Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**
MEETING DATE:	**04 June 2025**
TITLE:	**Review of Investment Performance for Periods Ending 31 March 2025**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Mercer Performance Monitoring Report Appendix 2 – Brunel Quarterly Performance Report Appendix 3 – Legacy Mandates	

1. THE ISSUE

1.1. This paper reports on the performance of the individual portfolios and seeks to update the Panel on routine aspects of the Fund's investments. The report contains performance statistics for periods ending 31 March 2025.

1.2. The Mercer report at Appendix 1 provides strategic level information including total fund level performance, current funding level and an analysis of how the Fund's mandates are performing against expected strategic returns.

1.3. Appendix 2 is the quarterly performance report published by Brunel which includes further details on the performance of the Brunel portfolios and responsible investment activity undertaken on the Fund's behalf.

1.4. Appendix 3 summarises the Fund's legacy mandates that are in wind down and the rationale for removing them from quarterly performance reporting.

2. RECOMMENDATION

The Investment Panel:

2.1. **Notes information as set out in the reports.**

2.2. **Identifies any issues to be notified to the Committee.**

3. FINANCIAL IMPLICATIONS

3.1. Returns achieved by the Fund for the three years commencing 1 April 2023 will impact the next triennial valuation which will be calculated as at 31 March 2025. The returns quoted are net of investment management fees.

4. INVESTMENTS UPDATE

A – Fund Performance

4.1. The Fund's assets stood at £5,776m on 31 March 2025, delivering a net return of -1.9% over the quarter. This was in line with the strategic benchmark return of -1.8%. There were positive returns generated from Brunel Diversifying Returns, Brunel UK Property and many of the Private Market portfolios, but these were not able to offset the negative returns from the Brunel listed portfolios, given the weakness in global equites over the quarter. The LDI portfolio acted as a drag on returns as UK gilt yields rose.

4.2. The estimated funding level stood at 102% at 31 March 2025 (c. £86m surplus).

4.3. The discount rate is reviewed each month with a full review each quarter as per the agreed approach at FRMG. The changes each quarter are based on the expected CPI+ return outlook which is based on the Fund's investment strategy and hedging levels. It considers a combination of Mercer's capital market assumptions and real yield changes based on asset class correlations across the portfolio. The discount rate is sense checked for reasonableness by the Fund actuary taking into account the long-term sustainability of contributions. The March update allows for the updated discount rate of 5.58% p.a. (equivalent to a discount rate of CPI+3.05% p.a. at 31 March 2025).

4.4. Over 1 year to the end of March the Fund returned -0.6% in absolute terms and -5.4% in relative terms. The Passive Developed Equities Paris Aligned portfolio, delivered positive returns, however the other Brunel listed portfolio returns were mixed and below their benchmark returns. Private market returns were more positive on the whole, as were Brunel Multi Asset Credit and Diversifying Returns.

4.5. Further details relating to performance attribution can be found in section 4 of Appendix 1.

B – Investment Manager Performance

4.6. Brunel reports on the performance of the assets they manage on behalf of the Fund. The report for each Brunel portfolio can be found on pages 19-52 of Appendix 2.

4.7. The first quarter of 2025 was marked by heightened volatility and shifting investor sentiment, driven by geopolitical tensions, trade policy uncertainty, and inflation concerns. Global equities experienced mixed performance, with European and Asian markets generally outperforming the US, which experienced periods of sharp sells offs. The announcement by China's DeepSeek that it had developed an artificial intelligence (AI) model comparable to market leaders, but at a significantly lower cost, had a notable impact on global markets, particularly in the US. This development prompted investors to reassess the long-standing assumptions of the dominance of US companies in AI innovation, which had underpinned the strong performance of major US technology and consumer discretionary stocks, especially the "Magnificent Seven".

Trade tariffs were another key theme during the quarter. President Trump announced tariffs on certain countries (Mexico and Canada) and on some goods (cars, steel and aluminium) which buffeted markets as they grappled with the uncertainty over the severity of pending tariff announcements, that were released on 2nd April. While US stocks faltered, Eurozone equities rallied, fuelled by optimism surrounding Germany's new pro-growth administration and strong bank earnings. Energy was the top performing sector, buoyed by geopolitical tensions and rising natural gas prices, while basic materials, healthcare and utilities also posted gains reflecting a shift toward defensive and inflation-resilient investments. Value stocks outperformed their growth counterparts, while smaller companies lagged as the rising trade uncertainty drove concerns around weaker growth and stronger inflation.

Bond markets reflected the broader macroeconomic uncertainty. US Treasuries rose as recession fears grew and yields fell, while European sovereign bonds underperformed due to expectations of increased issuance to fund new government spending. The Federal Reserve held interest rates steady, but markets began pricing in multiple rate cuts by year-end. In Europe, bond demand rose as investors rotated away from US assets, and UK gilts hit multi-year highs amid inflation concerns and shifting Bank of England policy. Overall, the quarter marked a turning point in global sentiment, with U.S. exceptionalism challenged and Europe emerging as a relative safe haven.

