policy rates, driving the negative performance of UK fixed-interest government bonds. After rising in January, yields fell back in February as investors flocked to safe-haven assets in response to the beginning of the conflict in Ukraine. However, yields rose strongly over March as inflationary concerns around food and energy prices increased and the BoE reiterated its commitment to tightening monetary policy.

Market – Background 12 month



Source: FactSet, MSCI (Equities, Property), FTSE (Gilts), iBoxx (Credit)

Equities

Global equities generated positive returns over the last twelve months. Equities delivered solid returns in 2021, boosted by optimism over Covid-19 vaccine roll-outs, supportive monetary and fiscal policies, and improving economic data. However, markets reversed some of their gains in Q1 2022 as geopolitical risk took center stage with Russia invading Ukraine. Furthermore, major central banks continued to move forward with normalising monetary policy as inflation rates worldwide rose rapidly.

Bonds

Credit markets declined over the past twelve months. UK investment-grade credit spreads (the difference between corporate and government bond yields), based on the iBoxx Sterling Non-Gilt Index, widened by 24bps to 130bps.

Gilts

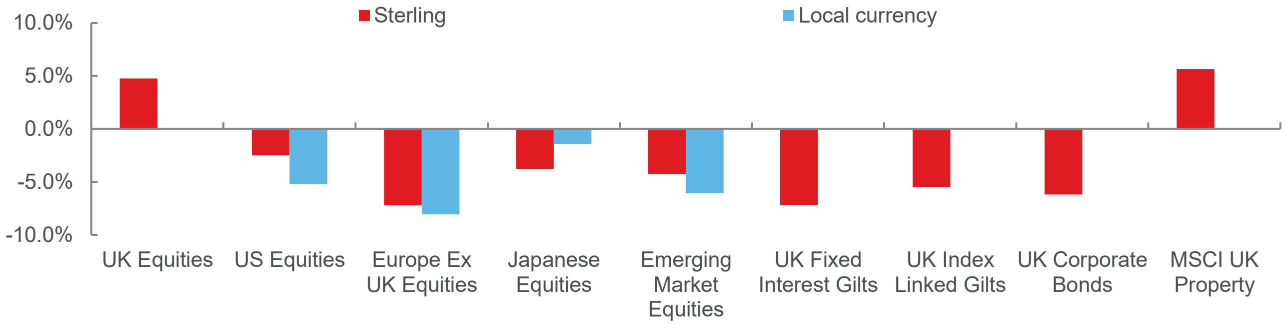
Yields fell in Q2 2021 as variant virus risks and worries over a slower pace of global economic recovery arose. Nominal yields then picked up once more over the third quarter of 2021, driving the negative performance of UK fixed-interest government bonds. Yields rose on the back of brought-forward interest rate hike expectations against the background of rising inflation and central bank indications of policy rate increases. However, longer-dated yields briefly fell back in Q4 2021 due to heightened uncertainty surrounding Omicron. Short-dated yields later began to factor in potential monetary policy changes and saw notable increases. In Q1 2022, yields rose strongly across maturities due to expectations of future rate hikes.

Quarterly Investment Outlook – April 2022

Q1 performance

The key liquid asset classes of **equities, credit, and government bonds are all down.** Russia's Ukraine invasion is an aggravating factor rather than a key driver of these market declines.

Only **UK commercial property** (a strong recovery in capital values) and **UK equities** (the UK market's high commodity weighting) resisted the downtrend.



Even if inflation peaks soon, above-target inflation is a risk

There are more inflation causes than just rising commodity prices. Supply chain strains and tight labour markets are key drivers too.

Inflation should peak this year, but bringing it to target and keeping it there will be hard without a big economic squeeze.

Tighter money is a challenge

Central banks have pushed markets lower this year with lots of talk of tighter money.

If above-target inflation persists, **interest rates may have to rise to levels which choke off economic activity**, taking a risk of triggering outright recession.

We have become less negative on gilts

A rising bond risk premium is behind the rise in longer duration yields, reflecting lasting inflation and interest rate uncertainty.

