

# Bath & North East Somerset Council

MEETING:	<b>AVON PENSION FUND INVESTMENT PANEL</b>
MEETING DATE:	<b>25 February 2026</b>
TITLE:	<b>Review of Investment Performance for Periods Ending 31 December 2025</b>
WARD:	ALL
<b>AN OPEN PUBLIC ITEM</b>	
List of attachments to this report: Appendix 1 – Mercer Performance Monitoring Report Appendix 2 – Brunel Quarterly Performance Report	

## 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 December 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. Brunel quarterly performance reporting will cease on 31 March 2026.

## 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 £6,323m on 31 December 2025, delivering a net return of 2.6% over the quarter. This was 0.9% behind the return for the

strategic benchmark. In a similar pattern to recent quarters, whilst the Brunel listed equity portfolios delivered positive returns over the quarter, these were behind those of their respective benchmark indices. The private markets positions were broadly positive over the quarter.

- 4.2. The estimated funding level stood at 108% at 31 December 2025 (c. £472m surplus), ahead of the current recovery plan by 11% from 31 March 2022. The funding level will be reset to the 2025 valuation next quarter to reflect the latest Funding Strategy Statement.
- 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 December update allows for the updated discount rate of 5.48% p.a. (equivalent to a discount rate of CPI+3.10% p.a. at 31 December 2025).
- 4.4. Over 1 year to the end of December the Fund returned 7.5% in absolute terms and -1.7% in relative terms. Once again, there were some positive absolute performances from the Brunel listed equity portfolios, however these lagged the stronger returns from the wider benchmark indices. The MAC portfolio performed in line with its benchmark over one year. The Brunel private market portfolios generally delivered positive returns, with the Infrastructure and Private Debt portfolios mostly ahead of benchmarks, whilst the Secured Income portfolios were mixed versus benchmarks.
- 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 18-48 of Appendix 2.
- 4.7. Global markets entered the fourth quarter of 2025 with momentum, supported by easing inflationary pressures, improving economic sentiment, and a broadening of growth drivers across regions. Investor confidence strengthened as policy uncertainty moderated and risk assets continued to benefit from resilient corporate earnings and a more stable macro backdrop. Global equity markets posted steady gains in Q4, with many indices ending the year at or near record highs. One of the defining features of the quarter was a broadening out of market leadership, with the US market lagging behind Europe, Asia and emerging markets which all delivered strong returns. These markets benefitted from a weaker US dollar, more attractive valuations, and investor rotation away from US technology stocks.

Government bond markets experienced a relatively stable quarter, as inflation continued to ease and major central banks, including the Federal Reserve and Bank of England, shifted toward rate cuts, which supported government bond returns. Returns for corporate bonds were strong, with investment-grade spreads holding near multi-year lows as easing inflation and expectations of continued central bank rate cuts supported strong demand. Despite mid-year volatility, fixed income delivered positive returns for 2025 overall, supported by

clearer policy direction and improving risk sentiment. Overall, the environment of moderating inflation, improving visibility on monetary policy, and supportive fiscal dynamics supported government bond markets heading into 2026.

Alternative assets participated in the broad-based strength of Q4. Infrastructure and property benefited from improving global growth sentiment and easing political risk in many regions. Real assets, particularly materials and commodities, were supported by continued demand for inflation hedges and strong investor appetite for diversification. Precious metals were one of the standout performers in 2025, with gold rising by more than 60% for the year, while silver posted gains exceeding 140%. Both metals are considered “safe-haven” assets and benefitted from investor concern about ongoing geopolitical uncertainty, moderating but still elevated global inflation, and expectations of slower global growth.

Looking ahead, markets will likely remain sensitive to inflation trends, central-bank policy signals, and the durability of global growth. While the broad-based rally of recent quarters has strengthened investor sentiment, the path forward may be more uneven as valuations tighten and macro data take on greater importance.

- 4.8. At an individual portfolio level, the Brunel Global High Alpha portfolio returned 1.1% over the quarter, against 3.3% for the MSCI World Index. Sector attribution showed stock selection as the main detractor, notably in Financials (Mastercard and 3i) and Industrials (ADP and Wolters Kluwer). Selection was strongest in the Materials sector. Alphabet and TSMC were the largest positive contributors, with Alphabet boosted by AI integration and chip supply deal with Anthropic. Conversely, AutoZone, Oracle and Microsoft were the weakest performers. Looking at the underlying managers, Harris outperformed the market, benefitting from its value style, while other managers underperformed the benchmark index to varying degrees, most notably Baillie Gifford. During the quarter, Alliance Bernstein exited the portfolio and was replaced by PineBridge.

