

Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND INVESTMENT PANEL
MEETING DATE:	03 September 2025
TITLE:	Review of Investment Performance for Periods Ending 30 June 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 Exempt Appendix 3 – Brunel Presentation – TO FOLLOW	

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 30 June 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.

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 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 £6,031m on 30 June 2025, delivering a net return of 3.7% over the quarter. This was 0.3% ahead of the return for the strategic

benchmark. There were positive returns generated from the Brunel listed equity portfolios and the LDI portfolio, as gilt yields fell. Multi Asset Credit (MAC) and Diversifying Returns also contributed positively, although with the exception of MAC, the Brunel portfolios underperformed their respective benchmarks. Returns for the private markets portfolios were also positive, although performance versus benchmarks were mixed.

- 4.2. The estimated funding level stood at 106% at 30 June 2025 (c. £367m 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 June update allows for the updated discount rate of 5.55% p.a. (equivalent to a discount rate of CPI+3.15% p.a. at 30 June 2025).
- 4.4. Over 1 year to the end of June the Fund returned 3.4% in absolute terms and -2.5% in relative terms. The Brunel listed portfolios all delivered positive returns, however these fell short of their respective benchmarks contributing to underperformance over one year. Returns from private markets were again positive and on the whole performed in line or ahead of benchmark. The equity protection strategy detracted over one year.
- 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 17-58 of Appendix 2.
- 4.7. The second quarter of 2025 was marked by heightened volatility, as markets contended with renewed trade tensions and escalating geopolitical risks. The announcement of aggressive new tariffs by the U.S. administration in early April triggered a sharp sell-off, but sentiment stabilised following a temporary suspension of most measures to allow for trade negotiations. Despite these headwinds, global equities posted strong gains, ultimately closing the quarter in positive territory. European markets led the rally, supported by a weaker dollar, improving macroeconomic indicators, and a rate cut from the European Central Bank.

Technology stocks were the standout performers, rebounding sharply as the pause in tariff implementation created a strong risk-on environment which was strengthened by better-than-expected earnings announcements and renewed enthusiasm for AI technologies among investors. In contrast, the healthcare and energy sectors lagged, weighed down by weak earnings and geopolitical disruptions. Consumer staples also underperformed, as investors rotated into cyclical and growth-oriented sectors amid improving risk appetite. Overall, equity markets delivered robust double-digit gains, rebounding from early-quarter turbulence and reflecting a broader shift in investor sentiment as recession fears receded, and diplomatic engagement gained traction.

Global bond markets demonstrated resilience amid heightened volatility in Q2 2025, navigating a complex backdrop of geopolitical tensions, shifting central

bank policies, and trade uncertainty. Yields fluctuated sharply early in the quarter following the U.S. “Liberation Day” tariff announcement, with government bond yields initially falling on recession fears before rebounding as trade tensions eased. Despite the turbulence, fixed income delivered broadly positive returns, supported by moderating inflation and expectations of future rate cuts.

- 4.8. At an individual portfolio level, the Brunel Global High Alpha portfolio returned 4.4%, lagged its benchmark return by 0.8% as weak stock selection in aggregate more than offset the benefits from sector allocation. Positive allocation was driven by underweights in energy and consumer staples. Selection was strong within IT where the underweight in Apple and overweight in TSMC were the largest contributors, with the latter benefitting from renewed AI-related demand. Underweight in two semiconductor names – Nvidia and Broadcom – were two of the largest detractors over the quarter. Manager performance was mixed reflecting the marked differential in investment styles, with the growth focussed Baillie Gifford fund outperforming the value style of the Harris fund.

The Global Sustainable Equity portfolio also delivered a positive return of 3.4% but this was 1.8% behind the MSCI ACWI benchmark return. In a reversal of Q1 performance whilst two underlying managers, RBC and Nordea, managed to outperform, this was offset by underperformance from Jupiter and Mirova. Positioning in the healthcare sector had a defining impact upon returns, with those managers that had great exposure to the life-sciences sector underperforming over the quarter.

The FTSE Developed Paris Aligned Index (PAB) returned 4.9% over the quarter, closely replicating the performance of the benchmark index over the period. Although the index has a positive tilt towards growth and an overweight allocation to technology stocks, returns were held back by weak stock selection in the technology sector. The majority of this is attributable to underweight positions in Nvidia and Broadcom. The portfolio did benefit from an underweight towards the energy sector which was the weakest performing sector given the fall in oil prices over the quarter.

The Diversifying Returns Fund (DRF) returned 1.1% over the period, whilst its benchmark (SONIA +3%) returned 1.8%. The fund demonstrated its defensive qualities during the period at the end of the first quarter/beginning of the second quarter when markets experienced a sharp selloff, with the portfolio down significantly less than global equities. The Multi Asset Credit Fund (MAC) returned 2.6%, ahead of its primary benchmark (SONIA +4%) return of 2.0%. All three underlying managers experienced similar levels of performance.

The private markets portfolios delivered positive absolute returns during Q2 2025, navigating the complex landscape shaped by US policy volatility and geopolitical uncertainty. The direct lending market faced pressure from tariff-related disruptions and broader concerns surrounding President Trump’s One Big Beautiful Bill Act (OBBBA), which unsettled foreign investors in US assets and raised questions about the energy transition. Nevertheless, the Brunel direct lending portfolio remained robust, with managers closely monitoring for signs of stress but reporting no material increase in underperforming credits or adverse tariff effects to date. Secured income strategies continued to perform well, supported by strong income yields as capital values remained challenged. In the infrastructure space, the UK market stood out buoyed by structural tailwinds such as rising demand from electrification, green hydrogen, and AI-

driven data centre expansion. The growing adoption of Power Purchase Agreements further reinforced the sector's role in supporting companies to meet their supply chain decarbonisation targets.

