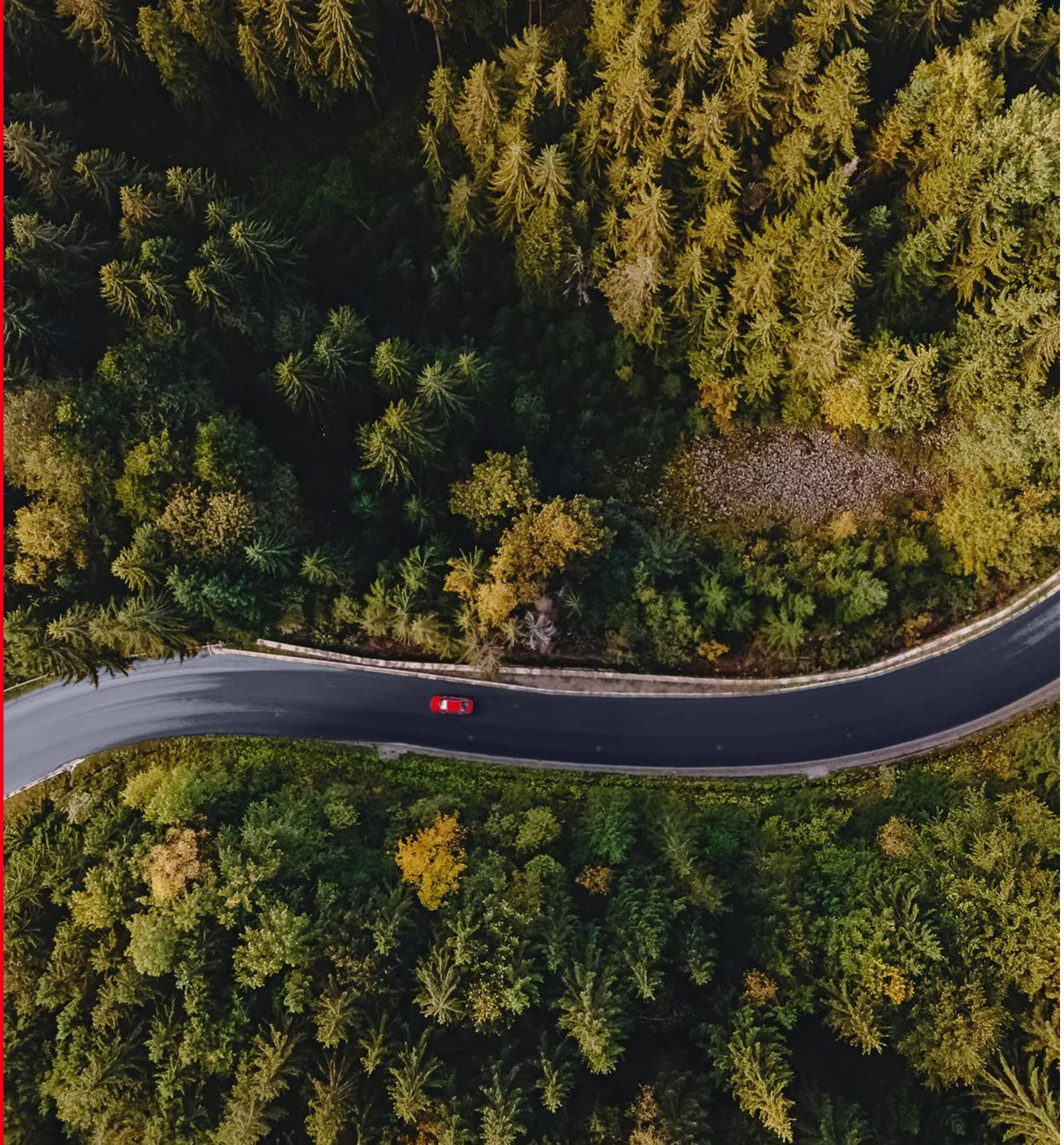

Quarterly Funding & Investment Report

End June 2026

Prepared for: North Yorkshire Pension Fund ("the Fund")

Prepared by: Aon

26 August 2026

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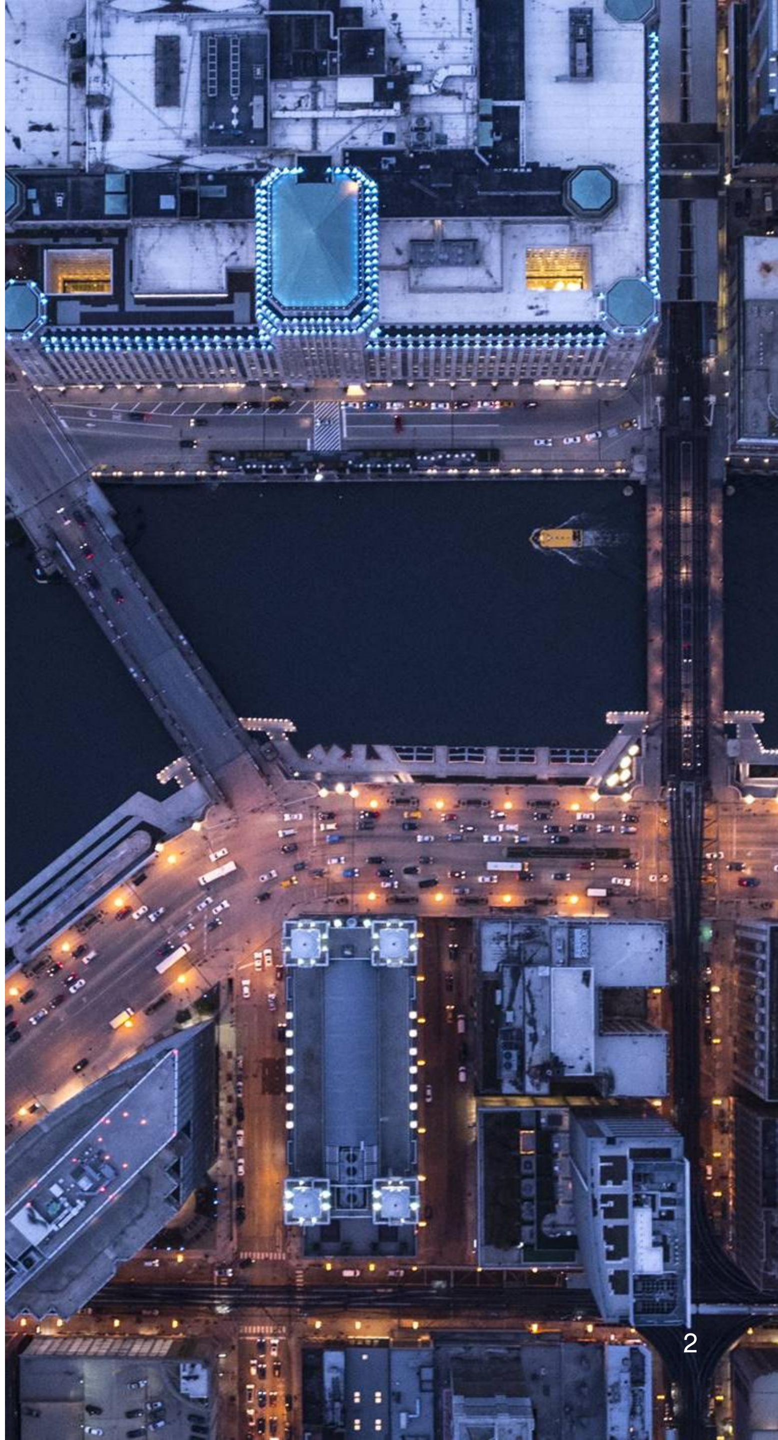
Contents



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At a glance

A high level summary of your investments and funding

AON

At a glance...

Funding

Since the results of the valuation at 31 March 2025 the Fund's ongoing funding has level increased by 6%, and the surplus has increased by £257M.

Asset returns have been higher than expected over the period. In addition, the net discount rate has increased slightly. Together, these factors have contributed to an improvement in the funding position.

The pension increase applied in April 2026 of 3.8% was higher than our long-term assumption which has resulted in a slight worsening of the funding position.

Asset Allocation and Implementation

PFC members agreed to the following investments:

- £100m investment at launch in Border to Coast's Global Sustainable Bonds fund (investment took place post quarter end)
- Officers and Advisors have held further discussions around short-term cashflow requirements and rebalancing opportunities prior to the September PFC meeting, at which, any further actions will be confirmed.
- Further activity is detailed on p.18 of this report.

Performance

Over the quarter the Fund underperformed the benchmark returning 4.8% vs 5.9%.

Total Fund performance is behind the composite benchmark over the quarter, 1 year, 3 year and 5 year periods to 30 June 2026.

Note the 3 and 5 year performance periods are still impacted by elevated volatility and challenging markets conditions over the 2020s which has included the Covid-19 pandemic, elevated inflation levels, and increased geopolitical tensions.

Market Background and Investment Outlook (July 2026)*

In Q2, the MSCI All-Country World Index rose 14.3% in sterling terms, with the UK the weakest region (+3.4%), the US performing strongly (+14.5% in sterling), and Emerging Markets outperforming (+23.3%).

Global markets were driven by Technology as the clear outperformer (+39.4%) as continued enthusiasm around AI and strong earnings growth supported the sector. On the other end, Energy declined (-12.6%) as lower oil prices weighed on the sector following progress in Middle East ceasefire negotiations and the reopening of the Strait of Hormuz.

Whilst the breakdown in ceasefire talks has renewed instability in the Middle East, oil prices have not returned to the highs seen in April and May as markets remain confident oil will continue to pass through the Strait of Hormuz.

Markets are still looking expensive, but performance remains heavily dependent on the AI trade. We think now is a good time to review long-term strategies and build up resilience in portfolios.

KEY ACTIONS

- PFC members to consider the contents of this report.

Note: *The opinions referenced are as of the date of publication (15 July 2026) and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

Key Stats – Q2 2026

Assets	Funding level	Return on Assets since 2025 Valuation
£5,168M Assets increased by £414M since 2025 valuation £4,754M at 2025 valuation	**126%** Funding level increased by 6% since 2025 valuation 120% at 2025 valuation	**7.9% pa**
Current Assets Expected Return (10 year p.a.) **+7.6%** 0.2% increase since 2025 Valuation 7.4% at 2025 valuation	**Long-term Strategy Expected Return (10 year p.a.)** **+7.8%** 0.2% increase since 2025 Valuation 7.6% at 2025 valuation	**Discount rate** **5.05%** Discount rate has increased by 0.25% since 2025 valuation 4.8% at 2025 valuation
Current Assets Value at Risk (1 Year 1 in 20) **£932m**	**Long-term Strategy Assets Value at Risk (1 Year 1 in 20)** **£878m**	**Estimated Total Employer cost** **6.4%** Total employer contribution rate has decreased by 3.9% since 2025 valuation 10.3% at 2025 valuation

Note: This funding update rolls forward the results of the 2025 valuation of the Fund. We have made allowance for actual pension increases since the valuation (allowing for pension increases awarded in April 2026).

