Investment Strategy Statement 2023 – Approved by Committee 17 March 2023

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 (the Fund) 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 December 2021 ISS and incorporates changes arising from the 2022/23 strategic investment review.

1.2 The purpose of the ISS is:

- To set out the governance arrangements for investment
- To set out the Fund's investment objectives
- To define the fund's investment beliefs
- How the Fund will manage investment related risks
- How the Fund incorporates responsible investment
- To set out the strategic asset allocation benchmark and ranges to provide flexibility

1.3 As stated above, the ISS outlines the Fund's approach to Responsible Investment (RI), how RI is integrated into the investment decision making process and how the Fund fulfils its role as a responsible steward of its assets. Particular attention is given to the Fund's short-, medium- and long-term ambitions around climate change. The strategy acknowledges there is a 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. However, it also acknowledges that the investment products required are not yet fully developed. In addition, the policy supports the Just Transition, seeking to manage the societal and economic impacts of the transition to a lower carbon world. It therefore has set clear 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 supported by the Funding Strategy Statement (FSS) as well as a broader framework of policies in investments, most notably those relating to Risk Management and Responsible Investment. An integrated approach ensures the investment strategy supports the Fund 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 the Fund which are judged to have a bearing on the stated investment strategy. Ongoing quarterly and annual monitoring of the strategy enables 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, the Fund's appointed investment consultant and the Client Officer Group at the Brunel Pension Partnership. The Fund's Pension Board reviews the Investment Strategy Statement before it is approved by Committee.

Investment Governance Framework

1.7 The Avon Pension Fund (the Fund) is administered by Bath & North East Somerset Council, which is legally responsible for the Fund. The Council delegates its responsibility for administering the Fund to the **Avon Pension Fund Committee** (the Committee), which is its formal decision-making body. Members of the Committee represent a cross section of the Fund'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 the Fund 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 the Fund'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 the Fund is aware and can respond effectively to stakeholder concerns.

1.12 The Fund has increased its engagement 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 The Fund participates with nine other administering authorities to pool its investment assets through the Brunel Pension Partnership. Brunel Pension Partnership Limited (Brunel) authorised by the Financial Conduct Authority (FCA) has been established specifically to manage the assets within the pool. Brunel is owned by the ten administering authorities (in equal shares) that participate in the pool. These pooling arrangements meet the requirements of the Regulations and Government guidance.

2.2 The Avon Pension Fund retains responsibility for setting the strategic asset allocation for the Fund 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 required to meet the investment objective of each portfolio. Brunel creates collective investment vehicles for quoted 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, the Fund 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 the Avon Pension Fund 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 is comprised of representatives from each of the administering authorities and two member observers with agreed constitution and terms of reference. Acting for the administering authorities, it has responsibility for ensuring that Brunel delivers the services required to achieve investment pooling and deliver each Fund's investment strategy. Therefore, it has a monitoring and oversight function. Subject to its terms of reference it considers relevant matters on behalf of the administering authorities but does not have delegated powers to take decisions requiring shareholder approval; these are remitted back to each administering authority individually. As shareholders of Brunel, the administering authorities' shareholder rights are set out in the Shareholders Agreement and other constitutional documents.

2.5 Brunel Oversight Board is supported by the Client Group, comprised investment officers drawn from each of the administering authorities but also draws on finance and legal officers as required. It has a primary role in managing the relationship with Brunel, reviewing the transition of assets to the portfolios, providing practical support to the Brunel Oversight Board so it can fulfil its monitoring and oversight function and monitoring Brunel's performance and service delivery. The Committee and Investment Panel receive regular reports covering portfolio and Fund performance and Brunel's service delivery.

2.6 Bath & North East Somerset Council approved the full business case for the Brunel Pension Partnership in 2017. The transition of the listed assets and pooled funds to Brunel was completed in July 2021. It is intended that all of the Fund's assets will be invested through Brunel portfolios. However, the Fund has certain commitments to long term illiquid private market which will take longer to transition across to the Brunel portfolios. These assets will be managed in partnership with Brunel until such time as they are liquidated and capital is returned. The formulation, implementation and ongoing monitoring of the Fund's risk management strategies (e.g. Liability Driven Investing and Equity Protection) remain the responsibility of the Fund and its specialist advisors. Brunel acts as facilitator working with the manager, under a broad commercial agreement covering the manager's key terms.

