



Independent Advisor's Report

Quarterly Report

Q2 2024

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Key Indicators at a Glance

Index (Local Currency)		Q2	YTD
Equities		Total Return	
UK Large-Cap Equities	FTSE 100 Net Tax Index	3.73%	7.86%
UK All-Cap Equities	FTSE All-Share Index Total Return	3.73%	7.43%
US Equities	S&P 500 Total Return Index	4.28%	15.29%
European Equities	EURO STOXX 50 Net Return EUR	-2.10%	10.44%
Japanese Equities	Nikkei 225 Total Return Index	-1.81%	19.34%
EM Equities	MSCI Emerging Markets Net Total Return USD	5.00%	7.49%
Global Equities	MSCI World Index Net Total Return USD	2.63%	11.75%
Government Bonds			
UK Gilts	FTSE Actuaries UK Gilts TR All Stocks	-0.89%	-2.49%
UK Gilts Over 15 Years	FTSE Actuaries UK Gilts Over 15 Yr	-2.77%	-6.23%
UK Index-Linked Gilts	FTSE Actuaries UK Index-Linked Gilts TR All Stocks	-2.09%	-3.86%
UK Index-Linked Gilts Over 15 Years	FTSE Actuaries UK Index-Linked Gilts TR Over 15 Yr	-4.01%	-7.31%
Euro Gov Bonds	Bloomberg EU Govt All Bonds TR	-1.34%	-1.99%
US Gov Bonds	Bloomberg US Treasuries TR Unhedged	0.09%	-0.86%
EM Gov Bonds (Local)	JP. Morgan Government Bond Index Emerging Markets Core Index	-1.43%	-3.64%
EM Gov Bonds (Hard/USD)	JP. Morgan Emerging Markets Global Diversified Index	0.30%	2.34%
Bond Indices			
UK Corporate Investment Grade	S&P UK Investment Grade Corporate Bond Index TR	-0.33%	-0.14%
European Corporate Investment Grade	Bloomberg Pan-European Aggregate Corporate TR Unhedged	0.14%	0.70%
European Corporate High Yield	Bloomberg Pan-European HY TR Unhedged	1.39%	3.23%
US Corporate Investment Grade	Bloomberg US Corporate Investment Grade TR Unhedged	-0.09%	-0.49%
US Corporate High Yield	Bloomberg US Corporate HY TR Unhedged	1.09%	2.58%
Commodities			
Brent Crude Oil	Generic 1st Crude Oil, Brent, USD/bbl	-1.22%	12.16%
Natural Gas (US)	Generic 1st Natural Gas, USD/MMBtu	47.53%	3.46%
Gold	Generic 1st Gold, USD/toz	5.51%	12.93%
Copper	Generic 1st Copper, USD/lb	9.57%	12.85%
Currencies			
GBP/EUR	GBPEUR Exchange Rate	0.89%	2.31%
GBP/USD	GBPUSD Exchange Rate	0.17%	-0.68%
EUR/USD	EURUSD Exchange Rate	-0.71%	-2.95%
USD/JPY	USDJPY Exchange Rate	6.30%	14.07%
Dollar Index	Dollar Index Spot	1.32%	4.47%
USD/CNY	USDCNY Exchange Rate	0.62%	2.36%
Alternatives			
Infrastructure	S&P Global Infrastructure Index	2.62%	4.01%
Private Equity	S&P Listed Private Equity Index	0.76%	8.09%
Hedge Funds	Hedge Fund Research HFRI Fund-Weighted Composite Index	0.71%	6.29%
Global Real Estate	FTSE EPRA Nareit Global Index TR GBP	-2.13%	-2.51%
Volatility		Change in Volatility	
VIX	Chicago Board Options Exchange SPX Volatility Index	-4.38%	-0.08%

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

Advisor's Report

FUND PERFORMANCE (REFERS TO BRUNEL REPORT IN YOUR PAPERS)

- Dorset Q2 fund performance was +1.1% but behind benchmark. As mentioned before, it is clear that since Dorset delegated the manager selection to the Brunel Pool, there have been more negative periods relative to the benchmark than positive ones. To be fair to Brunel, this has been a period of “headwinds” for many investors, so it is not totally surprising that Dorset performance now finds itself lagging benchmarks over 3- and 5-year periods, and this has now filtered through into the 10-year comparisons. It has not be a happy period for the performance of Responsible Investors. The “headwinds” have not only been from exceptional events beyond their control (Ukraine, Covid and other events as discussed in past reports), but more recently the “Magnificent 7” mega-cap technology companies have distorted global indices and made achieving relative out-performance challenging. So, I have some sympathy with Brunel, but that said, they are our appointed Pool Manager, and we should generally expect them to navigate markets and meet their performance targets, over the long term, which they are not doing.