The recent sharp rise in gilt yields has now allowed for much of the bond-unfriendly developments that are evident. **We are now reverting to a duration-neutral stance**.

Can the credit sell-off stay moderate?

Further spread widening looks very likely even though some supports remain.

A strong run in secured loans was predictable in a rising rate environment, but this is now nearing completion.

We are staying cautious on equities

Corporate profits have been strong but look to be decelerating quickly. The cyclicality of profits always causes trouble for equities if an economic slowdown turns recessionary.

We see little reason to change our view that this is a better market to offload risk than to add to it.

Look for assets with independent drivers

Underlying market volatility is gradually moving higher, a trend that could well endure.

Assets with independent and diversifying return drivers are helpful to navigate these conditions, but will, as usual, need customising to portfolio constraints around liquidity, complexity and cost.

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6. Aon’s latest thinking

Our latest investment ideas for you

War in Ukraine

What should pension schemes be thinking about?

We are deeply saddened by the desperate situation that has unfolded in Ukraine.

The market impact has focused on commodity prices, with both Russia and Ukraine major exporters of oil, agricultural products and metals. The wider investment implications include increased volatility and more persistent inflation.

Key areas we think investors should consider as they navigate the crisis include portfolio exposures, funding objectives, responsible investment policies, liquidity management and cyber risk.

Persistent inflation

…with an uncertain outlook

Higher wholesale energy prices, supply chain disruption and the National Insurance increase have all featured in the headlines recently as drivers of higher inflation. The impacts of the Russia-Ukraine war add uncertainty as to when inflation might return to target levels.

We encourage the use of alternative assets in portfolios, such as diversifying hedge funds and gold, to help bolster portfolios against inflation.

7. Manager review

Aon ratings and understanding manager performance

Baillie Gifford - LTGG

Fund performance & benchmark

Performance comments

The manager significantly underperformed in the first quarter of 2022.

Higher inflation, interest rates, strength in commodity markets, concerns over global growth and a regulatory clampdown in China have created very difficult market conditions for the strategy. A continuation of current market trends will see continued relative underperformance.

Growth-orientated strategies we follow also underperformed in the period. As one of the most growth-orientated strategies we follow, recent underperformance following exceptionally strong performance in 2020 is within reasonable expectations.

Large negative contributions to performance came from Meituan, Shopify, Netflix, Delivery Hero, Tencent and Meta (Facebook). All of these names are higher growth and valuation stocks that borne the brunt of market selloffs, particularly if combined with negative news flows (China) or any disappointments in reported results (e.g. Netflix).

Positioning and Transactions

As would be expected, the manager has not made wholesale changes to the portfolio, although is working through the portfolio, recalibrating upside scenarios and making incremental changes. The manager's focus remains on companies that can deliver outlier growth on a five-to-ten-year horizon.

Buy

Reviewed: May 2022

Ratings detail

ODD:	A1 pass	**Risk:**	●●○○
Business:	●●●●	**Perf:**	●●●○
Staff:	●●●●	**Terms:**	●●●○
Process:	●●●○	**ESG:**	Integrated

Key info

Appointed: 29 September 2006

Vehicle: Baillie Gifford Long Term Global Growth (+3% over 5-10yrs)

