Appendix A

REDINGTON

West Midlands Pension Fund

YOUR MARKET AND INVESTMENT UPDATE

Q4 2023

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WHAT HAPPENED DURING THE QUARTER

Pete Drewienkiewicz (Chief Investment Officer)

Market Summary

Q4 2023 was defined by a single data point – the US CPI release in mid-November. This came in below expectations, further strengthening market conviction in the Federal Reserve pulling off a "soft landing". Both stocks and bonds rallied strongly in response, although the asset classes remain highly correlated, emphasising the importance of forthcoming inflation data. All major central banks put further rate hikes on pause throughout the quarter, and markets are now pricing numerous rate cuts for 2024, beginning as early as March.

Key Points for You

- Expected returns remained broadly consistent over the quarter at Gilts +3.3%. This was primarily driven by a reduction in the allocation to equities (in line with the direction of travel towards the Fund's new SAA), offset by an increase in our expected return assumption for the asset class.
- Asset-side risk, as measured by VaR 95%, decreased from 15.4% at 30th September 2023 to 14.1% at 31 December 2023. This was primarily driven by the reduced allocation to equities.

Market Data

Equity Index	Level	Change since 30-Sep-23	Change since 31-Dec-22
FTSE 100 (Total Return)	8265	2.3%	7.9%
S&P 500 (Total Return)	10357	12.0%	26.3%
EuroStoxx 50 (Total Return)	2100	8.6%	23.2%
Nikkei 225 (Total Return)	58704	5.2%	31.0%
MSCI World (Total Return)	7679	9.8%	23.1%
MSCI Emerging Markets (Total Return)	689	5.6%	9.9%
FX			
USD vs GBP	1.27	4.4%	5.2%
EUR vs GBP	1.15	0.0%	2.0%
Credit Spreads			
Sterling Non-Gilt Index	123	7 bps	-2 bps
Sterling Non-Gilt 15Y+ Index	164	6 bps	-11 bps
Global Investment Grade	122	-4 bps	-15 bps
US Investment Grade	136	-6 bps	-19 bps
Global High Yield	348	-37 bps	-94 bps
European High Yield	319	-20 bps	-62 bps

Market Data

UK Gilts	Level	Change since 30-Sep-23	Change since 31-Dec-22
10Y	3.66	-88 bps	-15 bps
30Y	4.30	-74 bps	38 bps
UK Nominal Swaps			
10Y	3.55	-105 bps	-43 bps
30Y	3.62	-80 bps	-1 bps
Gilt Breakeven Inflation			
10Y	3.40	-38 bps	-17 bps
30Y	3.27	-21 bps	-13 bps
UK RPI Swap			
10Y	3.53	-40 bps	-38 bps
30Y	3.17	-23 bps	-21 bps
UK Gilt Real Rates			
10Y	0.26	-50 bps	2 bps
30Y	1.03	-53 bps	51 bps
US TIPS			
20Y	2.20	-38 bps	32 bps
30Y	1.82	-41 bps	24 bps

VIEWS FROM THE ASSET CLASS SPECIALISTS

Kate Mijakowska

Government Bonds

In Q4 2023, UK 30-year nominal gilt yields fell by 74bps. Breakeven inflation at the same tenor fell by 18bps, which brings UK 30-year real yields 56bps lower. This followed meaningful yield decreases in the US. This move was driven by the market significantly revising its expectations about the speed and number of rate cuts in 2024, based partly on data and partly on the Fed's communication. In the UK, both the November and December Consumer Price Index ("CPI") prints came in below expectations, at 3.9% and 4.0% respectively. At the end of December 2023, the market was pricing in over 150bps of cumulative rate cuts in the UK over the course of 2024. Nominal z-spreads (a measure reflecting the relative attractiveness of gilts versus swaps) remain high, at 78ps at the 30-year tenor. Meanwhile, repo spreads have increased slightly, albeit from very low levels, and now sit in the high teens.

Oliver Wayne

Liquid Markets (Equities)

Developed markets ("DM") posted strong returns over Q4, spurred by growing excitement that the US Federal Reserve could cut interest rates sooner than expected. US shares fared best, with the S&P 500 ending the quarter near its all-time high, while UK and European equities were also buoyed by optimism over possible rate cuts. Top-performing sectors included those most sensitive to interest rates, including technology and real estate, while industrials also outperformed. The energy sector lagged amid lower oil prices, and healthcare was also behind. Emerging markets ("EM") lagged DM, though still delivered strong gains. Rising geopolitical tensions in the Middle East and ongoing concerns about China's real estate sector weighed on sentiment, partly offset by strong performance from Latin America, which was boosted by hopes of a soft landing for the global economy. From a style factor perspective, quality managers did best, though most ships were lifted by the rising tide. From a size perspective, smaller companies outperformed in both DM and EM.

