

Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	27 JUNE 2025
TITLE:	INVESTMENT STRATEGY (for periods ending 31 March 2025)
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Mercer Quarterly Investment Performance Report Appendix 2 – Quarterly LAPFF Engagement Report	

1 THE ISSUE

- 1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level, policy and operational aspects of the Fund.
- 1.2 Investment performance over the quarter met the benchmark return however over longer timeframes the Fund is behind the benchmark. Return drivers are discussed in further detail in section 4 of this report.
- 1.3 The Mercer Investment Performance Report at Appendix 1 contains performance statistics for periods ending 31 March 2025. Mercer will present their paper at the meeting.
- 1.4 Appendix 2 summarises the voting and engagement activity undertaken on behalf of the Fund by the Local Authority Pension Fund Forum (LAPFF).
- 1.5 The Fund undertakes in-depth carbon analysis on an annual basis and publishes the results in its Annual Responsible Investment Report, which is considered by Committee in September.

2 RECOMMENDATIONS

The Avon Pension Fund Committee is asked to:

- 2.1 **Note the information set out in the report and appendices.**

3 FINANCIAL IMPLICATIONS

- 3.1 The 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 INVESTMENT STRATEGY

A – Funding Level and Investment Performance ('Amber' Ratings)

- 4.1 The Fund's assets were £5,776m on 31 March 2025 and delivered a net investment return of -1.9% over the quarter which was in line with the strategic benchmark (-1.8%). The decrease in the value of Fund assets over the quarter was primarily due to volatile equity markets, resulting in negative returns for all listed equity portfolios, as well as rising gilt yields which had a detrimental effect on the LDI portfolio.
- 4.2 Over one year the Fund delivered an absolute return of -0.6% and underperformed its benchmark by 5.4% in relative terms, where most portfolios underperformed their respective benchmarks. Of the listed equity portfolios, underperformance was most pronounced in the Global Sustainable Equity portfolio, with Global High Alpha also lagging its benchmark return. A key driver of this underperformance was the Fund's underweight exposure to the 'Magnificent 7' technology stocks which were the primary contributors to global equity gains during the period. The equity protection strategy, designed to mitigate downside risk, also detracted from returns in what was a positive but narrowly led equity market. This environment proved particularly challenging for active managers as gains were concentrated in a small subset of mega-cap technology names. Additional drag came from other components of the broader portfolio, including the Diversified Returns Fund and the LDI portfolio, compounding the overall performance shortfall.
- 4.3 Over three years, the Fund returned -0.2% in absolute terms, underperforming the benchmark by 4.5%. The main drivers of underperformance over three years included the active equity mandates, the equity protection strategy, Property and Secured Income mandates.
- 4.4 Manager performance is monitored in detail by the Investment Panel. The Fund's investment return and performance relative to the benchmark is summarised below.

Table 1: Fund Investment Returns (to 31 March 2025)

	3 Months	12 Months	3 Years (p.a)
Avon Pension Fund (incl. currency hedging)	-1.9%	-0.6%	-0.2%
Avon Pension Fund (excl. currency hedging)	-2.4%	-1.2%	-0.3%
Strategic benchmark (no currency hedging)	-1.8%	4.8%	4.3%

- 1.1. As outlined above, the Fund's assets decreased by 1.9% over the quarter, whilst the liabilities are estimated to have increased by c.1.4%. The combined effect of this saw the estimated funding level decrease to c.102% at March-31 (c. £86m surplus).
- 1.2. The Value-at-Risk decreased over the quarter to £1,547m due to the fall in asset values, but fell slightly as a percentage of liabilities to c.27%.

B – Portfolio Performance

- 4.5 Brunel reports on the performance of the assets they manage on behalf of the Fund. The Brunel quarterly performance reports are presented to the Investment Panel. The Fund's top 10 equity positions and a brief summary of portfolio level performance can be found below. Further detail for both Brunel

and legacy portfolio performance can be found in Section 4 of the Mercer report (Appendix 1).