Mandate: Global Unconstrained Equities

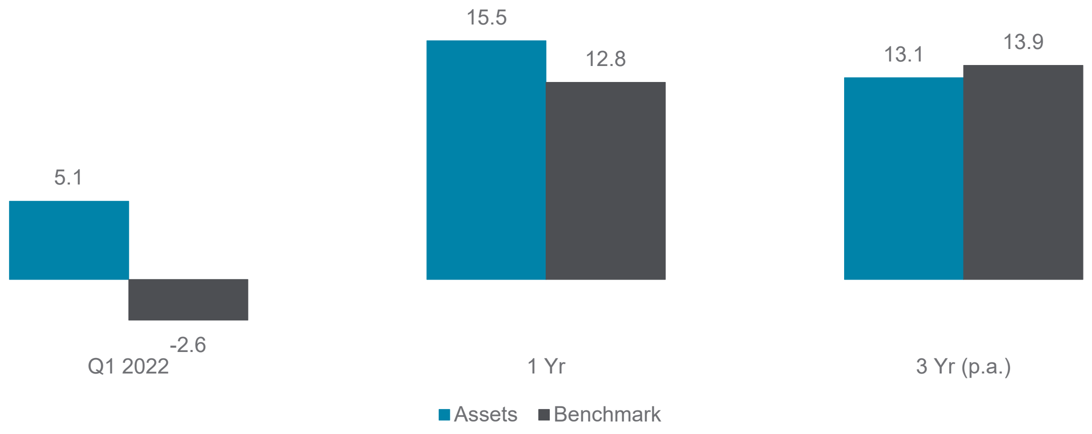
Benchmark: FTSE All World Index from 31 March 2008

Target: To outperform the benchmark by 3% p.a. over rolling three-year periods.

Source: Aon, BNY Mellon, data for periods longer than 12 months are annualised.

Dodge & Cox – Global equity

Fund performance & benchmark



Performance comments

The Fund outperformed during the first quarter of 2022.

From both a regional and sector perspective, stock selection was the main driver of outperformance over the quarter, notably within the U.S. and within the Energy, I.T. and Health Care sectors.

Sector allocation also added value, driven by the over-weight to the Energy, Financials and under-weight to I.T.

From a stock specific perspective, Occidental, Ovintiv and Suncor Energy were the largest positive contributors; all were up given the continued strength of oil.

These energy companies also suffered the greatest declines through Covid, as they were believed to have the highest sensitivity to an economic slowdown and doubts over the strength of their balance sheets. The manager's analysis at that time suggested they had the strength to withstand the slowdown and the sharp rebound in oil prices has resulted in increases of cash flows enabling these companies to de-lever their balance sheets.

Positioning and Transactions

The Fund has reduced its energy aggressively over the past few quarters, but remains over-weight given the very large returns. Similarly, Health Care has also been trimmed following a period of strength.

Buy

Reviewed: May 2022

Ratings detail

ODD:	A1 pass	**Risk:**	●●●○
Business:	●●●●	**Perf:**	●●●○
Staff:	●●●●	**Terms:**	●●●○
Process:	●●●○	**ESG:**	Integrated

Key info

Appointed: 1 April 2015

Vehicle: Dodge & Cox Global Stock Fund

Mandate: Global Equities

Benchmark: MSCI All Country World Index

Target: To outperform over a full market cycle.

Source: Aon, BNY Mellon, data for periods longer than 12 months are annualised.

Hermes – Property Unit Trust

Fund performance & benchmark

Buy

Reviewed: May 2022

Performance comments

The Trust underperformed its benchmark over the quarter, with continued underperformance over the longer periods shown.

The Trust is slightly overweight to the retail sector. The Manager continues to hold the view that affordable (from a rent perspective) retail parks and food anchored retail warehouses are likely to be some of the best performing assets over the medium term, given their attractive rental income and scope for further yield compression in the sub sector.

In terms of property level return for the 12 months up to quarter end, The M2 City Link industrial estate is the strongest performer, returning 83.1%. This is followed by The Coln Industrial Estate, returning 69.8% and The Erdington Industrial Park in Birmingham, returning 64.1%.

The largest detractors over the 12 months in terms of weighted contribution remain the Trust's West End offices at 8/10 Great George Street and 27 Soho square, as well as the hotel asset at Broken Warf.

There were no acquisitions or disposals to report over the quarter.

Void rate is marginally down on last quarter, but remains high at 11.7%. However, 6.7% of this is strategic void subject to refurbishment, the largest contributor being Great George Street, which the manager is looking to sell.

We understand there is a potentially large redemption from the Trust that the manager is trying to meet using an auction on the secondary market. We are waiting on updates.

