Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE INVESTMENT PANEL

Minutes of the Meeting held

Wednesday 4th June 2025, 1.30 pm

Present: Councillor Toby Simon, Councillor Chris Dando, John Finch, Pauline Gordon and Jackie Peel

Advisors: Steve Turner (Mercer) and Nick Page (Mercer)

Also in attendance: Nick Dixon (Head of Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk), Nathan Rollinson (Investments Manager), Rebecca Whelan (Senior Investments Officer) and Jeff Wring (Director of Financial Services, Assurance & Pensions)

48 EMERGENCY EVACUATION PROCEDURE

In the absence of Councillor Shaun Stephenson-McGall, Councillor Toby Simon informed the Panel that he had agreed to act as Chair for the duration of the meeting.

The Democratic Services Officer drew attention to the Emergency Evacuation Procedure.

49 DECLARATIONS OF INTEREST

There were none.

50 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Councillor Shaun Stephenson-McGall had sent his apologies to the Panel.

51 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

52 ITEMS FROM THE PUBLIC - TO RECEIVE STATEMENTS, PETITIONS OR QUESTIONS

There were none.

53 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

54 MINUTES: 26TH FEBRUARY 2025 (PUBLIC & EXEMPT)

The Panel **RESOLVED** that the minutes of the meeting held on 26th February 2025 be confirmed as a correct record and signed by the Chair.

55 LOCAL IMPACT PORTFOLIO

The Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED**, in accordance with the provisions of the Section 100(A)(4) of the Local Government Act 1972 that the public should be excluded from the meeting for this item of business, because of the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act as amended.

56 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 MARCH 2025

The Senior Investments Officer introduced the report to the Panel and highlighted the following points.

- 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.

- 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.

- 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.

- 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.

- Three legacy mandates are in wind down (Partners Group, JP Morgan Hedge Fund and Schroder Property). These are causing an ongoing reporting discrepancy and officers have instructed the Fund's custodian (State Street) to remove them from performance reporting against the portfolio's strategic benchmark. Officers will monitor the distributions and report progress periodically to the Panel.

Steve Turner addressed the Panel and highlighted the following points from the Mercer Performance Monitoring Report.

- Market sentiment continued to be driven by the soft-landing narrative in the US, as a result of uncertainty around policies under Trump's presidency.

- The funding level is estimated to have decreased over the quarter to c.102%, as the assets fell alongside an increase in the estimated present value of the liabilities. Much of this has now been recovered.

- The Equity Protection counteracted equity market losses, and most of the alternative Liquid Growth and Illiquid Growth investments were positive.

- In March, the Synthetic Equity exposure was reduced by £300m to address the overweight position to equities relative to the strategic benchmark. This brought the allocation back to within the target range (+/- 5%).

- Brunel – Looking to increase their performance.

The Group Manager for Funding, Investment & Risk commented that Brunel's structural underweight to energy continued to create challenges and added complexity given new pooling arrangements. She added that their ESG criteria beliefs remain and that a representative(s) would be asked to attend and address a future meeting of the Panel.

The Head of Pensions added that a decision in principle regarding pooling would be required by the Committee in September.

Jackie Peel asked if Equity Protection was doing what it is expected to do and was it likely to continue.

Steve Turner replied that it was and said that the FRMG (Funding and Risk Management Group) are able to review it if required. He added that not all Pools have the same risk management processes in place.

The Group Manager for Funding, Investment & Risk said that this was a factor that will need to be discussed as arrangements regarding pooling progress.

Jackie Peel referred to page 56 of the agenda pack and the performance of the Equity Asset Classes and asked why the decision was made to take the £300m from the passive fund rather than the active even though the active was more overweight. Steve Turner replied that the main reason behind the decision was the speed of execution. He added that the overall allocation would be reviewed at the end of the next quarter.

Jackie Peel asked why the figures relating to Equity Asset Classes did not appear to correlate between pages 56 & 57 of the agenda pack.

The Head of Pensions replied that this would be reviewed and answered in due course.

Pauline Gordon asked if further explanation could be given on why the equity protection offset was relatively small given the decline in the Fund's equity portfolio over the quarter.

Nick Page replied that it is difficult for the equity protection to fully compensate for active equity underperformance but that the strategy performed in line with expectation, offsetting the passive benchmark performance of -1.1%. He reminded the Panel that the Equity Protection strategy protects 50% of the Equity Portfolio, adding that it doesn't protect against every market fall and that a 3% fall in the context of the strategy, which is designed to protect against significant and sustained market falls of around 15% - 20%, was relatively modest.

The Panel **RESOLVED** to note the information as set out in the reports.

57 RISK MANAGEMENT FRAMEWORK REVIEW FOR PERIODS ENDING 31 MARCH 2025

The Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED**, in accordance with the provisions of the Section 100(A)(4) of the Local Government Act 1972 that the public should be excluded from the meeting for this item of business, because of the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act as amended.

The Panel **RESOLVED** to note the performance of each of the underlying RMF strategies and current collateral position as set out in Exempt Appendix 1.

58 FORWARD AGENDA

The Investments Manager introduced the report to the Panel. He said that for the scheduled meeting on 3rd September 2025 the following reports have been listed.

Strategic:

Local Impact portfolio - update
Projects from Strategic Review
Future of Pooling - update

Routine:

Quarterly Investment Performance
Risk Management Framework Monitoring

He said that in addition to these items officers would take steps to invite a Local Impact Fund Manager and a Brunel Portfolio Manager to attend and update the Panel.

The Panel **RESOLVED** to note their forward agenda.

The meeting ended at 3.39 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services