# Town of Wilton

## Second Quarter 2023
## OPEB Discussion Guide

August 9, 2023

Visit our new video library with our views on key investment topics for this quarter using access code “aon!”

http://site-494121.bcvp0rtal.com/category/videos/key-topics-by-investor-type

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# Table of Contents

# Town of Wilton

## OPEB Investment Committee Work Plan

### For Discussion Purposes

| Topic |
|---|
| **Recurring Quarterly Topics** |
| Capital Markets Overview |
| Fund Asset Allocation and Performance |
| Investment Fee Summary |
| Medium-Term Views |
| Aon Thought Leadership |
| Regulatory, Compliance, Administrative Update |
| **Periodic or Ad Hoc Topics** |
| Investment Policy Statement Review |
| Lowest Cost Vehicle and Share Class Analysis |
| Investment Checkup |
| Custody Review |
| Review public equity structure |
| Asset/Liability Study |
| Consider an Opportunity Allocation |

- We provide our strategic approach for working with the Committee in the table to the left

# 1

# Market Highlights

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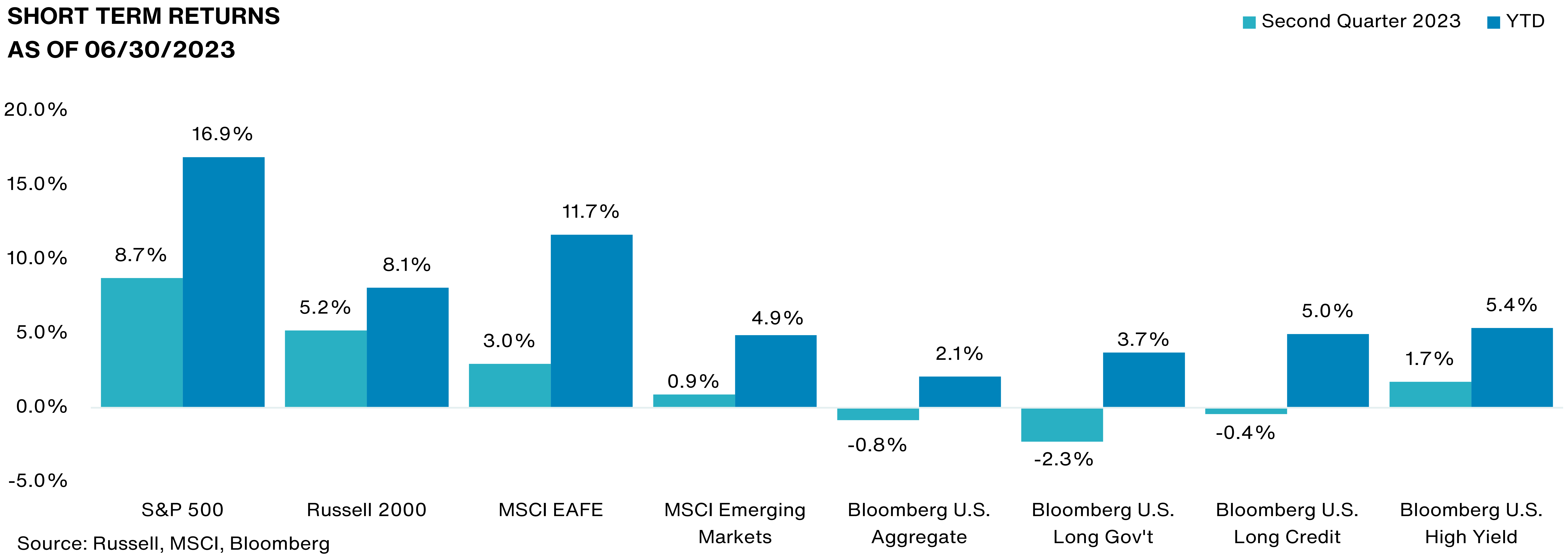
# Market Highlights

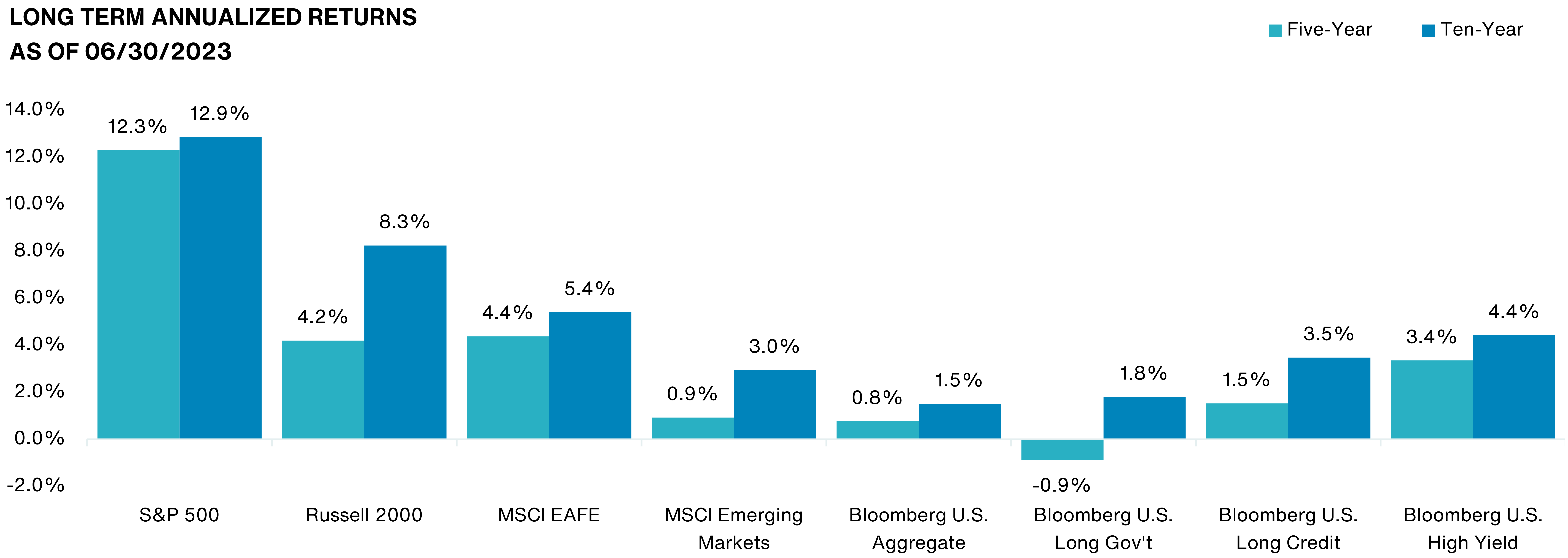



Source: Russell, MSCI, Bloomberg

MSCI Indices show net total returns throughout this report. All other indices show gross total returns.

**Past performance is no guarantee of future results**. Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees and expenses. Please see appendix for index definitions and other general disclosures.

# Market Highlights




Source: Russell, MSCI, Bloomberg

**Past performance is no guarantee of future results**. Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees and expenses. Please see appendix for index definitions and other general disclosures.

# Market Highlights

| Returns of the Major Capital Markets | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | Period Ending 06/30/2023 | |
| | Second Quarter | YTD | 1-Year | 3-Year[1] | 5-Year[1] | 10-Year[1] |
| **Equity** | | | | | | |
| MSCI All Country World IMI | 5.89% | 13.25% | 16.14% | 10.97% | 7.65% | 8.62% |
| MSCI All Country World | 6.18% | 13.93% | 16.53% | 10.99% | 8.10% | 8.75% |
| Dow Jones U.S. Total Stock Market | 8.39% | 16.24% | 18.90% | 13.74% | 11.26% | 12.24% |
| Russell 3000 | 8.39% | 16.17% | 18.95% | 13.89% | 11.39% | 12.34% |
| S&P 500 | 8.74% | 16.89% | 19.59% | 14.60% | 12.31% | 12.86% |
| Russell 2000 | 5.21% | 8.09% | 12.31% | 10.82% | 4.21% | 8.26% |
| MSCI All Country World ex-U.S. IMI | 2.38% | 9.10% | 12.47% | 7.33% | 3.38% | 4.88% |
| MSCI All Country World ex-U.S. | 2.44% | 9.47% | 12.72% | 7.22% | 3.52% | 4.75% |
| MSCI EAFE | 2.95% | 11.67% | 18.77% | 8.93% | 4.39% | 5.41% |
| MSCI EAFE (Local Currency) | 4.28% | 12.10% | 17.50% | 11.73% | 6.42% | 7.67% |
| MSCI Emerging Markets | 0.90% | 4.89% | 1.75% | 2.32% | 0.93% | 2.95% |
| **Equity Factors** | | | | | | |
| MSCI World Minimum Volatility (USD) | 1.79% | 4.13% | 7.44% | 6.35% | 6.48% | 8.41% |
| MSCI World High Dividend Yield | 2.37% | 4.35% | 9.03% | 10.62% | 7.13% | 7.58% |
| MSCI World Quality | 9.83% | 21.58% | 24.60% | 13.11% | 13.19% | 12.99% |
| MSCI World Momentum | 4.34% | 3.13% | 10.14% | 6.44% | 8.16% | 10.96% |
| MSCI World Enhanced Value | 5.21% | 11.30% | 16.04% | 13.07% | 4.76% | 7.22% |
| MSCI World Index Growth | 10.50% | 27.27% | 26.66% | 11.31% | 12.08% | 12.29% |
| MSCI USA Minimum Volatility (USD) | 2.65% | 3.98% | 7.99% | 8.92% | 9.06% | 10.92% |
| MSCI USA High Dividend Yield | 1.46% | 0.73% | 6.35% | 10.70% | 7.78% | 10.00% |
| MSCI USA Quality | 11.70% | 23.40% | 24.90% | 13.73% | 14.31% | 14.62% |
| MSCI USA Momentum | 4.35% | -0.06% | 8.70% | 4.72% | 7.29% | 12.58% |
| MSCI USA Enhanced Value | 1.95% | 4.52% | 7.18% | 12.27% | 5.64% | 9.28% |
| MSCI USA Equal Weighted | 4.56% | 8.76% | 13.66% | 13.09% | 8.85% | 10.70% |
| MSCI USA Growth | 13.87% | 33.68% | 29.69% | 13.56% | 15.47% | 15.87% |

| Returns of the Major Capital Markets | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | Period Ending 06/30/2023 | |
| | Second Quarter | YTD | 1-Year | 3-Year[1] | 5-Year[1] | 10-Year[1] |
| **Fixed Income** | | | | | | |
| Bloomberg Global Aggregate | -1.53% | 1.43% | -1.32% | -4.96% | -1.09% | 0.20% |
| Bloomberg U.S. Aggregate | -0.84% | 2.09% | -0.94% | -3.96% | 0.77% | 1.52% |
| Bloomberg U.S. Long Gov't | -2.29% | 3.73% | -6.79% | -12.02% | -0.88% | 1.81% |
| Bloomberg U.S. Long Credit | -0.42% | 4.97% | 1.06% | -6.06% | 1.53% | 3.48% |
| Bloomberg U.S. Long Gov't/Credit | -1.29% | 4.39% | -2.56% | -8.60% | 0.66% | 2.86% |
| Bloomberg U.S. TIPS | -1.42% | 1.87% | -1.40% | -0.12% | 2.49% | 2.08% |
| Bloomberg U.S. High Yield | 1.75% | 5.38% | 9.06% | 3.13% | 3.36% | 4.43% |
| Bloomberg Global Treasury ex U.S. | -2.93% | 0.09% | -2.77% | -7.04% | -3.23% | -1.13% |
| JP Morgan EMBI Global (Emerging Market | 1.53% | 3.81% | 6.85% | -2.68% | 0.82% | 2.60% |
| **Commodities** | | | | | | |
| Bloomberg Commodity Index | -2.56% | -7.79% | -9.61% | 17.82% | 4.73% | -0.99% |
| Goldman Sachs Commodity Index | -2.73% | -7.54% | -14.22% | 25.11% | 2.76% | -3.52% |
| **Hedge Funds** | | | | | | |
| HFRI Fund-Weighted Composite[2] | 2.24% | 3.45% | 5.09% | 8.16% | 4.98% | 4.71% |
| HFRI Fund of Funds[2] | 1.52% | 2.27% | 3.67% | 5.04% | 3.32% | 3.39% |
| **Real Estate** | | | | | | |
| NAREIT U.S. Equity REITS | 2.62% | 5.37% | -0.13% | 8.91% | 4.55% | 6.42% |
| FTSE Global Core Infrastructure Index | 0.06% | -0.98% | -1.42% | 6.89% | 6.36% | 7.45% |
| **Private Equity** | | | | | | |
| Burgiss Private iQ Global Private Equity[3] | | | -1.81% | 19.78% | 17.13% | 15.20% |

MSCI Indices show net total returns throughout this report. All other indices show gross total returns.

[1] Periods are annualized.

[2] Latest 5 months of HFR data are estimated by HFR and may change in the future.

[3] Burgiss Private iQ Global Private Equity data is as at September 30, 2022

**Past performance is no guarantee of future results**. Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees and expenses. Please see appendix for index definitions and other general disclosures.

# 2

# OPEB Plan Performance Summary

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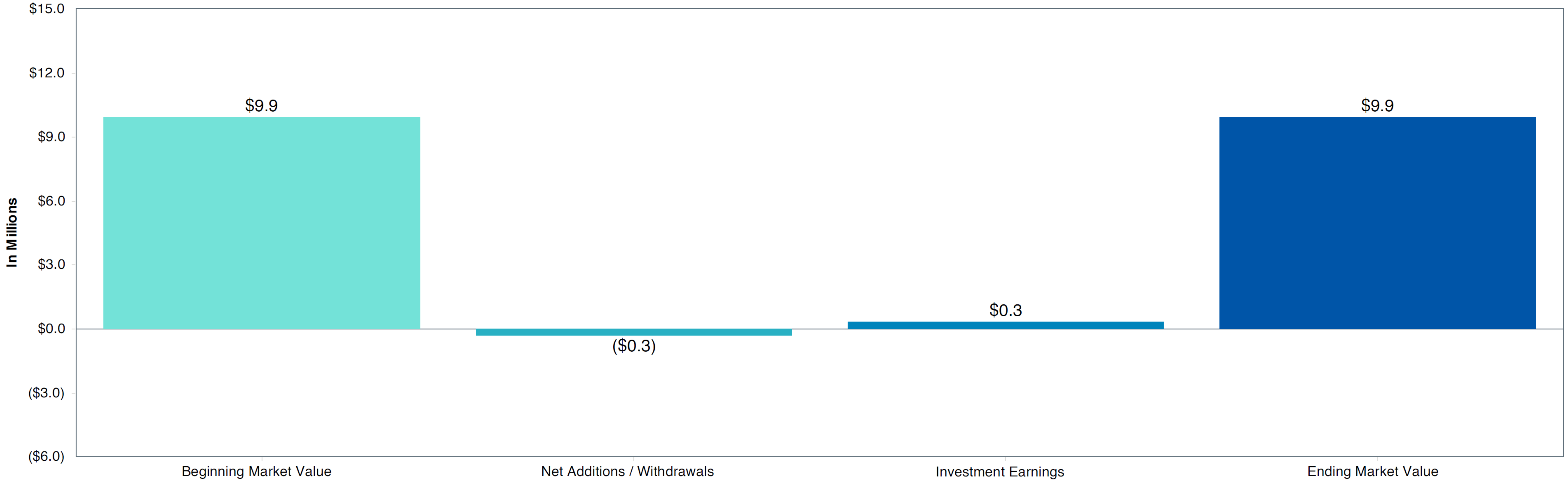
# Total Plan Asset Summary
## As of June 30, 2023

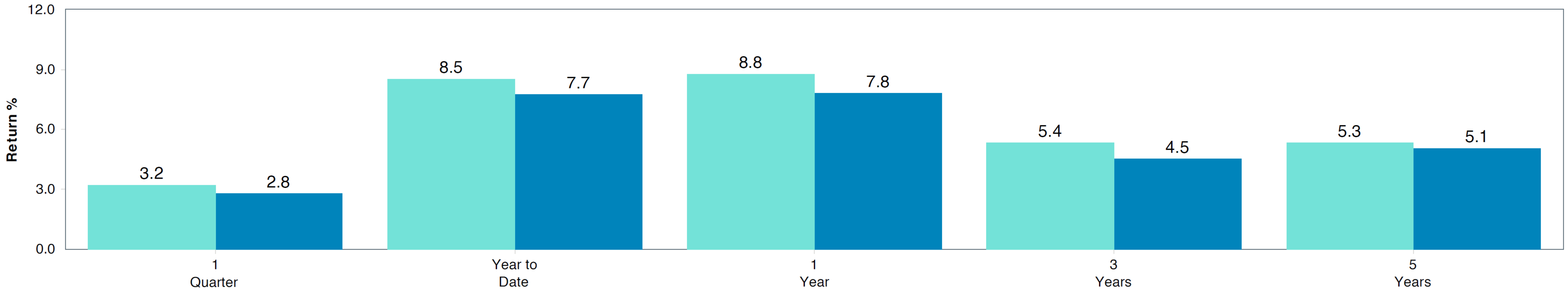



| Summary of Cash Flows | | | | |
|---|---|---|---|---|
| | 1 Quarter | 1 Year | Since Inception | Inception Date |
| **OPEB Plan** | | | | **05/01/2012** |
| Beginning Market Value | 9,940,968 | 9,214,311 | 2,652,035 | |
| + Additions / Withdrawals | -311,214 | -94,688 | 2,836,998 | |
| + Investment Earnings | 319,020 | 829,150 | 4,459,740 | |
| **= Ending Market Value** | **9,948,773** | **9,948,773** | **9,948,773** | |

