

**Avon  
Pension  
Fund**



Your pension, your future

# **Investment Strategy Statement 2026**

Avon Pension Fund

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# 1. Introduction

- 1.1 This Investment Strategy Statement ('ISS') has been prepared in accordance with regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 'Regulations') and associated guidance. To the extent possible this ISS refers to future pooling arrangements under LPPI; however, elements necessarily relate to the Fund's historical approach to pooling under Brunel. It reflects strategy changes agreed by the Committee in 2025.
- 1.2 The ISS will be updated by 1<sup>st</sup> October 2026 in line with the Local Government Pension Scheme (Pooling, Management and Investment of Funds) Regulations 2026 once they pass into law. The ISS will incorporate any changes to the strategy recommended by LPPI.
- 1.3 The purpose of the ISS is to set out:
  - The governance arrangements for investments
  - APF's investment beliefs
  - APF's investment objectives and preferences including its approach to Local Investment
  - How APF will manage investment related risks
  - How APF incorporates responsible investment
  - The strategic asset allocation benchmark and ranges to provide flexibility
- 1.4 The ISS is consistent with the Funding Strategy Statement (FSS). An integrated approach ensures the investment strategy supports APF in meeting its regulatory requirements.
- 1.5 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 Local Pension Board (Board) reviews the ISS 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.
- The FRMG also monitors the strategies on a monthly basis and reports to the Panel on a quarterly basis.
- 1.10 In addition, the **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 APF is effective and efficient.
- 1.11 Both the Committee and the Board have members and other stakeholder representatives who actively engage with stakeholders to ensure APF is aware of, 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. Historical Approach to Pooling (Brunel Pension Partnership)

- 2.1 Historically, APF pooled its investment assets with nine other administering authorities 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. Under new pooling regulations Brunel will wind down and all APF assets will be transitioned to LPPI.

- 2.2 Per the current Regulations, APF sets its strategic asset allocation, allocating assets to defined outcome focused investment portfolios provided by Brunel. Brunel has overall responsibility for external manager selection and monitoring and 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 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 to act in its clients' interests.
- 2.4 Brunel's established governance arrangements includes an Oversight Board comprising representatives from each of the administering authorities and two member observers with agreed constitution and terms of reference. 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 performance and service delivery. The APF Committee and Investment Panel receive regular reports covering investment performance and the Brunel's service delivery.
- 2.6 Brunel currently manages all APF's listed assets, pooled funds and UK property funds as well as private market allocations. There are legacy commitments to illiquid private market portfolios which will be transitioned or liquidated as appropriate, with proceeds reinvested in the Pool. The formulation, implementation and ongoing monitoring of APF's risk management strategies (e.g. Liability Driven Investing, Currency Hedging 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. Future Approach to Pooling (LPPI)**

- 3.1 In 2025, the Government instructed Brunel Pensions Partnership to wind down and for existing clients to identify a new Pool to partner with. APF is currently in the process of transitioning its assets to Local Pensions Partnership Investments (LPPI) by the deadline of 1<sup>st</sup> April 2026. Incoming regulations grant Pools a wider remit. LPPI will become APFs primary source of independent investment advice and will be responsible for full delegated implementation of its investment strategy.

## 4. Investment Beliefs

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

- We believe in both a long-term investment horizon and a short-term approach to risk management. This enables a strategic approach to investment risk and capital allocation which will ultimately drive attractive investment returns, whilst ensuring contribution sustainability for employers by managing short-term risk.
- We believe that diversification enables a broad spectrum of investments with different risk profiles to help manage risk. We also acknowledge that hedging can be a useful tool to manage specific key risks.
- We believe investing responsibly to make a positive contribution in the real economy will promote sustainable returns. We invest with a 2045 net zero objective and work with like-minded investors to engage and encourage positive change.
- We believe in value for money, ensuring the fees that are paid for investments are reasonable in the context of expected performance, management of risks and local investment. We accept that where hedging is used to manage risk, that there is an associated cost to provide additional contribution stability for employers.
- We believe that there is a role for both active and passive management in the management of our equity assets, however we recognise the challenges of adding value on a consistent basis over time.
- We recognise the potential benefits of local investments in supporting regional economic development and addressing social and environmental challenges and in supporting the Fund's investment return objectives. We believe that local investment can therefore support its RI principles and provide societal benefits to the areas directly and indirectly impacted by such investments.

