

**Avon
Pension
Fund**



Your pension, your future

Investment Strategy Statement 2024

Avon Pension Fund

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1. Introduction

- 1.1 Local Government Pension Scheme (LGPS) regulations require administering authorities to prepare and maintain an Investment Strategy Statement ('ISS'). This ISS has been prepared by the Avon Pension Fund (APF) in accordance with regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 'Regulations') and associated guidance. This statement updates and replaces the 2023 ISS.
- 1.2 The purpose of the ISS is to set out:
 - The governance arrangements for investments
 - APF's investment objectives
 - APF's investment beliefs
 - How APF will manage investment related risks
 - How APF incorporates responsible investment
 - The strategic asset allocation benchmark and ranges to provide flexibility.
- 1.3 As stated above, the ISS outlines APF's approach to Responsible Investment (RI), how RI is integrated into the investment decision making process and how APF fulfils its role as a responsible steward of its assets. Particular attention is given to APF's short-, medium- and long-term ambitions around climate change. The strategy acknowledges the need to address the impact of climate change on its investment assets and capture new sources of return that will arise from the transition to a low carbon economy. The policy supports the Just Transition, seeking to manage the societal and economic impacts of the transition to a lower carbon world. It has set clear climate objectives with milestones that will be delivered through its relationship with Brunel Pension Partnership to ensure that the investment portfolio is aligned with the Paris Agreement within a realistic timeframe.
- 1.4 The ISS is consistent with the Funding Strategy Statement (FSS) as well as a broader framework of investment policies, most notably those relating to Risk Management and Responsible Investment. An integrated approach ensures the investment strategy supports APF in meeting its regulatory requirements.
- 1.5 The ISS is subject to a review at least every three years and from time to time on any material changes to any aspects of APF which are judged to have a bearing on the stated investment strategy. Ongoing quarterly and annual monitoring of the strategy enables the APF Committee (the Committee) to take advice as to whether a review is needed at any time.
- 1.6 In preparing the ISS, the Committee has taken advice from Fund Officers and APF's appointed investment consultant. APF's Pension Board reviews the Investment Strategy Statement for compliance with the regulations.

Investment Governance Framework

- 1.7 APF is administered by Bath & North East Somerset Council, which is legally responsible for APF. The Council delegates its administration responsibility to the **Avon Pension Fund Committee**, which is its formal decision-making body. Members of the Committee represent a cross section of APF's stakeholders and therefore a range of views are taken into account when agreeing policy and strategy.
- 1.8 The Committee is supported by a sub-committee, the **Investment Panel** (the Panel), which considers matters relating to the management and investment of the assets of APF in greater detail. Although the Panel has delegated powers to take decisions on specific issues and makes recommendations to the Committee, setting the strategic asset allocation is the responsibility of the Committee. Operational implementation of strategy is delegated to Officers.
- 1.9 The **Funding & Risk Management Group** (FRMG) provides a robust and efficient governance framework for the Risk Management Strategies. This Group comprises Fund Officers, Investment and Risk advisors. FRMG has delegated authority for:
- (i) agreeing the operational structures required to meet the strategic objectives determined by the Committee and
 - (ii) implementation of the Risk Management Strategies.
- FRMG also monitors the strategies on a monthly basis and reports to the Panel on a quarterly basis.
- 1.10 In addition, the **Local Pension Board** has an oversight and scrutiny role to ensure good governance through monitoring of APF's performance, activity of the Committee and compliance with regulations and statutory duties. The Board's role is to assist the administering authority to ensure the management of the pension fund is effective and efficient.
- 1.11 Both the Committee and the Pensions Board have members and other stakeholder representatives who actively engage with stakeholders to ensure APF is aware and can respond effectively to stakeholder concerns.
- 1.12 APF actively engages with its stakeholders about the investment strategy, providing the opportunity for a wider range of stakeholders to give input as the Committee assesses key strategic considerations.

2. Approach to Pooling

- 2.1 APF participates with nine other administering authorities to pool its investment assets through the Brunel Pension Partnership. Brunel Pension Partnership Limited (Brunel) is authorised by the Financial Conduct Authority to manage the assets within the pool and is owned equally by the ten administering authorities

that participate in the pool. These pooling arrangements meet the requirements of the Regulations and Government guidance.