BRUNEL PORTFOLIO COMMENTS

- Notable features this quarter were the underperformance of Global High Alpha Equities and Global Sustainable Equities. This was mostly due to the underweights in the “Magnificent 7” in the short-term. I support this position in theory, and believe there is a distortion to the global indices that will result in material disappointments for some investors in the longer term. Having said that, I can only excuse the occasional quarter, and GHA and GSE lag by 3.8% and 5.6% annualised over 3 years. As our two largest fund positions in Brunel portfolios, this level of underperformance is unsustainable. This topic has been much discussed at Committee.
- Other comments on Brunel portfolios: Emerging Markets Equities and Global Small Cap outperformed this quarter, but their performance since inception is poor relative to benchmarks. The dominance of the Magnificent 7 mentioned above is not a factor on those two funds.
- Dorset’s investments in the Passive funds have been the best of our equity portfolios overall. However, given the distortions I have mentioned, I am uncomfortable with these as good solutions due to their concentrated current composition. I am particularly uncomfortable with the Paris Aligned Benchmark fund composition which has 73% in the US and 27% in Technology. In my view, we should work with Brunel to find better passive solutions that aren’t quite so distorted.
- Performance of the two fixed income funds, Multi Asset Credit and Sterling Corporate Bonds, is strong and ahead of benchmark over the last 12 months. Fixed Income is less troubled by the issues mentioned above.

INVESTMENT STRATEGY

- The fund strategy is entirely appropriate, and it is good to see the longer-term performance of the benchmark itself (circa 6% over 3 and 5 years, and 7% over 10 years) is markedly outperforming the discount rate of 5%. In theory this would lead to lower contributions in the course of time, all other things being equal, however as noted above the performance of our Pool Manager, Brunel, has not matched our strategy benchmark, so we are not in that position.
- We are fast approaching the next triennial Actuarial Valuation in March 2025. It will be interesting to see the results and whether the discount rate changes materially.

Economic and Market Commentary

- Inflation remained stubbornly high in Q2 2024, particularly in services, on the back of strong economic data which kept central banks cautious. The ECB cut rates by 25 basis points, while the Fed and BoE held rates steady. At the time of writing, markets now expect a 0.5% fall in US rates by the end of the year, and the Fed is clearly signalling a cut. Corporate earnings have continued to surprise positively in Q2. Treasury yields ended the quarter where they started. The UK economy showed signs of slowing, and markets have greeted the new Labour government with cautious optimism. In the UK, inflation hit 2%, however this was principally driven by a base effect, with annualised quarterly inflation rates still well-above the target rate. The scope for further rate cuts in Europe also looks limited due to sticky inflation. Economic indicators ultimately however remain positive, with Q1 year-on-year GDP growth of 0.3%, 0.4% and 2.9% in the UK, Europe and US, respectively, the latter of which continues to be driven by high fiscal spending.
- Q2 saw positive returns for most risk assets. Developed market equities gained 2.6%, driven by strong performance in larger companies and the technology sector, particularly those linked to AI. Emerging markets outperformed developed markets, with Asia ex-Japan equities delivering returns of 7.2%, boosted by policy support and low valuations in China alongside strong performance in Taiwan due to AI-exposure. Fixed income had mixed results, with US Treasuries delivering slight positive returns, while European and UK government bonds posted losses due to political uncertainty (notably in France), persistent inflation, and cautious central bank guidance. Within corporate bond markets, high yield generally outperformed investment grade in the US and Europe, while UK corporate credit was marginally weaker. Commodities posted modest gains, driven by industrial and precious metals.