3. Investment Beliefs

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

They are framed so that the Fund 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 2050 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 The Fund's investment objective is to achieve a return on assets consistent with an acceptable level of risk that will enable the Fund to fund its pension payments over time, that is, to achieve 100% funding in line with the Funding Strategy. The investment strategy must therefore generate returns that will help 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 An assessment by the Fund's investment consultant generates a best estimate average expected return of CPI+2.5% per annum based on the current 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 return of CPI+1.50% per annum (the discount rate) over 12 years was assumed in the Funding Strategy. For future benefit accruals an investment return of CPI+2.00% per annum is assumed. In the 2022/23 review the actuarial assumptions and best estimate returns used for modelling were updated for expected returns given current market outlook.

4.3 The Fund adopts a more prudent lower risk investment strategy for those liabilities where the employer has ceased to participate in the Fund or for certain admission bodies where there is no guarantee underpinning the liabilities. These assets are invested in a portfolio that is designed to better match the risk profile of the employer's liabilities and reduce volatility in employer contributions.

5. Investment strategy

5.1 The investment strategy was reviewed in 2022/23 and included two phases. Phase 1 considered the following:

- The macro environment and the implications for risk and returns to meet the overriding objectives
- The role of leveraged Liability Driven Investing within the strategy
- Asset allocation considerations:
    - A Local/Social Impact portfolio
    - The role of currency hedging within the strategy
    - Cashflow and liquidity requirements
    - The allocation to illiquid assets
    - Active/passive allocations within equities

5.2 Phase 2 due to be completed later in 2023 (after which the ISS will be updated) will consider:

- The Fund's 2023 climate analysis
- Net zero targets and the Fund's pace of decarbonisation

5.3 Phase 1 of the review concluded the following:

- The current risk return target is consistent with the funding objective to provide as stable as possible contribution for employers
- The strategic allocations between equities, liquid and illiquid growth assets, and fixed income achieves the appropriate balance of risk and return to provide stability of contributions
- Given the constraint of the allocation to illiquid assets, alternative allocations between equities and other liquid growth assets did not improve the risk and return expectations sufficiently to warrant changing allocations
- A 50:50 split between passive and active equity strategies is entirely consistent with the Fund's risk/return and climate change objectives and serves to reduce the aggregate annual fee paid to investment managers. This view was reinforced by subsequent work undertaken by the Investment Panel. The optimal passive/active equity split will be reviewed on a periodic basis
- An initial target allocation of 3% to Local/Social Impact investments was appropriate and would be funded from the 32.5% already held in illiquid assets. South West was a sufficiently local regional footprint as restricting to the Avon area could be too narrow to have sufficient impact through a diversified portfolio. National opportunities would also be considered to have greater flexibility to meet the investment objectives.

  This portfolio would be managed by external managers to robustly manage conflict of interest and ensure there is technical expertise in constructing the portfolio.
- To retain the currency hedge but to review its implementation

- For an in-depth review of the LDI strategy to be undertaken by the Panel during 2023 to assess the contribution to risk reduction and the funding strategy and the implications of the more prudent collateral requirement on collateral management policy.

5.4 The Fund's long-term asset allocation following the 2022/23 review, along with an overview of the role each asset plays, is set out in Appendix 1.

6. Suitability of Investments

6.1 The Fund invests across a diversified portfolio of assets including quoted equity, government and non-government bonds and less liquid private market assets such as infrastructure, property and private debt. Derivatives are used for the purpose of efficient portfolio management and to hedge specific risks. The Fund implements these strategies using a combination of passive and active investment managers.

6.2 The allocations to secure income, renewable infrastructure and private debt 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.

6.3 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.

