

# Avon Pension Fund

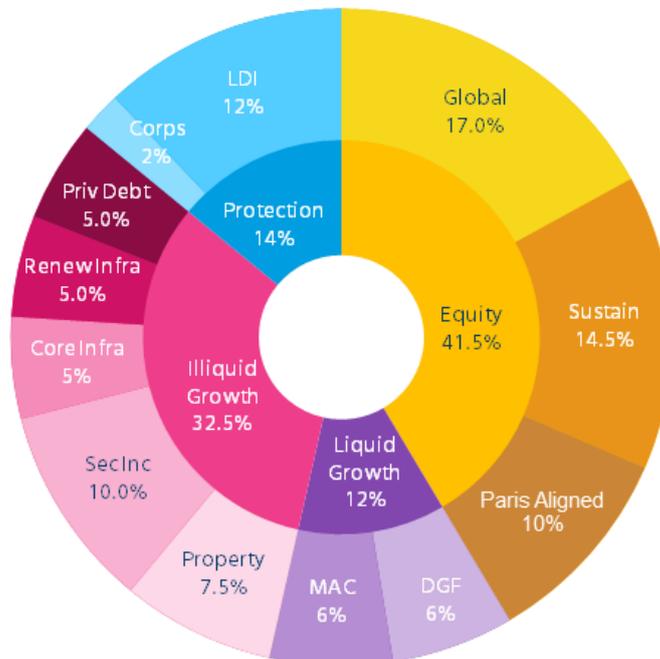
## Investment Strategic Review – Setting the Scene

### Introduction

This paper is addressed to the Investment Panel of the Avon Pension Fund (“the Fund”), and sets out the key areas that we propose covering as part of the investment strategic review in Q1 2023, based on the results of the 2022 actuarial valuation.

With each triennial investment review, the Panel should consider prevailing market conditions, but also keep in mind the long-term nature of the Fund and its investment objectives. Therefore we will revisit certain elements of the investment strategy in light of recent market events (e.g. the volatility in gilt markets and depreciation of Sterling in Q3/4 of this year) to ensure they remain fit for purpose, whilst still taking a long-term view on the prospects for the various underlying asset classes.

### Current Strategic Asset Allocation



## **Key areas of focus for the review**

**Review of the Fund’s core investment beliefs and principles:** how this influences the design of the investment strategy and its implementation, taking into account key investment and ESG objectives and any potential constraints. We acknowledge that the Fund’s investment beliefs may evolve as a result of the investment strategy review, which we would look to capture.

**Overriding objective:** The investment strategy needs to have a minimum expected return that supports achieving the discount rate of CPI +2.4% p.a. (margin above CPI is subject to change as part of the valuation), with a desired level of probability and acceptable level of downside risk. We propose looking at a range of potential investment strategies that target the above, and higher returns. This will include a review of the position under various investment/funding scenarios.

**Other principles and goals:** Achieving the Fund’s climate targets (e.g. net zero carbon emissions by 2050 and interim reduction targets) and broader Environmental Social and Governance (ESG) commitments/ambitions. We will consider the impact of asset allocation decisions on the ability to meet targets, and whether potentially strengthening climate targets (e.g. considering net zero by 2045) would constrain the asset allocation in any way.

### **Asset allocation: is the portfolio fit for purpose?**

Review of underlying asset classes and their roles, and revisiting the rationale for their inclusion in the strategy in light of current markets and long term prospects. Other asset class-specific areas include:

**Equities** – overall size of allocation; active vs passive management (note the equity portfolio was reviewed in detail in 2021), impact of recent changes made to support collateral within the risk management strategy.

**Equity protection strategy** – role and level of protection in the context of the overall equity allocation.

**Liquid growth** – are there other opportunities available in the current environment?

**Illiquid growth** – potential role of a Local Social Impact portfolio and its parameters; implications for other illiquid growth assets.

**Currency hedging** – review level of hedging for overseas assets and impact on collateral.

**Overall risk management framework** – revisit the case for using synthetic/leveraged exposure, including implications for the strategy (return, risk etc.) if an unleveraged approach was adopted

**Overall cashflow/liquidity** – consider liquidity budget to ensure benefits can be paid and private market commitments can be met; impact on overall allocation between liquid/illiquid assets.

We look forward to discussing any proposals for consideration with the Committee in February 2023.

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