Key info

Appointed: 27 February 2012

Vehicle: Property Unit Trust

Mandate: UK Property Pooled Fund

Benchmark: IPD Other Balanced Property Fund Index

Target: To Outperform the benchmark by 0.5% over three year rolling periods.

Source: IPD data was used for benchmarking purposes, but the fund performance was not calculated by IPD.

Hermes – Property Unit Trust (cont.)

Major developments

Associate Director, Ritu Rajashekar, is now employed full time as an ESG and Net Zero consultant but has moved to the United States. She will still be providing ESG advice to the FHPUT team. However, the Manager has now recruited a new ESG specialist Katerina Papavasileiou to support Kirsty Wilman and the UK real estate team more closely. Ritu's move and the recent departure of Ben Sanderson who headed up the ESG strategy at Federated Hermes has not changed our ESG rating.

The Manager had previously expressed their desire to explore a new fund structure, primarily a Property Authorised Investment Fund (PAIF) or Long-Term Asset Fund (LTAF), in order to accommodate a wider pool of investors, including potentially DC and overseas institutions. After careful consideration, the Manager has decided to pause this exercise for the foreseeable future, mainly due to the cost of implementations and the lack of comparable evidence of the use of LTAFs in the market, given the structure is relatively new.

During the quarter it was announced that Federated Hermes had acquired the final 10.5% share of the business that had been owned by senior Hermes employees. The legacy HFML Long Term Incentive Plan (LTI) is being replaced with the equivalent award of restricted stock which matches the previous vesting schedule. This was always expected to occur, and we do not believe it will have a material impact on the business or the running of the fund. The LTI plan is separate to the annual discretionary bonus awards and all the participants in the scheme are selected by the Executive Committee each year. Participation each year is not guaranteed, ensuring that the performance of individuals in the scheme remains high and giving the opportunity for the Executive Committee to bring in new participants deemed critical to the success of the business.

Buy

Reviewed: May 2022

Key info

Appointed: 27 February 2012

Vehicle: Property Unit Trust

Mandate: UK Property Pooled Fund

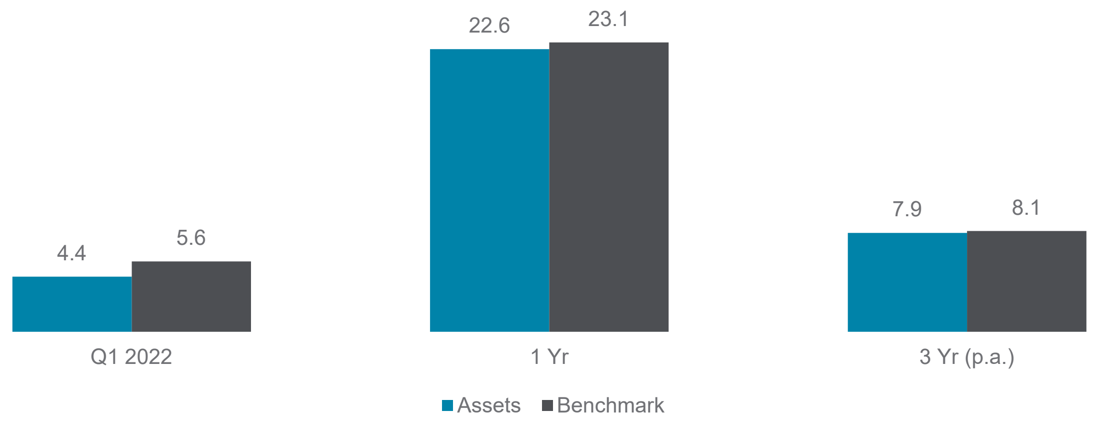
Benchmark: IPD Other Balanced Property Fund Index

Target: To Outperform the benchmark by 0.5% over three year rolling periods.

Source: IPD data was used for benchmarking purposes, but the fund performance was not calculated by IPD.