Table 2: Top 10 Equity Holdings

Security Name	Sector	Country	Value of Holding	% of Fund assets
Microsoft	Information Technology	United States	£73.0m	1.7%
Amazon	Consumer Discretionary	United States	£62.1m	1.1%
Mastercard	Financials	United States	£42.5m	0.7%
NVIDIA	Information Technology	United States	£37.1m	0.6%
Alphabet	Communication Services	United States	£33.3m	0.6%
Apple	Information Technology	United States	£29.3m	0.5%
Taiwan Semiconductor	Information Technology	Taiwan	£25.7m	0.4%
UnitedHealth	Health Care	United States	£24.9m	0.4%
Visa	Financials	United States	£24.3m	0.4%
SAP	Information Technology	Germany	£24.2m	0.4%
TOTAL	--	--	£376.4m	6.8%

* Table excludes cash and legacy assets. Estimated aggregate position using Brunel Portfolios

4.6 Listed Markets. Over the year to 31 March 2025, Brunel's listed equity and multi-asset portfolios experienced mixed performance with the majority of portfolios underperforming their benchmarks. The Global High Alpha portfolio returned 0.8%, underperforming the MSCI World by 4.4%, largely due to underexposure to the Magnificent 7 US technology stocks. The Global Sustainable Equity portfolio fell by 2.7%, trailing the MSCI ACWI by 8.0%, as its sustainability-driven mandate led to structural underweights in sectors that performed strongly, such as energy and financials, which acted as a headwind to returns. The Paris Aligned Developed Equities portfolio returned 3.3%, closely tracking its benchmark. This portfolio did benefit from owning some of the major tech names such as Apple, Amazon and Tesla, though a lower allocation to these than broader indices and sector exclusions limited the upside in a narrowly concentrated market. The Multi Asset Credit portfolio delivered a healthy 8.4% return while the Diversifying Returns fund delivered 3.2%. Despite giving positive absolute returns, both underperformed their cash+ benchmarks.

Private Markets. Brunel's Private Market portfolios have delivered strong performance over the past year to the end of March, with many strategies exceeding their benchmark. The Private Debt strategies have benefited from elevated interest rates, which has boosted income yields. Infrastructure, especially renewable energy, has remained resilient, underpinned by long-term

contracts and inflation-linked revenues, although the sector faced renewed pressure in the most recent quarter from the new US administration. Property funds continue to dispose of assets in order to meet their redemption queues. However, there are tentative signs these queues are abating and new entrants into the sector are beginning to emerge, attracted by the strong fundamentals of attractive distribution levels and improving vacancy rates. As the Private Market portfolios continue to mature, some strategies are beginning to return capital.

- 4.7 **Returns versus the strategic assumptions:** Performance versus the 2022 expected strategic returns can be found on pages 16 & 17 on Appendix 1. In general returns have been lower than the strategic assumptions, with underperformance most pronounced in the active equity portfolios. Since 2022 gilt yields have increased materially, which has led to an increase in expected returns at 31-March 2025 across most asset classes with the exception of global equities where return assumptions are slightly lower versus 2022. The long-term investment return assumptions will be updated once the 2025 investment review has been completed.

5 INVESTMENT PANEL ACTIVITY

- 5.1 The Investment Panel is responsible for addressing investment issues including the investment management arrangements and the performance of the investment managers. The Panel has delegated responsibilities from the Committee and may also make recommendations to Committee.
- 5.2 Minutes of the last Panel meeting are available to read here: <https://democracy.bathnes.gov.uk/documents/g6646/Printed%20minutes%2004th-Jun-2025%2013.30%20Avon%20Pension%20Fund%20Committee%20Investment%20Panel.pdf?T=1>