C - 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 p16/17 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 £1.6 million was called into the Schroders Wessex Gardens portfolio. The first call into the Foresight SME Funding Strategy was also made as the Fund made its first investment into a regionally based childcare business. All calls for Brunel private markets portfolios during the period were funded from cash that has accumulated from distributions.

D – RESPONSIBLE INVESTING

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 30 June 2025:

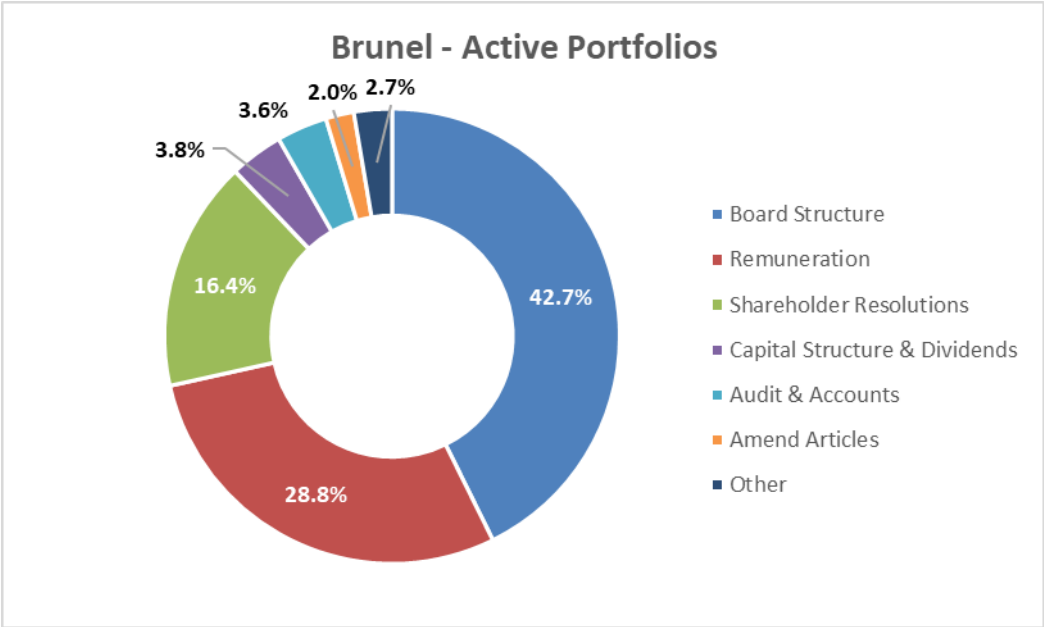
Manager	Quarter to 30 June 2025		
	Number of Meetings	Number of Resolutions	Votes against management recommendation
Brunel/LGIM - Passive Portfolios	751	11818	3018
Brunel - Active Portfolios	224	3396	166

Points to note:

- Brunel and LGIM actively vote the shares held within their funds on behalf of their client funds, including Avon.
- 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 30 June 2025

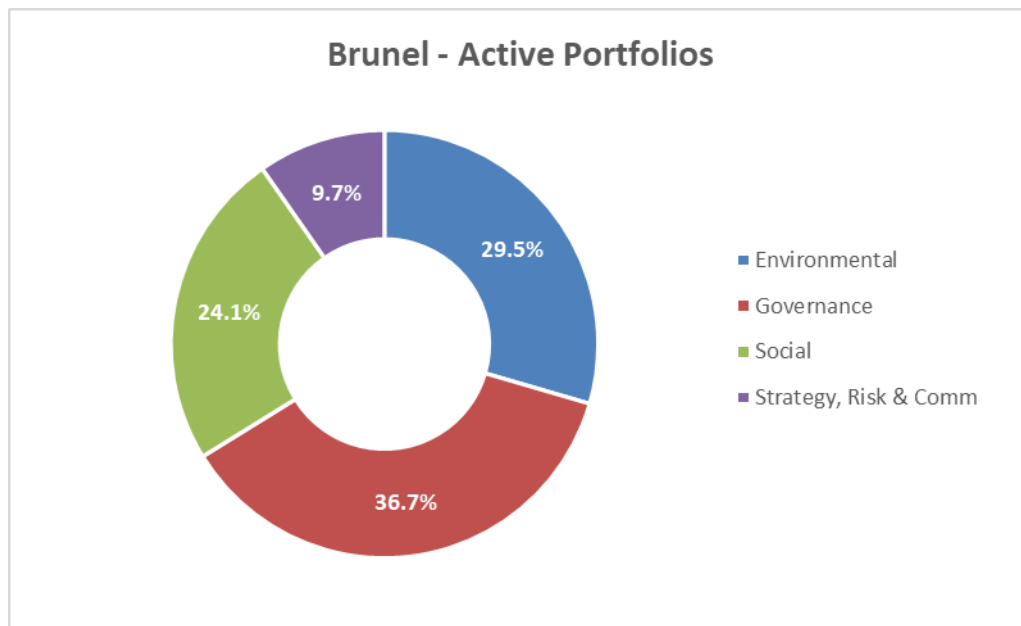


1.1. **Engagement:** Brunel conduct significant engagement with investee companies on behalf of the Fund. A breakdown of the engagement undertaken over the last quarter is summarised as follows:

Company engagement in the quarter to 30 June 2025:

	Quarter to 30 June 2025	
	Number of Companies	Number of Issues
Brunel - Active Portfolios	225	776

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	