- 2.2 APF retains responsibility for setting its strategic asset allocation and allocating assets to the portfolios provided by Brunel. Brunel is responsible for implementing the asset allocations of the participating funds (the 'clients') by investing the clients' assets within defined outcome focused investment portfolios. In particular, it selects the external managers or pooled funds which meet the investment objective of each portfolio. Brunel creates collective investment vehicles for liquid assets such as equities and bonds; for private market investments it creates and manages an investment programme with a defined investment cycle for each asset class.
- 2.3 As a client of Brunel, APF has the right to expect certain standards and quality of service. The Service Agreement between Brunel and its clients sets out in detail the duties and responsibilities of Brunel and the rights of APF as a client. It includes a duty of care of Brunel to act in its clients' interests.
- 2.4 The pool has established governance arrangements. The Brunel Oversight Board comprises representatives from each of the administering authorities and two member observers with agreed constitution and terms of reference. It oversees the pool, with responsibility for ensuring that Brunel delivers the services required to achieve pooling and deliver each client's investment strategy. Subject to its terms of reference it considers relevant matters on behalf of the administering authorities but does not have power to take decisions requiring shareholder approval; these are remitted back to each administering authority individually. The shareholder rights are set out in the Shareholders Agreement and other constitutional documents.
- 2.5 Brunel Oversight Board is supported by the Client Group which comprises investment officers from each of the clients but also draws on finance and legal officers as required. It has the primary role in managing the relationship with Brunel, providing practical support to the Brunel Oversight Board and monitoring Brunel's performance and service delivery. The APF Committee and Investment Panel receive regular reports covering investment performance and Brunel's service delivery.
- 2.6 Brunel manages all APF's listed assets, pooled funds and UK property funds as well as all new private market allocations with the intention that all assets will be invested through Brunel portfolios in time. There are legacy commitments to illiquid private market portfolios which will be transitioned to Brunel as they are liquidated and capital is returned. The formulation, implementation and ongoing monitoring of APF's risk management strategies (e.g. Liability Driven Investing and Equity Protection) remain the responsibility of APF and its specialist advisors. Brunel appointed the Risk Management manager, under a broad commercial agreement covering the manager's key terms.

3. Investment Beliefs

3.1 APF has the following investment beliefs which underpin the investment strategy and guide decision making around investment of APF's assets.

They are framed so that APF can meet the pension promises to members and maintain affordability for scheme employers.

- We believe in a long-term investment horizon. This enables a strategic approach to investment risk and capital allocation which will ultimately drive attractive investment returns.
- We believe diversification is core to managing risk, enabling a broad spectrum of investments with different risk profiles.
- We believe investing responsibly to make a positive contribution in the real economy will promote sustainable returns. We invest with 2045 net zero objectives and work with like-minded investors to engage and encourage positive change.
- We believe lower costs drive higher net investment returns. We use collective scale with Brunel to drive innovation and efficiencies to reduce costs.

4. Investment Objective

4.1 APF's investment objective is to achieve a return on assets consistent with an acceptable level of risk that will enable APF to fund its pension payments over time, that is, to achieve 100% funding in line with the Funding Strategy. The investment strategy must generate returns to stabilise and minimise employer contribution rates in the long-term, as well as reflect the balance between generating returns consistent with an appropriate level of risk, protecting asset values from market falls and matching liabilities.

4.2 At the 2022 actuarial valuation the best estimate average expected return was CPI+2.5% per annum based on the investment strategy. When setting the funding strategy a margin for prudence is taken on this return expectation; implementation of the risk management strategies (see Section 7) to reduce the volatility of returns within the investment strategy supports a lower margin for prudence. To achieve 100% funding for the 2022 valuation, a minimum investment return of CPI+1.50% per annum over 12 years was assumed in the Funding Strategy and for future benefit accruals, CPI+2.00% per annum was assumed. In the 2022/23 investment review the actuarial assumptions and best estimate returns used for modelling were updated for expected returns reflecting market prices at that time.

4.3 APF adopts a more prudent lower risk investment strategy for those liabilities where the employer has ceased to participate in APF or for certain admission bodies where there is no guarantee underpinning the liabilities. These assets are invested in a portfolio of corporate bonds that is designed to better match

the risk profile of the employers' liabilities and reduce volatility in employer contributions.

5. Investment strategy

5.1 The investment strategy was reviewed in 2022/23 to ensure it is still meeting its strategic objectives. The strategic asset allocation is as follows:



5.2 Significant stakeholder engagement supported the 2022/23 strategic review. Views were sought as to the acceptable level of risk/return within the investment portfolio and whether to raise the level of ambition for reaching Net Zero. Feedback from the engagement sessions and member surveys were fed into the review's conclusions.

5.3 The current risk return profile is consistent with the funding objective to provide as stable as possible contribution for employers.

5.4 The strategic allocation between equities, liquid and illiquid growth assets, and fixed income achieves the appropriate balance of risk and return to provide stability of contributions.

5.5 The allocation to less liquid assets is 32.5%. A higher allocation does not improve the risk and return profile sufficiently to offset the illiquidity risk. The initial 3% allocation to Local/Social Impact investments, is funded from the existing 32.5% allocation to illiquid assets. This portfolio will focus on the South West as restricting to the Avon area could be too narrow to have sufficient

impact through a diversified portfolio. National opportunities will also be considered to allow greater flexibility to meet the investment objectives.

Where local impact investments cannot be invested via Brunel portfolios they will be managed by external managers to manage conflicts of interest and ensure there is appropriate expertise in constructing the portfolio.

5.6 APF's Net zero target is 2045, underpinned by the following targets for action in the period 2024-2030:

- By 2030 the Fund will divest from all developed market equity holdings in high impact sectors¹ that are not achieving net zero or aligning to achieve net zero by 2050.
- The Fund will reduce the carbon intensity of its listed equity portfolios by 43% and 69% by 2025 and 2030 respectively (versus 2019 baseline).
- By 2030 the Fund will reduce the carbon intensity of its corporate bond portfolio by 60% (versus 2019 baseline).
- 70% of financed emissions in material sectors are covered by active engagement by the end of 2024 and 90% by 2027².