6.4 The Fund believes that low carbon and transition aligned strategies that significantly reduce exposure to fossil fuel reserves and carbon emissions across all companies, combined with robust engagement with companies regarding their climate strategies, is currently the most effective approach to meeting the Fund's climate objectives.

6.5 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.

6.6 Currently Brunel directly manages 61% of the Fund's assets across its Equity portfolios, Multi Asset Credit Portfolio, Diversified Returns Portfolio, UK Property and a range of private markets portfolios. A further 24% of assets relating to the Fund's risk management strategies are governed by Brunel legal agreements.

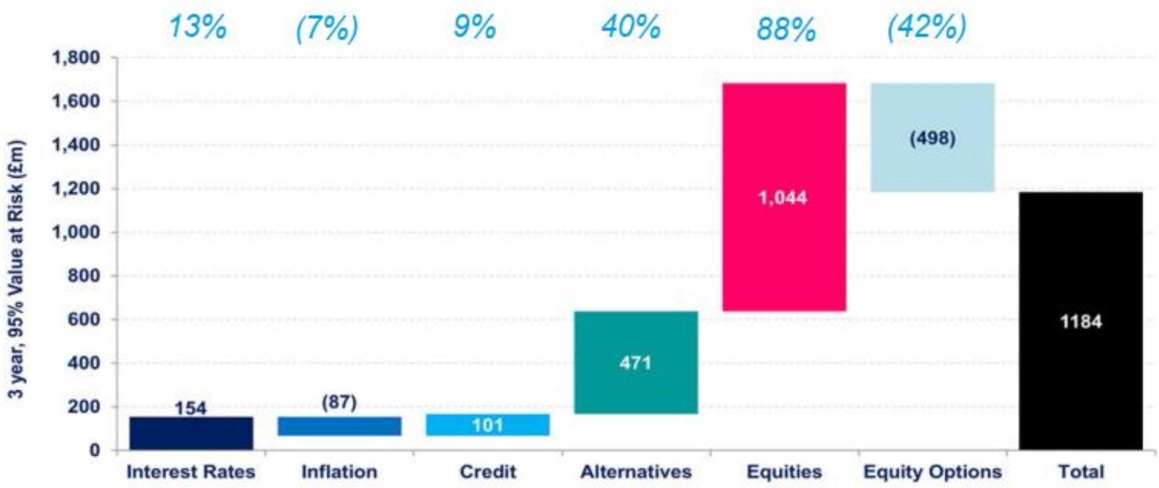
6.7 Consideration of each asset class or investment approach includes modelling of risk adjusted return expectations and an assessment of the extent to which the investment manager's approach is consistent with the Fund's Responsible Investment (RI) principles including an assessment of the Environmental, Social and Governance (ESG) risks and opportunities identified for each asset class. Product structure and management costs will also be a factor.

Details of the current investment management structure can be found in Appendix 2.

7. Risk Measurement and Management

7.1 The primary risk to the Fund 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 2022. This estimates how much the funding deficit could increase over a three-year period with a 1-in-20 probability.



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 £1,184m on top of the expected deficit at that time.

7.4 Equities remain the largest source of risk. The Fund's equity protection strategy (discussed later in this section) reduces the three-year VaR number by approximately 30% (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 the Fund and the actions to mitigate those risks are set out below.