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Funding

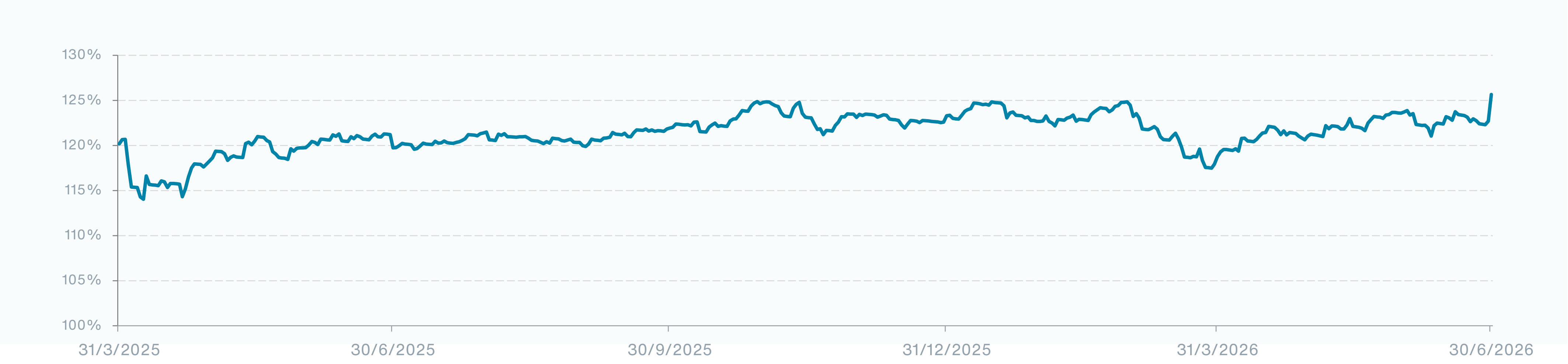
A review of your funding position and contributions

AON

Funding position

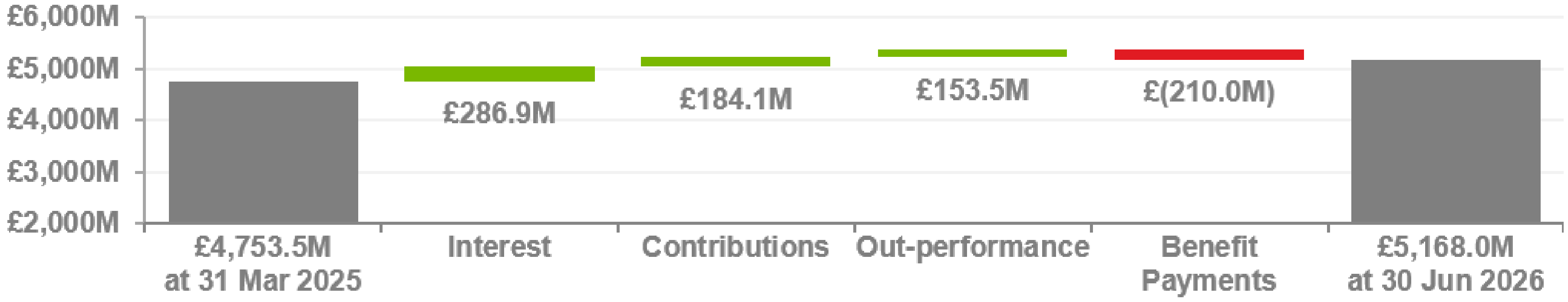
Funding level	Surplus	Comments
126% at 30 June 2026 Increased from 120% at 31 March 2025	**£1,055M** at 30 June 2026 Increased from £798M at 31 March 2025	Since the results of the valuation at 31 March 2025 the Fund's ongoing funding level has increased by 6%, and the surplus has increased by £257M. Asset returns have been higher than expected over the period. In addition, the net discount rate has increased slightly. Together, these factors have contributed to an improvement in the funding position. The pension increase applied in April 2026 of 3.8% was higher than our long-term assumption which has resulted in a slight worsening of the funding position.

Change to funding level since 31 March 2025



Analysis – Ongoing funding target

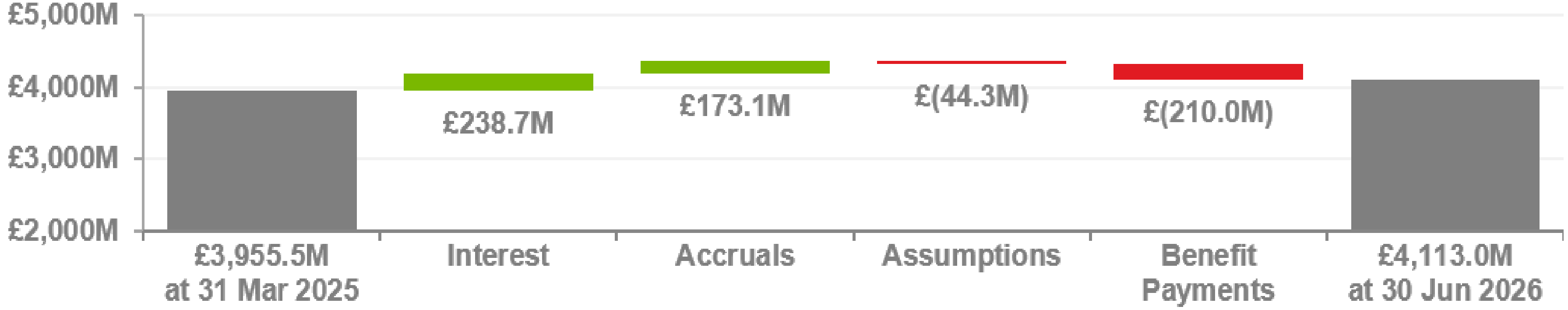
Reason for change since 31 March 2025 – Asset Attribution



Comments

Since the 2025 valuation the surplus has increased by £257M.

Reason for change since 31 March 2025 – Liability Attribution



Aggregate Employer contributions – ongoing funding target

Total employer contribution rate	Employer cost of accrual	Comments
6.4% at 30 June 2026 Down from 10.3% at 31 March 2025	**14.0%** at 30 June 2026 Down from 15.0% at 31 March 2025	The total employer contribution rate has decreased since the 2025 valuation. This is largely due to the increase in funding level.

Notes

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 have been reviewed as part of the triennial valuation at 31 March 2025.

Funding position – Low Risk funding target

Funding level

116%

at 30 June 2026

Funding level

110%

at 31 March 2025

Surplus

£729M

at 30 June 2026

Surplus

£441M

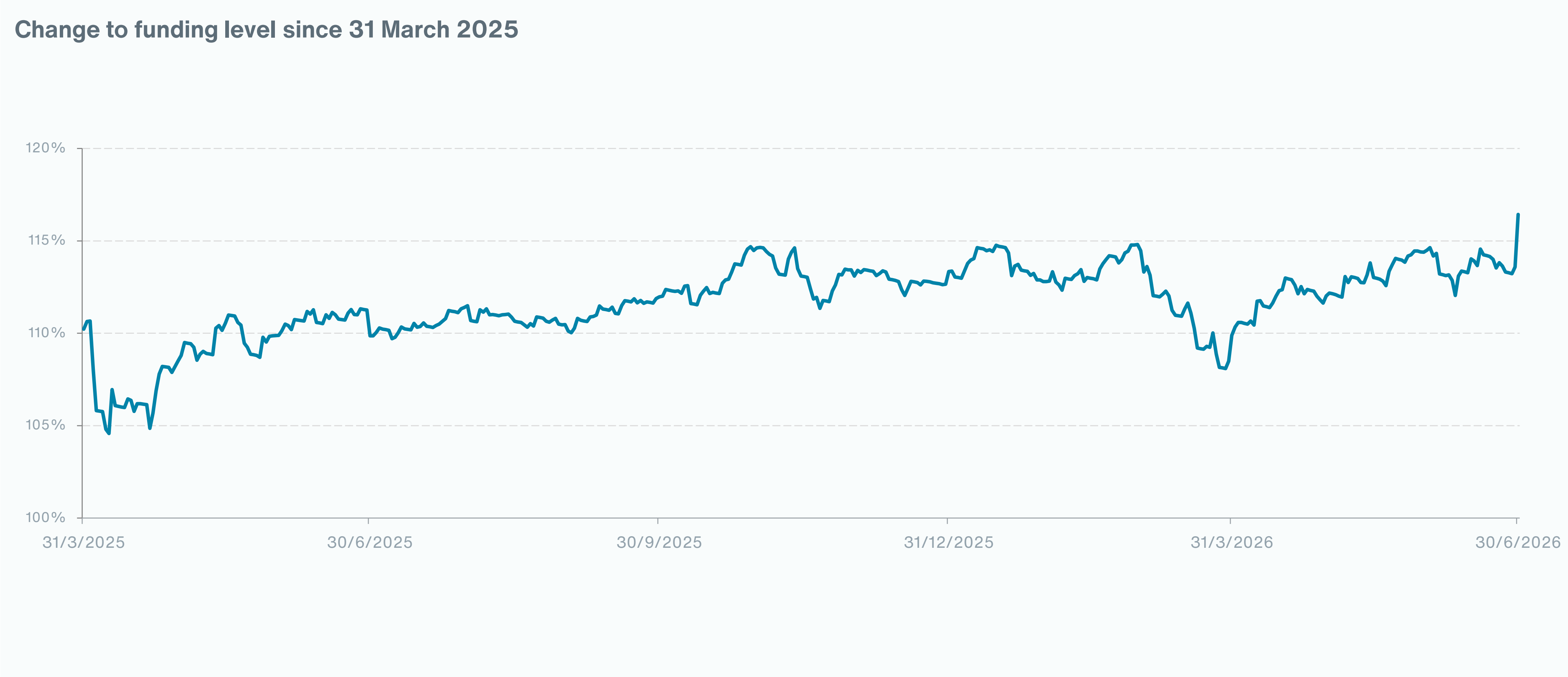
at 31 March 2025

Basis:	Low Risk funding target
Effective date:	30 June 2026

Comments

The funding level on the low risk funding target has increased since 2025 valuation.

Low risk funding target



Notes: This chart is provided to give an illustration of the change in the funding level based on the low-risk funding target since the 2025 valuation date. It has been produced based on changes in daily gilt yields and market implied inflation assumptions.

AON

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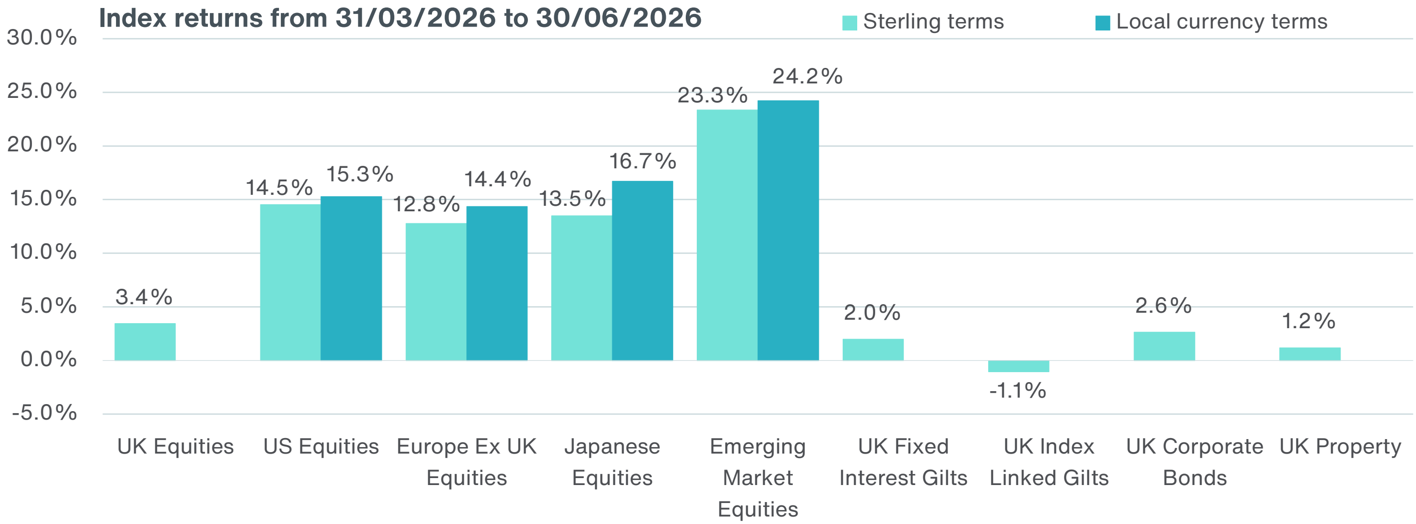
Market background

Aon's views, snapshot of investment markets and key economic data

Market Background Q2 2026



Sources: FactSet, MSCI (Equities*, Property), FTSE (Gilts), iBoxx (Credit). *MSCI Indices show LOC gross total returns.

