

Avon Pension Fund invests £700m in innovative Paris-aligned equity investment solution

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This week Avon Pension Fund takes another significant step towards achieving its net zero goals.

Avon Pension Fund has worked with its asset manager to move over £700 million of equity investments into an innovative, Paris-aligned funding solution.

Avon Pension Fund (Avon) is the Local Government Pension Scheme for the West of England. It covers employers in Bristol, Bath & North East Somerset, North Somerset and South Gloucestershire and has over 130,000 members.

The Paris Agreement on limiting global warming forms the basis for Avon's climate change investment objectives.

In total, Avon now holds over £1 billion in dedicated Paris-aligned index equity strategies and has moved away altogether from using standard market-cap indices.

Paris-aligned indices are designed to replicate investments in companies who've pledged to back efforts to limit global temperature rises to 1.5C. This sits alongside Avon's existing £575 million sustainable equity investment strategies and £400 million allocations to investments in renewable infrastructure projects such as solar farms.

One of the first LGPS to use this sustainable investment approach

Working with asset manager BlackRock, Avon is one of the first Local Government Pension Schemes (LGPS) to embrace Environmental, Social and Governance (ESG) approaches through this investment mechanism.

Nathan Rollinson, Investment Manager at Avon Pension Fund said: "This new investment will help us as we work towards our net zero goals. We're on track to lower the carbon emissions of our equity portfolio by 2/3rd by 2030, compared with 2019.

"Avon has been a proactive responsible investor for over 20 years, and we hope this latest move will lay the foundations for other LGPS pension schemes that face the challenges posed by the transition towards a carbon neutral economy."

Alex Orr, Head of LGPS at BlackRock, said: "We're pleased to have worked with Avon Pension Fund in developing innovative investment solutions to progress on their net zero agenda. Their commitment to developing unique structures and improve their net zero positioning is testament to their thought leadership and commitment to partnership."

How does this new investment work?

The new investment product will be structured as a total return swap referencing Paris-aligned indices. The derivative-based product has been designed to release liquidity to support other areas of the investments portfolio while expressly supporting the low carbon transition. This marks a continuation of work by Avon Pension Fund to integrate climate considerations into its risk management framework.

Last year Avon Pension Fund invested in an innovative environmentally-aware cash fund and adopted use of Paris-aligned Exchange Traded Funds for efficient cash management.

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