LGIM – Managed Property Fund

Fund performance & benchmark



Qualified

Reviewed: May 2022

Performance comments

The Fund has underperformed its benchmark over the quarter and has marginally underperformed over the longer periods shown.

Short term underperformance was partly down to cash drag and transaction costs.

The manager continues to have a largely negative view on the retail sector, with the Fund continuing to underweight this sector. Despite this, the manager remains upbeat for food stores and retail warehousing, and will continue to concentrate portfolio exposure in these more resilient sub-sectors.

The manager also continues to hold a positive view of the alternatives sector, and seeks to increase exposure to student accommodation and urban residential.

Rent collection as at 29 April 2022 (day 28) stood at 90% for the quarter's demanded rent.

The Fund made 1 acquisition and 2 disposals over the quarter. The Manager is focused on exiting non-core assets and re-positioning towards favourable sectors.

The most notable transaction over the quarter was the sale of Central St Giles, a Central London office scheme, to Google (as owner occupier) netting £187m for the Fund.

At the end of March, the Fund held 11.7% cash vs the benchmark of 5.4%. This is partly as a result of the large sales over the quarter. However, the manager has historically been slow to deploy capital but is actively seeking re-investment opportunities with £200m of acquisitions targeted to complete in Q2.

Key info

Appointed: 1 November 2012

Vehicle: Property Fund

Mandate: UK Property Pooled Fund

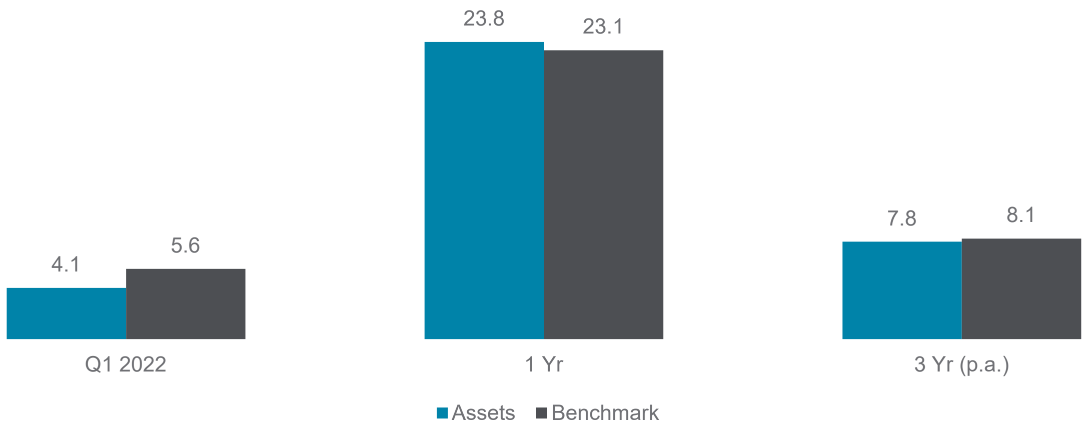
Benchmark: IPD All Balanced Property Fund Index

Target: To outperform the benchmark by over three year rolling periods.

Source: IPD data was used for benchmarking purposes, but the fund performance was not calculated by IPD.

Threadneedle – TPEN

Fund performance & benchmark



Buy

Reviewed: May 2022

Performance comments

The Fund has underperformed its benchmark over the quarter. Over the year, the fund has outperformed the benchmark, but underperformed over the three-year period.

Short term underperformance has been driven by sector weightings, in particular the underweight allocation to the London industrial assets, despite the Fund being overweight to the industrial sector.

Rent collection remains relatively stable across the portfolio, with 93.4% of the demanded rent for the quarter received.

The Fund is generally well positioned given the current market environment and outlook with an overweight position to industrials, underweight to offices and slight overweight to the retail sector.

The Fund made 5 acquisitions and 2 strategic disposals over the quarter. The Manager is focused on increasing the Fund's exposure to industrial properties and retail warehouses.

In line with this strategy, the Fund acquired a six-asset portfolio for £50.28m, which the manager believes can generate stable income has excellent potential to add value.