The Global Sustainable Equity (GSE) portfolio delivered a return of 1.4% during the quarter, which was 2.1% behind the return for the MSCI ACWI benchmark index. As in previous quarters, it should be acknowledged that the MSCI ACWI does not look to achieve the same exposures as the GSE portfolio and there is a philosophical mismatch between the fund and the benchmark. This is evidenced by the main drivers of performance for the index over the year, with metals and mining the best performing sub-sectors, largely driven by the price of gold. With the exception of some copper exposure, the sector does not align itself to sustainable investing and therefore the GSE portfolio is largely underweight this sector. In addition, underweights to aerospace and defence has also detracted from relative performance.

The FTSE Developed Paris Aligned Index (PAB) returned 4.2% over the quarter, and 11.0% for the 12-month period ending 31 December 2025. The PAB portfolio closely replicated the performance of the benchmark index over these periods. Technology was the best-performing sector in the index, followed by health care, with the largest single stock contribution coming from Alphabet. The index’s low exposure to energy stocks had a marginal negative effect on portfolio when compared to a market-cap weighted index.

Multi Asset Credit (MAC) returned 1.5%, slightly behind the primary target (SONIA +4%) return of 2.0%. Spreads remained tight, moving near to all-time lows following more compression over the quarter. This signifies investor

confidence in the health of financial companies and, as spreads tighten, the value of bonds typically rise, producing positive returns on top of regular income the bonds already produce.

The Diversifying Returns Fund (DRF) returned 1.0% over the quarter, whilst its benchmark (SONIA +3%) returned 1.7%. The portfolio captured attractive returns from allocations to equities and commodities, but fixed income detracted. During the quarter the Fund's holding in DRF was sold and the proceeds split between the MAC portfolio and the purchase of index linked gilts in the BlackRock QIF.

Turning to private markets, in Private Debt performance remained solid, helped by all-in (total) yields remaining attractive, but competition continued to push spreads lower. In Secured Income, for the two UK long lease property funds, income continued to drive performance but with more positive valuation evidence. Both long lease property funds outperformed the MSCI Long Income Index over the 12 months to September (one quarter lag).

For the Brunel UK Property fund, 2025 was a year of transition for UK real estate. After a slow start due to global tariff concerns and economic uncertainty, confidence improved following the November Budget. Brunel's core diversified funds maintained stable NAVs and yields, with occupancy above 90%, although liquidity pressures persisted in open-ended, indirect fund vehicles. Specialist funds outperformed, with logistics and industrial strategies delivering NAV growth of around 1% and health care and residential funds continuing to perform well. The Fund returned 1.3% over the quarter.

For the Brunel Infrastructure portfolios, performance was mixed with cycles 1 and 3 delivering positive returns, but cycle 2 was negative over the quarter. Diversification across vintages, geographies, sectors, technologies, and managers remains crucial in navigating a volatile and rapidly evolving global landscape. Overall, portfolio performance continues to compare favourably to demanding benchmarks, reflecting a disciplined approach to risk management and opportunity selection. While renewables face certain headwinds, the structural trend towards decarbonisation and growing demand for clean energy present compelling opportunities.

## **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.

**4.10. Local Impact:** The Fund has a 5% strategic allocation to local impact investments across 3 core themes: renewable infrastructure, affordable housing and SME funding. At 31 December 2025 3% (£180m) had been committed to underlying managers and c. £67m 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 £1.5m, Foresight (SME) acquired a second portfolio company and Octopus (affordable housing) made its first distribution. 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). The Fund's inaugural Local Impact Report was published during the quarter and is available to read here: <https://www.avonpensionfund.org.uk/sites/default/files/2025-10/local-impact-investment-report-2025.pdf>

- 4.11. **Rebalancing:** During the quarter the Fund's holding in the Diversifying Returns Fund (DRF) was sold (c.£400 million). Of the proceeds, £120 million was used to purchase index linked gilts within the BlackRock QIF, and the remaining £280 million was switched into the MAC portfolio.

The Brunel UK Property fund was rebalanced during the quarter to reinvest £9 million of accumulated cash. The proceeds were reinvested into three managers, M&G, LGIM and Octopus, to bring the portfolio into line with the fund's core allocation. All calls for Brunel private markets portfolios during the period were funded from cash that has accumulated from distributions.

