Mercer

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Cheshire Pension Fund - November 2025 Employer Meeting

Investment and Economic Outlook

November 2025

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A business of Marsh McLennan

Agenda

Economic & Market Outlook

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Markets – 2025 so far

Equities

- A strong Q1, an April “liberation day” sell-off and a strong recovery since.
- Markets driven by AI optimism and trade developments.

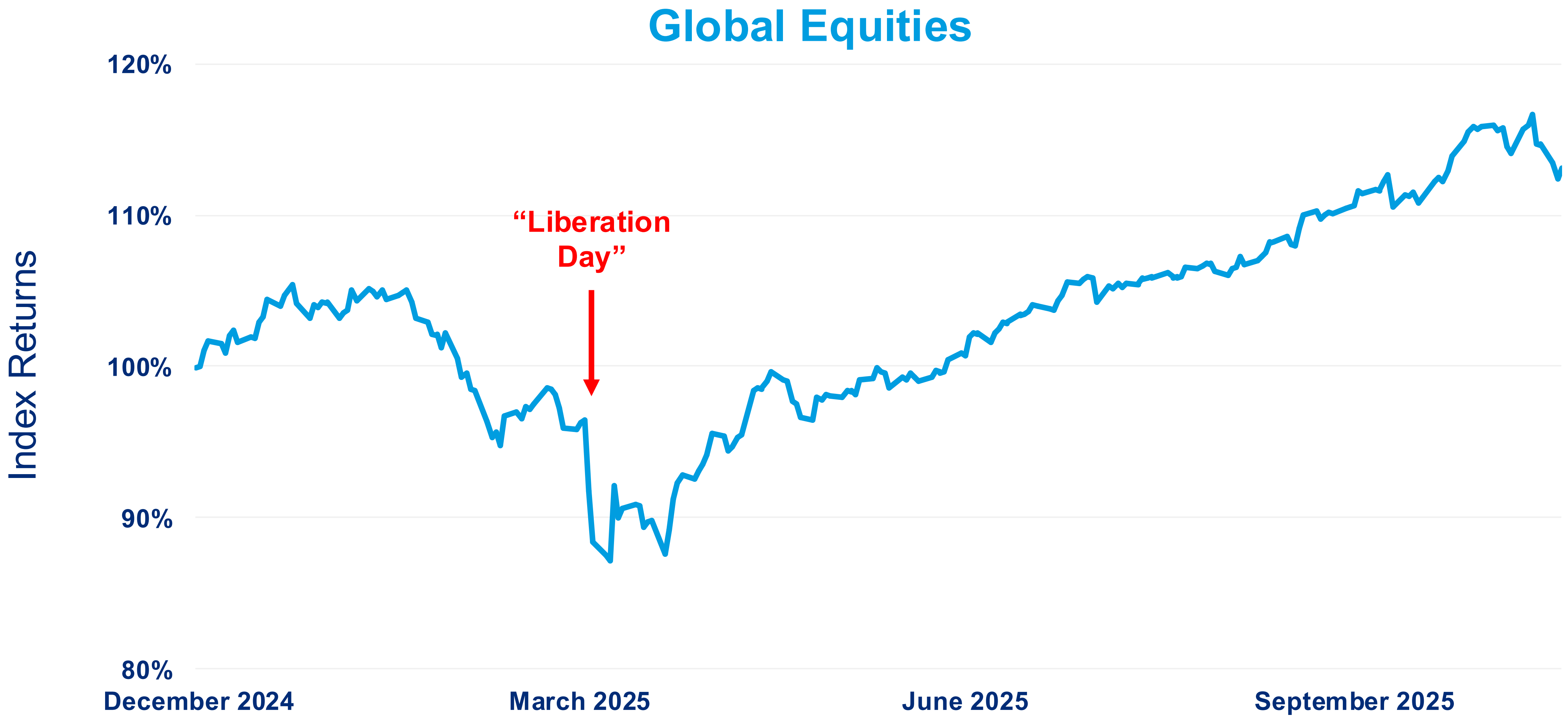
Fixed Income

- Government borrowing costs (gilt yields) continued their rising trend
- Corporate bond spreads (returns above government bonds) tightened to multi-decade lows – strong signal of a “risk-on” sentiment.