5.7 Within the equity allocation, 50% is managed actively, and 50% passively. This is consistent with APF's risk/return and climate change objectives and serves to reduce the aggregate annual fee paid to investment managers.

5.8 Hedging is an integral part of the investment strategy to mitigate unrewarded risks (such as foreign exchange hedging) and to increase liability / cash flow matching (interest rate and inflation hedging).

5.9 The long-term asset allocation along with an overview of the role each asset plays, is set out in Appendix 1.

6. Suitability of Investments

6.1 Private markets allocations exploit alternative sources of return and generate more income to improve cash flow to provide greater stability in contribution rates. Secure Income and some infrastructure assets benefit directly from contractual, inflation-linked income with fixed uplifts, which make them an ideal tool for cash flow management purposes.

6.2 Climate change scenario modelling indicates that allocating to sustainable and transitioned aligned equities can capture a low carbon transition 'premium' under various climate change scenarios and displays no materially greater level of downside risk versus broader equity allocations.

6.3 APF believes that low carbon and transition aligned strategies that significantly reduce financial exposure to fossil fuel reserves and carbon emissions across

¹ Currently in scope are listed companies on the Climate Action 100+ focus list; companies in high impact sectors consistent with the Transition pathway Initiative sectors; alignment assessment based on IIGCC NZIF framework.

² Applied across all Brunel listed equity portfolios.

all companies, combined with robust engagement with companies regarding their climate strategies, is currently the most effective approach to meeting APF's climate objectives as well as maximising real world impact.

- 6.4 The portfolios offered by Brunel will typically consist of a number of underlying managers that will have complementary investment styles and approaches to investing. This results in highly diverse portfolios, carefully structured to manage stock specific risk as well as underlying manager, investment style and other financial risks.
- 6.5 Currently Brunel directly manages 68% of APF's assets across its Equity portfolios, Multi Asset Credit Portfolio, Diversified Returns Portfolio, UK Property and a range of private markets portfolios. A further 20% of assets relating to APF's risk management strategies are governed by Brunel legal agreements.
- 6.6 Consideration of each asset class or investment approach includes modelling of risk adjusted return expectations and an assessment of the extent to which the investment manager's approach is consistent with APF's Responsible Investment principles including an assessment of the Environmental, Social and Governance (ESG) risks and opportunities identified for each asset class. Product structure and management costs will also be a factor.
- 6.7 Details of the current investment management structure can be found in Appendix 2.

7. Risk Measurement and Management

- 7.1 The primary risk to APF is that its assets are insufficient to meet its liabilities, as determined by the Funding Strategy Statement. The main risk to the employers is the volatility of the contribution rates and affordability.
- 7.2 The graph below provides an indication of the main sources of investment risk to the funding position, as measured using three-year Value-at-Risk (VaR) based on the funding position and asset allocation as at 31 December 2023. This estimates how much the funding deficit could increase over a three-year period with a 1-in-20 probability.