Local Impact Portfolio

- 5.3 The Panel were informed that the remaining £30m uncommitted local impact capital would be allocated to the Fund's existing three managers: Schroders Greencoat (Renewable Infrastructure), Octopus (Affordable Housing) and Foresight (SME Private Equity).
- 5.4 Mercer has previously provided suitability advice on all three managers and is supportive of the proposal given all managers have a demonstrable pipeline of opportunities and have successfully deployed capital in relatively short order. A 'top-up' of this size is unlikely to materially increase portfolio concentration in any one area or asset.
- 5.5 The Fund will be considering whether to raise its allocation to local impact as part of the 2025 Investment Strategy Review. Implementation of further local investments will fall to the new pooling provider. It is critical, therefore, that any future pooling partner has the expertise and technical knowledge to help the Fund achieve its aims in this area.

6 QUARTERLY STEWARDSHIP SUMMARY

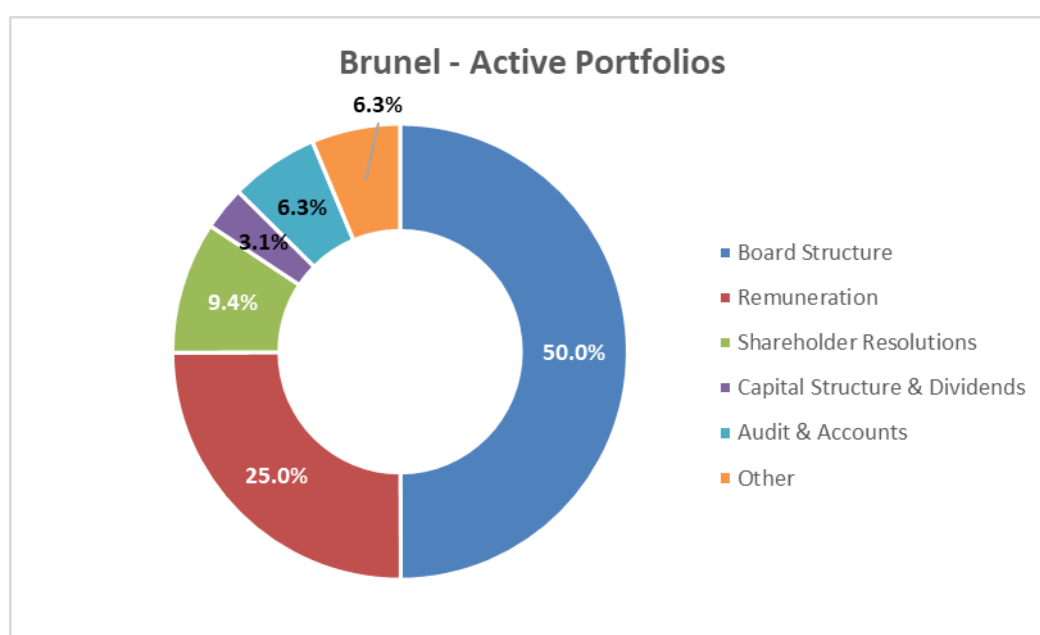
As a responsible investor, we actively endorse collaborative engagement and seek to use our power as a shareholder to encourage corporate change. Voting and engagement are delegated to the Brunel Pension Partnership for the actively managed equity portfolios and to Legal and General Investment Management (LGIM) for the passive portfolios. 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:

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

6.1 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:



6.2 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

6.3 Further information on Brunel's engagement activity can be found on their website using the following link: [Brunel Website](#)

6.4 Details of LAPFF lead initiatives and engagement work can be found at Appendix 2.

7 RISK MANAGEMENT

7.1 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.

8 EQUALITIES STATEMENT

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

9 CLIMATE CHANGE

9.1 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.

10 OTHER OPTIONS CONSIDERED

10.1 None.

11 CONSULTATION

11.1 The Council's Director of Financial Services, Assurance & Pensions has had the opportunity to input to this report and has cleared it for publication.

Contact person	Nathan Rollinson, Investments Manager 01225 395357
Background papers	Data supplied by Mercer & SSBT Performance Services
Please contact the report author if you need to access this report in an alternative format.	