Financial Risks	Management / Control
Investment Risk - Assets do not deliver the return required to meet the cost of benefits payable by the Fund; potential drivers:	• Diversification - A diverse range of asset classes and approaches to investing is 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, the Fund expects to reduce the level of risk it is exposed to, whilst increasing the potential to generate attractive risk-adjusted returns
• Investment market performance/volatility	• Scenario testing - carried out as part of the strategic investment review to set strategic benchmarks. Allocation 'ranges' enable tactical positions to be implemented to reflect shorter-term market outlook
• Manager underperformance	• 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
• Possibility the actual return generated fails to meet the Fund's discount rate, due to inflation increasing more than expected or assets failing to deliver as expected	• Mitigates inflation risk by implementing a diversified investment strategy, through the alignment of the investment strategy with funding requirements through regular reviews and through regular monitoring. At the Fund 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.
Asset Risk -	• Investing across a range of liquid assets recognises the Fund's need for some access to liquidity in the short term. A tactical liquidity strategy that seeks to replicate the Fund's strategic benchmark offers immediate access to cash to negate the risk of selling assets when it might be inopportune to do so
• **Liquidity risk:** The inherent risk of holding illiquid/less liquid assets that cannot be easily converted into cash	• Liquidity budgeting informs how much the Fund can reasonably afford to invest in illiquid holdings in order to benefit from the 'illiquidity premium', without compromising future outgo requirements. Following the extreme market volatility as a direct result of the Coronavirus pandemic, the Fund prioritised short-term cash flow requirements over private markets commitments, opting to phase in its commitments over the medium-term rather than commit the full long-term target amount at outset.
• **Exchange Rate risk**: Foreign currency exposure is expected to be an unrewarded risk over the longer term	• 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 for the Fund's developed equity holdings and a 100% hedge of currency risk for infrastructure, global property and hedge fund

• **Collateral management risk:** Collateral is required to support the risk management strategy and protects all parties to a transaction from the risk of default	investments. In periods of sterling weakness the investment return will be lower than if the assets were unhedged • A robust and pro-active collateral monitoring process with prescribed minimum thresholds protect the fund from becoming a forced seller of assets in the event a large adverse move in market prices triggers a collateral call
Responsible Investment: • **Environmental, Social & Governance** (ESG) issues may have a material financial impact on the Fund if not given due consideration • **Climate change risk**	• Actively addresses ESG risks through implementation of its Responsible Investment Policy • Considers ESG risks as part of Strategic Investment Reviews • Quantifies the risk climate change presents to Fund assets and seeks to reduce this risk by allocating capital accordingly • Was compliant with the UK Stewardship code for Institutional Investors. A compliance Statement for the FRC Stewardship Code 2020 has been submitted to the FRC and the Fund is awaiting a response. Details of the Fund's approach to managing ESG risks are set out in Section 8 of this document.
Longevity Risk - the risk Members of the Fund live longer than assumed in the actuarial valuation model	• 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
Employer Covenant Risk - Employers within the Fund lack the financial capacity to make good their outstanding liabilities	• Addressed through a covenant assessment monitoring process, which annually assess the financial standing of all Employers in the Fund and the analysis is considered when setting the Funding Strategy • A lower risk investment strategy is adopted for certain admission bodies and orphan liabilities where there is no guarantee underpinning the liabilities
Operational/Other Risks	**Management / Control**
Investment Pooling - • Expected benefits and cost savings do not emerge over the long-term • Transition risks - unexpected costs or losses arising from transition of assets	• The Service Agreement sets out the duties and responsibilities of the Pool and the rights of the Fund as a client • A robust governance framework with agreed constitution and terms of reference ensures the objectives of pooling are met • Ongoing monitoring of performance, service delivery, costs and savings arising from pooling Details of the Fund’s Pooling arrangement are set out in Section 2 of this document.

Regulatory and Political Risk - Across all the assets there is 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	• Ongoing horizon scanning and consideration on the Fund Risk Register • Review and response to consultations on changes to the LGPS regulations and guidance which may impact scheme funding or investment strategy • Ongoing review of the investment strategy and specific investment portfolios
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	• Periodic Member self-assessment • Training framework based on Chartered Institute of Public Finance and Accounting (CIPFA) Knowledge and Skills Framework for LGPS funds • Expert advice commissioned to support strategic and implementation decisions
Cash Flow Risk - Payments to pensioner members exceed contributions	• Investment strategy structured to generate investment income to help manage negative cash flow profile • Monitoring cash flow critical to the internal monitoring and rebalancing process and is an important consideration when setting investment strategy
Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded	• Use of global custodian with negotiated service level agreement and internal reconciliation of accounting records
Counterparty risk - The possibility of default of a counterparty in meeting its obligations	• Counterparty exposure restrictions as relates to the risk management framework • Internal controls reporting and compliance monitoring

Risk Management Strategy

7.6 The Risk Management Framework (RMF) encompasses three bespoke risk management strategies and a passive equity fund 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 the Fund from a large drawdown in the value of its equity investments. These strategies are linked to the funding strategy and de-risk the Fund 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) 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 The Fund 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 the Fund 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 the Fund’s requirements. The Fund 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, the Fund 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.