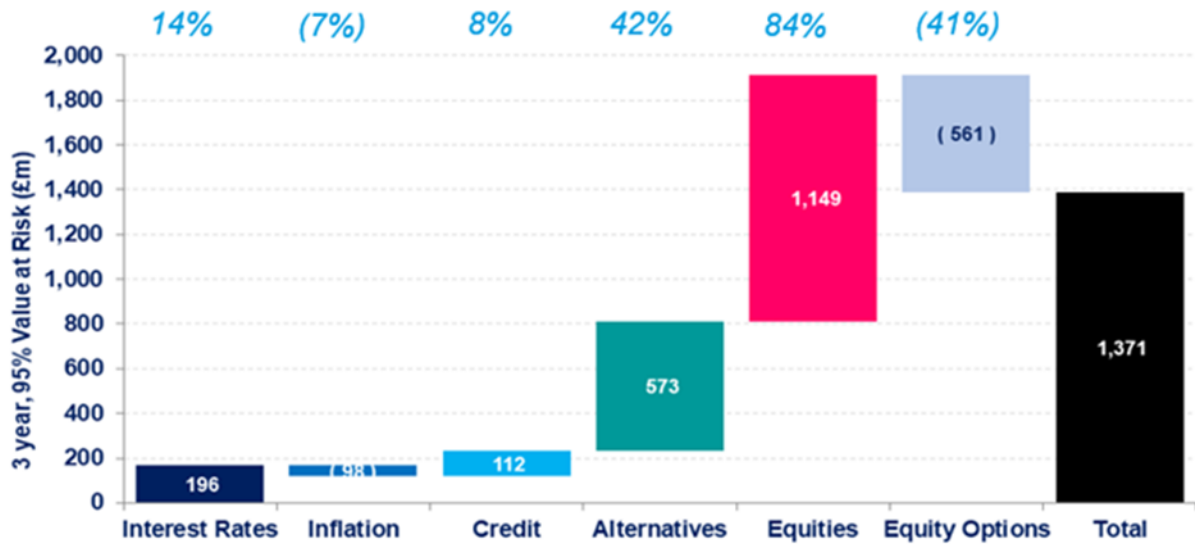


Figure 1: Source Mercer

- 7.3 The graph shows that if a 1-in-20 downside event occurred, in three years' time the deficit would be expected to increase by at least an additional £1,371m on top of the expected deficit at that time.
- 7.4 Equities remain the largest source of risk. APF's equity protection strategy (discussed later in this section) reduces the three-year VaR number by approximately 9% (estimated by Mercer).
- 7.5 Evaluation of risks that may impact the investment strategy and expected future returns is crucial in determining the appropriate measures to mitigate those risks. The principal risks affecting APF and the actions to mitigate those risks are set out below.

Financial Risks	Management / Control
<p>Investment Risk - Assets do not deliver the return required to meet the cost of benefits payable by APF; potential drivers:</p> <ul style="list-style-type: none"> • Investment market performance/volatility • Manager underperformance • The actual return generated fails to meet APF's discount rate, due to inflation increasing more than expected or assets failing to deliver as expected 	<p>Diversification - A diverse range of asset classes and approaches to investing designed to achieve returns in a variety of market environments. By holding a range of assets that are not overly concentrated in any one area, APF expects to reduce the level of risk it is exposed to, whilst increasing the potential to generate attractive risk-adjusted returns.</p> <p>Scenario testing - used in strategic investment reviews to set strategic benchmarks. Allocation 'ranges' enable tactical positions to be implemented to reflect shorter-term market outlook.</p> <p>Regular monitoring of manager performance - Each manager is monitored against a three-year performance target designed to highlight any inappropriate risk-taking behaviour and address factors that may impact the ability of that manager to achieve their performance target. A number of risk metrics are monitored at the portfolio level including tracking error and active risk positions.</p> <p>Mitigates inflation risk by implementing a diversified investment strategy, through the alignment of the investment strategy with funding requirements through regular reviews and monitoring. At APF level Value at Risk and correlation between asset returns are monitored. Management of strategic risks such as inflation and equity market volatility are addressed through a dedicated risk management framework. See Section 7 for further information.</p>
<p>Asset Risk -</p> <p>Liquidity risk: The inherent risk of holding illiquid/less liquid assets that cannot be easily converted into cash.</p> <p>Exchange Rate risk: Foreign currency exposure is expected to be an unrewarded risk over the longer term.</p> <p>Collateral management risk: Collateral is required to support the risk management strategy and protects all parties to a transaction from the risk of default.</p>	<p>Investing across a range of liquid assets recognises the need for access to liquidity in the short term. A tactical liquidity strategy that seeks to replicate APF's strategic benchmark offers immediate access to cash to negate the risk of selling assets when it might be inopportune to do so.</p> <p>Liquidity budgeting informs how much APF can reasonably afford to invest in illiquid holdings in order to benefit from the 'illiquidity premium', without compromising future outgo requirements.</p> <p>Foreign exchange hedging protects the sterling value of overseas investments and serves to reduce the volatility that arises from movements in exchange rates. The programme consists of a 50% passive hedge of the US Dollar, Yen and Euro currency exposure of the developed equity holdings and a 100% hedge of currency risk for infrastructure, global property and hedge fund investments. In periods of sterling weakness the investment return will be lower than if the assets were unhedged.</p> <p>A robust and pro-active collateral monitoring process with prescribed minimum thresholds protect APF from becoming a forced seller of assets in the event a large adverse move in market prices triggers a collateral call.</p>

<p>Responsible Investment:</p> <p>Environmental, Social & Governance (ESG) issues may have a material financial impact if not given due consideration.</p> <p>Climate change risk</p>	<p>Actively addresses ESG risks throughout its investment strategy.</p> <p>Considers ESG risks as part of Strategic Investment Reviews.</p> <p>Quantifies the risk climate change presents to Fund assets and seeks to reduce this risk by allocating capital accordingly.</p> <p>Details of APF's approach to managing ESG risks are set out in Section 8 of this document.</p>
<p>Longevity Risk - the risk Members of APF live longer than assumed in the actuarial valuation model.</p>	<p>Captured within the funding strategy which is monitored by the Committee on at least a three-yearly cycle. Any improvement or deterioration in longevity will only be realised over the long term</p>
<p>Employer Covenant Risk - Employers within APF lack the financial capacity to make good their outstanding liabilities.</p>	<p>Addressed through a covenant assessment monitoring process, which annually assess the financial standing of all Employers in APF and the analysis is considered when setting the Funding Strategy.</p> <p>A lower risk investment strategy is adopted for certain admission bodies and orphan liabilities where there is no guarantee underpinning the liabilities.</p>