We highlight the following themes impacting investment markets:

- **Inflation remains elevated, driven by services, limiting scope for rate cuts.** While moderating in places, inflation remains stubbornly high across developed western markets and continues to be driven by services. The political uncertainty surrounding the US elections in November and the snap elections in France added to market volatility, further complicating the inflation outlook: both a Trump win and rising populism in Europe are potentially inflationary.
- **Excitement around AI continues but warning signs increase:** Companies exposed to Artificial Intelligence themes continued to outperform. Sector-wide profits in tech were up 16% year-on-year (“Magnificent 7”: +25%), but any disappointments were punished with severe valuation reverses and the Magnificent 7 stocks now comprise ~32% of the S&P500. **This represents a significant concentration risk, and valuations / expectations do leave some stocks very exposed to any disappointment.**
- Global equities rose 2.6% in Q2, resulting in +12% returns year-to-date largely on the back of continued momentum in AI-related stocks.

- In the US, total returns of the S&P500 and NASDAQ were +4.3% and +8.5% respectively, again driven by the Magnificent 7.
 - The Euro Stoxx 50 total return was -2.1%, with value more broadly outperforming growth in Europe.
 - UK equities delivered +3.7% total returns with the FTSE 100 reaching all-time highs. Performance of SMID-cap companies was supported by strong bid activity.
 - The Nikkei 225 returned -1.8%, however year-to-date gains are 19.3%, driven by the weakening yen. The Bank of Japan's actions, including raising Japanese government bond yields and reducing JGB purchases, failed to curb yen weakness. Q3 has however started with a burst of yen strength.
 - Emerging markets equities rose 5.0% during the quarter following a period of underperformance versus developed markets
 - Yields varied by region over the quarter, with the ECB and BoE guiding to a “higher for longer” rate environment.
 - The US 10-year treasury yield rose from 4.2% to 4.4%.
 - The European 10-year composite yield rose from 2.3% to 2.5%.
 - The UK 10-year Gilt yield rose from 3.9% to 4.2%.
 - Corporate bonds outperformed government bonds, led by high yield, however, returns were relatively muted.
 - In currencies, although the dollar strengthened marginally (dollar index +1.3%), led by weakness of the Japanese yen (USDJPY +6.3%) caused by interest rate differentials, there was a marked reversal of this trend in Q3 so at the time of writing the dollar is weak.
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Charts and Data

Economic Indicators

Table 1: Annualised GDP Growth Rate and Monthly CPI

%	GDP		CPI		
	Q1 2024	Q2 2024	Apr	May	Jun
UK	0.3	-	2.3	2	-
US	2.9	-	3.4	3.3	-
Eurozone	0.4	-	2.4	2.6	2.5
Japan	-0.7	-	2.5	2.8	-

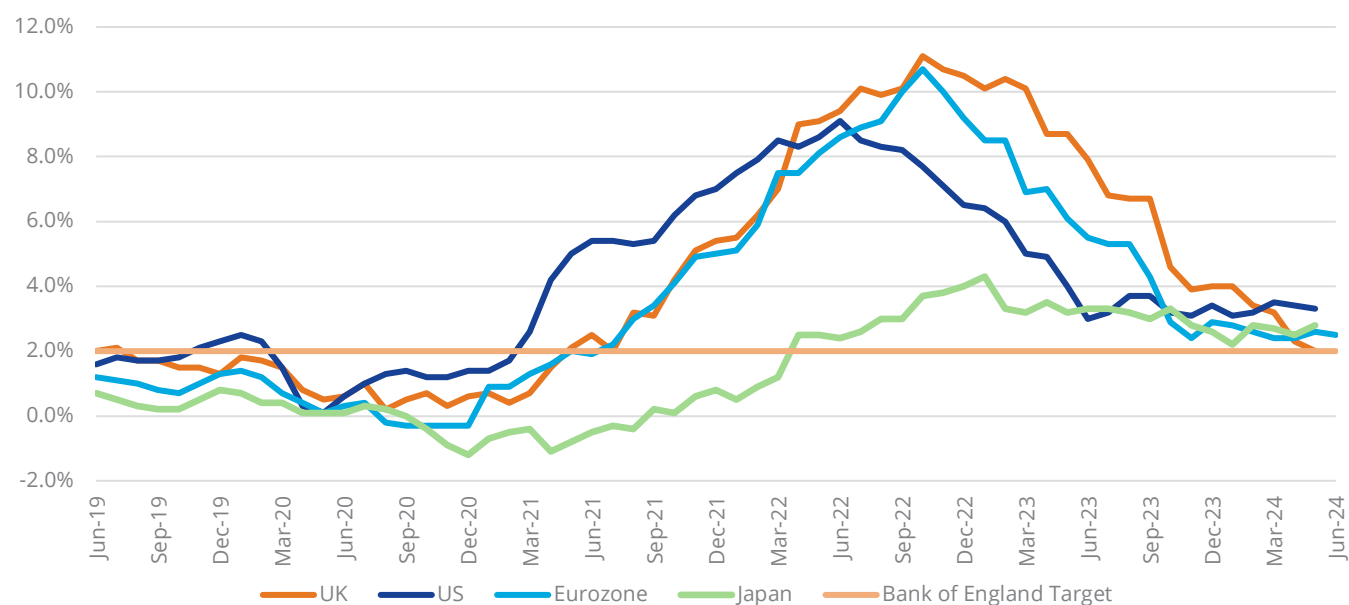
Source: Bloomberg; Trading Economics.