Alex Robinson

Liquid Markets (Multi-Asset)

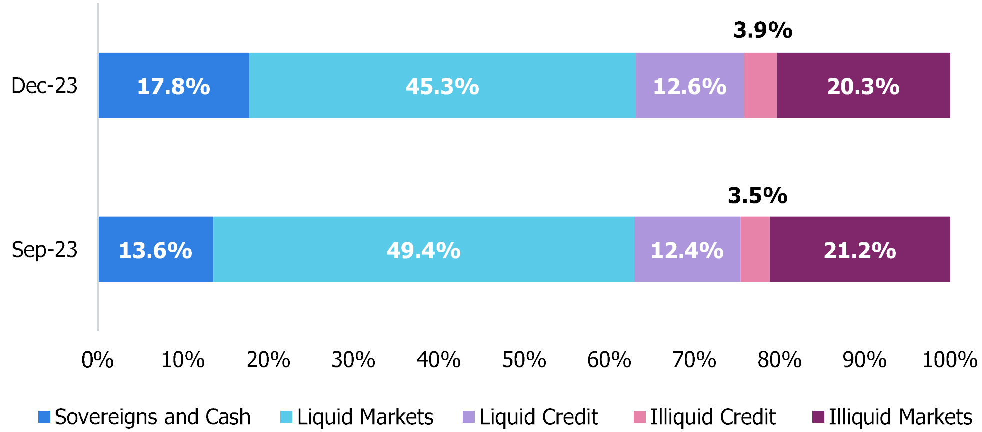
It was a strong quarter for risk assets over Q4 as investors became increasingly optimistic following dovish tones from central banks that brought forward expectations of rate cuts in early 2024. Bond yields were significantly lower through the quarter and equity and fixed income markets rallied. These moves benefited long-only multi-asset managers, particularly those who had stuck with significant duration exposure throughout the year. Commodities had a weak quarter, driven primarily by energy as gas and oil prices moved sharply lower. For risk parity strategies, the positive performance in equities and fixed income helped offset some underperformance in commodities. Broadly, trend-following strategies had a disappointing Q4, with the majority of poor performance coming in November from short fixed income and long US Dollar positions. Event-driven strategies broadly had a more positive end to the year, following a tough 2023 when headwinds from an onerous regulatory environment, prominent deal breaks, an opaque interest rate outlook and stunted levels of M&A activity presented a challenging environment for the strategy.