4.8. At an individual portfolio level, Brunel's Global High Alpha portfolio gave back returns generated in Q4 2024 returning -4.9%, underperforming the index by 0.3%. Strong stock selection was not enough to offset negative contributions from sector allocation and the portfolio's tilt to growth. The portfolios overweight to the consumer discretionary sector was the largest negative contributor, whilst an underweight to energy and consumer staples also detracted. The portfolio did benefit from being underweight in some of the large IT stocks that were particularly hard hit during the quarter.

The Global Sustainable Equity portfolio also gave back returns, falling 4.7% over the quarter, marginally underperforming the MSCI ACWI benchmark, which fell 4.2%. In a highly volatile quarter, the portfolio outperformed the benchmark in January and March, but a defence sector/emerging market rally through February accounted for all of the relative underperformance. The portfolio benefitted from its underweight in the Magnificent 7 stocks but its underweight to value held back performance.

The FTSE Developed Paris Aligned Index (PAB) returned -7.9% over the quarter, closely replicating the performance of the benchmark index over the period. Performance was impaired by exposure to the consumer discretionary sector and, in particular, large positions in Tesla and Amazon. The product's low exposure to the energy also hindered returns.

The Diversifying Returns Fund (DRF) returned 3.5% over the first quarter, which was 1.6% ahead of its benchmark (SONIA +3%). Whilst returns from traditional asset classes were poor, with losses across both equities and bonds, alternatives performed well, resulting in a positive performance for this differentiated portfolio in challenging market conditions. The Multi Asset Credit (MAC) fund returned 1.7%, slightly lagging the primary benchmark (SONIA +4%) but ahead of the composite secondary benchmark which returned 0.9%. The MAC portfolio is currently generating a yield of 7.7%.

Turning to private markets, there was mixed performance across asset classes during the period. Infrastructure remained resilient, supported by strong investor interest in energy transition and digital assets, though higher financing costs and regulatory delays posed challenges. Performance was positive across the Brunel Infrastructure cycles. Private debt continued to attract strong demand and although credit spreads widened, default rates remain modest. In the Secured Income portfolios, performance benefited from a reduction in yields and property assets started to see some capital appreciation. Performance was mixed across the cycles.

INVESTMENT STRATEGY AND PORTFOLIO REBALANCING

4.9. **Returns versus Strategic Assumptions:** Returns versus the strategic assumptions used during the 2023 investment review can be found on p15/16 of Appendix 1. Equity and liquid growth assets classes are generally in line with or exceeding expected returns. Property is below its modelled return and the other private market mandates are largely still in build-up phase or do not have a sufficient track record to properly compare against strategic return assumptions.

1.1. **Rebalancing:** During the period the Fund rebalanced its equity overweight down by 5% bringing the overall equity allocation down to c. 45%, which is within the rebalancing range set out in the Investment Strategy Statement. This was implemented via the synthetic equity strategy held in within the QIF. Transaction costs incurred were 0.035% (approximately £104,447) which is in line with expectations. The equity protection strategy was also rebalanced to bring the overall coverage ratio closer to the 50% target. Total transaction costs were c. £156k (0.044% of exposure), similar to the levels observed for other transactions. Cost calculations produced by BlackRock have been independently verified by Mercer.

1.2. **Responsible Investment (RI) Activity**: A summary of portfolio carbon metrics measured by Brunel over the quarter is included on page 10 of Appendix 2. The Fund undertakes in-depth carbon analysis on an annual basis and publishes the results in its Annual Responsible Investment Report, which is cleared by Committee in September.

4.10. **Voting and Engagement Activity:** As a responsible investor, we actively endorse collaborative engagement and seek to use our power as a shareholder to encourage corporate change. Voting and engagement are delegated to the Brunel Pension Partnership for the actively managed equity portfolios and to Legal and General Investment Management (LGIM) for the passive portfolios. On significant issues, Brunel may request that their shares held by LGIM are split out and a different vote made. The voting records of Brunel and LGIM at company meetings held over the last quarter are summarised in the following table:

Votes cast at company meetings in the quarter to 31 March 2025:

	Quarter to 31 March 2025		
Manager	Number of Meetings	Number of Resolutions	Votes against management recommendation
Brunel/LGIM - Passive Portfolios	127	1673	346
Brunel - Active Portfolios	32	507	32