Key Themes

- **Middle East conflict and oil:** Ceasefire progress and the starting of reopening the Strait of Hormuz pushed oil prices lower, but fragile negotiations and security risks continued to weigh on energy and supply chains.
- **UK politics and gilt markets:** UK Gilt markets continued to be volatile as investors assessed weaker borrowing data and fiscal uncertainty, with Sir Kier Starmer resigning, widely expected to be replaced by Andy Burnham.
- **Inflation and central banks:** Inflation remained above target, but softer UK data and falling oil prices contrasted with firmer US readings as central banks maintained a cautious, data-dependent stance.

Equities

In Q2, the MSCI All-Country World Index surged 14.3% in sterling terms, reflecting a strong global rally. The UK lagged most major regions, gaining 3.4%.

Meanwhile, the US had a strong quarter, returning 14.5% in sterling terms. Emerging Markets outperformed, rising 23.3% in sterling terms, led by Korea and Taiwan as semiconductor demand remained robust.

Technology was the clear outperformer, rising 39.4% globally and more than 30% in the US, supported by continued enthusiasm around AI and strong earnings growth.

Energy fell by 12.6%, as lower oil prices weighed on the sector following progress in Middle East ceasefire negotiations and the reopening of the Strait of Hormuz.

Bonds

Global bond yields generally moved lower over the quarter, with the exceptions of the US and Japan, where yields rose.

UK investment grade credit spreads contracted by 10bps to 79bps over the quarter, based on the iBoxx Sterling Non-Gilts Index, with both higher-quality and lower-quality bond credit spreads narrowing. The iBoxx Sterling Non-Gilts Index posted a return of 2.6%.

Global investment grade credit spreads fell by 15bps to 77bps over the quarter.

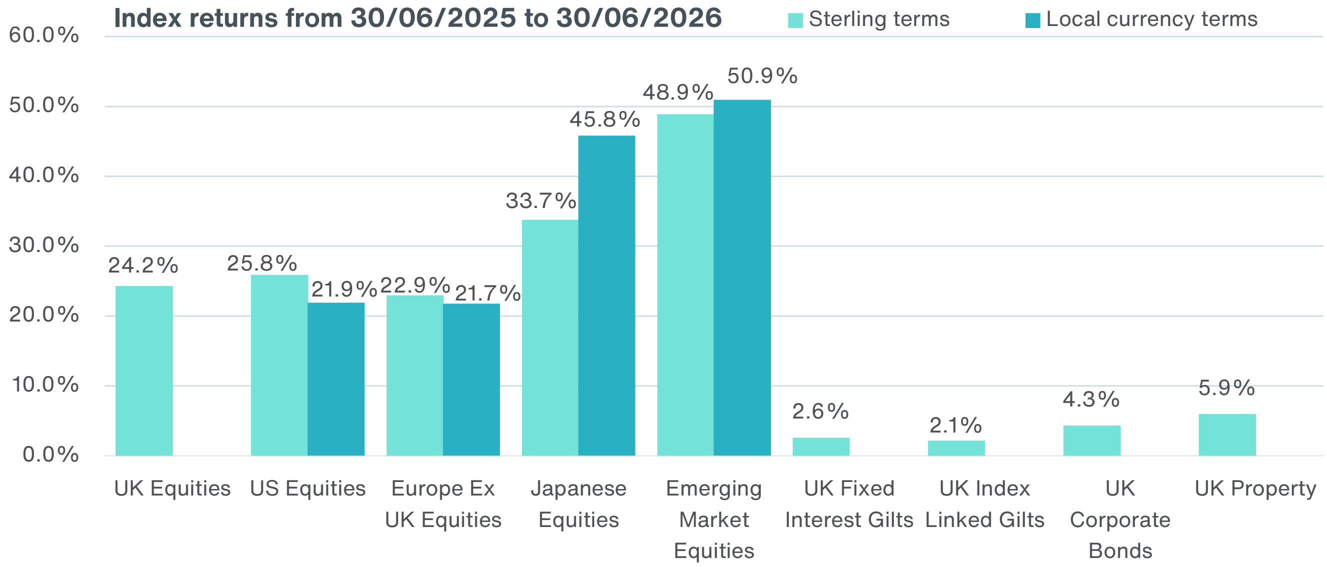
Gilts

UK gilt markets were volatile over the quarter, reflecting political uncertainty, fiscal concerns and changing inflation expectations. Yields rose through mid-May as investors assessed the implications of higher inflation and energy market disruption, before retracing much of the move as these concerns eased.

The UK 10-year yield rose from 4.84% at the end of March to a peak of 5.15% in mid-May. It ended the quarter at 4.75%, while longer-dated yields also finished below their mid-May highs.

The UK nominal gilt yield curve shifted downwards across all maturities over the quarter. The index-linked gilt yield curve shifted upwards, while breakeven inflation fell across all maturities, with the 10-year breakeven inflation falling by 0.44% to 3.15%.

Annual Market Background



Sources: FactSet, MSCI (Equities*, Property), FTSE (Gilts), iBoxx (Credit). *MSCI Indices show LOC gross total returns.

Key Themes

- **UK fiscal policy and political uncertainty:** Fiscal tightening, elevated borrowing requirements and political developments kept UK public finances and gilt markets in focus.
- **Middle East conflict and energy markets:** Escalating tensions triggered a sharp oil-price shock before easing later, influencing inflation expectations and market sentiment.
- **Trade policy and supply-chain realignment:** Tariffs, trade agreements and legal challenges to US trade policy continued to reshape global trade flows and strategic supply chains.
- **Central banks diverged as inflation risks resurfaced:** The BoE and Fed paused their easing cycles and adopted a more cautious stance, while the ECB resumed tightening and the Bank of Japan continued policy normalisation through further rate increases.

Equities

Global equity markets rose strongly over the last twelve months. The MSCI ACWI gained 28.2% in sterling terms. The UK was on par with most major regions, gaining 24.1%.

US equities delivered 25.8% in sterling terms over the twelve-month period. Emerging Markets were the best performers, rising 48.9% in sterling terms, led by Korea and Taiwan supported by strong semiconductor demand and continued AI investment.

Information Technology led performance, rising 53.1% globally, supported by strong AI-related investment, semiconductor demand and spending on digital infrastructure.

Energy also performed strongly, returning 28.6% globally, benefiting from robust cash flow generation and continued shareholder distributions.

Bonds

Global bond yields trended higher over the twelve-month period across major economies, with Korean and Japanese bond yields experiencing the largest increases.

Gilts

UK gilt yields rose across the curve over the twelve-month period and remained highly volatile, reflecting a combination of fiscal concerns, shifting inflation expectations and political uncertainty.

The UK 10-year gilt yield rose from 4.49% at the end of June 2025 to a peak of 5.15% in May 2026 before retracing to 4.75% by the end of June 2026.

The UK nominal gilt yield curve shifted upwards across all maturities over the 12 months. The index-linked gilt yield curve moved mostly upwards, except for the 1-year term, where it fell. Breakeven inflation mostly rose across all maturities.

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Asset Allocation

A review of your current and strategic asset allocations

Overall Asset Allocation – 30 June 2026

Asset Group	Manager	Valuation (£m)	Current allocation	Long-term strategy	Difference	Possible action
Equities		**1,951.9**	**37.8%**	**39.0%**	**-1.2%**	✓
	BCPP Global Equity Alpha	1,609.0	31.1%	31%	+0.1%	
	Baillie Gifford LTGG	342.8	6.6%	8%	-1.4%	
Property		**297.3**	**5.8%**	**4.3%**	**+2.5%**	⏱
	BCPP UK Real Estate	47.3	0.9%	4.3%	-3.4%	
	L&G	50.2	1.0%	-	+1.0%	
	Threadneedle	199.8	3.9%	-	+3.9%	
Infrastructure		**976.8**	**18.9%**	**15.0%**	**+3.9%**	⏱
	BCPP Infrastructure	532.4	10.3%	10.0%	+0.3%	
	BCPP Climate Opportunities	119.3	2.3%	4.0%	-1.7%	
	BCPP UK Opportunities	8.9	0.2%	1.0%	-0.8%	
	BCPP Listed Alternatives	316.2	6.1%	0.0%	+6.1%	

⚠ Action taken / potential action required

⏱ Awaiting drawdown

✓ No action required

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

Overall Asset Allocation – 30 June 2026 (cont.)

Asset Group	Manager	Valuation (£m)	Current allocation	Long-term strategy	Difference	Possible action
Private Credit		**245.3**	**4.8%**	**11.0%**	**-6.2%**	⏱
	BCPP Private Credit	234.9	4.6%	11.0%	-6.4%	
	Arcmont	8.6	0.2%	-	+0.2%	
	Permira	1.8	0.0%	-	-	
Non-Investment Grade Credit		**283.2**	**5.5%**	**5.2%**	**+0.3%**	✓
	BCPP Multi Asset Credit	283.2	5.5%			
Investment Grade Credit		**390.5**	**7.6%**	**8.0%**	**-0.4%**	✓
	BCPP Investment Grade Credit	390.5	7.6%			
Gilts		**944.1**	**18.3%**	**17.5%**	**+0.8%**	✓
	BCPP Index Linked Bonds	944.1	18.3%			
Cash		**79.1**	**1.5%**	**0.0%**	**+1.5%**	⏱
	Internal Cash	79.1	1.5%			
Total		**5,168.2**	**100.0%**	**100.0%**		

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

Investment strategy update

Recent and upcoming activity

- PFC members agreed to the following commitments and investments:
  - £100m investment at launch in Border to Coast's Global Sustainable Bonds fund (investment took place post quarter end)
- Post quarter end, allowing for Aon's market views, two £25m redemptions were made from the Border to Coast Investment Grade Credit fund, to partly meet private markets capital calls and partly for operational cashflow shortfall.
- A disinvestment of £50m was made from Threadneedle over the quarter – a further £50m disinvestment with Threadneedle has been placed post quarter end and is expected to be received October/November 2026.
- Officers and Advisors have held further discussions around short-term cashflow requirements and rebalancing opportunities prior to the September PFC meeting, at which, any further actions will be confirmed.

Transitions and cashflows

The following rebalancing activities took place over the quarter:

Border to Coast net capital calls and distributions (total distributions were c. £7.5m):

  - Climate Opportunities: c. +£4.7m
  - UK Opportunities: c. +£0.9m
  - Infrastructure: c. +£21.3m
  - Private Credit: c. +£11.1m
  - UK Property: c. +£23.1m

- c.£5.5m income was received from our public markets investments (BG LTGG and Border to Coast Corporate Bonds) which were dividends and coupon payments relating to Q1.
- A disinvestment of £50m was made from Threadneedle.