Other notable transactions include the £9.15m acquisition of a modern purpose-built three-unit retail park in Barnsley

The Fund signed 222 new lettings and lease renewals in the last 12 months and recorded a high retention rate of 85%.

Key info

Appointed: 21 June 2012

Vehicle: Property Fund

Mandate: UK Property Pooled Fund

Benchmark: IPD All Balanced Property Fund Index

Target: To outperform the benchmark by 1 to 5%.

Source: IPD data was used for benchmarking purposes, but the fund performance was not calculated by IPD.

BCPP – Quarterly high level monitoring

Changes to Senior Management at BCPP

- Andrew Stone (Head of CRM) left BCPP in March 2022 and will be returning to LGIM as a Client Director
- Milo Kerr will be replacing Andrew as Head of CRM in July 2022. Milo is currently a client director within Mercer's Investment Team.
- Alistair Smith will be joining BCPP in May 2022 as the new Head of Real Estate.

Changes to views of External Managers

- BCPP UK Equity
  - Baillie Gifford have been added to a 6-month watchlist due to recent underperformance, team changes and changes in their portfolio construction. This will be reviewed in August 2022.

Breaches to risk controls and ranges

- No breaches reported in BCPP reporting this quarter.

Changes in structure, investment processes or risk management

- No material changes reported to structure, investment processes or risk management during the quarter.
- BCPP Global Alpha, change being considered to include Emerging Markets and China

Source: BCPP – External Management Quarterly Updates Q1 2022, Internal Management Quarterly Update Q1 2022, BCPP Quality Assurance Information quarterly spreadsheet Q1 2022, BCPP Global Equity Alpha update (3 May 2022).

8. Further information

Key reference information about your scheme

Method

The funding update has been prepared in accordance with the framework below.

- This funding update is consistent with the calculations for the formal actuarial valuation as at 31 March 2019. The assumptions used have been modified only insofar as is necessary to maintain consistency with the approach set out in the latest Funding Strategy Statement, reflecting the change in the effective date and in relevant market conditions.
- The funding update is projected from the results of the formal actuarial valuation as at 31 March 2019 and is therefore approximate. Since the update is not based on up-to-date membership data, it becomes more approximate the longer the period of time that has elapsed since the last actuarial valuation.
- The funding update takes account of the following over the period since the last formal actuarial valuation:
  - Cashflows into and out of the Fund estimated based on the 2019 valuation results;
  - Actual price inflation and its impact on benefit increases.
- Demographic experience since the last formal actuarial valuation has been assumed to be in line with the assumptions set out in the 2019 Valuation Report.
- This update is designed to give a broad picture of the direction of funding changes since the actuarial valuation but does not have the same level of reliability as, and therefore does not replace the need for, formal actuarial valuations.
- It does not reflect any changes to assumptions which would be made if a full actuarial valuation were to be carried out to reflect, for example, changes to the investment strategy or economic outlook.
- For the purpose of this funding update, we have used an un-audited value of the assets as at 31 March 2022 provided by the Administering Authority
- The whole of fund total employer contribution rates shown in this funding update allow for a recovery period ending 31 March 2041 and allow for any surplus in excess of 110% to be recovered as set out in the Funding Strategy Statement
- The assumptions used in this funding update are as follows:

	Discount rate	Pay growth	Pension increases
31 March 2019	4.20%	3.35%	2.10%
31 December 2021	3.90%	3.45%	2.20%
31 March 2022	4.20%	3.55%	2.30%

Risk/Return Assumptions

- The table below sets out the asset and liability return assumptions over 10 years, together with the asset allocation and exposures used. These are based on Aon's Capital Market assumptions as at 31 March 2022.

High level asset class	Expected Return	Expected Volatility
Equities	6.9%	18.8%
Property	5.3%	12.6%
Infrastructure	8.4%	15.8%
Listed alternatives	6.8%	19.2%
Illiquid credit	6.3%	5.4%
Investment grade credit	2.7%	7.9%
Non-investment grade credit	4.3%	9.4%
Absolute Return	4.4%	5.1%
Gilts	0.9%	7.3%
Cash	1.5%	1.0%

Note: all statistics are 10 year median expected returns/volatility of returns.