Role of Collateral in Risk Management Framework

7.12 The risk management strategies are held in a Qualified Investor Fund (QIF), bespoke to the Fund, 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.

7.13 To reduce the risk of the Fund having to sell assets at short notice if more collateral is required, a passively managed equity fund is held within the QIF. The manager of the QIF will sell units in this fund and purchase eligible collateral (gilts or cash) to meet collateral obligations when they arise. When the investment manager sells assets to meet collateral requirements, derivatives will be used to replicate the lost physical equity exposure so that the strategic allocation to equities is maintained.

Risk Management Strategy under Pooling

7.14 The Fund 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 the Fund 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.

7.15 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 The Fund 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 the Fund is exposed.

8.2 The Fund’s approach to Responsible investing is based on its RI Principles as follows:

- As a long term investor it seeks to deliver long term sustainable returns
- Management of ESG risks is consistent with the Fund’s fiduciary duty to members
- That Climate Change poses a long-term financial risk to the Fund

- ESG issues are integrated at all stages of the investment decision-making process
- Strategies and policies must be evidence–based
- The Fund has a duty to exercise its stewardship responsibilities as an owner
- The Fund aims to be transparent and accountable

8.3 The Fund'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 The Fund does not have an exclusion policy to divest from specific assets but manages such risks by analysing ESG factors identified as potentially financially material in its strategic reviews. The Fund expects its managers to engage with company management on ESG issues they have identified as being a risk to the investment case; it is the Fund's belief that engagement and responsible stewardship will influence corporate behaviour more effectively than divestment. Managers are required to report to the Fund on their engagement activities and other ESG initiatives regularly.

8.5 The Fund will consider non-financial factors alongside financial considerations provided that doing so will not involve significant risk of financial detriment to the Fund and where it can reasonably conclude that members would support the decision.

Climate Change

8.6 The Fund recognises that Climate change presents an immediate systemic and material financial risk to the Fund, as well as society more broadly. It is a strategic investment priority for the Fund and as well as developing proprietary climate change objectives, the Fund 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 the following link:

https://www.brunelpensionpartnership.org/climate-change/

8.7 The Fund has set targets to ensure that the portfolios are aligned with the Paris Agreement ambition to limit global warming to below 2°C by 2050. These targets will be reviewed in Phase 2 of the 2022/23 Strategic Review. The current targets are:

(1) Implement a <+2^0C aligned portfolio by committing to net zero emissions by 2050 or earlier. This will be achieved by working with Brunel using the results of the industry wide project being undertaken to assess what each +2^0C asset portfolio will look like. Expect to review the findings in line with the global stocktake timeline in 2022/23.

(2) Reduce the carbon intensity of the equity portfolio over time with the aim of being 30% less carbon intensive than the benchmark by 2022. This was achieved two years early in 2020.

(3) To reduce the absolute emissions within the equity portfolio by 43% by 2025 and 69% by 2030 compared to the 2019 baseline.

(4) Invest sustainably to support a 'just transition[1]' to the low carbon economy with the aim of investing at least 30% of the total assets in sustainable and transitioned aligned investments by 2025.

(5) Use the Fund's power as a shareholder to encourage 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, the Fund will independently support 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. If engagement does not work, we will consider selective divestment from laggard companies.

8.8 The Fund monitors 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

8.9 One of the principal benefits of pooling, achieved through scale and resources arising from pooling, is the improved implementation of responsible investment and stewardship across all the Fund'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.