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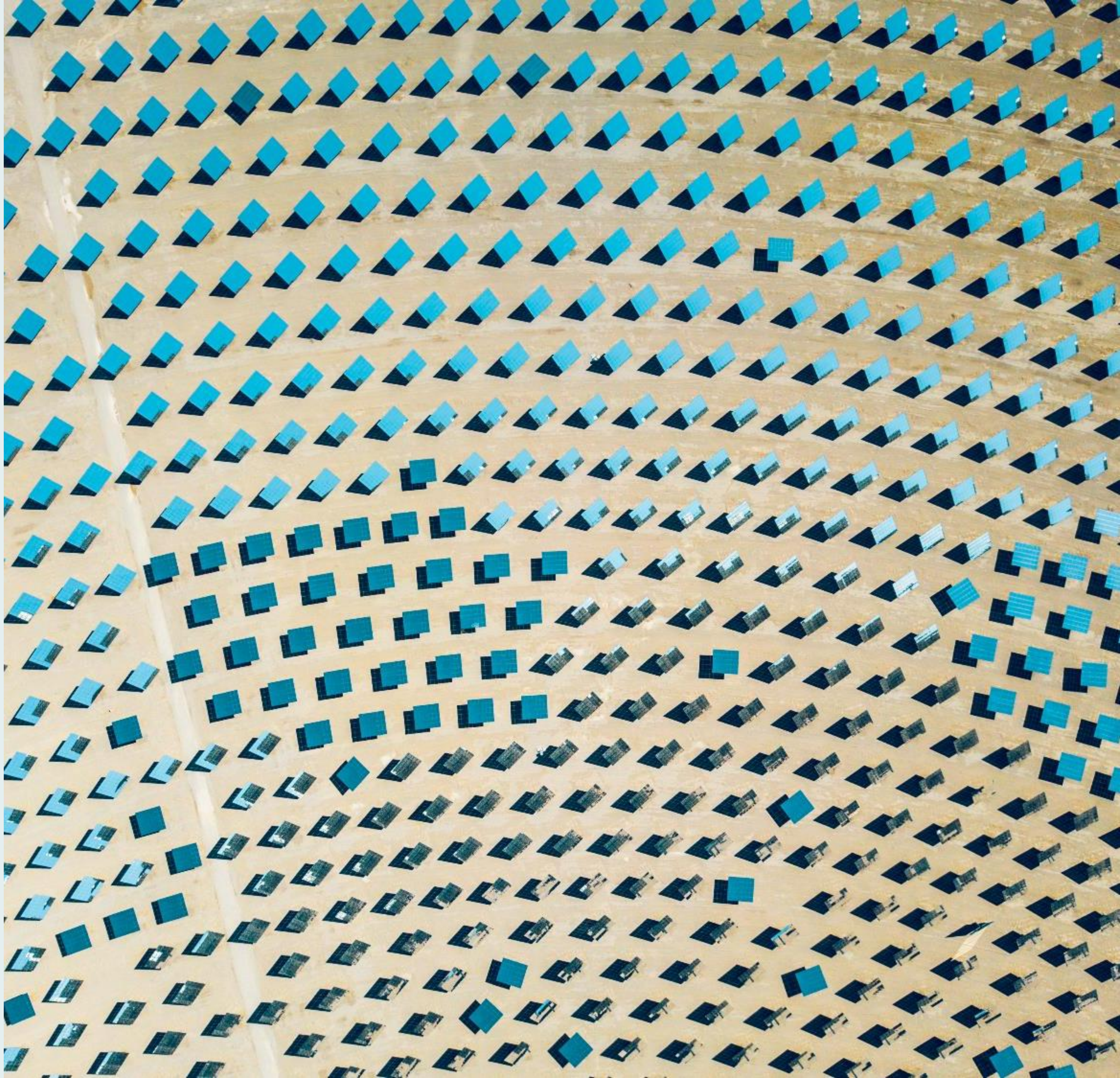
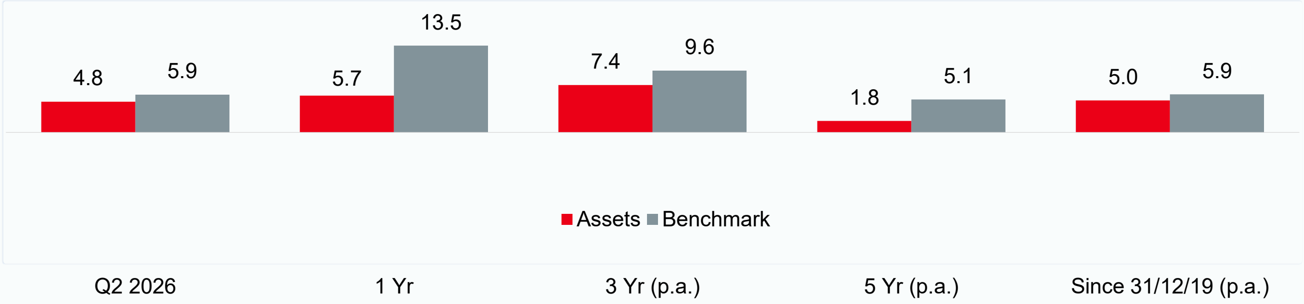
Fund performance

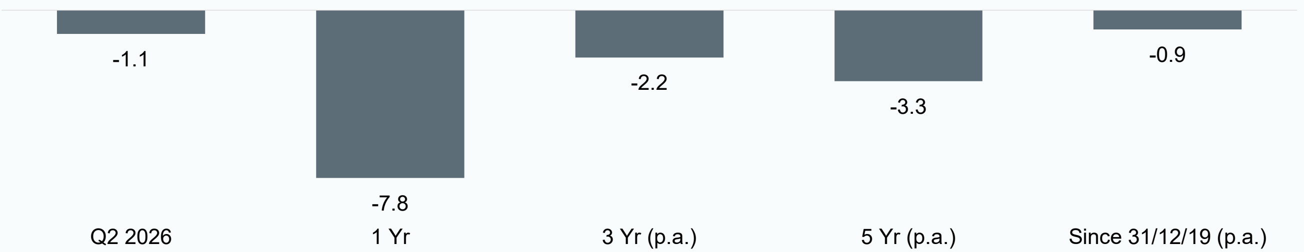
A review of your investment performance



Total Fund performance – snapshot

Fund performance & benchmark





Source: Northern Trust, Aon. Performance is shown net of fees.

Quarterly (relative)

-1.1%

The Fund underperformed the benchmark returning 4.8% vs 5.9% over the quarter.

3 year (relative)

-2.3% p.a.

Over 3 years the Fund has underperformed the benchmark returning 7.4% p.a. vs 9.6% p.a.

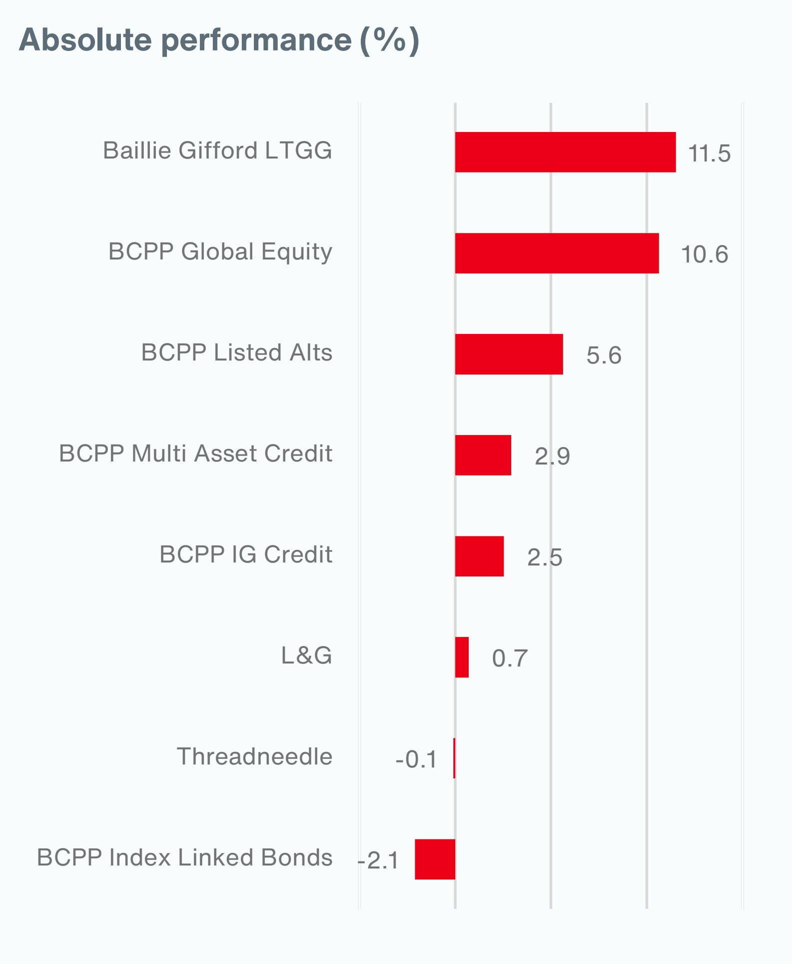
Comments

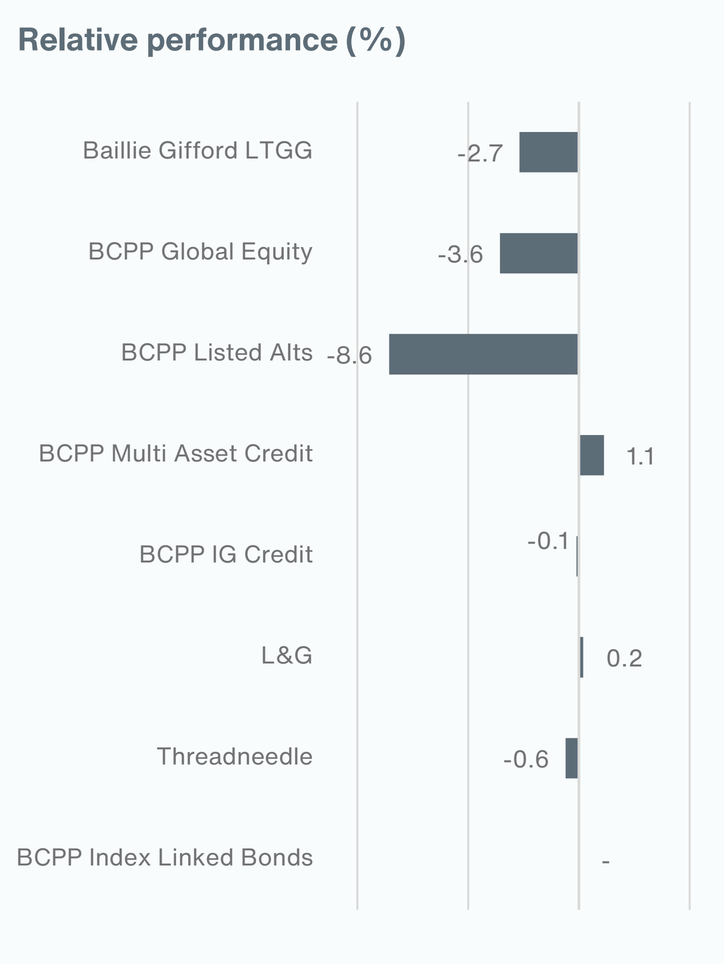
Total Fund performance is behind the composite benchmark over the quarter, 1 year, 3 year and 5 year period to 30 June 2026.

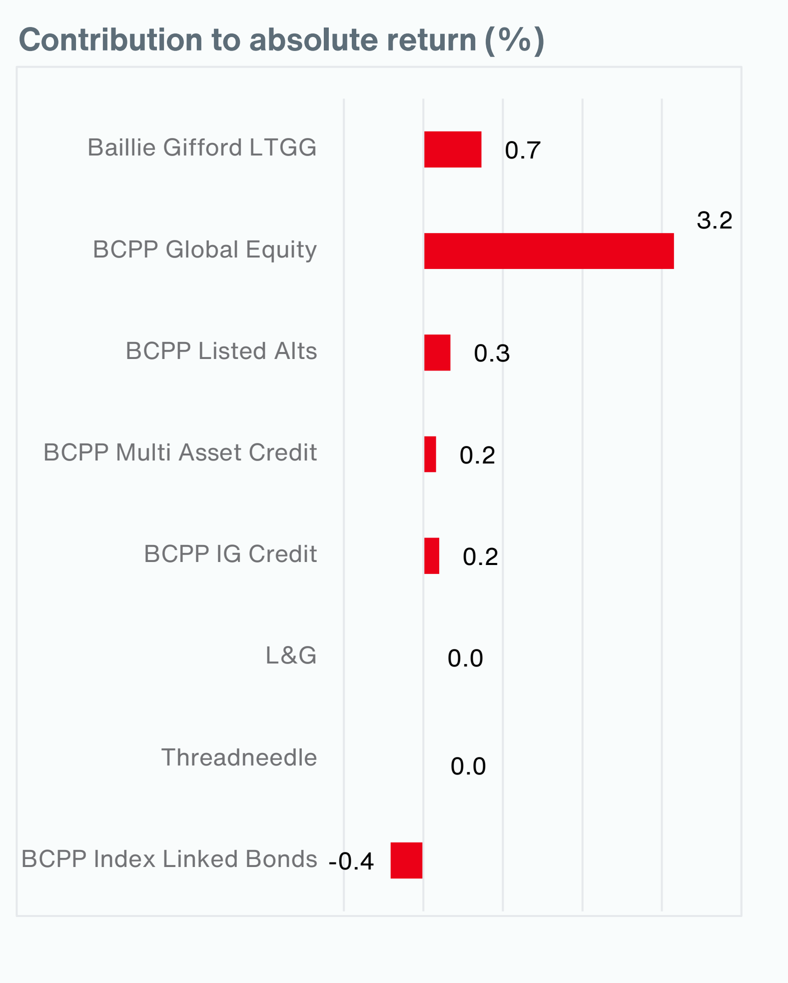
Note the 3 and 5 year performance is impacted by elevated volatility and challenging markets conditions over the 2020s which has included the Covid-19 pandemic, elevated inflation levels, and increased geopolitical tensions.