## 5. Investment Objectives and Preferences

5.1 APF's overriding objective is to ensure affordable and stable contributions. It has specified the following return objectives and risk tolerances to guide decision making on the investment strategy and its implementation:

Return Objectives and Risk Tolerances	Metric
Probability of being 100% funded in 20 years	> 95%
Probability of investment returns exceeding the past service discount rate over 20 years	> 75%

Average likelihood of no increase in employer contribution rate (over next 9 years)	> 67%
Likelihood of a 5% increase in employer contribution rate (over next 3 years)	< 25%
Value-at-risk (3 year 95th percentile)	< 25% of total Fund asset value
Liquidity requirement reflecting excess of benefits over contributions received	From c. £25m to £75m p.a.

- 5.2 Consistent with our belief that there is a role for both active and passive management, while recognising the challenges of adding value on a consistent basis over time, APF prefers that underperformance (relative to benchmark) within the aggregate listed equity portfolio be limited to 2% p.a. in any given 3-year period.
- 5.3 Further preferences relating to APF’s risk management strategies are set out in Section 8.
- 5.4 APF has specified the following approach to **Local Investments**:

Local investments	Metric
Target allocation	5% to be invested or committed by 2027/8
Target area	South West region, with a preference for the Avon area
Risk/Return	APF is prepared to accept lower expected returns or higher risk for local investments providing (i) the overall portfolio delivers a return of 6-8% p.a. over a 5-year period (ii) measurable impact is achieved (see below)
Impact	The Local Impact allocation should increase the supply of quality affordable housing stock, invest to support Net Zero and contribute to local economic activity e.g. job creation. The Fund will work collectively with the Pool and the Strategic Authority to deliver impact in the region, drawing on the Local Growth Plan <sup>1</sup> where appropriate.

<sup>1</sup> <https://www.westofengland-ca.gov.uk/wp-content/uploads/2025/09/Growth-Strategy-Web.pdf>

## 6. Strategic Asset Allocation

6.1 The strategic asset allocation was reviewed in 2025 to ensure it is still meeting the Fund's investment objectives and risk tolerances. The strategic asset allocation is as follows:

<b>Asset Class</b>	<b>Allocation</b>	<b>Tolerance Range</b>
<b>Listed Equity</b>	<b>41.5%</b>	<b>31.5% - 51.5%</b>
<i>Paris Aligned Equity</i>	<i>Underlying targets are guided by the investment preferences outlined in section 4 and 5.</i>	-
<i>Sustainable Equity</i>		
<i>Global Equity</i>		
<b>Private Credit</b>	<b>3.5%</b>	-
<b>Private Equity</b>	-	-
<b>Property</b>	<b>13.0%</b>	-
<i>UK Property</i>	4.0%	-
<i>Secured Income</i>	9.0%	-
<b>Infrastructure</b>	<b>9.0%</b>	-
<i>Renewable Infrastructure</i>	5.0%	-
<i>Core Infrastructure</i>	4.0%	-
<b>Other Alternatives</b>	<b>7.0%</b>	-
<i>Local Impact</i>	5.0%	-
<i>Natural Capital</i>	2.0%	-
<b>Credit</b>	<b>12.0%</b>	<b>7.0% - 17.0%</b>
<i>Corporate Bonds</i>	2.0%	-
<i>Multi-Asset Credit</i>	10.0%	5.0 – 15.0%

<b>UK Government Bonds</b>	<b>14.0%</b>	-
<b>Cash</b>	<b>0.0%</b>	0.0 – 5.0%

*\*Asset classes highlighted in **bold** are consistent with the Governments '9 buckets' as set out in the Fit for the Future consultation*

- 6.2 The strategic allocation between the asset classes outlined achieves the appropriate balance of risk and return to provide stability of contributions.
- 6.3 The allocations to less liquid assets amount to 32.5%. A higher allocation does not improve the risk and return profile sufficiently to offset the illiquidity risk.
- 6.4 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).

## 7. Suitability of Investments

- 7.1 Private markets allocations capture alternative sources of return and generate income to improve cash flow, to provide greater stability in contribution rates. Some of these assets benefit directly from contractual, inflation-linked income with fixed uplifts, which make them an ideal tool for cash flow management purposes.
- 7.2 Climate change scenario modelling indicates that allocations to sustainable and transitioned aligned equities are expected to experience less severe negative impacts from climate risks (both transition and physical risks) across time periods under various climate change scenarios.
- 7.3 APF believes that investing in low carbon and transition aligned strategies that significantly reduce financial exposure to transition risk across 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. These views underpin APF's approach to responsible investment.
- 7.4 Currently, the majority of assets are invested, by external managers under the oversight of Brunel Pension Partnership and governed by Pool legal agreements. Under future pooling arrangements APFs investment assets will be managed by LPPI who use both in-house and external investment management to ensure portfolios are diversified and structured to efficiently manage stock specific risk, investment styles and other financial risks.
- 7.5 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/pool 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.