Operational / Other Risks	Management / Control
<p>Investment Pooling - Expected benefits and cost savings do not emerge over the long-term.</p>	<p>The Service Agreement sets out the duties and responsibilities of the Pool and the rights of APF as a client.</p> <p>A robust governance framework with agreed constitution and terms of reference ensures the objectives of pooling are met.</p> <p>Ongoing monitoring of performance, service delivery, costs and savings arising from pooling.</p> <p>Details of APF's Pooling arrangement are set out in Section 2 of this document.</p>

<p>Regulatory and Political Risk - The potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those markets subject to political uncertainty.</p>	<p>Ongoing horizon scanning and consideration on APF Risk Register.</p> <p>Review and response to consultations on changes to the LGPS regulations and guidance which may impact scheme funding or investment strategy.</p> <p>Ongoing review of the investment strategy and specific investment portfolios.</p>
<p>Governance Risk - Committee Members do not have sufficient expertise to evaluate and challenge the advice they receive. Committee members are to possess an appropriate level of knowledge, skill and understanding to discharge their fiduciary duty.</p>	<p>Periodic Member self-assessment.</p> <p>Training policy in place based on Chartered Institute of Public Finance and Accounting (CIPFA) Knowledge and Skills Framework for LGPS funds.</p> <p>Expert advice commissioned to support strategic and implementation decisions.</p>
<p>Cash Flow Risk - Payments to pensioner members exceed contributions.</p>	<p>Investment strategy structured to generate investment income to help manage negative cash flow profile.</p> <p>Monitoring cash flow critical to the internal monitoring and rebalancing process and is an important consideration when setting investment strategy.</p>
<p>Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.</p>	<p>Use of global custodian with negotiated service level agreement and internal reconciliation of accounting records.</p>
<p>Counterparty risk - The possibility of default of a counterparty in meeting its obligations.</p>	<p>Counterparty exposure restrictions as relates to the risk management framework and treasury management policy.</p> <p>Internal controls reporting and compliance monitoring.</p>

Risk Management Strategy

- 7.6 The Risk Management Framework (RMF) encompasses three bespoke risk management strategies and assets held for collateral management purposes. The Liability Driven Investment (LDI) Strategy and the 'Lower Risk' strategy (which includes a Buy-and-Maintain Corporate Bond Portfolio) are designed to hedge interest rate and inflation risks arising from the liabilities, whereas the Equity Protection Strategy (EPS) protects APF from a large drawdown in the value of its equity investments. These strategies are linked to the funding strategy and de-risk APF by placing less reliance on growth assets to fund future pension benefits and to simultaneously protect the funding position.
- 7.7 The strategies are reviewed annually to assess whether a material change in market conditions requires an adjustment to any of the strategies to ensure they still meet the strategic objectives. This review also considers the ongoing collateral requirements. Operational aspects as they relate to the RMF (e.g., routine monitoring of collateral, performance and counterparties and implementation of any strategic changes) are delegated to the Funding and Risk Management Group. The Investment Panel receives a quarterly status update on the RMF where any concerns are flagged. Strategic changes to the RMF are required to be approved by Committee.

Liability Driven Investment Strategy (LDI)

- 7.8 APF is not in a position to reduce its exposure to higher return growth assets (e.g. equities) and use the proceeds to purchase lower return, 'liability matching' assets (e.g. Index-Linked Gilts), as the expected future return on the assets held would fall short of the assumptions built into the funding plan. The LDI strategy, therefore, allows APF to retain its allocation to growth assets and simultaneously increase its exposure to 'matching' assets by using a range of financial instruments that employ leverage, either directly through borrowing or implicitly through the use of derivatives.
- 7.9 In order to meet the assumed investment return in the funding strategy, the LDI strategy uses a framework where exposure to 'matching' assets is only increased when they pay a sufficiently high yield to meet APF's requirements. APF operates a trigger framework for interest rates and inflation rates.

Lower Risk Investment Strategy

- 7.10 The liabilities relating to this strategy are valued using the discount rate linked to the yields on the corporate bonds held within the portfolio. The strategy benefits from the inflation hedging undertaken within the LDI portfolio, resulting in greater stability of any funding deficit and therefore contributions for employers.

Equity Protection Strategy (EPS)

- 7.11 The EPS is underpinned by the funding level and protects against significant falls in developed equity markets. The EPS is structured to evolve with market conditions over time which serves to dampen volatility and minimise risk. In order to finance the downside protection, APF participates in equity market gains up to a predetermined level or 'cap', beyond which gains are foregone. The 'cap' is set at a level that optimises the risk/return pay-off of the strategy and in a way that does not compromise the assumed investment return in the funding strategy.
- 7.12 The Equity Protection hedge ratio is 50% (of developed market equities). Compared to a 100% hedge this helps mitigate the drag on equity returns, reduce costs, improve the collateral position overall and retains sufficient downside protection.

Role of Collateral in Risk Management Framework

- 7.13 The risk management strategies are held in a Qualified Alternative Investor Fund (QAIF), bespoke to APF, enabling collateral management to be delegated to the investment manager. The LDI and EPS both use derivative instruments that require collateral (often in the form of cash) to be posted on a daily basis. This protects all parties to a transaction against the risk that one defaults and is unable to fulfil the terms of the financial contract.
- 7.14 Collateral adequacy is managed in line with guidance from The Pensions Regulator and the Central Bank of Ireland, the regulator of the QAIF vehicle in which the risk management strategies reside. Predetermined notification points allow the Fund time to source collateral from elsewhere in the investments portfolio should the need arise.