Correlation Table

High level asset class	Equities	Property	Infrastructure	Listed Alternatives	Illiquid credit	IG Credit	Non-IG Credit	Absolute Return	Gilts	Cash
Equities	100%	38%	61%	100%	29%	5%	53%	19%	-9%	-3%
Property		100%	18%	37%	28%	5%	27%	7%	-3%	4%
Infrastructure			100%	63%	14%	4%	21%	18%	-4%	0%
Listed Alternatives				100%	28%	5%	52%	19%	-9%	-3%
Illiquid credit					100%	60%	67%	13%	4%	19%
IG Credit						100%	32%	15%	55%	39%
Non-IG Credit							100%	14%	-3%	6%
Absolute Return								100%	9%	29%
Gilts									100%	34%
Cash										100%

Data and assumptions

Date of calculation	31 March 2022
Number of simulations	5000
Time horizon	10 years
Asset value	£ 4,627,027,612

- Infrastructure is modelled as a blend of 37.5% EU and 62.5% US Infrastructure in line with BCPP's mandate.
- Listed Alternatives are modelled as passive global equities (including emerging markets).
- Private Credit modelled as combination of 2/3 Senior Direct Lending (for Arcmont and Permira) and 1/3 Whole Property Debt (for BCPP).
- Gilts are modelled as a 90% long-duration index-linked gilts and 10% long-duration fixed-interest gilts.
- Property is modelled as UK Property.
- Liquid IG Credit modelled as UK corporate bonds (A-rated with average duration of 10 years)
- Liquid Non-IG Credit modelled as high yield multi-asset credit.
- Absolute Return is modelled as Leadenhall Insurance Linked Securities modelled as an equal blend of Aggressive, Conservative and Moderate ILS.
- The Fund has an allocation to Equities which make up 50% of the long term allocation.
- For modelling purposes (and for consistency with the approach taken by the Actuary) we do not allow for any outperformance from active management (alpha).
- We have not allowed for the impact of equity protection on the risk and return of the portfolio
- Equities have been modelled using region splits in line with the long term allocation:

Passive UK Equity	10%
Passive Global Equity (including Emerging Markets)	90%

Key assumptions of the model (1)

- The purpose of the model is to consider and monitor the return and risk characteristics of the current and long term investment strategy of the Fund.
  - The analysis considers the expected return of the Fund's investment strategy and the 1-in-20 downside 5th percentile Value at Risk implied by the strategy.
  - These metrics are considered as at the stated quarter-end.

- Investment risk is included in the model outputs but this is not the only risk that the Fund faces; other risks include covenant risk, longevity risk, timing of member options, basis risks and operational risks.
- Investment risk has been calculated on an asset only basis.

Key assumptions of the model (2)

- The calculation of portfolio risk is approximate;
  - The calculation considers (5000 stochastic) simulations of returns over a single year of the Fund's investment strategy.
  - The simulations are constructed using Aon Solution's Asset Model – the details and assumptions of which are outlined in this appendix.
  - The calculation does not take into account any cashflows payable over the year; if cashflows are expected to be material the result is likely to be different.
  - Risks are attributed into the categories outlined in the chart only; the investment strategy may be exposed to further risk categories not shown.
  - The calculation does not take into account longevity risk (i.e. liability values increasing due to members living longer than assumed).
  - Owing to these approximations, a more detailed ALM study is likely to result in a different result to the VaR calculation.
  - Other portfolios with different risk and return characteristics may be available to the Fund along the journey to full funding.

TAS compliance

This document has been prepared in accordance with the framework below.

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This report should be read in conjunction with:

- The report on the most recent actuarial valuation of the Fund dated 30 March 2020.
- The latest Funding Strategy Statement.

If you require further copies of any of these documents, please let me know.

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