The performance figure since 31/12/19 is provided to illustrate how the Fund has performed over the entire period, including both before and after major market events in the 2020s. This allows for a more comprehensive assessment of long-term performance and the impact of significant market changes.

Manager performance – quarter snapshot







Source: Northern Trust, Managers, Aon. Performance is shown net of fees.
Note: BCPP Private Markets performance shown on pages (24-27). L&G, Threadneedle; MSCI data was used for fund performance and benchmarking purposes, total Fund performance calculated using Northern Trust data.

Manager performance – longer term

	Q2 26 asset allocation	1 Year (%)			3 Years (% p.a.)			5 Years (% p.a.)			Since 31/12/19 (% p.a.)			Since inception (% p.a.)			
		Perf	B'mark	Rel	Perf	B'mark	Rel	Perf	B'mark	Rel	Perf	B'mark	Rel	Perf	B'mark	Rel	Inception date
Equity																	
Global Equity																	
BCPP Global Equity	**31.1%**	8.9	27.7	-18.8	11.0	18.0	-7.0	7.8	11.9	-4.1	9.6	13.0	-3.4	10.1	13.2	-3.2	Oct-19
Baillie Gifford LTGG	**6.6%**	-3.7	28.1	-31.8	11.3	18.5	-7.2	-1.1	12.4	-13.4	11.8	13.3	-1.6	13.9	10.7	3.2	Sep-06
Property																	
L&G	**1.0%**	4.6	3.3	1.3	4.5	3.3	1.2	3.3	2.4	0.9	-	-	-	-	-	-	Dec-12
Threadneedle	**3.9%**	2.5	3.3	-0.8	3.0	3.3	-0.3	2.4	2.4	0.0	-	-	-	-	-	-	Jun-12
Infrastructure																	
BCPP Listed Alternatives	**6.1%**	7.8	27.7	-19.9	9.7	18.0	-8.3	-	-	-	-	-	-	4.6	12.7	-8.1	Feb-22
Investment grade credit																	
BCPP Investment Grade Credit	**7.6%**	4.6	4.3	0.3	6.9	6.4	0.5	0.1	-0.5	0.7	-	-	-	0.5	-0.4	0.9	Aug-20
Non-investment grade credit																	
BCPP Multi-Asset Credit	**5.5%**	7.8	7.4	0.3	8.7	8.2	0.5	-	-	-	-	-	-	3.9	7.2	-3.4	Nov-21
Gilts																	
BCPP Index Linked Bonds	**18.3%**	1.2	0.9	0.3	-5.4	-5.7	0.2	-14.3	-14.6	0.2	-	-	-	-12.5	-13.1	0.6	Oct-20
Total		**5.7**	**13.5**	**-7.8**	**7.4**	**9.6**	**-2.3**	**1.8**	**5.1**	**-3.3**	**5.0**	**5.9**	**-1.0**	**6.9**	**7.5**	**-0.5**	**Jan-02**

Source: Northern Trust, Managers, Aon. Numbers may not sum due to rounding. Performance is shown net of fees.
Note: BCPP Private Markets performance shown on pages (24-27). L&G, Threadneedle; MSCI data was used fund performance and benchmarking purposes.

Border to Coast Pensions Partnership – private infrastructure performance summary

BCPP Infrastructure

Fund	Q2 2026 Position				
	Capital Committed	Capital Drawn	Capital Distributed[1]	IRR[2]	TVPI[2]
Series 1A	98.7%	95.8%	31.8%	6.7%	1.25x
Series 1B	98.7%	87.9%	10.4%	4.4%	1.14x
Series 1C	100.0%	97.0%	20.0%	8.5%	1.29x
Series 1	-	-	-	6.9%	1.23x
Series 2A	99.7%	75.5%	9.4%	8.3%	1.17x
Series 2B	99.9%	44.7%	1.6%	(3.3)%	0.95x
Series 2C	100.0%	55.8%	6.2%	8.7%	1.08x
Series 2	-	-	-	5.7%	1.09x
Series 3A	95.8%	26.6%	0.5%	-	-
Series 3B	24.5%	5.8%	1.7%	-	-

Launched in July 2019, Border to Coast's Infrastructure offering targets investments into infrastructure assets and related companies, **with the objective of delivering long-term annual net returns of 8% p.a.** generated through a combination of income and capital return. Infrastructure investments provide exposure to assets that deliver, or facilitate, essential services which support economic growth, generate productivity and underpin societal and business operations.

Source: BCPP. [1]Includes recallable distributions. [2]Performance metrics are as at 31 March 2026.

Border to Coast Pensions Partnership – private credit performance summary

BCPP Private Credit

Fund	Q2 2026 Position				
	Capital Committed	Capital Drawn	Capital Distributed[1]	IRR[2]	TVPI[2]
Series 1A/B	99.5%	97.6%	55.2%	8.9%	1.27x
Series 1C	99.5%	98.2%	52.6%	8.9%	1.19x
Series 1	-	-	-	8.9%	1.22x
Series 2A	100.0%	66.7%	16.5%	8.1%	1.13x
Series 2B	99.1%	45.2%	7.8%	9.3%	1.10x
Series 2C	100.0%	23.9%	4.2%	8.2%	1.07x
Series 2	-	-	-	8.4%	1.11x
Series 3A	100.0%	9.7%	0.5%	-	-
Series 3B	0.0%	0.0%	0.0%	-	-

Launched in October 2019, Board to Coast's Private Credit offering seeks to invest in a variety of private credit instruments. **The objective for Series 1 and 2 is to deliver a long-term annual net return of 6% p.a. The objective for Series 3, launched in April 2025, is to deliver a long-term annual net return of 7%.** Private credit investments typically provide capital to privately held companies to support growth, refinancing, mergers and acquisitions, or to provide liquidity or capital structuring solutions.

Source: BCPP. [1]Includes recallable distributions. [2]Performance metrics are as at 31 March 2026.

Border to Coast Pensions Partnership - private diversified funds performance summary

BCPP Climate Opportunities

Fund	Q2 2026 Position				
	Capital Committed	Capital Drawn	Capital Distributed[1]	IRR[2]	TVPI[2]
Climate Opps Series 1 (Series 2A/B)	**99.9%**	**72.3%**	**10.2%**	**4.8%**	**1.09x**
Climate Opps Series 2 (Series 2C)	**65.7%**	**37.3%**	**4.5%**	**-**	**-**

Launched in April 2022, the Climate Opportunities offering seeks investments that will have a material positive impact on climate change and support long-term net zero carbon emission goals **with the objective of delivering a long-term annual net return of 8% p.a.** It includes investments across private equity, infrastructure and private credit.

Source: BCPP. [1]Includes recallable distributions. [2]Performance metrics are as at 31 March 2026.

Border to Coast Pensions Partnership - private diversified funds performance summary (cont.)

BCPP UK Opportunities

Fund	Q2 2026 Position				
	Capital Committed	Capital Drawn	Capital Distributed[1]	IRR[2]	TVPI[2]
UK Opps (Series 1)	**54.6%**	**37.4%**	**0.0%**	-	-

Launched in April 2024, the UK Opportunities offering seeks investments that contribute to the growth of the UK economy **with the objective of delivering a long-term annual net return of 8%.** It includes investments across real estate, private equity, infrastructure and private credit.

Source: BCPP. [1]Includes recallable distributions. [2]Performance metrics are as at 31 March 2026.

Border to Coast Pensions Partnership - private markets commitments summary

Strategy	Total Fund Commitments										
	Series 1	1A	1B	1C	Series 2	2A	2B	2C	Series 3	3A	3B
Private Credit	£195m	£75m		£120m	£210m	£70m	£70m	£70m	£440m	£220m	£220m
Infrastructure	£320m	£70m	£50m	£200m	£360m	£120m	£120m	£120m	£160m	£80m	£80m
Climate Opportunities	N/A	N/A			£260m	£140m		£120m	N/A	N/A	
UK Opportunities	N/A	N/A			£50m	N/A		£50m	N/A	N/A	

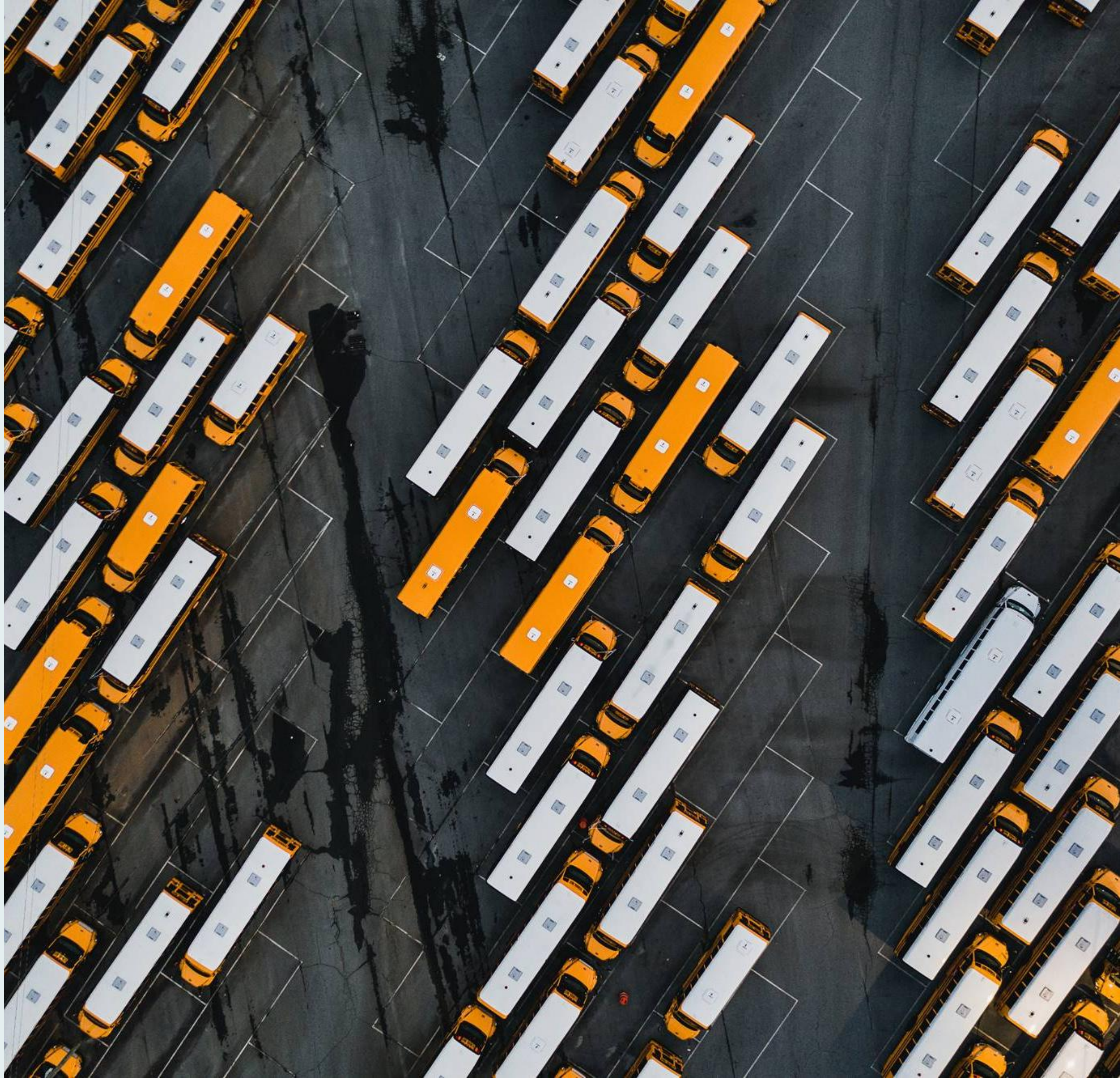
UK Real Estate - £37.49m committed on 30 June 2025

Source: BCPP, Aon, 31 March 2026.