Notes: * Not available at time of publication; ** Forecasts based on leading indicators (not available at time of publication this quarter)

CPI: UK: UK CPI EU Harmonised YoY NSA (Ticker: UKRPCJYR Index); US: US CPI Urban Consumer YoY NSA (Ticker: CPI YOY Index); Eurozone: Eurostat Eurozone MUICP All Items YoY Flash Estimate (Ticker: ECCPEST Index); Japan: Japan CPI Nationwide YOY (Ticker: JNCPIYOY Index)

GDP: UK Real GDP (Ticker: UKGRABIQ Index), US Real GDP (Ticker: GDP CQOQ Index) de-annualised, Eurozone Real GDP (Ticker: EUGNEMUQ Index), Japan Real GDP (Ticker: JGDPQGDP)

Chart 1: CPI – Annual rate of Inflation - Five Years to June 2024

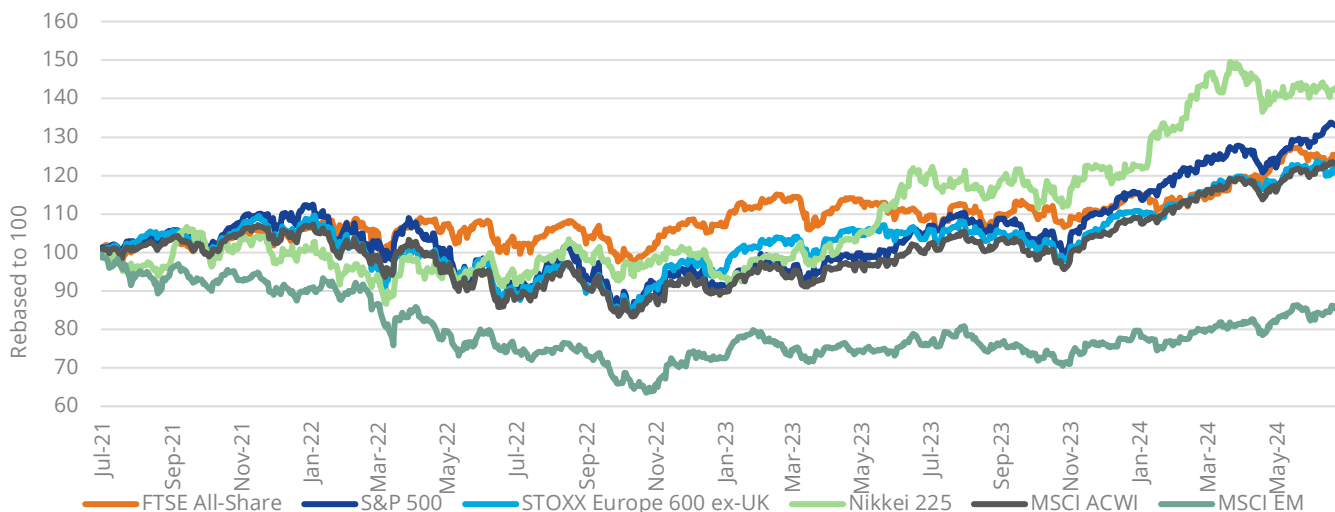


Source: Bloomberg

Notes: UK: UK CPI EU Harmonised YoY NSA (Ticker: UKRPCJYR Index); US: US CPI Urban Consumer YoY NSA (Ticker: CPI YOY Index); Eurozone: Eurostat Eurozone MUICP All Items YoY Flash Estimate (Ticker: ECCPEST Index); Japan: Japan CPI Nationwide YOY (Ticker: JNCPIYOY Index)

Equities

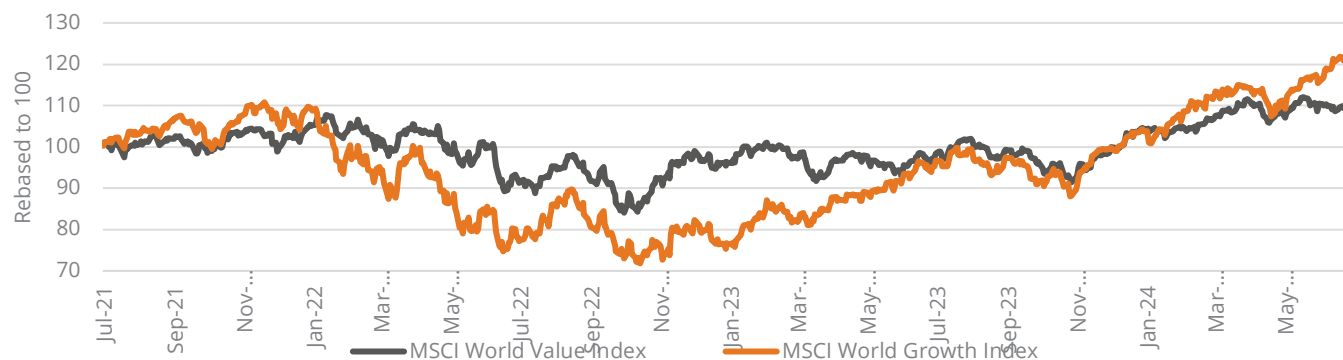
Chart 2: Global Equity Markets Performance



Source: Bloomberg. All in local currencies

Notes: FTSE All-Share Index (Ticker: ASXTR Index); S&P 500 Index (Ticker: SPXT Index); STOXX Europe 600 (Ticker: SXXG Index); Nikkei 225 Index (Ticker: NKYTR Index); MSCI World Index (Ticker: DLEACWF Index); MSCI Emerging Markets (Ticker: M1EF Index)

Chart 3: Global Equity Markets, Growth vs Value



Source: Bloomberg

Notes: MSCI World Value Index (Ticker: MXWO000V Index); MSCI World Growth Index (Ticker: MXWO000G Index)

