Strategic Asset Allocation. **Appendix 2 – Asset Class Explanations**

Asset Class	Description	Advantages	Disadvantages	Expected return	Expected Volatility
Equities	-Equity is a share of ownership in a company. These are listed on public stock markets and tradeable and therefore liquid. - Return comes from increase in share price or dividends. -Investor view of future profitability is a key factor that affects equity values	- High expected long term return -Key Contributor to outperformance objective -Highly liquid and can exit at any time	- Can be more volatile -Active Funds depend on managers skill	7.1%	17.3%
Bonds & Gilts (Fixed income)	-Bonds represent a promise by a borrower to pay the principal and interest on a loan. These can be traded. -Gilts are investments with UK Government issued by HM treasury and listed on the London Stock Exchange.	- Regular income over a specified time period -liquid -Move in line with liabilities -Historically less volatile	- Typically lower returns then equities - In a rising interest rate environment the holding of existing bonds decrease in value	5.9%	5.2%
Private Equity	Capital that are not listed on a public exchange. Private equity is composed of funds and investors that directly invest in private companies, or that engage in buyouts of public companies, resulting in the delisting of public equity	-High expected returns when compared to other asset classes -Boards are typically more active and engaged than for public equity	-Higher level of volatility -Dependent on manager ability -High management fees - Valuations decrease in a high interest rate environment	8.7%	28.3%
Inflation Protection Illiquids	Investments in Funds that provide long term contractual cash flows typically over 50 years.	- Provide regular income - Linked to pension fund liabilities	-Returns are lower when compared to other asset classes	5.5%	7.5%

Asset Class	Description	Advantages	Disadvantages	Expected return	Expected Volatility
			-Highly illiquid -Preforms poorly in high interest rate environment		
UK Property	Investment in property assets where returns are generated through both capital appreciation and rental income -Categories include Industrial, Retail, Office and Residential	- Diversification from equities and Fixed income -Generate investment income -Some inflation protection	- Illiquid -Difficult to adapt to change in demand e.g. COVID impact on office space demand	5.9%	12.5%
Infrastructure	Real assets which include physical assets such as bridges roads highways sewage systems, energy production sites. Falls under 4 categories; transportation, energy and utilities, social infrastructure and communication	Generates sustainable, reliable income with significant linkage to inflation. Provides risk mitigation from declining fossil fuel usage. -Significant ESG credentials	-Funds are concentrated - Illiquid	7.1%	18.6%
Private Debt (Direct lending)	Corporate lending to small and medium sized enterprises.	Private Debt is a risk-efficient way to gain credit exposure but is not publicly traded -low volatility	- Lower returns when compare to other asset classes	4.2%	1.6%