Currencies

- US dollar posted its worst first-half year performance since 1973, but stabilised in Q3.
- This has been positive for UK investors with unhedged exposure to US assets.

Markets – 2025 so far



Source: Datastream. MSCI ACWI index.

Global Outlook

Growth

Global economy to slow into year-end as tariffs passed through.

2026 growth better as tariffs fade and policy loosens.

Inflation

US inflation higher as tariffs lead to a one-off jump in price levels

Outside the US, inflation is likely to return to target

Central Banks

The **US Fed** and **Bank of England** likely to ease rates

The **European Central Bank** near neutral.

Risks

Growth risk - slowdown in consumption.

Tariff risk to **inflation**.

Worst-case scenarios from tariffs appear off

Tariff worst-case scenarios are off the table, but some uncertainty remains

Market Outlook

Equities

Valuations supported by earnings; however, **valuations may be stretched.**

Corporate Bonds

Corporate balance sheets are in good shape, however, **softer growth may lead to higher defaults.**

Government Bonds

Long dated gilt yields attractive offering yields not seen since the 1990s.

Currencies

US dollar weakness likely to continue.

Implications for the Fund

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Equity valuations are high…

Figure 1: S&P 500 CAPE ratio

Source : Robert Shiller, Finaeon, Deutsche Bank

CAPE (Cyclically Adjusted Price-to-Earnings) ratio. Price of a stock divided by the average inflation-adjusted earnings of that stock over the past 10 years.

- Over the last 150 years, **when valuations are high, forward returns are weak**.
- From the last three major valuation peaks, 10-year equity returns lagged inflation.
- Conversely, when valuations have been low, the subsequent decade's returns have been very strong.

Mercer view:

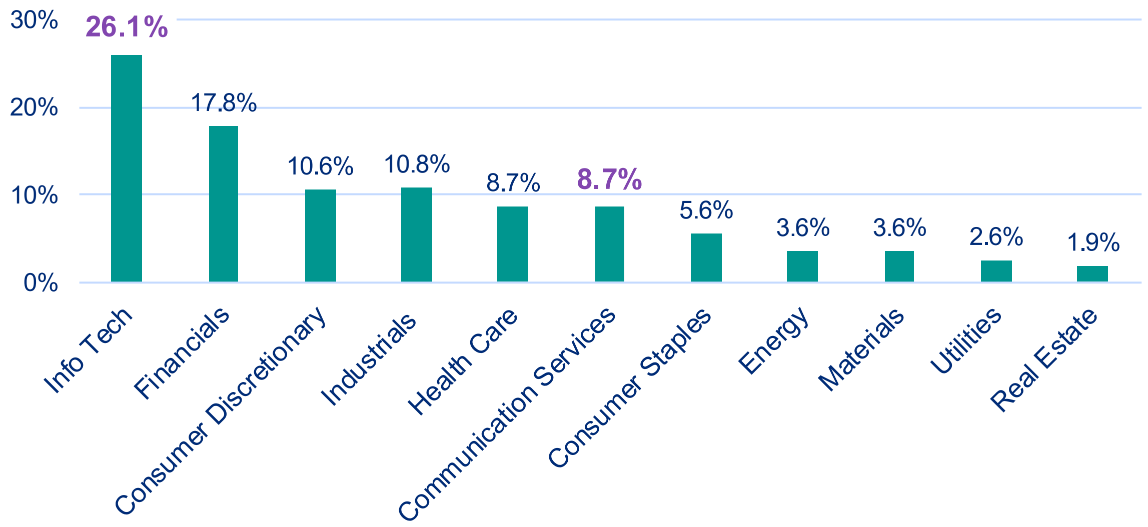
We see elevated levels of risk in equity markets with valuations - particularly in the US - stretched.

Forward looking return expectations are lower as a result.