Table 2: MSCI ACWI Composition

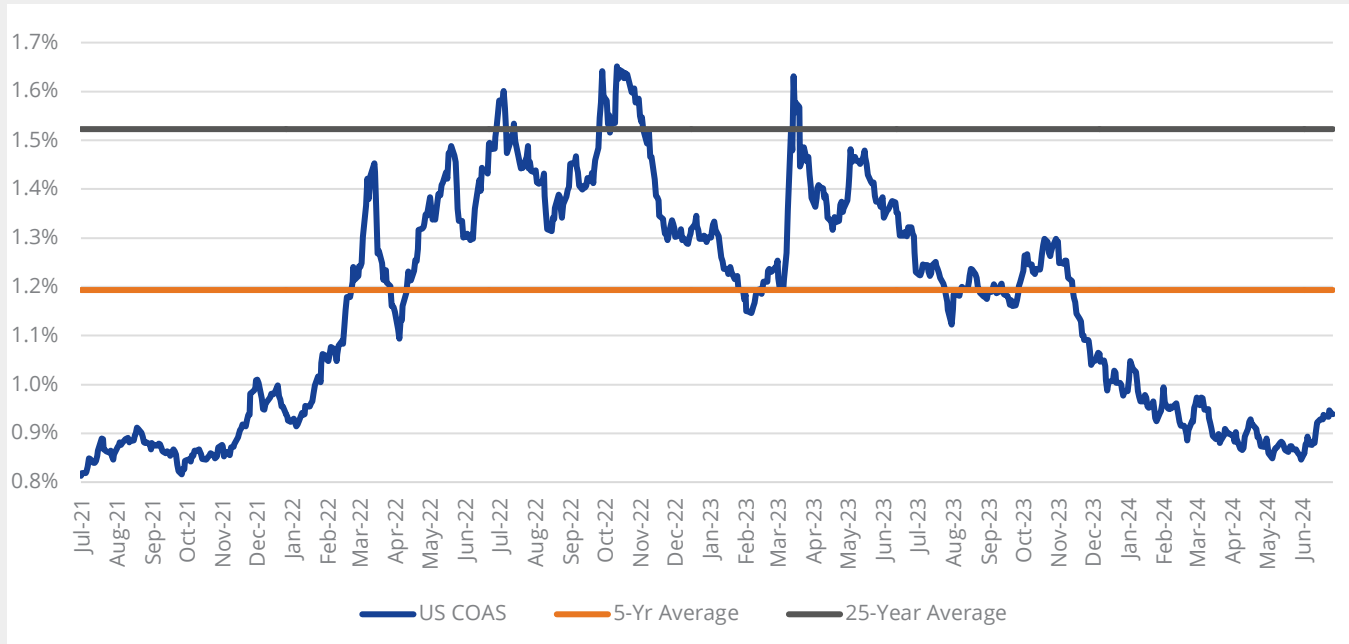
Region	Q1 2024 (%)	Q2 2024 (%)
US	63.7	64.8
UK	3.4	3.4
Europe (ex-UK)	11.9	11.5
Japan	5.5	5.3
Developed Asia-Pacific	2.5	2.6
Emerging Markets	10.0	9.6
Other	2.9	2.8