8.10 Brunel is tasked with the development of investment portfolios and the appointment of managers for the portfolios that are consistent with and accommodate the Fund'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

[1] A 'just transition' for workers and communities as the world's economy responds to climate change was included as part of the 2015 Paris Agreement. The concept builds on well-established global frameworks in terms of climate change, human rights, labour standards and inclusive growth. It focuses attention on the need to anticipate and manage the social and economic implications of the shift to a low-carbon economy and the increasing physical impacts of climate change.

met in respect of RI. The Fund monitors the portfolios managed by Brunel to ensure they continue to deliver against strategy.

8.11 Brunel is a signatory to the UN backed Principles of Responsible Investment and has published a comprehensive Responsible Investment Policy. 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 here: https://www.brunelpensionpartnership.org/responsible-investment/

Policy of the exercise of rights (including voting rights)

8.12 The Fund 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” and will work with Brunel to ensure it maintains signatory status under the Code.

8.13 The Fund 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. The Fund 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 the Fund.

8.14 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.

8.15 Brunel’s voting and engagement service provider, Federated Hermes EOS, enables the Fund to gain access to specialist expertise and participate in a broad range of engagement themes.

8.16 Brunel will publish its voting policy and provide online voting records no less than twice a year.

8.17 The Fund recognises the importance of collaboration with other investors in order to achieve wider and more effective outcomes. In this respect, the Fund 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.

8.18 The Fund publishes a Responsible Investment Report annually which includes analysis of the voting and engagement activity of its investment managers.

Social/Local Investments

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. The Fund 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. The Fund allocated 3% of assets to a Local/Social Impact portfolio in its 2022/23 strategic review and the portfolio will vest gradually over a number of years as opportunities arise.

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 the Fund's climate change objectives and wider RI policy
Paris Aligned Global Equities	20.5%	12.5-28.5%	To provide exposure to equity returns and the global economy 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: • 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 further 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 the Fund 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 the Fund'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 the Fund. 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 100% 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. The Fund aims to be fully invested where possible. To efficiently manage cash the Fund 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 the Fund's benchmark asset allocation
Total	**100%**		

Appendix 2 – Investment Portfolio Structure as at 31 December 2022

Manager	Mandate	Passive / Active	Performance Objective	% of Fund	Inception Date
Brunel Pension Partnership	Paris Aligned Global Equities	Passive	FTSE Developed World PAB Index	5.0%	Nov 21
Brunel Pension Partnership	Global Sustainable Equities	Active	MSCI ACWI +2% p.a.	14.4%	Sep-20
Brunel Pension Partnership	Global Equities	Active	MSCI World +2-3% p.a.	12.5%	Dec-19
Brunel Pension Partnership	Secured Income	Active	CPI+2% p.a.	8.6%	Apr-18
Brunel Pension Partnership	Renewable Infrastructure	Active	CPI+4% p.a.	2.8%	Apr-18
Brunel Pension Partnership	Diversified Returns Fund	Active	GBP SONIA +3-5% p.a.	6.5%	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.	3.4%	Jan-21
Brunel Pension Partnership	Private Debt	Active	GBP SONIA+4% p.a.	2.5%	May-20
BlackRock	Corporate Bonds	Bespoke	In line with customised benchmark	2.6%	Apr-19
BlackRock	Liability Driven Investments & Equity Protection Strategy	Bespoke	In line with customised benchmark	8.2%	Jul-17
BlackRock	Global Equities	Passive	MSCI World (for Global Equity Fund)	12.9%	Nov-17
BlackRock	Liquidity Management Strategy	Passive	In line with customised benchmark	0.0%	Feb-19
JP Morgan Asset Management	Fund of Hedge Funds	Active	Higher of Cash+3%, or 6% p.a.	0.6%	Jul-15
Schroders Investment Management	UK Property	Active	IPD UK Pooled Property Fund Index +1% p.a.	0.3%	Feb-09
Partners Group	Overseas Property	Active	IPD Global Property Index +2% p.a.	3.1%	Sep-09
IFM	Infrastructure	Active	10% p.a. over the long-term	8.8%	Sep-14
Record Currency Management	Currency hedge (equity exposure)	Passive	N/A	0.0%	Jul-11
Cash (Internal)	Cash	Passive	N/A	1.5%	N/A