… another risk in equity markets is concentration

Region	Weight [a]
US	**65%**
Non-US Developed Markets	25%
Emerging Markets	10%

Sector [a]



Top 10 Companies	Country	ACWI Index Weight (%)	Sector
Nvidia	**US**	4.9	**Tech**
Microsoft	**US**	4.1	**Tech**
Apple	**US**	4.0	**Tech**
Amazon	**US**	2.5	Consumer Disc
Meta	**US**	1.8	**Comm. Services**
Broadcom	**US**	1.5	**Tech**
Alphabet A	**US**	1.4	**Comm. Services**
Alphabet C	**US**	1.2	**Comm. Services**
Tesla	**US**	1.1	Consumer Disc
Taiwan Semiconductor	Taiwan	1.1	**Tech**
Total		**23.6**	

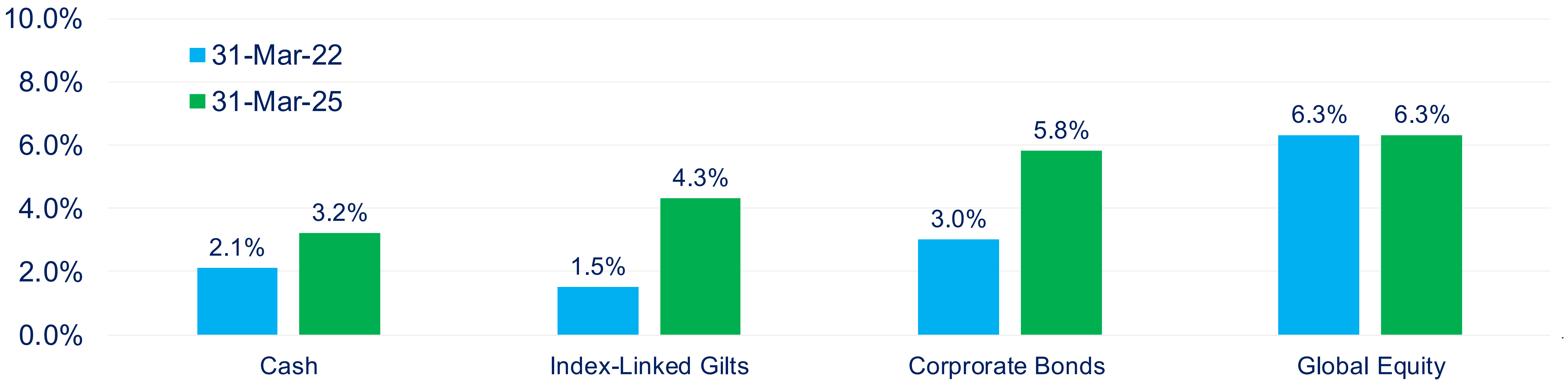
Source: MSCI, as of 29 August 2025. Number of constituents: 2,509.

Recent strong returns led by US tech and communication services.
US is now 65% of the global index, tech & comms sectors combined are now 35%.

(a) MSCI ACWI: MSCI All Countries World Index, a market-cap weighted global equity index

Investment Return Assumptions

Since the previous actuarial valuation, gilt yields have increased materially. This has led to an **increase in expected returns** for fixed income assets (bonds).



While most asset class expected returns at 31 March 2025 are higher than in 2022, the difference between equity and fixed income expected returns is smaller.

Implications for the Fund

Asset Class	Strategic Asset Allocation (SAA)	
Listed Equities	25.0%	Active and passive equities
Illiquid Alternatives	28.0%	Private equity, private debt, infrastructure and property
Growth Fixed Income	12.0%	Multi-asset credit and emerging market debt
Defensive Fixed Income	35.0%	Investment grade corporate bonds and index-linked gilts
Total	100.0%	