Source: iShares MSCI ACWI ETF

Fixed Income



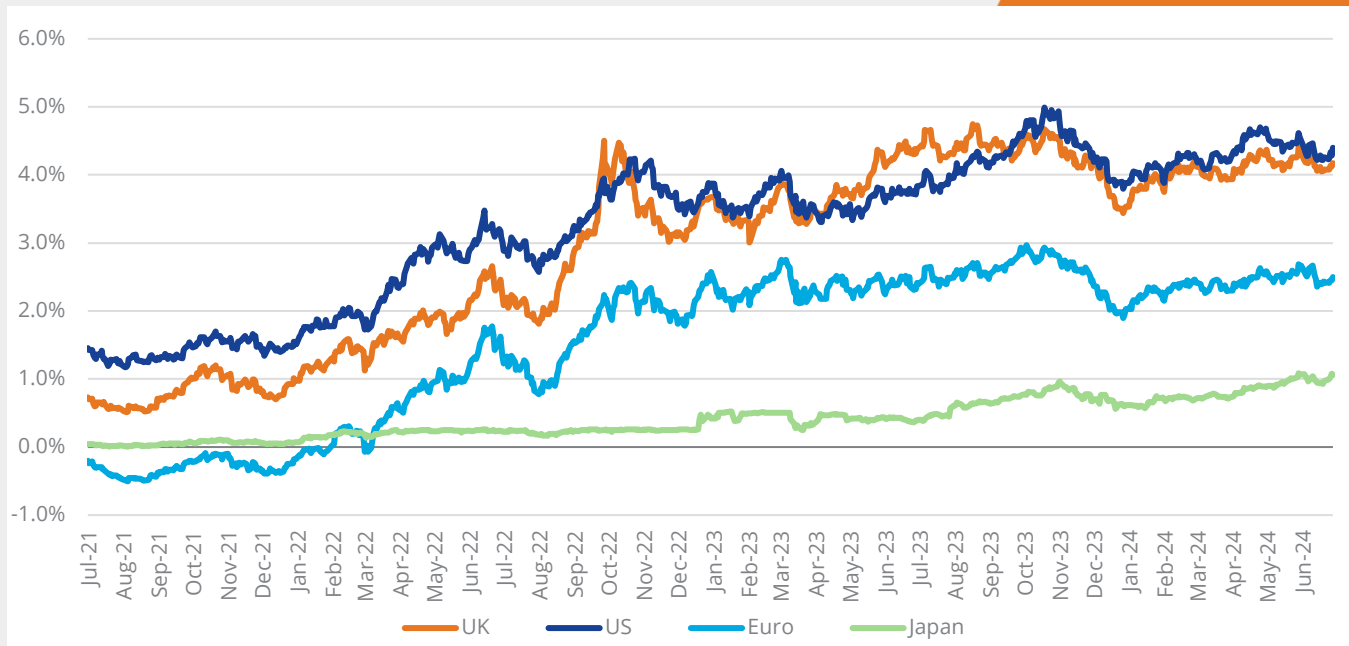
Chart 4: US Corporate Bond Spreads



Source: Bloomberg

Notes: Bloomberg Barclays US Corporate Option Adjusted Spread (Ticker: LUACSTAT Index); Option-Adjusted Spreads (OAS) represent the difference between the index yield and the yield of a comparable maturity treasury