Risk Management Strategy under Pooling

- 7.15 APF retains responsibility for strategic and operational aspects attached to its risk management strategies and seeks advice from its investment advisors on the suitability of the risk management strategies. The pooling arrangement allows APF to determine a bespoke strategy for LDI, EPS and the low-risk investment portfolio to meet its risk management objectives. Brunel does not advise on the suitability of investments made for the express purposes of efficient portfolio risk management.
- 7.16 Brunel contracts with the investment manager to set out the basis on which the manager will offer its services to client funds within the pool. This enables Brunel to access information so they can monitor the manager and delivery of services to clients. Clients also benefit from increased economies of scale and negotiated fee structures arising from the Brunel agreement.

8. Responsible Investment (RI)

RI Principles

- 8.1 APF invests in line with its Responsible Investing (RI) principles where it defines RI as the integration of Environmental, Social and Corporate Governance (ESG) issues into its investment processes and ownership practices in the belief this can positively impact financial performance. These principles support the wider investment strategy and seeks to understand and manage ESG and reputational risks to which APF is exposed.
- 8.2 APF's approach to Responsible investing is based on the following principles:
- As a long-term investor it seeks to deliver long-term sustainable returns
 - Management of ESG risks is consistent with APF's fiduciary duty to members
 - That Climate Change poses an existential threat to long-term investments as well as to the planet
 - We believe in investing responsibly to make a real world impact
 - There is increasing convergence between financial returns and climate aware investments
 - Working with like-minded investors to collectively engage companies and policymakers can drive positive change
 - APF has a duty to exercise its stewardship responsibilities as an owner
 - APF aims to be transparent and accountable
- 8.3 APF's approach is to integrate RI across its investment decision-making process for the entire portfolio. When setting the investment strategy and objectives the analysis includes the impact of ESG issues on each asset class, the materiality of ESG risks within those asset classes and whether there are any strategic ESG-related opportunities that would generate value.
- 8.4 APF does not have a blanket exclusion policy to divest from specific assets or sectors but manages such risks by analysing ESG factors identified as potentially financially material in its strategic reviews. APF expects its managers to engage with company management on ESG issues they have identified as being a risk to the investment case; it is APF's belief that engagement and responsible stewardship will influence corporate behaviour more effectively than divestment. Managers are required to report to APF on their engagement activities and other ESG initiatives regularly.
- 8.5 However by 2030 the Fund will divest from all developed market equity holdings in high impact sectors that are not achieving net zero or aligning to achieve net zero by 2050. High impact companies held in the portfolios will be monitored annually and divested before 2030 if they fail to demonstrate alignment.
- 8.6 APF will consider non-financial factors alongside financial considerations provided that doing so will not involve significant risk of financial detriment to

APF and where it can reasonably conclude that members would support the decision.

Climate Change

- 8.7 APF recognises that Climate change presents an immediate systemic and material financial risk to APF, as well as society more broadly. It is a strategic investment priority for APF and as well as developing proprietary climate change objectives, APF has supported Brunel in the development of its comprehensive and market leading Climate Change Policy, which sets out how they manage these risks across all of their activities. The full policy is available at <https://www.brunelpensionpartnership.org/>.
- 8.8 In addition to the climate targets set out in Section 5, APF endorses and supports collaborative engagement and climate policy advocacy work through membership of various industry leading climate advocacy bodies to drive positive change.
- 8.9 APF uses its power as a shareholder to encourage corporate change. Financial markets and companies urgently need to adapt their activities to support the transition to a low carbon economy. Collaboration as part of Brunel Pension Partnership makes our influence more powerful as they manage a £30bn pool of assets. In addition, APF independently supports investor led initiatives such as ClimateAction100+ and Institutional Investors Group on Climate Change to increase pressure on companies and governments to align with the Paris goals.
- 8.10 APF monitors and discloses its carbon exposure annually to inform strategic decisions relating to climate change and to chart its progress towards its long-term climate change objectives.

RI and Pooling

- 8.11 The scale and resources arising from pooling enables improved implementation of responsible investment and stewardship across all APF's assets. Brunel's Investment Principles clearly articulate its commitment and that of each client in the pool, to be responsible investors and as such recognises that ESG considerations are an integral part of portfolio construction, the selection, non-selection, retention and realisation of assets. Every Brunel portfolio explicitly includes responsible investment and an assessment of how social, environment and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. The approach undertaken will vary to be the most effective in mitigating risks and enhancing shareholder value in relation to each portfolio and its objectives.
- 8.12 Brunel is tasked with the development of investment portfolios and the appointment of managers for the portfolios that are consistent with and

accommodate APF's wider RI objectives and long-term asset allocation decisions. Proprietary Brunel policies covering ESG factors such as climate change, voting and stewardship have been developed in conjunction with its clients to ensure the needs of the respective client funds are adequately met in respect of RI. APF monitors the portfolios managed by Brunel to ensure they continue to deliver against strategy.