6

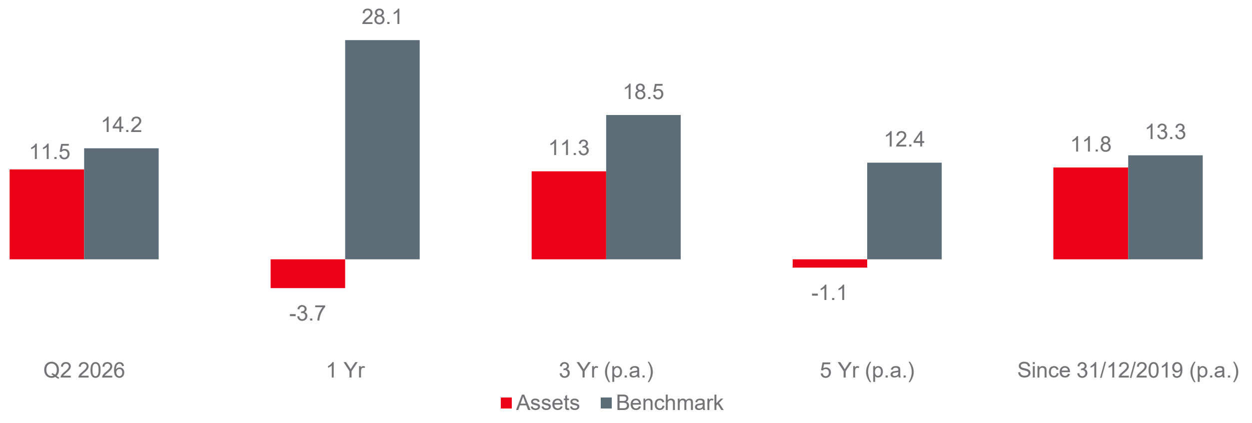
Manager review

Aon ratings and understanding manager performance



Baillie Gifford - LTGG

Fund performance & benchmark



Performance

- The strategy underperformed during Q2 2026. Performance was supported by several AI and semiconductor-related holdings, but these gains were offset by weakness across a number of Chinese consumer and growth-oriented holdings. The portfolio remained focused on long-term growth opportunities and retained significant exposure to themes such as AI infrastructure, digital platforms, healthcare innovation and automation.
- Notable contributors to performance were ASML, TSMC, Rocket Lab, AppLovin and Amazon. ASML benefited from continued demand for its scarce EUV lithography tools, while TSMC was supported by strong demand for leading-edge chips and advanced packaging driven by AI-related computing needs. Rocket Lab contributed through strong operational execution, higher launch activity and expansion of its space systems business. AppLovin benefited from continued revenue and EBITDA growth that reinforced confidence in its AI-driven advertising platform, while Amazon gained from growing expectations that AWS would be a key beneficiary of AI infrastructure demand alongside resilience in its advertising, Prime and logistics businesses.

Buy
Reviewed: August 2026

Ratings detail

ODD: A2 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: Fund Manager/Aon.

Baillie Gifford – LTGG (cont.)

Performance (cont.)

- Notable detractors included PDD Holdings, Netflix, Tencent, Horizon Robotics and Intuitive Surgical. PDD was affected by weak Chinese consumption, intense ecommerce competition and softer advertising spending despite continued transaction growth. Netflix detracted as investors questioned the sustainability and cost of future growth, while Tencent lagged amid subdued Chinese consumer activity despite continued progress in AI-related initiatives. Horizon Robotics was impacted by weakness in earlier-stage Chinese growth companies, and Intuitive Surgical suffered from valuation sensitivity and investor preference for more direct AI infrastructure beneficiaries rather than any fundamental deterioration in the long-term investment case.
- The portfolio holds companies perceived by the market as AI beneficiaries, as well as those viewed as potentially challenged by AI. Evolving market sentiment towards these themes has contributed to greater volatility in relative performance, making short-term outcomes more difficult to assess.

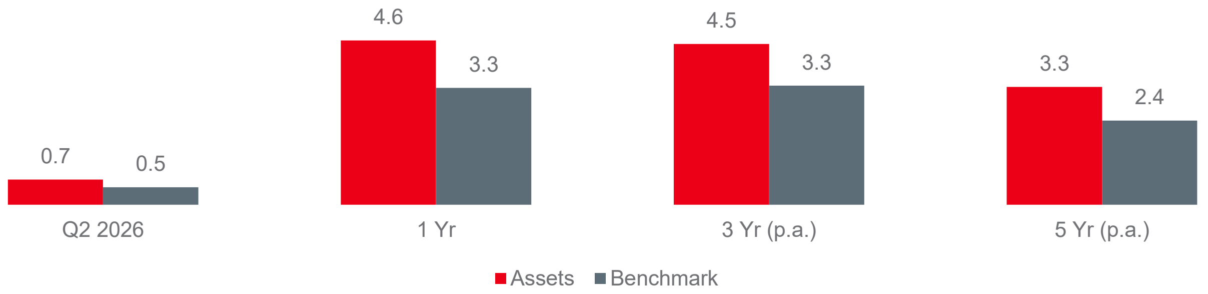
Positioning and Transactions

- Portfolio positioning during the quarter reflected the managers' continued emphasis on identifying exceptional long-term growth businesses through a bottom-up process rather than managing towards benchmark or sector weights. The portfolio maintained meaningful exposure to AI beneficiaries and AI infrastructure, including semiconductors, cloud computing, networks and digital platforms, alongside themes such as healthcare innovation, electrification, automation and digital consumption.
- Purchases were concentrated in areas where the managers identified long-duration growth opportunities. The team added to CATL, citing strong revenue and earnings growth and increasing momentum within its energy storage systems business. New holdings included QXO, where the managers were attracted by Brad Jacobs' consolidation strategy within the fragmented building supplies market, and SpaceX, reflecting conviction in its leadership across launch services, satellite connectivity, defence infrastructure and AI-related opportunities. The managers viewed both new holdings as providing exposure to significant long-term growth runways and differentiated competitive advantages.
- On the reduction side, the managers trimmed Coupang and Rocket Lab. The Coupang holding was reduced as growth and free cash flow progression had moderated and management confidence had weakened following a data breach, leading the team to reallocate capital towards higher-conviction opportunities. Rocket Lab was reduced following strong share price appreciation, with capital recycled to help fund the initial investment in SpaceX, although the team maintains conviction in Rocket Lab's long-term prospects.
- The managers also exited Atlassian. While the original investment thesis regarding Atlassian's embedded software products remained intact, the managers identified increasing uncertainty around the company's long-term competitive advantage in a potentially changing software landscape, alongside substantial management turnover. Capital was reallocated into companies where conviction was stronger following broader market weakness.

LGIM – Managed Property Fund

Buy
Reviewed: Q4 2025

Fund performance & benchmark



Performance commentary (Q1 2026)

- As of Q1 2026, the fund was marginally overweight to the alternatives (13.1% versus 11.9%) and residential (5.5% versus 2.0%) sectors and also maintained a strong cash position (8.3%). When compared to the benchmark, the fund holds a marginal underweight to retail (18.8% versus 19.8%) and marginally underweight positions to industrials (36.8% versus 40.1%) and offices (17.4% versus 18.9%).
- During Q1 2026, there were 15 successfully executed asset management initiatives, including 8 new lettings that contributed to continued rental growth throughout the portfolio. Central London office lettings proved particularly impactful, generating in excess of £4m in added value. A notable deal was the letting at Wardour Street, London, which completed 2.5% above the prevailing ERV following significant refurbishment and a capsule office fitout. Additionally, the fund successfully launched TK Maxx at Jackson Square Shopping Centre, a key anchor, increasing footfall and occupier demand for the scheme.

Key Info

Appointed: 1 November 2012

Vehicle: Property Fund

Mandate: UK Property Pooled Fund

Benchmark: MSCI/AREF UK Quarterly Property Fund Index

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

Source: MSCI data was used for fund performance and benchmarking purposes

LGIM – Managed Property Fund

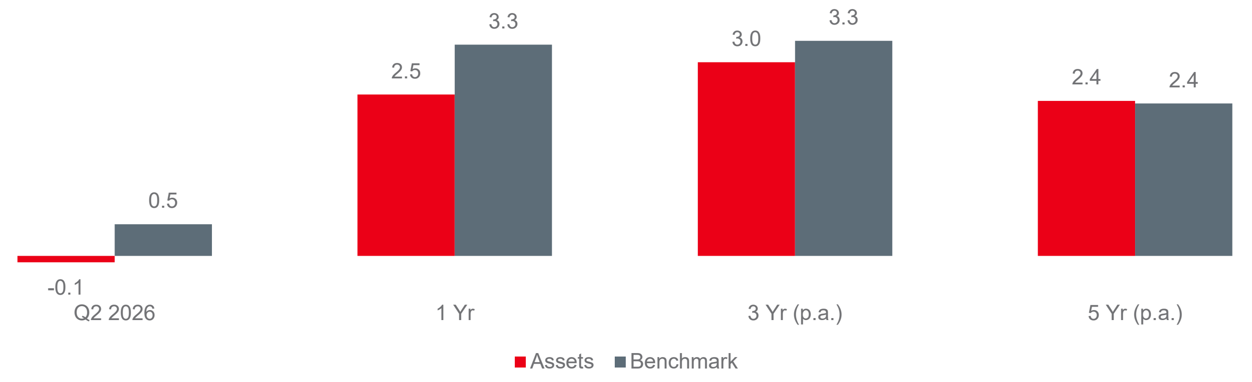
Transactions

- The Fund continues to invest capital in the portfolio, recycling out of two non-core assets and acquiring a prime London retail asset, alongside a partial purchase of an adjacent unit at Parkway IE, Luton. The acquisition of 7 retail units on Tottenham Court Road, London, a prime location 100m from Crossrail, accessing high quality real estate with strong income credentials. The asset acquired at a low point in the market cycle is expected to deliver over 9% pa, forecast to outperform both All Property and Retail market sectors. The disposal of Hythe House, Hammersmith, a vacant office building, unlocked a 30% increase in value following the achievement of Permitted Development Rights for residential conversion in Q4 2025. The Fund remains committed to continued investment to maintain the quality and relevance of the portfolio.

Threadneedle – TPEN

Buy
Reviewed: Q4 2025

Fund performance & benchmark



Key Info

Appointed: 21 June 2012

Vehicle: Property Fund

Mandate: UK Property Pooled Fund

Benchmark: MSCI/AREF UK Quarterly Property Fund Index

Target: To outperform the benchmark by 1 to 1.5%.

Major Developments (Q1 2026)

- As at the end of Q1 2026, the fund had a liquidity position of c. £54.5m, equivalent to 4.1% of the portfolio. The fund is currently targeting a number of strategic sales which will increase its liquidity in line with target (7%). The fund has been queuing redemptions pending asset sales. The queue was still in place at the end of Q1 2026.

Performance (Q1 2026)

- The fund continues to have an overweight position to industrials, with 51.3% of the portfolio invested in the sector versus the benchmark at 40.1%. The fund remains marginally underweight to retail at 19.4% versus 19.8%, however has an overweight position to retail warehouses (16.4% versus 12.2%). The Manager believes this sector is going to continue to outperform, benefitting from structural tailwinds, including ongoing supply chain reconfiguration and the continued evolution of omnichannel retail.

Source: MSCI data was used for fund performance and benchmarking purposes

Threadneedle – TPEN

Performance (Q1 2026) – cont.