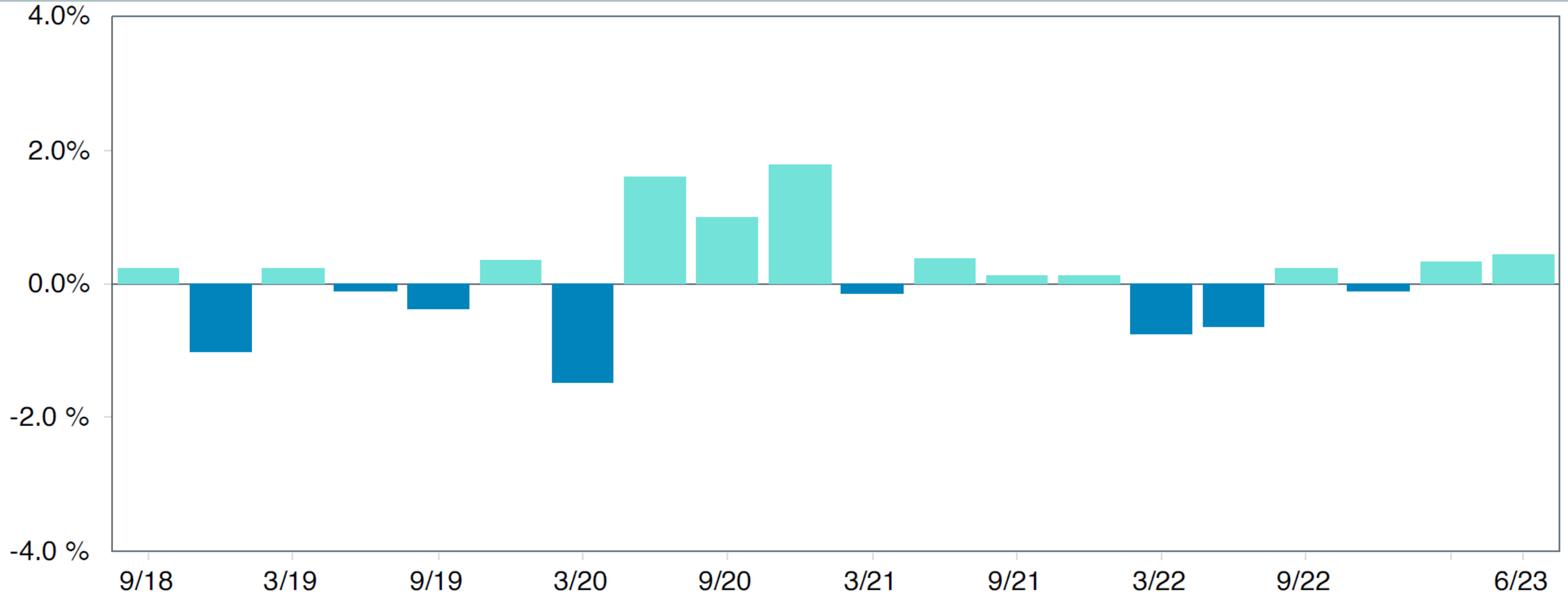
# Total Plan Performance Summary

## As of June 30, 2023

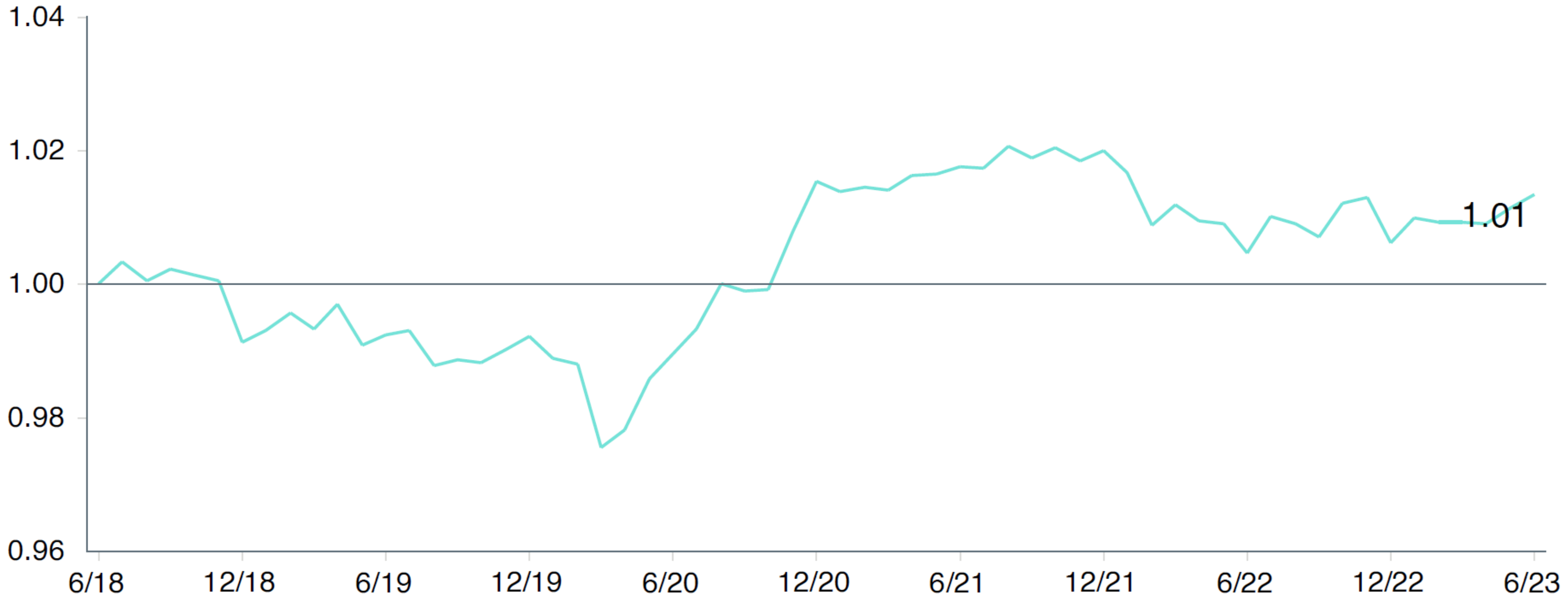
### Return Summary




### Quarterly Excess Performance

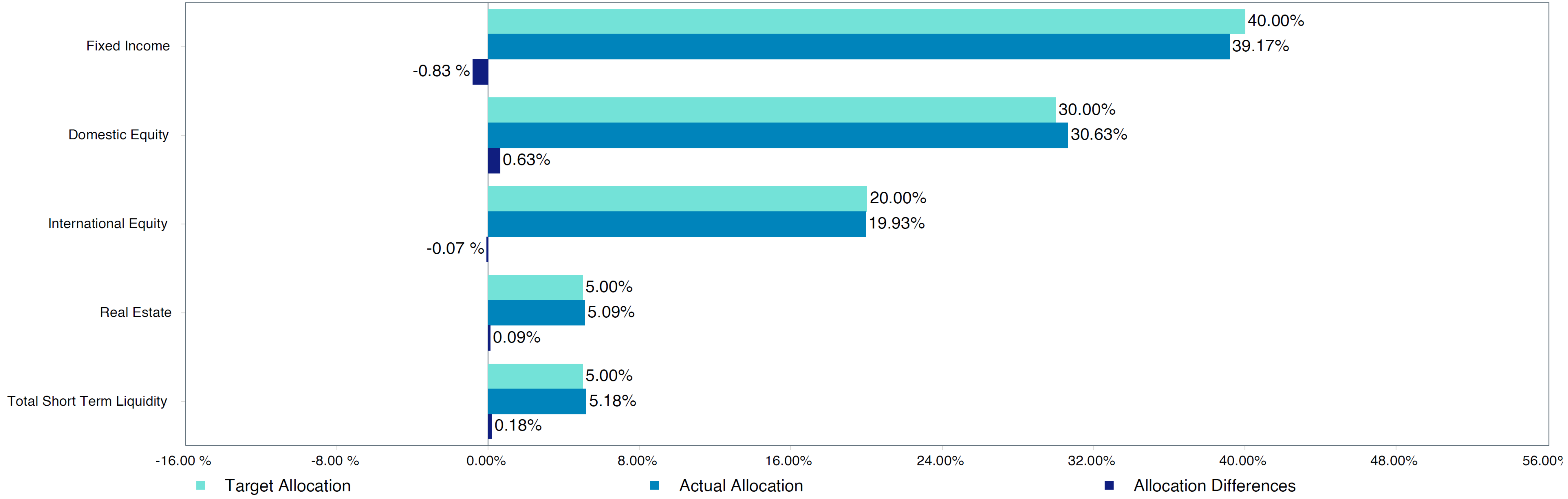



### Ratio of Cumulative Wealth - 5 Years



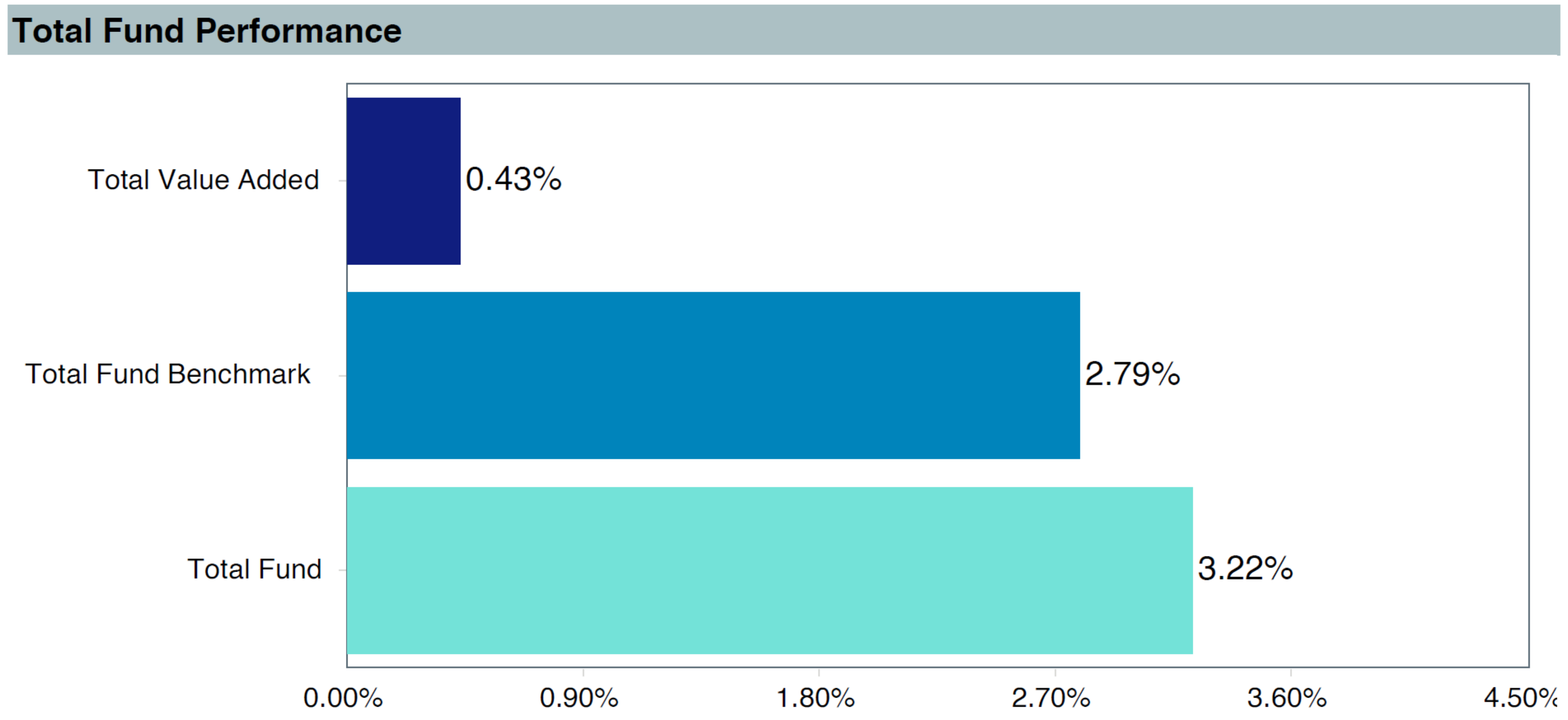
# Asset Allocation
## As of June 30, 2023

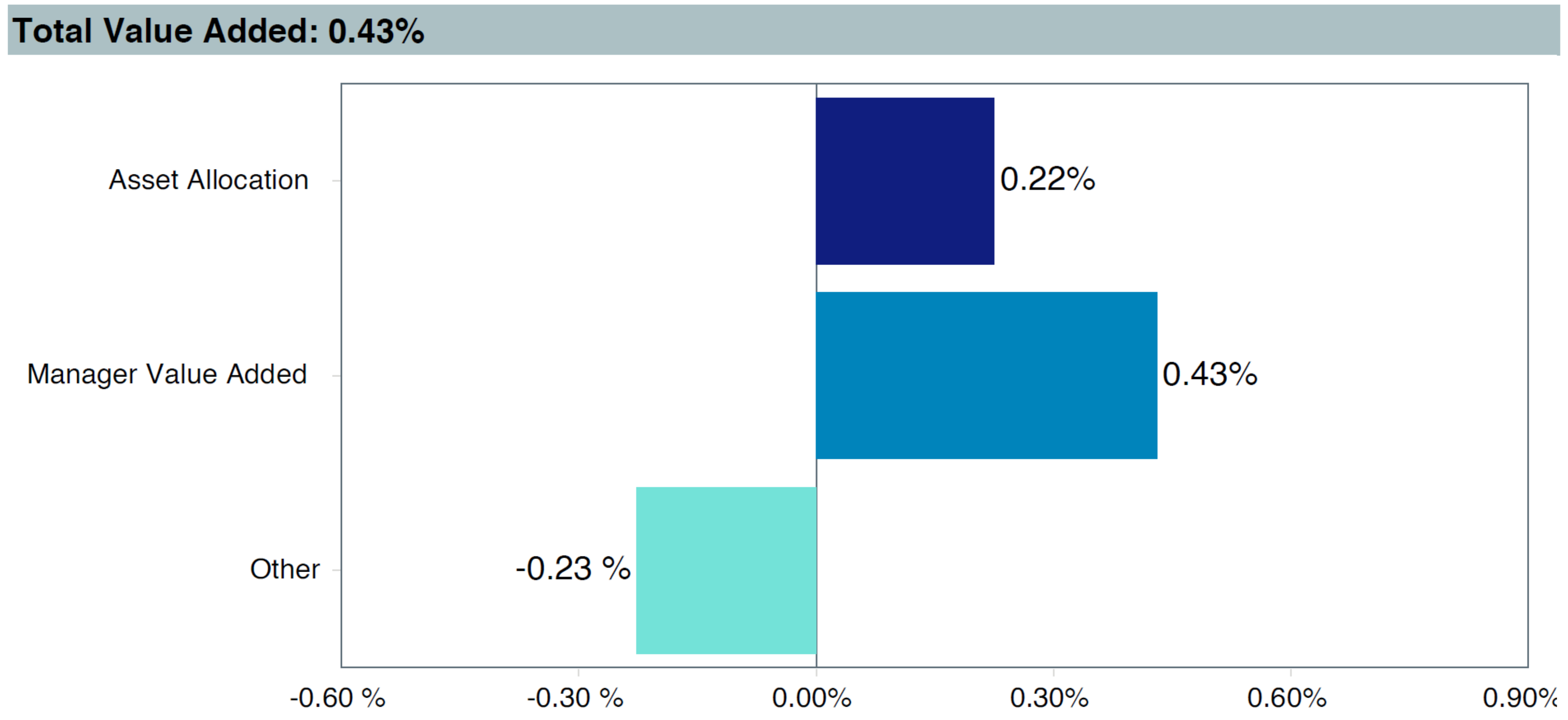
| | Market Value $ | Current Allocation % | Target Allocation % | Differences % |
|---|---|---|---|---|
| **OPEB Plan** | 9,948,773.30 | 100.00 | 100.00 | 0.00 |
| Fixed Income | 3,897,221.81 | 39.17 | 40.00 | -0.83 |
| Domestic Equity | 3,047,010.02 | 30.63 | 30.00 | 0.63 |
| International Equity | 1,982,919.09 | 19.93 | 20.00 | -0.07 |
| Real Estate | 506,672.19 | 5.09 | 5.00 | 0.09 |
| Total Short Term Liquidity | 514,950.19 | 5.18 | 5.00 | 0.18 |