- 8.13 Under its policy framework Brunel publishes position statements, engagement plans, voting records and an Annual Responsible Investment and Outcomes Report. More information can be found on the Brunel website <https://www.brunelpensionpartnership.org/investing-responsibly/responsible-investment/>.

Policy of the exercise of rights (including voting rights)

- 8.14 APF supports and applies the FRC UK Stewardship Code 2020 (the Code) definition of stewardship: "Stewardship is the responsible allocation, management and oversight of capital to create long-term value for beneficiaries leading to sustainable benefits for the economy, the environment and society".
- 8.15 APF believes that voting is an integral part of the RI and stewardship process. Under the current arrangements voting is delegated to Brunel and its agents as all the equity assets are invested in Brunel's portfolios. APF monitors how Brunel and its agents undertake voting and engagement activities in comparison to relevant codes of practice. Where practicable, they are required to vote in all markets and vote at all company meetings on behalf of APF.
- 8.16 Brunel has a single voting policy for all assets under its management held in segregated accounts. In addition, Brunel will actively attend and vote at company meetings (AGM/ EGMs). Brunel has the right to recall stock that has been lent out in its portfolios to enable voting.
- 8.17 Brunel's voting and engagement service provider, Federated Hermes EOS, enables APF to gain access to specialist expertise and participate in a broad range of engagement themes.
- 8.18 Brunel will publish its voting policy and provide online voting records no less than twice a year.
- 8.19 APF recognises the importance of collaboration with other investors in order to achieve wider and more effective outcomes. In this respect, APF is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS funds that focuses on corporate governance issues, and the promotion of high standards of corporate governance and responsibility.
- 8.20 APF publishes a Responsible Investment Report annually which includes analysis of the voting and engagement activity across the portfolios.

Social/Local Investments

8.21 Investments that deliver social impact as well as a financial return are often described as “social investments” which cover a wide spectrum of investment opportunities. APF applies risk and return criteria consistently when evaluating all investment opportunities including those that address societal challenges as well as generate competitive financial returns with an acceptable risk / return profile in line with the investment strategy. APF allocates 3% of assets to a Local/Social Impact portfolio and the portfolio will vest gradually over a number of years as opportunities arise.

Avon Pension Fund

March 2024

Appendix 1 – Strategic Asset Allocation

Asset Class	Target %	Permitted Range	Role within Strategy
Equity Portfolio	41.5%	36.5-46.5%	
Global Equity	10.5%	5.5-15.5%	Possess characteristics e.g., highly developed capital markets, high liquidity, bond 'proxies' / income seeking, large and small market capitalisation. Given the globalisation of sectors and companies, the strategic policy is to allocate to global markets. As a result there is not a specific allocation to UK equities or other regional markets.
Global Sustainable Equity	10.5%	5.5-15.5%	Seeks to maximise exposure to positive pursuit companies which provide solutions to sustainability whilst maintaining financial return. Sustainable equity portfolios comprise long-term forward-looking investment approaches which integrate ESG metrics throughout the investment process and for this reason comply with APF's climate change objectives and wider RI principles.
Paris Aligned Global Equities	20.5%	12.5-28.5%	Provides exposure to global equity returns with lower exposure to carbon emissions and fossil fuels, while still low cost and liquid, and aligning to the Paris Agreement. This portfolio seeks to mitigate climate risk by investing in accordance with a Paris Aligned Benchmark approach which, compared to its market cap equivalent, aims to: <ul style="list-style-type: none"> • Reduce exposure to carbon reserves and operational emissions by a minimum of 50% and a further 7% year on year from 2020 • 100% Increase Green revenue exposures • Increase exposure to companies with good climate governance (those companies with a plan to align to the Paris Agreement) • Increase exposure to companies that are demonstrating their ability to be Paris aligned

Liquid Growth Assets	12.0%	7.0-17.0%	
Diversified Return Funds	6.0%	3.0-9.0%	Builds exposure to alternative sources of return including dynamic tactical allocation and alternative risk premia derived from factors such as value, momentum, size and quality. Provides a degree of downside protection from equity risk by actively adjusting equity market beta.
Multi Asset Credit	6.0%	3.0-9.0%	Provides exposure to a diversified range of credit opportunities such as high yield, leveraged and emerging market debt with limited exposure to interest rate risk.
Illiquid Growth & Income Assets	32.5%	n/a	
Core Property	7.0%		Provides diversification within the Growth portfolio. Includes both UK and overseas real estate as well as private markets exposure where returns are less correlated with listed markets, and where APF is expected to receive a higher return. Property is expected to provide a hedge against inflation in the medium- to long-term.
Secured Income	9.0%		Backed by long maturity assets, Secured Income assets include long lease property, operational infrastructure assets and residential housing. These assets generate contractually secure income streams that provide greater stability of returns, explicit inflation linkage and generate cash flows over time.
Core Infrastructure	4.0%		Investments in UK and global infrastructure assets seek to invest in assets with strong market positions, predictable regulatory environments and high barriers to entry. Infrastructure is expected to provide a hedge against inflation in the medium to longer term. Some development risk will be considered.