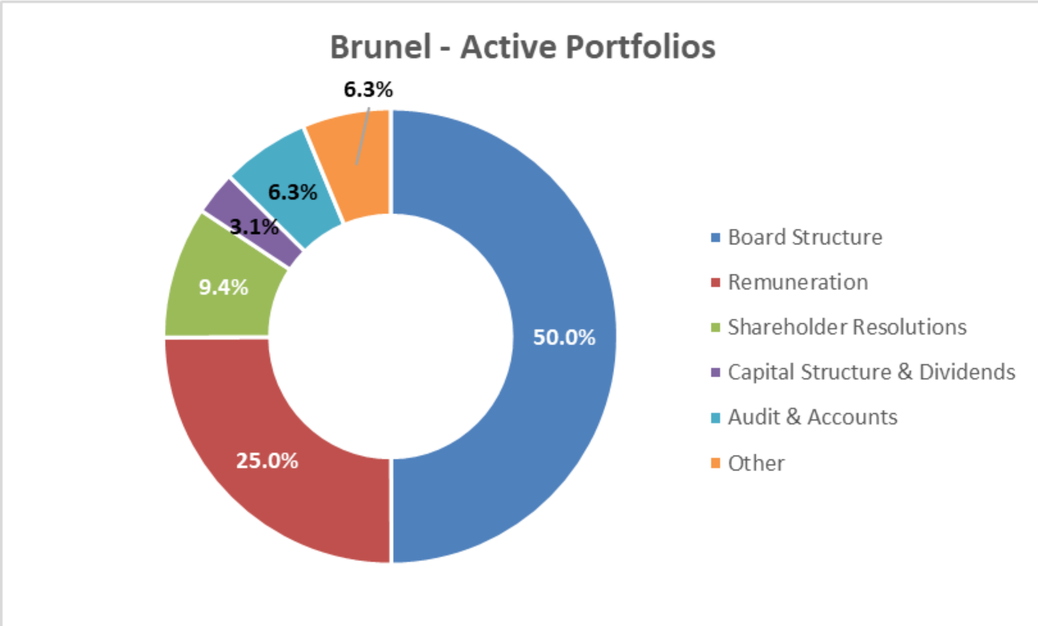
Points to note:

a) Brunel and LGIM actively vote the shares held within their funds on behalf of their client funds, including Avon.

b) The votes against management recommendations will reflect matters where there is concern that the company is not addressing the relevant issue and managing it effectively. The Fund would expect that votes against management should be primarily on the priority areas set out in the Fund's Investment Strategy Statement.

An analysis of the issues where votes have been cast against management recommendations is set out below.

Votes against management recommendation by issue – Quarter to 31 March 2025

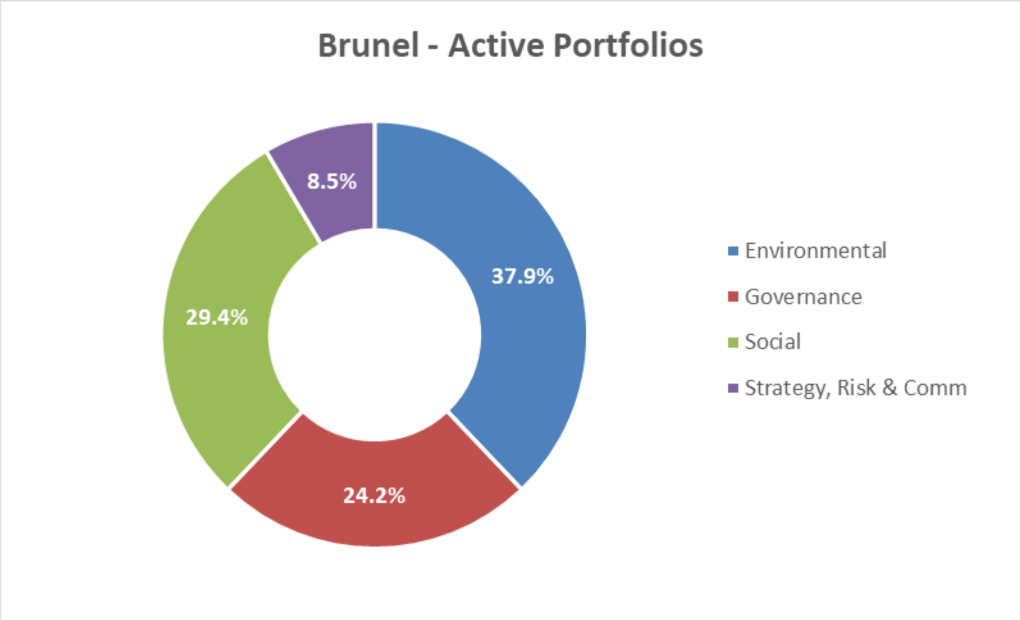


1.1. **Engagement:** Brunel conduct significant engagement with investee companies on behalf of the Fund. A breakdown of the engagement undertaken over the last quarter is summarised as follows:

Company engagement in the quarter to 31 March 2025:

	Quarter to 31 March 2025	
	Number of Companies	Number of Issues
Brunel - Active Portfolios	151	504

Breakdown by issues engaged on:



Further information on Brunel's engagement activity can be found on their website using the following link:

https://www.brunelpensionpartnership.org/library/

5. RISK MANAGEMENT

5.1. An effective governance structure, defining clear responsibilities, and ensuring that the decision-making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

6. EQUALITIES

6.1. A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

7. CLIMATE CHANGE

7.1. The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8. OTHER OPTIONS CONSIDERED

8.1. None

9. CONSULTATION

9.1. The Head of Pensions has had the opportunity to input to this report and has cleared it for publication.

Contact person	Rebecca Whelan, Senior Investments Officer (Tel. 01225 395355)
Background papers	Data supplied by Mercer, Brunel & State Street Performance

	Measurement
Please contact the report author if you need to access this report in an alternative format	