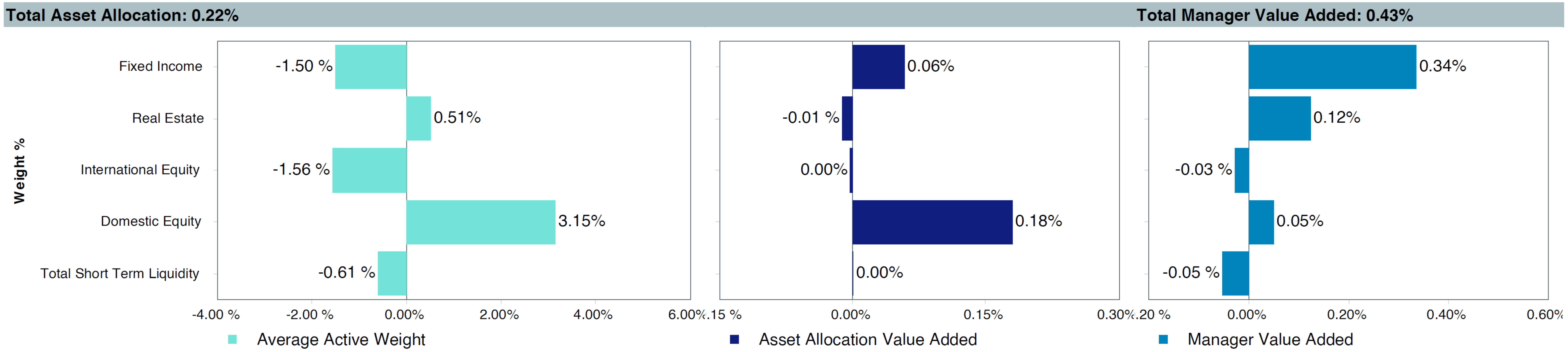


# OPEB Total Fund Attribution

## 1 Quarter as of June 30, 2023



# Performance

## As of June 30, 2023

| | Allocation | | | Performance % | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Market Value $ | % | Policy % | 1 Quarter | Year to Date | 1 Year | 3 Years | 5 Years | 7 Years | Since Inception | Inception Date |
| **OPEB Plan** | **9,948,773** | **100.0** | **100.0** | **3.2** | **8.5** | **8.8** | **5.4** | **5.3** | **6.4** | **6.3** | **05/01/2012** |
| *Wilton OPEB Plan Benchmark* | | | | *2.8* | *7.7* | *7.8* | *4.5* | *5.1* | *5.8* | *5.9* | |
| **Fixed Income** | **3,897,222** | **39.2** | **40.0** | **0.0** | **3.0** | **1.7** | **-2.2** | **1.0** | **1.5** | **2.5** | **07/01/2010** |
| *OPEB Fixed Income Composite Benchmark* | | | | *-0.8* | *2.1* | *-0.9* | *-3.9* | *0.7* | *0.5* | *1.9* | |
| **Vanguard Total Bond Market Index Adm** | **947,405** | **9.5** | | **-0.9 (75)** | **2.2 (65)** | **-0.9 (67)** | **-4.0 (78)** | **0.8 (61)** | **0.4 (74)** | **-0.6 (67)** | **06/01/2019** |
| *Blmbg. U.S. Aggregate* | | | | *-0.8 (65)* | *2.1 (74)* | *-0.9 (70)* | *-4.0 (71)* | *0.8 (62)* | *0.4 (73)* | *-0.6 (64)* | |
| IM U.S. Broad Market Core Fixed Income (MF) Median | | | | -0.8 | 2.4 | -0.6 | -3.6 | 0.9 | 0.7 | -0.4 | |
| **Metropolitan West Total Return Bond Pl** | **746,333** | **7.5** | | **-1.2 (97)** | **2.2 (82)** | **-1.3 (93)** | **-4.0 (95)** | **0.9 (78)** | **0.7 (91)** | **-0.6 (82)** | **06/01/2019** |
| *Blmbg. U.S. Aggregate* | | | | *-0.8 (77)* | *2.1 (90)* | *-0.9 (85)* | *-4.0 (93)* | *0.8 (84)* | *0.4 (99)* | *-0.6 (85)* | |
| IM U.S. Broad Market Core+ Fixed Income (MF) Median | | | | -0.5 | 2.7 | 0.4 | -2.9 | 1.3 | 1.2 | 0.1 | |
| **PGIM Total Return Bond R6** | **629,327** | **6.3** | | **0.0 (9)** | **3.2 (16)** | **0.7 (30)** | **-3.3 (72)** | **1.1 (65)** | **1.2 (46)** | **1.9 (29)** | **12/01/2015** |
| *Blmbg. U.S. Aggregate* | | | | *-0.8 (77)* | *2.1 (90)* | *-0.9 (85)* | *-4.0 (93)* | *0.8 (84)* | *0.4 (99)* | *1.1 (94)* | |
| IM U.S. Broad Market Core+ Fixed Income (MF) Median | | | | -0.5 | 2.7 | 0.4 | -2.9 | 1.3 | 1.2 | 1.5 | |
| **PIMCO Income Fund** | **1,574,157** | **15.8** | | **1.2 (17)** | **3.8 (22)** | **5.3 (16)** | **1.9 (16)** | **2.6 (17)** | **3.6 (10)** | **-0.9 (17)** | **02/01/2021** |
| *Blmbg. U.S. Aggregate* | | | | *-0.8 (91)* | *2.1 (78)* | *-0.9 (84)* | *-4.0 (90)* | *0.8 (73)* | *0.4 (93)* | *-5.1 (84)* | |
| IM Multi-Sector General Bond (MF) Median | | | | 0.1 | 2.9 | 1.6 | 0.0 | 1.4 | 1.9 | -2.7 | |

*Consists of Dow Jones U.S. Total Stock Market Index (formerly known as the Dow Jones Wilshire 5000 Index) through April 22, 2005; MSCI US Broad Market Index through June 2, 2013; and CRSP US Total Market Index thereafter. ** Total International Composite Index through August 31, 2006; MSCI EAFE + Emerging Markets Index through December 15, 2010; MSCI ACWI ex. U.S. IMI Index through June 2, 2013; FTSE Global All Cap ex U.S. Index thereafter *** Consists of MSCI US REIT Index adjusted to include a 2% cash position (Lipper Money Market Average) through April 30, 2009; MSCI US REIT Index through January 31, 2018; MSCI US Investable Market Real Estate 25/50 Transition Index thereafter.

# Performance

## As of June 30, 2023

| | Allocation | | | Performance % | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Market Value $ | % | Policy % | 1 Quarter | Year to Date | 1 Year | 3 Years | 5 Years | 7 Years | Since Inception | Inception Date |
| **Domestic Equity** | **3,047,010** | **30.6** | **30.0** | **8.6** | **16.3** | **19.1** | **13.8** | **11.3** | **12.8** | **13.7** | **07/01/2010** |
| *OPEB Domestic Equity Benchmark* | | | | *8.4* | *16.2* | *18.9* | *13.8* | *11.3* | *12.8* | *13.7* | |
| **Vanguard Total Stock Market Index Adm** | **3,047,010** | **30.6** | | **8.4 (22)** | **16.2 (24)** | **18.9 (31)** | **13.8 (39)** | **11.3 (27)** | **12.8 (20)** | **13.4 (14)** | **01/01/2012** |
| *Vanguard Spliced Total Stock Market Index ** | | | | *8.4 (22)* | *16.2 (24)* | *18.9 (31)* | *13.8 (39)* | *11.3 (27)* | *12.8 (20)* | *13.4 (14)* | |
| IM U.S. Multi-Cap Core Equity (MF) Median | | | | 6.8 | 13.0 | 17.1 | 13.2 | 10.0 | 11.5 | 12.1 | |
| **International Equity** | **1,982,919** | **19.9** | **20.0** | **2.3** | **10.7** | **13.9** | **6.5** | **4.1** | **7.0** | **6.8** | **07/01/2010** |
| *OPEB International Equity Composite Benchmark* | | | | *2.5* | *9.3* | *12.6* | *7.4* | *3.6* | *6.4* | *5.7* | |
| **Vanguard Total International Stock Index Adm** | **995,052** | **10.0** | | **2.6 (78)** | **9.4 (80)** | **12.3 (82)** | **7.5 (73)** | **3.7 (76)** | **6.4 (64)** | **5.2 (70)** | **05/01/2012** |
| *Vanguard Spliced Total International Stock Index *** | | | | *2.5 (81)* | *9.1 (82)* | *12.5 (81)* | *7.6 (72)* | *3.7 (79)* | *6.5 (57)* | *5.2 (70)* | |
| IM International Large Cap Core Equity (MF) Median | | | | 3.4 | 12.1 | 17.9 | 8.9 | 4.4 | 6.6 | 5.8 | |
| **American Funds EuroPacific Growth R6** | **987,867** | **9.9** | | **2.2 (90)** | **12.2 (49)** | **15.8 (68)** | **5.5 (96)** | **4.3 (59)** | **7.4 (20)** | **4.9 (3)** | **09/01/2014** |
| *MSCI AC World ex USA Index (Net)* | | | | *2.4 (86)* | *9.5 (80)* | *12.7 (81)* | *7.2 (81)* | *3.5 (84)* | *6.3 (65)* | *3.1 (73)* | |
| IM International Large Cap Core Equity (MF) Median | | | | 3.4 | 12.1 | 17.9 | 8.9 | 4.4 | 6.6 | 3.6 | |
| **Real Estate** | **506,672** | **5.1** | **5.0** | **3.5** | **6.0** | **-2.0** | **7.3** | **5.2** | **3.8** | **8.8** | **07/01/2010** |
| *OPEB Real Estate Benchmark* | | | | *1.2* | *3.0* | *-4.4* | *6.1* | *4.8* | *4.1* | *9.4* | |
| **Cohen & Steers Institutional Realty Shares** | **506,672** | **5.1** | | **3.1 (21)** | **5.6 (23)** | **-2.4 (42)** | **8.2 (28)** | **6.8 (8)** | **5.6 (6)** | **5.6 (13)** | **02/01/2021** |
| *FTSE NAREIT All Equity REITs* | | | | *1.2 (67)* | *3.0 (81)* | *-4.4 (75)* | *6.1 (70)* | *4.8 (38)* | *4.1 (27)* | *3.7 (55)* | |
| IM Real Estate Sector (MF) Median | | | | 1.7 | 4.4 | -3.0 | 7.0 | 4.4 | 3.5 | 3.8 | |

*Consists of Dow Jones U.S. Total Stock Market Index (formerly known as the Dow Jones Wilshire 5000 Index) through April 22, 2005; MSCI US Broad Market Index through June 2, 2013; and CRSP US Total Market Index thereafter. ** Total International Composite Index through August 31, 2006; MSCI EAFE + Emerging Markets Index through December 15, 2010; MSCI ACWI ex. U.S. IMI Index through June 2, 2013; FTSE Global All Cap ex U.S. Index thereafter *** Consists of MSCI US REIT Index adjusted to include a 2% cash position (Lipper Money Market Average) through April 30, 2009; MSCI US REIT Index through January 31, 2018; MSCI US Investable Market Real Estate 25/50 Transition Index thereafter.

# Performance
## As of June 30, 2023

| | Allocation | | | Performance % | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Market Value $ | % | Policy % | 1 Quarter | Year to Date | 1 Year | 3 Years | 5 Years | 7 Years | Since Inception | Inception Date |
| **Total Short Term Liquidity** | 514,950 | 5.2 | 5.0 | 0.0 | 0.0 | 0.4 | 0.3 | 0.7 | 0.7 | 0.4 | 01/01/2012 |
| **Allspring Government MM Fund** | 381,828 | 3.8 | | 0.0 | 0.0 | 1.0 | 0.6 | 1.0 | 1.0 | 0.6 | 04/01/2012 |
| *90 Day U.S. Treasury Bill* | | | | *1.2* | *2.3* | *3.6* | *1.3* | *1.6* | *1.4* | *0.9* | |
| **Webster Cash** | 133,122 | 1.3 | | | | | | | | | |

*Consists of Dow Jones U.S. Total Stock Market Index (formerly known as the Dow Jones Wilshire 5000 Index) through April 22, 2005; MSCI US Broad Market Index through June 2, 2013; and CRSP US Total Market Index thereafter. ** Total International Composite Index through August 31, 2006; MSCI EAFE + Emerging Markets Index through December 15, 2010; MSCI ACWI ex. U.S. IMI Index through June 2, 2013; FTSE Global All Cap ex U.S. Index thereafter *** Consists of MSCI US REIT Index adjusted to include a 2% cash position (Lipper Money Market Average) through April 30, 2009; MSCI US REIT Index through January 31, 2018; MSCI US Investable Market Real Estate 25/50 Transition Index thereafter.

# Calendar Year Performance

| | Performance % | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Year to Date | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| **OPEB Plan** | **8.5** | **-16.4** | **10.8** | **14.7** | **18.6** | **-4.9** | **14.3** | **7.2** | **-0.5** | **6.4** |
| *Wilton OPEB Plan Benchmark* | *7.7* | *-15.2* | *10.3* | *12.0* | *18.5* | *-4.5* | *13.1* | *6.5* | *-0.3* | *6.3* |
| **Fixed Income** | **3.0** | **-11.7** | **-0.3** | **6.4** | **8.2** | **0.0** | **4.7** | **5.3** | **-0.3** | **4.1** |
| *OPEB Fixed Income Composite Benchmark* | *2.1* | *-13.0* | *-1.5* | *7.7* | *8.7* | *-0.1* | *3.5* | *2.9* | *0.6* | *5.5* |
| **Vanguard Short-Term Inflation Protection Adm** | **1.6 (61)** | **-2.8 (8)** | **5.3 (70)** | **5.0 (93)** | **4.8 (89)** | **0.5 (5)** | **0.8 (85)** | **2.7 (95)** | **-0.2 (14)** | **-1.2 (81)** |
| *Blmbg. U.S. TIPS 0-5 Year* | *1.5 (67)* | *-2.7 (5)* | *5.3 (66)* | *5.1 (91)* | *4.8 (89)* | *0.6 (3)* | *0.9 (82)* | *2.8 (91)* | *0.0 (4)* | *-1.1 (79)* |
| IM U.S. TIPS (MF) Median | 1.7 | -11.7 | 5.5 | 10.2 | 8.2 | -1.3 | 2.9 | 4.6 | -1.7 | 3.1 |
| **Vanguard Total Bond Market Index Adm** | **2.2 (65)** | **-13.2 (38)** | **-1.7 (69)** | **7.7 (64)** | **8.7 (61)** | **0.0 (27)** | **3.6 (63)** | **2.6 (67)** | **0.4 (51)** | **5.9 (48)** |
| *Blmbg. U.S. Aggregate* | *2.1 (74)* | *-13.0 (30)* | *-1.5 (62)* | *7.5 (72)* | *8.7 (61)* | *0.0 (24)* | *3.5 (63)* | *2.6 (66)* | *0.5 (37)* | *6.0 (39)* |
| IM U.S. Broad Market Core Fixed Income (MF) Median | 2.4 | -13.4 | -1.3 | 8.2 | 9.0 | -0.4 | 3.9 | 3.0 | 0.4 | 5.9 |
| **Metropolitan West Total Return Bond Pl** | **2.2 (82)** | **-14.7 (81)** | **-1.1 (71)** | **9.2 (44)** | **9.2 (61)** | **0.3 (19)** | **3.5 (88)** | **2.6 (98)** | **0.2 (35)** | **6.2 (34)** |
| *Blmbg. U.S. Aggregate* | *2.1 (90)* | *-13.0 (41)* | *-1.5 (84)* | *7.5 (76)* | *8.7 (71)* | *0.0 (28)* | *3.5 (86)* | *2.6 (94)* | *0.5 (24)* | *6.0 (38)* |
| IM U.S. Broad Market Core+ Fixed Income (MF) Median | 2.7 | -13.3 | -0.7 | 8.8 | 9.7 | -0.7 | 4.8 | 4.1 | 0.1 | 5.1 |
| **PGIM Total Return Bond R6** | **3.2 (16)** | **-14.9 (85)** | **-1.2 (73)** | **8.1 (64)** | **11.1 (17)** | **-0.6 (46)** | **6.7 (5)** | **4.8 (35)** | **0.1 (51)** | **7.3 (17)** |
| *Blmbg. U.S. Aggregate* | *2.1 (90)* | *-13.0 (41)* | *-1.5 (84)* | *7.5 (76)* | *8.7 (71)* | *0.0 (28)* | *3.5 (86)* | *2.6 (94)* | *0.5 (24)* | *6.0 (38)* |
| IM U.S. Broad Market Core+ Fixed Income (MF) Median | 2.7 | -13.3 | -0.7 | 8.8 | 9.7 | -0.7 | 4.8 | 4.1 | 0.1 | 5.1 |
| **Domestic Equity** | **16.3** | **-19.5** | **25.7** | **21.0** | **30.8** | **-5.2** | **21.2** | **12.7** | **0.5** | **12.6** |
| *OPEB Domestic Equity Benchmark* | *16.2* | *-19.5* | *25.7* | *21.0* | *30.8* | *-5.2* | *21.2* | *12.7* | *0.4* | *12.6* |
| **Vanguard Total Stock Market Index Adm** | **16.2 (24)** | **-19.5 (68)** | **25.7 (52)** | **21.0 (25)** | **30.8 (38)** | **-5.2 (32)** | **21.2 (50)** | **12.7 (27)** | **0.4 (36)** | **12.6 (34)** |
| *Vanguard Spliced Total Stock Market Index* | *16.2 (24)* | *-19.5 (67)* | *25.7 (52)* | *21.0 (24)* | *30.8 (37)* | *-5.2 (32)* | *21.2 (49)* | *12.7 (27)* | *0.4 (35)* | *12.6 (33)* |
| IM U.S. Multi-Cap Core Equity (MF) Median | 13.0 | -17.7 | 25.8 | 16.4 | 29.7 | -6.3 | 21.2 | 10.5 | -0.7 | 11.2 |

*Performance shown for since inception years of Total OPEB Plan

# Calendar Year Performance

| | Performance % | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Year to Date | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| **International Equity** | **10.7** | **-19.3** | **5.7** | **18.6** | **24.4** | **-14.7** | **29.3** | **3.0** | **-2.4** | **0.2** |
| *OPEB International Equity Composite Benchmark* | *9.3* | *-16.1* | *8.3* | *10.9* | *21.7* | *-14.4* | *27.3* | *4.6* | *-5.0* | *-3.4* |
| **Vanguard Total International Stock Index Adm** | **9.4 (80)** | **-16.0 (62)** | **8.6 (81)** | **11.3 (27)** | **21.5 (65)** | **-14.4 (51)** | **27.6 (20)** | **4.7 (14)** | **-4.3 (70)** | **-4.2 (31)** |
| *Vanguard Spliced Total International Stock Index* | *9.1 (82)* | *-16.1 (64)* | *8.8 (81)* | *11.2 (28)* | *21.8 (62)* | *-14.6 (55)* | *27.4 (21)* | *4.7 (14)* | *-4.3 (70)* | *-3.4 (23)* |
| IM International Large Cap Core Equity (MF) Median | 12.1 | -14.8 | 11.3 | 9.0 | 22.1 | -14.4 | 25.3 | 1.1 | -0.9 | -5.6 |
| **American Funds EuroPacific Growth R6** | **12.2 (49)** | **-22.7 (99)** | **2.8 (99)** | **25.3 (1)** | **27.4 (13)** | **-14.9 (59)** | **31.2 (6)** | **1.0 (51)** | **-0.5 (29)** | **-2.3 (12)** |
| *MSCI AC World ex USA Index (Net)* | *9.5 (80)* | *-16.0 (62)* | *7.8 (84)* | *10.7 (32)* | *21.5 (65)* | *-14.2 (48)* | *27.2 (23)* | *4.5 (18)* | *-5.7 (77)* | *-3.9 (27)* |
| IM International Large Cap Core Equity (MF) Median | 12.1 | -14.8 | 11.3 | 9.0 | 22.1 | -14.4 | 25.3 | 1.1 | -0.9 | -5.6 |
| **Real Estate** | **6.0** | **-24.7** | **40.1** | **-4.8** | **28.9** | **-5.9** | **4.9** | **8.5** | **2.4** | **30.3** |
| *OPEB Real Estate Benchmark* | *3.0* | *-24.9* | *41.3* | *-5.1* | *28.7* | *-4.0* | *8.7* | *8.6* | *2.8* | *28.0* |
| **Vanguard Real Estate Index Fund Adm** | **3.5 (75)** | **-26.2 (63)** | **40.4 (63)** | **-4.7 (50)** | **28.9 (32)** | **-5.9 (61)** | **4.9 (65)** | **8.5 (23)** | **2.4 (59)** | **30.3 (40)** |
| *Vanguard Real Estate Spliced Index* | *3.5 (70)* | *-26.1 (55)* | *40.6 (59)* | *-4.6 (48)* | *29.0 (29)* | *-5.9 (59)* | *5.1 (64)* | *8.6 (23)* | *2.5 (55)* | *30.4 (39)* |
| IM Real Estate Sector (MF) Median | 4.4 | -26.1 | 41.3 | -4.7 | 27.2 | -5.1 | 6.0 | 7.0 | 2.9 | 30.1 |
| **Total Short Term Liquidity** | **0.0** | **0.4** | **0.5** | **0.2** | **1.8** | **1.2** | **0.4** | **0.2** | **0.1** | **0.0** |
| **Allspring Government MM Fund** | **0.0 (100)** | **1.2 (93)** | **0.6 (1)** | **0.4 (49)** | **2.1 (25)** | **1.6 (72)** | **0.8 (40)** | **0.3 (30)** | **0.1 (25)** | **0.0 (32)** |
| *90 Day U.S. Treasury Bill* | *2.3 (66)* | *1.5 (59)* | *0.0 (11)* | *0.7 (2)* | *2.3 (12)* | *1.9 (20)* | *0.9 (21)* | *0.3 (37)* | *0.0 (32)* | *0.0 (17)* |
| IM U.S. Taxable Money Market (MF) Median | 2.3 | 1.5 | 0.0 | 0.4 | 2.1 | 1.7 | 0.7 | 0.2 | 0.0 | 0.0 |