VIEWS FROM THE ASSET CLASS SPECIALISTS

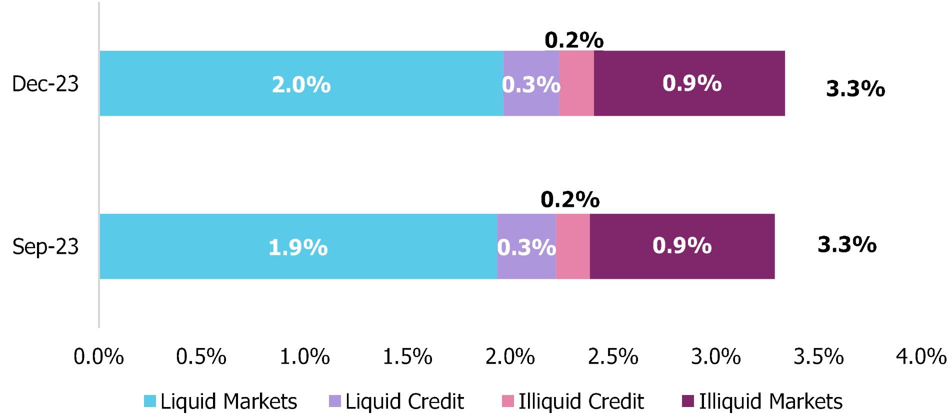
	**Chris Bikos** **Liquid & Semi-Liquid Credit**	Q4 2023 can be best described as an "everything rally" environment. This market rally coincided with a sharp decline in government bond yields and credit spreads moving tighter across the board. All major central banks kept rates unchanged and inflation rates came in lower than market expectations. Throughout 2023, these have been the two main drivers of yields and asset prices. High yield outperformed investment grade on a spread basis. More specifically, the US high yield market outperformed its European counterpart by c.1% on an excess return basis. In investment grade, long-duration outperformed other maturities from a total return perspective, driven by falling rates. Leveraged loans had another strong quarter and 2023 was the second strongest year from a return perspective on record. Emerging market debt ("EMD") produced positive performance across all segments, with currencies strengthening versus the U.S. dollar, interest rates falling in most economies worldwide, and credit spreads tightening. The Local Currency EMD index was top performing, followed by EM Corporates and Hard Currency Sovereigns.
	**Tricia Ward** **Illiquid Credit**	Performance remains broadly resilient, with Q3 senior-secured private credit yields reaching a high of 11.8% (source: Lincoln) and default rates at 1.41%, a continued decline from the Q1 level of 2.15% (source: Proskauer). By the end of Q3, private credit provided 86% of the loans for the leveraged buy-out market. Deal spreads in the upper-mid markets peaked 12 months ago, 75bps wider than the 575bps level typically executed in Q4 for equivalent credits. Q4 EBITDA (a measure of corporate profitability) growth year-over-year across US middle-market companies was the strongest for 8 years, excluding the post-COVID rebound in Q2 2021. Having focused on cost-cutting measures in Q2 to offset rising rates and inflation, strong borrowers have exerted pricing power, thereby contributing to improved EBITDA. Again, not all private credit is equal. We are aware of challenges in the US consumer and healthcare sectors. Experience in asset-based finance – where financing is secured against companies' cashflows or hard assets – is still relatively limited, and it remains to be seen how borrowers manage the continued pressure of the higher-for-longer rate environment and how that changes the opportunity set for junior and "payment-in-kind" debt issuance (where borrowers can make interest payments in forms other than cash).
	**Sarah Miller** **Illiquid Markets**	Across real assets, fundraising over 2023 reflected a c.40% drop vs 2022, according to Preqin, with a c.73% decline in infrastructure raising driving a 10-year low. Notably, two large infrastructure funds closed in Q4, helping the fundraising to rebound from what had been a 90% decline. In infrastructure, investors remained cautious, with deal volumes falling 40% year-on-year vs 2022 due to wide bid-ask spreads on underlying deals, despite $300bn of dry powder (cash-like reserves that are available for deployment when investment opportunities arise) available across the industry. High costs of debt have challenged the financial viability of new development projects, thereby also slowing deployment. The EDHEC Infra300 index (equally weighted, local currency) returned 10.5% year to date through November 2023. The falling equity risk premium has increased net asset values of unlisted infrastructure companies over the past year, partially offsetting the impacts of elevated interest rates. The real estate market continues to see capital declines across sectors, with offices seeing the most significant reduction as the sector falls out of favour with investors due to a divergence in stock quality and its impact on valuations.

YOUR ASSET ALLOCATION AND EXPOSURE

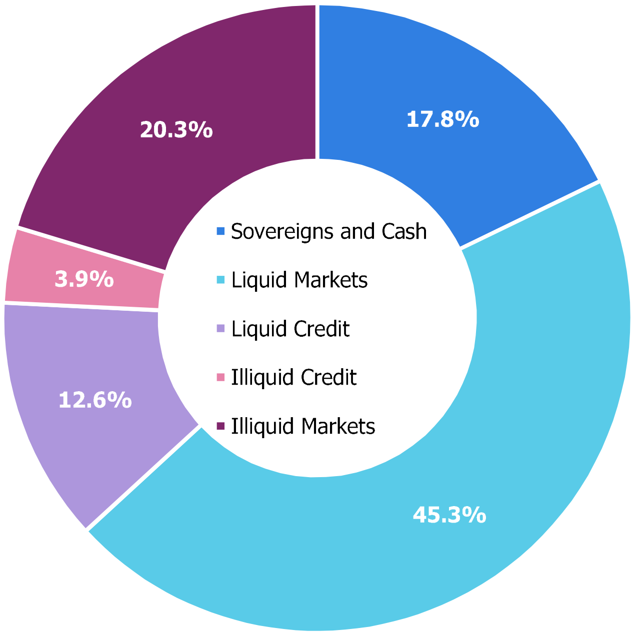
Asset Allocation Change



Expected Return Contribution Change (over gilts)



Note, asset class expected returns are in the appendix.

