

Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	12 DECEMBER 2025
TITLE:	Review of Investment Strategy & Performance
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Mercer Performance Monitoring Report Appendix 2 – LAPFF Quarterly 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 The Fund underperformed its strategic benchmark by 1.0% for the quarter ending 30 September 2025, primarily due to underperformance of the Brunel active equity funds. Return drivers are discussed in further detail in section 4 of this report and in the Mercer report (Appendix 1).
- 1.3 Appendix 2 summarises the voting and engagement activity undertaken on behalf of the Fund by the Local Authority Pension Fund Forum (LAPFF).

2 RECOMMENDATIONS

The Committee is asked to;

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

3 INVESTMENT STRATEGY

A – Funding Level and Investment Performance

- 3.1 The third quarter of 2025 saw positive returns across most major asset classes as continued enthusiasm around AI drove technology stocks higher, whilst easing trade tensions and a US rate cut in September supported broader risk appetite. Looking ahead, elevated stock valuations, persistent inflation and ongoing geopolitical tensions continue to present potential challenges for markets.
- 3.2 The Fund's assets stood at £6,184m on 30 September 2025, delivering a net return of 3.0% over the quarter. This was 1.0% behind the return for the strategic benchmark. The Brunel listed equity portfolios delivered positive absolute returns over the quarter, but failed to outperform their respective benchmark indices. The LDI portfolio also detracted from returns as did some of the newly initiated local impact positions, owing to the fact fees are charged on committed capital rather

than actual monies invested. The Brunel private markets positions performed well, benefitting from a diverse set of underlying assets and sectors.

3.3 Longer-term returns followed a similar pattern, with the Fund underperforming its strategic benchmark by 5.9% and 3.6% for 1-year and 3-year timeframes, respectively.

3.4 The estimated funding level stood at 109% at 30 September 2025 (c. £489m surplus), 12% ahead of the projected funding level from the 2022 valuation.

Table 1: Fund Investment Returns (30 September 2025)

	3 Months	12 Months	3 Years (p.a)
Avon Pension Fund (incl. currency hedging)	2.9%	2.8%	4.9%
Avon Pension Fund (excl. currency hedging)	3.3%	2.9%	3.7%
Strategic benchmark (no currency hedging)	3.9%	8.7%	8.5%

B – Portfolio Performance

3.5 The Fund's top 10 equity positions and a brief summary of portfolio level performance can be found below. Further detail on portfolio performance can be found in Section 4 of the Mercer report (Appendix 1).

Table 2: Top 10 Equity Positions

Security Name	Sector	Country	Value of Holding	% of Fund assets
Microsoft	IT	United States	£93.9m	1.5%
NVIDIA	IT	United States	£71.7m	1.2%
Amazon	Consumer Discretionary	United States	£65.5m	1.1%
Alphabet	Communications	United States	£43.7m	0.7%
Taiwan Semiconductor	IT	Taiwan	£42.5m	0.7%
Mastercard	Financials	United States	£36.8m	0.6%
Apple	IT	United States	£33.4m	0.5%
ASML	IT	Netherlands	£30.1m	0.5%
Tesla	Consumer Discretionary	United States	£29.2m	0.5%
Visa	Financials	United States	£24.7m	0.4%
TOTAL	--	--	£471.5m	7.7%

3.6 **Listed Markets.** The Brunel Global High Alpha portfolio returned 7.1% over the quarter, which was 2.2% behind the MSCI World Index. The positive contribution from sector allocation was offset by weaker stock selection. The portfolio's

underweight position in banks, which performed strongly over the period, and higher relative exposure to payments service providers, financial exchanges and data companies were the largest detractors due to perceived threats from AI models. Meanwhile, the Global Sustainable Equity portfolio delivered a return of 5.7% over the quarter, which was behind the 9.7% return for the MSCI ACWI benchmark index. Half of the relative underperformance was attributable to the funds underweight to large IT names such as NVIDIA and Apple; companies known to be inconsistent with the funds sustainability criteria.

Diversifying Returns fund returned 3.3% over the quarter, whilst its benchmark (SONIA +3%) returned 1.8%. Underlying managers were able to capture strong returns from both traditional asset classes as well as alternatives. The Multi Asset Credit fund returned 2.2%, slightly ahead of its primary target (SONIA +4%).

- 3.7 Private Markets.** The private markets portfolios delivered small positive returns in the third quarter despite continued uncertainty across both policy and the broader macroeconomic environment. Private Debt portfolios benefitted from healthy private credit markets, supported by company fundamentals, disciplined underwriting and growing investor interest. The performance of the Brunel Private Debt portfolios remains strong, generating an attractive cash yield. Floating-rate loans have benefited from sustained high base rates, and FX hedging has insulated returns from currency volatility.

The Brunel Infrastructure portfolios are diversified across sponsors, technologies and regions. Performance remains positive and despite headwinds for renewables, the portfolio continues to benefit from rising demand for clean power, energy independence and digital infrastructure, the latter of which remains one of the fastest-growing segments. Performance of the Secured Income portfolios continues to be driven by income and capital values have been helped by the recent UK interest rate cut.

- 3.8 Returns vs Strategic Assumptions.** Absolute returns compared to the strategic returns modelled at the strategy review in 2023 have been positive for all equity mandates. Within the liquid growth portfolio, the Multi-Asset Credit fund has exceeded modelled returns however the Diversified Returns Fund has marginally underperformed. Returns for the illiquid portion of the portfolio have generally been lower than expected, however many of these portfolios are still in drawdown phase. Modelled returns will be updated to reflect data used in the 2025 strategy review next quarter.

- 3.9 Local Impact Portfolio.** The Fund has a 5% strategic allocation to local impact investments across 3 core themes: renewable infrastructure, affordable housing and SME funding. At 30 September 2025 3% (£180m) had been committed to underlying managers and c. £63m deployed. As the portfolio is still in its build up phase performance is not yet meaningful, however pace of capital deployment and the developing pipeline of opportunities is meeting expectations. During the quarter Wessex Gardens (renewable infrastructure) made a distribution of £0.9m, Foresight (SME) acquired a second portfolio company and Octopus (affordable housing) expects to make its first distribution in Q425. Octopus are also in the process of agreeing terms with a local housing association to support the deployment of the Fund's Avon co-invest allocation (£10m).

4 QUARTERLY STEWARDSHIP SUMMARY

- 1.1 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:

Table 3 – Votes cast at company meetings (30 September 2025)

Manager	Number of Meetings	Number of Resolutions	Votes against management recommendation
Brunel/LGIM - Passive Portfolios	77	900	167
Brunel - Active Portfolios	20	212	12

- 1.2 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.
- 1.3 Brunel conduct significant engagement with investee companies on behalf of the Fund. Information on Brunel's engagement activity can be found on their website using the following link: [Brunel Website](#)
- 1.4 Details of LAPFF lead initiatives and engagement work can be found at Appendix 2.

5 STATUTORY CONSIDERATIONS

- 5.1 Bath and North East Somerset Council, in its role as administering authority, has executive responsibility for the Avon Pension Fund. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee which is the formal decision-making body for the Fund.

6 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

- 6.1 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.

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.

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Background papers	None
Please contact the report author if you need to access this report in an alternative format.	