*Performance shown for since inception years of Total OPEB Plan

# Ratings Report Card
## OPEB

| Fund | Aon Rating |
|---|---|
| Vanguard Total Bond Market Index | Buy |
| MetWest Total Return Bond | In Review (Buy) |
| PGIM Total Return Bond | Buy |
| PIMCO Income Fund | Buy |
| Vanguard Total Stock Market Index | Buy |
| Vanguard Total International Stock Market Index | Buy |
| AF EuroPacific Growth | Buy |
| Cohen & Steers Institutional Realty Shares | Buy |

[1] Qualified rating may be assigned based on a Qualitative **or** Quantitative Review
[2] Sub-advisor strategy has a Buy rating
[3] Sub-advisor strategy has a Qualified rating

**Many factors are considered when selecting and monitoring the investment options including, but not limited to:**

- Business – Ownership structure, profitability, stability of organization, client, asset base
- Investment Staff – Quality of personnel, depth of resources, turnover, succession planning
- Investment Process – Skilled investment decisions, clear and repeatable processes, understanding of competitive advantages
- Risk Management – Embedded in broader investment process, independently verified
- Performance – Risk-adjusted returns, compared to appropriate benchmarks and peer groups, measured over multiple periods
- Operational Due Diligence – Operational controls, valuation of assets, independent directors
- Terms & Conditions – Investment expenses should be reasonable for the value provided and benchmarked for reasonability based on the specific type of investment strategy being evaluated
- ESG – Degree to which the team is aware of potential ESG risks and has taken steps to identify, evaluate and mitigate these risks

# 3

## Aon Medium Terms

# Key Issues in markets today

1

## Interest rate peaks?

Will inflation pressures fall sufficiently to allow rates to peak earlier and at lower levels than central bank rhetoric suggests?

2

## Recession or soft landing?

A global recession has been avoided so far, but is this just a delay or can a soft landing be achieved even as interest rates continue rising?

3

## Market expectations – fair or complacent?

Markets have held up well and seem to be disregarding central bank rhetoric on rates as well as anticipating a soft landing. Is this reasonable or complacent?

# Core Views

## Markets still expecting US rate cuts to happen too soon

Our core view, held for some time, has been that markets have underestimated interest rate peaks and erred in their expectations of early interest rate cuts. Expectations of peak rates are now more reasonable, although still too low in the US.  Recent upward moves in rate curves, particularly at the front-end, suggest that some of these errors have now corrected, but not all.

## Recessionary trends delayed rather than avoided

The global economy, and particularly the US economy, has so far dodged the feared recession bullet well. However, it is far from out of the woods and our view is that the impact of the big move in interest rates and bank credit risk aversion from the US regional bank troubles has yet to be fully felt.  A further slowdown into recession or near-recession territory still seems more likely than not over the next 6 to 12 months.

## Risky assets face headwinds from both higher rates and recessionary trends

The problem for risky assets is that any central bank pivot may only come once recession is confirmed which will be bad for corporate profitability. A soft-landing scenario would keep interest rates higher for longer which is not that constructive for risky assets.

# Actions

- **Some value in IG credit but position-building should be gradual**
- **Not yet time to raise equity allocations**

## View Shifts

↓ **Moved to neutral versus sterling**
We have been positive on sterling but we think that its rally on the back of high interest rate expectations will run out of steam. We are therefore moving neutral in sterling against the US dollar.

# Cross Asset Views

| --- | -- | - | = | + | ++ | +++ |
|---|---|---|---|---|---|---|
| | | Equities | | | | |
| | | | Core fixed income | | | |
| | | Return-seeking fixed income | | | | |
| | | | | Alts* | | |
| | | | | Cash | | |

* Alternative asset classes as shown on the next page

- We think that equity markets have still not priced in the extent of weaker corporate earnings as the global economy slows. Our view that policy rates could stay higher for longer than the market is generally expecting also presents a challenge to equities. This keeps us underweight equities.

- We are maintaining a neutral US duration view as the upside and downside risks to government bond yields are more balanced now. Global headline inflation has continued to fall but we expect US treasury yields to remain range-bound.

- We are keeping our preference for government bonds and less risky credit over return-seeking fixed income whilst there is upward pressure on credit spreads. We consider that there will be a better buying opportunity once spreads widen despite currently attractive yield levels.

- Cash rates continue to be attractive relative to the uncertain outlook of traditional asset classes which means a small cash allocation makes sense. We continue to recommend alternative diversifiers as they should provide resilience to portfolios.

# Relative Asset Class Views*

*Asset class views are relative to others within the asset class and not relative to other asset types. There should be no read-across from equities to credit, for example.

## Regional views

| --- | -- | - | = | + | ++ | +++ |
|---|---|---|---|---|---|---|
| | | | USA | | | |
| | | | Europe ex UK | | | |
| | | UK | | | | |
| | | | Japan | | | |
| | | | | Emerging | | |

## Core Fixed Income

| --- | -- | - | = | + | ++ | +++ |
|---|---|---|---|---|---|---|
| | | | Treasuries | | | |
| | | | Inv. Grade | | | |
| | | | TIPS | | | |

## Alternatives

| --- | -- | - | = | + | ++ | +++ |
|---|---|---|---|---|---|---|
| | | | Commodities | | | |
| | | | | Diversifying Hedge Funds | | |
| | | | | Global Infra. | | |
| | | | | Selected Private Credit | | |
| | | Real Estate | | | | |

## Factor views

| --- | -- | - | = | + | ++ | +++ |
|---|---|---|---|---|---|---|
| | | | | Low Vol. | | |
| | | | Quality | | | |
| | | | Value | | | |
| | | | Growth | | | |

## Return-Seeking Fixed Income

| --- | -- | - | = | + | ++ | +++ |
|---|---|---|---|---|---|---|
| | | | USD EMD | | | |
| | | | | Local EMD | | |
| | | Bank Loans | | | | |
| | | | | Selected ABS | | |
| | | US High Yield | | | | |

## Currency views vs USD

| --- | -- | - | = | + | ++ | +++ |
|---|---|---|---|---|---|---|
| | | | | EUR | | |
| | | | GBP | | | |
| | | | | | JPY | |
| | | | | EM | | |

# Relative Equity Views*

*Asset class views are relative to others within the asset class and not relative to other asset types. There should be no read-across from equities to credit, for example.

## Regional views

| --- | -- | - | = | + | ++ | +++ |
|---|---|---|---|---|---|---|
| | | | USA | | | |
| | | | Europe ex UK | | | |
| | | UK | | | | |
| | | | Japan | | | |
| | | | | Emerging | | |

We remain cautious on equities overall whilst also maintaining a neutral stance on the key US and Europe ex UK regions. There is still plenty of uncertainty regarding the extent of the economic slowdown and, in Europe in particular, risks relating to the Ukraine war remain significant. Meanwhile, we remain positive on the Emerging Markets, although we acknowledge that sticky developed world inflation and a sluggish Chinese recovery are near-term risks.

## Factor views

| --- | -- | - | = | + | ++ | +++ |
|---|---|---|---|---|---|---|
| | | | | Low Vol. | | |
| | | | Quality | | | |
| | | | Value | | | |
| | | | Growth | | | |

We continue to prefer low volatility equities as we expect markets to struggle as higher interest rates continue to slow the global economy. Meanwhile, we remain neutral on our value versus growth view due to our view that there will be a mild global recession.

# Equities

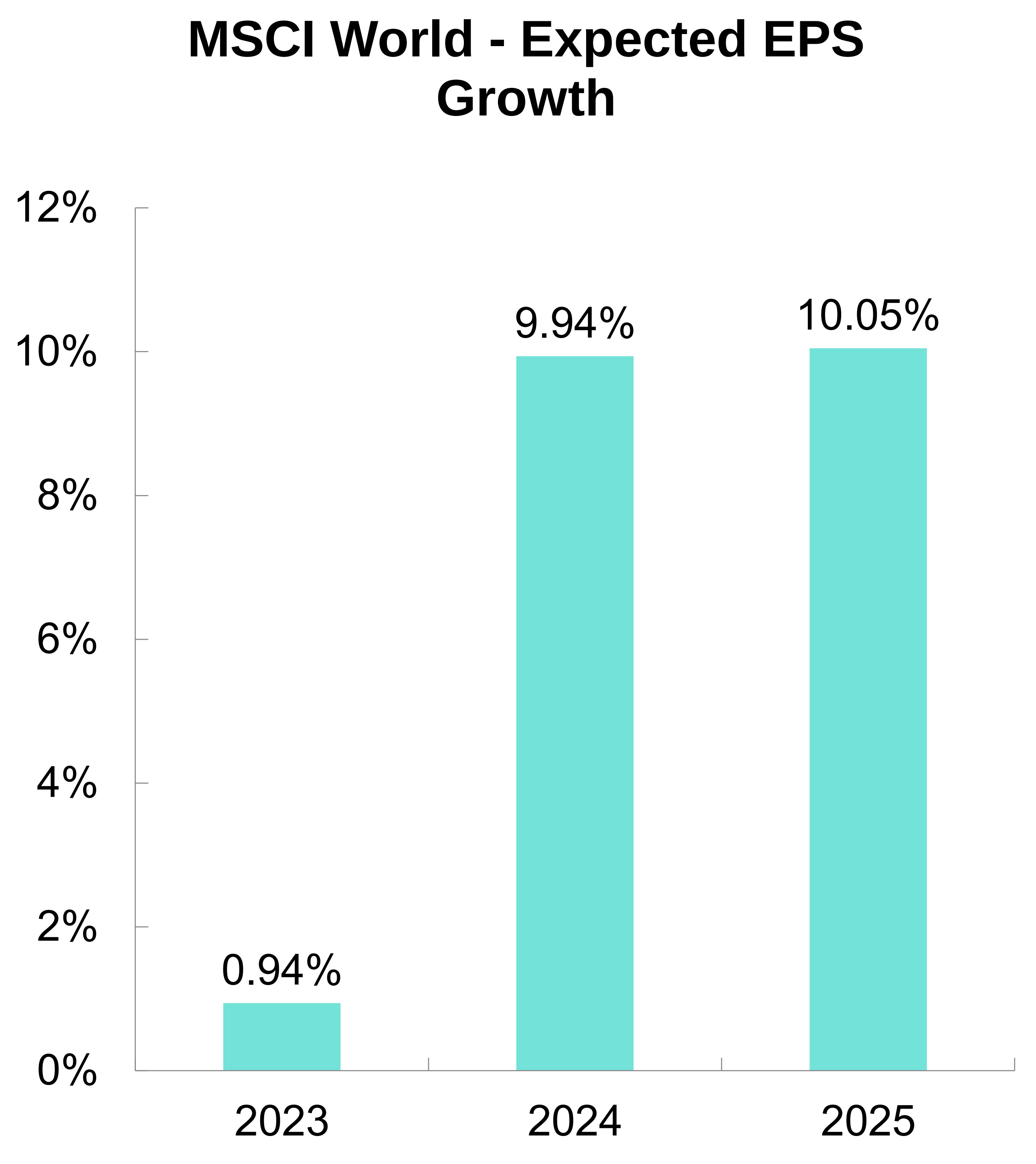
## Rebounding markets worsen valuations as earnings expectations hold up – we remain cautious on the outlook

The rally in equity markets continued over Q2 as the resilience in economic activity and company earnings boosted market optimism. Rapidly falling headline inflation was also a source of support but it became apparent towards the end of the quarter that core inflation could prove to be sticky and may prevent the long-expected Federal Reserve rate cuts from becoming reality, at least this year.

In terms of valuations, recent market rallies have taken key ratios towards expensive territory once again, but the near-term outlook is very uncertain. Will the AI-themed surge in a handful of tech stocks persist and support the entire market or will it be short-lived? These kind of rallies are unpredictable and could last longer than one may think.

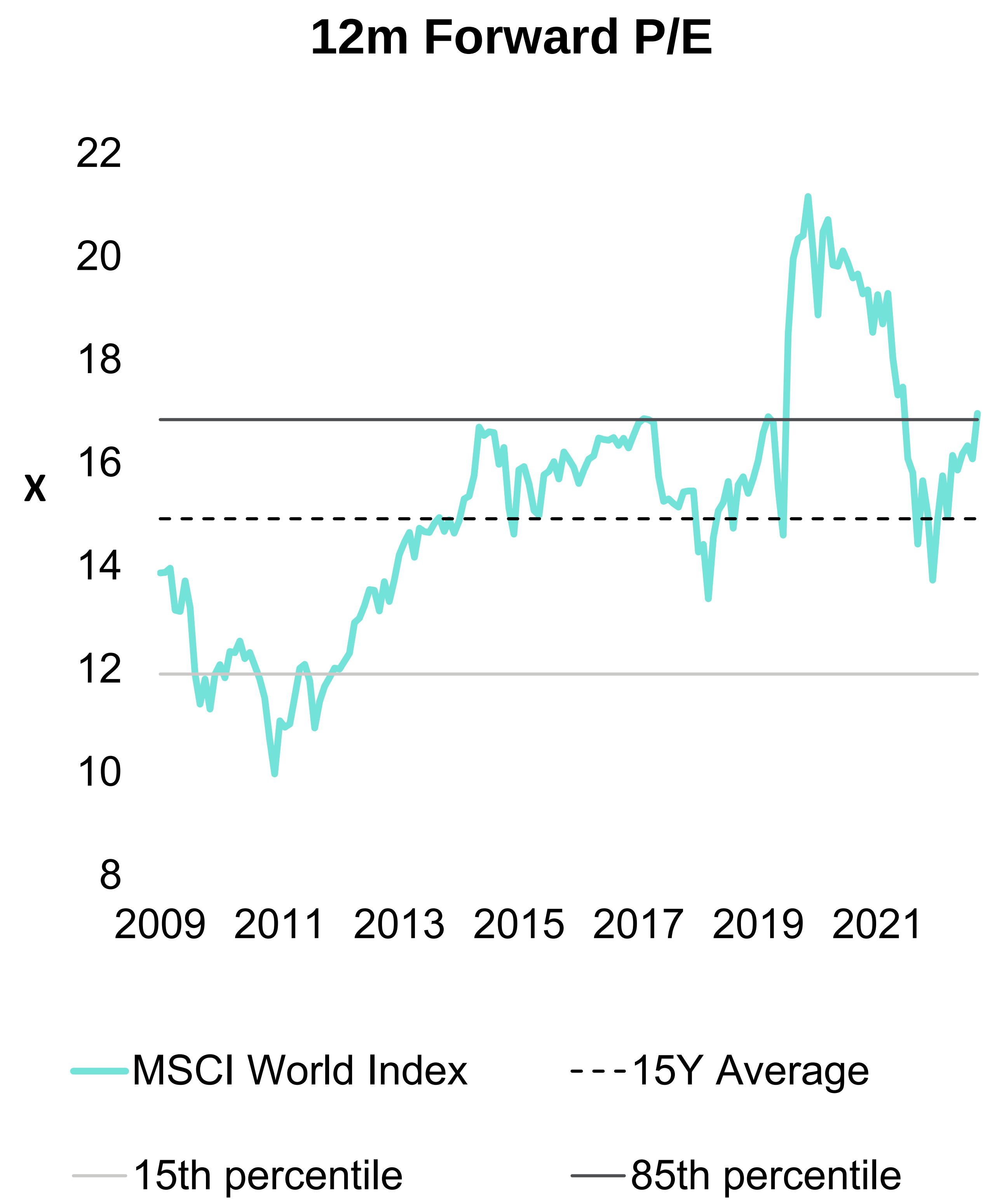
Nonetheless, we think that economic growth will likely continue to slow and that a global recession cannot be ruled out, especially if monetary policy is not loosened as quickly as markets are now expecting in the US. We think that these overarching trends will eventually dominate and that equity markets will be challenged over the next 12 months, even if the rally persists in the near-term.