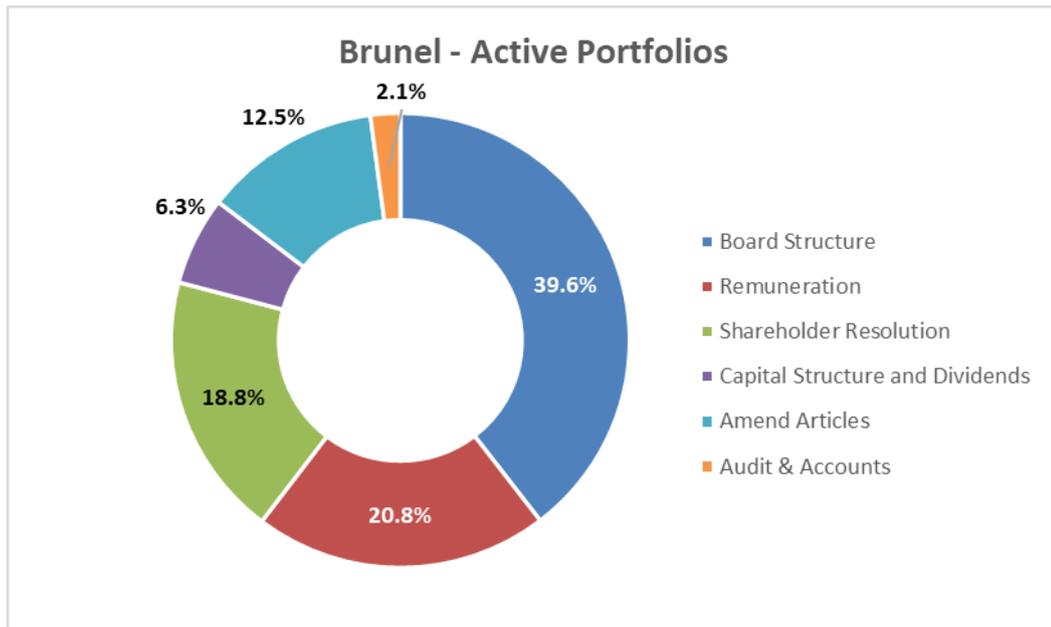
## D – RESPONSIBLE INVESTING

- 1.1. **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.
- 4.12. **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 December 2025:

Manager	Quarter to 31 December 2025		
	Number of Meetings	Number of Resolutions	Votes against management recommendation
Brunel/LGIM - Passive Portfolios	94	853	253
Brunel - Active Portfolios	31	326	22

### Votes against management recommendation by issue – Quarter to 31 December 2025



Points to note:

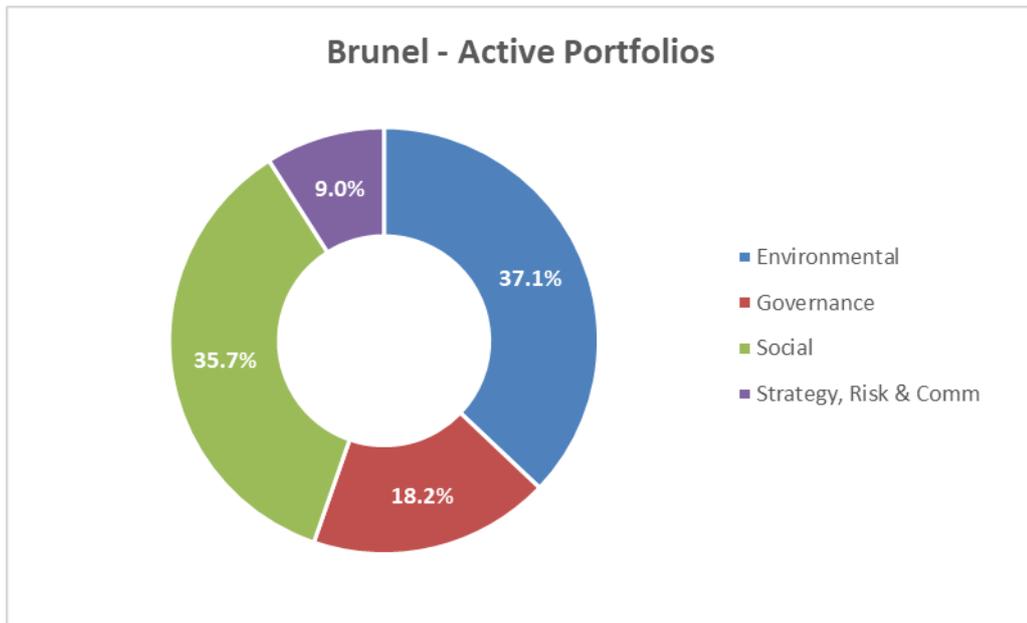
- a) Brunel and LGIM actively vote the shares held within their funds on behalf of their client funds, including Avon.
- b) The votes against management recommendations will reflect matters where there is concern that the company is not addressing the relevant issue and managing it effectively. The Fund 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.

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 December 2025:**

	Quarter to 31 December 2025	
	Number of Companies	Number of Issues
Brunel - Active Portfolios	198	677

**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.

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<b>Background papers</b>	Data supplied by Mercer, Brunel & State Street Performance Measurement
<b>Please contact the report author if you need to access this report in an alternative format</b>	