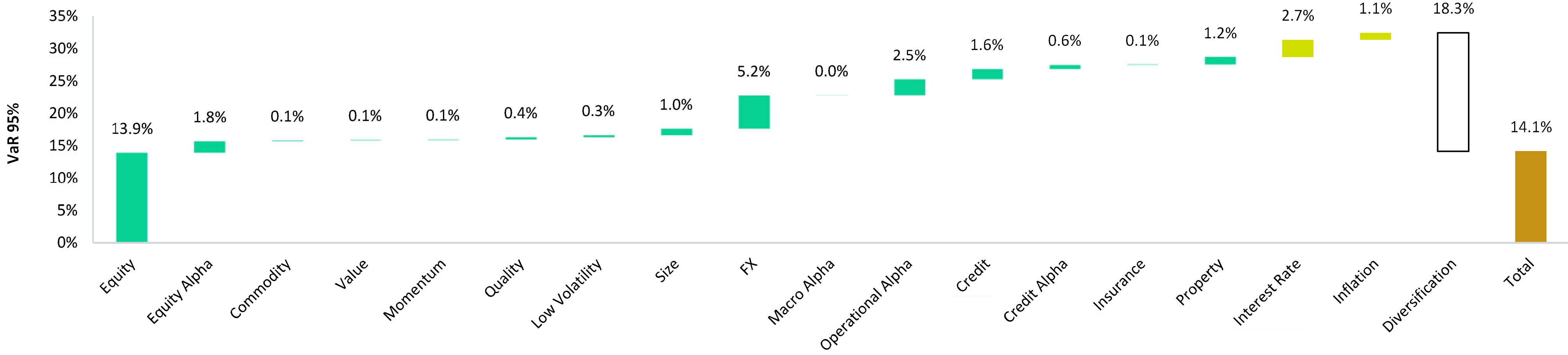


Detailed Asset Allocation

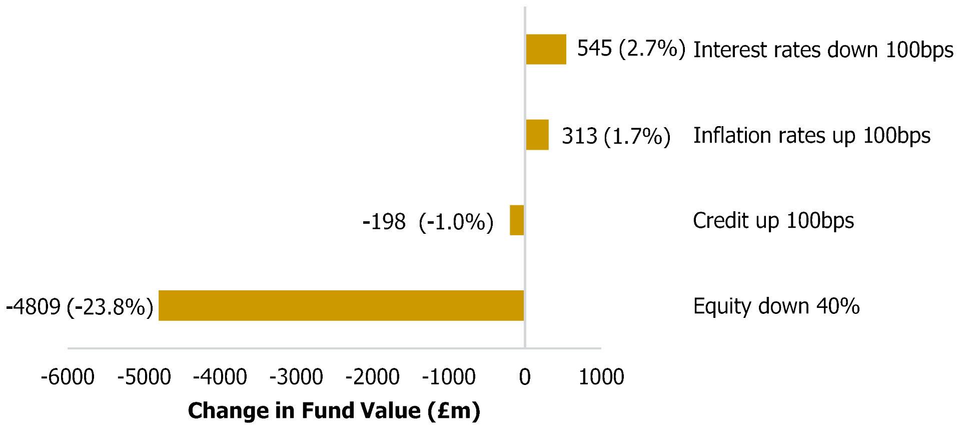
Cash	5.1%	Aegon Short Dated Investment Grade Bond Fund	1.5%
LGIM Overseas Bonds	0.5%	UK Corporate Bonds	3.1%
Index-Linked Gilts	8.2%	LGPS Central Global Active IG Corporate Bond Fund	0.9%
Nominal Gilts	4.0%	Multi-Class Credit	3.2%
ACS LGPS UK Equity Passive Fund	4.0%	Emerging Market Debt Funds	3.8%
ACS LGPS Global Ex UK Passive Equity	12.7%	Private Credit	3.9%
ACS LGPS All World Equity Climate Multi Factor	11.6%	Infrastructure	5.2%
Global Equities	6.7%	Property	6.8%
Equities held with Merrill Lynch	0.4%	Opportunistic Funds	0.8%
Sustainable Equities - Impax	2.6%	Private Equity	7.6%
Sustainable Equities - RBC	2.1%		
Sustainable Equities - WHEB	0.6%		
Emerging Markets Equities	4.7%		