**Earnings growth expectations are healthy for next year – we think these are vulnerable**




Source: Factset

**Valuations have moved into expensive territory**




Source: FactSet

# Equities

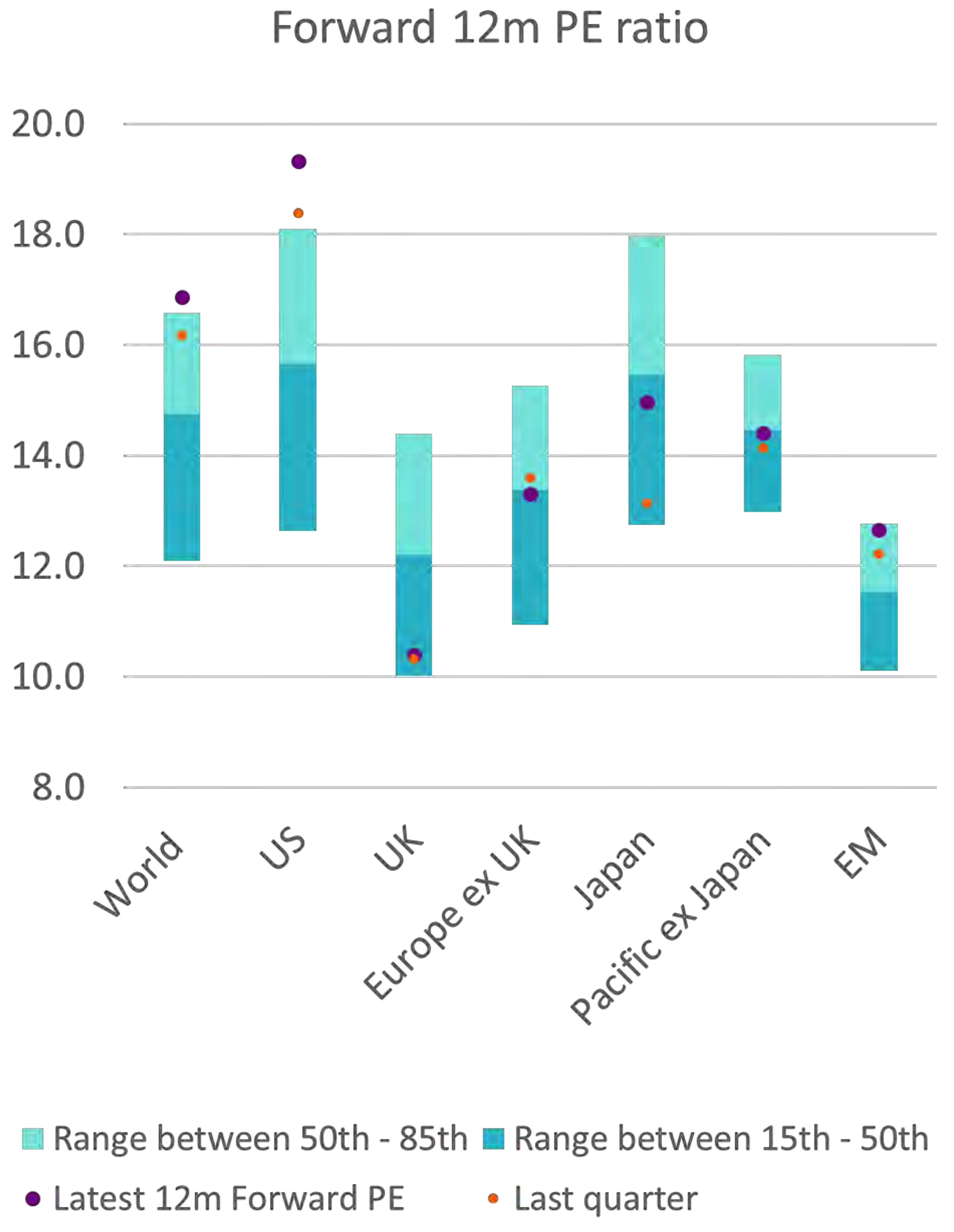
## Remaining neutral on US vs non-US regions and leaning towards low volatility equities

Two broad themes have dominated markets over Q2, pushing equities higher. The first is the significant rally in Japanese stocks as seemingly entrenched inflation has been met with a commitment by the Bank of Japan not to tighten monetary policy. The second, and most important, is the huge rally in a small number of technology stocks that have benefitted from the theme of an artificial intelligence run. The latter has pushed already expensive US valuations to even greater extremes relative to other regions. European ex-UK equities have also performed well, especially in March, but valuations remain relatively attractive.

We believe that taking a differential view on the developed markets is very difficult currently – the AI-theme is unpredictable but could persist and Europe is exposed to the Ukraine war and a global economic slowdown. As for Emerging Markets, we see the strongest earnings prospects here, whilst valuations are reasonable and the macro drivers are moving towards being more positive too. This includes the last stages of the US hiking cycle and a weaker trend in the US dollar.

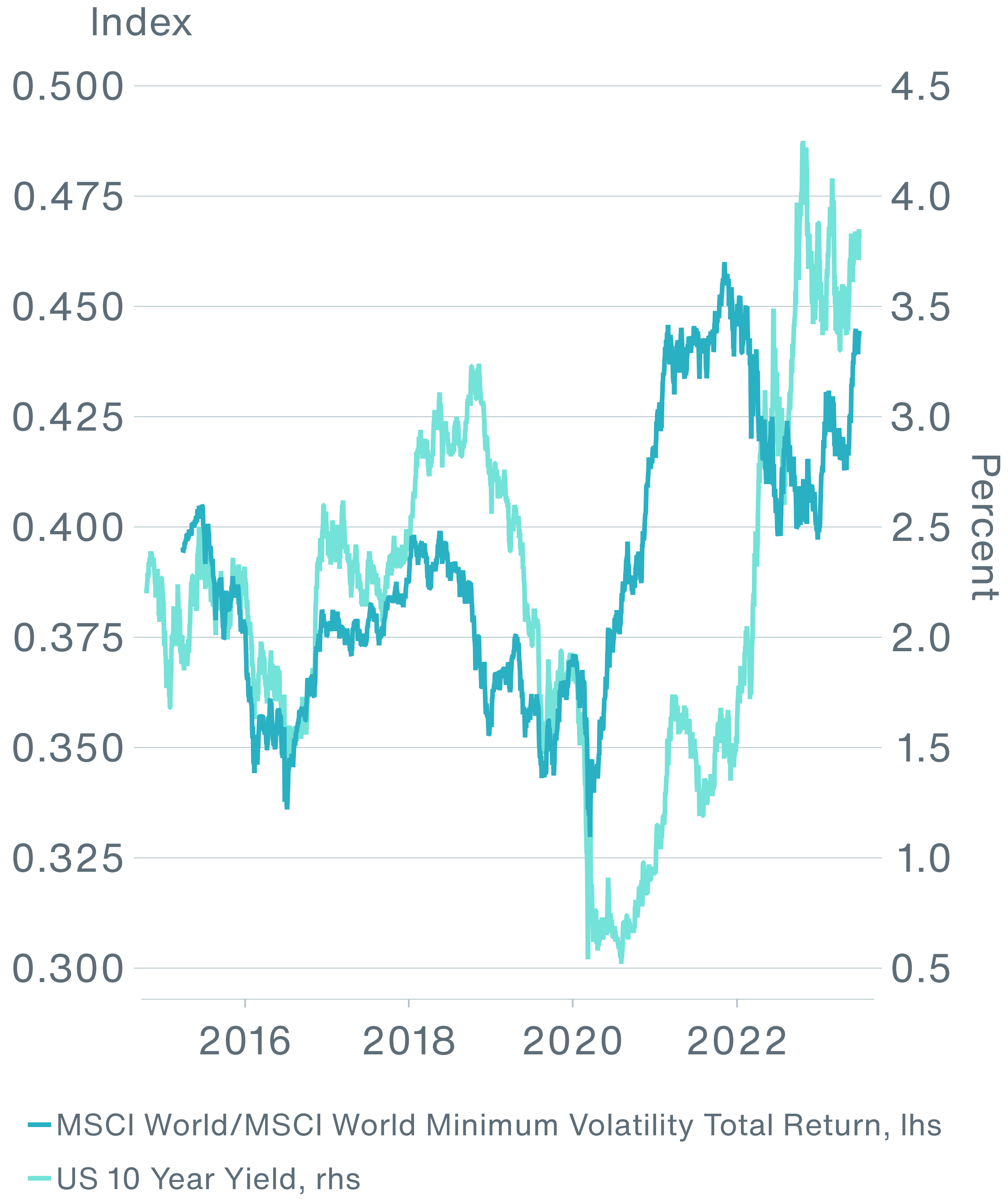
Central banks made it clear that the fight to bring inflation down had not ended yet and interest rates continued to rise in Q2. This is an unusual backdrop for growth stocks to outperform, but low volatility stocks have reflected their bond-proxy characteristics by underperforming this year. A recession scenario may bring yields lower and support low volatility equities, hence our small preference for this style.

**Valuations have become more expensive, especially in the US**




Source: Factset and Aon

**Low volatility stocks have lagged as yields have stayed high but this may change in a recession**




Source: Macrobond

# Relative Fixed Income Views*

*Asset class views are relative to others within the asset class and not relative to other asset types. There should be no read-across from equities to credit, for example.

## U.S. Core Fixed Income

| --- | -- | - | = | + | ++ | +++ |
|---|---|---|---|---|---|---|
| | | | Treasuries | | | |
| | | | Inv. Grade | | | |
| | | | TIPS | | | |

Higher 2-year yields now mean that rates markets are pricing a path for interest rates which is much closer to our view. However, we still think that implied pricing of cuts through 2024 is too high. Bits of the curve are starting to offer some value e.g. the 20 year, although we continue to think there will likely be better entry points. TIPS are also looking better value than in April but again we are holding off going overweight for now.

## Return-Seeking Fixed Income

| --- | -- | - | = | + | ++ | +++ |
|---|---|---|---|---|---|---|
| | | | USD EMD | | | |
| | | | | Local EMD | | |
| | | Bank Loans | | | | |
| | | | | Selected ABS | | |
| | | US High Yield | | | | |

We are keeping our sector views unchanged this quarter and we remain cautious on return-seeking fixed income overall.

# Core Fixed Income: US Treasuries

## Treasury yields remain close to the centre of our fair value range

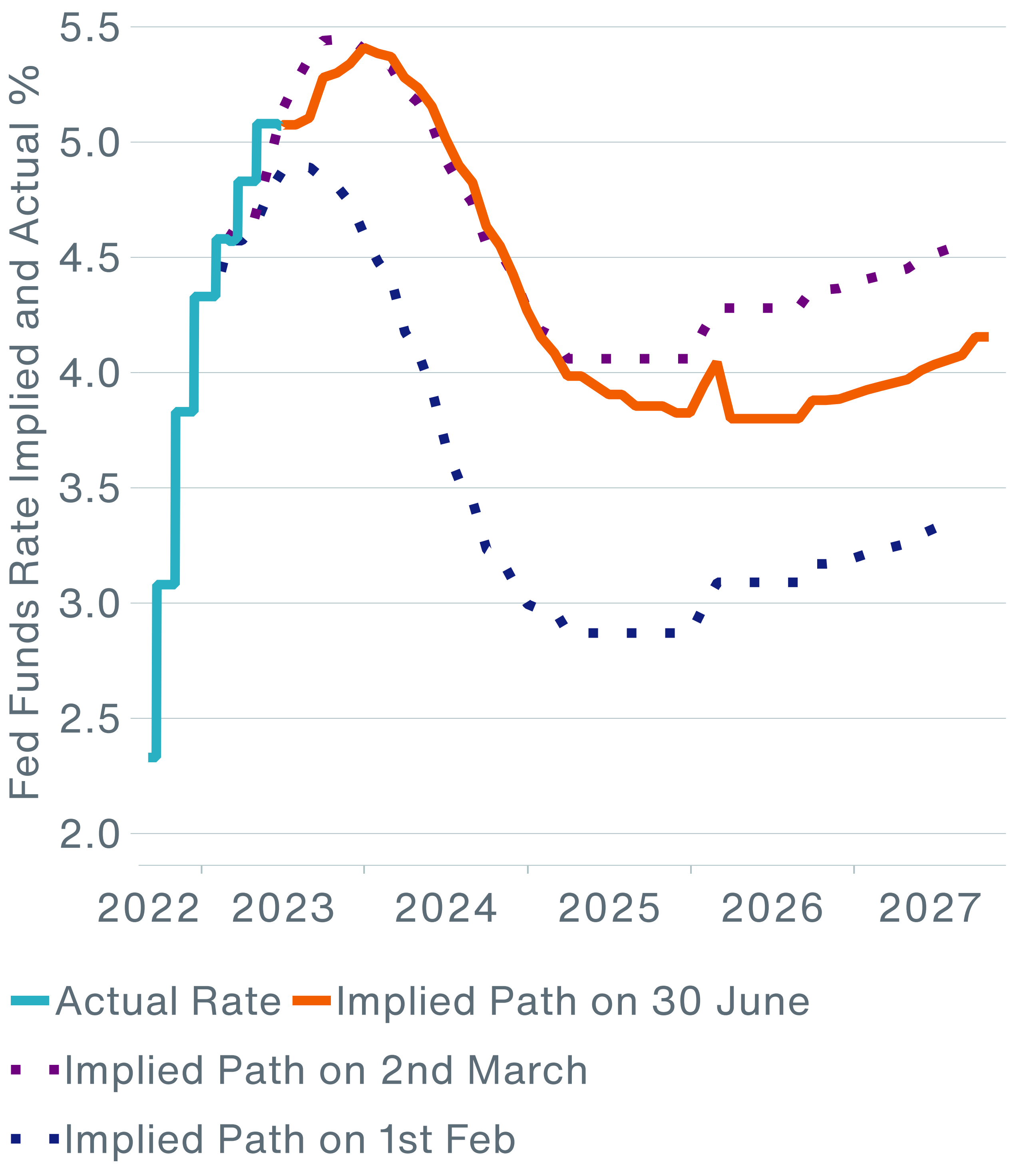
The 10-year US Treasury note is now at 3.86%, with the 20-year at 4.08% and the 30-year at 3.49%. We think that fair value for the long-end of the US curve is between 3.25% to 4.25%. Although yields are slightly higher than a quarter ago, we think that the curve is reasonably close to fair value rather than especially cheap and therefore stay neutral for now.

The higher rates have been driven by the front-end of the swaps curve pricing higher reflecting the market expecting the Federal Reserve to revert to hiking again (after the June pause) and cutting to start in December.

We still think markets are too aggressive in their expectations for rate cuts next year and that the balance of risks is that rates will end the year higher than anticipated.

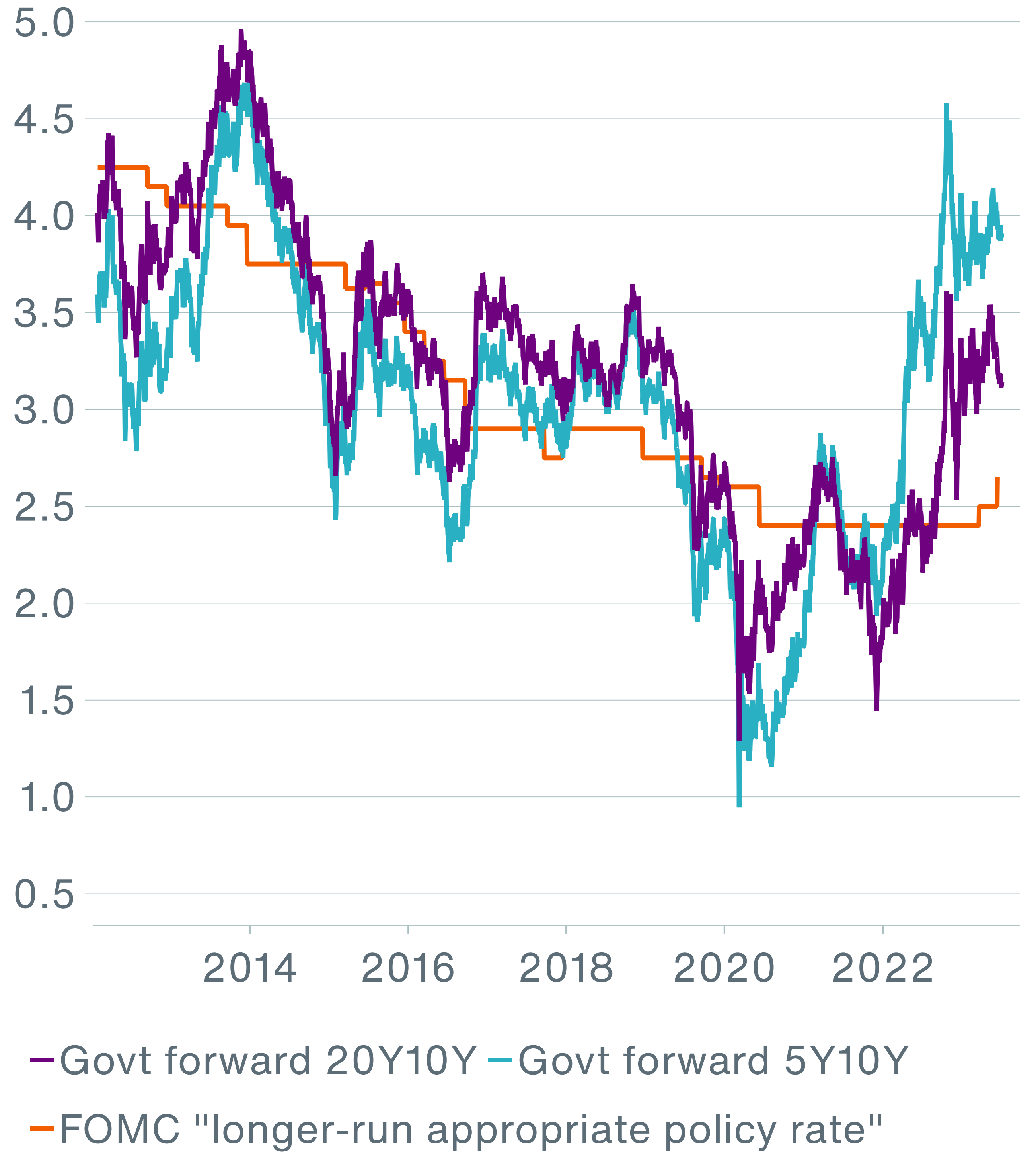
We think the long-term through-the-cycle policy rate has likely risen back towards the 4% level which it averaged at before the 2008 Global Financial Crisis. If we assume the current rate cycle plays out over the next five years, this rate is consistent with the 5y10y part of the US Treasury curve (the implied yield of a 10-year Treasury in 5 years' time). However, the 20y10y is much closer to the lower level that the Federal Reserve's Open Market Committee assesses the longer-term policy rate to be.