Listed Equities

Long-term growth above the Fund's liabilities

Illiquid Alternatives

Growth, cashflow and inflation protection

Growth Fixed Income

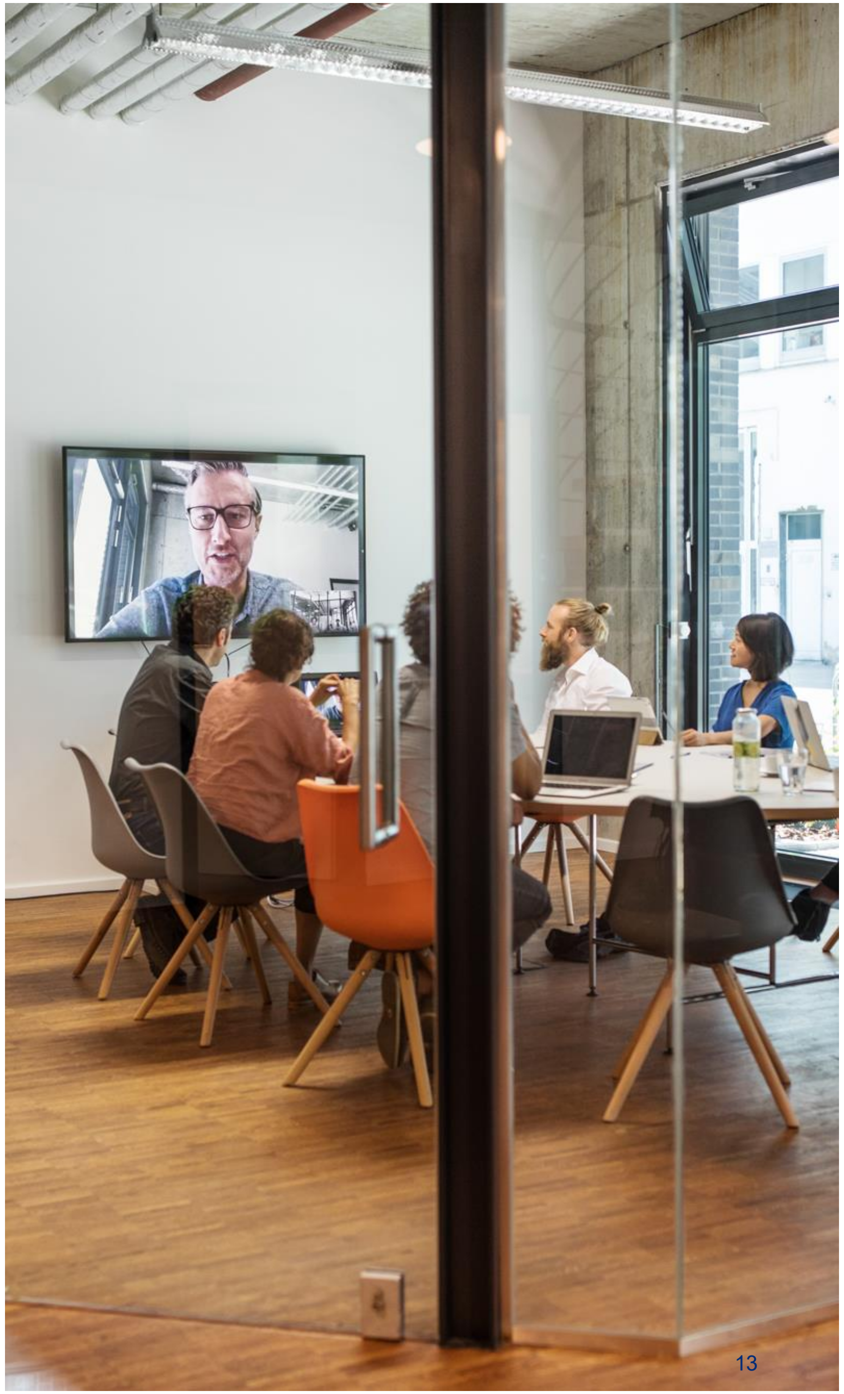
Growth and diversification

Defensive Fixed Income

Funding level protection, cashflow, diversification and liquidity.

Topical Q&A

- What impact might the **UK budget** have on the Fund's investment portfolio?
- Is there an '**AI bubble**' in equity markets?
- Wil the **Bank of England** cut interest rates in the UK?
- What **investment risks** are keeping us awake at night?
- Where might future **investment opportunities** emerge from?



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