- The Manager continues to look for out-of-town retail opportunities with repositioning potential, but the appetite for town centres and dominant regional shopping centres is growing albeit on a selective basis. The fund holds an in-line with benchmark position to offices (19.0%) but is underweight to both residential (0.0% versus 2.0%) and alternatives (7.9% versus 11.9%).
- Asset management initiatives remain a key part of TPEN's portfolio strategy, a total of 109 new lettings/lease renewals were successfully completed in the 12 months to end Q1 2026, with a combined rental value of c.£8.6 million per annum. The fund continues to maintain a high tenant retention rate of c.82%. It is estimated that from new letting activity and fixed rental value increases for the existing portfolio, the total rental income will increase by £0.7 million per annum over the next 12 months.
- During Q1 2026, the fund completed a regear on a retail unit in Aberdeen for 27,137 sq ft to Lidl, securing a new 20-year lease (with a tenant break option at year 15) for an Estimated Rental Value of £453,096 per annum (subject to CPI linked rent reviews.

Transactions

- During the quarter, the fund made two strategic asset sales totalling c. £3.0 million, with a further c.£150.0 million of sales under offer which are expected to complete in H1 2026.
- Asset sales have been focused on exiting non-core assets including offices and high street retail, complemented by selective industrial assets capitalising on residual market liquidity, to focus on repositioning the portfolio towards high conviction sectors. The fund sold 29 Regent Way, Hamilton (high street retail) and Pegasus House, Solihull (out of town offices).

Border to Coast Pensions Partnership – Quarterly high-level monitoring (Q2 2026)

Changes to views of External and Internal Managers

BCPP Global Equity Alpha

- Alliance Bernstein was introduced to the strategy in April 2026, replacing the outgoing manager Lindsell Train.
- Alliance Bernstein provides a more pragmatic, benchmark-aware quality exposure with an explicit focus on downside protection.
- During the quarter, the allocation to Jennison Associates was allowed to drift above the strategic weight to help partially counter the strategy's aggregate underweight to the AI hardware theme.

Source: Aon, BCPP External Quarterly Reports (Global Equity Alpha Q2 2026)

Border to Coast Pensions Partnership – RI Quarterly Report Snapshot

Global Equity Alpha Fund

Fund	Q2 2026 Position	
	Weighted Average Carbon Intensity	Weighted ESG Score
Global Equity Alpha	49.7	7.2
Benchmark (MSCI ACWI)	111.3	6.9

Sterling Investment Grade Credit Fund

Fund	Q2 2026 Position	
	Weighted Average Carbon Intensity	Weighted ESG Score
Sterling Investment Grade Credit	40.8	7.6
Benchmark (iBoxx Sterling Non Gilt Index)	48.6	7.8

Listed Alternatives Fund

Fund	Q2 2026 Position	
	Weighted Average Carbon Intensity	Weighted ESG Score
Listed Alternatives	186.2	7.4
Benchmark (MSCI ACWI)	111.3	6.9

Source: BCPP/MSCI[1]

Border to Coast Pensions Partnership – RI Quarterly Report Snapshot

Multi-Asset Credit

Fund	Q1 2026 Position	
	Weighted Average Carbon Intensity	Weighted ESG Score
Multi Asset Credit	307.7	4.8
MAC Benchmark	273.2	4.9

Sterling Index-Linked Bond Fund

Fund	Q1 2026 Position	
	Weighted Average Carbon Intensity	Weighted ESG Score
Sterling Index-Linked Bond Fund	65.6	6.6
Sterling Index-Linked Bond Fund Benchmark	0.0	6.6

[1]This disclosure was developed using information from MSCI ESG Research LLC or its affiliates or information providers. Although Border to Coast information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information (the "Information") from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may only be used for your internal use, may not be reproduced or redisseminated in any form* and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

*In accordance with the Licence Agreement between Border to Coast Pensions Partnership Limited and MSCI ESG Research (UK) Limited

Q2 2026 data not yet available

Source: BCPP/MSCI[1]

7

Market outlook and Aon's latest thinking

Forward looking views

AON

Quarterly Investment Outlook – July 2026*

- Whilst the breakdown in the Memorandum of Understanding between Iran and the U.S. has renewed instability in the Persian Gulf, oil prices have not returned to the highs seen in April and May. Markets appear confident that sufficient oil will continue to pass through the Strait of Hormuz, although we see the potential for repeated flare-ups and further upside shocks to inflation.
- The AI boom continues to support global growth and equity markets. Although markets look expensive rather than obviously bubbly, strong performance remains heavily dependent on the AI trade and disappointment around its progress could cause valuations and earnings to reverse. We therefore think this is a good time to review long-term strategy and build portfolio resilience by adding more asset classes.
- Lower core U.S. CPI inflation in June reinforces our view that Federal Reserve rate hikes are unlikely before December. However, with growth expected to remain strong and core inflation above target, we think modest monetary policy tightening will ultimately be required, although the hiking cycle is likely to be gradual.
- Markets are pricing slightly more than two Bank of England rate hikes over the next year. We think this is inconsistent with oil and gas futures markets, which expect energy prices to fall back, and with continued weakness in the UK economy. One hike may be used to signal that inflation risks are being monitored, but we do not think multiple hikes will be necessary if energy prices move in line with current futures pricing.
- We continue to recommend credit reviews to help investors optimise exposures across public and private markets. We see better value in areas such as asset-backed finance, bank capital relief and hybrid equity-debt solutions, which can offer improved diversification and attractive risk-adjusted returns compared with traditional corporate bonds. Manager selection remains crucial across private strategies.

Note: The opinions referenced are as at 15 July 2026 and are subject to change due to changes in market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

Latest Thinking

Infrastructure – long-term opportunities in essential assets

We believe infrastructure is an attractive area for investors seeking long-term return potential, diversification and resilience. The asset class is supported by essential services and stable cashflows, often with some inflation linkage. Structural themes including AI-driven data centre demand, digitalisation, the energy transition and the need to upgrade ageing infrastructure are creating a broad opportunity set. We are also seeing significant investment requirements across power generation and other critical infrastructure needed to support growing energy demand. However, returns vary significantly across sectors and managers, so implementation and manager selection remain key.

Asset-based finance – broader credit opportunities

Private credit has evolved significantly in recent years, with asset-based finance becoming an increasingly important part of the market. Rather than lending directly to corporates, these strategies provide exposure to diversified pools of assets, creating a broader opportunity set versus traditional private credit. With public IG credit spreads remaining tight and ABS becoming less attractive, asset-based finance can serve as a useful complement to existing credit allocations. Semi liquid solutions are becoming available to pooled investors which can offer enhanced risk-adjusted returns, contractual cashflows and diversification from public markets and corporate lending.

Passive equity – not always a passive decision

Passive investing has delivered low-cost market exposure, but growing concentration in capitalisation-weighted indices means investors may be “passively becoming active” by taking unintended bets on a small number of countries, sectors and stocks. By adopting a balanced approach between passive, factor, and active strategies, investors can mitigate these risks while still maintaining a cost-effective approach.

Contact us. For more information on any of these topics, please contact your usual Aon consultant.

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Further information

Border to Coast

Benchmark and Targets

Fund	Benchmark	Target
Global Equity Alpha Fund	MSCI ACWI (Net)	The fund aims to provide a total return (income and capital) which outperforms the total return of the MSCI All Country World (Net) Index by at least 2% per annum over rolling 5-year periods (after fees and expenses, including the calculation of the ACS Manager's Annual Management Charge).
Listed Alternatives Fund	MSCI ACWI (Net)	The fund aims to provide a total return (income and capital) in excess of the MSCI All Country World (Net) Index over rolling 5-year periods (after fees and expenses, including the calculation of the ACS Manager's Annual Management Charge).
Multi Asset Credit Fund	SONIA +3-4% p.a.	The fund aims to provide a total return (income and capital) in excess of the Sterling Overnight Interbank Average (SONIA) plus 3%-4% per annum over rolling 5-year periods (after fees and expenses, including the calculation of the ACS Manager's Annual Management Charge).
Sterling Investment Grade Credit Fund	iBoxx Sterling Non-Gilts Index	The fund aims to provide a total return (income and capital) in excess of the iBoxx-Sterling Non-Gilts Index plus 0.6% per annum over rolling 5-year periods (after fees and expenses, including the calculation of the ACS Manager's Annual Management Charge).
Sterling Index Linked Bond Fund	FTSE A Index Linked Gilts > 15 Years	The fund aims to provide a total return (income and capital) in excess of the FTSE Actuaries UK Index-Linked Gilts over 15 Years Index plus 0.2% per annum over rolling 5-year periods (after fees and expenses, including the calculation of the ACS Manager's Annual Management Charge).
UK Real Estate	MSCI UK Quarterly Property Index	CPI +4% over a rolling 10-year period.

Source: Border to Coast, Aon.

Explanation of Ratings

Overall Ratings

Overall Ratings

An overall rating is then derived taking into account both the above outcomes for the product. The table lists how the overall rating can be interpreted.

The comments and assertions reflect our views of the specific investment product and our opinion of its quality. Differences between the qualitative and Aon InForm outcome can occur and if meaningful these will be explained within the Key Monitoring Points section. Although the Aon InForm Assessment forms a valuable part of our manager research process, it does not automatically alter the overall rating where we already have a qualitative assessment. Overall rating changes must go through our qualitative manager vetting process. Similarly, we will not issue a Buy recommendation before fully vetting the manager on a qualitative basis.

Overall Rating	What does this mean?
Buy	We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products
Buy (Closed)	We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products, however it is closed to new investors
Qualified	A number of criteria have been met and we consider the investment manager to be qualified to manage client assets
Not Recommended	A quantitative assessment of this strategy indicates it does not meet our desired criteria for investment. This strategy is not recommended.
Sell	We recommend termination of client investments in this product
In Review	The rating is under review as we evaluate factors that may cause us to change the current rating

Explanation of Ratings

ODD

Operational Due Diligence ("ODD")

The ODD factor is assigned a rating. The table below describes what these ratings mean.

Please note: Operational due diligence inputs provided to the research team by Aon's Operational Risk Solutions and Analytics Group (ORSA). ORSA is an independent entity from Aon Solutions UK Limited, Aon Hewitt Investment Consulting, Inc., and Aon Hewitt Inc./Aon Hewitt Investment Management Inc. Investment advice is provided by these Aon entities.

Overall ODD Rating	What does this mean?
A1 Pass	No material operational concerns – the firm's operations largely align with a well-controlled operating environment.
A2 Pass	The firm's operations largely align with a well-controlled operating environment, with limited exceptions – managers may be rated within this category due to resource limitations or where isolated areas do not align with best practice.
Conditional Pass ("CP")	Specific operational concerns noted that the firm has agreed to address in a reasonable timeframe; upon resolution, we will review the firm's rating.

Explanation of Ratings

Overall Ratings

ESG Factor

The ESG factor is assigned a rating and can be interpreted as follows:

Overall ESG Rating	What does this mean?
Advanced	The fund management team demonstrates an advanced awareness of potential ESG risks in the investment strategy. The fund management team can demonstrate advanced processes to identify, evaluate and potentially mitigate these risks across the entire portfolio.
Integrated	The fund management team has taken appropriate steps to identify, evaluate and mitigate potential financially material ESG risks within the portfolio.
Limited	The fund management team has taken limited steps to address ESG considerations in the portfolio.
Not Applicable	ESG risks and considerations are not applicable to this strategy, for example, on the grounds of materiality or asset class relevance

Method

Liabilities

This funding update is consistent with the calculations for the formal actuarial valuation at 31 March 2025. 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 at 31 March 2025 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:

- Known fund returns provided; and
- 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 2025 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.

Assets

For the purpose of this funding update, we have used an unaudited value of the assets at 30 June 2026 as provided by the Administering Authority.

Contributions

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.

Assumptions

	Discount rate (Ongoing/Low Risk)	Pay growth (Ongoing/Low Risk)	Pension increases (Ongoing/Low Risk)
31 March 2025	4.80% / 5.00%	3.35% / 4.20%	2.10% / 2.95%
31 March 2026	4.90% / 5.30%	3.45% / 4.45%	2.20% / 3.20%
30 June 2026	5.05% / 5.25%	3.45% / 4.25%	2.20% / 3.00%

AON

Risk/Return Assumptions

- The table to the right sets out the 10-year median returns and volatility assumptions in absolute terms used in the modelling.
- Assumptions are based on Aon's Capital Market Assumptions as at 30 June 2026
- Allocations modelled are those set out in the main body of this presentation. Allocations are assumed to be annually rebalanced.
- Allowance for active management is made in some of the assets classes, in particular where there is no real passive version of the asset, for example private equity funds.
- Unless stated otherwise, all returns are net of underlying manager fees.