**Market are pricing in a more dovish stance for rates than Fed rhetoric suggests**




Source: Macrobond

**US government bond forward rates versus Federal Reserve (FOMC) estimates of neutral policy rate**




Source: Macrobond

# Investment Grade Credit

## Attractive yield levels partially offset recession risks

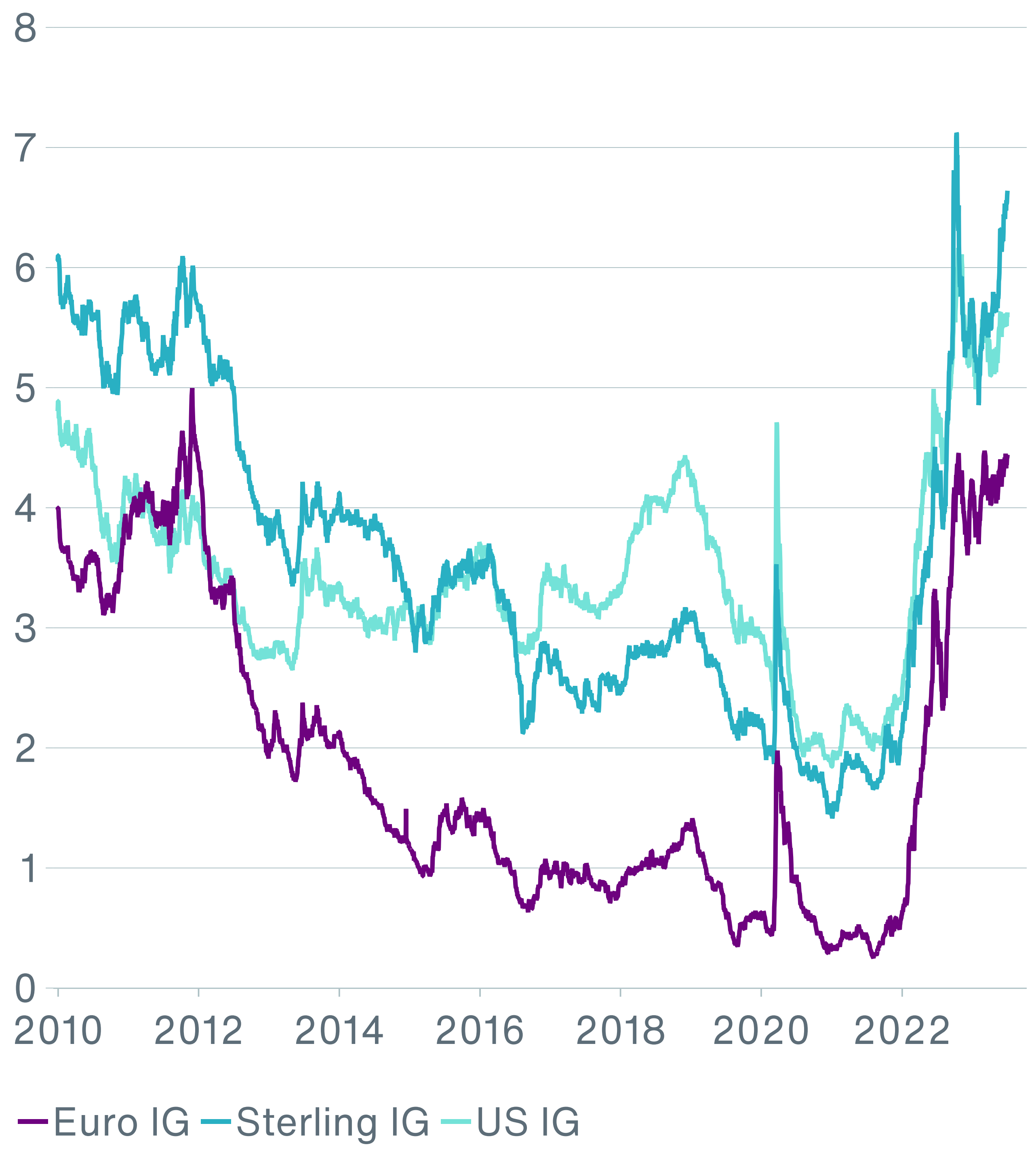
The sharp increase in interest rates by central banks in the past year has taken investment grade (IG) credit yields to levels not seen for over ten years. Yields are currently sitting somewhat lower than the highs observed in September 2022 when markets became stressed and some leveraged investors were forced sellers.

Overall though we think that yields have reached relatively attractive entry points, particularly in sterling, although there is the potential for yields to spike higher. This could come from either higher government rates, if policy rates have to be higher for longer or from further spread widening. Indeed, if we enter a recession, higher debt rollover costs, could see downgrade risks drive spreads higher. Corporate debt is low relative to the market value of equities, and this tends to be associated with lower spreads so, if equities remain robust, we think substantial spread-widening will be avoided.

Our base case is that the economic growth outlook through 2023 and 2024 is challenging but we don't anticipate a deep recession.

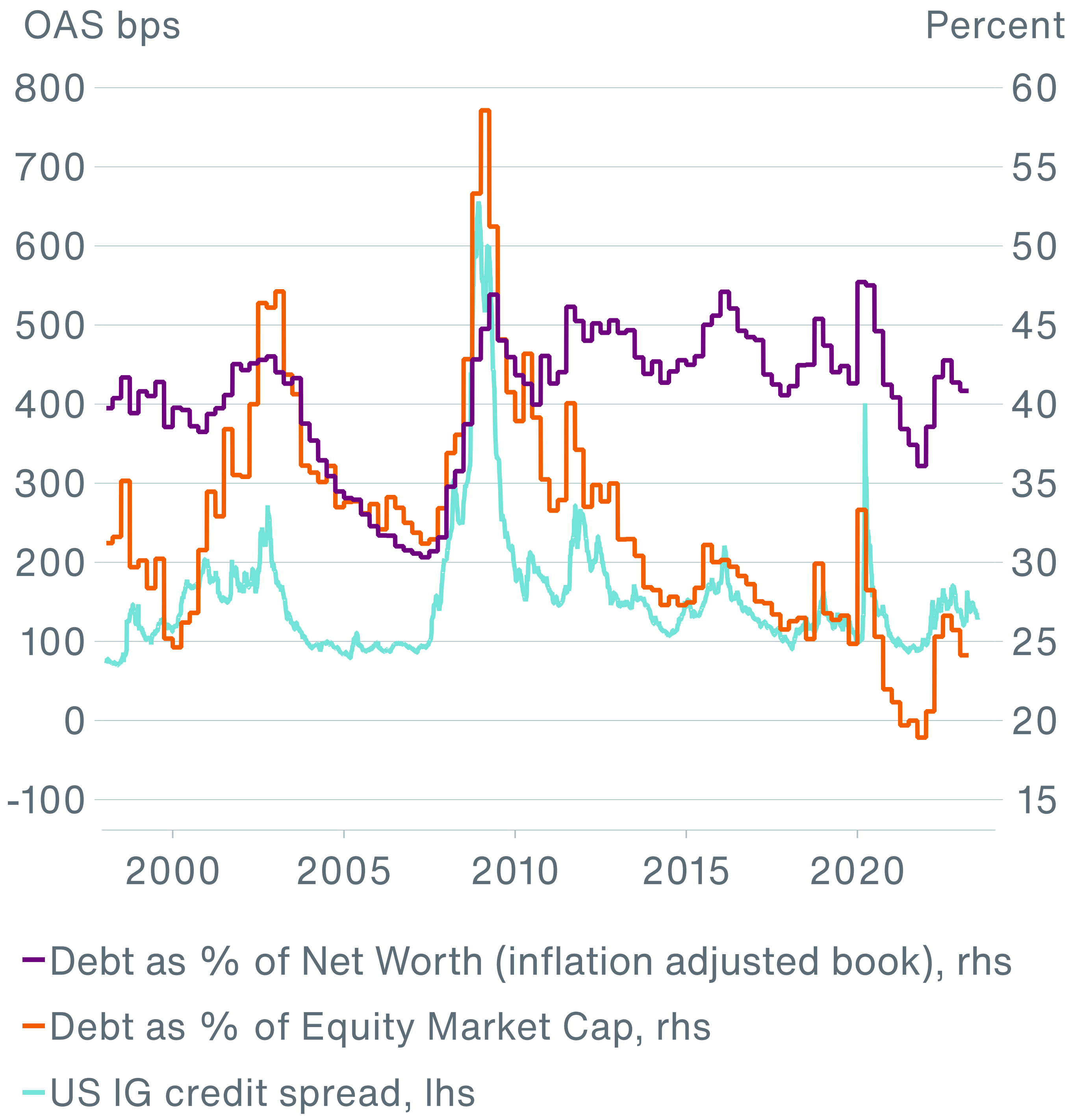
Liquidity conditions within IG are also a concern and appear to have deteriorated. This limits increasing exposure now for schemes which have shorter time horizons.

**Yields close to decade highs (YTM, %)**




Source: Macrobond, ICE BofA.

**Low corporate debt should keep spreads fairly contained**




Source: Macrobond, ICE BofA.

# Return-Seeking Credit

## Upward pressure on credit spreads are keeping us on the side lines

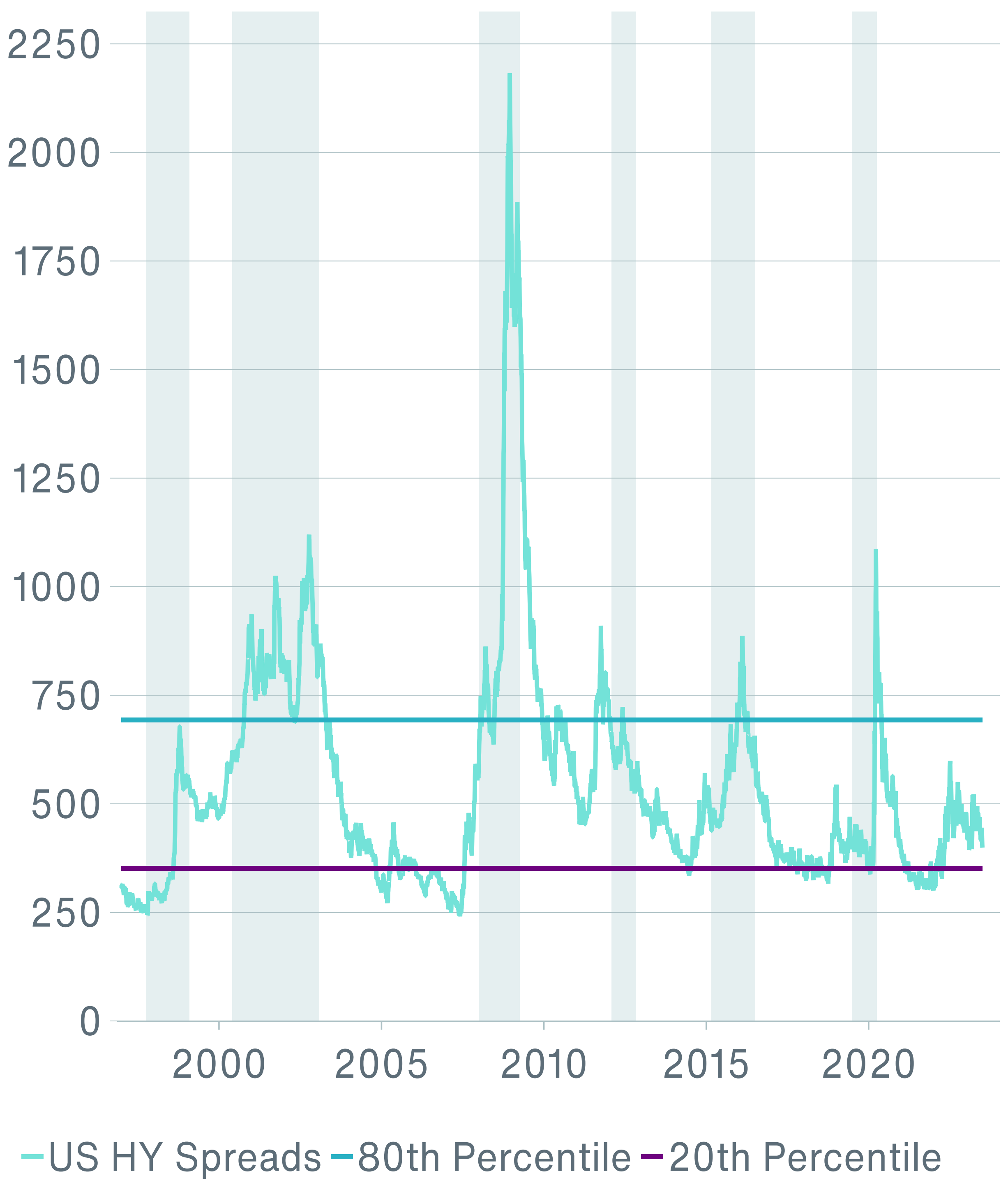
High yield bond credit spreads rose back above 500bps (yield rose above 9%) in March on banking tensions. Speedy official intervention and a small exposure to banks in high yield markets limited the move and spreads have since fallen back to the levels seen in February. Default rates are rising but we do not expect a big rise from the current low levels. Corporate leverage is lower than pre-pandemic. Although there is no immediate refinancing pressure for the HY and loan universe, the "higher for longer" rate environment could potentially put more pressure on lower quality borrowers. We expect refinancing risks to act as a headwind for lower quality credit.

Whilst we expect some upward pressure on spreads in the future, causing them to likely underperform government and investment grade bonds, high absolute yield levels will provide an attractive entry point at some point.

US loans benefited from the rising rate environment over the last three years and have outperformed HY bonds given that they are floating rate. However, since October's US treasury yield highs, when we also ended our loan preference, performance has been more in line with HY bonds. We expect to downgrade loans vs HY bonds later in the economic and rate cycle.

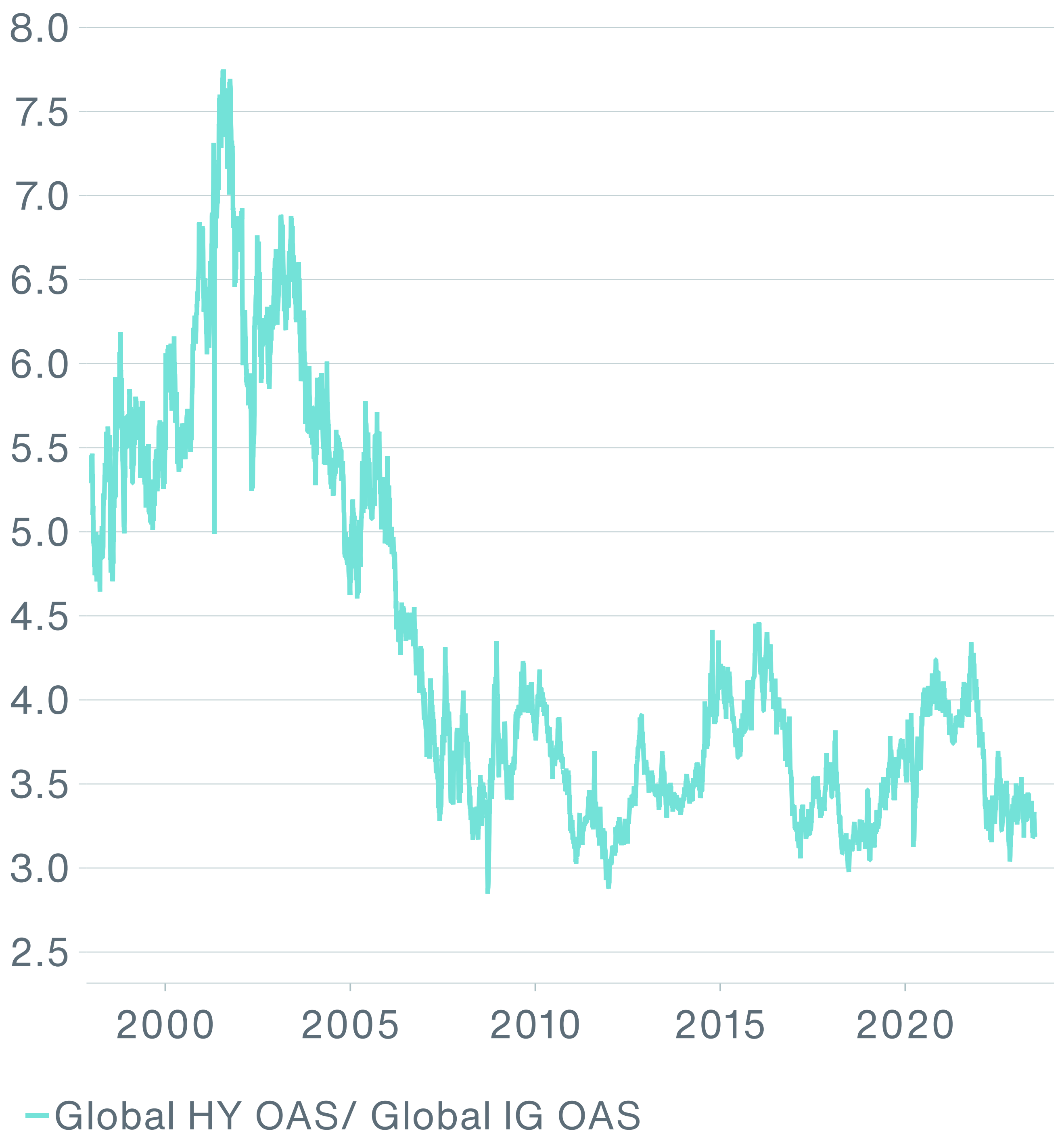
We continue to be cautiously positive on EM debt after the last three years of dismal returns and we upgraded the sector at the start of this year.

**US high yield spreads likely to rise but not to past recession highs**
(Previous recessions shaded)




Source: Macrobond, ICE BofA

**Spreads relative to investment grade are near historic lows**




Source: JP Morgan, ICE BofA

# Relative Alternative and Currency Views*

*Asset class views are relative to others within the asset class and not relative to other asset types. There should be no read-across from equities to credit, for example.

## Alternatives

| --- | -- | - | = | + | ++ | +++ |
|---|---|---|---|---|---|---|
| | | | Commodities | | | |
| | | | | Diversifying Hedge Funds | | |
| | | | | Global Infra. | | |
| | | | | Selected Private Credit | | |
| | | Real Estate | | | | |

We continue to see the merit in non-equity correlated alternative asset classes to provide resilience and diversification to portfolios, although the lower liquidity of some of these may not be appropriate for everyone. Following the banking crisis, we believe that tightening will occur in the commercial banking sector, and this will benefit private credit markets as higher quality credit is redirected to private lenders. We also remain relatively pessimistic about real estate as interest rates rise and economic growth slows.

## Currency views vs USD

| --- | -- | - | = | + | ++ | +++ |
|---|---|---|---|---|---|---|
| | | | | EUR | | |
| | | | GBP | | | |
| | | | | | JPY | |
| | | | | EM | | |

Sterling has rallied meaningfully since September's mini-budget gilt crisis but we think that upside is now limited by the UK's negative growth outlook and potentially too high policy rate expectations.

We remain moderately negative on the US dollar against other major currencies over the medium-term, with a preference for the Japanese yen.

# Alternatives

## We think the correction in private real estate valuations has more to go

We retain a cautious outlook for private real estate. Whilst we have seen some softening in pricing since we downgraded real estate to underweight, the private real estate market still looks expensive against publicly traded REITs.