Chart 5: Government Bond Yields

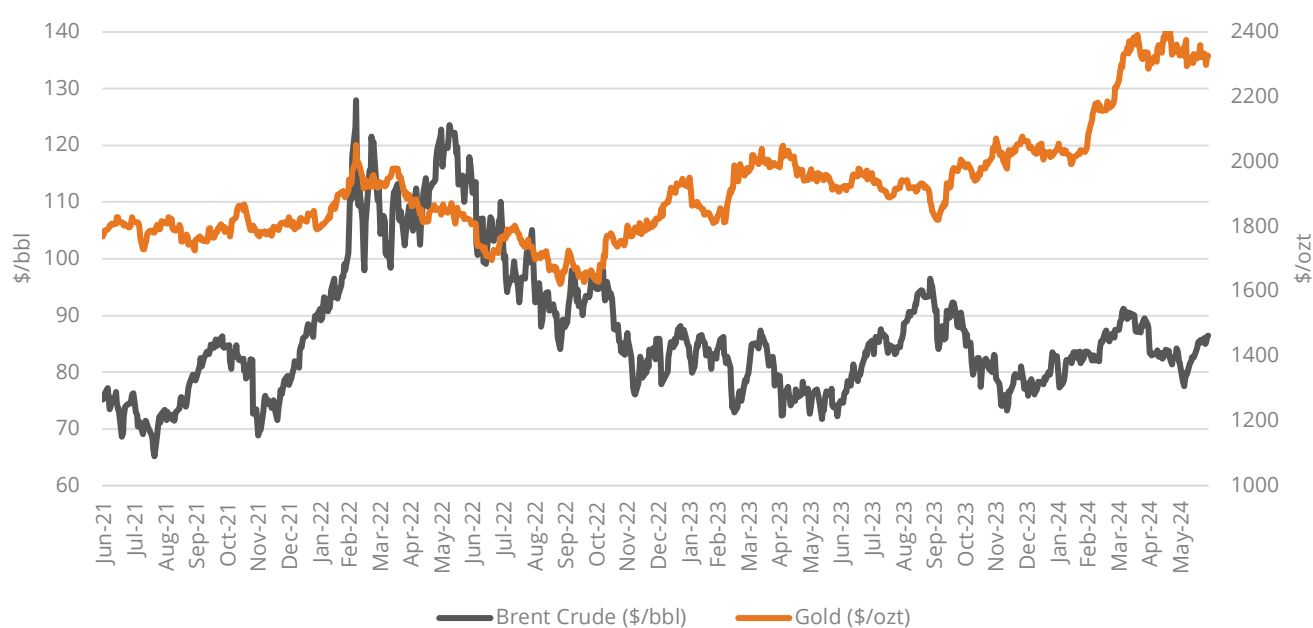


Source: Bloomberg

Notes: US Generic Govt 10 Year Yield (Ticker: USGG10YR Index); UK Govt Bonds 10 Year Note Generic Bid Yield (Ticker: GUKG10 Index); Euro Generic Govt Bond 10 Year (Ticker: GECU10YR Index); Japan Generic Govt Bond 10 Year Yield (Ticker: GJGB10 Index)