## **8. Risk Measurement and Management**

- 8.1 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.
- 8.2 APF's three-year Value-at-Risk (VaR) was estimated at c. £1,023m based on the funding position and the new strategic asset allocation, as at 31 March 2025 conditions. This quantifies how much the funding position could negatively change over a three-year period with a 1-in-20 probability.
- 8.3 The Listed Equities portfolio is the largest contributor to risk. This is partly mitigated by the equity protection strategy (discussed later in this section).
- 8.4 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 in Appendix 1.

## **Risk Management Framework**

- 8.5 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 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.
- 8.6 The strategies are reviewed at least 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.

<b>Risk Management Preferences</b>	<b>Metric</b>
Index-linked gilt exposure	50% of interest rate sensitivity versus total liabilities
Equity downside protection	50% coverage of total equity exposure providing at least a 20% reduction in volatility for the protected equities relative to unprotected
Currency hedging policy	Listed equities: 50% (developed markets) Public bonds: 100% (developed markets) Core infrastructure: 100% Renewable infrastructure: unhedged Overseas property: 100% Private debt: 100%

## Liability Driven Investment Strategy (LDI)

- 8.7 APF is not in a position to reduce its strategic asset allocation to higher return growth assets (e.g. equities) and allocate more to lower return, 'liability matching' assets (e.g. UK Government Bonds), 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 while maintaining a strategic hedge position of 50% of interest rate sensitivity versus total liabilities, employing leverage to do so.
- 8.8 Liabilities relating to the Lower Risk Investment 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)

- 8.9 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 to an acceptable level. 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.
- 8.10 The Equity Protection hedge ratio is 50% (of developed market equities), which 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**

- 8.11 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. Leverage requires 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.
- 8.12 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**

- 8.13 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.
- 8.14 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 access to 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.
- 8.15 Given the evolution of APFs funding level over the past 10 years, the RMF will be the initial focus of LPPIs review of the APF investment strategy once assets have been transitioned.

## **9. Responsible Investment (RI)**

### **RI Principles**

- 9.1 APF integrates Environmental, Social and Corporate Governance (ESG) issues into investment processes and ownership practices, in the belief this can positively impact financial performance.
- 9.2 APF is a responsible steward of its assets and aims to be transparent and accountable. Our approach to Responsible investing is based on the following beliefs:
- Management of ESG risks is consistent with APF's fiduciary duty to members

- 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

9.4 APF expects its Pool to engage with company management on ESG issues they have identified as being a risk to the investment case. Managers report to APF on their engagement activities and other ESG initiatives regularly. While we believe engagement and responsible stewardship will influence corporate behaviour more effectively than divestment, APF does employ limited use of activity-based exclusions on the grounds of financial risk. The exclusionary criteria are set out in the table below.

Responsible Investment	Metric
Exclusions	Maintain no investments exposure to issuers: <ul style="list-style-type: none"> <li>• with Thermal Coal Extraction revenues equal or greater than 50%</li> <li>• with Oil Sands Extraction revenues equal or greater than 25%</li> <li>• with Tobacco Production revenues equal or greater than 25%</li> <li>• who manufacture Controversial Weapons and have been deemed to have failed to comply with UN Global Compact Principles (which cover human rights, labour standards, the environment and anticorruption)</li> </ul>

9.5 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

9.6 APF recognises that climate change presents a systemic and material financial risk to APF, as well as society more broadly. It is a strategic investment priority for APF. We aim to be net zero across all of our assets by 2045 and have adopted a number of interim targets in partnership with Brunel to underpin this long-term objective (see below table).

Net Zero Objectives	Metric
Net zero – whole Fund	Net zero on financed emissions by 2045
Climate solutions	Maintain at least 12% of the strategic asset allocation in climate solutions <sup>2</sup>
Decarbonisation – listed equities	<ul style="list-style-type: none"> <li>• Primary target: reduce carbon intensity by 84% by 2035 (vs. 2020 baseline)</li> <li>• Secondary target: reduce carbon intensity by 69% by 2030 (vs. 2020 baseline)</li> </ul>
Decarbonisation – corporate bonds	<ul style="list-style-type: none"> <li>• Primary target: reduce carbon intensity by 79% by 2035 (vs. 2020 baseline)</li> <li>• Secondary target: reduce carbon intensity by 60% by 2030 (vs. 2020 baseline)</li> </ul>
Divestment	By 2030, divest from all developed market equity holdings in high impact sectors <sup>3</sup> that are not achieving net zero or aligning to achieve net zero by 2050
Stewardship / engagement	For listed equities, ensure 90% of financed emissions in material sectors are either aligned, aligning or subject to direct or collective engagement by the end of 2027.