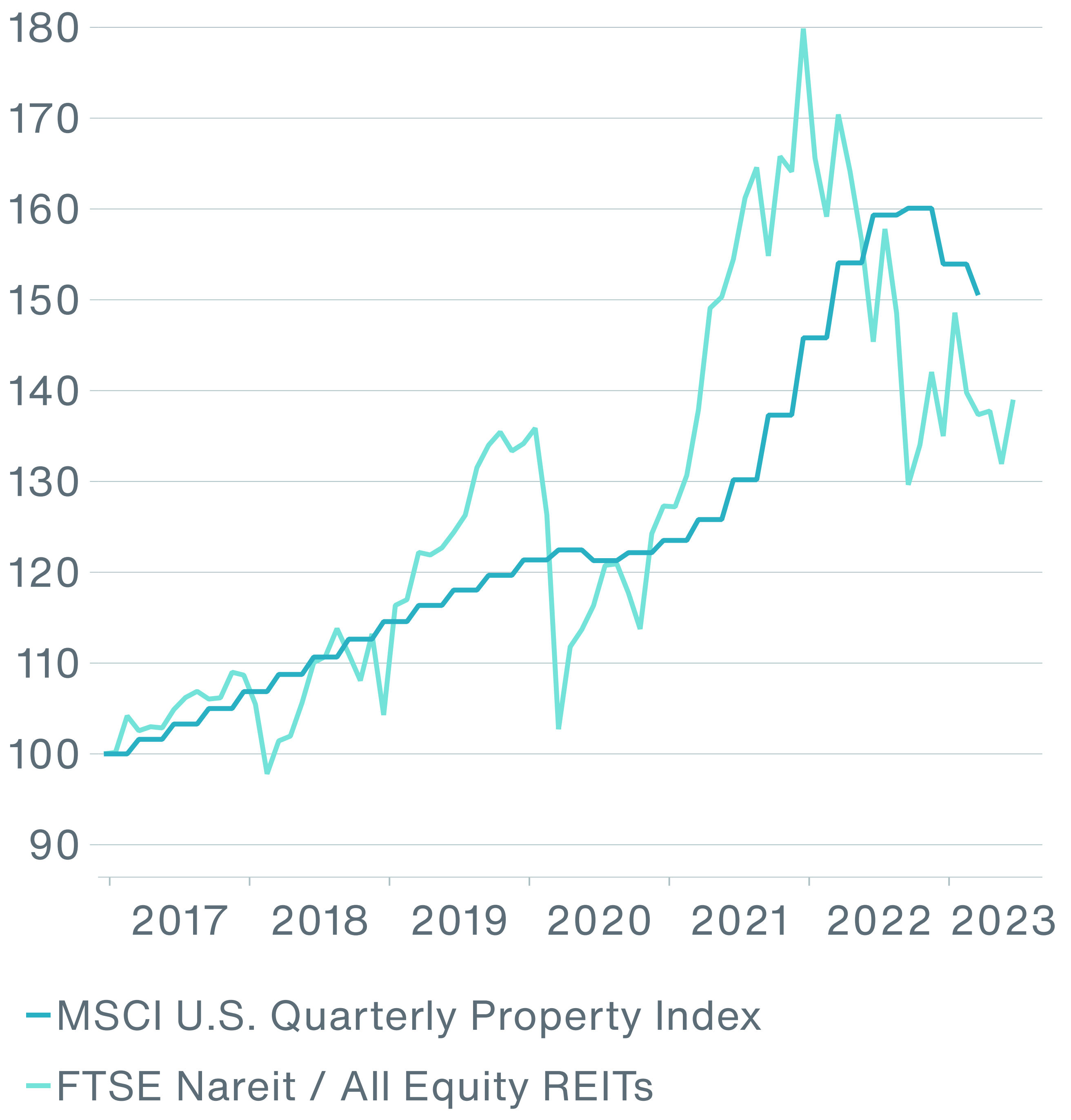
We suspect that the ongoing correction in the private real estate market may have more to go. US commercial real estate's average cap rate of around 4% looks vulnerable against a rising rates environment where investors can find more attractive yields elsewhere.

Private market transaction volumes have slowed substantially in recent quarters which may have impeded price discovery in the market. However, as existing commercial real estate loans approach refinancing at much higher rates, existing property owners may be forced to sell assets, even at a loss.

The fallout from the US banking sector's turmoil earlier this year could make refinancing more challenging, given the impact on smaller banks which dominate the commercial real estate lending market. As these banks adjust to the experienced deposit outflows and reassess their risk appetite, this could lead to reduced credit availability for property owners.

**Private real estate valuations have started to fall, but remain expensive against REITs**

US real estate total return, rebased at 100 in December 2016

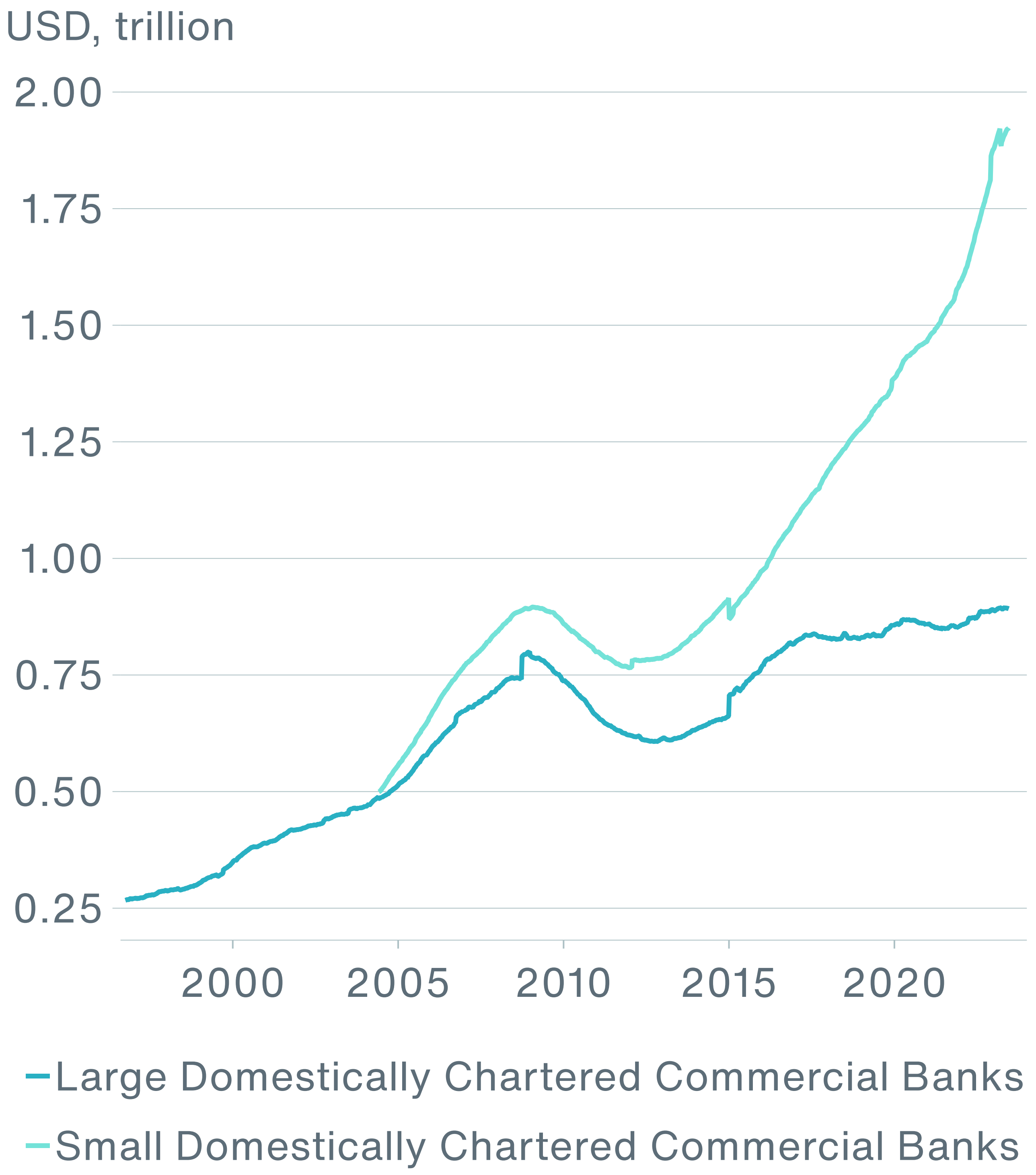



As at 06/2023, 03/2023, for FTSE Nareit / All Equity REITs, MSCI U.S. Quarterly Property Index, respectively

Source: Macrobond, Federal Reserve

**Small banks are an important source of US commercial real estate financing**

Total commercial RE lending by entity types




Source: Macrobond, Federal Reserve

# Currencies

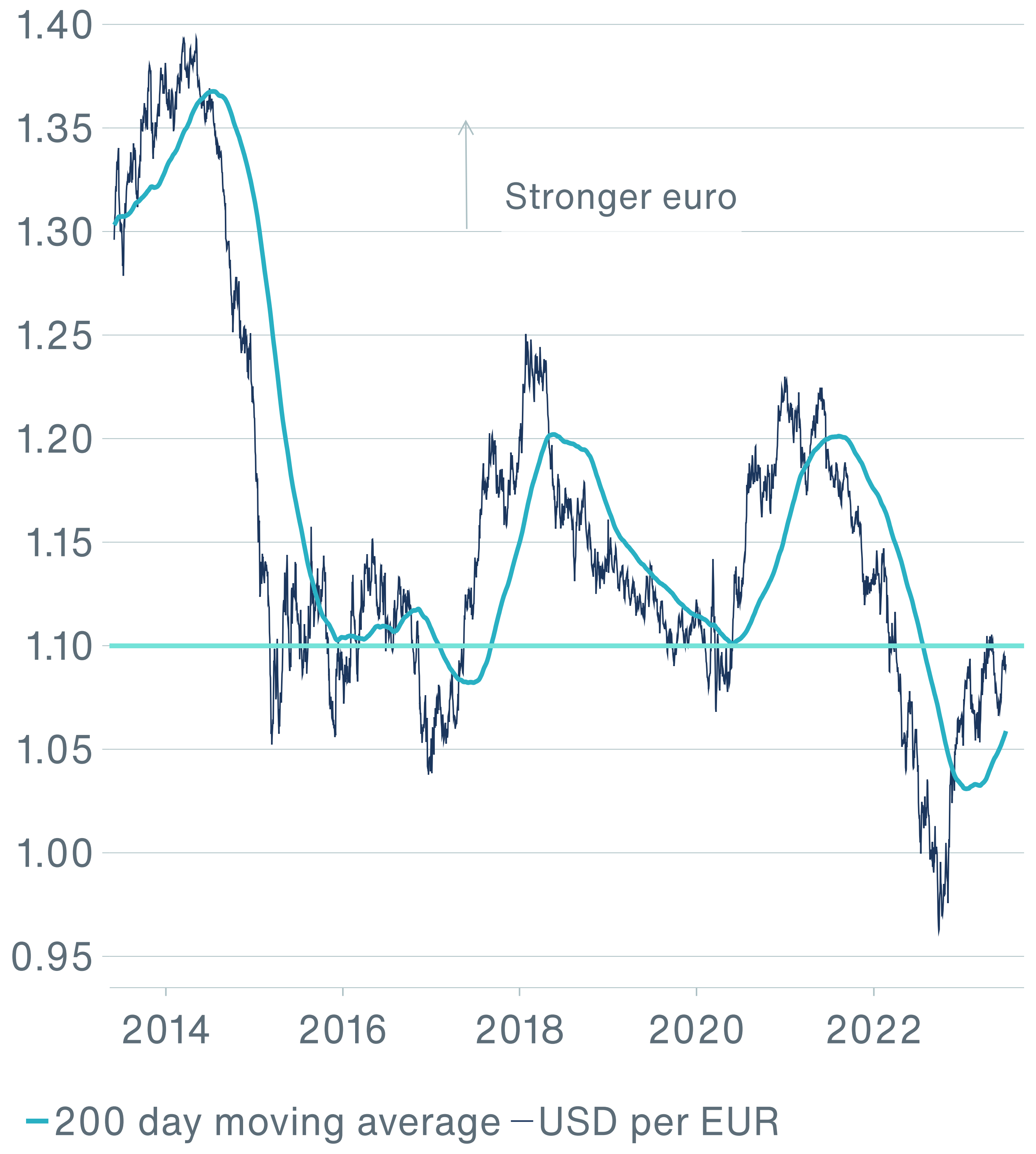
## Remaining modestly negative on the US dollar but moving neutral on sterling

We turned negative on the US dollar in January. Since then, the US Dollar index (DXY) and the dollar exchange rate against the euro have moved only slightly down, with euro resistance at $1.10. Our negative dollar stance was based on the fact that we thought (and still do think) that September 2022 marked the end of the dollar's rally, even though the growth and rate outlook could still provide support for the dollar.

Indeed, US economic data has proved to be quite resilient this year whilst Eurozone data has disappointed (see chart), as has Chinese data. Also, whilst interest rate expectations have increased globally this year, the upward revision in US rates has been greater than in the Eurozone (in spite of the US rate pause in June). We are maintaining our modest negative dollar view, supported by valuations (based on purchasing power parity) and encouraged that the dollar has not gained ground against a supportive backdrop this year.

Sterling has been supported by stubbornly high inflation, keeping rates high, but the pound has become more vulnerable in the short-term as positioning has become overly positive. We are therefore downgrading sterling. Meanwhile, the yen has defied expectations for it to move higher on forecasts of the end of ultra loose Japanese monetary policy. However, it remains undervalued and should appreciate as rate pressures die down elsewhere.

**The euro uptrend since September 2022 remains in tact...**




Source: Macrobond

**... Although euro-area economic momentum has faded this year which has stalled euro gains**


Source: Macrobond

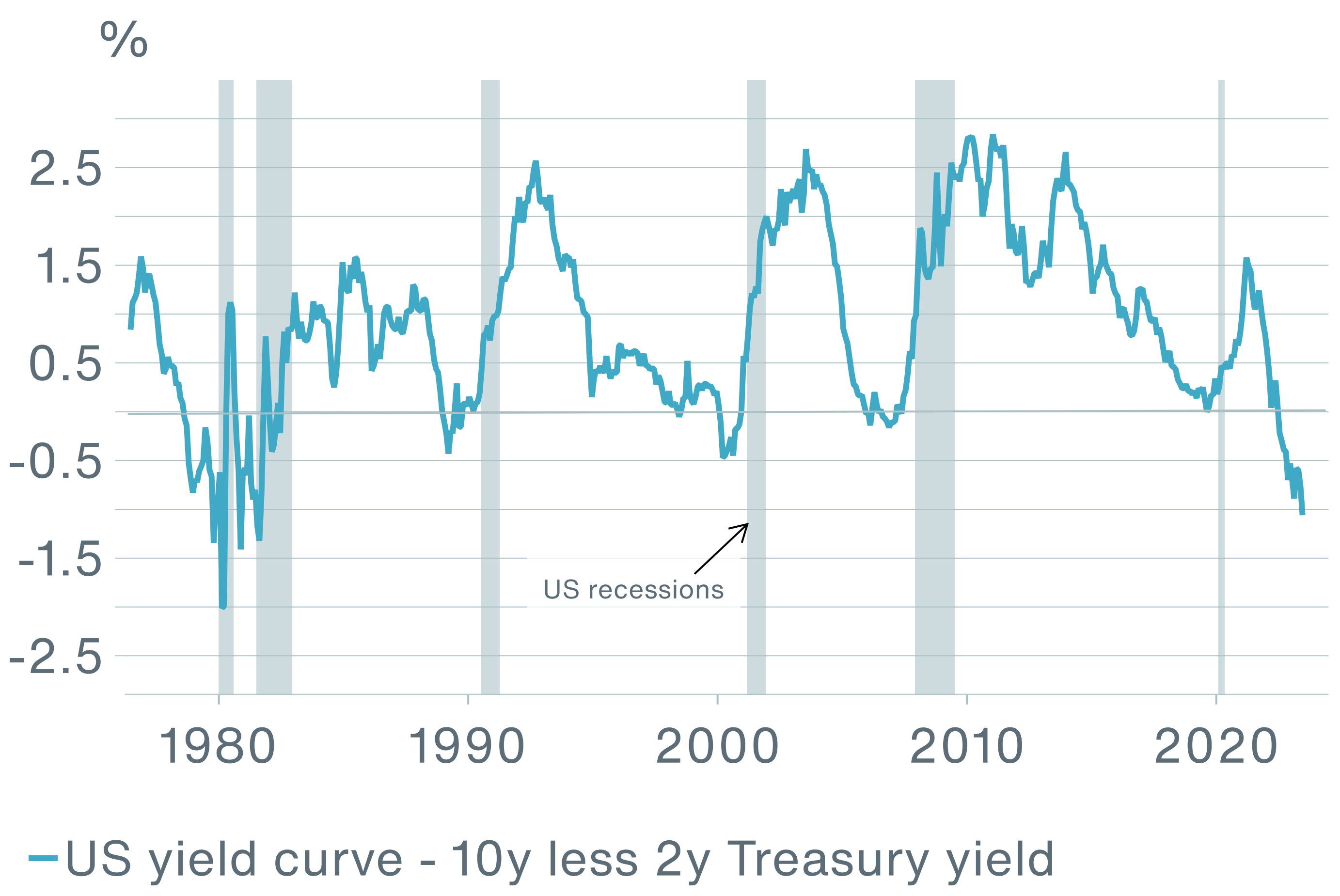
# Appendix

# Economic Highlights

The financial sector travails of March were set aside over Q2 as market focus switched to the huge rally in a small number of AI-themed stocks and falling inflation measures. Although economic growth has held up reasonably well so far this year, the past quarter did reveal further signs of slowing momentum and markets believe that monetary policy tightening is close to ending for this cycle. However, whilst headline inflation figures have been falling, there has been much less movement in core measures, which is complicating central banks' aims of achieving a soft landing, where a sharp economic recession is avoided. In terms of the Emerging Markets, the widely expected rebound in the Chinese economy has been less impressive than hoped so far but a weaker US dollar and peaking yields should be helpful over time.