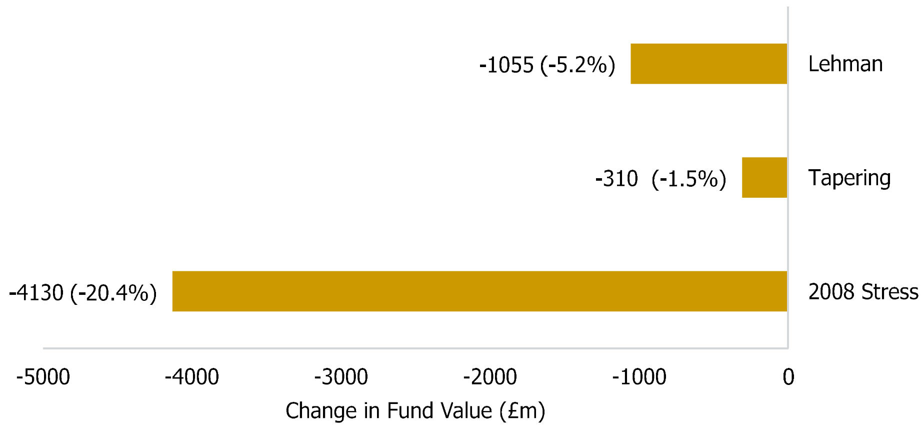
HELPING YOU UNDERSTAND YOUR RISK

Current Value-at-Risk 95% (Asset Only)



Scenario Analysis





APPENDICES

REDINGTON'S EXPECTED RETURNS – DECEMBER 2023

	Expected Return (Gilts +) (December 2023)	Volatility (December 2023)
Liquid Growth		
Passive DM Equity	4.1% ↑	16.3% ↓
Active DM	4.2% ↑	17.2% –
Sustainable Equity	4.2% ↑	15.9% –
Active EM Equity	4.8% ↑	20.4% ↓
Liquid Income		
Short Dated Bonds	1.1% –	2.1% ↓
Absolute Return Bonds	2.5% –	4.3% ↓
Structured Credit	2.7% –	4.6% ↓
GBP IG Corporates	1.3% ↓	5.7% ↑
Global IG Corporates	1.0% ↓	5.4% ↓
Multi-Class Credit	3.6% ↓	6.6% ↓
Emerging Market Debt	2.2% ↓	9.3% ↓
Illiquid Income		
Infrastructure	4.1% ↑	18.0% –
Renewables	3.4% ↑	14.7% ↓
Property	3.6% –	11.9% ↑
Diversified Private Credit	4.8% ↓	11.2% ↓
Illiquid Growth		
Private Equity	5.7% ↑	30.6% ↑
Opportunistic Funds	5.7% ↑	30.6% ↑
Stabilising		
Nominal Gilts	0.0% –	7.5% ↑
Index-Linked Gilts	0.0% –	13.8% ↑
Matching		
Index-Linked Gilts	0.0% –	13.8% ↑
Corporate Bonds (GBP B&M)	1.1% ↓	5.6% ↑
Diversified Private Credit (Matching)	2.6% ↓	7.5% ↑

GLOSSARY

Term	Description
Annual Management Charge (AMC)	The fee charged by the asset manager for managing the fund, typically expressed as an annual percentage on the invested assets. This excludes additional expenses, e.g. administrative costs, which when combined with the AMC make up a fund’s total expense ratio (TER).
Credit Risk	The risk of financial loss as a result of the inability or unwillingness of an entity to make payments as they become due. Many types of relationships involve credit risk, such as those in which a company owes money to its suppliers (trade debt) or where a counterparty is required to make payments under a derivative contract (counterparty credit risk).
Credit Spread	The difference in the yield between two different bonds, due to different credit quality. The credit spread reflects the additional yield an investor can earn from taking incremental credit risk. Is it often quoted in relation to the yield on government bonds.
Inflation	The average rate at which prices (of products and services) increase over time. It gradually reduces the value of money over time – the higher the rate of inflation, the greater the erosion of value.
Risk Attribution	The process of attributing certain components of total risk to various sources such as inflation risk, credit risk, equity risk, etc.
Stress Testing	A tool used to assess a portfolio’s exposure to large – but plausible – shocks. In the broadest sense, stress testing is a ‘what if’ exercise and can be modelled across various scenarios. For example, a stress test can be used to simulate the performance of a portfolio during 9/11, Black Monday and the Global Financial Crisis of 2007-08.
Value-at-Risk (VaR)	The minimum value that the Fund would expect to lose (at risk) for a given confidence level, over a given time horizon. We have used a 1-in-20 (i.e. 95%) confidence level. For example, if a portfolio’s 95% 1-year VaR is £200 million, it would have a 5% chance (1-in-20) of suffering a loss over the year of £200 million or more.
Volatility	A measure of variability that is used as a common metric for risk. It represents the value of one standard deviation change in the value of an assets’ return. Under certain assumptions, we are able to use this measure to calculate the probability of a given change in the value of the asset or portfolio.
Yield	The income return on an investment. It is based on the received cash flows of a security and is usually expressed as an annual percentage.
Yield Curve	A graphical representation showing the yields of a set of financial instruments by maturity. For example, the par interest rate swap curve or the UK Gilt curve.

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