Renewable Infrastructure	5.0%		Provides a source of contractual income from an opportunity set that benefits from the drive toward alternative energy sources. Displays lower levels of correlation with traditional assets than other infrastructure sub-sectors. Allocation consistent with APF's climate change objectives.
Private Debt	4.5%		Provides a source of contractual income with minimal interest rate sensitivity, high return potential through active management and diversification away from listed public market performance. Credit risk is managed via a well-diversified portfolio with a high number of individual credits.
Local /Social Impact	3.0%		Provides an impact in the local /regional area or within a social sector of the economy. Expect portfolio to achieve the overall return target of APF. Return and Risk within the portfolio will vary between the sub assets classes.
Protection Strategies	14.0%	n/a	
Corporate Bonds	2.0%		Expected to generate returns commensurate with credit risk. Held to broadly match a specific portion of the liabilities.
LDI	12.0%		A risk reduction tool designed to provide more certainty of real investment returns vs inflation with the ultimate aim of stabilising employer contribution rates. The primary 'matching' instruments used in this strategy include physical instruments such as fixed interest and index-linked Government bonds (financed through "repurchase" agreements) and derivative instruments such as interest-rate and inflation swaps.
Equity Protection	Overlay on 50% of equity portfolio		Protects against potential falls in the equity markets via the use of derivatives. The aim of the protection is to provide further stability in employer deficit contributions in the event of a significant equity market fall.

Currency Hedging	Overlay on 50% overseas equities and 100% of alternatives		Currency hedging is employed on assets that are traded in overseas markets, in order to reduce the risk of adverse currency movements eroding returns. Asset classes where a significant portion of the return is linked to currency (e.g. emerging markets) are not hedged.
Cash	0.0%	0.0-5.0%	Cash is exposed to credit risk and is generally a very low yielding asset. APF aims to be fully invested where possible. To efficiently manage cash APF uses a combination of money market funds with daily liquidity and a basket of highly liquid ETFs that are structured to replicate the return of APF's benchmark asset allocation.
Total	100%		

Appendix 2 – Investment Portfolio Structure as at 31 December 2023

Manager	Mandate	Passive / Active	Performance Objective	% of Fund	Inception Date
Brunel Pension Partnership	Paris Aligned Global Equities	Passive	FTSE Developed World PAB Index	7.5%	Nov 21
Brunel Pension Partnership	Global Sustainable Equities	Active	MSCI ACWI +2% p.a.	10.7%	Sep-20
Brunel Pension Partnership	Global Equities	Active	MSCI World +2-3% p.a.	11.5%	Dec-19
Brunel Pension Partnership	Secured Income	Active	CPI+2% p.a.	10.1%	Apr-18
Brunel Pension Partnership	Renewable Infrastructure	Active	CPI+4% p.a.	3.5%	Apr-18
Brunel Pension Partnership	Diversified Returns Fund	Active	GBP SONIA +3-5% p.a.	6.3%	Jul-20
Brunel Pension Partnership	Multi Asset Credit	Active	GBP SONIA +4-5% p.a.	5.7%	Jun-21
Brunel Pension Partnership	UK Property Portfolio	Active	MSCI/AREF UK Q'ty Property Fund Index +0.5% p.a.	3.2%	Jan-21
Brunel Pension Partnership	Private Debt	Active	GBP SONIA+4% p.a.	3.6%	May-20
BlackRock	Corporate Bonds	Bespoke	In line with customised benchmark	3.2%	Apr-19
BlackRock	Liability Driven Investments & Equity Protection Strategy	Bespoke	In line with customised benchmark	22.9%	Jul-17

BlackRock	Paris Aligned Global Equities	Passive	MSCI PAB Index	17.7%	Nov-17
BlackRock	Liquidity Management Strategy	Passive	In line with customised benchmark	0.4%	Feb-19
JP Morgan Asset Management	Fund of Hedge Funds	Active	Higher of Cash+3%, or 6% p.a.	0.4%	Jul-15
Schroders Investment Management	UK Property	Active	IPD UK Pooled Property Fund Index +1% p.a.	0.0%	Feb-09
Partners Group	Overseas Property	Active	IPD Global Property Index +2% p.a.	2.2%	Sep-09
IFM	Infrastructure	Active	10% p.a. over the long-term	4.1%	Sep-14
Record Currency Management	Currency hedge (equity exposure)	Passive	N/A	1.3%	Jul-11
Local Impact (Multi manager)	Local Impact – multi asset	Active	6-8% p.a. over 10+ years, net of fees	--	Jan-24
Cash (Internal)	Cash	Passive	N/A	1.9%	N/A
Synthetic Equity Offset³	n/a	n/a	n/a	-16.6%	n/a

Totals may not sum due to rounding.

³ BlackRock Paris aligned is synthetic exposure via the BlackRock QAIF; Synthetic Equity Offset reflects an offsetting value to account for the difference between the exposure to equity markets and the actual mark-to-market value of the holding.