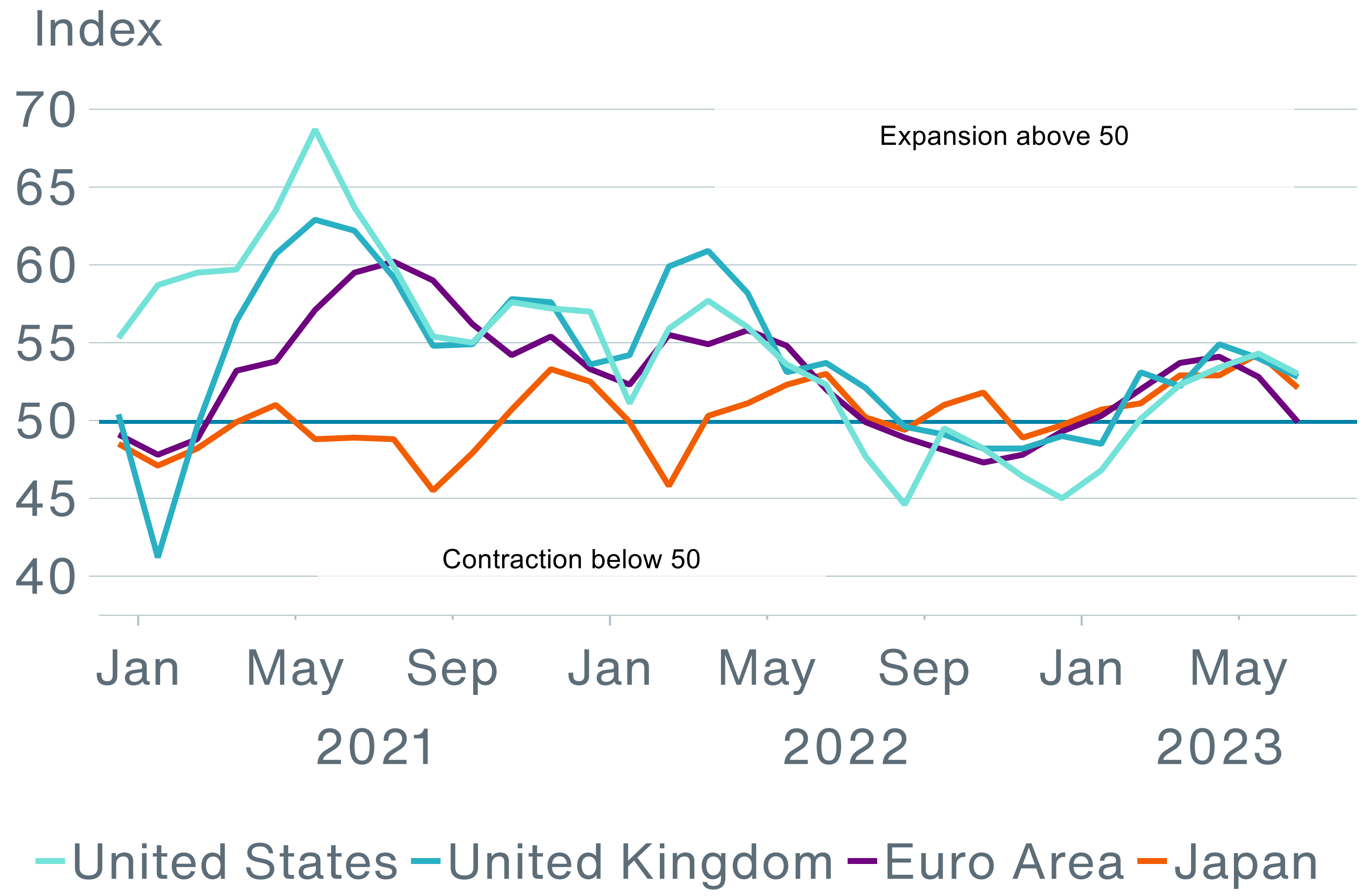
We still think that a global recession is likely at some point over the coming year, although it may be relatively shallow and short-lived. Meanwhile, inflation will likely continue to fall, but we do not expect the key measures to fall back to pre-pandemic rates any time soon. Extreme uncertainty due to the war in Ukraine continues to make predictions especially difficult.

**US yield curve is strongly pointing towards a recession**



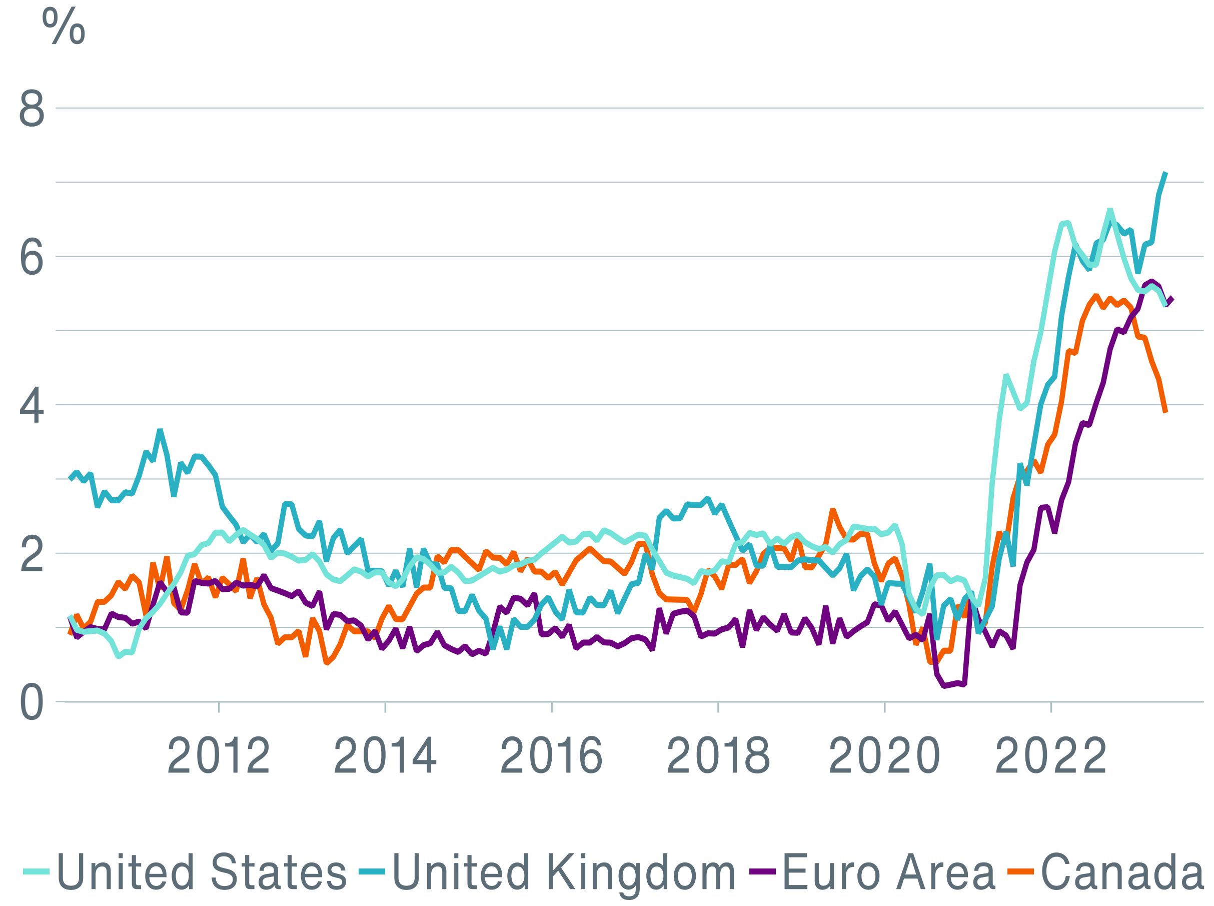

Source: Macrobond

**Economic activity decelerated over Q2 – Selected regional composite PMIs**




Source: Macrobond

**Core inflation has remained stubbornly high and has actually rebounded in the UK – Core CPI YoY**




Source: Macrobond

# Selected economic data releases

| Date | Country/Region | Event | Period | Actual | Consensus | Surprise | Prior |
|---|---|---|---|---|---|---|---|
| 04/03/2023 | United States | ISM Manufacturing SA | MAR | 46.3 | 47.5 | -1.2 | 47.7 |
| 04/05/2023 | Eurozone | Markit PMI Composite SA (Final) | MAR | 53.7 | 54.1 | -0.40 | 54.1 |
| 04/05/2023 | United Kingdom | CIPS Composite PMI SA (Final) | MAR | 52.2 | - | - | 52.2 |
| 04/05/2023 | United States | ISM Services PMI SA | MAR | 51.2 | 54.5 | -3.3 | 55.1 |
| 04/07/2023 | United States | Nonfarm Payrolls SA | MAR | 236.0K | 240.0K | -4.0K | 326.0K |
| 04/11/2023 | China | CPI NSA Y/Y | MAR | 0.70% | 1.0% | -0.35% | 1.0% |
| 04/12/2023 | United States | CPI ex-Food & Energy NSA Y/Y | MAR | 5.6% | 5.6% | 0.0% | 5.5% |
| 04/12/2023 | United States | CPI NSA Y/Y | MAR | 5.0% | 5.2% | -0.20% | 6.0% |
| 04/12/2023 | Canada | BoC Overnight Rate Target | - | 4.50% | 4.50% | 0.00% | 4.50% |
| 04/18/2023 | China | GDP NSA Y/Y | Q1 | 4.5% | 3.4% | 1.1% | 2.9% |
| 04/18/2023 | Canada | CPI All Items (NSA Y/Y) | MAR | 4.3% | 4.3% | -0.0% | 5.2% |
| 04/19/2023 | United Kingdom | CPI Core NSA Y/Y | MAR | 6.2% | 6.0% | 0.20% | 6.2% |
| 04/19/2023 | United Kingdom | CPI EU Harmonized NSA Y/Y | MAR | 10.1% | 9.7% | 0.40% | 10.4% |
| 04/19/2023 | Eurozone | CPI Core EU Harmonized NSA Y/Y (Final) | MAR | 5.7% | 5.7% | 0.0% | 5.7% |
| 04/19/2023 | Eurozone | CPI EU Harmonized Y/Y (Final) | MAR | 6.9% | 6.9% | -0.0% | 6.9% |
| 04/21/2023 | Japan | CPI ex-Fresh Food and Energy | MAR | 3.8% | - | - | 3.5% |
| 04/21/2023 | Japan | CPI National Y/Y | MAR | 3.2% | 3.2% | -0.0% | 3.3% |
| 04/28/2023 | Eurozone | GDP SA Y/Y (Preliminary) | Q1 | 1.3% | 1.4% | -0.10% | 1.8% |
| 04/28/2023 | United States | Core PCE Deflator Y/Y | MAR | 4.6% | 4.5% | 0.10% | 4.7% |
| 05/01/2023 | Japan | Markit/JMMA PMI Manufacturing SA (Final) | APR | 49.5 | 49.6 | -0.10 | 49.5 |
| 05/01/2023 | United States | ISM Manufacturing SA | APR | 47.1 | 46.7 | 0.40 | 46.3 |
| 05/03/2023 | United States | Fed Funds Target Rate Upper Bound | - | 5.25% | 5.25% | 0.00% | 5.00% |
| 05/04/2023 | China | Markit/Caixin PMI Manufacturing SA | APR | 49.5 | 50.2 | -0.69 | 50.0 |
| 05/04/2023 | United Kingdom | CIPS Composite PMI SA (Final) | APR | 54.9 | 53.9 | 0.97 | 53.9 |
| 05/05/2023 | United States | Nonfarm Payrolls SA | APR | 253.0K | 178.0K | 75.0K | 165.0K |
| 05/10/2023 | United States | CPI ex-Food & Energy NSA Y/Y | APR | 5.5% | 5.5% | 0.0% | 5.6% |
| 05/11/2023 | China | CPI NSA Y/Y | APR | 0.10% | 0.30% | -0.20% | 0.70% |
| 05/11/2023 | United Kingdom | BoE Official Bank Rate | - | 4.50% | 4.50% | 0.00% | 4.25% |
| 05/12/2023 | United Kingdom | GDP SA Y/Y (Preliminary) | Q1 | 0.20% | -0.20% | 0.40% | 0.60% |
| 05/16/2023 | Canada | CPI All Items (NSA Y/Y) | APR | 4.4% | 4.1% | 0.31% | 4.3% |

UK core inflation continued to rise unexpectedly

Only US Fed rate increase this quarter. There was a pause in the following meeting

# Selected economic data releases

| Date | Country/Region | Event | Period | Actual | Consensus | Surprise | Prior |
|---|---|---|---|---|---|---|---|
| 05/19/2023 | Japan | CPI ex-Fresh Food and Energy | APR | 4.1% | - | - | 3.8% |
| 05/19/2023 | Japan | CPI National Y/Y | APR | 3.5% | 3.5% | 0.0% | 3.2% |
| 05/23/2023 | Eurozone | Markit PMI Composite SA (Preliminary) | MAY | 53.3 | 53.9 | -0.60 | 54.1 |
| 05/24/2023 | United Kingdom | CPI Core NSA Y/Y | APR | 6.8% | 6.0% | 0.80% | 6.2% |
| 05/24/2023 | United Kingdom | CPI EU Harmonized NSA Y/Y | APR | 8.7% | 8.1% | 0.55% | 10.1% |
| 05/26/2023 | United States | Core PCE Deflator Y/Y | APR | 4.7% | 4.6% | 0.10% | 4.6% |
| 05/31/2023 | Canada | GDP SAAR Q/Q | Q1 | 3.1% | 2.5% | 0.60% | -0.10% |
| 06/01/2023 | Japan | Markit/JMMA PMI Manufacturing SA (Final) | MAY | 50.6 | - | - | 50.8 |
| 06/01/2023 | China | Markit/Caixin PMI Manufacturing SA | MAY | 50.9 | 49.4 | 1.5 | 49.5 |
| 06/01/2023 | United States | ISM Manufacturing SA | MAY | 46.9 | 47.0 | -0.10 | 47.1 |
| 06/02/2023 | United States | Nonfarm Payrolls SA | MAY | 339.0K | 188.0K | 151.0K | 294.0K |
| 06/05/2023 | United Kingdom | CIPS Composite PMI SA (Final) | MAY | 54.0 | 53.9 | 0.11 | 53.9 |
| 06/05/2023 | United States | ISM Services PMI SA | MAY | 50.3 | 52.1 | -1.8 | 51.9 |
| 06/07/2023 | Canada | BoC Overnight Rate Target | - | 4.75% | 4.50% | 0.25% | 4.50% |
| 06/08/2023 | Japan | GDP Y/Y (Final) | Q1 | 1.9% | 1.3% | 0.60% | 1.3% |
| 06/08/2023 | Eurozone | GDP SA Y/Y (Final) | Q1 | 1.0% | 1.3% | -0.30% | 1.3% |
| 06/13/2023 | United States | CPI ex-Food & Energy NSA Y/Y | MAY | 5.3% | 5.2% | 0.10% | 5.5% |
| 06/14/2023 | United States | Fed Funds Target Rate Upper Bound | - | 5.25% | 5.25% | 0.00% | 5.25% |
| 06/16/2023 | Eurozone | CPI Core EU Harmonized NSA Y/Y (Final) | MAY | 5.3% | 5.3% | 0.0% | 5.3% |
| 06/16/2023 | Eurozone | CPI EU Harmonized Y/Y (Final) | MAY | 6.1% | 6.1% | 0.0% | 6.1% |
| 06/21/2023 | United Kingdom | CPI Core NSA Y/Y | MAY | 7.1% | 6.7% | 0.40% | 6.8% |
| 06/21/2023 | United Kingdom | CPI EU Harmonized NSA Y/Y | MAY | 8.7% | 8.4% | 0.30% | 8.7% |
| 06/22/2023 | United Kingdom | BoE Official Bank Rate | - | 5.00% | 4.75% | 0.25% | 4.50% |
| 06/23/2023 | Japan | CPI ex-Fresh Food and Energy | MAY | 4.3% | - | - | 4.1% |
| 06/23/2023 | Japan | CPI National Y/Y | MAY | 3.2% | 3.2% | -0.0% | 3.5% |
| 06/27/2023 | Canada | CPI All Items (NSA Y/Y) | MAY | 3.4% | 3.3% | 0.01% | 4.4% |
| 06/29/2023 | United States | GDP SAAR Q/Q (Final) | Q1 | 2.0% | 1.3% | 0.70% | 1.3% |
| 06/30/2023 | United States | Core PCE Deflator Y/Y | MAY | 4.6% | 4.7% | | 4.7% |
| 07/03/2023 | Japan | Markit/JMMA PMI Manufacturing SA (Final) | JUN | 49.8 | 49.8 | 0.0 | 49.8 |
| 07/03/2023 | China | Markit/Caixin PMI Manufacturing SA | JUN | 50.5 | 50.2 | 0.28 | 50.9 |
| 07/03/2023 | United States | ISM Manufacturing SA | JUN | 46.0 | 47.2 | -1.2 | 46.9 |

UK core inflation really jumped in May and June, putting pressure on the BoE

US labour market remained strong and the Fed's preferred inflation measure shows signs of stickiness

The BoE hiked Bank Rate by 50bps and peak rate expectations topped 6%

# View Guidance

| - - - | - - | - | = | + | ++ | +++ |
|---|---|---|---|---|---|---|
| Large under-performance expected with highest conviction | More under-performance or stronger conviction | More likely to underperform | Weak conviction or no view on relative performance | More likely to outperform | More outperformance or stronger conviction | Large outperformance expected with highest conviction |
| • Target larger underweight<br>• Bring forward selling plans and defer SAA buying implement-ation<br>• Do not rebalance to target weight yet | • Target underweight<br>• Bring forward selling plans and defer SAA buying implement-ation<br>• Do not rebalance up to target weight yet | • Target small underweight to strategic weight<br>• Prefer to avoid buying and selling on strength<br>• Buying for SAA reasons fine, but add slowly or into weakness.<br>• Consider partial rather than full rebalancing | • Target benchmark or strategic weight<br>• Buying/ Selling both look ok coming from SAA changes or rebalancing | • Target small overweight to strategic weight<br>• Prefer to accumulate<br>• Selling for SAA reasons fine, but look to sell gradually<br>• Slow rebalancing moves back to benchmark weight | • Target overweight<br>• Bring forward buying plans and defer SAA selling implement-ation<br>• Do not rebalance down to target weight yet | • Target larger overweight<br>• Bring forward buying plans and defer SAA selling implement-ation<br>• Do not rebalance to target weight yet |

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