Commodities

Chart 6: Gold and Brent Crude Oil Prices

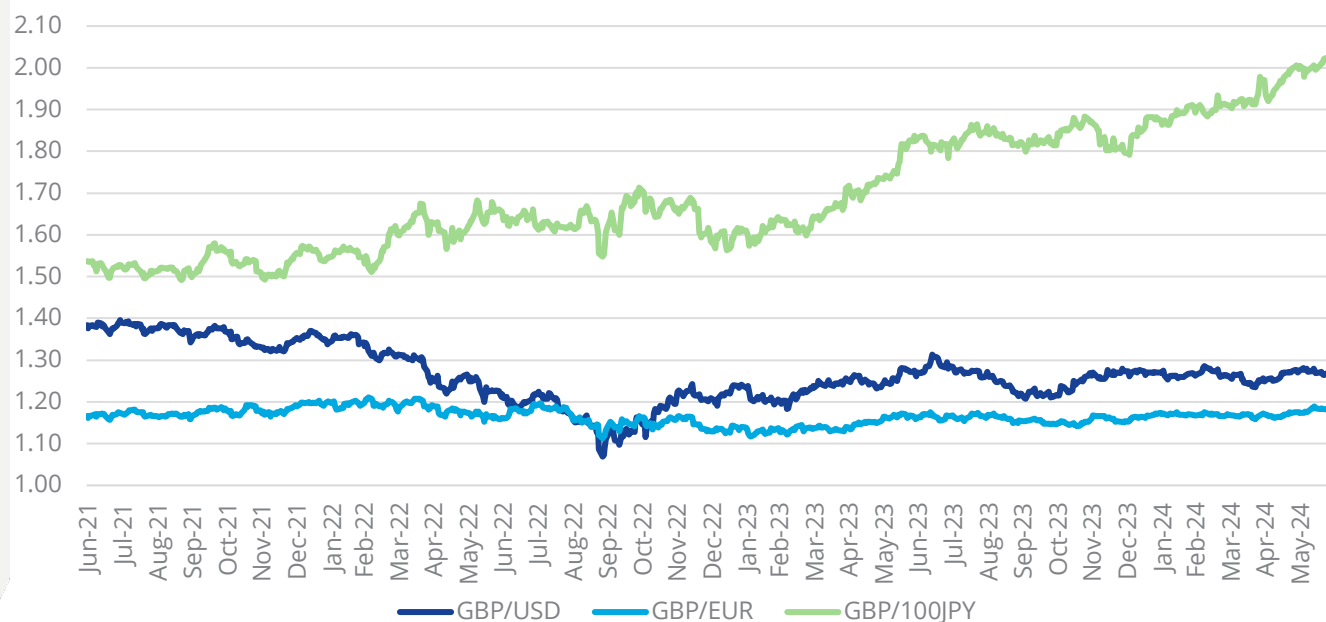


Source: Bloomberg

Notes: Gold USD Spot (Ticker: XAU Currency); Generic 1st Brent Crude Oil (Ticker: CO1 Commodity)

Currencies

Chart 7: Three-Year Currency Rates of Major Currencies vs Pound Sterling



Source: Bloomberg

Notes: GBPEUR Spot Exchange Rate (Ticker: GBPEUR Currency); GBPUSD Spot Exchange Rate (Ticker: GBPUSD Currency); GBPJPY Spot Exchange Rate (Ticker: GBPJPY Currency)

Table 3: Currency Rates as of 30 June 2024

Pair	Q2 Value	% Change Over Quarter
GBP/EUR	1.1801	0.89%
GBP/USD	1.2645	0.17%
EUR/USD	1.0713	-0.71%
USD/JPY	160.88	6.30%

Source: Bloomberg

Notes: GBPEUR Spot Exchange Rate (Ticker: GBPEUR Currency); GBPUSD Spot Exchange Rate (Ticker: GBPUSD Currency); EURUSD Spot Exchange Rate (Ticker: EURUSD Currency); USDJPY Spot Exchange Rate (Ticker: USDJPY Currency)

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