9.7 APF endorses and supports collaborative engagement and climate policy advocacy work through membership of various industry leading climate advocacy bodies to drive positive change including investor led initiatives such as ClimateAction100+ and the Institutional Investors Group on Climate Change (IIGCC) to increase pressure on companies and governments to align with the goals of the Paris Agreement.

9.8 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.

<sup>2</sup> Climate solutions investments are investments in economic activities considered to contribute to climate change mitigation (including transition enabling) and/or adaptation, in alignment with existing climate related-sustainability taxonomies and other generally acknowledged climate related frameworks source: Net-Zero Asset Owner Alliance (NZAOA). The stated objective allows for a “look through” of the Fund’s portfolios.

<sup>3</sup> 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 the Institutional Investors Group on Climate Change (IIGCC)’s Net Zero Investment Framework (NZIF).

## RI and Pooling

- 9.9 The scale and resources arising from pooling enables improved implementation of responsible investment and stewardship across all APF's assets. The Pool'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 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.
- 9.10 The Pool 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 Pool 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 its Pool to ensure they continue to deliver against strategy.

### Policy of the exercise of rights (including voting rights)

- 9.11 Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries
- 9.12 APF believes that voting is an integral part of the RI and stewardship process. Under the current arrangements voting is delegated to the Pool and its agents. APF monitors how the Pool undertakes 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.
- 9.13 The Pool has a single voting policy for all assets under its management held in segregated accounts. In addition, the Pool will actively attend and vote at company meetings (AGM/ EGMs).
- 9.14 A third party 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.
- 9.15 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.

9.16 APF publishes a Responsible Investment Report annually which includes analysis of the voting and engagement activity across the portfolios.

**Avon Pension Fund**

**March 2026**

## Appendix 1 – Key Risks and Mitigating Factors

Financial Risks	Management / Control
<p><b>Investment Risk -</b> 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"> <li>• Investment market performance/volatility</li> <li>• Manager underperformance</li> <li>• 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</li> </ul>	<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>Regular monitoring of manager performance - Each manager is monitored against medium- and long-term performance targets 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 (where relevant).</p> <p>Inflation risk is mitigated by implementing a diversified investment strategy, through the alignment of the investment strategy with funding requirements through regular reviews and monitoring. 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.</p>
<p><b>Asset Risk -</b></p> <p><b>Liquidity risk:</b> The inherent risk of holding illiquid/less liquid assets that cannot be easily converted into cash.</p> <p><b>Exchange Rate risk:</b> Foreign currency exposure is expected to be an unrewarded risk over the longer term.</p> <p><b>Collateral management risk:</b> 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. In periods of sterling weakness, the investment return will be lower than if the assets were unhedged.</p> <p>A robust and proactive 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><b>Responsible</b></p>	<p>Actively addresses ESG risks throughout its investment strategy.</p>

<p><b>Investment:</b></p> <p><b>Environmental, Social &amp; Governance (ESG)</b> issues may have a material financial impact if not given due consideration.</p> <p><b>Climate change risk</b></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><b>Longevity Risk</b> - 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><b>Employer Covenant Risk</b> - 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><b>Investment Pooling</b> - Pooling provider does not deliver APF's investment objectives.</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><b>Regulatory and Political Risk</b> - 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><b>Governance Risk</b> - 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><b>Cash Flow Risk</b> - Payments to pensioner members exceed contributions.</p>	<p>Liquidity requirement specified within the investment objectives to help manage needs.</p> <p>Investment strategy has been structured such that the generation of investment income to achieve this liquidity requirement is feasible.</p> <p>Monitoring cash flow critical to the internal monitoring and rebalancing process and is an important consideration when setting investment strategy.</p>
<p><b>Custody risk</b> - 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><b>Counterparty risk</b> - The possibility of default of a counterparty in meeting its obligations.</p>	<p>Counterparty exposure restrictions as relating to the risk management framework and treasury management policy.</p> <p>Internal controls reporting and compliance monitoring.</p>