High level asset class	Expected Return	Expected Volatility
Global equity	7.6%	18.2%
Property	6.5%	12.6%
Infrastructure	9.3%	16.4%
Listed alternatives	7.6%	18.2%
Climate opportunities	9.3%	16.3%
UK opportunities	8.4%	9.6%
Illiquid credit	8.1%	7.6%
Investment grade credit	5.9%	10.1%
Non-investment grade credit	6.6%	8.7%
Absolute Return	7.9%	5.3%
Gilts	4.8%	9.8%
Cash	4.2%	1.2%

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

Correlation Table

High level asset class	Global Equity	Property	Infrastructure	Listed Alternatives	Climate Opportunities	UK Opportunities	Illiquid credit	IG Credit	Non-IG Credit	Absolute Return	Gilts	Cash
Global Equity	100%	33%	63%	100%	63%	68%	18%	5%	49%	23%	-6%	-2%
Property		100%	18%	33%	18%	61%	18%	4%	25%	7%	-1%	6%
Infrastructure			100%	63%	100%	70%	9%	2%	21%	21%	-3%	1%
Listed Alternatives				100%	63%	68%	18%	5%	49%	23%	-6%	-2%
Climate Opportunities					100%	71%	9%	2%	21%	21%	-3%	1%
UK Opportunities						100%	35%	24%	42%	21%	3%	8%
Illiquid credit							100%	67%	62%	14%	3%	14%
IG Credit								100%	34%	16%	46%	35%
Non-IG Credit									100%	20%	1%	9%
Absolute Return										100%	8%	29%
Gilts											100%	29%
Cash												100%

Data and assumptions

Date of calculation	30 June 2026
Number of simulations	5000
Time horizon	10 years
Asset value	£ 5,168.2M

- 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).
- Climate Opportunities has been modelled as 60% US and 40% Euro Infrastructure.
- UK Opportunities has been modelled as 30% UK property, 30% Euro Infrastructure, 15% private equity, 15% direct lending and 10% UK corporate bonds (A-rated with average duration of 10 years)
- 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 62.9% 15 year index-linked gilts and 37.1% 20 year index-linked 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 Global Equities which make up 39% 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 as Passive Global Equity (including Emerging Markets) which reflects the current allocation.

Purpose, key assumptions and judgements of the model

The purpose of this analysis is to consider and monitor the return and risk characteristics of the current and long term investment strategy of the Fund. The key assumptions and judgements of the model are set out below and we believe are reasonable for the intended purpose.

- The calculation considers (5000 stochastic) simulations of annual absolute returns over the period modelled. The simulations are constructed using Aon's Stochastic Asset Model, further details and assumptions are outlined in this appendix.
- A liability proxy is not considered.
- Allocations are assumed to be annually rebalanced, in practice this may not always be possible for illiquid assets.
- The calculations do not take into account any cashflows payable.

Limitations

Material risks to the Fund include covenant, longevity, market, inflation, contributions, expenses and liquidity.

- Our stochastic scenarios include market risk only, and this risk is present in the distribution of returns and is reflected in the risk metrics shown. Market risk has been calculated on an asset only basis.
- This modelling does not cover liability basis, inflation, covenant, longevity, contributions, expenses and liquidity risk. When using the modelling analysis, the user should consider how these risks apply and whether they are material to the decisions under consideration.

There are other factors that could materially affect the Fund's funding and strategy decisions, or the exposure or realisation of the risks above:

- These other factors include external factors such as climate change or political, regulatory and legislative change.
- The general risk factors of economic or technological change are reflected in our economic assumptions and the prevalence of extreme events in our economic model, but not all specific risks can be captured (e.g. disruptions to the financial system, or technological change leading to improvements in longevity).
- There are other risks to which the Fund is exposed that we assume are not material to long-term funding and investment strategy decisions, such as timing of member options or operational risks

Limitations (continued)

There are necessarily some limitations associated with the stochastic scenarios calibrated to Aon's Capital Market Assumptions used for asset-liability modelling.

- CMAs and asset-liability modelling. Asset-liability projections rely on views of the future and whilst median projections are our Aon-house views (intended to reflect no bias), we do not know what will materialise in practice (for example it cannot be predicted exactly how the equity market and bond market will develop over the next year). To help build up a more complete picture of possible outcomes, we project assets and liabilities stochastically with the aim of capturing the uncertainty associated with the projections. This approach is designed to be coherent with each asset being calibrated to target a CMA median return, volatility and set of interdependencies (correlations) assumptions. Nevertheless, there remain some limitations, including but not limited to those set out below.
- Whilst Aon's CMA assumptions are supported by historical data, current financial market prices and expert views there are necessary some limitations in the analysis, including, but not limited to, the following:
    - Long-term versus short-term. The stochastic scenario calibration primarily seeks to capture a realistic long-term distribution of outcomes but is also mindful of short-term risk behaviours. These, sometimes competing, objectives can lead to some trade-offs within stochastic scenario calibration and the requirement for significant expert judgement. Where significant focus is applied to an individual asset class, particularly for more extreme outcomes, the user should bear this limitation in mind, and/or may wish to consider the use of deterministic scenarios.
    - Only 5,000 scenarios are produced. There is necessarily a trade-off between running more scenarios and spurious accuracy. Notably as you approach extreme tails, i.e., 1-200 this is an area of the distributions where there is insufficient market information to apply rigorous statistical analysis to explicitly calibrate models to, as such seeking to define the model outcome with a high degree of confidence is to some extent spurious and will be heavily driven by model selection.
    - Data used for the CMAs may be limited and/or be subject to interpretation for relevance today. The issues that arise from a lack of or poor historical data may be compounded by changing context. For example, for part of the last 100 years the UK was either on the gold standard or a quasi-gold standard, which is a very different economic framework than floating currencies. This obviously creates significant issues for the relevance of any cash rate and bond yield data.
    - Defined randomness rather than chaotic behaviour. The model, by necessity, assumes an underlying distribution of returns and yields. This presumes the underlying asset returns are random in nature rather than deterministic and chaotic. In a deterministic and/or chaotic framework the concept of a 1-in-X event has no meaning and so is not used in this modelling.
    - Some extreme events are not modelled. Our model is built on the premise that the current monetary and political framework will continue and presumes that there will not be a breakdown of civil order, a major natural disaster, UK government default or a significant global armed conflict. We view these risks as being outside the typical use case, however where very extreme scenarios are considered these may be relevant and should be addressed through deterministic scenario analysis.
    - Unknown unknowns. The model deals with known risks and therefore does not allow for "black swan events" or "unknown unknowns", while our model does have fat tails, it is not possible to fully allow for these types of unknown risks.
    - Volatilities and correlations. Volatility and the correlation of assets are only observable after the fact and can change over time. Within the stochastic scenario calibration, volatility and correlations vary for each of 5,000 scenarios, with the distribution of outcomes largely a function of the chosen economic models and the median long-term volatility and correlation targets. Some correlation behaviour is introduced in the tails e.g., large equity falls with more downward credit transitions.

Capital Market Assumptions

Aon's Capital Market Assumptions (CMAs) are our asset class return, volatility, and correlation assumptions. The return assumptions are "best estimates" of annualised returns. Below we set out the key features and approach taken in setting these assumptions.

- Aon’s CMAs. Market risk is the primary risk considered as part of the CMA setting process.
  - The return assumptions are Aon’s “best estimate” returns, with the uncertainty around the expected return represented by the volatility (annualised standard deviation of returns over the projection period) assumptions. Correlation assumptions allow for the interconnectedness of the risks facing different asset classes.
  - By ‘best estimate’ we specifically refer to the median annualised return. That is, there is a 50/50 chance that outcomes will be above or below the assumptions.
  - Assumptions are set by Aon's Global Asset Allocation Team and represent the long-term (10 and 30 year) market outlook.
  - Our long-term assumptions are based on historical results, current market characteristics, our professional judgment, and forward-looking consensus views.
- Consideration of other approaches. Alternative approaches include using generalized global models, such as the Capital Asset Pricing Model (CAPM) or a fixed risk premia approach, but we believe these approaches over-simplify the analysis and do not capture as much of the intricacies around each asset class.
- Climate risks. We consider the impacts of climate change when setting our assumptions. Making direct adjustments is challenging and subject to a high degree of subjectivity, as climate change effects are extremely ‘non-linear’. Aon’s capital market assumptions (CMAs) are based on long-term consensus views of what is priced into the market, and therefore indirectly capture the climate risk that is currently captured in current market conditions. A separate range of deterministic scenarios focusing on climate change scenarios can be used to inform and help aid decisions.
- Other risks. The effects of other internal or external environmental factors, such as technological, economic, political and geopolitical, regulatory and legislative changes, are also indirectly captured, in consensus views on the economic outlook and market pricing, which feed into our return assumptions.

Aon's Stochastic Scenario Generator (SSG) Model

Aon's Stochastic Scenario Generator (SSG) Model is a set of 5,000 stochastic scenarios, calibrated quarterly to Aon's Capital Market Assumptions. These stochastic scenarios can be used to evaluate the risk and return characteristics of a Fund's assets versus its liabilities.

Asset-liability modelling

- Stochastic scenarios. Aon's Capital Market Assumptions CMAs are used as targets to calibrate a set (typically 5,000) of stochastic scenarios for each economic variable. This allows us to perform stochastic asset-liability studies i.e. project portfolios of assets and liabilities many times into the future, building up a coherent picture of possible outcomes. Allowing for the interactions of asset and liabilities stochastically impacts median outcomes and enables percentile outcomes and probabilistic metrics to be considered.
- Consistent framework. All the major markets and asset classes are modelled within a consistent framework allowing for the interactions between them to be properly taken into account.
- Model choice. When setting assumptions, we have opted to use different economic models for different asset classes (listed on this slide), as we believe this would be the best way to capture the specific characteristics associated with each asset class.

Key economic models used

- Nominal yields are modelled using an extended displaced Black-Karasinski model, which enables us to model full yield curves. Yields are positively skewed, and the model can fit the starting curve. In the current calibration, average nominal yields are assumed to broadly follow the market for the first c.20 years of the projections.
- Real yields are modelled using a Hull-White model, this enables us to model unbounded full yield curves. The model can fit the starting curve. In the current calibration, average real yields are assumed to broadly follow the market for the first c.20 years of the projections
- Inflation is taken as the difference between nominal and real short rates, and the positive skew of the nominal yield model ensures realised inflation is positively skewed. For realised inflation a 'surprise' element is allowed for making inflation more volatile that purely predicted by the short rates.
- Investment grade corporate bonds are modelled using an extended Jarrow-Lando-Turnbull framework which assumes bonds can be modelled based on their credit rating and anticipated cashflows. This ensures positive credit spreads with positive skew and ratings transitions which broadly reflect historically observed transitions.
- Return-seeking assets are modelled using exposures to factors, where each factor can contain stochastic volatility and/or jump diffusion process. This gives the flexibility to capture more complex tail behaviour than is typically observed in simpler log-normal models.
- Other assets generally use outputs from the models above and exposure to some degree of idiosyncratic element in order to capture desired properties for the asset being considered.

TAS compliance

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

This document has been requested by the Administering Authority. It has been prepared under the terms of the Agreement between the North Yorkshire Council and Aon Solutions UK Limited on the understanding that it is solely for the benefit of the addressee.

This document, and the work relating to it, complies with ‘Technical Actuarial Standard 100: General Actuarial Standards' ('TAS 100') (updated July 2023).

The compliance is on the basis that North Yorkshire Council is the addressee and the only user and that the document is for information only and is not to be used to make any decisions on the contributions payable or the investment strategy. If you intend to make any decisions after reviewing this document, please let me know and I will consider what further information I need to provide to help you make those decisions.

This document should be read in conjunction with:

- The report on the most recent actuarial valuation of the Fund as at 31 March 2025.
- The latest Funding Strategy Statement.

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

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