



# DEEP DIVE: CASH AND RISK MANAGEMENT STRATEGIES

## AVON PENSION FUND

Avon Pension Fund (£5.5billion) has interim targets in place to monitor and quantify progress against its net zero targets. Avon has already made significant changes to its investment strategy, including £1.4 billion allocated to Paris-aligned and sustainable equity strategies and over £400 million committed to renewable infrastructure projects. To continue driving impact, Avon's focus is now on extending the climate policy into asset classes not covered by the Net Zero Investment Framework, which often face structural or regulatory barriers which makes climate-aware investing particularly challenging.

### Integrating climate metrics and targets in cash investments and instruments

Significant capital is being invested in renewable infrastructure which typically draws capital over time as opportunities arise. Holding a large cash allocation in readiness is sub-optimal from a return perspective. In partnership with BlackRock, Avon designed a solution which invests in a suite of ETFs optimised to match its strategic asset allocation. It includes a Paris-aligned ETF which broadly tracks Avon's £520 million investment in Brunel's Paris-aligned fund. Avon monitors the ESG score and carbon intensity of this liquidity strategy to ensure it is aligned with its climate objectives. For the cash Avon holds, it was an early adopter of environmentally aware liquidity funds which employ positive and negative screens and commit a portion of fees generated to acquiring and retiring carbon offsets, whilst delivering the conventional money market fund metrics of yield, liquidity, and credit quality.

### Integrating climate metrics and targets in risk management frameworks

To control leverage in the fund used to house Avon's liability hedging instruments, Avon is required to hold physical assets in the form of a passive equity fund. Avon works with the industry to address the structural and regulatory hurdles associated with holding certain low carbon & transition-aligned funds in investment vehicles otherwise reserved for derivative strategies. Through this, Avon aims to be a catalyst for change as it takes its first steps toward replacing the market-cap indices currently used with synthetic instruments directly referencing climate benchmarks.

"Avon has been at the forefront in developing innovative investment solutions to progress the net zero agenda. Working together with BlackRock and the wider industry to develop unique structures, in areas that present challenges to investors, is testament to their thought leadership and commitment. We are hopeful that other investors will take inspiration from this partnership approach as they seek to deliver on their own climate ambitions."

Justin Wheeler, BlackRock.

